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# REAL DEALS

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## THE RINGS OF POWER

Carlyle's Robert Easton has overseen the growth of Firth Rixson from ailing plc to world-beating aero engine ring maker. It has now been sold to Oak Hill for £945m.

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# DONE DEALS

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## CARLYLE SELLS FIRTH RIXSON TO OAK HILL FOR £945M

Five years after rescuing aircraft engine parts manufacturer Firth Rixson following a prolonged share price nosedive, Carlyle nets “excellent” return.

### MANUFACTURING, UK/US

**TARGET** Firth Rixson

**> IN** Oak Hill Capital Partners - Rowan Taylor

**L** Paul Weiss Rifkind Wharton & Carrison

**L** Macfarlanes

**A** KPMG

**< OUT** Carlyle Group - Robert Easton

**CF** Lehman Brothers

**L** Latham & Watkins

**D** Lehman Brothers

**D** Lloyds TSB Corporate Markets - Ian Brown, James Burns

**D** GE Commercial Finance

The Carlyle Group has sold engine parts maker Firth Rixson to Oak Hill Capital Partners for £945m (€1.3bn).

Carlyle acquired the 160-year-old UK-based manufacturer at the start of 2003 in a £106m take-private deal, at a time when its share price had been in free-fall, as it failed to integrate acquisitions and maintain productivity.

Less than five years later it is a global business with headquarters in Sheffield and Connecticut, 11 facilities in the US, the UK, Europe and China and a supplier of products to every major aerospace engine manufacturer in the world. Last year it ranked second in the *Sunday Times* Buyout Track for fastest profitability growth.

Both exiting and investing buyout groups can claim to have strong credentials in the aerospace field. Oak Hill is building a portfolio of companies in the aircraft engine industry, while Carlyle is one of the largest aerospace and defence investors.

“We identified the original deal because we are quite focused on the sector, and we had watched the company through the late 1990s make acquisitions and underperform relative to the stock market’s expectations,” said Robert Easton of Carlyle, who sits on Firth Rixson’s board. “The stock market declined but Firth Rixson declined much more.”

Carlyle watched as the share price fell from 70 pence, to under 30 pence in April 2002, at which point the company knew an LBO would work. By the time a formal offer was tabled in December 2002 the share price had sunk to nine pence, and Carlyle offered a 120 per cent premium, acquiring the business in February 2003.

“They were really struggling to restructure the business as a public company and handle the consequences, namely taking the exceptional costs and the earnings per share hit and then a wait of two years for the benefits,” said Easton.

“We could see the opportunity for productivity improvements, that the aerospace cycle would return – and of course eventually it did – and we could see the synergies with our US business. So all the stars aligned in 2002.”

The US business was California-based Forged Metals, a single-site company Carlyle had acquired in 2000. The two businesses were merged and Carlyle brought in a chief executive to replace Firth Rixson’s boss, who was retiring. While the firm brought in a large array of outside help, most of the management team remained in place, including the finance function.

Over the next few years, Firth Rixson made three key acquisitions, of UK-based turbine rings maker TRT in November 2003, Sheffield-based rival Schlosser Group in October 2004 and Future Tech, an ultra-large aerospace components business, in May 2007. It also opened a facility in Shanghai, after a vain search to find an outsourcer.

The business achieved a leap in revenues in the holding period, from just over £200m, with a ten per cent margin, to around £500m, with profitability in the upper teens. While the business has remained focused on the production of engineered rings for aircraft engines, its customer base has expanded from a dependence on Rolls-



Easton: “we worked hard, the management worked hard, and so did the workforce”

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Royce, to a roughly even exposure with the two other major engine makers - Pratt & Whitney and GE.

"It is also in a much stronger market position from the point of view of product market shares," said Easton. "We transformed the business. We didn't broaden its focus, we just did a much better job, through investment in technology, people and capital."

### SHOP FLOOR IMPROVEMENT

This revenue growth brought part of the productivity gain, as the business leveraged its fixed cost base. Another big driver of margin was "throughput" - which means making more, more efficiently, with the same resources.

"We took a plant that used to give its customers a 12-week lead time and

took 10 to 14 weeks to deliver - therefore often missing customer due dates. We squeezed the same product through the same plant on a six-week lead time and made it in four weeks - on the same cost base." The company also doubled sales and productivity per man, as head count has remained steady at around 2,000.

Driving through this productivity called for some intense monitoring in the early months of the investment, when the board met weekly.

In 2006 Carlyle ran a strategic review, but was not impressed by the offers received. Instead it sold a 36 per cent stake to Lehman Brothers Co-investment, recapped the business and took money off the table, and was content to stay invested. "The market

didn't have the faith that we had to deliver on the forecast," said Easton. "And the management massively over-delivered its forecast."

As timing would have it, shortly afterwards, the company experienced a large uplift in profits from big contract wins, and Oak Hill Capital Partners began monitoring the business.

"We had an overall investment thesis and decided to be active investors in the aerospace industry and build a portfolio of businesses that serve the engine and after market," said Rowan Taylor of Oak Hill, which already owns three businesses that serve the market, including an air-frame company, an air cargo operator and an aircraft leasing business.

### A NEW INFLEXION POINT

Taylor believes Firth Rixson is at "another inflexion point of growth" and sees three main growth drivers. "We will execute on established contracts as the global aerospace cycle continues to grow, well into the next decade. There are also increasing rates and new aircraft types with new engine types." Taylor also sees scope to take bigger shares of existing markets, as well as expand into adjacent and complementary markets, such as industrial gas turbines and power generation, which have very similar technology to aerospace.

Debt for the deal, which was arranged in the middle of the credit crunch, was supplied by Lehman Brothers, GE Commercial Finance and Lloyds TSB Corporate Markets. "We were working intensely in July and August and you didn't sleep well, but working with Lehman we were able to put together a funding package that we think is attractive."

Oak Hill also received a competitive proposal from another set of lenders. The debt component represents a multiple of around 5.5-times Ebitda.

Meanwhile, the acquisition price represents around 9.5-times current Ebitda. "We see growth in the business to justify that multiple," said Taylor. "Also, in relation to public company valuations, we think that is fair."

Easton agreed: "The business can definitely keep up the growth trajectory: it has all the great tech and market position we have left it, but it also has a long way to run in the aerospace cycle. I am quite sure the company will continue to thrive."

Carlyle would not comment on specific return figures but said the performance was "excellent". "We worked hard, the management team worked hard, and so did the workforce - they've worked hard and done well," Easton said.

**By Ross Butler**

**48**  
DEALS  
INSIDE

### BIG DEALS (>€250M)

Alliance Medical	23
Almatis	23
AS Adventure	22
Coor Service Management	23
Firth Rixson	20
HSBC credit card book	22
Noreco	22
Securitas Direct	22
Targetfollow	23

### MID-MARKET (<€250M)

Callenberg Group	24
Complete Group	24
Copyrights Group	25
Corporación Española de Transporte	25
Duni	24
FastBooking	25
Hyster Nacco Material Handling	26
KCS Global Holdings	25
Kelvin Hughes	26
Synexus Clinical Research	26
Triangle Training	26

### SMALL DEALS (<€25M)

Arthouse	28
AVE	27
Avocet Hardware	27
Brinker Technology	28
Factum Finance	29
Flowers Direct	28
Focus Pharmaceuticals	28
Funeral Services Partnership	27
Marie-Laure	29
MedHold	29
Nautilus	29

### VENTURE CAPITAL

AbaXX	30
Acacia Semiconductor	30
Anaxsys Technology	33
Applied Superconductors	32
Apra	33
Arterial Remodeling Technologies	33
Believe	31
CAPS Enterprise	32
Cint	32
Coding Technologies	30
DisplayLink	31
GetJar	31
Innovative Silicon	30
Neoss	32
Republika Kobiet	31
Santosolve	33
Speaknet	32



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