

Short Term Pain for Long Term Gain

The challenges and opportunities post investment
Private Equity World Germany 2006
20 September 2006
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About GCP



- **Founded in 2002, 37.6m€ managed funds**
- **Portfolio of 13 companies in ICT and Life Sciences**
- **Investment Team of 7 Persons, focused on growth capital in technology based companies in D/A/CH and CEE (SK/CK/H/SLO)**
- **2 years after final close of gamma II: 75% of commitments called, 35% repayed, >20% net IRR expected**
- **gamma III with identical strategy and a target of 75m€ prepared for launch**

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Pain = Deferred Compensation



**The ability of a child
to accept deferred compensation
is a predictor for its success in life**

(according to Coleman, Emotional Intelligence)

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Pain = Deferred Compensation

- **Macroeconomics**

Pain: short term loss of employment, “locusts”

Gain: EVCA white paper: PE-financed companies outperform in growth, value and jobs over time

- **Fund investors**

Pain: Exposed to the J-Curve and illiquidity

Gain: Proven Performance and low volatility of diversified PE/VC-portfolios

- **Investment Teams**

Pain: modest salaries, small bonuses over several years (Tech VC continental europe)

Gain: full catch up IF carried interest is as expected

Pain = Deferred Compensation

- **Entrepreneur**

Pain: loss of control; loss of autonomy; dilution

Gain: smaller share of a larger pie; focus on personal strengths; wealth and independence; serial entrepreneurship

- **Company**

Pain: Cost cutting; sale of non-strategic assets; loss of amenities taken for granted etc.

Gain: Dynamics; experience of success and growth; attraction of talent; opportunities for employees

Pain = Work

If it hurts, it works

(Arnold Schwarzenegger – in his first career!)

Pain = Work

- **Macroeconomics** – simple (tax) rules, stable environment
- **Fund investors** - PE/VC program, due diligence, monitoring
- **Entrepreneurs** - Living outside the comfort zone
- **Company** - Pain of growth, of change, of exercise, of failures

Pain = Work

■ **Investment Teams** – working, not betting

- » The process pre-investment in VC-Deals is more predictable and straight-forward compared to Buy-Out-Deals
- » First 100 days define the relationship between investor and investee and build the basis for robust cooperation in VC-Deals as well as in Buy-Out-Deals
- » VC-investors must handle follow-on financing, organizational development etc. for several years before exiting; continuous, gradual, informed, respectful and clear communication needed to keep the rapport vivid and meaningful.
- » The exit-process is quite similar, with idiosyncratic challenges and opportunities in every deal; GCP focuses on building great companies, this will trigger a great exit

Inversion – Short Term Gain – Long Term Pain

**If it looks too good to be true,
maybe it is not true!**

Inversion – Short Term Gain – Long Term Pain



■ Entrepreneur

?Gain? Avoid dilution via leverage, subsidies, industry money

!Pain! Bankruptcy instead of restructuring, “red tape” all around subsidies, reduced options for trade sale -> less value for all stakeholders

■ VC - Investment Team

?Gain? “Wash-out round”, multiple Liquidation Preference

!Pain! Illoyalty, revenge, loss of commitment

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Inversion – Short Term Gain – Long Term Pain



■ Over-Leveraged Buy Out – Investment Team

?Gain? early distributions, stunning IRR's, massive carried interest

!Pain! Collapse of deals, clawbacks from teams and investors

■ Over-Leveraged Buy Out – Debt Provider

?Gain? high fee income, advance in league table, growth

!Pain! Defaults, bad debt, restructuring

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**As true as it has always been:
No Pain, no Gain!**

- Pain in both meanings is necessary, but not sufficient-> absence of pain should make you suspicious (easy come, easy go)!
- Tech-VC investing needs stamina and continuous work for years before a successful exit-> for entrepreneurs, its easy to find “co-investors” but hard to get a “lead-investor”
- Continental Tech-VC is therefore still massively underserved (and hence offers excellent profit opportunities) -> we at GCP estimate a growth potential of 10x for Tech-VC in our market over the next 10 years

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