

STI-Global floats private equity plan

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Railway engineering group STI-Global is poised to take on a private equity partner ahead of an anticipated sharemarket listing as early as next year in a float that could value it at more than \$150 million.

The company is understood to be seeking roughly \$20 million from a private equity partner to fund the acquisition of three businesses it has conditionally agreed to buy.

Three private equity firms are understood to have expressed interest and must lodge indicative offers in the next fortnight.

The move has been designed to fund the next phase in the company's capital growth, having successfully established a presence offshore in Europe in the past four years after an initial unsuccessful attempt to find backers in Australia.

KEY POINTS

- The railway group is seeking to acquire three businesses.
- It wants about \$20 million from a partner to help plans to float.
- Trains in Spain have driven profits.

STI-Global co-founder and chief executive Kevin Reichelt said the company developed its product offerings, which are focused on railway infrastructure and rolling stock protection systems, in the large Spanish rail infrastructure market.

"The Spanish market is one of the hottest rail markets in the world. They're spending an enormous amount of money on new infrastructure," Mr Reichelt said.

"That formed the basis of jumping the company to the next stage,

and we started working with a number of operating divisions within the Spanish rail network."

Over time, STI-Global has expanded its product range to meet the needs being thrown up by the Spanish network and has developed products including the vehicle identification track recording and control system, or VITRAC, which is a real-time train tracking system.

This system ended up attracting additional international interest after the company showed it at the Innotrans Exposition in Berlin in 2006. The company subsequently entered into a joint development agreement with the German Aerospace Institute to apply STI-Global's VITRAC System to a new European freight train management system.

The system also attracted interest from Australians who had attended the trade fair in Germany, which has

proved a catalyst for the company to return to Australia with its offerings.

"A lot of Australians came, and a lot of people we were talking to in Australia were saying 'This is fantastic, why didn't you talk to us?' We said, 'We tried to talk to you guys two years ago and you didn't want to know,'" Mr Reichelt said.

"We're now talking to people like Queensland Rail, ARTC and others about some of our products."

STI-Global's planned acquisitions are expected to dramatically increase its earnings, with this financial year's revenue of \$5.6 million expected to grow to about \$50 million within two years.

At the bottom line a loss of about \$1.5 million is expected to grow to a net profit of about \$10 million over the same period. There is the potential for significant upside in these numbers, with the company also

negotiating agreements in India and the United States that it is yet to factor into its forecasts.

STI-Global is negotiating an agreement in North America with a major operator that would have it implement its wireless crossing protection system at more than 1000 railway crossings.

"Basically, the private equity firms' value of the company is underwritten by some of the acquisitions," Mr Reichelt said.

The timing of any float was still uncertain but depended to some extent on agreement from a private equity partner.

"We're targeting sometime in 2008 but it might well be pushed back further," he said.

If the company does float, it is expected to make its debut with a market capitalisation of between \$100 million and \$150 million.