



capiton AG goes independent in MBO

With the signing of documents in mid May 2004 capiton has concluded its own MBO – the management team becomes majority owner of capiton AG

In mid May 2004, the Gothaer Insurance Group, the former sole owner of capiton AG, sold a majority shareholding to capiton AG's management team. Senior management and the supervisory board will hold 60%, employees will hold approximately 20% and 10% will continue to be held by Gothaer. The remaining 10% are earmarked for a potential strategic partner.

With the MBO, capiton AG is following the successful example of many other captive asset managers from the banking and insurance industry. Especially in Switzerland and the UK, many captive managers have gained their independence. In recent years the private equity teams of UBS, HSBC, Merrill

Lynch, Deutsche Bank, Zurich Financial Service and most recently Morgan Stanley have all been the subject of spin-offs.

There are a number of good reasons for such a spin off. The creation of a partnership increases team retention, provides incentives for the management team and improves the possibilities to recruit experienced and successful senior professionals.

In addition, many institutional investors are not prepared to invest in captive funds. The independence of formerly captive management companies therefore usually allows these management companies to attract new fund investors.

Independence achieved – no longer captive



Although our business partners can confirm that capiton AG's strategic redirection in 2000 effectively created an independent market participant, many institutional investors

complained about the lack of independence from its sole shareholder Gothaer Insurance Group – capiton was considered a captive fund. The capiton team ended this captive status on 17 May 2004 and the team now sees the opportunity to further improve and expand capiton's already well established market position in laterstage-midcap investments. capiton's economic foundation is solid: New investments are driven by its current fund-capiton Zweite, which already has significant third party investors. In addition, capiton will continue to manage the entire private equity portfolio of Gothaer Insurance Group.

The strategy and the composition of the management team will remain unchanged. Several of capiton's investment professionals will have the opportunity to become or have already become partners. Just as important are the mental changes resulting from the MBO. In the process of analysing and executing MBO transactions capiton Partners now can make use of their own experiences. capiton partners have themselves gone through an MBO process and can now appreciate the emotional aspects of such a significant event.

To sum it up: capiton is now highly motivated to continue the implementation of the strategic redirection that began in 2000 because capiton partners don't just think like entrepreneurs – they are entrepreneurs.

Stefan Theis, Board of Management

MBO of EHR GmbH

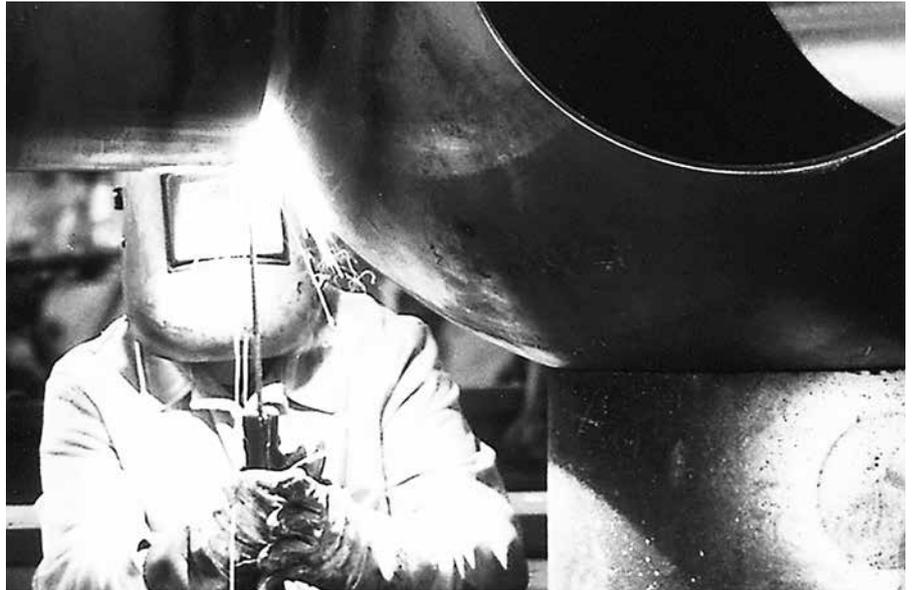
Essener Hochdruck-Rohrleitungsbau ("EHR"), a long-established former Mannesmann subsidiary, was acquired by the management and capiton in an MBO transaction valued at € 35 million, including letter-of-credit facilities. EHR was sold by French engineering group Technip.

EHR was founded in 1947 and was acquired by Thyssen in the 1960s. Since the 1970s, EHR was part of the renowned Mannesmann engineering division. As a consequence of the break-up of the Mannesmann group after the acquisition by Vodafone, the entire Mannesmann engineering division was sold to French engineering group Technip. In 2003, Technip decided to exclusively focus on its core engineering companies and the decision was taken to divest all manufacturing-related activities. In May 2004, capiton together with the management team and Technip concluded the divestiture of EHR.



EHR is one of Germany's leading companies for the production, installation and maintenance of complex high-pressure piping systems. Main applications for these complex piping systems include power plants, as well as the chemical and petrochemical industries. Today EHR has approximately 1,000 employees based in 10 locations and revenues of € 140 million.

capiton invested in this market segment mainly based on the expectation that the power plant industry will experience significant increase in capital expenditures. Because of the anticipated deregulation of the energy market and the resulting projected price decline, power generation companies have



substantially reduced their investment activities since the mid 1990s. This reduction in investment has led to a reduction in the building of new power plants and a lengthening of maintenance investment cycles. Due to that reduction, today very few companies in Germany continue to have the knowledge to manufacture high-pressure pipes of sufficient quality and technology for application in conventional and nuclear power plants. Industry experts believe that capital expenditure will not continue to be held back, creating a significant increase in power plant related expenditure in Germany and Eastern Europe in the coming years.

RWE is leading the industry and announced a few days ago that after a long period of virtually no investments, it is now planning to invest more than € 3 billion in its current portfolio of German power plants in the coming years. The German power plant industry has a tidal wave of replacement capital expenditure ahead of it. By 2020, one third of the currently existing power plants will have reached the end of their lifecycle, will have to be shut down and will subsequently have to be replaced.

EHR has been able to work through the last several difficult years and as a result is now well positioned to expand its market position and to substantially increase its revenue base through internal growth and well-suited acquisitions.

Contact: spors@capiton.de



capiton AG's investment focus

Over the last twenty years capiton AG has invested capital from its own funds, the funds of private equity company BB-K and the private equity investment program of Gothaer Insurance Group in more than 100 medium-sized companies. capiton's first investment in the 1980s was the Schwabengarage AG, its most recent investment was the former Mannesmann subsidiary EHR.

The overall IRR for the entire capiton portfolio has been very satisfactory for capiton's investors and ranks significantly above the returns of other asset classes. However returns of single investments show remarkable variations. Over the last several months capiton has studied the success factors of individual investments.

The quality of the management teams is by far the number one success factor. Even companies in the most difficult industries can generate above average returns if managed by a superior management team. As a consequence, capiton has included management appraisals as the core part of its standard due diligence process for new investments.

The second success factor is related to a company's size. Smaller or early-stage companies are more likely to generate superior investment returns, but also carry a disproportionately higher risk of failure. This risk is much lower with medium-sized companies. Therefore less business risk has to be traded off with returns that are lower than the sky-high returns generated by some early-stage investments several years ago. Since capiton's investors are interested in a less volatile portfolio, the current fund, capiton Zweite, will only be invested in companies with minimum revenues of € 50 million.

The third success factor is a company's industry segment. This is less related to risks in any specific industry, but more related to the ability to take advantage of opportunities presented by a specific industry segment. The probability to correctly identify these opportunities is significantly higher if there is prior knowledge about the industry through existing or former investments in the same

industry segment. As an example, capiton is more confident of its ability to identify opportunities in the private-label and food industries after a successful investment in softdrink company Refresco.

capiton intends to use its sector expertise, built up through its investments in the last twenty years, to implement a more sector-focused approach. capiton has made successful investments in each of the industry segments listed below. In the area of plant engineering and industrial components, capiton has been able to build up sector expertise through seven investments such as Borsig, Repower or Schmetz Group. The same is true for the financial services sector with investments in DKV and RMF or the consumer products/retail sector with investments in Classen, Hettich or Refresco.

Contact: kogler@capiton.de

In Brief

Preps I

The Swiss-based Capital Efficiency Group is offering equity related financing for medium-sized companies in the form of CDO loans. This program, called Preps, is being offered in cooperation with HVB (HypoVereinsbank) and the rating agency Moodys. Three of capiton AG's portfolio companies have been part of the first Preps CDO funding program.

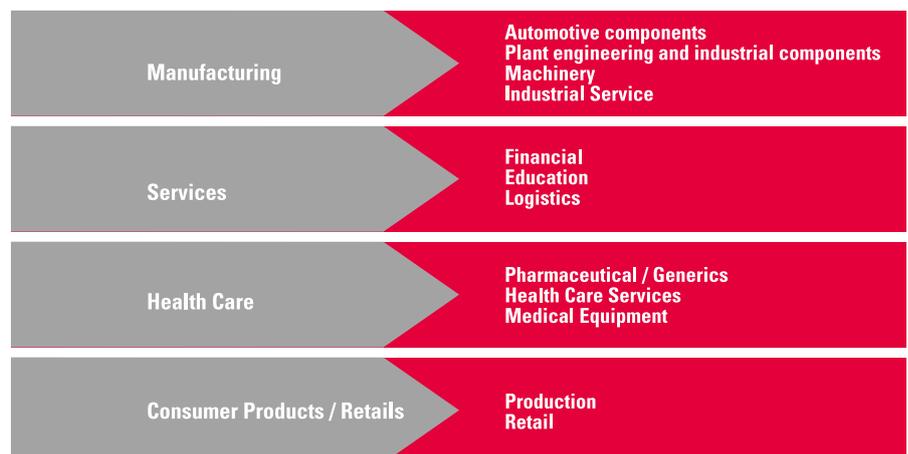
*CDO: Collateralized Debt Obligations

Hettich expands into China and India

The Hettich Group, a capiton portfolio company since 2000, is a supplier to the furniture industry and generates revenues of € 500 million with 4,800 employees. To expand its international presence, Hettich has opened new production facilities in China and India.

Cross-Selling of Trenkwalder

The cooperation of other portfolio companies with temporary staffing company Trenkwalder AG, a capiton portfolio company since the beginning of 2003, is showing first results. Some portfolio companies are already using temporary staff from Trenkwalder.



New members of the capiton Team



Gerwin Theiler

Gerwin Theiler joined the capiton team in Berlin in May 2004 as Finance Director. Gerwin Theiler is especially responsible for fund administration and the controlling of capiton's investments. After finishing his studies of business mathematics, he began his career in the Group Treasury of Daimler Chrysler. He then spent several years as an auditor at Haarmann Hemmelrath & Partner. From 1997 he was responsible for the middle- and back-office, fund structuring and fund-raising at VC firm Technologieholding, which was acquired by 3i in 2000.

Contact: theiler@capiton.de



Holger Linn

Holger Linn joined the capiton team in Berlin in June 2004. After his studies of business computer sciences, he began his career as a consultant with KPMG. He subsequently worked for several years in the structured finance team of Dresdner Kleinwort Benson and then joined German private equity firm ECM. After ECM, he joined the German team of Advent International. As an Investment Director, Holger Linn will focus on sourcing new investment opportunities.

Contact: linn@capiton.de



Konstantin von Falkenhausen

In early 2004 Konstantin von Falkenhausen joined the capiton team in Stuttgart as an Investment Director. After his studies in Göttingen and Fribourg and an MBA at the University of Chicago, he worked for US investment bank Robertson Stephens & Company in San Francisco and in London. He then spent several years with private equity firm West Private Equity in London and in Düsseldorf.

Contact: falkenhausen@capiton.de

First capiton Day on January 22, 2004



In January 2004 capiton opened its new offices in Bleibtreustrasse by welcoming guests to its beginning-of-the-year event. capiton AG was able to attract more than 200 business partners and guests from its portfolio companies. As one of the highlights Prof. Dr. Hermann Simon gave a speech on "Hidden Champions".

Notes from the capiton Portfolio: Flemming Dental

Gothaer became the investor and private equity partner of Flemming Dental at the end of the 90s. The goal was to transport the Fielmann concept in the opticians sector to the dental laboratory sector.

Through several acquisitions, Flemming Dental quickly became the market leader in the German and Scandinavian market for dental laboratory services. In 2002 and 2003 Flemming decided to consolidate its rapid growth and focus on optimising internal processes. Last year the 70 dental laboratories in

Germany, Sweden and the Baltic States managed to achieve revenue targets in excess of €125 million. In the coming years, Flemming plans to take advantage of additional consolidation opportunities in the dental laboratory market in order to further increase market share.

Publisher:
capiton AG
Bleibtreustraße 33
D-10707 Berlin
Tel.: +49 (0) 30/31 59 45-0
Responsible:
Dr. Andreas Kogler
Design and implementation:
Die Zwei Agentur GmbH
Printing:
Zippel Netmarket GmbH
Copyright:
capiton AG