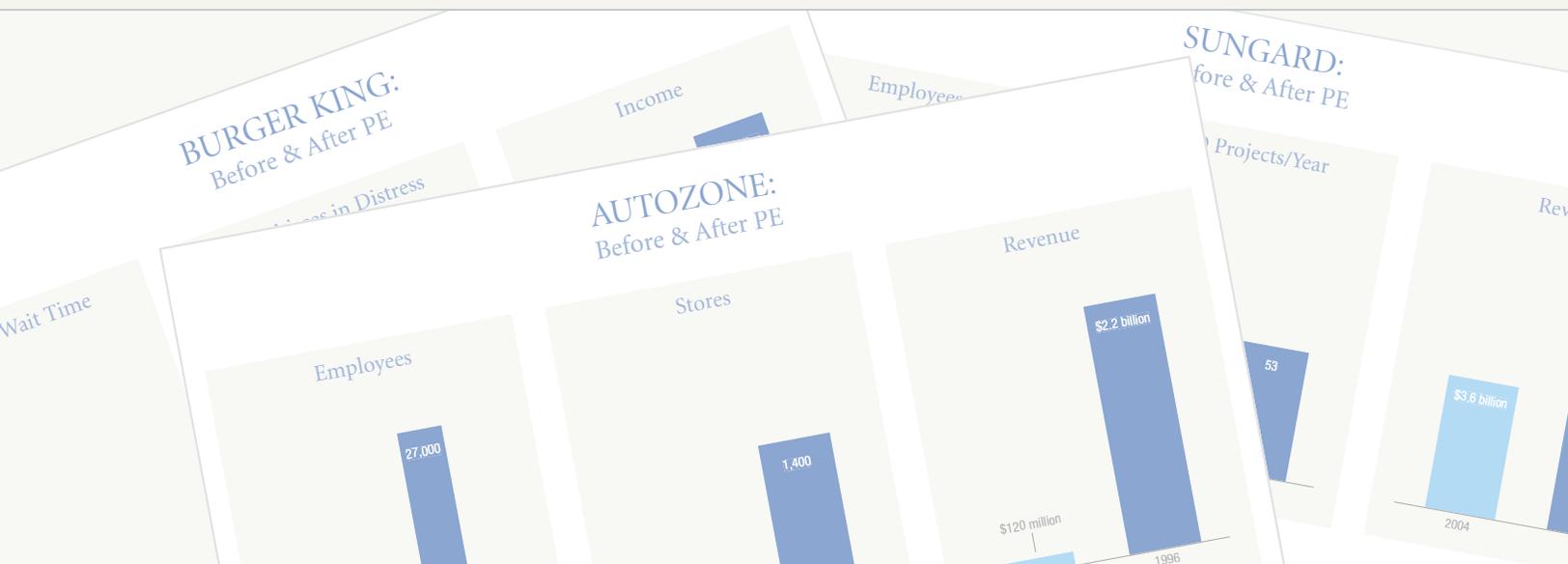


DRIVING GROWTH:

How Private Equity Investments Strengthen American Companies



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INTRODUCTION



The private equity industry is as diverse as the hundreds of firms that manage private equity investment funds. But each of these investment firms has a common goal: seek out companies with the potential for growth and put in place the capital, talent and strategy needed to permanently strengthen the company and raise its value. How private equity firms accomplish that objective is the subject of this paper.

At its core, private equity investment is simple: private equity firms establish investment funds that collect capital from investors—known as limited partners, or LPs. The private equity firms themselves—known as general partners, or GPs—use this capital, along with their own equity and funds borrowed from banks and other lenders, to buy companies that they believe could be significantly more successful with the right infusion of capital, talent, and strategy.

Being privately held has its advantages. Managers of private equity-owned companies can adopt a long-term perspective that might be difficult to justify to public shareholders who are concerned that investments in research and development or other long-term projects could lower short-term earnings—and the stock price. Private ownership also focuses company management, owners, and investors on a single objective: maximizing the value of the company.

Private equity investment firms typically own companies for three to five years (although this period can vary anywhere from one to ten years, depending on market conditions and other variables). Eventually, the firms sell some or all of their

stake in the company, hoping to realize a gain on the sale as a result of the increased value they have created as owners. The size of the capital gain the firms' GPs and their limited partner investors realize is driven by the risk they take and how much value they are able to add to a company. Today, private equity-owned businesses are easy to find across the United States. Well-known names like J. Crew, Dunkin' Donuts, MGM Studios, General Nutrition Stores, and many others have thrived with the benefit of private equity investments. Private equity is an increasingly important source of capital for the growth and expansion of U.S. firms.

Limited partner investors in private equity—nearly half of which are public and private pension funds, university endowments, and charitable foundations—also have done well. London-based research organization Private Equity Intelligence reports that by 2006, the total worldwide profit distributed to investors by private equity funds raised between 1991 and 2003 was \$430 billion. Over the 25 years from 1980 to 2005, the top-quartile private equity investment firms generated annualized returns to investors of 39.1 percent (net of all fees and expenses). By contrast, the S&P 500 returned an average of 12.3 percent a year over the same period. This suggests that \$1,000 continuously invested in the top-quartile PE firms during this period would have created \$3.8 million in value by 2005. The same amount invested in the public markets would have increased to \$18,200. There is little question that top PE investment firms have been exceptional investments over the past quarter century.

The private equity investor base is dominated by the pension funds of such household corporate names as General Motors, General Electric and Boeing, as well as public and private universities ranging from the University of California to Rice University. Public pension funds—CalPERS, NYCERS and the Washington State Investment Board to name three—also invest significantly in private equity. In other words, the beneficiaries of private equity’s superior performance are the pension funds that support American households, leading universities, and foundations that underwrite worthy causes in communities across the country.¹

Underlying the rapid growth in the capital allocated to this asset class is a quiet revolution that is changing how these firms create value with the investments they make. In the process, this revolution is strengthening the broader economy. In the early days of private equity, it may have been possible to find under-priced businesses, buy them (mostly) with debt, sell them and turn a handsome profit. Today, the path to value creation for private equity firms requires much more time, energy, and talent. Most transactions of any size occur in hotly contested auctions. The winner is the firm (or consortium of firms) that believes it can add the most value to the asset being sold. Because private equity investment firms typically do not have unique access to sources of financing, winning bidders must have plans to add value well beyond the ‘table stakes’

of financial engineering. The industry’s focus on improving fundamental business performance means private equity investment may be one of the most potent forces driving economy-wide improvements in corporate productivity.

This paper tells the story of these PE-driven productivity improvements in the context of three real world business turnarounds. The paper identifies four key methods that private equity firms use to add value: By upgrading capabilities (changing management, bringing in outside experts and delivering the PE firm’s own in-house skills); by creating clarity (carving out a neglected business from a larger conglomerate or specifying the key metrics that matter most to performance); by establishing a performance culture (aligning incentives and tying compensation to performance); and, of course, by providing capital (assuming risks that public markets or large corporate conglomerates would not or providing capital on more patient terms than available elsewhere).

¹ (Please see the companion paper, *Public Value: A Primer on Private Equity*, for a summary of capital allocations to private equity.)

BURGER KING BOUNCES BACK



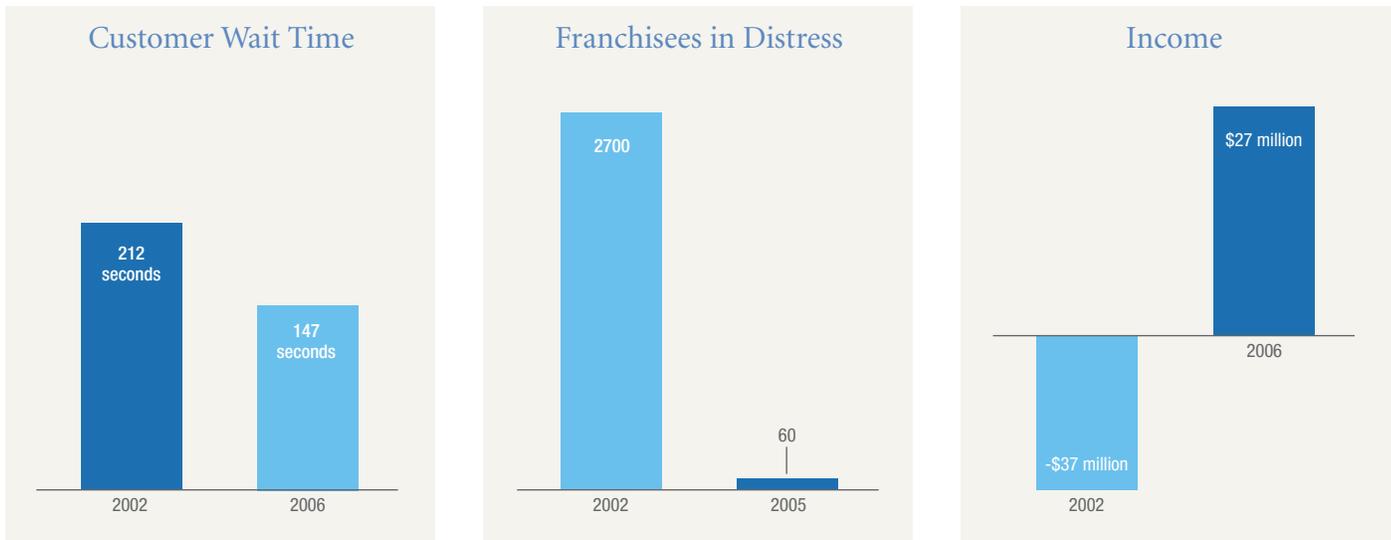
In 2002, as TPG Capital (formerly Texas Pacific Group) reflected on the possibility of acquiring Burger King from its corporate parent, it saw a company that had lost \$37 million the year before and had closed more restaurants than it had opened. One in four franchisees was nearly bankrupt. The Burger King menu had not kept pace with healthy innovations being rolled out by McDonald's, Wendy's, and most other fast food venues. A *Business Week* headline asked: "Will Burger King Drop to Number Three?" Meanwhile, industry sources told TPG that Burger King management was burned out and demoralized. It wasn't easy being a small subsidiary of Diageo, the world's largest beverage company—especially when Burger King was not in the beverage business. Investment in stores and marketing had been starved. Burger King's advertising had not captured the public's imagination since the "Have It Your Way" campaign years earlier. Everything about the enterprise felt stale.

Yet the number two burger chain in America still had things going for it: ninety-nine percent brand awareness—and a perceived edge in quality. Burger King seemed to be an asset that was under-achieving despite its potential. Realizing this potential would require a massive operational turnaround, but only for patient owners and managers with a shared vision, the opportunity to create a much more valuable company was clear. With this goal in mind, TPG partnered with Bain Capital (which had experience in a similar space from its prior acquisition of Domino's Pizza) and Goldman Sachs' PE arm to purchase Burger King in December 2002. The new PE

owners quickly overhauled senior management, ultimately replacing 15 of the top 20 positions (including the CEO) with new blood ready to bring new ideas and energy to the business. The new intensity was palpable from the start. The senior executives who stayed recall cursory business reviews with the former parent company, which rarely confronted escalating performance problems. Under private equity ownership, they reported, regular board meetings became the central strategic and operational forum for the business. The new owners asked fundamental questions that nobody had asked in years about every aspect of the business. Why had drive-through waits skyrocketed and how could Burger King shrink them? Why was Burger King discounting prices on premium products like the Whopper? For many who knew what had to be done and who believed in the company, the turnaround was an exhilarating experience, managers later recalled.

Soon, things began to change. The new PE-installed Burger King team worked with creditors to restore franchisees' financial footing. The PE firms poured in their own capital and also used their financial savvy and relationships with lenders to help franchisees obtain new loans to renovate restaurants, pay rent, and bridge advertising contribution shortfalls. In total, the PE consortium invested more than \$150 million over and above what it had paid for the business to boost advertising and shore up weak franchises. These efforts paid off handsomely. From 2002 to 2005, the number of franchisees in financial distress fell 99 percent, from 2,700 to 60.

BURGER KING: Before & After PE



■ Before PE Acquisition ■ After PE Acquisition

Stabilizing Burger King was job one. Growing it was next on the agenda. Supported by its PE owners, Burger King management designed a new, smaller and more economical restaurant model that was 25 percent less expensive and allowed for faster expansion within the U.S. and abroad. It now operates 11,200 outlets in all 50 states and more than 65 countries.

Driving sales was the ultimate challenge. Armed with newly-developed analytics, the company identified its most valuable customer segment, dubbed the “super-fan,” and focused on better serving this customer, typically an 18-to-34-year-old-male. The company introduced new products—the Enormous Omelet Sandwich was a huge hit—and made pricing more competitive with the launch of a 99-cent menu. In addition, Burger King management under the private equity owners reduced the average customer wait time from more than three and a half minutes in 2002 to less than two and a half in 2007. The changes worked. Average sales at North American stores—around \$900,000 per store per year at their nadir—grew 33 percent, to roughly \$1.2 million in 2007. The company’s revenues in 2006 stood at \$2.1 billion, up from \$1.7 billion at the time of the acquisition. Income went from a loss of \$37 million in 2002 to a profit of \$27 million in 2006.

In 2006, Burger King went public, and the value created by this four-year turnaround process became apparent. The company was valued at \$2.2 billion on the open market, up \$700 million from the original \$1.5 billion purchase price paid by the PE group. The lion’s share of the profits was distributed to the pension funds and other private equity limited partner investors.

Some complained that the PE owners of the company collected dividends and fees from Burger King just before the IPO. The bulk of the dividend payments were delivered to the limited partner investors, not the PE firms. The money came from a reinvigorated Burger King that had already turned the corner. Through the initial public offering, many sophisticated public equity investors became owners of Burger King, demonstrating a confidence that the best years of this turned-around company still lay ahead.

SUNGARD: VALUE CREATION IN THE MAKING



With annual revenue exceeding \$4 billion, SunGard is a global leader in developing and marketing business software. The company processes some 70 percent of all NASDAQ trades. SunGard had been growing rapidly. But in 2004, SunGard was having a tough time with Wall Street. Apart from the need to tightly manage earnings volatility to keep Wall Street reassured, SunGard faced another problem. It seemed to management that analysts did not fully understand how to value the company's businesses: data protection and recovery, software for the financial services industry, and software for higher education and the public sector. According to SunGard CEO Cristóbal Conde: "You have institutional investors and analysts who cover way too many stocks and don't have the time or bandwidth to understand our businesses."

Faced with this reality, CEO Conde considered a plan that he thought might improve the stock price. By spinning off Availability Services, SunGard's data protection and recovery business unit, he believed that he could create two simpler, easier-to-understand companies that could be more easily valued. Still, Conde was reluctant to follow through. He believed that the company's long-term value would be greater if it were kept intact: but he continued to face difficulty persuading the public markets.

Enter Silver Lake Partners, a leading private equity firm focused on the high-tech sector. Beginning in May 2004, the PE firm met with SunGard's management team, spent significant time researching the company and became persuaded not only of the company's inherent value, but also of the opportunity to

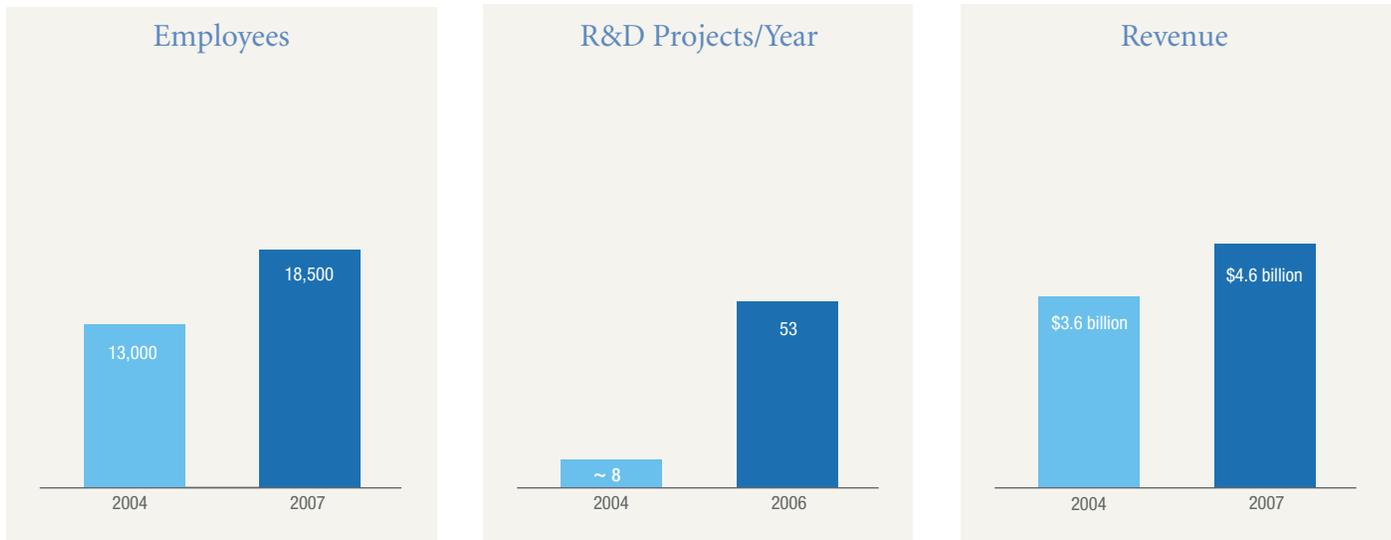
grow it more quickly and improve its core operations.

By 2004 standards, the SunGard transaction was huge. If completed, it would be the second largest ever done. Silver Lake began assembling what would become the biggest ever consortium of PE firms, each with special expertise, to come together to undertake the transaction. In March 2005, Silver Lake Partners, Kohlberg Kravis Roberts & Co., Bain Capital, The Blackstone Group, Goldman Sachs Capital Partners, Providence Equity Partners, and TPG Capital acquired SunGard in a transaction valued at \$11.4 billion.

The acquisition by the private equity investors made a huge difference to the company. Says Conde: "When you're running a public company, so much of your personal credibility is tied to whether you can predict your [stock price] volatility from one quarter to the next." Today, he said, "I spend zero time thinking about the volatility of the business," and more time thinking about growth. "Volatility of the last quarter is not necessarily a predictor of the future," Conde said.

Refocusing CEO time is an important benefit of private equity, but hardly the only one. The new PE owners recognized that the company was very good at making new acquisitions and integrating these new companies into its own business. So, they set aside an additional \$1 billion line of credit as dry powder to finance future acquisitions. Sure enough, the company has been busy on this front: since going private two years ago, SunGard has acquired 21 companies for more than \$350 million.

SUNGARD: Before & After PE



■ Before PE Acquisition ■ After PE Acquisition

Freedom from quarterly earnings pressure and a longer term focus also have allowed the company to upgrade its R&D pipeline. Conde notes: “In any given year we’d do eight to twelve R&D projects... [In 2006], we funded 53.” In the first six months of 2007, the company funded 30 new projects.

The new owners also focused on improving the company’s service to its customers by streamlining the organization and driving coordination across businesses. Business units within SunGard were consolidated and reorganized, reducing the number of P&L centers in the financial services software business from 65 to 14. In addition, the company established a centralized global account management system. Today, large financial services customers that once had to deal separately with each of SunGard’s business units benefit from a single point of contact.

In the end, PE owners earn their return if they can drive growth. In SunGard’s case, some of the private equity investment firms involved in the transaction are using the company’s products and services themselves; some have recommended SunGard to their portfolio companies; and some are using their network within various industries (financial services, for example) to promote the company.

Speaking of SunGard’s new owners, CEO Conde says: “They’ve done everything they said they’d do.” SunGard has been adding workers. The payroll is 5,500 employees larger—now up to 18,500—than it was pre-buyout. Half of the increase was due to organic growth, while the rest resulted from acquisitions. While the Asia-Pacific region has grown by leaps for SunGard (as it has with other large tech firms) Conde said many of his new hires have been in the United States.

Operating results also have improved. Between 2004 and 2006, revenue and EBITDA (earnings before interest, taxes, depreciation and amortization) both rose by 10 percent. Organic revenue growth increased from five percent in the quarter in which the acquisition announcement was made to ten percent in the first quarter of 2007.

All these improvements have made the company bigger and stronger. Where Conde was contemplating a breakup, he now leads a company with its business units intact. The plan is on track, delivering the performance on which the investment case was based and creating the value for which the public markets were unwilling to give credit.

AUTOZONE: CREATING A WINNER



On June 26, 2007, the executives of Memphis-based AutoZone celebrated the opening of the company's 4,000th store in Houston, Texas. That achievement was the culmination of years of diligent effort initiated by private equity owners.

Between 1984 and 1996, private equity investment firm Kohlberg Kravis Roberts & Co. helped to expand AutoZone from a small subsidiary of a food and drug wholesaler into the nation's leading auto parts retailer. Fully a decade after KKR exited, the company is still flourishing, with millions of Americans in 48 states benefiting from the high quality parts and service that AutoZone provides at highly competitive prices.

The story began in 1979, when J.R. Hyde founded AutoShack and made it part of Malone & Hyde, the wholesale grocery business that his grandfather created in 1907. By 1984, he believed M&H was undervalued and approached KKR about the prospect of a management-led buyout. Noting Hyde's talent (he had spent seven years on Wal-Mart's board), KKR agreed to invest \$115 million in equity, alongside the \$35 million that J.R. Hyde and other managers were providing, and helped to arrange roughly \$550 million in debt for the \$700 million acquisition.

The primary business of M&H remained wholesale groceries, but Hyde wanted to concentrate on the auto parts company, noting that most competitors in that space were mom-and-pop operations, many of which were not well run. Realizing

the potential of AutoShack, KKR and management quickly set out to add innovative new products and expand the number of locations. Their strategy was clear: they intended to "offer high quality, low-cost parts to the car or truck owner who has to repair his own vehicle out of economic necessity."

In 1985, the company introduced Express Parts Service, a direct marketing program that offered customers the ability to have parts shipped to them. The following year, the company introduced the first quality control program in the industry and became the first to offer a lifetime warranty on virtually all parts sold. According to Hyde, the company "made a religion out of putting the customer first" and sought to create "a culture of excellence." The company also invested in an electronic catalog for all of its stores, which helped managers better manage their inventory. The investment proved prescient, as the company more than doubled in size from about 160 stores in 10 states in mid-1984 to 339 stores in 15 states by the end of 1986.

Increasingly, it became clear that the auto division offered the best growth prospects for M&H. In 1987, KKR and the management team carved out the auto division and sold the remainder of M&H. Doing so allowed them to spend all of their time and resources on finding new and better ways to serve customers.

During the next four years, KKR continued to invest in expansion efforts, improved systems and operations, and drove innovation from within. Recognizing and supporting the talent

AUTOZONE: Before & After PE



■ Before PE Acquisition ■ After PE Acquisition

of its employees was instrumental to launching the ADuralast line of tools, a private line designed entirely by internal product managers. Renamed AutoZone, the company also invested in electronic management systems that helped to reduce wait times for customers and ease the accounting burden on local stores.

Seven years after going private, AutoZone returned to the public market. During its years as a private company, AutoZone's revenue had grown seven fold to \$818 million, up from \$120 million when KKR acquired it in 1984. In spite of the apparent success, not all were confident that AutoZone would be able to continue to grow. Analyst Norman Fosback was wary, saying at the time of the public offering that AutoZone was "a vastly overpriced stock that's worth only about half its present price... you're betting on too many good things happening over too many years in an unknowable future... it's a stupid bet."

After AutoZone went public, KKR maintained a significant ownership stake in the company and did not slow down AutoZone's expansion. Over the next five years, KKR continued to leverage economies of scale to increase the competitiveness of the business and lead AutoZone into new markets. The

company entered the commercial auto parts market, lowering the cost of parts and diagnostic software provided to mechanics and technicians across the country. It also introduced multiple store designs, which enabled the company to provide low-cost, high-quality parts to small towns and rural areas in a cost-effective manner.

KKR finally exited AutoZone in 1996. From a base of 1,000 employees and 160 stores when KKR took over, AutoZone had grown to be the third largest auto parts store in the country, with more than 1,400 stores and nearly 27,000 employees. More importantly, during its period of ownership, KKR had helped build a company that would carry its success into the future.

In the decade since KKR exited, AutoZone has become the largest auto parts chain in the country, with 53,000 employees and more U.S. locations in than Wal-Mart. It also has entered the heavy truck parts market and become a member of the Fortune 500. Revenues have soared from \$818 million in 1991 to a projected \$6.1 billion in 2007. This top-line growth and the operational efficiency of AutoZone have helped to drive the stock price up at an annualized rate of 20 percent annually since going public. Apparently, Fosback got it wrong.

THE PRIVATE EQUITY ADVANTAGE



So what is it about the private equity form of ownership that spurred fundamental business improvements for these and many other companies? It boils down to the Four Cs—capabilities, clarity, culture, and capital.

CAPABILITIES

The best private equity firms, once they assume ownership, systematically help management upgrade the capabilities of the businesses they buy. Although it sounds obvious, getting better management in place is the problem most underperforming companies fail to deal with—and the one private equity owners are well positioned to address. While no two transactions are exactly alike, there are some common themes in how private equity owners improve the capabilities of the companies in which they invest.

PE owners often act strategically to infuse their own talent into the companies they acquire. The lead partner on a transaction often will spend half or more of his or her time working with the portfolio company management team for the first few months after its acquisition. The PE owner helps management design and execute near-term improvements and develop a detailed multi-year business plan. In the crucial time immediately after acquisition, PE owners work with portfolio company management to stabilize the business and set it on a higher performance trajectory.

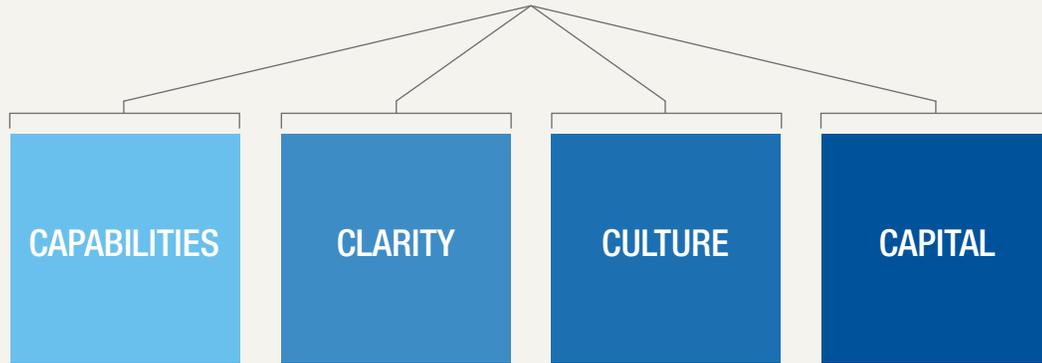
After acquiring Wincor Nixdorf (manufacturer of ATMs and electronic point-of-sale systems) in 1999, the KKR team collaborated with management to help set a growth oriented strategic direction for the company. This resulted in international expansion, increased service capacity and the transition from a hardware products manufacturer to a supplier of integrated solutions for bank and retail customers. Similarly, when Carlyle acquired AxleTech International Holdings in

2005, the company's drive train components were marketed mostly in commercial sectors, such as material handling and agriculture. Under Carlyle ownership, the company has successfully reoriented itself to focus on serving national defense needs. Even as the company addresses a vital national priority, sales are increasing 16 percent annually, earnings are up 25 percent each year, and employment has grown from 425 at acquisition two years ago to 568 today, with another 100 new hires budgeted through year-end 2007.

Once the business is stabilized and on an elevated performance trajectory, private equity owners continue to offer guidance to management through the board of directors. They are diligent and active board members—whose authority is underpinned by the voting rights they exercise. They also stand ready to engage on major acquisitions or refinancings.

PE owners also help their portfolio companies hire new line managers. An analysis of the highest-performing deals of the best private equity firms shows that in 60 to 80 percent of all cases, the existing senior management team was strengthened very early in the ownership transition. The Burger King story is typical. Not only did the ultimate CEO, John Chidsey, join the management team through an introduction from TPG, but the PE owners helped recruit 15 of the top 20 executives in the new company. Similarly, when Carlyle and another PE firm bought Dex Media, the yellow pages business of Qwest Communications, they retained virtually all of the divisional managers of the directories business but supplemented this talent with highly experienced personnel to fill key positions—

THE FOUR Cs OF PRIVATE EQUITY



Chief Operating Officer, Chief Financial Officer, Chief Technology Officer and others. At Domino's Pizza, Bain Capital brought in a new CEO and filled key VP roles with new talent as well.

The best PE firms go further to draw on networks of experts to complement the management team as needed. These experts typically are former CEOs or CFOs, consultants, or deep subject matter experts (for example, experts on new manufacturing techniques). Often they come from the portfolio company's industry and they can include some of the most noteworthy names in the business. Lou Gerstner, the legendary CEO of IBM, for example, is now Chairman of the Carlyle Group, and John Bond, former Chairman of the global banking giant HSBC, now advises KKR.

In today's corporate world, the challenge of identifying, attracting and hanging on to world-class talent is significant. It is also one of the principal ways in which high performing companies distinguish themselves. PE owners recognize the importance of winning this "war for talent" and by doing so they help their portfolio companies outperform competitors.

CLARITY

Contrary to popular belief, most private equity deals are not "public to private" transactions. Targets for acquisition by PE often include neglected parts of larger conglomerates, to which the PE firm can bring clarity of purpose through a more direct governance and management structure. A prominent example of such an "unloved child" is Duracell, the well-known battery company, which for years was owned by Kraft. After Duracell

was spun off, members of its management team were quoted as saying how much they appreciated not having to worry about what "the cheese people" thought of their ideas. This clarity has paid off handsomely: in the 19 years since Duracell was acquired by KKR, it produced 12.3 times KKR's initial \$350 million equity investment (the total transaction value was \$1.8 billion). The Burger King story also demonstrates the benefits of clarity. Only under private equity ownership did the business get the attention it needed to unlock \$3 billion in new value—its current value of \$4.4 billion versus its value of \$1.5 billion at the time of acquisition by PE—in just four years.

Dunkin' Brands, the parent company of Dunkin' Donuts and Baskin-Robbins was a similar find within a larger conglomerate. Until November 2005, parent company Dunkin' Brands was owned by Allied Domecq, a publicly traded spirits and wine company headquartered in the U.K. In November 2005, Allied Domecq was acquired by Pernod Ricard, a spirits and wine company based in France. Shortly thereafter, because Dunkin' Brands was not a core asset, Pernod put the company up for auction. In March 2006, Dunkin' Brands was acquired by a consortium of three U.S.-based private equity firms: The Carlyle Group, Bain Capital Partners, and Thomas H. Lee Partners.

In testimony before the House Financial Services Committee, Dunkin' Brands CEO Jon Luther said that the new ownership structure made a significant difference. "During the period in which we were an Allied Domecq subsidiary, we were considered a 'cash cow.' We were assigned yearly growth targets. We were usually last in line for attention and certainly for

capital. Significant decisions required that I go to London. Our cash was swept every night and the focus was usually on the next quarter's numbers.

“Our acquisition by Carlyle, Bain and Thomas H. Lee liberated our company. Our new owners expressed confidence in our management team, our strategies, and our vision. Our three key goals are to take Dunkin’ Donuts national, transform Baskin-Robbins, and expand internationally. Rather than tell us to change our goals and our plans to achieve them, our new owners asked how they could support us. Finally, we had the attention and the resources we needed to realize our goals.”

The structure of a PE fund allows for a clear-headed focus on long-term performance. Since PE capital generally is tied for up for three to five years, but frequently as long as 10 years, managers at private equity-owned firms can invest for the long haul rather than worrying about public markets’ reaction to the next earnings report. Saed Mohseni, former CEO of McCormick & Schmick’s said, “As a public company CEO, you’re always aware of the short-term impact of your decision on the stock... whereas in the private equity arena, you don’t worry about that. You always make decisions with an eye to the long-term.”

CULTURE

The best PE firms also create a culture of entrepreneurship and performance. The senior management team of a PE portfolio company typically will own anywhere from two percent to 10 percent of the company. In today’s environment, this can translate into a substantial wealth creation opportunity for management, but only if management is able to increase the value of the portfolio company. When TPG brought in Millard Drexler (who ran the Gap for 16 years) to run J. Crew in 2003, he was given an annual salary of \$200,000 with no bonus—much lower than his compensation at the Gap. Drexler could only earn competitive compensation if he could create significant value for the owners of the Gap. This alignment of his interest with the owners’ helped build a culture that focused on value creation.

Scott Sperling, Co-President of Thomas H. Lee Partners, confirms that the link between management performance and compensation is customary in PE-owned companies: “Around 90 percent of the compensation the management teams get at our companies is driven by the performance of the equity value. The alignment of management’s interests and our interests is absolute.”

In addition, when it comes to top management incentives, PE firms rarely set up an upside-only situation. PE firms usually require management teams to buy into the company with their own money, thereby putting management’s “skin in the game” alongside the other owners.

Business leaders who have worked in private and public settings say that private equity owners introduce a culture of faster, more fact-based decision-making, along with much more rigorous reviews of the business. As David Calhoun, formerly of General Electric and now CEO of The Nielsen Company notes, private equity firms “make quick decisions about even substantial investment choices, which is rarely the case at public companies.”

CAPITAL

Of course, private equity firms also provide capital to the businesses they own. This is a source of value because, unlike public capital markets, PE firms can do so in large amounts with fewer restrictions. This is possible because they can and do monitor companies much more closely than public shareholders.

It is also important to remember that PE firms don’t just provide capital at the time of the initial acquisition. For example, MEMC, a company that produces semiconductor-grade wafers, was near bankruptcy in 2001 and owed more than \$1 billion, paying about \$22 million quarterly in interest. With the downturn in the semiconductor market and the uncertainties due to 9/11, buyers had vanished. When TPG bought MEMC from parent E.ON, it moved quickly to help the management team improve MEMC’s financial position. First, TPG assumed \$800 million of MEMC’s debt, trading it for stock in the company, and thereby slashing MEMC’s interest payments. Next, TPG helped MEMC gain a revolving \$150 million credit facility from Citibank and UBS, which TPG guaranteed.

In all of these situations, the PE owner often brings a level of financial savvy and sophistication to the negotiations for additional capital that is beyond the reach of most portfolio companies. As active players in the capital markets, PE firms can leverage relationships and networks with banks and other creditors that few companies would otherwise enjoy.

To be sure, capital in general is not scarce today. But capital to finance riskier projects or those with huge potential but long incubation periods can be very hard to find. PE investment firms help find and provide it.

SUMMING UP



A quiet revolution has forever changed the way that private equity firms drive growth and create value in the companies in which they invest. The days when financial engineering and leverage alone could add enterprise value are long gone. Those tools have become commodities.

Today, private equity investment firms rely on their unique experience, talent, energy and entrepreneurial skills to significantly improve fundamental business processes and operations. They achieve results by bringing to the table capabilities, clarity, culture and capital. Their focus on

performance, unfettered by the short-term demand to raise earnings per share and exceed the expectations of public equity analysts, has become a potent force driving economy-wide improvements in corporate productivity.

As Jack and Suzy Welch observed in *Business Week* “...private equity almost always creates thriving businesses. It makes a company’s vision clear and goals measurable. It tightly aligns goals with compensation systems. It creates an exciting ownership mentality, unleashing renewed passion from employees. And it does all those things fast.”

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