# European Buyout Success Stories

Special Paper

## An EVCA Buyout Committee Paper

Sponsored by

ARGOS SODITIC
PRIVATE EQUITY FOR EUROPE

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Association

The European Private Equity and Venture Capital Association (EVCA) exists to represent the European private equity sector. With over 880 members throughout Europe, EVCA's many roles include providing information services for members, creating networking opportunities, acting as a lobbying and campaigning organisation and working to promote the asset class both within Europe and throughout the world. EVCA's activities cover the whole range of private equity, from early-stage seed capital to development capital, and buyouts and buyins to the flotation of venture-backed companies.

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# Foreword

Since 1990 the acquisition of companies by teams of managers with the help of private equity backers has become a significant feature of the European economy. The EVCA 2001 European Private Equity Survey shows that, out of a total of €48 billion private equity raised in Europe in 2000, some 51% (€24.3 billion) was allocated to buyout transactions.[1] Moreover, of the €35 billion private equity actually invested in the period, €14.4 billion (41%) was in buyout deals. Five years earlier, in 1996, the total amount invested in buyouts was €3.1bn.

Despite the massive growth of private equity investment in buyout deals, companies and policy makers have in many ways still to recognise the full potential of this type of initiative.

## EVCA 2001 RESEARCH PAPER

One of the main reasons for the lack of knowledge about buyouts has been the fact that, until recently, research has not provided adequate information for useful or detailed analysis. To address this gap, EVCA's Buyout Committee undertook a study in 2000 designed to bring about greater knowledge of all types of buyout transactions. The Buyout Committee felt that creating a broader understanding of this financing method would help companies and managers to choose from the full range of options when planning corporate restructurings.

The pan-European survey, the first of its kind, revealed that the private equity investor is seen as having a crucial role, not only in driving through the buyout, but also as an active player – in both financial and non-financial contexts – in the post-buyout period. 84% of companies responding in the survey stated that, without the buyout and the involvement of private equity, they would either have ceased to exist or have grown less strongly.

The report proves that buyouts are important mechanisms for restructuring the economy, leading to better than average performance and competitiveness, increased employment and the creation of additional value. It also proves that buyouts allow for the transfer of ownership from the founders of a business to the next layer of management and solve succession difficulties or issues of strategic fit.

All findings of the study are summarised in the EVCA research paper 'Survey of the Economic and Social Impact of Management Buyouts and Buyins in Europe', published in January 2001. The main objectives of the study were: to improve understanding of the rationale for a buyout transaction; to understand the social impact of a buyout on the investee company; to understand the economic impact of a private equity backed buyout transaction; and to learn about the role played by the venture capitalist in the buyout process.

## THE BUYOUT SUCCESS STORIES

The twenty stories in this paper have been selected by EVCA's Buyout Committee as real-life examples of how private equity backers can offer new opportunities for growth to investee companies and can be active participants in creating value which far exceeds the original investment. Many of the names and brands involved in these success stories will be very familiar – highlighting the fact that buyouts are mechanisms for creating, transforming, improving or rescuing businesses at all levels and sizes.

No one would suggest that a successful private equity house would ever make a move unless it could be justified in purely financial terms. But underlying many of our stories is a sense that these energetic and enterprising investors also recognise that business decisions don't exist in isolation – that they do interact with other aspects of life. In one case, the concerns of the exiting family owners were made a central element of the buyout strategy. In another, one of the admitted attractions of the investment was the pleasure of being involved with a traditional Spanish bodega set in a Franciscan monastery. A strong personal relationship between investor and manager/entrepreneur is a factor at the heart of several stories. ➜

*[1]Note that, in these buyout success stories, the term 'buyout' includes management buyouts, management buyins and other forms of buyout, such as investor-led buyouts and management-employee buyouts.*
*A management buyout (MBO) is the acquisition of a company by its own managers. In most cases, the management team seeks the support of private equity investors to buy the shares of the company.*
*A management buyin (MBI) occurs when there are insufficient internal management skills to conduct a buyout. A management team from outside the company acquires a controlling interest – again with the support of private equity investors.*

## THE WAY FORWARD

Past evidence suggests that, whatever shifts in the market may be about to occur, the private equity investor will be in a good position to respond. The reasons for this are the typical characteristics that we see in these buyout success stories – being able to make fast, good decisions, having a wide range of contacts in many areas and in many countries, being capable of intense periods of sustained effort. The hands-on, committed, creative approach is, as much as the funds injected, an essential part of the value added by the private equity investor in a buyout deal.

**Jonathan Russell,** *3i Group,*
*EVCA Buyout Committee Chairman*

**Edoardo Bugnone,** *Argos Soditic,*
*EVCA Chairman*

# Aldata Solution Oyj

**Private equity backers help company to redefine its core strategy, transforming an in-house IT department into an international e-commerce software powerhouse.**

- Activity: *Software company specialising in systems for the retail sector*
- Country: *Finland*
- Private Equity Backers: *CapMan*
- Transaction: *1996*
- Exit: *IPO in October 1999*

## OVERVIEW

The talent and expertise that eventually enabled Aldata to expand far beyond its native boundaries originated when the company was the IT division of the Finnish publishing group Aamulehti Corporation. But it took CapMan to devise the financial and organisational strategies which propelled that talent into the global marketplace. CapMan's vision and active involvement were rewarded by an excellent rate of return in a perfectly timed exit.

## BACKGROUND

Aldata Solution Oyj is an innovative software house with an ever-growing focus on operations outside its home country, Finland. The company designs software for retailing, m-and e-commerce and data collection systems for logistics, production and access control.

When the Aamulehti Corporation decided to tighten its focus on its core business, media, Aldata no longer fitted into the corporate structure. CapMan joined with Aldata's management team to negotiate an MBO, and the transaction was completed in early 1997. A holding company, Alcap, was set up to buy 100% of Aldata's equity. Alcap was in turn owned by CapMan (37.4%), the company's management (9.4%), Sitra, the Finnish National Fund for Research and Development (25%) and Aamulehti, who retained a 28.2% stake. In November 1998, Aamulehti (by now called Alma Media) sold its residual holding in Aldata. Prior to Aldata's listing, CapMan's ownership of Aldata increased to 67.4%.

## POST-BUYOUT PERFORMANCE

Heikki Westerlund from CapMan became Aldata's first chairman. The CapMan representatives on the Aldata board and the management team developed a strategy to turn Aldata into an international IT company. Its main elements were:

- Developing its own retail and industrial software, rather than creating solutions by assembling software elements developed by others. Areas covered include point-of-sale (PoS) software, electronic commerce systems, customer loyalty systems, restaurant information systems and data collection systems.

- Selling off a number of non-core businesses

- Strengthening the product range and distribution channels through acquisitions. Smaller subsidiaries were merged into the group to maintain a streamlined company structure.

CapMan's involvement helped Aldata to broaden product range and international presence.

## EXIT

The strength of the market in IT stocks in the late 1990s made it clear to the board that an early flotation would provide a very satisfactory exit.

Aldata was floated on the Helsinki Stock Exchange in October 1999. As a result of the IPO, CapMan's stake in Aldata via the holding company Alcap was reduced from 67.4% to 21.4%.

Other private equity investors also reduced their shareholdings. The remainder of the shares were sold to a total of about 1,300 investors, including approximately 40 per cent of Aldata's employees. CapMan retained a minority interest in the company until 2000, when it completed its exit by gradually selling off all its holdings in Aldata. ➜

## THE FUTURE

Since the flotation, Aldata's sales have grown from €32.2m in 1999 to €50.8m in 2000 – a growth rate of 58%. Over the same period the number of staff employed has more than doubled, from 197 to 453 in 2000. In the first quarter of 2001, growth continued on track, with an increase in net sales of 102%, a six-fold rise in profit before extraordinary items and a doubling of gross margin.

Today, Aldata operates in Finland, Sweden, Norway, France, Germany and the USA, and its software has been installed in 38 countries. The company is committed to external expansion: it plans that by 2003 some 90% of net sales will be made outside Finland.

Although CapMan is no longer an investor, Heikki Westerlund continues to provide advice and support as a member of Aldata's Board of Directors.

# Anodil

**Private Equity provides transition ownership for Anodil from founder to international industrial group, adding value and growth in the process.**

- Activity: *Production and distribution of aluminium profiles*
- Country: *Portugal*
- Private Equity Backers: *Argos Soditic*
- Transaction: *March 1998*
- Exit: *Trade sale to Swedish industrial group Sapa in July 2000*

## OVERVIEW

The buyout put together by Argos Soditic enabled the founder and owner of Anodil to retire from his business. The group of companies was in urgent need of modernisation, and the buyout was followed by radical restructuring and reorganisation. With the buyout and the group merger completed, savings in efficiency and responsiveness rapidly improved the performance of the business. Two years later, Anodil caught the eye of Swedish conglomerate Sapa and the investors achieved exit via a trade sale.

## BACKGROUND

Anodil is the market leader in Portugal in the extrusion, anodising, coating and painting and distribution of aluminium profiles. Founded in 1968, Anodil had, as result of a series of acquisitions, grown by the late 1990s into a group of related yet separate companies. However, after some 30 years at the helm, the founder and owner of Anodil was now searching for a way to realise his investment and retire.

## BUYOUT

An ideal solution was presented by Argos Soditic. In March 1998, the private equity partnership drove through a €35m buyout deal which enabled the owner to exit the business. In the months leading up to the buyout, Argos Soditic had regular meetings with the management team to plan the company's future strategy. Their immediate and most radical conclusion was that the separate companies which had previously comprised the Anodil group should be integrated into one single entity. This merger would streamline operations, reinforce Anodil´s position as market leader and improve margins.

The new company that was formed as a result of the buyout, Anodil Produção e Distribuição S.A. consolidated all of the Anodil Group's operations into one business.

## POST-BUYOUT PERFORMANCE

Argos Soditic professionals and the management team immediately began implementing the detailed aspects of their plan for rationalisation.

- A new reporting system was introduced to ensure better control and cost analysis throughout the new company.

- The logistics of all divisions were integrated.

- One single purchasing and manufacturing decision centre was created to respond to the various needs of the commercial outposts.

- Centralised IT systems were introduced to improve decision making. These were also able to provide up-to-date and accurate information for investors – an important factor which facilitated the trade sale.

As a result of these innovations, revenues increased from €67m in 1998 to €75m in 1999, with a corresponding increase in profit margins. Market share rose from 23 to 28% and the number of employees grew from 750 to 775. The modernisation and improvement in performance also had the effect of making Anodil a high profile target for a potential trade purchaser.

## EXIT

In July 2000 the Swedish group Sapa, a rapidly growing international industrial group and European leader in the distribution of aluminium profiles, acquired Anodil for a total consideration of €66.3m, including debt. Other purchasers were also interested, and Sapa had to outbid a number of industry competitors. ➜

## THE FUTURE

The acquisition strengthened Sapa's position as one of Europe's leading suppliers of aluminium profiles and opened up new markets in Portugal. Anodil's management team remained in their positions and the company announced record results in 2000.

# Barón de Ley

**Private equity backers define and support an aggressive expansion plan of a Spanish bodega and prove that a good mix of oenology and business savvy can lead to value, growth and great returns.**

- Activity: *Winery*
- Country: *Spain*
- Private Equity Backers: *Mercapital*
- Transaction: *Buyout in 1991*
- Exit: *IPO in June 1997*

## OVERVIEW

Wanting to be involved in the good things of life may have been one of the reasons behind Mercapital's funding of Barón de Ley's purchase of the El Coto de Rioja Bodega from Bass plc. But it was also a very sound business decision. During the six years in which Mercapital held a majority stake in Barón de Ley, the private equity house played a very active role in developing strategy, improving operational functions and contributing to public relations and brand recognition. Mercapital's involvement – and its patience in being prepared to wait to recoup its investment – were key factors that helped to create substantial increases in both sales and profits over the period.

Mercapital's also applied its hands-on approach to the company's flotation. In the IPO which took place in 1997, the shareholders achieved a substantial return on their original investment.

## BACKGROUND

The Barón de Ley Group produces and markets Rioja wines from two independent vineyards, El Coto de Rioja and Barón de Ley. The origins of the business date back to the late 1970s, when the founders of Barón de Ley, Eduardo Santos-Ruiz, Julián Diez Blanco and Julio Noain, met while working for the El Coto de Rioja Bodega.

They decided to start their own winery and in 1985 founded the Barón de Ley Bodega in the grounds of a 16th century Benedictine monastery at Mendavia, Navarre. As well as being involved in the new venture, Santos-Ruiz was appointed Managing Director of El Coto de Rioja, which Bass plc acquired in 1986.

## BUYOUT

In 1991, Barón de Ley bought El Coto de Rioja from Bass Plc in an operation financed by a consortium of investors headed by Mercapital. The investors subscribed a capital increase and became majority shareholders (65.5%) of the new group. The resulting entity maintained the Barón de Ley name and established its headquarters at the Benedictine monastery.

## POST-BUYOUT PERFORMANCE

The private equity backers truly enjoyed their investment. As is typical of private equity investors, they became actively involved in developing strategies for growth, including:

- Keeping the two bodegas, and their distribution channels, as separate entities and brands
- Upgrading the quality of the products of both vineyards
- Targeting higher quality and more profitable market segments.

Mercapital contributed a lot to the company's public relations and brand recognition, never missing an opportunity to promote Barón de Ley's wine in companies, restaurants and organisations around Spain. Mercapital also:

- Played a major role in identifying the new management resources that were required
- Helped with the recruiting process
- Established stricter budgetary policies and financial control
- Introduced information systems to a company were accounts had previously been kept manually. ➜

Above all, Mercapital was a very patient investor. As the business started to generate significant cash flows, it could have been tempting to use this to reduce Mercapital's investment and secure the returns. Instead, every peseta was reinvested in production and ageing capacity, largely financing a vital increase of wine stock in the oak barrels.

The investors' strategy of patience paid off. During the six years in which Mercapital held a majority stake in Barón de Ley, annual sales by volume almost doubled (from 363,000 to 714,000 cases), sales by value tripled (from €6.2m to €21.2m p.a. – a compound annual growth rate of 28%) and the group's annual net profit rose from €950,000 to €6.3 million.

## EXIT

In 1997, the Spanish stock market was buoyant and investors were keen to buy in the food sector, particularly wine shares. It was decided that flotation would be the best exit strategy, as well as a valuable way of giving publicity to the group's brand names. Three months after the decision to float Barón de Ley was made, 70% of the company's shares were floated in an IPO.

Again, Mercapital's input was key to the success. The private investors helped the banks to understand the value behind the company, actively participated in road shows and, above all, turned the stock market into a familiar and comfortable environment for the group's management.

## THE FUTURE

The flotation was a success because investors recognised the excellent foundations that had been laid to ensure the group's future prospects. In addition to these strong management and financial fundamentals, Barón de Ley's growth was guaranteed by the quality of the bottles lying around in the monastery, improving with age and increasing in value under the close watch of the gentle spirits of the Benedictine monks.

# BDDP

**A private equity backer's determination and skill rescues BDDP from the verge of bankruptcy and allows it to focus once again on creativity. Two years later, the advertising agency blooms into a coveted takeover target.**

- Activity: *Advertising*
- Country: *France*
- Private Equity Backers: *Butler Capital Partners*
- Transaction: *Turnaround initiated in 1994*
- Exit: *1996 reverse takeover of GGT Group, a public company quoted on the London Stock Exchange*

## OVERVIEW

A series of expensive acquisitions had left creative French advertising agency BDDP with unserviceable levels of debt. The company was on the point of going into liquidation when Butler Capital stepped in with a turnaround that converted much of the debt into equity. Butler Capital's active involvement continued, with the private equity house providing strategic management characterised by radical restructuring and much-improved financial control. A profitable exit was achieved via a reverse take-over in 1996.

## BACKGROUND

Four partners named Boulet, Dru, Dupuy and Petit founded the advertising agency BDDP in 1984. Behind this austere acronym lay the extraordinary combination of creative talent which soon led to BDDP becoming the third largest agency in France. The company's excellent reputation as a creative and strategic thinking agency helped it to secure many major accounts, including McDonalds, Danone, Ford, Chase Manhattan, Michelin and Procter & Gamble.

Building on this domestic success, BDDP embarked on a program designed to turn the company into a truly global network. But the high prices paid for certain acquisitions, especially the purchase of Wells Rich Greene in the United States in 1991, had a devastating impact on BDDP's financial performance. By the time its 10th birthday arrived, the agency was on the brink of bankruptcy.

There seemed little hope that BDDP could survive. The partners' approaches to bankers and finance houses had all proved fruitless. Competitors who might have been interested in a possible purchase were frightened off by just one glimpse of the accounts.

## TURNAROUND

However, before the seemingly inevitable catastrophe happened, a venture capitalist appeared with a solution that would save the agency and more than 3,000 jobs worldwide. Walter Butler and his team stepped in and took a closer looks at the books. They soon realised that BDDP's problems were wholly financial. The commercial aspects of the business were as healthy as ever: projects continued to flow in, creative talent was intact and the agency's professional reputation was pristine. The challenge of extricating BDDP from the mountain of debt it was unable to service was tailor-made for Walter Butler's financial skill, diplomacy and contacts.

Over the next few months, he managed to negotiate an extraordinary package. Butler persuaded the company's bankers to convert €76.2m of convertible debt and other loans into shares in BDDP and to forego €16.8m of interest payments by temporarily lowering rates on the remaining €45.7m worth of debt to a symbolic 1%. €29m of new capital funds were injected into the company. For their part, BDDP's founders agreed to relinquish control, and Walter Butler became the chairman of the new supervisory board.

At the close of the transaction, BDDP was valued at €42.7m. Venture capital investors led by Butler Capital held 55% of the equity, ten banks shared 30% and the agency's founders retained a minority stake of 15%. Reducing the agency's debt from €198m to €45.7m (25% – 30% of gross margin) was a major achievement which brought BDDP's debt burden back to acceptable industry levels. Everyone had to make sacrifices– but the deal worked. ➜

## POST-DEAL PERFORMANCE

Butler Capital immediately brought in a team to put the agency on track to recovery. From the brink of bankruptcy and a loss (after interest and tax) of €122m at the end of 1993, EBIT tripled from €5.5m in 1993 to €18m in 1994. By the end of 1995, debt had been further reduced to €15.2m and BDDP was back in the black. The turnaround amazed everyone. It was achieved through cost cutting, strict control of operating budgets, the establishment of reporting processes and spending limits, the sale of eleven unprofitable or nonessential subsidiaries and the signature of contracts with close to thirty new clients. In the process some jobs were lost, but new people were subsequently hired.

With Butler Capital Partners focusing on the strategic and financial aspects, the agency's management and staff went back to doing what they did best – being creative. By the end of 1995 BDDP had become 'one of the ad world's biggest plums, ripe for plucking' in a consolidating advertising industry.

## EXIT

A priority for Butler Capital and the agency was to sell to a purchaser who would not dismantle the BDDP network. The London based GGT Group met this and other criteria, and bought BDDP in September 1996. The acquisition was technically a reverse takeover: BDDP shareholders were paid €127.4m, of which about one third was paid in GGT shares and two thirds in cash. The deal gave BDDP shareholders a 24% stake in a company quoted on the London Stock Exchange. The combination of the world's 15th and 22nd largest agencies gave birth to the world's 13th largest agency. Walter Butler was appointed as non-executive vice chairman. Jean-Claude Boulet and Jean-Marie Dru joined the board as executive directors.

## POST-EXIT

In January 1998, BDDP became part of TBWA Worldwide, a division of the Omnicom Group – the world's largest advertisement agency.

# Colombo Gas

**Private equity backers correctly anticipate regulatory and market trends in the Italian energy sector and find opportunities to build a visible player in the natural gas distribution sector.**

- Activity: *Natural gas distribution*
- Country: *Italy*
- Private Equity Backers: *B&S Private Equity Group and Gallo & Co*
- Transaction: *Buy and build. First acquisition in 1997.*
- Exit: *Trade Sale in March 2000*

## OVERVIEW

An alliance of private equity firms B&S Private Equity Group and Gallo & Co recognised that conditions in the Italian natural gas industry provided ideal buy and build investment opportunities. They set about making acquisitions and made several purchases at favourable prices. But the window of opportunity was only open for a short period before increased investor demand drove up the cost of acquisitions. Some three years after making their first purchase, B&S and Gallo switched to the other side of the fence and sold the conglomerate they had built up.

## BACKGROUND

In the 1990s, the use of natural gas as a power source was becoming widespread throughout Italy. The two main reasons were:

- The long-terms effects of the oil shocks of the 1970s

- The results of a national referendum in 1987, which halted the development of nuclear energy in Italy.

Several factors combined to bring the Italian natural gas industry to the attention of private equity houses:

- The industry was very fragmented, with the biggest operator in 1996 having a market share of only 27%.

- The government had given clear signals about imminent deregulation.

- The rest of the market was serviced by a large number of private businesses, many of which were run by first generation entrepreneurs looking for solutions which could assure the continuity of their business.

In 1996, an alliance of private equity houses B&S Private Equity Group and Gallo & Co started looking for potential acquisitions in the sector.

## BUY AND BUILD

The private equity investors' first opportunity came in July 1997, when they acquired 100% of the equity in Gastecnica Tommaseo in a leveraged buyout. This was a very small business, with an undeveloped management structure and a customer base of just 10 industrial users and 4,000 private households. However, these clients had high gas consumption per capita and good credit records. The purchase price of close to €1.3m valued Gastecnica Tommaseo at €775 per private customer and 6 times EBITDA. For B&S and Gallo, this relatively small investment was an ideal low risk springboard into the natural gas sector.

Six months later, the team of investors made their next move and acquired Colombo Industria Gas. This much larger investment was another leveraged buyout, in which 75% of the acquisition was financed with debt. Stock options were allocated to the existing management team. The price paid, approximately €31m, valued Colombo Industria at €725 per private customer and 5.8 times EBITDA.

By May 1999, B&S and Gallo had acquired four more companies. Of the combined purchase price of close to €50m, the private equity houses provided 30%, with the remaining 70% being financed by debt. The conglomerate of businesses, renamed Colombo Gas, grew and turned into a visible, major player. Between 1996 and 1999, revenues increased by 228% from €18.5m to €42.2m and EBITDA rose 230% to more than €9m. ➜

However, as new investors came in to compete, it was becoming more and more difficult to acquire good gas companies at reasonable prices. By the end of the 1990s, B&S and Gallo recognised that shifting market conditions meant that the opportunities were now to sell, rather than to continue to buy and build. It was time to start planning the exit.

## EXIT

Colombo Gas had grown to the point where it was now the ideal purchase for a larger player wishing to enter the industry. Of the four bids tendered for the company, the offer of ENEL, the Italian electricity company, was selected on the grounds of price, flexibility and the best fit with the company's management. In March 2000, only 32 months after the acquisition of Gastecnica Tommaseo, ENEL bought 100% of Colombo Gas for a total consideration of close to €55m. The valuation of more than €1,130 per private customer and a multiple of 10 times EBITDA clearly reflected the increased demand for businesses in the natural gas industry.

For ENEL, the purchase of Colombo Gas was the ideal acquisition to implement its strategic decision to diversify beyond its traditional electricity operations.

# Elior

**With private equity providing a lot more than money, Elior obtains the operational and strategic partnership for its international expansion and growth, as well as the financial power needed to acquire and build a second strategic pole of activity.**

- Activity: *Contracted foodservices and commercial catering*
- Country: *France*
- Private Equity Backers: *Advent International*
- Transaction: *1997*
- Exit: *IPO in March 2000*

## OVERVIEW

Today, Elior is a holding company with two poles of activities: contracted foodservices (hospitals, prisons, schools) and commercial catering (airports, motorways, fast food). This buyout story is about how the commercial catering arm of the group was built by a remarkable partnership between Elior and Advent International. The active partnership continued after the transaction, and has been the foundation of the group's current success and international standing.

## BACKGROUND

Elior's origins date back to the 1970s, when Francis Markus and Robert Zolade met while working at Jacques Borel International (which, after the merger with Novotel in 1983, became the Groupe Accor). At Jacques Borel, Francis Markus rose to become President of Générale de Restauration, while Robert Zolade became General Manager of all the commercial catering activities.

In 1991, Markus and Zolade combined forces and experience to set up Bercy Management. Together with 300 managers of the Groupe Accor, they acquired 35% of its contracted food-services subsidiary, Generale de Restauration. The remainder of the equity was acquired from Accor in 1994 and from Generale des Eaux (Vivendi) in 1997.

During this period, Bercy built up a leading position in out-sourced contract catering in France, serving quality meals in schools, workplaces, hospitals, clinics, nursing homes and prisons. The issue for the company was how also to build a leading position on the concession catering side – serving meals directly to consumers on motorways, airports, railway stations and similar outlets, as well as running fast food chains.

## BUYOUT DEAL

When leading concession caterer Holding de Restauration Concédée came on the market in 1997, it seemed like the obvious vehicle for Bercy's ambitions. There were only two problems – how to finance the acquisition, given Bercy's existing leverage, and how to come up with a serious offer in the region of US$500 million within a three-week deadline.

The solution lay in a personal relationship that already existed between Zolade and Advent International. On this foundation, the two parties rapidly created the spirit and structure of a true joint-venture partnership. This was formalised in a holding company in which Advent International held 49% of the equity and Bercy Management 51%. Bercy transferred Elitair, containing all of its existing concession catering assets, to the holding company, which became known as Eliance at a later stage. Working together as partners, Advent was able to drive through the transaction on a reasonably leveraged basis and within the required timetable.

## POST-TRANSACTION

But that was only the start of the partnership. Advent worked alongside Zolade in defining a two-pronged strategy for expansion:

- Maintaining strong domestic business, with improving margins
- Pushing forward with an aggressive international expansion drive to add 'multiple increase value'. ➜

### Improving margins on domestic business

Advent was an active participant on committees set up to squeeze out purchasing synergies, restructure the growing organisation and introduce the IT and distribution platforms which would assure the continual improvement of margins.

### International expansion

The key to this element of the strategy was the access to potential transactions provided by Advent's international network. Advent offices throughout seventeen countries were alerted to seek acquisition opportunities. Working closely as partners in identifying and negotiating transactions, a leading position was acquired over time in Spain, while further expansion took place in the Netherlands, Italy and the UK. Offices in Latin America, the USA and South-East Asia also identified potential opportunities, some of which have in the meantime materialised.

### Restructuring

At an early stage in their partnership, Advent had persuaded Zolade that it would become necessary at some point to float the company. An IPO would give the company the funds required to finance further international expansion on terms closer to those of its two major global competitors (both based in Europe).

Before the flotation, the group carried out a restructuring in 1998. The parent company Bercy Management restructured under the name Elior, integrating 100% of the concession side of the business alongside its fully owned contracted food services division, Avenance. To achieve this, Advent swapped its 49% shareholding in Eliance for approximately 25% of Elior, alongside a group of other private equity shareholders who had provided finance for the group holding company's needs.

## EXIT

Despite coming to the Paris Bourse in March 2000 – at the last peak of the technology boom – the continuing close partnership between private equity and management enabled a smooth IPO to take place as planned two years earlier.

## POST-EXIT

Since the flotation, the partnership in international expansion has continued. Elior is now Europe's largest caterer, with a turnover of €1.820 billion, running 8,519 restaurants, employing 3,608 people, serving 1.8 million guests and customers each day. For the future, the group is structured for continuing organic and acquisition growth.

# Geberit AG

**Private equity backers provide a framework for a smooth transition from family-owned business to public company for the Swiss-based European market leader in sanitary technology.**

- Activity: *Sanitary installation and flushing systems*
- Country: *Switzerland*
- Private Equity Backers: *Doughty Hanson & Co*
- Transaction: *LBO in March 1997*
- Exit: *IPO in June 1999*

## OVERVIEW

The founding family had been running sanitary goods manufacturer Geberit for almost 80 years when the current generation decided to retire from active management. This change triggered other developments, and in 1997 private equity fund manager Doughty Hanson carried out what was at the time Switzerland's largest leveraged buyout. Swift progress towards the identified buyout objectives enabled an exit via an IPO some two years later.

## BACKGROUND

The origins of Geberit date back to 1874, when founder Caspar Melchior Albert Gebert-Domeisen opened his first plumbing workshop at a cost of seven Swiss francs. In 1912, after a period of steady expansion, he obtained a patent for wooden cisterns lined with lead and equipped with lead fittings. The company's subsequent progress was marked by a series of further manufacturing innovations – most importantly plastic pipes and fittings in 1935 and plastic cisterns in 1952.

Between the 1950s and the 1990s Gebert-Domeisen's descendants oversaw a steady expansion of the family firm. Significant milestones were:

- The registration of the Geberit brand name
- The systematic development of markets across Europe
- Expansion into the areas of drainage technology, flush-mounted installations and hygiene
- The founding of a subsidiary in the USA.

At the beginning of the 1990s, the current generation of the founding family decided to retire from operational management. New CEO Günter F. Kelm was brought in to preside over the design and implementation of a new management structure.

## BUYOUT

The company initially considered going directly to a public flotation. However, it became clear that, in spite of the successes achieved as an independent family-owned company, a transitional phase was needed to prepare for the very different status of a public corporation.

In March 1997, Doughty Hanson carried out a CHF 1.8 billion LBO in which they acquired Geberit. The buyout also gave Günter Kelm's high-performing management team a stake in the new company. Other elements in the package were senior debt of CHF 720 million and a high yield bond of CHF 135 million.

One of the main factors that persuaded the founding family to sell was Doughty Hanson's overall strategy for the business. This was to continue to develop Geberit as an independent company under the existing management, while at the same time preparing for flotation within the next three to five years.

## POST-BUYOUT PERFORMANCE

Doughty Hanson and the management team committed to an ambitious business plan which would extend Geberit's market leadership by:

- Launching a range of new products
- Improving coverage of European, US and Asian markets
- Consolidating all research and development activities in-house into one centrally located company
- Implementing a new production strategy, with improved logistics.

➜

Geberit achieved group sales in excess of one billion Swiss francs in 1998. This significant milestone signalled to the private equity backers that it was time to start planning their exit.

## EXIT

Reducing their stake through a successful exit was always part of Doughty Hanson's long-term strategy. A public flotation would also provide several crucial benefits for Geberit: access to international capital markets, a larger shareholder base, enhanced growth opportunities, improved visibility, a basis for broader management and employee ownership, improvement of the financial profile and the continued independence of the company.

Geberit floated on the Swiss stock exchange in June 1999 in an IPO valued at CHF 2.16 billion. This was the largest IPO of a European leveraged buyout, both in terms of issue size and of enterprise value. An employee participation plan put in place at the IPO gave Geberit staff at all levels the option of sharing in the company's future prosperity.

## THE FUTURE

The IPO marked the start of a phase which has seen Geberit become a multi-billion dollar global enterprise with subsidiaries in the USA, Canada, China and Singapore. The fact that the flotation also took place on the company's 125th birthday was an apt reminder of the value that had been created during that period – just seven francs had generated more than two billion.

# Guardian IT

**Working to an impossibly tight deadline, ECI Ventures work out an MBO deal to the satisfaction of all parties and provide Guardian IT with the independence required to achieve its full growth potential.**

- Activity: *Comprehensive business continuity and disaster recovery services*
- Country: *United Kingdom*
- Private Equity Backers: *ECI Ventures*
- Transaction: *1994*
- Exit: *IPO, London Stock Exchange 1998*

## OVERVIEW

ECI Ventures had to move fast when it decided to fund the MBO of Guardian Computer Services from ICL in 1994. The equity investor recognised that the protection and security of information would inevitably become an area of strong growth. It also saw that Guardian had expertise, UK contacts and a highly motivated management team desperate to take responsibility for the growth of their own company, free from the conflicts of interest that had existed under ICL's ownership. Four years later, ECI's accurate vision of the future was amply repaid in a successful stock market flotation.

## BACKGROUND

There are now few organisations that can afford to risk the loss of what is often their most important asset - information. Companies that can provide reliable, cost-effective business continuity and disaster recovery services should therefore expect a strong and continually expanding market.

But in spite of these long-term prospects, ICL decided in 1994 to sell off its disaster recovery business, at that time called Guardian Computer Services. The parent company wanted to dispose of Guardian within three months, leaving very little time to organise an MBO deal. Peter MacLean, Guardian's managing director, was resigned to a trade sale – probably to a rival and possibly involving the loss of Guardian's separate identity.

## THE BUYOUT DEAL

What happened, however, was that private equity backers ECI Ventures stepped in with an MBO package. ECI had to bid £21m to match other prospective buyers, but their offer was accepted by ICL. The deal provided the existing management team with both a guarantee of independent control and a sizeable shareholding in the newly independent company. In return for a total cash commitment of £90,000 (in a deal valued at £21 million), the management team received shares and options for an initial 12% of the equity, which later increased to 20%.

Rather than take an active role in the management of the company, ECI brought in independent non-executive chairman Richard Raworth to act as a bridge between management and ECI.

## POST-BUYOUT PERFORMANCE

The ECI-sponsored buyout unchained Guardian IT's true potential. One major element in the company's success was independence from ICL. There were now no conflicts of interest with other computer manufacturers and Guardian was able to pursue contracts and form alliances with companies that were ICL's rivals. It was also free to make acquisitions and to expand into the international market.

A strong, predictable cash flow was yet another enhancement to Guardian's growth potential – most of Guardian's customers are on pre-payment contracts. The company decided to use this income to fund several acquisitions, rather than the early repayment of buyout debt.

## EXIT

For Peter MacLean and his team, one of the main attractions of ECI's MBO had been the eventual possibility of a stock market flotation. Under the thumb of ICL they would, of course, never have had this opportunity to capitalise their experience, creativity and hard work. ➜

In March 1998, after four years of solid growth and consolidation, Guardian floated on the London Stock Exchange in an IPO valued at £131m. The £21m paid by ECI and the other investors in the 1994 buyout had been considered by some to be on the high side for a company with post-tax profits of £1.4m, turnover of £8m and a total workforce of just 21 people. But this substantial return surprised any such sceptics.

## THE FUTURE

In 2000, Guardian's turnover stood at £86.4m and the company employed more than 400 people. Its initial focus on disaster recovery has naturally evolved into other high growth areas, such as business continuity, data management, network security, data back up, storage area networks and web hosting. From its UK-only origins in 1994, Guardian has become a truly international business with a presence in the UK. It has over 3,500 major corporate clients, ranging from government departments to major financial institutions. More than a third of FTSE top 100 companies are among its clients. ECI's vision that Guardian was well positioned in a young, high growth, high margin industry has clearly paid off for all involved.

# ITNET

**Private equity backs management and employee buyout resulting in majority control by company employees.**

- Activity: *Contractor for outsourced IT and business planning services*
- Country: *United Kingdom*
- Private Equity Backers: *3i*
- Transaction: *1995*
- Exit: *IPO in June 1998*

## OVERVIEW

After many years of growing into a mature stand-alone business within parent Cadbury Schweppes, ITNET gained independence in a 1995 buyout. One original feature of the buyout negotiated by 3i and dynamic Chief Executive Bridget Blow was that employees at all levels – and not only the senior management team – owned a majority stake in the new company. A steady pre-buyout growth curve steepened dramatically with independence, enabling a highly successful flotation via IPO some three years later.

## BACKGROUND

In 1987 Cadbury Schweppes plc converted the IT department of its Management Services Division into a stand-alone business – ITNET. The expertise the new company had developed in 14 years of providing in-house IT services for Cadbury Schweppes provided a solid foundation when it started to develop a broader range of services and to widen its customer base.

Under the umbrella of the parent company, ITNET grew to become one of the UK's top five suppliers of outsourced IT services, with a client base that consisted of both private sector companies and local authorities. The pinnacle of this period of development was reached in 1994, when the company achieved an operating profit of £3.5m on a turnover of £50.5m. However, this encouraging result also sent a clear signal that ITNET needed to become independent of Cadbury Schweppes. Only a clear separation from its parent would unleash the ITNET's full potential and maximise its profitability.

## BUYOUT

The driving force behind the buyout was Bridget Blow, who joined ITNET as Information Systems Director in 1992 and became its Chief Executive in 1994. She gained private equity backing from 3i and led the negotiations, making sure that the stake owned by managers and employees would be as large as possible. Her contribution to the success of the enterprise was recognised in 1996, when she was voted Businesswoman of the Year.

In November 1995, ITNET was able to announce a £32.5m management and employee buyout from its former parent company. Partly as a result of the creation of a benefit trust open to all employees, management and staff held a record 50.1% of the equity in the new company. 3i held 37.4% of the shares, while Cadbury-Schweppes retained a 12.5% interest.

## POST-BUYOUT PERFORMANCE

The buyout liberated the management team. Because they were no longer confined by the corporate requirements of Cadbury Schweppes, they had the freedom to nurture ITNET's strengths and help it to achieve its full potential. Their efforts were well rewarded. By 1998, ITNET had boosted its operating profits to £5.95m on a turnover of £81.7m and had increased its workforce to over 1,300 staff.

From the fast growing area of IT outsourcing – taking over the running of computer departments for corporations and local authorities – ITNET was also expanding into the area of business process outsourcing.

## EXIT

The company had reached a stage in its development where it would benefit from the advantages of being a listed company. A flotation would strengthen the company's balance sheet, allowing it to bid for larger contracts, and would provide the resources for future acquisitions. ➜

The markets' growing appetite for information technology stocks created a favourable environment for ITNET's listing. The IPO which took place in June 1998 valued the company at £246m. The nine directors who had led the buyout retained 12.3% of the post-flotation equity – which turned them into paper millionaires. The flotation also benefited most of ITNET's employees, who owned 25 per cent of the shares at the time of the IPO. A significant number of employees took the opportunity to buy additional shares.

## POST-EXIT

Since becoming a publicly quoted company, ITNET has continued to prosper and expand its customer base. Its turnover has almost doubled, to close to £159m for the year 2000. Share ownership is widespread among the company's 2,300 employees, and is recognised to be an important engine of growth and high performance.

# Loewe

**Thanks to private equity, Loewe gains the independence and resources to build a lifestyle brand and expand into international markets.**

- Activity: *High-end consumer electronics*
- Country: *Germany*
- Private Equity Backers: *3i*
- Transaction: *1997*
- Exit: *IPO in July 1999*

## OVERVIEW

3i's purchase of minority shareholder Matsushita's stake in Loewe Opta was the first step in the company's planned move towards a flotation on the stock market. After the transaction, 3i took an active role in a restructuring and refocusing operation which enabled Loewe to expand internationally and float significantly earlier than was originally anticipated.

## BACKGROUND

The story of Loewe AG began in 1923, when Dr. Siegmund Loewe established a tiny radio repair shop in Berlin. The company, which is now a world leader in consumer electronics, has always been characterised by a spirit of pioneering innovation. Loewe can take credit for a series of 'firsts':

- The sale of the world's first electronic TV set in 1932
- The sale of the world's first tape recorder in 1951
- The sale of the world's first digital TV set in 1985
- The sale of the world's first digital television with 100 Hz technology in 1994
- The sale of the world's first television with integrated Internet access in 1998.

In 1997, Loewe Opta was owned by members of the Loewe family and the management team (51.9%) and Matsushita, the Japanese electronics group (48.1 %).

Later that year, as the first step towards a flotation on the stock market, private equity group 3i acquired Matsushita's stake in the company.

## BUYOUT

Independence from Matsushita, and the goal of flotation within three years, were seen as crucial elements of Loewe's long-term strategy. This was to improve brand recognition and to enable the company to expand in the international market.

As a result of the buyout, 3i held 40% of the equity in the new Loewe holding company, with the management team and the Loewe family retaining 60%.

## POST-BUYOUT PERFORMANCE

After the buyout, Loewe, with the active partnership of 3i, continued to simplify its corporate structure and started to concentrate its resources on core business activities – high-end (and high margin) consumer electronics, multimedia and telecommunications. The group divested itself of all activities which did not fit this focus.

At the same time, Loewe was pursuing a number of other objectives:

- **International expansion** – by developing distribution partnerships in other countries
- **Enhancing its expertise** – by entering into mutually beneficial arrangements with established suppliers of basic technologies (which could be bought in, rather than developed in-house)
- **Research & development** – by undertaking joint projects to develop future technology platforms with other European companies, universities, and research institutes. ➜

## EXIT

As result of these initiatives, the company became leaner and more focused. One year earlier than was originally anticipated, the investors decided that conditions were right for the planned public flotation. In an IPO in July 1999, Loewe employees were offered preferential terms, and a large number of them decided to invest in their own company. A stock option plan allocated up to 7% of the company's equity to middle management. Currently, the total shareholding of all employees (including managers at all levels and their families) stands at about 40%.

## THE FUTURE

The influx of capital following flotation enabled Loewe to implement its strategic plan more rapidly than expected. Since the IPO, the company has expanded foreign sales, boosted distribution and improved automation, flexibility and capacity.

Progress has also been made in the international arena, and Loewe has now achieved world leader status in the market for multimedia technology. In 2000, more than 40% of the company's sales were outside Germany, compared with a figure of less than 25% before the buyout. Over the same period, sales grew from €236m to €362m. EBIT margin grew from 3% to 5.7%.

Today, Loewe is one of the world's leading providers of high-end electronics products, predominantly luxury TV sets, telecommunications products and multimedia appliances. At the time of writing, nearly 1,100 people are employed at the Loewe headquarters in Kronach, Germany. 3i's involvement has set Loewe surfing on a wave, where it can continue to build on its key strengths and benefit from an increasing recognition as a luxury lifestyle brand.

# Nobia

**Private equity backers save a corporate orphan and turn it into a successful, profitable and leading European kitchen interiors manufacturer.**

- Activity: *Kitchen interiors*
- Country: *Sweden*
- Private Equity Backers: *Industri Kapital*
- Transaction: *LBO in September 1996*
- Exit: *Initial investment more than recouped through disposals of non-core businesses in 2000. Industri Kapital remains Nobia's majority shareholder.*

## OVERVIEW

Industri Kapital recognised that, despite its poor performance within the Stora conglomerate, Nobia had the potential to become a market leader and at least as profitable as its competitors. A leveraged buyout was followed by a complete restructuring and reorganisation of the whole group. The private equity house was an active partner in the creation of a truly international kitchen business. Industri Kapital recouped more than its initial investment through disposals of non-core assets and remains the majority shareholder of Nobia, a now larger and much more focused group.

## BACKGROUND

Stora, the Swedish global producer of forest products, inherited Nobia when it took over Swedish Match in 1988. At that time, Nobia was a manufacturer of joinery products (kitchens, doors and windows) and retailer of building products. Its activities were focused primarily in the Nordic Region, where it was a market leader in all its product ranges. But in spite of this comfortable position, Nobia was making heavy losses for no obvious reason. Its main competitors, on the other hand, were achieving satisfactory margins.

## BUYOUT

The recession of the early 1990s affected many businesses in Sweden, including the residential construction industry. Nobia's already poor performance was not helped by the impact of this downturn. Nevertheless, Swedish private equity investor Industri Kapital was convinced that a dedicated kitchen business ought to be able to at least match the profitability of its competitors. In September 1996, Industri Kapital acquired Nobia from Stora in a leveraged buyout.

## POST-BUYOUT PERFORMANCE

Following the buyout, Nobia's management team, under the leadership of Fredrik Capellen and supported by Industri Kapital, undertook a comprehensive strategic review. Their objectives were to cut costs and improve profitability. They planned to achieve these goals by:

- Refocusing Nobia's activities
- Reorganising its operations – streamlining and co-ordinating functions such as production, purchasing, logistics and IT across the whole group
- Expanding through mergers and acquisitions
- Selling off non-core businesses.

### Refocusing and expanding the business

The management team and Industri Kapital decided that Nobia should concentrate its activities around the highly fragmented European kitchen industry. Nobia went on to spearhead the restructuring of this industry with a string of acquisitions. These purchases, largely financed with Nobia shares, extended the company's geographic coverage far beyond its Nordic region home market.

- In 1998, Nobia acquired the leading Finnish kitchen manufacturer, Novart.
- In 2000, it obtained the German kitchen manufacturers Poggenpohl, Goldreif, Pronorm and Optifit along with Nordic manufacturers Norema, Invita and Myresjökök.
- In April 2001, Nobia further secured its position as the largest European kitchen interiors manufacturer with the acquisition of the UK based Magnet Group. ➜

### Divestments

The balancing element of Nobia's strategy to improve its focus was to sell off non-core businesses.

- In June 1997, Nobia merged SP Fönster (its windows division) with competitors Traryd Fönster and Torup Snickerier. Nobia ended up with a 48% stake in the merged company, Svenska Fönster, with an option to buy the outstanding 52% at a pre-agreed price. Nobia exercised this option in 1999 and subsequently, in the summer of 2000, sold Svenska Fönster to the Velux Group.

- In April 2000, the Danish listed doors group Vest-Wood acquired Nobia's door manufacturing business for a consideration of €30.6m in cash plus shares in Vest-Wood (18.1% of the equity, valued at €33.8m at the time of the transaction).

- In November 2000, Nobia sold Star Byggprodukter AB, its wholesale builders' merchants operation, to Mindab, another Swedish company. At the same time it also disposed of its doors subsidiary, BorDörren AB to Norwegian Johs Rasmussen.

### Impact on income and profits

The radical program implemented by the management team, with the active involvement of Industri Kapital, had a dramatic impact on Nobia's financial performance. Income after deduction of financial items improved from a loss of SEK167m in 1996 to a profit of SEK220m in 2000. During the same period, the return on capital employed rose from -14.1% to +22.2%.

## THE FUTURE

Industri Kapital has not yet exited from its investment in Nobia, although divestments of non-core businesses have provided enough cash to recoup the initial investment and more. In addition, Industri Kapital remains a majority shareholder of a larger more focused and hence more valuable business which owns the best brands in the European kitchen industry.

Nobia is now a truly international kitchen group, with 40% of its business in the UK, 25% in continental Europe, 30% in the Nordic Region and 5% in other markets. Employing approximately 6,600 people and with a combined annual turnover of around SEK10 billion, the group now seems ready for market flotation.

# Nutreco

**Private equity backers provide the catalyst which transforms a number of separate business divisions into an independent global industry leader.**

- Activity: *Animal and fish nutrition*
- Country: *The Netherlands*
- Private Equity Backers: *Cinven and BC Partners*
- Transaction: *1994*
- Exit: *IPO in June 1997*

## OVERVIEW

When British Petroleum (BP) decided that its animal and fish feed businesses no longer fitted with its corporate strategy, a syndicate of Cinven and BC Partners funded the MBO of Nutreco. The investors' understanding of the operational and financial requirements of a diverse range of businesses was a major factor in the success of a post-buyout programme of rationalisation, divestments and acquisitions. Three years after the buyout, an IPO on the Amsterdam Stock Exchange provided fresh impetus as the group moved towards world leader status.

## BACKGROUND

In 1994 BP announced that it was planning to sell a number of animal and fish feed businesses. This group consisted of more than 20 main businesses and at least 60 subsidiary production and processing plants. It operated in 15 countries in Europe, South and North America.

As a result of a lengthy period of change and restructuring under BP, morale in these companies was low. The prospect of independence offered a welcome end to the instability and uncertainty endured by the group's 5,700 staff. The buyout gave the company's management a whole new sense of purpose and it was felt that the new ownership would create the right environment for future development and growth.

## THE BUYOUT

BP's financial advisors chose Cinven and BC Partners as joint buyers because they understood the operating and finance requirements of the wide-ranging and global businesses which made up Nutreco.

Cinven and BC Partners drove through a deal in which the group was purchased from BP for $425m. A number of international banks provided working capital facilities, which brought the total financing to $550m. At the time of the transaction, the newly formed group was already one of the world's largest international nutrition companies, with sales of more than $2.3 billion. This made the buyout the largest carried out in Europe in 1994.

Richard van Wijnbergen, previously Chief Operating Officer of BP Nutrition, became Chief Executive Officer of the newly formed company. Senior management took a minority stake, with Cinven and BC Partners providing the remainder of the equity. A variety of shareholder programmes introduced over the years enabled managers and other employees to participate in the ownership of Nutreco.

## POST-BUYOUT

After the buyout, Cinven's and BC Partners' board nominees worked with the management team to plan and implement an ambitious streamlining and restructuring strategy.

### Restructuring

One of their first actions was to integrate the unwieldy seven divisions of the pre-buyout organisation into a more efficient two-business operation. They formed Nutreco Agriculture to deal with animal feed and Nutreco Aquaculture to deal with fish feed. The financial plan allocated funds for the heavy capital investments required to expand the high-growth fish feed business, while also ensuring that adequate resources were provided for the more mature animal feed part of the company. ➜

### New staff and functions

The private equity backers worked alongside the management team to recruit a non-executive chairman and to staff the new finance department. Nutreco had not required certain functions (such as finance) when it was part of BP, but these needed to be added when it became an independent company.

### Centralisation

Consolidation of the different businesses into a single company enabled Nutreco to co-ordinate its efforts and produce economies of scale by centralising departments such as purchasing, research & development and information technology.

### Divestments and acquisitions

The team's efforts to consolidate and rationalise Nutreco involved selling off the remaining non-core and underperforming activities, while also making acquisitions in the newly identified core growth markets.

## EXIT

The company was able to repay a considerable proportion of its substantial debt only one year after the buyout. In the following year, 1996, the company further improved its capital structure by refinancing its debt on more favourable terms. The combination of financial and operational improvements generated a sizeable profit, and in June 1997 Nutreco was ready to float on the Amsterdam Stock Exchange. This took place at least a year earlier than was originally planned.

## POST-EXIT

The MBO clearly provided the right impetus for the creation of a new multi-national company with world leader status. Nutreco now has a strong reputation for quality, expertise, and excellent research and development capabilities. At the end of 2000, the company had total sales of €3,126m, a gross margin of €881.4m, net income of €90.9m and a very healthy balance sheet. Today Nutreco employs almost 11,000 people.

Perlos OY

# Perlos OY

**Private equity backing provides Perlos OY with the industrial expertise and assistance it needs to enter the international arena. In the process, the company transforms itself from private family ownership into a large public company.**

- Activity: *High specification injection-moulded components, injection moulds, electromechanical connectors and automated assembly equipment*
- Country: *Finland*
- Private Equity Backers: *EQT Partners*
- Transaction: *1996*
- Exit: *IPO in June 1999*

## OVERVIEW

When plastics specialists Perlos OY needed international experience to expand outside its home market, it chose Swedish private equity house EQT Partners to put together a leveraged buyout. EQT also provided the network contacts, industrial expertise and management strength needed for growth and to implement a new focus on satisfying customers' individual point-of-sale requirements. The three years between the LBO and flotation saw an enhanced international profile and large increases in sales, margins, staffing levels and the value of shareholders' equity. Since the IPO, Perlos has continued to expand its international customer base and has now become a truly global service provider.

## BACKGROUND

If you have a mobile phone, there is a fair chance that there is some 'Perlos inside'. Perlos Oy was founded in Helsinki in 1953 as producer of plastic components. Since then, the company has continued to consolidate its expertise in manufacturing precision plastics. Today, Perlos supplies components, injection moulds, connectors and automated assembly equipment to customers in the telecommunications, electronics, pharmaceutical and automotive industries throughout the world. The company also provides design consultancy and post-moulding/assembly services to a variety of international customers.

## THE LEVERAGED BUYOUT

In 1996, the owners of Perlos, G.W. Sohlberg Ab, were looking for ways to grow, and decided to approach Swedish private equity backers EQT Partners. The two main reasons for choosing EQT were to gain access to EQT's industrial expertise and networks and to obtain assistance with plans to expand Perlos internationally.

For their part, EQT saw many good reasons to get involved with Perlos:

- The company had experienced strong historical growth with impressive profitability.
- Its line of business was well suited to focus on the major growth sector of mobile phones and pharmaceutical devices.
- It was already a preferred supplier to attractive, rapidly growing customers such as Nokia and Astra (today Astra-Zeneca) and was about to become a preferred supplier to Ericsson.

Perlos' managers were successful, experienced, and highly committed, lacking only in international experience. EQT recognised the potential to expand the customer and product base and identified a leveraged buyout (LBO) as a way to capitalise Perlos' management and technical expertise.

A deal was struck in December for a total valuation of close to €200m. The equity of the new company was evenly divided between EQT and the pre-buyout owners, G.W. Sohlberg Ab. Warrants were set aside for the management team.

## POST-BUYOUT PERFORMANCE

Upon acquisition, EQT developed a strategy for growth, reinforced the management team and, in 1997, recruited Timo Leinila as CEO. Under Leinila, the new management team committed fully to EQT's plans for international expansion.

The company was now in a position to respond to requests for point-of-sale supply. ➜

Perlos started to build closer relationships with its customers – particularly those in the pharmaceutical and telecommunications sectors. These initiatives, together with international contacts and strategic expertise contributed by EQT, led to a post-buyout period characterised by strong growth and sustained profitability.

Statistics (for a period which also includes one post-exit year) demonstrate the success of the partnership between EQT and the management team. Sales grew from €136m in 1997 to more than €450m in 2000, on improving profit margins. At the end of 2000, Perlos employed 3,854 people.

## EXIT

In a very successful initial public offering, Perlos was floated on the Helsinki Stock Exchange in June 1999 with a market capitalisation of €484m. The enhanced international profile of Perlos attracted many investors from other countries: one third of the offering was allocated to Finland, with the other two-thirds being bought by foreign investors. Since the flotation, Perlos has at times been listed among the Helsinki Stock Exchange's top 15 companies.

## THE FUTURE

In recent years, Perlos' international customer base has continued to grow. The company now has a total of 15 production plants as well as units in Finland, the United Kingdom and the United States. New factories in Hungary and China became operational in 2000. Expanding its international production network has reinforced Perlos' already strong position as a global service provider.

# Saia-Burgess Electronics

**When conglomerate Williams decided to divest non-core businesses, a team consisting of private equity investors and the existing management won the bid for Saia-Burgess. Management and investors worked together to create and nurture a highly successful customer-focused culture.**

- Activity: Leading *manufacturer of microswitches, motors, timers and programmable controllers*
- Country: *Switzerland*
- Private Equity Backers: *Quadriga Capital Management and SBC Equity Partners*
- Transaction: *June 1996*
- Exit: *IPO in May 1998*

## OVERVIEW

A conglomerate holding company decided to sell a high-performing subsidiary because lack of fit with its overall corporate strategy. Quadriga and SBC put together an MBO deal in which private equity houses and the management team held 80% of the equity in Saia-Burgess Electronics. The original owner retained 20% of the equity. A strategy of reorganisation and improved customer focus radically improved post-buyout performance and enabled an exit via IPO in 1998. Since then, sales, earnings and the market valuation of the company have continued to grow ahead of industry expectations.

## BACKGROUND

Saia-Burgess Electronics has its roots in two independent companies, founded in Switzerland and in the UK:

- The Société Anonymes des Interrupteurs Automatiques (SAIA), established in Berne in 1920

- Burgess Products Ltd, established in Hinckley (UK) in 1953.

In 1987, Burgess Micro Switch Company Ltd took over SAIA AG and its subsidiaries. The following year, Williams Holdings plc acquired both companies and merged them to form Saia-Burgess Electronics. An operational headquarters was set up in Murten, Switzerland.

The new management team embarked on a bold programme of restructuring, investment in state of the art production systems and further internationalisation. This was so successful that, by 1995, Saia-Burgess had become a leading manufacturer of microswitches, motors, timers and programmable controllers for use in cars, consumer goods and office equipment. The company employed 1,500 people and had achieved EBIT of CHF 13.3 million on sales of CHF 200.4 million.

## MBO DEAL

However, by June 1996 Williams Holdings' corporate strategy had shifted to focus on fire protection, security and building products. To implement this new focus and to reduce its leverage, Williams decided to divest itself of Saia-Burgess. SBC Equity Partners, Quadriga and the Saia-Burgess management team put together a buyout deal of £71m (CHF 128 million), and their bid was selected. As a mark of faith, the MBO deal included a reinvestment by Williams of £6.6m (about CHF 12 million) in exchange for a 20% stake in the bought-out company. The remaining equity was spilt between the management team of Chief Executive Officer Andreas Ocskay and his colleagues (10%), a company managed by SBC Equity Partners (37%) and QCM Partners, advised by Quadriga Capital Management, (33%). Representatives of Williams, SBC Equity Partners and Quadriga joined the board of the new company.

## GROWTH AFTER THE MBO

Saia-Burgess' first priority was to meet the rigorous demands of its most important customer group – the car industry. The new systems they introduced in striving to improve quality and reduce costs included:

- Automation

- Just-in-time manufacturing

- Group-wide procurement

- Research & development

- Performance related pay for staff.

➜

The management team, supported by the private equity backers, also worked to create and nurture a culture that focuses uncompromisingly on the customer. These systems and strategies led to an improved cash flow, which provided the funds needed to expand the capacity of the business. The internally funded investments continue to influence profitability today.

By the end of the first post-buyout year (1997):

- Sales had increased to CHF 245.1 million
- EBIT had increased to CHF 22 million
- The EBIT margin grew from 6.6% to 9%.

## THE EXIT STRATEGY

However, even with these impressive earnings, the potential opportunities for Saia-Burgess clearly exceeded its financial strength. In 1997, investors and management therefore decided that, with substantial cash flow and net profit margins of 14% and 4% respectively, the company was ready for the capital markets.

Saia-Burgess went public in May 1998 in an IPO commanding a value of close to CHF 240m. This exit strategy provided the private equity shareholders with a substantial return on their original investment and the company with funding for continued future growth.

## POST-EXIT

Today, the company operates in 47 countries all over the world and employs about 2,400 people. By the end of 2000 sales had reached CHF 382.7 million with an EBIT margin of more than 10%. The market's opinion of Saia-Burgess was clearly shown by a December 2000 valuation of CHF 440 million. All of these figures have exceeded industry analysts' most positive expectations at the time of the IPO.

# Sephora

**The Sephora story is about a very productive long-term relationship between private equity backers and an outstanding entrepreneur. By the time an exit was achieved, both parties had the satisfaction of having created a national leader with international prospects from very difficult origins.**

- Activity: *Perfume and beauty products retail*
- Country: *France*
- Private Equity Backers: *Astorg Partners and Apax Partners*
- Transaction: *October 1991*
- Exit: *July 1997*

## OVERVIEW

Private equity backers help an entrepreneur to recuperate and retain control of the company he created, when it was held back by a shareholder with other priorities. They then fund successive stages of development, negotiate an essential acquisition, restructure the company, establish leadership in France and prepare Sephora for its international launch.

## BACKGROUND

Some venture capitalists do literally 'shop around' for deals. While browsing in Les Halles district of Paris, a partner in private equity firm Astorg found his professional interest attracted by 'Shop 8', one of a chain of 12 perfume stores. The feature that made him take particular notice was the innovative concept of 'assisted self-service' – which, to this day, remains a distinctive element of Sephora's success.

Gilles Sicard of Astorg subsequently arranged a meeting with Shop 8's owner, Dominique Mandonnaud. Sicard soon recognised that Mandonnaud had two key qualities of the successful entrepreneur – creativity and an instinctive ability to manage. When Mandonnaud told him that Shop 8 was trapped in a relationship with giant retailer Promodes, it also became apparent that this was a potential investment opportunity.

The relationship with Promodes was a problem because:

- The giant retailer was not willing to fund Mandonnaud's expansion plans for Shop 8.
- Promodes owned convertible debt yielding majority voting rights on conversion.
- It was only prepared to sell its stake in Shop 8 for what seemed a very high price for a company which at that point had never made a profit.

Mandonnaud realised that the only way to regain control of his destiny was to make this high price into a realistic price by improving gross margins and profitability.

## BUYOUT

Mandonnaud was already aware of the added value and support private equity backers could provide, and had previously spoken to another private equity house, Apax. Therefore, he suggested a co-operative venture to the two firms. Confident in Mandonnaud's skills, character and drive to succeed, and in their ability to work with him on excellent terms, the investors jointly decided to back the buyout of Shop 8.

The foundation of what was to be a productive and long-lasting professional relationship was Astorg and Apax's strong belief in Mandonnaud's talent and energy. The deal they agreed gave him the freedom to put his vision for the company into action. Another element which was agreed from the start was the timing of the exit – Mandonnaud planned to retire on his 50th birthday.

In October 1991, the team of investors agreed to pay the price asked by Promodes.

## POST-BUYOUT PERFORMANCE

The buyout business plan anticipated that Shop 8 would open between two and five new stores each year. When this proved difficult to achieve, Mandonnaud, Astorg and Apax considered the alternative of an acquisition. ➜

They soon identified Sephora, a French subsidiary of Boots, as an ideal target. Sephora's main attraction was its 38 stores, each with about 500 sq.metres of floor space in some of France's best commercial locations.

### Acquisition of Sephora

Apax's strong UK network was able to get the ball rolling. The firm contacted Boots' CEO and arranged a meeting – ostensibly to discuss commercial co-operation. Things then started to move quickly: while Mandonnaud visited all 35 locations to evaluate refurbishing expenses, the private equity backers carried out due diligence and carried out negotiations with the vendors and with the banks. To fund the acquisition, Astorg and Apax increased their investment, but once again ensured that Mandonnaud kept control of the company.

### Restructuring

The purchase of Sephora was a classic case of the frog swallowing the ox: with revenues of more than €111m, Sephora was three times bigger than Shop 8. However, Mandonnaud and his backers were certain that they could run the Sephora chain more profitably. With the acquisition finalised, the team undertook a deep restructuring of the whole group.

- A new brand was built around the better-known Sephora name, with a uniform red and black redesign of both Sephora and Shop 8 stores.
- The group management structure was reinforced.
- All existing legal and commercial structures were merged and simplified.
- A new headquarters and a central storage facility were built.
- New computer systems were installed.

### Flagship store

The highly visible culmination of these efforts was achieved in November 1996, when Sephora opened a 1,600 square metre megastore on the Champs Elysées.

## EXIT

At the time of the buyout, the three partners did not know how they would exit. However, they did agree the terms of exit – all parties would sell at the same price – and the date – no later than 5 September 1997. This was Mandonnaud's 50th birthday, and he was determined to retire on that date after many years of relentless work.

As September 1997 approached, Mandonnaud, Astorg and Apax began to consider a possible flotation. Sephora had become France's leading perfume and beauty products retailer, generating sales of €210m and employing nearly 1,500 people. The stock markets were healthy and the press were fuelling speculation about what might be a very interesting IPO.

But there was one major problem: the imminent departure of Mandonnaud, Sephora's creator and driving force. The team recognised that this single fact could make a launch on the market a very risky venture. They therefore decided to seek a buyer for the business, and started to look for an industrial partner with an international network who could add strategic value. LVMH, the French luxury goods group acquired Sephora in July of 1997 for €244m.

For Astorg and Apax, the deal was an excellent exit. Over the years they had invested less than €31m, and at the time of LVMH's purchase owned slightly more than three-quarters of Sephora. Yet it was the success achieved in building a brand, nurturing a world leader and working with Dominique Mandonnaud and his high quality team that brought great satisfaction to all involved.

SFP

# Societé Française de Palettes (SFP)

**The assistance of a private equity backer enables the transformation of SFP, a local pallet recycler, into a regional market leader that catches the eye of a major industrial trade buyer.**

- Activity: *Recycling wooden pallets*
- Country: *France*
- Private Equity Backers: *SCA QUALIS*
- Transaction: *LBO in 1992*
- Exit: *Trade sale to SITA, waste services subsidiary of Suez Lyonnaise (1996 and 1998)*

## OVERVIEW

In the LBO of Societé Française de Palettes (SFP), QUALIS not only put together the finance package but also contributed contacts and expertise. Michel Chérel, the founder of SFP, retained the freedom to exercise his considerable entrepreneurial skills. The partnership of skills allowed SFP to evolve into a company whose impressive performance eventually attracted the attention of a market leader in industrial waste recycling.

## BACKGROUND

Michel Chérel established Societé Française de Palettes (SFP) as an owner-manager business in 1978. His idea was to exploit the market potential for recycling the small wooden crates used for packing fruit and vegetables. SFP collected used crates, repaired them if necessary and then sold them back to the producers. He soon spotted another opportunity, and started to recycle the pallets used in car manufacturing. Again, the process was one of collection (at the end of the assembly line), sorting/repair and selling back to manufacturers for re-use in the production process.

By 1992, SFP's turnover had reached €6.4m and the company had become the second largest French recycler of wooden pallets (market leader sales were €15.2m).

## BUYOUT

Michel Chérel realised that he had to find external partners to help him develop the company. At the same time, he wanted to realise at least part of the value he had created over the preceding 14 years.

Emmanuel Coste and Hervé de Galbert from QUALIS came up with an imaginative solution that met all Chérel's requirements. They proposed a business relationship based on mutual trust. Chérel would have the freedom to continue his individual style of management, while Coste and de Galbert would contribute in three main areas:

- Researching add-on acquisitions and guiding the negotiations
- Providing commercial contacts
- Introducing new methods of financial control.

The alliance between Chérel and QUALIS was created by a leveraged buyout (LBO) in 1992. Only 10% of SFP's value (then placed at €7.6m) was financed with equity, with Michel Chérel and QUALIS taking equal shares. The rest of the deal was financed by mezzanine debt, dividends (the equivalent of the company's cash holdings) and senior debt.

As a result of the LBO, Michel Chérel, as vendor of the company, successfully realised the value of his investment. He also re-injected part of the buyout proceeds as fresh capital in the business he would continue to lead.

## GROWTH SINCE THE LBO

In the post-buyout period, the three main areas in which QUALIS contributed to the development of SFP were:

- **The acquisition of new companies:** SFP bought three companies between 1993 and 1995. This broadened SFP's geographic scope and strengthened its management team. With a network covering most of Northern France, SFP was able to reduce delivery times and consolidate its market dominance.

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- **Improved credibility:** Emmanuel Coste and Hervé de Galbert have been able to make high-level contacts within client companies to improve the perception of SFP. Clients now view SFP as a first-rate industrial partner who can provide a quality service.

- **The introduction of new financial reporting procedures:** the new system introduced by QUALIS improved cash management and stimulated a better understanding of cash flows. This initiative was an essential element of SFP's ability to fund add-on acquisitions and to reimburse its debts.

## EXIT STRATEGY

The combination of growth and acquisitions turned SFP into a visible, solid industrial group with €23m in revenues, €3.4m EBIT and a clear market dominance. Following the acquisition of a competitor of SFP in 1995 by VIVENDI, Suez Lyonnaise also decided to reinforce its offering in the industrial waste sector.

The arrival in SFP's niche market of the big names of industrial waste recycling seemed to be an appropriate time to re-evaluate the competitive environment. In 1996, QUALIS and Michel Chérel sold a majority shareholding in SFP to SITA, Suez Lyonnaise's waste services subsidiary. The remaining equity was purchased by SITA in 1998. In all, the amount realised in the sale provided a substantial return on the initial equity investment.

# Sherman Cooper

**Private equity backing rescues a business from receivership, saving 500 jobs in a depressed area, and turns a popular brand into a quintessential British lifestyle brand.**

- Activity: *Fashion*
- Country: *United Kingdom*
- Private Equity Backers: *3i, Enterprise Equity*
- Transaction: *Rescue from receivership in 1993*
- Exit: *Secondary MBI and renewed commitment of private equity houses in 2000 recapitalisation*

## OVERVIEW

After a long period languishing in the doldrums, an injection of capital and energy from private equity backers 3i and Enterprise Equity quickly brought former fashion leader Ben Sherman back into profit and the public eye. The buyout was welcomed with relief by the company's workforce, who would otherwise have faced closure and the loss of 500 jobs in an economically depressed area. The long-term commitment of the investors was amply demonstrated when, seven years after the original buyout, they committed capital once again in a second buyout.

## BACKGROUND

In the late 1950s, Arthur Bernard Sugarman, who later changed his name to Ben Sherman, started making shirts from a small factory in Brighton. From the start, Ben Sherman shirts had the instantly recognisable features that still distinguish them today – a button-down collar, a pleat at the back and a nametag on the seam. This style caught perfectly the zeitgeist of Carnaby Street and the swinging sixties, and in 1963 Sugarman opened his first shop, again in Brighton. More shops, in London and elsewhere, soon followed.

Unfortunately, Sugarman's skills as a manager did not match his flair for design and bold decisions, and he proved unable to maintain the momentum of the group's early success. His over-ambitious expansion plans led to a history of losses and restructuring which lasted over thirty years. Eventually, the group went into receivership in 1993.

## BUYOUT

In October 1993, the Glasgow office of 3i put together a £7.8m turnaround package to rescue the now Northern Ireland based Sherman Cooper Ltd. 3i and Enterprise Equity invested £2.6m of equity, with the balance of £5.2m consisting of debt. The transaction backed a management team headed by Bill Walker and preserved nearly 500 jobs in Northern Ireland and London.

## POST-BUYOUT PERFORMANCE

By 1994, Sherman Cooper (formerly Ben Sherman) was beginning to overcome initial difficulties, and in 1995 it moved into profit. The management team, with the active support of the private equity backers, achieved this turnaround by implementing a number of strategies:

- **Restructuring/reorganisation:** improvements focused on logistics, operational management, customer service and market responsiveness.

- **Rebranding:** the original brands were developed and expanded, and new brands were added.

- **Marketing/advertising:** examples such as 'The less you wear, the more it matters' (Slix fashion swimwear slogan) and 'Mum – wash me shirt' (washing instructions on a Ben Sherman shirt) helped to remake the vital cultural connections that led to the company's initial success in the 60s. Assisted by the endorsement of public figures such as the UK pop star Noel Gallagher, the Ben Sherman shirt is now recognised as the 'quintessential British shirt'.

- **Expansion/acquisition:** in addition to the development of existing in-house brands, Sherman Cooper acquired licences for the worldwide distribution of Acupuncture footwear, which has achieved explosive growth over the last few years.

The involvement of the private equity backers, their faith in the brand and their support for the management team were all crucial to this success. Ben Sherman's management came to count a lot on the equity partners and considered them as vital members of the team. ➜

From 1993 to 2000, the company's sales increased from about £20m to more than £80m. Profits in 2000 were over £12m.

## EXIT

In early 2000, rumours of a possible flotation started to circulate, with various sources hinting at a valuation of more than £110 million. However, time went by with neither a flotation nor a sale materialising. Instead, a press release at the end of August 2000 announced that 'the men who ironed out the creases at Ben Sherman' – the management team who had helped to build one of Northern Ireland's most successful garment companies – were leaving the business. Their departure enabled a new team from lower levels of management to take the elevator and acquire a stake in the business.

3i and Enterprise Equity, who had backed the 1993 rescue, retained their initial investment, and funded the second buyout with Bank of Scotland. In addition to financing the second recent buyout, additional capital was made available for the international development of the group's brands. As a result of this new deal, the company regained its original name and Sherman Cooper reverted to Ben Sherman plc.

## THE FUTURE

The new management's focus is to sustain the company's position in the UK and to continue to develop overseas markets. The renewed commitment of the venture capitalists is a reflection of their conviction that, under the management of another strong team, the company will continue to go from strength to strength.

# TM Group

**Private equity houses provide the key to unlock the full potential of a strong and experienced management team.**

- Activity: *CTN (confectionery, tobacco, news) retailing, drinks vending, cigarette vending*
- Country: *United Kingdom*
- Private Equity Backers: *HSBC Private Equity as lead, with Electra Fleming and Legal & General as co-underwriters*
- Transaction: *Management buyout in 1995; follow-on financing in November 1998*
- Exit: *Recapitalisation in May 1998*

## OVERVIEW

A syndicate led by HSBC Private Equity supported a dynamic leader and his management team in an MBO which created the TM Group. After driving through all aspects of the buyout in record time, the private equity house remained actively involved in a post-buyout period of strong organic growth and further acquisitions. Exit via recapitalisation on the bond market provided for future expansion, guaranteed a bigger stake for the management team and left the shareholders with a high level of retained equity. Post-exit, TM Group has continued to refine its corporate focus with a programme of further acquisitions and divestments.

## BACKGROUND

The TM Group owes much of its success to the astute leadership of James Lancaster.

- In 1973, Lancaster set up the cigarette vending machine business Mayfair under the ownership of Gallaher, the international tobacco company. Within 10 years, Mayfair had become the UK market leader and had grown to become three times the size of its largest competitor.

- In 1984, he expanded Mayfair by acquiring Vendepac (the drinks and snack vending machine business) from Mars. By 1992, Vendepac had become the UK market leader.

- In 1993, Gallaher asked Lancaster to take over the management of Forbuoys, a chain of 600 CTN (confectionery, tobacco, news) stores.

### The Forbuoys turn around

The outlook for Forbuoys did not look particularly encouraging. The two main problems were that:

- Tobacco and news, its key product drivers, were in a long-term decline.

- The stores were in secondary locations where most customers walked to the shop.

However, Lancaster and his team quickly turned the business around. They converted Forbuoys to a 'convenience' store format, adding groceries, alcohol and extended hours to the traditional CTN offering. This aligned the business with the changed eating and shopping habits of late 20th century customers – and transformed Forbuoys into a growth business.

## THE BUYOUT

In the early 1990s, it became clear to Lancaster that the businesses he managed did not really fit with Gallaher's core activities, and he therefore decided to approach the group with an MBO offer. In spite of Lancaster's obvious contribution to the value of the businesses, Gallaher agreed, provided an auction was conducted in due form.

HSBC Private Equity supported Lancaster in a £92million bid, which was successful in the face of strong competition from both trade and financial buyers. Once the team had been granted exclusivity, they drove the transaction through to completion in record time.

In just three weeks, the HSBC Private Equity team negotiated the deal with all parties, ran the due diligence (including commercial, marketing, accounting, legal and property) and arranged the necessary financing (securing a large senior debt and working capital facility). In the completed deal, institutional shareholders provided 85% of the equity, while management held the balance, subject to an IRR based ratchet.

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The TM Group is made up of three businesses: Forbuoys, the confectionary, tobacco and news (CTN) retailer; Mayfair, the cigarette vending machine business, and Vendepac, the drinks and snack vending machine business.

## POST-BUYOUT PERFORMANCE

Since the MBO in 1995, the TM Group has grown both organically and by strategic acquisitions.

- In 1996, it acquired Stretton Vending, further consolidating its leadership in cigarette vending.
- In 1997, it acquired Reliable Refreshment Services, its first acquisition in drinks vending.
- In 1998, it acquired Vendcare, the fourth largest drinks vendor.

All of these takeovers rapidly performed ahead of expectations on acquisition and have been successfully integrated into the group. The TM Group has consolidated its market leadership position in each of its three businesses and has generated sufficient revenue, not only to fund the acquisitions, but also to pre-pay part of the buyout debt and equity.

## THE EXIT STRATEGY

By the end of 1997, the shareholders were starting to examine exit options. They were not attracted by the idea of flotation because the likely market capitalisation would not have been sufficient to ensure liquidity. Instead, they looked at recapitalisation as a solution which could provide a return for all shareholders, crystallise the management ratchet, provide flexibility for further expansion and allow the private equity backers to continue to participate in the future prosperity of the company.

In May 1998, TM Group became the first business in Europe to use the bond market, rather than conventional UK debt markets, to recapitalise an investment and take out a profit for shareholders. As a result of the bond, Lancaster and his team crystallised the ratchet, increasing management's ownership from 15% to 36% of the equity of the group (the top of their ratchet).

The recap allowed TM Group to pay a super dividend of £83 million to the shareholders. Private equity backers retained 64% of the equity.

## BRIGHT FUTURE FOR TM

In November 1998, Lancaster persuaded HSBC and the other institutional investors to reinvest slightly less than 50% of their capital gain in the acquisition of Martin Retail Group, a CTN chain of 780 stores. In December 2000, TM divested itself of Mayfair Vending in a sale to Imperial Tobacco Group worth £38 million.

The future looks bright for the refocused TM Group, which holds a clear leadership position in its two remaining activities, convenience stores and drinks vending. The groups' next financing could well take place on the stock market.

# Ultra Electronics

**Private equity backers successfully support the management buyout of Ultra Electronics, despite the oncoming recession and the unpopularity of its business sector – defence and aerospace.**

- Activity: *Design, manufacture and support of electronic and electromechanical systems and products for international defence and aerospace markets*
- Country: *United Kingdom*
- Private Equity Backers: *Phildrew Ventures*
- Transaction: *1993*
- Exit: *IPO in September 1996*

## OVERVIEW

Phildrew Venture's decision to drive through Julian Blogh's buyout of Ultra Electronics has paid rich dividends. The post-buyout strategy developed by the two parties called for an emphasis on generating cash, rather than profits. This income flow funded Ultra's ambitious programme of acquisitions, internal expansion and debt repayment. Market recognition for this level of performance was not long in coming. Three years after the buyout, Ultra floated in a highly successful IPO on the London Stock Exchange.

## BACKGROUND

Ultra Electronics is an international group specialising in the design, manufacture and support of electronic and electro-mechanical systems. Its operations in the worldwide defence and aerospace markets are strategically organised into two key sectors:

- Air and Land Systems
- Information and Sea Systems.

## THE BUYOUT

In 1993, the engineering group TI decided to sell off seven of its non-core businesses. Julian Blogh, who at the time held a management role in these businesses, firmly believed in their market potential and wanted to bid for them. But TI would not allow bids from within the group. Blogh's conviction was so strong that he resigned and set about organising a syndicate of investors to finance a buyout.

He did not, however, find this an easy task. In the period after the fall of the Berlin Wall, defence and aerospace were not the most popular investment sectors. Potential investors were also concerned about the impact of recession. But when Blogh made contact with Phildrew Ventures he found a key partner whose vision went further than these short-term concerns. Tim Hart of Phildrew took the lead in assembling a syndicate with funding from Phildrew, Blogh, the company's employees and a number of other private equity houses.

Julian Blogh's determination and vision were finally rewarded when, later that year, the buyout deal was successfully concluded and he became CEO of the new company.

## POST-BUYOUT PERFORMANCE

The business won the support of private equity backers because it had a substantial portfolio of products and was already a market leader in several niches. These investors were initially concerned, however, that cash flows might not be strong enough to service Ultra Electronics' debt payments.

But their worries were soon proved to be groundless. Within two years, sufficient income had been generated both to repay £20m of senior debt and to fund a series of acquisitions. Focusing on cash generation rather than profit generation continues to be one of the keys to Ultra's ongoing success. ➜

## EXIT

In September 1996, Ultra Electronics was floated on the London Stock Exchange in an IPO with a market value of £160m. At the end of February 2001, the company's market capitalisation stood at £280m.

## THE FUTURE

Ultra Electronics' order book has grown from approximately £106m in 1993 to £275m by the end of 2000. Its turnover increased from £80.3m to £226.9m over the same period, and its operating profit rose from £4.6m to £30.3m. This growth has been achieved via a combination of internal expansion and a constant programme of acquisitions. Two key benefits of the acquisition programme have been the growth of the new technology knowledge base and the expansion of the customer contact network. The company currently operates in the UK and the US and employs about 2,500 people worldwide.

In an industry where size and strength are vital, customers feel confident in awarding contracts of ever-increasing value to Ultra Electronics.

# ZVN/Welzorg

**Private equity backers turn a government department into an efficient, profitable business and take it to the threshold of international expansion. In doing so, they contribute to the development of a management team which is committed to providing high quality customer service.**

- Activity: *Supply and leasing of medical equipment*
- Country: *The Netherlands*
- Private Equity Backers: *Parcom, NIB Capital, Residentie Investments*
- Transaction: *Privatisation in 1994*
- Exit: *Secondary buyout in Spring 2000*

## OVERVIEW

Privatisations are often fraught with difficulties – many of which may not be apparent at the time of the transaction. In this early example of a health sector buyout, a consortium of investors led by Parcom Ventures dealt successfully with a wide range of initial concerns and a complex negotiating position. After the buyout, the private equity backers continued to be actively involved in a programme of acquisitions and an expansion of both fixed assets and the customer base. By the time exit was achieved via a sale to another investor, ZVN had achieved an excellent business profile, while at the same time satisfying the requirements of its customers.

## BACKGROUND

At the end of 1993, the Dutch parliament passed the Wet Voorzieningen Gehandicapten (WVG), a law which aims to make sure that elderly people or people with a disability can enjoy an excellent quality of life for as long as possible. WVG requires that these people will receive the care and equipment they need to live independently and comfortably, no matter what their financial circumstances.

To make it easier for the target groups to access the services they require, responsibility for implementing WVG was devolved from central government to local authorities.

This decentralisation generated a massive requirement at a local level for care services and healthcare products for elderly and disabled people.

It was against this background that ZVN (Zorgvoorzieningen Nederland), the government department that had previously been in charge of providing these services, was privatised. ZVN asked Parcom Ventures to lead the negotiations. Parcom and Alpinvest (later merged into NIB Capital) established a consortium which was later joined by Residentie Investments.

## BUYOUT

The transaction presented quite a few challenges for the private equity backers. A sensitive approach was required, given the vulnerability of the end user group and the fact that a government service was being privatised. Many of the parties involved lacked any experience in this type of negotiation. And the consortium of private equity firms was in a very strange position. It had to negotiate both with and on behalf of the management group – the former senior civil servants who wanted a stake in the new company. The consortium was also dealing with a group of government representatives who sat on the other side of the table.

It took several months to agree the deal, but finally, in the Summer of 1994, one of the first and larger privatisations in the Dutch healthcare sector became a reality. The buyout was financed with equity capital and mezzanine loans and by a consortium of banks with acquisition financing, loans and revolving credit arrangements for working capital. Many employees, including the newly appointed CEO, the management team and other staff also had the opportunity to buy shares in the new company.

## POST-BUYOUT PERFORMANCE

ZVN was in an extremely capital intensive business. At the time of the buyout, funds were needed to purchase the existing fleet of wheelchairs and other mobility vehicles. The company also needed to replace worn out vehicles and to expand the fleet to an eventual figure of about 80,000 units. ➜

The task of funding the required investment was made easier by two factors:

- The huge volumes involved meant that ZVN was able to negotiate substantial discounts with suppliers.

- The banks recognised that the company's client base, local authority organisations, were solid and reliable. They were therefore happy to use accounts receivable as collateral.

ZVN has always been profitable. It quickly became one of the main suppliers in the fast growing market for healthcare services and equipment that had been created by the new law. By acquiring a number of similar operations throughout Holland, the company set about increasing its market share and establishing nationwide coverage. Although local authorities were its primary client group, ZVN soon expanded to provide a full service package to healthcare organisations, hospitals, nursing homes, corporations and individuals. From an initial figure of 230 employees, the number of staff grew to over 1,000 people.

At first, ZVN offered two different activities: consulting and advisory services and equipment supply. Each was established as a separate profit centre. The buyout consortium anticipated that the consulting and advisory services would, at best, break even and that the supply and leasing of equipment would bring in all the profits. Contrary to these expectations, consulting and advisory services became a profitable business in its own right. It was sold at a good return to a strategic acquirer halfway through the holding period of the investment.

In the six years following the buyout, ZVN's annual sales increased from €20m to €127.5m.

## EXIT

By the year 2000, the private equity backers were able to look back on a considerable achievement. Their hands-on involvement had helped to transform a group of civil servants into a professional management team with a focus on providing an excellent service for customers. The company's buy-and-build strategy had turned the former government department into a dominant player in the national market for healthcare services and products.

ZVN was now ready for expansion beyond the national boundary. However, it would have taken at least five years to roll out the lease concept for medical equipment on an international basis. Rather than ask existing investors to commit to another lengthy investment cycle, shareholders and ZVN's management therefore decided to leave the development of international opportunities to another private equity team. In the Spring of 2000, ZVN, now called Welzorg, was sold to UBS Capital.

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