

Media release

Private equity creates value: New research by Capital Dynamics and the Technische Universität München found that operational improvements were the key value creation drivers in successful exits from the last buyout boom

ZUG, Switzerland and MUNICH, Germany, June 24, 2014 – Capital Dynamics, a global private asset manager, and the Technische Universität München are pleased to announce their joint findings from a second study of realized private equity investments that shows operational improvements remained the key driver of value creation in private equity.

The current study expanded the data set to include 701 global private equity exits from 1990-2013 compared to 241 mostly European exits in the first study conducted in 2009. The new data set provided insight into how value and alpha are created across private equity deals and delivered an updated picture of value creation in the private equity industry. Results showed that operational improvements were the key drivers of value in private equity portfolio companies and, along with the multiple effect, accounted for 69% of value created.

In spite of commonly held views that the use of leverage fueled returns of private equity deals made during the last buyout boom from 2005-2008, the study found that value creation attributed to leverage was less than in deals made during the pre-boom years of 2001-2004. Moreover, EBITDA growth contributed more to value creation in boom era deals than in pre-boom era deals. The study also found that market timing was less important for value creation than GP-driven multiple expansion, as the latter accounted for most of the value created from the multiple effect.

Key conclusions:

- Value creation in private equity remains operationally-driven, accounting for roughly half of overall value created.
- A noticeable shift occurred in the sources of value creation in 2005-2008 deals: Leverage contribution diminished, while operational factors such as EBITDA growth became the major drivers of successful value creation.
- Market timing is overvalued: The multiple effect accounted for 18% of value created, with public market movements contributing 40% and GP-driven multiple expansion comprising 60% of that.
- Private equity operational alpha increased to 14%, driven by stronger EBITDA growth of private equity-backed companies compared with public benchmark companies.

“Our results demonstrate that private equity delivers value to investors over and above public markets and beyond the application of leverage to transactions. Value creation analysis has long been an important part of our investment due diligence process and helps us benchmark GPs in terms of value creation abilities,” said Dr. Ivan Herger, Head of Portfolio and Risk Management at Capital Dynamics.

“Operational improvements in portfolio companies and multiple expansion by skilled GPs result in generation of value for investors in this long-term asset class,” said Dr. Reiner Braun, Affiliated Professor at the Center for Entrepreneurial and Financial Studies (CEFS) at the Technische Universität München.

The full findings are available here for download: <http://www.capdyn.com/media-research/research.cfm>

Capital Dynamics

Capital Dynamics is an independent, global asset manager, investing in private equity and clean energy infrastructure. We are client-focused, tailoring solutions to meet investor requirements. We manage investments through a broad range of products and opportunities including separate account solutions, investment funds and structured private equity products. Capital Dynamics currently has USD 19 billion in assets under management/advisement¹.

Our investment history dates back to 1988. Our senior investment professionals average over 20 years of investing experience across the private equity spectrum². We believe our experience and culture of innovation give us superior insight and help us deliver returns for our clients. We invest locally while operating globally from our London, New York, Zug, Beijing*, Tokyo, Hong Kong, Silicon Valley, Sao Paulo, Munich, Birmingham, Seoul, Brisbane, Shanghai* and Scottsdale offices.

¹Capital Dynamics comprises Capital Dynamics Holding AG and its affiliates; assets under management/advisement, as of December 31, 2013, include assets under discretionary management, advisement (non-discretionary), and administration across all Capital Dynamics affiliates. Investments are primarily on behalf of funds managed by Capital Dynamics. ²Average years of experience held by Capital Dynamics' 20 most-senior investment professionals. *Diligence Capital is a legally separate company operating under a strategic cooperation with Capital Dynamics. This document does not constitute an offer to sell or a solicitation of an offer to purchase any securities of any kind in Capital Dynamics, including any of its funds.

Center for Entrepreneurial and Financial Studies (CEFS) at the Technische Universität München

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