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FRANKFURT (Dow Jones)--Small private equity groups will be well placed to buy stakes in Germany's mid-sized businesses as a looming credit crunch threatens to see such companies exiting the recession with a desperate need for fresh funds, Aheim Capital GmbH's managing director told Dow Jones Newswires.

Smaller, specialized private equity groups like Aheim, which has EUR70 million in assets under management, are best positioned to invest in mid-sized German businesses because they are more flexible and specialized than bigger buyout firms, Blumenwitz said.

"The classic pure, plain vanilla buyout of the past is over. You need special skills for doing growth investments or owner buyouts. You need to be very creative in structuring deals and things like structuring shareholder rights, and keeping the existing owner involved and with a skin in the game," he said.

Several German trade groups and economists have warned that German companies could face a severe cash shortage by the end of the summer or early fall as banks tighten lending in an effort to reign in risk.

Germany's mid-sized businesses, the "mittelstand" that form the backbone of the country's economy, could be particularly hard hit because they don't have access to capital markets, experts say. The European Central Bank has attempted to breath life into credit markets by buying covered bonds and through a EUR442 billion tender offer, but those measures have been slow to improve cash access for German firms.

"Banks won't [lend] and mezzanine [debt] is a very difficult market these days for mid-market German companies," said Blumenwitz. "Minority growth investments are the solution if you are talking about this famous credit crunch," for the German mittelstand. Mezzanine debt is often used in acquisitions and buyouts to prioritize payments to new owners over existing owners in case of insolvency.

Blumenwitz said minority stakes are more attractive than complete takeovers for private equity groups in Germany because firms requiring a full buyout are usually in too much trouble financially to appeal to investors. "If your company risks becoming insolvent, nobody wants to invest in it." Instead, Aheim will target stakes in firms that are operationally sound but cash strapped.

Blumenwitz sees more opportunities crystallizing as the broader market improves, because companies will require fresh capital to operate as business picks up.

"Right now they are hibernating more or less," Blumenwitz said of mittelstand companies. "After the impacts of the recession, they will have no working capital or room to move. When the economy starts to accelerate, they are going to be in desperate need for cash."

At present, Blumenwitz said Aheim is focused on seeing its own portfolios through the market downturn while looking for strategic opportunities for the future. Aheim's book includes stakes in water cooler company Aqua Vital Quell-und Mineralwasser GmbH, the pharmaceuticals packaging firm Remy & Gieser GmbH and time:matters GmbH, a delivery logistics company.

Although Blumenwitz concedes that Aheim has had problems in its own portfolio because of the market downturn, it has been able to avoid too much criticism from investors and partners by explaining early on how the market downturn would impact its investments.

Unlike the mittelstand firms it views for stake buys, Aheim Capital has managed to maintain relatively healthy relationships with its lender banks, Blumenwitz said.

"We don't have any problems with banks. If you have a good standing and a good working relationship, they still are willing to provide you with money as long as its a solid structure with reasonable debt levels," he said.

Blumenwitz said Aheim currently has several letters of intent out to take minority or majority stakes in various companies with a combined total transaction value close to EUR90 million. Each potential deal has the backing of at least two banks.

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