



SMALL BUSINESS

## Partner up with private equity for sweet success

Joining forces with a private equity firm can bring an assortment of perks to put your SME in the box seat

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Model and TV presenter Vogue Williams promotes Lily O'Brien's, which was transformed when Carlyle Cardinal Ireland invested in itLEON FARRELL/PHOTOCALL  
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Two years ago Paul McElvaney had to make a decision for Learning Pool, the elearning solutions company he set up in 2006: sell up or seek equity investment. He chose the latter.

The Carlyle Cardinal Ireland (CCI) fund bought a majority shareholding in the business in 2016 for an undisclosed sum. The move turned out to be transformational for McElvaney and his firm.

“I wanted to take some money off the table. But you can sell your business only once, so private equity provided me with an alternative,” he says.

Selling a stake helped McElvaney lift a financial burden. “It allowed me to derisk personally and then go on to pursue the business with a partner. It hasn't changed my business



philosophy in any way, but what it has done is allow me to scale up the business, both by growing organically and through two acquisitions, to a point where we have already doubled turnover, profitability and staff.”

He could not have achieved the same result on his own. “When you’re an owner-founder, acquisitions can feel too risky. With a private equity partner involved, it feels more rational and we are better equipped to do it,” he says.

McElvaney is now re-experiencing the heady growth of his early days as an entrepreneur. “It’s just less terrifying and more enjoyable,” he says.

Having greater personal financial stability has also resulted in unexpected changes. “When you’re ‘the guy’, it’s hard not to look at business opportunities in the light of your own workload and to-do list,” says McElvaney.

Now when an opportunity arises, he looks at it from the point of view of an investor rather than manager. “If it’s a good investment, we should do it and just solve the issues that arise from it, such as hiring people to solve capacity or workload issues,” he says.

This is a failing common to many business owners, according to McElvaney. “They ignore or pass up great investment decisions because they are just too busy. It’s a missed opportunity.”

Perhaps the most important advantage of the investment is that it has provided him with the resources to think longer term, developing next-generation elearning tools using artificial intelligence. This R&D work is being conducted alongside Learning Pool’s day-to-day activities, future-proofing the business in a way McElvaney could not have afforded without investment.

“One of the hardest things for any successful business to do is to fundamentally change things. You’re much more inclined to take the view that it’s not broken, so don’t touch it,” he says.

“What private equity has brought me is the ability to be lot less focused on short-term cash flow and a lot more focused on long-term growth, which is as it should be.”

The recent growth of private equity funds in Ireland is a legacy of the recession and the government’s desire to wean SMEs off their overdependence on bank debt, bringing the business landscape into line with European norms. Private equity funds that are active in the market include the €292m CCI fund, MML Growth Capital Partners Ireland’s €125m fund and BDO’s €75m Development Capital Fund. The €250m Business Growth Fund was launched a year ago.

Though there are nuances, all of the funds are looking for the same thing.

“We want a good track record,” said Jonathan Cosgrave of the CCI fund. “Ideally we want a market leader — a business that is number one, two or three in its industry. But the most important part is the strength and ability of the management team to grow the business.”

The fund found just such an investment in Lily O’Brien’s, the chocolate company founded by Mary Ann O’Brien, in 2014. It was CCI’s first investment and the private equity firm’s input



enabled the confectionery business to double production capacity, beef up its UK sales team, diversify its product range, recruit key staff and introduce an equity incentive programme for management. Using CCI's global network helped with overseas expansion. Last year Lily O'Brien's was sold to Colian Holding, a Polish confectioner, for €40m.

Another of CCI's investments was security van company GSLS, which it exited this year after overseeing revenue growth of 50%. Meanwhile, pharmacy chain Sam McCauley has opened five stores since CCI's investment last year, and food company Carroll Cuisine has expand its product range to include white meats — a segment that already accounts for 20% of the business.

Private equity enables business owners to take longer strides, according to Cosgrave. "You derisk your own balance sheet, pay off your mortgage or whatever, and that allows you to take on a bit more risk in your business," he says. And unlike typical bank debt funding, it does not come with extensive personal guarantees.

Irish business owners have traditionally been loath to sell off equity, but this attitude is changing.

"The more successful exits there are, the more people see you can do more together than on your own, and that it enables you to grow a bigger pie down the road for everybody," said Cosgrove.

About 800 small-business owners recently attended an information event on private equity that was organised by Renatus Capital Partners and supported by The Sunday Times. Among the issues raised was the fact that owners of a small business are typically its shareholders, directors and employees.

"It's important to identify your ambitions in relation to all three positions before seeking investment," said Mark Flood of Renatus, whose first private equity fund was worth €11m and is fully invested. The firm is looking for homes for its new €35m fund.

To secure part of a fund, be clear on profitability and have a strong team and a good path to growth, Flood advises. In return, look for one you can work with. Expect the fund to put a representative on your board and ensure you understand that most private equity investors look for an exit in five to 10 years.

Last year Renatus's investment in Simtech helped put the aviation training company on a flight path to growth. Revenues have risen by 20% since the deal.

"A lot of improvements in relation to basic housekeeping have been introduced," says Se Pardy, co-founder of Simtech. "They include stronger financial reporting, a better marketing strategy, a rebranding and a new appraisal system, all of which are about putting in place the structures and ability to grow."

The investment allowed Simtech to acquire a €2.5m Boeing 737 flight simulator, to meet the growing global demand for pilots.

"Before, we operated on the basis of 'have we enough to pay the bills?' We were chasing business to pay them," says Pardy. "That stress of corporate debt and personal debt is gone."

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I'm not sure what the business would look like if we hadn't gone the private equity route, but we did and it has all been positive."