Lonsdale Capital Partners

Due Diligence Questionnaire

Strictly Private and Confidential

January 2012

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Lonsdale Capital Partners

DDQ Outline

Section One: Introduction, Strategy and Objectives

1.1 **Introduction**

Lonsdale Capital Partners ("Lonsdale") invests in smaller end buy and build opportunities in the UK, with a secondary and selective focus on Northern Europe. Its investment style is hands on and acquisition targets must be profitable and cash generating with good growth prospects, both organic and through add-on acquisitions.

Lonsdale comprises three partners (the "Partners") who have known each other on a personal and professional basis since 2003, each of whom has distinct, but complementary, skills and experience. Two of the Partners have extensive deal investing experience and the other Partner has extensive management and business building experience in the asset management sector. The Partners are attracted to the smaller end of the market because they believe that there is an abundance of small companies which are poised for growth, but which do not have either the capital or the breadth of experience to achieve it. The Partners believe that they have the approach, the skill set and the networks within the regions in which Lonsdale operates, to acquire, grow and exit these companies in a way that creates significant value for investors. Lonsdale is targeting a MOC in the range of 3-5x.

Lonsdale is seeking to raise £150 million with a view to investing approximately £10 -15 million per deal.

1.2 **Background**

The team comprises three Partners: Alan Dargan, Ross Finegan and David Gasparro. Alan and Ross have known each other since 2002 and have worked together since 2007, executing what is now the Lonsdale strategy. David has known Alan and Ross since 2003 and has worked with Alan and Ross since Lonsdale came together in 2009. The Partners have completed two transactions together (EMCAS and OEG – see Case Studies at Appendix A) and prior to teaming up, have completed many other transactions individually.

Each of the Partners has an investing background, whether through their direct experience in private equity or through investing in public markets, which they believe is well suited to the smaller end of the private equity market. The Partners have extensive networks across Lonsdale's target regions which assist the firm in all aspects of deal sourcing, value enhancement and execution. The Partners believe that their combined skill sets enable them to provide management teams with the capital, expertise, contacts and support they need to grow earnings and value significantly.

In addition to the Partners' shared excitement for the smaller end of the private equity market, they came together because they enjoy each other's company, consider each other to have similar values, respect each other's experience and value each other's ability to make money for the fund. The Partners invest only by consensus and will not make an investment in situations where one of the Partners does not fully support the deal Alan spent almost three decades in investment banking at a senior level in London and New York, at Warburg Paribas Becker, Credit Suisse and UBS, during which time he led teams involved in many small, medium and large industry transforming deals spanning several business sectors in the UK and Northern Europe and around the world. In the 12 years prior to Lonsdale being established he ran Lansdowne Capital, a specialist corporate finance firm.

Commencing in 2000, Alan started investing as principal in small PE deals and has a record of profitable investment.

Ross's background includes over nine years in the private equity arm of JPMorgan Partners, since which he has invested in the smaller end of the market, with Alan since 2007 and with David since 2009. David was Head of Distribution for Threadneedle Asset Management globally, responsible for driving strategy and building out the business both domestically and internationally. He was also CIO for Schroders Investment Management's mutual fund business. David was a member of the global Management/ Executive Committee in both roles.

1.3 What is the overall strategy?

Lonsdale invests in opportunities at the smaller end of the UK market with a secondary and selective focus on Northern Europe. Target companies will typically have an enterprise value in the range of £10 million to £50 million.

The strategy is generally executed as follows: Lonsdale acquires mature businesses which have proven business models, strong management teams, with a vision of where to take the business and good market positioning, ideally within a particular market niche. The core management team must have the ambition, skills and enthusiasm to partner with Lonsdale in order to create value. Once acquired, the Lonsdale team then works with management to enhance the management team, improve operational performance, develop new products/markets and develop and monitor overall business strategy. Finally Lonsdale assists management in identifying and executing add-on acquisitions in local and international markets, ultimately to significantly enhance earnings and to position these businesses as attractive acquisition targets themselves.

1.4 Describe Lonsdale's approach to creating value through this strategy

The Partners have deep and direct experience in creating value through investing in businesses at the smaller end of the market. This experience has provided them with an extensive network of consultants, CEOs, chairmen, directors and managers who can be utilised by the Partners to assist with aspects of due diligence and value creation over the lifetime of an investment.

When evaluating a business, Lonsdale spends significant time evaluating the 'vision' of the management team to understand whether they have the ideas, experience and drive and enthusiasm to take the business forward. Prior to investment Lonsdale will have a value creation plan which sets out how to support and enhance management and how to develop the business organically (For an example please see the EMCAS value creation plan which is available upon request). A key part of this plan will be the incentivisation of the management team to ensure the parties are fully aligned. Management will generally be required to invest a significant amount of capital so that they will 'feel the pain' if the business is not successful. However, if they are successful in growing value, the Partners would expect them to share disproportionally in the equity upside. Combined, such packages should align managements' and the fund's interests and both challenge and reward success by the team.

The Company's plan will also contain a preliminary market view of the competitive landscape including a view on competitors that could be acquired and other potential add-on acquisitions; where possible it will have approached some of these targets.

Once the platform investment has been completed, Lonsdale will set the Company's plan into action. Over the first six to nine months of the investment, the Partners expect to be in weekly and often daily dialogue with the management team so as to aid and expedite change. Lonsdale will support the team, help with expansion plans or changes in strategy and generally be available as an advisor and mentor for management.

All the activities of the team are geared towards value creation and ultimately positioning the company for the optimal exit opportunity.

The Partners consider that the following are the core drivers for value creation in portfolio companies:

Short to Medium Term: Optimising what the company already does

- Detailed review of strategy and milestones
- Supporting and monitoring management in execution of the agreed strategy
- Build out the Board with experienced individuals from the Lonsdale network
- Identification and remediation of any weaknesses in the broader management team
- Analysis of current customer base to identify any under-exploited sales opportunities
- Review of current product/service offering to identify any under-exploited offerings
- Analysis of the competitive landscape to refine acquisition opportunities and make the approaches
- Detailed review of working capital practices
- Improvements to reporting systems required to ensure availability of high quality decision making data
- Review of reporting lines

Medium to Longer Term: setting the scene for growth

- Bolster management team
- Help refine and implement new strategic direction
- Make capital available to support growth
- Set integration targets for acquisitions
- Execute identified acquisitions
- Set and realise cost and revenue synergies
- Continue to review strategy and amend as appropriate to reflect changes implemented
- Help implement new product development and market entry
- Realise growth in earnings, eventually leading to growth in value

- Refine and execute the exit strategy

1.5 **Summarise the investment focus for the Fund**

Lonsdale is seeking to invest between £10 million and £15 million of equity per deal in strong, proven businesses in the UK and selectively in Northern Europe. The platform businesses which Lonsdale initially acquires typically exhibit the following characteristics:

- Cash generating, proven business models
- Market niches that can be a platform for growth
- Strong management teams with a vision and a passion for their business
- Requiring only moderate amounts of leverage
- Valued between 4x and 6x EBITDA

1.6 **Explain your approach to acquisition valuation multiples**

Lonsdale believes that it can continue to pay between 4 and 6x EBITDA for most of the companies in which it is interested. There are a number of considerations that will determine where any particular company sits within that range. One of the most important determinants of the multiple is the quality of the management team and the deliverability of its vision for the business. Lonsdale backs strong management teams with a clear and plausible vision for the future. Lonsdale will also take into account the level of growth of the sector that the company operates in, the predictability of the income stream, the diversity of the business (by client, product, region etc), the existence of barriers to entry and the size of the business. There are some instances where Lonsdale will consider paying a little more than 6x trailing EBITDA, particularly in companies where future growth is very apparent.

1.7 **Is the strategy consistent with the past experience of the Team?**

In past investments, the Partners have enhanced and/or changed management, developed new business lines, globalised businesses, re-branded/re-positioned businesses, performed add-on acquisitions and improved operations. When combined, this has resulted in significant growth in EBITDA, a wider group of potential acquirers on exit and ultimately significant multiples of money being returned to investors. In the case of the investment in Powerflute, Alan provided M&A and financing expertise on the acquisition and was a board member up until the successful IPO. He also advised on the dividend recapitalisation prior to the IPO and on the acquisition of Scheufelen post the IPO. In the case of Containental Ltd (now OEG Offshore Ltd) Alan and Ross expanded the business into Northern Europe, Australia, Singapore, Africa and Canada, and created a deeper operation in the US and multiple suppliers in China and Europe. They also made significant changes to management, creating a tight knit team. They also changed its customer base from having only Aberdeen based supply companies to having global clients (Total, Schlumberger, FMC, Baker-Hughes, etc).

In the case of EMCAS, Alan, David and Ross have taken a particularly hands on approach. Whilst the company has a very capable and ambitious management team, it is the CEO's first role at this level. Lonsdale has arranged and actively participated in corporate strategy; helping determine what the medium term objectives for the business are and how best they are achieved. It has helped the CEO think through gaps in the management team structure and advised on the specification of the roles that needed filling. It has also helped guide new product development; both in terms of potential new areas but also looking at the framework to assess new products. Lonsdale has helped critique the marketing strategy;

advising on the relative merits of PR and advertising for example as well as connecting them up with outside agencies. Lonsdale has – via the Chairman – given them access to regulators to help determine the risks facing the business as well as start the process of influencing the policy debate around the role of claims management companies. Finally, Lonsdale has sourced a number of opportunities for them to potentially partner with other companies, for example as providers of new claims or debt management leads. In summary we have helped guide the agenda and get focus on the key issues facing the business.

The Partners also have substantial experience in managing large organisations, changing strategy and being responsible for growing business lines and businesses (See para 5.2 for David's experience in Schroders and Threadneedle). In addition, they have also brought on industry leading non-executive directors to their portfolio companies, thereby bringing ex managers of large companies to pass on their experience to small companies (see OEG and Powerflute). The Partners have also globalised these small businesses by expanding operations into Asia and the Americas, hiring managers from competitors (see OEG).

Combined, the Partners believe that they have the breadth of experience required to successfully execute the Lonsdale strategy in order to create significant value for investors.

1.8 What makes this strategy viable?

The Partners are seeing an abundance of opportunities at the smaller end of the market for strong businesses that have the potential for growth but which are starved of financial and other resources. This can result from (i) a lack of private equity capital at the smaller end given that the focus of most of the existing UK and Northern European private equity firms is on the medium or large end of the market and (ii) bank debt or access to the capital markets often not being as widely available to this end of the market. In addition, many of Lonsdale's acquisition targets have business owners who are reaching retirement age and do not have a succession plan in place, thereby requiring an exit or partial exit in the near term.

Many of these businesses have established strong market leading positions, often in niches not adequately or sufficiently served by their larger competitors. The Partners believe these are the companies which are best suited to working with Lonsdale as the firm can provide the capital and support to management in order to develop their market position and potentially expand into other products or services or geographically.

The Partners' extensive networks, across Lonsdale's target region, provide Lonsdale with excellent access to these opportunities, often on a proprietary basis. In addition, the Partners believe that their level of experience and professionalism provides a distinct advantage in acquiring businesses outside of auctions or in limited/poorly run auctions. This was the situation in Alan and Ross's acquisition of OEG Ltd – the auction was poorly run, rushed and inefficient. Whilst many companies received an Information Memo, the level of follow up by the intermediary was poor, meaning that that they were able to move quickly to an exclusive position. The vendors ultimately agreed to re-invest into 40% of the acquisition vehicle. The same was the case with the Partners acquisition of EMCAS – at the time that Lonsdale become involved, EMCAS had conducted a failed sales process through a small adviser. Lonsdale, particularly through David's experience in the financial sector, knew the business very well and the Partners were able to develop a strong relationship with the CEO very quickly. Given the challenges in the debt markets (and the lack of acquisition finance) the Partners adapted the structure to utilise vendor finance and an earn-out (with no third party debt) to ensure the deal went ahead.

In essence, the Partners believe that by bringing a mid-large market level of professionalism and experience to bear on the smaller end of the market Lonsdale can produce very attractive investment returns.

1.9 What are the investment objectives?

Lonsdale aims to achieve a gross multiple of cost in the range of 3-5x from every investment.

1.10 What is the size range of investments by the Fund?

Please see "Fund Size Justification" at Appendix B.

1.11 What is the industry or business sector focus of the Fund?

The Partners have a broad range of industry experience from many years of investing. Lonsdale sees exciting opportunities in a wide range of sectors and, accordingly, the Fund will not have a particular industry or business sector focus. The Fund will not invest in sectors where the business model is not clear and will therefore exclude industries such as technology and bio-tech.

1.12 What is the geographical focus of the Fund?

The Fund will be primarily focused on the UK, with a secondary and selective focus on Northern Europe. This focus is driven by the Partners' past investment experience and the strength of their networks across these geographies.

1.13 Summarise the market opportunity and its key drivers

Lonsdale believes that there is a broad base of potential opportunities, both in the UK and in Northern Europe. According to the Office for National Statistics (ONS), there are over 2.6 million businesses in the UK, over 2 million of which are micro (i.e. less than 10 employees). Excluding the micro firms, there are 438,000 businesses that have between 10 and 249 employees. While there are over 200,000 businesses that are at the smaller end of this scale (with 10 to 19 employees), 50% of the 438,000 population have between 20 and 249 employees (Tables 1 and 2).

Tables 1 & 2

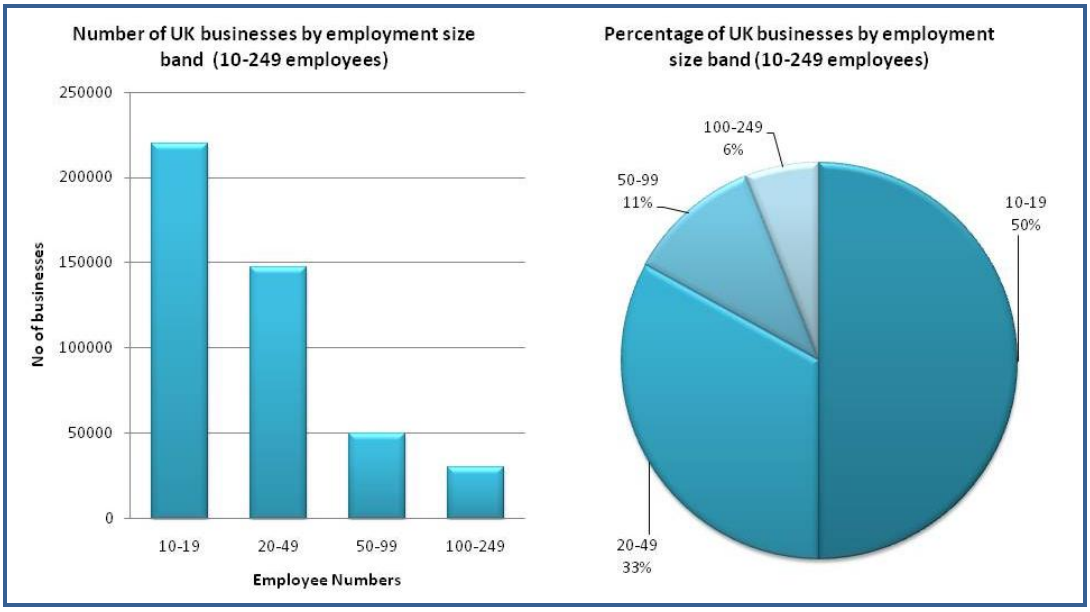
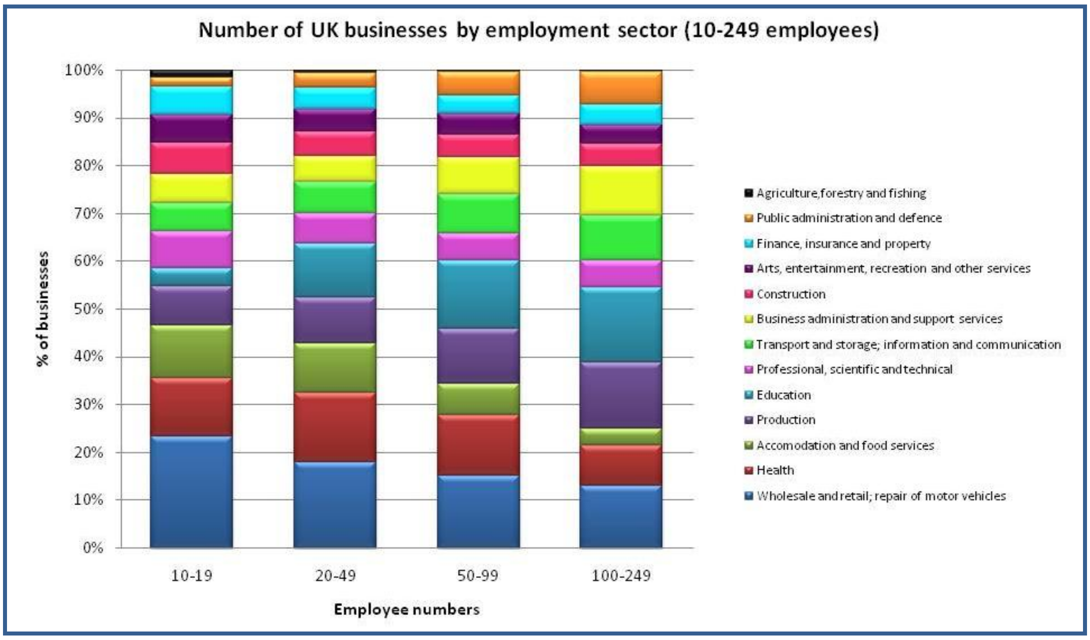


Table 1 & 2 References: Office for National Statistics: UK Business Activity, Size and Location – 2009

Moreover, there is a broad coverage across all of the main industries and sectors (Table 3).

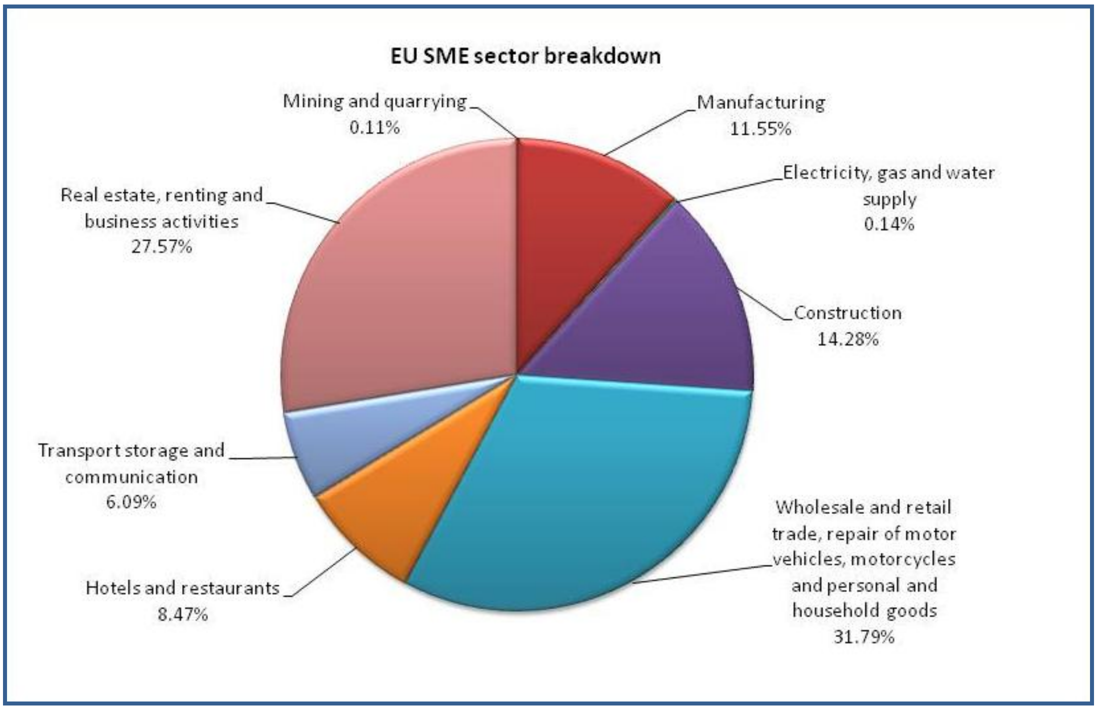
Table 3



Reference: Office for National Statistics: UK Business Activity, Size and Location - 2009

A similar picture is apparent elsewhere in Europe. Data for the European Union (EU) shows that there are over 20 million enterprises across the whole of EU. While the vast majority are micro, there are still 1.6 million businesses that have 10 to 249 employees. The sector composition is also reasonably broadly based (Table 4).

Table 4



Reference: Annual report on the EU Small and Medium Sized Enterprises (Jan 2009) – Commissioned by the European Commission

In terms of the outlook for the small company sector there is clear evidence that good quality small companies tend to outperform their larger counterparts. A Cambridge University study in 2008 looked at the proportion of "Super Growers" in various different size categories in the UK. They defined "Super Growers" as companies that had increased turnover by 30% or more in each of the previous three years. Amongst the whole business universe, 13% of companies experience super growth. However, 20 - 21% of companies with 10 – 249 employees made it into the super growth category (Table 5).

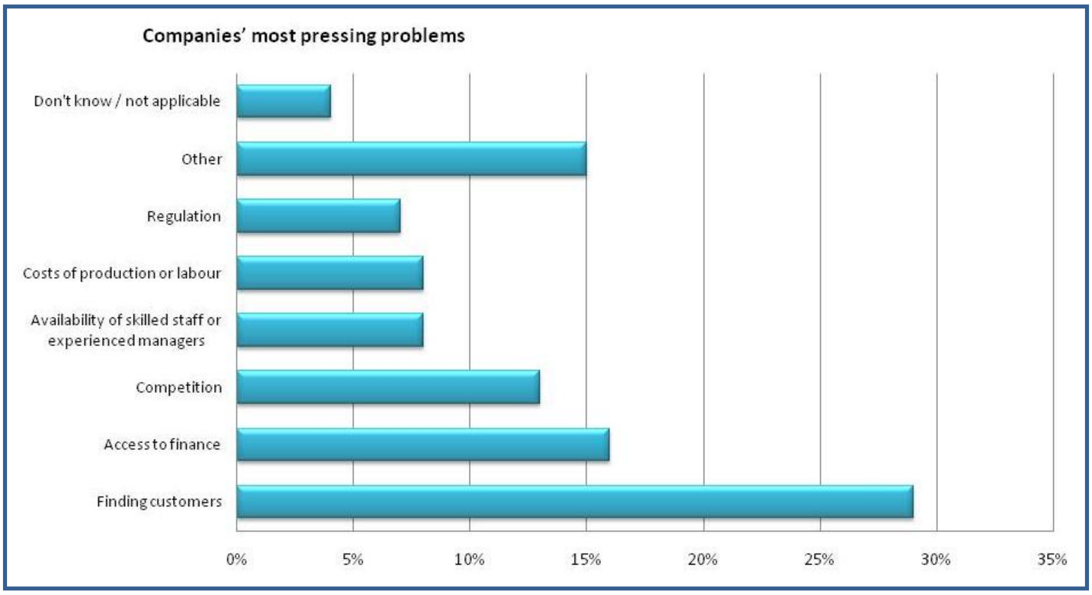
Table 5

Business characteristics by growth category			
Category	**Super growers as % of all firms**	**Super growers % distribution**	**Other firms % distribution**
All businesses	13	13	87
Number of employees			
0	11	55	69
1-9	17	37	26
10-49	20	6	4
50-249	21	2	1

Reference: Financing UK Small and Medium-sized Enterprises, the 2007 Survey – published August 2008 by the CBR

However, despite this, there are clearly issues for small companies. Survey evidence from the European Commission asked small companies to list their most pressing problems. After "finding customers", "access to finance" is the most pressing concern for small companies in the EU (Table 6). While this will in part reflect the impact of the credit crunch, survey evidence from elsewhere shows that access to finance consistently features as a significant constraint to companies, particularly at the smaller end of the market.

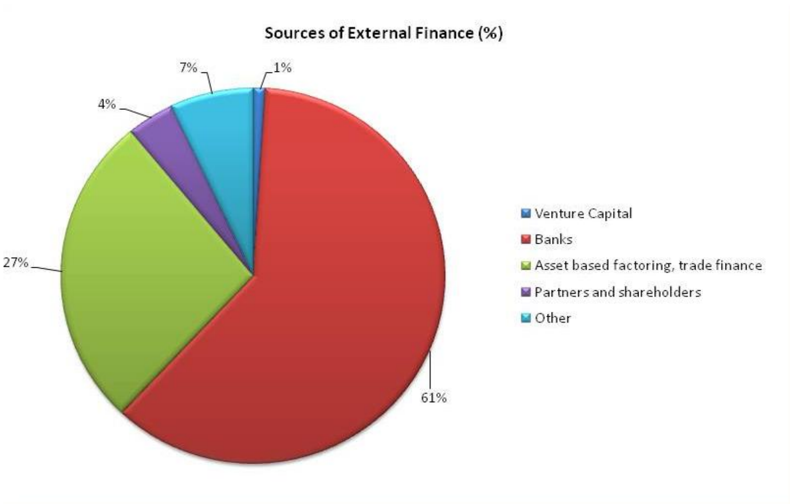
Table 6



Reference: Access to Finance Analytical Report – Flash Barometer (published September 2009) – European Central Bank

In part this reflects the lack of options available to smaller companies. In the UK, 61% of small firms said that bank loans are their primary source of finance (Table 7). While this may not be that surprising, only 1% said that venture capital or private equity was the main source of external finance. Options for small companies to help finance growth are relatively limited. This is a point picked up in "The Provision of Growth Capital to UK Small and Medium Sized Enterprises", a report commissioned by the UK government and published in November 2009 to look at the long term supply of capital to smaller enterprises. This report argued that a "gap exists for companies looking for between £2 million and £10 million of growth capital".

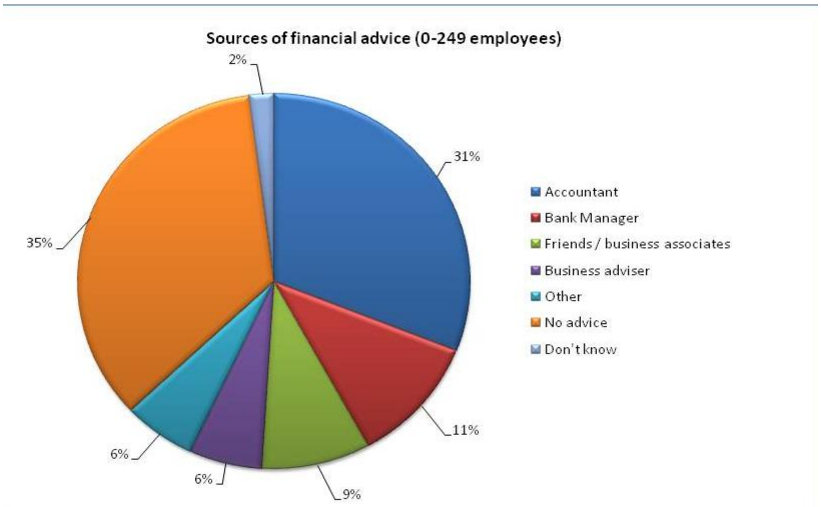
Table 7



Reference: What is holding SME's back (published March 2008) – British Chamber of Commerce

In addition smaller firms can also suffer from a lack of advice. For smaller companies the largest single source of this advice is from their accountant, with 31% identifying this. However, 35% of companies said that they did not get any financial advice at all (Table 8). As the report above states, "small and medium sized businesses are vital for .... jobs and wealth and a dynamic, growing SME sector is likely to contribute significantly to future growth and productivity. To maximize their contribution, it will be important that the financing needs of viable SMEs which want to grow are fully met".

Table 8



Reference: Financing UK Small and Medium-sized Enterprises, the 2007 Survey – published August 2008 by the CBR

In summary, across the UK and the rest of the target region, there is a broad base of good quality smaller companies. Many of these are strong franchises with the potential for growth that meet Lonsdale's investment criteria and lack access to both finance and high quality advice. The Partners believe that they have the network and skills to identify those that want to grow and help them reach their potential. Overall, Lonsdale's approach is about partnership, working closely with management teams and taking a hands on approach to help grow the businesses in which it invests.

1.14 Describe the competition in the market for the Firm's strategy

The Partners see competition within the smaller end of the market being characterised as follows:

- Deal-by-deal funders: these operators find an opportunity, and then look to obtain funding from their high net worth ("HNW") network in order to complete the deal. The Partners believe that sources of funding for these operators have become more limited in the current financial environment and, accordingly, they expect to see this area of the competition weakening rather than strengthening over the next 12 to 24 months.

- Pledge Funds: during the last few years HNWs pledged funds to individuals or teams in advance of seeing specific deals (i.e. blind pledges). Similar to the deal-by-deal funders above, the Partners expect many of the HNWs may be reducing or withdrawing commitments to pledge funds going forward. Thus, the Partners believe that this area of the competition will also weaken over the next 12 to 24 months.

- Investor Networks: investor networks are firms which pool a large number of retail or individual investors on a deal by deal basis and invest in deals (e.g. Pi, Beer & Partners, Swain and VentureIP). Given that many of the investors in these networks do not have significant investment experience and that many of the investments associated with these networks will have experienced significant value diminution over the last 12 to 36 months, the Partners do not expect these networks to be significant competitors over the life of the Fund.

- Small Private Equity Funds: there are a number of PE firms who have successfully raised capital and have been investing in this area of the market for a number of years. These firms have stayed close to their original mandate and have not moved up to do significantly larger deals. Most, however, are country specific and often to not have the necessary skill set or networks to grow companies across continents. These firms look at deals of a similar size to those that Lonsdale focuses on and the Partners expect to come across them when looking at potential transactions. Overall, the Partners see this sub-section of the market as steady (neither growing nor diminishing) as a number of funds deal with issues in their portfolios, and as some new funds enter the market. The Partners believe that Lonsdale's medium to long-term competition lies in this section of the market.

- Mid-cap PE Funds: given the difficulties experienced by firms in raising debt for larger deals and given the scarcity of larger deals in the market, the Partners have seen many of the mid-cap firms dipping down into the smaller end of the market, as they try to put their (larger) funds raised to work. The Partners expect that these firms will return to the mid-market sector once banking liquidity returns to the mid-market, but in the current market Lonsdale may compete with these firms at the high end of its investment range.

1.15 What differentiates the Fund positively in the marketplace? Describe its competitive advantages

Lonsdale's differentiating factors are as follows:

- Deep and complementary experience of the Team. The Partners have a mix of backgrounds, from pure private equity, to global advisory to the senior management of a global asset manager. Combined, they have a breadth of experience in finding deals, investing, growing companies, incentivising, hiring and firing management and employees and knowing when and how to exit investments. The Partners chose this diversification as they believe this combination of skills is key to the life-cycle of a private equity deal; namely buying, changing/improving and exiting.

- Hands-on nature of the Team. Lonsdale wants to make many small but important changes in each company it acquires, strengthening the team, improving processes terms, etc. and, thereafter, making add-on acquisitions. The Partners enjoy getting involved in portfolio companies and helping them to succeed and spend significant amounts of time in each portfolio company, in particular over the first 6 to twelve months post acquisition.

- Commitment to the smaller end of the market. The Partners are committed to this end of the market. They have seen that the proprietary or limited auction deals their networks provide them with mean they are in an exclusive or lead position early on, thereby avoiding the frustrations of wasting time on large multi-party competitive auctions. They like smaller, under-exploited and growing companies who can benefit massively from their support and advice and can grow towards the mid-market.

- Working with management teams. The Partners have a proven ability to work successfully with management teams at the smaller end. They believe that management teams see the benefit they bring through the breadth of the Lonsdale networks and the down to earth way in which the Partners interact with management. They also like the quality of board members that Lonsdale can put in place and the mentoring/governance the Partners can provide.

- Ability to drive change. The companies Lonsdale targets need change. Many of their owners want an investor partner who will help them grow and diversify. The Partners' combined experience and networks facilitates this change and, where a vendor invests alongside Lonsdale, the successful execution of this approach will often result in the vendor making more money on the second sale of his business than on the first sale to Lonsdale.

- Ability to globalise a company. The Partners' combined experience of structuring deals in Europe and global markets together with their extensive networks gives the Partners the ability to globalise the businesses Lonsdale acquires. The Partners have a depth of experience defining strategy, developing management teams, facilitating new market entry and developing new products and brands. This puts them in a unique position to advise and assist management teams.

- Extensive networks. Each of the Partners has operated in international and global businesses and between them have completed global deals in the small, middle and large end of the market. As such, Lonsdale has an extensive network of consultants, CEOs, chairmen, directors and managers who introduce Lonsdale to deals, help the firm to carry out due diligence efficiently and in depth, and who may take on non-executive directorship roles in portfolio companies.

- Buy and Build experience. The Partners have shown that they can buy solid platforms and successfully execute a buy and build strategy. The proper execution of such a strategy can propel a business from the smaller end of the market into the middle-tier and can attract a wider range of potential buyers.

By combining all of these factors the Partners believe they can transform a business, whether by making many small operational improvements, enhancing management, investing for growth, internationalising operations or a mixture of all of these. In OEG (see Case Studies at Appendix A) Alan and Ross invested in a small company based in Aberdeen with an agency in the US and one dedicated supplier in China. Less than two years later, the business has operations in the UK, the Netherlands, Australia, Singapore and Canada, a deeper operation in the US and multiple suppliers in China and Europe. All of the top management, save one, has been changed and a tight knit team created. Its customer base has changed from having only Aberdeen based supply companies to having global clients (Total, Schlumberger, FMC, Baker-Hughes, etc). As the Partners now come to exit this business, they have created a much larger and more robust business, which should enable them to achieve a minimum of 3.5x MOC on exit.

1.16 Will the Fund act as a lead investor, a co-investor, a sole investor or co-lead?

The Fund will always seek to act as sole or lead investor (as it has done in the past).

Lonsdale will always consider the advantages of having co-investors in deals. Where co-investors are required it will first look to bring in co-investment from its LPs and will also consider working with friendly PE firms (in which the Partners have many ex-colleagues from past lives) or other co-investors where there are clear strategic benefits. This may result in Lonsdale co-leading a deal, but it will not take co-investment positions.

1.17 How will deal size, deal number, or strategy change with a larger pool of capital?

Lonsdale focuses on the smaller end of the market because the Partners believe that this is not only the most exciting segment of the market but the one where they can make the highest multiples of money for investors. The Partners do not want to be operating in the mid-market – now or in the future - where returns are historically lower and competition higher. The smaller end of the market is Lonsdale's current and future focus.

1.18 How does the Firm add value to portfolio companies?

Prior to acquisition:

Prior to completion, the Lonsdale team will have identified the strengths and weaknesses, threats and opportunities of the business and robustly assessed the quality of the management. The team will look to identify people who can come in post completion to bolster management and play an active role on the board and will have a plan in place to alleviate threats.

Post acquisition – initial six months:

Immediately on acquisition, Lonsdale will conduct a further in depth review of the strategy of the management team and refine it, set goals and make management accountable for performance versus these goals. The Lonsdale team will typically be very involved in the first six to twelve months post acquisition until all the ingredients are in place (both people and skills) to take the business forward with less involvement from Lonsdale. Lonsdale will also bring in non-executive directors or Chairman, often from much larger businesses, who bring judgment, contacts, leads, and customers, all with a focus on growth. Thereafter Lonsdale will look to enhance management as appropriate, all the time giving the overall management team advice and support. Lonsdale looks to improve the weaknesses and replicate the strengths. Once the management team has settled, Lonsdale will look to expand the business both organically and by acquisition, in local markets and internationally using its networks to aid this process. During this initial six months phase, the Lonsdale team will be in almost daily contact with the CEO, advising, aiding, acting as a sounding board, and generally be available as an advisor and mentor for management through what is typically a period of significant change.

Post acquisition – six months and beyond:

Lonsdale is a firm that wants to be "hands-on" and available to its management teams at all times. The Partners always make themselves available and are there to help with the constant aim of growing value. They will often travel with management on trips where major strategic issues are involved (acquisitions, supply agreements, important customers etc).

At this stage Lonsdale will also start actively pursuing pre-identified add-on acquisitions, discussing the rationale for each and helping the team negotiate and structure each deal. Lonsdale will aid with the banking, the legal and the personnel issues all with a view to ensuring an earnings enhancing and successful acquisition. Once completed, Lonsdale will monitor the performance of the management team and the acquisition closely, combining monthly board meetings with regular informal visits and telephone calls with the CEO. This phase of the deal will continue until the next add-on acquisition is pursued or until exit.

This approach or variances of it can be seen in all of the Case Studies (see Appendix A). Lonsdale is an active investor, which makes change and has people who look to push themselves hard in order to create value. Lonsdale expects the same of its management teams.

1.19 **What lessons have been learnt from previous investments and how have these been taken into account in the current Fund?**

The lessons the Partners have learnt over time are as follows:

<u>It is never too soon to change management if you are having doubts</u>: In Pankaboard (a packaging company specialising in heavy duty folding boxboard and other specialty boards used in packaging consumer products and display materials) the Board asked the CEO to fire a senior manager. He held off and the profits of the business deteriorated, slowly at first and then seriously. In the end the Board changed both the CEO and the senior manager, but lost 12 months of progress in the meantime.

Similarly in OEG, Alan and Ross had doubts about a manager who was inherited through an acquisition, but gave him the benefit of the doubt. In the end their doubts were justified and they had to replace him, but lost three to four months doing so.

<u>Ownership control</u>: During the early days of Ross's tenure at JPMorgan, JPMP was limited to non-control investments due to restrictions placed on US banks by The Bank Holding Company Act. As a result JPMorgan Partners was (until 2001/02) limited to minority stake investing, which usually resulted in a lack of control and influence. In times of difficulty or restructuring, significant co-operation was needed from JPMP's co-investment partners to initiate change. Inevitably this slowed down the process with prolonged discussions due to differences of opinion, compromise and delays. Lonsdale is very clear that it will only take the lead role in deals.

<u>Pay up for good businesses with strong management</u>: Lonsdale would prefer to pay a slightly higher price for the best of breed, rather than acquire a sub-standard business for a "cheap" price. Early on in his career, one of the Partners was advised "buy the best, pay the most, cry only once". All of the Partners have had experience of acquiring businesses for what they initially thought was good value, but in hindsight was not given the time and effort required to put them right.

<u>Don't over-leverage your portfolio company</u>: Again, the Partners have experience of managing over levered companies where most of the time was spent keeping the bank at bay rather than looking forward and concentrating on growing the business. The Lonsdale strategy is focused on achieving value through growing EBITDA – in this situation more moderate levels of leverage are appropriate especially given the need for investment to fund growth.

<u>Incentive Schemes</u>: Ten years ago incentive schemes were less common than they are today and the thought of sharing upside was not popular with some owners/shareholders. The Partners have found that sensible incentive schemes that go as far down the company as possible are key to maintaining employees, reducing employee turnover and keeping people focused on value creation. The Partners are of the view that any upside Lonsdale shares on exit may very well not have been there if they had not instituted an incentive.

1.20 What is the typical ownership breakdown of an investment?

As Lonsdale will always want to lead or co-lead an investment, it would generally expect to own, or have the right to own, a minimum of 51% of the equity, but depending on whether there is vendor participation or not, will often own between 60% an 80%, the remainder going to management.

As an example, the breakdown might be as follows:

If Lonsdale wants the Vendor to Participate		If Lonsdale does not want the Vendor to Participate	
Vendor	20%-30%		
Management	0% - 20%	Management	10-30%
Lonsdale	51% to 80%	Lonsdale	70%-90%
Total Equity	100%	Total	100%

This structure was mirrored almost precisely in the case of EMCAS. The vendors hold 10% of equity, management 20% and the remainder is with Lonsdale.

Lonsdale prefers to buy businesses where the vendor stays involved and participates with it in the future growth. The vendor should make more money in the second sale than it takes off the table in its first sale. However, there are circumstances (such as the vendor's status, age, etc) where Lonsdale may decide not to ask it to participate.

In cases where there are clear strategic benefits from bringing in another investor (for instance an industry specialist) Lonsdale may share the deal with another investor, but still be in a position of control.

1.21 What is your typical leverage in an investment?

Lonsdale's typical leverage in any deal will be around 40% to 50%. In executing buy and builds, Lonsdale will need to invest in new people and new operations which will require upfront investment before there is a return of capital. As such, it will need to retain some flexibility for investment and will need to structure this into the initial acquisition sources and uses of funds. In addition, this strategy will need to be clearly communicated to the banks whilst covenants are being negotiated so as to have the headroom to invest for growth.

At this smaller end of the market, Lonsdale expects leverage levels to be in the range of 2-3x EBITDA, unless there are major investment needs up front. Note:

1.22 What controls and rights will you take with minority shares?

As stated above, Lonsdale looked to take majority stakes in all of its acquisitions. In those limited cases where it does not exercise full control through majority economic ownership it seeks to retain effective control through super voting shares, board representation and positive and negative covenants. More specifically, these covenants may encompass matters such as:

- issuance of equity instruments or distributions to shareholders;
- issuance of debt or guarantees;
- changes of company's organisational documents;

- material changes to the strategy;
- approval of annual budgets and accounts;
- appointment of auditor or material changes to accounting methods;
- hiring or dismissal of senior executives, or appointment of any additional board members;
- mergers, acquisitions, divestitures or disposal of material assets;
- material agreements;
- commitments, capital expenditures, or indebtedness, not approved in the annual budget;
- related party transactions;
- instructions to the board, and
- information rights.

In addition, Lonsdale ensures its ability to exit investments by way of drag along/tag along rights in case of minority shares.

1.23 **In how many cases have you been active in replacing the management team when it was needed?**

Integral to Lonsdale's strategy is partnership with proven management teams to drive value creation. The Firm is likely to strengthen and deepen management teams more often than replace them.

However, in some cases managers fail to deliver what is required and in those circumstances Lonsdale would not hesitate to replace them. That happened in the case of OEG, Powerflute and Pankaboard where managers were not performing to the level expected, were not embracing change and where after due consideration Lonsdale took the decision to replace them.

In the case of EMCAS, it was clear to Lonsdale that it would need to create the positions of COO, Commercial Director and HR Director to take the business forward. With the agreement and involvement of management and the Board, Lonsdale helped recruit people for each of these roles.

1.24 **Describe the investment exit criteria, strategy and time-frame**

One or more clear routes to exit are a required component of all Lonsdale's investment proposals. However, Lonsdale expects that in executing a buy and build strategy its portfolio companies will have become attractive to a wider range of buyers than when it first acquired them. Hence, in all cases exit strategies will be constantly monitored and reviewed.

While Lonsdale expects to be exiting portfolio companies in a three to five year timeframe, where companies are still experiencing strong growth at this point, it will look to retain them in the portfolio for a longer period to maximise the multiple on cost.

1.25 **Describe Lonsdale's recent level of transaction activity**

Lonsdale is seeing a mixture of proprietary off-market deals and broker introduced deals. The proprietary deals tend to come from the Partners extensive contact base, while the broker introduced deals are typically mini-auction situations.

In January 2011, Lonsdale announced its acquisition of a majority stake in EMC Advisory Services Limited ("EMCAS")(See Case Study at Appendix A). EMCAS is a leading UK financial claims management company, acting on behalf of UK consumers who have been miss-sold financial services products. The company was founded in 2003 and is based in Paignton, UK where it employs close to 200 staff and rising. It has successfully won over £180 million in compensation on behalf of over 80,000 clients, pursuing the miss-selling of Payment Protection Insurance (PPI), endowments, ill-advised lending and investments and credit card charges. Upon acquisition the business had EBITDA of £3.5 million and currently has a run rate of approximately £12 million with further growth expected going forward. (LTM March 2013 EBITDA is expected to be £20 million).

Lonsdale also currently has three other active deals that are in various sectors and which exhibit all of the dynamics/characteristics the Partners look for in deals, although the Partners have limited capacity to undertake many deals simultaneously while actively raising the Fund.

Further details are available on request and Lonsdale's up to date deal sheet can made available as part of on-site due diligence.

1.26 **How does the Fund ensure its ability to exit advantageously?**

The Partners have demonstrated their ability to achieve attractive exits through sales to both trade and financial buyers and public listings (in the case of larger businesses). This has been achieved through a combination of focused growth and exit strategies and an opportunistic market approach.

Lonsdale will, from inception of investments, continually focus on the most suitable trade buyers, with the aim of attracting bids or sparking an auction process when the key components of the value creation plans have been delivered and the company enters the exit phase. The Fund will always retain the ability to control the exit of all portfolio investments. Lonsdale will always choose the exit process which will extract the maximum market value in the prevailing market conditions.

1.27 **Does the Fund utilise alignment with other strategic or financial buyers to exercise control?**

Lonsdale's primary focus is on control investments. However, in the situation where another private equity firm might have a sector specialty and if the Partners had a good relationship with these firms, Lonsdale would consider co-leading the deal with them. Their involvement would have to have strategic value for Lonsdale and be consistent with their investment criteria and values.

1.28 **Detail the degree of operational involvement in portfolio companies. List your directorships in portfolio companies.**

The Team has deep and direct operational experience due to the fact that each of Alan, David and Ross have had direct P&L responsibilities and Alan and Ross have run their own businesses for 13 and four years respectively prior to the establishment of Lonsdale, showing an entrepreneurial approach. Alan and Ross have also chaired and acted as active directors of portfolio companies. David has been a Management Committee member of two large fund management firms. Here he built strategy, developed new product lines, re-branded businesses, hired many tens of people and has grown an asset management business both in the UK, and in Europe and global markets.

This breadth of experience gives the Partners the skills to be very hands-on with portfolio companies where this is appropriate. However, key to the Firm's value creation approach is identification of strong management teams that have the skills, ambition and drive to partner with Lonsdale. Lonsdale does not want to interfere with the day-to-day operations –

the correct team should be in place, either on completion or shortly post completion. In the majority of cases therefore, the hands-on operational involvement takes the form of challenging, supporting and guiding management, providing strategic advice and monitoring performance to ensure the agreed plans for the business are implemented effectively.

Examples of the Partners' operational experience are set out below:

Alan ran a number of geographical and sector business units at CSFB (now Credit Suisse) and SBC Warburg (now UBS) where he had direct P&L responsibility and was also on the integration committee following SBC's acquisition of SG Warburg. Alan started Lansdowne Capital in 1997 and had grown the business successfully since then to a situation where he was able to hand over day to day activities to the company's executive team when Lonsdale was established. Alan was the financial advisor on the acquisition of Powerflute and as a director negotiated all the financing and refinancing and, subsequently, the acquisition financing for Scheufelen. He also negotiated several bank refinancings for Pankaboard and, whilst he has retired from that company's board, was instrumental in advising on strategy during the company's turnaround. He also negotiated the sale of Pack2Pack to TowerBrook, a private equity firm, and invested in and is a director of the ensuing Pack2Pack. Alan, as Chairman, also worked closely with Ross on the OEG investment.

Ross was highly involved in the post acquisition process for OEG taking the lead role in the hiring and negotiation of the (new) CEO's package, the negotiation and completion of the first acquisition (Offshore Containers Ltd), the assessment of other potential acquisitions, and in the organising of the banking for the company. Ross has also been very active with Communicor (where Ross acts as the FD, preparing the management accounts and dealing with all aspects of the banking. He has recently recruited an FD to take over this role in time for the first closing of the Fund).

In the case of EMCAS, Alan, David and Ross have taken a particularly hands on approach. Whilst the company has a very capable and ambitious management team, it is the CEO's first role at this level. Lonsdale has shaped corporate strategy; helping determine what the medium term objectives for the business are and how best they are achieved. It has helped the CEO think through gaps in the management team structure and advised on the specification of the roles that needed filling. It has also helped guide new product development; both in terms of potential areas of mis-selling but also looking at the framework to assess new products. Lonsdale has helped critique the marketing strategy; advising on the relative merits of PR and advertising for example as well as connecting them up with outside agencies. Lonsdale has – via the Chairman – given them access to regulators to help determine the risks facing the business as well as start the process of influencing the policy debate around the role of claims management companies. Finally, Lonsdale has sourced a number of opportunities for them to potentially partner with other companies and is currently in the process of negotiating an add-on acquisition.

David was a Director of Threadneedle between 2003 and 2009. In this period he was Head of Distribution and in that capacity was responsible for sales, client servicing, product development and marketing in the UK, Continental Europe, the Middle East, Asia and the US. In this role David was the key individual working with the CEO and the rest of the management team to put a new strategy in place to grow the business globally. David was a member of the Executive of the firm and deputised for the CEO in chairing the Management Committee. He also chaired the Strategic Development Committee, the main sub-committee tasked by the Executive to design and implement strategic change.

OEG, EMCAS and Communicor are Ross's three active directorships. He has a number of other directorships which are in dormant or group companies.

Alan has chaired the board of OEG since acquisition in a non-executive role. He stepped down from Powerflute's board at the IPO and more recently from Pankaboard's board in 2009. He participates as a non-executive director at Pack2Pack which takes up one day approximately every two months.

1.29 **What will be the sources of return from investments you make in terms of deal structuring, value add operational support and multiple expansion?**

Lonsdale's focus is on improving operational performance which will lead to organic growth and enhanced EBITDA. Thereafter, it will look to do selective add-on acquisitions, ideally at earnings enhancing multiples. Lonsdale will then work with these acquisitions with a view to realising all of the cost and sales synergies available, thereby adding significant profitability to the bottom line. Lonsdale will never assume any multiple expansion in its forecast returns.

Lonsdale therefore sees the majority (circa 60%) of the Fund's returns coming from increasing EBITDA, with the remainder (40%) coming from deleveraging. While assuming no multiple expansion, the Partners have often achieved this in their past investments as they have found that larger businesses with stronger management and faster growth sell for higher multiples.

1.30 **Number of Deals, Deal Size and Timing**

Lonsdale expects to do two to three new deals a year, resulting in the Fund being fully invested by the end of year four. Each deal will have the full involvement of the three Partners, but post completion, one or, where considered necessary, two of the Partners will take a lead role in the post-acquisition process and in leading the deal towards the completion of its first add-on acquisition.

Lonsdale expects each platform deal to require an equity investment in the region of £10 million which would allow for add-on acquisitions to increase the equity invested per deal to circa £15 million.

Section Two: Deal Flow/Deal Origination

2.1 **How distinctive are the deal sources?**

Lonsdale believes its deal sources are unique and proprietary in nature. Given the breadth of the Partners' previous experiences, Lonsdale naturally has relationships with a large number of key individuals in the financial services sector and the small and mid-market brokers/accountancy firms in the UK. In addition, Alan's experience in advising in basic industries and business services on a global basis gives Lonsdale access to boards, CEOs and company executives in a broad range of companies and sectors across all of Europe. Alan has also advised many of the larger PE and mezzanine firms in Europe on transactions and maintains contacts with these firms and Ross and he have many ex-colleagues and friends in the mid-market PE firms who will show the firm deals that are too small for them.

Through Lansdowne Capital Alan has come into contact with many management teams, consultants and high net worth entrepreneurs who approach him with proprietary buy-out and investment ideas.

David has 20 years experience in the fund management industry, both on the investment side as well as running and growing businesses. This has given him a wide range of contacts amongst the fund management community, but also with consultants, advisors and senior industry figures.

Lonsdale's recent deal list features deals from the brokers, individuals (i.e. personal contacts) and the Partners' respective networks.

Lonsdale has also developed a reputation in the market for its ability to execute deals that pose structural or other challenges. In the case of EMCAS it was able to develop a unique structure to deal with the combined challenges of an up and coming Judicial Review affecting the industry (that would have a large impact on the business going forward), falling EBITDA (as a result of the Judicial Review), a lack of available bank debt and a difficult process.

2.2 **Does this team have a distinct advantage and, if so, what is it?**

Lonsdale sees itself as having a number of distinct advantages:

The Partners' experience in the middle and large PE market gives them a range of strategic, operational and judgmental skills which, when applied to the smaller end of the market, should set Lonsdale above most of its competition. For example, the Partners are experienced in competing in auctions and having to work hard to find proprietary angles that distinguish them from other buyers. In addition, the Partners have worked with a range of advisors (consultants, lawyers and accountants) who know what Lonsdale looks for in deals, that it can react quickly and that it is very commercial in negotiating terms.

The Partners' operational experience sets Lonsdale above its competitors in the firm's ability to buy a company, support and guide the team and add value immediately. This has led to the Partners having a strong reputation in the market as preferred partners.

Lonsdale's network sets it aside in the following ways:

- While others may have similar coverage of the small and medium sized brokers and advisors, the Partners bring something extra; their individual contact bases. Each of the Partners has operated in senior roles in blue chip multinationals which has given them access to an array of CEOs, Chairmen and deal influencers in the UK and in Europe and throughout the world. Lonsdale is able to incentivise these individuals to tell it about opportunities and deals which would not normally come to market; and/or at the earliest possible stage. Once these individuals reach retirement age, Lonsdale will encourage them to join its advisory board and both introduce the firm to and advise it on deals.

- Lonsdale is able to due diligence deals more thoroughly, quicker and deeper than others by finding CEO, Chairman or entrepreneur/founder access to leading companies in the sectors it is working on – this gives the Partners a reputation for moving quickly and for not changing terms and completing the deal (unless due diligence uncovers deal critical issues), giving Lonsdale preferred access to deals.

A prime example of this is the OEG deal in which Alan and Ross had five weeks to complete the deal before the capital gains tax increase in April 2008. Due diligence confirmed their understanding on key issues and they completed the deal without further negotiation where others may have used the deadline to squeeze the vendors. The vendors in this deal are included in the Reference List attached as Appendix C.

2.3 Discuss the current active pipeline

Lonsdale's current active deal pipeline is as follows:

Deal Name/Code	Date Introduced	Sector/ Activity	EV	Source	Multiple	Comments	
1. Project Orpheus	Dec-11	Funeral plans	£10mn	Zeus	4x EBITDA	Growing strongly	Proceeding to offer
2. Project Sky	Dec-11	Wealth management	£12mn	Contact of RF	4x EBITDA	High margins, predictable revenues	Met management, awaiting more data
3. Project Tetrus	Oct-11	Packaging	€40mn	Contact of AD	5x EBITDA	Role of management key	In exclusivity
4. Project Graft	Oct-11	Recruitment	€12mn	Contact of RF	5x EBITDA	Opportunity to reduce costs	Watching process
5. Project Exceed	Jul-11	Precision engineering	£12mn	Whitewater CF	5x EBITDA	Proprietary process	Met management, initial offer made
6. Project Bord	Mar-11	Wine retail/ broking	£27mn	Cavendish	5x -6x EBITDA	High growth	Process now re-starting

The Lonsdale deal list shows a combination of reasons for deciding to pass on certain deals. Size, sector, a number of the deals being turnaround in nature and the lack of a lead management team are the key reasons. Lonsdale is very specific about what it is looking for and will not expend time or effort on deals which are not within the specified deal criteria.

An updated active deal pipeline will be made available as part of the due diligence process.

2.4 How do you avoid adverse selection?

Lonsdale avoids wasting time and resource on bad deals through a number of factors, including:

- detailed market understanding/analysis and target company identification;
- sharply focused pro-active deal sourcing using networks developed over many years;
- a comprehensive internal due diligence process;
- extensive external due diligence and referencing through its extensive network; and
- most importantly, the experience of the Partners.

Lonsdale reviews its deal list on a weekly basis. All deals deemed interesting and fitting into the firm's specified deal criteria are brought forward to the Work In Progress section of the deal sheet and all deals not fitting the required profile are passed on immediately. The Partners avoid spending time on deals which are marginally outside the firm's remit and which distract the firm from spending time on the right deals. Through regular interaction with its network Lonsdale reinforces these selection criteria.

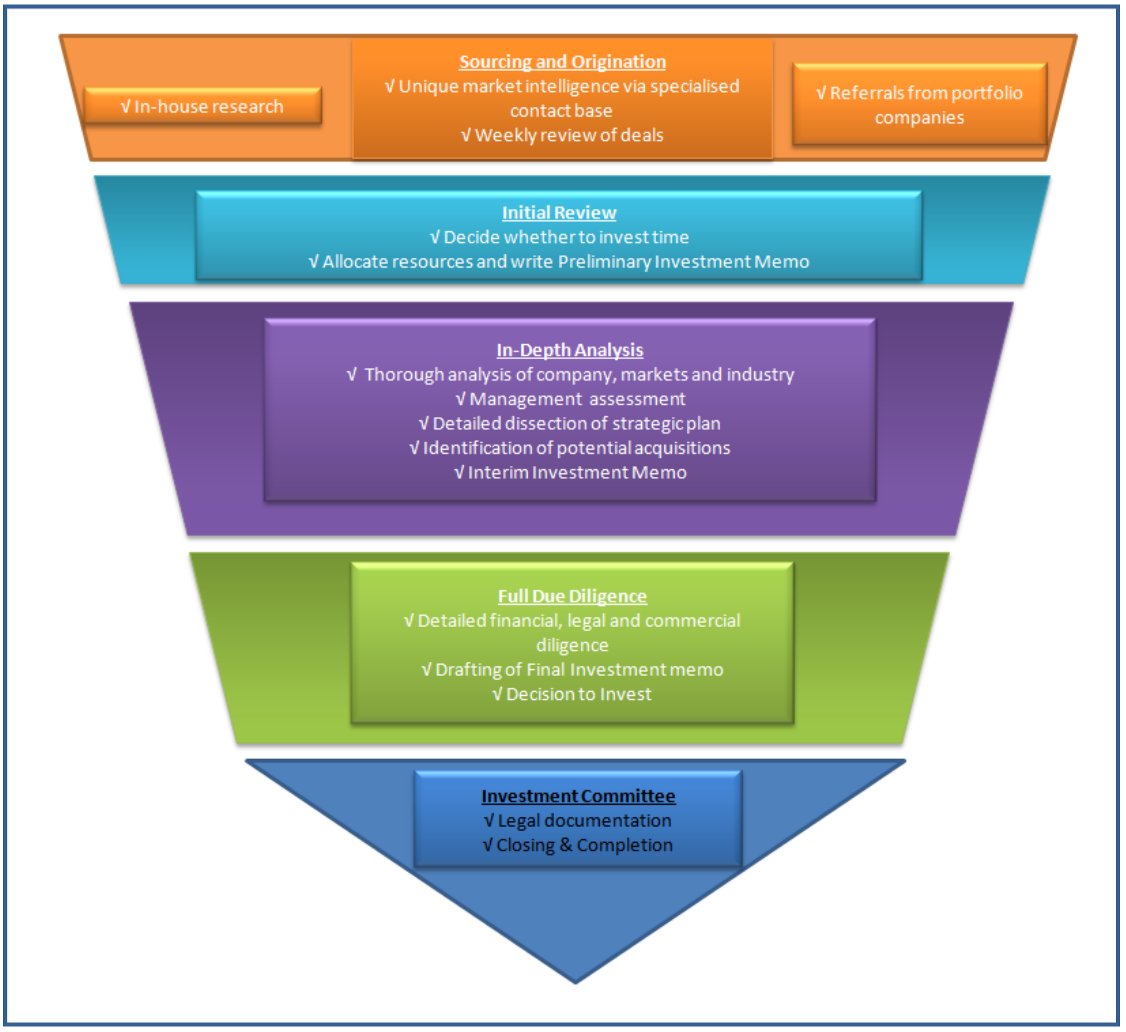
2.5 **List all the deals reviewed, and their sources, over the last 12 months**

All deals reviewed over the past 12 months are available as part of on-site due diligence.

Section Three: Investment Process

3.1 Describe in flow-chart form all stages of the decision making process

All investments carried out by Lonsdale derive from a proven, systematic and disciplined approach to decision making. While the procedures followed are as a result of years of experience in investing and have been standardised to a large extent, each opportunity has distinct features and therefore no process is exactly the same as another. Recognising the uniqueness of each opportunity, the following steps are taken before a final investment decision is taken by the Investment Committee:



3.2 Describe in detail each of the steps shown in the diagram above

Lonsdale's sourcing and origination is largely based around the Partners' network of unique contacts who introduce deals. These individuals are incentivised to bring Lonsdale deals which are off market and proprietary. Lonsdale will instigate specific market and company research itself and via its network to originate. Whilst Lonsdale does not rule out participating in auctions, it prefers to avoid these processes.

Sourcing and Origination

Each of the Partners sources new deals from his own contact base and from targeted advisory houses. Potential investment opportunities are reviewed and discussed at weekly team meetings. Deals are split into new, work in progress and dead/passed deals. All new and WIP deals are discussed for updates. If it is agreed by the Partners that a deal merits pursuing, deal team will be allocated, the company will be visited and management assessed. If after this initial assessment, Lonsdale continues to be interested, a preliminary investment memo will be developed and presented to the following weekly meeting and a decision will be taken to proceed with the opportunity.

Initial Review

The deal team will conduct a review of the investment opportunity to attain a thorough comprehension of market position, competition and customer dynamics. This will be balanced with valuation expectations of the vendor and will be discussed weekly. If the team continues to support the deal, it will update the team and seek approval to proceed into the next phase of due diligence and to commence incurring costs. During this phase of the assessment, suitable contacts and potential non-executive directors will be identified and contacted with a view to co-opting experts from the relevant sector.

In-depth Analysis

Where the Partners have decided to progress beyond the initial review stage, the deal team will conduct an in-depth analysis of the opportunity. This will build on and explore in detail issues surfaced by the initial review. In particular, the team will explore the company, its market and industry in more detail. It will also conduct a thorough assessment of the management team, through both management meetings and third party referencing. This will involve site visits and detailed working sessions with management to analyse critically the strategic plan. This analysis will also look to identify potential add-on acquisitions.

Full Due Diligence

Assuming the deal team continues to support the deal and exclusivity has been granted, formal due diligence will begin covering financial, legal and commercial aspects. Detailed analysis of the cash-flows, tax and debt repayment capabilities will be assessed and an appropriate deal structure will be finalised with the supporting bank(s). Extensive sensitivity analysis will be performed showing and analysing various scenarios.

Utilising the expertise of Lonsdale's contact base and its due diligence providers, the deal team will also determine whether there are key areas to focus on in order to drive asset performance and improvement. A 90 day plan (for post completion) will be formed and will be modified throughout this process.

Investment Committee

Once due diligence is completed, the findings will be distributed to the wider Lonsdale team via a Final Investment Memorandum. As part of this process, the deal team will have prepared a detailed value creation plan for review. All aspects of the deal will be discussed in detail and a final decision on the investment will be made. Where approved, the deal team will appoint a Chairman of the Board and have approved a detailed 90 day plan to execute upon closing

Upon approval, the deal team will agree on the composition of the Board and management. Whilst following the agreed business plan, the Investment Team will also closely monitor and challenge the business plan and proactively seek new development initiatives for value creation.

3.3 **What is your strategy regarding potential risk factors? Describe the key risks involved in your investment approach and how you manage them**

There is always business risk involved in investing. Lonsdale adopts a considered attitude to the identification and mitigation of risk. Lonsdale will seek to quantify and assess all risk factors relating to any deal, and this will be an integral part of the investment process in each potential deal.

Lonsdale's hands-on approach to investments reduces the risk of adverse investment selection as detailed in Section 2.4.

The investment process also requires that any investment decision be taken by the unanimous consent of all Partners. Every transition in the investment process (i.e. from one phase to the next) also has to be a unanimous decision.

3.4 **What is the minimum MOC that an investment would be expected to realise and below which you would not proceed with an investment?**

Lonsdale will be targeting a minimum of 3x money assuming no add-on acquisitions. Including add-ons Lonsdale expects to generate overall returns in the range of 3x to 5x.

3.5 **Describe any other 'deal killers' for the Fund**

The main deal killers are as follows:

- Weak management/inexperienced management. The Lonsdale investment strategy requires a strong management team to act as the base for any investment. Once a deal has been completed Lonsdale will often enhance the team, but not replace it fully.
- Declining/changing market. Lonsdale will not invest in markets which are in decline or where it believes a fundamental change in the market may soon take place.
- Lack of growth opportunity. Lonsdale is only looking for businesses that it can grow organically.
- Price is too high. Lonsdale is happy to pay good or even top prices for the best performer in a sector, but it will not overpay for businesses on the basis that it can recoup the overpayment in the future. The Partners have walked away from opportunities in the past that they deemed too expensive, a fact evidenced by their past investments which are lowly leveraged and performing well.
- Immature Business/Unsound business model. Lonsdale wants to invest in proven, mature business models, using these as a base for further organic and acquisition led expansion. If the business is neither mature nor the model sound, Lonsdale will walk away from the deal as the risk profile of the opportunity would be too great.
- Complexities in the Business. If complexities arise in the business which Lonsdale cannot understand (e.g. IP, processes) it will not be inclined to invest.
- Structural Issues. If sellers are unwilling to accept an earnout where future profits are uncertain, or if managers are unwilling to re-invest, Lonsdale will be inclined to walk away from a deal.

3.6 **Is there an investment committee? Who are its members and how are they selected?**

The three current Partners form the Investment Committee and will work on a consensus basis. All have to agree to invest in a deal.

3.7 **Please provide a copy of the most recent Investment Committee Memo together with other relevant supporting documents**

This will be made available as part of on-site due diligence.

3.8 **Please list all third party consultants and professional services firms used in the investment process and their roles.**

Lonsdale's third party consultants are as follows:

Legal: SJ Berwin and Dundas & Wilson

Accounting: PWC and Grant Thornton

Commercial: Depends on the sector

3.9 **How are deal teams selected for particular transactions?**

Each deal initially has the full involvement of the three Partners, but during execution and post completion, one or possibly two of the Partners take a lead role in the post-acquisition process and in leading the deal towards the completion of its first add-on acquisition. As Lonsdale adds to its investment team the Partners will jointly agree how deals should be staffed, according to relevant skills, experience and availability.

3.10 **Who is responsible for due diligence? Describe in detail the due diligence process including the key matters you seek to cover. Please provide a copy of the internal due diligence checklist**

One Partner takes the lead role in due diligence, but liaises with the other Partners throughout the process and will circulate all of the due diligence reports for review.

Due diligence will broadly cover financial, legal and commercial. The process will use the third party consultants mentioned in Section 3.8 above, but will also include analysis and discussions with contacts of Lonsdale who have specific knowledge of the particular industry and personnel. The formal due diligence will be full and thorough – Lonsdale will receive detailed legal, financial and commercial reports for review and discussion.

A detailed example of the Lonsdale due diligence checklist is attached as Appendix D.

Section Four: Investment Performance/ Track Record

4.1 **Please provide details of the Team's prior investments in the form outlined in the Portfolio Workbook**

Please see the Portfolio Workbook attached as Appendix E. Other aspects of the Team's experience are discussed in section 4.2 below.

4.2 **Please outline other elements of the Team's prior investment experience to the extent not included in the Portfolio Workbook**

Alan. Alan has worked in financial services in London, New York and Dublin over the 37 years prior to the establishment of Lonsdale. He has led teams and advised corporate and private equity firms worldwide on a number of major acquisitions and divestitures over this period, as well as mergers and corporate restructurings (please refer to Alan's deal list at Appendix F). During this period, Alan became 'most trusted advisor' to a variety of boards, chairmen and CEOs.

Ross. Prior to JPMorgan Partners, Ross spent two years in the corporate finance arm of Deloitte, with approximately six months in transaction support doing due diligence on private equity and trade deals, and the remaining eighteen months in the advisory team, sourcing and advising management teams on MBOs of their businesses. Two notable transactions here were the MBOs of Amtico flooring (sold to Electra) and the Priory Hospitals Group (sold to Mercury Asset Management (now HG Capital)). Ross is a chartered accountant by training, having qualified in Price Waterhouse in Dublin.

David. As Head of Investment Strategy at Schroders from 1996 to 1999 he was advising and implementing asset allocation policy for the firm, developing a quantitative global equity product and building portfolio construction tools. From 1999 to 2002 David was Chief Investment Officer for Schroders' mutual funds business. In this role he was responsible for helping hire and appoint fund managers, setting risk parameters and monitoring performance and risk. David was originally a Bank of England economist from 1988 to 1992 and the UK economist at Schroders from 1992 to 1996. In this latter role he advised on asset allocation and UK equity policy.

4.3 **Are audited financials and quarterly reports produced for portfolio companies?**

All portfolio companies produce audited annual reports. The Partners will have one or more seats on all portfolio company boards, and are therefore party to all regular board reporting by the portfolio companies.

4.4 **How are under-performing investments handled internally?**

As discussed previously, Lonsdale takes a very hands on approach to its portfolio companies. The Team therefore devotes significant time and effort to monitoring the strategic and operational evolution of the portfolio companies, through its constant dialogue with management teams as well as its active presence on the boards.

As part of this process, the causes of any under-performance will be considered and the management teams given any further support they need until the under-performance is resolved and/or the companies are exited. Where management is not capable of resolving under-performance, they will be replaced. In extreme cases such as Pankaboard, Alan worked extensively with the board and management to revise strategy, change the management team and renegotiate banking terms and invested further equity and loans to allow the company to recover. Pankaboard has since moved from severe losses in 2008 to profit in 2009 and exceptional profits in 2010. Lonsdale will work extremely hard to support each investment through hard times. All of the Partners have experiences of troubled investments and believe that there is nothing more satisfying than working with these deals to turn them around and make a positive return. Often the work done in turning around these investments improves the company to an extent that any under-performance experienced in the early stage of an investment is more than compensated by over-performance in latter stages.

4.5 What is the process for determining if an investment should be written down?

On a quarterly basis, Lonsdale will review the Fund's portfolio companies and determine their value in accordance with its partnership agreement and generally accepted accounting principles. Lonsdale will adhere to strict EVCA or BVCA guidelines on when and how to treat the valuations of investments. As Lonsdale will be reporting to Limited Partners on a quarterly basis, LPs will know early if it believes an investment should be written down, and it will show the methodology and justification for such a write down. In addition, the Partners expect to be in regular dialogue with LPs, and will update them on any significant changes regarding the portfolio during these sessions.

4.6 What has been learnt from loss-making events?

<u>Venture losses:</u> During Ross's tenure in JPMorgan Partners he completed one venture deal which was always going to have a binary outcome. The company was called Skyline and it was applying for wireless local loop licenses in France. JPMP were either going to win the license and immediately value it at circa $40 million, or were not going to be successful with the license application, and were going to have lost $5.6 million. JPMP were not successful, and wrote off the $5.6 million.

While this was the only venture investment that Ross completed, JPMorgan Partners completed many venture deals over the period 1999 to 2002. There has been one outstanding success, which when combined with all the losses, should generate a profit on the entire venture portfolio. However, Ross (and the other Partners) do not believe in creating value over a portfolio by the "winners" exceeding the "losers" and will not work on venture deals again. This negative experience reinforces Ross's desire to work with established, proven and cash-generating businesses.

During 2000, Alan made a series of venture investments in technology or internet-based opportunities. While many of the investments were completed with strong venture partners, most have been written off with only three looking like generating profits, although the profits easily outweigh the losses. For similar reasons to Ross, Alan has also learnt that control positions in cash-generating businesses are much more suited to his skill base.

<u>Lack of control losses</u>: Other lessons learnt are particularly around control. Any investment where JPMorgan didn't have control led to issues and poor returns. Multitel, The Priory Hospital Group, Maccess and BC Components are all prime examples. In each case (for regulatory reasons) JPMP were not able to have control positions. Again in each case, the shareholders ended up in disagreement, not voting together, not acting to make changes (where needed), and not having the collective control because one of the other shareholders might act with the lead investor or might side with management. As stated previously, the Partners will not make an investment where there is not express control (by majority).

Losses from over reliance on contractual protections: The Partners will not proceed with a transaction where a significant portion of the upside relies on a seller performing contractual undertakings. In Alan's investment in Pankaboard, the seller was obligated to perform certain duties, supply services and purchase commitments. The seller did not meet these commitments and while the investors had legal remedies, Pankaboard could have become insolvent while these were being pursued.

Section Five: Management and Personnel

5.1 **Please summarise the background to the Firm's creation/development**

Alan, together with a partner who had previously run Morgan Stanley's worldwide financial sponsors team, had in 2001 commenced raising a 'partnering fund' of $100 million with the aim of co-investing in PE deals where Lansdowne was advising and had a good insight into the business. The fund was set for a first closing on over half the target in October 2001, but withdrew from the market following the events of September 11. Meanwhile Alan continued to make one off investments in situation where Lansdowne was acting as advisor, such as in Powerflute, Pankaboard and Pack2Pack.

Ross left JPMorgan Partners in March 2005, right in the middle of the booming debt and capital markets period. Prior to leaving he had been involved in bidding for a number of middle market buy-outs in which there were between 30 and 60 PE firms bidding at the first round of each auction process. Deals were highly competitive, extremely favourable to the vendor and prices and leverage were extremely high. Given this environment Ross decided not to go back into middle to large PE and instead to focus on the smaller end of the market.

This focus suited him for a number of reasons: He wanted to be able to participate in any deals with his own capital. Moreover, the smaller end of the market was becoming less and less competitive due to PE firms moving up the scale and ignoring the smaller end. From 2005 to date Ross has focused on this market. In late 2007, he sourced an oil and gas services deal which had packaging characteristics. He immediately contacted Alan (a specialist in packaging) and together they started working together and shortly afterwards completed the acquisition of Containental Offshore Limited in Aberdeen.

Alan and Ross had previously worked together in 2002 when Alan had advised JPMP on the acquisition of M&H plastics, a packaging business. Between 2003 and 2007 they had stayed in contact and met up on a number of occasions, particularly around events at the school that both their children attended.

When they came together in 2007, they considered working together on future deals, with the eventual aim of setting up a PE fund together. Ross has shared offices with Lansdowne Capital from early 2008 and since then they have completed the acquisition of OEG Offshore and reviewed many other potential deals. Having established an excellent professional relationship, Alan and Ross decided in late 2008 that the creation of a PE Fund dedicated to the smaller end of the market was a natural next step in their professional relationship development.

Meanwhile, Alan, Ross and David had, through the same school, established a personal relationship dating back to 2003. When David came free from Threadneedle in early 2009, all three discussed the prospect of combining skills and efforts into a PE fund. They considered the prospect through the summer of 2009, looked at all of the qualities they valued highly as individuals; hard work ethic, integrity, trust, partnership and honesty, and decided to establish Lonsdale in 2009.

Together, Alan, Ross and Davis acquired EMC Advisory Services in January 2011 (see Case Studies at Appendix A).

5.2 Please provide biographies and full details of professional experience and qualifications for all members of the investment team

Alan Dargan (b.1953)

Before formally establishing Lonsdale in February 2010, Alan ran Lansdowne Capital, a specialist corporate finance firm advising on landmark transactions in the basic industries and business services sectors. Commencing in 2000, Alan invested his own capital alongside management teams and since late 2007 Alan invested with Ross in deals at the smaller end of the market (consistent with the Lonsdale strategy). Prior to forming Lansdowne, Alan spent almost three decades in investment banking at a senior level in London and New York, at Warburg Paribas Becker, Credit Suisse and UBS during which time he led teams involved in many small large industry transforming deals spanning several business sectors in the UK, Northern Europe and around the world. Alan studied business and economics at Trinity College Dublin and qualified as a chartered accountant in 1977 in what is now known as KPMG.

Ross Finegan (b.1969)

From March 2005 until establishing Lonsdale in February 2010, Ross has been investing in deals at the smaller end of the market (consistent with the Lonsdale investment strategy). Ross has invested his own capital in these deals and since late 2007 invested with Alan through raising third party capital. Prior to March 2005, Ross had spent over nine years in the private equity arm of JPMorgan Partners, leading a large number of the firm's deals over that period. Prior to JPMorgan Partners, Ross spent two years in the corporate finance arm of Deloitte. Ross holds a BComm from University College Dublin and qualified as a chartered accountant in 1994 at PWC.

David Gasparro (b. 1965)

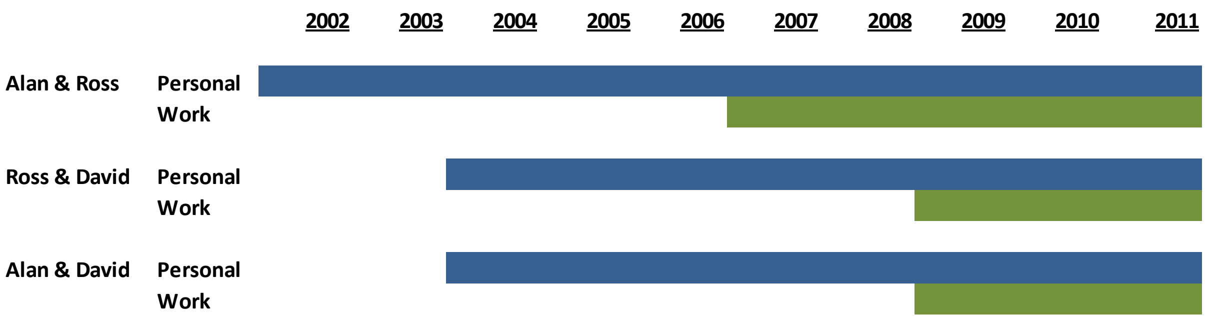
Before establishing Lonsdale in February 2010, David was Head of Distribution globally for Threadneedle Asset Management globally, was a member of the Executive Committee and had 180 people reporting to him. In this capacity he was responsible for helping drive strategy and building out the business domestically and internationally. Prior to this (until 2002), David was Chief Investment Officer for Schroders' mutual funds business, where he was also a member of the Group Management Committee. David joined Schroders in 1992, occupying roles as the UK economist and Head of Investment Strategy (from 1996-1999), advising and implementing asset allocation policy. Prior to this, David was a Bank of England economist. David holds a BSc and MSc in Social Sciences (Economics), the latter from the University of Bristol.

5.3 Please indicate for each member of the investment team the number of years in (i) M&A and investment activities (ii) investment advisory activities (iii) fund management (iv) operational experience:

Partner	M&A	Principal Investment	Fund Management	Operational Experience
Alan Dargan	33 years*	12 years		
Ross Finegan	2 years	16 years		
David Gasparro		2 years	17 years	10 years

**Note. For Alan, 10 years of his M&A experience also included Principal Investment activity.*

5.4 **Team Collaboration: Please show how the team members have known each other/ worked together in the past [update]**



5.5 **Are any of the team members of any other management teams or companies or partnerships?**

Alan was the Founder of Lansdowne Capital, a leading corporate finance specialist in the business services and basic industries sectors. Following the establishment of Lonsdale, Alan passed the day to day management of the firm over. Lansdowne is an excellent source of deals for Lonsdale and as such keeping Alan's association with Lansdowne is a very important way of gaining industry expertise, sourcing deals and taking advantage of Alan's wide ranging senior contacts gained from his stewardship of Lansdowne.

5.6 **List all current directorships of the members of the Team**

In addition to Directorships mentioned in Section 5.5, Alan remains a Director of Pack2Pack and OEG. Ross is a Director of OEG, EMCAS and Communicor and David is a Director of EMCAS.

5.7 **How much capital are investment professionals expected to invest in the Fund?**

The investment professionals expect to commit to at least 2% of the target fund size.

5.8 **Explain how investment professionals are compensated**

Investment professionals will be compensated using all of the following:

	Basic Salary	Bonus	Carry Share
Partners	✓	✓	✓
Directors	✓	✓	✓
Assistant Directors	✓	✓	✓
Analysts	✓	✓	

Lonsdale believes it is important that permanent employees participate in the carry/profit share and all of the team's interests are thus fully aligned. This forms the most significant element of their incentivisation.

In addition, the Partners believe that a key benefit of vesting people into the carry is that they will be less likely to leave of their own accord. As Lonsdale will be spending significant time and energy training these people to its methods and ways of thinking, the Partners do not want them leaving due to more attractive financial rewards elsewhere.

Details of these arrangements can be made available during on-site due diligence.

5.9 Please explain the criteria for awarding any incentives

Bonuses will be awarded when the Partners feel that an individual has made a significant contribution to the performance of the Fund. It is envisioned that bonuses will be paid annually and will reflect a mixture of diligence, quality of work and initiative on one level, combined with success ratings on each of the relevant portions of a deal that the particular investment professional has been working on. In addition, the individuals will be assessed on their teamwork within Lonsdale and on profits generated.

Lonsdale breaks down the process into the following sections; sourcing deals (ideally proprietary or limited auctions), winning deals (creation of angles, bonding with management, negotiation of the terms), execution of deals (completion of the deal), value-add to each deal (driving growth, supporting management, performing add-on acquisitions) and finally exiting. Investment professionals at each level will be given clear targets and expectations as to what is expected of them and will then be assessed semi-annually and be given clear feedback as to their strengths and weaknesses. At year-end, their respective bonuses will reflect their performances versus target.

5.10 How are investment professionals recruited?

Investment professionals will ideally be recruited through personal contacts and recommendations. All of the Partners have connections in the PE and related industries and, for example, many of the high quality professionals in middle market PE firms are sitting on negative carry, are not completing deals and are disillusioned and able to be lured away.

5.11 How are investment professionals mentored?

Each Partner will have dedicated professionals and will be responsible for mentoring them. The Partners believe that constant dialogue is the key to good mentoring. Semi-annual feedback sessions will be had with each professional and annual appraisals linked to bonuses will be made.

5.12 What measures are in place to retain them?

Investment professionals above the analyst grade will participate in the carry scheme, which will have stringent vesting schedules.

5.13 What is the progression path within the organisation and what is required to become a Partner?

A brief description of a typical career path at Lonsdale is as follows:

- An Analyst will spend circa two to three years, depending on previous work experience prior to progressing to Associate.
- An Associate will typically spend three to five years to become a Director. After that period, he or she will have acquired a considerable degree of transactional, industry and portfolio monitoring experience.
- A Director could take another three to five years to become a Partner.

Lonsdale will also be looking for highly experienced, proven professionals at Associate or Director level for potential accelerated promotion to Partner.

Lonsdale expects Partners to be able to able to display excellence in each of the five following areas: sourcing deals, winning deals, execution of deals, value-add to each deal and finally exiting. When a Director is sufficiently proficient in each of these skills he or she will be ready to be promoted to Partner.

5.14 What are plans for succession within the Firm?

Lonsdale will ensure that it has a range of support underneath its Partners so that there will be succession options when the time arises. However, the current Partners see themselves working for many years to come, and so do not expect this to be an issue for the foreseeable future.

5.15 What methods are used to resolve any conflicts between individual Partners?

The Partners expect that any conflicts can be resolved by consensus among the Partners. As stated in Section 3.6, all key decisions need to be unanimous.

Section Six: Litigation/ Regulatory Matters

6.1 **Describe any material litigation, administrative or regulatory proceeding, or arbitration pending, in process or settled involving the firm, or any individual associated with the firm**

None

6.2 **Have any individuals who work for the Fund, its management company, any company associated with it, ever been convicted of any offence involving fraud or other dishonesty in any jurisdiction? If yes, please give full details**

None

6.3 **Have any individuals who work for the Fund, its management company, any company associated with it, ever been subject to any convictions for tax evasion in any jurisdiction? If yes, please give full details**

None

6.4 **Have any individuals who work for the Fund, its management company, any company associated with it, at any time been declared bankrupt or had their estate sequestered, or are they currently the subject of such proceedings, or are they aware of any such proceedings pending? If yes, please give full details**

None

6.5 **Have any individuals who work for the Fund, its management company, any company associated with it, at any time been a director, partner or controller of any organisation that has had a receiver or administrator appointed or has entered into an arrangement with its creditors? If yes, please give full details**

None

6.6 **Has any staff member been disqualified as a company director? If so, please give details**

None

6.7 **Have any personnel of the firm or any of its affiliated companies ever been the subject of any investigation by any regulatory authority? If so, please give details, including a copy of the regulatory body's report or judgment**

None

Section Seven: Investor Reporting and Relations

7.1 **Provide samples of reports to investors**

Please see a proforma example attached as Appendix G.

7.2 **What is the frequency of these reports?**

Quarterly.

7.3 **What professional advisors (tax, audit etc) are used? Describe their roles**

BDO will be the auditors of the fund.

SJ Berwin will be the legal advisors to the Fund and will give tax advice on the initial setting up of the Fund.

7.4 **Provide samples of capital call and distribution notices**

Please see a proforma example attached as Appendix H.

7.5 **What meetings are arranged for limited partners?**

There will be an AGM and official semi-annual meetings arranged for the LPs. However, the Partners expect to have more informal discussions on any issues or developments with LPs at other stages throughout a given year.

7.6 **Is there an Advisory Board? What is its function? How are members selected?**

Lonsdale is in the process of approaching a number of senior people about becoming a part of their Advisory Board. This is expected to have between four and six members. Its prime function will be to provide specialist advice on Lonsdale's focus sectors, with secondary functions being the sourcing of deals, the sourcing of executives and the resolution of any conflicts.

7.7 **What committees are or will be established**

An Investors' Committee will be established to consult with the General Partner regarding, for instance, the general policies, guidelines and prospective investment sectors of the Partnership; to review the progress of the Partnership generally in achieving its objectives; to review any conflicts of interest brought to it; and other matters all more fully described in the Limited Partnership Agreement.

7.8 **How is membership of the Investors' Committee determined? How are required changes made?**

The General Partner has the power to determine the number of members and to appoint the individual members from time to time.

Please refer to the LPA for full details.

7.9 **Is there an investor co-investment allocation policy?**

The General Partner may, having due consideration to the best interest of the Fund, offer co-investment with the Fund and may allocate such opportunities at its discretion.

7.10 **Are there any specific co-investment agreements with any limited partners or third parties?**

No

7.11 What is the policy on reinvestment from realisations?

To the extent that an investment is realised by the Fund within 18 months of such investment being made and such realisation takes place during the Commitment Period, then an amount equal to the original acquisition cost of such investment may be retained by the Fund out of the proceeds of the realisation and applied in making further investments or, if returned to investors, will be available for re-drawing.

Section Eight: Legal Status, Structure and Organisation

8.1 **Please provide details of the legal status, capital structure and share ownership of all entities involved in the Fund and its management, an how the economic benefits will flow**

To be provided as part of the due diligence process.

8.2 **What is the overall cost of the organisation?**

Details are available on request during on-site due diligence.

8.3 **Describe any other business activities of the firm and affiliated companies. How are any conflicts identified and resolved?**

There are no other such business activities.

8.4 **Does any principal own directly or indirectly any private companies that are not managed by the firm?**

Details of the Partners interests are available on request.

8.5 **Does any principal have any ownership or relation with a company that might have a conflict of interest?**

None envisaged.

8.6 **What is the size of the proposed Fund?**

£150 million.

8.7 **Discuss the justification for the size of the Fund**

Please see the Fund Size Justification attached as Appendix B.

8.8 **Discuss how the carried interest is allocated between investment professionals**

Carried interest is spread throughout the Team. Details can be made available on request during on-site due diligence.

8.9 **Please list the Fund's advisers and describe their roles**

Legal: Dundas & Wilson and SJ Berwin (both have been used by the Partners before)

Accounting: PWC and Grant Thornton (both have been used in the past)

8.10 **Has the Team used these advisers in the past?**

Yes, see above.

8.11 **Which statutory or regulatory bodies supervise the operations of the Fund and its Advisory Company?**

The FSA in the UK will supervise the operations of the Fund.

Lonsdale Capital Partners LLP, the Investment Advisor is authorized and regulated by the FSA.

Section Nine: General Information and Contact Details

9.1 **Full legal name of the Fund**

Lonsdale Capital Partners Fund LP.

9.2 **Administrator**

To be advised.

9.3 **Primary Contact Person at the Firm**

David Gasparro
21 Upper Brook Street
London W1K 7PY

Telephone: +44 (0) 20 7514 1814
Email: dgasparro@lonsdalepartners.com

9.4 **Name of General Partner**

Lonsdale Capital Partners (General Partner) LP.

9.5 **Law Firm of General Partner**

SJ Berwin LLP
10 Queen Street Place
London EC4R 1BE

Attention: Jonathan Pittal
Telephone: +44 (0) 20 7111 2222
Email: jonathan.pittal@sjberwin.com