

Introduction to Private Equity

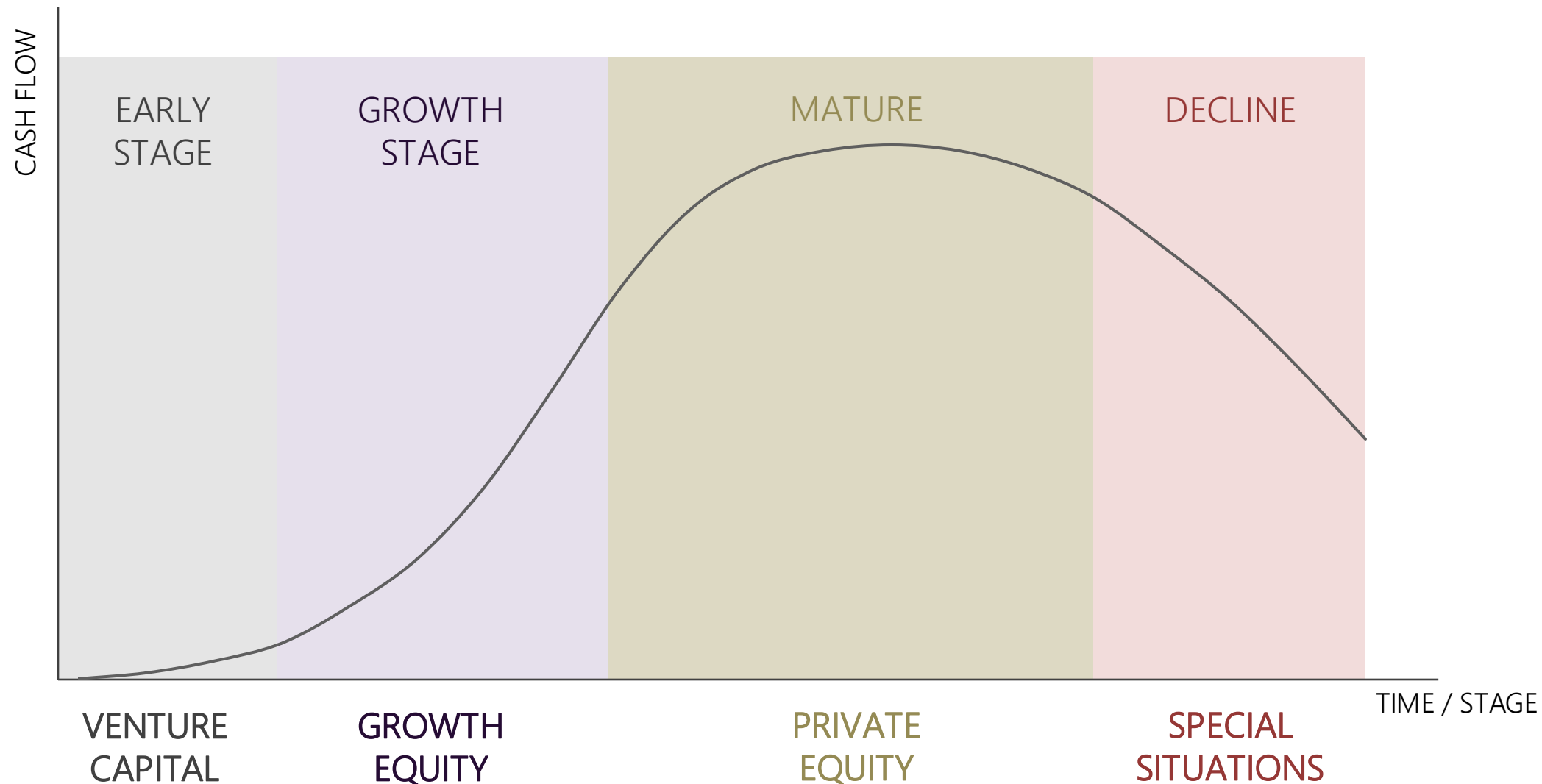
Comillas Private Equity & Venture Capital Club

Private Markets 101

Map of the Course

- Understanding Private Markets
- **Private Equity**
- Venture Capital
- Private Credit
- Infrastructure and Real Estate Investments

A Company's Lifecycle: Venture Capital, Growth Equity and Private Equity



What Is Private Equity?

1

Investing in privately held companies with the aim of making them more profitable and cash generative.

2

Investors, known as limited partners, commit capital to a long-term fund with capital calls.

3

Seek exit investments through IPO, merger or sale. Therefore, investment is illiquid until exit.

Main Characteristics of Private Equity

1

Long-term Investment Horizon – PE funds have a term ranging from 7 to 10 years.

2

Active Management – PE firms play an active role in managing the companies in which they invest.

3

Illiquidity – Investors commit capital for the fund's lifecycle, which is illiquid during the period.

4

Leverage – PE funds frequently use leverage to finance acquisitions, amplifying returns but increasing risks.

5

Sector Diversification – PE funds can invest in diverse sectors either as generalists or in niche sectors.

PE funds aim to generate returns that exceed those of Public Markets.

General Partners

GPs are the fund managers who **select** and **manage** investments in portfolio companies. They assume **unlimited liability** for management and receive a management fee and a share of the profits.

Limited Partners

LPs are institutional **investors** or HNWI¹ who allocate capital into long-term PE funds. They have **limited liability** and are not involved in the day-to-day management of the fund. Therefore, their **risk** is **limited**.

1. HNWI: High-Net-Worth Individuals, a person with at least \$1 million in liquid financial assets.

Limited Partnership Funds

GP calls capital

During the first 3 years of the fund, the General Partner calls the committed capital of LPs.

Dry Powder

Committed but not deployed capital.

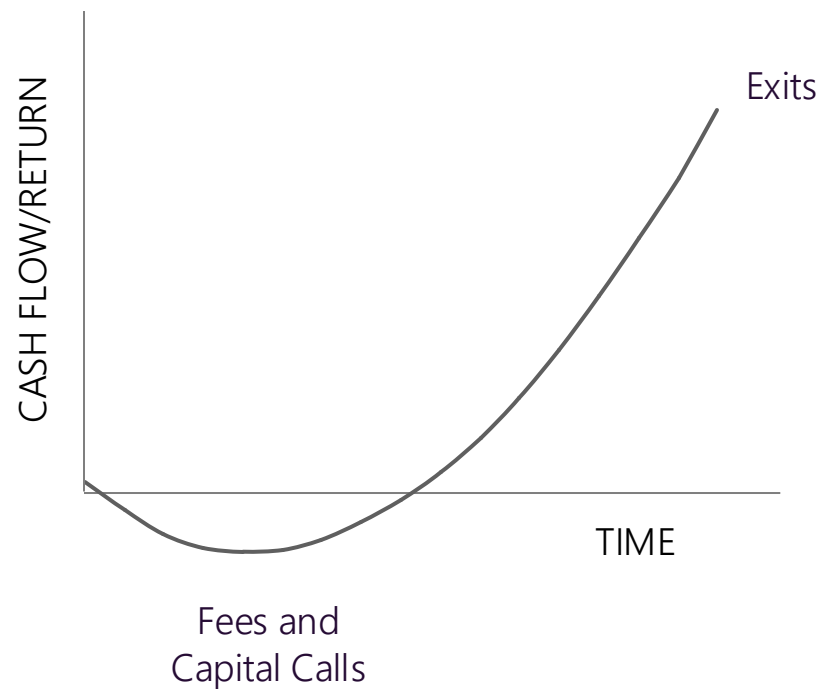
Growing Revenues

For the following years, the GP manages the investment and creates value from portfolio companies while receiving a management fee.

Seek Exit

In the last 3 years of the fund, GP seeks an exit of each investment and collects profits for them to be distributed back to LPs.

Evolution of the Investment — J Curve



J-Curve shows that early years of PE funds have negative cash flows and negative returns as fees are paid in early years, while exits and profits occur in later years.

Evaluating fund's performance

Gross IRR

Returns before fees.

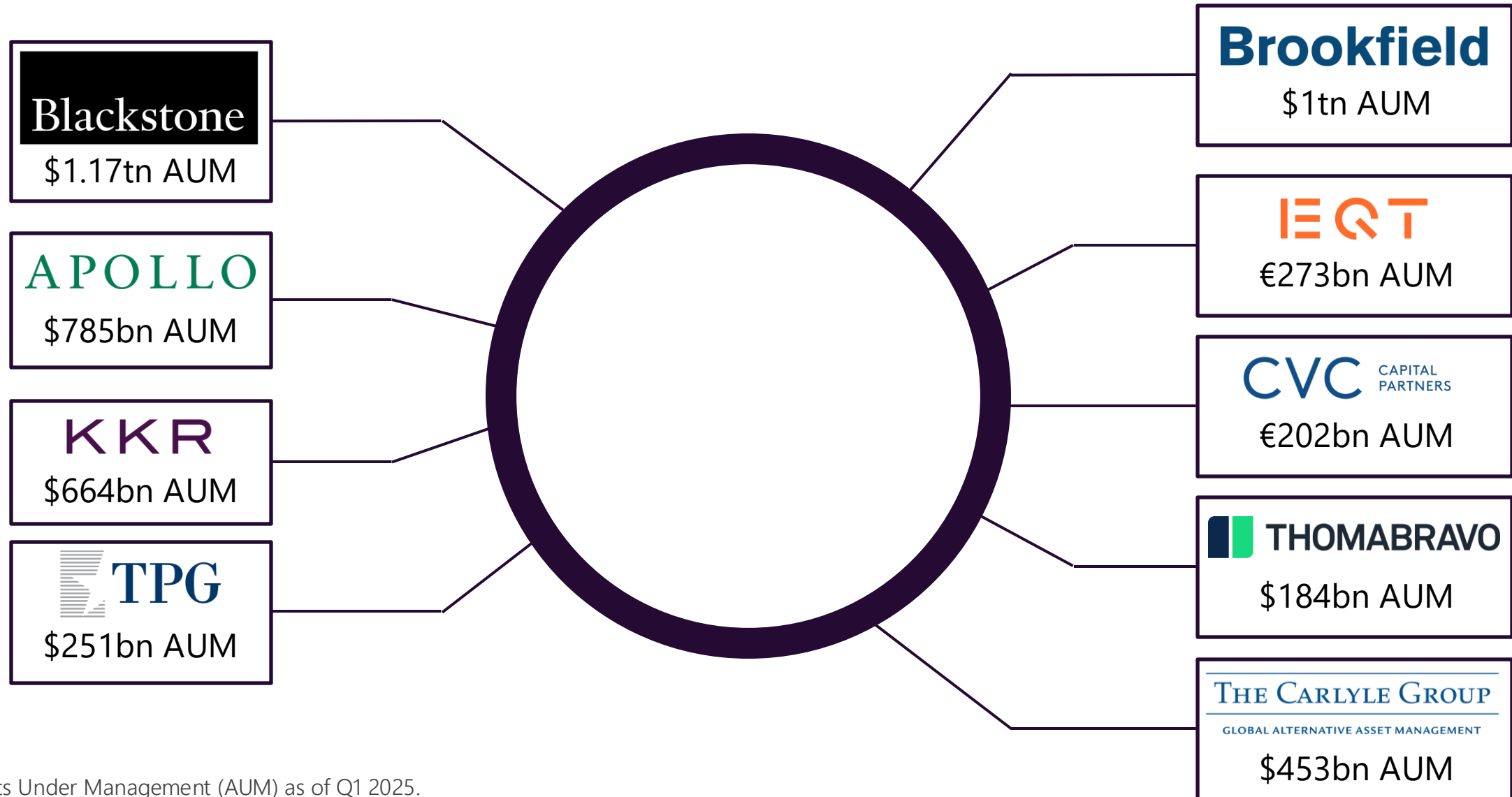
Net IRR

Returns after fees/carry.

MOIC

Total multiple on invested capital.

Top Private Equity Firms by AUM¹



1. Assets Under Management (AUM) as of Q1 2025.

Private Equity Modules

- **Introduction to Private Equity**
- Fund Structure & Investment Lifecycle
- PE Entry & Exit Strategies
- Understanding Legal Structures in PE
- Sustainability in PE
- LBO model