

PRIVATE EQUITY - DISCUSSION PANEL -

INVESTMENT TRENDS SHAPING THE INDUSTRY'S FUTURE

SOUTHERN CROSS GROUP

 **ProVida** AFP
Una compañía MetLife

BCG


Lexington Partners

toesca.

Antoon Schneider - Moderator



**Senior Partner and
Managing Director,
London**

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Profile summary

Leads BCG's UK Principal Investment & Private Equity practice. He has advised more than half of the largest 50 PE firms globally and led numerous research projects covering topics such as deal sourcing, full potential plans, active ownership and industry structure. Antoon is a regular speaker and panelist at PE conferences and has authored various articles published in Harvard Business Review and various PE industry journals.

The Boston Consulting Group

Leading management consulting firm with offices in more than 90 cities in 50 countries and with more than 16,000 employees, 900 partners, and 20,000 alumni.

Raúl Sotomayor



Partner

rsotomayor@southerncrossgroup.com

Profile summary

Member of Southern Cross Group's Investment and Executive Committees. He serves(d) as board member of Chilesat, ESSBIO, Laboratorios Northia, SMU, The Value Brands, GasAtacama, Brinox and Volta among others. Raúl is also a member of the Group of Fifty (G50).

Southern Cross Group

Established in 1998, Southern Cross Group is one of the longest standing and largest independent Latin American focused private equity fund manager with over US\$2.3bn AUM and 18 portfolio companies across the region.

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Carlos Saieh



Partner

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toesca.

Profile summary

Leads Toesca Asset Management as its CEO. He serves(d) as board member of toll roads Rutas del Algarrobo, Valles del Desierto, Ruta de los Rios, Autopista Interportuaria and Variante Melipilla; Gasvalpo, and Aguas Chañar. Until 2016 Carlos was Head of the Asset Management Division of BTG Pactual Chile.

Toesca Asset Management

Asset Management Company focused in Real Assets and Equities in Latin America, currently managing close to US\$1.0 bn. Founded in 2016 by former partners and executives of BTG Pactual and Celfin Capital.

José Sosa del Valle



Partner

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Profile summary

Leads the firm's Latin American actives. He is primarily engaged in the origination and evaluation of secondary purchases of non-U.S. private equity and direct co-investment opportunities in Latin America. Member of the Investment Committee.

Lexington Partners

One of the world's largest and most successful independent managers of secondary private equity and co-investment funds with over US\$38bn of committed capital.



Cristóbal Torres



**Chief Investment
Officer**

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Profile summary

Manages one of the largest pension funds in Latin America with over US\$50 bn of Assets Under Management. Previously, from 2010 to 2013, he was the Head of Fixed Income & FX at ProVida AFP. Prior to joining ProVida, he was for 5 years the Head of the Trading Desk and ALM at MetLife Chile.

Provida AFP

ProVida is a pension fund manager that provides services to more than 3 million people and has been a mayor player in the industry since 1981. ProVida AFP is a MetLife company, the largest Life Insurance Company in the world.



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The BCG logo is rendered in a white, classic serif font. The letters are bold and well-spaced, with the 'C' having a distinctive shape. The logo is positioned in the upper left corner of a green rectangular area that covers the top half of the slide.

BCG

THE BOSTON CONSULTING GROUP

Private Equity Macro Themes

SEPTEMBER 2018

PRIVATE EQUITY IS HOT BUT NOT OVERHEATING

By Tawfik Hammoud, Antoon Schneider, Johan Öberg, Michael Brigi, Christy Carter, Kathleen Bellehumeur, and Markus Brummer

IN MOST NEWS COVERAGE about the private equity industry, one question recurs: After two decades of strong growth and high returns, is the industry overheating?

Several indicators—including deal multiples, leverage ratios, and the amount of dry powder (that is, uninvested capital)—are at historically high levels, and new entrants continue to flood into the market. But we believe the PE industry still has significant room to grow. A clear-eyed view of the data reveals that the proportion of PE-backed companies remains low, that PE ownership generates superior returns relative to other asset classes, and that firms have continued to deploy capital despite record funds flowing in.

That said, continued growth does not mean business as usual. As in all market cycles, corrections and disruptions are inevitable. Further, the playbook that PE firms have traditionally employed—creating value mostly through financial engineering, acquisitions, and tactical operational initiatives—is, albeit effective, no longer suffi-

cient. Increasing competition, high deal multiples, and—the biggest disruption of all—digital technology all require firms to change their value creation approach. Moreover, the founders of many of the biggest and best-known firms are starting to retire, which will mean a changing of the guard. In this environment, firms must rethink organization design, double down on digital technology, and revamp their approach to talent.

Troubling Numbers

To be sure, naysayers' concerns are understandable. By many measures, the industry continues to grow extremely fast, and trees don't grow to the sky. Average deal multiples in the US rose dramatically in 2017, to roughly 12.5 times EBITDA, according to PitchBook Data. That is higher than the previous all-time highs, which were reached prior to the financial crisis. Leverage ratios, at five to six times EBITDA, are similarly concerning, as they signal a vast upswing in the number of investors searching for yield.

Published April 25, 2018



Five key questions

Is **capital overhang** a problem?

What is the overall **PE penetration**?

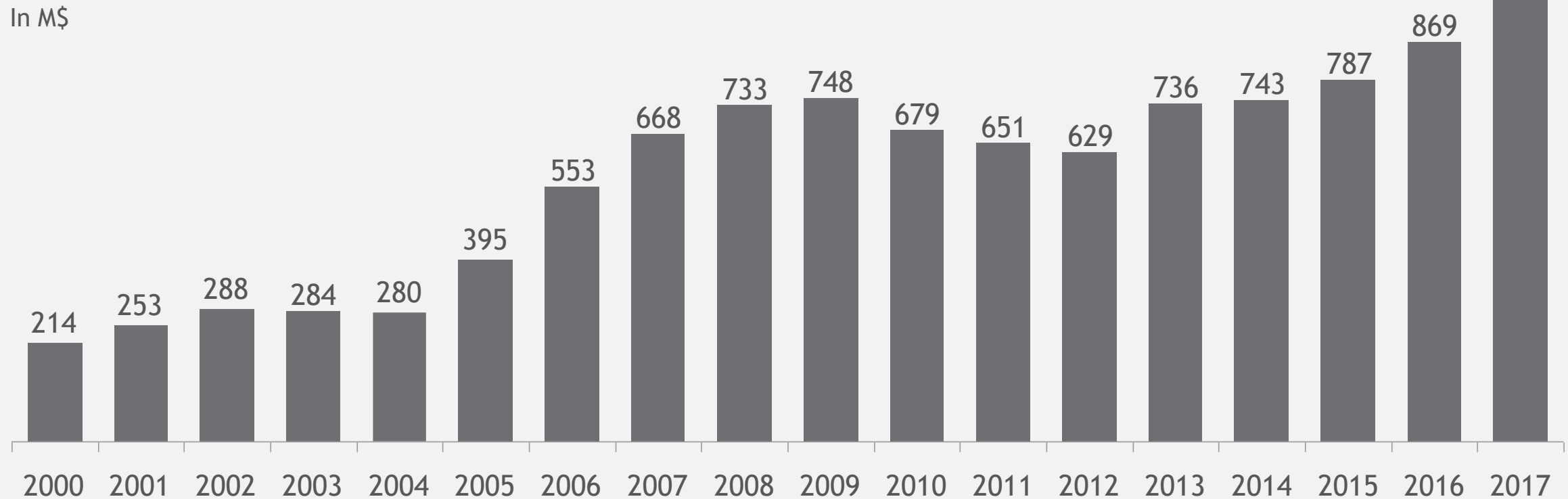
Are there **enough assets** available for PE?

Can **PE still outperform vs. public markets**?

Going forward, **how do PE firms need to change**?

Dry powder increasing in absolute terms...

Dry powder = capital that has been raised but not yet invested

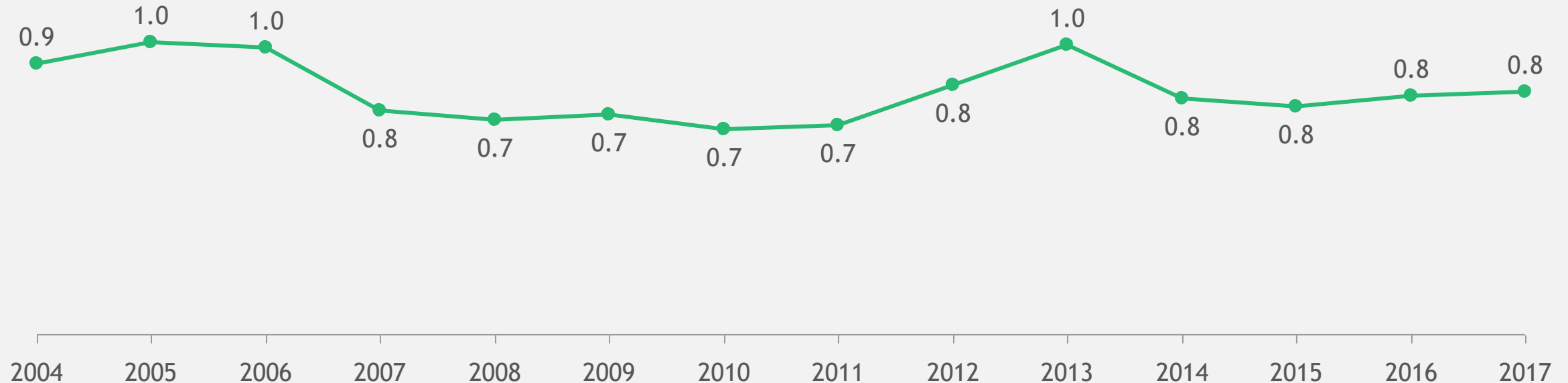


Note: Numbers shown for global private equity (buyout firms); as per 30 June 2017
Source: Preqin; PitchBook; Bloomberg; BCG analysis

...while capital overhang for PE remains stable

Capital overhang = dry powder / average annual deal value

In years

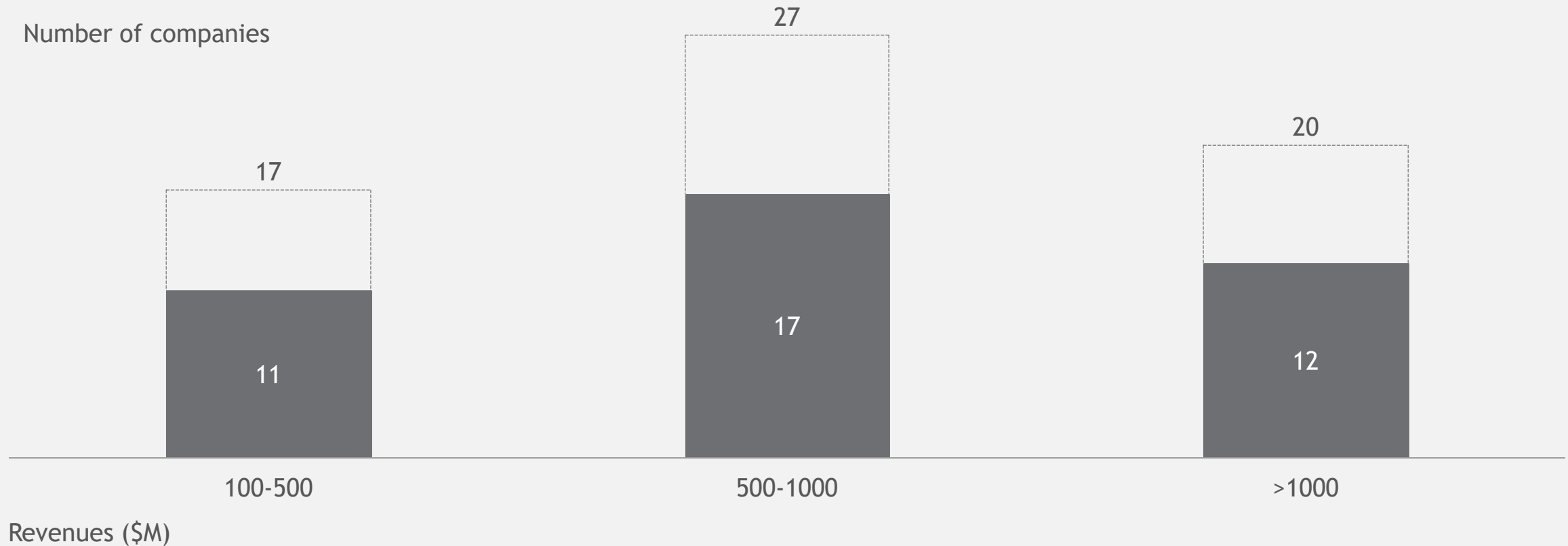


Note: Numbers shown for global private equity (buyout firms); as per 30 June 2017; Capital overhang calculated as the amount of overall dry powder in the industry at year end divided by the avg. annual deal value of the previous five years
Source: Preqin; PitchBook; Bloomberg; BCG analysis

US PE penetration ~15%, dry powder at work at ~25%+

PE-backed companies in % of all US companies

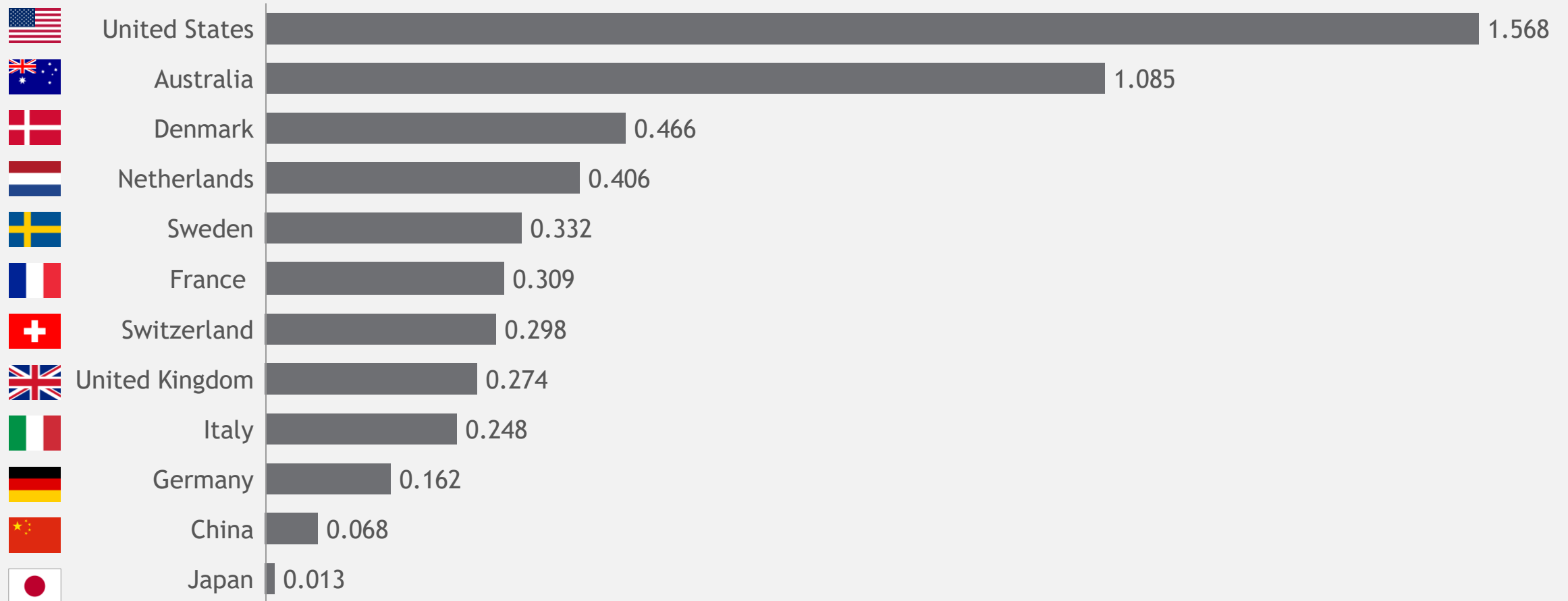
Dry powder put to work¹



1. Estimate of the penetration rate if all dry powder for NAMR focused funds was invested in US market at once
Source: NAICS; PitchBook; IRS; Orbis; BCG analysis

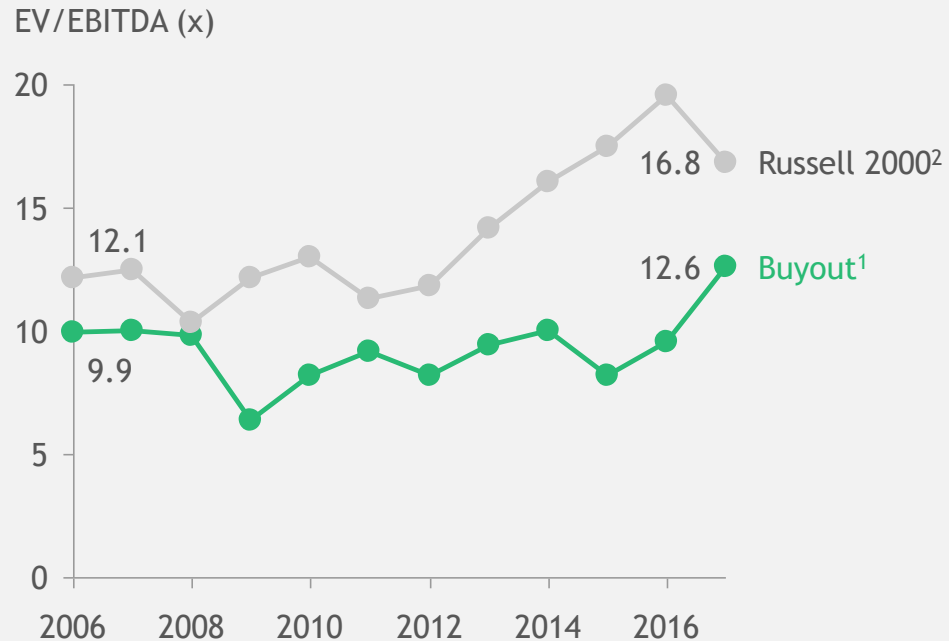
PE penetration: Still headroom to grow across most markets

PE investments in % of GDP (2016)

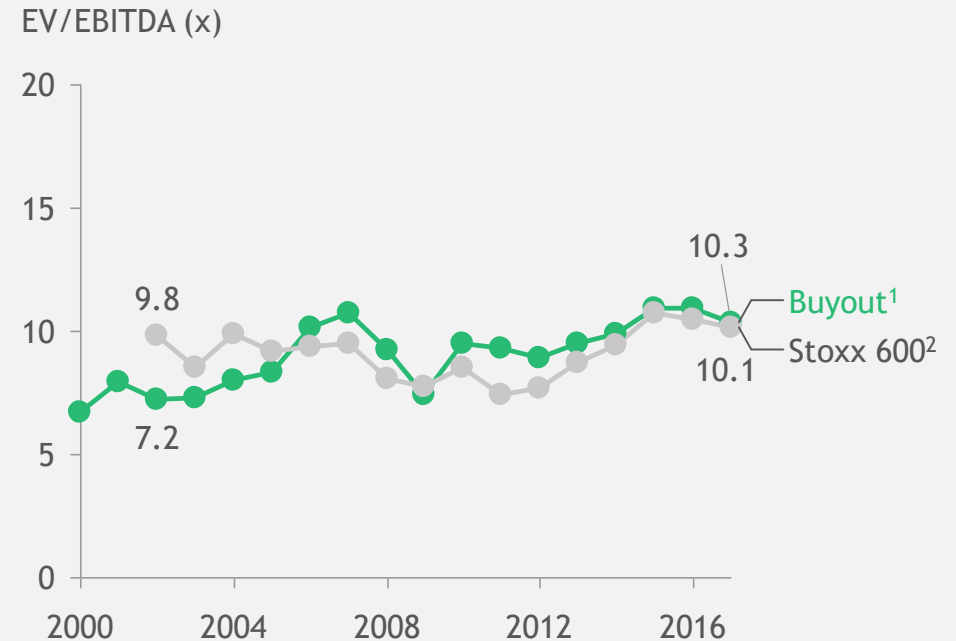


US PE deal multiples approaching Russell 2000, European PE deal multiples in line with Stoxx 600

US PE deal multiples



European PE deal multiples



1. Median 2. Yearly average
Source: PitchBook; Bloomberg; BCG analysis

Most LPs looking to grow their PE commitments long term

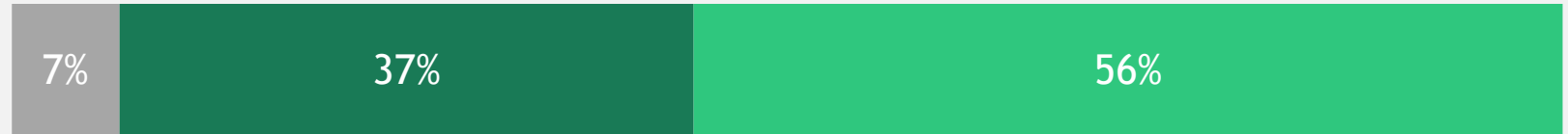
Proportion of LPs

Decrease

Maintain

Increase

LPs' intentions for their private equity allocations in the longer term



93% of LPs will maintain or grow their PE allocations long term ...

LPs' expected capital commitment to private equity funds in the next 12 months

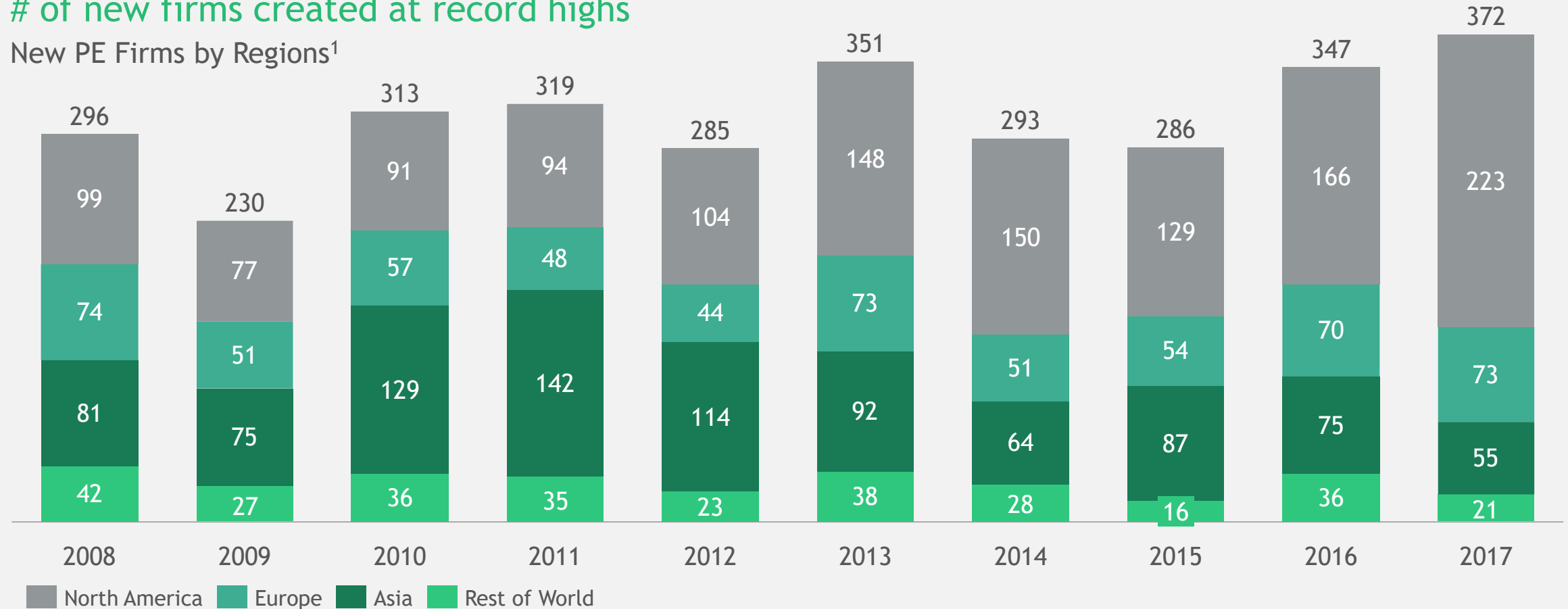


86% will do so in the short term long term ...

Many new firms and faster fundraises for top performers

of new firms created at record highs

New PE Firms by Regions¹

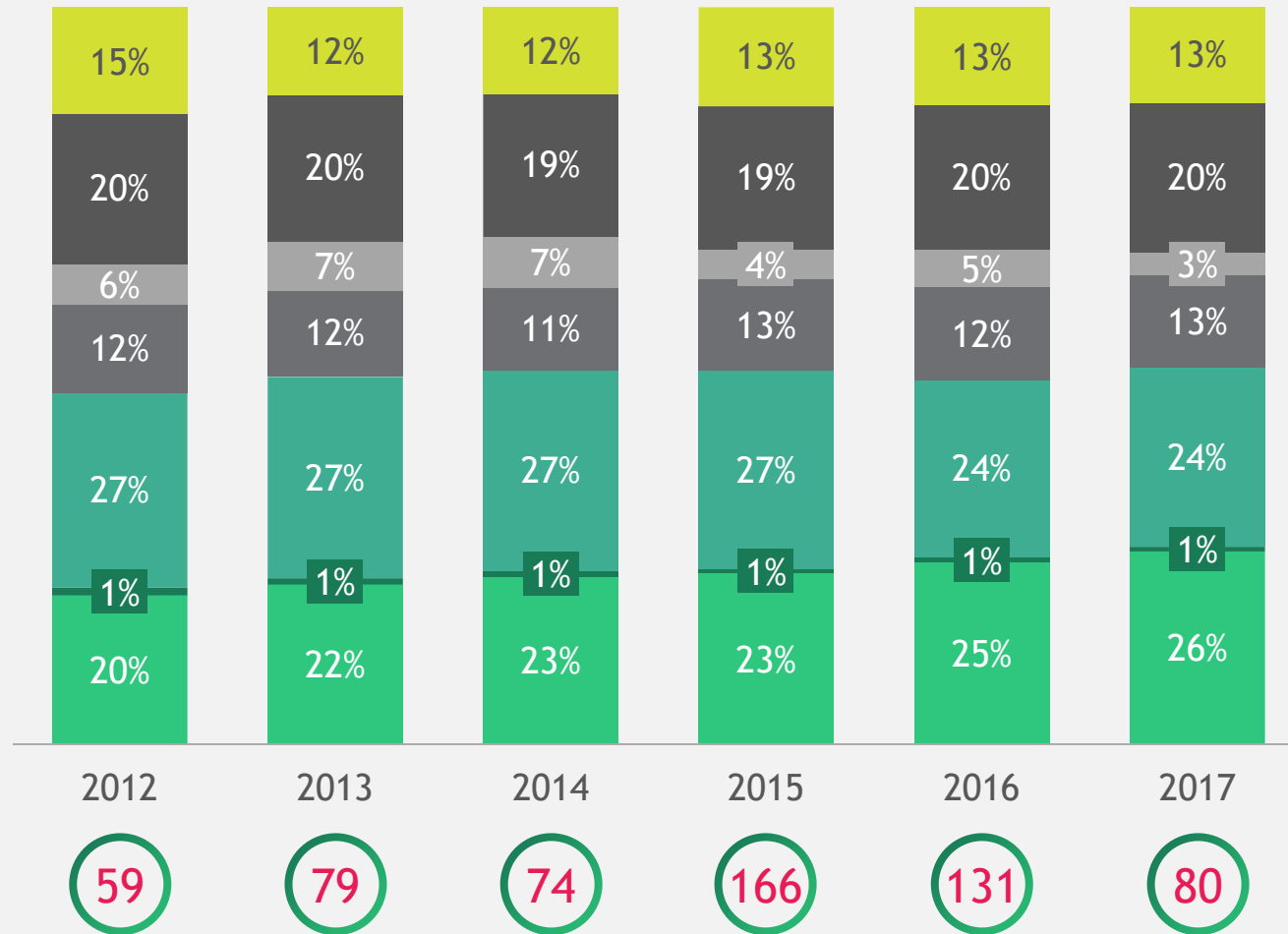


1. Based on vintage of First Fund Raised
Source: Preqin; BCG Analysis

Digital and tech investments increasing in importance

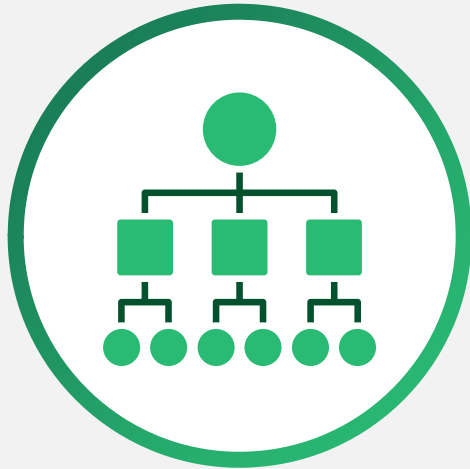
% Breakdown of Global Deals by Industry

- Business Services
- Consumer Goods
- Energy & Utilities
- Health Care
- Industrials & Materials
- Real Estate & Infra
- Digital & Tech



Digital and tech deal value more than doubling since 2012

PE firms' rapid growth and increased competition forces them to change in three ways



Rethink
organization design



Double down on
digital tech



Revamp approach to
talent

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