

## **King of Capital** by David Carey

Private Equity companies add management, financing, and systems to improve companies that they acquire through heavy leveraged financing provided by major banks. The acquired business must be able to afford the loan interest and pays the loan in an LBO (leveraged buy-out). The most important private equity personnel are salesmen, securitization specialists, legal teams, and broker-dealer traders. The government allows these enormously leveraged takeovers since the target companies often need help.

The sealed bidding process allows bidders to bid a price which reflects how much they truly want the target. Stock buybacks boost share prices by reducing shares outstanding and therefore increasing earnings per share. The IPO of a business provides its partners with liquid stock of their otherwise restrictive shares and at a generous multiple. Wall Street mistreats those that lack status regardless of immediately previous circumstance, but perseverance can overcome almost anything as John Rockefeller once said. The 1980s were a profitable time as the economy rose while inflation fell. LBO sizes fell from about \$1 Billion to \$300 Million from 1980 to 1990 as markets changed.

Management requires operating procedures including checks and balances. Partners will sometimes leave if they don't have total autonomy, but proper structure is more important. The school that someone attended only matters up to a point. Those ousted under unfair circumstances shouldn't be tarnished and it is okay for a manager to make a single large mistake, but some managers are financially illiterate and that is unacceptable. The risk is always there when hiring people since you can never know if it will work out. It's important to listen and seek advice from even the most junior people within an organization.

Industry cycles matter regardless of what others may say. The only identifier of an economic bubble is the pure unsurety to understand the present cycle and the occurrence of market contradictions. It's best to take a step back during these times even if others are rushing ahead to make money over fist in the short term. The main challenge in pulling back during rapid end-cycle accelerations is that dealmakers within your firm will grow restless and some might leave. It takes courage to go against the trend even when it's the smart strategy. A successful business must always be looking to add extra value by doing the small things to stay ahead of the competition. The simplest way to profit from pure purchasing power is to buy bulk and sell in pieces.

Faster flips are more profitable due to the annual yield being spread over a shorter term. The most publicized deals are often the most overvalued deals. The profit-sharing incentives of a deal can always be organized to make sense for everyone. Commercial real estate purchased below replacement cost becomes a discount in the market value as construction costs rise. Conglomerates are typically overpriced due to the belief that they are safer due to their diversification. It can make sense to compromise in the short term to establish longer term relationships. It's common to almost go bankrupt multiple times early in the life of a successful business. It sometimes makes sense to get business from the clients of competitors since it allows them to diversify their business. It's normal to want to be more successful than larger rivals for years at a time.

You will never be able to win at everything which is why picking your battles is so important. Not everyone finds their purpose early in life, but longevity is more important in a career. Deals should be done with unemotional objectivity in order to allow for the best decisions. You can always give certain unusual concessions to achieve a certain level predetermined in order to minimize downside risk. It may seem weak to minimize downside risk, but overtime the prudent usually win out. Success can be unpredictable, elusive, and nonsensical at times. You can sometimes convince a previous employer to relieve you of a non-compete agreement by promising them a proportion of your earnings (income) in future years. All competitors including those who seem impossible will still bend if they are smart and are pushed hard enough.