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Fund Raising for capiton III has now started

capiton starts fund raising for the new investment programme in the first half-year 2006

The capiton Zweite (II) fund was closed in March 2003 with an investment volume of approx. € 186 million (including the KfW refinancing programme). Investments made in the first year included Trenkwalder AG and Borsig; in 2004 EHR Technologies; and in 2005 Gossen Metrawatt, SHW Technologies, Misslbeck, Steco and Kochdörfer&Kiep.
To date the capiton Zweite portfolio consists of nine investments. After closing of the Steco investment, capiton Zweite is 70% invested. Given the sustainability and quality of the current deal flow, it can be expected that the capiton Zweite fund will be fully invested in 2006 in line with the original plans of an investment period of four years.

This is the background against which fund raising for capiton Dritte (III) is set to begin in the first quarter 2006. As with capiton II, the follow-up fund focuses on profitable companies in the SME sector in Germany, Austria and Switzerland with revenues between € 50 and € 500 million. As capiton expects a further upturn in the German private equity market and an upswing in transactions in the midcap sector, the target volume of capiton Dritte has been set at € 200 - 250 million, slightly higher than that of the previous fund. The new fund aims to make investments in 10-15 companies over the next four to five year period with an average equity investment of € 15-25 million.

Private Equity Vintage 2005

The past year has proven highly satisfactory for the private equity sector as well as for capiton. Not just that there was a return of high demand for the asset-class private equity from institutional investors the year also saw a substantial increase in the number of investment opportunities as well. Excluding early stage and turnaround projects, in 2005 a total of 130 private equity investments were realised in Germany, Austria and Switzerland compared to only 92 investments in 2004. And if we limit the private equity market to the midcap area in which capiton specialises – i.e. to companies with a turnover of between € 50 and € 300 million, and transaction values under the € 100 million mark – then a total of 52 projects were realised in 2005 compared to only 34 in 2004. There would have been a much steeper increase in the number of transactions if not the segment for growth financing hat been collapsed due to the increasing importance of new mezzanine products.

2005 saw no significant changes in valuations in the midcap segment vis-à-vis 2004, in marked contrast to the largecap segment where company values received a major boost from high capital investment in multi-billion dollar funds and greater leverage opportunities. Furthermore in the midcap segment the competition with strategic investors and the IPO market, competition in the midcap segment was still moderat.

Dr. Andreas Kogler, Executive Board

New Investment in GMC Instruments

In an MBO capiton and a former managing director acquired the measuring instruments group Gossen Metrawatt Camille-Bauer (GMC) headquartered in Nuremberg and Wohlen (Switzerland)

In the electrical measurement sector the names of Gossen Metrawatt and Camille Bauer are as well-known as Borsig in the plant construction industry. Gossen's measuring instruments are familiar to all electrical engineering students and apprentices.

A Colourful History

The long tradition of Gossen started with its foundation in 1919. In the 1960s the company was taken over by Siemens and subsequently in 1989 by the Röchling Group. Metrawatt was founded as early as 1909. In the 1960s it was sold to ABB, and in 1992 the Röchling Group merged it with Gossen.

The early 90s saw a slump in demand for electrical measuring devices which was further accelerated by the rapid increase in competition in the low-end sector by cheap imports from Asian countries. This resulted in the GMC Group decision to focus on the professional sector and withdraw from the consumer segment, resulting in considerable job losses. While the new business focus succeeded in stabilising the profitability, the former size of the company still continued to influence the balance sheet in terms of pension accruals. In 2004 the actual workforce of some 450 employees stood against over 2,000 former employees all with pension entitlements. As a result pension provisions clearly dominated the liabilities side of the balance sheet. In early 2004 Röchling sold the company to a Swiss group of investors. A subsequent reappraisal of the pension provisions showed that company liabilities exceeded assets so that, despite a clear improvement in profitability, the company had to file for bankruptcy.

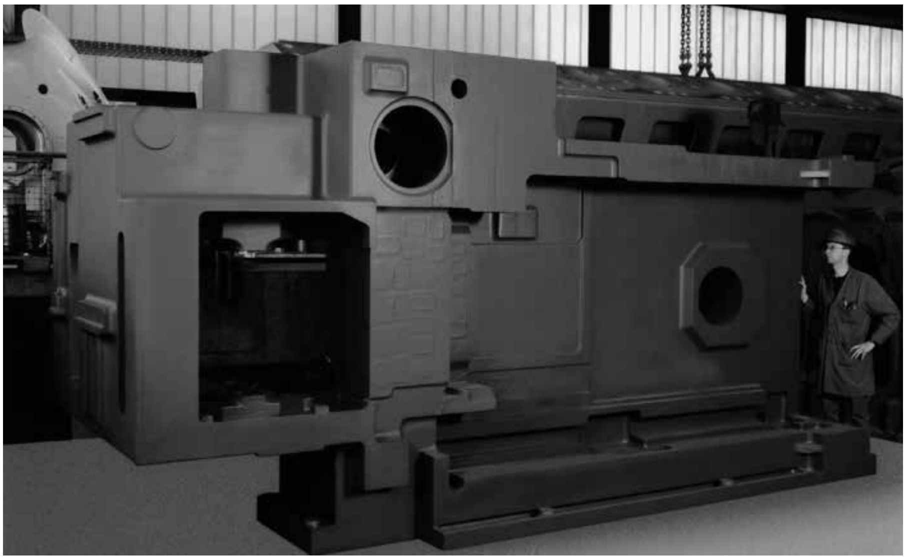
MBO gives Gossen Metrawatt a Fresh Start

In December 2005 capiton, acting in concert with a former director of GMC, acquired the group in a management buy-out. The terms of insolvency allowed for a restructuring of the liabilities side of the balance sheet so that following the transaction the GMC Group could show a strong income statement and a healthy balance sheet. The company's good reputation and strong ties with customers carried it through the insolvency phase with hardly any loss of business.

In 2006 the company now projects revenues of more than € 60 million. In the next few years the company is focused on growth. This strategy is supported by the momentum of increasing investment in the energy sector, the strategy of building a new generation of products, particularly in Energy Management Systems and Medical Technology, and finally by consolidating its existing international network of subsidiaries.

Add-on Acquisition for SHW Casting Technologies

In summer 2005 capiton acquired SHW Casting Technologies in an MBO. In December 2005 SHW CT subsequently bought the Heidenheimer foundry from the Voith Group



In summer 2005 together with its long-term managing director, capiton acquired the Casting Technologies division (SHW CT) from the former MAN holding Schwäbische Hüttenwerke (SHW). A brief report of this transaction appeared in the summer 2005 issue of our Newsletter. SHW CT is focussed on large-scale casted parts in the engine housing and calendar rolls segments. With 330 employees, the company generates a turnover of nearly € 60 million. Its large engine housings are used in ships' drives, locomotives and combined heating and power stations. The calendars rolls are used in the finishing processes of manufacturing paper.

The aim for the coming years is to further increase company turnover and to establish a casting group focussed on large-scale and technically sophisticated casting products. This market sector is seen as particularly attractive as the special boom enjoyed by heavy motors is set to last for a few more years, and the sheer complexity of production techniques will effectively limit relocation to low-wage countries. In addition, this sector also promises further acquisition opportunities as a number of companies have announced their intention to divest their casting divisions in the course of refocusing on their core competencies. SHW CT intends to be an active player in the consolidation of this industry segment.

SHW CT started its first expansion phase in early 2006, acquiring the Heidenheimer foundry with a turnover of around € 18 million from the Voith Group. Like SHW CT, the Heidenheimer foundry is also specialised in heavy cast parts weighting up to 120 tons.

In Brief

Trenkwalder AG

The acquisition of the Czech temporary staffing provider Kappa has made Trenkwalder the market leader in the Czech Republic alongside its already leading positions in Austria, Hungary and Slovakia. In addition to this, Trenkwalder also acquired a company in Poland and opened numerous offices in Romania in 2005.
To consolidate its competitive position in western Austria, and to achieve a foothold on the Swiss market, Trenkwalder has also acquired the Liechtenstein-based company MSE Personalservice.

svt Seevetal

In October 2005 Mr Koch has became the new managing director of the svt group. Apart from the past three years, Mr Koch had been with the svt group for 25 years in various position as a successful manager. In 2006 svt shall continue to divest non-core activities to focus on structural fire protection and stationary extinguishers. The svt product portfolio shall now again include the fire damage rehabilitation segment.

Expansion Financing for the Steco Group

In early February 2006 capiton was involved in an expansion and replacement financing deal for the logistics services provider Steco. The Steco Group provides reusable packaging systems for the fruit and vegetable part of the retail sector. Steco's competitors include the listed company Ifco AG. The expansion financing aims to further strengthen Steco's capital resources inview of expected market growth, especially in south European countries. The next capiton Newsletter will give more details on the transaction and the company's market strategy.

Exits 2005: Repower and Hettich

In the second half-year 2005 capiton sold its holdings in the listed company Repower AG and the family-owned company Hettich

Capiton acquired its holding in Repower systems AG in 2001. A year later the company was floated on the Neuer Markt.

Today Repower is one of the world's ten largest vendors of wind farms. Company turnover increased from € 147 million in 2001 to over € 300 million. And with an order book of 650 MW, the company is well positioned to face the coming years. Consolidation of the wind energy sector following the entry of General Electric and Siemens in the sector also effected Repower. With the Portuguese Martifer Group and the French Areva Group on board, Repower now has two major shareholders among its partners who will implement, support and drive forward the internationalisation of the group.

capiton and Bankhaus Lampe acquired an ownership interest in Hettich during a restructuring of the company's shareholder base in 2000. Over the past few years the company has become one of the world's leading manufacturers of furniture fitting systems. Today the Hettich Group has a turnover in excess of 600 million with its clients from the furniture industry, the furniture wholesale and do-it-yourself markets.

In spite of poor growth in the domestic furniture industry hit by the general economic downturn in the past few years, Hettich has been able to grow significantly in terms of turnover and market share.

The company has been able to avoid the negative effects of poor growth on the German furniture market mainly through its timely strategy to grow internationally and through its ability to innovate. As of 1st January 2006 Dr Andreas Hettich and Mr Rainer Hettich have acquired the shares of the financial investors.

Report from the Portfolio: Meyer & Burger AG

In the second half-year 2005 capiton sold its holdings in the listed company Repower AG and the family-owned company Hettich

In an MBO in 1999 capiton AG acquired a majority holding in the Swiss engineering company Meyer & Burger. At that time the company's only product was machines to slice silicon bars into wafers for the semiconductor industry with a turnover of less than CHF 20 million. In the following years, while the turnover from the semiconductor sector continued to stagnate, the photovoltaic industry began to develop, making increasing use of machines to slice solar wafers. At the outset demand from the photovoltaic sector was restrained, but rose sharply starting in 2004 enabling Meyer & Burger to increase turnover in just two years to over CHF 50 million. An even higher turnover was prevented by a shortage in the silicon supply.

At present no end to the boom in the photovoltaic sector is in sight since new production capacities are being put in place to deal with shortages in supply, and the square meter costs of solar panels have decreased dramatically in no small part due to new cutting technologies introduced by Meyer & Burger that optimise usage of raw silicon.

In 2006 Meyer & Burger plans to bring its corporate structure in line with the new size of the company and to enhance the services division. Forthcoming measures include the appointment of a new CFO to the management board and completion of the move to a new company headquarter. The prime focus in building up the services sector will be to gain a foothold in the slurry processing market (abrasives) in concert with co-operation partners, and building a network of service support points for precision slicing and consumer goods at various locations throughout Asia.

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