

Doing it for themselves

Venture capital activity has long been a key component of the US exhibition industry, but it's a relatively new though growing influence here. **Steve Monnington** of acquisition specialists, Mayfield Media Strategies, examines why VC-led management buyouts in the UK are fast becoming the norm.

The dramatic success of the Spearhead management buyout in 2001, and its subsequent sale to Reed Exhibitions should have inspired many management boards. However, it took another three years before Clarion Events stepped up to buy their business from Earls Court and Olympia, followed swiftly by Penton Media's MBO of their European business from their US parent company.

Former chairman of Spearhead, Phil Soar, believes this is only the start. "Spearhead was the first MBO, of any size in the UK and now VC funds have a success story to refer to. There is currently a massive supply of money and inevitably more of it will find a home in the exhibition sector. Therefore, we are likely to see increasing private equity involvement in the business in the next few years, but only backing the very best people."

The last AEO conference in Birmingham highlighted how far off the radar we are when it comes to the media buyers. You can add the financiers to this. All three companies profiled in this article highlighted the lack of reliable and meaningful information on the exhibition industry as a significant barrier to persuading the VC companies to invest.

Hg Capital led the £48 million Clarion MBO, which saw the management take 33 per cent of the shares. So why did they choose Hg? "We had three criteria," explains managing director, Simon Kimble. "Obviously they had to have cash for the initial transaction, but they also had to buy into our "buy and build strategy" and be willing to make more money available for

subsequent acquisitions. The final criteria, chemistry, is rather less tangible."

This was Hg's first investment in the exhibition sector and Kimble is clear why they were attracted to Clarion. "They liked the fact we had a balanced spread of events in markets that are likely to be around for some time. They also realised that we knew how to run our business profitably and efficiently. Their due diligence of the industry highlighted a number of badly run businesses, but this was seen as a positive in the context of our desire to make acquisitions."

Many people shy away from the VC

route because they fear it means having a financial partner telling you how to run the business. "Absolutely wrong," argues Kimble. "Hg have no day to day involvement. We talk on the phone every two weeks and we have a monthly board meeting, but the management sets the growth targets."

Surely there must be some tension? "No, at least not yet, and I believe that as long as we deliver and therefore have their trust, our relationship will continue to be as productive as it is now. Right from



Persuading VC companies to throw their cash at exhibitions is a challenge



Simon Kimble: "deliver, and build trust"

the start we were honest about our capabilities and this was crucial in setting expectations."

Does Kimble think the involvement of a private equity partner who is looking for an eventual exit means short term decisions are made? "Certainly not in our business," says Kimble. "Although there is a three to five-year view from VC funds, we want to own the business for as long as possible. Therefore no decisions are made with a view to exit, and the key thing is to keep improving the business so that whoever ultimately buys it, hopefully us, will be buying a great company."

So far so good with Clarion then, which has become one of the most acquisitive exhibition organisers in the UK, adding Made in Scotland Gift Fairs, Amusement Trade Exhibitions and Centre Exhibitions to its portfolio in the last 12 months. What advice does Kimble have for others who are thinking of embarking on this route? "Be realistic and be honest to your investors about potential. Above all else, don't get forced into promising something which is not capable of being delivered," he says. "Deliver, and build trust."

Following the dotcom meltdown and with their parent company under intense financial pressure having been de-listed in the US, Andy Center and his team at Penton Media Europe knew that significant investment was impossible. "We all felt the only way to re-inject dynamism into the business was to take the company private again and do it ourselves," recalls Center.

The Penton transaction presented a choice: VC or bank debt? Center has no doubt he chose correctly with the VC route. "Penton had borrowed heavily to finance acquisitions and had a basically sound business undermined by being highly leveraged at the wrong point in the cycle, so I was reluctant to go down the same route. The banks were largely interested in historical performance, whereas the private equity firms looked forward and wanted to understand how the business could be developed strategically."

Ultimately Center chose a small private equity firm called NVM. "The financial deal was important, but they also had real empathy with our strategy for the business," he says. In common with the Clarion and Spearhead experiences, NVM had no prior experience of the exhibition industry and also found the lack

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of industry data made benchmarking difficult.

According to Center the process was "the most enlightening and invigorating experience of my working life, and at the same time, the most stressful and difficult". The intensity and

length of the process inevitably became a distraction from running the business. Center, on the other hand, had more attention than he had bargained for as NVM took up personal references from over a dozen industry insiders. The deal was completed with the management taking approximately 60 per cent of the shares and Ithaca Media was born.

Center describes the strategy. "NVM were attracted to the high margins when shows work and to the relatively low cost of investment required in getting new shows off the ground," he says. Therefore, part of the strategy involves strong organic growth. "We're good show launchers and can create asset value very quickly." Rationalisation of the portfolio to improve profitability in the short-term is another element. "It's common sense to concentrate on products that have the realistic prospect of achieving scale and margin."

How does Center feel about the buy and build strategy that Clarion has embarked on? "There is fierce competition for acquisitions and we don't plan to compete on top end multiples. While acquisitions are a crucial part of our strategy, we're more interested in below the radar/early stage opportunities where we can inject some capital and use our expertise to help scale the target business."

As evidence of this strategy, Ithaca has already successfully launched The World Food Market, and has also acquired the fledgling music industry event, London Calling.

If the strategies are different, the relationship that Clarion and Ithaca have with their VC partners is broadly the same. Center talks to



Andy Center: "If we screw up, the buck stops with me"

Northern Ventures on a weekly basis and has a monthly board meeting. "I was nervous about going into the relationship and didn't quite know what to expect," he recalls "but I'm delighted with the way it has developed." Center has three rules that ensure a positive relationship: "Give important news early, report accurately and communicate honestly."

Center agrees with Kimble's attitude towards running the business. "It's too dangerous to constantly think about an exit strategy," he says. "We have to concentrate on running the day to day business and ensure that we make the right decisions to stimulate business growth."

Eight months on, how have things changed? "This has been the most change driving experience for the business that I could have hoped for," says Center. "Much of the practical stuff is the same, but the spirit has changed dramatically. Everyone has the opportunity to earn share options and as we transition from employees to owners the dynamic alters to everyone's benefit."

"Give important news early, report accurately and communicate honestly."

The bad bits? "Only the time and effort the actual buyout process took," Center insists. "Of course, I try not to think about the loss of our security blanket, and the fact that if we screw up the buck stops with me."

Case study – Spearhead

In the summer of 2001, when managing director of Spearhead, Bob Munton, sat down with Phil Soar to write the Private Equity proposal for the management buyout of Spearhead Exhibitions from parent company PGI, the very first sentence precisely defined the exit strategy for their Venture Capital partner, including the likely buyers and the logical timing. And when they sold the business to Reed in August 2003 they were proved to be spot on.

Munton, whose portfolio of primarily biennial exhibitions ranges from defence and aerospace, to oil and gas and marine technology, saw the opportunity for an MBO. Spearhead suffered from the effects of overseas ownership with high levels of headcount and a lack of focus on fundamentals such as pricing. He saw a great opportunity to take an underperforming asset, which made a loss of £2 million in 2001, and turn it around into some-



Phil Soar: "You can control what you pay for your business, but not what you sell it for"

thing worth a lot more than he might pay for it.

"This was not a buy and build strategy," explains Soar. "Simplistically we wanted to buy Spearhead, create a well run company and sell it on at a profit. PGI agreed to sell if we could complete the transaction within 90 days. We had discussions with four venture capital houses which all had one thing in common: none of them had any experience of the exhibition industry and we chose Lloyds VC essentially because they offered us the best terms."

The biggest barrier in convincing the VC fund to invest was market information, and Soar continues to be frustrated with the lack of meaningful industry data. "All four potential financial partners commented that, unlike the publishing sector, there was no reliable industry information with which to benchmark Spearhead."

The pitch to Lloyds was simple. The unlocked potential in the existing business was so enormous that there was no need to become involved in anything external. The deal was agreed with PGI in mid-December 2001 at £9 million, with the management taking 55 per cent of the company. Over the following months staff numbers were reduced from 60 to 23, and the focus of attention turned to revenue enhancement and simply running the business properly.

The period of ownership by the management was just 20 months, and the sale to Reed took place before the autumn biennial events in 2003. The significant capital gain that the management realised for themselves and Lloyds was achieved without even running a

show.

Soar explains why the exit was so quick. "VC funds generally work on a three to five-year cycle, and when all your events are biennial you are working on complex timings. The VC houses had a bad year in 2003 as the losses on IT investments in the late 90s started to crystallise, so there were few profitable exits and therefore there was pressure on us to sell. If you get involved with a VC house, you need to understand that their business is VC, not exhibitions."

Soar approached Reed in December 2002, one year after the MBO, and this time it took rather more than 90 days, in fact 7 months, to put the deal together. Soar explains why. "There was an earn-out element through to the end of 2006, so it was vital to negotiate an incredibly tight sale and purchase agreement that allowed us to continue to run the business." This appears to have worked in everyone's favour, Spearhead's performance in the past four years being little short of stellar with DSEi and OE now being two of the country's top 10 shows.

Looking back, is there anything Soar would have done differently? "It's nonsensical to say something is perfect, but I don't think we could have done anything else that improved matters dramatically. Inevitably, hindsight suggests that I should have negotiated a higher cap on the earn-out. However, the key to a successful MBO is in the initial buying not the selling. It's like investing in property, you can control what you pay for your business but not what you sell it for."