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SAUR WINNERS: NEW OWNERS AND NEW PLANS

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FRENCH PRIVATE WATER

Saur prepares for a new era of growth with EQT

The French company has spent the last decade recovering from a disastrous private equity-backed takeover. CEO Louis-Roch Burgard is confident that this time it will be different.

Saur CEO Louis-Roch Burgard is pushing to grow the French water operator at home and abroad, even before a final agreement to sell the business to Swedish private equity investor EQT for a rumoured €1.5 billion is completed. With two small acquisitions expected to complete before the EQT deal closes in November, Burgard is clearly impatient to implement his strategic plan, which sees revenues reaching €2 billion by 2022.

"Saur is no longer a company which had run into difficulties. It is one which is poised to grow, and ready for that," Burgard told GWI. He would not identify the two acquisitions beyond saying that one is in France and the other international, and both are tuck-in acquisitions around Saur's core business. He added that the company is also looking at two further acquisitions which would broaden its expertise beyond its current strengths.

It is still too early to know what kind of commitment EQT will have towards financing future acquisitions. "The idea is that if we present them with good deals, I think there will be possibilities to make it happen," Burgard says. He explains that the fact that EQT is considering syndicating down a portion of its equity is not because its funds are limited, but rather because local shareholders may be helpful for business development. The regulatory approvals process includes a procedure to determine the suitability of any foreign investor in the company.

The immediate challenge for Saur is not its acquisition programme. It arises from the changes in the French market wrought by the Loi NOTRe, which is driving the consolidation of rural communities in France. This is Saur's core market, and one where it has an advantage over its larger competitors, Veolia and Suez. "Our clients are regrouping into larger communities and they need to remain our clients, so we see this as an opportunity to be present in some larger contracts." He emphasises, however, that these contracts are not so large that they will invite stiff competition from Saur's larger competitors.

It is a reminder of Saur's difficult finan-

cial history, which saw the company nearly bankrupted after it was bought by a private equity-led consortium of CDC, Sécché and Axa for an enterprise value of €2.3 billion in 2007. At that stage, the company's strategy was to compete directly with Veolia and Suez, but the result was a margin squeeze that ultimately resulted in the company's creditors taking control of the group.

In his dealings with EQT, Burgard has been emphatic that he did not want to see Saur over-leveraged again. "The actual leverage has been more or less fixed within the context of this transaction at the level which we are already incurring, and which I feel is absolutely bearable and completely

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sustainable."

That said, the French water business looks set to become more capital-intensive. Ageing networks and the need to improve water quality mean that municipalities are expecting their private sector partners to contribute more to improving the standard of service. "I wouldn't say we are going to see the revival of a purely concessive model with a longer-term contract like 20-25 years, but what we are seeing now is definitely contracts with more investment embedded into them," Burgard says, adding that he is seeing eight-year contracts rebid as ten-year contracts and ten-year contracts rebid as 12-year contracts. ►

WHAT WILL EQT GET FOR ITS MONEY?

Saur claims 16% of the French outsourced water market, with particular strength in small communities in the south and west of France. It also has interests in Saudi Arabia, Poland, and Spain.



Group

CEO: Louis-Roch Burgard
CFO: Xavier Boulat
HR/Strategy: Jean-Damien Pô
Customer service/Marketing comms.:
Christophe Piednoël
2017 revenue: €1,292m*
2017 EBITDA: €138m

France

EVP Paris/North: Pierre Casteran
EVP West: Thierry Chatry
EVP South: Jean-Luc Deleau
EVP Development: Estelle Grelrier
2017 revenue: €972m
Number 3 player in outsourced market
with 16% market share

Stereau

CEO: Hugo Bardi
2017 revenue: €118m
Engineering services and works

International

EVP Int.: Emmanuel Vivant
EVP Int. Dev.: Michel Fourré
EVP Spain: José Luis Rubio
2017 revenue: €123m
Includes:
MaSa (Saudi Arabia): 49%
EMALSA (Spain): 33%
Saur Neptune Gdansk (Pol.): 51%
Gestagua/Idagua (Spain): 100%
Scotia Water Dalmeir (UK): 20%
Electricité de Mayotte: 25%

* Includes €79m revenue from non-core leisure interests

Source: Saur

One of the ways in which Saur has responded to the financial pressures on the business has been to invest in digitising services through the creation of eight operational control centres (CPOs) around the world, which manage Saur's networks and treatment facilities remotely. This enables the company to service multiple small contracts from a central base, and it is also a potential driver of international growth. Burgard mentions that the company is working with a "French territorial organisation" to extend the concept to support its service offering, while it is collaborating with an international water operator to help it develop a similar concept.

Besides expanding at home, both through tuck-in acquisitions and through organic growth as the Loi NOTRe throws up new opportunities, Saur is also looking at international opportunities, particularly in Saudi Arabia, where it plans to bid for regional utility operating contracts as they become available.

The company is also expanding into project development. It was part of a consortium with AlRashed/CWC and Tedagua that bid on the Dammam independent sewage treatment plant in Saudi Arabia earlier this month (the preferred bidder will be announced in September). "We are even thinking of answering some tenders for desalination, but these probably need to be at the medium or low end in terms of size, because we still need to gather additional experience in this segment." Saur's current references for desal plant operations are in the 100,000m³/d region, Burgard adds.

Expanding the company's EPC (engineering, procurement and construction) capabilities is a priority in Saur's acquisition strategy. "We have most of the facility and expertise to do this kind of work [through Stereau] but it needs to be strengthened, and there are two ways to do that. Either we do it organically and it is going to take some time, or we do that by external growth and acquisition, and that is what we are contemplating now."

Burgard believes that EQT will support Saur's expansion into EPC work, on the condition that the risks are contained. "EQT has recognised in the bidding process that the EPC activity is strategic."

Overall, Burgard is excited by the prospect of working with EQT. "There are obviously going to be challenging times, but we like challenges," he remarks. "It is important that we have a very professional investor on our side: international, well organised, and with a strong reputation in terms of the way it has helped companies develop." ■

INVESTMENT STRATEGY

EQT's water portfolio goes global

The purchase of Saur will give the Swedish investor a fresh platform for growth.

Swedish family-backed investor EQT is set to become the first foreign majority owner of Saur, after entering into exclusive negotiations with the French water and wastewater services provider ahead of a deal which values the company at an estimated €1.5 billion.

Existing shareholder BNP Paribas will remain a minority shareholder, and EQT intends to syndicate down some of its equity to French institutional investors ahead of the deal closing in Q4, leaving it with a stake of around 70%.

"We have been talking to a number of high-profile, financial institutions like insurance companies in France, and we want to syndicate a portion of the equity down to those parties," confirmed Mathias Fackler, a partner at EQT.

Since buying US residuals management powerhouse Synagro in 2013, EQT has steadily increased its exposure to the water market, spending more than \$2.5 billion on acquisitions over the last five years (see table below). Despite this, it continues to maintain a relatively siloed approach to its portfolio, which means that few if any synergies were baked into the deal, which values Saur at just under 11 times 2017 EBITDA.

"Digitalisation plays a big role in achieving operational excellence, and one of our levers is to support Saur on the innovation side. If we can be helpful there in bringing in expertise from other portfolio companies, then we will, but Saur will be a stand-alone business and it will be developed on a stand-alone basis," said Fackler.

EQT has historical ties to the Wallen-

berg family, which owns Investor AB – an anchor investor in EQT's funds. This gives it access to patient capital with no pressure to exit in the short term. "The EQT Infrastructure III fund has a lifetime of 14 years, and it started in 2016. As an infrastructure investor, we have a long-term horizon," said Fackler.

As part of the transaction, EQT will inject fresh equity by way of a capital increase, and one of the priorities will be to repay the estimated €700 million in 8% PIK (payment-in-kind) notes outstanding at the holding company level, as part of a wider debt restructuring.

"Based on the history of the company, everyone who wanted to play here needed to subscribe to a certain maximum leverage," said Fackler. "That was one of the advantages in this bidding process – there was no way the parties could differentiate themselves through accepting higher leverage."

Since being recapitalised in 2013 after its former private equity owners loaded up the balance sheet with unsustainable amounts of debt, Saur's owners – led by French banks BNP Paribas and BPCE – have focused on cost-cutting and right-sizing over growth. EQT is confident it can help reverse that.

"There is unlimited access to funding for good opportunities and growth prospects. The main focus is clearly on France, because there's a lot to be done, but for the right opportunities, we will also accelerate growth through acquisition. Our ambition is to develop Saur into a company that can really be active on a global scale." ■

EQT'S WATER INVESTMENT PORTFOLIO

The Swedish family-backed investment house has spent more than \$2.5 billion in the last five years to build a unique portfolio of global water service businesses. A siloed approach inhibits synergies.

Date	Asset	Price	Line of business
2018*	Saur	€1.5bn	No. 3 French water service provider & global water concessionaire
2017	Innovyze	\$270m	Smart water infrastructure modelling and simulation software
2016	XP Solutions	\$49m	Water infrastructure and flood control software solutions
2013	Synagro	\$465m	Wastewater residuals management and land application services

* Completion subject to approval

Source: GWI WaterData