BAIRD REAPS REWARDS OF THE US TASTE FOR EUROPE

Team of the month

Mergers and acquisition specialist Baird has used its trans-Atlantic strength to cash in on a rush of US private equity firms to European shores.

WRITER
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From left: Andrew Hutchison and Peter Augar of Baird's global investment banking team

US private equity firms are snapping up UK and European businesses at a rate that was unheard of only a few years ago. And this plays to the strengths of a mid-market mergers and acquisitions (M&A) specialist Baird, which has a presence on both sides of the Atlantic. It was recently the sole financial advisor to Reward Gateway of the UK on its sale to Great Hill Partners, a US private equity house.

Baird's employee-owned business spans wealth management (principally in the US), asset management (with funds of some $130bn) and equity-focused investment banking. Having been founded in Milwaukee in 1919, it is no market newcomer. But its London presence dates from only 1999, when it acquired Granville, a small UK investment banking house.

Today, the London operation is built around equity capital markets and private equity, with a focus on companies worth between £100m ($155m) and £500m. It has developed a specialist knowledge of industrial sectors such as automotive and measurement, and service segments including business process outsourcing and human capital. Reward Gateway is, as Baird describes it, "a technology play on human capital".

GLOBAL LEADER

Reward Gateway describes itself as the "global leader in enterprise employee engagement software", which is not an exaggeration. The company was started in London in 2006 by its chief executive, Glenn Elliott, a former software engineer who has reinvented the way employee engagement programmes – benefit programmes, really – are managed.

Inflexion, a UK private equity firm, invested in Reward Gateway in December 2010 at an enterprise valuation of £25.5m, although management and employees retained 40% of the equity. Since then, revenues have grown six-fold to £189m and client numbers from 400 to 1100, and include Bayer, Bloomberg, IBM, Diageo, McDonald's and Unilever. The business boasts a 98% client retention rate. It has expanded in the US and Australia, and opened a global support and software engineering centre in Bulgaria.

Baird has known Inflexion's founders since they started their own business in 1999. "Inflexion has a fantastic track record of working with entrepreneurs," says David Silver, Baird's head of European investment banking. "They are entrepreneurs themselves and they understand that personal relationships are important."

The investment bankers' relationship with Mr Elliott began when he attended Baird's annual Business Solutions conference in 2013. "We kept in touch with both Mr Elliott and Inflexion, talking about the business and its aspirations," says Peter Augar, a director in Baird's global investment banking team. "Inflexion was looking at an exit after five years and Reward Gateway reached its profitability target towards the end of 2014. That's when we were appointed to work as advisors on a sale."

FINDING THE RIGHT PARTNER

The sale process was interrupted, in a good way, when Reward Gateway acquired its leading competitor in Australia, API Leisure & Lifestyle. It had been working on this for some time, so there was only about a month of distraction while management got the deal done. This was announced in March 2015 and increased Reward Gateway's earnings by about 20%. A few adjustments to the slide rule and the sale went on. But it was not a cookie-cutter auction.

"Mr Elliott was very focused on finding the right partner," says Mr Silver. "So there was an emphasis on that, as well as an

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auction, which was slightly unusual. Inflexion was very supportive."

In line with Mr Elliott's wishes, the deal was shown only to private equity houses, about 20 of them to begin with, both European and US-based. "A large part of the company's growth opportunity was in the US," says Mr Augar. Baird's US M&A team was happy to help in this regard, since they all share a single profit-and-loss account. "No one says this is my deal. They were as keen to help as if it was their own transaction. That makes a big difference to global coordination," says Mr Augar.

Once the private equity houses grasped the commercial realities of Reward Gateway, there was a lot of interest. As a general principle, US private equity firms are shopping a lot more in Europe. "The world is a smaller place," says Mr Silver. "And more businesses are global, even if they are small. US private equity is large and homogeneous so, when you're selling something there, you send information to 100-plus private equity firms. In the UK, it's smaller, so you send out to perhaps 30 or 40."

Apart from less competition, another attraction of the UK is that vendors do more legwork and due diligence. "US private equity likes the fact that so much preparation is done ahead of the process in the UK," says Mr Silver. "So they can learn a lot more about the business and not have to spend so much personally."

What made this particular UK firm appealing to potential investors, US or otherwise, was its strong growth coupled with its profitability. Profits have gone from zero to normalised earnings before interest, taxes, depreciation and amortisation (Ebitda) of £10.1m for the year ending June 2015. That represented a 359% increase since June 2012 or a compound annual growth rate of 66%. While Mr Elliott is a former EY Entrepreneur of the Year, the company has also won UK prizes as 'fastest growing business' and 'service business' of the year.

"It's unusual for the profitability of a young technology business to grow at such a rapid pace," says Mr Augar. "A large number of them don't make any profits because it's all ploughed back into sales and growth."

CRACKING THE US

If more US equity firms are looking across the Atlantic for investments, this is a two-way street. Such investors can help UK and European firms to crack the US, which is what made them appealing to Reward Gateway. One of the firms identified by Baird as a possible investor was Boston-based Great Hill Partners. The private equity house stood out because it had recently realised an investment in a similar business, Bswift, a healthcare benefits software company. "It had already had the experience so, since it had been a success, [Great Hill was] a sensible party to talk to," says Mr Augar.

Initial offers came in from a dozen or more firms, before the sale process moved on to the second round. "We drew up a shortlist of four in mid-June," says Andrew Hutchison, an associate in Baird's global investment banking team. The shortlisted bidders enjoyed further disclosure and due diligence material, together with presentations by the management team.

Mr Elliott had a powerful influence on exactly who was on the shortlist. "Inflexion recognised that Mr Elliott was a strong entrepreneur who knew how to grow the business," says Mr Augar. "It had been very considerate in how it structured its relationship with him, and did not stick to a rigid plan. Any new investor needed to hit the right values, but also had to be a good partner for Mr Elliott going forward."

Two parties were asked to push forward with final offers and it was Great Hill that clinched it in a deal valuing the company at £140m. TPG Capital provided debt finance, leaving the business with six times leverage. Inflexion was able to claim an impressive return of 7.7 times on its original investment. After the deal, the equity stake of Reward Gateway's management and employees actually rises to 45%.

What does this tell us about the market? "It's a very good time to sell a business," says Mr Augar. "There is a lot of money in private equity chasing a scarce pool of assets. Where technology is moving into traditional services territory – and human resources is very people-oriented – it is disrupting the market significantly. That gives new companies the opportunity to grow and to give value to investors." TB