

Business First

Insight and intelligence for leaders

Spring 2011

Best of British

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No time like the present

Why succession planning pays

“ The essence of what we do is to back the best of British businesses



Bullish for Britain

Don't believe all that you read – now is an excellent time to invest in the UK, says Paul Marson-Smith

GUESS which investment provided profit growth of 23 per cent in 2010?

You'd be forgiven for thinking a much-hyped emerging market or a niche technology sector, but the truth is more prosaic, rather more impressive and has implications for anyone with ambitions to grow their business.

The returns came from the Gresham portfolio in good old Britain. The commentators may want to talk us

back towards a double dip, but we see a number of strong indicators that suggest they're wrong.

At a macro-level, a number of factors – and figures – make now a particularly good time to invest in the UK economy. Three stand out: there is a coalition government with a clear mandate; the country maintains control over its own currency; and it has put in place a deficit reduction programme that has won the

confidence of the international markets.

Within the UK, the unquoted mid-market continues to be the backbone of the economy. It will drive the recovery and this is where opportunities for growth and employment are greatest. We know because it is where our portfolio sits and where we have been able to generate impressive returns. For example, when we invested in Swift Technical Group in 2006, the business was operating from four international offices. Today it has contractors working in 34 countries and its profitability increased 30 per cent last year. Money broker RP Martin continues to grow, with five acquisitions made since Gresham invested in 2005 and more than doubling headcount, and financial training business 7City is now winning market share globally.

These and more of our portfolio companies have used the UK as a springboard for international growth – between them they have more than 60 overseas operations. It is a recurring theme, as James Barbour-Smith explores on page 10: “What gives us a kick is taking outstanding British businesses and helping them exploit their potential in the global market.”

Accelerating growth

Gresham has a 30-year track record, and brings strong merger and acquisition expertise to its portfolio companies, helping accelerate their development. For instance, at this time we are actively seeking acquisition targets for half of the companies in our portfolio.

But these successes are only possible because of a stable and strong team, working across a network of regional offices. This hands-on approach provides the support necessary to achieve strong returns.

Being part of a portfolio actually means something, especially at times of volatility – it opens up a network, enabling businesses to share experience, to overcome challenges and grow. It’s one of the reasons why we are so excited about our recent partnership with IND, a debt purchase and debt collection business (see page 4 for more details).

The essence of what we do is to back the best of British companies and help their managers realise their ambitions, wherever they lie. For those yet to embark on an international journey, don’t believe the domestic doom-mongers – there are plenty of exciting opportunities closer to home.

In numbers

28%

of manufacturers said that export orders were above normal – the highest since July 1995.

Source: CBI Industrial Trends Survey

70%

of UK businesses are looking overseas to further their recovery.

Source: ICAEW

2692
1992

In February 2011, the Purchasing Managers Index from CIPS – which measures business activity in the manufacturing sector – was at its strongest rating since January 1992.

Source: CIPS



Cornwall and beyond

WEST CORNWALL Pasty Company (WCPC) has signed an exclusive partnership with Moto, the UK's largest motorway service area operator.

The first newly designed kiosk, at the Moto Reading Services West, opened in January, with Exeter and Toddington following shortly after. The initial agreement is for Moto to open up to 28 kiosks nationwide within the next few years.

The deal follows the opening of three new kiosks at Twickenham Stadium, the home of English rugby, to coincide with this year's RBS 6 Nations.

Gavin Williams, CEO of WCPC, says: "A handmade Cornish pasty is the perfect hand-held hot food to eat on the move and we are extremely excited about our partnership with Moto and the new sites at Twickenham."

Mike O'Brien, partner at Gresham, said: "West Cornwall Pasty Company has a fantastic product and is a strong, highly recognisable brand. We are confident that road users will welcome

the new kiosks in the same way that rail users already have."

Gresham backed the buy-out of WCPC from its shareholders in 2007. WCPC currently has 70 sites across the UK and sells more than eight million Cornish pasties every year.

* WCPC has welcomed the decision by the European Commission to give Protected Geographical Indication (PGI) status to the Cornish pasty. Only pasties prepared in Cornwall and following the traditional recipe can now be described as Cornish.

Gavin Williams, CEO of WCPC, said: "Our pasties have always been handmade and hand crimped in Cornwall – we wouldn't have it any other way. There are lots of poor imitations out there and we are over the moon that the Cornish pasty has been given the protected status it deserves. From now on, consumers will be able to make a much more informed decision about the product they are buying."

WCPC in numbers

70

sites across the UK

8m

pasties sold each year

28

kiosks to open at Moto stations

IND backed for growth

GRESHAM HAS invested in the debt purchase and collection business IND.

The funding will enable IND, which focuses on buying and collecting the debt of underperforming consumer portfolios, to expand the business.

"IND has a unique proposition with significant scalability," said Gresham partner Christian Bruning. "We are excited about the future

prospects for the business and delighted to be supporting its growth."

Gresham's experience in the sector – with firms including Ultimate Business Solutions and 1st Credit – are key to the partnership, according to David Ivtsan, chief executive of IND. "With Gresham's backing, we will be able to accelerate the growth of the business significantly," he said.



Dressed to impress

GRESHAM'S 10-YEAR involvement with the UK's leading corporatewear supplier, Dimensions, has taken another exciting turn following the completion of a joint venture with US firm Men's Wearhouse. The joint venture has allowed Dimensions to progress its buy-and-build strategy, as evidenced by its recent acquisition of fellow industry player Alexandra.

Dimensions supplies uniforms to large organisations. Sectors include financial services, supermarkets and high-street retailers. Gresham first backed the management team in an MBO in 2000. The business was grown and sold in 2004. Gresham stayed in touch with the management team and welcomed the opportunity to back them again when the opportunity arose in 2007.

As well as organically growing through the business's product and service offering, a key part of the growth strategy is consolidation of the industry. The corporatewear sector has, in common with many other parts of the economy, experienced a tough trading environment with rising input prices, adverse foreign exchange movements and the economic conditions causing

reduced demand. Despite these pressures, Dimensions has continued to perform well.

Men's Wearhouse is a publicly quoted company, selling one in five suits in the US, but it was looking to expand in the UK and Europe. As

“ Dimensions took a significant step in its consolidation of the industry with the acquisition of Alexandra

a result of the joint venture, the US firm now has that foothold in a new market. Meanwhile, Dimensions took a significant step in its consolidation of the industry with the acquisition of Alexandra, the number two player in the UK.

Swift – firing on all cylinders

GRESHAM is delighted to report that 2010 was another record year for Swift, the Gresham III investment specialising in recruitment for the oil and gas industry. Revenues were up 58 per cent to £362 million and profits up 29 per cent to £13 million, despite some well-publicised turbulence during the year.

Swift's performance is a tribute both to the resilience of the company and to the efforts of the management, the whole staff and the Gresham team (James Barbour-Smith, James Slipper and Ben Tichband). Together they have done a fantastic

job for all Swift's stakeholders, including BP in the Gulf of Mexico. Swift worked directly alongside BP throughout the incident by embedding a 40-strong project team in to the supply chain group's offices. The team functioned as a direct extension of BP's Emergency Response Team, facilitating the mobilisation and logistical support of more than 2,000 personnel in multiple locations across the Gulf – all this undertaken in a four-week period.

As a specialist supplier in a global market with strong growth drivers, Swift continues to be a star in the Gresham portfolio.



Before you know it...

Fear of losing control or of our own mortality can prevent timely discussion on succession planning, but the sooner the preparations begin, sometimes years in advance, the better the result

The importance attached to succession planning is obvious if you look at the column inches devoted to rumours and speculation about who would succeed Warren Buffett at Berkshire Hathaway – and the collective excitement when a potential successor was announced.

But succession planning is not only a critical issue for multi-billion dollar businesses. “Large or small, family-owned, public company or subsidiary – they all have a succession challenge,” says Gary Ward, partner and head of business development at Gresham. “The problem is they are not all dealing with them. This is particularly true of family, lifestyle-type businesses. They have been run in such a way that in certain cases things have to change if there is to be growth. But you’d be amazed by the number that don’t have a plan for succession.”

Ward’s views are supported by a recent survey conducted by professional services firm PwC. More than a quarter of the 1,000 respondents to the survey anticipated a change in leadership over the next five years. However, nearly half of those surveyed admitted that they had no firm succession plan in place. Furthermore, only about

half of those firms that did have a plan in place had nominated a particular individual to take over the top job.

Given the natural human reluctance to contemplate mortality or the relinquishing of control, it is perhaps unsurprising that in uncertain times so many small businesses are choosing to avoid the issue. But while inertia on succession planning could prove costly in terms of missed opportunities, the converse is also true. Companies that tackle the problems that succession throws up and thrive following a change of management are usually those that have

putting more emphasis on long-term planning.”

Ward and Peter Lahoud, a Gresham partner who supports Ward in business development, agree that succession planning needs to be given every bit as much attention as other vital areas of strategic business planning.

Succession planning, they argue, means thinking carefully about the management qualities that the business will need in

“You’d be amazed by the number that don’t have a plan for succession

Gary Ward, Gresham

developed a good plan, outlining how the succession will take place and what criteria will be used to judge when a successor is ready to take over the reins.

“In the past, the problem has been exacerbated by the short-term mindset of businesses,” says Ward, “but in recent times, companies and their advisers have been changing tack and

the coming years and whether the firm has those abilities in-house, needs to develop them internally, or needs to bring them in from outside. It means analysing skill sets and business cultures, as well as determining the appetites of key individuals to remain with the firm through and after major corporate change.



Next steps forward

One example where Gresham was able to help in this process is Hotter Shoes, a leading UK brand of quality footwear. Here, Gresham could see the huge potential of the brand, but the business had started to plateau due to constrained management resources.

Its management consisted primarily of managing director Stewart Houlgrave, who needed help to achieve the potential growth. Gresham introduced the chairman, Peter Chappelow, who had relevant skills in direct marketing and was able to help recruit the marketing director. Gresham also introduced the finance director, Nick Davis, who had previously been finance director of claims management business Ansa, another successful Gresham

investment. Furthermore, since Gresham's investment, further recruits mean that Houlgrave now has directors at the head of the key responsibilities of finance, marketing, operations, retail and product development. The high-calibre management team continues to grow and develop according to its business plan.

Another example is at stairlift manufacturer and installer Minivator. The owner was considering retirement and identified management succession as key at an early stage. His conversation with Gresham started three years before his ultimate retirement. The future CEO was increasingly given responsibility for the business during that time and as a result was able to effectively take control and consider the future strategy. Again, the founder's financial exit was delivered through

an MBO backed by Gresham. A key attraction of this route to the founder was that it safeguarded the future of "his" business and "his" employees. This transaction was the trigger for significant development of Minivator over the next few years, building on the established foundation and creating further employment as part of a vibrant and successful growth story.

It is vital to have a strategic plan that everyone agrees on. "There needs to be fundamental agreement across the board. You can't have one person vying for organic growth and another thinking acquisitions are the way forward," Ward explains. Timelines matter. Ward states that he has seen cases where new management has been introduced, only to become frustrated by the lack of progress and leave.

"Above all else, preparation is key," warns Lahoud. "Don't underestimate how long it can take to adjust the management of a business. It is a cliché to say that people are a business's greatest asset – but clichés become over-used because they have a kernel of truth. People issues are just as vital as other major business components such as finance and systems, and getting them right takes time, judgement and sensitivity."

Illustration: Peter Crowther

Rise to the challenge

An innovative – and speedy – approach to claims management is helping LAS make its mark in a well-established industry



To those who have endured costly claims, slow processes and indifferent customer service, “insurance” and “innovation” are words that do not sit comfortably together. Times have changed, not least because of the disruptive influence of new players in a traditional industry. Take LAS, set up less than five years ago, and already winning accolades for its innovative approach to claims management.

LAS handles insurance claims on behalf of the insurance industry. It has captured attention as a result of its

Unusually, this information is available for clients to see. “Our contractors know that this is public information, but that consistently good service from them will be rewarded with a higher number of claims,” says Cooper.

Continuous innovation is key to the way LAS operates. The latest development is for a live streaming link, which will allow an in-house loss adjuster to talk to a contractor on site and see images in real time. By not having to attend in person, the loss adjuster can look at several sites per hour rather than per day. “Competitors will come

70 per cent stake in the company. “Gresham are as involved as we want them to be,” explains Cooper. “Andy [Marsh] and his colleagues Simon [Hemley] and Iain [Wolstenholme] have always been a huge support, and I have a great relationship with them. I haven’t been in a business growing as rapidly as LAS is. They have the experience. It is great to be able to lean on that.”

Since the MBO, capital has been invested in a number of significant areas. Staff numbers have increased by almost 100 per cent, with a new office opening in Birmingham. The senior management team has been strengthened with the appointment of a new FD, COO, chairman and a non-executive director. Nearly £500,000 has been spent on revamping the claims management system, and installing a new telephony system. All this has increased the company’s credibility and financial viability when dealing with the major insurers. LAS acts for eight of the major players. The aim is to increase that number to around 12 over the course of the next year.

“Competitors will come in, but by the time they get to where we are now, we will have moved on

Darren Cooper, LAS

award-winning live reporting system, which allows LAS to process claims swiftly, and provide complete transparency to clients and policyholders alike. A surveyor on site can input a detailed report and photographs to the system, which can then construct an estimate automatically. A fully costed report, estimate and photographs can be sent to the authorisation team and/or insurer instantaneously. Using this system, LAS has reduced an average claim cycle for insurers from around 70 days to 40 days.

Efficiency gains

The system has also enabled LAS to manage the business more efficiently. As managing director Darren Cooper explains: “It can tell us how many claims each claims handler deals with each day, how long jobs have taken, if there have been any complaints, or even if we had a contractor whose claim cost estimates were consistently higher, which might ring alarm bells.”

in, but by the time they get to where we are now, we will have moved on,” Cooper comments.

Cooper and commercial director Tim Walker were running their own business, Safehouse UK, when they came into contact with Lanes Group. When they sold Safehouse, the two were invited to join Lanes, to set up LAS as a new venture in 2006. Over the next few years, the Salford-based business grew well, but to scale to the next level, more investment was required. “We were dealing with mid-range insurers but wanted to deal with the larger ones as well,” says Cooper. “However, Lanes Group wouldn’t make that investment as we were not a core part of that business, so we needed to separate.”

Despite interest from trade, Cooper and Walker decided on the private equity route. They chose Gresham because of the good chemistry with the local Gresham team and their detailed sector knowledge. The £12.3 million MBO was completed in April 2010, with Gresham taking a

Rapid growth

The company achieved a turnover of £24 million in 2010 and is on track to deliver £35 million in 2011. Growth on this scale is impressive, but, as Cooper says, “there is still a lot of the market for us to attack – building repair alone is about £1 billion per annum.” Discussions are also under way with insurers to offer building services direct to policyholders. The insurer would be able to offer added value to policyholders, while establishing a closer ongoing relationship. For LAS, the benefits need no explanation.

For a new player, LAS has been making waves, in no small part due to the aspirations of its management team. As Cooper summarises: “On my first day of LAS, my ambition was for it to be the number one service provider – not necessarily the biggest, but the best. We are well on our way to achieving both.”

The world awaits

With a turbulent domestic economy, the best of British companies are looking for growth prospects elsewhere. What factors should companies consider when expanding overseas?

The past couple of years have proved to be challenging for businesses. However, crisis encourages innovation, which in turn creates opportunity. As economic turbulence continues at home, a global presence can help companies spread their risk exposure.

With China overtaking Japan as the world's second largest economy, India's rapidly growing GDP and CEE's rising foreign investment levels, talk of opportunities in emerging markets is understandable. But there is no clear-cut winner in the 'emerging markets versus developed markets' debate. When deciding where to expand, every strategy should be devised on an individual basis.

This means product determines geography. For instance, Hotter, a Gresham portfolio company, is a leading UK brand of quality footwear that has recently begun distributing catalogues in the US. "Hotter is selling shoes for the over 50s at a £60 price point," says James Barbour-Smith, a Gresham partner. "You

are not going to sell many of those in China, but you can sell a lot in New York. That is why it is a company-by-company strategy."

In contrast, energy solutions manufacturer Olaer, also a Gresham portfolio company, has offices in many emerging markets because this is where its customers are.

The customer comes first

There is no underestimating how important a solid customer base is when looking to expand. Financial training company 7city is a case in point. 7city's main customers are investment banks; it trains all the top 10 in the UK. 7city CEO Paul Shaw says the company followed client demand. Why? Because it is important to show the client your commitment to them and the region face to face. 7city has worked closely with Gresham since November 2007 to expand globally.

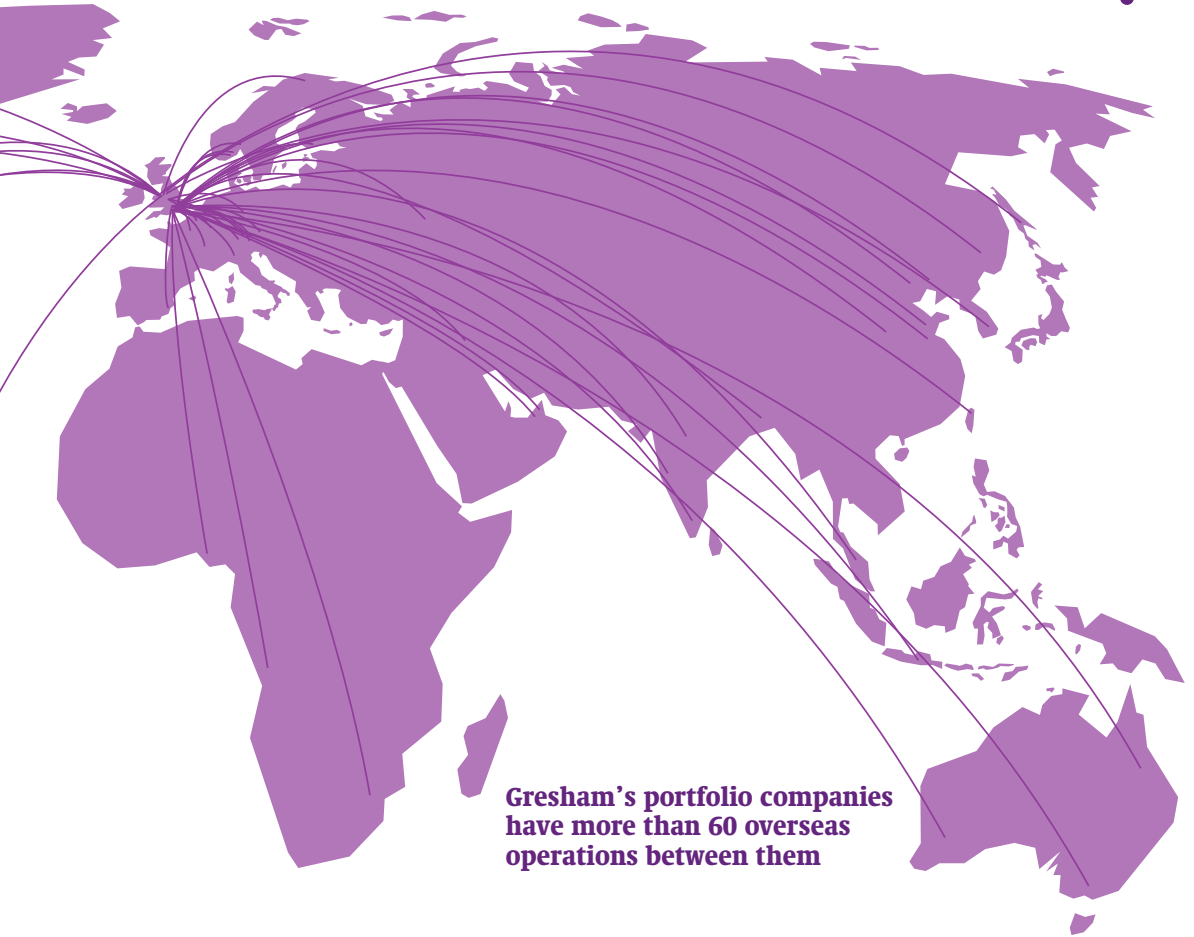
With a portfolio of companies with more than 60 overseas operations, Gresham knows how international growth works. "Gresham asks a lot of difficult questions before we set up overseas. They make sure we

have a set of procedures and that we do a clear analysis of the opportunities," says Shaw.

Analysing the depth of competition in new regions is also essential, because it helps companies create a growth plan. RP Martin, part of the Gresham portfolio, is a UK-based financial services firm and the oldest money broker in the world, with operations overseas. "RP Martin has completed a number of overseas acquisitions because, when you have a local (rather than global) customer base, it may be better to buy into local businesses with an existing customer base," says Barbour-Smith.

While 7city is not averse to growing by acquisition, it has always set out to grow organically. Shaw emphasises "global consistency". Barbour-Smith says: "7city is selling products to big global customers, and what the customers want to





Gresham's portfolio companies have more than 60 overseas operations between them

know is that you can do the same thing for them in Singapore that you do for them in London.”

Global consistency

Ensuring that customers receive the same quality of service globally can be challenging, and it is not just external factors that affect this. Developing an internal infrastructure can help a company expand successfully. The management team has to be supportive and the back office systems efficient.

“You need strong and regular communication, and senior people need to visit offices on a regular basis,” says Barbour-Smith. The local management team needs to understand how it fits into the global company, otherwise there is the risk of disillusionment. 7city invests a lot of time and resources in recruitment: “The first 10 people you hire are crucial, particularly when it is an international office, and you need a good manager that you trust,” says Shaw.

This is all well and good in theory; putting it into practice takes a lot of expertise and patience. Gresham provides guidance in the planning stages and once the company is overseas. Being part of a portfolio opens up a network of contacts. In Singapore, for instance, Gresham has two

North America as being the biggest global market for their products,” says Barbour-Smith. “The target is to be the number one provider in the region.”

According to Shaw, “7city’s focus over the next few years is making sure we drive our world-class product through our international hubs.”

“The first 10 people you hire are crucial, particularly when it is an international office

Paul Shaw, 7city

companies with offices on the same road. “We have introduced them to each other to help each other out, as sister companies,” says Barbour-Smith.

By opening up new business markets, the benefits to be reaped are vast. “Hotter and 7city are both looking at

Barbour-Smith says: “What gives us a kick is taking outstanding British businesses and helping them exploit their potential in the global market. We are constantly looking for similar businesses that we can work with on their international journey.”

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