Entry & Exit Strategies in 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

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

Entry Strategies

Overview of Entry Strategies in Private Equity

Buyout

PIPE

Carve-out

Growth Capital

Roll-up

Distressed Investing

Entry Strategies: Buyout, Growth Capital, PIPE

Buyout

- **LEVERAGED BUYOUT (LBO):** acquisition using significant debt, repaid with the target's cashflows.
- **MANAGEMENT BUYOUT (MBO):** the company is acquired by its existing managing team.
- **MANAGEMENT BUYIN (MBI):** external managers buy and take over the company

Growth Capital

Minority investment in established, high-growth companies that need funding to scale operations, enter new markets or make acquisitions without ceding control.

It sits between venture capital (startup-stage) and private equity (mature-stage).

PIPE

(PRIVATE INVESTMENT IN PUBLIC EQUITY)

Investment in a publicly listed company by purchasing shares (at a discount or with premium) in a private transaction. It allows the firm to deploy capital quickly and influence a company without launching a full acquisition.

Entry Strategies: Buyout, Growth Capital, PIPE

Roll-Up

Acquiring and merging multiple smaller companies in the same sector to build a larger, more efficient group.

Used to gain scale, improve margins, and increase valuation through consolidation.

Common in fragmented sectors like healthcare, services, or niche manufacturing.

Carve-Out

Buying a non-core business unit or subsidiary from a larger company. Often undervalued, these deals aim to unlock value through focus and independent management.

Distressed Investing

(SPECIAL SITUATIONS)

Acquiring companies in financial distress, near or in bankruptcy. The goal is not always to restructure – some deals seek turnaround, others aim to profit from asset sales or creditor negotiations.

PE Firms may buy debt at a discount to take control or extract value in liquidation scenarios.

Exit Strategies

Overview of Exit Strategies in Private Equity

1. Initial Public Offering (IPO)
2. Strategic & Secondary Sales
3. Dividend Recapitalization
4. Mezzanine Exit
5. Chapter 11 / Liquidation

Initial Public Offerings (IPOs)

1

PE-backed company sells shares to the public market becoming a publicly traded firm

2

Can deliver high returns and prestige, but require substantial preparation

3

Challenges such as regulatory requirements or market volatility may discourage this exit route

Strategic & Secondary Sales

Strategic Sale

Selling a portfolio company to **another industrial firm** (also known as a Trade Sale) that sees complementary value in the acquisition – not a financial buyer.

Ensures a premium price due to perceived **synergies**.

Timing and finding the right buyer are crucial.

Secondary Sale

A stake in the portfolio company is sold to a **different investment manager**.

Keeps the company within the private equity sphere.

Financial Sales include also sales to hedge funds, family offices or SPACs[1]

1. A SPAC (Special Purpose Acquisition Company) is a publicly listed shell company created to merge with a private company and take it public without a traditional IPO.

Exit Strategies: Dividend Recapitalization, Mezzanine Exit & Liquidation

Dividend Recap.

Dividend Recapitalization involves restructuring a company's debt to distribute dividends to equity holders.

This strategy allows PE firms to realize returns while retaining ownership of the company.

It is not a full exit but provides liquidity.

Mezzanine Exit

Involves a PE firm leveraging mezzanine financing as a bridge between debt and equity to secure liquidity.

Mezzanine Debt can be repaid or converted into equity during an exit.

Liquidation

Through liquidation (or Chapter 11 in the U.S.), the company is dissolved or restructured through bankruptcy. PE firms may recover value by selling assets or negotiating with creditors.

Sale Process

PREPARATION	NON-BINDING OFFERS	DUE DILIGENCE	BINDING OFFERS	NEGOTIATION & CLOSING
Prepare information, teaser & confidential IM[1]. Identify potential buyers.	Receive initial expressions of interest (EOI).	Bidders conduct detailed DD.	Receive final offers (binding bids).	Negotiate final SPA, finalize legal terms and close the deal.

WIDE AUCTION

Process open to multiple buyers, competitive bidding.

LIMITED AUCTION

Invited group of selected bidders.

EXCLUSIVE NEGOTIATION

Deal directly with one preferred buyer under exclusivity.

DUAL-TRACK

Sometimes IPO and strategic sale are run in parallel to maximize profits.

1. Information Memorandum (IM) is a confidential document shared with potential buyers detailing the company's operations and financials.

Understanding Valuation Multiples

Understanding Valuation Multiples

Valuation multiples are **ratios** that compare a company's value to a financial metric such as EBITDA or net income.

The **EV/EBITDA** multiple is the main reference in PE for negotiations in **entries** and **exits**.

Multiples **vary widely** by sector, company size, profitability and other conditions.

EV/EBITDA provides a clean basis for comparison as it removes the company's capital structure and non-cash charges.

EV[1] = EBITDA · (*EV/EBITDA*)

Buy low, sell high

GPs aim to buy at a lower multiple and exit at a higher one if possible, or improve EBITDA to grow the value.

Valuation multiples are often used alongside other valuation methods[2] such as DCF analysis.

1. Enterprise Value (EV) reflects the total value of a company.
2. Valuation multiples and other valuation techniques are explained in depth in the LBO Model presentation