



HHL LEIPZIG
GRADUATE SCHOOL
OF MANAGEMENT

Chair Report

Chair of Financial Management

2021 / 22

PREFACE

“You must simplify, but you must not lie.”

Prof. Dr. Bernhard Schwetzler

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1. PHILOSOPHY

Teaching

Our teaching has the claim to be both scientifically based as well as application- oriented. To be able to guarantee this, we convey the basic theoretical models from the field corporate finance and apply them to current and relevant questions and examples from business practice. Because our students should be prepared for an international work environment all courses are held in English. Our students are encouraged to work on case studies in international teams. Thanks to intercultural guest lectures our students get a broad insight into corporate practice. Thanks to regular evaluations of our courses, we are able to constantly develop further.

Research

Research at the Chair of Financial Management is mainly conducted by means of dissertations and third-party funded research projects as well as by selected student theses. The overall objective is to perform theoretical research with a potential to solve current problems in real situations. In order to connect our research with practice, the Center for Corporate Transactions and Private Equity CCTPE was founded as an integrated part of our Chair in 2007. A significant part of our work is building and constantly extending proprietary datasets for empirical research. Since 2010 the center has developed one of the largest proprietary databases on private equity transactions with data on more than 30000 buyouts. Additionally the chair holds the largest and deepest database on German public takovers (offer prices, premia, ownership structures, success rates, data on “endgames”) covering all offers since 2005. The results of our research are frequently published in highly ranked international journals presented at national and international conferences.

Research Areas

- Corporate valuation
- Private equity
- Mergers & acquisitions
- Corporate finance

2. TEAM

2.1. Chairholder

Bernhard Schwetzler

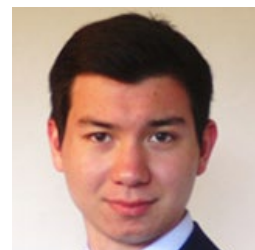
Prof. Dr. Bernhard Schwetzler holds the Chair of Financial Management at HHL Leipzig Graduate School of Management since 1995. He completed his doctoral and habilitation studies at the University of Regensburg and was visiting scholar at Purdue University (West Lafayette, USA) and INSEAD (Fontainebleau, France). Guest professorships lead him to the University of Eichstaett/Ingolstadt (declined offer), EBS University (Oestrich-Winkel), EADA (Barcelona, Spain), Waikato School of Management (Hamilton, New Zealand), John Molson School of Business (Concordia University, Montreal), and Universidad del Pacifico (Quito, Ecuador). Prof. Schwetzler heads the expert groups "Fairness Opinion" and "Corporate Transaction and Valuation" of the Society of Investment Professionals in Germany (DVFA), is member of the scientific advisory board of the German Private Equity and Venture Capital Association (BVK) as well as Co-Founder and member of the board of the European Association of Certified Valuators and Analysts Germany (EACVA). His research focuses on Corporate Valuation (e.g. valuation of tax shields, growth and inflation, minority squeeze outs), M&A (e.g. fairness opinions, MACs) and private equity (e.g. secndarx buyouts, buy&build strategies). He regularly publishes in notable journals, such as the Journal of Business Economics, the Journal of Banking and Finance, the Journal of Corporate Finance, CORPORATE FINANCE, Schmalenbachs Zeitschrift für betriebswirtschaftliche Forschung (zfbf), Zeitschrift für Betriebswirtschaft (ZfB). Moreover, he is co-editor of the annually published book "Jahrbuch für Unternehmensbewertung" and the journal CORPORATE FINANCE.



2.2. Research Associates

Philipp Pollmann

Philipp Pollmann joined the CCTPE in February 2021 as a Research Associate and Doctoral Candidate. His research interest is in Corporate Finance, specifically M&A transactions. Mr. Pollmann holds an MSc in Business Administration with specialization in Finance & Econometrics from the University of Münster and a BSc in Economics and Management Science from the University of Leipzig.



Franziska Rath

Franziska Rath has been a Research Associate and Doctoral Candidate at the HHL Chair of Financial Management since October 2021. Ms. Rath holds a master's degree in Management Science with a specialization in Accounting, Finance and Taxation and a master's degree in Economics with a specialization in Money, Credit and Banking from Leipzig University. Her current research interests lie in the field of sustainable finance.



Osei Kwabena Brefo

Kwabena Brefo Osei is a Research Associate and Doctoral Candidate at the HHL Chair of Financial Management. He joined the Chair in April 2022. Mr Kwabena Brefo holds master's degree in Financial Economics with specialization in Sustainability finance, company valuation and international taxation from Otto Von Guericke University, Magdeburg. He also holds Master's of Philosophy in Economics with Specialization in Managerial and Monetary economics and bachelor degree in Economics and Statistics from university of Ghana, Legon. His research interest focuses on M & A, corporate diversification and financial distress.



2.3. External Doctoral Candidates

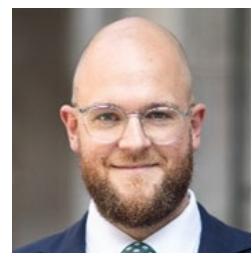
Yilmaz Bekyol

Yilmaz Bekyol joined the CCTPE in January 2021 and is a Doctoral Candidate at the Chair of Financial Management at HHL. His research focus lies on private equity performance. Previously, he worked as strategy consultant for EY-Parthenon and L.E.K. Consulting for six years. During this time, he worked on M&A projects / commercial due diligences and growth strategy projects across industries such as media, healthcare and medtech, industrials as well as retail. Mr. Bekyol holds a MSc in Strategy and Economics for Business from Imperial College London and a BA in Business Economics from Witten/Herdecke University.



Jan Hendrik Degner

Jan Hendrik Degner joined the CCTPE in August 2019 as Research Associate and Doctoral Candidate. Previously, he spent around six years in investment banking at J.P. Morgan and CBRE where he worked with private equity funds, corporations and other institutional investors on M&A transactions, IPOs and other public offerings. Mr. Degner graduated with a BA in Banking & Finance from University of Zurich and an MSc in Management from HHL Leipzig Graduate School of Management.



Marvin Gindele

Marvin Gindele joined the CCTPE in April 2021 as an external Doctoral Candidate. Previously, he spent around two years at EY in the Valuation, Modeling & Economics department, with a focus on the insurance sector. Thereby, he supported several valuations in the context of corporate transactions and regulatory requirements. Mr. Gindele completed his BSc in Business Administration and Economics at University of Hohenheim and has graduated with a double degree (MSc) in Economics from University of Hohenheim and Finance from University of Pavia.



Philipp Heisig

Philipp Heisig joined the CCTPE as External Doctoral Candidate in April 2020. His current research focus is on "buy and build" and "acquisition" strategies of European private equity fund. In addition to his research activities, he works as an Investment Director at Astorius, a German-based private equity fund of funds, where he is responsible for the analysis process of European private equity funds. Mr Heisig holds an MSc in Economics from Justus Liebig University in Gießen and a BSc in Economics from the University of Mannheim.



Marius Kaiser

Marius Kaiser joined CCTPE in September 2021 as an external Doctoral Candidate. Previously, he worked two and a half years as a strategy consultant at EY-Parthenon. Thereby, he predominately worked on corporate transaction and value creation projects across multiple industries. Mr. Kaiser graduated with a BSc in Business Mathematics from the University of Mannheim and obtained the MSc in Management - European Triple Degree from Ludwig-Maximilians-University (LMU) Munich, EMLyon Business School (France) and Lancaster University (United Kingdom).



Renata Lavrova

Renata Lavrova is a Doctoral Candidate and a Research Associate at CCTPE since October 2017. Subject of her research is M&A activity with a focus on German taking-private transactions, impact of ETF on deal outcome, hedge fund arbitrage strategies in M&A, complexity of takeovers due to minority shareholder protection. Ms. Lavrova holds a Diploma Degree in Taxation and M.Sc. in Economics & Finance. Beside academic education, she gained practical experience in international corporate tax planning.



Nikolaus Marcotty- Dehm

Nikolaus Marcotty-Dehm has been a Doctoral Candidate at the Chair of Financial Management at HHL and a core member of the CCTPE since September 2021. His research interest lies within Corporate Finance and Private Equity, more specifically on Buy-and-Build strategies. Before joining HHL, he worked for Boston Consulting Group as a strategy consultant. He holds a Master in Banking and Finance from the University of St. Gallen and a Bachelor in International Business Administration from the Rotterdam School of Management.



Lukas Oswald

Lukas Oswald has been a Doctoral Candidate at the Chair of Financial Management at HHL and a core member of the CCTPE since November 2021. His research activities focus on Private Equity and fund performance in crisis times. Currently, he is researching differences in investments based on the degree of specialization of the PE fund. Previously, he spent more than three years at FTI-Andersch as a Senior Consultant, predominantly focusing on financial restructuring. He holds a Master's in International Business from IÉSEG School of Management (France) and a Bachelor's from the University of Mannheim.



Silke Pettkus

Silke Pettkus is Research Associate and Doctoral Candidate at the HHL Chair of financial Management since January 2018 and was actively involved in the re-launch of the CCTPE in September 2018. Her research interest is in Corporate Finance and more specifically Private Equity buyout performance. Prior to that, she worked more than five years in a capital market oriented corporation and was responsible for the global Corporate Controlling division. Ms. Pettkus holds a Master degree in International Finance and Taxation from ESB Business School.



Lisa Maximiliane Uhlenkamp

Lisa M. Uhlenkamp joined the CCTP in December 2019 as External Doctoral Candidate. In addition to her research, Ms. Uhlenkamp has been working for the Management Consulting firm McKinsey & Company since 2017. Thereby, she completed several corporate finance related projects, such as M&A transactions and restructuring transformations in diverse industries. In her research she focuses on the M&A market in Germany, i.e., the impact of stock price runups on takeover success. Ms. Uhlenkamp completed with a MSc in Economics from the Ludwig Maximilian University of Munich.



2.4. Recently Graduated Doctoral Candidates

Jonas Kick “Essays on the Performance of Higher Order- and Buy-and-Build Buyouts“, December 16, 2021

3. RESEARCH

3.1. Determinants of Hedge Fund Investment in Corporate Endgames

Ludwig Dobmeier, Renata Lavrova, Bernhard Schwetzler

- Analysis of the factors driving HF engagement in German corporate endgames
- The dataset includes characteristics of 76 endgame situations after German takeovers (domination agreement, squeeze out) and data of 326 hedge fund invested into the respective companies.
- Results show that that hedge funds invest in companies with a non-dominant majority owner and high stake of index funds as latter's limited ability to react in change of control situations creates a supportive investment environment for hedge funds. Hedge funds are most likely to invest after takeover consummation and before announcement of a new endgame transaction
- Results further indicate that the endgame process in Germany is an attractive investment opportunity for hedge funds, while hedge fund involvement also adds complexity to the corporate control process.



3.2. The Impact of Leadership Diversity on Private Equity Fund Performance

Yilmaz Bekyol, Bernhard Schwetzler

- Analysis of the performance impact of leadership team diversity in private equity funds
- The dataset includes characteristics of fund partners involved in approx. 1,200 buyout deals by more than 110 funds. Results show that leadership teams with greater variety in socio-demographic aspects are associated with higher performance, while greater occupational diversity is associated with negative net effect in performance (endowment effect); occupational diversity should be allocated evenly across deals; low levels of socio-demographic diversity hinder even allocation, but if endowment is high enough even allocation is beneficial (allocation effect)
- Results further indicate that a higher CEO involvement potentially mitigates negative effects of occupational diversity, whereas funds with stronger industry focus tend to suffer from greater socio-demographic diversity

3.3. Target CEO Characteristics and Corporate Transactions

Marvin Gindele, Franziska Rath

- Analysis of the effect of personal preferences and characteristics of target CEOs on the success rates of corporate transactions
- The full dataset includes 266 transaction offers in Germany between the years 2007 and 2020
- Main dependent variables under investigation are the offer premium and success rate
- First findings indicate that target CEO age in particular has a significant curvilinear effect on transaction offers



3.4. Tailwind and Headwind Bidding in German Takeover Offers – the Impact of Price Runups on Takeover Success

Lisa M. Uhlenkamp, Bernhard Schwetzler

- Analysis of the three-way relationship of pre-bid runups, offer premia and takeover success
- Main dataset includes 324 takeover offers of German publicly listed companies from 2006 to 2019
- Findings indicate that takeover offers in target stock price runups yield lower success rates compared to rundowns, that offer announcements in the German takeover market are preceded by significant price runups and that these are only partly substituted by lower markups, hence increasing total cost of takeover offers

3.5. Buying Performance? The Impact of Multiple Arbitrage in Buy-and-Build Buyouts

Philipp Heisig, Jonas Kick, Bernhard Schwetzler

- Analysis of the multiple arbitrage effect from add-on acquisitions by acquiring add-ons at lower multiples than the entry multiple for the platform company following a revaluation at the platform company's (entry) multiple post-closing
- Unique hand-collected dataset includes 161 buy-and-build buyouts with valuation details on related add-on acquisitions
- Results indicate that PE firms make use of the multiple arbitrage effect from add-on acquisitions which represents a significant component of buy-and-build performance by contributing roughly 8 ppts to the equity value CAGR of buy-and-build buyouts
- Results further show that potential buyers of the buyout company do not seem to differentiate between the different sources of EBITDA growth and thus fully pay for the multiple arbitrage effect from add-on acquisitions

3.6. Second Hand or Second Generation? The Performance of Secondary Buyouts

Jonas Kick, Bernhard Schwetzler

- Analysis of the performance dependency and performance rank of primary and secondary buyouts
- Unique datasets include 552 back-to-back buyouts and 483 single secondary buyouts
- Results indicate that the enterprise value CAGRs of primary and consecutive secondary buyouts are independent of each other, i.e., high returns in secondary buyouts are also achievable when well-performing primary buyout targets are acquired
- Results further show that secondary buyouts perform equally strong than comparable primary buyout peers if differences in size and holding period are considered
- Additional analyses even provide some evidence that secondary buyouts can benefit from the "groundwork" of the PE firm in the initial buyout and outperform similar primary buyout peers if the professionalization of an asset takes time

Schreiter, M.; Schwetzler, B.	Unternehmensbewertung und Insolvenz – Anforderungen an Bewertungsmodelle,	Die Wirtschaftsprüfung 2021, p. 1155 - 1162
Aders, Ch.; Lavrova, R.; Schwetzler, B.	Taking Private in Deutschland – Total Cost of Acquisition (TCA)	Corporate Finance, Vol. 12, 2021, p. 50-60
Hammer, B.; Janssen, N.; Schwetzler, B.	Cross-Border Buyout Pricing	Journal of Business Economics 2021, Vol. 91, p. 709 – 731
Hammer, B.; Pettkus, S.; Schweizer, D.; Wünsche, N.	The More the Merrier? Diversity and Private Equity Performance	British Journal of Management 2021 p. 1 – 35
Dobmeier, L.; Lavrova, R.; Schwetzler, B.	Einflussnahme von Indexfonds auf den Markt für Unternehmensübernahmen	Absolut Report 3/2020 p. 48 – 53
Schwetzler, B.	Die angemessene Abfindung im aktienrechtlichen Squeeze Out – Börsenkurs vs. „Grenzpreis“	Die Aktiengesellschaft 2020 R.297 – R299
Schwetzler, B.; Aders, Ch. (eds.)	Jahrbuch Unternehmensbewertung 2021	
Bernhard Schwetzler	„Schock- Schluckauf- Verdauung“- die Wirkung von inflationären Schocks auf den Unternehmenswert.	Bewertungspraktiker 2/2022
Bernhard Schwetzler, Franziska Rath	Beta Faktoren	Bewertungspraktiker 2/2022
Benjamin Hammer, Nikolaus Marcotty-Dehm, Denis Schweizer, and Bernhard Schwetzler	Pricing and Value Creation in Private Equity-backed Buy-and-Build Strategies	Erscheint in Journal of Corporate Finance
Bernhard Schwetzler	Wachstums- und Renditeannahmen in der Terminal Value Ermittlung – eine empirische Analyse deutscher Bewertungsgutachten	Working Paper SSRN 2022
Bernhard Schwetzler, Christian Aders (Hrsg.)	Jahrbuch Unternehmensbewertung 2022	Handelsblatt Fachmedien, 2022

4. TEACHING

The Chair of Financial Management strives to combine theoretical foundations with application-oriented elements in its teaching. We prepare our students for a challenging career in an international setting. Therefore, fundamental theoretical models are taught and applied upon relevant questions and examples.

4.1 Courses

4.1.1. Introduction to Financial Accounting

This course is the gentlest possible introduction into the world of financial accounting. It has been designed for students having absolutely no knowledge in accounting and finance. The goal is to give students an introduction into the very basic concepts and thus to provide a smooth transition to the introductory classes in finance and accounting. No credits will be earned in this course.

4.1.2. Corporate Finance & Private Equity

Learning objectives and outcomes:

The aim of this course is to provide students with the ability to structure and analyze complex problems in corporate finance. It will enable them to make rational investment and financing decisions. Participants will get to know the most important theories and models for analyzing capital structure choices, payout policies and investment decisions on corporate level. They will also get familiar with specific issues related to private equity.

Content:

The course covers models and criteria for rational finance decisions on corporate level, such as the capital structure choice, investment and dividend policy. It will also provide deeper insights into the structure of private equity investments. It focuses on the following topics:

- Option Pricing Theory: Replication, risk-neutral probabilities, binomial model, Black/Scholes model
- Capital structure and debt financing: debt and taxes, agency costs of debt, costs of financial distress, trade-off-theory
- Dividend policy and equity financing: dividends and taxes, dividends and share buybacks as signals, agency costs of equity, pecking order theory, ownership structure
- Private equity: fund structure, GP compensation, PE fund life cycle from fundraising to distribution, financing structures, performance measurement of PE investments

The first chapter introduces option pricing theory as a powerful way to understand and value asymmetric payoffs inherent in many capital structure choices. The course then covers different theories of optimal capital structure, including the trade-off theory and the pecking order theory. Further, different models will be presented on how to derive the optimal payout policy of a firm. Additionally, other aspects for corporate investment and payout decisions as informational asymmetries, agency conflicts etc. are discussed. Finally, the participants will be provided with a profound insight into private equity; the course will cover a range of PE related topics from fund structures to investment criteria used in PE investments to investment performance measurement.

4.1.3. Corporate Valuation & M&A

Learning objectives and outcomes:

Participants of this module will get insights into corporate valuation and mergers & acquisitions. Starting with the different valuation techniques students get a toolkit to detect and properly evaluate potential transaction targets. The module continues by providing the students with techniques to successfully conduct and close corporate transactions.

Content:

The course focuses on following topics:

- DCF-WACC model
- Multiple-based valuation
- Advanced topics in valuation (APV approach, bankruptcy costs, growth and inflation)
- Advanced topics in M&A (optimal bidding strategies, method of payments, earnouts)

4.1.4. Integrated Case Study (ICS)

Learning objectives and outcomes:**Finance:**

Provide a thorough understanding of the theoretical foundations for financing and investment decisions of corporations. Students should be able to apply financial models and criteria for rational finance decisions on corporate level such as the capital structure choice and the dividend policy.

They get familiar with the capital asset pricing model and thus provide them with the basic understanding how to use this tool.

Logistics:

Logistics management entails managing the flow of goods and information through a production or distribution network while, for example, ensuring a delivery within time and quality expectations of the customer.

In this course, basic insights into the logistics topic as a management field in the digital age are outlined to and discussed with the students. They should understand the logistics discipline as a cross-functional, global oriented and complex paradigm. Furthermore, the students should be enabled to apply concepts, ways and methods to manage the value creation chain under consideration of fine-tuned logistics processes thus creating and delivering customer as well as societal value.

As a further learning outcome the reflexive professional competence and the methodological competence (e. g. analytical and argumentation skills, problem solving competencies) are predominantly enhanced.

Marketing:

Students understand marketing not only as an organizational function, but also as a set of processes.

Students understand the interrelation between a firm's customer orientation and a firm's valuation.

Students can evaluate the profitability of customers based on the enhanced customer lifetime value and –building on this – derive strategic marketing decisions for the optimization of customer relationships.

Students can use various marketing tools to manage customer relationships.

Reporting:

Students are able to explain the major financial statements, how they are interrelated, and describe related financial reporting elements.

Students are able to explain and assess selected reporting and investor relations activities. They gain understanding of antecedents and effects of financial communication on global capital markets.

Strategy:

Students in the integrated case study part Strategy will become familiar with fundamental and advanced concepts in Strategy. They gain deep competencies in understanding and applying the strategy process as well as selected strategy tools for the respective case company in its specific competitive position.

Content:**Finance:**

Judging investment decisions based on NPV (from the point of view of management, shareholders and potential target).
Explain the implications of capital structure decisions (MM propositions vs. tax benefits/Cost of financial distress).
Apply the residual dividend policy.

Logistics:

Introduction to logistics management

Management topics and decision problems in different logistical process areas e.g. procurement, production and distribution logistics

Marketing:

Marketing Management Process as an overarching framework

SOR-Model, Fishbein-Model, Disconfirmation Model and selected psychographic constructs

Customer Lifetime Value (CLV) as a means to quantify the monetary value of a customer relationship

Customer portfolio analysis based on CLV

Exemplary tools to manage customer relationships

Reporting:

Financial communication, especially

international financial reporting (demand for accounting (regulations), basic requirements for useful accounting, accounting regulation in the USA, international financial reporting regulation, enforcement, reporting best practices)
and investor relations (reasons for investor relations, value proposition of IR, channels of investor relations, addressees, regulatory environment in Germany and the USA, IR best practices)

Strategy:

- Strategy and its origins, normative frame and base theories, vision and mission
- Strategy analyses to diagnose the competitive challenge and underlying opportunities
- Strategy formulation to develop guiding principles to address competitive challenges
- Strategy choice to align guiding principles and strategy objectives
- Strategy implementation to ensure strategy realization

4.1.5. Entrepreneurial Finance & Venturing

Learning objectives and outcomes:

The focus of the module is to develop a skill set that helps understanding, analyzing and managing the unique financial issues faced by entrepreneurial firms. That includes the topics of valuing early-stage businesses under uncertainty, financing young firms and structuring shareholder agreements as well as employee contracts in order to set optimal incentives. Students will also learn the essentials of managing a venture capital firm (GPs), including fundraising (relationship with LPs) and sourcing, investing and managing portfolio firms (relationship with entrepreneurial firms). The module also provides tools for investors (limited partners) who want to understand venture capital as an asset class. Finally, students get to know settings involving financial investors for rather mature firms by examining structures and rationales of private equity funds as well as analyzing respective deal structures.

Content:

The module emphasizes the specific nature of high growth and often disruptive firms. Based on that, the consequences for valuation, financing and exit scenarios of startups are discussed. Thus, the module mainly focuses on the following topics:

1. Introduction to Entrepreneurial Finance
 - a. Define Terminology
 - b. Gain Market Insights
2. Recognizing and Valuing Opportunities
 - a. Build Sound Financial Business Plans
 - b. Perform Quantitative Valuation: Venture Capital Method, DCF Modifications, Multiples
 - c. Perform Quantitative Valuation Advanced: Real Options and Growth Firms
3. Being an Investor: Private Equity
 - a. The Structure of PE Funds
 - b. Rationale and Incentives of PE Funds
 - c. The Structure of PE Deals: Leveraged Buyouts
4. Being an Investor: Venture Capital
 - a. The Structure of VC Partnerships
 - b. Investment Criteria of VCs
 - c. The Structure of VC Deals
 - d. Exit Channels and VC Performance
5. Doing VC Deals and Valuing Preferred Shares
 - a. Design Shareholder Agreements and Special Rights of Investors
 - b. Value Preferred Shares in Start-Ups
6. Being an Employee: Compensation & Incentives (ESOPs)



4.2. Supervision of Master's Theses

The following 12 master's theses were supervised at our chair in 2021/22

_"Public-to-private transactions in Germany – Literature Review" /
Andreas Jaschke 05/2022

_"Capital structure choices in private equity owned companies – an option pricing approach"
Azam David Khan 04/2022

_"Analyzing borrowers' creditworthiness in ESG assets – with add-on procedures testing Risk Knock Indicators"
Rong Xiao 04/2022

_"Betas in upturn and downturn stock markets - an empirical analysis"
Benjamin Theuerkorn 12/2021

_"Impact of Due Diligence on Takeover Success and Post-deal Performance in German Public Takeovers"
Jana Šachová 11/2021

_"Goodwill Valuation and Impairment Decisions – The Case of YOUR NOW"
Martin Dominik Poiger 11/2021

_"Outlook for the Private Equity Industry After More Than One Year of COVID-19 Pandemic: A Survey-Based Analysis"
Clara Marie Schomäcker 10/2021

_"Reviewing the role of Special Purpose Acquisition Companies (SPAC) for Private Equity investment strategies"
Florian Flach 08/2021

- "EBITDA-adjustments in small- and midcap buyouts: an empirical analysis of relevant influencing factors"
Daniel Bertram 07/2021

_"Reviewing the relationship between Private Debt and Private Equity"-Private Debt funds' role within alternative assets has increased in recent years. This master thesis shall elaborate the relationship between the asset classes Private Debt and Private Equity.
Joseph Schütte 04/2021

_"Influence of Due Diligence and Fairness Opinions on Takeover Success in German Mergers and Acquisitions- An Empirical Study"
Pierre Aldag 04/2021

_"Financing Policies in German Industries - An Empirical Overview"
Johannes Michael Wollbron 01/2021

4.3. GUEST LECTURES

Lecture series „Entrepreneurial Finance and Private Equity“

During the fall term 2021 the chair offered an open lecture series on the topic “Entrepreneurial Finance and Private Equity”. The series aimed to give a thorough overview over the options for financing for entrepreneurial ventures and the crucial role of venture capital and private equity to provide funding for those firms. It also allowed participants to judge arguments in favor and/or against the at best mixed public perception of private equity in Germany. The business model of private equity and its economic consequences have also been explained and discussed.

In six sessions up to 60 students and external participants listened to the presentations of the following speakers:

Topic	Speakers
#1: Entrepreneurial Finance and Private Equity in Germany – Now and then	Michael Kölmel, Kinowelt Medien, Successful founder and Entrepreneur Dirk Graber, Mr. Spex, Successful founder and Entrepreneur,
#2: The rise of private equity – a macro perspective	Julien Krantz, InvestEurope (European Association of PE), Research Director Julien Zornig, Astorius Capital, Managing Partner
#3: The business model of private equity	Dr. Robert Loos, EQT, Director Michael Prah, INSEAD and ACE Equity Partners, Partner
#4: Private Equity in crisis times	Dr. Martin Schneider and Lukas Oswald, FTI Andersch, Senior Manager and Senior Consultant Prof. Dr. Bernhard Schwetzler, HHL, Chair Financial Management and CCTPE
#5: Private Equity and M&A	Christopher Buhlmann, ParkView Partners, Managing Director Michael Moritz, Carlsquare, Founder and Managing Partner
#6: ESG and Private Equity	Helena Hausen and Vanessa Lautenschläger, E&Y Parthenon und E&Y, Senior Manager and Manager Patricia Volhard, Debevoise Plimpton, Partner

5. TRANSFER

5.1. Doctoral Colloquium in Alpbach, Oct 27-30, 2021

Every two years our fall term doctoral colloquium is taking place in Alpbach, Tirol. For two out of three days the participants present their research papers and discuss open questions in their doctoral research. Research topics having been discussed were multiple arbitrage in B&B Strategies (Philipp Heisig and Jonas Kick), the impact of proprietary deal sourcing on deal performance (Silke Pettkus), the cost of “endgames” on P2P transactions under the German corporate law (Renata Lavrova), the impact of MACs on takeover premia and success rate (Philipp Pollmann, Jan Degner), and the impact of diversity on PE fund performance (Yilmaz Bekyol), and Hedge Fund activities and takeover success (Maximiliane Uhlenkamp). On the second morning two alumni from the chair, Dr. Niklas Darijtschuk (COO Bertelsmann Printing group) and Dr. Carsten Reimund (Allianz SE -Head of Business Division Ibero-Latam, Allianz Partners, Allianz X, Head of CBTO Office) shared some deep insights into recent technological and economic trends in the media and insurance business.

Besides the academic part there is of course enough time for joint indoor and outdoor activities; an important indoor activity was the “Hüttenzauber” evening in an alpine hut at the third evening, where the “rookies” had to pass the notorious “Krautinger-Test”. The last day in Alpbach provided the opportunity for a joint alpine tour with wonderful weather, high peaks and great views. We are all looking forward to Alpbach 2023!



Participants of the 2021 Alpbach Doctoral Colloquium at the peak of Wiedersberger Horn (2100 m alt.).

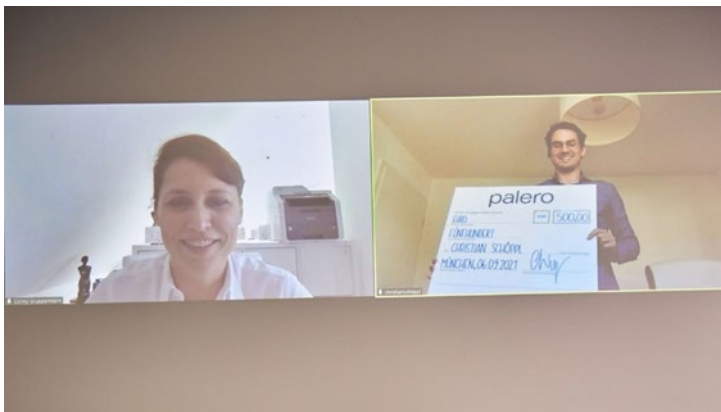
5.2. Palero Capital Award

For the first time, the CCTPE at HHL, awarded in cooperation with its first sponsor Palero Capital the best HHL master thesis in private equity in 2020. Palero Capital, the exclusive advisor of an independent private equity fund in luxemburg, was co-founded by HHL alumna Conny Wuppermann and the first supporter of the CCTPE. Prof. Dr. Schwetzler, the CCTPE academic director and holder of the chair of financial management at HHL said: "It is great to start this new project with our very first sponsor Palero Capital to support the private equity research and to honour outstanding contributions of our students, the PE experts of tomorrow."

Palero Capital Award 2021: Christian Schöppl. Master thesis on preferential rights in venture capital contracts

In 2021 the price, was awarded to Christian Schöppl, a part-time Master student at HHL. The official presentation took place during the enrolment ceremony for the winter semester at the 6th of September 2021. Due to the ongoing corona pandemic both the award winner and the presenter Conny Wuppermann, CFO from Palero Capital, were virtually connected to the monitors at the celebration.

His master thesis "Assessment of Preferential Rights in Venture Capital Contracts – Implications on Balance Sheet Valuation" discusses the valuation concepts including special cash flow rights. These preferential rights, such as liquidation preferences, anti-dilution clauses or participation rights, are essential in venture capital contracts. The paper gives a systematic and thorough overview of the existing accounting regulations with regard to these preferential rights and the extent to which these regulations are suitable for the correct representation of the share value in the context of reporting to the fund's investors. "Mr. Schöppl's thesis makes an important contribution towards a better understanding of the implications of preferential cash flow rights for the valuation of fast growing, VC owned companies.", says Bernhard Schwetzler, the academic supervisor and director of the CCTPE.



Screenshot of the online award ceremony for the Palero Award 2021 with Conny Wuppermann (Palero Capital) and Christian Schöppl (Award Winner)

6. EXTERNALLY FUNDED PROJECTS

6.1. Strategic Asset Allocation – Investigating the Impact of the Addition of Alternative Investments on Fund Performance

A wide range of institutional investors and family offices are invested in alternative investment asset classes. These investors make use of low correlations between alternative investment asset classes and traditional asset classes as well as attractive return profiles to diversify and improve their portfolio performance.

Hauck & Aufhäuser (H&A) and the CCTPE jointly investigated the impact of the addition of alternative investments asset classes on the performance of a range of H&A funds. The study made use of a Monte Carlo Simulation in order to derive if and to what extent the alternative investment classes private equity, real estate and infrastructure should be included within H&A funds. H&A funds currently consist of a mixture of stocks, bonds, precious metals as well as liquidity/cash.

The joint study confirmed the widely held belief that fund performance, as measured by the Sharpe Ratio of a fund, can be improved via the addition of alternative investments. The Monte Carlo Simulation simulated 1 million fund allocations in alternative investments to determine that the optimal allocation to alternative investments lies between 10-15% per fund. The optimal allocation weighted the alternative investment classes private equity and infrastructure higher than the real estate asset class due to them having more attractive return profiles and correlations with the H&A funds. A total alternative investment allocation of 10-15% of the fund was found to improve the fund Sharpe Ratio by 8-10% for all investigated H&A funds.

6.2. Private Equity als Anlageklasse für institutionelle Investoren und Family Offices in Deutschland

In the investment portfolio of institutional investors, private equity is usually a small but increasingly important component that contributes to achieving return targets and exploiting diversification effects. With this joint study, the German Private Equity and Venture Capital Association (BVK) and the Center for Corporate Transactions and Private Equity (CCTPE) of HHL Leipzig Graduate School of Management (Prof. Bernhard Schwetzler), with the support of KfW Capital, provide an overview of the investment behaviour and strategies of German investors in their private equity investments. With the study, we want to provide orientation for investors already involved in private equity as well as for those who are still planning to become involved, and with the detailed insights, we want to contribute to German insurance companies, but also pension funds and pension funds, recognising and exploiting the opportunities associated with the asset class. After all, it was not least during and after the crises of the past that private equity was able to prove its attractiveness.

Among other things, we looked at the selection of target funds and how successful the investments are from an investor's point of view. We were also interested in the hurdles that hinder private equity investments and the measures that can be taken to attract more investors to the asset class. A special focus was on venture capital. It is undisputed that venture capital contributes substantially to innovation and growth, but Germany still has a lot of catching up to do. Mobilising more capital for German funds from the domestic capital collection points would provide an important growth spurt for the local venture capital supply. The industry has been working intensively on this together with politicians for a long time.

With this study, we want to offer orientation to investors who are already involved in private equity as well as to those who are planning to become involved, and with the detailed insights, we want to contribute to German insurance companies, but also pension funds and private equity funds, recognising and exploiting the opportunities associated with this asset class. After all, it was not least during and after the crises of the past that private equity was able to prove its attractiveness.

6.3. Diversity in Private Equity

Resting on a scientific paper from the Center (“The more the merrier? Diversity and Private Equity Performance” by B. Hammer, S. Pettkus, D. Schweizer and N. Wünsche) our Partner Ernst&Young published and discussed its most important findings on its website.

The research results from CCTPE suggest there are “bright sides” and “dark sides” of diversity. There are doubtless benefits of a diverse team; different backgrounds of the individual team members lead to a broader set of perspectives, contributing to more nuanced decision making. Simultaneously, these exact same differences can lead to communication barriers and possible clashes between the individuals involved. To discover which of these opposing aspects is dominant, the researchers introduced a novel, comprehensive diversity index specific to the PE industry. They measured diversity in PE-led partner teams by several socio-demographic and occupational factors. Gender, nationality and age are examples for the first group of diversity dimensions. Professional experience, educational background and university affiliation count among the factors of the second group. The index was then related to buyout performance, measured by the mean growth of the portfolio firm’s enterprise value during the holding period (excess growth as deviation from listed peers in relevant industries in each country).

The analysis shows a clear advantage for lead partner teams with high socio-demographic diversity. A mix of nationalities, genders and age-groups brings in a number of different perspectives which, in turn, contributes positively to problem-solving. The downside of diversity, such as inefficiencies in communication or coordination, seems to be less detrimental to teams with high socio-demographic diversity.

By contrast, in teams with different academic and work backgrounds, the process deficiencies are outweighing the benefits of multiple perspectives. Partners with a high level of occupational diversity do not share the same “language of expertise”, resulting in a slow-down of execution speed, one key dimension of PE performance.

However, the researchers at EY and the CCTPE have discovered an important exception to the findings outlined above: For more complex buyout deals, the rules are different. Here, both diversity dimensions have beneficial effects on the performance. In these more challenging circumstances, the different knowledge and perspectives through diverse backgrounds, cultures and levels of expertise of a team seem to outweigh the associated transaction costs. The importance of execution speed may diminish, giving room to diverse ideas aimed at optimal problem-solving.

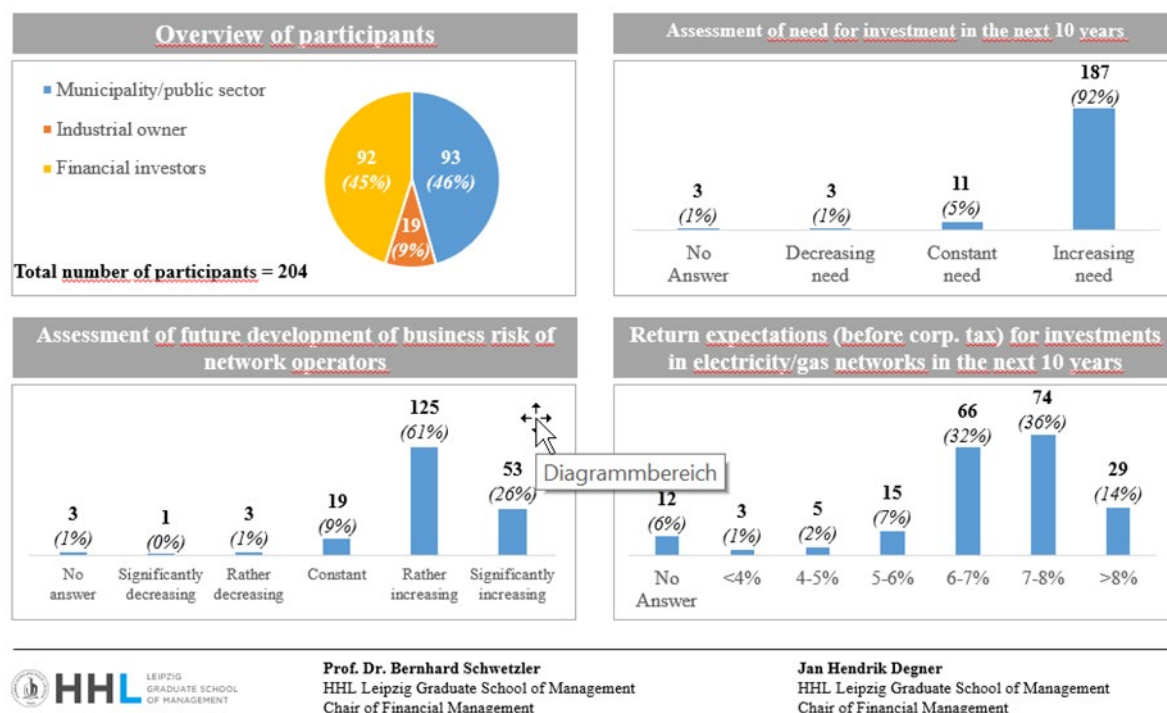
6.4. Survey: The Significance of Imputed Return on Equity for German Electricity and Gas Network Operators

The German Federal Network Agency [Bundesnetzagentur, BNetzA] was to set the imputed return on equity (“EK I” rate, hereinafter simply “RoE”) for the German gas and electricity networks in 2021, in order to determine the limits for regulated returns in the upcoming 4th regulatory period (RegP). Due to the continued drop of the risk-free return on German government bonds since the last time the RoE was set, there have been concerns that the return on equity could be set considerably below the rate for the current regulatory period of 6.91% before and 5.64% after corporate taxes for new investments (from 1 January 2006 onwards), in case the BNetzA leaves the calculation methodology, in particular the combination of the current base rate and historical market risk premiums, unchanged.

In order to learn about investors’ assessment of the risks and the return requirements in network operations and of possible reactions to a continued reduction of the RoE, the German Association of Energy and Water Industries (BDEW) commissioned Prof. Dr. Bernhard Schwetzler, Chair of Financial Management at the HHL Leipzig Graduate School of Management, to conduct a survey among existing and potential investors. The survey was carried out by way of an online questionnaire from 18 November 2019 to 31 January 2020.

The following graphic representation provides an overview of the composition of the sample and the survey’s most important findings:

Brief overview of survey findings



6.5. Survey: Private Equity in Crisis Times

After the outbreak of the COVID-19-crisis in spring 2020, CCTPE and FTI-Andersch cooperated and jointly surveyed PE representatives and investigated the topic of PE portfolio companies' liquidity during the crisis – with the main findings being published in Germany's most recognized business newspaper (Handelsblatt).

Another twelve months into the COVID-19-crisis, CCTPE and FTI-Andersch cooperated again, to further deepen the understanding and expand the research focus to cover a broader outreach and significance of COVID-19 related effects on the PE industry. The results are based on the excellent thesis of Ms. Schömäcker (MSc21). As a result, an overall severe yet varied crisis impact with "winners" and "losers" is confirmed. At the portfolio company level, the main challenge of those investigated was to cope with supply chain issues. Concerning the PE fund dimension, holding periods and the reporting frequency of portfolio companies are expected to increase as a direct consequence of the crisis. These results underline the long-lasting effects of the COVID-19 crisis on PE, revealing its robustness and highlighting PE funds' action fields.

7. SPEECHES/CONFERENCES

Due to Covid19 conference activities of the chair were mostly restricted to online presentations. Jonas Kick presented our paper “Second hand or second generation? – The performance of secondary buyouts” on the annual meeting of the European Financial Management Association in Leeds. This years’ “Private Equity Summit” series in Paris and Munich was also organized as an online event. The center for corporate transactions and private equity CCTPE contributed significantly to both events: Prof. Bernhard Schwetzler organized and lead two panel sessions on buy and build strategies in private equity and unicorn valuations (the latter one jointly with Ilja Strebulaev from Stanford University).



**Yilmaz Bekyol, The Impact of Leadership Diversity on Private Equity Fund Performance
European Financial Management Association (EFMA) July 2, 2022 in Rome**

Further presentations on conferences:

12.3.2021	EACVA Virtual Business Conference, online	You set the value, we set the terms Bernhard Schwetzler
4.5.2021	Private Equity Summit Munich 2021, online	Unicorn Valuation Bernhard Schwetzler
4.5.2021	Private Equity Summit Munich 2021, online	Buy&Build Strategy Bernhard Schwetzler
30.6.2021	EFMA Annual Meeting, Leeds	Second hand or second generation? The performance of secondary buyouts Jonas Kick
23.9.2021	Verlagsgruppe Handelsblatt Business Valuation Day, Frankfurt	Panel: Quo vadis business valuation? Bernhard Schwetzler
27.9.2021	NACVA Conference “Valuation around the World”, online	Growth assumptions in Terminal Values Bernhard Schwetzler
14.12.2021	NACVA Annual Conference 2021, online	Fade Factors and growth assumptions in Terminal Value Calculations Bernhard Schwetzler
6.7.-9.7.2022	Academy of International Business (AIB) 2022, Miami	The Impact of Leadership Diversity on Private Equity Fund Performance Yilmaz Bekyol, Bernhard Schwetzler
19.08.2022	NACVA and the CTI's 2022 Business Valuation & Financial Litigation Hybrid & Virtual Super Conference, Salt Lake City	Inflation, growth and Corporate Value Bernhard Schwetzler

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