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INCLUDING CONTRIBUTIONS FROM: BOSTON COLLEGE | HARVARD BUSINESS SCHOOL | LONDON BUSINESS SCHOOL | LONDON SCHOOL OF ECONOMICS | UNIVERSITY OF LUGANO | MICHIGAN STATE UNIVERSITY | OHIO STATE UNIVERSITY | SAID BUSINESS SCHOOL, UNIVERSITY OF OXFORD | STANFORD UNIVERSITY
Welcome to issue 10 of Private Equity Findings. The articles in this edition showcase recent PE- and VC-related research from leading international academic thinkers. We have invited senior academics and practitioners to discuss and challenge the findings.

In **Talent turnaround**, I share the insights and key hypothesis from my recent research, Team Stability and Performance in Private Equity, which investigates what happens to fund returns when investment professionals leave GPs at certain stages of the fund cycle. The article invites you to re-examine common perceptions of how GP performance affects fund performance. In **Signs of ageing**, we enjoy a debate between academics and industry experts about the implications of a maturing PE industry for LP returns.

Increasingly, PE returns are resulting from GPs driving operational changes at their portfolio companies rather than from financial engineering. Our **cover story**, **Serving up change**, discusses an interesting new academic research paper about this change, based on evidence from the restaurant industry.

What happens when PE gets it wrong? Our **case study article**, **Second hand, second rate?**, describes a PE investment story with a twist. Our **roundtable discussion article should not be missed**, in **Second hand, second rate?**, academics and practitioners debate the motivations behind secondary buyouts, and discuss how those SBOs perform.

We would be delighted to hear your opinions regarding our articles. Input and debate encourages new research, triggers further investigations for current research or simply highlights that one can disagree with academic findings. The Coller Institute also invites its community to articulate research topics of interest.

At the Institute, we strongly feel that we are establishing something unusual and significant. This global research centre opens up new possibilities for rigorous academic research, for academic exchange, for teaching future industry leaders and for encouraging outstanding young researchers to work on PE and VC subject matter.

By hosting a number of events in London and around the world every year and by publishing Findings, we strive to make academic research findings more accessible for practitioners and seek to open up exchange and debate with the international PE and VC industry.

Our work requires sustainable funding. If you share our passion and want to support us, please talk to us. There are several ways to get involved. Visit our 7th Symposium (2–3 June 2014 in London) to meet our management and faculty for a conversation. Or please feel free to send your comments and suggestions to Nicole Hergarten-Tucker at nhergarntucker@london.edu.
**BY THE NUMBERS**

A round-up of private equity trends and statistics

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**LPs MOVE BEYOND BRICS**

Emerging market fundraising, by target region of funds

- **Non-BRIC**: 2009 - 30% 2010 - 32% 2011 - 34% 2012 - 36% 2013 - 38%
- **BRIC**: 2009 - 70% 2010 - 68% 2011 - 66% 2012 - 64% 2013 - 62%
- **Pan-emerging**: 2009 - 0% 2010 - 2% 2011 - 4% 2012 - 6% 2013 - 8%

**Add-ons Adding Up**

Number of add-on deals as a proportion of all PE-backed deals

- **2009**: 0% 2010: 5% 2011: 8% 2012: 11% 2013: 14%

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**ADD-ONS ADDING UP**

- **Non-BRIC**: 2009 - 30% 2010 - 32% 2011 - 34% 2012 - 36% 2013 - 38%
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**Co-Investments “Delay PE Deals”**

GPs’ views on the drawbacks of offering co-investment rights to LPs

- **2009/Q1**: 0% 2010/Q1: 5% 2011/Q1: 10% 2012/Q1: 15% 2013/Q1: 20%

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**CO-INVESTMENTS “DELAY PE DEALS”**

GPs’ views on the drawbacks of offering co-investment rights to LPs

- **By value, of unrealised deals from the 2004 to 2008 vintages now valued at below the amount paid to GPs.**
- **Higher fees on co-investing deals**
- **Lower fees on co-investing deals**
- **Increased costs due to co-investing LPs**
- **Reduced fees paid to GPs**
- **Boosted overall PE returns**
- **Reduced fees paid to GPs**

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**Regulatory Tide Hits PE**

The expected impact of regulatory changes on PE firms

- **FINRA**
  - **Registration of advisors**: 45% 44% 43% 42% 41%
  - **New rules on the conduct of business**: 35% 34% 33% 32% 31%
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**THE STATE OF PE DEBT MARKETS CAUSE LP CONCERN**

The state of PE debt markets in North America: LP views

- **An over-supply of debt is causing the financing of poor deals and/or the over-leveraging of high-quality deals.**
- **A significant portion of high-quality deals are being funded to an appropriate level.**
- **Insufficient debt is available to finance all high-quality deal opportunities.**
- **LPs are concerned about the ready availability of debt in the North American markets.**
- **Many as 65% of LPs felt that an over-supply of debt was leading to financing of poor deals or over-leveraging of high-quality deals. In 2012, the total was just one-in-10 of LPs.**
- **However, just 22% and 15% of LPs had similar concerns about European and Asian debt markets, respectively.**

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**Negative impact on relationships with other LPs**

One-third also suggested that there can be a negative effect on relationships with other LPs not offered co-investment rights, and almost a quarter said that co-investments increased their costs – by necessitating additional reporting to co-investing LPs, for example.

**Survey findings, issue 9, p13–14 for a discussion of co-investment performance.”**

Source: *Preqin, GP Co-Investment Survey, February 2014*

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General partners may boast about team stability, but is it really such a good thing? New research lifts the lid on the matter, with some unexpected results. By Vicky Meek.

Francesca Cornelli
London Business School

Francesca Cornelli is professor of finance at London Business School. She is head of the Finance Department at the Fuqua School of Business at Duke University, the London Business School. She has also held positions or taught at the Wharton School, the Foqua School of Business at Duke University, the London School of Economics, the Indian School of Business in Hyderabad and the New Economic School in Moscow.

Having a stable team that has been in place for successive funds is widely believed to be one of the main drivers of success in PE. GPs often point to the fact that their teams have been together for many years, and LP due diligence focuses heavily on this. Key man clauses (whereby if certain employees cannot commit a required level of time to the partnership, the fund’s investments are halted) and carried interest distribution are pored over during fundraising to minimise the risk of attrition. While this perception may be rooted in reality to a degree, new research suggests that the dynamic between staff turnover and performance is far more complex.

Cornelli, Elena Simintzi and Vikrant Vig in a paper published in the September-October 2014 issue of the Journal of Financial Economics (available for download via the paper’s PDF at http://dx.doi.org/10.1016/j.jfe.2014.08.003) discussed the findings with one of the research developers, Elena Simintzi.

Cornelli, your research analyses the effect of turnover on performance during the fund period and during the investment period. Why?

Cornelli: “This is an area that has been largely unexplored. GPs often point to the fact that their teams have been together for many years, and LP due diligence focuses heavily on this. While this perception may be rooted in reality to a degree, new research suggests that the dynamic between staff turnover and performance is far more complex.”

You also looked at team composition. What did you find?

Cornelli: “We looked at the CVs of all the professionals we interviewed, all partners. We examined the effect of turnover for both fund period and investment period, in order to make sure that the effect does not come from the overlapping period. The results do not change.”

“WHEN PEOPLE LEAVE DURING THE LIFE OF ONE FUND, FUTURE FUNDS EVENTUALLY PERFORM BETTER; THE IMPROVEMENT MAY NOT SHOW IMMEDIATELY, BUT OVER TIME IT DOES”

The LP view

Ralph Aerni
SCM Strategic Capital Management

Ralph Aerni is chief investment officer at SCM and has nearly 30 years of professional experience in the financial services industry. Before joining SCM, he was a senior analyst at fund investments with Swiss Life Private Equity Partners and prior to that worked at Bank Vontobel.

The LP view

Aerni: “Another point is that some LPs focus heavily on funds that have operating partners on the payroll. I’m not so sure that this is the one and only business model. PE has always been about transforming companies, and you haven’t always had operating people on the staff. What we look for is whether a fund has access to the best-in-class operating people. After all, you can’t expect a mid-market firm with a $300m fund to have seven operating partners on board. In any case, I’d argue that the operating partner model doesn’t work as well in Europe as in the US.

In Europe, you have many countries, cultures and different ways of doing business across markets, and having operating partners can make you less flexible than if you maintain a network of industrialists and have access to the right people.

Finally, if we’re talking about talent in PE, one of the issues is that the industry has grown enormously over the last decade and yet it’s not clear that there is enough talent to stretch across all the firms that have sprung up and grown. Good operating and investment talent is rare, so there are many GPs producing mediocre returns. Yet the chances are that even if these GPs can replace some of their team, they may not be able to attract the talent necessary for great returns.”

“If you have people leaving, you have to ask whether the new partnership will be any better at making investment decisions”

Unanswered questions

Aerni: “It’s worth bearing in mind that investment decisions are made in partnership with other team members, not just by individuals, so GPs can’t just blame the outgoing people for poor performance. If you have people leaving, you have to ask whether the new partnership will be any better at making investment decisions – are the new deal-doers better than the ones who left?”

The implication for GPs is that holding on to key people may not show the improvement they are looking for. If people leave, it destabilises the fund in the short term, in order to make sure that the effect does not come from the overlapping period. The results do not change.”

Cornelli, you research analyses the effect of turnover on performance during the fund period and during the investment period. Why?

Cornelli: “This is an area that has been largely unexplored. GPs often point to the fact that their teams have been together for many years, and LP due diligence focuses heavily on this. While this perception may be rooted in reality to a degree, new research suggests that the dynamic between staff turnover and performance is far more complex.”

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“WHEN A FIRM CHANGES STRATEGY, IT NEEDS TO ENSURE THAT THE PEOPLE IT’S BRINGING IN ARE CONSISTENT WITH THE NEW DIRECTION”

“When we looked at the effect of turnover according to these groups, we found some interesting results. Turnover among financial professionals does not have a significant effect on performance, suggesting that this type of experience is less likely to change over time.

“However, where people with operational skills left, there was a significant improvement in performance in future funds, which points to a need for funds to refresh this type of skillset from time to time.”

The industry went through a period of change during the last recession. What effect might this have had, according to your research?

“Our research looked at how fund performance was affected by turnover during different economic conditions. We found that turnover in a recession is the most likely to improve average net IRR. So it seems that updating skills and changing team composition according to economic and market conditions are important for future success.”

When people leave a firm, it’s often claimed that this is to let the new talent rise further up the ranks. How does this claim sit with your research?

“Yes, that’s often claimed, and in some cases it might be true. But I would say that it’s not really consistent with what we found. Our research suggests more that the people who leave are the ones that are underperforming. They tend not to be the stars. We can see this because we have the deal attribution information. Our results indicate that more successful firms are refreshing skillsets during a recession or post-investment period, rather than seeking to let the new talent rise further up the ranks. How does this claim sit with your research?”

The research

In Team Stability and Performance in Private Equity, Francesca Cornelli, Elena Simintzi and Vikrant Vig, in cooperation with Capital Dynamics, explore one of the PE industry’s widely held beliefs: that stable teams are a vital ingredient of continued investment success. Using data from Capital Dynamics, due diligence on the staff turnover and performance of 145 PE fund managers, the study’s authors devise a methodologically conclusive way of determining whether poor performance is the result of staff turnover or whether staff turnover is the result of poor performance. First, the results show that a simplistic analysis may lead to the conclusion that deals where people in charge left have worse performance. This may be why LPs are concerned about turnover. But we do not know whether performance declined because key people left or whether these people left because they expected that performance would be poor.

Using a methodological approach often found in labour economics (which distinguishes “within variation” and “between variation” as a way of eliminating reverse causality), the authors are able to see whether the turnover in one given fund affects the performance of the future funds. Moreover, funds tend to overlap, and so to avoid this the authors analyze investment periods. Based on this approach, the research finds that a 1% increase in turnover leads to an approximate 10% increase in net IRR. The research also splits professionals into categories according to their previous experience: operational, financial and those who had worked only in PE. It finds that those teams with a higher proportion of professionals with an operational career history perform on average, 12% better than those which comprise mainly financial professionals. In addition, the research finds that turnover during recession years leads to higher performance than for funds where teams were stable. A 1% increase in turnover during more difficult economic conditions leads to a 5.1% increase in net IRR. The turnover of people with an operational background has the most significant effect.

Overall, the research suggests that those firms which adapt to changing market environments by changing the composition of teams perform better, and that a narrow focus on team stability may not be the most successful approach for LPs to adopt when they are evaluating GPs.

So, overall, what do the findings mean for LP due diligence processes?

“The pure focus on whether or not a team is stable isn’t necessarily the right criterion on which to judge the likelihood of future success. While it may be easy to draw the conclusion that turnover has caused poor performance, it may not be the case. It may be that GPs that have had the courage to take decisive action and cut poorer-performing team members has a better chance of improving returns in subsequent funds. “LPs really need to understand the cause for turnover and what it means. When LPs do their due diligence, they need to look at the importance of those leaving and at how those people are being replaced: what is the team composition like? For example, while we may find that turnover in operational professionals can be good, LPs need to examine whether these people are being replaced by new people with operational experience and, if not, whether that fits with the reasons being given for a new strategy. And if there is a new strategy, how are the new people going to help with that change? When a firm changes strategy, it needs to ensure that the people it’s bringing in are consistent with the new direction.”

And finally, your research into teams is ongoing, isn’t it? What else are you looking at?

“One area we are examining is how teams are formed and what makes them successful or not. We are looking at whether you want to, for example, couple stars with stars or whether it makes more sense to put stars into teams that may need a boost to improve their performance. The preliminary results suggest that the best-performing people should be put together; the stars do not increase overall performance if put with poorer-performing teams.”

International Private Equity
Eli Talmor, Florin Vasvari

Written from a unique joint practitioner and academic perspective by renowned experts in the field, International Private Equity is designed to be truly international in focus, with examples and case studies drawn from Europe, the Middle East, Africa and Asia, and from a wide range of business sectors. The case studies, taken from the collection of the London Business School’s prestigious Coller Institute of Private Equity, are used to exemplify and illustrate all stages of the private equity deal process.

This unprecedented access to the Coller Institute’s collection of case studies, combined with comprehensive and timely coverage of this important topic, makes International Private Equity an indispensable guide for students and practitioners alike.

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As private equity has matured, what has been the effect on limited partner returns? A new research paper explores the issue.

Michael Weisbach

Michael Weisbach is professor and Ralph N. Kutz chair in finance at Ohio State University. He is also a research associate of the National Bureau of Economic Research. He is an editor of The Review of Financial Studies, has expert-witness experience on issues relating to his research and has affiliations with Analysis Group, the Brattle Group and Cornerstone Research.

The research

In Limited Partner Performance and The Maturing of the Private Equity Industry, Berk Sensoy and Michael Weisbach, both of Ohio State University, and Yingdo Wang, of California State University, seek to answer the question of whether the maturation of PE had affected LPs’ PE returns and to update an earlier Schoar, Lerner and Wong paper that had found outperformance by endowments in particular. Their results show that, in the period 1991–98, endowments did indeed outperform other LPs, producing an average IRR of 35.74%, with investment firms second-highest with 25.76%. The poorest performers were banks/insurance companies with 16.22%, and the overall average was 23.67%.

However, between 1999 and 2006, LP endowment returns fell to 5.83%—lower than the average for the period, which was 7.9%. In that period, the highest returns were recorded by insurance companies with 9.44%, then public pension funds at 9.25%. No LP significantly outperformed over the entire period.

The overall lowering of performance was driven by the decrease in venture returns following the dot-com bust. “There was a time when endowments were very attractive – just not quite as attractive as in the less mature days,” he says. “However, the huge inflows of capital and commoditization of the industry have meant that the importance of limited access – one of the endowments’ key advantages in the early days – has decreased over time.”

Head to head

One of the findings in the research is that endowments are no more likely to be able to pick out the best-performing first-time funds than any other type of investors. This is taken to be a measure of the quality of investment decisions as it removes access to funds as a factor: first-time funds don’t tend to restrict access to LPs, as they have yet to establish a track record. "Endowments may be surprised at this finding," says Barron. "But it should be understood that in many cases they were investing in early-stage funds as incubators for work they were also doing as a university, and return success was not necessarily the most important selection criterion."

The research

Performance Puzzle Foolish Choices? The Limited Partner Industry The huge inflows of capital and commoditization of the industry have meant that the importance of limited access – one of the endowments’ key advantages in the early days – has decreased over time.

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Performance Puzzle Foolish Choices? The Limited Partner Industry The huge inflows of capital and commoditization of the industry have meant that the importance of limited access – one of the endowments’ key advantages in the early days – has decreased over time.
The debate has long raged over whether private equity ownership brings about genuine operational improvements in the businesses it backs, and nowhere more so than in academic literature. A new study takes a fresh approach to understanding whether firms have a deep-rooted effect on their portfolio companies.

By Vicky Meek.

**IT’S MUCH HARDER IN AN ACADEMIC STUDY TO UNDERSTAND HOW PRIVATE EQUITY AFFECTS A COMPANY AT A MICRO LEVEL**

Shai Bernstein, Stanford University

The research

In The Operational Consequences of Private Equity Buyouts: Evidence from the Restaurant Industry, Shai Bernstein and Albert Sheen explore whether PE buyouts disrupt firm operations in an attempt to maximise short-term goals. In contrast with many other academic studies, which focus on financial statements and therefore show aggregate performance, this study examines micro-level operational changes.

It does this by examining the health-inspection records between 2002 and 2012 of 94 PE-backed restaurant chains with a presence in Florida (this accounts for approximately 3,700 restaurants).

The study finds that, while there is no difference in the number of serious health violations before a PE deal occurs between those that become PE-backed and those that do not, after the deal there is a fall in violations of 15% in PE-backed restaurants over a four-year period as operational changes take effect. Given that improvements in areas such as food handling are not generally achieved through capital reallocation, the authors suggest that improvement through better management practices is responsible.

To determine whether PE ownership is the cause of this improvement, the authors go on to compare the results of directly owned and managed stores with those that are owned by franchisees in the same chain – on the premise that PE exerts more influence on directly owned than franchised restaurants. They find that, while the directly owned stores experience fewer violations post-buyout, this is also true of franchise stores.

The study also considers whether the gains made by PE-backed restaurants are at the expense of the franchisee, which may not benefit from the business improvements. The authors find no evidence that franchisee performance has been jeopardised by PE ownership, as they have not observed any increase in franchisee violations.

The authors conclude that PE ownership is the cause of improvement in management practices, with the gains achieved through better management practices being distributed across the chain. The overall picture is one of improvement in management practices, with the authors suggesting that this is due to better training, monitoring and alignment of worker incentives throughout the chain.

**"RECENT ACADEMIC LITERATURE HAS FOUND LITTLE EFFECT OF PRIVATE EQUITY OWNERSHIP AT THE LARGER END OF THE DEAL SPECTRUM ON OPERATIONS ONCE YOU STRIP OUT LEVERAGE"**

Edith Hotchkiss, Boston College

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“AS INVESTORS, WE HAVE TO LOOK AT THE WHOLE PICTURE, AND THAT INCLUDES EFFECTIVE USE OF LEVERAGE AS WELL AS OPERATIONAL-IMPROVEMENT CAPABILITIES”

George Anson, HarbourVest

Food for thought
Bernstein is circumspect in his response to this issue. "If you were being highly conservative, you might say that the results apply only to the restaurant industry," he says. “However, the fact is that PE tends to invest in businesses where low-tech operational knowledge is required and where, for example, logistics might play a key role. The restaurant industry is very characteristic of PE investments in this regard. So you could say – cautiously – that the results would extrapolate to other industries with similar characteristics.”

So could this study help to inform the debate on whether PE genuinely transforms the businesses it backs? One section of the PE community – the LPs – is increasingly interested in this as it tries to seek out firms to back which have points of genuine differentiation. “It’s an interesting area of study – particularly as operational value add is the special ingredient of each PE firm; it’s how they achieve this that really makes different firms stand out from each other,” says George Anson, managing director at HarbourVest.

“But it’s not the only part of the picture. While it may be true that better-managed outlets with higher standards improve the chances of success, it may not necessarily be true that these are good investments. As investors, we have to look at the whole picture, and that includes effective use of leverage as well as operational-improvement capabilities.” So, while this study might not end the debate by any means, it certainly seems to provide further food for thought and a new angle on an age-old discussion.

CRITICAL VIOLATIONS IN THE RESTAURANT INDUSTRY

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<th>Critical health violations</th>
<th>Franchisees and directly owned restaurants around PE deal date</th>
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<td>Franchisees</td>
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When delivery company Target Express started running into trouble, its backers had much to lose. What were the lessons for private equity from what went wrong?

By Nicholas Neveling.

I n February 2000, 3i and Gresham Private Equity acquired UK parcel delivery business Target Express from its three founders for £220m. The PE firms had grand ambitions for the company. Target Express was a £135m-turnover business with a focus on the business-to-business (B2B) market. In the UK, Gresham and 3i saw an opportunity to push Target Express into the rapidly growing business-to-consumer (B2C) space.

Following the exit, Michael G. Jacobides, Sir Donald Gordon Chair of Entrepreneurship & Innovation at London Business School, prepared a case study now taught in the school’s popular “Managing Corporate Turnarounds” elective. Jacobides says that the purpose of the case study is to provide guidance on some of the common errors that buyout firms make when they do deals and in their responses to any worrying signals of failing investments.

“Target Express is a good example of a deal that went away and required a turnaround,” he says. “The point of the case study is not to say that the PE firms screwed up, but to understand what can go wrong, what can be overlooked in a deal, and, if things go wrong, how to fix them.”

Revenue is vanity; profit is sanity
One of the first mistakes made by the PE investors, the case study found, was focusing on growing revenues at the expense of remaining profitable. At the time of 3i and Gresham’s investment, B2C was seen as the major driver of growth in the industry thanks to the rising popularity of online shopping. However, as in many over-hyped sectors, profits were (and are) elusive.

The two firms wanted to capture this growth and, after investing in Target Express, focused on increasing sales—especially by expanding into B2C. Target Express opened up a new warehouse in Coventry to support these ambitions and signed a deal to take on deliveries for Dell, the leading computer manufacturer.

However, although the B2C market was growing, it was difficult to make a profit. There was a higher risk of delivery failure due to potential problems such as obscure addresses and recipients being out at the time of delivery. Target Express also lacked the infrastructure to deal with the large volumes of returned products, which led to growing dissatisfaction with service levels.

Target Express’s focus on growing revenues in B2C hurt profitability. Salespeople were incentivised to boost revenues and had great freedom to set prices. As a result, the company soon found itself with rapidly eroding margins.

“Expanding a business into a new area that promises growth can be deceiving,” says Jacobides. “Growth does not always correlate with profitability. The challenge for PE firms is to develop a more active method for testing growth assumptions, both in terms of how profitable the market can be and whether a firm’s capabilities are well suited to different environments.”

As 3i took over, Target Express’s IT systems were not sophisticated enough to track the costs of deliveries and determine optimum pricing levels. The founders of the company held this knowledge exclusively, and they had left the business following the buyout. For Jacobides, this demonstrates the importance of recognising the value of outstanding owners, as the business knowledge they possess can be crucial for a company and difficult to replace. When Target Express’s founders left, so did the contract-pricing algorithms. “It’s easy to underestimate the value of institutional memory,” says Jacobides. “There is always a risk of overlooking how much value can be lost if the founders go.”

In 2001, a year after the acquisition, sales at Target Express had increased by 15%, but there was a 30% decrease in EBITDA compared with 2000. The company’s net working capital had also been drained, and stood at a negative £205000. In October 2001, Target Express could not make the interest payments on its debt due to cash-flow problems, and breached its banking covenants. “It had to negotiate a six-month standstill with Target Express’s banks and mezzanine lender ICG in order to undertake a financial restructuring.”

Keeping up appearances
Following the breach, 3i dismissed Target Express’s finance director, sales director and operations manager. The chief executive was retained and a new finance director appointed. Sales was left unchanged at this point.

The banks and ICG, however, were unhappy with the management changes and did not believe that the company could meet its targets. ICG approached David Hoare, who invested in ailing companies with a view to turning them around, to conduct a management review of Target Express on its behalf.

One of Hoare’s key concerns was that, although both an investigative accountant and the company’s new finance director were adamant that Target Express would miss its budget for the financial year and breach covenants again, the chief executive disagreed and was convinced that hitting targets would not be a problem; he felt that, despite the business being behind schedule, it would catch up because the necessary changes had been made.

Indeed, Hoare would later find out that the chief executive had been worried all along about making the budget, but had been reluctant to relay this to the PE investors as it could have placed his position at risk.

This is another key lesson from the Target Express case from which other firms can benefit. “The information that flows to a PE firm can be garbled by stakeholders who want to support the new strategy,” says Jacobides. “If someone is determined to deliver on a certain strategy, there is a risk that they won’t relay bad news. That makes it difficult to keep things on course.”

Top turnaround tips
While 3i was an example of what PE firms should do when a portfolio company has run into difficulties. Hoare took on the chairmanship of the company and immediately communicated with the banks, ICG and PE investors that Target Express would not hit profit targets. His philosophy was to communicate bad news early and, at the same time, put forward a plan to address the problems.

Hoare also shifted the focus of the business away from B2C and back to its core, profitable, B2B operations. He brought in a new chief operating officer and made cash flow a priority, but also focused on service quality and cost. The company set a target of reducing debutter days from 60 to 30 and cutting working capital from £14m, while ensuring that service—a key driver of customer loyalty and margins—was preserved.

“In a distressed situation, a firm should focus rebocus on its core business, make a priority, identify a clear and simple set of priorities and have the patience to sit it out and wait for the company to turn,” says Jacobides.

It moved quickly to support Hoare’s turnaround plan. It took a £50m write-off and injected an additional £10m into Target Express to fund the turnaround.

“Even 3i saw that the original strategy wasn’t going to work, it took the bold decision to support the restructuring, and put in £10m of fresh money,” says Jacobides. “It made an excellent return on that money and recovered a reasonable amount of its initial outlay. This shows how firms can turn a challenge into an opportunity and make money from a distressed situation. It is so important for PE firms to act quickly, while they can still influence a situation. Investors need to make changes happen. Waiting erodes the upside from any recovery.”

In November 2006, Target Express was sold to Remitlips for £250m. The firm’s working capital had been reduced from £14m in 2003 to £1m in 2006 and debutter days were down to 30 days from 60. Sales, having remained flat initially, reached £140m in 2006—10% up on the previous year. The turnaround strategy had worked, and investors were duly rewarded. Such a turnaround would never have been envisaged by 3i and Gresham, who initially assumed it “knew better”, and managed to run both Target Express and CityLink, its own parcel delivery business, into the ground. A year ago, Better Capital bought the combined firms for £1, and the effort to stabilise and grow the business was less in progress—a potent reminder that hubs and managerial challenges are part and parcel of business life. All the more reason for PE investors to keep an eye out for problems in their portfolio—before it’s too late.

CASE STUDY

WHEN TARGETS ARE MISSED

When delivery company Target Express started running into trouble, its backers had much to lose. What were the lessons for private equity from what went wrong?
SECOND HAND, SECOND RATE?

Over the past five years, the prominence of secondary buyouts (SBOs) has grown as both a source of exits and a new deal flow; they now account for almost half of PE’s portfolio realisations. Yet they are not always popular with LPs, which have long complained about paying both exit and (re)entry fees amid concern about how this affects their overall portfolio performance.

Three recent academic studies explore the motivations for choosing SBOs – both as a source of investments and as a source of exit route. They also address the relative financial returns of SBOs as an investment vehicle. One study finds that funds under pressure are more likely to complete more SBOs on both buy- and sell-side, and that those SBOs often underperform primary buyouts; another finds that SBOs made at the end of an investment period underperform those made early in a fund’s life; and the third suggests that debt and capital markets activity influences SBO activity. So does this mean that LPS should be concerned? And what is the GP perspective on this type of deal? Three of the authors of the research and three practitioners debate the issues.

Chaired by Lisa Bushrod.

Lisa Bushrod is associate professor of finance and director of the Center for Venture Capital, Private Equity, and Entrepreneurial Finance at the Eli Broad College of Business at Michigan State University. Her research expertise is in financial contracting, security design, mergers and acquisitions, corporate restructuring, corporate governance, VC, and PE companies.

Zsuzsanna Fluck

Zsuzsanna Fluck is associate professor of finance and director of the Center for Venture Capital, Private Equity, and Entrepreneurial Finance at the Eli Broad College of Business at Michigan State University. Her research expertise is in financial contracting, security design, mergers and acquisitions, corporate restructuring, corporate governance, VC, and PE companies.

Pete Wilson

Pete Wilson is a director of PE at 3i Group. His focus is on origination and executing PE investments across Europe. He also leads 3i’s activities in the UK business services sector. Recent deals he has worked on include the sale of Inspectorate to Bureau Veritas, the public-to-private of Inspic and 3i’s recent exit of Ceva.

François Degeorge

François Degeorge is dean of the Faculty of Economics at the University of Lugano and holds a senior chair at the Swiss Finance Institute. He is also president of the European Finance Association. He has been a visiting professor at the Tuck School of Business (Dartmouth) and at University of Paris-Dauphine. His research interest is in corporate finance and he has won several awards for the papers he has published.

Tim Jenkinson

Tim Jenkinson is a professor of finance and head of the Finance Faculty at Said Business School, University of Oxford. He is also the director of the Oxford Private Equity Institute. His areas of expertise include PE, IPOs, institutional asset management and the cost of capital. He has been published in journals including The Journal of Finance, The Journal of Applied Finance and The Review of Financial Studies.

Lee Gardella

Lee Gardella is the head of Adveq’s US office and leads the firm’s risk-management efforts. He is also a member of Adveq’s management committee. Before joining Adveq in 2007, he was a managing director leading the Private Markets Group for CVC Consulting, the family office investment advisory subsidiary of US Trust Company in Stamford, Connecticut.

Bonnie Lo

Bonnie Lo is a founding partner of NewQuest Capital Partners where her role includes co-heading the Greater China business of the firm and overseeing investments in the consumer and healthcare sectors. She has over 13 years’ experience in finance and has been working in principal investing for more than 10 years. Prior to this, she focused on Greater China while working for Bank of America Merrill Lynch’s Asia Private Equity group and also while at 3i Group.

Zsuzsanna Fluck, Michigan State University

SECOND HAND, SECOND RATE?

Once considered the exit route of “last resort”, secondary buyouts are now an established part of the private equity landscape – for both sellers and buyers. But what motivates firms to sell to another private equity house? And how does this type of investment perform? We discuss this with three academics and two practitioners.

Zsuzsanna, your paper looks into agency issues in SBOs. Can you explain what you found?

Fluck: “Most partnership agreements set the management fee, which provides the budget of PE funds, at 2% of the committed capital for the investment period of the fund. After that, management fees usually change to 2% to only what has been invested. This can create an adverse incentive to say: ‘ok, you should invest whatever you can.’

Our research found that pressured buyers – PE funds late in the investment period with a lot of dry powder, with a less-established reputation and with less-frequent fundraising activities – are more likely to do SBOs, pay higher multiples and use more equity in their deals.

Jenkinson: “Whether PE funds sell to each other rather than holding on to the company for a lot longer, that comes down to agency issues. It is the IRR versus money-multiple tension. The way the funds are structured means that firms seek a high IRR on a quick exit instead of earning more on the money-multiple. But, as the old saying goes, investors can’t eat IRR."

So what are the “right” motivations for choosing to do an SBO?

Degeorge: “The most obvious difference (between primary buyouts and SBOs) is that it is easier to source an SBO than a primary buyout. It can take a lot longer to convince a family or a conglomerate to sell. And in these situations, adverse selection comes into play; this is the notion that if you are a buyer and you convince a family or conglomerate to sell, you might end up with the lemons. This is less of a problem in the case of PE sellers because they buy companies to sell so they are always sellers by definition. But for repeat buyers, because they are repeat buyers, they may be concerned about reputational issues.”

Wilson: “I think motivations have much to do with the different development stages a business goes through. Businesses can get to a point where they outlive their current sponsor. They might need a sponsor with more firepower or with experience of helping businesses expand internationally. In those scenarios, an SBO is the logical next step.”

Fluck: “I agree. Some SBOs do add value by contributing different skills to the leveraged buyout restructuring process. They might need a sponsor with more firepower or with experience of helping businesses expand internationally. In those scenarios, an SBO is the logical next step.”

Jenkinson: “Our research has found that pressured buyers are more likely to do secondary buyouts, pay higher multiples and use more equity in their deals.”

Would you say that the growth of SBOs is more the result of preference or of circumstance?

Jenkinson: “The sort of press SBOs have had is a bit unfair. For the exiting fund, they can make perfect sense. But do you find that the state of the credit markets and equity markets is the most significant determinant of exit route.”

“For our research found that pressured buyers are more likely to do secondary buyouts, pay higher multiples and use more equity in their deals”

Zsuzsanna Fluck, Michigan State University
"LATE SECONDARY BUYOUTS ARE THE ONES THAT ARE POTENTIALLY PROBLEMATIC; THEY ARE AN EASY WAY TO USE CAPITAL IF A FUND IS A LITTLE LATE TO SPEND THE CASH. WE ARE LOOKING AT A LARGE DIFFERENCE IN PERFORMANCE"  
François Degeorge, University of Lugano

Fluck: “That’s similar to what we found. We have about 30 years of data to look at, so we studied the changing macro conditions over that time. We found more SBOs at times when leverage was cheap and more SBOs when IPO markets were not welcoming or were cold.”

And to what extent do the managers of PE-backed companies drive the choice of exit? Degeorge: “The choice of exit route depends a lot on market conditions. For example, SBO exits tend to be favoured compared with trade sales when credit conditions are favourable. On average, SBO sellers have done well. Where an SBO exit has been chosen, the managers of the target company may have some influence at the margin on the choice of buyer. They may lean towards a PE firm that they feel comfortable working with.”

Wilson: “I’d say that the relative attractiveness of an SBO depends on a number of factors, including the macro environment, specific industry dynamics and stage of development of the business, as well as the aspirations of the managers. For example, if a company plans to grow internationally or enter a particular market, then the managers may prefer to execute that plan with the support of a PE house with experience in that specific market.”

So are SBOs the least risky option for buy-side and sell-side? Degeorge: “It is very hard to measure risk in PE, and trying to do so would open a whole can of worms. Nobody really has a good solution to the problem of measuring risk. If you look at systematic risk, it is not at all clear that SBOs are less risky. There is no evidence that they are less risky than primary buyouts.”

Gardella: “An SBO transaction, you pay a high price for a well-performing company. If the company does not continue on the same trajectory, the riskiness of the investment will increase if you have paid a full price and leveraged the deal as far as you can, and there may not be many ways to improve the business to create an attractive PE return. Meanwhile, with an underperforming business or a turnaround situation, there may be a real opportunity in addressing the issues facing the company.”

Jenkinson: “On the sell-side, I don’t think there is necessarily a natural pecking order for exits. Academic literature tends to see IPOs as the best exit. Yet the IPO is not, in general, a very attractive exit route for the GP. When it comes down to it, in general, GPs prefer to go through an auction with trade buyers and PE firms. PE funds want the highest and most certain amount of money. That often comes from a PE player who can benefit from higher leverage and get the tax benefit of leveraging. And there are no competition issues with PE investors.

“Overall, PE firms feel that SBOs give a much higher degree of control than trying to take a company public. I don’t think there is an order for most PE funds. I think it’s probably the exit of last resort, rather than first resort. Yet there are some companies, such as Facebook, that are too successful to exit via trade or SBO; if you are going to exit, you have to do an IPO. In a way, IPOs are the only exit for these types of companies. However, exiting through an IPO brings uncertainty: you don’t know what you will ultimately get for those shares when you sell them.”

Lo: “PE investors prefer to do trade sales and secondary sales because they just hate the uncertainty of the IPO market. Whereas in the Asian markets, for the past 15 years in which PE has been in existence, it has predominantly relied on IPOs as an exit route. Now Western PE has developed to a degree where PE managers are in the driver’s seat, by which I mean they make control investments (buyouts), and as the control shareholder they can effect the sale of the entire company.”

So the motivations may be different for SBOs depending on circumstances, but do they really underperform primaries? Degeorge: “It depends. SBOs made early in the fund’s investment period look a lot like primary buyouts. The late SBOs are the ones that are potentially problematic; they are an easy way to use capital if a fund is a little late in its schedule to spend the cash. We are looking at a large difference in performance, especially because late SBOs have fewer ‘home runs’. What can account for that? Perhaps these funds invest first in the most valuable target companies, then, as time goes by, they reach companies that are less valuable. Following that logic, late primaries would also underperform, but they don’t. So, most likely, the real reason late SBOs underperform is that buyers overpaid.”

Wilson: “I would answer that differently. Driving performance is about understanding the business and what you are buying. Two of the key factors are the price you paid on the way in and having the right team in place. Take the case of Zenith, the car-leasing business. We sold it successfully to Dunedin, which then also made money on it when it sold the business to Barclays Private Equity. Barclays sold it to Morgan Stanley, Morgan Stanley and HgCapital recently bought it. Zenith has been passed around because it is a good-quality business where you can add value, and investors have been paying sensible prices. In my mind, driving performance is about understanding what it is that the company does, paying the right price on the way in, knowing where you are going to add value and then actively contributing. You do that irrespective of the structure.”

“THE RELATIVE ATTRACTIVENESS OF A SECONDARY BUYOUT DEPENDS ON A NUMBER OF FACTORS, INCLUDING THE MACRO ENVIRONMENT, SPECIFIC INDUSTRY DYNAMICS AND STAGE OF DEVELOPMENT OF THE BUSINESS”

Peter Wilson, 3i Group

Lo: “In the past two years, particularly in China, there has been a lot of chatter among the PE community about buyouts. They want to focus more on control deals because of some pretty high-profile accounting fraud cases, particularly among Chinese companies that listed in the US via reverse takeover processes. PE firms want more control over the company operations and their exit.”

So how do secondary and primary buyouts differ in characteristics? Wilson: “I think it is difficult to generalise the differences between primary buyouts and SBOs. I suppose you could say that most SBOs are sold through an auction process, so you have the competitive process having an impact on pricing and structure to an extent.”

Fluck: “Yes, that is true, but the motivations of auction participants have a bearing on performance and structure. We were surprised by the strength and consistency of our results. We found that pressed buyers receive lower transaction multiples than other sellers, and we also report that if the buyer is more pressured, the price is higher. It is the pressure differential that really matters.”

If buyers and sellers are equally pressured, price is unaffected. When a more pressured buyer meets a less pressured seller, the buyer pays higher prices; when a less pressured buyer deals with a more pressured seller, the seller is willing to accept lower multiples. When pressured buyers invest in SBOs, they use less leverage and syndicate less; those guys want to spend their equity. Sellers are more pressed when they come close to the tenth year of the fund and haven’t had recent successful exits; if they have to write [an investment] off, the whole IRR of the fund will be significantly affected.”

Degeorge: “You need to distinguish between performance for target companies versus investment performance for LPs. Lower target gains for target companies do not necessarily mean lower gains for LPs. It depends on the pricing. It is true that, on average, SBOs generate fewer operating gains for performance targets for the company. But that alone can’t explain the investment underperformance of SBOs, because SBOs are auctioned, so their pricing should factor in gains in operating performance.”

Given some of the findings, should LPs discourage late SBOs?

INVESTMENTS EXITED VIA SECONDARY BUYOUTS


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<th>Year</th>
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<th>Average gains</th>
<th>Average IRR</th>
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Gardella, Advoc
Degeorge: “This trade-off may already be in place. If you look at a fund that has done a lot of later SBOs, the size of the follow-on fund is quite a lot smaller. All other things being equal, if a fund goes from spending nothing to spending 10% of its capital on late SBOs, the next fund by the same GP is 20% smaller.

“One explanation for this might be that the GP decides that it’s hard to source good opportunities, so they scale back the fund. I am a little bit sceptical of this explanation, but we can’t rule it out. The other is that investors penalise the fund by providing less capital. They may decide that this GP has not been able to source good deals or they could feel that the GP has destroyed value: whether you use other buyouts or public markets as a benchmark, later SBOs underperform.”

Fluck: “If GPs knew that LPs would especially scrutinise investments made under buy pressure, then the GP would look at the trade-off between losing some of the management fee now and compromising its ability to raise new funds successfully in the future. It would think twice about making those investments.”

Gardella: “As an LP, we wouldn’t discourage them in our market. Our focus is on smaller deals and smaller transaction sizes. We love them in our market. Our focus is on smaller benchmark, later SBOs underperform.”

How long can the game of ‘pass-the-parcel’ continue for SBOs continue?

Degeorge: “The ‘pass-the-parcel’ characterisation of SBOs implies that they are disasters waiting to happen. I think that is unfair. Some SBOs are value-increasing for the target companies. I don’t expect them to end any time soon. Some buyers overpay for SBOs, especially when they invest late in their investment period. That is an issue to which investors should pay attention, and some of them do already.”

Fluck: “There is a backing of SBOs yet to be exited. A more healthy IPO market will help to get exits of these SBOs. But some will be written off and will not be viable. And it is likely that agency motives will continue to be a significant driver in late SBO deals.”

The research

In their paper ‘Fund Managers Under Pressure’, Rationale and Determinants of Secondary Buyouts, Sridhar Arcot and José-Miguel Gaspar (both of ESSEC Business School), Zsuzsanna Fluck (Michigan State University) and Ulrich Hege (HEC Paris) investigate whether secondary buyouts (SBOs) maximise value or reflect opportunistic behaviour. The authors use a sample that includes all completed SBO transactions in the US and 12 European countries from 1990 to 2010, tracking the exit type and date for the 4,139 that have exited, of which 1,219 are SBOs.

To proxy for adverse incentives, they develop buy-and-sell pressure indices based on how close PE funds are to the end of their investment period or lifetime, their unused capital, reputation, deal activity and fundraising frequency. For example, a fund that is reaching the end of its investment period with a large amount of unspent capital and that is managed by a GP without a good reputation or long fundraising history would be classified as being under buy pressure. Funds under sell pressure would be those close to the end of the fund life with few exits, lacking a reputation and long fundraising history. The research finds that funds under pressure engage more in SBOs on both the buy and sell sides.

They also find that in an SBO transaction, pressured buyers pay higher multiples, use less leverage, and syndicate less. The paper suggests that their motive is to spend equity. Pressured sellers are found to exit at lower multiples and have shorter holding periods. When pressured counterparties meet, deal multiples depend on the differential bargaining power. The paper also finds that funds that invested under pressure underperform.

In Agency costs and investor returns in private equity: Consequences for secondary buyouts, François Degeorge (University of Lugano), Jens Martin (University of Amsterdam) and Ludovic Phalippou ( Said Business School) reflect that because PE funds are structured as finite-life entities with a fixed investment period, fund managers with unspent capital towards the end of a fund’s investment period have an incentive to burn capital. The authors believe that SBOs are a natural channel for doing this. The authors compare 424 exited SBOs with 4,326 exited primary buyouts for deals completed between 1986 and 2007 in North America, Western Europe and Scandinavia. They find that SBOs underperform primaries by around 20%, but that the SBO underperformance is concentrated in those completed late in the fund’s investment period – particularly when the fund has a large proportion of unspent capital at this stage; early SBOs have a similar performance to primaries. Overall, they find that agency problems are responsible for SBO underperformance.

In ‘Fund Managers Under Pressure’, Rationale and Determinants of Secondary Buyouts’, the academics analyse 759 European PE exits gained in popularity relative to IPOs and sales to corporate acquirers. In their paper ‘Agency costs and investor returns in private equity: Consequences for secondary buyouts’, the academics analyse 759 European PE sales completed between 2000 and 2007, using information on PE fund and portfolio company characteristics and on conditions in capital markets. Of these exits, there are 259 trade sales, 11 public offerings and 345 SBOs.

They find that over 45% of exits in the sample are via SBO, but that market conditions affect choices. IPOs are favoured over SBOs when stock markets rise strongly. SBOs are favoured in times of cheap, abundant leverage, particularly for portfolio companies with a higher capacity to service debt. Trade sales are favoured over SBOs for smaller companies that have experienced strong growth.

However, the research finds that SBOs are, overall, more attractive than IPOs because GPs can achieve a clean exit, and that more experienced GPs tend to sell via SBO to less experienced GPs. The results are also consistent with the previous two studies in that SBOs tend to occur at a later point in the investment period, suggesting that a lack of primary deals may be the motivation for many SBOs.
The venture capital industry is lauded for finding and growing innovative companies, but does it really drive knowledge diffusion? New research examines the evidence.

By Grant Murgatroyd.

"I find it intriguing that VC, which is a relatively small industry, could be perceived as having such a profound effect on innovation," she says. "So I reasoned that it had to be the case that VCs are affecting innovation through other mechanisms beyond the simple provision of capital."

__Cause and effect__

First, the good news. VC financing has a positive, causal effect on the diffusion of knowledge. The empirical evidence pointed to two mechanisms: VCs facilitate knowledge flows among companies in their portfolios and, more broadly, VC financing appears to certify the value of innovations to the general public. Knowledge diffusion was measured by patent-to-patent citations, which are an indirect measure of linkages between innovations, and can be interpreted as paper-trail evidence of knowledge-diffusion. Annual citations increased by 33% after VC funding, a significant finding given that the majority of patents receive no citations in their lifetime. This is consistent with the findings of a 2008 research paper, "Private Equity and Long-Run Investment: The Case of Innovation (2009) by Lerner, Sorensen, Stromberg (use Private Equity Findings, issue 2, pp10–11). The study found that citations of patents owned by PE-backed companies increased by 25% following the PE investment.

Unsurprisingly, VCs are in agreement that they bring more than just capital to the companies they invest in, helping them to develop and innovate. The theory is that this is achieved by what the industry likes to call "value-add," such as with recruitment, corporate governance, sales and marketing.

__What are patent citations?__

Patents are often used in academic literature as a proxy for companies’ knowledge. A patent is cited when it is referred to in a patent application for a new technology or innovation that builds on the original (patented) idea.

The research

In Venture Capital and the Diffusion of Knowledge, Juanita González-Uribe, assistant professor in finance at the London School of Economics, sets out to estimate the effect of VC on the diffusion of knowledge, comparing citations to patents invested in VC-backed companies with those of comparable patents invested elsewhere.

The study examines US companies that received VC funding from 1976 to 2009 according to the Thomson VentureXpert database, and cross-references them with Harvard Business School’s patent database. The sample is restricted to patents filed at least two years before the companies receive VC financing and consists of 2,386 patents assigned to 771 companies.

González-Uribe’s starting hypothesis is that VCs bring more than just capital to the companies they invest in, helping them to develop and innovate. The theory is that this is achieved by what the industry likes to call “value-add,” such as with recruitment, corporate governance, sales and marketing. The research findings that the diffusion of patents increases with VC financing by a factor of 18–34%. However, the question arises of whether VCs brought about the citation increase or whether VCs simply chose to invest in companies whose patents would improve competitive position.

Additional results show that this effect is not mediated by market transactions such as mobility of workers or patent trade. Overall, the results suggest that VC brings about knowledge spillovers, and affects the distribution of aggregate innovative activity.

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**Patents are often used in academic language as a proxy for companies’ knowledge. A patent is cited when it is referred to in a patent application for a new technology or innovation that builds on the original (patented) idea.”**

**What are patent citations?”**

**The research**
The first report from the Coller Institute’s new Adveq Applied Research Series finds that pension schemes are underexposed to private equity and risk running deficits as a result.

"The typical annualised outperformance that the PE asset class offers relative to public-market equivalents could contribute to lower pension-fund deficits."

The new research also highlights that pension funds retain significant allocations to PE funds of funds, with 80% of smaller funds and 60% of medium and large schemes using such vehicles in some part of their PE portfolio.

"It is no surprise, then, that pension schemes of all sizes still back private equity," said Sven Lidén, managing director and CEO at Adveq, said: "The big question for pension funds allocating to PE is which methods of investing best capture the outperformance the asset class can offer, as the dispersion of returns is significant. To get past this challenge, schemes tend to use a combination of access points from investing in companies directly, co-investing alongside expert fund managers, through to committing capital directly to general or small manager funds and funds of funds.

"To get past this challenge, schemes tend to use a combination of access points from investing in companies directly, co-investing alongside expert fund managers, through to committing capital directly to general or small manager funds and funds of funds."

The Coller Institute acknowledges the generous financial support for this research by Adveq Management and thanks Preqin for contributing data to this research project. To download a copy of the research paper, visit www.collerinstitute.com/research-papers/254

PRIVATE EQUITY CAREER PATHS FOR WOMEN

Together with the Women in Business Club at London Business School, the Coller Institute recently hosted a roundtable discussion in London to investigate the current career options available to women in the PE industry. Inaugurated by Professor Francesca Cornelli and moderated by Debbie Hannam of Hannam Advisors, the panel comprised Alexandra Hess of Cinven, Alice Gregory of MLC, Yasemin Arkin of Apax Partners, Cheryl Potter of Permain Advisors LLP, and Ellen Garvey-Dasis of Egon Zehnder. The panelists brought GP, LP and executive-search perspectives on a range of issues to the debate, which was held on 6 May 2014.

The skill requirements and challenges of operational and deal-related roles were debated. Having proven specialist knowledge about specific industries and/or regions will be of advantage when seeking roles in PE. On the GP side, the panel admitted that late hours, extensive travel and a “‘taking the extra mile’ attitude were the reality for senior roles. However, family and a career in PE were not mutually exclusive for women in the industry. Panelists said it was a question of building a reliable support network and of being organized. The panel found that women’s ability to establish and maintain networks, their networking skills and an ability to listen to and read people make them particularly suited to working in PE roles. It also argued that bravery was essential as was decisiveness and strength for presenting and arguing investment proposals at committee meetings.

Regarding opportunities for women on the LP side, the debate revealed a multifaceted environment comprising working with a wide range of investment exposures, connecting with a vast number of people around the world, and assessing models and proposals.

The LP world was more conducive to achieving a work-life balance because the known fundraising pipeline allows for the planning of GP meetings and travel one to two years ahead. However, the world of co-investing is different as it often comes with short decision windows and ad hoc meetings and travel.

The best entry point for PE in particular on the deal side joining a GP is at the associate level, so directly post-MBA. However, given that fundraising is a less established specialist function, the industry sees more lateral hires here, even from outside PE.

The debate briefly touched upon whether PE careers could offer part-time roles and unanimously explained that the nature of the work simply didn’t offer many part-time opportunities. However, those are unlikely to offer a trajectory in the same way that full-time roles do.

Overall, PE and VC firms have been trying to engage more women for senior roles but this data is statistics for female leadership in PE/VC are still not vastly improving. One delegate, representing a global VC firm, told of her lengthy global search for senior female candidates leading to nothing, and others agreed.

A question from the audience on whether quotes would help to elevate more women into more senior PE/VC roles triggered a lively debate. Overall, it was agreed that quotes should not lead to hiring women for women’s sake. Some panelists said that women were often reluctant to put themselves forward or highlight their achievements. In PE, it was deemed important to “make” your career rather than waiting for others to simply promote you – it is considered a good thing to articulate your aspirations, and sometimes “demands”, at the right time in the right context.

The panel concluded that there were plenty of doors for women to enter the PE/VC industry but that careful career planning and the internationalisation of a career path were important, in addition to making friends and making oneself more visible to potential employers. PE roles are often obtained via introduction from networks rather than intermediate search, and it is especially true for roles in smaller firms.

The Coller Institute of Private Equity is to contribute a regular column to the BVCA Journal. Our first contribution was a piece from Celia Moore, assistant professor of organisational behaviour at London Business School, on making ethical investments when under the influence of money.

The column tackled a number of challenging questions, including: “Is what is this business case for ethical investing?” “If you were to ask...”, “Is there any academic evidence of better returns from making ethical investment?” and “Are there other driving forces for embracing ethical investment?”

To read the column, and for more information on Celia Moore’s work, please visit www.bvca.co.uk/ResearchPublications/BVCAJournal.aspx

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EVENTSCALENDAR

RECENT EVENTS

PE CAREER PATHS FOR WOMEN, 6 MAY 2014

This very popular evening event discussed the realities of working in the PE industry and entry points/career opportunities for women. See left for the key findings of this discussion.

PE MASTERCLASS FOR SENIOR INVESTORS FROM LATIN AMERICA, 12–14 MAY 2014

This seminar, taught by the core faculty of the Coller Institute with contributions from leading industry guest speakers, introduced the key considerations and learnings regarding PE in Europe and worldwide.

THE COSTS AND BENEFITS OF SHAREHOLDER ACTIVISM, 27 MAY 2014

At this evening event, hosted by the Centre of Corporate Governance at London Business School, the ECGI and the Coller Institute, academic findings and practitioner views were shared on the impact of shareholder activism.

UPCOMING EVENTS

PE AND LUXURY RETAILING

This event will discuss the role of PE in the luxury retail sector. The date will be announced shortly.

COLLERPRIZEINPE,28OCTOBER2014

This evening event will comprise a topical panel discussion and the prize-giving of our coveted Coller Prize.

VISIONROUNDTABLE,25NOVEMBER2014

An evening event with a senior panel debating key issues relevant to the PE industry in Europe.
New *Private Equity Findings* app
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