Case Studies

Kabel Deutschland: Entertainment on a high level

State-owned enterprise turns triple-play-provider: Cable television network operator Kabel Deutschland (KDG) evolved into one of the Germany's leading triple-play-providers, within only few years - a good example of the dynamics which a private equity investment may unleash.Joining forces with Goldman Sachs Capital and Providence, several funds managed by Apax took over the majority of Germany's cable television network from Deutsche Telekom in 2003, for a sum of roughly 1.7 billion Euros. Today, this private equity funded enterprise boasts more than nine million subscribers. And its network is no longer limited to analogue television signals, but also supplies digital programs, telephone services and broadband internet access.

The beginning: Hidden treasures in Germany's cable network

2500 Telekom employees in charge of the cable television network had to endure five years of wait, until in 2003, the way was finally cleared for Apax and the other funds to make their investment into KDG. As far back as 1998, the EU Commission had ruled that within Europe, it would be prohibited for one company to own both, telephone and cable networks. This forced Deutsche Telekom, amongst others, to separate from its television-business, which it had established and developed in the 1980s, when still owning the monopoly. Unfortunately, the first attempt at a take-over, hesitantly made by a US corporation at the beginning of 2002, had to be abandoned because of anti-trust issues. At that point in time, only the cable networks of Baden-Wuerttemberg, Hesse and North Rhine-Westphalia managed to find new owners.

For Europe's largest cable television network operator KDG, however, it took another twelve months before the three private equity companies Apax, Goldman Sachs Capital and Providence made their entry, effectively dissolving an investment backlog which had lasted for years. The participating funds realised the potential of cable networks, which was to serve as data-highways to millions of private customers in the up-and-coming digital age. Provided that appropriate investments were made, such data-highways would not only carry all of the existing tv-channels, but they would also cater for tailor-made digital tv-formats and a wealth of internet services. In addition, during the course of preliminary talks, it became apparent that a demotivated workforce was desperately waiting for a new impetus. Looking back, Apax Partner Nico Hansen (in charge at the time) explains: „KDG was yearning for new owners, so to speak, wanting to take advantage of its potential for expansion, while simultaneously tightening its cost-structure.“

The investment: More value through private equity

The desired impulses were provided shortly after the new management team (led by Roland Steindorf) had taken over. The takeover bid had at the same time constituted an MBI – a management-buy-in –, into which Steindorf and his colleagues invested personally. During the weeks to follow, the new team managed to get an initial overview on expenditure, reviewed every invoice in excess of 5,000 Euros and, with the support of their investors, renegotiated most of the vital company contracts. Apax partner Hansen remembers: „Most notably Deutsche Telekom, who - amongst other things - sublet their cable ducts to KDG, turned out to be a particularly tough negotiator.“

The management's top priority, however, was to establish transparency. The former parent company had split KDG into six regional companies. The disempowerment of these companies and the move of KDG's head office from Bonn (where Telekom has its headquarters) to Munich (the German media capital) marked a new beginning. Though this centralisation did result in the loss of 250 jobs, it also set the stage for future growth. Only three years later, KDG employed more staff than at the time of the takeover.

Meanwhile, the staff's range of responsibilities had fundamentally changed. Instead of merely administering cable subscribers, a notably larger sales team was actively selling digital content, aimed at cinema buffs or customers of foreign nationality, for example. Marketing specialists supported their sales force and developed innovative offerings for television consumers, internet surfers and even VoIP users.

In a first phase, private equity investors had set the stage for an increased variety of television channels by funding a switch-over to digital technology, of the (then already 20 year old) cable network. Shortly afterwards, they tackled another crucial upgrade, adding reverse channel capabilities. This, finally, made their network ready for the internet age.

The next step: New assets in the digital age

At the beginning of 2005, the turnaround of KDG was accomplished – a technology operator had evolved into a modern media company. As a next step, the company wanted to move into the telephony- and internet-business even further, thus becoming a fully fledged triple-play-provider. A corresponding business- and investment-plan was approved and the necessary network-expansion was initiated. After the first expansion phase, Apax and Goldman Sachs Capital sold their shares to Providence, who then was systematically increasing its engagement in the media sector.

Still funded by private equity, KDG continued its course of expansion: During the financial year 2006/2007, the company (with a staff of 2,700) achieved a turnover of roughly 1.1 billion Euros and an operating profit (EBITDA) of about 400 million Euros. Not at all bad for a company, which, at the time of its turnover, German newspaper FAZ had attributed a „non-commercial business-model". At the end of 2007, nine million households had subscribed to the television programs offered by KDG and nearly 350,000 customers utilised the additional telephony- and internet-services delivered through the cable network. This has made KDG to one of the Germany's leading triple-play-providers.