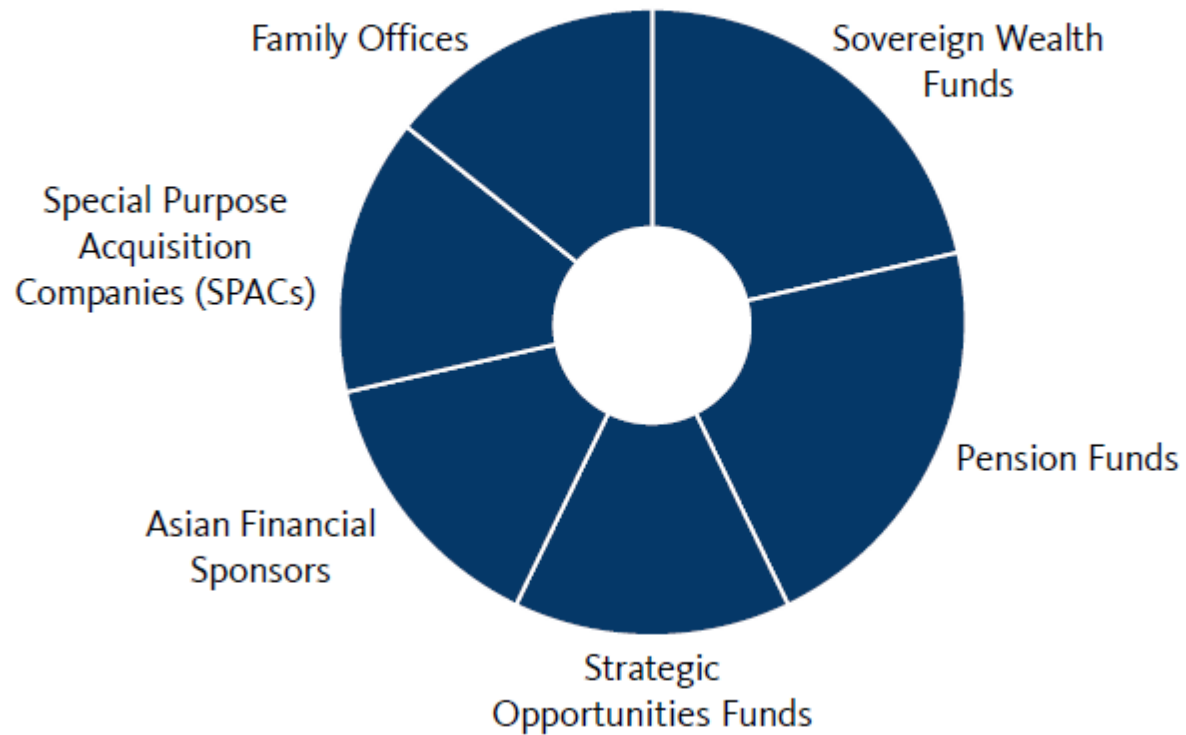
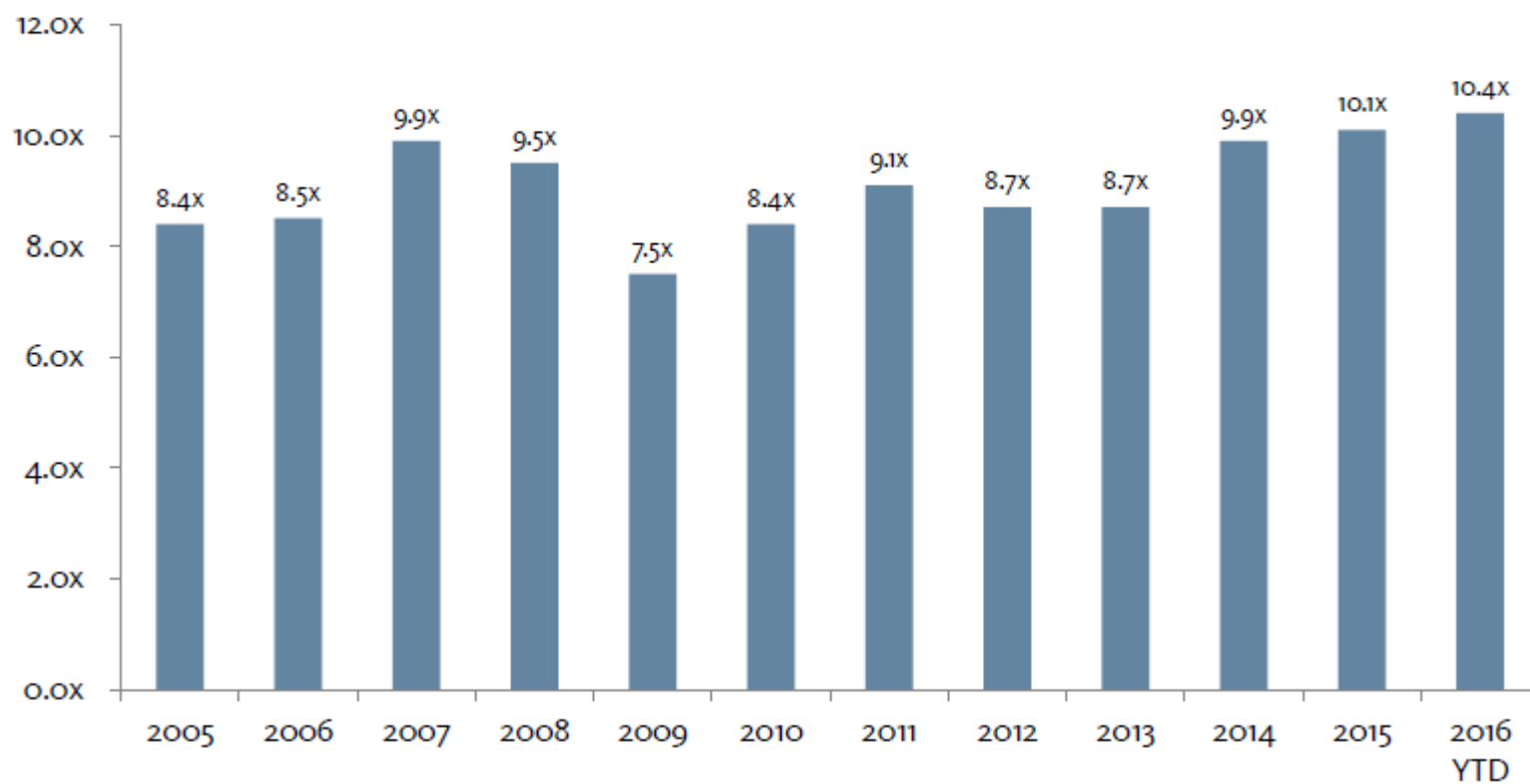


## NEWER SOURCES OF COMPETITION



## US LBO PURCHASE PRICE MULTIPLES



# Why LBO PE Works

| Sources of Alpha |                               | The Pitch   |
|------------------|-------------------------------|---|
| Process          | Sourcing                      | <ul style="list-style-type: none"> <li>Participate in proprietary / advantaged processes</li> <li>Some assets are not fit for public markets</li> <li>"Fill the gap" between seed capital and IPO</li> </ul>  |
|                  | Diligence                     | <ul style="list-style-type: none"> <li>Access to internal company data</li> <li>Skilled analysts forecasting performance and multiple</li> </ul>  |
|                  | Ongoing Negotiations and Exit | <ul style="list-style-type: none"> <li>Negotiating skill adds value (e.g., cap structure)</li> <li>Create value by identifying the "right buyer" at exit (versus most companies reluctant to sell at all)</li> </ul>  |
| Structural       | Operations                    | <ul style="list-style-type: none"> <li>Better compensation for better managers</li> <li>Equity-linked compensation aligns incentives</li> <li>Op Execs leveraged across portfolio</li> </ul>  |
|                  | Leverage                      | <ul style="list-style-type: none"> <li>Most companies structurally underlevered, due to managers' lack of diversification</li> <li>Diversified PE owners optimize portfolio leverage</li> </ul>   |
|                  | Long-Term Capital             | <ul style="list-style-type: none"> <li>LP lock-ups (i) prevents undisciplined re-allocation; (ii) allows long-term investments; (iii) forces tolerance for volatility (levered equities)</li> <li>Stable capital allows CEO to focus on operations</li> </ul> |

# Why LBO PE Works

| Sources of Alpha |                               | The Pitch   | One Man's Take   |
|------------------|-------------------------------|---|--|
| Process          | Sourcing                      | <ul style="list-style-type: none"> <li>Participate in proprietary / advantaged processes</li> <li>Some assets are not fit for public markets</li> <li>"Fill the gap" between seed capital and IPO</li> </ul>  | <ul style="list-style-type: none"> <li>Most assets sold via auction</li> <li><u>Auctions are markets</u></li> </ul>  |
|                  | Diligence                     | <ul style="list-style-type: none"> <li>Access to internal company data</li> <li>Skilled analysts forecasting performance and multiple</li> </ul>  | <ul style="list-style-type: none"> <li>Internal data is an advantage...</li> <li><u>...but very difficult to beat Mr. Market...</u></li> <li><u>...and in an auction, everyone has the data</u></li> </ul> |
|                  | Ongoing Negotiations and Exit | <ul style="list-style-type: none"> <li>Negotiating skill adds value (e.g., cap structure)</li> <li>Create value by identifying the "right buyer" at exit (versus most companies reluctant to sell at all)</li> </ul>  | <ul style="list-style-type: none"> <li>Probably true</li> <li>Shades of grey with "Structural" topics below</li> <li><u>Getting paid for M&amp;A skill, not beating the market</u></li> </ul>              |
| Structural       | Operations                    | <ul style="list-style-type: none"> <li>Better compensation for better managers</li> <li>Equity-linked compensation aligns incentives</li> <li>Op Execs leveraged across portfolio</li> </ul>  | <ul style="list-style-type: none"> <li>Great in theory – but evidence is mixed</li> <li>Harder as companies get larger</li> <li><u>Structural benefit of control– if done right</u></li> </ul>             |
|                  | Leverage                      | <ul style="list-style-type: none"> <li>Most companies structurally underlevered, due to managers' lack of diversification</li> <li>Diversified PE owners optimize portfolio leverage</li> </ul>   | <ul style="list-style-type: none"> <li><u>Material source of value</u></li> </ul>  |
|                  | Long-Term Capital             | <ul style="list-style-type: none"> <li>LP lock-ups (i) prevents undisciplined re-allocation; (ii) allows long-term investments; (iii) forces tolerance for volatility (levered equities)</li> <li>Stable capital allows CEO to focus on operations</li> </ul> | <ul style="list-style-type: none"> <li>Real value if can time and withstand the cycle</li> <li><u>PE track record mixed, especially large-cap.</u></li> </ul>  |