**Turnaround private equity: a view from the inside**

The owner of a struggling business still has choices, but which turnaround firm is best placed to suit them? Jamie Constable of RCapital offers his view

**At a glance**

* As turnaround firms become larger they are less able to take on smaller SMEs
* There is little specialisation among UK turnaround firms by sector or geography
* A business owner must be aware that any potential suitor will want to make substantial changes
* A turnaround firm's track record may be the most important consideration

Your company is facing problems and you think that a turnaround specialist could help. How do you decide which firm to partner with? In recent years the number of turnaround firms has mushroomed and it’s hard to differentiate between them. Their websites sometimes use confusing jargon and firms appear to do much the same thing. There is a lot of talk from firms that pride themselves on “being different”; rather less on where those differences lie.

**Size considerations**

First, size does matter. An impressive 99 per cent of businesses in the UK are SMEs, and the chances are that your business is one of them. SME turnarounds are the declared speciality of firms such as Epic, Endless, Better Capital and RCapital. Some turnaround specialists are focused on nurturing growth in small, under-utilised operations. Others prefer to revive and rescue companies in distress.   
  
There is a tendency for firms in the industry to become bigger as they become more successful. And as they become bigger, so do their clients. Firms become less and less able to take on board the smaller type of SME.

Make sure that the firm you fancy has not only a strong track record but also a genuine dedication to the aims of smaller businesses. Epic says it is happy to work with all types of business, while Endless (on its website) describes itself as “the UK’s leading turnaround investor”.

**Sector specialists**

There is little sectoral specialisation. Most turnaround firms say they will consider working with businesses in most industry sectors. Better Capital has recently done deals in the aerospace industry and some companies say they don’t like construction. But RCapital has been notably busy in the sector, and Endless has applied its skills to Crown Paints.

Almost all firms these days are involved with retailers of one sort or another. Whittard, the tea and coffee merchant, was rescued from administration by Epic, a firm that had previously backed Past Times, a vendor of nostalgia. EAT, the chain of soup-and-sandwich shops, has been backed by more than one private equity firm, while the Little Chef chain of roadside restaurants is currently being turned around by RCapital. In theory, the formula is simple: shut the shops and outlets that make a loss and give extra support to those that don’t.

**Geography**

There is not much geographical specialisation among the firms, though some claim that there is. Not all of them, however, started out in London. Endless was founded in Leeds and opened up in the Midlands and Manchester before it moved to the capital. Better Capital made London its home from the beginning, as did Epic. Although RCapital is based in London, most of its investments are outside the South East of England.

**Speed**

Speed of transaction is often important and here smaller firms have the edge. Some raise money directly from wealthy individuals and can therefore be more nimble and flexible in making investment decisions. Those with large, formal funds backed by institutions require more thorough (and time-consuming) due diligence procedures. In turnaround situations, speed is of the essence. Such situations often involve businesses which need help fast.

**Personnel**

It is important to look at the people doing the deals. They do make a difference. Turnaround practitioners tend to come from one of two backgrounds – either they have been in the banking/financial services industry, or they’ve worked for a big accounting firm where they have specialised in corporate turnarounds and insolvency.

Endless was started by someone from Arthur Andersen. Epic’s founder worked for Baring Brothers. Better Capital was founded by people with backgrounds in finance and RCapital by an accountant from Deloitte (formerly Touche Ross) and a former banker.

Some practitioners tend to be entrepreneurial and opportunistic; others are more focused on the numbers, on the targets they need to reach. It’s as well to meet a few and shop around. Ask them whether they have turned down deals, and why. Ask yourself if you think you can work with them as a business partner for a year or two. Then be aware that they will probably want to make substantial changes to your business – not all of which you will approve of. But they will argue that they are necessary for the business’s survival. And they may well be right.

Ask them for references and to talk to others they have helped. It’s all about finding the firm that works best for you – not just the terms of the transaction but also the personalities in the firm and the fit with your business. Each of the firms will have a way of working that reflects its founder’s personality. So choosing the right partner can be about personal choice and a sense of trust.

**Final questions**

Ultimately, the best guarantee of success is success. Look at the firms’ track records. Where have they added significant value? What returns have they been giving to their investors? If a firm has failed to deliver promised returns in more than one of its more recent deals, then you need to ask yourself why.

And don’t be fooled by the quietness of the market today. The banks are sitting on a lot of moribund companies which, at the first glimpse of recovery, are going to be in need of help in regenerating growth. When their turnover starts to rise, so will their problems… and their need for extra funding.

**Jamie Constable is chief executive of RCapital.**