



*Investing in fragmented, high-growth,
technology- and scale-intensive industries
in partnership with strong management teams*



OVERVIEW

Capitol Partners, one of the Mid-Atlantic region's premier middle market private equity firms, seeks to realize superior medium-term capital gains by investing in consolidating, fragmented industries by partnering with strong management teams to build companies through acquisitions and internal growth.

Capitol Partners' 'platform investment' strategy relies upon a company and its management team serving as the 'platform', both in terms of industry expertise and management talent, for significant further investment in that industry.

Rather than making a number of separate investments in an industry, Capitol Partners prefers to make additional investments through the same 'platform' companies, whose management and strategy are already proven and familiar to the investment firm.

Consistent with this strategy of backing superior management, the firm does not interfere in the day-to-day operations of its portfolio companies but instead provides proactive governance through the board of directors. In addition to investing in its portfolio companies, Capitol Partners provides the following value-added services:

- Formulating strategy.
- Optimizing the capital structures of its portfolio companies.
- Originating, analyzing, structuring, negotiating, and financing acquisitions.
- Recruiting additional talented management.
- Raising additional financing.

Capitol Partners, with its sister venture capital firm New Horizons Venture Capital, manages \$200 million in assets.

INVESTMENT PREFERENCE

Capitol Partners focuses on industries, or segments of industries, which share the following basic characteristics:

Moderate-to-high growth, which will enable properly capitalized and well-positioned companies to simultaneously benefit from both operational improvements as well as industry growth.

High operating leverage or scalability, which provides an opportunity for significant cash flow generation through incremental operational improvements given their relatively high fixed costs, yet low variable costs, as well as support for greater debt-leverage for added equity returns.

Large and fragmented industry, which affords an opportunity for the target companies to act as 'platforms' and enhance their internal growth with acquisitions and ultimately create significant economies of scale.

The combination of all three industry characteristics creates a unique investment opportunity wherein a well-capitalized 'platform' company, led by a seasoned management with a clear vision and a successful performance record, can reap significant upside.

COMPANY FOCUS

Capitol Partners will focus on companies with the following basic attributes:

Strong management team with both a clear vision and a successful performance record, which will provide the appropriate management experience and industry expertise to effectively and efficiently implement the 'platform investment' strategy while maximizing shareholder value.

Well-established, yet diversified, customer base, which mitigates the risk of customer hold-up and consequent appropriation of value.

Well-recognized brand equity, which limits market risk by reducing the cost of acquiring and maintaining customers and affords the opportunity to grow the business incrementally by leveraging off the brand.

Privately-held, which allows for the pursuit of private-public enterprise valuation differentials, enables Capitol Partners to leverage its financial and managerial capabilities, and permits the transaction to be closed in a more timely manner.

The combination of these portfolio company characteristics with Capitol Partners' financial and managerial support creates significant value for sellers, management, and investors.

CAPITOL PARTNERS TRANSACTIONS

The firm provides equity capital to support financing needs such as:

- Recapitalizations.
- Management-led buy-outs.
- Liquidity for existing shareholders.
- Mergers and acquisitions.
- Capital investments.

The transactions undertaken by Capitol Partners typically include the following basic characteristics:

Continued participation by existing management, supported by a properly structured equity-based incentive system that effectively aligns the interests of employees and management with those of the investment firm.

Continued equity participation by seller; providing the sellers with a combination of cash and continued participation in the 'upside' of the venture.

Debt leverage, which reduces agency costs while increasing potential equity returns.

Negotiated exclusive transaction, which permits rapid closure of transactions.

Historically the firm has made acquisitions of up to \$50 million with equity investments of up to \$20 million. While the firm targets investments of \$25-50 million, Capitol Partners has actively pursued and will continue to explore smaller investments.

CAPITOL PARTNERS INVESTMENTS

Capitol Partners focuses on technology, scale, and infrastructure-intensive investments in select segments of the health care, Internet, telecommunications, energy, and basic industries.

Information Technology-Based Segments

Capitol Partners has been implementing its 'platform investment' strategy in high-growth, yet fragmented, segments of industries in which the use of information technology can support a differentiated competitive strategy. In particular, it does so where there is a scale-intensive, low-cost product-service in which technology reduces per unit costs or a high value-added, premium product-service in which technology expands and deepens the product-service offering.

Health care. Capitol Partners is attracted to the health care service industry given the sector's strong long-term growth drivers. The firm has focused on particular niche segments of the industry advantaged by favorable demographic, technological, and cost characteristics. The core growth in this sector is complemented by the opportunity for growth from the acquisition of the numerous small competitors in this fragmented industry.

Internet. Similar to the firm's investments in the health care information technology sector, Capitol Partners is attracted to the Internet space because it offers a combination of high core industry growth, high operating leverage, and the availability of acquisitions for complementary growth.

Infrastructure-Based Segments

Capitol Partners is also pursuing its 'platform investment' approach in industries requiring heavy infrastructure investments like the telecommunications, energy, and basic industries. Similar to its investments in information technology sectors, infrastructure-based industry segments offer high operating leverage and create significant incremental cash flows as well as barriers to entry for those who are able to grow quickly. Investments in these segments traditionally are larger, they have a larger debt component, and they involve companies further along in their life cycles.

Telecommunications. As the communications marketplace continues to consolidate and service offerings blur previous distinctions, Capitol Partners is well-positioned to capitalize on opportunities to compete in this changing marketplace by leveraging its information technology- and infrastructure-based investment experience.

Energy and Basic Industries. The changing environment in the energy and basic industries presents attractive investment opportunities for Capitol Partners to find orphaned, niche, or non-strategic assets that may not be a fit for their current owners, but could benefit from participation in a focused, scale-driven strategy with a specific strategic focus and possible liquidity-enhancing transactions.



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