

Cross Equity Partners

This month Finance Monthly explores the private equity industry by speaking to Dr. Michael Petersen and Markus Reich, both Managing Partners of Cross, a leading Swiss private equity firm. Cross offers capital, industrial expertise and an extensive network to mid-sized companies in Switzerland and German-speaking Europe in the context of succession solutions for family-owned businesses or corporate spin-outs.

Cross invests exclusively in market-leading businesses which have strong growth potential and great people in sectors such as engineering, machinery, industrial products and services.

Cross combines entrepreneurial and industrial experience with extensive private equity knowledge for buy-out transactions and select minority investments. As a long-term investor, Cross pursues industrial strategies aiming to achieve sustained profitable growth. To date, the Cross team has successfully invested in some 30 mid-sized companies in German-speaking Europe.

Q Can you discuss any recent transactions?

Cross' recent transactions include Schwab Verkehrstechnik AG and Spirella SA:

Schwab Verkehrstechnik AG, formerly known as Georg Fischer Verkehrstechnik AG, is one of Europe's leaders for shock absorption solutions in the dynamic markets of the rolling stock sector. With a significant market share, the company is the European No. 2 in the buffer market. Customers include rail operators such as SBB (Swiss Federal Railways), Deutsche Bahn and ÖBB (Austrian Federal Railways), as well as rolling stock manufacturers and leasers. As a technology leader in the market for couplers, Schwab provides solutions that set the standard in Switzerland and other European countries. Schwab's automatic couplers are used for example in the Swiss regional transport by SBB, Turbo and Zurich's Cobra trams.

With its fashionable and trendy products, such as bathroom accessories, bathroom textiles and shower curtain rails, Spirella SA is a world-renowned brand and Europe's leading bathroom equipment supplier. Established in 1958 and with headquarters in Embrach-Zürich, the company generates a turnover of some CHF 70 million with 160 employees and subsidiaries in Germany and France. Spirella's products are distributed in more than 65 countries. Its team of designers and product developers are known to identify new trends in colour, materials and design in the world's most important fashion centres as well as spot out trends and inspirations in today's sport and wellness field leading to product innovations and a bathroom collection that is counted among the most creative and fashionable in its field.

Q How does private equity change the short-term mindset and enhance growth?

Private equity fosters entrepreneurial thinking of management teams and focuses the mindset on profitable growth strategies. It hereby effectively revitalises the concept of shareholder value in private companies – with both short-term and long-term beneficial effects for the businesses.

Q What other steps do PE firms take to improve company performance?

Besides promoting sustainable profitable growth, we typically focus on optimising a company's strategic market position and both, the balance sheet structure and size. Also, we often help businesses to go international and to pursue buy & build opportunities.

Q What makes private equity an attractive investment?

The Cross investment team has so far invested in some 30 mid-sized companies in German-speaking Europe thereby generating a realised gross internal rate of return (IRR) of 39% p.a. and a realised multiple of capital invested of 3.7x.

The private equity asset class not only offers an attractive risk-return

profile but also provides opportunities for diversification, given its lower correlation with other asset classes such as publicly traded stocks.

Q Is there any evidence that PE firms improve businesses while in private ownership?

Yes. A lot of studies performed by a variety of reputable institutions, including universities, give evidence that private equity backed companies not only outperform the public sector, but also the non-private equity backed private sector.

In our view this mainly stems from the concept of active and entrepreneurial ownership that, from our perspective, is inherent when discussing private equity.

Q Beyond benefits to the corporate sector and large institutions, does private equity benefit the broader economy and society?

Yes, it does. Private equity backed companies outperform the public and the non-private equity backed private sector in terms of growth rates and profitability. Private equity therewith benefits the broader economy and society by both, job creation and tax income.

Furthermore, the basic principles underlying the private equity business model, being foremost the alignment of interest between management teams and shareholders, in combination with the concept of active and entrepreneurial ownership could certainly serve as a role model for other corporate governance systems currently being in place in the economy.

Q What is the future of private equity?

There definitely will be challenges to cope with in the future, just as it is the case in any other asset classes. In our view, however, the overall attractiveness of the asset class as well as the need for private equity will remain unchanged.

Switzerland and overall German speaking Europe is still a rather underdeveloped region in PE terms compared to other markets and will see a significant need for succession solutions for family owned businesses over the years ahead. Thus, we are pretty excited about the future. **FM**

Website: www.crossequitypartners.ch



Markus Reich



Dr. Michael Petersen