Private Equity workshop

PRACTICAL CLASS
FALL 2024

Agenda

1. Intro to PE
2. Fund's structure
3. Pros and cons
4. Lifecycle of a PE fund
5. Key ideal traits of targets
6. Funds' investment process
7. Drivers of returns
8. Types of PE involvement
9. Discussion

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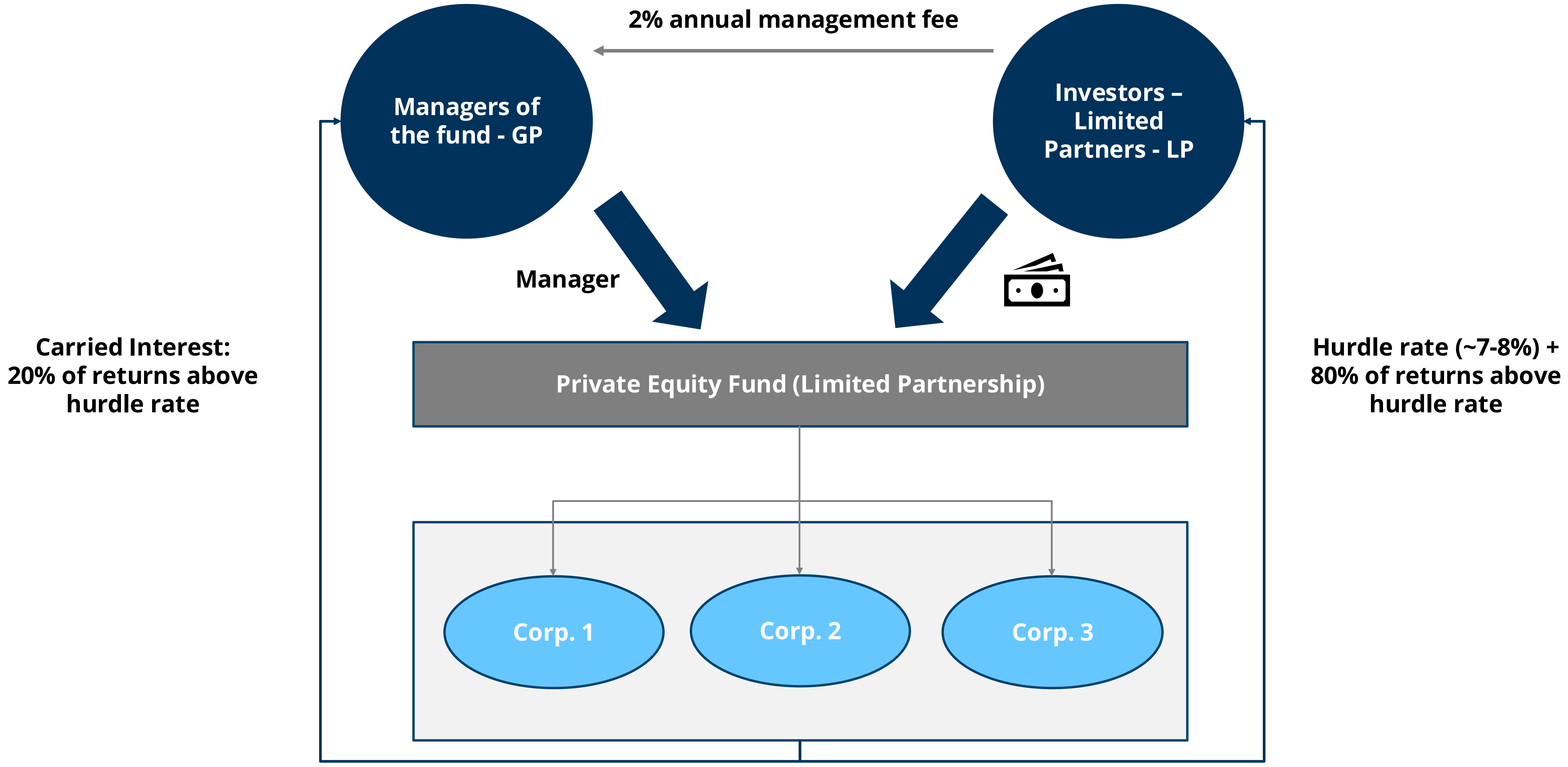
Introduction to Private Equity

- Investment directly into **private companies** or **buyouts of public (listed) companies,** through a fund, managed by professional **General Partners**
- Capital is **raised from individual or institutional investors (Limited Partners)** and can be used to fund start-ups (Venture Capital), make acquisitions (growth equity, buyout), or to strengthen a balance sheet (restructuring).

History

- Purchasing private companies has been practiced **since the Industrial Revolution**, however, the **first true buyout** was in **1901** with J.P Morgan & Co's purchase of Carnegie Steel Company from Andrew Carnegie for $480 million
- In **1946**, the **first two VC funds were born** - J.H. Whitney & Company, is known by the **1st successful venture capital deal** - in 1957 invested $70.000 in Digital Equipment Corporation, which would be valued at $335 million in its IPO

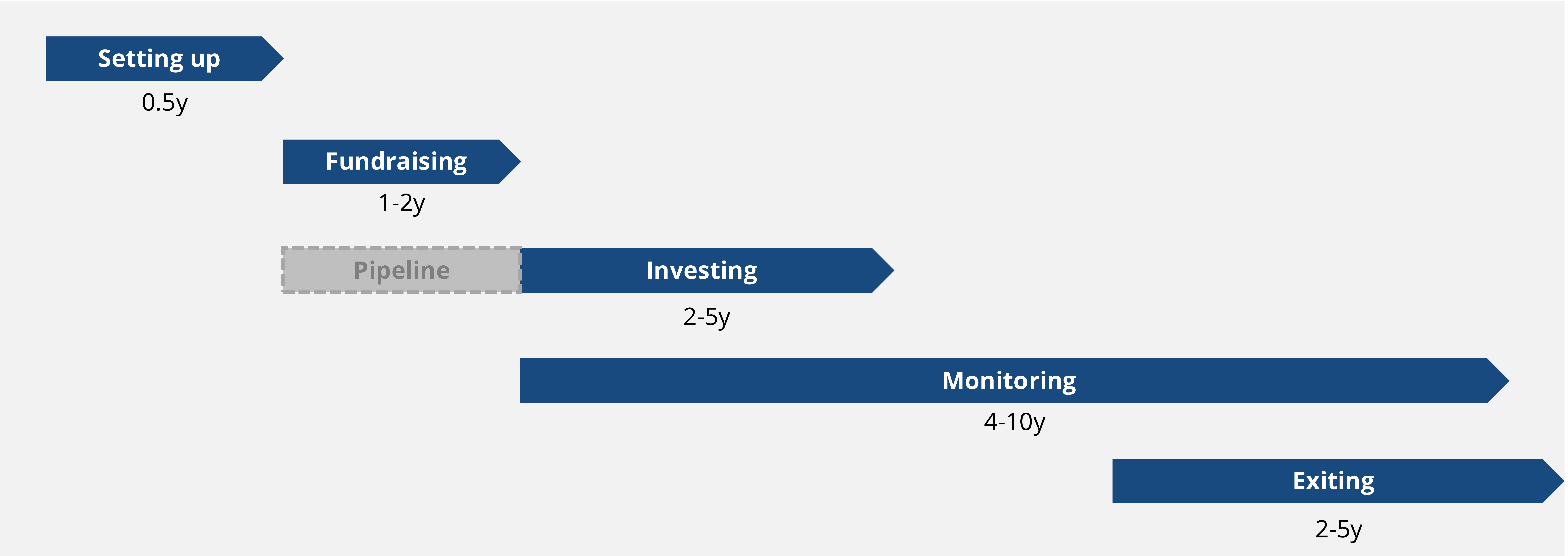
Fund's Structure



Pros and Cons of investing in PE Funds

Pros	Cons
1. High Long-Term returns	1. Size constraints
2. Portfolio Diversification	2. Risk Level
3. Hands-on Approach	3. Fee Structure
4. Low Volatility	4. Deal-Dependency

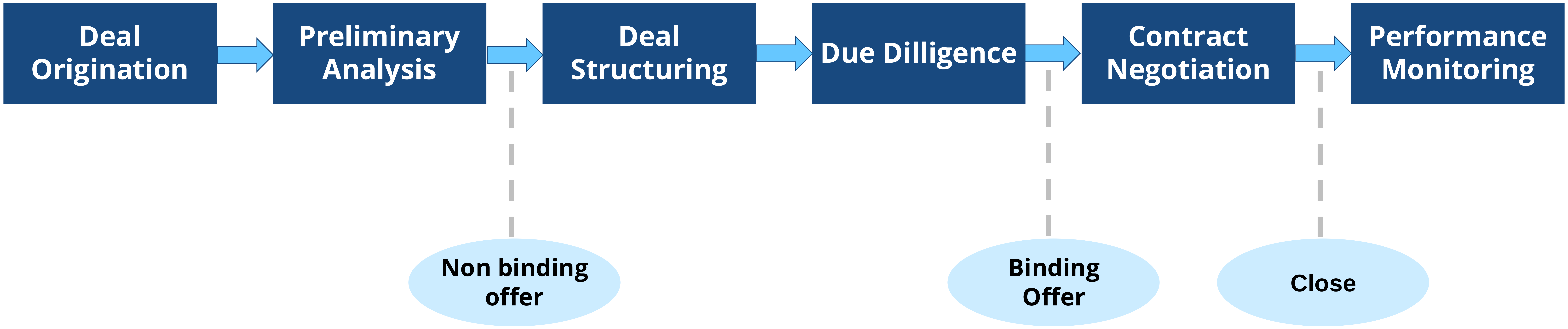
Lifecycle of a PE fund (typically 10 years)



Key ideal traits of targets

- ✓ Robust and stable cashflow generation (does not apply to VC)
- ✓ Asset quality
- ✓ Low capital expenditures
- ✓ Motivated and sophisticated management team
- ✓ Asset sales & cost cutting potential
- ✓ Market leader (or segment niche)
- ✓ Growing path
- ✓ Room for operational improvement
- ✓ Market consolidation opportunity

Funds’ investment process



Drivers of return

1. **EBITDA growth**
2. **Multiple arbitrage**
3. **Deleveraging**

	Acquisition stats	Exit			
	Entry	**EBITDA growth**	**Multiple arbitrage**	**Deleveraging**	**Combined**
EBITDA	100	100	200		200
(x) EV/EBITDA	6,0x	6,0x	8,0x-6,0x		8,0x
Enterprise Value	**600**	**600**	**400**	**-**	**1 600**
(-) Net Debt	(350)			(150)	(150)
Equity	**250**	**600**	**400**	**200**	**1 450**

Types of PE Involvement

Board only involvement

Active investment team

Specialized portfolio management team

Can you guess pros and cons associated with each type?

Discussion time!

How could a PE fund's investment team help the management of a window manufacturing company (portfolio company)?