

Global private equity watch

Winners will emerge

2011

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Winners will emerge in 2011

After a two-year hiatus, 2010 saw an upturn in private equity (PE) activity levels and 2011 looks set to build on this recovery. It will be an active year, but buyout houses must remain acutely aware of, and act to satisfy, the needs of a growing number of stakeholders.

As the year continues to unfold, 2011 promises to be a dynamic one for PE. With banks and capital markets supporting a growing number of high-quality deals, significant stores of committed capital to spend and increased exit opportunities, conditions are improving for a sustained period of normalized investment levels. PE firms are poised to extend their reach and influence, becoming increasingly important players in the capital markets and the global economy.

While many of the beneficiaries of this investment will be in conventional markets and industries, an increasing number will reside in markets outside the historical purview of traditional buyout investors, which hold great promise.

As this reach extends, the relationship between PE and its stakeholders is becoming more complex. Increased regulation, greater informational demands from limited partners, calls for more standardized reporting and the need for more professionalized business processes will place pressure on firms to react to and embrace change – all in a more challenging fund-raising environment than ever before. It is likely that 2011 will be the start of a greater separation between the industry's winners and the rest.

Winners will emerge in 2011

State of the market

Investment activity increased in 2010 and all indications are that this will continue. Deal values increased by 74% last year, with PE houses announcing more than 2,000 deals globally worth a total of over US\$236b. The year also marked a clear return of larger deals, as well as secondaries and public-to-private deals, as debt financing became more readily available. The largest buyout announced in 2010 was the US\$5.2b public-to-private acquisition of Del Monte Foods by KKR, Vestar Capital Partners and Centerview. There were also several deals announced worth over US\$3b, almost all of them in the second half of the year. Globally, there were 53 deals valued at US\$1b or more in 2010, up from 23 in 2009.

After two years of tending to existing portfolio companies, PE houses have turned their attention to new investment opportunities as they seek to take advantage of the return of debt markets (average debt multiples increased to 4.7x EBITDA last year, compared to 4.0x EBITDA in 2009¹), a return that has come much sooner and with more depth than many had expected. Banks are more willing to lend to quality deals, as evidenced by a 36% increase in new issuance of leveraged loans by banks last year. A return of the high-yield market is also helping to fuel new deals. This is building on an increased appetite among investors for credit funds as they search for yield in the current low interest rate environment.

In addition to availability of leverage, investment activity will also be driven by a number of other factors. At the end of 2010, buyout funds held US\$429b in dry powder, according to Preqin. This is a slight decrease on 2009 figures, but is still a sizeable amount of capital to deploy and is the result of two years of slow investment in the wake of the recession. However, much of this capital will have been raised in pre-crisis times and investment periods will begin to expire. While limited partners (LPs) may grant extensions to some funds, the pressure is clearly on for firms to use it or potentially lose it. The good news is there are more assets for sale, the overall M&A environment has improved and debt financing is available. There are no indications to suggest that firms are

looking to invest simply to deploy capital ahead of expiration, but this structural feature of the industry is driving PE houses to be more attentive than ever to the growing number of opportunities in the market as the economy continues to improve.

Some of these opportunities will take the form of divestments from large corporates. As company valuations continue to improve – a function of rising stock markets, increased confidence in economic prospects and greater visibility on the future performance of businesses – large corporates will look to sell non-core businesses. Companies have spent the last two years refining strategies and refocusing priorities to cope with the downturn. Most are seeking revenue growth opportunities and are focusing on expanding to new markets. Many are now looking to divest parts of the business that no longer fit their long-term strategy. These good quality, but often undercapitalized businesses, will be among some of the most highly sought after by PE houses.

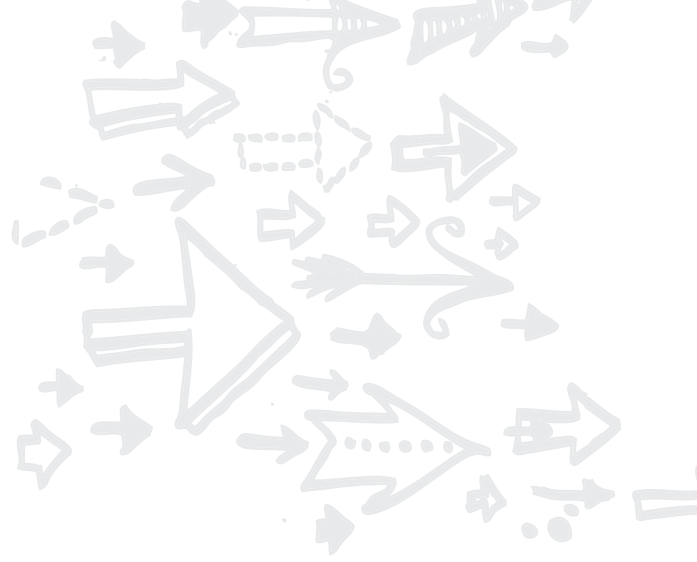
With banks more willing to finance larger deals, an increase in large public-to-private buyouts is also expected. The recent exits of a number of the mega public-to-private deals from 2006 and 2007 have proven that PE can drive value in these businesses and still generate strong returns from these types of deals.

Some smaller, growth-oriented businesses will also be good PE targets, in particular for mid-market funds. There are many that have survived the downturn but need further investment to capture growth in emerging markets or adopt enhanced operating processes to enable them to expand their base revenues and compete in today's more challenging economy.

Yet one of the biggest sources of deals will come from the portfolios of other PE houses in the form of secondary transactions. After two years of subdued exit activity, PE disposals increased markedly in 2010: 902 businesses were sold by PE last year, worth a total of US\$241b, up from just 492 totaling US\$86.6b in 2009, according to Dealogic.

Despite this upturn, PE houses still need to increase their exit pace further. PE's increased investment pace in the years leading up to the crisis, and the slow exit pace thereafter, has caused portfolios to swell. In 2006, there were fewer than 4,000 companies in US PE portfolios, according to PitchBook; by the end of 2010, there were close to 6,000 – more than in 2009. The fact is that close to two-thirds of these represent investments made before 2007, suggesting that there is a significant exit overhang in the market. PE firms are under pressure to exit investments in their portfolio to distribute capital to their LPs as they look forward to raising the next fund.

¹ Standard & Poor's Leveraged Commentary & Data



They have not only survived the downturn, but are generally in good shape. This is in part to the attention and support of their PE owners since the onset of the crisis: they have worked closely with their portfolio companies to implement efficiency measures, make operational and performance improvements and position them for future growth. One strategy PE firms have employed to bolster their portfolio companies is a focus on add-on acquisitions. According to PitchBook, the number of add-ons increased 27% from 2009 to 2010, with over 100 already completed in the first three months of 2011.

Last year saw the return of the secondary buyout market: 30% of US portfolio companies not exited via IPO went to another PE house. In Europe, the picture was similar as 23% of exits by volume and 49% by value were secondary buyouts in 2010. This trend will continue as long as the debt markets remain liquid to support these deals and will likely gain further momentum as the pressure to exit intensifies (see p.14 for more discussion on secondaries and their performance).

Not all smooth sailing

However, there are factors that may challenge PEs. The macroeconomic environment is undoubtedly improving in many markets: countries such as France and Germany have recently reported steady GDP growth, and emerging markets including Brazil, China, India and others continue to register strong GDP figures. But interest rates in developed economies are currently at their lowest levels for decades, a position that is not likely to endure over the long term. Interest rates will rise and this could have an impact on some portfolio companies that may see demand squeezed as a result. Of greater concern, however, is inflation. Largely driven by increases in commodities prices, a function of high demand from fast-growth economies such as China, this phenomenon is already impacting many businesses, with consumer products companies particularly affected. Higher inflation will place pressure on earnings and profitability and this, in turn, may delay exits.

On the buy-side, PE will face more competition from trade buyers than they have experienced in the past few years. Corporates are set to return to the M&A market in 2011 as they seek to deploy the unprecedented levels of cash reserves they have accumulated over the last two years. Moody's recently estimated that US non-financial company cash balances stood at US\$943b.

The prospect of returning cash to shareholders or competing stock buybacks will be far less attractive than investing in growth as the economy picks up.

While funds seeking to exit will benefit from the competitive tension that an increased number of trade buyers will bring to the market, higher asset prices will challenge the appetite of funds on the buy-side.

Nevertheless, some PE firms could turn this to their advantage. Funds with the credibility and flexibility to work with corporates may seek to partner with them on deals where there is a strategic advantage to doing so. This may involve co-investments by PE funds and corporates or joint venture arrangements. For PE houses, the benefit would be access to industry knowledge and strategic input, while corporates would gain skilled M&A transactors and financing for growth, making this type of partnership particularly suited to expansion in emerging markets, products and sectors.

On the exit side, IPOs re-emerged as an exit route in 2010. The road to listing was not smooth as a number of major deals were withdrawn because of volatile markets, but PE still managed to more than double the total value of IPOs in 2010 to US\$35b. While there may still be volatility in 2011, IPOs should continue to be a viable exit opportunity in the coming year. An increased number of PE-backed offerings are certainly expected in 2011. In addition to a large number of filings already in the queue, there is a sizeable shadow pipeline of companies that either have yet to make an initial filing or withdrew an IPO in 2010. As we go to print there have been a handful of high-profile IPOs including Morgan Kinder, HCA and Nielsen Holdings in the US as the equity markets have been receptive. These listings are less about raising growth capital or shareholder selling stakes and more about accessing the capital markets to de-lever the business. Many are likely to follow suit and make another run at public ownership sometime in 2011.

For additional detail on the major trends and statistics that defined PE in 2010, please turn to p.10.

Winners will emerge in 2011

What will define the winners?

It's against this backdrop that PE firms will face a new set of challenges. The industry continues to evolve and react to the economic landscape. Some are expanding into new business lines in the alternative asset space while others are moving into new geographies. This, together with the events of the financial crisis of 2008, has moved PE from operating in obscurity to one that attracts the attention of the wider world. PE firms now need to look at their entire enterprise and ensure the business is "firing on all cylinders".

The next few years will be a decisive time for PE houses. Firms that can successfully tackle three over-arching issues – emphasizing value creation in the portfolio, executing on the defined investment strategy and creating a professionalized back-office function – will emerge as the winners of tomorrow.

Performance improvement to remain a key focus

At the heart of today's PE business is value creation. Long gone are the days of successful buyouts on the back of pure financial engineering. PE firms are business operators and spend significant time transforming the businesses they acquire. During the last two years, PEs aggressively employed new strategies to manage their portfolio companies. They spent the majority of their time in the downturn shepherding portfolio companies through the worst of the recession, and are now actively applying the lessons learned across their portfolios. Many leading practices in performance improvement were already part of PE's normal practice; they were simply further reinforced by the downturn. Normal practices, such as the importance of a comprehensive and thorough due diligence process, having the right management team in place, making sure all parties are properly incentivized and aligned, and in particular, the increasing use of operating partners and portfolio operations teams, became even more important given market conditions.

While the use of operating partners or teams and portfolio operations teams have been part of the PE model for some time, this growing practice is one of the key means through which PE firms are working to improve the performance of companies during their ownership period. Operating partners can bring specialized expertise and deep industry experience to augment a

PE firm, helping to identify new opportunities, quickly integrate acquisitions and rapidly implement a firm's strategic plan. Many firms cite the expertise and experience they were able to access through their operating partners as one of the key differentiators that helped their portfolio companies survive the recession, and begin to thrive in its aftermath. They are now hoping that the intense focus on the portfolio companies will result in increased exit opportunities yielding positive returns.

Similarly, PE firms are increasingly relying on portfolio operations teams to realize revenue enhancement and cost-efficiency synergies across their portfolios. Operations teams are also credited with quickly professionalizing and optimizing existing policies, procedures and systems across the range of firms' portfolio holdings, including financial accounting and controls; reporting procedures and systems and IT infrastructure.

More importantly, winning PE firms are aggregating leading performance improvement practices from across teams and spreading best practices across the entire portfolio. A working capital approach identified in a consumer products company in one managing director's portfolio can be employed in another's portfolio company in the telecommunications industry. The same is being achieved with environmental sustainability opportunities, cost reduction initiatives, pricing strategies and accessing new geographic markets.

Operations teams are now often involved in supporting the pursuit of new investments – identifying opportunities pre-deals. As we move into the next part of the cycle, we expect to see continued and growing use of formal performance improvement initiatives as PE adapt and refine measures implemented in the depths of the recession – used then to save portfolio companies, but used now to help those companies grow and thrive. Analysis by Ernst & Young in our annual "How do private equity investors create value?" study currently shows a roughly even split in the returns attribution between debt, public market returns and outperformance. We expect future years' studies to show an even greater proportion of deal returns from PE involvement, the result of an increased focus on portfolio improvement initiatives throughout the industry.

PE firms are doing this to realize significant benefits and to respond to growing expectations from their LPs. Today's LPs want active ownership from PE investors. They want to see that value is being delivered and understand how – motivating PE firms to perform attribution analyses to reference contributions. Transparent communication between PEs and their investors has never been more imperative.



Winners will emerge in 2011

Strategy has never been more critical

More than ever, PE firms now need to determine the shape and size of their firms. This a significant year for PE. Those who get it right – define a clear strategy, deploy capital effectively against that strategy and continue to innovate – will win. Those who deploy capital indiscriminately against a ticking investment period, in a pricey market could face steep challenges.

Globalization and winning in the emerging markets

The largest firms continue to diversify geographically, with increased presence in both the developed and developing (emerging) markets. While the US began its rebound in 2010, activity in EMEA looked to be six months behind. As was clearly demonstrated in this most recent downturn, the emerging markets suffered less and recovered more quickly than developed markets. Exposure to the emerging markets, can mean a more balanced portfolio – and one that can better withstand another downturn. However, this effort comes with increased country-specific risk as history has demonstrated.

Many of the large firms are actively investing in geographic expansion, opening offices in key markets around the world, deploying professionals from home offices and hiring local experts who know the markets and can access the best deals.

Diversification

While the LBO model remains at the core of the PE asset class, for the largest firms, maturity has resulted in evolution. In 2010 some of the mega global PE firms began to diversify – entering new lines of business through both organic growth and strategic acquisitions – as they actively work to evolve their business models beyond traditional buyouts.

These firms are actively expanding into business lines traditionally occupied by the investment banking and asset management industries, increasing their capabilities in a range of activities including advisory, capital markets, asset management and leveraged finance. This trend is likely to accelerate in the next year or two as regulatory initiatives in the US press many banks to divest major business units. The recent acquisition by KKR of a team from Goldman Sachs' proprietary trading operations underscores the opportunity that PE firms are now seeing in terms of access to previously unavailable talent. Time will tell if this trend of morphing into broad asset management firms continues to shape the industry. Currently, it is the domain of the largest US-domiciled funds.

Accessing public capital

Many PEs are also considering accessing public markets and raising capital through the IPOs of the PE firms' management companies. Permanent capital has allowed firms to expand into new lines of business and, to a certain extent, reduce the dependency of the firm on limited partners and perpetual fund-raising. To date, Fortress Group, 3i Group, The Blackstone Group, KKR and Apollo are public. Several others, with an eye towards succession planning and providing ownership equity to professionals and permanent capital for the firm, have filed their intentions.

What will happen to the middle market?

Facing increased competition for capital, smaller and mid-market funds will need to find ways to differentiate and stand out in the crowd. They may focus on a niche investment strategy – either by size of business, distressed assets or focus industry. To remain in the coveted top quartile, these funds will need to do everything they can to drive outsized returns.





Back office moves center stage

LPs setting the terms and backing the best

LPs have always been the most important stakeholder. As investors in their funds, firms have always needed to ensure open communications with them. However, over the last few years, LP demands have increased dramatically. The crisis prompted LPs to request much more detailed reporting from PE funds, including granular information on individual portfolio companies, as they sought to better understand the status of their underlying investments. While the effects of the crisis have faded and many investors have become less capital-constrained, LPs continue to demand more information from their GPs than previously, particularly when PE firms are fund-raising. 'Transparency' has replaced 'compliance' as the new paradigm.

LPs have become more sophisticated in their approach to managing their PE investments, and they are showing signs of becoming more selective about the funds they invest in. They are focusing their attention on top quartile performers with proven track records. Last year, fund-raising fell to pre-2005 levels, as 337 funds attracted a total of US\$194b, according to Preqin figures. And while the majority of the top 10 funds raised in 2010 were targeted at developed markets, two Latin American funds are featured in the list, attesting to a shift in LP appetites toward emerging markets. Indeed, a recent study suggested that the median proportion of LP commitments targeted at emerging markets will rise from 6%-10% today to 11%-15% within just two years.

Globally, there are currently 1,100 funds in the market, seeking a total of US\$500b. Although we expect fund-raising figures to rise for 2011, competition for LP capital will be fierce. Only those that are able to meet – or exceed – LP requirements in terms of investment strategy, track record, transparency and reporting will be successful in meeting expectations.

Key to negotiations will be the interplay of the guidelines issued by the Institutional Limited Partners Association (ILPA). ILPA's first series of recommendations, which were set out in 2009, have already formed the backdrop of many discussions between LPs and GPs, particularly during fund-raising. Indeed, over the last 18 months, there has been a shift in fund terms in LPs' favor, with the level and treatment of management fees and transaction fees impacted the most.

ILPA has since issued a second round of guidelines (ILPA 2.0) providing more direction around their three guiding principles – alignment of interests, governance and transparency. In addition, they added new recommendations in areas such as claw backs and are providing standardized reporting templates. These remain a work in progress as ILPA has indicated they will look to add more templates in the future as the organization seeks to address LP concerns around accuracy of PE fund reporting and resources required to administer PE fund portfolios. The organization did state in its revised introduction, "The detail should always be seen as subordinate to the more general principles,"² reminding the GPs that the specific template used is less important than the progress in meeting the guidelines themselves. There are also similar moves on a regional level as the European Private Equity and Venture Capital Association has recently announced plans to update its professional standards guidance.

² Private Equity Principles 2.0, <http://ilpa.org>

What will define the winners?

Regulators and tax authorities home in

At the same time as LP requirements are increasing, so are those of regulators. Since the crisis, governments and legislators have sought to put in place regulations to monitor and reduce systemic risk throughout the global financial system. The increased size and scope of PE relative to other financial institutions has opened the door to possible increased scrutiny. Moving forward, as systemic risk continues to be debated, there could be ramifications for the largest industry players.

In the US, the passage of the Dodd-Frank legislation in 2010 will have a significant impact on the PE fund community. The cornerstone element of the law is a requirement for funds with assets over US\$150m to register with the Securities and Exchange Commission (SEC) capturing a large segment of the market. In addition to registration, funds will have to name a chief compliance officer who will be responsible for establishing and maintaining a compliance program. Funds should expect and prepare for SEC examinations in the near future. Another provision in Dodd-Frank, termed the "Volcker Rule," contains restrictions around the ability of financial institutions to engage in PE investing. This rule promises to alter the behavior of banks from a PE perspective. In fact, we have already observed some shifts in banks' investing profiles as a result.

In Europe, the Alternative Investment Fund Managers Directive, will have a large impact on funds located in the European Union (EU) and on those wishing to market to EU-based investors. The aim of the Directive is to increase transparency and disclosure and, as such, requires firms to provide information on funds' financial positions and risk profiles. It will also require any firm, regardless of where they are based, looking to raise capital from European investors to apply for a passport.

PE will increasingly face additional complexity in the form of changing tax regimes. Many governments, dealing with large deficits, are looking for ways to raise revenue and are becoming more aggressive in their handling of large transactions. Non-resident entities, which pose little domestic political risk, are particular targets. China, India, Australia and Ireland are among the countries that are challenging their current tax regimes.

Responsibilities grow

In addition to these forces, the increased focus on responsible investing among the LP community and the wider world, will impact PE. There are now over 800 signatories to the United Nations Principles for Responsible Investment, which provide a set of guidelines for ensuring that investors pay due consideration to environmental, social and governance issues that can affect the performance of investment portfolios. Among these are some of the largest LPs, as well as PE houses themselves, demonstrating the importance that many investors in PE funds attach to responsible investing.

To that end, the Environmental Defense Fund (EDF) in the US teamed up with The Carlyle Group and KKR in recent years to focus on developing and driving environmental sustainability initiatives. Its program with PE – Green Returns – has generated significant financial and environmental benefits for PE. Looking across their entire portfolios, PEs can assess the environmental opportunities – that can also translate into improved operational and financial performance for the portfolio companies. Building on the growing focus on environment, social and governance issues in the PE industry, EDF has undertaken a new initiative with Ernst & Young that aims to drive sustainability and incorporate the measurement and management of environmental performance as a core element of PE investment practices during the ownership period investment.

Another area where PE firms are intensifying their focus is anti-corruption. Especially as PE firms look for new opportunities in expanded geographies, often unfamiliar markets – many where business and politics are often far more inter-connected – they are paying greater attention to their obligations under anti-corruption statutes including the Foreign Corrupt Practices Act in the US and the Bribery Act in the UK. Regulators are currently stepping up their enforcement activities, and penalties for non-compliant firms and individuals have the potential to be severe. As a result, PE houses are working diligently to institute new policies and procedures to ensure their actions in foreign markets – and with foreign governments as well as sovereign wealth funds – are conducted in full compliance with applicable regulations and with the highest ethical standards.

Those that can turn a professionalized back office to their advantage may just find the way to pull ahead of the competition.

And the winners are ...

As these issues move up LPs' agendas, PE houses will come under increasing pressure to demonstrate to their investors that they have adequate resources, processes, procedures and technology in place to strike the balance between managing risk and driving value creation in their investments.

These three factors combined – continued pressure to create value in the portfolio; the need to innovate and define strategy at the fund level; and an imperative to proactively respond to and manage a growing stakeholder group – will require PE firms to look closely at their organizations. PE is no longer a cottage industry. Firms must adapt to the changing environment. They will have to professionalize their business processes to ensure they have the right information at the right time to satisfy the needs of LPs, regulators and other interested parties.

Successfully acquiring businesses, transforming and pursuing value creation have always been central to the PE industry. If firms are to implement and comply with new regulation and the greater informational requirements from LPs, they will need to invest more investments in IT infrastructure and personnel. The back office has now moved center stage. Solid internal control and reporting systems are no longer optional.

The fact that these changes are happening today will add to the challenges faced by many firms. The large exit overhang and resultant aging portfolio, coupled with the need and appetite to make new investments means that resources at PE houses are already stretched. Some have started hiring, in particular to bolster their operational expertise, but additional resources are likely needed in all parts of the organization if firms are not only to cope with these demands, but also to prosper amid these changes.

Larger firms are clearly at an advantage, given the greater amount of internal resources they already have and the fact that they have already gone a long way toward institutionalizing their businesses. Mid-market and smaller firms could find it harder to adapt. The agile players among these will succeed; among the others, these pressures may well result in some form of consolidation in the very near future.

Much of this requires effort, but those that can handle it well may find it is a source of competitive advantage. We are already seeing this in the marketplace. The move by players such as The Carlyle Group and KKR to establish green programs is one

such example. These firms are seeking to improve their portfolio companies' bottom line by implementing initiatives such as energy-efficiency measures and improved waste management. This takes cost out of the business and improves profitability, and enables the firms to demonstrate to investors that they are focused on environmental risks.

External change will evoke a variety of internal responses from PE houses. Those unable to cope with the demands placed on them to proactively manage stakeholders may lose out. Firms that embrace these demands through investment, organizational changes and transparent communication will emerge as winners.

Ernst & Young's perspective

As we look ahead to the remainder of 2011, a number of geo-political events, primarily the recent uprisings in a number of countries in the Middle East and North Africa, are still playing out. We noted in a recent article featured in the US PE trade publication *Buyouts* that the most serious risk to PE investing, and the economy in general, would be another macro-shock – though at the time we gave it a low probability of occurring. A rise in oil prices, which would result from any major disruption in production, could very well send the world economy reeling again.

Sovereign financial risks seem likely to remain high, particularly in Europe, and currency volatility or trade wars could damage the prospects of many companies that rely on export sales or access to imported commodities.

In the end, despite what seems to be an improvement in circumstances for PEs – an increase in leveraged lending, transaction and exit activity and coffers filled with committed capital to spend – many firms should ask themselves these critical questions:

- ▶ Is our investment strategy clear and concise, yet diverse enough to withstand another downturn?
- ▶ Are we effectively and consistently working the portfolio?
- ▶ Is our back office positioned to proactively and efficiently manage key stakeholders?

2010 Private equity year in review

PE continued its emergence from one of the most challenging periods in modern times in 2010. The industry steadily increased its activity on multiple fronts. Acquisition activity rose rapidly as firms sought to deploy an estimated US\$450b in dry powder. PE firms continued to work closely with portfolio companies, employing the lessons learned from the recession to add value through performance improvement initiatives. And GPs availed themselves of a record appetite for new issuance in the capital markets to strengthen companies' balance sheets. The improving capital markets also fueled new opportunities for exits. Through IPOs, sales to strategic acquirers and a strong secondary buyout market, firms actively and successfully achieved some liquidity in their portfolio on behalf of LPs anxious for distributions. Finally, some of the largest PE firms began pushing the boundaries of the asset class more than ever before, moving into new lines of business and new geographies as they attempted to stay at the forefront of a rapidly changing global financial landscape.

Activity increasing against a stabilizing macroeconomic environment

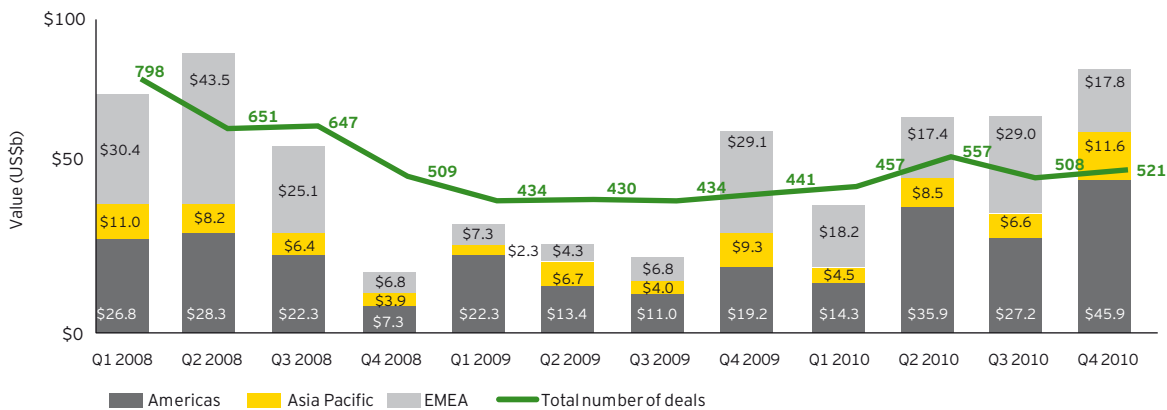
Acquisition activity in 2010 rebounded significantly off 2008-09 lows, with rising deal volumes and larger deal sizes throughout the year. Through the end of the year, PE firms had announced 2,043 deals valued at more than US\$236b.³ This represented a 74% increase in announced deal value from 2009, which closed the year with 1,739 transactions valued at more than US\$135b.⁴ Valuations continued their rise with the average purchase price of PE deals in 2010 at 8.1x EBITDA (earnings before interest, taxes, depreciation and amortization), up almost a full turn from 2009. The average debt multiple over the same period was 4.7x EBITDA – up from 4.0x in 2009.



³ Dealogic, through 31 December 2010.

⁴ Dealogic, through 31 December 2010.

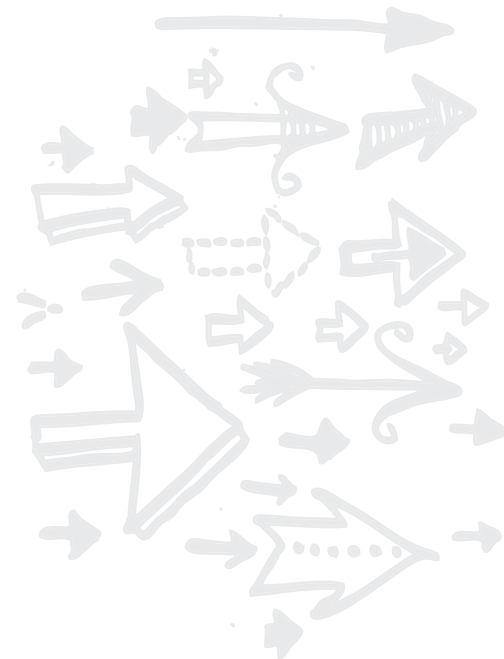
Quarterly PE acquisitions by region 2008-2010



Source: Dealogic. Includes sponsor-backed acquisitions; excludes repurchases and add-ons; regional breakdown based on location of target headquarters.

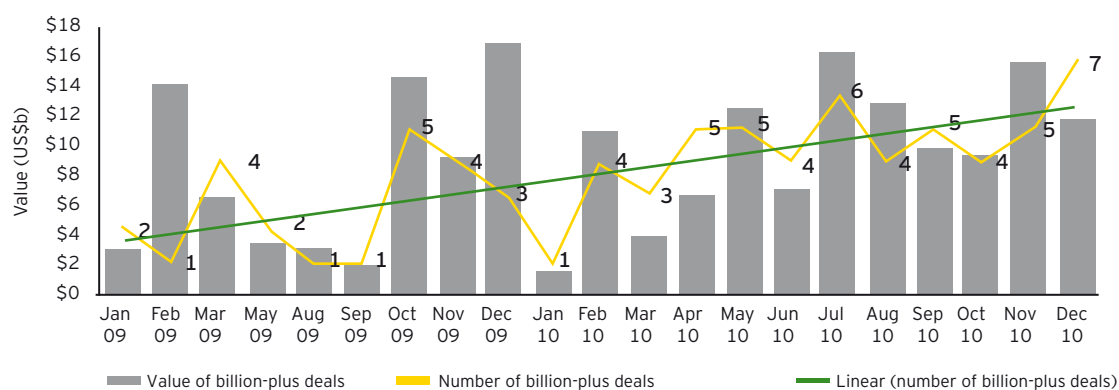
Fifty-three deals valued at US\$1b or more were announced in 2010, with a combined value of US\$118b, a 57% increase over 2009, when just 23 deals exceeded the same mark. Several large public-to-private deals defined 2010. The largest public-to-private deal announced was the US\$5.2b bid for

Del Monte Foods by KKR, Vestar Capital Partners and Centerview, followed by Onex and Canada Pension Plan Investment Board's announced acquisitions of engineering firm Tomkins for US\$4.7b.



2010 Private equity year in review

Billion-plus dollar deals 2009-2010



Source: Dealogic

Americas-targeted deals increased 87% over 2009 to US\$122.5b in value. Asia Pacific-targeted deals grew 39% to US\$31.1b in value, and EMEA deals rose 74% over 2009, with US\$82.4b in value. Q410 activity was especially robust – it was the leading quarter for PE deal activity since Q208, when US\$80.1b in new acquisitions were announced.

Unsurprisingly, the US and UK topped the list of top 10 countries targeted for PE investment. As expected, Brazil, China and India also made the list. Interestingly, Germany, a popular destination for PE investment, did not make the top 10 – France, Spain and Switzerland were the other European representatives receiving the highest levels of PE investments. Australia and South Korea rounded out the list.

Top 10 target countries for PE investment 2010 (by value)

Country	US\$b	Number
United States	112.9	781
United Kingdom	32.6	171
Spain	12.1	50
France	9.3	207
India	7.0	96
South Korea	6.5	14
Brazil	6.3	30
Australia	6.1	40
China	5.5	75
Switzerland	4.5	10

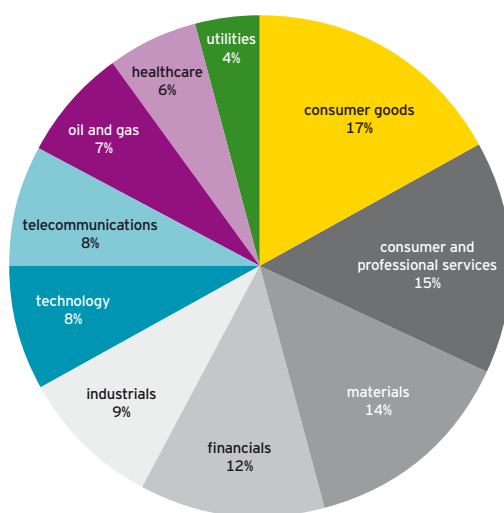
Source: Dealogic

PE acquisitions in 2010 were well spread among industry sectors – with PE firms looking for strong companies that were actively growing revenue.

Consumer goods was the most active sector – with 17% of deals – but closely followed by consumer and professional services, which includes retail, (15%) and financials and materials (12% and 14%, respectively).

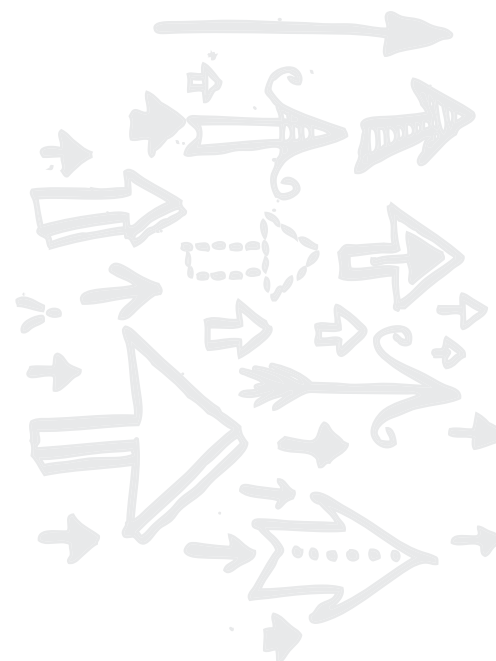
As 2011 continues to unfold, we expect the trend toward larger deals to continue, as firms seek viable and substantial targets for the significant dry powder they hold. According to Standard & Poor’s LCD, the most aggressive deals currently have leverage ratios of 5.5x-6.5x, suggesting US\$5b-US\$10b deals are within the realm of possibility.

2010 PE acquisitions by sector



Source: Dealogic; Sector definitions use Dow Jones/FTSE Industry Classification Benchmark

74% increase in PE announced deal value from 2009 to 2010.



2010 Private equity year in review

Exit market rebounded as firms seek liquidity for LPs

The exit market rebounded significantly in 2010, and unsurprisingly exceeded both 2008 and 2009. PE firms sold 904 investments valued at US\$241b–US\$206b in M&A deals, and US\$35b in 155 separate PE-backed IPOs. Companies based in the

Americas accounted for approximately 55% of 2010 exit activity, while companies based in EMEA and Asia Pacific accounted for approximately 32% and 13%, respectively.

Top 10 PE exits by M&A – 2010

Announcement date	Target	Financial sponsor	Deal value US\$ (b)	Target-specific industry group
21 December 2010	Chrysler Financial Corp	Cerberus Partners LP	\$6.3	Finance
13 December 2010	HCR Manor Care Inc (skilled nursing and assisted living facilities)	The Carlyle Group	\$6.1	Healthcare
28 May 2010	East Resources Inc	KKR & Co. LP	\$4.7	Oil & Gas
24 November 2010	Korea Exchange Bank (51.02%)	Lone Star Funds	\$4.0	Finance
7 June 2010	Talecris Biotherapeutics Holdings Corp	Cerberus Partners LP, Ampersand Ventures	\$3.9	Healthcare
2 September 2010	Burger King Holdings Inc	Goldman Sachs Capital Partners, Bain Capital Partners LLC, TPG Capital LP	\$3.9	Dining & Lodging
23 June 2010	Cognis GmbH	Goldman Sachs Capital Partners, Permira Ltd.	\$3.8	Chemicals
15 March 2010	Tommy Hilfiger BV	Apax Partners LP	\$3.2	Textile
21 June 2010	Gala Coral Group Ltd (55%)	Candover Investments, Cinven Ltd, Permira Ltd.	\$3.1	Leisure & Recreation
9 July 2010	MultiPlan Inc	Welsh Carson Anderson & Stowe LP, The Carlyle Group	\$3.1	Professional Services

Source: Dealogic

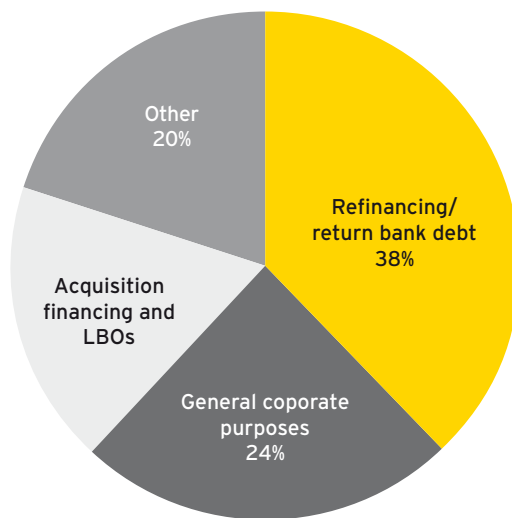
59 PE exits, excluding IPOs, exceeded the US\$1b mark. The top 10 M&A exits included deals such as Chrysler Financial, Korea Exchange Bank and Talecris Biotherapeutics.

Secondary buyouts have returned as a critical driver of activity. Of the 749 M&A exits announced by firms this year, 224 were sold to other PE firms. There has been much discussion in the media about secondary and tertiary deals, where PE firms buy assets from one another. Such transactions have always been a feature

of the market, and are not a new phenomenon. The current secondary activity is at similar levels to those seen in 2004 and 2005. Ernst & Young research shows little discernable difference in the performance profiles of secondary buyouts compared to primary deals. Often, buyers add value in such deals through leveraging very different skill sets than the original owners, effecting operational improvements from new angles and growing the company both organically and through selective strategic acquisitions.

6,800 US and European companies currently in PE firm portfolios.

2010 leveraged loans – use of proceeds



Source: Thomson Reuters

Fueling the recovery in global M&A and PE activity is the increasing willingness of banks to lend for high-quality deals. In 2010, banks issued US\$709b in new leveraged loans – a 36% increase from 2009. The bulk of new loans (38%) refinanced existing debt, allowing borrowers to improve their outlook by “amending and extending” existing loans, while 18% of these loans went to finance new acquisitions. High-yield issuance saw another record year, as the confluence of low interest rates, low returns from equities and a declining rate of corporate defaults contributed to US\$327b in new high-yield bonds being issued globally in 2010.

However, a significant overhang in portfolio companies still exists. Portfolio company holdings increased steadily through the mid-decade years before plateauing in 2009 and 2010 when PE firms cut back on acquisitions amid the downturn. According to Pitchbook, PE firms owned nearly 6,000 US companies at the end of 2010, up slightly from 2009.

With approximately two-thirds of these companies acquired prior to 2007, there is potentially a significant overhang in the markets.

In Europe, there were over 760 European companies (enterprise value greater than €150m) in the portfolios of PE firms at the end of 2009, based on Ernst & Young research. There was not much change in 2010 either – with the value of new acquisitions and exits in Europe about level. As a result of the reduced activity, PE portfolios have nearly doubled in age since 2007 to an average of 3.7 years.

2010 Private equity year in review

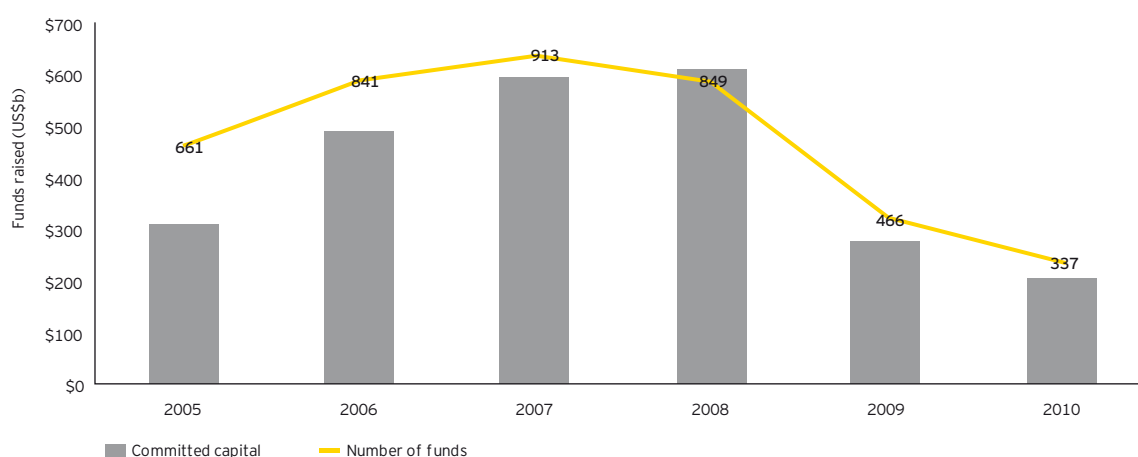
Some fund-raising success, though still challenging

Fund-raising conditions remain challenging. LPs are becoming increasingly selective and are focused on funding top quartile performers with proven track records. PE funds raised US\$194b through 337 separate vehicles in 2010. Funds are taking significantly longer to close – funds which closed in the first part of 2010 took on average more than 20 months to close, more than twice the time it took in 2004.

The Blackstone Group's BCP IV was the largest fund to close in 2010 with US\$13.5b in commitments – a sizable number unto itself – but it did close US\$1.5b short of its original target. Currently, there are nearly 1,200 PE funds on the road seeking approximately US\$536b in commitments. Funds focused on the US are targeting approximately US\$276b in new funds; funds

focused on Europe are targeting US\$140b; and managers focused on Asia Pacific and the rest of the world are targeting US\$120b. Funds currently on the road include some of the industry's largest firms. KKR recently launched its Fund XI with a target of US\$10b, and has already lined up the Oregon Investment Council as an investor, with a US\$500m commitment. Sweden's EQT Partners also launched a new US\$5.8b fund early in 2011, and BC Partners IX is reportedly halfway to completion on its US\$7.5b buyout fund. Among the new funds, fees are expected to be an area of considerable change – one large firm was reported as considering offering LPs two fee alternatives for a new regional fund – investors can choose between a 2% management fee and 20% carry, or opt to pay 1% management fee and 30% carry. Both options would represent a reduction from the firm's current 2%/30%.

PE fund-raising 2005-2010



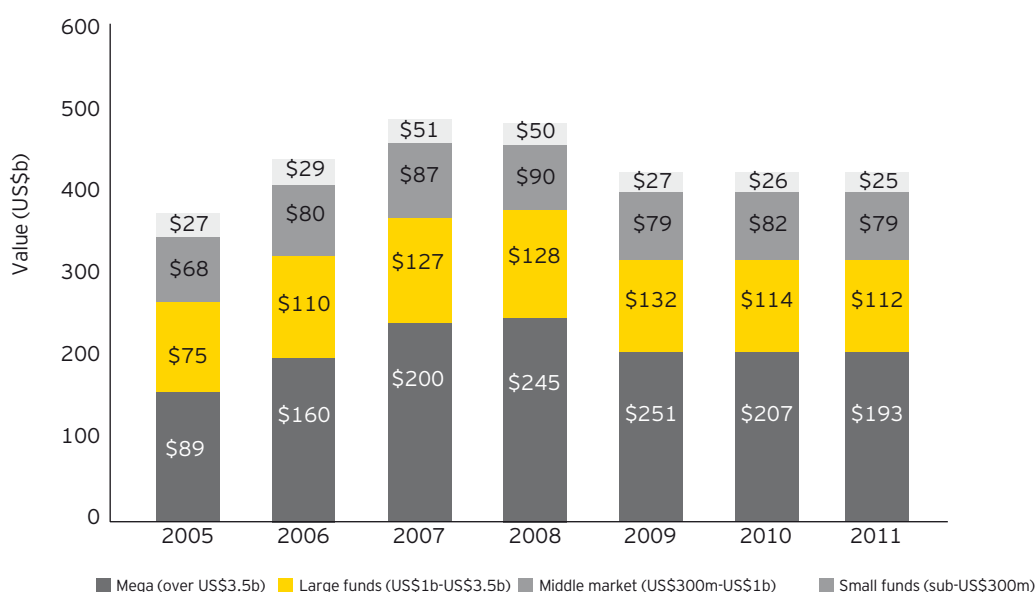
Source: Preqin. Includes all investment styles except venture and venture-related, including but not limited to: buyouts, real estate, infrastructure, distressed, fund-of-funds, secondary funds, balanced funds, and mezzanine. Funds listed by date of final close.

Despite the challenges in raising new funds, there remains significant available capital from prior year fund-raising – more than US\$429b, according to Preqin. US-focused buyout funds had US\$231b available, a 15% decline from the end of 2009, when US dry powder peaked at approximately US\$271b. EMEA-focused funds had US\$142b on hand, down from US\$165b at the start of the year. Funds focused on the rest of the world had US\$56b, an amount that has remained roughly constant over the last three years. Mega-funds, those with more than US\$3.5b in commitments, represent almost 50% of all buyout dry powder. Large funds had 27%, and mid-market and small funds held 19% and 6%, respectively.

According to a recent Preqin survey, the vast majority of LPs – 96% – expect to maintain or increase their allocation to private equity over the next 12 months. Over the longer term, 37% expect to increase their allocation to the asset class, while 10% expect to reduce their PE exposure. Despite some concerns over high EBITDA multiples seen for current deals, LPs still consider PEs as an attractive asset class, and continue to look to those high-performing PEs who consistently deliver above average returns.

In the meantime, middle market funds could be especially challenged in the current environment. While large, brand-name funds are still raising money, and smaller, more nimble funds are finding their niche, middle market funds with more limited name recognition and short track records could get squeezed.

Dry powder by fund size 2005-2011



Source: Preqin

2010 Private equity year in review

Emerging markets

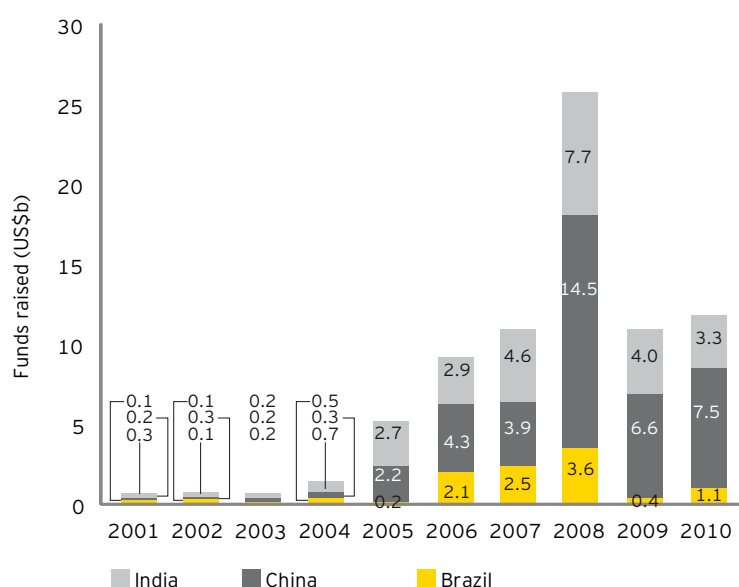
Continued pursuit of opportunities in emerging markets

Geographic diversification is increasing and PE firms continue to look to the emerging markets for investment and growth opportunities. They are entering these new markets – with their favorable long-term growth rates and upward socioeconomic mobility – by raising niche funds targeting specific countries, regions and markets. Funds focused on investment in emerging markets are likely to be well-received by investors. Latin America, in particular, has moved from a niche, “nice-to-have” portfolio holding to a critical pillar of LPs’ diversification models. LPs see in the emerging markets many of the characteristics that attracted them to the PE asset class in the first place – chiefly, the opportunity to earn returns that are better than public markets. A recent survey by Collier Capital found that the median proportion of PE commitments targeted at emerging markets will increase from today’s range of 6%-10% to 11%-15% within just two years.

The top 10 emerging market buyout funds in 2010 targeted two of the largest and fastest-growing regions – Latin America and Asia. M&A activity in these markets has grown significantly in the last decade and PE has matched these increased levels of deal activity.

Two strategies global PE firms are employing to have more success in emerging markets: partnering with or acquiring stakes in established regional players to gain access and local insight and raising funds in the local currency.

Fund-raising for key emerging markets 2001-2010



Source: Emerging Markets Private Equity Association

Top 10 emerging market buyout funds raised 2010

Fund	Final close size (US\$m)	Geographic focus
Carlyle Asia Partners III	2,550	Emerging Asia
Southern Cross Latin America Fund IV	1,680	Latin America
Advent Latin American Fund V	1,650	Latin America
CHAMP Buyout III	1,463	Emerging Asia
CDH China Fund IV	1,458	China
Navis Asia Fund VI	1,200	Emerging Asia
GP Capital Partners V	1,100	Latin America
CITIC Capital China Partners II	925	China
Quintana Energy Partners II	350	China
Northstar Equity Partners II	285	Indonesia

Source: Preqin



Brazil

Interest in Brazil continued to accelerate in 2010, driving increasing activity from local funds and global firms alike.

Fund-raising for Brazil-targeted funds remained strong and increased nearly 170% in 2010 over 2009. Underscoring rising interest in the region, two South America-targeted funds rounded out the top 10 largest buyout funds closed in 2010 – Southern Cross' Fund IV, and Advent's Latin America Fund V, with US\$1.68b and US\$1.65b in commitments, respectively. Many more funds are currently in the midst of fund-raising, signifying a healthy pipeline of new capital should remain available for new deals.

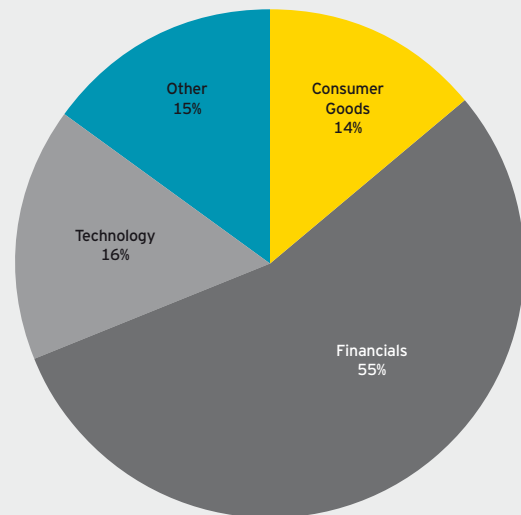
Many global managers are opening local offices, but as mentioned, one of the key strategies being implemented by global PE firms in emerging markets is the acquisition of stakes in established local firms with robust networks. A number of PE firms have in recent months acquired shares in some of Brazil's most respected asset managers. In September, The Blackstone Group announced that it had acquired a 40% stake in Pátria Investimentos. In October, Highbridge Capital, the hedge fund owned by JPMorgan Chase, acquired a majority stake in Gávea Investimentos. Gávea, which has approximately US\$6b under management, was founded by former central bank Governor Arminio Fraga. And in December, a consortium led by J.C. Flowers & Co. and including sovereign wealth funds, GIC, China Investment Corporation and Temasek, acquired a 19% stake in BTG Pactual for US\$1.8b in the largest Brazilian deal of its kind.

These deals contributed greatly to the total US\$6.6b in completed deals seen last year in Latin America. Overall, Brazil accounted for 70% of these new deals – or US\$4.6b⁵ – a 404% increase over 2009.

⁵ Emerging Markets Private Equity Association

Clearly Brazil continues to attract significant attention, as a growing number of funds are being raised to target the country and broader region. As 2011 continues, we expect this wave of interest to manifest into greater activity across the space, including fund-raising, transactions, and exits, especially as President Rousseff's new administration is making welcoming overtures toward additional long-term PE investment.

Sector breakdown of 2010 PE deals



Source: Dealogic, breakdown by value.

404% increase in PE deals in Latin America in 2010.

2010 Private equity year in review



China

Raising funds in the local currency has become especially popular in China. While fund-raising prior to 2008 was dominated largely by global firms with US dollar-denominated funds, the last two years have seen a dramatic shift in the China fund-raising market with the rise of renminbi-denominated funds (also called yuan-denominated funds). Traditionally accounting for just a sliver of the overall fund-raising market, these funds now represent a significant and growing force in China, representing a remarkable 64% of overall commitments in 2009, and 80.2% of total commitments through the bulk of 2010, according to *Asia Private Equity Review*.

Firms including The Blackstone Group, which raised RMB5b (US\$736m) for its maiden RMB-denominated fund in 2010, The Carlyle Group, which raised the equivalent of US\$350m for the first closing of its RMB5b PE fund, and TPG, which recently announced two RMB-denominated funds of RMB5b (US\$736m) each, are now competing with China's burgeoning domestic industry for investors' capital.

These funds, as well as established funds by existing domestic managers, may get a fund-raising boost in the coming months as regulators provide clarity on the proposed Qualified Foreign Limited Partner (QFLP) program. The QFLP program would allow foreign LPs to convert foreign assets to renminbi for the purpose of investing in yuan-denominated PE funds. Under the proposed guidelines, Shanghai, Beijing and Tianjin would each be allocated a quota of foreign assets to be converted. Foreign LPs would be subject to restrictions in the amount which could be invested in a single fund, and would need to meet certain qualifications.

Nonetheless, the regulations represent a step in the right direction in terms of getting foreign LPs involved in the domestic fund market.

Yuan-denominated fund-raising has become common in the China market with good reason – the regulatory framework clearly favors RMB funds over funds denominated in the US dollar or any other currency. Among the advantages: funds can be raised from the local investors, as opposed to requiring foreign LPs; yuan-denominated funds are not confined to foreign exchange controls affecting foreign funds; and, perhaps most importantly, transactions can be executed far more quickly than they can with foreign funds, which require levels of regulatory approval that far exceed domestic investors. Moreover, domestic PE funds enjoy a wider range of investment opportunities relative to their foreign counterparts, including the ability to invest in sensitive industries such as defense and media, which are off-limits to foreign investors.

Unlike dollar-denominated funds, yuan funds at present have particular structural issues that could eventually offset some of their advantages, especially among the international LP community. Chief among these issues is a possibility that a significant percentage, if not all, of the capital committed to the fund is drawn down at the start of the investment period. This is in sharp contrast to Western-style funds, where commitments are generally called only as capital is invested over a period of several years. While regulators have not yet specified the initial capital drawdowns, local investors are optimistic that regulators will allow some flexibility. Any requirements for large initial drawdowns could place an enormous amount of pressure on GPs to invest at a faster pace than has traditionally occurred.

The rush to renminbi

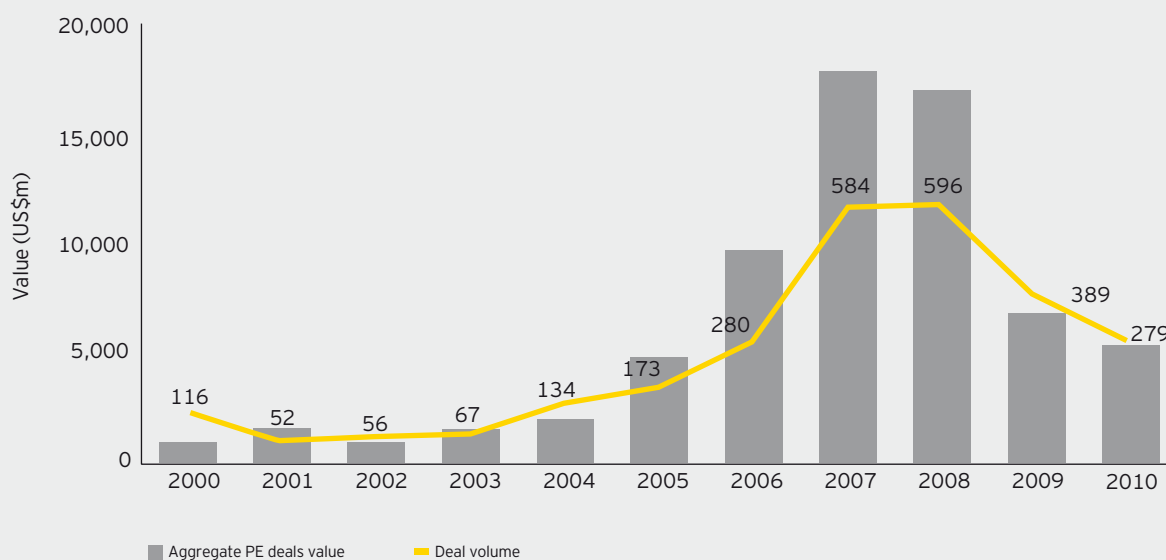
Global PE firms are racing to announce new yuan-denominated fund-raising:

- ▶ August 2010 – TPG launches dual RMB5b (US\$740m) funds in Shanghai and Chongqing
- ▶ July 2010 – DT Capital Partners, affiliated with US-based Madrone Capital, raises RMB1.5b
- ▶ February 2010 – The Carlyle Group partners with China's Fosun Group to launch a US\$100m-equivalent RMB fund
- ▶ January 2010 – The Carlyle Group launches RMB5b (US\$740m) fund with the Beijing Municipal Government
- ▶ August 2009 – The Blackstone Group launches RMB5b (US\$740m) fund with the Shanghai Government
- ▶ Other global firms reportedly planning to launch RMB-denominated funds: 3i, KKR, UBS and Bain Capital



Consistent with the growth in China-focused fund-raising, PE transactions have increased markedly in the last several years, and continue to rise as new capital enters the market and regulators become increasingly comfortable with PE. Over the last decade, transactions grew at an annualized rate of 53%, from between US\$1b and US\$2b per year to a peak of nearly US\$18b in 2007, making the cumulative value of PE deals over the last decade more than US\$68b. While activity in 2009 and 2010 has moderated, the increasing interest of global PE firms in the China market and strong fund-raising among domestic entities reflects substantial optimism for the next decade.

PE transactions in China 2000-2010



Source: Thomson Reuters

While deal sizes have slowly trended higher over time, China's PE market remains dominated by small and mid-market transactions – deals less than US\$20m have accounted for more than 70% of total value over the last decade, while mid-market deals (US\$20m–US\$100m) and large deals (US\$100m and up) accounted for just 24% and 5% of the overall market, respectively. Structural limitations on large deals – namely, regulators' aversion to majority-stake transactions, especially in sensitive industries – are a major focus in China. Having raised significant commitments from LPs anxious to share in China's evolution, the relative difficulty of deploying significant amounts of capital in high-quality deals, and the resources needed to do so, remains one of the limiting factors in China's PE growth story.

2010 Private equity year in review



India

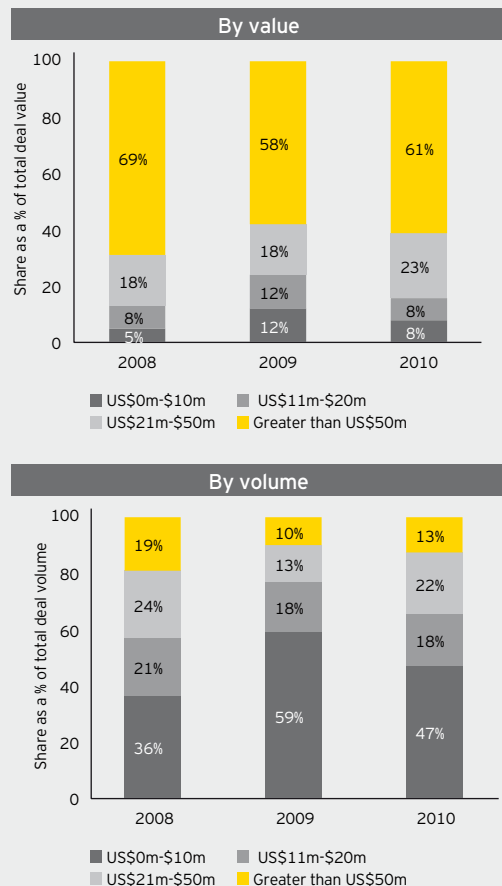
Global PE investors showed continued interest in India in 2010 and drove a significant improvement in PE deal activity over 2009. Driven by strong GDP growth when the developed world was still struggling with recovery, an increase was seen in all aspects of deals – from average deal size to total deal value, to the overall number of deals.

By the end of 2010 there were 275 PE deals in India, valued at about US\$7.2b. This growth in PE activity is expected to continue in India – stimulated by global PE firms' intentions to increase allocations toward India and by the expansion of the domestic PE market, a sustained exit market and an increase in private investment in public equity (PIPE) deals.

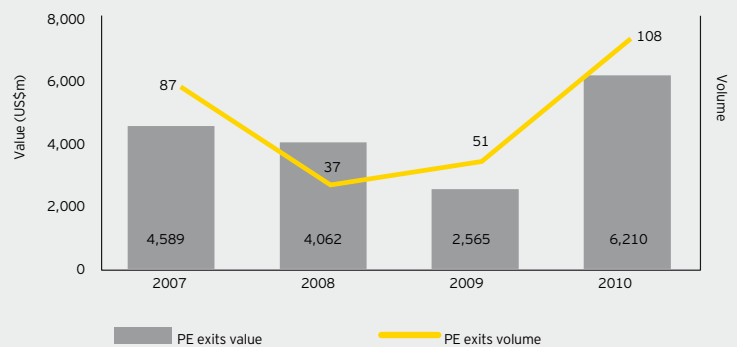
Although, the global PE funds still account for a majority of announced deal value currently, the market share of domestic PE firms is growing. In 2010, several domestic PE firms announced mega fund-raising plans, with notable new fund closures and announcements by industry veterans striking out on their own. Armed with local knowledge, expertise and access to domestic network, large corporate houses are also getting involved in the industry as investors.

Another encouraging trend in India last year was record-breaking exit activity. PE firms exited 108 PE deals – including IPOs, M&A and secondary deals – valued at US\$6.2b. PE funds seeking returns from their pre-2007 vintage deals, along with strong stock market valuations, were the prime factors for increased exit activity in 2010. Similar to the American and European PE markets, secondary activity in India returned and is expected to help buoy exit levels in the near term, as PE funds flush with significant capital seek attractive investment targets. Growing interest in emerging markets – and, India in particular, from corporate acquirers is also expected to see a greater number of exits to strategic buyers.

PE deal analysis by deal size



PE exits 2008-2010



Source: AVCJ (Note: PE exits included PE-backed IPOs and trade sale exits)



While India remains largely a growth capital market, interestingly, the country has witnessed an increase in PIPE deals over the last four to five years, driven by three key factors. A significant percentage of Indian companies, especially larger, more complex businesses, are public entities. The presence of global PE funds looking to deploy capital in more sizable investments will look to larger businesses. And, a number of listed companies are undervalued – a traditional target for PE investment. This last dynamic may also lead to an increase in public-to-private deals, as is expected in Western markets.

Challenges abound for PE in India however – specifically around a constantly evolving tax and regulatory framework. Greater time and effort are being spent to keep pace as the Indian Government and authorities look to implement tax legislation and other regulations that will impact the present structures used by PE funds operating in India. PE investors have already begun investigating new “ratchet” deal structures (see text box below) to achieve commercial objectives while complying with local laws.

Fund-raising also remained sluggish in 2010, with only US\$2.4b raised by funds focused on India. While this was a decline of nearly 38% from 2009, it does not appear to be an immediate worry, as PEs have significant dry powder. Recent fund announcements by global and local firms alike also demonstrate that PE remains confident in the opportunities in India. Discussions with various investors and GPs who are currently on the road to raise funds also indicate that India and emerging markets remain a recurring investment theme – providing further proof that fund-raising is expected to improve in the future.

After the lull of 2009, good momentum was built during 2010, which bodes well for the activity through 2011. PE funds remain optimistic with current levels of deal activity and healthy pipelines, and expect more deals to close in 2011. The Indian Government and economic commentators also show continued confidence in India’s growth story – forecasting 8% to 9% GDP growth in 2011. Deal activity will remain driven by the significant infrastructure build expected in the next few years in India and by growing domestic consumption.

Ratchet deal structures

The Indian Government recently made it mandatory for non-resident investors to determine the price of the convertible instruments at the time of investment. Adding to an already rigorous foreign investment policy in India, where restrictions on issuance of optionally convertible instruments are already placed on foreign PE investors, this further limits the flexibility of PE investors for conversion of convertible instruments based on the performance of the portfolio company. As a result, PE investors are designing innovative ratchet deal structures to protect against downside risk. Conventionally, a ratchet structure included a contractual agreement between a PE fund and the promoter of a company that provides the PE fund with an option to increase its holding without injecting any more capital if the company fails to achieve pre-set performance targets. In innovative ratchet structures, instead of the PE fund getting protection for down-side, resident promoters are issued convertible instruments/rights so as to meet the desired results under the conventional ratchet structures.

2010 Private equity year in review

The next emerging markets

With rising valuations in Brazil, China and India, PEs are looking to countries neighboring these “anchor” emerging markets, which have similar socioeconomic characteristics. In Latin America, these countries include Colombia, Peru, Chile and Mexico. A number of funds targeting “Emerging Asia” were raised in 2010 – focusing on markets such as South Korea, Singapore, Taiwan and Indonesia.

Additionally, Eastern Europe, and Poland in particular, as well as Turkey and Africa seem to be garnering growing interest from PE investors. These markets are home to a significant number of successful family-owned and other growth-oriented companies – and also expect to see a rise in privatizations of state-owned enterprises.

However, these similar characteristics are accompanied by similar challenges. Investing in emerging markets takes patience, caution and care. But, there is no doubt that as they attempt to stay at the forefront of a rapidly changing global financial landscape, PE firms are increasingly looking to a new set of emerging markets to find opportunities to earn stronger returns.

Strategies for investing in emerging markets

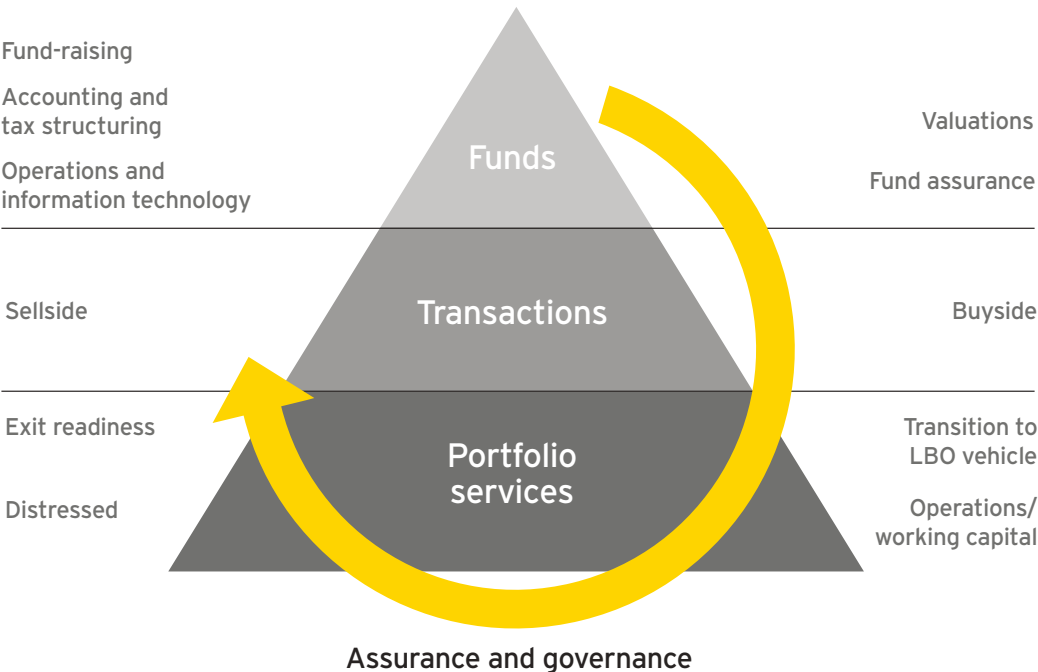
- ▶ Develop extensive local networks to identify new market trends, source deals and find additional management expertise for portfolio companies
- ▶ Adopt a flexible approach in terms of deal sizes and controlling versus non-controlling stakes
- ▶ Keep abreast of proposed regulatory and tax changes as these might have a significant impact on PE
- ▶ Undertake thorough, all-inclusive due diligence prior to investing
- ▶ Maintain hands-on involvement post-investment to strengthen management expertise and to build a reputation within the country as a good firm to partner with
- ▶ Undertake regular audits of investee companies and improve transparency and accountability
- ▶ Engage investee company in the exit plan from the beginning and continue to do so throughout the investment; identify multiple exit options at investment
- ▶ Ensure broader macroeconomic risks are understood and hedged against

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An enterprise approach to meeting the evolving needs of private equity

Ernst & Young’s Global Private Equity practice offers an enterprise-tailored approach that addresses the unique needs of private equity funds, their transactions processes and investment stewardship. With a global network of firms including more than 8,000 dedicated transactions professionals and more than 20 years of private equity experience, along with the support of 141,000 dedicated professional services providers across audit, tax, transactions and advisory service lines, we can help meet the evolving requirements of private equity firms and their portfolio companies from acquisition to exit.

Ernst & Young services for private equity



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About the data

Our report focuses on worldwide acquisition, divestiture and fund-raising activities of PE firms. Ernst & Young relied on several data sources in producing this report.

Acquisitions and divestitures: Dealogic is the primary information source for data on acquisitions, divestitures and IPOs. Deal activity for various world regions and countries is based on the location of the target, not that of the buyer or seller. Acquisitions and divestitures are based on announced deals. Deal value and average deal size are based on disclosed deals – transactions where a value was disclosed – while total transactions include all announced deals including those where the amount paid was not reported. Unless otherwise indicated, deal value is reported in US dollars. Acquisition data include minority investments but exclude repurchases, venture and portfolio company add-ons, which are technically corporate deals and are discussed separately.

IPOs capture primary offerings only.

Dealogic categorizes regional data as follows:

- ▶ Americas includes all nations in North, Central and South America and the Caribbean
- ▶ EMEA comprises all nations in continental Europe, including Russia and the UK, as well as Africa and the Middle East
- ▶ Asia Pacific includes all Asian nations as well as Australia and New Zealand

Fund-raising trends: Data on fund-raising comes from Private Equity Intelligence (Preqin). Except where otherwise noted, this data reflects the total capital raised by funds that were closed in a given year, and thus include monies actually raised in prior years in which preliminary closings were held. This report covers all investment styles except venture funds, including:

- ▶ Buyouts
- ▶ Real estate
- ▶ Infrastructure
- ▶ Distressed
- ▶ Fund-of-funds
- ▶ Expansion/growth equity

Credit and lending trends: Ernst & Young relied on several sources: Standard & Poor's for lending (leverage) multiples; Thomson Reuters and Moody's Investors Service for information on the global syndicated loan markets and the US high-yield and leveraged loan markets.

Portfolio company analysis: PitchBook and Ernst & Young proprietary research.

Emerging markets: Emerging Markets Private Equity Association (EMPEA).

Other Ernst & Young PE publications



Latin America PE Roundup - quarterly

Investments and transactions continue, with increased activity from local and global firms alike. While some PEs are concerned

about rising valuations in Brazil, they are expanding their investment activities to other Latin American countries – notably Colombia, Peru and Chile.



India PE roundup - quarterly

India's overall GDP growth for fiscal 2011 was estimated at 9% and foreign investors brought in nearly US\$29b during 2010 – the highest India ever received. Conversely, PE deal activity declined in the final quarter of 2010. So, what's driving our positive outlook for 2011?

highest India ever received. Conversely, PE deal activity declined in the final quarter of 2010. So, what's driving our positive outlook for 2011?



Private Equity, Public Exits - quarterly update

Global IPO markets rebounded in 2010 and we expect the same in 2011. As the IPO window widens, PE firms will be

able to achieve liquidity on a wide range of investments. We also anticipate demand for new equity issuance by companies based in emerging markets. Discover which trends are driving this market.



Global IPO trends 2011

As global investors seek to capitalize on the emerging markets growth story, they are fueling stock market rallies and new listings world-wide. Will

these trends continue? Our eighth annual report analyzes key IPO trends from 2010 and what to expect in the global IPO market in 2011.



Multiple: European buyout watch - quarterly

2010 saw a strong recovery in the European private equity market. This led to cautious optimism, but fears of a double-dip in the

global and European economies haven't fully disappeared. And the thaw will not be even – some economies will experience growth, while others could remain flat.



A new dawn for alternative investments

A practical overview of the complex AIFM Directive, with analysis of its major strategic implications for asset managers, service providers and investors.



How do private equity investors create value?

Our latest study digs deeper into a five-year

analysis of the performance of private equity-owned and exited businesses. With a focus on top quartile performing deals and bottom quartile deals, this year's reports outline methods PE owners employ to create value in their portfolio businesses.



Positioning for change: US financial reform six months later

The Dodd-Frank Wall Street Reform and Consumer Protection Act reached its half-year milestone on 21 January.

While regulatory requirements remain uncertain, financial services institutions should execute enterprise-wide changes that address the priority aspects of the Act coming up during the next six months.



Private equity insights and alerts

Provide updates on regulatory, legislative and tax changes and other issues affecting the PE industry.



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How Ernst & Young's Global Private Equity Center can help your business

Value creation goes beyond the private equity investment cycle to portfolio company and fund advice. Ernst & Young's Global Private Equity Center offers a tailored approach to the unique needs of private equity funds, their transaction processes, investment stewardship and portfolio companies' performance. We focus on the market, industry and regulatory issues. If you lead a private equity business, we can help you meet your evolving requirements and those of your portfolio companies from acquisition to exit through an integrated global resource of 141,000 professionals across audit, tax, transactions and advisory services. Working together, we can help you meet your goals and compete more effectively.

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