Business First

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comment

A global approach

Paul Marson-Smith on how Gresham portfolio companies develop an international mindset

The UK remains world class in the sport of knocking itself. Professional navel gazers are quick to criticise our Olympic team, our football teams, our economy and the companies and entrepreneurs who run them. In fact, there are some fascinating things going on in UK plc if only they would go looking.

There may well be a significant shift in world power from West to East and the UK's economy might not enjoy swallowing the fiscal medicine it needs over the coming years. There is nothing revelatory about those facts.

But this country is driven forward by the owners and managers who are succeeding in grinding out growth, however difficult the times. A common theme running through many of these firms is an ability to harness proprietary knowledge and apply it on an international scale. The companies that will make Britain proud over the next decade will all be international in outlook. Just look inside our own portfolio for a number of examples. Swift is a market leader in providing recruitment and relocation services to the oil and gas sector. The business now has 20 offices around the world with just one in the UK. Olaer is another fascinating business serving the energy sector with products that help to improve the performance of hydraulic circuits and water systems. This business is also truly global. The latest example is training business 7 City, which was operated purely out of the UK when we invested in November 2007. Today it is growing market share in the US, Middle East and Far East.

> **"The companies that will make Britain proud will all be international in outlook**

There is a good reason why this international dimension is a recurring theme for Gresham. As a business, Gresham brings colossal levels of skill and experience when it comes to helping portfolio businesses to boost their performance internationally. We do this through two important routes. First, the people inside Gresham are seasoned business builders. Each is able to help the management teams navigate international expansion and address the hurdles that will inevitably emerge. Secondly, the benefits of having travelled these roads before means that our people are able to act with confidence and conviction.

Finally, I want to acknowledge the success of the management team at Minivator. In a climate where growth has been difficult and exits are not easy, the team has delivered exceptional performance and Minivator has been sold to Handicare, providing an excellent strategic fit and a wonderful exit for Gresham.

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news

Gresham reveals new image

Gresham has unveiled new branding, together with a fully revamped website. The refresh of the brand and website conveys more strongly the essence of our business and its heritage, and the real value Gresham adds to the companies in which we invest. Visit www.greshampe.com

Two new faces

Mark Blower is the latest recruit to Gresham's Manchester office, joining as a partner in the investment team. Blower joins from Lloyds Acquisition Finance, where he had worked for the past five years as head of the North West office. He has a successful track record of backing mid-market investments in a wide range of businesses including Gresham's profitable investment in the Individual Restaurant Company.

As part of our commitment to building on our already experienced investment team, Gresham has also appointed Anthony Bull as a partner based in London. Bull joins from Mitsui Private Equity where he was principal. He is a highly experienced private equity professional, having spent 10 years at 3i and LDC before moving to Mitsui.

On the rise

Stairlift manufacturer Minivator has been sold to Handicare Group in a deal that will yield Gresham a return on investment of 3.4 times. Based in the Midlands, Minivator is one of the world's leading manufacturers of stairlifts. Since the management buy-out (MBO) in August 2004, led by Gresham's Paul Franks, turnover has doubled. Over the past four years, employee numbers have jumped by over 75 per cent to more than 400. Mike Lord, managing director of Minivator, comments: "Gresham has been a fantastic partner and helped professionalise our business among other improvements. We are in an excellent position to continue our growth strategy through the sale of the business to Handicare."

James Grant Group makes the Grade

James Grant Group Limited (JGG), the leading provider of management and professional services to clients within the broadcast media, music and sports industries, has appointed Michael Grade as non-executive chairman of the group. Grade will join the board of JGG with immediate effect.

Neil Rodford, chief executive of JGG, said: "This is a key appointment. The executive of the group agreed with our partners, Gresham Private Equity, that we needed to attract a leading individual within our markets to match our ambitions. Michael is a proven leader with unrivalled experience at the top of the entertainment industry."

Grade said: "I am very excited to be joining JGG. This is a company with a fine reputation and, unusually, a diversified group of successful businesses." For further developments at JGG, see p6.

Gresham goes west

Gresham has opened an office in Bristol, complementing our existing offices in London, Birmingham and Manchester. The new office will invest in and support businesses based in South West England and Wales. Mitch Titley heads up the office and will oversee new investment in the region.

The people person

A hands-on, inspirational management style has led to a doubling of the value of his last two companies. And now Stewart Cantley is working his magic at oil and gas recruitment company Swift

Stewart Cantley's eureka moment came from the big screen. He was watching *Barbarians at the Gate*, and was riveted by the managers' fight to buy their business, RJR Nabisco. From working for blue-chip companies, "fixing things", as Cantley puts it, it dawned on him that he should be the one buying and running the companies he was "fixing" and running on someone else's behalf.

His first move was to head up an MBO of textile rental company, Laundrycraft, bought for £5 million and subsequently sold for £10 million. After a stint working with Barclays (with whom he had built up a strong relationship through Laundrycraft), Cantley found another good target, Warner Howard, best known for its hand driers. He did an MBI, buying the business for £54 million and selling it five years later for £114 million. Part of the investment came from Gresham, and it was Gresham who suggested Cantley become involved with Swift Technical Group.

Ambitious plans

Swift is a technical recruitment company servicing the oil and gas industry, with major clients including BP, Shell, Exxon and Chevron. Gresham backed an MBO of the business in 2006, with a £25 million investment followed by a further £7.5 million to help facilitate expansion in 2008. Cantley came in as chairman, and took over as CEO after writing an ambitious business plan to take Swift forward. The fit with Cantley's previous ventures is not immediately obvious, until you drill down to the basics.

"My team and I were looking for a good business model in a growing marketplace that we could take and add value to," explains Cantley. Swift, he continues, had spent more than 25 years developing an understanding of the oil and gas industry, building relationships with a few clients, fulfilling their needs by sourcing the right person, for the right place at the right time. "When we started, Swift was operating in four or five business locations with four customers and revenue of £150 million, 85 per cent of which came from one customer and one location." With demand for oil and gas only set to increase, it was clear that the need for highly skilled technicians to be mobilised around the world would also increase. The plan was to take the existing business model and spin it across the globe.

Action stations

The first step was to put the systems and processes in place to convert the firm into one that could expand globally. As Gresham's James Barbour-Smith explains, it has been a step-by-step process. "2007 was about analysing the business and its competencies. Throughout 2008 and 2009, we increased the geographic footprint and built up teams in existing and new locations. This year is about driving the business forward. In some respects, we are at the starting line. With the offices and teams in place, now is the time for the business to start firing on all cylinders."

That expectation is being met. Swift is now operating from 21 international offices with 75 customers. Turnover is £230 million, with the company having achieved growth of 24 per cent last year. Swift offers both temporary and permanent recruitment solutions, covering the whole oil and gas base, upstream to downstream.

a flat structure and Cantley has 20 direct reports. Swift has proved uniquely challenging in that it is a global company with a diverse cultural base. "In Russia, for example, the culture is extremely hierarchical. If you suggest something, it will be done, just because the boss has spoken. There is no discussion. So you have

> **"I have known Gresham for years, and we can consult and bounce ideas off each other**
>
> **Stewart Cantley, Swift**

All this, despite tough economic conditions. When recession hit the oil and gas sector, major projects were put on hold, and recruitment demand inevitably fell. Cantley's response was bullish.

"I said if demand is down, it's the time to steal market share and increase investment in our sales and recruitment force." To find the funds necessary, Cantley asked all staff, from top to bottom, to take a 15 per cent salary drop. "I explained that salary levels would be restored once we had hit certain growth targets (set to happen in the next few months), and in the meantime, we will come out a stronger, better company." Cantley spent two weeks visiting each operation around the world, from Calgary to Rio, delivering this message in person. The fact that all staff agreed, with no loss of personnel, is testament to his communication and management style.

For Cantley, the thrill of the job comes through his relationships with people. He describes his leadership style as paternalistic and very hands-on and when speaking to his team, they confirm this to be true. Swift operates with to try and coach, to make sure the plan comes from the bottom up."

His buzzwords are trust and loyalty, qualities he values highly. "I would rather have someone who is 80 per cent ideal that I trusted implicitly, than someone who had 100 per cent of what I wanted, but I had no idea whether he shared my goals," he explains. Cantley has worked with the same team, moving from business to business, for more than 20 years, and has built up a genuine partnership with Gresham. "I have known the people at Gresham for years, and we can consult and bounce ideas off each other," he says. "They like to 'touch' the business, and James [Barbour-Smith] acts as an extension of my management team."

Swift is not Cantley's first venture and it will certainly not be his last. He has a passion for bringing out the best in people and improving companies as a result. His family, however, sees his role in rather more simplistic terms. "My daughter wrote in her school diary that 'my dad's job is to buy and sell companies. But it's really, really important that he sells them for more than he buys them.' I love that," he laughs.

Getting fit for recovery

Some companies are already finding that the green shoots of economic recovery are presenting opportunities for growth. For those looking to take advantage of market conditions, strong financial planning and staff management will be key

The media industry is not one that naturally comes to mind when thinking about the growth sectors set to drive the economic recovery, but for evidence of corporate wellbeing, look no further than the James Grant Group (JGG). The group is a provider of management and professional services to its clients within the broadcast media, music and sports sectors. Clients include Ant & Dec, Davina McCall, Piers Morgan, Sir Bob Geldof, John O'Shea and Jack Rodwell. It was formed in August 2009 from the management buy-out of five businesses from Formation Group – an AIM-listed company.

The creation of JGG is a perfect case study of investing in a platform business and growing it through strategic acquisition, despite a tough economic climate. Its recent success in acquiring First Artist Management (FAM) has extended the group's reach into new areas of television representation. The addition of FAM also exemplifies how a business can capitalise on market conditions to grow market share. When FAM's parent company – First Artist Corporation – decided to adopt a selling strategy for certain of its non-core businesses, solid business planning meant JGG was already waiting in the wings with the financial clout to make an offer it could not refuse. The acquisition of the entertainment arm of accountancy firm Michael Kay & Company is further evidence of the group's wider growth strategy.

The experience of JGG, one of Gresham's latest investments (see further on page 3), should be a lesson to all businesses looking to grow in 2010. As business leaders endeavour to put the worst economic crisis in recent memory firmly behind them, they should be thinking hard about opportunities for growth that the recovery might offer and, more specifically, how they can put their businesses in the best position to exploit them.

Optimism rising

There are signs that 2010 is shaping up to be a year of recovery. Accountancy and financial services group Smith & Williamson's fourth annual survey of AIM-listed companies indicates confidence is returning to the boardroom, with 86 per cent of respondents declaring a positive outlook for their businesses in 2010, an increase of 35 per cent on the previous year. However, anaemic growth figures – UK GDP rose by just 0.3 per cent in the last quarter of 2009 – suggest the recovery will be gradual, which makes the argument for companies to react to changing conditions in the marketplace all the more compelling. Experts predict that a willingness to adapt business models and marketing strategies could prove the difference among companies jockeying for position in the post-recessionary climate. Those that plan ahead on this front will have a head start when the upturn takes hold.

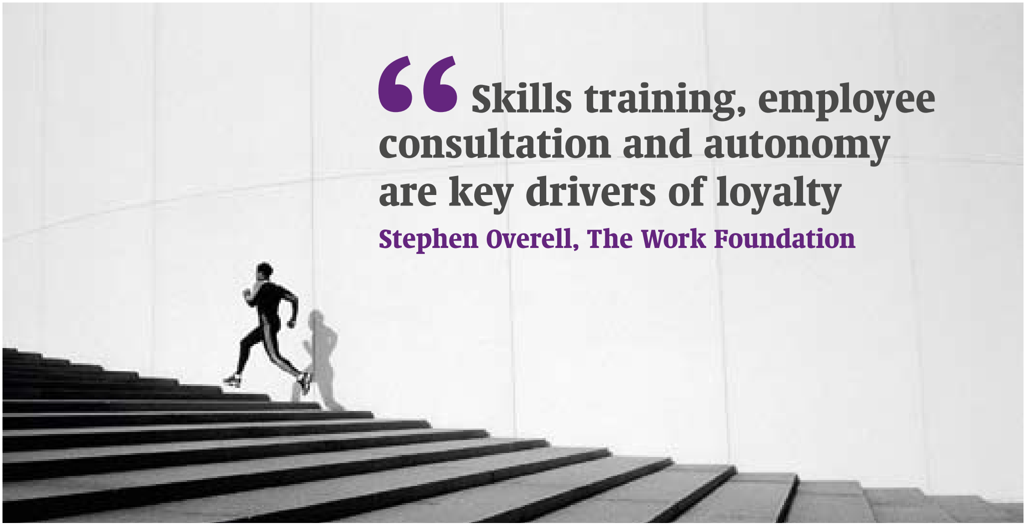
Many of the companies that have survived the recession will have cut discretionary spending and inefficiencies in their business models in a bid to improve cash flow. Christian Bruning, Gresham partner and leader of the London investment team, sees a healthy balance sheet and quick access to capital as pivotal to businesses looking to grow. "Typically, in a post-recessionary climate, the business growth experience is very cash consumptive, so to take advantage, you need to have the capital to drive growth."

One of the big obstacles facing companies operating in the post-recessionary climate is the relative scarcity of affordable credit as banks – whose excessive risk-taking and leveraging practices were seen by many as triggers for the recent downturn – exercise more restrained lending practices.

> **"To take advantage of a post-recessionary climate, you need to have the capital to drive growth**
> **Christian Bruning, Gresham**

In such an environment, what are the best fund-raising options for companies in search of growth capital? The cautious approach to lending adopted by the banks in 2010 means growth will need to be funded by business equity or asset-based borrowing rather than debt. The pot generated through either route could be used not only to incentivise key employers and managers, but also to take advantage of opportunities. "Many businesses will find they have competitors which will have suffered more. That means that taking advantage of the relative weakness of competition – either through acquisition or aggressive sale strategies – to grow market share will be a strong strategy going forward," says Bruning.

Growth by acquisition presents



a unique set of challenges and involves an inevitable element of risk, but the experience of JGG proves it can also accelerate profitability and expand a business in ways not possible through organic growth alone.

For Bruning, expert advice and due diligence are key. “It is all about making sure that you know what you are buying and how it is going to fit into your business and be integrated to make sure you derive the benefits you were expecting. For those businesses without experience of acquisitions, it is important to get the right help to ensure it does not end up creating problems.”

Employee engagement

Another major challenge facing businesses will be the retention of key staff. A recent employee outlook survey conducted by the Chartered Institute of Personnel and Development (CIPD) found that job satisfaction has decreased across all organisation sizes and sectors, with 37 per cent of employees stating that they would ideally like to change jobs within the next year. These findings, although worrying for management, are not wholly unexpected. Records show that in periods of economic uncertainty, average job tenure increases but recovery is greeted by a flurry of activity in the employment market as confidence returns and people feel able once more to make decisions about their careers.

Cutting jobs in a recession may help reduce overheads in the short term, but can hinder growth when the recovery comes. While increased demand will need to be met through rapid expansion, competition for good people may be tough. As a result, businesses have been desperately trying to hold on to staff. However, while this recession has not followed the usual pattern of employment falling proportionately to output, pay freezes and enforced short-time working have eroded employee trust and loyalty. Many firms now find themselves fighting to hold on to a demoralised workforce. In a service-led economy such as the UK, failure to retain staff can prove fatal.

Stephen Overell, associate director of The Work Foundation, believes the key to staff retention is creating a workplace in which people are engaged, motivated and feel well treated, not just in terms of their contractual conditions and remuneration, but also as a result of the ethos of the company. “Skills training, employee consultation and autonomy are key drivers of loyalty,” he says, as well as a strong affinity with a company’s brand and mission.

Research shows that a negative perception of employee consultations is a standout issue that has become progressively worse over the past four quarterly CIPD surveys, and one that must be tackled to improve employee engagement, motivation and retention in the long term.

While the recovery will undoubtedly present some compelling growth opportunities through strategic acquisition, business leaders will have to be wary of the challenges that lie ahead in areas such as staff retention and capitalisation.

Bruning is upbeat about recovery prospects across all industries. “In our experience, it is about the specifics of the business, the market and the management team, so I think there will be great opportunities in all sectors,” he says. Ultimately, it will be the companies that have the finance in place to take advantage of relative competitor weakness and demonstrate value for money to their customers, regardless of sector, that will be the star performers of the recovery and beyond.

Aged to perfection

Alex White, corporate finance partner at BDO, outlines the factors that could make 2010 a good year for sellers

In recent months, the environment for completing transactions has vastly improved. There is now huge appetite from private equity funds to invest, but with hundreds of business owners having postponed sales in the past 18 months, the supply of good-quality companies has not recovered sufficiently to allow PE funds to do all the deals they would like.

With investment opportunities rationed, strong businesses are getting special attention, and good prices and earnings multiples are back at long-term, sustainable levels. Trade buyers with access to capital are also back in the M&A market, driven by concerns that there are no more cost savings to make and that organic growth could be subdued.

Some business owners could be tempted to hold fire, thinking that pricing may be better in 2011 and 2012. However, while profits may grow in this period, it is difficult to be confident that the multiple of earnings will be much higher than at present. Not only will the supply of companies for sale have increased, but credit will also become more expensive as interest rates start rising, and the impact of a brutal fiscal squeeze could weigh heavily on sentiment. Of course, this is a generalisation and, at the margins, some sectors will be up and some down. But overall, earnings multiples are not set for major growth next year.

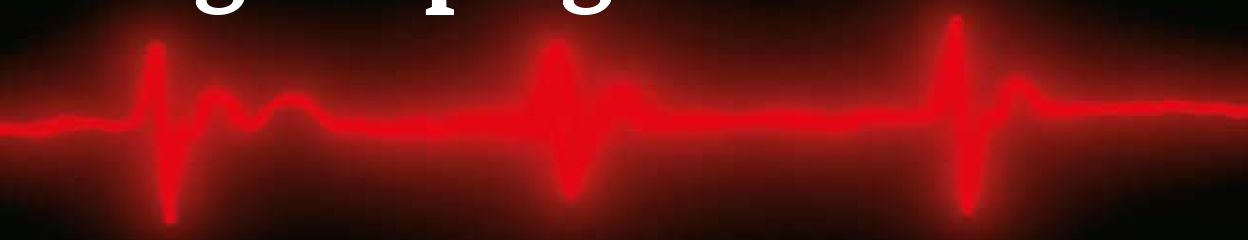
The benefit to private owners of any modest recovery in earnings multiples could, in any event, be wiped out by tax increases. Nigel Lawson was the last Chancellor of the Exchequer to increase capital gains tax (CGT) to match income tax levels, in 1988. He did this to prevent tax planning, which converted higher-taxed income into lower-taxed capital gains. From April this year, the differential between CGT (18 per cent) and income tax (51 per cent including NI) will be very high by historic standards. Many consider this tax differential to be unsustainable and believe that, over the next year or so, either higher rate income tax has to come down, which seems unlikely, or CGT will be increased to protect income tax revenues.

Each business's circumstances and owner's aspirations are unique and these play as big a part in determining timing of sales as reading the market and second-guessing CGT policy. There is no simple rule on sale timing that works for everyone. However, with the current demand for deals outstripping the supply of companies for sale, and the positive impact this has on pricing, combined with the adverse tax changes anticipated over the next year or so, now is certainly the time to consider the options.

“Good prices and earnings multiples are back at long-term, sustainable levels

Alex White, BDO

A good prognosis



Strains on the public purse, moves towards consolidation and consumer interest are just some of the drivers making the healthcare sector an attractive proposition

Britain has a strong track record in the healthcare and medical sector, with £14 billion worth of annual exports and UK companies accounting for 45 per cent of new biotechnology drugs in European late-stage clinical trials. The sector is also fertile ground for investment, as government moves to stimulate private sector funding have created growth opportunities that have produced good quality returns.

Gresham's disposal of its investment in stairlift maker Minivator will produce a return of 3.4 times its investment. Since Minivator's management buy-out (MBO) in 2004, employee numbers have increased by over 75 per cent to 400, while export sales grew by 60 per cent in 2009 alone.

So what opportunities remain? Analysts believe there are three trends that will drive changes in the way healthcare is delivered. First, publicly funded healthcare is putting an increasing strain on Western governments, which are now mostly spending an unsustainable 8-15 per cent of GDP on healthcare budgets.

Secondly, healthcare quality is under pressure, given the increasing demands placed upon it. The proliferation of superbugs is one example cited by commentators of public healthcare creaking at the seams.

Finally, increasingly sophisticated healthcare consumers are using the internet for health-related enquiries, leading to more people being treated without hospital admission.

> **“There will be increasing demand for anything that can help people avoid hospital**

Gresham partner Anthony Bull believes these trends create growth opportunities in domiciliary care – a fragmented sector that is expected to consolidate, driven partly by increased regulation and heavier burdens of compliance for private owners. He also sees continuing strong demand for medical equipment that enables people to be independent in their own homes. Care purchasers are increasingly looking at tele-health solutions as a way of keeping people out of hospital.

In addition, trends among large pharmaceuticals groups to outsource increasing amounts of their clinical research will provide opportunities for smaller players – another fragmented area. In 2000, Gresham backed the £12 million MBO of Penn Pharmaceuticals – Penn was de-merged into Penn Pharmaceutical Holdings and Penn T – to improve operational effectiveness. Gresham exited in two parts, selling Penn T to Celgene Corporation for £62.5 million in 2004 and selling the other part in a £67 million deal in 2007.

“There will be increasing demand for anything that can help people avoid having to go into hospital,” says Bull. “We have done buy-and-builds in other fragmented sectors, such as insurance brokerage, and in my mind there are parallels in terms of the spread of ownership, the regulatory and compliance drivers and opportunities for growth. We hope to be making investments in these areas over the coming years.”

Learning from experience

Paul Thomas joined Gresham in April 1990. Here he looks at what has changed over the past two decades

It is quite a shock to be reminded that you have spent 20 years working for a single organisation. (You will of course recognise that in those far-off days private equity firms were recruiting straight from school...).

Thinking back, it is clear that the fundamentals that drive Gresham haven't changed at all: we are still relationship based, we still believe in the growth potential available in UK lower mid-market companies, and we still aim to work alongside the best management teams to drive top- and bottom-line growth in those businesses. But there are a number of areas which have changed dramatically since 1990.

Local relationships

In 1990 Gresham had one London office. Since then, we have pursued a strategy of developing a broader regional network, opening offices in Birmingham, Manchester and Bristol. Local presence and local relationships are crucial to finding the right opportunities and working with management teams post-investment. I have no doubt this will continue to be a key Gresham strength in the future.

Origination

Finding the right investment opportunities has, of course, always been key to success. In the mid 1990s Gresham was one of the first to introduce a dedicated origination resource as part of the investment team to give greater drive and structure to this effort. The origination culture this has instilled has been invaluable.

Technology

It may be hard for many to imagine a world without laptops and mobile phones, but in 1990 it was perfectly possible to complete quality transactions without them. That shouldn't be so surprising, since technology provides convenient tools rather than replacing original thought: understanding the numbers shouldn't rely on access to a sophisticated spreadsheet, and machines will never replace people skills and good judgement. But Gresham has been an early adopter of technology and we continue to reap the benefits from this ongoing investment.

Independence

The greatest change in our business, and the best single decision we as a team ever made, was completing our own buy-out in 2003. We know at first hand exactly what it feels like, and that cannot be learned in any other way. It gives all of us a proper appreciation of the management team experience: invaluable in a deal environment.

People

After 20 years, it is perhaps inevitable that many faces have changed, but the most striking aspect is the growth of the business. In 1990 there were nine members of the team, and today there are 20. This growth is also apparent in the size of the funds we manage. Bringing fresh talent and new ideas into the business are imperative for continuing success. The vital skill is to achieve a blend that maximises the potential.

I look forward to updating you on my 30-year view.

“Local presence and local relationships are crucial to finding the right opportunities and working with management teams post-investment. I have no doubt this will continue to be a key Gresham strength in the future