STRUCTURING CASE STUDY

OPM, a US private equity group, is considering three separate investments in emerging markets. Key issues regarding each of the proposed investment are summarized below.

OPM has asked you to advise which structure you recommend assuming for purposes of this discussion that we are not concerned with the tax implications of the structuring decision. Please be prepared to articulate the rationale for your recommendation, including all pros and cons.

Target 1

Humongous Corp. is a conglomerate of businesses that includes a cement segment, a pharma unit, a software group, a chemical plant and a retail chain that operates several department stores. OPM is very interested in the retail chain because it is banking on the growth of the middle class in the Emerging Market. The family that controls Verybig Co. needs a cash infusion to finance R&D for the pharma unit and address possible environmental issues relating to the chemical plant. The department stores lease space in malls across the country under arrangements entered into when the family did not bother much with lawyers.

Target 2

Focus Co. is a very promising biotech company with great prospects, but no current revenues. Three leading scientists own 100% of it, but need significant funding to continue to develop the products. OPM is intrigued by the potential huge payoff, but is concerned about securing its rights in such products.

Target 3

Flavor-of-the-day LLC ("Flavor") is a very hot ticket. OPM knows that several aggressive competitors have been sniffing around and are probably willing to top the price that OPM has negotiated with the controlling shareholder. However, OPM has secured exclusivity for 90 days and the transaction is not likely to require any governmental approval. Flavor has many material contracts with change of control provisions.