Jon Moulton's Diary

Our columnist takes umbrage at an attack on private equity from a national newspaper

Veteran financier Jon Moulton has been involved in buyouts, turnarounds and venture capital since 1979 with firms such as CVC, Permira, Apax, Alchemy and, most recently, Better Capital, where he has been the chair since 2009

A long article in *The Guardian* titled "Slash and burn: is private equity out of control?" on 10 October makes a number of points about the industry that should be criticised.

The author of the piece writes: "The pension funds are investing in deals that destroy companies, threaten working class jobs and weaken communities in order to fund the pensions of other regular people."

Clearly, the Guardian does not intend to carefully qualify its comments.

In my entire career I have never invested in a deal where the plan was to "destroy" companies – although I'm sure it must occasionally happen. But probably it would be most likely seen in companies owned by dominant individuals where they could see an asset-strip, rather than private equity owners.

Also, never have I seen a sign of "weakening communities" as a motivation or a business plan. Although, if a town's coal mine must shut for lack of economic production then communities will suffer but the alternative is only for someone to subsidise a hopeless case. We see this typically in the historic decline of UK industries such as textiles, coal and steel. People and assets sometimes need redeploying to businesses with a future.

The reality is that nowadays business would be expected to do what can be sensibly afforded to mitigate the pain of change, but the apparent alternative of *The Guardian* would be putting social agendas above all others, which would lead to a serious erosion in the returns from UK industry (as a totality) with obvious consequences.

The involvement of private equity in these difficult situations is no more, or less, than the rest of business owners – it is not a consequence of the ownership structure.

Victim of constipation

Then there is the implication that us private equity souls are non-regular people. I have never previously thought of myself as a victim of constipation.

Somewhere deep in the Equality Act perhaps there is something that could save us PE executives from this fate of death by false label. It can only be a question of time before *The Guardian* and likeminded people seek to bar us from mingling with others at social events…

The article goes on to round out its criticisms of the industry with concerns over fee levels – and most of us would confess to some level of unease on that front. Fees and compensation are high – but it is a market and investors do not have to invest.

The investors are part of the

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problem – especially in the case of megafunds where there would have been hope that the economies of scale would have been passed down under pressure from investors. But they haven't. There is an idea that megafunds provide an easy one stop shop to commit loads of capital easily and to provide bragging rights for some of the investors that they are part of a well-known fund vehicle.

Returns on investments

Of more concern is that the article picks up the views of Jeffrey Hooke (of John Hopkins Carey Business School) that private equity returns do not justify the investment in current conditions and those returns are easily matched from public markets.

Hooke also states that exits are becoming rare with more than half of PE deals unexited of those done in the past 15 years. This gives lots of potential scope for manager optimism in reporting, and, accordingly, returns may not be very real.

Cashflows into funds continue to exceed cash returned over recent years.

This far from convincing industry returns data is a legitimate concern. The article points out that these weaker returns are (or should be) a concern for underlying pension funds.

At the end of *The Guardian* article, a lack of grasp is displayed about how the financial world works. The article states: "There are only two sides to every trade – the winner and the loser." The writer clearly has never seen a win/win deal which is mostly what we do. He needs it explaining to him.

Finally, he says: "Every day we are not regulating it (PE) we are letting it regulate us."

So it could all be sorted out by the invariably wise decisions of impressive regulators. Really?

Jon Moulton: "If a coal mine must shut for economic reasons then communities will suffer but the alternative is only to subsidise a hopeless case"

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