

Livingstone

PRIVATE EQUITY

Newsletter Spring 2011

Introduction

2010 was a frustrating year for the mid-market. We were all willing last year to show a marked improvement in fortunes. Unfortunately, it was not to be and while PEs were busy seeking out opportunities, overall M&A activity was suppressed by tentative bank lending and uncertainty over the global outlook, an unproven coalition Government and the unknown consequences of imminent public sector cuts.

While we entered 2009 with a dowry of mandates secured from the previous few years, we duly completed those projects against the odds. 2010 was all about the clients that we won in 2009 - and they were pretty hard to come by! Livingstone closed 28 deals with an aggregate deal value of £790m in 2010.

Looking back on 2010, we maintained our strategic momentum with the addition of a team in Düsseldorf with whom we have already co-operated with for 13 years. Our Chicago team continues to build rapidly, concluding our largest deal with the growth recapitalisation of ATI Physical Therapy.

And finally we received industry recognition with awards from Acquisitions Monthly and the BVCA Private Equity Awards, the third time we have won the latter award in five years.

We are particularly grateful for the support that our PE friends showed in entrusting Livingstone with their projects.

And 2011? Well, we recruited five new team members in the closing months of last year, which makes us either quietly confident... or clearly smoking something we shouldn't. Time will tell....

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2010 Roundup

Fewer but better sums up Livingstone's 2010. Completed deal volume was down as the hoped for recovery in M&A activity proved as remote as ever but deal quality crept up as we continue to establish ourselves at the heart of mid-market private equity. Overall, the firm completed 28 deals with an aggregate value of £790m in 2010, compared with 32 deals and £905m in 2009.

Of these, 16 with a value of £675m had a private equity dimension, a similar volume as 2009. The team in London handled 10 PE deals worth £380m compared to 14 worth £640m in 2009. During the year, we were pleased to conclude our first deals with Growth Capital Partners and Rutland and to close deals once again with ISIS, MML Capital and RJD Partners. We have also continued to make inroads into the family office market, with funds raised from Sir Tom Singh's Magenta and currency exchange entrepreneur Lloyd Dorfman.

Circling the Wagons

For the London team, the year was defined by the immense interest shown by overseas acquirers in UK assets that we were appointed to sell. Over the course of 2010, we amply proved our cross-border reach by successfully dealing with counterparties from Australia, Canada, France, India, Ireland, Israel and the United States.

We sold three businesses to Indian trade buyers: call-centre and CRM businesses Dataforce and Careline to HOV Global Services and Hinduja Global Solutions respectively and ECI-backed pharmacovigilance consultancy WCI to TAKE Solutions. Not one of the UK businesses that we exited in 2010 was to a UK strategic acquirer: all involved a foreign buyer or a PE investor. Not something that we would have

predicted at the beginning of the year! Across the Livingstone team, our most glamorous deal was the growth recapitalisation of Waialua Soda Works, the Hawaii-based producer of 'artisan' soft drinks. Our least exotic must be the sale of Doncaster-based toilet seat and cistern producer CME Holdings to French acquirer Force 5.

Finishing with a Flourish

The London team had a lean Q1 but then experienced a consistent and sustained improvement over the remainder of 2010. The year ended well with four completions in December: the £18m MBO of Chemigraphic backed by RJD Partners, the £25m growth recapitalisation by MML Capital of Exploration Logistics, the sale of WCI for ECI and the sale of Investec-backed CME Holdings.

'Livingstone closed 16 deals in 2010 which had a private equity dimension'

Outlook

With three deals already completed this year - the sales of MML-backed lighting systems provider Zodion, data provider The Trading Floor and medtech distributor Dispensing Solutions, Inc - and the prospect of a busy Q1, it is hard not to believe that 2011 bears more promise than 2010 ever did. After sitting on the sidelines during 2010, our traditional core client base of privately-held owner-managed companies looks like re-emerging as a principal driver of activity, while the corporate divestiture market should pick up materially. We enter 2011 with a quiet confidence that, with PE houses looking to deploy capital and strategic buyers now approaching M&A with real purpose, normal trading will shortly be resumed.

Livingstone 2010 Deal Summary

Entec Holdings - Despite the recession, the global technical consultancy market continues to consolidate and this backcloth gave Livingstone the confidence to take environmental consultancy and Growth Capital Partners portfolio company Entec Holdings to market. In a strategic buyer-only process, keen interest was generated from the US, Europe and Scandinavia. A £61m plus deal was agreed with the Canadian-headquartered team at AMEC Energy & Environmental, part of AMEC plc, in March 2010. **James Blake, Partner at GCP, commented: "Livingstone had an excellent knowledge of potential buyers in the sector and played an important role in cultivating the relationship with AMEC that has resulted in this deal."**

ATI Physical Therapy - Livingstone team members advised on the original growth recapitalisation by KRG Capital of ATI, the US's fastest growing network of occupational physical therapy clinics, in 2005. Scan forward to late 2009 and it was time for KRG to exit. Having maintained a close relationship with ATI, Livingstone was able to introduce an ideal investor to help them go to the next level. In a major recapitalisation completed in March, Chicago-based blue chip investor GTCR has come on board. **Dylan Bates, COO, commented: "Livingstone had intimate knowledge of ATI. We felt comfortable they would help GTCR to understand the true value and opportunity of the company."**

Brandon Hire - Livingstone advised the management team of Brandon Hire, the national tool hire specialist, on a successful £43m buy-out of the business from Wolseley plc completed in August 2010. Brandon is a leading tool and equipment hire business with nearly 1,000 employees and a national network of 177 depots across the UK. The Business has revenues of circa £70m but was being sold as it no longer fitted with Wolseley's core strategy. **Tim Smith, CEO of Brandon Hire commented: "Livingstone did a fantastic job – they were key to unlocking this deal for us and their energy, enthusiasm and knowledge of both the sector and the investor community was a significant advantage for us throughout the process."**

Chemigraphic - Livingstone's Industrial team worked with MBI candidate Bob Adams for 12 months before the opportunity arose to play him into the MBO of Chemigraphic as CEO-elect, working with two brothers who were looking to acquire the business from their parents. Livingstone advised Bob, the brothers and Newco, backed by RJD Partners, on the £18m acquisition of this Crawley-based boutique electronic manufacturing services provider. **Alex Hay, Investment Director, RJD Partners said: "We are very pleased to have completed the investment in Chemigraphic. Livingstone played a key role in co-ordinating the transaction and creating a seamless transition from family owned business to BIMBO structure."**

Month	Target	Activity	Deal Type	Vendor
Jan	Kick Media AG	Media & Information	Acquisition	Private*
Feb	Plasan Sasa UK	Defense & Security	Sale	Plasan Sasa*
Feb	Römheld Group	Construction Products	Sale	Private*
Mar	Entec Holdings	Environmental Services	Sale	Growth Capital Partners*
Mar	ATI Physical Therapy	Healthcare Services	Capital-raising	KRG Capital Partners
Mar	Conlinet Holding GmbH*	Telecoms	Capital-raising	Private
Apr	Racebets	Leisure & Travel	Acquisition	Betertainment GmbH
May	Dataforce Interact	Marketing Services	Divestment	Twenty plc*
May	Travelljigsaw*	Leisure & Travel	Sale	ISIS Equity Partners
Jun	Dentognostics GmbH	Equipment & Supplies	Acquisition	Private
Jun	Careline Services	Marketing Services	Sale	Private*
Jun	Citysync	Business Software	Sale	Private*
Jun	Biomass Green*	Environmental Services	Capital Raising	Private
Jul	Genesis Freight Forwarding	Logistics	Sale	Private*
Aug	Brandon Hire	Equipment Hire	Buy-out	Wolseley plc
Aug	Swisher Mower & Machine Co*	Branded Products	Capital Raising	Private
Aug	Clinical House Biotechnologies AG	Equipment & Supplies	Sale	Private*
Aug	Waialua Soda Works*	Food & Beverage	Capital Raising	Private
Sep	Mondragón Soluciones	Specialist Engineering	Divestment	Mondragón*
Sep	The Office Group	Facility Services	Buy-out	Bridges Ventures
Oct	Calyx Holdings	IT Services	Sale	Anglo-Irish Bank*
Nov	iprism Underwriting Agency	Financial Services	Capital-raising	Private*
Nov	Fundex Games*	Consumer Products	Divestment	Private
Nov	GILD.e GmbH	Telecommunications	Acquisition	Private
Dec	Chemigraphic	Engineering & Electronics	Buy-out	Private
Dec	CME Holdings	Construction Products	Sale	Private*
Dec	Exploration Logistics*	Support Services	Buy-out	Private
Dec	WCI	Healthcare	Sale	ECI Partners*

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
Healthcare	Healthcare Services, Medical Device, Equipment & Supplies, Pharmaceuticals, Technology
media:tech	Marketing Services, Publishing & Events, Software, IT Outsourcing

* = Livingstone clients or investors supporting clients

Acquirer	Acquirer Location	EV(£m)
Kick Media AG	Germany	ND
Marshall Land Systems	Israel	ND
Mutares AG	Germany	ND
* AMEC plc	UK	61.2
GTCR*	US	ND
Ventizz Capital Funds IV L.P	Germany	ND
DVR Wettbetriebs*	Germany	ND
HOV Global Services	India	9.25
Priceline.com	US	ND
Matrix Lab GmbH*	Germany	ND
Hinduja Global Solutions.	India	10.0
Image Sensing Systems Inc	US	6.7
Private Investors	Spain	ND
Toll Global Forwarding	Australia	32.0
MBO Team/Rutland Partners*	UK	43.0
Blackstreet Capital Management	US	ND
MDI Dental/Impantattechnik GmbH	Germany	ND
Tradewind Capital Group	US	ND
Delachaux	France	25.0
MBO Team/Private Investor*	UK	43.3
Better Capital	UK	7.0
Magenta Partners	UK	25.0
Mattel Inc	US	ND
Conlinet Holdings GmbH*	Germany	ND
MBO Team/RJD Partners*	UK	18.0
Force 5 SAS	France	ND
MML Capital	US/UK	ND
TAKE Solutions	India	ND
Total	28 Deals	790.0

Traveljigsaw - Livingstone advised the management of Traveljigsaw, the online travel agent specialising in car hire, on a MBO backed by ISIS Equity Partners in June 2008. Just two years later, the business had grown massively and attracted the attentions of US online travel giant, Priceline. The same Livingstone team was appointed to advise management on a sale to Priceline. The £100m plus deal was successfully completed in May 2010. **Greg Wills, CEO, said "Less than two years ago, Livingstone secured majority ownership for the management team. Since then they have consistently provided us with strategic advice and direction. Their input on the exit was key and I can't speak highly enough of them."**

The Office Group - Livingstone advised the management team of The Office Group on its secondary buy-out from Bridges Ventures backed by Traveler founder Lloyd Dorfman, in a deal worth £43.3 million. The Office Group is a specialist provider of flexible office space with a portfolio of six sites in central London and one in Bristol. The deal enables the management team of Charlie Green and Olly Olsen to significantly enhance their ownership in the company and provides access to capital for the Group's ongoing expansion. **Olly Olsen, joint CEO, said: "Livingstone gave us clear advice throughout and helped us to navigate our way through the deal. We are delighted with the advice we received and with the result achieved."**

Calyx Holdings - UK-Irish IT services group Calyx was the subject of a €100m P2P in 2007 backed by Alchemy Partners and Anglo-Irish Bank. A difficult market environment impacted the business creating a need to find an exit for the business. In 2010, Livingstone's media:tech team was appointed by the Calyx board to source a solution and created a competitive auction process. During this process, Better Capital – led by Jon Moulton (who initiated the original P2P) made a compelling offer to buy-out the Bank's debt, a deal which was completed in double-quick time in October 2010.

Exploration Logistics - MML Capital has backed the growth recapitalisation of Gloucester-based Exploration Logistics, a market leading provider of medical support and unexploded ordnance clearance services to oil and gas majors and NGOs across the globe. The deal enabled the original founders to have an exit strategy while providing the management team with a supportive new investor interested in driving Exploration Logistics international growth by acquisition.

Team Update

Livingstone Düsseldorf

On 1 July 2010, we welcomed Christian Grandin, Ralph Hagelgans and Jochen Hense and their Düsseldorf-based team to the Livingstone fold. This re-united the London, Chicago and Madrid teams with a group of seasoned and talented corporate financiers – and good friends – that they had worked with extensively under a previous guise at an established German M&A boutique that was part of our former international network.

Christian and his colleagues are singularly well-connected across the German Mittelstand, as well as the corporate and financial communities and should be a first port of call for any investor or acquirer contemplating a transaction in the German-speaking countries (Germany, Austria and Switzerland). The Düsseldorf team shares Livingstone's global sector approach, and is particularly (and not surprisingly) strong in the Industrial and Consumer sectors.

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Special Situations

Livingstone has enjoyed deep relationships with the mid-market lending community for many years. In 2010, we focused on developing this strength to assist both borrowers and lenders requiring prompt, creative and definitive solutions in the face of over-gearred balance sheets and the demands of increased growth.

Livingstone Chicago made a key hire with the addition of Joe Greenwood as Director of Special Situations in early 2010. Joe brought 10 years of restructuring, distressed M&A, and financial advisory experience to the firm, having advised public and private companies both in and outside Chapter 11, as well as DIP lenders, creditors' committees, and private equity sponsors. He joined from William Blair, where he

was one of three founding members of that firm's Restructuring Group.

Livingstone London also bolstered its debt advisory team through the recruitment of Deal Leader Simon Cooper from Ernst & Young.

The sale of Anglo-Irish IT services group Calyx, the recaps of US Consumer companies Swisher Mower and Fundex and the sale of the railway technology division of Spanish group Mondragon provided concrete evidence of Livingstone's restructuring capabilities across all of our offices.

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Renewable Energy

Spain has proven the most challenged of Livingstone's core markets with its well-publicised problems. However, our Madrid team has been quick to seek out growth niche sectors, of which Renewable Energy has proven most fruitful. Spain has been in the vanguard of many renewable technologies – in particular Solar – as a result of its sunny disposition and occasionally very benign tax regimes.

While the local market for renewable projects has become more problematic, the technical expertise developed in the financing of renewable energy projects across Spain has proven highly marketable.

Two notable projects led by Livingstone include a successful fund-raising for Biomass Green, which employs a patented technology for converting solid municipal waste into energy, and a project financing for a Romanian solar farm.

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Soap Box

Far be it for an adviser to moan about strong pricing by private equity, but it can't have escaped people's notice that some of the deals done lately look a bit, shall we say, "rich". Banks are continuing to take a conservative view of leverage multiples in all but the rarest cases, so it isn't that there is a new wave of cheap debt to support the rising level of entry multiples. Could it be that we are seeing the pressure of bull market funds burning a hole in the GP's pocket?

Regardless of the market conditions, there will always be deals that appear to defy the logic of rational investment. In some cases they pay testament to the insight and the nerve of PE buyers. But the lessons of over exuberant pricing in a leveraged structure are still being learnt around us. Many PE firms seem to be stuck between the "devil and the deep blue sea" – either pay up for assets you can get, or fall short on deployment and face the prospect that this fund is your last. Against this sort of backcloth, it is easy to see why many professional investors being unusually bullish among UK mid-market companies.

As an adviser operating on either side of the table, we see at first hand both the opportunity and the risk inherent in many growth business plans. What is surprising is the speed with which many investors have shrugged off the horrors of the recession and the devastating impact it may have had on their portfolio companies; the same firms which are now coughing up serious multiples on three year forecasts! While it doesn't hurt to build the feeling that M&A is driving the economy forward, we're fearful that it will only take a few of the 2009 and 2010 investments to go sour for the deal recovery to crawl back into its shell.

Maybe we're not being optimistic enough, but confidence is often bi-polar by its nature. After a few years in the wilderness, we're as reluctant as anyone to see the markets take another downturn. If you're one of those who thinks they could be guilty of over-paying, then why not save yourself the embarrassment – not to mention the write-down – and bring in an adviser who can help you work out the right answer. So come on, show a bit of faith and let us do what we're paid to do... advise you to do only the best deals!!!

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