The Acquirer

The corporate finance magazine from Livingstone

WINTER 2014

UNDER THE BONNET

The anatomy of Autodata's transaction: how all the pieces fitted together

PLUS: LEVERAGED FINANCE. DESTINOLOGY: A SPEEDY TRAVEL DEAL. MANAGEMENT ADVISORY.

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While the M&A markets in the UK, the US and continental Europe are influenced by local factors, there is a clear consensus that we are currently seeing a 'sellers' market' across them all. We are definitely seeing this in the German-speaking countries, as the market is still recovering from the shortage of good assets available to acquire over the last couple of years. The perception of a sellers' market is further reinforced by the high liquidity in the market, which continues to drive valuation levels upwards.

These trends in the market are supporting more aggressive, well-structured auction processes, and there is significant competitive tension between acquirers and investors who are hungry for high-quality businesses.

For less immediately attractive businesses – perhaps those that are characterised by higher cyclicality of end markets, higher investment needs, ongoing consolidation pressure, or management succession issues – a more creative and tailored approach is needed.

This should build on your adviser's deep sector insight to articulate the proposition in the most effective way, and to identify the most relevant and acquisitive international acquirers that have the most to gain synergistically.

By approaching a process in this way, one can engineer a highly competitive auction, even in parts of the mid-market that have historically resisted this structured approach. The use of vendor due diligence can help private equity investors to build their knowledge of the target sufficiently quickly to compete with strategic acquirers, and their continued hunger for high-quality assets in this market means that they can often match valuations put forward by trade buyers.

While there is always the potential for another macroeconomic shock, the recovery seems to be well embedded in the key M&A markets of the UK, US and the German-speaking region, and the signs are that this will support a continued sellers' market for the next 12-15 months at least.

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£27 billion

The value of M&A deals in the UK in Q2 2014 – the highest quarterly value in the UK since Q2 2012, and a 156.5% increase on the previous quarter.

Source: Mergermarket

Online opinion

Recent comments by the Livingstone team in key trade publications. For more, go to livingstonepartners.co.uk/comment

In *Real Business* magazine, Tom Phipps explained the alternatives to an outright sale

When considering an exit, you should consider all options open to you, so that the best exit route can be selected. Selling the business to a strategic acquirer, while a popular choice, is not the only exit route.

Alternatives to a sale include:

- Sale of a minority stake to a financial investor
- Sale of the company to a management buy-out ('MBO') or buy-in ('MBI') team
- Buy-back of shares by the company
- Initial public offering ('IPO')

***Packaging News* asked Graham Carberry what's behind the flurry of M&A activity in that sector**

There's one fairly simple reason, according to some analysts, as to why packaging is attracting investors right now: the market isn't that cyclical. People aren't going to stop eating, drinking or even brushing their teeth – these products need packaging.

But there are other factors. One big attraction of the packaging and paper sector for investors is the valuable equipment; once the investment has been made it will run for up to 15 years, generating cash – a good return on investment.

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Published by Wardour, 5th Floor, Drury House, 34-43 Russell Street, London WC2B 5HA, UK
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Livingstone is an international mid-market M&A and Debt Advisory firm, with offices in Beijing, Chicago, Düsseldorf, London, and Madrid. Its 75 professional staff complete 40 to 50 deals per annum.

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NEW JOINERS

Fresh talent

Livingstone continues to take on the best and the brightest, particularly when this comes with a high level of real transactional experience.

First to fit the bill is James Local (pictured above left), who joined Livingstone in July as a Director in the Business Services team. After qualifying as a chartered accountant at Ernst and Young, Local built up nine years of experience in M&A at UBS Investment Bank and Kinmont Advisory.

“Livingstone is highly regarded and has a very strong reputation in the mid-market. I found its sector focus, entrepreneurial clients and team dynamic really appealing,” James explains.

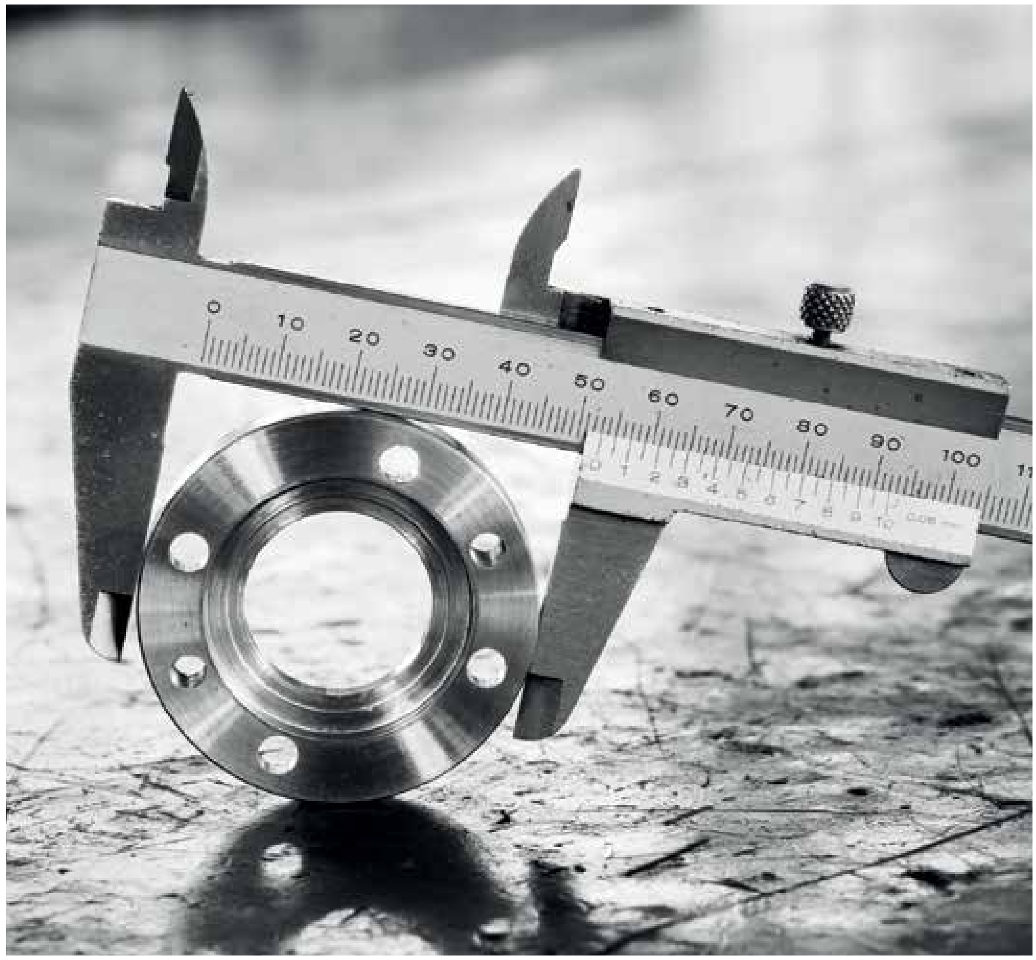
“James brings a good level of transactional experience, which, after a few quieter years in the market, is currently quite rare,” says Daniel Domberger, Partner at Livingstone London. “We are delighted that he has joined as Director.”

Fresh from Nomura, Sarah-Rose Perry (pictured above right) joined as an Associate Director in November. In 2009 she became part of Nomura Code’s Corporate Finance team, having begun her career as a Corporate Broker at Deutsche Bank. At Livingstone, Perry will focus on deal origination across the Media & Technology and Industrials sectors.

“Livingstone has created a strong brand and has an amazing track record of completing transactions in the mid-market, working with many pioneering companies,” says Perry. “Being part of this dynamic and entrepreneurial organisation offers me the perfect platform to interact with best-in-class investors and companies to originate deals.”

Both appointments are signs of Livingstone’s continued high levels of M&A activity. “In recent months, we have been adding headcount quite significantly,” says Domberger. “We already complete 40-50 transactions a year, and we are building the team to support further growth.”

COVER IMAGE: ALEX PANG / DEBUT
PORTRAIT: PETER JAMES FIELD / AGENCY RUSH



INDUSTRIAL SECTOR

Manufacturing success

Livingstone’s Spanish team has advised on the sale of a 75% shareholding in leading machinery manufacturer Inrema to Grupo Zriser, an independent family office investor.

The Valencia-based machinery specialist designs and manufactures tooling machines for an international client base in the graphite, metal and automotive sectors. An increase in demand convinced the management team to seek out a financial partner that could support the company’s strategic development.

Livingstone helped Inrema to develop a forecast for the next four years and then looked for potential investors. After initiating the transaction with Zriser, Livingstone advised Inrema on the sale and led negotiations between the two companies.

Eleuterio Abad, Zriser’s Managing Director, explains that this was key to a successful transaction: “The Livingstone team did a good job liaising between us and the sellers, applying the necessary pressure and maintaining momentum at each stage of the process.”

The deal took 11 months to complete and Inrema’s Managing Director Jesús Escartí was delighted with the outcome. “The Livingstone team’s outstanding work and advice led to the successful completion of a complex transaction that was not always easy to manage,” he says.

In backing this highly innovative company, Zriser is creating significant competitive advantages and providing strong growth prospects in global markets.

Ximo Villarroya, Partner at Livingstone, who led the negotiations, comments: “It was a pleasure to work with Jesús and the management team, and we are delighted to have been able to find a partner for the business that offers significant opportunities for future growth.”

The long road to a successful sale

The sale of Autodata represents the culmination of a 40-year process to build the perfect business

Left to right: Richard Fetterman, Partner – Livingstone London, Richard Atherton, Chairman and Rod Williams, CEO – Autodata Publishing Group Ltd

ANDY DAVIS
JOHANNA WARD

TRANSACTION AT A GLANCE
CLIENT: AUTODATA
SECTOR: MEDIA & TECHNOLOGY
TRANSACTION TYPE: SALE
ACQUIRER: BOWMARK CAPITAL & FIVE ARROWS PRINCIPAL INVESTMENTS

It's a rare sale process that attracts 25 credible first-round bids and finds seven suitors competing to win the deal in the second round. Then again, Autodata, the target of this intense interest, is a compelling company. As one of the leading providers of technical information to vehicle service workshops around the world, it has, over the past four decades, turned itself into an indispensible tool for professional mechanics working in a rapidly evolving market.

The attractions of Autodata were immediately obvious to Richard Fetterman, Partner at Livingstone London, who led the sale process from the firm's appointment in late 2012. It had an extremely strong brand in a global niche market, excellent management, good growth opportunities, a high level of cash generation and, thanks to its online subscription-based business model, stable and predictable earnings. "It's got fantastic barriers to entry," says Fetterman. "If you had a blank sheet of paper and wrote down what you wanted from a business, you'd be describing Autodata."

And yet the company that generated such strong appetite among buyers when Livingstone launched the sale process in February 2014 came perilously close to the brink 40 years ago. After a turbulent period in the early 1970s when it changed hands on numerous occasions, Autodata eventually passed into the ownership of a subsidiary of Standard Chartered Bank, recalls Richard Atherton, one of the two major shareholders along with Dietmar Otto.

Having discovered to its surprise that it owned a loss-making publishing business, the bank tried to sell it. When that failed, Atherton, an accountant by training who had become Finance Director in 1972, was told that the business was to be wound up. "So I made a token offer to take it off their hands, instead of it costing them a lot of money to shut it down," he recalls. That was in November 1974, and the buy-out was consummated in March 1975.

Once they had rescued the company, Atherton and Otto went on to build a highly successful and profitable professional information business. Key elements of the success that Autodata ultimately achieved had their roots in its less successful early years as a translation company. Atherton explains that the idea of offering technical data on vehicles originally came from the material the company was being asked by its clients to translate. Because it was used to working across numerous languages, expanding internationally was second nature. This was to give Autodata a vital advantage, says Atherton: "All our competitors were single-language companies."

THE INTERNATIONAL LANGUAGE OF THE CAR

Today, Autodata is active in more than 40 countries and has no competitor that covers all of them. Its expertise in foreign languages was important in allowing it to achieve this position, and the company reinforced this advantage by developing a language of its own that made its products indispensible for busy mechanics; Autodata's international language of the car.

"We had to invent our own terminology," Atherton explains, "because the vehicle manufacturers couldn't agree – and still can't – on what term to use for a single component. So we developed a standardised list of terms. Once people had got the hang of how Autodata did it, they were more or less committed to us. We cover 80-odd vehicle manufacturers, so are you going to work with 80 different ways of presenting vehicle information, or just one?"

This process of taking technical data from manufacturers around the world, transposing it into a uniform terminology, focusing on the quality of the information and ease of access and presenting it in a rigidly standardised template across dozens of languages is what gave Autodata such a formidable competitive position, says CEO Rod Williams, who joined the company in early 2012. "Ease of use is where a lot of our intellectual property lies.

We're doing things like producing standardised ways of drawing electrical wiring diagrams and of showing where components are located on a vehicle. So, no matter which make of car you're looking at, you know that piece of information will appear at that place in the system, because that's where we put it every time."

FROM PRINT TO ONLINE

Using this approach, Autodata grew steadily by publishing printed manuals aimed at the professional servicing market, and later developed a second avenue to market by licensing its information to large customers such as component-testing equipment manufacturers.

The transition to electronic publishing gave the business a further push forward. The problem with printed manuals was that Autodata sold exclusively via distributors and thus had no direct connection with its ultimate customers. "We never knew who bought the manuals or how often they replaced them, but we worked out it was about every three years on average," says Atherton.

The company began its serious shift to electronic publishing via CDs and DVDs in the 1990s, but was concerned that many vehicle workshops did not yet have access to computers and so would not be able to use Autodata's products if it stopped working in print. "The technology that goes into cars is very advanced, but the infrastructure backing up the industry isn't," says Williams. "But, by and large, mechanics do now have online access, be that through PCs in the workshop or on mobile devices."

By 2004, revenue from CDs and DVDs had overtaken print income, and in 2006 the company began offering its information online. Finalising this transition was a major element of the mandate for Williams when he was brought in as CEO from a background in subscription-based online services. He overhauled the company's IT function and website, redrew its strategy and pushed ahead with the shift to online subscriptions. The last printed books were published in 2013, and by the end of 2014, the CD and DVD publications will have been wound up as well.

BUSINESS FOR SALE: TWO CAREFUL OWNERS

Becoming a pure online operation was the icing on the cake for Autodata. It had a strong competitive position and great customer loyalty, and now the internet gave it the opportunity to have direct relationships with every customer that would mean them purchasing its information every year.

"Subscriptions were a real joy," says Atherton. "That was the dynamic that changed the whole business. The business model became very stable and the cash flow was highly predictable. As long as you ensure the production costs remain controlled and your revenues increase, everything flows through to the bottom line, and over the last few years we've enjoyed very healthy growth. It's not a capital-intensive business, so the cash generated was really impressive."

By October 2013, it was clear that the completion of the move online was in sight and the shareholders asked Livingstone to start preparing for a formal sale process, which began in February 2014. Atherton and Otto had long been committed to finding a good home for the company, and Atherton says the process that Livingstone managed met all of their objectives.

"We always knew there would be a lot of interest because the company was well known in its area, but what I didn't anticipate was that there would be such strong interest from financial investors. It was the latter that came through strongly, and I was completely bowled over by what Livingstone was able to achieve there."

Fetterman says Livingstone knew the quality of the business was such that it could afford to run a highly structured and competitive process.

> IF YOU HAD A BLANK SHEET OF PAPER AND WROTE DOWN WHAT YOU WANTED FROM A BUSINESS, YOU'D BE DESCRIBING AUTODATA

This ultimately resulted in the buyers, Bowmark Capital and the private equity fund of the Rothschild Group, Five Arrows Principal Investments, acquiring Autodata for a multiple of earnings that surpassed the owners' expectations, as well as offering a strong cultural fit with the management team.

Williams says the Autodata team built a strong relationship with Livingstone throughout the sale process. Now the dust has settled, they are pleased to be working alongside new owners who speak their language – with nothing lost in translation.

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THE FT'S JONATHAN GUTHRIE EXAMINES THE STATE OF THE IPO MARKET AND ITS COMPLEX RELATIONSHIP WITH THE WORLD OF MERGERS AND ACQUISITIONS

A visiting Martian could be forgiven for believing that stock market flotations represent the main means of exchanging company ownership in the UK. Since Autumn 2013, City journalists have eagerly dissected every new issue and speculated on who will be next to float.

The clue to the prominence this gives IPOs is in the second word of the phrase 'initial public offering'. Information about new floats, sold to large groups of investors, needs to be widely disseminated for marketing and regulatory purposes. In contrast, the majority of acquisitions actually occur privately, and the participants can choose whether they wish to publicise their transactions and their terms.

This is not to underplay the importance of IPOs. They are vital to the health of public equity markets in providing new investment propositions to insurers, pension investors and hedge funds and providing exits to backers. New businesses that have joined the London market in the last year include household names such as Royal Mail, Saga (the acquirer of Destinology – see page 8) and Foxtons.

ONE DOOR CLOSES...

But the public markets can be fickle, and the IPO market effectively closed – with the exception of a few apertures prised open by determined companies such as commodities group Glencore – following the 2008 financial crisis. Not only were markets fragile, but investment institutions had also been discouraged from subscribing to IPOs by several aggressively priced sales of companies owned by private equity firms.

Ultimately, though, the abatement of the eurozone crisis, rising equity values and the price conservatism of issuers such as Direct Line and Royal Mail combined to revive the moribund IPO business in 2014.

... AND ANOTHER OPENS

Nevertheless, when compared to M&A volumes, the amount raised in the UK since the beginning of this year remains relatively modest, at £11.4bn. That is barely more than a third of the value of a single M&A transaction – US pharmacy retailer Walgreens' partial acquisition of Alliance Boots, the UK's largest retail pharmacist. There has been a smattering of smaller takeovers, too, none of which has received as much coverage as such mid-cap IPOs as the flotations of TSB or McColl's Retail (see the Spring 2014 issue of *The Acquirer*). If Pfizer (another US pharmaceutical group) had succeeded in purchasing AstraZeneca, the combined value of takeovers so far this year would truly dwarf that of the IPO market.

PUBLIC MARKETS AND PRIVATE TRANSACTIONS

While often considered as alternatives, the two markets are collaborators rather than antagonists. Both are busiest when economic confidence is rallying. There is a more direct connection, too: rising prices for publicly quoted shares tend to increase the value of the privately held kind as well. M&A advisers often value businesses they are auctioning in relation to a peer group, within which quoted companies are often the most reliable benchmark.

Some of the fizz went out of new floats over the summer. The UK market was broadly flat by the end of August, which helped to highlight the fact that more than a few IPOs had been fully priced. The ideal that IPO sponsors aim for is a price 'pop' of 5-7% on the first day of trading, with a gentler appreciation thereafter. In the event, the capitalisation-weighted gain chalked up by this year's IPO stocks to the end of August was an unspectacular 2.7%.

RUNNING IN PARALLEL

Consequent price conservatism among purchasers of new issues may motivate some business owners to cancel IPO plans and seek private sales instead, but it is not unusual to run both processes in parallel (sometimes known as a 'twin track'), which allows vendors to keep their options open until the last moment. For example, foreign exchange business Travelex had warmed up the market for an IPO before selling out to rival UAE Exchange for £1bn in May, and Open International has done the same (see page 11).

While they can provide an exit, flotations are not solely sale mechanisms. A public listing brings other advantages, including greater public visibility, a perception that governance standards will be higher and the chance for original owners to sell down their stakes over an extended period, hopefully at escalating prices. Offsetting this is the incremental overhead burden, the volatility of share prices, management distraction and the additional scrutiny a public company must bear. A twin-track process will help explore the pros and cons of each option in more detail.

There should still be a healthy supply of IPOs and M&A transactions through the Autumn and into Spring 2015, providing equity markets remain confident and healthy. The long semi-closure of the public markets and muted acquisition activity means there is pent-up demand, both on the buy and sell sides.

Jonathan Guthrie is City Editor of the Financial Times *and writes the Lombard column*

IMAGE: ISTOCKPHOTO

The first resort

With its strong track record and knowledge in the travel sector, Livingstone was perfectly placed to manage the strict timetable for the sale of luxury travel company Destinology

The Livingstone team are no strangers to tough deadlines, but trying not to be late for the first day of school may be a first for the firm.

James Lever, Partner at Livingstone London, explains the challenge posed by Dominic Speakman, Chief Executive of Bolton-based online luxury travel company Destinology. "Dominic called us in February to tell us he wanted to sell the business and had decided to move his family to Dubai," Lever recalls. "He wanted his children to be in school for the start of September and asked whether we could achieve a sale, on his desired terms, in that time frame. We said we could."

Lever's confidence stemmed from Livingstone's in-depth knowledge and understanding of Destinology, which Speakman founded in 2004, and its sector. The company offers bespoke holidays at five-star hotels and resorts in exotic destinations including the Maldives, Mauritius and the Caribbean. Despite the economic downturn, it has continued to thrive, and its website attracts more than five million visitors a year.

TRAVEL SPECIALISTS

Livingstone has completed a growing number of deals in the travel sector in recent years, including the sale of TravelJigsaw to Priceline, a capital raising and follow-on sale of ski and cruise travel specialist Iglu.com, and Vitruvian's private equity-backed buy-out of hotel accommodation provider JacTravel (see page 11).

"We've made it our business to get to know the best independent travel businesses and we quickly identified Destinology as a leading luxury player," Lever explains. "We've kept in contact with Dominic for the last 18 months, letting him know about M&A activity in the sector and the appetite for businesses such as his from trade and private equity.

"A number of advisers approached Dominic," he continues, "but he picked us because he liked our experience in the sector and our contacts within the community of acquirers. He felt we could achieve a sale in the timely manner he wanted, while creating a competitive process with trade and private equity. That meant completing in August – but he was keen for Heads of Agreement to be in place by June, to give him time to plan the family's move."

What Lever describes as a "quick, targeted and competitive approach" began with Livingstone meeting Destinology's management team to get a fuller understanding of the business and its objectives, and to explain the sale process.

Destinology Managing Director Liz Hingley recalls: "I'd never been through anything like this before and didn't know what to expect. We knew the management team staying was part of any deal, but it was still a stressful time. Livingstone talked us through the various steps, such as due diligence. In turn, we told them more about the business and our hopes for future growth."

A HIGH-QUALITY PROCESS

Armed with this knowledge, Livingstone went to market in April, contacting only the most relevant potential buyers and receiving, as anticipated, strong interest from both trade and private equity investors.

Over-50s insurance and holiday group Saga quickly emerged as the preferred bidder. "I knew the CEO of Saga Travel, Andrew Strong, and he had made me aware they were keen to grow their business," Lever explains. "We quickly established that they had a strong strategic interest in Destinology and they demonstrated their commitment to the process, meeting every deadline with an informed approach."

For his part, Lever was confident that Saga, with its extensive proprietary database and brand loyalty, was a perfect buyer: "We felt they could take Destinology to the next level, and they would benefit from Destinology's products and advanced technology."

By early summer, a deal was in place whereby Saga would acquire a majority (75%) shareholding in the business, with the option to buy the remainder at a later date, and Destinology would continue operating as an independent brand. Following what Lever calls "transparent and sensible negotiations", the deal was sealed in August.

"Ultimately it was Dominic's decision, but he talked it through with all of us," Hingley recalls. "He wouldn't have gone ahead if we weren't happy with the choice. It was such a relief to finally tell the staff, because we'd had to keep the whole thing under wraps. But, given the timeline and Livingstone's success in quickly bringing in bidders, we knew there was an end in sight."

A FIVE-YEAR PLAN

Hingley sees a strong future ahead. "We have a five-year plan and we needed the finance behind that. Now we've got it, we will be expanding the business with more destinations, family and wedding trips, and cruises," she says. "Saga's database will be very beneficial. Fifty-year-olds today are young-at-heart types. They want luxurious and glamorous travel."

She is equally glowing about the Livingstone team. "I found them extremely approachable and they led us through the process every step of the way," she says.

Speakman, who remains as Destinology's President, says: "We appointed Livingstone to advise us on the transaction due to their strong track record and contacts within the travel industry. They carried out a targeted and robust process. We felt that Saga presented the most compelling opportunity to take the business to the next level, and a very good result for the management team and shareholders."

Not only that, but "we made his deadline – and, of course, that of his children's school," adds Lever.

DOMINIC LIKED OUR EXPERIENCE IN THE SECTOR AND OUR CONTACTS WITHIN THE COMMUNITY OF ACQUIRERS

DAVID CRAIK

TRANSACTION AT A GLANCE

CLIENT: DESTINOLOGY
SECTOR: CONSUMER
TRANSACTION TYPE: SALE
ACQUIRER: SAGA

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IMAGE: ISTOCKPHOTO

JAMES GAVIN

A balancing act

Livingstone offers an invaluable service to management teams trying to deal with conflicting interests during management buy-out negotiations

Management buy-outs (MBOs) can be highly lucrative for management teams. The opportunity to invest in a business on 'sweet' equity terms means they can benefit from future equity upside without having to invest a proportional amount in the initial deal. As the business grows, so should the valuation, as well as the potential benefit from multiple arbitrage from an exit to a strategic acquirer or through increased scale. At the same time, cash flow generated by the business can pay down acquisition debt and generate further equity value.

When selling a business to a strategic acquirer, the vendor's interests are usually clear: sell for the highest price and, ideally, create the cleanest possible exit structure.

However, secondary MBO transactions – where the management team acts as both seller and acquirer of the business from the existing shareholders – are more technically complicated and time-consuming. Balancing conflicting interests, and avoiding being squeezed between existing and incoming investors, requires high-quality independent advice.

Livingstone's management advisory service provides exactly that. Patrick Groarke, Partner at Livingstone London, explains that the overriding aim is to help the management team ensure that their interests on the acquisition are being looked after and protected.

"We provide the management team with independent advice around their ongoing interests in the context of an agreed deal between vendors and the acquiring private equity (PE) firm," he says.

PROTECTING THE CLIENT'S INTERESTS

According to Simon Cope-Thompson, Partner at Livingstone London, the firm's management advisory service goes to the heart of what it is good at: protecting the client's interests. "The role of the management adviser in secondary MBO transactions tends to come into its own towards the back-end of the process," he says. "Sometimes it's providing guidance to management in a confidential environment where a CEO can talk about anything they're concerned about. They will get advice that is completely geared to their interests.

"Sometimes our advice concerns the terms of the deal," he continues, "sometimes it concerns how to keep the process going, and at other times it is about flagging up issues that management teams should be aware of.

"We help them navigate their way through what can be quite a tense process," Cope-Thompson adds. "By combining a close working relationship, which is underpinned by complete trust in us as their adviser (something which is obviously integral to everything we do), our expertise on the technical side and our track record of these deals, we are able to help teams use their existing position to enhance their terms going forward."

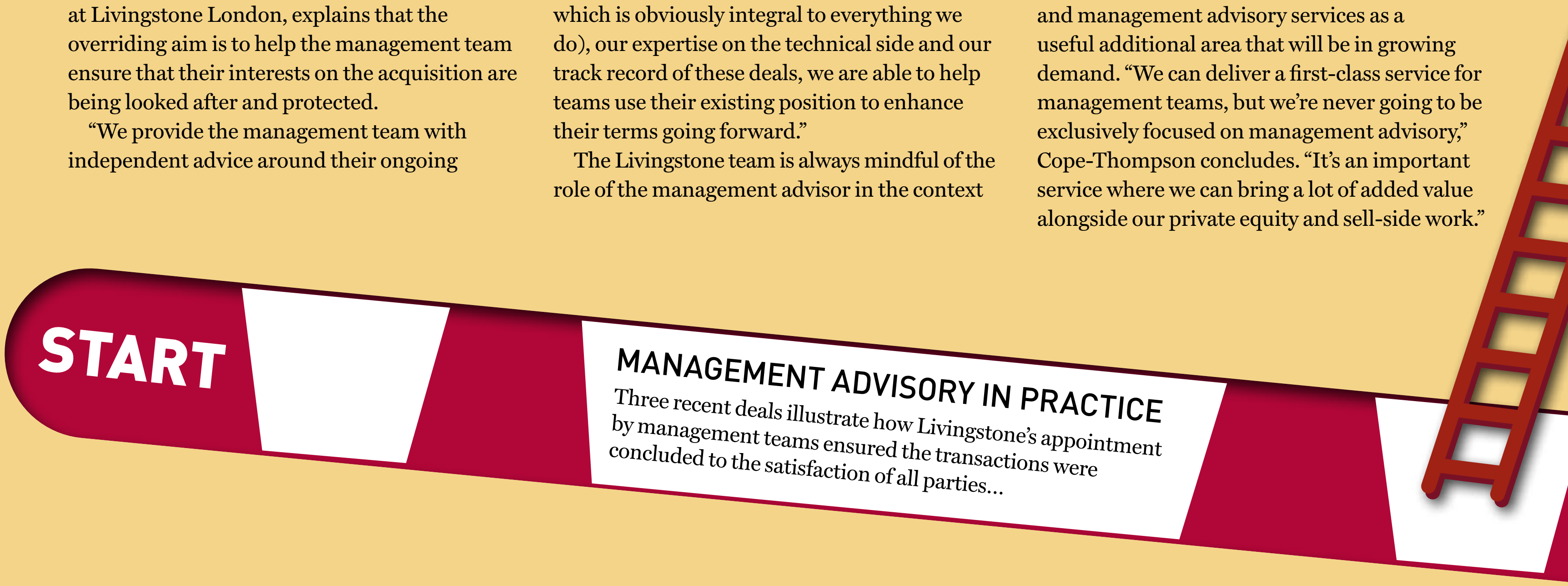
The Livingstone team is always mindful of the role of the management advisor in the context of the auction process. "The last thing the seller wants is a management adviser disrupting their process," says Lever. "There's a delicate balance between giving the best advice to the client, but also being commercial and pragmatic – understanding where a process is going and what areas can actually be influenced."

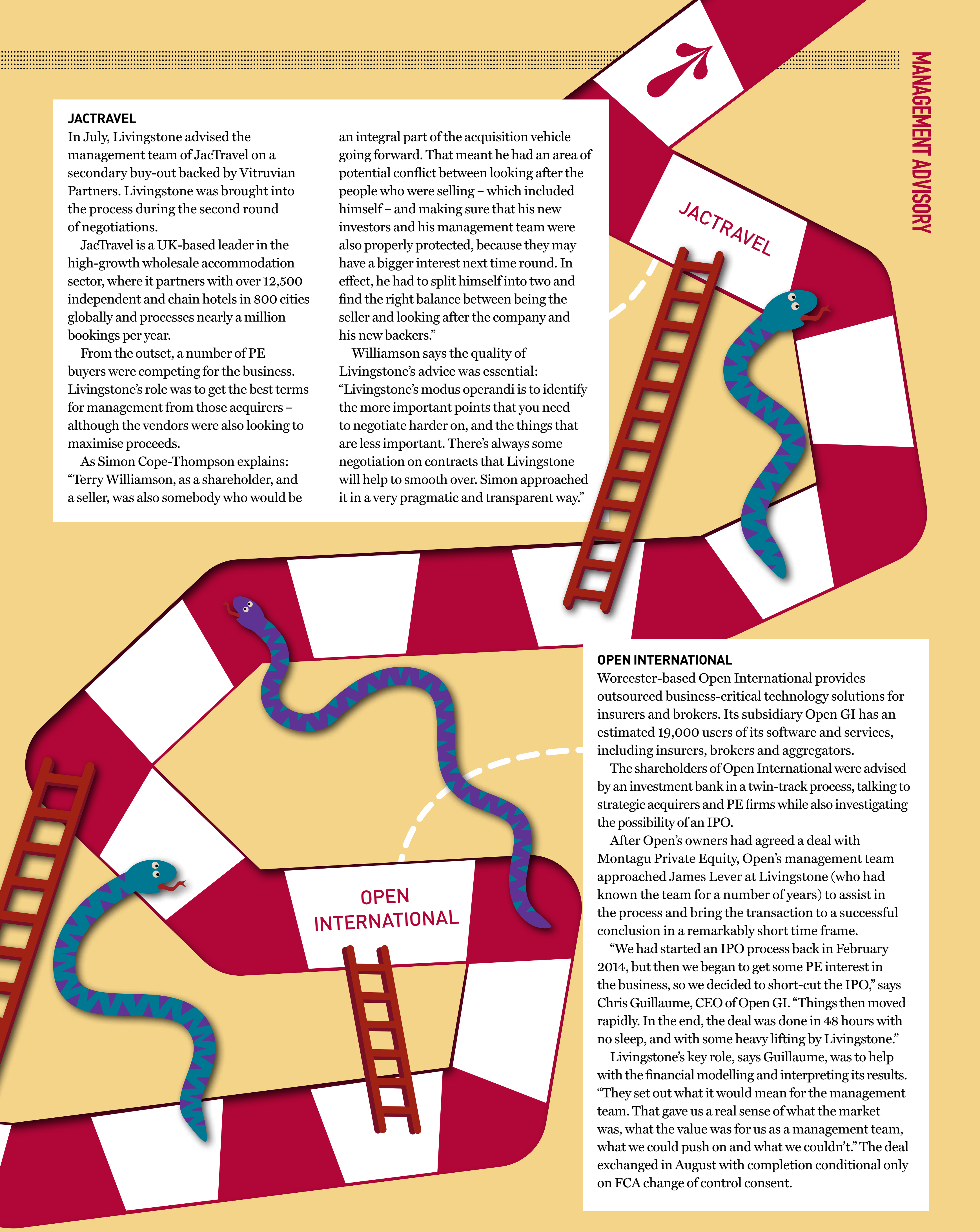
ADD-ON SERVICES

When a PE firm is competing with a strategic buyer, there is a potential dilemma for management as to which will serve them best. "It can be a difficult balance – making sure that, in the end, you are happy with the outcome as a seller and the opportunity as a buyer," says Alex John, Director at Livingstone London. "We have to help guide them through that process and ensure they maximise their upside but protect the downside."

The firm's debt advisory expertise can also be deployed as an additional service, even if it is just to act as a sounding board. "We bring extra expertise and insight to management teams who will be signing up to new banking facilities and covenants, to make sure they are suitable for the business," says John.

Livingstone's team sees secondary MBOs and management advisory services as a useful additional area that will be in growing demand. "We can deliver a first-class service for management teams, but we're never going to be exclusively focused on management advisory," Cope-Thompson concludes. "It's an important service where we can bring a lot of added value alongside our private equity and sell-side work."





JACTRAVEL

In July, Livingstone advised the management team of JacTravel on a secondary buy-out backed by Vitruvian Partners. Livingstone was brought into the process during the second round of negotiations.

JacTravel is a UK-based leader in the high-growth wholesale accommodation sector, where it partners with over 12,500 independent and chain hotels in 800 cities globally and processes nearly a million bookings per year.

From the outset, a number of PE buyers were competing for the business. Livingstone's role was to get the best terms for management from those acquirers – although the vendors were also looking to maximise proceeds.

As Simon Cope-Thompson explains: "Terry Williamson, as a shareholder, and a seller, was also somebody who would be an integral part of the acquisition vehicle going forward. That meant he had an area of potential conflict between looking after the people who were selling – which included himself – and making sure that his new investors and his management team were also properly protected, because they may have a bigger interest next time round. In effect, he had to split himself into two and find the right balance between being the seller and looking after the company and his new backers."

Williamson says the quality of Livingstone's advice was essential: "Livingstone's modus operandi is to identify the more important points that you need to negotiate harder on, and the things that are less important. There's always some negotiation on contracts that Livingstone will help to smooth over. Simon approached it in a very pragmatic and transparent way."

OPEN INTERNATIONAL

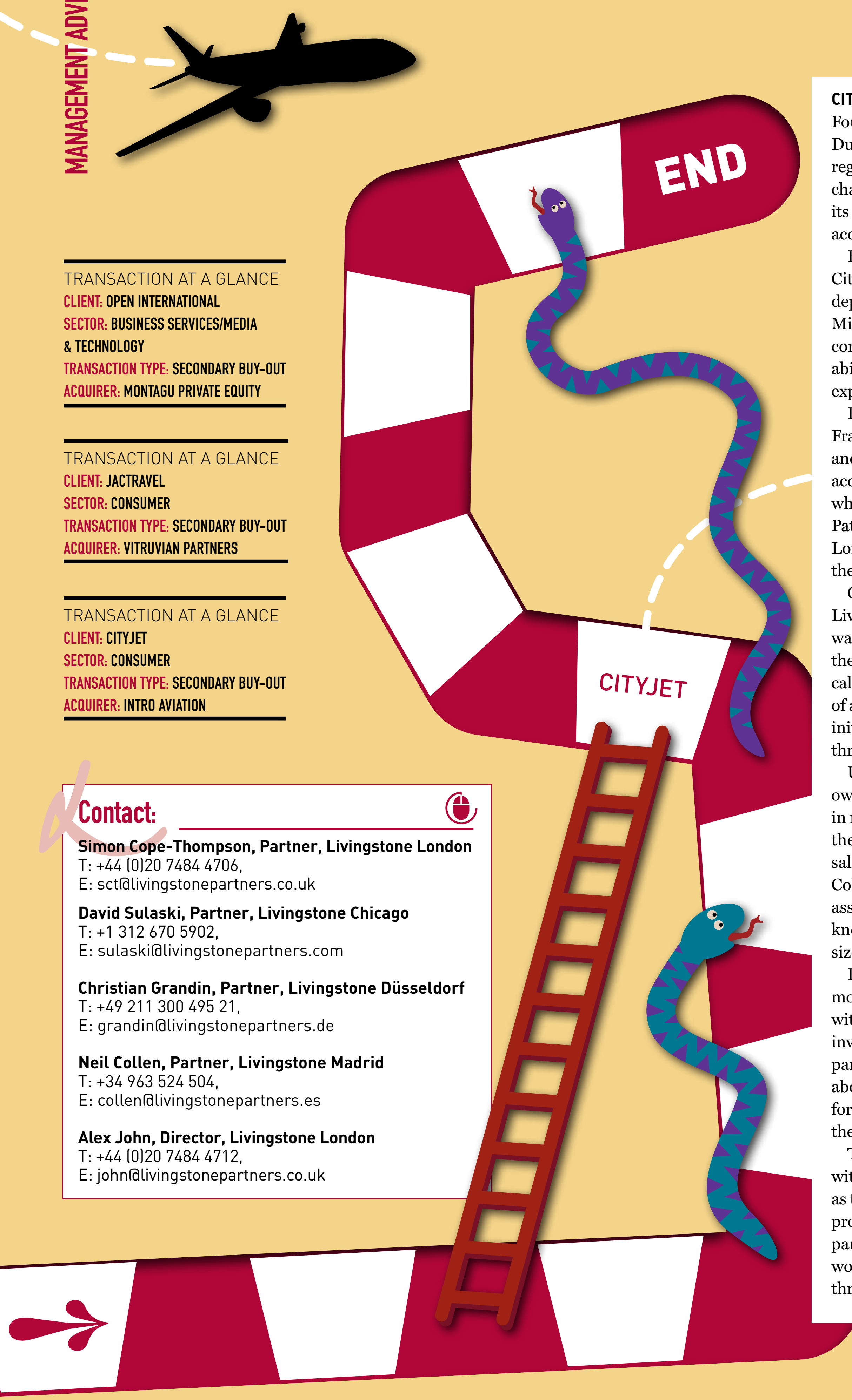
Worcester-based Open International provides outsourced business-critical technology solutions for insurers and brokers. Its subsidiary Open GI has an estimated 19,000 users of its software and services, including insurers, brokers and aggregators.

The shareholders of Open International were advised by an investment bank in a twin-track process, talking to strategic acquirers and PE firms while also investigating the possibility of an IPO.

After Open's owners had agreed a deal with Montagu Private Equity, Open's management team approached James Lever at Livingstone (who had known the team for a number of years) to assist in the process and bring the transaction to a successful conclusion in a remarkably short time frame.

"We had started an IPO process back in February 2014, but then we began to get some PE interest in the business, so we decided to short-cut the IPO," says Chris Guillaume, CEO of Open GI. "Things then moved rapidly. In the end, the deal was done in 48 hours with no sleep, and with some heavy lifting by Livingstone."

Livingstone's key role, says Guillaume, was to help with the financial modelling and interpreting its results. "They set out what it would mean for the management team. That gave us a real sense of what the market was, what the value was for us as a management team, what we could push on and what we couldn't." The deal exchanged in August with completion conditional only on FCA change of control consent.



TRANSACTION AT A GLANCE
CLIENT: OPEN INTERNATIONAL
SECTOR: BUSINESS SERVICES/MEDIA & TECHNOLOGY
TRANSACTION TYPE: SECONDARY BUY-OUT
ACQUIRER: MONTAGU PRIVATE EQUITY

TRANSACTION AT A GLANCE
CLIENT: JACTRAVEL
SECTOR: CONSUMER
TRANSACTION TYPE: SECONDARY BUY-OUT
ACQUIRER: VITRUVIAN PARTNERS

TRANSACTION AT A GLANCE
CLIENT: CITYJET
SECTOR: CONSUMER
TRANSACTION TYPE: SECONDARY BUY-OUT
ACQUIRER: INTRO AVIATION

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CITYJET

Founded in 1992 and headquartered in Dublin, CityJet had built a network of regional UK and European routes and charter flights from London City Airport, its main operational hub before it was acquired by Air France/KLM.

But Christine Ourmières, who been CityJet's CEO since 2010, and her deputy and Chief Financial Officer, Michael Collins, were keen to regain the company's independence. "We needed the ability to act freely, quickly and nimbly," explains Collins.

Following a strategic review, Air France/KLM agreed to sell the business, and by the end of 2013, three potential acquirers had been short-listed. This was when Ourmières and Collins called in Patrick Groarke, Partner at Livingstone London, to represent their interests as the management team.

Ourmières and Collins' brief to Livingstone was simple enough: they wanted a meaningful equity stake in the business. With Air France/KLM calling the shots on the eventual choice of acquirer, this meant that Livingstone initially had to negotiate with all three suitors.

Ultimately, Intro Aviation, a privately owned German group that specialises in restructuring airlines, came to the forefront and in May 2014 the sale was completed. Ourmières and Collins emerged with an independent, asset-rich business, with supportive, knowledgeable owners – and with a sizeable stake in the business.

For Groarke, it was a satisfying moment. "This was a high-profile deal, with, unusually, a quasi-trade buyer, and involving many different international parties," he says. Alex John, adds: "It was about getting the most attractive terms for management, and we think we got them a great deal."

The CityJet management are delighted with the role that Livingstone played as their advisers. "Their experience, professionalism and knowledge, particularly of how private equity works, helped us navigate our way through," says Collins.

the Q&A

DAVID CRAIK

A strong pipeline

Polypipe CEO **David Hall**, who has worked hand in hand with Livingstone on a series of deals, reflects on the journey of the company he joined a decade ago, including Polypipe's £500m flotation on the London Stock Exchange earlier this year

David Hall, CEO of Doncaster-based plastic piping manufacturer Polypipe, has worked with Livingstone on a series of deals. The first was in 2005, when Livingstone brought New York-based private equity (PE) firm Castle Harlan and incoming CEO Hall together with Polypipe's existing senior management to acquire the business from IMI.

In 2007, Livingstone helped with a secondary buy-out and then, in 2009, advised on the capital restructuring of the business, and the firm has maintained a close working relationship with Hall and the management team since, looking at acquisitions and helping with the disposal of a non-core unit.

HOW DID YOUR RELATIONSHIP WITH LIVINGSTONE BEGIN?

In the early 2000s, I started thinking about and searching for an MBO/MBI opportunity. Livingstone co-ordinated the search and we looked at various options. In the end, I was approached to join the senior management team of Polypipe, started thinking of a possible MBO of the group and turned to Livingstone to advise me.

WHAT CHALLENGES DID POLYPIPE FACE DURING THE DOWNTURN?

The downturn was tough on the construction market, which declined significantly; we saw 20% volume drops in some of our markets. This would be difficult for any manufacturing company to deal with, but we reacted to the problems much more quickly than our rivals. Because of our robust capital structure – which Livingstone had in part helped us to negotiate – we were able to continue to invest in the business throughout the downturn. Our workforce worked with us, and we changed staff shift patterns to save costs and adjusted capacity to meet demand.

We are fortunate in that our process means we have a lot of machines that can be turned on or off individually, so it is possible to flex capacity, rather than the binary option of mothballing a big plant, which is either on or off. This enabled us to retain capacity ready for the upturn.

It helped that we continued to be profitable, didn't need further external funding and could concentrate fully on our operations. The market is now moving in the right direction, through our investments we have widened our product portfolio and, despite the market still being well down, our 2013 revenues exceeded 2007 levels.

WHY DID YOU DECIDE ON AN IPO?

Although not under particular time pressure, ultimately we knew we would have to provide an exit for our funders and we wanted to retain our independence, so we felt an IPO was the best option. We also believe that being a plc gives us more credibility in the market and will help us capture more of the UK construction recovery. There are some exciting growth areas for our products, such as carbon efficiency and flood management. Both of these areas are subject to new legislation, and we provide innovative piping solutions to meet these emerging needs for sustainable construction.

We're also looking for international growth, focusing on the Middle East, which presently accounts for a small but growing part of our sales. The fact that we have a strong quality reputation and British Standards certification for our products is important in that region.

WHAT HAVE YOU LEARNED ABOUT WORKING WITH ADVISERS IN THE LAST 10 YEARS?

You have to choose the right adviser for the right task. Having been with us and assisted on various parts of our journey so far, Livingstone is perfectly placed to help us with bolt-on acquisitions; the team knows how we operate, and the level of support they give us is exemplary.

They've always done a lot of research and ensured that their knowledge of our business and sector is extensive; they understand the dynamics of our market as well as anyone. It means they know exactly where to look and can quickly put together an appropriate short-list.

I have always found that the Livingstone team are very approachable and helpful, and extremely thorough. They are good at bringing their wider transaction experience to bear, and consequently are often able to find creative solutions. Everyone from the senior partners downwards takes a deep personal interest in your business and follows any transactions closely.

The need for speed

The sale of high-voltage power supply designer and manufacturer UltraVolt highlights Livingstone's global reach and ability to deliver under pressure

MARK ALEXANDER

TRANSACTION AT A GLANCE
CLIENT: ULTRAVOLT
SECTOR: INDUSTRIAL
TRANSACTION TYPE: SALE
ACQUIRER: ADVANCED ENERGY INDUSTRIES

A heady combination of insight, reach and breakneck speed was needed to complete the sale of a leading designer and manufacturer of high-voltage power supply products. UltraVolt, which is headquartered in Ronkonkoma, New York, was sold in August to NASDAQ-listed Advanced Energy Industries for $30.2m in a transaction led by Livingstone's global industrial group on behalf of its private equity (PE) investor, The Riverside Company.

It was an important transaction for Livingstone's global team, built on a bedrock of in-depth sector knowledge. "We had recently sold Applied Kilovolts, a comparable industrial technology business," explains Andrew Isgrig, Partner at Livingstone Chicago, who led the transaction. "The combination of our global reach, our successful recent industrial closings and our relationship with The Riverside Company led to our winning the business."

Although the Livingstone team was appointed in January 2013, the sale process didn't start immediately, because the UltraVolt management team was driving some impressive growth in the business.

"The transaction was put on hold for 12 months because UltraVolt was growing aggressively and it was agreed to give them an opportunity to realise that success before bringing it to market," Isgrig explains. "As a result, we were able to generate a return substantially above the estimated valuation we originally placed on the company. It was an important decision and it gave us the opportunity to sell the growth profile more aggressively, capturing that value for the shareholders."

INTERNATIONAL INTEREST

If this timing restraint meant the business was in a better state to appeal to buyers, the next step was to identify those potential acquirers. Livingstone compiled a contact list of more than 200 potential trade and PE investors, receiving more than 20 offers for the business from a range of potential purchasers.

"We had an understanding of who the buyers were, and which aspects of the business were most attractive in the sector and which weren't," explains Graham Carberry, Director at Livingstone London, who worked on the Applied Kilovolts transaction. "Applied Kilovolts taught us that key customer account management and engineered adaption of a standard product set for bespoke applications not only enhanced margins in this sector, but was attractive to purchasers. UltraVolt had added both these capabilities to its offering prior to sale."

He continues: "We were also able to bring international interest to the sale; widening the potential acquirer pool, which meant bringing in different buyers who were looking at the acquisition for different reasons. In this way, Riverside had confidence that when they signed the deal, they had explored and assessed all avenues and not simply approached the obvious people in their back yard."

> THE DEAL WAS EXCEPTIONAL FROM A TIMING PERSPECTIVE. A 10-DAY CLOSING WAS A FIRST FOR OUR TEAM

YOU'VE GOT 10 DAYS...

If the launch of the process benefited from tactical delay, completion was achieved in record time – at the insistence of Advanced Energy Industries, the ultimate acquirer. Once terms were agreed, it wanted to complete the transaction in only 10 days. To put this in perspective, another potential acquirer was prepared to close in twice that time, which would have been deemed swift by normal standards. The timescale set by Advanced Energy Industries was unprecedented.

"It was exceptional from a timing perspective," agrees Karl Freimuth, Director at Livingstone Chicago. "In the past we've had two-week closings, 30-day closings, but a 10-day closing was a first for our team."

In order to meet the deadline, the team adopted a surgical approach, managing the due diligence process on an hour-by-hour basis. A key milestone chart was created to manage the requirements to close the transaction, with Livingstone co-ordinating communication between the client and the buyer and facilitating responses to ensure that decisions were made quickly.

"Both buyer and seller had to understand the requirements in order to close the transaction, negotiate the purchase agreement, complete the disclosure schedules, create the funds flow, work through employment agreements and finalise confirmatory diligence," Freimuth explains. "All of those factors needed to be managed. We had to be on top of everything, all of the time."

Not only was the task to be completed in 10 days, but the process had to be managed across multiple functions on both the buyer's and the client's side – from accounting to HR, to insurance, to finance and on to the legal teams. "That was critical," says Freimuth. "If we hadn't actively managed all of these constituents, especially with the constraints that were in place, then there would have been no chance that the deal would have been completed in 10 days."

EXCELLENT OUTCOME

"Riverside is very pleased with the ultimate outcome of the sale process," says The Riverside Company's Dan Haynes. "Livingstone possessed a unique knowledge of UltraVolt's industry and the potential buyer universe. The team did a great job of managing pressure in the deal. They kept an expedited sale process on track while working with the UltraVolt management team, who had a lot of work to juggle."

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The right package

Livingstone used its in-depth sector knowledge and specific acquirer insight to secure the right buyer for St. Neots Packaging

The vibrancy of the 'food to go' convenience market in recent years has seen the emergence of a new breed of creative packaging businesses that have cleverly introduced technological innovations to the food and drinks packaging sector. The best of these are currently attracting significant interest from potential acquirers.

St. Neots Packaging, the UK's premier independent cartonboard packaging manufacturer, is one of a handful of companies providing genuinely market-leading products to a broad range of blue-chip clients in the domestic food market. In June, Livingstone's Industrial sector team advised the shareholders of St. Neots, including private equity investor Endless LLP, on the successful sale of the business to leading international flexible and rigid plastic packaging manufacturer Coveris, a \$2.5bn company owned by Sun Capital.

INDUSTRY INTEREST

St. Neots, which operates from two facilities in Cambridgeshire, is a design-led manufacturer of cartonboard packaging solutions for the food service and food retail markets. The company works with major supermarkets, packers and caterers to create innovative, low-cost and environmentally friendly low-waste packaging.

Endless had acquired a significant minority stake in St. Neots in 2008 as part of a shareholder reorganisation and provided the investment capital to drive the next stage of the business's development. St. Neots invested heavily in equipment and managed to grow turnover significantly over the next few years, but Endless was uncertain of the optimum exit route and process, in a sector that has seen mixed results for investors.

"One of the reasons we were appointed was our knowledge of the sector," says Patrick Groarke, Partner in the Industrial team at Livingstone London. "Historically, Livingstone has done a number of deals in the packaging space and we have spent a lot of time speaking to the most acquisitive multi-nationals about their future requirements."

Livingstone worked with the business for two years before deciding that it was the right time to approach the market, in order to help St. Neots' management position the business strategically for sale and develop a set of messages that would ensure the keen interest of the large international packaging groups.

"Before we approached potential buyers, we spent 16 months meeting and advising our clients on what was happening in the market, and what key purchasers' acquisition requirements were at various points in time," Groarke explains. "Meanwhile, St. Neot's was doing very well operationally in terms of growing the top line and further investing in the business.

"Executive Chairman Andy Ducker had done a highly effective job in terms of restructuring the senior management team," he continues. "He had refocused St. Neots' growth around high-margin, film-lined 'food to go' packaging, revolutionising the humble sandwich carton."

Having distilled the key messages about what made the St. Neots business one that companies would like to acquire, Livingstone advised on the key preparations for the sale process that were needed to facilitate a quick, low-impact transaction.

EXCELLENT SYNERGIES

By late 2013, the stars had aligned and Livingstone completed a comprehensive review of strategic buyers from across the

JAMES GAVIN
AMY HARRIS

TRANSACTION AT A GLANCE

CLIENT: ST. NEOTS PACKAGING
SECTOR: INDUSTRIAL
TRANSACTION TYPE: SALE
ACQUIRER: COVERIS

globe. This process revealed a short-list of acquirers for whom St. Neots was potentially highly relevant. Management presentations were set up with these buyers, which led to a number of attractive offers being tabled.

Among the interested parties, Coveris was particularly well suited to take the business forward, offering excellent synergies that the team felt would best support the company as it implemented its growth strategy. A tight time frame, and St. Neots' early preparation, saw the transaction completed within six weeks of the signing of the heads of terms.

"When we went to market, we received a good level of interest and at pricing that was well beyond the shareholders' expectations when we started working with them," explains Graham Carberry, Director at Livingstone London. "Following that, we were able, as before, to conclude the transaction in a very short time frame."

There were still challenges to overcome in completing the transaction. One potential issue was that Coveris was a direct competitor to St. Neots. "We were obliged to hold back a lot of highly commercially sensitive information until the end of the process and sequence the due diligence very carefully," Carberry explains. "It was a complex process, delivered efficiently."

The end result was a successful outcome for St. Neots, according to Ducker, who says: "The start point of what was offered was the end point of what was delivered." He adds that this was representative both of how good the business was and how well prepared it was for the sale process – as well as being a function of how the Livingstone team helped guide it through the process.

Livingstone led much of the contact with Coveris, which was demanding in terms of information and timelines. "Livingstone took care of that side of it very effectively and left us to focus on running the business and supporting the diligence process," says Ducker. "It was a well-run and efficient process. Although the transaction was two and a half years in the making, when it came to the crunch we drove it through in an aggressive time period."

Endless is equally happy at the outcome. "We felt the quality and the growth prospects of the business deserved a strategic premium," says Ian Plumb, Portfolio Director at Endless.

Highlighting Livingstone's key role in framing the strategic direction the business should go in and preparing it for sale, Plumb pays tribute to the Livingstone team. "They were excellent in working out whether the buyers were in the right place," he says. "Their knowledge and relationships across the sector were very helpful in terms of getting us to our ultimate goal."

> **IT WAS A COMPLEX PROCESS, DELIVERED EFFICIENTLY**

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A unique furniture sale

The sale of Germany's leading premium furniture manufacturer presented a series of challenges

Left to right: Helmut Mangel, former Head of Financial Department – Lübke GmbH & Co.KG; Daniel Hohler, Associate Director – Livingstone Düsseldorf; Leo Lübke, former Managing Shareholder – Lübke GmbH & Co.KG; Dr. André Schröer, Director – Livingstone Düsseldorf

If the art of diplomacy can be compared to playing 12-dimensional chess, something similar could be said about the search for a suitable buyer for Germany's leading premium furniture manufacturer. Not only did the usual hurdles have to be overcome in terms of buyer interest and compatibility but a number of other obstacles, peculiar to the deal, had to be navigated – not least the fact that the buyer would have to be a good partner for a sister company that would be remaining with the original owners.

Lübke, which trades through its brand interlübke, is one of the great names of German craftsmanship, with a near 80-year history of manufacturing traditional high-quality living-room and bedroom furniture. Based in Rheda-Wiedenbrück in North Rhine-Westphalia, its product lines include beds, shelving units and wardrobes.

interlübke routinely collects design awards and has 60% of the premium furniture market in Germany. But a glorious past and an illustrious present are no guarantee that a business will thrive in a world of changing consumer behaviour; a world in which furniture is mass manufactured in the Far East and IKEA has a place in the hearts of householders across Europe.

At the end of 2012, the business – now being managed by Leo Lübke, the third generation of the family to run it – responded to several years of eroding earnings by filing for insolvency. In a transferring restructuring process run by an accredited insolvency professional, Leo bought back the assets of the business in early 2013 and set about launching new product lines.

Dr. André Schröer, Director at Livingstone Düsseldorf, explains what happened next: "The former owner bought it, having, it was hoped, got rid of the previous problems," he says. "But the industry was still experiencing torrid trading conditions. The second half of 2013 was very hard for the furniture industry in Germany. Depending on the brand, sales were down 20 or 30%."

As a result of these factors, the hoped-for renaissance after interlübke's insolvency was slow to materialise. "We were asked if we could find a solution," says Schröer, and Leo Lübke appointed Livingstone in March 2014.

A SERIES OF OBSTACLES

But there were hurdles to clear. Perhaps the biggest was Lübke's close relationship with its sister company COR, a maker of chairs and upholstered furniture whose name shines as brightly in its own field as does that of interlübke. Leo Lübke was adamant that COR would stay with the family, as he intended to concentrate on running it after the sale of Lübke.

This created problems, says Schröer. "COR has studios in locations including Munich, Hamburg, Paris and Cologne, and several employees were working for both companies in Rheda-Wiedenbrück, which created complications." Even if the carve-out issues were solved, both businesses needed to continue to share retail space and agree on a co-marketing strategy.

This meant that any buyer for interlübke would need to be able to manage, and sustain an unusually close relationship with, a former owner. A related difficulty was that the COR entanglement was offputting for many of the potential trade buyers. Some would have been interested in buying both companies, but that wasn't an option.

There were further issues, which Schröer enumerates. "First, any potential buyer had to be complementary to the idea of a traditional family-owned and -run company. Second, the whole industry was in trouble, which affected interlübke strongly. That made discussions with strategic buyers quite difficult, because they had their own problems. Third, there was a very complicated banking and securities structure, which derived from the fourth obstacle, the market and internal impacts of the former insolvency."

A SPECIAL BUYER

So Livingstone was looking for a very special acquirer; one with freedom of financial manoeuvre, a sympathetic view of the Lübke-COR relationship and detailed knowledge of the furniture business. It was a tall order, but one that was met by Livingstone's successful approach to a group of private investors, which included a renowned financial investor, experienced in the furniture industry, who was fully in tune with the need to sustain the interlübke-COR partnership.

Daniel Hohler, Associate Director at Livingstone Düsseldorf, says: "This is the first time we have had to find a buyer who was also willing to be a partner for such a closely related and well-known sister company. The two brands are like twins and are both among the top 20 luxury brands in Germany."

Leo Lübke is very appreciative of Livingstone's support: "From their transparent and clear communication, it was obvious to me that I could fully rely on André and Daniel helping us to find a solution for the special situation the company was in. For me, the handover to the private investors represented by Dr. Richard Lenz gives me the necessary freedom to fully concentrate on running COR and to give interlübke a sustainable future, with a new management and sufficient capital to expand the business."

> WE HAD TO FIND A BUYER WHO WAS ALSO WILLING TO BE A PARTNER FOR A CLOSELY RELATED SISTER COMPANY

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DAN ATKINSON

TRANSACTION AT A GLANCE
CLIENT: **LÜBKE**
SECTOR: **CONSUMER**
TRANSACTION TYPE: **SALE**
ACQUIRER: **PRIVATE INVESTORS**

The loan arrangers

At a recent roundtable chaired by Bill Troup, Managing Director, Debt Advisory at Livingstone London, senior figures from banks, direct lending funds and private equity investors discussed the rapidly changing world of leveraged finance and the implications of current and future trends for mid-market companies

ANDY DAVIS
ERROLL JONES

The past two years have seen a rapid evolution in Europe's leveraged finance market. As banks have retrenched and shrunk their lending books, a growing throng of new direct lending 'credit' funds has sprung up, providing an alternative way for private equity investors to fund transactions and supporting a much more competitive financing market.

To assess the implications of these developments, Livingstone and law firm Reed Smith brought together 20 senior figures from banks, direct lending funds and PE investors for a wide-ranging discussion, prefaced by a keynote address by the Lord Mayor of London, Alderman Fiona Woolf CBE (pictured opposite, left). She set out her domestic and international agenda, which has included leading delegations to 29 countries, furthering the City's agenda within the EU of completing the single market in services, and urging the Commission to concentrate on jobs and growth. She also focused on the PE and leveraged finance market, which, she said, was now much more widely understood and appreciated than in the past.

There was general agreement that the leveraged finance market had become steadily more competitive as direct lending funds sought to deploy the proceeds of successful fundraisings. It was clear too that, far from withdrawing from the market, some banks are having to work hard simply to maintain their presence.

Ben Davis, Leveraged Finance Partner at Reed Smith, said: "The private debt funds have been setting the pace in the leveraged finance mid-market over the past 12 months and the unitranche product has become mainstream. In the UK, banks are responding aggressively, but the alternative lenders still have an advantage."

"Most banks have probably shrunk to where they need to get to in their leveraged finance books," said one bank participant. "Standing still means you've actually got to write a lot of business, because the book is churning so fast. We're flat year-on-year no matter how much we seem to be deploying, which is a sign of different funders being around and also, I think, of the IPO market opening up."

Executives from a number of credit funds acknowledged that a lot of new money had

> **WE'VE NOTICED A NARROWING OF THE DIFFERENCE BETWEEN CREDIT FUNDS AND BANKS ACROSS EUROPE**

entered the direct lending market in the past year, in sharp contrast to the banks' difficulty in raising fresh equity, although they said some investors were becoming worried that returns were getting squeezed as competition intensified. "In the UK, we've seen a lot more competition from the banks in the last six to eight months," said one direct lender. "We don't face the same problem in France or Germany, but it's clearly a worry in the UK.

"We've seen a lot of transactions that would have been structured by direct lenders as senior and mezzanine or unitranche a year ago that instead went all-senior and at leverage levels that, to my mind, are pretty crazy."

INTENSIFYING COMPETITION

Competition is intensifying, not only because investors are hungry for yield, but also because global attitudes to Europe have changed. "Go back two or three years and Asian investors wouldn't touch Europe – it was seen as completely toxic," said another direct lender. "Now it's OK. The GDP forecasts are all going in the right direction and there's generally a better feeling about Europe."

Indeed, there are signs that, as competition puts yield under pressure, some investors are seeking more aggressive ways to boost their returns. "There's a lot more demand from institutional investors for leverage," said one direct lender. "We didn't have any requests for levered credit funds until nine to 12 months ago, and some investors prefer to lever themselves because it's cheaper for them. So leverage is coming into the system in a different way – maintaining higher yields, albeit with higher risk."

Among the PE investors around the table, it was clear that, increasingly, with the help of specialist debt advisory teams, raising debt funding for transactions had become much easier over the past year. "It's a buyer's market," said one PE executive. "We've seen lending multiples increase and terms are favourable. So we have a range of possibilities, from the traditional banks all the way to the very aggressive credit funds, and what we've noticed over the past six months is a narrowing of the differences between credit funds and banks. We see that across Europe. We're doing a transaction in Germany where we have five or six possibilities to choose from, which is quite surprising compared to what it would have been a year ago."

However, the abundant supply of funding for leveraged buy-outs (LBOs) is also intensifying competition to complete deals across the whole market and pushing up valuations, leading to suspicions that some PE buyers are failing to keep their discipline. "Leverage multiples have maybe gone up half a turn (of EBITDA), or in larger deals even a turn, in the last 12 months, but acquisition multiples have gone up much more," said one PE investor.

Another PE executive highlighted that deal flow is currently an issue, stating that business owners have few attractive homes for the money they would raise by selling out. If the only option is to put it in a bank account earning half a percent, many would instead choose to hold on to their business and continue taking dividends.

INNOVATIONS FROM THE US

"The main source of competition for equity deals is coming from strategic buyers, particularly from the US," said Simon Cope-Thompson, Partner at Livingstone London. "One possible solution to this, particularly given the relatively low yield they might be able to get on their proceeds, would be for PE investors to enable sellers who are looking to 'cash out' and step away from their business to co-invest alongside them, but more as an investor than as a manager. They would swap day-to-day involvement for a non-executive role, for example. Having an option like this on the table might encourage more owners to agree to PE deals."

In spite of the rapid rise of direct lending in Europe, participants in the discussion

suggested that it now accounts for 50% of the fund flows into leveraged finance in the UK and only 20% in Europe – well short of the 80%-plus that institutional money represents in the US. Europe is unlikely to catch up with the US, they said, partly because, in a more fragmented set of jurisdictions, 'local champions' among the banks find it easier to continue to dominate lending in their markets.

However, other features of the US market such as business development companies (BDCs) – effectively, listed direct lending funds – are likely to appear in Europe over the next few years, they said, as well as insurance companies becoming active players through 'real money accounts'.

"In the US, most of the large insurance companies have their own leveraged finance teams and they're deploying capital directly," said a direct lending executive. "We will see that in the UK and Europe over the next few years. Direct lending funds will just be one of a multitude of options. I think we will also have some other version of direct lending, whether it's a BDC equivalent or some other form of UCITS (Undertakings for Collective Investments in Transferable Securities). What we will see, though, is borrower-driven variety; borrowers, PE as well as private corporate, are looking to diversify their risk."

> **THE INCREASED AVAILABILITY OF DEBT WILL ASSIST IN THE RECOVERY OF THE MARKET**

There is a strong argument for banks and direct lenders to work together on deals, because they are suited to different roles. Direct lenders can offer long-term funding because their capital is locked in for up to a decade, so providing money over three, five or 10 years makes no difference to the funds' cost of capital. In the case of banks, in contrast, the capital requirements specified in international regulations mean that providing shorter-dated liquidity lines and term facilities is more financially attractive for them than long-dated loans.

New avenues for institutional capital will also open up beyond the LBO market, one direct lender suggested. "In theory, there's €1tn of bilateral corporate debt provided by the banks to privately owned mid-market European corporates, as opposed to PE-backed. These are by any other measure leveraged deals – they have leverage above 2.5 times, but at the moment these loans are being provided on very corporate terms. If they were rated, they would be single B or B+ assets, which is a leveraged finance benchmark."

He believed that higher capital charges on bank lending to companies would result in a lot of the existing funding lines needing to be replaced from another source. "There isn't necessarily as much depth of capital in the existing bank lenders' pockets to sustain that, so the really interesting opportunity is to see how institutional capital can provide them with a solution.

"It's quite hard, because we don't have the branch network, and therefore we need to rely on somebody to introduce us. But I think that there will be demand, and if it's €1tn, then all the direct lending funds that have been raised to date are just a drop in the ocean."

Perry Yam, Partner at Reed Smith, said: "It seems quite clear that the increased availability of debt by both banks and private debt funds will assist in the continued recovery in the market. We expect to see a flurry of deal activity during the remainder of this calendar year ahead of the speculated increase in interest rates and the (UK) general election next year."

Bill Troup, Managing Director, Debt Advisory at Livingstone London, concluded: "Direct lending funds now play a significant role in funding buy-out and M&A activity alongside traditional bank lenders. The different economic and regulatory drivers of both sources mean that borrowers will have many options for the foreseeable future."

KEYNOTE SPEAKER
Alderman Fiona Woolf – Lord Mayor of London

ATTENDEES
Pascal Meysson – Managing Director, Alcentra Limited
David Wilmot – Joint Head of Private Finance, Babson Capital
Ben Harrild – Senior Credit Analyst, BlueBay Asset Management LLP
Jolyon Latimer – Investment Director, CBPE Capital LLP
Simon Mason – Investment Director, Endless LLP
Joyce Church – Partner, Equistone Partners Europe
Laurent Ganem – Chief Executive Officer, G Square Healthcare Private Equity LLP
Sebastian Shea – Senior Associate, G Square Healthcare Private Equity LLP
Chris Fowler – Executive Director, GE Capital Limited
Marlof Tjaden – Director, Generation Investment Management LLP
Matthew Field – Origination Managing Director, Hayfin Capital Management LLP
Stuart Mills – Head of Coverage, UK & Europe, HSBC Leveraged Finance
Max Mitchell – Head of Direct Lending, Intermediate Capital Group plc
Anthony Sills – Partner, Langholm Capital LLP
Jane Gilbert – Investment Manager, LDC
Bill Troup – Managing Director, Debt Advisory, Livingstone Partners LLP
Neil Smith – Associate Director, Livingstone Partners LLP
Simon Cope-Thompson – Partner, Livingstone Partners LLP
Christopher Bone – Senior Vice President, Private Debt, Partners Group (UK) Limited
Richard Roach – Managing Director, RBS Corporate Banking
Ben Davis – Partner, Reed Smith LLP
Monica Barton – Counsel, Reed Smith LLP
Perry Yam – Partner, Reed Smith LLP
David Sanders – Director, Legal Counsel, Terra Firma Capital Partners Limited
William Burnand – Director, Legal Counsel, Terra Firma Capital Partners Limited

SECTOR: MEDIA & TECHNOLOGY

By the book

Livingstone's in-depth knowledge of the Takeover Code was central to the quick sale of listed publishing company Quercus

ANDY DAVIS

TRANSACTION AT A GLANCE
CLIENT: **QUERCUS PUBLISHING**
SECTOR: **MEDIA & TECHNOLOGY**
TRANSACTION TYPE: **SALE**
ACQUIRER: **HODDER & STOUGHTON**

Few transactions involving a quoted company complete as quickly as the sale of Quercus, publisher of Stieg Larsson's best-selling *The Girl with the Dragon Tattoo*. Following a difficult Christmas season, the board turned to Livingstone, whom founders Mark Smith and Wayne Davies had known for several years, in order to achieve a speedy resolution.

The process began just days after Quercus had reported disappointing final-quarter trading for 2013. It had been hit by continuing issues in the book trade that had depressed orders from shops, and by digital sales that fell short of expectations. As a result, it warned of a significant trading loss, and that it was in discussions with its bank.

On 22 January, Quercus announced a formal sale process. Unlike private businesses, quoted companies in the UK are subject to detailed Takeover Panel rules (see below) on how they can interact with potential buyers, explains Richard Barlow, Senior Consultant at Livingstone London, whose experience in public market transactions goes back to the 1980s. Unless it enters a formal sale process, a company may speak to only six potential bidders at a time and cannot quickly replace any that drop out. This constraint could have led to delays that Quercus was keen to avoid.

By announcing a formal sale process, the company publicly puts itself up for sale. This is not done often, says Barlow: "You have to be cautious when taking this approach, because few formal sale processes have had a positive outcome."

In this case, it proved to be exactly the right course. "It enabled us to get all the interested parties into the process, and then to have all our conversations in private rather than constantly having to update the market," says Smith.

Running a formal sale process creates new risks that needed careful management, including employees' concerns and the possibility of rival publishers poaching authors, adds Karen Dawaf, Associate Director at Livingstone London: "There were quite a few areas of sensitivity."

An important benefit of a formal sale process was that Quercus was able to decide how much information to share with each potential bidder, rather than having to treat everyone equally, as would happen in a typical takeover situation.

Some were judged merely to be 'fishing' and so received only basic information, explains Barlow, while more credible potential buyers were granted full access to the data room. Just two months later, on 25 March, Hodder & Stoughton emerged as the preferred bidder at 60p a share (nearly two and a half times the price on the day before the process was announced). The deal completed a few weeks later with 95.8% acceptances.

Richard Fetterman, Partner at Livingstone London, says the firm was able to add value in three key areas: its deep knowledge of the publishing sector, its expertise in the Takeover Code and its strong debt advisory capabilities. "Having a debt team allowed us to offer a seamless debt and M&A advisory service, ensuring that the bank remained supportive throughout the sale process. It was also essential that one did not derail the other.

"It wasn't an easy mandate," he adds, "but we got the right deal done quickly, and in a manner that meant our client was pleased with the outcome."

Takeover rules for public companies

- The Takeover Code applies to PLCs, whether or not the shares are publicly traded.
- In public deals, the Code ensures that all suitors are treated equally as regards access to information and that no false market in the shares is created, including details of bidders.
- Public announcements must be made if details of the negotiations leak.
- Companies can enter talks with a restricted number of bidders, usually six.
- Suitors are subject to a "put up or shut up" timetable, under which they must make an offer within a specified period or withdraw.
- All due diligence must occur before any offer is made, and funding must be in place.
- Under a Formal Sale Process: the company publicly announces it is seeking a buyer; it is not obliged to identify any suitors and can talk to as many as it wishes; there is no obligation to give all bidders equal access to information.

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We've achieved results for these clients

leading German luxury furniture brand and producer of premium cabinet furniture has been sold to

tooling machine, design, installation and upgrade services provider has secured investment from

the business and assets of a leading German special automation solutions supplier have been sold to

leading master broker in the secured lending and bridging finance market has acquired

leading provider of business-critical software and services to the UK insurance market has been the subject of a buy-out backed by

manufacturer and designer of standardised high-voltage power supply products has been sold to

leading online luxury tour operator has been sold to

a leading provider of telecoms towers, monopoles and enclosures has been sold to

leading technology-driven B2B wholesale hotel accommodation provider has been the subject of a buy-out backed by

leading international plastic and flexible packaging group has been sold to

UK's largest independent agent for ski and cruise holidays has been recapitalised on behalf of

leading provider of technical information to the automotive aftermarket has been acquired by

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