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Robin Hall
Managing Partner



Taking the long view

Since this annual review was last published, the credit crunch has developed into a full-blown banking crisis and a worldwide recession. We are now facing the first contraction in global growth since the Second World War. The European buyout market has been severely affected: the volume of new investments and realisations have slowed to levels not seen for several years. Portfolio company valuations have fallen, in some cases heavily: in such an environment, even the best companies will struggle to grow.

Clearly, the world has changed, and our industry must also change if it is to survive and prosper.

We are confident that Cinven will adapt successfully, as it always has. We have been in business for over 30 years, through periods of growth and recession. Our experience of previous business cycles gives us good reason to believe that our market will recover, once company valuations have adjusted fully and the banking industry feels sufficiently confident to back buyouts again – although we do not expect debt-to-equity ratios to return to the levels seen before the onset of the credit crunch.

We firmly believe that our business model is the right one for the economic conditions that Europe now faces. Cinven’s model promotes real, sustainable growth in our portfolio companies and supports long-term thinking. We are active owners of the companies in which we invest: we appoint the managers and work closely with them to improve performance. Management teams are directly accountable to us, as owners of the business, and we are stable, committed investors: unlike the shareholders of public companies, we do not have the option of selling the shares and walking away. Finally, managers have an incentive to improve long-term performance because their compensation is linked to the eventual sale of a healthy and thriving business; and we, likewise, get paid only if our funds are successful over their lifetime.

'In the current economic climate, we have good reason to feel encouraged by the performance of our investment portfolio.'

We take the long view about our business. Our aim has always been to create a stable, sustainable business by investing responsibly. When planning ahead and making investments, we have always been cautious. That approach now leaves us in a relatively strong position. We have the support of our investors, who also look to the long term. We are under no pressure to invest. At the same time, we recognise that the downturn will provide opportunities to acquire good companies and we are ready to take advantage of that over the next few years.

New investments and fund performance

Cinven made two new investments during 2008, both of which were announced in June. We acquired Partnership Assurance, the UK-based provider of retirement solutions, and JOST, a manufacturer of components for trucks and trailers headquartered in Germany. In addition, in line with our strategy of creating strong companies, we made a number of add-on acquisitions. The largest of these was Spire Healthcare's acquisition in February of Classic Hospitals Group, which made Spire the second largest private hospital provider in the UK. At the time of the acquisition, Classic Hospitals was the sixth largest hospital group in the UK with 10 hospitals in the North and South East of the country and more than 2,000 employees. You can find more information about these companies in the 'Our Investments' section of this annual review.

While 2008 was a quiet year for Cinven on the acquisitions front, we have been actively supporting the companies within our portfolio, helping them to prepare for the impact of recession. In the current economic climate, we have good reason to feel relatively encouraged by their performance: the third Cinven fund is a proven success, and the fourth Cinven fund consists of 'defensive growth' companies that are mostly trading well.

Transparency and disclosure

Cinven complies fully with the Walker guidelines on disclosure and transparency. In fact, we go further than required by Walker, encouraging our non-UK portfolio companies to produce full- and half-year reviews. Last year, all of our portfolio companies produced such reviews, which are accessible on our website. We also

encourage our portfolio companies to continue to communicate with their stakeholders, including employees, about important business decisions, particularly those that could affect jobs or places of work. In addition to the Walker guidelines, we comply with other guidelines and transparency initiatives across Europe. We fully support their underlying objectives of improving levels of communication throughout the private equity industry.

We are mindful of the need to communicate with all Cinven's stakeholders. For the first time, this annual review includes a description of the ways we keep in touch with our investors – including public and private sector pension funds, banks and insurers. You can find this information in the 'Our Investors' section of the annual review. Another first for us is our decision to become a signatory of the United Nations' Principles for Responsible Investment, as described in the 'Corporate Responsibility' section of the review.

Our people

We have taken care to build a talented team of partners, principals and associates to provide the firm with strength in depth and secure its future. As at 31 December 2008, we employed 56 investment professionals across our five offices, working closely together as one team, sub-divided into sectors. We have opened a new Hong Kong office, which gives us an important new window on the world and will enable us to provide additional support and advice to our European-based portfolio companies.

The outlook

At Cinven, we see our business as a long-term enterprise and will stick to what we know best: investing in large European buyouts. We will protect the value of our investments by working closely with our portfolio companies, using our sector expertise to provide support and advice. In the medium-term, our sector teams will use their knowledge and contacts to spot opportunities to make and realise investments. Company valuations are adjusting and will, in time, reach levels that will provide the rationale for new investments. We have capital available within our current fund and are fully prepared to take advantage of these opportunities.