A Work Project, presented as part of the requirements for the Award of a Master's degree in Finance from the Nova School of Business and Economics.

CVC Capital Partners IPO:

Continuing the trend of Private Equity going Public

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17/12/2024

Abstract

This case study examines the successful initial public offering (IPO) of CVC Capital Partners, a leading European private equity firm. Following two unsuccessful attempts to go public, CVC achieved its goal in April 2024. The case provides an in-depth analysis of the private equity industry landscape in 2024, alongside the historical context of publicly listed private equity firms. It explores the strategic and operational factors that contributed to the success of CVC's third IPO attempt and highlights key reasons for its success. Additionally, the study presents methodologies for valuing private equity firms, offering insights into various valuation approaches.

Keywords

Case Study, IPO, CVC Capital Partners, Private Equity, Valuation, Corporate Finance

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

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It is the 26th of April in 2024, and CVC Capital Partners has just listed its shares on the Euronext Amsterdam stock exchange, with an opening price of €17.34, well above the €14 IPO price offered to investors. With 1 billion shares outstanding and a valuation of over €14 billion, CVC raised total gross proceeds of €2.3 billion, selling 16.3% of the General Partners participation. After two failed attempts to go public, CVC finally succeeded. The CEO of CVC, Robert Lucas, stated, *"We are very pleased to have received great support for our IPO from both our new and existing shareholders, and we welcome their confidence in our future,"* emphasizing investor confidence in the company's growth prospects.

CVC is considered by many the leading European private equity firm[i]. It started as the investment arm of Citi Group and in 2024 managed more than €186 billion of assets, including the largest private equity fund in history by capital raised, the €26 billion Europe/Americas Fund IX, which surpasses all competitors. As of April 2024, the firm counted with 1,154 employees, including 510 investment professionals, and has 30 offices worldwide. CVC is organized along four business lines: private equity, secondaries, credit and infrastructure. The firm takes pride in its strong results delivered to clients, focusing on the CVC Europe / Americas Funds I-VII that generated an average gross IRR of 28% and 2.9x gross MOIC[1].

The Public Private Equity Industry started in the years after the 2007 Subprime Mortgage Crisis with Blackstone's and Carlyle's IPOs. However, it was just after the change in paradigm created by EQT's IPO in 2019 that the stock performance of these private equities started to be meaningful to the market. As a result, many other private equity firms like CVC decided to

[1] Gross IRR (Gross Internal Rate of Return) is the annualized rate of return on an investment, calculated using the cash flows before fees or carried interest, accounting for the time value of money. Gross MOIC (Gross Multiple on Invested Capital) measures the total value of an investment as a multiple of the capital originally invested, without considering costs like fees or carried interest. These are two of the main financial metrics used to evaluate private equity funds' performance.

explore capital markets by selling a percentage of their General Partners shares to seek new ways to grow, increase its fundraising capabilities, and attract and retain more talent.

The Private Equity Industry

Private equity is seen as an alternative asset management solution in which Limited Partners[2] (LPs) commit capital to a fund managed by the General Partners (GPs) and specialized in buyouts, venture capital, real state, secondaries, infrastructure, distressed or direct lending. In 2023, the assets under management (AUM) by PE companies hit the record of $14.5T, which has been growing for the last 10 years *(Exhibit 1)*[ii]. Typically, investors have limited access to their money during the life of the fund and compensate GPs in two distinct ways. Firstly, through a share of profits (the carried interest), often contingent upon achieving a certain hurdle rate of return to investors, and usually aiming at a 20% of those profits. Secondly, through the management fees, which vary between 1% and 2% of the total committed capital to the fund.

The LPs are mostly pension funds, financial institutions, sovereign wealth funds and high net-worth individuals. They chose to invest in PE funds to shift from public markets into private assets, finding alternative ways to play risks, opportunities and rewards in the economies.

Private equity firms' business model is dependent on the ability to successfully fundraise from its LPs for the fund creation. The management fees are then charged on the amount of capital raised to allow the business to operate. They are used to pay salaries to the investment professionals and the other employees, the office rent, the transportation expenses and any other operating costs. Moreover, the traditional 10-year fund is separated into two different stages: the first five years are the investment period, in which GPs are focused on acquiring companies for their portfolio. The last five years are the harvesting period, in which GPs' main concern is divesting through exit opportunities to achieve their expected returns. To do so, PE firms have a set of strategies defined, such as increasing the EBITDA of their portfolio companies through acquisitions or operational improvements, expanding the exit multiples compared to their entry multiples or leveraging the debt repayment with the portfolio company's cash flows.

This industry is considered highly cyclical due to its dependence on economic conditions, credit availability, and investor sentiment. During periods of economic growth, increased investor confidence and favourable credit markets lead to higher valuations and more capital flowing into private equity, enabling firms to engage in more deals and achieve profitable exits easily

[2] Limited Partners are seen as investors. Despite not being present in the investment decision, LPs are the party responsible for the majority of the money committed to private equity funds.

through IPOs or sales to strategic players. On the other hand, in economic downturns, investor sentiment declines, credit becomes tighter and more expensive, and valuations drop, leading to fewer acquisition opportunities and challenges in exiting investments profitably. This cyclical nature is further influenced by the availability of financing, which allows PE firms to leverage acquisitions during prosperous times but restricts activity during recessions, ultimately affecting the overall performance and dynamics of the private equity market.

At the beginning of 2024, the economic landscape was marked by moderating inflation and slower growth expectations[iii]. Although interest rates remained high, with the 6-month Euribor at 3.8% in January 2024 *(Exhibit 2)*[iv] due to the high inflation levels of 2022 and 2023, expectations of central bank rate cuts suggested potential improvements in M&A activity and the IPO market. Despite these positive signs, market volatility is anticipated as the economy transitions from a late-cycle phase to one of potential recovery. Analysing the IPO market, it showed promising signs of recovery after a challenging period in 2022 and 2023 *(Exhibit 3)*. In the first quarter of 2024, 128 IPOs have been priced, reflecting a 37.6% increase from the previous year, with total proceeds reaching approximately $28.5 billion, (52.7% YOY)[v]. The M&A market followed a similar trend, overcoming the previous two years results *(Exhibit 4).*

Bain & Company private equity experts looked at 2024 as the year the industry would hit the go button. After two consecutive years of interest rate increases, 2024 seemed poised for interest rate cuts, allowing the record dry powder[3] PE funds had available to finally be deployed[vi].

As the macroeconomic conditions deteriorated in previous years, the private equity industry has faced some of the worst years in its history. After a record high in the number and value of buyout deals in 2021, as well as a record in the number and value of exited portfolio companies[vii], these figures have fallen sharply in 2022 and 2023 (*Exhibit 5 & 6*). Regarding the capital raised by PE firms in 2023, it was about $1.2T, a 20% decrease compared to 2022, and the lowest level of fundraising registered since 2018[viii] (*Exhibit 7*). The only sectors within the industry that improved their position were the buyout funds and secondaries'. Besides this, the fact that the 20 Mega Funds, in which CVC is included, raised over 50%[ix] of that capital showcases that smaller funds have been facing challenging times to convince LPs to trust them their money. Even more importantly, the lack of exits in the past few years and the increase in the number of companies held for more than 5 years in the portfolio before exit[x] (*Exhibit 8*), have slowed distributions, leaving LPs' cash flow negative, crimping their ability to invest more

[3] Dry powder is the capital committed by investors to a private equity fund that has not yet been deployed into investments. It represents the available funds that private equity firms can use for future acquisitions or investments.

capital back into private equity, and making them even more selective about which funds to commit to. May this have even further implications on the fundraising for the following years?

The future of fundraising will depend upon 2 determinant factors: 1) whether private equity companies can decrease the average holding period for exits, to provide faster returns to its LPs and 2) to decrease the number of unexited companies. As a matter of fact, 2023 registered a record all time high of almost $3T in assets due to unexited companies and, on average, each PE firm has 28 companies across all funds that should already have been exited[xi]. Moreover, the main concern of many GPs in 2024 regarding the future of fundraising is the current situation of the stressed private equity exit channels due to the interest rate changes and the tight macroeconomic conditions. Nevertheless, the S&P 500 index was trading at all-time highs in the end of 2023, showcasing resilience in the broader equity markets despite these challenges, so why would it be hard for private equity firms to exit their portfolio companies?

Although the main market index hit record highs, these returns were largely driven by the dominance of the Magnificent 7[4] *(Exhibit 9).* In 2023, the S&P 500 returned 24.23%, while the Mag 7 achieved an extraordinary 75.71%. Representing 28% of the S&P 500, these seven technology companies accounted for approximately 88% of the index's total returns. However, the overall state of the economy cannot be judged by the performance of this small group of companies. In contrast, the remaining 493 companies, which make up 98% of the index, faced a much different reality, explaining the limited exit opportunities for strategic buyers. Consequently, the sponsor to strategic channel is predicting a recession that has not yet happened, which brings an additional worry for strategics about spending loads of money in acquisitions due to uncertainty and the high cost of debt faced[xii]. Turning to the IPO channel, according to a study by Darden University[xiii], exiting a portfolio company through an IPO is not as attractive for private equity firms. This unattractiveness is justified by three main ideas. The first one is regarding the highly expensive fees companies need to undertake to go public, where the underwriting fee can range from 4%-7% of the gross proceeds[xiv]. Besides these costs, there is also the IPO under-pricing, giving the company a lower valuation than in could have obtained in other exit channels as it does not even account for the premium associated with synergies that strategic players usually pay for. The second problem is regarding the timing of exit. When PE firms do an IPO of one of their portfolio companies, they are usually mandated to a lock-up period before selling all their shares, delaying the realized gains and its returns.

[4] The Magnificent 7 companies include the technology companies Nvidia, Apple, Microsoft, Amazon, Meta, Alphabet and Tesla that represent the top 7 companies with the largest market cap in the S&P500 index.

Lastly, there may be a conflict of interests between LPs and GPs since LPs would be paying management fees and performance fees for the GPs to manage a company that everyone can buy as it would be publicly available for trade. Finally, the sponsor-to-sponsor market has been hampered by the change in interest rates. In a situation where the buying firm is not able to refinance the transaction with the same cost of debt as the selling firm, the exit multiple would have to decrease to make the transaction feasible for the buy side and this would go against the implied lower returns the sell side wants to avoid[xv]. All in all, without exits, it is hard to have new purchases since it requires GPs to manage a larger number of companies.

The Company

In 1981, CVC Capital Partners was created as the Venture Capital side arm of Citigroup's subsidiary Citicorp, but around 10 years later, in 1993, Director Michael Smith and other senior investment professionals led the spin-off of CVC from the bulge bracket bank, establishing it as an independent European private equity firm[xvi]. This decision was driven by the recently launched Basel I agreement in 1992, which aimed to introduce regulations on the capital adequacy that banks must maintain based on their risk-weighted assets (RWA), ensuring that the bank's own funds[5] exceeds its RWA[xvii]. If the bank had investments in PE assets, it would allocate much higher risk weight (1x), while other assets such as deposits or mortgages would have a lower multiplier due to lower risk. As a result, the bank separated its PE activities from its core banking operations to reduce the impact of capital adequacy requirements.

Following the spin-off, the main focus of CVC was to have operations in Europe in the leverage buyout business. The new firm was able to raise its first €300M, coming from Citigroup and High Net Worth Individuals[xviii]. CVC quickly became a success and was considered since early on as a leading European private equity firm. In 1996, the first fully-independent-from-Citi fund was created with €840M of committed capital from LPs[xix]. Since 1996, CVC has been able to successfully raise capital from investors, counting with 26 different funds raised by 2024, with a special attention to the €26 billion Europe / Americas Fund IX raised in 2023, making it the largest ever private equity fund and surpassing the record of Blackstone in 2019[xx].

After its launch in European markets and establishing its presence in the region, CVC decided to expand its operations to Asia in 2001 and then to the US in 2007. At the beginning of 2024, the firm counted with 1,154 employees (including 510 investment professionals) spread across 30 offices around the globe. CVC managed approximately €186 billion of AUM, across seven

[5] These includes equity and quasi equity instruments, including some forms of convertible and subordinated debt

complementary investment strategies in Private Equity, Secondaries, Credit and Infrastructure *(Exhibit 10)*: around €116 billion of AUM across four highly synergistic CVC Private Equity platforms (Europe / Americas, Asia, Strategic Opportunities and Growth) that are focused on fundamentally sound, well-managed businesses, principally via control-oriented investments; nearly €13 billion of AUM in CVC Secondaries, providing tailored liquidity solutions for third party GPs and LPs; about €40 billion of AUM in CVC Credit across (i) Performing Credit, focused primarily on investing in U.S. and European senior secured loans and high yield bonds via CLOs, SMAs and funds; and (ii) Private Credit, focused primarily on investing in primary originated financing solutions for financial sponsors and corporates across the capital structure; and €17 billion of AUM in CVC Infrastructure, a leading infrastructure manager focused on mid-market infrastructure investments, primarily in Europe, North America and Australia[xxi].

During over 40 years of experience in the PE sector, CVC provided its clients a respectful track record of returns across their different strategies. Firstly, CVC Europe / Americas Funds I-VII generated a combined gross IRR of 28% and gross MOIC of 2.9x and was among the top performing funds within their private equity peers (*Exhibit 11*). The CVC Asia Funds made 84 investments across the region since 2000 and, on those realised across Asia III, Asia IV and Asia V, delivered an approximately 2.1x gross MOIC and 20% gross IRR. The performance of both active Strategic Opportunities Funds has been above plan, targeting a gross MOIC of around 2.5x and an IRR of 14% and 17% (*Exhibit 12*). In the growth category, Growth I and Growth II have a gross MOIC of roughly 2.1x and a gross IRR of 24% (*Exhibit 13*). The five Secondary funds delivered a gross MOIC close to 1.6x and gross IRR of 23%. (*Exhibit 14*). The private credit performance relied around the 10% IRR with a gross MOIC of 1.2x. Finally, CVC Infrastructure had a gross MOIC of 1.9x and a gross IRR of 16.6%. (*Exhibit 15*)[xxii].

CVC also made some investments that have become standout case studies. The acquisition of Formula 1 in 2006 for around $2 billion was a huge success. Benefiting from CVC's previous expertise in dealing with Moto GP (1998-2006), the firm was able to create a Formula 1 group through acquisitions, structuring the governance with a new board and advisories and improving the relationship between the company and the racing teams. Besides, it centred the importance of the sports on its customers, focusing on the fan experience, premiumisation and the sport's globalization. 10 years later, CVC was able to sell Formula 1 Group to Liberty Media Corp for $8 billion, culminating into a 2.4x return to its investors. Apart from this example, CVC's case studies also touch upon the acquisition of Sky Bet in 2014 and repositioning it from

a UK challenger into industry leader in Europe, and the watchmaker Breitling that since its acquisition by CVC in 2017 has been a sector leader and innovator on sustainability[xxiii].

The firm is partner-owned, with CVC's total share ownership consisting of 74% by current and former partners and employees *(Exhibit 16)*, 18% owned by three global institutional investors who acquired an interest in 2012, and approximately 8% owned by Blue Owl GPSC that acquired an interest on November 1st, 2021 *(Exhibit 17)*. The client base has over 1,000 clients, including 14 of the 15 largest U.S. pension funds and 12 of the 15 largest sovereign wealth funds. These clients have been investing in CVC's funds on average for 17 years, enabling CVC to scale its funds as existing clients commit larger amounts, and new clients are drawn[xxiv].

The Public Private Equity

Public private equity is often seen as contradictory - how can a firm that manages other private companies be publicly traded, with all the transparency and governance requirements inherent?

The first attempts of PE firms to go public were in the mid-2000s, when some decided to fundraise through publicly listed trading vehicles[xxv]. Essentially, the PE firms sold part of their individual funds to raise money for the company. The pioneer of this idea was Kohlberg Kravis Roberts (KKR), but it did not end up well with its fund's shares falling below the IPO price.

After this failed endeavour, there was a new idea about how to sell shares to the public: listing a participation of the General Partner firm. This way, the stock would be dependent upon the management fees and performance fees received by the GPs rather than simply by the results of a specific fund. This created a separation between GPs and shareholders. While the GPs worked for returns, managed the funds and had money invested in those funds to show commitment and skin in the game to investors, shareholders would pay the price for their shares and receive a percentage of the GPs profits in exchange for the proceeds of the transaction.

The first successful case was the Blackstone's IPO in 2007 which sold a 12.3% stake for $4.1 billion, valuing the company at roughly $33 billion, marking the largest U.S. IPO since 2002[xxvi]. After its success, many more US private equity firms followed the example. KKR, Apollo, The Carlyle Group and Oaktree Capital are some of the most relevant names in the industry that went public right after Blackstone's debut by following the same strategy of selling a share of their GPs. *Exhibit 18* shows GPs, LPs and shareholders relationship in PPE.

However, after the large boom of PE firms entering the public market, their stock performance was not as attractive as it seemed in the beginning. Between 2007 and 2019, the S&P500

returned 5.65%, while Blackstone only returned 1.68% and spent most of the time under the IPO price. The other firms had the same troubles. From 2012 to 2019, the market returned 10.69% annually against Carlyle Group's -0.93%, and Apollo's 7.79%, outperforming both PE firms. In 2019, when Oaktree sold a majority stake to Brookfield for $4.7 billion, its stock was trading at $43.83 per share, only marginally above its $43 IPO price in 2012. This created a huge concern on PE firms' founders who share their disagreement with the valuations. Apollo's founder stated: *"We like to say that we have built a unique platform which encompasses value, growth and yield and the market doesn't get it… There is a disconnect with the market."*[xxvii].

In 2019, an unexpected shift happened with the performance of these stocks when EQT, a Swedish PE firm, decided to go public *(Exhibit 19)*. In the opening day, EQT's shares jumped from IPO price of SEK67 to SEK84.5, registering in April 2024 a market price of SEK350 and a peak of SEK542.6 in November 2021. But what actually happened to create such a dramatical reversal in the industry's stock performance? The answer lays on the different approach of distributing earnings to investors. While the first IPOs offered to their investors 50% of their management fees and performance fees, EQT decided to opt to offer one third of carried interest performance fees and all its management fees. Offering to investors all the management fees was highly beneficial to the public markets, as they value them more highly (25-30x multiple) than the very volatile carried interest performance fees (5-10x)[xxviii]. Consequently, the new earnings distribution structure led other private equity firms to change their distribution model to mirror EQT's, leading to a significant re-rating of the entire sector and allowing the "old school" public private equity firms to outperform the market. This resurgence of public private equity firms has sparked a new trend of publicly listing other PE firms, with CVC being part of a group that also includes players such as TPG Capital and Bridgepoint.

From Private to Public: The Upsides and Downsides of an IPO

Even though it might be controversial for a private equity firm to go public, it brings a diverse set of upsides for the company by doing so. Here is a set of those advantages[xxix]:

1. A brand image improvement. By reinforcing its brand name in the industry through an IPO, it would be easier for CVC to convince companies they are the best buyer and increase awareness of its results and deal flow, enhancing credibility and long-term growth.
2. Access to different sources of capital. By having access to public capital markets, CVC supports its long-term growth for fundraising. By expanding the group's profile with existing and prospective clients, the firm will be able to raise new larger funds.

3. A unique employee to CVC bond. Besides paying employees a salary + carry compensation, the stock option compensation package surges as a new way to link professionals with the long-term perspectives of the firm, allowing the company to attract and retain more talent.
4. The usage of stock as a currency. In 2021, CVC merged with the London based asset manager firm Glendower with the objective of growing its presence in the secondary markets and boosting its AUM[xxx]. With the IPO, these types of transactions could be made with the use of its proceeds or using stock as an acquisition currency, allowing CVC to increase its presence in the market, grow to different regions or expand into less developed segments, such as broadening its focus on infrastructure or secondaries.
5. A liquid position for shareholders and partners. An IPO creates a chance for GPs to sell their shares and benefit from the immediate liquidity provided by a public market, making it easier for them to sell their stake in the company. Still, the CEO Rob Lucas said*, "We believe an IPO of CVC provides an enduring long term institutional structure to support further growth, we remain completely focused on the continued success of CVC, and neither I nor any of my active partners are selling shares as part of this transaction."*[xxxi], emphasizing the IPO's objective in the firm's growth instead of a liquid exit for partners.

Despite all these benefits, an IPO also brings some concerns[xxxii]:

1. Troubles in defining the right compensation package. Adding stock options to the compensation package is a relevant change that needs to ensure that no partner or associate that is expected to be promoted in the near future would end up worse than they would be before CVC went public. Making sure the right compensation package is aligned with the expectations of employees is crucial to retaining top talent.
2. Maintaining strong relationships with the LPs. One of the most important aspects is to ensure CVC does not lose credibility among its investors, and thus explain what is going to happen and how earnings are going to be distributed. Distributing the management fees and the carried interest does not dilute the returns promised to LPs, but there may still be a misalignment between the management fees and the carried interest. As management fees are traded at a much higher multiple than carry, investors may see this as a threat for what is the actual focus of CVC: maximize LPs' returns or have the highest possible share price by increasing the fund's size and hence the management fees? For mega funds, there is a negative correlation between returns and fund's size[xxxiii], meaning that returns are sacrificed since the larger opportunities make it harder for the fund to achieve outstanding results.

3. Stock volatility and complexity. The private equity industry is not aligned with the quarterly reports of public markets. In one quarter, CVC may not close any deal or sell any company while in the following one it may have five different new deals. This creates uncertainty for shareholders, especially to those who are not familiar with how the industry works. Promoting a dividend distribution can solve the volatility concern of shareholders as it offsets the irregularity of private equity returns.
4. Avoiding a different government structure. Moving from a private to public company requires a higher level of transparency for shareholders. However, the firm is interested in keeping a similar governance structure and providing the best interest for LPs. Adopting a Master Limited Partnership[6] structure would result in minimal changes for the current management team and culture while focusing its results on the perspective of LPs' returns.
5. Capture the right set of shareholders. Investing in a PE firm is not for all retail investors, but rather to a more sophisticated investor who understands the industry dynamics. Moreover, given that PE firms work based on a model of trust between people, meaning LPs, GPs, management teams, and all parties involved in the business model process need to be aligned, it is important to clarify to shareholders how the IPO can affect the carry received and how it might create a misalignment of interests that affect the firm's future.

Overall, before going public, CVC needs to ensure that LPs' relations, the governance structure and compensation are all aligned prior to convince retail investors to buy its shares. This way, CVC would not compromise the future with the decision to become a public private equity firm.

The Initial Public Offering

Third time's the charm. After two failed attempts to go public, CVC has finally reached a position where it is ready to proceed with its public listing. In 2022, the firm has postponed its entrance in the stock market by one year due to the scaling conflicts of Russia's invasion in Ukraine. A year later, it was still not the right moment, especially due to the poor earnings results from publicly traded peers EQT and Blackstone in recent weeks, the uncertainty caused by conflict in the Middle East and concerns about the state of the wider economy[xxxiv].

Before going public, CVC needed to decide in which stock exchange it would carry out the IPO. There were many options available, such as the London Stock Exchange, the New York

[6] MPLs are limited liability companies or partnerships with units (rather than shares) that were publicly traded. In order to qualify as an MPL, 90% of its income need to be generated in the form of dividends, rents, income from natural resources business or capital gains from income-producing capital assets. An MLP structure retained the limited partnership form of governance, allowing the existing management team to continue to run the firm.

Stock Exchange, Nasdaq, the Hong Kong Stock Exchange or the Euronext Stock Exchange, in Amsterdam. There were still other smaller stock exchanges. The choice was dependent on three main factors: the out-of-pocket costs for establishing and maintaining the listing, the effects on valuation and liquidity and the non-financial benefits[xxxv]. In a world characterized by globalization and technological developments, there is limited evidence that any of the major exchanges bring any advantage on liquidity and valuations. Through internationalization, all of these stock exchanges can host companies from anywhere in the world and capture institutional capital as well. Besides this, even though the cost of listing may differ from location to location, it represents a minor cost and is most likely to not swing the decision from one place to another. Hence, the most determinant factors rely on whether the non-financial benefits convince the company's board that one stock exchange is more suitable for their company than the others.

Non-financial benefits include ease of access, regional proximity or the investor community in that specific region. In the CVC case, the regional proximity was key. The renown and fame attributed to being the leading headquartered PE firm in Europe may have played an important role in the decision to choose Euronext. The investor demand from LPs came majorly from Europe, but also from the US and the Middle East, showcasing the importance of its investor community as well. Ultimately, after Brexit, the Euronext became more popular amongst European companies presenting the highest trading IPO volume, as it offers the protectionism from the EU laws and moves away from the regulatory complexities imposed by Brexit on the UK-listed companies. CVC's transaction also relies on the euro as its main currency, facilitating its listing, broadening its investor base and minimizing exchange rate risks.

CVC had the intention to sell 148,355,280 maximum shares[7] (excluding the over-allotment possibility) and ranging its price between €13 and €15[xxxvi]. On the 22nd of April 2024, the firm launched its offer period with a share price of €14, resulting in total gross proceeds of approximately €2 billion and valuing the company at €14 billion. The selling shareholders were[xxxvii] (i) Danube; (ii) KIA; (iii) Stratosphere; (iv) CellCo, in respect of sale shares in which certain management shareholders hold an indirect interest; and (v) CVC Nominees, in respect of sale shares held on behalf of certain management shareholders[8], resulting in GPs selling a stake of 14.4%. Following strong demand from institutional investors, the over-allotment option was fully exercised, leading to an increase of 15% in the selling shares and raising total

[7] Included selling shares from shareholders: 126,635,594 shares plus new issued shares: 17,779,276

[8] None of the Shares being sold by CellCo and CVC Nominees relate to active employees of the Group. The sale of the Sale Shares and the Additional Shares (if any) by the Selling Shareholders will provide the Selling Shareholders with an opportunity for a partial realisation of their investments in the Company.

gross proceeds to approximately €2.3 billion. With over-allotment, the GPs selling stake rose to 16.3%, highlighting significant investor confidence in the company's growth prospects.

CVC's Chief Executive Officer Rob Lucas reacted to the full exercise of Over-Allotment option with great enthusiasm for the future *"We are very pleased to have received great support for our IPO from both our new and existing shareholders, and we welcome their confidence in our future. […] The strength of demand has meant that we have been able to significantly increase the offer size by more than €400mn to €2bn, providing additional liquidity for the market."*[xxxviii].

On the 26th of April of 2024, CVC's stocks, with 1 billion shares outstanding, were traded for the first time on the Amsterdam Stock Exchange. On the first trading day, CVC's stocks experienced a strong market reaction. The shares opened at €17.34, which was a 24% increase from the offer price. During the day, the stock reached a high of €17.55 before closing at €17.13.

Financial Performance and Valuation of Public Private Equity

In order to value public private equity firms (PPE), it is necessary to understand how PEs operations make money. The revenue can be divided into three main bunches: the management fees, the performance fees and the investment income. *Exhibit 20* shows how returns are distributed between GPs and LPs and *Exhibit 21 & 22* represent the financial position of CVC.

Since fees are difficult to separate from the consolidated statements, PPEs tend to rely on two measures to evaluate their performance: Economic Net Income (ENI) and Distributable Earnings (DE). ENI is composed of the 3 main income streams (management fees, performance fees and investment income) and it simply separates the income for GPs and shareholders from the full primary net income that belongs to both GPs, shareholders and LPs. Alternatively, DE removes the unrealized components on ENI as is the sum of management fees, realized performance fees[9] and realized investment income. It is seen as a measure of available cash earnings from which dividends could be paid to shareholders. With this in mind, the main purpose of whether to choose using the ENI vs DE is to capture the value of the 3 main sources of income for PPE.

Multiples of distributable earnings

To properly value a PPE, the multiples of distributable earnings approach is used in many circumstances. It focuses on the "cash" component of each earning stream and values the PPE

[9] Realized performance fee income is the result from the carried interest earned on realized exists and is considered a good proxy for performance fee cash flow in a given year

through an appropriate Price-to-Distributable-Earnings (price/DE) – similar to a Price/Earnings ratio. Even so, it is essential to correctly choose the right multiple or whether different multiples should be applied for different kinds of a PPE income streams.

On the one hand, Credit Suisse analysts believe that the amount of money that craves into investors pockets is indifferent to its origin (should it come from management fees or performance fees)[xxxix]. A euro of cash in a shareholder's pocket is a euro of cash, regardless of where it came from. Therefore, it would make perfect sense to combine both management fees and performance fees and calculate a single Price/DE ratio.

Controversially, a counterargument asserts that it is essential to recognize the differing perspectives investors have on the liquidity of various income sources. While management fees are more certain than performance fees and investment income, they deserve a higher multiple. Actually, analysts' perception of management fees' liquidity has been increasing its importance over the years. After the first PPE being traded in the market after the 2008 financial crisis, management fees' multiple was around 14x-16x. In 2024, management fees had a much higher multiple, trading at around 25x-30x[xl]. The performance fees and investment income started being traded at around 10x and are currently trading at a range between 5x-10x. This demonstrates that investors value much more the liquid position of PPEs than the uncertainty around the volatile carried interest. With this in mind, this method would decompose the DE into management fee income and performance fee plus investment income and value them at multiples that reflect the appropriate risk and growth assumptions.

Discounted Cash Flow method

The major pitfall of the above valuation method is that it does not consider the drivers of its income stream: the growth of AUM, the amount of investment and the proceeds from monetization. To solve this issue, a DCF model can be developed and address its specific risks and drivers of growth of each income stream. *Exhibit 23* is a forecast of its future performance.

Once the estimation of the future performance is completed, the enterprise value calculation is done through a sum of parts, as there are different revenue streams with distinctive risks. Firstly, it is important to look at the difference between the management fee income and the operational costs. These stream of cash flows represent a very low systematic risk. It can even be allegedly compared to a REITs[10]. This similarity stems from their shared dependence on macroeconomic

[10] REITs stand for Real Estate Investment Trust

conditions, combined with their characteristics of relative liquidity and constancy. Both income streams are cyclically influenced by economic booms and downturns, but their overall sensitivity to market fluctuations remains low. In the case of REITs, during economic expansions, increased investment in real estate drives higher rental income, leading to larger distributions. Conversely, in economic downturns, reduced real estate activity results in lower distributions. In private equity, management fees are tied to LPs' committed capital, which increases during favourable economic conditions as investors allocate more funds but declines during downturns as capital commitments diminish. Both REITs and PE show stability within cycles - REITs with steady rental income and private equity with fixed management fees. However, their cyclical nature connects them to risks like GDP growth and market trends. Even so, these cycles are mild, highlighting their low beta and reduced sensitivity to market changes.

Secondly, we need to calculate the cash flows from the carried interest. However, carry calculation can be calculated in many different ways. In the past, carry was calculated on a deal-by-deal basis, resulting in a sequence of call options. This would imply a high level of complexity and information we cannot have access to, such as the risk of each deal. We could also try to calculate the carry on a fund-by-fund basis, but we still do not have the elements to make it. Therefore, the best and most practical solution is to focus on evaluating the carry from the firm as whole. In this case, we would have a portfolio of call options that function in a binary manner: either you receive a positive payout or nothing at all, which is now highly diversified as it includes funds that invest in different sectors, regions and different companies' sizes. Still, the level of systematic risk remains high, driven by the leveraging effect that private equity funds use to enhance returns through deleveraging. In light of this, to assess the risk associated with carry, it is helpful to examine the period when the first PPEs emerged, primarily trading their GPs' carry participation, and analyse the associated risk levels *(Exhibit 24).*

Unpacking the IPO triumph as a success story

CVC's IPO was the talk and toast of many trading floors after launching one of the largest IPO transactions of 2024. In general, a successful IPO case is driven by the macroeconomic conditions, the state of the IPO market and also some specific traits of the company and its industry. The economy was starting to rebound after high inflation in previous years but was still highly uncertain. The IPO market was also rebounding, with the 2024 Q1 number of new listed traded companies beating the previous 2 years first-quarter-period. Then, operating in a large growing market (as private equity) with a track record of success (from previous returns

and investments) plays a pivoted role and makes CVC's product highly competitive and attractive. Despite the focus on the raise of AI technology, many private equity firms decided to go public in this period as well, such as TPG, HPS Investments and Bridgepoint.

According to Mike Berlin, a PwC IPO services leader, the secret ingredient for a successful IPO is preparation. *"While the planning process for an IPO can start the day a company is incorporated or as late as months before a public offering, we recommend that an orderly plan be executed over a 12–18-month period. This window gives a private company time to build the capabilities to think, act and perform as a public company."*[xli]. Indeed, CVC planned its listing on the stock market with great detail; otherwise it would not have delayed its listing twice.

In fact, a Financial Times article explains CVC's IPO success on three different categories: the quality and size of the company, alignment of interests, and the tactical decision to prioritise size over price[xlii]. Firstly, in times of uncertainty, investors prefer to take a stake in the best companies available in the market to secure liquidity and manage their risk. CVC fits this criterion, due to its track record and large AUM that offer liquidity in entry and exit in size of around €14 billion market cap. Secondly, the interests of the different parties were aligned. CVC's employees were not selling shares, which increased the incentives to create value for the company to monetize their shares later. The objectives of the proceeds were clear in its usage, and continuing growing the business through acquisitions and using shares to do so also provides certainty from investors. Additionally, selling shareholders were already sitting on large profits and having the current largest shareholder Blue Owl committing to buy another 2% in the IPO increased new investors' confidence. This created no incentives to push too hard on price either. While CVC would be trading at around 13x 2025 price-to-earnings, competitors such as EQT was trading nearly at 18x P/E. This attitude shows how a successful business creates a virtuous cycle that eases IPO execution enormously. Not only is the company a more attractive investment proposition to investors, but there's already enough profit to keep everyone happy and align otherwise disparate interests. The final point about tactics relies on how CVC delt with the full process. Investors' demand for CVC shares were soaring long before the offer had officially started. After the underwriters announced that in a few minutes the book was fully covered at the top €13-15 price range, CVC decided to increase the deal size by €500 million and offering a share price of €14 per share. Overall, instead of pricing the IPO at €15 or more without sacrificing investor quality, CVC preferred to surprise fund managers and signal the IPO with strength and restraint.

TEACHING NOTE

Synopsis

After two failed attempts at going public, CVC Capital Partners finally listed on the 26th of April of 2024, choosing the Amsterdam stock exchange as its listing venue. The offer price was €14 per share, but as soon as it became available to all investors in the first trading day, it soared to €17.34. The private equity firm sold 16.3% of its General Partners total participation, valuing the company at more than €14 billion. Despite going public, the founding partners and CVC's employees, who own 74% of the firm, did not sell any shares, as all the shares available were sold by other outside shareholders.

CVC started out as the venture capital arm of Citigroup, becoming in 1993 an independent private equity firm. Over the past 20 years, CVC has been recognized as a leading European private equity firm with top industry quartile returns and outstanding performance. It has developed some interesting case studies in the industry, such as the Formula 1 acquisition.

By deciding to go public, CVC will benefit from a set of advantages that the majority of private equity firms do not have. After EQT's IPO in 2019, the public private equity industry surprisingly experienced a revival, boosting the new number of private equity firms wanting to go public and also their stock performance in the market. However, going public may bring some potential drawbacks to the firm as well. Besides, the case study describes the main reasons why CVC's IPO was a success and the different ways to value these types of companies, from using different types of multiples or using a DCF method.

Pedagogical Objectives

This case may be used in an Entrepreneurial Finance and Private Equity course. It would be helpful in the late stage of the course as a capstone case, since students must understand the nuances of the PE industry, its future prospects and the main value drivers of a PE firm in order to value a public private equity. It is appropriate for use in courses covering private equity, capital raising, or valuations. To understand the case, students should have some background knowledge about funds compensation regarding management fees and carried interest.

The case can be used for the following purposes:

- To explore the structure of a very large, multi-faceted private equity firm.

- To discuss the state of the private equity industry in 2024, focusing on its economic condition cyclicality and on the major problem of 2024: the lack of exits.
- To understand the reasons private equity firms choose to go public, as well as its negative implications for both GPs, LPs and new shareholders.
- To analyse the reasons a company chooses to be listed at a specific stock exchange.
- To acquaint students with private equity firms' valuation methods, and the different risks associated with management fees and performance fees.
- To consider the factors and motives that lead an IPO to be successful

Suggested Outline for Student Analysis

Each instructor can tailor the discussion to align with their specific teaching objectives. Below is a list of possible discussion topics along with suggested responses.

1) *What is the private equity industry status in 2024 and how does CVC fit in this context?*

For a private equity course, this question helps understand the industry's cyclicality and the challenges it faced in 2024. Students must identify key drivers, such as fundraising, new deals, and exits, and conclude that the industry has struggled in previous years as these drivers significantly decreased since 2021.

After understanding the industry's 2024 status, students should connect the industry's underperformance to the macroeconomic impact of the preceding two years of high inflation, recognizing the sector's strong cyclical nature. The overall economy was in a downturn. High levels of inflation prompted central banks to raise interest rates to levels unseen in the past decade, tightening credit accessibility, increasing borrowing costs, and resulting in lower valuations and fewer acquisition opportunities. However, the beginning of 2024 has showed signs of a possible recovery with expectations for decreases in interest rates, making private equity experts outlook the deployment of the record dry powder that firms were holding.

Still, Bain analysts identified the two main challenges of the industry: the fundraising and exits problem. In the fundraising context, CVC had not showed signs of any drawback. It had recently launched the largest private equity fund in history and, in general, all the mega funds fundraised more than 50% of the total committed capital in the industry. The exits were the major concern. All the three exit channels used by private equity firms were stressed. The S&P500 results mislead the reality of the economy and do not represent how strategic buyers look regarding possible acquisitions. In fact, they are reluctant about economic uncertainty and the high costs

of debt, making it difficult for private equity firms to sell their portfolio companies to strategic buyers. Then, studies indicate the unlikelihood of private equity firms using the IPO channel due the implied costs and hence the smaller returns. Lastly, the sponsor-to-sponsor channels is also stressed, mostly due to the higher cost of financing the transactions. At the end, students should understand that the fundraising problem does not affect CVC, especially if the IPO offers an even larger advantage for fundraising. They should also perceive that the exits problem is indeed the major concern, and it will not fade out unless the economy recovers well.

2) *How might accessing public capital markets, a new compensation package and using CVC's shares as currency create a misalignment of interests between GPs and LPs? Additionally, how can Rob Lucas skin in the game position address this misalignment?*

This case highlights how going public can create a misalignment of interests impacting CVC. While we have explored the industry's dynamics, students should consider how PE firms operate on a trust-based model. Maintaining strong relationships among LPs, GPs, management teams, and shareholders is crucial for CVC as the firm transitions to being publicly traded.

When analysing the advantages of going public described in the case, students should identify points 2, 3 and 4 may lead to a possible deviation of the firm's best interests. Point 2 states how going public can influence CVC to raise even larger funds. At the first glance, raising larger funds indicate fundraising success, larger investment opportunities and more AUM. However, from the LPs point of view, it may also mean that CVC is more focused on management fees creation rather than performance fees. With the increase in AUM, management fees will grow, driving stock performance higher as the market assigns a greater multiple to these fees. LPs are mostly concerned about how CVC intends to deliver the expected results. An increase in the capital to be deployed may result in weaker investments due to the pressure of investing larger amounts of money. Larger portfolio firms will also find it more difficult to exit their investments later on, as there will be fewer companies with enough buying power to benefit from potential synergies and acquire them. Consequently, this would lead to the usage of the IPO as its exit channel that is the less common way to exit PE companies since it implies higher costs, the lack of synergies in their valuations and consequently lower returns.

When looking at point 3, students must identify that adding stock options to the compensation package may attract and retain talent, but once again, it might not align with LPs interests. While using a base salary + carry, the variable component is 100% aligned with the fund's results and, consequently, with LPs' returns. However, when CVC shares are included in the

compensation package, employees would receive a portion of future management fees and performance fees. This can create misaligned incentives, as employees are now entitled to a share of CVC's future revenue stream that has not yet been realized. If employees are allowed to sell their shares, they become less dependent on future performance since they can immediately liquidate their position, potentially undermining their focus on long-term value creation and encouraging short-term decision-making. Moreover, it could diminish their motivation to climb the corporate ladder to achieve higher carry bonuses, as they can already access a share of total carry through stock sales without advancing in their careers. Conversely, if employees cannot sell their shares and are instead entitled only to stock options, they effectively receive a call option over the call options of performance fees. This structure increases their incentive to boost operational risk to maximize their payoff. To mitigate this risk, CVC can implement call-back provisions, ensuring employees are held accountable for decisions that may compromise the firm's long-term stability and alignment with LPs' interests."

Lastly, point 4 highlights the risk of excessive cash availability from CVC's future acquisitions or the use of its stock as currency. Excessive liquidity may lead CVC to make poorly thought-out decisions to expand its business or acquire other PE firms to increase its AUM. Plus, using stock as a currency in acquisitions could reduce incentives for the newly incorporated business lines. The success of a PE firm largely depends on the people managing the funds and their ability to attract new investments. If a firm is acquired by a dominant player like CVC, its founders might rely on holding CVC's stock, expecting it to perform well based on reputation alone, rather than being motivated to drive the success of their own business line. In fact, the IPO proceeds introduce risks of rushed decision-making, potentially favoring rapid expansion over strategic growth, and using CVC's stock as an acquisition currency may create a misalignment between new partners' compensation and their responsibilities.

After identifying all the possible conflict of interests associated with going public, it is important that students quote Rob Luccas "[…] neither I nor any of my active partners are selling shares as part of this transaction.". This is a game changing situation that confirms the alignment of interest from GP's. Since partners do not sell their shares, the skin in the game remains unchanged and it shows the same commitment to all parties involved. Students must identify GPs skin in the game component as the key factor that aligns all interests. It happens because it forces every CVC's employee to commit their own capital to the funds and become LPs themselves. Given this, there are no incentives to focus on the management fees over the performance fees, as GPs are closer to being LPs than to being shareholders that can sell shares

in the market (eliminating the problem from point 2). Then, the stock option problem also fades out. As employees are still LPs due to its mandatory committed capital and will not sell shares directly, the incentives for progressing in their careers are aligned with CVC's future performance as well. Of course, here student can still address the problem of finding the optimal compensation package as described in the case study concern number 1. Lastly, the problem described in the number 4 is not directly affected by number 5. Nevertheless, as GPs remain focused on delivering strong results and aligned with CVC's long-term goals, they are unlikely to make decisions that could harm both the firm and themselves. Hence, there are no incentives to acquire other private equity firms solely to increase AUM, pursue unsustainable growth, or engage in a 100% share-based deal that might jeopardize the firm's future success.

3) *Do you believe the choice of going public in Amsterdam was the right choice?*

According to the case study, the choice of using the Amsterdam Stock Exchange to go public appears well aligned with the firm's strategic priorities and operational realities. Students must then compare if this choice is indeed better over other stock exchanges, such as the London Stock Exchange or the New York stock exchange. To make this analysis, students should evaluate its financial implications, liquidity and valuation effects and non-financial benefits.

Firstly, it is important to conclude that both financial considerations, and liquidity and valuation effects had little influence on the decision at the time. The case highlights that while listing costs vary across stock exchanges, they represent a minor component in the overall decision and are unlikely to be the decisive factor, without favouring any stock exchange in particular. Then, it also refers that Globalization and technological advancements have largely levelled the playing field among major stock exchanges in terms of liquidity and access to institutional capital. As a result, there is no substantial evidence that one major stock exchange would provide a significant edge over another in these dimensions. Thus, the decision to list in Amsterdam reflects that these factors were not the primary drivers of the choice.

Students must identify that it all comes down to non-financial benefits. The three key factors the case emphasizes for the suitability of Euronext are regional proximity, investor community, and regulatory environment and currency stability. As a European-headquartered PE firm, CVC's decision to list on Euronext underscores its commitment to maintaining a strong regional identity. The proximity to European investors aligns with its strategic positioning and enhances the perception of a leading PE firm in Europe. Secondly, the substantial investor demand from Europe, supplemented by interest from the US and the Middle East, indicates that Euronext

provides a robust platform to meet CVC's investor needs. This aligns with the firm's goal to maximize access to its primary LP base. These arguments favour European stock exchanges over their US counterparts. Finally, in the post-Brexit landscape, Euronext has become increasingly attractive for European companies due to its adherence to EU laws and reduced regulatory complexities compared to UK exchanges. Plus, listing in euros minimizes exchange rate risks and simplifies financial operations, offering operational efficiencies to CVC.

Overall, students should conclude that Amsterdam was a well-suited choice for CVC's IPO. The Euronext aligns with CVC's regional strategy, supports its investor relations, and mitigates risks associated with regulatory and currency fluctuations, and reinforced its identity as a European leader. This decision illustrates the importance of non-financial benefits in IPO venue selection and serves as a strategic case study on aligning corporate identity with market realities.

4) *Why does the market price management fees at a higher multiple compared to performance fees?*

This question addresses how the market values PE sources of income. Students must consider the impact of EQT's IPO on the market when the firm decided to alter its shareholder offering, deviating from the traditional model of public private equity firms. EQT proposed distributing all management fees and 1/3 of performance fees to shareholders, instead of the traditional 50/50 split. This decision reflects EQT's understood that management fees had much higher valuation multiples than performance fees. As described in the case, management fee multiples range from 25–30x, while performance fee multiples range from 5–10x.

Although the reasons for this discrepancy are not explicitly stated in the case, students are encouraged to brainstorm potential explanations. A primary reason lies in the predictability and stability of management fees. These fees are based on the committed capital invested by LPs, which remains stable regardless of a fund's performance, providing a recurring and reliable revenue stream. In contrast, performance fees are tied directly to fund results and rely heavily on the firm's ability to execute successful deals, making them far more unpredictable. The difference in perceived risk between the two income streams further explains multiples discrepancies. Investors typically assign higher multiples to stable, predictable income streams like management fees, which depend primarily on a firm's fundraising capacity. On the other hand, performance fees are more cyclical and subject to market fluctuations, as they are influenced by the timing and success of portfolio exits. For example, a fund may generate significant carried interest in a year with multiple successful exits but earn none in a year

without exits. Additionally, performance fees are more sensitive to economic cycles. During periods of economic growth, exit multiples and carried interest are often high, while downturns result in fewer exits, lower multiples and lower fees. Even though fundraising can also be affected by market conditions, AUM tend to remain stable since PE firms continue managing funds raised in prior years, ensuring a consistent flow of management fees and low cyclicality.

These factors - predictability, systematic risk, and cyclicality - contribute to the significant valuation discrepancy between management fees and performance fees. Despite these reasons, students are encouraged to explore additional perspectives to enrich the discussion.

5) *Credit Suisse analysts state that "the money that craves into investors pockets is indifferent to its origin (from management fees or performance fees)" – do you agree?*

This question returns to the previous one where students justified the difference in multiples of performance fees and management fees. Professionals from Credit Suisse defend the thesis that CVC should be valuated solely based on a single Price / Distributable earnings ratio instead of valuing the various sources of income with different multiples. When analysts state in the case that "amount of money that craves into investors pockets is indifferent to its origin ", they believe that a dollar of management fee income is the same as a dollar of performance fee income. At the point that the dollar is realized in a given year - this has merit - cash is cash. However, the risk of producing that dollar over time can vary such that most analysts perceive the future income stream as having different risks and therefore deserving different multiples.

All in all, while the Credit Suisse analysts' statement captures the basic equivalence of cash at the point of realization, it overlooks the significant differences in the nature of management and performance fees. These differences - rooted in predictability, stability and risk - critical in assessing the financial performance and value of private equity firms. The higher valuation multiples assigned to management fees demonstrate the market's preference for steady and reliable income streams over volatile and uncertain ones. The most important aspect of this question is that students understand that the analysts' assertion that the origin of income is irrelevant does not hold up to scrutiny and oversimplifies a complex issue.

6) *What should be the Share Price according to the different valuation methods learnt?*

The case describes 3 different methods to value a PPE firm: 1) Credit Suisse' analysts' valuation idea based on a single price / DE ratio. 2) Valuing CVC based on different management fee and performance fee multiples and 3) Building a DCF and discount the different streams of CFs.

After answering correctly question 5, students demonstrate an understanding of how inappropriate it is to value CVC based on a single Price/DE ratio. Therefore, students can opt to not value the company through this method, as the results would be meaningless.

The second method separates the income streams based on its different multiples. Students have to identify which components of the forecasted Income Statement *(Case Study Exhibit 23)* go under the management fee revenue stream or the performance fees. As shown in *TN Exhibit 1*, the management fee income stream includes management fees and the operating expenses they are meant to cover. The valuation must account for these expenses, since only net management fee gains are available for distribution to shareholders. Regarding which management fees' year to use in the valuation, students should opt to focus on the expected management fees of 2024, because they account for the new fund CVC raised in 2023 (the largest ever raised in terms of committed capital), which 2023's values did not account for, and thus could create reasonable discrepancies in its valuation. On the performance fees income stream, students must include 1/3 of performance related earnings and other operating income. Then, after calculating the total gains from both streams, students should apply the multiples given in the case. Management fee multiples vary from 25-30x, and performance fee multiples from 5-10x. Both valuations are summed to get CVC's market cap. Finally, students should divide the market cap by the number of shares outstanding (1 billion) to get the share price, which ranges between €18 and €22. To sum up, students can conclude that, as a market leader and mega fund, it is reasonable to value CVC using the highest multiples, supporting the conclusion that the share was underpriced at the IPO, justifying its price increase in the first days of trading.

On the other hand, the DCF method offers a straightforward way to account for the drivers of CVC's future income streams. Similar to the multiples approach, students should separate the two income streams based on their level of risk and acknowledge that management fee income is subject to operational charges. Given CVC's low levels of debt and shareholders being entitled to all management fees and only one-third of the performance fee income, the DCF should apply the unlevered cost of equity instead of the WACC. Although the low levels of debt may provide a tax shield, this benefit accrues to GPs rather than to shareholders. Before calculating the two unlevered FCFs (*TN Exhibit 2*), students must calculate distinct costs of capital for each income stream, reflecting their varying levels of risk. As seen in the case, the systematic risk of management fees can be compared to a REITs'. According to the CAPM, calculating the unlevered cost of equity requires a risk-free rate on the IPO valuation date and the market risk premium (MRP). The risk-free rate can be proxied using the 10-Year German

Bond, as it is the best approximation for a risk-free asset in Europe. The MRP is taken from European market risk premium estimates *(TN Exhibit 3).*

For performance fee risk, the case suggests using the Beta of PPE when they predominantly relied on performance fees rather than management fees. However, since those betas were still influenced by management fees, students might opt for a higher Beta (between 2.2 and 2.5) to account for the weighted average provided by management fees at the time. As there is no definitive evidence supporting precise Beta values, introducing a sensitivity analysis by using an interval is prudent. When calculating cash flows derived from performance fees, students must recognize that only one-third is attributed to shareholders, and this allocation must be incorporated into the valuation. Once the correct unlevered cost of equities for both revenue streams are determined, students should discount the cash flows to the present and calculate CVC's terminal value using a perpetuity formula, assuming terminal growth rates. Both cash flow streams have a long-term growth rate of 2%, representing the future expected inflation. Lastly, students should sum both cash flow streams to get CVC's EV, deduct net debt to get the equity value and divide by the shares outstanding to calculate the share price. Even with an interval for performance fees' Betas, the share price for both situations would be around 24€. Students can then confirm that according to this method, the IPO price appears to have been undervalued as well, and relatively close to the best scenario of the multiples approach.

Students can explore reasons for this undervaluation. For the multiples approach, they can discuss how the valuation reflected improved market conditions and incorporated the management fees expected from CVC launching the largest PE fund ever raised, suggesting the IPO price did not fully account for them. Regarding the DCF, students can justify analysts projected optimistic growth for CVC, which the IPO price may not have adequately captured.

7) Was CVC's IPO a successful one?

CVC's IPO provides a compelling case to evaluate whether an IPO can be considered successful. Students should assess this using key factors such as market reception, pricing strategy, valuation alignment, and its support for the firm's strategic objectives.

The IPO share price was set at €14, and it started trading at €17.34, a 23.9% increase. This difference, known as the "money left on the table," reflects the capital foregone by the selling GPs in pricing the shares below market price. While this 23.9% exceeds the average 19% under-pricing seen in IPOs historically[xliii], it is within a range that can still be considered strategically advantageous. By leaving this margin, CVC ensured a positive market reception and strong

demand, as evidenced by the exercise of the over-allotment option, indicating the IPO was oversubscribed and demonstrating investors' confidence in CVC's potential. Another important factor is the satisfaction of the selling GPs, who monetized their shares through the IPO and were reportedly pleased with the returns achieved. Their satisfaction indicates that the IPO fulfilled its primary purpose of delivering financial outcomes for the selling shareholders. For students analysing this case, this reinforces the idea that IPO success is not solely about maximizing proceeds but also ensuring shareholders alignment and market stability.

Students should also compare the IPO price to valuation estimates to assess whether it reflected CVC's intrinsic value. According to the multiples approach, CVC's fair value was estimated within a range of €18 to €22 per share, significantly above the IPO price of €14. Similarly, the DCF valuation estimated a fair value of €24 per share, further highlighting that the IPO price was conservative relative to both market-based and intrinsic valuation metrics. By contrasting these valuation methods with the IPO price, students can argue that the conservative pricing may have been intended to ensure demand and market stability during the offering but came at the cost of undervaluing CVC's potential. This analysis highlights potential misalignment between the IPO price and the firm's estimated value, raising questions about whether the IPO was a missed opportunity to fully capitalize on CVC's perceived worth.

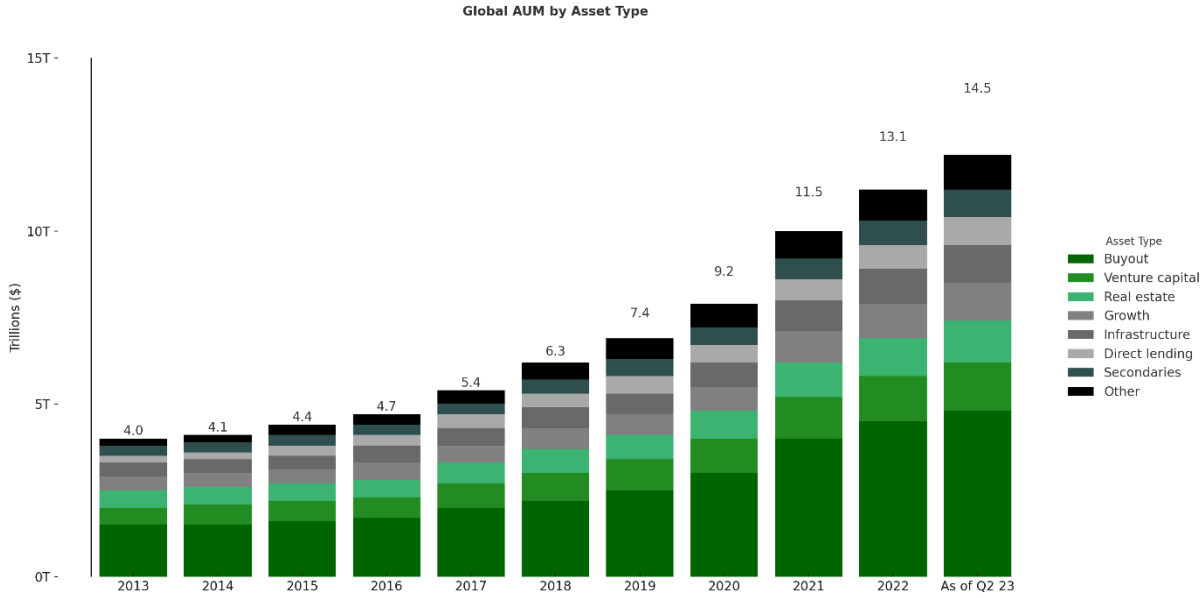
Lastly, long-term strategic objectives also play a crucial role in assessing the IPO's success. CVC aimed to leverage the IPO to expand its AUM, increase investments in other sectors such as infrastructure and secondaries, and enhance its fundraising capabilities by boosting its credibility and visibility as a publicly traded firm. While the IPO's immediate success lays a solid foundation for achieving these goals, students should recognize that the ultimate success will depend on how effectively CVC capitalizes on these opportunities over time.

Epilogue

CVC Capital Partners went public on the 26th of April 2024 in the Euronext Amsterdam Stock Exchange, setting its IPO price at the mid-point of the 13-15€ interval chosen by the firm. This price valued the company for over €14 billion and generated total gross proceeds of €2.3 billion. The 14€ per share price saw a 23.9% increase in its first day of trading, opening its trading price at 17.34€ and reaching a high of €17.55 before closing at €17.13. The following 6 months confirmed the strong market appetite for CVC and for public private equity, as its share price increased over 40% since the first day of trading and reached a maximum price of 23.43€ on the 2nd of December 2024. *TN Exhibit 4* shows the stock performance until December 2024.

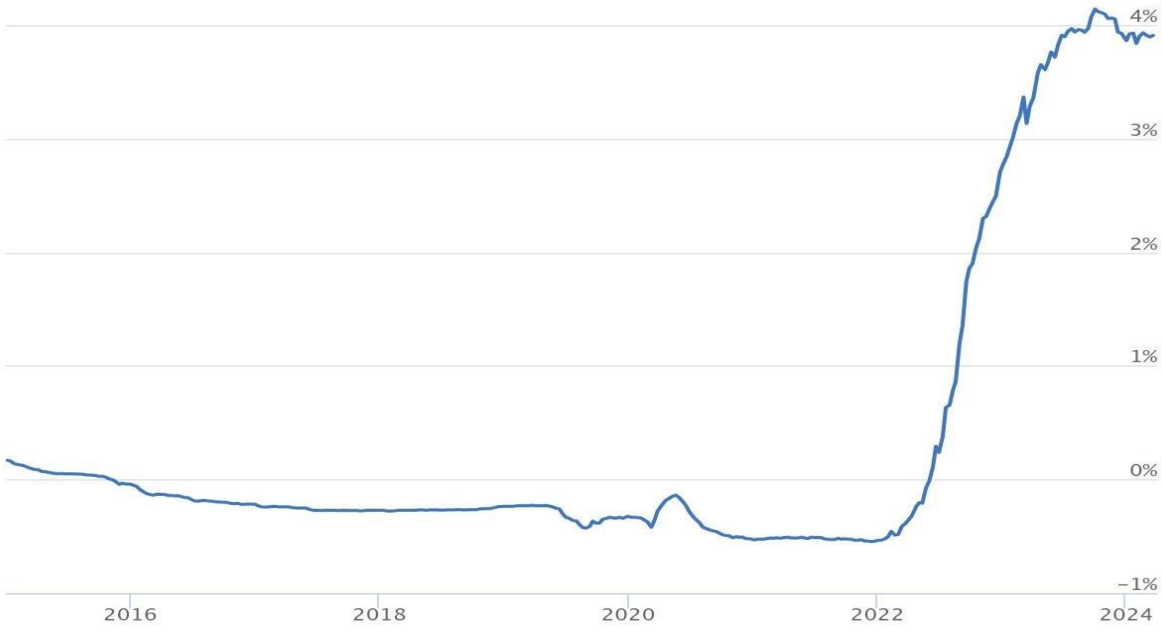
Exhibits

Exhibit 1 – Evolution of Global AUM in PE



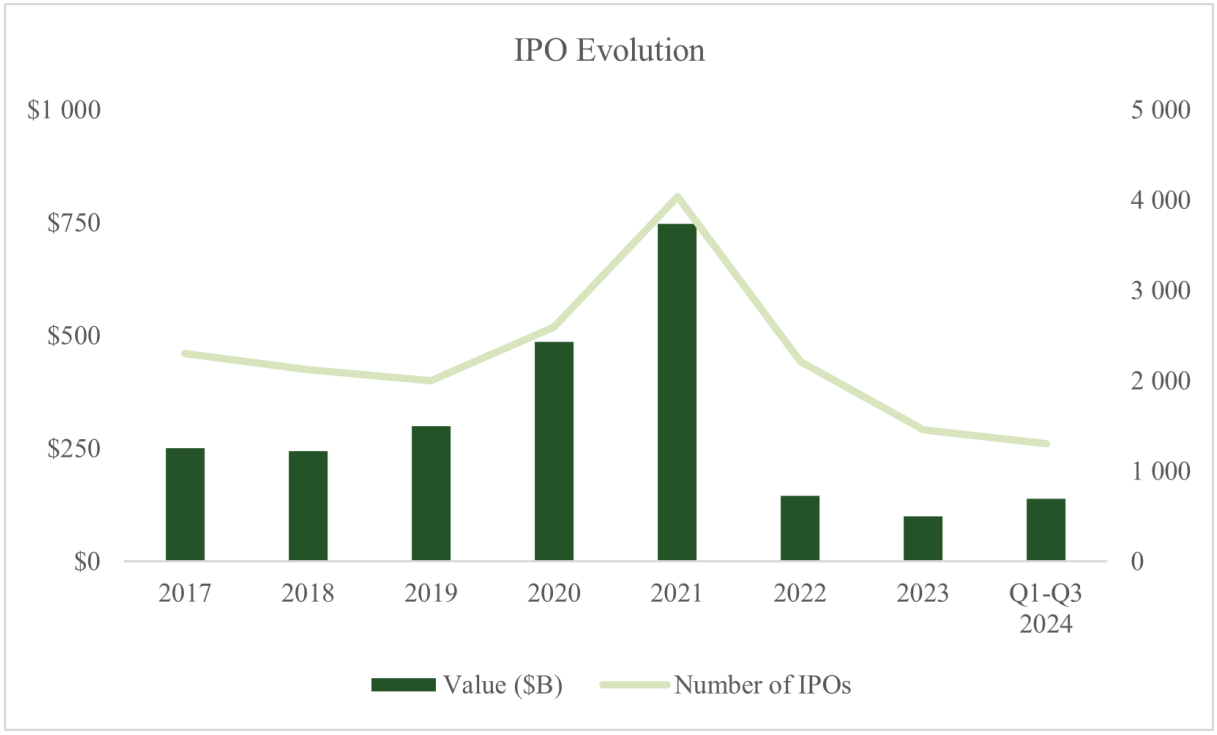
Source: Bain & Company Global Private Equity Report 2024

Exhibit 2 – 6 months Euribor evolution



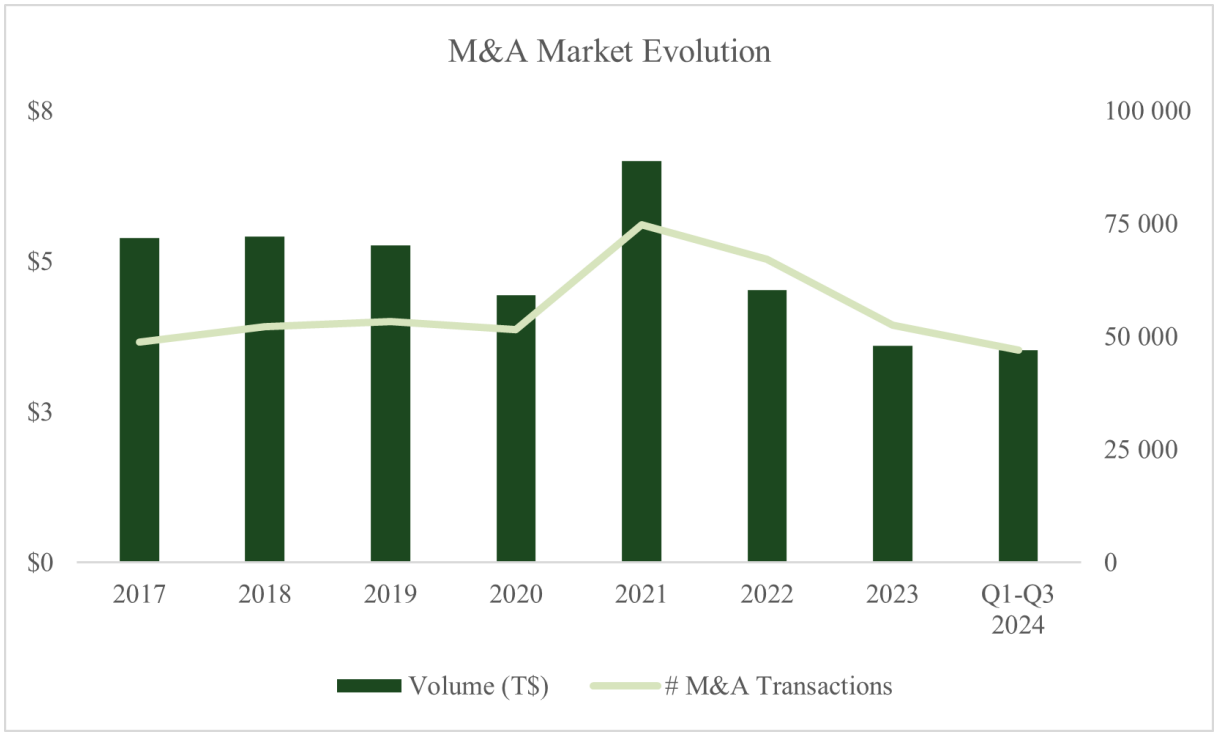
Source: Euribor Rates

Exhibit 3 – Global Number of IPOs



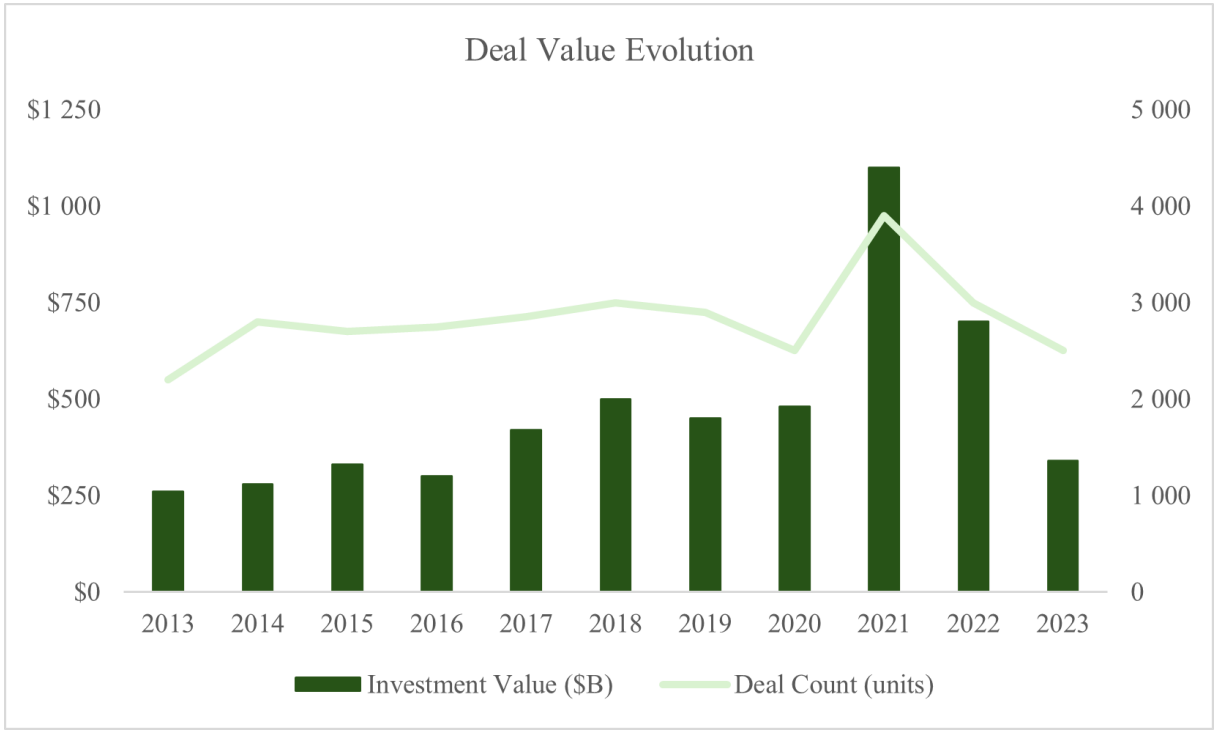
Source: Bloomberg

Exhibit 4 – Number of Global M&A Deals



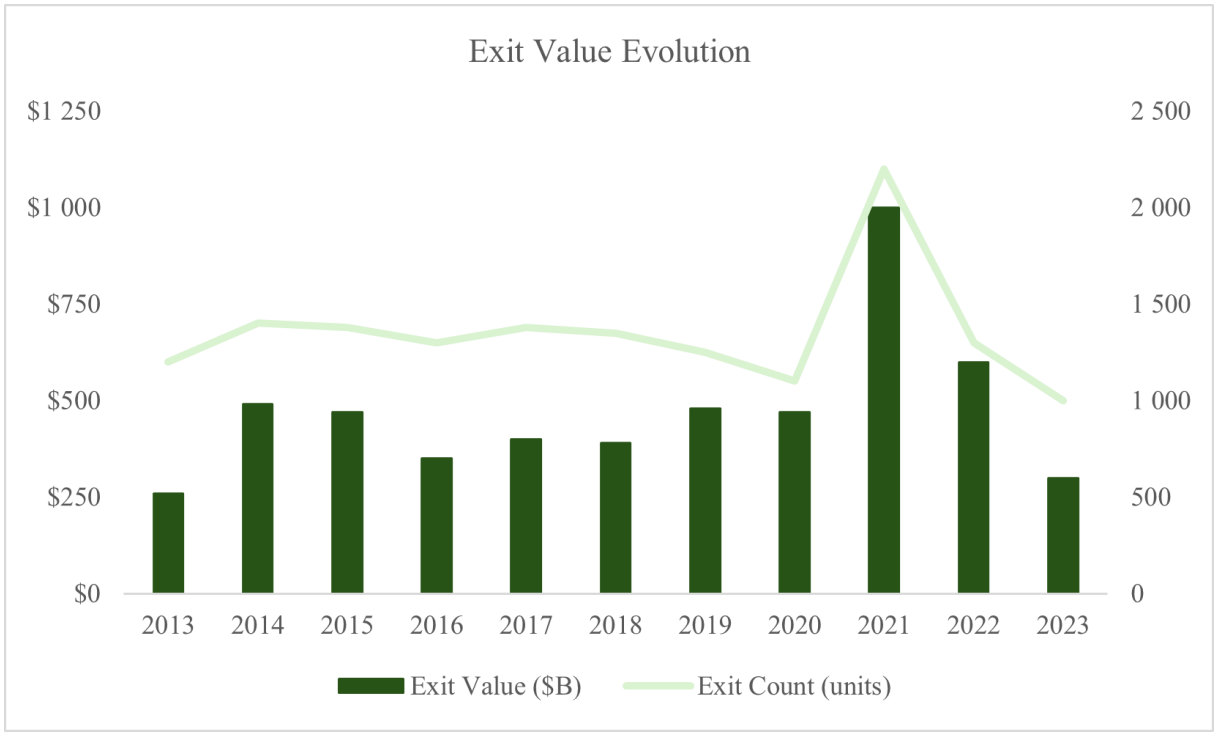
Source: Bloomberg

Exhibit 5 – Private Equity Global Deal Value Evolution



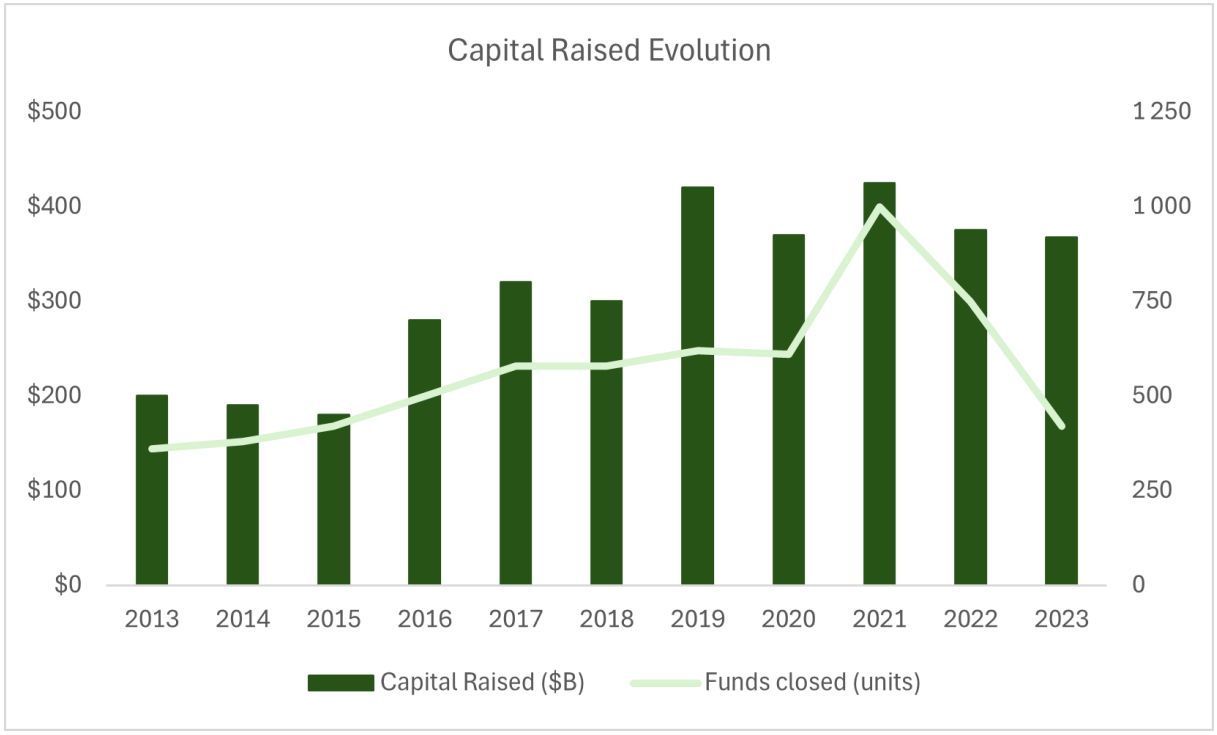
Source: Bain & Company Global Private Equity Report 2024

Exhibit 6 – Private Equity Global Exited Value Evaluation



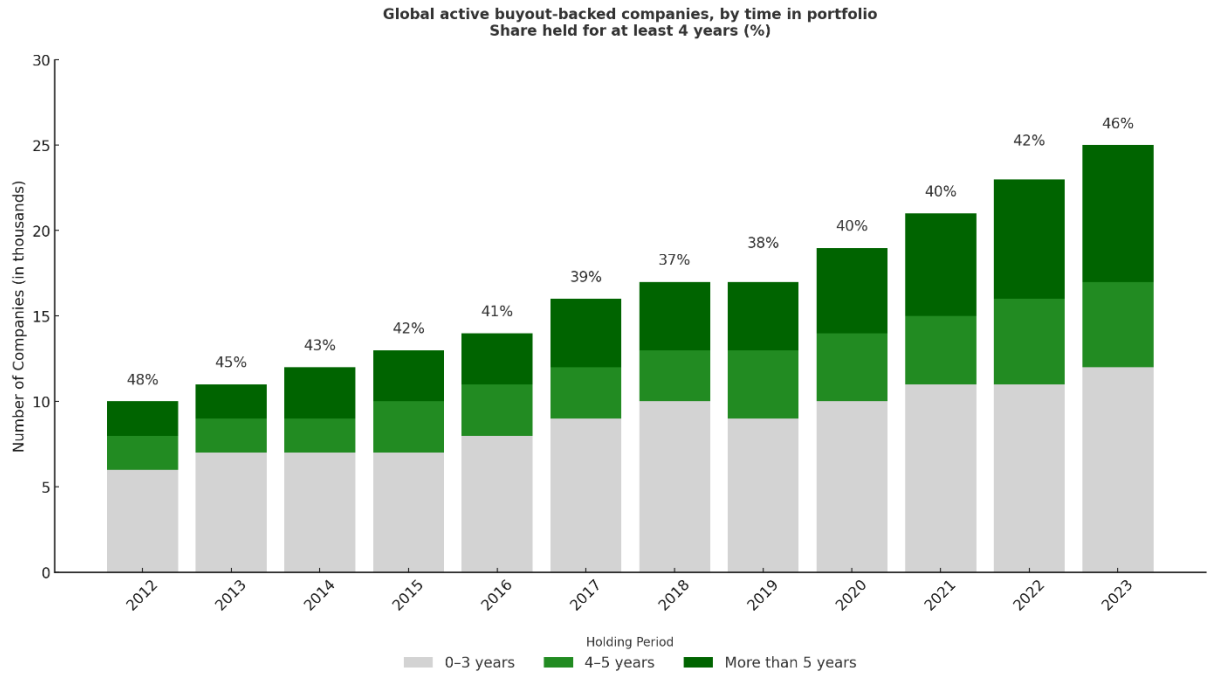
Source: Bain & Company Global Private Equity Report 2024

Exhibit 7 – Global Capital Raised by Private Equity Evolution



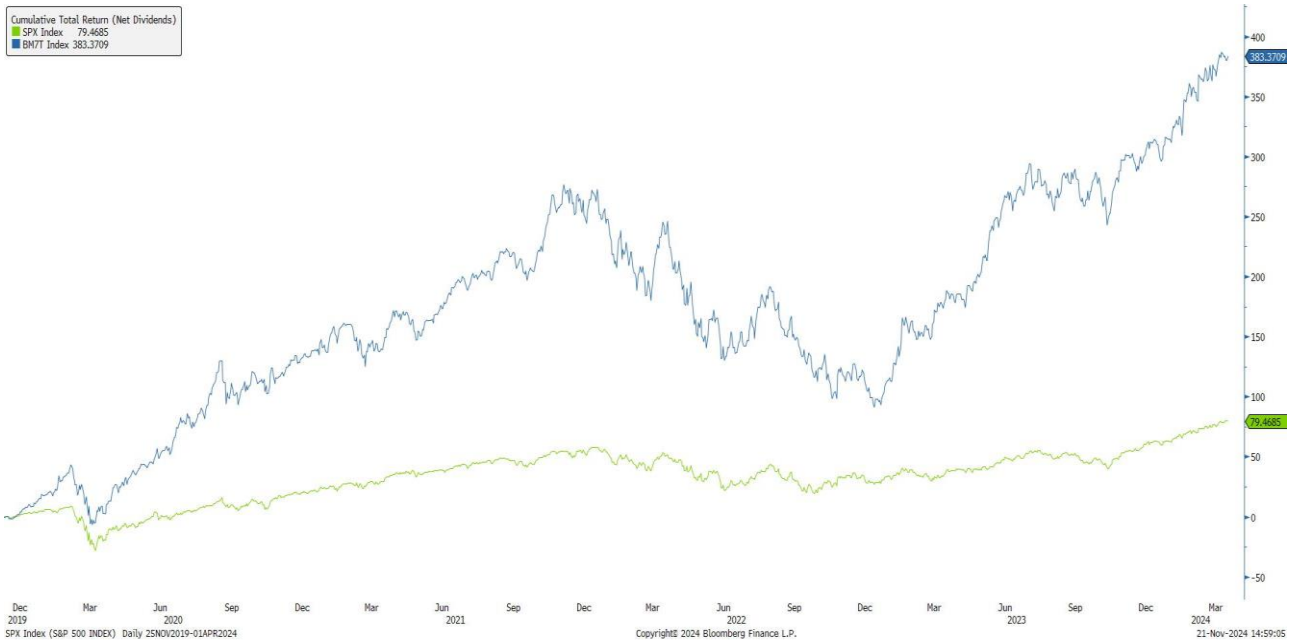
Source: Bain & Company Global Private Equity Report 2024

Exhibit 8 – Number of years companies are held in the portfolio



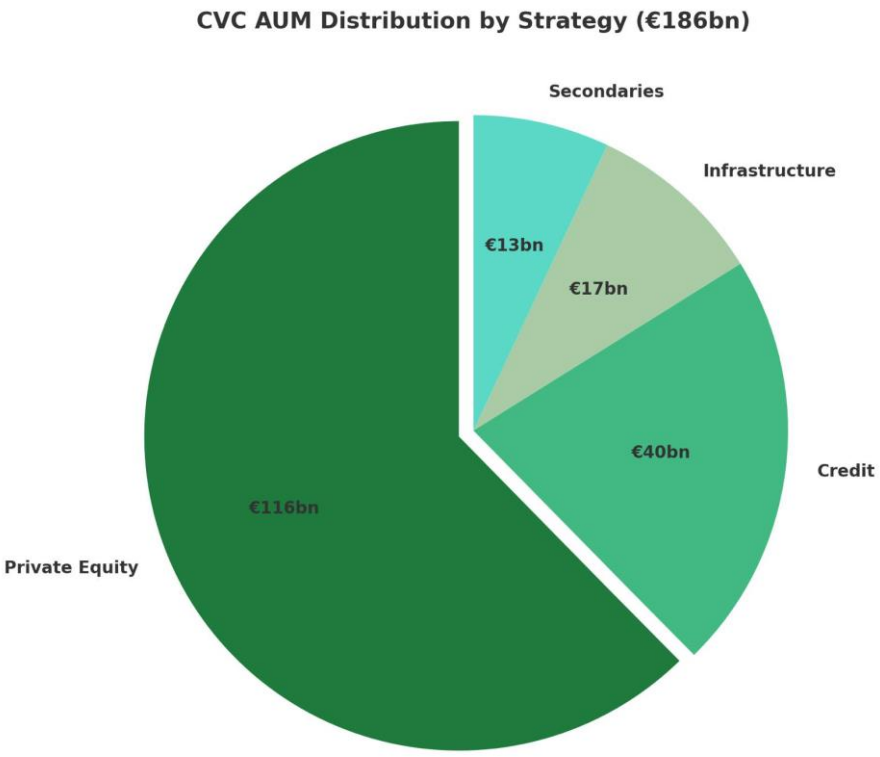
Source: Bain & Company Global Private Equity Report 2024

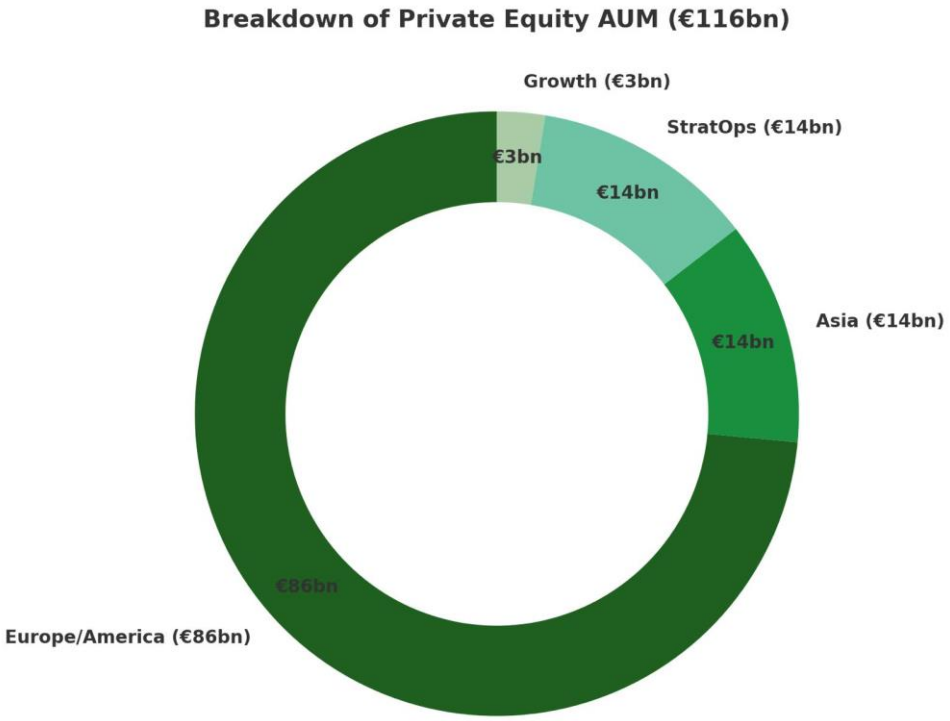
Exhibit 9 – Magnificent 7 vs S&P500 Performance



Source: Bloomberg

Exhibit 10 – CVC AUM divided by product category





Source: CVC IPO Prospectus

Exhibit 11 – Europe / America CVC Private Equity Funds Return

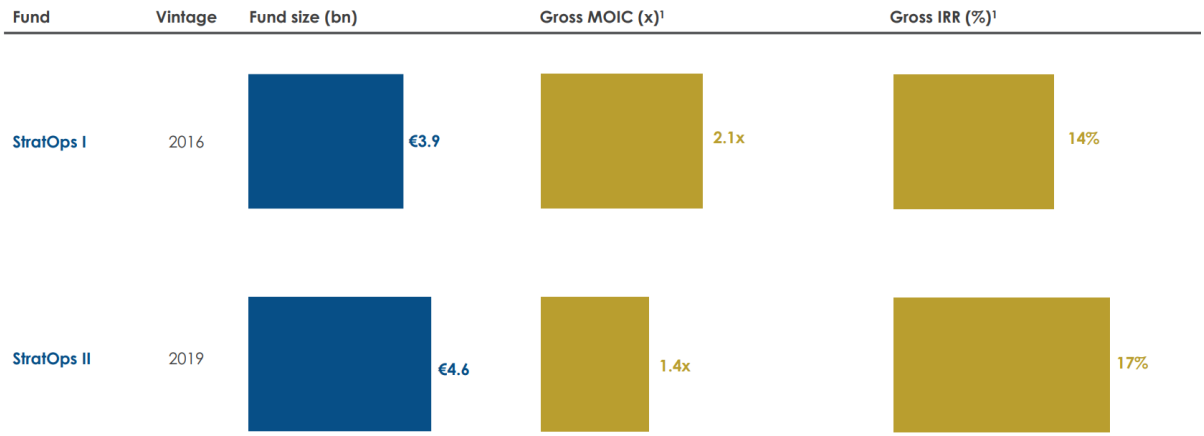
Europe / Americas Private Equity

Mature / realised · Active

Fund	Vintage	Fund size (bn)	Quartile[1]	Gross MOIC (x)[2]	Gross IRR (%)[2]
Fund I	1996	$0.6	#1	3.0x	31%
Fund II	1998	$2.5	#1	2.9x	24%
Fund III[3]	2001	$3.7	#1	3.5x	58%
Fund IV[3]	2005	€6.0	#1	2.4x	23%
Fund V[3]	2008	€10.7	#1	3.0x	26%
Fund VI[3]	2014	€10.9		2.7x	21%
Fund VII	2017	€16.4		2.4x	26%
Fund VIII	2020	€22.3		1.2x	10%
Realised Europe / Americas investments since inception				2.9x	28%

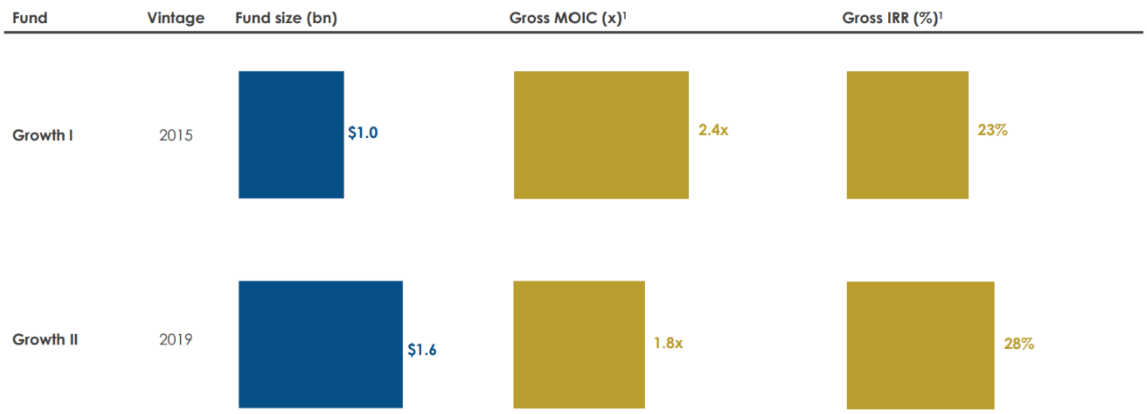
Source: CVC IPO Prospectus

Exhibit 12 – Strategic Operations CVC Private Equity Funds



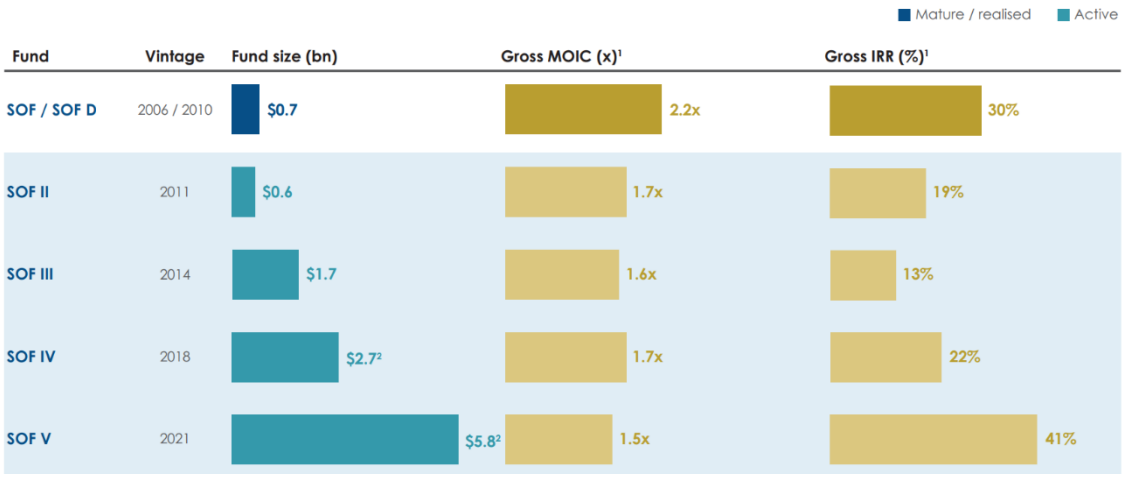
Source: CVC IPO Prospectus

Exhibit 13 – Growth CVC Private Equity Funds Return



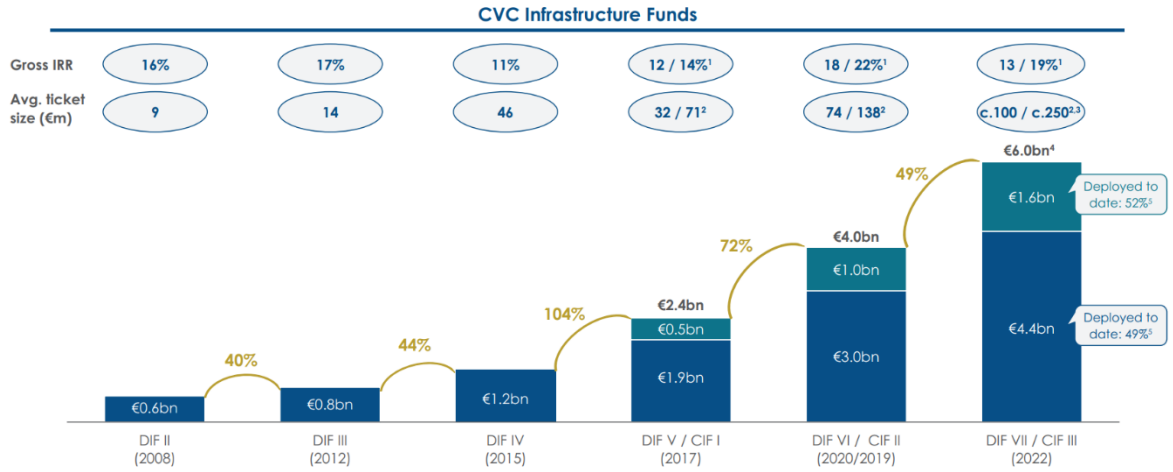
Source: CVC IPO Prospectus

Exhibit 14 – CVC Secondary Funds Return



Source: CVC IPO Prospectus

Exhibit 15 – CVC Infrastructure Funds Return



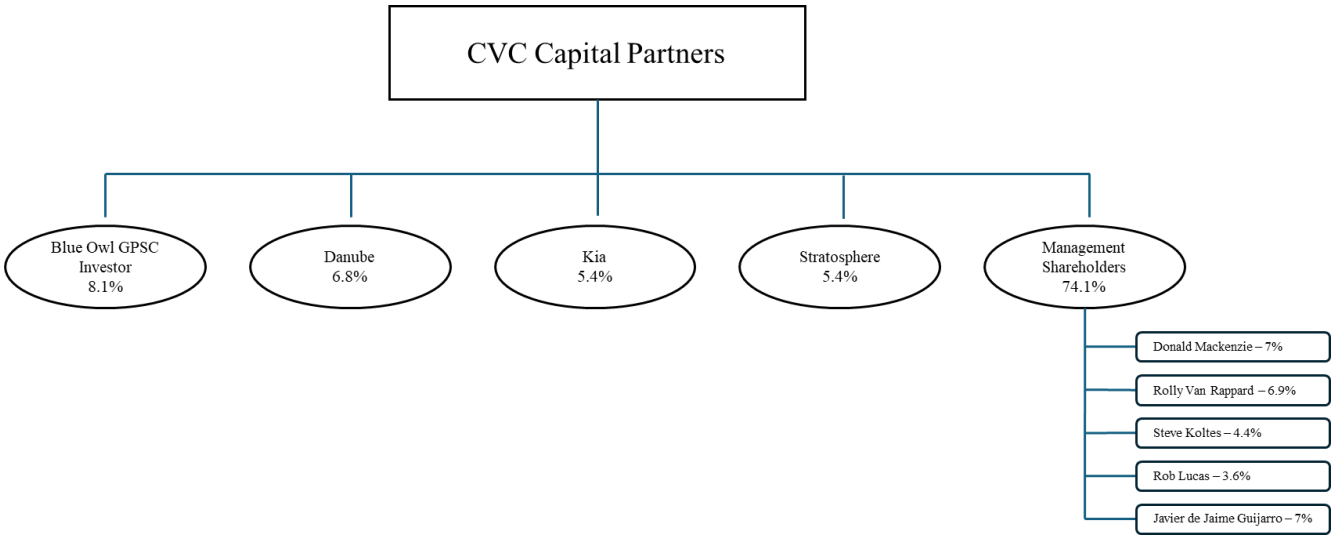
Source: CVC IPO Prospectus

Exhibit 16 - CVC Capital Partners Board Members

Name	Position	Background & Experience
Rolly van Rappard	Non-executive Chair	Co-founder and former chair of CVC, joined in 1989. Formerly worked in corporate finance at Citicorp in London and Amsterdam. Holds an MA in Economics from Columbia University, New York, and an LLM from the University of Utrecht, Netherlands. Owns 6.9% of all Pre-IPO shares of CVC Capital Partners.
Rob Lucas	Chief Executive Officer	Joined CVC in 1996, previously served as co-chair of CVC's Private Equity Board for Europe/Americas. Leads the Investment Committee for Europe/Americas and Strategic Opportunities strategies. Background in engineering from Imperial College, London. Early career at 3i. Owns 3.6% of all Pre-IPO shares of CVC Capital Partners.
Fred Watt	Chief Financial Officer	Joined CVC in 2007, previously CFO at RBS (2000–2006) and Finance Director at Wassall plc. Member of the Institute of Chartered Accountants of Scotland. Educated at Caledonian University, Glasgow. Owns 1.4% of all Pre-IPO shares of CVC Capital Partners.
Baroness Rona Fairhead CBE	Senior Independent Non-executive Director	Current chair of RS Group plc, non-executive director at Oracle Corporation. Former Minister of State for Trade at DIT (2017–2019) and chair of the BBC Trust (2014–2017). Former chair and CEO of the Financial Times Group, CFO of Pearson plc. Holds a MA in Law from the University of Cambridge and an MBA from Harvard Business School. Member of the House of Lords since 2017.
Dr. Mark Machin	Independent Non-executive Director	Managing partner at Intrepid Growth Partners and co-founder/vice chair of Opto Investments. Member of GIC's International Advisory Board and non-executive director at Serendipity Capital. Former President and CEO of CPP Investments (2016–2021). Holds a BA from University of Oxford and a BM BChir from University of Cambridge.
Carla Smits-Nusteling	Independent Non-executive Director	Non-executive director and chair of the audit committee at Nokia and Allegro. Former non-executive chair at Tele2 AB, Supervisory Board member and Chair of the Audit Committee at ASML, former CFO of KPN, and former judge of the Enterprise Court at the Amsterdam Court of Appeal. Holds a Master's in Business Economics from Erasmus University Rotterdam and Executive Master's from Vrije University Amsterdam.

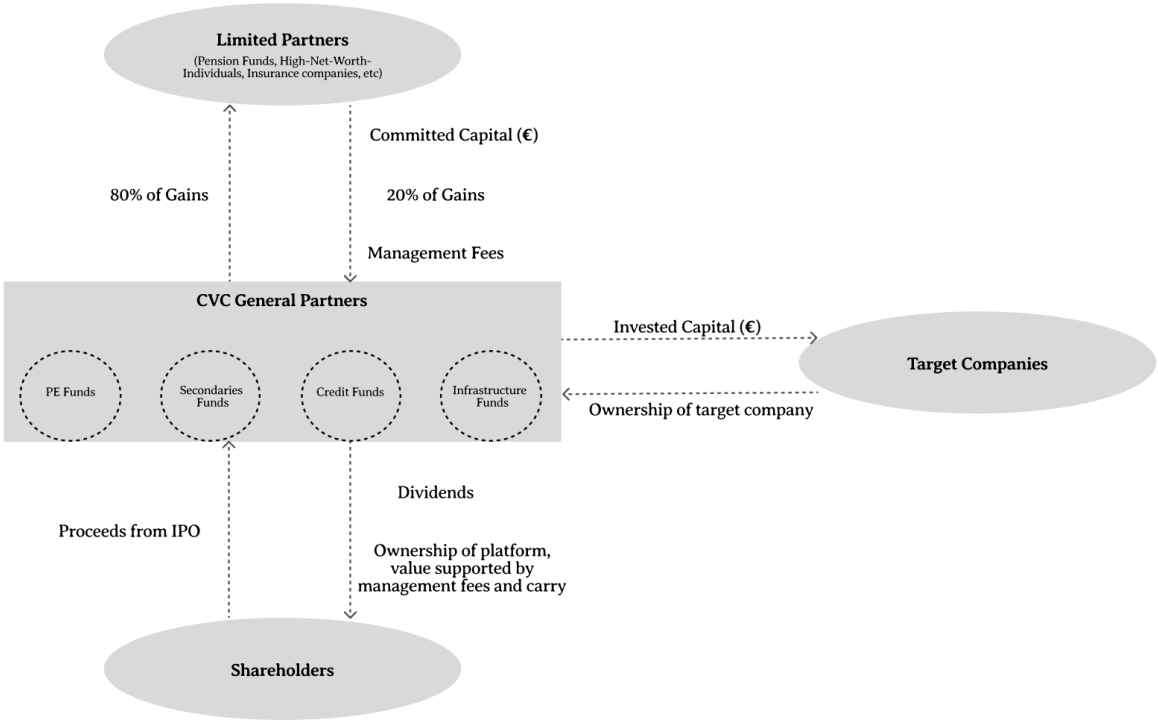
Source: CVC IPO Prospectus

Exhibit 17 – CVC Capital Partners Shareholders prior to IPO



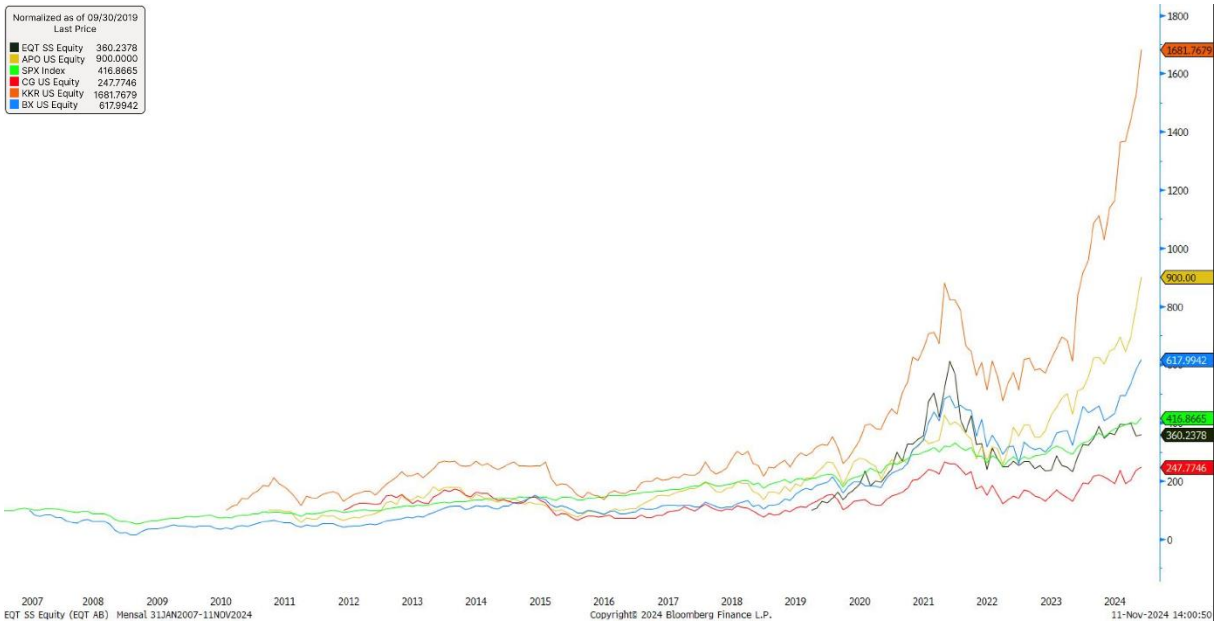
Source: CVC IPO Prospectus

Exhibit 18 – Relationship between LPs, GPs and Shareholders



Source: Done by the Author

Exhibit 19 – Performance of other PPE vs S&P500



Source: Bloomberg

Exhibit 20 – The Waterfall Calculation of Performance Fees

Performance Fees: The Waterfall Calculation

Assumptions per 2023 investment harvest period		Notes
Invested Capital (€M)	14 600 €	2023 Total Deployment Capital
Management Fees (% per year)	1%	Average MF Rate of all Funds
Preferred Return (% per year)	8%	Industry Average
80% to LPs / 20 & to GPs split		
Catchup provision to GP		
Investment holding period (years)	5	Targeted by CVC
Gross Return (MOIC) at exit	2,5	Average Target MOIC by CVC

	Proceeds	**=**	**€ 36 500**			
		LP			**GP**	
Step 1.	Return Invested Capital	€ 14 600				
Step 2.	Return Fees	€ 730				
Step 3.	Preferred Return to LPs	€ 8 760				(IC - Return IC)*Pref Return*Years
Step 4.	Catchup to GPs at 20%				€ 2 190	(Pref Return /80%)- Pref Return
Step 5.	Residual Gain to Distribute 80/20		€ 10 220			Proceeds - Steps 1 to 4
	Split of Residual Gain	€ 8 176			€ 2 044	
	Net Gains distributed	€ 16 936			€ 4 234	
	Return of Invested Capital and Fee	€ 15 330				
Total Distribution at the end of holding per		**€ 32 266**			**€ 4 234**	

Source: IPO Prospectus

Exhibit 21 – CVC 2023 Income Statement

	Management Group results for the year ended 31 December 2023 *Note 1.*	Advisory Group results for the year ended 31 December 2023 *Note 1.*	Credit Group results for the year ended 31 December 2023 *Note 1.*	Adjustments: Elimination of balances *Note 2.*	Adjustments: Acquisition accounting with respect to Credit Group, Advisory Group and Glendower *Note 3.*	Adjustments: Other Pre-IPO Reorganisation adjustments *Note. 4.*	Adjustments: Offer and Capital Reduction *Note 5.*	Pro forma Group statement of profit or loss for the year ended 31 December 2023 *Note 6.*
				(€000)				
Management fees	744,623	390	171,649	—	—	—	—	**916,662**
Carried interest	393,814	—	—	—	—	(230,674)	—	**163,140**
Performance fees	—	—	6,354	—	—	—	—	**6,354**
Investment income	182,764	—	14,107	(3,039)	—	(26,174)	—	**167,658**
Advisory fees	—	400,437	—	(400,437)	—	—	—	**—**
Other operating income	9,661	3,156	—	(2,603)	—	—	—	**10,214**
Total revenue	**1,330,862**	**403,983**	**192,110**	**(406,079)**	**—**	**(256,848)**	**—**	**1,264,028**
Advisory fee expense	(400,437)	—	—	400,437	—	—	—	**—**
Personnel expenses	(59,902)	(250,520)	(79,288)	—	—	—	—	**(389,710)**
General and administrative expenses	(95,991)	(74,315)	(25,220)	2,599	—	—	(28,949)	**(221,876)**
Change in valuation of forward liability	(84,826)	—	—	—	65,098	—	—	**(19,728)**
Change in valuation of contingent consideration	—	—	(41,000)	—	41,000	—	—	**—**
Foreign exchange gains/(losses)	5,687	(1,385)	(309)	3	—	—	—	**3,996**
Expenses with respect to investment vehicles	(1,863)	—	(494)	—	—	1,063	—	**(1,294)**
EBITDA	**693,530**	**77,763**	**45,799**	**(3,040)**	**106,098**	**(255,785)**	**(28,949)**	**635,416**
Depreciation and amortisation	(26,368)	(22,958)	(2,473)	—	(45,531)	—	—	**(97,330)**
Total operating profit	**667,162**	**54,805**	**43,326**	**(3,040)**	**60,567**	**(255,785)**	**(28,949)**	**538,086**
Finance income	10,981	2,903	849	—	—	(49)	—	**14,684**
Finance expense	(35,172)	(8,183)	(16,693)	—	9,271	7,376	—	**(43,401)**
Profit before income tax	**642,971**	**49,525**	**27,482**	**(3,040)**	**69,838**	**(248,458)**	**(28,949)**	**509,369**
Income tax charge	(9,744)	(33,939)	(18,128)	—	10,384	—	—	**(51,427)**
Profit after income tax	**633,227**	**15,586**	**9,354**	**(3,040)**	**80,222**	**(248,458)**	**(28,949)**	**457,942**
Attributable to:								
Equity holders of the Group	563,233	9,734	(6,583)	—	97,749	(268,178)	(28,949)	**367,006**
Non-controlling interests	69,994	5,852	15,937	(3,040)	(17,527)	19,720	—	**90,936**
	633,227	**15,586**	**9,354**	**(3,040)**	**80,222**	**(248,458)**	**(28,949)**	**457,942**

Source: CVC IPO Prospectus

Exhibit 22 – CVC Capital Partners Balance Sheet

	Management Group as at 31 December 2023 *Note 1.*	Advisory Group as at 31 December 2023 *Note 1.*	Credit Group as at 31 December 2023 *Note 1.*	Adjustments: Eliminations *Note 2.*	Adjustments: Acquisition accounting with respect to Credit Group, Advisory Group and Glendower *Note 3.*	Adjustments: Other Pre-IPO Reorganisation adjustments *Note. 4*	Adjustments: Offer and Capital Reduction *Note. 5*	Pro forma Group statement of financial position as at 31 December 2023 *Note 6.*
				(€000)				
Assets								
Non-current assets								
Property and equipment	21,156	84,826	9,221	—	6,112	—	—	**121,315**
Goodwill and other intangible assets	530,047	91,399	119,492	—	249,756	—	—	**990,694**
Carried interest receivable	401,958	—	—	—	—	(211,497)	—	**190,461**
Financial assets at fair value through profit or loss	1,741,117	—	196,444	(36,228)	—	(353,492)	—	**1,547,841**
Trade and other receivables	107,302	10,995	4,449	(30,000)	—	(1)	—	**92,745**
Deferred tax assets	8,371	4,348	15,242	—	2,031	—	—	**29,992**
Total non-current assets	**2,809,951**	**191,568**	**344,848**	**(66,228)**	**257,899**	**(564,990)**	**—**	**2,973,048**
Current assets								
Trade and other receivables	63,609	99,035	43,846	(19,899)	—	—	—	**186,591**
Cash and cash equivalents	110,038	246,726	92,930	—	—	(4,760)	184,439	**629,373**
Total current assets	**173,647**	**345,761**	**136,776**	**(19,899)**	**—**	**(4,760)**	**184,439**	**815,964**
Total assets	**2,983,598**	**537,329**	**481,624**	**(86,127)**	**257,899**	**(569,750)**	**184,439**	**3,789,012**
Liabilities								
Non-current liabilities								
Borrowings	1,432,402	169,187	293,103	(30,000)	(179,731)	(139,187)	—	**1,545,774**
Forward liability	592,020	—	—	—	(295,738)	—	—	**296,282**
Contingent consideration	—	—	141,000	—	(141,000)	—	—	**—**
Lease liabilities	13,953	54,403	5,242	—	191	—	—	**73,789**
Provisions	—	2,295	—	—	—	—	—	**2,295**
Carried interest provision	741,384	—	—	—	—	(565,489)	—	**175,895**
Trade and other payables	484	9,166	9,039	—	—	—	—	**18,689**
Deferred tax liabilities	21,949	672	346	—	61,605	—	—	**84,572**
Total non-current liabilities	**2,802,192**	**235,723**	**448,730**	**(30,000)**	**(554,673)**	**(704,676)**	**—**	**2,197,296**

Current liabilities								
Borrowings	46,634	—	—	—	—	(5,087)	—	**41,547**
Lease liabilities	2,763	14,008	1,505	—	—	—	—	**18,276**
Trade and other payables	94,754	149,505	61,031	(19,901)	—	(274)	(27,798)	**257,317**
Income tax payable	969	38,623	—	—	—	—	—	**39,592**
Total current liabilities	**145,120**	**202,136**	**62,536**	**(19,901)**	**—**	**(5,361)**	**(27,798)**	**356,732**
Total liabilities	**2,947,312**	**437,859**	**511,266**	**(49,901)**	**(554,673)**	**(710,037)**	**(27,798)**	**2,554,028**
Net assets (net liabilities)	**36,286**	**99,470**	**(29,642)**	**(36,226)**	**812,572**	**140,287**	**212,237**	**1,234,984**
Equity								
Stated capital	459,419	—	—	—	795,448	40,431	(979,560)	**315,738**
Other reserves	216,876	—	—	—	157,149	—	—	**374,025**
Endowment Funds	—	100	100	—	(200)	—	—	**—**
Net exchange differences reserve	23,710	(1,173)	2,540	2	(1,367)	(7,477)	—	**16,235**
Retained earnings (accumulated losses)	(1,174,046)	66,756	(106,647)	—	(75,415)	7,477	1,191,797	**(90,078)**
Equity attributable to equity holders of the Group	**(474,041)**	**65,683**	**(104,007)**	**2**	**875,615**	**40,431**	**212,237**	**615,920**
Non-controlling interests	510,327	33,787	74,365	(36,228)	(63,043)	99,856	—	**619,064**
Total equity	**36,286**	**99,470**	**(29,642)**	**(36,226)**	**812,572**	**140,287**	**212,237**	**1,234,984**

Source: CVC IPO Prospectus

Exhibit 23 – Forecast of CVC Financial Information

	2024E				2025E				2026E				2027E			
	Median	Average	Low	High	Median	Average	Low	High	Median	Average	Low	High	Median	Average	Low	High
Closing FPAUM (€bn)	**142,8**	**143,3**	**139,8**	**147,0**	**144,4**	**144,5**	**138,1**	**148,1**	**151,2**	**150,3**	**142,0**	**156,8**	**155,7**	**156,7**	**135,7**	**173,7**
Summary Income Statement (€m)																
Management fees	1 229	1 225	1 179	1 245	1 424	1 429	1 415	1 456	1 450	1 457	1 401	1 523	1 437	1 440	1 356	1 495
(+) Performance related earnings (PRE)	222	215	177	234	526	516	395	603	645	607	388	668	679	704	590	933
(+) Other operating income	3	4	3	6	4	4	3	8	4	5	3	8	4	5	3	9
Adjusted pro forma revenue	**1 450**	**1 441**	**1 359**	**1 476**	**1 960**	**1 948**	**1 824**	**2 021**	**2 098**	**2 070**	**1 916**	**2 134**	**2 164**	**2 150**	**1 949**	**2 377**
(-) Personnel expenses	(371)	(363)	(321)	(384)	(431)	(418)	(342)	(471)	(468)	(447)	(369)	(502)	(488)	(476)	(398)	(530)
(-) Other expenses	(150)	(148)	(120)	(192)	(171)	(170)	(126)	(247)	(181)	(182)	(132)	(267)	(188)	(202)	(159)	(289)
Adjusted pro forma EBITDA	**924**	**916**	**831**	**958**	**1 326**	**1 336**	**1 226**	**1 416**	**1 410**	**1 414**	**1 260**	**1 491**	**1 483**	**1 469**	**1 280**	**1 698**
(-) D&A	(35)	(34)	(33)	(36)	(35)	(35)	(34)	(39)	(35)	(36)	(34)	(41)	(35)	(37)	(35)	(43)
(-) Net finance charges	(34)	(35)	(40)	(28)	(40)	(36)	(40)	(25)	(40)	(35)	(40)	(12)	(39)	(32)	(40)	(1)
(-) Tax	(62)	(63)	(57)	(71)	(127)	(123)	(112)	(137)	(127)	(126)	(109)	(147)	(125)	(123)	(109)	(134)
Adjusted pro forma net profit	**803**	**788**	**699**	**821**	**1 149**	**1 148**	**1 040**	**1 211**	**1 262**	**1 227**	**1 037**	**1 287**	**1 285**	**1 277**	**1 096**	**1 490**
Non-controlling interests	(23)	(23)	(10)	(36)	(24)	(24)	(16)	(33)	(29)	(31)	(23)	(39)	(21)	(21)	(15)	(28)
Adjusted pro forma shareholders net pr	**772**	**765**	**667**	**798**	**1 125**	**1 124**	**1 024**	**1 186**	**1 234**	**1 196**	**998**	**1 249**	**1 263**	**1 256**	**1 075**	**1 468**
KPIs:																
Management fee earnings (MFE, €m)	709	705	651	751	826	817	767	840	816	801	698	866	761	759	687	808
Pro forma Management fees % adj. revenu	84%	85%	84%	87%	73%	73%	70%	78%	69%	71%	68%	79%	69%	67%	61%	70%
Pro forma MFE margin	58%	58%	55%	62%	58%	58%	56%	61%	56%	56%	54%	57%	53%	53%	51%	54%
Adj. pro forma EBITDA margin	64%	64%	61%	65%	69%	69%	67%	70%	69%	68%	65%	70%	68%	68%	66%	71%

Source: Analyst Consensus CVC

Exhibit 24 – Comparable companies and its risks on the 1st of April 2024

Name	Price	Market Cap	Dividend Yield	DI per share	Current Beta	Beta 2012
EQT	€29.19	€36.37B	1.11%	-	1.38	-
KKR	€93.14	€83.43B	0.45%	3.16	1.22	1.8
Carlyle	€43.20	€15.65B	2.71%	3.00	1.24	-
Blackstone	€122.04	€148.11B	1.85%	3.65	1.24	2.0
European REITs	-	-	-	-	0.45	-

Note: All betas are unlevered betas. The RF at 01/04/2024 is proxied by the 10Y German Bonds and is 2.3%[xliv]. The MRP is estimated is 5.5% based on several different sources

Source: Bloomberg, Damodaran, Investing.com and Beta 2012 were taken from ValueLine and Google Finance

Teaching Note Exhibit 1 – Multiples Valuation

		Management Fees Multiples Valuation	
		25x	30x
Analysts Prediction 2024	(in M)		
Management Fees	1 235 €		
Personnel expenses	(357)€		
Other expenses	(164)€		
Management Fees Gains	714 €	**17 848 €**	**21 417 €**

		Performance Fees Multiple Valuation	
		5x	10x
Analysts Prediction 2024	(in M)		
Performance related earnings	215 €		
Other operating income	4 €		
Performance Fees Total Gains	219 €	**366 €**	**731 €**

Total Valuation	**(in M)**	**18 213 €**	**22 148 €**
Shares outstanding		1 000 000 000	1 000 000 000
Share Price		**18 €**	**22 €**

Teaching Note Exhibit 2 – DCF method

Management Fees CF	**(in M)**	**2024**	**2025**	**2026**	**2027**	**Terminal Value**
Management Fees		1 235€	1 431€	1 454€	1 438€	
Personnel Expenses		(357)€	(407)€	(435)€	(471)€	
Other Expenses		(164)€	(188)€	(201)€	(220)€	
EBITDA		714€	836€	819€	747€	
D&A		(34)€	(35)€	(36)€	(37)€	
EBIT		680€	800€	783€	710€	
Tax (9%)		61€	72€	70€	64€	
NOPLAT		619€	728€	713€	646€	
D&A		34€	35€	36€	37€	
DNWC		-	-	-	-	
FCF		653€	763€	748€	683€	24 885€
PV FCF		623€	696€	651€	567€	20 652€
Shareholders CFs MF		**23 188€**				

Performance Fees CF	**(in M)**	**2024**	**2025**	**2026**	**2027**	**Terminal Value**
Performance Related Earnings		215 €	518 €	604 €	703 €	
Other operating income		4 €	5 €	5 €	6 €	
EBITDA = EBIT		219 €	523 €	609 €	709 €	
Tax (9%)		20 €	47 €	55 €	64 €	
NOPLAT = FCF		200 €	476 €	554 €	645 €	5 309 €
PV FCF		174 €	364 €	370 €	377 €	3 100 €
Shareholders CFs PF		**1 462 €**				

Note: Beta unlevered 2,2

Performance Fees CF	**(in M)**	**2024**	**2025**	**2026**	**2027**	**Terminal Value**
Performance Related Earnings		215 €	518 €	604 €	703 €	
Other operating income		4 €	5 €	5 €	6 €	
EBITDA = EBIT		219 €	523 €	609 €	709 €	
Tax (9%)		20 €	47 €	55 €	64 €	
NOPLAT = FCF		200 €	476 €	554 €	645 €	4 685 €
PV FCF		172 €	354 €	355 €	356 €	2 583 €
Shareholders CFs PF		**1 273 €**				

Note: Beta unlevered 2,5

Total EV	(in M)	24 650 €	24 461 €
Equity Value		**23 692 €**	**23 503 €**
Shares outstanding		1 000 000 000	1 000 000 000
Share Price		**24 €**	**24 €**

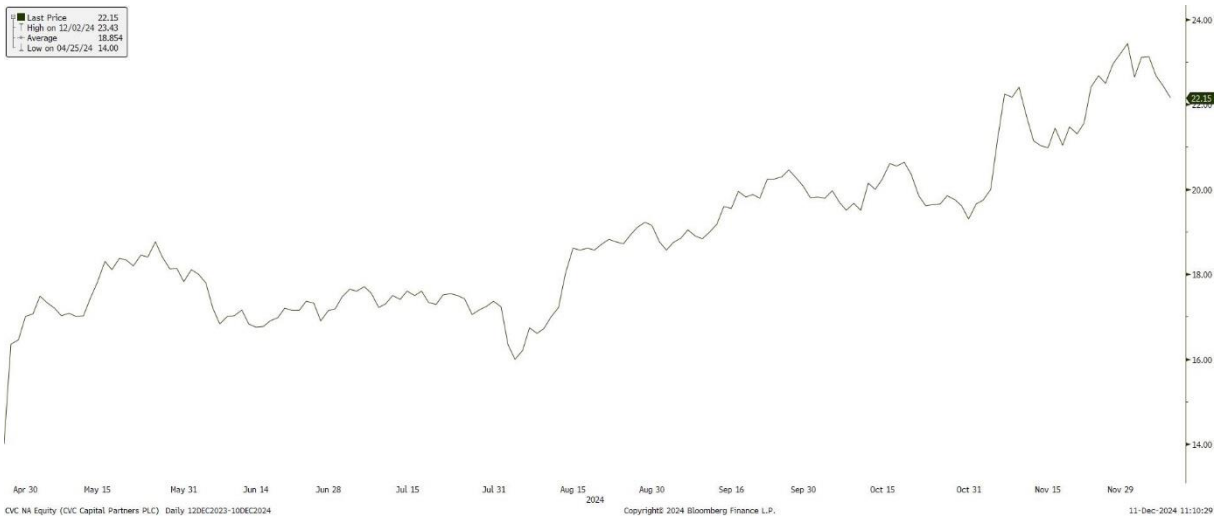
Note: First share price with smaller Beta and second share price with higher Beta on PFs

Teaching Note Exhibit 3 – Cost of capital calculations

INPUTS			
Unlevered Beta PF	1,9	2,2	2,5
Unlevered Beta MF	0,45		
10Y German Bond on 01/04/2024	2,30%		
European Market Risk Premium	5,5%		
Debt	1 587 321		
Cash	629 373		
Net Debt	957 948		

Under the CAPM		
Ru MF	**4,77%**	
Ru PF	**14,40%**	**16,05%**

Teaching Note Exhibit 4 – CVC's stock performance



Source: Bloomberg

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