

THE SUNDAY INTERVIEW

Despite a series of high-profile IPOs failing to launch recently, Index Ventures' Dominique Vidal tells **Andrew Cave** why the future is far from bleak

Dominique Vidal says he never looks back. "People who know me always say 'Dom has no past'," says the partner at private equity group Index Ventures. "Legacy is not a very important thing for me. I value my life the same way I value a company. You are worth what you're going to do in the future, not what you've done. What you've done gives you an opportunity to do new things in the future. You take the experience and do something with it. With a company, what it has achieved is a good proxy to understand what it will do in the future."

Frenchman Vidal, 45, sitting in an open-necked shirt in Index's Mayfair offices, is happy to talk at length about his industry's mistakes, its future and, most pressingly, the current highly nervous state of the market. He seems rather different from most private equity executives.

Airline and hotels business Traveport, London Eye owner Merlin Entertainments and retailer New Look – three of the largest potential stock market flotations in Britain's pipeline of private equity owned companies – all postponed their listings recently amid worries about stock market volatility.

Their private equity investors – Blackstone, Apax and Permira – made their moves after a week in which John Singer, chairman of Advent international, described the opportunity for buyout houses to list their companies on the stock market as a "tiny window".

Singer joked that the private equity industry would need "every French window in the Palace of Versailles" to get all their planned initial public offerings (IPO) to market before sentiment changed, and the postponements seemed to underline the point.

However, Vidal seems incredibly relaxed and unusually optimistic about market prospects, saying Index still believes it may be able to float some of its investments.

Has the former head of Yahoo! Europe been to Versailles? "Of course," he beams. "It is a very big palace and, yes, has lots of windows."

He gets the point, though he won't talk about a flotation of Betfair, the peer-to-peer betting network in which Index has a sizeable stake, saying he's not on its board. However, he does sit on the management committee that reviews all the firm's investments every Monday.

Vidal is also not involved with DVDs-by-post pioneer LoveFilm and online retailer ASOS – other high-profile members of Index's portfolio.

But he is a director of media technology firm Adconion Media Group, which he says has increased revenues fivefold to more than £70m over the past two years and might be ready for a float.

"We try to take advantage of any window," he says. "We have companies that could go public. For some it will make sense. Adconion could be one. It fits most of the requirements in terms of size, growth and profitability. It's then a question of strategy."

"Windows open and close. Sometimes it's just for a few weeks. Timing is very important when you go public. If you choose the wrong week for any reason, you may have to postpone for a few weeks. I believe that is more the kind of situation we are seeing right now, more than the market closing. How long it will be open for is something you never know."

When public markets do close for private equity flotations, he believes Index may also benefit from

Until debt comes back, private equity has to adapt and make returns from growing businesses

secondary buyouts of some of its investments by bigger private equity firms who are unable to obtain the high leverage for deals that they achieved in the heady days before the financial crisis.

"On the buyout side, if returns are not going to come from leverage, they have to come from growth," he adds. "So those people who used to look at unattractive, unsexy businesses that can provide a very nice return if you're very good at engineering finance now have to look at different kinds of stories because there's less leverage available."

"If you don't make your return from financial engineering, you have to make it from growing businesses."

Growth is actually what Vidal really wants to talk about. Index, which has offices in Geneva and London and was formed in 1996, was modelled on the kind of seed capital investment firms that have prospered with technology investments in America's Silicon Valley.

Its investments have included internet telecoms pioneer Skype, and until Vidal joined in 2007 the firm specialised in start-up venture funds.

As managing director of internet business Kelkoo from 2000 to 2004, he transformed that company from a small outfit with no revenues to one of Europe's leading shopping search engine firms with 400 employees and revenues of \$100m (£64m) a year.

That sort of growth led to the firm being bought by Yahoo!, where Vidal became European chief executive.

After leaving Yahoo! in 2007, Vidal joined Index to set up and run growth

"It's not just about IPOs," he says. "My culture is about growing great companies, and when you have a great company, you will find a way."

"If the window is closing, that means that you may have to wait a little longer for your financial return but if the company continues to grow, your returns will be even better."

"We shouldn't just think as financial guys. We should think about investing in industry, which is about building companies."

"The way that private equity has done business for many years, which was finding a stable, slow-growth but predictable business that you can leverage; this has gone for some time. For how long? I don't know. Is it going to be back? Probably. It will be back, but differently."

"Until it comes back and debt is available again, I believe that private equity has to think about how to do business. Is this a bad thing? It's never a bad thing. It's just that your environment is changing and you have to adapt to your environment. When more debt is available, it will adapt again."

The question is how free the industry will be to do so. There are fears in private equity that regulators may restrict how they operate in the fallout from some of the highly-leveraged deals that took place at the height of the last boom.

Tensions between the private equity sector and regulators broke into the public last week when Jon Moulton, one of the highest profile buyout industry figures, questioned what he described as the "clinically



funds, the first of which raised €400m (£348m) and is about 50pc invested in nine companies.

insane" levels of regulation in the UK and across Europe.

"It is the arrogance of that

FACTS

1996

The year Index Ventures was founded

€1.5bn

The amount of venture and growth funds raised

25

Number of people that Index Venture employs

€400m

The amount raised in January 2008 by Index Ventures Growth I, the world's first dedicated growth stage fund

€350m

The amount raised in March 2009 by early stage fund Index Ventures V

Partners include Danny Rimer, former Cisco Systems chief strategy officer Mike Volpi and former MySQL CEO Marten Mickos

Previous investments include Skype (sold to eBay) and MySQL (sold to Sun Microsystems)

Current investments include Betfair, LoveFilm, ASOS and Glasses Direct

Merlin Entertainments, which owns the London Eye, has postponed its IPO amid worries over stock market volatility

statement, that no regulation is needed, that has got the industry in trouble in the first place," Dan

DOMINIQUE VIDAL

Age 45
Job Partner, Index Ventures
Status Married to Isabelle; three children
Home Knightsbridge
Interests Running, tennis, chess
Favourite holiday Biarritz, France
Favourite book Chess: A Novel by Stefan Zweig
Favourite actor Jeremy Irons

GEOFF PUGH

"Clearly, this is not an appropriate climate in which to start companies. You either create an environment where people will take pay cuts and take risks or you don't get

growth stories. Norway and Denmark are places that, for me, have put themselves off the map."

Britain is nowhere near as bad, he says, but he accepts that private equity executives will be looking carefully at the tax environment and that some in the industry might be tempted by lower tax regimes away from the UK.

"We're a bit like hedge fund people," he says. "I spend three days travelling every week. Do I need to be in a specific location? I can be in a different place. We are quite mobile."

For now, he's happy with his wife Isabelle and three children in London, where his children attend a French lycée.

"That was a big part in the decision to come here," he says. "We made the decision that we would love to raise the kids in London."

"The question is what you want to give to your kids, and for us education is very important. It's the only thing you can really transmit to your kids."

"We're French. We'll never change but our children are getting exposure to a really international environment. My children speak better English than me and without the accent."

Vidal also enjoys running three times a week in Hyde Park and playing chess for up to seven hours at a time when on holiday.

"I used to play chess 15 hours a week when I was a kid," he says. "It got to the point where it was harming my work at school. I love the parallel between chess and craziness."

So is this one private equity executive who's not driven by money? Vidal doesn't deny it. "I'm here to enjoy what I'm doing. That's most important to me," he says. "I lead multiple lives. I was an engineer but never really worked in engineering. I worked in product marketing but if you told most people that I was in marketing, they would think it was not possible."

"People see me as a dealmaking guy and as a financial guy but I have had the pleasure to have different lives, and I am starting a new life on the business side now."

Waters, the Financial Services Authority's asset management sector leader, replied at the Super Return conference in Berlin.

Vidal is also concerned about levels of regulation. "Yes,

I am worried," he says, "but buyout and venture firms are two different types of animal and our concerns and worries are very different."

"Think of how difficult it is to build a company. Many things can go wrong, which is why very few of them make it, so the more regulations and rules you put around their ability to raise funds and to grow, you're increasing the hurdles."

"It's not that regulation is bad, it can be good, but you're always worried about any burdens being put on building companies. Most countries tend to react in the same way and we're seeing opportunistic reactions across countries today."

Vidal believes that the private equity industry also has to demonstrate more flexibility. "We have to differentiate the stages of a company. You see very large companies with big stock option packages but when you talk about that in early stage companies, it's totally different."

"People are not paying themselves very much and they're taking a big risk. When you attract someone in their 40s and tell them that they're going to take a pay cut and start with 30pc to 50pc, it may make sense but you know that very few companies will make it, so there's a good chance that you'll never recover what you're giving up."

"But you do it because you believe you're creating something great and there is an upside. But you need to create the right size of incentives for people to do it."

As an incentive, he cites the options that Kelkoo's 50 Norwegian staff held at the time of its takeover. The country's social charges and taxes on exercising the options were so high, he says, that staff would have lost money, despite the options performing well. Kelkoo had to step in and cover the costs.

"It wasn't worth people exercising their options as they would lose money. It was crazy," he says. "In the end, we had to pay a little for their social charge. Otherwise they would not have made any money."