

Private Equity: Where Risk Meets Opportunity



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Panel Detail:

Tuesday, April 28, 2009 11:00 AM - 12:15 PM

Speakers:

[Leon Black](#), Founding Partner, Apollo Management LP

[Jim Davidson](#), Co-Founder and Chairman, Silver Lake

[Thomas Lee](#), President and CEO, Thomas H. Lee Capital LLC

[Ted Virtue](#), CEO, MidOcean Partners

Moderator:

[Duncan Goldie-Morrison](#), CEO, Calyon Americas

2008: second best year for private equity fundraising, but steep decline may follow

	2008		2007	
	Number of funds	Amount raised (\$ billions)	Number of funds	Amount raised (\$ billions)
Buyout/ Corporate finance	143	\$181.0	222	\$244.6
Mezzanine	17	\$40.2	18	\$8.9
Venture capital	150	\$24.7	182	\$33.1
Funds of funds	34	\$12.9	70	\$28.7
Secondary and others	19	\$6.7	14	\$10.4
Total	363	\$265.6	506	\$325.7

Source: Dow Jones Private Equity Analyst.



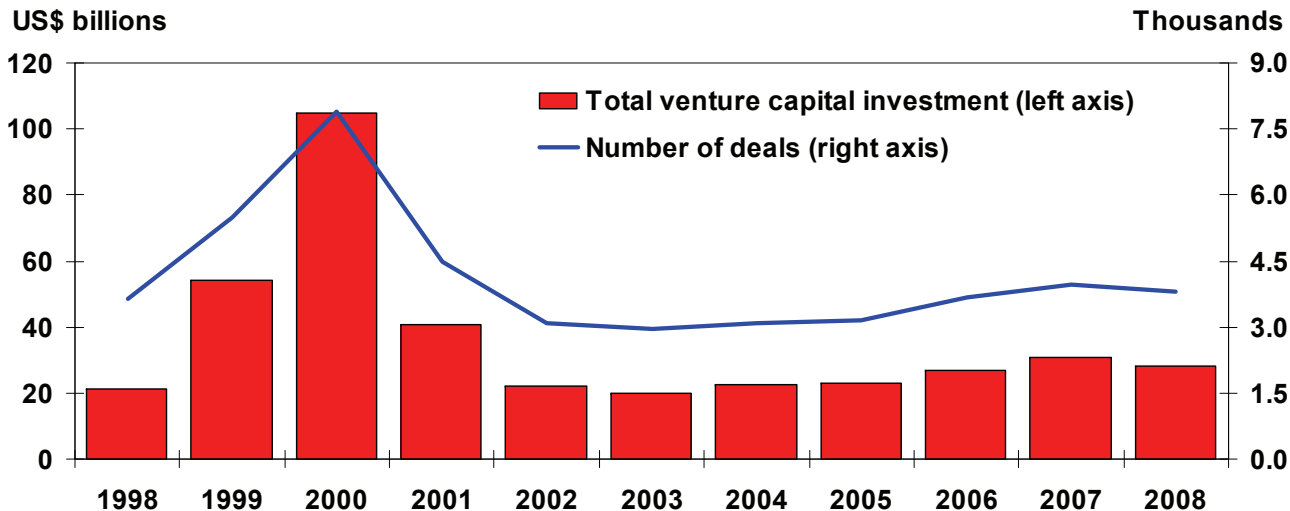
Private equity activities slow globally

	Deal value announced (US\$ millions)		Fund raised (US\$ millions)	
	2007	2008	2007	2008
United States	368,400	59,600	325,200	256,900
Western Europe	185,900	88,000	101,500	96,100
Asia	67,000	52,500	28,700	37,100
Middle East	898	1,700	5,000	6,400
Eastern Europe	27,900	8,000	14,600	5,400
Latin America	4,600	1,200	4,400	4,000
Africa	7,900	2,200	2,300	2,600
Total	662,598	213,200	481,700	408,500

Sources: Dow Jones, Dealogic.

Venture capital investment in the U.S.

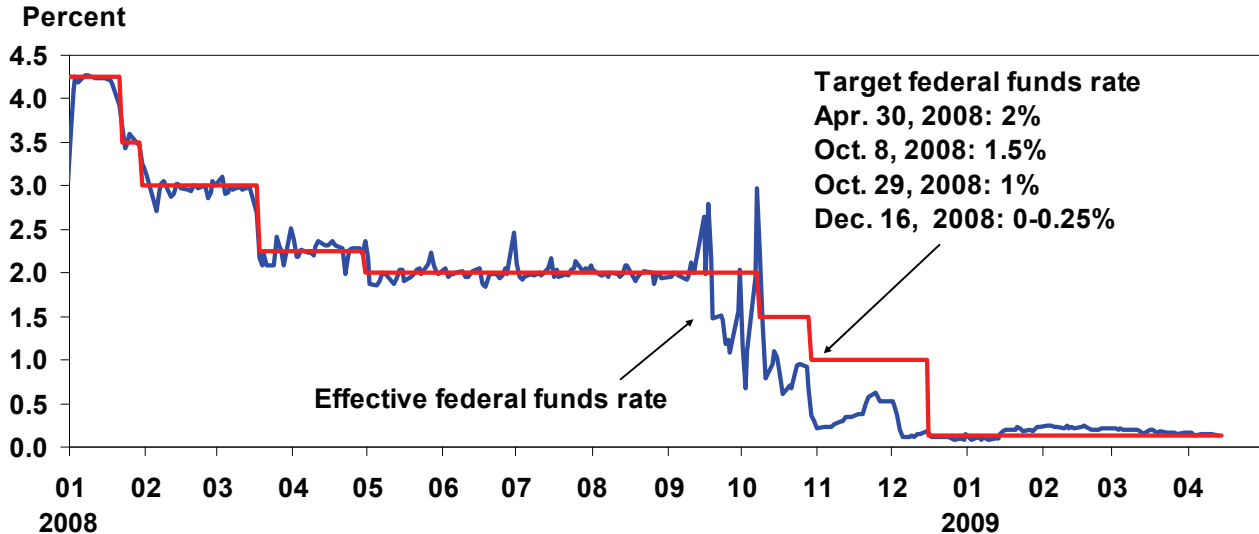
1998-2008



Source: PricewaterhouseCoopers.



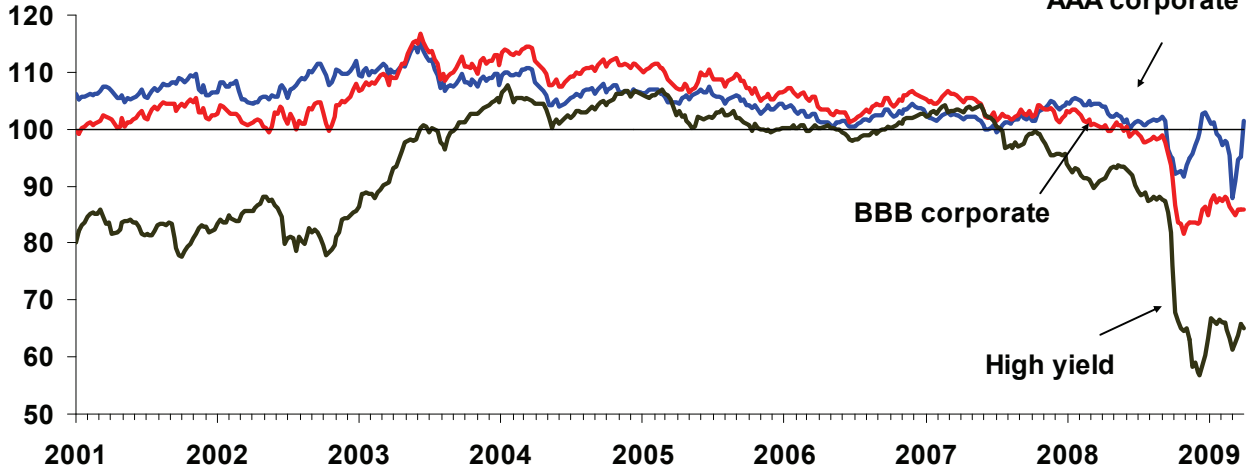
Fed funds rate at historical low



Sources: Federal Reserve, Milken Institute.

Corporate bonds were trading at deep discounts

Market value to face value, percent



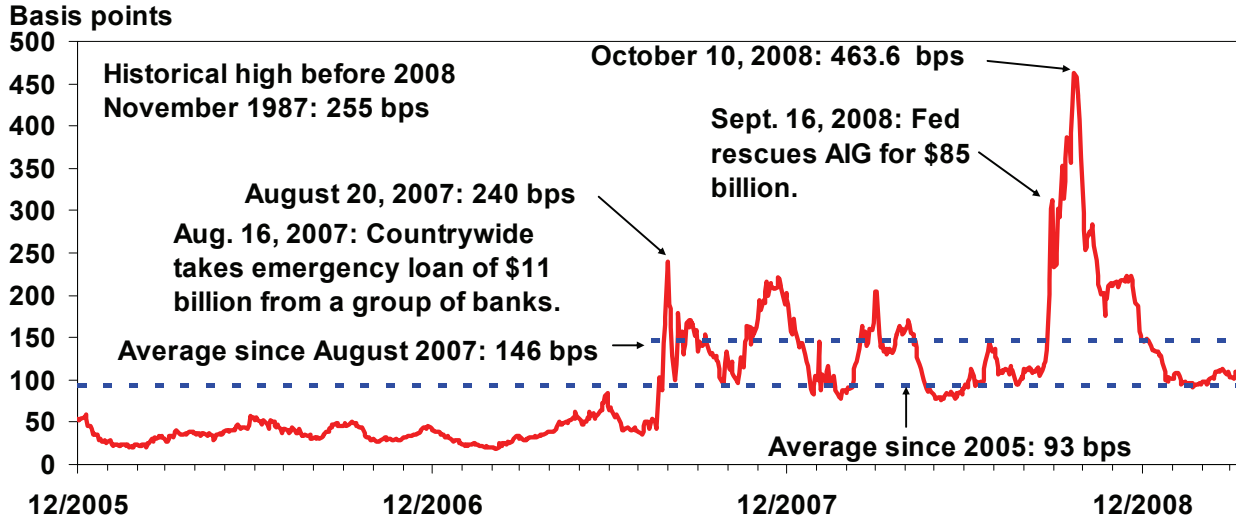
Sources: Bloomberg, Milken Institute.

TED Spread reached historical high in 2008



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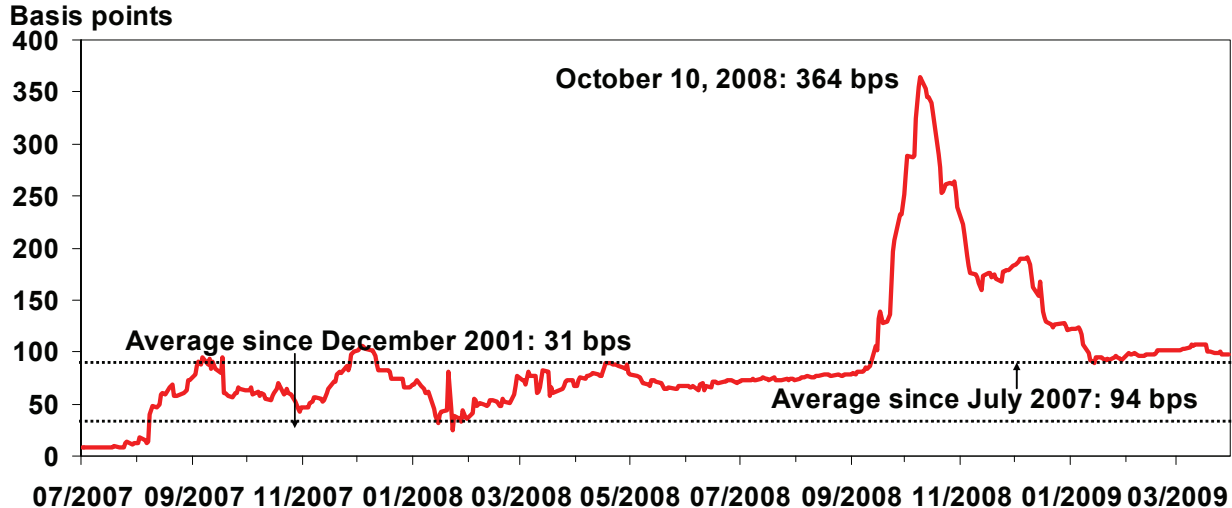
Daily, December 31, 2005—March 31, 2009



Sources: Bloomberg, Milken Institute.

Liquidity freeze: spread between 3-month LIBOR and overnight index swap rate

Daily, July 1, 2007—March 31, 2009



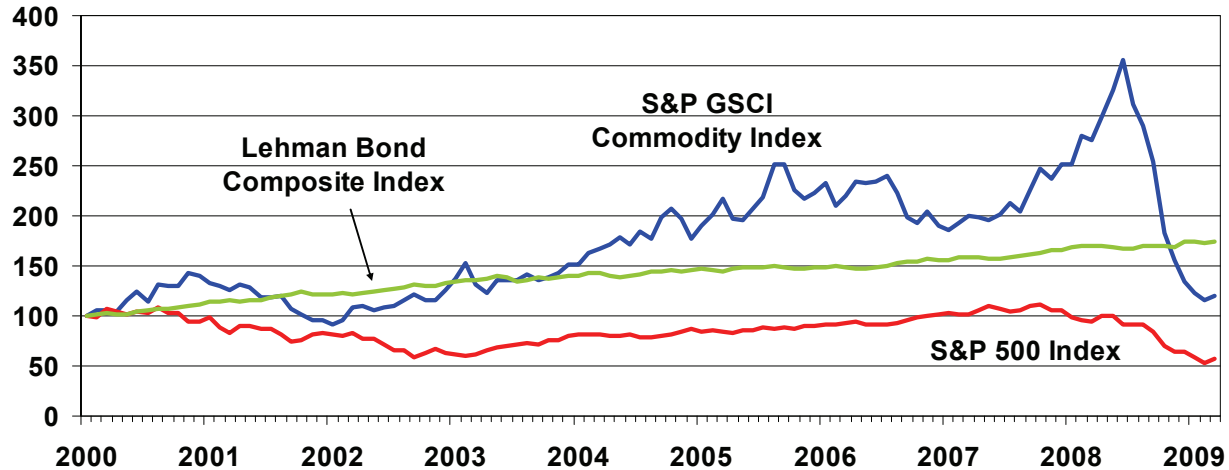
Sources: Bloomberg, Milken Institute.

Price performance of major bond, equity and commodity indices



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Index, January 30, 2000 = 100

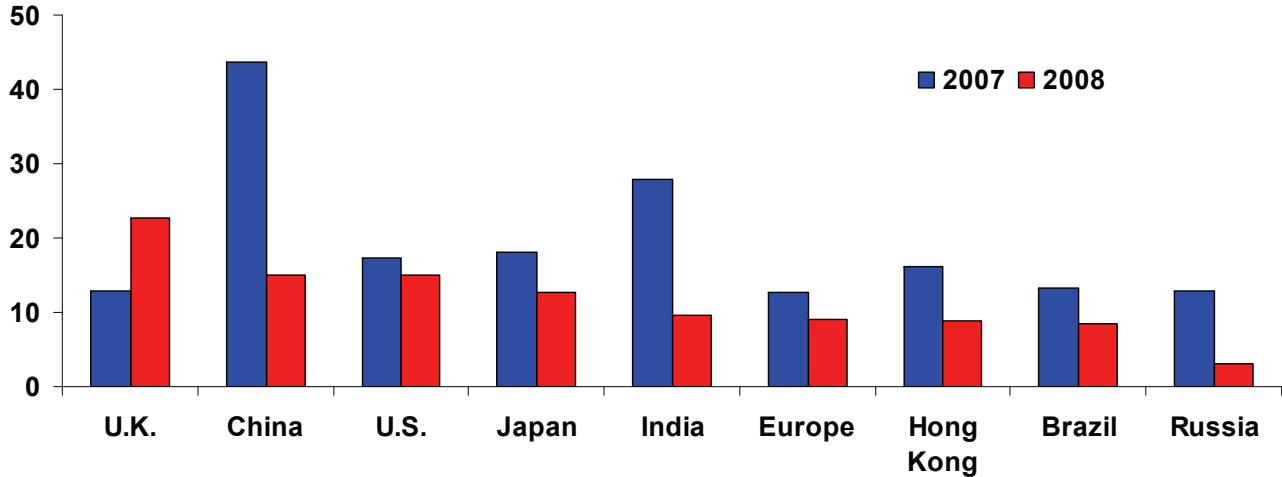


Sources: Bloomberg, Milken Institute.



Where to invest?

Price-to-earning ratio of major equity market indices



Sources: Bloomberg, Milken Institute.

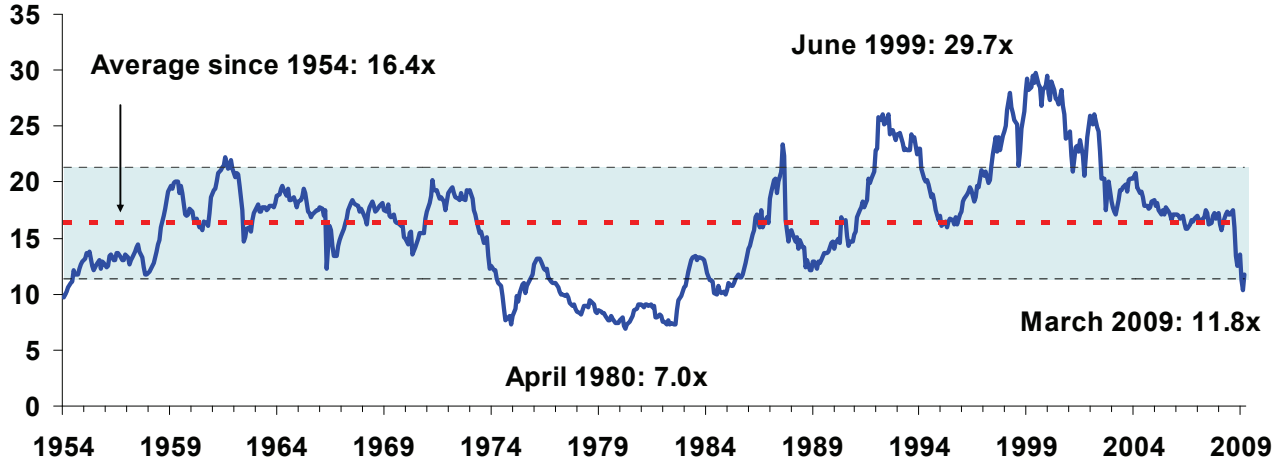
Does low price-earning ratio imply great investment opportunities?

Monthly, January 1954—March 2009



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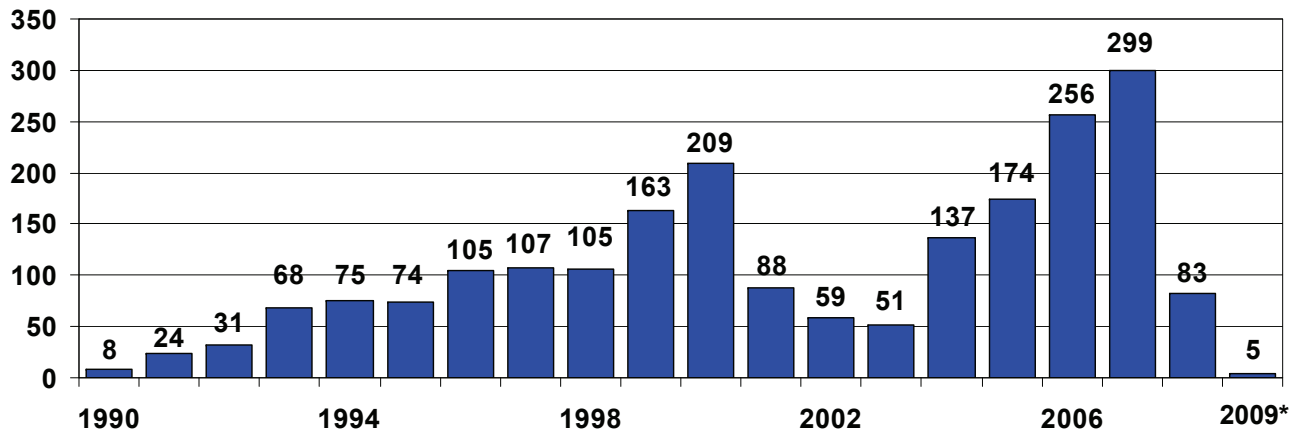
Price-earning ratio for S&P 500 index



Sources: Bloomberg, Milken Institute.

Global IPO market froze in first quarter 2009

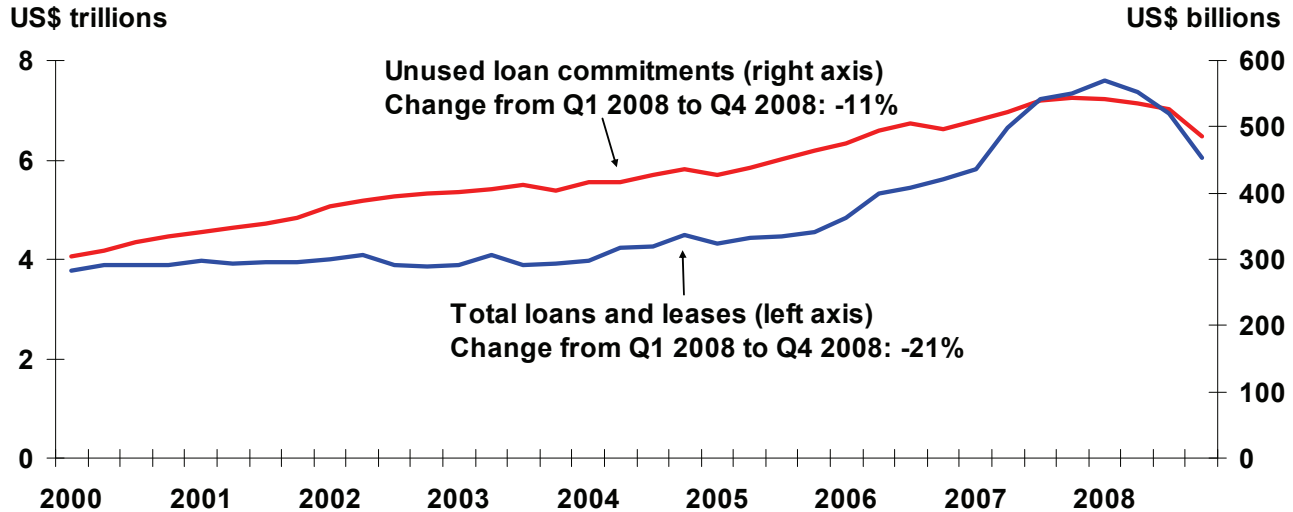
Amount raised, US\$ billions



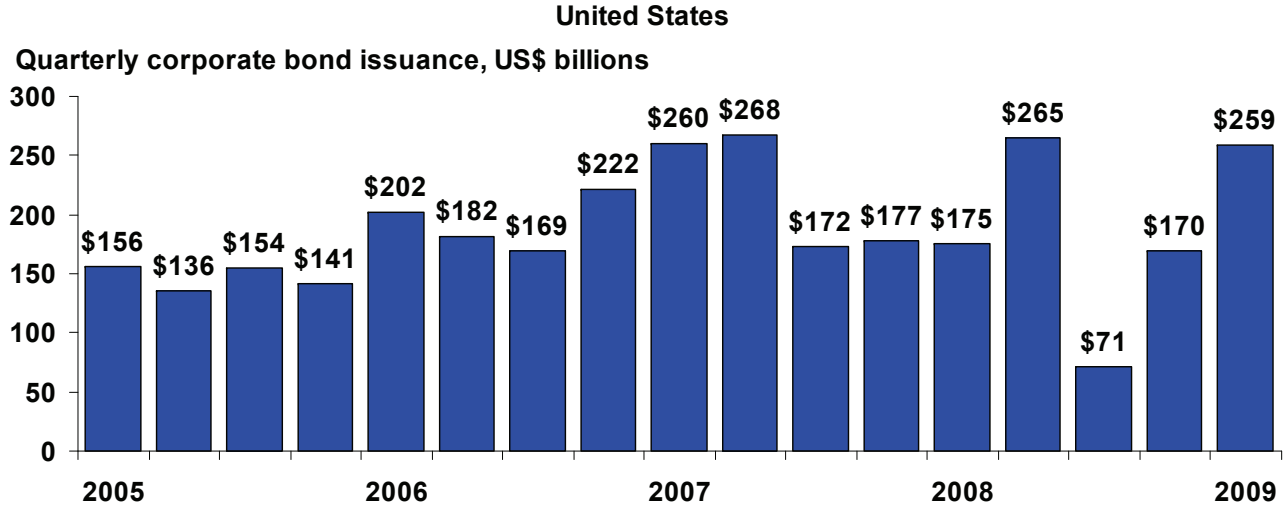
* 2009 number is annualized.

Source: Dealogic.

Banks lend less, while businesses and individuals draw upon existing credit lines *Quarterly, Q1 2000–Q4 2008*



Corporate bond issuance started to catch up since Q4 2008

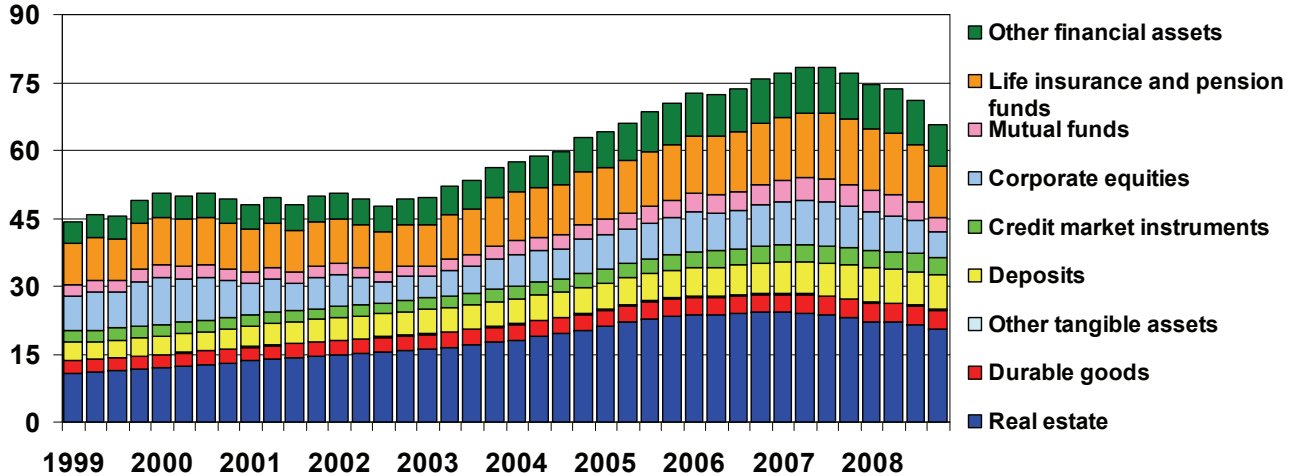


Sources: Dealogic, Milken Institute.

U.S. Household assets shrank by 16 percent from its peak in Q3 2007

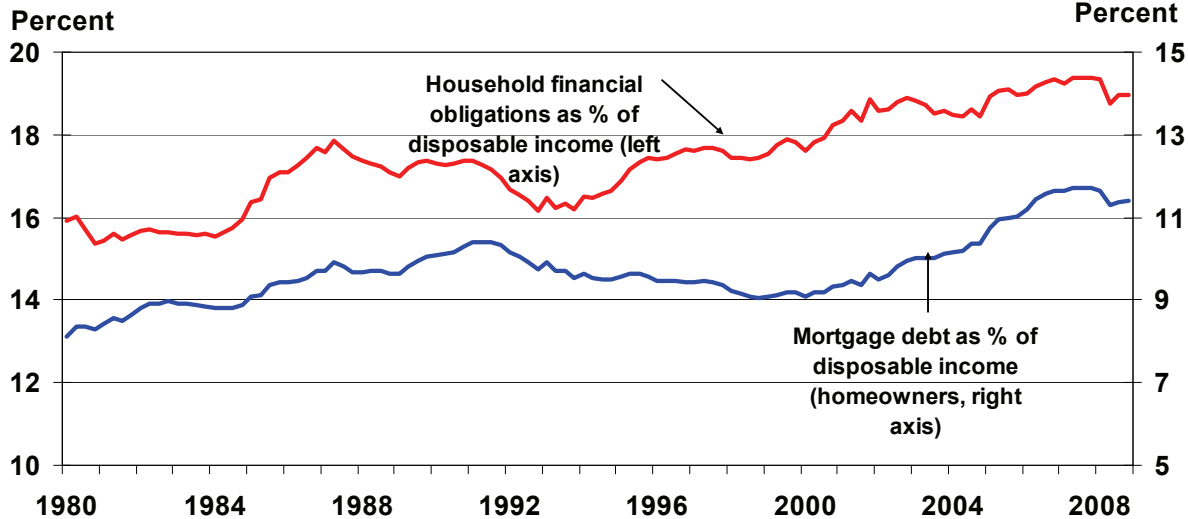


US\$ trillions



Source: Federal Reserve.

Households leveraged up



Sources: Moody's Economy.com, Milken Institute.

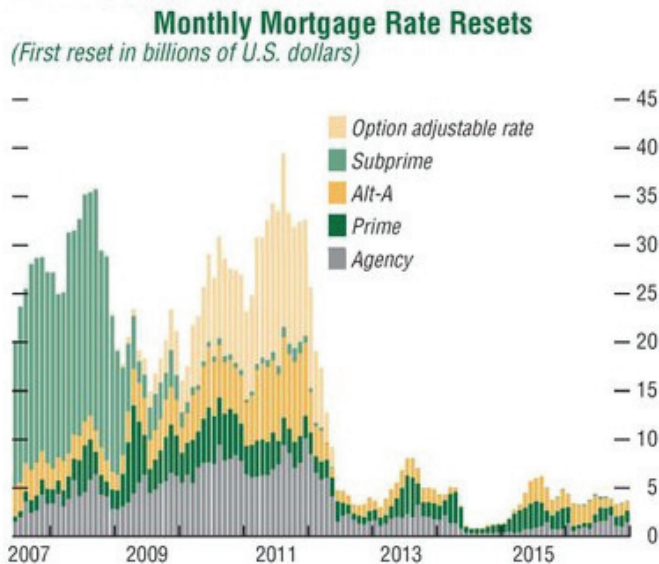
Thomas Lee slides



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Timing of recovery - ARM resets

Alt-A and Option ARM resets in 2010-2011 could prolong the housing recession for years



Sources: Credit Suisse, IMF.

Duncan Goldie-Morrison slides

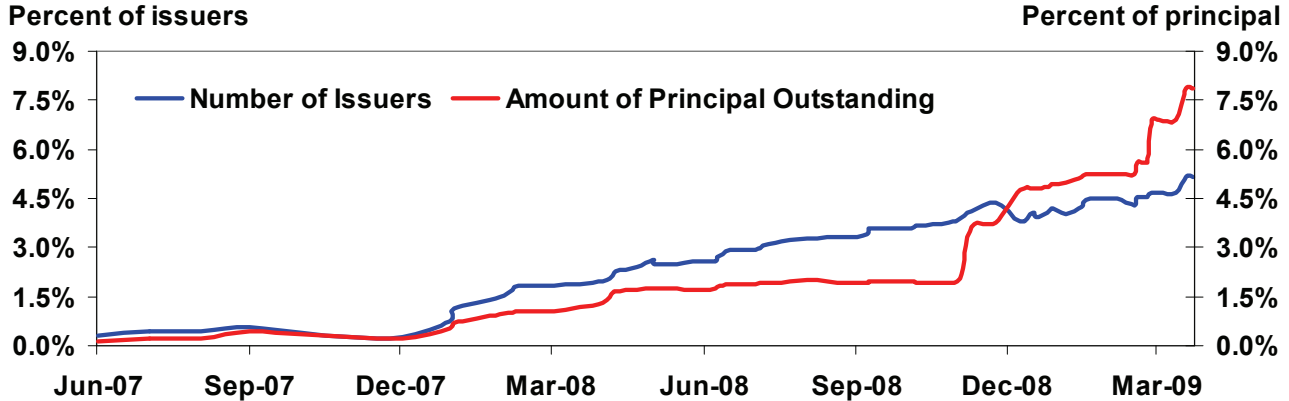


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Senior loan default rate by number of issuers and by principal

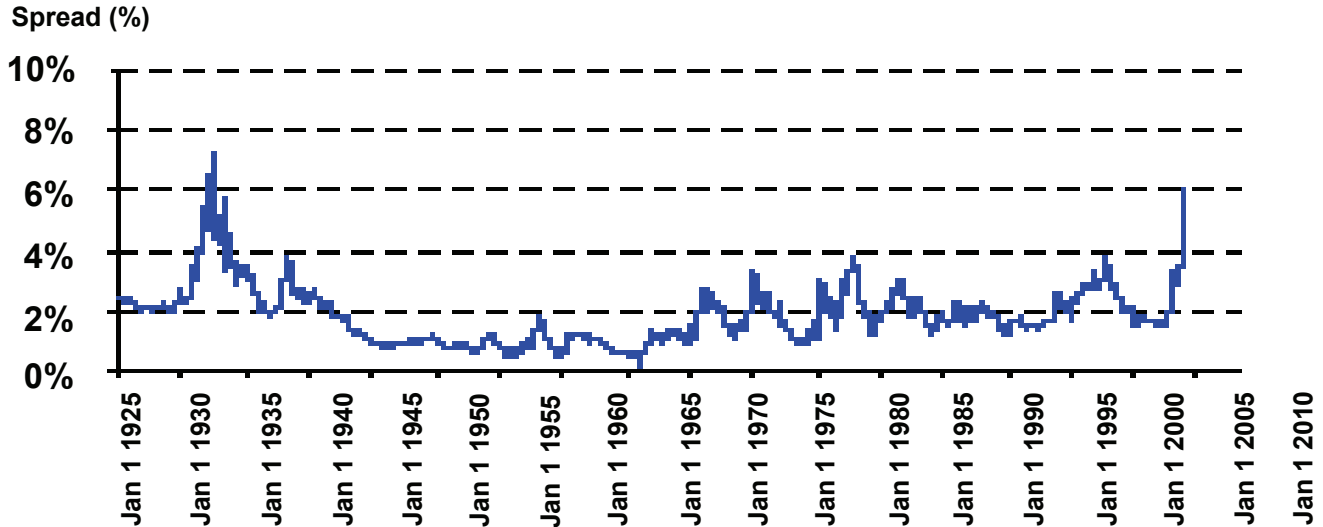
Senior loan default rate by number of issuers and amount of principal outstanding (lagging 12 months)



Note: Rates may decline because of changes in the Loan Universe.

Sources: S&P/LCD and S&P/LSTA Leveraged Loan Index.

US Baa corporate bond spread – 80 year historic



Source: Moody's & Credit Suisse.

Corporate bond yields

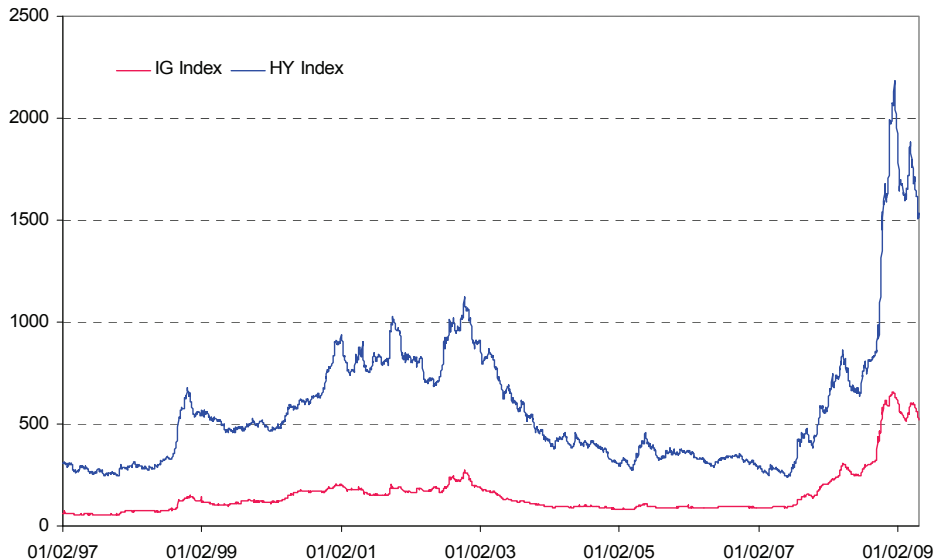
Moody's Baa yields



Source: Merrill Lynch index.

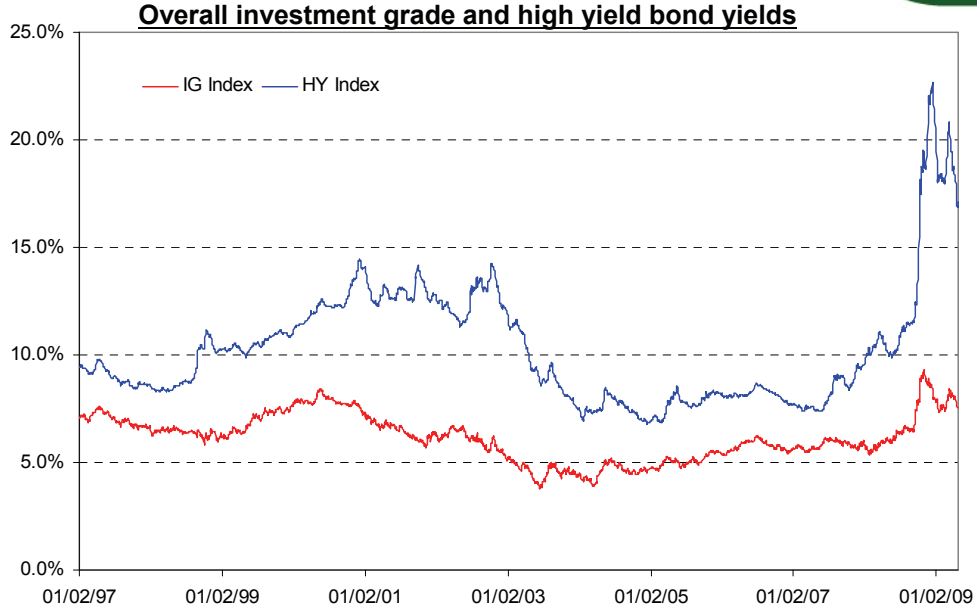
Historical cost of debt 1997-2009

Overall investment grade and high yield bond spreads



Source: Merrill Lynch index.

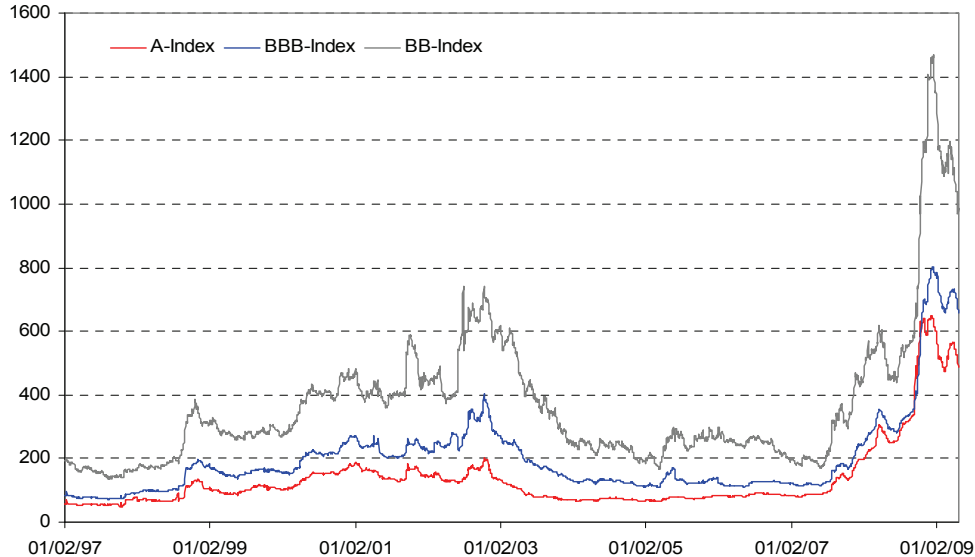
Historical cost of debt 1997-2009



Source: Merrill Lynch index.

Historical cost of debt 1997-2009 (Continued)

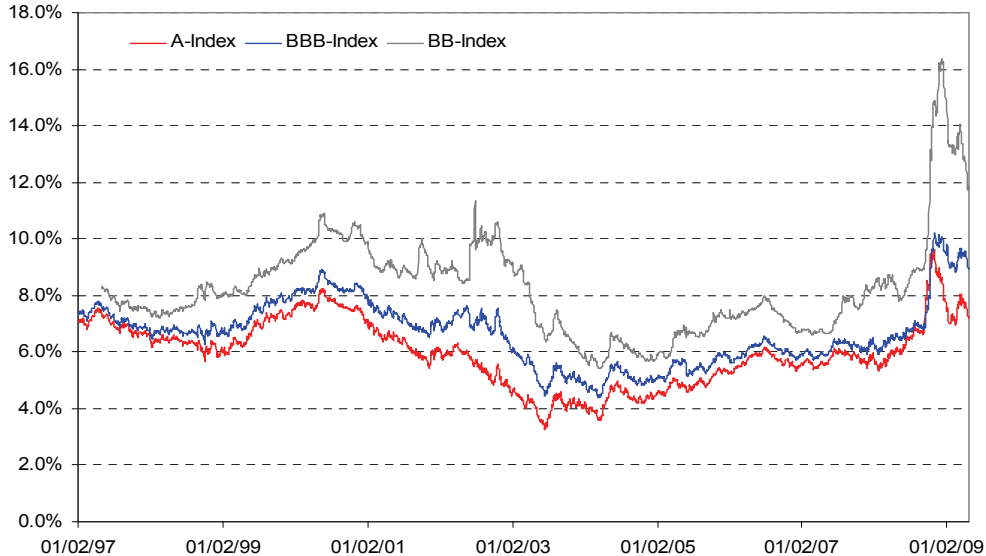
Bond spreads by rating



Source: Merrill Lynch index.

Historical cost of debt 1997-2009 (Continued)

Bond yields by rating



Source: Merrill Lynch index.