

## **LBOs in the eye of the hurricane**

**May 2009**

**(Translated by Calyon)**

**An agricultural engineer with a degree in information technology and robotics, Stéphane Barret rounded out his education with an MBA degree from Hautes Etudes Commerciales (HEC) before entering the venture capital profession and discovering the world of mergers and acquisitions.**

**As the Managing Director, Head of Coverage for Calyon's Global Financial Sponsors Group, he follows LBO funds and serves as the interface with investment funds for Calyon and the Crédit Agricole Group. He is passionate about the business.**

**Your core activity consists of following LBO funds. What impact has the crisis had on your activity?**

Our core business consists of following LBO funds and, in particular, acquisition financing. Calyon has historically ranked among the top three in France and top ten in Europe in this area. Beginning in late 2007, we decided to adopt a countercyclical approach, because financing conditions were very attractive for banks, as the level of risk had fallen significantly through lower transaction prices and higher equity capital contributions. 2008 was a good year to lock in LBO positions, and Calyon became number 2 in acquisition financing in Europe, number 1 in France, number 1 in telecoms and number 1 in Germany. Today, the environment has changed. The financial crisis has been compounded by a stock market crisis and an economic one. Corporate earnings are down, as are valuation multiples. Uncertainty is as high for buyers as it is for sellers, and we do not know the new underlying breakeven level for companies in 2009, or even 2010. No major transaction was concluded in Europe during the first quarter.

**What strategy did you adopt in light of the crisis?**

We chose to refocus on reducing risk, both for Calyon and for the LBO portfolio companies. We are keeping a very close eye on companies that desperately need cash, developing deteriorated profitability scenarios for 2009 and 2010 and encouraging all LBO transaction participants to do what they can. Several options are possible, including capital increases, a freeze on a portion of the interest on acquisition debt, payment rescheduling, reasonable overdraft levels and the re-establishment of an acquisition line. The key is to save the company so that it stays in business. We are working only on the portfolio of LBOs completed in recent years. This business, which was fabulous over a five-year period, has now become more challenging. Experienced investment funds know how to manage the consequences of the current environment, but for others this period is more difficult.

**What are the major duties in your job?**

My responsibility is to work with the funds, as I am the interface with the investment funds for Calyon and the Crédit Agricole Group. I meet and talk with them and analyse their challenges in order to provide them with an idea of Calyon's abilities and value-added service to support their investment strategy. To complete a project, I then call upon Calyon's various teams of experts: mergers and acquisitions, capital markets transactions, acquisition financing, factoring, securitisation of vehicle fleets and assets,

etc. Thus I manage the 95 people who make up our acquisition financing teams based in Europe (Spain, Germany, Italy, England and France) and in Asia (Tokyo, Hong Kong, Sydney). We need experienced staff members in order to complete these investments. The business is complex. That is why, in order to better train young professionals, we encourage them to work at several different sites in order to take part in challenging cases and to discover a variety of working environments along with their specific issues. In London, for example, they find themselves at the heart of the private equity business.

**What types of profiles do you favor? What qualities are needed to succeed in this business?**

I have something of an unusual, relatively international profile, and I favor people who have a dual background, not necessarily experts in one sector but profiles that enable them to understand a company from A to Z or who have been exposed to different environments. In this business, we meet company leaders of all types, in all sectors, all of whom have a story to tell. That is the most magical part of this job. This business requires highly rigorous analytical capabilities, a tremendous ability to listen, tact and flexibility. You must be constructive and tenacious, and have enough creativity to be able to rebound quickly in the face of a given challenge. You especially need a desire to win. To advance in the finance business, you need to be multidisciplinary and have a certain degree of tact in how you operate. Today, the opportunities offered by Calyon tend to involve more ancillary businesses such as factoring, asset securitisation and risk management.

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