



HgCapital Investment Strategy

Generating outperformance in a low
growth environment

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OVERVIEW

- Established 1990, independent since HgCapital spun out of Merrill Lynch in 2000 (formerly Mercury Private Equity)
 - £3.6 billion client assets managed
 - 5 dedicated sector teams across 3 funds:
 - Mid-market, control buyouts in Northern Europe in 4 sectors (services, healthcare, industrials, TMT) - Hg6 fund
 - Lower mid-market, control buyouts in TMT sector in Northern Europe - HgCapital Mercury Fund
 - Mid-market, control renewable energy infrastructure in Europe - RPP2 fund
 - Offices in London and Munich - pan-European coverage via sector focus
 - Wholly owned by partners and staff
 - c. 90 employees including c. 50 investment executives in well resourced sector and portfolio support teams
 - 15 Partners with 15 years average private equity experience
 - Strong returns across the cycle since 1990 with 107 investments, 88 fully or substantially realised producing gross returns of 2.4x original cost
-

Our Strategy } Three elements - all in place for more than a decade

SECTOR EXPERT INVESTORS

- Focused only on five sectors
- Deep sector teams operating across Europe
- Accumulated expertise from repeated activity in certain sub-sectors (Thematic Investing)

SUPPORTING MANAGEMENT

- Large portfolio support team to bring significant support
- Cultural alignment with European management teams
- Sector expertise key to becoming right partner for management

GROW INDUSTRY CHAMPIONS

- Mid market focus offers volume of small/medium size businesses
- Origination focus on growth subsectors (Thematic Investing)
- Toolkit and resources to both spot and support the growth of the very best companies within industry niches ('champions')

Our Strategy } Sector expert investors
We invest exclusively in five sectors

HEALTHCARE

INDUSTRIALS

RENEWABLE ENERGY

SERVICES

TMT

WHY?

- Much more relevant as partners to management teams
- Differentiates us
- Accumulated experience increases the chance of success
- Makes us better judges of how to invest our clients' money

HOW?

- Dedicated sector teams of 6+ investment professionals immersed in a sector
- Broad industry networks
- Accumulate expertise across multiple investments in recurring investment Themes

Our Strategy } Supporting Management

Large Portfolio Support team

- A supportive and knowledgeable investor is more than cultural fit, we bring significant support in two areas:
 - Board support
 - Project support
- Board Members - tried and tested non-execs:
 - industry experienced
 - real-world experience of operational and management challenges
 - with significant prior private equity experience
- Project Support: - execution teams to work for company management:
 - target specific value creation projects (e.g. pricing, product development, sales force) across investments
 - sharing best practice and techniques across the portfolio



Our Strategy } Growing Industry Champions

INDUSTRY CHAMPIONS

Those small and medium sized companies that have established a strong position within an industry niche, but which have the potential to grow further - to become the clear market leader within their region or scale internationally - creating a true industry champion

FINDING POTENTIAL CHAMPIONS

Identifying European companies worth between €20m-500m ('mid-market') within Investment Theme subsectors and developing a meaningful relationship well before any transaction

EFFICIENT EVALUATION

Consistent review of business model characteristics which define a strong industry position and potential for growth/performance improvement

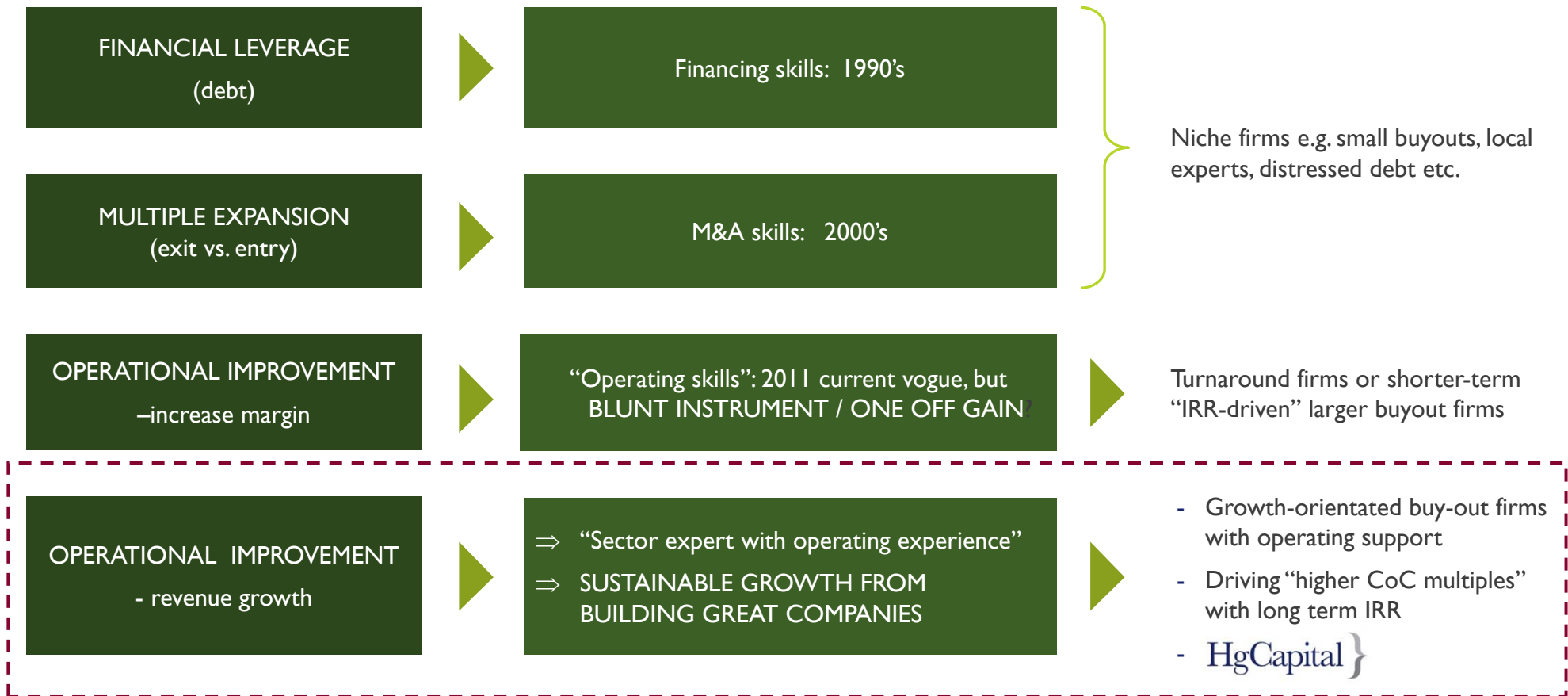
Experience gained from multiple prior investments in the same sub-sectors is crucial - rapid, well-informed judgments and not wasting your (or our) time

TARGETED EXECUTION

Very significant resources committed behind opportunities where we are the right investment partner for the next stage in company development

Our Strategy } Four Sources of Value-Creation

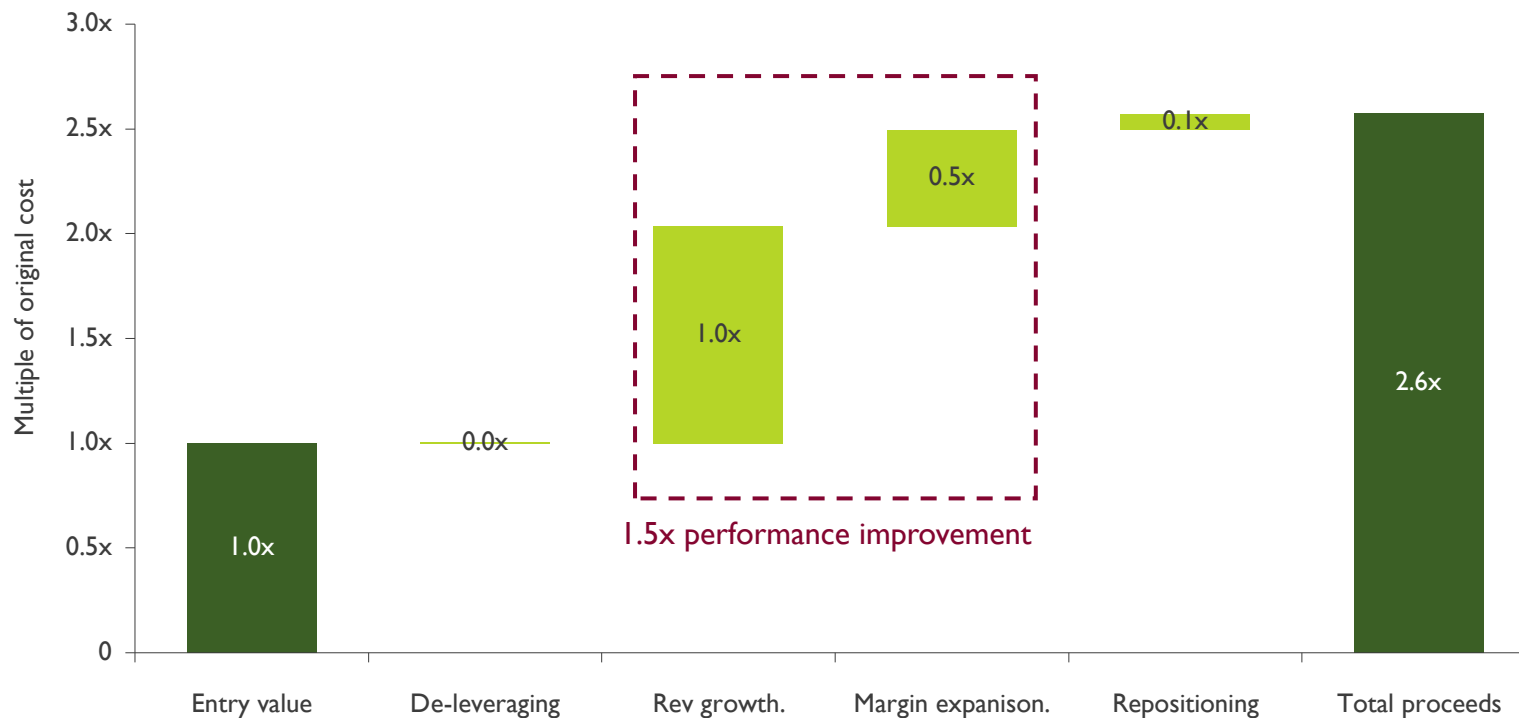
HgCapital within the wider scope of Private Equity activity



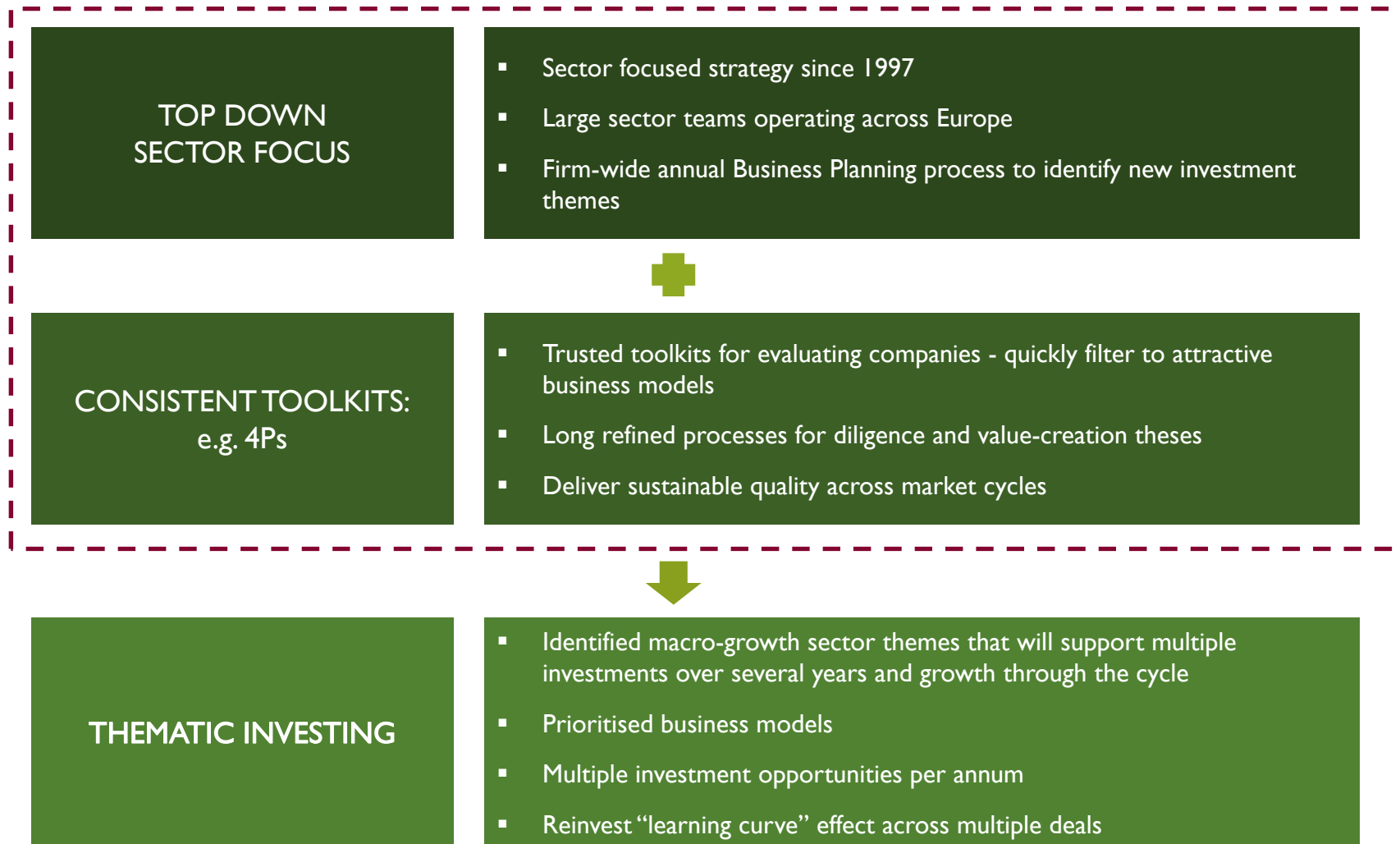
Our Strategy } Growing Industry Champions

Consistent with this strategy, historical value creation has been driven by growth and operational improvement

SOURCE OF RETURN – ALL buyout realisations to date from 2002 and 2006 funds



Thematic Investing } Thematic Investing emerges from deep sector expertise plus established toolkits targeted on a high volume market segment



Thematic Investing } Necessary Skills and Resources

THEMATIC INVESTING

SUSTAINABLE GROWTH SUBSECTORS

- Pick sustainable growth sub-sectors based on years of bottom up research and expertise
- Established processes to constantly challenge and refine which sub sectors

WELL RESOURCED

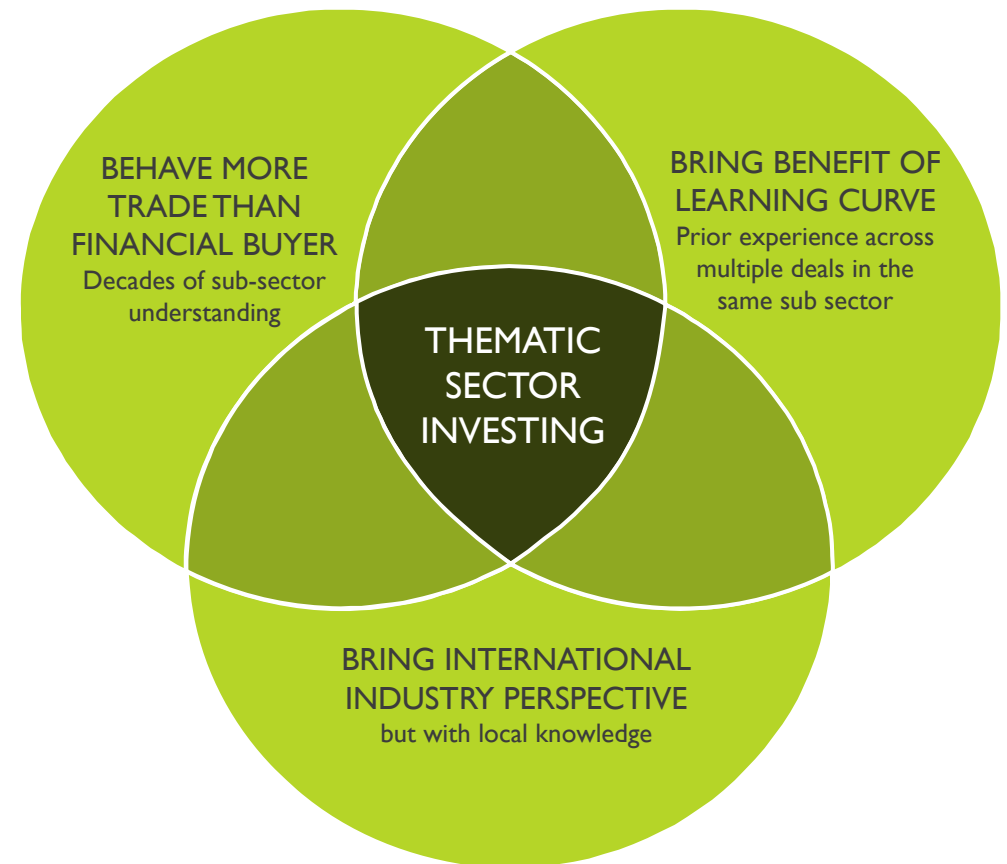
- Favourable ratio of staff to deals - team of c. 90 staff, c. 50 investment executives
- 5 large, dedicated sector teams: at least 6 executives dedicated to each sector
- Partners with average 15 years of private equity experience
- New team members are trained in the 'playbook' from day one

DEEP MARKET SPACE

- Focus only on European mid-market where volume of deal activity allows such a strategy

REPEATABLE INVESTMENTS

- Seek to make multiple investments in high quality companies in thematic subsectors
- Learn more each time





How to identify attractive 'themes' over time

IDEA GENERATION
(typically 10 – 15 ideas p.a.)

TESTING
(typically 4-6 per team p.a.)

REFINING
(typically 1-2 per team p.a.)

INVESTING
(typically 1 new theme/sub-sector every 2-3 years)

REJECTING
(potentially on the radar for selective deals)

Thematic Investing } Technology sector example

- In 2002, HgCapital identified regulatory-driven SME software market as an attractive Investment Theme, based on:
 - Sector growth ahead of GDP, driven by:
 - SME numbers grow faster than GDP in Europe
 - Software on a long term penetration trend among SME users
 - Red-tape/ regulation typically ‘grows’ faster than GDP
 - No “tech” risk - business enjoy long-term contracted revenue and high cash conversion, based on level of service performance

- Using this analysis, Hg sought out leading European software companies within this Theme, leading to six investments across six years

- Learning Curve effect across multiple deals becomes a powerful enabler in later deals

COMPANY	DESCRIPTION	GEOGRAPHY	YEAR
	Accounting, legal and business software	UK	2004
	Tax and accounting software	Germany	2005
	Business SME software and BPO services	Nordic Region	2006
	Accounting, legal and business software	UK	2007
	Strategic HR software	Across Europe	2010
	Accounting, legal and business software	Italy	2010

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