

Venture consulting

CASE Study

Due Diligence of element 5 AG: A successful investment strategy with a sensational exit



IKB headquarters in Duesseldorf

CLIENT

IKB Private Equity GmbH, a subsidiary of IKB Deutsche Industriebank in Duesseldorf, accompanies young and innovative companies from the seed/start-up phase to pre-IPO financing (www.ikb.de).

INITIAL SITUATION

The Cologne-based company Element 5 AG was founded in 1998 by four young entrepreneurs. The outsourcing partner Element 5 AG offered e-commerce solutions and marketing services for the downloading of digital products to software producers. Software producers made use of these web-based solutions to help them sell their products either globally on the internet or via their distribution partners. With several thousand clients, the company already was the European market leader and was looking for an international expansion strategy.

CHALLENGE

In 2001, IKB Private Equity GmbH was looking for suitable investment options on the profitable TIMES market in order to expand its portfolio. In a joint effort with the existing investors 3i and Earlybird, they planned the launch of another financing round. Schoen + Company was commissioned to draft an exit strategy with a timeframe of three years.

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Olav Wilms, senior project manager and exit manager at IKB Private Equity GmbH:

„We are very pleased to have once again proven the competitiveness of German technology-firms on the international stage with this exit.“

APPROACH

First of all, business segments were identified that could have a strategic interest in the acquisition of Element 5 within the next three years. These were: service providers, e-procurement-B2B marketplaces, software retailers, e-commerce service providers and hardware retailers.

For each segment, a strategic development trend was deduced, potential buyers were identified and potential risks were illustrated. For the strategic planning, different strategy models were used, such as Porter's five forces and multidimensional scenario planning.

Finally, the basic arguments in support of acquisition were laid out for each segment, both from the perspective of Element 5 and of the potential buyers.



RESULTS

- In April 2004, Element 5 AG was acquired by Digital River, Inc., the US market leader in electronic-software sales. Digital River, listed on NASDAQ, paid US\$120 million cash.
- The acquisition was the biggest internet deal of the year.
- As was predicted in the exit strategy drafted by Schoen + Company three years prior, the strong presence of Element 5 in Europe and Asia was a perfect fit for the US market leader.
- The deal, in the nine-figure range, was a big financial success for the venture-capital firm. This deal was responsible for IKB Private Equity's extraordinarily high ROI rate for the year.



Schoen + Company is specialised in consulting technology and service firms and has the expertise, experience, tools, concepts and methods to be your competent partner.

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