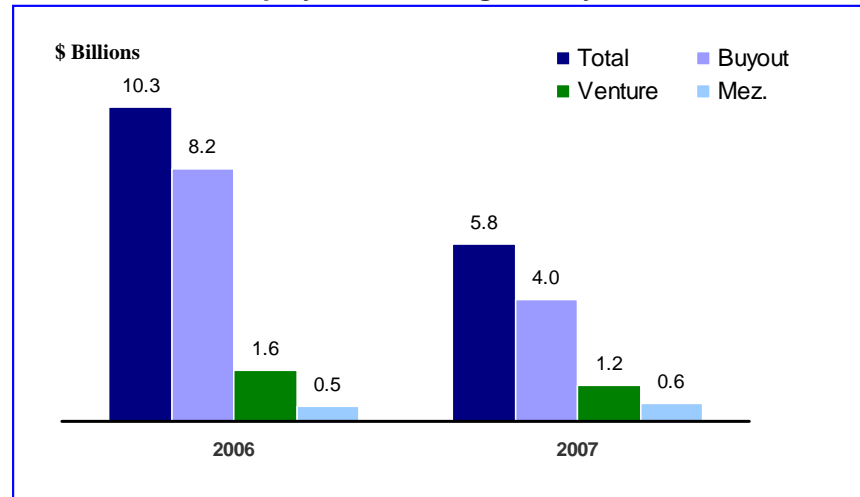


Private Equity Canada 2007

Fundraising Soars and Deals Follow

In Canada, record fundraising in 2006 led to record deal making in 2007; 530 deals were done last year, which amounted to \$13.7 billion invested. Fund raising activity led to such unprecedented deals as the \$34.8 billion buyout of BCE, which is potentially the largest PE deal in history. M&A activity accounted for \$370 billion in 2007, a 44% increase over 2006. According to the Mckinsey report, there is currently \$300 billion of uninvested capital in the global PE market.

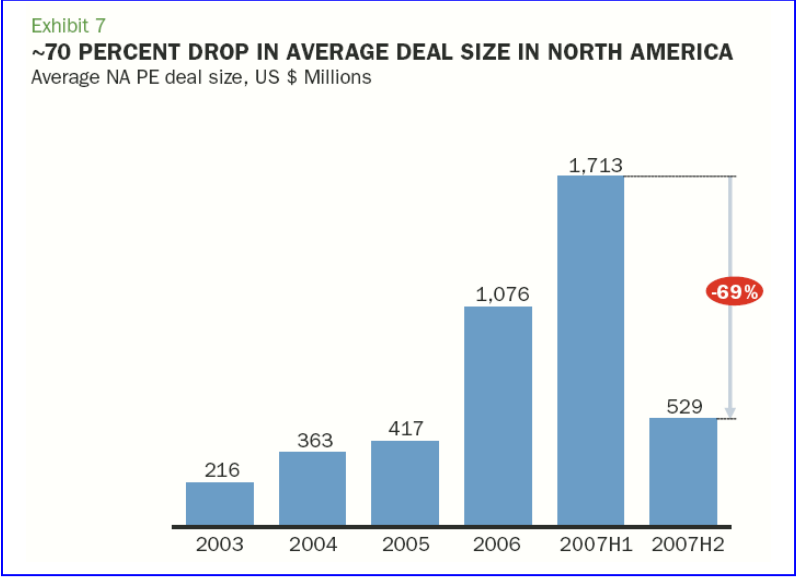
Canadian Private Equity Fund Raising Activity 2006 & 2007



Multiples Expand

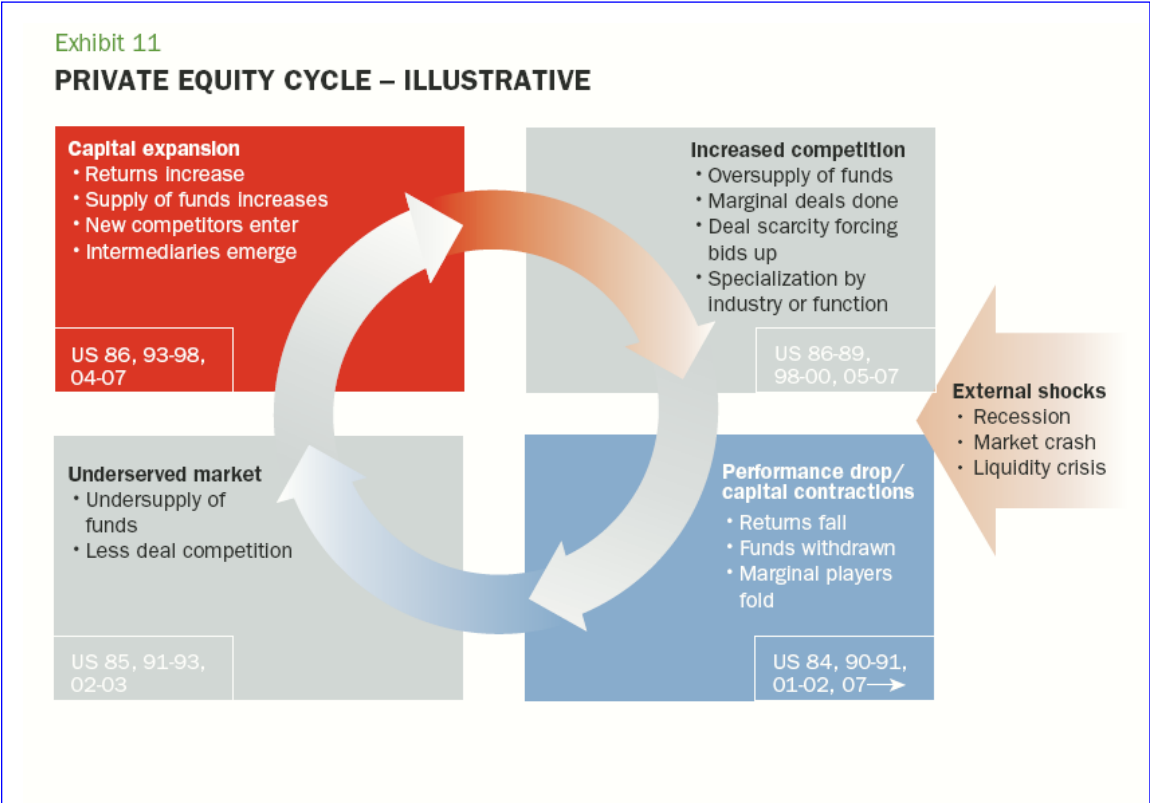
During the second quarter of 2007 the average purchase price multiple for US companies hit 9.4x EBITDA, the highest in a decade, and have since dropped significantly. This cyclical pattern occurred in the early part of this decade when multiples fell to 6.3x in 2001, down from 8.3x in 1998.

These declining multiples underscored a movement away from the big buyout bull market to growing interest in the mid-market. Average deals sizes dropped 60% in the second half of 2007 (noted below).



A Cyclical Illustration

The following graph illustrates the cyclical nature of the PE business. The external shocks of the liquidity crisis and recession penetrates the cycle and drop company and economic performance, but the underserved market leads to less deal competition as managers focus less on making deals and more on managing portfolios and waiting for more opportune market conditions. This leads to an increase in the supply of funds, which leads to increased deal activity, competition, and higher multiples when markets recover.



Source: McKinsey analysis

Will the Bull's Return?

The question is not if, but when. Debt markets are expected to unlock themselves in 18 to 24 months, however, PE is expected to return to “normal” levels of activity in the “near term.”

According to Mckinsey (and common sense), deal activity is likely to return when credit markets work through their backlogs and cheap liquidity becomes more abundant; when the economy rebounds; and the forces that have propelled the PE industry, do so with renewed strength.

The Seven Structural Forces to Watch

The following seven forces are likely to contribute to the recovery of the PE industry and shape its future.

1. **Increasing allocations:** despite the credit crisis and heightened market volatility, institutional investors' allocations to private equity will likely increase. Investors from the following geopolitical regions are likely to allocate the following percentage of their available funds to PE investments in the future:
 - i. North America: from 6.5 % in 2007 to 7% in 2009
 - ii. Europe: from 4.6% in 2007 to 5.5% in 2009
 - iii. Asia: from 3.3% in 2007 to 4.2% in 2009
2. **Significant uninvested capital:** Global uninvested capital is about \$300 billion in equity capital.
3. **Growing Sovereign Wealth Fund assets:** SWF's hold approximately US\$3 trillion today and are projected to accrue over US\$12 trillion by 2015.
4. **Attractive Returns:** Institutional investors will likely continue to invest in PE for two reasons
 - i. PE funds raised during market distress generally perform well. In both the United States and Europe, top quartile funds raised during each of the three most recent global economic slowdowns achieved attractive returns.

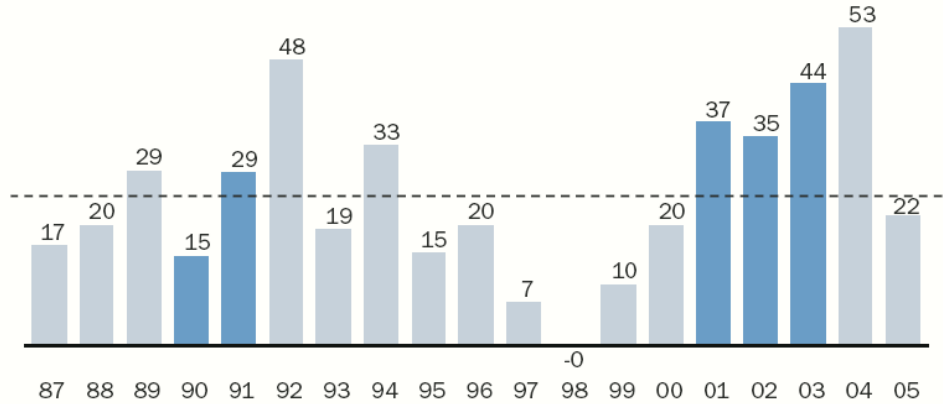
Funds raised by top quartile funds in the United States achieved returns of 37% in 2001 and those raised in 1991 returned 29% in the United States. These above average returns are pervasive in the PE industry.

Exhibit 13

HIGHER ATTRACTIVE RETURNS OF BUYOUT FUNDS DURING RECESSIONS

Average net IRR performance for top 20 US buyout firms ranked by AuM, by vintage year
Percent

■ Raised during recession
- - Mean net IRR



Source: Private Equity Intelligence; McKinsey analysis

- ii. Money is likely to flow into PE products designed to capture opportunities stemming from economic distress.
- 5. **The benefits of diversification:** Investors will likely continue to allocate capital to private equity to diversify their portfolios.
- 6. **An attractive illiquidity premium:** Pension plans and insurance companies are natural holders of illiquidity and are set to reap the benefits of this premium that PE funds provide.
- 7. **An effective ownership model** according to several academic studies: PE has an effective governance and ownership model that adds value to the economy in the following ways:
 - a. *Creates jobs:*
 - i. In Europe, the annual employment growth at PE-backed firms is 5.4%; at traditional firms, it is 2.9%.
 - ii. In the UK, the annual growth at PE-backed firms is 14%; at traditional companies it is 0.3%.
 - iii. In the US, the annual growth of PE-backed firms was 2.3% from 2000 to 2003, while the average company job loss rate was -0.7%.
 - b. *Positive impact on the economy:* In addition to creating jobs, PE economic merits include increasing investment in R&D and innovation and accelerating technological developments.
 - c. *Sustainably transforms the performance of portfolio companies.* PE-backed companies tend to outperform other companies even after the PE investors have gone. An analysis of 3,000 IPOs from 1985 to 2005 showed that buyout-backed IPOs had an average 3-year buy and hold return of 45.8%, compared to non-buyout IPOs' returns of 39.6%

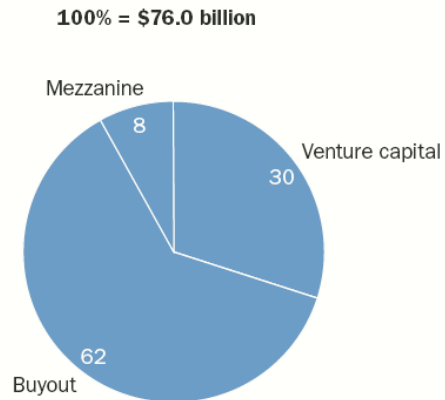
Capital Under Management

According to the Mickinsey report, there is \$300 billion in uninvested capital in the global market. The majority of the capital in the industry is predominantly allocated to the buyout segment of the industry as shown below. In 2007, Canadian PE funds managed a total of \$76 billion of capital, of which, buyout firms managed the majority.

Exhibit 1

TOTAL CAPITAL UNDER MANAGEMENT BY PE MARKET SEGMENT; 2007

Percent



Source: Thomson Reuters