



Going Global in Private Equity

Criticleye's Private Equity Retreat 2013 found out how PE firms and management teams are getting to grips with international expansion

With growth resolutely back on the agenda, many financial sponsors are rethinking how they should be supporting portfolio companies in an increasingly complex, global landscape. For attendees at Criticleye's Private Equity Retreat 2013, assistance in the form of new contacts and forging a route to market are to be welcomed, but there was a strong push-back on firms interfering with how management teams look to execute on strategy.

Ian Stuart, Chairman of four mid-market PE-backed companies, including manufacturing concern Aspen Pumps, says: "The job of private equity is to back management and every so often intelligently challenge. But the point where PE sets out the strategy for growth, even though they are not the ones actually running the business is, I think, dangerous."

While a fine line needs to be walked, there is an aspect to this which is cyclical.

Keith Holdt, Investment Director at LDC, comments that over the past two years the firm has used more generalist managers to assist management teams, but "the ideal investment is one where the management is not only competent but knows what it needs to do to grow the business".

Carl Harring, MD of HIG Capital, makes the point that as a company looks to evolve and develop, new personnel may well need to be brought in. "We always look at ►



a portfolio company and ask: 'What will the business look like when we've gone through a period of change with it?'

“The underlying demand is there for corporates to buy PE-backed companies”

“A different style... [and] new blood may be needed in the management team as a business changes focus from cost saving to pursuing a growth agenda.”

BRIGHTER OUTLOOK

The mood among attendees at the Retreat was noticeably upbeat in terms of businesses investing for growth and increased exit opportunities, not only via trade and secondaries but also through IPOs. **Glen Moreno**, Chairman of media company Pearson and Non-executive Director of Fidelity International, says: “[There are] record levels of unrealised returns; many LPs are at their asset allocation levels and will want to see distributed gains in their portfolios...”

“The exit potential is improving... The underlying demand is there for corporates to buy PE-backed companies. Secondaries remain important but don't have the same positive impact as trade sales and IPOs on the PE environment.”

According to **Thomas Kalaris**, Distinguished Executive in Residence at the University of Chicago Booth School of Business, sponsors and businesses are emerging from the “mess of 2008” but there are also wider adjustments that need to be made. “Changes in demographics, geography and technology are fundamentally reshaping the global economy and financial markets,” he observes.

Understandably, if companies are to flourish in such an environment then the executive team must be able to candidly evaluate the skill-mix within an organisation and, particularly in a PE-backed entity, be focused on succession so that the next tier of leaders is seen to be coming through.

Bill Ronald, Chairman of ComplEat Food Group, a supplier of chilled foods, says: “Senior executives must regularly take time out to debate where the business is in relation to its marketplace. You need to get to the stage where the strategy is simple enough that everyone around the table can explain it in two minutes...” ▶

Tweets from PE Retreat 2013

Management teams that can shift the business into high growth markets and new customer groups will be rewarded

Stick to your strategy and PE backers will be more understanding when the business encounters bumps along the road

Regulation and culture form the biggest challenges when expanding internationally

There's a fine line between help and interference when it comes to the operational engagement from PE houses

As economic volatility decreases, the equity capital markets are opening up as a viable exit route

If advisors can't sell themselves in the beauty parade, how are they going to be able to sell your business?



“Never be complacent about people. You need to be rigorous about filling the roles that are required to develop the business for the next three to five years.”

A similar point is made by **Tania Howarth**, COO of frozen foods company Iglo: “Incentivising the ‘mighty middle’ is a key challenge because they effectively do most of the work in the business without the pay-off at exit, and the last thing you want is divisiveness in this group.”

THE LONG GAME

It puts pressures on leaders to create a long-term vision. **Rob Crossland**, Chief Executive of employment services company Optionis (which recently completed a secondary to MML Capital), says: “There’s always an equalising pressure on short-term results in private equity, but having a business centred on a goal and incentivising the workforce and other stakeholders to achieve it is something that I’ve found private equity will buy into...”

“We’ve been fortunate in that our investors have allowed us to try different things in order to move the business forward... [and] that relative freedom to experiment has created a positive environment within the management team.”

“*New blood may be needed in the management team as a business changes focus*”

Unquestionably, the real problem facing PE is around international expansion. It’s a case of developing the know-how and reach to be able to make a difference as executives are faced with the need to form partnerships, make acquisitions, develop distribution channels and obtain licenses, on top of getting to grips with the regulatory and cultural unknowns.

Building scale remains imperative for a company heading towards an exit.

As **Glen** says, “The key challenge for all of us [in business] is growth, both in economies and customer revenues. Management teams that can shift the business into high-growth markets, and new customer groups, will be rewarded.” ■

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Featuring Commentary From:



Rob Crossland
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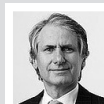
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Bill Ronald
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