

# Business *first*

Gresham  
Private Equity

Autumn 2008



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*Experience pays in tough economic times*

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# Experience dividend

**Gresham is 50 this year. Paul Marson-Smith explains the benefits this experience provides in today's inclement economic market**

**T**he current state of the UK economy is no cause for celebration. But Gresham reaches its half century this autumn, and after we have raised a toast we will think about the lessons we have learned and how they will help in the future.

Gresham has lived through a number of economic cycles, so we can guide our portfolio companies through the current downturn and help management teams to focus on their fundamentals. Managers in our portfolio tell us that they find huge solace in our experience. This strengthens our relationship.

Good businesses can thrive in downturns. They have strong people and robust systems delivering products and services that customers continue to want. As I look through our portfolio, I am pleased to see I can attach this label to each of our companies.

Delivering a partnership approach to its management teams is what Gresham has always focused on. That does not change whatever the economic situation. We are determined to devote whatever time is necessary to protect and nurture our portfolio. We demonstrate our commitment to improving the businesses we back by working in tandem with their management teams.

All our teams know that staying calm is vital, particularly when many rivals are losing their heads.



Indeed, the current turbulence undoubtedly generates new buying opportunities for us and our portfolio businesses. Three themes will characterise the next round of investments for Gresham.

First, a number of public company subsidiaries are likely to become non-core to their owners. These are often excellent self-contained businesses that have just not received the nurturing they need to realise their potential. Ideal buy-out credentials.

**“The current turbulence undoubtedly generates new buying opportunities for us and our portfolio businesses”**

Then, there are a number of public companies – rather than individual subsidiaries – that are eyeing the virtues of going private. It is not too strong a statement to suggest that the public markets have failed a number of mid-market companies. Low share prices and the high cost of being public become less and less attractive to managers who are often driving underlying growth without being sufficiently well rewarded.

Finally, a number of investments are going to be made from other private equity firms that do not necessarily have the same long-term outlook as we do, or the stomach for this climate. The lights might still be on but they have stopped investing and are looking to exit from their holdings. We know of at least three firms in this state, so this should become another source of deal-flow for Gresham.

There are many ways of judging performance. Our detailed records go back to 1980, and during the past 28 years Gresham has generated an IRR of 35 per cent and a money multiple of 2.5 times on a consistent basis. Over that period, there were downturns in the early 1980s, in the early 1990s, in 2001 and 2002 and now in 2008. Who knows when it will end, but our management teams, advisers and investors can rest assured that we will come out fitter and stronger on the other side.

# New Dimensions for private equity



Dimensions manufactures and stores corporate wear

Gresham has backed the £82.5 million management buy-out of Dimensions Clothing, the leading provider of corporate clothing in the UK, from Johnson Service Group.

The deal is a first for Gresham and probably for private equity. Gresham originally backed the team in their MBO from Johnsons in 2000 and sold the business back to them four years later.

Now Gresham is investing in the company again alongside the CEO, Simon Hughes, and his team.

“We maintained a relationship with Simon and earlier this year the opportunity arose to buy Dimensions from its parent company. We were the obvious buyers. We knew the business, we knew the

people and we knew the vendors,” says Gresham partner Mitch Titley.

The buy-out had its challenges, largely driven by the financial position of the vendor, and was completed with the support of four banks, assembled by Gresham.

“It was important to have four banks in the club to ensure our deal was deliverable in a difficult banking environment,” says Titley.

Gresham’s relationships with these banks and its knowledge of Dimensions enabled the deal to be completed within the tight timeframe required.

“Partnering with Gresham again will provide us with a strong platform from which to grow the business in the future,” says Hughes.

# On the acquisition trail

RP Martin, the leading wholesale money broking firm, has acquired several new businesses in recent months, expanding its geographical and product coverage in the process. The firm has been part of the Gresham portfolio for three years, since when staff numbers have increased by 50% and turnover has doubled.

Martin specialises in forward foreign exchange, cash, financial derivatives and fixed income products and the recent expansion drive has involved purchasing United Brokers in Stockholm, Wallich & Matthes in Holland, Finarbit in Vienna and Protocol Treasury Services in Johannesburg. The transactions

mean that Martin now has representation across the globe. The firm established a joint venture with India’s oldest money broker, Normans Martin in 2007 and set up an office in New York last year.

“RP Martin has been highly successful at opening new offices and making acquisitions. Looking forward, we will continue to do more of the same,” says Gresham partner Ken Lawrence.

Martin has benefited from the recent financial turmoil. The firm is a voice broker rather than an electronic broker and, during periods of exceptional volatility, banks often prefer this type of trading.

## Double boost for Gresham



Ben Tichband



Dan Hatcher

**Dan Hatcher has been appointed as a partner in Gresham's investment team.** Based in London, Hatcher has been on secondment from accountants Ernst & Young since May 2007. In his six years at E&Y, he advised on several mid-market deals in the industrial products and environmental

sectors including Gresham's acquisition of Olaer. At Gresham, he was part of the team that worked on the buy-out of Betts Global. In his spare time he plays football for Kew AFC, an activity which has increasingly included coaching the team.

**Ben Tichband** joined Gresham this year to become a member of the portfolio team. He will be helping portfolio partners Ken Lawrence and James Barbour-Smith. Since joining, Ben has been spending time assisting the management teams at Swift and Betts Global. Ben was previously at accountancy firm Deloitte in the Transaction Services team, where he was involved in the buy-out of 7City. He is a chartered accountant and previously studied maths at Warwick University.

## Maximising Marston

**Drakes, the leading independent firm in the UK civil enforcement market,** has merged with John Marston, market leader in the enforcement of High Court writs. The combined business has been renamed Marston Group and is the foremost provider of enforcement services in England and Wales.

Gresham backed the management buy-out of Drakes several years ago but the deal with Marston marks a step-change in the company. The reinvestment of capital in the Marston Group will help

the company to expand further and maintain various industry-leading training and technology programmes.

Marston chairman John Marston says: "By joining our companies and complementary service offerings, we immediately become the leading provider of enforcement services, which will enable us to meet our clients' increasing expectations, even as our client base expands. I am delighted by this development and believe that Marston Group has considerable potential."

## Green Gresham



**As part of a concerted, group-wide desire to be socially responsible,** Gresham is reducing its carbon footprint and encouraging portfolio companies to follow suit.

This edition of *Business First*, therefore, is being printed by one of a select number of printing firms in the UK to achieve an accredited carbon neutral status. The materials used during the print process included vegetable oil inks, elemental chlorine-free pulp and fibre from managed forests and 95 per cent of any waste created during the process was recycled. The publication was also made CarbonNeutral® through investment in climate-friendly projects around the world. This means that unavoidable emissions created during the manufacturing process were neutralised.

## Into Africa



**Swift, the oil and gas recruitment and relocation firm,** has expanded into Angola. The business is the first of its kind to operate in the African country and highlights Swift's market-leading position.

The oil and gas industry has been growing fast in Angola and global players such as Chevron and BP are operating there.

"Growth is very strong in Angola and Swift has developed a dominant position. The office has been set up drawing on staff from the existing UK and Brazilian operations," says Gresham partner James Barbour-Smith.

In the last year Swift has opened operations in Angola, Brazil, Canada, China and Australia in addition to doubling the size of its US operation. Previously, the firm focused on Russia, Azerbaijan, Nigeria and the US.

## WCPC hungry for expansion



**West Cornwall Pasty Company has opened 10 new stores** as part of a nationwide expansion drive following Gresham's investment in the business last October.

The new stores are at Ealing Broadway, Fulham Broadway, Guildford station, Hammersmith Broadway, Richmond station and Romford station.

These sites, based in and around London, are part of an aggressive opening programme that has already seen new stores in Manchester Airport and Corby. In addition two new high street shops in Chester and Salisbury opened in September 2008.

"Our plan is to double the WCPC estate to around 100 stores. We are focusing on sites located in or close to transport hubs as these have the greatest consumer footfall. We intend to open more outlets in the North of England and strengthen our presence in towns in the South West," says Gresham partner Mike O'Brien.

WCPC is performing well against the rest of the market, thanks to the location of its sites and the quality of the pasties, all of which are handmade in Cornwall.

Gresham has considerable experience in the retail and restaurant sectors and has introduced a new finance director, Paul Rivers, and a new commercial director, Dave Howarth, to the WCPC management team. Paul has worked as finance director for a number of retail and restaurant companies including SRG and Chez Gerard. Dave Howarth previously worked for food wholesaler Woodward and Iceland.

## Open lines of communication

**Gresham arranged an offsite meeting for the finance directors of all its portfolio companies.** The meeting took place in Ware, Hertfordshire and was designed to encourage communication between Gresham-backed businesses.

It followed a similar session for chief executives last spring and was highly successful.

"The idea behind the FDs' offsite was to bring everyone together to share their experiences. We find our investee companies can learn a lot from each other and it is often good to talk to other FDs about particular challenges or situations as they arise," says Gresham partner James Barbour-Smith.

One action from the offsite was the creation of an IT forum.

"This has been designed to encourage best practice across the portfolio. If one IT manager is trying to implement a new system, he can leverage from other managers' experiences. Some companies are also looking at combined buying opportunities," says Barbour-Smith.

## Removing risk

**Gresham has launched a debt underwriting product** that will significantly enhance deal deliverability. It is hoped it will be particularly valuable in the current economic climate.

Gresham, which traditionally focuses on management buy-outs of up to £100 million, is now able to underwrite all funding in deals up to £40 million in value.

"Providing debt underwriting solutions will be a huge benefit in the current market," says Paul Marson-Smith. "It is designed to give vendors and their advisers, as well as the management teams we are backing, real certainty of delivery, and remove the risk associated with raising the debt finance for transactions."





# Staying power

**These are tough times for private equity. Simon Walker, chief executive of the BVCA, assesses the principal challenges facing the industry and their impact on private equity firms**

Last year, private equity changed forever. As it became increasingly large and successful, the industry was catapulted into the economic mainstream – and into the media and political spotlight. The largest buy-outs involved companies that were household names, such as Boots, the AA, Saga and Debenhams, so private equity's realm of influence grew exponentially and the number of companies, people and jobs coming into direct contact with the industry soared.

But with private equity's increasing reach came a new-found responsibility to communicate better with emerging stakeholders, not only about the industry as a whole, but also about the impact of private equity on people's lives. In the spring of 2007, therefore, the BVCA set up a working group on transparency and disclosure chaired by Sir David Walker. The group delivered its final recommendations in November 2007. The Walker guidelines embrace self-regulation in the form of a new voluntary code aimed particularly at the larger buy-out houses. More than 30 of these larger buy-out groups and 55 of

their portfolio companies have voluntarily signed up to comply with the industry's guidelines and a new website was created, [www.walker-gmg.co.uk](http://www.walker-gmg.co.uk), which highlight the issues in more detail.

### Positive story

An independent committee was also formed to monitor and review compliance, headed by BT chairman Sir Michael Rake. He has publicly stated that he was encouraged by private equity's initial response to the new environment and this explicit seal of approval marks a milestone in overcoming the attacks heaped on buy-out houses during 2007. Many BVCA members have seen the business benefits of producing substantial annual reviews and Rake believes the private equity story is a positive one with nothing to fear from greater transparency. Sir Michael affirms too that self-regulation is broadly working through the voluntary regime. The past year, the ever-growing interest around the Walker Report, the required levels of transparency and the benefits of that transparency have all proved that

communication is vital for the survival of private equity. This will be of increasing interest to mid-market private equity firms as the 'best practice' achieved at the global buy-out end of the industry may filter down to the mid-market. When companies approach private equity companies with a request to put equity into their business, for example, the standards set by the larger firms may well become the benchmark. Some of the larger mid-market member firms are keeping a watchful eye on trends for exactly this reason.

Private equity firms continue to sit on much-needed reserves of capital. Fund-raising conditions were good in 2006 and 2007 and stockpiles remain in spite of the economic downturn. For example, the private equity industry raised 32 per cent more in the first quarter of this year than in the corresponding period of 2007.

In spite of these strong figures, the credit crisis has taken its toll on the economy and private equity is not immune to its effects. But the industry is perfectly capable of responding to changing market conditions:

it is creative and flexible enough to re-invent itself time and again through different economic cycles. Private equity is one of the few sources of long-term capital that can be readily called on by companies in trouble – or can simply provide liquidity when it is needed. It continues to take underperforming companies with the potential to become market leaders off the public market; it rids them of the burdens of strict corporate governance and implements new operating strategies. Private equity is able to fix and repair companies.

### 'Asset stripping'

A recent study by the London Business School and management consultancy, McKinsey, found that private equity-owned companies perform better in a downturn than their peers in the quoted sector. The research also revealed that the deals' average internal rate of return (IRR) was 35.6 per cent, more than half of which (19.5 per cent) was generated through operational improvement and a focus on margins and efficiency. Increases in capital expenditure were also demonstrated, as well as greater efficiency of capital employed and there was no evidence that superior returns were achieved by 'asset stripping'. This research proves in effect that private equity ownership does create real value for organisations and employees.

More than this, private equity contributes significantly to the wider economy, accounting for £5.4 billion of the total revenue of the UK financial services industry in 2006/7. Private equity-backed

“This research proves that private equity ownership does create real value for organisations and employees”

companies generated £35 billion in taxes – enough to pay for every nurse and police officer in the UK; a fact highlighted in the Economic Impact of Private Equity, a report commissioned by the BVCA.

Challenges will continue. There is a constant need to explain the private equity model and how it creates value and brings success. These explanations will need to be repeated time and time again. But there is little doubt that the skills, discipline and capital that private equity brings will continue to be part of the economic mainstream in the UK, Europe and beyond.

Private equity is here to stay.



# Boundless energy

Olaer has grown by leaps and bounds since Gresham backed the business three years ago. But chief executive Mike Blenkinsop says there is more to come

**E**nergy will be the number one issue for the planet over the next 50 years. Olaer is a market-leader in an obscure but vital sector that is at the heart of both saving energy, and producing it. The company designs, assembles and services a range of products that help to improve the performance of hydraulic circuits and water systems.

This may sound incredibly 21st century but Olaer can trace its roots back to 1758, when subsidiary Fawcett Christie Hydraulics (FCH) was founded.

“FCH celebrates its 250th anniversary this year. It is one of the oldest brands in the UK,” says Olaer chief executive Mike Blenkinsop.

Olaer’s customers include Airbus, Virgin Trains and Formula One. But the company also works with the biggest manufacturer of wind turbines in the

world, Vestas in Denmark; and helps produce special effects for films such as *Harry Potter*.

“Our products have a huge range of applications, but they can be boiled down to three principal activities: they control energy, temperature and cleanliness. All these things help to improve the efficiency and effectiveness of hydraulic circuits and other fluid systems – saving energy,” says Blenkinsop.

“We have 16 operations in Europe, one in the US and nine in Asia Pacific,” he adds.

## Growth strategy

Blenkinsop joined Olaer in 2003, having spent 15 years in the automotive supplies sector. “The company appealed because it was international and I thought I could apply what I had learnt in the automotive

business in terms of quality and efficiency,” he says.

The improvement drive worked. In the past five years, sales have doubled to more than €150m and profits have risen almost 15-fold.

Much of that improvement has occurred since Gresham invested in the business three years ago.

“Gresham has really invested. We have spent more than €1 million a year upgrading our laboratories, improving our testing equipment, extending our facilities, putting capital into new start-ups and selectively strengthening the team,” says Blenkinsop.

Back in 2005, when Olaer was put up for sale, a

“ I think the complexity of our business is our saviour. It makes us relatively recession-resilient ”

number of trade and private equity buyers competed to acquire the business. Gresham did not make the highest bid, but it still won the auction.

“Gresham was very proactive and that made a very good impression on us. We felt their bid was the most deliverable and we were right. They were chosen as the winning bidder on 6 July and we completed the deal on 3 September,” says Blenkinsop.

The relationship between Blenkinsop and Gresham has been consistently strong. “They have always been approachable and straightforward without being overly casual. I describe them as professional with a human touch,” Blenkinsop explains.

“Also, they had been through their own MBO, so that was really useful. They advised us, for instance, to offer shares to more people in the company than we had originally thought about doing. We took their advice and I think it has been a significant part of our success,” he adds.

Olaer has experienced three strong growth years since the MBO, and Blenkinsop remains confident about the future. “Our business is geographically spread out and we work with many different sectors. In fact, a lot of the areas in which we operate are driven by micro-economic factors, such as the energy sector. In renewable energies, windpower has been doubling in size every three years and that trend is set to continue. We are involved on the world’s first wavefarm in Portugal, solar and nuclear energy, and biofuels. We also work in the oil and gas industry and many of our customers have order books full to

2010. Environmental legislation is also a key driver of our business, where in addition to our work with renewable energies, we are involved in reducing harmful engine emissions. I think the complexity of our business is our saviour. It makes us relatively recession-resilient,” he says.

“Customer Service is at the centre of our Vision 2012. We have considerable proprietary technology and have also been working hard to improve service levels,” says Blenkinsop.

## Critical mass

The plan is to continue growing and improving the business over the next few years, expanding into new areas and developing existing ones, by investing in more in-house value-added.

“We have only just got started in China and India and there is huge potential in the wind power sector too. I think we will grow between 5 and 10 per cent a year over the next three years,” says Blenkinsop.

Olaer is headquartered in Chester, where the UK business is located. “One of my directors says it is so lean it could be anorexic. There is just me, my finance director and the supply chain director,” he adds.

He is very involved in management issues across the group, however. “It gives me enormous satisfaction to bring in new people and help develop them. We have initiated a special programme, the Group Olaer Leadership Development (GOLD) scheme and 50 employees have been on it, 10 per cent of the workforce – giving a real critical mass for bringing about change,” he explains.

Blenkinsop is 53 and he is in no hurry to slow down. “We are on a journey. We have come a long way but there is still more to do,” he adds.

## ABOUT THE BOSS

**Name:** Mike Blenkinsop

**Age:** 53

**Career:** Five years with Olaer, 15 years in automotive supplies, 10 years in oil and gas

**Greatest professional satisfaction:** Developing talent

**Greatest achievement:** Being happily married for 20 years and being successful in business

**Ambition:** To be able to strike a happy balance between work and family

**Hobby:** Rock climbing



# Grey matters

The world economy is in a fragile state and many UK businesses are feeling the pain. But at least one sector remains resilient, as Jim Armitage reveals

Consumer-based businesses are suffering as credit-crunched British families have padlocked their wallets. With mortgage repayments going through the roof, food prices rocketing and P45s buzzing around the workplace, who can blame them? Not to mention the cost of petrol for the school run.

But perhaps companies complaining about consumer confidence are selling to the wrong people. There is a large and growing community in the UK that is not fretting terribly about family finances: the over-50s.

By the time they hit their half-century, 60 per cent have paid off their mortgage, most have seen their children fly the nest and they are either in, or approaching, retirement. Many have juicy final-salary pensions to spend.

Some 20 million people in the UK are aged 50 or over, and that number is rising quickly. Within the next 20 years, two out of every five people will be over the half-century mark.

## Needs-based products

But never mind two decades hence. The financial muscle of this so-called 'grey market' is quite pronounced right here, right now. Already, 40 per cent of total annual consumer spending in the UK can be attributed to the over-50s. That amounts to some £260 billion a year.

Gresham partner Paul Franks says: "From an investment perspective, this is a market of such scale that you cannot afford to ignore it."

Franks has become something of an expert on the grey pound, having led Gresham's deal to buy stairlifts' manufacturer Minivator in 2004. He says over-50s businesses loosely divide along two lines – those providing products that people need as they get older, generally for health reasons, and those serving

discretionary spending such as fashion, leisure and home computing.

Minivator fits into the first category. Needs-based products, such as stairlifts, are onto a financial winner because they appeal to both the customer, who is usually keen to stay in the family home, and the NHS, which wants to keep as many costly hospital beds as free as possible.

## New technology

As the population ages, demand for medical or mobility products will accelerate. So will the amount of money that governments are prepared to spend on equipment to keep people out of hospital. Only this year, the British Government announced a 25 per cent increase in the Disabilities Facilities Grant for people needing help with mobility equipment.

“From an investment perspective, this is a market of such scale that you cannot afford to ignore it”

Meanwhile, businesses with money to invest can accelerate the growth of established products by bringing in new technology. At a recent trade fair, Minivator introduced its 'talking stairlift', which includes features such as an integrated microphone and speaker, allowing users to talk to a Minivator helpdesk for emergencies.

In the discretionary spending field, the volume of private equity deals has picked up dramatically in recent months. Peter Chappelow, who ran the phenomenally successful Next Directory and is a



veteran of the fashion and travel industries, has chaired several private equity-backed businesses in the grey market.

"You would be very cagey about investing in a lot of consumer businesses now because of the economic downturn. But the grey market's consumer problems are much smaller than those in the rest of the population," he says.

## 'Silver surfers'

For Chappelow, the internet is a key element of success. Far from the stereotype of the pensioner baffled by new technology, the over-50s are actually among the biggest users of the web. But many businesses have yet to develop much online expertise in targeting these 'silver surfers'. So a small amount of internet nous and investment can quickly create dramatic growth.

One such company is Hotter Shoes, where Chappelow was appointed chairman when Gresham invested last December. Hotter specialises in footwear for the grey market and had been growing mainly

through mail-order catalogues. However, the business plan identified huge potential for the company in online sales.

With Gresham's help, Hotter quickly hired a new marketing guru with a strong grounding in internet selling and invested in online marketing. Sales are already accelerating.

Hotter is also taking the brand down the age range from the 70s-plus bracket to the 60-65s. Chappelow says that he has learned from his previous work for travel companies that there is a huge market of people who want an element of excitement in their retirement, such as Alpine walking holidays and trips to exotic locations.

At Hotter, the team is translating this into more fashion-led ranges and Gore-Tex shoes for active lifestyles. They are already proving a hit, tapping into another potentially enormous and wealthy pool of consumers.

So what is the message for all those despairing chief executives out there wondering where to find a customer? Follow the money. Think grey.

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