

## **Framfab grows in Europe and establishes a strategic partnership with SBI**

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Transaction and background description

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# Framfab grows in Europe and establishes a strategic partnership with SBI




## 1 Summary

Framfab and SBI Group Inc. have reached an agreement whereby Framfab is to buy the SBI London operation of 62 employees, adding to Framfab's business an important London-based business with a large international client base equally split between the UK and Continental Europe. The acquisition is an important step in Framfab's strategy to consolidate the internet consulting and interactive media applications development market in Europe and should allow Framfab and SBI to better service multinational clients by providing a stronger combination of talent and broader range of services. The transaction is subject to the confirmation of certain information about SBI (UK) and an approval by a Framfab shareholders' Extraordinary General Meeting (EGM) that is planned to take place on November 12.

SBI, headquartered in Salt Lake City, Utah, is a major interactive marketing and IT services firm with approximately 900 employees in 12 offices throughout the U.S.

The acquisition is proposed to be financed through a Framfab directed rights issue of 95 000 000 shares (13,4%) to SBI and cash SEK 6.0 million, plus additional cash SEK 4.0 million no later than 90 days from closing. The SBI shareholding, which equates to a 13,4% ownership stake, will be subject to a nine-month lock-in. Additionally, 35 000 000 shares (4,7%), or an equivalent amount in cash payable at Framfab's discretion, is payable in deferred consideration nine months after the transaction closes.

Following the transaction:

-  Framfab will have 430 employees in 6 countries including Denmark, Germany, The Netherlands, Sweden, Switzerland and the UK
-  SBI will be the largest single Framfab shareholder, with 13,4% ownership stake.
-  Ty Mattingly, Executive Vice president and one of the founders of SBI, will be proposed to join the Framfab Board at the EGM.

To further strengthen their partnership, Framfab and SBI will enter into a Cooperative Marketing Agreement (CMA) thereby forging a strong international alliance that will give Framfab's clients access to SBI's services in North America; and SBI's clients access to Framfab's services in Europe.

## 2 Main points of the acquisition

### 2.1 Transaction structure

The acquisition is proposed to be financed through a Framfab directed rights issue of 95 000 000 shares (13,4 %) to SBI and cash SEK 6.0 million, plus additional cash SEK 4.0 million no later than 90 days from closing. The SBI shareholding will be subject to a 9-month lock-in. Additionally, 35 000 000 shares (4,7%), or an equivalent amount in cash payable at Framfab's discretion, is payable in deferred consideration 9 months after the transaction closes.

Following the transaction SBI will be the single largest shareholder of Framfab holding 13,4 per cent of the shares and votes.

The transaction is expected to be completed in November.

### **Additional points of the transaction are as follows:**

- ✍ With SBI as a major shareholder and board member, Framfab improves its financial standing and strategic positioning significantly. The New York-based private equity company Cerberus Capital Management, with more than \$9.5 billion under management, is the majority shareholder in SBI. The sales figure has grown from USD 32 million in 1999 to USD 150 million in 2003 (forecast). The company is profitable and has a positive cash flow. The company is privately held. SBI serves clients like Cisco Systems, Dell, Eastman Kodak, and Pfizer. Among the clients in London are Allied Domecq, DuPont, Lloyds TSB Group, Philip Morris International, Sara Lee Douwe Egberts, and UBS.
- ✍ SBI (UK) is expected to be profitable in the fourth quarter of 2003 with annualized revenues of approximately SEK 70 million. At closing, SBI (UK) will have a strong balance sheet with over SEK 6.0 million cash and no long-term debt.

The rights issues are subject to an approval by a Framfab shareholders' Extraordinary General Meeting. This meeting is planned to be called for November 12, 2003 in order to approve the directed rights issue of 95 000 000 shares (13,4%) to SBI as payment for all shares in SBI (UK), and the deferred payment of additional 35 000 000 shares (4,7%) alternatively cash to an equal amount. A notice to the EGM will be published on October 22.

## **2.2 Cooperative Marketing Agreement**

To further strengthen their partnership, Framfab and SBI will enter into a Cooperative Marketing Agreement (CMA) thereby forging a strong international alliance that will give Framfab's clients access to SBI's services in North America; and SBI's clients access to Framfab's services in Europe.

The Agreement aims to provide each parties blue chip international clients with a broader geographical presence, local language skills sets and a broader portfolio of interactive digital media service offerings across North America and Europe.

Through this alliance Framfab's customers can be served in North America by SBI, and vice versa. Furthermore, SBI and Framfab will share resources as appropriate. By combining forces for selective current and prospective new international client assignments, SBI and Framfab will be an attractive partner for customers pursuing interactive digital media communication and technology initiatives on a global basis.

## **2.3 Board of directors**

Subject to Extraordinary General Meeting approval, the extended Framfab Board of directors will consist of:

|                 |  |
|-----------------|--|
| Sven Skarendahl | Framfab - Chairman                                   |
| Anders Ekman    | Framfab - CEO  |
| Robert Gogel    | Rebus Insurance - CEO                                |
| Kaj Green       | Exensus, PromaCom - Chairman                         |
| Ty Mattingly    | SBI Group Inc. - Executive Vice President (proposal) |

## **2.4 New ownership structure**

Following the approval of the EGM and the subsequent upfront payment of shares to SBI Group Inc., Framfab will have 709 996 418 shares in total. SBI Group Inc. with 13,4% of share capital and voting rights will be Framfab's largest shareholder. Based on current shareholder structure, Institutional owners will together hold about 22% of the share capital and voting rights.

## 2.5 Financial information

Below are set out certain financial information for Framfab and SBI (UK). The Framfab figures are from the latest published interim report i.e. Jan-Jun 2003, and the figures for the un-listed SBI (UK) are for the corresponding period.

| <u>(SEK million)</u>              | <u>Framfab</u> | <u>SBI (UK)</u> | <u>Framfab after transaction</u> |
|-----------------------------------|----------------|-----------------|----------------------------------|
| Sales Jan-Jun 2003                | 132.3          | 34.7            | 165.1                            |
| Sales 12 months ending Jun 2003   | 279.1          | 90.4            | 369.5                            |
| Employees at the end of Sep, 2003 | 366            | 62              | 428                              |

The transaction will in medium term result in some synergies through reduced costs and overhead. Framfab and SBI will be able to share costs for Stock exchange listing, management, legal and IT on a broader base. Additionally it is foreseen that synergies will appear on the sales and production side, in the cooperation with pan-European clients. One should note that Framfab Netherlands and Germany already is supporting SBI (UK) on two client projects prior to closing.

SBI (UK) will have a cash balance of 6.0 million upon closing and does not have any intangible assets booked into the account. The solidity is 36% in SBI (UK).

Framfab expects the transaction to be cash flow neutral in 2003. The board will additionally consider using the outstanding authorization of the AGM of 2003, which entitle the board to issue shares to finance acquisition, to fund the deferred payment and transaction cost or other cash elements within the deal.

SBI (UK) is expected to have marginally positive earnings in the fourth quarter.

## 3 Drivers and business rationale

### 3.1 Underlying growth

For almost ten years there has been a strong underlying upward trend in demand for Internet based business and communication. For the foreseeable future, all industry observers forecast a strong double-digit growth for Internet usage and online B2B transactions. After the period of over investment in the end of the 1990s, customers have slimmed budgets to a minimum, relying on insourcing and overusing old systems. In line with a rebound in the general economy and profits, much needed investments in IT-systems will have to come through. However, the market upturn has seen several false starts and no one really trusts 2003 to be the turning point. Reduced Internet capacity increases the likelihood of a turn-around, when budgets will increase and outsourcing will reappear. The price levels in the Internet consultancy business have already shown some signs of bottoming out.

The Internet consulting market is now positioned for a restart, as the rebound in the general economy takes place. A recovery will release pent-up demand for sophisticated and complex Internet solutions.

### 3.2 Changing competition

The global downturn of the IT and Internet consulting market begun in mid 2000, in the aftermath of the collapsed late 1990's IT-and dot.com hype and over-investment period. Without exceptions, US and European firms in the sector have undergone substantial restructuring and downsizing. Several have filed for bankruptcy. Others have mutated into other business' in the IT and/or creative area, and fundamentally changed scope and business models.

The late 2003 market place is populated by a high number of small or very small operators. Only a handful companies in the world employ 500 to 1,000 employees. Large IT and business consulting conglomerates such as Accenture and IBM/PWC have withdrawn from the creative web application development sector.

Similarly, many of the large media and advertising houses closed or divested their creative digital media boutiques. The remaining actors are remnants of former large IPO-funded web consulting companies, nowadays with eroded balance sheets and poor P/Ls, complemented with a multitude of very small locals (independent groups of former employees of these firms), who continue to do local business from a very low infrastructure and cost base.

Few firms maintain international ambitions. Most companies have withdrawn to their home turfs while hibernating harsh economic cycles, repositioning while awaiting better times. There is therefore emerging a kind of vacuum when it comes to serving the large international clients. Survivors who have been able to consolidate and roll-up actors into larger international networks that match such needs will therefore have a business opportunity.

### 3.3 Changing demand

Large international client corporations still need international vendors and service providers in the creative, digital media communications and branding area. While attempting to insource and handle much of their web based purchasing, intranet and B2B applications development internally to cut external spending, the need for niche specialist skills remains. This includes areas like:

**E-trade** is emerging in full force within virtually all “old economy” companies, and not only in what remains of the dot.com sector. Its growing importance to all business means that IT is becoming a crucial strategic tool. To remain competitive companies will have to serve their e-customers with state-of-the-art solutions and systems. Failure to do this can quickly erode market positions. Technology develops at a rapid pace and IT investments therefore have a limited shelf life. This, in conjunction with the systems’ increasing strategic significance, has important implications for the web consulting business.

**System integration** is today another important factor in the demand growth. Despite the economic downturn, investments in CRM systems and back-end integration continue as companies strive for greater efficiency in existing investments. Multi-device solutions are another growth factor, where companies want to offer their products and services through multiple channels (store, call centers, Web etc.) and serve their customers through multiple devices (PC, cell phone, TV, PDA etc.)

**Online-marketing** applications takes an increasing share of companies marketing budgets. The limiting factor for a very rapid expansion is the fact that many of these activities are still at a fairly unsophisticated stage, and needs further development. But companies will continue to seek to leverage and develop business and their strong brands also in digital media. There is a growing need to improve the digital dialogue with suppliers, clients, employees as well as other interested parties and stake holders

**24-hour government:** This is a new and expanding service that is increasingly embraced by the public sector in Europe. Countries like UK, Sweden, Finland, the Netherlands etc. have launched ambitious projects in order to create such services. The projects include all digital consulting services, both front-end design and system integration in order to improve services to the general public.

**Outsourcing** is again in increasing demand. During the economic downturn several large web investors decided to in source their web activities. The trend is swinging back towards outsourcing, as the costumers realize that in a fast changing environment, they can find more cost-effective, state-of-the-art solutions outside their own organization.

The typical type of customer is today a large international company. Such companies increasingly seek to buy from only a few suppliers that they can envision as partners helping them build their business long-term. This means that they, apart from professionalism, also demand size, geographic reach and financial viability.

### 3.4 A new position for Framfab

The industry is ripe for consolidation. Locally, a few Internet consulting companies have been bought by clients or IT firms. Examples of this are:

In Germany, xtend acquired Razorfish, Grey merged their dialog and online agencies Argonauten, Dynamic

- CRM and Grey Direct, and Digital Advertising bought Elephant Seven and parts of the insolvent WWL.
- ~~///~~ In France, Planète Interactive has bought Heptaline, Avenca has merged with Oraki Productions, B2L is merged in BBDO Proximity, FiSystem is in judicial process, and Fullsud is going through a judicial reorganization.
- ~~///~~ In UK, systems integrator Detica purchased services firm Rubus.
- ~~///~~ In Finland, the Nordic IT consulting giant VM-Data bought parts of the operations of Icon Medialab Oy.
- ~~///~~ In Denmark, the larger IT consulting company TietoEnator bought Araenum, Software Innovation bought Balthazar, and Esense was acquired by its client NovoNordisk IT
- ~~///~~ In the Netherlands, Clockwork was acquired by the IT company Ordina, and the Internet and CRM consultancy group within Escador was acquired by Icon Medialab/Lost Boys Group.

However, so far no single services firm has undertaken a more ambitious strategy of leading the European market through a combination of consolidation and organic growth.

#### **3.4.1 Surviving, and now expanding**

After three year of downsizing and restructuring, Framfab initiated its selective and careful growth strategy when it took over parts of the former Icon office in Copenhagen, Denmark. The acquisition of the SBI UK-office and alliance with SBI is a very significant second step. Further partnering and M&A activities are anticipated, both in the market place in general and from a Framfab perspective. This process is likely to accelerate when the economic cycles slowly shifts.

#### **3.4.2 Growing for critical size**

The industry and Framfab has learned its late 1990's lessons. Uncontrolled growth by too fast expansion and excessive acquisitions will not reoccur. M&A initiatives will be based on very careful and solid due diligence, where business, financial and legal aspects are meticulously scrutinized.

The acquisition of parts of the former Icon office in Copenhagen meant adding healthy and profitable business from day one. Similarly, the acquired SBI (UK) forecasts marginally positive P&L and cash flow thanks to a series of initiatives made prior to, and conditioned by, the acquisition. Framfab will not grow by acquiring units having a negative impact on company cash flow. The acquisition establishes a UK presence with 62 people and grows overall Framfab operations by 20 per cent.

Large international blue-chip customers, who represent the lion share of Framfab turnover, proactively challenge Framfab to grow to match their requirements, both in terms of its geographical reach and local implementation capacity, but also in terms of balance sheet strength and financial viability. It also implies improved profitability since listing costs and group overhead will be carried by an additional, sixth Framfab country operation.

#### **3.4.3 Serving the international clients**

The SBI (UK) customer base features many similarities to the ones of Framfab: large, international clients seeking to leverage and develop business and their strong brands. There is an increasing need to do this in digital media and to improve the dialogue with suppliers, clients, employees as well as other interested parties and stakeholders.

The SBI (UK) skills base, approaches and methodology marry very well to the ones of Framfab. Currently 50% of SBI (UK)'s business comes from mainland Europe so significant opportunity exists to leverage SBI's client base and Framfab's European delivery capability. Additionally, following this transaction the UK firm will be well positioned to leverage Framfab's client base in the UK, augmenting this with local delivery capability

The strategic intent is to leverage the SBI strong global presence and business with major US and international corporations, developing and growing those also in Europe. Framfab will be key in growing the European arms of such business, enabling SBI to provide global presence and service to key customers. In return, the strong position of SBI in the US will be of strong benefit to several of Framfab's largest customers.

#### 3.4.4 Improved geographical reach

From its SBI (UK) London office, now acquired by Framfab, customers are served in both Continental Europe and UK. By adding presence in the important UK market, the acquisition is adding weight to Framfab's position as a leading and fully European Internet consultant.

#### 3.4.5 New ownership structure enhances financial viability

With SBI as major shareholder and in a board position Framfab improves its financial standing and strategic position, backed by the New York based private equity company Cerberus with more than 9.5 billion dollar under management as owner with a long term view and strong industry strategic intent focused on profitability, growth and industry consolidation.

## 4 The companies

### 4.1 Framfab


Framfab is one of Europe's leading Internet consulting companies with a focus to develop digital media communication and branding solutions for its clients. The company has a solid market position and an attractive customer base, required expertise in core areas and a pan-European scope. It is defined as being one of the three leading players, both overall and locally, with regard to image and size.

Framfab has a clear strategy for attaining leadership in each individual market in which it operates.


Framfab's response to the market development in recent years has been to meet the future with niche expertise services. Today, Framfab is a pure consultancy company in line with customer development where the customers are systematically transferring their sales and marketing efforts to the Internet.


#### 4.1.1 Customer offer/business concept

Today, the company focuses on helping clients build what it terms "Digital Brand Experiences". Internet is the main area but there are also competences within other digital channels like mobile telephony, interactive TV, and broadband communication. Framfab's core competencies are within the following areas:

 **Interactive solutions**, provides online services, methods and concepts for sectors such as the automotive industry, financial services industry, the public sector and the telecom sector as well as branding & marketing in healthcare, online branding in the consumer goods industry, B2E, sales & customer service and corporate communication.

 **Technology & Infrastructure**, includes standard solutions for content management, e-commerce and portals. Moreover, Framfab implements the market's most common content management products.

 **Maintenance & Support**, offers services that maintain, manage, supplement and support in-house developed and externally developed web applications in management, service and traffic generation at defined service level agreements.

 **Emerging Technologies**, develops new products and services, such as mobile and web services.

#### 4.1.2 Operations

Framfab will now operate from 10 offices based in six European countries: Denmark, Switzerland, the Netherlands, Sweden, Germany and the United Kingdom. The subsidiaries have a high degree of independence whereas central Group functions have been reduced considerably. Development and innovation is fostered by the concentration of resources to four centers of excellence: The Gothenburg and Munich Automotive Centers of Excellence, the Cologne Financial Services' Center of Excellence and the Copenhagen Consumer Goods Branding Center of Excellence. Framfab has the ambition to be one of the three leading companies in all markets that it operates.



#### 4.1.3 Customers

Framfab is mainly serving its customers in long-term partnerships. Among high profile clients are large international companies such as Danske Bank, Nike, Volvo Car Corporation, Vodafone, AstraZeneca, 3M, IKEA, AXA, Renault, UBS, Coca-Cola, Philippine Airlines and Carlsberg Breweries. These will now be supplemented with SBI (UK)'s clients. Among the clients in London are, Sara Lee, UBS, Philip Morris International, Allied Domeco, DuPont, and Lloyds TSB Group.

#### 4.1.4 History and Background

Framfab was founded in 1995. The company had a flying start and rapidly attracted a large number of high profile customers, mainly in the Swedish market. A rapid expansion was also initiated at an early stage, through mergers and acquisitions. In 1999 Framfab was listed on the Stockholmsbörsen (the Stockholm Exchange) O-list. During the Internet hype and the following crisis in 2000-2001, Framfab managed to maintain its good relations with its many important customers in Europe, although this was a turbulent period for the company and its shareholders in many respects.

A few companies have had the strength to survive. Thanks to size, market position, customer base and credibility in the market Framfab has been able to survive during three years of major restructuring. Focus has changed from expansion to profitability, capacity has been radically trimmed to demand and costs have been cut to matching levels. Business models have been adapted to realistic market needs and conditions. Strategy and structure have been reoriented towards service offerings which concentrate on focused value-creating services. Since 2002 Framfab operates with a new management. Its vision of Framfab is a company that will grow into a major European player, and take an active part in the forthcoming consolidation in the sector. New owners have entered with a long-term view on their investment.

#### 4.1.5 Ownership structure

Framfab has about 79,000 shareholders. The proportion of institutional shareholding has historically been very low. This has been improved after a direct rights issue in August 2003. SBI Group Inc. with 13,4% of share capital and voting rights will be Framfab's largest shareholder. Based on current shareholder structure, Institutional owners will together hold about 22% of the share capital and voting rights.

### 4.2 SBI Group


SBI Group Inc. is a network of specialized consulting divisions that helps leading companies apply information technology to solve specific business challenges. Its SBI.Razorfish division uses a user-centric approach to design and implement web-based systems and integrated marketing programs that build stronger customer relationships, increase revenues, and enhance user satisfaction. Its SBI.Enteris division works with companies to boost business performance by improving business processes and their supporting technologies. SBI Group has 12 offices in major cities across the U.S. and serves European clients through an affiliate relationship with Framfab. For more information, visit [www.sbigroup.com](http://www.sbigroup.com).




#### 4.2.1 Customer offer/business concept

SBI has deep technical competence and is specialized in technical and commercial solutions connected to the clients' use of the Internet. Their consultants have a long experience about the integration of design and technology.

The company fills a market niche between the pure strategy firms that delivers an end product and outsourcers. SBI work with the clients to understand their challenges and deliver project-based initiatives that improves the business.

SBI is focused on a targeted set of industries including telecommunications, financial services, manufacturing, retail & CPG, and life sciences. SBI combines user-driven design, technology expertise, and business process knowledge to help clients:

-  Develop customer relations through integrated and interactive marketing.

-  Create e-commerce experiences that combine understanding of retail merchandising and proven customer care.
-  Improve cooperation with different stakeholders through real-time enterprise systems, Web services, intranets and portals.
-  Improve business performance through digital dashboards, enterprise content management, business process design, and program management offices.

#### **4.2.2 Operations**

SBI has 12 offices (Atlanta, Boston, Chicago, Dallas, Ft. Lauderdale, Houston, Los Angeles, New York, Portland, Salt Lake City, San Francisco, Seattle, Warren, Washington) in the US, and its headquarter is located in Salt Lake City. SBI (UK) ranks among the top three largest interactive media consultants in the UK

#### **4.2.3 Customers**

SBI counts amongst its clients some of the biggest companies in the world. Their target client list are Global 100 companies, many of them are already SBI customers. Among them are Cisco Systems, Dell, Eastman Kodak, and Pfizer. Among the clients in London are Allied Domecq, DuPont, Lloyds TSB Group, Philip Morris International, Sara Lee Douwe Egberts, and UBS.

#### **4.2.4 History**

CEO Ned Stringham and the management team founded SBI in 1997 with financial support from Cerberus Capital Management, a private equity company in New York, and GE Capital. The company has grown significantly since its inception and has today approximately 900 employees. SBI has grown through organic growth and gradual acquisitions of well-reputed IT-consultants in need of stronger owners or improved financial structure, and organic growth.

#### **4.2.5 Ownership structure**

Today Cerberus, together with G E Capital, holds a controlling position of the company, with executive management and employees hold the balance. SBI is privately held.