

From the Managing Partner

Cinven has emerged from the recession in robust health.



Hugh Langmuir
Managing Partner

Our conservative business strategy and cautious investment approach have brought us through the recession in robust health, and we now have concrete evidence that an upturn in the private equity market is under way. During the last 12 months, we have acquired three highly attractive businesses – Avolon, Sebia and Spice – and saw one of our most successful investments come to fruition when Amadeus floated on the Madrid Stock Exchange.

With business confidence returning and company balance sheets in good order, Europe's CEOs are looking once again to acquisitions and disposals to boost earnings. We are benefiting from this recovery: the strategic insight and tireless networking of our sector teams is generating a strong flow of investment opportunities. Debt finance for acquisitions is now easier to obtain – for the right transactions. Cinven's

good standing with its relationship banks and other lenders has meant that our acquisition financings – and refinancings – have been well supported.

Against an improving global macro-economic backdrop we have shifted the emphasis in our current portfolio, from a largely defensive stance, in which we were seeking mainly to protect value, to a more growth-oriented posture. We are now actively searching, together with the management teams of our portfolio companies, for opportunities to create value by promoting organic growth or by making bolt-on acquisitions, where there is a clear strategic rationale.

A successful year

The fourth Cinven fund – our current fund – continued to make good progress over the last 12 months. Sales and profits increased at most of the companies in the portfolio, many of which have also outperformed their respective markets. For 2010, organic sales growth of the portfolio in the fourth Cinven fund was 9.5% and growth in profits was 11.1%. Given the improving but still uncertain

economic environment, this is an excellent result by any measure. Ahead of the credit crisis, we made the decision to invest in 'defensive growth' companies – businesses that are resilient during recessions and grow during recovery. This has helped to shield our investors from the effects of the economic downturn.

With the acquisition in 2010 of Avolon, the global aircraft leasing company; Sebia, the protein diagnostics testing business; and Spice, the outsourced utility and energy services company, we have invested 70% of our investors' commitments to the fourth Cinven fund.

From the Managing Partner continued

The third Cinven fund was formed in 2001 and made 17 investments (counting Numericable and Completel as one), 11 of which have been fully realised. The fund continues to perform well. The highlight of the last 12 months has been the successful flotation of the travel distribution services business Amadeus on the Madrid Stock Exchange, which realised €1.44 billion for the company and left Cinven with a holding of 17% (now 13%, following the €263 million sale of part of our stake in October 2010). The fund has maintained its strong performance due to the successful realisations that were made before the credit crisis and the outstanding outcome of Amadeus' IPO.

The businesses we have bought over the last 12 months and Amadeus' IPO show Cinven at its best. In each case, we have not waited for opportunities to come our way but have 'made our own luck'. Cinven's three latest acquisitions were the outcome of a lengthy process of sector tracking, strategic analysis and relationship-building.

Our investment in Avolon was prompted by a strategic opportunity in aircraft leasing, which was identified by our Financial Services team and drew on industry knowledge we had acquired through our ownership of Avio and Amadeus.

The acquisition of Sebia resulted from our long-standing relationship with the company and its CEO, close co-operation between our French and Healthcare teams, and the experience we gained as the owners of Phadia, a comparable business that operates in the allergy diagnostics testing sub-sector of the medical equipment market.

Cinven's investment in Spice was the outcome of our Business Services team's tracking of companies that serve the UK's utility markets. Cinven's knowledge of other outsourcing businesses in which the firm has invested – such as Coor, Gardner Merchant and Comax – helped the team to develop its investment strategy.

In the case of Amadeus, the strategic insight that first led us to the company in 2002, our strong working partnership with its management team and more than €1 billion invested by the company since the acquisition have helped to transform the business. Amadeus made its debut on the Madrid Stock Exchange against a backdrop of stock market volatility and the cancellation of a number of private equity-backed IPOs. Despite this, the flotation – the largest in Europe for two years – was extremely well received.

You can read more about Amadeus and Cinven's latest acquisitions on pages 8-11 of this annual review.

Generating growth

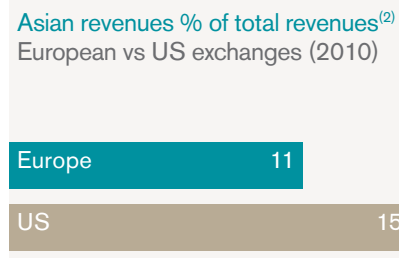
The robust performance of our business and our funds since the credit crunch has reinforced our view that Cinven's business model is the right one to take the firm into the next decade. This model has five main components:

- our long-term commitment to the European buyout market, in which we have been a leader for more than 30 years;
- our stable, experienced team, which has the skills needed to originate high-quality investments and help European companies to take advantage of global growth opportunities;
- our sector organisation, which generates deeper industry insights and helps us get to opportunities before others on attractive acquisition targets;
- our active ownership approach: we work in partnership with our companies' management teams to increase revenues and profits; and
- our ability to grow our portfolio companies' revenues outside Europe.

From the Managing Partner continued

We remain committed to the European buyout market because we believe it has enormous potential. Europe's GDP exceeded US GDP in 2010; there were more European than US companies in the Global Fortune 500 in 2010, and their revenues and profits grew faster. Yet Europe's productivity is consistently lower than that of the US, and European businesses derive a lower share of their revenues from Asia than do US companies (see adjacent charts).

These statistics indicate the scale of the opportunity that lies ahead for Cinven. We help European companies grow worldwide: our mission is to generate top quartile performance for our clients by identifying and investing in stable, high-quality companies with unrealised growth potential. For example, through our colleagues in Hong Kong, we help our companies to benefit from increased sales, lower-cost sourcing and joint ventures in China. Cinven has helped many European businesses to widen their horizons beyond their home markets and expand into Asia, Emerging Europe and North America. You can read more about how we do this on pages 6-7 of this annual review.



A stable, experienced investment team

Cinven's aim is to ensure that the firm remains competitive by maintaining a balance of experience and younger talent at all times. For us, generational change is an opportunity, not a risk: as longer-serving members of our investment team move on, we promote those who have proved themselves and bring new, ambitious recruits into the business to replace them.

Cinven is a collegial firm: we like talented people who are at their best when they are working collaboratively. It is an approach that has brought an enviable level of stability and continuity to our firm. We expect the private equity industry to remain highly competitive in future, and we want to promote individual talent and entrepreneurial skills as well as team-working. We have built a culture of continuous improvement aimed at ensuring best performance. All members of our investment team, at every level, are fully conscious of their responsibilities to the firm, our clients and portfolio companies. They also have every opportunity to contribute ideas and insights to our decision-making processes.

Looking ahead

There is good reason to expect the improving macro-economic trend to continue, although we do not assume that it will do so. Cinven will make acquisitions only when the price is right and we can see clearly how we can create value for our investors. The firm will maintain the cautious stance that has brought us through the credit crunch and the recession without major shocks and with our reputation strengthened. We will continue single-mindedly to pursue our goal of achieving outstanding returns for our investors.

⁽¹⁾ Source: IMF World Economic Outlook

⁽²⁾ Source: DowJones ⁽³⁾ Source: Fortune