



Invest. Grow. Innovate.

The Truth About Private Equity Investment:

- **Creates Jobs**
- **Builds Stronger Companies**
- **Benefits Workers**
- **Lowers Default Rates**
- **Delivers Superior Returns**

In an op-ed piece published in The Wall Street Journal, AFL-CIO President Richard L. Trumka makes a number of erroneous assertions regarding private equity's record in creating jobs, strengthening companies and benefiting workers. An overwhelming body of research conducted by independent academics and others demonstrates that private equity's record in these areas is, on the whole, positive.

Private Equity Creates Jobs

- In a study of 288 private equity backed companies exited between 1984 and 2006, University of Missouri researchers found that over the lifetime of the private equity investment, employment grew by an average of more than 13 percent a year.
- At eight out of ten private equity-owned companies, employment is sustained or increased over time. *Ernst & Young, Transaction Advisory Services, "How Do Private Equity Investors Create Value? A Study of 2006 Exits in the U.S. and Western Europe" 2007*
- Large companies acquired by major U.S. private equity firms increased domestic employment by 13 percent between 2002 and 2005, a period when employment at all large U.S. businesses grew by only three percent. *Shapiro, Robert and Pham, Nam "American Jobs and the Impact of Private Equity Transactions," Private Equity Council January 2008*
- Before they were acquired, private equity-owned companies on average were losing jobs at existing facilities faster than their competitors. But by the fourth year of private equity ownership, employment levels at those companies had increased to above the industry average. *The Global Economic Impact of Private Equity Report 2008, "Private Equity and Employment," World Economic Forum, January 2008*

Private Equity Builds Stronger Companies

- Private equity-owned companies outperform comparable publicly traded companies in sales growth, cash flow, profitability and productivity. *"How Do Private Equity Investors*

Create Value? A Study of 2007 Exits,” Ernst & Young, 2008; Shapiro, Robert and Pham, Nam “The Impact of Private Equity Acquisitions and Operations on Capital Spending, Sales, Productivity and Employment” The Private Equity Council, January 2009; Gottschalg, Oliver “Private Equity and Leveraged Buy-outs Study” European Parliament 2007

- Nearly three-quarters of the productivity growth at private equity-owned companies is due to more effective management of existing facilities. *The Global Impact of Private Equity Report 2009, “Private Equity, Jobs and Productivity,” World Economic Forum, January 2009*
- Private equity-owned companies are better managed than companies with other ownership structures and are particularly strong at operational management practices. *The Global Impact of Private Equity Report 2009 “Do Private Equity Firms Have Better Management Practices,” World Economic Forum, January 2009*

Private Equity Benefits Workers

- The benefits of improved performance are passed on to employees of private equity-owned companies in the form of higher wages, competitive benefits and greater job security and stability. *The Global Impact of Private Equity Report 2009, “Private Equity, Jobs and Productivity,” World Economic Forum, January 2009*
- Private equity-sponsored companies pay employees at continuing establishments 1.1 percent more, on average, than workers at comparable non-PE companies because of a higher correlation between productivity gains and higher wages. *The Global Impact of Private Equity Report 2009, “Private Equity, Jobs and Productivity,” World Economic Forum, January 2009*

Private Equity-backed Companies Default at a Lower Rate than Comparable Businesses

- A recent study by the Private Equity Council found that the annualized default rate for more than 3,200 private equity-backed companies acquired between 2000 and 2009 and held through 2008-2009 was 2.8 percent during the two-year recession of 2008-2009. That compares to a 6.2 percent annualized default rate for similarly-financed businesses.
- The PEC’s findings are consistent with a variety of independent research studies conducted in the past few years, including a 2008 report by the Bank for International Settlements (BIS) and a 2009 study by Steven N. Kaplan of the University of Chicago and Per Strömberg of the Stockholm School of Economics.
- world’s private equity-backed companies would default within three years.

Private Equity Firms Make Extensive Disclosures about Their Investments

- All private equity firms make extensive disclosures to their investors -- all of whom are sophisticated investors -- regarding the performance of their portfolio companies.
- Many of the larger private equity firms are registered as investment advisers with the Securities and Exchange Commission, and are subject to audits and oversight by the SEC. The Private Equity Council has endorsed registration of all large private investment firms as part of the financial regulatory reform legislation being considered by Congress.
- Any private equity-backed company whose debt is publicly traded is required to file public reports with the SEC similar to those filed by companies whose equity is publicly traded.

Private Equity Delivers Superior Returns to Pension Funds and Other Investors

- Despite declines related to the economic crisis, performance of all private equity funds through the third quarter of 2009 surpassed the performance of public equity markets over 20, 10, 5 and 3-year periods. Annualized performance for all private equity investments over 20 years was 9 percent, compared to 7.76 percent for the NADSQ and 5.67 percent for the Standard & Poor's 500 Index. Annualized performance over three years was 1.7 percent for private equity, -1.9 percent for the NASDAQ and -7.3 percent for the S&P 500. – *Thomson Reuters Private Equity Performance Index (PEPI)*

April 13, 2010