

Epiris' investment in Audiotonix



The Deal

In 2013 Epiris invested £42 million in the acquisition of Allen & Heath, a producer of professional audio equipment for live events. The successful navigation of a complex carve-out from an international corporate allowed us to agree the transaction on compelling terms.

The purchase of Allen & Heath was followed by the acquisitions of Calrec in March 2014 and DiGiCo in August of the same year to create a new professional audio group valued at £143 million. We had identified both Calrec and DiGiCo as add-on opportunities prior to investing in Allen & Heath.

The combination of these three businesses, subsequently renamed Audiotonix, created a global market leader with improved scale and opportunity.

The Business

Audiotonix is the market leader in the design and manufacture of audio mixing consoles for live events and broadcast sound. Its three premium brands support live sound for a variety of purposes such as concerts, TV & radio broadcasting, theatre shows and live events. All three businesses have strong brands, well-regarded products and a history of product innovation. The group sells worldwide, with over 90% of revenues derived outside the UK.

Investment Rationale and Strategy

Whilst Allen & Heath was underinvested and had not grown in the years preceding our investment, the global market for professional audio products is a fragmented market exhibiting attractive growth fuelled by an increasing number of live events in both developed and developing markets. We invested in Allen & Heath with a plan to transform the business through investment in new product development, acquisition and operational change.

This plan had been developed prior to acquisition in conjunction with Malcolm Miller, an experienced private equity Chairman with a background in professional electronics. Together we identified opportunities to improve Allen & Heath by investing in new product development and sales and marketing, and developed the plan to create a market leader through M&A and further investment.

The acquisitions of Calrec and DiGiCo created a clear market-leader with a comprehensive offering across product segments, whilst presenting a significant opportunity to further reposition the business through improved performance. James Gordon, the CEO of DiGiCo, became the CEO of the enlarged business and was instrumental in successfully integrating the businesses. He also led initiatives to identify areas of synergy as well as the sharing of best practice.

Business Growth

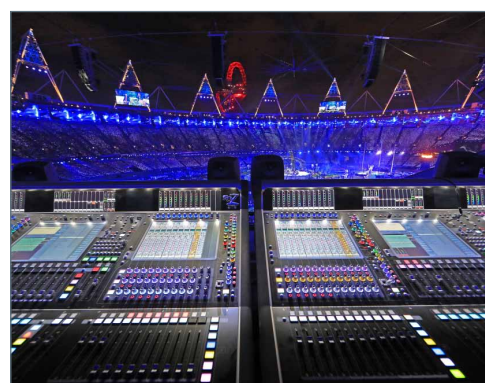
We worked closely with the Audiotonix management team not only to integrate the three businesses but also to implement the growth strategy:

Enhancing management

Alongside the Chairman, Malcolm Miller, we selected James Gordon, the DiGiCo CEO, to be Group CEO. Additionally an appropriately skilled board was assembled which included the external recruitment of a new Chief Financial Officer, a Chief Technology Officer and divisional Sales & Marketing Directors.

New product development

We introduced a disciplined process to assist the business in evaluating which new products to develop. Research and Development expenditure accounted for over 30% of Audiotonix's overhead and with lead times from concept to products being shipped of up to four years, investing in the right products was



Key Information

Date of initial investment:	Aug 2014
Date of realisation:	Mar 2017
Type of deal:	Buyout
EV at entry:	£42 million*
EV at exit:	£360 million
Multiple of cost:	4.8x
IRR:	50%
Location:	UK
Website:	www.audiotonix.com
Management:	James Gordon, CEO; Malcolm Miller, Chairman



critically important. This process improved decision-making within the business and provided the buyer of Audiotonix with a well-documented, structured product development process along with a demonstrable return on investment from recent product launches. Improved processes in R&D were supported with additional resource and with headcount in R&D increasing by 23% under our management.

Operational efficiency

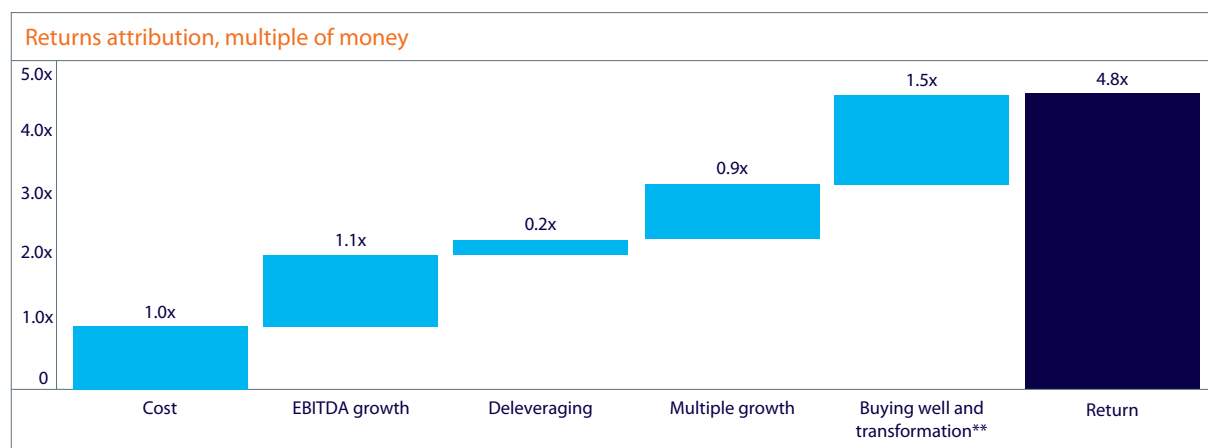
Audiotonix has a number of manufacturing locations in the UK as well as an outsourced manufacturing partner in China. During our ownership we were able to optimise the manufacturing process and footprint. Several changes were made, including outsourcing all high-volume manufacturing to China, and consolidating UK assembly, prototyping capacity and warehousing to dedicated locations. In addition the facilities themselves were upgraded at two locations and a new facility was acquired at a third to ensure adequate capacity as volumes grew. In aggregate the changes ensured Audiotonix had highly-efficient operations appropriate to support world-leading brands and product development.



Outcome

We acquired three separate businesses at attractive entry prices and successfully executed a strategy to transform them, not only by combining them to create a global market leader, but also by improving growth and profitability through greater strategic and operational focus. Earnings more than quadrupled from 2013 whilst the profit margin increased by nine percentage points. This approach created a business with significantly improved financial performance, a proven growth strategy and an exciting future.

In March 2017 Audiotonix was sold to a financial buyer in a competitive sale process for £360 million (an uplift of 44% on the previous valuation of the investment at 30 September 2016). This equated to a return of 4.8x original cash cost* and an IRR of 50%*.



* The original cash cost of the investment in Allen & Heath excludes an investment profit that was capitalised into the accounting cost of the investment upon the Audiotonix transaction in August 2014. The accounting cost of the investment including this capitalised profit is £64 million.

** The value ascribed to Epiris' ability to buy companies at an attractive valuation, typically below market comparables, and then reposition them through M&A, strategic focus and operational improvement in order to command a premium multiple at exit.