Lonsdale Capital Partners

Appendix A - Case Studies

January 2012

Case Study – EMCAS

Business Overview

- Market leader in financial claims management in the UK
- Won £180mn in compensation for more than 80,000 customers since 2003
- Specialists in claims against mis-selling of endowment policies, payment protection insurance and excessive credit card charges
- Scope for significant market in mis-sold savings and investment products

Transaction Background

- Deal sourced directly through own network
- Founders no longer in executive roles and selling their stakes
- Management team own c. 20% of the equity
- Completed deal with no external bank debt: vendor loan of £9mn and earn-out of £11mn

Investment Rationale

- Strong, ambitious management team
- Market leader in its sector
- Successful record in launching new products
- Market growing at 8% per annum
- Business is a launch pad for new market entry of debt management
- Low price (arising from poor vendor advice and a poorly run process)
- Equity is preferred to vendor loan giving high degree of security

Value Add

- Brought focus to strategy and, in particular, new product development
- Built out Board with new members, especially experienced Chair
- Helped CEO build out management team eg COO and Commercial Director
- Helping with acquisitions
- Reviewing company branding, advertising and PR policy

Key Financials

- Acquisition price £15mn (rising to £29mn with earnout), with EBITDA of £5.3mn expected in FY 2011/12, representing less than 3x
- 52% EBITDA margins in FY 2010/11
- Very strong pipeline of new cases
- FSA were challenged over PPI rules but won the resulting Judicial Review. EBITDA now at £12mn run rate and heading towards £20mn by March 2013

Case Study – Containental/OEG

OEG Offshore

Business Overview

- OEG is one of the world's leading suppliers of cargo-carrying units to the offshore oil and gas industry. An add-on acquisition in 2009 has added specialist offshore engineering cabins to the portfolio

Transaction Background

- Ross Finegan sourced deal from his network in November 2007
- One of the vendors was reaching retirement age and wanted an exit
- Vendor was prepared to re-invest in a new deal
- Had to be completed before CGT rate increase in April 2008
- Obtained exclusivity after a few weeks of discussions

Investment Rationale

- Acquire a mature platform with lowest cost of production
- Improve and replace management
- Globalise the operations and use business as a platform for add-on acquisitions
- Hidden value in sister company
- Pre-identified / contacted potential add-ons

Value Add

- Brought in new CEO (Head of Structured Finance for RBS Aberdeen)
- Was able to talk to CEO of market leader through network to fully understand business and opportunity
- Introduced new Board members
- Acquired sister company
- Sourced alternative suppliers to de-risk supply chain
- Opened operation in Asia
- Appointed agent in Australia
- Major new contracts won
- Expanded into new businesses
- Acquisition of two complementary businesses
- Substantial changes / enhancement to management

Key Financials

- Acquired for £10.5mn in April 2008 with £6.0mn of bank debt and £4.5mn of equity
- Historic pro-forma EBITDA on acquisition was £2.4mn
- Four years later pro-forma EBITDA is £7.5mn
- Three add-on acquisitions have been completed
- Additional equity raised £3.5mn
- Rejected an offer at 3.0x MOC
- Completed a £15mn bank refinancing in Jan 2012
- Business to be sold in mid-2012 – expecting 3.5x MOC for investors

Creating Value Through Partnership

Case Study – Communicor

Business Overview

- Communicor is a provider of ground transport to air and defence show delegates
- The company's client list includes most if not all of the global blue-chip aircraft manufacturers, defence contractors and aeronautics manufacturers

Transaction Background

- Ross Finegan sourced deal from his network in late 2005
- He agreed a deal with the vendor to acquire 80% of the equity for £1.2 million plus £200k in working capital, representing just over 4.4x EBIT Vendor was prepared to re-invest in a new deal. RF equity requirement was £120k plus £200k of working capital.
- The consideration was to be paid 50% up front with four years of deferred consideration linked to sales

Investment Rationale

- The niche and customer relationships were so strong that it would be hard for competitors to compete
- Additional comfort from the fact that the vendor was staying on as CEO for two years and was on a four year earn-out

Value Add

- Instigated new CEO and new FC/FD
- Made substantial changes / enhancement to management
- Changed management style – gave people more autonomy
- Put a share option scheme in place and brought stability to the workforce – staff turnover has dropped significantly
- Proffessionalised the tendering process
- Started doing management accounts and shared these with key employees to encourage margin appreciation
- Invested in new offices/people and IT to make working environment more efficient and comfortable
- Controlled working capital more tightly
- Implemented "stay close to your customer plan" to cement relationships during the recession

Key Financials

- Acquired 80% of the equity in June 2006 for £1.2 million plus £200k in working capital, representing just over 4.4x EBIT
- Grew annual sales from £3.2 million to over £4.7million, and EBIT from £320k to almost £500k on a pro-forma basis
- The business is currently valued at 5x to 6x EBIT, or £2.5 to £3.0 million. With no 3rd party debt, 80% stake would be worth circa £2.0 million to £2.4 million, representing a money multiple of 6x

Creating Value Through Partnership

Case Study – Powerflute (formerly Savon Sellu)

Business Overview

- Previously an orphan asset owned by the Finnish paper and packaging group, M-real
- Produced 230k tonnes p.a. of semi-chemical fluting which, given its chemical properties, is widely used in the packaging for the transportation of fruit and vegetables

Transaction Background

- In mid 2004, M-real had announced its intention to close Savon Sellu. The business was losing money at EBITDA level, volumes were declining and management morale was poor
- As a result, Dermot Smurfit, together with Alan Dargan and a potential CEO candidate with turnaround experience, formed an investor consortium and developed a strategic plan
- Deal completed on 1 January 2005

Investment Rationale

- Significant turnaround potential – knew would be profitable day one under new ownership
- Both strategic and operational improvements
- Through contacts procure new sales contracts
- Put in place an incentive plan for management and employees to allow the business to reach its true potential

Value Add

- Turnaround CEO appointed, as part of strategic plan
- Reduced raw material costs significantly
- Fixed overheads cut dramatically
- Employee headcount cut by 30%
- New marketing team – increased volumes and average selling prices
- Redeployed and re-motivated employees – absenteeism down markedly
- Reorganized production to increase capacity
- Rationalized working capital
- Business recapitalized in mid 2006 with special dividend to shareholders, IPO on AIM followed in mid 2007
- Alan Dargan retired as a director ahead of the IPO

Key Financials

- Acquired for €20mn in Jan 2005 (€14mn of bank debt and €6mn of equity). A €23mn working capital facility was also arranged
- EBITDA improved substantially from EBITDA negative in 2004 (-€0.3mn) to €20.4mn in 2007 (representing 17% margin)
- Average selling prices raised from €359 per tonne in 2004 to €440 per tonne in 2007
- Sales volumes increased from 237 tonnes in 2004 to 261 tonnes in 2007
- Net sales increased from c. €80mn in 2004 to c. €116mn in 2007

Case Study – Cine UK (now Cineworld PLC)

Business Overview

- UK based cinema chain
- Started up in mid 1997 by Steve Weiner (CEO) and ex colleagues who had worked extensively in US cinema industry

Transaction Background

- JP Morgan together with Botts & Co and Rothchild's Investment Trust provided start up capital for Cine UK in 1997
- Ross Finegan took responsibility for the investment in 2000 on the merger of Chase Capital Partners and JP Morgan

Investment Rationale

- Proven CEO
- Build out the cinema franchise across the UK
- Model was to approach the bank (RBS) for development capital for each new cinema
- If successful the payback on each cinema would be between three and five years

Value Add

- When Ross Finegan took responsibility for the business a number of the cinemas were not performing to plan and Cine was struggling to meet its bank repayments
- At the Board the acquisition model was examined and redesigned
- Additional capital was injected into the business (mid 2001) to appease the banks
- The Board became more active in assessing and due diligencing each potential acquisition (including site visits)
- 14 new cinema sites were added with 12 of them exceeding forecasts
- Supplier contracts were renegotiated
- EBITDA was improved significantly leading to a successful exit in 2004

Key Financials

- Seed capital in 1996/97 (two rounds)
- EBITDA improved from circa £6mn in 2000 to £13mn on exit
- 34 cinemas in portfolio at time of sale
- Sold for £65mn in 2004