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UBS Investors' Day  
Private Equity

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# Contents

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Section 1 Business Description

Section 2 Strategy

Section 3 Developing Synergies

Section 4 Valuation



# Business Description

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## SECTION 1

# What is Private Equity ?

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- ◆ Equity stakes, typically in unquoted companies
- ◆ Negotiation with the seller
- ◆ Optimal capital structure
- ◆ Working with management over a period of 3-6 years
- ◆ Increasing the value of the investment
- ◆ Selling to maximise the capital gain ("Exit")

# Target Investment Characteristics

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## Late Stage

- ◆ Target deal size CHF 75 million - CHF 1.5 billion
- ◆ Existing earnings and established cash flows
- ◆ High barriers to entry
- ◆ Professional management team
- ◆ Potential for active value creation
- ◆ Clear 'exit' strategy
- ◆ Target return: 25% IRR p.a. minimum

# Target Investment Characteristics

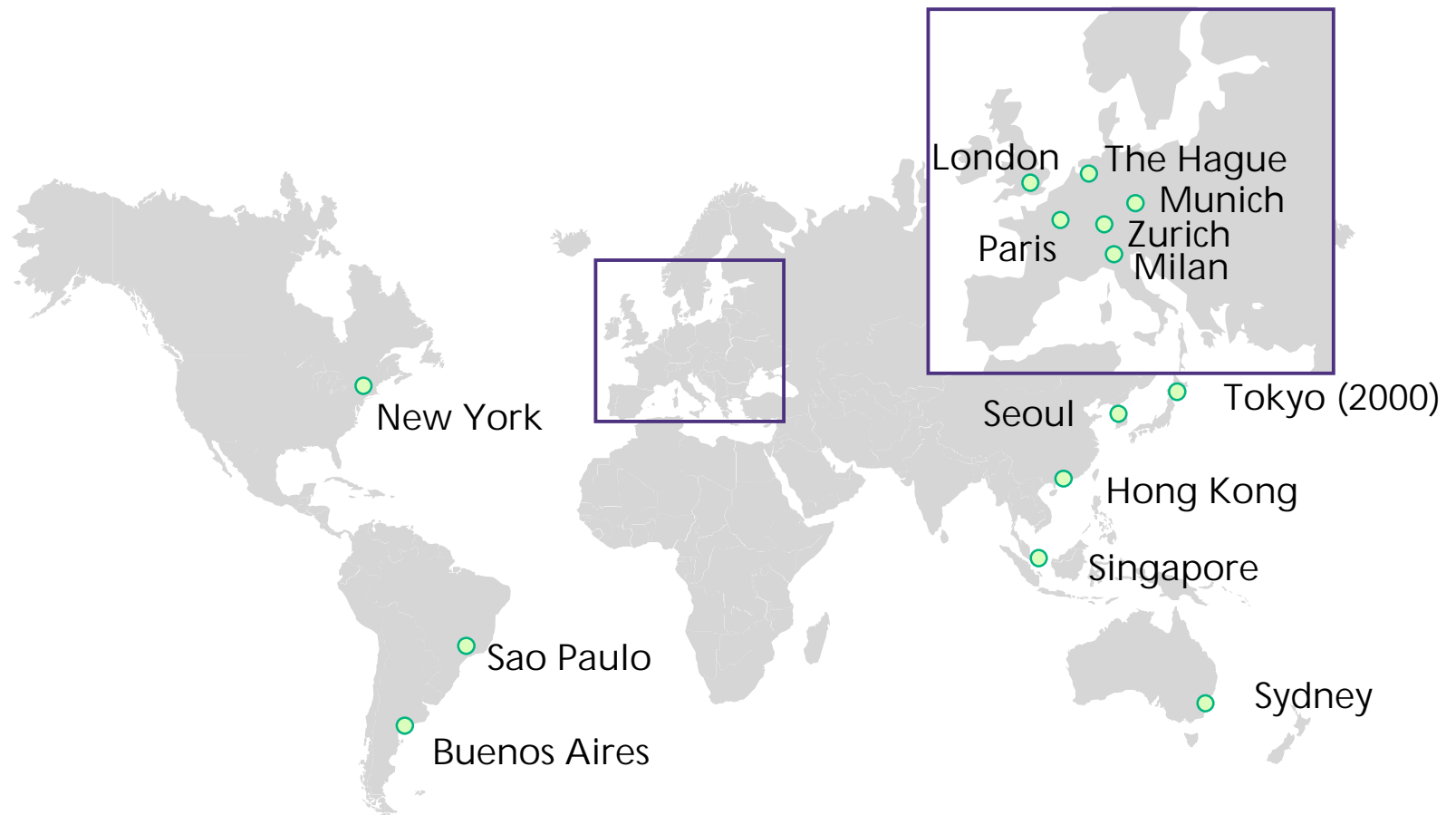
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## Early Stage

- ◆ Focus on high growth industries
  - Internet
  - Software
  - Telecom
- ◆ Expansion capital, not seed capital
- ◆ Professional management team
- ◆ First mover advantage
- ◆ Strong growth & market potential
- ◆ Target return: 30% IRR p.a. minimum

# Experienced Global Team

Professionals: Europe 79, Americas 28, Asia Pacific 17



Our local presence and know-how is a competitive advantage

# Risk Management Procedures

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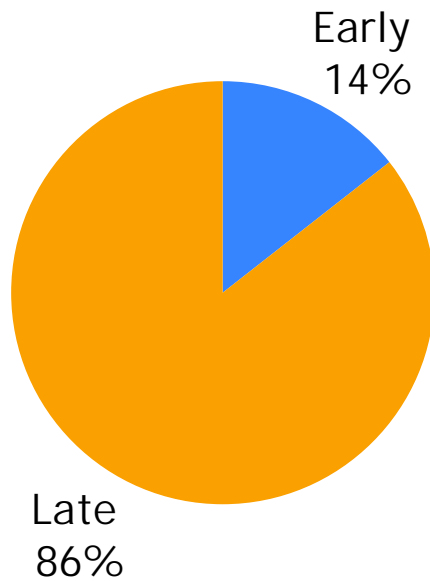
- ◆ Risk-conscious investment approach
- ◆ Centralized approval and monitoring process
- ◆ Conservative, semi-annual review of financial accounting and fair market valuations
- ◆ Deferred compensation structure, with offset for losses
- ◆ Average loss rate of 5% over a 5-year period, among the best in the industry. Comparable industry loss rates estimated between 4% - 15%



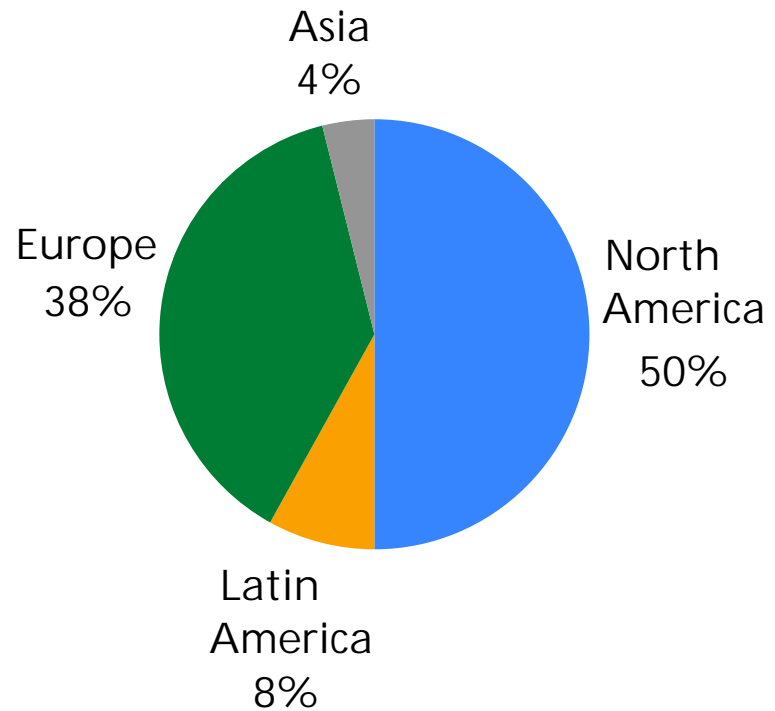
# Global Portfolio Composition

CHF 2.4 billion Book Value 30 June 1999

### Investment Stage



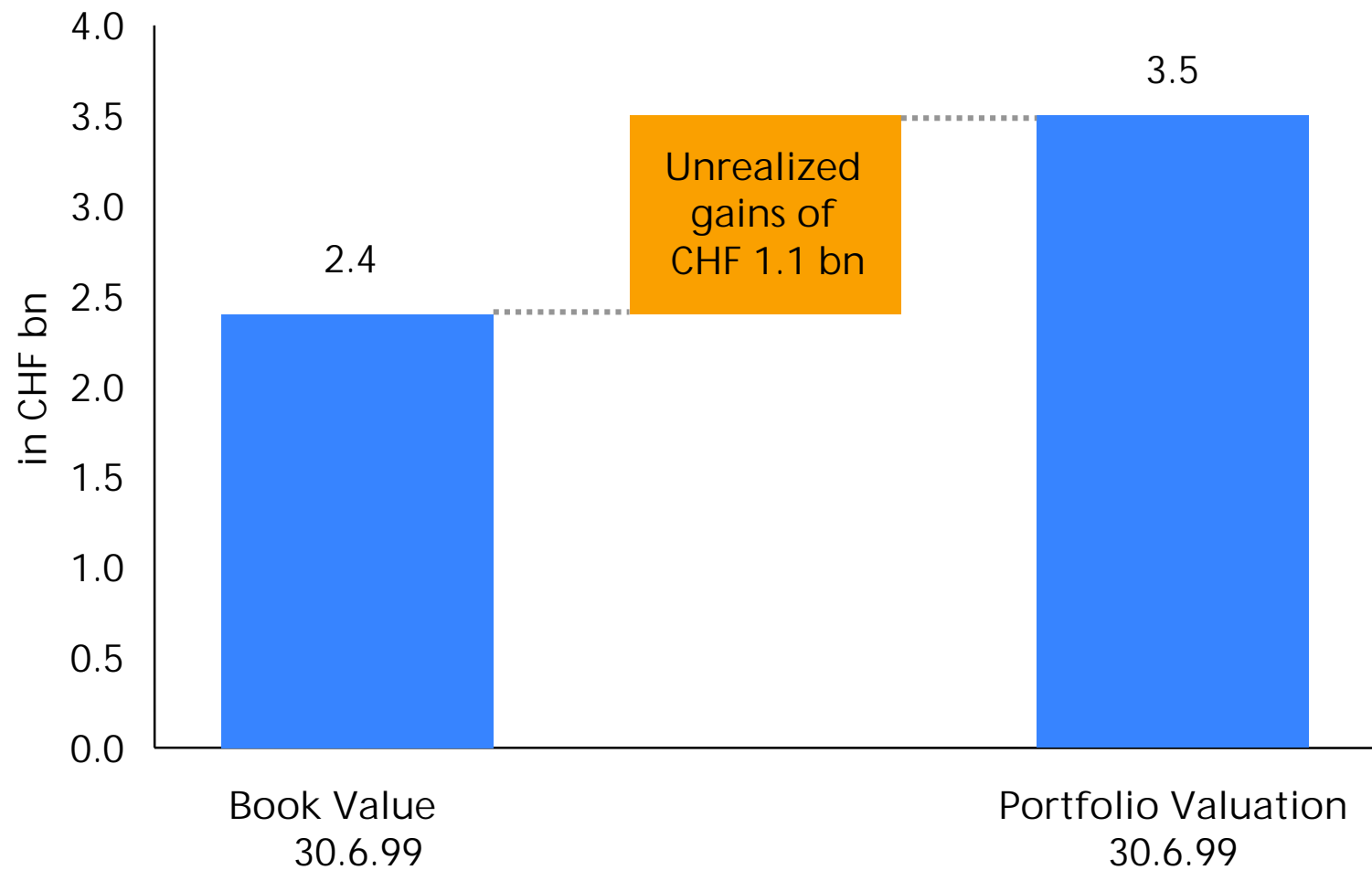
### Geography



IRR p.a. of 50 - 60% since inception

# Unrealized Gain of CHF 1.1 billion

as of 30 June 1999



# Milestones Reached in 1999

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- ◆ CHF 760 million (CHF 800 million: 1998) of new investments made to-date
- ◆ Presence established in Australia and Korea
- ◆ First early stage technology-based investments in Europe
- ◆ Phildrew Ventures closed GBP 330 million Fund V for the UK
- ◆ CapVis closed CHF 300 million fund for Switzerland & Austria
- ◆ Funds due to close prior to year-end
  - US\$ 1 billion U.S. fund, and
  - US\$ 500 million Latin America fund



# Strategy

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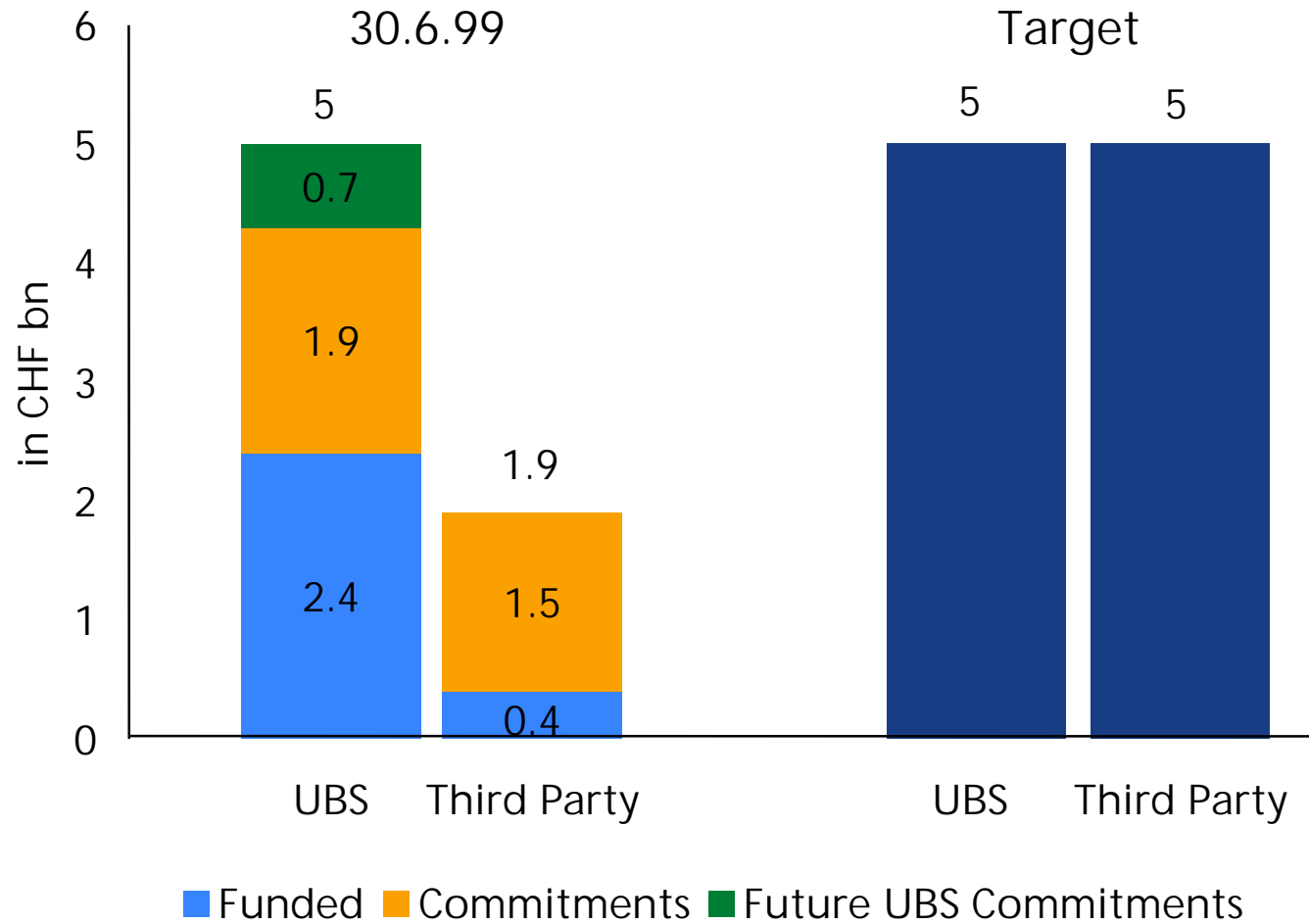
## SECTION 2

# Our Mission

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Establish UBS as the industry role model for an **integrated global Private Equity business** with committed capital of CHF 5 billion from UBS and CHF 5 billion from third parties, seizing our unique strategic advantages to maintain our top quartile performance

# UBS and Third Party Investments



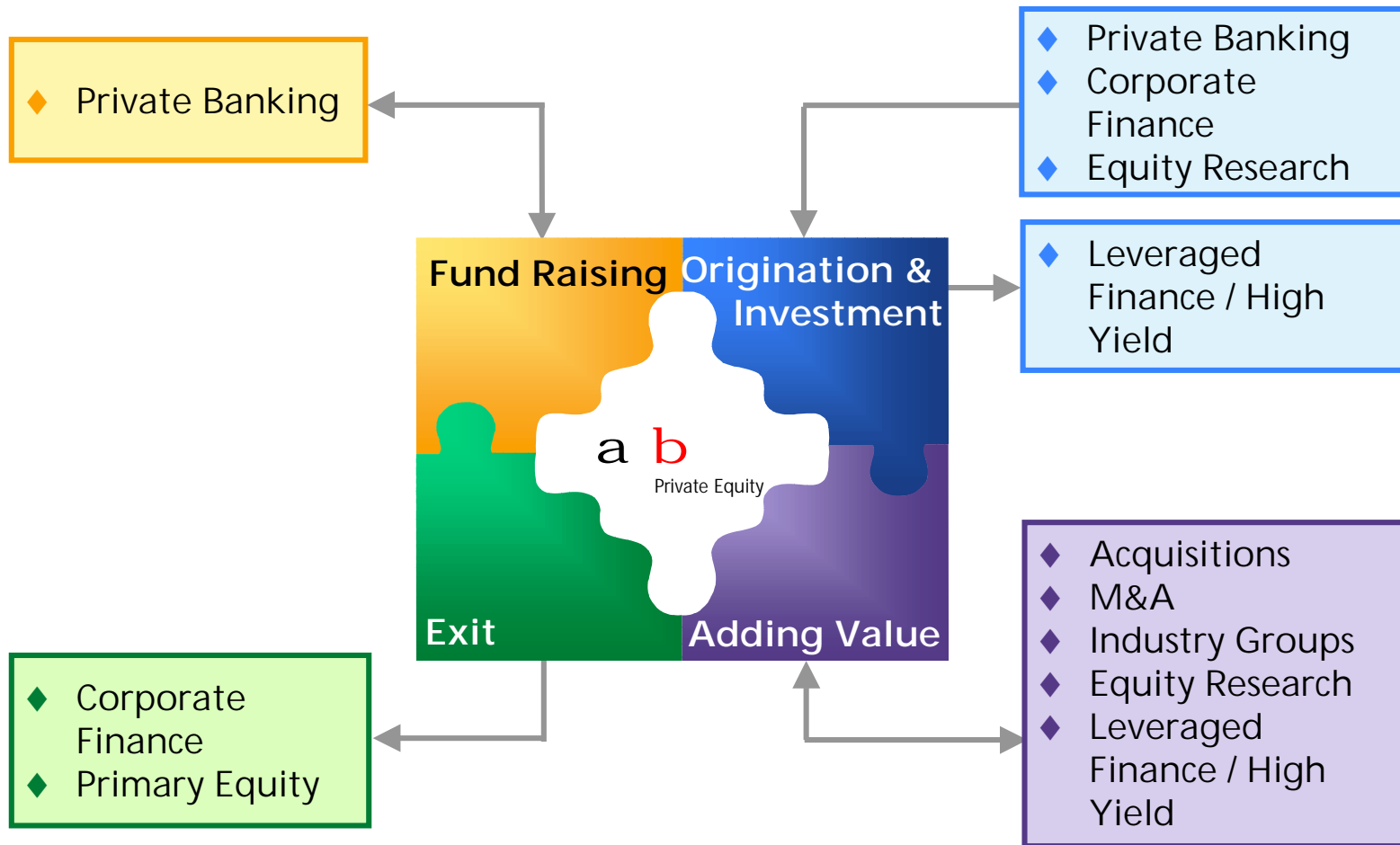


# Developing Synergies

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## SECTION 3

# Developing Synergies



Private Equity has a unique competitive advantage





# Valuation

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## SECTION 4

# The Value of UBS Private Equity

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- ◆ Impressive historical track record with an average IRR of 50-60% p.a. and a historical loss rate of only 5% p.a.
- ◆ Excellent current investment portfolio with unrealized gains of CHF 1.1 billion (30 June 1999)
- ◆ Experienced global team managed for long-term performance and continuity
- ◆ Significant synergies with other UBS divisions yield strong competitive advantages

# The Value of Private Equity

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The value of Private Equity exceeds the value of the investment portfolio

- ◆ Three income sources in private equity
  - management fees from assets under management
  - carried interest as General Partner
  - capital gains from investments
- ◆ Management fees in Private Equity range from 1.5-2.0%
- ◆ Carried interest of Private Equity on third party assets is 20% of the capital gain
- ◆ UBS Private Equity's target minimum IRR is 25% p.a. applied to the bank's committed capital, which will generate CHF 1.2 billion cash flow p.a. once fully invested

# UBS Private Equity Valuation


## Assumptions

- ◆ CHF 5 billion UBS commitments invested
- ◆ CHF 5 billion third party commitments invested
- ◆ Carried interest 20%
- ◆ Management fees 2%
- ◆ 4 year hold period

NPV of Future Cash Flow (CHF bn)

Discount Rate	IRR			
	20%	25%	30%	35%
10%	8.6	11.5	14.9	18.8
12%	6.6	8.7	11.2	13.9
15%	4.8	6.2	7.9	9.8

We believe UBS Private Equity is undervalued by the market



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UBS Private Equity, a strongly contributing  
franchise within the global, integrated  
investment services firm



# Appendix

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## Historical Pre-Tax Profit

Year to (in CHF m)	30.9.1999	31.12.1998	31.12.1997
Operating Income	254	585	492
Pre-Tax Profit	138	428	381
Return on regulatory equity (annualized %)	53	165	189
Cost/Income ratio (%)	46	27	23