2010 case studies

Investment-led transformation at Amadeus.

amadeus
Your technology partner

www.amadeus.com

Amadeus' successful IPO on the Madrid Stock Exchange reflects the outstanding results it achieved following its acquisition in 2005.

Launched in April 2010 at a price of €11 per share, the flotation raised a total of €1.44 billion, returning €219 million to Cinven funds, despite a challenging market environment. A subsequent share sale by Cinven at €13.50 per share returned a further €263 million to Cinven and reduced our stake in the business to 13%. Following the 2007 refinancing, the 2010 listing and the share sale, Amadeus has now returned 3.6 times Cinven's original investment. Cinven continues to retain its 13% stake (58.2 million shares) in the company.

Amadeus is a leading transaction processor and provider of advanced technology solutions for the global travel and tourism industry (see page 28 of this annual review for a full profile). It has two businesses:

- Distribution, powered by its global distribution system (GDS), which provides an international network for the distribution of travel products and services; and
- IT Solutions (Altéa), which offers travel providers (today, mainly airlines) an extensive range of technology solutions that automate vital business processes, such as reservations and departure control.

At acquisition, Amadeus also included Opodo, the leading European online travel agent. Following a turnaround resulting from a change of management implemented by Cinven, a sale of Opodo was agreed in February 2011 for €449 million.

Before its acquisition by Cinven, Amadeus was listed on the Frankfurt, Madrid and Paris stock exchanges and had three major European airline shareholders: Lufthansa, Iberia and Air France. The acquisition of Amadeus was a result of Cinven's Business Services sector team identifying the unrealised potential of the company as early as 2002 and beginning conversations with its management team. We developed a proposal to take the company private and presented this to the majority airlines. As a result, when the airline shareholders of Amadeus decided to sell the company in 2005, Cinven was well positioned with all the stakeholders. All three airline shareholders opted to re-invest when a Cinven-led consortium acquired the business.

During the five-year period of Cinven's ownership, over €1 billion was invested in product development. This huge commitment drove the 48% revenue growth that Amadeus achieved over the six years between 2004 and 2010. Increased efficiency also helped to produce an 84% growth in profits (EBITDA) during the same period.

Ahead of the IPO, Amadeus had been transformed. By 2009, its GDS business had increased its market share by 8% to 37% and connected over 103,000 travel agencies, upwards of 720 airlines and more than 85,000 hotels. Altéa, its innovative IT solutions business, had grown to be the leader in the airline IT outsourcing market, increasing its share of Amadeus' revenues from under 10% to 28%. Cinven had identified this strategic opportunity when we first began discussions with the company in 2002: many airlines that were dependent on inefficient and expensive legacy IT systems have chosen to outsource this non-core element of their service to Altéa.

Amadeus generates strong cash flows and has continued to reduce its debt-to-equity ratio throughout the economic cycle. When the business was refinanced in 2007, Cinven rejected exotic financing techniques in favour of straightforward senior debt, and did not exceed the leverage ratio set at the time of the acquisition. The success of the IPO was in part due to the company's sustainable financing structure.

Amadeus' strong performance reflects the transformation that took place during Cinven's period of ownership, with our sector team's active involvement. Amadeus has a first class management team, a strong brand and exciting prospects.

2010 case studies
continued

Avolon turns up the heat.

AVOLON

www.avolon.aero

Avolon has outperformed during its first year of operations.

The aircraft leasing company's management team has brought the business rapidly up to speed, strengthening the existing team, building an efficient operational infrastructure and acquiring a portfolio of new, fuel-efficient aircraft on attractive terms.

Avolon is a global aircraft leasing business, headquartered in Dublin and with offices in New York, Hong Kong and Shanghai. Cinven took a controlling interest in the company in May 2010, together with two partners. You will find a full profile of Avolon on page 40 of this annual review.

Since May 2010, Avolon's management team has moved quickly to take advantage of increased demand for lease finance from airlines. There has been a rebound in the global airline industry following the cyclical lows in 2008 and 2009: passenger numbers and cargo traffic are up, especially in Asia and the Middle East, driving demand for new, narrow-bodied fuel-efficient aircraft that offer the airlines flexibility and help to keep their costs under control.

Although airlines' finances are recovering, they remain capital-constrained and often prefer leasing to outright ownership because it offers a low-cash upfront payment and improved flexibility. Around 40% of new commercial aircraft coming into service are now leased, creating a market that is expected to be worth US$450 billion over the next five years.

By December 2010, Avolon had acquired a portfolio of 61 aircraft at significant discounts to market value, helping to lock in future returns. These new-generation aircraft – such as the Airbus A320-200 and Boeing 737-800 – are the most in demand in the resilient short-haul and economy markets. Looking ahead, Avolon has a healthy pipeline of future buying opportunities.

Avolon has recruited a full complement of skilled personnel, reinforcing its technical, finance, treasury, capital markets and risk management teams. With Cinven's help, it has also developed the systems, processes and infrastructure needed to manage a portfolio of 100-plus aircraft efficiently.

The business has shown that it can access fresh debt financing in line with its growth: since its initial US$1.4 billion capital-raising exercise in May 2010, Avolon has raised a further US$300 million in term loans. Cinven's Financing team were instrumental in securing the capital, and expect the debt financing environment to continue to improve, giving Avolon the opportunity to further reduce its cost of funds.

Encouraged by the rapid progress Avolon has made and the continuing market opportunity, Cinven and its partners have committed a further US$250 million in equity, in addition to the US$750 million equity investment made in May 2010.

Cinven's initial investment was the result of 18 months of evaluation and analysis by its Financial Services sector team, which drew on the knowledge the firm has built up in the aviation sector through its investments in Amadeus, the airline transaction processing business, and Avio, the aerospace engine manufacturer. The transaction could not have taken place without the assistance of Cinven's Financing team, which was responsible for structuring Avolon's initial US$1 billion-plus debt package.

The Financial Services team's investment strategy stemmed from the insight that a structural dislocation had occurred in the aircraft leasing market, driven by the difficulties facing the financing markets and the parent companies of three of the world's five largest aircraft lessors. With long-term market fundamentals remaining intact, there was an opportunity to create a leading aircraft lessor, acquire assets at attractive valuations and benefit from the increased demand that would result from an economic recovery. Avolon has taken full advantage of this strategic opportunity, validating the investment thesis and achieving its targets ahead of plan.

2010 case studies
continued

Sebia's drive for global growth.

sebia

www.sebia.com

Since it was acquired by Cinven in June 2010, Sebia has continued to grow in all its major markets and is making excellent progress with its strategy of geographical expansion and product innovation. For the 12 months to 31 December, Sebia's revenues increased by 9% to €130 million, ahead of expectations.

The acquisition followed years of preparatory work: Cinven's Healthcare and French teams had been monitoring Sebia closely since 2002 and had built a strong relationship with its management team. Cinven submitted a pre-emptive offer to the sellers following a period of privileged access to the company. As the owner of Phadia, the leading allergy and autoimmunity diagnostics business, Cinven was able to draw on its knowledge of the high-value in-vitro diagnostics industry.

Sebia is the worldwide leader in clinical electrophoresis equipment and reagents (see page 48 of this annual review for a full profile). Its systems analyse protein markers that signal the presence of various diseases and conditions, primarily myeloma, a form of blood cancer that typically affects people who are over 50 years old.

Sebia sells diagnostic machines and reagents to testing laboratories and has an unmatched installed base of around 10,300 instruments worldwide. Only Sebia's reagent consumables can be used in these machines, and sales of reagents account for around 77% of its sales. Sebia's installed base and the underlying growth in the healthcare marketplace – driven by economic development and ageing populations – provide a secure foundation for its future.

Innovation is an important driver of Sebia's growth. Only Sebia supplies capillary diagnostic technology – higher-value, automated systems that reduce the need for intervention by lab technicians and provide faster test results. This 'gold standard' technology has allowed the company to gain significant market share, notably in countries where Sebia faced significant competition such as Germany and the US.

Sebia has a strong pipeline of new detection tests for protein 'markers'. Among these are tests for the proteins Hb and HbA1c, which test for the blood disease thalassaemia and diabetes respectively. Testing for Hb was introduced in 2010 and has already proved a great success, with Sebia having already taken around 10% of the market. Testing for diabetes will be introduced in 2011 and represents a major opportunity for Sebia: type 2 diabetes, which is associated with unhealthy lifestyles, is a growing health problem worldwide. Entering the HbA1c market would enable Sebia to increase its addressable market by over 50%.

Importantly, Sebia is gaining market share in markets such as India, China and South America, where rising incomes are generating increased demand for healthcare services. Sebia's revenues are currently growing at over 35% in all of the major emerging markets it has entered. Sebia is developing its distribution network in these countries – one of the keys to success in emerging markets. In China, for example, Cinven's Portfolio team is working on an initiative to help the company increase its penetration of local markets.

Sebia's superior technology and its installed base have helped to protect the company's revenues during the economic downturn in regions such as Europe and the US, where falling incomes and constraints on state spending have affected the entire healthcare industry. In fact, 2010 proved to be a record year for new installations: Sebia's installed base increased by 13%, further securing its future revenue stream.

Sebia's first class management team, led by Benoît Adelus, former CEO of the multinational diagnostics company BioMérieux, met its objectives on all fronts in 2010. The company's strong market position, emerging market growth and new product pipeline look set to underpin its growth prospects in the years ahead.

2010 case studies
continued

Re-energising the core business at Spice.

spice
www.spiceltd.co.uk

In December 2010, Cinven acquired Spice plc, a provider of outsourced infrastructure support services in the fields of utility and energy that operates mainly in the UK.

Completed on acceptance of a public offer for this London Stock Exchange listed company, it was one of three transactions originated by Cinven in 2010 that did not involve an auction.

Founded in 1996, Spice grew organically and through acquisition into a group of utility and energy-related businesses with more than £300 million of revenues (see page 32 of this annual review for a full profile).

The business has four main divisions:
- electricity infrastructure: providing engineering, design, and consultancy services to distribution networks and the private sector;
- water network infrastructure: providing installation, maintenance and specialist consultancy services;
- energy efficiency consultancy and procurement services; and
- billing services, which focuses on imbalance analysis and recovery for the utility industry.

Spice's leading market positions are underpinned by strong environmental and regulatory drivers. The UK's ageing energy and water infrastructure requires considerable investment – as mandated by the regulators, Ofgem and Ofwat – creating continuing demand for the company's services from network operators. Managing energy efficiency and costs is another important theme for the company's energy procurement customers.

It was these macro-economic features that first attracted the attention of Cinven's Business Services team. The team had been monitoring a number of companies that serve the utilities markets for some time, when a profits warning led to a steep decline in Spice's share price. Problems at one of its smaller businesses (which has since been sold) led to the profits warning and were followed by the departure of the company's Chief Executive. Having traded as high as 90p ahead of these developments, within a few months the shares contracted to roughly a third of their previous value. The Cinven team saw in Spice a fundamentally sound business operating in an attractive market and seized this opportunity to make a full offer for the business. The bid succeeded at 70p per share, providing a premium for the company's public market shareholders and an opportunity to create value in the longer-term for Cinven's investors.

Cinven's strategy is to re-energise the business's four core divisions, de-layering the reporting structures and placing more power in the hands of up-and-coming managers from the divisions. Spice will also be looking to make bolt-on acquisitions and to develop its nascent US billings business.

One of Cinven's first moves was to secure the services of David Owens to work with Cinven on preparing a business plan and then to become CEO. David has significant expertise across the competitive and regulated utility and energy sectors; most recently, he was Chief Executive of Thames Water. An equally experienced Chairman, Sir Roy Gardner, joined the company shortly afterwards. Sir Roy is Chairman of Compass Group PLC and was formerly Chief Executive of Centrica plc.

The Spice investment bears all the hallmarks of Cinven's preferred approach. This proprietary, primary market opportunity resulted from a lengthy tracking process initiated by the Business Services team and drew on the knowledge the firm has built up as owners of outsourcing businesses such as Coor, Comax and Gardner Merchant. Debt facilities accounted for less than half the purchase price and were provided to a significant extent by Spice's relationship banks, whose support the Cinven team had been careful to win. Most importantly, value will be created by making operational improvements to the business, working in partnership with a strengthened management team.