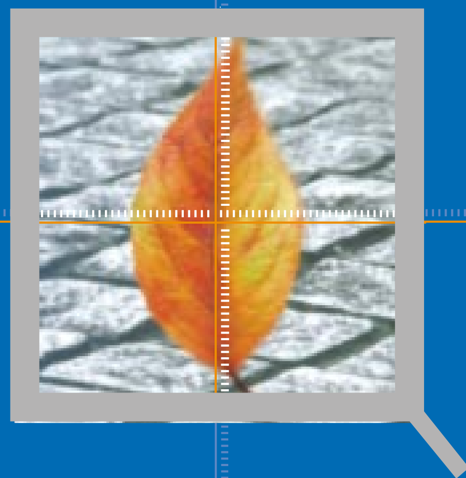
Entrepreneurs



BVCA *investing in enterprise*

Entrepreneurs

Entrepreneurs are the lifeblood of business. Whether creating new companies or rejuvenating established businesses, they provide the crucial driving force that creates growth and success. The private equity community plays a key role by facilitating access to the necessary capital and expertise.

These special people have special qualities. The confidence and commitment to take a leap into the unknown. The commercial acumen to spot a good idea. And the dynamism to run with it.

This publication features just a few of the UK entrepreneurs whose vision has become reality thanks to private equity.

ENTROPIC

STEVE YOUNG

Entropic Cambridge Research Laboratory (ECRL) was formed in 1995 as a joint venture between Cambridge University and Entropic, a small Washington DC-based software company, to exploit speech recognition technology developed by Professor Steve Young and his team at Cambridge University Engineering Department. A first round of investment totalling US$3 million was led by Amadeus Capital Partners in early 1998. A further round was almost complete when Microsoft swooped to buy the whole of Entropic in November 1999. Entropic is now a wholly-owned Microsoft subsidiary based in Redmond, and Steve Young has returned full-time to Cambridge University.

The art of engagement

Steve Young can vividly recall the first piece of advice Hermann Hauser gave him when Amadeus Capital Partners decided to invest in Entropic in 1998. 'He told me that you always have to be the best of breed at something,' says Steve. 'It doesn't matter how narrow it is. Just be the best at it.'

As Steve freely admits, such thinking marked a step-change for ECRL, whose engineering team he had previously managed as a part-time sideline. With Amadeus on board, the venture became far more focused – and Steve has no doubt that the eventual exit to Microsoft was a direct result of that change of mindset.

'As a start-up, ECRL was extremely unusual,' say Steve. 'It was not a situation where somebody had a great idea and started chasing private equity providers to back it. We had developed some software, and Entropic asked if they could handle distribution and maintenance. That was how things got started.'

Industry standard

The software in questions was HTK – now an industry standard for building speech recognition systems in laboratories worldwide. For three years ECRL continued to develop its software tools business, but for Steve this remained an adjunct to his day job. 'As an academic, my main ambition was to excel in scientific research, not to sell software,' he recalls. 'While it was nice to know that people were using our technology, and that we were bringing in money and building our reputation, I really didn't have time to be fully committed.'

By 1998 Amadeus had spotted the commercial potential, and led the first round of financing, pulling in backers including OAK Investment Partners to help develop the company's US networks. The joint venture partners in Cambridge and Washington DC were merged, and the IP rights were transferred from the University in return for a shareholding. Steve got leave to join Entropic effectively full-time as chief scientist and VP engineering.

This was one of the decisions that ultimately drove Entropic's success. 'Trying to run a business part-time just doesn't work in the long run,' he says. 'We were distancing ourselves by bringing in technical management. What I really needed to do was get fully engaged and let my brightest PhDs manage their own tight-knit groups.'

Getting focused

Once Amadeus came in, that was precisely what Steve did. The product range was pared down, and former Bay Networks executive Paul Finke was drafted in as CEO – 'he made a huge difference,' says Steve. By mid-1999 Entropic was focused on the Voice Gateway, a device enabling internet access through speech over the phone. 'It hardly seems like rocket-science now, but at the time we had a job explaining the concept to people,' he laughs. The second financing round was going well, but was dropped when Microsoft made 'an offer we couldn't refuse.'

Steve stayed on after the exit, working for Microsoft until January 2001. But he was unwilling to relocate to Redmond and ultimately Entropic's Cambridge office was closed. He is now back full-time with the University, as Professor of Information Engineering and Head of the Information Engineering Division. He is also Chairman of the School of Technology.

Steve learnt a lot from his Entropic experience, especially about the need for management engagement, commitment and clear product focus. 'First, you won't make a success of a business by running it part-time,' he says. 'Second, don't worry about giving the CEO a bigger slice of the company than you've got yourself. If they are good, they will more than earn it. Finally, always ask the private equity providers for more money than you need. Don't try to scrape along on as little as possible.'

STEVE BENNETT

Steve Bennett founded Software Warehouse in Birmingham 1989 with the help of a £40 a week Government grant. By 1999 he had a thriving mail order software business, and an internet channel accounting for 4% of sales. As internet fever heightened, the company decided to spin off its internet arm as Jungle Online, funded by £4 million of private equity led by 3i. By mid-2000, nine months after launch, Jungle was turning over £3 million a month and planning an IPO at valuations up to £700 million. Then the internet bubble burst, reality returned – and Jungle was bought by GUS in September 2000 for £37 million.

Learning the right notes

Steve Bennett was sixteen when he realised he would never make it as a professional saxophone player. So he took a Youth Training Scheme course to learn about computers – and started on the road to entrepreneurial success.

However, the road had several twists. After the YTS course, four years as a junior engineer at ICL turned Steve into a frustrated salesman. When he finally got the sales job he craved, selling word processors for a Wang dealership, it went bust three months later. 'Then one of the guys I worked with said we should set up a software business – he'd organise the stock and I'd sell it,' he recalls.

So, in 1989, Steve set up a mail order retail business called Software Warehouse with a weekly enterprise allowance and a £4,000 loan guaranteed by his father. The first few years were slow, and his original partner left. But between 1994 and 1998 the business took off, largely thanks to its exclusive rights to sell the Superstore compression utility.

Getting on the web

Software Warehouse also had one other fast-appreciating asset. In 1996, the company had become one of the first UK retailers to start selling software over the internet. At first, three order represented a good month, but web-based sales picked up steadily. It was when a US rival offered to buy the business in 1998 that Steve knew they were really onto something. 'We realised it was time to take the internet business more seriously,' he says. 'We saw how exaggerated share prices had become in the US, and decided to start our own web business.'

To do it properly, they would need capital. Up to that point Software Warehouse had been completely self-funded, but extra money would be needed to develop and market a consumer internet business in a tight timeframe. So Steve approached 3i, and worked with them to create a separate team to compile the detailed business plan and raise independent funding. 3i also introduced a local entrepreneur with experience in internet businesses to support the spin-out and help develop Jungle's market penetration.

In August 1999 Jungle Online was launched, backed by £4 million of 3i-led funding and a national TV and radio advertising campaign. Sales surged. 'We probably could have done it ourselves slowly, but the timing was crucial,' says Steve. 'It was vital to get in first, grow the business quickly, and get the flotation away.' The first two parts of the plan went swimmingly, with sales rising month on month and valuations rocketing to stratospheric levels. But one week before the IPO roadshow was due to start, boo.com collapsed – taking the internet bubble with it.

Heading for the exit

The flotation was pulled, and the future was cloudy. 'We were different from most internet companies because we had significant sales and cashflow,' he recalls. 'But the problem was that our suppliers' insurers would no longer cover them for doing business with us. 3i had to keep bailing us out – not because we were in trouble, but because we kept losing our credit lines.' A trade sale was the only option, and Steve clinched a £37 million sale to GUS which provided an excellent exit – though clearly a fraction of the unreal valuations earlier that year.

Looking back, Steve's advice to would-be entrepreneurs is to put their own money where their mouth is before expecting private equity providers to back them. 'You've got to see it from the private equity firms' point of view – and what they want to see is commitment on your part,' he says. 'Private equity companies will come and fund you if you have already exhausted everything else, such as mortgaging your house. You have to show you are prepared to back the idea yourself.'

BOB FAIRCHILD

GLE DEVELOPMENT CAPITAL

Exeter-based Landmark Information Group was founded in 1994 to develop information products using high-specification Geographic Information System (GIS) software. Several financing rounds led by GLE Development Capital and 3i saw Landmark develop potentially market-leading products, yet its financial performance remained disappointing. In late 1997 the investors asked Bob Fairchild, to review Landmark's strategy. His recommendations were accepted and he became Managing Director in early 1998 via a Management Buy-In. Bob's strategy proved successful, and later that year Daily Mail and General Trust Group bought Landmark, providing an attractive exit for investors. Bob Fairchild remains Managing Director of Landmark, which has grown rapidly within DMGT.

Profile – Striking the right balance

According to Bob Fairchild, every business is subject to a number of competing internal forces – and the successful companies are those that manage to keep these in balance to give the customers what they want.

'The production guys typically want every product to be black and sell a million of them,' says Bob. 'The sales and marketing guys want them all different colours and personalised to each customer. The finance guys want to take no risks and get paid up front. A good business manages these conflicts. A bad one gets skewed too much towards one or two of these functions – so the company becomes unbalanced.'

When Bob took the helm at Landmark Information Group in early 1998, he found a business that had failed to strike the necessary equilibrium. 'The technical guys had produced an excellent database, but the financial and selling and marketing requirements were not receiving sufficient attention,' he recalls. As a result the company was not realising its true potential.

A wealth of experience

Bob got involved with Landmark thanks to his wide-ranging experience as an manager and financier. A civil engineer by training, he had worked on a range of construction projects in the UK and Hong Kong before taking an MBA at Cranfield and joining a global bank. After ten years in the City he then moved on to work on turnarounds in banking, property and manufacturing, and got to know the private equity community. As a result, when Landmark was experiencing problems, it was Bob who got the call.

LANDMARK INFORMATION GROUP

Within six weeks he put together a report highlighting Landmark's current problems and future potential, and setting out the steps needed to turn it round. In response the investors offered him a chunk of equity and the role of Managing Director in an MBI. He took the job, invested his own money, saw the buy-in through, and set about sorting out the finance and marketing requirements by restructuring the organisation and bringing in new blood.

'It was a good business that was not yet delivering on its potential,' says Bob. 'For example, up to then it had been 100 per cent debt-financed, which is very risky in a start-up. We also needed new sales and marketing expertise to get our sales moving. So now we had the right products, funds to grow and a stronger balance sheet. We simply started to get everyone doing the right things, and began to sell the company's products and create a winning atmosphere.'

Something from nothing

The effect was dramatic and the market began to sit up and take notice. Suddenly a queue of potential purchasers were knocking at the door. 'At first I told them it was too early,' says Bob. 'But the knocking got louder and louder, so I told our backers that there were some serious offers emerging. The most serious was from DMGT.'

That offer presented the private equity investors with a good return on an investment that they had been considering writing off barely six months earlier. Bob stayed with Landmark through the acquisition, and now runs a 135-person company turning over around £25 million a year. Before he took over in 1998, Landmark employed 75 people and turned over just £2 million.

'I'm not a classical entrepreneur with fantastic new ideas,' says Bob. 'But if you've already got a fantastic new idea and it's not working, then I can help. It all comes down to making sure you've got the right people doing the right things. I am very pleased with the progress we have made at Landmark, and the company has a bright future.'

LUMINAR

STEPHEN THOMAS

HgCapital

In 1987 Stephen Thomas founded Leadwise Leisure to buy discotheques and manage them more efficiently. The first business was acquired in King's Lynn in 1988. By 1990 the company had eight discotheques, and a £1.4 million financing round led by HgCapital (then Mercury Private Equity) enabled the newly-renamed Luminar to open its first Chicago Rock Café theme bar. Expansion continued, and in May 1996 the company floated in London at a capitalisation of £30 million. HgCapital supported a £15 million rights issue the following year, and exited completely in 1999. Luminar is now the UK's largest operator of licensed late-night venues.

After leaving school in his native Cardiff, Stephen Thomas was working as an apprentice motor mechanic for Ford when he took a part-time job at the Top Rank suite in the town to make a bit of extra money. He's glad he did.

Thirty years on, Stephen is Chief Executive of one of the UK's leading quoted leisure companies. Luminar plc has 283 venues in 164 towns across the country, and a portfolio of market-leading brands that have redefined the theme bar and night-club market – including Chicago Rock Café, Liquid Nightclub, Jumpin' Jaks and the London Hippodrome.

'When I started working at Rank they told me I was quite good at it, and offered me a course a as trainee manager,' he recalls. He jumped at the chance, and rose to deputy manager before teaming up with an entrepreneur to run night-clubs in Cambridge and Luton. Stephen stayed with that business when it was bought by Whitbread in the mid-1980s, but by 1987 another change of ownership was looming – and Stephen was ready to put his venue management skills to work on his own account.

Setting a lead for the leisure sector

He formed Leadwise Leisure with a £200,000 bank loan and £24,000 of private capital, and the business proved an instant success at turning round underperforming night-clubs. By 1990 it had a string of eight clubs, and Stephen was talking to private equity providers about expansion finance. 'We bumped into HgCapital (then Mercury Private Equity),' says Stephen. 'They said they liked us as management, but that we should come up with a new idea. So we did.'

Renamed Luminar, the company used HgCapital's £1.4 million investment to launch the Chicago Rock Café concept. As a pub, the first venue in King's Lynn had been turning over £1,700 a week. The new format saw this rocket to £12,000 – and a major success story was under way. By 1996 Luminar had 13 Chicago Rock Cafes, and was receiving repeated takeover approaches from quoted companies.

HgCapital could have made a good exit at that point – but its advice was for Luminar to go for a flotation. 'Whenever HgCapital did due diligence on the people trying to buy us, it found that we were a better-managed and more solid company than the potential acquirers,' says Stephen. 'So it said we'd be better off going public ourselves.'

Luminar takes off

The flotation on the London Stock Exchange in May 1996 was oversubscribed seven times, and valued Luminar plc at £30 million. HgCapital's support for a £15 million rights issue the following year helped fund a further 21 Chicago Rock Café sites. HgCapital continued to have a stake in Luminar until 1999, since when its expansion has continued both by organic growth and acquisitions – including the purchase of Northern Leisure in July 2000

Stephen sums up HgCapital's role in Luminar's success as 'fantastic.' He adds: 'To be frank, at the start we were not very good businessmen. But the opportunity to observe them in action, their contributions at board level, and their training and coaching turned us into what we still consider to be the best businessmen in the industry.' He shared HgCapital's joy at its final successful exit, because he felt both parties had done a good job for the other.

Stephen's advice to budding entrepreneurs is to have investors you can bond with on a personal level. 'You have to like the people who are investing in your business,' he says. 'You have to be sure that they're honest and open. They have to share your passion for the business. And the same goes for your employees: don't employ anyone who doesn't care.'

INCISIVE MEDIA

TIM WELLER

Experienced publishing executive Tim Weller formed City Financial Communications (CFC) in 1994. The company experienced rapid organic growth thanks to its expanding portfolio of successful financial services titles. By 1999 CFC was highly profitable with over £5 million in the bank, so Tim decided to seek a private equity investor to bring expertise in acquisitions. He approached Kleinwort Capital, suggesting that it buy a stake in CFC and merge it with one of Kleinwort's existing investee companies, Timothy Benn Publishing. The deal went through in July 2000, creating Incisive Media. Five months later Incisive floated in London at a market capitalisation of £71 million.

Seeking expertise – as well as equity

Imagine the scene. Your business reaches its fifth anniversary with revenues of £12 million and £5.5 million cash. You have grown organically, but feel the time has come to start acquiring. What do you do?

For Tim Weller, who reached this position in 1999 with City Financial Communications, the answer was clear. It was time to tap the private equity community. Not just for capital, which his company already had. What CFC needed was expertise in making and integrating acquisitions.

'We had grown exponentially and organically without any borrowing,' recalls Tim. 'So we faced the question of how to continue growing at pace – and the answer was new expertise at board level in acquiring companies. The obvious place to look for it was in the private equity community.'

Success story

So Tim found himself in the happy position of interviewing a shortlist of private equity providers queuing up to invest in his business. As Tim observes, these were 'slightly different circumstances from most other companies.' But this turn of events was no more unusual than CFC's remarkable success story over the previous five years.

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Lloyd's named in slavery lawsuit

By Marcus Alcock

LLOYD'S has been named as a defendant in the latest round of lawsuits to be filed in the US seeking compensation from companies alleged to have profited from slavery.

one of the defendants (PM, 28 March, p1).

Mr Barkhead's lawsuit names eight corporations as defendants from the banking, insurance, transportation, textile, and tobacco industries – including Lloyd's.

in March this year against against insurer Aetna, railroad firm CSX and financial services firm Fleet Boston.

Ms Farmer-Paellmann told *Post Magazine* that no dollar amount is being requested – the complaints ask for an

Lutine line-up: This year's Lutine Lineslip Regatta, sponsored by Post Magazine, saw Ace's European Group sail to victory over the weekend at Cowes, Isle of Wight. Ace was both winner of its class

INCISIVE MEDIA

Tim had been Managing Director of Reuters Publishing before founding CFC in 1994 with £275,000 of privately–sourced capital – including some from his father-in-law. But this was no family business. 'From day one we applied big company standards,' he says. 'We were a tiny company, but we were going to play by the big boys' rules. For example, we had three Non–Executive Directors from the start.' These hand–picked people brought invaluable board–level experience and knowledge, a formula that Tim has stuck to ever since.

CFC's chosen market was the UK's rapidly – growing financial services sector, where it set about addressing the information needs of both the B2B and consumer markets. The company grew rapidly, launching six business-to-business titles including market leaders such as Investment Week, International Investment, and COVER, and two specialist consumer titles, Bloomberg Money and Investor's Week. Such was their impact that Tim was voted 'Publisher of the Year' by the Periodical Publishers Association in both 1997 and 1998 – and, after the flotation, Ernst and Young's 'Entrepreneur of the Year' in 2001.

Heading for the exit

An equally striking sign of success was that CFC never spent its initial £275,000, but turned cash–positive with its account still safely above £100,000. By the end of 1999 Tim was talking to private equity firms, and had some interesting responses. 'Some of them didn't like our internet strategy,' he recalls. 'Our approach was softly softly and bottom–line focused. We were making money on–line, but very slowly. They thought we would lose out to people investing much more heavily.' History has shown it didn't work out that way.

By mid–2000 Tim was working with Kleinwort Capital to put together the merger with Timothy Benn, which had strong titles such as Post but significant debts. The merger – in July 2000 – saw Tim take the role of CEO and brought Kleinwort's Andrew Hartley onto the board as a 35% shareholder, bringing with him access to Kleinwort's wealth of knowledge and experience across the publishing sector. Five months later the IPO enabled the private equity investors to double their investment and the merged company to pay down most of its debt. Mike Masters, who had built up Trinity Group, joined as Chairman.

Tim's advice to people following him is not to underestimate their strengths. 'If your business is generating cash, you are in stronger position than you think,' he says. 'If you have got good management you should really stand firm. That's what the private equity firms are really buying into – not a product or business, but management. My other advice is make sure you have an extraordinarily strong Finance Director.'

HOMEBASE

ROB TEMPLEMAN

In December 2000, the private equity house Permira surprised the business community when it announced a buy-out of the struggling DIY chain Homebase from J Sainsbury. On completing the deal in March 2001, Permira immediately installed a new management team led by CEO Rob Templeman, a 43 year-old veteran of previous private equity-backed retail ventures. Templeman set about reshaping and revitalising the business through a radical programme including new store formats, rationalisation of the head office, and an overhaul of everything from systems to product lines. Just 20 months later in November 2002, GUS bought Homebase for £900 million – bringing the private equity investors a return equivalent to about six times their original stake. The deal won an award for "Deal of the Year – Private Equity" at the *Real Deals*/BVCA Private Equity Awards in April 2003.

A business with potential

Rob Templeman recalls that he was about two months into his stint as CEO of Homebase when he realised how big the upside was likely to be.

'It was the early summer of 2001, and like-for-like sales had really started to take off,' he says. 'The business hadn't been traded all that hard. I remember saying to Chris Woodhouse, my number two, that this was the first time I had run a retail chain where there were so many opportunities that the last thing you had to worry about was getting customers to come in.'

But come in they did. Rob had been brought in to run Homebase from Harvey's Furnishing the moment Permira's purchase of the chain got EU clearance. 'It offered the two attributes I really look for – a business with scale and huge opportunities for improvement,' he says. Alongside Finance Director Chris Woodhouse and Chairman John Lovering, Rob set about driving Homebase back to its roots – and the customers came flooding back.

In front of the plasterboard

'The most important thing was to focus Homebase back onto its core business,' he says. 'It had been trying to take on B&Q head-to-head. We looked at the customer base and the underlying strengths of the business, and moved it towards the more decorative end of the market. To leverage productivity we introduced innovations such as mezzanine floors, which added 25% selling space and also made it a nicer environment for female customers to shop in.'

If moving the offering 'in front of the plasterboard' was logical, other initiatives caused more surprise in the markets. When Permira bought Homebase, it immediately sold about 30 sites to rival B&Q for £224 million. Some thought the deal looked suicidal – but it proved inspired. 'It was a brave move, and a lot of people thought it was daft,' says Rob. 'Hindsight shows it was very clever. It took risk out of the transaction.'

Within a year, Rob had got the slimmed-down Homebase motoring, with profits rocketing from £26 million in 2000 to about £105 million in 2002. 'To turn a retail business round, there are basically three levers you need to shift,' he says. 'Get your costs down, your margins up and your like-for-like sales moving. At the same time you need to get everyone focused on working capital and cash generation. With Homebase, the cost base had got way too high, and there was no trading and marketing strategy to drive sales.'

Hitting the ground running

In fixing these problems, Rob benefited from his previous experience of running private equity-backed businesses – which had taught him to move fast. 'The biggest hurdle for many people coming into the private equity world as a manager, is switching to the mindset of an owner,' he says. 'Once you think like an owner, then your interests are immediately aligned with the private equity house – and you start to act much more quickly. It's very different from the employee mentality of letting things drift.'

Within little more than a year of taking control, Rob was discussing possible exits, and he was closely involved in the sale to GUS. 'We had been talking to GUS for quite a while,' he says. 'Clearly, it was a brilliant exit for us and for Permira. But it was also one of those deals where the buyer and seller were both happy with the price – and GUS certainly got a good business with a strong cash-flow and great prospects.'

After the sale of Homebase, Rob was snapped up by CVC to run Halfords – the bike and auto parts retailer that it had acquired from Boots. He summed up his advice for anyone seeking to follow in his footsteps. 'You need to de-risk the transaction as fast as you can through focusing on cash generation and effective working capital management,' he says. 'After that, make the cost savings. But the real challenge is devising and executing a strategy for growth in the top-line sales and profits. Because without that, you really don't have anything to sell.'

ADAYTUM SOFTWARE

GUY HADDLETON

Adaytum Software was founded in the UK in 1990 by New Zealand-born entrepreneur Guy Haddleton, offering customers ready-written business planning on Lotus 1-2-3. Several years of development, including input from former IBM technology guru George Kunzle, established Adaytum as the UK market leader in collaborative business planning software. In 1997, with backing from 3i, Adaytum went into the US where it repeated its UK success. Five more private equity rounds later, including further funding from 3i, Adaytum was sold to Cognos in December 2002 for $160 million. The deal won an award for "Deal of the Year – Venture Capital" at the *Real Deals*/BVCA Private Equity Awards in April 2003.

The power of advertising

For Guy Haddleton, it all began with an advert in the *Financial Times*. 'It was August 1990, and I ran a small classified ad headlined "Business Planning on Lotus 1-2-3",' he recalls. 'The business proposition was that people could save 200 hours of programming time. I called it the *MBA Business Plan* and I priced it at £49.'

With an MBA from New Zealand and three years' distribution and marketing experience in the UK, Guy knew there was a gap in the market for automated business planning on the PC – a gap so wide that within a decade he was selling enterprise-wide licences to major US corporations at $1million a time. But back in 1990 resources were scarce. So, after setting up Adaytum Software with marketing specialist Sue Strother, Guy simply put the start-up costs on his credit card and began trading from his flat in Bristol.

Testing the limits

The *Financial Times* ad ran on a Saturday. By Monday Guy had 39 orders but no product, so he spent the next 12 days writing it. Then he set about recruiting an expert Lotus 1-2-3 macro programmer and launched the business onto a breathtaking roller-coaster through several phases of development. Guy successfully converted 10,000 customers to his product in two years, but found Adaytum's applications were increasingly testing the limits of what spreadsheets could do. The answer arrived with George Kunzle, who had helped develop IBM's internal forecasting system.

'George had developed a very sophisticated collaborative planning system that enabled all the departments in a business to put together multi-dimensional spreadsheets and consolidate them,' recalls Guy. 'It was the time of the Local Area Network boom, and George had ported the software onto the PC LAN, but he was finding it hard to sell. That's where we came in.'

By 1996 Adaytum had market leadership in finance departments across the FTSE 100. But there was still one big nut to crack. 'To be a dominant force in software, you have to conquer the US,' says Guy. 'The US players were already our biggest competitors in the UK and we were beating them. It was time to tackle them on their home turf.'

Cracking the States

To fund its assault on the US, Adaytum raised its first private equity backing – $1million from 3i. 3i director Laurence Garrett recalls: 'We were attracted by the sales engine that Guy had built up, by his marketing, and by the strong track record of growth. Plus the business intelligence market was pretty embryonic and we thought Adaytum could crack the US.' 3i was right. From a four-bedroom apartment in Minnesota, Guy and the team 'sold our hearts out to prove that what had worked in the UK could also work in the US.' It did.

By January 1998 further expansion capital was needed, and 3i was joined by St Paul and JP Morgan H&Q. As the funding rounds continued, Guy decided that the scope of the products also needed to expand. So the system was re-architectured into a web-based environment, and by 2001 Adaytum was a clear leader in this market with 18 months' breathing space over the competition. The following year, Cognos bought Adaytum, delivering an award-winning exit for the backers.

Guy, now planning his next venture, has some clear guidance for other would-be entrepreneurs: plan ahead, and build relationships. '18 months before we went to the US, I got in touch with 3i and began sending them our management reports every month,' he says. 'That secured a relationship. So when we decided it was time to go into the US, I showed them our plans and had a proposal within days.' It was to prove a fruitful decision on both sides.

GALA GROUP

JOHN KELLY

In February 2003, private equity houses Candover and Cinven bought the bingo clubs and casinos operator Gala Clubs for £1.24bn from its existing backers, PPM Ventures and CSFB. For Gala Chief Executive John Kelly, the transaction was the third and by far the biggest private equity deal of his tenure at the company. For PPM, the sale marked a highly successful exit from a business that it had originally helped John Kelly to buy out from Bass for just £236 million in 1997. The sale in 2003, following Gala's strong expansion drive in the intervening years, was described by PPM as a classic buy-and-build case history.

A knack for calling the numbers

In six years as Chief Executive of Gala Group, John Kelly has had greater first-hand experience of venture capitalists than most business people build up in a lifetime. And it is not hard to see why. Candover and Cinven's purchase of Gala in early 2003 represented the UK's first large tertiary buy-out, in which a business is bought by one private equity group before being sold on to another, and then another.

So it is heartening that John still has a positive view of private equity providers – although he does admit there have been differences of opinion from time to time. 'I look upon venture capitalists as an alternative capital market. Instead of dozens of investors as a publicly quoted company, you end up with one or two shareholders as a private equity-backed company,' he says. 'What I would say is that VCs are excellent managers of their investments, but then I have always been lucky enough to be running an investment that has performed as they wanted it to.'

In the genes

In newspaper profiles, John Kelly has been described as a 'showman born and bred' and there is no doubt that he has showbiz in his blood. The family business, originally a famous Victorian entertainment empire, had become a cinema chain by the time he was born. John left school at 18 and, looking to gain an apprenticeship before rejoining the family firm, he went to work for Granada. He ended up staying for 19 years in businesses from bingo to TV, finding in the process that he 'quite enjoyed corporate life and London'.

From Granada he went to Mecca, becoming Operations Director and running much of the business's bingo estate. By the early 90s John was tiring of huge corporations and wanted to be in a business where he could 'touch the walls'. So he joined a nine-employee firm providing smartcards for the leisure industry and gained his first experience of venture capitalists.

It was to be the start of a long relationship. In the mid-1990s John agreed to go and work with the entrepreneur Michael Guthrie running a recently-acquired chain of bingo clubs in the Midlands. He then formed a small management buy-in team, got together with PPM Ventures, and in December 1997 bought Bass's 130-strong bingo chain. 'That was the start of the Gala story,' says John.

Going for growth – and the exit

The next few years were a whirl of activity. Acquisitions of Ritz Bingo Clubs and Jarglen Group were followed in March 2000 by a VC-backed refinancing, in which CSFB bought a majority stake. The acquisition trail then resumed, with Gala buying Riva bingo clubs and Ladbrokes Casinos, and overtaking John's former employer, Mecca, as the UK's largest bingo operator. At that point a flotation via an IPO would usually have been the next step, but the depressed market conditions ruled that out and the VC backers got their exit via the tertiary buy-out route.

So what does John make of PPM Ventures, who came along for the whole ride? 'As investors, I think they've been unbeatable,' he says. 'At the time when we did the original deal, they stuck with the management team and put their faith in it. As investors they were challenging, occasionally difficult, but always rational. They're still part of the team today.'

John's advice to any entrepreneur looking to follow the private equity route is to check out the venture capitalists as closely as possible. 'You should do an extraordinary amount of due diligence on your VC,' he says. 'Always stay in charge as much as you can, and don't let anyone take the ball off your toe. But most of all, be absolutely up-front with your VCs before the deal and make sure you get the same openness from them.'

CARD WAREHOUSE

ANDREW CRANKSHAW

In May 2003, the private equity house Aberdeen Murray Johnston (AMJ) sold its majority stake in the UK national discount greeting card retailer Card Warehouse to Cardfair Ltd in a deal worth £45 million. The sale saw AMJ achieve a return of 2.5 times its original investment in exactly five years. During that time, the Card Warehouse management led by Andrew Crankshaw and Phillip Needham, who had originally worked together on the rapid expansion of Early Learning Centre in the 1980s and 1990s, had transformed Card Warehouse from a 72-store regional retailer mainly in North-West England to a 230-strong national chain.

Success on the cards

Andrew Crankshaw's memory of his management buy-in of Card Warehouse in 1998 is one of euphoria at completing the purchase – followed by a rapid return to reality.

'We were in a completion meeting for 24 hours through to Saturday morning and we were euphoric at clinching the deal,' he recalls. 'On Monday morning I turned up at the head office in Liverpool, and the accounts lady presented me with a payments run totalling £1 million. We had £400,000 in the bank. So my first call to Gary Tipper at AMJ was to ask for more cash.'

Andrew says AMJ's support at that stage, and throughout his five years at the helm of Card Warehouse, was critical to the success of the business. 'They were always very commercial and pragmatic, and took a long-term view,' he says. 'Plus they really understood the business. If we had a bad month it wasn't all doom-and-gloom and they encouraged us to be brave at critical moments when even we were feeling nervous.'

A life in retail

AMJ's confidence reflected the management team's proven track record at the sharp end of retailing. Andrew, originally from Yorkshire, began his career as a trainee accountant with the shoe company Clarks. After 12 years, working in areas ranging from retail outlets to factories to finance, he moved to Early Learning Centre – then a 50-shop chain which a year later became part of John Menzies. Working with merchandising director Phillip Needham, Andrew led ELC's expansion into a 200-outlet business turning over in excess of £150 million.

By 1997 Andrew was looking for a new challenge, 'I didn't want to work in a corporate environment any more, but to find a smallish business to grow.' He found it in Card Warehouse, which he commenced negotiations to buy in early 1998. In turn Andrew met AMJ, which was also running the rule over Card Warehouse, but at that stage didn't have a management to back. 'So we all met at Heathrow, and got on very well,' recalls Andrew.

With AMJ as preferred backers for Andrew's team, the £12.5 million buy-in was completed. 'We could see huge potential in the business,' says Andrew. 'It wasn't just a growing greeting-card chain, but a value operation with different positioning from its competitors. Card Warehouse was very much value-driven, but with a good clean environment and outstanding signage and branding. It was a great base to grow.'

Growing towards an exit

That growth exceeded even Andrew's expectations. The original target of 25 new stores a year quickly became 40-45 – inevitably putting strains on resources. 'It got kind of hairy at times, but AMJ stepped up,' he says. 'When we asked for more funds, they knew it was for investment rather than working capital.'

By 2003 Card Warehouse was third in the UK market with over 230 shops and £55 million turnover. Privately-owned rival Cardfair, mainly based in the South, came in with an offer that both AMJ and the management thought was a good one. Card Warehouse was sold in May 2003. Announcing the deal, AMJ described it as 'a classic example of how private equity can be used to enable a relatively small regional business to develop into a much larger national one.'

Andrew says the keys to success were realism about what could be achieved – and a frank and open relationship with his backers. 'A lot of venture-backed companies fail through over-optimism,' he says. 'You have to be realistic. Make sure you have the very best FD, in our case Steve Donaldson, and if you have any problems or challenges, you should tell your funders early, don't let them find out from the accounts. If the business and relationship are right, your backers will stand by you.'

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