

Autumn 2006

# Business *first*

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Private Equity

The Gresham Monitor

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# Investing for growth

*How to prosper whatever the weather*

# All eyes on Alstec

**Gresham has successfully exited from Alstec** Group, the nuclear and airport services operator. The company has been sold to Babcock International for £44.9 million, generating a return of four times Gresham's investment.

Gresham backed the management buy-out of Alstec in 2000 and helped the company to grow and develop its business in nuclear, airports and defence systems.

Alstec provides a range of services to these sectors, including the design, management and operational support of complex control systems for specialised handling system applications. The customer base includes the Ministry of Defence, BNG, British Energy and the Atomic Weapons Establishment. Alstec's airports business provides operations and maintenance services for BAA's automated baggage-sorting system.

"When the business was part of Alstom, it could afford to enter into large contracts, many of which were overseas. We changed

that so that the business focused on smaller, more manageable contracts in the UK which were more appropriate for the size of the balance sheet," says Gresham managing director Ken Lawrence.

The firm also introduced a new chairman, Stuart Doughty, who had a strong background in contract management. "The existing management team was excellent and Stuart had complementary skills to offer," says Lawrence.

Gresham worked hard in conjunction with the management to find a suitable buyer for the company. "We thought it would be better for the business if it was sold as a whole and we spent a lot of time building up a relationship with Babcock to that end," says Lawrence.

Martin Melling, Alstec's chief executive, says: "Gresham has been a very supportive investor and was 100 per cent committed in helping us develop the business. We have very much enjoyed working with them."



## Digby Jones speaks out

**Sir Digby Jones believes support services** businesses have a key role to play in improving the efficiency of the public sector.

Guest-speaking at Gresham's Business & Support Services dinner in July – his first official engagement since leaving the CBI – Sir Digby pointed out that privately owned schools have a lower truancy rate than public, while privately owned prisons have fewer re-offenders. He also attacked trade unions for their negative effect on British industry and berated Gordon Brown's stealth taxes.

Guests at the dinner included CEOs of Gresham-backed support services businesses and prospective chairmen. Gresham has made 23 investments in the sector over the past nine years, generating a return of nearly four times money.

# Gresham 4 beats target

**Gresham has closed its new fund, Gresham 4,** raising £340 million in just one month. The firm was initially targeting a £300 million fund but due to strong demand the amount was raised – and the fund was over-subscribed even at this level.

Twenty-nine investors committed to Gresham 4. These cover a broad geographical range of sources, including pensions, funds-of-funds, insurers, family offices and government bodies. Investors include Access Capital, AlpInvest, ATP Private Equity, Morley Fund Managers and Standard Life. Interest was boosted by Gresham’s historic

performance – the firm has achieved an IRR of 34 per cent and a multiple of 2.5 on all realised investments since 1980.

“I am thrilled Gresham 4 was over-subscribed in such a short time frame,” says Gresham chief executive Paul Marson-Smith. “This demonstrates the strength of our track record and investors’ appetite. Our base of limited partners is international and diverse; some of the best in the world.

“Our absolute focus is on investing in quality businesses. We expect half of the fund to be invested in the South, with the rest split between the Midlands and the North.”

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## New recruit for Gresham



**Mike O'Brien has joined Gresham as an** investment executive based in London. O'Brien previously worked at Computacenter in the strategy and corporate development teams, where he supported a number of mid-market transactions in the IT hardware and services sectors.

“Mike’s strategic consultancy skill-set and his IT services industry experience will be hugely beneficial to Gresham,” says Mike Henebery, head of the London investment team. “We are pleased to have recruited someone of Mike’s calibre.”

The UK's leading shower tray manufacturer gets Gresham's support.

## Just the buy-out

### Gresham has backed the management

buy-out of Britain's leading quality shower tray manufacturer, Just Trays.

Just Trays has around 20 per cent of the shower tray market in the UK and has established a strong brand and reputation with the plumbing and building trades. The Leeds-based company is viewed as a leading innovator in its field and has pioneered designs that have become the industry norm.

The buy-out was led by current managing director Paul Crossley and Gresham has provided further support with the introduction of a new chairman, Ian Stuart.

Stuart is currently chairman of shower manufacturer Aqualisa and has extensive experience in the building industry, having been chief executive of both Heywood Williams and Caradon Plumbing.

"We are delighted to support the incumbent management team at Just Trays, supplemented by the addition of Ian Stuart," says Paul Franks, investment director at Gresham, who led the deal. "The companies that prosper in the building products market are innovative, customer-facing businesses. And Just Trays is precisely one of those."

Only recently, the company launched its new, slimline, minimalist tray – the JT40 – the first of its kind and aimed at the higher-



(l to r) Mitch Titley, Gresham; Matt Upton, Ernst & Young; Paul Franks, Gresham; Ian Stuart, chairman Just Trays; Paul Crossley, managing director Just Trays

end shower tray market. Looking forward, the company's strategy is to continue to increase its market share by introducing further innovative products to the sector.

"We are really pleased to have the support of Gresham," adds Crossley. "This is an exciting time for the company and the new funding will enable us to make further improvements in our business."

### Stop press

Gresham has just sold IT services business 2e2 to Duke Street Capital. The transaction valued 2e2 at £130 million and generated a return of 3.6 times money. Gresham backed the business in 2003, since when it has made nine acquisitions. More details will follow in the next edition of *Business First*.

## Hemley joins Gresham team

### Simon Hemley has been appointed as a

London-based investment executive for Gresham. Hemley previously worked in the M&A team at Ernst & Young where he advised on private equity transactions within the industrial products sector.

"We are delighted with the addition of Simon Hemley, which consolidates our strategy of hiring talent to optimise our investment capability," says Mike Henebery, head of the London investment team.



Comment

# Coming of age

The summer of 2006 was one of the best on record for private equity – and for Gresham. But chief executive Paul Marson-Smith says there are challenges afoot.

The past few months have been almost Utopian for Gresham. We closed our latest fund, Gresham 4, made three tremendous new investments and completed three highly profitable exits.

Over the past two years, we have realised 21 investments at an average of three times money, the most recent being 2e2 at 3.6 times money. This track record helped us raise £340 million for our new fund in less than a month. We now have ample investment capacity for the foreseeable future with a well-diversified group of world-class investors. It doesn't get much better than this.

Like many others in the industry, however, I feel tougher times may lie ahead. Market conditions are cyclical and the environment that has been good for so long may soften.

But that is not necessarily a bad thing. Recent benign conditions in this market have benefited peripheral players but tougher times will separate the men from the boys.

Commitment will be gauged by a firm's attitude to the market, its experience in the industry and its investment philosophy. I firmly believe that private equity investing should be about growing businesses, not pulling off financial engineering stunts with the aid of cheap money.

At Gresham, we seek out businesses with real growth potential. That means we can add value, even if the business cycle turns against us. We will not be immune – nobody is – but we

will be protected by the very nature of our strategy and the quality of our portfolio.

We look for healthy businesses with a commanding market position, strong growth prospects and the very best management. Frequently, we bring a new chairman into the businesses we back. Like highly skilled coaches, good chairmen help to bring out the best in a team and can act as a wonderful sounding board for new ideas.

In 2000 we backed the management buy-out of office2office, a stationery supply company, introducing a non-executive chairman who provided structure and objectivity. Our recent exit made seven times money, largely down to the determination and ability of the management.

We will continue to do what we are good at, investing in UK businesses with a value of up to £100 million. This mid-market section of the economy is remarkably stable and has enormous potential. We pay for genuine quality and avoid inappropriately leveraged deals.

Overall, we work towards creating a virtuous circle for our investors, advisers and the companies we partner. In our exits last year, many of our managers made more than £1 million. They worked hard, we worked with them, and they delivered the goods for themselves and our investors.

We will continue in that vein through the good times and the bad by backing the UK's best managers to build business for solid growth.



## Insights



# Formula for success

**The UK insurance broking sector has traditionally been extremely fragmented. But times are changing and Gresham-backed business Giles intends to capitalise on new opportunities.**

**G**iles is one of the fastest-growing commercial insurance brokers in the UK. Headquartered in Glasgow, the firm has a national network of 17 branches and around 9,000 customers whose businesses range in turnover from less than £1 million to more than £200 million.

Over the past ten years, Giles has completed 23 acquisitions, but it remains fervently ambitious, aiming to double the size of the business in the next two to three years.

“We are in a dynamic sector that is consolidating rapidly. We consider ourselves a consolidator and we are very keen to make further acquisitions,” says chief executive Chris Giles. Acquisitions require capital, and Giles was keen to secure external backing to fulfil its potential.

“My finance director, now the chief operating officer, is Derek Gardner and he comes from a private equity background. We have been preparing for an MBO for a while,” explains Chris Giles. Gardner had

**“We consider ourselves a consolidator and are very keen to make further acquisitions”**

known Gresham for a number of years, and started to have serious discussions around Easter time. “Derek put our MBO proposal to three firms, but Gresham came closest to what we wanted in terms of the way the deal was structured. Also, I really like the Gresham people, the chemistry was right

**(l-r): Craig Campbell (Deloitte), Chris Giles and Jim Faulds (Giles), Andy Marsh (Gresham)**

from the start and their regional approach appealed to us,” says Giles.

### A class outfit

For Gresham, the deal has many attractions. “Giles is best-in-class. It has a dynamic management team with a real sales-driven culture. There are plenty of consolidation opportunities and we see Giles as being a major player going forward,” says Gresham director Andy Marsh. The financial services sector is one of the five key sectors that Gresham focuses on – previous investments include RP Martin (money broker) and 1st Credit (debt purchase and collection agency).

Currently, the SME sector is served by thousands of regional brokers. Over half of them are privately run by people aged 50-plus, who are looking at succession planning. In many instances, their desire to move on is the consequence of increasing regulatory and compliance demands, which particularly affect the cost base of smaller players in the market. “Brokers want to sell and underwriters want to do business with fast-growing firms, so there is impetus for change on both sides of the industry,” Marsh points out.

Giles had already recruited a non-executive chairman, Jim Faulds, before the Gresham deal was signed. As founder of the Faulds Group and chairman of companies such as Wood Mackenzie and Newhaven, Faulds has experience of the financial services sector and of MBOs. Gresham then brought in Howard Posner, ex-MD of HBOS General Insurance Business, as a non-executive director. Both Faulds’s and

Posner’s extensive experience and knowledge will greatly help the current management team to realise their growth strategy.

Giles is now firmly focused on the future. Chris Giles’s father, who founded the business, has sold out, as have other family shareholders, and equity has been disseminated through the company. “We have enfranchised key staff and directors,” says Chris Giles.

### Master of all trades

The business specialises in a number of sectors: recruitment, charities, construction, the motor trade, hotels and leisure, haulage, and professional indemnity. “Insurers like dealing with specialists, and the margins tend to be higher. We would like to add another five or six specialist sectors over the next three years,” he adds.

Chris Giles is also excited about the

## “With Gresham’s investment, we should create the right platform and environment to attract the best people and high-quality acquisitions”

company’s prospects under the Gresham umbrella. “Over the past few years we have invested heavily in the infrastructure of Giles and we will continue to do so. This, along with Gresham’s investment, should create the right platform and environment to attract the best people and high-quality acquisitions. I am an entrepreneur and I have done some business by the seat of my pants, but the only way to build a really substantial company is through proper documentation and accountability.”

The Gresham deal valued the business at £45 million, but the company is expected to increase in value to more than £100 million, given the nature of the sector in which it operates and the management talent base. “Looking forward, our programme is to help Giles to grow organically and through acquisitions. We will back it in a buy-and-build strategy and we have set aside funds to support the company’s growth,” says Marsh.

### Fact file

- 1967 – Giles founded
- 1995 – Giles acquired by Chris Giles and his brother Nick
- 2001 – Chris Giles appointed chief executive
- 2006 – Gresham backed the business in a £45 million deal

## Insights

# The new recruits

**Swift Technical Group joined the Gresham portfolio this summer. The business includes the oil majors BP, Chevron, Exxon and Shell among its clients, and has excellent growth prospects.**

Swift Technical Group is a recruitment business with a difference. It provides contractors for oil and gas majors in places as far afield as Azerbaijan, Nigeria and South America. But the company does not simply find the right people for the right job. “One of Swift’s key strengths is it manages the whole relocation package. It arranges flights and visas, meets contractors off the plane, finds apartments for them and even makes sure that satellite TV is working for them!” says Gresham director Paul Canning.

Swift’s clients include most of the big oil companies. BP, Shell, Exxon and Chevron will be responsible for 90 per cent of revenues this year. These majors operate outsourcing business models and Swift’s end-to-end service saves them the hassle of managing the whole recruitment process. “This is a classic business & support services company and we have a lot of experience in the sector. We have successfully backed 22 support services businesses in recent years and this is our 23rd,” Canning continues.

The increasing worldwide demand for oil and gas means that the business has huge growth potential. “Demand for oil and gas is increasing, current reserves are diminishing and oil companies are spending billions on exploration and development. We have a very good relationship with the oil majors so we are well positioned to grow,” says Swift managing director Richard Mulcahy.

Mulcahy met Gresham at the beginning of this year. Swift’s founding shareholder Pat Swift wanted to retire and the management was keen to pursue a private equity opportunity. “Our reputation with clients has definitely been enhanced since we did the deal with Gresham. We have moved from being a family-owned business to one with

strong financial backing. We are now in a great position to move to the next stage in our growth,” says Mulcahy.

### Bargain hunting

The Swift deal was conducted through an auction process, so other bidders were involved. Gresham was introduced to Swift by PricewaterhouseCoopers, which was advising the vendor on a sale. “I knew the PwC partner Simon Hawes because of our experience in business & support services. Although this was a competitive process, we clicked with the management team straight away,” says Canning. “Gresham had a great reputation, and its emphasis on deliverability set it apart,” adds Mulcahy.

Once Gresham had achieved preferred bidder status, it presented Swift with a short list of potential chairmen. Stewart Cantley, who has a strong background in support services and had worked with Gresham before, was chosen. “I work primarily with people, and I felt comfortable with Gresham and the Swift team. I think the company is really going places and I can add significant value,” says Cantley. “Stewart has certainly won the respect of the management team. They were able to use him as a sounding-board during the deal process and he is completely focused on getting the best out of the business,” says Mulcahy.

Gresham and Swift are now looking to the future. In the current year, growth is expected to be around 30 per cent, generating revenues of £128 million and an operating profit of over £11 million. “This company has a superb customer ethos, a superb reputation with contractors and is in a fast-growing industry. The potential is very exciting,” Canning concludes.

Regional focus

# Northern lights

**Enterprise has always been a major part of the Yorkshire and North-East England economy. But the region is now playing an increasingly important role in Britain's private equity market.**

**B**ack in the 1980s, the North-East was almost a byword for economic hardship. Unemployment was high and sentiment was low. In recent years, however, the area has been transformed, as the local economy has stepped away from its mining and industrial roots and moved into niche manufacturing, services, pharmaceuticals and finance.

Every sector is experiencing growth, particularly manufacturing, where businesses are responding resiliently to the pressures of rising raw material costs, globalisation and increased energy prices.

In fact, there are more than 260,000 companies in Yorkshire and Humberside and 56,000 in the North-East. More than 10,000 of these businesses deliver annual revenues of up to £100 million, making the region a fertile hunting-ground for Gresham, which focuses on small and medium-sized enterprises.

Indeed, the region accounts for over 10 per cent of all UK private equity deals and, according to the Centre for Management Buy-Out Research, the first six months of 2006 alone saw 54 local buy-outs with a total value of £456 million.

Gresham is a key player in this market.

"There is stiff competition for quality investment opportunities, but we're not afraid of that. This business is all about understanding what's going on and not just participating in auctions. It's about working on relationships and being local," says Gresham director Andy Tupholme, who operates from the firm's Manchester office.

Gresham's regional investments include Restaurant Bar & Grill, a contemporary restaurant chain, and Leeds-based shower tray manufacturer Just Trays.



**As Harvey Nichols in Leeds suggests, the region's future looks bright, with several sectors experiencing growth**

"If you look at the deals we've done, the vast majority of those we would not even have seen if we had just had a London office. There are many quality advisers, both Big Four and boutique, based in this area and they are always going to prefer to deal with someone who is local," says Tupholme.

"Being on the ground enables us to sniff out the best deals and develop close relationships with key advisers, chairmen and non-executive directors. They tell us what deals are being done. It's very relationship-driven," says Tupholme. "There will always be decent opportunities in this region thanks to the strength of the advisory network and the amount of enterprise in the area. I don't think this economy will go back to boom and bust. I think the outlook is pretty good."

## Inner Sanctum

# Respect where it's due

**Gresham has always placed great importance on a strong origination function and close advisory relationships. A large percentage of deal flow is generated through this approach and Gresham is always looking at initiatives to build and maintain these relationships.**

**G**resham works closely with a broad network of advisors and the best way to demonstrate the firm's approach in this area is to get those who work with us to talk about their experience. In the last issue, Darryl Cooke of DLA gave his views, and in this issue *Business First* gets feedback from Ernst & Young.

"If I were asked to characterise Gresham's strengths, I'd say they apply a bottom-up, nuts-and-bolts, let's get under the skin approach," says Jamie Austin, the M&A director who leads the Gresham account for Ernst & Young. "But they are also very diligent. They have an open and approachable style and will give you their honest opinion at a very early stage. This fits well with our approach to working and has formed the backbone to our successful relationship together."

During the past 12 months, Ernst & Young and Gresham have built a strong track record of successful collaboration, looking at more than 40 opportunities. In recent years, they have completed the acquisitions of Flowtech, Olaer and, in July, Just Trays. There is clearly chemistry between them.

"It's a natural relationship," explains Toby Gardner, an account director at Ernst & Young. Gresham director Christian Bruning agrees: "Ernst & Young has a structured approach that fits with how we do things."

It is Gresham's flexible approach that appeals to Austin. "The company has a broad sector focus and is also willing to invest in a number of different situations; it's almost easier to say what it doesn't do. There's a real breadth of experience and knowledge and there are few situations Gresham has not tackled."

Ernst & Young's breadth of experience is also appreciated. As one of the Big Four international accountancy firms, it has not only mergers and acquisitions skills, but also tax advisory, commercial and financial due-diligence expertise. "We can help on just about anything," says Austin. "We are a powerful network for those who are able to link into it and, unlike others, we truly do offer an integrated approach to deal-doing."

### A mixed business

Perhaps the most complex deal that Ernst & Young advised Gresham on over the past year was the purchase of Olaer, a hydraulics components manufacturer with a presence in 14 countries. This meant the logistics were challenging, the supply chain was complicated and the investment required complex tax structuring. "It was the least straightforward deal we have done together, yet the most satisfying," says Austin. "It required creativity and involved more than ten different Ernst & Young teams to deliver the transaction – and there was a tight timetable," says Bruning.

Ernst & Young's ability to provide the breadth of service necessary to solve such problems impressed Gresham. "It was a business we wanted to be in and they gave us access to a hydraulics expert, enabling us to get an early, thorough understanding of this sector," says Gresham director Gary Ward. However, the key differentiator for Gresham was the quality and objectivity of advice provided by Ernst & Young.

And, while the accountants can provide a range of expertise from round the country, they also have a respect for the know-how in Gresham's three offices. "There are very few



**Left to right: Christian Bruning and Gary Ward (Gresham), Jamie Austin and Toby Gardner (Ernst & Young)**

mid-market houses that have a dedicated origination function and dedicated portfolio management,” says Austin. “In other houses, one person often does all the roles – chief cook and bottle washer. It’s not until you get to larger institutions that you see that structure replicated consistently.”

Ernst & Young’s focus on the mid-market has helped the association between private equity firm and adviser and it maintains communication through a series of monthly account management meetings at which it shares thoughts on the market, talks about sectors it is targeting and looks at the progress of deals in the pipeline.

“There are eight live transactions currently being discussed by us,” says Ward. “They are either businesses that Gresham is selling or where we’re working together as buyers.” Of the 40 situations that entered the pipeline over the past year, roughly half were introduced by Gresham, and half by Ernst & Young. This demonstrates the equality of the relationship and the effectiveness of the origination function between the two firms.

### **Share and share alike**

The relationship between the two firms has been further strengthened by Gresham’s involvement in Ernst & Young-led events. The Manchester office recently provided a judge for the accountancy firm’s prestigious

Entrepreneur of the Year awards programme.

Twice a year Ernst & Young also organises an IPO Retreat, at which Gresham is invited to speak. The two-day event is designed for CEOs and CFOs of fast-growing businesses considering an initial public offering on the main market or AIM.

Brokers, lawyers, executive recruiters, PR consultants and representatives from the LSE evaluate whether an IPO is the right option to take. Gresham gives its view, though it often advocates a contrary exit route. “We talk about private equity as an alternative to flotation,” admits Bruning. “But having a long history of floating businesses, the most recent being office2office generating a return of seven times money, we can also offer insight into the IPO process.”

Ernst & Young specifically targets Gresham as a successful investment house, although it does, of course, work with other companies, just as Gresham has other advisers. “It’s not exclusive,” says Gardner. “But each knowing the other’s strengths and having a willingness to invest time in building knowledge of each other’s businesses certainly drives intimacy – and ultimately success.”

# Gresham

Private Equity

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