

# Fit for PE

At a recent Baird Capital roundtable debate in association with *economia*, top business executives assessed the value and contribution of the private equity industry and, specifically, the role of the CFO in SMEs. Adrian Holliday reports

The private equity (PE) industry has sometimes suffered poor press. A number of firms came under fire for some of their practices and have not always done a good job of explaining their role to the public. But its proponents argue that PE is maturing as an industry and supports a growing number of ambitious British SMEs, offering an alternative funding opportunity at a time when traditional routes to lending have been blocked.

So why is there a gap between how PE is perceived and what it does for SME growth? PE brings not just cash but discipline and accountability to growing businesses leaving them – so the hope goes – bigger, more valuable and better run. Not all businesses are built on bank lending, even in good times.

These issues and more were aired at a recent Baird Capital roundtable debate in association with *economia*. For good reason, the role of the chief financial officer (CFO) and the finance function was at the forefront of the discussion. After all, it is the CFO who is often responsible for deciding whether PE funding is the right route for their business.

The CFO has a pivotal role in helping a business to grow and this role gets much more scrutiny and investment in PE-backed businesses. The benefits can be seen as the finance function comes to play a more central role in decision making.

Getting an entrepreneurial management team to invest in a finance function is key, confirmed Dennis Hall, managing director, portfolio operations, Baird Capital. The CFO is the most important person after the MD, agreed David Craig, joint chief executive at recruiter Walker Hamill. “We’ve started building pipelines of CFOs so we get to know

them before they exit rather than when they exit,” he said.

## MASTER AND COMMANDER

However, some entrepreneurs still fail to understand the role of a CFO. Steve Ashton, an independent chairman, thought some nuanced repositioning might be in order. He felt that finance could be more of a “critical friend” to the CEO, supplying more objective, independent advice in the process.

“It’s important for a CFO to ask what value they are delivering,” said Ashton. “A sensible CEO will understand that. But some entrepreneurs will find that a challenge. They will think ‘I do that, I just need a CFO to count the money’. With a sensibly-structured business, that critical friend is the key piece.”

For Ian Sale, managing director, acquisition finance, commercial banking, Lloyds Bank, this challenge is vital for the bank manager, too. “The bank can see that dominant CEOs are very capable, but because bank managers worry a lot, we like to see that challenge [from the CFO] to what the CEO is saying. We like someone asking ‘is that right? In some ways the CFO is a diplomat but also an enforcer.”

## OVERSEAS EXPANSION

With UK growth only slowly picking up, many businesses are considering overseas expansion. Making that commitment to go beyond your national borders can seem perilous, especially if your net worth is wrapped up in your business. That’s why, says Andrew Ferguson, managing director, Baird Capital, accelerating a global growth strategy can often be “a catalyst for seeking PE or a partner to take on those risks”.

This rang true for Helen James, CEO of



Investis, a digital corporate communications company. Global expansion was a big driver for partnering with a PE company in 2014. If PE can help a business with ambitions to aim high and realise those aspirations, then why not try it, why not be more like the US, James reasoned. “Even though we were a tiny UK company with revenues of £25m we suddenly became number two in the market; we felt this was the moment,” she says.

James remembers asking the CEO of a competitor business in the US about his ambitions for his \$8m company. “Without flinching he said he wanted to be a \$2bn company. I remember thinking you would never get that answer in the UK,” she says.

Forward planning is crucial for expansion, particularly around recruitment. Andy McRae, CEO, Red Commerce, worried that smaller UK businesses tended “to have an owner-founder-DNA culture, and that a big challenge is succession. They don’t have tomorrow’s managers.” He continued: “For an SME it’s the people mix that matters, and that includes a succession plan.” Baird Capital’s Ferguson agreed. “How many businesses have we found over the years where there’s just nobody below the person who runs it or owns it? No

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ANDREW FERGUSON,  
BAIRD CAPITAL

PHOTOGRAPHY: SOPHIA SCHORR-KON

thought has been given at all to the next layer or the next succession. I think that’s where private equity is a step above and can help, because we are thinking about the next round.”

## UNDERSTANDING BUSINESS

Another aspect of the CFO’s role, according to Stephen Segal, CFO, Spencer Ogden Group, is about explaining underlying organisational risks to people who may not have a core understanding of it. “As you get into larger and larger organisations,” he said, “you become that much more front-facing and investor-relations oriented. The work becomes more of the PLC type of stuff. A good CFO is someone who understands the point of the business, who has a gut feel.”

But don’t take this gut feel for granted, warned Mike Bell, CFO, Clearwater Group. “You’ve got to get beyond that stuff. It’s about having a CFO who can provide that data and analysis, that I don’t think some small businesses can.” This is a pertinent point for the UK, as one of the key strengths, and weaknesses, of the UK economy is that it is built on a bedrock of millions of SMEs.

Meanwhile Richard Chapman, partner, ECI, worried that private equity appeared to suffer

## Facilitator

Richard Cree, editor-in-chief, *economia*

## Participants

Steve Ashton, independent chairman

Mike Bell, CFO, Clearwater Group

Richard Chapman, partner, ECI

David Craig, joint CEO, Walker Hamill

Andrew Ferguson, managing director, Baird Capital

Dennis Hall, managing director, portfolio operations, Baird Capital

Helen James, CEO, Investis

Andy McRae, CEO, Red Commerce

Ian Sale, managing director, acquisition

finance, commercial banking, Lloyds Bank

Stephen Segal, CFO, Spencer Ogden Group

from an outward lack of confidence. He urged businesses to get out there and recruit with confidence. “We need to shout more about our CFOs who have made a lot of money. We’ve got a few. We need to say, you’re a great talent and if you come here you will make money, have fun and learn a lot.”

## PICK YOUR PARTNER WITH CARE

But choose your partner wisely, was the message from around the table. What sort of shape is the fund in, and is it willing to share that with you? Although James feels that Investis is in a “genuinely” better place after PE backing, “we didn’t pay enough attention to the private equity fund itself, where it was in its cycle and how that can influence you”.

“The stage of the fund, whether it needs a quick exit or is at an earlier stage, these things have an impact,” James added. “I don’t think there’s enough openness or sharing about that. Ultimately, if you’ve aligned goals on your board, then it’s fantastic.”

Ferguson agreed. “Pick your backer carefully. Do your diligence. As an industry we need to employ sustainable, repeatable practices and policies and approaches that are going to keep generating competitive returns. In an ever increasing competitive environment where you pay the market rate and you’re not doing financial engineering, it’s about growth and investing in the company. It’s hard to get that message over constantly.”

To contact Baird Capital, please call  
**Andrew Ferguson**  
020 7488 1212  
or visit [bairdeurope.com](http://bairdeurope.com)

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