

Business review Quoted Private Equity (“QPE”)

“The potential market for QPE’s offering is very significant and we will take a highly-selective approach, creating value with the management teams of these companies through 3i’s private equity skill base, network and resources.”



Business model

This new business line was established to address a significant market opportunity to provide equity finance and added value to small and mid-cap quoted companies in Europe. The QPE team will aim to deliver private equity value creation techniques to public companies without taking them private. A number of small and mid-cap quoted companies in Europe suffer from a lack of strategic focus or direction; are typically relatively under-researched by the capital markets; and frequently suffer from relatively limited liquidity in their shares, in some cases exacerbated by shareholders with significant holdings who may be sellers. We believe that the operating performance of many such companies could be significantly improved by applying private equity techniques.

QPE will acquire influential stakes in selected companies and will have flexibility in the size of its equity investment. We will aim to avoid competing on price with traditional buyout funds or other buyers seeking 100% ownership. As portfolio companies will remain listed, existing investors will have a choice of whether to sell to QPE or to remain invested, sharing in the value which may be created by enhancing the investee companies’ operational performance.

QPE’s business model is differentiated from typical buyout funds which generally require total ownership as a condition of any offer for a public company; are typically restricted in the planned holding period for any investment; and are generally required to pay a significant premium over current trading prices in order to secure full control.

Strategy

The initial geographic focus of QPE’s activity is in Europe and QPE will use 3i’s sector resources and geographic deal origination network to build a view of each relevant sector and identify potential investment candidates. Investments will only be made on the basis of a strategic plan for each situation, which will include some or all of the following key elements:

- **Governance** – the strengthening of boards and executive management to ensure a direct connection between shareholders’ interests and the operational delivery of performance;

- **Management and incentives** – the enhancement of management capabilities together with the introduction or strengthening of incentive structures designed to drive sustained growth in shareholder value;

- **Value creation plan** – the rigorous construction of strategic, operational and financial objectives set out over a clear timeline, starting with a “100-day” plan and transitioning into monthly performance milestones; and

- **Active ownership** – the strategic and practical input required to drive earnings growth and accelerate enhanced shareholder value, which may include identifying opportunities for acquisitions or disposals by the investee company.

3i’s track record, network, People Programmes, sector resources and private equity skill base mean that this should be a compelling offering to many public companies. QPE will also seek to provide further value by appointing at least one of its Partners to the board.

Marketplace

Research undertaken by 3i has identified approximately 2,300 companies with market capitalisation between €100 million and €2 billion quoted on major European exchanges. This research has also highlighted that in 2006 there were approximately 25 public-to-private transactions of all sizes involving private equity funds on these exchanges. Therefore, the potential market for QPE’s offering, which is differentiated from either an “activist fund” or “Public-to-Private” approach, is very significant. However, QPE will take a highly-selective approach to this opportunity and aims to invest in only eight to 12 situations during its first two years.

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