

Transaction Fees Increase in Line With Buyout Activity

Private equity transaction fees reach or exceed prior levels following post-downturn slump

There has been a notable increase in the mean and median percentage transaction fees across all private equity deal sizes since the recovery began, comparing the 2009-2010 period to the 2005-2008 period, a joint investigation by Preqin and Dechert LLP has revealed. Average monitoring fees have also increased during this period, although these vary more depending on deal size.

Similar studies were conducted by Dechert LLP in 2003 and 2008 and where appropriate, comparisons were drawn.

The latest study found:

Transaction Fees

- Transaction fees in absolute dollars remain strongly correlated to deal size, with transaction fees as a percentage of deal size fairly consistent with a small but meaningful decrease as deal size increases.
- Since the recovery period began in 2009, there has been an increase in the variance across transaction fees; the standard deviation now stands at 0.62% compared to 0.54% in the 2008 study.
- However, variance did not reach the levels shown in the 2003 survey, when only 59% of acquisitions were within half a percentage point of the overall mean.

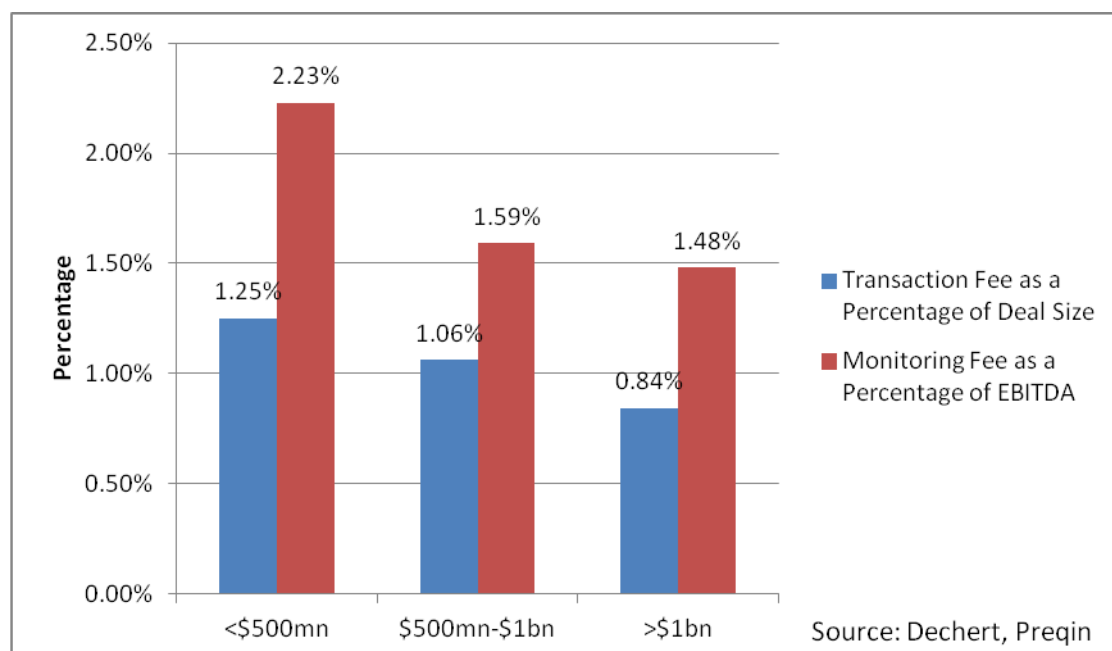
Monitoring Fees

- Monitoring fees decline as a percentage of EBITDA as deal size increases, in line with the results of the 2008 study.
- Monitoring fees are becoming more closely correlated as a percentage of EBITDA of the target company.
- There has been a moderate decrease in monitoring fees in lower middle-market deals – they have fallen from an average of 2.41% of EBITDA in our 2008 survey to 2.23% of EBITDA.
- Monitoring fees have remained the most consistent in middle-market deals.

Allocation of Fees

- 37% of respondents divide all or a significant proportion of their fees between all limited partners of a fund.
- 44% split fees equally between the general partner and/or an affiliated advisory entity and the limited partners.
- 20% pay all or a significant proportion of the fees to the general partner of the private equity firm.

The graph shows the average transaction and monitoring fee for deals of varying sizes from 2005-2010:



Transaction and Monitoring Fees Post-Market and Credit Crash of 2008

The table shows the average transaction fees as a proportion of deal size and the average monitoring fees as a proportion of EBITDA, in 2009 and 2010:

	Transaction Fee	Monitoring Fee
Less than \$500 Million	1.28%	2.53%
\$500 Million to \$1 Billion	1.24%	1.79%
More than \$1 Billion	1.04%	1.50%

A full breakdown and analysis of the results can be found in the report:

www.preqin.com/docs/reports/Dechert_Preqin_Transaction_and_Monitoring_Fees.pdf
www.dechert.com/PEtransactionandmonitoringfeestudy

Comment:

Our study has shown some possibly significant trends in the private equity transaction recovery that has followed the stock market and credit crash of 2008. Fee activity dropped during and immediately after the financial crisis, but as the market recovered and buyout activity increased so too did average transactions and monitoring fees across all deal sizes. In many instances, these fees exceeded pre-crisis levels. Time will tell whether or not this matures into a permanent trend.

Note to Editors:

- Transaction fees are the fees charged by the private equity firm in connection with the completion of the acquisition for typically unspecified advisory services
- Monitoring fees are the fees charged by a private equity firm to its portfolio company for ongoing advisory and management services after the acquisition.
- EBITDA – Earnings before interest, taxation, depreciation and amortization
- Preqin is spelled without the letter 'U' after the 'Q'.

About Dechert LLP:

Dechert LLP is an international law firm with fully integrated offices throughout the United States, Europe and Asia. Our private equity team, numbering approximately 200 lawyers worldwide, provides solutions to the most complex issues in structuring, negotiating and consummating private equity transactions at every phase of the investment life cycle. Dechert is ranked among the leading law firms throughout the world for private equity by prominent league tables and legal directories. For more information please visit: www.dechert.com

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: www.preqin.com

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