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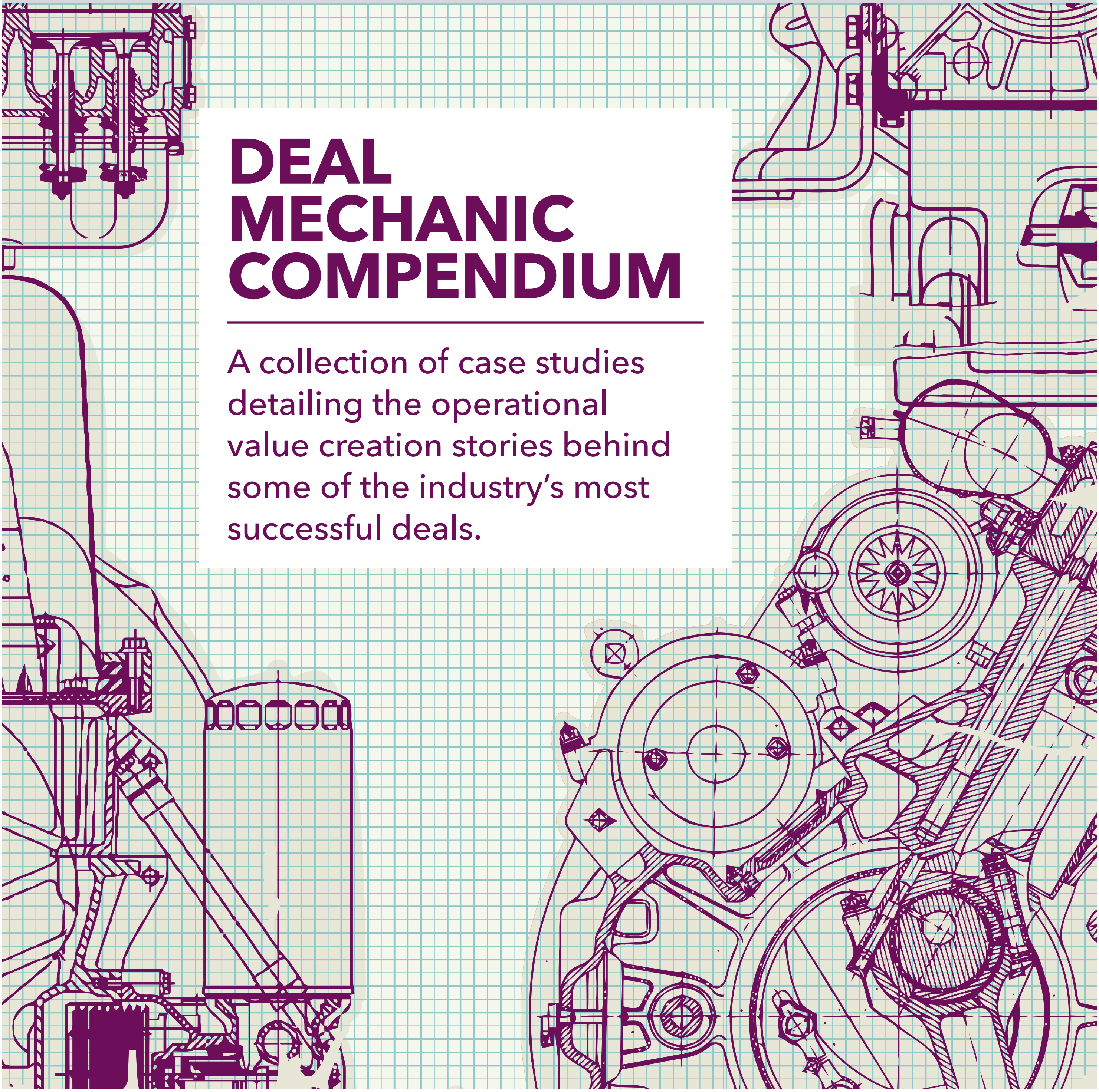
PRIVATE EQUITY INTERNATIONAL

DEAL MECHANIC COMPENDIUM

A collection of case studies detailing the operational value creation stories behind some of the industry's most successful deals.



DEAL MECHANIC COMPENDIUM

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'Building Value' is PEI's campaign to promote examples of genuine operational value creation by private equity owners

DEALS

The ultimate deal mechanic

What's right for one portfolio company may not be right for another, but there are several common operational levers private equity firms can employ to jump-start growth and enhance returns.

By Isobel Markham

When it comes to value creation at portfolio companies, it's clear there is no "one-size-fits-all" approach. But if you look at strong examples of operational excellence, you'll see there are a few things they have in common.

Our regular Deal Mechanic feature in Private Equity International goes under the bonnet of a recent deal to find how operating partners have added value to their portfolio companies.

Here are a few things we've learned from the last 12 months of examining the art of adding value to secure a successful exit.

1 DO THE RIGHT DEAL IN THE FIRST PLACE

This may sound like private equity 101, but doing the right deal for a particular portfolio company can be easier said than done.

For Epiris, the right solution with Park Resorts – later renamed Parkdean Resorts – was to buy a series of debt tranches which eventually gave the firm a blocking minority and the ability to work with the private equity investor, management team and banks on a consensual restructuring.

"Essentially that involved extending the maturing of the debt, converting a piece of our debt into a PIK instrument and, crucially, us getting equity control of the business," managing partner Alex Fortescue told PEI.

Sometimes a deal outside of a GP's usual "playbook" can lead to positive results. Mortgage broker Meilleurtaux was not a typical investment for Equistone Partners Europe: in 2012 when HSBC was selling the business for French bank BCPE, it was loss-making, and the business was only just breaking even when the deal completed in 2013.

But three key elements – the strength of the management team, the market opportunity, and the strength of the brand name – persuaded the firm it was a good investment.

"We were convinced there was a great potential for this business in France," Equistone managing partner Guillaume Jacqueau told PEI.

In December we featured Coller Capital's restructuring of Irving Place Capital Partners Fund III, a fund which straddled the global financial crisis and was left with a split portfolio: pre-crisis investments, which still needed time before they could be optimised and sold; and post-crisis ones, which were faring better but hadn't had enough time to mature.

During the process, Coller quickly emerged as the buyer of choice, thanks to its willingness to "pay the fairest and highest price" and to "provide a flexible and smart approach to the structuring", IPC's co-managing partner John Howard said. When the deal closed in July 2015, 90 percent of LPs voted in favour and 35 percent rolled into the new vehicle.

2 GET THE RIGHT TEAM IN PLACE

The first thing on EQT's to-do list after the acquisition of business process automation company UC4 – which it later rebranded Automic – was to put together a new board of relevant people for the various work streams and value-creation opportunities the firm had identified.

EQT brought in former QlikTech chairman and CEO Mans Hultman for his knowledge on sales force effectiveness and former Microsoft Sweden head Jonas Persson for his product know-how and to focus on research and development. Vagn Sorensen, who had chaired several EQT portfolio companies, came in as chairman to drive the firm's industrial agenda and operational improvement programme. EQT also brought in a new CEO, Todd DeLaughter, and a new chief sales officer and chief marketing officer to implement the outlined value creation plan. When General Atlantic was gearing up to acquire two retail options-trading companies, OptionsHouse and tradeMONSTER, it turned to an old acquaintance. It enrolled Mike Curcio – who had led the brokerage at E*Trade Financial, in which General Atlantic had been an early investor – as a consultant before the acquisition was completed, with a brief to become familiar with the management teams and help develop a strategic plan. He later became chief executive of the combined company.

3 ROLL UP! ROLL UP!

Without a doubt, M&A – whether it be one giant merger or tens of smaller add-ons – is the value creation lever you will read about most often in the pages of Deal Mechanic.

For EQT and Automic, it was the add-on of Paris-based Orsyp, an IT automation and optimisation solutions business. Focused on France and with a good market position in Canada, Orsyp was geographically complementary to Austria-based UC4.

"The transformational add-on acquisition of Orsyp helped us achieve a completely different level of scale and profitability compared to when EQT entered the company," Per Franzen, a partner at EQT, told PEI.

The integration of Orsyp brought substantial synergies and improved the company's margins from 23 percent to 32 percent.

A large part of the value creation plan for Epiris at Park Resorts was add-ons. First came South Lakeland Park, held by Irish bank NAMA. This was swiftly followed by a pair of parks, Southview and Manor Park, also from NAMA.

The final piece was the merger with Alchemy Partners-owned Parkdean Holidays, which was not only geographically complementary but also "stronger on the holidays side of the business, selling caravans for rental for a week or four days, whereas Park Resorts was much better at the sales side, selling a caravan outright and then renting a pitch by the year," Fortescue said. Following the merger, the combined business was renamed Parkdean Resorts.

4 BROADEN THE SCOPE

These add-on acquisitions are often the perfect tool for companies that are looking to broaden their product offerings. Such was the case for language services and technology company Appen, which completed three acquisitions under Sydney-based Anacacia Capital's ownership.

The first, US-based content relevance business Butler Hill, helped diversify the company's product and service offerings, increase customer touch points and expand its geographic footprint.

The second, social media business Wikman Remer, allowed Appen's commercial clients to localise their search engines and improve internal website search functions. In September 2016, the company acquired Mendip Media Group, a UK-based provider of secure transcription services. This enhanced Appen's security language service solutions to reach government services and to expand further into the UK and Europe.

During Equistone's ownership, Meilleurtaux diversified from its original remit of selling just mortgages and loan insurance, and began to offer debt consolidation, consumer loans, bank accounts, general insurance and loans for small and medium-sized enterprises.

"The idea was to make Meilleurtaux a kind of financial services supermarket with a lot of new products and services," Jacqueau said.

When EQT rebranded the freshly-merged UC4 and Orsyp as Automic, it took the opportunity to reposition the business to a broader, more high-level customer set. The idea was to take a previously IT-centric business that sold its products primarily to IT specialists within companies to automate certain processes such as invoicing systems and turn it into a business process automation company that could help its clients with more complex processes such as, for example, customer on-boarding at a telecoms business.

5 SECURE THE RIGHT EXIT

One thing we always ask firms when we interview them for Deal Mechanic is how they knew it was the right time to exit a business. Timing the exit perfectly is crucial for securing a strong return.

EQT – which had been approached on several occasions with expressions of interest in Automic, particularly from strategic buyers – set a "clear minimum value target under which EQT was not prepared to sell". That led to a limited process which ran in the second half of 2016 and resulted in CA Technologies agreeing to acquire Automic in a deal valuing the business at €600 million.

Because it manages separate accounts, General Atlantic can hold investments for longer than the industry average, which makes the sale of OptionsHouse to E*Trade after just two years unusual for the firm.

"Some of that had to do with achieving the operational milestones we were looking to achieve more swiftly than we originally anticipated," Paul Stamas, a principal in the firm's New York office told PEI.

"We were in a position where the right next step for the company was in fact a sale to a strategic like E*Trade. This investment period was atypical for us, but the stars aligned for a deal with E*Trade sooner than anyone could have initially anticipated."

A source with knowledge of the transaction said General Atlantic generated a gross internal rate of return above 60 percent.

Warburg Pincus did a re-IPO – a recapitalisation through the placement of new and existing shares – for NASDAQ-listed plasma-based pharma company China Biologic in 2015, raising more than $200 million. Through this the firm introduced the opportunity to institutional investors in the US and attracted big names such as Capital World Investors and Fidelity Investments.

"These companies came in as very important investors and further diversified the investor base of China Biologic, making it a truly public company," Warburg Pincus managing director Min Fang said.

"Previously the company had no research coverage, no liquidity, but after the re-IPO in 2015, it got research coverage by all the major banks such as Morgan Stanley, Merrill Lynch and Credit Suisse, thus improving its liquidity from almost zero to nearly 10 million a day."

By the end of 2015, the company had a market value of more than $3.7 billion. Warburg Pincus sold down its stake over time and fully exited the company in August 2016, generating a return of 7x and an IRR of up to 60 percent. ■

SIMPLEX

Driving US expansion

Carlyle Japan's buyout team led the charge on improving the technology company's efficiency and boosting international growth, writes Carmela Mendoza

Yamada: *Simplex has a great chance of being a global player*

Simplex, a Tokyo-based fintech company, had an almost 20-year history, over 500 employees and close to 40 percent market share in Japan's sell-side capital market trading system when The Carlyle Group acquired a majority stake for an undisclosed amount in August 2013.

The company was also in the FinTech 100, an annual global listing of leading technology providers to banking and financial services companies. Simplex provided front-end dealing systems and middle-office risk management software mainly to Japanese mega banks and major securities firms, including Bank of Tokyo Mitsubishi UFJ, Sumitomo Mitsui Banking Corporation and Mizuho Bank.

Eight of the 10 major securities companies in Japan use the company's products. Among its businesses, its retail FX services, which provide proprietary trading solutions using a commission-based volume revenue model, were the largest revenue producer for the company.

"We knew from the beginning the company had an edge over its competitors," Carlyle Japan managing director Kazuhiro Yamada tells *Private Equity International*. "We wanted to capture the upside in enhancing company sales and improving its marketing capability; Simplex has a great chance of becoming a global player."

It was also one of the last deals from the firm's second Japan buyout fund, Carlyle Japan Partners II, a 2006-vintage vehicle that closed on ¥165.6 billion.

Like most negotiations in Japan, Yamada says the deal took years to complete. He adds that because private equity is not as mainstream in Japan as in the West, it takes time to build that level of trust. For the firm it was three years – from initial talks with Simplex CEO and president Hideki Kaneko, to price negotiation and discussions on exit opportunities, to a nerve-wracking 12-hour deadline to come back with a new proposal after a rival bidder emerged on the scene.

1 ACCELERATING GROWTH

Post-acquisition, Simplex delisted from the First Section of the Tokyo Stock Exchange in October 2013 and three months later had undergone a corporate reorganisation of its subsidiaries.

"When we bought the company our investment thesis was to grow the business domestically, improve profitability, and then grow it overseas," says Yamada.

The first priority for Carlyle was to make sure Simplex had a better understanding of its clients' needs and provided the right solutions to their business – this would allow them to identify which products were generating the most revenue.

Instead of waiting to receive requests for quotations, Yamada says Simplex put staff on-site to work with clients on developing better systems. "Having staff on-site and engaging with its clients is Simplex's uniqueness. To give an example, Simplex helps core clients create a three-to-five-year system capex roadmap," he says.

"It's costly but a strategic way for us to find out and better understand the needs of the clients. That strategy was well implemented at many of the top tier financial institutions, and Simplex is able to get more business from them."

As a result, the firm started new services including an equity and FX dark pool, which allows institutional investors to buy and sell

Simplex: *provides FX margin trading solutions*

large blocks of securities without showing their hand to others and thus avoiding market impact.

2 LEVERAGING CARLYLE

One advantage of being in a global business network is having industry experts on hand to help create value. Carlyle made use of this by leveraging the One Carlyle platform, its team of global experts, to support Simplex's plans to gain a foothold in the US.

"We brought Simplex's management team to the US to collaborate and exchange ideas with our US technology team and ex-CEOs of Carlyle portfolio companies, leveraging the One Carlyle network for new business opportunities," Yamada says.

25%
Increase in revenue

45%
Increase in EBITDA

30%
Increase in order backlog

During this process, Carlyle's US technology team reviewed Simplex's overseas marketing strategy and introduced industry experts to the company. Subsequently, Simplex teamed up with a local partner in the US to expand sales and boost the development of new trading platform products for its next stage of growth.

3 IMPROVING GOVERNANCE

Enhancing the corporate infrastructure was another value creation initiative Carlyle focused on.

Yamada says the firm asked Carlyle operating executive Yasuo Nishiguchi, a former CEO of Kyocera Corporation, to act as an external director to enhance Simplex's governance structure. "For 24 months, we worked together and highlighted the importance of cashflow and tightened cashflow control by using our deal pipeline and KPI monitoring system."

Through these initiatives, Simplex's net income almost doubled in three years.

Along with governance, the firm also optimised Simplex's business portfolio, divesting its non-core subsidiary Virtualex Consulting through an initial public offering in June 2016.

By the time Carlyle sold its shareholding back to company management in October 2016, the company's revenue had increased by 25 percent, EBITDA had grown to approximately 45 percent and its products were being used across Asia.

Yamada highlights that good people and products are fundamental to Simplex's success. And he expects the company to grow its domestic base even further as more financial institutions in Japan are opening their systems to fintech. ■

ROCLA

Sleeping giant

Altus Capital Partners expanded Rocla's freight capabilities to make it a leading rail infrastructure company. By Annabelle Ju

$12.4m
Initial equity investment

5.4x
Entry EV/EBITDA

$44.5m
Revenue on entry

$88.2m
Revenue on exit

57.3%
Gross IRR

~4.5x
Gross exit multiple

Mid-market firm Altus Capital Partners is a niche manufacturing investor, so when it saw investments in the North American rail industry increasing in 2012, the management wanted to ride that trend.

Its co-founder and managing partner, Russ Greenberg, identifies three market drivers that were important. Onshoring looked poised to bring manufacturing back to the US, and more goods were being delivered by intermodal transportation, which combines rail and road. Also, soaring oil prices had driven a large rise in drilling in new areas of the country, which meant a growth of transporting the fluid by rail.

Railway sleepers – or railroad ties as they are known in its home market – manufacturer Rocla was being sold off in an auction conducted by boutique investment bank CoView Capital. With those drivers in mind, Altus began negotiating and performing due diligence in a process that would take almost a year.

"It took a long time to work through our due diligence questions because the company was transitioning its existing main plant in Denver to its new, larger location in Pueblo, Colorado," says Greenberg.

The deal was completed in May 2013, when the $200 million Altus Capital Partners II purchased the company from the 1996-vintage CVC European Equity Partners I for $12.4 million in equity, a 5.4x enterprise value to EBITDA multiple.

Average entry multiples for industrial buyouts of this size were between 5.4x and 6.0x in 2013, Greenberg recalls.

Rocla's management team invested alongside Altus, taking around a 15 percent share.

The CVC fund was in wind-down mode and wanted to liquidate its remaining investments, according to Greenberg.

Rocla was founded in 1986 and at the time of acquisition had manufacturing plants in Colorado, Delaware and Texas, and three major customers: freight companies Burlington Northern Railroad and Union Pacific Railroad, and Amtrak in the transit market. Expansion had stalled under the previous ownership, but Altus believed Rocla had potential to grow as its industry grew.

"We had been looking for an investment opportunity in the rail infrastructure space where we could work with a quality management team and help them build out their business," Greenberg says.

1 MAXIMISING MANUFACTURING

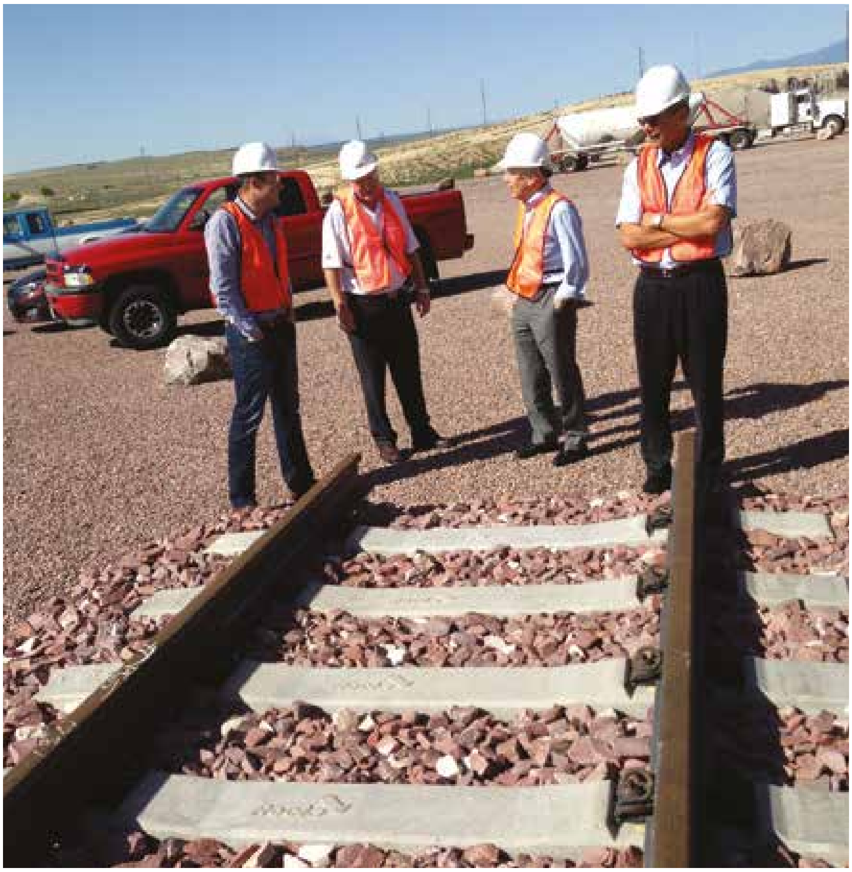
Immediately after the deal closed, Altus invested a further $5.4 million to expand and meet the customer needs at the plant in Colorado. Altus and the management team also worked to secure a contract to build a plant in San Jose Iturbide, Mexico, and another in Fort Pierce, Florida.

Altus's investment capital also supported two add-on acquisitions: Ohio-based railroad manufacturer KSA, and an Arizona-based plant from fellow manufacturer CXT.

"We needed something in the Midwest to fill out that part of the country to serve more customers," Greenberg says. "A concrete railroad tie weighs about 750 pounds apiece. Rocla was producing close to two million railroad ties a year. That's a lot of tonnage to transport, so you want to be closer to your customers."

2 PRIORITY ON PERSONNEL

Part of Altus's strategy is to keep the existing management team of a portfolio company and require it to invest alongside its fund. The team had



The ties that bind: *Rocla executives visit the Colorado plant*

been constrained by the previous owners, Greenberg says.

"Our investment thesis was to back its management team, who had been stifled under its prior ownership from spending capital for growth," he says.

The firm also raised more than $15 million of debt capital to fuel the growth in capacity and new plants.

The overall headcount at the company grew organically as it added plants and bought competitors, and the senior executive level stayed the same.

The firm did, however, bring in two outsiders. It hired Kirk Feuerbach, the chief executive officer of Altus's former portfolio company DS Brown, which manufactures rubber, steel and concrete products, as an operating advisor in 2013. The same year, Robert Rayner, who had sat on the boards of several US-based manufacturing companies and served as president and chief operating officer of cement company Essroc, joined the board.

"Kirk and Robert assisted the management team in terms of strategic discussions, determining execution risk and helping the management with additional advice where needed," says Greenberg.

Altus stayed heavily involved with strategic planning, quarterly meetings and capital approvals for the company.

3 CREATING NEW CUSTOMERS

The plant Altus helped build in Mexico allowed Rocla to sign up Kansas City Southern Railway Company's Mexican subsidiary as a client.

According to Greenberg, half of Kansas City Southern's revenue comes from its Mexican operation and it wanted to have a concrete tie supplier in the country to meet its needs. Rocla also added Florida-based real estate and railways company CSX Corporation and Alberta-based Canadian Pacific Railway to its customer base, more than doubling the customers in the freight market.

Freight customers make enormous orders compared with smaller transit clients, Greenberg says, and about 70 percent of Rocla's sales come from the former. The expansion drove a growth in revenue to $88 million when Altus exited.

Having not made a rail investment before, Altus had to become comfortable with the cycles inherent in the industry. Activity depends on new projects or replacing existing infrastructure, rather than linear growth.

"The demand can be volatile," Greenberg says. "That's the challenge, understanding the degrees of customer demand."

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In summer 2016, when Rocla had the largest market share in North America, it was approached by several strategic buyers.

Altus hired investment bank Robert W Baird to co-ordinate discussions with potential buyers. The sale closed with Germany-based rail infrastructure supplier Vossloh Group on 4 January, generating a 57.3 percent gross internal rate of return and a money-on-money multiple of around 4.5x.

"We had achieved our goals in terms of growth and value creation," Greenberg says. ■

WORLDMARK GROUP

In the driver's seat

Navis Capital Partners transformed and internationalised the Australian automotive company before sealing a 3x exit through two trade sales, writes Carmela Mendoza

Melbourne-based WorldMark Group was a collection of about 10 separate businesses in the automotive aftermarket space and doing A$16 million ($12 million; €11 million) EBITDA when Malaysia-headquartered Navis Capital Partners bought it in March 2010. The company sold a gamut of products and services – from window tint, car electronic systems and engine additives, to offering automotive sales consulting and building prison vehicles in western Australia – and it needed a clear focus.

Phil Latham, senior partner and director of Navis Capital Australia, had a long history with WorldMark, having first acquired the company in 1999 while at RMB Capital Partners. After moving to Navis, Latham re-approached the company in 2008 but the conditions post-global financial crisis made it challenging to buy WorldMark. In addition, car sales in Australia had fallen off a cliff, dropping 20 percent, so Navis withdrew its offer. Finally, in 2010, Latham made another offer and sealed the deal at A$110 million.

1 ACHIEVING FOCUS

Latham says the firm's main priority was to focus WorldMark's business into three divisions: trade, consumer and international.

Trade refers to sales in car dealerships. WorldMark sold its products and services to about 1,200 of Australia's 1,600 car dealers, as well as through lease finance companies and smash repair yards. In the consumer area, WorldMark ran a franchised network of about 100 shops called Tint a Car. And in its international division, it had a global consulting and outsourcing company, Sewells Group, specialised in automotive retail.

"That was a lot of work for us in terms of which business went into which bucket," says Latham. "We collapsed profit and loss accounts that were numerous into three streamlined accounts (trade, consumer and international), changed the accounts regime, and spent a lot of time with our portfolio directors in improving the operating efficiency and the financial structure of the business, including streamlining warehousing and logistics, and simplifying financial and management reporting in Australia and internationally. That was the first thing we did."

2 BOOSTING SALES & EFFICIENCY

The second step was to zero in on specific initiatives such as building new sales channels and increasing efficiency.

Navis built WorldMark's fleet leasing area and targeted fleets of vehicles around the country that were either owned by corporates or leased by financial owners.

Another initiative was to ramp up efficiency in logistics and warehousing. Latham says the firm brought in a Navis specialist in this field who decided to collapse WorldMark's seven warehouses across Australia into four, reducing holding value by about A$10 million – an immediate cash release on the company's bottom line.

The firm also added telesales to existing face-to-face sales at dealerships, which increased revenue by over 10 percent annually. In addition, Navis changed the management reporting structure. The firm brought in a new CFO, as well as a head of fleets.

John Weekley, one of the founders of WorldMark, became executive chairman of the company and spent time with Navis in Kuala Lumpur and as Latham recalls, was "very aligned and involved in the business all the way through".

***Latham:** Navis focused WorldMark on trade sales, consumer sales and international consulting*

3 INTERNATIONAL EXPANSION

The firm's third main initiative was to focus on international growth, a Navis speciality. Latham says the firm looked at the Navis network and determined the best growth markets.

"General Motors and Ford were opening car dealerships on a weekly basis in China. They were trying to pick the best spots, normally staffing them with 20 or more sales employees, and quite often these sales staff had no experience selling anything, let alone cars," Latham says. "We realised that was a massive market for sales training efforts in China. That's when we started to recruit a large number of trainers to teach sales people how to sell. This led to a massive growth for us."

On acquisition, WorldMark's international division had 400 Australian staff and 20 employees in Asia. Its Asian footprint had just been Thailand and some aftermarket sales in South Korea and China, but at the time of exit, the company had 450 staff in China, India, Thailand, Philippines and Indonesia.

Navis also looked at India and decided there was an opportunity to create a technical sales division to teach mechanics how to do servicing on Indian two-wheelers and cars. Training mechanics was done in partnership with the Indian government, which supported the growth of technical training workshops in the country. The firm did one for Volkswagen in Chennai, for instance, training large numbers of technical apprentices in what eventually became WorldMark's technical training division.

4 THE RIGHT EXIT

It was clear to Navis that the international division and the Australia unit would not have the same buyer so it decided to split the sales.

WorldMark: *Asian network includes China, India, Thailand, Philippines and Indonesia*

"A lot of work went into the structure of the business to get ready for sale. We then looked at the potential universe of buyers. Several private equity firms were interested and we had been approached three times by different private equity shops in Australia in the lead up to 2015," Latham says.

Navis appointed two different advisors – Greenhill for Sewells Group and Miles Advisory for the core Australian division. The firm had about 23 parties interested in the business, from private equity firms to dealership suppliers and specialist automotive service companies.

The sale process for Sewells Group started in September 2015 and in April the following year Detroit-based business process outsourcing company MSX International completed its acquisition for around A$60 million.

Meanwhile, 23 Australian and international parties were interested in the Australian business. The firm, however, sold the business to Sydney-based Quadrant Private Equity for A$300 million in July 2016. Latham adds: "We decided on Quadrant because we knew them very well; they are a reliable and honest firm and we knew we could do a quick deal with them."

The sale of both businesses delivered proceeds of A$300 million to Navis's investors.

Latham says that WorldMark's international growth was the most exciting achievement for him and that Navis's network enabled the company to grow internationally.

"A lot of companies have the ability to grow from one country to another but they don't have the confidence to do it. They are worried they are going to fail or won't understand the economic climate in one country versus another, and concerned they won't understand the cultural differences and the language.

"And therefore great Australian companies are frightened about growing in countries such as China, Malaysia or Vietnam because they just don't know what they don't know. But Navis has a wonderful way of saying: 'We can help you, it's not hard. You can learn from our people and you can grow your business in Asia'." ■

CPA GLOBAL

Copied right

How Cinven replicated a tried-and-tested approach in the patents industry. Alex Lynn reports

When Cinven acquired intellectual property business CPA Global in 2012, it hoped to replicate the success it had achieved with its exit from transaction processor Amadeus the previous year.

There were striking parallels between the two companies: both had originally been founded and owned by their customers and both boasted significant room for technological growth. Cinven had earned a 7x return on its 2011 exit from Amadeus, which had been founded by a group of airlines, after heavy investment in research and development, and saw similar potential within the patent renewals sector.

"IP law firms had set up the company to manage transaction processing activity [an admin-heavy task] more efficiently than the law firms could do themselves, and they had also developed a nascent software offering," Anthony Cardona, principal at Cinven, tells *Private Equity International*.

"We saw an attractive market opportunity: serving corporations and law firms globally to help them manage their patents through technology. Every year the number of patents has increased and it's continuing to increase at a very strong rate as corporates and law firms want to protect their innovation globally."

While patent drafting attracts much of the credit in intellectual property, renewing these documents can be a laborious process complicated by the need to file, renew and pay in multiple currencies and jurisdictions. Jersey-headquartered CPA Global was initially set up as a co-operative venture of patent attorneys in which the workload was shared evenly across the group.

In 2010, CPA's shareholders were keen to sell a minority stake in the business, and Cinven was interested. However, the firm's mandate required it to take control positions in portfolio companies and the opportunity was instead snapped up by London-based private equity firm Intermediate Capital Group.

"As is sometimes the case you see a very attractive business but what's on offer doesn't square with what your mandate permits you to do," says Stuart McAlpine, managing partner at Cinven.

Patience is a virtue, and in late 2011 ICG agreed to sell a majority position to Cinven for around £950 million ($1.2 billion; €1.1 billion). CPA Global marked the last investment from Cinven's fourth fund, a €6.5 billion 2006-vintage.

1 SYSTEM UPGRADE

Cinven's strategy for CPA Global was to continue to grow its renewals business while simultaneously building the efficacy of its software offering. The firm wanted to provide its customers who were operating "in a kind of Heath Robinson-type way with Excel spreadsheets and manual interventions" with a tailored software solution, McAlpine says.

Although the company already had a disparate range of software products, Cinven hoped to build on this by creating additional products and pursuing acquisitions, before unifying these into a larger suite.

The acquisition of Austin-based IP search and analytics software provider Innography in 2015 catalysed the company's technological development. In addition to boosting CPA's range of software products, Innography founder Tyron Stading joined as chief data officer. CPA Global now boasts a single sign-on environment providing access to each of its products, as well as a new web-based suite of IP management software launched in June.

2 BUY AND BUILD

The second prong of CPA's growth strategy was to acquire renewals portfolios within attractive

3x
Money multiple

24%
Internal rate of return

€1bn
Capital gain for investors

Working together: *CPA Global was founded by its customers*

markets and jurisdictions where the company was under-represented, such as the Nordics and Asia. The company made six additions funded through a mix of cashflow and bank facilities.

In 2014, CPA Global acquired Sweden-based Patrafee IP services provider for an undisclosed sum. The deal included Patrafee's patent renewals business, IP management software products and UK operations.

The same year saw CPA boost its search and analytics capabilities through the acquisition of Virginia-based international patent services provider Landon IP, which held offices in London, Shanghai and New Delhi.

It was these Asian markets that held the highest potential for growth.

"[South Korea] is one of the most innovative economies in the world," Cardona says. "They have one of the highest levels of patents per capita of any economy, and the number of patents coming out of South Korea is growing very strongly."

CPA attempted to tap into this momentum with the acquisition of its former renewals business partner, MarkPro, in South Korea. The deal helped CPA become the "number one player" in the South Korean market, Cardona notes.

The company has also become the largest IP services provider in China, taking advantage of the country's exponential patent growth with offices in Shenzhen, Beijing and Shanghai.

3 FINANCING

The firm's acquisition of CPA came amid some of the weakest capital markets conditions since the recession. "It was one of the few LBO financings in the European market at that time," Matthew Sabben-Clare, capital markets partner at Cinven, adds.

The firm was able to secure underwriting for a debt financing from some of its relationship banks, in addition to placing a mezzanine tranche with a combination of its long-term institutional lenders and LPs.

Raising the necessary debt in sterling can be difficult as many institutional investors in leveraged loans are not funded in sterling, explains Sabben-Clare, resulting in expensive cross-currency swaps for the duration of the loan. In 2013, the firm decided raising debt in dollars and euros would be a more natural fit for CPA's increasingly global nature.

Cinven fully refinanced CPA's London-based debt from the previous year and replaced it with a New York covenant-lite dollar and euro first- and second-lien loan structure. The exercise generated a more diversified pool of lenders for the company that proved useful when it made subsequent acquisitions.

The same year CPA refinanced its initial mezzanine debt, reducing the weighted average cost of debt by nearly 2 percent.

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After five years of ownership, CPA had grown into the world's leading patent renewal and IP management software company with the likes of Microsoft, Canon and Unilever among its 10,000-strong client base.

As its holding period neared an end in early 2017, Cinven launched a dual-track process with Goldman Sachs and JPMorgan to explore IPO and trade sale options.

The company attracted the attention of private equity firms "in the double-digits", says McAlpine, but a pre-emptive £2.4 billion offer from Leonard Green & Partners proved too good to turn down. "The bids were very competitive, you got a sense of the attractiveness of the asset and the sector," McAlpine says.

"We arrived at a position over the weekend where [Leonard Green & Partners] came forward with a value which was sufficiently compelling for us not to go down the IPO track," McAlpine notes.

Cinven declined to comment on the financial returns, but one market source who asked not to be identified says the deal generated a 3x money multiple, 24 percent internal rate of return and a more than €1 billion capital gain for investors. ■

DEAL MECHANIC

How Permira guided Netafim to becoming a global leader

We look under the bonnet of the private equity firm's investment in a kibbutz-oriented irrigation business.

Double-digit growth had first brought Netafim to the attention of Permira's industrials unit, but it was a call from the firm's tech team that eventually led to an €800 million investment in the Israeli irrigation equipment provider in 2011.

The caller said that a contact had told them that there was an opportunity to gain a majority position within Netafim, whose owners included three kibbutzim, or collective agricultural communities.

Permira had identified water as one of agriculture's most attractive sub-sectors but had previously been deterred by Netafim's crowded ownership.

"Other private equity funds had been around this asset, but we were the only ones that had all the ingredients to get to this majority," explains Torsten Vogt, Permira partner and co-head of the firm's industrials sector team.

"In our mind, it was always important to be a clear majority owner and have the control to move this business, which was in a great place, to the next level."

At the time two local private equity firms held a combined 30 percent stake. Three kibbutzim also held positions in Netafim. After both firms and one of the collectives sold to Permira, Kibbutz Hatzerim, the larger of the two that remained, emerged as the "kingmaker", holding the equity the firm needed to reach the majority position.

As would be the case throughout, Vogt says, acquiring the additional stake required Permira to address the very specific concerns of a business hoping to expand while retaining an ethos tied to Israel's unique history. Ultimately, it took 20 trips to the Negev Desert over less than a year to secure the additional stake from the kibbutz, which Vogt described as essentially a family with 400 members.

"They had to be confident that we could bring the right expertise, the right industry understanding and also the right culture to transform it into a modern enterprise, while still protecting the heritage and the interests of the founding kibbutzim," Vogt says.

1 REFOCUSING

Permira's first task was to narrow Netafim's focus back to its irrigation business.

In 2007 and 2008, Netafim had acquired greenhouse construction businesses focused on Eastern Europe and Mexico. Permira closed that unit and encouraged Netafim executives to focus instead on strengthening the service the company offered its original customers.

"We believed, and continue to believe that the core of this business is irrigation, more than just drip irrigation, bringing irrigation technology to the world," Vogt says.

That renewed focus on customer needs led to pricing adjustments and changes to existing products, some of which had not been updated in 15 years. One example was the addition of a colour stripe on irrigation lines that eased the installation of the product for farmers across various markets.

Another important step was the creation of a cloud-based software platform providing crop-specific analytics as well as advice on the selection of seeds and the application of fertilisers.

The platform had the added benefit of making Netafim more attractive to potential buyers. "This was a very important element for all the strategics that looked into acquiring the business," he says.

2 UPGRADING PERSONNEL

With Netafim's focus clearly defined, Permira set about driving a cultural transformation, beginning with the management team. The firm replaced it entirely, except for the research and development head.

"Effectively, the business had outgrown its processes. It was a $700 million-plus company at the time, but it had processes and a culture that suggested a $150 million to $200 million company," Vogt says.

"Kibbutz Hatzerim understood some of

that challenge. They wanted to grow the business but giving up control is a tough decision."

After a two-year search, in 2014 Netafim hired Ran Maidan, previously chief executive of Asia-Pacific, Africa and Middle East for crop-protection-focused Adama Agricultural Solutions, to be Netafim's chief executive.

"We found in him someone who shared our vision and was capable, together with the kibbutz, of driving the cultural transformation necessary to accelerate some of those steps and position the company for what it is today."

3 EXPANSION IN GROWTH MARKETS

One of the key priorities for Maidan was overseeing Netafim's expansion in key growth markets, namely China, Central America and parts of Africa.

While China was one of the 110 countries in which Netafim already operated, the company had made many common mistakes there, Vogt says. After having technology stolen by a joint venture partner and having spent money relocating within the country, Netafim was reluctant to pay out any more in what had become the world's second-largest irrigation market.

Here too, Vogt says, staffing was key. Permira helped bring in Stephan Titze, who had been head of Swiss agrichemicals gro micro-irrigation market.

Here too the unique character of the kibbutz shaped Permira's exit. As part of the sale, Mexichem agreed to ensure that Netafim's research and development will continue to take place in Israel for the next 20 years. ■

PARKDEAN RESORTS

Out of the park

Through an aggressive programme of operational improvements and M&A, Epiris transformed the stagnating caravan parks operator into a UK market leader, writes Isobel Markham

£70m
Initial investment

£32m
Entry EBITDA

£120m
Exit EBITDA

3.9x
Return

46%
IRR

UK-based mid-market firm Epiris – formerly known as Electra Partners – had been keeping a close eye on the holiday parks sector for some time before it came across Park Resorts, an operator offering caravan holidays at 39 sites across the UK.

"It's a very resilient sector in terms of economic ups and downs, and we saw it as a high upside sector in terms of transformation potential," says managing partner Alex Fortescue.

"It's still very fragmented, and so [it's] a big M&A driven opportunity to drive growth, and [there's] still relatively high scope to implement operational improvement."

Park Resorts had been acquired by GI Partners in a secondary buyout in 2007. When Epiris looked at the business four years later, Lloyds Bank held a significant chunk of the debt and was looking to exit. Epiris spotted an opportunity.

"The thesis there was that, worst case, we would hold the debt to maturity. We bought the debt at just over 50 pence in the pound, and we thought we would make somewhere between 1.7 and 2 times money simply from holding the debt to maturity."

In January 2012 Epiris paid £45.5 million ($56.3 million; €52.4 million) for Lloyds' portion, and then picked up several more debt tranches, taking the initial investment up to £70 million and giving the firm a blocking minority. This allowed Epiris to work with GI, the management team and other banks on a consensual restructuring.

"Essentially that involved extending the maturity of the debt, converting a piece of our debt into a PIK instrument and, crucially, us getting equity control of the business," Fortescue says.

This meant Epiris' effective entry price was around 7x EBITDA – considerably below the market price for the sector of 9.5-10x, Fortescue says.

1 FIRST STEPS

Epiris' first task was to sit down with the management team to identify potential investment opportunities to drive capacity across existing sites.

"Because they had been so starved of capital, that had to start from square one," Fortescue says.

"They didn't have any view as to where those opportunities were, we had to go site by site and look at where we could add extra pitches or holiday caravans, how we could drive capacity and growth."

This generated around 100 potential projects which, due to the restructuring of the financing, Epiris could fund and see a quick return to growth. Epiris also undertook some succession planning; chief executive David Vaughan was looking to retire, so Epiris worked to find a replacement, appointing David Boden in 2013.

2 BUILDING OUT

A large part of the value creation plan for Park Resorts was add-on acquisitions. Epiris had already identified a number of opportunities when it was evaluating the initial debt transaction.

The first acquisition was South Lakeland Park, held by Irish bank NAMA, which Epiris acquired for just over £40 million.

"The business had been going backwards operationally," Fortescue says.

"There, we implemented a very quick turnaround programme to drive synergies. We replaced the management team and centralised it within the Park Resorts business, and started driving the sales side of the business, which had been languishing under NAMA's stewardship."

Epiris removed a head office and IT hub from the Lake District, moving it down to the Park Resorts headquarters in Hemel Hempstead, saving around £2 million.

Shortly afterwards Epiris acquired a pair of parks, Southview and Manor Park, from NAMA, again at an attractive entry price.

3 CATCHING UP

The caravan parks sector has generally been behind similar industries such as hotels and airlines on yield management, Fortescue explains. This was a clear area where significant, measurable improvement could be made.

"The old model had been to produce a catalogue that was mailed out and had the prices in it, you stuck to those prices for the season, and you might have a bit of clearance of unsold inventory at the last minute," he says.

Epiris worked with management to implement yield management software tools, allowing pricing to be adjusted minute by minute according to demand.

"That's led to significant growth in average pricing and has meant less discounting at the last minute as well," Fortescue adds.

4 FINAL MERGER

The final piece of the M&A story was Park Resorts' merger with Alchemy Partners-owned Parkdean Holidays.

"We'd always seen Parkdean as an interesting M&A candidate for Park Resorts in that it was geographically very complementary – Parkdean was much stronger in the West Country, versus Park Resorts being much stronger on the south and the east coast," Fortescue says.

"In addition, Parkdean was stronger at the holidays side of the business, selling caravans for rental for a week or four days, whereas Park Resorts was much better at the sales side, selling a caravan outright and then renting a pitch by the year."

Child's play: *Epiris implemented a buy-and-build strategy*

Epiris approached Alchemy, which was receptive to the idea of a merger. The two firms initially worked together with the two CEOs and CFOs on integration planning and synergies. "The conclusion of that confirmed the initial hypothesis that there was significant value in putting the two businesses together, partly from cost synergies, but partly, and more interestingly, from best practice and the fact that each business had its own particular area of strength."

The merger was agreed in August 2015, and completed following competition clearance in November. The combined business was renamed Parkdean Resorts.

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Epiris continued making improvements into 2016, until it became clear Parkdean was ready to sell.

"We felt our core role was done, we'd delivered that transformation, and it was time to seek an exit," Fortescue says.

"We'd taken a business doing £30 million of profit; we'd taken essentially a distressed balance sheet there, we'd taken it forwards, restructured the balance sheet. We'd driven the M&A and driven the organic growth and created now a £120 million EBITDA business."

Epiris hired Rothschild in summer 2016 to hold an auction process. The business was acquired by Canadian private equity firm Onex Corporation for £1.35 billion, which delivered proceeds of around £405 million to Epiris' major client, listed private equity investment trust Electra Private Equity, a return of around 3.9x and an internal rate of return of around 46 percent.

"The fact that we'd bought the debt meant that essentially we had no leverage working for us in this deal," Fortescue says.

"We were in the most senior instrument, which obviously meant it was a relatively lower risk deal for us, we couldn't have lost our money, but also means delivering just under four times money on an unlevered basis is a particularly strong return, we think." ■

MEILLEURTAUX

Getting the house in order

A strong brand name and a market with plenty of room for growth enticed Equistone to get behind the mortgage broker, writes Isobel Markham

Meilleurtaux was not a typical Equistone Partners Europe investment. In 2012, when HSBC was selling the mortgage broker for French bank BCPE, it was loss-making, and the business was only just breaking even when the deal was completed in 2013.

But three key elements persuaded the firm Meilleurtaux was a good investment. The first was the strength of the management team, led by chief executive Hervé Hatt. The second was the market opportunity.

"We were convinced there was a great potential for this business in the French market," Equistone managing partner Guillaume Jacqueau tells *Private Equity International*.

Jacqueau was particularly interested by the fact that the market share of mortgage brokers in France was just above 20 percent, while in the UK it was more than 60 percent.

"Even if the UK market is much more mature than the French market, there was such a gap between the two countries on the market share of mortgage loan brokers that it was quite obvious to me that there was a great potential for this business in France."

The third attractive aspect was the strength of the Meilleurtaux brand name.

"It's a great brand name with very high brand awareness, known by almost everyone in France," Jacqueau says.

Equistone is understood to have invested €25 million to acquire BCPE's 100 percent holding in Meilleurtaux in April 2013.

1 FRANCHISING

Meilleurtaux operated online and through more than 200 high-street agencies. A key part of Hatt's recovery plan for the business was to turn those agencies from subsidiaries into franchises.

"I would not say it was low-hanging fruit, but it was something which was relatively easy to understand and not too complex to implement," Jacqueau says.

As well as dramatically reducing cost, franchising created a different, more positive dynamic.

"The dynamic of franchises is much more positive; people manage their agency like their own business because it *is* their own business, so they have an incentive to manage it as efficiently as possible."

2 BUILDING ON THE BRAND

The strong brand meant Equistone could expand the number of products and services the company offered.

"Hervé Hatt had been very clear from day one that he wanted to expand the service and product offering," Jacqueau says. "The idea was to make Meilleurtaux a kind of financial services supermarket with a lot of new products and services."

During Equistone's ownership, the company diversified from its original remit of selling just mortgages and loan insurance, and began to offer debt consolidation, consumer loans, bank accounts, general insurance and loans for small and medium-sized enterprises.

There was also significant growth in Meilleurtaux's core mortgage offering through developing the sales function and expanding the customer base. Meilleurtaux opened several new agencies across France, bringing the number up to 250.

Equistone worked with Hatt and his team to optimise and improve the quality of the company's website. These efforts

> ***"The dynamic of franchises is much more positive; people manage their agency like their own business because it is their own business, so they have an incentive to manage it as efficiently as possible***
>
> **Guillaume Jacqueau**

Maison d'etre: *the market share of mortgate brokers in France meant Equistone saw an opportunity*

paid off with visitors more than doubling during the four-year investment period to 26 million per year in 2016.

3 GROWING THE PLATFORM

"When we announced the deal in 2013, Meilleurtaux was identified as a natural platform for consolidation, so we received a lot of inbound investment opportunities," Jacqueau says.

During the hold period, Meilleurtaux completed five bolt-on acquisitions, which helped the company build out its product offerings.

The first, in 2014, was bank comparison website Choisir-ma-banque. This was followed by loan insurance comparator and broker Multi-Impact and online debt consolidation specialist Préféo in January 2016 then insurance comparison website MerciHenri.com. All were rebranded under the Meilleurtaux banner.

"I think we've been helpful in this context," Jacqueau says. "Hervé Hatt is a great professional who did not necessarily need our help understanding the business opportunity, but given our experience in M&A, we helped in the way we could set the price, in the way we could negotiate the deal, in the co-ordination of the due diligence, in the legal aspects, in the asset and liability aspect."

Meilleurtaux also began a programme of international expansion, establishing a presence in Morocco in 2015. Towards the end of Equistone's holding period Meilleurtaux acquired a minority stake in MelhorTaxa.com, an online comparison and brokerage firm in Brazil.

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By this time, Equistone was being repeatedly approached by potential buyers.

"The developments we set out to achieve took less time than expected. When you have a lot of unsolicited approaches you come to a point where you just realise that you have to be opportunistic," Jacqueau says.

"We came to the conclusion that it was probably the right timing to exit because in four years we had made more than we expected. Hervé Hatt was comfortable with the idea of taking the business into a new phase of growth and it was, in his view, the right timing."

The auction process for the business attracted more than a dozen bidders. In the end, the winner was Goldman Sachs, which acquired the business in a deal understood to value Meilleurtaux at around €260 million. The investment bank used capital from West Street Capital Partners VII, which held a first close in December 2016 on $4.5 billion, and is its first buyout fund since 2007.

The transaction delivered a return to investors in the €1.5 billion Equistone Partners IV of 8.2x and a gross internal rate of return of more than 70 percent.

For Jacqueau, the investment confirmed Equistone's strategy of being open to invest in complex situations.

"One should not forget that it was a relatively high-risk transaction, it was a loss-making business when we bought it. Equistone is open to complexity and I think it's one of the positive aspects of our investment strategy," he says. ■

€16m
Revenue on entry

€50m
Revenue on exit

111
Employees on entry

300
Employees on exit

8.2x
Return

>70%
Gross IRR

CHINA BIOLOGIC PRODUCTS

Tapping the right vein

Over nearly seven years, Warburg more than doubled EBITDA at China Biologic Products and created a booming plasma-based drugs company. Carmela Mendoza reports

$170m
Initial investment

$66.5m
Entry EBITDA

$141.6m
Exit EBITDA

7x
Return

60%
IRR

When biopharmaceuticals became a common conversation topic across Warburg Pincus's global healthcare team in 2009, Min Fang, a Beijing-based managing director at the firm, started research on the China market.

At the time, the production of drugs using biotechnology was becoming a highly attractive sector globally and the Chinese government was backing it in its 12th Five Year Plan. The minister of health pledged an additional $11.8 billion for biotech innovation.

"For China Biologic Products, it was similar to all deals we do – we started from bottom-up research and found it a solid business," Fang says. "In terms of scale, it was one of the top two biopharma companies in China and one of the largest privately-owned players before we invested in it. Through our channel checks we also found that its products had a good reputation among local hospitals, physicians and customers. Chinese regulators also found its manufacturing process had very good standards."

Beijing-headquartered China Biologic Products collects human blood or plasma from stations across China. It then manufactures products such as IVIG, which is used to treat immune system conditions, albumin for low protein levels due to surgery or liver failure and Factor VIII, an essential blood-clotting protein.

Warburg Pincus, which spends about 20 percent of its more than $44 billion private equity portfolio on healthcare, made an initial investment of $170 million in the company in 2009 from its $15 billion global buyout fund, Warburg Pincus Private Equity X.

China Biologic listed on NASDAQ in 2009 through a backdoor listing instead of a typical IPO process, which Fang says meant the valuation was lower than some of its peers.

From a less than 5 percent stake in 2010, the firm took majority control of the company, investing in multiple tranches until 2016. At its height, Warburg Pincus owned nearly 45 percent of the company.

"We found this a great opportunity to invest in an attractive business at a very attractive valuation," Fang says.

1 ENHANCING MANAGEMENT

Its initial investment gave the firm a seat on the board, where it had discussions with other shareholders. They found there was room for improvement in terms of running and operating the business.

Fang tells *Private Equity International* it was important for the firm that the chief executive had a strong healthcare background. The company's board replaced China Biologic's CEO at that time and hired David Gao, which was recommended by Warburg, to run the business in 2011. Gao is a serial entrepreneur who has been in the sector for 10 years and has experience running US-listed pharma company BMP Sunstone Corporation, from 2004 until its acquisition by Sanofi in 2011.

Gao had already worked with China Biologic in a variety of roles, including as director chairman of its compensation committee.

2 FOCUSING ON SUPPLY

Because blood is a scarce resource, ensuring the steady supply and quality of its raw material is key.

Fang pointed out that one of the key value drivers of the business is to open more plasma collection centres, which gather raw material for producing plasma products.

The company increased its focused on the supply-side of the business, but this also entailed gaining government approval for plasma collection licences, which are difficult to obtain in China.

Fang said local governments were concerned about the quality and safety standards of purely Chinese companies opening collection centres.

With Warburg as a major shareholder, the company built trust with the local authorities and was granted a number of new licences, which significantly increased its raw material supply.

This helped China Biologic become the second-largest plasma-based pharma company in the country based on 2014 sales, commanding 17 percent of the domestic IVIG market. Its supply chain also expanded to 12 plasma collection centres and two manufacturing centres across four provinces, with more than 130 sales representatives selling directly to more than 600 hospitals.

In addition to opening more collection centres, the firm also engaged technical experts from China and the US to audit and improve the collection and manufacturing processes.

3 TRANSFORMING THROUGH M&A

Warburg also supported China Biologic with acquisitions, such as buying out minority shareholders in one of China Biologic's subsidiaries, Guizhou Taibang. "It's a very tough negotiation process because these businesses are doing well and it took us a lot of effort to convince the minority shareholders to cash out. But those deals are really accretive to the listed company and helped incentivise the local management teams."

***Clean:** quality is key for plasma collection and manufacturing*

4 IMPROVING LIQUIDITY

Warburg did a re-IPO – a recapitalisation through the placement of new and existing shares – for China Biologic in 2015, raising more than $200 million.

Fang said the firm introduced the opportunity to institutional investors in the US and attracted big names such as Capital World Investors and Fidelity Investments. "These companies came in as very important investors and further diversified the investor base of the China Biologic, making it a truly public company."

He added: "Previously the company had no research coverage, no liquidity, but after the re-IPO in 2015, it got research coverage by all the major banks such as Morgan Stanley, Merrill Lynch and Credit Suisse, thus improving its liquidity from almost zero to nearly 10 million a day."

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By the end of 2015, the company had a market value of more than $3.7 billion.

Warburg sold down its stake over time and fully exited the company in August 2016, generating cash proceeds of about $1.2 billion, a 7x return multiple and an internal rate of return of up to 60 percent for its investors, Fang said.

Over a holding period of around seven years, China Biologic delivered 25 percent to 30 percent gross earnings per share year-on-year. The company grew by almost eight times, with revenues growing from $37 million in 2009 to $296 million in 2015 when Warburg began selling down its stake.

The company continues to explore new regions to expand its plasma collection coverage and introduce new products to the market, Gao said in a recent earnings call. ■

ADAPT

Business, reprogrammed

By the time Lyceum Capital exited cloud-hosting business Adapt, the company had undergone a metamorphosis, as Victoria Robson reports

£3.7m
EBITDA on entry

£10.1m
EBITDA on exit

3.2x
return

<10%
sales made in managed cloud services on entry

70%
sales made in managed cloud services on exit

When UK mid-market firm Lyceum Capital acquired Adapt in September 2011 for an enterprise value of £30 million ($37 million; €35 million), its goal was to transform the London-based colocation data centre business into one that offered managed cloud services (MCS) at higher values and margins.

Before Lyceum's £18.5 million initial investment through a management buy-in and a further £7.5 million of capital plugged in along the way, the business focused on reselling data centre space and networks and only had three hosting clients. At that time, MCS accounted for less than 10 percent of total sales.

Lyceum had spotted a trend in the US where businesses in the same sector were moving from selling data-centre space to owning servers and providing managed hosting services. "In 2010, that hadn't really manifested itself at scale in the UK," says Simon Hitchcock, Lyceum's investment partner on the Adapt deal.

Through market mapping and talking with "as many owners and chief executives in the sector that would take a meeting", it became clear that hosting cloud services presented a huge opportunity. Lyceum identified cash-generative Adapt as the platform through which to expand into a market that was growing at 15-25 percent a year.

1 SHAPE-SHIFTING

The acquisition of Cardiff-based MCS business eLINIA in April 2012 for an enterprise value of £13 million kicked off Adapt's makeover. "We saw an opportunity to build a UK-managed hosting business and we knew that to do that we needed to be able to position it to attract the right customers and have the technical ability to deliver," says Hitchcock.

eLINIA's staff of 50 provided a "real engine of technical people", says Hitchcock, who notes professionals with the same skill-set were in short supply in London – and expensive. Supported by recruitment grants from the Welsh government, London-based technical staff moved to Cardiff where the team grew to 110 people over five years.

"[The eLINIA acquisition] was the cornerstone of the transformation from a technical capability and delivery point of view. It saved us probably three years [of] building a team and capability," Hitchcock says.

This was followed in June 2013 by the purchase of Leeds-based cloud hosting provider Sleek. The buy extended Adapt's client base to smaller businesses with more "nimble" hosting needs and allowed Adapt to provide "a more flexible, lower-cost solution, which meant we could address a larger part of the market at a lower price point and then take some of those customers on a journey to become larger", Hitchcock says.

2 GOING TO MARKET

With the technical capability in hand, the company could focus on its commercial strategy. While mapping the market the Lyceum team had met Stewart Smythe, then at Cable & Wireless Communications, who invested alongside the GP and came on board in January 2012 as chief executive.

"Stewart was fundamental to the strategy and instrumental on the go-to-market side, positioning the business as being the best to look after mission-critical data, winning the first landmark hosting client – who frankly took a risk on our ability to deliver – delivering well for them and then using case studies for the next client," Hitchcock says.

Significant contracts included flower delivery service Interflora and, later,

Fresh servers: tech acquisitions helped Adapt shift its focus to the cloud

convenience food retailer Greencore Group.

As the demand for managed hosting became more established "it became about having a really efficient sales and lead generation machine, and consistent first-class delivery", says Hitchcock. To that end, Adapt brought in an additional non-executive board member to sharpen the commercial effort based in London.

3 MAKING IT SEAMLESS

The CEO's ability to "knit it all together" was key to the success of the business, says Hitchcock. "Adapt was a buy-in with M&A in an emerging and growing market. Making the whole thing work so the client delivery was really excellent was key to success."

The company was a service business and the technology was "pretty standard" and less of a challenge than getting right the "service wrap" – the people, systems and processes that hung around it – says Hitchcock. "There was a lot of change in the business over the five years and we were invested in getting it right. Working with the CEO we had to change a couple of members of the management team and strengthen the team with additional roles."

Keeping ahead of market trends remained a theme. Two and half years ago, on a visit to the US, Hitchcock and Smythe recognised more hosting clients were using hyperscalers – which accommodate increasing computing demands – for some of their applications, and Amazon Web Services was leading the charge.

Anticipating future client needs, Adapt hired a technical team to support its AWS offering and funded the development of a platform. By the time of exit in August 2017, its first two customers had gone live. "AWS was a reaction to what was happening the market, a natural evolution," says Hitchcock. "The buyer [Datapipe] has quite a large AWS business, so that will continue."

4 LEGACY ISSUES

Such significant business transformation was inevitably met with challenges. Foremost, margins in the original colocation data centre business contracted more rapidly than anticipated.

"The hosting business outperformed our expectations and the colocation reselling, which we thought was a stable business, underperformed," says Hitchcock.

"At one point we'd got a business where one side [MCS] was growing at 40 percent a year, but the other side was declining. Managing and understanding that dynamic was something the management had to deal with. It was the key challenge."

The disparity meant Adapt took longer to reach the £10 million EBITDA threshold at which Lyceum planned to sell, and the GP's exit was delayed by a year to 18 months.

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By exit, the heavy lifting was done and managed cloud services represented closer to 70 percent of sales. Adapt had also expanded its MCS market share from £300,000 a month in September 2011 to more than £3.4 million by July 2016, with revenues for the sector growing 20 percent in the last year of investment.

Annual revenue grew from £32 million for the year ending 30 June 2011 to £45 million in June 2016, and EBITDA from £3.7 million to £10.1 million. Employee numbers had swelled from 100 to 210.

Following an off-market approach at a premium to other interested parties, US-managed hosting and cloud services provider Datapipe, in which Abry Partners is an investor, acquired the company. The sale generated a money multiple of 3.2x for Lyceum. ■