

# Seven things "everyone knows" about Private Equity

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# Seven things “everyone knows” about PE

1. Too much money...they'll buy anything
2. They're all the same
3. They're all about cutting costs, not long term investment
4. It's “all or nothing” when they come for you
5. Once they've refinanced, they don't care if the business goes bust
6. All managers in PE buyouts make millions
7. I'm going to get a call tomorrow



# 1. Too much money

- £120 bn European PE deals 2007
  - 41% increase on 2005.
- £500bn in firepower.
- Low interest rates

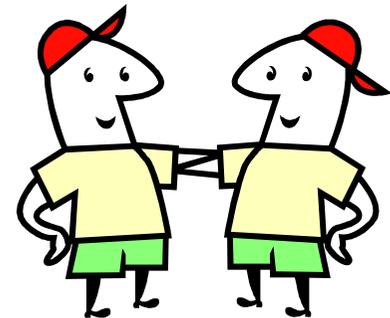
But

- Where are the “reckless” transactions?
- Sometimes the dog doesn't bark...

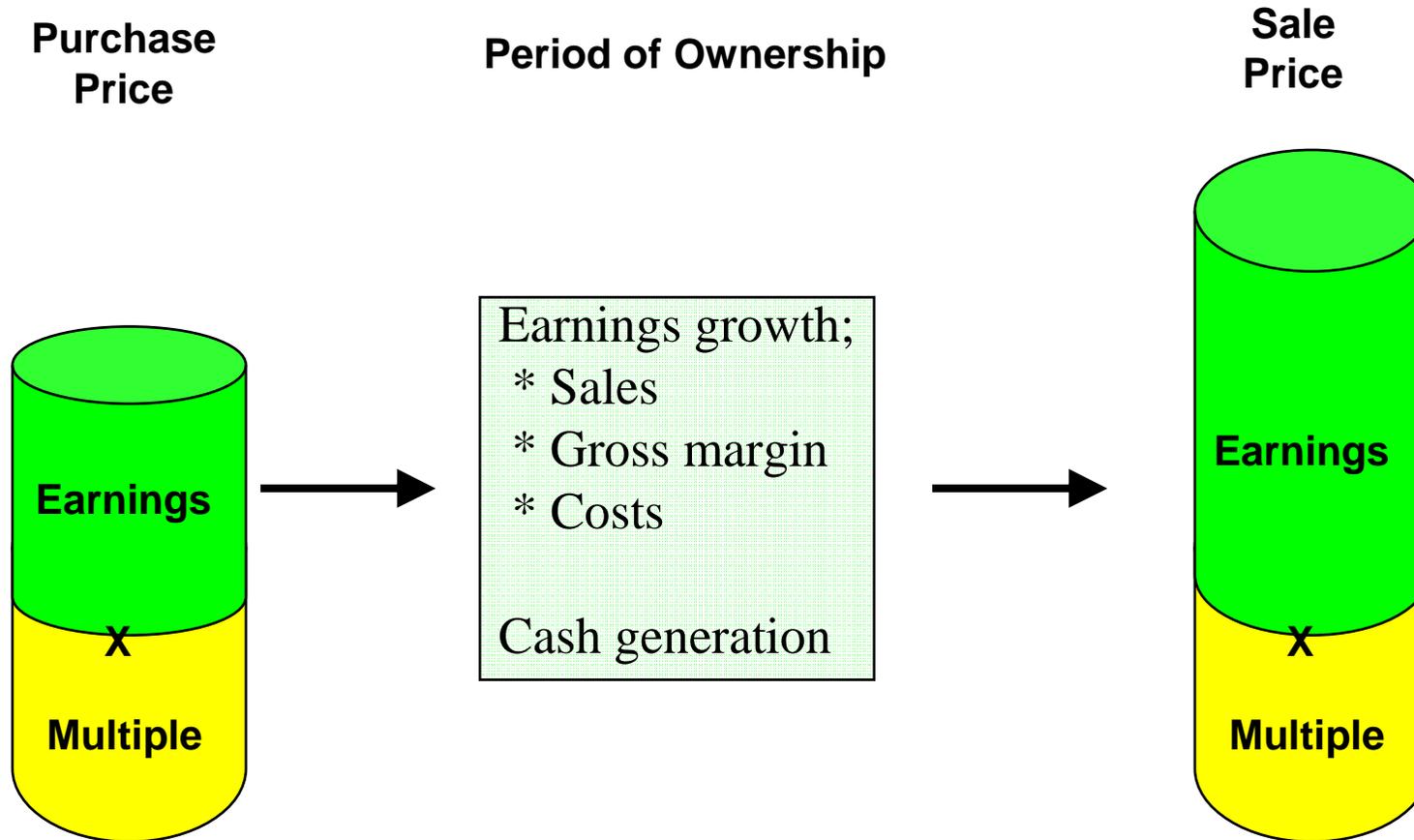


## 2. They're all the same

- PE houses have differing;
  - Geographic coverage
  - Sector focus
  - Target size
  - Fund size
  
- Look at;
  - Deals they have done
  - If have specialist advisers or operating partners
  - key individuals' deal experience



### 3. They're all cutting costs...



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Earnings;

Must be real

Must be sustainable

Must be cash

Must be growing in future years

=> Determines the multiple

Sale  
Price



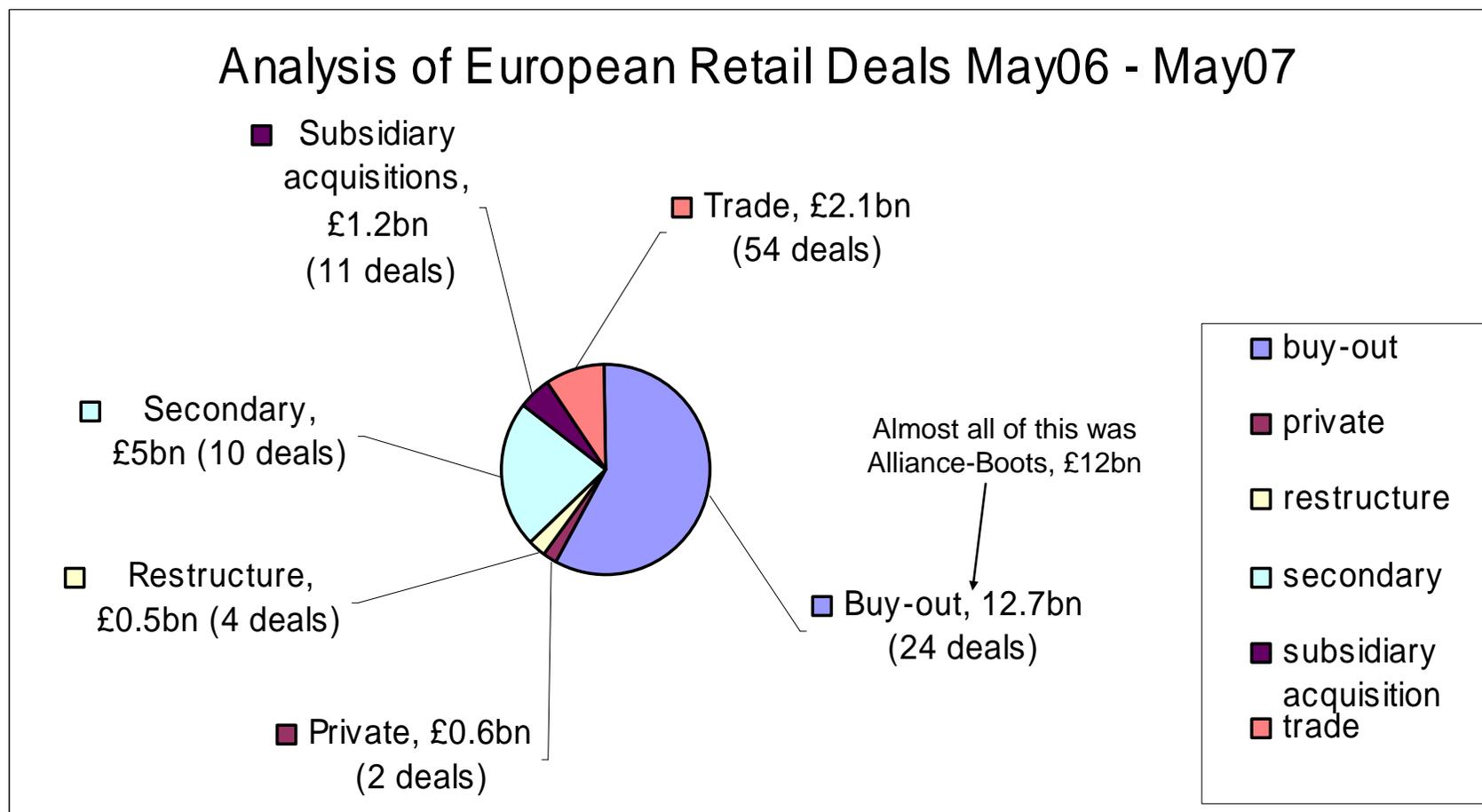
## 4. It's all or nothing...

- Public to Privates.
- Secondaries or tertiaries
- Subsidiary carve-outs (from PE, private or PLC's)
- Dual tracks



# What sort of deals are done?

£22bn in 105 Retail deals (Europe) to May'07. 24 deals were PE backed buy-outs



## 5. Once they've refinanced, they don't care

- Refinancing enables PE to hold company for longer
- Whilst still obtaining superior returns
- PE cannot afford reputation for neglecting companies
- Let alone employees' pension funds
- Not everyone nor every deal is perfect, but
- Level of failure in plc's is much higher than under PE



## 6. All PE Managers become millionaires

- PE managers are generally asked to put cash in
  - “skin in the game”
- PE managers are geared and aligned very closely to deal success
- PE requires people to perform, and so targets are tougher for senior management
- There is significantly more exposure for top management in potential for career damage and financial loss
  - the risks (and rewards) are higher



## 7. I'm going to get a call tomorrow...

- Are you ready?
- Could you deal with the culture shock?
- Should you be making the call?
- Can you see parts of your business which might benefit from a PE view of their value?
- If there are, isn't it your duty to make the call?

