



European Private Equity &
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Association

European Private Equity: Facts and figures

Didier Guennoc

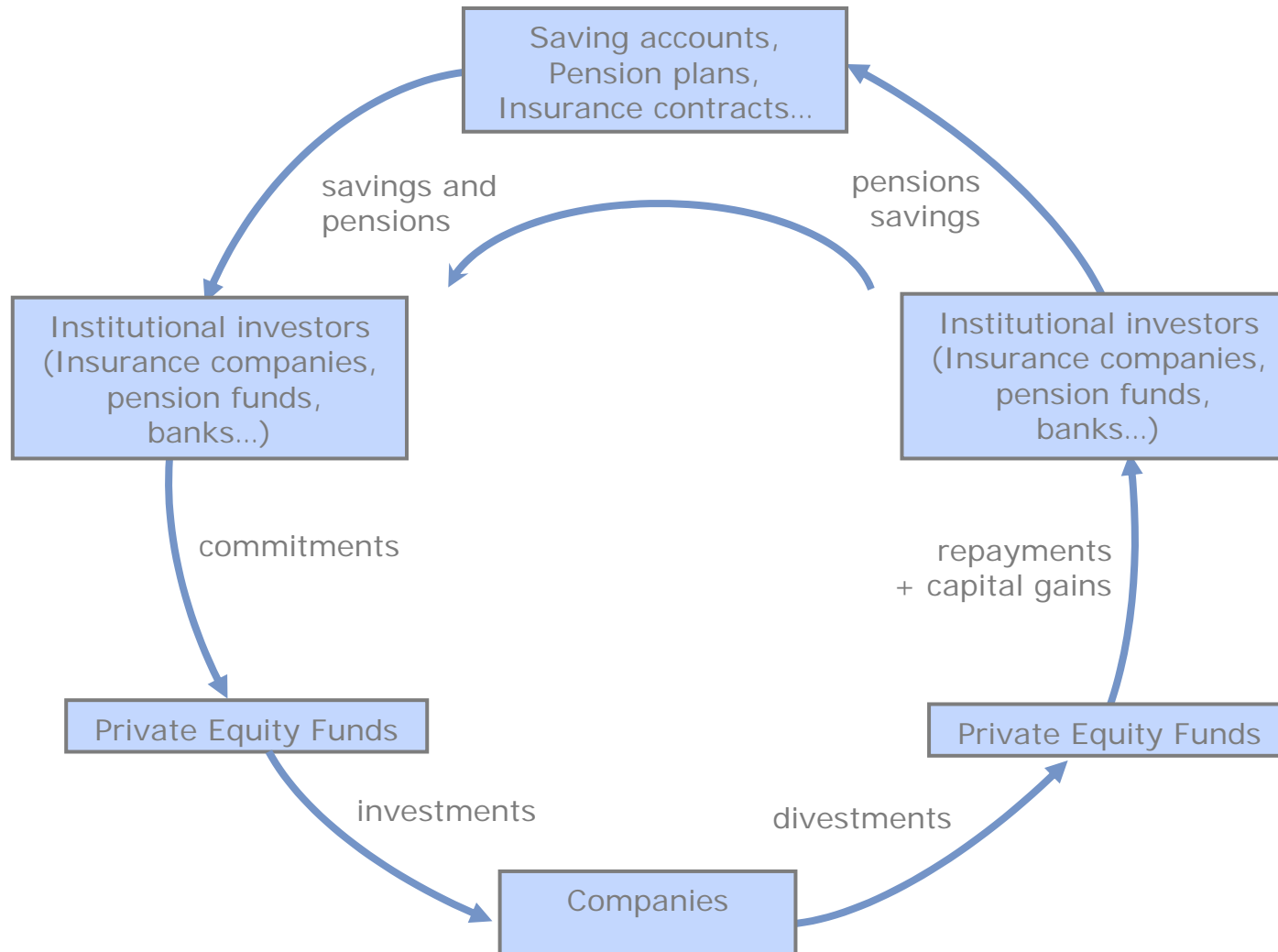
EVCA

EESC – 5 December 2007

Private equity (PE) as financial intermediary



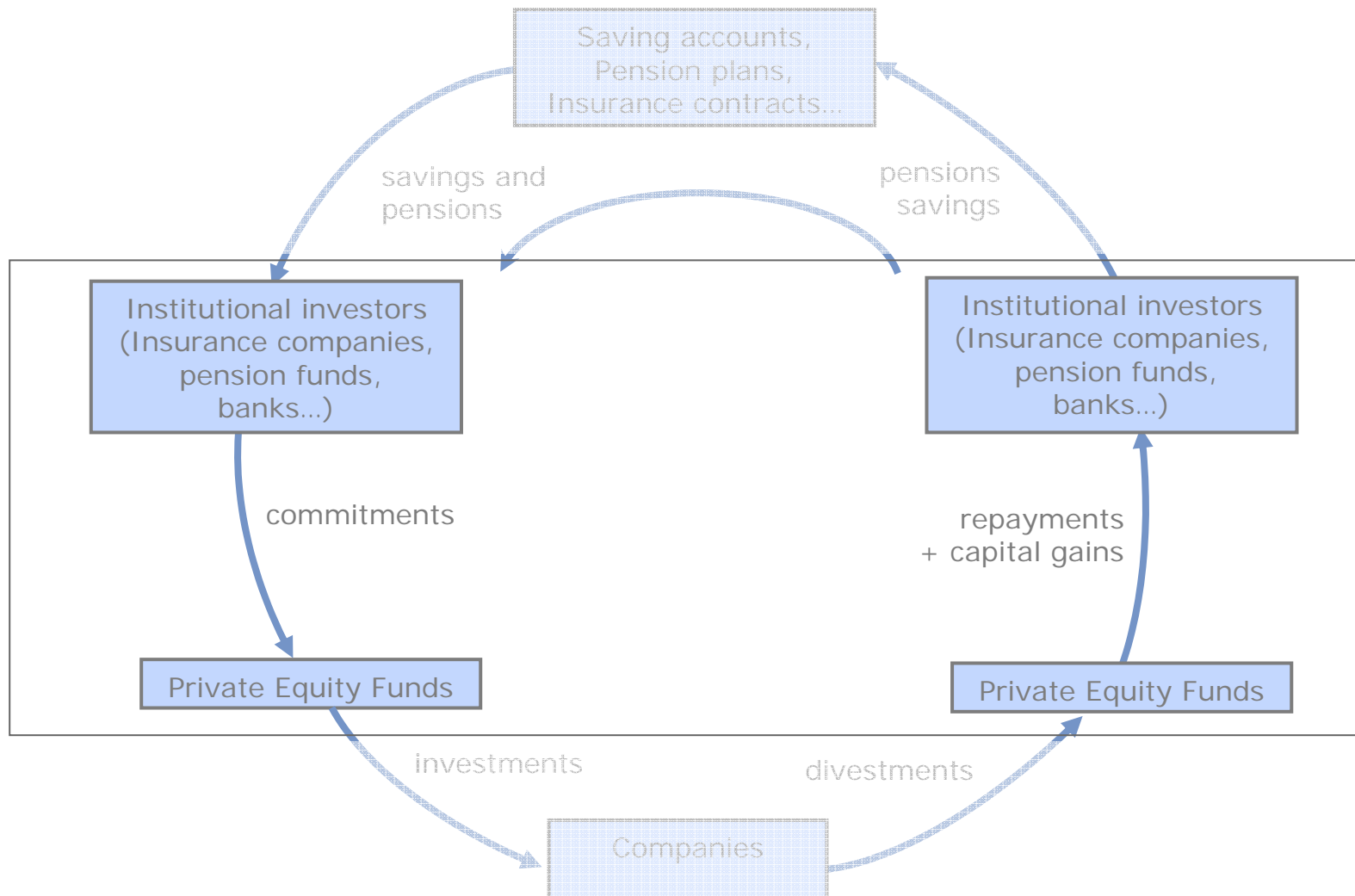
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Facts about the relationship between investors and PE fund managers



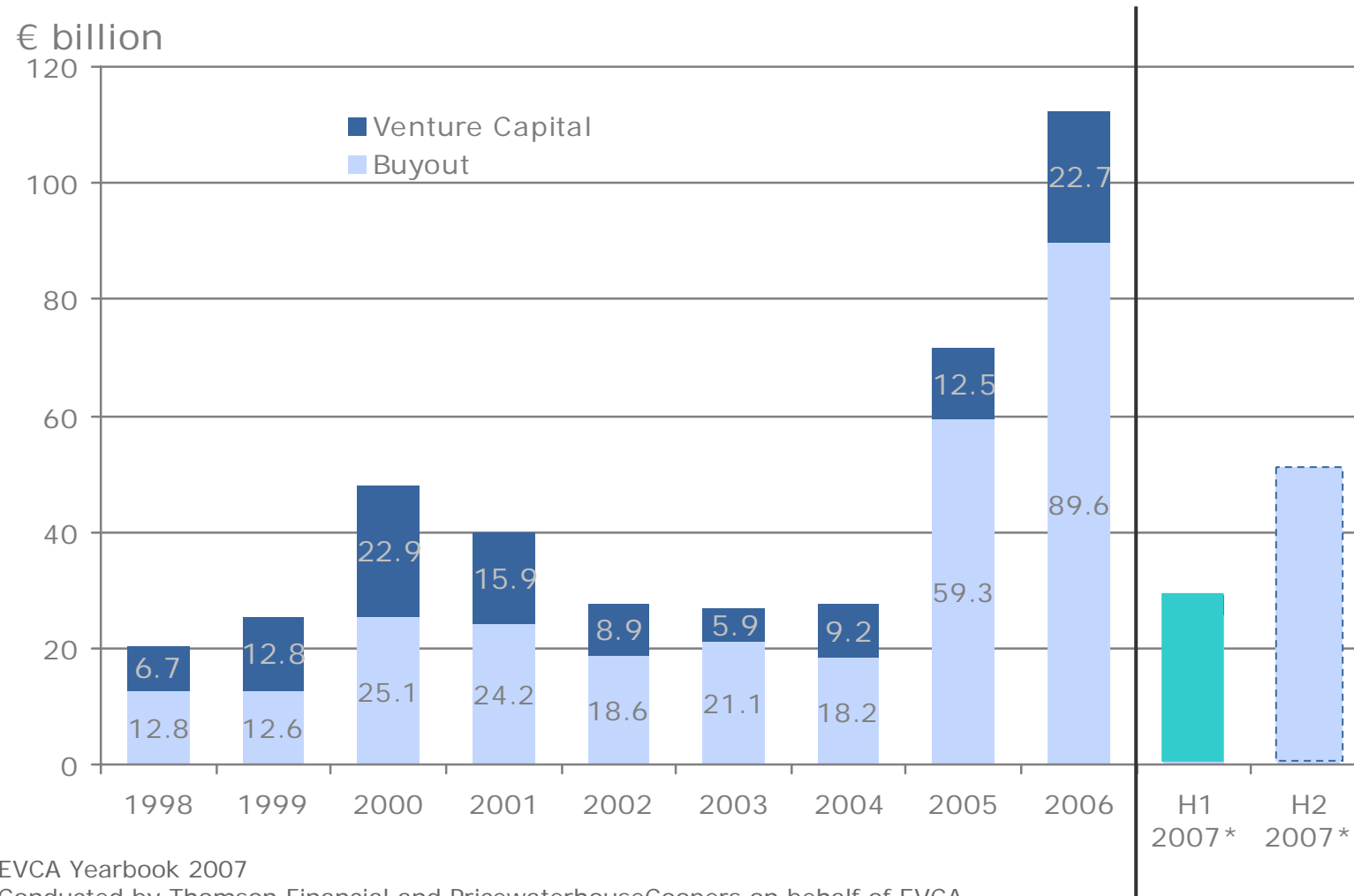
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€112 Billion raised in 2006 for venture capital and buyout investments



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EVCA Yearbook 2007

Conducted by Thomson Financial and PricewaterhouseCoopers on behalf of EVCA

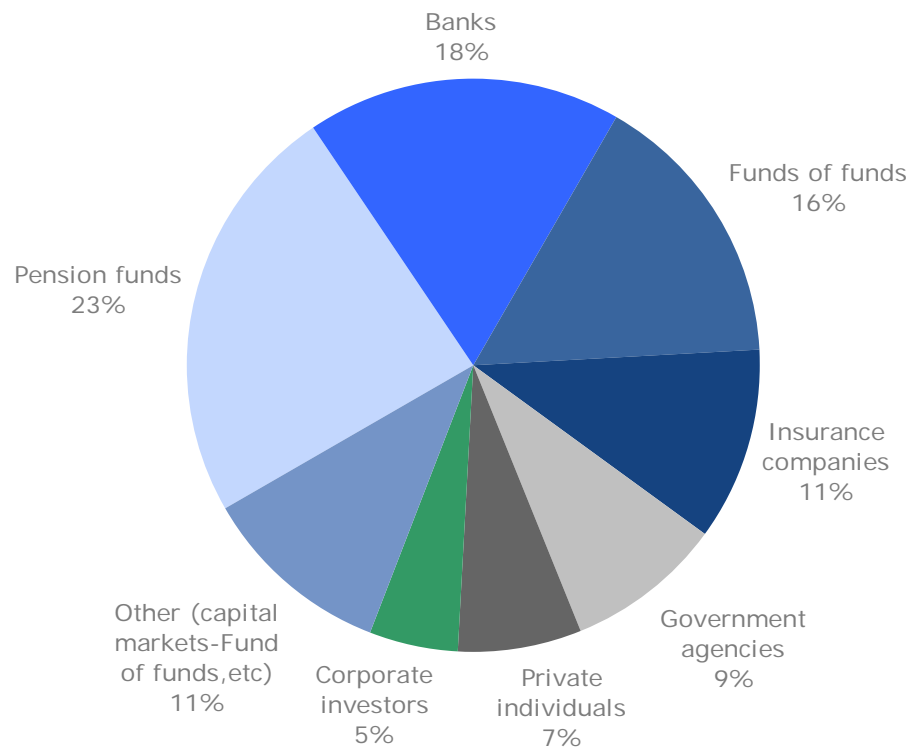
* Source: PEREP Analytics (data are updated quarterly), preliminary data for H1. H2 data represents large buyout funds currently being raised

Who are the investors in private equity funds?

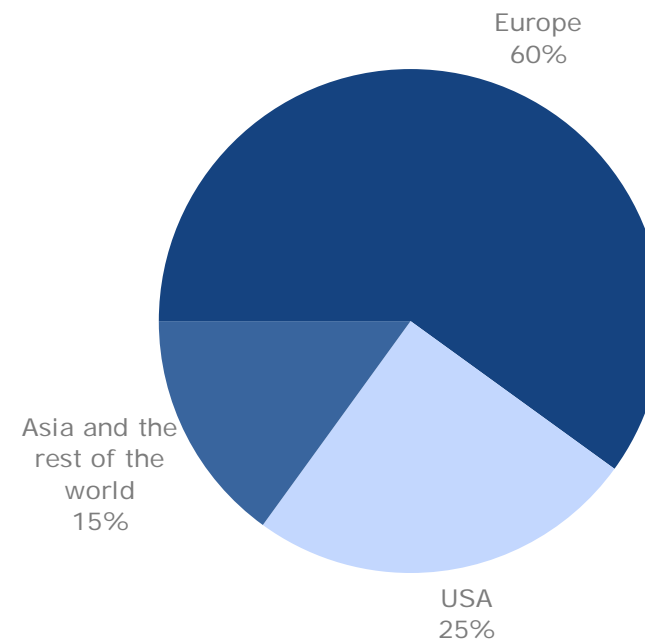


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Type of investor
Share in total funds raised 2002-2006



Geographical origin
of funds raised
2002-2006



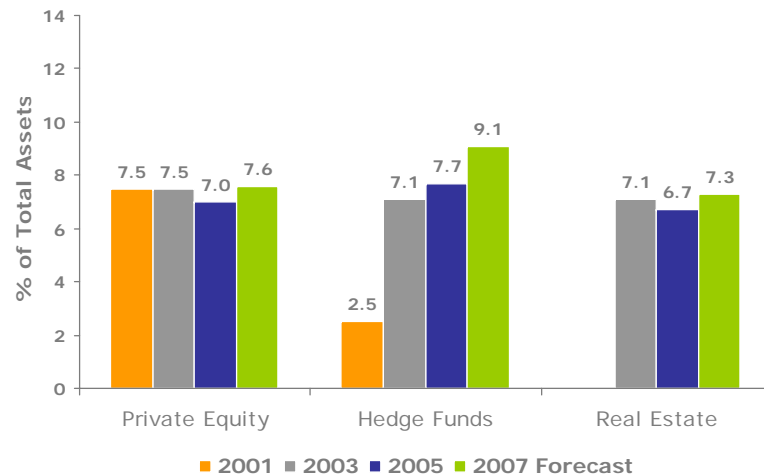
Source: EVCA/Thomson Financial/PricewaterhouseCoopers

What is the strategic asset allocation of institutional investors to private equity?

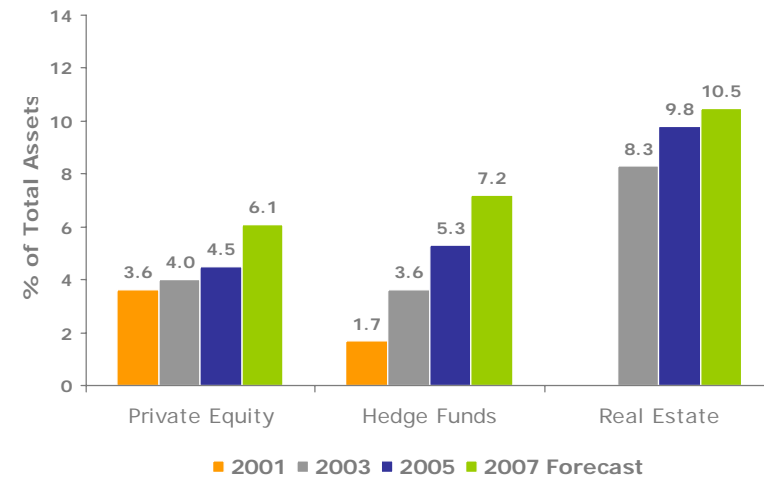


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North American Investors



European Investors



Note: 2001 North American hedge fund allocation is represented by the median.

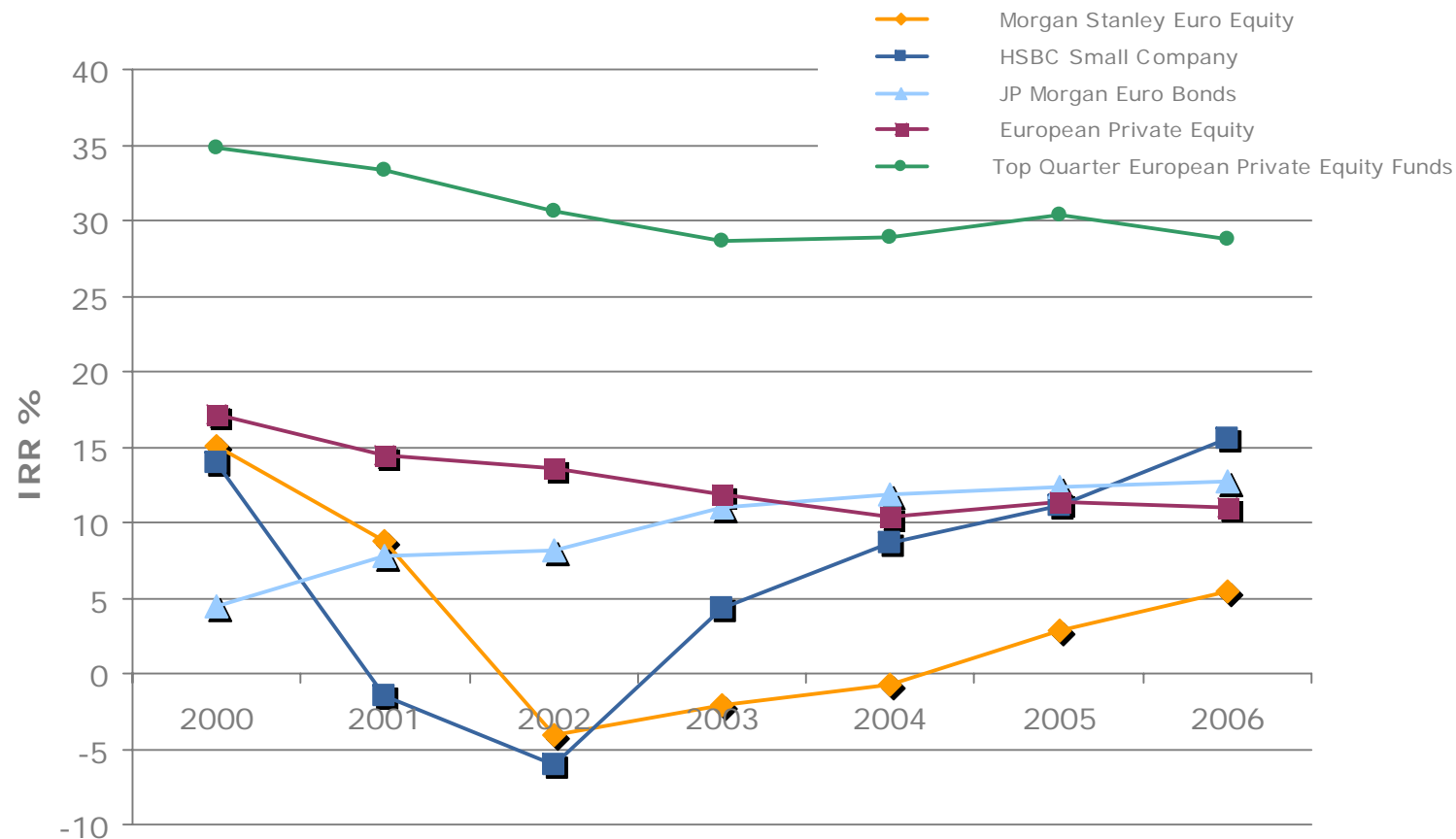
Why and how to invest in private equity?

Demonstrated persistence of outperformance of the best teams, but selection process is paramount



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Evolution of Private Equity and Public Market Comparators
10-Year Rolling IRR for 2000-2006



Source: Thomson Financial/EVCA

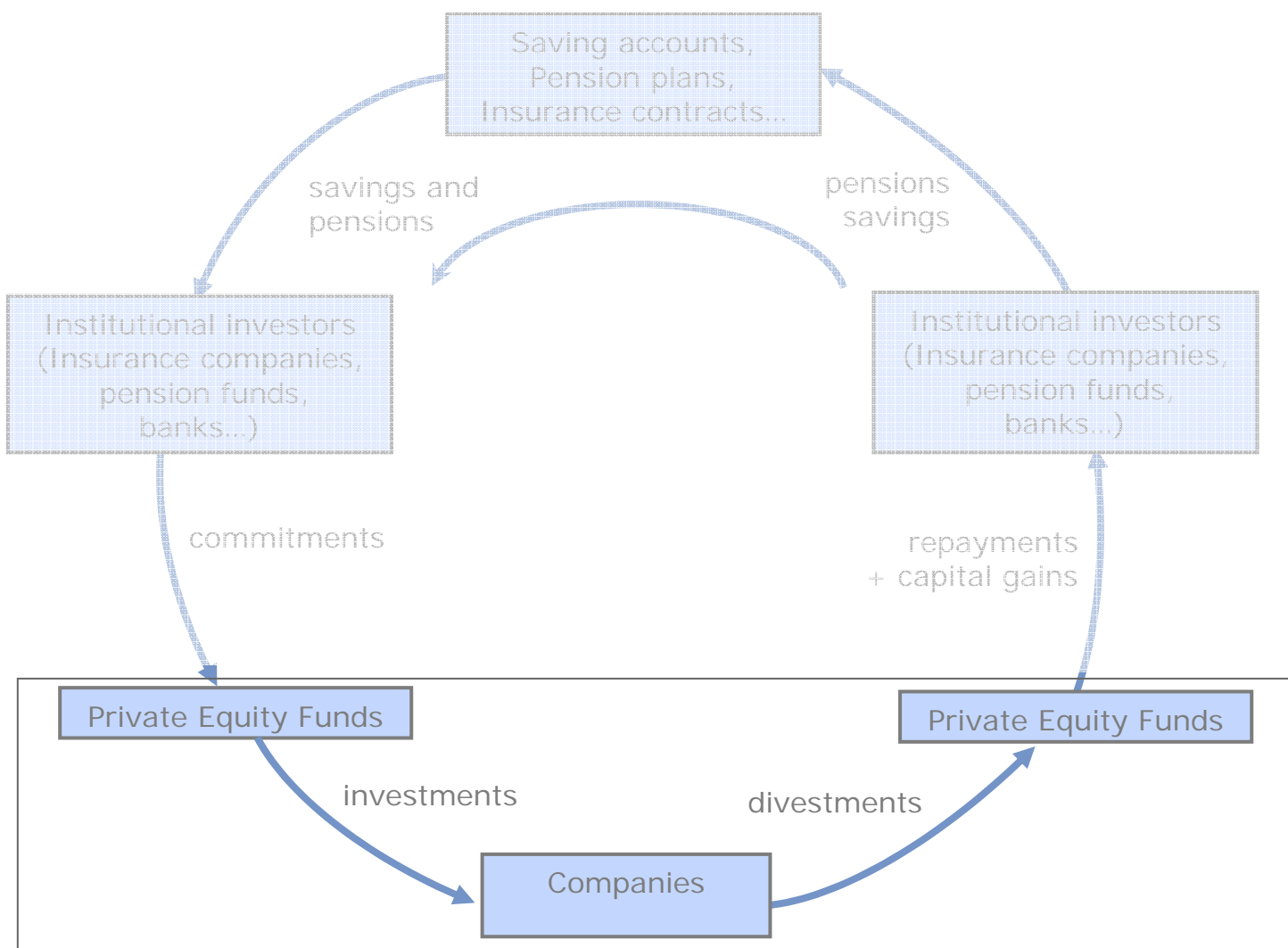


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From a regulatory perspective

- The fund manager or the fund or both are regulated in most of the Member States (e.g. 60% of the capital under management is regulated by the UK FSA)
- Institutional investors are also regulated
- Retail investors can have access to the asset class through quoted vehicles having to comply with stock market regulation
- Funds raised, management fees, carried interest and other terms and conditions result from market forces in a market which is not oligopolistic
- Risk diversification imposed by investors on funds (maximum share for one single investment in non-leveraged, closed-end funds with a duration of 10 to 12 years)

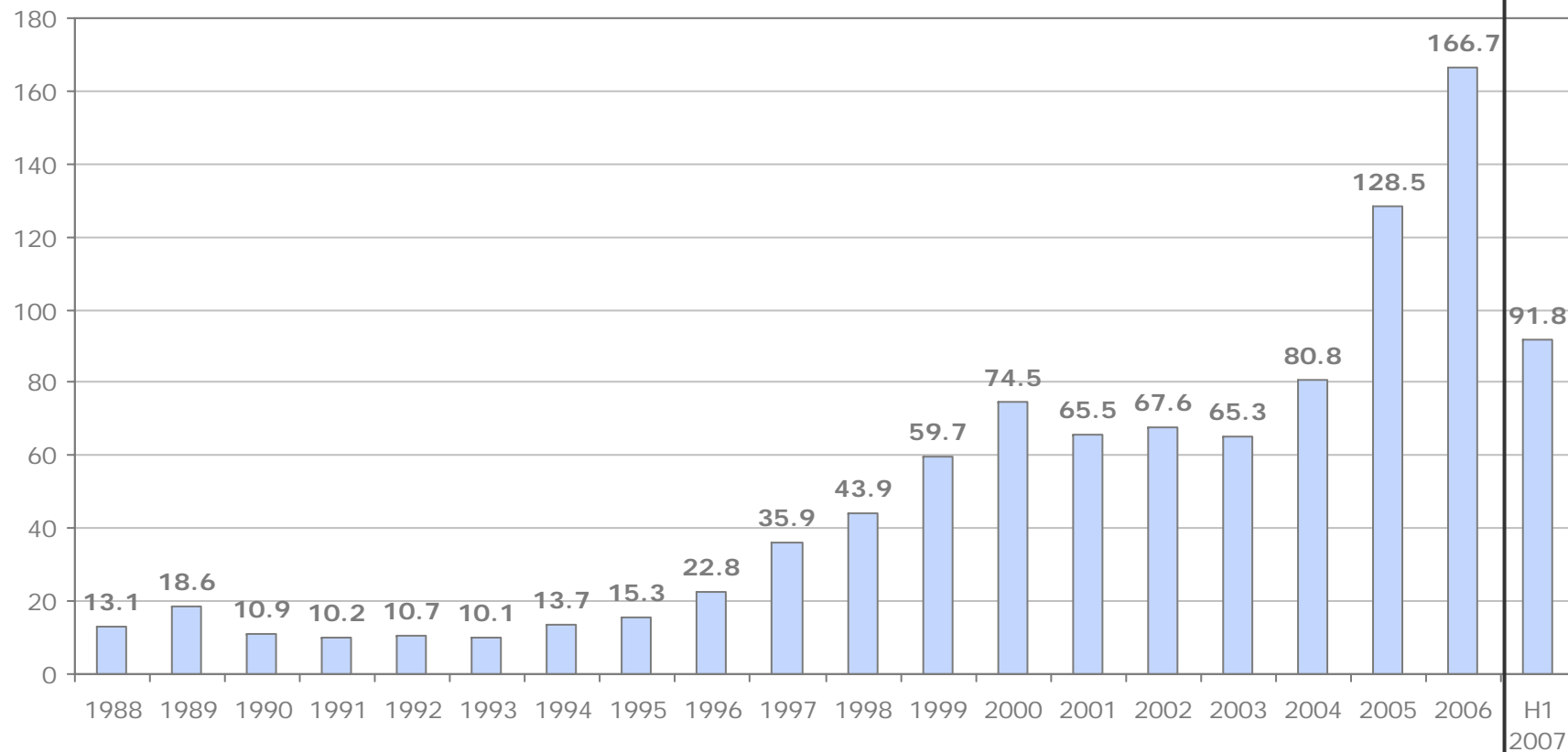
Facts about buyout investments



European buyout investments (transaction value - €bn)



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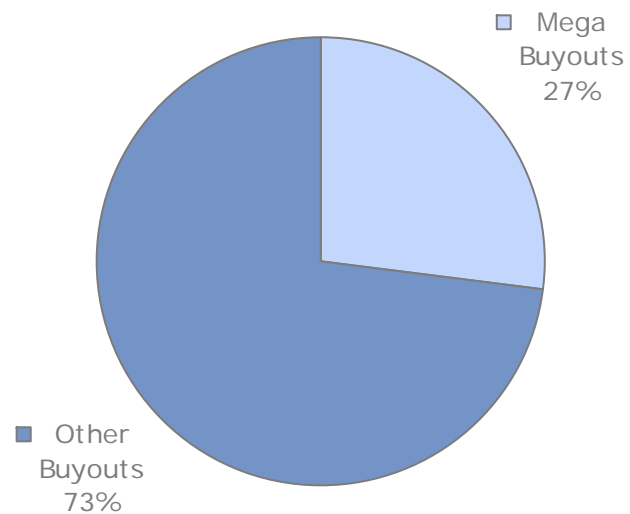
Source: CMBOR

Mega buyouts vs. total buyouts in Europe 2003 – 2006

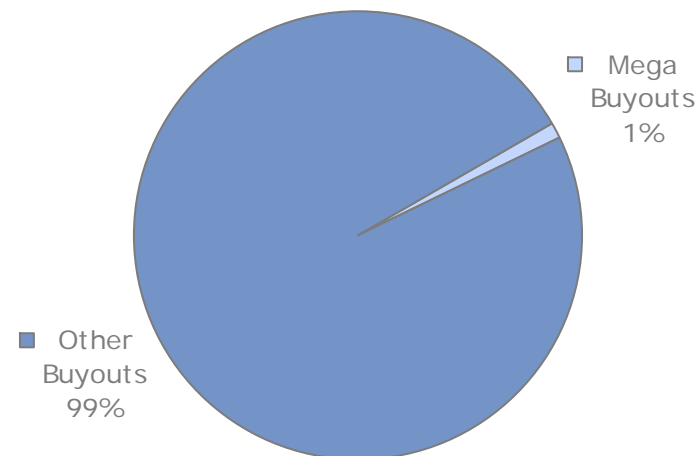


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% of Amount invested
(equity value)



% of Number of Investments

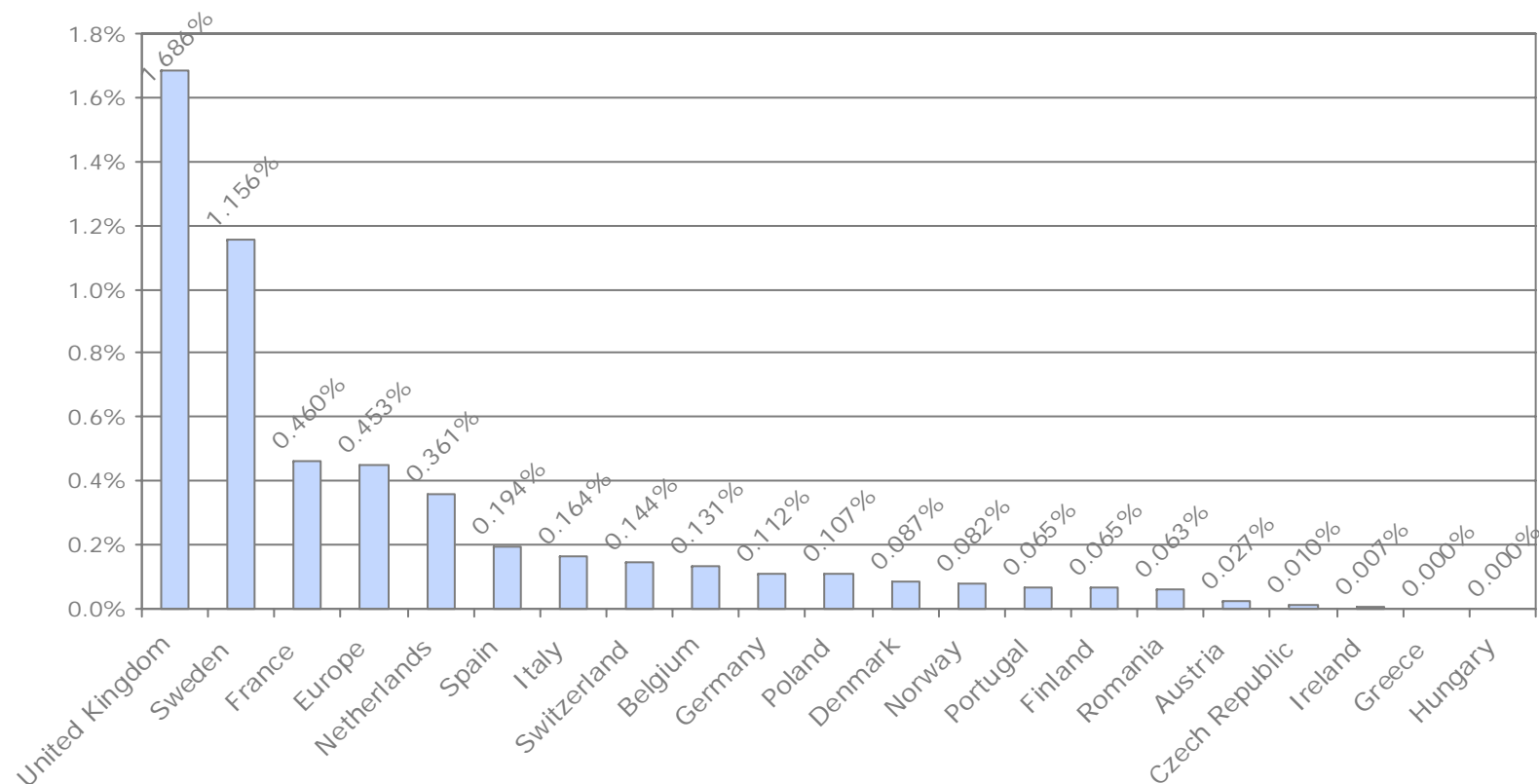


Source: EVCA/Thomson Financial/PricewaterhouseCoopers

Relative weight of buyout investments (equity value) as % of GDP (Data 2006)



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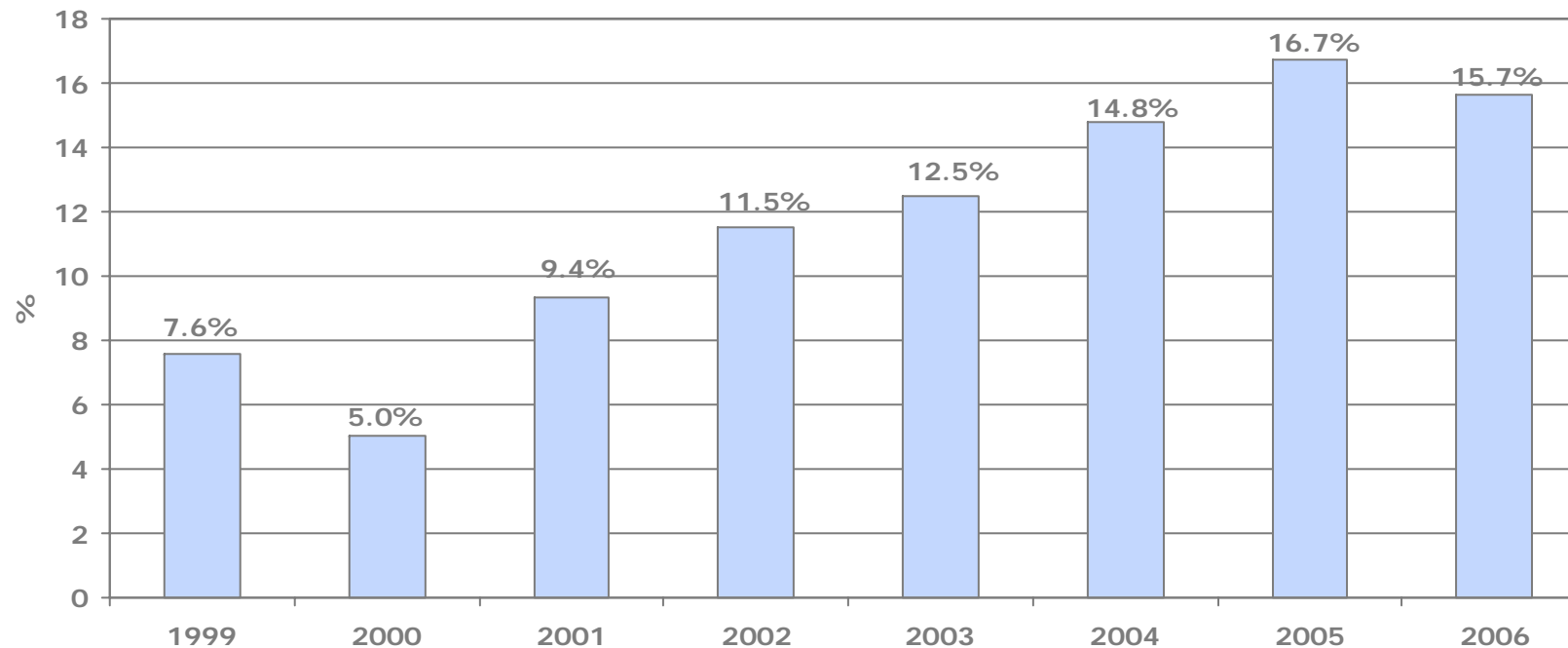
Source: EVCA/Thomson Financial/PricewaterhouseCoopers

Relative size of buyout transactions in the European M&A market



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Buyout share (%) of total M&As in Europe
(% of total transaction value)



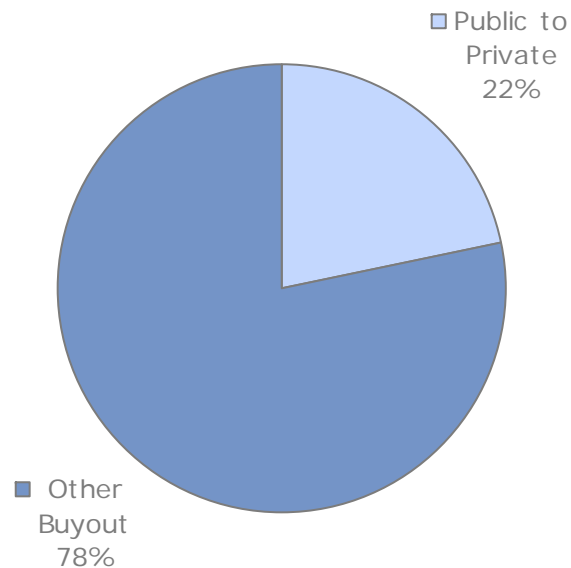
Source: EVCA based on CMBOR and Dealogic data

Share of European P to P transactions as percentage of total buyout investment 2003 – 2006

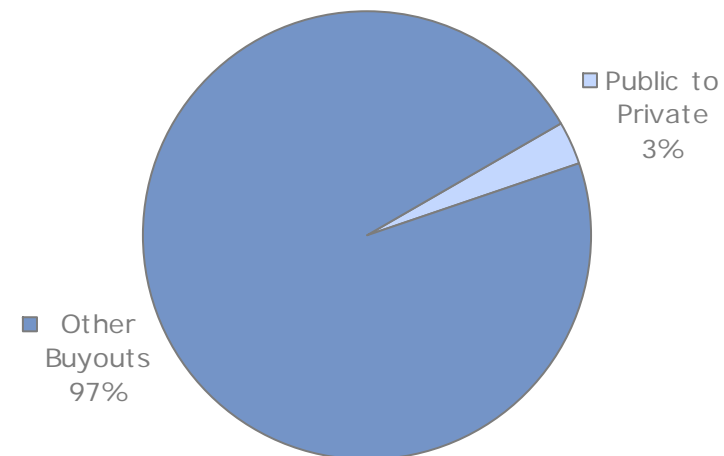


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% of Value invested



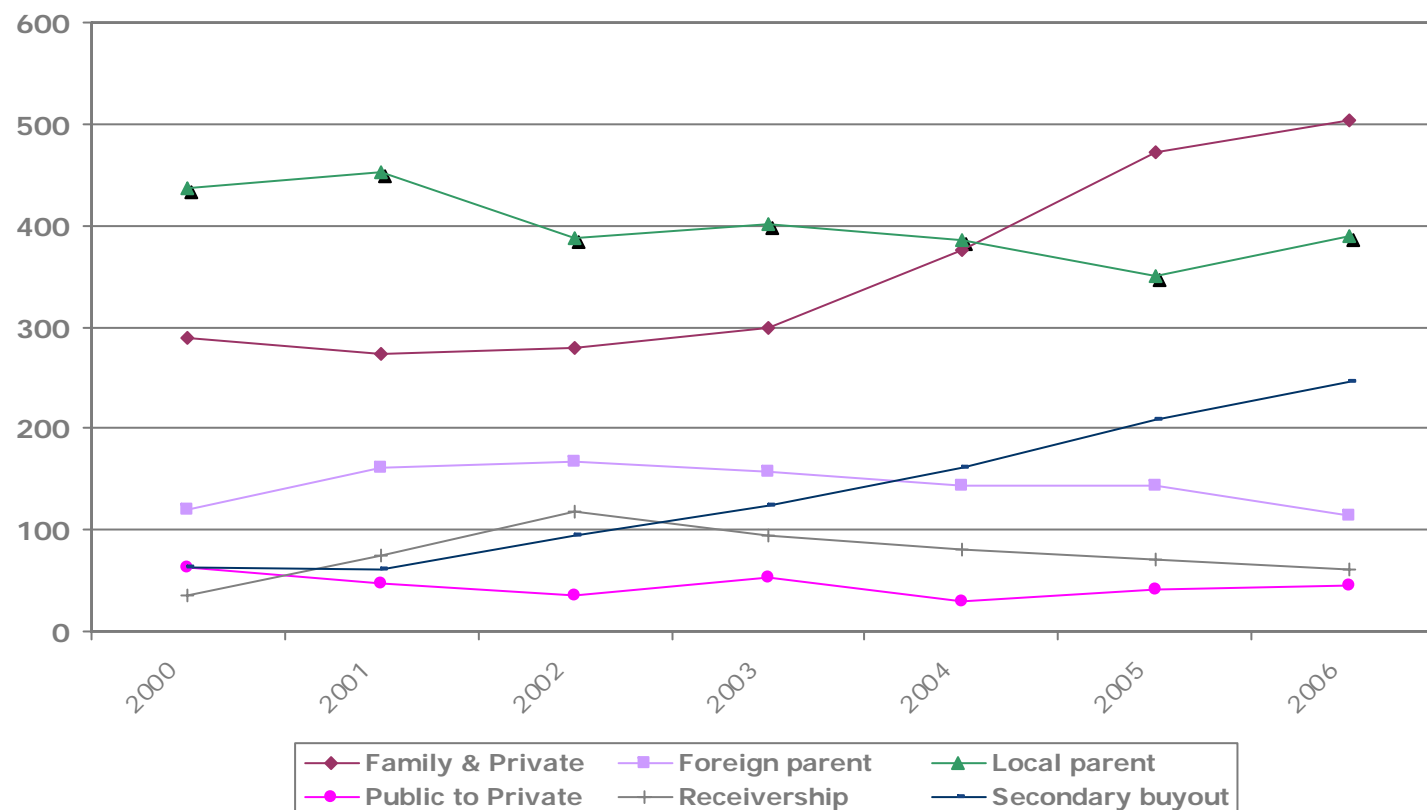
% of Number of Investments



Source: CMBOR

Evolution of deal origination

By number of deals



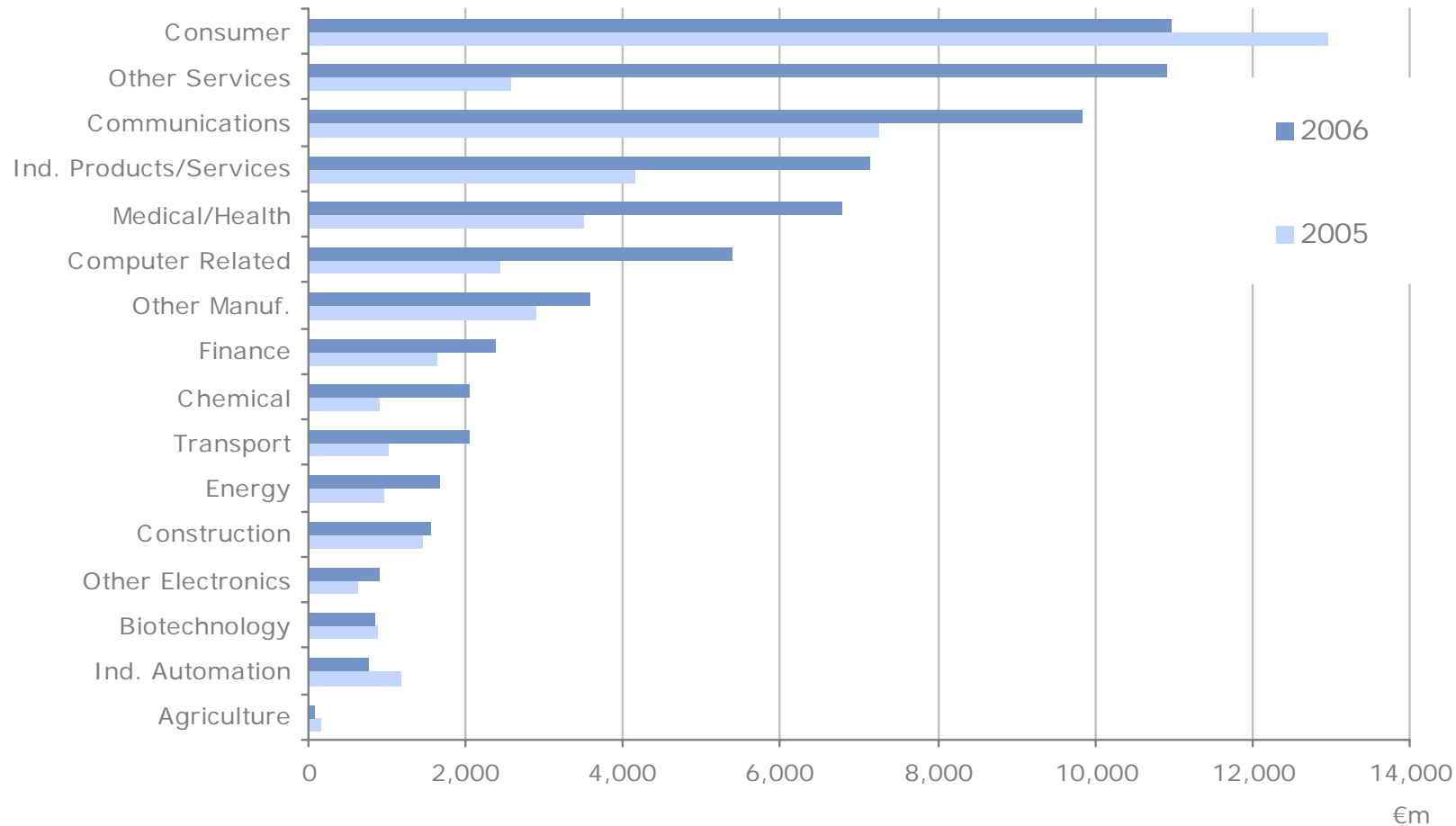
Source: CMBOR

Private equity investment by industrial Sectors

Amount Invested (Equity)



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Source: EVCA/Thomson Financial/PricewaterhouseCoopers

The buyout model

Value growth depending on four mechanisms:

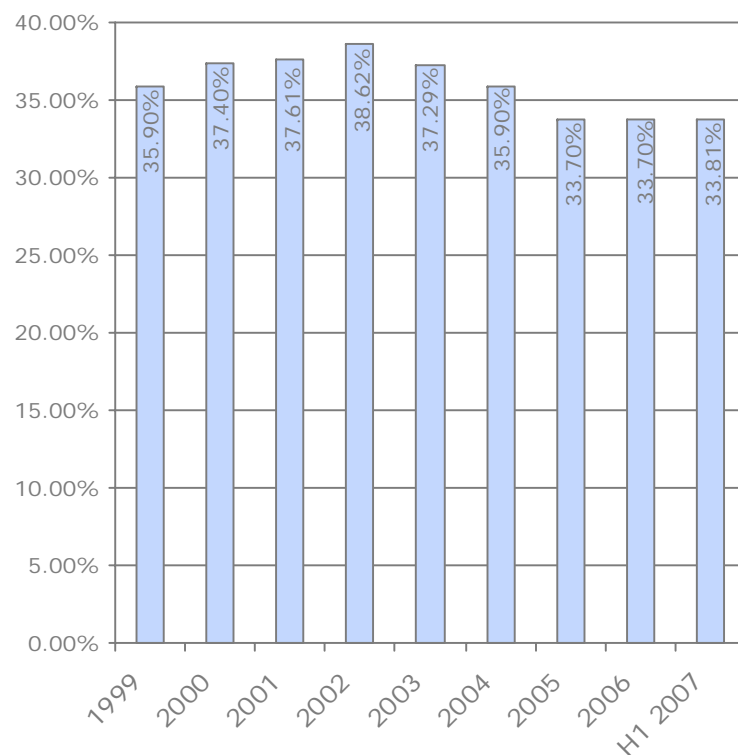
- Market price evolution
- Use of debt / leverage
- Reduction of agency costs
- Growth strategy

Leverage loan market activity in Europe

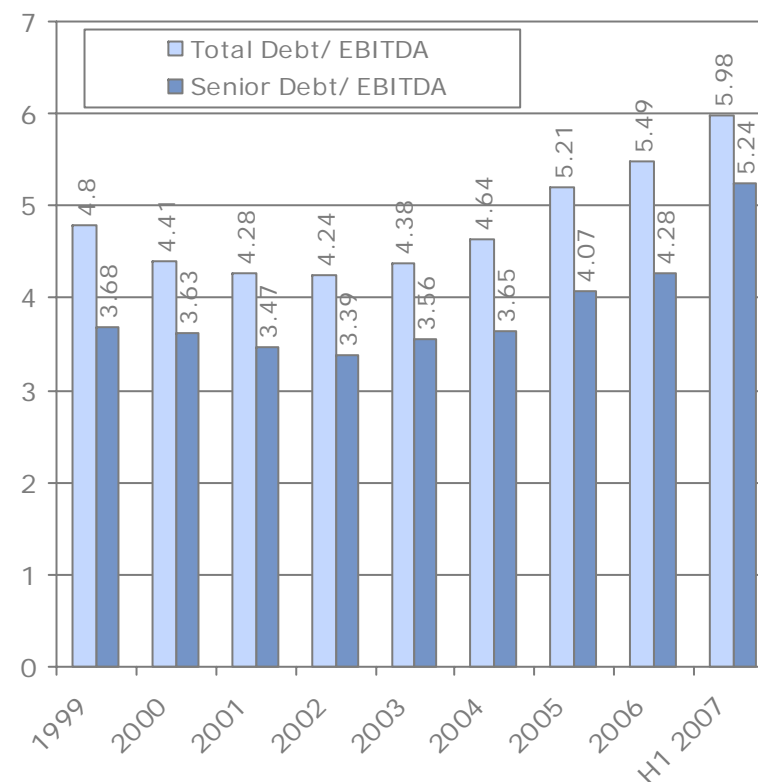


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Average Equity Contribution
(% of total transaction value)



Debt to EBITDA Multiples



Source: S&P LCD

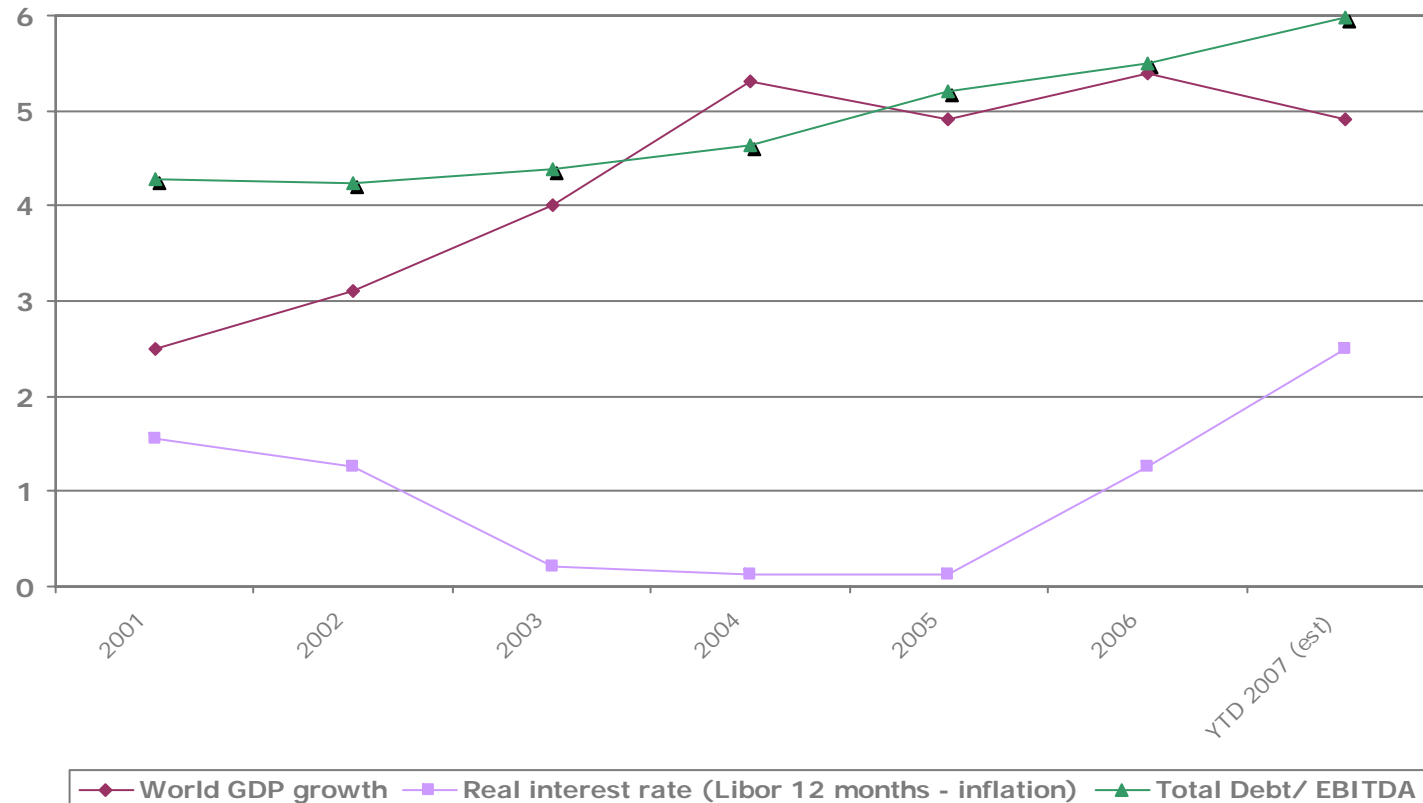
Impact of macro-economic environment on PE business...PE price maker or price taker?



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Annual % for World GDP and real interest rate

Multiple for Total DEbt/Ebitda



Source: EVCA based on data provided by S&P, IMF, Eurostat and British Bankers Association

Problem with the debt as sole factor of value creation



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- Macro-economic impact
- Financial engineering is a commodity, i.e. no differentiation factor in itself

Reduction of agency costs and growth strategy



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- The PE corporate governance model: alignment of interest – strong involvement at Board level
- Growth strategy: the FT reported on a recent study mandated by the European Parliament showing that out of 1,000 buyout companies, 91% implemented growth strategies, against only 54% with restructuring initiatives
- Average holding period of PE houses: 3 to 5 years. Longer than block holders in quoted securities, but the nature of implemented strategies is more important



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From a regulatory perspective

- Long termism vs. short termism: up to regulators to qualify strategies or are the buyers of PE backed companies better suited for this task?
- Asset stripping? Not confirmed by independent research at the level of portfolio companies
- Adopting a systemic approach regarding the use of debt: portfolio company level, overall financial system but also positive impact on the balance sheet of the seller!
- The debate about employment: A Deutsche Bank research paper demonstrated that a rise in buyout investment equal to 0.1% of GDP translates in an increase in real economic growth of 0.2%.

For more information...



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