



**FOR IMMEDIATE RELEASE**

**CVCA Releases First-Ever Report on Private Equity's  
Growing Contribution to the Canadian Economy**

*Buyout Funds add \$25 to \$30 billion to Canadian economy*

MONTREAL, QC, May 29, 2008 - Canada's Venture Capital and Private Equity Association (CVCA) today issued a special report on Canada's Private Equity Industry. The report is the first of its kind in Canada that provides an overview of the industry with a focus on buyout investors and their contribution to Canada's current and future prosperity.

"This report gives a clear picture of how Canada's private equity industry has grown and helped fuel Canada's economic prosperity," said Rick Nathan, President of the CVCA and Managing Director of Kensington Capital Partners Limited. "What is evident from the report is that the combination of superior business strategies that challenge conventional wisdom, active corporate governance that puts a focus on strategy and the willingness to assume risk is critical to a competitive and innovative economy in the modern business environment. And as we see from the data the Private Equity Industry is helping to drive innovation, shareholder value and job creation."

Highlights of the report include:

- Over the last 5 years, Buyout investors have added \$25 to \$30 billion in value (GDP) to the Canadian economy
- Over the last 5 years, Buyout investors have created 114,000 jobs
- Research shows that Private Equity is driving corporate innovation and productivity raising value which means substantial corporate tax revenues and benefits for investors, notably pensioners
- Canadian Buyout firms have been far more active buying American companies than vice versa. Over the 5 years from 2002 to 2006, Canadian Buyout firms executed buyout deals in the US valued at approximately 3 times the value of US buyouts of Canadian firms.



“Canada is home to a wide range of Private Equity players – from venture capital funds investing in small start-ups to some of Canada’s best known pension funds. This report outlines the positive, net contribution these funds are making in terms of both productivity and employment,” added Mr. Nathan. “More private equity investment means a stronger Canadian economy with more jobs and more head offices. Public policy needs to reflect that.”

*The CVCA – Canada’s Venture Capital and Private Equity Association – was founded in 1974. Its more than 1,500 members include venture capitalists, institutional investors, pension funds, corporate investors, private equity investors, angel investors, as well as advisory members who provide services in such areas as law, finance, executive search, investment bank, insurance, consultants, advisors, government and academia. More information on the CVCA is available at [www.cvca.ca](http://www.cvca.ca) .*

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## **BACKGROUND – CVCA REPORT HIGHLIGHTS – May 2008**

### **PE Overview - Comparisons to other financial and investment instruments**

PE funds play a very active “hands on” role in the management of the companies in which they invest, they bear more risk in the investment and they tend to hold their stake for longer periods of time. PE fund managers have returns expectations of 25% - Canadian equity mutual fund managers’ expectations are in the 8-9% range, largely mirroring the performance of the TSX300 over a 10 year period. When PE firms sell their investments back to the public market via IPO’s at higher valuations, they add to the health of capital markets.

### **How Buyout firms raise, make and distribute money**

The most prevalent means of creating value is to increase the productivity of the business, by investing in innovation, in creating scale through capital investment or further acquisition, or by hiring more experienced management to help the business evolve.

Despite the fact that Canada’s Buyout industry is relatively nascent when compared to the US and UK, the tax on carry is among the highest, with the UK at 18% and the US ranging from 15- 23% as of 2008.

### **Overview of the PE industry in Canada**

Growth in PE has been exceptional with assets (or capital) under management (AUM) by Canadian PE firms topping \$65 billion in 2006, up 16% from 2005. Out of the \$65.5 billion AUM, approximately \$20 billion was raised from foreign sources and approximately \$46 billion was raised from domestic sources. Out of the funds raised, \$42 billion has been invested over the past 5 years, \$22 billion going to Canadian Portfolio Companies and \$20 billion going to foreign Portfolio Companies. Canadian Portfolio Companies also received \$5 billion from foreign investors.

Of the three market segments of Private Equity – Venture Capital, Mezzanine and Buyout investors - the buyout segment of PE accounted for most of the growth, with \$38.2 billion of capital under management in 2006, up a substantial 28% from 2005.

Analysis reveals Canadian Buyout firms have been far more active buying American companies than vice versa. Over the last 5 years (2002-2006), Canadian Buyout firms executed buyout deals in the US valued at approximately 3X the value of US buyouts of Canadian firms.



## **How Buyout firms add value to companies and how that translates into value for the broader economy**

On average buyout firms increased the value of Portfolio Companies by 83% in the US and 81% in Europe over an average hold period of 3 years. By comparison, public companies increased their value by only 33% and 23% in the US and Europe, respectively, over the same hold period.

Buyout firms create value for Portfolio Companies by pulling strategic, operational, organizational and financial levers.

Recent research has proven that despite using higher levels of debt relative to the typical public company, Buyout firms do not put companies in jeopardy because they increase profitability and cash flow to support these interest payments. Though this is the most frequently cited and often criticized value adding strategy of Buyout firms, McKinsey research shows that debt is the main value adding lever for only ~30% of deals.

Long-term thinking and sustainability: In contrast to public companies, Buyout owned Portfolio Companies do not have to “manage to earnings”. Research demonstrates that companies sold by Buyout firms tend to do better in the market than companies that were never owned by Buyout firms.

Improved productivity of Portfolio Companies sends signals along the value chain to suppliers, and raises the bar for competing companies to improve their own performance so that they can compete with the Portfolio Companies.

Research suggests that the cumulative effect of the increased sales of Portfolio Companies adds between \$20 and \$25 billion to Canadian GDP, ~ 0.4% of total Canadian GDP over the last five years.

The tax paid when returns are realized serves as a new income stream for the Canadian government, enabling the government to increase its spending or cut taxes. In the last five year period, such increase in government fiscal room raised the Canadian GDP by \$1.9 billion.

The higher returns increase investors’ levels of wealth, which in turn are closely associated with higher consumption levels. Research suggests that the portion of the Buyout return that was over and above TSX 300 returns alone led to an increase in GDP of \$1.3 billion. Overall, an estimated 114,000 jobs (or 0.5% of the total gross jobs created) were added to the Canada economy by Buyout firms over the last five years.