

PQR

PRIVATE EQUITY TO THE RESCUE

A TALK WITH CLAYTON,
DUBILIER & RICE'S

**ROBERTO
QUARTA &
CHRISTIAN
ROCHAT**

BUILDING TALENT TEAMS,
BRIC BY BRIC

SPORTS, SIBLINGS, AND OTHER
SOURCES OF CAREER MOMENTUM

WHY LEADERSHIP CANNOT
GO SILENT

THE RISE OF THE
CHIEF RISK OFFICER

**FOR CLAYTON, DUBILIER & RICE,
OPERATIONAL EXCELLENCE TRANSLATES
INTO GLOBAL SUCCESS**

A VALUE-BUILDING MODEL FOR ALL SEASONS

In an extraordinarily challenging, complex, and unpredictable international economy, it seems likely that at least some solutions to current business problems will arise from within the private equity community. Roberto Quarta, Chairman Europe and Operating Partner for the leading global private equity firm Clayton, Dubilier & Rice, and Christian Rochat, a London-based Financial Partner of CD&R, recently met with the *PQR* team to discuss the worldwide situation, as well as their firm's strategic approach to transforming underperforming businesses in good times and in bad.



Roberto Quarta,
Chairman Europe and
Operating Partner, CG&I

PQR How does this approach work, more specifically, in a tough economic climate like this one?

Christian Rochat We invest in businesses that would benefit from strategic and operational transformations. This might involve new approaches to sourcing, supply chain management, research and development, manufacturing, marketing, product mix, customer “share of wallet,” pricing, sales, or service. This kind of investment does not go out of style. In fact, we believe it is sustainable and potentially more valuable in difficult times.

Roberto Quarta It is true that we currently are experiencing an economic tsunami, which may have started in the U.S. but has now moved to Europe. Virtually all industries have been affected. It is a broad downturn.

Yet our operating partners - people like Jack Welch, Charles Banks, Fred Kindle, George Tamke, and James Berges – bring exceptional experience and insight to the challenges that our portfolio companies may be facing. As a result, not only are our companies ready for the downturn, they are well positioned to capitalize on it by taking market share, making acquisitions, hiring talent from weaker competitors, and strengthening customer relationships. We’ve worked with our portfolio company management teams for 18 months or longer, since we first saw signs of weakness in the U.S., and have started planning and budgeting accordingly.

Christian Rochat We are very close to our management teams. We are not simply reacting to the current economic

climate. We regularly conduct operating reviews in which portfolio company management teams sit down with our entire operating group to discuss what’s going on within the company and the marketplace, what’s working, and to look at what could be done differently, more effectively. The transformation process is an ongoing effort regardless of the state of the economy.

PQR What’s the overall objective for CD&R? Has this changed, given the magnitude of what’s been taking place in the global arena?

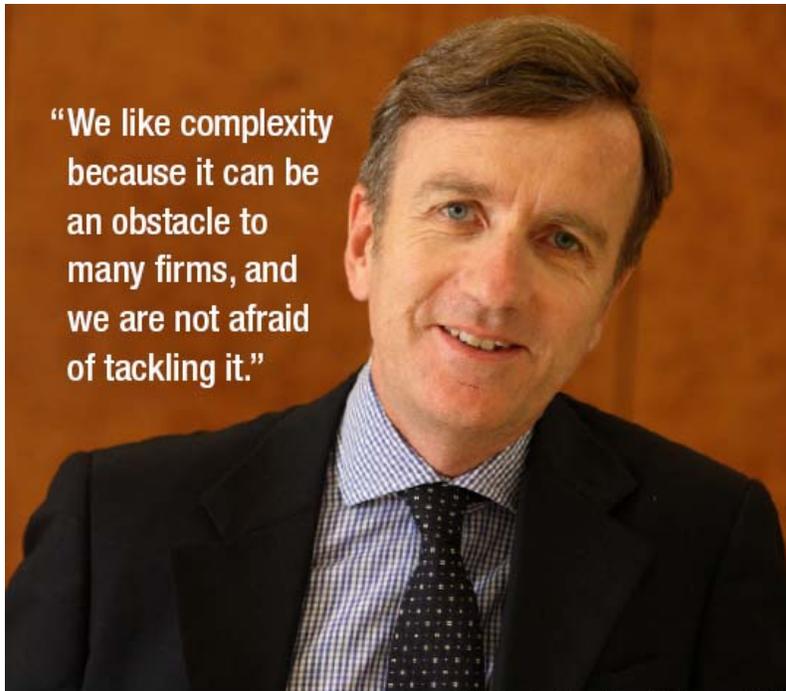
Roberto Quarta We are investors and business builders, not asset gatherers. That’s always been the case. We aim to do two or three investments a year, with the goal of doubling the profits of acquired businesses and tripling the fund’s investment.

In any economic climate, there’s one big issue that is often raised about private equity: Does it create long-term value and, if so, how should that be measured? At Clayton, Dubilier & Rice, one way we answer that question is by focusing on the quality of the businesses that we leave behind, after we exit an investment. We believe that, by strengthening the operations and fundamentals of our portfolio companies, we are making it possible for them to continue to grow and thrive in the years to come.

PQR Mr. Rochat, you are responsible for identifying and analyzing investment opportunities in European and global companies. So it makes sense to ask you: Do economic problems within the U.S. and Europe make it more - or less - likely that the firm will look elsewhere for business opportunities?

Christian Rochat We view our opportunities in two ways. Mature markets such as the U.S. and Europe present many attractive prospects for us, particularly in times of economic stress. In terms of sourcing new investments, we expect corporate divestitures, the primary source of our deal flow, to increase from these regions as CEOs and boards constantly reexamine corporate strategies, set priorities, and invest only behind core competencies.

But we are cognizant of the fact that more and more growth is taking place across Asia, Eastern Europe, and other emerging markets, and we devote a lot of our attention to helping our portfolio companies capitalize on those opportunities.



Christian Rochat, Financial Partner, CD&R

PQR CD&R is often singled out for its willingness to tackle complex business situations. Do you expect this expertise to prove especially valuable in a global market like this one?

Christian Rochat We like complexity because it can be an obstacle to many firms, and we are not afraid of tackling it. However, no one has ever made money from a deal simply because it is complicated. We aim to achieve simplicity of purpose and strategy. When we consider a potential investment, we need to get to a point at which we can see three or four key areas of improvement that are driven by factors we can control, such as productivity, cost, or capital efficiency, and that will ensure the success of the investment.

Roberto Quarta Each of the businesses we invest in is the result of a very patient and targeted sourcing effort, often involving years of coordination and research. This keenly focused model often gives us a competitive edge in the sale process and helps us speed the transformation post-closing.

That was certainly true in the case of Hertz, where we evaluated several other car rental businesses and held meetings with the Ford and Hertz management teams three years prior to our investment. Hertz had flat to declining margins for five years preceding our investment. Since our acquisition, CD&R has driven 200 basis points of margin improvement and a 35% increase in EBITDA, versus the company's rental car competition that is on average down 10%.

PQR Presumably, talent is an absolutely essential ingredient in making this happen. How do you evaluate whether CD&R has the right management team at any portfolio company?

Roberto Quarta We often buy businesses with incomplete or insufficient management talent, so an in-

depth evaluation of that pool is a critical part of building a transformation plan. Our operating partners lead this effort, usually beginning long before an investment closes. We consider ourselves fortunate to have a wealth of management talent in our current portfolio, including Joe DeAngelo of HD Supply, Mark Frissora of Hertz, and Jean-Charles Pauze of Rexel, among others.

PQR And, of course, CD&R has a world-class team of operating and financial partners. How has the firm created that team?

Roberto Quarta We have adopted a disciplined approach to growth in terms of the size of the firm, its geographic footprint, and the number of portfolio companies that we're involved with or investigating at any time.

We take a disciplined approach to developing our financial partners internally. They typically start their careers as junior members of the team. If we exclude Christian and Huw Phillips, who came to our firm with extensive experience elsewhere as part of the building out of our European operations, our financial partners have an average tenure at the firm of nearly 14 years.

When it comes to operating partners, we are always looking for the right fit: extremely successful corporate leaders, typically former CEOs who bring decades of international business experience in areas that make sense, given our approach and priorities.

PQR The global marketplace is unpredictable right now. But your team is about as strong and well tested as any group of business leaders could be. What next?

Christian Rochat Environments like this one, rife with uncertainty, insecurity, and a lack of confidence, should normally favor the strong and well prepared. The companies within our portfolio are indeed strong, because we have chosen to invest in market leaders and we have already worked hard to promote their operational transformation. It is our role and our responsibility to help them to be evermore prepared for the conditions that present themselves, whatever they may be. That is a role that a more operationally focused private-equity investor is equipped to play.

Roberto Quarta Behind the pinstripe suits, there's real talent, real commitment, real hard work: an intensity of commitment that is difficult to convey.

I worked very hard during my life as a corporate executive. But for myself and my colleagues at Clayton, Dubilier & Rice, there's no comparison to the commitment we're making today. The alignment of interests is strong, and that shared sense of purpose is true regardless of what's going on with the economy. This is the nature of private equity. It takes hard work and focus to achieve our goals. □