ON ONE PAGE

IRR vs MOIC

Two ways to score a buyout: how fast the money grew, and how much of it you made.

IN ONE LINE

MOIC measures how much money was made; IRR measures how fast. Each has a blind spot, so report both and split a buyout return into its sources.

$$\text{MOIC} = \text{cash returned} / \text{cash invested}$$

$$\text{IRR: } \Sigma\ CF_t / (1 + IRR)^t = 0$$

CF_t: cash flow in year t, the investment negative · for one exit: IRR = MOIC^(1/years) − 1

Five rules

1. **Report both.** An IRR hides the money made; a multiple hides the time taken.
2. **Time cuts the IRR.** 2.0x is 26.0% over three years but 10.4% over seven.
3. **Speed flatters.** $10 to $15 in a year is a 50% IRR on $5 of profit.
4. **Early cash lifts the IRR.** A $40 recap in year two: 14.9% becomes 18.2%, 2.00x becomes 2.05x.
5. **Split the gain.** Growth, margins and debt repaid are the business; the exit multiple is the market.

IRR by multiple and hold

Annual return for a single exit

Multiple	3 yrs	5 yrs	7 yrs
1.5x	14.5%	8.4%	6.0%
2.0x	**26.0%**	**14.9%**	**10.4%**
3.0x	44.2%	24.6%	17.0%

Ravelstone buyout at $36

Equity in **11,886**, out **18,505** ($m): **1.56x, 9.3% IRR**. EBITDA growth +5,987, debt repaid +603, multiple +28.

Before you sign it off

- [ ] IRR and multiple quoted together
- [ ] Holding period stated
- [ ] Interim distributions and recaps identified
- [ ] Gain split into growth, margins, debt and multiple
- [ ] Exit multiple at or below the entry multiple in the base case



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