



## Case Studies

### **Agrolab GmbH Group: Scheming for business expansion**

In 2001, after a meeting on corporate strategy, Dr. Paul Wimmer, managing director of the Agrolab group, realises that his business will not be able continue as it has done, so far. Even though it has grown at a respectable rate, year by year, and even though it has incorporated several smaller, competing laboratories, none of this has really resulted in a breakthrough. Major activities will be required, and this means large acquisitions.

His search for financial investors is disheartening, to begin with – banks show him the door. Wimmer will require substantial sums to put his plans into practice, and the banks are simply not prepared to provide these to small businesses known only to industry insiders - as is the case with Agrolab. His ambitious plans are met with a fair amount of scepticism and with a definite lack of understanding. Because of this, Wimmer teams up with Deloitte & Touche and then continues his search.

#### **Partners for a limited time**

The entrepreneur wishes to offer investors merely a confined fraction of the enterprise, thus preserving his options for buying company shares back, at a later stage. Wimmer's plan: When his expansion strategy has come to a successful conclusion and when the investor's capital is no longer required, Agrolab will buy back all the company shares sold and thus return to full commercial independence. However, this plan will only work if Wimmer manages to keep the amount of shares issued as low as possible. Otherwise, it will become near impossible to cope with the financial burden resulting from the redemption.

These special conditions further reduce the choice of equity partners, which already was limited to begin with. At the end of a long series of negotiations, only the Hannover Finanz Gruppe and the Bayerische Beteiligungsgesellschaft (BayBG) are left to serve as suitable investors. Wimmer decides to co-operate with both: Hannover Finanz will raise two-thirds of a total investment sum of 3.75 million Euros, BayBG will contribute one-third. The investment sum is geared to the desired pace of company development and it is large enough to cover all the expenses involved.

Hannover Finanz proceeds to co-operate with Agrolab very closely and actively, and in 2003, it accepts the offer from BayBG to take over its shares.

#### **Not without a guarantee**

Obviously, Hannover Finanz does not surrender its money to Agrolab without arranging for some form of safeguard against the risks. 3.75 million Euros are provided to the company through a silent partnership. Though only a moderate annual interest is applied to this sum, an additional and final payment of 20 % is due after four years, at the end of the contract duration. As an alternative to this scheme, Hannover Finanz has the option to transform their investment into a company share of 15%, in which case no interest will be due.

By drawing up their contract in this fashion, Hannover Finanz has secured the return of its investment and has made it more or less independent of Agrolab's development of business. The investment company would only lose money if Agrolab's commercial situation was to deteriorate dramatically.

From the point of view of Dr. Paul Wimmer, this contract constitutes an additional risk, and not every entrepreneur would have agreed to it. Wimmer needs to increase profits to such a degree that it will either be possible for Agrolab to redeem the silent participation by its own means or that the company is



Bundesverband Deutscher  
Kapitalbeteiligungsgesellschaften

made sufficiently attractive for Hannover Finanz to choose to retain a 15% share, instead. Failing this, the investor would be allowed to place 50% of its shares on the market, using the return from these sales to redeem its silent participation.

Now it's up to the entrepreneur to deliver. The 3.75 million Euros exactly match his expectations: This sum will cover the capital needs for all acquisitions planned, without resulting in an overcapitalisation (which would be expensive, because of the interest due). Furthermore, Wimmer has managed to ensure that once the silent partnership has ended, no more than 15% of his company will be owned by investors. This leaves him with all the possible options, he remains firmly in control and he can be sure that he will be able to find ways of reclaiming the final 15% of his company, in the long run.

### **Agrolab takes off**

Equipped with his investor's capital, Wimmer gets started: It is LUFA, a food testing laboratory in Kiel owned by Schleswig-Holstein's chamber of agriculture, he is particularly excited about. In spite of its abysmal performance, Wimmer is determined to acquire this North-German competitor. A takeover would provide him with the long sought after entry into the food testing sector. Though the purchase price was high, by Agrolab's standards at that time, the deal is brought to a close within 2001.

But the acquisition of LUFA is only an intermediate step. Wimmer has been convinced for a long time, that in a sector faced with increasing internationalisation, only companies which position themselves internationally will remain successful, in the long term. A suitable opportunity for a move beyond the border arises in 2004: Tauw-Laboratory, a contract- and hazardous waste laboratory in the Netherlands, formerly owned by an engineering-enterprise, is up for sale. Since the purchase price is acceptable and since the company fits well into Agrolab's range of services, Wimmer seizes the opportunity.

This is not his final transaction, though: In 2006, the takeover of the Istanbul based laboratory Tetralab results in a new location, Agrolab Ltd.. Within the same year, a co-operation with the Spanish laboratory Vidal adds a new subsidiary in Tarragona, and a year after that, the Polish laboratory Eurocontrol (Warsaw) is incorporated. Step by step, Wimmer advances towards his ideal of an internationally positioned company.

### **Success allows for a buy-back**

In 2006, Wimmer begins with a buy-back of company shares. His successful course of expansion has resulted in so much cash that it is possible for him to reclaim 11.25% of Agrolab shares, by the end of 2008. The remaining 3.75% will be redeemed during the following two years, resulting in a complete cancellation of the original investment. The launch of the "new" Agrolab has been more than successful: A strongly positioned corporate group of laboratories has emerged, a type of organisation more or less unheard-of, so far.