



THÜMMEL, SCHÜTZE & PARTNERS

techem

Techem: From LBO to IPO

Thümmel, Schütze & Partners (TSP) is among the few German law firms which have developed a distinct specialisation in combined legal and tax advice for the structuring of leveraged buyout transactions since the early beginnings of the German buyout market in 1989. Since then, TSP has advised private equity investors in numerous MBO/LBO transactions, ranging from mid-market deals (e.g. Halder's buyouts of Essanelle, Happich etc.) to acquisitions at the top end in terms of transaction value (e.g. the recent buyout of Mannesmann Pressfitting by Bessemer and its German partners Dr. Vogel and Dr. Treichl).

However, when the family owners of Techem AG, the German market leader in the measuring and billing of energy and water consumption with sales of DM 580 million (09/30/99), first contacted Hans-Jochen Otto, M&A Partner and head of TSP's private equity department, in 1995, this was not because of the firm's LBO reputation, but for the more general purpose to develop M&A strategies allowing the family to achieve a higher diversification in the management of its assets, which mainly consisted in the 100% shareholding in Techem. Since the decease of the Techem founder Friedrich Ott in 1979, no family members had been engaged in the management of the company. The family shareholders contemplated reducing their investment through a co-operation with a suitable trade buyer that could create added value. However, an analysis of the mechanics of the Techem business by TSP led to the conclusion that Techem was also an ideal candidate for a leveraged buyout and the family decided that this alternative should also be pursued further.

In 1996, confidential negotiations were arranged by TSP with a group of prospective trade and financial buyers, which evidenced clear advantages for following the buyout route. Trade buyers not active in the same market segment as Techem (competitors were not regarded as a preferred option) were not able to offer a strategic advantage over private equity investors and the latter proved to have less problems in understanding the rather difficult structure of the company's financial accounts, which, to a certain extent, concealed the business' huge hidden values. Techem earnings were largely derived from long-term contracts (e.g. 10-year heating cost allocator rental agreements) with customers in the housing industry, which at the time of their conclusion required one-off expenditures that stretched the P&L account and the debt-to-equity ratio. However, only three years after conclusion

TECHEM: From LBO to IPO

these contracts become profitable and produce a constant and secure stream of income until the end of their term. The seemingly critical debt-to-equity ratio of Techem in the year 1996 was in fact a positive sign: it showed an extremely successful business performance, due to a huge increase in new long-term contracts with new customers that guaranteed a highly plannable and secure increase in future profits.

The better understanding of these mechanisms and the independent structure and flexibility of a buyout convinced the family to grant BC Partners, as preferred investor, a six-week exclusivity period during which a highly sophisticated deal structure was negotiated and finally closed in December 1996. Total transaction volume amounted to DM 750 million, the largest German family buyout at that time. Senior debt, mezzanine and working capital were arranged by Dresdner Bank as syndicate leader, together with Bayerische Landesbank, Bayerische Vereinsbank and BNP. The transaction structure allowed the family to acquire a 40% participation in the equity of the acquisition vehicle in exchange for those Techem shares, which were not sold and also provided for a management participation. In addition, Halder funds and BdW acted as co-investors.

In 1998, Techem's 'hidden values' in the form of claims for future payments under the long-term rental agreements with its customer base were partly mobilised, raising DM 400 million in a creative asset-backed transaction with Dresdner Bank as syndicate leader. The revenues were used for a substantial reduction in Techem's short-term operating credits, as well as early repayment of senior debt.

As could be expected, Techem's earnings projections according to the management's five-year plan proved to be highly reliable and operating income increased by even higher growth rates than revenues, which went up from DM 442.2 million in 1996 to DM 578.4 million in 1999. In February 2000, Techem launched a very successful IPO at the Frankfurt Stock Exchange, with Dresdner and Schroders as joint global coordinators and joint bookrunners, in which the family reduced its participation to a quota of 25%, which they regard as long-term investment. BC Partners decided to participate in the expected future earnings growth of the company by maintaining a post-IPO share quota of 33%. In the weeks subsequent to the IPO the market valued Techem at more than DM 1 billion, solidly above the initial offering price, resulting from a strong demand for Techem shares particularly by institutional investors.