

Navis exits King's Safetywear; sells company to Honeywell for \$430 mil

| BY CHAN CHAO PEH |

As regional economies dived and governments toppled during the 1997/98 Asian financial crisis, trying to raise funds to invest in the region was a daunting task, to put it mildly. For Rodney Muse and Nicholas Bloy of private-equity firm Navis Capital Partners, two alumni from the Boston Consulting Group (BCG), the gradient was particularly steep.

"It was incredibly difficult, particularly when we were moving from consulting to private equity," recalls Muse, one of the three founding partners of Navis, at an interview with *The Edge Singapore* recently. "We should be running a restaurant [instead]," jokes Bloy, the other co-managing partner of Navis. "You can be the waiter and I can be the chef," Muse shoots back.

Fortunately for the firm's investors, who stumped up the initial US\$70 million for Navis, Muse and Bloy (and the third co-founder, chairman Richard Foyston) did not trade their suits for aprons. They stuck it out, grew their war chest to more than US\$3 billion (\$3.9 billion) today and from their Kuala Lumpur head office, run a team of nearly 100 people across seven offices in the region.

Along the way, Navis has made a total of 51 investments — including an 87.1% stake in industrial boots maker King's Safetywear Ltd (KSW) in late 2008. The privatisation offer was worth \$97.1 million, with KSW's management owning the remaining shares. Three years later, Navis is poised to make a grand exit. On Nov 1, it announced that Honeywell International Inc was buying over KSW for \$430 million.

New Jersey-based Honeywell can trace its roots to 1885, when Albert Burtz of Minneapolis invented a thermostat for coal furnaces that he called a "damper flapper". Over in Indiana, Mark Honeywell started a company in 1906 selling hot water heat generators. The two companies merged in 1927 and today, the conglomerate's products include the engine of the Kiowa Warrior helicopter, composites used in helmets, solvents for various scientific purposes, adsorbents and wind turbines.

In the last financial year, Honeywell's revenue was US\$33.4 billion, with more than 40% coming from outside North and South America. When the KSW deal is completed early next year, its three brands — King's, Oliver and Otter — will add to Honeywell's existing portfolio of products in its life-safety business that includes gear for firefighters such as Ranger Footwear, American Firewear gloves and hoods, as well as Silent Knight fire alarms.

Adding value to KSW

KSW, founded in 1965, is Asia's largest maker of safety boots used in the mining, construction, oil and gas and marine industries of 40 countries. The company was listed on the Singapore Exchange in October 2003 at 31 cents each, valuing it then at \$68.1 million.

However, the company's second-generation owners, the four sons of founder Chan Kee Tong, had different views on how to further take it forward. The three elder brothers wanted to retire, while the youngest was still raring to go, but had difficulty raising capital.

Navis was introduced to the company and after four months of negotiations, the privatisation offer, at 43.8 cents a share, was announced on Sept 19, 2008, when the global financial markets were going into meltdown. "The offer went unconditional literally just before Lehman collapsed," says Muse.



Muse (left) with Bloy: The foundation of a good Navis deal is the strong rapport with the management team, where we can guide them at a strategic level and where they can execute

Clearly, for Honeywell to pay \$430 million for what was worth less than one-sixth the amount eight years ago, there must have been significant value added to KSW, especially following Navis' participation from 2008.

Some private-equity firms have adopted a certain modus operandi. They wave wads of cash, bulldoze their way into the target companies, fire the old management, saddle the company's balance sheet with debt, carve up and sell the choice assets and, when a 20% return or more has been achieved, hawk the company's carcass. Or, to put it bluntly: Buy it, strip it and flip it.

Navis has taken a different approach. "The foundation of a good Navis deal is the strong rapport with the management team, where we can guide them at a strategic level and where they can execute. I think all those characteristics were present in the KSW relationship. This is a classic example of us going in there, making improvements, taking that improved cash-flow profile and using that to out-compete competitors and drive growth," says Muse.

With Navis' input, KSW was able to shorten its supply chain, cut down inventory holding through better production planning and introduce new incentive schemes to motivate the rank-and-file and management via production-based bonuses and equity, respectively. Navis also helped KSW's distributors

to better manage their inventory, which led to a shorter payment-collection cycle. While the \$430 million to be paid by Honeywell is a bonanza for all of KSW's shareholders, they have been enjoying the benefits already, as some \$42 million in dividends were paid out over the last three years.

Obviously, KSW's bottom line has grown under Navis' watch. In the last full year (FY2008) just before it was acquired, its earnings before interest, taxes, depreciation and amortisation (Ebitda) were \$15 million. Honeywell's announcement on the deal notes that its offer of \$430 million translates into estimated FY2011 Ebitda of 11.5 times, or \$37.4 million.

Maintaining the swing

To be sure, not every deal done by Navis is as profitable as the KSW transaction. Of the 51 so far, Navis has exited 18, and its departure from KSW was relatively quick. There are still quite a few acquisitions made before KSW, however, that Navis has not divested, including one from as far back as March 2004.

Was KSW a hole-in-one for Navis? "You could say that this was among the top 25% or so of Navis' exits. But it would be appropriate to add that there were one or two where we lost all the money," says Bloy. Turning to his partner, he asks: "What do you call that? Triple bogey or something?"

"I call that, quit the game," says Muse. "Or break your clubs," adds Bloy. "Throw them into the lake," finishes Muse.

Even though current market conditions are not exactly the rosier, Navis is maintaining the way it swings. Whether the stock market is up or down is not the most important consideration when it decides which company to buy.

In 2007, when the market was almost at the peak, the firm closed eight deals — the most in a single year to date. The number dropped to four in 2008, three in 2009 and rose to five in 2010. This year, there were three deals. In short, the number of transactions mirrors the market.

However, Muse will not be pinned down when asked whether this is the way Navis operates. "We are always on the lookout for great investment opportunities; there are times when there is more capital to deploy and there are times when your funds are more fully invested," he explains. Furthermore, some of the due diligence will take quite a while and along the way, developments like the ongoing European debt crisis will cause Navis to be more careful.

So, what Navis looks for are companies that are well established and in industries that are freely competitive. "By freely competitive, we mean situations in which the consumer or industrial buyer is making a very objective decision about what he or she buys, for 'analysable' reasons, such as price point, quality, the way the product is distributed. This is in strong contrast to industries in which there is strong government involvement, such as government contracts, concessions, licences, or where there is a national or quasi-national champion — we avoid those areas," says Bloy.

Also, "we don't want to take an industry risk in emerging markets. You can get very good growth rates from well-established business models and you don't need to take on extra risk to get good growth and you don't need to go into start-ups. We've never done a dotcom, even when it was very fashionable", he adds.

Fertile ground

Within these parameters, Navis has been able to find good companies and engineer growth in them. To date, of the 18 companies that Navis has exited, it has been able to coax an average Ebitda growth of 22% a year.

Besides the financial-management skills introduced into the companies, one reason that Navis has been successful is that the area that it is focusing on, Southeast Asia, is increasingly seen by MNCs as a growth market of 600 million consumers and not as an unwieldy region of 10 countries of varying degrees of development and sophistication grouped together by virtue of geography.

Companies in Asean, therefore, are increasingly on the radar screen of "strategics" — global companies keen to gain a foothold in this market. Down the road, these companies will, to a certain extent, be competing with firms like Navis, says Bloy.

Nevertheless, for now, "we are a net beneficiary of this phenomenon, as we are exiting to strategics", says Muse, without referring directly to Honeywell. Usually, these acquirers will not be eyeing the same companies as Navis. "Typically, there is some degree of housekeeping, professionalisation, evolution of the business in some ways, to make it a prized asset for some of these strategic competitors. So, when that happens, more often than not, we are able to sell to the strategics," he says. ■