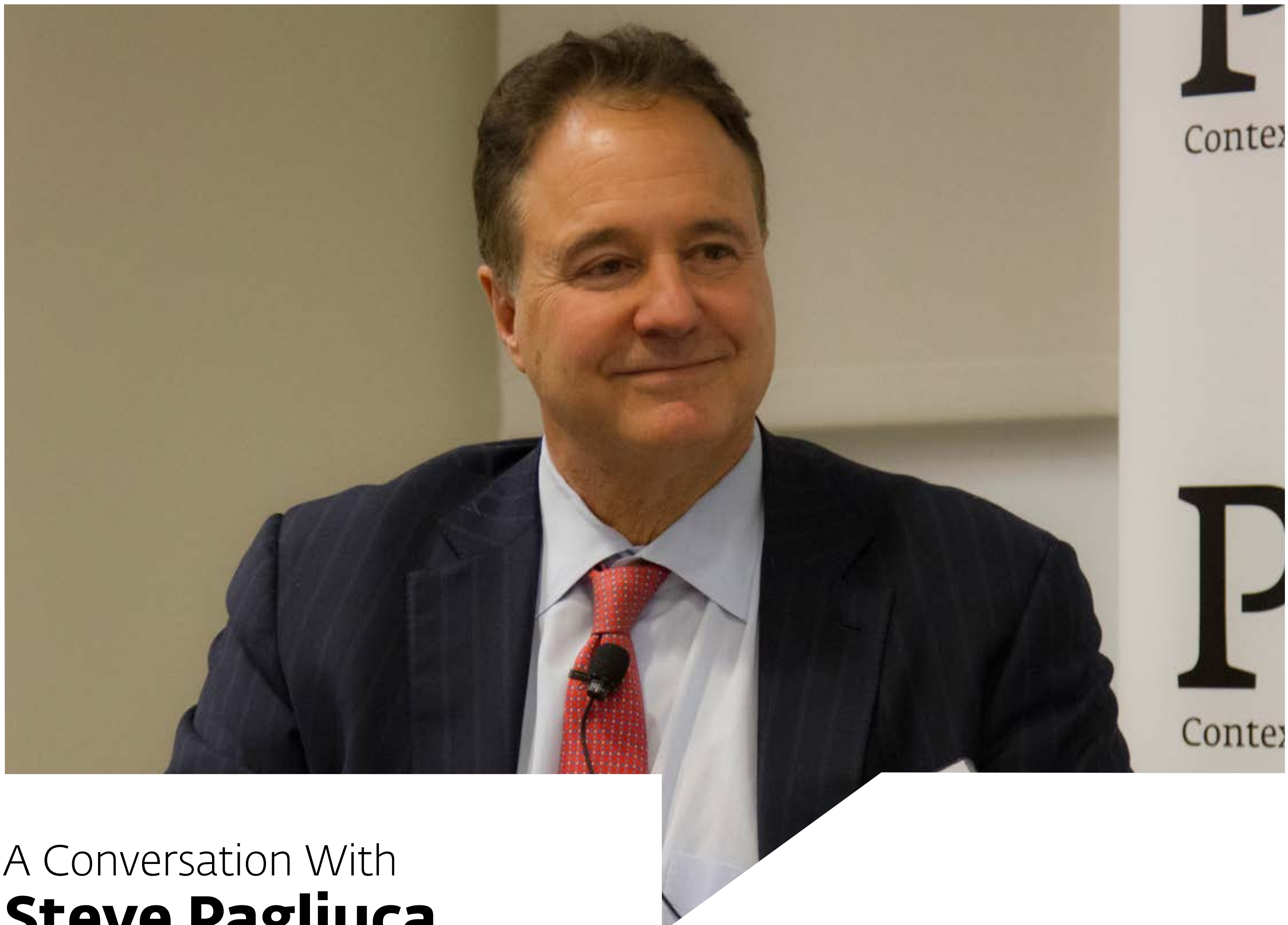
Privcap/Presents



A Conversation With
Steve Pagliuca
Bain Capital

With insights from:

Debevoise & Plimpton LLP
Grant Thornton LLP
And Featured Charity:
City Year

Privcap/Presents

About Privcap Media

Privcap is a digital media company that produces events and digital thought-leadership content for the global private capital market. Privcap Media offers communications services to market participants.

Privcap is known for its authoritative online video programs and digital reports. Since its launch in September 2011, Privcap has produced dozens of focused reports, and about 800 video programs—mostly in-depth interviews and panel discussions with private investment experts. Privcap's audience has grown to about 8,000 unique visitors each month—a mix of institutional limited partners, general partners, high-net-worth investors and service providers. Each week, Privcap and its sister site PrivcapRE release and promote new content.

Contact

If you are a GP or LP and would like to request an invitation to a future Privcap Presents gathering, please email events@privcap.com

If you are a service provider interested in being a sponsor of a future event and report, please contact Gill Torren at gtorren@privcap.com

About Privcap Presents

Privcap Presents is a series of invitation-only networking events designed to bring together GPs, LPs and other guests. The events are organized by Privcap Media and hosted in partnership with leading professional service providers.

Each Privcap Presents event begins with an intimate, on-stage interview with a notable leader from the private equity industry. A transcript of that interview is used as the basis for a digital report (like the one you're reading now) that is made available to Privcap's global audience. Also included in Privcap Presents reports are perspectives from the event partners, including a non-profit selected by the featured interviewee.

Bain's Focus on Taking Businesses Global

Bain Capital managing director Steve Pagliuca discusses the company's global growth and its niche investment in outerwear company Canada Goose

Steve Pagliuca, Bain Capital

Privcap: A big theme that you and Bain Capital have focused on is the globalization of business. How do you define this and can you put it in a historic perspective?

Steve Pagliuca, Bain Capital: In the 1700's, world trade was dominated by China and India, who were generating half of the global GDP. Then, in the 1800's, during the Industrial Revolution in Europe and the U.S., the balance shifted. China and India fell behind. However, in more recent times, China and India have made a significant comeback because they've adopted a more industrialist approach. So it is projected that by 2050, the balance will look more like the 1700's, with GDP aligning to those regions with higher population centers.

As you look around the world at different geographies and different economies, where do you see the most interesting opportunities that touch on the explosion of international trade?

Pagliuca: We see opportunities in all geographies. In the U.S, it is necessary to take a step back and assess the economy following the great financial crisis. Regulators did a great job addressing the banking crisis in the U.S. quicker than in any other country. Quantitative easing was implemented, which stabilized the economy and repositioned the U.S. for growth. Today, household savings rates are up, and banks' balance sheets are probably in as good a shape as they've ever been.

Turning to Europe, they have taken a different approach. It's very difficult to have an economic union without a monetary union, so they have had challenges addressing fundamental structural issues. That doesn't mean there aren't opportunities to invest in Europe, but one has to be mindful of the landscape and be selective.

In Asia, growth has slowed, but it is still growing faster than the rest of the world. China still has seven to eight percent growth rate targets. India, with Prime Minister Modi coming in, is having a resurgence, and Japan's new monetary policies also seem to be working. So Asia is also an interesting place to be investing.

> **"What they don't realize is you don't invest in countries, you invest in companies. What we pride ourselves at Bain Capital is that we really understand those companies we've invested in — how they can grow and how to help them grow."**
>
> –Steve Pagliuca, Bain Capital

At Bain Capital, we are really micro economists. We look at every deal on its own merit. So, if people say, 'You've got to get your money into Asia,' we ask, at what price? So many folks invest in Asia, but what they

CONTINUES ON NEXT PAGE

Bain Capital's Pagliuca and Privcap CEO David Snow

Guests mingle and network at the event

don't realize is: you don't invest in countries, you invest in companies. As investors, we pride ourselves on really understanding the companies we invest in -- how they can grow and how we can help them.

An example of one of those companies is Canada Goose. What did you recognize in that company that allowed you to believe that the Bain Capital push would help it grow? And from the other direction, what do you think Canada Goose saw in Bain?

Pagliuca: Canada Goose CEO and entrepreneur Dani Reiss wholeheartedly believes in the product and realized it was the right time to expand the business. He originally set out to sell a very small stake in the company and through that process he developed a relationship with a couple of partners within our retail practice, who also became very excited about the company's potential. Our team conducted a considerable amount of primary market research, and in our research on consumer preferences, the words people used most frequently to describe Canada Goose product were "warm", "quality" and "authentic." There is a large functional segment that values those attributes. Dani is driving the strategy, and we're helping him look at distribution, product extensions, and how to use our market research studies to grow the business. Walking around Boston or New York, you see Canada Goose coats everywhere.

Let's switch focus from your market observations to Bain Capital itself, a successful investment business. How have you and your partners grown it into the large organization that it is today?

Pagliuca: In 1984, Bain Capital was conceived out of three principles, which continue to guide us today. One, we were going to invest in a different way by having larger teams go out and do deep analysis, research and diligence. Once we bought the companies, [we] would work directly with those CEOs and management teams as an extension of what we had done at Bain & Company. The second thing was that Bain Capital was set up to invest the partners' money into the funds, and outside investors really liked that. Even today, we are always the largest investors in all our funds. The third objective of Bain Capital was to create a network of CEOs, advisors and other contacts, first in the U.S. and then globally, who would benefit the firm and our portfolio companies. Now we think we've created the best integrated global network. In the last 15 years we have had more people with strategy consulting backgrounds than anybody else. As the world has become more specialized and competitive, we have developed global vertical industry groups. We have TMT [tech, media and telecoms]: consumer retail, healthcare, industrial and energy [groups] on a global basis. ■

Expert Q&A

With Sally Gibson
International Counsel,
Debevoise & Plimpton LLP

What are some things a PE firm should be aware of when looking at taking a business global?

The primary answer from a legal perspective often is regulation. Regulation hitting private equity at every level in the structure, often in unexpected ways, is now a much more common phenomenon.

By way of example, suppose a U.S. SEC-registered investment adviser decides to market its unregulated Cayman Islands–domiciled private fund to an institutional investor in Germany, pursuant to the new (and quite onerous) private placement regime applicable in Germany following the implementation of the Alternative Investment Fund Managers Directive. The U.S. investment adviser is successful in securing the investment from the German institutional investor and automatically is obliged to comply with the "no asset stripping" provisions of the AIFMD where the Cayman Islands fund acquires control (directly or indirectly) of a European portfolio company and for the two-year period following such acquisition of control.

Solely by virtue of the U.S. investment adviser marketing its Cayman Islands fund in Germany, and until such time as the German investor ceases to hold an interest in the Cayman Islands fund (absence a transfer, for the life of the fund), the AIFMD prescribes that the U.S. investment adviser must comply with the "no asset stripping" prohibition. Broadly, the U.S. investment adviser must not facilitate, support, or instruct, must not vote in favor of, and must use its best efforts to prevent, any distribution to shareholders, capital reduction, share redemption, or share buyback by a controlled European portfolio company where the company's net assets would fall short of its subscribed capital and non-distributable reserves or profits.

Are there any structuring or regulation issues related to taking a company global?

For a private equity firm looking to take a company global, particularly where that company itself operates in a regulated industry, a careful and detailed regulatory analysis must be undertaken. Ideally, that analysis extends beyond the technical rules to take account of the interplay between the different regulatory regimes (both existing and new). The structuring of the expansion, and indeed the structure of the third-party fund vehicle and its manager, may be viewed and treated differently by different local regulators. Even in circumstances where some comfort may be felt when embarking on expansion plans for a company because of past experience and perceived familiarity with the local environment, the focus and scope of review of regulators constantly is evolving, as is the underlying regulatory landscape.■

Debevoise & Plimpton

Expert Q&A

With Grant Thornton

Barry Grandon
Managing Director of M&A Tax Services Division, Grant Thornton

David Weiner
Senior Manager of International Tax Practice, Grant Thornton

When is the best time to prepare to take your business global?

Grandon: While in the startup phase, business owners should think about the company's future global structure. Business owners will often balk at setting up for global expansion early on, because if you're not yet profitable you're thinking, "How do I spend money on legal and accounting fees when I'm not making any money?" However, proper planning at the outset can help reduce tax exposure in the future, particularly with respect to intangible property. The tax implications of moving intangible property outside the U.S. are often significantly reduced when a company has not yet turned a profit as the intangible property value is limited.

What are some of the tax challenges companies face when going global?

Weiner: What everyone is talking about is the OECD initiative on base erosion and profit shifting, or BEPS. BEPS involves multinationals moving expenses to high tax jurisdictions and profits to low tax jurisdictions. The OECD's goal is for income and deductions to be reported in the proper country of incurrence. This boils down to whether the transactions are supported by the requisite substance. An important focus of BEPS involves intangible property. Moving intangible property is relatively easy as compared to moving an operational business line. By moving intangible property to a low tax jurisdiction, payments can be made from high tax jurisdictions for use of intangible property. Provided such payments do not flow back to a parent company under anti-deferral rules, such payments may significantly reduce a multinational company's global effective tax rate.

What can private equity investors do to properly set up a company to go global?

Grandon: What you can do is silo the intangible property or the marks between a U.S. chain and the rest of world. Such silo structures can help a PE undertake a liquidity event in a tax efficient manner. The questions include: what is the impact at the fund level and are the U.S. investors that sit on top of the structure subject to anti-deferral rules that may create phantom income? The U.S. and non-U.S. rules are very complex and need to be vetted thoroughly before your legal structure is put in place. ■

Grant Thornton
An instinct for growth™

Bain Capital has partnered with City Year, an AmeriCorps program dedicated to helping students succeed in high-need, urban public schools by deploying trained AmeriCorps members to serve as full-time tutors and mentors dedicated to improving student achievement and enhancing the school's culture of learning. Can you tell us how that partnership came about?

Steve Pagliuca, Bain Capital: We've supported them for about two decades, and we invest in City Year because we believe in the principles and in what these young people can do. And it's gone from a local Boston movement that is helping in our schools, helping develop young people, helping them get their degrees, and helping them really prosper and have the same American dream that we've always had. City Year members are out there every day at the crack of dawn and working with these kids in the Boston public schools to really succeed.

If there's one thing the [City Year volunteers] can take from that, it's that they learn how to be great teachers, and they learn what the issues are and how to lift people up in the city. And they've now spread to 27 cities. So we're very proud of that association. We're one of their national sponsors, and my partner, Jonathan Lavine, is the chairman of City Year's national board of trustees. That's something we're very proud to be a part of. ■