

Report on performance of private equity-backed companies

The BVCA, in association with Ernst & Young, has today published its first annual report on the performance of the largest UK companies owned by private equity firms as recommended by the Walker Guidelines for Disclosure and Transparency in Private Equity.

The report analysed 28 portfolio companies that met all of the Walker Guidelines criteria at December 31 2007 and a further 14 companies which exited over the period 2005-2007 and met the criteria. The 14 exits form the basis for the returns attribution analysis component of the report.

Harry Nicholson, partner at Ernst & Young, stated that:

“To understand the impact of private equity ownership on business performance, a robust approach is to analyse all of the businesses owned by private equity that meet a set of independently-defined criteria. This report does that. While the data set is small in terms of the number of businesses, it is complete and it will grow with time. The results to date, aggregated across all of the portfolio companies, show that under private equity ownership there has been organic growth in revenue and profits, i.e. excluding the effect of subsequent acquisitions and disposals. Behind this, there has been organic employment growth of around 1% per annum, faster growth in productivity (7.5 % per annum) and investment in new fixed assets ahead of depreciation. The returns attribution analysis on exited investments evidences this further, with equity returns from strategic and operational improvements over and above the average of public companies, on top of a further benefit from additional financial leverage.”

Simon Walker, Chief Executive of the British Private Equity and Venture Capital Association, responded to the report by saying:

“This independently-produced report was commissioned as part of the Walker guidelines process and has been vetted by the Guidelines Monitoring Group. It concentrates on a small (although still significant) number of companies, and covers the time from initial acquisition up to the latest annual accounts or exit, mostly over the period 2003-07 and reflects the market conditions of that time. It is valuable, because it demonstrates that many of the accusations made against private equity at that time were not – and are not now – remotely accurate. Its findings are, furthermore, consistent with a number of other studies. Money was not made during these years through “asset stripping.” Indeed, “asset strapping” – acquisitions rather than disposals – were often a central feature of private equity activity. Debt did play a role in the value creation process but not at the cost of either investments or employment. Strategic and operational improvements were pivotal to success. This last fact is especially relevant as the 2009-2011 period is likely to see private equity companies focus even more forcefully in precisely these fields.”

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Notes to Editors

1. The BVCA - The British Private Equity and Venture Capital Association is the industry body for the UK private equity and venture capital industry. The BVCA has over 400 member firms, representing the overwhelming number of UK-based private equity and venture capital firms and their advisers.

