

PARTNERING FOR GROWTH: AN INTRODUCTION TO PRIVATE EQUITY

By John Garner, Managing Partner at LDC

LDC is the private equity arm of Lloyds Banking Group and is the UK's leading mid-market private equity firm. We are committed to supporting management teams across the UK to fulfil their growth ambitions and build great businesses.

There comes a time in every business' growth journey where the business leaders driving the company forward may need an extra boost to help unlock new growth opportunities. This is where the support of an external investment partner can help.

Private equity can be an incredibly useful avenue to access investment and expertise to help to grow your business. And you'll be backed by experienced business partners who will support you in building your business no matter the economic climate. It can also mark the first step of a succession plan, enabling business owners looking to take a step back to hand over the reins to their management team without letting go entirely.

Before looking outside of the business, however, the key is to first understand what support is needed and what type of partnership may be the right fit – what style of investment, and what kind of backer suits your business and your ambitions best?

This chapter will serve as an introduction to private equity, guiding you through the process of raising investment and helping you to understand whether it's the right choice for you, your management team and your company.

WHY CHOOSE PRIVATE EQUITY?

Private equity is ultimately a means of opening up new growth opportunities to help scale a business without losing control.

The combination of investment and strategic support means partnering with a private equity investor can help you achieve your ambitious growth plans, whether that's expanding into new domestic or international markets, driving organic growth, targeting complementary acquisitions, or investing in new products and services.

The reasons for choosing to partner with a private equity investor are based on individual circumstances. Common themes include:

- Pursue a new growth avenue. The management team may wish to explore a new avenue to growth but lack the capital or specific expertise to deliver on it. A private equity partner can offer the investment and experience to kick-on with this growth strategy, such as acquiring a competitor or expanding into a new international market.

- Kickstarting a succession plan and supporting a change in ownership. Private equity is not only a way of driving growth. For some business leaders, it can also provide an opportunity to open up succession plans. For example, this could involve enabling your existing management team to increase their shareholding, which in turn allows other shareholders to divest, either fully or partially.
- Helping business owners to de-risk whilst retaining control. For other business leaders, it can be an opportunity to de-risk and sell a minority shareholding of the business to realise some value, whilst still retaining control. This is often an option for those business leaders who have experienced a shift in their own personal circumstances, or where their plans have changed.

A private equity partner will support your ambition. You know your company better than anyone, and your investment partner should act as an extension of your team – on hand to work by your side to provide expertise, support and capital along the way.

CASE STUDY: PLIMSOLL PRODUCTIONS

You may not have heard of Plimsoll Productions, but you'll certainly know their shows. The team behind programmes including John Bishop's Great Whale Rescue and Tiny Earth, Bristol-headquartered Plimsoll Productions is the biggest independent production house in the UK, with a client base including Apple, Disney and Netflix.

Plimsoll's management team, led by CEO Grant Mansfield, first partnered with LDC in August 2019 in a transaction that valued the business at £80 million. Grant explains his journey so far:

"Three years ago, I decided to look at investment options for the business. I wanted capital to pursue acquisitions, to give existing stakeholders the opportunity to realise some of the value they had generated in the business and to ensure our talented team remained at the heart of driving growth."

"I spent two months in Los Angeles, talking to around 15 trade buyers – and we had some attractive offers from some of the largest media companies in the world. In our industry, trade sales are the norm, so before meeting LDC I hadn't considered the private equity route at all.

But when we looked at the offers we had, they were all predicated on us handing over complete control of the business. I wasn't ready for that – with private equity, I could raise the investment I wanted while still retaining a majority stake."

"LDC took the time to get to know us. This personal chemistry is key to choosing the investor that suits your business best – you need to spend time with the people who want to back you, and you have to like them and trust them."

"Now, every month, we sit down with our management team and our partners at LDC, and talk through recent developments and where we want to take the business next."

"My advice to other founders? Don't discount private equity. This has been a genuinely positive both for me and for Plimsoll, and we are on track for great things!"



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Grant Mansfield,
Plimsoll Productions

STRATEGIES FOR GROWTH

The support of an investment partner can help to open up new, or accelerate existing, growth opportunities in many different ways.

Whether you're interested in expanding internationally or funding business improvements, private equity can often be the catalyst for that change. Here, we take a closer look at some businesses who have been there and done it, and the routes they chose with the support of a committed investor.

ORGANIC GROWTH

Your business is already growing – but private equity can help you to grow even quicker, while maintaining your unique culture. It could be anything from finding new premises, developing new products or rolling out new services or recruiting additional staff.

Long-term support is key to any private equity partnership supporting organic growth, so growth is sustainable, even during the most challenging times.

CASE STUDY: TEXTHELP

What do you do if you're a college student struggling to keep on top of your workload because of dyslexia or because English is your second language? Where can you turn at work when you're being pulled up on spelling mistakes in documents and emails? Texthelp is helping millions of people across the globe grappling with these challenges with technologies that allow them to understand and to be understood.

Today, the company offers solutions to its 40 million worldwide users including literacy support software Read&Write, maths product EquatIO, web accessibility toolbar Browsealoud and writing achievement tool WriQ. Founder and CEO Martin McKay is working towards his ultimate goal to reach 1 billion people around the world with his products.

LDC backed Texthelp in May 2019 to help Martin and his team realise this ambition. "Our existing investors wanted to exit the business, but I didn't," said Martin. "LDC helped come up with a structure that would allow me to roll my investment forward, while also reinvigorating the business for the next stage of growth." Over the two years that followed, the business invested heavily in product development to drive growth.

He said: "Our partnership with LDC helped us to go further, faster. Initially I was a little concerned that a new investor might come in and try to take over, but LDC made it clear they weren't about to break something that was working well. The team believed in the potential of our business, and our ability to deliver on our plans. They provided the investment, support and expertise to help us accelerate a truly differentiating digital transformation in a relatively short space of time."



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Martin McKay,
Texthelp

BUY AND BUILD

Acquiring complementary businesses can help to create a company that is greater than the sum of its parts, building scale and resilience, and subsequently boosting market share. It can unlock new markets and geographies and add valuable expertise to a growing business.

A private equity partner can work with you to identify businesses that are a good fit, as well support the purchase with funding and expertise, and help deliver a smooth integration.

CASE STUDY: STUART TURNER

Founded in 1906, with strong heritage in engineering and product innovation, Stuart Turner is an international market leader in water-boosting solutions. Drawing on over a century of engineering excellence, it has established a reputation for high-quality products in the commercial and domestic markets, including a patented solution for mains water pressure issues.

In 2017, LDC backed the management buyout of Stuart Turner with an investment that is enabling the team, led by CEO Richard Harden, to accelerate its buy and build strategy and target international expansion.

Richard explains he turned his ambitions into reality: “The aim at Stuart Turner has always been to take our market leading knowledge and experience in the residential sector into the commercial building services and industrial sector – and to continue to build our export markets.”



“We found that acquisitions were a great way for our company to achieve rapid growth over a short period, and acquiring complementary businesses helped us expand our offering to customers not just in the UK, but overseas, giving us a real competitive edge.”

“Over the past three years, we have made three acquisitions. All have boosted our access to industry experts and resources, and allowed us to successfully break into new markets and expand our customer base.”



LDC have provided us with follow-on funding to support our continuing buy and build trail, and the sector experience to help us identify and successfully integrate the businesses we acquire.”

Richard Harden,
Stuart Turner

INTERNATIONAL EXPANSION

The combination of funding and expertise from an investor can help create new partnerships, increase exports, acquire an international business or establish a new offer overseas. With this support, it's possible to identify and deliver the best international growth strategy for your business.

STEPPINGSTONE FOR IPO

If taking your business public is your ultimate end goal, private equity can be an important stepping stone – or an alternative path in uncertain times. Helping to build value and consolidate your offering, your backer will work alongside you and your team to make sure your business is fully prepared.

CASE STUDY: TEAM17

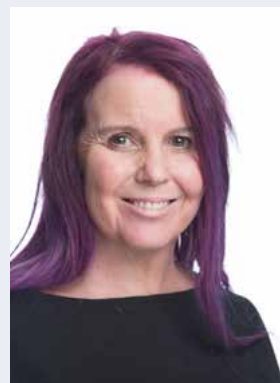
Indie games developer Team17 is best known for games including its iconic Worms franchise, as well as Overcooked and The Escapists. Over the past five years it has achieved extraordinary growth selling its titles worldwide through distributors including Sony, Microsoft, Apple and Google.

In September 2016, LDC partnered with CEO and founder Debbie Bestwick MBE, injecting £16.5 million to support Team17's ambitious overseas growth plans, investment in product development and to pave the way for a listing on AIM (Alternative Investment Market).

The business grew significantly, with international sales increasing 40 per cent and both revenues and EBITDA growing by more than 100 per cent ahead of an IPO in May 2018.

Debbie Bestwick shares her journey: "I'm not sure we could have got to where we did without private equity investment. We would have grown but not at the rate we did. We needed the support – and the push."

"LDC helped me to develop as a person, as well as developing the business. For example, the team encouraged me to enter the EY Entrepreneur of the Year awards. Because of that, I did loads of interviews and really learned how to position the business to outsiders. If I hadn't done that, I wouldn't have had the skill for the IPO meetings."



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Debbie Bestwick MBE,
Team17

GETTING YOUR BUSINESS INVESTMENT READY

Every path to growth is different, but if you've made the decision to explore private equity investment there are some key steps every business owner should take to ensure they are ready for investment. Here, we take a look at the key things every business leader should consider.

1. CHECK THE BOOKS

Always take time to make sure your books are in order. Potential investors will be looking to identify opportunities for growth – so it is key to be able to evidence your success to date, and outline a clear, achievable plan for the future.

Future opportunity is often more important than current scale. If the numbers are heading in the right direction, that shows a potential partner there is opportunity for them to support.

2. WHAT'S YOUR VISION?

Every business leader is fuelled by their ambition and vision for the future success of their company. Funding partners will look out for a clear articulation of this ambition, and the strategy your team will follow to get there.

For LDC, if we can easily understand the management team's vision and strategy, we know it's one we want to back – it means we're best placed to support the team from day one.

3. FOCUS ON PEOPLE

A private equity partnership is all about building strong relationships and working closely with those running a business to help make their ambitions reality. Having a strong team gives a private equity firm the confidence to invest.

Investors will also value plans to retain and nurture existing talent in the business, and opportunities to bring in new skillsets – showing that you're focused on safeguarding the business' future prosperity.

4. CONSIDER THE RISKS

Don't fall into the trap of constructing your business plan wearing rose-tinted glasses. Factoring in any potential bumps along the road shows you have thought carefully about how your business will adapt to potential challenges over the next few years.

A private equity partner can help you to absorb some of the shocks along the way, as long as you have a plan for maintaining cashflow through any peaks and troughs – this means an investment partner can easily see where their support will be needed.

COLLABORATION AND PARTNERSHIP

A successful private equity investment is all about partnership. As well as giving you access to capital and strategic support, the best relationships are founded on collaboration with all parties working together to help the business thrive.

The key to success is to take the time to get to know and understand each other to establish the best possible working relationship that fosters success and allows for patience and flexibility as the particulars of the transaction are worked through.

Approach your new partnership with an open mind and take the time to get to know your investor to ensure you find a backer that believes in your ambition and is ready to help your business thrive. This is the key to any successful collaboration.

CASE STUDY: EVEDEN

When Tracy Lewis joined lingerie maker Eveden back in 2003, the company sold its wares wholesale to just a few buyers across the UK. Tracy had spent her entire career in retail, working for high-street stalwarts including Mothercare, M&S and Next. Tracy could see an opportunity to turn the small business into a true global player.

LDC backed Eveden in 2006 to support CEO Tracy's international growth strategy. Over a six-year partnership, it helped the business to roll out its core brands of Freya and Fantasie across the US, Europe and Asia, employ more than 200 new staff members, and complete a strategic acquisition in France. In 2012, Eveden was acquired by Japanese conglomerate Wacoal for £148 million, turbocharging its continued international growth.



In Tracy's words: "Once I met the guys at LDC, I realised straight away that the team would be an invaluable sounding board. They had so much brand-building experience and had already helped some household names in the Midlands, where we were based."

"Partnerships always come down to chemistry – and I felt I could really work with these people. They got what we were about. They were enthusiastic and passionate about the business, but didn't want to run it – they didn't think they knew more than I did. It was all about the value they could add to us, and to me."

"We had considered expanding overseas through acquisitions – and it would have been one way of accelerating growth – but it would also have been a big distraction. The challenge from LDC was always 'why don't you accelerate what you're already doing instead?'. And sure enough, we grew with an unfaltering focus on our own brands and our own growth, which created real value throughout the business."



It was all about the value they could add to us, and to me."

Tracy Lewis,
Eveden

KEY TAKEAWAYS

WHY CHOOSE PRIVATE EQUITY?

- Unlock new growth opportunities to realise your ambition.
- Access new investment and expertise.
- Kickstart a succession plan and support a change in ownership.
- Enable you to de-risk whilst retaining control.

GROWTH STRATEGIES THAT PRIVATE EQUITY PARTNERSHIP CAN SUPPORT

- Organic growth – invest in people, product development, infrastructure or new sites.
- Buy and Build – support your business to identify, complete and integrate complementary acquisitions.
- International expansion – help to increase exports, acquire an international business or establish a new offer overseas.
- Future IPO – professionalise your business and prepare for a public listing.

HOW TO GET YOUR BUSINESS READY FOR INVESTMENT

- Check that your accounts and latest trading figures are accurate.
- Be able to articulate your vision for the business.
- Have a strong and backable management team in place.
- Ensure you have considered the risks your business will face.

If you are a business leader considering private equity to grow your business please do get in touch with us

As part of 'Turnarounds: Seizing new opportunities', a free book that brings together expertise and guidance for businesses from a range of contributors. Find out more and download the book here - www.lloydsbank.com/business/turnarounds

