

PRIVATE EQUITY INTERNATIONAL

BEING DIFFERENT

Henry Jackson's OpCapita
comes of age

TURNING THE SCREW

The SEC gets tough

KKR IN ASIA

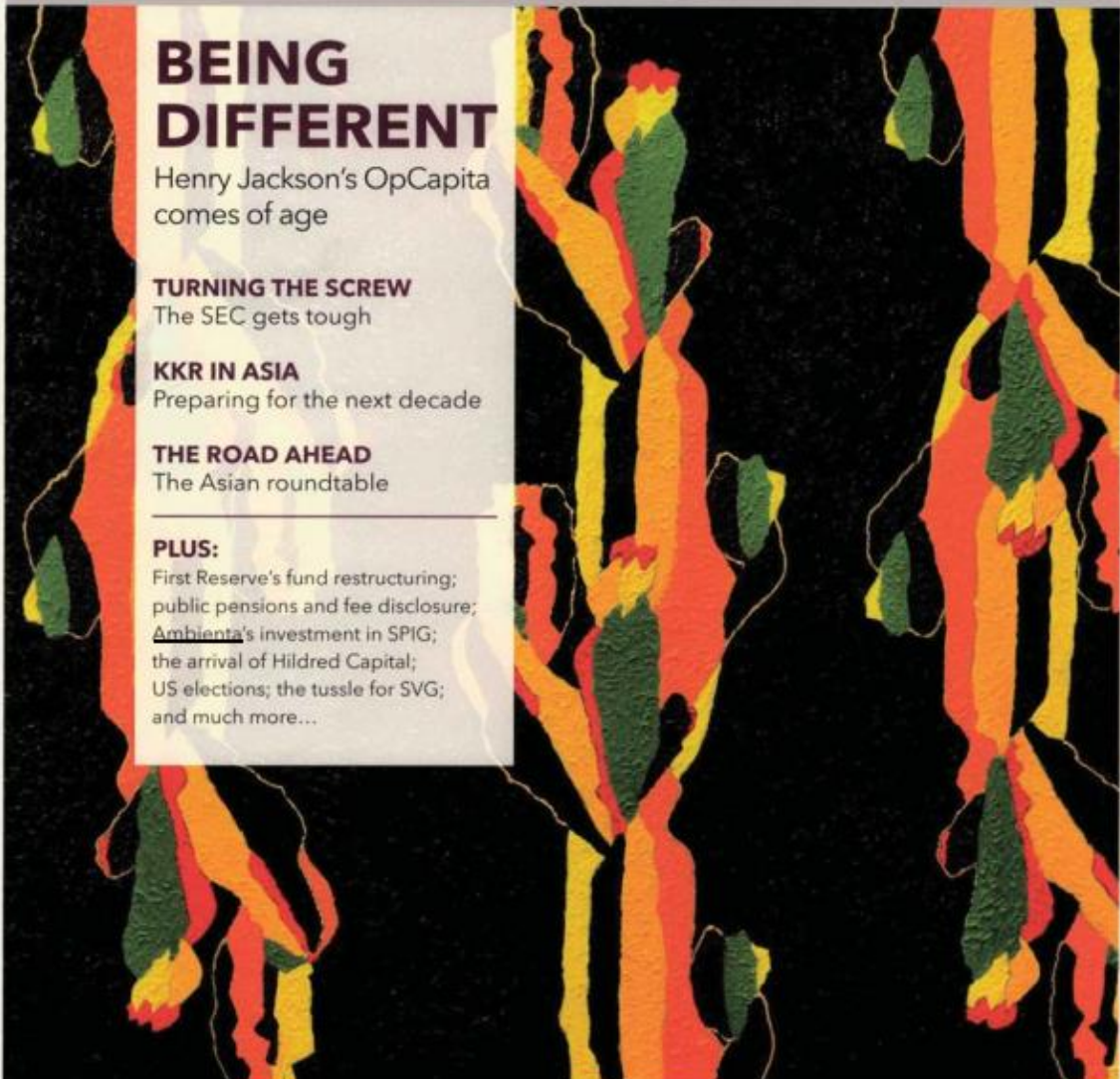
Preparing for the next decade

THE ROAD AHEAD

The Asian roundtable

PLUS:

First Reserve's fund restructuring;
public pensions and fee disclosure;
Ambienta's investment in SPIG;
the arrival of Hildred Capital;
US elections; the tussle for SVG;
and much more...



PRIVATELY SPEAKING



26

The rise of 'Jackpot' Jackson

As OpCapita celebrates its 10th anniversary by holding a 'one-and-done' on its new fund, founder and managing partner Henry Jackson explains why portfolio company Comet failed while GAME succeeded – even though they were treated the same

ALSO IN THIS ISSUE

12 KKR's next decade in Asia

The firm is reshuffling its senior ranks as it prepares to raise the continent's largest private equity fund

14 The \$64 question...

In the world of private equity, Trump supporters are keeping their preferences to themselves for fear of upsetting investors

16 Land of the fee

State legislatures are piling into the fee disclosure debate – but are they doing more harm than good?

17 The tussle for SVG in context

Listed private equity funds look like tempting targets for secondaries firms, but don't expect a wave of consolidation

18 Family pharma

The Solomons sold their laboratory business for \$28bn, made 10 investments through their family office and are now considering raising third-party capital

19 Under a cloud

The restructuring of First Reserve's 2006 fund failed due to a 'perfect storm'

20 What worries your general counsel?

Key themes from our in-house lawyer roundtable: BEPS, AIFMD and the next big controversy

22 The SEC tightens the screws

The US regulator has been hitting private equity firms with fines. Regulators across the world are also about to get tough

34 Asia Roundtable: The road ahead

Five top industry professionals in Asian private equity on why a new breed of LPs and record-breaking Chinese M&A are signs of a maturing industry

40 Guest comment: Benjamin Lehrer

Mid-market private equity firms must adapt to new ways of thinking or risk ending up on the wrong side of history

42 How to implement an ESG strategy

PGGM's Eric-Jan Vink discusses how best to measure, manage and report non-financial risks

REGULARS

4 First Round

Which way to the beach? Golfing around; Not over the moon; Multiples & Quotables

10 The World This Month

The biggest private equity stories from around the globe

24 Deal Mechanic: Towering success

How Ambienta fought macro headwinds to double revenues on cooling tower business SPIG



24

46 Capital Watch

Funds currently in market

50 Data room: More money, more problems?

GPs are sitting on record amounts of cash awaiting investment but managers are eager to show they can maintain their discipline

52 Where are they now?

Our new series on what people who have left the industry are doing



52

Towering success



Against the backdrop of the Arab Spring and the oil price slump, Ambienta managed to pull off a successful exit from industrial cooling systems business SPIG, writes Isobel Markham

c. €100m
Revenues on acquisition

c. 10%
EBITDA on acquisition

150
Employees on acquisition

€200m
Revenues on exit

c. 10%
EBITDA on exit

260
Employees on exit

>2x
Return

When Ambienta, an industrial growth investor in companies driven by environmental trends, invested €20 million for a 30 percent stake in Italy-headquartered industrial cooling systems business SPIG in June 2010, a third of the company's profits came from the Maghreb region of North Africa. Half its revenues were from around the Mediterranean, with the rest coming from emerging markets including Brazil, Russia and India.

Just months after the investment the Arab Spring erupted across North Africa and the Middle East, wiping out a key part of SPIG's business. The company replaced the lost trade with more work in Russia and Brazil, both of which then took severe turns for the worse. Last but not least, the oil price crash came along, denting the capex intensity of most of SPIG's clients.

"If you look at all of those things, you should think 'disaster,'" says Ambienta founder and managing partner Nino Tronchetti Provera.

But under Ambienta's stewardship, what happened was the exact opposite: the company launched a new business, doubled revenues, expanded into new geographies and more than doubled the number of employees.

The key? The identification and capitalisation of a strong, long-term trend, says Tronchetti Provera.

"Notwithstanding all these things that happened in the market, which unfortunately can happen every day [...] sustainability is definitely a long-term trend."

Industry is the second-largest consumer of water, after agriculture, and within the sector, the largest use is cooling. Because water scarcity and pollution have a higher place on the agenda in Europe, companies from the continent pioneered cooling towers, which recycle up to 95 percent of the water used by power plants.

Founded more than 80 years ago, SPIG was one of those pioneers. As legislation on water pollution and recycling spread across the globe, cooling towers became mandatory in many geographies. Ambienta spotted a clear market opportunity.

PROFESSIONALISING

1 When Ambienta invested in SPIG, it was owned and managed by the third generation of the founding Mosiewicz family, "with a few brave and very skilled engineers that started their careers very young and were promoted to different roles of responsibility", Tronchetti Provera says.

The family was looking for a partner to help them make their business global.

"The first thing we did was to put in management and progressively disengage the family from the business, not from a strategic point of view but from a day-by-day operational point of view," Tronchetti Provera says.

"Today there is a new CEO, a new CFO, a new COO, and a new head for most of the global countries where we do business. But there are also some of those brave engineers. For instance, the head of research is one of the brave engineers, the head of supply is one of them. So it's a good mix."

Ambienta brought in a team of consultants to help SPIG redefine its internal processes, how it managed projects and their cashflows, and how it measured the profitability of projects.

The firm also brought in Stefano Cao as chairman of the board, who "drove what we called SPIG 2.0 – the new organisation and the new process".

These soft skills had a big impact on making SPIG more flexible, which allowed it to survive when it needed to move its revenue streams out of certain countries and into new markets.

2 THE RIGHT MODEL

The reason SPIG is more successful than the three other European companies that were also pioneers in the space, Tronchetti Provera says, is the business model.

"We decided not to have plants run by us," he explains. "If I have a plant in Russia or Brazil and the local business collapses, how do I move? I cannot move a plant. We focus on the engineering of the [tower], we produce the critical part ourselves, and everything else is outsourced."

He continues: "With all those surprises in international politics, if you have plants it's a disaster. The flexibility of the business model and good management on board is critical to surf unexpected waves."

Today SPIG has operating subsidiaries in Germany, Turkey, Russia, Dubai, the US, Brazil, India, China and Korea, with 92 percent of group revenues generated outside Italy.

3 NEW PRODUCT LAUNCH

"Because of geographical downturn and because of the oil crash, there's not a big growth trend in oil refineries," Tronchetti Provera explains. "I think we did a good job at keeping the wet cooling at the same level at which it was five years ago despite half of the market disappearing."

There is, however, a big growth trend in natural gas, which is less expensive and less polluting. Natural gas plants require "dry cooling" – the use of air-cooled condensers and air coolers. On acquisition SPIG was not active in the dry-cooling space; with **Ambienta's** help, it launched a new dry-cooling business from scratch.

"We did it by hiring a group of people from competitors, overspending on the people in order to have the know-how and to convince the client that despite not



*Cooling: despite bracing macros **Ambienta** was able to launch a new product*

having any experience as a company, there were people around that had a lot of experience," Tronchetti Provera says.

"By doing that we managed to get the first job without losing money."

Today, the dry-cooling business – which is coupled with a service component, including the servicing of towers built by SPIG competitors – accounts for 50 percent of revenues.

By the summer of 2015, through international expansion, the launch of the dry-cooling strategy and the expansion of the service offering into a fully-fledged division, **Ambienta** had doubled the size of SPIG.

"We put in management, sophistication, systems, we started a new business, we were very unlucky with all the things that happened in the market, but supported by a long-term trend that is still there," Tronchetti Provera says.

The firm decided to pursue a listing in Milan to exit the majority of its stake. It got as far as filing in March of this year, with the intention of holding the IPO in July. At

that moment, American power generation company Babcock & Wilcox came along. A "very important name" in the energy world, Babcock is listed on the New York Stock Exchange with a market capitalisation of close to \$850 million.

"It was offering the right price, probably slightly more than what we would have got from the stock exchange, with the plan of making SPIG the core of its future strategy," Tronchetti Provera says.

"This of course means a lot of potential and an attractive future for all your employees and stakeholders. I think it has to be underlined how generous the family was in deciding to sell after eight years. Because they never wanted to sell, they wanted to keep going, but they did because the future that a company like Babcock can bring to SPIG is something that no family can achieve."

Ambienta and the Mosiewicz family completed the sale of SPIG to Babcock & Wilcox in July 2016 in a deal valuing the business at €155 million and delivering a return of more than 2x for **Ambienta's** investors. ■