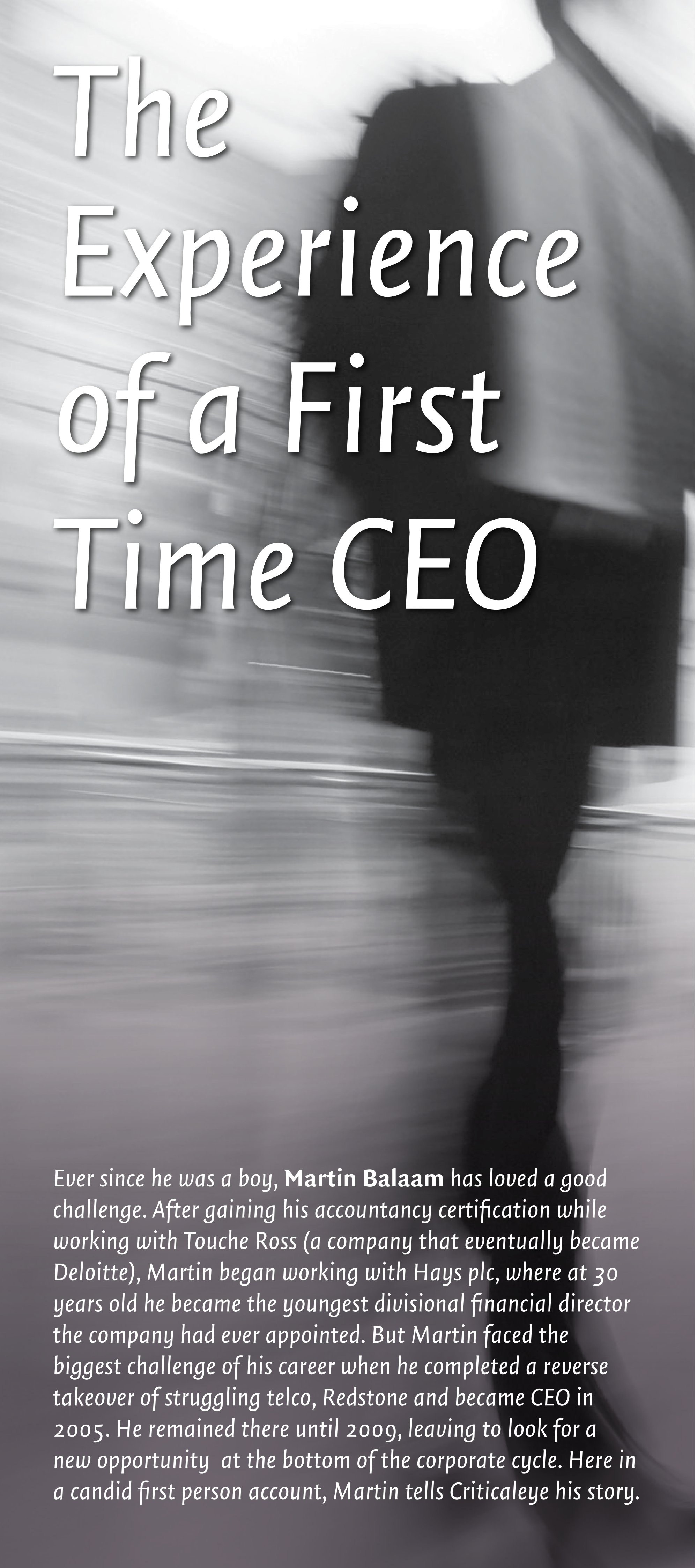

The Experience of a First Time CEO

Ever since he was a boy, **Martin Balaam** *has loved a good challenge. After gaining his accountancy certification while working with Touche Ross (a company that eventually became Deloitte), Martin began working with Hays plc, where at 30 years old he became the youngest divisional financial director the company had ever appointed. But Martin faced the biggest challenge of his career when he completed a reverse takeover of struggling telco, Redstone and became CEO in 2005. He remained there until 2009, leaving to look for a new opportunity at the bottom of the corporate cycle. Here in a candid first person account, Martin tells Criticaleye his story.*

UP FOR A CHALLENGE

I have always opted to achieve the most, even if it meant undertaking the challenging route. In school, when it came to doing my A-Levels, although everyone went to a local college, I sought the best college in my county and got up at 6am to take the bus there 25 miles away. This was pretty unheard of at the time. I always wanted to do the best that I could.

I was good at physics and discovered that Imperial College was the best university in the UK for this. I actually looked at MIT in the US, but realised that getting the funding would be far too difficult. So I moved down to London.

WHEN THE GOING GETS TOUGH, TURN TO ACCOUNTANCY

When I finished my degree, I was offered a job at Pilkingtons in the research department. However the job didn't start until Easter and it was only July. My dad, a good working class lad, had already told my elder brother that he couldn't live at home if he didn't have a job and no one in our house claims the dole. So I did what everyone else did and became an accountant.

I joined Touche Ross (which became Deloitte & Touche and is now Deloitte) knowing that if I didn't like it, I had another job lined up. Initially I travelled around the country doing audits for major plcs and generally had a great time. I would pull up on Monday, unpack, find the best restaurants, eat, have a few drinks and go in a bit hungover on Tuesday. All I had to do as a junior was photocopy and make the tea (a humbling experience that removed the chip on the shoulder we all have after graduating!).

I had such a good time in the first six months that I decided to stay. I qualified as a chartered accountant and went on secondment in Johannesburg – again choosing a challenging option. When I returned, I took a position offered by one of my audit clients at Hays plc. I had been at Deloitte for five years.

MAKING MOVES

I was initially a finance manager at Hays but moved around frequently to the point where, by the time I was 31, I was the divisional Managing Director of the business in the United States. At 30 I had been the youngest divisional Financial Director they'd ever had. The UK MD and I attempted a management buy-out (MBO) but it failed. This is where I got to know the banking and private equity markets. After six months, we tried and failed again. Not surprisingly, we were 'invited to leave' on the basis that our 'allegiances may not be with Hays'.

GETTING IN BED WITH PRIVATE EQUITY

It was at this time that Lloyds Development Capital (LDC), with which we'd worked on funding, actually approached me about some of their businesses. One company was called Xpert, which began under performing soon after LDC had invested in it. They asked me to do a strategic review with the newly appointed Chair. Xpert was a very good business with good products and good markets, but it didn't have a strategy and its execution was poor. I told LDC it was worth saving – but that it would cost a lot, ie, double their investment. They asked me to go in as the FD and get the management team to 'see the light'. From the outset it was very obvious the existing management wasn't prepared to change their ways, ie, spend less, so I ultimately ended up running the business.

I removed the existing board and completed a secondary MBO, buying the business from LDC with money they had lent me (they effectively rolled their existing debt and equity). Over a period, I turned that business around and when Redstone came about as an option, we did a reverse takeover.

Redstone then paid predominantly cash for Xpert, everyone got their money and profits, and then I took over the enlarged entity of Redstone and Xpert. I was in Xpert from 2002 to 2005 – where it went from losing a couple of million to making a couple of million.

My goal was to get a good private equity project under my belt. By turning around Xpert, Lloyds and Barclay's sold it for far more than had been expected; they thought they were going to 'take a bath' on their investments. It was basically a giant tick on my CV that showed I am a guy who can get business done.

DIFFERENT MOVES: FROM PRIVATE TO PUBLIC

Everyone told me not to touch Redstone with a barge pole. But as you now know, I always take the difficult route - call it a character flaw. The way I see it, if the path is difficult, it must have some rich rewards at the end. This also presented a fantastic opportunity essentially, to look back and say 'Three years ago I was the divisional MD of a division within a plc and now I'm the CEO of a fully listed plc (albeit small and with huge issues)'.

Redstone had gone from having revenue of £60 million the previous year to a run rate of £30 million. When I joined it was burning cash at a rate of half a million pounds per month. Yet, when looking at it, I saw all the same issues that we'd fixed at Xpert but with one big upside – Redstone had recently appointed a new CFO, who was as eager as me to make something of Redstone and we both had the same views on the business. The gamble was that it was my first whirl at being CEO of a plc and probably one of the riskiest ones I could go into, but the rewards were great. I thought to myself, 'If you sorted it out, you've achieved another milestone.'

If the path is difficult, it must have some rich rewards at the end

PUBLIC VS. PRIVATE

One of the main differences I've noticed upon joining a plc is the amount of time one must spend dealing with investors. In the private equity world, much effort is devoted to understanding a business, whereas in the public world I have to put the effort in to getting investors to understand the business.

Furthermore, with private equity, there is only one firm, while in the public markets there are numerous shareholders who potentially have dozens of other investments. In the early days I could go from one meeting to the next with them and they've completely forgotten what the company's about.

If you want never to access investors for anything, ie, funds, I would say being public is a lot easier than being private equity-backed – because it's possible not to talk to them at all – just get your head down and do your numbers. If an analyst wants to talk to you, you can say 'come to me'. However, to get Redstone where it needed to be, ie, significantly larger and with a more diverse product set, this meant acquisitions and therefore access to the equity markets. Hence, for Redstone, we needed to attract analysts to get interested to have a track record.

KEY LESSONS FOR THE FIRST TIME CEO

- An excellent CFO is a necessity
- Take time picking a new chairperson as there is usually only one shot
- Be very clear about what is wanted from NEDs. Write down your goals and match them against what exists on the present board. Over time replace those lacking with those who have the experience you require
- Advisors – you'll absolutely be tempted to take their advice, especially the brokers, but remember that they're human and not always right. And most of the time, they've never run a business
- Network – pick up the phone and ask people. If I see a company that's doing really well, I will pick up the phone and call the CEO. I will cold call them – and I've never had a CEO refuse to talk to me. It is very flattering for them

DEALING WITH THE ANALYSTS

When it comes to analysts, the best thing one can do is get an excellent and experienced financial director. Luckily for me, Redstone had just appointed one and from the start, we got on like a 'house on fire'. We both think the same way and fortunately, he's had a good track record in public companies, ticking all the boxes. We started off dealing with the analysts together; he'd be there giving the credibility and I'd be there to express our cohesive strategy.

MUSICAL CHAIRS

The existing chairman, who approved my appointment as CEO, had been in situ for many years and it was agreed that a change would be beneficial. So over a period of time the Chair was replaced. The relationship between the chair and the CEO has got to be absolutely solid. They must be aligned and they must trust one another. I need a chairman who will tell me when the board isn't happy and when I am being a 'prat' (I know that I am not perfect). Importantly, I believe that any chair should demonstrably add value to the business.

A network made up of both my own and the existing non-executive directors' (NEDs) contacts revealed three names. We actually brought one person on board as a NED in the hope that one would move into the Chair's role, but it didn't work out on a cultural level. It took over a year to make the business profitable and build its name in the market to attract the quality of talent I wanted in a chair. Through networking, I came across Alan Coppin, who was previously the CEO of Royal Palaces and Wembley plc and who sits as a NED on the board of some FTSE 100 companies. He was exactly the person I wanted: down to earth, been there, seen it, done it and with great contacts. Alan is calm and looks the part. I'm relieved I didn't rush and appreciated the experience of the previous Chair and non-executives who made sure that we got the *right* person not the *first* person.

In terms of the board itself, I wanted to have industry knowledge, a professional chair – but also one who could open doors. I wanted an accountant – ideally one from a finance background and a NED with sales or marketing experience. They are good to have at the helm, or if nothing else, engaging the board.

SUPPORT FOR NEW CEOS IN THE UK

If a UK plc is to be really good, there needs to be some sort of support. New CEOs are, aside from NEDs, slightly stuck for good advice. I initially listened to my brokers because I thought they knew things. But after a while, I realised their knowledge is limited to how the City works and not how a business works.

I started to question the advice I was getting from advisors – who don't face the acute consequences of receiving bad advice, particularly when it comes to announcements to the City. I wondered how to word and angle these announcements as well as with results and forecasts, which again, are where an absolutely decent CFO comes in.

Criticaleye was very useful for this in the early days and now that I'm three years into it – I'm finding it's come full circle and I'm happy to offer advice to other new leaders. I've now started to build up my own network.

With regard to government support, I would think that if it wants a UK plc to succeed, a big part of that is being a good business leader to the City. I think therefore, that there ought to be potentially a body or fund that cares for new CEOs.

IN HINDSIGHT...

I would definitely go through this experience again. It was challenging and even scary as I had a lot of 'firsts'. The disadvantage, however, would be that I have already done it – so I would wonder whether or not the challenge is big enough. I don't need to do it five times to prove that I'm good at it. I would perhaps look at another industry or larger organisation. I would also consider going into a private company with the goal of going public.

Looking back, I would be much stronger in terms of my own personal remuneration package and long-term incentive plans (although I've sorted that out now!).

When you start out, you can be slightly 'wet behind the ears'. When I joined Redstone, for example, revenues had dropped by half, it was wasting cash and yet still had a market capital of about £20 million.

That valuation was clearly based on future upside and not on current performance, so from my perspective I should have been stronger and said – '£20 million is rubbish and let's base things from zero for management, not £20 million'.

Finally, when entering an issue-ridden company, there is a lot of pressure to be unrealistic with the forecasts for the City. My advice would be to always give yourself breathing space and say, 'look, 'I'm new in the role, I need X number of days before I come back and I'll either confirm or change my perception of what I want to do with this business'. When I came in the previous forecast was very challenging and had significant risk. I didn't say anything at the outset because of my lack of experience and guidance from the advisors. And then I had an uphill challenge when I eventually did go to speak with them. I should have just said something up front.

Martin Balaam
former CEO,
Redstone plc

After four years at the helm at Redstone and with the economic cycle and business valuations at potentially their lowest point, Martin has decided to look for the next business opportunity. Currently on garden leave, Martin is considering both listed and private companies. Martin became CEO of Redstone in June 2005 after completing a reverse takeover with his venture capital backed ICT company, Xpert Group Ltd. Following the takeover, Martin restructured the business, taking out £8m in costs and transforming the business into profit within three months.

Contact Martin through www.criticaleye.net