NETAFIM

Water in the desert

Cultural sensitivity and many frequent-flyer miles played a role in Permira's shepherding of a kibbutz-oriented irrigation business to become a global market leader. Chris Janiec reports

2.5x

Return multiple

61%

Size of Permira's stake

€800m

Initial Permira investment

$1.9bn

Price paid for stake on exit

Double-digit growth had first brought Netafim to the attention of Permira's industrials unit, but it was a call from the firm's tech team that eventually led to an €800 million investment in the Israeli irrigation equipment provider in 2011.

The caller said a contact had told them that there was an opportunity to gain a majority position within Netafim, whose owners included three kibbutzim, or collective agricultural communities.

Permira had identified water as one of agriculture's most attractive sub-sectors but had previously been deterred by Netafim's crowded ownership.

"Other private equity funds had been around this asset, but we were the only ones that had all the ingredients to get to this majority," explains Torsten Vogt, Permira partner and co-head of the firm's industrials sector team.

"In our mind, it was always important to be a clear majority owner and have the control to move this business, which was in a great place, to the next level."

At the time two local private equity firms held a combined 30 percent stake. Three kibbutzim also held positions in Netafim. After both firms and one of the collectives sold to Permira, Kibbutz Hatzerim, the larger of the two that remained, emerged as the "kingmaker", holding the equity the firm needed to reach the majority position.

As would be the case throughout, Vogt says, acquiring the additional stake required Permira to address the very specific concerns of a business hoping to expand while retaining an ethos tied to Israel's unique history. Ultimately, it took 20 trips to the Negev Desert over less than a year to secure the additional stake from the kibbutz, which Vogt described as essentially a family with 400 members.

"They had to be confident that we could bring the right expertise, the right industry understanding and also the right culture to transform it into a modern enterprise, while still protecting the heritage and the interests of the founding kibbutzim," Vogt says.

1 REFOCUSING

Permira's first task was to narrow Netafim's focus back to its irrigation business.

In 2007 and 2008, Netafim had acquired greenhouse construction businesses focused on Eastern Europe and Mexico. Permira closed that unit and encouraged Netafim executives to focus instead on strengthening the service the company offered its original customers.

"We believed, and continue to believe that the core of this business is irrigation, more than just drip irrigation, bringing irrigation technology to the world," Vogt says.

That renewed focus on customer needs led to pricing adjustments and changes to existing products, some of which had not been updated in 15 years. One example was the addition of a colour stripe on irrigation lines that eased the installation of the product for farmers across various markets.

Another important step was the creation of a cloud-based software platform providing crop-specific analytics as well as advice on the selection of seeds and the application of fertilisers.

The platform had the added benefit of making Netafim more attractive to potential buyers. "This was a very important element for all the strategics that looked into acquiring the business," he says.

2 UPGRADING PERSONNEL

With Netafim's focus clearly defined, Permira set about driving a cultural transformation,

Line in the sand: *the kibbutzim wanted to make sure Permira would adhere to their values*

beginning with the management team. The firm replaced it entirely, except for the research and development head.

"Effectively, the business had outgrown its processes. It was a $700 million-plus company at the time, but it had processes and a culture that suggested a $150 million to $200 million company," Vogt says.

"Kibbutz Hatzerim understood some of that challenge. They wanted to grow the business but giving up control is a tough decision."

After a two-year search, in 2014 Netafim hired Ran Maidan, previously chief executive of Asia-Pacific, Africa and Middle East for crop-protection-focused Adama Agricultural Solutions, to be Netafim's chief executive.

"We found in him someone who shared our vision and was capable, together with the kibbutz, of driving the cultural transformation necessary to accelerate some of those steps and position the company for what it is today."

3 EXPANSION IN GROWTH MARKETS

One of the key priorities for Maidan was overseeing Netafim's expansion in key growth markets, namely China, Central America and parts of Africa.

While China was one of the 110 countries in which Netafim already operated, the company had made many common mistakes there, Vogt says. After having technology stolen by a joint venture partner and having spent money relocating within the country, Netafim was reluctant to pay out any more in what had become the world's second-largest irrigation market.

Here too, Vogt says, staffing was key. Permira helped bring in Stephan Titze, who had been head of Swiss agrichemicals group Syngenta's north-east Asia operations, as head of Netafim's Asia-Pacific division.

"If the company believes in the opportunity in China then they have to do it in the right way," Vogt says, explaining why Permira backed Netafim's $7 million investment in annual fixed costs into a unit that is now approaching $50 million in annual revenues.

To pursue organic growth in Africa, Vogt points out that Netafim had to help their local customers find financing for the large projects that supported demand for irrigation equipment. Market sources tell *Private Equity International* that Netafim secured a $200 million project in Ethiopia earlier this year.

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Permira began thinking of potential buyers for an exit in early 2016.

Vogt says the company attracted five fully financed bids, including offers from potential Chinese buyers as well as diversified Western industrial companies. Ultimately, Permira achieved a 2.5x return multiple when it sold its 61 percent stake for $1.9 billion to Mexichem, a plastics company that presented the deal as a "transformational" move into the high-growth micro-irrigation market.

Here too the unique character of the kibbutz shaped Permira's exit. As part of the sale, Mexichem agreed to ensure that Netafim's research and development will continue to take place in Israel for the next 20 years. ■