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FIMI Opportunity Funds acquisition of John Deere Water

Gillon Beck is Senior Partner in the FIMI Opportunity Funds. He speaks to AI Global about a recent transaction, its rationale and what it brought to the parties involved.

Founded in 1996, the FIMI Opportunity group of Funds is Israel's leading private equity firm. Since its inception, FIMI has managed five funds with an aggregate of approximately \$2.5 billion in committed capital. To-date, FIMI has invested in excess of \$2.0 billion in 77 transactions and has successfully completed 47 exits.

FIMI seeks to make three types of investments (i) equity investments to acquire control, (ii) turn-around situations, and (iii) mezzanine. FIMI invests in Israeli and Israeli related companies in all kinds of industries with the exception of real-estate and financial institutions. FIMI Investment criteria includes: (1) mature companies with revenue of over \$75 million, (2) potential growth engines and

solid market positioning (strong IP, high barriers to entry, market leadership), (3) the FIMI team is able to provide significant added value, and (4) solid management team in place.

Gillon Beck tells us about a recent deal completed by the group. "Several years ago, Deere and Co (NYSE: DE) had made a strategic decision to expand its product offering to the global agriculture industry to include micro irrigation solutions, in addition to the traditional John Deere products offering (e.g. tractors and machinery)," he explains. "Deere implemented such strategy through the acquisition of three micro irrigation companies, T-Systems and Roberts in the US and Plastro in Israel. The acquired companies operated active subsidiaries in 10 countries including

the US, France, Spain, Israel, China, Australia, Brazil, Chile, Ecuador and Argentina."

In September 2013, Deere announced that it had decided to evaluate strategic alternatives for its irrigation business and had hired an investment banking firm to manage and auction to sell "John Deere Water".

In September 2013, Deere launched the auction to sell its "John Deere Water" Business. Numerous strategic players in the global irrigation business as well as private equity firms were invited to participate in the process. In late February, Deere entered into definitive agreement to sell the JDW business to FIMI.

"Following the signing of the agreements, FIMI and Deere entered into a comprehensive mutual effort to affect the closing of the transaction," continues Beck.

The closing of the transaction was substantially more challenging than similar situations due to the following reasons, Beck explains:

- "The transaction was a complicated "carve-out" situation both from a legal perspective as well as (and mainly from) the operational perspective. FIMI was required to create numerous administrative functions to replace global Deere services such as employee benefits systems in 12 countries, payroll systems, insurance coverage, purchasing and procurement functions and banking systems. Perhaps the most challenging task was the replacement of the entire Deere IT system within a very short time period.
- The legal and operational integration took place in over 15 countries where JDW had active operations and employees.





Rivulis

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FIMI had to recruit a management team to the business as JDW came literally without management. FIMI recruited a CEO (Mr. Richard Klapholz), a CFO, a GM for the US and EMEA, South America operations and a GM for India within two months. In addition, several executives in the organization were reassigned and relocated to build the new organizational structure.

The business required a major restructuring immediately after closing. FIMI managed to implement reduction in work force as well as other cost rationalization activities immediately post closing all of which were planned and prepared for in the period between February and May 2014.

The agreement between Deere and FIMI called for complete elimination of the Deere trade marks from the newly manufactured irrigation products within three months. FIMI managed to rebrand the business and the products to RIVULIS IRRIGATION and effect the migration from the Deere branding and the successful launch of the RIVULIS brand within three months from closing."

Mr Beck embellishes on the strategic rationale behind the transaction.

"The experience and professional conduct of FIMI provided Deere with significant comfort that its goals in the transaction would be achieved. Deere's main objectives seem to have been to effect a smooth and short separation process and to migrate away as quickly as possible from the irrigation business with full separation of its trade marks from the business. Such goals were extremely challenging given the operational and legal complexity of the closing process.

"On FIMI's side, the main goal was to close the transaction as soon as possible in order to start the process of turning around the business. FIMI's main goal was to generate positive EBITDA as quickly as possible."

As with any transactions of this nature, there were challenges which arose during the undertaking. Beck lists the challenges that FIMI faced.

"The list of challenges faced by FIMI in the process included:

- Participation in a highly competitive auction to acquire a global business.
- Conducting due diligence and achieving a reasonable level of comfort with the business in a deep turnaround situation and lack of basic information and data.
- Challenging carve out process from Deere in 15 countries spreading over four continents.
- Implementation of a new IT system to support the business.
- Recruitment of management as the business had been managed by Deere employees that returned to Deere upon closing.
- Maintaining the business despite the trend, including preserving employees, dealers and suppliers.
- Planning a major cost structure change between signing and closing and affecting such plan, by the newly recruited management, immediately after closing.
- Rebranding the company and the products. Elimination of the Deere brand and launching the RIVULIS brand." ■