The Acquirer

The corporate finance magazine from Livingstone

SUMMER 2017

Data-driven performance

How Autodata's value more than doubled in less than three years

PLUS: ENRA – FOUR STEPS TO SUCCESS. IOT FOCUS. COTSWOLD COMPANY'S ONLINE APPEAL.

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Comment

The incredibly benign market conditions for business owners and managers seeking to exit or raise growth capital look likely to prevail for some months to come. But the investment banking community is looking at the horizon ever more intently to see if storm clouds are gathering.

Acquirers and investors – and the markets generally – have in recent years proven capable of rolling with the blows. Unexpected electoral outcomes for Brexit, Trump and Macron highlight what a volatile world we live in, while emerging superpowers flex their muscles and traditional allies look beyond historical relationships. Yet equity markets have marched on, seemingly confident that a strong US economy and a more fragile recovery in Europe will sustain market momentum.

This will eventually end when one unpredicted event too many triggers the inevitable crisis of confidence. Investors' willingness to 'price-in' risk rather than not transact will find its natural limit. When that happens, the M&A market cycle – traditionally five years from peak to peak – will reassert itself. We are now in year five!

However, two structural themes mean that sellers and boards may not need to head for cover quite yet. First, the ferocity of the global financial crisis means there is still considerable momentum behind strategic acquirers looking to make up for the 'lost years' between 2008 and 2013 by aggressively promoting their acquisition agendas and exercising their strong balance sheets. Our experience shows no let-up in these groups' appetite to purchase high-quality assets.

Second, the tidal wave of private equity (PE) capital shows no sign of abating; tens of billions of fresh capital have been raised in the past few years, and it all needs a home. Provided debt market participants – also benefiting from an influx of capital and a bewildering spectrum of new providers – remain focused on deploying that cash, demand for companies to back will continue to outstrip supply, and sustain premium valuations.

For owners of successful businesses, it feels as if the time to transact is now. It is always advisable to launch a process with the confidence that comes with a few years of strong profit growth, 12 months' worth of revenue visibility, strong order pipelines and a prevailing market consensus that the macroeconomic outlook looks no worse. If you have been contemplating a deal, kicking it off while the sun is still shining seems like the most sensible thing to do.

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Livingstone is an international mid-market M&A and Debt Advisory firm, with offices in Beijing, Chicago, Düsseldorf, London, Los Angeles, Madrid and Stockholm. Its 110 staff complete circa 60 deals per annum.

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COVER IMAGE: HITANDRUN MEDIA

NEWS Digest

AWARDS

Turnaround triumph

The Global M&A Network has recognised two recent turnaround and restructuring transactions by Livingstone's Special Situations team in its Turnaround Atlas Awards. The awards are:

Corporate Turnaround of the Year – the sale of Cardiac Science, a leading global provider of automated external defibrillators, to Aurora Resurgence.

Out-of-Court Restructuring of the Year – the sale of Harris Connect, a leading provider of alumni and membership directories to educational institutions and non-profit organisations, to Publishing Concepts, Inc.

The Turnaround Atlas Awards honour excellence in restructuring, distressed investing, insolvency, turnaround, and special situations M&A transactions. Livingstone previously won Professional Services Turnaround of the Year for the sale of IPC International to Universal Protection Service at the same awards.

"These awards are testimony to our ability to develop, evaluate and implement creative and timely solutions for clients under a variety of difficult circumstances," says Joe Greenwood, Partner and Head of Livingstone's US Special Situations team. "As a full-service M&A and debt adviser that regularly assists clients throughout the complete business lifecycle, Livingstone continues to see a number of distressed businesses, turnarounds and special situations, despite benign conditions across the middle market."

Wise words

"I LEARNED VERY EARLY ON THE ART OF DELEGATION. THE BEST BIT OF ADVICE I THINK I CAN GIVE TO ANY MANAGER OF A COMPANY IS, FIND SOMEBODY BETTER THAN YOURSELF TO DO THE DAY-TO-DAY RUNNING. AND THEN FREE YOURSELF UP TO THINK ABOUT THE BIGGER PICTURE."

RICHARD BRANSON, FOUNDER, VIRGIN GROUP

Livingstone insights

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Nick Field explores the potential impact of the General Data Protection Regulation (GDPR), which comes into effect in May 2018

There are three recurring themes that we think anyone contemplating buying or selling a business between now and GDPR implementation should consider:

Process changes should be operational rather than theoretical
Compliance with GDPR will require changes to data collection mechanisms, documentation and data sources for a range of businesses. If these changes have been developed conceptually (often with specialist legal advice) but not yet implemented at the point of a transaction, an intelligent buyer may seek a 'margin of safety' to reflect the uncertainty of their effect. This could impact deal value. The best protection for a seller in an M&A transaction is to demonstrate that all steps needed to achieve compliance have been put in place and do not negatively impact the business.

For some, GDPR will be a big opportunity
While the media narrative around GDPR has been dominated by regulatory risk and the need to achieve and demonstrate compliance, potential upsides may arise from GDPR for certain business models which can be important drivers of value in M&A.

GDPR compliance of data-driven growth strategies should be validated
Monetising data in new ways, particularly for marketing purposes, is a rich vein of growth for businesses in both B2B and B2C markets. If growth strategies of this kind are presented as part of an M&A process, they will attract particular scrutiny, and specialist legal advice to validate their achievability post-GDPR is therefore advisable.




PROMOTIONS

On the up

Livingstone announced four promotions in its London office this spring: Alex John has become a Partner, Karen Dawaf Harron and Nick Field are now Directors, and Ian Guilfoyle has been promoted to Associate Director.

Alex John *(pictured above, left)*, who qualified as a chartered accountant at KPMG, has been with Livingstone for over 10 years and has played an important role in developing the firm's Business Services sector and Management Advisory practices.

"We're delighted to welcome Alex as a partner and to recognise the exceptional contribution he has made across the firm," says Jeremy Furniss, Partner at Livingstone London and head of the Business Services sector team. "He is a prime example of our commitment to recruiting exceptional young talent, then encouraging personal and professional development with rapid client exposure, transactional responsibility and promotion in recognition of success."

That commitment is also seen in the other recently announced promotions. Since joining from Deloitte's Healthcare sector team in 2014, Dawaf Harron *(second from left)* has advised on a range of transactions, with a particular focus on the Business Services and Healthcare sectors.

Field *(second from right)* has dedicated his time to the Media & Technology sector since joining from stockbroking firm WH Ireland in 2014. He has recently been involved in a number of Livingstone's highest-profile transactions.

Guilfoyle *(right)* joined Livingstone in 2016 from Deloitte's corporate finance team in Toronto, and works across the Business Services and Industrial sector teams.

Furniss says: "Karen, Nick and Ian have each demonstrated an exceptional commitment to client service and the ability to provide expert and creative advice to clients at all stages of a transaction, and we are delighted to recognise their performance and importance to the firm with these promotions."

Livingstone in numbers

OVER 905 TRANSACTIONS COMPLETED SINCE 1995

5 CORE SECTORS

BUSINESS SERVICES

CONSUMER

HEALTHCARE

INDUSTRIAL

MEDIA & TECHNOLOGY

7 OFFICES AROUND THE GLOBE

28 PARTNERS LEADING CLIENT PROJECTS

110 DEDICATED STAFF

$337.1bn

Total value of cross-border M&A activity in Q1 2017 – the highest first-quarter total since 2007. This was driven by record levels of outbound M&A from acquirers based in the US and inbound M&A for European assets.

Source: Thomson Reuters

Livingstone insights

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The Economist **quoted Livingstone's Harsha Wickremasinghe in its analysis of L'Oréal's decision to sell ethical retailer The Body Shop**
"Squeezed by rivals who are variously cheaper, trendier, more political and more wholesome, the new owner of the Body Shop will have a choice," argues Harsha Wickremasinghe of Livingstone. "It could take the brand back to its agitprop roots. Or it could make it a more colourful addition to the supermarket shelves. Either would need a lot of investment. But given the goodwill that still attaches to the Body Shop brand, there may be plenty of wild argan oil left in the bubble bath yet."

Wise words

"FOR ME, THE MOST FUN IS CHANGE OR GROWTH. THERE ARE DEFINITELY ELEMENTS OF BOTH THAT I LIKE. LAUNCHING A BUSINESS IS LIKE DRIVING A MOTORBOAT: YOU CAN GO VERY QUICKLY AND TURN FAST."

TONY HSIEH, CEO OF US-BASED ONLINE SHOE AND CLOTHING RETAILER ZAPPOS.COM

TRANSACTION AT A GLANCE	Client	Sector	Transaction type	Target
	Polyframe Group	**Industrial**	**Debt-raise for acquisition**	**Customade Group**

Opening doors

Livingstone's specialist debt-raising expertise has enabled the creation of a market leader in the manufacture and distribution of trade windows and doors

Last December, when Cairngorm Capital agreed terms to acquire Customade Group through its portfolio business Polyframe Group, the pressure was on to complete the transaction quickly. But the relatively young PE firm is no stranger to doing things at speed as it consolidates the windows and doors sector.

"We saw a fantastic opportunity to create the UK's leading trade fabricator of high-quality aluminium and PVCu windows and doors," explains Andy Steel, Managing Partner of Cairngorm. "The sector is forecast to achieve double-digit growth over the next five years."

In July 2016, Cairngorm had acquired Polyframe, the UK's largest independent fabricator and distributor of trade windows. In October, Polyframe, in turn, acquired WB Group, which had a reputation for supplying high-quality branded composite and PVCu doors.

Then, in December, Cairngorm acquired Stevenswood, the largest distributor of windows and doors in Scotland, supplying the installer market from a network of trade centres. Polyframe then sold its own trade centres in England to Stevenswood and acquired its window fabrication site in Livingston. These transactions allowed each platform business to focus on becoming, respectively, the manufacturing and distribution leaders in their markets.

John Naylor-Leyland, Investment Director of Cairngorm, takes up the story. "We then targeted Customade Group, a specialist manufacturer of high-quality aluminium and PVCu windows, doors and conservatory roof products, having heard it might potentially be for sale," he says. "Within a week, we struck a deal with its owner, but as it was an off-market transaction, we had a limited period of exclusivity before a sale process was due to begin.

"While Clydesdale Bank had been fantastically supportive of Polyframe's growth, we needed to source acquisition finance quickly, to refinance our existing debt and finance the Customade acquisition," he continues. "The newly enlarged Polyframe Group had a short trading history as a combined entity, and it was a complex story, as we had driven operational enhancements, changes and synergies. We needed a specialist adviser with deep knowledge of the debt market and a reputation for delivering on complex debt raises."

That's where Livingstone's Debt Advisory team came in. "They advised us on the appropriate debt structure and gave us the confidence that they knew the relevant lenders who would have appetite and could deliver the debt package within the tight timeframe," says Andy Steel.

Within weeks, the Livingstone team, led by Bill Troup, Managing Director, Debt Advisory, had secured a number of attractive offers through a competitive process. The acquisition and refinancing completed in February, with MidCap Financial providing unitranche facilities and Clydesdale Bank providing super-senior working capital facilities.

"We were pleased with the response from the lenders, who took the time to understand Cairngorm's investment plan, the business and the sector," says Troup.

Polyframe now has revenues in excess of £100m. The enlarged firm has been rebranded as Customade Group and supplies a comprehensive product range across aluminium windows, composite entry doors and PVCu products. It is the sector's leading player and operates across the UK, with almost 900 employees across 10 manufacturing facilities.

Steel says: "It was a pleasure working with the Livingstone team, who combined effectively with our own staff to explain clearly to potential lenders a complex and fast-evolving investment opportunity, and managed our debt-raising process efficiently and effectively for all parties."

"The controlled expansion of the Customade Group has been a real success story," adds Neil Smith, Director, Debt Advisory at Livingstone. "Cairngorm has quickly achieved a market-leading presence in both the manufacturing and distribution sectors of the trade windows and doors supply chain. The flexible debt package enables the business to execute its expansion plans and the continued growth of the enlarged Group."

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TRANSACTION AT A GLANCE	Client	Sector	Transaction type	Acquirer
	The Cotswold Company	Consumer	Private company sale	True Capital

Sofa, so good

Following its acquisition by True Capital, online furniture retailer The Cotswold Company is looking forward to an exciting future, with more physical stores and the involvement of a US retail legend

The Cotswold Company, a specialist producer of high-quality oak and pine furniture, is a classic e-Commerce success story. Founded in 1996, it was acquired in 2009 by Blackbird Retail Holdings, which gave CEO Kevin Johnson and Marketing Director James Birtwhistle the opportunity to spearhead the rapid growth of the business. By 2016, it was generating annual revenues in excess of £35m and had delivered strong compound annual sales and EBITDA growth over the previous four years.

Now the board was keen to take the business to the next level. "We had our single showroom concept open in Norwich and its success had proved to us that more stores were needed," Birtwhistle explains. "As we began to understand the scale of the opportunity, and the skill set required to roll out stores nationwide, it was clear that the time was right to seek external support. The business was still undergoing a strong growth phase online, and the timing was as much to do with appreciating the brand's potential as it was a robust strategic initiative."

The company considered a number of options before deciding that PE investment would offer greater growth prospects. "We recognised that, for the business to reach its full potential, we were going to have to bring in additional expertise to help scale the organisation, specifically in bricks-and-mortar retail," says Birtwhistle. "We had been approached by retailers a number of times with expressions of interest in the business, so it seemed likely to us that the best strategic fit would be to partner with a competitor in this space."

BEST OF BOTH WORLDS

However, while the Cotswold Company board was interested in PE investment, it felt that much of the firm's success was the result of an outstanding company culture and ethos, and didn't want to potentially dilute this with a sale to a mainstream PE house.

Then Livingstone's Consumer sector team introduced them to True Capital. Livingstone had been advising the management at fashion retailer Long Tall Sally (LTS) on a transaction that completed in August 2016. True Capital was an under-bidder for LTS but, during the process, the team there built up a good relationship with both Livingstone and Andrew Shapin, CEO of LTS. Shapin was also the Chairman of Blackbird Retail Holdings, parent company of The Cotswold Company.

Livingstone and Shapin mentioned to True Capital that there was likely to be another opportunity they might be interested in later that year – The Cotswold Company. True Capital followed up on the opportunity and made a compelling case to the team, offering a rigorous and relevant approach to the deal as sector specialists – and a smooth-running transaction was completed in eight weeks.

Birtwhistle explains that True Capital offered the best of both worlds: "It provided a specialist focus in retail to allow us to concentrate on rolling out a store portfolio, together with a cultural alignment that concentrated on doing the right thing for the business over years, not quarters. It also brought a wealth of expertise in dealing with digitally- and data-driven e-Commerce businesses."

RETAIL LEGEND

An additional benefit of working with True Capital is the future involvement of Gordon Segal in the business. The 66-year-old is a retail legend in the US, where he and his wife grew their homewares business, Crate & Barrel, from a single store in Chicago to a $1bn turnover national chain. Segal, a significant investor in True Capital's funds, will play an active role in The Cotswold Company, particularly around product, real estate and supply chain.

He is bullish about its potential. "Building great businesses requires exceptional people and an outstanding culture," he says. "Having spent a long period of time with both True Capital and The Cotswold Company management team in recent weeks, I am absolutely confident that Kevin and the wider team, with True Capital's support, have the potential to build a very significant company. I hope the experience I have gathered over the past 50 years will be valuable to the team."

Matt Truman, CEO and co-founder of True Capital, has no doubt that it will be. "Gordon Segal's involvement in this acquisition is another great example of our sector ecosystem and I'm sure he will prove to be a fantastic asset for the company," he says, adding: "In The Cotswold Company, we identified a strong business exposed to the right structural growth trends, with excellent financial metrics, driven and executed by exceptional founders and a world-class management team."

Online appeal

In the summer and autumn of 2016, Livingstone completed four e-Commerce transactions: in addition to Long Tall Sally and The Cotswold Company, the firm facilitated the sales of Nordic fashion business Gudrun Sjödén and online retail specialist Summit. So why are online businesses so attractive to acquirers and investors?

The Cotswold Company's Marketing Director, James Birtwhistle, points out that constructing synergies across similar platforms can deliver solid returns, while conceding that there are often major challenges. "There are many online businesses out there, and some can demonstrate a differential advantage in this trading environment. It's a much smaller subset, though, that are profitable, high-growth, and have the foundations in place to scale to meet the market potential."

And why was The Cotswold Company in particular a desirable investment? "We are unique in that we have an industry-leading Net Promoter Score and a passionate team, and we operate in a sector that is forecasted to see double-digit growth," says Birtwhistle.

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TRANSACTION AT A GLANCE	Client	Sector	Transaction type	Acquirer
	Info-Assure	Business services	Private company sale	BSI

CHRISTIAN DOHERTY

Raising the standard

Thanks to its acquisition by BSI, leading UK cyber security and information assurance consultancy Info-Assure now has access to a huge international market

Martin Walsham is a man on a mission. Having established Info-Assure in 2008 as a provider of cyber security and data assurance services, he set the target of becoming one of the leading independent companies in that rapidly expanding sector within a decade.

"Our roots were in the public sector, working with key Government departments. Through our work there, we grew into the commercial sector too," he recalls. "In the UK, we achieved our goal not so much in terms of absolute size as in terms of our capabilities and accreditations."

Info-Assure is now accredited by all the key schemes, including CREST and the National Cyber Security Centre, as well as holding Qualified Security Assessor status. It is also one of only 11 companies currently certified under the Government's CESG Certified Cyber Security Consultancy scheme.

Indeed, it is a classic case of 'right company, right place, right time'. The expertise it delivers focuses on five main areas, all of them essential in the ultra-connected modern world: security testing and verification; cyber incident response; security consultancy; laboratory assessments of products and services; and cyber security research.

GRASPING THE OPPORTUNITY

Within a few short years of its launch, Info-Assure was ideally placed to secure its market-leading position in the UK, but Walsham knew that supporting that aspiration across new international markets as well would be a challenge.

"Everything was going well in the UK and it was all self-funded. We'd wanted to build it on that basis, but it did limit the speed at which we could grow," he explains. He dipped his toes in international waters with projects in Belgium, South Africa and Australia, but they took up too much of management's time. The market for cutting-edge cyber assurance was expanding, but Walsham knew opportunities like that don't last forever.

"A lot of big players were trying to move into this space. We felt that if we didn't move quickly, we might miss the moment," he says. "That led us to want to work with an organisation with similar aspirations that could support us." Seeking venture capital investment or launching an IPO would have raised capital, but wouldn't have allowed Info-Assure to reach its international target customers fast enough.

THOROUGH PREPARATION

The Info-Assure management team had been in dialogue with Graham Carberry at Livingstone for a few years about how they might secure the right partner for the business. In particular, they saw the value Livingstone had added on the sale of cyber-consultancy ContextIS to Babcock in December 2014. In late 2014, Livingstone introduced consultant CFO Richard Sawney, who worked closely with the team to get Info-Assure's systems and reporting in the right shape to facilitate any future transaction, as well as future-proofing the business.

All this good work was causing potential partners to take note, and Walsham received several unsolicited approaches. After speaking to a number of qualified potential acquirers, Livingstone and Info-Assure focused on BSI – the global business standards company – which was looking to expand its Information Resilience proposition. Info-Assure possessed the leading-edge cyber security expertise it required.

"As with any acquisition, it was a lengthy and intense time period, but I was very well briefed by Livingstone," says Walsham. "We were keen that the process should complete around our year-end to keep everything in sync, because for an SME like us it can be a lot of work. Livingstone took care of the project management, which really helped."

The transaction was completed in October 2016 and Walsham now runs Info-Assure as an operating subsidiary of BSI Professional Services, within BSI's newly created Cybersecurity and Information Resilience division. "We have effectively become BSI's global technical cyber security and resilience arm," he explains. "That allows us to build on what we do in the UK and take it forward to BSI's customer base in 181 countries."

Walsham stresses that chemistry made all the difference. "Ultimately, it's a people business and it's important to get on with the people you work with. The fact that we had a lot of engagement and commitment at the highest levels of BSI made a huge difference. Alongside that, Graham at Livingstone brought an understanding of the process and was able to guide us on what we could expect at every stage. The Livingstone team made an intense process bearable."

> "GRAHAM CARBERRY BROUGHT AN UNDERSTANDING OF THE PROCESS AND WAS ABLE TO GUIDE US ON WHAT WE COULD EXPECT AT EVERY STAGE. THE LIVINGSTONE TEAM MADE AN INTENSE PROCESS BEARABLE"

Safety first

Livingstone Partner Graham Carberry explains why cyber security companies are in demand

Today, every business needs to have an online presence, be it for storage or data transfer or something more involved. Meanwhile, growth in the use of cloud computing and the development of the Internet of Things (see page 16) are creating a huge opportunity for hacking and data fraud.

This is increasingly a major business concern for large and small companies alike. Moreover, it's difficult to insure against cyber risks, given the potential damage to brands, customer relationships and intellectual property, so prevention is key. For organisations with sensitive data, such as government agencies, police forces, telecoms companies and so on – all of which are trying to take more of their operations online – this is mission-critical. Essentially, people expect companies and the government to take this seriously and buy in the best services to deal with this emerging risk area.

Most companies deploy a range of software and hardware, but what they are trying to buy is security, so there is a widespread need for testing, assurance and security consultancy. The direction of travel is towards more sophisticated consultancy as well as managed services.

Given all that, if you look at this from a corporate finance angle you see double-digit annual growth in the sector. So for a testing and standards business such as BSI to be able to demonstrate that it is at the leading edge of cyber security and testing, as it can with the acquisition of Info-Assure, is a huge advantage in the current market.

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Pictured, l-r: Richard Fetterman, Livingstone; Rod Williams, Autodata; Nick Field, Livingstone

Accelerated growth

In 2014, Livingstone advised on the sale of automotive information specialist Autodata. Two and a half years later, the process was repeated, but the price was more than double. What is the secret of Autodata's success?

TRANSACTION AT A GLANCE

Clients
Bowmark Capital & Five Arrows Principal Investments

Sector
Media & Technology

Transaction type
Private company sale

Acquirer
Solera Holdings, Inc.

Richard Atherton and Dietmar Otto, the co-founders of Autodata, sold the company for £143m in 2014. After a fiercely competitive auction process, managed by Livingstone, there were whispers aplenty that the acquirers, PE firms Bowmark Capital and Five Arrows Principal Investments, had paid too handsomely for their prize.

Not any more. In January this year, Autodata changed hands again. The acquirer this time was US data and software group Solera Holdings, and it paid £340m, making the previous purchase price look positively modest.

The story of how the value of the company (which supplies online technical information to mechanics in more than 90,000 vehicle workshops across the UK, Europe and Australia) rocketed over such a short period has several elements. Above all, it rests on the must-have quality of Autodata's information and the ability of digital distribution to deliver rapid growth and enhanced profitability.

PROFITABLE ACQUISITIONS

Rod Williams became Chief Executive in early 2012 and quickly rebuilt the company's product offering and forged ahead with the transition to fully online delivery of its subscription-based information services. Revenues were already growing at more than 10% a year when Autodata changed hands in 2014. After the buy-out, the growth rate accelerated again.

That was partly thanks to a traditional source of growth for PE-backed companies: acquisitions. Management and the new owners considered automotive information businesses with complementary data assets that Autodata could add to its portfolio, but didn't find any that offered an outstanding opportunity. So, instead, the company decided to acquire its distributors in several important territories. It completed the acquisition of its French distributor in December 2015 and was able to add its Finnish counterpart, which also covered the Baltic states, the following month. Shortly after that, the company's Swedish distributor approached it about a sale. As a result, Autodata consolidated its customer database and relationships in its biggest Nordic market.

"Now we're dealing directly with customers in France, Sweden, Finland and the Baltics," says Williams. "It takes us closer to the customer, and we're bringing margin back into the business, as well as control of customer relationships."

The margin gains that Autodata achieved by controlling its own distribution helped drive up its profits. But they accounted for only about a fifth of the jump in EBITDA, from £10m to around £20m, that took place under Bowmark and Five Arrows' ownership. By far the biggest contribution came from organic growth.

MARKETING REINFORCEMENTS

The company's rapid revenue growth was the result of a combination of factors. Julian Masters, Senior Partner at Bowmark, says they carried out extensive research on Autodata's markets before acquiring the company and concluded that there were significant opportunities for new customer growth.

> THE MARGIN GAINS ACHIEVED BY CONTROLLING DISTRIBUTION HELPED TO DRIVE UP PROFITS

However, to capitalise on them, Autodata needed to strengthen its sales and marketing capacity. It did so with the addition of Nigel Bleach, a specialist in digital information sales from outside the automotive sector, who is now European Sales Director. Rupert Keane was also brought in as Non-Executive Chairman, to help free up more of Williams's time to lead the organic growth strategy.

Among the major gains from Autodata's strengthened marketing team was its success in winning major new contracts in Australia and New Zealand. As a result, these territories have now come to represent a much larger proportion of the company's business, accounting for about 12% of global revenues.

"Rod executed incredibly well by landing the big contracts in Australia that we were aware of ahead of the deal," Masters comments.

The owners and management also agreed that there was scope to increase the price of Autodata's digital products, as research had shown that they were often used to manage the workflow in customers' automotive repair shops, rather than simply as a source of technical information.

Williams explains that Autodata's previous pricing did not reflect how essential its product was to its users. "The data had high value but, unfortunately, a low historic market price," he says. "It was always a frustration, because when you ask people whether they can work without it, the answer is no."

The company was able to implement price increases, thanks both to the mission-critical nature of its data and to the improvements in service and customer experience delivered by its investment in the transition to digital delivery.

An important factor in Autodata's accelerating growth was a change in the way it enabled corporate customers to consume its information digitally, using application programming interfaces (APIs), which allow data to flow seamlessly between separate organisations. Rather than delivering a defined package of information, APIs permit users to tailor data feeds so that they receive only the information they require.

Williams says that the move to using APIs helps to make much clearer the market value of every individual piece of data the company owns, rather than dealing in packages of information where the price may not reflect the real worth of some of that data to the end user. "APIs allow us to monitor the usage of our data in real time, and we're able to put a value on every piece of data," he explains.

Alongside the company's increased marketing capacity, this newfound ability to deliver the *à la carte* data feeds that different customers wanted helped to speed its growth. It enabled Autodata to serve a much wider range of potential

Autodata: timeline

1975: Richard Atherton (Managing Director) and Dietmar Otto (Production Director) buy Autodata from London & Dominion Trust. The company was originally set up as a translation agency for overseas vehicle manufacturers seeking to enter the European market. It sells printed manuals for DIY and trade mechanics

Mid-1980s: As newer cars become technically more complex, Autodata begins phasing out retail manuals to focus on trade publications

1991: Autodata begins selling trade manuals on CD and DVD

1995: The company begins licensing its technical information to third parties

1996: Retail publication ends

1998: Atherton and Otto each sell 20% of the company to an employee benefit trust as part of a share option scheme

2004: Electronic media make up 50% of revenues

2005: Mark Trepte is appointed Production Director

2006: Autodata launches online operation. Otto steps back from daily operations

2012: Rod Williams is appointed Chief Executive. Printed trade manuals start to be phased out

2013: Autodata begins shifting customers to its online-only portal. Electronic media now make up 95% of revenues

2014: Autodata is sold to Bowmark Capital and Five Arrows Principal Investments for £143m

2015: The company acquires its French distributor

2016: It acquires its Finnish distributor and takes control of its Swedish distribution

2017: Solera acquires Autodata for £340m

customers, including companies looking to develop apps for the consumer market to help people find local servicing for their vehicles, for example.

Williams says: "If you go back 10 years, the company just thought, 'How many workshops are there in these countries? That's our market.' And it really wasn't. That's part of our market, certainly, but people consume data in lots of different ways."

> **IT SEEMED THE APPROPRIATE TIME TO CONSIDER A SALE, HAVING ACHIEVED MANY OF THE COMPONENT PARTS OF OUR FIVE-YEAR PLAN IN TWO YEARS**

RAPID PROGRESS

He sees even more scope for the business to develop further under Solera's ownership, but it was the rapid progress Autodata made with Bowmark and Five Arrows that brought it to the beginning of the next chapter so soon. Solera was keen to acquire Autodata in the first sale process and had approached the new owners shortly afterwards to reconfirm its interest in acquiring the company. Bowmark and Five Arrows were focused on executing their plan to increase Autodata's EBITDA, but they agreed that they would talk to Solera on a preemptive basis once their original profit target was in sight.

In the meantime, they asked Livingstone to manage the relationship with Solera. "Livingstone did a great job of giving them sufficient grounds for excitement, but also keeping Solera at arm's length to allow us to run the business," says Masters.

As it turned out, Solera did not have long to wait: it soon became clear that Autodata was on course to reach the base case EBITDA of £20m. In late summer 2016, the time came for talks to begin. The final price of £340m no doubt came as a shock to observers who thought Bowmark and Five Arrows had paid a full price in 2014.

But equally surprising must have been the speed of their exit. Why did they decide to sell so soon?

Masters says the reason was simply that Autodata had raced through their value creation plan. "It seemed the appropriate time to consider a sale, having achieved many of the component parts of our five-year plan in two years." Fundamentally, this was simply a story of accelerating organic growth, which accounted for 80% of Autodata's increase in EBITDA.

"I think people didn't appreciate the quality of the business we bought," says Masters. "They said the price we paid was high, but we thought there was a lot more underlying profit in the business, and that gave us the confidence to win."

For the Autodata management team, becoming part of Solera offers the chance to accelerate the company's growth once again with a larger, global parent, says Williams.

"One of the challenges will be how to prioritise," he concludes. "We can all see a lot of exciting opportunities, but you can't do everything at once." It's a nice problem to have.

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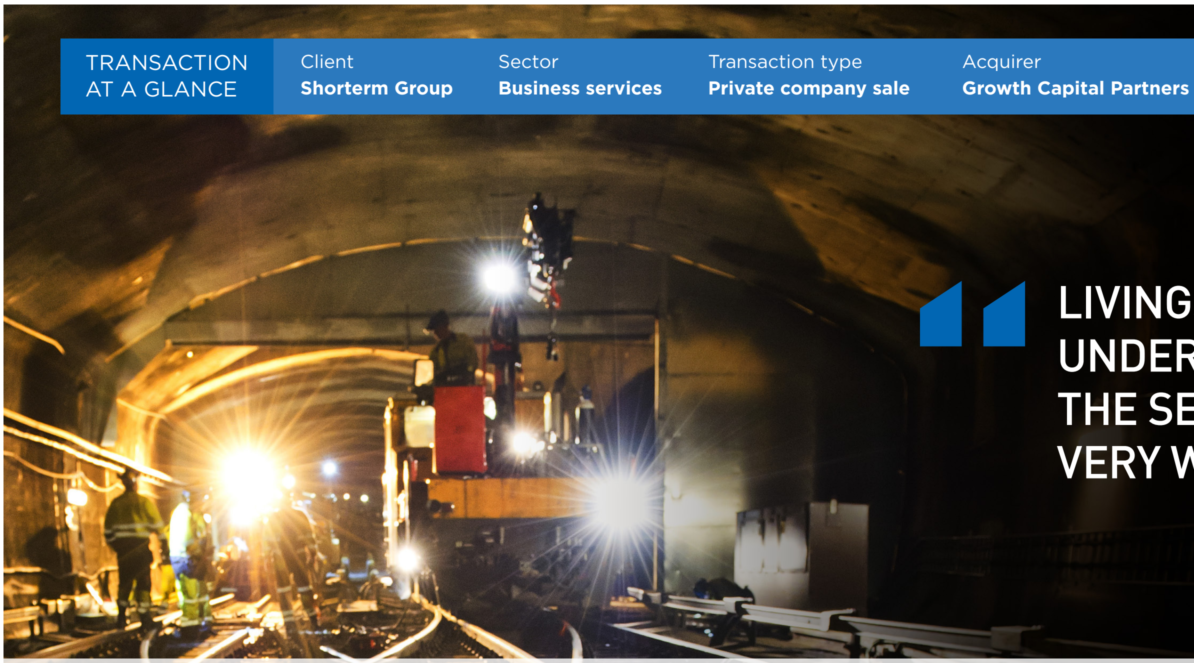
TRANSACTION AT A GLANCE	Client	Sector	Transaction type	Acquirer
	Shorterm Group	**Business services**	**Private company sale**	**Growth Capital Partners**



> LIVINGSTONE UNDERSTOOD THE SECTOR VERY WELL

MARK ALEXANDER

Human interest

With new investors on board, Shorterm Group is well placed to take advantage of a buoyant engineering recruitment sector

Against a background of increased infrastructure spend, human capital providers in related end markets are being seen as a strategic asset that generates growth and profit. Not surprisingly, those involved in the staffing sector have seen a significant increase in M&A, particularly over the past year.

Shorterm Group, one of the UK's leading specialist engineering recruiters, is no exception. It is one of the fastest-growing companies in this multi-billion-pound sector, after recording a compound annual growth rate of 19% over the past five years. These impressive results helped smooth a transaction that saw Growth Capital Partners, a UK mid-market PE house, replace Chamonix Private Equity as the main shareholder supporting the existing management team led by Steve Gallucci, CEO and Patrick Keenan, CFO, in November 2016.

Keenan says: "The temporary staffing and recruitment space is particularly attractive, both to equity houses looking for growth markets in staffing and to asset-based lenders. Given the ratios the banks have to comply with, asset-based lending is very attractive. In recruitment, banks are prepared to lend against your debtor book, which makes it easier for PE firms to do deals."

RAPID GROWTH

PE was involved in 29 transactions in the recruitment sector in 2016 – nearly a quarter of the overall total. This compares with an average of about 15 annually between 2012 and 2015.

"It's a space in which you can grow quickly," Keenan explains. "When there is positive momentum in the wider economy, businesses in our space tend to grow, and your profits can accelerate very quickly."

Following the announcement of ambitious infrastructure plans for the UK and developments in the automotive and power industries, engineering is viewed as a particularly attractive area. Shorterm has developed its five-year plan to target these sectors, as well as growing into new areas, completing key acquisitions and developing its training offering for clients. Finding the right investor to help us achieve our plans was "absolutely vital", says Keenan. "We were looking for supportive partners who understood where we wanted to take the business and were prepared to back us to do that."

Livingstone managed the sale process, and Keenan sees the firm's knowledge of the PE world and its understanding of the styles and aspirations of individual investment houses as pivotal. "Livingstone understood the sector very well," he says. "The team, led by Patrick Groarke and Karen Dawaf Harron, were able to identify the right group of potential investors who would be able to complete the transaction on attractive terms."

The Livingstone team maintained confidentiality throughout the process by managing the flow of data so that only relevant personnel were aware of the process. "They were also highly skilled at keeping the momentum going," Keenan adds, "and keeping the various parties on track so that the transaction could be completed in a timely fashion."

Patrick Groarke, Partner at Livingstone, says: "Shorterm is in a very attractive sector of the human capital market and the future prospects, driven by infrastructure spend, are very promising for the shareholders."

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CHRISTIAN DOHERTY

Four steps to success

Livingstone has advised specialist mortgage provider ENRA Group on four transactions in its short history, most recently its sale to Exponent Private Equity. So what is the company looking for in its advisers, and why have they turned to Livingstone on multiple occasions?

Despite the hangover of the global financial crisis and the shock of Brexit, the UK's specialist mortgage lending market remains an attractive one for investment. But with increased competition and regulation coming in the market, the days of easy profits are over; only the most professional, innovative and disciplined lenders will thrive in the current environment.

Danny Waters, the founder and CEO of ENRA Group, is one such operator: indeed, his commercial acumen and entrepreneurial drive over the last few years have put him in a position where one of the UK's leading mid-market PE houses has invested significantly in his company to take it to the next level.

Waters founded ENRA in 2009 as a mortgage broker focusing on specialist short-term bridge loans, second charge and buy-to-let mortgage products. Right from the start, it proved to be a successful formula, and ENRA quickly grew to become one of the UK's leading specialist mortage brokers. The company was highly profitable and cash generative, and the entrepreneurial Waters decided to set up a lending arm in order to capture more of the value it was distributing to lending partners. By early 2013, the business was running its own loan book of around £5m, and Waters started to think about bringing on board a new investor to accelerate the growth of the lending operation.

It was at this point that Livingstone introduced Waters to David Campbell, a highly respected figure in the financial services industry and an ex-client of Livingstone. Having led the Bridgepoint-backed buy-out of wealth management company Tilney, as well as its subsequent sale to Deutsche Bank, Campbell was looking for a suitable specialist finance company to invest in, and had identified the specialist mortgage market as a target sector.

"The space was interesting – it was clearly a growing sector," he recalls. "Then you had a highly capable CEO with enormous potential to grow further. And finally, ENRA had a really strong contracted origination pipeline."

RAPID GROWTH

So Campbell made a significant personal investment in ENRA in order to help Waters keep growing the loan book. The business was now growing fast. "Once David had been with us for six months, the next objective was to raise institutional capital," Waters explains.

Following a process run by Livingstone, this was achieved by taking on investment from PE firm Livingbridge, who came on board in February 2014 at a valuation of £28m. This allowed ENRA to support further growth and to make its first acquisition, West One Loans.

By late 2015, as a result of all this activity, the business was running at full tilt. The loan book had grown to around £270m, staff numbers had doubled and ENRA was a major force in the specialist mortgage sector. It had also been ranked as one of the fastest-growing businesses in the *Sunday Times* Fast Track 100 by both revenue and profit.

At this point, Waters and Campbell agreed that they needed additional financial support to continue the group's rapid growth. There were significant opportunities for ENRA to extend its lending offering into buy-to-let mortgages and other products, further bolster its brand and access new sources of funding.

"The company was growing fast and it needed access to more capital to maintain that growth," explains Shani Zindel, a Partner at Livingbridge. "It needed a bigger backer and we had reached our limit."

Waters and Campbell decided on a secondary PE transaction – preferably with a PE house that was experienced in financial services.

REVIEWING THE OPTIONS

Throughout its short history, ENRA had relied on Livingstone as a trusted adviser. Having initially introduced Campbell to Waters and his team, the firm acted as advisers on both the Livingbridge investment and the West One Loans acquisition. However, considering appropriate corporate governance, Waters wanted to review his options and decided to run a 'beauty parade' of advisers for the next transaction.

So what was he looking for? "Clearly, an understanding of who the potential acquirers might be is important," he says. "Also, the fact is that you spend a lot of time working together, sometimes in a pressurised environment, so you want to make sure they are the kind of people you can see yourself working with.

"I've also learnt that you want people who can think differently," he continues. "It's easy to go through the same steps as you would expect in this type of secondary PE transaction, but you want advisers to look at other angles and explore opportunities that may not initially be obvious."

Ultimately, Waters decided that Livingstone fulfilled all these criteria. "Of course, they understood us, as they'd seen the evolution of the business, and we were happy to continue the successful relationship," he adds.

BUSINESS AS USUAL

Within a few months, Livingstone had run a competitive process and negotiated a significant investment from Exponent Private Equity. For Campbell, it was business as usual. "In the Exponent process, Livingstone presented the

TRANSACTION AT A GLANCE

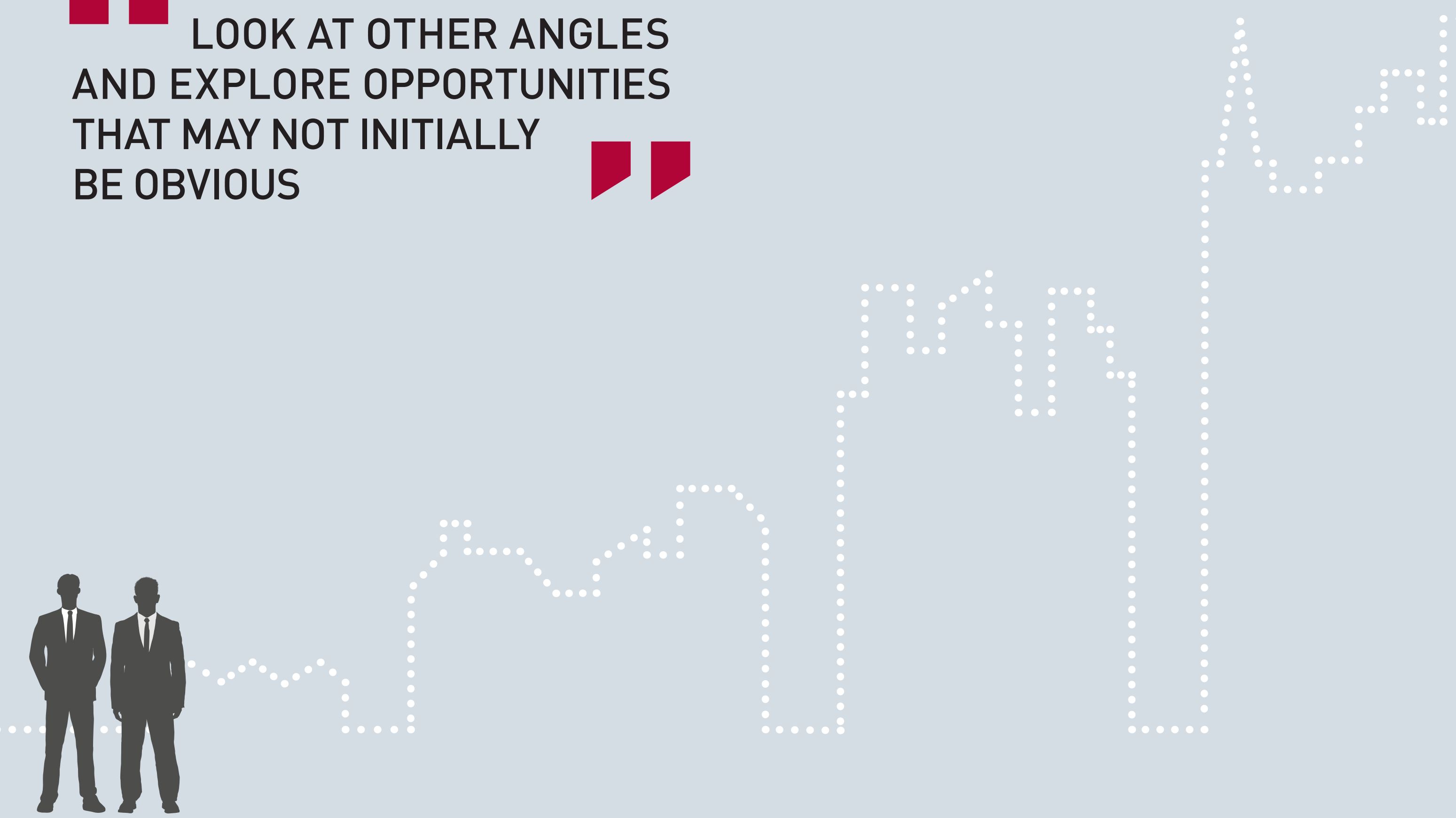
Client
ENRA Group

Sector
Business services

Transaction type
Private company sale

Acquirer
Exponent Private Equity

> YOU WANT ADVISERS TO LOOK AT OTHER ANGLES AND EXPLORE OPPORTUNITIES THAT MAY NOT INITIALLY BE OBVIOUS



business and its plan very clearly, ran an extensive sale process and, ultimately, managed a number of conflicts very well."

It wasn't all plain sailing, though: the shock of the EU referendum result in June 2016 initially derailed the transaction. Thanks to careful management, it was resurrected later that summer and signed in November.

"What Livingstone did really well was to manage the different positions of various stakeholders," says Campbell, who has seen many transactions founder on the rocks of competing interests from various parties. "In this transaction, you had a new investor on one side. Within the ENRA team there was Livingbridge, which was effectively exiting; Danny and the executive management team, who were staying in the business, so they were as much a buyer as a seller; and me, sitting between the two as part of the executive team, but not part of the Livingbridge deal.

"Livingstone did a very effective job. It's about deftly negotiating and assisting and knowing when to apply pressure and when to back off. With every transaction, it's about finding a way through."

FOCUSED ON THE PRIZE

For her part, Zindel says the ENRA transaction turned out far better than they could have hoped. "It was great, and the West One acquisition was brilliantly executed by the management team; trading was very strong and the business grew phenomenally. The first priority was to make sure our investors got the best possible return, and the second was to make sure the business was in the right hands going forward. We achieved that."

It was a difficult transaction, Zindel recalls, and not just because of Brexit. "ENRA is a niche company that requires an acquirer that understands it," she says. "But once we were on the right path, it went smoothly. Livingstone did a good job in what is a tough environment, and when you're looking at a secondary buy-out, it can sometimes become complicated because people's priorities can change. But they kept us focused on the prize – they remained calm and were really helpful."

As for Waters, he is now focused on driving the business to even greater heights. "I'm sure this will help us with our ambitions to move into adjacent markets, and we've already started that," he says. "It gives us a longer-term view as well as better earnings, and makes us even stronger than before."

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Things can only get better

As the Internet of Things continues to expand, companies with expertise in this area have become highly sought-after. We explain why and profile four recent transactions in this up-and-coming segment of the Technology sector

CHARLES ORTON-JONES
PATRICK HRUBY

WHAT IS THE INTERNET OF THINGS?

The Internet of Things (IoT) is the umbrella term for the branch of digital technology in which devices are embedded with sensors that can collect and exchange data using internet connectivity. As the technology evolves and more and more new applications are found for it, the IoT is expanding rapidly; industry experts estimate that by 2020 it will encompass 20-30 billion connected objects.

WHAT SORT OF 'THINGS' ARE INVOLVED?

Although the actual sensors that provide IoT functionality are tiny, they feature in devices of all sizes. At the more trivial end of the market, an IoT-enabled kettle can be set to boil remotely by clicking a smartphone app. At the more serious end, the European Union's eCall initiative uses the IoT to enable a vehicle involved in a collision to automatically send a message to the nearest emergency call centre.

An important subset of the IoT is the Industrial Internet of Things (IIoT), widely considered to be one of the major trends affecting industrial businesses. Manufacturers are using connected devices to unite the people and systems on the factory floor with those at the enterprise level, and to make cost savings through predictive maintenance, improved safety and other operational efficiencies.

Swedish IoT specialist Allgon recognised the potential of this market when it acquired Wireless System Integration (WSI), a leader in the IoT for industrial applications, in September 2016 (see panel, page 19).

WHAT CONNECTIVITY DOES THE IOT USE?

IoT devices communicate using a variety of wireless methods, including the mobile phone network, Wi-Fi, Bluetooth, near field communications (NFC) and radio-frequency identification (RFID). Meanwhile, a direct connection over Ethernet is suitable for fixed assets such as traffic lights, and devices can also piggy-back off a neighbouring unit, a method known as 'meshing'.

Providing this connectivity is one of the many areas of IoT technology that have become profitable in recent years. For example, Livingstone's Industrial sector team recently advised ams, Austria's leading manufacturer of sensors and sensor solutions, on the sale of the IP, technologies and product lines of its NFC and RFID reader business to global semiconductor company STMicroelectronics (see panel, page 18).

WHERE IS THE IOT ALREADY ESTABLISHED?

The consumer market is big, and growing. In 2014, Google paid $3.2bn to acquire Nest, which makes central heating unit controls that allow homeowners to alter their thermostat remotely. Meanwhile, a range of leading manufacturers have launched connected kitchen devices, from fridges to cookers.

Manufacturing is another sector that has been transformed by the IoT. Take Rolls-Royce, for example, which used to simply sell aircraft engines. Today, it rents them via an ongoing service price model. Using IoT-enabled sensors, Rolls-Royce engineers can remotely track engine usage

CSL

The IoT is the perfect way to upgrade critical devices such as fire and burglar alarms, and this is the domain of CSL. For example, working with fire and security specialist KBO, it added mobile network connectivity to home alarm systems. This acts as a back-up in case the main connection fails. It's also possible for KBO to perform remote diagnostics on a system, reducing the need for engineer callouts.

CSL's performance in recent years has been eyecatching. In 2016, it signed a 10-year agreement with Vodafone to help it expand into retail and utilities. CSL currently manages more than 400,000 IoT devices across UK, Ireland, Sweden and the Netherlands, and is now adding more than 6,000 a month.

In 2011, the management completed a buyout backed by Bowmark Capital. Last year, Livingstone's Media & Technology team advised on a secondary buy-out as Bowmark exited, in a transaction backed by Norland Capital, RIT Capital, and Facebook founder Mark Zuckerberg's Iconiq Capital. With the support of its new financial partners, CSL plans to accelerate its growth in the UK and internationally, both organically and by acquisition.

TRANSACTION AT A GLANCE

Client **CSL**	Sector **Media & Technology**
Transaction type **Secondary MBO**	Investors **Iconiq Capital, Norland Capital & RIT Capital**

ams

Located beside an old castle in Premstätten, near the Austrian city of Graz, ams has a strong presence across a wide variety of sensors. It had revenues of €549.9m in 2016 and a workforce of 3,300 people in 20 countries.

Livingstone's Düsseldorf team has advised ams on three transactions in as many years as it seeks to grow and to hone its strategy. In December 2014, ams acquired German industrial controls group acam-messelectronic, and the following year it added Antwerp-based fabless semiconductor supplier CMOSIS.

More recently, ams decided to focus on its sensor solutions strategy, and Livingstone enabled the divestment of ams's NFC assets (including NFC front-end and antenna boost solutions, and integrated HF/UHF RFID reader assets) to STMicroelectronics for $130m. ST is a global semi-conductor company that is seeking to position itself as a leading provider of IoT connectivity solutions.

TRANSACTION AT A GLANCE

Client **ams ag**	Transaction type **Divestment**
Sector **Industrial**	Target **STMicroelectronics**

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and diagnose problems as they occur. This means they can contact an airline to discuss an issue before the client is aware that there is one.

WHAT ARE THE GROWTH SECTORS?

Real estate is one sector that is waking up to the potential of the IoT. The flagship for this is The Edge, Deloitte's office building in Amsterdam, which is fitted with 28,000 sensors that track everything from electricity usage, temperature and water flow to desk occupancy. Smart use of this data allows Deloitte to allocate 1,000 desks between 2,500 workers, and because the technology enables facilities managers to cut off power to vacant zones and fine-tune other utilities, energy usage is 70% lower than in a typical office building.

There are certainly opportunities in this area. The UK's new Minimum Energy Efficiency Standards (MEES) legislation demands that all commercial properties rate at least E on the energy efficiency scale, which runs from A to G. The Government estimates that 19% of UK commercial property is non-compliant, and an IoT refit may be the only way these buildings pass the test.

Farming is also adapting. Driverless combine harvesters steer via GPS coordinates, soil sensors report on acidity and moisture, and even farm animals are getting connected; pigs can ingest sensors that monitor stomach acidity and hydration and transmit data about it wirelessly, while smart collars for cows use accelerometers to monitor how the animals move and can identify when a cow comes into heat or becomes ill.

WHAT HAPPENS TO THE DATA THAT THE IOT GENERATES?

The IoT industry is groaning under the weight of vast amounts of data traffic. For instance, a Boeing 737 airplane engine creates 10 terabytes of data every half an hour – that's 100 terabytes on a single flight from New York to Los Angeles. Storing and transmitting that data demands enormous amounts of processing power.

As a result, companies involved in data analytics, helping to produce actionable insights from the data generated by IoT devices, are attractive to acquirers. Rapid server platforms such as SAP HANA are booming because of their suitability for IoT work.

WHAT OTHER KINDS OF IOT COMPANIES ARE ATTRACTIVE TO ACQUIRERS?

As it expands, the IoT encompasses businesses in more and more sectors, from mobile network operators to chip-makers. There are also many complex devices that play a role in the IoT value chain, and companies have evolved specialisms to meet demand.

For instance, CSL creates solutions that provide complete end-to-end connectivity for security, fire, health and other mission-critical machine-to-machine applications. In August last year, Livingstone advised CSL on a secondary buy-out from Bowmark Capital, backed by Iconiq Capital, Norland Capital and RIT Capital, which will help it to achieve its growth ambitions (see panel, page 17).

Another example is Inteno, which supplies products such as gateway routers to telecoms and broadband operators. It was formerly a subsidiary of Sweden-based technical products and services company KAMIC Group, but last year, Livingstone advised KAMIC on the sale of Inteno to Accent Equity Partners (see panel, opposite).

IS THERE A DOWN SIDE?

The Achilles heel of the IoT is security. In the race to develop new devices and applications, software engineers have sometimes neglected security considerations, making devices vulnerable to hacking. What this can mean in practice was demonstrated in November 2016, when hackers hijacked CCTV cameras and other easy-to-access IoT devices and used them as 'zombie hosts' to launch crippling cyberattacks across the internet and temporarily take popular websites, including Twitter and Spotify, offline.

Even cars are vulnerable. In 2015, *Wired* magazine asked two hackers if they could break into a Jeep Cherokee's digital systems as it cruised down the highway. The hackers took control of the air conditioning, windscreen wipers and – most alarmingly – the brakes. Chrysler subsequently recalled 1.4 million vehicles in order to fix the vulnerability.

Privacy is another issue. In 2015, Samsung admitted that its smart TV used an in-built microphone to record and analyse conversations, while IoT-connected cars record every journey. If vendors can't address these concerns, the IoT industry will suffer.

WHAT'S NEXT FOR THE IOT?

The scale of IoT implementations is soaring and we are now seeing the rise of smart cities – large-scale deployments of the IoT to enable better management of utilities and transportation systems in particular.

For example, the Argentinian capital, Buenos Aires, frequently suffers from serious flooding, so the city council installed sensors in every storm drain and sewage outfall to measure water flow and levels. In 2013, almost 100 people died in floods. The following year, after the sensors had been installed, there were no fatalities, despite record rainfall.

The other big area is… us. We've seen the popularity of wearable devices that track exercise and heart rate. Now, even pacemakers come with a wireless internet link – indeed, former US Vice-President Dick Cheney had his disconnected to avoid assassination by hackers. The Internet of Humans is on the way.

KAMIC Group

An often-overlooked aspect of the IoT is the back-end systems that make the technology work. Data must be processed and transmitted, and this requires 'gateways' that route data packets.

Inteno is a Nordic supplier of these gateways. PE fund Accent Equity Partners saw its potential and, in 2016, acquired Inteno from its parent, KAMIC Group, to run it as a standalone entity.

Livingstone advised KAMIC Group, which decided on the divestment so that it could focus on fewer businesses and have the financial flexibility for future acquisitions. For its part, Accent Equity was attracted by Inteno's position in a fast-developing segment of the communications industry.

TRANSACTION AT A GLANCE

Client **KAMIC Group**	Sector **Media & Technology**
Transaction type **Company sale**	Acquirer **Accent Equity**

Allgon

Kista, on the edge of Stockholm, is the tech startup capital of Sweden. It's home to at least 750 companies, two-thirds of which are in IT. Ericsson is a Kista resident, and so is WSI, which makes antennas for the IoT industry.

WSI has an impressive track record. Most notably, it worked with graphics card maker Nvidia and GameFace Labs on a wire-free virtual reality headset called GameFace. The company also helped to create the BabyBuzz vibrating wristband, which lets fathers known when a baby is kicking in the mother's womb, and the Flic home control button, which lets homeowners dim lights, turn on the TV and carry out many other programmable tasks.

In September 2016, Livingstone advised Swedish conglomerate Allgon on the acquisition of WSI. Allgon, which has operations in wireless communications and the IoT, hopes to assemble a group of 10 to 15 companies through both organic expansion and strategic acquisitions, and WSI gives it a foothold in the IIoT.

TRANSACTION AT A GLANCE

Client **Allgon AB**	Sector **Media & Technology**
Acquirer **WSI**	Transaction type **Acquisition**

DAVID CRAIK
SAM FALCONER

The acquisition of rail technology company RPS by Keyvia was complex: a German company had to be carved out of a German subsidiary of a large quoted British group before being acquired by a Chinese group. Livingstone's task: to advise Keyvia and coordinate the many parties involved

TRANSACTION AT A GLANCE

Client
Tianjin Keyvia Electric Co., Ltd

Sector
Industrial

Transaction type
Acquisition

Investor
Rail Power Systems GmbH

What would turn out to be one of the most complex transactions Livingstone has been involved in over the past few years was set in motion in spring 2015 at a meeting of joint venture partners Balfour Beatty Rail (BBR) of Germany and Chinese rail power supply and automation group Tianjin Keyvia Electric Co., Ltd. BBR turned to Keyvia and asked simply, "Would you be interested in buying us?"

London-based Balfour Beatty, BBR's parent company, had by that time been looking for a buyer for its subsidiary for some time. Its plan was to carve out its German rail technology business into a new company called Rail Power Systems (RPS), which eventually happened in November 2015.

RPS is a leading supplier of railway electrification and power supply systems and a key supplier to German Rail. Its customers include the operators of high-speed rail lines across Europe and Asia, and it had revenues of around €140m in 2015. Joining up with Keyvia – a leading Chinese group that manufactures urban mass transit and rail vehicle power supply systems – made strategic sense.

OPPORTUNITIES FOR SYNERGY

"Keyvia was highly profitable," explains Baoshan Bao, Managing Director of Livingstone China. "It had outlined plans for internationalisation during its IPO on the Shenzhen Stock Exchange the previous year and wanted to deliver its products to Europe and the US, but it had no presence there.

"Meanwhile, RPS wanted to get involved in the growing Chinese market, but couldn't exploit the demand because of the cultural gap," he continues. "Keyvia realised that a deal would be compelling because of the business synergies, and also because of the opportunity to benefit from RPS's railway systems expertise and to support international and Chinese contact line projects."

However, Keyvia's management had some major concerns. With annual revenues of around €60m in 2015, it was considerably smaller than RPS, and it had no track record of buying overseas businesses.

EXPERT ADVICE

Following a recommendation from a German law firm in Beijing, Keyvia contacted Livingstone's China team for advice.

"We gave Keyvia the comfort that a deal was possible if they defined the strategic logic, emphasised their capabilities in and knowledge of rail power supply and contact lines, and analysed fully what a post-deal structure would look like," Bao explains. "We also advised them on how they should communicate their plans to the various public and regulatory authorities. We did all this in fine detail and came up with answers to every question they asked."

Ralph Hagelgans, Partner at Livingstone, adds: "We had to explain how an acquisition works in Europe and how Balfour Beatty would run the process. In China, a company's valuation is, in many cases, based on assets rather than cash flow. We also had to discuss the financials of RPS, as it was a carve-out without historical financial data."

The final aspect of building up Keyvia's credibility as a suitable acquirer came with the resulting non-binding offer. "We emphasised the need to put a strategic premium on the offer. It was compelling for Balfour Beatty," says Hagelgans.

After Balfour Beatty agreed to the transaction, what Hagelgans describes as "the most complex transaction process I've been involved in over the past few years" began. He explains why: "We often see transactions involving large state-owned or private Chinese companies buying into Germany, but not a more modest company like Keyvia looking to buy a carved-out German company from a British ultimate owner. I may not see another one like that for 10 years!"

COMPLEX DUE DILIGENCE AND STRUCTURING

During due diligence, all financial, legal and tax issues had to meet both German and Chinese requirements and be reported in both English and Mandarin. As the transaction constituted a major asset restructuring for Keyvia, the Shenzhen Stock Exchange required a total of six regulatory reports to be prepared for the group's shareholder assembly.

"The Chinese state wants to protect small shareholders, so you have to provide a lot of information to the public and authorities," Hagelgans explains. "What's more, all the reports had to be audited in line with German, Chinese and international accounting standards. This took several months and it was a real challenge for all the parties involved."

Industry-specific project financing facilities also had to be restructured with a number of German and Chinese banks. "Balfour Beatty was the guarantor of these bonding facilities, so we had to restructure them with direct Chinese bonding," says Hagelgans. "This was another challenge, as Chinese banks and authorities are less familiar with bonds and the risks attached to them."

MOTIVATING THE MANAGERS

Livingstone also had to work on the transfer of RPS's 700 employees and secure its top management team, as Hagelgans relates. "That was crucial for the acquirer; Keyvia didn't have a team of its own to put in place, and it wanted the experience and knowledge of the existing managers," he says. "It took a lot of persuasion to get the RPS management in a position to actively promote the transfer."

The transaction was completed in September 2016 – an indication of the financial, regulatory and cultural complexities the team had successfully overcome. "We had an explicitly hands-on approach, with our Chinese and German teams working hand in glove," says Hagelgans. "Chinese decision-makers want someone they can trust and who understands their culture. We also built a mutually trusting relationship with the sellers and their management. But the commitment of Keyvia to get the transaction completed really stood out. This was a highly challenging exercise for its team, but they saw the compelling strategic rationale and put their energies into securing it. We never doubted them."

> CHINESE DECISION-MAKERS WANT SOMEONE THEY CAN TRUST AND WHO UNDERSTANDS THEIR CULTURE

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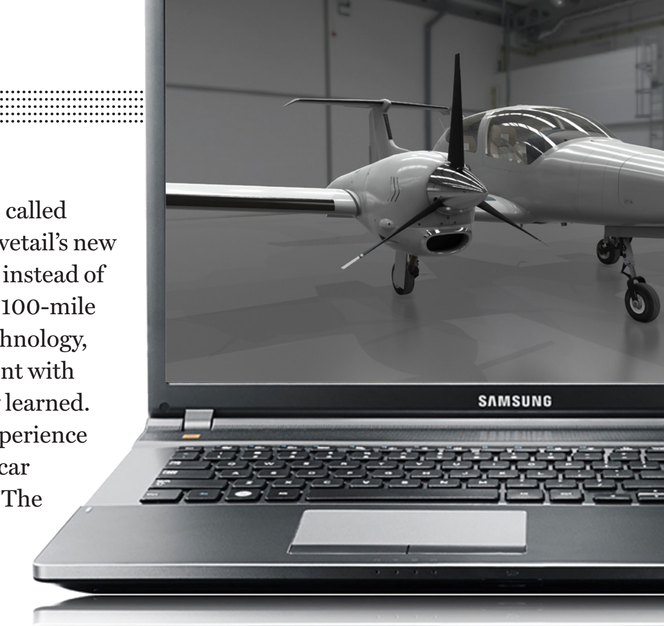

ANDY DAVIS

Trains, planes and fishing reels

Dovetail Games has carved out a unique niche as a creator of simulation games for hobbyists – and, thanks to new investment, it looks set to move to the next level

"That was the beginning of something that looks like a video games company but isn't," says Paul Jackson, describing the genesis of the business he set up 2008. "It's a hobby company that uses video games technology to deliver those hobbies."

If there are two essential things to understand about Jackson's business, this is undoubtedly one. The other is that, as the old saying goes, 'it takes one to know one'. Dovetail Games may look like just another producer of video games for PCs and consoles, but that's where the similarity with most of the rest of the industry ends. Instead, Jackson explains, the company creates detailed simulations that allow rail, aviation and angling enthusiasts to pursue their hobbies in digital, virtual worlds. And the only way to please hugely knowledgeable, discerning audiences such as these is to be an avid hobbyist yourself.

Jackson's role as the entrepreneur behind Dovetail, which recently secured a multi-million-pound growth investment from Alcuin Capital Partners, follows a highly successful career in the mainstream games industry that started in 1987 when he joined Electronic Arts (EA), the world's biggest video games producer. During his 18 years there, he rose to the top of EA's North European operation and played pivotal roles in three of its biggest franchises: *FIFA* (which he persuaded EA to create), *The Sims* and the *Harry Potter* series.

After leaving EA in 2006, he "went into politics", as he puts it, spending three years as head of the UK's video games industry association. He also found time to set up and chair BAFTA's video games arm. But three years and one OBE for services to the video games industry later, "I knew I wanted to be making games again."

TRANSACTION AT A GLANCE

Client
Dovetail Games

Sector
Media & Technology

Transaction type
Capital-raising

Investor
Alcuin Capital Partners

TURNING A HOBBY INTO A CAREER

This time, however, he decided to try a different tack. "I wanted to do the things I was interested in, and I'm a hobbyist," he says. "I'm a train enthusiast, a fisherman, a stamp collector, a birdwatcher – I'm *that* guy." Dovetail's first title, *Rail Simulator*, was based on a game Jackson had commissioned while at EA that had "become a bit of an orphan" after he left. He acquired it, updated the technology and, in 2009, released a new version, which quickly became profitable. With a team of just six people, Dovetail was on its way.

From the beginning, says Jackson, they set out to do things differently to the industry giants – "not because what they were doing was stupid, but because we couldn't hope to compete with them. We had to figure out what we could be that they couldn't be, and hobby is that thing. We focus totally on the needs of the hobbyist."

Having established *Rail Simulator* (since renamed *Train Simulator*), Jackson knew that Dovetail faced challenges: it needed to expand from PC games to consoles, it needed to cover more than one hobby, and it needed to upgrade its technology to create better simulations. The next obvious market was flying, which Dovetail addressed by persuading Microsoft to license its dormant *Flight Simulator* franchise so that it could breathe new life into the simulator and create its own version.

Jackson also decided to adopt new middleware (software that acts as a bridge between an operating system or database and applications) called Unreal Engine 4 to power Dovetail's new generation of simulators. But instead of immediately trying to build a 100-mile rail journey using the new technology, the team decided to experiment with something smaller while they learned. "We thought, 'What sort of experience could we build that would be car park-sized?'" Jackson recalls. The answer was a fishing lake – and so Dovetail's third hobby product was born.

AN UNCONVENTIONAL COMPANY

Dovetail is unlike a conventional games company in numerous ways. For a start, it has far more products than most such companies, encouraging its customers to select the items they want from an ever-expanding catalogue of downloadable content, whether that's a different locomotive or railway route for *Train Simulator*, a new aircraft for *Flight Simulator* or a new lake with more species for *Euro Fishing*. Jackson likens this to the way we express our identity through the items we choose for our homes. "Most video games companies want you to buy everything," he says. "We just want you to craft your own experience out of the few bits you buy from our enormous range."

Another unusual feature of Dovetail is that it encourages other companies to create content that will work on its core simulators and then helps them to monetise their work. This ecosystem now includes about 150 partners and is a vital ingredient in Dovetail's success.

When the time came to look for growth capital, a company as unconventional as Dovetail needed an investor that would appreciate its distinctive approach. With Livingstone's help, it met several potential backers. It received five offers of funding, but ultimately settled on Alcuin Capital, which understands the hobbyist market intuitively, having invested in the fantasy gaming retailer Games Workshop almost 25 years ago. Alcuin's investment will allow Dovetail to develop all three of its simulators to the level its audience of hundreds of thousands of enthusiasts expects.

"Nobody really does hobby the way we do and, as an entrepreneur, I think that gives us a very clear edge," says Jackson. "We needed an investor that was going to back the really quite different business that we are growing."

> NOBODY DOES HOBBY THE WAY WE DO AND, AS AN ENTREPRENEUR, I THINK THAT GIVES US A CLEAR EDGE

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