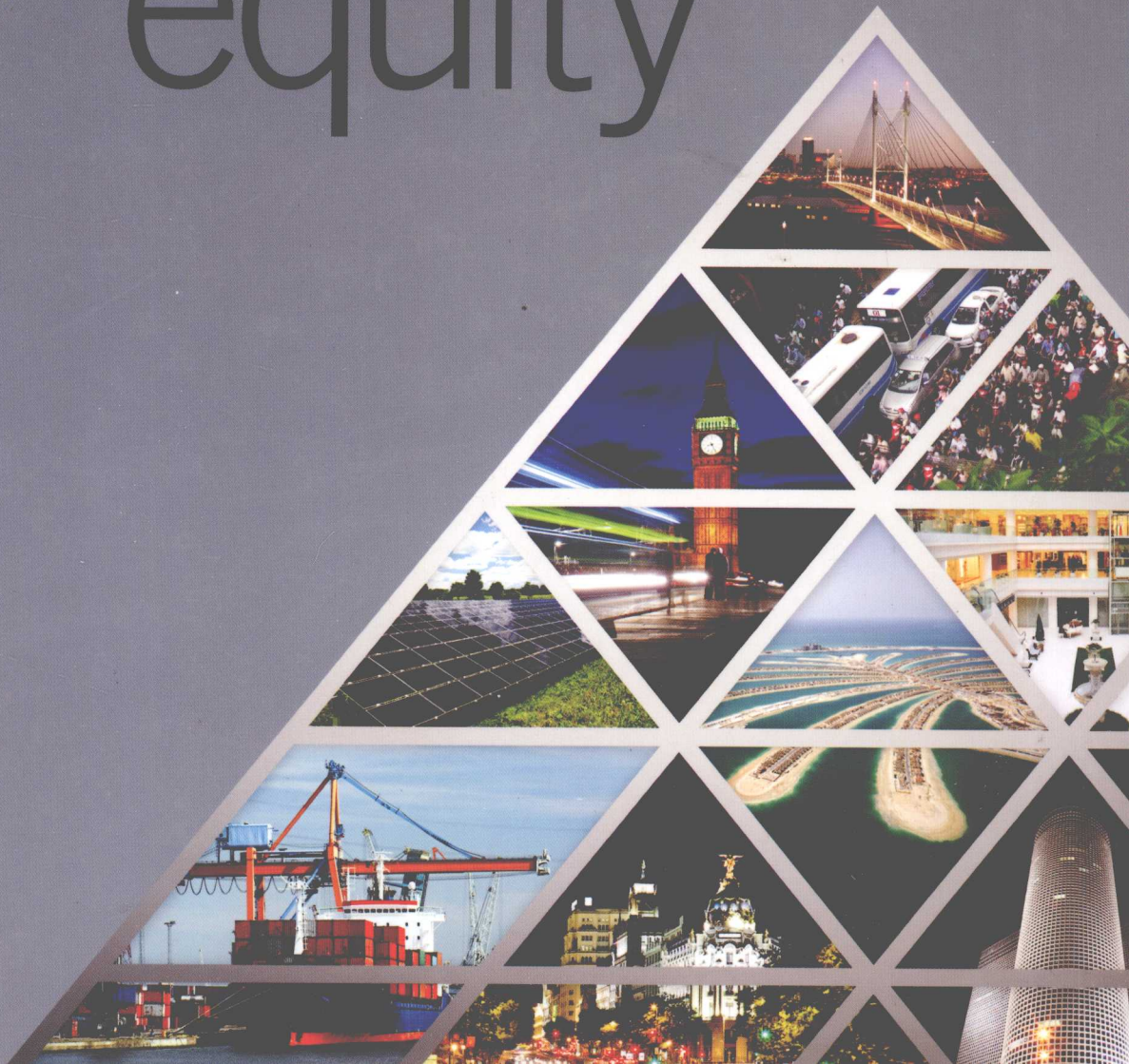


Eli Talmor Florin Vasvari

international private equity





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INTERNATIONAL PRIVATE EQUITY

Eli Talmor and Florin Vasvari



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Preface

We are ever amazed at the wide range of issues that are covered in private equity. Nearly all business aspects are at the heart of the matter—valuation, accounting and control, strategy, operations, financial structuring, asset allocation, management, entrepreneurship, regulation, and government policy. It is squarely at the crossroads of academia and practice where there is no mercy for just being conceptual or lacking timeliness. This creates challenges—yet great fun—in understanding the subject; in particular, in trying to break down what makes it so effective, fascinating, and perhaps addictive.

The motivation for our book is to provide a comprehensive overview of the main topics in private equity that are relevant to students in graduate programs, investors, other professionals seeking to understand the many facets of private equity, and private equity practitioners wanting a more complete analysis of this asset class.

The book has grown out of our teaching the “Private equity and venture capital” elective course at London Business School. Over the years the focus of the course has broadened internationally and by subject matter, which is reflected both in the text chapters and the case studies. Working closely with the professional private equity community in London proved particularly valuable in generating first-rate material and direct contributions through chapter co-authorships. Much of that was achieved through the Coller Institute of Private Equity and its Advisory Board. Added value came from our students who provided insights both in the classroom and outside it.

Dwight Poler, Head of Bain Capital in Europe, has been a co-instructor of our private equity course and a great supporter. Dwight’s contribution to the book and to private equity education at London Business School has been immeasurable.

Our thanks go to the private equity partners and corporate executives who agreed to graciously share their time and provide case material such as transaction data and detailed internal memoranda which subjected their firms to our close examination process. We are particularly grateful to Yoram Amiga (SunPower), Ted Berk (Bain Capital), Philippe Costeletos (TPG), Chris Freund (Mekong Capital), Anne Glover (Amadeus), Mounir Guen (MVision), Francesco Santinon (Aberdeen), and the partners at Denham Capital, Investindustrial, Realza Capital, and Swicorp. Our academic colleague Josh Lerner (Harvard Business School) also contributed in case sourcing. In writing the case studies we heavily relied on students who shouldered the burden of gathering data on the arduous projects: Jo Coles, Benjamin Dimson, Michael Geary, Edward Gera, Richard Harvey, Enrique Ho-Fernández, Oriol Juncosa, Ashish Kumar, Norman Lee, Geoff Leffek, Charmian Long, Alberto Pons, Vishal Radhakrishnan, Vijay Sachidanand, Tamara Sakovska, Thibaud Simphal, Andrew Strachan, Richard Turner, Matthias Vandepitte, Lode Van Laere, Adolfo Vinatea, and Ananth Vyas Bhimavarapu.

The text chapters are divided into three main parts which cover fund-level topics, deal-level topics, and early-stage investing. They discuss a wide variety of subjects and that involved teaming up with leading practitioners on each topic: Jim Strang (Jardine Capital), Anthony Cecil (KPMG), Kay Nemoto and John Maloney (Alix Partners), Brenlen Jinkens (Cogent Partners), and Thomas Meyer (EVCA). For some chapters we collaborated with other academics: Oliver Gottschalg (HEC Paris), Christoph Kaserer

(Technical University Munich), and Henry Lahr (University of Cambridge). On other topics we benefited from working with current and past students: Mike Glossop, Sonia Katyal, Anya Kleymenova, Bjoern Koertner, William Lamain, Fardeen Nariman, and Rebecca Zimmerman. Natalie Brawn (Bowmark Capital) provided valuable comments on earlier drafts of chapters.

The Collier Institute of Private Equity provided support in administration and references to industry knowledge. Our colleagues there were a constant source of good advice: Francesca Cornelli who actually proposed the idea of writing the book, Hans Holmen, and Ann Iveson.

The project was most effectively directed by the Wiley team. Jenny McCall cheerfully led the process from its inception, Gemma Valler and Amy Webster were a pleasure to work with and Neil Shuttlewood handled the editorial process professionally and very efficiently. We owe them all a great deal of thanks.

Last but not least, our families coped with us with patience and understanding through the laboring process. The book is dedicated to them.

Abbreviations

ABS	Asset-Backed Security	CPA	Certified Public Accountant
ACA	Angel Capital Association	CVC	Corporate Venture Capital
ADB	Asian Development Bank	DCF	Discounted Cash Flow
ADIA	Abu Dhabi Investment Authority	DD	Due Diligence
AICPA	American Institute of Certified Public Accountants	DFI	Development Finance Institution
AIFM	Alternative Investment Fund Manager	DSCR	Debt Service Coverage Ratio
AIM	Alternative Investment Market	DVPI	Distributed Value to Paid-In ratio
ARPU	Average Revenue Per User	EBAN	European Business Angel Network
ASB	Accounting Standards Board	EBIT	Earnings Before Interest and Taxes
ASCRI	Asociación Española de Entidades de Capital Riesgo (Spanish Venture Capital Association)	EBITA	Earnings Before Interest, Taxes, and Amortization
ASEAN	Association of Southeast Asian Nations	EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization
ATN	Access Technology Now	ECB	European Central Bank
BBAA	British Business Angels Association	ECF	Enterprise Capital Fund
BCC	Blank Check Company	EGFP	Early Growth Funding Program
BDC	Business Development Company	EIB	European Investment Bank
BEE	Black Economic Empowerment	EIS	Enterprise Investment Scheme
BIMBO	Buy-In Management Buy-Out	EMPEA	Emerging Markets Private Equity Association
BIS	Business Innovation and Skills	EPC	Engineering Procurement and Construction
BRIC	Brazil, Russia, India, and China	ERISA	Employee Retirement Income Security Act
BVCA	British Private Equity and Venture Capital Association	ESOP	Employee Stock Ownership Plan
CAGR	Compound Annual Growth Rate	ETF	Exchange-Traded Funds
CalPERS	California Public Employees' Retirement System	EURIBOR	Euro Interbank Offered Rate
CAPM	Capital Asset Pricing Model	EV	Enterprise Value
CalSTRS	California State Teachers' Retirement System	EVCA	European Private Equity and Venture Capital Association
CDIF	China Direct Investment Fund	FCF	Free Cash Flow
CDO	Collateralized Debt Obligation	FFT	Fund for Technological Fund
CEE	Central and Eastern Europe	FMCG	Fast-Moving Consumer Goods
CfE UK	Capital for Enterprise UK	FPCR	Fonds de Promotion pour le Capital Risque
CFO	Collateralized Fund Obligation	FPP	Full Potential Program
CIC	China Investment Corporation	FRSSE	Financial Reporting Standards for Smaller Entities
CIP	Carried Interest Partner	FSA	Financial Services Authority
CIS	Commonwealth of Independent States	G&A	General and Administrative
CLO	Collateralized Loan Obligation	G7	Group of Seven
CNMV	Comisión Nacional del Mercado de Valores	GAAP	Generally Accepted Accounting Principles
COC	Cash-On-Cash return	GCC	Gulf Cooperation Council
COGS	Cost of Goods Sold	GDP	Gross Domestic Product
		GLPEI	Global Listed Private Equity Index

GP	General Partner	OFEX	Off Exchange
GPS	General Partner's Share	OTECEF	Oxford Technology Enterprise Capital Fund
HCMC	Ho Chi Minh City	P/E	Price to Earnings
HNWI	High-Net-Worth Individual	PBT	Profit Before Tax
HoSE	Ho Chi Minh City Stock Exchange	PDI	Personal Disposable Income
HPSU	High-Potential StartUp	PE	Private Equity
HR	Human Resources	PIK	Payment In Kind
IASB	International Accounting Standards Board	PIPE	Private Investments in Public Equity
ICB	Industry Classification Benchmark	PME	Public Market Equivalent
ICFC	Industrial and Commercial Finance Corporation	PPE	Property Plant and Equipment
ICP	International Consumer Products	PPM	Private Placement Memorandum
IF	Internally Flawless	PPS	Priority Profit Share
IFRS	International Financial Accounting Standards	PSERS	Public School Employees' Retirement System
ILPA	Institutional Limited Partners Association	RIC	Regulated Investment Company
ILPEI	International Listed Private Equity Index	RMB	Renminbi
IP	Intellectual Property	RVCF	Regional Venture Capital Fund
IPEV	International Private Equity and Venture	RVPI	Residual Value to Paid-In ratio
IPO	Initial Public Offering	SA	Sociedad Anónima
IRR	Internal Rate of Return	SAMA	Saudi Arabian Monetary Agency
ISCR	Interest Service Coverage Ratio	SBIC	Small Business Investment Company
JSE	Johannesburg Securities Exchange	SBLG	Small Business Loan Guarantee
KPI	Key Performance Indicator	SBS	Small Business Service
LBO	Leveraged Buyout	SEC	Securities and Exchange Commission
LCC	Low-Cost Country	SG&A	Selling, General and Administrative
LIBOR	London Interbank Offered Rate	SGEGR	Sociedad Gestora de Entidades de Capital Riesgo
LP	Limited Partner	SME	Small and Medium-sized Enterprise
LPA	Limited Partnership Agreement	SOE	State-Owned Enterprise
LPE	Listed Private Equity	SPA	Stock Purchase Agreement
LPEI	Listed Private Equity Index	SPAC	Special Purpose Acquisition Company
LSIF	Labor-Sponsored Investment Fund	SPV	Special Purpose Vehicle
LSVCC	Labor-Sponsored Venture Capital Corporation	STAC	Structured Trust Acquisition Company
M&A	Mergers and Acquisitions	SUIR	Société Unipersonnelle d'Investissements à Risque
MBI	Management Buy-In	SWF	Sovereign Wealth Fund
MBO	Management Buy-Out	TCGA	Taxation of Chargeable Gains Act 1992
MENA	Middle East and North Africa	TMT	Telecommunications, Media, and Technology
MFO	Manufacturing Footprint Optimization	TVPI	Total Value to Paid-In ratio
MIRR	Modified Internal Rate of Return	UNAIDS	Joint United Nations Program on HIV/AIDS
MMP	Minimum Monthly Payment	VAF	Vietnam Azalea Fund
MPDF	Mekong Private Sector Development Facility	VAR	Value Added Reseller
MSCI	Morgan Stanley Capital International	VaR	Value-at-Risk
NAV	Net Asset Value	VC	Venture Capital
NOL	Net Operating Loss	VCT	Venture Capital Trust
NPV	Net Present Value	WHO	World Health Organization
NVCA	National Venture Capital Association	WTO	World Trade Organization
NWC	Net Working Capital		
OECD	Organization for Economic Co-operation and Development		

About the authors

Eli Talmor is a professor at London Business School and founding Chairman of its Collier Institute of Private Equity. He was previously a professor of finance at the University of California (UCLA and Irvine), Tel Aviv University, and the Wharton School (University of Pennsylvania). Professor Talmor is a seasoned private equity practitioner and has been a director of European and American corporations. He served on the advisory board of the African Venture Capital Association and the Board of Governors of London Business School. He has frequently been invited to deliver keynote speeches to business executives worldwide and interviews to the international media on timely private equity matters. In recent years he has been asked by the U.K. Parliament to provide leading testimony at its high-profile hearings on private equity and to advise the U.K. Prime Minister's office. Professor Talmor holds a Ph.D. from the University of North Carolina at Chapel Hill and a B.Sc. from the Technion Israel Institute of Technology.

Florin Vasvari is an Assistant Professor of Accounting at London Business School and a fellow of the Collier Institute for Private Equity. He co-teaches the Private Equity and Venture Capital elective at London Business School with Professor Talmor, and consults with several organizations. Professor Vasvari is actively pursuing research on private equity topics and debt markets. He has published several articles in top-tier academic journals such as the *Journal of Accounting Research* and *Review of Accounting Studies* and has been invited to present his research at top business schools such as Chicago GSB, Columbia Business School, Wharton School, MIT Sloan School of Management, Harvard Business School, INSEAD, and others. He is on the editorial board of *Contemporary Accounting Research* and the advisory board of the Center for Accounting Research and Education. Professor Vasvari holds a Ph.D. from the University of Toronto, Rotman School of Management and an M.A. from the University of Toronto, Department of Economics.

*To Zippy, Dahlia, Yael, and Lauren
To Albert and Mirela*

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Overview and fund-level analysis

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Overview and fund-level analysis