

“Be fearful when others are greedy, and greedy only when others are fearful” --that's one famous piece of advice that the great **Warren Buffett** has been known to offer investors looking to emulate his approach.

## Let Us Now Praise Private Equity

Buyout bosses manage companies that outperform their publicly traded peers on key measures of growth. And they don't do it just by cutting costs.

**Kate O'Sullivan** - CFO Magazine

September 1, 2008

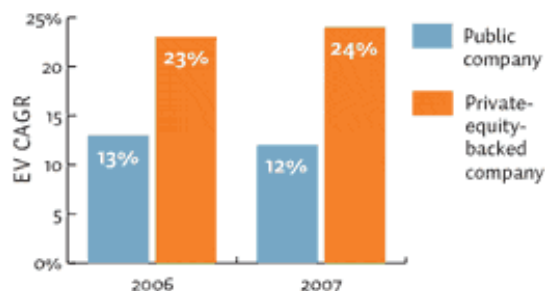
The public's perception of private-equity firms is all wrong — at least according to a new study from Ernst & Young.

Often viewed as hard-hearted financial engineers who pile up profits by slashing expenses, P-E kingpins are criticized for their lack of transparency, their much-debated tax status, and, of course, their lavish lifestyles. But a new report offers support for the same case that P-E bosses often make for themselves — namely, that they are not only shrewd investors but also talented managers.

The study examined last year's top-100 private-equity exits in North America, Europe, and Asia, using publicly available information and self-reported data gathered

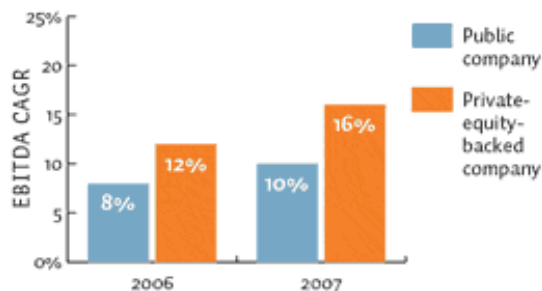
### PRIVATE MAKES PERFECT?

In 2007, private-equity-backed businesses grew in enterprise value at double the rate of their public-company peers.



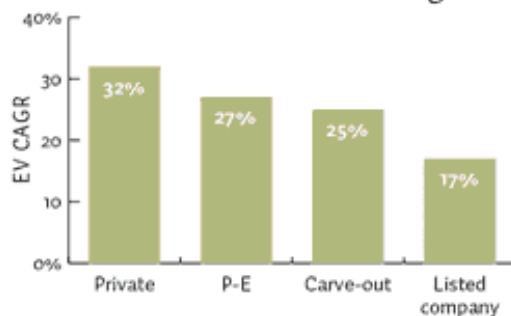
### FAST EARNERS

P-E portfolio companies also boosted their operating earnings faster than public companies did last year.



### BEST BUYS

Companies bought from private owners achieved the fastest growth.



Source: Ernst & Young

in interviews with private-equity investors. As it turns out, P-E firms helped their portfolio companies achieve an average enterprise value growth rate that was double that of their publicly held peer companies.

Private-equity-backed businesses outperform public companies in productivity gains, in employment growth, and in business expansion, measured both in terms of enterprise value — the company's market value plus net debt — and earnings before interest, taxes, depreciation, and amortization, according to John O'Neill, Americas director of private equity at Ernst & Young. "We found that probably only a third of that growth is from cost-cutting," he says. "More than 50 percent is organic growth, and the rest is acquisition-related."

By making quick decisions free from the scrutiny of public shareholders, installing and motivating the best managers and workers, and sticking rigorously to their business plans, P-E firms "are selling better businesses than they bought," says O'Neill.

The study found that even when private-equity investors take the "secondary buyout" route — selling a portfolio business to another private-equity player — the new owner manages to unlock further value. So why did the first firm sell it? "Once they find a buyer at the right price, they're going to sell the company," says John Vester, a principal in E&Y's transaction advisory services group. "They don't fall in love with the deal."