



# **BRIDGE BUILDER**

It's not easy investing in lower mid-market buy-outs, but WestBridge partner **Guy Davies** is no stranger to adversity. He speaks to Marc Mullen about the challenges that face small-cap private equity in the UK

**O**f the decision to set up WestBridge, a lower mid-market buy-out house, in 2008, co-founder and managing partner Guy Davies says: "The timing was shocking. It was just before the Lehman crisis. I vividly remember being on holiday, watching the financial world melt down, thinking: 'I'm not sure we should have done this, but let's get on with it.'"

In July 2008, Davies and his three other co-founders had bought Wales Fund Managers (later to become WestBridge in 2009) as a platform company to invest in small-cap businesses.

Davies had been with Pi Capital as senior investment manager since 2005, where his interest in setting up a fund to invest in the lower mid-market arena formed. Having been part of a team that tried, but failed, to take over Pi's investment book, he met with James Wakefield, who'd spent 22 years with Bridgepoint Capital, initially investing and latterly fundraising.

The firm's founders saw a clear opportunity to invest in the small-cap arena, as private equity had gradually, and somewhat inevitably, moved up the food chain. Having a focused strategy for fundraising was key to creating that first fund - that and resilience. Its final close was in 2012.

"James and I believed we could secure £10m of support from friends, family and ourselves," says Davies. "I believed that we could build the business, but we needed an experienced investment committee."

"Once we had secured our platform business, the strategy was to raise a fund," says Davies. On this basis they set up WestBridge's 'strategic investor group', an invitation-only co-investment club, allowing entrepreneurs to pool experience and contacts to accelerate the growth of their investments. Members can invest in specific companies in parallel with WestBridge funds or in a range of companies through a fund investment. Various family offices also invested in the fund. WestBridge I institutional investors included EIF and South Yorkshire Pension Fund.

Next to join were Valerie Kendall, who'd spent 15 years as a mid-market investor at HSBC and then 3i; and industry veteran Sandy Smart, who'd previously been at 3i, Barclays Development

## A VERY INTERNATIONAL CAREER

For someone who runs a UK-focused investment fund, Guy Davies has had an international career. He started with KPMG in London in 1987, trained as an ACA, and then went on secondment to San Francisco for two years, returning to London in 1992. He undertook due diligence and audit work until he secured a secondment as investment manager with HSBC Private Equity in 1996.

"KPMG was keen for me to return to the London due diligence team, but I wanted something more," he explains. Former Corporate Finance Faculty chairman Chris Ward recruited him into Deloitte's corporate finance team, which Ward led at the time. "It was a buy-side role, all about securing a deal and raising finance for management teams," says Davies. "Getting those skills through the advisory route is perhaps more difficult now." Davies completed Deloitte's first £1m, and first £2m, corporate finance advisory fees.

After three years he was asked to move to Düsseldorf to set up Deloitte's private equity advisory business in Germany. "It was a very interesting, rapidly developing new market," he says. "By working with the German divisions of UK-owned PE businesses, our team became the number one corporate finance adviser, by number of deals, in the German PE market between 2000 and 2003."

By the time he returned to Deloitte in London in 2003, he'd concluded that he was better suited to a smaller organisation. In 2005 he joined investment bank Pi Capital as senior investment manager. After meeting James Wakefield, they came together to start WestBridge.

Capital (now Equistone Partners) and PPM Ventures (now Silverfleet Capital). The team all came with comprehensive investment experience.

A dozen years on, the firm has raised two funds, invested £43.9m in eight UK businesses from WestBridge Fund I, £36.3m in four companies from WestBridge Fund II and has about £115m still to invest (with co-investor commitments).

## ADDING VALUE

In October 2009 the firm made its first investment from the inaugural fund: the £1.2m management buy-out of e2train, a Cheltenham-based niche talent management software and consulting business. The company grew organically and, through the acquisition of Intraventure, was renamed Kallidus and sold in February 2015 in a secondary buy-out to FF&P Private Equity. It generated a 3.5x return.

The first fund was invested in eight companies in total. Five have been sold to date, at an average exit multiple of 3.2x. The three remaining portfolio companies are bChannels and DB Pixelhouse (formerly DB Systems) in the business services sector, and plasma

## INVESTMENTS (FROM FUND II)

SOURCE: WESTBRIDGE

Investment	Date	Sector	Growth plan	Amount invested
AJ Mobility	09/18	Healthcare	UK local authority outsourcing opportunity	£8.7m
APEM	03/19	Environmental consulting	UK and US market penetration	£9.8m
Wilcomatic	03/19	Business services	Transition to higher margin offering	£5m
Aptus Utilities	12/19	Business services	Regional expansion into South West, EV networks and commercial and industrial market	£12.8m

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healthcare business Energist. WestBridge I is currently forecasting a 2.0x return, net of carried interest.

Having demonstrated that the team can deliver attractive returns to investors, WestBridge set about raising a larger fund and recruiting for a bigger team. Part of the plan was to raise more from the EIF. "The feedback from them was great," says Davies, "But then in June 2016 the UK voted to leave the EU. Despite that, the EIF said it was still funding businesses."

By May 2017 the EIF had committed £20m to the new fund, ahead of any policy U-turn on investing in the UK. By then, WestBridge had raised £35m of the £50m target for its first close. Through its placement agent First Avenue, they approached British Patient Capital, which was managing a pilot scheme for small-cap buy-out funds. "We proved attractive to Patient Capital partly because its fund commitment immediately unlocked additional investment into the UK," Davies says.

British Patient Capital, managed by the British Business Bank, committed in November 2017, and the first close of the fund was in January 2018 at £50m. It finally closed in May 2018 at £140m. Institutional investors include Kempen, Tribus Capital Partners and South Yorkshire and West Yorkshire Pension Funds.

Davies adds that support from the EIF and British Patient Capital allowed WestBridge, as well as other emerging managers, to successfully achieve first closings and, therefore, has been very much a force for good. Post-Brexit, the support provided by both the EIF and British Patient Capital may reduce or even come to an end. This is in spite of there being a clear need to facilitate management succession in small-cap businesses to allow them to continue to professionalise and grow when their founders want to retire or when they have reached a natural inflexion point to introduce a professional investor.

In the immediate post-Brexit world, as long as a certain percentage of a fund is invested into the EU, the EIF can still



The WestBridge partners (left to right): Valerie Kendall, Guy Davies, James Wakefield, Tim Whittard

support new fund managers to raise buy-out and development capital funds. "However, because of UK Treasury policy, British Patient Capital currently cannot invest in buy-out funds," says Davies.

Capital for small-cap buy-outs was also adversely affected by the rule changes to venture capital trusts (VCTs) in November 2015; they were barred from buy-outs, and as a consequence VCTs started to refocus on development capital deals. As pension funds, formerly a strong supporter of investors in small buy-out funds, refocus on consolidation, this has led to them looking to invest larger sums through bigger managers. "The sources of capital available to small-cap buy-out fund managers is greatly reduced compared to five years ago," says Davies. I believe this reduced funding environment means that starting a new small-cap buy-out focused fund manager is becoming practically impossible."

### KEEPING BUSINESS LOCAL

Outside London, WestBridge has offices in Manchester and Cardiff. Davies says: "To be regional, you've got to use regional advisers. You need to be part of and support the local corporate finance and business network."

Davies becomes genuinely effusive when talking about investments (see 'Investments', previous page). In December 2019 WestBridge invested £12.8m in Aptus Utilities, a multi-utility provider for residential, commercial and industrial property developers. Debt was provided by OakNorth Bank. Vendors invested alongside WestBridge and the next tier management team were incentivised along with a new chairman and CFO. "Aptus operates in a strongly growing niche. WestBridge was able to facilitate a change of ownership and will continue to support the development of the team and upgrade the business's processes and systems," Davies says.

Raising the profile of portfolio businesses before exit is also a key part of the strategy. In 2015, Aero Stanrew was sold to TT Electronics for £12.6m, generating a 4.4x return. In the two years prior to the sale, WestBridge systematically raised the company's profile, which put it on TT's radar.

Succession is at the heart of WestBridge's investments and WestBridge itself. Handing the reigns of the business over to the team they are building at the firm (see 'The Team Grows', left) is also on the long-term agenda: "WestBridge is bigger than any one individual," says Davies. "We are proactively building a team to take the business forward when we retire." ●

### THE TEAM GROWS

**Tim Whittard**, who trained as an ACA with PwC, before moving into corporate finance and then moving to Gresham as investment director, joined in 2017 from the Business Growth Fund. He has also worked for Bridgepoint and Sovereign Capital. He became a partner in January 2020.

In 2018, **James MacLeay** joined as investment manager, from Kingston Smith Corporate Finance, and **Edward Minton** as investment executive, from WK Corporate Finance. Both are ACAs, with a focus on the South and Midlands respectively.

Last year, **Rebecca Sinclair** joined as investment executive from HSBC, and **Peter Barkley** as investment director at the firm's new Manchester office. Barkley is an ACA.

Co-founder **Sandy Smart** retired from the business last year.