



INDUSTRI KAPITAL
IK NEWS
:ISSUE NO 7 SUMMER 2003

PRIVATE EQUITY IS A PEOPLE BUSINESS

Sharing and leveraging experiences within the organisation

PRIVATE EQUITY IS A PEOPLE BUSINESS. How often has this been said in different contexts, and how true it is! But what meaning do we really attribute to this simple statement? At IK we believe it encompasses a multitude of matters, such as resources, knowledge, networks, culture, alignment of interests, dedication, professionalism, and most importantly, relationships built on trust.

We have a highly motivated and committed organisation. Our Executive Committee, Gustav, Kim, Michael and myself, have worked together as a team for more than a decade. Together with the other eight directors, we have invested as a team through all phases of the economic and business cycles. We have all broadened our experience with each acquisition and divestiture as well as through transactions not done in sticking to our original strategy. We are constantly sharing and leveraging these experiences both formally and informally within our organisation, further solidifying our platform. And we have had great fun and mastered great challenges in doing this! As we now broaden the co-ownership of IK to include all of our twelve directors, this natural evolution of the IK partnership will lead us into the next decade.

Rewarding relationships

This experienced, motivated and well-structured investment organisation will continue to build and thrive on its strong local presence in combination with the 'hands-on' operating approach to value creation. With our intimate knowledge of our core markets – Sweden, Norway, Finland, Denmark, the Benelux, France and Germany – their cultures as well as languages, we will continue to broaden our local networks. The confidence and trust created throughout the years we have been active on these markets will enable us to continue to access a high level of

proprietary deal flow in the industries on which we focus. We will continue to make partner investments with vendors, always looking for that special IK angle to value creation in each transaction, all of which has been so fruitful in the past. Investing and working together with portfolio company management in order to improve performance builds rewarding relationships.

Communication helps us move forward

People business is communications business. In this newsletter and through all our other contact points with you, we will continue our dialogue, sharing with you, our different partners and friends, news on developments within IK and our portfolio. Our increasing attention and commitment to investor relations as well as communication in general has been acknowledged by many of you. We appreciate all feedback as it helps us in our efforts going forward.

With summer in full bloom, let us ensure that we also communicate with those near and dear to us as we spend time with families and old friends. New acquaintances will be made, and networks will be further expanded and strengthened. There will be time for reflection and new exciting ideas will develop. The future looks promising in so many different ways. **IK**

Björn Savén, Chief Executive, Industri Kapital

“As we now broaden the co-ownership of IK to include all of our twelve directors, this natural evolution of the IK partnership will lead us into the next decade.”

STRONG CULTURE: Highly committed and motivated individuals who enjoy working together.





RETURNABLE TRANSPORT PACKAGING: Arca improves customers' logistic chains by providing plastic containers, boxes, pallets and trays that can be used hundreds of times.

:ADVANTAGE ARCA

Arca succeeds in the rapidly changing world of transport packaging by developing new and cost-saving ways of handling moveable materials

ARCA SYSTEMS IS PERFECTLY positioned as the world of transport packaging turns from materials such as cardboard, steel and wood towards more cost-effective and environmentally friendly alternatives like plastics.

Since IK bought Arca Systems from the Perstorp Group in 1998, the transport packaging specialist has shown great improvement both in sales and in profit margin. And there is more to come.

Arca Systems is in the RTP business, Returnable Transport Packaging. The idea is

“For many transport needs, plastic containers are better, cheaper, more hygienic and much more environmentally friendly than traditional materials.”

to improve customers' logistics chains by providing plastic containers, boxes, pallets and trays that can be used hundreds of times. And when they are finally worn out, they can be melted down and re-moulded. Great for cost control and great for the environment. The European Union actively promotes RTP.

“When we first looked at Perstorp Plastic Systems (renamed Arca Systems after the buyout), profitability had been unsatisfactory for years. But we were interested for four reasons. Firstly, the market outlook was, and still is, exciting. We very strongly believe that plastics will be the fastest growing material in the global packaging market – a considerable market that

is worth 400 billion dollars. Secondly, Arca held a leading market position. Thirdly, we saw significant operational improvement opportunities. And finally, we were impressed by the management,” says Christian Salamon, responsible Director at IK.

The present CEO, Wiking Henricsson, joined the chemicals conglomerate Perstorp Group (Perstorp) in 1976 as a young development engineer. Back then, the plastic transport packaging business was very small. When Perstorp made the plastic transport business an

independent division in 1984, Wiking was appointed to lead it.

“Arca has been in this business for 30 years and the world of packaging is now

catching on. For many transport needs, plastic containers are better, cheaper, more hygienic and much more environmentally friendly than traditional materials such as cardboard, shrink wrap plastics and wood,” he says.

The heart of many operations

Today Arca Systems is a leader in this niche in most European markets. In the U.S., Arca competes with four or five other players for the top spot. Coca-Cola, Ford Motor Company and the French component producer Valeo are all recent additions to the customer list.

Arca is in itself a sizeable logistics operation. It has nine production facilities and sales offices

in 21 countries. Last year the group used 80 000 metric tons of polyethene and polypropene for producing over one million large containers and pallets, and more than 20 million smaller boxes and crates. It took 20 000 truckloads to ship it all out of the manufacturing facilities.

“In Europe we have a market share of 15 per cent, if you look at the existing market for returnable transport packaging. But that figure is somewhat misleading. The shift in demand from other materials to plastics is rapidly changing the landscape as a whole,” says Wiking Henricsson.

Boxes, crates and containers were previously only moved around inside manufacturing plants, stores, warehouses or terminals. Most goods were shipped in and shipped out in disposable containers made of paper or wood.

This is about to change. Reusable transport packaging spins around the entire world in complex logistics chains from suppliers to buyers as raw materials are refined into sellable products. An orange put in a crate by an orange picker in Spain will be picked up by the grocery shoppers in Finland from the same crate. Once it is empty, the crate, now folded, will return to the orange groves of Spain.

“Containers are really the heart of many operations today,” says Wiking Henricsson. “They do not just fill the purpose of holding and protecting material. They also carry information for automatic logistics control, and are quite often an integrated part of the

COMPANY FOCUS

design to promote the product inside.”

To stay competitive, Arca has to be one step ahead of its competitors, both when it comes to product development and keeping costs down.

“Product development is really the cornerstone of the strategy,” says Christian Salamon. “Instead of producing boxes, Arca of today functions as a partner in logistics solutions. The company cooperates very closely with its clients in developing new and cost-saving ways of handling materials of all kinds.”

The latest thing is containers for liquids. Coca Cola uses them for distribution of Coke extract to high volume users such as fast food restaurants and bars, and Heinz uses them for transporting tomato paste.

“You can’t choose between smart solutions

on one hand, and high volumes and low prices on the other. You need to be best at both,” says Wiking Henricsson.

Business plan led to radical measures

For Wiking and Arca, it has been a bumpy ride. During the early eighties the company built its position in Europe through organic growth. Towards the end of the decade and during the first half of the nineties Arca acquired manufacturing companies in several European countries as well as in Asia and the Americas.

But the acquired companies were not as specialised in material handling as Arca, and many businesses had to be sold out to sharpen the focus on core products. The great increase in turnover was not accompanied by a

reciprocal increase in profits and cash flow. At the same time, Perstorp ran into problems in other areas. IK identified Arca as an opportunity outside Perstorp’s core business, and approached Perstorp’s management with a proposal.

In cooperation with IK and Perstorp, Arca’s management worked out a business plan, based on which a consensus on the transaction was reached. Perstorp AB reinvested part of its proceeds for a 30 per cent stake in Arca.

The business plan contained a great number of small and large measures to be taken. Three production sites were closed and others were restructured. Operations in Asia were wound up. The remaining production facilities were re-engineered and costs were brought down considerably throughout the organisation. The number of development projects was reduced, and more resources were invested in the remaining projects.

Plans for future growth

The overhaul was successful. Last year Arca Systems’ sales were close to €200 million and the operating margin (EBITA) was approximately 7 per cent, despite the overall slowdown in the economy and high raw material prices.

“The goal is for Arca to reach an operating margin of 10 per cent, and a sustainable growth rate between five and ten per cent. That is challenging in an industry like this, but realistic. To my knowledge, Arca is already among the most profitable in the industry,” comments Christian Salamon.

Is there a need for structural measures in order for Arca to reach that goal?

“No,” replies Christian Salamon. “Arca can do so in its present shape. Having said that, I believe Arca could achieve an even better return on its tremendous product development and manufacturing capabilities in a larger structure. We have investigated several acquisitions thoroughly, but never come to a close.”

The company was recapitalised with new senior debt in December 2002, which repaid old senior debt, mezzanine debt, as well as part of the shareholders’ convertible loan, allowing a realisation of approximately half of original cost for the equity. The recapitalisation paves the way for future growth and investments. **IK**



AGAIN AND AGAIN: An orange put in a crate by an orange picker in Spain is picked up by grocery shoppers in Finland from the same crate. Once empty, the crate returns to the orange groves in Spain.

KEY FIGURES (€ million)

	2002	1998
Sales	189.1	161.4
Sales growth, CAGR 5 yrs, %	5.6 %	
EBITDA ¹⁾	26.0	18.0
EBITDA margin	13.8 %	11.2 %
EBITA ¹⁾	13.2	8.2
EBITA margin	7.0 %	5.1 %
Average number of employees	915	
EUR 1 = SEK 9.16		

¹⁾ Before items affecting comparability

FACTS IN BRIEF

Business operation	Development and manufacturing of returnable transport packaging
Chairman of the Board of Directors	Göran Lindén
President & CEO	Wiking Henricsson
Head office	Perstorp, Sweden
Founded in	1979
Owned by IK since	1998
IK Director	Christian Salamon



PARTNERS: Arca’s CEO Wiking Henricsson and IK’s Christian Salamon.

:HEALTHY OUTLOOK AT INVESTOR MEETINGS

Update on activities and in-depth case studies at gatherings in New York and London

SPRING HAS SPRUNG and Industri Kapital topped off the season with a dynamic update on its activities at the Investor Meeting in May, held once again at the Four Seasons in New York City and at the Great Eastern Hotel in the heart of London's City.

Chairman & Chief Executive Björn Savén opened the meeting, heralding the fulfilment of promises made to investors previously in terms of achieving realisations and acquisitions, active portfolio restructuring and the continued good health of the IK funds' unrealised investments. Deputy Chief Executive Kim Wahl presented recent organisational developments, describing the strengthening and widening of the Firm's ownership to all directors. This significant step clearly illustrates IK's forward-thinking and tactical planning for the future, further aligning the interests of the investment professionals with that of IK's investors.

With this fresh perspective on IK, Michael Rosenlew, Director & Chief Executive Region East, reaffirmed IK's strategy, which has remained constant since the founding of IK over 13 years ago. Michael spoke about IK's operating approach and strategy of acquiring mid-sized companies with fundamental profit improvement potential in mature cash flow industries.

Though Gustav Öhman, Director & Chief Executive Region West, found himself presenting to many experts in our industry, he wanted to give the audience an idea of IK's perspective on private equity in Europe. Gustav reflected on the European buyout market's characteristics overall as well as its regional attributes and ensuing environment, illustrating with clarity where IK falls within the investing realm and scale of its peers.

Then, rather than touching briefly on every company in its portfolio in this meeting, IK concentrated on a more comprehensive review of those companies which account for approximately 80–85 per cent of the value of the IK1997 and IK2000 portfolios.

Continuous improvement

The nearly 90 investors and Industrial Advisory Board members who attended the two meetings had an opportunity to interface with IK's directors and other IK team members as well as two portfolio company managers.

Deputy CEO and Executive Vice-President of Dynea, Pertti Silanterä and CEO Frank Bangma of Welzorg, IK's most recent investment, joined for the day in London. Pertti discussed



GET-TOGETHER: 1. Frank Bangma, CEO of Welzorg and Waldemar Schmidt, Chairman of Superfos 2. IK Director Stefan Linder, Wille Laurén, Chairman of Elektrokoppar and Enermet and Thomas Mossberg, Deputy CEO of Ratos 3. We are here for you! IK's investor relations team: Erin L Harrell, Mads Ryum Larsen and Anne Holm Rannaleet.

strategy implementation within Dynea, illustrating how operational initiatives are communicated and measured throughout the company. This Dynea case study is representative of the kind of work IK typically does with management to ignite company growth and profitability, adding value that will last to the business.

In New York, Pertti was present from Dynea as was Welzorg's Financial Director, Michel Rietveld, who led the presentation on his company. At both gatherings, Welzorg gave an overview of its market, putting forth its strong foothold within that market. In fact, Welzorg dwarfs the competition, maintaining by far the largest market share (45%) in its competitive landscape. Welzorg discussed intentions to develop even further its already well-established footprint in the Netherlands, explaining that strategic and focused international expansion is also in the works.

Advisory Committee Meetings also took place

in the morning on the day of the investor gathering in London. Historically, IK's Advisory Committee Meetings have included investor representatives as well as industrial advisors. This year, however, these two groups had simultaneous, but separate meetings, which many felt sparked a stimulating, focused and fruitful discussion.

Perhaps one of the biggest areas of comfort for investors was reiterated in the sustained positive news about the health of IK's current investments. A central theme of the investor meeting was certainly that operating profit has been showing continuous improvement over the past two years.

Half-year financial reports for the period ended 31 March 2003 were sent to investors within days of the meeting. The next IK investor meeting will take place on 4th December in Stockholm and, as always, invitations will be sent directly to Limited Partners in regards to this event as it draws closer. **IK**



NEW INVESTMENT: The tank farm for storing adhesive resins is nearing completion at the Dynea Guangdong site in Southern China.

DYNEA EXPANDS PRODUCTION FACILITIES IN CHINA

Dynea’s Board of Directors has approved an investment to build a phenolic impregnation line in Southern China. The production line will be located at the site of Dynea Guangdong, where Dynea’s new adhesive resins plant is under construction and aims to start commercial production in September 2003.

Dynea’s trading volumes of phenolic overlays in China have grown rapidly and the demand for phenolic shuttering films is anticipated to grow by 30 per cent annually. Major drivers are construction and infrastructure projects linked to the Beijing 2008 Olympics, the government’s urban residence development program and the West China Development program.

China is a strategic market for growth and the start-up of the new overlays line is another indication of Dynea’s commitment to serve this market.

Dynea is also building a new panelboard resins plant in southern Thailand to serve the quickly growing panel board industry in the region, and a wood adhesives plant in Surabaya, Indonesia.

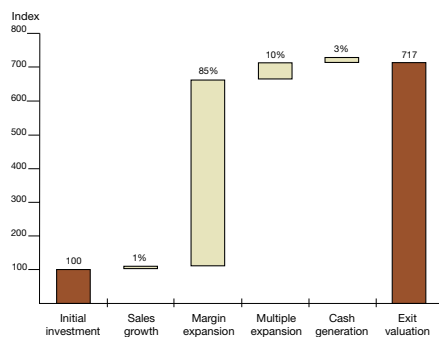
Dynea is an international specialty chemicals company, and one of the world’s leading providers of high-quality adhesion and surfacing solutions for customers

in the wood-working and other industries. Dynea also produces industrial and decorative paper overlays. In 2002, Dynea had combined revenues of approximately €1.0 billion. The company has approximately 3,200 employees.

TELEFOS SOLD RESPONS TO ENIRO

Telefos has divested one of its businesses, Respons, to Eniro. Respons operates the leading Swedish directory assistance service, 118 118@.

Respons was included in the group of seven service businesses that IK acquired from Telia in June 2001. Today, five of these businesses remain within the Telefos Group, following the divestitures of Swedtel and Respons. The remaining companies



TELEFOS Margin expansion – the main driver behind equity value creation in Respons.

are active within the service and telecommunications sectors, mainly in Sweden and comprise Ki Consulting and Validation (telecom consulting), Swedia Networks (network construction and maintenance), TA Teleadress Information (data-management services) and Multicom (secure alarm network operations).

Barbro Sjölander, Managing Director of Respons, is satisfied with the industrial fit between Respons and Eniro: “Eniro and 118 118 complement each other well. We will now be able to share a number of technical solutions and offer our different customers a variety of services relating to information and contacts with a higher degree of cost efficiency,” she says.

“We are pleased with the sale of Respons to Eniro and the development of Respons that we have seen during our ownership,” said Christian Salamon, Director of IK’s Swedish team. “The company has introduced a more effective product and market strategy and it has cleaned up its product portfolio. As a result, Respons has tripled its operating profit, creating significant value for the Telefos group.”

The price for Respons was SEK 900 million (enterprise value).

ORIFLAME COSMETICS EXPANDS PRODUCTION FACILITIES IN RUSSIA AND SWEDEN

Oriflame Cosmetics is increasing its production capabilities in order to meet the strong growth in demand for its products. In April the company announced plans to start building a new factory just outside Moscow. The Russian factory, which will also host an Oriflame Service Centre, is expected to be in service by the end of 2004.

One month later, in May, Oriflame announced the acquisition of the

company Nordium AB and its production facility near Stockholm, Sweden. The Nordium plant is a modern, highly automated production facility used for the manufacturing of toiletries and fragrances.

Sven Mattsson, Oriflame’s CEO, said that the acquisition will have several major benefits: “Especially in our Central and Eastern European markets we have been experiencing strong growth in demand, meaning that we have to expand our production capacity. This acquisition will give us greater control over production and product development in these fast-growing segments, which is also in line with our production strategy. Moreover, we expect that the acquisition will have a positive net effect on our profit after taxes as early as this year.”

Oriflame Cosmetics is an international cosmetics company founded in Sweden in 1967. Through a sales force of over 1.4 million independent sales consultants in 53 countries, the company markets high-quality cosmetics products under the concept of “natural Swedish cosmetics”. Annual sales are approximately €550 million.



Sven Mattsson, Chief Executive Officer of Oriflame Cosmetics.

PERSTORP IN TWO STRATEGIC ASIAN JOINT VENTURES

In February, Perstorp announced a joint venture with Hansol of Korea. Following approval from relevant authorities, the agreement was finalised in May. The joint venture includes the production and marketing of Hansol’s

:PORTFOLIO COMPANY NEWS



SIGNING THE JV AGREEMENT: Mats Olofsson, Representative Director for Hansol-Perstorp and Suk-Joo Kang, President Hansol Chemience joint venture.

existing range of products for the coating intermediates market as well as the marketing of Perstorp's specialty chemicals product range in Korea. The merged activities will have annual sales of more than USD 10 million, and some 30 employees. Perstorp will control 51 per cent of the joint venture.

"The formation of Hansol-Perstorp Co. Ltd will further strengthen Perstorp's position in the fast-growing Asian market and give us another manufacturing platform in this region," said Bengt Sallmén, Business Area Manager, Perstorp Coating Intermediates, commenting on the joint venture.

A few weeks later, in March, Perstorp announced a joint venture with Koei Chemical Company for the marketing and sales of specialty chemicals products in Japan. The product

portfolio will include a range of chemical products from Perstorp and the polyol products manufactured, sold and distributed by Koei Chemical Company Ltd. in Japan.

"This agreement will expand our access to the important Japanese market, and further enhance the sales of our specialty chemicals products in this area," said Bengt Sallmén.

The ownership structure of the new company, to be named Koei-Perstorp Company Ltd, will be Koei Chemical Company, Ltd 60 per cent and Perstorp 40 per cent.

Perstorp is a leading company within its selected niches of the specialty chemicals market. The company has annual sales of approximately €650 million and some 2,200 employees. Perstorp is owned by Sydsvenska Kemi AB which in turn is controlled by the IK2000 Fund.

GREY-BLACK LOGO FOR COLOURFUL COMPANY

As a natural step following the merger of CPS Color and Corob in December last year, the company has launched a new visual identity. With this, the company hopes to make a powerful statement to employees, customers, future investors and stakeholders.

"To become a global market leader, CPS Color needs a powerful and dynamic international

brand," says Dapne Beek, Marketing and Communications Manager of CPS Color. "We agreed that the brand name and company logo should be bold and firm, but also uncomplicated and easy to implement."

"The basic idea is that colour is a natural part of life itself. The new slogan, 'Any colour you see', captures that idea. The powerful and pure grey-black logo emphasises that colour is all around us. The colourfulness of CPS Color will be demonstrated by the abundant use of colour in brochures, leaflets, advertisements, websites, and so on."

CPSCOLOR
any colour you see



MANAGEMENT CHANGES

Christian van der Haagen has been appointed new CEO of Continental Bakeries effective from 1 January 2003.

Carin Bengtsson has been appointed new CFO of Elektrokoppar.

Ilkka Matinpalo has been appointed new CEO of Enermet effective from 1 August 2003.

Ingmar Eliasson has been appointed new CFO of Citylink.

Henrik Hvidenfeldt has been appointed new CFO of MacGREGOR.

:PERSONNEL

NEW RECRUITS

Dan Soudry

French. Associate Director, French/Southern European team. Based in London

RESIGNATION

Hannu Ryöppönen, IK's Finance and Administration Director, has resigned in order to pursue a position as Chief Financial Officer of Ahold, the food retailer and food service operator based in the Netherlands. He will leave his IK position after the summer.

:CALENDAR

DURING OCTOBER

Next issue of IK News

Investor Advisory Committee Meeting

4 DECEMBER

Annual Investor Meeting, Stockholm

Industrial Advisory Board Meeting, Stockholm

DURING DECEMBER

Annual Update distributed to investors

30 September 2003 Reports, including Valuations distributed to investors

:WEB LINKS

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