



Schmits: "Francisco is focused on tech."



Tobiason: "It's the strategy, not the owner."

## 'Confusion and Clarity'

Mike Buetow

### Why Francisco Partners saw fit to invest in Universal, Vitronics and Unovis.

Sometimes, clarity is hard to see. On Aug. 30, the news came down that private equity firm Francisco Partners would purchase Universal Instruments, Vitronics-Soltec and Unovis, the newly created unit that encompasses the SMT process lab and semiconductor equipment lines of Universal and the feeder lines of Hover-Davis.

Privately held Francisco has about \$5 billion in capital and concentrates on deals in technology and related services businesses. Its pedigree is topnotch: Cofounder Sanford Robertson also founded the famous tech investment bank Robertson-Stephens. The ex-Dover companies are right in its sweet spot: businesses in mature industries with values ranging from \$30 million to more than \$2 billion. While Francisco isn't new to this industry – it counts among its holdings former Solectron subsidiaries C-MAC and SMART Modular Technologies – this is the company's first play in the electronics manufacturing equipment space.

More central, the transaction is a potential landmark moment as three brand-name players were thrust from one of the more stable corporate parents into the often-turbulent world of private equity. Terms were not disclosed, but Dover officials had previously forecast a \$325 million after-tax profit for the sale of its seven discontinued business, which in addition to the aforemen-

tioned included a few other smaller firms. One would have to go back to 1998, when Speedline was created, for the last electronics equipment OEM deal of this significance.

But hold on, say the presidents of the operating units, to those who believe that significant and rapid changes are inevitable. In fact, many things will remain just as they were under Dover. According to the company presidents, the respective business units will continue to be operated as standalone companies under their current management teams and strategies.

"There will be no operational management hanging over the companies," Universal president Jeroen Schmits told *CIRCUITS ASSEMBLY* in September. "A separate sales force, separate strategies. These companies would be hard to mix under one umbrella."

"Both the short - and long-range business plans are well-supported," added Vitronics Soltec president Erik Tobiason. "Francisco intends to give management the space to execute these plans. At the same time we look forward to the technology industry expertise they bring to the table to fine-tune our strategies."

In Francisco-speak, there's something called an Executive Council, a group of more than 50 tech CEOs and top executives who are investors in the firm and provide advice on operations, strategy and other details. Another group, the key partnership relationship advisors, is made up of investment bankers, accountants, legal experts, financiers and other consultants. In deciding to do the deal, Francisco drew upon leaders who had experience in PCB industry and who believed

that the brands had value. As of this writing, the respective boards of the companies have not been finalized. They are likely, however, to be made up of a combination of Francisco partners and its advisors from these two groups.

The presidents say they welcome the input. "That's an upside," says Tobiason. "The board will provide a more frequent and in-depth review of the business with technology industry specialists as well as an insightful sounding board."

"They will be very interested in knowing how we operate, how the mechanisms of our market work," Schmits said, adding, "But they don't get involved in operations with any of their companies."

CIRCUITS ASSEMBLY reported last month ("Dover: Buy and Fold?" September 2006) that Dover had instituted various changes in the types and frequency of reports they wanted from its business units as it tried to raise the company's overall operating performance. According to Schmits, under Francisco no hard guidelines have yet been established.

However, Dover is a public company; its legal responsibility is to its shareholders. Being a private company, Francisco has different designs, and its management is less susceptible to quarterly ups-and-downs. The firm typically holds its acquisitions for three to five years. And it makes its money at the end, when it sells its stakes or issues an IPO.

In any conversation about buyouts comes the inevitable questions about exit strategies. The unit presidents declined to discuss possible scenarios. Tobiason did allow, however, that the topic hasn't been a burning issue. "Since Vitronics Soltec is a healthy, growth-oriented business, this bodes for the longer term, as compared to typical turnaround investment horizons. While Dover companies have not been nearly as exposed to this kind of owner, I think in the broader market we see private equity investment as a growing trend, and I think we'll see more of it in our sector."

What's confused and what's clear? Dover's announcement of the impending sale of the businesses led many in the industry to wonder just who would have the capital to risk and the vision to see it through. That's just the type of "confusion" that Francisco takes advantage of, a firm spokesman told CIRCUITS ASSEMBLY. "Francisco Partners historically has taken assets like Universal and Vitronics that are buried inside a corporate parent and give them the appropriate amount of support to focus and become standalone entities," explains Ashutosh (Ashu) Agrawal, a vice president with the firm.

And while Francisco willingly invests in mature markets, there's also confusion over just what the growth prospects are for end equipment. "People have varied perceptions on electronics demand and some tend to correlate any end-market with the PCB market," Agrawal said. "We did a detailed analysis of how we see the end-market playing out and see the Vitronics and Universal platforms as very attractive to consolidate the existing industries and build upon the demand."

According to Tobiason, further confusion in the market stems from everything from the number of vendors to equipment reliability and cost. "From the customer perspective, there are many

suppliers in many countries with many products to choose from. This can be a costly and time-consuming process, with unknown long-term outcomes."

In other words, if the confusion is the lack of a clear winner in each segment – reflow, wave and selective – and geography, then Vitronics plans to be there. "It is our goal to provide the complete range of soldering solutions, globally, at the right value proposition for the unique local markets within the global electronics industry. Electronics manufacturers globally can choose Vitronics Soltec soldering solutions any where in the world for any soldering need and be confident" in what they are buying, Tobiason said.

As it comes off its strongest performance in 90 years, Vitronics is working from strength. On the other hand, over the past several quarters Universal has by most accounts been struggling in the brutal waters of the placement equipment market, having undergone two changes at the top and with several well-capitalized, aggressive competitors fighting head and nozzle for every last dollar of business. With new equipment in the pipeline for late this year, Universal is not ceding an inch, Schmits says.

"The way I see it, the pick-and-place market will develop into a two-tier market, with three or four bigger players who can handle the volume and technology demands. Universal clearly intends to be part of that group.

"By the end of the year we will come out with new machine models that will complete our Genesis platform. This will allow Universal to compete in the high speed, high volume market. That is extremely important for our position in Asia and elsewhere."

Unovis, the other piece of the triad, groups the former Universal SMT lab, its semiconductor division and the factory automation division. It is run by Roland Heitmann (Talking Heads, September 2006), and will operate as a standalone unit alongside the SMT operation. Its focus is on the medical, automotive and military markets where demand is for small modules and where steps like dispensing and mechanical assembly are commonplace.

All involved see great potential. "I think that it is that Universal had a lot of opportunities under Dover and made good use of them, but in the phase where we are at as a company, Francisco Partners might be a better home and provide the necessary investments to execute our ambitions," Schmits said.

Added Agrawal, "There is a lot of potential in these assets. Our focus would be to invest in the business and make sure we can service the customers as best we can. Customers can expect much more than what they've had historically. If we didn't believe in the future success we wouldn't have made the investment." ■