

Spring 2007

Business *first*

Gresham
Private Equity

The Gresham Monitor

Page 6

Potential energy

*TCR and Flowtech:
riding high with
more to come*

Page 8

The perfect fit

*Onwards and
upwards for UK
support services*

Page 10

Eastern promise

*Why the East
Midlands is a haven
for entrepreneurs*

Lease of life

*How private equity helps
businesses thrive in a
changing world*



2e2 sold by Gresham

Gresham has continued its run of successful exits with the sale of leading IT group 2e2 to Duke Street Capital for £130 million. The transaction generated a return on investment of 3.6 times.

Gresham first backed 2e2 in 2003, a year after it was set up by chief executive Terry Burt and chief operating officer Mark McVeigh. The strategy was to create a one-stop IT shop for SMEs with the business needing to make a number of acquisitions to achieve its potential.

“Terry and Mark had a great track record and we backed them as an early stage business,” says Gresham’s Alastair Mills. “We also introduced the team to Simon Burt, who became their finance director.”

Gresham supported and worked closely with 2e2 as it embarked on an ambitious buy and build strategy, making nine acquisitions

in three years. During this time, revenues grew more than ten-fold, from £15 million to £155 million. Underlying earnings rose significantly to around £30 million and employee numbers increased by over 100 per cent.

2e2 operates in a number of highly innovative and fast-growing markets. It has a leading position in internet telephony, designs and analyses complex IT projects, provides specialised training and support and has a portfolio of managed service solutions to complement companies’ IT functions.

The existing management team is remaining with the group and is committed to maintaining 2e2’s excellent track record. “The team behind 2e2 is outstanding and the business is superbly placed to continue its success with Duke Street Capital as its funding partner,” adds Mills. “We have been delighted with our investment.”



Inside

2 News

All the latest news from Gresham

5 P is for performance

Now’s the time to push on and keep your foot on the pedal, says Paul Marson-Smith

6 Potential energy

Mid-market firms offer investors great opportunities. In return, private equity companies can help them grow

8 The perfect fit

Two examples of how private equity deals have benefited all concerned

10 Eastern promise

The East Midlands is growing fast, thanks to its entrepreneurial spirit and ability to adapt

IRC sale all in good taste

Gresham has exited premium restaurant

business The Individual Restaurant Company (IRC) through the £41 million reverse takeover of AIM-quoted Bank Restaurant Group.

IRC operates a chain of 16 premium restaurants under two key brands, Piccolino and The Restaurant Bar & Grill. The group serves more than 18,000 customers a week and recently opened three new Piccolino restaurants in Virginia Water, Surrey (pictured) and two in south-west London.

The sale to Bank was financed in conjunction with a £32 million equity placing on AIM and institutional investors will see the combined group trade under the IRC umbrella going forward. The enlarged business will also be run under the stewardship of the IRC management team.

Gresham backed the buy-in management buy-out of IRC in March 2004 and the company underwent a period of rapid organic growth, opening 11 new restaurants (ten Piccolinos and one Bar & Grill) in just two-



and-a-half years. Throughout this period, Gresham provided strong strategic and financial support to the management team.

“When we invested in IRC we saw a great opportunity to back a strong management team that required a supportive partner to take it forward to its next stage of development,” says Gresham’s Christian Bruning. “It has been a pleasure working with the team and we wish them every success in the future.”

The exit generated a return on investment of 2.3 times.

Busy Bees abuzz after deal

Gresham has sold leading childcare business

Busy Bees in a deal valued at £71 million to the Australian company ABC Learning Centres, achieving a return on investment of 3.6 times.

Busy Bees is one of the largest operators in the UK childcare market through two businesses, Busy Bees Nurseries and Busy Bees Childcare Vouchers.

Gresham first invested in Busy Bees in February 2000, since when the business has expanded rapidly, both organically and by acquisition. During the period of investment, turnover increased over ten-fold and employee numbers increased three-fold.

“We are delighted that ABC Learning Centres recognised Busy Bees as a very high-quality business,” says Gresham’s James Barbour-

Smith. “They approached us to sell the company to them as their preferred move into the UK market. This is great testament to what the Busy Bees management team has achieved in both nurseries and childcare vouchers.”

“I would like to thank Gresham for their advice and support,” adds John Woodward, managing director of Busy Bees.

Busy Bees nursery business has 46 centres across the UK. The vouchers business is a market leader in the fast-growing sector of childcare vouchers. More than 50,000 parents regularly use Busy Bees childcare vouchers, while 168 local councils and over 300 NHS Trusts provide Busy Bees childcare vouchers to their staff. Corporate users include BAE Systems and Asda.

Snack business sold after five-year profit turnaround.

Whitworths worth the wait

Dried fruit and nut supplier Whitworths has been sold by Gresham generating a return on investment of 6.4 times. The business was sold to European Capital in October in a deal valued at £86 million.

When Gresham backed the management buy-out in April 2001 the business was loss-making and under-performing. The management team, led by David Pratt and Gary Vicary with Gresham's support, transformed Whitworths into the UK's leading branded and own-label supplier of dried fruits, nuts and seeds. The turnaround was achieved following a radical overhaul of every aspect of the business, the sale of non-core subsidiaries and assets and the acquisition of key competitor, Sundora. The

company developed its brands and extended the range of products on offer.

Thanks to a more focused approach and the growing enthusiasm for healthy snacks, Whitworths experienced dramatic growth with turnover almost doubling between 2004 and 2006.

"Buying a loss-making business, adding a major acquisition and making three disposals is very challenging," explains James Barbour-Smith. "The management team proved to have great strength and depth to steer a course through these actions and at the same time deliver strong organic growth. It typifies what Gresham is looking for in a business – great management teams with a clear vision for the future."

New recruits a "great fit"

Gresham has strengthened its investment team by recruiting Iain Wolstenholme as an investment director and Peter Lahoud as a research and origination manager.

Wolstenholme comes from Ernst & Young, where he was involved in a variety of buy-outs, early stage fundraising and M&A transactions in the North of England. He will be based in Manchester, further reinforcing Gresham's presence in the region.

Lahoud worked as a consultant at the Cambridge-based business intelligence company, Library House, where he provided deal origination and advisory services to private equity and corporate acquirers. Previously he worked at Datamonitor, where he was involved in early-stage medical technology start-ups.

Based in London, Lahoud will work alongside Gary Ward in Gresham's origination team to develop relationships with companies as well as carrying out research to identify and target new opportunities.



(l to r) Iain Wolstenholme and Peter Lahoud are to strengthen Gresham's investment team

"Hiring the very best people is key to our growth so I am delighted to announce Peter and Iain's appointments," says Gresham's Paul Marson-Smith. "Their talent, ambition and personalities are a great fit with the existing Gresham team."

Comment

P is for performance

The economic and political landscapes are changing. Gresham chief executive Paul Marson-Smith analyses the challenges ahead.

There is mounting speculation about the UK's economic prospects in 2007. In recent months, the business environment appears superficially to have changed a great deal. Interest rates have risen, energy prices are choppy, consumer debt continues to spiral and inflation is edging higher. There is also uncertainty over the political future in Britain. Prime Minister Tony Blair is moving slowly but surely out of 10 Downing Street and there are increasing concerns about his succession.

Whatever the media may suggest, however, economic conditions remain generally benign. Now is the time to keep your foot on the pedal and press on, not pull over and ruminate on the direction of your journey.

The best managers and entrepreneurs can digest the economic information that is relevant to them, determine what it means for their business and then get on with the day job. And the day job remains as sharply focused as it ever has been.

The long-term winners will undoubtedly be those who can show growth in the top and bottom line. And this focus on continuously improving the operational performance of a business is what distinguishes life as a private equity-backed company.

Too often, public company life is presented as short-termist and an endless series of corporate governance questionnaires, wage negotiations and presentations to analysts who neither care nor count. That is, of course, an exaggeration encouraged by the media.

However, there is a purity about private equity ownership that enables management teams to focus solely on improving company performance. The nature of the industry does allow practitioners to be absolutely clear about the distinguishing features of a company and to get on and promote them.



Giles Insurance Brokers, for instance, is a long-established insurance broker. A successful, family-owned Glasgow regional firm, it is now expanding rapidly into a nationwide force in commercial broking.

Gresham completed a buy-out of the business last summer, valuing the group at £45 million. The management team, led by Chris Giles, has done a remarkable job of digesting the changes unfolding in the broking industry and going after significant growth opportunities whilst simultaneously responding with a plan that keeps costs under tight control. These will be driven by operational improvements as well as an open mind towards potential acquisitions.

But, for the management team to realise its professional potential, a culture of continuous improvement needs to be ingrained into the business. Although there are many exceptional public companies that demonstrate an ability to do this, I believe that it is in the private sphere that most change can take place as companies are re-engineered for the next stage in their development.

And that's why private equity could be called performance equity.

Case studies

Potential energy

Mid-market companies, by their very nature, provide great growth potential for investors. Business First examines two examples of how private equity backing has been beneficial.

Successful businesses are well-managed, efficient and fast-growing. Private equity firms seek out such companies and encourage them to pursue their ambitions, helping them along the way with commercial and financial expertise.

Evidence of this strategy can be seen in a wide range of private equity-backed businesses in the mid-market where the potential for growth is greatest.

Two highly relevant examples are to be found in the Gresham portfolio – Flowtech and Town Centre Restaurants (TCR). The two businesses are entirely different in nature – Flowtech supplies pneumatic and hydraulic products while TCR runs cafés and restaurants. But they share certain characteristics: growth potential, ambition and profitability. And, early this year, both featured in the *Sunday Times's* Buyout Track 100, which lists buy-out companies whose profits grew fastest in 2006.



One of Flowtech's warehouses. Now around 40 per cent of orders come from the web

Flowtech

In 2004, Flowtech was a successful Lancashire-based family business, with a history spanning more than two decades. But the family was keen to sell out and wanted to leave the company in good hands. "Our local focus gave us an edge and we were really keen to back them because it was a market-leading business," says Gresham's Ken Lawrence.

Gresham brought in Stan Keyworth, an experienced industry CEO who previously chaired the highly successful buy-out of Ansa. "I was introduced to Flowtech to head up the buy-out and grow and develop the business," he says. "There were several bidders but Gresham won as it was the most flexible."

Flowtech has a simple yet effective model. It supplies manufacturers and retailers with hydraulic and pneumatic components which are sold via catalogues. "We create catalogues branded for our customers, the distributors," says Keyworth. "When a customer orders something, they think they are ordering from a distributor but they are ordering from us. We work with 160 distributors and they all trust us not to take their business from them. The trust element is paramount."

When Gresham backed Flowtech, turnover was just over £19 million. This year, it is expected to hit £35 million. The company has broadened its range organically and through acquisition and is on track to move into Europe by the summer. "The company was under-invested when we came in but we have funded the business and helped it grow market share," says Lawrence.

Costs have been kept under control even as the company has expanded. Around 40 per cent of our orders now come via the internet. "That means we have been able



(l-r) Mark Winter, TCR's CEO and Christian Bruning, Gresham director

to increase turnover," says Keyworth. The supply chain has also become more efficient through initiatives such as sourcing from the Far East.

Across the piece, Flowtech has exceeded Gresham's expectations and the partnership has been mutually beneficial. "Gresham is packed with good people and its flat management structure means that decisions can be made very quickly," says Keyworth.

Town Centre Restaurants

TCR is the parent company behind three different eating-out concepts – Café Giardino, Auberge and Azzurro. Café Giardino dominates the business with 41 outlets, all offering fresh food and drinks in shopping centres. There are nine French-style Auberge restaurants and four Italian-style Azzurros.

The company was founded in 1991 and its current chief executive, Mark Winter, joined the following year. In 2000, TCR floated on AIM but ran into difficulties following an over-ambitious roll-out strategy. At the time, TCR was run by its two founders but Winter led the team that took the company private.

A consolidation plan was developed and Winter and his team disposed of loss-making sites, improved operational and distribution capacity and refreshed the brand and estate.

"We were then ready to grow again and the funds we had secured related to consolidation rather than growth," he says. "We agreed the best way to grow was to approach a select

number of private equity firms who could provide us with additional capital."

One of those firms was Gresham. "The restaurant sector is quite fragmented and there is great potential," says Gresham's Christian Bruning. "We were particularly attracted by TCR's café business." Gresham also had knowledge of the industry, through two highly successful previous investments, The Individual Restaurant Company (IRC) and Perfect Pizza.

"Gresham understood our business," says Winter. "It serves four million customers a year and is very profitable. Our food is prepared daily on-site unlike many of the other cafés and coffee shops." The business is also set to benefit from the UK's changing dietary habits. "Consumers are moving away from fast food and looking for healthier produce, which TCR provides," says Bruning.

Gresham and TCR began talking in the summer of 2006 and, by December, the deal was done. "We chose Gresham because we liked them," says Winter.

Gresham strengthened the management team by bringing in a new chairman, Richard Simpson, who had chaired IRC. The buy-out of TCR, via a £48 million funding package, also provides plenty of capital. "The plan is to double in size by 2012," says Winter. Such growth plans are fully backed by Gresham. "We want to help Mark expand the company and look forward to working with the team to achieve this" says Bruning.

Focus on



The perfect fit

The support services sector is growing rapidly with the UK leading the way in Europe. It is also a natural partner to private equity, from which it received £3.36 billion of investment in 2005.

Highway maintenance, claims management, debt collection and oil and gas recruitment may, at first sight, seem to have little in common. But they are all part of one of the largest sectors in the UK: support services.

This sector involves the provision of services from one business to another. Services can come in a wide variety of different guises but the key point to understand is that support services companies allow clients to focus on their core expertise while outsourcing non-core activities.

“Historically a firm would run its own canteen, have its own cleaners, deal with health and safety issues, source its own stationery – it would do everything in-house,” says Gresham’s Andy Marsh. The first wave of outsourcing saw such traditional services provided by third parties. The latest stage has seen key business processes being outsourced.

“For example, in the insurance industry, we have seen claims management – once a core competency of the insurers – being outsourced to niche providers,” he adds. “Oil

and gas companies also outsource what used to be core parts of their business, including labour provision and distribution of product.”

Setting the trend

But while most of Europe is still waking up to the benefits of outsourcing, the UK has already developed a particular expertise in this field, going back to the 1980s.

“There was a structural change in this country as companies realized they’d be better off focusing on their core business and letting other people take care of the rest,” says Marsh.

This trend has been spurred on by two particular sets of stakeholders: the Government and institutional investors. Government impetus has come through the various public-to-private partnerships that have been undertaken in recent years in areas such as health, education and infrastructure.

“The Government is keen to use the private sector to get the best value for money so it outsources all kinds of projects like building schools, managing council estates and maintaining the roads,” continues Marsh.

Institutional investors within the public market have also encouraged support services growth. They have become increasingly tough on the companies they invest in, thereby urging managers to maximise profitability and focus rigorously on continual cost reduction.

“When outsourcing is done properly – that is, in partnership with the right suppliers – it can be extremely beneficial on the bottom line,” says Marsh.

The drivers behind the growth of UK support services have fuelled something of a virtuous circle. Emphasis on this sector has created a generation of experienced, battle-hardened managers who know how to run their businesses in such a way that they are profitable, fast-growing and client-focused.

Growth niches

Support services cover a wide spectrum of business-to-business activity. While some of these can be described as mature, there are many niches that are experiencing fast growth.

Particular areas of growth include outsourcing of business processing (BPO), particularly in the financial services sector, and businesses that ensure companies are complying with EU regulation. “Food legislation has provided lots of opportunities for laboratory testing businesses while health and safety regulations have provided opportunities for construction consultants,” says Gresham’s Gary Ward. “We are continuously looking at structural trends in support services and we want to meet businesses that benefit from these.”

The support services industry is a natural partner for private equity. Businesses are frequently set up by entrepreneurs who are attracted to the sector as it requires management skills rather than huge sums of capital. The industry is also fragmented so there is plenty of potential for consolidation.

“At Gresham, we look for great managers first and foremost – and we look to back their expansion plans, often involving buy and build strategies,” says Marsh. “There are some superb opportunities to buy and build.”

In 2005, private equity invested £3.36

billion in 97 support services companies, according to CMBOR, and the industry’s enthusiasm for this sector continues unabated. Competition for good businesses has increased but there is still potential for private equity firms that are prepared to seek out the best managers and develop the right relationships with them. “These are ‘people businesses’,” says Marsh. “You have to show that you can help them grow by providing the right financial and commercial support.”

Some UK companies are beginning to export their expertise abroad. Gresham-backed oil and gas recruitment provider, Swift, for example, has a number of clients, such as BP, for whom it works across the world. This trend is likely to become more prevalent over time as large, multi-nationals try to whittle down the number of suppliers they use – and then use the remainder on a more global basis.

Gresham success stories

office2office

- office2office: leading independent supplier of office goods and stationery in the UK
- January 2001: Gresham invested £6.5 million in a £10 million MBO/MBI
- July 2004: office2office listed on the LSE, valued at £65 million
- Growth: turnover increased more than 70 per cent
- Management: new chief executive and chairman introduced by Gresham

Ansa

- Ansa: claims processing business, specialising in drainage claims
- July 2004: Gresham backed Ansa MBO
- July 2005: Ansa sold to AIM-traded company Mavinwood
- Growth: claims handled increased by 69 per cent
- Management: new chairman and financial director introduced by Gresham

Regional focus

Eastern promise

As economic conditions twist and turn throughout Britain, local regions need discipline coupled with vision to thrive. The East Midlands is one such area responding to this challenge – and, with private equity backing, its businesses are achieving growth above the UK average.



Some of Nottingham's more forward-thinking architecture

From the dawn of time, the foundation upon which any individual or enterprise stands or falls rests entirely on one crucial element: how they choose to adapt to changes in their surrounding environment. And this is particularly relevant for the business world in the East Midlands – which is changing rapidly at the present time.

The East Midlands is currently responsible for just six per cent of the UK's economic growth and is the third most rural area in Britain. But more than 260,000 businesses, representing every sector of industry, are based there, in what is a fragmented marketplace. An overwhelming proportion of these firms – 96 per cent – are privately owned and most are dynamic and

ambitious. It is an entrepreneurial hub that has spawned millions of entrepreneurs over the past 150 years.

Around 22 per cent of businesses are involved in manufacturing of one sort or another, compared to just 16 per cent elsewhere in Britain. Nonetheless, the proportion of manufacturing in the region has declined markedly over the last decade, as economic conditions have changed.

East Midlands entrepreneurs have recognised they need to be smart, sophisticated and service-orientated. The region has reacted well to this challenge, focusing on new sectors (including healthcare, education and IT) and achieving growth above the UK average.

Against this backdrop, it is remarkable that the East Midlands has the second lowest proportion of private equity-backed companies in the UK. Private equity can facilitate strategic development and growth, so it can be an invaluable partner for private businesses, such as those which dominate this region.

Building blocks

The support given by private equity can be illustrated by three East Midlands companies that Gresham has partnered with over recent years, Alstec, Whitworths and Dimensions, all of which have become strong, market-leading businesses.

Gresham invested in Alstec in 2000, backing the management when they bought themselves out of a large engineering conglomerate. As a stand-alone business, Gresham helped the company develop its expertise in nuclear, airports and defence systems. The business grew and prospered and revenues, profits and employee numbers increased.

“Private equity investment is not about asset-stripping and cutting back. It is about growth,” says Gresham’s Simon Inchley. “We help companies develop their brands and expand their market share. In fact, our businesses grow significantly faster than FTSE 100 companies.”

Whitworths is another example of this ability to add value. The Irthlingborough-based company was privately owned and loss-making when Gresham backed it in 2001. Working together, Gresham and the management team developed the brand so it no longer focused on commodity-type baking products but spread into snacking and grazing food. The company also bought its main competitor and became a leading force in the fast-growing healthy snacks market. When it was sold last year, the business was bigger, stronger and substantially more profitable than it had ever been before.

“We brought in capital, introduced a new chairman and helped Whitworths develop its

brand. We also invested capital to allow it to acquire Sundora, its major rival,” says Inchley.

Dimensions Holdings benefited from partnering with Gresham, too. The company initially provided uniforms for supermarket staff but, under Gresham’s ownership, it diversified into higher margin industries, such as financial services and travel. It became a real market leader, employee numbers increased more than 25 per cent and, significantly, the company has continued to grow, following its sale to Johnson Service Group.

“We helped to bring discipline, clarity of purpose and vision. The business has gone from strength to strength,” says Inchley.

Wind of change

Over the coming years, East Midlands companies are likely to partner increasingly with private equity, as management teams realise they can really benefit from this type of investment, provided they find the right firm to back them.

“We can introduce a fresh perspective, helping companies to define their future strategy and focus on it. We help them identify what they need to do and then we help them achieve their ambitions,” continues Inchley.

Not only can private equity help companies enhance their strategic focus, but the right firms can also provide invaluable assistance around succession. “Many smaller businesses are family firms which face succession challenges as they move from one generation to another,” says Inchley. “As an external shareholder, private equity firms can provide objective advice and a network of contacts that can prove extremely helpful in managing this sensitive transition.”

The East Midlands has a long and vibrant industrial heritage and the entrepreneurial spirit is thriving in the region. Many companies are well-positioned for the future and both these companies, and those that are struggling in the new economic environment, could benefit from private equity expertise and guidance.

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