

CORPORATE STRATEGY

Aquarion AG to beef up M&A activity ahead of 2019 IPO

A new €15 million loan will help the industrial water specialist to reach the critical mass it needs before going public next year. Recurring revenues are a key part of the strategy.

Industrial water treatment contractor Aquarion AG is looking to ramp up its M&A activity in order to build critical mass ahead of an initial public offering in the second half of 2019.

The company this month negotiated final terms on a €15 million three-year convertible loan which will primarily be used to fund a trio of near-term acquisitions in order to help double the group's EBITDA margin to 10% by the time it goes public, whilst increasing revenues from their current level in the €50-60 million range.

"A sales number greater than €100 million is a pre-condition for going public," Aquarion CEO Karl Michael Millauer told GWI. "The idea is to grow organically, but also by acquisition. We have a list of targets where we have already signed LoIs [letters of intent], and with the financing being secured, we can now execute and realise these investments. One is a technology for the treatment of heavily contaminated wastewaters which we think is disruptive; one gives us access to a market which we are not in yet, and the other one will give us recurring revenues to stabilise our cash flow," he explained.

Aquarion currently derives the lion's share of its revenues from EPC (engineering, procurement and construction) contracts, and Millauer is keen to boost the recurring portion of this, which is currently languishing in the mid- to high single digits.

"We hope that 25% of the group's sales in five years will be contributed by recurring revenues," he told us. This will come from a blend of O&M fees from BOT (build-operate-transfer) contracts, service revenues, and a greater emphasis on component sales.

He acknowledges, however, that financial partners which are willing to put capital to work on BOT projects have been hard

MILLAUER TIME

Karl Michael Millauer has crafted Aquarion into a global industrial water EPC. He now wants to boost recurring revenues prior to an IPO in 2019.



to find, particularly in the markets where Aquarion is active.

"We see BOT requirements in emerging markets – Saudi, the GCC markets, Iran, and in African countries. We are looking for financial institutions which are willing to invest in such markets, but it's not easy," he confided.

Sum of the parts

As part of its strategy to increase the predictability of its revenue flows, Aquarion also plans to establish a stand-alone component sales arm which will be housed within the group structure, but operate independently from the EPC business.

"We will set up a separate distribution organisation under a different brand name,

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and sell components and equipment to OEMs, and not only to end clients," Millauer explained. "For example, we have a high-pressure disc module in our portfolio which is excellent for pre-concentration in ZLD [zero liquid discharge] or landfill leachate applications. Until now, we have only implemented this high-pressure disc module in our own systems, but we think this product is very good."

With the US EPA having gone soft on zero liquid discharge system requirements for coal-fired power plants, Millauer is convinced that China offers the most obvious route to market for the company's ZLD ECO₂ system. The core disc module technology was developed by Membran-Filtrations-Technik, acquired by Aquarion in 2015, and helps reduce the capacity required in the ZLD system, while accelerating the evaporation process and saving energy by redirecting thermal heat.

"We are always looking for innovative new ideas and new concepts where we can differentiate and bring additional value to clients," he explained.

Although Millauer acknowledges that Aquarion is somewhat late to the game in the Chinese ZLD market, the group's assembly plant in Penang (Malaysia) gives it a strong base from which to supply the southeast Asian market.

Going forward, Millauer sees the greatest growth potential in the power, semiconductor, food & beverage and oil & gas segments. "When we founded Aquarion, the oil and gas sector was very strong, but with the declining oil price the situation changed. Now it's improving, and we're now seeing more enquiries from the oil and gas downstream and upstream markets," he told GWI.

It is this combination of organic and inorganic growth which Millauer hopes will allow Aquarion to access the public capital markets next year. The IPO – which will take place on the Frankfurt Stock Exchange if Millauer has his way – will also facilitate the exit of the group's largest investor, the Green Growth Fund, which is backed by the Republic of Tatarstan. ■

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Karl Michael Millauer, CEO, Aquarion Group