# Livingstone PRIVATE EQUITY

**Newsletter** Spring 2010

## Introduction

**2009 was a year that most people would prefer to forget rather than dwell upon. But hey, I'm a glutton for punishment! Basking in the optimism of a new year, it's a task that is made easier by knowing that we have survived intact.**

**It was a year in which there was a clear 'flight to quality' among clients, who seemed to prefer to work with more established M&A advisers. We repaid that commitment by not shedding a single member of our corporate finance team – we actually added one in October!**

**A year in which, despite everything, Livingstone teams worldwide completed 32 deals ranging in deal value from £232m to less than £1m (pride had no place in 2009!).**

**A year in which we achieved an EBITDA multiple of 12 times for one sizeable digital marketing client (and no, their profits were not declining!) showing that if you find the right strategic buyer, great valuations can still be achieved.**

**Our traditional market of entrepreneurial companies has proven once again to be the bedrock of our business. This client base has enabled us to demonstrate our ability to close deals in the most punishing of environments. Qualities that I hope we will be able to demonstrate to you in 2010!**

**Patrick Groarke**
**PE Team Partner**
**Livingstone London**
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## 2009 Roundup

Activity levels dropped off the proverbial cliff in August 2008, several weeks before the full force of the Lehman crisis hit home. M&A markets went into shock and deal decision paralysis took hold as acquirers and investors tried to make sense of the chaos around them.

The Livingstone London team had to wait until March 2009 before a flurry of completions showed that the market had steadied itself. Corporate acquirers displaced PE investors as buyers of preference for most vendors and asserted themselves quickly. It was July before we advised on our first 'plain vanilla' PE deal, the £24m BIMBO of TSC Foods, earlier deals having been financed through debt (in particular asset-based lending) and/or private investors.

Livingstone completed 32 deals worth in aggregate £905m in 2009 the same number as in 2008, a pleasing result given the depth of financial crisis that we all confronted. Of these, 21 deals were completed by the London team. 14 UK deals with an aggregate value of £640m had a PE dimension, compared with 11 worth £325m in 2008.

## Highlights

The main highlight of 2009 was that we have emerged open for business and fully capable when many of our competitors dramatically scaled-back or reallocated resources to the Restructuring market.

Our larger deals all involved a trade sale: DriveTech to The Automobile Association, Digital Window to Axel Springer of Germany, Veris to ARAMARK of the US and BrawnGP to Aabar/Daimler. All four deals attracted interest and offers from PE houses but none could reach the values ultimately achieved.

During the year we concluded deals with a number of familiar PE houses - Barclays Ventures, Boundary Capital, Lyceum, Matrix, NBGI and Penta Capital – and also some new ones: Aabar, Carlyle, Key Capital and Smedvig Capital.

The Livingstone Chicago team have continued to establish themselves in their local market, enjoying a high profile success with the sale of Advantage Rent A Car, the largest independent car rental agent in the US, to Hertz. Meanwhile, the strong credentials of Partner Stephen Miles in the Environmental Services sector lead to two completed transactions in the space. Livingstone Madrid also closed one deal in this sector while also demonstrating Livingstone Partners' global reach with gusto: the sale of Argentina and Uruguay's leading chain of opticians to Dutch group HAL.

> 'Livingstone closed 32 deals in 2009, the same as in 2008'

## Outlook

The Livingstone crystal ball suggests more of the same in H1 2010 with a modest improvement in Q2. Vendors are wary of current market uncertainty and suppressed values, and transactions are taking sufficiently long that deal volumes will not pick up properly until H2 2010. So much depends upon the banks' willingness to open the sluices in the leveraged debt market.

H1 2010 offers PE houses contemplating a portfolio exit in the next 12 months with a sensible window to put the finishing touches to any grooming, identify international buyers and to ensure that their businesses will stand up to the unwavering scrutiny of the typical strategic buyers' due diligence.

# Livingstone 2009 Deal Summary

**Polypipe** - Following Livingstone's successful involvement in the 2005 buy-out and 2007 secondary buy-out of Polypipe, management of the UK's largest plastic pipe producer turned again to the firm for advice on agreeing a re-incentivisation package as part of a general restructuring the group's debts with BoSIF. Livingstone played an active role in advising management on their negotiations with BoSIF, which backed the £420m secondary in August 2007. Manoeuvring carefully around Polypipe's £188m high yield bond structure, Livingstone succeeded in materially improving its clients' equity position.

**TSC Foods** - Despite the depths of the recession and pricing pressure from customers and raw material suppliers, TSC, the UK's leading independent manufacturer of high quality chilled and frozen soups and sauces, had proven itself to be a durable business. Established in 1991, Scunthorpe-based TSC had diversified into entrées, dressings, marinades, risottos and meal solutions for the foodservice and retail markets, as well as a presence in branded soups via the development of its Glorious! fresh soups range, endorsed by celebrity chef Marco Pierre White. The breadth of its offering was an important reason for Key Capital's interest in backing a £24m BIMBO in July 2009.

**Pasta King (UK)** - Pasta King was sold for £13m to a BIMBO team backed by NBGI Private Equity in November 2009. The vendors, including Matrix Private Equity, were advised by Livingstone's Consumer team. Based in Newton Abbot, Devon, Pasta King provides meals primarily of pasta with fresh sauces. The meals are served hot from pasta bars that are loaned to its customers. As a healthy and tasty food offering, Pasta King has become very popular in secondary schools nationwide and satisfies Governmental standards on salt, fat, fibre and vegetable content that were imposed on all food served in schools from September 2009. Livingstone identified NBGI and incoming CEO Howard Farquhar as suitable partners for Pasta King. **Bob Henry, of Matrix PE, said: "We are extremely pleased with the exit of Pasta King, generating a return of 3.2 times money on the original investment of £1.8m. Livingstone Partners' unrivalled knowledge of the food sector was extremely important to getting this deal away."**

| Month | Target | Activity | Deal Type | Vendor |
|---|---|---|---|---|
| Jan | BAN Corporate Media | Marketing Services | Acquisition | Private |
| Feb | Access to Music | Human Capital | Sale | Private* |
| Feb | Serious Food Distribution* | Supply Chain Management | MBO | Serious Food |
| Mar | EMBARQ Logisitcs | Supply Chain Management | Acquisition | Private |
| Mar | Logicall | Marketing Services | Acquisition | Private |
| Mar | VT Motion Controls Group | Industrial | Sale | VT Group plc* |
| Mar | Honda F1 | Industrial | MBO | Honda |
| Apr | Advantage Rent A Car* | Support Services | Sale | Unsecured Creditors |
| Apr | PDV | Marketing Services | Sale | Smedvig Capital* |
| Apr | bfinance International* | Consultancy | Sale | The Carlyle Group* |
| May | Gas Logic | Human Capital | Acquisition | Private |
| May | World Waste Technologies* | Waste Management | Merger | Private |
| Jul | DriveTech UK | Support Services | Sale | Private* |
| Jul | Mondragon Soluciones* | Support Services | Re-financing | Private |
| Jul | Polypipe* | Construction Products | Re-financing | BoSIF |
| Jul | Punch Taverns Pubs | Leisure | Acquisition | Punch Taverns |
| Jul | TSC Foods | Food | Sale | Private* |
| Aug | DRV* | media:tech | Sale | Private |
| Aug | Ecored | Waste Management | Sale | Forbesa* |
| Sep | Digital Window | media:tech | Sale | Private* |
| Oct | MasVision | Retail | Sale | Private* |
| Nov | American Asphalt | Construction Services | Sale | Code Hennessy Simmons* |
| Nov | Future Foundation* | Marketing Services | MBO | Experian plc |
| Nov | Pasta King (UK) | Food | Sale | Matrix Private Equity* |
| Nov | Tech for Less | Consumer | Sale | Private* |
| Nov | Veris | Facilities Services | Sale | Boundary Capital* |
| Dec | Aromatherapy Associates | Consumer | Sale | Private* |
| Dec | iglu.com* | Travel | MBO | Barclays Ventures |
| Dec | McKinnon & Clarke | Consultancy | Sale | Private* |
| Dec | Comomin | Facilities Services | Sale | Private* |
| Dec | Soluble Film Packaging* | Print & Packaging | Capital Raising | Private |
| Dec | Brawn GP | Industrial | Sale | Private* |

**Serious Food Distribution** - Following the administration of its 'smoothie' manufacturing parent, the management team at subsidiary Serious Food Distribution found their profitable wholesale distribution business under threat. Livingstone acted swiftly to secure backing for the management team from Bank Leumi of Israel and a quick-fire "pre-pack" transaction was concluded within three months. **MD Chris Welsh commented: "We needed advisers who could move incredibly quickly and effectively to negotiate a deal with the administrator and raise the necessary funding. Livingstone were excellent."**

| Acquirer | Acquirer Location | EV(£m) |
|---|---|---|
| Gavin Anderson Iberia* | Spain | ND |
| Armstrong Learning | UK | 7.5 |
| Bank Leumi | UK | ND |
| KGP Telecoms Inc.* | USA | 24.0 |
| Blueview Group plc* | UK | ND |
| Nalad Dynamics Inc. | USA | ND |
| Brawn GP* | UK | ND |
| Hertz Global Holdings Inc. | USA | 21.0 |
| DM plc | UK | ND |
| BMS Finance | UK | ND |
| Melorio plc* | UK | ND |
| Vertex Energy Inc. | USA | ND |
| The Automobile Association | UK | 37.0 |
| Bancaja | Spain | 36.0 |
| BoSIF | UK | ND |
| Geronimo / Penta Capital* | UK | ND |
| Key Capital | UK | 24.0 |
| Investor Group | UK | ND |
| Urbaser | Spain | ND |
| Axel Springer | Germany | 120.0 |
| HAL N.V. | Netherlands | ND |
| Gateway City Capital | USA | 6.0 |
| Investor Group | UK | ND |
| NBGI | UK | 13.0 |
| Moduslink Inc. | USA | 25.0 |
| ARAMARK | USA | 46.0 |
| Investor Group | UK | ND |
| Matrix Private Equity | UK | ND |
| Lyceum Capital | UK | 22.0 |
| Grupo Navec | Spain | 8.5 |
| Private Investors | Spain | ND |
| Aabar/Daimler AG | Germany | ND |
| Total | 32 Deals | 905.6 |

* = Livingstone clients or investors supporting clients

**bfinance International** - Livingstone's Business Services team advised The Carlyle Group and Net Partners on the sale of bfinance to a buy-out led by CEO and Founder David Vafai, funded by management and BMS Finance. Founded in 1999, bfinance is an independent financial services consultancy to the world's leading CFOs and CIOs. Its Investment Consulting practice focuses on the search and selection of investment managers. The Corporate Banking Advisory practice focuses on search and selection of banking solutions. bfinance has enjoyed year-on-year growth of +30% over the last five years. Today, the business has clients in over 20 countries worldwide and has operations in London, Paris, Munich, Milan, Montreal and Toronto. Despite profound uncertainty surrounding the financial services sector, Livingstone provided an attractive exit for the original PE investors.

**Punch Taverns Pub Portfolio** - Gastro-pub group Geronimo Inns acquired a portfolio of six pubs from Punch Taverns plc, in the latest phase of its buy-and-build strategy backed by Penta Capital, advised by Livingstone. At the time of Penta's initial investment in 2006, Geronimo agreed pre-committed roll-out facilities to enable it to continue to expand its then portfolio of 21 quality, food-led, managed pubs within London and the M25. Founded by Rupert and Joanna Clevely in 1995, Geronimo has grown to become a unique collection of upmarket pubs, offering great food and an eclectic selection of beers and wines in an ambience of relaxed informality. The six new sites will benefit from £1.5m of new capex is planned, creating 70 jobs. **Rupert commented: "Livingstone's help was invaluable as we moved quickly to secure the deal and the funds we needed."**

**Iglu.com** - Too much snow is a high quality problem for iglu.com, the UK's No.1 online ski holiday agent. After a successful partnership with Barclays Ventures, CEO Richard Downs was eager to bring in fresh investment to support iglu's growth and its significant success in breaking into the UK cruise market. Livingstone was appointed by management to source a new investor and manage the transaction, resulting in an investment by Matrix Private Equity in the £45m revenue business. **Richard commented: "In what some commentators were saying was a slow market, Livingstone attracted a high number of very interested investors, were very proactive in creating and shaping the structure of the deal and successfully got all stakeholders over the line using their specialist market knowledge and transactional expertise. We were very impressed with their commitment and professionalism."**

Sector colour code

| | | |
|---|---|---|
| Business Services | Support Services, Environmental Services, Healthcare, Human Capital, Logistics |
| Consumer | Retail, Consumer, Food & Beverage, Leisure, Healthcare |
| Industrial | Printing, Packaging, Building Products, Automotive |
| media:tech | Marketing Services, Publishing & Events, Software, IT Outsourcing |

## Team Update

In November 2009, Livingstone London was delighted to welcome a new Deal Origination team member. The arrival of Maryanne Dakas brings our DO complement up to four, as she joins Tom Phipps, Michelle Holford and Tamara Scribante. Prior to joining Livingstone, Maryanne worked in Melbourne for KPMG Corporate Finance, Macquarie Bank and, most recently, UBS Wealth Management Maryanne will work closely with Tamara and the Business Service and Industrial sector teams.

Earlier in the year, we were delighted to add Richard Barlow to the team as a Senior Consultant working closely with Partner Richard Fetterman in our PLC Advisory team. Dick brings with him 20 years' experience of public company M&A with Kleinwort Benson and latterly KPMG Corporate Finance. Richard and Dick's focus is on offering independent advice on Rule 3, public-to-private transactions and PLC divestment programmes.

## Sector Teams

Over 2009, the Business Services team increased its focus on Healthcare, a sector in which Livingstone has completed 25 deals in recent years. Partner Richard Fetterman and Director Kristian Gavan are initially focusing on the medtech manufacturing and distribution and healthcare services verticals.

Our four sector teams continue to publish periodic analysis of mid-market M&A activity and valuations in their sectors. Recent months have see the following newsletters published:

- **Business Services:** Support Services (Summer 2009) Consultancies (Autumn 2009)
- **Consumer:** Retail (Autumn 2009)
- **Industrial:** (Autumn 2009)
- **PLC Newsletter** (Summer 2009)

If you would like to be added to the mailing lists for any of these newsletters, please email Andrea St Hill at asthill@livingstonepartners.co.uk

## Conferences

Livingstone maintained its active Conference programme in 2009, hosting six events attracting over 400 delegates. The highlight was the *Dealing with Debt* conference on 1 October which brought together representatives from many of the UK's leading lenders with an audience of entrepreneurs for a feisty debate about the banks' willingness to lend and some useful advice on how best to prize facilities out of them.

Our sector teams have continued to attract high quality audiences from private and public companies and the PE community for our industry-specific events. During the course of 2010, Livingstone will be hosting the following conferences at London's Soho Hotel:

**March 2010:** Leisure Conference
**April 2010:** Support Services Conference
**April 2010:** Industrial Conference
**Sept 2010:** Consultancies Conference

If you are interested in attending or participating as a sponsor in any of our events, please register your interest with Andrea St Hill at asthill@livingstonepartners.co.uk

### Sector Heads: Principal Contacts

**Business Services**

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| James Lever | 020 7484 4711 |

**Consumer**

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| Food & Beverage | |
| Simon Cope-Thompson | 020 7484 4706 |
| Retail & Leisure | |

**Industrial**

| | |
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| Phillip McCreanor | 020 7484 4725 |

**media:tech**

| | |
|---|---|
| Tim Lyle | 020 7484 4710 |
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| Richard Fetterman | 020 7484 4739 |
| Media | |

## Award

Livingstone was voted **Mid-Market Adviser of the Year** by M&A industry bible Acquisitions Monthly in a gratifying validation of our 2009 performance.

## Soap Box

### So Who Does Livingstone Compete With?

As the ranks of mid-market advisers have thinned out over the course of 2009, so an increasing number of clients have been asking us 'who do you compete with?' The competitive landscape has certainly changed dramatically over the last 12 months.

First, some facts. Livingstone has 50 professionals across three offices: London, Chicago and Madrid. In the last three years, we have completed 114 transactions with an aggregate deal value of £2.9bn.

At the higher end of our deal range, we used to compete with Close Brothers (less so recently) and regularly see NM Rothschild and Hawkpoint in the UK and Harris Williams, Lincoln International and William Blair in the US and on trans-Atlantic deals.

Traditionally, we have competed with the corporate finance departments of the Big 4. Not so in 2009, which saw these institutions pare back their lead advisory teams by 20-25% before then redeploying many more fee earners into their Restructuring teams.

Our full service offering, relative scale and international offices distinguish us from most other UK boutiques, which have tended to focus on certain transactions (either buy or sell-side), certain clients (ie. PE or corporate) or specific sectors. It is only when dealing with the PE community that we come across other boutiques with any regularity.

We scratch our heads as to why PE portfolio exits typically represent only 10% of our total UK activity. Maybe we cannot compete with the pressure for reciprocity implied by the sheer volume (no more!) of opportunities from the Big 4; or maybe the PE community's perception of Livingstone's capabilities lags the reality of what we are consistently delivering for our other clients. At least we can do something about this latter point!!!

Contact details:

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