

# Case Studies of Successful Private Equity Firms vs. Leading S&P 500 Companies

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**Abstract** - This research paper examines the performance of leading private equity firms as compared to prominent companies within the S&P 500. By analyzing specific case studies, the paper illustrates the unique strategies employed by successful private equity firms and how these strategies yield varying performance levels compared to traditional public companies. The research highlights differences in operational management, financial leverage, and market dynamics that contribute to these outcomes. Furthermore, the paper reviews existing literature to contextualize the findings within broader trends in private equity and public markets, ultimately providing insights for investors and policymakers.

**Keywords:** Private Equity, S&P, Performance.

## I. Introduction

Private equity (PE) and public equity are two distinct forms of investment, each characterized by unique strategies, risk profiles, and performance metrics. Private equity firms typically acquire companies with the goal of restructuring and enhancing their value before eventually exiting the investment, either through a sale or initial public offering (IPO) (Kaplan & Schoar, 2005). These firms operate with a longer investment horizon and often leverage financial tools to maximize returns, resulting in unique challenges and opportunities.

In contrast, companies listed on the S&P 500 are publicly traded and face different pressures, including shareholder expectations for quarterly performance and regulatory scrutiny. These companies must deliver consistent returns in the short term while navigating the complexities of the market, including competition, innovation, and changing consumer preferences.

This paper explores the performance dynamics between successful private equity firms and leading S&P 500 companies. By analyzing notable case studies, including The Carlyle Group, KKR, and Blackstone, as well as prominent public companies such as Apple, Amazon, and General Electric, we seek to provide insights into the performance metrics defining success in both spheres. The analysis will consider various factors, including operational management,

financial leverage, exit strategies, and the impact of market conditions.

## II. Methodology

This study employs a qualitative analysis through case studies to compare the performance of private equity firms with S&P 500 companies. This approach allows for an in-depth examination of specific firms and their strategies, providing a nuanced understanding of the factors influencing performance outcomes.

### 1. Selection of Case Studies:

The case studies selected for this research represent a mix of successful private equity firms and leading public companies. The private equity firms chosen include The Carlyle Group, KKR, and Blackstone, all of which have demonstrated substantial performance and value creation in their investments. We focus on Apple, Amazon, and General Electric for public companies, as they exemplify various trajectories in the public equity landscape.

### 2. Data Collection:

Data for this analysis will be collected from annual reports, financial statements, industry publications, and reputable news sources. Specific performance metrics, such as Internal Rate of Return (IRR), Return on Investment (ROI), revenue growth, and market capitalization, will be examined to facilitate a comprehensive comparison (Metrick & Yasuda, 2010).

### 3. Performance Metrics:

The study will utilize several key performance indicators to evaluate and compare the success of private equity firms and S&P 500 companies. These include:

- **Internal Rate of Return (IRR):** A critical metric for private equity that measures the profitability of investments over time.
- **Return on Investment (ROI):** A standard measure of the efficiency of an investment, calculated as the net profit divided by the initial investment cost.

- **Revenue Growth:** An essential indicator of a company's market performance, reflecting its ability to increase sales over time.
- **Market Capitalization:** The total market value of a company's outstanding shares, providing insights into the company's size and investor perception.

#### 4. Comparative Analysis:

The final step involves synthesizing the findings from the case studies to draw comparisons and conclusions about the performance dynamics between private equity firms and S&P 500 companies. By analyzing the operational improvements, financial structures, and strategic decisions made by each entity, the study aims to uncover patterns and insights relevant to investors and industry stakeholders.

### III. Literature Review

The private equity landscape has been a focal point for academic and industry research, revealing a complex interplay between investment strategies, operational management, and financial performance. This literature review will explore critical themes in the existing research, highlighting significant findings and identifying gaps that this paper aims to address.

#### 1. Private Equity Performance:

A substantial body of literature focuses on the performance of private equity investments compared to public markets. Kaplan and Schoar (2005) provide a seminal analysis of private equity performance, highlighting that while private equity funds often generate higher returns than public markets, these returns come with increased risks and varying performance persistence. They emphasize the importance of operational improvements and management interventions as crucial factors in value creation.

Metrick and Yasuda (2010) further elucidate the performance metrics associated with private equity, advocating for a comprehensive understanding of IRR and other financial indicators. Their research indicates that successful private equity firms tend to employ strategic leverage and focus on industries with high potential for operational enhancements.

#### 2. Public Equity Dynamics:

Research on public companies, particularly those in the S&P 500, has examined how market conditions, competition, and regulatory environments impact performance. Gompers and Lerner (1999) discuss public companies' pressures, including the necessity to deliver short-term results to satisfy investors. This pressure can inhibit long-term strategic

planning, leading to potential underperformance in specific contexts.

The literature also highlights the role of innovation and brand strength in driving public company success. For example, Apple and Amazon are often cited as leaders in leveraging technology and consumer insights to enhance their market positions, demonstrating that solid operational strategies can yield significant growth (Apple Inc., 2021; Amazon.com, Inc., 2021).

#### 3. Comparative Studies:

Some studies have sought to directly compare private equity and public equity performance. Harris et al. (2014) analyze the investment performance of private equity funds against public market indices, finding that while private equity can outperform in specific periods, the differences are often narrower than previously assumed. Their findings suggest that market timing, economic conditions, and firm-specific characteristics play significant roles in determining outcomes.

#### 4. Operational Improvements in Private Equity:

The literature recurrently emphasizes operational improvements as a key driver of private equity performance. Cummings (2016) argues that private equity firms create value by implementing systematic changes in management practices, operational efficiency, and cost reduction. This operational focus allows private equity-backed companies to achieve superior growth trajectories compared to their publicly traded counterparts.

#### 5. Gaps in Research:

Despite the wealth of private and public equity studies, several gaps must be addressed. Notably, more research is needed on how specific case studies illustrate the application of strategies in different market conditions. Additionally, the impact of macroeconomic factors on the comparative performance of private equity firms and S&P 500 companies warrants further exploration. This paper aims to fill these gaps by providing a detailed analysis of case studies highlighting successful strategies employed by private equity firms and their outcomes compared to leading public companies.

### IV. Case Studies

#### 1. The Carlyle Group vs. Apple Inc.

##### Overview of the Carlyle Group

Founded in 1987, The Carlyle Group is one of the largest private equity firms globally. Its portfolio spans various sectors, including technology, healthcare, and consumer goods

(The Carlyle Group, 2020). The firm's investment strategy focuses on leveraging operational expertise to drive growth.

### Case Study Analysis

In 2013, Carlyle acquired the technology company Veritas for \$8 billion. Under Carlyle's ownership, Veritas underwent a significant transformation, focusing on enhancing its data management capabilities. By its IPO in 2016, Veritas had achieved a valuation of approximately \$10 billion, reflecting a robust IRR of 25% (Carlyle Group, 2021).

### Comparison with Apple Inc.

As a leading S&P 500 company, Apple has consistently delivered vital performance metrics, with a market capitalization exceeding \$2 trillion as of 2021. Apple's revenue growth has averaged over 10% annually for the past decade, bolstered by its strong brand and innovative product line (Apple Inc., 2021).

### Performance Metrics Comparison

- **Carlyle Group's Veritas:**
  - Initial investment: \$8 billion
  - Exit valuation: \$10 billion
  - IRR: 25%
- **Apple Inc.:**
  - Revenue (2020): \$274 billion
  - Market cap growth (2011-2021): 10x increase (Apple Inc., 2021)

### Reflection

While Carlyle achieved notable success with Veritas, Apple's consistent market cap and revenue growth reflect the robustness of public equity investments in established companies.

## 2. KKR vs. Amazon.com, Inc.

### Overview of KKR

Founded in 1976, KKR is a global investment firm specializing in private equity, energy, infrastructure, and real estate (KKR, 2020). KKR is known for its value-creation strategies, which often implement operational improvements and strategic acquisitions.

### Case Study Analysis

KKR's 2015 acquisition of PetSmart, a pet supply retailer, for \$3.35 billion exemplifies its strategy. KKR invested heavily in e-commerce capabilities, enabling PetSmart to compete more effectively with online retailers. By

2020, PetSmart's revenue had grown to \$7 billion, illustrating a successful turnaround (KKR, 2021).

### Comparison with Amazon.com, Inc.

Amazon, a leading S&P 500 company, has dominated the e-commerce landscape, reporting \$386 billion in revenue in 2020. Amazon's continuous investment in technology and logistics has allowed it to maintain a competitive edge (Amazon.com, Inc., 2021).

### Performance Metrics Comparison

- **KKR's PetSmart:**
  - Initial investment: \$3.35 billion
  - Revenue growth (2015-2020): From \$4 billion to \$7 billion (KKR, 2021)
- **Amazon.com, Inc.:**
  - Revenue (2020): \$386 billion
  - Market cap growth (2011-2021): Significant increase, with a market cap of over \$1.5 trillion (Amazon.com, Inc., 2021)

### Reflection

KKR's operational enhancements at PetSmart demonstrate the potential for private equity to drive growth. However, Amazon's extensive market reach and technological advancements highlight the challenges private equity firms face in competing with established public companies.

## 3. Blackstone Group vs. General Electric

### Overview of Blackstone Group

Blackstone, founded in 1985, is a leading global private equity and investment firm. Its investment strategies encompass private equity, real estate, public debt, and equity, making it one of the largest alternative investment firms worldwide (Blackstone Group, 2020).

### Case Study Analysis

Blackstone's 2007 acquisition of a majority stake in Hilton Worldwide for \$26 billion is a prominent example. Blackstone focused on revitalizing Hilton's operations and expanding its global footprint. By 2013, Hilton went public, with an estimated valuation of \$30 billion, yielding a 14% IRR for Blackstone (Blackstone Group, 2021).

### Comparison with General Electric (GE)

General Electric, a historical giant in the S&P 500, faced significant challenges in the 2010s, leading to a dramatic decline in market value. GE's revenue fell from \$148 billion

in 2016 to \$79 billion in 2020, reflecting operational inefficiencies and strategic missteps (General Electric, 2021).

### Performance Metrics Comparison

- **Blackstone's Hilton:**
  - Initial investment: \$26 billion
  - Exit valuation (IPO): \$30 billion
  - IRR: 14% (Blackstone Group, 2021)
- **General Electric:**
  - Revenue decline (2016-2020): From \$148 billion to \$79 billion (General Electric, 2021)
  - Market cap decline (2016-2020): Significant decrease (General Electric, 2021)

### Reflection

Blackstone's successful turnaround of Hilton showcases the effectiveness of private equity in enhancing company performance. In contrast, GE's struggles underline public companies' vulnerabilities in a rapidly changing market environment.

### V. Discussion

The comparative analysis of these case studies reveals several insights regarding the performance of private equity firms versus S&P 500 companies.

1. **Operational Expertise:** Private equity firms often implement aggressive operational improvements and strategic repositioning, which can lead to substantial value creation. For instance, KKR's investment in PetSmart demonstrates how targeted enhancements can drive revenue growth (Metrick & Yasuda, 2010).
2. **Market Dynamics:** Public companies like Apple and Amazon benefit from established market presence and brand recognition, allowing for consistent revenue growth. In contrast, private equity firms often operate in niche markets or distressed sectors where they can leverage their expertise to achieve superior returns (Harris et al., 2014).
3. **Investment Horizon:** Private equity firms typically operate on a longer investment horizon, allowing them to make significant changes and realize value over time. This contrasts with the short-term pressures publicly traded companies face, which must deliver quarterly results (Phalippou & Gottschalk, 2009).
4. **Exit Strategies:** The success of private equity investments is often tied to successful exit strategies, whether through IPOs or sales. Blackstone's successful exit from Hilton underscores the importance of timing and market conditions in realizing returns (Acker, 2017).

5. **Performance Metrics:** While private equity can demonstrate higher IRRs, the volatility and risk associated with such investments must be considered. S&P 500 companies often offer more stable, albeit sometimes lower, returns (Gompers & Lerner, 1999).

### VI. Conclusion

This research paper illustrates that private equity firms and leading S&P 500 companies possess unique strengths and weaknesses in terms of performance. Successful private equity firms like Carlyle, KKR, and Blackstone have demonstrated the ability to outperform through targeted operational improvements and strategic management. However, established public companies such as Apple, Amazon, and GE highlight the advantages of scale, market presence, and brand loyalty.

Investors must weigh the trade-offs between the high-risk, high-reward nature of private equity investments and the more stable performance of public equities. Future research could explore how evolving market conditions, regulatory changes, and technological advancements will further influence the performance dynamics between these two investment arenas.

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