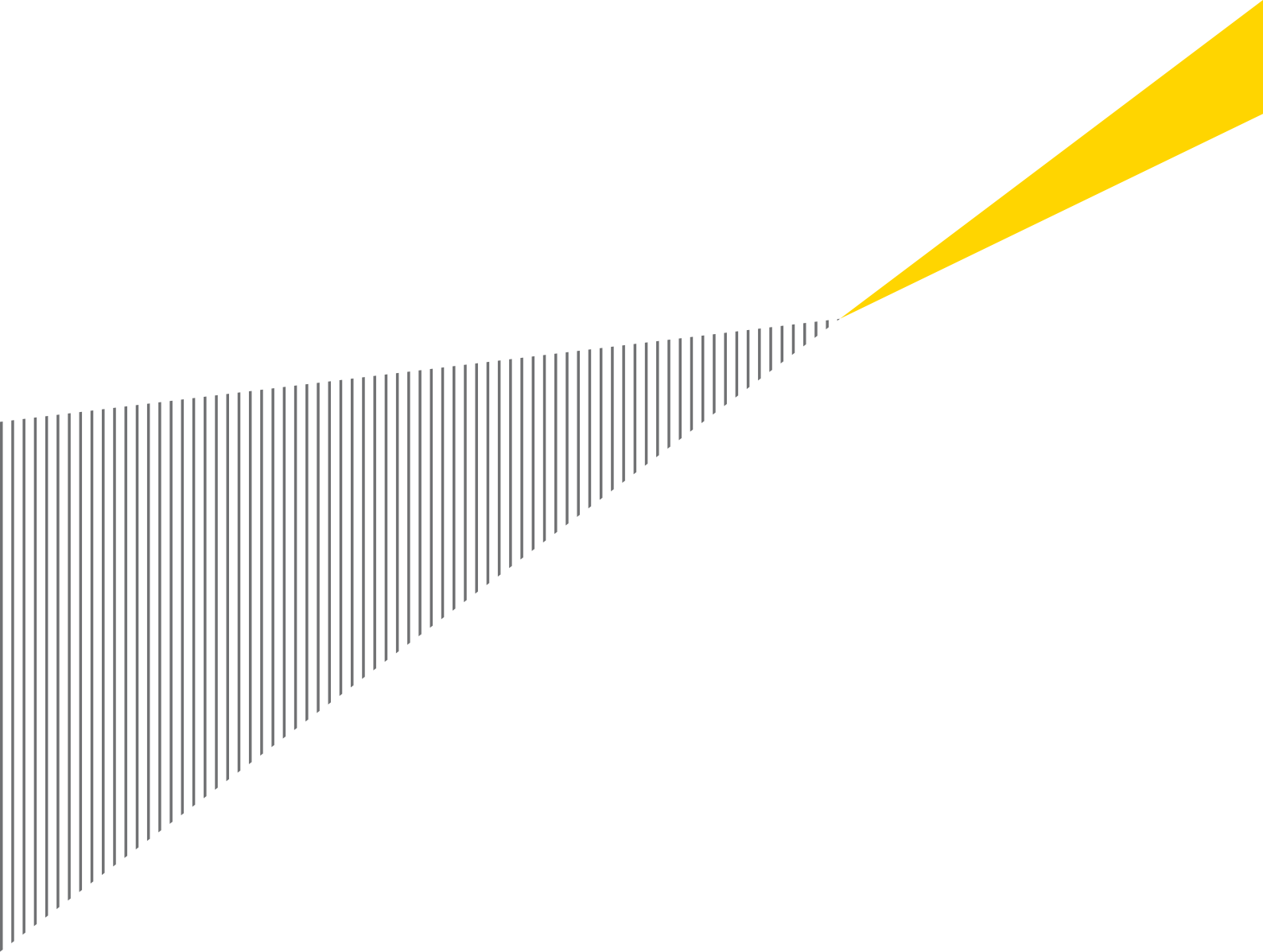


BVCA Annual Report on the performance of Portfolio Companies, 2009



Foreword

Ernst & Young, as advisors to the BVCA, has worked with them to conduct the research and jointly publish its findings. This is the second annual report on the performance of Portfolio Companies, a group of large Private Equity owned businesses that met defined criteria at the time of acquisition. Its publication is one of the steps being taken by the Private Equity industry to meet the Walker Guidelines.

While much of this report is presented in a similar format to last year, there are three factors that add to the relevance of this year's findings:

- ▶ The Guidelines Monitoring Group approved a change in criteria for Portfolio Companies in April 2009, that explains most of the increase in number of companies covered in this report from 28 last year to 47 this year.
- ▶ 38, or 80%, of the Portfolio Companies' latest financial year ends are December 2008 or March 2009, and therefore partially reflect performance through the sharp macro-economic slowdown in the UK that commenced in the second half of 2008.
- ▶ We have introduced benchmarking of the aggregated performance of the Portfolio Companies, by comparing them to companies publicly listed on the London stock market in similar industry sectors and timeframes.

The combination of these factors means that some of the findings from last year have changed. For example, across the revised group of companies organic revenue and profits growth has increased, and organic employment growth has moved to be negative as Portfolio Companies reacted quickly to the onset of recession. Other findings have been supported by the enlarged data set, e.g., productivity growth in labour and assets remains strong, and bolt-on acquisitions significantly outweigh disposals. Compared to public company benchmarks, there is emerging evidence of comparable revenue growth, achieved in Portfolio Companies by faster productivity growth, whilst public companies have grown through faster growth in labour and capital resources.

In next year's report we will be able to see more clearly how this group of businesses have performed in 2009, in the worst UK and global recession for decades - an environment that is challenging the very best of businesses regardless of their ownership.

As last year, comments and suggestions for improvement are welcome, to the contact details on the back page.

Yours sincerely

BVCA, Ernst & Young

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Objectives and summary findings

Objectives

This is the second Annual Report on the performance of Portfolio Companies, published by the BVCA and Ernst & Young, produced as part of the voluntary code of practice on transparency and disclosure adopted by the Private Equity Industry that is independently overseen by the Guidelines Monitoring Group.

In April 2009, the Guidelines Monitoring Group announced a change in the criteria to identify Portfolio Companies. As of that date, they are companies owned and controlled by FSA regulated Private Equity firms, that at the time of their acquisition had an enterprise value greater than £500m (or market capitalisation plus control premium greater than £300m for take-privates), and UK employment of more than 1,000 full time equivalents or (was previously and) more than 50% of revenue generated in the UK. This change in criteria was the major reason for the increase in the number of Portfolio Companies, from 28 at 31 December 2007 to 47 at 31 December 2008.

This Annual Report provides aggregated data and independent review on key aspects of the performance of the Portfolio Companies, from the time of the acquisition by Private Equity investors through to the latest annual report. Its specific objectives are:

1. To embed and develop the data collection process commenced last year, to extend it to the 19 new Portfolio Companies, and report compliance.
2. To analyse the data set to enable a fact-based understanding of key aspects of the performance of these businesses under Private Equity ownership.
3. To compare the aggregated performance of the Portfolio Companies against relevant economy-wide and public company benchmarks.

Summary findings

Objective 1. Compliance and data set

All Private Equity firms complied with the request to provide information on the performance of their Portfolio Companies, by completing a data template that, compared to last year, had extended requirements on pensions, working capital and trading. The data was drawn from audited annual reports, and additional company and Private Equity sources.

As at 31 December 2008, there were 47 Portfolio Companies that met the criteria at the time of acquisition. The increase of 19 on last year's report is largely due to the change in criteria, with five new investments in 2008. There were no exits of Portfolio Companies in 2008. The 47 Portfolio Companies were acquired for an aggregate £82bn in enterprise value, funded by £26bn of equity invested and £56bn of net third party debt. At latest year ends (through to March 2009), the 47 Portfolio Companies had total revenue of £54bn, EBITDA of £8.6bn, and employment of 353,000, 67% of revenue and 78% of employment was in the UK.

Objective 2. Performance of the Portfolio Companies under Private Equity ownership

The Portfolio Companies have grown revenue, profits and productivity under Private Equity ownership, measured from the time of acquisition to latest data - measured throughout this report as the latest year end. 80% of the Portfolio Companies data is to either December 2008 or March 2009 (the remaining 20% are earlier in 2008), and therefore the results in this report start to include the effects of recession. Next year's report will provide more complete data on performance in 2009.

The weighted average annual growth in revenue from acquisition to latest data is 9.1%, with 7.5% of this due to organic growth and the rest due to the effect of bolt-on business acquisitions in excess of disposals. Reported growth in profit was 11%, with 8.8% of this from organic growth (profit is defined throughout this report as earnings before interest, tax, depreciation and amortisation). The effect of faster growth in profit versus revenue meant that the profit margin increased by one percentage point over the period. Both revenue and profit growth rates were lower in the latest year, reflecting the onset of UK and global recession in the second half of 2008, by one percentage point.

The average annual organic growth rate of employment is negative, (0.2)%, compared to last year's finding of positive growth of 1%. All of the decline in organic employment is explained by actions taken in the latest financial year, as the Portfolio Companies responded to the slowing economy. The total number of jobs in the UK declined by a similar amount over this period. Total employment rose due to the net effect of more employees in bolt-on acquisitions than the number in businesses disposed.

There was strong growth in labour productivity, growing at 8% per annum from acquisition to latest data across the Portfolio Companies. This is a similar finding to last year's study and is significantly ahead of the UK average of 1% growth per annum over an equivalent period.

There was also growth in asset productivity. Investment in capital expenditure exceeded depreciation, investment in bolt-on acquisitions exceeded proceeds from disposals, and for the 14 Portfolio Companies that reported R&D investment, total cash expenditure has more than doubled. The rate of annual revenue growth exceeded the growth in assets leading to an increase in asset turnover. Working capital was also carefully managed, with the net working capital balance flat despite the increase in revenue.

The average ratio of net debt to EBITDA was 7.9 at the time of acquisition. While there was growth in profits, third party debt also grew to fund additional investments, and the ratio of debt to profit had declined marginally at latest year end. There were no major changes in equity shareholdings reported, other than those associated with new investors at the time of bolt-on acquisitions.

Objective 3. Performance against benchmarks

To compare the performance of the Portfolio Companies against the performance of other large UK-based businesses, we have taken the aggregate of public companies in the FTSE All Share as a benchmark, weighted by timeframe and industry sector to match the Portfolio Companies. Given the methodology and data issues described in the appendix, these results are not definitive but help to position the findings of Private Equity owned businesses in a broader corporate context.

In summary, the Portfolio Companies have achieved similar levels of reported revenue growth to their public company benchmarks of around 9%. Portfolio Companies have grown through faster growth in productivity of labour and assets, with positive but more restrained growth in resources, whilst public companies have grown labour and assets faster, with less benefit from productivity growth. As a result, the Portfolio Companies have delivered faster profit growth and improvement in return on operating assets than the public company benchmarks. If borne out by future years' research, these findings suggest a demonstrable economic benefit associated with Private Equity ownership of these large businesses. They also support the strategic and operational improvement over and above public companies reported on in last year's analysis of returns attribution on exited investments.

However the immediate challenge for Portfolio Companies, and all businesses, is how to manage through the sharp economic slowdown in 2009, the results of which will be covered in next year's report.

Compliance and data set

Definition of Portfolio Companies and Compliance

This study by the BVCA and its appointed advisor Ernst & Young reports on the performance of all the large, UK businesses owned by Private Equity firms that meet the criteria determined by the Guidelines Monitoring Group. It forms part of the adoption of the Private Equity industry of a series of recommendations to enhance transparency and disclosure.

The objective of this Annual Report is to present independently prepared information on the performance of Portfolio Companies during their period of ownership by Private Equity investors. By capturing information on all of the businesses that meet a clear set of criteria at the time of their acquisition, there is no selectivity or performance bias in the resulting data set. This is the most accurate way of understanding what happens to businesses under Private Equity ownership. For example:

- ▶ What growth rates are achieved by Private Equity owned businesses?
- ▶ How does Private Equity ownership of these large businesses effect employment, particularly in the UK?
- ▶ How do Private Equity-owned businesses perform on employment cost, pensions and productivity?
- ▶ Do businesses owned by Private Equity investors invest in capital expenditure and R&D?
- ▶ Is there evidence of acquisitions and/or asset disposals under Private Equity ownership? How do such acquisitions and disposals affect overall performance in trading, employment and investing?

It is anticipated that the findings of this report will inform the political, regulatory and public debate on the impact of Private Equity ownership, by evidencing if and how its distinctive features (including investment selection, governance, incentives and financial leverage) affect business performance.

Definition of Portfolio Companies

A Portfolio Company, as defined for this report, meets the revised criteria set out by the Guidelines Monitoring Group in April 2009, being a company (at the time of its acquisition):

- ▶ 'Acquired by one or more private equity firms in a public to private transaction where the market capitalisation together with the premium for acquisition of control was in

excess of £300m, and either more than 50% of revenues were generated in the UK or UK employees totalled in excess of 1,000 full time equivalents' **or**

- ▶ 'Acquired by one or more private equity firms in a secondary or other non-market transaction where enterprise value at the time of the transaction is in excess of £500m, and either more than 50% of revenues were generated in the UK or UK employees totalled in excess of 1,000 full time equivalents'.

The companies that meet the revised criteria were determined by the BVCA through consultation with its members, and by review of the submissions made to Ernst & Young during the course of the research. As last year, the investee companies that volunteered to comply with the Walker Guidelines but did not meet all of the criteria at acquisition are excluded from this report.

Compliance by Private Equity firms

Private Equity firms were requested to complete a data template, specified by the BVCA and Ernst & Young, for each of the Portfolio Companies.

For the 28 Portfolio Companies reported on last year, data collection entailed provision of the latest year's information, as well as additional information requested this year covering pensions, working capital and certain trading data.

For the 19 new Portfolio Companies, the same data template was completed from the time of acquisition through to the latest year end available.

There were no completed exits of Portfolio Companies in 2008.

Completion of the data template drew on information available in company accounts, and further information that was prepared from Portfolio Company and Private Equity firm sources. This further data enabled analysis, inter alia, of the impact of acquisitions and disposals, and movements in pension liabilities and assets.

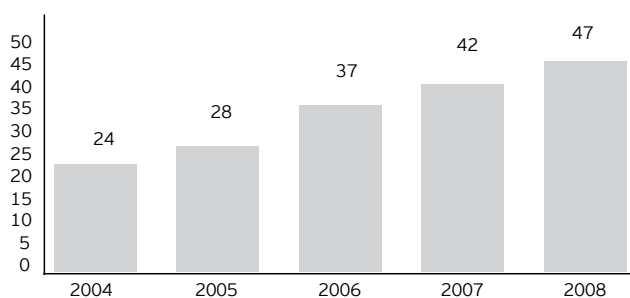
All Private Equity firms complied with the data request, and satisfactorily addressed follow up questions, covering all 47 Portfolio Companies. The number of data points available for each performance measure is described in Appendix D.

Profile of the Portfolio Companies

Size of the Portfolio Companies

At 31 December 2008, there were 47 companies that met the revised criteria. Adopting the revised criteria back over time, the number of Portfolio Companies grew most rapidly in 2006, when it increased by nine as shown in Fig. 1 below. In 2008, the number of Portfolio companies increased by five, represented by five new investments and no exits. The list of Portfolio Companies, and the annual movement in the number of Portfolio Companies is provided in appendices A and B.

Fig. 1: Number of Portfolio Companies as at 31 December



The 47 Portfolio companies represents c.1% of the total number of UK companies that have currently received Private Equity investment, which the BVCA estimate to be c.3,000¹. In terms of employment, a better indication of aggregate economic impact, the 47 Portfolio Companies accounted for 353,000 jobs, of which 78% are in the UK. This represents approximately 25% of the total employment by Private Equity invested businesses in the UK (1.1m)¹, and 1.6% of total private sector employment (18m).

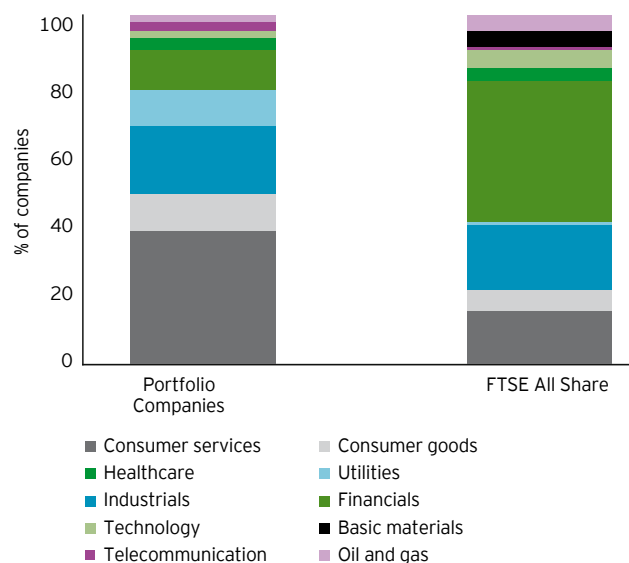
The 47 Portfolio Companies were acquired for a total consideration of £82bn in enterprise value, represented by £26bn of equity investment and £56bn of net debt. This represents an average valuation multiple at acquisition of 11.5 x EBITDA and net debt multiple of 7.9 x EBITDA.

¹Source: The Economic Impact of Private Equity in the UK, 2007, BVCA and IE Consulting.

Industry Sector of the Portfolio Companies

The industry sector profile of the Portfolio Companies shows 49% in the consumer services (including retail) and consumer goods sectors, with a further 30% in the industrials and utilities sectors. Comparing this sector mix to the 600+ companies in the FTSE All Share shows over-representation in the consumer services, consumer goods and utilities sectors, and under-representation in financial services, basic material and oil and gas sectors, e.g., 11% share of businesses in the financials sector is well below the 40% share of the FTSE All Share.

Fig. 2: Industry sector of Portfolio Companies, Portfolio Exits and FTSE All Share



Performance of Portfolio Companies

Performance - trading

Reported trading performance

Overall or reported trading results from the time of acquisition by Private Equity investors to the latest data available, is shown for growth in profits (measured throughout this report as earnings before interest, tax, depreciation and amortisation) and revenue. 80% of the latest year ends are March 2009 or December 2008, with the remaining 20% earlier in 2008.

The enlarged data set shows an average annual reported profit growth of 11%, the same as last year. Reported revenue growth has increased from last year's findings. The 2008 figure was affected by one large disposal that depressed reported revenue growth, which is now less significant in the larger sample.

As profits grew faster than revenue, the profit margin (ratio of EBITDA to revenue) grew from 14.4% at entry to 15.3% at latest data.

Further analysis shows that the Portfolio Companies reported only a slight slowing of revenue and profit growth rates in their latest year, with both down by close to one percentage point from the prior year, despite the start of slowdown in the UK economy in the second half of 2008.

Organic trading performance

Removing the effect of acquisitions and disposals made after the initial investment by Private Equity investors shows organic trading performance. In aggregate, the Portfolio Companies achieved average organic growth in profit of 8.8% per annum and organic growth in revenue of 7.5% per annum from acquisition to latest data.

The increase in organic growth rates in profits and revenue is explained by the higher growth rates of the Portfolio Companies added as a result of the change in criteria.

The 2009 data shows that reported growth in profits and revenue is higher than organic growth, evidencing a net benefit from acquisitions of businesses made by Portfolio Companies in excess of business disposals.

Fig. 3: Annual reported growth rates from entry to latest data

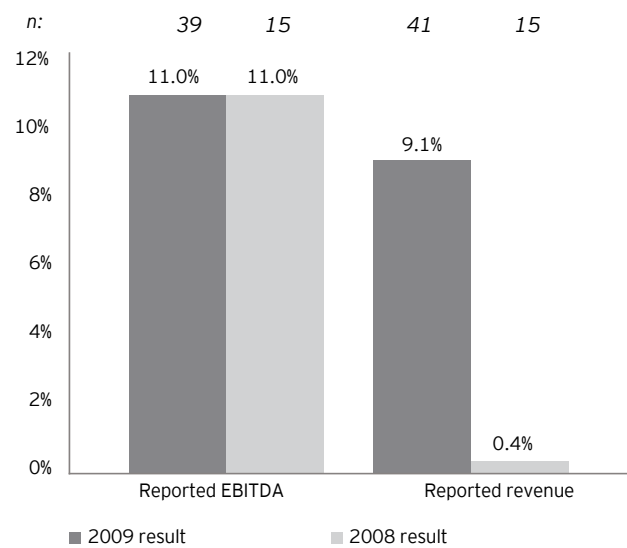
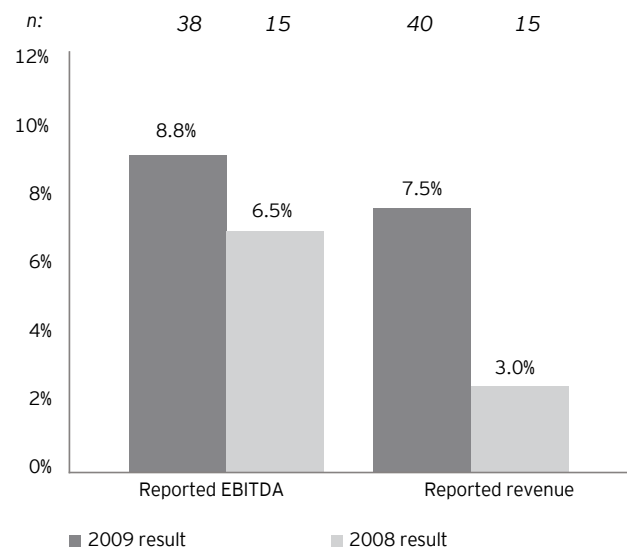


Fig. 4: Annual organic growth rates from entry to latest data



Performance - employment and productivity

Total growth in employment

Reported employment growth has slowed compared to last year's result, reflecting change in sample and a change in the organic trend. Overall, total employment has grown from the time of acquisition to latest data (80% of year ends are March 2009 or December 2008). 78% of total employees were located in the UK at acquisition, a proportion that has not changed to latest data.

Organic growth in employment by company

Excluding the effect of bolt-on acquisitions and disposals reveals the underlying organic trend. As Fig 5 shows, in contrast to last year's result that was equivalent to an average annual 1% organic employment growth, the data now shows an average annual decline in organic employment of (0.2)%. All of the decline is explained by job reductions in the latest year, in which 25 Portfolio Companies made organic reductions in employment. The organic decline in employment in the latest year of (0.4)% per annum compares to a (0.6)% decline in total UK jobs over a similar period.

Similar to last year, the rate of organic employment change varies by Portfolio Company, as shown in Fig 6. Overall, gains and losses offset each other. For example there were seven Portfolio Companies which grew organic employment by more than 20% since acquisition, and four which reduced employment by more than 20%.

Growth in labour productivity

The Portfolio Companies achieved annual productivity growth of 7.7% (measured as gross value added per worker). This result is comparable to last year's, albeit with an enlarged sample.

Annual productivity growth of 7.7% is significantly in excess of the UK economy as a whole, where productivity grew at 1% per annum from 2006 to 2008².

Growth in average employment cost

The average growth in total employment cost per employee grew by an average annual rate of 2.2%. This figure is below last year's result of 5% reflecting the larger data set. This is below the UK economy as a whole, where average earnings grew by 3.7% per annum from 2006 to 2008³.

Fig. 5: Growth in Employment - acquisition to latest data

Employment (000's)	2008 sample (n=27)	Total (n=45)
At acquisition	260.4	325.7
Acquisitions	11.8	23.7
Disposals	(6.1)	(9.4)
Net acquisition growth	5.7	14.3
Organic growth	8.3	(1.7)
Latest date	274.4	338.3

Fig. 6: Organic employment growth by Portfolio Company (n=45)

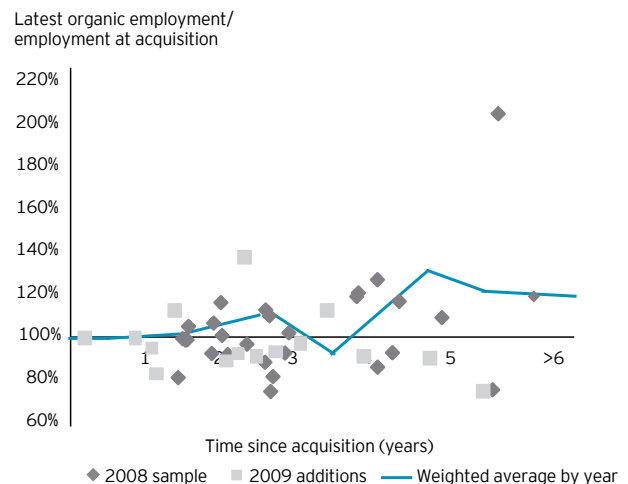
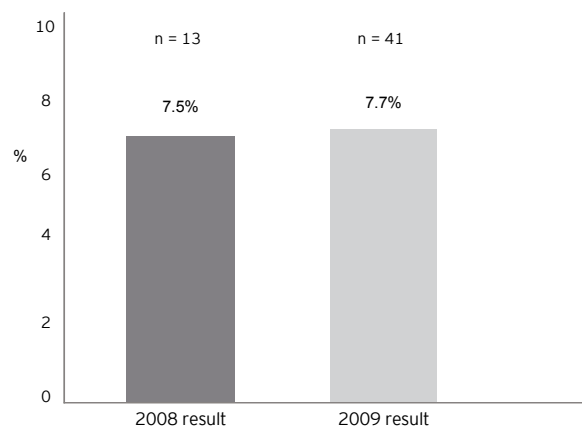


Fig. 7: Annual productivity growth from entry to latest data



¹Source: UK Employee Jobs, Quarterly, Office of National Statistics. Calculated as change from Q108 to Q109 LTM average employee jobs.

²Source: Output per Worker, Office of National Statistics

³Source: UK Average Earnings Index, Office of National Statistics.

Performance - investing

Growth in fixed assets

For the 45 Portfolio Companies where data is available, tangible fixed assets grew by £8.6bn from £32.4bn at entry to £41bn at latest year end data.

Net acquisitions contributed £2.5bn of this growth as assets disposed were less than assets acquired in bolt-on acquisitions. Revaluations and other non-cash adjustments represented £5.3bn of the increase.

The Portfolio Companies invested cash in fixed assets in excess of the depreciation charge, leading to net organic growth of £0.8bn. Analysing this result in more detail, capital expenditure exceeded depreciation in 25 Portfolio Companies, and was less than depreciation in 20, 14 Portfolio Companies reported organic growth in fixed assets of greater than 20% since acquisition, and nine reported declines of greater than 20%.

Working capital

The Portfolio Companies' total net working capital has not changed from acquisition to latest data. 28 Portfolio Companies benefited from a decrease in working capital from acquisition to latest data and 18 saw an increase. The working capital profile of the Portfolio Companies varied significantly due to the differing nature of the businesses. The sample was evenly split (23:23) between those with negative working capital at acquisition and those with positive working capital at acquisition.

Research and development

The sector mix of the Portfolio Companies means by their nature many do not undertake or report separately on research and development. 14 Portfolio Companies provided figures on annual cash expenditure on research of development (reported in either or both of the income statement and balance sheet). From acquisition to latest data, annual R&D cash expenditure increased from £29m to £84m, and represented 4% of these companies capital expenditure since acquisition.

¹See appendix D for details

Growth in asset productivity

Given reported revenue growth of 9%, the results for tangible fixed assets and working capital show growth in asset productivity.

Asset turnover (revenue/tangible fixed assets) grew at an average annual rate of 5%.

Fig. 8: Growth in fixed assets - acquisition to latest data

Tangible fixed assets (£bn)	2008 sample (n=27)	Total (n=45) ¹
At acquisition	24.8	32.4
Acquisitions	2.7	3.5
Disposals	(1.1)	(1.0)
Net acquisition growth	1.6	2.5
Capital expenditure	3.4	5.9
Depreciation	(2.1)	(5.0)
Net organic growth	1.3	0.8
Revaluations, other	1.1	5.3
Latest date	28.9	41.0

Note - there were no material asset disposals in addition to those already reported in the 2008 result. The total disposals in the 2009 result is slightly lower than the 2008 result as Portfolio Companies made corrections to data submitted last year.

Fig. 9: Growth in working capital - acquisition to latest data

(£bn)	At acquisition	Latest date	% change
(n=46)			
Debtors	7.1	8.1	13.6%
Stock	2.6	2.9	15.0%
Creditors	(9.8)	(11.1)	12.9%
Net operating working capital	(0.1)	(0.0)	(67.5%)

Performance - capital structure

Growth in third party debt

The total third party debt of the Portfolio Companies grew by £13bn to £71bn at latest year end date.

Approximately £11bn of the increase was used to fund bolt-on acquisitions, capital expenditure programmes and other investments. For example, the two largest bolt-on acquisitions led to an increase in third party debt of £5bn. A further £2bn of the increase in debt was used to fund payments to shareholders, ahead of any proceeds from sale of the business.

Analysing the grade of debt, while there was an increase in B grade debt from acquisition to latest data, and no increase in the mix of sub-grade/ mezzanine debt over this period.

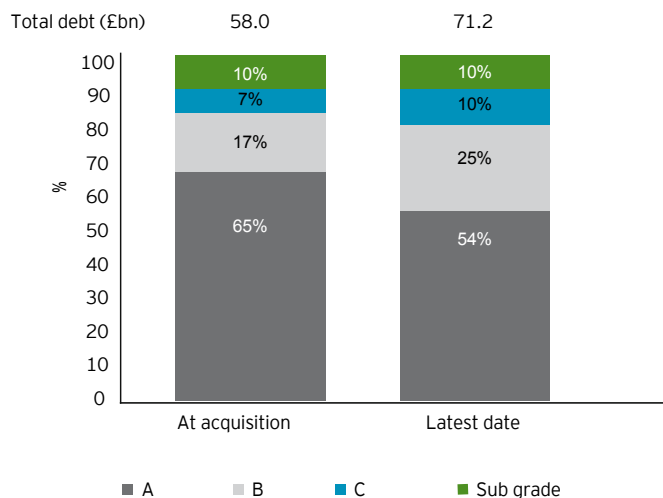
Debt ratios

The ratio of debt to EBITDA is a key measure of a company's ability to service its debt from cash flow. The Portfolio Companies had an average net debt to EBITDA ratio of 8.0 at acquisition. Analysing 39 Portfolio Companies where year on year growth data is available shows that there was a slight reduction of 0.2 from acquisition to latest data. This is due to the fact that growth in third party debt was almost the level of growth in reported EBITDA.

16 Portfolio Companies are asset intensive businesses (defined here as having a ratio of Tangible Fixed Assets to EBITDA of greater than 5). For these businesses, the extent of asset backing is also an important debt ratio, the ratio of debt to assets of 1.1 at acquisition was unchanged at latest data.

There were no material changes in equity shareholdings reported, from date of acquisition to latest year end, other than that related to the entry of new equity investors following large bolt-on acquisitions.

Fig. 10: Third Party Debt by seniority - entry to latest data (n=46)



Performance versus benchmarks

Description of benchmarks

In order to assess the performance of the Portfolio Companies against other businesses, we have sourced data on the 600+ companies captured in the FTSE All Share index. To match this data against the Portfolio Companies, the data sets have been compared based on common industry groups and time periods. The methodology used to compare the FTSE All Share data to the Portfolio Company performance data, and its limitations, are described in Appendix D.

Performance in comparison to public company benchmarks

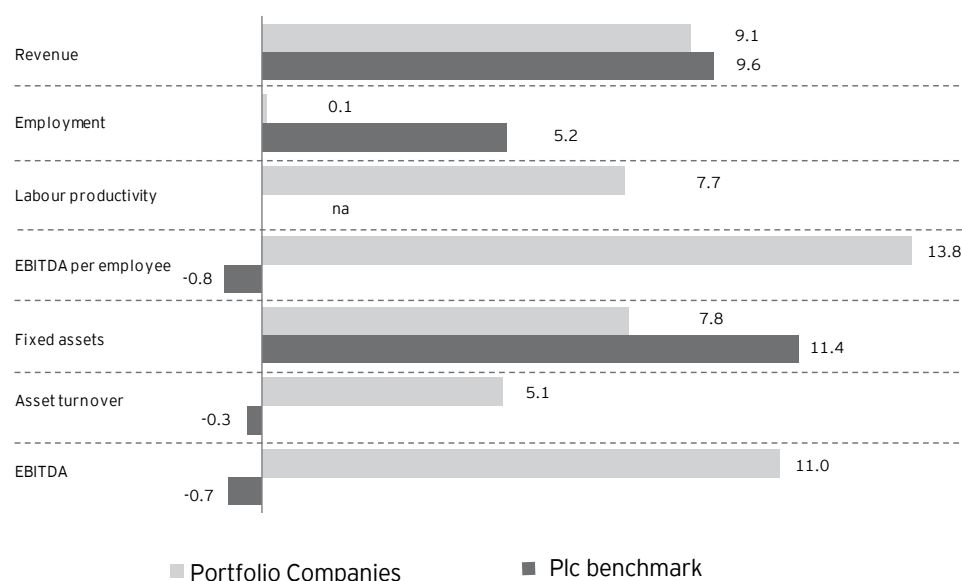
In aggregate, the Portfolio Companies achieved a similar rate of annual revenue growth, around 9%, compared to public company benchmarks, a result that includes the effect of organic growth and acquisitions less disposal for both groups.

The Portfolio Companies achieved this revenue growth with strong growth in labour productivity (measured both by labour productivity and the proxy for comparison with Plc's of EBITDA/employee), slight growth in employment, growth in fixed assets (less than revenue) and an improvement in asset turnover. As a result of the productivity improvements, profit grew fast and faster than revenue.

The public company benchmarks achieved a similar average annual revenue growth rate. By contrast, this was largely due to increase in resources - with labour growing at 5% per annum and fixed assets at 11%. The measures of productivity of labour and assets both showed little improvement. Despite the strong revenue growth, the absence of improvement in productivity led the average annual rate of profit growth to decline slightly (although this is explained by profit declines in two industry group benchmarks that mask profit growth in other industries).

While there are limitations with the methodology, as described in Appendix D, the direction of these findings supports strong productivity growth in Portfolio Companies, above the rates being achieved by public company benchmarks.

Annual growth rates from entry to latest data, Portfolio Companies vs. Plc Benchmarks (See Appendix D for methodology and limitations)



Appendices

Appendix A

List of Portfolio Companies

Portfolio companies (at 31 December 2008)

- ▶ Acromas¹
- ▶ Airwave Solutions
- ▶ Alliance Boots¹
- ▶ Annington Homes
- ▶ Arqiva¹
- ▶ Associated British Ports
- ▶ Baxi
- ▶ Biffa
- ▶ Birds Eye Iglo
- ▶ Brakes Group¹
- ▶ British Vita
- ▶ CenterParcs
- ▶ Domestic & General¹
- ▶ Doncasters
- ▶ DX Group¹
- ▶ Emap
- ▶ Enterprise¹
- ▶ Equiniti¹
- ▶ Expro
- ▶ Fitness First
- ▶ Foodvest
- ▶ Gala Coral¹
- ▶ Gondola Holdings¹
- ▶ John Laing
- ▶ LINPAC
- ▶ Merlin Entertainments Group¹
- ▶ Moto¹
- ▶ National Car Parks¹
- ▶ NCP Services¹
- ▶ New Look¹
- ▶ Northgate Information Solutions
- ▶ Odeon & UCI Cinemas¹
- ▶ Osprey (AWG)¹
- ▶ Partnerships in Care¹
- ▶ Phones4U¹
- ▶ PHS¹
- ▶ Queens Moat Houses
- ▶ Somerfield¹
- ▶ Spire Healthcare¹
- ▶ Thames Water¹
- ▶ Trader Media Group
- ▶ Travelex
- ▶ Travelodge¹
- ▶ United Biscuits¹
- ▶ Viridian Group¹
- ▶ Wales & West Utilities¹
- ▶ Weetabix¹

¹ Included in BVCA Annual Report on the performance of Portfolio Companies, 2008

Appendix B

Movement in the number of Portfolio Companies, 2005-2008

Number of Portfolio Companies	2005	2006	2007	2008
At 1 January	24	28	37	42
Exits of Portfolio Companies	(5)	(5)	(5)	-
Acquisitions of Portfolio Companies	7	12	8	5
Acquisitions of new Portfolio Companies, that were formerly part of existing Portfolio Companies	2	2	2	-
Net acquisitions	9	14	10	5
At 31 December	28	37	42	47
Memo: exits to existing or as new Portfolio Companies	2	2	4	-

Exits of Portfolio Companies

- ▶ The effect of Private Equity ownership of a business is evaluated from the date of acquisition to the date of exit. The date of exit is defined as the date of completion, or in the case of IPO onto a public stock market, the date of first trade.

Acquisitions of Portfolio Companies

- ▶ Acquisitions of new Portfolio Companies represent all companies entering the group of Portfolio Companies, as acquisitions of businesses from other companies, private shareholders or take-privates. This group includes a number that were also exits (see below).

Acquisitions of new Portfolio Companies, that were formerly part of existing Portfolio Companies

- ▶ This defines new stand-alone businesses that were disposed of by Portfolio Companies, and that meet all Walker criteria at acquisition and therefore become new Portfolio Companies.

Exits to existing Portfolio Companies or as new Portfolio Companies

- ▶ As some exits by Private Equity investors are to new Private Equity investors, and meet all Walker criteria, or are bolt-on acquisitions by existing Portfolio Companies, these companies remain within the group of Portfolio Companies.

Appendix C

Pensions

Pension provision

30 Portfolio Companies offered defined benefit (DB) pensions for their employees at acquisition. Of these, 28 companies continue to pension the service of existing employees through the DB scheme, with four companies offering a DB pension for new joiners. Two Portfolio Companies moved benefit provision to defined contribution (DC).

41 Portfolio Companies offered DC pension benefits at acquisition and all these schemes continued. Three Portfolio Companies introduced DC schemes after acquisition, two as replacements for discontinued DB schemes (as above) and the third as a business was acquired as an assets only transaction. No company reported a reduction in its contribution requirement since acquisition.

Financial position of DB pensions

In aggregate, the financial position of the DB schemes has remained stable since acquisition. Looking at the accounting data through to latest year end, there was a net deficit equal to 0.8% of the value of liabilities, a level that has reduced since acquisition.

Over the period since acquisition the holding of equities by Portfolio Company DB schemes has fallen from 44% to 33% of total assets. This is partly due to market movements and partly due to changes in investment strategy towards lower risk assets.

Clearance

Clearance was introduced in April 2005. It describes the voluntary process of obtaining a clearance statement from the Pensions Regulator, which gives the applicant assurance that the Regulator will not issue a contribution notice or a financial support direction to the applicants in relation to a defined benefit occupational pension scheme and a particular 'event'. 'Events' include transactions, agreements, decisions, other acts and failures to act.

Since the clearance process was introduced in April 2005, 17 acquisitions of Portfolio Companies have taken place of which seven reported to have sought and received clearance.

Value of Defined Benefit pension assets and liabilities¹ - acquisition to latest data (n=28)

(£bn)	At acquisition	At latest data
Value of assets	12.7	12.1
Value of liabilities	(12.9)	(12.2)
Net deficit	(0.2)	(0.1)
Deficit as % of liability	1.8	0.8

Mix of Defined Benefit pension assets - acquisition to latest data (n=28)

(%)	At acquisition	At latest data
Equities	43.9	32.6
Fixed interest	50.5	56.1
Cash and deposits	3.2	2.5
Alternative investments	0.5	4.1
Other	2.0	4.6
Total	100	100

¹ Assets and liabilities are presented on an accounting basis at latest year end and under the relevant accounting standards

Appendix D

Methodology – process and measuring performance

Process

The approach to producing the 'BVCA Annual Report on the Performance of Portfolio Companies' under the revised criteria was agreed with the BVCA and the Guidelines Monitoring Group (GMG) in May 2009.

The list of Portfolio Companies, and their Private Equity owners, was provided to Ernst & Young by the BVCA for the purposes of preparing this report in May 2009.

Ernst & Young contacted the Private Equity firms on 12 June 2008 and requested a standard data template to be completed for each Portfolio Company. Individual company data is held confidentially in an electronic data room that will facilitate future years' submissions.

The data returned to Ernst & Young was checked for completeness, and iterated with the Private Equity firms as required and possible within the timeframe. Ernst & Young undertook independent checks on c.10% of the returns against published company accounts. This found no material discrepancies.

Data gathering was completed in October 2009. Ernst & Young submitted its statement of compliance to the GMG on 5 November 2009.

Measuring performance

The data set is built up from the individual companies under their period of ownership by Private Equity investors. For the 47 Portfolio Companies, the data set extends from the date of acquisition to the date of the latest annual report (nine companies reported in Q2-Q3 2008, 22 in Q4 2008, and 16 in Q1 2009).

The maximum number of data points that can be drawn from the data set depends on the type of performance measure.

- ▶ Change in the value of point-in-time measures, including employment, fixed assets and capital structure are analysed from the date of acquisition to the latest year end in the company accounts/date of exit. These measures cover all Portfolio Companies, with one exception where the Portfolio Company has not yet been required to publish an annual report given the date of acquisition.
- ▶ Change in the value of point-in-time measures for organic vs. reported trends, e.g., employment and fixed assets. These measures cover all Portfolio Companies, with the

exception noted above and a further exception where the Portfolio Company was not able to provide a complete analysis of historical acquisitions and disposals.

- ▶ Change in the value of trading measures, including revenue, profit, capital expenditure and cash flow, require full year comparison to full prior year (to avoid the error inherent in annualising partial year figures). Given the dates of acquisitions and company year ends, these measures can be determined for 41 of the 47 Portfolio Companies. One Portfolio Company was unable to provide a complete breakdown of historical acquisitions and disposals (as above). Two Portfolio Companies had negative EBITDA at acquisition meaning that an annualised growth rate cannot be calculated. Therefore, for organic profit growth the number of companies is 38.

As there were no completed exits of Portfolio Companies in 2008, we have not reported on returns attribution. The calculation methodology was reviewed in May 2009, and one change agreed by the BVCA (use of average versus entry leverage in determining the additional leverage factor). This revision does not materially change the results presented in the 2008 report.

Each Portfolio Company dataset has been analysed as part of this study. Variations in performance have been identified and understood. The views in this report reflect the results of both analysis of the datasets and this additional review, and represent an aggregated view of what has happened to these businesses under Private Equity ownership.

However, as last year, we continue to recognise that the total number of data points is small - both in the number of Portfolio Companies and the time series available. Whilst the data accurately reports on the Portfolio Companies themselves, it may not be an accurate guide to the future development of Portfolio Companies under Private Equity ownership, nor other businesses owned by Private Equity investors.

At the time of writing, the Guidelines Monitoring Group was completing a review of the size of the enterprise value at acquisition criterion used to determine eligible Portfolio Companies. In addition to the passage of time, a lowering of this criterion would increase the size of the fact-base to be addressed in future reports.

FTSE All Share benchmarks

There are four features of the approach to benchmarking:

- ▶ The comparator group is taken to be publically listed companies on the London market - as they are large, UK based, and data is readily available from Thomson Datastream. There were 619 companies in the FTSE All Share at 1 September 2009, of which 517 were members of the All Share Index throughout the period from 2003 to 2008.
- ▶ To have comparable time measurement, each Portfolio Company is matched to the public company data set for the comparable years, i.e., from the year of acquisition to latest year end data.
- ▶ To obtain a sector-based comparison, the Plc benchmarks are computed at an industry group level - as defined in the FTSE classifications - and then matched to individual Portfolio Companies. Certain activities classified within the 'Financials' industry are not comparable to any of the Portfolio Companies, so non-comparable sectors (Real Estate Investment and Services, Real Estate Investment Trusts, Banks, Equity and Non-Equity Investment Instruments) were excluded from the benchmark population to improve comparability.
- ▶ All results, including benchmark figures, are based on averages weighted by entry values.

Issues with approach to benchmarking

There are a number of issues with regard to the approach to benchmarking to be aware of that may influence the results:

- ▶ Reported figures include the effect of acquisitions and disposals, which for public companies in aggregate, it is not possible to separately analyse.
- ▶ The mapping of companies to FTSE industry groups is important to take account of differential trends at the sector level. However, the mapping is high level and may be inaccurate for any individual Portfolio Company. By contrast, more specific sector mapping reduces the size of the benchmark group.
- ▶ Given the sharp change in macro-economic environment, the timing of year ends may also have an effect on the benchmark. We note that 35% of Portfolio Companies had a year end in Q109, compared to 25% of the FTSE All Share.
- ▶ For some figures, e.g., profits, employment, the definitions captured in the FTSE All Share company databases may not be wholly consistent with the definitions adopted in our data gathering. In particular, the Plc benchmark for profit relates to operating income and not EBITDA, as this appears more reliable data.
- ▶ The FTSE All Share data has survivor bias (defined at end point rather than start) unlike the Portfolio Company data.
- ▶ In future reports we will continue to address and refine the methodology against these issues.

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