

Former UK Cabinet Minister speaks at BVCA Summit ‘Get on the front foot’ Milburn urges industry

Alan Milburn, the former UK Cabinet Minister, called on the private equity industry to win the “battle for hearts and minds”.



the-sand approach is not the way to proceed. It requires cool reflection, a shift in strategy and a concerted effort to engage. The industry needs

to build a coalition of support, and this means getting out and winning some key arguments. The role private equity can play in the economy is needed now more than ever.”

Speaking on the same day as the Alternative Investment Fund Managers Directive received full approval in the European Parliament, Mr Milburn, who was recently appointed to chair Bridgepoint’s European Advisory committee, said

Speaking in a personal capacity at the BVCA Summit 2010 in London, Mr Milburn said: “It is time for the industry to get off the back foot and onto the front foot. It has been hiding its light under a bushel. The best way of battling ideology and ignorance is not to shy away from the debate but to engage in it. It is a battle for hearts and minds.

“It is easy to develop a siege mentality but the ostrich-head-in-

that private equity was at risk of becoming a victim of the trend for increasing state intervention in the economy.

“These are turbulent times for the world economy and our industry. The industry has bounced back and it has an enormous role to play in creating wealth and jobs, providing public policy does not hamper it from doing so. It is a truism that the global financial crisis was a turn-

ing point for the whole world. It has unleashed an impulse for change. In the years since the financial crisis, states across the world are dusting down instruments that for decades they felt unable to use. For decades it was argued the state had little role in the market. Today the state is back in. However, we must not throw the baby out with the bathwater. Europe has given us a terrible example of how ideology rarely makes good policy.”

Also speaking at the BVCA Summit 2010 was Marco Pagni, Chief

Administrative Officer of Alliance Boots. He said: “Today, I believe strongly in the ownership model we have at Alliance Boots - we have a partnership between a private equity and a private owner, where the owners’ direct involvement means decisions are made rapidly and efficiently for the future growth of our business. Since being taken private three years ago Alliance Boots has invested over £1bn across the Group, increased employment by 10% to 115,000 and each year delivered double digit profit growth.”

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Letter from the CEO

Welcome to a special edition of the BVCA Briefing. Following the phenomenal success of this year's BVCA Summit, we felt it was only fitting that a wrap-up of the day's proceedings was compiled to underline just how much of an important fixture it is on the private equity calendar.

The audience – some 400+ strong – were rewarded with a range of insightful, interesting and hard-hitting discussions that went to the very heart of what private equity stands for today.

It was especially refreshing to hear from Marco Pagni, the Group Legal Counsel and Chief Administrative

Officer of Alliance Boots. On occasion, industry conferences can seem a little introverted, dominated as they are by private equity and venture capital professionals, with the occasional smattering of LPs. Here we had the opportunity to hear from someone who is working at the sharp end, who is involved in actually running a private equity portfolio company. Alliance Boots really is one of the industry's great success stories, so it was fantastic to hear from Marco and get an insider's view.

Of the many themes that emerged during the course of the key-note speeches and the breakout

sessions, the challenges our industry still faces was one of the most dominant. Whilst the worst is likely behind us, the path to success will not be easy. And nor should it. Private equity and venture capital has proven throughout the years that it is a force for good in the economy, and this can only be done through hard work.

I have no doubt that the industry will rise to the challenge, just as it has always done. Indeed, its ability to adapt swiftly to radically different times has been a message that was heard repeatedly throughout the day. It is this capacity to evolve

in the face of new economic conditions which will place private equity and venture capital at the heart of the recovery. Through the combination of superior management skills and operational expertise, private equity and venture capital funds are creating real value in the companies they invest in.

And I hope you got real value out of the Summit. The feedback I have received so far from attendees has been overwhelmingly positive, and I hope you can join us again in 2011.

Simon Walker

Hearing from a PE-backed company Private equity a good fit for Boots

Alliance Boots is an example of all of the "rights" and none of the "wrongs" of private equity ownership, according to Marco Pagni, Group Legal Counsel and Chief Administrative Officer of Alliance Boots.

In his keynote speech at the BVCA Summit, Mr Pagni discussed how private equity had changed Alliance Boots.

He started by delving into the not-so distant past – after the Alliance UniChem and Boots merger in 2006 but before the take private by KKR in 2007. During that time the company found that, as a public company, its ability to change and adapt was limited. Decisions were not being made and implemented quickly enough, and the company's vision - to be a global leader - was not moving forward at the required pace.

Since being taken private in 2007, Alliance Boots has flourished. The business is being led by a highly engaged and experienced management team which has the direct and daily contribution of the owners, Stefano Pessina and KKR, to create long-term sustainable value - which is shown by the strength of the



Group's recent operational performance.

With investment of over £1bn across the Group since 2007, Alliance Boots has been able to grow the business, both in the UK and internationally. Furthermore, KKR has supported Alliance Boots' strong commitment to the corporate social responsibility agenda, with an

increased scope and intensity of its social initiatives since privatisation.

While stating that the Alliance Boots experience has seen all of the "rights" and none of the "wrongs" of private equity, Mr Pagni was keen to point out that his intention was not to portray private equity as a panacea. Indeed, when managed badly, private equity ownership, just

as public ownership, can be to the detriment of companies.

"Whether private equity or public ownership works best depends on the development stage and needs of a company. At Alliance Boots, at this stage in its development, the current partnership between private ownership and private equity works best," he said.

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Pension Corp head “frustrated” with industry

Truell calls for more ambition

Edmund Truell, Founder of the Pension Corporation, called on private equity to show more ambition in the wake of the economic downturn.

Speaking at the BVCA Summit 2010, the former Duke Street Capital head said: “Private equity has not been as nimble on its feet as it should have been. It has shown a failure of ambition. There has been a flight to safety. One has only to look at the number of secondary buyouts this year.”

Truell, also a former Chairman of the BVCA, criticised what he saw

as a lack of imagination and boldness. He cited figures from Preqin which state that there is currently US\$456bn of investor capital uninvested. “I am very frustrated as an investor that none of my commitments have been drawn down.”

He also accused the industry of being anti-rational and pro-cyclical. “As markets go up so private equity firms are investing more and more, yet when prices were low during the downturn, private equity stopped investing.”

By way of evidence he pro-

duced research which showed that in the year after the collapse of Lehman Brothers, the world’s top 10 private equity firms invested just under US\$12bn, compared to US\$120.4bn in the year before August 2007.

He said they are plenty of opportunities for acquisitions, and pointed at the €2.7trn of European bank-owned assets up for sale – including hotels, infrastructure, trains, ships and aircraft – as well as governments looking to offload assets in order to cut deficits.

Aside from criticising the GPs for their own lack of ambition and fear of failure, Truell also questioned whether the actions of LPs were partly to blame. Forty percent of investors surveyed by Preqin did not make a commitment to a private equity fund during 2009, and failed fundraisings were 145% higher than the previous year, worth just under US\$40bn.

“Private equity needs to put itself through the wringer,” he said, “and investors should apply techniques used on portfolio companies to the GPs themselves.”

The pros and cons of private equity

Leveraged expertise or leveraged bets?

In his talk at the BVCA Summit, Ulf Axelson, Abraaj Capital Chair in Finance & Private Equity at London School of Economics, explored the positive and negatives of the private equity model from an academic standpoint.

Kicking off with the negatives, he quoted Poul Nyrup Rasmussen, former prime minister of Denmark, current President of the Party of European Socialists, and one of the driving forces behind the Alternative Investment Fund Managers (AIFM) Directive: “These ‘leveraged buyouts’ leave the company saddled with debt and interest payments, its workers are laid off, and its assets are sold. A once profitable and healthy company is milked for short-term profits, benefiting neither workers nor the real economy.”

Axelson argued that private equity is one solution to a key problem in financial economics, namely the difficulty in channelling resources from those that have them to those

that can “put them to the most productive use”.

“In public firms, dispersed shareholders have little incentive or means to gather information and monitor management. Private family firms bear too much risk and may not be best suited to run those businesses,” he said.

By contrast, private equity’s strength is its strong, expert and informed ownership model. It has small, informed boards that monitor the company closely, and import good management practice. Debt enables private equity investors to leverage their expertise across more investments, and also instils a level of discipline in the portfolio company managers.

The very fact that the PE house will at some point need to exit provides a focus and urgency to company management, and the importance of track record to future fundraising incentivises performance.

On the question of whether private equity investors add value to the companies they finance, Axelson cited academic evidence. US public-to-privates in the 1980s show big improvements according to

an 1989 study (Kaplan), which has been confirmed in Europe on similar deals by other reports. Later public-to-privates have also shown improvements, but these have been smaller (Guo, Hotchkiss, Song (2010)). There is also evidence of

positive spillover effects, with the 1980s LBO boom leading to better governance in public firms.

Axelson also looked at returns to LPs. According to the research, returns are reduced by more funds in the market, increasing fund size and the number of investments a firm makes per partner it has, as well as excessive amounts of leverage. In light of the lower debt multiples being used in the post-recession world, he concludes that the outlook for 2010 funds is good.

Despite the difficulties in recent years, Axelson believes the private equity model has proved itself. It has enhanced performance without sacrificing workers or returns. As a result of the fallout from the boom period, there are likely to be fewer and smaller funds, using less leverage, which could well lead to higher returns.

In short, Axelson is broadly positive about the future of the industry. “The model will endure because it makes sense.”



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US instability does not mean private equity can be complacent, warns Doug Lowenstein

Capitol gains

A **divided Congress** will not mean the end of regulatory uncertainty for the industry, Douglas Lowenstein, President of the Private Equity Growth Capital Council, said at his keynote speech at the BVCA Summit.

Speaking just weeks after the US mid-term election, Mr Lowenstein focused on two key areas: the changing political landscape and its implications for both President Obama and the Republican Party, and the short-term implications for the private equity industry.

He said that the elections were as much a collective referendum

on President Barack Obama as they were on the right-wing of the Republican Party, encapsulated by the Tea Party movement. The atmosphere in Washington following the results was diametrically opposed to what was felt two years ago when the Obama Administration ushered in an age of optimism and expectation.

With Democrats losing control of the House of Representatives, the political agenda will now be set by a party galvanised following the second-largest Republican seat gain in history. However, a small majority in the Senate means the Democrats

are still in a position to block legislation coming out of the lower house they find distasteful. Falling short of the three-fifths supermajority needed to overcome now-prevalent filibustering tactics, Democratic senators will not have it all their way. Of course, there is also the presidential veto which stands as the final hurdle for any piece of legislation.

With Democrats and Republicans at odds with each other at every level, divided government may not seem to bring any significant threats. Mr Lowenstein warns that such complacency could be mis-

placed. The President's Commission on Fiscal Responsibility and Reform - whose focus is to reduce the country's deficit - may also produce some surprises. Not to mention the known unknowns that still need to play out, such as the Dodd-Frank regulatory reform and Volcker Rule.

Ultimately, it will not be long before the American political system throws more instability into the picture. Although it is unlikely that the carried interest issue will arise in the current session of Congress, it certainly cannot be ruled out that it may re-enter the fray in 2011.

Government needs to emphasise role of private capital in the future of the green economy

The low-carbon opportunity

If Britain is to attract private investment in the next generation of low-carbon technology, a stable regulatory regime and well-honed incentive schemes are crucial.

The role of the private sector in supporting the transition to a sustainable economy was one of the key messages of the Energy, Environment and Technology (EET) breakout session at the BVCA Summit. Moderated by Tom Murley, Director of Renewable Energy at HgCapital and Chairman of the BVCA's EET Board, other participants included Peter Horsburgh, a Partner at Environmental Technologies Fund, Chris Hunt, a Managing Partner at Riverstone, James McNaught-Davis, a Managing Partner at WHEB Ventures, and Shai Weiss, a Partner, at Virgin Green Fund.

The panel stressed that today's

innovative technologies and companies, under the right conditions, will lead to tomorrow's energy efficiency and renewable energy breakthroughs. More and more, the issues of sustainability and sustainable economic growth are being tied intricately together and this places greater pressure to the Coalition Government to achieve the right balance as it decides the blueprint of the Green Investment Bank it will detail in 2011.

According to the BVCA Energy, Environment and Technology Board, the Green Investment Bank's core principles should be to facilitate private sector investment, not compete with it; to provide value to the taxpayer by investing on a fully commercial basis (excluding grants and support to critical early-stage ventures

that otherwise would be incapable of securing private investment); to identify and address market failures limiting the flow of capital; and to be independent from policy formation.

Britain is bound by an EU commitment to raise its share of energy from renewable sources to 15% by 2020, up from its present 2%, and the Climate Change Act 2008 establishes strict targets to cut its greenhouse gas emissions at least 34% by 2020 and at least 80% by 2050 from 1990 levels. Ofgem, the energy regulator, reports that £200bn of investment in low-carbon and electricity grid infrastructure is required over the next 10 to 15 years if Britain is to meet these targets.

The Government alone cannot be expected to bring about a green industrial revolution and therefore

the private sector must be a principal partner and investor to achieve this. However, policy-makers must understand that the private sector requires regulatory stability, for example where it relates to carbon pricing and feed-in tariffs, as well as well-calibrated inducements in order to catalyse and sustain investment in British green technologies.

The BVCA Energy, Environment and Technology Board consists of UK-based fund managers which invest in low-carbon, renewable and sustainable technologies around the world. The Board has over 100 years of practical experience and collectively has over £10 billion in assets under management, of which over £700m has been invested in UK companies, saving an estimated 4.2 million tonnes of CO₂ p.a.



Portfolio managers and investors discuss the pros and cons of PE/VC ownership

Aligning interests

“Money is only one part of it. You need to look at four things: people, strategy, financial structure and operations. They way to create value is about getting in and helping out.”

This was one of the comments heard at the BVCA Portfolio Company Management Roundtable, an afternoon breakout session at the Summit. Chaired by Malcolm McKenzie, a Managing Director with Alvarez & Marsal in London, the invitation-only event saw around 20 portfolio company managers and PE/VC investors convene to discuss the role private equity and venture capital plays in supporting businesses and their management teams.

The difference between public and private equity ownership was explored in particular detail. The main criticism of public ownership from those present who had worked in both worlds was the focus on short-term goals and the lack of a genuine alignment of interests.

“It might appear perverse but a private equity company has a more long-term view than a plc. At a plc I’ve worked at we were not just conducting quarterly reviews but monthly ones, and it was all about beating your budget and trying to maximise your bonus at the end of the year,” one participant said.

By contrast, private equity aligns interests between managers and owners from day one. It is focused on creating value for the exit, and enables the management teams to fully concentrate on managing the company. General partners are actively involved in the organisations they invest in, but do not seek to involve themselves in the minutiae of running the business and leave this in the hands of the management team.

As one manager of a company that was taken off the stock market by private equity said: “Interference is something we would certainly not welcome. We have been around for a long time and have been profitable every year for the last 20 years.

The way they manage us is very clear. They are there to support us. For example, they are pushing our international expansion but they are not interfering.”

Whilst they are able and willing to step in and support management when crises erupt, they do not exert undue influence over other aspects of the business, giving company managers more freedom to make day-to-day decisions.

One of the portfolio company managers at the roundtable emphasised this point: “One of our favourite aspects of private equity ownership is we do not have long meetings or complicated graphs. There is not a big governance structure. It is about getting things done and making things happen.”

One thing which PE and VC investors like to make happen is injecting new blood into the company board room. The network of experienced and senior managers that their private equity investors

were able to utilise was particularly welcomed by one of the portfolio company managers present, although the question was raised as to whether private equity and venture capital investors sometimes bring in new management too quickly.

“Good managers know their own strengths and weaknesses and know when they need help,” said one investor. “Entrepreneurs in particular generally welcome new expertise because it means they can get something done more quickly and move on to the next challenge.”

The important factor – and the overriding theme of the entire discussion – was the relationship between the management team and their private equity or venture capital investor. And this relationship goes beyond just a financial one and extends into strategic planning, operational involvement and simple all-round engagement.

At its heart, private equity is about creating value. The funda-

mental model, whether at the venture capital or large buyout end of the spectrum, is to provide investment, support and operational expertise in order to increase the value of those companies it invests in before selling them.

In order to achieve this, a hands-on approach is essential. This is the key differentiator of private equity and venture capital from other asset classes, and one of the factors which has made it so successful. Unlike public ownership, where shareholders often congregate only infrequently at annual or extraordinary general meetings, private equity investors, by contrast, have a close relationship with their portfolio managers. There is, in many cases, no separation of board and shareholder. It is this model of corporate governance which is fuelling value creation and will ensure private equity and venture capital continues to play a key role in stimulating economic growth in the years ahead.



The first three months of ownership are crucial, writes Adrian Balcombe, co-Head of the European Transaction Advisory Group, and Malcolm McKenzie, head of the London Performance Improvement Group at Alvarez & Marsal

Winning the 100 day premium



Adrian Balcombe



Malcolm McKenzie

The 100 day plan is something that almost achieves mythical status with the appointment of new CEOs. It is something David Cameron had no time to make. It is something which took President Obama weeks to prepare and which laid the foundation to President Franklin Roosevelt's famous New Deal. And it is now more than ever a significant element in the private equity lifecycle.

One aspect of the recent BVCA Summit and panel discussion about portfolio companies was the use (or not) of 100 day plans. At Alvarez & Marsal, we believe 100 day plans provide critical momentum to any portfolio transaction. We talk about 'Winning the 100 Day Premium' – the value and uplift you can achieve from effective design and implementation of a three-month programme of activities. What is important for private equity funds is to be clear what comprises such plans;

when they are initiated and what resources are required for them to be successfully fulfilled.

In a comprehensive study we recently conducted of 104 funds (ranging from mid-market to large-cap funds) of the use of 100 day planning in private equity, we gained a unique insight into how private equity funds use these plans and when. What is clear is that whilst there is an increasing trend of using plans to win a 100 day premium, there is much to be learned to harness the potential for quick value creation.

Timing

In a way, using private equity vernacular, the new Coalition government was only in a position to develop and initiate its 100 day plan process when the deal closed. However, moving at speed, it was only on day 10 when David Cameron announced "a full programme of reform by a partnership government".

Many private equity funds put themselves in Cameron's shoes. Of the 75% of respondents who use 100-day planning, just over 40% said they would wait until after the deal closes before initiating the process. The risk here is that such timing can limit the potential for value creation.

Tools and frameworks

Our survey showed that 100 day plans include a wide variety of tools and frameworks that typically span the entire organization. One hundred day plans are tactically focused and should be enhanced towards planned

value improvement initiatives.

More positively, two thirds of funds told us that they plan to increase the use of 100 day planning on future deals.

The advantages of 100 day planning are demonstrated by the fact that private equity buyers are devoting more attention to analysing potential acquisition targets now than they were before the onset of the financial crisis, as the reduced availability of cheap credit and the greater focus on value creation has increased the importance of conducting due diligence on target assets.

It is essential that private equity firms quickly get to grips with the key financial and operational issues at the pre-acquisition phase as part of the 100 day planning process and, just as importantly, drive the necessary change through the business post deal completion. Plan management

For a 100 day plan to stand the best chance of success, however, the private equity firm should appoint a dedicated individual to project manage and be accountable for the entire process. However, only 60% of the funds we surveyed had dedicated staff to handle the 100 day planning process, even though active and accountable coordination of the process has been shown to be a key to success.

In the medium term, investment returns from private equity will now have to be driven by the owner doing something different with the business rather than from

financial engineering and multiple arbitrage. Banks are making less debt available and on less favourable terms, shifting the focus away from financial engineering - value will be created by operational transformation rather than riding the wave of the market.

This change of emphasis means a change in the skills needed within private equity houses. Demand will increase for management teams that can run a company successfully in the face of falling sales and in turn influence the nature of due diligence. The requirement is for more senior input. Providers of due diligence in this new austerity will need to be experienced, skilled and opinionated.

History repeated

Whilst history may judge harshly the outcomes of some 100 day plans, it is undeniable that they have the potential to generate significant value. Though many of the measures President Roosevelt initiated were eventually overruled by the Supreme Court and his political strength waned, no American can deny the value of the New Deal. President Obama may have had progress stalled by the mid-term elections, but much has been achieved on his agenda. And whilst it is still too early to judge the merits of the new Coalition government's programme, all these plans point to the opportunity of value creation and a hard won premium. Private equity funds would do well to explore further how they too can capitalise on this increasing phenomenon.

Dodd-Frank and SEC registration issues loom, writes Patrick Deasy, Partner at SJ Berwin

Compliance is king

As 2011 approaches, some UK private equity firms face yet another compliance headache – this time from the US. Unfortunately, while the recently published draft SEC rules remain open for public comment, which firms and how many will have the compliance headache remains an open question.

On 21 July 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act. From 21 July 2011, the Act will require many advisers to (and managers of) private funds to register with the SEC for the first time – including many non-US firms which will mean those firms with the registration obligation will need to commence the registration process in good time to meet the 21 July deadline. While the ex-chief of the SEC, Harvey Pitt, believes that “this legislation fixes nothing, accomplishes nothing, yet promises everything”, the Act could add considerably to both the burden and cost of compliance for fund managers operating in the US market.

This article briefly summarises the registration provisions in the Act and some of the key exemptions that may apply to UK private equity firms.

Registration with the SEC

The Act amends the Investment Advisers Act 1940 and, in particular, removes a key exemption that was previously relied upon by many investment advisers to “private funds”, both US and non-US, to avoid the need to register with the SEC and comply with its various conduct rules. Instead, the Act introduces new exemptions but many non-US firms may find it difficult to come within an exemption.

Registration will necessitate advisers (or managers) employing specific personnel to focus on compliance along with an increase in record-keeping to allow for the submission of files and procedures to the SEC for review. For UK firms



already regulated by the FSA and soon to be regulated under the AIFM Directive, this will add further complexity because of the overlap and potential conflict between the various rulebooks, so clarification on the scope of the various exemptions is critical. On 19 November, the SEC released detailed proposals on some of the key exemptions, although those proposals are not final and are now subject to public consultation for a 45 day period.

Private advisers exemption

This exemption permits foreign advisers who operate in the US with less than US\$150m in assets under management (AUM) in the US to avoid registration. The SEC has confirmed that it will apply a lighter regulatory regime to those foreign advisers. In applying the conditions of the exemption, a non-US adviser will “have to meet the conditions with respect to its AUM in

the United States, but generally not with respect to its assets managed from abroad”.

This approach means that non-US advisers (those with a “principal office and place of business” outside the US), may avail themselves of the exemption if all of their clients which are US persons are qualifying private funds (which itself is broadly drafted and includes, for example, real estate funds). It also means that, for the purpose of determining whether a non-US adviser only manages private funds, the SEC will only consider the adviser’s US business.

Importantly, the SEC proposes to define “AUM in the US” as only those assets that an adviser manages from a place of business in the US. Nevertheless, it offers as an alternative approach for comment a definition of “AUM in the US” referable to the commitments of US investors in the non-US funds, so

it is possible that the approach will change before the terms of the exemption are finalised.

Foreign private advisers

The SEC’s proposals also provide for a complete exemption from registration for foreign advisers with no place of business in the US and who do not market in the US, and who have fewer than 15 clients and investors in the US with an aggregate AUM attributable to those clients and investors of less than US\$25m. While narrow, this exemption may provide a much needed safe haven for smaller managers and advisers.

VC exemption

The Act also provides for an exemption for investment advisers to ‘venture capital funds’. The SEC’s proposed definition for consultation (which may therefore change) is designed to apply to funds having no redemption rights for investors which follow the typical VC model of unleveraged equity investment and which provide operating or expansion capital with a significant degree of managerial assistance to or control of their portfolio companies.

Looking towards 21 July 2011

While the SEC’s proposals may offer some relief to certain firms, even if the SEC’s proposed approach to the US\$150m exemption holds, those relying upon it, or the venture capital exemption, will still have to maintain such records and provide to the SEC such annual or other reports as the SEC determines necessary or appropriate in the public interest or for the protection of investors. This has manifested itself in a requirement to file Part I of Form ADV on-line with the SEC, which will then be made publicly available.

One thing remains clear - in a post-credit crunch landscape compliance is king and firms on both sides of the Atlantic need to respond to this changing regulatory dynamic.

Private equity preferred over public ownership

‘Private equity to drive recovery’ say business leaders

Senior managers of private equity-backed companies would recommend private equity ownership to other business leaders, with almost 70% expecting turnover to increase over the next year, according to a report published by the BVCA.

Entitled ‘What do business managers think about private equity and venture capital?’, it is a survey of more than 200 high ranking managers at companies that are either owned, or have been, by private equity or venture capital firms.

It found that 85% of respondents would recommend PE and VC to other business leaders, with 46% saying they would definitely do so, and another 39% very likely to do so.

This strong recommendation was evident regardless of a manager’s experience of working with private equity. Managers with more than 10 years’ experience of PE were very positive about the industry, consistent with lasting relationships being built between business leaders and GPs. Yet, at the same time, those managers whose first experience of private equity was relatively recent – in particular since

2007, which has been dominated by the global recession – were also very upbeat about private equity.

The strong message from the survey is that the individuals actually running PE-backed companies value the impact GPs have on the firms they lead, above and beyond their financial investment.

One of the reasons behind this is the ‘active ownership’ approach. The benefits of this model are nowhere more evident than in the responses given by those managers who have worked for both publicly-owned companies and private equity-backed ones. Around sixty percent of the respondents had held senior roles at both. Eighty percent of these said that PE and VC investors are more engaged with management teams than public shareholders. Sixty percent also stated that PE and VC firms are better at goal setting, whilst more than 60% felt private equity and venture capital investors are more focused on achieving their targets than their public market equivalents.

In total, ninety percent stated that private equity and venture capital backing was beneficial to their

business, above and beyond their financial investment, with almost 40% reporting that it was highly beneficial. This clearly demonstrates that private equity’s non-financial involvement is well regarded by the business leaders running PE-backed companies, and in turn suggests that GPs do not put undue pressure on managers, and avoid creating excessive stress and negative sentiment.

Other findings include:

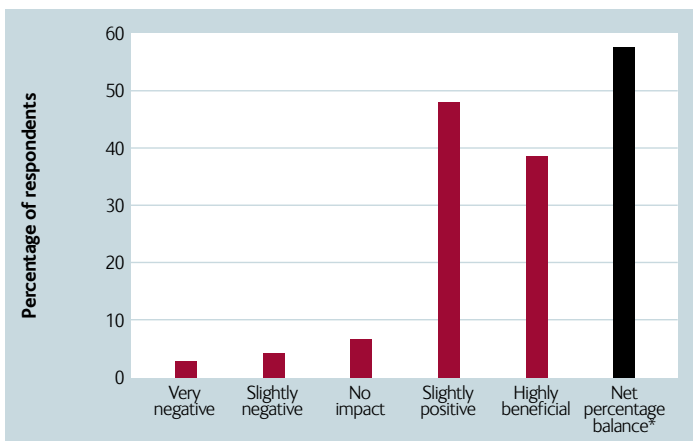
- Senior managers of PE and VC-backed businesses are confident that their companies will grow significantly over the next year, with almost 70% expecting turnover to increase and over 40% predicting employment growth.
- Fifty-six percent of respondents noted a heavy influence from PE/VC investors in financial structuring and planning, with a further 7% reporting that these decisions were actually taken by PE investors.
- Over 75% said that access to general business expertise was one of the things they valued about private equity and venture capital ownership, and a similar percentage valued its contacts and network

within the business community.

- Almost 80% said PE/VC engagement on key issues was beneficial to the business.
- The survey also found that whilst PE and VC investors are influential in financial planning and goal setting, they do not interfere with the day-to-day running of the business, giving management more freedom to make decisions and get on with the task of generating sales and managing the workforce.

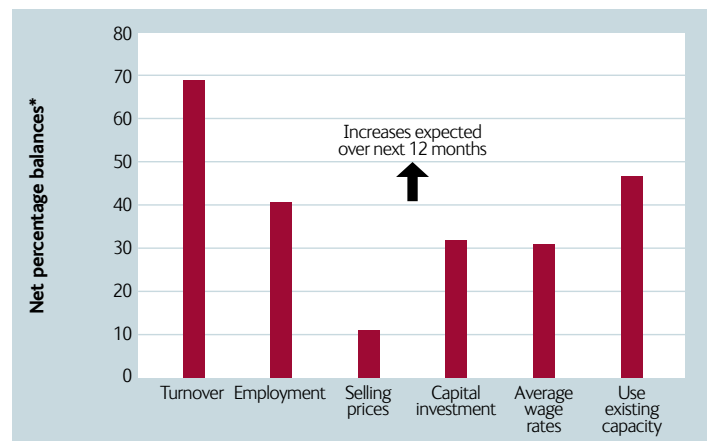
Colin Ellis, Chief Economist at the BVCA, said: “Private equity and venture capital firms make money for their investors by backing real businesses. This can only be done if the value of those businesses rises over the lifetime of the investment, giving GPs a strong incentive to be actively engaged in the running of those businesses, bringing their own expertise and experience to bear in order to boost current and future profitability. This survey demonstrates this engagement is a critical part of the private equity and venture capital business model.”

The non-financial impact of PE on businesses



* Slight negative/positive responses given half the weight of highly negative/positive responses.

Managers’ expectations for their businesses (unweighted responses)



* Slight responses given half the weight of significant ones.