How Does a PE Firm Exit an LBO?

- Typically given **very** little thought in a model
- **Most Common:** Assume a simple “exit multiple”
- **In Other Words:** The private equity firm buys a company, and then sells it to another company or another firm
- **But:** Not what happens in real life in a lot of cases…

What Does Happen in Real Life?

- **M&A Deal:** Sell the company to a “strategic” (normal company) or to a “sponsor” (another private equity firm)

- **Initial Public Offering:** Take the company public and sell its shares to other investors… *over time*

- **Recapitalizations:** Keep distributing excess cash to the PE firm over time and hold the company indefinitely… sometimes raising new debt in the process

What Does Happen in Real Life?

- **M&A Deal:** Ideal because it's a "clean break" – sells 100% of its stake all at once for a fixed amount
- **Initial Public Offering:** Less ideal because the firm **<u>can't</u>** just sell everything at once – negative signaling
- **Recapitalizations:** Even worse because it may take forever to make even its initial investment back, but sometimes this is the only option… (emerging markets)