The Acquirer

The corporate finance magazine from Livingstone

AUTUMN 2015

When East meets West

Sedant's acquisition of Germany's apt Hiller

PLUS: CYBERSECURITY. THE GRASS IS GREENER FOR IDVERDE. SECTOR FOCUS: ECOMMERCE

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Looking at global deal activity, it should be a very active M&A market across the Nordic region. And for sure, it's been a busy year. Interestingly, in the last 12 months we have seen record levels of international buyers looking to enter the region in search of growth investments that are not cheap, but still one to two turns of EBITDA multiple lower than in the US.

Of course, the individual Nordic countries behave differently. Norway has been impacted by the fall in the oil price, whereas Finland has suffered from deteriorating relations with Russia, a key business partner and source of spending for the Finnish economy. Denmark is performing averagely and Sweden is proving to be as resilient as ever. With the Swedish Central Bank lowering the repo rate in July to an unprecedented -0.35%, money has been flooding the markets.

In Sweden, sellers have more options than ever – an overheating stock market is generating premium valuations and becoming a more attractive option for business owners seeking an exit. The M&A market has been more 'two-speed': the highest quality assets have changed hands at record valuations, boosted by buoyant bank and bond markets, whereas more middle-of-the-road opportunities have been a tougher sell.

So what does the crystal ball show? Following strong second-quarter reports from major industrial groups such as Atlas Copco, Ericsson, Hexagon and Alfa Laval, albeit flattered by currency effects, business confidence is on the rise. Our Nordic clients confirm the positive trend, building particularly on improvements across the Eurozone.

Consequently, Nordic corporates are ramping up their acquisition budgets and M&A activity is increasing. For the time being, opportunities abound for both sellers and growth-seeking investors, and we foresee continued interest from European, North American and Asian buyers seeking exposure to the favourable Nordic (economic) climate. This is where Livingstone is adding value as a trusted adviser with 'boots on the ground', and the local contacts and expertise that come with that.

Contact:
Thomas Karlsson, Partner, Livingstone Stockholm
T: +46 8 5577 0113, E: karlsson@livingstonepartners.se

$1.10tn

The total volume of cross-border M&A in 2014 was $1.10tn, up from $775.3bn in 2013 and the highest annual figure since 2008.

Source: Acquisition International

Online opinion

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Graham Carberry comments on the UK Government's new scheme to protect small businesses from cyber attacks (see page 8 for more)

The UK cybersecurity industry is strong and growing – worth £17.6bn and employing over 40,000 people – but more skilled people are needed to help protect the nation as the UK goes digital and adopts new technologies.

The new 'Inspired Careers' online skills and career hub has been developed by industry body CREST and the Government to tackle the skills shortage in cybersecurity. It is good to see that the Government recognises that SMEs are key to the IP supply chain and need to support the building of IT security at all levels of the business community. This is a small gesture, but a step in the right direction.

Anand Parekh explains how omni-channel is driving the convergence of retail and technology

Omni-channel implies a seamless, integrated retail experience for consumers spanning the online, mobile and physical shopping channels. This is particularly prevalent in UK retail, where a mature ecommerce market and demanding consumers are forcing retailers to differentiate themselves through customer experience, and to do so consistently across all consumer touch points. This helps drive sales across all channels.

EDITOR Tim Turner
CONSULTING EDITOR Andy Davis
SENIOR DESIGNER Mark Power
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PRODUCTION DIRECTOR John Faulkner
PRODUCTION Jack Morgan
MANAGING DIRECTOR Claire Oldfield
CEO Martin MacConnol

Published by Wardour, 5th Floor, Drury House, 34-43 Russell Street, London WC2B 5HA, UK
Tel +44 (0)20 7010 0999 www.wardour.co.uk

Livingstone is an international mid-market M&A and Debt Advisory firm, with offices in Beijing, Chicago, Düsseldorf, London, Madrid and Stockholm. Its 100 staff complete 40 to 50 deals per annum.

If you have any questions or would like more information on Livingstone, please contact **Ann Wilson** on **+44 (0)20 7484 4727** or email **wilson@livingstonepartners.co.uk**

'wardour'

DAVID CRAIK

Ding tops up with debt

When Livingstone advised mobile top-up provider Ding to use debt to finance its acquisition of iSend, it was the start of an intensive process of due diligence and tough questioning

Owning an innovative technology is an obvious blessing in today's digital-led business world, but it can potentially create a hurdle when seeking finance, as potential funders try to understand how the technology works and how to assess risk and reward.

Ding, a provider of international top-up services for mobile phones in emerging markets, certainly ticks the innovation box. Set up by entrepreneur Mark Roden in 2006, the Dublin-based group enables customers in 130 countries to transfer small monetary values in the form of airtime or credit, to top up friends' and relatives' mobile phones.

The credit is bought from 500,000 retail stores or at ding.com and is typically remitted by migrants working in the developed world to mobiles in their home countries. Ding can reach approximately 4 billion phones and not only helps emerging market communities but also offers mobile operators an incremental revenue opportunity to access new countries and customers.

"When a Ghanaian wife or husband goes abroad to earn money for their family, they typically send, say, $500 a month back through one of the remittance companies," Roden explains. "But in between, there isn't a way for them to support their families quickly, and one important way in many developing nations is ensuring there is enough balance on prepaid phones. One in three people in emerging markets don't have credit on their mobile phones at any one time, but we can help them communicate again in just three seconds."

> THEY EXPLAINED CLEARLY WHY DEBT FINANCE WOULD BE THE BEST OPTION

WORLD LEADER

Ding has expanded dramatically since 2006 to become the world leader in its sector. At the end of 2014, it planned to achieve further growth through the potential acquisition of the number two global player in international top-up, US-based iSend.

"I am a great believer in scale and I want to dominate this sector," says Roden. "iSend has a very strong presence in the US, Central America and the Caribbean – all attractive markets for Ding."

The company therefore turned its attention to how best to fund the transaction. At the time, Ding expected to raise equity capital from a PE house, but Richard Fetterman, Partner at Livingstone London, was quick to see the merits of another option.

"We felt debt financing suited the group because of its excellent cash generation and growth rates, which we knew would be attractive to lenders," he explains. "The shareholders were also concerned about the potential dilution of their equity and its importance in incentivising staff going forward. Debt resonated well with them."

Roden adds: "We knew that Livingstone would give us the best advice and support. They explained very clearly why debt finance would be the best option, both for the business and for the shareholders."

DIFFICULT QUESTIONS

Bill Troup, head of the Debt Advisory team at Livingstone London, led the team working on the debt financing. "Although Ding was fast-growing, profitable, cash-generative and had a well-invested technology platform, Mark was aware that lenders might view it as high-risk," he explains. "It was a young business in profit terms; its service and distribution channels needed some explaining, as they weren't immediately obvious; and it could easily be confused with direct money remittance and the risks associated with this."

Troup and his team did a "deep dive" into the

Mark Roden, Chief Executive Officer, Ding

TRANSACTION AT A GLANCE
CLIENT: DING
SECTOR: MEDIA & TECHNOLOGY
TRANSACTION TYPE: FUNDRAISING FOR ACQUISITION
TARGET: ISEND

business, organising due diligence and preparing the team for the questions potential lenders would be asking. Livingstone talked the Ding management team through these questions and then, in April, introduced them to a select group of lenders in Ireland and the UK.

"Competition for the debt was strong but some lenders were unsure about the sheer number of countries Ding was involved in," says Troup. "They saw all those different legal regimes as a complication, and we had to spend a lot of time with them to make them feel comfortable. We had to tell Ding's story and quickly answer any queries from the lenders. It was important to maintain momentum and not have the debt-raising process fall behind the acquisition process."

Troup says the lenders then "interrogated" Roden and Mark English, Ding's Chief Operating Officer, who dealt confidently with the pressure. "Mark Roden's entrepreneurial experience had led him to appoint a highly talented team," Troup explains. "As Ding grew, it ensured that it was dealing with only squeaky-clean trading partners. Everything was rigorously checked on a legal basis and, as a result, its systems, processes and technology were proven to be remarkably robust and fit for purpose."

Irish bank AIB won the mandate to provide the debt – partly as a result of its competitive debt package offer, and also because of its knowledge of the company, as it already provided Ding's current account. "AIB showed real enthusiasm and demonstrated how well it understood the business," says Troup. "There was also a good chemistry between the two teams."

Roden praises the Livingstone team for their hard work and accessibility. "You could contact Bill at any time of the day or night. He was hugely supportive and a key part of our lives for a number of months," he says. "He has an encyclopaedic knowledge of lenders and the debt process, and he knew what the lenders would need and kept us one step ahead all the way through."

The acquisition of iSend was completed in June and Roden says Ding is now set for further growth: "Our ambition does not stop here."

Contact:

Bill Troup, Managing Director, Debt Advisory, Livingstone London
T: +44 (0)20 7484 4722,
E: troup@livingstonepartners.co.uk

Richard Fetterman, Partner, Livingstone London
T: +44 (0)20 7484 4739,
E: fetterman@livingstonepartners.co.uk

Neil Smith, Associate Director, Livingstone London
T: +44 (0)20 7484 4721,
E: smith@livingstonepartners.co.uk

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