

ESSEC Private Equity Chair

Social Impact of LBOs in France AFIC Conference – March 7th 2007

In order to have factual and objective data on the effects of LBOs on company development, AFIC decided to initiate a survey on firms currently or previously involved in an LBO.

The aim was to analyze the evolution of social conditions in firms under LBOs and to compare them to the classical French companies. This survey was conducted along with the audit firm Constantin Associés, following a 2003 survey about LBOs and economic development in France.

The findings of the survey not only confirm the premise that LBOs have a positive impact on the companies, but the comments by company managers reflect their enthusiasm about the LBO process after they have forged close ties with professional financial investors.

The conference took place in the Salons France-Amériques. Over a hundred people attended the presentation, among which were journalists and union representatives. The presentation was done by Patrick Sayer, President of AFIC, Gonzague de Blignières, former president, alongside with Jean Paul Séguret, Chairman of Constantin Associés.

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1. Private Equity in France

Private Equity is a vast notion and regroups: Venture capital, Development capital, LBO operations and Releverage capital.

The private equity market in France is ranked 1st in continental Europe & 3rd worldwide, in terms of funds invested. In France, Private Equity (PE) is a major actor of social and economic development.

Key figures of the Private Equity market in France:

- Financing 1,250 companies each year
- Over 1,5m employees (2005: +4% vs. 2004)
- Turnover of c. €200bn in France (2005: +7% vs. 2004)

Within PE, LBO operations represent a significant part. Above all, these types of transactions are medium/long term projects leading in most cases to a change in management. There are financed with private funds by professional shareholders and with recourse to debt.

Key figures of LBO operations in France:

- €12bn invested between 2003 and 2005 in more than 1100 operations
- c. 300 companies supported each year
- An appropriate solution to development needs of many industrial/family/listed companies:
 - Less than €1m invested in 50% of the operations

- Less than €10m invested in 85% of the operations
- Only 17 operations (1% of total operations) required an investment of over €100m between 2003 and 2005.

LBO transactions are a solution to a demand coming mostly from SME...

- Circa 70% of leveraged companies have a turnover below €50m.
- Over 80% of leveraged companies employ less than 500 people.

... and a solution for regional financing:

- 95% of LBO operations were carried out in France (2003 – 2005)
- Mostly 60% of operations outside « Ile de France » (2003 – 2005)

2. Objectives & Methodology

Quantitative information was initially gathered through a questionnaire addressed to companies currently or previously involved in an LBO (at least for more than 2 years), and subsequently complemented by a series of face-to-face interviews. This research was designed to measure the impact of LBO transactions on the development of the companies' business and workforce.

More than 200 questionnaires were sent and 94 were returned and analyzed; and 15 individual interviews were conducted.

The analysis was focused on 4 main criteria:

- Turnover

The company's business trends were measured and then compared to the national average and the average among French top 50 companies

What is the company's growth and what trends underlie the main financial results? Are they due to productivity increase or increase in manpower? Is it net creation of jobs or external growth?

- Workforce

Workforce-related qualitative and structural aspects were analyzed by measuring trends in the number of employees, average salaries and implementation of employee incentives, absenteeism and workforce rotation, working hours, employee training, work councils... and, finally, an assessment of the impact of the LBO on the company's labour environment and policies.

- Geographical implantation

Are conclusions similar in distressed regions?

- Economic sector

(Industry, services BtoB and BtoC, distribution and construction)

3. Results of the study

According to the study, companies under LBO outperform other companies in many fields, both quantitative and qualitative.

First, their turnover annual growths have reached 5.6%, well above the 0.7% of the national average. This growth is mainly due to the increase of the number of employees and to a lesser extent, to a gain in productivity.

The number of employees has increased by 4.1% whereas the national average is about 0.6%. What is more, it is interesting to underline that 78% of these new employments have come from organic growth and that whatever the regions, the growth of the workforce has been higher in companies under LBO than in classical companies.

Salaries have been higher in companies under LBO than in other companies. Indeed, plans of profit sharing have been often implemented and stock options or specific corporate saving plans have been offered to the managerial staff and even to the non managerial staff. As a result, the rate of absenteeism and the rate of staff turnover have plummeted by 10% in those firms. This clearly shows that employees have been more implicated and more faithful to their companies.

Interviews with employees have also given a clear indication that LBOs have a positive impact on working conditions. In the companies which have been analyzed, formation expenses have increased by 10% since their acquisition by a private equity fund. Moreover, the development of internal promotion schemes and works councils has been more important than in other companies. Finally, 90% of the employees announced that they have a positive opinion of the LBO deal undertaken by their firms.

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The results of this study make it possible to provide an objective analysis aimed at highlighting the social characteristics and advantages of LBO transactions in France, thus helping to convince the business world and government authorities of the advantages of LBOs for the French economy and to dispel some of the contrary claims of conventional wisdom.

4. Audience's questions

Q1: The study only shows the employment growth rate of the company after the LBO transaction but does not compare it to the employment growth rate before the operation. Therefore, it is hard to measure the LBO's impact on the employment in the company.

A1: in most cases, economic cycles before and after the LBO operation are very different and this makes the comparison irrelevant.

Q2: The study mainly focuses on quantitative data and therefore, does not show the qualitative impact of the LBO operation (Motivation / well being / stress, etc.)

A2: The study did not forget the qualitative aspects of the study. Even if staff turnover and absenteeism are quantitative elements, they measure the qualitative impact of the LBO, which proved to be positive for companies under LBO.

Q3: Does AFIC work with labour unions and did it interview some candidates to the French presidential elections?

A3: Yes, AFIC works with unions on a regular basis, in order to teach them what private equity is (unions are often unaware of private equity issues..), and to draw together evolutions in the private equity market (eg: more employees participating in LBO operations)

Regarding presidential candidates, AFIC did not meet with them yet because the candidates are very busy at the moment. Nevertheless, AFIC met with the presidential candidates' teams.

Q4: The study only took into consideration companies that had been under a LBO for at least 3 or 5 years, isn't it biased?

A4: Companies which have been less than 3 years under a LBO, have not yet completed the implementation of the measures suggested by Private Equity funds and hence, the study of these companies would not be relevant.

Q5: How many employees work in a company under LBO in France?

A5: Between 800,000 and 1 million people.

Q6: How many companies under LBO go bankrupt?

A6: less than 2% vs. a national average of 4%.