

Welcome to the July 2010 edition of Pilot's Log.



As July comes to a close, and (most of) Europe seems to be shutting down for business, we thought Pilot's Log would set you up nicely for the summer break.

Private equity deal flow has continued to pick up, though it still lags behind where many of us thought it would be entering the second half of the year. Reasons for this include prices still being higher than almost everyone's comfort zones, the continued stinginess of the debt markets and drawn out issues within the banks' workout groups.

That being said, the deals that are getting done all look fairly solid, involve talented management teams, and reflect private equity's renewed focus on good companies in good sectors (as opposed to leveragable situations with short holds).

Given that PILOTpartners is a pan-European firm, we are well positioned to see trends both here in the UK and across Europe. Whereas much of our business several years ago was dominated by UK headquartered companies, now the (slim) majority are based on the continent. Driving this current reality is fewer players who are comfortable closing deals in Europe, lower valuations, more synergistic plays (i.e. tack-ons), and the belief that Europe is well ahead of the UK in recovering from the recession. As with the peak year of 2007, time will tell if today's deals are good value, or still too highly priced because of excess unspent funds.

To reflect where we see the market right now, in this issue of Pilot's Log we have compiled what we believe are very relevant pieces:

Pierre van den Broek, the owner and President of NIM Europe, gives us a very concise look into the private equity marketplace in France, and the continued need for the impact of top notch management.

Nigel Atkinson and David Wilton, partners with BTG Mesirow Financial Consulting, sit down with [Continues on page 13](#)

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A company will only get away with it once.

James Wheeler of PILOTpartners engages in discussion with [Nigel Atkinson](#) and [David Wilton](#) with BTG Mesirow Financial Consulting. BTG MFC focus on their relationships with and the needs of their private equity clients in the current marketplace. [Page 2](#)



UK Retail - more pain to come?

[Gavin George](#), European Managing Director of GA Asset Advisors Ltd, sets the scene for management and investors of retail assets as consumer indicators give warning signals for the autumn and winter seasons. UK retail may have so far avoided the intensive care ward, but it's by no means out of the woods. [Page 7](#)



The Pilot's Log Q&A

Michael Gebauer, head of private equity with PILOTpartners, talks to [Paul Siegenthaler](#), a specialist business integration & transformation interim executive about his approach to successful cross-border M&A transactions. [Page 9](#)



What's happening in France, Pierre?

[Pierre van den Broek](#) is the owner and President of NIM Europe, France's leading interim management resourcing group. In this discussion with James Wheeler of PILOTpartners he gives his take on the French private equity market in general and explains how top level interim management can make all the difference in portfolio companies. [Page 12](#)

“A company can only mislead its financial stakeholders once and get away with it...”



James Wheeler

Nigel Atkinson

David Wilton

BTG Mesirow Financial Consulting

James Wheeler of PILOTpartners engages in discussion with Nigel Atkinson and David Wilton with BTG Mesirow Financial Consulting. BTG MFC focus on their relationships with and the needs of their private equity clients in the current marketplace.

James Wheeler: To start the ball rolling, gentlemen, can you briefly describe BTG Mesirow Financial Consulting's services to the private equity sector and perhaps predict the major issues facing private equity houses and their funds over the next six to twelve months?

Nigel Atkinson: On the corporate finance advisory side we offer a full range of acquisition support, portfolio enhancement and exit services. BTG Intelligence are a group of professionals who can effectively investigate financial crime and corporate security breaches, no matter the size, complexity or circumstances. As well as the usual strategic and tax due diligence offerings, uniquely through BTG Intelligence we are able to do due diligence on jurisdictions, entities and people. So, for example, if a private equity investor is looking to invest in the Ukraine, we can look behind the people who are going to be managing

the business and the potential problems in that jurisdiction. In the underperforming and distressed arena, we also assist with origination portfolio review, and undertake diagnostic reviews of investee companies. This can lead on to further advisory work on performance improvement or more likely stabilising the business whilst turnaround and financial restructuring plans are developed, led by ourselves. During this phase we would typically be involved in stakeholder management, particularly in handling the banks and other lenders on behalf of management and PE investors. Once a plan is agreed we would handle debt advisory and refinancing issues ourselves, but for operational turnaround implementation we would typically deploy members of our new 'BRITE' panel, which is run by PILOTpartners.

JW: You mentioned international capabilities just now. Do these services extend outside UK and Europe, and if so how is that organised?

NA: Yes they do. That is organised through a variety of arrangements we have established over time. In the United States, we have a joint venture with Mesirow Financial Consulting. Mesirow is a full service consulting business

with strong emphasis on restructuring and valuation work. We also operate the Begbies Global Network, which is a network of like-minded firms that work in our key service lines of corporate finance, restructuring and tax. These firms cover about a hundred jurisdictions across the world. And lastly, we have our own network of firms in the key offshore financial centres such as Cayman and the Channel Islands.

JW: You mentioned the new Interim Turnaround Directors' Panel to which you have given the rather attractive soubriquet of 'BRITE'. What do you and your colleagues hope to achieve with this panel?

NA: Yes, that stands for BTG Restructuring Independent Turnaround Executives. David will be able to add to my comments, but first, just focusing on private equity portfolios for now, it would be to provide support to investors and management. Initially with our diagnostic work in looking at troubled portfolio businesses and helping to find workable solutions, using people who have senior level, relevant industry expertise but also situational expertise in handling distressed circumstances, working out what is wrong and what needs to be done. Then, in conjunction with the client, the members of the BRITE panel could then work within the company or companies to effect a turnaround.

JW: David, you've long had experience of using independent executives and directors to support turnarounds. Could you give an example of how you see this being successful in private equity backed businesses and the likely outcome?

David Wilton: Yes. First of all, let's be clear that when working with private equity one of the key issues in providing advisory services and external turnaround managers is that the advisor and interim manager have to have agility. We have got to fit the team and the skills to the job in question. In my experience I am certain that when one creates a combination of turnaround professionals in terms of the people such as Nigel and myself, together with an

external manager who's great at operations or has specific sector experience, one creates a small, effective sub-team that provides real stability. This means that first, the client gets the comfort that the project is working, and secondly, the target company also gets the advice and support it needs to get through a difficult time. I've seen that in the travel industry, in shipping, manufacturing, media, and finally in construction, believe it or not, which is unusual in private equity. It's the strength of the combination of experience... just as an example, something we are currently working on, where we've gone through a first phase, we've provided a team of corporate finance, valuation, tax and forensic people working together to come up with an outline solution and, whilst we were doing that, within the company, we had our turnaround director managing cash, short term profits and management. In my view, you can't have one without the other. One has to have a stable platform while one looks at the feasible solutions in an objective way. Of course, we then expect to go on into developing those solutions and implementing them.

JW: Looking ahead, do you think that private equity will be more able more readily to dispose of unloved or underperforming investments to generate at least some value or return, rather than leaving ownership in the hands of the banks which don't really want to own these assets themselves?

DW: I think inevitably there are impacts on IRRs, if you are going down that sort of route. If one has got a troubled company then one can always sell it off if there is a purchaser with cash to do a deal. The slightly worrying thing is that whereas every private equity investor knows the sort of IRR he should get in a benign economic environment, I think that sometimes they struggle to recognise the critical value change that they need to face up to in more troubled or stressed situations. There is inevitably going to be an impact on price. The purchaser will probably recognise what's going on and consequently delays decision-making, and that can prove quite costly. We see our role as ensuring these issues are minimised for our client so exit value is protected as far as possible.

There are several investment outcomes that may achieve this, but if I can just turn it on its head – from practical experience there are also situations where the bank may be feeling the stress and the way forward may be for the private equity house to buy the bank debt at a discount, where the fund permits, and retain the whole of the investment for disposal at a later date. But that, of course, depends on overall expectations of both stakeholders and the availability of funding. But it is not necessarily a one way street for private equity.



JW: Do you expect banks to have an appetite for that sort of deal in the current environment given that the next round of MBO refinancings will be coming through and their own balance sheets remain challenged?

DW: I have seen these sorts of deals suggested. I believe they have happened. If, for example, where a bank hasn't got great security in a service industry, then they may think long and hard about pushing the company down the insolvency route but nonetheless looking for an exit that is better than taking the immediate pain, by trying to realise the debt rather than their security.

NA: They will probably be advised by investigating accountants who are looking at some pretty harsh numbers. This is an area where we can work on the private equity side to help negotiate an attractive deal with the bank.

JW: But given the proximity with which all firms of accountants operate with the banks, what conflicts are likely to arise when you are acting for the investor and/or management?

DW: Let me put forward my simple but firmly held view: whilst I do act for banks from time to time, as a matter of generality I tend to work for the shareholders. If I am engaged by the shareholder, then that is my client, and therefore if the bank needs advice then it should get its own advice. The bank has plenty of suppliers of advice. I don't see any automatic conflict in advising different stakeholders but this can only last whilst their several interests are aligned. Generally I see myself as an advisor to shareholders and companies and do little marketing to bankers.

JW: That seems to put you in a strong position competitively.

DW: It does, if people know about it.

JW: Let's move on to broader issues about the effect of the Government pressing on with reducing public debt. It seems to me that a lot of businesses that were acquired by Private Equity within the last three to four years, particularly in the service sector, will have Government as their largest customer. I am thinking particularly of service industries. A whole new sector of the UK economy has built up in recent years to service government/quasi-government organisations and private equity has been very keen to invest in their good quality cash flows, stable customer bases etc. That now seems to me to be at risk. What thoughts do you have on how leveraged businesses with Government as their core customer can refocus their business plan and also how private equity portfolio directors should engage management teams in this debate?

DW: They should get an early feel for where they stand.



Because in the past, suppliers to the public sector tend to have had more comfortable relationships with their customers than suppliers to the private sector and, therefore, have had a habit of closing their eyes and saying "Well, we'll be OK because it's XX health authority, XX police authority, XX local government authority. We've dealt with them for years and we've always looked after each other when things get tough..." and you know, almost always they have. However, circumstances have changed. One has only to note how government ministers have called in major suppliers to ask them to revisit contract terms. If they have not recognised the change, suppliers probably won't be in the frame of mind to have the right conversation about contract renewal and pricing with their principal in time. They should be asking themselves whether the business model still works with a 25%-40% reduction in customer spend and if it doesn't, what changes can be made to help it do so. The more time they have available to look at alternative markets or to reassess their terms of trade – because that it might be something that simple to keep them in the game – the better. It may well be that some of these contracts are not as much at risk as they think. For example, where a supplier to an NHS Trust that is being put together as part of an initiative to a PFI partner, the contract terms are probably fairly well protected because the basis on which a PFI contract is renegotiated is likely to be clearly written and a significant cut in government spending won't necessarily filter through to 40-year PFI contract.

NA: I think the first thing government departments will do is be seen to cut back on external advisors. You can always leak it back in later if the first cut is excessive...

DW: The 'Yes, Minister' approach to public finance...

JW: When you are talking to portfolio directors of private equity firms about transformation strategies – because invariably you are likely to be brought in to difficult rather than benign situations – what is your advice to the investor and then the management team when the business needs

to improve their cash management and deal with the first breach of covenants in their history, probably the first time they've ever had a problem with their bankers? How do you start off that conversation?

DW: I always start off from the basis that if you are a borrower then you will only mislead your financial stakeholders once and get away with it. However, what you find is that a lot of management teams either fail to recognise the truth or they assume it is something they can cover up or defer action on for now. But once that element of trust between financial stakeholder and management has gone, then it is very, very difficult to rebuild, so the first pieces of advice to a client are to make sure that they have the information to hand, and to make sure what they are telling their stakeholders is something that can be justified later on down the road. For the private equity portfolio manager, it is almost the converse – make sure the information received is credible. If it's not clear, get it made clear. If you think it's contestable, contest it, because if you don't do it now then you will have to do it under more difficult circumstances a short time down the line.

JW: At PILOTpartners we have seen stronger activity levels amongst stress investors in the turnaround marketplace. Do you think that the time has now arrived for the small numbers of perhaps not very well known stress investors to pick up basically sound businesses or, increasingly, packaged portfolios from private equity houses or other institutions (such as the Collier acquisition of part of the BoSIF portfolio earlier this month) needing to redirect their attention and funds elsewhere? In other words, is the stress investor market the right place to turn to for private equity, so that pre-recession deal making and fund-raising can return to some semblance of normality?

NA: They are there; there are quite a few of them though the overall capacity may not be that massive. Up to now I don't think there have been that many big stress deals. I think private equity will have to talk to these guys more but the chances are they are not going to come out with much for it. Private equity will typically be out of the money in these sorts of deals.

JW: Yes, but better than losing ownership to the bank...

NA: Well, they're either in the money or they're out of the money, but at least they may retain some interest in such a deal which they wouldn't if the bank appointed administrators.

DW: I think the issue you mustn't get away from is that you can't make a bad business good just by bringing a different sort of funding into it. The key issue is making sure that the business is a sound business by the process of developing

the right strategy, getting the right management in there, getting the cash flow right. The more you can de-risk the business, the more likely you are, whatever the source of funds, to provide some return to the shareholders. The less that is done to put the business right then the higher the cost will be to fund it, which means that shareholders are far more likely to drop out of the money.

JW: Given the importance that bank debt has traditionally played in the leveraged MBO model and the lack of availability of debt funding over the past two years, what light can you throw on the mindset of the debt providers in the current environment towards private equity held businesses where the equity value has travelled south rather than north?

NA: To some extent it comes back to what David was saying before. Unless you can sort out the fundamental issues of the business – assuming you're already in a stressed situation – you're probably not going to get on very well with the bank and will end up with an unfavourable response, and not getting refinanced at all. As far as new deals are concerned, the sorts of multiples available are likely to be much lower than they have been in the past.

JW: At a simple level, say the business isn't distressed but just underperforming and leading to problems ahead. Are the banks more likely to talk to firms like yours about restructuring before they talk to the private equity investor? Are they going to feel more comfortable getting a feeling from advisors first than talking to private equity houses?

DW: When a bank passes a particular company to its distressed team, which is probably beyond what you are talking about, then there would be pretty quick and regular communication. I believe the banks are actually really good at that. However, before that point is reached then the banks tend not to have any communication with the shareholders; they communicate with the directors. You get all the usual sort of covenants in term sheets for timely management



information and so on, which tends to define the nature of communication. This does not tend to link into strategy and future investment directly. The banks would, therefore, tend not to engage with shareholders unless there was a specific issue about raising significant new equity.

JW: Objectively, at what point is it best for Begbies Traynor Group to come in?

NA: Before the bank has visibility of problems but as early as possible I think. The first sight of a possible covenant breach would be the point at which portfolio managers should talk to us.

JW: How do you first become connected with a portfolio business in difficulty?

DW: It would tend to come either through the investors or it would come through the chairman or a non-executive director, somebody we have dealt with before or it might come through one of their other advisers such as their accountants or lawyers. This goes back to what I said earlier on – you only mislead your financial stakeholders once. What we get then is the chance to talk to the bank not about things will get better tomorrow” but “these are the issues, these are the risks, these are the actions taking place to deal with them and these are the changes that are being made and why”, rather than have the bank then turn around and say “We’re not happy you’ve got a covenant breach. We need to know what’s going on. We’re constantly being given budgets and financial projections which are not being met or we’re not getting the information on time”. We co-ordinate the issues so that there is a sound basis of information for rational businessmen to make rational decisions.

NA: Good information management... getting good information to the banks is obviously where we can help a lot but historically that hasn’t happened very much. Private equity has tended to do it themselves. There has been a very long run where they’ve done very well for their funds and themselves without many problems; generally they felt they could manage these situations themselves. In the current environment of more widespread distress across portfolios and imminent refinancing requirements it is clearly not feasible or sensible for portfolio managers to follow the DIY route.

DW: Sometimes they assume that an advisor put in for the bank will somehow cover up the issues from their perspective. It is very difficult for advisors to ride two horses at once. The trouble is that the horses don’t always run in parallel lines and trying to ride two horses has inevitable uncomfortable consequences...

JW: Er, quite... As this interview comes to a close, it strikes

me, from the issues we have been discussing, that if your firm doesn’t have a unique position in the market, it certainly holds an unusual position given that you are not an accountancy firm that does audit work or has a big management consultancy practice; you’re very firmly in the restructuring, turnaround advisory marketplace. When you talk to private equity firms about portfolio businesses in difficulty, how do you make your pitch, given that they have access to every advisory firm in the country?

DW: One of our advantages is that we’re a lot smaller in some ways than many of the international firms. As we said earlier, that brings agility. It means that we don’t have a lot of the problems that larger firms’ internal regulatory processes involve because we don’t have issues around dividing our skill base into discrete teams. We’re more easily able to bring in outside expertise as part of our team. If we need an expert such as a financial modeller or a senior level sector guru....

NA: Such as a member of the BRITE panel...

DW: Exactly, we can bring them into the team. It is far easier for us to do that. We are also more easily able to share information with our clients. For example, we offer clients access to our extranet, so they don’t necessarily have to wait for reports. They can also place documents at a site to which our team has access whatever their skill base or area of focus. Clients like to use the extranet and look things up quickly when they are ready to and not have to wait until things are published.

NA: And I think another important thing is the level of experience that we have in our team. We have partners with over 30 years’ experience.

JW: Many thanks to both of you for your time contributing to Pilot’s Log, and, for my part, for working with PILOTpartners to establish the new BRITE panel which I am sure will make all the difference when you are advising private equity firms about their options for change in the months ahead.

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UK Retail More pain to come ...?



Gavin George

Gavin George, European Managing Director of GA Asset Advisors Ltd, sets the scene for management and investors of retail assets as consumer indicators give warning signals for the autumn and winter seasons.

UK retail may have so far avoided the intensive care ward, but it's by no means out of the woods. The latest CBI data, showing almost 40% of retailers reporting declining sales volumes during the first half of June, is likely to be a taste of things to come. In fact, the sector is facing an unprecedented 'quadruple whammy' of bad macro-economic news:

- Increasing inflation - on the CPI measure, inflation hit 3.2% in June, well above the 2% target and the 'norm' for the EU zone, currently c2%. Exactly when and by how far is open to question, but interest rates will have to rise soon.
- A steep decline in the sterling-dollar exchange rate with far reaching implications for future sourcing costs. At \$1.45, the pound is down almost 15% from its 12 month peak.
- An increasing burden of taxation for an already cash constrained consumer, including the January 2011 hike in VAT.
- Growing unemployment, particularly as the 25% or 40% public sector spending cuts begin to take effect. Latest figures show UK unemployment at 2.51 million, its highest level since December 1994.

Put another way, you would need to be a brave retail board to be signing off budgets with any significant LFL growth!

Of course, there are exceptions - the valuations of specialists such as Pets at Home, Hobbycraft and SuperDry Group demonstrate that it is still possible to sell a domestic growth story, especially if multi-channel is a component. Prospects for international expansion, particularly in emerging markets, look brighter and will continue to

underpin the potential for our largest retail businesses including Tesco, Kingfisher and AllianceBoots as well as specialists such as Mothercare, New Look and Primark. And those retailers that can renovate their customer proposition will be well placed to reap the rewards. For example, DSG's new format looks like a formidable adversary to Best Buy's European ambitions and demonstrates just how far it is possible to refresh a tired looking business.

For the most part though, the market will remain very tough. Trying to manage a rising cost base, with a flat (at best) top line increases the pressures on cash. And it is unlikely that the HMRC's Time to Pay initiative, the liquidity of the clearing banks or the generosity of creditors (suppliers or landlords) are going to save the day.

So what should responsible retail boards be doing now to steer a sensible course through choppy waters?

- Increasing the hurdle rates on any capex and keeping a very tight lid on the operational cost base.
- Managing the forward cash position, probably a rolling 13 week forecast with the first 3 weeks daily.
- Securing forex hedges at least 12 months out, particularly against the sensitive US dollar.
- Keeping key creditors, both suppliers and property landlords, on-board with current trading.
- Planning any refinancing needs a long time in advance, probably also considering alternative sources of finance such as asset based lending.
- Actively managing covenant compliance (e.g. interest cover) – be aware of the reporting requirements.



By proactively managing all of the above then management should remain in control of the situation. Ultimately if the situation does worsen, be prepared to seek advice early. In my experience the costs of restructuring only ever goes up as the problem deepens.

With this in mind, don't lose sight of the golden rule: when things turn ugly the next bit of news is almost always bad...

Gavin George is Managing Director of GA Asset Advisors, the European subsidiary of Great American Group, a US public company focused on asset disposition.

GA Asset Advisors will maximise returns and minimise risk in difficult retail situations across Europe by:

- Acquiring under-performing retail businesses or divisions
- Implementing store closure and/or stock clearance programmes
- Providing finance
- Purchasing distressed debt positions
- Appraising inventory to support ABLs, IBRs or the y/e statutory audit

Gavin has 25 years of experience in the retail sector, having worked as an operator, consultant and restructuring professional. Prior to joining GA Asset Advisors, he spent six months serving as Chief Restructuring Officer for a distressed retailer and before that he was a Partner and Head of Retail for Ernst & Young. Gavin originally trained as a chartered accountant before working in retail operations at Dixons (now DSGi) and then moving into retail consulting.

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The Pilot's Log Q&A



Paul Siegenthaler

Michael Gebauer, head of private equity with PILOTpartners, talks to Paul Siegenthaler, a specialist business integration & transformation interim executive about his approach to successful cross-border M&A transactions.

With various studies estimating the failure rate of M&As to be between 50% and 80%, what can

companies do to integrate successfully when all the odds seem to be against them ?

You are right – this is a rather discouraging statistic, and yet we see repeatedly that shareholders trust their company to carry out a successful merger or acquisition, assuming all will run smoothly when in fact they should assume failure – unless “something” is done differently. And that “something” is not just down to good luck. We can observe that companies which pursue an aggressive strategy as “serial acquirers” tend to be successful at integrating their new businesses: there are lessons to be learnt, and many common mistakes to be avoided.

The most damaging myth is the belief that, given enough time, two organisations put together will gradually develop new ways of working and end up blending into one seamless business. Why should this happen? Would two individuals locked in one room spontaneously form a solid couple for the rest of their lives? A cogent business case may act as a “logical magnet” which draws the two businesses to one another, but will they blend or collide?

So what is your aim when you join an organisation to drive their business integration ?

Well, put very simply, the business case of the merger or acquisition needs to be realised as soon as possible. This means achieving the short term benefits and savings, as well as the longer term strategic benefits which result in the new merged company being worth more than the sum of its constituent parts. Speed matters – not only because the investors are eager to see early results, but also because companies embarking on an integration are vulnerable during the early stages of that voyage: unless clarity on structure, processes and ways of working is restored rapidly within the organisation, valuable employees may leave, competitors benefit from the company’s temporary vulnerability, commercial performance may begin to decline...

When Grand Met and Guinness merged in 1997, Deputy CEO Jack Keenan warned his startled team of senior executives “merging is like pulling out teeth – you can do it slow and painful ... or quick and painful; we shall do it quick and painful”. And he was right.

You mention speed – but do you mean “pace”, or “race”?

It’s a difficult balance to strike! Integrate too fast and you will miss the opportunity of reassessing and re-inventing the business, and will not allow enough time and resources for communication and effective stakeholder management; the integration will be met with resistance and most probably fail. On the other hand, procrastinating on difficult decisions and allowing the integration process to drag on will undermine morale, shift focus inwardly and put the business’s results at risk.

Speed also depends on the market’s environment. Implementing the integration will be faster in Britain or Switzerland than, say, France or particularly Germany where the mandatory and complex consultation process can stretch the integration time-line quite considerably. But that is a given in those markets. I would say that regardless of the country you are operating in, most types of business should aim to have the main building blocks of their integration in place within a timeframe of one year. Past that symbolic anniversary date, many employees will get the impression they have embarked on a never ending journey, lose interest and commitment toward the project, and ultimately cause the integration to fail.

So where would you start on “Day One” to achieve speed and be assured of a fast and orderly integration?

That’s the whole point. The detailed work needs to start well before “Day One”. The prerequisite for speed is preparation. The majority of CEOs I have spoken to are unaware of how much can and should be done in advance. Typically, much of the preparation that can take place before the two companies are under common ownership only starts after the merger or acquisition transaction is completed: this delays the actual commencement of the integration process by several months. By then, pressure will have mounted significantly to get things moving, and the natural tendency will be to rush into “action” mode, ill-prepared and probably under-resourced: a sure recipe for failure.

Surely any sensible executive would prefer to rely on excellent preparation rather than embark on a journey into the unknown; but realistically given the time, resource and legal constraints, how much can be prepared in advance of “Day One”? What do you see as the key areas that need addressing?

The success of the integration rests on a few imperative pillars that prepare the two organisations and accompany

them on their voyage of integration. Omit one of these pillars and your integration project is likely to topple over:

- Diagnosis and preparation
- Detailed planning
- Clear governance
- Resourcing and environment
- Team redeployment
- Communication and leadership

The first step, “Diagnosis and preparation” is sadly where most companies miss the greatest opportunity. By diagnosis, I mean much more than mere due diligence. A well organised “data room” may detect some of the hurdles and complexities that will need to be overcome during the integration process: forewarned is forearmed. But this is not sufficient. Successful business integration can only begin once you have determined how the information from the data room will be used, as well as the commercially sensitive information which will become available only from the day the two companies are under common ownership.

Why do you view this as the most significant opportunity?

It is the biggest because the aim here is twofold: firstly to gain time at the start of the integration process by completing a number of very time consuming tasks ahead of Day One, and secondly, to accelerate the pace of implementation of subsequent phases of the integration.

I like to focus on three areas:

Data standardisation: decide on common definitions and common data structures (be it manufacturing cost data, HR data, customer data, product classification, financial data...). This allows both companies to restate their historical data in accordance with those new common definitions and templates. This is a very time consuming exercise and it pays dividends: on “Day One”, both sets of re-stated information will be ready to be analyzed on a like-with-like basis. A huge time saving!

Decision-making tools: this is about agreeing the rules which will apply when the integration begins, for example; how the products or services of the future combined portfolio will be positioned and prioritised relative to each other, where the future offices or factories will be located, how the trading terms will be harmonised etc. This does not pre-empt what those decisions will be, but defines and prioritizes the criteria that will be considered in making those decisions. The benefit of pre-agreed and well documented decision tools is immense in companies involving a number of business units each having to go through the same integration process; this ensures coherence and avoids the need to re-invent the wheel.

Simulations: without any exchange of commercially sensitive information between the two parties of the merger or acquisition, third party advisors can be nominated to carry out a pre-analysis of this data, so that areas of particularly high complexity or risk can be identified in advance of the integration’s kick-off. This provides valuable clues when it comes to resourcing the integration project team to ensure the number and calibre of the team members are sufficient to tackle and resolve those complex issues.

That sounds like quite a sizeable piece of preparation work. Do companies really have the time for this before “Day One”?

In most cases yes, they do. The bigger the M&A deal is, the more preparation work is required because the integration will usually involve more complexity. But let’s remember that medium or large transactions are very often subject to a long approval process by regulatory authorities – this is the time one can use to prepare and plan rather than sit and wait for the regulators’ verdict.

And more “homework” can be completed ahead of “Day One” to save more time:

A detailed project plan (not just an outline of deliverables!), rehearsed in a ‘conference room pilot’ to run a simulation of the integration process and identify each of the interdependencies. This clarifies the sequencing of the deliverables, identifies the integration project’s critical path, and highlights the resources and skill-sets required to realize the deliverables.

The need for clear governance sounds like a truism. And yet many business integrations fail because of a lack of clarity as to who can make what decisions, or because of the absence of effective issue resolution procedures. Decide the rules of the game and set up the necessary governance, so as to be ready as project activity begins!

Resourcing and environment: setting up the integration team(s) is tough - not many people have that perfect mix of business knowledge, experience and ability to envisage a different future, nor the mindset to work on this type of project. It may take a few months for an individual to be released from his/her day job – finding a temporary successor, an interim backfill, or re-allocating this person’s duties amongst the rest of a department takes time. Starting the process early means that the team can be in place on ‘Day One’, or even earlier if possible. Companies are usually surprised to realise they do not have enough desks and meeting rooms, document filing systems and other such infrastructure to accommodate the project teams when the project kicks off. Why not think of these things a little in advance?

Companies often struggle to find the right individuals for this kind of large-scale project. In your experience, when suitable candidates are identified, is it difficult to get them to accept that project role? How do you view the ideal project team composition?

Much depends on how the project is presented to them. For many individuals, "project work" is synonymous with "career dead-end". But company integration is a fantastic learning opportunity for most people, allowing them to understand the business well beyond the confines of their own functional responsibilities; these are resources you really want to keep in the company when the integration is complete. There is a big proviso however: people need to know what rules and principles will apply for their redeployment after the project. Most companies would tend to think of team redeployment at the end of the integration. I say this needs to be addressed from the onset of the project, or else your best candidates will refuse to join the integration team.

In practice, few organisations will find within their own ranks all the resources and knowledge they will need to implement a successful integration. The best performing integration teams I have worked with consist of a balanced mix of in-house resources, as well as subject matter expert consultants to provide an external perspective and inject some best practice, and finally seasoned interim contractors who can hit the ground running and supplement resource gaps in the team, or backfill internal staff who were seconded to the team.

Most of the literature and case studies on M&As point the finger at poor communication and leadership as the main causes of failed integrations. Would you agree with that point of view?

Yes, of course I do! I did mention communication and leadership amongst my six "imperative pillars" earlier. The reason I kept communication and leadership for the end is that the five other pillars only require some intelligence, rigour and business discipline to be carried out, and therefore they should be mandatory homework for the management of any serious company about to embark on a merger or significant acquisition. Whereas communication and leadership are different in that they also require a degree of "talent" beyond a mere list of 'dos' and 'don'ts'. A strong, charismatic and enthusiastic leader can compensate for many imperfections of the integration process, but not all of us are born with the temperament of a charismatic leader

Without delving into how to organise and run well structured and effective communication, my general observation is that most companies do not segment their target audiences sufficiently to ensure the content of their communication is relevant. All too often, the messages build on the strategic

rationale for the merger of acquisition, which might be intellectually interesting but does not paint a relevant story for most of the company's staff in the middle and lower echelons of the organisation. The messages cannot be a "one size fits all".

Communication is about informing, but also about capturing people's hearts and minds, and also listening carefully, capturing the pulse, and reacting accordingly. Sadly, too many managers forget that communication is about more than just words; body language and behaviours come into play when it comes to managing the interface with a crowd of worried or doubtful employees. The senior management team should give some thought as to how they will maintain their levels of stamina and composure throughout the long integration process and how they will "live" the future company's stated values. Their people will expect them to "walk the talk".

A serial business integrator, [Paul J Siegenthaler](#) (author of "Perfect M&As – The Art of Business Integration") has helped numerous merging or acquired companies to integrate successfully, and has driven major business transformation programmes across Western Europe and North America, ensuring they deliver the business case shareholders had been promised.

A Swiss national whose family background extends to the UK and Greece, he has lived in five European countries and in the USA, acquiring an acute cross-cultural awareness and a truly international perspective.

Following a Masters degree in Economics from H.E.C. Lausanne and an MBA at London Business School, Paul spent the first 17 years of his career as Managing Director reshaping companies acquired by an international group, before focusing solely on the business integration of broad scale international mergers and acquisitions in several industries.

Paul considers Switzerland to be his home, although he spends most of his time traversing Europe, because business integrations cannot be driven from behind a desk.

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What's happening in France, Pierre?



Pierre van den Broek

Pierre van den Broek is the owner and President of NIM Europe, France's leading interim management resourcing group. In this discussion with James Wheeler of PILOTpartners he gives his take on the French private equity market in general and explains how top level interim management can make all the difference in portfolio companies.

What is happening in the private equity marketplace in France?

The private equity market has been hit by the global crisis in France pretty much as well as in the rest of Europe. These hard times have initiated new development and change strategies and forced investors to find new solutions to maintain value and invest their available funds.

2009 was mainly dedicated to the monitoring of portfolio companies at the height of the financial turmoil. As for 2010, we think that the decline in enterprise values and the growing number of opportunities in France will enable private equity funds to benefit in the coming months from a more favourable cycle. They have accumulated a considerable reserve of undrawn funds that they will have to invest in quite a short period of time. Besides, we are now entering a new cycle with a different way of doing deals: there will be less leverage and financial engineering and more operational value creation.

How will this affect the need for top skilled managers ?

The situation depicted above implies a strong need for better management skills. If businesses and investment funds are to grow with a stronger operational focus, they will have to hire the most competent executives in the field.

As for the French market, we know that a substantial proportion of the funds raised before the crisis is still looking for promising businesses. Our clients in the private equity sector, mostly small and mid cap funds, all experience the same issue: they have cash but at the same time huge difficulties to identify the right targets. As some of them look beyond French borders to get at those ventures, others seek to improve their operational grip on their companies.

To achieve those two objectives, they need highly qualified human capital, whether in the investment team itself or in their portfolio companies.

How does NIM help in this changing environment?

At NIM, we have been working in the French market for almost ten years now and are one of the few firms that have successfully introduced the concept of interim management (« management de transition ») in the sector. In addition to this long standing experience, we have always been well connected to small and mid-cap investment funds, providing them with skilled managers for their holdings (in various sectors such as engineering, pharmaceuticals, business services, etc) and investment managers for their teams.

NIM also helps to maintain cost effectiveness. By injecting specialist skills for a specific project over an agreed timescale, employers can improve performance with minimal risk. The strategic use of interim management or 'transition' executives enables an organisation to seize opportunities or to address specific issues when they arise. Sensibly qualified for the job in hand, these senior executives and directors have a proven track record, which enables them to be effective from day one.

What strikes you most about private equity in France right now?

I can't help but say that we are often surprised by the distance between private equity funds and their portfolio companies. We sense that many of the funds' directors don't really get out into the field to inspect the situation for themselves. Their concerns seem to be more financial than operational. Hopefully things are changing for the better but I recently followed the failure of a private equity sustained company. It really seemed like the more the firm went downhill the less the investors knew how to deal with it ; they were panic-stricken. Actually, they could at least have tried to change the management but, contrary to my advice, did not dare to do so.

I also think that, unlike Anglo-Saxon funds, many medium-sized French funds are almost exclusively focused on the French market, though they would like to expand internationally. Last month we were proud to help one of our clients recruit one German investment director whose task is to identify targets and lead operations focusing on the German market. This is also a good way to diversify the investment teams which are in strong need of complementary skills.

One last unfortunate point that I have observed many times. Private equity houses like to invest in family businesses with strong and reliable management teams. But there are too many bankruptcies in the wake of the founder's departure.

Finding top level management succession is precisely our mission. I strongly believe in the value inherent in board level interim management: our goal is to provide funds with aligned manager-investors, This can be on either an interim or permanent basis, or indeed one leading to the other Our clients can depend on us providing, for example, an interim CEO where a turnaround is required over time or a CEO who is willing to co-invest. These are people whose abilities reach far beyond the financial and functional features of a deal, people who have commitment and skills at the same time.

NIM Europe are the PILOTpartners affiliated firm in France

Pierre van den Broek graduated from the ESME Sudria (Special School for Mechanics and Electricity) in 1982, before joining Framatome in 1985. Over seven years he dedicated himself to setting up nuclear power plants, most notably in the People's Republic of China. In 1992, after a spell managing the French Institute of Management, he joined Altran to develop their innovation consulting practice, at first in France. He then started and developed subsidiaries for Altran in Portugal and Brazil. In 2005, he bought NIM, a French Interim Management practice. Pierre, 51, is an avid watersports fan and participated in the 2007 Transat Jacques Vabre on a 50' trimaran prototype.

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PILOT's James Wheeler and share their views on supporting the private equity sector and offer a prediction of the major issues facing private equity houses and their funds over the next 6 to 12 months.

Paul Siegenthaler, a valued specialist business integration and transformation interim executive, is kind enough to sit down with me and share his approach to successful cross-border M&A transactions.

Gavin George, European Managing Director of GA Asset Advisors Ltd, sets the scene for management and investors of retail assets as consumer indicators give warning signals for the autumn and winter seasons.



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