Exiting as a First-Time CEO

As a first-time CEO, **Roger Taylor** successfully transformed and exited the PE-backed Quadriga Worldwide in a cash deal to a US strategic buyer. He tells **Mary-Anne Baldwin** his story

While working for the private equity investor of Quadriga Worldwide as a Non-Executive Director, its CEO informed us that the economic recession was hitting and sales (in contract bookings) had collapsed by 80 per cent from £120 million to £30 million. Given that it had a technology focus yet no product roadmap, the company was ill-prepared for the future.

Three months later, because of my knowledge of the company and background in M&A and private equity, the board appointed me in my first senior operational role as full-time CEO of the company.

When I joined in 2011, Quadriga had 300 employees across 14 EU offices with £90 million in revenue. I had inherited an unfulfilled 'land grab' strategy from my predecessor. Unfortunately, the recession had hit and the company hadn't got enough market share to reach critical mass and cover its fixed costs.

Quadriga was the second largest global provider of services and products to hotels, offering things such as Wi-Fi and video-on-demand. At the time, our main suppliers – Samsung, LG and Philips – were looking to improve their product value and so were building elements of our proprietary products into theirs.

Effectively, my main suppliers were eating our lunch while our traditional competitors were engaged in a price and margin war.

My board and shareholders provided clarity on the objectives – without further cash injections from the owners, I was tasked with fixing the business sufficiently to secure a cash exit above an agreed valuation threshold. >

To Find out more about Exiting as a First-Time CEO, please Contact Roger through: www.criticaleye.com

Writing Our Story

For me, the key part to creating a sustainable business was defining what we were and why we existed. A pivotal moment came when I asked staff what we are as a business and nobody could answer the question – all I heard was what we are not. It struck me that if we were not clear on this internally then customers and partners could not be expected to know where we were going.

Following a reassessment by the senior team, we started to use language that our major customers could buy into and which positioned Quadriga as a managed service provider. That gave us a hook for the exit because I was able to talk to buyers about a business that was relevant and one upon which we could build growth.

What I learned: We had previously linked our story to our products, not our business, but businesses evolve and products come and go. That was a major realisation and extremely helpful, it led us to align all messaging and metrics around being a managed service organisation rather than a product-led business.

Cutting Costs

We had approximately £30 million in operating expenses around Europe, most of which was payroll. In order to adapt to a lower revenue and margin environment, we sought a more centralised flexible operating model with a greater reliance on cloud-based delivery and remote support.

We did it in three phases over four years; we removed £8 million in cost and about 100 employees from across Europe, exited entire regions and product lines, and installed new finance and sales systems. This generated cash, improved visibility and secured a lifeline for growth in other parts of the business.

What I learned: Don't prolong difficult decisions and go deeper than you think. Shutting down a region that was part of the core legacy business was hard and probably took me several more months than it should have. Once I'd done it, the message it sent to the rest of the organisation was immense, the neighbouring countries all stepped up a gear.

Challenger Business

Among other successes, we launched an award-winning wearable product into TUI Hotels & Resorts; it was used as a room key, to operate energy systems and to provide payment solutions.

This was a small project my UK sales team came up with in reference to a predetermined criteria. To help nurture the idea, I specifically kept my product team and CTO out of it. It wasn't done in secret, but I told my sales team to treat it as if it were their own business. I let them run with it but gave them support and created a buffer between them and the rest of the organisation. It was the quickest product launch we had, and it was customer-led.

What I learned: Giving trusted teams and individuals the space and support to provide solutions autonomously can really aid the business' organic growth. I learned this the hard way. In addition to the US acquisition, we bought a company in Europe offering a low-end technology solution. This acquisition failed when we integrated it with an existing business unit; it lost focus and due to other business pressures, didn't receive enough senior attention.

International Expansion

With a £4.5 million development team and an EU core market that was stagnating, we chose international expansion as a means to secure broader distribution, a return on investment and raise our profile with potential buyers of the business. Our initial choice of organic US expansion proved too slow, so six months after I took the role as CEO we acquired a struggling business on the West Coast from a US PE investor.

The US business initially stalled and it was only after we had restructured the EU organisation that we were able to refocus and get it on the trajectory we wanted.

Sales grew slowly for the first 18 months as we integrated the business, during this time we modified our technology for the US, changed half the local team and established credibility through reference sites. By the point of Exit in 2015, the US was growing by about 200 per cent and had broken through the £20 million threshold.

We also targeted Africa as a key market. There we gained organic growth working with a distributor based in Morocco. It allowed us to expand into a market with low risk and low cash impact on the business. Such was the growth in this region that after three years we brought the distributor and his team in-house. By 2015, Africa and the US accounted for 40 per cent of the group's sales.

What I learned: I would never do organisational restructuring and acquisitions simultaneously again. Each is a major strategic project for the business and requires the CEO and CFO's full attention to ensure the greatest likelihood of success. I was enthusiastically naive at the beginning and would have benefitted from someone on the board reigning in these over-reaching ambitions.

> *“I was enthusiastically naive at the beginning and would have benefitted from someone on the board reigning in these over-reaching ambitions”*

The Leadership Team

The average length of employee service was about 12 years, rising to 18 years at the senior level. Trying to create true change and growth with incumbent individuals that had outdated references to external situations was exceptionally difficult.

I inherited a team of eight directors, four of them survived. I changed my CTO and operations director, my sales director twice and my CFO three times.

For a couple of the roles, I relied on interim employment as trying to find full-time people to join a business with an unclear future is very difficult, especially to get the calibre I needed.

The value of interim staff was incredible because they love coming into troubled situations for a fixed period of time. They came with a mentality I didn't find in many long-term employees.

What I learned: I should have moved quicker, where the management team isn't performing or isn't right for the future, give them a chance for a limited period of time but then move on.

The Sale

Within the first nine months of being in the business, I talked to the UK private equity community about doing a management buyout. But in 2011, PE investors weren't keen to support troubled assets with no clear future.

As an alternative, I sought to trigger a merger and use that as a catalyst to bring in a new private equity investor and exit the current one. After several attempts and the Chapter 11 of two key competitors, it become clear that no PE company in Europe or the US was prepared to come into the industry, even on the basis of a merger that gave enough scale to deliver profit.

What I learned: Always have options and be clear on your proposition – there are buyers for almost any business, it just takes time and the right conditions for the respective parties to find each other. However, it also takes a lot of time and energy to pursue multiple buyers, which will distract you from the other core responsibility of leading the business.

The Buyer

A buyer emerged in one of the few periods in which we weren't actually engaged in seeking one. The potential US buyer arose as a result of discussions to out-source our technology development.

Using this interest as a catalyst, we re-engaged with other parties and used a competitive process to secure two firm bidders. The preferred buyer offered the highest value, in cash, and committed to sign the contract in six weeks and complete four weeks later.

We completed the due diligence, signed in six weeks and announced the deal with completion scheduled for four weeks later. Unfortunately, three days before completion the buyer told us he had funding difficulties.

We were able to mask the situation to customers and employees under the heading 'tax structuring issues', meanwhile the buyer requested five weeks to resolve the issue. Frustratingly, this situation happened several times, testing our ability to maintain credibility to the limit.

By the end of February, the CFO and I convinced the board to allow us to approach the market for alternative buyers, which we successfully did. With the encouragement of a rekindled competitive environment the initial buyer resolved his funding challenges and completed the acquisition in July 2015.

What I learned: The deal is not done until the cash is in your bank account. As the seller, do your own due diligence on the financial capability of the buyer and refresh it several times through the process.

This article was taken from Criticaleye's Private Equity Breakfast event at which Roger was guest speaker.

Learn more about attending or speaking at future events.

Roger Taylor
Former CEO
Quadriga Worldwide

Prior to his role as CEO at Quadriga Worldwide, Roger worked for Pension Corporation, which was founded in 2006 as UK's largest private equity-funded start-up with £900m equity. Before that he spent 10 years in corporate finance (M&A and debt restructuring) both in the UK and US with E&Y and Close Brothers.

He is a qualified chartered accountant and started his career with Arthur Andersen. Roger is a law and economics graduate from Cambridge University.

Contact Roger through:
www.criticaleye.com