

Mergers and acquisitions

Here **Daniel Lach**, Managing Director of Beaufort International LLC, comments on the recent consolidation of the global fire and safety industry and outlines the role his company has played, and can play, in facilitating such transactions.

During the past two years there has been an unprecedented level of merger and acquisition activity among globally oriented fire and safety product manufacturers.

However, despite recent high profile US based transactions, such as the acquisition of Simplex by Tyco International (completed in January), the purchase of Detection Systems by Bosch (completed in February) and the Pittway/Notifier sale to Honeywell (completed in June 2000), the major change in activity level has manifested itself in the European middle market, that is companies with a turnover in the range of 5 to 50 million pounds. In this market, companies once either belonged to a conglomerate or were still owned and managed by technically minded entrepreneurs.

In the United Kingdom and South Africa, high profile industry participants such as Ziton (sold to Edwards System Technology in September 2000), Fire Protection Services (sold to Kidde in May 2001) and Chloride Safety Systems (sold to Novar in December 2000) have recently been divested. Across Europe, other mid-sized fire and safety companies such as Eltek Fire & Safety, Autronica, Heien-Larssen, Firetech, Fintek, I.E.L. Systems, Magnus Fergin and Norfass, have all recently succumbed to become part of larger, more integrated industry players.

There is a clear reason for this sea change in activity level. Price levels for well run fire businesses are currently very attractive. Of course, a competitive element in any negotiation process is essential to maximising value for the divesting shareholders.

Focussing primarily on Europe, Beaufort International LLC has rapidly become a leading player in the accelerated level of acquisition activity in the fire and safety industry.

Due to the somewhat 'insider' nature of the fire industry, many deals were historically struck between individuals that have known each other for many years. In many ways, these relationships served to slow down and 'muddy' the divestiture process. Of course, vendors were concerned about market rumours leaking out, thereby making them unwilling to admit to their competitors that their business may be open to offers. In price discussions, shareholders were also concerned about losing face. The divestiture process was less well defined. Selling shareholders also did not know what their businesses were worth. Industry

exception (FPS), Beaufort has represented all of the vendors in every mid market transaction documented in this article. By handling the bulk of transactions in the European fire sector, the company is better informed to advise its clients on how market valuation multiples are moving and if an offer is reasonable compared to what has been seen in the past.

In the past vendors had a difficult time in managing the divestiture process efficiently. Often it was unclear if both the vendor and potential purchasers were serious in going through with the deal. In general, a great deal of time and effort was

everything. One good product sold successfully in a domestic market may have a sales potential many times greater, especially if the manufacturer can attain approvals from other certifying bodies and gain much greater exposure to the marketplace that only large multi-national companies can provide.

Industry leaders have also begun to view fire detection and control as the critical component of an intelligent building network. Many believe this trend will eventually integrate fire, security, emergency lighting, access control and heating, ventilating and air conditioning into a central controller.

Such profit making potential enables relatively small companies to be valued by the industry leaders far more attractively than ever before. In a competitive situation, potential purchasers are forced to offer the vendor a portion of the embedded value that will only be realised from the business once it has been integrated into the buyer's existing structure. Often, this value would take years to materialise if left to grow as a small player in an increasingly technically sophisticated and capital intensive industry.

With over £200 million in completed transactions within the past 24 months, Beaufort's influence in the market has been significant. Although precise numbers are proprietary, industry analysts estimate that global mid-market valuation multiples in the fire industry have risen by over 50 per cent during this period.

About the Author

Daniel E Lach has been involved in cross border transactions involving most major global fire companies. He holds professional engineering and business degrees, and has over 20 years experience in international corporate finance.

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related comparable financial information was either unreliable or non-existent. In less than three years, Beaufort has changed all that.

Since wresting control of Autronica away from UK-based Whessoe plc in 1997, where the author of this article (Beaufort's Managing Director) constructed a strategic alliance between Swiss and Norwegian partners to acquire the fire business, Beaufort has dominated the league of advisors in transactions involving fire and safety companies. (Beaufort also advised on the ongoing sale of Autronica to Williams plc in 1999).

Beaufort dominates the market by working only in the fire and safety sector. With only one

wasted.

Beaufort, serving as the primary consolidator of deals, is strategically well positioned to advise clients on the timing of their decision on when to take action.

Previously, large companies simultaneously negotiated with a number of potential sellers, often giving buyers the negotiating advantage and in general, suppressing valuation levels. Today, transaction scheduling can be recommended to clients to ensure that vendors' objectives do not conflict with each other.

Transaction price multiples have increased due to changes in global marketing amongst the dominant industry players. Today, distribution means