# The Acquirer

The corporate finance magazine from Livingstone

AUTUMN 2015

## When East meets West

Sedant's acquisition of Germany's apt Hiller

PLUS: CYBERSECURITY. THE GRASS IS GREENER FOR IDVERDE. SECTOR FOCUS: ECOMMERCE

# IN THIS ISSUE

## Features



## Regulars



# Comment

Looking at global deal activity, it should be a very active M&A market across the Nordic region. And for sure, it's been a busy year. Interestingly, in the last 12 months we have seen record levels of international buyers looking to enter the region in search of growth investments that are not cheap, but still one to two turns of EBITDA multiple lower than in the US.

Of course, the individual Nordic countries behave differently. Norway has been impacted by the fall in the oil price, whereas Finland has suffered from deteriorating relations with Russia, a key business partner and source of spending for the Finnish economy. Denmark is performing averagely and Sweden is proving to be as resilient as ever. With the Swedish Central Bank lowering the repo rate in July to an unprecedented -0.35%, money has been flooding the markets.

In Sweden, sellers have more options than ever – an overheating stock market is generating premium valuations and becoming a more attractive option for business owners seeking an exit. The M&A market has been more 'two-speed': the highest quality assets have changed hands at record valuations, boosted by buoyant bank and bond markets, whereas more middle-of-the-road opportunities have been a tougher sell.

So what does the crystal ball show? Following strong second-quarter reports from major industrial groups such as Atlas Copco, Ericsson, Hexagon and Alfa Laval, albeit flattered by currency effects, business confidence is on the rise. Our Nordic clients confirm the positive trend, building particularly on improvements across the Eurozone.

Consequently, Nordic corporates are ramping up their acquisition budgets and M&A activity is increasing. For the time being, opportunities abound for both sellers and growth-seeking investors, and we foresee continued interest from European, North American and Asian buyers seeking exposure to the favourable Nordic (economic) climate. This is where Livingstone is adding value as a trusted adviser with 'boots on the ground', and the local contacts and expertise that come with that.


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# $1.10tn

**The total volume of cross-border M&A in 2014 was $1.10tn, up from $775.3bn in 2013 and the highest annual figure since 2008.**

*Source: Acquisition International*

# Online opinion

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**Graham Carberry comments on the UK Government's new scheme to protect small businesses from cyber attacks (see page 8 for more)**
The UK cybersecurity industry is strong and growing – worth £17.6bn and employing over 40,000 people – but more skilled people are needed to help protect the nation as the UK goes digital and adopts new technologies.

The new 'Inspired Careers' online skills and career hub has been developed by industry body CREST and the Government to tackle the skills shortage in cybersecurity. It is good to see that the Government recognises that SMEs are key to the IP supply chain and need to support the building of IT security at all levels of the business community. This is a small gesture, but a step in the right direction.

**Anand Parekh explains how omni-channel is driving the convergence of retail and technology**
Omni-channel implies a seamless, integrated retail experience for consumers spanning the online, mobile and physical shopping channels. This is particularly prevalent in UK retail, where a mature ecommerce market and demanding consumers are forcing retailers to differentiate themselves through customer experience, and to do so consistently across all consumer touch points. This helps drive sales across all channels.


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

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'wardour'

# NEWS Digest

LIVINGSTONE NEWS

## Cementing family ties

We reported on the formal establishment of our Swedish team as Livingstone Stockholm in the summer edition of *The Acquirer*, and we are happy to report that it is already catalysing transactions across the globe and creating a string of live opportunities.

"Right from the start, we have been working together to create opportunities that none of our individual offices could necessarily have unlocked independently," says Daniel Domberger, Partner at Livingstone London. "Livingstone Stockholm has been very well received by the Nordic market, which values its increased global reach and worldwide sector experience."

The red carpet is being rolled out on both sides of the Atlantic to welcome our Swedish office to the Livingstone brand and introduce our new partners to colleagues and clients around the world. First came the official announcement in Stockholm, where international colleagues joined some 150 leading Swedish investors, business leaders and lawyers for the launch party. Then members of the Nordic team flew to London for *The Acquirer*'s 25th anniversary celebration, and they will soon be heading to the US to attend the annual Livingstone Chicago client party.

"Combining global sector expertise with local execution capability, as we have again with Livingstone Stockholm, enables us to deliver exceptional results for our clients around the world," Domberger adds.

"Our skills and insights are underpinned by strong personal relationships worldwide. We all know one another at Livingstone. We speak daily, we get together regularly, and we share systems, platforms and approaches. Opportunities continually flow from that. It's the informal discussions which throw up the great ideas that make for transformational results for our clients."

COVER IMAGE: CLAIRE SCULLY
PORTRAIT: PETER JAMES FIELD / AGENCY RUSH

MARKET NEWS

## Deals, deals, deals

New investors and fresh private equity (PE) capital have driven increased M&A activity across all sectors this year. With 27 transactions completed between January and July, Livingstone anticipates even higher volumes over the next six to 12 months, as sustained business confidence encourages more owners to consider exits, and acquirers and investors to make bolder strategic moves.

"The total value of the transactions we've been involved in this year is 20% up on the same period last year, and 200% up on the first half of 2013," says Patrick Groarke, Partner at Livingstone London – which, in common with Livingstone offices worldwide, is recruiting to meet demand. "The deals were bigger – 14 were funded by PE – and there were more of them. While we expect that trend to continue, valuations may not remain at earlier levels as more owner-managers come to market and supply begins to better match demand."

Between late 2014 and early summer this year, the combination of a market flush with PE capital and a scarcity of quality assets drove extremely attractive valuations, but uncertainty about the outcome of May's UK election robbed owner-managers of the confidence to take advantage of the climate.

"There is still a huge amount of money out there," Groarke adds. "There have been a number of successful fundraises by PE houses, but there are also more people seeking to invest and a proliferation of new, alternative lenders coming into M&A markets."

Livingstone is seeing more family offices competing alongside traditional funds to gain direct access to deals, and good liquidity in the credit markets in the UK and the US is generating increased interest from credit funds. More strategic buyers have also been returning to the market this year.

Globally, the first six months of 2015 saw \$1.7tn of M&A activity, up 12% on the first six months of 2014. "Recent turmoil in the Chinese and European markets can't be ignored," says Groarke, "but it doesn't seem to be affecting M&A at the moment."

ANDY DAVIS
CLAIRE SCULLY

TRANSACTION AT A GLANCE

**CLIENT:** APT HILLER GMBH
**SECTOR:** INDUSTRIAL
**TRANSACTION TYPE:** SALE OF MAJORITY SHAREHOLDING
**ACQUIRER:** SEDANT

# Enter the dragon

In completing the sale of a majority stake in German company apt Hiller to Chinese conglomerate Sedant, Livingstone demonstrated its ability to bridge the cultural divide

It is always challenging to bring together two companies with very different cultures, and even more so when they are based thousands of miles apart on different continents and must build a strong working relationship on the basis of a few face-to-face meetings.

With the sale of a majority stake in German *Mittelstand* manufacturer apt Hiller to Sedant, a Beijing-based Chinese conglomerate, Livingstone's Düsseldorf and Beijing offices demonstrated their ability to identify a potential acquirer with the right priorities, help the two sides bridge the cultural divide to forge a mutual understanding, and guide the sale process through to completion in a short space of time. The team's ability to understand the priorities of two such different companies proved crucial in building trust between buyer and seller, without which no deal could go ahead, and enabled the process to move quickly.

It was a brief that most advisers could not have taken on, says Christian Grandin, Partner at Livingstone Düsseldorf: "We were well suited for this appointment because we are one of the few advisers that has its own Chinese employees here in Düsseldorf and in Beijing, under the Managing Director of Livingstone China, Baoshan Bao."

The cultural challenge was not the only complex aspect of this transaction. apt Hiller's CEO, who held a large minority shareholding, intended to remain with the business and retain a shareholding, so any transaction would necessarily preclude an outright takeover.

Livingstone, however, thought that for a Chinese acquirer looking to establish a significant position in Europe, these conditions might well represent an attraction rather than a barrier. And so it proved.

> "THE TEAM'S ABILITY TO UNDERSTAND THE PRIORITIES OF TWO SUCH DIFFERENT COMPANIES PROVED CRUCIAL IN BUILDING TRUST BETWEEN BUYER AND SELLER"

**A HIGH PROFILE**

apt Hiller was founded by Werner Hiller in 1972 in Monheim am Rhein in Germany's industrial heartland. It specialises in manufacturing high-specification aluminium profiles using machines that shape the metal under high pressure, a process known as extrusion. (The 'apt' part of the company name stands for 'alu-profil-technik' – 'aluminium profile technology' in English.) The profiles are used in car and truck manufacturing, for aluminium architectural components such as windows, doors and structural elements, and for a wide variety of industrial uses including motor housings and cooling devices.

By 2014, the company had annual sales of €205m and 800 staff at four locations: extrusion plants at Monheim in Germany and Roermond in the Netherlands, and product finishing plants at Eckental in Germany and Cheb in the Czech Republic. Over more than four decades, apt Hiller had grown to become the largest independent manufacturer of aluminium profiles in Germany and one of the largest in Europe, with a market share of around 6-8%. It was therefore an extremely attractive asset for a buyer looking to enter the market, according to Jochen Hense, Partner at Livingstone Düsseldorf.

Over the past 15 years, says Hense, Werner Hiller had stepped back from running apt Hiller day-to-day, moving to the supervisory board and bringing in Frans Kurvers as CEO to expand the business further. Kurvers oversaw a series of acquisitions and ultimately acquired 45% of the shares in the company, with the founder holding the balance. In early 2014, Hiller, by now in his early 80s, decided the time was right to concentrate on his ambitions as a philanthropist.

"Mr Hiller had no children, and his main motivation was to sell his share in the business and donate most of the money to set up the Hiller Institute at the University of Düsseldorf, for the study of rheumatic diseases," Hense explains. "This was very important to him, and thankfully we were able to help him."

The Livingstone team began discussing potential acquirers with Kurvers, who planned to stay with the business and retain a significant shareholding. "Given the importance of China for German industry," says Grandin, "we investigated the appetite and levels of interest of investors and strategic players within the region. We wanted to try to find a buyer who would take a majority stake in the business and work with the CEO to explore opportunities in the Chinese market and strengthen the business further in Europe."

This approach made sense because Chinese companies tend to prefer to retain local management when acquiring a European company. Any deal with a Chinese partner would be more likely to succeed, the team reasoned, if the European company had a strong and committed local management that were incentivised to remain with the business and to help master the important post-merger integration process.

fit, being one of China's leading makers of energy-efficient construction components.

Bao says that a deep understanding of Chinese business culture was crucial in helping to identify the most suitable partner. "I knew there were a lot of potential Chinese acquirers with very strong financial backgrounds, some of which were state-owned enterprises, but you need a good instinct to help identify which are the most appropriate ones to speak to. I advised our client that Sedant offered the best strategic and cultural fit."

The negotiations involved several meetings between the two teams in China and Germany, each lasting several days. It was during these extended meetings that the two sides built the crucial trust that would enable them to conclude a transaction. Here, Livingstone's

**A DEEP UNDERSTANDING OF CHINESE BUSINESS CULTURE WAS CRUCIAL**

understanding of the different business cultures helped to bridge the gap.

Furthermore, the potential gains for a Chinese acquirer were significant, since most of the industrial machinery used to produce aluminium profiles in China had been purchased from German companies, but Chinese manufacturers generally lacked the skill to operate these machines efficiently and profitably. Gaining access to apt Hiller's technical expertise could give a Chinese acquirer a major advantage in its huge domestic market.

### CULTURAL CHALLENGES

While the logic of trying to locate a Chinese partner was clear, the practical challenges remained significant, given the huge distances and the gulf in culture between China and Europe. Over the years, apt Hiller had been approached by a number of Chinese companies and Livingstone followed up on these contacts, as well as using its own Chinese relationships to identify other possible acquirers. These included the eventual acquirer, Sedant, a privately owned industrial conglomerate based in Beijing, with 1,000 employees and an annual turnover of about €500m. Sedant offered a strong industrial

Bao explains that for Chinese business people, creating trust and building relationships is essential, and much of this takes place outside formal meetings. "The Chinese want to get to know people, to understand them and work out how to negotiate effectively with them. If they don't like you, they won't do business," he says.

"Between 8am and 6pm is work time in China. We would have discussions, and sometimes there would be disagreements or misunderstandings because of differences in business culture. But the Chinese investor will always say, 'Don't worry. Let's stop talking about this and discuss it over dinner.' Here in Europe, we carry on negotiating in the meeting room until midnight, but the Chinese try to find a better atmosphere and negotiate during golf, over dinner, or even at karaoke."

Because of the need for people to get to know each other, transactions between European and Chinese companies often take a long time to negotiate, but this is changing. This transaction is a good example, says Grandin: "We started talks in spring 2014 and we signed the definitive agreement before the year-end. For a German-Chinese transaction, that is very fast."

Ultimately, Sedant acquired Werner Hiller's 55% stake in apt Hiller, along with a further 20% from Kurvers. That left the German CEO with a 25% shareholding and a commitment from his Chinese partner to invest further in the company to expand its presence in Europe, as well as opening up the huge Chinese market for its high-specification products.

For Kurvers, the outcome proved the worth of hiring the right adviser. "From the very beginning, this transaction was greatly supported by the Livingstone team," he says. "Their presence in both China and Europe was crucial to its successful completion."

Werner Hiller also pays tribute to Livingstone. "During the entire sale process, the team took all the necessary steps to protect my personal interests and those of the company," he says.

It was a transaction that required a unique solution in order to satisfy everybody, and one that demanded the ability to find common ground between two very different business cultures, says Grandin. "It was reminiscent of the way transactions used to be done in Europe 20 years ago," he adds, "where people would meet socially over dinner and try to find a mutually acceptable solution."

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# SMALL BUSINESS EXPERT JAMES HURLEY EXPLAINS WHY A GOOD FINANCE DIRECTOR IS ESSENTIAL FOR ANY ENTREPRENEUR WHO IS PREPARING FOR AN EXIT

For any entrepreneur, the sale of a company they built from the ground up should be the triumphant culmination of years of toil and sacrifice. But for those who fail to prepare properly and present strong financial information, beware: a buyer will forensically investigate the numbers. If those numbers don't add up there will be a problem, and the risk of snatching defeat from the jaws of victory.


### FINANCE DIRECTOR – YOUR HELP ON THE INSIDE

While external advisers will typically perform key tasks such as identifying buyers and investors, positioning the business, leading negotiations and managing a timetable for each stage of the process, a critical support role during the exit planning stages sits with the Finance Director.

The majority of entrepreneurs are far from being finance experts – indeed, investors have often expressed their surprise to me about how unsophisticated highly successful founders can be on this front – so the arcane world of mergers and acquisitions can, understandably, be a source of confusion.

Yet it is far from uncommon to come across thriving companies that have expanded rapidly and strengthened all of their departments other than the finance function. Too often, otherwise sophisticated businesses only have a traditional finance controller in this role, performing tasks like processing payroll and chasing invoices. Vital jobs, certainly, but growing companies need a lot more from the leader of their finance team.

### SUPPORT DURING A TIME OF STRESS

This common blind spot is one of the reasons that, beyond the basics, founders often have little idea about the detailed financial position of their own businesses. This kind of oversight inevitably gets exposed during a time of stress – a company sale being a prime example. While the exit process demands input from numerous areas, those who are supposed to be looking after the numbers are particularly vital.

A good Finance Director will be able to share the burden of the process at a time of extreme pressure for founders. They'll provide the numbers the entrepreneur's advisers will need to get the right deal and help them understand the options when an offer comes through.

Suddenly, those nuanced and obscure finance metrics that were too dull for the founder to bother with become critical to the deal. The right Finance Director will ensure that a company's financial reporting and forecasting chimes with the way the business has been positioned by the corporate finance advisers.

After the sale – or, heaven forbid, if it gets abandoned – a Finance Director can then improve any ambitious business, helping it to secure the right finance and keep on top of the demand for working capital as the company expands.

Given the critical importance of the Finance Director in any successful company – not least during a sale process – it is ironic that the role is often something of an afterthought for successful and ambitious entrepreneurs. Preparing a business for sale often includes beefing up the senior management team, so it may be the perfect time to ask some difficult questions about whether the existing finance team has the skills you'll need to get you over the line.

*James Hurley is enterprise editor at* The Times, *managing the paper's coverage of entrepreneurs and private businesses. He formerly held the same position at the* Daily Telegraph *and* Sunday Telegraph.

IMAGE: ISTOCKPHOTO

# Cyber due diligence: the next big thing

As a result of a steady stream of incidents where company data has been breached and compromised, cyber due diligence is becoming an increasingly important concern for transactions

You can't be certain about much in the world of M&A, but there's one thing we can confidently predict: that cyber due diligence (DD) will be the next big thing to feature in transactions as a separate, standalone due diligence exercise.

Today's technology DD tends to focus on issues such as systems compatibility and whether the vendor has up-to-date licences and a robust business continuity plan. Up until now, cyber DD has been a subsidiary element of the process.

However, the increasing threat of cyber attacks and the number of high-profile breaches are driving a significant change in corporate mindset. There is also the clear message, being pushed hard (and increasingly incentivised) by the Government and institutions such as the Bank of England, that businesses must sharpen their risk awareness and strengthen their cybersecurity defences.

> CYBERSECURITY IS AN ASPECT OF PROTECTING SHAREHOLDER VALUE

Graham Carberry, Managing Director at Livingstone London, says: "Financial, commercial and legal diligence streams are now standard practice on transactions, and there is an increasing preponderance of specialist diligence in areas such as IT, management and HR, forex, and sales and marketing. However, few of these areas pose the fundamental and existential risk for the entire spectrum of companies and sectors that is inherent in weak cybersecurity."

According to one recent survey, 90% of large UK companies and 74% of small businesses experienced a malicious IT security breach over the past year, and there is no shortage of horror stories. In July, the dating website Ashley Madison was breached, with the hackers posting details of accounts online. The breach has compromised its users – for whom the presumption of complete discretion will have been critical – and has almost certainly jeopardised the company's planned IPO on the London Stock Exchange later this year.

Following swiftly on the heels of the Ashley Madison debacle, the personal details of up to 2.4 million Carphone Warehouse customers were hacked, exposing up to 90,000 to having their encrypted credit card details accessed.

Or take the story, published recently by the UK Government as a case study, in which an unnamed FTSE 350 company (which itself was an exemplar of good cybersecurity practice) took over a small business. It inherited the very poor state of that company's network security and, as a result, suffered a sustained compromise of its own network shortly after completing the acquisition. The investigation identified that the company's adversary had had unfettered access to the whole network for a period of more than a year and had stolen data related to new technology. This is now known as a 'Typhoid Mary' scenario, where a breach in the systems of the acquisition target leads to a breach of the parent company.

Acquirers of companies are increasingly aware of these perils. In a survey published last year by Freshfields Bruckhaus Deringer, 90% of respondents across the US and Europe believed that information about cybersecurity weaknesses or breaches would reduce the sale price, and 83% said that identified past data breaches, or a cyber incident mid-deal, would make an impact on that transaction.

### IN-DEPTH ANALYSIS

Increasingly, cybersecurity will be analysed in depth or specifically quantified as part of the acquisition process. If you want to see the future of cyber DD, look at a sector on the frontline, such as defence.

One major defence company we know has walked away from transactions, after signing heads of agreement, solely because of concerns about cybersecurity. Another industrial client has a clear policy of not integrating its acquisitions for a considerable period after the completion of a transaction, in order to check cybersecurity scrupulously, to prevent a Typhoid Mary scenario.

Of course, there are enterprises that won't attract a great deal of interest from the criminal and hacking communities, let alone the attention of national intelligence services. But the value of many businesses resides in the proprietary technology, customer information and product data they hold – and that means the security of that data is fundamental to capturing that value. For example, if your business is part of a large and complex supply chain, then you may be targeted as its weakest link.

Increasingly, the Government requires suppliers to meet minimum standards such as those embodied in Cyber Essentials, the Government-backed, industry-supported scheme to help organisations protect themselves against common cyber attacks. Large manufacturers are looking to audit the security of their supply


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chains, while loss of intellectual property (IP) as a result of a breach will compromise the fruits of years of investment.

Jeremy Furniss, head of Livingstone's Aerospace, Defence & Security sector team, reflects: "The developed world relies increasingly on knowledge and expertise to drive economic growth. So the importance of protecting this from state-sponsored and commercially-motivated cyber theft, by parties that wish to leap ahead without having to make the heavy investment required, is becoming ever more critical. While this is of national importance, the heaviest burden for protecting our economic wellbeing inevitably sits with the private sector, from the smallest technology start-up to the largest corporations."

Ultimately, cybersecurity is an aspect of protecting shareholder value. And, as with so many aspects of preparing a business for sale, there is much that an owner-director should be doing.

Identify your most important data assets and how those assets are collected, used, stored and retained. Show how your internal controls protect that data from being leaked or stolen. Given that most breaches are the result of human behaviour, this will be a matter of demonstrating a sustained effort to create and maintain awareness of security throughout the workforce, supported by appropriate training and validated by periodic reviews by external specialists – it's not simply a question of installing software patches. Keep records of past security breaches and what actions were taken as a result. Develop a breach response plan. And assess the cybersecurity credentials of your sub-contractors – and your customers.

Cybersecurity should now be an issue that is at the front of every acquirer or investor's mind. For prospective sellers, being able to show that this issue has been taken seriously, and how underlying IP has been successfully protected, is becoming increasingly critical to achieve a strategic price on exit.


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# Cybersecurity Conference registration form

**Event:** Cybersecurity Conference
**Date:** 21 January, 2016
**Venue:** The Soho Hotel, 4 Richmond Mews, London W1D 3DH
**Cost:** £175 + VAT for the first delegate and £100 + VAT for each delegate thereafter

Livingstone is hosting the next *Acquirer* conference on Thursday 21 January, 2016. This event brings together seasoned transactors, PE investors and corporate finance experts with unique experience of building value in successful private companies.

The event will address key issues and questions such as:

- The threat environment
- Understanding corporate responsibilities
- Understanding the regulations and standards
- Best practice to protect value
- Cybersecurity diligence
- M&A and investment trends within the cybersecurity sector

The event will be hosted at The Soho Hotel, located in the heart of London's entertainment and creative district. The venue is surrounded by some of London's best restaurants, bars and vibrant cafés, and is only 15 minutes by taxi from Paddington, Euston, King's Cross, Victoria and Charing Cross railway stations.

To register for the event, please complete and return the form below. As delegate numbers are restricted to 100, we would encourage you to register early for this event. The delegate fee is an eminently reasonable £175 for the first delegate and £100 for any subsequent delegates from the same company.

Please return your form with payment to **Andrea St. Hill, Livingstone Partners LLP, 15 Adam Street, London WC2N 6RJ.**
For further queries, email Andrea St. Hill at **sthill@livingstonepartners.co.uk**

Conditions: A VAT receipt will be sent with your confirmation. If you are unable to attend, please telephone with your substitute's name.
No refunds are available for cancellations received less than 14 days before the conference.

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# A holistic approach

JAMES GAVIN
ULRIKA MALM

**Ragnar Åhgren**, Chairman of Holistic Hearing, worked with Livingstone's Stockholm team to sell two businesses to the world's leading manufacturer of hearing care solutions, Sonova

Ragnar Åhgren has been active in the field of hearing solutions since 1986. For around five years, together with his co-owners in Holistic Hearing, he had been thinking about selling the two successful businesses they had developed and grown over the previous 20 years.

In 2014, Holistic Hearing appointed Livingstone Stockholm to advise on the sale of Comfort Audio, which develops assistive listening devices used in combination with a hearing aid, to Switzerland-based Sonova Holding AG, the world leader in innovative hearing solutions. In June this year, the Stockholm team advised Holistic Hearing again, this time on the sale of Comfort Audio's sister company, Din Hörsel (a nationwide hearing aid fitting chain), again to Sonova.

### WHY DID YOU DECIDE TO SELL THE BUSINESSES?

In 2001, the business strategy was to grow Comfort Audio to become the leader in wireless equipment for the hard of hearing. My business partners, Carljohan Lagervall and August Pansell – the two co-founders of Comfort Audio – and I had decided we wanted to exit the business by 2010, after which we thought we might like to do something else.

But when we actually got to 2010, we questioned whether selling the company made sense when we still had a lot of interesting ideas to realise, including a couple of overseas projects. So we decided to continue for a few more years.

By 2013, despite strong growth, we concluded that to expand further, we really needed some outside help. We considered a number of possible solutions at that time: selling the company, taking on a strong partner who knew the sector or could provide additional finance, or even going public.

### DURING THE COMFORT AUDIO SALE PROCESS, THERE WAS A LOT OF INTEREST FROM INTERNATIONAL ACQUIRERS. WHY DO YOU THINK THAT WAS?

We were very well known to the big international hearing aid companies. They were impressed by our products and could see the opportunity. We had received unsolicited approaches asking whether we wanted to sell, and had a few meetings. But the fact is that we didn't have the experience to know how to sell our business.

### WHAT LESSONS HAVE YOU LEARNED ABOUT WORKING WITH AN ADVISER LIKE LIVINGSTONE DURING THE SALE OF THESE TWO COMPANIES?

We quickly understood how important it is to have a company with M&A experience to manage such a process, dealing with issues from producing professional presentations to identifying potential acquirers and running a competitive process to maximise value.

### WHAT WAS YOUR EXPERIENCE OF WORKING WITH LIVINGSTONE ON THESE TWO TRANSACTIONS?

We found them to be very professional, and the project team complemented each other perfectly. They demonstrated that they knew a lot about us, which surprised us. They really understood our objectives.

MARK ALEXANDER

# The rail deal

The £42.5m sale of Lloyd's Register Rail to Ricardo has created an energised consultancy business primed to thrive in a booming sector, but it took Livingstone's deft touch to bring the companies together

At first glance, the purchase of Lloyd's Register Rail (LR Rail) by engineering and consulting group Ricardo may appear to be a well-timed acquisition notable for its logic and ease. Scratch beneath the surface, though, and you'll find a complex agreement spread across multiple territories and affecting hundreds of employees. The transaction made perfect sense, but delivering it would take care and attention.

Long before the intricacies of the detailed agreement could be considered, Lloyd's Register – a global engineering, technical and business services organisation with an illustrious 255-year history – first had to identify a potential partner for its rail consultancy and assurance business. In a market energised by innovation and investment, LR Rail was primed for growth, but it would have to come under a new owner.

"This was not a transaction driven purely by pounds, shillings and pence," explains John Wilford, Lloyd's Register's Group Strategy and Corporate Development Director. "It was driven by whether we thought the potential acquirer would be the right strategic partner for the business. That partner would have to understand the rail business."

There was clear ambition for the business within Lloyd's Register, but to realise it, a new strategic partner was required. "The rail industry is busy consolidating," explains Paul Seller, LR Rail's Managing Director, who has taken the same role in the new Ricardo Rail business. "Certification businesses are looking at the industry, and at our success in the early years, and concluding that rail is the place to be. We had a lot of competitors that were getting bigger, and if we didn't do something, we were going to be left behind."

## A DISCREET AND MEASURED SALE

To orchestrate a discreet and measured sale, Lloyd's Register appointed Livingstone to run a formal competitive process. "I was introduced to Livingstone four years ago, during another sale they were managing," says Wilford. "They provided us with feedback on the transaction and I was impressed by the way they handled those discussions.

"When we started to consider who would be the best partner for the rail business, we realised that we couldn't go out to the market ourselves, but it would be useful if an independent representative could do so on an anonymous basis."

Livingstone was duly appointed and kick-started proceedings by advising Lloyd's Register to sell its rail business as a single entity, rather than disposing separately of its 17 geographical operations (13 of which were in offices shared with other LR businesses) in stages. "We suggested that selling all the rail activities in one transaction would generate more interest from strategic acquirers and secure a higher valuation," explains Jeremy Furniss, Partner at Livingstone London. "That was our advice, and they took it."

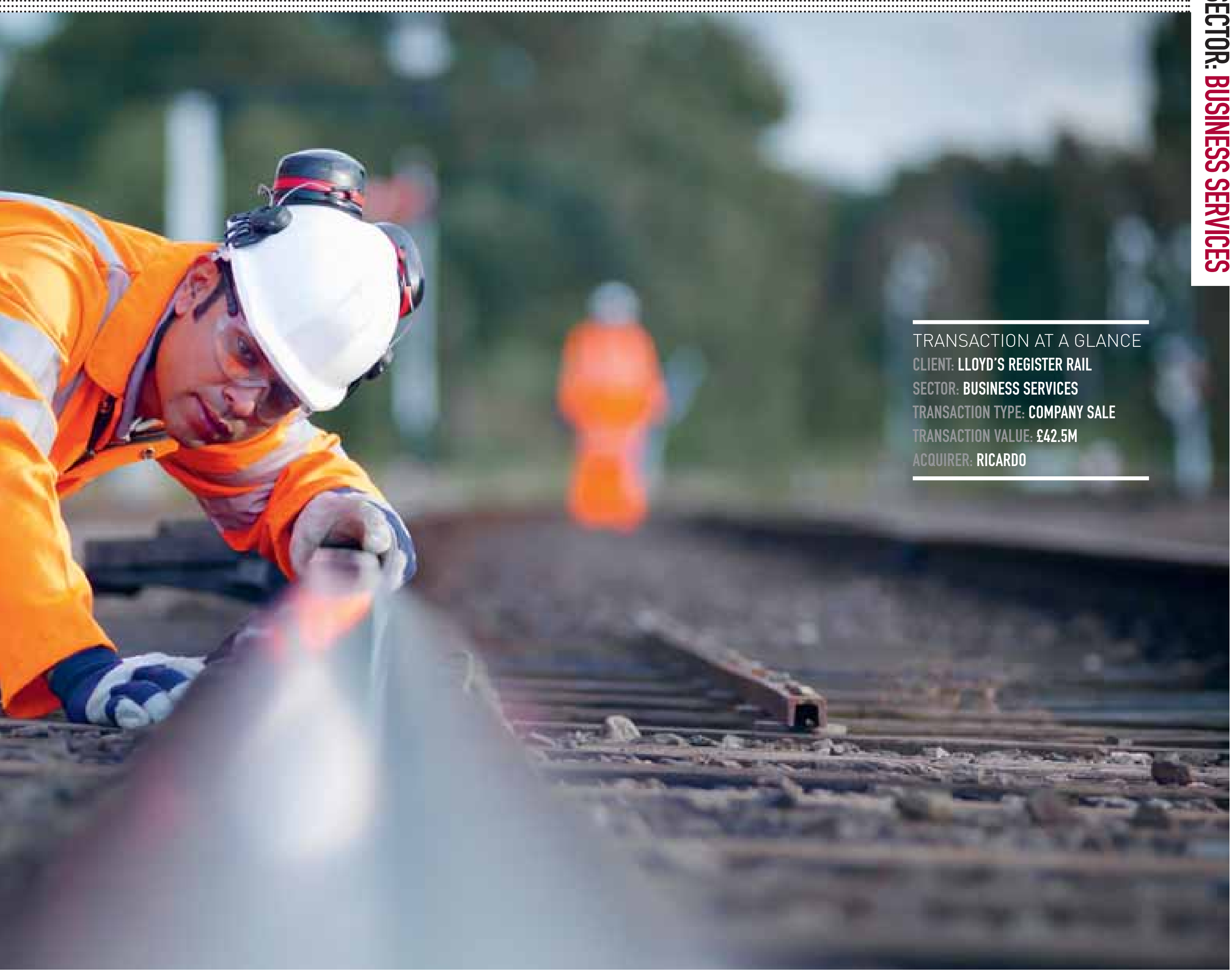
As well as working with the LR Rail management team, Livingstone used its own sector-specific insight to engage a truly international audience and began the process of identifying and contacting more than 30 potential acquirers. This process produced a shortlist of seven strategically aligned businesses, and face-to-face meetings were arranged with these, during which the identity of LR Rail was revealed.

> BUYER AND SELLER COLLABORATED TO AN INTIMATE DEGREE, WHICH IS RARE

"These were long conversations that mainly involved the prospective parties trying to persuade us to consider them as the new owner of the business," says Wilford. "It felt as if they were pitching to us."

## THE PERFECT MATCH

The collaborative approach successfully distilled the widespread interest shown in the business to the most serious contenders. "When we appointed Livingstone, we worked with them to decide which prospective acquirers should be sent information, and which should be invited to a series of one-day management meetings," Seller explains. "Ricardo was in that latter group and it was



TRANSACTION AT A GLANCE
CLIENT: LLOYD'S REGISTER RAIL
SECTOR: BUSINESS SERVICES
TRANSACTION TYPE: COMPANY SALE
TRANSACTION VALUE: £42.5M
ACQUIRER: RICARDO

obvious they would be really good for the business. We saw it straight away. The first time we met the team, there was an alignment of objectives and vision."

Indeed, the pairing turned out to be a perfect match. "We hadn't identified LR Rail as a target," explains Chris Barnes, Ricardo's New Ventures Director. "However, we had known Livingstone for a number of years, and they knew we were interested in rail as a strategic growth sector. They approached us."

He continues: "When this opportunity came along, it was the perfect timing and the perfect fit. It gave us geographic growth and significant capability growth and moved us into a broader consultancy field, as well as helping us to expand into the technical assurance market."

While LR Rail was a successful and autonomous business, with revenues of £48.1m and employing 440 rail engineers and specialists in offices across Europe, Asia and the Middle East, it was part of a global organisation. Carving out these resources from Lloyd's Register would require planning and pragmatism. "There was a lot of complexity in how we transitioned out of Lloyd's Register Group's finance systems and HR structures," Barnes confirms.

"The right approach for a consultancy transaction is distinctive in the rough and tumble of M&A," adds Gavin Orde, Director at Livingstone London. "People are the value of the business, and buyers and sellers often need to be collaborative in their approach; otherwise, that value seeps away.

"In this case, the need for cooperation was so much greater because of the requirement for an ongoing relationship between the parties post-transaction to effect the carve-out. Here we had a buyer and seller who collaborated to quite an intimate degree, which is rare."

Wilford is delighted with the Livingstone team. "You feel that they have your interests at heart and they understand why you're making the decisions you're making," he says. "They brought a really good strategic feel for the rail business and the people who were potentially interested in it, and the advice they gave us on how to handle the discussions with those parties was first class."

"We owe a lot to Livingstone for having put us forward," Barnes concludes. "They were key to giving us the confidence that we genuinely had an opportunity."

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# Taking care

Livingstone's intimate knowledge of the healthcare services market, and diligent preparation for an exacting sales process, assured a smooth acquisition of Brookdale Care by Tracscare

Around 700,000 people in the UK today are thought to be living with some form of autism. That's one in 100 people – five times more than just 20 years ago. While only 14% require specialist care, the huge increase in numbers represents a significant challenge for the UK care services sector – and an exciting opportunity for investors in the space.

Serial entrepreneur Michael McInerney recognised that opportunity in 2002, when he founded Brookdale Care to focus on the challenging and complex needs of adults with autistic spectrum disorder (ASD), having successfully exited his previous care homes business.

Brookdale does far more than provide accommodation. McInerney assembled a passionate team of leaders in autism care – and listened to them. The result is an innovative care pathway built around a unique therapeutic campus, offering tailored support to people with different needs.

Brookdale's highly effective hub-and-spoke model – the therapeutic campus providing a central clinical resource from which Brookdale's nine residential homes benefit – provides a full range of services, from secure in-patient facilities to 24-hour residential care and supported living. It provides a care pathway that allows individuals with ASD to transition from in-patient care to a residential setting in a measured and carefully controlled manner.

## HEALTHCARE CONSOLIDATION

After 13 years of growth in a market that continues to expand, McInerney decided it was time for Brookdale to become part of a larger group, and turned to Livingstone's Healthcare sector team to find the right investor.

"The UK care services sector is going through a period of consolidation," explains Karen Dawaf, Associate Director at Livingstone London. "Funding pressures and the shift away from traditional institutional care, in the wake of recent hospital abuse scandals, make for volatility, which creates opportunities for investors.

"The market has a love/hate affair with hospital-type institutions," she continues, "so we needed to make sure that potential investors understood the genuinely innovative nature of Brookdale's facilities and approach. We spent a lot of time getting to know the business before approaching potential acquirers, and created a highly competitive process to maximise shareholder value."

Brookdale's differentiated care proposition and compelling growth prospects, coupled with its strong performance and well invested property portfolio in Hertfordshire, Bedfordshire and Cambridgeshire, attracted interest from a number of PE investors, some already operating in the Healthcare sector and others looking for a foothold. There was also interest from strategic players, but one partner stood out from the pack.

> **THE RACE WAS ON TO COMPLETE THE TRANSACTION IN JUST 3.5 WEEKS**

## A NEAT FIT

"Tracscare was an excellent strategic fit," says Barry Sheehan, Associate Director at Livingstone London. "They came to the table very well informed, and knowing what the Brookdale team was going through, as Tracscare itself had been acquired by European healthcare services investor G Square as part of its UK buy-and-build strategy."

Operating in the Midlands, the South West and South Wales, Tracscare has more than 25 years' experience of providing care and support for people with acquired brain injuries, mental health needs, ASD and learning disabilities. Not only did Tracscare and Brookdale share a common ethos, they also complemented one another geographically.

Once exclusivity was granted, the race was on to complete the transaction in just three and a half weeks. The challenging timescale, driven by McInerney, relied on Livingstone's exhaustive preparation of the Brookdale management team. Although operationally and strategically strong, the team had little previous experience of the demands of this type of transaction.

"The typical intensity of the sales process was magnified by the compressed time frame," says Dawaf. "It required meticulous attention to detail, so the groundwork we put in with the team, coaching them on what to expect and how to answer questions in the sort of detail required, was critical."

She adds: "The same Livingstone people who met Michael on day one supported Brookdale throughout, and that continuity and trust were important too, especially when the pace sped up in the last few weeks."

McInerney is delighted with the transaction. "Livingstone's early grasp of exactly what we were about, and the detailed knowledge they demonstrated of our highly specialised business, was critical, both for identifying key targets and representing us in the best possible light," he says. "That solid understanding enabled them to position the business without continually referring back to us."

Tracscare is now consolidating its autism services under the Brookdale brand name, making it the largest specialist provider of care and support for people with autism in the country. As its Chief Executive, Peter Battle, puts it: "This is a hugely significant moment in the journey of Tracscare."

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# Therapy in motion

SUZANNE CADISCH
CARLO GIAMBARRESI

TRANSACTION AT A GLANCE
**CLIENT:** BROOKDALE CARE
**SECTOR:** HEALTHCARE
**TRANSACTION TYPE:** COMPANY SALE
**ACQUIRER:** TRACSCARE

Livingstone's Healthcare sector experience is well established across the firm's six international offices, with particular strength in the US. Outpatient physical therapy is in the midst of an M&A frenzy in the US, where more than 10,000 clinics are spread across thousands of private practices nationwide. Livingstone's expertise in this niche sector puts the firm front and centre as the industry consolidates.

"In a sector as dynamic as this, the old adage that you are either growing or dying has never held truer, and private practices have a ravenous appetite for outside investment," says Ryan Buckley, Director at Livingstone Chicago. "The hunting ground is plentiful for buyers and investors."

A decade ago, sellers could look to just a handful of acquirers, but the influx of PE capital into the Healthcare sector has helped create a uniquely attractive environment for private practices that are interested in exiting or building a bigger business. "Preparation and proper positioning are paramount to ensure an optimal and successful outcome," Buckley adds.

The latest in a string of healthcare transactions that the Chicago team has successfully completed saw Livingstone secure growth capital from Pharos Capital Group, LLC to create one of the largest physical therapy platforms in New York City, MOTION PT Holdings, Inc.

The new, scalable platform brings together Brooklyn-based Metro SportsMed (MSM) and Manhattan's STAR Physical Therapy. Now the focus is on acquisition-led expansion, funded by Pharos working in partnership with management, to build the premier physical therapy network in the northeastern US.

David S. Menche, M.D., an orthopaedic surgeon and founder of MSM, who will become Chairman of MOTION, says: "Livingstone provided expert guidance throughout this complicated transaction and facilitated a competitive marketing process to provide MSM and STAR shareholders with a variety of attractive alternatives to consummate MOTION's formation."

DAVID CRAIK

TRANSACTION AT A GLANCE
CLIENT: IDVERDE
SECTOR: BUSINESS SERVICES
TRANSACTION TYPE: ACQUISITION
TARGET: THE LANDSCAPE GROUP

# Changing the landscape

The acquisition of The Landscape Group by French company *i*dverde marks the first step towards the creation of a Europe-wide green services specialist

Every good gardener knows that spectacular floral displays can only be achieved by creating the most conducive environment for growth. That's something Livingstone knows well after playing a pivotal role in the acquisition of The Landscape Group (TLG), Britain's largest provider of grounds maintenance services to local authorities, by French landscape construction and grounds maintenance specialists *i*dverde.

The French company was formed in February 2014 following a buy-out of international service group ISS's 'green services' division by Paris-based investor Chequers Capital. *i*dverde is now France's largest landscape construction and maintenance business, with an annual turnover of €280m.

Bertrand Rabiller, Director at Chequers, says his company backed the group to develop outside France and become the first Europe-wide green services specialist.

"We looked at neighbouring markets such as Belgium and Germany," he explains, "but the UK was the most interesting. It is a sizeable market, with a strong landscaping outsourcing culture, but it is very fragmented and therefore ready for consolidation. By gaining a foothold in the UK, we could make further acquisitions there."

When Chequers started looking for a local adviser on the ground, Livingstone was recommended to them because of its deep understanding of the Support Services sector. Chequers was looking for an adviser to provide local support, advice and guidance, as well as the experience and contacts to unlock the doors of potential acquisition targets. "We are known for being well informed about outsourced services for the built environment such as landscaping," confirms Jeremy Furniss, Partner at Livingstone London.

> **WE QUICKLY BUILT A LEVEL OF CHEMISTRY AND CULTURAL ACCORD**

## GROWTH PLANS

At a meeting in early 2014, the Chequers team laid out their vision for expansion. "We had been monitoring the green services sector and knew of a number of potential UK targets," says Karen Dawaf, Associate Director at Livingstone London.

Furniss adds: "It was interesting, as Livingstone is best known for selling businesses, not for acquiring them. We needed to see a committed buyer with a clear set of criteria and a strategic imperative it needed to achieve. We quickly saw that *i*dverde had all those qualities, and we were given the challenge of lining up the targets."

TLG, owned by London-based mid-market investor Elysian Capital, emerged as the preferred target. "Elysian had owned TLG for a number of years and we surmised that they would be open to a sale," recalls Gavin Orde, Director at Livingstone London. "They were in a similar market, working for local authorities, but they were more focused on ground maintenance tasks such as cutting grass and planting. Those jobs have longer-term contracts – typically 10 years – than project-based landscape construction work, and we felt they would be an excellent complement to *i*dverde."

Rabiller was pleased with Livingstone's recommendation. "TLG had a very good management team, a solid financial performance and experience in M&A. On top of that they were PE owned, so they already knew how to interact with shareholders like us," he says. "They had a narrower spectrum of work than *i*dverde, but we liked the longer contracts. That brought a certain solidity and visibility. TLG was about landscape maintenance and *i*dverde was about creating and maintaining."

Livingstone was asked to make an approach to Elysian and this quickly evolved into meetings with the TLG management team, led by Chief Executive Nick Temple-Heald. "The management team earned our confidence very quickly," Orde recalls. "We outlined *i*dverde's buy-and-build strategy in the UK, and that they wanted TLG to be the foundation of it."

With TLG's management showing a keen interest in this vision, Livingstone led the acquisition negotiations. "You never know with talks between a British and a French team," says Furniss, "but we quickly built a level of chemistry and cultural accord."

*i*dverde M&A Director Eric Faivre d'Arcier agrees about the importance of shared culture. "TLG was a great fit," he says. "We did the same jobs but we also had the same values of carrying out quality work for our customers in the short and long term."

### A RARE COMBINATION

Rabiller praises Livingstone's role. "They were critical in finding a middle ground, helping us to understand UK management commitments and packages, and to explain our own standards," he says. "They were great, both in their recommendations on the best target and strategy and in the way they created a conducive negotiating environment. That is a rare combination."

Part of that help involved providing logistical support to *i*dverde, including the appointment of UK solicitors Olswang. "We had to get involved in the nitty-gritty, as *i*dverde and Chequers had no infrastructure in the UK," Orde explains.

The transaction concluded in early 2015, creating a group with £250m of combined revenues, 4,000 staff, and work projects stretching from Regent's Park in London to the Louis Vuitton Foundation in Paris. Expansion is on the cards, too, with another acquisition likely later this year. "*i*dverde aspires to double the size of the business in the UK to £100m," Dawaf says.

Temple-Heald is also bullish. "Until now, there has been very little cross-fertilisation, as it were, between the green industries in Europe," he says. "But I knew *i*dverde were special as soon as we met them. They are like us; we leave every workplace looking better than when we first got there. This venture could be huge – we could be the largest greenspace firm in the world."

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DAVID CRAIK

# Ding tops up **with debt**

When Livingstone advised mobile top-up provider Ding to use debt to finance its acquisition of iSend, it was the start of an intensive process of due diligence and tough questioning

Owning an innovative technology is an obvious blessing in today's digital-led business world, but it can potentially create a hurdle when seeking finance, as potential funders try to understand how the technology works and how to assess risk and reward.

Ding, a provider of international top-up services for mobile phones in emerging markets, certainly ticks the innovation box. Set up by entrepreneur Mark Roden in 2006, the Dublin-based group enables customers in 130 countries to transfer small monetary values in the form of airtime or credit, to top up friends' and relatives' mobile phones.

The credit is bought from 500,000 retail stores or at ding.com and is typically remitted by migrants working in the developed world to mobiles in their home countries. Ding can reach approximately 4 billion phones and not only helps emerging market communities but also offers mobile operators an incremental revenue opportunity to access new countries and customers.


"When a Ghanaian wife or husband goes abroad to earn money for their family, they typically send, say, $500 a month back through one of the remittance companies," Roden explains. "But in between, there isn't a way for them to support their families quickly, and one important way in many developing nations is ensuring there is enough balance on prepaid phones. One in three people in emerging markets don't have credit on their mobile phones at any one time, but we can help them communicate again in just three seconds."

> THEY EXPLAINED CLEARLY WHY DEBT FINANCE WOULD BE THE BEST OPTION

## WORLD LEADER

Ding has expanded dramatically since 2006 to become the world leader in its sector. At the end of 2014, it planned to achieve further growth through the potential acquisition of the number two global player in international top-up, US-based iSend.

"I am a great believer in scale and I want to dominate this sector," says Roden. "iSend has a very strong presence in the US, Central America and the Caribbean – all attractive markets for Ding."

The company therefore turned its attention to how best to fund the transaction. At the time, Ding expected to raise equity capital from a PE house, but Richard Fetterman, Partner at Livingstone London, was quick to see the merits of another option.

"We felt debt financing suited the group because of its excellent cash generation and growth rates, which we knew would be attractive to lenders," he explains. "The shareholders were also concerned about the potential dilution of their equity and its importance in incentivising staff going forward. Debt resonated well with them."

Roden adds: "We knew that Livingstone would give us the best advice and support. They explained very clearly why debt finance would be the best option, both for the business and for the shareholders."

## DIFFICULT QUESTIONS

Bill Troup, head of the Debt Advisory team at Livingstone London, led the team working on the debt financing. "Although Ding was fast-growing, profitable, cash-generative and had a well-invested technology platform, Mark was aware that lenders might view it as high-risk," he explains. "It was a young business in profit terms; its service and distribution channels needed some explaining, as they weren't immediately obvious; and it could easily be confused with direct money remittance and the risks associated with this."

Troup and his team did a "deep dive" into the

Mark Roden, Chief Executive Officer, Ding

TRANSACTION AT A GLANCE

**CLIENT:** DING

**SECTOR:** MEDIA & TECHNOLOGY

**TRANSACTION TYPE:** FUNDRAISING FOR ACQUISITION

**TARGET:** ISEND

business, organising due diligence and preparing the team for the questions potential lenders would be asking. Livingstone talked the Ding management team through these questions and then, in April, introduced them to a select group of lenders in Ireland and the UK.

"Competition for the debt was strong but some lenders were unsure about the sheer number of countries Ding was involved in," says Troup. "They saw all those different legal regimes as a complication, and we had to spend a lot of time with them to make them feel comfortable. We had to tell Ding's story and quickly answer any queries from the lenders. It was important to maintain momentum and not have the debt-raising process fall behind the acquisition process."

Troup says the lenders then "interrogated" Roden and Mark English, Ding's Chief Operating Officer, who dealt confidently with the pressure. "Mark Roden's entrepreneurial experience had led him to appoint a highly talented team," Troup explains. "As Ding grew, it ensured that it was dealing with only squeaky-clean trading partners. Everything was rigorously checked on a legal basis and, as a result, its systems, processes and technology were proven to be remarkably robust and fit for purpose."

Irish bank AIB won the mandate to provide the debt – partly as a result of its competitive debt package offer, and also because of its knowledge of the company, as it already provided Ding's current account. "AIB showed real enthusiasm and demonstrated how well it understood the business," says Troup. "There was also a good chemistry between the two teams."

Roden praises the Livingstone team for their hard work and accessibility. "You could contact Bill at any time of the day or night. He was hugely supportive and a key part of our lives for a number of months," he says. "He has an encyclopaedic knowledge of lenders and the debt process, and he knew what the lenders would need and kept us one step ahead all the way through."

The acquisition of iSend was completed in June and Roden says Ding is now set for further growth: "Our ambition does not stop here."


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ANDY DAVIS

TRANSACTION AT A GLANCE
**CLIENT:** LYCEUM CAPITAL
**SECTOR:** MEDIA & TECHNOLOGY
**TRANSACTION TYPE:** SECONDARY BUY-OUT
**TARGET:** BRIEFING MEDIA

# Fertile ground

Why Lyceum Capital turned to Livingstone, and its knowledge of the business information market, to support it in the acquisition of Briefing Media

Business information providers are among the media assets most sought-after by private equity firms, so it was no surprise that the sale process for Briefing Media, a specialist agricultural information provider, attracted strong interest from financial investors. It was also a natural transaction for Livingstone, which has developed a leading position in advising both buyers and sellers of business information providers. In this case, the team, led by Richard Fetterman, Partner at Livingstone London, advised the successful buyer, Lyceum Capital.

Briefing Media, led by the highly regarded management team of Neil Thackray and Rory Brown, had entered the agricultural information market in 2012 when it acquired the magazine *Farmers Guardian* from United Business Media with the support of Kester Capital.

Over the following three years, Thackray and Brown had pursued a successful buy-and-build strategy, adding the UK's leading agricultural equipment and services event, LAMMA, to their portfolio in 2012 and AgriMoney, a provider of financial data on agriculture, two years later. They had also begun the transition to a multi-channel business, building a digital platform to complement the print operation and enriching the user experience by adding online classified advertising and more value-added data and information such as weather patterns and crop prices. They had additionally launched new events, including CropTec and the British Farming Awards.

> "YOU WANT TO HAVE EXTERNAL ADVICE TO BRING DEEP KNOWLEDGE OF THE MARKET"

Briefing Media's audience relies heavily on this range of products and services, and this ensured the company would attract strong interest among potential buyers, according to Fetterman. "They have built a robust business and have some great ideas, but they needed a new partner to help them achieve their ambitions," he says. "Equally importantly, the underlying sector is big and Briefing Media has a very strong position within it. In business information, it's vital that you're a leader, not a follower."

When the formal sale process got under way, Lyceum appointed Livingstone as advisers almost immediately. "In a highly competitive process like this one, you want to have external advice as a sounding board for your tactics, but more importantly, to bring deep knowledge of the market," explains Lyceum Partner Dan Adler. "Livingstone did a great job."

Fetterman and his team provided analysis of the market and of competitors, benchmarked Lyceum's valuation of Briefing Media against relevant transactions involving similar businesses, and provided tactical advice as the hotly contested sale process unfolded. They also examined the likely exit options and potential target valuations several years from now.

Anand Parekh, Associate Director at Livingstone London, comments: "We worked hand-in-hand with Lyceum to help them understand the market, and the specific drivers of Briefing Media's value."

After a three-month process, Lyceum emerged as the successful bidder, completing the transaction in mid-July. With Lyceum's support, Briefing Media is pursuing its buy-and-build strategy by investing further in the company's domestic offering across information services and events, while also seeking opportunities to expand internationally by acquiring similar businesses. "We're very confident in the management's ability to assess acquisition opportunities, buy them well and achieve operational improvements," says Adler.

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# App up

Harvard Business School's **Professor Sunil Gupta** explores the latest trends in online retail and mobile marketing

*Sunil Gupta is the Edward W. Carter Professor of Business Administration and Chair of the General Management Program at Harvard Business School. He is also the co-chair of the executive program on Driving Digital and Social Strategy.*

Last year's Black Friday sales in the US set a new record at $89bn. If it were a country, 2014's Black Friday would rank 64th in the world by GDP, just ahead of Oman. Much of this activity was fuelled by online and mobile commerce, and the relentless growth of these retail channels has become an accepted fact of the connected world.

Behind the healthy headline growth statistics, a major transition is under way as online retailers, offline retailers and brands jostle for primacy in rapidly evolving value chains.

## DRIVERS OF GROWTH

Economies of scale weight online retail heavily towards its largest actors. Of $293bn spent online in the US in 2014, $44bn, or a sixth, was spent with Amazon (around double the share of UK offline retail that Tesco enjoyed in its heyday). Amazon's growth will continue as it explores more innovative and convenient delivery mechanisms (such as drones and one-hour delivery slots) – and yet it is still to make a profit. While its economies of scale mean that it will continue to grow and increase its market share, Amazon has recorded declining annual revenue growth for three years, and has slowed further in 2015.

Amazon acts as a bellwether: the growth of online retail as a whole is slowing, but mobile is picking up the slack; ecommerce growth has slowed to 11% per annum, while mobile commerce has accelerated, growing at 44% in 2014 and even more quickly in 2015 to date.

Mobile commerce traffic reached a new high over the 2014 holiday season; 47.6% of the total. As the penetration of both smartphones and high-speed mobile internet has risen, attention has shifted decisively away from the desktop computer towards the smartphone and the tablet. At 34 hours per month, consumers now spend more time viewing media on mobile devices than they do on desktop computers (27 hours per month).

This growth in mobile will cement the position of the incumbent e-tail giants because consumers prefer app-based shopping: 86% of smartphone owners' time is spent using apps, only 14% browsing the web.

But users' demand for apps rapidly reaches saturation. The number of apps used on a monthly basis has stagnated in the high twenties, having hardly grown in the past few years, despite a sustained increase in the quantity and quality of apps published.


Retailers and brands must therefore justify their place in the limited roster of frequently used apps, and this means they must be extremely comprehensive (as Amazon is), speak powerfully to brand loyalists (limiting the audience, and therefore the transactional potential), or offer something genuinely different and useful. A great example of this in the UK is Sainsbury's 'Food Rescue' app, which suggests recipes based on the contents of a consumer's fridge, enabling them to eat food that would otherwise be wasted.

> **86% OF SMARTPHONE OWNERS' TIME IS SPENT USING APPS, 14% ON THE WEB**

### BE THE PLATFORM TO CAPTURE THE VALUE

The largest online retailers have the opportunity to 'be the platform', which has an inherent value to consumers and will support a margin premium. Amazon's marketplace model and outsourced fulfilment business are both revenue streams in their own right, and protect the economics of its core business by reducing the incentive for consumers to shop around.

The outperformance of mobile as a channel, combined with the prevalence of app-based mobile commerce and the practical limit on each user's portfolio of frequently used apps, will reinforce this trend by concentrating usage, and value, in a small number of platform retailers. Leading platforms, such as Amazon and eBay, have recognised this by investing heavily in their mobile apps in order to secure valuable 'real estate' on their users' mobile devices.

For retailers who enjoy neither the category authority to launch private labels nor the scale to make margin simply as platform aggregators, the traditional route to retail success – adding value through differentiated product expertise and customer service – is the strategy that will prove durable.

Single-category retailers in vertical markets that require either specialist product knowledge or more complicated logistics continue to succeed. Operators who find themselves caught between these models will need to rapidly refocus their businesses to be successful; over the next couple of years, I expect a number of large retailers to quietly slim down as they focus on the verticals in which they can achieve sustainable margin.

TRANSACTION AT A GLANCE
**CLIENT:** JAVELIN GROUP
**SECTOR:** MEDIA & TECHNOLOGY
**TRANSACTION TYPE:** COMPANY SALE
**ACQUIRER:** ACCENTURE

## Javelin Group

The rapid evolution of the retail landscape over the past few years has increased the pressure on retailers to adapt, encouraging many of them to seek expert advice. The Javelin Group provides retail strategy consulting and digital transformation services to major retailers, brands and investors around the world. Livingstone's Media & Technology team advised the shareholders of the Javelin Group on its acquisition by Accenture in May this year.

Javelin Group offers a range of strategy services to the retail sector as well as digital technology consulting and systems implementation services. The company is based in London but generates around half its revenues internationally, exporting the UK's recognised ecommerce, mobile commerce and omni-channel leadership around the world. It employs 225 people, and last year generated EBITDA of £4.2m on revenues of £32.6m.

"We appointed Livingstone because they demonstrated deep knowledge of our sector, insight into our business, and relationships with all the key buyers," says Tony Stockil, CEO of Javelin Group. "They were tireless in pursuit of our objectives, gave us sound advice throughout, and have delivered us an exceptional outcome in a tightly managed process."

Daniel Domberger, Partner at Livingstone London, who led the transaction, comments: "Consumer brands and retailers face enormous opportunities and challenges in adapting to the evolution of digital technologies. The acquisition, in an extremely competitive process, demonstrates the value of Javelin Group's specialist expertise and reflects strong demand for strategy services among retailers and brands."

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DAVID BURROWS

TRANSACTION AT A GLANCE
**CLIENT:** MOLDCOM COMPOSITES
**SECTOR:** INDUSTRIAL
**TRANSACTION TYPE:** COMPANY SALE
**ACQUIRER:** GRUPO ZRISER

# Showers of success

How Livingstone used its experience and in-depth sector knowledge to find the perfect investor for Spanish bathroom products company Moldcom

Spanish company Moldcom Composites, which designs, manufactures and supplies composite bathroom products – mainly shower trays and washbasins – is a relative newcomer to the market, having only launched in 2006. Once established in this niche sector, Moldcom's management team developed a strategic plan to become the market leader within Spain (the company currently has a 12% share) and to expand the business internationally.

To help it achieve these ambitions, Moldcom appointed Livingstone to identify a partner who could support the company's strategic development.

Ximo Villarroya, Partner at Livingstone Madrid, explains that the timing of the transaction was primarily driven by two factors. "Ricardo Murria, Moldcom's founder and 100% owner of the company, wanted to release some cash from a portion of his shares," he says. "He was also looking for a strong financial partner who could support the new challenges to come."

So what made Moldcom an interesting company to invest in? Villarroya says the quality of the company's products, and the fact that builders are increasingly installing showers rather than baths in new houses and flats, were positive factors. So too was Moldcom's introduction of technical innovations that allowed it to manufacture better products at a lower cost.

Moldcom's international strategy was another key selling point. "Moldcom refocused its marketing efforts outside of Spain, and subsequently enjoyed success in key markets such as France, Italy, Belgium and Ireland," Villarroya explains, adding that the company also began marketing its products in Germany and the UK. In January 2014, Moldcom moved to a new, state-of-the-art manufacturing facility with significant capacity for higher levels of sales.

Given the company's progress and well-defined ambitions, Livingstone identified Valencia-based Grupo Zriser, a Spanish investment group focused on industrial and technological companies, as an ideal fit for Moldcom. Zriser's industrial division has a special interest in backing strong, innovative and competitive companies with great potential to expand in both the domestic and international markets.

Having previously raised funding for two other companies from Zriser, THU Perfil and Inrema, the Livingstone team were familiar with its acquisition criteria and investment approach, and confident that they could deliver an excellent deal for Moldcom's management team. The offer combined cash-out, a continued stake in the business for management and funds to guarantee the future growth of the company. The transaction took six months to complete and culminated in Zriser acquiring a 51% shareholding in the business.

Ricardo Murria, who will remain as President of the company, is more than satisfied with the outcome and highlights the guidance, knowledge and support that Livingstone provided throughout the process. "Their experience in the building products sector and their multiple contacts among corporates and the financial community won our confidence from the first meeting," he says. "We were not disappointed."

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