An Exit Masterclass

***Andy Dunkley**'s turnaround of UK jeans brand Lee Cooper culminated in the recent $72 million trade sale to Iconix. Criticaleye asks Andy what lessons he learned during the sale*

Lee Cooper Brands trades in more than 80 countries and has some £330 million in annual global sales to its name.

Andy Dunkley, CEO since 2009, believes the recent $72 million (£47 million) trade sale to the US company, Iconix, has secured the business's future. It draws a line under his remarkable *turnaround strategy which involved adopting a pure licencing model*, with the business set to generate close to £9 million in annual royalty revenue in 2013 alone.

Here, Andy outlines five lessons learned from the sale process.

1 CREATE A VISION

In the current environment there are a number of private equity firms chasing only a few opportunities. Investment periods have been extended to the point where many PE houses are desperate to find an exit. The challenge for senior management is to take the initiative and outline a vision for the future.

Ask yourself: what's the next stage? Is it a secondary or tertiary buyout, or is that just moving the business from one financier to another? What's the end game? I believe this vision has to come from management – it will make an awful lot of difference in terms of the relationship with the PE house too.

For example, when I joined Lee Cooper in 2008 and looked at where I wanted to take the business, we came across an exit partner in Iconix, which was a licence-only business. Although this was way too early in the process to think about selling the business, I suddenly realised it was a business model that could work for us and that it might be a viable exit route.

Before we restructured the business around the licencing model, there was no realistic exit partner for us. Our investors, Sun Capital, needed the vision to come from the management team itself (in other words, me).

2 KICK THE TYRES EARLY

We got the accountant to do a health check well in advance of pressing the button on the deal. It's important to do this up to 12 months before exit because you've then got ample time to fix things if they find any issues.

In actual fact, once we'd done the due diligence and no flaws had been found, our investors decided to ramp up the timeline for a sale. Things can move pretty quickly once people all pull in the same direction.

3 ENGAGE YOUR INVESTORS

During the turnaround, there were a number of execution risks that materialised. At one stage we were 45 minutes away from going into administration. So, before they spent any more time or effort on the business, our investors wanted to feel that all of those risks had lapsed.

> *“The challenge for senior management is to take the initiative and outline a vision for the future”*

Indeed, at the point I became CEO in 2009, our secondary lender, Investec, had all but written off the business. That's why they were so surprised when I sent them some cash in 2010, as it was the first payment they'd had in three years.

This was the catalyst for getting them to engage and invest their time in the business again, because they suddenly realised we could make some money and therefore they might get a return on their investment. They were helpful in motivating Sun Capital too. Up until that point, Sun hadn't really given me the time of day.

4 CREATE COMPETITIVE TENSION

We had ten first round expressions of interest and five serious second round bids. Naturally, we tried to play bidders off of each other.

Each of the final five said they would go to the top end of their valuation model. I remember saying to them that the winning bidders would be the ones that break their valuation model and go through the ceiling.

Indeed, we got two to do just that and undoubtedly we could have got a higher price from another party, were it not that they wanted to go away and do more due diligence.

In the end, the temptation to take the cash that was being offered on the table was quite rightly too much for Sun and we got the deal done in two weeks.

5 SEEK GOOD ADVICE

I would recommend appointing a bank to advise you on every aspect of the sale process. I'd also recommend finding someone independent that you can talk to. When you're in the middle of a turnaround you need to make some rapid decisions that will keep the business afloat.

But sometimes you just need to speak to someone, to test out whether your brain is in the right place, whether you're being paranoid or just plain stupid – a 'sanity check' in more ways than one. ■

Andy Dunkley
CEO
Lee Cooper Brands

Andy has been CEO of iconic clothing company Lee Cooper since 2009. The business was a 2005 investment for private equity firm Sun Capital Partners. It sold for $72 million in a trade sale to Iconix in 2013. Andy has significant CEO and CFO experience in both PE and multinational environments.

Contact Andy through:
www.criticaleye.net