

26North Spaced Repetition Flashcards

Review daily. Cover the answer, attempt to recall, then check. Mark cards you miss for extra repetition.

Section 1: Deal Structures (from Primers 1-4)

Q1: What is a liquidation preference, and why does it matter in structured equity? **A1:** A liquidation preference gives preferred equity holders priority over common equity in a sale or liquidation. A 1.0x preference means the investor gets their money back before common holders receive anything. It matters because it protects the downside: in a bad outcome, the preferred investor takes the first dollars out.

Q2: What is the difference between participating and non-participating preferred equity? **A2:** Non-participating: investor chooses between the liquidation preference OR converting to common (whichever is higher). Participating: investor receives the liquidation preference AND a pro-rata share of remaining proceeds ("double dip"). Participating is more expensive for the company but more protective for the investor.

Q3: What is a PIK (payment-in-kind) return? **A3:** Instead of paying interest or dividends in cash, PIK accrues and adds to the principal balance. A 10% PIK on \$100M grows the balance to \$110M after one year, \$121M after two. It preserves cash for the company but increases the investor's ultimate claim.

Q4: In a waterfall distribution, what is a GP catch-up? **A4:** After LPs receive their preferred return (typically 8%), the GP receives 100% of distributions until they have received their carried interest share (typically 20%) of total profits. This "catches up" the GP to their 20% share before reverting to the standard 80/20 split.

Q5: What is a maintenance covenant versus an incurrence covenant? **A5:** Maintenance: must be satisfied at all times (tested quarterly). Failure triggers default. Common in bank loans. Incurrence: only tested when the borrower takes a specific action (new debt, dividend, acquisition). Common in high-yield bonds. Incurrence covenants are more borrower-friendly.

Q6: Name the three most common financial covenants in leveraged loans. **A6:** (1) Maximum leverage ratio (Total Debt / EBITDA, typically 4-6x). (2) Minimum interest coverage ratio (EBITDA / Interest, typically 2-3x). (3) Minimum fixed charge coverage ratio (EBITDA - CapEx) / (Interest + Principal + Taxes), typically 1.1-1.5x).

Section 2: Special Situations (from Primers 5-10)

Q7: What is a Transitional Services Agreement (TSA) in a carveout? **A7:** A contract where the seller continues to provide shared services (IT, HR, finance, procurement) to the carved-out business for a defined period (typically 12-24 months) while the buyer builds standalone capabilities. TSA pricing is at-cost or cost-plus. The buyer wants TSAs to end quickly; the seller wants to be fairly compensated.

Q8: What is "stranded cost" in a carveout? **A8:** Costs the parent company can no longer allocate to the divested subsidiary. Example: if corporate IT cost \$20M and 30% was allocated to the divested unit, the parent now has \$6M in IT costs with no business to absorb them. Stranded costs reduce the parent's margins unless they restructure.

Q9: What is DIP financing? **A9:** Debtor-in-Possession financing: new loans provided to a company operating under Chapter 11

bankruptcy protection. DIP loans have “super-priority” status, meaning they are repaid before all pre-petition debt. This priority makes DIP lending attractive despite the borrower being in bankruptcy.

Q10: What is a 363 sale? **A10:** A sale of assets under Section 363 of the Bankruptcy Code. The process uses a “stalking horse” bidder (sets the floor price), followed by an auction. The court approves the sale, and the buyer receives assets “free and clear” of most liens and claims. Speed and certainty are the main advantages over a traditional M&A process.

Q11: What is credit bidding? **A11:** A secured creditor’s right to bid the face value of its debt (rather than cash) in a 363 auction. If you hold \$500M of secured debt, you can bid up to \$500M without spending cash. This gives secured creditors a structural advantage: they can outbid cash buyers up to the value of their claims.

Q12: What is rollover equity? **A12:** When a seller (typically management or a corporate parent) reinvests a portion of their sale proceeds into equity in the new entity. Rollover signals confidence in future value creation and aligns incentives between buyer and seller. The rollover is typically structured as a tax-deferred exchange (Section 351 or 721).

Q13: What is a Management Equity Plan (MEP)? **A13:** An equity incentive program giving management a stake in the PE-backed company, typically 5-15% of total equity. Usually split between time-vesting units (retention) and performance-vesting units (tied to MOIC or IRR hurdles). Designed to align management incentives with the PE sponsor’s return objectives.

Q14: What is a MAC clause? **A14:** Material Adverse Change (or Material Adverse Effect) clause. Allows the buyer to walk away from a signed deal if the target experiences a material adverse change before closing. Successfully invoking a MAC is extremely rare (Akorn v. Fresenius, 2018, is the landmark case where it was upheld).

Q15: What is Representations and Warranties Insurance (RWI)? **A15:** A third-party insurance policy that covers losses from breaches of the seller’s representations and warranties. The buyer (typically) pays the premium. RWI allows cleaner exits for sellers (limited post-closing liability) and protects buyers against unknown risks. Premium: 2-4% of policy limit.

Q16: What are tag-along and drag-along rights? **A16:** Tag-along: minority shareholders can participate (tag along) in any sale by the majority on the same terms. Protects minorities from being left behind. Drag-along: majority shareholders can force minorities to sell (drag along) in a 100% exit. Ensures the majority can deliver clean ownership to a buyer.

Section 3: 26North Platform (from Tear Sheets and Research)

Q17: Name 26North’s four business lines and their approximate AUM contribution. **A17:** (1) Private Equity: \$5.9B (Fund I). (2) Credit: direct lending and structured credit. (3) Insurance: \$9B+ (26N Re: AeBe, AeCe, Vernon Re). (4) IG Alpha: investment-grade credit strategies. Total platform AUM: ~\$35.3B.

Q18: What is 26North’s Alpha Creation Team (ACT)? **A18:** Operating partners who co-sign the value creation thesis before a deal closes. They work alongside management to execute the 100-day plan and ongoing operational improvements. The ACT model is 26North’s primary differentiator: operational value creation is embedded in the diligence process, not bolted on after acquisition.

Q19: Name all seven 26North portfolio companies and their deal types. **A19:** (1) ArchKey Solutions: buyout, industrial services. (2) Onelife Fitness: buyout, premium fitness. (3) AVI-SPL: buyout, AV/UC integration. (4) NEP Group: structured equity, live production. (5) Composition Brands: carveout (51/49 JV), luxury appliances. (6) Bruin Capital: platform investment, sports services. (7) Intermedia: buyout (pending), cloud communications.

Q20: What are 26N Re's three entities, their domiciles, and counterparties? **A20:** (1) AeBe ISA Ltd.: Bermuda, rated A- (KBRA), counterparty American Equity Life, \$4.3B reserves. (2) AeCe ISA Ltd.: Cayman, counterparty National Life Group, part of \$4.9B deal. (3) Vernon Re SPC Ltd.: Bermuda, flexible (Segregated Portfolio Company for future transactions).

Q21: How does the insurance-to-PE capital flow model work? **A21:** Step 1: Reinsurance entity assumes policy reserves from ceding insurance companies. Step 2: PE firm's investment team manages the asset portfolio backing those policies. Step 3: The spread between portfolio returns (6-8%) and policy obligation costs (3-4%) plus operating expenses is profit. On \$9B, a 3% spread generates ~\$270M annually.

Q22: Why is insurance capital cheaper than fund capital for 26North? **A22:** Insurance capital costs 5-6% (policy obligations + operating costs). Fund capital costs 18-22% (LP return expectations + 2/20 fee structure). This 12-16% cost advantage enables 26North to pursue deals with return profiles that pure PE firms cannot underwrite.

Q23: What was the NLG deal and why was it transformational? **A23:** In May 2024, 26N Re (via AeCe) reinsured \$4.9B of seasoned annuity policies from National Life Group's subsidiary LSW, entered a quota share on future production, and NLG became a minority owner of AeCe. The single transaction grew 26North's AUM from ~\$12B to ~\$22B, equivalent to the entire Fund I raise (\$5.9B over 3 years) in one closing.

Section 4: Josh Harris and Market Context

Q24: What was Josh Harris's role at Apollo, and what was his most notable deal? **A24:** Co-founded Apollo in 1990 with Leon Black and Marc Rowan. Most notable deal: LyondellBasell. Invested \$2B in the bankrupt chemical company (2008-2010), sold for a \$9.6B profit (2013), one of the largest gains in PE history. Tailwind: fracking collapsed natural gas prices, slashing input costs.

Q25: How much did Harris pay for the Washington Commanders, and what justifies the price? **A25:** \$6.05 billion (July 2023), the most expensive sports franchise sale at the time. Justified by: NFL franchise scarcity (only 32 teams), guaranteed media revenue (\$350M+/year per team through 2033), stadium development upside (\$160-380M incremental annual revenue from a new stadium), and structural revenue sharing that creates a floor on franchise value.

Q26: What is the Apollo/Athene precedent and how is 26North replicating it? **A26:** Harris co-built Athene at Apollo from \$0 to \$300B+ in insurance AUM over 15 years. Athene pioneered the PE + insurance flywheel: reinsurance collects permanent capital, PE investment team manages it, spread is profit. 26North replicates this through 26N Re (\$9B+ after 3 years), leveraging the same playbook, relationships, and cost-of-capital advantage.

Q27: What is the "barbell effect" in fitness, and how does it affect Onelife? **A27:** The fitness market is bifurcating: budget operators (\$15-30/month, e.g., Planet Fitness) and premium operators (\$150+/month, e.g., Life Time) are both thriving. Mid-tier gyms (\$40-70/month) are losing market share, squeezed from above and below. Onelife is positioned in the premium tier, benefiting from the premiumization trend while avoiding mid-tier compression.

Q28: What is the Composition Brands carveout complexity discount? **A28:** Carving a multi-brand, multi-geography portfolio out of a public conglomerate is operationally complex (TSAs, standalone infrastructure, brand separation across US/UK/France). Most buyers avoid this complexity, reducing auction competition and enabling a lower purchase price. The complexity itself is the source of value for 26North.

Section 5: Sector Knowledge

Q29: What are the three layers of 26North's technology-enabled services stack? **A29:** (1) Physical infrastructure: AVI-SPL (builds and manages AV/collaboration environments). (2) Software/cloud platform: Intermedia (UCaaS, voice, video, messaging). (3) Content production: NEP (live sports broadcast production technology). Same secular tailwinds (hybrid work, AI, streaming) drive all three.

Q30: What is the MSP roll-up math? **A30:** Acquire small MSPs at 4-6x EBITDA, integrate into a scaled platform, exit the combined entity at 10-14x EBITDA. The 53% valuation premium between sub-\$5M EBITDA firms and \$500M+ revenue platforms is the core economics. 26North's scale (Fund I at \$5.9B) allows acquisition of platforms large enough to command premium exit multiples.

Q31: Why does Josh Harris's sports ownership create deal flow for 26North? **A31:** Harris owns the Commanders, 76ers, Devils, Crystal Palace, and Unrivaled. This gives him direct relationships with every major league office, team owner, broadcaster, and streaming platform. Two 26North deals (NEP: \$700M, Bruin Capital: \$1B) are directly attributable to intelligence and relationships from sports ownership.

Q32: What is Bruin Capital's roll-up thesis? **A32:** The middle-market sports services sector is fragmented across hundreds of specialized firms (\$10-50M revenue each) in data, sponsorship, content, ticketing, and fan engagement. No single player dominates. Bruin acquires 5-10 of these firms, integrates them under a common platform, cross-sells services to shared clients (a league using Bruin for analytics also uses Bruin for content production), and exits as a scaled provider at a higher multiple.

Study Schedule

WEEK	FOCUS	CARDS
Week 1	Primers 1-4 (deal structures)	Q1-Q6
Week 2	Primers 5-10 (special situations)	Q7-Q16
Week 3	26North platform and portfolio	Q17-Q28
Week 4	Sectors and synthesis	Q29-Q32, full review

Daily routine: Review 8-10 cards per day. Cards you answer correctly on first attempt move to every-other-day. Cards you miss stay in the daily rotation until mastered.

Verification Citations

#	CLAIM	VERIFIED	SOURCE
1	Apollo co-founded in 1990 by Harris, Leon Black, and Marc Rowan	Yes	Wikipedia and multiple sources confirm Apollo Global Management founded 1990 by all three from Drexel Burnham Lambert.
2	LyondellBasell: invested \$2B, sold for \$9.6B profit (2008-2013)	Yes	BSIC/Bocconi, Buyouts Insider, and Bain confirm \$2B investment in bankrupt LyondellBasell, \$9.6B profit, exited 2013. Largest single-deal PE gain in history.
3	Harris: Commanders \$6.05B (2023), 76ers ~\$280M (2011), Devils ~\$320M (2013)	Yes	ESPN confirms \$6.05B Commanders (Jul 2023). ESPN confirms 76ers \$280M (Oct 2011). CBS/Bleacher Report confirm Devils \$320M (Aug 2013).
4	26North Fund I: \$5.9B, total AUM ~\$35.3B	Yes	26North press release (Apr 2026) confirms \$5.9B final close surpassing \$4B target (not \$5B as stated in cold-reads Exercise 7, corrected there). Total AUM ~\$35B confirmed.
5	Bruin Capital: \$1B platform, George Pyne (former IMG Sports president), 26North + TJC co-lead (Jan 2026)	Yes	Sportico, Davis Polk, and The Middle Market confirm \$1B platform, Pyne as founder/former IMG president and former NASCAR COO, 26North + TJC as co-leads.

Repository Reference Library

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DOCUMENT	ROLE	WHAT IT ADDS
Base Rate Book	Reference	Base rates and Mauboussin frameworks for flashcard context
Measuring the Moat	Reference	Competitive advantage concepts appearing in flashcard questions
Bear Stearns Leveraged Finance Handbook	Reference	Leveraged finance fundamentals appearing in flashcard questions

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