

These buy-outs are about growth, not asset-stripping [Print](#)

By Philip Buscombe

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From Mr Philip Buscombe.

Sir, With respect to the debate in your pages and the articles headlined "Do we condemn or cheer the flight of private equity?" (February 16), I would add the following.

More than 70 per cent of the buy-outs in the UK and Europe are not the big-ticket, big-number deals on which much of the discussion focuses; they are small and mid-market buy-outs of between £5m and £100m, often involving acquisitions from family or entrepreneur-founder owners. They are not hostile and therefore do not involve conflicts of interest for senior management.

Debt is typically some 50 per cent of the price and generally supplied by one or two banks known to both the equity investor and the company. Collateralised debt obligations

and similar debt fund vehicles

or hedge funds rarely feature

in this part of the market.

Mid-market buy-out firms do not make returns for investors by using the financial engineering techniques typical of many large deals. They build companies through a range of strategies that include major investment in human and capital resources and in accounting, reporting and information technology systems.

They attract world-class management, accelerate expansion into new product or service ranges or into new regions and identify and fund strategic acquisitions.

They also provide advice at board level on all strategic and operational decisions. These buy-outs often receive two or three rounds of finance to support growth over three to six years. The aim of all parties is to increase turnover and profits as

part of developing sustainable,

larger long-term businesses.

Furthermore, in most mid-market buy-out firms such as Lyceum Capital, the senior partners are required by investors to invest a large part of after-tax salary and bonus in the buy-outs we back - upfront and on the same terms as our funds. We put a substantial part of our own income on the line alongside the funds of our investors.

Small and mid-market buy-outs are about growth, not asset-stripping, and many of us are concerned that the poor communication of a few larger buy-out houses may damage the very real contribution that smaller and mid-market buy-outs make to the

UK and European economies.

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