

## Permira inks Japan's largest ever buyout

By Sameera Anand

### PERMIRA WILL BUY ARYSTA LIFESCIENCE FROM OLYMPUS CAPITAL FOR A FIRM VALUE OF \$2.2 BILLION.

Europe's largest buyout fund has bid ¥250 billion (\$2.2 billion) to win Japanese agrochemicals company, Arysta LifeSciences, in a deal which yields private equity firm Olympus Capital a whopper return.

The price represents an equity value of ¥100 billion, which will be entirely contributed by Permira. Sources close to the deal confirmed that Lehman Brothers provided the balance ¥150 billion staple financing to the bidders, including both senior debt and mezzanine financing.

Arysta was formed in 2001 through a combination of the life sciences divisions of Tomen Corporation and Nichimen Corporation. Mid-market focused private equity firm, Olympus Capital Holdings Asia, made an initial investment in Arysta in 2002, partnering with the then existing owners.

Media had speculated that Arysta invested around \$80 million for a 9% stake. Sources do not confirm these numbers but specialists observe that the private equity firm negotiated management control with its first tranche of investment.

In 2003, Olympus upped its stake to 40% and also acquired an option to increase further to above 50%. Between the end of 2006 and 2007 Olympus bought out one of the Japanese shareholders then went on to buy out all other minority shareholders until it held 100% of the company.

"We had agreed with the Arysta owners from day one that we would act as change agents for the company," explains David Shen, Olympus managing director based in Tokyo and an Arysta board member.

Lehman Brothers, has been working with Olympus to create value in Arysta since 2006, including arranging financing for Olympus to increase its ownership.

The Olympus investment was predicated upon the belief that Arysta could acquire global agrochemicals licenses under divestment by multinationals and leverage its own network to grow into a global player. And Olympus has put more than just money to work to convert this vision into reality. Within 18 months of its first investment, Olympus helped to identify and bring on board a number of senior managers at Arysta.

With the help of a new management team, Arysta has grown to become the world's tenth largest agrochemical company, which markets a portfolio of over 150 products in 125 countries. Arysta has to date acquired more than ¥50 billion (\$450 million) of companies and products globally.

"The Arysta investment is an illustration of the Olympus approach to private equity investing which combines elements of international best-practice financial engineering and management know-how with a local approach and sensitivity, tailored to the needs of the situation," says

Shen. "Our flexibility and creativity in how we approach investment targets contributed significantly to our successful investment track record in Japan."

Lehman Brothers and Goldman Sachs were financial advisors and Freshfields was the legal advisor to Olympus on the sale. Sources confirm that the advisors ran a limited auction. Bidders in the final stages included private equity firm, Bain Capital, Advantage Partners, one of Japan's biggest domestic buy-out funds, India-based United Phosphorus and Australia's Nufarm.

Arysta had revenues of ¥124 billion in 2006, suggesting the deal was transacted at a revenue multiple of 2.02 times. Arysta is expected to earn around \$200 million of profits in 2007, suggesting an earnings multiple of around 11 times.

Sources say that apart from price, considerations such as certainty of financing and negotiations of documents including warranties and indemnities sought by the bidders played a role in Permira emerging as the winner. Permira was advised by JPMorgan and Clifford Chance.

The deal, which is the largest buyout to date in Japan, is Permira's first in the country since it opened its first Asia office in Tokyo in 2005. The deal follows only days after Permira announced its maiden foray into Asia, investing \$840 million for a 20% stake in Macau casino operator Galaxy Entertainment.

"Companies in Japan are becoming more aware of and open to the role private equity can play," says Shen. "For our part we are sensitive to the fact that economic as well as non-economic considerations drive deals in Japan – as indeed, our investment in Arysta corroborates."

From a broader market perspective, some commentators suggest the deal could re-open Japan's somewhat inactive private equity market. Japan has the potential to yield large buyout deals of the type private equity firms traditionally favour, but hitherto only a few firms have been successful in Japan. This is largely attributed to resistance to private equity among locals. But deals like the Arysta one suggest this is changing.

Permira, which unusually did the Galaxy investment on an unlevered basis, will be raising debt to finance its latest Asia deal. The European private equity firm's ability to raise a large amount of debt for the Arysta deal is another positive sign.

The deal, which represents a blockbuster return for Olympus, is sure to encourage other private equity firms to enhance focus on Japan. And the writing on the wall seems to say they could finally be successful in finding investing opportunities in the world's second largest financial market.

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