

## **Review of the International Private Equity and Venture Capital Valuation (IPEV) Guidelines 2025**

Dear IPEV Board Members,

As a founding member and long-standing supporter of the IPEV Valuation Guidelines, Invest Europe welcomes the opportunity to contribute to the 2025 review. After extensive consultation with our Professional Standards Committee and its members, we are pleased to provide our feedback.

Our comments primarily focus on targeted enhancements rather than fundamental changes to the Guidelines' framework. The IPEV Guidelines continue to serve as a cornerstone of valuation practices across the private capital industry in Europe.

Martin Bresson,  
Public Affairs Director, Invest Europe

**Executive Summary for IPEV Board Considerations: Input from Invest Europe Professional Standards Committee**

The Invest Europe Professional Standards Committee has carefully reviewed the solicitation for input from the IPEV Board regarding the next edition of the IPEV Valuation Guidelines (referred to in the text as 'the Guidelines'). The feedback from Invest Europe is summarized into the following areas, which we then elaborate further throughout the Appendix:

- **Elaboration on the factors and considerations required to rely upon Entry Transactions as Calibration Points:** The Guidelines emphasize and encourage the use of calibration across all asset classes. However, the tone and proportionality of the Guidance is that entry transactions should always be used as calibration points – and market practice seems to be to simply use calibration as a ‘blind default’. The Guidelines provide very little direction on which facts and circumstances should be considered when deciding whether the entry transaction is indeed an indication of Fair Value at the date of the transaction. There are transactions at the extreme ends of the spectrum (e.g. bargain deals or high liquidation preference structures that do not convert into common shares) where the entry transaction is not indicative of Fair Value. Therefore, the Guidelines should provide further elaboration on the factors to be considered when determining whether an entry transaction should be utilized as a calibration point.

*Please see the Appendix for further elaboration on calibration.*

- **Addressing Complex Capital Structures:** Given the history of the Guidelines, they are heavily focused on Private Equity, where capital structures are relatively straightforward. Whereas capital structures in Venture Capital tend to be much more complex with numerous share classes with different subscription prices, liquidation preferences and other economic rights. Therefore, the Guidelines should offer *practical* advice on how such complex capital structures can be considered in a manageable way for small Venture Capital firms, while still adhering to the prevailing accounting standards. Also, many small Venture Capital firms do not have information rights when investing in large late-stage venture businesses. Therefore ‘lack of information rights’ should be addressed – both in terms of how ‘lack of information’ should be considered when calibrating,

and how it should be taken into consideration when in the context of observed secondary transactions.

Please see the Appendix for further elaboration on complex capital structures.

- **ESG Factors in Valuations:** We understand there is a drive for the IPEV Board to provide guidance on how ESG factors should be considered in valuation. However, we highlight that ESG factors are among the many factors already embedded in both the cash flow of subject companies and the observed return expectations of market participants. Analysing how ESG factors are considered in valuations is both onerous and is ancillary to determining Fair Value. Moreover, ESG measurement is more of a disclosure topic. For the abovementioned reasons, Invest Europe does not find that the Guidelines would significantly increase their usability for the industry by making efforts to address ESG factors in the updated version of the Guidelines. In our view, this would likely not lead to more correct final valuations, but mostly add unwarranted complexity to the valuation process.
- **Inclusion of Practical Examples:** The Guidelines could greatly benefit from the inclusion of practical examples – either throughout the text or as Appendices to the text. These examples would provide clear, real-world applications of the Guidelines, thereby aiding practitioners in their understanding and implementation.
- **Transaction Costs:** The current wording in the Guidelines suggests that all transaction costs should not be accounted for. There is some confusion in the Private Equity community as to whether M&A Advisory fees, banker fees, legal fees directly *incurred by the portfolio company* should be considered company liabilities at exit and be included in valuations? Arguably, excluding these would overstate exit proceeds compared to previous valuations.
- **Minority Interests/Co-Investments:** Situations in which a Lead GP prepares valuations often raise questions about alignment and valuation accuracy. Specifically, should these investments follow Fund-of-Funds guidance, where the co-investor GP should align with the Lead GP's valuation due to limited access to information and lack of a board seat? Or should Fair Value be determined independently based on valuation methodologies despite potentially less accurate valuations due to limited information?

- **Carried interest:** Carried interest is often generated by Funds and paid to carried interest participants. Such amounts require valuation - both as an accounting liability matter for the Fund's NAV, as well as for the receivers of the carry, wherein the GP/Manager is often one of the carry recipients. Practices to valuing the accounting liability and asset sides vary amongst Funds and GPs. Therefore, it would be helpful if the IPEV guidelines could be expanded to cover carried interest.

**Conclusion:**

Invest Europe believes that addressing these points will significantly enhance the clarity, applicability, and consistency of the IPEV Valuation Guidelines, ultimately benefiting the entire private markets industry.

**Appendix:****Calibration**

Calibration is covered extensively throughout the Guidelines. However, certain nuanced factors are given limited consideration and should be addressed to potentially allow for greater flexibility. These include:

- It is often impossible to isolate the portion of a calibration adjustment that should be attributed to illiquidity. It would be helpful for the IPEV guidelines to outline methodologies for isolating discounts for lack of marketability (such as option pricing models, empirical studies, or other market-based methodologies).
- Clarify that using the calibration premium/discount at Future Measurement Dates should only be possible if the reasons that justified the calibration premium/discount in the first place (at Measurement Date) are still there (in the EBITDA example on p. 18). Perhaps a clarification would be helpful that explains that the calibration premium/discount can be decomposed into:
  - (i) "transitory" components (e.g., higher short-term growth perspectives), which should gradually diminish over time, and
  - (ii) "systematic" components (e.g., illiquidity discounts, margin differentials, strategic positioning), which may persist unless fundamental circumstances change.
- Moreover, additional guidance could be helpful in elaborating on the nuances of insider rounds. Insider rounds often do not reflect Fair Value, as they are frequently driven by:
  - (i) investor liquidity constrains rather than market dynamics,
  - (ii) negotiating leverage dynamics between existing and new investors,
  - (iii) incentive realignment mechanisms, such as pay-to-play provisions or conversion from preferred to common shares.

The Guidelines should therefore clarify that the driving force behind an insider down round requires further analysis and should not be presumed Fair Value without a detailed assessment of the transaction's economic drivers.

- With respect to secondary transactions in Venture Capital share classes, many different cases can take place in practice: blended prices between secondary and primary transactions, the materiality of secondary rounds or primary rounds in relation to each other, different prices of secondary rounds over a certain period, insignificant differences or material differences between secondary and primary transactions, partial exit planned with the secondary transactions with a

reinvestment at the primary price, etc. The facts and circumstances and the context of those transactions, as well as the information availability, are key aspects in determining fair values.

### **Complex Capital Structures**

In complex capital structures, the rights and preferences can cause significant differences in the value of different series. For example, a new funding round might result in higher headline value but lower fair value for junior series due to their rights and preferences. These scenarios are challenging to explain to investors, particularly when the fair value is below or above the preference value.

Current Guidelines provide solutions for these structures, such as calibration, market participant perspectives, and option pricing models. However, these techniques can be difficult to implement. It would be beneficial to suggest different approaches and provide examples of calibration for complex situations.

Complex capital structures are common across all Venture Capital stages and when companies are owned by minority investor consortia. Fair value calculations must consider specific waterfall calculations, leading to varied proceeds for investors with similar ownership percentages. For instance, one investor might receive returns while another receives nothing due to liquidation preferences.

Additionally, the value of a preference may differ from fair market value market approaches. For example, if an asset with a 1.5x preference structure supports this value, the holder should release gains over time as milestones are met. Similarly, if the fair market value waterfall shows a lower value, the buyer should reflect the higher mark.

## Contact

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## About Invest Europe

Invest Europe is the association representing Europe's private equity, venture capital and infrastructure sectors, as well as their investors.

Our members take a long-term approach to investing in privately held companies, from start-ups to established firms. They inject not only capital but dynamism, innovation and expertise. This commitment helps deliver strong and sustainable growth, resulting in healthy returns for Europe's leading pension funds and insurers, to the benefit of the millions of European citizens who depend on them.

Invest Europe aims to make a constructive contribution to policy affecting private capital investment in Europe. We provide information to the public on our members' role in the economy. Our research provides the most authoritative source of data on trends and developments in our industry.

Invest Europe is the guardian of the industry's professional standards, demanding accountability, good governance and transparency from our members.

Invest Europe is a non-profit organisation with 28 employees in Brussels, Belgium.

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