VARIANT VIEWPOINTS

PRIVATE EQUITY VERSUS PUBLIC MANAGEMENT TEAMS

Criticaleye speaks to Jacuzzi UK's **Mark Prince**, *and LDC's* **Tim Farazmand** *about the challenges and benefits of working with/ being part of a management team that is new to private equity.*

MARK PRINCE

After spending 20 years in public, stock market-listed companies in increasingly senior positions, the language of Sarbanes-Oxley, quarterly reporting, analysts' reporting calls, presentations to analysts, hosting shareholder meetings, sales growth, EBITDA and margin basis points became all too familiar, and in many cases, quite tiresome.

When looking over the fence at private equity, I always, thought, "How difficult can it be? They just do what we do, without the bureaucracy!"

Have you read *Barbarians at the Gate*? "All these guys do is play with money!"

Then comes the day when our public company is purchased by these same "barbarians" and we are about to find out if the perceptions are accurate. Three years on I feel well qualified to review those perceptions and comment on the differences I saw.

Firstly, "without the bureaucracy" is absolutely true. You walk into the boardroom and look around at the numerous empty spaces and think, "Help, it's just me, my team and these three or four individuals who either own the company or the debts." It all seemed a bit direct! And then, there is the time management. All of a sudden, without reporting regimes, shareholders, and analysts, you have loads of time on your hands. It's time you can use to engage with colleagues, customers, and suppliers; time you can dedicate to driving performance. The only question is can you still remember how to do it?

Once you start the ongoing discussions about the business, it's strategy, strategy, strategy and execution. It's thinking out well beyond a year. No longer do we have an outside audience whose perception we need to manage; no longer does that perception start to influence the reality of what we can actually achieve. Now we move to the financial evaluation of the strategic options, the real separation of past and future masters comes to bear.

Sales growth and associated value growth in the company take pride of place, followed rapidly by cash generation.

Elimination of overvalued assets or even overvalued liabilities posing as assets suddenly becomes a no-brainer. I am asked,"Why wouldn't you write off an asset if doing so can be cash generative?" I answer, "Well now you come to mention it, I can't think of a good reason, yet for twenty years there seemed plenty of good ones!"

So, three years on, strategic intent is far clearer and execution is monitored through consistent reporting centred on cash generation. Deadlines at quarter end and year-end are still marked, but only in terms of cash generation for debt holders. I spend much more time on real business and real achievement and much less on the spin of under achievement.

My political skills are far less honed as we deal with fewer stakeholders and far fewer differing agendas. My understanding of a balance sheet and cash flow statement and the necessary driving actions is now equal to my view of sales and cost management and the P&L. My masters are obsessed with strategic logic and not the next quarter's results.

My overall message for the public to private leader: dust off the strategy books - these people understand long-term value drivers.

TIM FARAZMAND

When launching a relationship with a new management team, we always expect there to be an existing leader with whom we can develop a relationship. If there is no leader it can pose a problem, or worse, if there is a leader with whom we don't feel we can work – that can be a challenge!

We then turn to the board to find out how well the relevant bases are covered. We check if there is an appropriate level of experience and examine how well

THE NETWORK OF LEADERS
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the members function together. We generally achieve this by spending time with them, and by undertaking a 'formal' management due diligence exercise.

Can the management team move into the mindset of being in a regular and direct dialogue with its co-investors? (As opposed to a quarterly or biannual relationship with analysts or shareholders).

I know that they have to give regular shareholder presentations, etc. but, with us, there is rarely a week (and sometimes a day) that goes by where there isn't some level of dialogue, be it formal or informal. It's important that this transition is easy and smooth.

The management team must understand that the people it is now working alongside are its equity "partner". They have to tell us good news and the bad news *as soon as it happens*. We have to have a very open and transparent relationship, with, on one hand an air of formality based on monthly board meetings, and on the other, informality, based on building a relationship and trust.

The basic misconception is that PE interferes with the day-to-day business and the reality is, apart from a few turnaround funds, private equity primarily gets involved when there is a strategic debate. Often the best way for the team to understand this, is by addressing it directly. We say, "Go and talk to people that we've invested in and find out what the reality is of working with us as a house and what the level of engagement is."

Any PE house that wants to get involved on a daily basis is heading for a disaster.

The reality is we are a much more engaged investor. We operate on a strategic level – we *can* offer support when it comes to operational issues, but we are more concerned with keeping the board focused on its strategic direction.

What I enjoy most is developing the relationship with a new team. In reality, no matter how objective you try to be, a bit of you goes into every deal you do. You've got to build trust and respect and this varies with every team. I have to work out which members of my team will work best with which members of the new management team considering these dynamics in a relatively complex structure. I really have to challenge myself at times, to ensure the dialogue is correct among the individual teams.

There are exceptional management teams and hopeless management teams in both the public and private environments. Some seem to think they are well versed in managing a regular dialogue with investors but, as I've said, with private equity the communication is on a different level. It is much more frequent with PE.

The best teams get it straight away and understand the new reality they're facing. Others require a little handholding, and there are different ways in which to do this. It sometimes means that the NEDs need to be replaced and get some in there who have a more private equity-oriented background to help with the transition.

The reality is - if you're backing a high quality, switched-on management team they won't need much babysitting.

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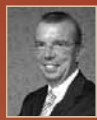

Mark Prince
Managing Director, Jacuzzi UK

For the last three years Mark has held his current role at Jacuzzi UK, a group combining several businesses across the kitchen, bathroom and spa sectors with worldwide sales and specific territory responsibility for the UK and other European markets. Mark has led transforming teams to take businesses from strategic stagnation, and poor financial performance, to strong financial returns and strategic clarity. Mark currently operates in a private equity environment, following the procurement of Jacuzzi Brands by the Apollo Group of the USA in early 2007.

Tim Farazmand
Managing Director, Deal Origination, LDC

Tim joined LDC in 2005. He has spent over 20 years in private equity with 3i, Royal Bank of Scotland and Catalyst Fund Management. Prior to joining 3i, Tim worked for IBM. In his previous role at LDC Tim was the Managing Director for the London Office completing a number of significant transactions including GVA Grimley, National Accident Helpline and JCC.

Contact Mark and Tim through www.criticaleye.net