Case Study Programme
July 2009
v.1.0

Legrand: A Chance LBO
Teaching Note

In December 2002 French investment office Wendel and Private Equity firm KKR acquired Legrand, a global leader in low-voltage electric products, in a €4.8 billion leveraged buyout. The deal, the largest-ever LBO in Europe at the time, was the result of a forced divestiture by competitor Schneider Electric, whose attempt to merge with Legrand was blocked on antitrust grounds. The case describes in great detail the financing structure put in place by the buyers, which was considerably complex and involved different types of equity and debt securities issued by several corporate entities. The case has two primary pedagogical objectives for students: first, the analysis and modeling of debt capacity; second, gain exposure to key aspects of deal structuring and how the latter can maximize transaction value for investors. Both of these objectives are meant to familiarize students with the mechanics and the challenges involved in financing a deal of this size.

Pedagogical objectives

- Modeling a complex financial structure and fine-tune it;
- Expose students to the mechanics of a (large) deal, namely:
  - Process aspects such as the auction bidding procedure, the formation of buyer consortia, and the negotiation of the sale and purchase agreement;
  - Financial aspects such as the typical debt and equity securities employed (e.g. RC facilities, Term A, Term B/C, High-yield, vendor loans, shareholder loans, hybrid securities) and their characteristics (e.g. seniority and subordination, maturity, cash drain, covenants, control rights, tax impact);
  - Context issues such as relevant anti-trust laws, securities laws, and different legal and tax environments across countries.

This Teaching Note was prepared by Associate Professor José Miguel Gaspar as part of the Case Study Programme of the ESSEC Private Equity Chair sponsored by Barclays Private Equity, Grant Thornton and Linklaters (www.essec-private-equity.com). Cases are pedagogical tools developed for purposes of class discussion and do not serve as illustrations of effective or ineffective handling of a management situation.

- Understand how correct deal structuring can maximize value for all participants, by addressing specific investor needs (e.g. different geographical investor bases, specific local legislation);
- Present the two main buyers, Wendel and KKR, which are important players in the private equity industry, as well as some relevant background of the European deal environment (e.g. antitrust laws, political and media exposure);
- Discuss why Legrand is a good candidate for an LBO and what are the risks associated with the deal.

Audience

The case is a part of the ESSEC Private Equity Chair curriculum, where it is used to give MBA students a thorough overview of a major LBO structure and to discuss the main drivers of the structuring process. If used back-to-back with the “Plenium Service Informatique” case, it can serve to highlight the structural similarities but also the important differences between a small-cap deal and a very large transaction. The case can also be employed in a Mergers and Acquisitions course, at the graduate or advanced undergraduate level; if so, the main focus of the case will still be the evaluation of Legrand’s debt capacity, but the instructor should spend more time discussing the divestiture process and its negotiation rather than the details of the structure. The case is also suitable for executive courses with a technical audience that wishes to understand advanced topics in structuring.

Supplementary materials

In addition to the case and this teaching note, instructors using the case have also available a set of companion Excel spreadsheets (student and instructor versions) and a set of PowerPoint slides. Please contact the author if you wish to use any of these materials.

Case Questions

1. Is Legrand a suitable candidate for an LBO? Please explain why or why not.

2. Please construct the proforma financial statements for Legrand through 2013, making the following assumptions:

   - Sales growth of 2% for the French market, 4% for the Italian and North America markets, 5% for the rest of Europe and 6% for the rest of the world;

   - EBITDA margin of 21% up to 2005 and 22% thereafter;

   - Cash tax rate on EBITDA of 11% in 2003 and increasing by 1% per year;

   - Capital expenditures of 7% of sales;