



HEIDRICK & STRUGGLES

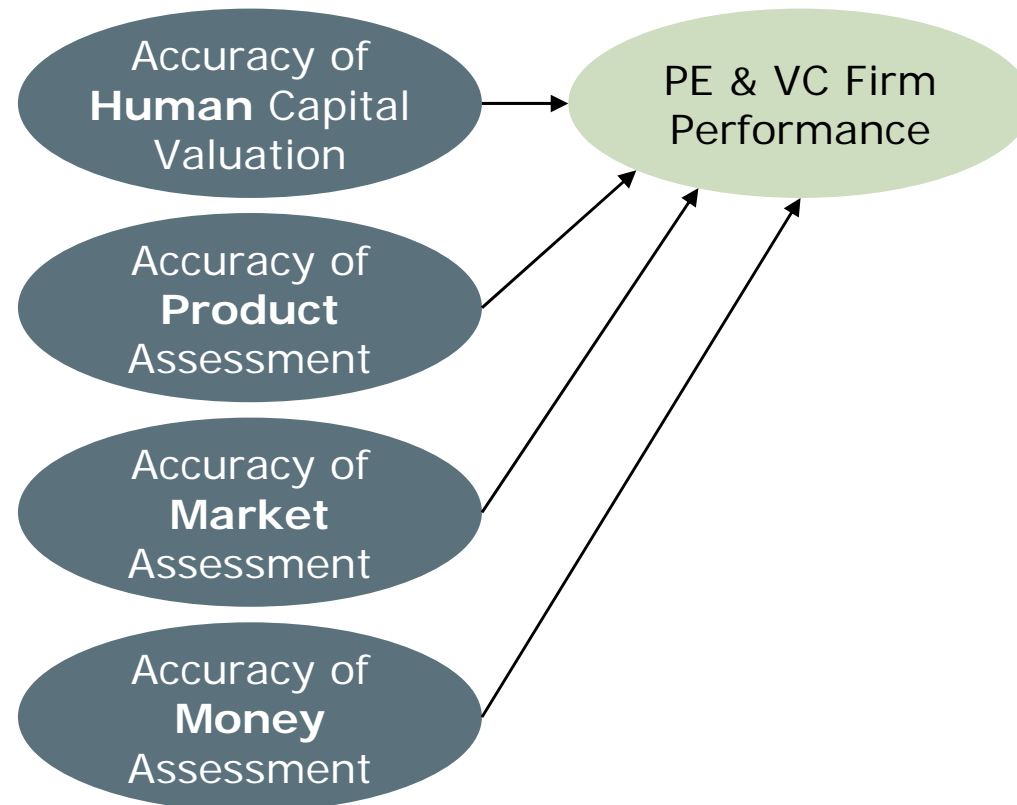


The Value of Human Capital in Private Equity and Venture Capital

presentation by: **Kelvin Thompson, Practice Managing Partner, Global
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VC and PE firm performance

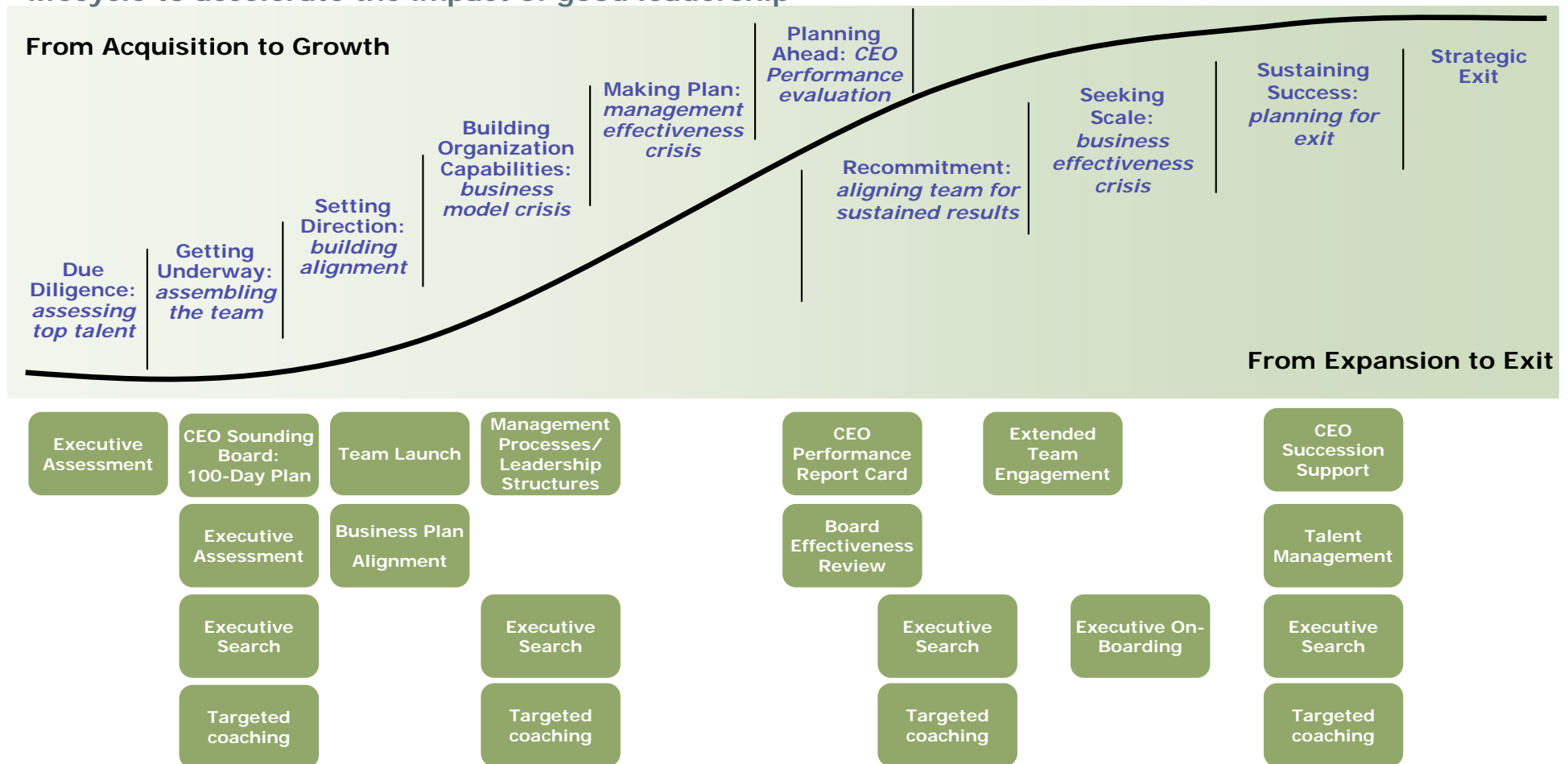


"Human capital, arguably the most important factor, is often the most difficult factor to assess accurately during due diligence."

Geoffrey H Smart

A Lifecycle Approach to Leadership

Our broad services provide assistance to management at critical events in an investment's lifecycle to accelerate the impact of good leadership



Key issues/Needs analyses

Key issues

- At times, traditional executive search is too slow for the hiring needs for Private Equity and Venture Capital firms, while fee structures restrict awarding assignments until after acquisition/investment.
- Top talent is always of interest to PE/VC firms in sectors of choice (current and future).
- Understanding of new investment areas requires understanding of strong indigenous talent prior to acquisition.
- Today, most deals are shopped thus leaving few opportunities for proprietary deals or getting ahead of the investor pack.
- Executive key attributes for driving performance vary from deal to deal.

Needs analyses

- Consider alternate fee structures where both parties "share the risk" of deal/investment happening.
- Understand potential leadership needs ahead of investments.
- Establish new ways to capture and deploy talent beyond traditional executive hiring.
- Instigate talent mapping of future investment areas incorporating knowledge that is both published and that which is "ungoogleable".
- Increasing the accuracy of your human capital valuations will improve your investment performance.
- Determine most viable method using executive search firm contacts to identify deals in prime investment sectors ahead of the general market.

Apollo Management/Verso Papers

Client:

Apollo Management LP is among the most successful private equity investment firms in the United States. It has managed more than \$20 billion in equity capital across a wide variety of industries in the United States and abroad. Verso Paper Holdings LLC, a portfolio company of Apollo Management, was spun off from International Paper in June 2006.

Challenge:

Because the pending sale had not been announced and the incumbent executives were still in place, the searches for backable talent were highly confidential. Consequently, Heidrick needed to approach potential candidates very carefully. We explained that we are always working to identify talent in a wide range of industries, and that private equity firms were acquiring companies in process industry businesses. We then told the individual about Apollo's general interest in the sector, and, if appropriate, introduced him or her to Apollo. Although we were able to tell prospects that we were looking for a CEO for a new company, we were not able to identify the company or validate whether the search was for an identified target deal, deal in process or completed transaction.

Context:

After Apollo Management signed a letter of intent to purchase International Papers' coated and supercalendered papers business, Apollo quietly contacted Heidrick and Struggles' Private Equity practice. Assuming that the deal with International Paper would be finalized, Apollo wanted to replace specific members of the company's management team.

Based on an ongoing relationship of mutual trust, Heidrick and Apollo agreed to share the risk on the searches for three top executives for the company, which became Verso Paper. Heidrick waived the upfront retainer for each of the positions-CEO, General Counsel and Vice President of Environmental, Health and Safety-in return for a premium fee assuming the deal closed and the searches were successful.

Result:

Heidrick & Struggles succeeded in placing the CEO, General Counsel and VP of EHS. The CEO placement, Michael Jackson, had a nearly 30-year career at Weyerhaeuser, an international forest products company. Jackson had invested a significant amount of his own money in the company when he became CEO, which Apollo matched in the form of equity. He quickly recapitalized the business, immediately reaping a substantial profit on his investment and Apollo's co-investment.

The other two placements were General Counsel Peter Kesser, formerly a shareholder at Baker, Donelson, Bearman, Caldwell & Berkowitz, a Memphis law firm and VP of EH&S Craig Liska, who was Corporate Director of International E&H at Motorola.

The Private Equity practice has subsequently conducted similar types of searches for executives at other Apollo Management portfolio companies.

KKR/Maxeda

Client:

KKR, one of the world's largest and most successful private equity firms, has completed buyout transactions that are among the most complex in history. Established in 1976 and led by co-founding members Henry Kravis and George Roberts, KKR has completed more than 150 transactions with an aggregate enterprise value of over \$318 billion. As of June 30, 2007, KKR's equity investments were valued at over \$78 billion on over \$31 billion of invested capital, a multiple of 2.5 times. Investors include corporate and public pension plans, financial institutions, insurance companies, and university endowments.

Challenge:

Once the deal was announced, Heidrick & Struggles worked with KKR to bring in Tony Denunzio as the Chairman of the Board of Vendex, the leading non-food retailer, with revenues of c €4.5b and 44,000 employees. The Group operates 1,800 outlets across seven countries and holds dominant positions in the DIY and department store sectors. The company also owns a number of niche apparel retailers and consumer electronic formats. Following Tony's appointment he quickly brought direction and retained Heidrick & Struggles again to recruit the division heads of DIY and Department Stores.

Context:

Before KKR signed a letter of intent to purchase Vendex (now Maxeda) in 2004, KKR quietly contacted Heidrick & Struggles' Private Equity Practice, based upon our longstanding and successful relationship. Assuming the deal with Vendex would be finalized, KKR and Heidrick & Struggles worked through the structure and various management scenarios to bring both strategy and growth to a turnaround situation.

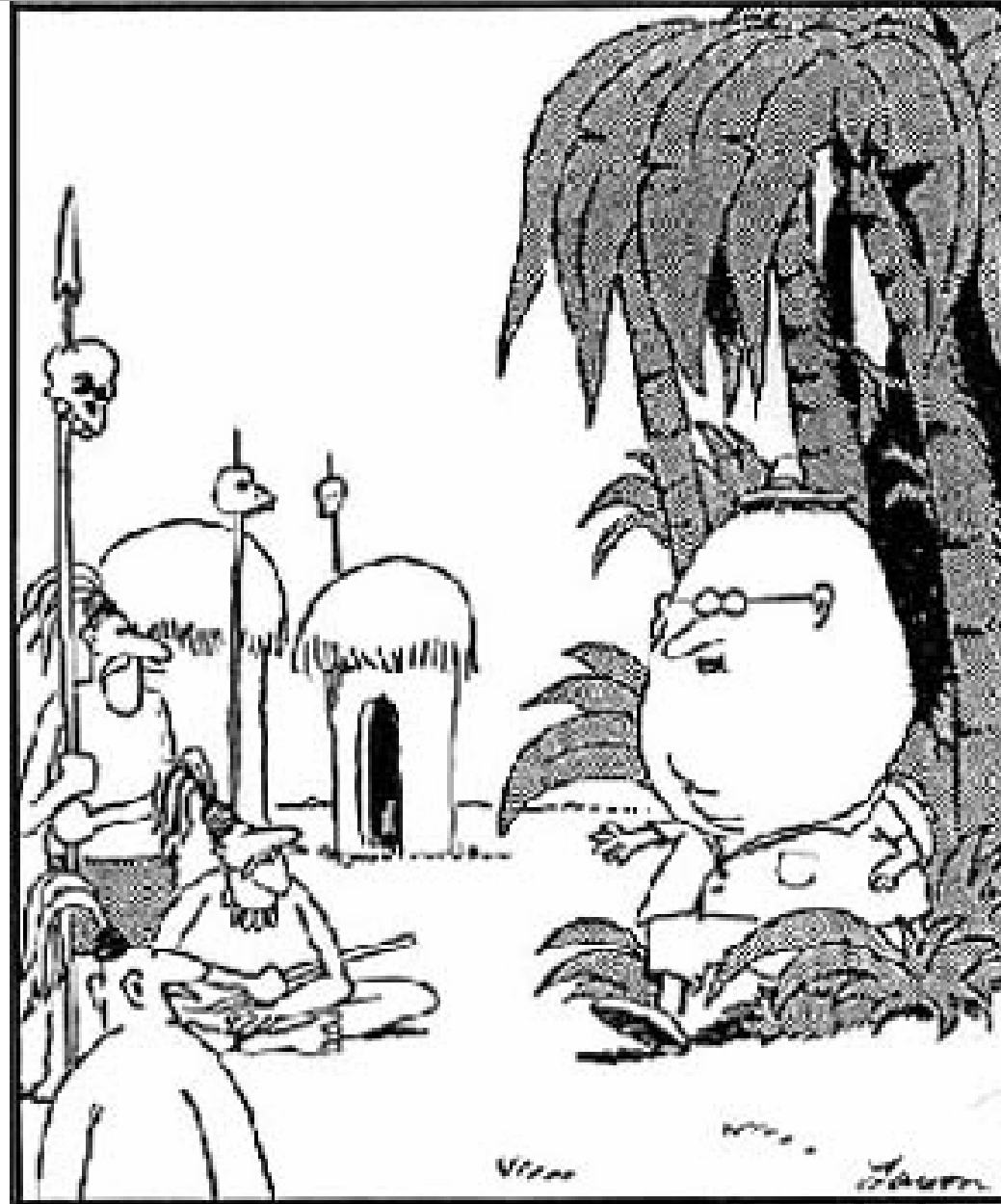
Result:

John Pfeffer, the lead investment partner on the deal at KKR wrote: "The core of our investment thesis at Vendex was that this was a great group of businesses that lacked leadership, so the role that H&S played in working with us to find an outstanding CEO as well as other key members of management was absolutely pivotal to the success of the investment. Not only did we work closely with her in generating a group of exceptional candidates, but also H&S helped us to convince our dream CEO candidate, Tony Denunzio who told us 'no' twice, to make the jump."

This remains an extraordinary investment for KKR and Heidrick & Struggles takes great pride in successfully continuing these deep relationships with both KKR and Maxeda.

Which Firm Will Be Able to Spot The Right Candidate For You?

HEIDRICK & STRUGGLES



Unwittingly, Palmer stepped out of the jungle
and into headhunter folklore forever.

Kelvin Thompson

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