The Acquirer

The corporate finance magazine from Livingstone

AUTUMN 2016

Making the right move

How Livingstone negotiated on behalf of the negotiation experts

PLUS: TRANS-ATLANTIC PE LESSONS. THE VALUE OF IP. FOCUS ON RETAIL TECHNOLOGY.

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Comment

The key ingredients for M&A activity are a robust economy, the availability of debt finance, a high level of confidence in the development of a prosperous market, and attractive targets for sale.

We seem to have enjoyed all of these elements in the German market and across Europe for some time now, and we see a lot of transactions across a variety of industries and company sizes. And the trend is unbroken, despite the worrying news we have heard during the last 12-18 months about a weakening Chinese economy, the Brexit decision, the flow of refugees into Europe and the war in Syria, to name but a few. However, our economies have demonstrated that they are sufficiently robust to absorb bad news, and confidence in the future is still strong enough to allow for rising share prices and strong M&A activity.

The markets are flooded with cheap money these days, and interest rates are down to historically low levels. Investors such as pension funds and insurance companies are desperately searching for higher returns, and are fuelling the markets for alternative investment such as private equity. Banks are looking for higher-yield lending opportunities and increased levels of debt in transactions. The consequences of this are the highly attractive prices investors are currently paying for good companies, reaching the level we remember from the record years of 2007-08.

But there are not enough high-quality target companies in the market. It is a seller's market where owner-managers, as well as PE and strategic sellers, can choose from a broad audience of acquirers and achieve a good price for their businesses.

Our recommendation is quite clear: there will never be a more perfect time for a company sale than the present.

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$62.1bn

The volume of M&A activity in the UK by Q3 2016 – the highest third-quarter figure recorded in the UK since 2008.

Source: Dealogic

Online opinion

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***The Sunday Times* asked Alex John how Brexit would affect the outsourcing sector**

We are not seeing any drop in investor confidence. In fact, we are seeing good levels of investor interest from both UK and overseas investors. The present view on Brexit seems to be that the UK economy is weathering the storm extremely well and therefore remains a good market for investment.

Daniel Domberger wrote in *Marketing Tech News* about M&A in digital marketing

There is a growing trend for digital marketing businesses using acquisitions to accelerate their growth, drive change within their own organisations, and increase their presence and competitive capability set. Their motives are simple: a business that can gain real-time insight and a clear view of the target customer has a distinct competitive edge, but requires detailed data, insight and analytics to do so.

The acquisition of Merkle by Dentsu Aegis is the latest and largest example of this trend. This need to grow and to remain competitive against the bigger players has spurred Merkle to complete 10 acquisitions in the last five years.

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Livingstone is an international mid-market M&A and Debt Advisory firm, with offices in Beijing, Chicago, Düsseldorf, Los Angeles, London, Madrid and Stockholm. Its 100 staff complete circa 60 deals per annum.

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COVER IMAGE: FRANCK ALLAIS. ILLUSTRATION PETER JAMES FIELD

M&A NEWS

What's trending?

Despite uncertainty following the Brexit vote and the traditional summer slowdown, Livingstone signed 15 transactions over July and August and has continued apace since then. A number of themes emerge from these transactions:

THE CONNECTED WORLD

Making the Internet of Things a reality, Livingstone completed three transactions in the connected world, including the sale of ams's RFID business to ST Microelectronics, the carve-out of WiFi gateway business Inteno from the Swedish KAMIC Group (see page 21), and the secondary buy-out of machine-to-machine communication business CSL by Iconiq Capital, Norland Capital and RIT Capital.

ONLINE REMAINS KEY TO RETAIL, AND TO LOYALTY

Recent transactions – including the acquisition of Long Tall Sally (see page 12), investment into The Cotswold Company, and the sale of Gudren Sjödén – highlight the importance of a robust e-Commerce capability in driving growth – and valuations – in the Retail sector. Behind the scenes, TCC Global works with retailers to deepen customer loyalty and engagement, and acquired Summit to create a new generation of digitally-led marketing programmes for retailers.

Similarly, Blackhawk Network Holdings, Inc. pioneered branded value to help brands create rewarding experiences and relationships that drive sales, productivity, loyalty and growth. It has acquired Grass Roots Group, which specialises in customer and employee incentivisation and engagement.

CALIFORNIAN CAPITAL

Another key trend, post-Brexit, is the continued strong interest in UK targets from North American acquirers and investors. Indeed, within three months of opening its office in Los Angeles, Livingstone had already completed two transactions involving UK targets and Californian counterparties: the secondary buy-out of CSL backed by Iconiq, Norland and RIT, and Blackhawk's transaction with Grass Roots Group.

UK REFERENDUM

A brighter Brexit

The benefit of four months' perspective on the UK's shock decision to leave the EU has been tangible to anyone with an interest in the health of the UK and European economies. While the referendum result may have caught many investors and businesses napping, the overwhelming sense of catastrophe that prevailed in the immediate aftermath has quickly been shown to have been an overreaction.

Partly helped by Theresa May's quick assumption of power as PM, the announcement that the formal exit process would not be initiated until 2017 and an appreciation that it will not be completed before 2019, the UK appears to have adjusted to the 'new norm' surprisingly quickly. Acquirers and investors are continuing to close deals, showing – if evidence were needed – that two years is a very long time in business and that strategies still need to be implemented and capital invested. No one can afford to simply stop and wait for a final resolution.

The UK is undeniably – and possibly undeservedly – also benefiting from the perception that Brexit has not made mainland Europe an automatically more attractive place to deploy investment in the short term. For now, many international groups and investors are watching and waiting to see where they go next.

Worries about the uncertainty of the Brexit process and the consequences of the sharp fall in sterling plunging the UK economy into a sharp recession have been partly allayed by positive consumer spending data and encouraging manufacturing and service industry confidence levels published in September. A rallying London Stock Market and the Bank of England's willingness to intervene quickly to 'steady the ship' have created a sense of temporary calm. However, it is fair to say that only time will tell what the true consequences for the UK economy will be.

The pound's collapse in June made UK assets 10% to 15% cheaper and this certainly encouraged overseas counterparties to get a move on and close their deals to lock in this pricing advantage.

M&A activity is all about confidence, and while acquirers and investors detest uncertainty, for now they are holding their nerve and continuing to back high-quality UK mid-market companies.

NEW OFFICE

California dreaming

Earlier this year, Livingstone opened the firm's seventh office in Los Angeles, California, in a region that continues to gain global prominence for its growing, versatile economy.

The LA office, which opened in Manhattan Beach in May, extends Livingstone's geographic footprint and sector strength, says Chicago-based Partner David Sulaski.

"Our new office allows us to redouble our focus on the Business Services and Media & Technology sectors, while opening another important connection for the firm into global markets," says Sulaski. "It also deepens our relationships to even better serve our M&A, Debt Advisory and Special Situations clients. We plan to grow significantly in the LA region."

Livingstone Partner Brennan Libbey, who also heads up the US Business Services practice, leads the firm's West Coast team. Libbey joined Livingstone earlier this year from Houlihan Lokey and brings more than 20 years of mid-market investment banking experience and an impressive track record of successful transactions for private companies and financial sponsors. “Brennan boasts an established reputation as a talented dealmaker on the West Coast and will lead the charge in establishing this high-impact office,” Sulaski adds.

With a unique ecosystem for talent, technology and innovation, the state of California continues to attract growing businesses and entrepreneurs. Manhattan Beach, one of the three cities that make up Los Angeles’ South Bay, is widely known for its ideal weather and world-class beaches. But in recent years, it has also become home to a variety of interesting companies, dealmakers and investment funds.

“LA boasts a very active mid-market business landscape,” says Libbey. “There are a lot of family-owned businesses and financial investors driving M&A and restructuring activity throughout this region, making LA an ideal city to market Livingstone’s established reputation for Sell-side M&A, Debt Advisory services and Special Situations.”

Livingstone also fills a need for more M&A advisers in the region, especially those focused on the mid-market. “Comparatively, LA is fairly under-banked for a large US city. A number of the region’s M&A professionals come from large investment banks that cover predominantly large-cap companies,” Libbey explains. “With a presence on three continents and an established reputation, Livingstone is the West Coast’s premier integrated international mid-market investment bank.”

LA has strong cross-border trade potential, sitting as it does between Asia and Europe. “We see a lot of interest from international players in this region, and that fits well with Livingstone’s global footprint,” Libbey adds. “Our location in Manhattan Beach reflects Livingstone’s unique culture, where drinks with a client overlooking the Pacific can follow serious negotiations and precede a red-eye flight to Europe.”

This point is picked up by Richard Fetterman, Partner in Livingstone’s London office. “LA is an increasingly important commercial region in the global marketplace,” says Fetterman. “Many of our clients are interested in southern California, and with Brennan and his team establishing a strong presence in LA, we can serve them better.”

Six months in, the outlook looks promising for the new office. “We’ve added new professionals to the team and continue to make inroads with growing companies and buyers – both strategic and financial – that make their home in southern California,” Libbey says. “Our pipeline continues to grow and we’re excited to share more announcements in the coming months.”

Livingstone’s LA office is at 1300 Highland Avenue, Suite 111, Manhattan Beach, CA 90266.

Minding the Gap

Livingstone found itself negotiating on behalf of the experts when it took on the task of fundraising for The Gap Partnership

Negotiating on behalf of skilled negotiators is no easy task at the best of times – but when you're acting on behalf of the world's leading teachers of the art, it's even more of a challenge. Livingstone's success in raising funds to recapitalise negotiation specialist The Gap Partnership (TGP) proves that, with insight and understanding, it's possible to meet the most exacting of mandates.

The funding package, which was finalised in June, highlights both Livingstone's experience of the Training sector and the importance of understanding a company's culture – essentially, what it is that makes a people business successful.

Livingstone's Human Capital and Debt Advisory teams, led respectively by Simon Cope-Thompson and Bill Troup, advised TGP on a one-stop funding solution from trans-Atlantic funder Pricoa Capital Group, which is part of Prudential Financial, Inc. This provided shareholder liquidity, while also putting greater ownership in the hands of the extended leadership group under TGP founder and CEO Steve Gates (pictured above, left), who remains in place to drive the business forward alongside CFO Nigel Wolfin (pictured above, right) and the rest of their senior management team.

A NICHE SEGMENT

TGP is internationally recognised as the leading provider of negotiation training, behavioural change development programmes and client-specific negotiation consulting services. It has a global presence served by regional hubs in the UK, US, Germany and Hong Kong, working with more than 500 of the world's largest blue-chip corporations including British Airways, Colgate-Palmolive, Coca-Cola, Diageo and Pfizer.

Gates established the business in 1997 with the aim of providing total commercial negotiation solutions for clients. He had identified a niche segment within the market that was not being addressed by large consultancies and was confident that he could deliver material qualitative and quantitative improvements to multinational organisations.

Livingstone was introduced to TGP in 2011. When the management team began to consider its options, it appointed Livingstone because of the firm's experience within the Training sector, as well as its knowledge and in-depth insight and experience of the debt market in Europe.

TGP was very clear about its requirements. It wanted to raise funds to enable some existing shareholders to cash out, and to broaden existing equity incentive arrangements

JAMES GAVIN
FRANCK ALLAIS

TRANSACTION AT A GLANCE
CLIENT: THE GAP PARTNERSHIP
SECTOR: BUSINESS SERVICES
TRANSACTION TYPE: FUNDRAISING
ACQUIRER: PRICOA CAPITAL GROUP

to include other members of the wider management team. And it wanted to do this with a partner that did not want day-to-day involvement in running the business.

This last point was key, as Gates and his Board wanted to find a partner that would preserve the company's culture.

To articulate the story to potential funders, Cope-Thompson, Partner, explains, "it's really important that you understand what the business does, what makes it special and robust, and why it has such a great future ahead of it."

He continues: "This was all about finding the right fit, someone who understood TGP's culture and was able to fit into the type of working relationship the board wanted to maintain. Critically, our role wasn't just about getting the best debt or equity terms, but about getting exactly the right terms from exactly the right partner."

DEEPER UNDERSTANDING

In the 19 years since TGP was founded, it has achieved substantial growth and international scale, seizing upon the potential offered by multi-national clients and international markets to scale its successful formula across a network of regional offices.

To get a deeper understanding of this expanding business and be best able to articulate the high quality of the training TGP provides, members of the Livingstone team volunteered for a three-and-a-half-day advanced behavioural workshop. They also attended regular board meetings, giving TGP's management team sector insight and updates on changes within the broader M&A and debt markets. That enabled Livingstone to add real value across every aspect of the deal as TGP was guided towards a successful conclusion of its fundraising exercise.

Gates attests to that success, and to the critical nature of the personal connection with Cope-Thompson. "Such was the strength of the relationship with Simon, we felt his credibility and understanding of the business was of great value," says Gates. "He 'got' us. Above all, he understood what we are trying to achieve with the business."

Having that innate feel for the business was, of course, only one part of the equation. Ensuring ultimate success meant taking into consideration a number of factors. As well as sourcing an innovative solution from a debt fund that could meet the various requirements, the Livingstone team advised those management shareholders who were planning to remain with the business.

Cope-Thompson explains: "As a people business, we had to find a deal that worked for a large group of shareholders,

all of whom were working in the business. It's also a multi-national business operating under a whole raft of different rules and regulations surrounding tax in jurisdictions in the US, Asia and Europe. We also had to find the right balance between people who were crystallising value today by selling, and those who are reinvesting and rolling over, or investing for the first time."

DIVERSE REQUIREMENTS

The Livingstone team spoke with 15 debt funds before going forward with Pricoa Capital Group, which offered a multi-layered debt package. It was chosen as the financing partner in part because of its ability to structure a bespoke transaction speaking for the full capital requirement, while also achieving management's qualitative objectives.

Piecing together the funding solution required patience and diligence, in light of the client's diverse shareholder requirements. What needed careful thought, says Bill Troup, Head of Debt Advisory in London, was how to best match the range of cash realisation and reinvestment objectives of the shareholders, many of whom were living in different countries.

"We knew there would be funding available from debt providers in the market," he says, "and we knew that we would need to go beyond traditional debt levels and deeper into the balance sheet."

Despite the extra layers of complexity in terms of the number and location of shareholders, the transaction itself came together relatively smoothly. "Yes, there was complexity, but that's what we specialise in," says Neil Smith, Director at Livingstone.

While Pricoa emerged through the process as the right partner, Livingstone had already played an earlier, informal role in establishing ties between the two. "Executives from Pricoa and TGP had actually been introduced to each other at a Livingstone summer party and struck up a relationship straight away. It's not a normal part of our processes but it certainly helped the chemistry in this case," says Smith.

> YES, THERE WAS COMPLEXITY, BUT THAT'S WHAT WE SPECIALISE IN

A SUCCESSFUL OUTCOME

The outcome is a positive one for Gates, as the founder and visionary of the business, and he is unstinting in his praise for the Livingstone team's efforts.

"They had very strong technical, structuring and relationship management skills and knew their way around problem-solving as well," he says. "What impressed me above all was their experience and understanding of what it takes to 'keep the ducks in a row' for a business with a broad range of stakeholders, while remaining proactive in facing the challenges typical with a transaction of this nature."

The successful outcome provides a firm basis for a new phase of growth for TGP, as Gates confirms. "We now have the right people incentivised and motivated to focus on our business plan, with a real investment in the business," he says. "What I feel around me as a result of this is a stronger commitment to that plan. With the recapitalisation behind us, we have been released to concentrate on the business and on our customers, knowing that the equity is in the right hands."

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COMMENT

DR CHRIS DONEGAN EXPLAINS WHY IT'S IMPORTANT FOR COMPANIES TO UNDERSTAND WHAT THEIR INTELLECTUAL PROPERTY CONSISTS OF, AND HOW TO MAXIMISE THE VALUE OF IT IN A SALE

All businesses have intellectual property (IP) of some kind, although it may not be formally documented. It may simply be the knowhow that underpins operations, or customer information that has built up over time in anecdotal or database form, or it may be more complicated and sophisticated. This is as true in service and consultancy businesses (such as negotiation training specialists The Gap Partnership – see page 6) as in manufacturing and technology businesses like scientific instruments developer Nu Instruments (page 16) or Internet of Things gateway provider Inteno (page 21).

It may be a brand name or trademark that has become well known and confers a mark of quality that supports pricing, sales and the uptake trajectory of new products, as in the case of digital executive search and networking firm The Up Group (see page 13). The most recognisable forms of IP are trade secrets (such as recipes or manufacturing innovations) and, of course, patents.

The idea that IP is important is not revolutionary. It is one of the primary reasons why larger firms seek to buy smaller ones – to acquire a unique market capability, product or technology. The IP that underpins the acquirer's strategic interest often drives valuations to a far greater degree than pure revenue, profit or cash flow.

> REAL VALUE DERIVES FROM UNDERSTANDING AND EXPLAINING HOW YOUR IP WILL CREATE ADDITIONAL REVENUE FOR THE ACQUIRER

Even PE firms, pure financial investors without a truly strategic rationale for an acquisition, are driven by this notion of the unique value that a company's IP represents.

I KNOW WE HAVE IT, BUT HOW DO WE SHOW IT?

Given this, it is essential in any sale process to articulate the story clearly enough to maximise the value from the IP. Checking patent and trademark filings and internal paperwork such as key employee agreements is where much due diligence stops – but that doesn't go far enough.

The next step is to identify potential weaknesses in your IP and, ideally, address them before engaging with acquirers. For example, the inadvertent use of open source code can make software unprotectable. Poor-quality or inadequate patent protection can result in costly litigation, particularly in the US or Germany. Collaborative development processes with companies, contractors or universities may confuse ownership or put the technology into the public domain.

Real value derives from understanding and explaining how your IP will create additional revenue for the acquirer when transplanted into their organisation. This exercise is best conducted by the company and adviser together and must be informed by proper knowledge of the potential acquirer. It should include considering the competition, products/services, supply chain and resources of the acquirer in addition to different potential business models, such as licensing.

Valuation is frequently described as an art as well as a science. The inclusion of a well-thought-through IP position helps an acquirer to see what the target company could be worth to them. Encouraging them to share that potential value should help to move the discussion far beyond the basic financial position of the target.

Embedded intellectual property you may not realise you have

- Brand names
- Client/customer/user lists
- Corporate culture
- Designs
- Unpatented innovations
- Trade secrets
- Folklore and embedded experience
- Frameworks
- Knowhow
- Look and feel
- Models
- Innovative processes and methodologies
- Commercial relationships and alumni groups
- Reputation
- Templates
- Third-party licensing value of patents, trademarks and copyrights

Dr Chris Donegan is a former investment banker and a serial entrepreneur. He specialises in leveraging the financial impact of intangible assets on M&A, debt financing and venture capital. He has been recognised by Intellectual Asset Management *as one of the world's top 300 intellectual property strategists for the past five years.*


MARK ALEXANDER

Shopping and changing

Two recent transactions illustrate how the transformational effect of technology on the Retail sector is creating new opportunities for synergies – and growth

The Retail sector is experiencing a prolonged period of extraordinary change, to the extent that the basic association with physical transactions in physical locations is breaking down. As the balance of power swings and consumers demand online and mobile channels as connected parts of the shopping experience, so the industry is having to rapidly adapt to ever more sophisticated and integrated offerings.

The Centre for Retail Research indicates that online sales grew by 18.6% in 2015 and are expected to grow by 16.7% in 2016. According to the fifth annual Pulse of the Online Shopper survey for package delivery company UPS, consumers in the US are now, for the first time, making more purchases online (51%) than in stores. In the UK, mobile commerce already accounts for approximately a third of e-Commerce activity, according to eMarketer.

As online and mobile commerce develop, there is an increasing need to knit them together and integrate them with physical retail stores in a coherent 'omni-channel' consumer offering. This hunger for advanced capability has driven M&A volumes across the space, with retailers buying standout e-Commerce and m-Commerce operations, and in the wider ecosystem of technologies, capabilities and services which enable successful e-Commerce. And while the dramatic rise in online shopping has undoubtedly prompted technological innovation, real value for potential acquirers often resides in the skills and aptitude to realise the opportunities presented by this brave new world.

"It's not just about technologies; it's also about people and the expertise that a company has within it," says Simon Cope-Thompson, Partner at Livingstone. "Potential purchasers may be looking to buy a brand and the associated physical stores, but if they are looking to boost their online presence, finding companies with exceptional online talent in senior management is becoming an increasing focus."

> CONSUMER DEMAND IS PULLING REVENUES ONLINE AND ONTO MOBILE

More generally, this shift to online sales is causing many retail businesses to reevaluate their broader strategies. "It's not just that the high street is declining, but that consumer

demand is pulling revenues online and onto mobile. There is a substitution effect," says Daniel Domberger, Partner at Livingstone.

But, as Domberger explains, the revolution won't be conveniently marked or clearly defined. Rather, it will blur the lines between old and new and everything in between. "Shopping will continue as a leisure activity, perhaps wrapped in social interaction and crowd-sourced decision-making, with the ultimate purchase probably being made online or via mobile," he suggests. "The challenge for retailers is to keep pace with this evolving consumer behaviour and offer the ability for a consumer to check out wherever and whenever they want to."

This is an irreversible trend that is redefining the retail landscape. Here, we look at two recent transactions that illustrate the kind of opportunities this creates for acquirers.

TRANSACTION AT A GLANCE
CLIENT: SUMMIT
SECTOR: MEDIA & TECHNOLOGY
TRANSACTION TYPE: COMPANY SALE
ACQUIRER: TCC GLOBAL

Summit

The significance of a new partnership can be far-reaching. The agreement that Livingstone negotiated for TCC Global to acquire online retailing specialist Summit is a case in point.

"We have the opportunity to revolutionise the way people shop," explains Hedley Aylott, CEO and co-founder of Summit. "TCC is a global leader in retail marketing and we are leading the way in online retailing. The commonality is retail, but we come at it in different ways."

The dynamism in the Retail sector has been arousing interest, especially from those keen to acquire market-leading capabilities. Summit, which has transformed the online offering of clients including Jaguar Land Rover, Peugeot, Argos and Reckitt Benckiser, had received numerous unsolicited approaches, and the team knew there would be interest from a wide range of acquirers. But the process would need to be managed.

"We ran a competitive process to select our advisory firm," explains Aylott. "We looked carefully at Livingstone's track record and its understanding of this space. Livingstone's team were able to demonstrate a positive track record in the buy-and-sell side within our sector – they had just completed Javelin Group's sale to Accenture, which was very relevant for us. Even more important was their understanding of our relevance to a particular acquirer and their ability to set accurate expectations around our real value."

To deliver on these fronts, sector knowledge proved decisive. "You get to know the main acquirers," explains Tom Stoten, Associate at Livingstone. "You are aware of what they're interested in, and therefore whether they are worth approaching. You also learn how to position the business in line with their key priorities, understand how they would structure a transaction and how they value prospective businesses."

Anand Parekh, Associate Director at Livingstone, takes it further. "Real sector knowledge means we can look beyond the usual suspects to other buyers with more to gain from moving strategically into the space. There were factors other than just price," he explains. "Our clients' considerations included fulfilling the company's potential and looking after their employees. Because we had knowledge of the way various counterparties would think about these different elements, we could guide them in different ways in order to deliver on all our clients' criteria."

This considered approach produced an optimal transaction, with a number of competing potential acquirers showing interest. "The most exciting part of the transaction is that TCC sees Summit as an agent of strategic change within its own business and within the market as a whole, rather than just a bolt-on," explains Daniel Domberger.

Aylott is grateful for the role Livingstone played in this process. "The team were always open and honest in their assessment of the situation and told us what the right thing to do was, and not just what we wanted to hear," he says. "Knowing when to stop haggling and knowing when the other party has had enough – those things are really important. When we reached that stage, Livingstone helped us to get a good deal."

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TRANSACTION AT A GLANCE
CLIENT: LONG TALL SALLY
SECTOR: CONSUMER
TRANSACTION TYPE: COMPANY SALE
ACQUIRER: TRISTYLE GROUP

Long Tall Sally

No two transactions are the same. Expectations and aspirations inevitably vary from buyer to seller, and the acquisition of Long Tall Sally, a leading multi-channel retailer of fashion for taller women, by TriStyle, a Munich-based direct fashion retailer that is backed by Equistone Partners, was no different.

"Our role was greater than purely advising management," explains Simon Cope-Thompson. "It morphed into a strategic role, helping Long Tall Sally's Chairman, Maurice Helfgott of Amery Capital, and its CEO, Andrew Shapin, with the broader process as well as their negotiations."

This role took on added significance as Shapin and Helfgott reinvested their gains and become shareholders in the parent company. As a result, Livingstone also negotiated the terms of this secondary reinvestment into TriStyle. "There were a lot of moving parts," Cope-Thompson acknowledges.

Working alongside the sell-side advisers, Livingstone's role went further still. "As well as equity, we implemented a long-term incentive plan for the rest of the Long Tall Sally management team," explains Jamie Hutton, Associate at Livingstone. "It was crucial that everyone in the business was pulling in the same direction."

These intricacies were minor in comparison with the broader goals of the deal. "In TriStyle and Equistone, Long Tall Sally found a strategic partner that was willing to back the management team's plan of retail roll-out, acquisition and expansion," Hutton explains.

> ON EVERY DEAL THERE ARE TOUGH DISCUSSIONS TO HAVE, AND IT IS ALWAYS EASIER FOR US TO HAVE THEM

The man at the centre of it all couldn't agree more. "We had been looking for the appropriate strategic partner to enable us to accelerate growth," says Long Tall Sally CEO Andrew Shapin. "We weren't just looking for a financial partner. We were looking for smart money with skills in markets we were keen to expand into, and a partner who understood what we did."

Shapin describes the transaction as "transformational", so getting the detail right was vital. "Livingstone helped us to understand the terms we were discussing and what was appropriate," he says. "Simon has been doing this forever and knows the market. He was exceptionally calm and able to take the emotion out of a situation. He assisted both parties in recognising value and helped to make the deal happen. We are delighted with the outcome."

Helfgott adds: "When Andrew suggested bringing in a Management Adviser I was somewhat reluctant – sceptical whether the additional complexity and cost would add sufficient value. However, when he specifically suggested Simon Cope-Thompson, I was persuaded by someone whose integrity, judgement and reputation in the market is well-founded. Livingstone worked well as part of our team and added much more value than management advisory alone."

For the Livingstone team, the key was to facilitate the right framework for discussions while helping Long Tall Sally's team to establish new and fruitful partnerships. "We didn't want the negotiations to get in the way of burgeoning relationships with their new colleagues and investors," says Cope-Thompson. "On every deal there are tough discussions to have at some point, and it is always easier for us to have them."

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DAVID BURROWS

On the Up

Investment from PE firm Livingbridge has enabled digital executive search and networking specialist The Up Group to lift its business to the next level

Founded in 2007 by current co-CEO Clare Johnston (pictured below), The Up Group has become *the* trusted executive search provider for digital companies across Europe. While the company's core offering is executive search, it has also built a reputation for bringing the digital community's elite together at high-profile networking events and prestigious awards.

By late 2015, the management team knew that further investment would be required to 'future-proof' the business and grow it further, both locally and internationally, and began discussions with Livingstone to assess the options.

Robert Swerling, Johnston's business partner, says that the working relationship was positive from the outset. "We were struck by how much the Livingstone team understood our business," he says. "They were clear about the nature of what we had built up and what kind of partner now made sense to realise our ambition." Johnston echoes this point: "We have a different brand proposition to a lot of companies in our space, and they picked that up straight away."

The Livingstone team advised that running a dual-track – but focused – sale process would achieve optimum shareholder value. "The dual-track process meant we talked to both PE parties and strategic acquirers," explains Karen Dawaf Harron, Associate Director at Livingstone. "After a competitive process, PE investor Livingbridge was the partner of choice, as it clearly understood the culture at The Up Group and had a great deal of experience in expanding businesses from an international and service-line perspective."

Jeremy Furniss, Partner at Livingstone, agrees that the fit was good. "With many high-growth businesses, there comes a point when you have invested so much of your own energy and resources that there is a degree of reluctance to risk it by pushing on as hard. Psychologically, business owners sometimes become more focused on protecting the value they have built. PE partners can change this potential brake on growth and have the resources to finance further expansion."

For Johnston, the appeal of Livingbridge as a PE partner was that it enabled The Up Group to retain its independence and build its platform in the way she and her team wanted to. And in terms of independence, retaining and incentivising the senior team was fundamental to the transaction, as Dawaf Harron explains: "With a company like The Up Group, the value is in the people behind the brand, so it was vital that the team was fully on board."

The investment by Livingbridge means that this team can now grow. Johnston expects the workforce to double in size over the next three years, with offices in Berlin and New York opening in 2017, joining the head office in the UK and a recently opened base in Barcelona.

Dawaf Harron concludes that The Up Group now has the opportunity to expand on what it already does well: "It had established itself as the 'go to' digital talent company before the deal, offering an extensive C-suite network that everyone wants to tap into. Now it's time to scale things up."

TRANSACTION AT A GLANCE
CLIENT: THE UP GROUP
SECTOR: BUSINESS SERVICES
TRANSACTION TYPE: CAPITAL RAISING
ACQUIRER: LIVINGBRIDGE

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CHRISTIAN DOHERTY

A breath of fresh air

When Blueair was looking for a partner to take it to the next level, its environmentally friendly ethos attracted one of the world's leading consumer goods companies

There are few more important things than the air that we breathe. Air pollution is a growing problem across the world, particularly in developing countries, with more than six million people dying each year. According to the World Health Organization (WHO), in low- and middle-income countries, 98% of cities with more than 100,000 inhabitants do not meet WHO air quality guidelines. Even in the 'cleaner' countries, it's a worrying issue.

Just over 20 years ago, Swedish engineer and entrepreneur Bengt Rittri had an epiphany while driving his children back to Stockholm after a break at his weekend cottage on an island in the archipelago outside the Swedish capital. He asked himself why he was bringing them back from the fresh sea breeze into the polluted air of a big city.

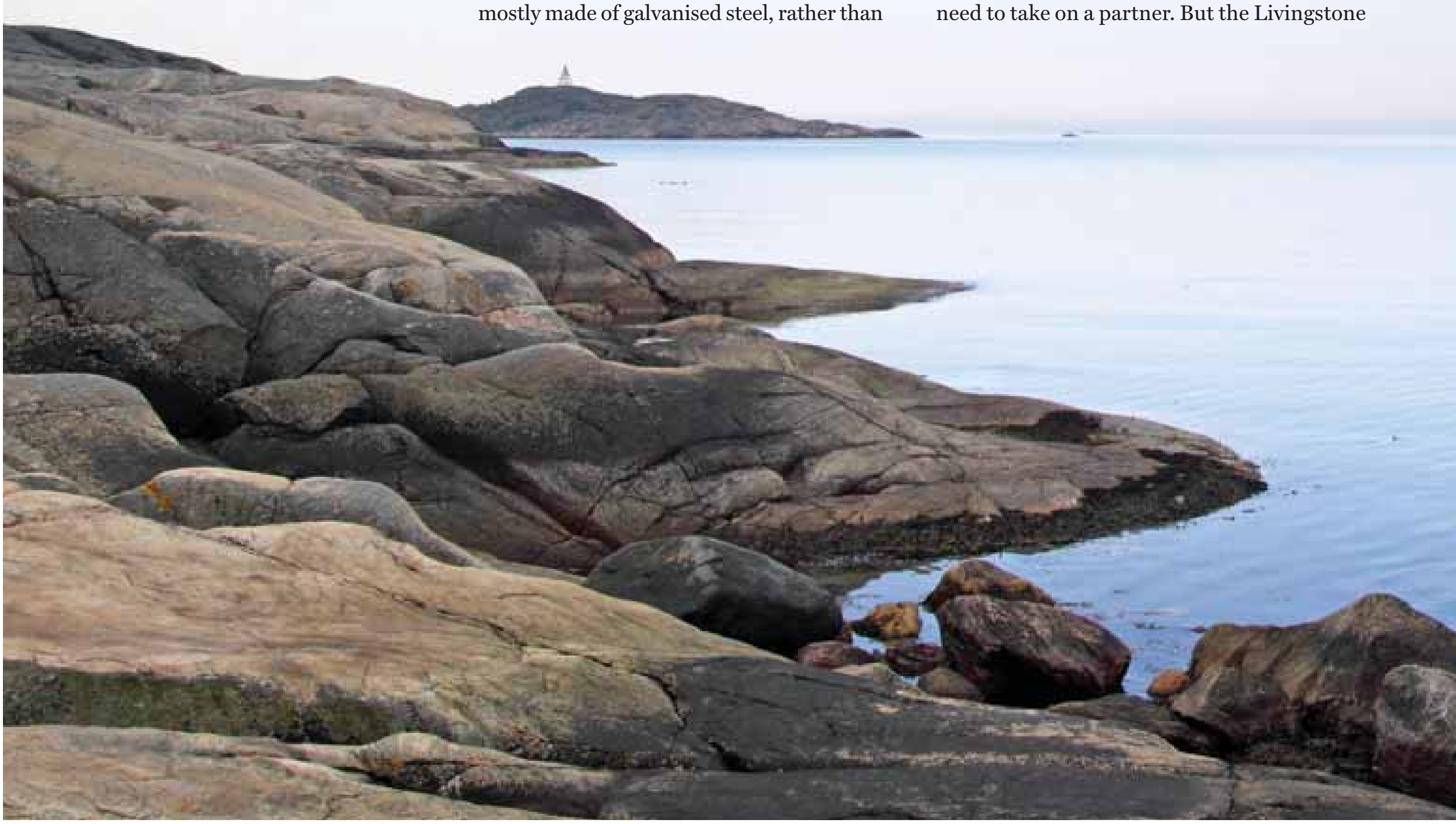
So it's not surprising that, when Rittri was considering what sort of business he could start, air filters seemed like a good idea. It certainly proved to be, and within five years his company, Blueair, was producing air purifiers by the thousand. Sales grew in Europe, North America and beyond, with Chinese consumers in particular keen to use the filters in their polluted cities.

As the company grew, Rittri maintained his commitment to sustainability and ethical business practice. Blueair purifiers represent the best in smart, sustainable design; they are mostly made of galvanised steel, rather than less durable plastic, and offer an exceptionally long product life, while at the same time using only 15 watts of energy on a low setting.

For the Livingstone Stockholm team, Blueair is truly special. "It is fascinating to work with a business based on such a clear vision and company culture, and with such a strong conviction in what they want to achieve: clean air for everyone," says Thomas Karlsson, Partner at Livingstone.

RESPONSIBLE CORPORATE CITIZEN

Livingstone began to work with Rittri and his team in 2014 when it became clear that for Blueair to take the next step in its development, from good to great, it would need to take on a partner. But the Livingstone



TRANSACTION AT A GLANCE
CLIENT: BLUEAIR
SECTOR: CONSUMER
TRANSACTION TYPE: COMPANY SALE
ACQUIRER: UNILEVER

team's analysis of Blueair revealed that it was much more than just a manufacturer of environmentally focused filters.

"We found several factors that were really interesting," recalls Anders Jacobson, Partner at Livingstone. "The environmental angle, of course, in that it could attack the problem of air pollution, particularly indoors. But then there was Blueair's exposure to and strong brand presence in China and other developing countries, and the speed and scale of the company's growth. It had actually achieved a 100% increase in turnover during the previous two years."

Having assessed Blueair's strengths, the challenge was to find the right partner to take the business forward. The acquirer would not only need to bring the right synergies, reach and market capabilities, but would clearly also have to share a similar outlook on company culture: doing good for the planet as a responsible corporate citizen in the global economy.

It wasn't surprising, therefore, that Unilever's name came up very early on in the process. "When we started talking to Unilever and got to know them, it became clear that the two companies share a very strong vision of what they want to bring to society," says Jacobson.

"In many ways, it's a perfect match, and it made sense to work together to take the next step in Blueair's development. We soon structured the right transaction for Unilever to acquire Blueair."

> IT BECAME CLEAR THAT THE TWO COMPANIES SHARE A STRONG VISION OF WHAT THEY WANT TO BRING TO SOCIETY

A SHARED ETHOS

David Noble, Head of PR Communications at Blueair, says the company had previously been approached by a number of companies with a view to partnership, purchase or a joint venture, "but none of them had really matched Bengt's vision of where he wanted the business to go".

Unilever was different, though. "The reason the deal made so much sense was that their company ethos reflects ours very closely," Noble confirms. "Also, from Bengt's perspective, Unilever brings a global retail competence that can't be matched by many companies."

Indeed, Unilever's commitment to its impact on the environment has become a beacon for responsible corporate behaviour. Its Sustainable Living Plan is a model of good governance, reducing harmful impact on the environment and empowering smaller producers and suppliers. The company has even issued Green Bonds to finance investment in sustainable projects across the developing world.

"You only have to look at [Unilever CEO] Paul Polman: this is a man with a deep commitment to walking the walk on sustainability, not just talking the talk," says Noble. "That sits very well alongside Bengt's vision for Blueair."

As well as that shared commitment, Noble explains that Unilever has a good track record of letting brands live on their own terms: "It tends to buy good, growing businesses and then let them carry on doing what they do well."

And it was Blueair's growth trajectory that made the transaction particularly attractive to Unilever, despite the fact that buying an air purifier company may not represent a perfect fit for its portfolio, which is made up of food, laundry and cleaning products, but not necessarily larger, discretionary products.

"For Unilever, this is a category where it can do good for society, and it's a fast-growing segment of the consumer goods market," says Karlsson. "Since Unilever operates in mature markets, investing in fast-growing businesses where it can leverage its global footprint can help it to further accelerate its own growth."

So what will success look like? "I believe that, in 12 months, we'll be exploring new avenues for growth and innovation from within the Unilever environment," says Noble. "There won't be any radical change – business as usual, but with more ways of reaching out to more people across the Unilever network. These are very exciting times."

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MARK ALEXANDER

The appliance of science

The sale of Nu Instruments and its cutting-edge technologies to US-based electronic instruments manufacturer AMETEK was achieved through detailed sector knowledge and an in-depth appreciation of the science behind the products

Delivering the best possible transaction in the highly specialised world of mass spectrometry is not a simple assignment. It requires detailed knowledge of a niche and highly technical sector and strong relationships with a group of major global manufacturers. Dealing with commercially sensitive technology at the outer reaches of physical possibility, in a market where being the best is everything, only adds to these demands.

Nu Instruments, with its suite of highly advanced magnetic sector mass spectrometers, defines this challenge. Based in Wrexham, with annual sales of approximately $25m, it serves a highly specialised and sophisticated market. Its portfolio of clients includes all of the world's leading research universities and the most demanding advanced research institutions, as well as global technical manufacturing and materials analysis companies.

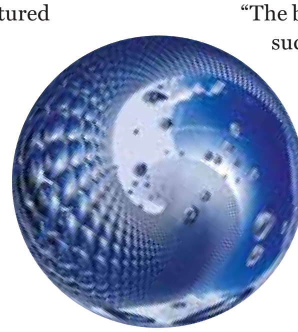
Nu began life in 1995, its first product resulting from direct collaborations with the Department of Earth Sciences at Oxford University and the Open University. Since then, the business has evolved through the constant pursuit of innovation and development. This single-minded focus on technical excellence and pushing the boundaries of physics allowed the company to build an unparalleled reputation and a position as a partner of choice to the biggest names in materials and earth sciences research. Yet the increasing complexity of these high-value machines, and the demands of a truly global customer base, meant that the time was right to seek a global partner.

GOING TO THE NEXT LEVEL

Nu Instruments had already captured 20% of global market share with its cutting-edge products, which are used in the highly complex arenas of stable isotope, noble gas and glow-discharge mass spectrometry. "It is a sophisticated business," acknowledges Graham Carberry, Partner at Livingstone. "We went to market with the view that the right acquirer would be a global strategic partner."

Although Nu Instruments already had a presence in the US, a sales office in China and demonstration facilities in Japan, Carberry explains that it had tremendous potential to expand further: "The business was looking for an organisation with a much larger international supply base and distribution network to leverage its leading-edge science across more instruments to more customers."

Livingstone's Global Industrial team marketed the business to potential strategic partners across Europe, the US and Asia, with a clear emphasis on finding a partner that could add value to it. With these defined criteria and existing market knowledge, Livingstone drew up a list of potential acquirers.



"The business had grown very successfully," says Andrew Isgrig, Partner at Livingstone, "but to continue that growth, a business of that size operating globally in a highly scientific sector required the support of a large industrial technology company with a combination of sales channels, global

TRANSACTION AT A GLANCE
CLIENT: NU INSTRUMENTS
SECTOR: INDUSTRIAL
TRANSACTION TYPE: COMPANY SALE
ACQUIRER: AMETEK, INC.

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> LIVINGSTONE UNDERSTOOD OUR MARKET AND OUR BUSINESS

operational excellence and brand. It was a matter of shepherding the business to the next level in the most expeditious way.

"There were 20 good industrial acquirers and a handful that were likely to be highly interested. We knew there would be tremendous PE interest," Isgrig continues. "The key was to make sure the acquirers understood the complexities and the enormous potential of the business – the order book, the technology, the market position – and saw value in the underlying business. It was one of those rare assets with the best technology, and the strategic buyers would have one opportunity to buy it."

CLOSE LINKS

Among the key strategic acquirers, AMETEK was immediately recognised as a strong potential partner. The company had global market presence and a strong appetite for strategic acquisitions, and the Livingstone team had maintained close links with it.

"One of the reasons Nu Instruments appointed us was that we knew the global set of strategic acquirers," says Isgrig. "For example, we've known AMETEK since 2001. We've tracked them, we've sold to them and we talk to them regularly about other industrial technology businesses we're selling. AMETEK is always ready; the question was, was it ready for Nu Instruments?"

He continues: "We knew AMETEK's subsidiary Cameca would be a great fit with Nu Instruments' market-leading technology. So from our perspective, to make the transaction happen, it was about having the knowledge of, and commitment to, the sector and keeping in regular communication with the different acquirer sets. Doing this put us in a highly credible position."

A PERFECT FIT

Announcing the deal, AMETEK CEO David Zapico confirmed the benefits of the acquisition. "Nu Instruments further broadens our product offering and technical capabilities in high-end analytical instrumentation," he said. "Its products and markets are highly complementary with our Cameca advanced elemental analysis business and it provides us with opportunities for accelerating product innovation and market expansion worldwide."

Indeed, the aspirations of the two companies fitted perfectly, with each providing key pieces of the puzzle. The agreement was based on scale and technology joining together to provide opportunities for each, but to make that connection required an understanding of the appetite of the market for such a transaction, as well as the technology behind it.

"If you haven't been involved in transactions in this sector, you will struggle," Carberry says. "You have to know some of the science to deliver the best result, which is complicated. Having worked on other transactions in this space, we didn't need to ask too many questions to get up to speed, and we knew the companies with a hole in their science that Nu fitted with and that had the capital and global scale to let the business fly."

Alan McCall, Managing Director at Nu Instruments, concludes: "The Livingstone team were critical to getting this deal done. They understood our market and our business, and which companies would see us as a strategic asset and why. They ran a tight process, which allowed us to get the right financial deal and to secure, in AMETEK, a partner that is keen to support our products, our technology and our global growth."

Crossing the pond

At a recent roundtable, executives from US private equity and credit investment firms explained why they opened offices in the UK and discussed what they had learned from their experiences of expanding across the Atlantic

If you count the number of US PE firms with investment teams based in the UK, the conclusion is plain: Britain exerts a powerful attraction for North American investors, with many choosing it either as a base to focus on the UK market or as an important part of a wider European network.

But what brings them to the UK? To explore this and other questions, Livingstone partnered with global law firm Mayer Brown to bring together senior UK-based executives from a cross section of North American PE and credit investment firms for a private roundtable discussion at The Ivy Market Grill in central London. It quickly became clear that the reasons firms make the move can vary a great deal and that, however they think they are going to put down roots in Britain, the reality can be a little different.

TRAVEL FATIGUE

For some firms that focus on sectors that are inherently global, such as technology, the decision to base a team in the UK may simply reflect their strategic need to build international reach in the most promising markets.

But others freely admitted that "opening up wasn't a big, top-down, strategic decision". One speaker explained that, after several years executing transactions in Europe from the firm's base in the US, the desire to spend less time travelling eventually proved a major factor in the decision to set up a London operation: "You'd get on a plane, go to Europe, stay in a hotel for four months and get the deal done. But there were a lot of people coming to the UK ever more frequently, and it all got a bit excessive."

In this case, the decision to set up a permanent British base partly reflected travel fatigue, but also a suspicion at the US end of the operation that not having a team in London might mean the firm wasn't seeing all the opportunities it ought to because it wasn't sufficiently visible in the UK market.

In other cases, US firms have started elsewhere in Europe and, instead of expanding

ANDY DAVIS
JASON ALDEN

east from North America to the UK, have advanced west from a base on the continent. But although participants offered different explanations as to why their firms chose to open offices in the UK – and did not necessarily all see it as the natural first staging post on a journey to create a European office network – they generally agreed on one thing: having done their initial deals by "camping out", they had decided there was "a good market opportunity, but one that's impossible to address from a distance".

However, building a permanent presence on this side of the Atlantic brought numerous challenges, among them the fact that being a significant market participant in North America doesn't necessarily lead to immediate brand recognition and access to transactions in the UK. A number of those who had set up local investment teams said it took time to build momentum and cultural alignment to ensure that new members of the local team gelled with the parent company in the US or Canada.

"THERE'S NO SUBSTITUTE FOR SPENDING TIME ON THE GROUND"

CULTURAL FIT

Questions of culture came up repeatedly during the discussion. There was universal recognition that it is very important to British management teams and business owners to work with investment teams with whom they feel they have a good understanding and cultural fit. For US PE firms, however, this almost inevitably means hiring locally and managing the risk that some of the people they bring in to their UK operation might not fit in with the dominant culture of the firm, which is set from the US.

"The critical thing is finding enough of a DNA match between the base of the organisation and the local team, and that's probably the single hardest thing to get right," observed one executive. Another described how his firm used to second junior staff from the US operation to its UK office to "transplant the culture" but said that, as the British operation had become more established, the firm had moved to focusing on local hiring.

In many cases, the key investment decisions are still taken on the other side of the Atlantic, although some larger firms do now have largely autonomous European investment committees. But several speakers agreed that it can be a challenge for a British investment team to win approval for its proposed transactions from a US-based investment committee, given the differences in the culture and business environment between North America and the UK. One observed: "It takes a lot of work to get an investment committee in another country comfortable with a nuanced business."

CAPITAL OVERHANG

There is also a persistent belief among some in North America that making PE investments in Britain should be easier, cheaper and less competitive than in the US, and that there should therefore be plentiful well-priced opportunities.

The common preconception about the British market may have held good a decade or more ago, but today it is no longer a safe assumption. Far from being less competitive or cheaper than the US PE market, the roundtable participants strongly agreed that the UK is at least as competitive as North America, and

in some areas more so. This is thanks both to the amount of uncommitted capital available to fund transactions – known in the PE world as 'dry powder' – and to the proliferation of debt funds competing to finance leveraged buy-outs.

"The number one determinant of prices right now is the capital overhang in the system, across credit and PE funds," explained a London-based investor with a large North American firm. "If you asked me to name one country, the UK is the most competitive market in the world right now just because of the level of capital overhang. It's a smaller market than the US, there are so many US funds coming in and so much local money as well that, relatively speaking, I think multiples and competitive dynamics are as strong, if not stronger, in the UK." Another speaker agreed: "Many of the firms that we compete against in North America are in Europe, and for every one of us there are 10 local firms."

> THE UK IS THE MOST COMPETITIVE MARKET IN THE WORLD RIGHT NOW

BARGAINING CHIP

In the competition to win deals, one important advantage that a US PE acquirer can offer to a British management team is the ability to use its network and contacts in the US to help develop the company's international operations. Given the difficulty and risk involved in establishing a presence on another continent, this opportunity can be a powerful bargaining chip in negotiations with internationally ambitious management teams.

A wide US network can throw up a lot of potential leads, too. "When I complete a deal [in Britain], I send an email round the network, and it's amazing how many opportunities ping out of the system," said one participant. "Often they're possible bolt-on acquisitions that we would normally pass on, as they're just too small in their own right, but now we have something we can build on."

However, as well as opening the door to potential expansion into North America, international PE investors say they frequently counsel British management teams to be realistic and understand the commitment that international growth requires. Everyone at the table agreed that a move into a market like the US will need to be made via at least one meaningful acquisition. While that will give the acquirer access to strong local experience in their target market, it will also pose big personal and cultural challenges for the British team that will have to run the enlarged business.

"If you're the chief executive of a UK business making a major acquisition in the States, my view is that you need to be prepared to spend up to half your time for the six months after the deal closes on the ground in the US," said one investor. "You've got to commit meaningful personal time to build the relationships, and those are the most difficult things to get right. There's no substitute for physical presence and spending the time on the ground."

It seems that this is one principle that applies just as much to US PE firms looking to do deals in the UK as to the British management teams they are looking to partner with.

ATTENDEES

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Daniel Cole – Director, Marlin Equity Partners
Daniel Domberger – Partner, Livingstone
Patrick Groarke – Partner, Livingstone
Alastair Mills – Director, H.I.G. Capital International Advisors LLP
Tony Morgan – Managing Director, Onex Partners
Karthi Mowdhgalya – Senior Credit Analyst, BlueBay Asset Management
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RAY PHILPOTT
MORNING SETS/ PIXELEYES

Just the right fit

TRANSACTION AT A GLANCE
CLIENT: KAMIC GROUP
SECTOR: MEDIA & TECHNOLOGY
TRANSACTION TYPE: COMPANY SALE
ACQUIRER: ACCENT EQUITY

Livingstone used its understanding of the opportunity within the business to find the right buyer for a successful subsidiary of Swedish technology company KAMIC Group

Selling a business is naturally challenging, and finding a buyer for one that is in the process of going through a transformation – even a positive one – can make it harder still.

That was the task facing Livingstone when it was asked to help Sweden-based technical products and services company KAMIC Group to sell its successful subsidiary, Inteno.

For 30 years, Inteno has been supplying internet and telecommunications access solutions for telecoms and broadband operators to provide to customers. Its products, such as gateway routers, are designed internally and manufactured in Asia.

In recent years, the company has redeveloped the software running on its equipment to create revolutionary 'smart' hardware. This versatile platform, iopsys, includes gateway software, communication engines, cloud platforms and end-user and Internet of Things applications. iopsys gives telecoms companies the opportunity to offer customers a wide and attractive range of services from a single home 'hub'.

Following a strategic review, KAMIC Group concluded that Inteno's present and future operations fell outside its core business. So it decided to sell the subsidiary in order to focus on fewer businesses and create the financial flexibility for future strategic acquisitions.

Livingstone had earlier approached KAMIC to discuss a different acquisition. Although that was not pursued, it was the start of a good relationship. Some 18 months later, Livingstone was appointed to divest Inteno, while the business would retain its existing management and employees.

"The challenge we faced was that Inteno was effectively in transition," recalls Anders Jacobson, Partner at Livingstone. "The business had an established hardware manufacturing and distribution operation and had developed a powerful software platform with enormous business potential."

He adds: "While the platform had not yet reached maturity, this was where the potential lay. To maximise its value, we had to find a buyer that was comfortable with the hardware element, yet with the vision, understanding and belief to exploit the full potential of this groundbreaking software."

To achieve this, Jacobson and his team dug deep into the details of the platform and its applications to understand exactly what they were offering, working closely with Inteno's senior management team.

There was a lot of interest in the business from both strategic and PE investors in Asia, Europe and the US. Some were keen on the hardware elements and some focused on the software opportunity, while others were interested in the bundled solution.

"There were those that liked the idea of the cash flow from the hardware business to develop the software opportunity – like the eventual acquirer, Accent Equity," says Jacobson. "Accent really understood what was on offer and we finalised the deal in May this year."

The Inteno management team, led by CEO Conny Franzén, is full of praise for Livingstone's work.

"The team was very committed and engaged, working in the interests of both KAMIC and the management team," he says. "I was impressed by how fast they gained an understanding of the company and our software platform, and by how they applied that knowledge effectively when seeking potential buyers."

He adds: "They needed to find the right partner – one that saw things the same way we did, understood our business and would help us take the next step. They found a buyer that fits us perfectly."

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New horizons

When luxury travel business ITC decided to seek a partner to support its growth strategy, it proved to have the ideal qualities to attract PE investors

JAMES GAVIN

The successful PE-backed management buy-out of a UK luxury travel firm in the midst of the EU referendum campaign underscores the value of Livingstone's hands-on approach to engineering often complex deals, while reinforcing its noted sector strength in the rapidly evolving Travel sector.

Livingstone's Consumer sector team advised the shareholders of ITC Luxury Travel, one of the UK's largest independent luxury tour operators, on the management buy-out backed by NorthEdge Capital.

Chester-based ITC, which has 200 employees, was founded in 1974 and specialises in luxury tailor-made holidays worldwide. It reported turnover of £80m in the year up to April 2016 – up from £43m in 2013.

This growth followed an MBO in 2014 backed by Paul Pindar, former CEO of outsourcing business Capita, and the acquisition of Western & Oriental (W&O) in June 2015, which expanded the company's core luxury beach offering and developed group-wide expertise in experiential holidays.

Simon Cope-Thompson, Partner at Livingstone, picks up the story. "Paul Pindar was a shareholder in a business we sold last year. On the back of our longstanding relationship, and because of our travel expertise, he wanted to introduce us to Jennifer Atkinson, the CEO of ITC," he explains. "Livingstone is recognised as one of the most active advisers across the Travel sector, and Paul and Jennifer knew that we were ideally placed to give them the best advice on the strategic options available to all of the shareholders."

GROWTH STRATEGY

ITC had only recently acquired W&O, but the acquisition had had an immediate impact in increasing the range of destinations it could offer its client base. Thought then turned to timing – working out when to bring in a new partner to support the next stage of growth for the business, while allowing Pindar to exit.

As Atkinson explains: "The W&O deal showed that the team was good at integrating other, complementary businesses into a bigger group, driving revenue synergies while also managing costs efficiently. It gave us the platform – and the appetite – for more acquisitions. But we needed to get a partner on board who would be able to provide the funding and support we required for the pipeline of future acquisitions. That was one of the key motivations in reaching out to Livingstone."

Atkinson was less keen on a strategic sale at this stage, as she didn't want to change the culture of the business at this important point in its growth. On the other hand, a PE solution provided the opportunity to bring in future investment and support, while maintaining the fundamentals of the business its clients love.

Cope-Thompson says: "As the process went on, Jennifer could increasingly see huge opportunity and upside in terms of the next stage of the growth of the business, and was therefore delighted to have a chance to crystallise some value today, but then reinvest alongside a new partner."

PE investors typically look for a business that has an excellent management team, a strong client base with a high percentage of repeat business, a differentiated offering, and strong

> PE INVESTORS PROVIDE SELLERS WITH A STRONG ALTERNATIVE TO SELLING TO THE TRADE IN THE TRAVEL SECTOR

growth prospects, both organic and via bolt-on acquisitions – all characteristics that ITC offered.

"PE investors continue to provide sellers with a strong alternative to selling to the trade in the Travel sector," explains Gavin Orde, Director at Livingstone. "Our experience across the sector in recent years has shown that PE investors can provide an excellent solution for shareholders of growing, mid-sized travel businesses," he says. "Given the scale of some of the independents, there may not be a long list of strategic acquirers for their business today, and it's an area where PE has made good returns. Investors remain enthusiastic about backing strong management teams in travel businesses with differentiated business models, and growing them to a point where strategic buyers are likely to be much more interested."

A COMPELLING PROPOSITION

What made ITC a particularly compelling proposition to potential PE investors were the company's strong repeat booking rates and very high levels of customer loyalty, as well as its high margins and high booking values. "Typical bookings are £10,000 in the core ITC business," says Orde. "Really good customer service and a high-value offering are the attractions – plus the ability to scale it."

Jamie Hutton, Associate at Livingstone, points out that there is plenty of scope for further growth. "ITC's Chairman's Club has 80-90% repeat rates," he says, "so if they can start taking some of the W&O product, the more intrepid tours and itineraries in different parts of the world, and cross-selling that to their core customer base, then they can drive significant additional revenue."

During the process, NorthEdge Capital became the team's preferred partner, sharing a vision for the future growth of the business that resonated with ITC's management team. NorthEdge acquired a majority stakeholding in the business and is looking to help Atkinson and her senior team deliver on planned growth, supported by investment in IT, management, staff, product and customer service.

Atkinson, who will remain with the business, is unstinting in her praise for Livingstone's role in getting the transaction completed.

"I run a travel business – I don't know the world of deals and corporate finance," she says. "I therefore wanted to get somebody that knew that world, but also knew the world of travel. Livingstone came on board to help us navigate some of the complexities. They were a great team with lots of relevant experience, and they really supported us through the process."

The EU referendum result, which occurred in the middle of the transaction process, threw the Livingstone team a curveball, but they were quick to respond to the challenge. "Despite the inevitable short-term uncertainty, ITC continued to trade strongly, which underpinned NorthEdge's confidence in backing this strong management team," Hutton adds.

Cope-Thompson concludes: "NorthEdge could see the opportunity, and despite the fact that there are concerns in some parts of the Travel sector about short-term volatility associated with the fallout from Brexit, I think the business case for ITC's client base and its positioning in the market will help underpin its continued growth."

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TRANSACTION AT A GLANCE
CLIENT: ITC LUXURY TRAVEL
SECTOR: CONSUMER
TRANSACTION TYPE: COMPANY SALE
ACQUIRER: NORTHEDGE CAPITAL

DAVID CRAIK

TRANSACTION AT A GLANCE
CLIENT: **PINTURAS BENICARLÓ**
SECTOR: **INDUSTRIAL**
TRANSACTION TYPE: **SALE**
ACQUIRER: **FERRO CORPORATION**

A good finish

Livingstone's cross-border capability helped the founding shareholders of Spanish paint company Pinturas Benicarló achieve the exit they were looking for

The Livingstone team may not have needed to don white overalls, but encouraging Spanish paint manufacturer Pinturas Benicarló to strip back the layers and reveal the strengths of its second-tier management was crucial in sealing a major transaction.

Family-run Pinturas, founded in 1992, manufactures high-quality industrial paints for application on glass substrates. Neil Collen, Partner at Livingstone, explains that the four founders, who still ran the business, were nearing retirement age. "They were looking to exit the business and, given that there was no family succession in the pipeline, they wanted to sell," he says.

It helped that the company was on a sound footing, with well above-average market margins, given its highly specialised coatings and 80% export sales. Its customers include some of the world's largest glass manufacturers and processors.

Livingstone was given the mandate to find an acquirer, with Pinturas wanting an adviser that understood the industry and their niche position within it. "We looked at a couple of PE options, but we always felt that it would be a strategic transaction," says Collen.

Livingstone contacted 14 potential acquirers, soon narrowed to a shortlist of three. The standout candidate was US-based Ferro Corporation, a global supplier of technology-based performance materials, including glass-based coatings, pigments and colours, and polishing materials. Its products are sold into a variety of sectors, from construction to household furnishings, and Livingstone saw that it offered an excellent strategic fit, with the potential to open up new markets for Pinturas.

A PROCESS OF EDUCATION

However, for the founders to step away, strategic fit alone wouldn't be enough. "We needed to show that Pinturas's second tier of management was strong and to establish a post-completion management structure," says Collen. "Losing senior directors following a deal will make any acquirer somewhat nervous."

On the first issue, as part of a "hand-holding education process", Livingstone informed both senior management and the second tier of the type of questions an acquirer was likely to ask. "Pinturas was a privately run business and had never thought about mergers or acquisitions. We had to take them through the process and let them know the information and comfort an acquirer would need," Collen explains.

"We advised them on due diligence and prepared them for questions on things like customer retention and sustainability of margins. It became clear that there was a massive amount of knowledge in the secondary team as well as the founders – knowledge about the products and creative ideas about new R&D projects. That gave the acquirer confidence that the second tier could step up and meant that nobody became overly stressed."

The post-completion structure included tailored initial payments and small earn-outs for the shareholders. Transition periods were also included for those shareholders who were active in the business, ranging from six months to two years.

Collen says that the year-long sale process shows the importance of Livingstone's local presence and international reach. "Being able to help the local shareholders fully understand what the international acquirers were saying was vital. If we had not been there, the transaction would have fallen apart," he stresses. "Bringing the next generation of directors along and showing that they were ready to take up the reins in areas such as sales and R&D was also key. They showed that they were a strong and knowledgeable team."

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Debt and Brexit

What effect has the UK's decision to leave the European Union had on the mid-market debt landscape?

After the initial panic and confusion following the result of the UK's referendum on EU membership on 23 June 2016, there were concerns that debt markets might seize up, as they did after the financial crisis in 2008.

The key issue, explains Bill Troup, Managing Director, Debt Advisory at Livingstone, is availability of credit. If lenders won't lend, the lack of funding can tip otherwise healthy businesses into distress situations. A lack of debt and increased uncertainty could also slow deal activity to a trickle – as we saw in 2008.

But as the dust has started to settle, the impact so far on the UK clearing banks has not been dramatic, and Troup points out that there has not been a liquidity crisis. "While there was a lot of uncertainty, and there remain many unanswered questions, most businesses have traded on as before. The clearers now have much stronger balance sheets than they had going into the financial crisis and have improved controls and systems. There has been no knee-jerk reaction, though there is increased vigilance on a deal-by-deal basis." He adds: "If clearers do become more risk-averse as Brexit negotiations progress, this will present an opportunity for non-bank [alternative] lenders, potentially growing their market."

These credit funds moved into the space vacated by the traditional lenders after the financial crisis and quickly increased their market share. "Alternative lenders have raised significant funds from yield-hungry investors in recent years and are still looking to deploy that capital," says Troup. "The recent reduction in interest rates is likely to stimulate further demand for their product."

The impact on the clearer's appetite for lending will vary by sector, as it always does. Credit committees will be sensitive to the differing risk profiles of different segments of the economy. Troup suggests that some sectors may be more vulnerable than others, particularly low-margin importers/exporters that could be affected by EU tariffs. Lower levels of debt availability for these businesses might make it harder for PE funds to make their target levels of return, thereby reducing appetite for traditional leveraged buy-out structures.

But the availability of alternative debt sources may support different transaction types. "For potential sellers who are nervous that they may not be able to secure full value for their businesses or investments in this climate, they can consider debt-funded recapitalisations, which allow shareholders to take some money off the table while deferring an outright sale."

As for deal flow, the EU vote did have an initial effect. "There were some transactions ready to complete that had Brexit clauses and thus failed to go through," says Troup. "But it's too early to say with any certainty whether deal flows will slow generally in the long term."

How will debt funding for UK PE fare in the future? Troup believes that credit funds are on relatively safe ground and is optimistic that clearers will continue to compete. "I don't think much will change," he says. "There may be some uncertainty in the medium term for credit funds with EU institutional investors, such as the European Investment Fund, but there will still be a push from investors for yield, particularly with interest rates low. Fund managers will also be looking to put the money they have already raised to good use."

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leading provider of cyber security and information assurance has been sold to

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Cotswold

leading online wooden furniture retailer has been sold to

TRUECAPITAL

Keyvia

has acquired Rail Power Systems GmbH (formerly BB Rail GmbH) from

Balfour Beatty

Summit Changemakers in retail

leading online retail specialist has been sold to

tcc

GRASS ROOTS inspiring people

leading provider of employee and customer engagement solutions has been sold to

BLACKHAWK NETWORK

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one of the UK's largest independent luxury tour operators has been the subject of a buy-out backed by

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EQUISTONE

Blueair

leading manufacturer of air purification products, services and integrated solutions has been sold to

Unilever

CSL

provider of critical alarm monitoring and connectivity solutions for machine-to-machine communications has been the subject of a buy-out backed by

ICONIQ

nu instruments

leading design and manufacturer of mass spectrometers has been sold to

AMETEK

ams www.ams.com

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ST

AMWARE MULTI-CHANNEL LOGISTICS

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