



Bundesverband Deutscher
Kapitalbeteiligungsgesellschaften

Case Studies

Debitel: Success through good communication

When telephone operator Debitel was sold to the Freenet group of companies in March of 2008, this was the conclusion of a successful private equity investment. By virtue of the take-over, a new market leader in the field of mobile telephony had emerged, positioned even ahead of competitors such as DTAG or Vodafone. Debitel's story illustrates how private equity can move a business forward. Back in 2004, after fruitless participation in the bidding process for UMTS-frequencies, Debitel's business strategy had led the company into a dead end. An unstable operational situation and high financial losses in several parts of the company called for urgent action.

The then majority shareholder Swisscom had probably discovered the best possible buyer for Debitel, in the shape of private equity company Permira. Permira's extensive know-how is based on over 20 years of experience in the private equity business, covering a multitude of industrial sectors and geographical regions. In 2004, Permira acquired 95 percent of Swisscom's Debitel-shares and subsequently delisted the company.

A "hands on" experience

Restructuring and re-focussing Debitel – such were Permira's plans. The companies entered into re-negotiations with network operators, sought long-term relationships with strategically important business partners and retailers and above all, they zeroed in on the German market: Debitel retreated completely from markets in Slovenia, Denmark und France.

Furthermore, effort was put into the development of the business model, and innovations and cost leadership were accomplished. In practical terms: New products were added to Debitel's range, the business model surrounding DSL-services was broadened and cost leadership was achieved by the introduction of three value enhancement programs.

The next goal on the list was nothing less than market leadership. DUG was acquired, Germany's biggest independent chain of telecommunication shops. Again, the business model was broadened and between 2004 and 2008, 420 new outlets were opened. When Talkline (a mobile phone operator with roughly 3.8 million subscribers) was taken over in June 2007, Debitel became the third biggest mobile phone service provider, ranking behind T-Mobile and Vodafone and ahead of E-Plus and O2.

Close co-operation and excellent communication, practised in the shape of a lively and more or less daily consultation between management and private equity company, proved to be the key to leading Debitel out of its dilemma. Permira kept closely involved at all stages, thus ensuring sufficient influence on operational issues.

A sale driven by business logic

In the spring of 2008, Permira sold Debitel group to Freenet AG, a transaction clearly driven by business logic. Debitel's successful consolidation was substantiated by financial data: The EBITDA increased by 187 percent and amounted to 255 million euros, in 2007, whereas in 2003, it had been 89 million euros. Company turnover and total staff had increased by 4 and 8 percent, respectively.

The merger of Debitel and Freenet resulted in Germany's by far largest sales organisation for mobile telephony.