

Leading European buyouts

Cinven buys strong European companies and makes them more valuable by accelerating their growth and development.



Ivan Kwok, Immo Rupf and Joseph Wan
Portfolio team

Since Cinven started making control investments in 1988, we have created value for our investors mainly by increasing the revenues and profit-margins of the companies we own; we do not rely on financial engineering or increases in stock market multiples to create value for our investors.

Looking at all realisations for Cinven's funds, increased profits (EBITDA) at our companies were responsible for two thirds of realised increases in value within our portfolio. Higher revenues accounted for just under two thirds of this profit growth, with the remainder due to increases in margins (see adjacent chart).

The lessons we learn as owners of market-leading companies are shared with every business Cinven acquires. We continue to have a singular focus on creating value in Europe. There are two ways to do this:

- to apply international best practices to our European portfolio businesses; and
- to access growth in emerging markets in Europe and Asia.

Best practices and capturing growth in emerging markets are at the heart of our value creation strategy.

In 2010, we further strengthened our operational expertise through new appointments to our Portfolio team: Immo Rupf joined as a Partner, based in London, while Ivan Kwok, Principal, will be based in Hong Kong, working alongside Joseph Wan, Partner.

How the Portfolio team creates value
Cinven follows a systematic approach to allocate the Portfolio team's resources. The firm's Portfolio Review Committee (PRC) considers how best to deploy the team and monitors progress against agreed objectives. The Portfolio team is involved in the 100-day review process following an acquisition and also works across our current portfolio, wherever the PRC determines that there is an opportunity for the team to add value.

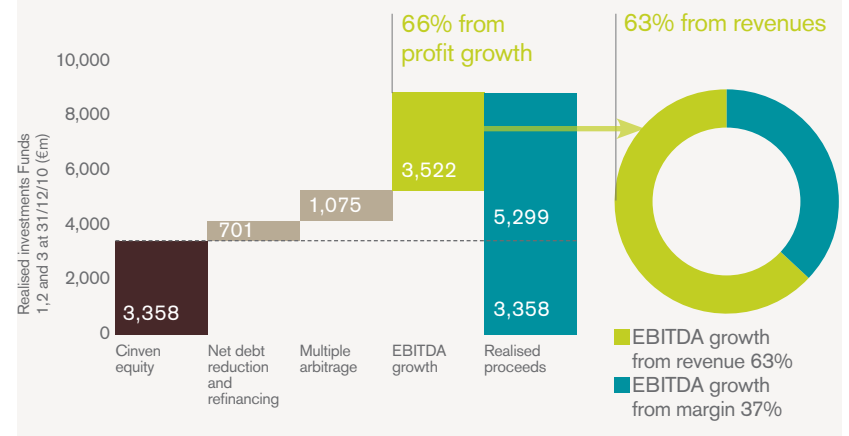
Members of the Portfolio team have an active support role and work alongside our deal teams and board representatives. They work together

with our portfolio companies' management teams in the following areas:

- **revenue growth initiatives:** increasing revenues by helping our companies establish themselves in international markets, including Asian markets;
- **operational optimisation initiatives:** increasing efficiency and reducing costs, thereby boosting profit margins;
- **sharing best practice:** cross-portfolio sourcing initiatives, the sharing of knowledge around common commercial practices and the identification and use of consultants; and

Creating value through EBITDA growth

The sustainable model for private equity: Revenue growth



Note: Includes realised investments in Funds 1, 2 and 3 which have created value. EBITDA arising from significant acquisitions by portfolio companies has been excluded from "EBITDA growth" as have piecemeal divestiture strategies.

Leading European buyouts continued

- **new investment opportunities:** using our emerging markets expertise to create a strategic road map for new portfolio companies that we can act on from the outset, helping to position Cinven as a partner of choice, and building operational optimisation into the investment strategy from the beginning.

Cinven's unique approach to the Asian growth opportunity differentiates us from competitors whose funds invest directly in Asia. By using our knowledge and contacts in the region, we can help our European companies to reap the benefits of Asia's development through strategies such as low-cost sourcing and new market entry. This has included:

- the formation of two joint ventures between Avio and two leading Chinese state-owned businesses that will give Avio a foothold in China's fast-growing aero engine market;
- significant cost savings achieved for portfolio companies, including Gondola and Phadia, through Asian sourcing; and
- initiatives on behalf of a number of portfolio companies to introduce their brands and products to the Chinese marketplace.

See the adjacent case studies for further information.

Low-cost Asian sourcing

Cinven's Portfolio team in Asia has been responsible for a number of Asian low-cost sourcing initiatives on behalf of our European portfolio companies. The team works very closely with portfolio sourcing teams, developing pilots to ascertain the business case, introducing local contacts and suppliers, and helping to develop or streamline local sourcing organisations.

The Portfolio team has been able to achieve landed-cost savings of over 30%. Companies that are currently benefitting from the team's involvement include Gondola, the UK casual dining operator, and Phadia, the Swedish allergy diagnostics testing business.

Avio gains access to China's growing aviation market

Avio is a world leader in the design, manufacture and servicing of subsystems and components for commercial and military jet engines (see page 54 of this annual review for a profile of Avio). Until the business was acquired by Cinven in 2006, Avio focused its sales efforts on the European and US markets. The Cinven Portfolio team has been working closely with Avio's management team to open up new markets for the company in China's burgeoning aviation sector, which has benefited from the Chinese government's desire to build an indigenous aviation industry.

The work resulted in the formation of two joint ventures with AVIC Dongan, AVICOPTER and Xian Aero Engines in 2010. These joint ventures will play a critical role in enabling Avio to access a fast-growing market with important aero engine programmes, such as that for China's new C919 narrow-bodied airliner; in addition, it will further its low-cost manufacturing and sourcing ambitions.

Phadia grows its US sales by 23% p.a. (2007-2010)

With Cinven's support, Phadia has significantly increased its market share in the US. Phadia is the global leader in in-vitro allergy testing: it manufactures and sells specialised blood testing systems and associated consumables and services (see page 46 of this annual review for a profile of Phadia). Before we acquired the business in 2007, Phadia had achieved strong growth in Europe, but its progress in the important US market had been slow.

One of the main components of the growth strategy agreed by Cinven and Phadia's management team was to increase the company's US market share by taking a fresh look at its local sales operation. The sales force was strengthened and its efforts were directed towards doctors – who ultimately drive the demand for allergy testing products – instead of laboratories, which are Phadia's direct customers. This strategy has proved successful, and along with product innovation, has been responsible for a 27% increase in Phadia's US revenues in the year to 31 December 2010.