TANK & RAST

Plenty in the tank

Terra Firma transformed German motorway service area business Tank & Rast so drastically that its previous owner wanted it back. Isobel Markham reports

Terra Firma's decade-long ownership of Tank & Rast, Germany's largest owner and concessionaire of motorway services areas, was not without its highs and lows.

"This first act, 2004 through to 2007, [saw] a great deal of success — strong operational performance and then the partial exit, netting more than a five times return," says Terra Firma director Robin Böhringer, a former member of Tank & Rast's advisory board.

"Then the second act, between 2008 and 2012, was a lot more difficult just because of challenging markets, [and] there was almost a complete write-down. And then in the third act there was a successful exit starting with the refinancing in 2013 and then increasing the return from five times to 7.5 times."

On acquisition from a consortium including Apax Partners, Allianz Capital Partners and Lufthansa in 2004, the market was not quite sure in which investment bucket Tank & Rast belonged.

"Was it a retail business? Was it a real estate business? Was it an infrastructure business?" asks Böhringer. "We saw an opportunity to reposition the business as infrastructure because of its infrastructure-like qualities, so that the next time around you actually had a real infrastructure business and you could attract the infrastructure investor universe."

1 SIMPLICITY RULES

Böhringer describes Tank & Rast's business plan on acquisition as "complicated".

"There were a lot of elements in there, and the management had a priority list which was longer than 20 points," he says. "We thought we should probably just focus on what was really important and what was the highest value add."

Tank & Rast had a steady flow of passing traffic; after all, motorists need to refuel or use restroom facilities. However, maximising the upside of these passers-by was not being approached in a systematic way.

With Terra Firma's help, the management team focused on turning motorway travellers into visitors to Tank & Rast's sites and turning those visitors into customers.

"This is how we thought about the business plan, and whenever we thought about what initiatives we were using, [we asked] what does it actually do to that mechanic?" Böhringer says.

2 KEY INITIATIVES

The first step in turning travellers into visitors was to make them aware that the sites were there by adding signage to the autobahn, a process which involved gaining permission from the federal and regional governments, as any form of advertising on the autobahn had been banned.

Tank & Rast appointed Peter Löw – now managing director and chief regulatory officer – chief representative for governmental affairs to liaise with regulators and advise the business on what was feasible within the regulations.

Management launched an early initiative to upgrade food and retail offerings, bringing in brand names such as Burger King, McDonald's and fish restaurant Nordsee, as well as Lavazza and Segafredo coffee bars.

Tank & Rast also took on the "quota regime", under which fuel supply rights on the autobahn were allocated based on an oil company's market share off the autobahn rather than through tender bids. Through negotiation with the authorities, management opened up the market from 100 percent quota to 30 percent tender bids, resulting in a more diverse mix of fuel suppliers and Tank & Rast itself self-supplying 5 percent of the fuel in 2014.

€127m
EBITDA on entry

€236m
EBITDA in 2014

500m
Visitors per year

7.5x
Return to TFCP II

122%
IRR

€3.9bn
EV on exit

90%
Share of German motorway concessions for petrol stations, shops, restaurants and hotels

New road: *Terra Firma repositioned Tank & Rast as infrastructure because of its infrastructure-like qualities*

3 MEETING THE NEED

Restrooms are "the number one reason why people actually come to the sites", Böhringer says. Under its former owners Tank & Rast had created the concept of premium toilet facilities called Sanifair. Visitors would pay €0.50 to use the Sanifair facilities, and in return would receive a €0.50 voucher to spend in the sites' restaurants and retail businesses.

Terra Firma furnished Tank & Rast with the capex needed to roll out Sanifair across the autobahn, making improvements in materials and procurement to drive down costs. Sanifair was a key pillar in the management team's plan to turn visitors into customers.

"The voucher thing really did the trick to convert these visitors into customers," Böhringer says. "It sounds kind of weird because it's a toilet, but these toilets transformed the business."

The concept developed under Terra Firma's ownership to a €0.70 payment in return for a €0.50 voucher, further increasing the company's earnings.

4 IMPROVING THE SITES

Each of Tank & Rast's sites is leased by a tenant operator for a fixed or a variable lease fee. Under Terra Firma's ownership, management gradually phased out the underperforming tenants, allowing those more successful to take over, providing performance incentives designed to encourage continuous improvement.

Tank & Rast also introduced and rolled out the Serways branding concept as a way to tie together the sites, incorporating the new retail and food offerings and improved facilities.

"Initially, a lot of the sites were pretty diverse. There was a lot of flexibility given to the local tenants on how to run them, so you had different food offerings, different retail offerings, different standards," Böhringer says. "Serways was the initiative to make sure this is a consistent outfit, consistent delivery of products and services and the same standard."

5 GOOD HOUSEKEEPING

In 2007, Terra Firma sold 50 percent of Tank & Rast to RREEF Infrastructure, part of Deutsche Asset & Wealth Management, delivering a five times return to investors in Fund II. Then came the financial crisis.

"We put let's call it a pre-crisis 2007 legacy capital structure in place in 2007, quite a bit of leverage, quite a bit of debt quantum, and a so-called bullet maturity, which were to mature in 2014," Böhringer says.

In 2011 Tank & Rast was still doing well operationally, but if the debt were to mature at that moment, Terra Firma would be unable to refinance it. "When we valued our investment we almost took it down to zero," Böhringer says. "The times were tough."

Terra Firma immediately began exploring refinancing avenues and testing out different options, eventually completing a €2.1 billion refinancing in December 2013, lowering the cost of the debt and introducing longer-dated facilities with staggered maturities.

"In one step risk was removed [and we] had a huge uplift in valuation," Böhringer says.

Having managed the business for cash rather than growth in the years immediately preceding the refinancing, in 2014 the firm reintroduced growth initiatives, creating a business plan based on proven initiatives.

"We then hit the market saying, 'Ok, we have a balance sheet which is fixed, we have a management team which is excited and strong and they have a great business plan," Böhringer says. "Then you have a package that you can actually sell."

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In September a consortium of investors, made up of former owner Allianz Capital Partners, OMERS-backed Borealis Infrastructure, ADIA-owned Infinity Investments, and MEAG, the asset manager for German insurance firm Munich Re, acquired Tank & Rast from Terra Firma and co-owner Deutsche A&WM in a deal valuing the business at €3.9 billion. The overall return for the €2.1 billion, 2002-vintage Terra Firma Capital Partners II was 7.5x, with an internal rate of return of 122 percent. ■