Why teams matter to investors

Chris Wardle, Foresight Group
Chris Wardle: Foresight Group

- Director, Foresight Private Equity
- Growth-focused investor into small and medium sized businesses, primarily in the UK
- 5 years at Foresight, 5 years at Accenture in M&A team
- Background in Technology, Business Services, Financial Services and Consumer Goods strategy
- Established Foresight’s Edinburgh Office and currently leading the deployment of £20m Scottish Growth Scheme
- Today hold 5 board seats, 2 exits
Foresight Group: Example portfolio in Scotland

- Edinburgh-based software and consulting business, Breakeven
  - Focus on AI software acceleration for chips in datacentres and automotive
  - Invested £3.5m in 2018 to support push into automotive software

- Glasgow-based Uni. Strathclyde spinout. Early revenues
  - Passive sensing equipment and software to detect voltage fluctuations
  - Invested £2.1m in 2019

- Late-stage Dundee-based profitable engineering business
  - Service and remanufacture gas and jet turbines
  - Invested £3.5m in 2013
Foresight Group: Overview

Established firm with global presence

▪ Founded in 1984
▪ £4.0 billion AUM
▪ 237 group staff globally: 71 investment professionals
▪ 11 offices in three continents. London HQ

Differentiated private equity /venture capital

▪ Regional UK SME strategy
▪ Focused on £0.5m – £5m investments
▪ Strong exit track record
▪ Multiple award-winning team
# Foresight Group: Overview

## Private Equity

<table>
<thead>
<tr>
<th>AUM</th>
<th>c.£600m</th>
</tr>
</thead>
</table>

### Offices
- London, Manchester, Nottingham, Leicester, Milton Keynes and Edinburgh

### Investments
- c.90 UK-headquartered SMEs in current portfolio
- Diverse sectors and investment structures including impact, venture, growth and replacement capital
- Active investment manager
- Regional strategy
- Multiple award-winning team

## Infrastructure

<table>
<thead>
<tr>
<th>c.£3.4bn</th>
</tr>
</thead>
</table>

### Locations
- London, Madrid, Sydney, Rome, Seoul

### Key Points
- Investing in transformational change occurring in global energy
- c.1.9GW clean energy generation capacity
- Third largest solar manager in Europe
- Completed 200+ acquisitions over past 10 years
**Investment Strategy: Investment Selection**

- **Sectors**
  - Large addressable market
  - Growth and fragmentation
  - International
  - Avoiding cyclicality

- **Companies**
  - Operational gearing
  - Predictable recurring revenues
  - Competitive advantage

- **Management**
  - Operationally strong
  - Experienced and proven team
  - Focus on profits, now or in future
  - Flexible and open to operational improvement
Investment Strategy: Investment Selection

- Large addressable market
- Growth and fragmentation
- International
- Avoiding cyclicality
- Operational gearing
- Predictable recurring revenues
- Competitive advantage
- Operationally strong
- Experienced and proven team
- Focus on profits, now or in future
- Flexible and open to operational improvement

Won’t always have all of these!
## Investment Strategy: Driving Value

<table>
<thead>
<tr>
<th>Description</th>
<th>Illustrative companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Sourcing of board level appointees, Chairmen, CFOs etc.</td>
<td>itad, Regency Design &amp; Print, Mowgli, Ekko Sense, defaqto, The Euxton Group, camwood, Camloc, procam.tv, The Bunker Ultra Secure, App-DNA, S4RB, DataPath, alaric, Factory, Blackstar, simility</td>
</tr>
<tr>
<td>▪ Building management teams and skill base</td>
<td></td>
</tr>
<tr>
<td>▪ Input into the overall strategy of investee companies, including business model and market positioning</td>
<td></td>
</tr>
<tr>
<td>▪ Active role on company boards e.g. supply chain management, sales strategy etc.</td>
<td></td>
</tr>
<tr>
<td>▪ Multiple rounds of investment to drive growth/bolt-ons</td>
<td></td>
</tr>
<tr>
<td>▪ Introduce co-investment partners</td>
<td></td>
</tr>
<tr>
<td>▪ Expansion across the UK</td>
<td></td>
</tr>
<tr>
<td>▪ Further into European, US and Asian markets</td>
<td></td>
</tr>
<tr>
<td>▪ Exit route central to investment appraisal</td>
<td></td>
</tr>
<tr>
<td>▪ Work closely with management to prepare company</td>
<td></td>
</tr>
</tbody>
</table>
Importance of team in PE performance

- Aim: Sell a valuable business in 3-5 years
- PE/VC firms are often not sector experts
- They can spot themes in businesses and help guide exit strategy
- Fund can choose growing sector, resilient business dynamics, but execution is all down to the management team
- In investment committee meetings, c.1/3 of discussion is about ability of team to execute
- Looking for reliable, operationally excellent, humble people
PE expectations of team

- We do not expect the best teams every time
- But we do back teams that want to engage, improve, grow
- We are willing to provide support, and use our network
1. A team does not need to be perfect to create value

Business challenge and complexity
• Business model complexity
• Market/competitive headwinds/tailwinds
• Plan stretch
• “Moat” around business model

Management/organisation horsepower
• Individual SMT capability
• Team effectiveness
• Second tier strength
• Workforce capacity/capability
• Org structure
• Quality of strategy
• Quality of governance

More common to be here...

...than here
2. A good enough team is not just a group of functional specialists

- Many of the companies we back have never had a “full” management team in place

- When we invest, those sort of management groups need to:
  - realise their responsibility is to the company rather than their own function
  - identify the issues which require collaboration across functions and are worth spending everyone’s time on

- Getting these rhythms into place can be unfamiliar, uncomfortable – and critical
3. There isn’t a perfect team size but there is too big and too small

- An effective growth company team needs to have the most important functional voices in the room
- Probably means a minimum of 3-4 people
- More than 7, though, and the team becomes too unwieldy to make speedy decisions
4. Growth companies need to make more decisions – and make them better

- We often see companies where one person is trying to make too many decisions by themselves – without input from colleagues
- In others, a sense of collegiality means that difficult decisions are avoided
- Teams in both situations lack sufficient conflict over ideas
- That is one of the things we and a chairman try to bring into the boardroom
5. There is no formula for what successful team members need to look like, but ...

- Teams where personalities are too ‘samey’ struggle to challenge each other – especially in a time of change

- Teams with too much industry expertise but no management skills can struggle to deliver...

- Teams with too many “general managers” but limited domain knowledge can also struggle to make good decisions

- (Some evidence) that teams with no uni-graduates do worse than average
6. Successful teams spend as much time thinking about the ‘how’ of strategy as the ‘what’

- Ambitious teams can keep adding to their list of commercial and operational projects – making growth harder and the team wearier
- Investing senior team and board time into anticipating bottlenecks and building capacity/capability can pay high returns economically and personally
- Carve out time to think
7. Behaviours define your culture, not the other way around

- People look to others in a new environment to determine the norms and accepted behaviours in the group.

- Behavioural norms can be set by explicit (HR policy) or implicit means (keeping calm during challenging meetings).

- When explicit and implicit conflict, implicit usually wins, and people copy others (e.g. speeding on the motorway).

- Leaders need to live the culture they want to set.
Example 1: Manufacturing business

At investment
- Good ops function, high margins, differentiated product
- Limited sales team, no real “CEO”
- Weak board governance
- Poor performing junior team

Since investment
- Introduced Finance Director, Chair, and Sales Director
- Introduced monthly boards, KPIs, strategic conversation
- Bolt-on acquisition, EU site

Outcomes
- Still no CEO but two MDs --- does this work long term?
- Setting clear goals meant junior team have performed
- Consolidate acquisition, drive synergies, sell better into EU, USA
- Support management team in preparing for exit
Example 2: Distribution/retail business

At investment
- Unloved corporate carve-out
- DD showed some weaknesses in the team
- Parent company had run for cash. Culture reflected this

Since investment
- Turns out team is great! Shows weakness of psychometric testing
- Bolt-on acquisition
- Buyout MD provided cultural change

Outcomes
- From undynamic to highly innovative culture
- Margins driven through management focus
- Improve pricing – often hard for management, but often more possible than you think
Example 3: Consulting Business

At investment
- Intelligent team, lots of functional specialists/PHDs
- Large senior management team
- Uncertain reporting lines

Since investment
- New chair
- Kept oversized board, but instituted unique “ways of working” to keep challenge high
- Focus on key business metrics, margin management, cash

Outcomes
- Turnover growth 400% in 4 years
- No need to solve board- the “senior partners” seem to work well together and with the chair there is good collaborative challenge
- Had a bit of a wobble in the middle, but will be a good one!
Summary

- Investors are looking for consistent(ish) growth, driven by management.
- Management quality features heavily in investor decision-making.
- Make sure senior team is right size for the business.
- Mix functional and management skills. Avoid oversized personalities.
- Don’t fear an imperfect team, but be open to change, challenge.
- Pause to think about strategy.
- Live the culture you want to set.
- Don’t always expect it to be a smooth ride!!
Questions?