

Question #1 of 54

The relevant measure of cash flows for the limited partners (LPs), and the LPs' realized return from investment in the private equity fund, respectively, is:

	<u>Return metric</u>	<u>LPs' realized return</u>
A)	Paid-in capital	Net IRR
B)	Gross IRR	Residual value to paid in
C)	Net IRR	Distributed to paid-in capital

Question #2 of 54

Which of the following pairs *correctly* identifies the fees paid to agents for raising funds for the private equity firm, and the fees paid to the general partner (GP) for investment banking services, respectively?

	<u>Fees to agents</u>	<u>Fees to GP</u>
A)	Placement fees	Transaction fees
B)	Administrative costs	Placement fees
C)	Transaction fees	Administrative costs

Question #3 of 54

Norah Cyly is the recently appointed manager of a private equity fund that invests exclusively in venture capital investments in online fashion and media advertising companies. In a discussion with the fund's assistant portfolio manager, Cyly makes the following statements on control mechanisms and exit routes:

Earn-outs are mainly used in venture capital investments. They
Statement 1: relate the acquisition price paid by the limited partners to the future performance of the portfolio companies.

It is generally difficult to value venture capital investments using the
Statement 2: portfolio companies' cash flows or EBIT or EBITDA growth, since both cash flows and earnings are difficult to predict with certainty.

With respect to her statements, Cyly is:

- A) correct on both statements.
- B) correct on Statement 2 only.
- C) correct on Statement 1 only.

Question #4 of 54

Analysts Jordan Green and Noelle Lafonte are discussing terminal value estimation in venture capital and buyout investments.

Lafonte states: "Private equity firms often use scenario analysis in both venture capital and buyout investments to estimate terminal value."

Green adds: "Private equity firms only use the multiple of net income approach in leveraged buyout (LBO), but not in venture capital investments to estimate terminal value."

With respect to their statements:

- A) Neither Lafonte nor Green is incorrect.
- B) Green is correct but Lafonte is incorrect.
- C) Lafonte is correct but Green is incorrect.

Question #5 of 54

A private equity firm is guaranteed to receive 80% of the residual value of a leveraged buyout investment, with the remaining 20% owing to management. The initial investment is \$500 million, and the deal is financed with 70% debt and 30% equity. The projected multiple is 2.0. The equity component consists of:

- \$120 million preference shares.
- \$25 million private equity firm equity.
- \$5 million management equity.

At exit in 5 years the value of debt is \$150 million and the value of preference shares is \$300 million. The payoff multiple for the private equity firm and for management, respectively, is *closest* to:

Private equity ; Management

- | | |
|---------|------|
| A) 3.03 | 11.0 |
| B) 6.34 | 46.0 |
| C) 5.10 | 22.0 |
-

Question #6 of 54

The Dragonhill Group manages a \$250 million private equity fund. Investors committed to a total of \$300 million over the term of the fund and specified carried interest of 20% and a hurdle rate of 10%. Carried interest is distributed on a deal-by-deal basis. 60% of the \$250 million has been invested at the beginning of year 1 in Deutsch Co. (Deutsch), with the remaining 40% invested in Reiner Ltd (Reiner).

Both firms are sold at the end of the third year, realizing a \$45 million profit for Deutsch and a \$35 million profit for Reiner.

The carried interest paid to the fund's general partner after Deutsch and Reiner, respectively, is:

- | | <u>Deutsch</u> | <u>Reiner</u> |
|----------------|----------------|---------------|
| A) \$0 | \$7 million | |
| B) \$9 million | \$7 million | |
| C) \$9 million | \$0 | |
-

Question #7 of 54

The *least likely* factor affecting venture capital firm valuation is the:

- A) private equity firm's initial investment.
- B) probability of failure.
- C) bargaining power of the venture capital and private equity firms.

Question #8 of 54

A private equity investor makes a \$5 million investment in a venture capital firm today. The investor expects to sell the firm in four years. He believes there are three equally possible scenarios at termination:

1. expected earnings will be \$20 million, and the expected P/E will be 10.
2. expected earnings will be \$7 million, and the expected P/E will be 6.
3. expected earnings will be zero if the firm fails.

The investor believes an IRR of 25% is appropriate. The expected terminal value and the investor's pre-money valuation, respectively, are *closest* to (in \$ million):

	<u>Expected terminal value</u>	<u>Pre-money valuation</u>
A) \$80.67	\$28.04	
B) \$9.00	\$3.69	
C) \$80.67	33.04	

Question #9 of 54

The private equity firm Purcell & Hyams (P&H) is considering a \$17 million investment in Eizak Biotech, of which \$10 million is invested today and \$7 million in four years. Eizak's owners firmly believe that with P&H's investment they could develop their "wonder" drug and sell the firm in six years for \$120 million. Given the project's risk, P&H believes a discount rate of 50% is appropriate for the first four years, and 30% for the last two years. The fractional ownership for P&H at the time of the initial investment would be *closest* to:

- A) 0.27.

B) 0.79.

C) 0.71.

Question #10 of 54

Which of the following statements is the *least appropriate*?

- A) Debt amortization in a leveraged buyout investment increases risk to the investor as it is a burden on the firm's cash flow.
 - B) Leverage in a leveraged buyout investment can be advantageous as debt amortization can magnify investor returns.
 - C) Leverage in a leveraged buyout investment can be disadvantageous as debt increases risk to the investor if the firm cannot meet its interest obligation.
-

Question #11 of 54

An investor in a private equity fund realizes that the residual value to paid-in capital (RVPI) is fairly large relative to the distributed to paid-in capital (DPI). The *most* appropriate conclusion drawn by the investor would be that:

- A) the fund successfully earned profits from its investments.
 - B) there were significant cash flows from the fund to the investor.
 - C) it will take longer for the investor to realize a return from the fund.
-

Question #12 of 54

A private equity firm makes a \$10 million investment in a portfolio company. The founders of a portfolio company currently hold 300,000 shares and the pre-money valuation is \$6 million. The number of shares to be held by the private equity firm, and the appropriate share price, respectively, are *closest* to:

<u>Number of shares</u>	<u>Share price</u>
-----------------------------	--------------------

- A) 500,000 \$20.00

- B) 480,000 \$20.83
 - C) 500,000 \$32.00
-

Question #13 of 54

The founders of a small technology firm are seeking a \$3 million venture capital investment from prospective investors. The founders project that their firm could be sold for \$25 million in 4 years. The private equity investors deem a discount rate of 25% to be appropriate, but believe there is a 20% chance of failure in any year.

The adjusted pre-money valuation (PRE) of the technology firm is *closest* to (in millions):

- A) \$7.24.
 - B) \$1.19.
 - C) \$4.19.
-

Question #14 of 54

Which of the following statements *most accurately* describes the components of returns on a leveraged buyout (LBO) investment:

- A) The return on common shares, the increase in the price multiple on exit, and the equity held by management.
 - B) The interest earned on debt financing, the return on common shares and the return on preference shares.
 - C) The return on preference shares, the increase in the price multiple on exit, and the reduction in debt claims.
-

Question #15 of 54

A private equity investor calculates a discount rate of 40% for valuing a company. The investor, however, believes that there is a 20% chance that the company will fail in any one year. The *most appropriate* adjusted discount rate the investor should use is:

- A) 75.0%.

B) 48.0%.

C) 50.0%.

Question #16 of 54

The Nishan private equity fund was established five years ago and currently has a paid-in capital of \$300 million and total committed capital of \$500 million. The fund paid its first distribution three years ago of \$50 million, \$100 million the year after and \$200 million last year. The fund's distributed to paid-in capital (DPI) multiple is *closest* to:

A) 0.70.

B) 1.17.

C) 0.67.

Question #17 of 54

Which of the following terms correctly describes the risk to a private equity firm in long-term interest and exchange rates, and the provision that specifies the method of profit distribution between the limited partners (LPs) and general partner (GP), respectively?

<u>Risk in long-</u> <u>term rates</u>	<u>Profit</u> <u>distribution</u>
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A) Market risk Distribution waterfall

B) Market risk Carried interest

C) Capital risk Carried interest

Question #18 of 54

An analyst is considering the performance of two private equity funds, Delta and Kappa.

Performance of private equity fund Delta and Kappa		
	Delta	Kappa
DPI	2.0	0.0
RVPI	0.0	2.0
TVPI	2.0	2.0

The *most appropriate* conclusion an analyst can draw from the table is that:

- A) Kappa may be a younger fund than Delta.
- B) Kappa has distributed \$2.0 for every dollar invested.
- C) Delta has yet to turn a profit.

Question #19 of 54

The *most relevant* market risk to a private equity investor is:

- A) short-term macro changes only.
- B) both short-term and long-term macro changes.
- C) long-term macro changes only.

Question #20 of 54

The Milat Private Equity Fund (Milat) makes a \$35 million investment in a promising venture capital firm. Milat expects the venture capital firm could be sold in four years for \$150 million and determines that the appropriate IRR rate is 40%. The founders of the venture capital firm currently hold 1 million shares. Milat's fractional ownership in the firm and the appropriate share price, respectively, is *closest* to:

- | | <u>Fractional ownership</u> | <u>Share price</u> |
|----|-----------------------------|--------------------|
| A) | 23.33% | \$115.00 |
| B) | 89.64% | \$3.63 |
| C) | 89.64% | \$4.05 |

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The party in a private equity fund that has unlimited liability for the firm's debts, and this party's share in fund profits, respectively, is referred to as:

	<u>Unlimited liability</u>	<u>Share in fund profits</u>
A) General partner	Carried interest	
B) Manager	Management fees	
C) Limited partner	Distribution waterfall	

Question #22 of 54

A private equity fund pays a management fee of 3% of PIC and carried interest of 20% to the general partner using the total return method based on committed capital. In 2008 the fund has drawn down 80% of its committed capital of \$250 million, and has a net asset value (NAV) before distributions of \$260 million. The 2008 management fee and carried interest paid, respectively, is (in millions):

	<u>Management fee</u>	<u>Carried interest</u>
A) 6.0	2.0	
B) 7.8	2.0	
C) 7.5	50.0	

Question #23 of 54

An implicit cost in private equity of additional financing or issuing stock options to management is called:

- A) capital cost.

- B) management and performance cost.
 - C) dilution cost.
-

Question #24 of 54

Which of the following lists *correctly* identifies exit routes in private equity, arranged from lowest to the highest exit values?

- A) Initial public offering (IPO), management buyout, secondary market sale.
 - B) Liquidation, secondary market sale, IPO.
 - C) Management buyout, liquidation, IPO.
-

Question #25 of 54

Contrary to most public companies, the magnitude that debt is typically utilized in private equity (PE) firms and the way this debt is quoted, respectively, is:

- | | <u>Debt is
utilized</u> | <u>Debt is
quoted</u> |
|----|-----------------------------|----------------------------|
| A) | less heavily | as a multiple
of sales |
| B) | more heavily | as a multiple
of EBITDA |
| C) | more heavily | as a multiple
of equity |
-

Question #26 of 54

A private equity investor expects to realize a return on her venture capital investment in two years and expects to sell the firm for \$30 million. She estimates that a discount rate of 30% is reasonable but expects that there is a 20% probability of failure in any given year. The post-money value of her investment today, adjusted for failure, is *closest* to:

- A) \$11.36 million.

- B)** \$11.20 million.
- C)** \$14.20 million.
-

Question #27 of 54

The primary advantage of an initial public offering (IPO) as an exit route in private equity is that it:

- A)** offers the highest exit value potential.
- B)** is appropriate for firms regardless of firm size and operating history.
- C)** is more cost-efficient and flexible than alternative exit routes.
-

Question #28 of 54

The private equity firm Purcell & Hyams (P&H) is considering a \$17 million investment in Eizak Biotech. Eizak's owners firmly believe that with P&H's investment they could develop their "wonder" drug and sell the firm in six years for \$120 million. Given the project's risk, P&H believes a discount rate of 30% is reasonable.

The pre-money valuation (PRE) and P&H's fractional ownership, respectively, are *closest* to (in millions):

	<u>PRE</u>	<u>Fractional ownership</u>
A)	\$24.86	0.68
B)	\$7.86	0.68
C)	\$7.86	0.14

Question #29 of 54

A private equity firm makes an investment in a portfolio company and calculates that the firm should hold 1,000,000 shares at a price of \$15.00 per share using the IRR approach. The founders of a portfolio company currently hold 300,000 shares. The appropriate post-money (POST) valuation is:

- A)** \$13 million.

- B) \$15 million.
- C) \$19.5 million.
-

Question #30 of 54

The pair of terms that *correctly* identifies the method of profit distribution between limited partners (LPs) and general partners (GPs), and the allocation of equity between shareholders and management of a portfolio company, respectively, is:

- | | <u>Method of
profit
distribution</u> | <u>Equity
allocation</u> |
|----|--|------------------------------|
| A) | Carried interest | Distribution waterfall |
| B) | Ratchet | Carried interest |
| C) | Distribution waterfall | Ratchet |
-

Question #31 of 54

The Jefferson Group is a large private equity firm managing a multi-billion dollar portfolio. Which of the following is the *least likely* source of value-added the Jefferson Group would provide to its portfolio companies (as compared to a public firm)?

- A) Aligning the interests between private equity owners and limited partners.
- B) Reengineering the portfolio companies.
- C) Obtaining cheap credit.
-

Question #32 of 54

Private equity values have declined significantly over the last year. Which of the following risk factors is the *least likely* reason for the decline?

- A) Market risk.
 - B) Tax risk.
 - C) Investment-specific risk.
-

Question #33 of 54

The Austrian private equity firm RD primarily makes leveraged buyout investments as the firm's management strongly believes that debt makes companies more efficient. The *least likely* explanation of management's rationale is to:

- A) increase firm efficiency.
 - B) transfer risk.
 - C) reduce the interest tax shield.
-

Question #34 of 54

A private equity investor is considering making an investment in a venture capital firm. The investor values the firm at \$1.5 million following a \$300,000 capital investment by the investor. The venture capital firm's pre-money (PRE) valuation and the investor's proportional ownership, respectively, are:

- | | <u>PRE
valuation</u> | <u>Ownership
proportion</u> |
|----|--------------------------|---------------------------------|
| A) | \$1.5 million | 20% |
| B) | \$1.5 million | 25% |
| C) | \$1.2 million | 20% |
-

Question #35 of 54

Which of the following is the *least likely* disadvantage in calculating the net asset value (NAV) for a private equity fund?

- A) Only capital commitments already drawn down are included in the NAV calculation.
- B) NAV may be difficult to calculate since firm values are not known with certainty prior to exit.

- C) The limited partners use a third party to calculate the NAV of a private equity fund.
-

Question #36 of 54

Christina Wagner is a CFA level II candidate currently studying about hedge funds, private equity and commodity futures. One of her friends is fascinated by what Wagner is learning and asks several questions on the topic. In particular, she is curious to know what exit options are available to a promising young venture capital (VC) firm if it is having difficulty attracting buyers due to poor market conditions. What should be Wagner's *most appropriate* response?

- A) The VC firm should be liquidated in the absence of prospective buyers through the sale of the firm's assets.
- B) Since an initial public offering is not feasible, the VC firm should be sold to another firm through a buyout or secondary market sale.
- C) The VC firm should consider the acquisition of another firm and sell the merged entity once capital market conditions have improved.
-

Question #37 of 54

Private equity firms can maintain control over portfolio companies in a variety of ways. Which of the following contract terms would *least likely* achieve this goal?

- A) Board representation.
- B) Priority in claims.
- C) Tag-along, drag-along clauses.
-

Question #38 of 54

The primary difference between the venture capital method using the IRR and NPV approach is that:

- A) the IRR approach starts by calculating the investor's expected future wealth.
- B) the NPV approach does not require fractional ownership calculations.
- C) the IRR method does not use exit values.
-

Question #39 of 54

Mavis Krager, manager of alternative investments for the Richmond Group, is considering the merits of some private-equity opportunities. Richmond Group likes to invest in private-equity funds, but will also do its own deals if the opportunity is right. One deal on the table is an equity stake in Melton Motors, a chain of privately held auto dealerships. The company is well run, but has come upon hard times lately because of credit problems. Krager thinks Melton will solve its financial problems and become profitable again. She is considering investing \$7 million in the company. Also under discussion is The Apple House, a large privately held orchard in Wisconsin. Richmond Group is considering investing \$5 million.

To determine whether the deals are worthwhile Krager decides to estimate a price for each company based on a post-money valuation, using a discount rate of 13.7%. The investment firm prefers to focus on companies willing to price their stocks at least 20% below their true value and fund the investments only once. To calculate her valuations, Richmond uses the data below:

	Melton Motors	The Apple House
Stock price offered	\$17	\$42
Number of shares held by current owners	1.5 million	80,000
Estimated value of company at end of investment period	\$51 million	\$29 million
Expected length of investment	5 years	10 years

Just as Krager finishes her assessment of the two private-equity deals, a contact at The Apple House calls her and says the management team is considering a leveraged buyout (LBO) and wants Richmond Group to help finance it. Since the firm hasn't financed an LBO for years, Krager gets out a book she has not read since college to bone up on the valuation equations and reacquaint herself with terms specific to LBOs.

What action should Richmond Group take with regard to:

<u>Melton</u>	<u>The Apple</u>
<u>Motors</u>	<u>House</u>

- | | |
|--------------------|-----------------|
| A) Don't buy stake | buy stake |
| B) Buy stake | don't buy stake |
| C) Don't buy stake | don't buy stake |

Zolan Athos and Katie Brie co-manage one of the funds of The Ceskel Group, a large private equity firm based in Canada. The fund, established in 2004, has total assets of \$500 million and invests primarily in real estate firms ranging from new ventures to leveraged buyouts of larger, established companies. The fund will reopen to outside investors next year and is looking to raise an additional \$250 million to make strategic investments over the next two years, after which the fund will be closed to new capital.

In one of the meetings with potential investors, Athos and Brie discuss their recommendations for investment and acquisition opportunities. When questioned by an investor on exit strategies and terminal value projections, Brie makes the following statements:

Statement 1: One possible exit route is through an IPO. An IPO generally offers a higher potential exit value than a management buyout or liquidation.

Statement 2: We favor IPOs since they are appropriate for firms of any size, regardless of their growth prospects or lack of operating history.

Athos adds the following comments on terminal value projections:

Statement 3: For venture capital projects, estimating terminal value with certainty is difficult given the relatively young age of these firms. To calculate the investor's future wealth, however, one valuation technique is the IRR method.

Statement 4: To project the terminal value for leveraged buyout (LBO) investments, we often use the free cash flow method or sales or earnings multiples approach.

Following their meeting with the investors, Athos and Brie meet privately to assess the fund's recent performance. Athos and Brie charge 1.5% to manage the fund, and carried interest of 25% is paid based on the total return method using committed capital. The fund's investors committed to a total of \$500 million in capital over ten years. A scaled-down version of the firm's statistics for the last five years is given in the following table (in \$ millions):

Fund Cash Flows						
	Capital Called Down	Operating Results	Mgmt Fees	NAV before Distributions	Distributions	NAV after Distributions
2004	200	-40	3.0	157.0	0	157.0
2005	100	-70	4.5	182.5	0	182.5
2006	100	100	6.0	376.5	70	306.5
2007	50	180			100	

2008	50	250			150	
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Finally Athos and Brie discuss two potential acquisition targets. The first is a venture capital firm with a projected discount rate of 20%. Athos and Brie, however, believe that this projection is highly optimistic given current market conditions, and speculate that in any given year there is a 30% chance of company failure. The second acquisition would be an investment in a leveraged buyout company. The company's asset beta is estimated at 0.90 and the company uses 1/3 debt and 2/3 equity financing.

Question #40 of 54

With regard to Statement 1 and 2, respectively, on an exit strategy through an IPO, Brie is:

Statement 1 Statement 2

- A) Correct Incorrect
- B) Incorrect Correct
- C) Incorrect Incorrect

Question #41 of 54

With regard to Statement 3 and 4 on terminal value projections of the venture capital and LBO investments, respectively, Athos is:

- A) incorrect on Statement 3 since the IRR method is useful in obtaining present value projections but cannot be used as a tool to compute the future expected wealth of a venture capital
- B) correct on both statements.
- C) incorrect on Statement 4 since the free cash flow method and the sales or earnings multiples are not useful for investments financed to a large extent by debt.

Question #42 of 54

Based on information in the table above, management fees and carried interest, respectively, in 2007 will be *closest* to (in \$ millions):

	<u>Management Fee</u>	<u>Carried Interest</u>
A)	\$3.50	\$8.30
B)	\$0.75	\$8.90
C)	\$6.80	\$7.45

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Carried interest to the fund's partners will first be paid out in:

- A) 2007.
 - B) 2008.
 - C) 2006.
-

Question #44 of 54

The fund's distributed to paid in capital (DPI) and residual value to paid in capital (RVPI) multiples, respectively, for 2008 will be *closest* to:

	<u>DPI</u>	<u>RVPI</u>
A)	3.00	1.43
B)	0.64	1.04
C)	0.30	1.43

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Regarding the potential acquisition targets discussed by Athos and Brie, the venture capital firm's discount rate adjusted for failure is *closest* to:

Adjusted discount rate

- A) 28.57%
 - B) 11.45%
 - C) 71.43%
-

Question #46 of 54

RDO is a private equity fund with \$50 million in committed capital and an investment in three portfolio companies totalling \$30 million. The fund earned a healthy profit of \$5 million after its first year on the sale of one of the companies but suffered a \$2 million loss after its second year on the sale of the second company. The fund pays carried interest of 20% on a *total return basis* using committed capital and also has a clawback provision.

The clawback the general partner must pay at the end of the second year is:

- A) \$400,000.
 - B) \$600,000.
 - C) \$0.
-

Question #47 of 54

A private equity investor is considering an investment in a venture capital firm, and is looking to calculate the firm's terminal value. The investor determines that there is equal likelihood of the following:

1. Expected firm earnings are \$2.5 million with a P/E ratio of 8.
2. Expected firm earnings are \$3.0 million with a P/E ratio of 10.

The firm's expected terminal value, and the analysis used by the investor, respectively, is:

<u>Terminal</u> <u>value</u>	<u>Analysis</u>
---------------------------------	-----------------

- A) \$50 million Scenario

- B) \$2.75 million Sensitivity
- C) \$25 million Scenario
-

Question #48 of 54

In a private conversation with his best friend, Harry Veasley, CFA, makes the following statements:

Statement 1: Private equity (PE) firms generally focus on short-term results. For example, they frequently use restructuring of acquired companies in an effort to quickly divest them for a profit.

Statement 2: PE firms also want to ensure that the interests of portfolio company managers and of limited partners are aligned. For example, they frequently tie manager compensation to firm performance and include *tag-along*, *drag-along* clauses to give management a stake in the firm under certain trigger events.

With regard to Veasley's statements:

- A) only one is correct.
- B) both are incorrect.
- C) both are correct.
-

Question #49 of 54

The *most appropriate* pairing for valuing a buyout and a venture capital investment, respectively, is:

- | | <u>Buyout</u> | <u>Venture capital</u> |
|----------------------------|---------------|-------------------------|
| A) Relative value approach | | Discounted cash flow |
| B) Pre-money valuation | | Relative value approach |
| C) Discounted cash flow | | Pre-money valuation |
-

Question #50 of 54

Pauler Investment Co. ("Pauler") just proposed to make a sizeable investment in Bada Cork, a recently established Hungarian producer of synthetic wine bottle corks with a patented new technology. Pauler is looking to make further strategic acquisitions in small venture capital companies in the food and beverage industry and has set up a fund to manage the portfolio companies. It has also brought onboard Kristina Sandorf as portfolio manager. Upon receiving her contract, Sandorf complains to a friend of the contract terms proposed by Pauler. In particular, she grumbles that an *earn-out* clause is inserted, which she believes would give Pauler priority on the earnings and dividends of companies in the portfolio ahead of herself.

In her description of *earn-outs*, Sandorf is:

- A) incorrect, because earn-outs refer to tying the acquisition price paid by Pauler for the portfolio companies to the companies' future performance.
 - B) incorrect, because earn-outs refer to Pauler having priority over Bada's assets in case of bankruptcy or liquidation.
 - C) correct.
-

Question #51 of 54

The net asset value (NAV) *after* distributions of a private equity fund is calculated as:

- A) NAV before distributions + Carried interest – Distributions.
 - B) NAV before distributions + Capital called down – Management fees.
 - C) NAV before distributions – Carried interest – Distributions.
-

Question #52 of 54

An analyst makes the following statements on the risk and costs of private equity investments:

Statement 1: Committed capital is the initial capital in a private equity fund to obtain first round financing. As committed capital is used up, investors are required to make additional commitments to finance firm projects and expansion.

Statement 2: The J-Curve refers to the risk pattern in a private equity investment over time. Risk in private equity investments initially typically declines as more capital is drawn down but increases closer to exit since exit timing and values are difficult to predict.

With respect to the analyst's statements:

- A) both are correct.
- B) both are incorrect.
- C) only one is correct.

Question #53 of 54

A private equity firm is considering the valuation characteristics of both a venture capital and a buyout investment. Increasing working capital requirements and stable EBITDA growth is *most likely* associated with:

- | | <u>Increasing
working
capital</u> | <u>Stable
EBITDA
growth</u> |
|--------------------|---|-------------------------------------|
| A) Buyout | Buyout | |
| B) Buyout | Venture capital | |
| C) Venture capital | Buyout | |

Question #54 of 54

Dr. Jason Bruno is a qualified investor in the US who is considering a \$10 million investment in a private equity fund. Upon reading the fund's prospectus, Dr. Bruno encounters several contract terms and expressions with which he is unfamiliar. In particular, he would like to know the meaning of *ratchet* and distributed paid-in capital (*DPI*). The *most appropriate* answer by the fund's manager to Dr. Bruno would be that ratchet and DPI, respectively, is:

- | | <u>Ratchet</u> | <u>DPI</u> |
|----|--------------------------------|--------------------------------|
| A) | | Dividends |
| | The year the fund was set | paid out as a fraction of |
| B) | The general partner's share of | The general partner's realized |
| C) | The allocation of equity | The limited partner's |