

Portfolio management issues in Private Equity

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Why institutions invest in PE

- Diversity

- Access to sectors not covered by public markets
- Access to emerging technologies

- Performance

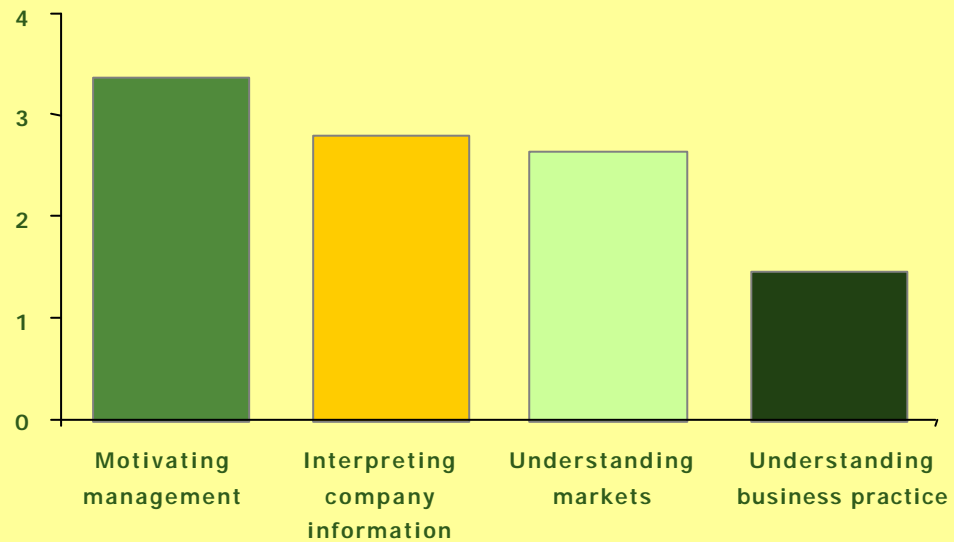
- Absolute returns
- Superior returns – 5% premium to public markets
- The ability to add value

The New Millennium: a different environment

	Money	Deal Flow	Value source	Implications
1990's	<ul style="list-style-type: none">▪ Ready supply of capital	<ul style="list-style-type: none">▪ Accessible deal flow▪ Rising public markets	<ul style="list-style-type: none">▪ Value creation▪ Valuation & business-cycle arbitrage	
2000's	<ul style="list-style-type: none">▪ Capital squeeze▪ Increased competition▪ Growing demands for transparency	<ul style="list-style-type: none">▪ More competition between buyers, fewer deals▪ Vendors are more sophisticated▪ Exits more difficult▪ Realisation overhang	<ul style="list-style-type: none">▪ Value creation	<ul style="list-style-type: none">▪ Holding periods extended▪ Problems have time to surface▪ Performance depends on adding value

Looking after your businesses: 1

What is the most important factor in successfully managing your portfolio companies?

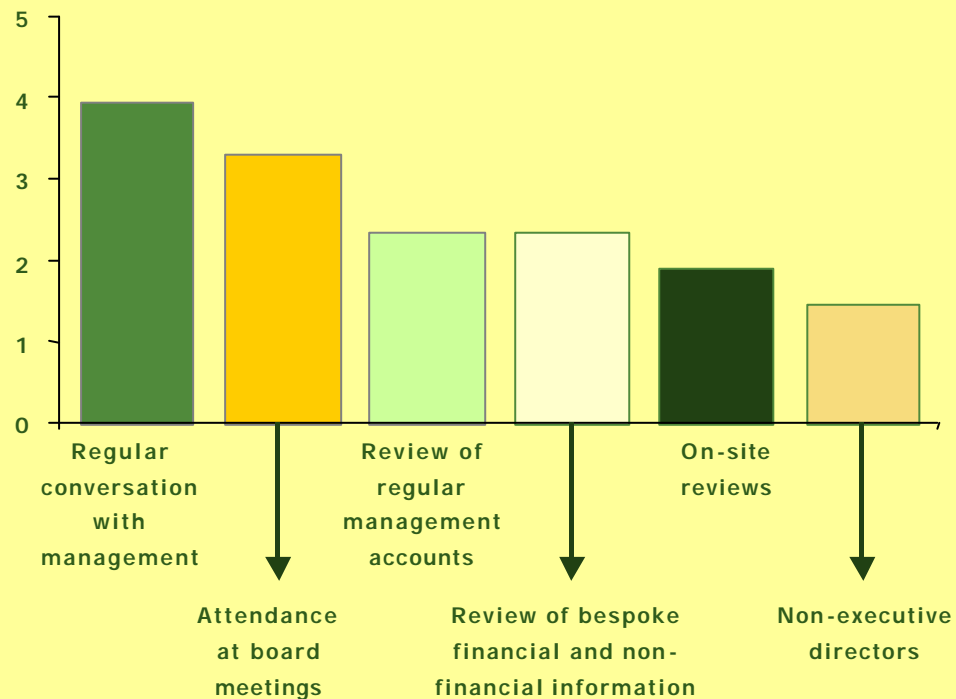


Most important success factors

- Motivation and capability of management
- Knowing what's happening within the business
- Knowing what's happening in the market-place
- Understanding the sector

Looking after your businesses: 2

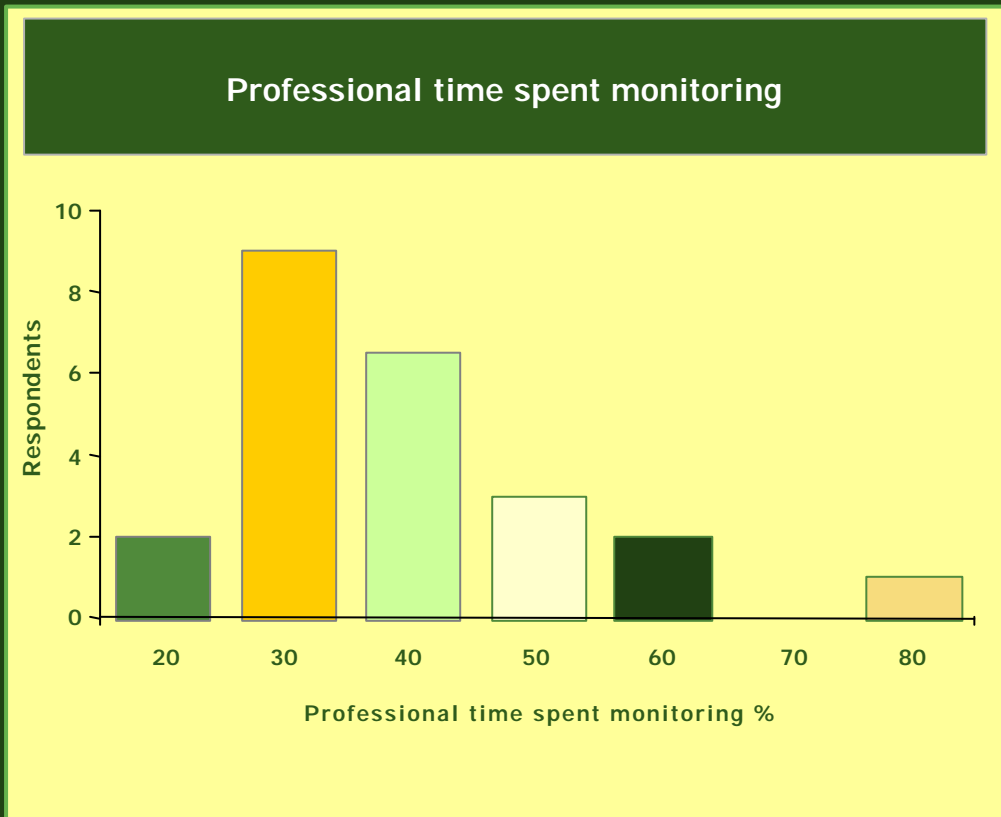
What are the most important methods of monitoring the performance of portfolio companies?



Most important success factors

- Regular communication with management
- Fairly high degree of importance attached to board meetings
- Less importance attached to forward indicators

Looking after your businesses: 3



Time commitment

- Most spend 30% to 40% of time managing/monitoring portfolio companies
- Smaller businesses require proportionately more time
- Turnaround situations require heaviest time commitment



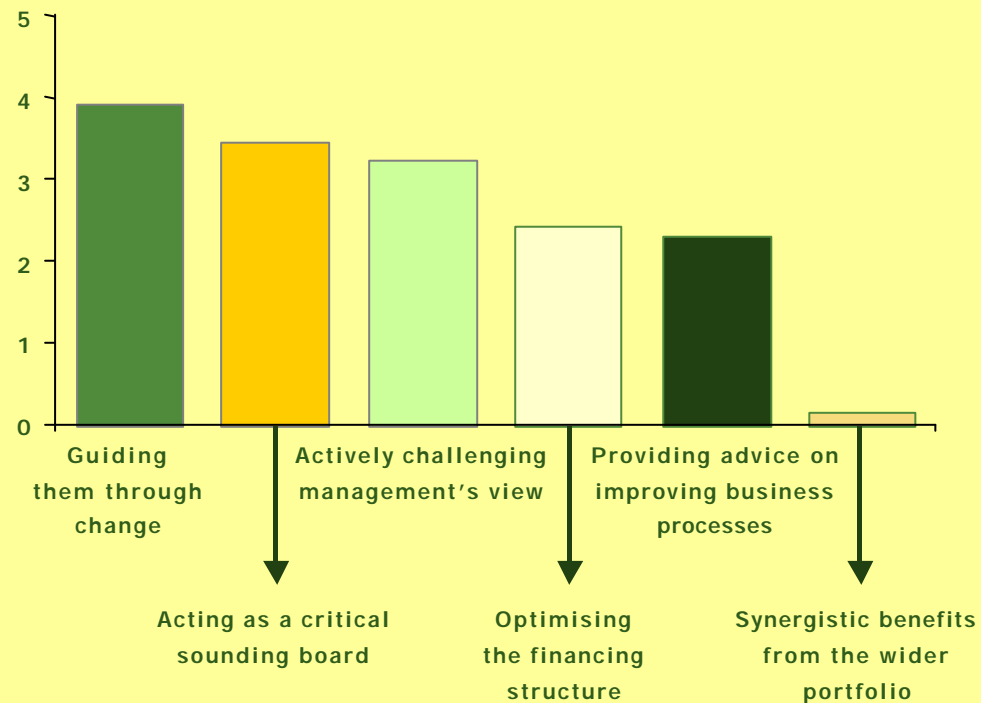
Looking after your businesses: 4

What's really important

- Communication and information
 - Reliable, appropriate and timely management information
 - Understanding the business
- Intervention
 - Acting early
 - Having access to the right skills
- But...
 - " We always feel we do too little too late"
 - "Changing the management team is often seen as the cure for all ills"

Adding value

What is the most important to you in adding value to the companies in which you invest?



What PE houses regard as important

- Guiding businesses through change
- Being a critical sounding board
- Challenging managements' views
- Optimising financial structure
- Providing access to appropriate specialist skills



Critical success factors

Improving PE house performance

- Before you buy
 - Understand the business you are getting into
 - Identify the exit method and strategy
 - Evaluate the management team and identify replacements where needed
- After the deal
 - Good communication with several points of contact
 - Good information especially using forward looking KPIs
 - Respond quickly to problems
 - Having operationally experienced staff involved or available

“We like people with a few grey hairs”



What is considered leading edge in portfolio management?

- In house team dedicated to monitoring and developing portfolio businesses
- Having good non-executive directors available, especially chairmen
- Improved systems and real time information
- Outsourcing / provision of specialist skills
- Collective arrangements
- Portfolio secondment



Looking ahead....

“Ultimately, it must be the ability of PE houses to add value to portfolio companies during their ownership that justifies investment in the sector”

- Portfolio management is the key differentiator for PE houses and leading edge developments include:
 - Improved prospects of internal origination
 - Reducing transaction risk via in-house operational due diligence
 - Ability to undertake greater variety of transactions
 - Complex buy to build
 - Turnaround
 - More sophisticated tools to exercise control
 - Improved communication with management teams