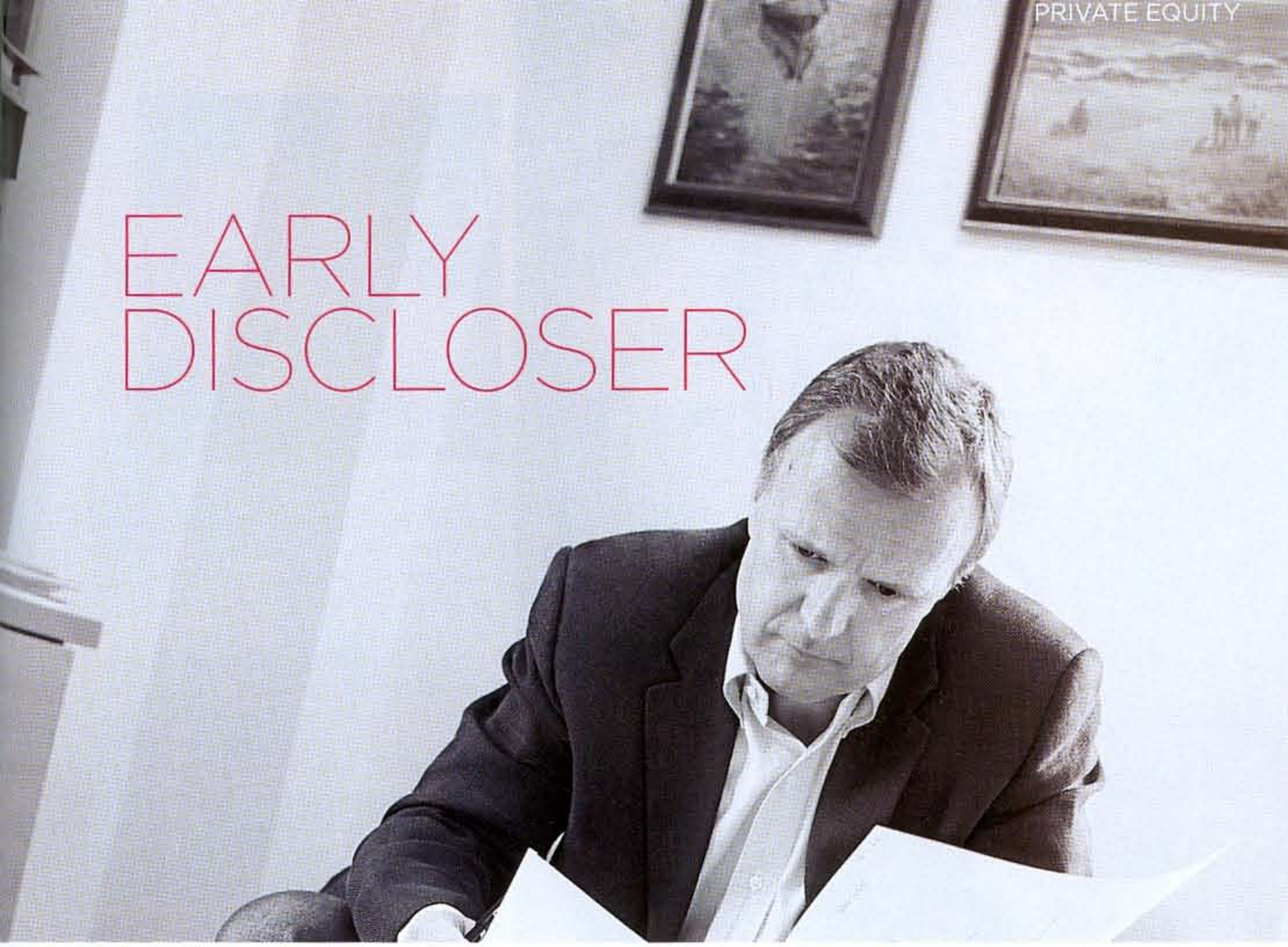


EARLY DISCLOSER

Permira partner Charles Sherwood wants to show how private equity companies add value

In the discreet world of private equity, Permira, with a mission to promote the sector and funds sufficient to buy billion-euro businesses, is unusually open about its business. By MAGGIE LEE

In an industry that is notoriously secretive, Permira is a private-equity firm that believes in engaging with a wider audience. "Secretive, for some, unfortunately translates to sinister," says Charles Sherwood, partner and member of Permira's operating committee. "It's important that we show how we add value and impact with the community as a whole."

His remarks are timely. For a sector experiencing spin-outs from conglomerates and at the smaller end of the market, family businesses going through succession and transition, investors have become more bullish about private-equity backed European buy-out opportunities.

According to Sherwood: "Private equity has increasingly become a routine part of the M&A fabric in Europe in the last five years." This assertion is backed by M&A intelligence service Mergermarket, which estimates that private-equity involvement in transactions has increased from 4% to 24% in five years and will probably exceed 30% this year.

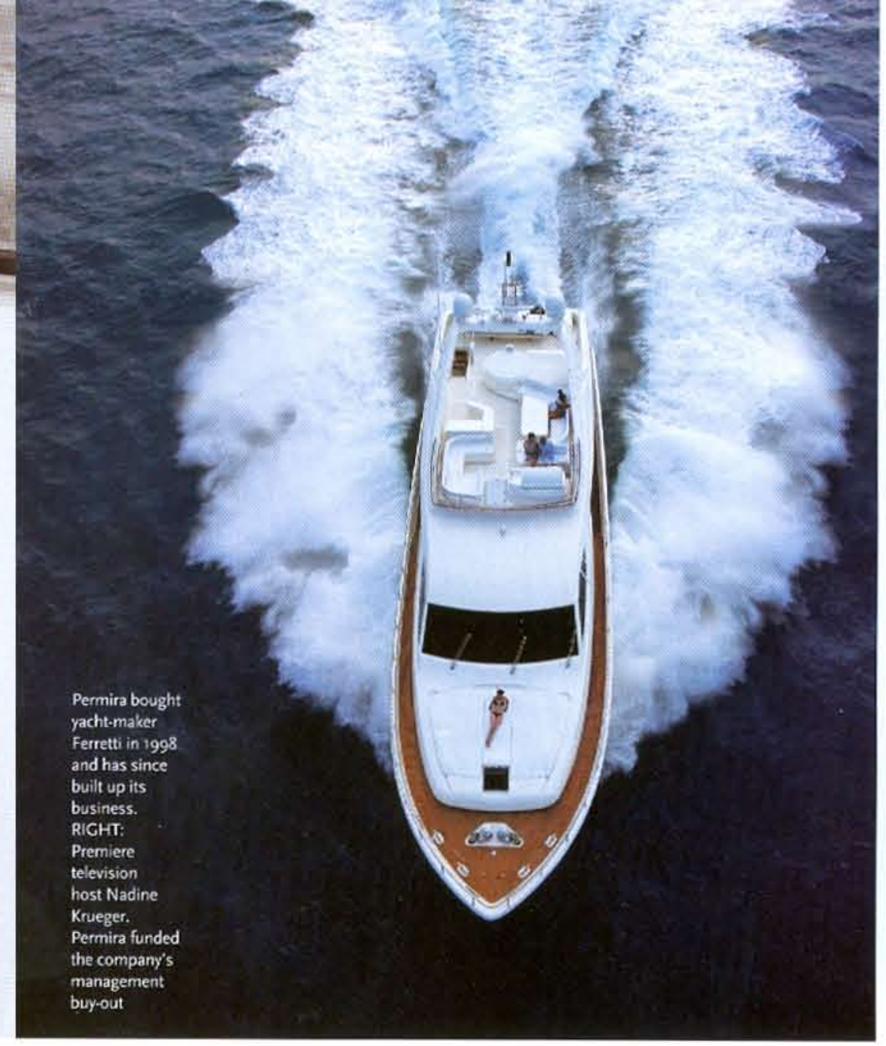
Sherwood speaks with authority. He joined what was then Schroder Ventures in 1985 and has, since 1997, raised four pan-European funds for Permira, the latest of which, currently the largest in Europe, will close with an approximate value of €11bn in September. The firm is one of 10 in the world that has raised funds in excess of €4bn, accounting for more than 60% of the private equity capital raised in Europe in 2005.

Positioned to invest from 1% (€110m) to 10% (€1,100m) of the new fund (it could legally underwrite up to 25%), the partnership operates at the top end of the market and has the capacity to acquire companies valued in excess of €3bn. Size brings with it a different competitive dynamic; it's estimated that only around a dozen firms are equipped to bid for deals on this scale.

"In 10 years we've seen an enormous growth in investor appetite for exposure to this type of asset class, especially from North American investors, which has contributed to both the size and regionalisation of funds. Deal opportunities started to open up when larger European companies, which tended to be cross-border in character, realised that a change in ownership could enable them to become more efficient and scale up in response to global competition," says Sherwood.

With offices in Frankfurt, Milan, Paris, London, Madrid and Stockholm, Permira sources and originates deals both by country and on a sector basis. Unlike some, in order to encourage the pooling of resources and expertise, the firm rewards its 28 partners and team of over 90 professionals on their contribution to the overall business. It's a culture that was created in the early 90s when a series of country funds managed by autonomous partners, under the umbrella of Schroder Ventures, came together to form Permira.

The roll-call of transactional successes across Europe is impressive. It includes the buy-out of DIY retailer Homebase from Sainsbury in the UK in 2001, with an exit through trade sale to GUS within 18 months; the funding of the management buy-out of Premiere, the leading pay television channel in Germany and Austria, which was floated on the Frankfurt Stock Exchange in 2005; and more recently the purchase of TDC, the Danish telecoms company in a consortium with Apax, Blackstone, KKR and Providence.



Permira bought yacht-maker Ferretti in 1998 and has since built up its business. RIGHT: Premiere television host Nadine Krueger. Permira funded the company's management buy-out

"We target companies going through radical change, where as an active owner we can change the business, not just the balance sheet," explains Thomas Krenz, fellow member of the operating committee and partner in Frankfurt. "We also see opportunities in distressed companies and complicated scenarios." This strategy seems to have paid off. Industry commentators estimate that investors' annual net returns (net of management fee and carried interest, that is partners' share of profit) from Permira's European funds are in the region of 33%.

> *"People mistakenly think we're making rapacious returns for Russian oligarchies. The reality is we're investing on behalf of pension funds"*

Krenz describes the German market as "fairly undeveloped in contrast to the UK" and attributes growth to three factors: a national recession that prompted shareholders to look at the cost of ownership and return on investment; a growing realisation that to compete internationally a change in ownership and management might be beneficial; and the liquidity of debt.

Gianluca Andena, co-head of the Italian office cites the acquisition of the Ferretti Group (manufacturers of luxury yachts) in 1998 as one of the firm's international buy-and-build successes. "We helped them expand internationally through seven acquisitions, then floated on the Italian stock market in 2000 and took the company private again in 2002," he explains. Active in Italy since 1988, the office covers Permira's favoured range of sectors: industrial products and services, retail and consumer services, media and technology.

As chairman of Permira's Spanish operation, Andena believes Permira's entry into the Spanish market three years ago was timely: "Six months on, the market boomed as larger deals started to emerge in the market, alongside public to private opportunities. Overall the market has similar characteristics with Italy. There are a lot of family-owned businesses and companies that can expand internationally with the help of private equity."

All three partners are acutely aware of the negative press the industry sometimes generates. Greater transparency about investors would help, adds Sherwood. "People mistakenly think we're making rapacious returns for Russian oligarchies. The reality is we're investing on behalf of huge pension funds, charities and foundations and government entities – the same institutions that invest in the public markets."

Historically, private equity has migrated from west to east. It's an industry trend that is accelerating as investors starting to view Asia and emerging markets as a source of buy-outs in the next 10 years. Looking ahead, Permira sees substantial opportunities emerging in Asia and opened an office in Tokyo last November.

"We think there will be a profound effect in Japan. We are seeing many of the characteristics that we saw in the German and Italian markets five to 10 years ago. Industries are fragmented and companies owned by diverse conglomerates creating an opportunity for corporate restructuring. The maths is attractive too, as debt is low."

Nonetheless, Sherwood concedes that perhaps the biggest challenge will be generating "a cultural acceptance that private equity is an effective catalyst for industrial regeneration." If Permira's track record in Europe bears fruit in the East, that shouldn't be a problem.