The Acquirer

The corporate finance magazine from Livingstone

SUMMER 2015

IN THIS ISSUE: TRAVEL IS GOING PLACES. ATI IS FIT FOR BUSINESS. RECRUITMENT TRENDS.

A quarter of a century after *The Acquirer* was first published, this issue showcases some of Livingstone's long-term client relationships – as well as showing how the firm's expertise continues to help new clients prosper in the ever-changing corporate landscape.

IN THIS ISSUE

Features

Regulars

Comment

When we first thought of a magazine as a platform for introducing Livingstone, in 1990, we were clear that its primary purpose should be to showcase our clients' achievements rather than brag about our own. A celebration of hard work, long nights and just rewards. Over the last quarter-century, *The Acquirer* has revealed the stories behind more than 300 such successes around the world.

It would have been easy for this edition to dwell on Livingstone's biggest, most high-profile transactions over the 25 years, but that would have been self-indulgent. Instead, it covers some of the many clients who have turned repeatedly to Livingstone for insight, support and expert advice and for whom we continue to work. It is often remarked that a corporate financier is only as good as his or her last transaction – the fact that we recently completed our 700th transaction since 1995 means that we must be 'doing deals right,' consistently.

The Acquirer's 25th birthday also coincides with Livingstone's London office celebrating its 40th anniversary – but again, we decided that our clients should come first. After all, no one likes hitting 40!

While it's pleasant to reminisce about clients' business successes, we are also a firm with a clear strategy of enhancing our capabilities, service offering and geographic reach. The latest step in this journey is the announcement of our office in Scandinavia as we welcome the team from Stockholm-based Arctos Corporate Finance, with whom we have co-operated closely for over a decade, to Livingstone. (See story opposite.) Co-Founder Bertil Karlsson, Partners Thomas Karlsson, Kenneth Westlund and Anders Jacobson and their 12 colleagues have paid us a great compliment by agreeing to join us. This gives the existing Livingstone teams even better access to acquirers, investors and targets across Scandinavia, while giving the Stockholm team enhanced coverage of the Americas, Europe and Asia and the resources of a 100-person mid-market M&A and Debt Advisory firm.

I hope you enjoy this edition and that we have an opportunity to feature you in the Livingstone story in our 50th anniversary edition!

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56%

The proportion of mid-market firms that see international growth as a key part of their strategy. Half of those polled also plan to make an acquisition in the next three years.

Source: Business without borders: International growth at mid-cap companies, *published by Mergermarket*

Online opinion

Go to livingstonepartners.com for news, blogs and more

Graham Carberry reported from a recent Livingstone roundtable on aerospace and defence.
The UK's Aerospace, Defence and Security SMEs excel in offering innovative, flexible technologies and the highest level of quality assurance possible. These characteristics are proving attractive across a range of sectors ... Our guests' technologies are often more adaptable than even they realised, and have found uses in areas as unusual as satellites and road traffic management.

Lewis Gray shared MBO tips.
Working to a three- to five-year financial exit, with your own money on the line, will be stressful at times, but the potential returns dwarf almost anything else you can do with your cash...

In particular, 'sweet equity' – the ownership stake acquired on disproportionally favourable terms within a typical buy-out capital structure – creates massive upside for a team that delivers on its plan.

A good corporate finance adviser will help act as a buffer with management's current employers and maximise a team's sweet equity ownership, and will help negotiate the qualitative as well as quantitative terms offered by an investor.

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

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

'wardour'

Chicago raises the roof

Ever since Livingstone first planted its flag in the Windy City, the firm's US office has been on an aggressive growth trajectory. From a standing start in 2007, the Chicago office has expanded from two co-founders to 25 staff, and has now knocked through the ceiling to double the firm's physical space.

The extra space is needed to cope with an expanded team which has a sizeable pipeline of mid-market deals to advise on. David Sulaski, co-founder of Livingstone Chicago, says the Midwest has proved a suitable base to deliver an impressive slate of nationwide transactions covering most of the 50 states.

"Chicago is perfect for Livingstone," says Sulaski. "First, we have a wonderful talent pool of hardworking Midwesterners, many of them recruited from the fantastic business schools here. Second, the area is home to a lot of family-owned businesses, which are Livingstone's kind of clients. Lastly, with O'Hare Airport being one of the country's main transport hubs, it's easy for us to cover the whole country from here."

The office in a historic building in River North's N. Clark Street – once an unfashionable part of town, but now host to an ever-expanding series of high-end shops and trendy bars and restaurants – looks set to remain busy. "We see ample opportunities in the mid-market here," says Sulaski. "Having doubled the size of the office, we've made a significant bet on Livingstone Chicago as a service provider for the US market. And the outlook for growth in the M&A and debt capital markets is robust, with the economy in a promising position."

PRIVATE EQUITY AWARDS

Livingstone picks up top UK corporate finance award

For the fourth time in 10 years, Livingstone was named UK Corporate Finance House of the Year in the 2015 Private Equity Awards, hosted by *Real Deals* magazine.

Beating off stiff competition, Livingstone's success in the most respected awards for the private equity industry reflects its advisory work on two related transactions in the automotive data sector.

Early in 2014, Livingstone advised on the sale of Autodata, an online publisher of automotive data, to Bowmark Capital and Five Arrows Investments. Within a few days of that completing, US automotive data group Solera reached out to Livingstone, which then negotiated an off-market transaction for Solera to acquire CAP Automotive, which operates in an adjacent sector to Autodata. (See feature, page 8.)

Richard Fetterman, who co-leads Livingstone's Media & Technology sector team, comments: "The award underlines how we acted in a professional and trustworthy manner on one transaction in a way that impressed the counterparty so much that it hired us to unlock the second."

NEW OFFICE

Welcome to Stockholm!

In May, Sweden's Arctos Corporate Finance formally became part of Livingstone, after many years of co-operation that have introduced the firm to clients including Fagerhult and Gunnebo Security Group.

The firm's relationship with the Arctos team dates back to the early 2000s. The affinity was immediate, according to Thomas Karlsson, Stockholm-based Partner and CEO at Arctos. "From early on, we realised we shared the same values and client focus as Livingstone," he says. "Since this is a relationship business, it is vitally important that you share values and working methods."

The two firms set out working together on an exclusive but project-by-project basis. Livingstone's Industrial sector team recently advised Swedish public company Gunnebo on its acquisition of Clear Image, a provider of electronic security solutions and services in the UK. This is the second transaction on which Livingstone has advised Gunnebo, following its 2012 acquisition of Hamilton Safe, the second largest supplier of safes to banks and government authorities in the US.

The formal establishment of Livingstone Stockholm provides a robust platform to build on this link. "Our experience has been that Nordic corporates are welcome as acquirers internationally, both in the US and elsewhere," says Karlsson. "With digitisation, the mid-market has truly gone global, and the Nordic market is hugely attractive. It has been stable economically and there are many technology companies based in this region."

Livingstone Stockholm will fill a gap in the Nordic market; it will be the first, and the only truly international, mid-market M&A and Debt Advisory firm with a strong local presence, according to Kenneth Westlund, also a Partner at Arctos.

From Livingstone's point of view, having a Stockholm office will significantly improve its access to Nordic corporates and its ability to find suitable targets in the region. Christian Grandin, Partner at Livingstone Düsseldorf, says: "There's a lot of interest in and out of Scandinavia from Germany and the UK, and there are many links with private equity firms entering the Scandinavian market. So it's a logical step to enter that area, and we are very proud and happy to bring on board a remarkable and well-positioned team of people in the Scandinavian market."

Sealing the deal, Stockholm-style: Jeremy Furniss of Livingstone London tries a traditional Swedish dammsugare ('vacuum cleaner') pastry while his international colleagues look on

PHOTO: ULRIKA MALM
ILLUSTRATION: PETER JAMES FIELD / AGENCY RUSH

MARK ALEXANDER
BENOIT VERMEEREN

Building trust

Through astute M&A activity spanning the globe, Belgium-based group Etex has established itself as a leading player in the global building products sector. Livingstone has played an important role in this expansion, thanks to a relationship based on good advice and well-earned trust

It is incredible what can be achieved through steely determination. When Alphonse Emsens founded Eternit in Brussels in 1905, he wanted to create a production platform to manufacture flat sheets of cement reinforced with fibres. Within 50 years, the company had introduced the process to Europe, Latin America, Africa and Asia.

The next 50 years would see the business grow into a worldwide enterprise supplying roofing and cladding materials, fire protection systems and ceramic floor and wall tiles. Eternit became Etex, which today employs more than 17,000 people across 45 countries. In 2013, it generated more than €3bn in revenues. It has been a meteoric rise on a truly international scale.

The emergence of the group on the global scene was based on innovation and, latterly, a series of considered divestments and timely acquisitions to focus on areas of growth. To help manage this process, Etex has repeatedly drawn upon the global presence and sector knowledge of Livingstone's international advisory team, despite the two companies initially meeting in more adversarial circumstances.

> IT WAS ONE OF THE MOST SUCCESSFUL DISPOSALS WE EVER COMPLETED

ACROSS THE TABLE

"The Livingstone team was on the other side of the table," explains Frédéric Deslypere (pictured, left), now Head of Etex's Latin America Division. "That's how we first got to know them." This was in 2002, during the sale of the Calsil Group by Cape plc. Although Simon Cope-Thompson, Partner at Livingstone London, and his team were advising the seller, it was clear they had also developed a strong understanding of the strategic reasons for Etex's interest in the business.

"Simon's negotiation skills, as well as the team's profound knowledge of the asset, impressed our then CFO, Ken Sharp," says Deslypere. "Calsil was a complex business with some legacy liability issues, but Simon was able to show he could handle a complex selling environment."

Three years later, Deslypere embarked on the sale of concrete blocks specialist Thermalite. With Sharp's glowing recommendation, he engaged Livingstone to act on Etex's behalf this time.

Cope-Thompson explains: "There was some early strategic interest in the business, and Etex wanted to appoint an adviser to help them maximise value. There was a short-list of people they wanted to talk to, and we added one or two more. Our focus was on creating the right level of competitive tension to drive the best price.

"It was about creating a constructive dialogue with buyers to get their engagement, help them understand the opportunity and encourage them to put their best foot forward," he continues. "A big part of what we do is getting the other side to the table in the best possible shape by successfully articulating the opportunity."

Deslypere remembers it well. "It was one of the most successful disposals we ever completed," he says proudly of the transaction that delivered £120m of cash. "The price was beyond our expectations and the auction was managed very well. It wasn't such a complicated asset – there were two or three clear buyers, so it was less about finding a rare buyer and more about delivering the best deal."

Also in 2005, Etex acquired (in two steps) the vast majority of the shares in publicly listed CREATON AG, a leading German manufacturer of ceramic roofing tiles.

Christian Grandin, Partner at Livingstone Düsseldorf, led that project. "A key challenge in the transaction was convincing the large number of family shareholders that Etex was the perfect buyer and that it was not necessary to run an auction process to get a higher price," he says.

Although the target was listed, the negotiation team – consisting of today's CEO Paul Van Oyen, Board Member J. Alfons Peeters and Grandin – maintained confidentiality throughout an intense four and a half months. At the end of this first step, Etex owned 60% of the shares, and it made a public offer of over £100m to acquire the remainder and make CREATON an integrated part of Etex.

LOCAL KNOWLEDGE

A year later came the acquisition of Projiso España by Etex's fire protection division, Promat. With a presence in both the French and Spanish markets and a complex company structure shaped around a buy-out agreement underpinned by an earn-out plan, the Projiso transaction required local knowledge at an intimate level.

Neil Collen – Partner at Livingstone Madrid – was appointed to advise Promat on the acquisition. "It was a transaction you thought should be straightforward but it turned out to be extremely complicated," he recalls. "As most of our team is Spanish, with strong international experience, we have the ability to understand local concerns and cultural inputs and translate that into a format and a style that multi-nationals such as Etex understand. That ability to create a cultural bridge is absolutely critical, and was vital to the Projiso transaction."

DEEP INSIGHT

In 2007, Livingstone advised Etex on the acquisition of Cafco, a leader in sprayed passive fire protection and related thermal insulation products. The financial crisis then effectively brought M&A activity in the construction industry to a standstill for several years.

More recently, though, Etex again drew on Livingstone's international capabilities to complete the €1bn acquisition of Lafarge Gypsum's European and Latin American plasterboard divisions. Here, the emphasis was on deep insight into the target business while remaining composed and creative in a pressurised situation. "It represented 50% of Etex's pre-acquisition turnover," says Karel De Wilde (pictured, right), Etex's Company Secretary. "It was a huge step."

He continues: "Simon was with us throughout the process and helped us win the transaction. He was shrewd, intelligent and quick in his thinking, and very thorough. He took a firm position and advised us on tactics and strategy, and he was very clear about what we should and shouldn't do. In a competitive process, there is a lot of pressure, so it helps to have well-founded advice. You need stability in those moments."

With a history spanning two decades, Etex and Livingstone have forged a working relationship based on mutual respect and the evidence of a series of strategically crucial transactions.

"Livingstone provide independent advice. They don't push for the transaction; they push for the client," says Deslypere. "This is a people business; you don't choose an organisation, you choose the team. One of the essential elements of building that relationship is trust."

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Driving a good deal

JAMES GAVIN

TRANSACTION AT A GLANCE
CLIENT: SOLERA HOLDINGS, INC.
SECTOR: MEDIA & TECHNOLOGY
TRANSACTION TYPE: ACQUISITION
TARGET: CAP AUTOMOTIVE

Livingstone called upon a range of skills and knowledge to unlock the off-market acquisition of vehicle data specialist CAP Automotive by Solera Holdings, Inc. ("Solera", NYSE: SLH)

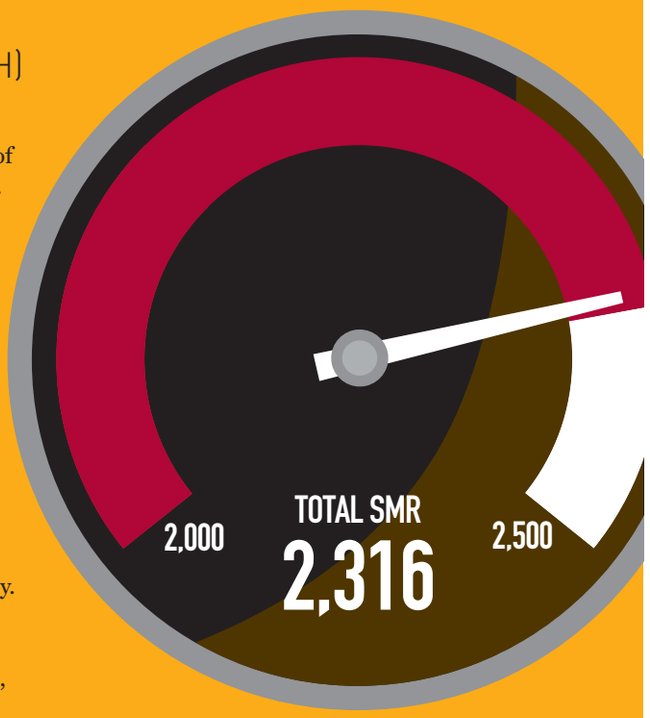
It's unusual for a private equity (PE) house to complete an off-market sale. Normally, when considering an exit, the instinct is to opt for an auction of the business.

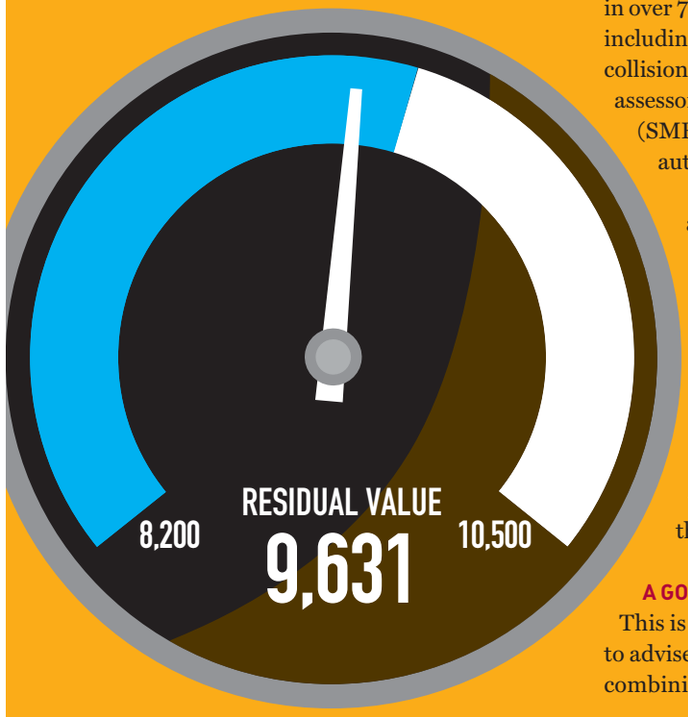
However, when Montagu Private Equity decided to sell CAP Automotive, a UK-based provider of vehicle valuation data, to Solera Holdings last year, it was sufficiently impressed by the trust and credibility that Livingstone, as Solera's transaction adviser, had established to feel confident in opting for an off-market transaction. Solera's £288m acquisition of CAP from Montagu completed in November.

CAP is a leading provider of real-time, high-accuracy valuations and specifications for new and used vehicles in the UK. CAP's solutions provide pricing transparency for vehicle transactions and enable buyers and sellers of vehicles to make accurate pricing decisions. The acquisition by Solera creates the only UK-based enterprise with decision support data and software solutions spanning vehicle valuation, validation, collision and mechanical repair, and total cost of ownership.

That alone made CAP a coveted prize for Solera, a NYSE-listed company with a $3.6bn market capitalisation that is a leading provider of risk and asset management software and services to the automotive and property marketplace, including the global P&C insurance industry. Solera has more than 180,000 customers in over 70 countries across six continents, including automobile insurance companies, collision repair facilities, independent assessors, service, maintenance and repair (SMR) facilities, automotive recyclers, auto dealers and others.

"The acquisition of CAP is the latest in a series of investments in our risk and asset management strategy, adding capabilities that create a unique 'digital garage'," says Tony Aquila, Solera's founder, Chairman and Chief Executive Officer. "Expanding our valuation services through CAP will connect our investments and grow our presence in each phase of the vehicle lifecycle, from purchase, through SMR, to sale or salvage."





A GOOD FIRST IMPRESSION

This is an example of Livingstone's ability to advise on cross-border transactions, combining global relationships, sector insights and hands-on transactional experience.

The transaction was first mooted in Summer 2014, but Solera's relationship with Livingstone goes back to a previous transaction led by Richard Fetterman, Partner at Livingstone London.

"We first met Richard and the Livingstone team when they were running a process to sell a company in which we were a bidder," Aquila explains. "In our interactions during that process, the Livingstone team impressed us with their integrity, professionalism and market insights. So when we decided to pursue an acquisition of CAP Automotive in an off-market transaction, we knew we wanted Livingstone on our side."

During the process in which Solera was a bidder, Aquila explained to Fetterman that he would like help with other European

acquisitions that were in the pipeline. "We discussed the possibility of Solera acquiring CAP, a company it had been watching for some time," says Fetterman. "Given the trust we had established with Solera and our relationship with Montagu, the owners of CAP, Solera felt it would be helpful for us to lead discussions on its behalf. So I made contact with Montagu and assured them of Solera's ability and good intentions. We built up a huge amount of trust between the two parties and directed the negotiations on Solera's behalf."

Livingstone's sector knowledge, experience, and above all trust, enabled it to unlock this off-market transaction. The transaction underlines the vital importance of an adviser immersing itself in a fast-moving technical market and truly understanding where value sits in a successful business.

DATA EXPERTS

The business information and data sector is one where Livingstone has established an exceptional track record, with recent highlights including the sale of Autodata (a provider of technical information to vehicle service workshops) to Bowmark Capital and Five Arrows Principal Investments.

> "WHEN WE DECIDED TO PURSUE AN ACQUISITION OF CAP IN AN OFF-MARKET TRANSACTION, WE KNEW WE WANTED LIVINGSTONE ON OUR SIDE"

"These transactions come from our deep understanding of the business information and data space," says Fetterman.

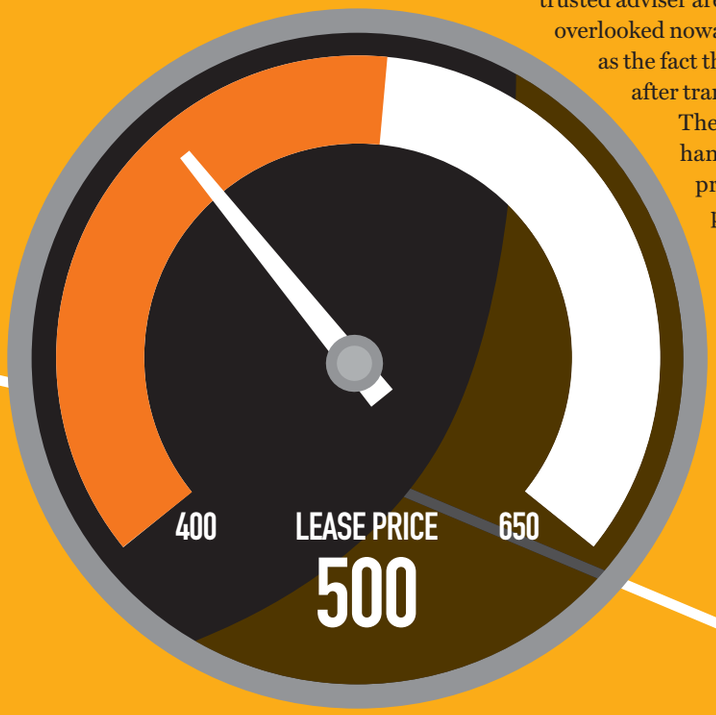
Livingstone's ability to serve as an effective and passionate advocate for a client's business, whether it be the seller or buyer, and its ability to build principal-to-principal relationships through an intelligently crafted dialogue designed to foster trust and understanding, were important success factors in the CAP transaction.

"In some ways, it's an old-fashioned advisory role," notes Fetterman, "insofar as building strong relationships and being known as a trusted adviser are factors that are sometimes overlooked nowadays, but are as important as the fact that we are doing transaction after transaction."

The Livingstone team was hands-on throughout the process. "We provided proper, beginning-to-end, detailed corporate finance advice throughout the acquisition process. It was emphatically not just an introductory role," says Fetterman. "We were working closely with the Solera team to get the transaction completed in short order."

The acquisition places Solera in a strong position to develop synergies and growth in the international market.

It is unsurprising, then, that Aquila is enthusiastic about Livingstone's role in driving the transaction through and making CAP a key addition to the Solera family. "It has been a pleasure to work with Livingstone on the acquisition of CAP," he says. "At every stage – from unlocking the initial conversation to closing – they gave us sound, objective advice and were totally committed to the mission."



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On the move

The growth of online specialists has given the global travel industry a shake-up and led to an increase in M&A in the sector – and it doesn't look like slowing down this year

Livingstone completed five travel sector transactions in the last 12 months, all involving highly competitive sale processes, and James Lever, Partner at Livingstone London and Head of Travel, sees no sign of interest letting up. The shift online has created opportunities for niche operators to build attractive, high-margin travel businesses with strong growth dynamics, and this is fuelling M&A activity.

"There's enormous interest in the travel sector, focused particularly on the specialist operators," says Lever. "These are highly scalable business models that, because of their expertise, attract a loyal base of repeat customers." In spite of travel's reputation as a highly cyclical industry, the strength and resilience of these niche markets has enabled highly differentiated operators such as Scott Dunn (see panel), Destinology and JacTravel to continue growing strongly through the downturn.

As a consequence, acquirers' and investors' interest in specialist travel businesses is buoyant, with strong competition among final-round bidders, often at double-digit multiples of EBITDA. Increasingly in recent sales process, says Lever, private equity houses with an established record of investing in travel have been joined by other financial bidders who are keen to become active in this sector.

But, although several of the most recent mid-market transactions have involved private equity (PE) buyers, there are specific strategic acquirers which will continue to compete successfully with PE. Livingstone illustrated this last year with the sale of luxury travel specialist Destinology after a highly competitive process, with strategic acquirer Saga seeing off a number of PE investors, against the expectations of many observers.

WHAT BUYERS ARE LOOKING FOR

So what marks out the most desirable targets from the buyer's perspective?

Lever points to several factors. First, a strong online proposition with a clear specialist focus will generate keen interest, because these businesses have the potential to scale up relatively rapidly. Second, experience shows that those that have attracted premium prices have had market-leading proprietary technology that gives them a clear competitive advantage and superior profit margins; he points to examples such as Destinology. The technological edge may be found in various areas, from sophisticated search engine optimisation, online customer acquisition strategy and online distribution to the efficiency – and thus profitability – of the booking process.

> TO ATTRACT INTEREST, COMPANIES NEED TO HAVE ATTAINED REASONABLE SCALE

Two other important factors that affect appetite are the strength of the management team and the potential to expand internationally. The latter tends to be a high priority for financial buyers, according to Lever, but it doesn't necessarily involve opening overseas offices.

"TravelJigsaw (a Livingstone client in 2008 and again in 2010) is a great example of this," he says. "It achieved a worldwide presence from Manchester but, rather than opening offices abroad, it set up a call centre next to a language school and had native speakers answering calls from all over the world." Alongside multi-lingual websites and multi-currency e-commerce capability, this innovative approach allowed the car rental company to enjoy strong international expansion without having to invest in an expensive overseas infrastructure, and ultimately led to its sale to priceline.com.

The growth of online travel booking has produced a crop of innovative, profitable businesses that have disrupted the industry and provoked a lot of interest among travel groups looking to defend their existing markets and enter new ones. However, the market remains fragmented, and to attract strong buyer interest, companies need to have attained (or be capable of reaching) reasonable scale. Livingstone is constantly on the lookout for the next generation of travel success stories.

"There is an ever-growing number of businesses that currently lack the scale to attract the major global players or the PE community, but they will soon be on the radar," says Lever. It seems certain that deal-makers in the consumer travel market are going to be kept busy again this year.

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SCOTT DUNN

From its origins in 1986, when Andrew Dunn set up a company specialising in upmarket, bespoke ski holidays, Scott Dunn has grown to become one of Britain's most respected niche travel businesses. Having established itself as a premium operator in the winter market, it branched out into luxury summer travel. More recently, under a new management team, it has also expanded by acquisition, bringing African specialist Imagine Travel into its portfolio. With profitability on a strong upward trend, Dunn decided the time was right to begin looking for a buyer.

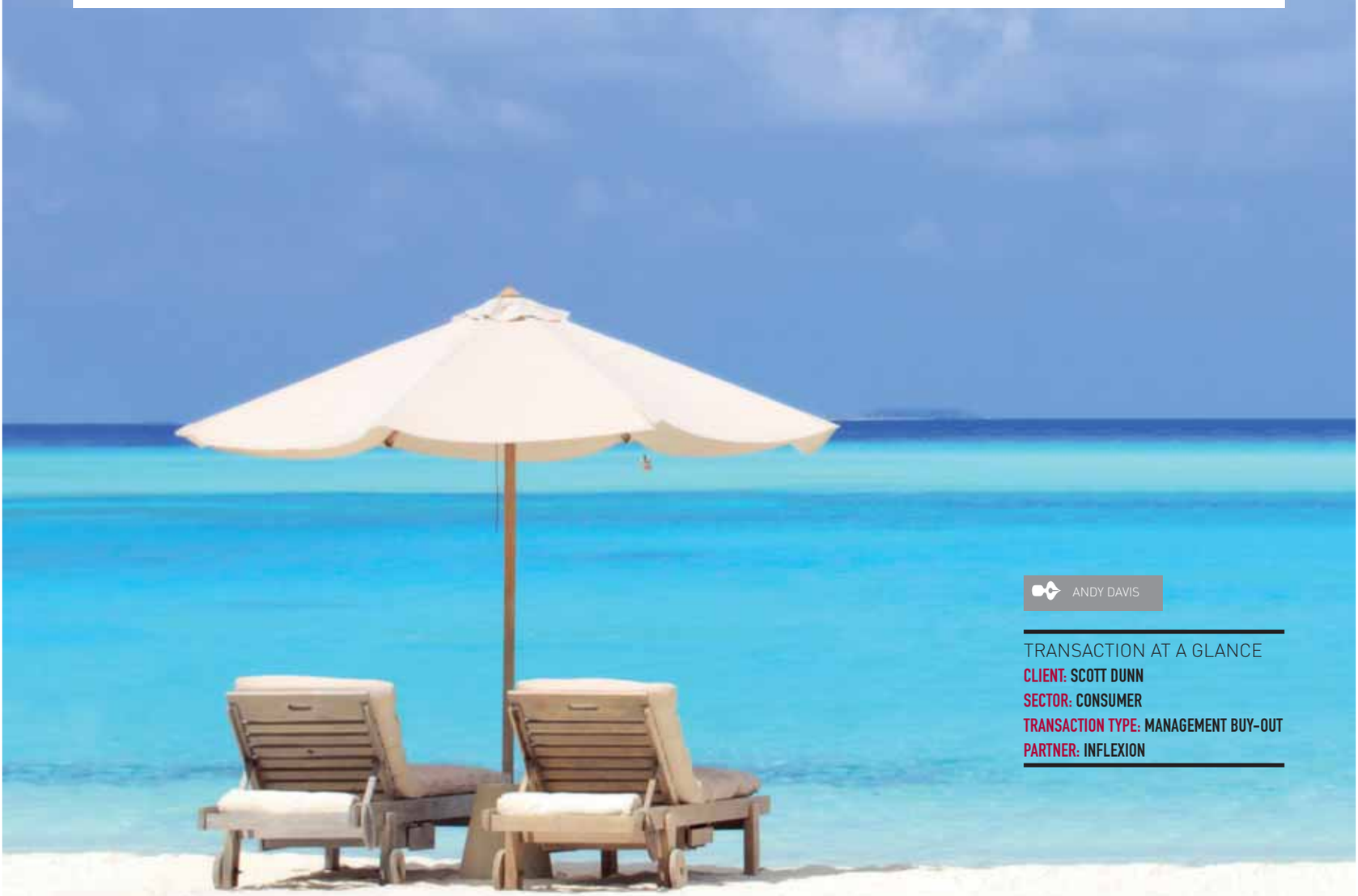
The strongest interest was from financial buyers. As soon as this became clear, and that Scott Dunn's highly respected management team (who were also shareholders) would continue to play a key role, the team sought expert advice on what a PE transaction might entail. A previous Livingstone client from the travel industry had recommended Simon Cope-Thompson, the Head of Livingstone London's Consumer sector team, and Scott Dunn CEO Simon Russell hired the firm in October 2014.

Since the management were both sellers and – as significant investors in the new company – buyers, they needed careful counsel to balance their different roles in the negotiations.

Cope-Thompson explains: "Our key role was to help Simon and his team establish how much money they wanted to take out and how much they would roll over and reinvest, and then seek to maximise the equity terms they would receive in the new company. We also provided guidance and support throughout the second stage of the process, as well as insight into the different PE investors they were meeting."

In an intense period of negotiation with the successful bidder, PE investor Inflexion, in the week leading up to Christmas, Cope-Thompson and Alex John, Director at Livingstone London, secured the management team the best possible reinvestment deal in the new company, including access to an attractive 'sweet equity' pot.

Russell says: "When we'd had first-round bids, we brought Livingstone in to support management independently of the other advisers. The potential conflicts involved in the process had to be managed, and it was important that the management team had Livingstone to bridge that divide."



ANDY DAVIS

TRANSACTION AT A GLANCE
CLIENT: SCOTT DUNN
SECTOR: CONSUMER
TRANSACTION TYPE: MANAGEMENT BUY-OUT
PARTNER: INFLEXION

A decade of Adare

The transformation of the Adare Group over the past decade has been total. At every step of the way, Livingstone has been on hand to advise on transactions

Over the past 10 years, the Adare Group has undertaken a remarkable journey. It has evolved from a collection of disparate companies to a fully integrated organisation under a single brand identity. The latest twist in the journey of this global provider of marketing and communications solutions is its recent management buy-out, backed by private equity firm Endless.

"Endless share the ambitious plans and strategic vision of the management team," explains Robert Whiteside, CEO of the Adare Group. "They want to support the management in any way they can to help us fulfil our potential, and that will involve acquisitions. There is no doubt about that."

This transaction brought together an investor and a business in a fitting union of shared ambition. To get to this point, Livingstone and the Adare Group first had to negotiate a series of M&A transactions that would ultimately lead to the £60m deal.

FRUITFUL RELATIONSHIP

For Whiteside, this fruitful relationship began in earnest in 2006 when the then shareholder, PE firm Allen McGuire and Partners, sought an exit from the group. Livingstone had already advised Adare on a previous disposal and was well placed to offer an innovative solution during the sales process. At the vanguard was Patrick Groarke, Partner at Livingstone London.

"I had advised them on the sale of one of their subsidiary firms, Great Northern Envelopes, a year earlier," Groarke explains. "I then heard that Allen McGuire was looking to exit Adare. The key was trying to identify who would lead the next buy-out, and I approached Robert Whiteside, who was then the Business Development Director, with that thought.

"I had a good idea of who would be interested in the opportunity," Groarke continues, "particularly if there was a management angle, and felt Robert was the right person to lead the buy-out because there was a lot of respect for him in the business. So I introduced him to HBoS Integrated Finance, negotiated a deal with Allen McGuire, and they completed the £119.5m transaction."

It was a seminal point for Whiteside, both in the history of the company and in his career. "There was a transaction there to be done, and we needed someone who could make that happen, and that was where Patrick came in," he says. "He suggested I lead the buy-out, which is what I did. It took a bit of convincing, but Patrick helped me achieve that. This was an opportunity to lead the group, rather than just play a part in it."

STRATEGIC REVIEW

One of Whiteside's first directives as the group's new CEO was to order a strategic review to identify and dispose of non-core businesses. Livingstone was appointed to facilitate the sale of CJ Fallon, a Dublin-based educational publishing company, and On Demand Communications (ODC), which included the high-street brands Prontaprint and Kall Kwik.

Graham Carberry, Managing Director at Livingstone London, explains: "We found a clean way to sell the two businesses efficiently in a single transaction for a combined valuation of £40m. Moving them as a group allowed us to get more value for the less attractive parts of the business."

The sale of another subsidiary, Darley Labels, followed, and then there was an inevitable lull in the M&A market thanks to the economic inertia of the downturn. Throughout this time, the Livingstone team maintained its relationship with Adare, meeting up regularly to exchange market insights and keep abreast of developments. "We've always had a very good working relationship with Adare," says Carberry. "We spend a lot of time with the team."

Improving market conditions heralded the next chapter in the ever-evolving Adare story. But this time, rather than disposing of smaller, individual, non-core assets, Livingstone began to assess the options around the sale of all four of Adare's specialist divisions, or even the group as a whole.

"Adare's investors were potentially looking to exit, so our job was to maximise value for both the institutional and management shareholders," explains Alex John, Director at Livingstone London. "We were exploring several options, both individual sales and the sale of the group, when we received an approach for the entire group, at an attractive level. We had clearly identified that one transaction rather than four would be simpler and quicker, with less risk involved, so it worked on all fronts."

Livingstone had previously contacted Endless to talk about specific parts of the group. The discussions had stirred considerable interest at the PE house, culminating in an attractive pre-emptive offer for all four specialist businesses: Adare International, Adare Limited, Adare Advantage and Kalamazoo Secure Solutions.

The long-term relationship between Livingstone and Adare had paid off. "We understood the nuances, the expectations, the marketplace and, more importantly, the businesses and the management team behind them," Groarke says. "It is quite complex, with a number of different subsidiaries, but we had a very ingrained relationship with Adare."

As Whiteside acknowledges, this kind of understanding doesn't happen overnight. "There was a gap of seven years when we didn't undertake any transactions, but Patrick kept bringing us knowledge and information about the market," he says. "He had a really good understanding of the business and was way ahead of the curve compared with anyone else.

"That helped us build a relationship built on openness, trust and mutual respect, both at company level and at the individual level. Layered on top of that was the market knowledge and expertise that Livingstone always brings."

Patrick Groarke, Partner, Livingstone London (left) and Robert Whiteside, CEO, Adare Group, review a previous *Acquirer* story about Adare

MARK ALEXANDER
STEVE MORGAN

TRANSACTION AT A GLANCE
CLIENT: ADARE GROUP
SECTOR: INDUSTRIAL
TRANSACTION TYPE: COMPANY SALE
ACQUIRER: ENDLESS PRIVATE EQUITY

"PATRICK HAD A REALLY GOOD UNDERSTANDING OF THE BUSINESS AND WAS WAY AHEAD OF THE CURVE COMPARED WITH ANYONE ELSE"

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A perfect finish

Livingstone's experience of dealing with German *Mittelstand* companies proved invaluable during the sale of wood coatings specialist Oskar Nolte

When Livingstone was appointed to lead the sale of industrial wood coatings specialist Oskar Nolte, the firm understood the challenges faced by *Mittelstand* companies – the SMEs that form the backbone of the German economy.

"We analysed the business with the owner and it was clear that only a very limited number of strategic acquirers could be approached, none of which was a perfect fit at this point in time," explains Christian Grandin, Partner at Livingstone Düsseldorf, "so approaching private equity houses seemed to be the most appropriate course of action."

However, owner-managers of *Mittelstand* companies may be experts in communicating with clients and suppliers, but not with institutional investors; they are effectively working for themselves, so they don't need to divulge information to a long list of shareholders. As a result, "most *Mittelstand* companies are not used to the substantial due diligence required by PE as part of an M&A process," says Grandin. "There is typically a clash of cultures in these instances, and our role was to explain to Oskar Nolte's shareholders that the PE firm would ask in-depth questions about its market position and demand great detail on its growth prospects."

Preparing a business for sale to a PE house also requires a different approach. "Typically, with a strategic acquisition, there will be an integration into a larger conglomerate as part of the post-merger integration process," says Grandin. "With PE, it is more often the case that the company is preserved and grown at its existing premises.

"PE houses also have a different attitude with regard to management. They are more flexible in incentivising existing staff, whereas strategic acquirers typically have more options for the replacement of key people leaving." But, on the positive side, "confidentiality is a problem with strategic buyers; it's less risky to open the books to financial investors."

A BROADER FOCUS

Oskar Nolte founded the company that bore his name in the small town of Kirchlengern in North Rhine-Westphalia in 1959, producing solvent-based stains and coatings for the furniture industry in that region. The business flourished during the economic boom of the 1960s, when there was a growing demand among German households for industrially-produced and -finished furniture, and Oskar Nolte provided the set of coating and finishing products that furniture manufacturers needed.

In the late 1970s, Sales Director Lothar Pühse and two other investors acquired the company from its founder. Under Pühse's guidance, Oskar Nolte began to specialise in coatings for the industrial finishing of wood composites, competing head-on with big names such as BASF and ICI, before eventually squeezing them out of this market. However, by the mid-1990s, labour-intensive industrial furniture production in Germany lost its competitive edge. In response to this weakening demand from the domestic market, Oskar Nolte broadened its focus to encompass international markets.

The 1990s also saw the company make the transition from manufacturing solvent-based coating systems to environmentally-friendly waterborne and UV coatings. A major fire in 1992 proved to be the catalyst for change; when construction of the new production plant was completed, Oskar Nolte decided to convert to 100% environmentally-friendly water-based coatings – one of the most strategic decisions made in the history of Oskar Nolte by the current CEO, Guido Pühse (Lothar's son).

Today, it is a profitable, well-run company that has continually invested in the latest technology. It wants to build its business further and to penetrate emerging markets, where there is enormous growth potential. But to achieve this, and with one major shareholder wanting to exit the business (creating a succession issue), the company started looking at sale options. That's where Livingstone came in.

Grandin says that the Livingstone team was able to build confidence and trust with both the buyer and the seller. "We explained to the shareholders from the start what the expectations of the PE house would be in terms of information needed and documents that had to be prepared – we ensured there were no nasty surprises. To the buyer, we explained Oskar Nolte's capabilities and budgets and how they should best handle the seller. The end result was good, open discussions between both sides."

The conclusion to these discussions was that Ambienta SGR, the largest European PE fund specialising in the environmental sector, acquired a substantial stake in Oskar Nolte.

DAVID BURROWS

TRANSACTION AT A GLANCE
CLIENT: OSKAR NOLTE
SECTOR: INDUSTRIAL
TRANSACTION TYPE: COMPANY SALE
ACQUIRER: AMBIENTA SGR

"THE LIVINGSTONE TEAM WAS ABLE TO BUILD CONFIDENCE AND TRUST WITH BOTH BUYER AND SELLER"

The succession issue was also resolved, as the remaining shareholder, Guido Pühse, retained his share in the business and continued in his successful role as CEO.

VISION FOR THE BUSINESS

According to Johannes Faber, Associate Director at Livingstone Düsseldorf, Pühse's background and wealth of experience provided not only continuity post-acquisition, but assurance that his vision for the business was well aligned with its new PE partner. Furthermore, Oskar Nolte's credentials as an environmentally-friendly business fitted in well with Ambienta's area of specialism.

In addition to the environmental fit, what was also attractive about Oskar Nolte was its long-standing customer base, its history of long-term growth and the barriers to entry to the niche market in which it dominates.

"It is a defensible market," says Grandin. "Oskar Nolte is the market leader in its niche, and any company trying to enter has to compete with a hidden champion that has enormous knowledge of this niche sector, with closely-guarded recipes for its coatings."

Ambienta brought to the table a €20m investment in the business and managerial expertise to help the CEO grow the company. Pühse comments: "With Ambienta, we have found a partner and co-shareholder that shares our view on the growth prospects of the business and is keen to support the company with financial and managerial resources, as well as its strong international industrial expertise."

These growth prospects fall into three areas: new products, emerging markets and acquisition. In terms of product development, coating systems for finish foils used in the furniture industry offer enormous potential. As for expansion, while environmentally-friendly coatings are widely used in Europe, there is great scope for new business in the developing world, where the move from solvent-based to waterborne coatings is at an early stage. The company has already made inroads in Latin America, and Asia and Russia also offer promising growth opportunities.

Acquisition of other businesses will be considered as opportunities emerge; traditionally, Oskar Nolte has grown its business organically, so this represents a new departure. Either way, the company is likely to increase its workforce as it extends its international reach.

The investment by Ambienta should provide the timely impetus the company needs to realise its goals, as Grandin concludes: "This transaction is the key to unlocking the growth potential of an already successful business."

Pühse adds: "The former shareholders thank Livingstone for their tremendous effort and unparalleled commitment driving this successful transaction. It was extremely helpful for us to be closely guided during the entire process by the Livingstone team, who helped us to avoid the many potential pitfalls which a transformational transaction between a typical German *Mittelstand* company and a European financial investor offer."

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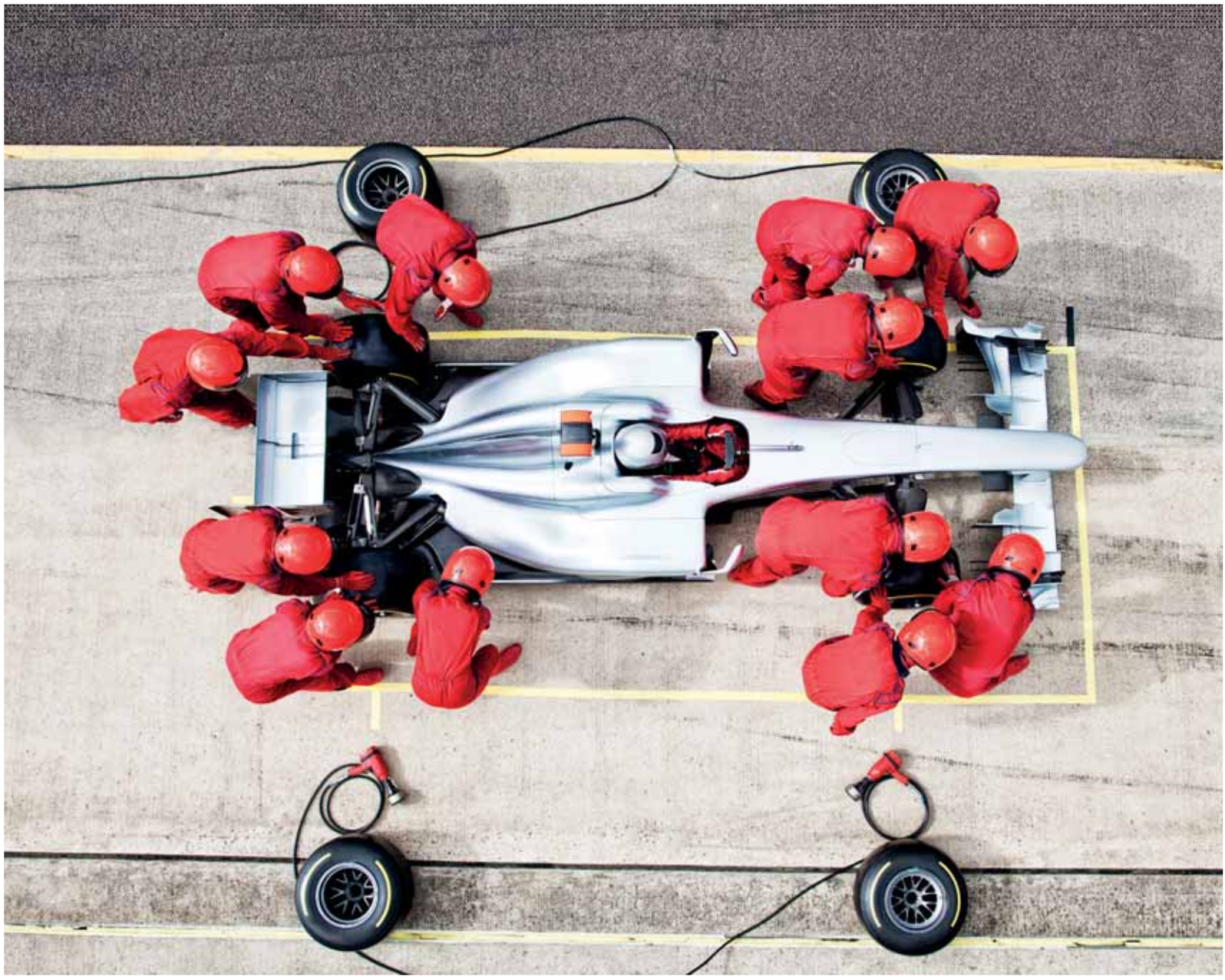

A healthy relationship

Over the past decade, Livingstone has helped ATI Physical Therapy become the dominant market leader in the highly fragmented physical therapy sector in the US

The emergence of ATI Physical Therapy as the largest operator of physical therapy clinics under one brand in the US has been marked by its outstanding record of bolt-on acquisitions. These have spread its operations from its initial base in Illinois to its current footprint across 13 states. The 30-plus transactions completed to date bear witness to the vision and ambition of the business's management team, led by founders Greg Steil and Dylan Bates – and to the quality of the relationship that has developed between management and its advisory team at Livingstone's Chicago office.

Having worked with the company since 2004, Livingstone effectively operates as an outsourced M&A team for ATI, speeding up the process of identifying and assessing potential transactions from among the 16,000 clinics in the highly fragmented US market – a market that is currently valued at around $20bn and projected to grow at 5% a year.

"ATI has relied on Livingstone's physical therapy market knowledge, creative dealmaking and unrelenting advocacy to drive value for our organisation," says Dylan Bates, Chief Executive Officer at ATI.

Creating strong relationships has been central to Livingstone's work with ATI ever since David Sulaski, Partner at Livingstone Chicago, met Steil, Bates and their colleagues in 2004. Since opening its first clinic in 1996, ATI had developed a proven physical therapy

ANDY DAVIS

programme that helped people with work-related injuries recover and get back to work more quickly. Livingstone's relationship with ATI began after the company, which then had just six clinics in Illinois, received an unsolicited approach from a strategic buyer seeking a majority stake.

"We advised them that, while the offer was flattering, it was also going to leave a lot of money on the table if the ATI team wanted to become an industry leader," Sulaski explains. Instead, he convinced management to start preparing ATI for private equity investment and to become a platform for growth. After a year's work, during which ATI broadened its management team and opened several more clinics, the company recapitalised with investment from KRG Capital, based in Denver, Colorado.

"The shared vision, the complementary skill sets of management and KRG, and the access to growth capital, created the perfect partnership, if not the perfect storm," says Sulaski.

SOWING THE SEEDS FOR GROWTH

That transaction in late 2005 began the process that would lead to the creation of today's ATI, which has more than 400 branded clinics, and arguably marked the beginning of PE interest in the physical therapy business in the US. It was also completed at what Ryan Buckley, Director at Livingstone Chicago, describes as "a very significant premium" to the valuation they had been offered only a year before.

Having guided ATI into its first partnership with PE backers, Livingstone was again instrumental in March 2010 when the company completed its second recapitalisation, this time with Chicago-based investor GTCR. In both cases, Livingstone's influence helped to ensure that ATI chose like-minded partners that would provide the right kind of support. Between them, these two key relationships have provided the company with the funding and strategic support to pursue an aggressive expansion programme, both by acquiring existing businesses and by opening clinics in target markets.

Since completing its first acquisition, in 2006, when it bought PRO Physical Therapy's 14 clinics in Delaware, Maryland and Pennsylvania, ATI and Livingstone have together developed a well-honed approach to M&A.

"Over the course of a decade, we have developed a very deep knowledge of the management team," says Buckley. "We know their strategy. We know which markets they want to enter. We know the markets where organic growth is the better strategy and those where acquisitions are critical."

This depth of working relationship is vital in a market as fragmented as outpatient physical therapy in the US – 85% of the nation's clinics are still small, independent operations. "Given that there are 16,000 clinics out there, a huge number of contacts need to be made," says Buckley. "Our relationship with ATI allows us to be very targeted in the way we approach physical therapy operators, which is why we've been able to work successfully with them."

new clinics this year and to complete another 8-10 acquisitions.

"The initial founders who we got to know back in 2004 still run the business today and are still major shareholders," says Buckley. "They have no end in sight. They see how fragmented the physical therapy market remains, and that they have the opportunity to become the largest operator in the country under one brand.

"What we consistently hear from sellers is that ATI looks and feels different to other strategic buyers out there," he continues. "They make our job easier by being such good people to work with and such attractive acquirers. When we call a physical therapy operator on their behalf, it's easier for us to convince that

> WE KNOW THEIR STRATEGY. WE KNOW WHICH MARKETS THEY WANT TO ENTER. WE KNOW THE MARKETS WHERE ORGANIC GROWTH IS THE BETTER STRATEGY AND THOSE WHERE ACQUISITIONS ARE CRITICAL

A WELL-HONED SYSTEM

Equally important at times has been Livingstone's willingness to advise against transactions where the valuation might be stretched or the transaction would require excessive management time. "That's another example of the trust that has developed over time," Sulaski adds.

ATI has developed a well-honed system for opening new clinics, assessing potential acquisitions with Livingstone's help and integrating the businesses they acquire. In order to run a successful acquisition strategy involving such a large number of transactions, a good rapport between buyer and seller is vital, and this is another area where the benefits of ATI's long relationship with Livingstone are felt. Over time, the Livingstone team has learned to identify which sellers are likely to gel with the ATI culture and approach, and this helps transactions to succeed.

ATI shows no sign of slowing the pace of its expansion; it is on course to open 30-40

individual to consider a sale to ATI. It has become the acquirer of choice, and that's part of the reason we have enjoyed advising them over the past 10 years."

For his part, ATI CEO Bates concludes: "The testament of a true M&A adviser emerges when the recommendation is to refrain from a transaction or to stand firm on value, at the risk of forgoing a transaction fee. Livingstone regularly provides that advice, demonstrating that ATI's best interest is always paramount."

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Fitting it all together

Tensile's acquisition of Spanish ceramic tile manufacturer Keraben called on Livingstone's international reach and local knowledge alike

Neil Collen chuckles at the memory of how a major transaction for San Francisco-based investment fund Tensile Capital Management took shape over a cup of coffee in a Valencia café with his personal assistant's other half.

"It all began when Tensile called our Chicago team about an opportunity they had seen in Spain," recalls Collen, Partner at Livingstone Madrid. "They'd worked with Livingstone Chicago before and had built an excellent long-term relationship with them. Chicago then asked me to take a look at the transaction and speak to the adviser to the target company.

"I was initially told the adviser was in Barcelona, but then I learned that he was, in fact, based just around the corner in Castellón, north of my home city Valencia, and that he was Roberto De La Cruz – my PA's husband! So after all those calls pinging around the world, in the end, the person we needed to speak to was practically next door."

A NEW DEBT STRUCTURE

Coincidence aside, Livingstone's local infrastructure and relationships proved vital in Tensile's eventual – and highly complex – acquisition of Spanish ceramic tile maker Keraben, based in the town of Nules and owned by the Benavent family.

Over his Valencian coffee, Collen learned that, although it was doing well at the operational level, the company needed to find a way to restructure its debt.

"During the downturn, many Spanish companies looked closely at costs and started using cheaper materials and dropping prices. In contrast, Keraben had really driven growth," Collen explains. "It had decided to go head to head with the best and focus on quality materials and great design. It was looking to the developed markets, not low-cost emerging markets, and in 2013 Keraben had a turnover of €100m and excellent margins."

However, a mixture of Spanish real estate problems and the cost of expansion had left the firm shouldering a large burden of debt which it was struggling to support. It needed fresh capital and a new debt structure.

TOUGH NEGOTIATIONS

Six other firms – including US and UK private equity firms and Spanish family offices – were interested in acquiring Keraben, but Tensile

DAVID CRAIK

TRANSACTION AT A GLANCE
CLIENT: TENSILE CAPITAL MANAGEMENT
SECTOR: INDUSTRIAL
TRANSACTION TYPE: ACQUISITION
TARGET: KERABEN GROUP

was always a strong candidate. "It's a very interesting investment fund," Collen says. "Its portfolio includes a mixture of private and public companies, and it operates on a much longer timeframe than most private equity funds." Indeed, instead of investing for three to five years and then exiting, Tensile has the flexibility to stay invested for a minimum of 10 years and is then free to divest or not, depending on the situation. It also had useful experience in the building products industry.

For his part, Doug Dossey, Managing Partner of Tensile, explains that the company was interested in making a bid for Keraben because of its significant business potential and managerial stability.

"We found a very strong and honourable family that got on well together," says Dossey. "Given what they had accomplished operationally, we jumped at the chance to do business with them. It was the highest-performing business in the Spanish sector, with a highly skilled Chief Executive. We saw an opportunity to strengthen its balance sheet and, in partnership with the family, consider consolidation in a sector that is still generally under-performing and over-leveraged."

After discussions with Keraben, Tensile made a first offer, but Collen quickly learned from the target's local adviser that it would be rejected. "We thought one of the key drivers for the company was its commitment to staying a majority owner, so our structure reflected that," he explains. "But instead, the family's main priority was to protect some of its assets and the future of the company; they were content to take a minority stake if those could be assured."

Collen also praises Tensile for being proactive and creative, "and they built a great relationship with the family in record time. Their experience allowed them to drill down to the key drivers and challenges of the company and the transaction very quickly."

He believes Livingstone's tenacity was one of the keys to securing the transaction, which took 10 months to complete: "We responded quickly when there was an issue and were very proactive."

But the main factor was the firm's local presence, knowledge and relationships in Spain. "We had a really close relationship with the advisers and then developed a similarly close bond with the Keraben management team," Collen says. "Without those relationships, I think our initial offer would have been thrown out, but instead they gave us a chance to reassess it."

Dossey also emphasises Livingstone's local and regional knowledge. "Having Neil in Valencia, just a hop, skip and jump away from the main players, was important," he says. "As we seek to do more deals across the globe, having access to native language skills is vital. The family spoke good English, but with Neil's Spanish language skills he was able to convey my thoughts, ideas and approaches much better.

"We're grateful for the sense of urgency, speed, nimbleness and partnership we got from Livingstone," he adds. "Neil became an adviser to the transaction, not just to Tensile."

"It's a nice story," Collen concludes. "It reflects Livingstone's international presence and our local strengths – and our ability to come up with creative debt solutions and structures that resonate with real-life business owners."

> NEIL BECAME AN ADVISER TO THE TRANSACTION, NOT JUST TO TENSILE

The Livingstone team quickly reworked the offer, carving out a significant minority stake for the family, and successfully saw off its rivals and gained exclusivity.

But the dealmaking wasn't over yet. The banking syndicate supporting Keraben, comprising 13 institutions, had already proposed a different refinancing structure. However, the Benavent family wasn't happy with this proposal, so Livingstone engaged in "very tough negotiations" with the banks' representative.

"The syndicate understood that it had to come up with something more attractive to the family and also ensure the viability of the company," says Collen. Finally, the team persuaded the banks to agree to a new refinancing structure.

KEYS TO THE TRANSACTION

Collen is full of praise for Keraben. "Sometimes, with a family business, the management has a parochial, 'we know best' attitude. But this family were both sophisticated and very pragmatic. They led an outstanding management team."

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The main event

The latest chapter in Livingstone's long-term relationship with the family behind consumer events organiser Upper Street Events was a management buy-out that lays strong foundations for the future

UPPER MY STREET

The successful sale of Upper Street Events (USE) to its management team, backed by private equity firm Livingbridge, marks the latest chapter in a relationship between Livingstone and the owners of the business, the Morris family, that stretches back well over 15 years. Over that period, Livingstone has kept in regular touch with its clients' plans. As a result, it has become the corporate finance adviser the family calls upon when it wants to build and reshape its interests.

The story of USE began when the Morris family opened one of its prize assets, the Business Design Centre (BDC) in Islington, North London, back in 1986. It was one of the capital's first dedicated exhibition venues, and the company that became USE was created to organise and develop branded exhibitions there. By the time it was sold late last year, USE ran a portfolio of 17 big-name, consumer-focused exhibitions, including London Art Fair, The Knitting & Stitching Shows, New Designers, The Gadget Show Live, The Cycle Show and Country Living Fairs.

Tim Lyle, Chairman at Livingstone London, has worked with the Morris family since the beginning of the relationship and was appointed once again at the end of 2013 when the family decided to begin the sale process for USE.

"I had long regarded it as an attractive business with good growth prospects and a very strong management team, so I kept in touch with the family about their plans for it," says Lyle.

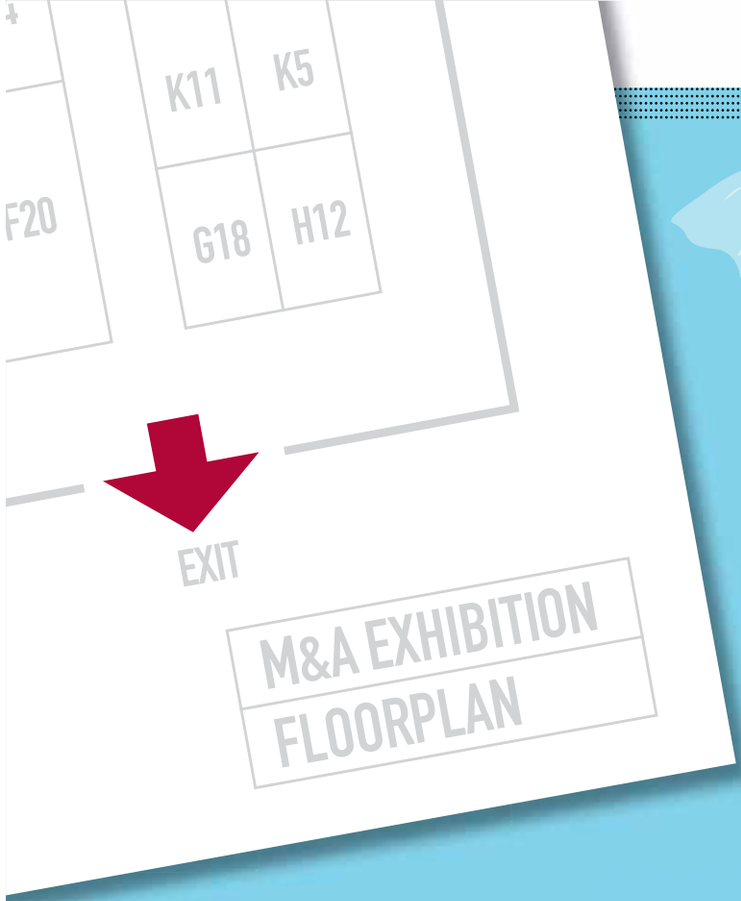
REGULAR CONTACT

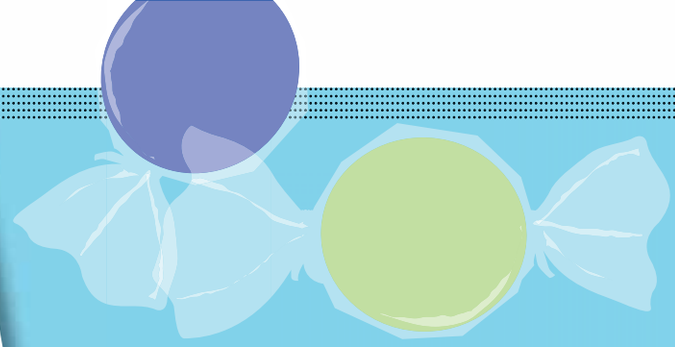
It is this habit of staying in regular contact with clients that has been the foundation of Livingstone's long relationship with the Morris family. Lyle first worked with the family in the late 1990s as they worked to buy Earls Court and Olympia from P&O. It was Lyle who made the original approach to buy the two world-famous venues on behalf of the Morris family and, although he was initially rebuffed, P&O later decided to put its exhibition venues up for sale. The Morris family and Livingstone teamed up in 1999 to take part in the auction and, with Candover Investments providing funding for the transaction, Lyle negotiated an agreement to buy the venues for £183m.

The following year, the Morris family asked Livingstone to sell three non-core businesses that had been acquired as part of the Earls Court and Olympia transaction: the London and Birmingham arms of Opex, the venues' service arm, and Beeton Rumford, their in-house catering company.

Earls Court and Olympia themselves were subsequently sold in 2004 to St James Capital and Nomura International for £245m. However, the family retained the BDC, which is chaired by Jack Morris and has been run for the past 16 years by Chief Executive Officer Dominic Jones. Over the subsequent decade, they continued to build USE, which remains one of the BDC's biggest customers.

In 2009, USE was demerged from the centre as a separate company with Paul Byrom as its Managing Director, Jones explains. "We felt it was important to allow them to create their own style and culture without too much interference from us," he says. "That wasn't always easy, but





ANDY DAVIS

TRANSACTION AT A GLANCE
CLIENT: UPPER STREET EVENTS
SECTOR: MEDIA & TECHNOLOGY
TRANSACTION TYPE: MANAGEMENT BUY-OUT
ACQUIRER: LIVINGBRIDGE

in hindsight it was the right decision, as the management team learned fast and quickly developed their own style. We backed them with investment, but always on the back of proven success, so we didn't allow them to grow too quickly. They needed to demonstrate that their last idea for a launch or acquisition was a good one before we moved on to the next."

A HIGH LEVEL OF INTEREST

When the Morris family decided the time had come to sell USE, Lyle took the opportunity to market it to trade, strategic and financial buyers. With its record of rapid growth over the past few years and its strong management team, the business attracted a high level of interest. Having owned it for almost three decades, the family were keen to ensure USE went to a buyer that shared their confidence in the management team and vision for the business. Livingbridge (formerly Isis Equity Partners) emerged as the preferred partner with a strong offer that gave the management team a significant interest in the company and came with a commitment to develop USE further.

"It's going to be very much a buy-and-build strategy," says Lyle. "Livingbridge are going to put money into the business to generate more shows, and they will look to make further acquisitions."

A major part of the reason for the level of interest in USE was the quality of its management team: Paul Byrom and his team are very highly regarded in the industry and Livingbridge are confident that they can build and run a larger exhibitions company in the years ahead.

> "LIVINGBRIDGE ARE GOING TO PUT MONEY INTO THE BUSINESS AND THEY WILL LOOK TO MAKE FURTHER ACQUISITIONS"

It's a prospect that Byrom relishes. "The Morris family, along with Dominic Jones, have been incredibly supportive in the development of Upper Street Events," he says. "Their investment in the company and support of our growth strategy has been essential to our success. With great support from Livingstone, and Tim Lyle in particular, I'm delighted to have found such a good cultural match with our new investors and am excited by the scale of the events media business we can now develop with Livingbridge and our new Chairman, Phil Soar."

Although they no longer share an owner, the BDC and USE will continue to work closely together, thanks to their decades of shared history. "I'd like to think we've created some strong bonds over the years, and I fully expect that to continue in the future," says Jones.

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Candidates for growth

At a roundtable earlier this year, senior figures from the recruitment sector discussed trends in the industry and the outlook for growth, financing and M&A

As the UK economy has returned to growth, recruitment firms have re-established their place at the heart of the labour market. The recovery has driven better performance across the sector and, as momentum continues to build, a positive outlook has returned.

However, the sector is still characterised by cyclicality, driven by the broader economy and underlying industry verticals served by each agency. As such, while transaction volumes have been increasing and both strategic and private equity acquirers have been active, the M&A landscape is nuanced. Some businesses are achieving very attractive valuation multiples in highly competitive situations, while others are struggling to find a buyer at all.

It was against this backdrop that Livingstone and PE investor Baird Capital recently co-hosted a roundtable lunch focused on the recruitment sector, giving leading industry figures a platform to share ideas, discuss the impact of innovation and new trends in the market, and consider opportunities for growth in their businesses.

A DYNAMIC INDUSTRY

The landscape of the global recruitment market has seen considerable upheaval over the last few years. An improving labour market, better trading and a positive market outlook were all cited by attendees as reasons to be confident. In contrast, there was a general wariness about what the future may hold as the staffing sector faces some of its biggest structural challenges in years. Turbulent global markets, disruptive technologies and a continuing move by clients to insource were all highlighted as creating issues in recruitment businesses, and proved rich topics of conversation.

The impact of LinkedIn was a popular discussion point, and a range of views emerged about its effect on the way consultants interact with candidates and clients. Most agreed that, in such a dynamic industry, businesses have to be responsive to these changes and welcome any opportunities they bring.

"LinkedIn has changed the way consultants find and research clients and candidates," one CEO observed. "It can be a drain on their time, but successful consultants know how to make the most of it as a tool, without relying on it."

However, specialist recruitment still relies heavily on direct interaction, and earning the trust and getting the true measure of clients and candidates will continue to be the key to delivering consistent results.

DEMONSTRATING VALUE

In order to defend their current positions and find new avenues for growth, the attendees all agreed upon the need to focus strategically on building and demonstrating the value they add to their clients. Innovative products and sector-specific, often international, expertise were seen as common requirements across the industry, as well as add-on services. By way of example, in the IT sector, some talent managers are becoming project management businesses, taking the risk of delivery as well as the responsibility for resourcing a project.

The implications of a multi-brand strategy on helping to deliver an expanded service to current and new clients, to include the whole spectrum of roles from C-level to secretarial, stimulated a wide-ranging debate about the merits of such an approach. "Some businesses have successfully built a multi-brand business with differentiated rate cards," one participant observed, "and it has opened up significant growth opportunities for them across their existing client base. It is something we are considering." Another CEO observed that some firms have had success implementing brands as part of an expansion into new sector verticals. By starting up a new brand in a specific sector they are not already serving, "some consultancies are able to protect the focus and expertise of their core business in the eyes of their current clients, while taking advantage of potentially underserved niches and pulling in new revenue."

> NOW IS A GOOD TIME TO BE CONSIDERING A SALE OR LIQUIDITY EVENT

FUNDING OUTLOOK

As might be expected, most attendees were reasonably satisfied with their current financing arrangements. However, the perennial issue of late payment was raised, along with the merits of invoice discounting as a way for staffing companies to fund growth. Several participants observed that securing financing facilities for overseas growth was difficult, even with strong current banking relationships.

"Financing overseas operations can be challenging for many businesses," observed one participating lender. "In particular, many banks struggle with the enforceability of contracts in foreign jurisdictions." One solution employed by some of the more creative lending institutions is to help clients support international growth with finance backed by the UK contract book.

THE M&A ENVIRONMENT

As recruitment is such a cyclical industry, transaction volumes suffered particularly during the downturn. PE transactions are particularly sensitive to the sector cycle. "This made investing in the sector challenging, as the economy has been in recovery mode," commented Jeremy Furniss, Partner at Livingstone London, "and has resulted in extended investment periods."

The improving UK economy and – in financial and professional services – London's pre-eminence as an

ATTENDEES

Gary Ashworth – Executive Chairman, InterQuest Group plc
Paul Beeke – Chief Executive Officer, Earthstream Global Limited
Andrew Deverell-Smith – Chief Executive Officer, Deverell Smith Limited
Andrew Ferguson – Managing Director, Baird Capital
Jeremy Furniss – Partner, Livingstone
Chris Harper – Managing Director, Baird Capital
James Local – Director, Livingstone
James Parsons – Chief Executive Officer, Arrows Group Limited
Tom Phipps – Director, Livingstone
James Saoulli – Director, Rullion Solutions Limited
Steve Segel – Chief Financial Officer, Spencer Ogden Limited
Tim Sheffield – Executive Chairman, Sheffield Haworth Limited
James Stirling – Partner, Investec Bank plc
Mark Znowski –Managing Director, Staffgroup Limited

international financial centre have helped to drive demand from both domestic and overseas recruitment businesses that are looking for expansion and consolidation opportunities. Within the UK, stronger corporate balance sheets and historically low interest rates have helped to create a benign M&A financing environment. Tom Phipps, Director at Livingstone London, observed that "company shareholders and investors in PE funds are putting pressure on managers to deploy capital, and they expect to see investments in attractive growth opportunities."

Livingstone has seen a marked increase in competitive auction processes for recruitment businesses sold in the UK over the past 12 to 18 months, partly as a result of these factors. As a result, valuations have increased. In order to maximise the chances of a successful outcome, vendors need to be 'match fit.' That is, they must be prepared to act on receiving an unsolicited approach or to initiate a sale process; thinking about likely buyers for their business; and clear on when the best time to approach the market will be in the context of the UK's economic cycle, of the verticals that they operate in, and of the staffing industry itself.

WHAT ARE BUYERS LOOKING FOR?

Despite the supply of attractive acquisition opportunities in the recruitment sector lagging behind demand, buyers remain selective. "In the past, buyers and sellers may have settled for slightly lower valuations," commented Gary Ashworth of InterQuest Group, however "it is a feature of this market that businesses that don't closely meet investors' criteria may find there is very limited appetite for the business at all."

As the conversation turned to the future and the aspirations of the entrepreneurs around the table, Chris Harper of Baird Capital Partners summarised that "in the minds of buyers, growth, a strong management team and a well-defined, differentiated niche drive appetite and value." When thinking of likely buyers for recruitment businesses in the UK, Harper believes that "PE investors are the primary acquirers and have capital to deploy for the right opportunity."

Phipps concluded that now is a good time in the cycle to be considering a sale or liquidity event, because "current valuations remain strong, and there is still growth in the cycle left for the next investor."

What questions will a private equity buyer ask?

- Is there a strong management team and robust succession plan in place?
- What is unique about the business?
- Does it have an industry focus?
- Does it have a #1 or #2 brand in its niche(s)?
- Is it broad or narrow in its geographic reach?
- Where is the growth in the business plan going to come from and how will it be delivered?
- Can the business model be internationalised?
- What is the cyclicality of end markets?
- How strong has margin control been?
- What is the split of contract and permanent employees in the business?
- What is the longevity/margin on contracts?
- Does the business have ownership of supply?
- What are the exit options?

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IN 2015, THE ACQUIRER CELEBRATES ITS 25TH YEAR OF PUBLICATION. STUART ROCK TRACES ITS EVOLUTION FROM A FOUR-PAGE NEWSLETTER TO A MAGAZINE AND LOOKS AT WHAT HAS CHANGED OVER THE YEARS – AND WHAT HASN'T

In the early 1990s, publishing a newsletter was a real labour of love – and a particularly bold one when it was about M&A in the depths of a recession. The first edition noted that many UK companies had "lost their appetite for acquisitions for the time being".

Fortunately, *The Acquirer* didn't lose its appetite for publication. For 25 years, it has been a rich source of insight for business owners about buying and selling companies. Its focus has always been on transactions and the people who make them happen, but its pages provide a fascinating insight into economic and market changes, as well as the story of how one firm has grown and developed.

Cross-border transactions were there from the start. In its first edition, *The Acquirer* reported on the sale of family-owned board and paper merchant Hedsorboard to the Finnish group Metsa-Serla.

Bold and famous transactions have featured. The MBO of Gardner Merchant in 1992 was one of the signature transactions of the decade. So too were the buy-outs that ensured the successful transition of ownership for two marketing industry icons – Wolff Olins and MORI.

Flick through the back issues and you will see future giants of the FTSE100 (such as Sage), well-known brands (Topps Tiles) and high-profile entrepreneurs (Luke Johnson) making early appearances. There's the initial Anglo-French merger that was to create digital products giant PhotoBox. Notable corporate names – IMI, Meggitt, Tilney, Polypipe, Honeywell – crop up regularly as testament to an enduring advisory relationship.

The pages of *The Acquirer* also track the emergence of private equity from being "new kids on the block" in the 1990s to being the first-choice exit route for many owner-managers. (It's worth noting that *The Acquirer* called the market in 2006: "Sell, sell, sell," it urged company owners.)

Its content plots the changes in the business landscape, too; the original editor of the 1990s might not have predicted Livingstone working on transactions featuring luxury spas, online travel (what's that?), cybersecurity and satellite-based ship monitoring. It also charts the way that owner-managers have become more sophisticated consumers of advisory services; the homespun advice of early editions quickly gives way to an emphasis on detailed sector insight and genuine international reach.

The Acquirer of 2015 is a very different publication to the four-pager of the 1990s. It features roundtable discussions led by the Lord Mayor of London and articles written by *FT* journalists. Yet at its heart is sound professional advice, given in an easy and accessible style by people who care passionately about delivering results and have built a successful business themselves – and that has never changed.

Stuart Rock, Founder of Real Business and Editorial Director of The Acquirer *from 1997 to 2008.*

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