

# CAREERS IN PRIVATE EQUITY



Rohan Wolfers – Investment Analyst

# Background

## About Me

- Graduated in '05 with a B.Ec from Usyd. Major in Economics, Minor in Econometrics
- Started career in management consulting (2 Years)
- Shifted into Private Equity with Merrill Lynch Global Private Equity (1 Year)
- Moved to Navis Capital Partners (6 Months)
- Impeccable Timing!



Global Private Equity

- Global investment bank – now Bank of America
- Mega LBO fund. US\$500m per deal. Invested US\$6b
- Effective way to use ML balance sheet
- 2 of the largest 10 transactions of all time  
(HCA, US\$32.7bn and Hertz, US\$15.0bn)
- Rumored to be disbanding

## NAVIS

- Asia focused private equity vehicle
- Mid market fund. US\$100m per deal. Invested US\$2b
- Leader in Asian control buyouts – most deals in Asia
- Largest team in Asia
- Very low use of debt - Operationally focused
- Extremely strong returns



# What is Private Equity?

## Popular Definition

- “A bunch of Inexperienced thirtysomethings with inflated egos and overblown salaries scouring the globe buying businesses about which they know nothing, with borrowed money, at grossly inflated prices.” *Sydney Morning Herald*

## More Common Attributes & Value Creation

- An asset class defined by:
  - Buying entire companies – good businesses – in the business of doing deals and making them work
  - Borrowing large sums to buy the business and using minimal equity
  - Take the company private, away from public markets
  - Incentivise management teams
  - Commit to significant operational turnaround
  - Own the business for about 5 years – longer term focus than public markets
  - Focus on cashflow management – debt can focus
  - Due diligence

# Why Do Companies Invest in Private Equity?

## Reasons

- Private equity firms target returns of 25% p.a
- Potential for outsize returns. Leverage amplifies
- Diversification - returns are less linked to public markets
  - Unclear how effective this strategy is
- Less volatility
- Poor liquidity though
- Largely big institutions

## Example 1



- Provide analytical testing to resources companies
- Purchased by CHAMP for \$60m in '05. Funded with \$37m debt, \$23m equity
- Growth story driven by resources boom and acquisitions
- Sold in 2009 to Bureau Veritas SA for \$427m in 2008.  
Returned 10.5x money with an IRR of 169.2%

## Returns

STAGE June, 2008	1 yr (IRR p.a)	3 yr (IRR p.a)	5 yr (IRR p.a)
AUSTRALIA Private Equity	0.8%	8.1%	14.2%
AUSTRALIA Private Equity & Venture Capital	0.6%	7.3%	12.4%
S&P/ASX 300	-17.1%	7.1%	11.4%

## Example 2



- 400 discount variety stores (Go-Lo, Crazy Clark's etc)
- Purchased by Catalyst and CHAMP for \$200m in '06. Funded with \$96m debt, \$104m equity
- Profitable operating business – too much debt
- Went into receivership in '09. CHAMP and Catalyst likely to lose entire \$104m investment

Source: AVCAL, S&P Capital IQ, Press Reports

# How Significant is Private Equity?

## Private Equity Capital

- Approx 3% of large Australian companies are owned by PE
  - Closer to 10% in the US
- US\$2t of private equity funds under management globally
  - US\$400b is uninvested
- A\$22b of private equity managed locally
  - A\$6b is uninvested

## Private Equity Backed Companies

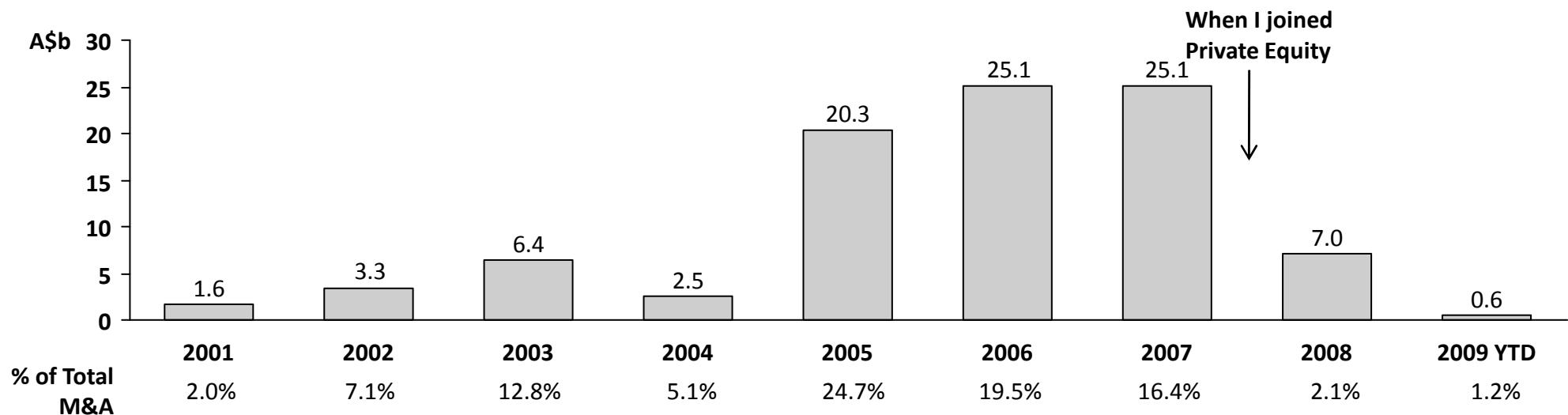
### Australia



### Global



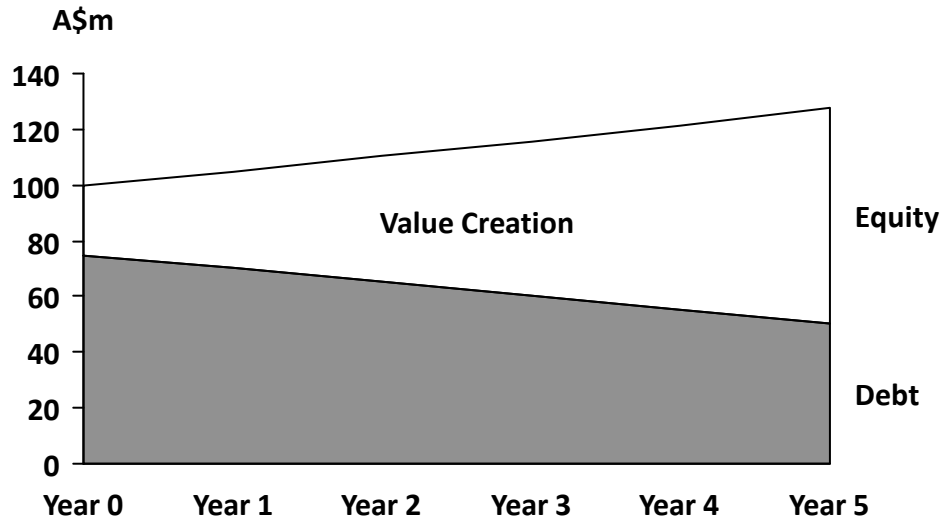
## Private Equity Acquisitions in Australia by Deal EV



Source: AVCAL, Mergermarket, Thomson Reuters

# Traditional Private Equity Model

## How Private Equity Works



## How

- Private equity firms can borrow more (cashflow lending, competitive Investment banks, no public market backlash)
- Only invest in influencable industries and businesses with predictable cashflows

## What Changed / What Went Wrong

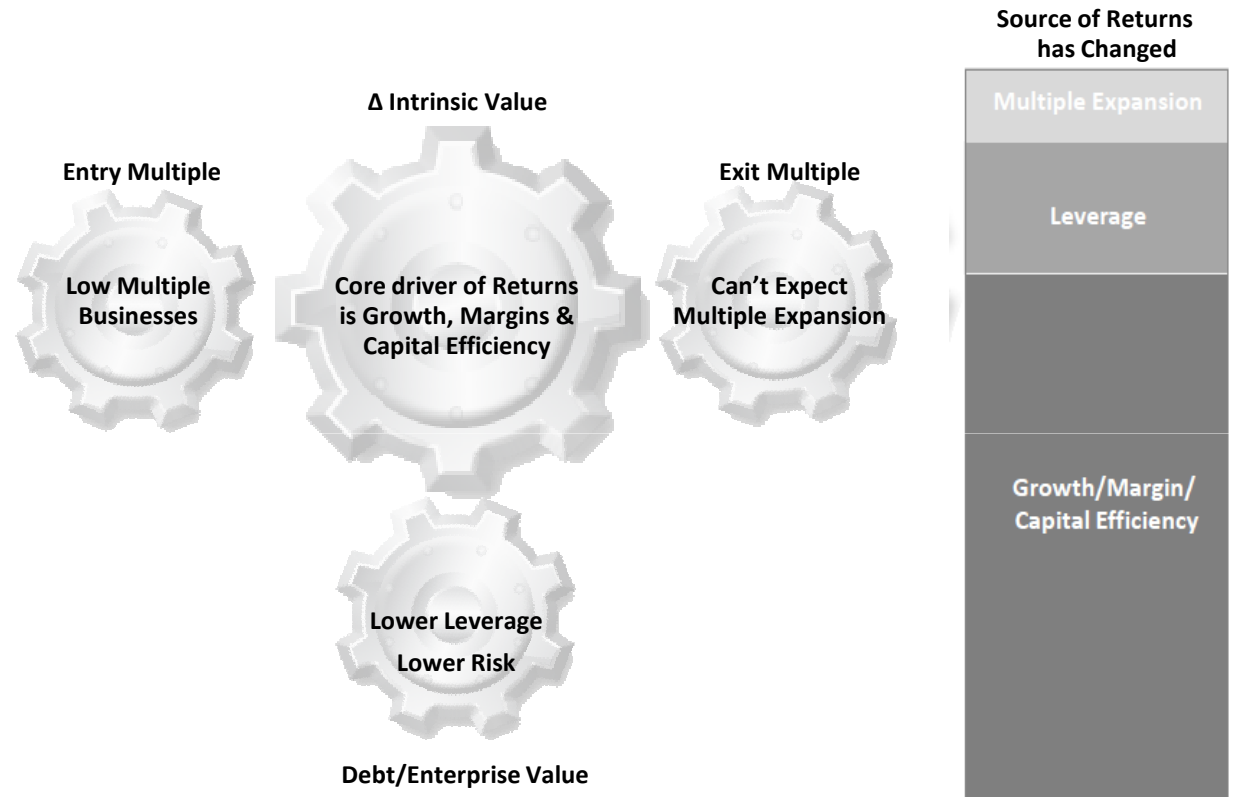
- Hardest time ever for private equity – many firms closing
- Traditional model is out of vogue and will probably remain so for the next few years
  - Too many private equity failures
  - Too few lenders for that amount of debt
  - Price expectations of boards
  - Denominator Effect
- Happened before in late 1980's. Will likely come back
- Highly leveraged deals in cyclical industries
- Too high price – too much debt
- Deal fever

# 'New' Private Equity Model

## New Private Equity Model

- Now most players are becoming mid market and using low leverage – unable to raise the debt so have to be!
- Strong focus on really managing the businesses funds have bought
  - Rise of dedicated portfolio teams
  - Debt distracts from growth
- Rise of specialized funds
- Doing what Navis has been doing for a decade!

## Application of New Private Equity Model



# Tasks & Responsibilities

## Tasks

TASK	PROPORTION OF TIME
DEAL ANALYSIS Building models & IC Decks	30%
ORINATION Searching for new deals	25%
PORTFOLIO MANAGEMENT Strategies & Monitoring for Portfolio	25%
PROJECT MANAGEMENT Keeping advisors in check	20%

## No Live Transactions – Monday to Friday

- 9AM – Arrive at work. Read news and respond to emails
- 10AM – Meet with investment banker / CEO to hear pitch
- 11AM – Write overview of business & build short model
- 3PM – Speak with management at portfolio company
- 5PM – Begin drafting short deck for IC
- 8PM – Go Home

## Responsibilities

- Build accurate and error free financial models – any errors are your responsibility!
- Understand businesses & industries, then make slides for investment committee (back to basics)
- Help arrange debt and work of advisors / legal
- 1 deal per year

## Live Transactions – Monday to Sunday

- 8AM – Arrive at work. Read news and respond to emails
- 9AM – Build detailed financial model
- 5PM – Conference call with advisor
- 6PM – Read industry report from advisor
- 8PM – Work on long deck for investment committee
- 2AM – Go home

# Why Work in Private Equity?

## Benefits

- Interesting work – variety
- Smart people to work with
- Involvement at most senior levels – boards, CEOs, senior investment bankers
- Reasonable working hours (some firms)
- Advisors share the workload
- Opportunities for travel and working internationally
- High level of accountability
- Good comp package – carried interest
  - 20% of capital gain (can be millions)
  - Often non-existent at lower levels

## Disadvantages

- Bad press
  - “Barbarians at the Gate”
  - “Erstwhile masters of the universe”
- Poor job security in the present market
  - Received offers from 4 firms 1 ½ years ago. 3 no longer exist
- Can be held accountable for outside forces
- Comp depends on many factors (firm policy, fund performance)
- Infrequent gratification – most deals you attempt or work on do not come to fruition

# Overall Impressions

## Private Equity

- PE work is really interesting – plenty of variety
- Nice to be calling the shots with advisors working for you
- Really keen to stay in the industry and progress
- Working at smaller funds is much more interesting – there is more you can do with smaller companies
- Bear markets are less fun
- Current image of PE people means you're not well liked

## Investment Banks

- Most of what you hear is true
- Working hours are bad
- Comp is great
- People are really nice and genuine – very few Gordon Gecko types
- Resources and facilities are amazing
- Foreign training is great learning and plenty of fun
- Culture can be challenging at the moment – plenty of fear over redundancies
- Life improves at the senior levels – working hours become much more reasonable
- Can be very hierarchical, but also a good place to learn

# How to Break in to Private Equity

## How to get Into Private Equity

- Extremely tough at this moment – should improve
- Very small industry (~ 300 people in Australia)
- Typically require 2 to 3 years work experience to join as an Analyst or 3 to 5 years as an Associate. US MBA preferred but not necessary
- Mostly former top investment bankers and strategy consultants
- Most jobs not advertised - recruitment agencies are key
- Interviews include case questions and investment views

## Private Equity Funds in Australia



Australia



Regional & Global

## Required Skills

- Solid understanding of industries, business models & structuring
- Extremely numerate - financial modelling
- Strong social / sales skills
- Good working in small teams (most funds ~ 6 people)
- Project management
- Dedicated / precise
- Entrepreneurial - good business sense

## Useful Contacts

- Australian Venture Capital Association Limited (AVCAL)
- eFinancialCareers
- Specialised Recruiters
- Platinum Pacific Partners
- Derwent Executive
- Jon Michel Executive Search