

Case study Large scale management buyout

DavyMarkham Ltd

Delivering Heavy Engineering Assemblies and Components



Funded by



Background

The company's origins lay in two industrial giants: Sheffield-based Davy and Markham of Chesterfield, with close to 300 years of manufacturing history between them. The merger came about in 1997 and DavyMarkham is involved in the design, manufacture, assembly and installation of extremely large engineering components and assemblies. The company holds a unique position based upon its ability to handle and transport individual components weighing up to 350t.

Various ownership changes over the last 20 years resulted in the company being neglected, starved of funding and lacking in good strategic direction.

Kevin Parkin (MD) was appointed in March 2006 with a mandate to either close the business or prepare it for disposal. The business at this time was incurring losses of £350k per month and was consuming considerable quantities of cash.

Within 12 months Mr. Parkin stabilised the business, returned it to profit and replaced the management team. Mr. Parkin and the new financial director Duncan Hay decided they could raise funds for an MBO and completed the transaction in July 2007. Leeds based buyout group, Endless, bought a 70% stake in the company, with Parkin and a small group of other managers owning the rest of the equity.

Endless exited DavyMarkham in February 2010, generating a 10.5x through a sale to Indian engineering and construction giant IVRCL, which is keen to secure access to the UK and European markets, and offers DavyMarkham the opportunity to open new markets in Asia.

Performance

The first full year of financial performance after the Endless acquisition (year to 31 December 2008) saw DavyMarkham reverse the trend of years of losses under corporate ownership to register a £1m EBITDA profit. The second year's performance saw an EBITDA of £1.3m delivered. Over the same period the business's order book reached record levels of up to £22m, delivering growth from a £15m turnover business at the time of our acquisition to over £20m.

Job creation

The company has also seen employee numbers increase with 40 new staff coming on board, and new markets being created by servicing Davy steel presses which are used around the world. Much of this increase was driven by an investment in an apprenticeship programme.

“What we are doing here is to replicate the accuracy you'd associate with a Swiss watch, but with components that could be the size of a bus. I am delighted with the support Endless has given to us and would recommend them as the perfect partner for a turnaround transaction.”

Kevin Parkin, MD DavyMarkham



Investor:	Endless
Location:	Sheffield
Sector:	Heavy Engineering Assemblies and Components
Stage:	MBO-2007
Exit:	Currently in Portfolio
Company Website:	www.davymarkham.com
Investor Website:	www.endlessllp.com

Strategy

Stabilisation of loss making business

- Detailed review of the working capital, costing methods and plant condition
- Returned the business to a break even and cash generative position

Formulation and implementation of new strategy

- Formal presentation to all business partners (unions, suppliers, customers and bankers) explaining their roles in the execution of the new strategy
- Implementation program with milestones and actions against individuals

Returning business to profitability and generating cash

- Implemented tight controls throughout the business saving £600k pa
- Selective increases in prices by up to 30% to restore account profitability
- Management generated 13 week cash flow forecast
- Demanded upfront payments which resulted in a cash surplus of £1m

Improvement in health and safety management

- Made H&S the number one priority throughout the business
- Implemented risk assessment procedures for all business activities

Productivity initiatives and improvements

- Established and monitored KPI's with corrective actions for deviations
- Improved production efficiency by 27% through better downtime analysis
- Introduced continuous improvement techniques investing £150k in Capex

MBO in July 2007

- Implemented an apprentice training scheme (costing £300K)
- Invested £2.0m in plant maintenance, marketing and training

