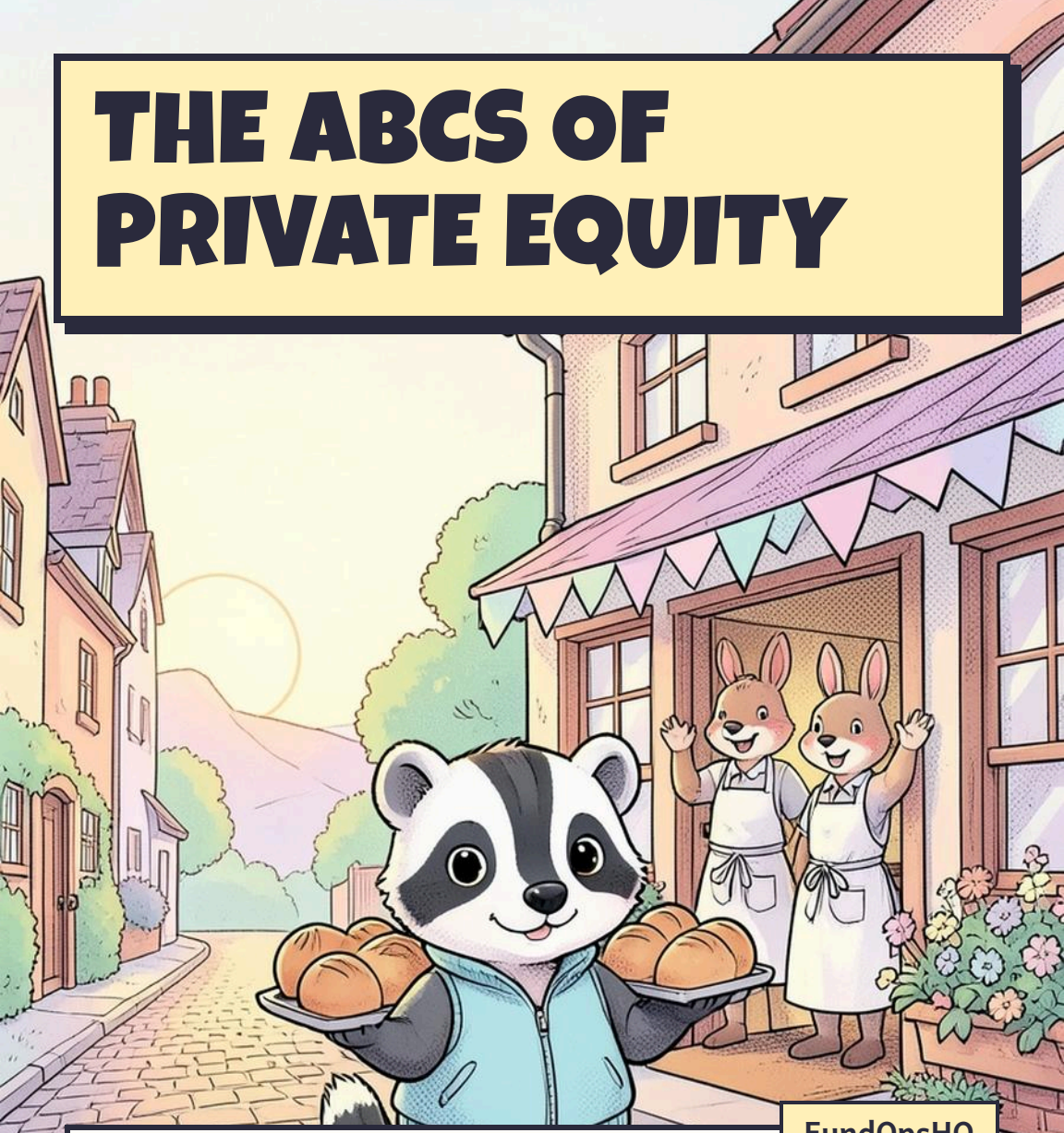
THE ABCS OF PRIVATE EQUITY



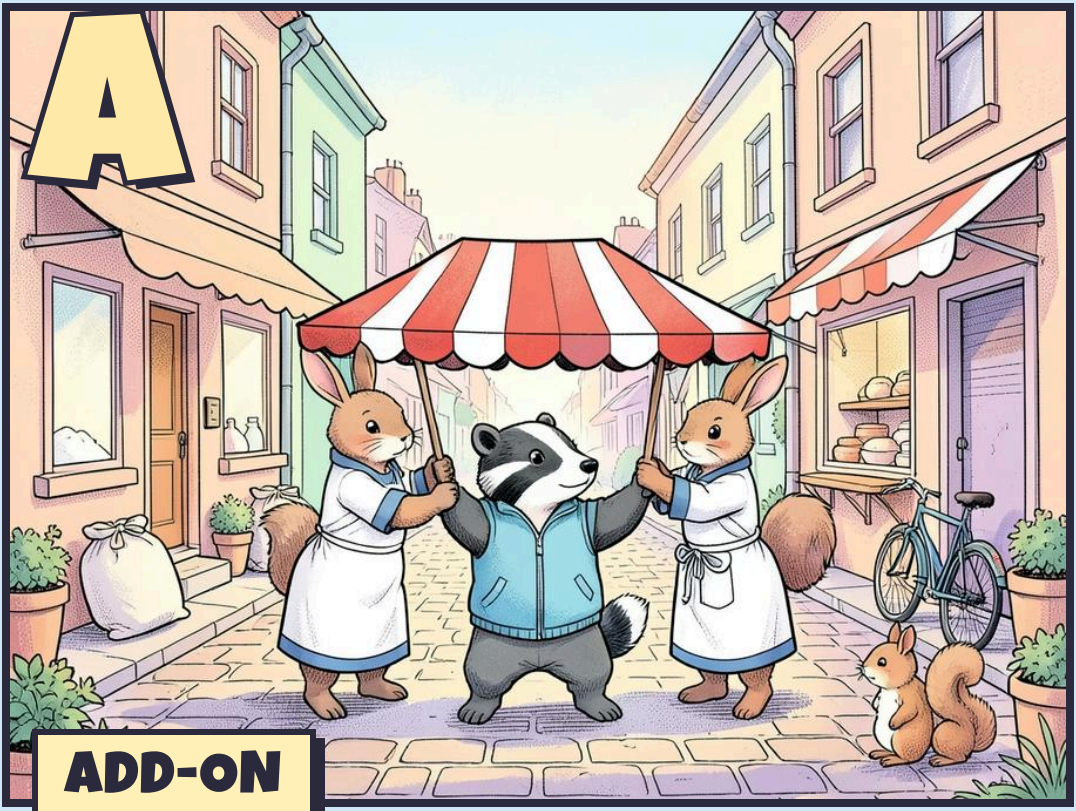
FundOpsHQ

Brock the badger helps small companies grow

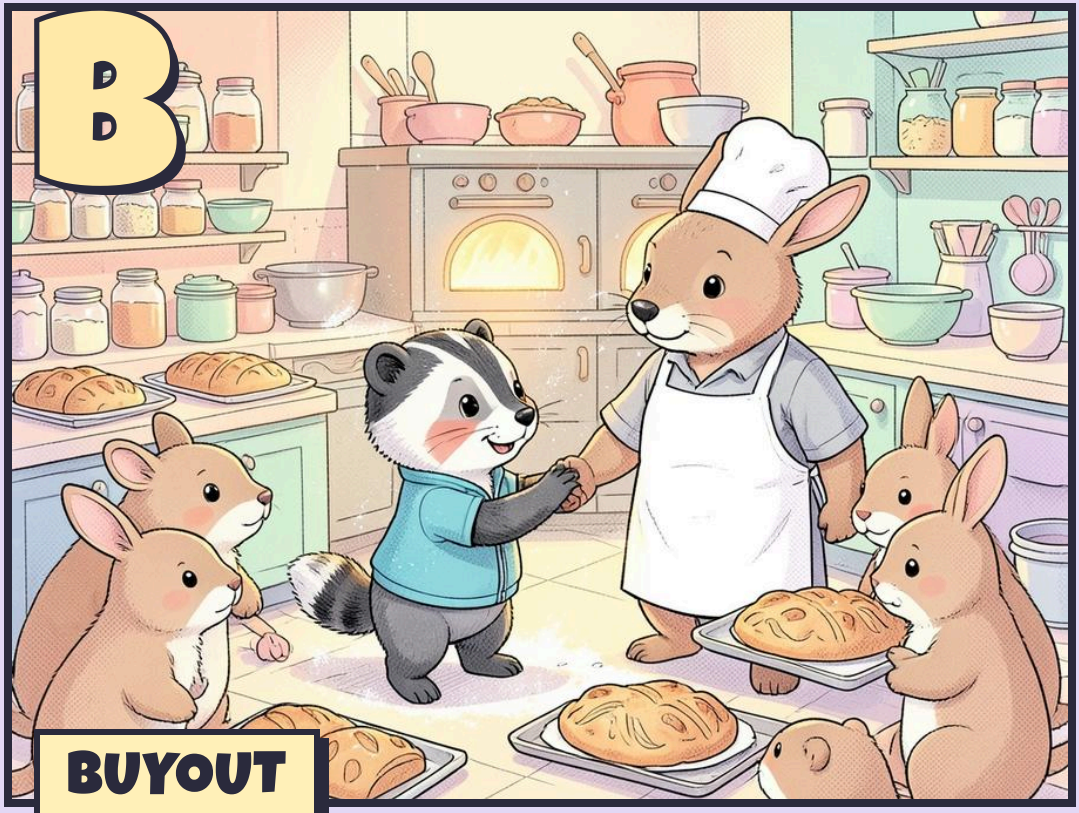


This book belongs to

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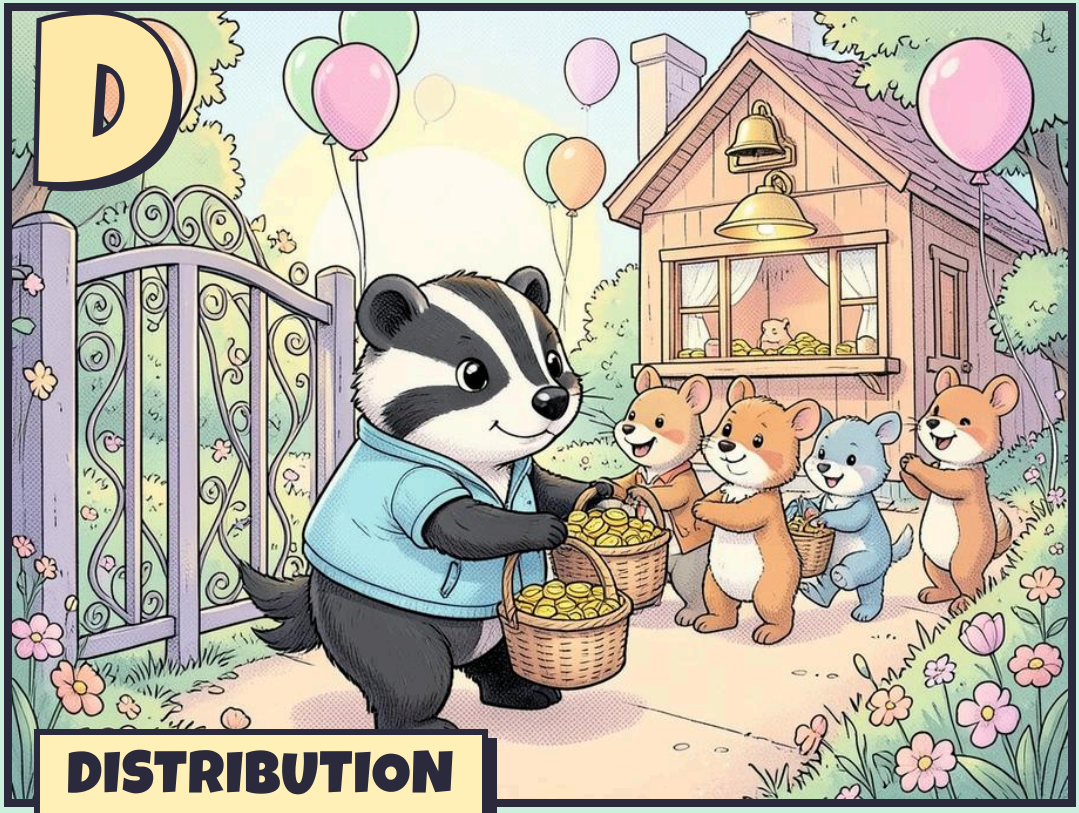
When a company buys a smaller one so they can grow together, the smaller one is called an add-on. Two bakeries can bake more than one.



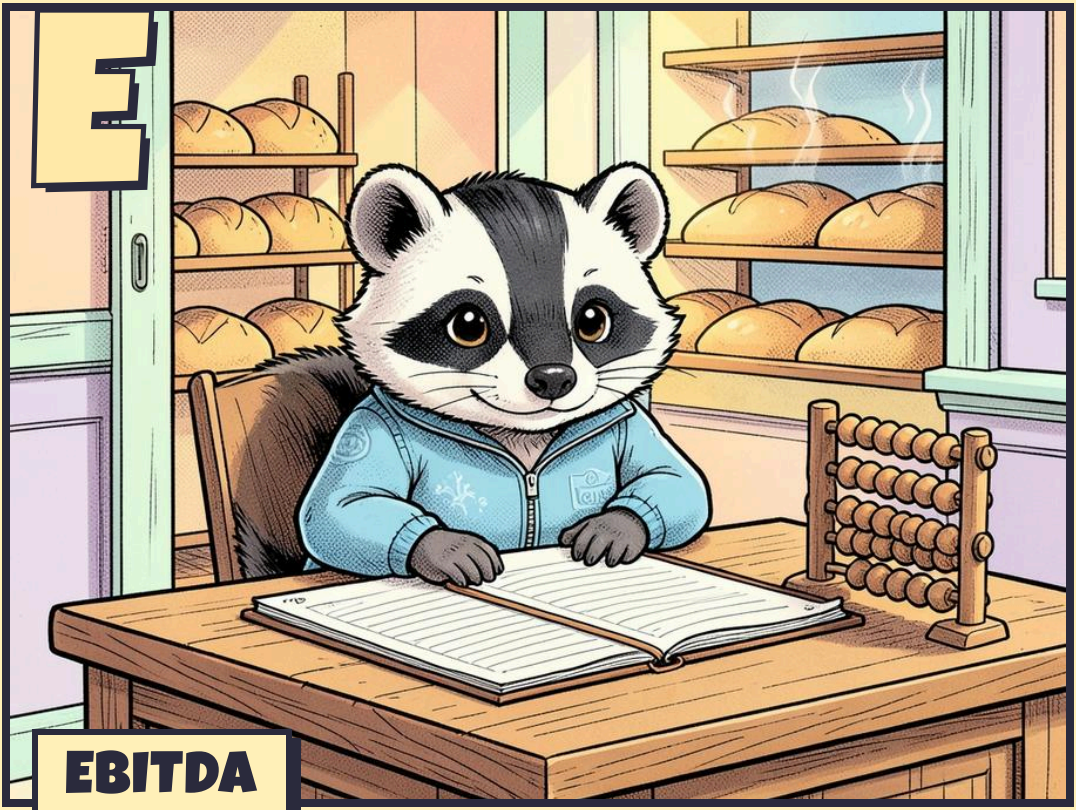
A buyout is when a fund buys a whole company. Brock's fund bought a family bakery, so it could open more shops.



When a fund does well, its manager earns a share of the profit, often one fifth. That share is called carried interest.



When a fund sells a company, it sends money back to its investors. That is a distribution, and it is a very good day.



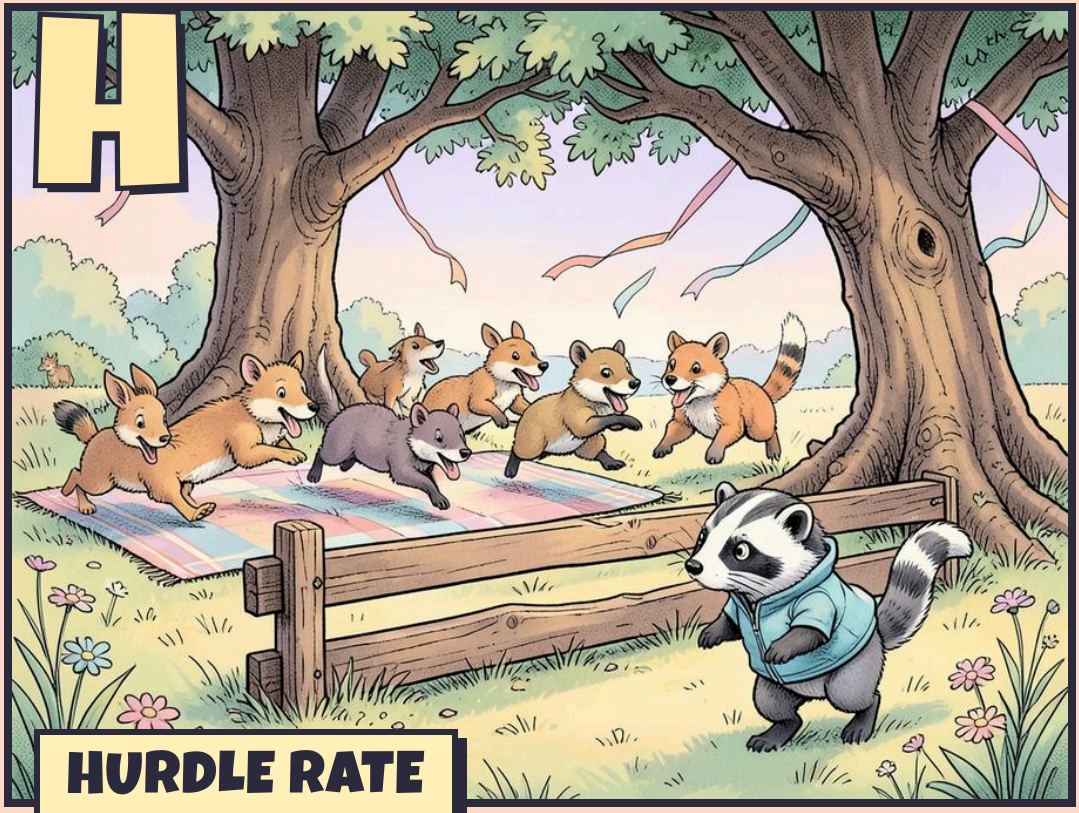
EBITDA is one way to measure what a company earns from its everyday work, before costs like interest and taxes.



A fund is a big pot of money from many investors, looked after together. Everyone shares in what it buys.



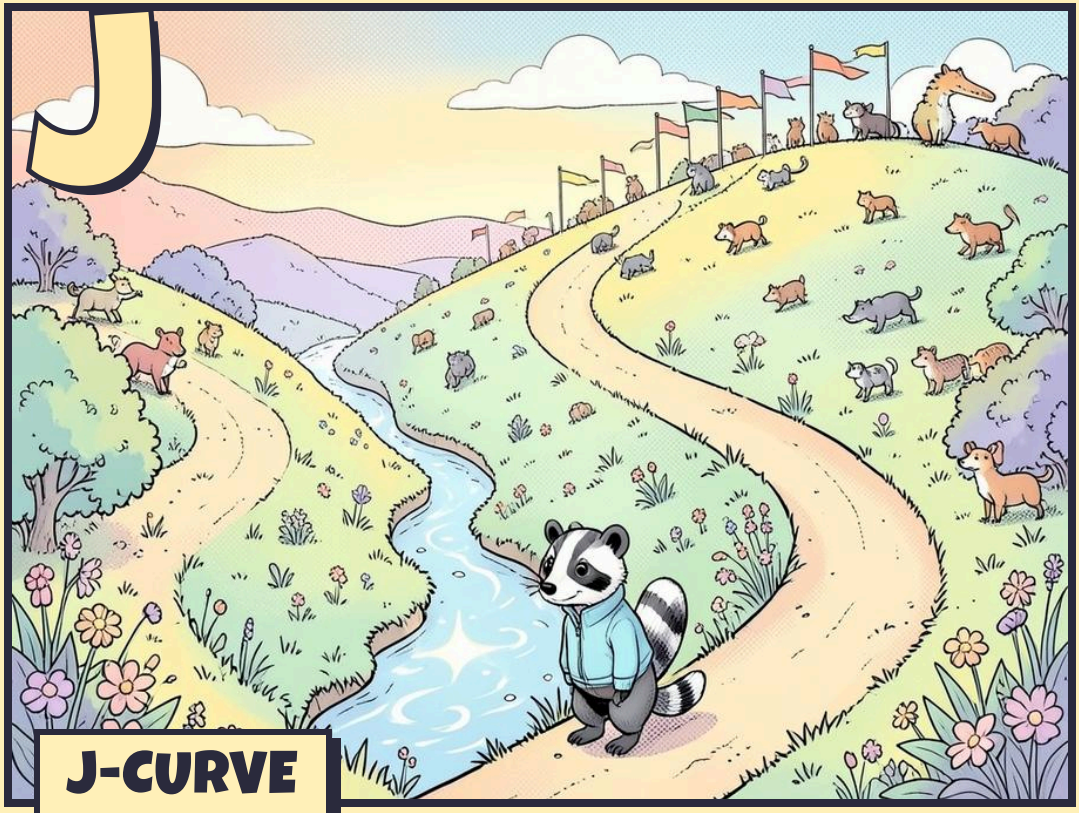
The general partner runs the fund. It chooses the companies and looks after them. In this book, that is Brock.



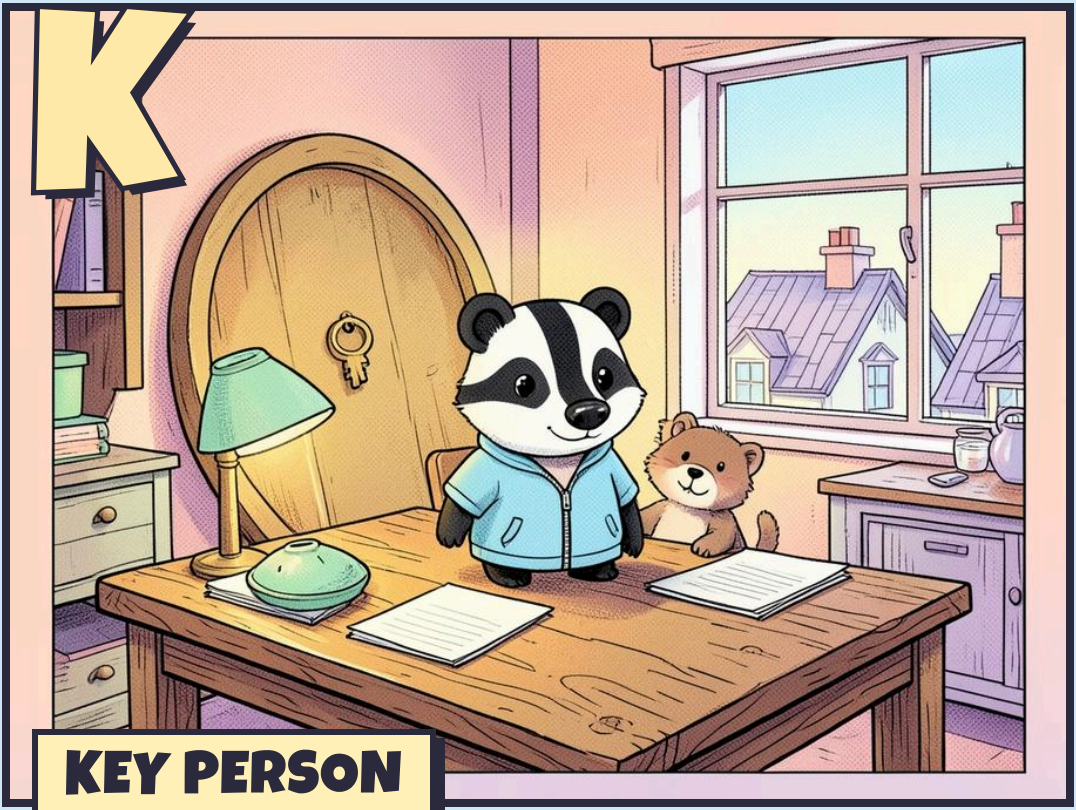
Investors earn a set return first, often 8% a year. That is the hurdle. Only after that does the manager share in the profit.



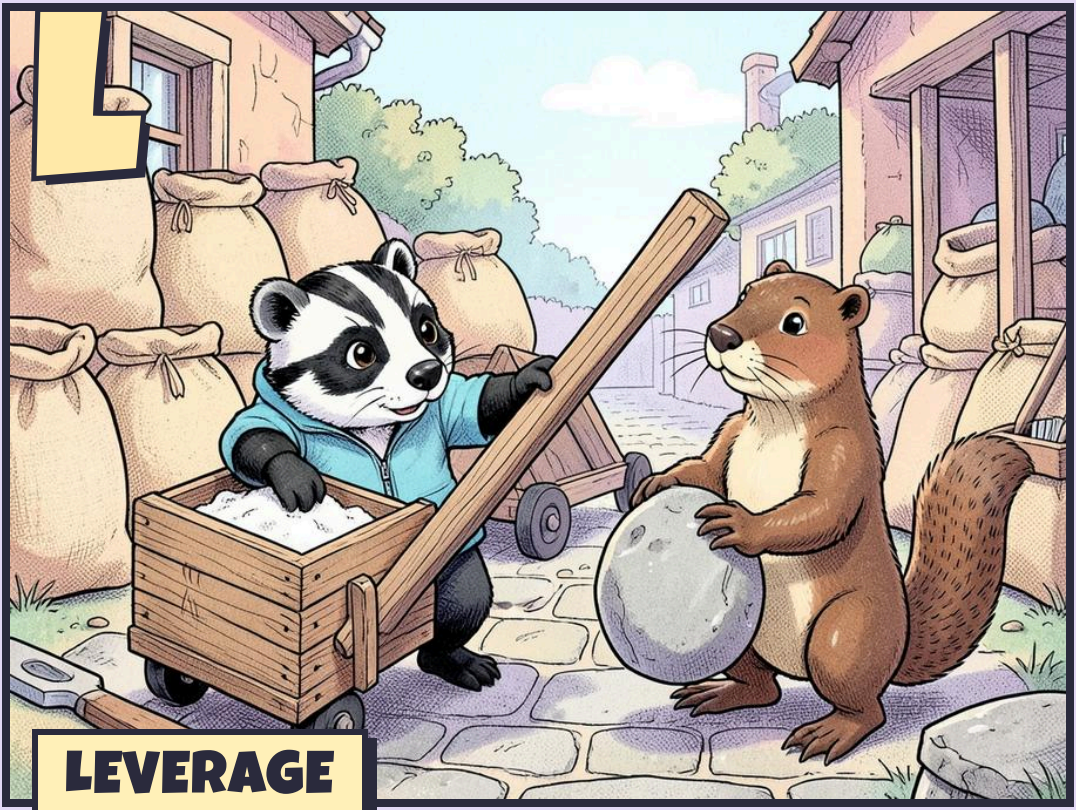
Investors put money into the fund. Many are pension plans, saving for the years when teachers and nurses retire.



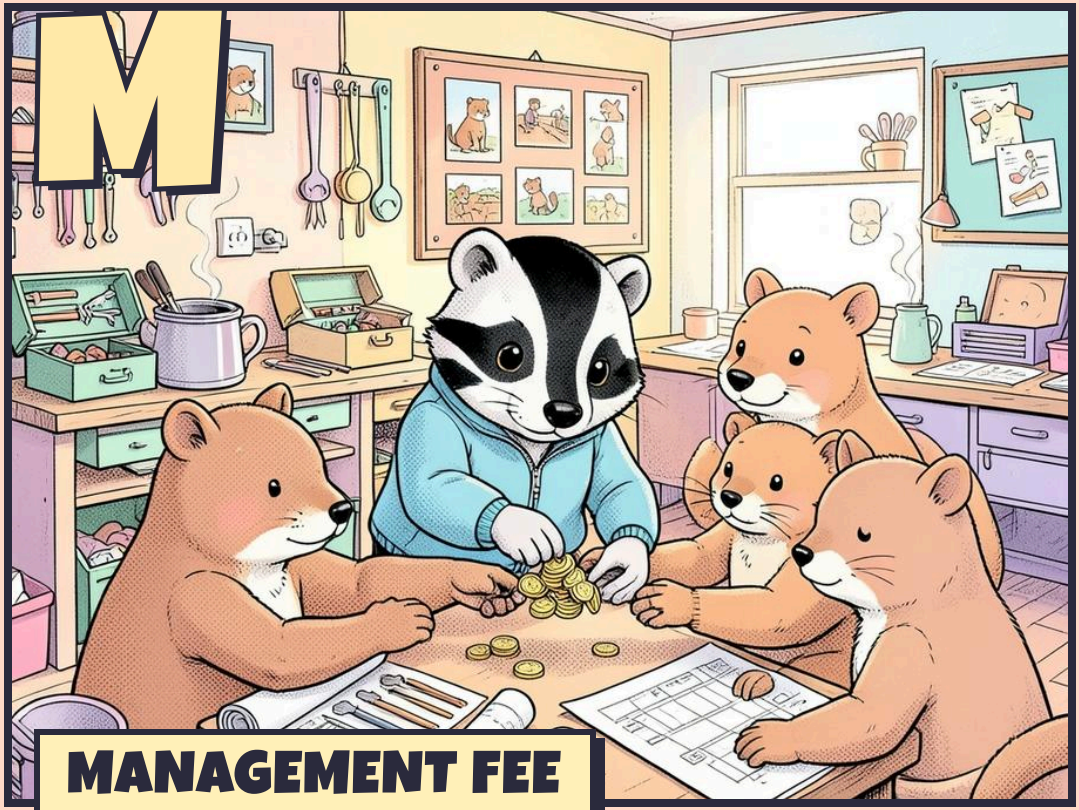
At first, a fund spends on fees and
new companies, so its value dips.
Later, as they grow, it climbs.
Drawn on paper, it looks like a J.



Some people matter so much to a fund that the agreement names them. They are key people, and investors want them to stay.



Leverage means using borrowed money as well as your own. It can help you buy something bigger, and it always has to be paid back.

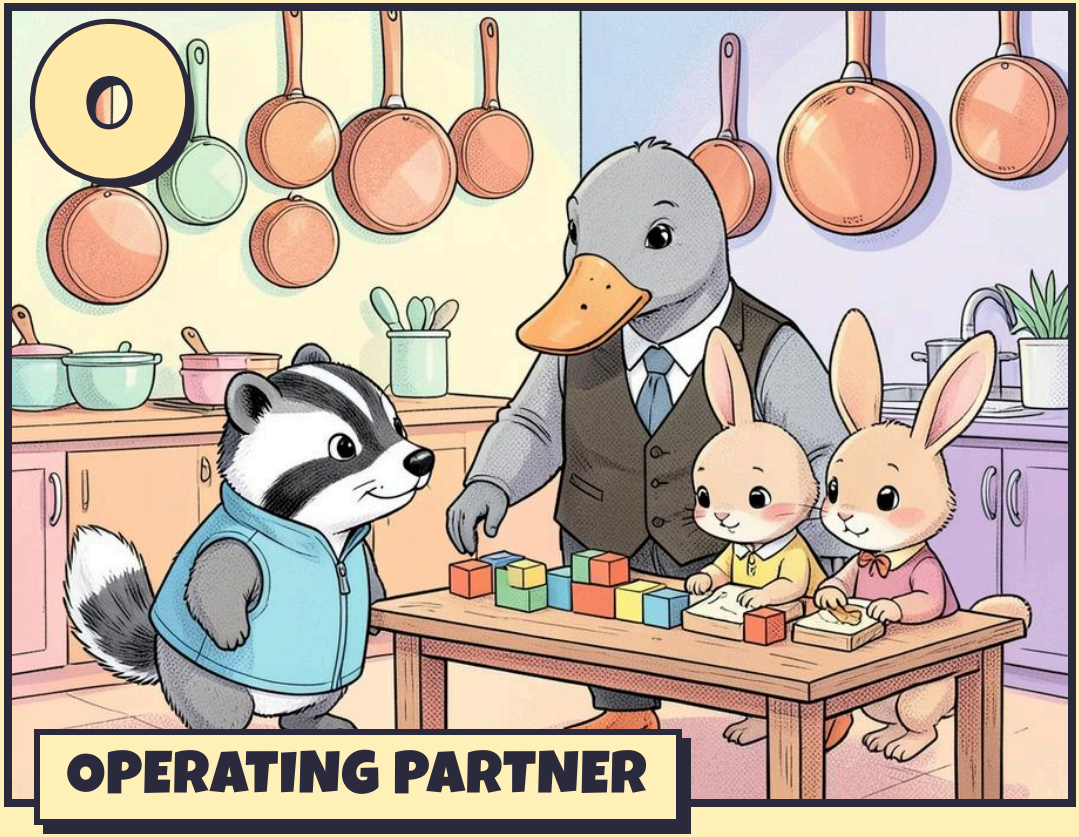


MANAGEMENT FEE

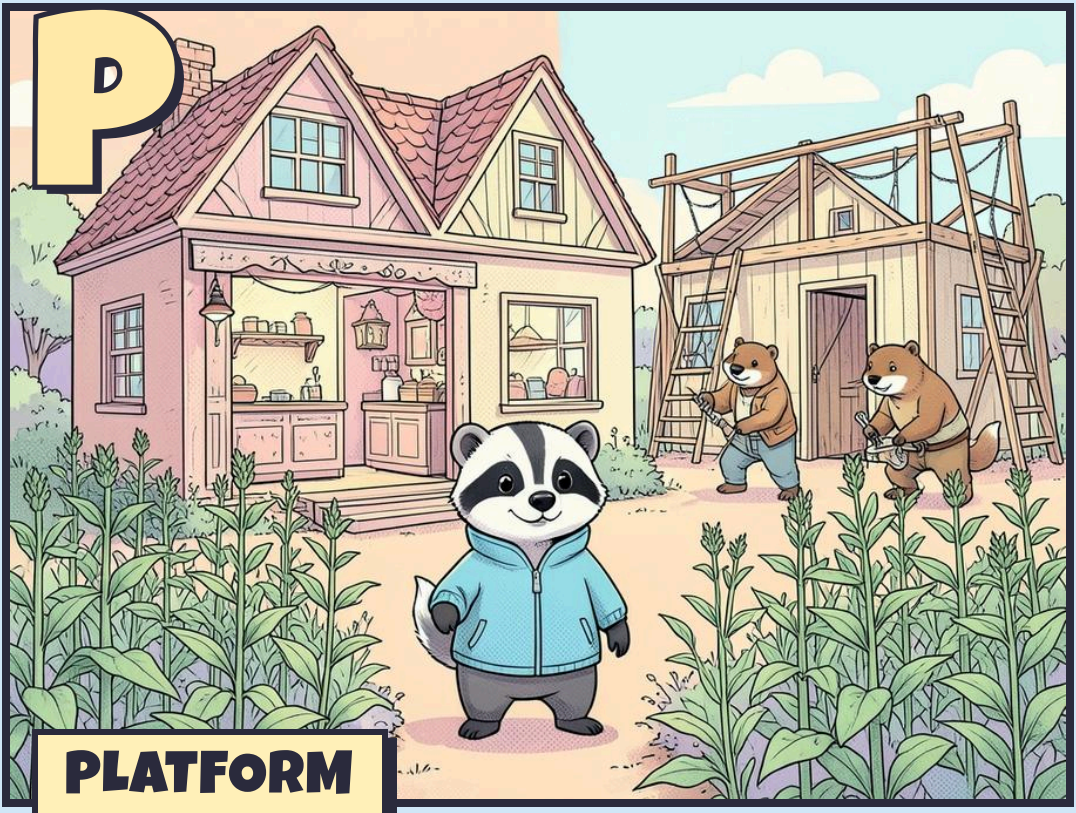
Each year, a fund pays its manager a fee for doing the work, often about 2%. It pays for the team who look after the companies.



Take what a fund owns and subtract what it owes. That is net asset value, one way to see how a fund is doing.



An operating partner has run companies before. They help with hiring, planning and all the things that are hard the first time.



The first company a fund buys in a field is called the platform. Others can join it later, like rooms added to a house.



QUALITY OF EARNINGS

Before buying, careful people check that a company really earns what it says. That check is called quality of earnings.



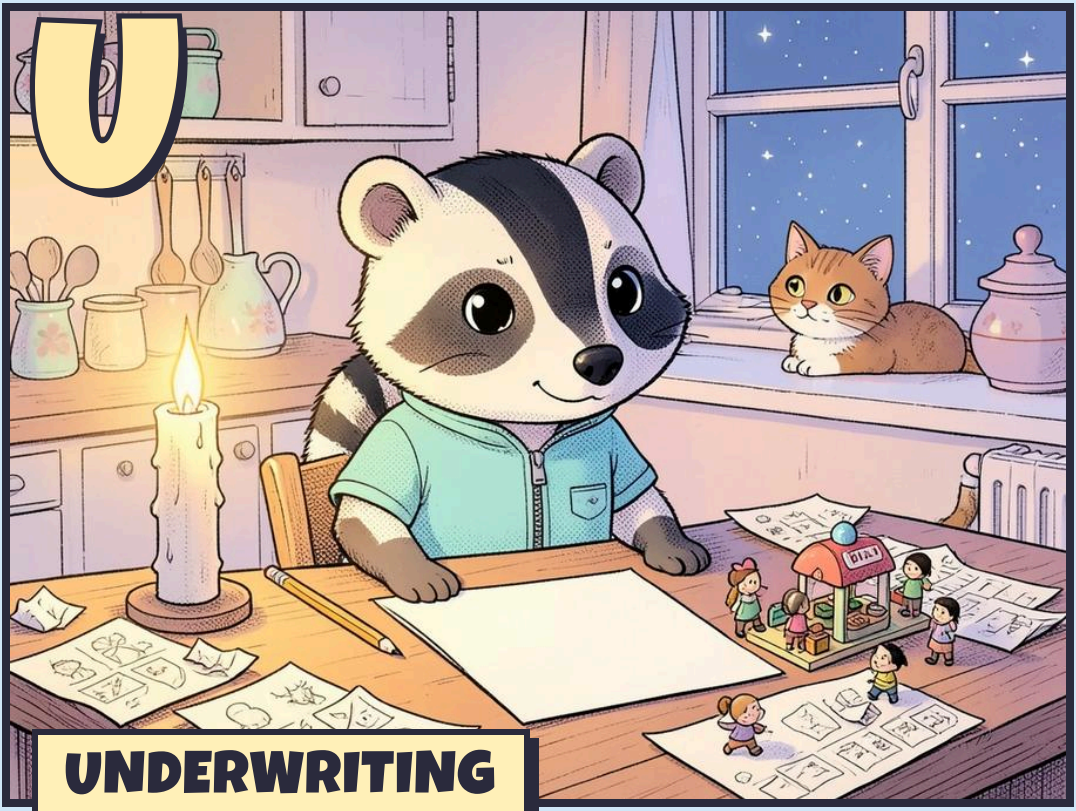
When investors are glad they joined one fund and join the next one too, that is a re-up.



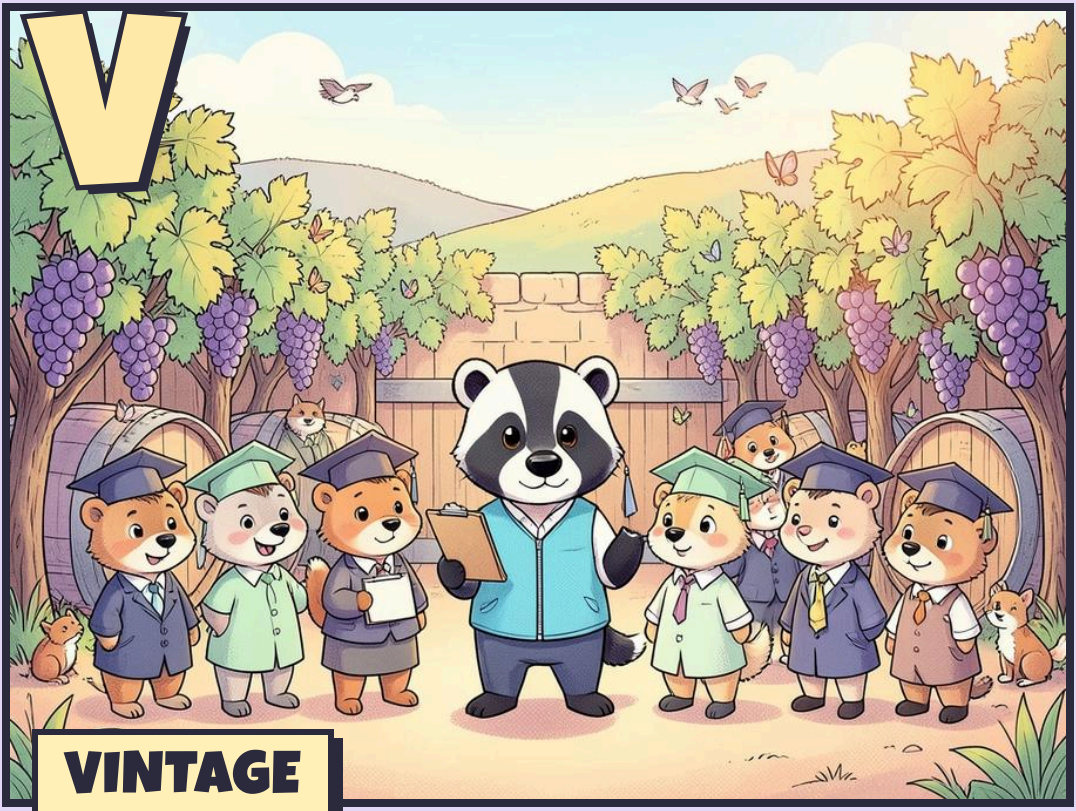
Sometimes one fund sells a company to another fund, which helps with the next chapter. That is a secondary buyout.



A fund can buy a company whose shares trade on a stock market and make it private. That is called a take-private.



Before buying, Brock writes down what he hopes will happen and what could go wrong. That careful thinking is underwriting.



A fund's vintage is the year it began. Funds that began in the same year are compared with each other, like classmates.



The waterfall is the order money is paid out. Like water filling one pool and then the next, investors come first.



An exit is when a fund sells a company. Brock's bakery now has twelve shops, and it is ready for its next owner.



Most funds last about ten years. Growing something good takes patience.



When the day's work is done, even a busy badger needs to rest. Tomorrow there is more to build.



A NOTE FOR GROWN-UPS

The words in this book are real ones, explained simply. The animals and examples are made up, and real terms vary from fund to fund. It is here to help you read and talk together, and it is not advice. The pictures were drawn with an AI image model and checked by hand.

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