

# GTCR

A Fund Above the Rest Conference

February 25, 2011

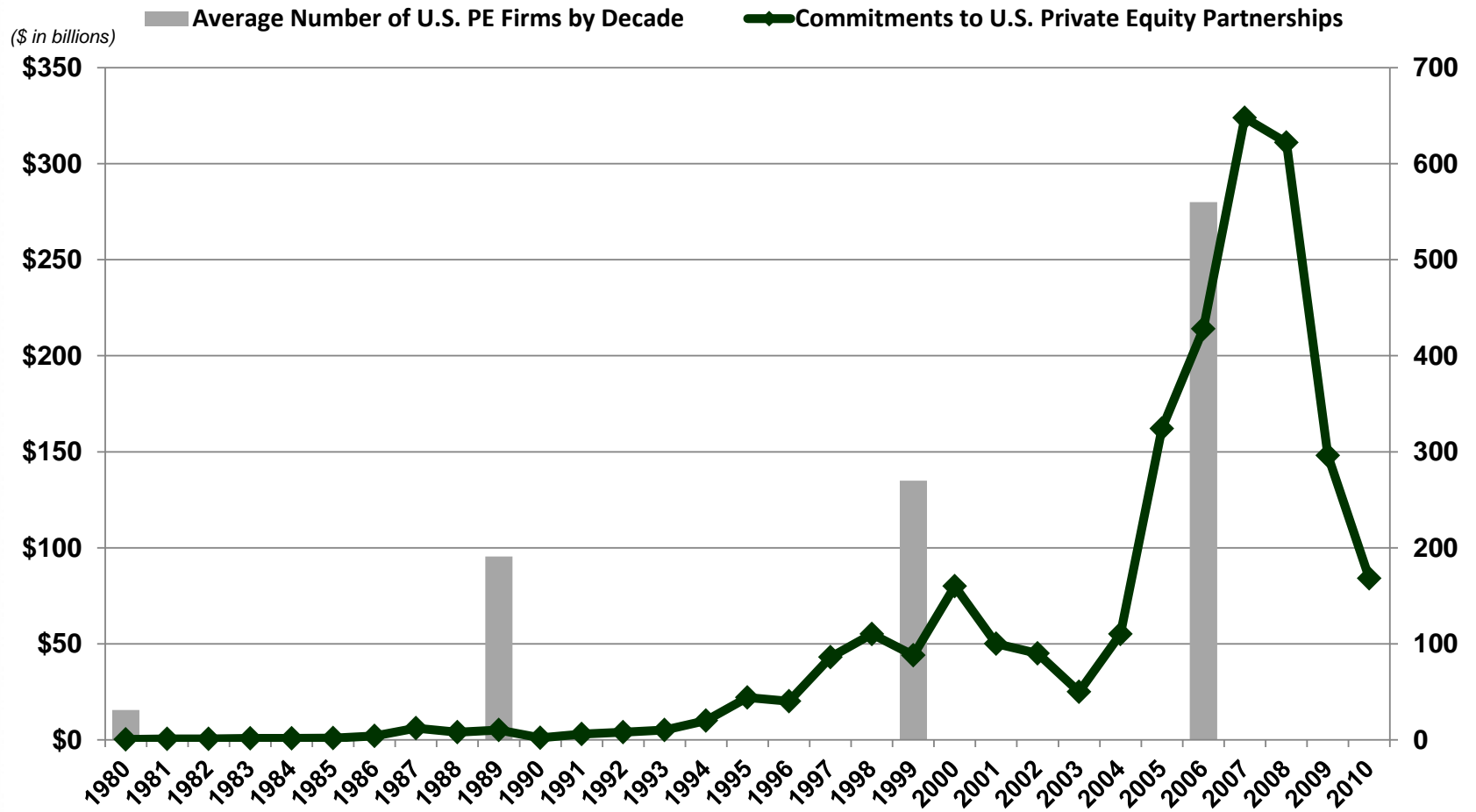


- “Fundraising Troubles Mean Danger for PE Funds”  
- *Institutional Investor*
- “One of the Least Amenable Fundraising Environments Ever”  
- *Buyouts*
- “The Grimmiest Capital-Raising Environment in Years”  
- *Private Equity Beat*

## A Look at the Next Five Years

- Historical Snapshot
- Current Environment
- Realistic Scenarios for the Future
- What Investors are Looking for
- GTCR's Blueprint for Success

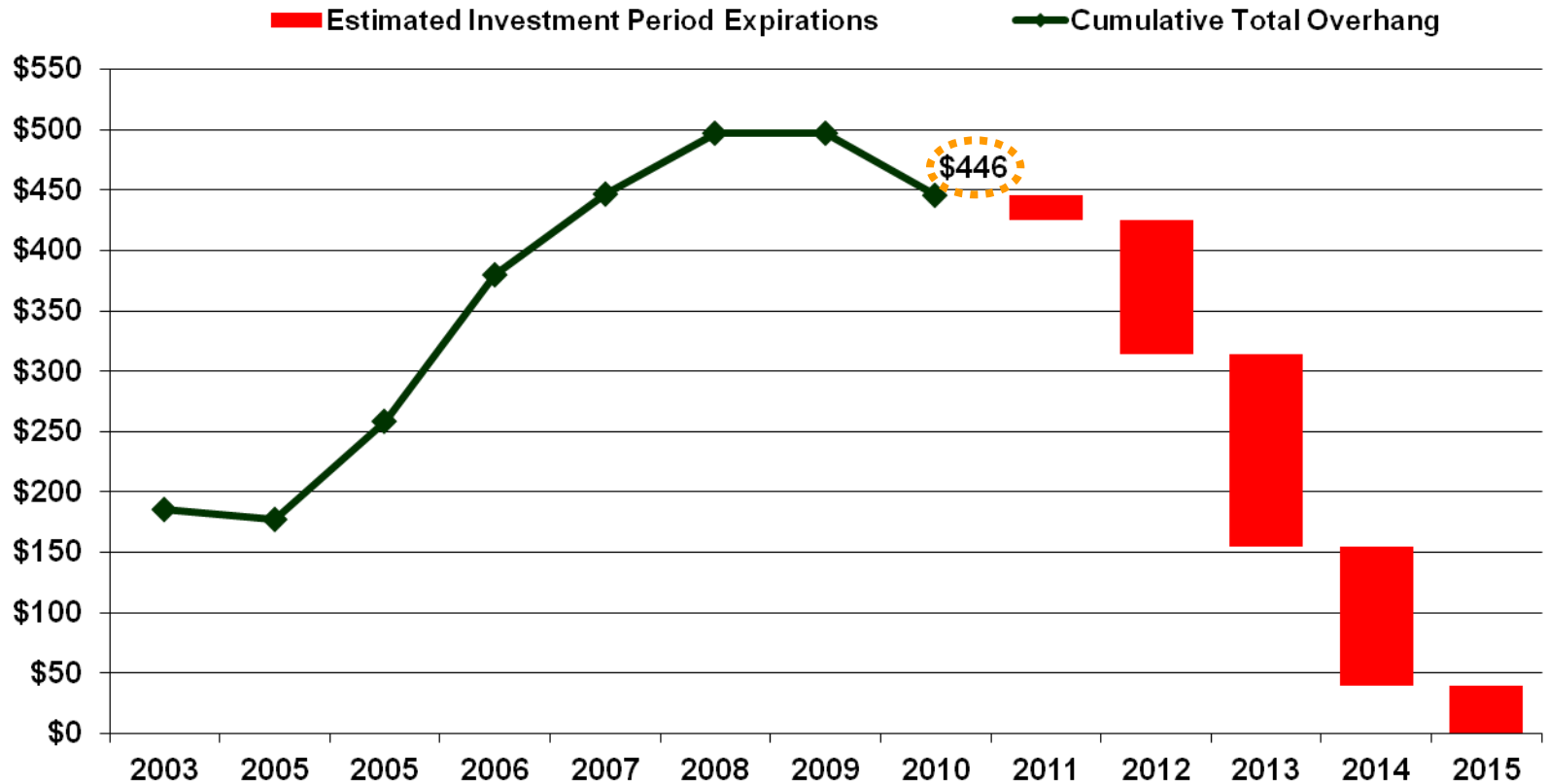
## A Snapshot of the Last Thirty Years



Source: Steven N. Kaplan (Chicago Booth), Pitchbook Data, Inc., GTCR.

## What is Happening Today

### PE Callable Capital Reserves / Dry Powder vs. Investment Period Expirations



Source: Prequin, Pitchbook Data, Inc., GTCR.

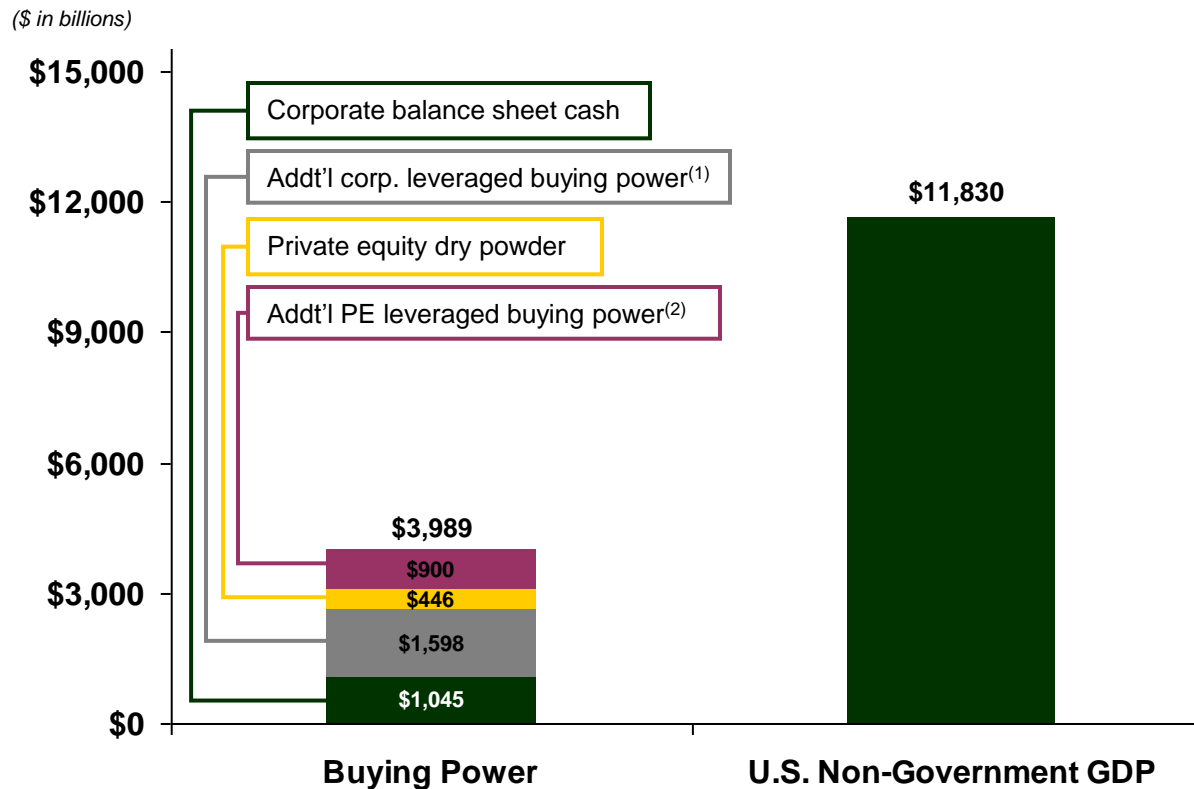
Note: Cumulative Total Overhang for 2010 represents data through January 2011. Investment period expirations assume a 5-year commitment period for new investments.

## Lots of Money Looking for Returns

- Private equity dry powder (U.S.) = \$446 billion
- Cash of non-financial S&P 500 over \$1 trillion
- Both can and will be levered
- Financing is available and CHEAP



## Acquisition Capital vs. GDP Very High!



*Total buying power of \$4.0 trillion represents ~34% of Non-Government GDP!*

Source: GTCR.

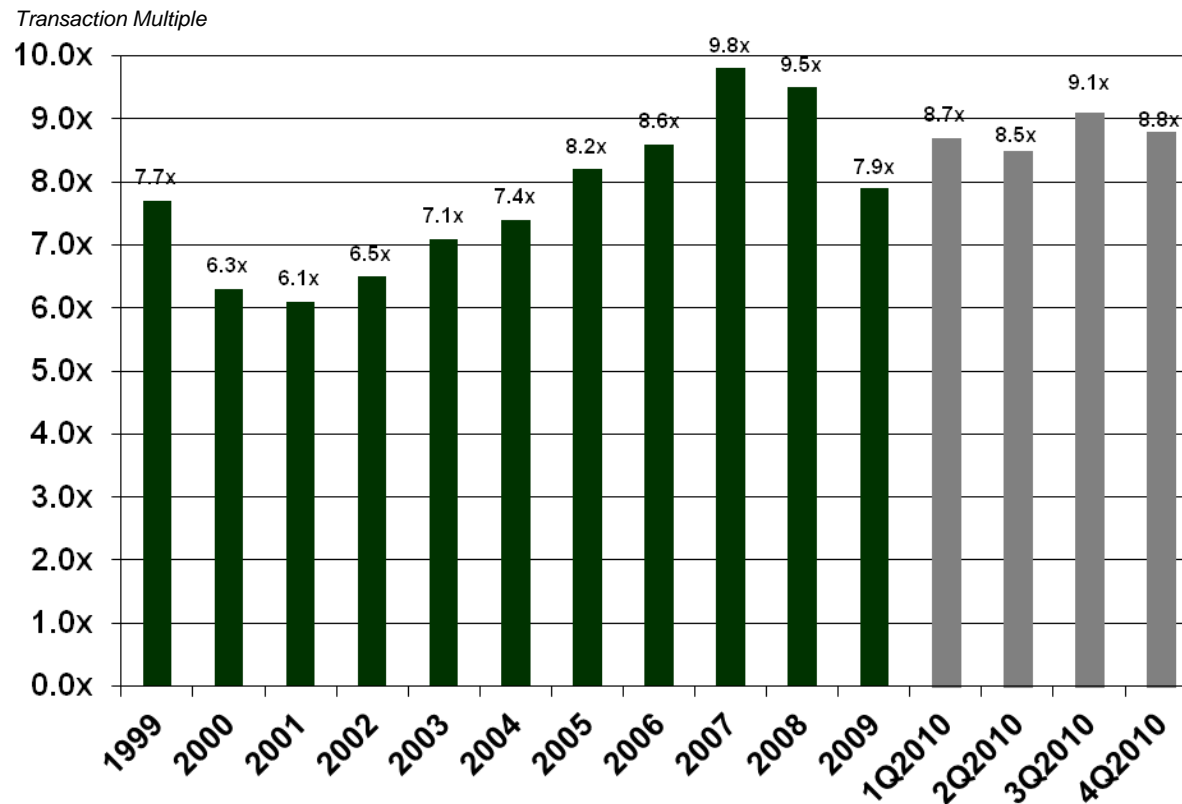
1. The S&P 500 had a Total Debt / EBITDA ratio of ~1.8x as of 9/30/10. Assuming 3.0x total leverage, the S&P 500 has an additional \$1.6bn in buying power.

2. PE leveraged buying power assumes 35% equity minimum investments.



## Prices Will Continue to Go Up

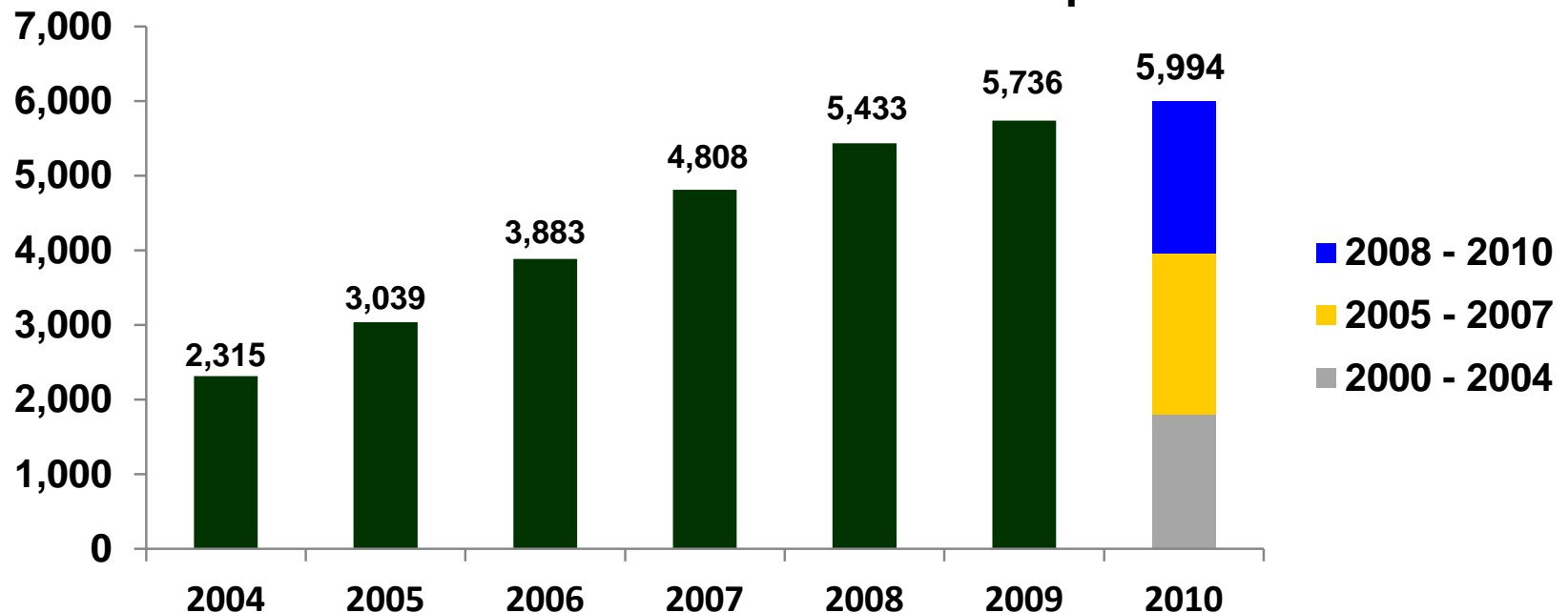
### Average LBO Transaction Multiple



Source: S&P Leveraged Lending Review, "Large Corporate LBO Loans".

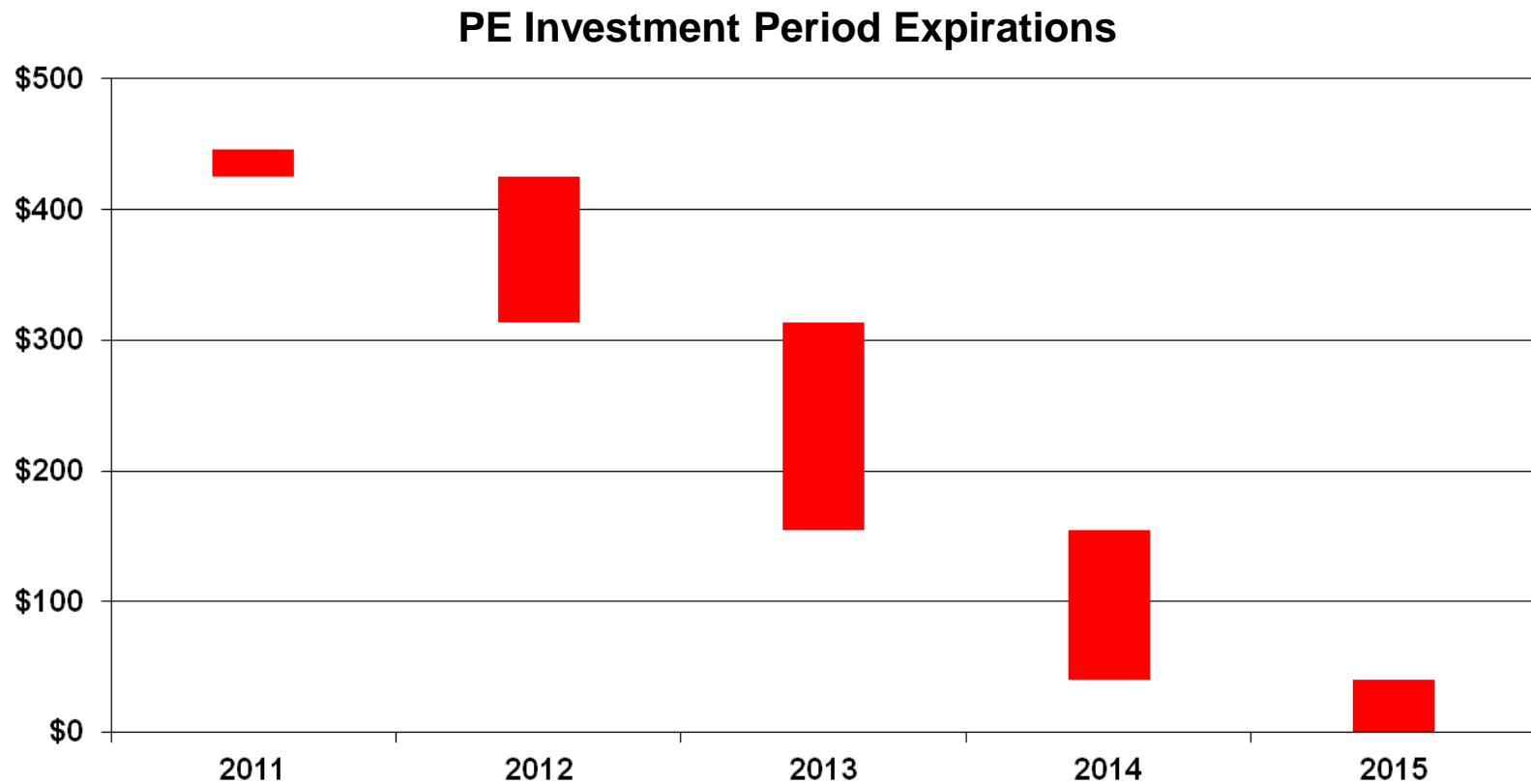
## Expect a Lot of Private Equity Exits in the Near Term

### Number of U.S. PE-Backed Companies



Source: Pitchbook Data, Inc.

## Remember the Stairs?



Source: Prequin, Pitchbook Data, Inc., GTCR.

Note: Cumulative Total Overhang for 2010 represents data through January 2011. Investment period expirations assume a 5-year commitment period for new investments.

## How is It Going to Play Out?

**“Re-ups are being closely scrutinized, and managers will need to think carefully about their terms and conditions in addition to their proposed strategies in order to achieve success.”**

– Tim Friedman, Prequin, January 12, 2011

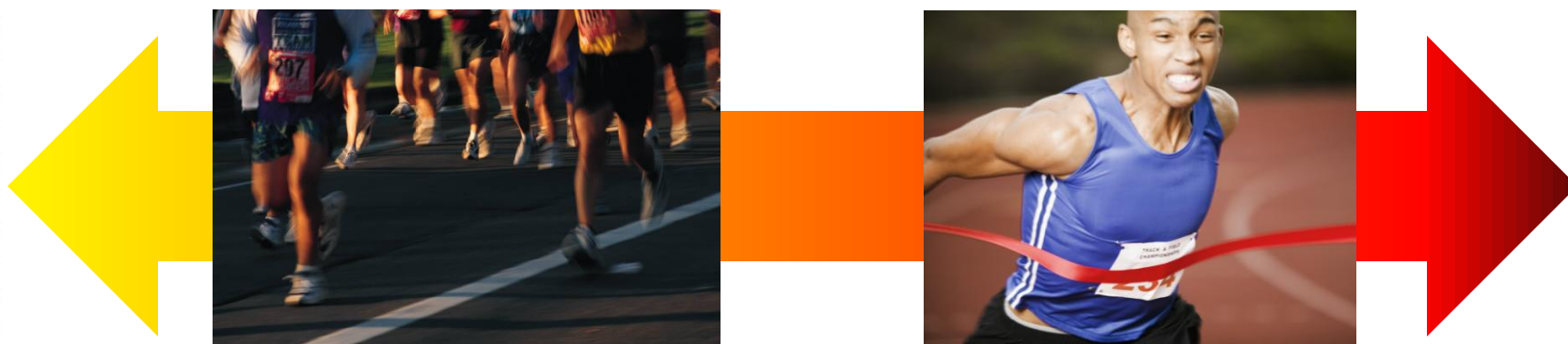
**“Funds haven’t performed as well as advertised, and the jury is still out on mega buyouts... In 2006, managers were showing 25 percent returns in marketing materials. Now they have to pitch for commitments with much less impressive numbers.”**

– Lawrence Schloss, CIO for NYC Pension Fund, January 24, 2011

**“Increased competition will lead to a significant number of firms failing in the fundraising market and quietly ceasing to exist once their current vehicles are liquidated in the next few years.”**

– Tim Friedman, Prequin, January 12, 2011

## PE Industry Gets Reshaped in the Next 2 – 3 Years



### Muddle Along

- Everyone survives
- Fund sizes go down
- Pressure on GP organizations
- Hard to differentiate
- Returns rebound modestly from poor levels of 2005 – 2008

### Winners Emerge

- Firms culled
- Winning firms grow capital and people
- Firms can differentiate
- Returns rebound to levels seen in vintages between 1995 – 2005

## **The Case for Muddling Along**

- Recovery of S&P 500
- Recent fundraising success
- New sources of capital
- Big firms targeting less capital

## A Bull Case for “Winners Emerge”

- 45% of firms that launched fundraising since the beginning of 2008 have not hit target
- LPs doing more diligence than ever:
  - Returns and return drivers
  - Strategy
  - Organization
- Per *The Deal* Magazine, the following funds are considered imperiled:

(\$ in billions)

Imperiled: Sponsors Least Likely to Survive						
Sponsor	Year Fund Closed	Size	% Invested	Value / Cost	IRR <sup>(1)</sup>	
J.C. Flowers & Co. LLC	2006	\$7.0	100%	0.36	(39.7%)	
Candover Partners Ltd.	2005	\$4.1	82%	0.50	(26.4%)	
Terra Firma Capital Partners	2007	\$7.3	64%	0.27	(47.7%)	
Elevation Partners	2004	\$1.9	80%	0.82	(9.9%)	

Source: *The Deal* Magazine.

1. Estimate as of 3/31/10.

## What are Investors Looking for?

- Great returns
- Differentiated strategy
- Well-run organization



## Great Returns

- Either you have them or you don't
- Surprisingly low realizations
- Return drivers matter
- Are the drivers replicable?

## Differentiated Strategy

- Sourcing deals
- Having an edge
  - Differentiated knowledge
  - Differentiated performance
- Pretty hard

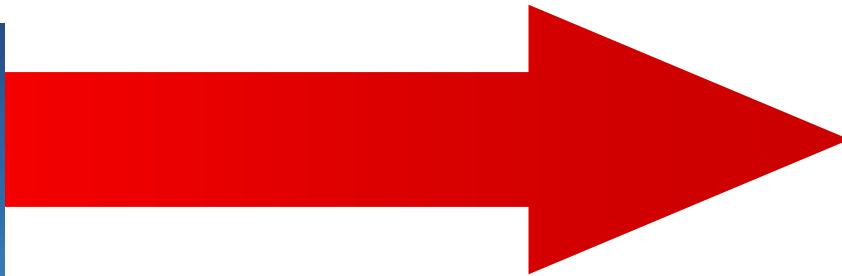
## Well-Run Organization

- Investment teams
- Investment process
- Portfolio management
- Back-office

## GTCR's Blueprint for Success:

- Focus on Great Returns
  - *Ratable pace*
  - *Bias toward contrarian*
- Differentiated Strategy
  - *Leaders Strategy*
- Well-Run Organization
  - *Human capital development*
  - *Building investment teams*
  - *Teams interaction with IC & functional areas*
  - *Partnership model*

## A Fund Above the Rest



### Winners Emerge

- Emerge as winner
- Dominate a strategy
- Attract best from others

## Summary

- PE industry is under pressure
- Industry will get re-shaped
- Shake-out?
- Winners will emerge