MANAGEMENT

Management, management, management: how to maximise the potential of your most important asset

CHAIRED BY: Cindy Casciani of EquityChair.

MANAGEMENT IS ARGUABLY THE KEY determinant to the success or failure of an investment. Therefore, when change becomes essential, it is important to deal with it sensitively.

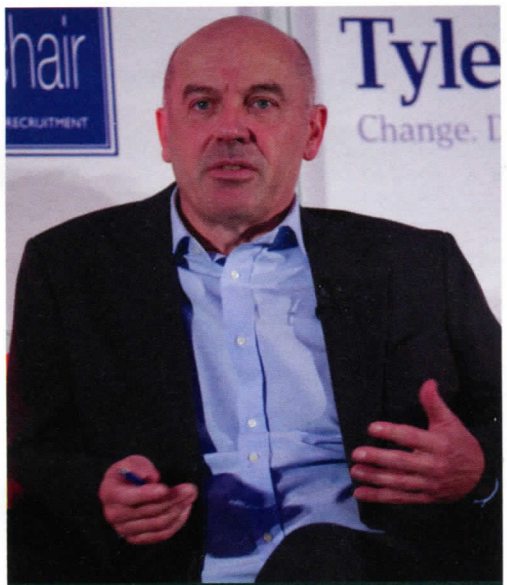
"In growth situations you can usually add another area of management as a way of taking responsibility away from someone who is clearly overloaded, giving them better focus on what they're good at," suggests Mark Owen of NBGI.

"We have a situation at the moment where we have a great company despite the chief executive," adds Philip Shapiro of Synova Capital Partners. "Normally you can leave them with significant equity and enable them to step down in a managed and considered fashion that doesn't cause any harm to the company internally or externally."

Jonathan Chocqueel-Mangan from Tyler Mangan, meanwhile, believes this is where the chairman is key. "Often, sitting down with the chairman as soon as the deal is done and reviewing what was learnt in the due diligence process makes it possible to take a one- or two-year view on management, and to forecast and plan for outgoing management. This makes the change less painful," he says.

Beware banks

David Whileman of 3i agrees and highlights a fresh concern in today's climate: "Nowadays you've got to be increasingly careful of the banks. You need to keep them comfortable as they can become very nervous if you make changes at board level without it looking professional."



Above: Rod Richards; inset: David Whileman

Nonetheless, Whileman claims that removing senior managers is not always as difficult as one might assume. "I have seen relief from the chief executive," he says. "He felt as if he was letting people down and the frustration was building. It is a matter of dignity." Here, Whileman feels it is best to work through the chairman and, more importantly, to go no further: "If the chief executive thinks you've got more people involved it can be damaging," he warns.

However, Rod Richards of Graphite Capital Management believes chairmen are easily overrated. "It is better to have conversations directly – then at least we're being honest. Often the chairman can confuse the situation."

"If you aren't direct after having built a relationship over a number of years then the chief executive feels betrayed and harshly dealt with," says Shapiro. "The last thing you want is a disgruntled ex-chief executive as it can be damaging to the bank, the customers and the employees. We tend to be quite generous on our terms in these situations."

"For us the chairman is there as an independent. If we go directly to the chief executive it is likely that he would go to the chairman. Instead we go in with the chairman to have an aligned and independent view," adds Owen.

Whoever your main ally is, it is more important to be quick and fair in your decisions. "If you're using the chairman and the process takes a long time, that is not good, and the company probably knows what is going on," says Chocqueel-Mangan. "Decisiveness is as important as retaining management's dignity and being fair." ●

PREPARING YOUR TEAM

The old assumption that private equity is the driving force to sell is increasingly untrue. "Often management teams want the return – they want to pay off their mortgage and move on," says Richards.

In today's climate, the panel agrees that you're more likely to be preparing the company for another financial buyer rather than a strategic. Here, Richards advises ensuring the team look credible for another buyer and preparing the terms of the sale, as there will typically be an equity rollover.

Whatever the situation, having close ties to management and multiple points of contact is the only way to ensure that problems are picked up on as early as possible and, more importantly, that your value-add is demonstrable to your investors.

PRE-DEAL REFERENCING

Management is integral to success, so how much can actually be learnt about them pre-deal?

RICHARDS: We reference people extensively – some we do ourselves and some is third party. The most successful deals tend to be those with the most difficult and aggressive teams.

CHOCQUEEL-MANGAN: The referencing process can vary between dinner with management to extensive assessments. Referencing is used a lot but many firms are not getting enough out of it. We all need to think harder about the questions asked – you should be asking how they drive growth, how they work together as a team, how they drive results. You can learn so much about individuals but the key understanding should be on how the team performs together."

SHAPIRO: The biggest knowledge gap when completing deals isn't legal or commercial, it's management – that is always the bigger risk. You can do psychometric testing and extensive assessments but there is no substitute for spending time together.

OWEN: There is always existing management so introducing one or two people can be difficult, even disastrous, if they don't get on. You need to reference both parties on whether they can work together.

TylerMangan

"We make management teams more effective so they can execute against the investment strategy and realise value for all stakeholders."

- Investors can no longer rely on a tailwind of economic growth to help ensure investment returns
- The capability of the management team matters more than ever to ensure value is created
- We provide management due diligence and portfolio support services throughout all stages of the deal cycle
- Our work reduces management risi
- We have successfully supported over 30 deals since 2009

Tyler Mangan
The Office
31-35 Kirby Street
London EC1N 8TE

+ 44 (0)207 492 1969
info@tylermangan.com
www.tylermangan.com

PORTFOLIO MANAGEMENT

Recession or recovery: preparing your portfolio companies for whatever the future may hold

CHAIRED BY: Charles Ind of Bowmark Capital.

IF ONE THING'S CERTAIN, IT'S THAT THE NEXT 12 months are going to be tough. That means running over your inventory and preparing companies for every eventuality as worst-case scenarios are still very much in play. In many cases that means battening down the hatches.

"A key thing is to make sure there are no potential covenant breaches coming up, and you're working with banks to reschedule debt where at all possible so you're not going to be caught up in the massive debt repayment wall," says Ross Marshall of Dunedin Capital Partners. It may seem obvious, but this is arguably the most important box to tick in 2012. Marshall also stresses the need, if you're lucky enough to have businesses with cash reserves, to spread money over different accounts so that it's safeguarded should Italy default and France's top banks start crashing.

It may be a time of caution, but one of private equity's greatest strengths is making the best of the worst. "It may well be Armageddon now but the consequence, and I constantly have to remind myself of this, is that the greatest value gains are usually made at the bottom or near to the bottom of cycles," offers David Hall of YFM Equity Partners. "Yes, you should absolutely plan for the worst but at the same time expect the best." Hall says that it's time for companies to take advantage of the push private equity backing can give and start poaching market share from competitors since everybody's lumbered with the very same stagnant economy.

Jana Klimecki of Tyler Mangan agrees that conditions are ripe to make headway: "No matter how badly the economy is struggling, there is always space for one new small but good firm."

The first dip led to a financing drought and private equity hunkered down, concentrating on its existing portfolio's survival. Peter Taylor of Duke Street Capital believes that 2012 will see more of the same: "Even a plan conceived three months ago at a different point in the budget cycle may need to be ripped up so you can start this year with something that's fresh and relevant right now. Doing nothing is not an option."

A multitude of meetings

But what to do exactly? At Duke Street, regular meetings with management are a must. Speaking to them first-hand and not simply relying on investment partners sitting on the board is essential. It's time to challenge senior management, but also your own guys overseeing the business. That said, it's crucial to avoid the common mistake of bombarding management with questions and impracticable analysis, as that's not going to help anyone.

Ultimately, it may be a case of taking tough action. "Let's be very clear – it's management who are responsible and must deliver. If they don't deliver there must be a way of strengthening or changing management," says Taylor.

For Hall, ensuring your portfolio stays in shape begins before you've even handed over any money. Being prudent with debt, even when markets are flush, puts companies on a firm footing for the future. Two to three times Ebitda should allow enough breathing space and room for growth without too much onus on repayment. But knowing exactly who to lend off is equally important. "From 2006 onwards we were very careful about who we picked to get leverage from. We didn't do a single deal with RBS or HBOS and we chose the finest advisers who had the best approach to covenants. We haven't had breaches."

It should come as some comfort that while 2012 won't be a breeze, the work spent fixing problems in 2009 should have put private equity in good stead. And for the most savvy, today's trials can be flipped on their head and exploited. ●

TWELVE TOP TIPS

- **Start on the right foot by using moderate leverage, not paying steep prices and picking decent advisers who can pair you with the right lenders**
- **Look at each of your companies and make certain there are no impending covenant breaches on the horizon**
- **Book meetings with your incumbent banks today and reschedule debt repayments wherever possible to dodge the looming refinancing wall**
- **If your companies have cash in the bank, spread the deposits around so that they're safe in the event the euro goes into meltdown**
- **Orders are likely to remain low in Europe. Try to sell into new markets and avoid relying on eurozone customers if at all possible**
- **We're at or near the bottom of the cycle. Your pound can go a long way, so try to start making bolt-ons**
- **Remember that your companies' competitors are also struggling. Now is the time to start peeling away from them and soaking up market share**
- **Meet regularly with senior management to see for yourself what's going on. Don't rely solely on your investment team on the board**
- **Put pressure on management to update their skills and swot up on financing and M&A. It's them that are ultimately responsible for the business**
- **Keep a close eye on your CFOs. They may have been on top of things when times were good, but it takes a different tack to cope in a recession**
- **Don't bombard management teams with analysis and plans if they're not going to lead to anything**
- **Get right under the bonnet of the business, past the senior management to see if the operational personnel need an overhaul**