



A Review of Private Equity Firms

April 2010

Topics to Cover

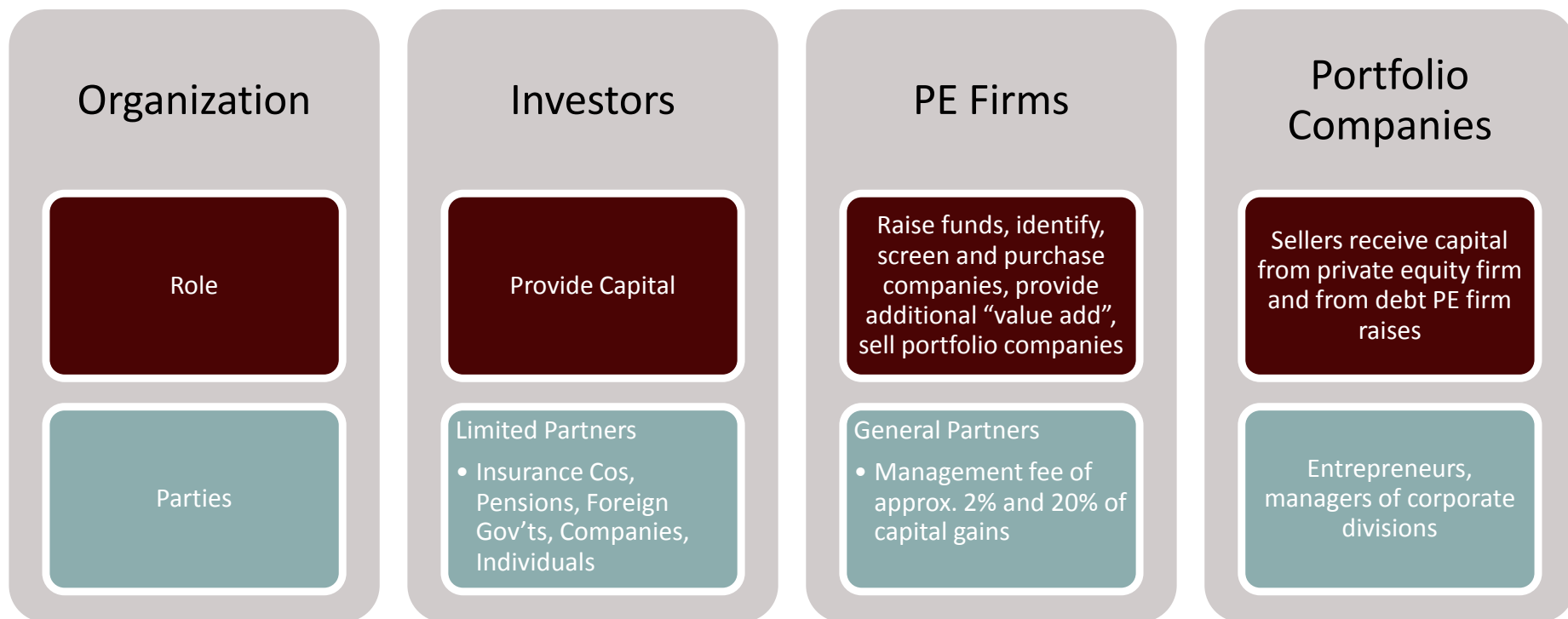
Private Equity Fund Landscape and Fund Raising

LBO Model Review

Fort Dearborn
ADVISORS

THE PLAYERS AND THE PROCESS

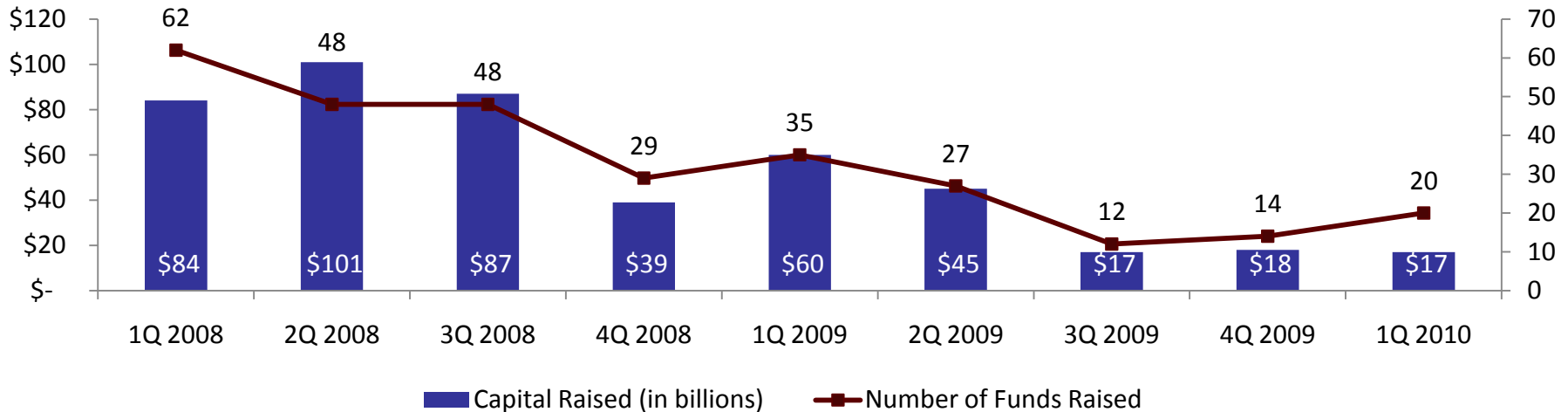
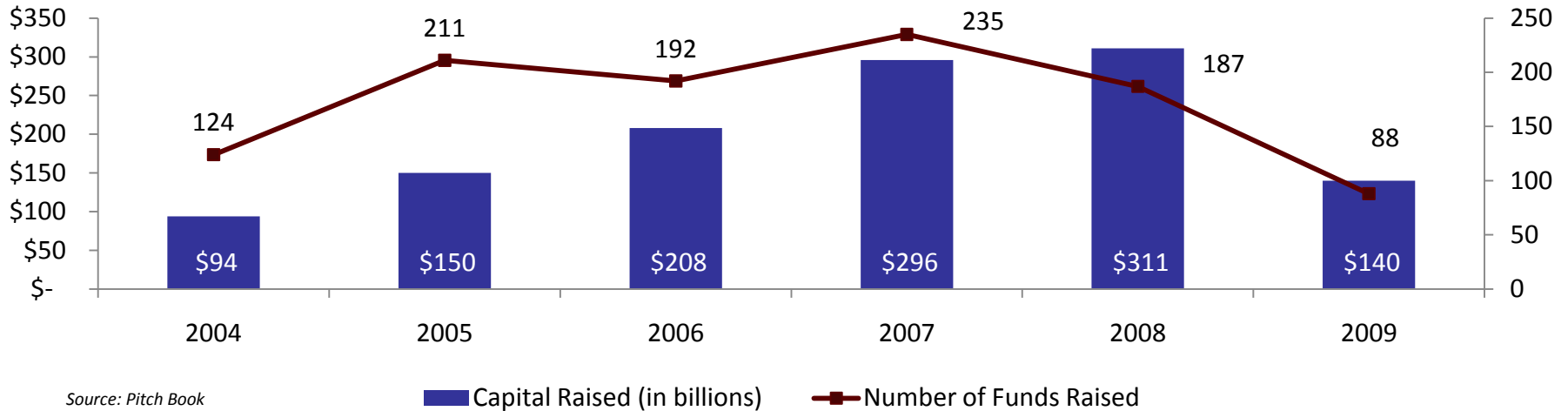
Fund's Constituents



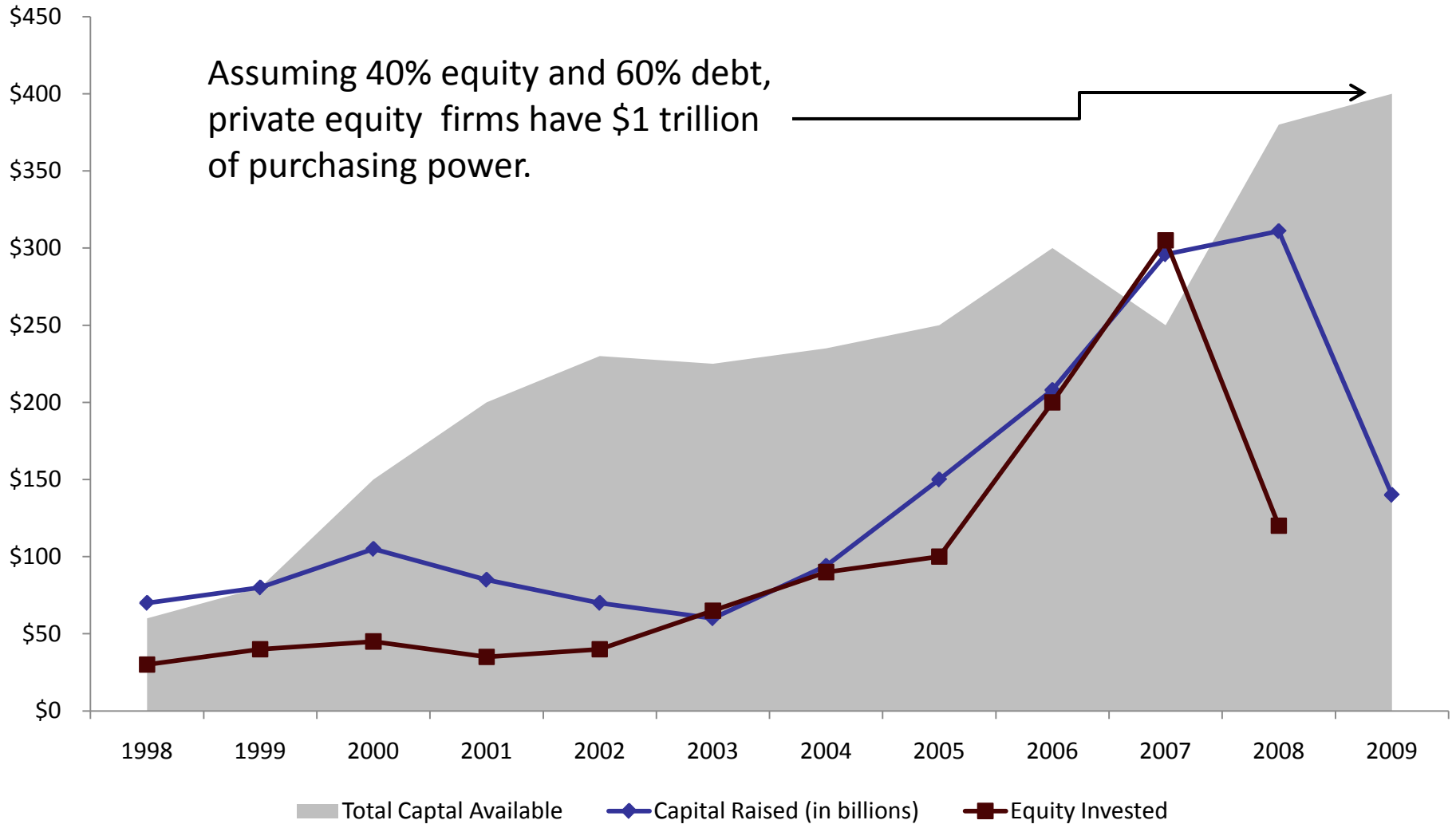
Fund's Timeline



PRIVATE EQUITY FUNDRAISING

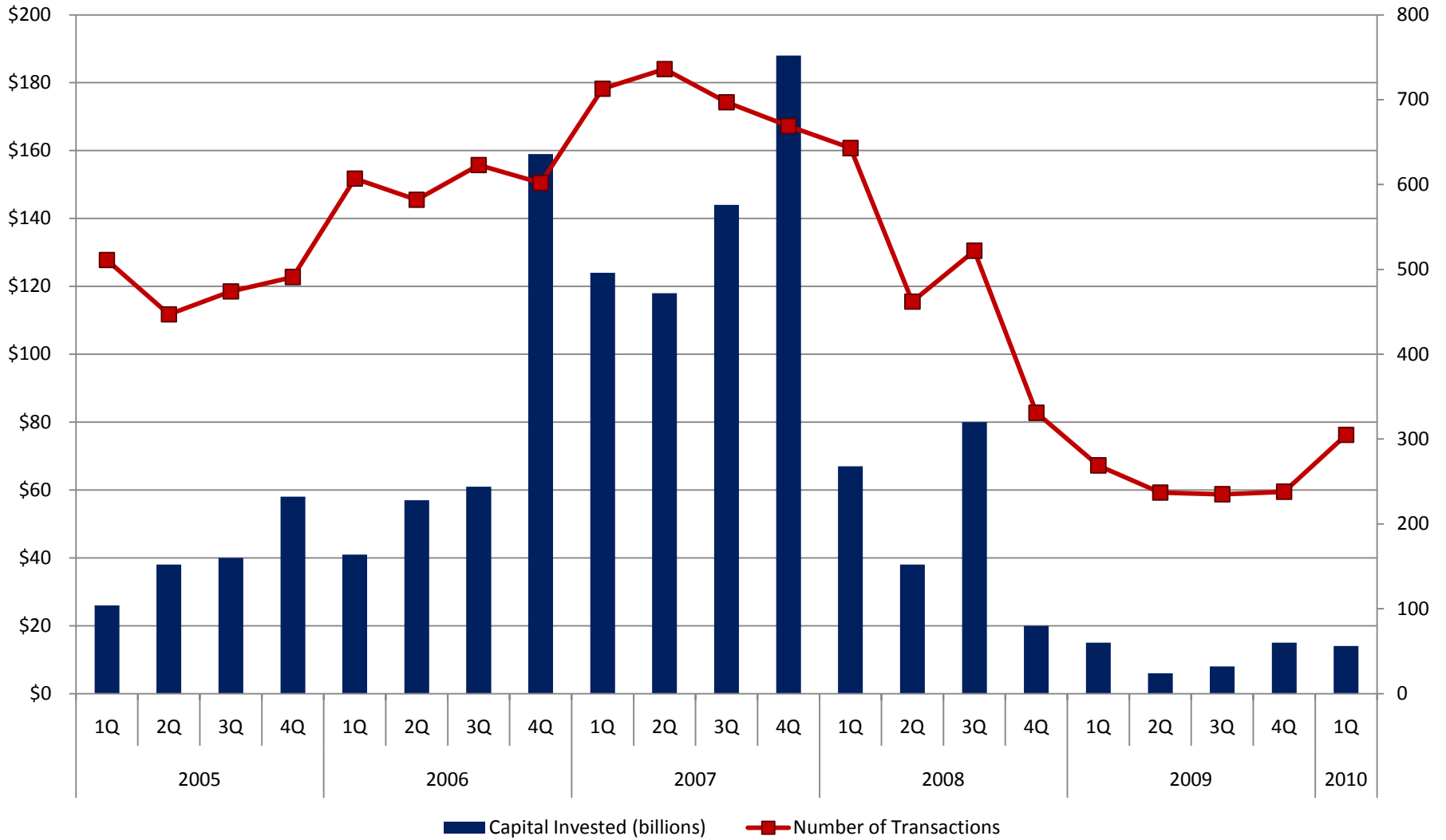


RECORD LEVELS OF CAPITAL TO BE INVESTED



Source: Pitch Book

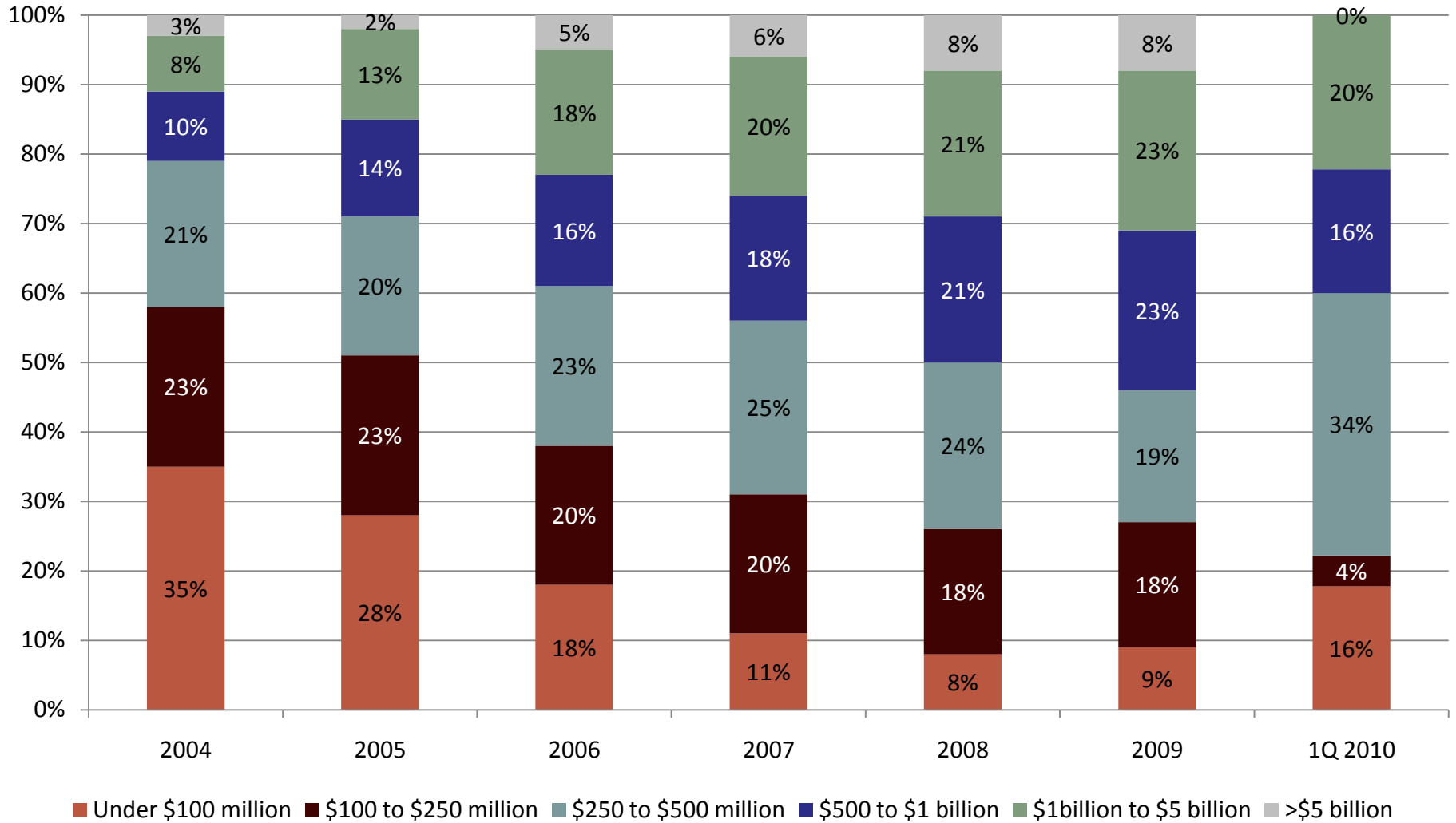
US PRIVATE EQUITY DEAL ACTIVITY



EXAMPLE PRIVATE EQUITY FUNDS BY SIZE (MOST RECENT FUND SIZE)

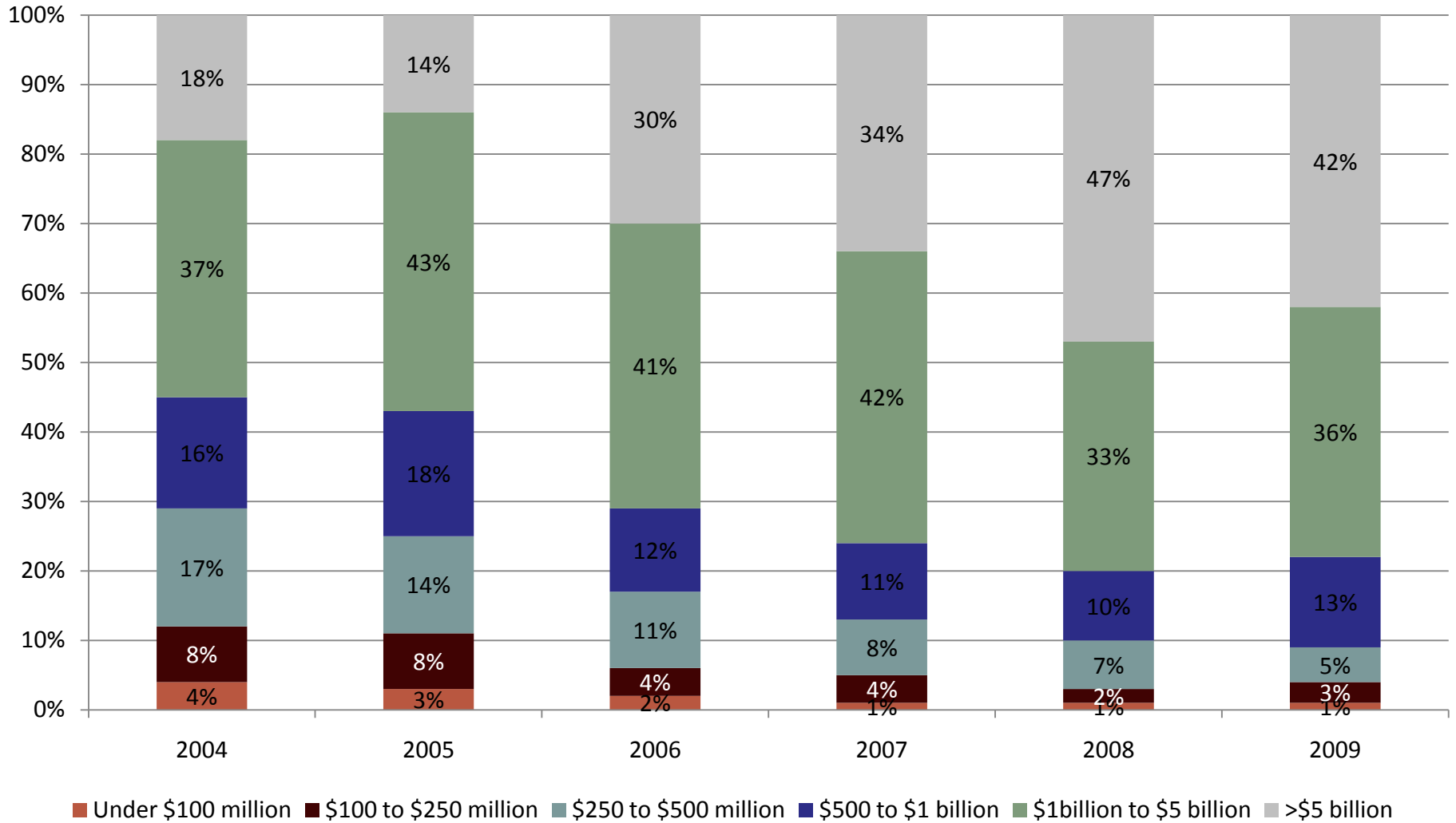
Mega Funds (over \$3 billion)	Large Funds (\$1 billion to \$3 billion)	Middle Market (\$200 million to \$1 billion)	Lower Middle Market (under \$200 million)
TPG, Warburg Pincus, Apollo, KKR, Thomas H. Lee, Avenue Capital, New Mountain, Colony Capital, Madison Dearborn, TA Associates, Centerbridge Partners, Riverstone Holdings, Golden Gate Capital, Bain Capital, Leonard Green, Kelso, Clayton Dublier & Rice, MatlinPatterson, Sun Capital, Oak Hill	Ares, Bayside, GTCR Golder Rauner, Platinum Equity, Irving Place Capital, Oak Investment Partners, Francisco Partners, ArcLight Capital, Yucaipa Companies, Mid Ocean, Silver Lake, Roark Capital, KPS Capital, Quadrangle Capital, Diamond Castle, Genstar Capital, Olympus Partners, Kohlberg & Company	Wind Point Partners, Lincolnshire Mgmt, Thoma Bravo, LLR, Lake Capital, Insight Equity, Chicago Growth, Linsalata Capital, Riverside, Blue Point, Morgenthaler, Wynnchurch Capital, Swander Pace, Beecken Petty O’Keefe, Fifth Street, Monomoy, Clearview, Linden, HKW	Wingate Partners, Adams Street Partners, BlackEagle Partners, Arbor, Catalyst, Capital Resource Partners, Prospect Partners, Angelo Gordon, Glencoe Capital, HIG, Prairie Capital, Prism Capital, Baird Capital Partners, Pfingsten
5% of identified firms	10% of identified firms	30% of identified firms	55% of identified firms

FUND COUNT BY FUND SIZE



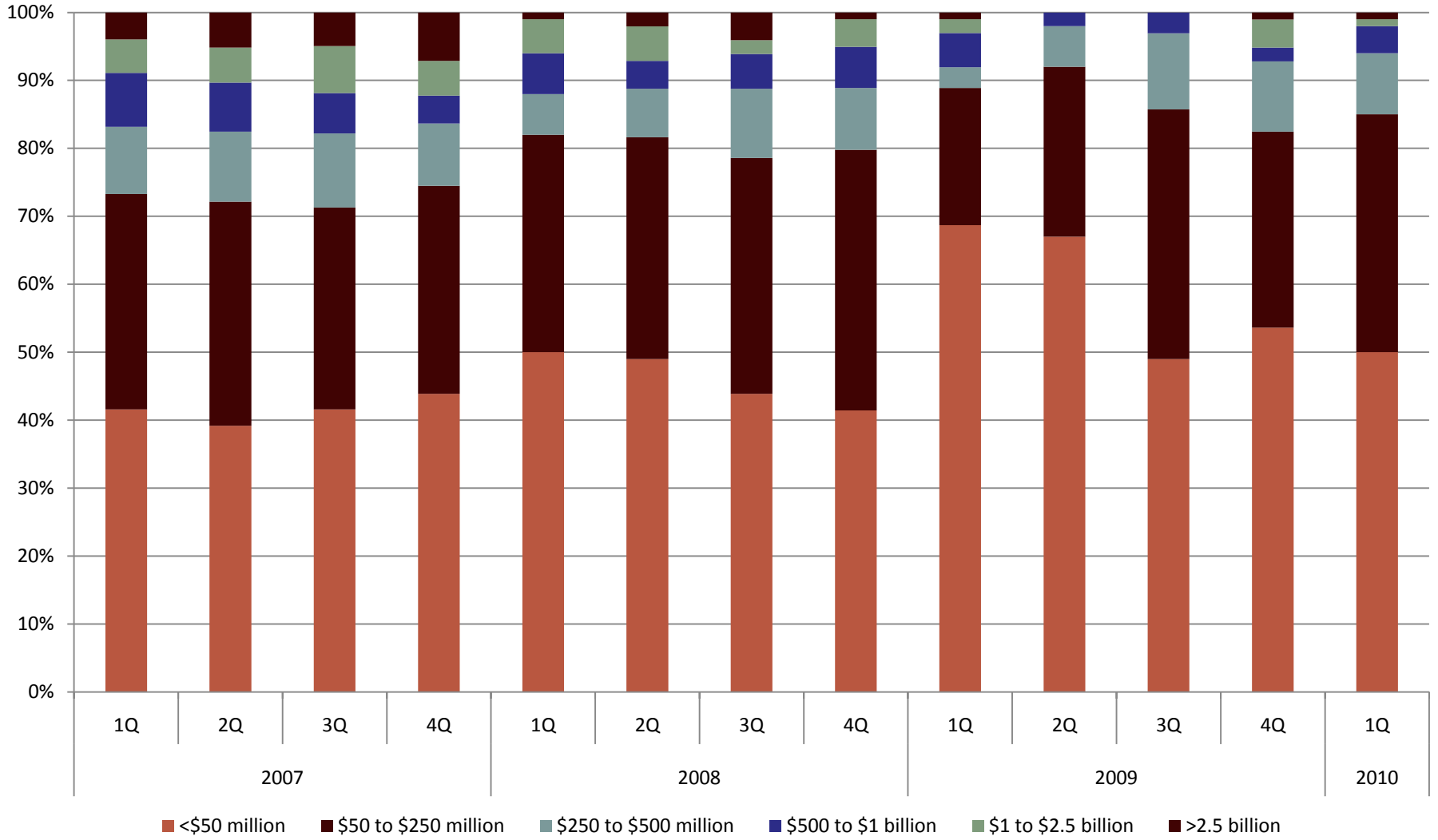
Source: Pitch Book

PERCENTAGE OF CAPITAL RAISED BY FUNDS BY FUND SIZE



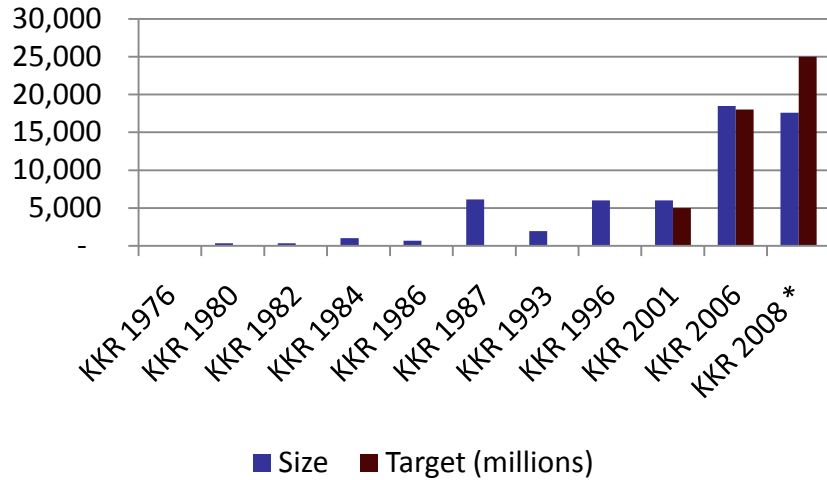
Source: Pitch Book

PERCENTAGE OF TRANSACTIONS BY SIZE (COUNT)

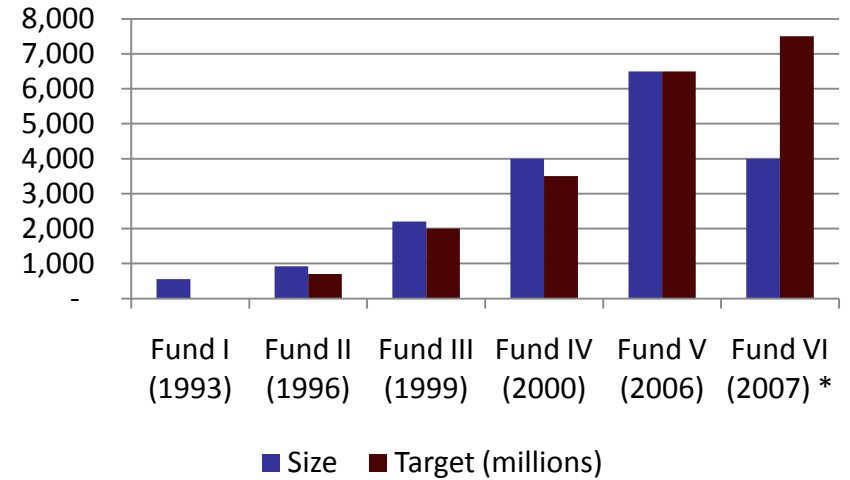


Source: Pitch Book

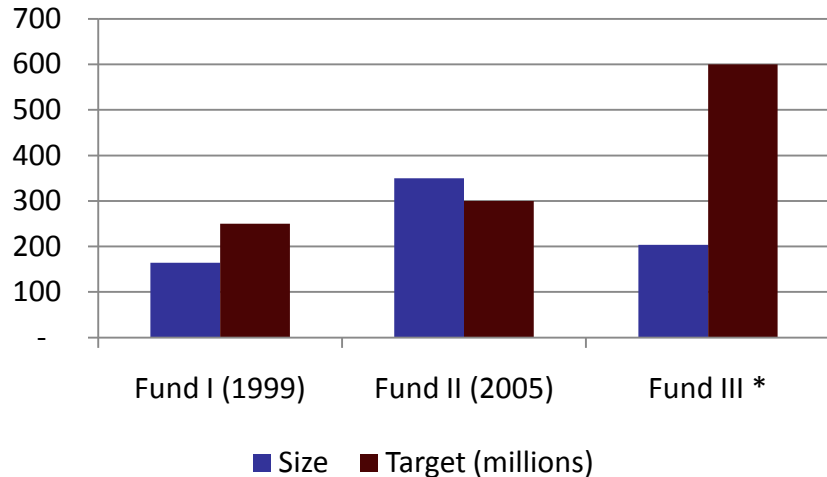
KKR



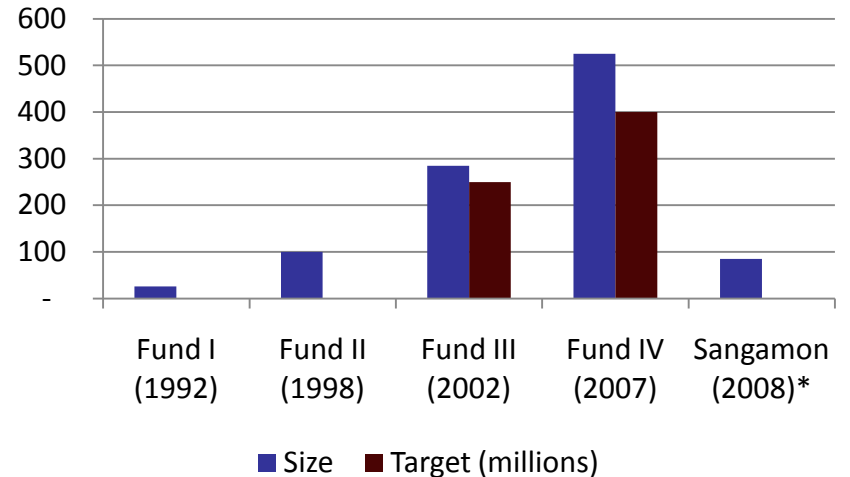
MADISON DEARBORN



WYNNCHURCH CAPITAL



PFINGSTEN PARTNERS



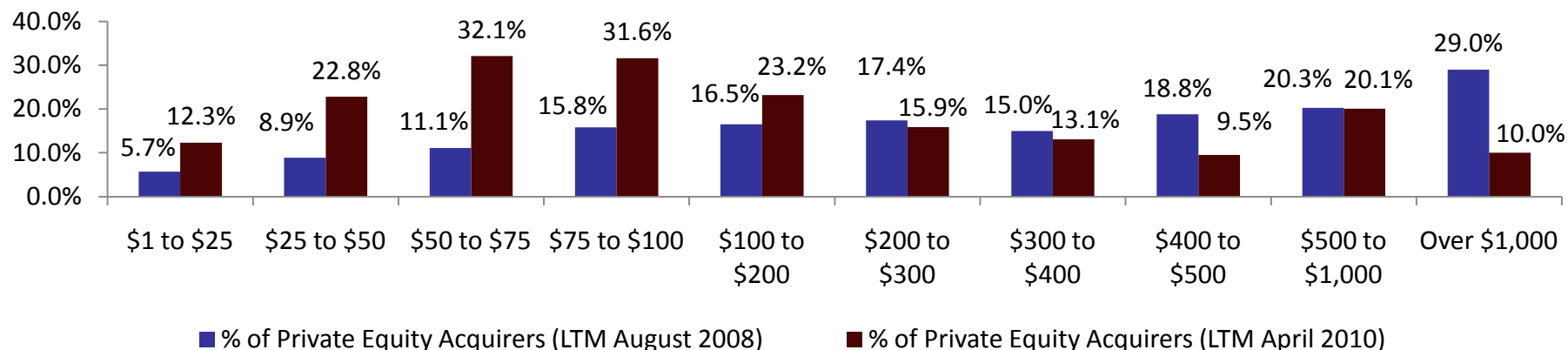
* Indicates first close only

Source: Capital IQ, Fort Dearborn Research

IMPACT OF PRIVATE EQUITY FIRMS

- Overall, about 15% of companies acquired in the United States and Canada are acquired by private equity firms in the past year.
- For the 12 months ended August 2008, about 12% of companies acquired in the United States and Canada were acquired by private equity firms
- There are large deviations from the average when looked at by size of the transaction

% of Transactions Bought by Private Equity Firms



Source: Capital IQ, Fort Dearborn Research

LBO MODEL OVERVIEW

The purpose of an LBO model is to determine:

- What returns can a particular investment generate
- If the investment fits within the then-current financial parameters in the market
- Other potential return scenarios under different assumptions (i.e., a sensitivity analysis)

Base case assumptions in this LBO model:

- Year 0 revenue \$50 million, 10% EBITDA margins (i.e. \$5 million EBITDA)
- Revenue growth 3% per year, margins unchanged from base year
- Purchase price of 5x EBITDA for 100% of seller's equity
- Capital structure:
 - Senior Debt: \$7 million (1.4x EBITDA), LIBOR floor of 2% + 500 bps, 5 year amortization
 - Revolver: \$3 million (0.6x EBITDA), LIBOR floor of 2% + 300 bps
 - Sub Debt: \$5 million (1.0x EBITDA), 15% current coupon, no warrants
 - Equity: \$10 million (2.0x EBITDA)
- Transaction expenses not factored into the analysis
- Excess cash remains in company without interest and is paid to the PE seller at sale
- Company sold at end of year 5 for 5x then-current EBITDA

Example Company
Leveraged Buyout
(Dollars in Thousands)

Assumptions and Summary Results

Source of Funds	Advance	Required Return Rates	
		Current	Total
Term A (Senior)	1.4x	7.0%	7.0% (Libor Floor of 200bps + 500 bps)
Revolver (Senior)	0.6x	5.0%	5.0% (Libor Floor of 200bps + 300 bps)
Sub Debt	1.0x	15.0%	15.0%
<u>Total Third Party Debt</u>	3.0x		
Common Equity	2.0x	22.5%	
As a multiple of EBITDA	5.0x		
As a percentage of Capital	40%		
Example Company EBITDA	\$	5,000.0	

Sources		Uses	
Term A (Senior)	7,000.0	Existing Debt, net of cash	-
Revolver (Senior)	3,000.0	Purchase of Sellers' Equity	25,000.0
Sub Debt	5,000.0	Management Equity Rollover	-
Management Equity Rollover	-	Purchase Price	25,000.0
New Equity	10,000.0	Transaction Expense	-
	<u>\$ 25,000.0</u>		<u>\$ 25,000.0</u>

Profit/Loss						
Years	0	1	2	3	4	5
Example Company	\$ 50,000.0	\$ 51,500.0	\$ 53,045.0	\$ 54,636.4	\$ 56,275.4	\$ 57,963.7
<i>Sales Growth</i>		3.0%	3.0%	3.0%	3.0%	3.0%
Example Company EBITDA	\$ 5,000.0	\$ 5,150.0	\$ 5,304.5	\$ 5,463.6	\$ 5,627.5	\$ 5,796.4
<i>EBITDA Margin</i>	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Cash Interest						
Senior		\$ 616.8	\$ 444.1	\$ 275.3	\$ 147.0	\$ 49.0
Sub		750.0	750.0	750.0	750.0	750.0
Total Interest		1,366.8	1,194.1	1,025.3	897.0	799.0
Depreciation/Amortization	2,200.0	2,150.0	2,100.0	2,050.0	2,000.0	1,950.0
Pretax income		1,633.2	2,010.4	2,388.3	2,730.5	3,047.4
Taxes	40%	653.3	804.2	955.3	1,092.2	1,218.9
Net Income		\$ 979.9	\$ 1,206.2	\$ 1,433.0	\$ 1,638.3	\$ 1,828.4

Cash Flow						
Years	0	1	2	3	4	5
Net Income	\$ 979.9	\$ 1,206.2	\$ 1,433.0	\$ 1,638.3	\$ 1,828.4	
Depreciation/Amortization	2,150.0	2,100.0	2,050.0	2,000.0	1,950.0	
Operating Cash Flow	3,129.9	3,306.2	3,483.0	3,638.3	3,778.4	
<u>Principal Repayment Before Revolver</u>						
Term A	1,400.0	1,400.0	1,400.0	1,400.0	1,400.0	
Sub Debt	-	-	-	-	-	
Total Debt Repayment	1,400.0	1,400.0	1,400.0	1,400.0	1,400.0	
Working Capital increase (rate of sales %/yr)	50.0	1.5	1.5	1.6	1.6	1.7
Capex	750.0	750.0	750.0	750.0	750.0	750.0
Total Uses Before Revolver	2,151.5	2,151.5	2,151.6	2,151.6	2,151.6	2,151.7
Net Cash Excess/(Deficiency)	-	\$ 978.4	\$ 1,154.7	\$ 1,331.4	\$ 1,486.7	\$ 1,626.7
<i>*add/subtract to Revolver</i>						
Cumul Cash Excess/(Deficiency)	\$ -	\$ -	\$ 464.5	\$ 1,951.2	\$ 3,578.0	
<i>Post - Revolver Payment</i>						
Cumul Cash Excess/(Deficiency)	\$ 978.4	\$ 2,133.1	\$ 3,464.5	\$ 4,951.2	\$ 6,578.0	

Amortization Schedule

Years		0	1	2	3	4	5
Term Note							
Amortization (Years)	5.0						
Beg. Bal	\$ 7,000.0	7,000.0	5,600.0	4,200.0	2,800.0	1,400.0	
Amortization		(1,400.0)	(1,400.0)	(1,400.0)	(1,400.0)	(1,400.0)	
End Bal Term		<u>5,600.0</u>	<u>4,200.0</u>	<u>2,800.0</u>	<u>1,400.0</u>	<u>-</u>	
Interest-Term		441.0	343.0	245.0	147.0	49.0	
Revolver							
Beg. Bal	\$ 3,000.0	3,000.0	2,021.6	866.9	-	-	
Deficiency/(Excess)		(978.4)	(1,154.7)	(866.9)	-	-	
End Bal Revolver (Cash)		<u>2,021.6</u>	<u>866.9</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Interest-Revolver		175.8	101.1	30.3	-	-	
Sub Debt							
Advance	\$ 5,000.0						
Amort Yrs							
Beg. Bal		\$ 5,000.0	\$ 5,000.0	\$ 5,000.0	\$ 5,000.0	\$ 5,000.0	
Amort		-	-	-	-	-	
End Bal		<u>5,000.0</u>	<u>5,000.0</u>	<u>5,000.0</u>	<u>5,000.0</u>	<u>5,000.0</u>	
Cash Interest		750.0	750.0	750.0	750.0	750.0	

Key Financial Covenants

Fixed Charge Coverage							
Actual	1.24	1.29	1.34	1.39	1.44	1.48	
Target	1.25	1.25	1.25	1.25	1.25	1.25	
Definition: $[\text{EBITDA} - \text{Capex}] / [\text{Principal} + \text{Cash Interest} + \text{Taxes}]$							

Total Leverage:							
Actual	3.00	2.45	1.90	1.43	1.14	0.86	
Target	3.00	3.00	3.00	3.00	3.00	3.00	
Definition: $[\text{Senior Debt} + \text{Sub Debt}] / \text{EBITDA}$							

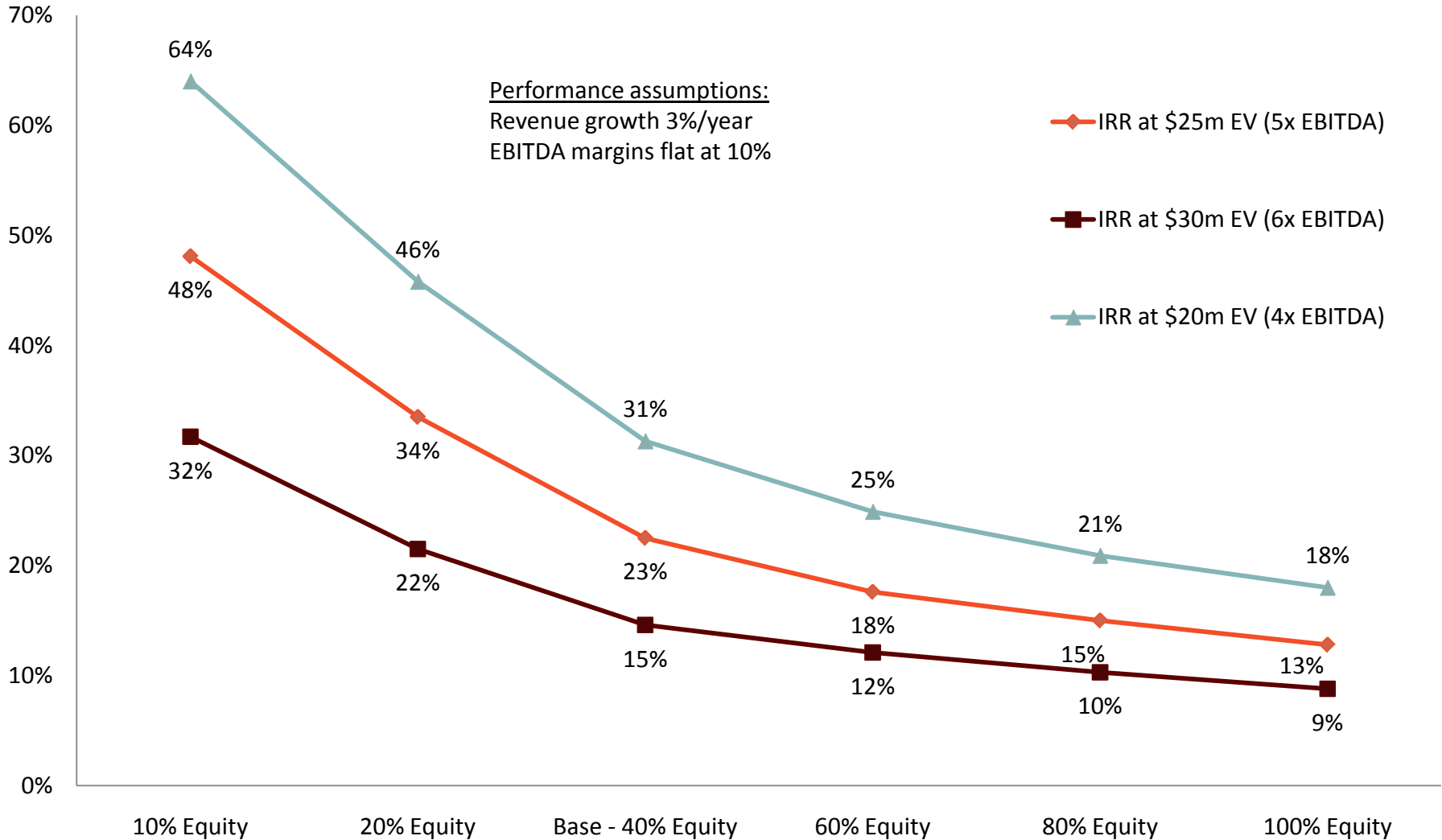
Senior Leverage:							
Actual	2.00	1.48	0.96	0.51	0.25	-	
Target	2.00	2.00	2.00	2.00	2.00	2.00	
Definition: $\text{Senior Debt} / \text{EBITDA}$							

Returns							
Year	0	1	2	3	4	5	
Sub Debt							
Principal	\$ (5,000.0)	\$ -	\$ -	\$ -	\$ -	\$ 5,000.0	
Cash interest		750.0	750.0	750.0	750.0	750.0	
Warrant value							-
Total Return	(5,000.0)	750.0	750.0	750.0	750.0	750.0	5,750.0
IRR	15.0%						
Warrant Percent	0.0%						
Common Equity							
IRR	22.5%	(10,000.0)	-	-	-	-	27,559.8
Diluted Ownership							
Common Equity	27,559.8	100.0%					
Sub Debt Warrants	-	0.0%					
Total	27,559.8	100.0%					

Exit Values						
Year	0	1	2	3	4	5
EBITDA	\$ 5,150.0	\$ 5,304.5	\$ 5,463.6	\$ 5,627.5	\$ 5,796.4	
Multiple	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x
Cash Position	-	-	464.5	1,951.2	3,578.0	
Net Enterprise Value	25,750.0	26,522.5	27,782.7	30,088.9	32,559.8	
Less Principal:						
Term	5,600.0	4,200.0	2,800.0	1,400.0	-	
Revolver	2,021.6	866.9	-	-	-	
Sub Debt	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0	
Total Principal	12,621.6	10,066.9	7,800.0	6,400.0	5,000.0	
Total Equity Value	13,128.4	16,455.6	19,982.7	23,688.9	27,559.8	
Less Participation						
Sub Debt warrants					-	
Residual common equity value					<u>\$ 27,559.8</u>	

		Enterprise Value Exit Multiple				
		4.00x	4.50x	5.00x	5.50x	6.00x
EBITDA	\$ 5,296.4	14.6%	17.5%	20.2%	22.6%	24.9%
	\$ 5,546.4	15.7%	18.7%	21.3%	23.8%	26.1%
	\$ 5,796.4	16.8%	19.8%	22.5%	25.0%	27.2%
	\$ 6,046.4	17.9%	20.9%	23.6%	26.1%	28.4%
	\$ 6,296.4	18.9%	21.9%	24.6%	27.1%	29.5%

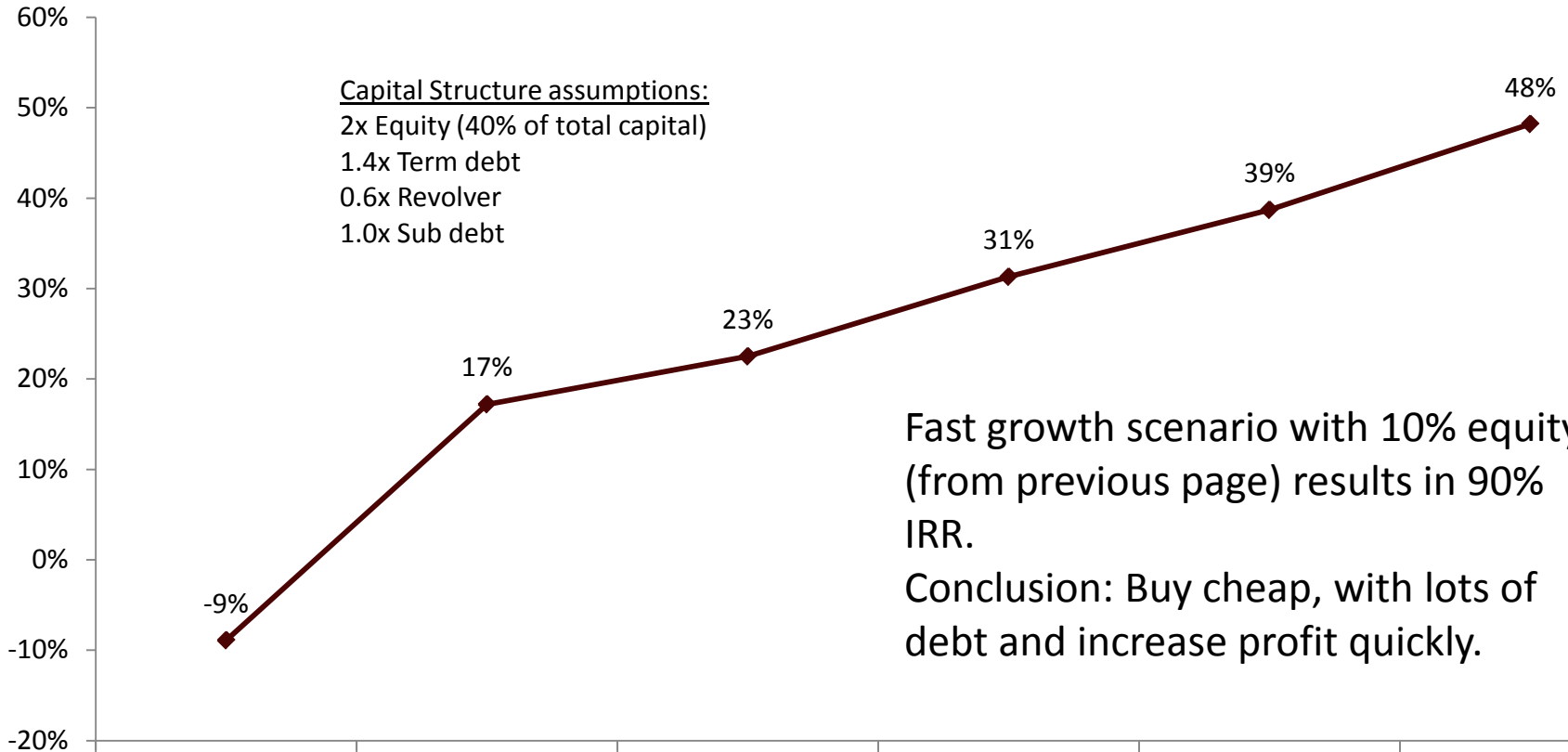
LBO MODEL RESULTS WITH VARIOUS CAPITAL STRUCTURES



LBO MODEL RESULTS WITH VARIOUS FINANCIAL PERFORMANCE

IRR to Common Equity

Capital Structure assumptions:
 2x Equity (40% of total capital)
 1.4x Term debt
 0.6x Revolver
 1.0x Sub debt

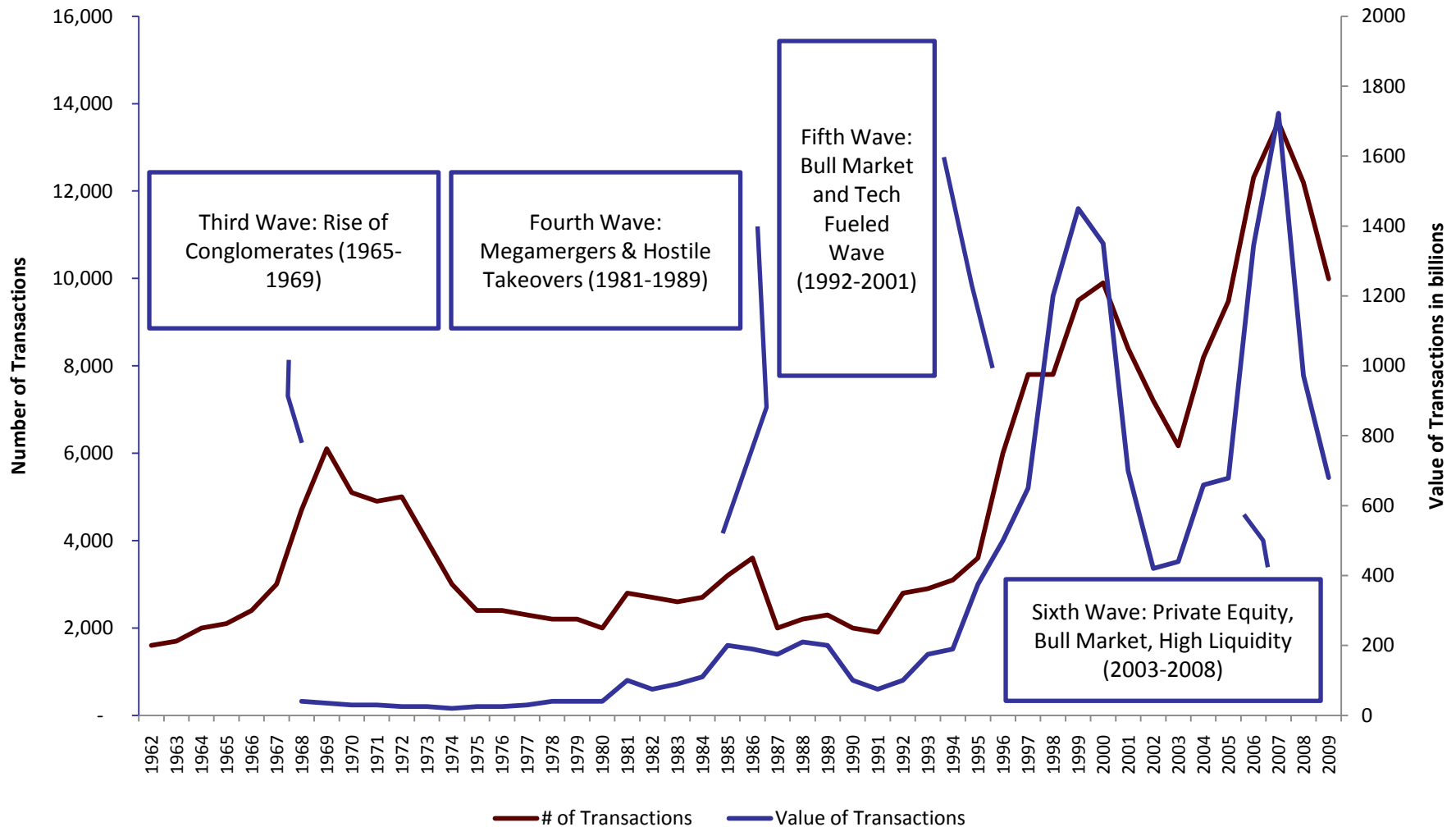


Fast growth scenario with 10% equity (from previous page) results in 90% IRR.

Conclusion: Buy cheap, with lots of debt and increase profit quickly.

Sales Growth -3%, Margins 7%	Sales Growth 0%, Margins 10%	Sales Growth 3%, Margins 10%	Sales Growth 4%, Margins 12%	Sales Growth 5%, Margins 14%	Sales Growth 8%, Margins 16%
Fast Decline	Flat Performance	Base Performance	Slightly Above Base	Above Base	Fast Growth

M&A TRANSACTION HISTORY (ALL TRANSACTIONS W/U.S. TARGET)



Sources: M&A Waves are discussed in detail in *Mergers, Acquisitions, and Corporate Restructurings*, Fourth Edition by Patrick Gaughan. Transaction data is from Mergerstat (1962 to 2002), Capital IQ (2003 to 2008).