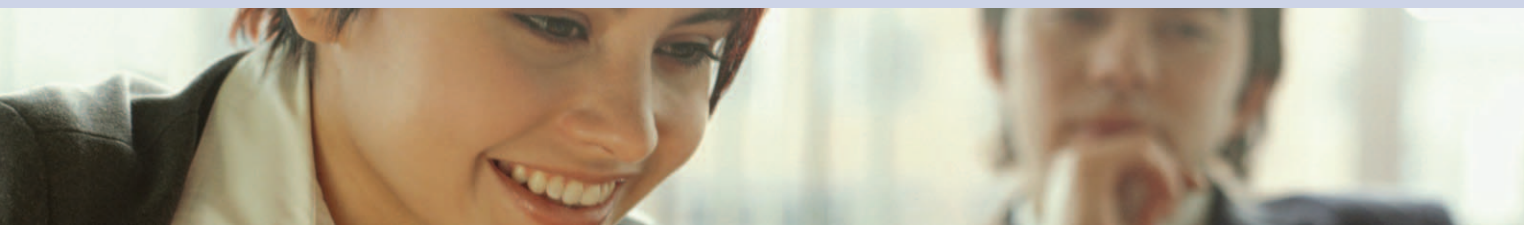


EVCA Strategic Priorities



European Private Equity &
Venture Capital
Association



EVCA Strategic Priorities

The following document identifies the strategic priorities for the European Private Equity and Venture Capital Association (EVCA) over the next three to five years. These priorities were selected as a result of brainstorming discussions between EVCA's past and current Chairmen, Board of Directors, Committees, Task Forces and the EVCA Secretariat.

Over the next few years, fast changing markets and an increasingly complex regulatory environment will lead to further evolution of the industry as well as structural changes among and within private equity and venture capital firms. EVCA will continue to play a fundamental role in representing, promoting and protecting the long-term interests of the European private equity and venture capital industry.

Foreword

Every three to five years, EVCA conducts a strategic assessment of the European private equity and venture capital industry. The purpose of this is to review the role of the Association in the context of changing market conditions and to identify the most effective ways in which EVCA can continue to support the growth of the industry over the long term. With the 20th anniversary of EVCA last year, the Association has completed a comprehensive review including a series of brainstorming sessions with EVCA's past and current Chairmen, the Board of Directors, EVCA's Committees and Task Forces, and members from the Secretariat as well as a survey of the membership to better understand their needs.



Our industry is operating in a dynamic and rapidly changing market and faces an increasingly complex regulatory environment. While it is clear that EVCA should not radically break with its previous priorities, it is crucial that we stay at the forefront of the industry's evolution. We will build on the 20-year old heritage, while putting the necessary steps in place to successfully carry the industry into the future.

The initial strategic priorities brainstorming session, held in December 2003 and facilitated by Josh Lerner from Harvard Business School, examined various industry scenarios and highlighted future opportunities as well as challenges. From this, a set of 'guiding principles' was developed as a framework for future actions. Follow-up sessions and consultations helped to crystallise the many valuable ideas from the initial brainstorming and led to an assessment of the challenges in the regulatory environment and outlook for our industry, and, more specifically, the role and priorities for EVCA in the future. EVCA's relationship with the national private equity and venture capital associations was also highlighted as an important partnership.

In recent years, interest in the industry has grown tremendously. This interest is not just from investors but increasingly from politicians and policy makers as more evidence emerges of the role that private equity and venture capital plays as an engine for entrepreneurship, innovation, economic growth and job creation. These issues are at the top of the European policy agenda and EVCA has been increasingly tapped as a policy resource.

EVCA's mission is to represent, promote and protect the long-term interests of the European private equity and venture capital industry. The following four strategic priorities were identified as the operating framework for EVCA for the next three to five years. Our focal point remains our members. EVCA will also continue to work on enhancing the environment and eco-system necessary for our member's success.

We invite you to read the following pages and look forward to your ongoing input and feedback as we work to serve the needs of the industry over the coming years.

Jean-Bernard Schmidt
EVCA Chairman

Herman Daems
EVCA Chairman Elect



Market Outlook for the Private Equity and Venture Capital Industry ⁽¹⁾

The long-term market growth potential for private equity in Europe is positive and is expected to provide solid opportunities for players within the industry. The macroeconomic environment is likely to improve although there could be remaining short-term difficulties as the market adjusts to the recent boom and bust cycle.

Focus will continue to shift between buyouts and venture capital, limited partners and management teams, reflecting the market cycle as well as the maturity of each sector and market. Fundamental changes such as globalisation will lead to sustained market shifts and changes on the regulatory front are also to be expected.

Interest in private equity as an asset class will continue to grow. Much of this interest will be cross-border, creating demand for clearer communication and networking across national boundaries (institutional investors wanting to invest, private equity firms looking for investment opportunities and management teams, entrepreneurs looking for capital).

Investment Opportunities

- Buyouts and later stage investments in Europe, already very active, will benefit from the pace of economic integration, generational changes at many family businesses and the trend of large European corporations to restructure. The ability and preparedness of private equity companies to carry out larger transactions and their being accepted as credible buyers are additional drivers of growth. However, it will probably become more difficult to sustain the current levels of return as the market matures.
- On the venture capital side, the European Union's goal to position Europe as the most competitive technology market by 2010 should help alleviate regulatory barriers. Venture capital investments will contribute to the promotion of a culture of innovation as well as the commercialisation of technology. The overall rate of innovation will continue to generate significant investment opportunities.
- The private equity model is based on growth and transition. Exits are critical in providing realisation of the value created by growth and transition processes. On the IPO front, the equity markets are unlikely to reach the growth levels seen recently. Stock markets remain fragmented but there is an evolution towards consolidated exchanges, which would provide increased liquidity. Mergers and acquisitions is expected to continue to be active.
- European integration and the enlargement of the European Union is expected to provide opportunities but will also raise challenges for the industry. Neither of these processes will be easy and are likely to take longer than expected.
- The competitive environment will continue to evolve, both within countries and on a global scale. Private equity firms will increasingly function on a global basis making operating and investment decisions according to the attractiveness of opportunities in Europe relative to the USA, Asia and other markets.
- The continued promotion of entrepreneurship and development of management expertise in Europe is critical for the industry. Universities will play an important role, both in the training of future entrepreneurs and management but also in the transfer of technology from the university into the market place.

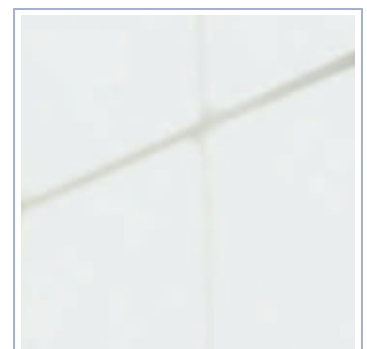
⁽¹⁾ Private equity refers to all stages of the industry ie. venture capital and buyouts

Transformation within General Partnerships

- Consolidation is expected to continue. While there are likely to be fewer players in the market, those remaining will be stronger and more successful. Meanwhile, the industry will continue to renew itself by attracting new players.
- Strategies of general partnerships are likely to become more clearly segmented. The large private equity players will invest on a global scale and will probably develop more institutional processes for approaching the markets. Other players may differentiate themselves by pursuing specialised opportunities or approaches, many across national boundaries.
- Private equity firms will continue to focus on adding value to their portfolio companies requiring complementary skills and an operational experience base. These firms will continue to incorporate executives with either entrepreneurial experience or specific technical or scientific backgrounds.
- Many firms will be forced to address succession and management transition issues over the coming years. Taking into account that private equity firms traditionally have smaller teams, ensuring the continuity of long-term partnerships will not be an easy task.

Access to Capital

- Private equity is progressively becoming a mainstream asset class. As investors are becoming increasingly comfortable both with this asset class as well as with the firms and opportunities in Europe, allocations to European private equity are likely to grow. Many new investors are expected to enter the market, particularly pension funds.
- Due to this increasing awareness, there will be a greater demand for more data and information on the industry. However, this should be coupled with a deeper understanding of the private equity industry.
- While private equity is packaged as one asset class, it is essentially a combination of sub-classes. Investors need to seek a better understanding of these sub-segments. However, for broader audiences, the industry should not seek to fragment and complicate the asset class.
- The increased allocations to private equity will be designated both for general partners and funds-of-funds. Intermediaries will play an increasing role in the diversification of investments, in particular with regard to the entry of new investors into the asset class.
- Building companies is a long-term business and results cannot be measured on a short-term basis. It is therefore critical, specifically in terms of what creates value in private equity, to ensure adequate communication and alignment of interests between private equity firms and investors while respecting the limits of public disclosure on funds and proper professional standards.



Regulatory Environment

We are seeing many changes on the regulatory front, which will be played out over the coming five years. Current issues for the private equity industry worldwide include International Accounting Standards (IAS), new capital adequacy ratios in the Basel II proposal, portfolio valuations, transparency, public pension funds disclosure and fiscal treatment of stock options.

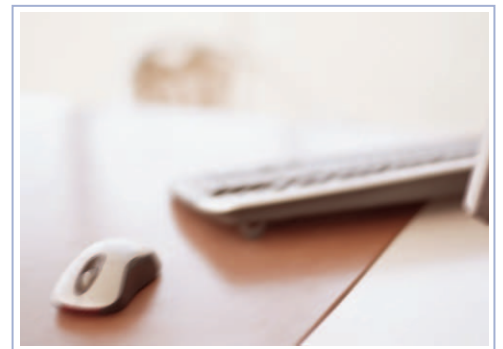
Particular issues in Europe include the non-existence of a pan-European vehicle/fund structure, fragmentation of high growth stock markets to give access to sustained liquidity, public support in a comprehensive manner (i.e. the young innovative company schemes), inadequacy of anti-merger/anti-competition rules, the need to improve the bankruptcy laws and financial assistance in control transactions.

EVCA will continue to monitor the regulatory situation to stay ahead of the curve on these and other topics that might negatively affect the private equity industry.

To date, governments have been in favour of private equity as it is instrumental in helping entrepreneurs and successful companies to provide job growth and value creation within their countries. EVCA will continue to highlight the industry's positive impact on economic development and make sure that the most appropriate tax and legal frameworks are in place to enable the industry to continue to grow. This includes raising awareness about the industry and entrepreneurship.

Public initiatives matching public and private funds with the intention to promote entrepreneurship and private equity are invaluable in filling the gaps in specific sectors, stages or geographies. However, the industry should be proactive in helping to shape these initiatives into efforts with a clear market approach that will yield the intended results.

To a large extent, there has been a high degree of self-regulation policy in the private equity industry, particularly in Europe. Firms, trade associations and EVCA, in particular, have taken the initiative to set guidelines for valuations, reporting, governing standards and best practices in general. Facing a global increase in regulation, EVCA will continue to be proactive in promoting the definition of standards by the industry itself rather than by legislators.



Relationship with National Associations

National private equity and venture capital associations within Europe will continue to play a very important role in lobbying national governments on key policy issues related to entrepreneurship and private equity as well as in building infrastructure for the growth of private equity at a national level. EVCA has always supported the creation of new national associations and their development.

As European integration continues, it will be increasingly important for the national associations and EVCA to coordinate closely, on lobbying issues and industry data collection to maximise results for the industry and to meet the largest possible common interest. EVCA's efforts are focused on global and pan-European issues that affect private equity players across Europe. To the extent that EVCA works on national issues it will do so in co-ordination with the national association.

The Role and Strategic Priorities of EVCA

Changes, challenges and opportunities facing our industry reinforce the need for an effective pan-European association that can protect and promote the interests of the industry as well as help develop an eco-system that creates an environment for private equity to be successful. EVCA will continue to focus on the long-term outlook of private equity in Europe, providing services, information, networking opportunities and professional development programmes for a broad spectrum of stakeholders and to help its players develop and grow successfully.

EVCA will strive to anticipate and meet the needs of its primary constituents - the general partners of European private equity and venture capital firms. Institutional investors, public policy makers, and entrepreneurs also play a direct role and have a critical impact on the success of the industry (as do other players such as service providers).

The market outlook, the fast changing nature of the market, globalisation and the complexity of the environment in general, highlight the need for clearer communication between all stakeholders in the industry. A common theme is the growing public awareness of private equity. Clear, consistent and trusted data and information are more important than ever before. In addition, professional standards and best practices are critical to the smooth functioning of the industry as well as building and maintaining the trust of the various stakeholders. Monitoring the developments at policy level is also important, as is the communication between the private equity industry and policy makers.

To address the needs of its constituents as well as other stakeholders, the following four strategic priorities have been identified as the key areas for EVCA's actions over the next three to five years. While working to achieve these priorities, EVCA will co-ordinate with the national associations to maximise results across Europe. EVCA will also focus on providing effective and targeted communications to constituents and other industry stakeholders, as well as highlighting the economic and social impact of the industry.

Priority 1: Maintain a strong and relevant community of shared interests for European private equity and venture capital players to strengthen the industry across Europe.

Understand and address the needs of the industry. Provide opportunities for members to meet, share information and discuss ideas or concerns that can lead to operational actions to help develop and strengthen private equity across Europe.

Priority 2: Actively raise awareness to improve knowledge and understanding of the European private equity and venture capital industry.

Raise awareness of the industry through the collection and publication of stable, reliable and consistent statistics and any relevant information relating to the industry. Provide professional development programmes that strengthen the skill base and knowledge of players in the industry.

Priority 3: Reinforce and develop professional standards for the industry.

Continue to lead in setting standards and sharing best practices that provide important and useful guidelines for industry players in Europe. Staying ahead of the curve on standards and regulations also strengthens confidence in the industry.

Priority 4: Protect the interests of the industry through a pro-active public affairs programme to promote a favourable environment for European private equity and entrepreneurship.

EVCA will monitor and proactively address issues at global and pan-European levels that could hinder the development of the private equity industry, its place within the asset allocation strategies of investors or its capacity to finance companies while producing adequate returns for its investors.

[visit: www.evca.com]



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