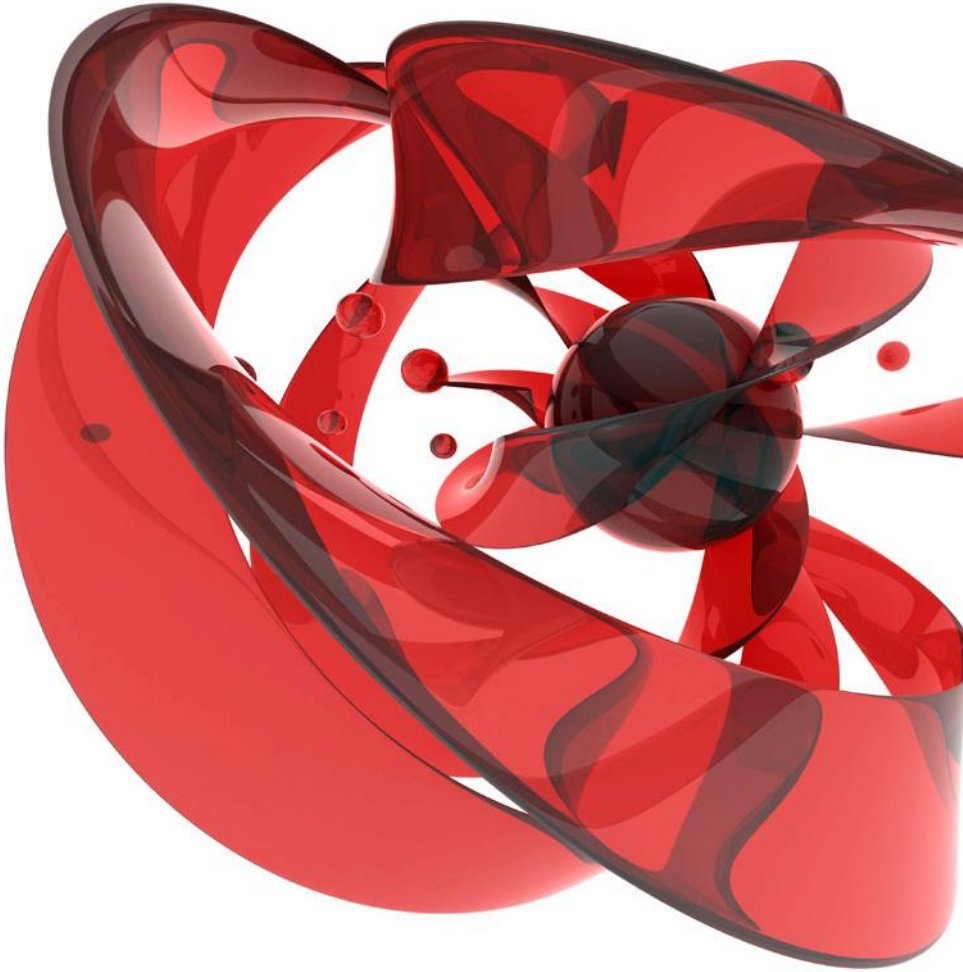
ALLEN & OVERY

Introduction to Private Equity



Peter Banks

24 October 2011

BIS BRISTOL INVESTMENT SOCIETY

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Overview

- Allen & Overy LLP: who we are
- Role of lawyers in the City
- Introduction to Private Equity
- Questions

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Allen & Overy LLP: who we are

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Fast facts

4,776 people

2,111 lawyers

Turnover up 7% to £1.12 billion this year

39 offices in 27 countries

60% of revenue from outside the UK

New offices: Washington D.C., Jakarta, Casablanca

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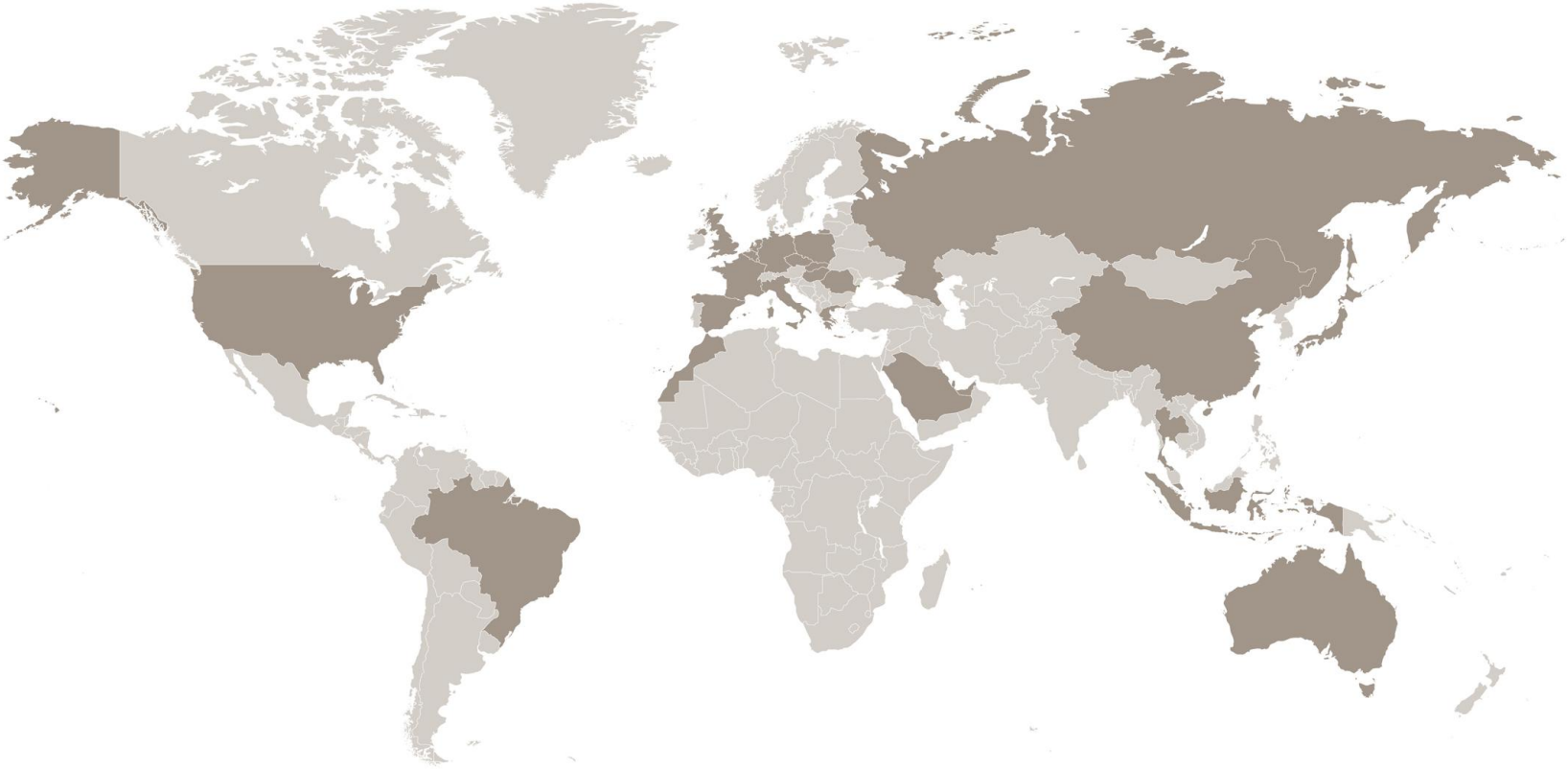
Our global presence



GLOBAL PRESENCE

AFRICA
Casablanca

AMERICAS
New York
São Paulo
Washington, D.C.

ASIA PACIFIC
Bangkok
Beijing
Hong Kong
Jakarta*
Perth
Shanghai
Singapore
Sydney
Tokyo

EUROPE
Amsterdam
Antwerp
Athens**
Belfast
Bratislava
Brussels
Bucharest*
Budapest
Düsseldorf
Frankfurt
Hamburg
London
Luxembourg
Madrid
Mannheim
Milan
Moscow
Munich
Paris
Prague
Rome
Warsaw

MIDDLE EAST
Abu Dhabi
Doha
Dubai
Riyadh*

* Associated offices
** Representative office

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Find out more…

– Annual presentation

– 25 October 2011

– 6pm

– Bristol Marriott Royal Hotel,
College Green

– Sign up online via the Careers Service

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The role of lawyers in the City

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Allen & Overy: practice areas

- Corporate
- Banking
- International capital markets

} Transactional

- Employment
- Pensions
- Tax
- Real estate

} Specialist

- Litigation

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Focus on corporate

- Transactional advice / strategic advice

- Buying and selling businesses (M&A)
- Raising money from shareholders
- Re-organisations / restructurings

- Advisers in M&A transactions:
  - Lawyers
  - Accountants
  - Tax specialist
  - Investment bank

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M&A deal anatomy: legal involvement

Structuring / key terms

↓

Due diligence

↓

Negotiate documents

↓

Completion

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Introduction to Private Equity

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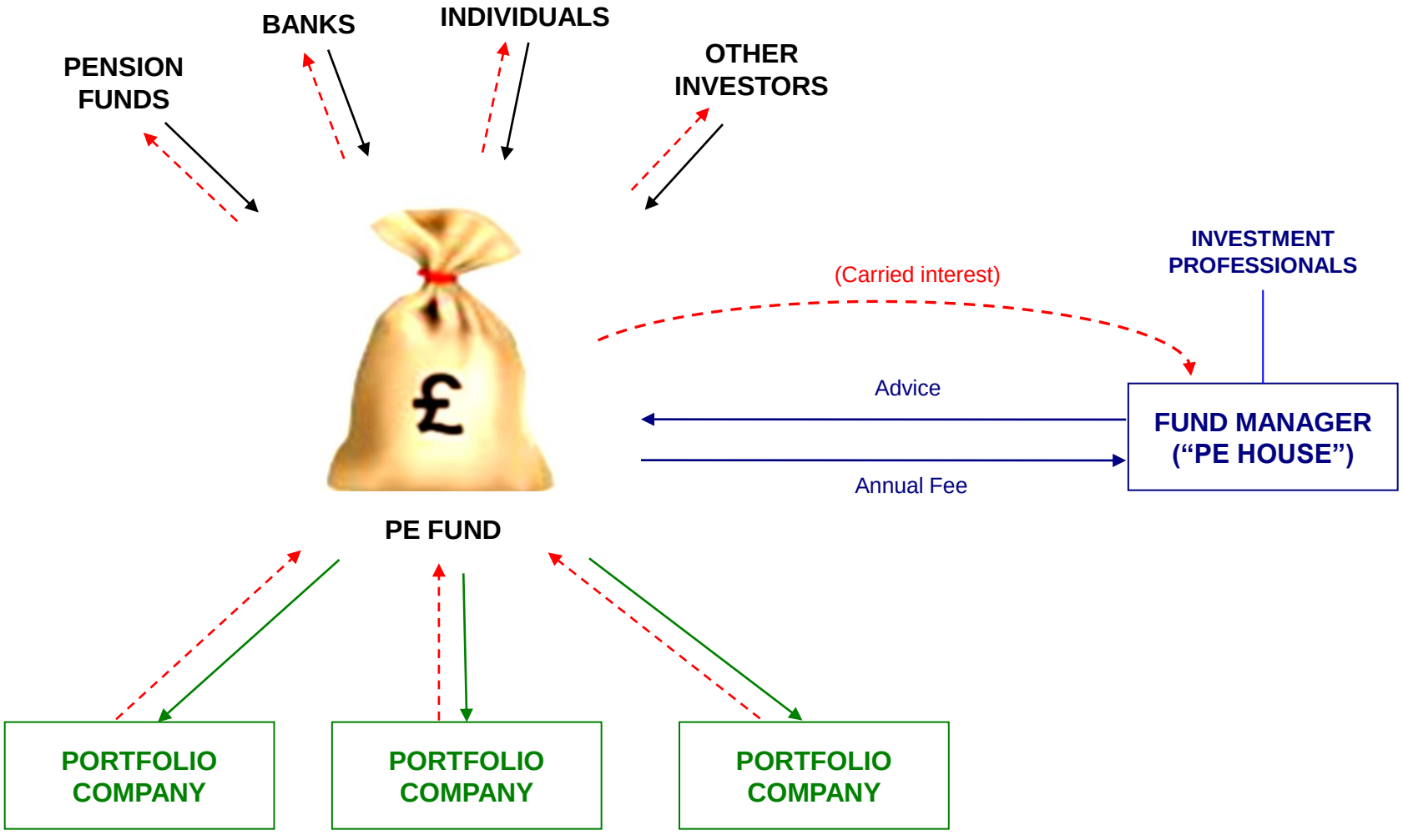
How a PE fund works



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Private equity vs. trade

Private equity

- Investment buyers
- Growth
- Limited operational knowledge
- Medium term exit (3-5 yrs)

Trade

- Strategic buyers
- Business synergies
- Operational expertise
- Long term strategy

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The jargon

– Private equity / PE

– Venture capital

– Leveraged buy-outs (LBOs)

– Management buy-outs (MBOs)

– Secondary buy-outs

– Hedge funds

– Public to private (P2P)

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Private equity: 3 key features

1. Bank finance ("leverage")
   - High proportion of bank finance in PE acquisitions
   - Maximises returns
   - Tax benefits

2. Management / incentivisation
   - Operational expertise
   - Align interest of management with PE investor

3. Exit
   - Critical to PE model
   - Required to return cash to investor

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Bank finance ("leverage")

– Increases buying power of PE investor

– Maximises return on equity investment

– Tax benefit (interest payments can be off-set against profits)

– *<u>However</u>*, greater leverage = greater risk ("cash is king")

– Greater risk = higher margins

– Difficult to obtain high leverage in current market

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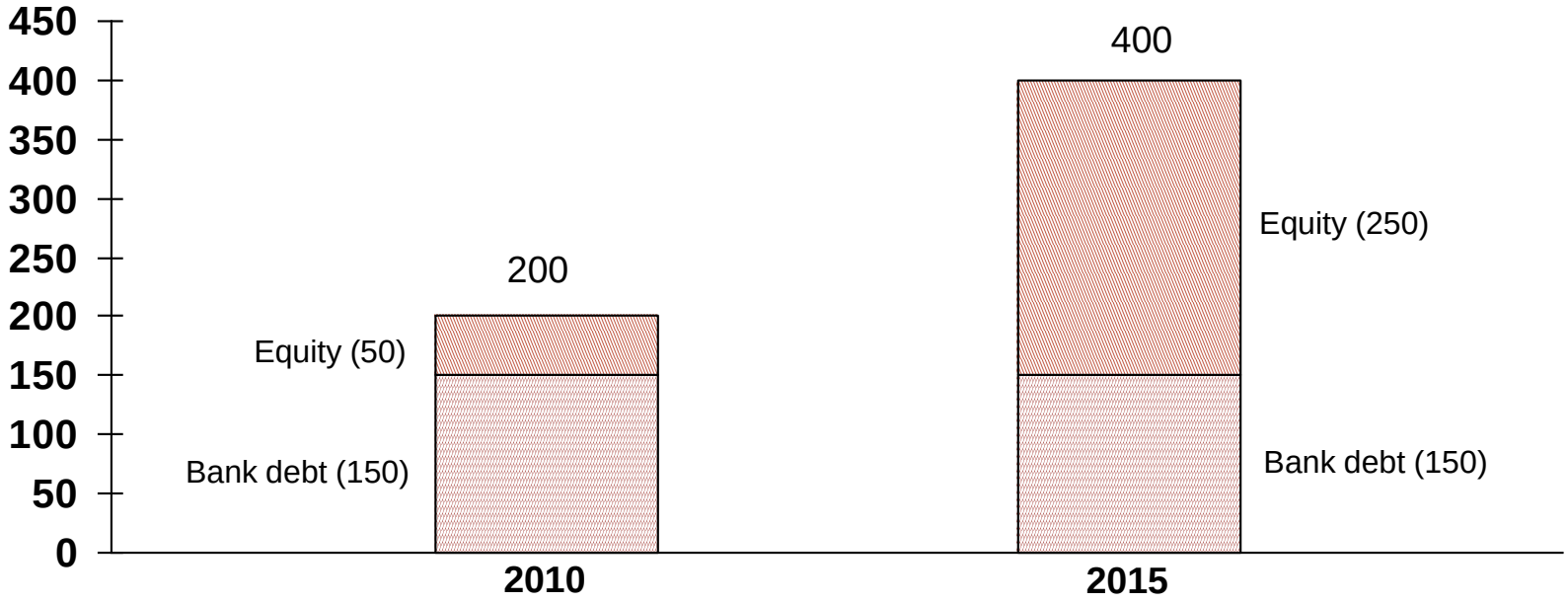
Effect of leverage (bank debt)



Without leverage: 2 x equity investment

With leverage: 5 x equity investment

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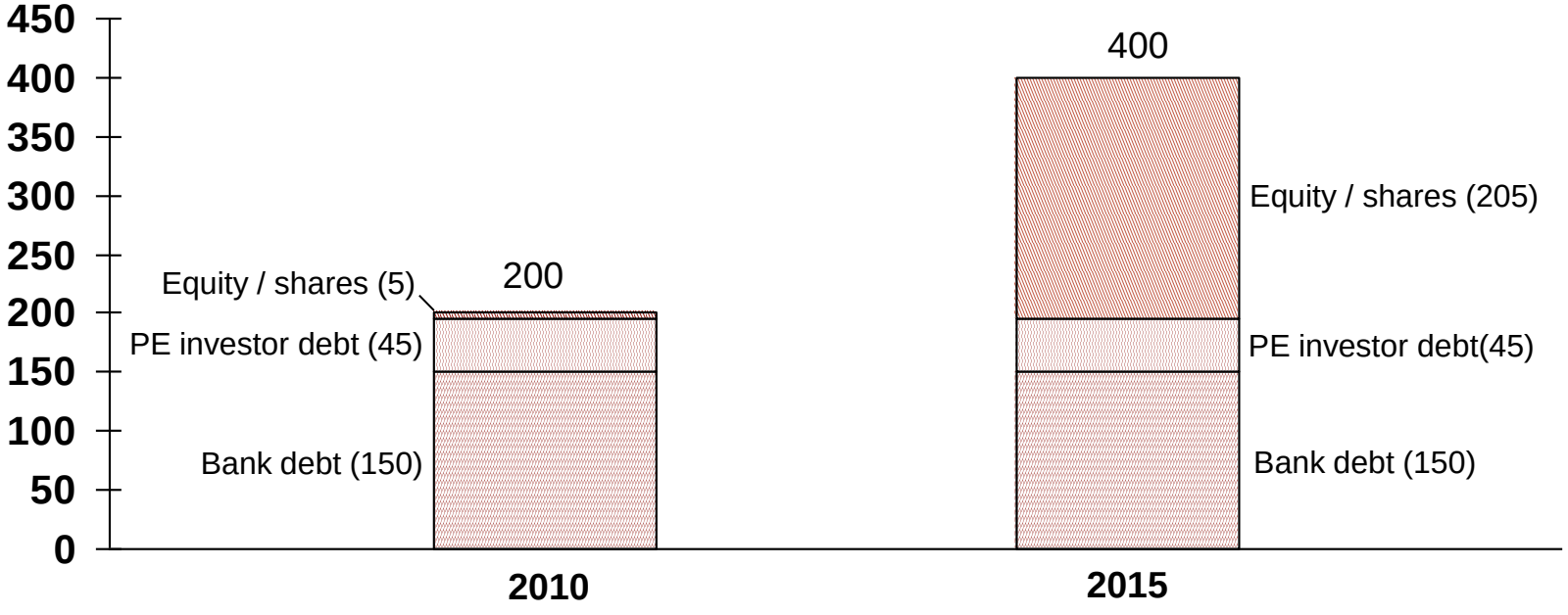
Effect of leverage (PE investor debt)



Without PE investor debt: 5 x ordinary equity investment

With PE investor debt: 41 x ordinary equity investment (!)

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Management incentivisation

– PE model needs operational expertise

– Huge variety of portfolio companies

– Management team is key

– Align management interests with PE investor

– Shares: tax efficient incentivisation

– Control therefore very important

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Exit

- Fund cycle: typically 10 years
- Investments: typically 3-5 years
- Importance of returning funds to investors
- Relevant for management rights (100% premium)
- Relevant for due diligence (e.g. contract expiry)

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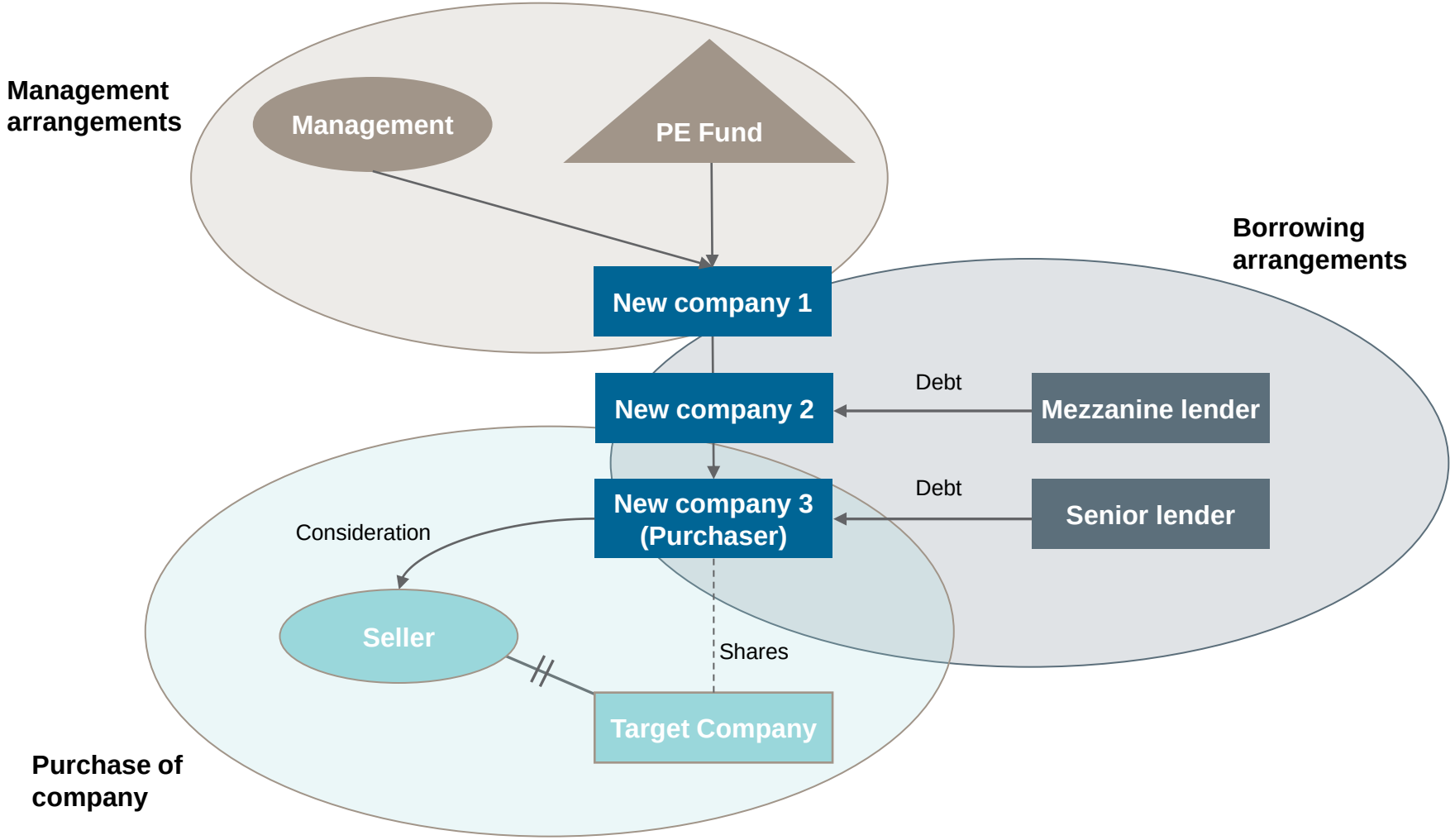
Key legal arrangements



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Market update

– PE funds with money to invest

– Limited availability of bank debt (Greece / Eurozone)

– When debt is available, much lower proportions

– Importance of liquidity (“cash is king”)

– Restructurings / lenders taking control

– Profitable opportunities

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Questions?

Reminder…

- **Annual presentation**
- **25 October 2011**
- **6pm**
- **Bristol Marriott Royal Hotel, College Green**
- **Sign up online via the Careers Service**

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