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Corporate financing – quo vadis?

The current issue of the capiton newsletter introduces capiton's transactions that were realised prior to the post "Lehman" phase – when stock markets still appeared to be performing the "feeding the five thousand" miracle. This bubble has burst with a bang – causing the expected economic downturn to start earlier, intensify and probably last longer.

The process of adaptation is in full swing: global deleveraging, mainly at banks and hedge funds, has resulted in the revaluation of all asset classes. Already today, this deleveraging process coupled with the reduced willingness to assume risks has already led to a limitation of lending with significantly stricter conditions than before. One of the requirements for the granting of a loan is trust in interest payments and the ability to repay the loan. Even more significant for a credit approval is appropriate equity. Furthermore, management must be able to prove that it is able to expand this equity basis. Never before was equity as valuable as today. capiton AG's business model is well placed for this market environment and will prove particularly successful in the second half of the recession and the first phase of recovery. Until then we shall stick to the following: even more selective new business, creative investment offers and improvement operating results.

Outlook and retrospection

With seven transactions – four new investments and three exits – the financial year 2008 was another successful year for the capiton team. capiton was able to repay more than € 260 m to its investors and roughly € 75 m were invested in four new portfolio companies.

With regard to the existing twelve companies in the portfolio, we will continue to place the focus on value enhancement. For the younger portfolio companies, suitable additional acquisitions are being checked intensively. At the same time, the management team is preparing all companies for "stormy weather", possible "gateways" and "domino effects" are being identified and eliminated as far as possible.

While the investments in the capiton II fund focused on investment and consumer goods, the capiton III fund concentrates on services, infrastructure, pharmaceuticals and logistics – mainly because of the expected economic slowdown. The two upcoming years will offer excellent conditions for good investments, similar to those were witnessed in 2003 and 2004. After the suppliers of investment goods will have passed through the cycle, this sector might become an attractive investment opportunity again.

Stefan Theis, Managing Partner

New Investment Walter Services

In mid-2008, together with the co-lead investor Odewald & Cie. and management, capiton acquired the Walter Services Group.

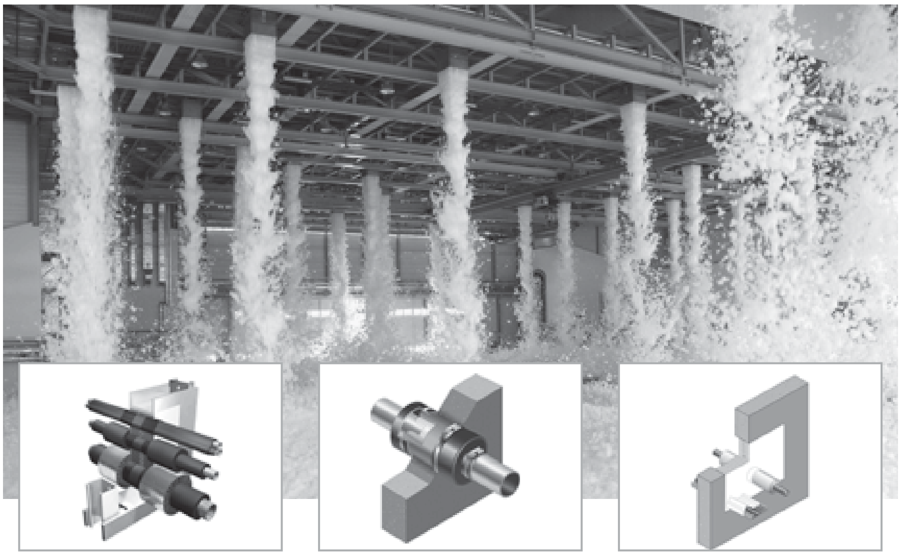
Walter Services Group is the second largest German provider of services around end-customer contact. With more than 8,500 employees and 19 locations in four countries (Germany, Austria, Poland, Rumania), the Group generates sales of roughly € 240 m.

The Group's services are performed via all communication channels – telephone, email, SMS, internet, fax, and letter – and comprise all important points of contact, where companies directly address their customers. This involves customer services and order management as well as distribution and marketing support. In the heavily growing market of business process outsourcing, Walter was able to position itself as a leading provider. Thus Walter was able to take over large units of Deutsche Telekom AG, for instance, and was the first provider to offer complete customer service for a foreign direct bank in the field of financial services. In the face of an economically difficult environment, it is expected that other companies will outsource parts of their customer activities in order to reduce their fixed costs base.

capiton and Odewald & Cie. jointly hold a majority in the Walter Services Group. Further substantial equity is held by the management (together: 32 %) as well as the vendor, who has reinvested, and a further sector specialist.

New Investment svt: capiton acquired a majority interest in the svt Group by means of an MBO

In autumn 2008, together with the co-investor CFH (a holding company of the LBBW Group) and management, capiton acquired a majority interest in the svt Group. The shares were mainly sold by institutional investors.



The svt Group was founded in 1969 near Hamburg. Today, with sales of nearly € 59 m in 2007, the company belongs to the leading specialists in the fields of fire prevention and environmental technology. svt has around 240 own employees to look after its customers at more than 20 locations and also cooperates with numerous external service partners.

In the field of fire prevention, customers are supplied with products and services for active and passive fire protection systems. Fire prevention and management through appropriate preventative measures are the company's primary mission. The range of svt's services comprises the production, design as well as consulting and installation/maintenance of structural fire protection systems. An in-house research and development division with modern laboratories enhances the high-quality problem solving competence. Typical fire protection products are pyro-safe cable bandages, coating systems and fire extinguishing systems.

InBrief

Acquisition of interest in the Fruitwork Group

In December 2008, capiton acquired an interest in the Fruitwork Group in a growth financing context. With sales of around € 75 m, the group belongs to the largest suppliers of nuts in their shell and dried fruits in Germany. Furthermore, Fruitwork trades a large volume of organic bananas and organic dried fruits. The large food retail chains are among the company's most important customers. The company is supported by a reliable supplier network around the globe.

Together with capiton, the management is planning to enhance the growth of the company, as they intend to gain customers in other European countries and expand the depth of their product portfolio.

capiton sells the established Berlin company Borsig

In June 2008 capiton AG sold its interest in the plant manufacturer Borsig from Berlin to the listed Malaysian energy service provider KNM for a cash purchase price amounting to € 350 m.

Capiton acquired Borsig in 2003 and systematically developed the company, leading to an increase in the number of employees at Borsig from 250 to 460 in the last five years. Total operating performance increased from € 47 m in 2003 to an expected € 300 m in 2008. Apart from this impressive organic growth, five acquisitions were carried out in order to complete the range of products for Borsig's customers.

The company was founded by August Borsig in Berlin in 1837 and had an eventful history, including bankruptcy in 2002 after the holding company Babcock Borsig AG had likewise filed for insolvency.

The company is an internationally leading supplier of equipment for the chemical and petrochemical industry. Other focuses are heat exchangers, membrane technology as

well as compressors for boiler and power plant technology. Roughly 95 percent of the company's products are exported. In individual product segments, the company has managed to achieve a market share of 60 percent. Borsig produces so-called "critical components", which are used in industrial (gas) plants under extremely high temperature and pressure conditions. In addition to Berlin, further production plants are located in Merane near Zwickau, Rheinfelden and Gladbeck. In Merane, where a new greenfield plant was built in 2006, Borsig has returned to producing reciprocating compressors, a historical product segment, which had been separated and sold during the Babcock era.

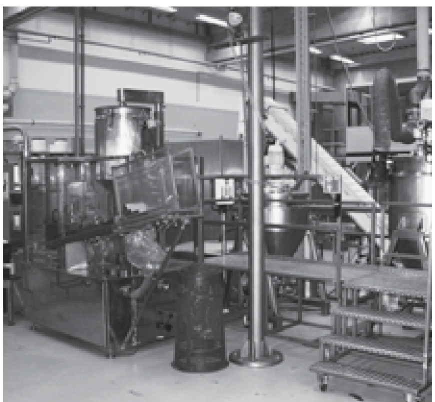
capiton's acquisition of Borsig in 2003, all additional acquisitions as well as the plant construction in Merane were exclusively financed by equity.

The KNM Group was Borsig management's favoured partner, as the product portfolios of Borsig and KNM ideally complement each other on the global markets and offer synergy effects with regard to purchasing, production and distribution. KNM intends to further expand the German sites.

Exit Gimborn: capiton sells its interest in Gimborn to the Eastern European fund Penta Investments

After successfully developing the brand production and distribution business, capiton sold its interest in the field of premium pet products.

While the interest was held, both sales and profits were significantly improved. Thus, group sales were increased by a total of 24 % from € 58 m to € 72 m since 2006. Growth was achieved with regard to high-quality production in the field of pet food (for cats in particular) and also with regard to the retail shops, PetCenter Retail, Gimborn operates in Eastern Europe.



The retail chain in Eastern Europe in particular was developed intensively during the investment period. The 12 retail shops in the Czech Republic that already existed at the time of the takeover were expanded and became the leading pet shop chain with more than 50 shops by 2008. The investment in new locations was exclusively financed by cash flow, as on average, the new shops were able to generate profits as soon as 3 months after opening.

According to management's assessment, other Eastern European countries offer similar opportunities, as many of these countries do not have professional retail chains for pet products as yet. Such an expansion would be afflicted with country-specific risks for capiton. To reduce these, capiton searched and found a financial investor with experience in retail investments in Eastern Europe for co-venturing in the spring 2008. During the negotiations, the potential partner Penta Investments also became interested in the production and brand business, leading them to make an attractive offer for the entire Gimborn Group. Due to the high purchase price in relation to the opportunities and risks of the investment, both capiton and the management decided to exit the business, with closing achieved in the second half of 2008.

Exit Steco Holding GmbH

Together with its co-shareholders, capiton fully sold its interest in Steco Holding GmbH to the listed competitor IFCO Systems in June 2008. capiton had acquired the interest in Steco Group in January 2006 in an expansion and replacement financing context. Steco is a company that offers logistics services and operates a pool of reusable transport packaging for food retailers, especially for fruit and vegetables. The merger with competitor Ifco AG creates ideal conditions to implement the planned growth strategy cost-effectively, in particular in the Southern European countries.

Buy & Build: Gossen Metrawatt Group remains on growth path

Through new locations in England and Austria, the internationalisation of the GMC Group is advancing according to plan.

After the full takeover of Dranertz Group in the US in 2007, GMC acquired a complete team of engineers for the development of intelligent measuring sensors (see illustration) from a competitor in England in 2008. By taking over this team, which has been successful on the market for more than 25 years, GMC expands its competence in the field of measuring technology and is therefore able to offer its customers integrated and comprehensive solutions.

In 2008 GMC also established a distribution unit in Vienna in order to strengthen the Test & Measurement activities in Eastern Europe. With both these new projects, the GMC Group continues its international expansion and taps lucrative niche markets.

New members in the capiton team: Alexander Kretzer in Controlling…

Alexander Kretzer joined as head of Controlling for capiton AG in September 2008. From 2004 to 2008 he was initially responsible for accounting issues related to mergers and acquisitions and later on took on responsibility for the consolidated Financial Statements of publicly listed Axel Springer AG as head of Group Accounting. Prior to this, Mr. Kretzer had spent several years as auditor and senior manager in the transaction services department with a focus on financial due diligence at PricewaterhouseCoopers. He has extensive experience in auditing and accounting, financial analysis and supervision of companies as well as in the analysis and execution of mergers and acquisitions. Mr. Kretzer holds a degree in Business Administration (Diplom-Kaufmann) and worked as auditor and accountant.

…and Andreas Denkmann for new investments

Andreas Denkmann has been appointed as Investment Director at capiton AG in November 2008. Before his entry, Mr. Denkmann worked for a publicly quoted renewable energy company, where he spent three years, first as head of M&A/Corporate Development and later as Chief Commercial Officer. Prior to this, he worked for the international private equity company 3i for 6 years in different leading positions on the investment and portfolio level. He started his career at an international strategy consulting firm. Mr. Denkmann holds a degree in Business Administration (Diplom-Kaufmann) and has studied in Germany and the US.

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