"Back to The Future"
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"Anybody can be good in the country," observed Oscar Wilde. "There are no temptations there." Wilde might easily have been referring to the absence of challenges private equity investors faced in the past few years. It will not be so easy to be "good" as a private equity investor in the years ahead, but private equity firms that keep their focus will continue to deliver superior returns.

Over the past five years, it would be an understatement to say that the private equity industry had the wind at its back - it was more like a gale. Not too long ago, debt providers were projecting an unusually sunny view of the future - leading to extreme valuations and unsustainably high levels of leverage. Lenders and investors were willing to forecast extremely favorable business results on a global basis and downplay the potential risks. China as a manufacturer was reducing inflationary pressures around the world. The European economies were accelerating. Oil prices were a drag on profits and growth, but less so than many people feared.

The credit spigots were turned full blast and investment bankers - capitalizing on the trend - used the liquidity tidal wave to convince all types of sellers that the time to sell was now. We saw some of the largest private equity transactions of all time. Historically low interest rates, yield hungry investors and the surge in private equity fundraising dollars created a set of dynamics that could be described on a scale from unprecedented to reckless to downright crazy. With abundant – what almost seems unlimited - financing available in the debt markets, purchase price multiples steadily rose beyond nose bleed altitudes. If nothing else, the so called "Golden Era" of private equity proved the axiom that when money is there, people tend to take it.

PE firms saw unlimited horizons with some industry pundits speculating that a $100 billion transaction was around the corner. Some firms were positioning themselves to go quite a bit further than simply raising mega funds by selling stakes to the public or in privately negotiated transactions to large public pension and sovereign wealth funds. Fast forward to today. An investment banker quoted recently by the UK's Sunday Times summed up the mood well noting: "People are spooked; there is a feeling that there are more surprises out there. Clearly private equity has left the "country" as Wilde might say. It's not unusual in such transition periods, when clarity is in short supply, to feel like the sky might be falling and some spooked investors even think about stepping back and perhaps even scaling back until the dust settles. But they should think twice.

Before succumbing to feelings of gloom, it is worth considering the thoughts of seasoned investors in the asset class who remind us that private equity is a long-term commitment - not a short-term gamble - and that one of the worst mistakes an investor can make is not committing to funds during times of market unrest. History shows that some of the best deals are done in times of uncertainty. In fact, buyout funds raised during periods of economic distress on average significantly outperform those raised in more buoyant times.

We have seen this movie before. If I were to tell you that Clayton, Dubilier undertook a high profile, complex divestiture transaction during a period of extreme credit market dislocation and limited liquidity, when Middle East tensions were high and oil prices were skyrocketing, and on top of that it was a time when there was a political storm about the merits of private equity, you might naturally conclude that I was referring to our recent investment in HD Supply, the $11 billion distribution unit that we acquired from The Home Depot in August 2007 precisely as turbulence in the credit markets came to the forefront. Think again. In 1991, when we purchased IBM's printer and supplies businesses which led to the creation of Lexmark, the world looked a lot like it does today, right down to the credit market freeze and widespread concerns over highly leveraged loans. It really is - back to the future.

While our crystal ball is as cloudy as everyone else's, we know that the credit markets will eventually clear, although with higher rates, more stringent borrowing terms and tightened credit standards. The landscape inevitably will change: secondary buyouts, leveraged recapitalizations and going private transactions are likely to be scarcer. But the structural benefits of the private equity will not disappear.

The supply of potential transactions will be driven by a number of sustainable trends. The pace of corporate divestitures will continue to increase as companies around the world confront an unprecedented degree of new costs, complexity and competition. Balance sheet and other pressures related to corporate underperformance will produce a rich source of carve-out opportunities.

The good news is that financial market dislocations like we are experiencing today are generally short-lived. If you have a long-term horizon, as private equity firms are paid to have, and can stand back as a market crisis unfolds - that is, if you're not forced to liquidate in the midst of problems because of leverage, nervousness or investors breathing down your neck - things generally turn out OK.

We can all agree, whether industry veteran or rookie, bull or bear, that the industry is in a period of adjustment. And in periods of

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adjustment, having a clear and compelling strategy is vitally important to ensure that the noise in the marketplace does not distract you from the long-term value creation opportunities that private equity has historically offered and will continue to offer going forward.

The best positioned firms will be those with strategies supported by operating skills to handle transformation and structural complexity. Firms with true operating skills face less competition for businesses with transformation and structural complexity. Many of these deals will take several years to source and require both conviction about how to fix a business, plus great execution to get the job done.

If the past is any indication of the future, the most rewarding investment opportunities will most often be generated by careful focus, discipline and preparation - sourced by design not serendipity. Superior returns will be generated only by changing a business - its strategy, management, operations, products and customer base. Working day-to-day with portfolio companies on operating initiatives that translate into sustainable profitability gains is more crucial now than ever before to capture the return potential this asset class offers. I am convinced this is one of the most effective value-building strategies in private equity, and that it will continue to be durable well into the future, regardless of particular economic and capital market environments.

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