capiton news

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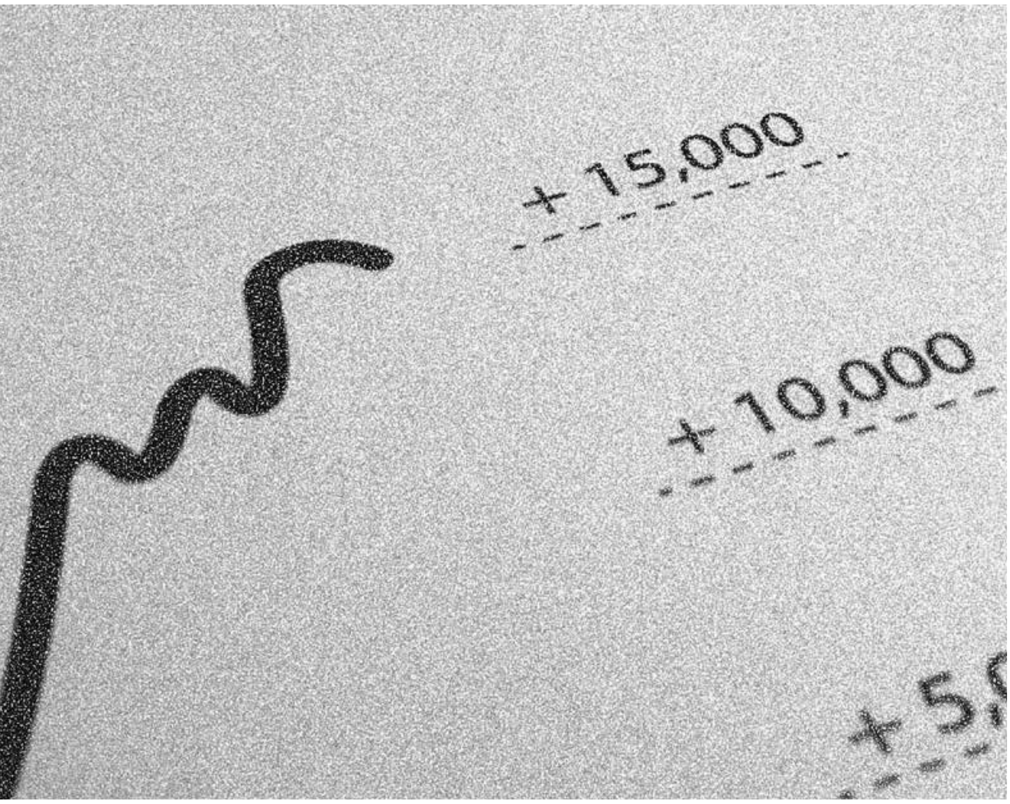

Added value with financial investors

Private equity investors enable change processes. The active role of private equity companies in the care of medium-sized companies is becoming increasingly common in the mid-cap segment. The focus is on concepts to increase value.

The influence of private equity companies has been especially obvious in the last few years in the numerous large spin-off projects. Parts of group-companies are taken over, marginal businesses are sold, acquisitions consolidate industries and markets, and strict cost management increases efficiency. After two years, the companies become unrecognizable. This active role of private equity investors is also becoming more and more relevant for the mid-cap-sector. This trend is confirmed by a long-term analysis over the last 25 years carried out by "The Private Equity Analyst" on the topic of investment returns for buyout projects.

From "pure" money provider...
In the 80's, the value-added process on the part of the equity provider was determined solely by financial engineering. More than half of the growth in added value was due to leverage financing; value creation through an active contribution to portfolio-management was not the focus. Although the influence of financial engineering declined noticeably in the 90's, the influence on the policies of the companies was limited.

...to a partner for medium-sized companies
A completely different image has emerged in the last few years according to the study by "The Private Equity Analyst". The role as "pure" money provider is increasingly being replaced by an active role. Financial engineering is no longer the only focus. Instead, the focus of the private equity companies is on the active accompaniment of medium-sized companies and on operative added value.

capiton AG – active partnership with medium-sized companies leads to a win-win relationship!

In the first issue of our capiton newsletter last year, we introduced our three new investments in the investment program capiton II. In this issue, we would like to focus on the topic of value building using selected participations in our portfolio. Until the mid-90's, investment companies in Germany were largely passive with regard to their investments and left the topic of increase in value to the entrepreneurs. However, especially the influence of Anglo-Saxon funds led to more active value providing private equity companies in Germany. Topics like leverage financing and the creation of an equity story for an IPO were initially the focus of the acquisition process. Because of the limitations on the options for leverage and IPO opportunities, both "value drivers" have become less important in the last few years. The added value process is therefore increasingly being transferred from the acquisition phase to caring for the participation. The instruments range from buy & build through cost optimization programs to accounting and personnel policies. Using the examples Refresco, Borsig, and Trenkwalder, we would like to introduce our new approach to the topic of added value in caring for equity investments.

Dr. Andreas Kogler, Executive Board

capiton sells participation in Refresco

In September 2003, capiton and its finance partners were able to successfully sell the private label fruit juice company Refresco. The birth of the Refresco Group goes back to 2000. Back then the financial investors and the management purchased the fruit juice businesses of the Dutch Melkunie Group and the German fruit juice provider Krings.

Four years ago, a management team from the Melkunie Group and four financial investors, including capiton AG, started on the path to creating one of the leading suppliers of fruit drinks and soft drinks for the private label market.

Time to act

The fruit juice industry has been under consolidation pressure for some time now: on the supplier side, the prices are dominated all over the world by a few concentrate producers. On the seller side, the internationally active food retailers exercise corresponding price pressure; around 90% of the market volume in Europe comes from just 10 retail chains. These market characteristics offer good conditions for the implementation of a buy & build concept.

Time to grow

After the conclusion of the MBO and with the active cooperation of the financial investors, those Western European companies were identified that fit well with Refresco due to their regional strengths, size, and market position. The industry and integration know-how of the management team could be ideally coupled with the transaction know-how of the financial investors. So far, the Refresco Group has been consistently expanded through acquisitions in Germany, France, and Spain and the number of production sites has been increased from four to ten. In the same period, sales more than tripled to € 500 million.

Time to change

The initial investors have accompanied the expansion of the company in Western Europe since 2000. A new investor was found in 3i for the financing of the next milestone, the expansion into the new EU countries and into Eastern Europe. Based on a company value of € 240 million, 3i purchased the Refresco Group in a secondary buy-out deal. The MBO team remains on board and will implement the next steps in expansion in cooperation with 3i.

Trenkwalder on course for growth

In the previous issue of this newsletter, we reported on the investment in the temporary services company Trenkwalder AG made in December 2002 as part of the company's expansion financing. With a market share of nearly 20%, Trenkwalder is the no. 1 in Austria. In addition, Trenkwalder has 25 offices in Italy and 10 offices in Germany.

The future growth potential for Trenkwalder, however, is not only in Western Europe, but also in Central and Eastern Europe. The temporary services market is still in the development phase in the countries of Hungary, Slovakia, Slovenia, the Czech Republic, and Croatia. Because of the low market penetration, the current lack of legal prerequisites, and the size of the countries, these markets are not the focus of the large, internationally-active temporary services companies. These conditions are ideally suited for a medium-sized company to acquire a market-leading position with a relatively modest investment. The vision that Trenkwalder can assume market leadership in selected Eastern European countries as well as in Austria, was the initial reason for capiton's investment decision.

No. 1 in Hungary and Slovakia

The first step was made in October 2003 in Hungary. Trenkwalder has been active in Hungary since 1999 with 4 offices and 1200 external employees. Trenkwalder was able to nearly double its nationwide sales through the majority purchase of the Multiman company and is now the largest temporary services company in Hungary with 13 locations. Only a few weeks later, Trenkwalder took over the Slovakian temporary services company Management Partners Group and doubled its turnover there like in Hungary, and has now become the market leader in Slovakia. In the next few months, the acquisitions in Hungary and Slovakia will be integrated into the Trenkwalder Group especially by transferring central functions to Austria and by standardizing major processes.

Win-win relationship

Trenkwalder was able to increase its sales from € 160 million the previous year to about € 200 million in 2003 through internal growth and acquisitions. A further increase in sales of 20% ought to be achieved in 2004. capiton will closely accompany the growth process in 2004 as well. Here again it becomes clear how valuable the cooperation of a medium-sized company with the finance sector can be when transaction know-how and process and market know-how join forces.

Borsig acquires two technology companies

In the course of identification of new fields of business, Borsig GmbH – we have already reported on the participation of capiton in capiton aktuell – has been looking at applications for membrane technology for use in mineral oil and gas processing for several years now. In spite of the frequent usage of membrane technology in the fields of medical technology, food processing, and water purification, this technology has recently made a breakthrough in the chemical and petrochemical industries.

Borsig had until recently concentrated on the fields of recovery of process gases, and built the first gas recovery systems for tank farms and refineries. The demand for membrane systems and new fields of use has increased steadily for two years now – an indication that membrane technology is also on the way out of the laboratories and into industrial applications in the chemical industry as well. This was the start signal for Borsig to expand its prospering and rapidly-growing membrane segment.

Buy & build by Borsig

Borsig acquired the membrane activities of Aluminium Rheinfelden GmbH in September 2003 with the support of capiton. Borsig was able to expand its development and production capacities for membrane systems with this acquisition and is now the world leader in the still young market for membrane technology for gas separation. In October 2003, the Borsig-capiton team also purchased a qualified majority in GMT Membrantechnologie GmbH, a specialist for membrane films.

Good outlook for the future

These acquisitions by Borsig have created the conditions necessary to expand the already good market position in the still small application field of gas processing. Based on the new orders in this year, 2004 will see sales in this field which are at least twice as high.

In Brief

New offices in Berlin

capiton has moved. The office of capiton AG has been located at Bleibtreustrasse 33, 10707 Berlin, since October and is therefore more centrally located between Kurfürstendamm and Lietzenburger Strasse.

New offices in Stuttgart

The steady growth of the activties of capiton has been emphasized by the move of the Stuttgart office into larger, more modern accommodations in the center of Stuttgart. Starting in January 2004, the capiton team for Southern Germany will be located in the Kronen-Carré at the address Kriegsbergstrasse 13, 70174 Stuttgart.

Breakthrough at ALSI

capiton AG invested in ALSI, a spin-off from Phillips AG, in 2001 in conjunction with other equity investors. One of the goals of ALSI (Advanced Laser Separation International) is to develop laser technology to separate wafers in the semi-conductor industry. At the end of 2003 ALSI was able to conclude product development and sell its first machines, for example to Osram for the production of LED elements.

capiton implements exit from Studienkreis

In May 2003, Jürgen Hüholdt, founder and Managing Partner of the Studienkreis Group, and capiton AG sold a majority stake in the Studienkreis Group to Cornelsen Verlagsholding in Berlin. The remaining minority stake will be sold off as planned in a second step.

Capiton AG began its participation as an equity capital partner in the Studienkreis Group in 1997. As far back as 1997, the Studienkreis group with its 900 offices in Germany, was the market leader in the field of extra tuition for remedial students and in language instruction. The entry of capiton AG created the necessary requirements for the further growth of the group. The number of offices in German speaking countries was expanded to over 1,100. New concepts like the so-called mini-locations for rural regions or the Kids' English Club (English instruction for pre-school and elementary school children) were successfully established. Parallel to the core business, a publishing subsidiary was built up with its origins in the publishing of instruction material and was expanded with in-house editing. In addition, e-learning concepts for school students were created and implemented in people online AG. The equity capital partnership with capiton AG made it possible for the Studienkreis Group to further extend its position as the no. 1 in the German speaking market for extra tuition and to expand the stationary concept with distance learning. Today, over 600,000 students have attended Studienkreis.

Strong partners in the future

In order to strengthen the Studienkreis Group in the long term and to further expand on and strengthen its position as the market leader, the shareholders decided to sell their shares to Cornelsen Verlagsholding. Cornelsen Verlag was founded in 1946 in Berlin and is one of the leading publishers for educational media of all kinds in Germany. The publisher's program ranges from school books and trade literature to further education seminars, multimedia software, and e-learning offers. Therefore the company is an ideal partner for the Studienkreis Group and the publishing business is an excellent supplement to the service offers of the Studienkreis Group.

capiton was able to achieve an attractive exit. The parties have agreed to confidentiality on the exact terms of sale.

Notes from the first investors' day for capiton Zweite

At the investors' day on 27/28 November 2003, the participants had the opportunity to get a comprehensive overview of the private equity market in the German-speaking countries, the activities of capiton in 2003, and an outlook on 2004.

After the introduction of the new investments acquired in 2003 by their CEO's, the presentation of the opportunities for the new businesses took place. At least one investment should result in the first quarter of 2004 from the three due diligence examinations currently taking place. The management of capiton was confident that the favorable investment climate in the private equity business will continue for the remainder of the investment phase of the program, which will last until 2005. It can already be seen that investments in later stage/mid-cap companies will provide superior returns over this period. The focus of the activities of capiton will increasingly cover majority takeovers, especially as part of spin-offs. Re-leverage transactions and secondary buy-outs will also gain further in importance. The development opportunities for classic growth financing are considered to be more limited. The rise of ABS-like products, which offer junior capital to medium-sized companies, has created an alternative to growth financing by private equity investors.

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