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Navigating a new direction for maximum portfolio performance

2009 Managing Portfolio Investments Survey

Executive Summary

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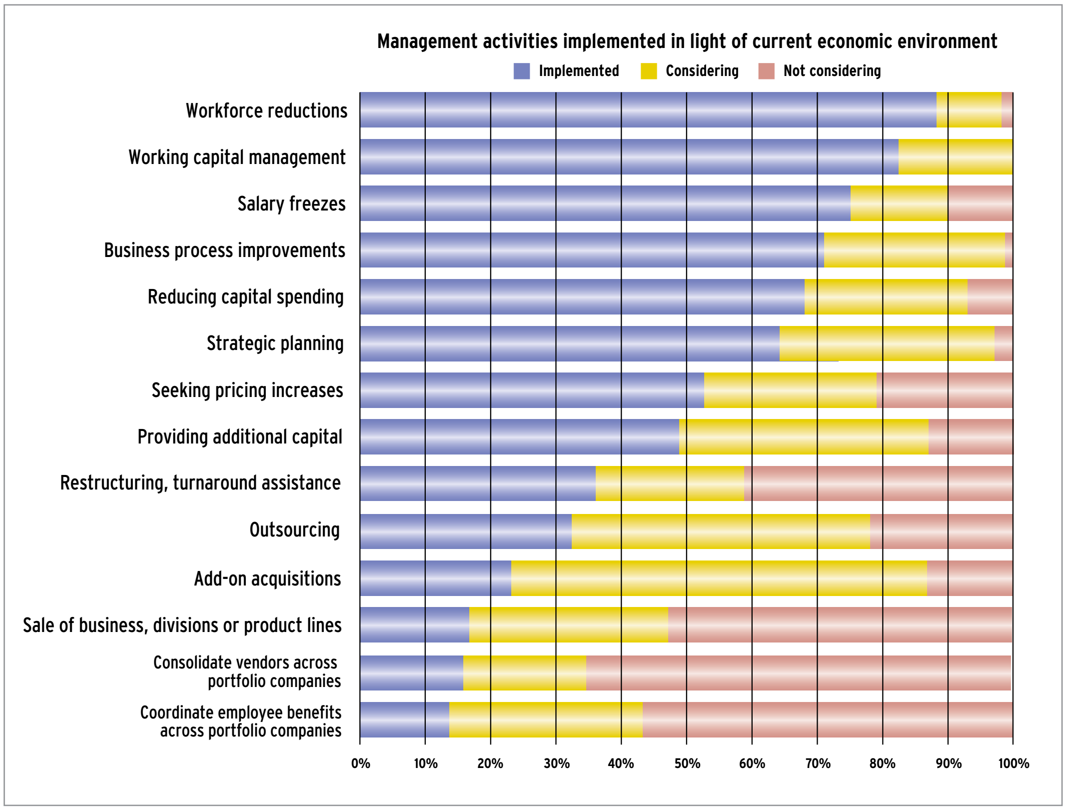
RSM McGladrey and McGladrey Capital Markets would like to thank the nearly 100 private equity senior executives and professionals nationwide who provided their information and insight for our March 2009 survey. The participants shared their current concerns and opinions related to the management of portfolio companies in the midst of this turbulent economic climate.

The full report reveals a range of trends and practices—including the most common metrics for monitoring portfolio companies and important fund-level management activities—among survey participants involved in a cross section of fund sizes and types. This executive summary provides an overview of key initiatives and priorities private equity executives are focused on to maximize portfolio performance.

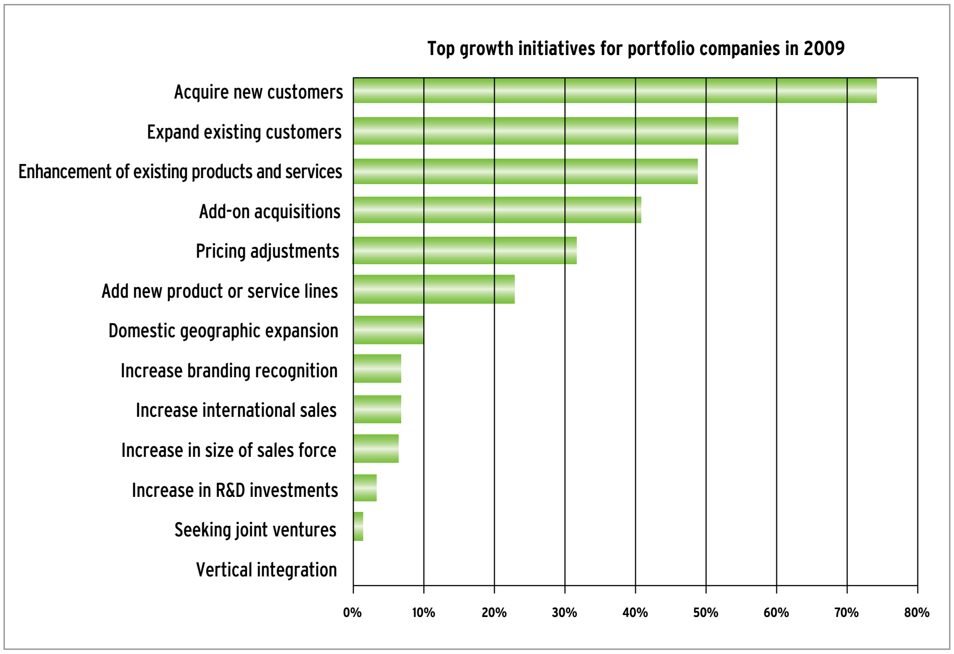
Key management activities

In light of the current economy, more than 80 percent of respondents have already implemented workforce reductions and working capital management improvements. The next three most commonly implemented activities include salary freezes, business process improvements and reduced capital spending—with 68 percent or more of survey participants indicating that they already implemented these activities. Survey data indicates the responding funds have been very proactive in implementing steps to improve cash flows in the economic slowdown.

Acquiring new customers and expanding existing customers are the top two portfolio company growth initiatives for all fund types in 2009.



Larger reporting funds, defined in this report as funds with more than $500 million in assets, are more likely to be considering or are already providing additional capital, as well as implementing restructuring or turnaround assistance at some portfolio companies.



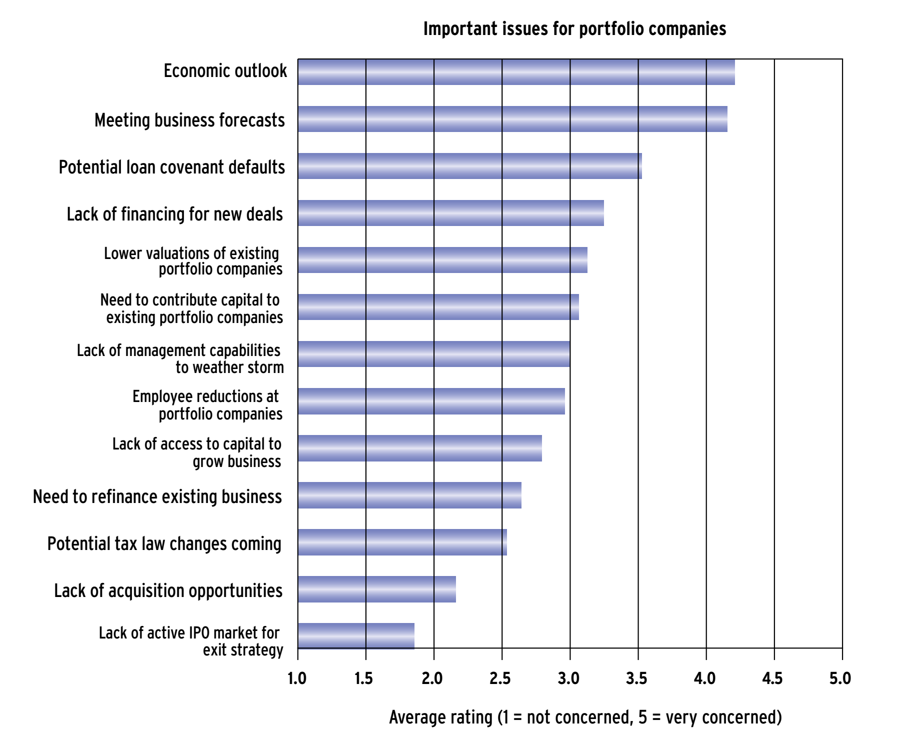
Fewer than 20 percent of respondents have sold portfolio company businesses, divisions or product lines and more than half have not even considered doing so. Of those considering a sale, larger reporting funds are more likely to consider selling. Not only are owner operators delaying selling businesses in this environment, but funds themselves are not inclined to be sellers.

Add-on acquisitions are the most frequent management activity being considered in today's environment, showing a shift from buying platform companies to making add-on acquisitions. Well priced add-on acquisitions provide an opportunity to increase sales and grow platform companies in spite of the slowing economy.

High priority growth initiatives

Acquiring new customers, expanding existing customers and add-on acquisitions are the top three portfolio company growth initiatives in 2009. These top initiatives appear to be aimed at investments that are likely to bring the quickest return and require the least amount of capital.

More than 40 percent of reporting funds indicated add-on acquisitions as a growth initiative—as highlighted by the large number of respondents mentioned earlier who are considering add-on acquisitions as a key management activity in light of the current economic environment.



Areas of concern

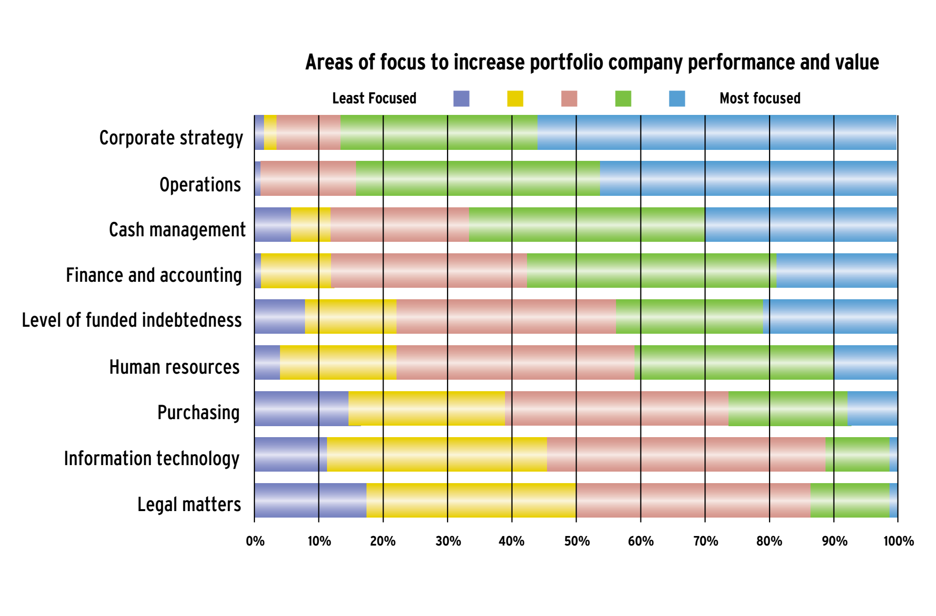
Respondents say the top three concerns related to their portfolio companies are the economic outlook, meeting business forecasts and potential loan covenant defaults. The next greatest concerns include lack of financing for new deals and lower valuations of portfolio companies.

Venture funds, as might be expected, are more concerned about the need to contribute capital to existing portfolio companies and lower valuations of existing portfolio companies. Venture funds are also the respondents most concerned about the lack of an IPO market as an exit strategy.

Areas of focus to increase portfolio company performance and value

Respondents identified corporate strategy as the area where they will focus most to increase portfolio company performance and value. This is followed by operations and cash management—not surprising given the current marketplace where top-line growth is extremely difficult.

Survey responses also indicate that the larger the fund, the greater the focus on purchasing practices to increase portfolio company performance and value.



Contact with portfolio company management team

With the difficult economic climate, 85 percent of respondents report that communication with portfolio companies has increased in the past six months. The survey data provides strong evidence of active monitoring and involvement with portfolio companies. The majority of funds participating in the survey—86 percent—are in contact with their portfolio companies on a weekly and daily basis.

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More than 90 percent of all respondents report involvement in key management oversight activities at their portfolio companies, with high levels of participation in board meetings and the review and approval of annual budgets.

Shift in focus

It is clear that private equity executives have responded to changes in the economic environment by shifting their focus from acquiring new platform portfolio companies to managing and monitoring the profitability of existing investments. The key findings discussed previously—increased contact and level of involvement with portfolio companies and more effort placed on activities to grow and manage current investments—are evidence of this shift in focus.

The full survey report provides more key findings, including deal sources, industry and geographic investment focus and the impact of important tax matters and accounting issues.

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For more information, visit www.rsmmcgladrey.com/PEG or call 800.274.3978.

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