



TSC Case Study

Transaction background

In October 2012, Allegro acquired Hastie Services out of the receivership of parent company ASX-listed Hastie Group.

Hastie Services comprised three separate businesses – Trilogy Servicing ('Trilogy'), Spectrum Fire and Security ('Spectrum'), and Cowley Services New Zealand ('Cowley') – which Allegro rebranded TSC Group Holdings ('TSC').

Allegro was the only bidder for Hastie Services, which reflected the many challenges facing the business. At the time, it was a daunting prospect. However, it proved to be a shrewd investment by Allegro as it deployed its turnaround skills to transform a loss-making business into a profitable enterprise. Ultimately generating a handsome return for Allegro investors.

About TSC Group

Engineering Services firm Hastie Group was comprised of more than 50 subsidiary businesses, all run as standalone entities, including the three businesses that made up Hastie Services – Trilogy, Spectrum and Cowley.

Hastie Group's sprawling businesses reflected the acquisitive nature of the Group. However, there was inadequate oversight and acquisitions were not properly integrated. The company's growth focus fuelled a heavy debt load, further exacerbated by unprofitable contracts, customer attrition and operational issues, eventually contributing to the Group's collapse.

The three Hastie Services businesses, rebranded TSC Group under Allegro ownership, provided technical maintenance services for commercial HVAC (heating, ventilation and air conditioning) and fire protection systems with a national network across Australia and New Zealand. TSC employed more than 1,100 staff with more than 5,000 contracts across the private and public sectors.

Hastie Services' modus operandi mirrored its parent company. It was overly acquisitive (13 in six years) with limited integration efforts. This focus on top-line growth resulted in a loss-making installation business along with many large unprofitable contracts. The business was losing money.

The receivers appointed to the Hastie Group identified accounting irregularities, particularly in the Hastie Services division. This led to a further deterioration in the culture, more staff

turnover and significant brand damage. Not surprisingly, competitors took advantage and targeted the company's high margin customers. Enter Allegro.

Turnaround program

Upon acquisition, our immediate focus was to stabilise the business.

Firstly, the business needed to be rebranded. The "Hastie" name had suffered significant reputational damage so Hastie Services was rebranded TSC Group.

Another immediate priority was exiting the loss making installation contracts and large low-margin service contracts. We instead focused on winning sustainable higher margin maintenance contracts.

TSC Group CEO Roger Jowett said managing customer contracts was a significant challenge in the early stages. "While we were unwinding unprofitable customer contracts, in other parts of the business we were trying to stem the flow of customers who lost confidence in the business as a result of the insolvency process," he said.

"We eventually got on top of this which helped us better manage our working capital. This was a critical development because by optimising our working capital we released \$20m in cash that was re-invested in the business and used to fund the turnaround."

A stronger management team and new board was established, with a renewed focus on oversight and governance. Financial transparency was improved in the form of strict accounting and financial controls.

Underpinning all of this activity was a systematic operational improvement program focussed on increasing technician productivity, centralising procurement, enhancing IT systems, and reducing back office costs (Spectrum and Trilogy back offices were merged, resulting in significantly reduced overheads).

In November 2013 with the business stabilised and turning the corner, we partnered with global energy company ENGIE, who became a minority investor and collaborative partner in a new energy efficiency product offering.

Exit

Our partnership with ENGIE included an agreement that ENGIE would assume full ownership of TSC once Allegro had completed the turnaround. We sold the remaining stake in TSC to ENGIE in September 2015, generating an attractive return for our investors.

When we acquired TSC (Hastie Services at the time) the business was sick – financially, reputationally and culturally. Within three-years, through a disciplined turnaround program, we transformed a loss-making business into a structurally sound enterprise. In the process creating a profitable exit path for our investors.

In 2016, Allegro was awarded “Mid-size Company Turnaround of the Year” for TSC from the Turnaround Management Association (TMA).