CHINA CALLING

The sale by 3i of Mayborn, owner of Tommee Tippee baby bottles, to Chinese consumer group Jahwa, for about £300m, shows the continuing interest from the East in UK brands, as well as a textbook international growth story. Brian Bollen reports

The westward march of Chinese corporate buyers continues. Recent figures published by Dealogic showed that international acquisitions out of China reached a new record in the first half of 2016 - there were 441 cross-border transactions with a Chinese buyer, worth a total of just over $147bn. This exceeds the annual record value set in 2015 of $106bn, (from 613 deals).

Among the deals in the first half of this year was 3i's sale of Mayborn Group to Shanghai Jahwa Group, the parent company of leading Chinese consumer products organisation Jahwa United. The Ping An Insurance Group wholly owns the Jahwa Group.

Since 3i took Mayborn private in 2006, the business has expanded and grown internationally by means of new product launches and the acquisition of two distributors. Its EBITDA has tripled during that period, to more than £25m in 2015. Its net sales have more than doubled to over £130m. International sales now represent 60% of Mayborn's revenue.

"We very much saw the opportunity to build a truly global brand within a highly fragmented market segment," says Alan Giddins, managing partner and co-head of private equity at 3i, who led the original transaction and sat on the Mayborn board. "Our investment in Mayborn fitted well with our investment strategy in the consumer sector, where we had previous backed and helped grow internationally a number of strong branded businesses."

Mayborn Group's Tommee Tippee is the number-one feeding brand in the UK and Australia. It is the fastest growing bottle brand in America, and one of the top five baby brands in the world. Its feeding, hygiene and soothing products are sold in more than 70 countries.

GROWTH SPURT

Central to the business's growth strategy was a move to a direct sales model in its core (and largest) geographies. This was the rationale behind the group acquiring its distributors in France and Australia. Crucially this also allowed the business to consolidate ownership of the Tommee Tippee brand globally - the brand in Australia was actually owned by the distributor, rather than Mayborn.

Through its Business Leaders Network, 3i introduced Paul Mason to Mayborn as chairman. He is currently also chairman of TA Associates-owned Cath Kidston and Permira-owned Dr Martens. He was formerly CEO of Asda-Walmart and Somerfield.

The company's move from largely UK focused to global business has been significant, according to Giddins. "At the heart of this transformation has been an excellent management team led by Steve Parkin."

Parkin, who became CEO of the baby products division just four weeks before 3i's original investment, said at the time of the sale to Jahwa: "Mayborn has undertaken a transformational

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Alan Giddins,
managing partner and co-head of private equity, 3i

journey over the past 10 years. 3i's international mindset has been an important factor in our successful expansion into new markets. I am looking forward to working with Jahwa Group for the next stage in our development."

In 2006, 3i acquired its majority stake for £137m in a public-to-private (P2P) transaction in 2006. While listed on AIM, Michael Samuel and his family owned more than 50% of the equity. When the business was sold earlier this year to Jahwa Group, it was for about £300m.

The total proceeds to 3i and funds represented a 3.5x money multiple. Proceeds to 3i from the transaction were £135m, which was in addition to the £32m received by 3i through a refinancing in 2012.

"The group we acquired in the P2P comprised three different consumer product businesses," says Giddins. "Our investment thesis was focused on developing the baby product division, taking advantage of a robust non-cyclical growth marketplace, high-margin product characteristics and a strong return on capital employed. In the first two years the board focused on divesting." They sold household dyes business Dylon for £15m, arts and crafts business Impex for £1m and excess property for £7m. Then, in 2010, the group

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£25M
MAYBORN'S EBITDA IN 2015, TRIPLE THE 2006 FIGURE

£130M
MAYBORN'S NET SALES, MORE THAN DOUBLE THE 2006 FIGURE

60%
PROPORTION OF MAYBORN'S SALES MADE INTERNATIONALLY

70
NUMBER OF COUNTRIES IN WHICH TOMMEE TIPPEE PRODUCTS ARE SOLD

updated its five-year strategic plan.

"Rather than this forming the basis of a sales memorandum, we saw significant value upside from holding on to the business," adds Giddins. "And in particular trying to enter the US market, something which had certainly not been on our agenda when we first invested in 2006, but now looked well within the capabilities of the business to deliver on."

SHARPER FOCUS

Non-core divestments completed, management focused on the core baby products business, and deleveraged Mayborn's balance sheet. Leverage had been 6.5x at entry, but by 2010, leverage was down to less than 1.0x. Mayborn refinanced, returning 80% of 3i's original capital commitment, and at the same time de-risking the next stage of development.

Social media was used to build connections with parents globally, and in 2015 Tommee Tippee was relaunched with the brand's 50th anniversary. And there was heavy investment in new product development - the Closer to Nature bottle and the Perfect Prep machine, which simplifies the number of actions involved in preparing a baby bottle.

As well as international growth, Mayborn achieved market share gains in the UK. It grew from 25% (trailing market leader Avent's 40%) in 2006, to 38% to become clear UK market leader by time of disposal this year.

PLAN IN PLACE

At the point of acquisition Mayborn had no sales in the US, even though Tommee Tippee was originally invented in California. "Retailers with a transatlantic presence such as Wal-Mart (Asda) and Babies R' Us had been requesting the brand in the US, as they could see the success in the UK," says Giddins. "It was important however not to try

to enter the US until the business was ready and a full plan was in place. In 2010, Mayborn started with an exclusive launch in Babies 'R' Us to develop brand presence, before subsequently selling through Target (from 2012), and Wal-Mart (from 2015)."

Parkin led the initiative, which saw Mayborn building out a strong US team. A US head office was established in Boston, led by former Diageo executive Chris Parsons. Mason who, was previously a president at Wal-Mart, also provided support.

Today the business has revenues of more than $40m per annum in the US, and is the fastest growing brand in the market. This growth required Mayborn to reconsider where it wanted to manufacture. It already manufactured in the UK and China. In 2013 the group made the decision to build a third manufacturing facility, in Morocco. This was cheaper and could serve the US market.

The route to market was carefully planned, continues Giddins. Outside the UK Mayborn traditionally operated a distributor-led approach. 3i backed the strategy of moving to a direct in-market model in Mayborn's core growth markets with scale.

"Following the move into the US in 2010 we supported the acquisition of Mayborn's French distributor and the establishment of a direct Australian model in 2012. Moving to a direct distribution model has allowed the business to leverage its strong relationships with key global retailers and deploy its brand building capabilities directly in market. Growth significantly accelerated in those regions as a result."

"Asian buyers want Western consumer brands to grow their overall business globally"

David Silver,
financial adviser, Robert W Baird

£214M

RETURN REALISED BY 3i WHEN MAYBORN WAS SOLD TO SHANGHAI JAHWA GROUP

3.6

MULTIPLE OF RETURN ON 3i'S ORIGINAL INVESTMENT

10

YEARS OF UNINTERRUPTED ORGANIC REVENUE AND EBITDA GROWTH UNDER 3i'S OWNERSHIP

38%

MAYBORN'S UK MARKET SHARE IN 2016

THE DEAL IN A NUTSHELL

The next stage of growth for Mayborn, no doubt accelerated by the Chinese government's landmark decision to end its one child per family policy, provided a major one-off market stimulus for the sale of baby products. When 3i sold Mayborn Group to Shanghai Jahwa Group in April 2016, 3i realised a return of £214m, representing 3.6x its original investment. During the period of 3i's ownership the business delivered 10 years of uninterrupted organic revenue and EBITDA growth.

The transaction is subject to customary regulatory approvals. David Silver of Robert W Baird was financial adviser to 3i, Howard Corney of Macfarlanes provided legal advice, Nicola Preedy of PwC provided financial and tax advice, OC&C commercial legal advice, SLR environmental, and Arthur J Gallagher insurance. Jahwa used HSBC for financial advice, Herbert Smith Freehills for legal and KPMG for accounting.

Silver, Baird's head of European investment banking, has worked with 3i on a number of transactions. He said the deal demonstrates the strength of Baird's M&A team and global reach. "Our investment banking team operates on a single P&L, so we're able to have, effectively, 260 people working together across the globe on a deal," he says. For him, *inter alia*, the deal demonstrates the importance of Chinese buyers in many of today's M&A processes. "It shows the continuing appetite among Chinese buyers for western consumer brands. Asian buyers want them, not just for reasons of developing their domestic business, but to grow their overall business globally."

3i took the business private in 2006. Mayborn divested non-core businesses and then expanded internationally with new product launches, and acquired its distributors in France and Australia. Giddins says: "We took the company private. We provided capital to support growth. We took a long-term view in terms of what were the right timelines for new market entry strategies. I think the past 10 years has been a great example of how private equity can help a business grow and deliver on its full potential."