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Portfolio Management Club

Guilherme Ascensão

Private Equity LS

20 October 2025

Fall 2025

AGENDA

- What is Private Equity?
- Private Equity Funds
- The Deal
- How to value a Private Equity Deal
- Case Study

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What is Private Equity?

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Investing private money in private businesses

Private Equity presents itself as a symbiotic approach that enables business to grow and investors to maximise returns

What is Private Equity?

Blackstone

CARLYLE

KKR

TPG CAPITAL

Private Equity, is the act of **investing capital in companies that are not public**, through direct investment or via a fund, **to improve the business and sell it for more money**

Key terms:

LPs (Limited Partners/Investors), GPs (General Partners/Private Equity Firm), Limited Partnership (Fund)

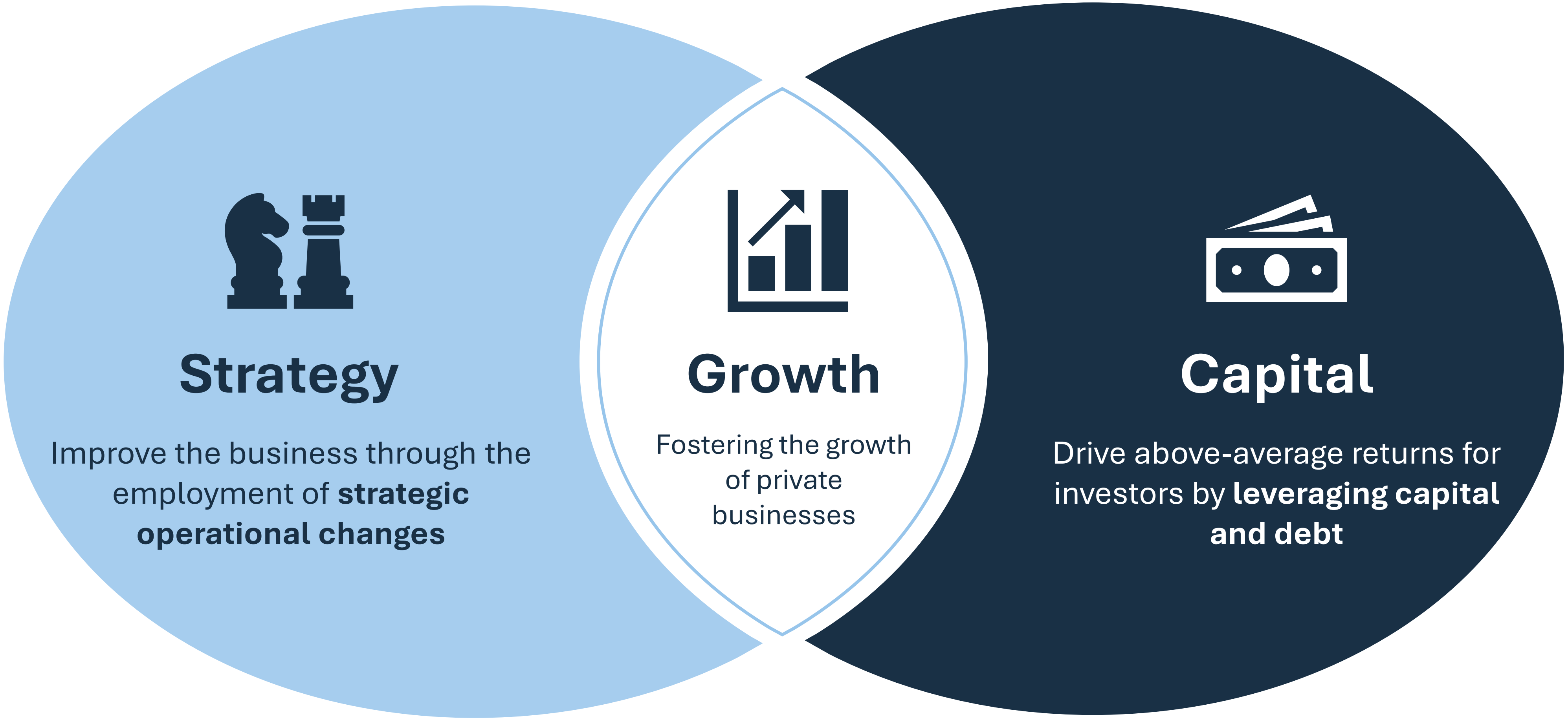
Why does Private Equity exist?

PE firms can help businesses in many different ways:

- Help in **fostering growth**
- **Access to capital and expertise** needed for expansion
- Improve **efficiency** in the business
- Support in succession issues

A means of fostering the growth of companies

Private Equity stands at the intersection between Capital and Strategy



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Private Equity Funds

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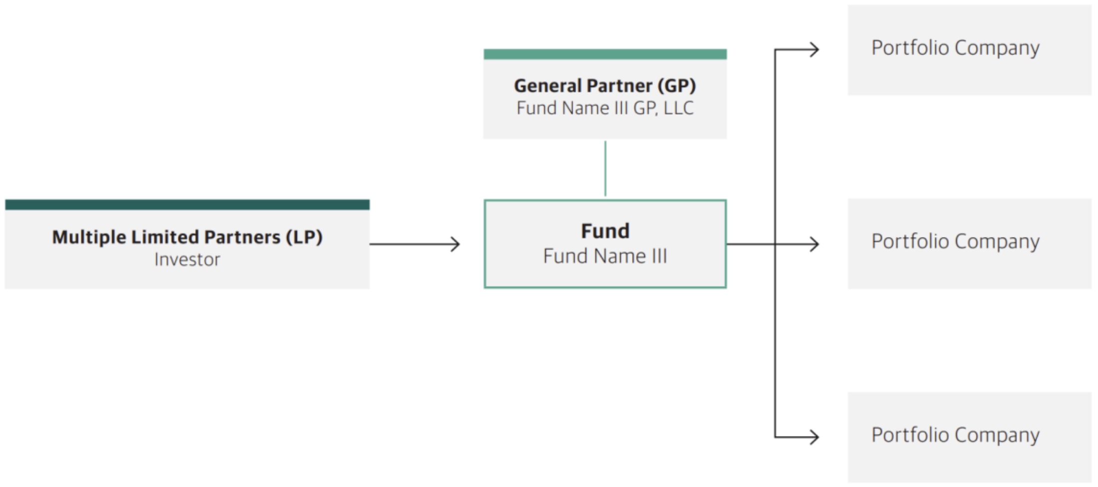
The structure and life cycle of a PE Fund

LPs invest, GPs manage and allocate, within a fund composed of 3 main phases that spread across 7-10 years

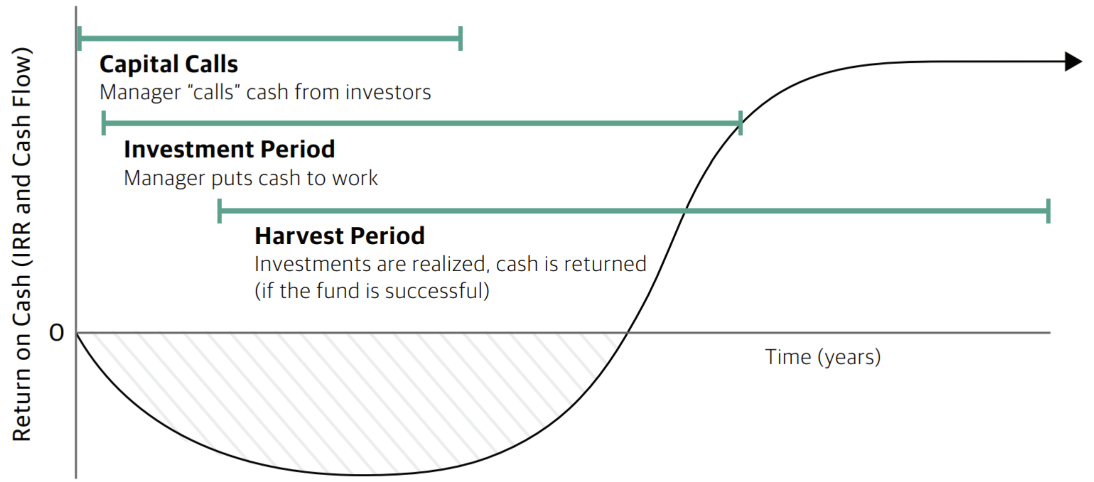
Structure[1]



LPs are **investors** who contribute capital

GPs assume **responsibility for the identification of investments and fund management**, with aligned incentives through mechanisms such as carry

Life Cycle[1]



PE funds run **~7–10 years**: first half to invest, second to exit

After fundraising, **LPs commit capital** that's drawn down gradually **during the investment period** as the GP finds deals

After +3y, exits, and proceeds are **returned to investors**

Sources: (1) The Life Cycle of Private Equity, Blackstone

Types of Funds in Private Equity

PE Funds differ in terms of business stage, financing form, and much more

Buyout	*Growth*	*Venture Capital*	*Others*
Business Stage: Mature	**Business Stage:** Growth	**Business Stage:** Early	**Private Debt**
Risk: Low	**Risk:** Medium	**Risk:** High	**Special Situations**
Returns: Mid-teens	**Returns:** +20%	**Returns:** +100%	**Distressed Debt**
Stake: Majority (>50%)	**Stake:** Minority (<50%)	**Stake:** Minority (<20%)	**Angel Investors**
Debt: Yes	**Debt:** Sometimes	**Debt:** No	**Others…**
Take control and employ significant **leverage** **Strong CF generation** at the core of success The genesis of the **LBO**	**Proven business model, seeking capital** to expand operations, enter new markets, or finance acquisitions **without a change of control**	**Early-stage** businesses (often pre-revenue) PEs invest in **several companies to reduce risk** (75% of VC-backed companies never return cash to investors)[1]	Everything that refers to **private funds being used to finance private companies** can be referred to as **Private Equity**

Sources: (1) Why most venture-backed companies fail, Shikhar Ghosh

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The Deal

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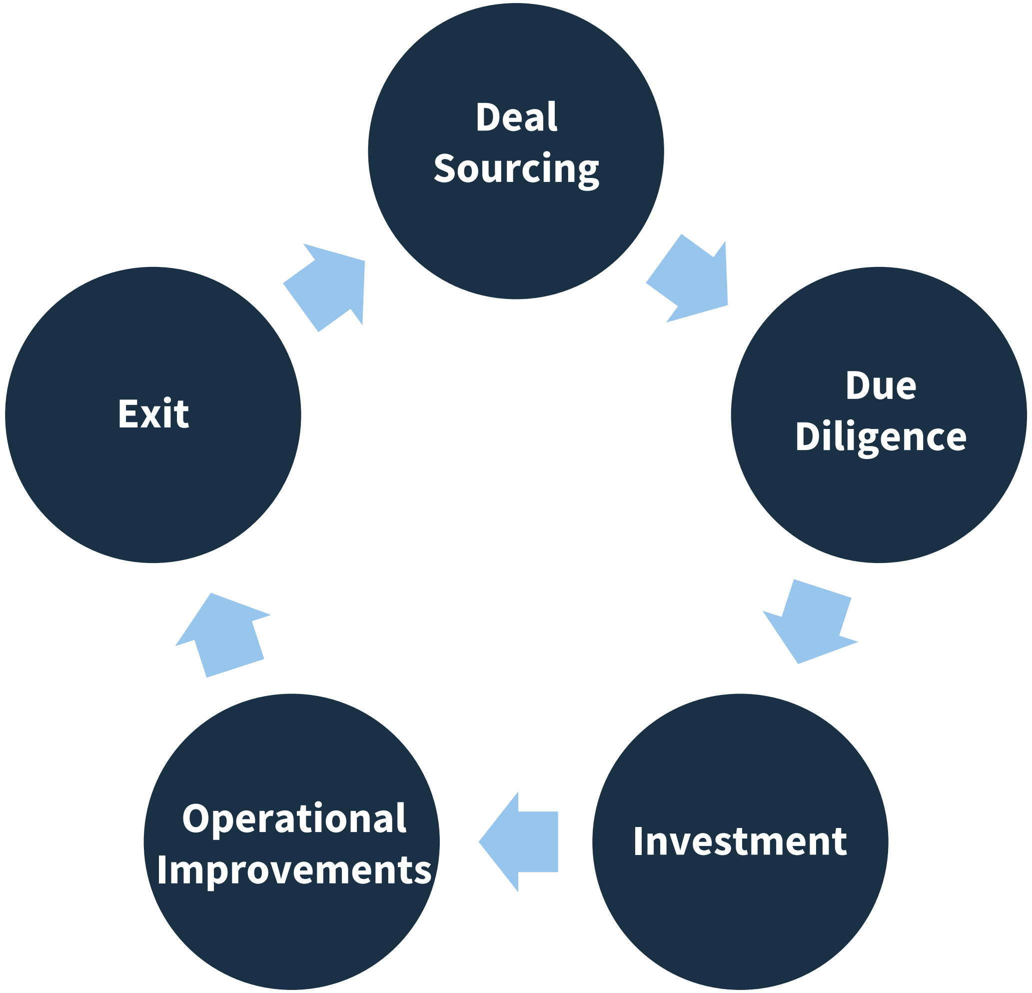
The Life Cycle of a Deal

Acquire, Improve, Sell, Repeat: a long-lasting proven model that enables Private Equity firms to achieve above-average returns



Deal Sourcing
Source deals based on key criteria defined

Due Diligence
Commercial, fiscal, legal and tax due diligence

Investment
Structure the deal and acquire the firm

Operational Improvements
Put your hands on the business, ensuring its growth

Exit
Structure the transaction, and exit the deal

A Private Equity firm typically holds an investment for **3 to 7 years**

Valuation multiples in Private Equity

Multiples are highly dependent on company- and industry-specific factors, but also on macroeconomic and other conditions

The Enterprise Multiple

Sector	Median EV/EBITDA 2025[1]
IT	13.2x
Healthcare	12.3x
Financial Services	8.7x
Materials & Resources	8.9x
B2B Services	8.1x
B2C	8.1x
Energy	7.9x

- Most PE deals are valued at **X times EBITDA**, i.e., the **Enterprise Value-to-EBITDA multiple**
- This multiple depends on the industry, cash generation, and strategic importance of the deal for the acquiree

How to reach a fair value

1. Calculate an appropriate value for the **normalised EBITDA** (can be the actual, forward, recurring, etc.)
2. Estimate a **multiple on EBITDA** (relevant Public Trading Comps, relevant Precedent Transaction Analysis), by computing the implied EV[2]/EBITDA and taking a range
3. **Adjust** for company-specific levers (e.g., size[+], customer concentration [-]), and reach EV/EBITDA multiple
4. **Propose a value on equity** to the target (Equity Value = EV[3] – Equity Bridge)

- Values are essential to reach a number which can be presented to C-level executives of a company
- BUT, never forget, you're dealing with someone selling their business, and it all comes down to **managing people**

Source: (1) PitchBook, Q2 2025 Global M&A Report (North America & Europe); Notes: (2) EV = Equity Value + Net Debt + Preferred + Minority Interest + Pensions, **or**, EV = Equity Value + Equity Bridge; (3) EV = Multiple x EBITDA

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The LBO Model

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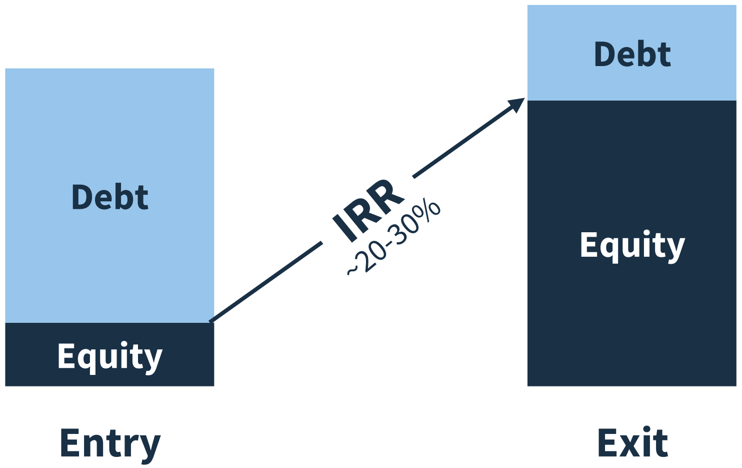
The Leveraged Buyout Model

The LBO is a form of acquisition used by PE firms, in carve-outs and take privates, in secondary buyouts, and much more

Buying out a company using Leverage



- A Leveraged Buyout, in its simplest form, is **buying a company using leverage**
- By repaying debt **with the company's CFs**, the investor **increases the portion of Equity**, which is then sold

The core mechanics of an LBO Model

1. Put in equity + raise several layers of debt to buy the company (**sources & uses**)
2. **Operate it**: revenues → EBITDA → cash flow after interest, taxes, capex, and working capital
3. Use free cash flow to amortize debt
4. Exit later at a multiple of EBITDA; repay remaining debt; what's left is equity value

The LBO is mainly useful to determine the **quality of cash flows**, the maximum feasible **leverage level**, the **deleveraging speed** capability, and to estimate factors such as **CapEx**, **NWC**, and potential **deal covenants**

How to build an LBO model from scratch

Build your assumptions, forecast the business operations, plan an exit, and stress your returns

1. Drivers & Scenarios
All **deal assumptions** (entry, exit, EV/EBITDA, starting EBITDA, etc.)

2. Sources & Uses
Uses: Equity purchase price, old debt, fees
Sources: New debt, investor equity "plug"

3. Debt Schedules
Opening balance from Sources, interest expense, amortisation, and closing balances

4. Operating Forecast
Revenue growth (EBITDA using margin), D&A, interest (from debt), taxes, and net income

5. Free cash flows
EBITDA, less cash taxes, less CapEx, less ΔNWC, equals **FCF**

6. Cash & Debt Sweep
Maintain a minimum cash balance, with any excess after interest, CapEx and ΔNWC, going to debt paydown

7. Exit Calculation
Exit EV = Exit EBITDA x Exit Multiple
Exit Equity Value = Exit EV – Net Debt at Exit

8. Returns
MOIC = Exit equity proceeds / Initial Equity
IRR: use the series of FCFEs and Excel's function

9. Sensitivities
Exit multiple vs Rev. Growth (or entry multiple)
Also, Leverage vs IRR

10. Checks
Sources = Uses
Cash never < minimum
ICR > 1.0x
Circularity (iterative calcs)

Red Flags

Over-optimistic exit or growth; ignoring WC seasonality; letting debt go negative due to an over-aggressive sweep; forgetting transaction or financing fees and tax effects

Typical Outputs

A "good" IRR usually sits at ~15-30%; a "good" MOIC usually sits at ~2.0–2.5x over 5 years; entry leverage and exit multiple assumptions drive most of the IRR, so stress them first

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Case Study

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GreenCo Ltd.

A company dedicated to the installation of wind turbines and maintenance of windfarms

The business model

GreenCo **installs wind turbines** (produced by large OEMs) and does **maintenance of windfarms** (with their **own equipment and people, all based in Portugal**), doing projects **solely on foreign ground**

Transaction details & Key data

Transation Perimeter	100% of GreenCo Ltd.
Proposed Price	20 million Euros
Debt 2023	10 million Euros
Cash 2023	1 million Euros
Closest public peer	Trading at an EV/EBITDA of 7.0x
Latest comparable transaction	Sold for 8.0x EV/EBITDA

- The owner wants to sell **100% of the business for €20M**
- You, as an Analyst in a PE firm, are tasked with assessing the proposal and **deciding whether the value is fair**

Note: We are currently on January 1st, 2023

Step by Step

The typical approach to address a simple Private Equity case study, a common practice in most PE interviews

First Step – Build your P&L

Year	2018	2019	2020	2021	2022
Projects	6	6.8	3.6	4.9	6.2
Maintenance	1	1	1	1	1
Total farms	*5*	*5*	*5*	*5*	*5*
Maintenance Rev. per farm	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*
Total Revenue	**7**	**7.8**	**4.6**	**5.9**	**7.2**
Personnel Costs	2	2.2	2.4	2.6	2.8
Machinery Costs	0.5	0.6	0.7	0.8	0.9
Total Costs	**2.5**	**2.8**	**3.1**	**3.4**	**3.7**
EBITDA	**4.5**	**5**	**1.5**	**2.5**	**3.5**

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Second Step – Estimate the multiple

Closest Public Peer: 8.0x EV/EBITDA

Latest Comparable Transaction: 8.0x EV/EBITDA

~7.5x EV/EBITDA?

Or less, if you want to adjust for Portuguese market and size

Step by Step

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Third Step – Reach Equity Value

EV = Estimated Multiple x EBITDA = 7.5 x 3.5M =

= 26.25M

Equity Value = EV – Net Debt =

= 26.25M – (9.0M – 1.0M) = 18.25M

Step by Step

The typical approach to address a simple Private Equity case study, a common practice in most PE interviews

Fourth Step – Think Critically!!

The owner wants 1.75M more (8.0x EV/EBITDA) than what I estimate the fair value to be…

…but, the company is showing signs of a rebound after COVID, and it is positioned in a fast-growing industry, so, why not?

Next Step: LBO Model

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