

# Contents

Preface	xi
Abbreviations	xiii
About the authors	xv
<b>Part 1 Overview and fund-level analysis</b>	<b>1</b>
1 Introduction and overview	3
1.1 Introduction	3
1.2 Cyclicity of the private equity industry	6
1.3 Statistics on the private equity industry	8
1.4 Recent regulatory activity	13
1.5 The outlook of the private equity industry	18
1.6 References	19
2 Private equity fund economics	21
2.1 Overview	21
2.2 Private equity firms or general partners (GPs)	23
2.3 Investors in private equity funds or limited partners (LPs)	26
2.4 Private equity funds or limited partnerships	27
2.5 Advisors and agents	36
2.6 References	37
3 Performance measurement in private equity	39
3.1 Overview	39
3.2 Measures of private equity fund performance	40
3.3 Benchmarking private equity performance	47
3.4 Academic findings on the performance of private equity funds	51
3.5 Why the performance assessment of private equity remains difficult	52
3.6 Conclusions	54
3.7 References	54
4 Private equity investing in emerging markets	57
4.1 Introduction	57
4.2 Investment landscape	59

4.3	Drivers for PE investments in emerging economies	63
4.4	Risks of investing in emerging economies	66
4.5	Market structure and investment characteristics	70
4.6	Comparative landscape of emerging markets	73
4.7	Summary	78
4.7	References	78
5	Fund due diligence	81
5.1	What is fund due diligence?	81
5.2	LP investment process	82
5.3	Fund due diligence in detail	91
5.4	Summary	102
6	Private equity fund accounting	111
6.1	What is happening in private equity accounting?	111
6.2	Current major issues and complexities	115
6.3	Interpreting fund accounts	126
7	Gatekeepers	147
7.1	Introduction	147
7.2	Main types of professional advisors	147
7.3	In-house or outsourcing?	151
7.4	Outsourcing to a fund of funds	152
7.5	Fund-of-funds economics	158
7.6	Selecting a fund of funds	165
7.7	Outlook	167
7.8	Bibliography	168
8	Listed private equity	171
8.1	Introduction	171
8.2	Benefits and disadvantages of listed private equity	172
8.3	Economic and organizational forms	174
8.4	Legal forms	179
8.5	Estimated risk profile of listed private equity	181
8.6	LPE indexes	183
8.7	References	185
9	Secondary fund transactions	187
9.1	Introduction	187
9.2	Secondary market development	188
9.3	Parties involved in secondary transactions	191
9.4	Secondary transactions	194
9.5	The pricing of secondary transactions	197
9.6	Conclusion	202
9.7	References	203

<b>Part 2 Deal-level analysis</b>	<b>205</b>
10 Valuation of private equity companies	207
10.1 Introduction	207
10.2 Valuation guidelines	208
10.3 Implementation of the main valuation methods: multiples and DCF	211
10.4 Pitfalls to be wary of when valuing private companies	224
10.A Pueblo Clothing SpA	226
10.B Chariot Skates Plc	230
10.C References	234
11 Deal analysis and due diligence	235
11.1 Introduction	235
11.2 The sale process	236
11.3 Circumstances influence the due diligence process	238
11.4 Deal analysis and due diligence during the sale process	239
11.5 Motives/Perspectives of stakeholders	251
12 Leveraged buyout transactions	255
12.1 Introduction	255
12.2 LBO execution: The deal process	257
12.3 LBO stakeholders	269
12.4 Value creation in an LBO	273
12.5 References	280
13 Leveraged buyout modeling: An Excel application	283
13.1 Overview	283
13.2 Build a pre-transaction structure model	285
13.3 Determine transaction structure: Uses of funds	289
13.4 Determine transaction structure: Sources of funds	292
13.5 Build a post-transaction structure model	295
13.6 Determine exit and compute returns	296
13.7 Optimization and analysis of the LBO model	305
13.8 Analysis of the Toys R Us LBO	306
13.9 Reference	308
14 Post-deal operational improvements	309
14.1 What operational improvements are made post deal?	309
14.2 Identifying the opportunity	311
14.3 EBITDA growth	314
14.4 Maximizing assets—human capital	316
14.5 When things go wrong	318
14.6 Conclusion	319
14.7 References	319
15 Harvesting private equity investments	321
15.1 Introduction	321
15.2 Steps to exiting a private equity investment	324

15.3	Exit strategies	327
15.4	Summary	337
15.5	References	337
<b>Part 3</b>	<b>Early-stage investing</b>	<b>339</b>
16	Angel investing	341
16.1	What is angel investing?	341
16.2	What motivates business angels?	344
16.3	Angel investment process	345
16.4	Recent developments and trends	353
16.5	Summary	357
16.6	References	358
17	Venture capital	359
17.1	Introduction	359
17.2	What is venture capital	360
17.3	The VC investment process	365
17.4	The VC contract	372
17.5	Alternative sources of VC financing	377
17.6	Conclusion	378
17.7	References	379
<b>Part 4</b>	<b>Case studies</b>	<b>381</b>
18	Realza Capital	385
	December 2006	385
	December 2008	391
19	Swicorp: Private equity in the MENA region 2009	409
	Swicorp—A Short History	409
	The MENA region	411
	The MENA Private Equity Landscape	412
	The role of sovereign wealth funds (SWFs)	413
	Swicorp's Intaj Investment Strategy	414
	Deal selection process	415
	Step Carpet Group	416
	Jordan Aviation LLC	419
20	Founding Mekong Capital	436
	Vietnam and the private equity industry	437
	MEF I and the initial investment philosophy	438
	MEF I case study: AA Corporation	439
	MEF II and a new investment philosophy	440
	MEF II case study: International Consumer Products	442
	Vietnam Azalea Fund	443
	2007—searching for answers from within	443
	The corporate transformation process	444
	Will it work?	446

21	Bloomsbury Capital: June 2007	461
22	Edcon: Going shopping in South Africa	487
	Edcon: A Leading South African Retailer	487
	Bain Capital: Background	489
	Opportunity Knocks	490
	South Africa	491
	Currency risk	492
	The deal	494
	The bid	496
23	FiberNet Communications	507
	Hungarian history and economy	508
	Hungarian television broadcasting market	509
	Cable TV industry	509
	FiberNet's key competitors	511
	The FiberNet opportunity	512
24	Seat SpA	527
	Chronology of Seat transaction	529
	Bain Capital: background	529
	The global and European directory market	530
	The Italian directory market	531
	Seat business description	531
	Market entry of Pagine Utili	533
	The Internet: Threat or opportunity?	533
	Due diligence	534
	Italian economic and political landscape	534
	Privatization process in Italy	535
	The deal	535
25	Ducati and Investindustrial: Racing out of the pits and over the finish line	549
	Investindustrial acquisition of Ducati	551
	Improving the company (2006–2008)	553
	The world motorcycle industry in 2008	553
	Raising a new fund	554
	A “wild ride” for Ducati's stock	554
	June 2010	556
26	Styles & Wood: Behind the scenes of retail	571
	Styles & Wood: The history	571
	Gerard Quiligotti and the turnaround years	572
	The MBO: The fall of Wembley Stadium Group	574
	Styles & Wood since 1996: Managing the growth strategy	575
	Project Oak in 2001: Management incentives and reaping rewards	575
	Project Oval in 2004: From 3i to Aberdeen—secondary buyout decision	577
	Market and competition	579
	Investing decision	580
27	SunRay Renewable Energy: Private equity in the sunshine	593
	SunRay's choice of solar technology	594

	The value chain of a solar PV developer	594
	The European renewable market in 2006–2008	595
	SunRay’s business model	597
	Building the management team	597
	Learning the solar PV game the hard way	598
	Scaling up the business across Southern Europe	599
	Under the umbrella of private equity	599
	Montalto di Castro: Building the largest solar power park in Europe	602
	The decision to exit	605
	SunRay’s spirit still alive	606
28	Debenhams	617
	Post deal and going public again	625
29	Optos: A sight worth seeing	641
	Douglas Anderson and the vision	641
	Scottish business landscape and funding for early-stage startups	642
	Product development	643
	Diseases of the back of the eye and Optos’s target market	643
	Manufacturing	644
	Competition	645
	Business model: The “razor/razor blade” concept	645
	Profit and loss implications	646
	Cash flow implications	646
	Financing 1995–2001	647
	Geographic expansion	647
	Financing in 2002	648
30	Capital for Enterprise U.K.: Bridging the SME early-stage finance gap	663
	An “equity gap”?	663
	Previous attempts by the U.K. government to tackle the “equity gap”	664
	Limits of previous programs	665
	Launching enterprise capital funds	666
	Key questions and options for the ECF program design	668
	The first years of operation of the ECF program	673
	A few years on: A first assessment	674
	Where next?	677
	Glossary	709
	Index	717