



Autumn 2008

Eyes on Growth

Latest news from the 3i Growth Capital business, a leading growth investor



We provide financial and strategic support, investing for a minority share in established businesses operating out of Europe, Asia and North America. With talented entrepreneurs and management teams we create a shared vision for growth in these businesses and then make it happen.



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Guy Zarzavatdjian, Managing Partner, Growth Capital

I am delighted to share with you 3i's latest "Eyes on Growth" which gives you a snapshot of our activity both with recent new investments such as Hyperion Insurance Group and Grupo Union Radio as well as interesting developments within our portfolio. We also give senior executives from our portfolio companies the chance to talk about the businesses they are in. In this issue David Howden, CEO of Hyperion, gives his insight and opinion into the liability insurance business and the role of the specialist broker. In addition, we have made "family businesses" the key theme of this issue and have explored the challenges and opportunities facing this core part of the business community.

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We now all live in uncertain economic times, which many believe will continue for a prolonged period. Uniquely, since 1945, 3i has consistently invested in businesses through all the economic cycles. We welcome the opportunity yet again to support ambitious businesses by strengthening their position and supporting their efforts in exploiting the opportunities that will no doubt lie ahead.

3i Growth Capital: Our approach to investing in partnership

Our Growth Capital business is a specialist minority investor, purchasing non-controlling stakes in successful privately owned businesses, and working with those businesses to support them in the next phase of growth, through financial and strategic support. We invest up to €250m into businesses with an enterprise value of €100m to €1bn.

- **We adopt a partnership approach** – based on adding value and building mutual respect, not through a traditional controlling private equity involvement
- **We offer flexible minority investing** – creating tailored investment models to suit the businesses in which we invest
- **We invest in a variety of situations** – supporting both organic and acquisitive growth, restructuring shareholdings, releasing equity or readdressing the balance of debt to equity
- **We create a gateway to new countries** – we have a far reaching global footprint, with high profile industry contacts in locations across the world
- **We can support bold decisions** – by de-risking businesses and releasing some equity our investment can give business leaders the confidence and security to take on ambitious growth plans
- **We offer support and advice** – due to our extensive experience of over 60 years investing. We invest across a wide range of sectors, and have focused on supporting a variety of situations – for example family businesses, acquisitive businesses, and businesses that are looking to internationalise

“ The partnership with 3i is proving to be a gateway to an exciting new phase in the company's growth. At the same time, my father's original vision remains – of a company dedicated to creating a better environment through light.”

Giampaolo Targetti, Chairman, Targetti Poulson – Italian world leader in the indoor and outdoor architectural lighting sector

Profile: Investing in Family Businesses

In each issue we will support the statements above by showing in practise how Growth Capital works. In this issue we are focusing on family businesses – defined as businesses where the family has a significant influence. Family businesses can face a unique set of challenges – and Growth Capital can add real value in overcoming these and moving the business forward. Also, with a strong 60-year track record of investing in these businesses, we have a good understanding of the challenges they face and are sensitive to their circumstances.

Facing step changes

As they evolve, family businesses can become more and more complex and often face a point where the company comes up against a need to change, or the desire to drive the business forward in a new direction. These step changes can arise from a number of situations:

- Issues around leadership, ownership and control
- Financial situations like a desire to access a family's wealth without letting go of the business
- The need to re-balance a build up of debt with new equity, especially given current economic conditions
- The need to adapt strategy to maintain the competitive edge – through new markets, expanding both organically or acquisitively

Taking an equity partner is one way to address these challenges, but many businesses are resistant to this due to the threat of losing control. 3i Growth Capital can offer a real solution to this due to the unique way in which we invest (see table).

Influence, not control	Family businesses usually have firm core values, ideals and culture. They have a strong heritage and their brands reflect this. Bringing in another shareholder can be not just daunting, but unsettling if done clumsily and could undermine the reputation of the business. We invest in minority, non-controlling situations where we work in a partnership based on merit and trust where we have a genuine influence to develop businesses but without taking a position of control in any circumstances.
Aligned partnership	We invest a lot of time early on in satisfying ourselves that we are investing in a market-leading business, in a sector we understand. Secondly we always ensure we can add real value to the business, more than just capital. If we can't, we won't invest.
Accessing family wealth	3i's support can enable the smooth transfer of share ownership – whether funding a retired shareholder, easing the cascade of stewardship between generations, or simply generating personal liquidity.
Adding incremental value	<p>We have deep knowledge of investing in businesses and a unique global network of industry leaders, experts and influencers. This allows us to add value at many levels:</p> <ul style="list-style-type: none"> ➤ Making strategic acquisitions ➤ Opening up new markets ➤ Board representation – we typically take a seat on the Board as part of our investment and will draw on all our global resources to contribute to a company's strategic development ➤ Adding fresh capabilities – we will introduce people from Board level to senior specialists in finance, sales and production, to add new experience and thinking to decision-making
Flexible investment	We expect to be invested for several years and only realise our holding when the right opportunity arises that fully reflects the value of a business and meets the needs of shareholders, be it IPO (flotation), recapitalisation or secondary deal with a new investor, right through to the sale of our stakeholding back to the family as 3i recently did with its investment in Senoble.

New investments



Hyperion Insurance Group

Financial Services | UK | €100m EV

Hyperion is a truly entrepreneurial business, growing at a rate of 40% per annum over the last 10 years. Specialising in Professional Indemnity and Directors & Officers Liability insurance, it has offices internationally and serves clients in over 50 countries, offering insurance services in wholesale and retail broking, reinsurance broking and underwriting. It is ranked first or second in many of the markets in which it operates.

- This was a typical Growth Capital deal; a transaction that allowed some shareholders to leave, a greater management incentive going forward and an all equity investment with no change of control
- The business looks to continue its growth story though diversifying its product range and by entering new international markets. 3i will support these plans with financial resources, strategic input and through leveraging its global network



Grupo Union Radio

Media | Spain | €1.3bn EV

Union Radio is a global leader in Spanish speaking radio with 1,250 stations and a major presence in Spain and Latin America and a growing presence in the US.

- The complex deal allowed 3i to invest a minority stake in the subsidiary of a quoted Spanish company, investing an initial €100m with a commitment to invest a further €125m to support acquisitions
- 3i's experience in executing buy & build strategies and contacts in the global media sector will support international expansion plans, including the US



SLR Consulting

Business Services | UK | €120m EV

The environmental consultancy provides worldwide environmental sciences and engineering expertise. It focuses on value-added services and on empowering employees, 220 being shareholders.

- The recent deal allowed the incumbent PE house to exit and employee shareholders to crystallise value
- 3i knew SLR for two years up to the investment and built an understanding, sharing a vision for the next phase of growth
- 3i's network and sector experience through deals like ERM, Foster + Partners and Williams Lea will support and encourage management's ambitious strategy of organic growth and selective acquisitions, particularly into new international markets



Labco

Healthcare | France | €986m EV

3i's €140m minority stake into this pan-European medical diagnostics network leads a consortium of other investors who have committed an additional €60m. The total funding will be used to strengthen Labco's leading position in the rapidly consolidating European medical diagnostic laboratories market.

- 3i's healthcare sector network and experience were instrumental in signing the deal
- 3i's investment will support the business' aggressive acquisition strategy by extending its network to new countries and investing in new technologies. Labco has already made 16 acquisitions in 2008

Supporting our investments



Butterfield Fulcrum Group

Financial Services | North America | Merger

Fulcrum Group, a leading global administrator for hedge funds and the alternative asset management industry has merged with Butterfield Fund Services, to create Butterfield Fulcrum Group, the 4th largest independent alternative asset administrator with \$100bn in assets from 1,000 clients.

- In 2007 3i backed our executive in residence Akshaya Bhargava to pursue a buy and build strategy by purchasing Fulcrum. As well as Akshaya the investment resulted in industry leaders Jill Considine and Malcolm Glyn strengthening management through their board positions
- Since 3i's investment Fulcrum has invested in people and processes to create a platform for significant growth and in September 2008 Fulcrum merged with Butterfield Fund Services, in a value transformational transaction
- Butterfield Fulcrum Group has global operations in Europe, Asia and North America and 3i's network is enabling accelerated growth, especially in Europe and India



Senoble

Consumer | France | Realisation

3i sold back its minority stake to the Senoble family, the third largest French producer of yoghurts, dairy products and chilled desserts.

- In 2004 3i partnered Marc Senoble, fourth generation owner of the business and took a 25% stake in his business
- The business has doubled in size during 3i's involvement over the past four years
- 3i assisted the company's expansion across Europe through identifying several key acquisition targets - two of which have been completed. This has helped broaden the company's market access with 60% of the business now generated from international activity compared to 25% when the partnership started. Group turnover has also grown to nearly €1bn from €640m



Little Sheep

Consumer | China | IPO | HK \$3bn EV

Little Sheep is rated one of China's top retail brands and is the largest restaurant chain in the country. 3i's investment was the first foreign private equity investment into a Chinese restaurant chain. The business serves Mongolian hot-pot in over 350 restaurants across China, Hong Kong, Macau, Japan, US, Canada and Indonesia.

- 3i introduced two independent directors with extensive retail experience: the former CEO of Burger King International Nish Kankiwala and former CEO of Hong Kong's Master franchise for KFC, Yuka Yeung
- 3i's own retail team brought to the business its extensive experience in domestic and international expansion, franchise and brand management
- The business successfully IPO'd in June on the Hong Kong stock exchange. The funds raised will allow Little Sheep to continue to grow through expanding its network of restaurants, expanding and upgrading its processing and production and through selective acquisitions



AES

General Industrial | UK | €130m EV

AES is a world leading manufacturer and supplier of mechanical seals. Since our investment in 2007 we have worked closely with the business, strengthening the board, introducing key industry contacts and helping them source potential acquisitions and future partners.

- An exclusive supply contract has been executed with ex-3i portfolio company Petrofac Facilities Management
- 3i introduced ex-Shell procurement director David Beer who is helping the company to establish commercial relationships with Shell and SASOL
- We have introduced them to contacts in India to support and advise on strategic plans to make acquisitions in the country

All enterprise values are listed at the time of investment



David Howden

CEO, Hyperion Insurance Group

As litigation risks for professionals and executives spiral upwards, liability insurance cover is vital for individual and business protection. David Howden, CEO of Hyperion Insurance Group, explains how specialist brokers add value in turbulent times, arranging the right cover on the best terms and ensuring fair payouts when things go wrong.

A specialist broker has the skills to source the right cover at the right price and to provide strong claims support. Liability insurance claims tend to be infrequent but enterprise-critical, so it is vital to have a specialist on your side. Liability claims are much more complex than general insurance claims, and the right expertise ensures policy provisions are interpreted in your favour. At Howden, Hyperion's specialist broking arm, we have achieved large settlements in difficult cases that could easily have been rejected.

When evaluating brokers, it is essential to check that their claims department is an integral part of the team, with deep experience in pursuing claims, and not an out-of-town administrative function. In one case handled by Howden, a property surveyor had breached policy terms by agreeing a settlement in a conflict-of-interest case. Through vigorous action, Howden convinced the insurer to ignore the breach and to pay a substantial six figure claim.

We are in turbulent times and recent events have shown how quickly a giant insurer can be downgraded. Specialist brokers are well placed to respond rapidly and flexibly because, unlike most generalist brokers, they have relationships with most liability insurers. Howden deals with over 100 of them and within 48 hours of the AIG crisis, was able to provide two alternative offers to each client expressing concern.

It is possible to manage cost without compromising cover. In tough times, insurers tend to reduce capacity. The finest deals go to businesses that take the trouble to present their risk profiles well – showing diligence in the way they sign up clients and manage credit and operational risks. Firms can also re-assess the level of self-insurance they are prepared to carry. In all these complex areas advice from a specialist liability broker is invaluable.

About 3i

3i is a world leader in private equity, offering a comprehensive range of funding solutions: from Growth Capital to Buyouts and Quoted Private Equity to Infrastructure investments.

The scale of our international network delivers unbeatable reach, experience and relationships, and underpins the value that we deliver.

Internationally connected:

Asia: Beijing, Mumbai, Singapore

Europe: Aberdeen, Amsterdam, Copenhagen, Frankfurt, London, Madrid, Manchester, Milan, Paris, Stockholm

North America: New York

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