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TRANSCRIPT OF "FILE ON 4" – "*PRIVATE EQUITY: WINNERS AND LOSERS*"

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"FILE ON 4"

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ACTUALITY ON STREET

ABRAMS: The great British high street. It's taken quite a battering during the recession. There's lots of good business going on here today though – queues of people out buying things in their lunch hours. But there are gaps too. Comet and Phones 4u, to name but two. We've been looking at the background to these two high profile collapses. They had one thing in common – they were both bought by private equity firms. And that's led to questions about how these funds operate.

This week, File on 4 can reveal how in one case investors loaded their company with debt and used it to pay themselves a massive dividend. In the other, the firm's backers were able to bank £100 million while the taxpayer picked up a huge bill for its failure.

SIGNATURE TUNE

ACTUALITY ON TRAIN

ANNOUNCER: This is your train manager speaking. We shall be shortly arriving at Stoke on Trent. Stoke on Trent is the next stop ….

ACTUALITY OF CAR DOOR OPENING

ABRAMS: This is the headquarters of Phones 4u, it's in Newcastle under Lyme, just near Stoke on Trent, and it looks like a normal business headquarters on an industrial park, lots of cars in the car park. The fact is that Phones 4u is no more. Six weeks ago staff working here were told the company had gone into administration. What's happening here now is just a skeleton staff, winding things down.

ACTUALITY – NOISE OF COFFEE MACHINE

ABRAMS: The support networks have grown up quickly. In this local cafe we met a group of workers who've all been looking for jobs.

MAGEEKIN: Going for an interview and going through the job hunting process is so nerve-wracking.

ABRAMS: Laura Mageekin's out of work. She spent seven years at Phones 4u, working as a data analyst.

MAGEEKIN: When I first applied, it was moving from the stereotypical hard sales kind of company into something a lot more customer-based and very entrepreneurial, so that really excited me, the chance to be part of that. In the end I was there for seven years, and right up until when the company went into administration I very much saw my career being at Phones 4u for the long term.

ABRAMS: Staff had been worried for some time. But when the news came – via Facebook on a Sunday evening – it was a huge shock.

MAGEEKIN: I'd actually gone to bed to get ready for work early in the morning, because I always started very early, and my husband, who also worked at Phones 4u, he came up and he said that he had some bad news, so my heart was in my mouth very much, and he said, 'Well, Phones 4u have gone into administration, it's all over the social media, people are talking about it.' On the Monday morning at half past nine we went to the top floor of our building, where everyone was gathered, and the director read an

MAGEEKIN cont: announcement that had been prepared, just saying that yes, we'd gone into administration and that we were going to cease trading. We were told that we wouldn't be needed in our department and that we would just have to go home and wait for more news.

ABRAMS: Phones 4u turned over more than £1 billion a year. It operated 700 high street outlets and it had about 5,500 employees. Now all of that was being dismantled. Laura spent a week at home, waiting for news. When it came, it wasn't good – she was redundant. Her last task at Phones 4u was to call another staff member she supervised and tell her she too was out of a job.

MAGEEKIN: It was actually really painful to have to do that to someone that I liked and respected and especially because I was still reeling a little bit. Even though we'd seen it coming, there was still a tiny part of me that thought please let there be an escape route, let there be something else that we can do to save the business, but I think at that point it hit me that it was over.

ABRAMS: So it was obviously very upsetting. I can see now that you're upset.

MAGEEKIN: It's just the thought that I'm never going to work with these people again and its seven years of my life building something up and I'm so proud of the work I did there. It's horrible.

ABRAMS: Laura wasn't the only person who was shocked at the speed of Phones 4u's demise. It'd been one of the big success stories of the 1990s, targeting the youth market with clever ad campaigns and seeming to sweep all before it as it expanded onto almost every high street. Its founder was John Caudwell.

CAUDWELL: In the very early days, I was retailing mobile phones, so I opened up just one shop to test it out in Wilmslow. That was my first shop. And I wouldn't say it went swimmingly, but it was okay. Phones became more and more sexy and more appealing and it was very, very clear that the ordinary customer was going to be opened up to the mobile

CAUDWELL cont: phone very quickly, so then I started growing the business. And in one year in particular I opened up about eighty shops.

ABRAMS: John Caudwell sold the company in 2006, and then five years later it was sold again. Both deals involved private equity firms. In a nutshell, that just means they invest in companies which aren't listed on the stock exchange. Colin Haslam's a Professor of Accounting and Finance at Queen Mary University of London and he's been studying the sector.

HASLAM: Private equity is a vehicle by which investors provide funding from, say, investment banks and also from equity resources to effectively create a fund through which they can invest in other companies that they deem to wish to purchase.

ABRAMS: How is that different from any other kind of company buyout?

HASLAM: Okay, well it differs in a in a significant way, because private equity partnerships use a process of what we call financial leverage to achieve those purchases, so they'll put some of their own equity funding into the acquisition, but they'll also use a heavy amount of debt, and we call that a leverage buyout model. Normally in deals in the past, the proportion of debt is around about 70% in the total and 30% in equity.

ABRAMS: The company which bought Phones 4u in 2011 was called BC Partners. It specialises in buyouts of larger businesses, typically in Europe. And true to the private equity model, it used debt - in the form of a bond issue - to finance its Phones 4u purchase. Bond dealer Ben Pakenham invested in the company.

PAKENHAM: So in April 2011, BC Partners decided to buy Phones 4u. At that point, BC Partners needed to raise capital to buy the company. They obviously put in equity - £200 million equity. They paid £630 million for the business and the £430 million difference was the secured bond that was issued at the time.

ABRAMS: Last year BC Partners decided to issue a second bond for a further £200 million. It used the proceeds to pay its investors an equivalent dividend. Professor Colin Haslam thinks what happened there typifies the way many private equity companies operate.

HASLAM: In this particular case, the bond that was issued is then loaded onto Phones 4u in terms of its accounts and its balance sheet, but Phones 4u is made responsible for repaying the interest on that bond. But the cash that arises out of its issue is transferred back to the private equity partnership as a special dividend, which effectively becomes a return to the equity investors within the private equity partnership. This has a sort of pejorative term called 'loading the donkey', which is you put more debt onto the company to extract more interest payments, but in this particular case, the investment is not going into Phones 4u, it's immediately being extracted back as a special dividend payment to the parent.

ABRAMS: Ben Pakenham took a close look at this second bond deal to see if he would be interested in investing.

PAKENHAM: So in this case they issued a bond to the amount of £205 million and they actually took out £230 million of which £25 million of that was cash that was on the balance sheet and £205 million of that was from the proceeds of the bond that was issued.

ABRAMS: Did you consider buying some of those bonds?

PAKENHAM: Yes we looked at it. It was a company that we were obviously already invested in, but we decided for a number of reasons that we didn't particularly want to buy it. The best way to describe it, it's a junior piece of debt and so in the event that the company were to default, you'd be the last bondholder in the queue to get any recovery value on that investment.

ABRAMS: So, in effect BC Partners recouped its initial investment by putting £630 million of debt into the company. And the company was committed to paying around 10% interest on that debt in order to attract investors. When we told John Caudwell - its founder – about that, he was surprised.

CAUDWELL: I would never be into high rates of interest, other than by desperation, which I've never been in that situation. I don't know what the rate of interest was.

ABRAMS: It was about 9.5%.

CAUDWELL: Was it? Yeah well, 9.5% is very penal, so I would have never supported that rate of interest, ever. I'm not capable of paying somebody that rate of interest, it's just never going to happen. Whilst you've got to support the right of somebody to financially engineer the business in the best way for themselves, you've got to support that principle, but I do think, you know, it did leave the business weakened from a financial structure point of view.

ABRAMS: That said, John Caudwell doesn't think the debt caused the company to fail. The O2 network provider stopped selling through Phones 4u earlier this year, and by the summer its future depended on crucial talks with two other big network operators whose contracts were coming to an end.

EXTRACT FROM NEWS REPORT

NEWSREADER: Thousands of jobs are at risk at the mobile phone retailer, Phones 4u. Its being put into administration after the two mobile networks it sells contracts for – EE and Vodafone – decided to end their relationships with the retailer.

ABRAMS: The big question was the extent to which the debt had affected the company's ability to negotiate a deal. We wanted to talk to all the key players, but none of them would be interviewed. The two sides issued statements giving quite different versions of events. Here's Vodafone:

READER IN STUDIO: Phones 4u was offered repeated opportunities to propose competitive distribution terms to enable us to conclude a new agreement, but was unable to do so on terms which were commercially viable for Vodafone in the current UK market conditions. We were told by the Phones 4u management team that they had little commercial flexibility due to their debt repayment obligations.

ABRAMS: That was echoed by EE – it said the Phones 4u management didn't have room to manoeuvre on the price.

READER 2 IN STUDIO: We're not structured debt experts, but it is very possible that the level of debt they held affected their ability to negotiate more effectively. They were unable to offer any flexibility or even competitive market rates during our negotiation.

ABRAMS: Phones 4u's private equity backer, BC Partners, denied the debt was a problem. In a statement it said, even after its £200 million bond issue last year, it had £150 million in the bank, and profits over £100 million.

READER 3 IN STUDIO: We strongly reject the mobile networks' claims that Phones 4u was unable to agree commercial terms. We had reached agreement with both Vodafone and EE, but this position was abruptly reversed in a matter of days, in a way that we believe was deliberately intended to inflict the maximum damage to Phones 4u, by giving it no time to respond.

ABRAMS: Whatever the truth, the Phones 4u saga certainly isn't over. The investors who bought the company's high-interest bonds have threatened action because their value has plummeted. Ben Pakenham sold his bonds just after the networks pulled out - but he still took a hit.

PAKENHAM: Where the bonds were trading before the announcement that Vodafone was leaving, to the price that we got out eventually, we bore about a 25% loss

ABRAMS: So a 25% loss on how big an investment?

PAKENHAM: Our total holding was somewhere in the region of £10 million.

ABRAMS: So a couple of million pounds. Is that significant for you?

PAKENHAM: I mean, of course it's not pleasant, we were very annoyed, we felt that we reacted very quickly however and could have done a lot worse. The bonds are trading 60% below our final exit price today, so we clearly underplayed the probability of that contract not being renewed. We were given assurances multiple times by management that the risks that the contract wouldn't be renewed were very low.

ABRAMS: And it's not just the bondholders who are threatening to take action. The staff we met were planning to make a claim against the administrators, PWC. Although some posts were saved, more than 2,000 people have so far lost their jobs and they say they haven't been properly consulted before being made redundant.

ACTUALITY IN CAFE

ABRAMS: Back in that café in Newcastle under Lyme, we met a former Phones 4u business change manager, Andrew Doughty. He's been helping other employees with the claims process. He says the shareholders in the private equity venture safeguarded their position with a dividend while staff were left with nothing.

DOUGHTY: It feels like it's been a game of shareholder protection. Five and a half thousand people, including their families, we're talking potentially twenty thousand people who have been affected by this, but the shareholders have been protected. It feels like people are a burden, people are worth no more than the bricks and mortar. I'm infuriated, I'm absolutely livid that we have been degraded to a level of assets - and unfortunately worthless assets at that.

ABRAMS: Where does this leave you personally?

DOUGHTY: Out on a limb. I was the main breadwinner in the household, I'm now desperately trying to find a new job. We've got Christmas fast approaching, my daughter's birthday this week, everything was looking rosy until four weeks ago. I'm applying for jobs left, right and centre, but it's not a buoyant market and suddenly there are a lot of people in the area looking for work.

ABRAMS: The administrators, PWC, told us they had to act quickly to protect the company's assets, so they couldn't consult everyone before making redundancies. Colin Haslam of Queen Mary University of London, says these kinds of deals often do raise questions about who wins and who loses.

HASLAM: The Phones 4u example are quite interesting in terms of who pays and how risk is displaced. It's displaced onto the employees that lose their jobs; it's displaced onto Government in terms of statutory redundancy costs; and also there's a risk displacement for the investment banks that have to write off the debt and the bonds that they have provided to the private equity vehicle and that can be quite substantial.

ABRAMS: What is the ultimate risk from that?

HASLAM: Well, I think that the ultimate risk is that loading them with more debt finance simply squeezes more of the underlying profit. And eventually corrupts their valuations.

ABRAMS: Puts them at risk?

HASLAM: Absolutely, puts them at risk.

ABRAMS: And nationally, there's been high-level concern about the amount of debt placed on firms by some private equity companies. Last year the Bank of England raised the issue in one of its regular economic bulletins.

READER IN STUDIO: The increased indebtedness of such companies could make the corporate sector more susceptible to default, posing a risk to the stability of the financial system in the United Kingdom.

ABRAMS: But not everyone agrees. Professor Mike Wright is the Director of the Centre for Management Buyout Research at Imperial College, London. He's just completed a major research project on the topic, funded by the private equity industry. He's been looking at whether there's a higher fail rate among private equity-backed companies. He says there isn't.

WRIGHT: What we did, and this is the largest study ever in this area, we took basically the whole population of UK private businesses, and that gets us into several million company years covering the period from 1995 onwards. What we find from that is - to cut a long story short - is particularly if we look at the private equity backed buyouts completed since 2003, we actually find that there’s no significant difference in the failure rate of private equity backed buyouts compared to businesses that had not gone through a buyout.

ABRAMS: But you did find, didn’t you, that companies with higher levels of debt were significantly more likely to fail, whether or not they were a buyout?

WRIGHT: Yes, I think that’s what we should realise is that leverage, if you’re a buyout or a non-buyout, is always associated with higher failure. It’s not so much the actual leverage, it’s their ability to service that leverage that makes the difference. In a nutshell, yes, high leverage, whether you’re a buyout or not, is more likely to lead to failure.

ABRAMS: When Phones 4u sold to the BC Partners private equity firm, it was in a strong financial position. But when the Comet electrical chain changed hands in a private equity deal, it was already in trouble.

ACTUALITY IN SHOP

CUSS: What are you looking at? Are you looking at mattresses?

MAN: We’re looking for a pillow.

CUSS: Well the pillows we’ve got, we’ve got a full range …

ABRAMS: Andy Cuss runs a bedding shop. It’s only been open a few weeks. Two years ago, he was a store manager with Comet.

CUSS: At the time, for me personally, I was on a journey going into store management. I was being put in other stores to look after them when their store manager was away, so you're looking at a long term career, because for myself personally it was a second career.

ABRAMS: What did you do before?

CUSS: I was a trumpet player, a musician doing West End shows and a few pop things. I worked with Robbie Williams a couple of times, I was in Chicago. Unfortunately an injury to my lip caused me to pack that in and I went into retail. I didn't know if I was going to last at it, but when I got to Comet that was it. I was looked after by everybody in there and could see forward, you know – this is what I want to do.

ABRAMS: Comet had been struggling for some time – sales in its stores were being squeezed by the internet and it suffered during the recession. In early 2012 its owners sold it to a British private equity company called OpCapita. The sale price was just £2 and there was a twist. The new owners were actually paid a substantial dowry – £36 million – to take Comet on. A turnaround plan was put in place and at first it seemed to be working. In September 2012, Andy and other managers were called to a big sales meeting.

CUSS: We went to the National Motorcycle Museum up in Birmingham, a big conference, big screens, where we were, where we are now, where we're heading in the future and it was all good. We were just told, well done, pat yourselves on the back, we're back in the black, we're going to have a fantastic Christmas and we've saved the company. Brilliant. They said we had £1 million in place for a managers' bonus pot for over Christmas that would be handed out in the February after all the audits had been done, and it was all like the company is cash-rich again, we've done it – that was the whole vibe of this conference.

ABRAMS: But behind the scenes, the picture was rather different.

ACTUALITY WITH DOCUMENTS

ABRAMS: This summer, two thousand staff brought an employment tribunal case arguing they hadn't been properly consulted about redundancies. I'm looking at the judgement and it brings to light some fascinating details about what was going on at Comet. It says here that by August 2012 – before that sales meeting where staff were reassured – Comet's owners were already actively planning either to sell the business or to close it down. They appointed two firms of consultants – one to pursue the sale option and the other to draw up detailed plans for closure. In September and early October - according to the judgement - two stores in Scotland were closed as trial runs for a full-scale shut-down. OpCapita denies those closures were a trial run. But we've spoken exclusively to Comet's former Head of Finance, Michael Walters. He's shown us a range of documents which paint a disturbing picture of what was actually happening as staff were being reassured.

WALTERS: The business was running well according to plan and the suppliers were increasingly supporting the business; they wanted to keep two major chains of electrical retailers in the UK. I think that the investors, I suspect, then were left with a dilemma in that by closing down the business, they could make a very significant profit. The next thing I heard on the news was that OpCapita were trying to sell the business. This astonished people in Comet, because it was clearly a very strange time to try and sell the business. We were coming up to peak, the peak buying, so you didn't want to unsettle the suppliers.The company was not distressed. Suddenly somebody had started to rock the boat. So the next thing I knew was at the end of October I was asked to attend a meeting to help review plans for closing down the Comet business over a six to seven week period.

ABRAMS: What was your reaction to that?

WALTERS: I was quite shocked and very saddened.

EXTRACT FROM NEWS REPORT

NEWSREADER: The electrical giant, Comet, is going into administration, putting 6,500 jobs at risk. It's the latest ….

ABRAMS: Within days of Michael Walters learning about the closure plan, Comet's owners had stopped supplying it with working capital and cancelled its loan facility. Its directors were facing a crisis, because they couldn't pay suppliers – they had no choice but to put it into administration.

EXTRACT FROM NEWS REPORT

REPORTER: Today, at its head office in Hull, anxiety and confusion for workers.

WORKER: I don't know anything, not anything. You probably know more than we do.

ABRAMS: Across the country a well-planned programme of store closures swung into action. More than six thousand people found themselves out of work, weeks before Christmas. One of them was Andy Cuss.

CUSS: There was almost like riots going on outside the shops because customers who had ordered, news was filtering through. It was horrible. My parents were ringing, who are up in Manchester, family are ringing, what's going on. I said, I don't know at the moment, I'm just stood here, the shop's shut and we've got a crowd of people banging on the windows and swearing at us and we don't know what's going on. We were just completely in the dark.

ABRAMS: The stores reopened after the initial announcement and the administrators continued to look for a buyer. A few days later, even worse news arrived.

CUSS: We were called in for a meeting on a Saturday morning and we have to be there by 8 o'clock, opening at 10. So we arrive. I felt the worst, I couldn't sleep the night before. We're not being pulled in here for nothing, they're not going to tell us everything's great, we've got a buyer. Sat round the table, he says, 'Right, I'll get straight to the point, this store is closing at the close of business on Monday and then you've got till Wednesday night to clear the whole place out yourselves, and that involves all the electrics, CUSS cont: the wiring, all the fittings, fixtures – everything to be broom clean by Wednesday and you've got to do it yourself.'

ABRAMS: Back at head office, Comet's Head of Finance, Michael Walters, was wrestling with a basic question – who owned Comet? The answer was less straightforward than you might think. OpCapita was the public face of the deal. But who was making the decisions?

WALTERS: That is something of a grey area. It was owned directly by a company in the UK called Hailey Acquisitions Ltd, but in terms of the ownership chain, went via a Grand Cayman company called Hailey Holdings Ltd to some obscure partnerships.

ABRAMS: This is a British retail chain. Was it not clear in the paperwork who its owners were?

WALTERS: If you looked at the annual return of Comet, it would show that Hailey Acquisitions Ltd owned the company. If you then looked at Hailey Acquisitions Ltd, it would show that Hailey's Holdings Ltd in Grand Cayman owned it. I suspect that if you went to Grand Cayman you might find at that point, the trail goes cold.

ABRAMS: How much did it matter that Comet's backers had obscured its ownership behind an offshore company? Well, those backers had structured the deal in such a way that they were very unlikely to lose. Not only did they get Comet for £2 - and with a substantial dowry – they secured its loans so that if it did go under, they'd be ahead of other creditors. So when the assets were sold, the administrators would pay them first. That money would go offshore, just at a time when the taxpayer was forking out redundancy payments to more than six thousand former staff. Michael Walters did his best to alert the authorities, but it was all perfectly legal. There was nothing to be done.

WALTERS: Well I felt there was an urgency about dealing with it, because at that stage the money was in the country, it hadn't been sent to the Cayman Islands, so I wrote to my MP and asked him to put me in touch with the appropriate authorities, and shortly after an inquiry was launched by the Insolvency Service. But the time to make that challenge was whilst the money was still in the country. The money has already been

WALTERS cont: paid by dividend to the Cayman Islands and is out of the reach of the creditors.

ABRAMS: What was the cost to the taxpayer?

WALTERS: The cost to the taxpayer is still to be finally determined. If you add up the cost of redundancy that the company's unwilling or unable to pay and the cost of VAT that was collected but not paid over, and Pay As You Earn and National Insurance in total, that's about £50 million is my estimate.

ABRAMS: Since the collapse, Comet's owners have transferred £100 million to its parent company in the Cayman Islands. Where it went after that isn't clear, but we have been following the trail.

ACTUALITY IN STREET

ABRAMS: I'm in Mayfair, standing outside a rather anonymous looking office block. It's a nice bit of town. I'm just opposite the Christie's auction rooms and there's a blue plaque on a very smart Georgian building opposite telling me that Napoleon III used to live here. This office block is where some of the senior staff from Comet used to come when they had to have meetings about the company's finances after the takeover, but it wasn't the offices of OpCapita, the private equity company that had bought Comet, it was actually the office of an American hedge fund.
That hedge fund was Elliott Advisors – the British arm of an American firm called Elliott Management. It's been in the news because it's been pursuing the Argentinian government through the courts after buying a tranche of its debt. We've seen documents which show Elliott was closely involved in Comet's day-to-day financing, along with another American fund. Michael Walters says he had numerous email contacts and meetings with them.

WALTERS: I'm aware that the key investors in the company, the biggest investors were part of Elliott Management. I met various of their representatives in their offices, they attended each month's meetings and I sent them the management accounts and the board presentations, and their analysts asked me questions about various bits of the

WALTERS cont: company. The Director of Hailey Acquisitions Ltd who controlled the business was appointed by Elliott in the US, I was told.

ABRAMS: Elliott Advisors told us they didn't want to comment because of the ongoing inquiry by the Insolvency Service. Meanwhile, staff were left without a penny in redundancy from the company. Instead they got a minimum payout from the Government. Earlier this year the tribunal awarded them an extra payment, because they hadn't been properly consulted about the redundancies. Some of those staff were represented by Victoria Robertson of the Needle Partnership.

ROBERTSON: Well, the maximum payout is capped at £3,600. This is being paid by the Insolvency Service because Comet is now in liquidation, so that means the payment is coming from the UK taxpayer, which obviously is slightly frustrating given that the owners of Comet, due to the way they had structured the purchase, did manage to extract millions of pounds, whereas the employees were left with very little money and then the taxpayer has to pick it up.

ABRAMS: So will the owners of Comet be pursued for the statutory redundancy payments that have now been made?

ROBERTSON: The owners of Comet will not be pursued for the statutory redundancy payments or the notice pay or the protective awards that have been paid out by the Insolvency Service.

ABRAMS: Why not?

ROBERTSON: Because they have limited liability. Comet was a separate legal person to its owners.

ABRAMS: So the owners are not part of this process?

ROBERTSON: That's absolutely correct - the owners are completely separate.

ABRAMS: The employees' case was brought against the administrators – Deloitte. They told us they'd worked hard in challenging circumstances to provide consultation for the staff. Although this was an employment tribunal, the case has raised bigger questions about the way the Comet deal was structured. The judgement quoted the counsel for the employees.

READER IN STUDIO: This was simply an old-fashioned corporate raid that resulted in a number of private equity investors choosing to liquidate a 75 year old British company in order to realise a quick and substantial profit. The liquidation of Comet may properly be described as one of the more regrettable episodes of British corporate history.

ABRAMS: Like Elliott, Comet's private equity backer, OpCapita, declined to be interviewed. But in a statement it denied this claim in the strongest possible terms.

READER IN STUDIO: OpCapita went into the Comet acquisition with a clear view that the business had a viable future and a plan to deliver a successful turnaround. We installed a new management team, who did their utmost to stem the very significant losses and drive operational improvements. It is a source of significant regret that we were unable to succeed with the turnaround and save the jobs of the thousands of employees who were affected.

ABRAMS: But Comet's backers have faced criticism from several quarters, including from the British Private Equity and Venture Capital Association, which represents the industry. Opcapita isn't a member. Garry Wilson is the Chairman of its Mid-Market Committee. He accepts there have been cases where investors' interests have been safeguarded while the taxpayer footed the bill.

WILSON: Comet, I think, is the worst example that we've seen of that. It's not acceptable and the BVCA don't agree with that. And I do think that we should look at protections for the taxman, so that the taxman doesn't end up paying redundancy and payments in lieu of notice whilst investors walk off with £100 million plus of profit it's not on. And indeed, when we saw what happened on Comet, myself and several other private equity firms across the industry drafted a turnaround code of conduct, to say that we're not

WILSON cont: interested in doing that, and members of the BVCA aren't interested in doing that and it's not a good example of how private equity can work.

ABRAMS: Labour MP, Bill Esterson, was alerted to concerns about Comet just after the collapse. He's a former accountant who worked in the insolvency business. He raised the case with ministers, but couldn't get to the bottom of it. We gave him details of what Michael Walters told us. Now he plans to raise the case in Parliament.

ESTERTON: It all seems very confusing and complex and secretive as well, and certainly that was the impression I got at the time from people – that there were big questions to be asked about the way that the loans were structured and about the way that the business was run down, and who's to benefit. And from what I've understood, it seems somebody in an offshore place has benefited enormously from the way Comet was run down and closed, while the British taxpayer and the staff, crucially, have been left in the lurch. And I had conversations with ministers at the time and also people in the insolvency business and they all said, 'Yes, this is legal,' so I think that does raise a serious question about whether it should be legal or not, because it does seem to me extremely serious and something that we need to investigate further and tackle.

ABRAMS: But for Colin Haslam of Queen Mary University of London, getting to the bottom of these deals is tricky, because so little is made public about them.

HASLAM: It's very difficult to find out the background to private equity companies, because private companies are unlisted, they're invisible. And all we have really are the accounts of the companies that they've invested in, but we don't see the debt and the leverage and its impact, because that's displaced off balance sheet and held within the limited partnership accounts. These are very difficult to see in practice. Many of these companies are maybe registered in Jersey, Cayman Islands. It's difficult to get the information when you've got an offshore vehicle.

ABRAMS: There'll certainly be a need for clarity in the next couple of years. The Bank of England has expressed concerns about a series of large loans taken out before the financial crash which are about to come to maturity. It says that could threaten the UK's fragile post-recession stability.

READER IN STUDIO: In the mid-2000s, there was a dramatic increase in acquisitions of UK companies by private equity funds. The leverage on these buyouts, especially the larger ones, was high. The resulting increase in debtedness makes those companies more susceptible to default, exposing their lenders to potential losses. This risk is compounded by the need for companies to refinance a cluster of buyout debt maturing over the next few years in an environment of much tighter credit conditions.

ABRAMS: But Garry Wilson of the British Private Equity and Venture Capital Association says the situation is under control.

WILSON: I wouldn't worry about a big wall of impending maturities, that's not happening. In fact, if that was going to happen, it was going to happen in 2012, something like that. It's okay, banks and private equity houses are entering into sensible negotiations and there's no systemic risk.

ABRAMS: But there's a temptation presumably within the industry to go for those risky deals and hang the consequences?

WILSON: There may be a temptation for a certain type of people to do that, but believe me, asset stripping and loan sharking is not a long term successful investment strategy. People don't want to do that and I haven't come across a single BVCA member that's interested in that activity.

ABRAMS: Plenty of private equity firms buy businesses and run them successfully, of course – you can see several on any high street. But Colin Haslam from Queen Mary University of London says there are serious concerns about the risks associated with some types of private equity venture, but he fears no-one's listening.

HASLAM: I think it's a critical issue for Government to be thinking through in terms of its responsibility for the risk associated with these types of investment vehicles, and particularly for pension funds as well. Really what we find is a government which has retreated from these types of responsibilities.

ABRAMS: Have you tried?

HASLAM: Well, we have tried and without success, to get some commentary on how and in what ways regulations around, say, private equity or other types of financing vehicles that impart quite a bit of volatility into the financial system might be regulated and hedged a little bit more than they are.

ABRAMS: We wanted to raise these concerns with Government too. We asked both the Business Secretary, Vince Cable and his Shadow, Chuka Umunna, for an interview. But on the subject of private equity, neither of them wanted to talk to us.

SIGNATURE TUNE