

ECI Partners shows the power of maturity

After 33 years, ECI has raised its biggest fund yet and made one of the year's top exits, writes a staff reporter

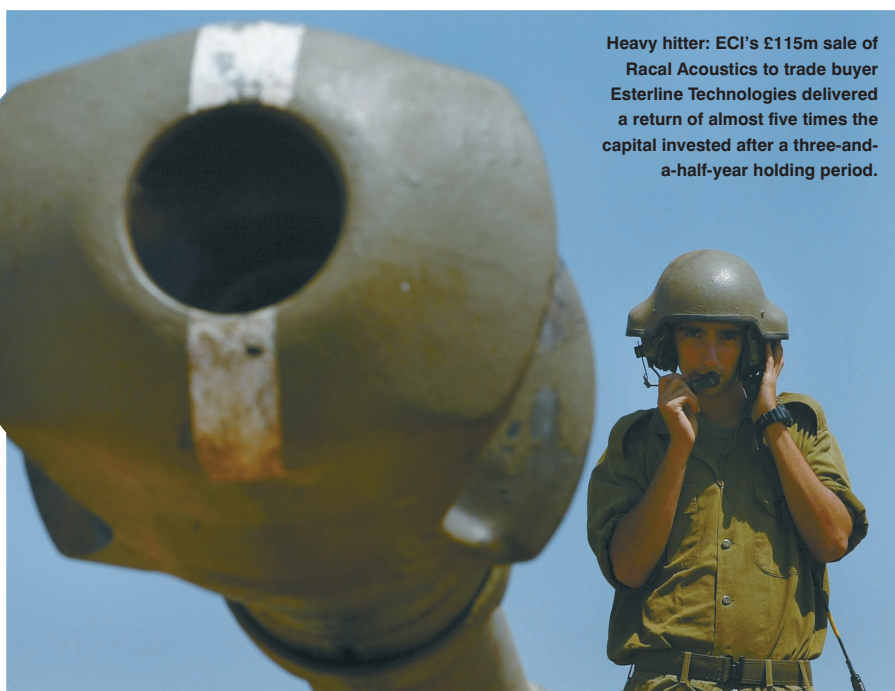
For a firm that prefers to avoid the limelight, ECI Partners has been making headlines in the past 12 months as it celebrates its 33rd anniversary. The UK mid-market veteran showed the value of experience at the turn of the year, wrapping up its biggest fund to date after a rapid three-month fundraising, as well as sealing one of the biggest UK exits by a buyout firm this year.

The successful raising of ECI 9 in December was a particular vote of confidence for the firm by investors. At £437m (€490m), it was the firm's biggest pool of capital by a significant margin. ECI 8, its previous fund and until the latest effort its largest, raised £258m in 2005.

Steve Tudge, a managing director at ECI, said: "ECI 9 was raised in three months – it didn't feel easy at the time, but retrospectively we did well. The fundraising surpassed our expectations given the challenging conditions."

Tudge said more than 90% of the capital came from existing investors, some of whom had invested in the firm's last six funds. Such loyalty is hard won. So how has the firm achieved it?

ECI's origins were inauspicious. It was formed by the Bank of England at the behest



Heavy hitter: ECI's £115m sale of Rascal Acoustics to trade buyer Esterline Technologies delivered a return of almost five times the capital invested after a three-and-a-half-year holding period.

of the Labour Government in 1976 with a mandate to provide financing to struggling small-cap businesses facing liquidity issues. A source close to the firm said institutions had been strong-armed into committing to ECI's maiden fund, and that the investment strategy had not worked as well as had originally been hoped.

In 1981, Prime Minister Margaret Thatcher changed the law to permit US-style private equity investments, enabling ECI to change its focus to mid-market buyouts. It celebrated with its first deal – telecoms business AnsaFone.

Any buyout firm is judged on performance, and ECI has generated strong returns to investors through three economic cycles. Since 1990, the firm has generated a three times gross return across all its funds,

with an internal rate of return of more than 30%, according to a source close to the firm.

Highlights include online hotel-booking group LateRooms, sold in 2006 to holiday group First Choice in a deal that netted a 9.1 times return and an IRR of 496%.

Tudge said: "LateRooms was a good investment for us. We bought the company from its founders, who rolled their stake. In fact, they made more from their second exit than their first. It was a small company, but we built up its infrastructure, bolstered the management team, grew revenues and worked on understanding the customer as well as rebranding the business. We did all that within two years – it was a very short holding period. It was a good example of what private equity can do. We worked hard operationally on it and generated a fantastic

return.”

Expanding on the firm’s investment thesis, Tudge said: “The core growth driver for our investments has been the growth of the company itself. The average company doubles in size under our ownership over the investment period.”

Racal Acoustics, its most recent exit, was another example of rapid growth. The £115m sale to trade buyer Esterline Technologies delivered a return of almost five times the capital invested after a three-and-a-half-year holding period.

Tudge said: “We were really chuffed with Racal. We planned that exit for over a year. The company was continuing to grow. Contracts were coming through in late 2008 so it had a good forecast for this year. We ran a dual-track process looking at sales to both corporates and other buyout firms.”

Racal was, however, only the latest in a slew of exits, which included six in 2007. The decision to dispose of so many assets was carefully considered, according to Sean Whelan, a managing director at the firm.

“While none of us predicted the timing of the downturn, we did expect one at some point. We looked at our portfolio in late 2006, early 2007, and decided to pursue some exits.

“As a result, we managed to lock in some very good returns. We have a relatively small portfolio now of 15 businesses, and the companies are broadly in non-cyclical sectors,” Whelan said.

ECI 8 is fully invested, according to Tudge, bar some capital ring-fenced for bolt-on acquisitions to existing portfolio companies.

The firm has completed one new deal this year, the acquisition of healthcare software group Ascribe, along with two bolt-on acquisitions at clinical trial business Premier Research Group and Axell Wireless Group.

Future deal opportunities remain scarce, according to Whelan. He said: “Public to privates are a source of dealflow, but the window of opportunity has narrowed. Good companies, especially those with institutional support, are happy to wait before initiating any process. Private sellers are taking from six to 12 months to get used to where the market is in terms of pricing. Many corporates have done their strategic reviews and will be looking to divest non-core assets, however.”

Tudge added: “Carve-outs are a great source of deals, and they’re precisely what private equity is great at. It is a tricky environment to invest in. But things are stabilising slowly. It’s our third economic cycle as a

Keys facts

Funds raised since inception: £1.2bn

Assets under management: £871m

Office locations: London, Manchester

Staff: 31, including 21 investment professionals, two deal originators, a finance director and an investor relations director

Key people: (investment committee) Ken Landsberg, Sean Whelan, Steve Tudge, Tim Raffle

firm. We recognise that going through the shift there’s just too much uncertainty, and the vendor-buyer imbalance in pricing expectations remains an issue. There are opportunities around but it’s hard to get them over the line. People are starting processes to test the water but have then withdrawn them.”

The experience within the firm, built up over 25 years, is a key factor in its success, according to Whelan and Tudge, who said: “Our heritage does count for a lot. Our cultural approach is all about evolution – we’re always moving on, evolving, learning from our experiences.”

Whelan said: “The firm’s culture doesn’t reside with individuals, it’s passed down the generations, which means there’s no bottleneck created by retirements.”

At a time when some peers such as Alchemy Partners are struggling with succession issues and others such as PAI are trying to restructure in quick-time, ECI’s approach of evolution rather than revolution appears rather somnambulant.

Tudge said: “In terms of managing succession, it’s a glacial but well-managed process which ensures there are no step changes. The brand is much bigger than individuals. All the senior people here have moved up through the ranks. We recruit at entry level and then develop people from there. For most of our recruits, it’s their first job in private equity.

“It’s impossible to write down the essence of an ‘ECI deal’. New joiners are given a process folder to read but the way you learn how the firm does business is by working on deals. By the time they’re a director, the firm’s ethos has been absorbed. If you parachute people in, there’s the danger they won’t have that same mentality. It’s a challenging and stimulating environment, but there’s no dominant figure. Firms with a ‘founder culture’ are probably very different

in feel,” he added.

That approach has led to a firm where egalitarianism is a key feature. “The remuneration structure is very flat. Some are more equal than others carry-wise, but everyone at the firm has a slice of the carry, including the support staff.”

In keeping with that ethos, openness is another important aspect of the firm’s day to day practice, according to Tudge.

“Access to the investment committee is very open. Key things for us are trust, integrity, openness and flexibility – the whole ethos is based around treating others as you’d like to be treated yourself.”

Operationally, the firm is hands-on according to Whelan: “We consider ourselves active investors. We post directors to the board of every company we invest in. The same deal team stays with a company throughout the investment. Post-acquisition, we bring all available resources to bear – management expertise, further capital, operational advice and so on.”

“We recycle good managers and we stay open-minded about bringing new people in. Management is a key component in making a company work. Changes are made where necessary as things can change, but our opening stance is that the management team in place when we invest will be there when we exit. We are happy backing teams who haven’t worked with private equity before – we try to help them through the process of private equity ownership, and teach them what we’re looking for from them,” he said.

The firm retains an open relationship with the managers of its current portfolio companies, meaning problems are flagged up early rather than being brushed under the carpet, according to Tudge.

Whelan added: “We have great visibility in terms of our portfolio – we collect financials on a monthly basis. An ECI representative on the board will have regular contact with management, and we try to ensure an open dialogue between us and the company. One of the first things we do with any new acquisition develop good transparency and reporting systems with management.

ECI’s approach, of careful, self-critical evolution over a long period of time and an amiable approach to others has evidently stood the firm in good stead. With a large amount of capital to deploy and a portfolio based around companies not reliant on economic cycles for growth, the signs seem propitious for another 25 years of consistency.



We always try to evolve our processes. Nothing stands still – we’re very self-critical.”

Sean Whelan (right), a managing director at ECI Partners

“We’re always moving on, evolving, learning from our experiences.”

Steve Tudge (left), a managing director at ECI Partners

