

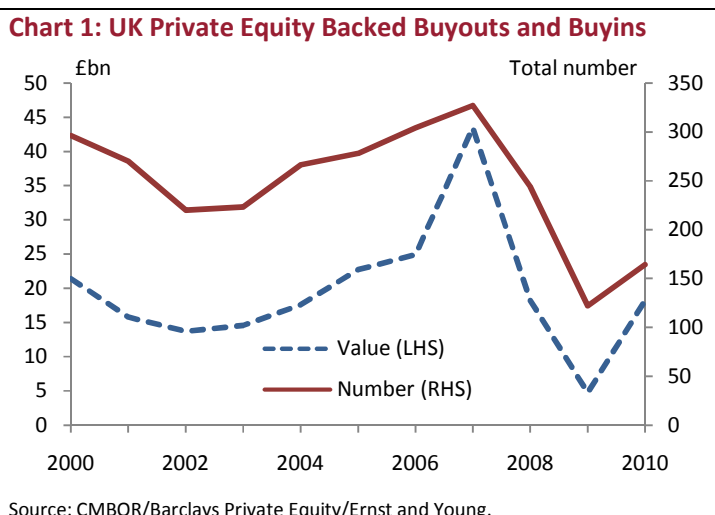
## Private equity's performance through the recession

When the global financial crisis hit in 2007, leading to the worst recession since the 1930s, many commentators were pessimistic about the chances of private equity's survival. One prevalent school of thought claimed that private equity loaded its portfolio companies with debt that had hefty servicing requirements and as a result, they would not survive the 'perfect storm' of increased illiquidity in the credit markets and the drop in demand that the recession produced. Indeed, one report, by the Boston Consulting Group (2008), went so far as to predict that as many as 50% of companies backed by private equity would default on their debts through the recession, and as many as 40% of buyout firms themselves could cease to exist.

However, whilst no-one would disagree that the last three years have seen tough times for some in the industry – as they have for businesses of all stripes – new research will be published next week showing that not only did the performance of private equity-backed companies hold up through the recession, they actually showed a stronger economic and financial performance than matched private companies and limited companies. In addition, the research finds that private equity-backed buyouts were significantly less likely to enter insolvency than other forms of buyout or listed companies, both prior to and during the recession.

The report, *Private Equity Portfolio Company Performance Through the Recession*, by Mike Wright and Louise Scholes of the Centre for Management Buy-out Research (CMBOR), and Nick Wilson of the Credit Management Research Centre, looks at a dataset covering nearly the whole UK company population from 1995 to the first quarter of 2010. As such, it is much more comprehensive than previous studies in the area. In examining the impact of private equity backing, the authors are also careful to control for a number of other factors, such as industry sector, leverage and measures of regulatory compliance, ensuring that the comparison between private equity and other forms of ownership is as accurate as possible.

Whilst the economic outlook remains cautious going forward – and last Friday's revised GDP figures for Q4 did nothing to relieve this uncertainty – the findings of the report will provide a degree of reassurance to investors that private equity is still able to weather the economic and financial storms that have been buffeting the global economy. Indeed, having already weathered the fallout from the worst financial crisis in living memory, private equity and venture capital look well-placed to cope with any stumble in the recovery.



We would also expect this robust performance to manifest in the form of increased activity as uncertainty about the economic landscape gradually dissipates. Indeed, recently released statistics from CMBOR for the whole of last year (Chart 1) show that deal volumes and amounts in 2010 were significantly up on 2009 levels. The further acknowledgement of private equity's benefits given by the upcoming research report – which will be available at [www.bvca.co.uk/Research](http://www.bvca.co.uk/Research) – suggests that even if the economy performs below expectations over the coming year, private equity should more than hold its own during 2011.

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04 March 2011

## Global financial markets <sup>(a)</sup>

	Level	$\Delta$ on week	$\Delta$ on year		Level	$\Delta$ on week	$\Delta$ on year
FTSE 100	5990	-0.2%	+8.4%	10Y Gilt yield	3.61	+0bps	-39bps
FTSE All-Share	3109	+0.0%	+10.1%	10Y UST yield	3.51	+10bps	-9bps
S&P 500	1325	+0.4%	+17.9%	10Y Bund yield	3.28	+12bps	+15bps
EuroStoxx	2947	-1.3%	+4.6%	\$ / £	1.63	+0.9%	+8.2%
2Y Gilt yield	1.38	-2bps	+33bps	\$ / €	1.40	+1.6%	+2.9%
2Y UST yield	0.70	-1bps	-15bps	¥ / \$	82.4	+0.8%	-7.5%
2Y Bund yield	1.77	+23bps	+79bps	€ / £	1.16	-0.8%	+5.1%

(a) At 4pm GMT.

## Past week's economic data highlights

Country	Release	Period	Actual	Consensus
<b>Monday 28 February</b>				
Euro area	Headline (core) CPI inflation, %Y/Y	Jan	2.3 (1.1)	2.4 (1.2)
<b>Tuesday 1 March</b>				
UK	Nationwide house prices, %M/M (Y/Y)	Feb	0.3 (-0.1)	-0.2 (-0.2)
Euro area	Unemployment rate	Jan	9.9	10.0
<b>Thursday 3 March</b>				
Euro area	GDP growth, %Q/Q (Y/Y)	Q4	0.3 (2.0)	0.3 (2.0)
	ECB announces main refinancing rate, %	Mar	1.00	1.00
<b>Friday 4 March</b>				
US	Change in nonfarm payrolls, $\Delta$ K (unemployment rate, %)	Feb	192 (8.9)	196 (9.1)

## Coming week's economic data highlights

Country	Release	Period	Consensus	Previous
<b>Wednesday 9 March</b>				
UK	Total trade balance, £bn	Jan	-4.0	-4.8
<b>Thursday 10 March</b>				
UK	Industrial production (manufacturing output), %M/M	Jan	0.4 (0.6)	0.5 (-0.1)
	BoE announces Bank Rate, %	Mar	0.50	0.50
<b>Friday 11 March</b>				
US	Total retail sales (excl. cars and petrol), %M/M	Feb	0.9 (0.4)	0.3 (0.2)

Sources for tables: Bloomberg and BVCA.

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