MAIN FEATURES OF PRIVATE EQUITY TRANSACTIONS

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Annotation: *In the article, an investment in private investment is usually made by a private equity firm, venture capital firm, or angel investor. The manifestation of private enterprises as a branch of the results of economic production activities is illuminated.*

Key words: *Private Equity, Stock Exchange, development, private investment, cash flows, securities market, venture capital. Private equity usually refers to investment funds established as limited partnerships that buy and restructure companies. More formally, private equity is a type of securities and one of the classes of assets consisting of securities and debts in operating companies that are not publicly traded on the stock exchange.*

Investment in private investment is usually made by a private equity firm, venture capital firm, or angel investor. Each of the investors in this category has its own goals, benefits and investment strategies; however, they all provide working capital to expand the target company, develop new products, or rebuild the company's activities, management, or ownership. [1]

Private funds are usually grouped into a broader category called" private equity", commonly used to describe capital supporting any long-term, non-liquid investment strategy. [2]

Bloomberg Businessweek re-branded"private equity" after the 1980s to leveraged buyout firms.[3]

The main characteristics of private equity transactions are usually the following:

- A private equity manager uses investor money to finance the purchase. Examples of investors include hedge funds, pension funds, university funds or funds from wealthy individuals.
- It restructures the acquired firm (or firms) and attempts to resell at a higher value, aiming at a higher return on its capital. Rebuilding often involves cutting costs, which in the short term generates high returns.
- Private investment makes extensive use of debt financing to buy companies using leverage. A small increase in the value of a firm — for example, an increase in the price of assets by 20% — can lead to a return on 100% of capital if the amount of a private equity fund allocated to buy a company is only 20%. Down and 80% debt. However, if a private investor firm cannot increase the target value, the losses will be large. In addition, debt financing reduces the corporate tax burden because interest is not taxed and is one of the main ways to increase investor profits.
- Innovations are typically produced by founders rather than existing organizations, with private venture companies focused on creating value to startups by overcoming agency costs and better matching corporate managers ' incentives with their shareholders. This means that a large part of the firm's unallocated profit is obtained from the firm for distribution to shareholders rather than reinvested in the company's labor or equipment. When a private equity firm buys a small startup, it can behave like venture capital and help a small firm reach a wider market. However, when private equity acquires a larger firm, experience managed by private equity can lead to loss of product quality and low employee morale.[4][5]

- Private investors often syndicates their transactions to other buyers in order to achieve benefits that include diversifying different types of targeted risks, consolidating additional investor information and qualifications, and increasing the flow of future transactions.[6]
- Common investment strategies in private investment include leveraged buyout, venture capital, growth capital, hard investments, and mezzanine capital. In a simple leveraged buyout transaction, a private equity firm buys most of the control of an existing or mature firm. This differs from investments in venture capital or growth capital where investors (usually venture capital firms or angel investors) invest in young, growing, or developing companies, but rarely gain majority control.

Strategies that private equity firms can use include the following, with the most common being advanced (leveraged) acquisition.

Leveraged buyout refers to a strategy of making capital investments as part of a transaction in which an LBO or Buyout company, business unit, or business asset is typically purchased from current shareholders using financial leverage.[7] companies involved in these operations typically produce mature and operational cash flows.[8]

Private joint-stock firms view target companies as platform companies with sufficient scale and a successful business model to operate as independent entities, or as add-on / Install / bolton acquisitions.[9][10]

Advanced purchases include the financial sponsor agreeing to buy without assuming all the capital required for the purchase. To do this, the financial sponsor increases the debt on the purchase, which is to pay interest and the cash flows of the purchase goal to make the main payments

The amount of debt used to finance a transaction as a share of the purchase price for an advanced purchase purpose varies depending on the financial condition and history of the purchase purpose, market conditions, creditors ' willingness to lend (both to financial sponsors and purchasing companies of an advanced purchase), as well as interest costs and the company's ability to cover these costs. Historically, the debt portion of the LBO ranges from 60% to 90% of the purchase price.[12] between 2000 and 2005, debt ranged from an average of 59.4% to 67.9% of the total purchase price for LBO in the United States.[13]

The private equity fund borrows $ 9 billion from ABC Capital II bank (or another creditor). To do this, he will contribute 2 billion dollars of equity — money from his partners and limited partners. For this $ 11 billion, he sold all the shares of the little-working Company XYZ Industrial s

The securities market is experiencing a bad situation, and the XYZ industry was sold for $ 13 billion two years after the purchase, generating a profit of $ 2 billion. The initial loan can now be paid, for example, with an interest of $ 0.5 billion. The remaining $ 1.5 billion in profits will be shared among partners. Taxation of such income is carried out in the United States at Capital Income tax rates that are lower than ordinary income tax rates. Part of this profit comes from the development of the company, and part comes from the general increase in the price of shares in the stable stock market, the latter is often a large component.[14]

- Creditors (people who put $9 billion in the example) can insure by syndication of credit for risk distribution or by purchasing credit default swaps (CDSs) or selling mortgaged debt obligations (CDO) to other institutions. .
- Often the loan / capital ($11 billion in the example) is not paid after the sale, but is left on the books of the company (XYZ Industrial) to pay over time. This can be beneficial because interest is mostly covered in relation to the company's profit, thus reducing or even eliminating the tax.
- Most purchase deals are much smaller; for example, the global average purchase indicator in 2013 was $ 89 million.[15]

- The target company (XYZ industries here) does not have to be sold on the stock market; most purchases after 2000 are not IPOs.[16]
- Purchase transactions can be incorrect, and in such cases, if everything is fine, the loss increases through leverage, as in the case of profit.

Growth capital refers to capital investments, often minority investments, in relatively mature companies seeking capital to expand or rebuild operations, enter new markets, or finance large acquisitions, without changing business management. [17]

Companies that strive for growth capital often do so to finance a transformative event in their life cycle. These companies can be much more mature than venture capital-funded companies, capable of generating revenue and operating profits, but not enough money to fund large expansions, acquisitions or other investments. Due to the lack of this scale, these companies are usually able to find several alternative channels to provide capital for growth, so access to growth capital can be critical to expanding the necessary facilities, carrying out sales and marketing initiatives, buying equipment and developing new products. [18]

The main owner of the company may not be ready to take financial risk alone. By selling part of the company to private capital, the owner can receive a certain value and share the risk of growth with partners.[19] Capital can also be used to rebuild a company's balance sheet, specifically to reduce the amount of leverage (or debt) in a company's balance sheet.

Private investment in public capital (PIPE) refers to the growth form of capital investments made in a publicly traded company. PIPE investments are usually made in the form of convertible or preferred securities that have not been registered for a certain period of time. [20][21]

Registered Direct, or RD, is another common funding tool used for growth capital. It is similar to a registered direct pipe, but is instead sold as a registered security.

Mezzanine capital belongs to subordinated debt or preferential securities, which usually represent the smallest part of the capital structure of a company above the total capital of the company. This form of financing is often used by private investors to reduce the amount of capital needed to finance a leveraged buyout or major expansion. Mezzanine capital, which is often used by small companies that cannot enter the high-income market, allows such companies to borrow additional capital beyond the level that traditional creditors are willing to lend through bank loans.[22] to cover the emerging risk, mezzanine debtors require a higher return on their investments than guaranteed or other high-end creditors. Mezzanine securities are often structured with a current income coupon.

Venture capital [23] or VC is a broad subcategory of private capital that refers to equity investments that are usually made in less mature companies to launch a seed or start-up company, develop at an early stage, or expand a business. Venture investments are often found in the application of new technologies, new marketing concepts and new products that do not have proven experience or stable income streams. [24]

Venture capital is often divided into the stage of a company's development: from the initial capital used to launch start-up companies to the late stage and the growth capital used to finance the expansion of existing businesses, often generating income. not yet being profitable or creating a cash flow to finance future growth.[25]

Entrepreneurs often develop products and ideas that require significant capital at the stages of the formation of their companies ' life cycles.[26] many entrepreneurs do not have enough funds to finance projects themselves, and therefore they have to look for financing from the outside. The need for venture capitalist to generate high returns to offset the risk of these investments makes venture financing an expensive source of capital for companies. For any business, whether it is a startup looking for venture capital or a medium-sized firm that needs more cash to grow, it is very important to ensure financing.[27] venture capital is best suited for businesses with large initial capital

requirements that cannot be financed with cheaper alternatives such as debt. Although venture capital is rapidly developing with the fields of Technology, Health and biotechnology.

Investors are generally committed to raising venture capital funds as part of a broader diversified private equity portfolio, as well as seeking to generate larger returns with strategy bidding potential. However, venture capital funds have generated lower returns for investors in recent years compared to other types of private equity funds, notably acquisitions.

Difficulty or special situations is a broad category that refers to investments in shares or debt securities of financially difficult companies.[28] [29] The "Challenge" category includes two broad sub-strategies, including:

- "Difficult to control" or "credit town" strategies in which the Investor gains debt securities in hopes of exiting corporate restructuring in controlling the company's equity; [30]
- " Special situations "or" rotation "strategies, in which the investor provides debt and equity investments, often"saving financing " companies that are in operational or financial difficulties.[31]

In addition to these private investment strategies, hedge funds employ a variety of investment strategies, including active trading of loans and bonds issued by troubled companies.[32]

GLOSSARY ???

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