ITALY

SBO

Global Garden Products

€736m (enterprise value)	
Location	Castelfranco Veneto
Sector	Durable household products
Turnover	€546m
Returns	IRR c20-25%, 2x for ABN AMRO Capital

GGP sold to 3i by ABN AMRO Capital

Exit deal – ABN AMRO Capital

ABN AMRO Capital has sold its entire stake in Global Garden Products (GGP) to 3i via an auction co-ordinated by UBS Investment Bank. The business was sold at a multiple of c9x EBITDA for the financial year ending on 31 August 2007. The enterprise value for the deal is €736m. The sellers have made a reported IRR of approximately 20-25% and a money multiple of around 2x.

Sale process

UBS launched the auction in July and a full set of vendor due diligence reports was made available from the start. It simplified evaluations from prospective buyers while allowing sellers to receive unconditional offers within a short timeframe. Another advantage on the vendor side were the management's business plan with short term benefits such as growing market shares in Eastern European markets (notably Russia, Czech Republic and Poland), as well as enhancing the range of professional machines sold under the Belos brand and the launch of emission-compliant handheld products.

According to the sellers, a handful of prospective buyers had expressed interest with an attractive headline price, but were unconvincing when it came to explain the financing plan for their bids. It was mentioned that the involvement of two trade buyers in the process – which were willing to use their "corporate revolvers" to bridge the acquisition – allowed keeping momentum on a short list of four finalists selected from a total of eight preliminary offers. In addition to two trade buyers, bids included those of buyout house Investitori Associati, as well as 3i.

The vendors were adamant in relation to the price to be paid for GGP. "We made very clear to potential buyers that we were not going to sell at penny cost, so there was no room for bargaining," said Antonio Corbani of ABN AMRO Capital, who pointed out that the deal defeats widespread opinion that medium and large deals are impossible to finance at favourable conditions for the seller. "Smart structuring, coupled with a careful auction preparation and a tight process focused on only a few, but highly motivated bidders resulted in a positive outcome," he added.

Sellers' accomplishments – holding period 2003-2007

As for achievements during the holding period, the sellers cite the effective integration of add-on acquisitions Castelgarden Spa, Mountfield, Alpina and Swedish Stiga Belos AB into the group after its acquisition in 2003. This involved a significant investment in technology upgrades at its Italian and Swedish production plants and R&D centres to facilitate international competitiveness. Additionally, the company sold its non-core asset Stiga Games in 2006 and launched a new production plant in Slovakia in order to reduce dependency from third-party suppliers, increase manufacturing capacity in LCC and to allow the group to tap into the fast-growing Eastern European markets. Other accomplishments were the refocusing on the spare parts division of the business, which was restructured to become a standalone division, with a service unit and independent logistics and warehousing. The turnover of the group at the time of the original takeover was €520m with EBITDA of €71m. Four years on, the business reported sales to year ending 31 August 2007 amounted to €546m with €84m EBITDA.

Acquisition deal – 3i

As part of the sale process, the vendors have compiled a list of possible domestic buyers beforehand; the criteria for private equity firms to enter the competition, described by sources close to the deal as "very rigorous", included reputation in the market, size of funds under management and historic IRR.

In order to win the deal, 3i "significantly exceeded" the threshold for the equity tranche. The cash element of the deal – believed to surpass the €200m mark – was considered as much larger than the Italian average for such transactions. The buyout house was also given the option to make use of an existing "portable financing" facility, which had been set up in July 2007 *(see box, page 30)* and designed for the purpose. The leverage on the deal was reported to have been set at 4.2x senior and approximately 4.7x on EBITDA.

The package, which totalled €545m at the time of the original recap, was led by Credit Suisse and involved Morgan Stanley, Intesa-Sanpaolo and ABN AMRO as mandated lead arrangers, with BNL and Calyon involved as joint lead arrangers. On a public note, 3i mentioned that the deal required a "good dose of courage and creativity". "The current situation in the financial markets is not easy and closing the acquisition of GGP required inventiveness, since transferable recaps are a novelty in European private equity," said 3i's Italian head Marco Fumagalli.

Around 97% of GGP will be held by 3i, while CEO Pierluigi Tosato, will invest 'substantially' alongside the new backers to hold a stake of approximately 3%. Fumagalli mentions that GGP's position in the market, as well as the potential to expand into key international markets were included in the main attractions of the business.

Business plan

The buyout house intends to hold the group for the next five years and groom it for an IPO. To that end, it will support the business via expansion into high growth territories, such as Eastern Europe and Russia, as well as taking advantage of opportunities to co-operate with potential partners in the US and Asia. Branding strengthening will also play a critical role in 3i's business plan. "With Giochi Preziosi (another 3i-owned company) we have learned a great deal about the value creation possibilities available for a strong brand," said Fumagalli. "Although the products of these companies are targeted to completely different age groups, we know for a fact that a long-term investment on a brand recognised by its consumers and retailers – although costly – always pays off," he adds.

Deal history

ABN AMRO Capital (AAC) led the MBO of GGP in October 2003 (*November 2003, page 18*) for a total consideration of €555m. The deal is the largest ever for the private equity firm, with an equity ticket of €180m and was coordinated jointly by AAC's Milan and London offices.

The vendor, UBS Private Equity, initiated the sale earlier that year, with Morgan Stanley running the auction process, which lasted for several months. ABN AMRO Capital fended off competition from rival bidders PAI and Permira, and was advised by the Italian boutique Sopaf Corporate Finance. At the time, Royal Bank of Scotland and CIBC arranged and underwrote a debt package comprising €460m of senior debt and €105m of mezzanine financing.

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Company

Based in Castelfranco Veneto, Global Garden Products is the largest manufacturer of walk-behind and ride-on lawnmowers in Europe, with an overall market share of around 30%. It also produces a range of hand-held gardening equipment and accessories, spare parts and provides repair services.

The company manufactures private label products for several European garden centres, DIY chains and hypermarkets – including B&Q, Focus Wickes, Castorama and OBI – as well as higher spec products sold under its own brands Mountfield, Stiga, Alpina and Castelgarden. It also produces a range of multi-purpose professional machines under the brand Belos. Headquartered in Italy, GGP markets its products principally to the Nordic countries, France, the UK and Germany while servicing other European markets though 15 subsidiaries in Europe. Its production facilities are based in four manufacturing plants in Europe (two in Italy, one in Sweden and one in Slovakia).

People

The original buyout and sale of GGP were managed by Antonio Corbani of ABN AMRO Capital. Following completion of the transaction, the board of GGP will include its CEO Pierluigi Tosato, as well as Paolo Antonietti, 3i senior adviser, as chairman and Marco Fumagalli, partner and managing director of 3i Italy and Lorenzo Salieri, partner of 3i Italy, as non-executive directors.

Advisers

Vendor – UBS (*Financial due diligence, corporate finance*), **Dewey & LeBoeuf** (*legal*), **PricewaterhouseCoopers** (*Financial due diligence*).
Equity – Morgan Stanley (*Financial due diligence*) **Studio Chiomenti**, Franco Agopyan (*Legal*), **KPMG**, Matteo Contini (*Financial due diligence*), **BCG**, Nicola Pianon (*Commercial due diligence*).

'In the current market turmoil, transferable recaps should prove to be particularly helpful for both buyers and sellers'

Focus: Portable financing

Shortly before the debt woes arrived, GGP refinanced its debt in April 2007, setting it at €545m. The package, structured as a portable financing facility (or 'transferable recap') was expected to stay in place should the company be sold to a pre-specified list of acquirers. That particular element in the debt structuring was originally meant to provide a floor to the valuation in case the business was to be sold within one year from the recap. Mezzanine, as well as senior subordinated PIK notes included in the 2003 facility were replaced by an all-senior package, reportedly priced at 250 basis points.

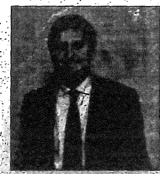
According to banking sources, it is the first time such a clause is used in the Italian LBO market and probably the second time in the European LBO market. "Given the current state of debt markets, the portability clause proved to be a key feature of the deal, as it allowed the list of prospective purchasers to deploy an efficient capital structure by simply adding to the existing, portable senior debt package a PIK or deeply subordinated note, complemented by their equity commitment," explained Antonio Corbani of ABN AMRO Capital.

"In the current market turmoil, transferable recaps should prove to be particularly helpful for both buyers and sellers," said a debt adviser. He added that the advantage for the seller is the retention of an aggressively leveraged pre-crisis debt package which can be offered to the acquirer – which could not be underwritten in the current market – and therefore obtaining a higher price at the time of sale. The buyer is then able to retain a substantial amount of financing flexibility, typically with finer pricing than they could achieve on a new deal. It is understood that a number of European LBOs have included such change of control clauses, particularly on pre-sale recaps. However, given the shift in balance of power between GPs and banks, transferable recaps could be just another flash in the pan, since a number of the conditions obtained in the "pre-crunch era" are now a thing of the past.

In November 2007, Candover acquired between 50-60% of French advisory business Alma Consulting, in a transaction whereby no new senior debt was provided (*France unquote", January 2008, pages 39-40*). Royal Bank of Scotland, the company's current agent and arranger of the company's existing debt, only underwrote additional mezzanine and capex facilities. Alma Consulting had been subject to a €350m refinancing at the end of June 2007, just before the summer.

Adviser focus

Who: BCG – The Boston Consulting Group
Advised on: Strategic due diligence for 3i on the GGP deal
Team led by: Nicola Pianon, senior partner & managing director, Milan office


Nicola Pianon, BCG

BCG acted as counsel in the strategic due diligence for the acquisition of GGP by 3i. "GGP is very well positioned in a stable market in Western Europe supported by the increasing disposable income in an aging population," says Nicola Pianon, who led the strategic due diligence on 3i's behalf. He adds that the growth of single standing houses is also contributing to an increase in consumption of more technically-advanced gardening products. The leadership of the company in its sector is evident in almost all the markets in which it operates, except in Germany, where it is fast climbing to the number one position. In Central and Eastern Europe, the market is growing at a fast pace and there is plenty of room to establish a strong presence in the region, even if new market players proliferate. Additionally, walk-behind and ride-on lawnmowers – more expensive products – are the normal choice in CEE, as gardens are typically larger than in the UK, where electrical equipment, suitable for smaller yards are best sellers. When it comes to pinpointing what is there to be done, Pianon mentions the spare parts business as a key part to be improved. "The business should focus on broadening their capability of offering innovative products to fuel growth."

During the auction process, Pianon reckons that what won for 3i amid fierce competition of industrial buyers was betting on developing the company's individual performance. "The industrial bidders emphasised more the value achievable through the integration to their business as the main items of their agenda, rather than considering the company's stand alone potential and the possibilities for the business going forward," he comments. During this particular mandate – which was won by BCG in a competition with other domestic and international advisory houses – the biggest challenge was to understand items such as competition and appreciation of the brand in each of the geographies where GGP operates. The team comprised three other consultants and the process was described as "entertaining". "It was very interesting to see how GGP has developed and responded so quickly to the competition's movements by adopting flexibility in their business model," concludes Pianon.

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