

October 2006

Mega LBO Funds Update

Eighteen months ago, we made several observations regarding the viability of mega LBO funds. The Wall Street Journal recently reported that Blackstone was raising additional capital for its fifth fund to bring total commitments over \$20 billion. This announcement along with other record fundraising activity prompted us to revisit the mega LBO subject. Here is an update on our previous observations (which appear in bolded text):

- **Mega LBO funds are expanding into tech and healthcare.** In the past six months, two of the five largest buyouts ever announced were a tech buyout (Freescale Semiconductor) and a healthcare buyout (Hospital Corporation of America). Mega LBO funds continue to be very interested in these sectors as evidenced by the recent reports that Silver Lake is planning to raise the largest fund focused solely on tech buyouts. Mega LBO funds are also increasing their activity in the media sector.
- **Bigger funds can do bigger deals, further expanding the universe of buyout opportunities.** In the last 12 months, nine of the ten largest buyouts in history were announced/completed. Using a conservative estimate of 25% contributed equity, these nine buyouts equate to approximately \$41 billion of equity investment. This amount exceeds the capital raised by all buyout funds in 2003.

Top Private Equity Deals by Size

Company	Transaction Amount *	Announcement Date	Sector
Hospital Corporation of America	\$33.0 B	7/24/2006	Healthcare
RJR Nabisco	\$31.1 B	10/24/1988	Consumer
Harrah's Entertainment	\$25.7 B	10/2/2006	Leisure & Entertainment
Kinder Morgan	\$22.0 B	8/28/2006	Energy
Freescale Semiconductor	\$17.6 B	9/15/2006	Technology
Hertz	\$15.0 B	9/13/2005	Consumer
TDC AS	\$14.4 B	1/20/2006	Technology
Univision Communications	\$13.9 B	6/26/2006	Media
VNU	\$12.7 B	1/16/2006	Media
Sungard Data Systems	\$11.4 B	3/28/2005	Technology

* Including assumption of debt

- **Expansion of cross-border activity.** Examples of recent cross-border buyouts include VNU and TDC AS. Multiple mega LBO firms have recently opened offices overseas, including Blackstone (Mumbai), KKR (Tokyo) and TPG (Moscow). Cross-border buyouts will become increasingly important sources of potential deal flow for mega LBO funds.
- **Larger public to private transactions.** In the past 18 months, more public to private transactions have occurred than in the past 18 years in terms of transaction volume. In addition, according to Thomson Financial, so far in 2006 the average public to private deal size is \$1.6 billion compared to \$120 million in 2001. Larger companies are increasingly interested in public to private transactions as Sarbanes Oxley continues to be a significant distraction to management.

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Top Private Equity Funds by Size

Fund	Size	Vintage	Status
Blackstone V *	\$20.0 B	2006	Fundraising
KKR 2006 *	\$16.3 B	2006	Fundraising
Carlyle V *	\$15.0 B	2007	Fundraising
TPG V *	\$14.6 B	2006	Fundraising
Permira IV *	\$14.0 B	2006	Fundraising
Apollo VI	\$10.1 B	2005	Closed
Bain IX **	\$10.0 B	2006	Closed
Carlyle IV ***	\$10.0 B	2005	Closed
GS Capital VI *	\$10.0 B	2006	Fundraising
Providence VI *	\$10.0 B	2007	Fundraising

* Estimated fund size.

** Includes co-investment fund.

*** Includes \$2 billion European fund.

- **Mega LBO funds are beating strategic acquirers.** While strategic acquirers have dramatically increased the pace of acquisitions, many continue to be outmaneuvered by private equity funds at auction (e.g., Univision Communications). A main reason is private equity groups do not face the same scrutiny that public companies face in reporting quarterly earnings.
- **More club deals.** According to Thomson Financial, in the past 12 months, deals involving two or more groups have increased to over \$354 billion in transaction volume, up from \$25 billion in 2001. Eight firms – Apollo, Bain, Blackstone, Carlyle, CDR, KKR, Silver Lake and TPG have been involved in over \$200 billion (57%) of such deals. A negative aspect of club deals is the risk of high exposure to one deal if one is an investor in multiple funds in a consortium. For example, when Sungard Data Systems was purchased by a seven-fund consortium of private equity funds, CalPERS was an investor in five funds.

In the past 18 months, mega LBO funds have changed the buyout landscape dramatically. Fueled by mega funds, buyout funds are on pace through Q3 to raise over \$100 billion in 2006 – beating 2005's record breaking amount. Although this is an incredible amount of capital, we believe the mega LBO funds will find ample opportunities to invest it in an expanding global universe of potential deals. As always, we believe in a diversified approach to investing in private equity and we will continue to seek selective exposure to this innovative and expanding class of private equity.

Prior Commentary

To view our initial observations on mega LBO funds, go to our [April 2005 commentary](#) on our website.

Private Equity Partners III Actively Pursuing Investors

Private Equity Partners III is now open and accepting new investors. PEP III is the third fund of funds in our series of funds that makes commitments to a highly selective sub-set of the top tier VC and LBO funds. We already have 70% of the fund committed or reserved for commitment. Warehoused investments to date include De Novo Ventures III, Doll Capital Management V, Oak XII, Alta Partners VIII, Granite Global III, Lightyear II and Madison Dearborn V.

The next closing is scheduled for later this year and a final closing will be in early 2007. If you have not yet received your offering documents or have any questions on PEP III, please contact [Gretchen Postula](#) (612-303-6331).

Piper Jaffray was established in 1895 and has grown to become a nationally and internationally recognized firm serving growth companies and growth company investors. We have a significant commitment to alternative assets through our series of fund of funds.