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FOR THE WORLD'S PRIVATE EQUITY MARKETS

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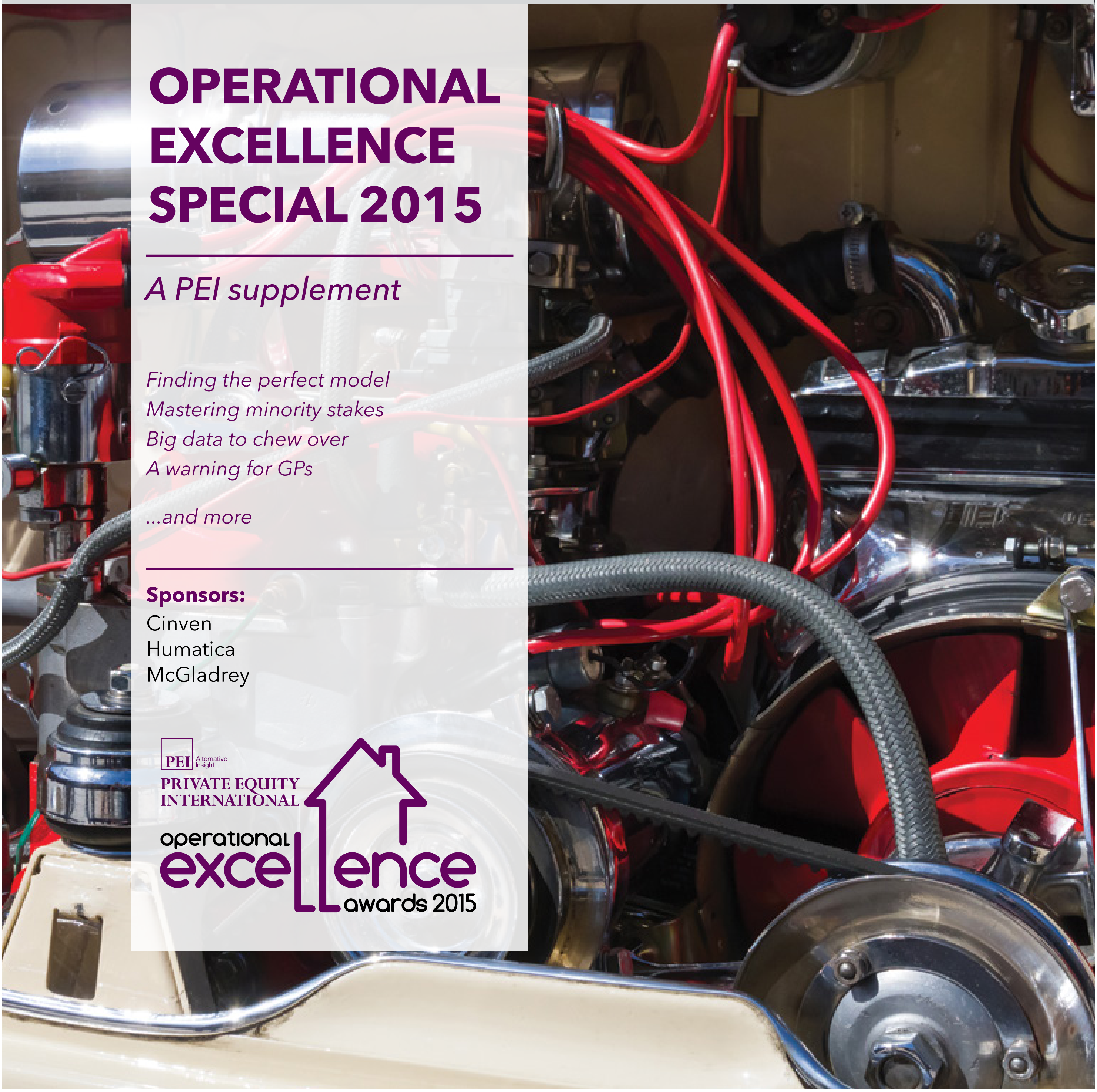

OPERATIONAL EXCELLENCE SPECIAL 2015

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operational excellence awards 2015

INTRODUCTION

Best in the business

Welcome to Private Equity International's fourth Operational Excellence Awards – our annual celebration of the industry's most inspirational value creation stories from the last year. By Isobel Markham

The days of buying a business, leveraging it to the hilt and selling it on two or three years later at a hefty profit are long gone. With growth rates in developed – and many developing – countries at rock bottom, GPs can't rely solely on macro trends and market conditions to pull in stellar returns. If you want to succeed in private equity in 2015's world, you need to bring something else to the table.

Adding value to a portfolio company through true operational change is an accomplishment often talked about, but rarely demonstrated. In recent years huge swathes of the GP community have added operational capabilities to their arsenal. But is it being reflected in the businesses they're ultimately selling?

At a time when many investors are looking to rationalise their GP relationships, it's never been more important for firms to actually demonstrate – and not just shout about – their value creation credentials if they want to stand out from the crowd.

This is where our Operational Excellence Awards come in. Now in their fourth year, we introduced these awards to try to answer a question that's become increasingly important to LPs: who are the best operators in the industry?

We asked GPs to submit any investments either fully or partly realised since June 2014 that they felt were a particularly good example of their ability to deliver operational value as owners.

Entrants were asked to provide specific details of the changes and the initiatives they had undertaken, from product development, to acquisition activity, to supply chain improvement, to management enhancement. They were also asked to provide tangible evidence of how these initiatives created value, whether in terms of top-line sales growth, productivity or capacity building. Impressive exit multiples were clearly a plus, but the main thing our judges were looking for was some genuinely transformative work.

Entries were invited from three regions – Americas, Asia-Pacific and Europe, Middle East and Africa. We then divided them up into four distinct size categories, according to the deal's entry price – large cap (greater than $500 million), upper mid-market ($150 million-$500 million), lower mid-market ($50 million-$150 million) and small cap (less than $50 million).

Next, we convened a distinguished panel of judges in each of the three regions. They were tasked with analysing the short-listed entries, debating their worth and reaching a consensus on which represented the best example of operational excellence in each size category.

So what was it they were looking for? For starters, something far beyond a great exit multiple. "The challenge of judging the Operational Excellence Awards is that it is not the Deal of the Year Awards," said EMEA judge Miles Graham. "Some submissions had impressive returns, but many of these reflected smart market-timing calls by deal teams."

Thomas Pütter, chairman and chief executive of Ancora Finance, agreed that the majority of the entries demonstrated good growth management. However, doing a great job as a private equity investor does not equate to effecting true operational change.

"Having a good business idea, a vision to fill a gap in a market and then doing so does not necessarily mean that the execution of the plan represents operational excellence," Pütter said.

Antoon Schneider, who leads The Boston Consulting Group's private equity work in London, thought this year's batch included many strong examples of operational excellence, given that the majority of them were held throughout the global financial crisis.

"The entries were all of very high quality, with a clear link between the private equity firm's support and the value creation. This was particularly impressive during a holding period where many of these investments were experiencing a downturn period in the general economy," Schneider said. "I was looking for portfolio companies that were sailing against the headwinds or were able to perform better than market conditions. And then I was looking for clear action from the private equity firm that enabled that performance, rather than just a great management team."

One example would be Nordic Capital, which took the large cap category in EMEA this year with Swedish outdoor equipment maker Thule Group. A business reliant on discretionary spend acquired just before the crisis hit meant that Nordic was in for a tough ride, and our judges were impressed with the firm's strong turnaround plan and subsequent focus on strategically repositioning the brand, arguably making it more future-proof.

Once again we were delighted by the calibre of the entries for our Operational Excellence Awards. The same goes for our judges, who had to make some tough decisions.

"Last year there were some slam-dunk winners but this time, in most categories, there were really hard decisions to be made," said Suvir Varma, a partner with Bain & Company's Southeast Asia practice and a judge in the Asia-Pacific region.

A warm congratulations to all of this year's winners, and to all those firms who shared their value creation stories with us. We thoroughly enjoyed poring over your remarkable case studies, and we can't wait to hear more of your inspiring investment stories next year as private equity firms continue to take operational excellence and future-proofing to the next level. ■

WINNERS

AMERICAS

SMALL CAP
Blue Point Capital Partners – Area Wide Protective

LOWER MID-MARKET
Sun Capital Partners – Point Blank

UPPER MID-MARKET
Gryphon Investors – Flagstone Foods

LARGE CAP
Oak Hill Capital Partners – Dave & Buster's Entertainment

ASIA-PACIFIC

SMALL CAP
Mekong Capital – Golden Gate

LOWER MID-MARKET
Headland Capital Partners – Young Toys

UPPER MID-MARKET
Tokio Marine Capital – Bushu Pharmaceuticals

LARGE CAP
CVC Capital Partners – HKBN

EMEA

SMALL CAP
Aurelius – Connectis

LOWER MID-MARKET
OpCapita – GAME Digital

UPPER MID-MARKET
Sun European Partners – DBApparel

LARGE CAP
Nordic Capital – Thule Group

WINNER – UPPER MID-MARKET

Tokio Marine Capital: Bushu Pharmaceuticals

When Tokio Marine Capital (TMC) acquired contract manufacturing organisation (CMO) Bushu Pharmaceuticals in March 2010 it was a non-core business of Shionogi Group, one of Japan's leading new drug manufacturers.

TMC already had previous experience of investing in Japanese healthcare firms such as generic drugs manufacturer Showa Yakuhin Kako and Japan Medical Data Centre, and it saw Bushu as well placed to grow its production and add foreign pharmaceutical companies to its customer base.

Bushu was ranked second in Japan's fast-expanding CMO market, but TMC's first priority post-acquisition was investing to upgrade the business to deal with this anticipated growth in demand.

TMC president Koji Sasaski told *Private Equity International* that prior to the investment, Bushu had merely been the factory, but post-investment, there was a gradual integration of the factory and the business to create a renewed focus on improving profitability.

Sasaki and a colleague were assigned to work closely with the company and monthly meetings with Bushu's senior management were conducted. A number of core staff members were also seconded from Shionogi to Bushu and a new compensation plan was put in place to align interests.

Sasaki said that all the new projects embarked upon utilised specialist consultants which helped to affect a significant increase in production.

Projects included shortening production lead-times, optimising and streamlining staff assignment, and reviewing flow lines in the plant. Together these initiatives resulted in an increase in productivity of more than 10 percent during the project's first year and an additional increase of over 20 percent in the following year.

Bushu had previously used a core sales team of just four people, but Sasaki says that was "at least doubled" under TMC's stewardship.

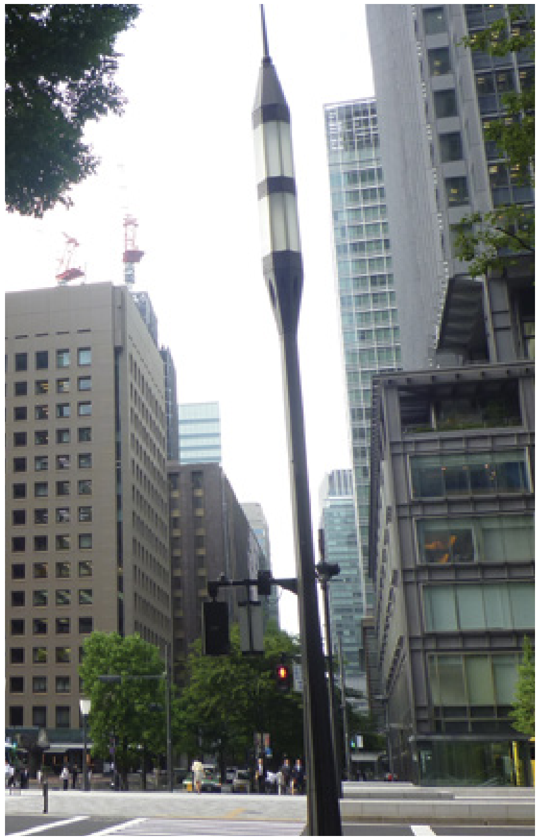
As a Shionogi subsidiary, the sales team's main role had been to maintain relationships with existing customers, and because many leading new drug manufacturers that competed with Shionogi were reluctant to do business with Bushu, creating new business lines was a tough task.

After TMC acquired Bushu, its new-found independence saw a number of foreign new drug manufacturers show interest, allowing it to expand its global presence with a renewed focus on high-quality products.

TMC also helped Bushu establish a new business strategy division, hiring a specialist who had previously worked alongside the president of a foreign pharmaceutical manufacturer, as section head. Segregated marketing strategies were established for different customers and the number of corporate customers grew by about 30 percent in the five years after the acquisition.

TMC conducted a refinancing of its LBO loans to free-up equity to acquire the Misato production plant from Eisai in December 2013. This gave Bushu a second production plant, enabling it to triple annual production capacity from 3.5 billion tablets to 10 billion.

Bushu became Japan's number one dedicated CMO company with sales increasing from ¥10 billion at the time of the investment (31 March 2010) to ¥26 billion as at 31 March 2015. EBITDA increased from ¥1.6 billion to ¥6.5 billion over the same period. ■



Bushu: *became Japan's leading dedicated contract manufacturing company*

6.0x
Exit multiple

45.7%
IRR

2.6x
Top line revenue growth

4.1x
EBITDA growth