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**Best bets in private equity fly under radar**





# Best bets in private equity fly under radar

*Study looks at companies that return the most bang for the buck and finds few brand names*

BY JAMES MAWSON

If an investor had just $1 to give to a private-equity firm to invest, he probably would be better off looking outside many of the industry's brand names, according to the results of a long-running academic study into the industry's performance.

The analysis by Oliver Gottschalg, associate professor of strategy and business policy at the HEC School of Management in Paris, takes the average annual performance rates of each firm and then uses that to calculate how much the firm would have returned from 1996 to 2005. Putting $1 to work in a top 10 private-equity firm would have delivered $2.25 to investors, compared with $1.59 for the average firm.

The top 10 list is dominated by firms that garner few headlines. **CVC Capital Partners**, a global buyout firm based in the U.S. that raised more than $18 billion in the decade under analysis, is the largest alternative-asset manager in the top 10. The top-ranked fund was **Leonard Green & Partners** LP, of California.

The methodology meant that the largest funds were judged on the same terms as smaller peers that may have focused on a niche in order to provide consistency and build on the skills within a certain sector or geography they might lose by expanding.

The HEC-Gottschalg method also provides a weighting to account for the age of a fund, but cuts out funds younger than four years, which is why the period researched ran from 1996 to 2005, a period excluding the recent bear market.

"We did not consider the size of fund, i.e. the absolute amount raised and returned, but the profits made on each dollar invested," said Mr. Gottschalg, who created the methodology to analyze the industry for a project sponsored by Robert Ryan from advisory firm **Peracs Due Diligence Services**. "This explains why the megafranchises do not show up as the dollar amounts they have created is impressive but for some it might also be because they could not provide enough data to analyze them sufficiently."

"Between 1996 and 2005, there was a good economy overall but everyone else had that, too, and so the difference between Linsalata and others is our operating experience allowed us to mitigate our losses and act fast," said Eric Bacon and Stephen Perry, the two senior managing directors at Ohio's **Linsalata Capital Partners**,which was ranked sixth

Dominique Senequier, executive chairman of **AXA** SA's AXA Private Equity, said, "We have performed well over the long term by the quality of our company management selection in the beginning, which comes through focusing on sectors we know well, and the capability of the AXA Private Equity team to follow and support the company through different steps, including cash management, build-up acquisitions and restructuring to downsize and helping them with a global strategy."

**Charterhouse Capital Partners** and **Brockway Moran & Partners** declined to comment, while Leonard Green didn't respond to requests for comment.

"Private equity is not perfect but if implemented correctly can be a very effective form of ownership and governance," said Michael Smith, chairman of CVC.

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**Private equity** | Top 10 buyout firms

| Rank | Firm | Overall score* | Location |
|---|---|---|---|
| 1 | Leonard Green & Partners | 2.89 | U.S. |
| 2 | Nordic Capital | 2.21 | Sweden |
| 3 | Astorg Partners | 2.10 | France |
| 4 | Gilde Buy Out Partners | 2.07 | U.K. |
| 5 | Charterhouse Capital Partners | 1.73 | Netherlands |
| 6 | Linsalata Capital Partners | 1.48 | U.S. |
| 7 | Berkshire Partners | 1.43 | U.S. |
| 8 | CVC Capital Partners | 1.31 | U.K. |
| 9 | AXA Private Equity | 0.87 | France |
| 10 | Brockway Moran & Partners | 0.79 | U.S. |

Note: The outperformance between 1996 and 2005 expressed as a standard deviation from the average firm's return.
Source: PERACS CN