

# ACP Capital

UK | Financials | APL.L | APL LN

1 June 2007

## Acquisition of stake in GCI

Stake purchase provides important strategic platform

Yr to Dec £m	2006A	2007E	2008E	2009E
adj. EPS (p)	22.9	16.8	27.8	40.6
DPS (p)	3.0	3.0	5.0	6.0
adj. RoE (%)	17.3	8.8	17.3	20.6
adj. PE (x)	6.3	8.6	5.2	3.5
adj. P/BV (x)	1.3	1.1	0.9	0.7
Div. Yld (%)	2.1	2.1	3.5	4.2

Recommendation **N/A**

Price **144p**

Market Cap: £287m

Shares issued: 199m

Daily ave. volume: <1m

### ■ ACP is buying a 19.8% strategic stake in GCI for c.£13.1m

Based in Munich, GCI Management AG is a private equity, management consulting and corporate finance business focused on the SME sector. It also operates in Austria, Switzerland and eastern Europe. GCI has a capital increase scheduled for July 2007 in which ACP will buy this stake. The deal represents just 4.5% of ACP's market capitalisation but does illustrate ACP delivering on a commitment made at the time of the equity raising in March.

### ■ GCI is a "strategic platform" in Germany and beyond

At the time of the capital raising in March 2007, ACP Capital identified the German market as a key area in which it wished to establish a "strategic platform" to originate financing and investment opportunities. The "Mittelstand" is a key economic engine of the Eurozone's largest economy and GCI's position as a pro-active private equity investor and SME specialist consulting business means it is well-positioned to source such opportunities for ACP in Germany as well as central and eastern Europe.

### ■ Initially small financial impact... the story is 2008 and beyond

Being a relatively small deal for ACP and the fact that GCI currently does not pay dividends, the short-term financial impacts are immaterial. The value is clearly in the pipeline of deals that GCI can begin to pass to ACP which we believe will be materially positive and a useful contributor to the 2008 target of having £1.5bn under management.

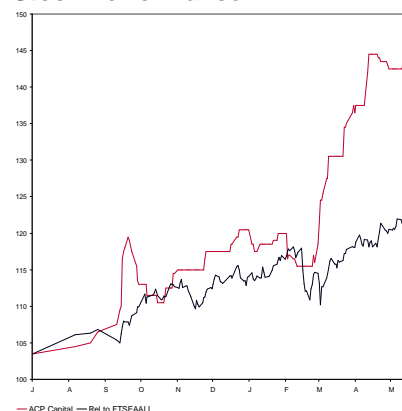
### ■ Deal flow can drive growth in ACP and its related vehicles

GCI will provide co-investment opportunities in the private equity business which can be a driver of growth in ACP Strategic Equity, due to be launched by the end of this year. Further, GCI offers the potential to bring ACP's SME financing abilities to Europe's largest SME market – ACP Mezzanine will also clearly benefit from GCI-sourced flow of mezzanine assets.

### ■ This is just the beginning for ACP Capital...

We believe this deal is little more than the start of ACP's aspirations in the German market – we can see the company continuing to both broaden and deepen its penetration into this market.

### Stock Performance



Performance	1m	3m	12m
Absolute %	0	25	38
Relative* %	-2	16	16

Source: Datastream

\*Rel to FTSEALL

Collins Stewart Europe Limited is stockbroker to ACP Capital and makes a market in the Company's shares. This document is non-impartial investment research.

Please see disclaimer for further information

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## Deal summary

ACP Capital has announced that it intends to buy 19.83% of GCI Management AG ("GCI") (Bloomberg: GCI GR) for €19.2m (GBP13.1m) via subscription for c.2.4m new shares at its upcoming capital increase (3.3m new shares, expected in July 2007). GCI is anticipated to have a market capitalisation of c.€100m following the capital raising.

No other financials are being released at this time but GCI yesterday reported net profit of €17.8m on revenues of €130.6m. This means ACP Capital is paying a pro-forma trailing PE of 5.6x.

This acquisition is relatively small – it represents just 4.5% of ACP Capital's market capitalisation – and is primarily about the strategic opportunity. It is a key part of ACP Capital's strategy, which is to develop "strategic platforms" to generate a flow of deal originations in target markets.

## Deal rationale

Germany was specifically identified at the time of March's capital raising and this deal therefore represents the realisation of that strategy. GCI now becomes ACP's key strategic partner in the German market, Europe's largest economy.

Together ACP Capital and GCI will be a more potent force in the German SME financing arena. ACP Capital gains access to a network of contacts in the SME arena not only through GCI's private equity business but also through its corporate finance and management consultancy businesses. This network will be originating deal flow which feeds ACP Capital's financing machine and will provide assets into ACP-associated vehicles such as ACP Mezzanine and the other planned entities including ACP Strategic Equity.

GCI gains the ability to facilitate a wider scale and scope of financing across the senior and mezzanine debt spectrum and gains a potential co-investor in equity transactions enabling it to move further into later-stage private equity deals.

Finally, GCI also has a significant interest in Weserbank, a small German private bank, which holds a German banking licence. It has been a stated aim of ACP to gain access to such a licence; having a stake in and alliance with an existing licence holder should be beneficial in allowing ACP to enter the German Pfandbrief market, the main real estate financing instrument used in Germany.

This deal is evidence of ACP delivering on the commitments it made at the time of the equity raising, earlier in the year.

## What is GCI Management?

GCI is a Munich-based private equity investment and consulting business. It is quoted on the Deutsche Boerse in Frankfurt and mainly operates in Germany, Austria, Switzerland and Eastern Europe.

The private equity business originally focused on investments in distressed companies, leading the turnaround but has also been involved in seeding start-up companies and is keen to grow into larger deal sizes. Its industry focus is mainly "old economy".

Alongside the investment element of the company, it also operates management consultancy and corporate finance business units.

### **GCI Bridge Capital AG**

The private equity investment business used to focus exclusively on distressed companies and operate a turnaround investment style. It now focuses more on mid-market businesses particularly in the "old economy" with defensible businesses and high value potential where technology risk remains low. A large part of GCI's capital-raising is to enable the business to target higher-value stakes.

Investments include two controlling shareholdings of publicly-quoted companies:

i) GCI retained 71.4% of Pfaff Industrie Maschinen AG (Bloomberg: P8F GR) after floating it in January, 2007. Pfaff is a sewing and welding machinery manufacturer based in Kaiserslautern.

ii) GCI owns 32% of Windsor AG (Bloomberg: WIR GR), a niche property investment and development company focused on the Berlin residential apartment market.

GCI Bridge Capital also controls A. Hanhart GmbH & Co.KG, a German watch manufacturer and retains minority interests in a variety of other companies.

The aggregate value of the stakes in the above quoted public vehicles, along with net cash on the balance sheet account for almost 80% of GCI's market capitalisation, as shown below. This implies a relatively low valuation on the other unlisted stakes (viewable at [www.gci-management.com](http://www.gci-management.com)) and the intellectual capital in the consulting and corporate finance businesses.

**Table 1: Sum-of-parts valuation**

<b>EURm</b>	<b>Stake</b>	<b>MV</b>	<b>Value</b>
Pfaff	71.4%	22.4	16.0
Windsor AG	32%	72.2	23.1
Cash (est.)			17.8
<b>Total</b>			<b>56.9</b>
<i>% of GCI's market cap</i>			<i>78%</i>

Source: Collins Stewart Research, Company data

The private equity business will operate a co-investment agreement with ACP Capital, allowing ACP to invest on the same terms as GCI. This enables potential deal flow into ACP Strategic Equity as well as debt financing opportunities as the preferred debt funding partner for GCI transactions.

### **GCI Management Consulting GmbH**

GCI also has a management consultancy business. This has a European focus and operates across the industry spectrum and through offices in Munich, Dusseldorf, Vienna, Bucharest and Prague. It also operates a number of partnerships with larger consultancies for more global clients.

The management consultancy will be a useful addition to the deal flow arising from the private equity business.

### **GCI Financial Services AG**

This business unit pulls together the other financial services offerings of GCI mainly through its significant interest in Weserbank, a Bremerhaven-based private and corporate bank. It covers retail private banking, financial planning and asset management. The corporate arm covers IPOs, corporate finance, M&A and other capital work for German SMEs from an office in Frankfurt.

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### **How does GCI fit into ACP Capital's strategy?**

ACP Capital's strategy includes the establishment of what it calls "strategic platforms", which allow ACP Capital to originate relationships and flows of financing opportunities across Europe. Germany, UK, France and Italy were all specifically designated at the time of the capital raising in March.

ACP Capital gains in a variety of areas:

- i) Equity origination – as preferred co-investment partner, ACP Capital will be able to originate equity opportunities enabling deal flow into ACP Strategic Equity, due to be launched later this year.
- ii) Debt origination – similarly, and in line with ACP's strategy of enabling financing on a broad-spectrum basis, GCI will now be able to offer more innovative debt financing structures than are commonly available to SMEs. The German "Mittelstand" market is a major and poorly-served opportunity for mezzanine financiers. This will provide asset flow into ACP Mezzanine.
- iii) Other – not only will this raise ACP Capital's general profile in Germany but should also provide a distribution platform for ACP's planned ventures into SME leasing and real estate finance.

### **Financially insignificant... for now**

Unsurprisingly, this deal is small in market capitalisation terms for ACP Capital and therefore should not have any material short-term financial effects.

GCI currently does not pay out dividends, so the cashflow benefit of the transaction is limited to the origination of co-investment and financing opportunities. ACP also takes a non-cash benefit from any mark-to-market gains in the event of GCI's stock price rising.

In one to two years, we anticipate that the deal flow from GCI will be a useful contributor to ACP's stated aim of having GBP1.5bn of funds under management by the end of 2008.

As is the nature of ACP's business model of originating financing business, warehousing the asset on-balance sheet for a period and then packaging them into investment vehicles allowing third-parties to join, there is a significant lead-time (over two years, we believe) from beginning to end.

This means that short-term financial effects will often tend to be relatively small (obviously so in a deal of this size) but, as deal flow begins to build, the ratchet effect allows almost exponential benefits in the medium-term.

The relationship established with GCI today fits this business model and has the potential to be materially complementary.

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### Research Recommendations issued by Collins Stewart Europe Limited in Q1 2007

Recommendations	Buys	Sells	Hold/Neutral
Percentage of Total	56%	24%	20%
Percentage of which in Corporate Client stocks	11%	0%	2%

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