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Special Report

PRIVATE EQUITY AT A CROSSROADS



INTRODUCTION



Private Equity at a Crossroads

Private Equity (PE) has always been a fast-evolving industry, and 2014 is proving no exception. Early forecasts for U.S. growth in 2014 were quickly tamped down in the first couple of months of the year after fourth-quarter 2013 GDP numbers came in less than expected (a 2.4% annualized rate versus the 3.2% forecast). With once-stalwart emerging market economies now sputtering, hopes have been dampened some for new PE investments, and emerging markets will not support many portfolio company sales.

But speakers at the Wharton Private Equity & Venture Capital Conference 2014 said that weaker-than-expected economic growth may at least have the virtue of uncovering some diamonds in the rough. Uncertain growth is also causing investors to get choosier about their PE investments. Expect money to gravitate toward the large firms with solid track records, and also towards niche firms that offer a unique approach. Firms in the middle could get squeezed.

This edition of the Wharton Private Equity Review looks at these issues and also considers developments in venture capital. Panelists say there are fewer attractive late-stage firms. One company, meanwhile, is pushing the bounds of innovation by creating a “private” social media network so its 200 portfolio companies can share knowledge and increase their value.

Emerging Market Slowdown Hits Private Equity, but Improves Pricing 1

Slower emerging market economic growth has dampened private equity. But the receding tide of investment is also uncovering some hidden values. And with PE firms unable to supercharge returns through leverage in those countries, the focus is turning towards improving operations and enhancing revenues in portfolio firms.

The Evolution of a Private Equity Leader 3

Investors have become choosier about their private equity investments. As a result, expect more money to gravitate toward large private equity firms with solid track records, and towards niche firms offering a unique approach, says Joshua Harris, co-founder and chief investment officer of Apollo Global Management. Firms in the middle could get squeezed. He also discusses the evolution of his company.

Venturing into ‘Private’ Social Media 5

Josh Kopelman, managing partner of First Round Capital, a venture capital firm, says a key strategy at his company is to use a private form of social media to create knowledge sharing that leads to new value. If two minds are better than one, then 60, 100 or 200 are even better. Thus, First Round Capital has developed a non-public network to connect members of its 200 portfolio firms.

Attractive Late-stage Firms Grow Scarce for Venture Capital 7

Venture capitalists face slimmer pickings and higher prices in 2014 as competition to buy good late-stage companies is raising the bar. Prices for firms that once might have returned six to seven times the investment now may bring just one or two times, notes Jason Trevisan of Polaris Partners. Cara Nakamura, principal of the Princeton University Investment Company, calls prices “terrible.”

Emerging Market Slowdown Hits Private Equity, but Improves Pricing

A FEW YEARS AGO, private equity (PE) funds were eagerly investing in the BRICs, banking on faster growth than they could find in developed markets. But more recently, the economies have cooled in these countries — Brazil, Russia, India and China — and in many other emerging markets as well.

“There is just not all that much money chasing deals down there [in Brazil] anymore,” said Thomaz Malavazzi, investment officer for Tarpon Investimentos, describing a problem expressed by most speakers on an emerging markets panel at the recent Wharton Private Equity & Venture Capital Conference 2014. Many Brazilian companies are cutting headcount, and consumers are strapped for cash.

Yet despite the slower consumer spending, owners of firms that might be good PE investments are holding out for high values that are now out of date. That makes the market challenging, Malavazzi said.

“There is no availability of debt, so it’s all equity.”

— Dennis Kalenja

Industry surveys show that PE firms are having a tough time finding buyers for portfolio firms in emerging markets, and that those firms take longer to prepare for sale than holdings in developed markets. Emerging market returns have trailed those in developed markets, the opposite of what many PE firms have hoped for.

So what does a fund dedicated to emerging markets in general do now? Stand back and wait for better times? Or plunge in?

“Now is the time to buy things,” Malavazzi said, citing cheap prices for prospective portfolio acquisitions. Many PE funds, even if based in an emerging market, have plenty of cash to invest, as they don’t necessarily rely on funding from the emerging markets themselves. Many limited partners are from the developed world, and there is money from sovereign wealth funds from Asia and the Middle East.

For now, added Ivan Amaral, investment professional at Victoria Capital Partners, another firm active in Brazil, PE firms are finding it easier to raise funds in Asia than in Latin American and other emerging markets.

But the slowdown in emerging markets has been painful. It has made borrowing difficult, minimizing the role of leverage, several panelists reported. Some PE firms that had bought targets in Brazil at prices of five or six times EBITDA are in real trouble, while ones that held to two or three times are doing better, Amaral said.

“There is no availability of debt, so it’s all equity,” said Denis Kalenja, managing partner of Montague Capital LP, a venture capital and private equity firm with many emerging market interests. Some large international PE firms, he noted, turn to debt markets in developed countries to raise money for emerging market ventures.

OUTSIDE LOOKING IN

Still, as a rule, debt has not, does not and will not play as big a role in emerging-market PE as it does in developed markets, added Amaral.

Unable to supercharge returns through leverage, PE firms in emerging markets must focus on improving operations and enhancing revenues in portfolio firms, noted Sumeet Narang, founder and managing director of Samara Capital, which focuses on India.

And, in fact, emerging markets often provide types of opportunities not found as easily in developed ones, said Amaral. An astute PE fund may find firms with unsophisticated managers, poorly organized compensation systems and a spotty record in rewarding merit, he explained. An outside owner can remedy those shortcomings pretty easily. “It’s very hard to find that kind of asset in mature markets, but it’s easier to find in emerging markets.”

“You have to be very patient, Malavazzi added. He recalled investing in a large retail firm that had virtually no books. Over time, the firm’s financial history was reconstructed, and that alone increased its value because prospective buyers like international corporations could see what they would be getting.

In many emerging markets, PE firms end up in partnership with the original owners and managers rather than taking complete control. In these deals, 30% to 50% of the investment’s ultimate success derives from the quality of that partner, Malavazzi said. Choosing carefully is critical.

Emerging markets also tend to be more politically volatile than developed ones, sometimes causing regulations to whipsaw unexpectedly. “Suddenly they just change the entire tax structure,” said Kalenja, describing his experience in China. Confidentiality can also be a problem, he added, noting that exits through strategic sales are often preferable to initial public offerings, which require unwanted disclosure.

Even within a single country, regulations and tax codes can vary from state to state, Malavazzi pointed out. But although regional variation and unexpected changes can pose hazards, they sometimes present opportunities. Narang noted that his firm found promising investments in large mining firms after new, tougher environmental rules drove many small companies under.

ROOM TO GROW

While a growing economy is generally preferable to a sluggish one, a slowdown is not a death knell for PE. A firm that executes its plan well can overcome slow growth, said Narang. India, for instance, has a significant middle class that spends about \$15 billion a year eating out, but only about \$2 billion of that is spent at brand-name restaurants, he noted. So even though the restaurant industry may not grow fast overall, a branded chain would have lots of room to grow market share.

“In a low-growth environment ... you need to be with the number one player.”

— Thomaz Malavazzi

Still, without the rising tide of growth, prospective acquisitions that are relatively large have better prospects than ones that are small, said Malavazzi: “In a low-growth environment ... you need to be with the number one player.”

It’s a mistake, of course, to assume all emerging markets have the same features, the panelists noted. Amaral pointed out that Asian economies are generally growing faster than those in Latin America, at least for the moment, but that incomes are higher in Latin America. In Asia, an appealing acquisition may therefore be serving people’s basic needs – for things like food – while a hot Latin American prospect could be meeting middle class demand for products like cars.

Are the big international PE players making life hard for the smaller regional firms? Not necessarily. Malavazzi pointed out that big firms can have trouble fine-tuning to local conditions. And they may not have the “in” with local business people and politicians that can be valuable for PE plays in emerging markets.

And, typically, a big international and a regional firm, even if operating on the same turf, will go after different targets, he said. Big PE firms need to acquire big companies; small firms can do fine with smaller deals. “We can coexist really well.”





The Evolution of a Private Equity Leader

HOW DOES A PRIVATE EQUITY FIRM GROW to be one of the industry's powerhouses?

Like any other enterprise, it's likely to start small – but also to find a new way of doing things, said Joshua Harris, co-founder and chief investment officer of Apollo Global Management and a keynote speaker at the recent Wharton Private Equity & Venture Capital Conference 2014.

“We pioneered the distressed-to-control business,” he said, recalling the firm's origins in 1990. “We started really small – 10 individuals doing deals.”

Previously, investment firms typically bought companies the way a couple would buy a house, with a relatively straightforward exchange of cash for equity, he explained. But Apollo's early deals involved purchasing a troubled company's bonds on the secondary market and then, through a bankruptcy or other reorganization, converting this stake into equity with majority control. Early ventures involved firms like Vail Resorts, Culligan and Samsonite. “It was pretty novel back then. Nobody was doing it.”

“We find ourselves in the situation, for the first time ever, where we have more money than we can spend.”

– Joshua Harris

Today, the publicly traded firm employs about 700 people to manage about \$160 billion in assets. The stock (ticker APO) returned just over 50% in 2012 and more than 104% in 2013.

At the firm's founding in 1990, conditions were especially ripe, an opportunity that comes up only once every 20

years. “It was a unique-set situation,” he said, recalling that the landscape was changing as the government clamped down on the junk-bond industry that had boomed in the 1980s. Just out of Harvard Business School, Harris felt that risks were unusually low and opportunities high. He and other Apollo founders, such as Leon Black, were veterans of Drexel Burnham Lambert, the junk bond specialty firm that went bankrupt in 1990.

Over the years, he said, Apollo has flourished by staying flexible, acquiring either equity or debt as opportunities were unearthed, but always with a value orientation that emphasized getting a good price at the start.

As time passed, that flexibility paid off as market conditions evolved. A key trend of recent years has been government pressure on American and European banks to reduce risks, he said. That is expanding opportunities for the PE industry, which has plenty of room to grow: It manages only about \$1 trillion of the world's \$80 trillion to \$100 trillion in assets.

“Banks are getting smaller,” and PE firms are moving in to run risky businesses that banks once financed, he said.

At the same time, there are plenty of investors – such as sovereign-wealth and pension funds with long-term perspectives – that are looking for the kind of market-beating returns sought by PE firms, he noted. Pension funds are especially hungry, because returns in their traditional investments such as bonds are not keeping up with the rise in health care costs. “In every case, there's this search for yield.”

All that bodes well for the PE industry, he added. “We find ourselves in the situation, for the first time ever, where we have more money than we can spend. Our growth is limited only by our ability to find good assets.”

'BEST-IN-CLASS RETURNS'

Historically, Apollo has returned \$2.50 for every \$1 invested. Going forward, investors may settle for less, Harris said, but Apollo will continue to strive to deliver "best-in-class returns."

In today's climate, investors are choosier about their PE investments. That means money will gravitate toward the large firms with solid track records, and those niche firms that offer a unique approach, in Harris' view. Firms in the middle could get squeezed. Starting a PE firm will take bigger commitments from investors than in the past, with \$500 million no longer being enough.

"If you don't know what your strategy is, if you don't know why you exist and what your points of differentiation are over the 300 other firms, then you are going to be in trouble."

Outside of Apollo, Harris is known for his lead role among partners who purchased the Philadelphia 76ers basketball team in 2011 and the New Jersey Devils hockey team in 2013. Though these ventures are separate from Apollo, a private equity background was key to his decision to get involved in professional sports, Harris said.

As a Wharton undergraduate with family ties to Philadelphia, Harris was a longtime Sixers fan, he said. And his PE experience had often involved carve-outs, or "buying little jewels" buried inside big corporations. The Sixers, at the time owned by Comcast Spectacor, looked like they could benefit from the kind of hands-on guidance PE firms give their acquisitions. Over the past three years, Harris and his co-owners have given the team a new coach, general manager and chief executive. "I feel very good about it.... It takes time."

And although there is a big emotional reward to owning pro sports teams, they can be good business investments as well, he said. As with the Sixers purchase, Harris feels he and his partners paid a good price for the Devils – consistent with his long-time value-investing PE strategy.

In the long run, professional teams can benefit from a global fan base, he added, noting there are millions of

pro-basketball fans in China. In addition, some teams are evolving beyond performance-based entertainment to become media companies. And by owning two teams, Harris and his co-owners can create some synergies with strategies like overlapping management and sponsorships. While human judgment will always be part of sports management decisions like selecting players, there also is room for more sophisticated analytics, he noted.

"Try to be clinical and unemotional. What's the upside and what is the downside?"

—Joshua Harris

PRACTICAL MATTERS

What's his advice for business students considering PE careers?

Harris suggested working for a blue-chip financial firm for three to five years, to get experience and put some money in the bank. Then, before starting a new venture, he said, "try to be clinical and unemotional. What's the upside and what is the downside? If there is a downside, what's the other scenario?"

He also urged students not to overlook practical matters. "How will you survive and feed your family" if the going is tougher than expected? If, on balance, such questions have good answers, "then go for it."

Students should acquire solid financial skills, he said, recalling that he had done a two-year program for analysts and then earned an MBA from Harvard. "I enjoyed finance.... If you fake it and you don't really like it, it's not going to work out."

Private equity, he observed, can offer a fast path toward running a business. And it can be very lucrative. "That's not the only reason to do it, but it's a positive – better than the reverse."





Venturing into ‘Private’ Social Media

JOSH KOPELMAN, managing partner and founder of First Round Capital, describes his job as “a modern-day switchboard operator.”

It’s not quite that simple, of course, but Kopelman, a keynote speaker at the Wharton Private Equity & Venture Capital Conference 2014, said the key to his strategy as a venture capitalist is not to toil in secret until his portfolio firms are ready for prime time, but to use a private form of social media to make the process faster and smarter. If two minds are better than one, 60, 100 or 200 are even better. “In fact, we don’t refer to our portfolio as a portfolio, we refer to it as a community,” he noted.

Venture firms were set up as they were set up 30 years before. They were run as they were run 30 years before.

Kopelman got his start in a University of Pennsylvania dorm room when, as a Wharton undergraduate in 1992, he co-founded Infonautics Corp., which marketed an early Internet search tool. That firm went public on the NASDAQ in 1996, and three years later Kopelman founded Half.com, which eventually became one of the world’s largest sellers of used books, movies and music. It was acquired by eBay in 2000. In 2003, Kopelman helped found TurnTide, an anti-spam company that was quickly acquired by Symantec.

During those first 10 years, Kopelman was an entrepreneur — starting his own companies. Then in 2004 he started helping others start companies, founding the venture capital firm First Round Capital. The two

industries, he said, are very different. The entrepreneur’s world is complex, with a new issue cropping up every hour.

“The venture capital business is not complex,” he said. “The venture business is simple. Now, to be fair, simple doesn’t mean that it’s easy, but it’s simple. A venture capitalist pretty much does two things. They pick companies and they help companies.”

But although many might think the VC industry lives on the cutting edge, Kopelman found himself joining an industry that had grown stagnant. “Venture firms were set up as they were set up 30 years before. They were run as they were run 30 years before. In fact, I would argue that the single greatest innovation in the venture capital industry from 1974 to 2004 was the increase in carried interest from 20% to 30%.” Carried interest is the firm’s share of profits, with the rest going to the investors, or limited partners.

HOW VCS HELP

VC firms help their portfolio companies in four ways, he explained: By providing money, agency and services, advice, and a chance to join a broader community or business network. In recent years, many in the industry have redoubled their emphasis on the agency/services role. “That’s where a venture capital firm realizes that their start-ups, their companies, have a lot of common challenges,” Kopelman said. So, if all the companies in the portfolio have trouble with recruiting, a VC firm might build an in-house recruiting agency to help them. “[What if] our companies are looking for help with [the] press? Let’s go out and hire the world’s best PR people.... Do it with business development, do it with design.”

While this approach has worked, it presents a certain irony, as the VC firm becomes very different from the type of firm First Round prizes in its portfolio: One that benefits from

networking, has the ability to scale and can deliver value through software, not services. Among the shortcomings of the agency-style VC firm: As it adds more firms to its portfolio, the VC firm's services are diluted, and the firm tends to focus its efforts on the bigger portfolio firms rather than the smaller, younger ones that need help most.

"So even though these [agency-style VC firms] have delivered transformative value, I think we've all seen what happens to agency businesses and services businesses like this in the past," Kopelman noted. Critical to the success of a VC venture, Kopelman added, is the partnership relationship, in which the start-up gets advice from the VC partners, or from other companies in the portfolio.

"The more savvy entrepreneurs I know choose the partner not the firm [when deciding which VC firm to work with].... Oftentimes, companies build 50% of their value during the five years they are building the company, and then 50% of the value is on the table during the five months or five weeks you are negotiating an exit," he said. "Having that right partner around the table can make a huge difference.... You have the venture capitalist in the middle taking learning and best practices from company A and sharing it with company B. You're sort of a broker of information."

But the limited number of partners on the VC firm's roster cannot always offer the most up-to-date or on-target advice, because "the half-life of operating knowledge is very short," Kopelman noted. So how can VC firms improve on the agency/services model?

INFORMATION SHARING

With a "community endeavor" — a broader sharing of information, insight and advice, Kopelman said, explaining that at First Round he has tried to reduce the VC firm's broker, or middleman role, making it easier for the portfolio firms to talk directly to one another.

"We created a Yahoo group and we invited our CEOs onto that Yahoo group," he said, recalling the beginnings of First Round's internal network. When one of the portfolio firms suffered a website crash, for example, a First Round partner started telephoning experts for help — but also suggested the firm email the CEOs in the Yahoo group. Within hours, and before the partner had finished his round of calls, the firm had solved its problem and was up and running, thanks to help from CEOs thousands of miles away. "It showed the power of a community," Kopelman stated.

To improve this process, First Round has developed a non-public network to connect members of its 200 portfolio firms. The community, for instance, has 60 people devoted to search engine optimization, traditionally an isolating job. With the in-house network, these people

can help each other resolve issues faster. "The same thing happens for recruiters. The same thing happens for community managers, customer support managers...."

Traditionally, a partner in the VC firm would talk to a top executive at the portfolio firm about a problem or management issue, but with the network, dozens can chime in. "Now instead of a venture firm delivering value to a handful of C-level people, we are able to distribute it far down the stack of the employee base." First Round's goal, said Kopelman, is to soon have 25% of the 10,000 employees at the portfolio firms participating in this network.

We created a Yahoo group and we invited our CEOs onto that Yahoo group.

While there are many networking options on social network sites, First Round prefers a private system, so that executives can discuss matters involving trade secrets or post questions on sensitive issues like how to fire an employee. "Unlike an open community, it's curated.... It's trusted, it's confidential," he pointed out. First Round does not invite other VC firms into its network, feeling that the confidential system provides a competitive advantage.

"We think that starting a company is the loneliest thing that you can do," Kopelman continued. "There is so much uncertainty and so much doubt. There are so few people that you can talk to." In some cases, the executive at a portfolio firm might be reluctant to reveal his problems to the VC partners, but willing to seek advice from someone at another portfolio company. "Having peers, having a community really helps."

While adding a new company dilutes the effectiveness of a VC firm using the agency/services model, it enhances the value of the community in a network model, Kopelman noted. "We add a designer to the design group, we add a recruiter to the recruiter group.... There's more value that benefits everyone else.... We have over 300 designers that are sharing best practices now."

The community is also used for planned events like workshops. Limited partners have been supportive, and portfolio executives who have benefited from the network adopt a "pay it forward" philosophy toward others, he said. Kopelman adds that this approach will become more common in the industry. Partners will still provide value and VC firms will still provide money, but building community will be the big trend in the years to come.

"We think, as a result, this will help our companies win," he said. "And it's a lot more fun to build."



Attractive Late-stage Firms Grow Scarce for Venture Capital

MENTION VENTURE CAPITAL and most people will think of a firm that invests in start-ups — companies that may be little more than an idea, some software on a hard drive or a few prototypes in someone’s garage. But some VC firms specialize in late-stage investing.

WHAT IS THAT, EXACTLY?

While it clearly involves buying into companies that are no longer newborns, each fund sees this niche a bit differently, according to speakers on the “Late Stage Capital Investing” panel at the recent Wharton Private Equity & Venture Capital Conference 2014.

“From the LP side, our perspective is there is a top tier of firms that you should be invested with.”

— Cara Nakamura

Insight Venture Partners defines a late-stage firm as one that has proven its product’s viability, has begun to grow and is focused on marketing and sales, said managing director Ryan Hinkle. And after the late stage comes the **very** late stage, when cash flow is dependable, the firm is past the initial hyper-growth period and it is ready for sale.

At Polaris Partners, the key distinction between stages is profitability, noted partner Jason Trevisan. A seed-stage firm generally has no revenue and perhaps not even a working product. An early stage company has a product, or at least a version of one, and although it may have some revenue it is generally still burning money. A late-stage firm is growing nicely — though it is perhaps still burning some money — and it needs investor capital for growth.

And at Bain Capital Investors, people issues, rather than concerns over things like revenue and profitability, characterize the early stage. In selecting an early stage investment, Bain focuses on whether those people can deliver, said principal Weston Gaddy. In the later stages, fundamentals like the company’s value on the market become more important. But the stages are not always so distinct in investors’ minds, as over time limited partners have focused more on the big rewards that can be realized by getting in on the ground floor.

In fact, added Cara Nakamura, principal of the Princeton University Investment Company, which invests portions of Princeton’s endowment into VC funds, today’s limited partners are more likely than in the past to be drawn to VC firms large enough to buy into firms at various stages “to go where the opportunities are.”

Finding opportunities is an ever-changing process. In the period from around 2004 to 2008, Polaris found plenty of middle-market companies, with revenues of \$10 million to \$50 million, that could deliver annual growth of 60% to 70%, said Trevisan. But prices for such firms have soared, so that a firm that once could have returned six to seven times the investment may now bring just one or two times. Firms like this, he noted, have been “priced to perfection,” and the investor might as well buy stocks.

So today, he added, Polaris is looking for businesses with more modest growth, in the 10% to 25% range, that need work to do better. The goal is to buy at eight to 10 times EBITDA. The key, he stated, is to find a firm with plenty of room for improvement.

Before 2001, Insight viewed a late-stage firm as one that had merely reached the point of actually having a business plan, Hinkle said, describing easier times for VC funds. But after the Enron scandal of 2001 the markets became more skeptical of Internet firms, and then money got tighter after the financial crisis. Now, he noted, it’s

tougher to take companies public, and for a successful IPO, a company must typically be larger than in the go-go years. Prices of target firms have gone up significantly in recent years, probably because hedge funds, private equity funds and institutional investors have poured money into IPOs, Gaddy added.

Looking ahead, two of the panelists saw opportunities in subscription-based software. But it's a risky area, Trevisan said, noting that acquisition prices can be scary. One reason for that, noted Hinkle, is investors' assumption that a subscription software firm will retain most of its customers from year to year, as well as adding new ones. In contrast, a traditional company — like a restaurant chain — starts each year with zero customers. Prices of subscription software firms thus reflect investors' belief in "a certain inevitability" of growth. Investors, he said, "are a bit intoxicated by that."

WHAT DO LPS WANT?

Given all of today's risks of investing in VC funds, what do limited partners look for?

Princeton's Nakamura said that, overall, the VC industry's returns are "terrible," so Princeton is very choosy. "From the LP side, our perspective is there is a top tier of firms that you should be invested with." The rest, she added, should be avoided. The best VC funds have done very well, returning \$5 for every \$1 invested, she noted, and they've been able to do it over and over. But "there aren't a whole lot of names that have been able to do that on a repeat basis over decades." Princeton, she stated, likes early rather than late-stage investments because there is more chance of hitting home runs.

Of course, for VC funds, finding a target that needs a helping hand is not enough; the firm must have some promising features to begin with. Gaddy said that in a venture capital investment, in contrast to many private equity deals, the founders and existing management are usually retained. Bain therefore prefers a company that already has a good team — people with the right mix of

background, experience and skills to move the company forward. Bain also prefers a firm that serves a big market rather than a small one. "For the most part, it's a market that starts with a "b" [billions], not an "m" [millions]," Gaddy noted. Bain also likes a market "with some disruption" that leaves room for a new player — mobile marketing to phones and tablets fits the bill today. Ideally, he added, the company should also have a moat i.e. that "there is a reason it's going to be hard for somebody else to come in and play in that market."

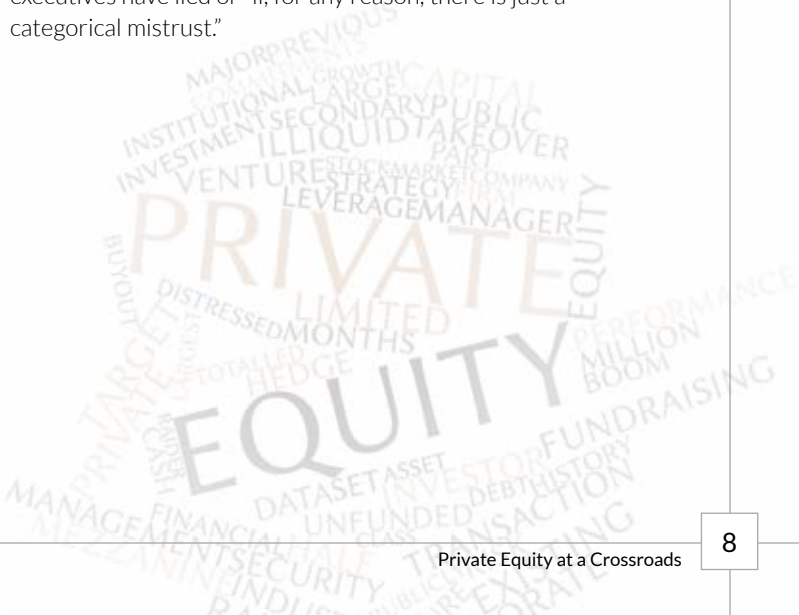
Though few companies make the grade, it's often clear which ones do, added Trevisan, suggesting that if 100 companies were presented to the four panelists, all four would identify the same 10 as the most attractive. Many targets, however, look good at first glance but reveal flaws upon closer inspection. Are there common traits among those that, despite their initial appeal, just don't make the grade?

"Some firms have been priced to perfection and the investor might as well buy stocks."

— Jason Trevisan

Deals die for many reasons, Trevisan noted, but often because the target's owners and the VC executives view the prospects too differently. "They view the world in a far more optimistic light than you do." Hinkle recalled deals that had died after the VC staff talked to the target's customers and found "that they hate the product." An outwardly attractive acquisition may be rejected if it competes with an existing holding, Gaddy added.

And, he said, his firm is sure to pull the plug if the target's executives have lied or "if, for any reason, there is just a categorical mistrust."



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