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# Private Capital

## A lifeline for small companies

By STEVE ZWICK Cologne

Two years ago, François Le Brun made a painful decision. With no heirs willing and able to take over the small French winery his family had owned and operated for 140 years, he decided to put Champagne Albert Le Brun up for sale. At the same time, German businessman Norbert Hessbrüggen was making a tough call of his own. With no money to develop a new manufacturing technique his engineers had come up with, he decided to bring outsiders into Emag Maschinenfabrik, the century-old German machinemaker that he had built into a leading niche player since buying the company 25 years ago. Both men needed partners they could trust, and neither felt the stock market could play that role.

Instead, they turned to private equity investors, who make their money by investing in private companies rather than publicly listed ones. Though famous for funding high-tech start-ups and management buyouts, they've also become the buyers of choice for many families looking to sell their businesses and the investors of choice for many families in need of capital. U.K.-based research group Initiative Europe says 224 family-owned companies took this route in Europe last year, and the European Private Equity and Venture Capital Association estimates that roughly $4.6 billion of the $23.5 billion raised for European private equity funds was earmarked specifically for family-owned business.

The EVCA says 60% of the money that went into European funds last year came from the U.S. and Britain, and many of the "big" names in private equity are little-known American or British firms like San Francisco-based Plantagenet and London's 3i. Now based Plantagenet and London's 3i. Now these companies and others are setting up shop in Europe and raising large-scale investment funds locally.

"So far, we've raised more money in the U.S. than here, but that's just a function of having an established network there," says John Zappettini, one of Plantagenet's managing partners. "75% of the money for our new Europe fund is coming from European investors."

Plantagenet set up an office in Paris two years ago specifically to buy underperforming gems that it could fix up and then resell. One of those gems was Le Brun's winery, which he sold to them for $2 million in early 1999. The new owners immediately reorganized everything about the company — except the stuff that goes in the bottle. "Le Brun had a great product but, like many small companies, couldn't keep up with the new economy," says Ollivier Lemal, the ebullient Frenchman who runs the Paris office. Plantagenet slashed bulk sales to supermarkets and used the Internet to cultivate a more upscale clientele. This allowed them to hike prices 20% while boosting sales to $32.5 million in 1999, up by $564,000 over the previous year. Pretax earnings also surged fivefold to $635,000. In February, Plantagenet sold the company to Frenchman Patrick Raulet for $4.4 million, more than double the equity firm's investment.

A different solution was pursued by German machine-tool maker Emag. Hessbrüggen sold nearly half of his firm to Britain's 3i, which helped him finance the technologies needed to get a series of new production lines onto the market. Now the company is the world leader in its niche of making vertical assembly lines. "Without 3i, we'd be a regional player at most," Hessbrüggen says. "If you're looking for a solid financial partner, private equity investors are the best alternative." But they're not for everyone. "People who choose to work with us don't just want a means to finance their companies," says Plantaganet's Zappettini. "They want a partner who will be a part of that company." Unlike the silent partners of the past, these investors don't hesitate to speak their minds.

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