



Buchanan – Brainloop Secure Dataroom™ ensures secure communication in gelmit medium-sized fund project

FAST FACTS:



CUSTOMER: **BUCHANAN CAPITAL GROUP** Buchanan Mezzanine GmbH, Starnberg

CHALLENGE: The examination of about 20 upper medium-size companies for allocating Mezzanine capital in the form of profit-participation certificates. All parties must communicate efficiently in the multi-level investment process and simultaneously preserve highest confidentiality.

SOLUTION: Brainloop Secure Dataroom as high security communication and collaboration platform

BENEFITS:

- No installation effort
- Effective project management
- Review process simplified and accelerated
- Legal certainty in the allocation process
- Highest security by T-System hosting

The "Profit-participation certificate fund of medium-sized firms", abbreviated in German as "gelmit", is with a volume of 430 million euros the largest German Mezzanine fund to date. It was developed by the Buchanan Capital Group located in Starnberg and launched in the summer of 2004 in conjunction with the DZ Bank and the DZ Private Equity Group in Frankfurt. The fundamental idea of the gelmit Fund: Medium-sized firms are indeed the backbone of the German economy, employing almost 70 percent of all workers and participating with almost 50 percent to the gross value added of German companies. Nevertheless even with high credit standing, the financing possibilities for medium-sized companies are always more difficult. Already due to Basel II, allocation policies of German banks have grown increasingly restrictive in the usual credit business. The gelmit Fund is thus to be a novel financing product: profit-participation certificate capital for established medium-sized family-owned enterprises.

As mezzanine capital, the profit-participation certificate capital is in between their own and the outside capital and thereby strengthens the shareholders' equity position of medium-sized companies, without which the

companies, the issuer of profit-participation certificates must concede shareholder rights to the investors. This is an important factor for raising capital especially for family-managed companies. On the other hand, for the first time gelmit offers investors the possibility of directly investing in a diversified portfolio of medium-sized firms. And this for an attractive risk-yield profile, since the gelmit profit-participation certificates have a fixed yield with an annual distribution.

Investors were rapidly convinced by the gelmit Fund. Instead of the 350 million euros originally targeted by Buchanan, a fund volume of 430 million euros was created. When the fund was successfully launched in the summer of 2004, an attempt was made to invest the capital within a small time window in medium-sized companies as capital acquirer and issuer of the profit-participation certificates. "Bringing well over 15 to 20 profit-participation certificate emissions of family-owned enterprises as investment options for structuring and subsequently the multi-level investment process was something which required the highest confidentiality on all sides as well as highly efficient communication. Brainloop AG came into play at this point", reports Jan

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von Hofacker, Managing Director of the Buchanan Mezzanine GmbH and one of the initiators of the fund. "The web-based Brainloop Secure Dataroom presented an ideal high security communication platform. It was precisely the secure collaborative environment which we needed for the fund partners at this stage." The partners of the gelmit Fund were the DZ Bank International S.A. as the depositary bank and administration company of the fund; the DZ Bank AG, which had taken over the placement especially for institutional investors as well as Volks- and Raiffeisen Banks; the Buchanan Mezzanine GmbH, responsible for the initiation and structuring as well as for investment consulting for the profit-participation certificate fund; the Euler Hermes rating GmbH, an Allianz subsidiary, which had to create a qualified rating for each of the issuers; a qualified investment committee of six members, to whom the administration company had to make a concluding Investment proposal; as well as the Clifford Chance chancellery, which took over the legal and taxation consulting aspects.

The fund's acceptance process began with preselection of the medium-sized companies by Buchanan Mezzanine GmbH. Euler Hermes then verified whether their rating was at least BBB or better. Finally the investment committee made a decision based on an investment proposal from Buchanan and gave a final investment recommendation to the administration company.

Apart from the credit check by Euler Hermes and a positive due diligence examination by Buchanan, the family-managed medium-sized companies had to show an annual sales turnover of at least about 40 million euros – in two cases it was even between 4 and 6 billion euros. The transaction volume was between 10 and 40 million euros for each of the issuers. Over a time period of about 9 months, thirteen allocation procedures for medium-sized companies took place, many of them simultaneously.

"For all the communication and data exchange, whether for investment analysis and submittal or for communication with the investment committee, Brainloop's virtual dataroom enormously eased our workload," says Jan von Hofacker. "Each of the participants could access the encoded and confidential documents in the dataroom simply and securely over the Internet; they could edit the files if necessary and also use

the dataroom for communication with the other participants involved in the process. You can open a 'discussion' in the dataroom and every member can track who viewed or edited which file."



Brainloop Secure Dataroom is completely web-based. As a kind of virtual document vault, it allows many different people to edit business documents anytime and anywhere in the world over the Internet. Provided they are authorized to do so, users inside or outside the company have access to the dataroom, or depending on their authorization – only to the individual documents stipulated for them. The dataroom acts not only as a document vault, but simultaneously as a document management system which tracks and documents all read accesses and document changes.

»» The web-based Secure Dataroom from Brainloop presented an ideal and highly secure communication platform. It was precisely the secure collaborative environment which we needed for our fund partners at this stage. ««

Jan von Hofacker

"We chose the ASP version of the dataroom solution ", reports von Hofacker. "The dataroom server is hosted in a highly secure data center operated by T-Systems. There was no installation effort on our end whatsoever. However, we were able to define the communication and release processes which were to depict the dataroom within the scope of the investment process. The dataroom supported us in establishing effective project management as well. This was also necessary because with gelmit the companies never issue a standardized profit-participation certificate, but every profit-participation certificate is individually customized and individually negotiated with the family-managed companies. The coordination requirements between all fund partners were accordingly high. This coordination process was considerably simplified and accelerated by Brainloop." Von Hofacker and a colleague acted as dataroom administrators. They created an individual dataroom for each of the 13 allocation projects. "We quite quickly became familiar with the necessary administrator tasks.

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Once a dataroom template for gelmit was defined, we could simply generate a separate dataroom from the template for each new allocation project. We could also define individual access rights within the dataroom or later adapt them when necessary. For example, some project participants had the right to modify documents; others could only enter the dataroom with reading rights. This role-based rights concept of the dataroom was very useful to us."

Daily work with the web-based dataroom is very simple. Users authenticate themselves at an arbitrary location from a browser by using access identification and a user-selected password. Individual access rights are not only defined for individual datarooms or dataroom directories, but also down to the level of individual files.

Every data transfer to the Secure Dataroom server, such as the upload and download of documents or the display of dataroom contents, is protected with 128 bit encryption. Moreover, all documents stored on the server are powerfully encoded with 256 bit keys and the acknowledged "Advanced Encryption Standard" (Rijndael algorithm), so that nobody can access the dataroom contents in the T-Systems data center where the server is hosted. The encryption and key administration for the operator and users runs transparently in the background and is automatic without any user effort. Brainloop Secure Dataroom represents not only a highly secure collaborative working environment and acts as a platform for the cross-company exchange of sensitive documents, but is simultaneously a document management system which makes it possible to track every read access and modification of a document.

Brainloop Secure Dataroom delivers a complete version history, because an integrated audit trail records all procedures in the virtual dataroom, every individual read access and every individual processing procedure. All accesses and document changes, decisions and attestations are noted in detail by the audit trail. Who had which level of knowledge when can be confirmed by the audit trail in the dataroom revision vault. "The legal certainty gained in the allocation process by the dataroom was an important factor in our choosing the Brainloop solution", explains von Hofacker. "After completion of all 13 audits for the gelmit fund project, we

simply archived the gelmit dataroom contents along with the audit trail on CD-ROM."

Now that the investment stage of gelmit I is completed, the succession fund gelmit II is currently being launched. At this stage, it is clear that the Buchanan Capital Group



will employ Brainloop Secure Dataroom again in the future. "The virtual dataroom was an enormous help with our project time line and with project management during the investment stage of gelmit. This became clear to us when we transacted the very first audit examination through a traditional process without the Brainloop dataroom ", said Jan von Hofacker. "The logistic requirements for future projects Buchanan is planning over the next one or two years are far more complex than for the gelmit fund. We feel that we can realistically master these challenges only with a solution such as Brainloop Secure Dataroom."