

# INDUSTRIAL INSIGHTS

Industrials Newsletter - Winter 2009

## Comment

Welcome to the Winter 2009 edition of our Industrial Insights Newsletter. We hope you find a few minutes in your hectic schedules to review our commentary and analysis. This edition focuses on engineering, a sector of significant importance to the UK and one in which Livingstone Partners has a long history of providing M&A advisory services to both engineering groups and owner managers.

Since sterling has weakened against other major currencies in recent times, we have become increasingly aware of growing appetite among international groups for investing in UK engineering assets. This is further evidenced by some of the recent transactions we highlight on pages two and three of this newsletter; no doubt the weak pound has greatly assisted some of these cross border transactions.

In recent weeks a host of US and overseas engineering giants have announced they are on the hunt for acquisitions in 2010. Circor International, United Technologies, SPX, Dover Corp, IIT Industries, Crane and Danaher amongst others have confirmed they have war chests ready and are looking to make buys in their target sectors.

The past two years have been extremely challenging and no doubt that will remain the case as we work through 2010. Nonetheless, we are confident the UK engineering sector will perform robustly and play an important role on the global manufacturing stage.

It would not have slipped your attention, that on 9 December Chancellor of the Exchequer Alistair Darling will publish his eagerly awaited pre-Budget Report, where we expect to see a number of material changes including a rise in the higher rate income tax band, a reversal of the VAT cut and potentially further changes to the Capital Gains Tax regime.

One final piece of housekeeping: we will be hosting a conference in Spring 2010 when the theme will be internationalisation and how engineering firms can compete on a global basis. We hope you can join us; look out for more information on the conference in the New Year.

If you wish to discuss anything further, please do get in touch.

**Graham Carberry**  
Director

[gcarberry@livingstonepartners.co.uk](mailto:gcarberry@livingstonepartners.co.uk)

## ENGINEERING OUR FUTURE

The Stock Market is recovering, growth in unemployment is abating and the banks have been upsetting us all with their bonuses, again. We could all be forgiven for thinking the UK is going back to 'business as usual!' But that would be the worst of outcomes for the UK engineering sector and the UK economy.

The events of the last 18 months have presented the UK engineering sector with a very clear opportunity to recapture the political agenda and, in doing so, help itself to claim substantial growth opportunities for the next 10 years.

As an economy we can no longer depend on investment from the oil states and BRIC economies to fund an unsustainable deficit. The only way for an incoming Government to create long-term economic stability is to support innovative, high value, high skill businesses capable of sustained technical advantage and capturing new geographical and producer market opportunities as they open. In one word: **Engineers.**

**“As the world's 6th largest manufacturer, a strong engineering base remains integral to us securing competitive advantage in the global economy of the future.”**

**The RT Hon Lord Mandelson**  
Secretary of State for Business, Innovation and Skills

are creating significant opportunities in areas such as Aerospace, Healthcare, Energy and even, dare I say it, Automotive, but only for those companies willing to innovate, be flexible and to invest in development.

Equally important, now is the time for the industry to make its case for a new approach from the Government. While the UK benefits from a flexible labour market and some progress has been made in areas such as Planning Law, the Government's failure to provide a clear commitment to supporting capital investment and innovation and its reticence to actively support emerging technology has cost the UK its lead in a number of markets which will be hard to recover. With a likely change of Government and the reassertion of its importance as a key industry for the UK, engineers are for the first time in 20 years to demand strong and transparent political support, to attack new markets and to play a major role in the rebuilding of the UK economy. Business as usual? Thankfully not.

**“The future lies in nurturing high added-value, scientifically innovative, well-managed, aggressively marketed companies.”**

**The RT Hon Ken Clarke, Shadow Business Secretary**

## Events: 2010

### The Future of UK Engineering

In an increasingly competitive global market, this conference will address how UK businesses can still compete and thrive in the current climate. A must attend Spring 2010 event in Birmingham, for leaders of engineering and manufacturing businesses in the UK.

For further details, contact Rosemarie Lamanno at [rlamanno@livingstonepartners.co.uk](mailto:rlamanno@livingstonepartners.co.uk)





## M&A News

### UK M&A Levels Stabilise

Merger & Acquisition activity in the UK has stabilised during 2009. Research from the independent M&A service *mergermarket*, suggests the precipitous fall in the number of deals during 2008 has stabilised to a level of around 140 deals (€5m and over) per quarter this year. This trend is underpinned by returning confidence around forecast financial information together with an increased availability of finance. However, this is some way off the 400 deals recorded in Q2 2007, prior to the impact of the credit crunch. Interestingly, mid-market M&A activity has risen as the year has progressed, with c.70 deals in Q3, compared with c.50 in Q1.

### Darwin Completes its Second Investment

Darwin Private Equity have acquired the aerospace machining division of Hampson Industries plc (since renamed Bromford Industries) for £23.7 million. Darwin were attracted to Bromford as it represented a good platform for growth, and it plans to invest in the business to build upon its market leading position. The disposal will allow Hampson to focus on developing its advanced composites businesses in components and tooling systems.

### NOV Gets its Hands on Anson

National Oilwell Varco (NOV) have acquired Anson, a UK-based manufacturer of flowline equipment, manifolds, valves, swivel joints, hammer lug unions, and wellheads for the oil & gas industry. NOV is a leading player in the design, manufacture and sale of equipment and components used in oil and gas drilling and production operations. The acquisition of Anson will complement NOV's Mission pump and fluid expendables products. Anson also extends NOV Mission's international reach, which will enable NOV to provide an enhanced supply chain and service to its global customers.

## ENGINEERS: YOUR COUNTRY NEEDS YOU

The importance of engineering and manufacturing to the UK economy should not be underestimated, as it contributes £150 billion to the economy and is responsible for 55% of all UK exports. The UK's position as the world's sixth largest manufacturer should be considered as a strong base from which to grow, however for this growth to be achieved there are a number of factors to consider.

When considering the future of engineering in the UK, it is clear that Government and Industry must work together to address the supply of and demand for engineers. The recently published annual report from Engineering UK, the independent not-for-profit organisation, anticipates the UK will need over half a million more engineers between now and 2017. The report highlights the need to replenish an ageing skills base, attract more school leavers from a declining pool of talent, appeal to career changers and address the gender imbalance which prevails in the engineering sector.

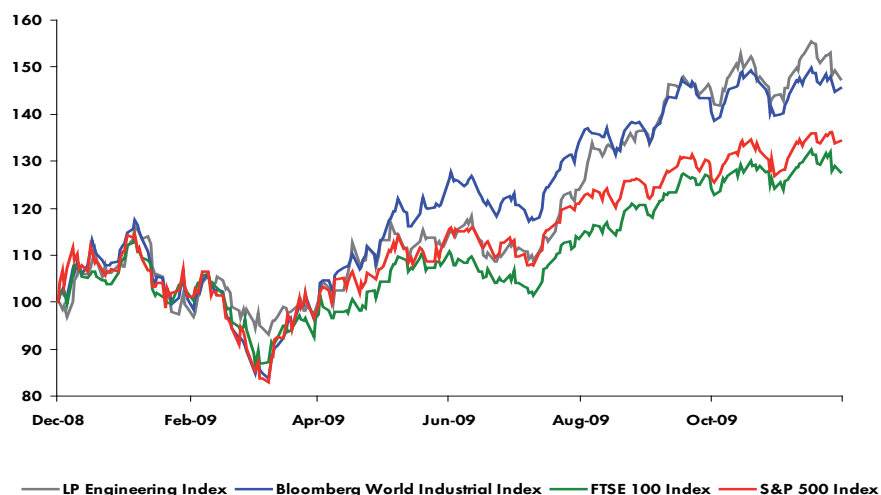
Government support is vital to ensure the UK plays a central role in the global economy of the future. To that end, during 2009 a number of policy initiatives were launched in acknowledgement of the importance engineering and technology sectors are to have in the country's economic future. In particular, the engineering sector should benefit from Government support for power generation, low carbon technologies and other advanced engineering projects.

Through tackling a number of the challenges and opportunities identified in the annual report, UK engineering can continue to evolve and thrive, providing the world with innovative, market leading engineering technologies.

## QUOTED COMPANY ANALYSIS

The recovery in the global economy has supported a sharp recovery in the share prices of UK Engineering groups over the last 12 months. According to Goldman Sachs, the sector has historically tended to out perform once global leading indicators turn, earnings start to recover and expectations are upgraded.

The Livingstone Partners (LP) Engineering Index reveals a substantial rise of 47% in the aggregated share prices of the leading UK engineering groups in the 12 months since December 2008. The recovery of the Index has evolved in two phases. Firstly, between early March 2009 and early May 2009, when the Index grew by 24%; a period of stability then followed, before a second phase of recovery, from July 2009 to date, as the Index rose a massive 39%, significantly outperforming the the FTSE 100 and S&P 500 Indices which were 28% and 34% up in the 12 months to December 2009 respectively.





## M&A News

### Bland Ambition

Bland Group, the Gaggero family investment vehicle based in Gibraltar, has acquired Weymouth-based Universal Engineering, a £25 million turnover producer of a wide range of high quality precision engineered products for customers in the civil aviation, military and oil exploration markets. The acquisition reinforces Bland Group's presence in the UK's highly regarded specialist engineering and manufacturing sector.

### LDC Invests in Nuclear

LDC has invested £6.5 million in Nuclear Engineering Services Ltd (NES) a niche engineering solutions group focusing on the nuclear, marine defence and other specialist industrial sectors. NES supplies bespoke design, testing, manufacture, assembly, and installation services and is well positioned to benefit from the renaissance in the UK nuclear industry.

### HSBC Drops Anchor with Viking

HSBC Private Equity has acquired Viking Moorings, a market leader in the design, rental and sale of mooring systems for drilling rigs and single hull vessels, for £180 million. The deal provided Inflexion Private Equity with a 12x return on their investment and they will continue to be part of the future of Viking Moorings, having re-invested £25m into the business in order to participate in the next phase of growth.

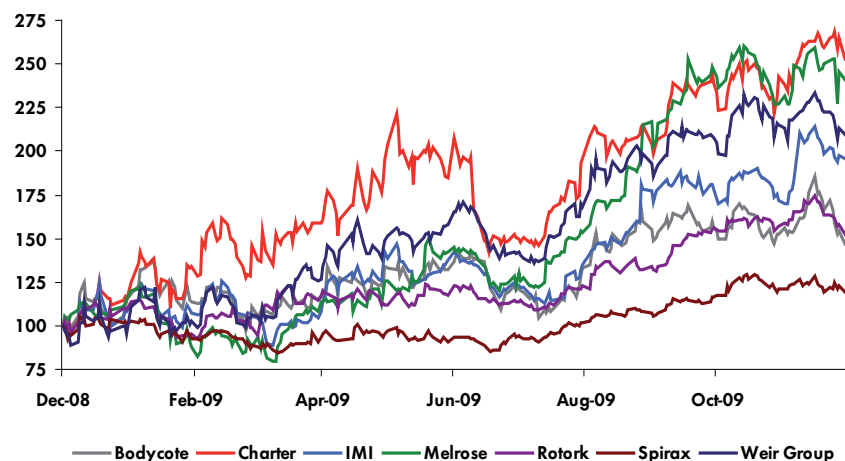
### Circor Broadens Pipeline Solutions Offerings

US flow control group Circor International has acquired Pipeline Engineering an £18 million turnover manufacturer and provider of products and services to assist pipeline cleaning, pipeline integrity and flow assurance in the oil and gas industry. The transaction significantly expands Circor's pipeline solutions reach beyond its traditional North American foothold.

At its low point in March 2009, the LP Engineering Index was 7% down on December 2008; however, this masks the collapse of share prices over the previous 12 months when from December 2007 to December 2008 the LP Engineering Index was 34% down and 48% down from September 2008 to December 2008 alone; this period, includes the near total collapse of the global banking system.

As we approach the calendar year end, which for many engineering groups also represents their financial year end, attention will turn to the New Year and the reporting season to understand how the groups have performed during the course of the 2009 and how they plan to develop and grow and build upon the recovery their share prices enjoyed in 2009.

The seven groups which comprise the FTSE 350 Industrial Engineering Index all saw at least some rise in their share prices in the 12 month period from December 2008, ranging from a credible 19% to an outstanding 152%.



The best performing group has been Charter International plc whose shares have risen by 152% over the past 12 months. Charter comprises two businesses, one focused on welding, cutting and automation ('ESAB'), and the other on air and gas handling ('Howden'). In the first few months of 2009 the group was outperforming its peers on the back of stronger demand and speculation that it may be a target for a break up. Then, in June 2009, its share price fell 15% as it reported a sharp downturn in sales in May – traditionally one of its strongest months. This has proven to be a blip and the shares have since recovered very strongly; the group recently reported that it envisages an outcome for the full year which would be somewhat ahead of their expectations at the time of reporting the first half results.

The least volatile performer in the FTSE 350 Industrial Engineering Index was Spirax-Sarco Engineering plc, the fluid control business, whose share price remained relatively stable for the first half of the 12 month period from December 2008, before rising 31% since mid-June 2009. In normal market conditions Spirax would be considered a star performer in the sector, however the past 12 months have been exceptional and share prices in a number of peers have more than doubled. Spirax has performed robustly during this challenging period as market conditions remained difficult, its financial position remained stable even making a couple of acquisitions. The share price was held back as Spirax has low forward visibility of its business levels which in the early months of the year were quite volatile. Such levels have stabilised in the latter half of the year and investor confidence in the group has returned, driving the share price up.



## LIVINGSTONE PARTNERS LLP

### Mid-market M&A Specialists

Established in 1976, Livingstone is an international investment boutique focused on company sales and acquisitions with deal values of between £10 million and £100 million plus. In 2008/09, the firm's 65 staff advised on 53 transactions with a total value of over £1 billion and was voted the Independent Corporate Finance House of the Year at the 2008 Private Equity Awards, the second time it had won this coveted award in three years.

Livingstone stands out for its cross-border credentials: with a pedigree drawn from over 600 successful deals, the firm has completed close to 200 cross-border transactions. By combining a sector-based strategy with an international infrastructure, Livingstone has ready access to international acquirers, targets and investors. With our own teams in Chicago and Madrid, and specialist distribution into the Middle East and Asian markets, we are able to deliver the best available strategic solutions from across the globe to our clients' doorsteps.

Livingstone has a strong focus on advising entrepreneurs and privately-owned companies and partnerships through out their development, providing advice on acquisitions, succession planning, exit options, management buy-outs and company sales.

## THE INDUSTRIALS TEAM

Livingstone focuses of four sectors: Business Services, Consumer, Industrial and media:tech. The Industrial team draw from professional staff across the firm's international offices to deliver expert corporate finance advice in the Engineering, Automotive Parts, Building Products, Defence & Security, Print, Paper & Packaging and General Manufacturing arenas.

In recent years, the Industrial team has advised on deals in these markets with an aggregate value of over £1 billion. We have had the privilege of working with many exceptional management teams over a wide range of activities including:

- Precision engineered components
- Specialist materials engineering
- Plastic piping systems
- HVAC equipment
- Flow control equipment
- Print services

Unlocking the cash value of many years' hard work in an Industrial business requires an acute understanding of our clients requirements, the drivers that will underpin an attractive deal, and the strategies and priorities of acquisitive groups and investors around the world. Our focus on the Industrial sector has equipped us to do this.

For further information, please contact any of the following:

**Phillip McCreanor**  
Partner  
020 7484 4725

**Alex John**  
Deal Leader  
020 7484 4712

**Graham Carberry**  
Director  
020 7484 4728

**Maryanne Dakas**  
Business Development  
020 7484 4713

**Greg Watterson**  
Analyst  
020 7484 4714

**Jennifer Meister**  
Deal Leader  
020 7484 4730

*Livingstone*

ACCURA SUPPORT SERVICES LTD  
MBO TEAM / AUGUST EQUITY

Sale of a leading provider of critical component and metals solutions to the Oil, Gas and Aerospace sectors.

**Accura**

Livingstone initiated the transaction, advised the management shareholders and Barclays Ventures, and assisted in the negotiations.

*Livingstone*

HI-TECH CERAMICS  
SÜD-CHEMIE AG

Sale of the US-based Hi-tech ceramic filters of Cookson Group to Süd-Chemie of Germany.

**Cookson**

Livingstone initiated the transaction, advised the vendor, and assisted in the negotiations.

*Livingstone*

HEATING HOLDINGS LTD  
GROUPE ATLANTIC SFDT

Sale of Hamworthy Heating, a leading supplier of commercial heating systems to Groupe Atlantic of France.

**Hamworthy**

Livingstone initiated the transaction, advised the management shareholders and NGBI, and assisted in the negotiations.