Smaller European Buy-outs: How to create value in a low growth environment?

Best practice from Access' portfolio of General Partners June 2012

Access Capital Partners

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About Access Capital Partners

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Access Capital Partners ("Access"), with offices in Paris, Brussels, Helsinki, Munich and London, is a leading independent private equity fund of funds manager and adviser overseeing more than EUR 4 billion of assets for institutional clients and high net worth individuals. The firm manages co-mingled funds of funds and segregated accounts, which combine primary and secondary investments.

Purely European

Taking advantage of its local presence in the five largest European buy-out markets, Access' team of 44 is entirely dedicated to European investment strategies. As such, it has one of the largest and broadest teams to ensure exhaustive market coverage, constant monitoring of investments, with the time and resources to build strong relationships with General Partners.

A core focus on smaller buy-outs

Since its inception in 1999, Access has kept its core focus on the selection of small & mid-market buy-out as well as special situations funds.

Key value drivers for portfolio companies in this space remain pricing discipline and controlled levels of leverage combined with organic and acquisitive growth. Access has stuck with these fundamental principles to generate a sustainable return model for its investors.

A consistent approach to growth strategies

Profitable growth has always been the foundation of Access' investment philosophy. Since inception, Access has consistently selected General Partners investing in businesses with strong market positions, significant development potential and predictable positive cash flows. Beyond numbers, Access shares with its General Partners the same passion for companies and has developed over time a detailed knowledge of its underlying portfolio companies.

A strong expertise in adjacent markets

Building on its core private equity expertise, Access offers investment programs in Mezzanine and Private Debt, combining fund investments and direct co-investments in companies. In parallel Access has also built resources in Infrastructure investing, where it offers an innovative fund of funds solution.

A signatory of the UNPRI principles

As a signatory of the Principles for Responsible Investment instituted by the United Nations, Access pays particular attention to the respect of international law on human rights, and to application of Environmental, Social, and Governance criteria to the management of its Funds of funds.

1. Executive summary

Over the past decade, despite a low growth economic environment in Europe, the smaller buy-out General Partners ("GPs") backed by Access Capital Partners have been able to grow portfolio companies and generate strong returns. Portfolio companies of Access' underlying funds typically experienced double digit sales and EBITDA annual growth during the period 1999-2011, while on average the European economy grew by less than 2% per annum. Over the same period, 355 fully exited portfolio companies generated a 2.8x cost multiple and a 38% IRR.

In order to better identify how value was created in such a low growth environment, and assess the sustainability of the value creation model going forward, Access has produced a detailed analysis of its buy-out portfolio. Eighty two successful deals realised in the period 1999-2011 by 41 GPs were selected for the analysis; the principal objectives of which were to identify the main drivers of value creation and then to isolate the common underlying key success factors.

The value creation analysis of the 82 success stories shows that operational improvement was the main driver of value creation by Access' fund managers. Sales growth and improvement in the EBITDA margin accounted for 61% of the value created (40% and 21% respectively), while multiple enhancement and the leverage effect accounted for 17% and 22% respectively.

In order to then understand how Access' fund managers built successful companies and created the value noted above, thereby generating excellent returns for investors, Access ran a detailed analysis of the 82 case studies which highlighted five key factors common to and contributing to the success of the investments:

- Pro-active sourcing, leading to reasonable entry pricing
- Reasonable use of leverage
- Hands-on behaviour from activist GPs
- Sufficiently long holding periods to effect change
- Availability of several exit routes

In the analysis of the data, Access addressed the question of market timing to gauge the resilience of the conclusions. More than half of the success stories were sold before the Lehman Brothers' bankruptcy in September 2008 ("pre-Lehman") while 48% were sold "post-Lehman" and money multiples achieved were 7.5x and 5.2x cost, respectively. Thus while market timing, as always, certainly played a part, it is not the main success factor.

Findings from the analysis can be summarized as follows:

- GPs bought companies predominantly from families and entrepreneurs leading to a reasonable entry pricing. 82% of the success stories saw positive EV/EBITDA arbitrage between entry and exit. Such arbitrage accounted for 22% of the value creation. The attainment of a pricing advantage required a strong focus on sourcing, as these companies were relatively small (median entry Enterprise Value of €41 million), and thus typically fell below the radar of mid-market corporate finance boutiques. Vendors were families/entrepreneurs in 54% of cases, corporates in 33% of cases, while financial owners (i.e. including secondary buy-outs) only accounted for 10% of cases;
- Leverage was reasonable as median Entry Net Debt to EBITDA stood at 3.4x. It accounted for only 22% of the value creation while sales and EBITDA growth

accounted for 61%. Growth was thus far more important than leverage to create value. However, it is important to note lower leverage allowed sufficient free cash-flow to finance growth and this is the real benefit of low leverage. Access observed that companies with less than 4x Entry Net Debt/EBITDA performed consistently better than those above.

- Portfolio companies, and particularly family owned businesses and corporate spin-offs, required substantial structural work in order to be "transplanted" into new ownership structures. Activist GPs not only shared a vision with top management but focused on implementing change to create the most effective platform for growth. They focused on building suitable teams, establishing reporting systems, reviewing cost structures, as well as driving international expansion and making strategic acquisitions.

- GPs focused on building medium to long term value rather than going for "quick flips". Time was necessary to create value as the median holding period was four years and the most spectacular results were achieved on investments sold between their fifth and sixth year of ownership.

- The success story companies had multiple exit routes available to them and their success facilitated higher multiples than at entry. Exits were via secondary buy-outs in 47% of cases, which shows that larger funds are a viable exit route for investments of funds backed by Access. Trade buyers accounted for 38% of exits, permitting larger groups to acquire market share in a country and/or a sub-sector. IPOs and buybacks accounted for only 12% and 3% of exits, respectively.

Value creation is resource intensive as it requires GPs to source deals outside of the institutional M&A markets and then requires them to be hands-on. Value creation relies mostly on growth in sales and EBITDA far more than on leverage. It takes time to effect the necessary changes and achieve growth, and the value created is ultimately crystallized upon exit, typically through trade sales or secondary buy-outs to larger funds.

At a time when there are doubts as to the growth prospects of Europe going forward, Access expects that its consistent and time-tested positioning on the lower end of the European buy-out market will allow Access to continue to benefit from these success levers and, as a result, continue to deliver strong risk-adjusted returns to investors.

2. Setting the scene - Europe's macro fundamentals

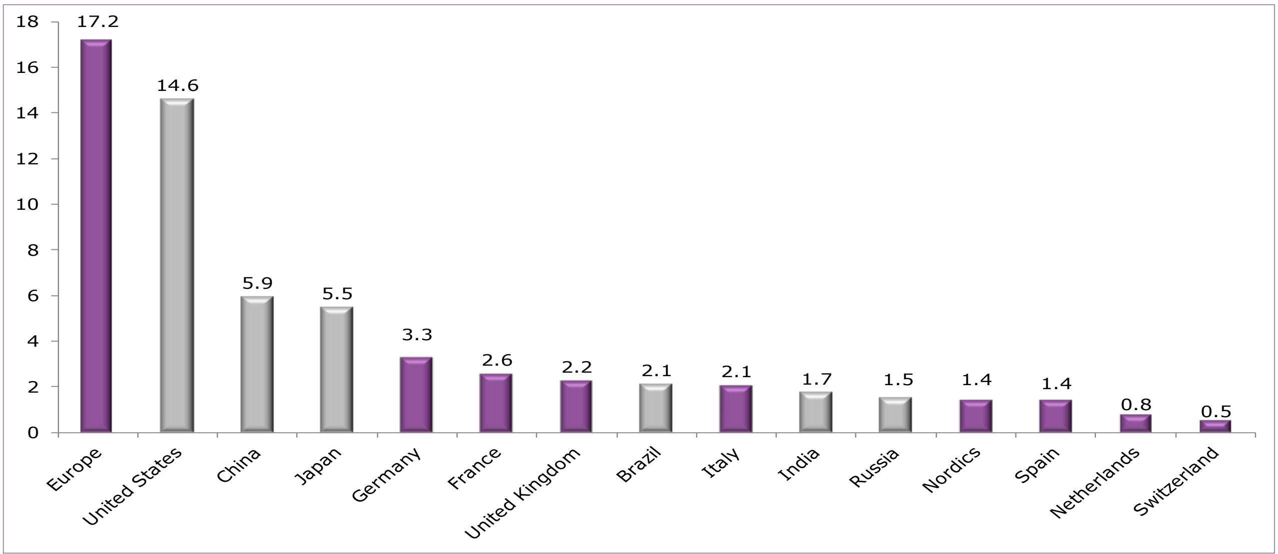
Since the year 2000, the European economy grew at a subdued level compared to the rest of the world (1.3% on average in Europe compared to 2.5% on average globally). In particular, emerging economies grew at a much faster pace than Europe (6.8% on average for the BRIC countries). In parallel, public deficits and sovereign debt levels increased significantly in several countries of the Euro zone, impacting negatively their ability to stimulate internal demand, and putting at risk the existence of the Euro currency.

Nevertheless, Europe remains the world's largest economy with over 510 million inhabitants, spanning 29 countries (27 European Union "EU" members plus Switzerland and Norway), Europe boasts a GDP of $17.2 trillion in 2011 which makes it the largest economy in the world, well ahead of China, India and Brazil put together (combined GDP of $9.7 trillion in 2011) and ahead of the US ($14.6 trillion GDP in 2011).

European companies are at the forefront of global business and drive trends in a number of sectors including, among others, consumer brands, energy, industry, automotive, chemicals and construction. In 2011, European companies accounted for 33% of Fortune 500 companies and 38% of the Top 100 global brands.

This leadership position, combined with constant efforts to invest in R&D ($239 billion of research and development spending per year) and innovation (1.2 million patents filed each year), allows Europe to remain well-positioned in global trade and enjoy the position of the world's largest exporter with $2.5 trillion of goods and services sold outside of Europe. In addition, thanks to a large population and a high standard of living, Europe is the world's largest consumer market with private consumption worth $9 trillion.

Figure.1: GDP in $ trillion



Source: World Bank

3. Key findings from the analysis of the success stories

3.1. The sample

Since 1999, Access has made more than 90 commitments to small and mid-market European buy-out funds, which translates into more than 700 direct investments in small and medium size European companies. Through this large pool of investments, of which about 50% are already realized, Access benefited from a large number of very successful deals, bringing substantial value to its investors.

In order to determine the main drivers of value creation and isolate the key underlying success factors in the European small and mid-market buy-out segment, Access conducted, with the help of 41 of its core General Partners, a detailed analysis of 82 success stories from deals invested and divested during the period 1999-2011.

The 41 General Partners backed by Access which contributed to this survey have since their inception invested more than €20 billion in 1,184 small and mid size European companies. A total of 736 companies (which received €8.5 billion of investment) have already been exited, generating proceeds of €25 billion and a gross multiple of 2.93x cost.

The 82 selected success stories delivered on average (non-weighted) 6.37x gross cost over a four year holding period, generating a gross IRR of 72% (including recapitalizations, interim payments of interest, deferred payments and successive add-ons).

The table below provides the main characteristics of the sample of 82 cases.

Figure.2: Main characteristics of the sample

	At entry	At exit	Variation
Typical owner type / exit route	Family/Founder: 54% Corporate spin-off: 33%	Trade sale: 50% Secondary buy-out: 37%	
EV (median) EV/EBITDA (median) Net debt/EBITDA (median) Debt at entry (median vs. equity) Sales (median) Ebitda (median)	€41 million 6.3x 3.4x 61% €55 million €6 million	€154 million 8.5x 1.8x 31% €120 million €17 million	276% 35% -47% -49% 118% 288%
Holding period (median) Gross cash multiple (average) Gross IRR (average)	48 months 6.37x 72%		

Source: Access Capital Partners based on a sample of 82 case studies

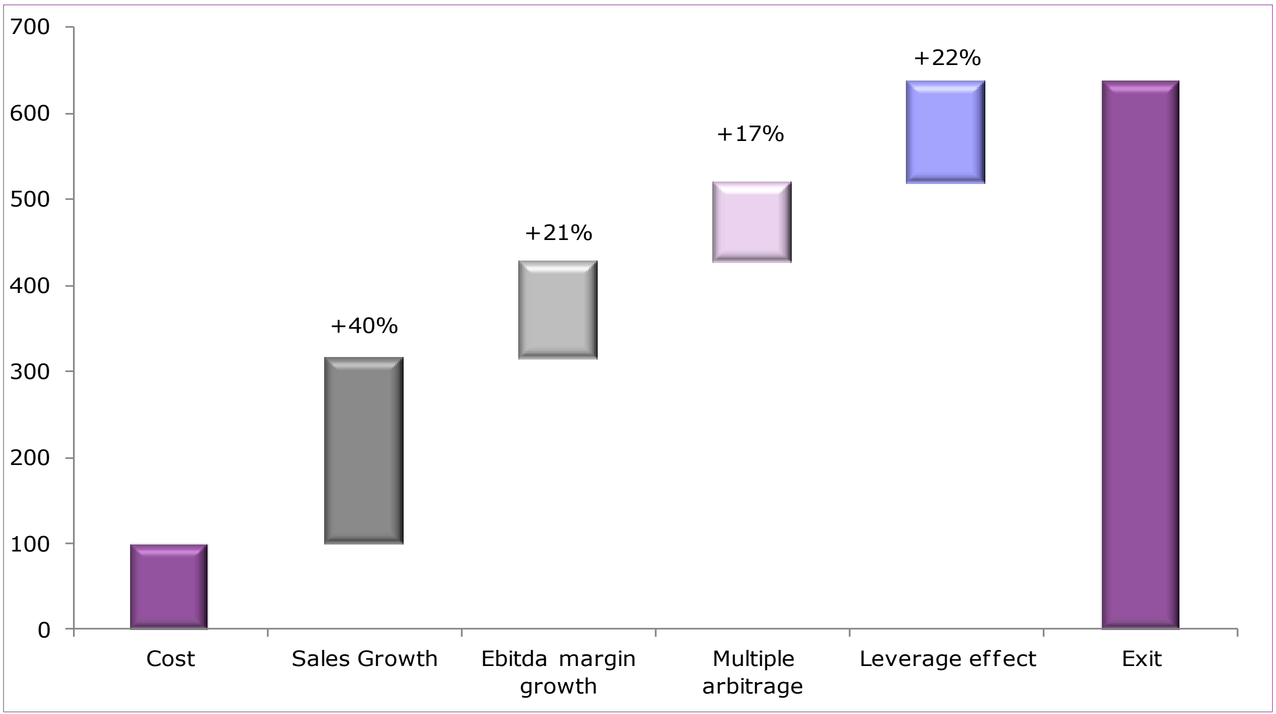
3.2. Main drivers of value creation

Our analysis began by determining the main drivers of value creation amongst the 82 investments. Growth in sales and EBITDA has been the main driver of returns in the success stories analyzed as it accounted for 61% of the value creation. The sales growth component accounted for 41 points out of the 61, which means that the 82 investments were mainly successful because of top line growth. This underscores the importance of improving companies not only at the EBITDA level through cost-cutting/optimization, but more importantly through consolidation, new product launch, and/or internationalization. Access believes that such growth is easier to achieve at the lower-end of the mid-market as companies have more room to grow before attaining critical mass.

Multiple enhancement accounted for 17% of the value creation, while the leverage effect accounted for only 22% of the value creation. Reasonable leverage was used to build these success stories and proved helpful to returns.

Access believes this is an additional reason to invest at the lower-end of the buy-out market as entry multiples are typically lower than larger comparables and thus allow for an arbitrage when growth has been achieved.

Figure.3: Value bridge on the 82 success stories



Source: Access Capital Partners

3.3. Identifying the success levers

To identify how such value was created, the common themes of each successful investment were extracted. Access found five key aspects impacting the success of a deal which are referred to as the "five success levers", and are listed below:

i. *Pro-active sourcing:* funds that actively seek out relatively small opportunities, often owned by non natural vendors (families, corporates…) and usually not on the radar of traditional M&A boutiques, are able frequently to benefit from their hidden value and a pricing advantage;

ii. *Leverage:* the use of debt to finance the acquisition can boost returns as long as it does not hamper development or introduce an additional risk factor;

iii. *Hands-on involvement:* adding business know-how to capital is vital and includes, but is not limited to, recruitment, implementing best practices as well as identifying growth opportunities or acquisition targets;

iv. *Holding period:* implementing change and harvesting growth opportunities takes time, usually 4 years at least;

v. *Exit route:* the multiple exit routes available to sell a successful company reflect the progress made by the company. A well-managed and growing company will attract both industrial as well as financial buyers.

3.4. Resilience analysis of past success

The analysis addressed the question of timing to gauge the resilience of the conclusions. Timing and cycles do play a role in investment performance, and Access believes that good judgment and an ability to understand cycles and get the timing right ahead of the competition is a rare and valuable skill for an investor.

Thus, the analysis focused on how the success levers can help boost returns in a favorable environment (i.e. with back wind) and mitigate the negative impact on performance caused by a turn in the cycle (i.e. with head wind).

The bankruptcy of Lehman Brothers that occurred in September 2008 was chosen as the shifting point in the cycle under review.

The analysis was made based on deals:

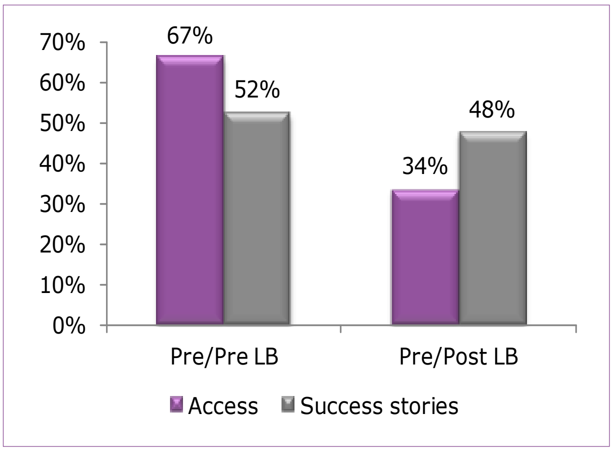
i. Acquired and exited pre-Lehman ("Pre/pre Lehman") thus benefiting from back wind.

ii. Acquired pre-Lehman, in a bull market and exited post-Lehman, in a crisis environment ("Pre/post Lehman") thus facing significant headwind.

Access found that 52% of the success stories selected were Pre/pre Lehman while 48% were Pre/post Lehman. Money multiples achieved on both sub-groups were 7.5x and 5.2x respectively (non-weighted average). By excluding one of the companies in the Pre/pre Lehman category, which generated 50x cost, the return of the category goes down to 6.4x thus reducing the gap with the Pre/post Lehman category.

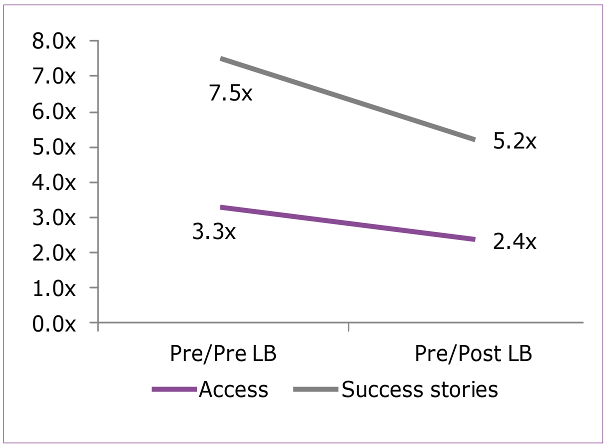
This leads to the conclusion that while deals done and exited before the market peaked did benefit from a boost in performance, those trapped in the worst economic slowdown since the 1930's still managed to generate strong returns. This phenomenon, observed on the success stories, corroborates Access' whole exit portfolio data. On this parameter Access' Pre/pre Lehman exited portfolio generated 3.3x cost while the Pre/post Lehman exited portfolio generated 2.4x cost.

Figure.4: Proportion of companies acquired "pre" and exited "pre" or "post" LB bankruptcy (in%)



Source: Access Capital Partners based on a sample of 82 case studies

Figure.5: Performance of companies acquired "pre" and exited "pre" or "post" LB bankruptcy (in %)



Thus while timing does play a part, as always in investment, it is not the most significant success factor, especially at the lower-end of the buy-out market where micro-cycles (cycles decorrelated from macro-economic developments and specific to each business) combined with private equity success levers, help deliver consistent returns.

4. A closer look at the five identified success levers

4.1. Pro-active sourcing

In terms of company size, the sample seems well spread over the various tranches of Enterprise Value ("EV") in which Access' GPs tend to operate, and even though performance seems correlated to size within the success story sample this is not confirmed by the larger sample of exits within the overall Access portfolio.

Figure.6: Proportion of companies by EV at entry

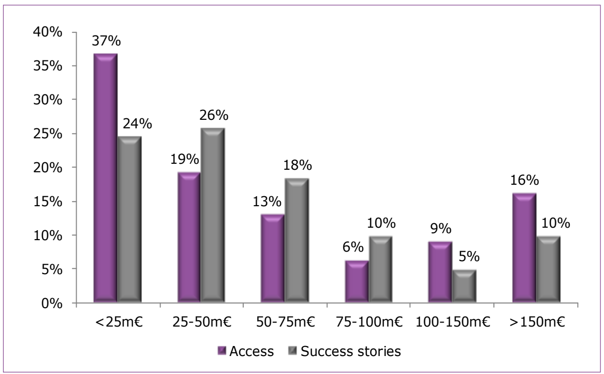
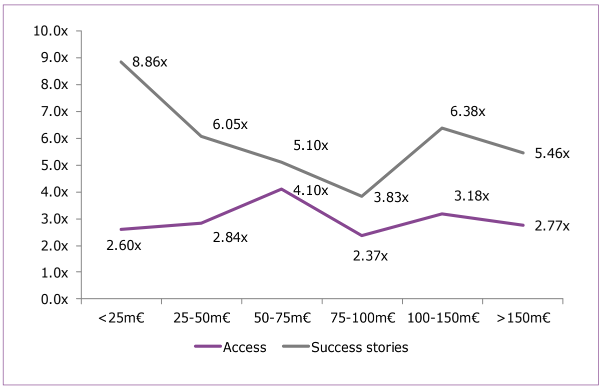


Figure.7: Average performance by EV at entry

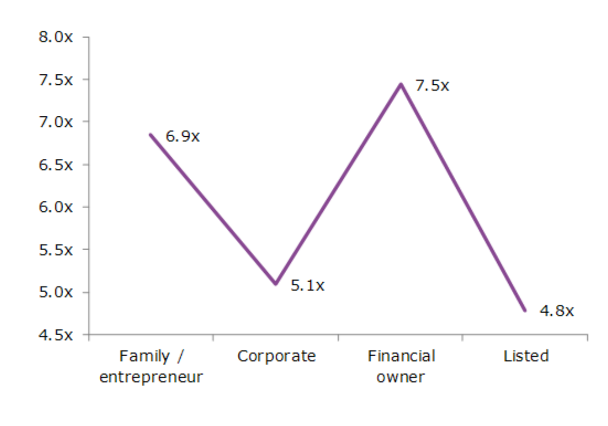


Source: Access Capital Partners based on a sample of 82 case studies

Whilst enterprise value does not seem to influence performance, an analysis of the types of vendor does show some bias in returns. More than half of all the success stories in the sample came from families or entrepreneurs and 33% came from corporates, while only 10% came from financial owners (including secondary buy-outs). Public to Private remain a rare feature of this market segment and are very cyclical in nature.

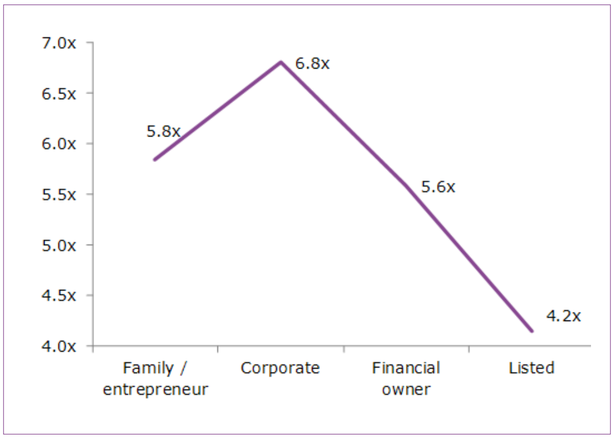
A review of the performance achieved by the various categories of vendor also tends to demonstrate that families/founders and corporates are a better source of deals than financial owners, generating stronger returns. This is of course partly related to several factors, such as the hidden value (potential to improve EBITDA/Sales) that lies in these types of businesses as well as corporate spin-offs and, on average, below the ones paid for businesses acquired from financial vendors.

Figure.8: Median EV/EBITDA multiples at entry



Source: Access Capital Partners based on a sample of 82 case studies

Figure.9: Performance per type of previous owner



Our success stories revealed that sourcing opportunities from families/entrepreneurs and corporates required a highly meticulous and resource intensive approach. To be successful, smaller buy-out General Partners need to build a sourcing network beyond traditional corporate finance advisors. This puts them in a position to acquire relatively small companies, from owners who are not necessarily on the radar of the large M&A market. Also, once General Partners have identified a target company, time spent with the owners to convince them of their ability to build value is key, especially when the sellers are families or entrepreneurs with a strong personal relationship with their firm.

At the time of selling their assets, non financial owners seem to take criteria other than price into account. A founder disposing of his/her company will favor a partner with a project that fits his vision of the company and preserves his social image going forward (e.g. local employment). A corporate owner may wish to avoid any reputational issues or need to stick to a timetable set by external factors.

Case study 1

Crown Paints
Main success lever: pro-active sourcing - complex corporate spin-off of a loss making subsidiary
GP: Endless, UK
Crown Paints is an Anglo–Irish manufacturer and distributor of branded paint to the retail and trade sector. The business owns and manages brands widely recognized as leading retail and trade coatings names. The investment opportunity was originally identified through the Endless "Connections" network, and Endless subsequently contacted the vendor (Akzo Nobel) directly. Akzo Nobel was required to dispose of the UK paint business within a restricted timescale as a result of the agreement reached with the European Commission in order to secure clearance of its acquisition of ICI, which manufactures Dulux. The GP acquired Crown Paints in September 2008. At the time, the business was heavily loss making, faced significant separation challenges from its former owner and the world was entering an economic crisis. Endless was able to complete this highly complex acquisition within a multi-stakeholder environment and in-line with the challenging timeframe put forward by the EU Competition Commission. Having undergone an extensive and complex separation project across its procurement and IT systems, the business became a profitable stand-alone entity with a strong platform for further performance and efficiency gains: a £35 million improvement in profitability in 3 years, EBITDA run rates reached over £20 million; market share increased from 16% to 19% and exports increased by 40%.

Case study 2

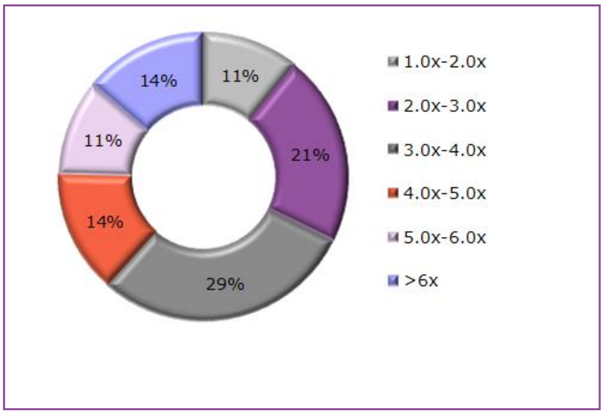
NFA/CFFA
Main success lever: top down approach to direct origination of entrepreneurial businesses
GP: Sovereign, UK
NFA/CFFA is a company created in 1966 and is now the second largest independent fostering agency in the UK – placing looked after children in foster homes. This is typically a sub-sector that the GP knows well as they tracked the business and the sub-sector for over two years prior to acquisition. Their research showed that fostering is the preferred method of care for looked after children by many Local Authorities – driven by cost, outcomes and ethical considerations. In this context, having met a significant number of Independent Fostering Agencies in 2005, Sovereign chose to back NFA based on the business' excellent reputation, its commitment to quality and Sovereign's view of its ability to grow substantially. The GP subsequently created, in 2007, CFFA to continue the consolidation of the Independent Fostering Agency market and in order to maximize the capital structuring opportunity. Since the original investments, a further six bolt-on acquisitions have been made, all of which have been sourced by Sovereign's direct origination team.

4.2. Moderate leverage

Successful investments in the sample were built on leverage levels lower than the overall market average. The average Net Debt/EBITDA multiple at entry was 3.8x, against 4.4x on average in the market[1]. A lower level of leverage enables companies to allocate a higher share of profits to fund growth strategies (acquisitions, innovation, launch of new products…) rather than finance the debt.

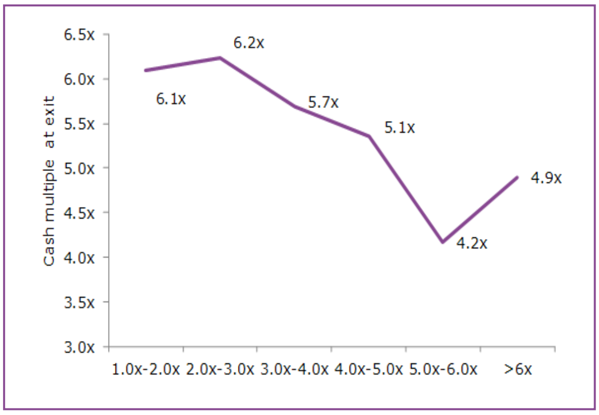
The level of Net Debt/EBITDA clearly had an impact on the final performance, with deals built on Net Debt/EBITDA ratio below 4x reaching higher money multiples than those built on Net Debt/EBITDA ratios above 4x.

Figure.10: 61% of success stories had net debt/EBITDA multiple at entry below 4.0x



Source: Access Capital Partners based on a sample of 82 case studies

Figure 11: Performance per Net Debt/EBITDA multiple at entry



4.3. Hands-on involvement

Our analysis has shown that value creation in smaller buy-outs is based on the active involvement of General Partners in the management of their portfolio companies. Target companies are usually relatively small firms aiming to grow, in which management change and the implementation of a new strategy to help them reposition or further develop their activities is needed.

All the success stories in the sample involved a hands-on approach. The main recipes for growth include:

i. Operational improvement in 80% of cases

Very often, private equity owners implement a number of standard measures (reporting, cost analysis, benchmarking…) which improve management's understanding of the business and its market. These tools allow management to focus on the most important areas of progress (pricing policy, cost reduction, reduction of the product range, cash management…). Even though the direct impact of such tools may be difficult to measure, they provide a solid ground on which to build success.

It is interesting to note that production externalization is used marginally (8% of cases) and that private equity successes, in most cases, do not rely on such unpopular methods.

The two following examples highlight how gaining a thorough understanding of a company's situation and investing smartly in the business can create value for stakeholders.

Case study 3

Rollon Linear Evolution

Main success lever: benefiting from technology leadership to focus on the most profitable niche

GP: Consilium, Italy

Rollon, founded in 1975 and owned by the founder family, was acquired by Consilium in 2003. The company, active in the design and production of components and rails for industrial linear motion applications, was in financial distress, due to a bloated cost structure and diversification in to an unprofitable business.

The GP identified an opportunity to restore business profitability by focusing on its profitable niche (too small to be attractive for larger/Asian players) and its strong export capabilities (75% of turnover). It provided fresh capital aimed at solving financial distress, disposed of/closed loss making peripheral businesses and increased focus on quality, service and customer care.

After 18 months, the company was able to perform its first leveraged recap returning 3x invested capital and saw its EBITDA/Sales margins jumping from 12.4% to 26.0%. The company was sold in 2010 after a second recap in 2008.

Case study 4

Attends Healthcare Group
Main success lever: investing capital in the production tools
GP: Rutland, UK
Attends Healthcare manufactures and supplies a wide range of branded and own label healthcare products used in dealing with incontinence. Rutland acquired the company in 2007 from a financial owner in order to restructure a business that was facing challenges. The GP identified that with a substantial investment in capital expenditure and operational improvements, the business had the opportunity to enhance its competitive position and significantly improve its trading performance. They provided over €25 million of capex funding and implemented projects to restructure manufacturing, warehouse systems and drive new product development. They closed several non-core lines, which led to a 30% reduction in manufacturing headcount in Sweden, and increased prices in response to the escalation in, and volatility of, raw materials prices. As a consequence, EBITDA/Sales margins grew from 12.5% to 16.4% during the holding period.

ii. Management change and/or upgrade in 77% of cases

Management buy-outs represent times of transition and often require investment in human capital, either to replace an active founder/owner, or to structure a proper sales force, prepare for internationalization or strengthen vital support functions such as finance or sales. CEO and CFO positions are the most visible forms of management changes, but it goes beyond this: strengthening second level management and/or building a proper board able to act as sparring partners (industry experts, retired CEO of big groups…) are strategies often put in place. In all recorded success stories, the GP controlled the companies' board.

An increasing number of GPs have put in place pools of industry experts who can be appointed as non-executive directors to portfolio companies which, together with the GP, can then leverage their network to recruit the right people and build the correct management team. The management package and incentive that is usually implemented allows for the recruitment of very experienced managers by small companies.

77% of the success stories presented have executed significant management changes.

Case study 5

Interflora
Main success lever: a transfer of management within a family
GP: 21 Centrale Partners, France
Interflora is a French leader in flower transmission and delivery (60% market share). At the time of acquisition, the company owned by its founder had 227 employees and sales of €129 million. The opportunity was introduced by the owner of the company who wanted to transfer the management of the firm to his son. 21 Centrale Partners played a key role in the transfer of the CEO functions to the founder's son, and supported him in handling the management issues that existed. The role of each top manager was clarified, with one manager focusing on international development and one focusing on France. Internal control and reporting tools were implemented, and management received support to accelerate the development of the internet platform in order to increase direct sales. In addition, Interflora Spain was acquired. The strategy, initiated by 21 Centrale Partners, led to the creation of a European leader and allowed revenues to increase by 22% and margins by 72%.

iii. Internationalization in 62% of cases

A more seldom, but very efficient, way to create value is to help a business grow outside of its geographic footprint - it may be to become national instead of regional, global instead of national, or even rebalancing its global exposure to more attractive markets. Greater internationalization can be achieved through acquisitions, joint-venture or organically.

The three following examples highlight how gaining access to foreign markets increases both the sales and the value of a business.

Case study 6

Handicare
Main success lever: exports grew from 20% to 80% of sales
GP: Herkules, Norway
Handicare was established in 1986 as a manufacturer of manual wheelchairs. The GP acquired the company in 2005 when exports represented 20% of sales and the company was number 3 in Norway. Herkules spotted several opportunities in the company, of which one was the highly fragmented nature of the European market, allowing for rapid internationalization. Handicare built an international management team, completed 13 acquisitions to diversify its offering, increased its share of proprietary products (from 30% to 70%) and gained a solid foothold in several countries (from number 3 in Norway to number 3 in Europe). As a consequence, sales grew from €80 million in 2005 to over €320 million in 2010, and the share of exports quadrupled from 20% to 80% of sales. The Company was subsequently sold to a mega buy-out fund for 11.9x EV/EBITDA (+43%).

Case study 7

Stokvis
Main success lever: successful penetration of the Chinese market
GP: Gilde Buyout Partners, Netherlands
Stokvis, one of the largest independent distributors and converters of technical tapes was acquired by Gilde in 2003. At the time of acquisition, the business had sales of about €80 million and an EBITDA margin of 10%. Stokvis set up greenfield operations in India, Taiwan and a number of CEE countries. It also successfully opened new operations in four Chinese cities which grew to more than 1,000 employees and Euro 10 million of EBITDA. After less than five years, the business, with sales of €190 million and EBITDA of €35 million, was sold to a US-listed conglomerate for an EV/EBITDA level 62% higher than at entry.

Case study 8

Kosan Crisplant
Main success lever: grew from being number one in Europe to number one in the world
GP: Segulah, Sweden
Founded in 1951, Crisplant entered the liquefied petroleum gas industry in 1955. Segulah acquired the company in 2004 from a UK conglomerate. The Danish company was number one in Europe and exported 90% of its production. During its ownership (2004-2007), the GP helped the company to become global by expanding the subsidiary network in Algeria, Brazil, Mexico, Malaysia (2004-2005); establishing a joint venture in Portugal (2005); setting up operations in Sri Lanka to address the Indian market (2005); and by acquiring its number one competitor in France (2006). In just over three years, Kosan Crisplant became the world's leading provider of cylinder handling plants to the global liquefied petroleum gas industry. The company was exited to a Middle Eastern financial buyer with a 12.6% positive arbitrage on EV/EBITDA.

iv. Buy-and-build and roll-outs in 59% of cases

In order to achieve growth, roll-out and buy-and-build strategies seem to be really efficient when properly executed. The price paid for add-ons as well as the way they are financed influence the return significantly. Roll-outs require a proper analysis of the model and cost control to avoid issues. This model is particularly suited to consumer facing companies.

Case study 9

Trenkwalder Personaldienste
Main success lever: building up a leader in Austria and Central Europe through acquisitions
GP: Capiton, Germany
Trenkwalder is a company offering generalist temporary employment services, headquartered in Austria. In 2003, Capiton identified the opportunity to create a regional market leader through organic growth and acquisitions in Central Europe. 28 add-on acquisitions were made in Central European countries (all financed by capital increases), and all companies were integrated into the Trenkwalder Group. Thanks to the launch of an efficient integrated IT system and the implementation of new management procedures, the group extended significantly its customer base and quadrupled the number of employees. The company's revenues increased from €159 million in 2003 to €678 million in 2007, and the EBITDA more than doubled during the same period. In April 2007, Trenkwalder bought the Capiton shares via the Trenkwalder foundation.

Case study 10

Micromania
Main success lever: roll-out of stores
GP: L Capital, France
Micromania is the leading video game retailer in France. L Capital completed a capital increase in 2001 to allow the company to grow its retail network by 30-40 new stores a year compared to 5-10 prior to the acquisition. In seven years, the network of stores went from 90 to 333, sales were multiplied by five and EBITDA by six times. In 2008, Micromania was sold to Gamestop (USA).

Case study 11

Jack Wolfskin
Main success lever: roll out of stores/points of sale
GP: Quadriga, Germany
In 2005, funds advised by Quadriga Capital acquired Jack Wolfskin, a German company which sells outdoor apparel and footwear equipment since 1981. During its holding period, the company implemented a significant roll-out of franchise stores and launched its own stores in specific non-core countries. The number of selling points distributing Jack Wolfskin product grew from 1,641 to 3,002, while sales increased from €67 million to €275 million over the six year holding period. The company was acquired by the Blackstone Group in 2011.

iv. Strategic repositioning of a company or a spin-out of a non-core division in 23% of cases

Tailoring the strategy of a company is another way to help a company boost its expansion. This can take the form of a strategic repositioning in which new ideas/processes are implemented, or it can take the form of a return to the core aspects of the business by selling non-core divisions.

Case study 12

FRS Global
Main success lever: transforming the revenue model
GP: Carlyle European Technology Partners, Pan-European
FRS Global is a provider of regulatory compliance software solutions for financial institutions with coverage of 30 jurisdictions globally. One of the Carlyle Group advised funds acquired the company in 2006 in a leveraged buy-out alongside Kennet Capital. After reshaping the management completely (CEO, CFO, Head of Europe, Head of US and Head of Asia), the company transformed its revenue model from perpetual licenses to subscription. The negative short term earning effect was more than offset by a significant increase in the order book; an increase in recurring revenues (48% to 62%) and ultimately long term value creation (EV/Sales jumped from 1.3x to 4x between entry and exit).

Case study 13

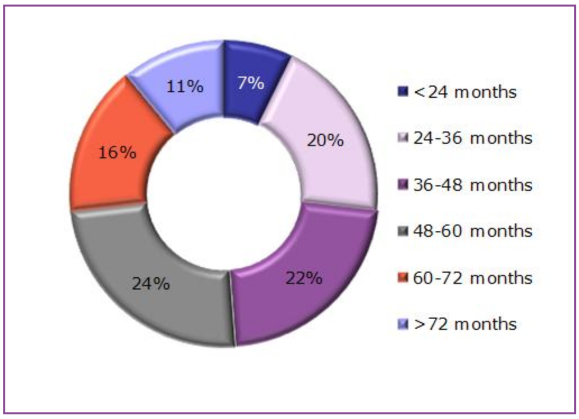
Case study 13: Nutrition et Santé
Main success lever: investing in marketing, innovation and build-up opportunities
GP: Abenex and L Capital, France
Nutrition et Santé is a manufacturer and distributor of dietary food products with strong European brands like Gerblé, Céréal and Isostar. The company was acquired by Abenex and L Capital in a leveraged management buy-out in 2006. After strengthening the management team, both at the group level and within the business divisions, the group launched new products via grocery stores and pharmacies. The strategy was underpinned by a renewed marketing and advertising strategy, and marketing spend doubled over the investment period. Three add-ons were also completed, in France, Italy and Spain. After three years, the EBITDA went up by 31%. The group was sold in 2009 to a large Japanese trade buyer interested in using N&S as its European platform yielding a 52% higher EV/EBITDA multiple than the one paid at entry in a totally different macro-economic environment (deal acquired pre-Lehman and exited post-Lehman bankruptcy).

4.4. Meaningful holding periods

Implementing a new growth strategy in a company takes time. This is why success stories built in less than two years remained the exception, while half of the success stories in the sample were kept in portfolio for more than four years. In some cases, time helps to maximize returns as the benefits from a new strategy materialize only a few years later.

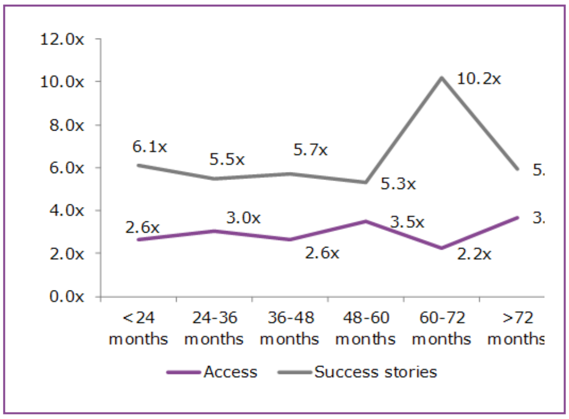
The most spectacular results among the success stories were on investments exited after five years of ownership. None of the successful companies were held for more than nine years.

Figure 12: Success stories split per holding period



Source: Access Capital Partners based on a sample of 82 case studies

Figure 13: Success stories' performance per holding period



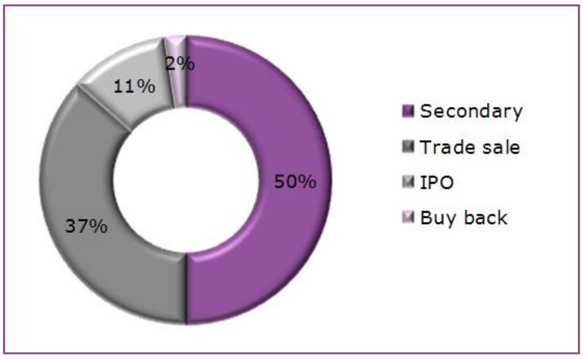
4.5. Multiple exit routes

A key success factor for small and mid-market firms is the availability of a variety of exit routes. Thanks to their specific positioning as specialists in the restructuring and growth of small companies, successful mid-market buy-out fund managers build companies which can be of interest to larger private equity firms, corporates and public markets. Such a diversity of exit options affords the GP some protection from changing economic cycles, as each potential acquirer faces different challenges at different periods.

Among the success stories, half were exited through secondary buy-outs. The predominance of secondaries can be explained by the relatively small size of the success story companies at exit, which remained within the target size bracket of most European buy-out firms. Indeed, taking in to account pan-European managers, there are between 20 and 50 funds, depending on the country, that can invest in companies with an enterprise value of up to €200 million. With secondary buy-outs, portfolio companies benefit from the support of larger investors who have the experience and the financial means to help them in their next development phase.

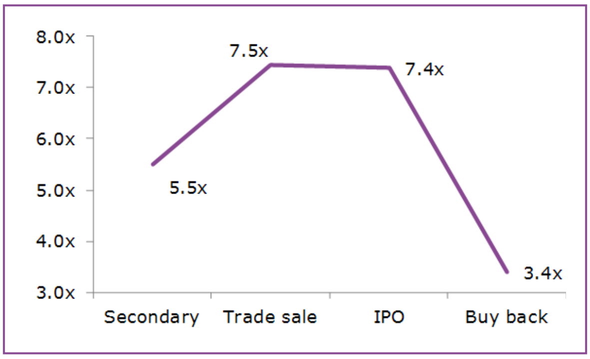
Close to 40% of the success story companies were of interest to corporate buyers, which found strong and attractive companies to strengthen or complement their own activities. IPOs accounted for only 11% of total exits which is not surprising given the size of the companies. It is also worth bearing in mind that the period under review (1999-2011) included two major stock market crises which would have hampered exits via IPO.

Figure 14: Success stories split per exit route



Source: Access Capital Partners based on a sample of 82 case studies

Figure 15: Success stories' performance split per exit route



Case study 14

XLN Telecom
Main success lever: from one buy-out to another
GP: Palatine, UK
Founded in 2002, XLN specialises in providing small businesses in the UK with high-quality, low-cost fixed-line, mobile and internet services via its own industry leading, proprietary, technology platform. Palatine Private Equity acquired the business in January 2008. During its holding period the company invested continually in the sales function, growing the customer base from 70,000 to 120,000. It performed significant operational improvements and launched new products such as mobile phones and IT security software. Palatine provided additional funding in February 2009 to acquire One Bill Telecom for £11.5 million, which contributed £4 million to EBITDA from year one. Overall the company grew revenues by 1.8x and EBITDA by 3.5x in less than 3 years. Even though XLN telecom would have been a good fit for a corporate owner (several showed interest), the business was sold in 2010 to a leading mid-market buy-out firm which, with the help of strong management, will further develop the business organically and further consolidate the sector.

5. Conclusion

European small and mid-market buy-out funds backed by Access have proven their capacity to grow their portfolio companies and create value for their investors, despite the backdrop of a low growth economic climate. This has been achieved through:

- a focus on relatively small companies which are, or are capable of becoming, market leaders in attractive niches;
- proactive non-intermediated sourcing, giving rise to a price advantage;
- low gearing, enabling profits to be reinvested in the business;
- the implementation of strategies aimed at fostering growth which require the GPs' active involvement and operational improvement.

By then giving the portfolio companies time to benefit from the changes implemented, they were able to record strong sales and profit growth. Such growth has then facilitated multiple exit options and valuations at higher multiples than were recorded at entry.

This model of value creation has proved sustainable and efficient, which is never more so important than during an economic downturn. Small and mid-market companies appear to put greater emphasis on micro issues rather than macro issues, thereby enabling them to better weather economic storms.

Our analysis supports the view that investing in small and mid-market European buy-outs offers exposure to the most dynamic European companies.

Such companies have generally been time-tested over several economic cycles and serve steady economies with high per capita disposable income. Further, whilst Europe is currently still on a low growth path, it still holds plenty of assets; it maintains a leading position in global trade, with industry leaders in large industry segments and market niches and it has many innovative companies. In particular, Europe has a large base of small and mid-market companies able to embrace change and conquer new markets outside of Europe.

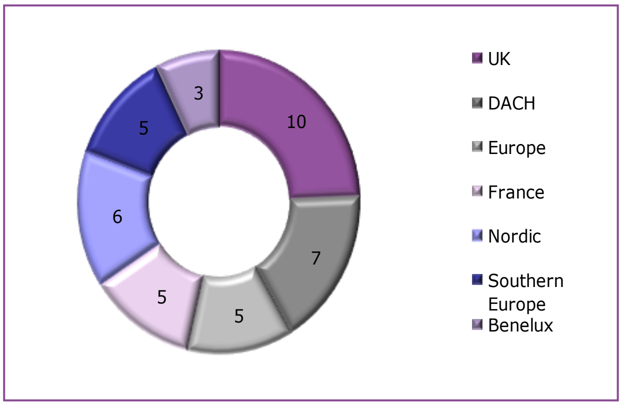
Access is a specialist in the European small and mid-market segment. For more than 13 years Access has successfully selected the best European small and mid-market buy-out funds, contributing to the financing and expansion of more than 700 buy-out companies, and creating value for its investors. Access strongly believes that European small and mid-market companies will play a key role in the European recovery, and that buy-out funds will be extremely well positioned to benefit from the recovery. Therefore, with its proven experience, Access believes it will be a valuable partner for all investors willing to benefit from the European potential.

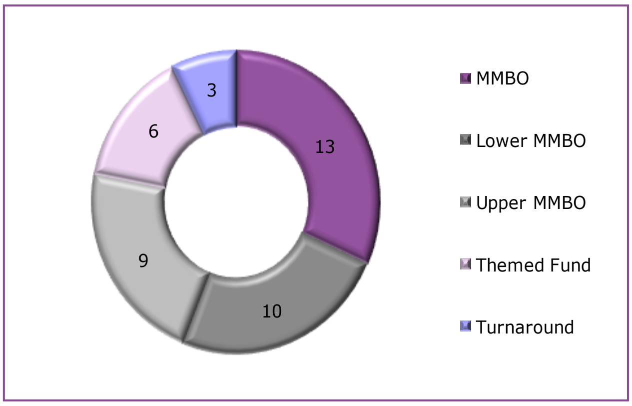
6. Methodology

Sample of GPs

For the purpose of this survey, 82 successful deals were selected with the help of 41 of Access' GPs (two deals per GP). All successful deals were realized in the period 1999-2011. The GPs included in the analysis are widely spread across Europe, with a majority of them coming from the UK, German speaking countries and Nordic countries.

Investment strategy of the General partners





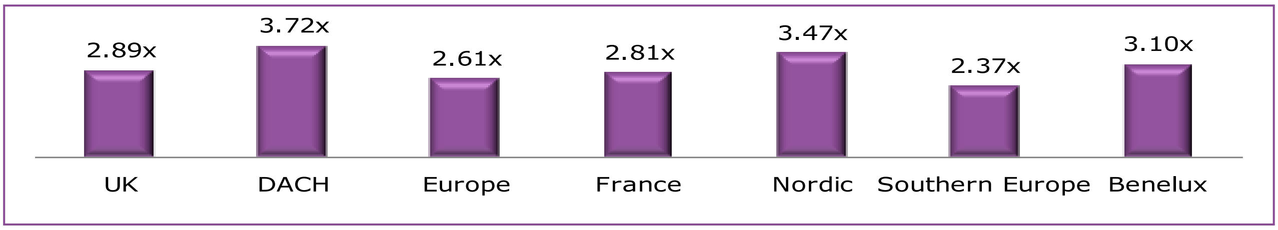
Note: DACH includes Austria, Germany and Switzerland
MMBO = Mid-Market Buy-Out

Aggregated track record of the General Partners

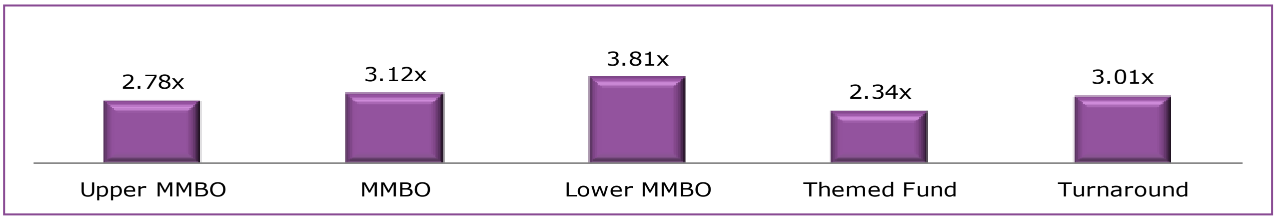
	# deals	Cost (€ million)	Proceeds (€ million)	Value (€ million)	DPI	TVPI
Realised	736	8,584	24,818	325	2.89x	2.93x
Unrealised	448	11,386	1,793	13,049	0.16x	1.30x
Total	**1,184**	**19,970**	**26,611**	**13,375**	**1.33x**	**2.00x**

Note: Track record in currencies have been computed into euro at standard rate applicable in early 2012.

Realized performance of the General Partners per geographic focus



Realized performance of the General Partners per investment strategy



Note: MMBO = Mid-Market Buy-Out

Sample of success stories

In terms of business activity, the success stories are representative of the various types of sectors targeted by European small and mid-market buy-out firms, with most of the deals being made in the business and industrial products and services sector. Also, success stories are widely spread in terms of the vintage of the deals, which ensures the representativeness of the whole economic cycle.

Figure 16: Sector focus of the success stories

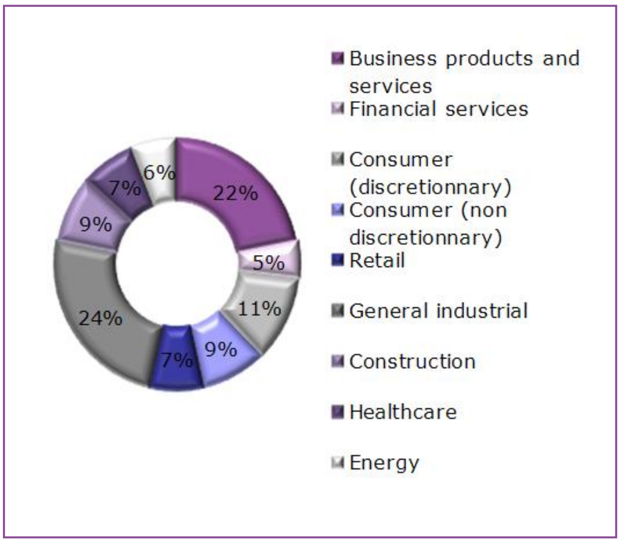
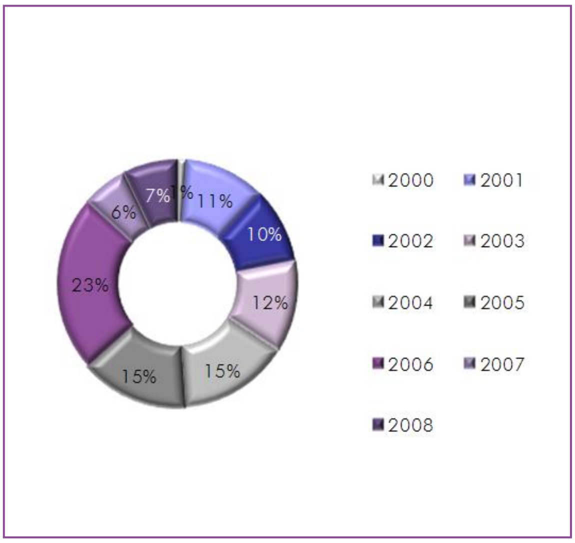


Figure 17: Vintage of the success stories



Calculations and formula used

1/ The averages mentioned are non weighted to make sure each deal has the same weighting regardless of its size. The same method was applied to the IRR provided by the GP for each deal.

2/ The data from the Access portfolio is cost weighted and is always based on the largest relevant sample available.

3/ The Value bridge

a. Data used here includes aggregated figures which mean larger companies weigh more.

b. The computation of the "value bridge" is based on the following assumption:

Cost x = (EV at exit / EV at entry) * Leverage effect

Which means that "leverage" encompasses other unknown factors (such as dilution or currency effects…).

It is then translated as follows:

Cost x = (Sales at exit / Sales at entry)
* (EBITDA/Sales at exit / EBITDA/Sales at entry)
* (EV/EBITDA at exit / EV/EBITDA at entry)
* leverage effect

Then, the following formula was used: Log (a*b) = Log a + Log b

Log Cost x = Log (Sales at exit / Sales at entry)
+ Log (EBITDA/Sales at exit / EBITDA/Sales at entry)
+ Log (EV/EBITDA at exit / EV/EBITDA at entry)
+ Log leverage effect

Then, each item were attributed its pro rata share of the 100% capital gains of the success stories i.e. 537 based on a cost of 100 (corresponding to 6.37x).

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Contacts

For more information, please contact:
Dominique Peninon, Agnès Nahum, Philippe Poggioli, Managing Partners
or Cécile Croissant, Partner Investor Relations & Communications

Telephone : +33.1.56.43.61.00

Paris – Brussels – Helsinki – Munich – London

www.access-capital-partners.com