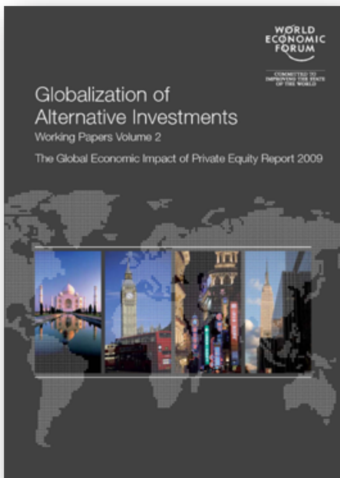
Limited Partner Update

CLAYTON DUBILIER & RICE

New Investments | Exits | People | Milestones | **Of Note** **February 20, 2009**

The World Economic Forum recently released its second volume of research on private equity. We thought the highlights might be of interest.



Global Economic Impact of Private Equity Examined In World Economic Forum Report

Private equity-backed companies are better managed and more productive than those not controlled by private equity firms, according to a recently released comprehensive report issued by the World Economic Forum.

These findings and others are included in the Forum's second volume of working papers devoted to the global impact of private equity. The Forum-sponsored studies included a review of more than 4,000 companies in the U.S., Europe and Asia going back as far as 1980, as well as U.S. census data. The topics analyzed included: management practices adopted by private equity firms at portfolio companies; the impact of private equity activity on labor productivity; the impact of private equity investment in France; and the demography of private equity in emerging markets.

CD&R played a leadership role in supporting the Forum's research initiative. Joe Rice served as the Chairman of the Advisory Board, which guided the international academic team that conducted the research.

Relevant Materials

The press release is available at:
http://www.weforum.org/en/media/Latest%20Press%20Releases/PR_privateequity2009

The entire second volume of Working Papers can be downloaded here:
http://www.weforum.org/pdf/cgi/pe/Full_Report2.pdf

The first volume of Working Papers, released in 2008, may be downloaded here:
http://www.weforum.org/pdf/CGI/PE/Full_report.pdf

Watch CD&R CEO Don Gogel's interview from the WEF's annual meeting in Davos on Bloomberg TV at:
http://tinyurl.com/brnknk

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Research Overview

The World Economic Forum's *Globalization of Alternative Investments Working Papers Volume 2: The Global Economic Impact of Private Equity Report 2009* is the continuation of one of the most exhaustive studies of private equity ever undertaken. The research, involving thousands of companies going back to the 1980s, was conducted by an international team of noted academics led by Josh Lerner, Jacob H. Schiff Professor of Investment Banking at Harvard Business School. The team included Nick Bloom (Stanford University), Quentin Boucly (HEC School of Management), Steven J. Davis (University of Chicago), John Haltiwanger (University of Maryland), Ron Jarmin (United States Census Bureau), Javier Miranda (United States Census Bureau), Raffaella Sadun (London School of Economics), Morten Sørensen (Columbia Business School), David Sraer (University of California, Berkeley), Per Strömberg (Stockholm School of Economics), David Thesmar (HEC School of Management) and John Van Reenen (London School of Economics). The report was co-edited by Josh Lerner and Anuradha Gurung of the World Economic Forum.

The first volume of Working Papers published in January of 2008 addressed the evolution of the private equity industry, including large-sample studies and case studies on such topics as the demography of private equity investments, the willingness of private equity-backed firms to make long-term investments and the impact of private equity activity on employment and governance. The new volume focuses more attention on how private equity investors affect the management of the firms in which they invest.

The large-sample studies in Volume 2 cover the following topics:

a) management practices adopted by private equity firms at portfolio companies
b) the impact of private equity activity on labor productivity
c) the impact of private equity investment in France
d) the demography of private equity in emerging markets

Key Findings

The Forum research demonstrates that private equity is a highly adaptive asset class and one which appears to be highly correlated with long-term fundamental value building. Among the more striking findings is that companies owned by private equity groups are significantly better than other ownership models at all types of management practices, particularly those related to operations and monitoring.

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Private equity ownership was also found to produce a substantial productivity growth differential (about 2 percent) within two years after investment compared to similarly situated business and the resulting effect on real output is large. The research suggests that for the sample of manufacturing firms analyzed, private equity transactions completed between 1980 and 2005 yielded as much as $15 billion dollars of extra output per year as of 2007. Furthermore, private equity-owned businesses were found to be more likely to share productivity gains with workers in the form of wage increases.

Highlights of the various studies include:

Private equity owners more effectively utilize managerial practices that are associated with increased profitability and productivity

- Private equity backed companies are better managed than all other ownership models, including corporate ownership across a wide range of management practices.
- Private equity-owned firms are particularly strong at operational management practices, such as the adoption of modern 'lean manufacturing' practices, using continuous improvements and establishing performance-based cultures.

Private equity--owned firms are more productive

- Private equity-owned firms improve productivity more rapidly than comparable companies by approximately 2% in the 2 years following the transaction.
- The relationship between productivity gains and wage increases is stronger at private equity-owned firms than at comparable companies.
- Higher productivity growth at private equity-owned firms during periods of financial stress reflects greater reallocation of activity to more productive establishments and a higher rate of closure at less productive ones.

French Study reinforces findings with more granular look at private equity

- Findings of the broader research studies are confirmed in the more in-depth study of private equity in France.
- Private equity funds act as an engine of growth for small and medium-sized enterprises.
- Private equity boosts growth in jobs, productivity, sales and assets in industries with insufficient internal capital.
- Transitional capital from private equity funds fills critical gap at times when the capital markets are weak.

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Emerging markets account for small but increasing share of private equity activity

- The measures of operational engineering appear to be particularly important for buyout activity. In particular, the presence of barriers to free trade, greater complexity in establishing new entities and greater corruption are associated with fewer LBOs.
- Minority transactions are associated with faster-growing countries. The presence of syndicated investments is associated with larger deals and with less favorable fundraising environments, which may be attributable to liquidity constraints.

We commend the Forum and the academic team for their exhaustive efforts to provide a better understanding of the economic impact of private equity ownership. We believe that these latest studies, together with the findings from research published last year by the Forum, offer a much needed and fact-based context in which to assess the role private equity plays in the global economy. Our hope is that the Working Papers will serve as catalyst for constructive debate about the merits of private equity ownership among investors, industrialists, labor and policy makers.