



## Engineering successful overseas production

Marine valve manufacturer Damcos needed a partner to help it continue its offshoring plans in South East Asia. 3i used its extensive network to support Damcos in its strategic re-positioning in China and implementing a global sourcing model.

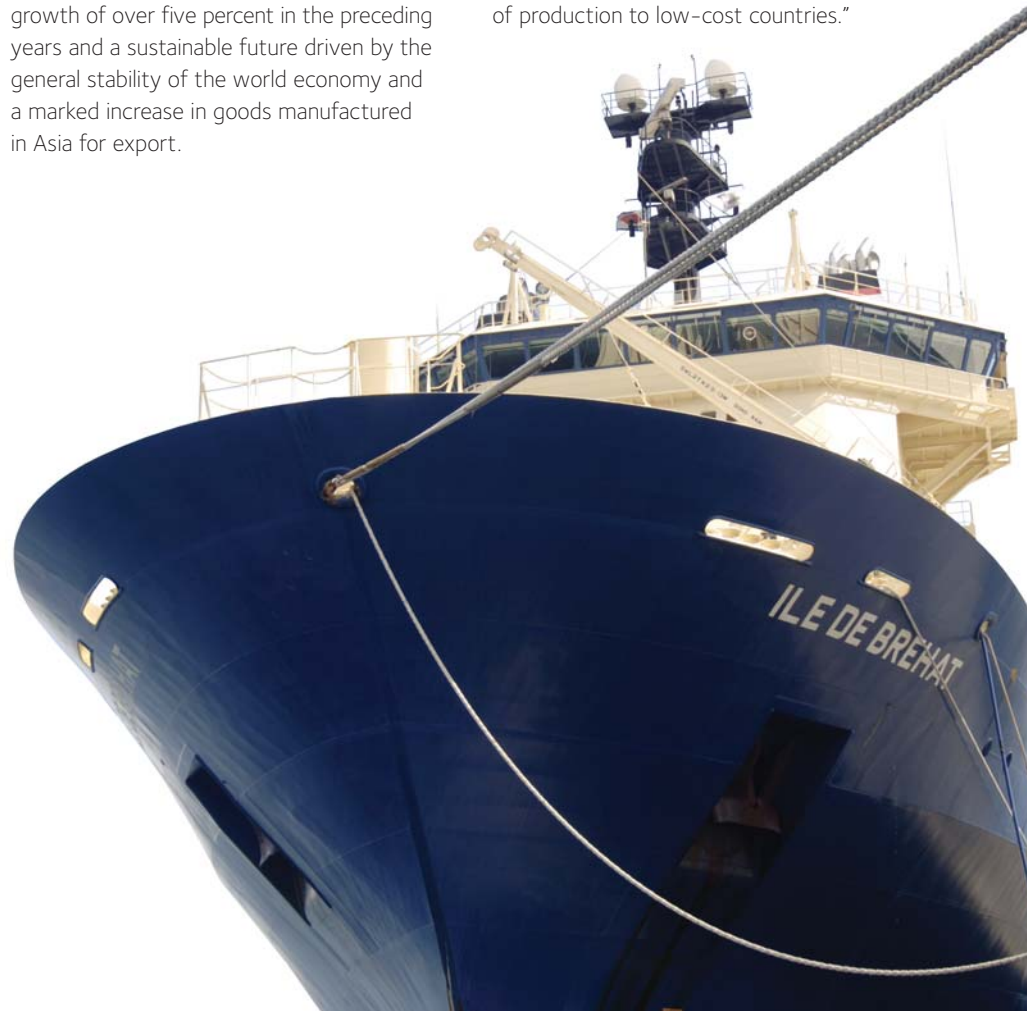
Damcos is one of the world's leading suppliers of comprehensive management and control solutions for marine applications. It produces components and systems for valve actuation and tank management, for use in ships and in the oil and gas industries. Operating globally, Damcos, formerly known as Danfoss Marine Systems (DMS), has sales and production subsidiaries located in its three biggest markets, South Korea, China and Europe.

In 2004, parent company Danfoss Group decided that its marine systems subsidiary was no longer core to its strategic business areas and began to look for divestment opportunities. After careful consideration, and with several potential acquirers interested, it was clear to Danfoss Group that 3i's extensive sector experience, financial strength and local presence in Shanghai and Hong Kong made it the most suitable partner. The 3i Nordic team led a management buyout, investing in a 60 percent stake of DMS, with Danfoss retaining a 25 percent stake and management and staff, as suggested by 3i, taking the remaining 15 percent. DMS was subsequently re-named Damcos.

Led by Managing Director Ove Sørensen since 1996, Damcos had been growing steadily by eight to ten percent per year and had already established a production base in Pusan, South Korea. With plans to open a factory in Shanghai by late 2005, the company showed real potential for growth. For 3i, the shipbuilding market was an attractive investment sector with volume growth of over five percent in the preceding years and a sustainable future driven by the general stability of the world economy and a marked increase in goods manufactured in Asia for export.

### A high quality management team

3i kept Sørensen and the existing management team in place, and introduced an international board with industrial expertise to oversee the company's development. 3i Director, Steffen Thomsen states: "We recruited a high-calibre non-executive board from our global People Programmes network, with experience in both shipping and re-location of production to low-cost countries."



“We’ve been impressed by 3i’s global network, in particular its strong presence in Asia and international pool of board members. These elements have been instrumental for Damcos’s growth.”

Ove Sørensen, Managing Director, Damcos

The board included Leif R.K. Nilsson, former Managing Director of ALSTOM Power Industrial Turbine Segment, Flemming Jacobs, former ship owner at A.P. Møller Maersk and CEO of Neptune Orient Shipping Lines in Singapore, and 3i’s Steffen Thomsen.

Thomsen continues: “We then found a high-calibre CEO for the China start-up, Lars Grønsedt, and from there we were pro-active in sales and working with local ship owners. Flemming Jacobs’ fantastic network of contacts was crucial when building our Chinese subsidiary and winning new orders.”

The funds provided by 3i enabled Damcos to build a 100 percent owned production subsidiary in Shanghai, a key local market, accelerating growth and allowing them to gain advantage over their competitors whose

production was still based in higher-cost areas, such as Norway, Japan and Germany. This offshoring strategy meant Damcos could significantly reduce manufacturing costs and position the business centrally in the world’s largest shipbuilding region. 3i’s Asian presence and local knowledge, plus previous experience of offshoring with companies such as Hyva, were a clear advantage in the decision process.

#### Preparing to exit

With the global shipbuilding market surpassing all expectation, growth rates doubled under 3i’s ownership and, following a review in 2006, the board felt that the best route forward for Damcos to continue its growth trajectory and realise its potential as a market leader was a trade sale to a major sector-player.

Steffen Thomsen worked with global consultants to establish potential buyers, promoting the importance of Damcos’s local presence in Asia. Steffen was able to secure strong interest from two key players, eventually securing the deal with multi-national, Emerson, a global technology and manufacturing company. The successful sale gave 3i a 5.1 times return on its original investment and an IRR of 140 percent.

Thomsen states: “Under 3i’s ownership, the company’s turnover has grown by over 50 percent and its order book now extends into 2009. Damcos is now ready to take the next step in its development with a new strategic partner.”

For more information about Damcos, visit: [www.damcos.com](http://www.damcos.com)



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