



PILOTpartners launches new Chairman and NED Practice

Summer is over, people are back to work, deal flow is picking up, fund raising efforts have resumed in earnest – are we back to business as usual?

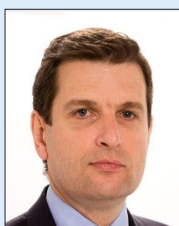
I think the answer 'business as usual' has gone forever. What is replacing it, evidenced by all our pieces in this issue of *Pilot's Log*, is a new saner, conservative, long-view

approach to private equity, more akin to its historical roots. This evolution is not only changing the industry (players and ex-players), but those entities and service providers who exist to support the UK and European private equity model.

The background of PILOTpartners (excluding their corporate careers) is fundamentally as interim executive providers. Many would argue that interim management is dead, being replaced by interim management 2.0. (James Wheeler will touch on this more thoroughly in our next issue).

For those within the industry who have followed PILOT and its partners, they will have seen the transformation from interim providers to human capital and resourcing providers. While this sounds like a cliché, it really isn't. More than half our placements are now permanent, more than half are outside the UK, and what is in demand are not warm bodies to fit holes but instead highly skilled and experienced executives who can quickly and decisively impact the fortunes (usually flailing) of a portfolio company.

We also work with our core clients in arranging MBI candidate dinners and other events, helping them strengthen their senior management relationships and get their 'messages'... [Continues on page 12](#)



Focus on Healthcare

Bowmark Capital's Kevin Grassby dissects private equity's fittest proposition. Now is the time for many private equity investors to play it safe. That is why, increasingly, the healthcare industry is the sector where they are

looking to invest. [Page 2](#)



Industrial Revolution

Bruno Deschamps, a senior adviser to 3i and founder and managing partner of development capital firm, Entrepreneurs Partners LLP, shares his views on the future role of private equity and why it will mean a cultural

evolution for many firms. [Page 8](#)



Turnaround to remember

La Seda de Barcelona turnaround completed with capital increase and relisting following debt restructuring in an English Court. **Alan Tilley** of Bryan Mansell & Tilley reports on how it became a name to remember in debt

restructurings in August 2010. [Page 6](#)



PILOT launch CANE

PILOTpartners announces the launch of its Chairman and Non-Executive Practice (CANE). Why CANE and why now? **John Gerry** outlines the three main structural reasons for this initiative and explains why it should

matter to private equity folk. [Page 10](#)



Focus on Healthcare

Bowmark Capital's Kevin Grassby dissects private equity's fittest proposition



Now is the time for many private equity investors to play it safe. That is why, increasingly, the healthcare industry is the sector where they are looking to invest.

According to a Grant Thornton survey, private equity firms are prepared to pay a premium for healthcare companies, which are ranked the joint highest sector alongside media and communications,

with buyers anticipating to pay eight times EBITDA over the next 12 months.

Katherine Steiner-Dicks speaks to Bowmark Capital's [Kevin Grassby](#) about the market drivers that justify such high multiples in the midst of a credit crisis, and why building a network of seasoned entrepreneurs to tackle the changing dynamics of a maturing private healthcare industry is a smart move.

The healthcare sector, in which Bowmark specialises, has not been as scathed as other sectors throughout the financial crisis. There have even been reports that private equity-backed healthcare businesses on the selling block can expect double digit EBITDA multiples. Is this something that you have witnessed when looking at potential investments this year?

Healthcare has been a popular sector for private equity investors for a number of years. The combination of

government-backed revenues and increasing demand based on demographics, with investments often supported by real-estate assets, makes the sector popular with banks and investors alike. There were some businesses that took on too much leverage, usually to fund very high acquisition prices, at the wrong time in the cycle and they have subsequently struggled. However, growth opportunities still remain and well-positioned businesses that can mitigate future government funding pressures are still able to command premium EBITDA valuation multiples.

What are some of the big issues affecting the healthcare sector?

The big issues for the sector right now are the impact of government spending cuts and the opportunities arising from the restructuring of the NHS. From a macro point of view, the private sector should be well positioned to help deliver more efficient and better value services and should be a beneficiary of the drive for cost savings. In the short term, businesses that are totally reliant on government funding will face increasing pressure, but those providing cost savings or improved quality outcomes should be able to offset margin pressures with volume gains.

This new environment will require investors to be more selective and to focus on growth rather than financial engineering as the main driver of investment return.

What makes private equity and turn around expertise a good match for the healthcare and residential home sectors?

As I mentioned earlier, there were a number of high profile deals done before the credit crunch where extremely high levels of leverage were used to fund very high transaction prices. Four Seasons in the elderly care space being a prime example.

At the lower end of the spectrum, smaller operators also geared up, often taking on bank debt to fund developments or acquisitions or to fund dividend distributions to shareholders. Now the environment has changed, a number of operators are at best constrained by their balance sheets, at worst they are in the hands of their

bankers. Such situations will often need new management and new capital to help unlock an impasse, which is where private equity in combination with experienced management can have a role to play.

Are there certain steps that Bowmark takes to ensure that going into a deal its management are the best of breed? For example, how does the firm assess them pre-deal and during the life of the investment?

We like to spend as much time as possible with management in advance of investing to make sure we have a shared vision of, and strategy for, the future, and to work out how the broader management team will need to be supplemented over time.

As our industry matures, it is becoming increasingly important to have a very clear understanding of how a business will develop and grow under our ownership and how that is going to be implemented in partnership with management. We see it as our role to help develop a best of breed team for each of our businesses. As a result we have recently been developing a management network, or bench of talent, in each of our target sectors, which can work with us to initiate, evaluate and transact deals and, if the situation is right, to become involved in the management of new investments. In this regard, PILOTpartners has been helpful in introducing people to us, which supplements our own efforts.

How does Bowmark tend to replace and/or add board level executives when making acquisitions?

Supplementing and enhancing management in our portfolio companies is a central and fundamental part of what we do. Small, high-growth businesses always need some level of ongoing investment in the management team. If we are buying a business from an exiting entrepreneur, more often than not we will need to add resources to cover his or her role.

Healthcare companies often provide an additional challenge, which is that many are founded and run by



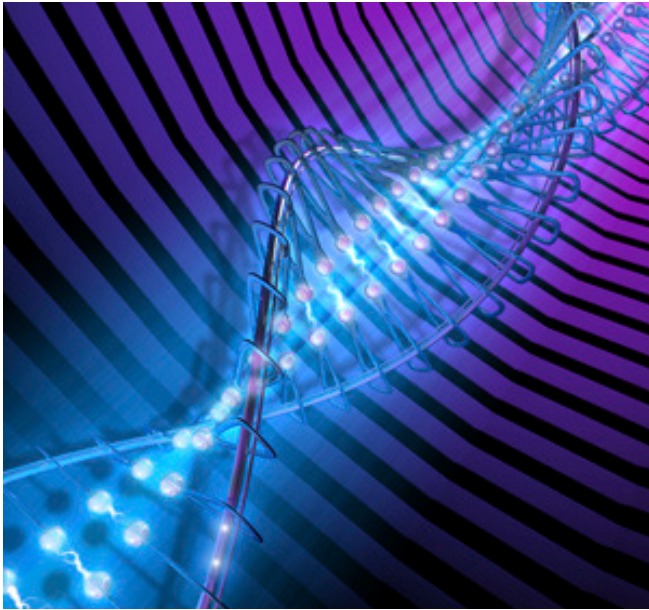
care-led entrepreneurs. We have a lot of experience now at supplementing the founders of businesses with commercial managers. Examples include adding Heads of Marketing and Chief Operating Officers as businesses grow in size to enable founders to focus on the areas where they can add most value, such as maintaining key strategic relationships or identifying potential bolt-on acquisitions.

When it comes to investing in residential care for all ages and abilities, what steps do you take to ensure you are keeping residents' best interests at heart, while still making the business as profitable as possible?

After many years of investing in healthcare businesses we have found that the most important thing to focus on is the quality of care. Getting quality right means investing in the people and the systems in the business. If you can get that right, everything else seems to follow. Occupancy, fee rates, staff costs all seem to fall into place once you get the people and systems right.

At Healthcare Homes, our private pay elderly care business, we have 23 homes, all of which are now rated either good or excellent by CQC. This has taken a significant investment in the business, but we believe that the quality rating of a home will be an increasingly important driver of referrals and determinant of fee rates as the industry matures.

Two of our other healthcare investments, Kisimul and Advanced Childcare, which provide residential care and



education to children with special needs, are also achieving industry-leading quality standards and generate strong operating and financial performances as a result.

In many respects, this is the sales pitch for the private sector's involvement in healthcare. Investment in the assets, the systems and the people allows us to improve quality standards and patient outcomes whilst also achieving our target return on capital. But this comes from enhancing, not compromising on, quality.

Do you believe that the healthcare sector is one that easily feeds the secondary buy-out market?

Yes. Many growing businesses in the healthcare sector require high levels of capital to fund their continued growth, particularly if they are real-estate based. As a result you quite often see businesses passing from one private equity investor to another, with deeper pockets, to sustain a roll-out. Ultimately these businesses transition from being high growth stocks when they are small to more utility-type/ infrastructure stocks as they mature, and you see a gradual transition in the investor type as it goes through this process over the longer term.

Many believe that the private equity market has had to change considerably; how has Bowmark changed its investing philosophies, if at all, from before, during, and now after the era of high multiples, overleveraging, and quick flips?

Most of the change in private equity has been enforced at the top end of the market – the billion dollar, high testosterone, 'front page of the FT' type of deals.

These were often over-priced, over-leveraged, highly financially engineered transactions that generated significant negative sentiment, and in many cases, rightly so. At our end of the market (equity investments of between £10m and

£50m), we never really saw those types of excesses. Prices never reached the levels of the larger deals, partly because banks wouldn't lend as aggressively to small businesses and partly because the investment hypothesis was usually based on growth and required cash to be recycled into capex and working capital rather than deleveraging.

Our investment philosophy at Bowmark has always been to back businesses to grow. This has nearly always meant holding on to investments long enough to demonstrate the fruits of our labours, rather than achieving a quick exit where any value growth is based on multiple arbitrage. As a result, our investment model hasn't changed and our focus on medium term growth remains at the heart of what we do.

There are a number of UK based firms that are now looking more towards Europe for value investing; is this something that Bowmark has contemplated?

Everything is leading towards greater specialism these days. So, I see us continuing to strive to get better at what we already do here in the UK rather than moving into new geographic markets.

Profile: Kevin Grassby

Kevin has over twenty years' experience of investing in UK, mid-market private companies. He began his career at Booz Allen & Hamilton. In 1989 he joined Nash, Sells & Partners (now Sovereign Capital), the mid-market private equity firm, as one of its four founding partners, where he spent 11 years. In 2000 he joined Bowmark to run the business with Charles Ind. He has made investments in a range of sectors, including healthcare, leisure and business services. His past and present non-executive directorships include Care UK, RDF Media, Medscreen, The Regard Partnership and Healthcare Homes. He has an MA from Oxford University and an MBA from Harvard Business School.



La Seda de Barcelona turnaround completed with capital increase and relisting following debt restructuring in an English Court

Publicly listed [La Seda de Barcelona](#) (La Seda) became a name to remember in debt restructurings in August 2010 by becoming the first Spanish corporate to complete a debt restructuring by an English scheme of arrangement. The €1.4 billion petrochemicals group, European leader in plastic containers and PET resin manufacture for the drinks industry breached covenants on its €600 million syndicated loan early in 2009 and was delisted. It was finally relisted in August 2010 following acceptance of the turnaround plan and a €300 million increase in capital, €117n of which is a “debt for equity” swap.

La Seda began restructuring talks with its 54 member syndicate and various bilateral facilities holders to restructure its debt at the beginning of 2009. Negotiations stalled several times, before finally overcoming the major hurdle of unanimous syndicate acceptance earlier this year, when the company opted to implement its restructuring via a UK Scheme of Arrangement.

Cross border Turnaround Managers and legal advisers key to success

Fundamental to the change in the group's turnaround was the decision by the La Seda Board in June 2009 to appoint Carlos Gila of Gila & Co Madrid as Executive Vice President in

charge of the turnaround and restructuring. Recognising that the pan European nature of the group required greater cross border restructuring expertise Gila appointed cooperation partners Bryan Mansell & Tilley (BM&T) as turnaround advisers on matters outside of Spain and on Treasury management; Alan Tilley handling key stakeholder negotiations and David Bryan taking control of group cash management. La Seda has operations in Spain, UK, France, Germany, Italy, Portugal, Belgium, Greece, Turkey and Morocco.

The company also retained Freshfields in London as lead legal adviser under the direction of restructuring partner, Richard Tett.

At the outset, as advisers we were faced with considerable concern from all stakeholders as to the viability of the group and the credibility of management. Total debt was in excess of €1 billion with almost €200 million trade credit overdue to multinational petrochemical creditors and €200 million due to bilateral lenders, including €100 million project funding for a €400 million mega chemical facility in Sines, Portugal, construction of which was on hold. Influential syndicate members were pressing for the key €700 million pre-form manufacturing part of the group managed from Wrexham to be put into UK administration, whilst a resin plant in Wilton,



The BM&T restructuring team:
Alan Tiley, David Bryan, Calos Gila, John Mansell

North East England was faced with winding up orders and legal threats for over €24 million of overdue amounts. Other creditors in other countries were pressing and threatening legal action.

Appointed too late to prevent the administration of the Wilton plant which filed on July 26th Gila and BM&T concentrated on drafting a group survival and turnaround plan including managing the fallout from the Wilton bankruptcy by cooperating with the administrator, Dan Butters of Deloitte, to maximise recoveries for the unsecured creditors, some of which were creditors of other group companies and whose support was important to the plan. The plan also included plant shutdowns to preserve working capital, tight cash and operational management, planned disposals and restructuring around a core group of Spanish and Italian resin plants and the pre-form companies managed from UK. The plan was accepted by the Board in August 2009. Negotiations commenced with the agent Deutsche Bank and other key members of the 54 member syndicate in September and was accepted by the majority following an Independent Business Review by PwC in October 2009. The PwC review concluded that accepting the plan could result in recovery in due course of over 90% and possibly 100% of the Syndicate debt rather than 35% in a Spanish bankruptcy.

In December at an emotional and vibrant Extraordinary General Meeting of shareholders the plan, which diluted existing shareholders to 17.2% of the company, was also accepted and the capital increase approved. Under the restructuring plan the company proposed a €300 million capital increase, half of which would result from a debt-for-equity swap with loan holders giving them 41.4% of the company. The other half would be provided with a €100 million investment from three major existing shareholders, and an additional €50 million capital to be raised in the open market through a pre-emption rights issue. The remaining

debt was rolled into a new €235 million term loan A priced at Libor+ 235bps; and an eight-year €226 million PIK loan (including accrued interest) priced at Libor+ 150bps.

Around €400 million of La Seda's bilateral and trade facilities were also to be restructured separately, with maturities extended from 2010 to 2012 and 2013. The bilateral facilities included a €120 million short term line provided to restart the Sines (Portugal) project which was in due course converted to €400 million project financing with a 23-year maturity.

First Spanish Company to restructure via UK Scheme of Arrangement

The syndicated loan agreement required unanimous approval from all 54 members. Despite strenuous efforts to secure 100% a small core of dissenters either would not or could not give positive assent. There being no Spanish mechanism to cram down the minority, with Freshfields and with support from the agent bank we looked at alternative routes. Freshfields' proposed solution was a UK Scheme of arrangement. But first we had to gain recognition that a Spanish company could justify use of an English law procedure. Secondly that an English Court Order would apply to non English based banks.

In mid-April following 75% in value syndicate support in a lock up agreement, La Seda petitioned to restructure its syndicated debt facilities under a UK Scheme of Arrangement. During a court hearing on 30th April, presiding Judge Justice Newey gave his endorsement to implement the restructuring via Scheme of Arrangement - not on the basis of a centre of main interest (COMI) shift, but based on proof that the Barcelona-based group had a "sufficient connection" with UK jurisdiction.

The company has a branch, and subsidiary company operations and employees in the UK, and its banking facilities are governed under English law.



"A COMI shift could be made only if the group was run from UK, which obviously was not La Seda's case," Richard Tett of Freshfields comments. A COMI shift would have also raised tax issues, given the company's listing and registration for tax purposes in Spain. "With a HoldCo a COMI shift would be pretty easy. But as an OpCo with a lot of subsidiaries, La Seda couldn't request that." La Seda has 22 plants across 11 countries. "While only the parent company was restructured via UK Scheme of Arrangement, all the subsidiaries benefitted from it," Tett concluded.

Spanish bank and international bank interest aligned

A UK Scheme of Arrangement is not a Bankruptcy process but part of English Company Law which was important for the Spanish company directors. It requires 75% approval from each class of lender impaired and eligible to vote. A restructuring under the Spanish jurisdiction would have required unanimous approval of the syndicate, would have been time consuming and the outcome less predictable. Even if all lenders were aligned, unanimous consent would have been impossible to reach for technical reasons. La Seda's syndicate includes an insolvent Icelandic bank unable, we were informed, to vote in favour of the eight year PIK note term element of the plan and Spanish Cajas some of which were under strict surveillance by the Spanish authorities.

During protracted negotiations, differences emerged between Spanish and international investors, despite the compact nature of the syndicate. However, over 95% of La Seda's lenders voted in favour of the workout proposal during a single class meeting on 21st May at Freshfields' offices. In the end no Spanish bank challenged the subsequent Court Order.

None of the 54 banks and funds which formed the syndicate owned controlling chunks of the debt. As a result negotiations were fairly complex. Spanish banks were naturally more supportive, but even the debt-for-equity plan encountered some resistance at the local level. The rollover of part of the original facilities into a PIK tranche, in addition to the senior term, was introduced to reduce the debt conversion into equity, which Spanish Cajas struggled to accept.

Separate agreements with lenders to La Seda's bilateral facilities proved harder, tackling local issues and jurisdictions; most particularly in Italy. Trade creditors did not take a haircut on their exposure but persuading them to stay from legal action was often difficult. That was a big achievement for BM&T who were closely involved in these negotiations. In addition managing the cash flow across a diverse group was challenging and critical to the eventual successful outcome. Tripping an insolvency trigger in any jurisdiction could have forced the group into Spanish

insolvency to protect the directors' interests. Crisis trips to Brussels, Zurich, Lisbon and Milan as well as London and Madrid were part of the process to keep the ship on even keel during the difficult days that syndicate approval was being sought.

In the end the turnaround and restructuring was a significant achievement and a real team effort from all involved. Syndicate doubts that the €50 million capital increase from the market would materialise ended in August of this year when the increase was oversubscribed. As a result of the oversubscription the debt-for-equity swap component implemented in the debt restructuring was lower than expected. Lenders converted €117 million of the €610 million syndicated debt plus interest into shares; €33 million less than €150 million under the original plan. Loan holders thus received the €33 million as a cash repayment at par on a pro-rata basis.

La Seda is now strongly recapitalised and trading positively. Trade creditors and bilateral lenders will get repaid in full, albeit deferred. Whilst the syndicate must also await the outcome of the PIK note conversion in five to eight years the lenders are already better placed than they would have been from a bankruptcy. Their equity is currently trading at about 80% of the 10 cents per share conversion value. Even the unsecured creditors from the Wilton administration will receive a higher than forecast dividend as a result of technical licence transfer and other assistance from La Seda primarily in the sale of the plant to a Korean company. And 150 jobs in North East England have been saved by the administrator. Having received strong letters of condemnation last July at the decision to file from local MP's and Union leaders we are still awaiting letters of thanks from them for help in saving the plant. Perhaps we will have to wait. The pleasure for BM&T and our Spanish cooperation partner, Carlos Gila was in the turnaround itself, working with excellent professionals in Freshfields, Deloitte and Deutsche Bank and for a successful outcome against the odds by lateral thinking and a firm belief that live companies are worth more than dead ones.

Alan Tilley
Bryan Mansell & Tilley LLP



**Bryan, Mansell
& Tilley LLP**

Industrial Revolution



Bruno Deschamps

Now that the days of quick flips and overleveraging are gone, private equity firms are faced with internal conflict. Just what is the new private equity model?

Bruno Deschamps, a senior adviser to 3i and founder and managing partner of development capital firm, Entrepreneurs Partners LLP, shares his views on the future role of private equity

and why it will mean a cultural evolution for many firms.

Interview by Katherine Steiner-Dicks

You followed up a successful corporate career by joining private equity firms, such as Clayton, Dubilier & Rice and 3i; how do you feel your corporate experience benefited your PE capabilities?

I believe corporate experience is essential to the private equity industry. As an entrepreneur, I have been able to bring the skills and experiences that go hand in hand with building a business and I am well aware of the old mantra that "cash is king".

Growth is crucial to all businesses and one way to build it is through creating niche markets. No business exists without a team that values growth and what it takes to get it. As an entrepreneur when you start a business from scratch and then become a leader in your market, you realize that experience is much more valuable than just theory.

My experience as an industrialist means I have also had to deal with the tough management issues of worker disputes, liabilities, and restructuring; all the way up to the issues that an executive board has to face, such as international acquisitions and joint ventures.

Looking back, I loved every minute of it. I learned the different sides of the business; the service business, the sales, the technical side. I learned the value of people and different business cultures, which I have come across in France, Germany, the US and the UK.

Moving into the private equity industry in New York and London enabled me to value my corporate experience and to put it to work within an operational role.

What I like is that I went from an entrepreneur to industrialist to an investor in an international evolution.

Do you think that at least some of the challenging deals done by some PE firms are due to a lack of real life corporate experience?

Yes, I think it could be one of the reasons. Money was too cheap and the world was growing too fast to see the potential pitfalls; the liquidity available was too good to resist. But now that the music has stopped to some extent, only growth can solve that original sin long-term. Of course, adjusting cost base is essential and often painful, but as they say "growth is hell."

That is where industry experience can help you to know how to develop niche growth areas. Despite that the deals done today are perhaps fewer in number they tend to be healthier in their financial structure. And it seems that the deal flow in the US and UK is picking up again, although there seems to be a lot of "pass the parcel" going on through secondaries.

And with the current debt to equity split, now often at 50/50, profitable exits are going to take longer to create the exit multiples previously experienced. If investments are going to be held for longer then it makes perfect sense to have an intimate understanding of an investee company's industry.

I think industry and operational experience in private equity usually only comes into private equity in the form of an advisory role or board. While that has been useful in the past, it may not be sufficient for this new investment climate.

Financial expertise will remain important, but to a lesser extent and will need to be supplemented with strong operational expertise. There will be some tension in this business model evolution between the financial experts where some will struggle. LPs will also have to decide what the best model for their returns will be and if they prefer a hands-on private equity management style going forward.

Currently, we see a lot of industrialist expertise, but rather in an adviser or consultant role, which is expensive and not always as effective as having someone in a permanent role. When push comes to shove you need a hands-on embedded permanent solution, not a temporary consulting one.

The most effective people to go into an investment portfolio are those that are not afraid to face the facts and favour substance over style; they speak the same language as management and at the end of the day, management often appreciates this style of straight talking.

Where do you see private equity 5 or 10 years from now?

There is a place and will always be a place for private equity and a role for it to play. Private equity is an excellent catalyst for so many industries. It provides focus, momentum, alignment of interest and motivation. Indeed, you are always

on a race with little chance to rest, but quite often success is indisputable. Of course, it is not a recipe for every company it is rather a transition to refocus businesses and management teams.

I think that in the next five to ten years the private equity model will change to one that is more hands-on and operational rather than predominately financial with longer investment holding times.

But clearly this approach will change a firm's internal culture and it won't be easy to integrate a more operational model into the one that many have grown to know up until now. This however will vary from firm to firm as they come from different backgrounds.

How important do you think incumbent management is versus bringing in new board level executives? Some of PILOT's clients experience senior management turnover in excess of 2/3 post-acquisition.

Keeping on incumbent management is always preferable, but can prove difficult, especially if it is the case where the incumbent management was part of the problem and partially the reason why the company had to do the private equity deal in the first place.

Unfortunately, as it sometimes happens, you have to supplement management talent and strengthen operational efficiencies.

There are times when you need to bring in new people for a change in culture and greater momentum and focus. Many entrepreneurs are extremely busy and as a result need to focus on fewer targets and learn to discontinue others.

The role of private equity is to assess management talent very quickly and help them focus on key priorities and eventually supplement in some key areas.

Most PE first firms have built up internal expertise of tracking and nurturing senior executives that they could call upon to help their portfolio businesses. Do you feel that some firms have missed out on this competitive advantage?

I think most of the firms can attract talent, but often do not use them in the right role. Sending in financial experts and consultants very often frustrates management and is a waste of time and money.

If you do use outside talent, then they should be legitimate, recognized operators and be used in a straight forward operational way. They should be the voice that speaks out the truth sooner rather than later and be the one that motivates management.

As this industry goes through a major transition of its business model and culture it needs to realize that long-term value will come primarily from operational improvement and also take greater social responsibility when it comes to people, jobs, etc... Again, operational improvement has to come primarily from growing top line rather than just from cutting costs. While it is much more challenging, this is where true operational expertise will make the difference.

Profile: Bruno Deschamps

Bruno Deschamps is the Chairman Founder of Entrepreneurs Partners LLP, a company that provides advisory, consulting and investment capital to entrepreneurs around the world.

Prior to this, he was a Managing Partner of 3i plc (London) where he remains a Senior Advisor to the CEO. He joined 3i in 2007 from Clayton, Dubilier & Rice (New York & London) where he had been Operating Partner since 2002. He was responsible for private equity investments in Europe, including companies, such as Brake Bros of which he was the chairman and CEO, VWR, Culligan and Rexel.

Prior to joining Private Equity, Bruno was President and Chief Operating Officer of Ecolab Inc, a Fortune 500 company headquartered in Minneapolis, USA. Before that he lived for 10 years in Germany where he was the CEO of Henkel Industrial adhesives worldwide before becoming the CEO of Henkel Ecolab headquartered in Duesseldorf, Germany. He started his career managing his family-owned speciality chemical company in France and has a proven record of generating value by improving the operations of the diverse businesses he has led around the world.

He holds an MBA in marketing and finance from ISG Paris and San Diego State USA and is fluent in French, English, German, and Spanish. He is President des Conseillers du Commerce Extérieur France UK, a Director of the Franco-British Chamber of Commerce and Knight of the Legion d'honneur France.

PILOTpartners announces the launch of its Chairman and Non-Executive Practice (CANE)



John Gerry

Why CANE and why now?
Three main structural reasons for this initiative:

First. Whichever way you look at the economy, it sends shudders up and down the spine. Whether it's the retail sales decline of July, the projected "double-dip" in house prices, the increase in VAT and other personal taxes, the likelihood of a growing

unemployed number, or just the worry that "Red Ed's" union backers will want to cause trouble for the sake of causing trouble. Everything points to a year or two of choppy waters where companies will be looking often at static sales lines and pressure on margins. A lot of highly leveraged "apples" of the private equity industry eye of a few years ago might be looking a bit wobbly on the bough.

Second. There has been a major shift in the way private equity is working. It's now less about seeking out sleepy assets and/or neglected opportunities and more about using the traditional skills of financial analysis and understanding of risk to evaluate the future viability of portfolio companies or the possibility of improved performance via turnaround management modus operandi. To follow this through, the private equity investor or other stakeholder will usually need particular assistance:

- A Chairman to analyse a business and develop rapidly a cogent plan for either disposal or growth. This individual could, of course, be a consultant but an in-house Chairman is likely to get into the guts of the business faster, to have greater commitment and to secure the help and support of the internal team (all but the very best consultants can be partially frozen out by a hostile team, and the very best consultants come at a very high cost!)
- A Chairman to take the business forward when the analysis reveals potential for development and growth. Often a rather different character than the "analyst Chairman"; more a leader, team builder and doer.
- Non-executive directors either with deep sector experience to assist in a particular market situation, or a generalist who will support the Chairman and stakeholders in monitoring the executive team, and in ensuring best Board practice.

Third. PILOTpartners have been up and running for two years (and the Partners are steeped in private equity and turnaround experience). In that time we have met, analysed, recruited, trained and/or placed many hundreds of senior UK executives, many of whom hold existing directorship portfolios. In that time also, we have developed our own ideal pro-forma of those qualities that mark out the best non-executives in differing situations, but almost always when a company is under some stress.

Of these many hundreds of executives, we are inviting those who match the pro-forma to join our Chairman and Non-Executive Directors Practice. As members of this panel, they will be kept fully up to date with issues of corporate governance, personal liability and legal responsibility of Directors. They will, of course, be available to our clients, backed by the full resources of PILOTpartners.

Now, specifically, what characteristics do we look for in our candidates? Clearly they have to share the characteristics required of all Board members:

- Provide entrepreneurial leadership within a framework of controls and risk management
- Set strategy and enable its achievement by ensuring the appropriate financial and human resources
- Set the values and standards for the enterprise

Non-executives, in addition to these must be able to add serious value to a Board in the following areas;

- Ability to challenge strategy as well as contributing to its development. A questioning mind is an imperative.
- Experience in and innate ability to monitor performance. This involves an instinct for knowing when meaningful information is being supplied to the Board





- The ability to ensure that proper financial and risk management controls are in place, and that they are sufficiently robust
- An understanding of organisations and how they work, alongside strong mentoring skills
- Knowledge of and ability to promote the highest standards of corporate governance

So, in essence, what is a good NED; part policeman, part consultant, part mentor, part mediator. Deeply experienced in the way organisations work and the functions interrelate, and having operated in conditions of stress for a business. Not an easy role to fill, but a good NED can add enormous value in good times, but particularly in challenging circumstances.

Corporate Governance

As an additional service to its clients, PILOTpartners is now undertaking Board Reviews to assist clients in getting the most out of their Boards. This takes the form of a series of semi-structured interviews with each Board member across a range of issues bearing on the ultimate efficiency of the Board as a Board. A full report to the Chairman or stakeholder covers:

- Identification of key Board roles
- Definition of governance roles within the Board
- Executive/Non-executive relationship and communication
- Chairman/CEO relationship
- Improvement of Board processes, including timely and adequate management information and the workings of the committee system if in place.
- Plan for continuous improvement

The FRC's combined code of corporate governance (2006) lays great stress on the importance of these issues to the health of a business, and the FSA handbook legally enforces the reporting of FTSE companies against the code. It is also critical for businesses dealing in the public sector to have bi-annual reviews of their corporate governance status. PILOTpartners will conduct the interviews and produce the report usually within two weeks (subject only to the availability of Directors)

Profile: John Gerry

John Gerry has 15 years' experience resourcing board level executives as managing director of EIM and Whitehead Mann's Interim Partnership and latterly the CEO practice at AshtonPenney where he worked closely with the founding members of PILOTpartners, James Wheeler and Michael Gebauer. John has been a non-executive with PILOTpartners since its inception in January 2009.

Before embarking on his executive resourcing career John was managing director at Wickes Retail, Mecca Holidays and Hotels and Londis Ltd following senior management positions at Fisons and Imperial Group. Aside from his executive positions, John has chaired charities and held non-executive roles in a number of SME's.

Contact John Gerry on:

T: +44 (0)777 485 0508

E: j.gerry@pilotpartners.eu

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out in a controlled and intimate environment. Heading into Q4 (is this when the dam will finally break?), we've continued to strengthen our offering and wisely used the relative down time of the summer to our advantage.

We are very fortunate to have **John Gerry** rejoin us, spearheading his new Chairman & Non-Executive Practice ('CANE'). As you can see from his contribution to Pilot's Log, John is a very experienced senior executive recruiter, and will be specifically targeting the increased need for fortune-changing chairmen and NEDs.

James has been busy continuing to strengthen our European and International network of like-minded recruitment firms, and is imminently off to Madrid to welcome our newest affiliate. His timing is spot on as we have enjoyed a big uptick in our European mandates (particularly in Germany, France, Italy, and now Spain). On top of this, James added another very strong client in BTG Restructuring, the specialist arm of Begbies Traynor Group, the listed insolvency firm, and is now managing a specialist turnaround panel on their behalf.

In addition to the launch of CANE, this issue has some very strong contributor pieces:

- **Bruno Deschamps**, Chairman Founder of Entrepreneurs Partners LLP (a company that provides advisory, consulting and investment capital to entrepreneurs around the world), ex-Managing Partner of 3i plc (London) where he remains a Senior Advisor to the CEO, and ex-Operating Partner of Clayton, Dubilier & Rice, provides us a very incisive and detailed analysis of the importance of corporate experience in today's private equity model, and how the industry is changing from flipped secondary purchases to longer term operational improvement as a way to find and maximize value.
- **Kevin Grassby**, who has co-led Bowmark Capital since 2000, began his career at Booz Allen & Hamilton, and spent time with Nash, Sells & Partners (now Sovereign Capital), provides us an insight into Bowmark's philosophies, particularly their strong reliance upon

high quality management, as well as their views on the healthcare market in which they continue to see good investment value.

- Talking of Spain, we are very fortunate in having **Alan Tilley** report on this firm's ground breaking restructuring of La Seda using the best of both Spanish on the ground know-how in tough conditions and pan European consensual restructuring advisory.

Lastly, we see Q4 as a critical period for corporate decision making due to:

- the Government's announcement on public sector cuts/austerity plans;
- anticipating changes in bank behaviour on how they will support UK commerce & industry (i.e. will they lend or not?); if so will the SME's lose out as the banks focus on the big, mucky refinancings coming through in Q4/Q1?; and
- how the bellwether non-food retail sector survives this Christmas.

It will be very interesting to see how the market (and private equity) will respond. Whatever the result, PILOTpartners will be there to support our clients in providing a rapid response to all manner of strategic and operational changes arising.



Michael Gebauer
Partner – private equity practice

E: m.gebauer@pilotpartners.eu
T: 0783 423 5458

Wheeler Gebauer LLP
1-3 Frederick's Place
London EC2R 8AE

info@pilotpartners.eu
Tel. +44 (0)7834 235 458

Company No. 0C340896

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WHEELER GEBAUER LLP