



## **PSERS PRIVATE INVESTMENT PROGRAM**

### **Recommendation for Investment in PAI Europe V, L.P.**

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# PAI Europe V, L.P.

## EXECUTIVE SUMMARY

PAI is one of the oldest and longest-established private equity firms, and the only truly pan-European firm headquartered in Continental Europe. The Firm's history dates back to the principal investment activity of Paribas, which began in 1872 and has become one of the largest private equity investors in Europe. PAI is forming PAI Europe V, L.P. (the "Partnership" and collectively with its related investment entities, the "Fund") to continue to execute the Firm's proven and highly successful buyout investment strategy. PAI is seeking commitments of €5 billion for the Fund to target market-leading companies in Europe with enterprise values that will likely range from €500 million to several billion.

The Fund represents a compelling opportunity for the following reasons:

**PAI has consistently delivered superior returns.** Since 1994, PAI has made 38 buyout investments with an aggregate enterprise value of €27 billion, requiring total equity of €9 billion (including PAI and co-investors). Of these, 23 have been fully realized, generating a 3.1x multiple of cost and a 36.1% gross IRR. PAI Europe III, a 2001 vintage fund, and the last PAI fund to close its commitment period, has generated a 3.5x realized multiple of cost and a 49.1% gross IRR. This superior investment performance is further demonstrated by the following attractive characteristics:

- Strong outperformance of top quartile benchmarks. The net IRR of each of PAI's institutionally funded partnerships strongly outperforms the respective top quartile benchmarks by an average of 11 percentage points, representing a minimum outperformance of 85%;
- Consistent achievement of strong returns. Of the Firm's 23 realized buyout investments, 40% have generated a multiple of cost over 3x and 54% have generated a multiple of cost between 2x and 3x, with 94% therefore having generated a multiple of cost in excess of 2x;
- Very low risk profile. Of the Firm's 23 realized buyout investments, only one small investment representing less than 1% of total invested capital generated a loss.

PAI's strong Continental European roots place it in a unique position to capitalize on the compelling market opportunity for buyouts in Europe. The Firm has offices in Paris, London, Madrid, Milan and Munich. With 46 of its 49 professionals based on the Continent, PAI has one of the largest buyout teams operating from Continental Europe. The European buyout market has grown at a compound annual growth rate of 20% from 1999 to 2006. Continental Europe has been the major driver of European buyout activity over this period, growing at 31% versus only 6% for the UK and Ireland. In 2006, Continental European buyout activity accounted for more than 70% of overall European activity, up from 39% in 1999. The European buyout market is likely to continue to grow rapidly since i) many markets within Continental Europe still remain far less mature than the UK or US markets, ii) increased pressure for shareholder value notably in Continental Europe has led to a growing number of buyouts of divisions of listed companies as well as an increasing number of public-to-private transactions, and iii) generational transition issues are expected to provide an additional flow of opportunities to acquire family-owned firms. PAI benefits from a highly experienced and stable team. PAI's investment team is led by 18 Partners who have worked together at the Firm for an average of 13 years. The PAI team brings together investment professionals from eight European countries with diverse backgrounds (including industry, consulting, investment banking and accounting).

PAI's Partners have demonstrated their ability to consistently deliver strong investment performance across multiple economic and financial market cycles.

PAI has a unique sector approach, which constitutes a key-differentiating factor. PAI has always been organized as a sector based firm, which differentiates it from many competitors. PAI has organized its investment team around three sector groups: the Services Group, the Capital Goods Group and the Consumer Goods Group. PAI's professionals have an intimate knowledge of the sectors they follow. They have developed extensive relationship networks within their focus sectors. Over its long history of successful investments, PAI has developed a strong reputation within each of its target sectors as a value-added firm, able to create strong and robust companies. PAI's sector organization provides a competitive advantage throughout each phase of the investment process.

PAI combines a sector-based organization with strong local networks. PAI leverages the powerful combination of a sector based organization and a local presence to source high quality deal flow within its sectors on a pan-European basis. PAI's European Offices are headed by professionals who are nationals of the countries they cover, with sizeable local networks and knowledge. PAI's capability to merge extensive sector expertise with an in-depth knowledge and understanding of the local environment yields a significant competitive advantage to the Firm. PAI creates strategic value through an industrial approach. PAI's investment case is focused on acquiring market-leading businesses in Europe within its focus sectors (Services, Capital Goods and Consumer Goods) and fundamentally improving them by enhancing their strategic value through an industrial approach that leads to sustainable and profitable top-line growth and operational improvements. The Firm's sector and industrial expertise is applied to pre-investment analysis and post-investment management of portfolio companies, enabling PAI to rapidly identify and implement a value creation strategy designed to:

- Focus the portfolio company on its core activities and related products;
- Improve cash flows through cost savings and operational improvements; and
- Reinvest cash savings into top line growth (these systematic reinvestments being a key differentiating factor of PAI's value creation strategy).

PAI works systematically with portfolio company management to develop and implement detailed, tailor-made value creation blueprints. The Firm's strategy results in companies that are well positioned at the time of PAI's exit to deliver strong and sustainable performance for their subsequent owners, which translates into higher valuations at exit.

PAI's superior returns are driven primarily by earnings growth and strategic value creation. PAI's initiatives to enhance the strategic value of portfolio companies result in improved and sustainable financial performance that drives strong returns. PAI's realized buyout investments have created aggregate equity value of €8.7 billion, with 74% of value primarily attributable to i) earnings growth driven by both sales growth and margin expansion, due to operational and strategic initiatives implemented by PAI and ii) debt reduction, notably through working capital improvements, EBITDA growth and the disposal of non-core assets.

## **INVESTMENT STRATEGY**

PAI Europe V will continue to execute the Firm's proven and highly successful strategy. PAI targets market-leading companies within the Services, Capital Goods and Consumer Goods sectors. The Fund will focus on companies with an enterprise value that will likely

range from €500 million to several billion. PAI fundamentally improves each of its portfolio companies by enhancing its strategic value through an industrial approach to delivering profitable growth.

### **PAI Targets Medium to Large Buyouts on a Pan-European Basis**

PAI's sector expertise and focused investment strategy provide a strong competitive advantage regardless of the size or location of a potential investment. PAI Europe IV's portfolio companies had initial enterprise values ranging from approximately €600 million to €2.5 billion with an average of approximately €1.4 billion and are headquartered in six European countries. PAI's strong Continental European roots uniquely position the Firm to capitalize on the compelling market opportunity for buyouts in Europe in general and Continental Europe in particular. The European buyout market has grown from €43 billion in 1999 to €152 billion in 2006, a compound annual growth rate of 20%. Continental Europe has been the major driver of European buyout activity over the past seven years, growing at a compound annual growth rate of 31% versus only 6% for the UK and Ireland. In 2006, Continental European buyout activity accounted for 74% of overall European activity, up from 39% in 1999.

Larger buyouts are fuelling the growth of the European buyout market. The value of buyouts with an enterprise value in excess of €1 billion has grown at a compound annual rate of 32% from 1999 to 2006. The growth in value of larger buyouts in Continental Europe is much more pronounced with a rate of 66% (versus only 7% in the UK and Ireland) over this period. The European buyout market is likely to continue to grow rapidly as a result of a number of important trends. First, despite strong recent growth, many markets within Continental Europe remain far less mature than the UK or US markets. Second, increased pressure for shareholder value notably in Continental Europe has led to a growing number of buyouts of divisions of listed companies as well as an increasing number of public-to-private transactions. Finally, generational transition issues should also provide an additional flow of opportunities to acquire family-owned firms.

### **PAI Invests in Sectors Where it has Acquired an In-Depth Understanding**

PAI Europe V will continue the Firm's successful strategy of acquiring businesses operating within PAI's focus sectors:

#### **Services, Capital Goods and Consumer Goods**

**Services.** PAI has built strong expertise in a variety of services related sectors, including the retail sector and the professional distribution industry. The Services Group focuses its investment activity on the Retail & Distribution, Building Materials & Utilities, Business Services, Media and IT & Telecommunications industries.

**Capital Goods.** Over the last few decades, PAI has been a significant investor in leading European industrial companies. The Capital Goods Group focuses on the Packaging, Automotive & Aerospace and General Industrials (notably equipment and advanced materials) industries.

**Consumer Goods.** The Firm has an outstanding track record in the consumer sector. PAI is one of the most active investors in the sector and has contributed to the growth of some of Europe's leading brands. The Consumer Goods Group focuses its investment activity on the Food & Consumer industry and in selected related Pharmaceuticals & Healthcare and Specialty Chemicals industries.

PAI's sector expertise provides a significant competitive advantage at every stage of the investment process. Notably, PAI's prominent network (including key managers, major

industrial groups and family companies) and industry knowledge, accumulated over decades by the Firm and its Partners in each of their sectors, uniquely position the Firm to capture strong deal flow and attractive potential investments.

**Early Access to the Target or Vendor.** PAI often becomes aware of opportunities in advance of other potential buyers. While most potential acquisitions do eventually become subject to a sale process, PAI's sector approach often enables the Firm to identify and analyze opportunities and to develop a dialogue with vendors and management teams long before a sale process is commenced.

**Ability to Tackle Complex Situations.** PAI's sector approach provides the Firm with a significant competitive advantage in closing transactions in a broad variety of complex situations, from spin-offs to family capital restructurings. Over time, PAI has developed an extensive track record of solving complex carve-out issues including the establishment of innovative and tailor-made transition, sales, supply and/or manufacturing agreements.

**Rapid Execution.** PAI's sector expertise allows the Firm's professionals to identify and focus on critical issues with the help of specialized and relevant consultant expertise. In today's highly competitive environment, speed and certainty of execution are important competitive weapons, which PAI has leveraged in a number of situations.

**Meaningful Dialogue with Management Teams.** PAI's senior investment professionals speak the language of their focus industry, i.e. they have the knowledge and insights required to communicate with management teams about their businesses at a level of operational and strategic detail that sets them apart from many competitors. PAI has developed a reputation with management teams of being a supportive, yet challenging, value-added partner.

**"Outside-In" Approach.** PAI's sector professionals develop their own business plans for potential portfolio companies, undertaking an independent appraisal of the company's sector, strategy, operations and management team. This leads to the identification of a company's intrinsic value, more accurate pricing and a clear view of the post-investment initiatives necessary to achieve a company's full potential. PAI combines its sector based organization with a strong local presence in Paris, London, Madrid, Milan and Munich to source high quality deal flow within its focus sectors on a pan-European basis. PAI's European Offices are headed by professionals who are nationals of the countries they cover, with sizeable local networks and knowledge. These professionals play a strong role in the origination of investment opportunities within their respective regions. PAI's local professionals support and advise the Sector Teams during discussions with management and negotiations with the vendors, in the overall execution of the transactions and in subsequent portfolio monitoring. Through their in-depth knowledge of local cultures and business dynamics, PAI's European Offices provide the Firm with an edge that allows PAI to tackle complex situations.

**PAI Targets Market Leaders with Strong Growth Prospects and Superior Downside Protection.** PAI targets market-leading companies that are typically #1 or #2 in their sectors or geographies. Such companies generally possess a number of extremely attractive characteristics including:

- Higher margins;
- Superior pricing power;
- Ability to attract the highest quality management teams; and
- Potential to be consolidators in their sectors.

These characteristics of market leaders enable them to offer the potential for higher growth, profitability and premium valuations on exit. Moreover, market leaders are often far more resistant to recessionary pressures (thus mitigating risk) and therefore provide superior downside protection through economic and financial market cycles.

**PAI Creates Strategic Value Through an Industrial Approach.** PAI's investment case is focused on fundamentally improving each portfolio company by enhancing its strategic value through an industrial approach to delivering profitable growth. PAI actively works alongside management to develop portfolio companies, increase their market leadership positions and create strategic value. Historically, such improvements have been evidenced by EBITDA growth and margin expansion. PAI's realized buyout investments have created aggregate equity value of €8.7 billion, attributable mainly to operational improvements: EBITDA growth contributed 59% of the value created, driven by both sales growth and margin expansion. It is important to point out that this percentage has not been adjusted for reductions in revenues following disposals of non-core assets. Taking these adjustments into account, the portion of value creation attributable to EBITDA growth would have been significantly higher; and debt reduction net of reinvestments into the business resulted in 15% of the value created, driven by working capital improvements, EBITDA growth and the disposal of non-core assets. In addition, an increase in entry/exit EBITDA multiples from 7.0x to 8.6x on average contributed 26% of the value created. Such expansion, observed consistently over a 13-year period, has been driven by improvements in portfolio companies' ratings upon sale mainly due to operational and strategic initiatives implemented by PAI. PAI's sector expertise and industrial approach, applied to pre-investment analysis and post-investment management of portfolio companies, enable the Firm's professionals to rapidly identify and implement a value creation strategy designed to: Focus the portfolio company on its core activities and related products; Improve cash flows through cost savings and operational improvements; and Reinvest cash savings into top line growth (these systematic reinvestments being a key differentiating factor of PAI's value creation strategy). PAI's Portfolio Performance Group works with the Sector Groups and with portfolio company management on the development and implementation of detailed tailor-made value creation blueprints. These blueprints specify the relevant objectives, the appropriate level of internal and external resources, the milestones and the key performance indicators.

## **MANAGEMENT TEAM**

**Amaury de Seze** (61)– Chairman of the Supervisory Board. Amaury de Seze started his professional career with Bull General Electric. Between 1978 and 1993, he worked in the Volvo Group holding various positions, including: Executive Vice-President, President & CEO of Volvo France, Senior Vice President of AB Volvo, President of Volvo European Corporate Office and one of the four members of the Group Executive Committee of AB Volvo. In 1993, Amaury joined Paribas as member of the Management Board of Banque Paribas and Compagnie Financière de Paribas and Head of PAI. He was Chairman & CEO and Chairman of the Management Committee of PAI until 2006. Amaury is also a director of various companies including Carrefour, Eiffage, Groupe Bruxelles Lambert, Groupe Industriel Marcel Dassault, Power Corporation of Canada and Publicis. Amaury is a graduate of Centre de Perfectionnement dans l'Administration des Affaires (CPA) and of the Stanford Graduate School of Business with a S.E.P Degree.

**Dominique Megret** (60) – Chief Executive Officer. Dominique Mégret first joined PAI in 1974 and, from 1974 to 1978, focused on investments in the Pharmaceuticals & Chemicals sector. From 1978 to 1991, Dominique worked at Banque Paribas as Head of

Financial Planning and in the International Department as Head of Northern Europe. Dominique returned to PAI in 1991 as a Senior Partner and was responsible for PAI's investments in the Food & Beverage and Media & Communication sectors. Dominique was appointed Deputy Head of PAI's in 1999 and Chief Executive Officer and Chairman of the Management Committee in 2006. Prior to this, Dominique spent two years with Andersen Consulting. Dominique graduated from Ecole des Hautes Etudes Commerciales (HEC 1970).

**Bertrand Meunier** (51)– Senior Partner – Head of the Sector Teams. Bertrand Meunier joined PAI in 1982. From 1985 to 1996, Bertrand led investments in the Information Technology and Telecommunications sector. From 1996 to 2001, he was responsible for investments in the Food & Beverage sector. From 2001 to 2005, he was Head of the Consumer Goods and Services Group (subsequently subdivided into two groups); he was then Head of the General Industrials Group (now the Capital Goods Group) until October 2006, when he was appointed Head of PAI's Sector Teams. Bertrand has been involved in a large number of transactions including Atos, Equant, Bouygues Telecom, Panzani, Amora Maille, William Saurin, United Biscuits, Yoplait, Elis, Provimi, Saeco, Vivarte, Saur, Coin, Chr. Hansen, Perstorp, Spie and Lafarge Roofing. Prior to this, Bertrand spent two years in the Internal Consulting Department of Banque Paribas. Bertrand graduated from Ecole Polytechnique (X 1977) and holds a Masters Degree in Mathematics.

**Michel Paris** (49)– Senior Partner – Head of the Services Group. Michel Paris joined PAI in 1984 and has 23 years of investment experience with PAI. From 1984 to 1997, he focused on investments in the Information Technology and Telecommunications sector. From 1997 to 2005, he has been responsible for transactions in the distribution and services sectors; he is now Head of the Services Group. Michel has been involved in a large number of transactions including Sogeres, Bouygues Telecom, Atos, Equant, Elixir, Frans Bonhomme, Elis, Vivarte, Saur, Coin, Kwik-Fit, Cortefiel and Lafarge Roofing. Prior to this, Michel spent two years with Valeo. Michel graduated from Ecole Centrale Lyon (EC Lyon 1980) and Ecole Supérieure de Commerce de Reims (1982).

**Hamish Mackenzie** (45)– Partner – United Kingdom. Hamish Mackenzie joined PAI in 2003 and has, since then, managed PAI's office in the UK. Hamish has worked in the private equity industry since 1990, initially with the Royal Bank of Scotland Group plc (at its subsidiaries Charterhouse and Royal Bank Development Capital, where he was a Director) and thereafter with Candover (where he was a Director for six years). Hamish has been involved in fourteen private equity transactions since 1990, including the Kwik-Fit and United Biscuits transactions. Hamish originally qualified as a solicitor in Scotland, after graduating in law from Aberdeen University.

**Mirko Meyer-Schönherr** (47)– Partner – Germany. Mirko Meyer-Schönherr joined PAI in 2007 and has, since then, managed PAI's office in Germany. Mirko started his professional career with McKinsey & Co. in Munich where he spent nine years and was a Partner in the Retail & Consumer sector. In 1997, he joined Karstadt Quelle AG (the largest non-food retailer in Europe) where he spent four years as an Executive Vice President and a member of the Management Board with various operating and management responsibilities. In 2001, he joined Apax Partners in Munich where he was a Partner and Head of the Retail & Consumer sector in Europe. Mirko holds a Kaufmann diploma, a MBA from Colgate Darden / University of Virginia and a Dr. rer.pol Degree from the University of Frankfurt.

**Lise Nobre** (42)– Partner – Head of the Capital Goods Group. Lise Nobre joined PAI in 1986 and has participated in a number of investments in the plastics industry and packaging sector. From 1996 to 2000, she worked for the Finance Department and since 2000, has been responsible for investments in the mechanical engineering, automotive equipment and packaging sectors. She is now Head of the Capital Goods Group. Lise has been involved in a number of transactions including Mivisa, FTE and Global Closure Systems. Lise graduated from Ecole des Hautes Etudes Commerciales (HEC 1986).

**Ziad Sarkis** (39)– Partner – Head of the Portfolio Performance Group. Ziad Joseph Sarkis joined PAI in 2001. He is the Head of the Portfolio Performance Group, responsible for the optimisation of business performance in PAI's portfolio companies in conjunction with the sector groups. Ziad has been involved in a number of transactions and Portfolio companies, including Yoplait, Provimi, Spie and Lafarge Roofing. Ziad started his professional career with McKinsey & Co. in San Francisco, New York and Paris. He left McKinsey in 1992 to co-found the Mitchell Madison Group consultancy where he was, until selling the firm in 1999, a Director, Member of the Global Executive Committee and Co-Head of the European Management Committee. Ziad graduated from Oxford University with a Ph.D. in Economics and from Stanford University with a Masters Degree in Engineering & Management as well as Bachelors Degrees in Anthropology, Economics and Mathematics.

**Frederic Stevenin** (41)– Partner – Head of the Consumer Goods Group. Frédéric Stévenin first joined PAI in 1993 and spent five years in the Food & Beverage team. In 1998, he joined Bankers Trust / Deutsche Bank in the European Acquisition Finance Group as a Director and subsequently as Managing Director. In June 2001, he returned to PAI. He is now Head of the Consumer Goods Group. Frédéric has been involved in a number of transactions including Panzani, Amora Maille, William Saurin, Antargaz, Yoplait, Elis, Panzani-Lustucru, Saeco, Chr. Hansen and United Biscuits. Prior to this, Frédéric had spent four years with Banque Paribas in the Advisory team of the Private Banking division. Frédéric studied at Ecole Supérieure de Commerce de Paris (ESCP 1989).

**Raffaele Vitale** (44)– Partner – Italy. Raffaele Vitale joined PAI in 2002 and has, since then, managed PAI's office in Italy. Raffaele has been involved in a number of transactions including Saeco and Gruppo Coin. Prior to PAI partners, Raffaele spent ten years in the Corporate Finance Department of Chase Manhattan Bank in New York, London and Milan. In 1993, he became one of the founding partners of Vitale Borghesi & Co which in 1998 became part of the Lazard Group. Raffaele graduated from Rollins College (USA) in Business Administration.

## **CONCLUSION/RECOMMENDATION**

Based upon the successful track record and experience of the principals and the recommendation of PSERS' consultant, Portfolio Advisors, staff recommends that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed €200 million plus reasonable normal investment expenses, in PAI Europe V, L.P. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director.