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The Kellogg School of Management

# ALUMNI NEWSLETTER

## The Private Equity and Venture Capital Club

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## Introduction

**Alumni involvement with the Private Equity and Venture Capital Club is the cornerstone of our continued success. From hosting students for career treks to participating in speaker events, you enable us to meet our mission and make Kellogg a premier business school for future private equity investors and venture capitalists. As a 'thank you' to our dedicated alumni, we would like to provide an update on 2009 and 2010 activities with our annual Alumni Newsletter.**

## Kellogg PEVC Conference Moves to Downtown Chicago

*Article by Kathy Lai, KSM 2010*
*February 10, 2010*

The Eleventh Private Equity & Venture Capital Conference marked the first time the student-run conference was located downtown at the University Club of Chicago. Despite inclement weather, the new location helped draw record attendance of over 350 alumni, professionals, faculty members and students, as well as a high caliber of keynote speakers and panelists.

The Heizer Center for Private Equity and Venture Capital sponsored the Appreciation Dinner for nearly 100 speakers, alumni, faculty members and students the night before the conference. Held at a private venue, the event was an opportunity for alumni to reconnect with former classmates and professional acquaintances.

This year's conference program focused on the changes and uncertainty facing the private equity and venture capital industry and how today's challenges present an unprecedented opportunity for discerning investors to unlock value in a changing landscape.

## Kellogg Launches Alumni Club for Private Equity and Venture Capital Industry

*Article by Michael Teplitsky, KSM 2008, Wynnchurch Capital*
*March 18, 2010*

The newly-formed Kellogg Alumni in Private Equity (KAPE) held the launch of the Chicago chapter on March 2. The much anticipated launch of KAPE is a result of a Kellogg PE/VC development strategy which was put in place in 2007 by an interdisciplinary group of Kellogg faculty members from the Dean's Office, Heizer Center for Private Equity and Venture Capital, Development Office, Alumni Relations Office, and the Career Management Center. This interdisciplinary group also included student leaders of the PE/VC Club (formerly known as PEEK) as well as a select group of alumni.

Founded in 2009, KAPE is a global networking and educational alumni club dedicated to serving Kellogg and Northwestern alumni active in the investment of private equity, venture capital, mezzanine, distressed, secondary, and limited partner capital. KAPE currently boasts a global leadership team that spans 35 global chapters and is advised by a global council of 30 senior alumni. Current membership includes over 1,000 alumni across over 300 investment firms.

The KAPE launch in Chicago on March 2nd featured a lecture by the Marketing Department's Professor Richard E. Wilson. Professor Wilson convincingly argued for the importance of active management of the corporate distribution chain – keeping in mind not only

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# Kellogg Launches Alumni Club for Private Equity and Venture Capital Industry

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the channel partners, but also the ultimate consumer of goods and services. The event was attended by 30 alumni and five Kellogg representatives. KAPE's membership base in Chicago includes 275 alumni.

Alumni in attendance included Bill Glastris (NU '82, KSM '84) of Prospect Partners, Anthony Kesman (KSM '88) of Linden, Jeff Gonyo (KSM '88) of Geneva Glen, Venita Fields (KSM '88) of Smith Whiley & Co., Duncan Bourne (NU '81) of Wynnchurch Capital, and Jonathan Leiman (KSM '99) of Pfingsten Partners. Recent alumni in attendance included Justin Ward (KSM '09) of BDT Capital, Kelly Cornelis (KSM '01) of LaSalle Capital, Todd Van Horn (KSM '08) of Linden, and Erik Zimmer (KSM '05) of Lake Capital.

KAPE has recently formed a Chicago Board which is led by Ed Lhee (KSM '97) of Code Hennessy & Simmons. The 2010 members of the Board include Du Chai (Northwestern Endowment), Pat Eilers (Madison Dearborn), Bon French (Adams Street), Bill Glastris (Prospect Partners), Harry Kraemer Jr. (Madison Dearborn), Matt McCall (New World Ventures), Jim O'Connor (MVC Capital), Daniel Rosenberg (Sterling Partners), John Stelatto (Pritzker Organization), and Reeve Waud (Waud Capital).

KAPE has also formed a Chicago Auxiliary Board which is led by Michael Teplitsky (NU '02, KSM '08) of Wynnchurch Capital. The 2010 members of the Auxiliary Board include Richard Copans (Madison Dearborn), John Hennegan (Shore Capital), Brett Holcomb (Prospect Partners), Chris McLaughlin (CIVC Partners), David Stott (Wind Point), and Justin Ward (BDT Capital).

The launch was generously sponsored by Code Hennessy & Simmons, Madison Dearborn, Prospect Partners, the Office of Alumni Relations, the Heizer Center for Private Equity & Venture Capital, as well as BDT Capital, OCA Ventures, Shore Capital, Wind Point and Wynnchurch Capital.

Initially, KAPE plans to hold regular events in Chicago and the Bay Area. The organization intends to form a New York advisory board in 2010. To learn more about KAPE and to sign-up for membership, please visit: http://alumni.kellogg.northwestern.edu/KAPE/. Contact Michael Teplitsky (KAPE – Founder and Executive Director) at mteplitsky@wynnchurch.com with any questions. Alumni are invited to join the "Kellogg Alumni in Private Equity" group on LinkedIn.

# Campus Presentation: Richard Rincon (KSM '08), Hispania Capital Partners

## *Perspective on the U.S. Hispanic Market*

*Article by Jason Sondag, KSM 2011*
*March 5, 2010*

The Private Equity & Venture Capital Club welcomed Richard Rincon (KSM '08) from Hispania Capital Partners ("HCP") to share his perspective on investing opportunities in the U.S. Hispanic market. HCP has established itself as a leading private equity partner to companies that are either strategically targeting the U.S. Hispanic market for growth or are Hispanic-owned or managed. HCP, which has raised $215 million in committed institutional capital across two funds, has completed 17 platform and add-on acquisitions in the U.S. and Puerto Rico since its inception in 2003.

In discussing the Hispanic market in the U.S., Richard highlighted that part of what makes this an attractive demographic is that it is the largest and fastest growing minority group, with purchasing power of over one trillion dollars. Richard talked about how critical it is to understand the nuances in the Hispanic market, such as knowing who your customer is and where he or she is located. Much of the U.S. Hispanic population is concentrated in states like California, Texas, Florida, New York and Illinois. However, he described the market as "a country within a country," because if the U.S. Hispanic market comprised a discrete economic unit, it would rank as the third largest Hispanic economy in the Western Hemisphere behind Brazil and Mexico. Many of the opportunities they see are "asset-light" service businesses in industries such as education, food and beverage, healthcare services and business services. HCP believes that the non-cyclical nature of these Hispanic demographic trends present compelling and sustainable investment opportunities, as these trends are projected to continue into the foreseeable future.

> *"...what makes this an attractive demographic is that it is the largest and fastest growing minority group, with purchasing power of over one trillion dollars."*

The firm's mission is to help small-to-medium sized businesses realize their full potential and generate significant value for all stakeholders. Richard explained that growth, rather than leverage, is the main driver of returns and that HCP provides portfolio company support by assisting with strategic planning, instilling best practices, augmenting operating resources, and maintaining thorough board oversight.

## Overview of the PEVC Boot Camp

*Article by Frank Fasano, KSM 2011*
*November 1, 2009*

On Saturday, October 11th 2008, the Private Equity and Venture Capital Club kicked off its annual boot camp. The PEVC boot camp is designed to provide students with an intensive and in-depth introduction to the fields of private equity and venture capital in a single weekend. The boot camp was an all day affair dedicated to help students learn more about leveraged buyouts, lending (especially mezzanine), and venture capital through eight different panel discussions. Morning speakers were focused on leveraged buyout while the afternoon was dedicated to venture capital discussion. PEVC club leaders Ryan Anthony and Jon Gaunt kicked off the event with an overview of the day's agenda – ranging from deal analysis to starting up a private equity fund to career advice from a recent graduate panel – followed by a speech from Kellogg's Director of the Heizer Center for Private Equity and Venture Capital, Professor Mitchell Petersen. The event was attended by over a hundred first and second year students in a standing room only crowd.

In the morning session, the first speaker was alumnus Evan Gallinson (KSM '02) of Merit Capital Partners. In addition to introducing Merit Capital, Gallinson led a case discussion about the investment evaluation and transactional process of a Merit Capital Partners portfolio company. Through the case, Gallinson engaged all in attendance and probed the audience to determine what would be the pros and cons of investing in the company and the industry. Participants gleaned a better understanding of the key risk factors and the potential upside of transactions from the session.

Founder of KSL Capital Partners, Mike Shannon (KSM '83), hosted the second session. This session provided interesting stories of how he began his investment firm focused on travel and leisure, and also provided students with valuable lessons on the pitfalls to avoid when beginning a private equity firm.

The third panel welcomed two recent Kellogg alumni, Matt Raino (KSM '07) of Madison Dearborn Partners and Jamie Dimitri (KSM '08) of Welsh, Carson, Anderson & Stowe, to discuss the current state of the debt and private equity market. Needless to say, the industry experienced a dearth of transactions in 2009. Matt and Jamie presented the cold, hard facts of how the private equity market lost its steam and how the debt capital markets had been non-existent for the majority of 2009. The most compelling statement they made was that purchase multiples remained high even though credit markets were in dire states, mostly due to seller expectations not adjusting to the current state of the economy.

Following the current state of the market presentation, Demian Kircher (KSM '99) of Maranon Capital presented an overview of the credit process from the perspective of a one-stop lender. His overview included how his team recently raised Maranon Capital's first fund, the importance of mezzanine lenders in the leveraged buyout process and why mezzanine is an attractive investment in the capital structure.

Following the Maranon Capital presentation, recent alumni provided career advice to students and opined on the best way to break into the leveraged buyout and venture capital world. Kapil Chaudhary (KSM '07) of i2A Fund and Joe Dwyer (KSM '08) of OCA Ventures provided students perspectives on how best to launch a career in venture capital while Mike Teplitsky (KSM '08) of Wynnchurch Capital and Justin Ward (KSM '09) of BDT Capital Partners delved into the methods they used to find positions with leveraged buyout firms. There were noticeable differences of what worked best for both venture capital and leveraged buyouts; however, a common thread was that persistence, timing, and hard work paid the best dividends.

The remaining sessions of the PEVC Club Boot Camp Schedule were dedicated to venture capital. Karen Chung (KSM '98) of Nomadic Partners spoke of the challenges of raising a venture capital fund in the current environment. Following Chung, Matt McCall (KSM '91) of DFJ-Portage engaged the audience with comparative venture capital case studies. The last part of the day was hosted by Bret Maxwell (KSM '82) of MK Capital. Matt provided perspectives and an outlook on the venture capital industry.

A selection of presentations from the boot camp series can be found on our website.

## Kellogg Students Visit New York for Buyout Trek

*Article by Doug Potters, KSM 2011*
*March 3, 2010*

On February 16th and 17th, nine Kellogg MBA students visited with alumni working in the private equity industry as part of the Private Equity and Venture Capital Club's New York Buyout Trek. The trek's goals were to educate first year students about a variety of firms operating in the PEVC space, to continue to build Kellogg's brand among these firms, and to provide opportunities for current students and alumni to meet through two networking receptions.

The schedule of events began with a reception the evening of February 16th followed by a breakfast hosted by Pam Hendrickson (KSM '84), COO of The Riverside Company, at her offices. The accomplished group of breakfast attendees was particularly notable, evidence of the strength of Kellogg's network within the private equity space. Partner-level professionals and recent graduates working for a diverse group of leading private equity firms kindly shared their perspectives on careers in the space as well as their cautious outlook for the industry going forward.

Following the breakfast, students began a series of informational meetings at Welsh, Carson, Anderson & Stowe, Peacock Equity, Warburg Pincus and CCMP Capital Partners. While the funds' investment strategies and industries of focus differed significantly, each meeting stressed the importance of operating expertise in driving investment returns. While improving operations is often cited as a value-driver in private equity returns, investors in each meeting contended that operating expertise also drove differentiated deal flow and improved the risk-reward profile in private equity investing. In fact, few firms cited auctions as a primary source of investment opportunities, and instead pointed to their industry-specific networks and industry knowledge as critical components in generating investment ideas. Beyond idea generation, operational expertise was also cited as a means to gain comfort about a businesses' intrinsic value prior to bidding; hence facilitating improved success rates in more competitive processes. Based on the value increasingly being placed on operational expertise, these investors advised that students should focus on building industry specific knowledge as a foundation for a potential career in investing. Overall, students appreciated the great insights provided by their hosts, as well as the opportunities offered to network with leading firms in the industry.

## Campus Presentation: David Jahns (KSM '93), Galen Partners
### *Healthcare Investing*

*Article by Polly Israni, KSM 2011*
*December 1, 2009*

David Jahns (KSM '93), Managing Director at Galen Partners, visited Kellogg in December to present his thoughts about private equity investing in the healthcare industry. Mr. Jahns started his presentation with a background on Galen Partners, a leading healthcare PE firm. Galen Partners manages $1 billion of capital across 5 funds and has invested in 65 healthcare-related companies. He explained that Galen Partners operates in the growth equity space, located in the middle of the spectrum between venture capital and private equity. The key to operating in this space, he pointed out, is investing in a company at its inflection point, where much of the technical risk is removed. As it relates to the healthcare space, young healthcare firms require more capital upfront and are seeking financing more often through angel investors and less often through traditional venture capital funds. Later-stage healthcare firms are seeking financing from growth equity firms like Galen Partners. Regarding current sectors of focus, Mr. Jahns indicated that the medical device and specialty pharmaceutical sectors are less attractive today because of substantial competition. He also suggested that the current economic cycle is resulting in a substantial need for financing by many young healthcare companies.

> *"The key to operating in this space...is investing in a company at its inflection point, where much of the technical risk is removed."*

Mr. Jahns advised Kellogg students on two hiring pathways for Galen Partners and other similarly structured growth equity firms. One path would be to focus on the healthcare segment through an investment banking role for two years, followed by working at Galen Partners for two years before entering the industry or business school. The other path would be to work in a business development role at a healthcare company after receiving an MBA. Galen Partners has historically hired senior investment professionals from both tracks.

# Alumni Insights: Robert Berner (KSM '86) of CVC Capital Partners

*Interviewed by Spencer Moore, KSM 2011*
*April 1, 2010*

***How did you get started in the PE industry?***

I started working on Wall Street in investment banking in 1983. Most of my career prior to private equity was spent in M&A at Morgan Stanley. During my time there, I established business and personal relationships with several private equity firms and one of my clients, Charterhouse Group, asked me to join.

***What have you enjoyed about your career in private equity?***

First, I have enjoyed the intellectual challenge of learning about and analyzing a variety of industries and firms. Second, I have been able to put all of my business skills to the test (e.g., operations, management, strategy, marketing, etc.), not just finance. Third, I have developed great, long-lasting relationships with a broad and diverse group of people over the years.

***What is the current state of deal activity and the financing markets for large LBO firms like CVC?***

While the financing markets are certainly more robust than they were one to two years ago and appear to have come back, LBO activity is still substantially lower than several years ago. M&A markets have come back strongly, but most of the activity is corporate-to-corporate transactions. Leveraged finance markets have improved, but most activity today remains focused on secondary issuers. Financing for new LBOs still remains constrained. As we speak, the aggressiveness of financial institutions continues to grow. In fact, some of the extraordinary features of many of the financings in 2007 have re-emerged, including dividend recapitalizations, covenant lite deals, and holdco financings. Also, the current valuations in the market are quite high, in some cases approaching 2007 levels. Another important factor to consider regarding the relative attractiveness of buyout markets is the substantial amount of dry powder on the sidelines. There is approximately $500 billion of committed capital invested in private equity from 2004 – 2007 vintage year funds. As the typical fund has a six year period, there remains a massive amount of capital available for investment. As a result, there is a great urgency among these funds to deploy this capital in the next few years, making the competitive dynamic for deals incredible. Overall, I'm lukewarm on the attractiveness of the large LBO market over the next couple of years. There will be attractive individual opportunities, but I would not be surprised if large LBO funds who invest heavily over the next couple of years produce lower than average rates of return.

*"M&A markets have come back strongly, but most of the activity is corporate-to-corporate transactions. Leveraged finance markets have improved, but most activity today remains focused on secondary issuers. Financing for new LBOs still remains constrained."*

***CVC has offices and investments all around the world. How does a global private equity fund like CVC use its international footprint as a competitive advantage?***

With 19 offices staffed mostly by locals, CVC's global presence is unique. In fact, of our 32 partners, there are 17 different nationalities represented. We use this as a competitive advantage by selecting deals that involve multi-jurisdictional and multinational issues, which we can better assess than other firms. One example of this is a recent acquisition of the largest chemical distributor in the world, Univar. The company was trading on the Euronext with a nominal headquarters in the Netherlands. Senior management was located in Seattle and the company's most significant growth markets were in Asia. We were able to deploy due diligence teams in Europe, America, and Asia in a relatively short amount of time in order to successfully close the transaction.

***Many private equity firms' business models are evolving as they add operational capabilities through various forms of partnerships with seasoned operating executives. What is the current state of the market with regard to operational executive partnerships?***

Every large private equity firm has some variation of an operating partner strategy. However, only about one in three firms truly integrate those operating partners into the fabric and culture of their firms. As M&A markets become more efficient, operating partners are clearly and unequivocally the smartest path to improving enterprise value and therefore building lasting success. Financial engineering, which was popular in the 1980s and 1990s, is more or less a commodity today. Going forward, the firms who will generate above average rates of return over time will incorporate operating executives as a core element of their strategy. Moreover, private equity firms are utilizing other advanced business improvement tools as well. We are using business intelligence and predictive analytics, effectively advanced statistical tools, more and more often to improve our portfolio companies through optimizing firms' pricing strategies, improving inventory levels, forecasting demand, and predicting customer behavior. The advent of massive information collection because of the cheap cost of storing data allows firms to analyze information in ways we could not five years ago. Private equity firms remain on the forefront of business improvement strategies and continue to look for better tools.

***What else makes CVC unique?***

CVC's global footprint is truly unique both in form and substance. Further, what has made

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## Alumni Insights: Robert Berner (KSM '86) of CVC Capital Partners

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CVC unique is that despite its substantial global presence, the firm has been able to maintain a tight culture of professionals who work well together. This has helped us achieve top quartile performance for each of our funds.

***What did you enjoy most about your experience at Kellogg?***

I enjoyed all aspects of my experience at Kellogg. I enjoyed the academics, engaged professors, classmates – really enjoyed all of the fun I had there. I think Kellogg's multi-disciplinary approach was very enjoyable and has been a huge benefit for me in my career in private equity. The culture of group activities and teamwork and the interpersonal and selling skills that Kellogg helped me further develop have been critical skills in private equity. The ability to influence and work well with others has been a very important part of my career.

***What advice would you give to current Kellogg students who are hoping to build a career in private equity?***

I would recommend three things. First, I would encourage students interested in private equity to study the industry in detail. Understand the many different sub-sectors and fundamental changes taking place. There are many trends, some negative, that may make the industry difficult for a few years. Second, students should think hard about the sub-sector in which they would like to work. There is going to be substantial growth in developing countries in Latin America, Asia, and Africa and private equity will continue to play a larger role in those regions. Also, think about specific industries in which you can create expertise, such as healthcare or technology. Funds are becoming more and more focused on particular industries and markets. Third, do not be discouraged if you are not able to land in private equity in your first job out of Kellogg. There is no clear path to private equity. As the industry landscape continues to change, remember that the person who is most successful in private equity is able to identify businesses where he or she can assist in improving the enterprise value of the underlying assets.

*"As the industry landscape continues to change, remember that the person who is most successful in private equity is able to identify businesses where he or she can assist in improving the enterprise value of the underlying assets."*

## Campus Presentation: Zain Latif, TLG Capital
## Emerging Markets: Africa—The Final Frontier

*Article by Charissa Lai, KSM 2011*
*March 1, 2010*

TLG Capital, a UK investment fund specializing in emerging markets, aims to prove that private equity firms can invest ethically, improve the lives of the underprivileged and still keep investors happy by providing outsized returns. Zain Latif, founder of TLG Capital, discussed the trends and challenges of doing business in Africa, as well as the role that private equity can play in the continent for small and medium size enterprises.

Professor Mitchell Petersen introduced Mr. Latif by stating: "This is the continent where, at the moment, there is probably the least amount of PE being deployed. That is changing. In three years at Kellogg, I have heard very little about Africa's business environment. This visit by Mr. Latif is an example of this change."

Graduating with a Masters Degree from London's Cass Business School at just 19, Mr. Latif joined HSBC's graduate program in 2004, which led to stints in trading in New York and Hong Kong. Becoming the youngest VP at Merrill Lynch at 23, Mr. Latif was recruited by Goldman Sachs as an Executive Director. Mr. Latif founded TLG Capital in 2009.

TLG's investing activity thus far has demonstrated its dual focus on social entrepreneurship and generating strong investment returns. The firm recently invested in Quality Chemical Industries Limited, a pharmaceutical manufacturing plant in Uganda. Mr. Latif described that the plant expects to be the largest cancer treatment facility in West Africa. "We are going to cut cancer treatment costs by up to 50%; so we are already bringing costs down and giving people a bit of hope." While the risks remain high, Mr. Latif is confident of success in the noble endeavor to tackle Africa's health issues. The talk also highlighted sectors and opportunities that have been overlooked by larger private equity players in Africa, creating a vast landscape of opportunity.

# Kellogg Private Equity & Venture Capital Conference: Buyout Sessions

*Article by Chris Graber, KSM 2010, Doug Potters, KSM 2011, and Joel Stanwood, KSM 2010*
*February 10, 2010*

***Keynote Address: Chuck Esserman***

The 2010 Kellogg Private Equity and Venture Capital Conference was excited to welcome Chuck Esserman, CEO and Co-founder of TSG Consumer Partners, to deliver the private equity keynote address. Given the overall theme of the conference, Partnering Through Uncertainty: Unlocking Value in a Changing Landscape, Esserman explained the unique TSG approach to unlock value. According to Esserman, the firm's approach seems like a primer on how not to do private equity deals. However, the strategy has performed well through multiple economic cycles. For example, the usual private equity investment philosophy is to seek firms with attractive valuations, exchange downside protection for upside potential, avoid companies with low market share and seek a controlling ownership interest. In contrast, TSG will pay top dollar for great companies, exchange upside opportunity for downside protection to avoid negative investment returns, maintain its focus on small and medium sized companies that may have negligible market share (but always clear, differentiated consumer benefits), and remain indifferent between purchasing a majority or a minority ownership stake. Furthermore, TSG provides marketing counsel and operational assistance for free prior to ownership in some cases, uses little or no leverage, and invests all company profits (or more) in growth.

Doing everything "wrong" has worked out well for TSG and its investors. On average, TSG portfolio companies have increased yearly operating income by 35% annually during the investment period, including 18% and 19% growth in 2008 and 2009, respectively. The TSG team possesses a knack for finding products that many would-be suitors dismiss as fads, but whose brands later become well-known successes such as Vitamin Water beverages, Smart Balance "better-for-you" foods and PureOlogy premium hair care products.

Esserman concluded by sharing some insights for the private equity industry to consider. First, specialized operational expertise matters more than financial expertise - now more than ever. Second, restricted access to bank debt should be viewed as a positive thing, since it encourages reinvestment into company growth and reduces investment risk. Third, private equity fund returns will be increasingly correlated with growth rates of portfolio companies, and capital structures will need to change significantly. Finally, structured equity investments versus leveraged buyouts will become increasingly common for the foreseeable future.

***The Limited Partner Perspective***

The Limited Partner Perspective panel reflected the opinions of a healthy mix of investors including Brett Gordon, Managing Director at HarbourVest Partners LLC, Jonathan Harris (KSM '99), President of Alternative Investment Management, Ross Posner (KSM '92), Director of the Private Equity Group at Allstate Investments and Shawn Wischmeier (KSM '02), Chief Investment Officer of the Indiana Public Employees Retirement Fund. The panel was moderated by Andrew McDonough, a Partner and Co-Chair of the Private Equity Practice at Winston & Strawn LLP.

According to panelists, there will be a confluence of fund-raising activity in the back half of 2010, as funds who pushed out 2009 launches meet those who had originally planned to begin fundraising in 2010. Panelists suggested that there will be a further bifurcation of "winners" and "losers" as LPs decide where to allocate capital. Some hinted that the balance of power between LPs and GPs is moving further toward LPs with respect to certain key provisions, such as key man clauses and management fees.

As for areas of promise, panelists suggested that distressed investing is still likely to benefit in the near term and that general partners who are able to recapitalize portfolio companies will outperform their peers. Likewise, the "Volcker Rule" may create significant investment opportunities in the secondary market if banks are pressured to exit pockets of the alternative investment space. Overall, panelists indicated that the investment climate is significantly more promising today than last year because uncertainty in the market has declined and capital is starting to flow again.

***Evolving Strategies in Capital Appreciation: A Look at the Ovation Pharmaceuticals Success Story***

The Ovation Pharmaceuticals panel offered a compelling look at how a partnership between management and private equity facilitated a major private equity success during a turbulent period. Ovation Pharmaceuticals was a biopharmaceuticals business built by management and GTCR predominately through the acquisition of niche, orphan products from major pharmaceutical companies. In 2001, GTCR committed $100 million to the firm and ultimately sold the business to Lundbeck in March 2009 for $600 million in cash with potential additional milestone payments of $300 million.

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# Kellogg Private Equity & Venture Capital Conference: Buyout Sessions

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Ovation's Founder and CEO Jeffery Aronin and Michael Burke (KSM, '94), a fellow member of the founding leadership team, joined angel investor Gidon Cohen (KSM, '82) President & CEO of Highland Capital) and Constantine Mihas, a Principal from GTCR, in the panel discussion. The panel was moderated by Sandy Perl, a Partner at Kirkland & Ellis LLP and a member of the company's legal counsel team.

Among the many insights on drivers of the deal's success, the strength of the company's capital base and management team were featured most prominently. Organizing a financing syndicate was largely about building credibility for Aronin's business plan. Beyond the initial financing of Ovation, Aronin persuaded top management talent, including Burke, who was a "rising star at Abbott, heading for the comfortable corporate suites" to join him. The ability of this team to identify and capitalize on products that "Big Pharma" companies had underutilized ultimately drove the massive success of the deal. As Mihas highlighted, the right space was important, but backing the right team helped generate outsize value for investors.

*"...many believe the lower end of the middle market still offers the most opportunity for value creation because of inherent market inefficiencies and dislocations."*

***The Business of Private Equity: Different Approaches to Managing a Successful Firm and Its Investments***

The Business of Private Equity panel featured panelists from a wide array of firms within the private equity industry, including Geoff Bland (KSM '91), a Managing Director at Wedbush Capital, a lower middle market firm in Los Angeles, Doug Grissom, a Managing Director at Madison Dearborn Partners, the largest private equity firm in Chicago, Ned Villers (KSM '01), a Partner at Water Street Healthcare Partners, a healthcare-focused firm in Chicago, and Daniel Rosenberg (KSM '97), a diversified private equity firm in Chicago with significant operational expertise. The panel discussion covered a variety of topics including how firms differentiate themselves in a crowded market, different internal approaches to value creation and how firms manage their own internal resources and personnel. The panel was closed to members of the media.

***An Industry in Transition: What the Last 24 Months Mean for the Future of Private Equity***

The final panel of the day was moderated by Andrew Ross Sorkin, author of the New York Times Best Seller "Too Big To Fail", and Chief Mergers & Acquisitions Reporter for The New York Times. Panelists included David Chapin, Strategic Development Partner at Ropes & Gray, Ross Gatlin (KSM '93), CEO and Managing Partner of Prophet Equity, Bill Glastris, Jr. (KSM '84, NU '82), Founding Principal of Prospect Partners and Kelvin Walker (KSM '86), Partner at 21st Century Group LLC.

The panel included a lively discussion of controversial topics, such as the tax treatment of carried interest, the "Volcker Rule" and whether general partners lost focus of their primary responsibilities prior to the economic downturn. Panelists discussed the carried interest topic from both a fairness perspective and from a public policy perspective, noting that deal structures and fund structures would likely adjust if meaningful reforms were enacted. Likewise, panelists indicated that changes to tax structures could have the biggest impact on smaller firms that generate the majority of their revenue from carried interest, rather than larger funds with proportionately higher revenues from management fees.

On the "Volcker Rule", several panelists suggested that financial institutions should be encouraged to keep investments on their balance sheet because it would drive prudent behavior and high-quality investments.

Mr. Gatlin stated that before the credit crisis, some general partners boasted about their "velocity of capital deployment," despite this metric being largely irrelevant. Gatlin indicated that the industry needs to maintain its focus on "absolute returns to investors" rather than how quickly capital is deployed. In its recent inaugural fund, Gatlin mentioned that Prophet Equity was able to complete fundraising rapidly and without a placement agent, partly due to several qualitative factors, including setting a hard cap on the current fund and a hard cap on the subsequent fund, distributing carry to everyone in the firm and committing a significant portion from the GP.

Panelists believe that investors will continue to be creative in their approach to investments in the near term. Investors, particularly those in the middle market, still have little access to senior debt, so they have been innovative in closing deals by utilizing seller notes and alternative deal structures. Despite this headwind, many believe the lower end of the middle market still offers the most opportunity for value creation because of inherent market inefficiencies and dislocations.

# Kellogg Private Equity & Venture Capital Conference: Venture Capital Sessions

*Article by Lavi Liddar, KSM 2010, Jason Robinson, KSM 2010, Stephen Windsor, KSM 2011, and Richard Yan, KSM 2011*
*February 10, 2010*

***Keynote Speaker: Dick Kramlich (NU '57)***

The Venture Capital portion of the conference kicked off with a wide-ranging keynote speech by Dick Kramlich (NU '57), Co-Founder and Managing Partner of New Enterprise Associates (NEA). Highlighting several hot-button issues in the venture industry, Kramlich touched on a wide variety of subjects, from the impact of carried interest taxation on the VC model to venture investing in developing markets including India and China. He offered insights from his wealth of investing experience, including a set of five principles that he uses in NEA's Monday morning meetings to drive rational investment decisions in both good and bad times. A frequent theme in Kramlich's talk was the critical role of venture capital in driving innovation. Additionally, he challenged the conventional wisdom that larger funds will necessarily lead to lower performance by showing IRR performance by vintage versus each vintage average, in 5-year increments, from 1980-1984 through to 2000-2004. His data showed the IRR performance difference versus vintage average to favor the largest 10% of funds for each time block analyzed.

***Industry Outlook: The Impact of the Financial Crisis on the Future of Venture Capital***

The Industry Outlook panel was moderated by Craig C. Bradley, a partner with law firm K&L Gates, LLP and a Kellogg adjunct professor. Joining him were participants Scott Chou, Managing Partner of Gabriel Venture Partners, Brian Paul (KSM '94), Managing Director and Co-Founder of Tenaya Capital, Andrew Perlman, CEO of GreatPoint Energy, and Eric Young (KSM '80), General Partner and Co-Founder of Canaan Partners. The panelists presented their perspectives on the recent decline in VC, the future areas of growth and the importance of creating your own niche in a competitive industry. Several panelists described the short term need for under-performing firms to liquidate in order to return to the industry to equilibrium. Participants also noted the growing emphasis in the industry toward operational expertise and earlier returns in the product cycle, particularly in less capital-intensive sectors including consumer internet and enterprise software. Panelists spoke about focusing their efforts on their areas of expertise, rather than trying to track every trend, such as the recent buzz about clean technology. The audience also expressed interest in specific aspects of each firm that have enabled them to continue to raise funds and weather the current downturn.

*"...panelists described the short term need for under-performing firms to liquidate in order to return to the industry to equilibrium"*

***Investing in Consumer Internet: Separating the Needle from the Haystack***

The next panel, moderated by Bill Sutter, Managing Partner of Hopewell Ventures and a Kellogg Senior Lecturer addressed trends and investing in consumer internet. The panel included Joe Dwyer (JD-MBA '08), Senior Associate at OCA Ventures and CEO of Brill Street, Bret Maxwell (KSM '82), Co-Founder and General Partner of MK Capital, and Justin Shaffer, CEO of Hot Potato.

Discussing how he evaluates potential start-ups, Dwyer made a very interesting reference to Maslow's Hierarchy of Needs, particularly how the higher up the pyramid a firm can reach, the more significant potential for growth. Next, the subject of monetization in consumer internet led to a healthy debate, where the discussion turned to virtual goods as investment areas. While most generally agreed on the investment potential, Maxwell expressed guarded optimism in this arena, arguing that the proliferation of virtual goods has raised important ethical questions, particularly with the methods used to market these items. Due to the inclement weather, Justin Shaffer was unable to attend in person, but linked in via video conference, sharing how his startup has taken a new approach to social networking.

***Digital Marketing & Internet Services: Futures & Exits***

The final VC panel of the day, Digital Marketing and Internet Services, was led by Tom Parkinson (NU '82, KSM '85). Thepanel consisted of Jim Dugan (KSM '97), Co-Founder and Managing Partner of OCA Ventures, Ken Gaebler, CEO of Gaebler Ventures, Michael Marasco, Northwestern University, McCormick School of Engineering, Clinical Associate Professor and Director of the Farley Center for Entrepreneurship and Innovation, and Amjad Shehade, interactive marketing consultant at skinnyCorp.

The panelists agreed that digital marketing was particularly attractive because it enabled companies of all sizes to execute a successful marketing campaign in a capital efficient manner and at any scale. Speakers were also interested in the rapidly growing data on internet users and particularly in how this data can be more analyzed and leveraged for additional sources of business. A number of comments discussed the 'traditional' marketing model, especially in light of current economic conditions. Panelists also asserted that firms will soon shift a greater share of their marketing budgets from traditional media to digital forms, as firms increasingly focus on advertising spend that is measurable and with a clear ROI. As the panel shifted the conversation to the future of the industry, especially in light of recent exit events (i.e., AdMob), it was noted that larger firms are beginning to view the industry more favorably for acquisition targets as new platforms are developed to capture 'eye-balls' and information on internet users.

## Writing in the Eye of the Storm

*Article by Chris Serb*
*February 23, 2010*

David Stowell had no idea what he was in for when he signed up to write an investment banking textbook a few years ago. But he certainly had the expertise. Stowell, a clinical professor of finance, had recently joined the Kellogg faculty after 20 years in investment banking and four more at a hedge fund. His publisher, the Academic Press imprint of Elsevier, had identified a need for a good textbook that merged academic theory with real-world experience. The book seemed like a win-win for both parties.

Then the worldwide credit crisis hit; two of the world's largest investment banks disappeared; and other large institutions suffered huge losses and struggled to survive. In the midst of this, Stowell realized he would need to rewrite the book, which was about one-third finished. "It was exciting, but distracting," Stowell says. "I had a unique opportunity to write this book during the biggest financial crisis we'd seen in 75 years. It caused me to work more hours than otherwise would have been the case, but the timing really helped keep the book up to date and fresh."

Writing in real time allowed Stowell not only to explore the industry-related causes and effects of the financial crisis, but to reconceive the book around the emerging overlap between three different investment industry subsectors. The book, An Introduction to Investment Banks, Hedge Funds, and Private Equity: The New Paradigm, was released on Feb. 13.

"As an investment banker, I used a communication process that tried to make complicated concepts clearer," Stowell says. "Teaching here at Kellogg has helped me learn how to better convey complex ideas in straightforward ways, and that's helped me as a writer."

The book outlines Stowell's view of the emerging, post-crisis new paradigm of investment banking, hedge funds, and private equity. It is a world in which leverage has dropped substantially, risk tolerance is lower, and extremely complex financial instruments have fallen out of favor.

"This means a potentially lower earnings profile, but also less risk, so this is probably a good thing," Stowell says. But this new paradigm also entails legislative and regulatory proposals on compensation controls, levels of leverage, and trading rules that could affect areas far outside these industry sectors, hindering liquidity in equity markets or eroding shareholder value in buyouts. "This book gives students a foundation for understanding the impact of additional changes as the industry continues to evolve," he says.

The book includes 10 case studies, some of which Stowell has taught in his classes for more than a year. Most cases recount familiar corporations and events — the collapse of Bear Stearns, Procter & Gamble's takeover of Gillette, or hedge funds'

role in shaping corporate policy at McDonald's — but from an insider's perspective. "These cases were all written based on real-world experiences in the industry, and real transactions that allow the text to come to life," Stowell says.

Stowell cites the Gillette acquisition case as one that illustrates political as well as financial realities. "The deal almost got derailed because one politician in Boston (U.S. Rep. Barney Frank) with a big bully pulpit created scathing commentary that the newspapers picked up," Stowell says. "That kind of conflict gets students to see different points of view, and encourages them to debate within the framework of the case paradigm. When I saw students connect and debate and have differences of opinion, that's when I knew I had more here than just a dry textbook."

## Kellogg Distinguished Lecture Series: Promod Haque (KSM '83)

*Article by Amy Trang*
*March 17, 2010*

Venture capitalist Promod Haque '83 had a moment a few years ago that reaffirmed his understanding that consumer appeal is the key to successful product innovation. Haque relayed a story about an executive, an engineer, who asked when a product-management executive would be hired by one of the companies in which Haque was investing. The engineer's reasoning behind the request was that he can build anything, but he needed the product to be defined because "a product is useless if nobody wants it."


"The mistakes we've made in funding start-ups (have occurred when) we get excited engineers working together and thinking they understand all the needs of the world. They build something but no one wants it," said Haque, a managing partner at Norwest Venture Partners. "They didn't go over a product concept with anyone; they've been working in a vacuum. They weren't talking to the customers."

*(Continued on page 11)*

## Kellogg Distinguished Lecture Series: Promod Haque (KSM '83)

(Continued from page 10)

Speaking with Interim Kellogg School Dean Sunil Chopra in a question-and-answer format, Haque addressed the future of the venture capital industry in a March 11 Kellogg Distinguished Lecture at Northwestern University. In addition to his Kellogg education, Haque is a Northwestern engineering alumnus who has been recognized as a top dealmaker on the annual Forbes Midas List for the last nine years and was named No. 1 Venture Capitalist by Forbes in 2004.

To stay ahead, Norwest Venture Partners diversifies its investments — both geographically and by sector. It invests in companies from China to Israel, as well as in firms specializing in software applications to consumer-focused services. Another area the company invests in is growth equity companies — firms that have been in business for a few years and need capital for expansion.

Cloud computing and startups in developing countries are other areas that venture capitalists are moving toward as well, Haque said. "Customers don't buy technology because it's a cool thing to do; these products have to deliver value," he said.

## When Deals Dry Up

*Article by Matt Golosinski*
*December 7, 2009*

Fewer and tougher deals. That's how a leading private equity expert described the road ahead for his industry during a Dec. 2 lecture at the Kellogg School.

Negotiating transactions will be much more complicated — "like pulling teeth," said James Neary '92 — with firms more often resigned to being minority investors in deals for 20 or 30 percent of a company. And even getting that done could take two or three years, he added.

"We're not going to repeat 2006, 2007 anytime soon," said Neary, a managing director at Warburg Pincus, referring to the record spike in transaction values that resulted in deals totaling more than $1.3 trillion for that period. "Over the next several years, ours is not going to be a growing industry. Most likely we will contract. Firms that used to hire 12 people will now hire four."

But Neary, a media, technology and telecommunications specialist who joined Warburg in 2000, said there are still opportunities for those who want to launch a career in alternative investments. They just have to be prepared to look beyond the top 10 elite firms. With more than 2,000 private equity companies worldwide and more than 1,000 in the United States, Neary said candidates have reason for optimism — if they can position themselves as formidable experts with deep industry knowledge and a passion for investing.

Of course they also must deliver results.

The bottom line is still the bottom line, Neary said: "Private equity is a meritocracy. Performance is all that really matters."

During his talk, which was sponsored by the Heizer Center for Private Equity and Venture Capital, Neary traced his professional career, telling students that he intended to leave banking after the 1987 stock market crash. "It was a really miserable time to be a banker," he said. In fact, he enrolled at Kellogg, planning to switch to brand management. He soon discovered that he was not cut out for marketing and "ran back into the arms of finance." Prior to joining Warburg, he worked as managing director at Chase Securities and was part of the

leveraged finance group at Credit Suisse First Boston.

In his remarks, Neary also outlined the investment strategy of his firm, which was founded in 1966 by Lionel Pincus and Eric Warburg. A pioneer in private equity, Warburg has $36 billion invested in about 600 companies worldwide, said Neary, citing signature deals that include BEA Systems Inc., Zentiva, Bharti and Arch Capital.

"You don't read a lot about us because we don't want to be read about," Neary told the Kellogg audience, adding that Lionel Pincus always believed that "a day in The Wall Street Journal is a bad day."

Nevertheless, the Kellogg alum said that his firm is the leading private equity investor in India today, and one of the biggest in China. By employing a "very active" approach to working with the management of the companies it invests in, Warburg looks to create businesses that are relatively balanced along three dimensions — technology, services and data.

Neary predicted that Eastern Europe would likely continue to emerge as a strong investment landscape, although doing so "in fits and starts," while Russia remains a very difficult environment to negotiate.

For those Kellogg students looking to succeed as private equity leaders, Neary advised them to acquire broad knowledge across disciplines. In addition to finance, insights from marketing, accounting, strategy and organizational theory all play an important part in his daily life as a senior executive, said Neary.

"Everything that you guys are doing [in all your classes] matters," he said.

# Ways for Alumni to Get Involved

*Article by Lylan Masterman, KSM 2010 and Emal Dusst, KSM 2010*

Many alumni have inquired about how they can do more to assist Kellogg in its on-going effort to improve its brand value in PE/VC. As such, we have summarized below the most effective ways to get involved, regardless of whether you are in the Chicago area or elsewhere. *If you are interested in contributing to Kellogg's private equity and venture capital students, please email us at pevc-club@kellogg.northwestern.edu*.

**Be a Guest Speaker.** Throughout the academic year, distinguished leaders from the private equity and venture capital community visit Kellogg to lecture on industry topics. The speakers provide students with insight into their fund's investment style, industry focus and recent transactions. In addition to informing students about recent market trends, guest speakers often provide career-related advice.

**Host a Trek.** Each year students participate in educational treks organized by the club to meet with private equity and venture capital firms and learn about different types of principal investing. The goal of the treks is for students to get an understanding of the trends, challenges and opportunities in private equity and venture capital directly from the firms.

**Lead a PEVC Boot Camp Course.** The PEVC Boot Camp series is held during the fall quarter and is designed to provide students with an in-depth introduction in the field of private equity and venture capital. Training courses focus on the fundamental issues associated with the investment process and are led by a group of volunteers consisting of alumni, professors and students with relevant experience.

**Attend Alumni / Student Socials.** Every spring, the PEVC Club hosts an industry networking night in Chicago. This event provides alumni an opportunity to welcome the graduating class into the industry and meet alumni at other firms.

**Join KAPE (Kellogg Alumni in PE).** KAPE is an external alumni organization formed to strengthen the relationships among Kellogg alumni who are active in the private equity industry. It also serves to strengthen the link between alumni engaged in the private equity industry and the school in a way that is relevant and compelling to private equity professionals. To learn more about KAPE and to sign-up for membership, please visit: http://alumni.kellogg. northwestern.edu/KAPE/.

**Participate in the Annual PEVC Conference.** The PEVC Club organizes an annual conference that brings together industry professionals, academic leaders, alumni and current students to discuss trends and issues in the private equity and venture capital industry.

**Conduct Informational Interviews.** Current students might contact alumni to request informational interviews – some are by phone while others are face-to-face. These interviews help facilitate student understanding of the private equity or venture capital career path.

**Offer Internship Programs**. Kellogg offers students the opportunity to gain hands on experience through a variety of internship programs.

***Buyout and Venture Labs*** – These are for-credit experiential learning courses offering students a 10-week internship with a PE or VC firm. Students typically work 1-2 days per week to experience the day-to-day activities of a local fund, allowing them to assist with industry analysis, deal selection, due diligence and investment efforts.

P***art-time/Summer Intern*** – Throughout the school year and during the summer, firms in the Chicago area and across the country hire Kellogg students to assist with work and gain valuable industry knowledge. These internships can be structured informally where students take on pro-bono projects throughout the year or you can structure a paid, summer program.

## Your thoughts?

Would you like to get more involved with Kellogg's private equity and venture capital students? Do you feel that we are not reaching out to you in the right way? If so, please contact us at pevc-club@kellogg.northwestern.edu. We greatly value your involvement and feedback.

Thank You,

**The Private Equity and Venture Capital Club**

Kathy Lai, Co-Chair
Patrick Nally, Co-Chair
Ryan Anthony, Buyouts Director
Jonathan Gaunt, Buyouts Director
Soumitra Mishra, Venture Capital Director
Jason Robinson, Venture Capital Director
Lylan Masterman, Career Director
Kenny Shum, Career Director
Emal Dusst, Alumni Director
Adam Hentze, Heizer Center Director