181°

CASE STUDIES ON SUCCESSFUL BRAND LICENSE PARTNERSHIPS

No. 4

AB Electrolux

and

AEG Power Solutions B.V.

- Brand Licensing in Corporate Re-structuring -

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AEG HISTORY

AEG is one of the most famous and legacy brands of Germany. Founded in 1883, **A**llgemeine **E**lektrizitäts-**G**esellschaft AG became a pioneer in the development of electrification, electric power generation and transmission, consumer electronics and communications. During its dynamic and eventful history, AEG was in the forefront of the electric industry with global rivals like Siemens, General Electric, Westinghouse, Koninklijke Philips, Hitachi and others. Many pioneering inventions in the field came from AEG, including the hair dryer, the portable drilling machine, the electric locomotive and many more. AEG was also known for its dedication to functional design and corporate identity.

By 1980, AEG had developed into a diversified group with countless entities and products, with annual revenues of Deutschmark 15 billion (EUR 7.7 billion) and over 130.000 employees. At that time, the group was in serious financial troubles and suffered mainly from three factors. Due to its diversity, the application of portfolio management principles for the different divisions became increasingly complex and uncontrollable. AEG's foray into the construction of nuclear power plants had been very costly and still required expensive warranty provisions for projects finished 10 years earlier. And on top of that came two oil crises in 1973 and 1979 which fully hit AEG in a vulnerable stage.

As a result, AEG had to file for a structured settlement in 1982 and to divest substantial activities until 1984. In 1985, Daimler-Benz emerged as white knight and acquired the remnants of AEG in pursuit of its vision to become a fully integrated technology group. However, Daimler was neither successful in transforming AEG into a fully profitable operation, nor in implementing its own vision; the divestment of single AEG businesses went on. Renowned acquirers included Thomson Brandt (AEG Telefunken consumer electronics division), Adtranz (rail cars), Atlas Copco (power tools), Schneider Electric (automation technology), Electrolux (household appliances), Stiebel Eltron (home comfort), Philips (Lighting), Cegelec (electrical engineering), GEC Alsthom (power technology). Some businesses were integrated into Daimler group companies (automotive, rail cars and aerospace). AEG became smaller and smaller, and by 1996 AEG was dissolved as a company.

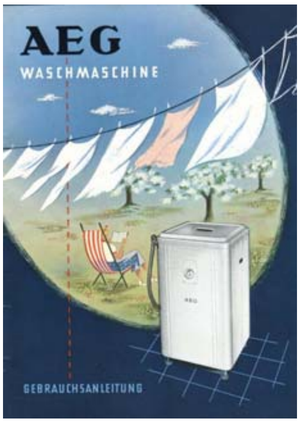
Against all odds, the AEG trademark was indestructible. During the yearlong restructuring and sell-offs, Daimler kept full ownership of the AEG trademark rights. Acquirers got licensing rights for the AEG tradename altogether with the business assets – most of them royalty-free, and continued to use the brand. After 10 years, Daimler still had a portfolio of approximately 50 AEG licensees who were more or less active under the AEG brand. At that point in time, in 2004, Electrolux – who had acquired AEG's household appliance business and a relating trademark license back in 1994 – acquired the AEG trademark rights together with the licensing agreements from Daimler and resumed a structured, strategic approach to use and capitalize the AEG brand name.

THE ODYSSEY OF AEG's POWER SUPPLY BUSINESS

Among the scattered remnants of dissolved AEG in 1996 was an entity operating under the name of AEG SVS Power Supply Systems GmbH. This company comprised former AEGs activities in uninterruptible power supply equipment, switched-mode power supply, power controllers, and the related customer -specific engineering. The company had approx. 600 employees and operated worldwide, with its main factory in Belecke, Germany.

Two years later, AEG SVS was acquired by French Saft Power Systems Group. Saft Power Systems Group was originally introduced as a subsidiary of Saft Batteries in 1947, offering a line of battery chargers and power systems. Saft was part of the Saft Batteries which itself was majority-owned by Alcatel. To reinforce its portfolio of power quality products and increase its global market presence, Saft Power Systems Group did a number of international acquisitions during the 90ies. In 1992, it acquired NIFE from Sweden. In 1995, it acquired Harmer + Simmons Ltd from UK to become a world leader in telecom power systems and switchmode technology. And in 1998, it acquired AEG SVS Power Supply Systems GmbH in Germany to reinforce its UPS systems product portfolio and its position in Germany and Eastern Europe.

Since 1928, Saft Batteries has been a part of French giant Compagnie Génénerale d'Electricité (CGE) who later acquired Alcatel and later formed Alcatel Alsthom and Alcatel NV. Between 2001 and 2002, Saft Power Systems Group was separated from Saft Batteries, and was subsequently merged with Alcatel's converter business in 2002 to form Saft Power Systems Group as a division of Alcatel. In 2005, Alcatel sold Saft Power Systems Group to private equity firm Ripplewood Holdings, then compris-



ing the three units Saft Power Systems, AEG Power Supply Systems and Harmer & Simmons. In 2008, the company was renamed AEG Power Solutions BV, headquartered in the Netherlands. At that time, the company had annual revenues of EUR 343 million, a headcount of 1,600 and subsidiaries in 16 countries. Former AEG SVS stood more or less for one third of the company at that time.

In its long history before the Ripplewood acquisition, the business could never operate as a fully market oriented entity. It had always been part of a big group of companies (CEG, Alcatel), and had to follow the strategic interests of their parents. As part of Alcatel, its major task was to support Alcatel's telecom network projects with power supply solutions. After its acquisition by Ripplewood in 2005, the company became – for the first time in its life – independent. It could no longer rely on specific customers, applications or regions, as predetermined by their parent. The business was freed and had to compete against specialists in power supply solutions worldwide. In this new role and market approach, the company had not only to attack new market sements and customers (i.e. solar inverters), but also to rethink its branding.

RELOADED THROUGH A NEW TRADEMARK LICENSE

A completely new branding was considered to be risky and expensive. Its former trade name Saft (Société des Accumulateurs Fixes et de Traction) had a strong association with batteries. Further, and despite its international activities, it was still perceived to be French. The battery activities of Saft continued under the Saft Groupe SA branding. Harmer & Simmons was known for its specialist telecom and CATV solutions. Considering all arguments, the AEG brand name was the superior and most logic solution by far. The AEG branding was open to new products and solutions, it was international, and it clearly differentiated the business from its French Saft and Alcatel history.

The AEG brand has been established in the electronics industry for more than 100 years. The management of the company believed that in the industry in which AEG PS Group was operating the AEG brand stood for high product quality and reliability. They intended to make use of that favorable perception by using the AEG brand for almost all of AEG PS Group's products and services. Except for its monitoring and control solutions for photovoltaic systems which will remain under the skytron brand, all products and services which were offered under a different

brand were intended to be rebranded to the AEG brand.

One problem remained. AB Electrolux was the owner of all of the AEG trademark rights. Saft Power Systems Group had a trademark license for the AEG brand which was limited in all aspects: to the original product range of AEG SVS back in 1996, to some territories including Germany, Hungary and the Czech Republic, and to a short term. Further, the license was not exclusive. In order to build a sustainable future, the company needed a new license agreement with the brand owner, which was subsequently negotiated, signed and effective by July 1st, 2008.

The new license agreement is exclusive and worldwide (except for Iran, Sudan, Syria, North Korea, Cuba). It has an initial term of ten years and is extendible for another 10 years. After 2011, AEG PS has the right to terminate the agreement with a one year notice period. The licensed products include, among other things, uninterruptible power supplies; switch mode power supplies; power control systems and modules, DC power supply systems, and solar inverters and systems. The royalty rate is based on actual sales and amounts to 1 to 1.5 % of the total net selling price of the products trademarked. A minimum royalty is due, increasing from EUR 2.7 million in 2009 to EUR 6,7 million in 2014 and reflecting both growth expectations and an extending scope of products. AB Electrolux may terminate the agreement in case the sales of trademarked products by AEG PS Group decline for two consecutive years below 75 % of the applicable sales target for the preceding year.

Both parties to the new agreement were winners. AB Electrolux, a market leader in household appliances, would never intend to be active themselves in the business of AEG PS. Through the new agreement, AB Electrolux was able to extend the scope of an existing license agreement to a larger, already established business. In other words, it subsumed additional sales volumes from their former Saft and Harmer & Simmons branding under the AEG branding. With the new agreement, AB Electrolux had a very serious and long-term partnership in this important category, with good prospects to position and root the AEG brand name in power solutions in the very long run. AEG PS got a strong, established branding without the need for heavy investment in new branding, at an acceptable running royalty rate, and for a combination of long term safety and short-term option to withdraw. A very wise and balanced agreement in all aspects.

Ripplewood sold its shares in AEG PS in 2009 to Germany1 Acquisitions Ltd., a special purpose acquisition company listed on Euronext and founded by German consulting and investment veterans Roland Berger, Thomas Middelhoff and Thomas Lahnstein. Shortly thereafter, Germany1 was renamed 3W Power Holdings SA and relocated to Luxembourg. AEG PS remains the only shareholding of 3W Power. In other words, AEG PS re-emerged from an unprofitable non-core activity of Alcatel to an independent, publicly listed business under the AEG brand and corporate name.

SUMMARY

The restructuring of larger businesses operating under one brand or trade name, i.e. their split-up into separate independent entities, may require that the separated businesses have a chance to continue under their existing and established branding. Trademark licensing arrangements are a means to provide both flexible and binding solutions for all parties involved. The Electrolux—AEG PS case is an impressive example for successful brand licensing and for the fruitful use of trademarks in and after corporate restructuring.

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