ESSEC
BUSINESS SCHOOL
PARIS-SINGAPORE

PRIVATE EQUITY CHAIR

Press release

The ESSEC Private Equity Chair releases its study on "The performance of French LBO firms: New data and new results"

Cergy, 14 October 2008

The ESSEC Private Equity Chair releases its study, initiated in 2007, on the operating performance of French firms undergoing an LBO (Leveraged Buy-Out).

Based on indicators such as sales growth, EBITDA growth, and the evolution of the EBITDA margin (the ratio of EBITDA over sales), **the study reports a significant increase in the operating performance of LBO targets relative to comparable firms** after the deal**.**

Among the study's strong points is the use of new data and up-to-date econometric methods to analyse the results obtained. The sample consists of 158 French firms that were LBO targets during the 1995-2005 period.

Main conclusions

In the first two fiscal years following the LBO transaction, **the operating performance of firms undergoing an LBO improves significantly compared to that of their benchmarks:**

- Sales growth for LBOs is about 6% higher than that of comparable firms;
- EBITDA growth is about 20% higher than that of comparable firms;
- The EBITDA margin of LBOs increases by more than 1% relative to that of comparable businesses.

The study shows that the observed performance increase of LBO firms is associated with:

- an increase in the gross profit margin of LBOs of about 1.1% compared to their benchmarks, within a broader context of an overall decrease in the profit margins of French SMEs;
- bringing personnel costs under control, giving rise to savings on productivity in the order of 1.2% of sales;

- an increase in other operating costs, amongst which marketing expenses, of about 0.9% of sales;
- better management of working capital needs.

The study shows that these results are not specific to a given industry sector, deal type or time period.

Strong points of the study

- The sample used in the study is representative of the overall LBO market in France. 52% of the companies in the sample have sales under 20 million Euro and 87% have sales under 75 million Euro.

- A deal by deal verification of the sample was carried out by making a cross check of: the publicly available accounting information (used to measure performance); the information about the deal published in the media; and the information available on the firm's website. This verification process is essential in order to obtain reliable data.

- The study uses the statistical methodology known as propensity score to obtain the control sample of comparable firms. This method selects as benchmarks for LBO performance the set of firms whose probability to be chosen as LBO targets was *a priori* the same as firms which were indeed selected as LBO targets by investors. This methodology aims at overcoming the problem known as "selection bias", that is, the fact that firms bought in LBO deals are generally better performing than their peers. This fact can induce a bias in the measurement of performance if it is not properly accounted for.

Study available on www.essec-private-equity.com

About ESSEC
The ESSEC Group, the Ecole Supérieure des Sciences Economiques et Commerciales, founded in 1907, is a major player in management teaching on the world scene. Internationally renowned professor-researchers and highly-regarded business leaders ensure the high teaching standards. Together, they maintain the tradition of academic excellence, promote individual creativity and character building as well as the spirit of openness at the service of economic and business activities. *For more information:* www.essec.edu

About the Private Equity Chair
The Private Equity Chair was launched by ESSEC in January 2007 with the aim of creating knowledge on topics relevant to Private Equity, and to disseminate this knowledge by training future industry professionals. The Chair has three activity areas: production of academic research; production of managerial-oriented content via its Case-Study Programme; and coursework open to ESSEC students. The Chair benefits from the financial support and expertise of its three partners: Barclays PE, Grant Thornton and Linklaters. For further information, please visit www.essec-private-equity.com

Press contact
Olivia Retali
+ 33 1 34 43 28 47
retali@essec.fr

Chair contact
Katy Olive
+ 33 1 34 43 32 92
olive@essec.fr