



5àSec case study

Introduction

5àSec is the world leading retailer in textile care services. The Company was founded in France in 1968 and now has operations in 22 countries with a total of more than 1,600 shops. It operates a hybrid network of 200 corporate shops, 800 shops under direct franchise and 600 shops under master franchise.

Each shop offers a consistent range of services to the consumer: dry cleaning, laundry and additional services such as alterations and specialist finishing, etc. In 2006, the 5àSec brand generated an estimated EUR250 million of worldwide revenues.

Key milestones

- Apr-01* Through an MBO, the Milestone team acquired 5àSec France, owner of the French master franchisee, 12 corporate shops in France and all the international brands. Creation of the 5àSec group, and acquisition of 3 shops in France
- Sep-01* Acquisition of the Portuguese master franchisee (210 franchised shops)
- Oct-01* Olivier Bédât is recruited by the Milestone team and joins as COO
- Dec-01* Acquisition of the Swiss master franchisee (65 corporate shops)
- Jan-03* Olivier Bédât, COO, is promoted to CEO, replacing Peter Aepli
- Mar-03* Acquisition of the Labrunye group, including the largest French franchisee with 35 shops, the Spanish master franchise (120 shops including 20 corporate shops) and the Hungarian master franchise (5 shops)
- Dec-05* Acquisition of Henault Morel (largest French franchisee)
- Aug-06* Acquisition of Bel&Blanc Hungary (6 shops)
- Dec-06* Acquisition of Luxembourg master franchisee (15 corporate shops) and acquisition of En5Sec (14 shops in Geneva, Switzerland)
- Mar-07* Sale process of 5àSec BV starts



Jul-07 Milestone Capital sells 5àSec BV to ING Parcom and generates a return of 2.2x its original investment

Background

The Milestone team identified the opportunity in early 2000 and started discussions with the then CEO of 5àSec to consider a secondary buy-out as the previous French investors could not fund the business further and were not interested in a pan-European consolidation strategy.

The Milestone team believed that 5àSec represented a unique opportunity to buy a worldwide brand with a leadership position, where they could add significant value in terms of infrastructure and management. Prior to acquisition 5àSec was just a very small holding company with no real organisation, a very limited financial base and little or no grip on its franchise network (1,200 shops at the time). The vendors accepted the Milestone team's offer in April 2001, having rebuffed the original approach made the previous year.

The overall plan post-acquisition was to build a strong central team financed by the cash flows of a much larger portfolio of corporate shops.

Team

The Milestone team had initially backed Peter Aepli to lead the secondary buy-out of 5àSec. The team was soon strengthened by the appointment of Olivier Bédât as COO (ex IBM, SGS and Mister Minit, with extensive marketing and operations experience at international level). Bart de Graaf (ex Habitat and Ikea) joined as CFO mid-2002.

In 2003, the Milestone team decided to promote Olivier Bédât to CEO of the group as Olivier demonstrated strong leadership skills and an ability to bring together a diverse team of country managers. Together, the Milestone team, Olivier Bédât and Michel Jacquet (Non-Executive Director) have built a dynamic management team composed of complementary individuals having backgrounds in dry cleaning, franchising and international brands, to run this worldwide market leader.

Strategy

The Milestone team formulated the following strategy with the management team:

- To become a better operator of the network in order to regain the franchisees' respect, noting that some of them were bigger than the franchisor



- To transform the group into a truly hybrid (corporate/franchise) organisation taking advantage of economies of scale
- To expand the market being addressed from merely “dry cleaning” to the much broader category of “textile care” services
- To buy out master franchisees and profitable well-located franchised shops on a low EBITDA multiple basis, as well as opening owned shops in key international cities, while pursuing the revamping of the international franchise network

The Milestone team and the management agreed a five-year plan in 2002, which has been implemented successfully. Significant resources have been dedicated to the Group and head office functions have been developed to support the strong growth of the business. Significant additional management resources have been hired, with the necessary international, retailing and franchising experience to accelerate the Group’s expansion in its key markets. The Milestone team made a significant commitment to develop the business by means of organic growth.

Buy and Build

Since its acquisition in 2001, the 5àSec group has significantly increased its size in terms of the number of shops, revenues and profitability due to an aggressive buy and build strategy led by the Milestone team. In six years, the group has multiplied its revenues six fold.

In 2001, 5àSec was a pure franchised group operating 12 corporate shops and 1,200 franchised shops, generating EUR10 million of revenues. A few months after the MBO, the group successively completed two major acquisitions:

- (i) the Swiss master franchisee operating 65 corporate shops, and
- (ii) the Portuguese master franchisee operating one corporate shop and 240 franchised shops.

In 2003, the Group acquired the Labrunye Group, which was operating in France (30 corporate shops), in Spain (master franchisee with 100 franchised shops and 18 corporate shops) and in Hungary (master franchisee with six franchised shops and four corporate shops).

The Labrunye Group was a large acquisition, which took time to integrate with 5àSec France, and which generated significant synergies in terms of head-office costs. By 2006, France was the most profitable country, whereas it was loss making in 2002.

The success of the business can be fully credited to Olivier Bédât and his team as they formulated a very efficient execution plan that as summarised below:



- implementation of a 3-tier organisation (franchisor, master franchisee and own shop)
- standardisation and globalisation of key processes
- continuous shop portfolio management
- development of new services to customers and to master franchisees
- management empowerment down to the shop level
- turnaround from a technical driven to a sales driven culture
- turnaround from equipment distribution to purchasing only
- and implementation of a complete operational information system.

The Group continued its buy and build strategy in 2005. It acquired the Henault Morel Group, with 28 corporate shops generating EUR7 million of turnover and EUR2 million of EBITDA (post synergies). Synergies, mainly head office costs, were significant and lowered the acquisition EV/EBITDA multiple by 25%. The acquisition was 100% financed with senior debt from bankers CIC Est (ex-CIAL/SNVB), who have been very supportive to the group.

In 2006, the Group acquired a network of 14 independent shops in Geneva, Switzerland, the 5àSec Luxembourg master franchise with 12 corporate shops, a network of six shops in Hungary from Bel&Blanc, a competitor, and 20 individual shops in France, Spain and Portugal.

5àSec also started its Chinese operations, opening its first three shops in Shanghai.

The buy and build strategy implemented over the last six years by the Milestone team transformed 5àSec from a EUR10 million, inefficient company operating 15 corporate shops and a network of 1,200 franchised shops into a EUR60 million revenue, highly efficient chain operating 200 corporate shops and a 1,400 shop franchised network in 22 countries.

Exit

In early 2006, the Milestone team took the opportunity to review with corporate finance advisers to what size the business would need to grow to enable a full exit for investors. Given the unanimous positive feedback the decision to prepare an exit was taken, subject to the successful acquisition of three international shop networks and 20 individual corporate shops in 2006 to hit a run-rate EBITDA of EUR10 million.

As of 31 December 2006, the run-rate target of EBITDA EUR10 million was hit and the Milestone team therefore launched an auction process in March 2007. With more than 10 acquisitions in the pipeline, 5àSec management was committed to double the size of the business in four years. Through the auction process, ING Parcom was selected as the preferred bidder in consultation with management.



On completion, the return generated was 2.2x the money invested and 17% IRR over six years.

Conclusion

- The Milestone team identified potential value in a group operating in a resilient sector (dry cleaning), and therefore suitable to execute a leveraged buy-out transaction with confidence
- The buy and build strategy, together with the transformation of the Group from a pure franchised network to a hybrid corporate/franchised operator, led by the Milestone and the management teams, was key to extract the hidden value of the Group at the time of the acquisition in 2001
- The Milestone team recognised very shortly after the first acquisition that the incumbent CEO needed support to deliver the ambitious strategy; it recruited Olivier Bédât first as COO and later promoted him to CEO. Olivier has greatly contributed to establishing 5àSec as the world leading retailer in textile care services
- The Milestone team was able to use its pan-European culture and skills to negotiate with vendors and raise debt funding in France, Spain, Portugal, Switzerland, Hungary and the Benelux countries
- The key success factors in this deal were the strict implementation of the buy and build strategy as initially planned by the Milestone team and the strong day-to-day relationship that was maintained with the management team