

Overview of Private Equity

Alex Navab

April 2010



Let's Set the Stage



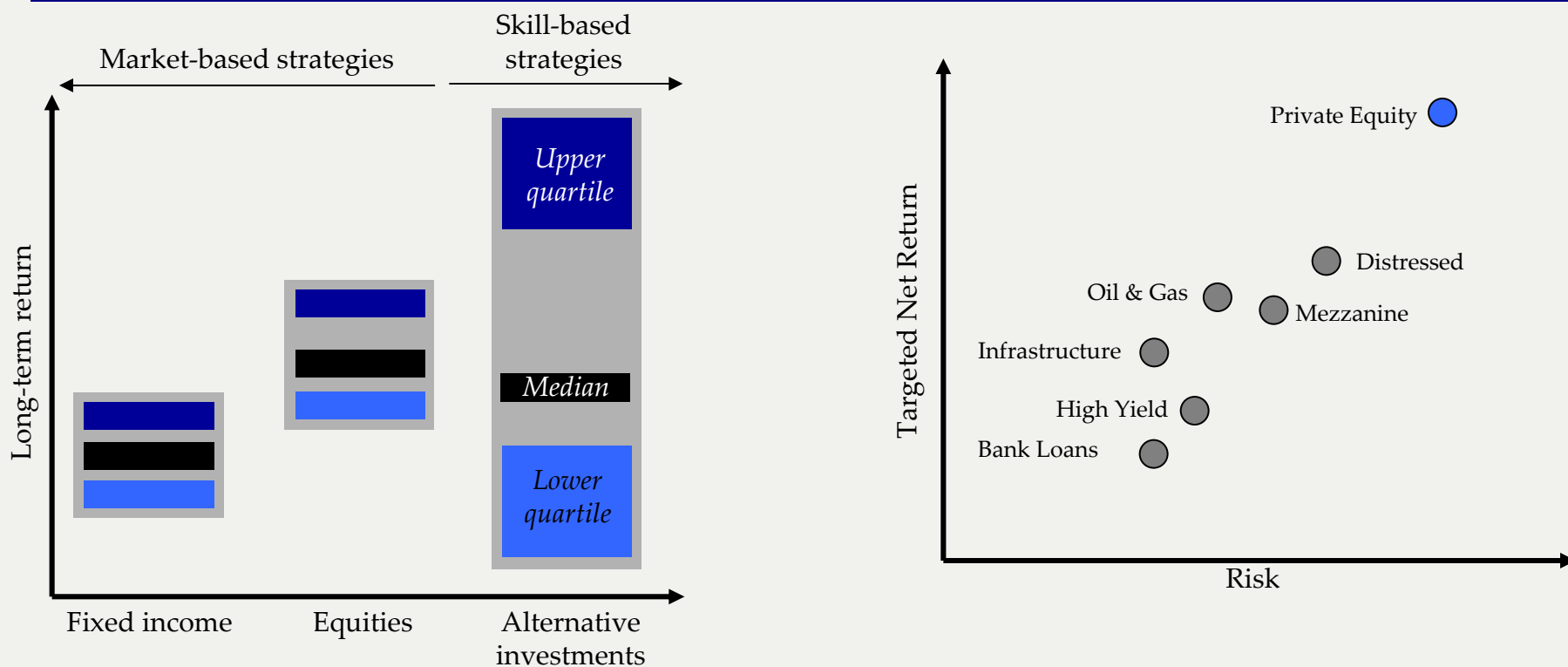
- Private Equity is a significant component of what is broadly called alternative assets
- Alternative assets include multiple strategies
 - Private Equity (primary and secondary funds)
 - Venture Capital
 - Hedge Funds
 - Real Assets (eg., real estate, timber, infrastructure)
 - Mezzanine, Distressed Debt
- These types of strategies share several common attributes
 - Higher expected returns than most public market strategies
 - Commensurate higher risk
 - Typically less liquid than public market investments and longer time horizon to generate returns

Role of Alternative Assets in an Investment Portfolio



- Alternative asset strategies typically pursued to produce “alpha”
- Long-term expected returns in excess of public market benchmarks

Risk vs Return Framework



Note: The information in this slide is intended to be generally indicative of market opportunities based on KKR's experience, its belief as to current market conditions and its expectations as to market conditions in the near future. Actual opportunities may differ substantially from the information herein and there can be no guarantee that actual opportunities will correspond with KKR's expectations. Nothing set forth herein is or shall be deemed to be investment advice or the offer of investment advice to any recipient hereof. Targeted net returns referred to herein have been determined by KKR on the basis of estimates and assumptions about performance believed to be reasonable in light of both current market conditions and KKR's views on future market conditions. In evaluating potential returns, KKR will consider a number of factors, including, for example, projected cash flows, projected future valuations of target assets and businesses, relevant other market dynamics (including interest rate and currency markets), anticipated contingencies, and regulatory issues. Actual results and events may, however, differ materially from the assumptions underlying such analysis. Such returns are subject to significant economic, market, and other uncertainties that may adversely affect the performance of individual investments.

Advantages and Risks of Alternative Assets

Advantages

- Long-term return profile can match long-term funding requirements
- Top quartile managers have historically out-performed public benchmarks
- Structural, governance and informational advantages increase a manager's ability to drive returns

Risks

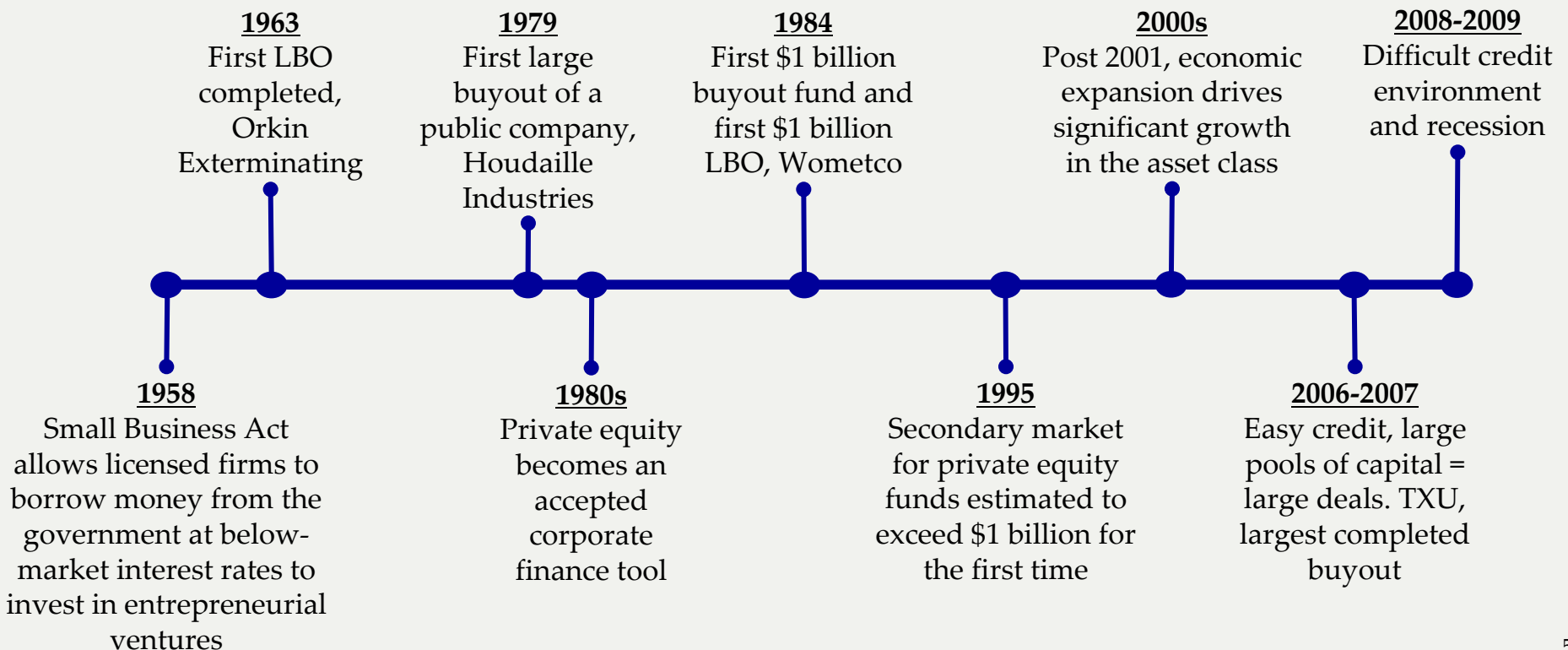
- Illiquidity
- Performance can vary widely among managers
 - Top quartile selection is critical
- Mark-to-market accounting has recently resulted in greater volatility of unrealized returns

Focus on Private Equity

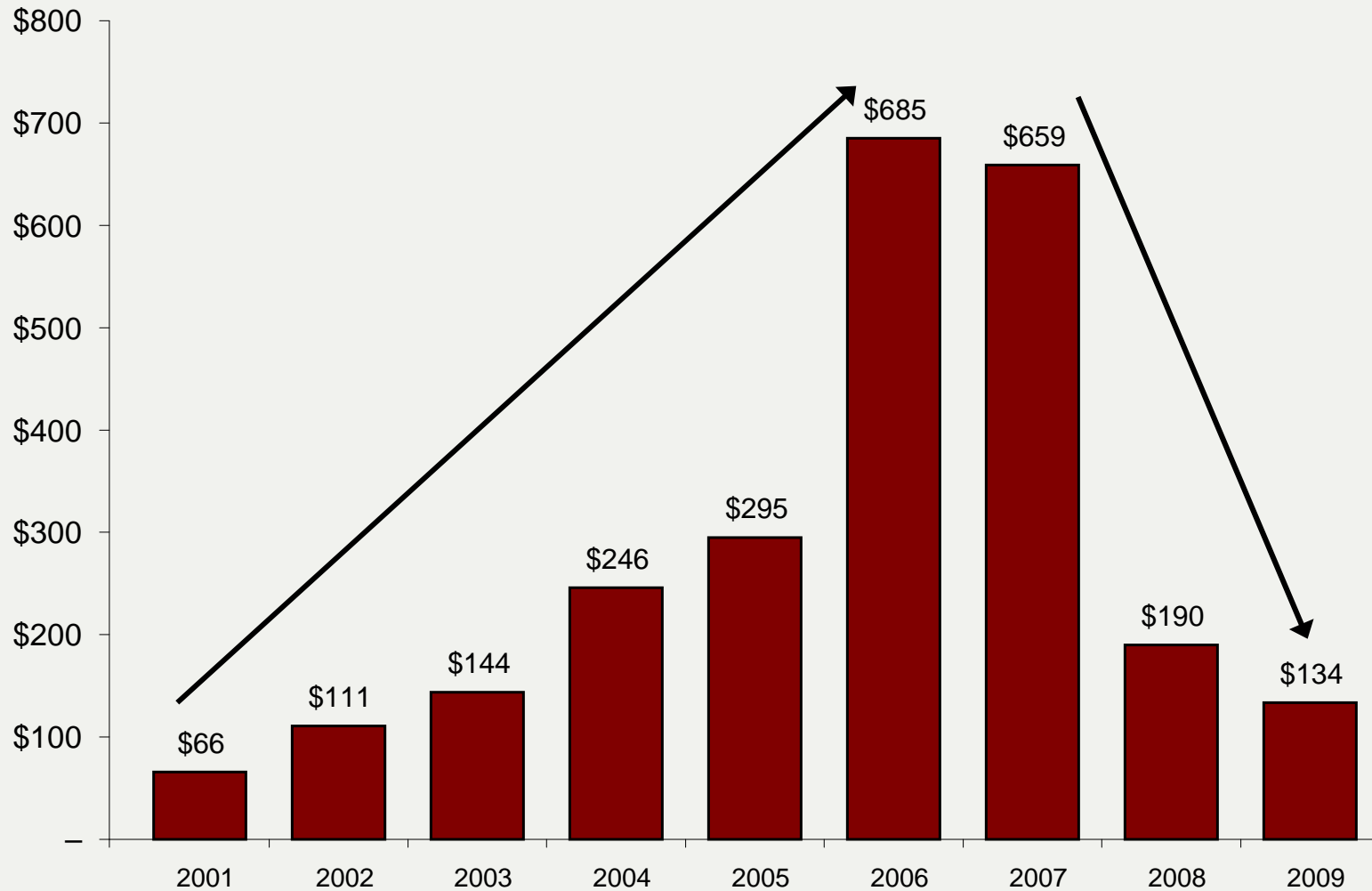
The Evolution of Private Equity



- Leverage buyouts are not a new phenomena
- Four decades of growth; today a recognized corporate finance tool and core asset class for institutional investors
- Demand for and supply of private capital expected to grow
- Multiple strategies from small buyouts to large, and across geographies



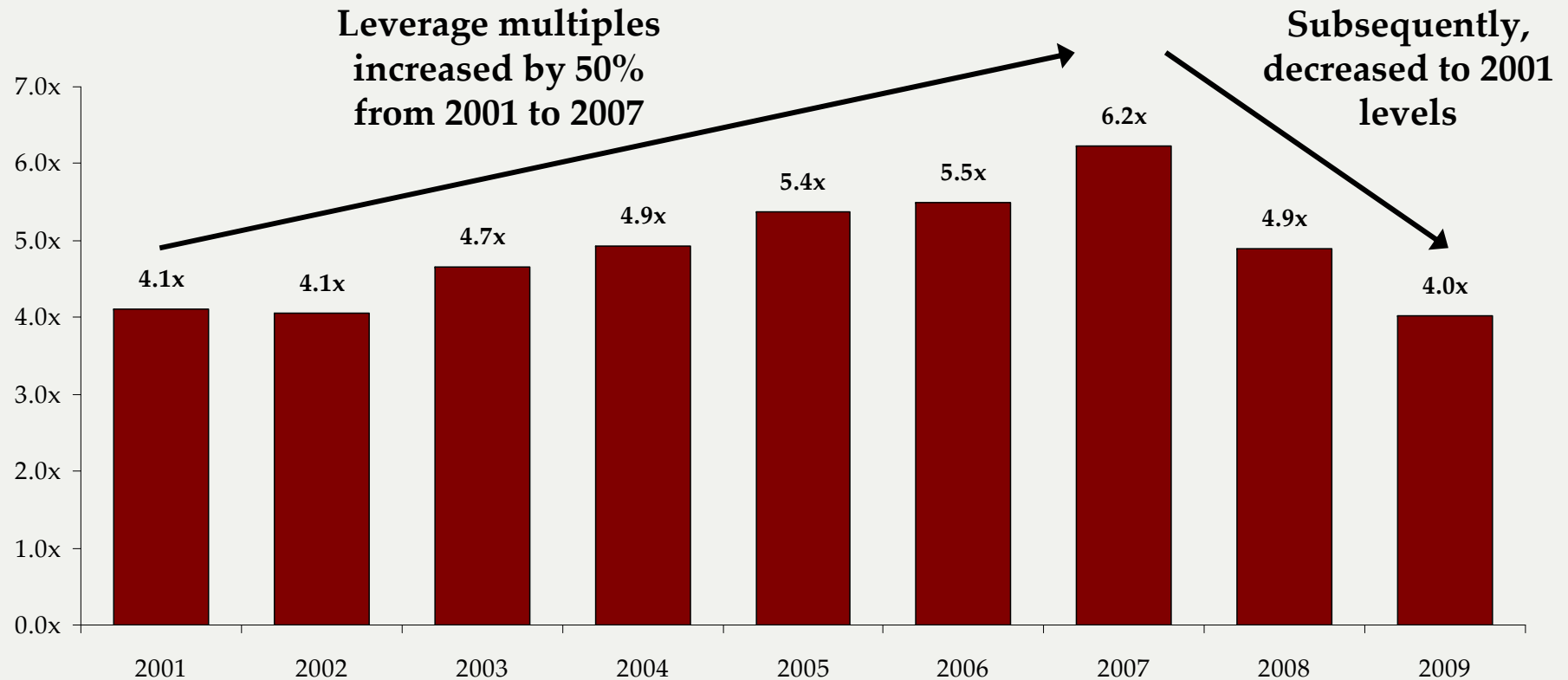
Private Equity Transaction Activity (\$bn)



Recent History (cont'd)



Total Debt / EBITDA



As a Result . . .



	2001 – 2007	2008 – 2009
Private Equity Fundraising	Increased ~235% from 2001 levels to \$646 billion in 2007	Decreased ~60% from 2007 levels to \$246 billion in 2009
Cost of Debt⁽¹⁾	Average 270bps over LIBOR	Spiked to 565bps over LIBOR (when available)
Purchase Price Multiples⁽²⁾	Rose to an average of 9.8x (compared to 6.1x in 2001)	Fell almost 2x to an average of 7.9x
Equity as a % of Total Sources⁽³⁾	Declined to ~30%	Climbed to ~45%

Source: S&P LCD Leverage Loan Review, Preqin Ltd.

(1) Represents average pro rata spread of leveraged buyout loans

(2) Data for U.S. large corporate LBOs with pro forma trailing EBITDA >\$50million

(3) Data for all U.S. LBOs

Where Does That Leave Us Today?

While the Outlook for Private Equity May Appear Challenging . . .



- **Financing Markets**

- Pricing, leverage and terms will likely revert to pre-peak levels
- Large deals will revert to \$1-5 billion TEV
- Investors will continue to resist aggressive capital structures

- **PE Returns**

- Quick flips will become rarer
- Longer holding periods expected for portfolio companies
- Strategic buyers may become more competitive acquirers



1) Private Equity is Cyclical



	1984 – 1988 “Financial Engineering Era”	1989 – 1993 “Slowdown Era”	1994 – 1998 “Growth Era”	1999 – 2001 “T&T Bubble”	2002 – 2007 “Golden Era”	2008 – 2009 “Market Meltdown”
PE Global Deal Volume (Avg/Year)	\$40 bn	\$12 bn	\$38 bn	\$97 bn	\$357 bn	\$162 bn
% Equity in Deals (Last Year)	10%	22%	30%	38%	33%	45%
Approximate IRRs ⁽¹⁾	50%	20%	35%	13%	37%	???

Source: Morgan Stanley, S&P LCD Leverage Loan Review, Preqin, Private Equity Council, 2009 Data from Thomson Reuters

(1) Approximate gross IRRs of vintage year deals by selected large funds; “Golden Era” IRR represented by approximate net IRR of vintage year funds

2) Private Equity is Adaptable



- As the world in which we operate changes, private equity can, and does, change its approach and business model
- We believe today's model is about driving operational value

"Financial Engineering" Approach

Purchase Price:	8.0x EBITDA
Leverage:	5.5x EBITDA
Avg. Cost of Debt:	8.0%
EBITDA Growth:	5.0%
Exit Multiple:	10.0x EBITDA

~24% Net IRR

"Value Creation" Approach

Purchase Price:	8.0x EBITDA
Leverage:	4.5x EBITDA
Avg. Cost of Debt:	10.0%
EBITDA Growth:	15.0%
Exit Multiple:	8.0x EBITDA

~27% Net IRR

3) Operational Value Creation is the “Game Changer”

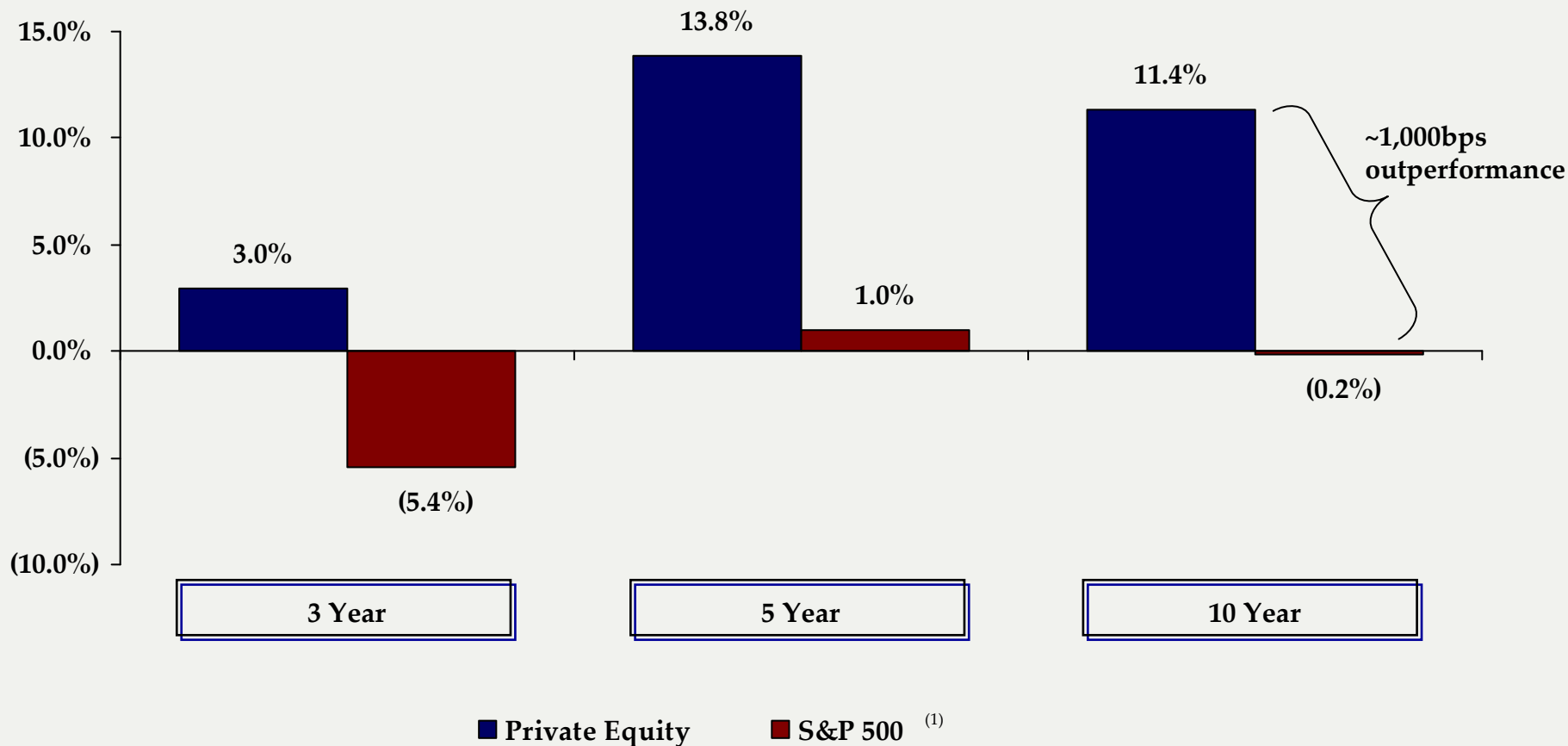


- Control positions enable private equity investors to exert more influence on the performance of their portfolio companies
- Sources of value creation include:
 - New revenue opportunities
 - Controlling expenses and improving salesforce effectiveness
 - Management of capital budgets and balance sheets
 - Managing stakeholder/brand issues effectively which supports all of the above; and
 - Employees
 - Customers
 - Regulators
 - Prospective Investors

4) Private Equity, Over the Long-Term, Has Historically Outperformed Public Markets



Cambridge Associates Global Private Equity Index



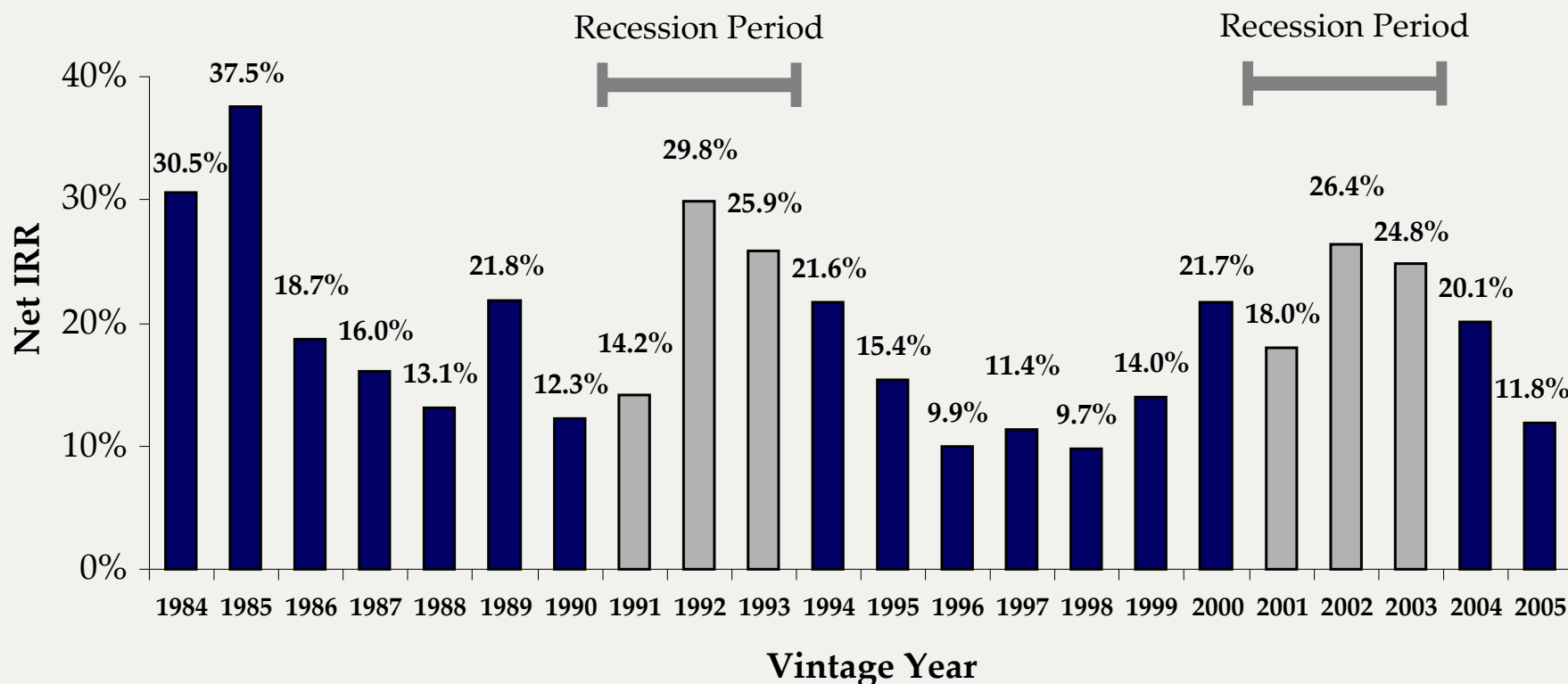
Source: Cambridge Associates LLC Benchmark Statistics, Global (Ex-US) Venture Capital & Private Equity Index, September 30, 2009.

(1) S&P 500 Index includes reinvestment of dividends, and does not include deduction for any taxes, expenses, transaction costs or advisory fees.

5) Important to Stay the Course on Vintage Year Diversification . . .



. . . particularly emerging from a recession



Source: Thomson Reuters VenturExpert Database. Reflects cumulative vintage year performance for top-quartile U.S. buyout funds as of June 30, 2009. Returns are net of all management and performance-related fees.

Note: Past performance is not a guarantee of future results.

Current Outlook

- Credit markets re-opened in 2009, a pre-requisite for buyout activity's recovery
- Corporate activity increasing as economy improves leading to more divestiture activity
- Investment opportunities include:
 - Leveraged companies needing to sell assets
 - Public to privates of undervalued businesses
 - Corporations needing capital for acquisitions
 - Structured minority investments
 - Companies facing near-term debt maturities – “good businesses, bad balance sheets”

For the **right company** in the **right industry** with the **right sponsor**, financing is available

2009 and 2010 YTD Announced Global PE Deals Over \$1 billion



- Despite limited activity, PE funds have been able to deploy capital opportunistically, and in size, in 2009 and YTD

Announced	Target	Industry	Acquiror	Value (\$mm)
1/2/2009	IndyMac Bank FSB	U.S. bank	IMB; MSD; Soros; JC Flowers, Stone Point	1,550.0
3/19/2009	Immoeast Immobilien Anlagen	Austrian property company	Vienna Capital Partners; Apollo	2,617.5
3/19/2009	USJ Co. Ltd.	Japanese theme park operator	Goldman Sachs; MBK Partners; Owl Creek	1,375.7
3/30/2009	Fifth Third Processing	U.S. financial services	Advent Investment Group	1,811.0
4/7/2009	New City Residence Inv.	Japanese REIT	Lone Star Funds	1,115.6
5/6/2009	Allco Finance	Australian aviation business	Hainan Airlines; Bravia Capital Partners	2,986.0
5/7/2009	Oriental Brewery	South Korean brewery	KKR.; Affinity	1,810.0
5/29/2009	Enel Rete Gas	Italian natural gas distributor	F2i Fondi Italiani per le infrastrutture; AXA	1,714.7
9/1/2009	Skype Technologies	Internet-calling unit	Silver Lake; CPPIB; Others	2,025.0
9/7/2009	Chartered Semiconductor	Singaporean semiconductor manufacturer	Advanced Technology Investment Company	3,904.0
9/30/2009	Invitel Holdings	Hungarian telecommunications provider	Mid Europa Partners	1,110.9
10/7/2009	Busch Entertainment Corp.	U.S. theme park operator	Blackstone	2,300.0
10/12/2009	Constantia Packaging	Austrian flexible packaging	One Equity Partners	1,206.3
10/15/2009	Anheuser-Busch InBev (CEE division)	Central European brewing operations	CVC	3,031.0
10/21/2009	Gatwick Airport Ltd.	U.K. airport	Global Infrastructure Partners	2,476.4
11/5/2009	IMS Health Inc.	U.S. healthcare data company	TPG; CPPIB	5,203.4
11/8/2009	TASC Inc.	U.S. government consulting business	KKR; General Atlantic	1,650.0
11/15/2009	Bellsystem24 Inc.	Japanese telemarketer	Bain	1,115.6
12/8/2009	Marken Ltd.	U.K. healthcare services	Apax Partners LP	1,602.0
12/11/2009	Springer Science + Business Media	German academic publisher	EQT; GIC	3,387.0
12/16/2009	Cedar Fair LP	U.S. amusement park operator	Apollo	2,314.4
1/27/2010	Pets At Home Ltd	U.K. pet retailer	KKR	1,545.9
2/4/2010	KNM Group Bhd	Malaysian industrial equipment manufacturer	BlueFire; GS; Mettiz	1,285.0
2/12/2010	SkillSoft Plc	U.S.-based e-learning and training	Berkshire; Bain; Advent Investment Group	1,095.2
2/23/2010	Ambea AB (75%)	Nordic healthcare company	Triton	1,156.7
3/2/2010	Styron Corp	Plastics unit of Dow Chemical	Bain	1,630.0
3/5/2010	RCN Corp	U.S. cable company	Abry Partners	1,211.8
3/12/2010	Willcom Inc	Japanese mobile phone carrier	Advantage Partners	1,449.4

Critical Attributes for Success in Private Equity



Industry Expertise / Sourcing

- Deep industry specialization
- Focused effort on building relationships with industry CEOs and other experts

Investment Experience

- Investment judgment honed over multiple economic cycles
- Proven long-term track-record

People and Culture

Stakeholder Management

- Focus on alignment of interests with broad group of stakeholders
- Integrated into investment decisions and transaction processes

Operational Capability

- Ability to work with portfolio company managers to help identify and implement operational improvements

Client Management

- Internal team focused on building, maintaining and expanding investor relationships

Capital Markets

- Expertise in capital structures, refinancings, IPOs in order to aid portfolio company recapitalizations

Important Information



This presentation (“Presentation”) is being made for the sole purpose of providing certain information about Kohlberg Kravis Roberts & Co. (together with its affiliates, “KKR”) and its views of the private equity industry. This Presentation does not constitute an offer to sell or a solicitation of an offer to purchase any security of any investment vehicle or product sponsored or managed by KKR (each, a “KKR Product”). Any such offer or solicitation will only be made pursuant to the final confidential private placement memorandum (or its equivalent) issued with respect to a KKR Product (each, a “Memorandum”), which qualifies in its entirety the information set forth herein and which should be read carefully prior to any investment in a KKR Product for a description of the merits and risks of such an investment. An investment in any KKR Product will entail a high degree of risk and no assurance can be given that investment objectives will be achieved. Each Memorandum will contain a detailed description of the risks that may be involved in investing in a KKR Product. This Presentation is not intended to provide information important to a decision to purchase or sell any common units or restricted depositary units of KKR &Co. (Guernsey) L.P.

Information provided in this Presentation about any KKR Product and investments made by such KKR Products, including past performance, is provided solely to illustrate KKR’s investment experience, and processes and strategies used by KKR in the past with respect to such KKR Products. Hypothetical performance information in this Presentation relating to investments is not intended to be indicative of any KKR Product’s future results. Past performance is not indicative of future results and there can be no assurance that any KKR Product will achieve comparable results.

Unless specified, any views reflected herein are those of KKR and are subject to change without notice. Certain of the information contained herein, particularly in respect of market data and economic and other forecasts, is from third party sources. KKR does not represent that such information is accurate or complete, and KKR has not undertaken any independent review of such information. The statements contained in this Presentation are made as at the date of this Presentation, unless another time is specified in relation to them, and the delivery of this Presentation at any given time shall not give rise to any implication that there has been no change in the facts set forth in this Presentation since that date. KKR is under no obligation to update or keep current the information contained herein or to correct any inaccuracy contained herein except as explicitly required by law. No part of this Presentation constitutes investment, legal, tax, regulatory, accounting or other advice of any kind.

The S&P 500 Index is a capitalization-weighted index of the largest, publicly traded U.S. companies, and is used for purposes of comparison to represent broadly the performance of the U.S. stock market. The return figures for this index take into account changes in price and gross cash dividends paid by securities comprising the index. The return figures for the index do not reflect the deduction of any taxes, expenses, transaction costs, or advisory fees. It is not possible to invest directly in an unmanaged index.

Certain information contained in this Presentation constitutes “forward-looking statements,” which can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “project,” “estimate,” “intend,” “continue,” “target,” “believe,” the negatives thereof, other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of any KKR Product may differ materially from those reflected or contemplated in such forward-looking statements.

This Presentation and its contents are strictly confidential. By acceptance of these materials, each recipient agrees to keep this Presentation and its contents confidential and not to reproduce or disclose them to any person without the prior written consent of KKR.