Mergers & Acquisitions in the Power Electronics Industry

2009

Power Perceptions

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Introduction

The power electronics industry is a very dynamic place. Technology is constantly being developed and deployed. Markets ebb and flow. Requirements change. Trends shift. Today regulations are being written regarding power supplies due to their impact on energy usage. Every change brings about opportunity for those skillful and nimble enough to recognize, analyze and act up on the change in front of them. Every change likewise brings about threats to the well-being of those companies that do not soon enough realize the impact that such change might have upon their business.

It is in the context of this dynamism that company valuations rise and fall. Such an industry is ripe for mergers and acquisitions.

All too often, the larger companies in the industry, those with the most resources, those with the most eyes and ears, with the broadest reach and the biggest budgets, either do not see the change in front of them or are unable to react quickly enough to seize upon the opportunities it presents.

The smaller companies tend to be more nimble, more reactionary. They often capture new opportunities presented by shifting trends within the industry. Disproportionately, they also create the change with new technologies, new products, new approaches and new perspectives.

This would seem to be an environment conducive to very successful acquisitions. A company with a large marketing and sales organization gobbles up a talented team of engineers with new ideas. These new and better products, backed by the manufacturing prowess and financial stability of an industrial stalwart are pushed through finely tuned sales and distribution channels to the delight of customers, investors and industry analysts everywhere. At least it seems to work that way for Cisco.

The power electronics industry on the other hand has a fairly dismal track record when it comes to mergers and acquisitions. For some reason or another, the expected value too rarely seems to materialize.

The purpose of this report is to survey the recent history of these mergers and acquisitions in the power electronics industry, to unravel the stories behind them and to identify why some succeed while so many others fail. The objective is to provide a compendium of lessons learned and to substantially improve the probability that future acquisitions will succeed in generating value for all the various stakeholders involved in such transactions.

Acquirer	**Xantrex**			
Target	**Elgar**			
Transaction	date	March 2007		
	price	$108,000,000		
	revenue	$64,500,000	Price : Revenue	1.7
	EBITDA	$11,400,000	Price : EBITDA	9.5

Notes on Transaction: The acquisition of Elgar was financed with US$55 million of cash on hand and US$53 million from a new senior credit facility provided by HSBC Bank Canada. Xantrex acquired Elgar from J.F. Lehman free of debt and cash.

About the Buyer

Xantrex Technology Inc. is a Canadian based company headquartered in Vancouver, British Columbia. The company was a leader in the development, manufacturing and marketing of advanced power electronic products and systems for the renewable, portable, mobile, and programmable power markets. Xantrex acquired Statpower in 1999. It merged with Trace in 2000 and only a month later acquired Heart Interface Corporation and Cruising Equipment Company. Elgar was added in 2007 and Xantrex was itself acquired by Schneider in 2008. Xantrex maintained facilities in Arlington, Washington; Livermore, California; Elkhart, Indiana; Barcelona, Spain; and Reading, England. Until the acquisition by Schneider, Xantrex was publicly listed on the Toronto Stock Exchange under the ticker symbol "XTX".

About the Target

Elgar was founded in 1965 and headquartered in San Diego. As of 2007, the company maintained three separate facilities totaling about 140,000 square feet and employed about 400 people. The company focused on solving power related problems in the semiconductor, telecommunications and test and measure industries. Elgar acquired Sorenson in 1994. In 1996, the Carlyle Group and GFI Energy Ventures LLC worked with company senior management to acquire Elgar from Harnischfeger Industries which had acquired the company only a year earlier in its acquisition of Dobson Park Industries plc. In 1998 J.F. Lehman acquired the company. Two months later Elgar acquired Power Ten. Elgar itself was acquired by Xantrex in 2007 which was subsequently acquired by Schneider in 2008. The programmable power supplies business (which was the old Elgar) was spun back out of Schneider shortly thereafter and acquired by Ametek.

Strategic Intent

According to Mossadiq S. Umedaly, Xantrex Chairman, “The acquisition of Elgar is a strategically compelling transaction for Xantrex. Elgar is highly complementary to Xantrex’s portfolio of businesses and growth strategies. With this acquisition, Xantrex will become a leading player in the global programmable power market with a significantly expanded product line and customer base. Elgar's strong cash flow, profitability and growth, as well as its experienced management team, will immediately contribute to Xantrex's financial and operational performance."

According to John Wallace, Xantrex's CEO, "In addition to creating world leadership in programmable power, this transaction brings to Xantrex advanced power electronics technology and know-how applicable to all of our product lines, including renewable solar and backup power. The combination of an expanded and enhanced programmable power business with our rapidly growing renewable business is a powerful platform to drive our business going forward."

Evaluation	Exceeded Expectations	☐
	Met Expectations	☑
	Fell Short of Expectations	☐