Pure players?

To gain favour with their analysts, banks have for a very long time now required that companies, whether listed or not, be «pure players». In the name of the sacrosanct «legibility» of their strategy and their balance sheet. One business, one market, one product. That has made work easier for a whole generation of analysts, whose job, roughly speaking, ultimately consisted merely of an analysis of cycles (materials, real estate, consumption, etc.).

But if this was the right approach, then why did no analyst think of asking these very banks to likewise be pure players? The shareholders of some of them, hoisted by their own petard as it were, would now have less reason to question the «legibility» of the strategy and … balance sheet of their companies.

No doubt if these banks had applied their pet recommendation to themselves, they would not now be a source of major concern, especially worrying because the labyrinth of their operations is inextricable. More of them would possibly have already fallen, but without causing economically harmful chain reactions based on the unknown. A given retail bank would have continued to lend while a certain investment bank failed, another investment bank would have continued to invest while some banks specialised in real estate would have shut a few valves, and so on.

But let’s ignore the surrounding pessimism: the future should be fantastic for a new generation. A trend turnaround is always good news for those who are able to thrive on the crumbs left on the table by the Big Boys ... for those who act on the basis of a clear view of their business, combined with sound values of moderation, re-investment of profits, and giving priority to the collective interest over personal interest.

Only such a view will tomorrow allow new companies to grow in what sociologists call the «inter-feudal space»: the modern city, the heart of our civilisation for some years yet, itself developed between fortresses, in the space of servitude reserved for the peasants, until the same fortresses were gradually emptied of their Middle Age certainties.

So long live the «new pure players», whose customers can be certain that their partners are indeed here today… and will still be here tomorrow.

Bruno Annequin
Managing Partner
You recently organised a buyout of your company’s minority shareholders. Can you describe Analog Way to us in a few words?

Marc Loret: Analog Way is entering its 20th year and generates €9 million in revenues in the sector of hardware/software solutions dedicated to the professional audio/video market, known as «Pro A/V». Its main products are electronic image processing equipment, for the events management segment (company shows, concerts, etc.) and installation (projection rooms, schools, universities, places of worship, conference rooms, conference centres, medical and military solutions, etc.). Our constantly growing product range now comprises world famous product references such as the Di-VentiX in image mixers/seamless switchers, the Tetra Vio in multi-format converters, and Axion in control and management solutions.

Analog Way’s market is global and growing very strongly, due to growing demand from the events management sector and constant development of certain niche markets such as churches in the United States and Asia. In these markets, which are driven by the US, there are ten manufacturers at most, among which Analog Way is well positioned. Present since the beginning of this sector of activity 20 years ago, we remain among the leaders in our main market, events management, because we develop products always focused on innovation, modularity and high technology.

Could you describe to us the background to this buyout of the minority shareholders?

In 1989, I went into a 50/50 partnership with a childhood friend after 15 years of successful professional experience in the field of electronics research & development. We had divided up the roles so that he would manage the company and be on the front line for management and R&D, while I, for my part, supervised commercial operations. Our first years were a great success, with an initial product that revolutionised the business, the first seamless switcher, called the graphic switcher.

At that time, the Pro A/V market grew considerably and became so buoyant that Analog Way’s first mover position was no longer sufficient, because our technological lead had inspired some of our competitors. As of 2001 we could no longer lay claim to the relative peace and steady income of the «ingenious craftsman».

As can happen in any partnership, after 13 years of efficient collaboration, my partner wanted to take a new direction by leaving Analog Way. After long discussions with various contact persons and potential buyers, in July 2004 we carried out a first buyout transaction on nearly all the shares of my co-founder partner. I therefore became chairman of the group and bought a majority stake in the business. I had to offer equity stakes to the Sales and Marketing Director, an experienced manager coming from a big group, and two managers of the Asian and American subsidiaries, all three as minority partners. It is now clear that this first arrangement was not optimal, but urgent action was needed because sales were starting to decline seriously.

The experience with the Sales and Marketing Director was not successful and we parted with him.

Three years later, in 2007, once the business had been redeployed, a second transaction was negotiated and structured by Capital & Dirigeants Partenaires, involving a takeover of the stake of this former Sales and Marketing Director and of the balance of the stake of my original partner. Meanwhile, double-digit growth and profit margins had returned. We had to make a senior debt arrangement, but we managed to get by without a financial investor. I simply left the managers of the American subsidiary and the Asian subsidiary with stakes in the group, making it possible, if necessary, for an investor to come in to support the new growth phase of Analog Way, now in line with the standards and in battle order.
What were the most difficult stages in the company’s recovery between 2004 and today, and what advice would you give to other managers in a similar situation?

The management personnel’s acceptance of the new plan and their loyalty to the new manager are, in my opinion, as important as pure competence. If I had been more aware of that in 2004 we would have saved time, because we have often been held up by “human” factors. When you take over a company, you have to be driven by strong personal ambition. It’s a fabulous challenge that has to be taken up with a concern for doing things right, creating a minimum of damage on the human level. But you can believe so strongly in your plan that you are blinded and think that everyone, especially at the management level, wants the same thing and supports the plan. And in that case you don’t pay enough attention to who supports it and who doesn’t. You then try to decide based on people and their skills, without ultimately considering whether or not they want to take part in the “fabulous challenge”. And that was indeed one of the trickiest stages in this recovery: to become surrounded by the right people to form a strong and dedicated team.

You appointed Capital & Dirigeants Partenaires initially to support you following your restructuring operation in 2004. What was the purpose of the assignment at that time and how do you view the work performed with them between 2005 and 2007?

I wanted this new operation to be more complete than in 2004. The purpose of the assignment was first to produce a «picture» and a general review of the company, and an approach to verify the measures that we were taking and their consistency with the restructuring of Analog Way. We ourselves were of course the main players at the operating level, but we were not sufficiently detached from everyday operations to assess whether the impact of the plan was successful. We wanted to see how an outside entity, with a more objective view of SMEs than us, having a more systematic and finance-oriented perspective, would judge our situation.

The assignment was a success in my opinion. Above all, I had to have personally an enormous trust in someone motivated more by conscientiousness and pleasure than by financial interests. Establishing a relationship of trust is also essential when examining decisions such as those we had to make to finalise the arrangement in 2007. Finally, apart from their genuine qualities as advisers, I really appreciated the proactiveness and professionalism of Capital & Dirigeants Partenaires.

In a few words, what are the main prospects for Analog Way in the coming three years?

From 2009 on we aim at growth exceeding 25% per year, which is possible given our long experience of our customers’ needs, our technological expertise, the underlying market growth, and, of course, our positioning and flexibility inherent in the company’s size. Of course, we shall retain our constant focus on the excellence of our products and of the internal organisation and labour relations.

A well-run company must offer everyone opportunities for personal development and self-fulfilment. That’s one of the important roles of a company manager. And it’s a role that should be valued and measured at least as much as purely financial performance. Moreover, I would like a social label to be created to take into account this very special role of the manager.

C&DP’s opinion:

Control of the time factor was key to the success of this assignment. The company’s speed seldom corresponds to that of most deals. Sometimes the latter should be aligned on the former.
Transferring ownership to go further

Campus de Bissy
Dominique Berland - Chairman

You recently obtained the backing of a financial group for your private higher education establishment. Can you describe to us the history of your company until this operation?

Dominique Berland: I set up this private higher education institute in the heart of Bordeaux in 1986. In 1996 we bought an additional business and a site at Mérignac in the close outskirts of Bordeaux. This acquisition enabled us to have a real campus, in a natural setting, with buildings appropriate for our business (lecture halls, functional classrooms, etc.). Our growth was therefore based both on organic growth (creation of new classrooms and new diplomas) and external growth (we took over two companies in order to enlarge the campus).

Our current revenues are around €7 million per year with more than 1,200 students, and we own our buildings and land. Our business incorporates in an original model both initial training (mainly for technical and scientific baccalaureates) and work-study schemes. There is major potential on the site, in an area where land is scarce, due to the opportunities I have obtained for an extension of the buildings and student accommodation.

What was the nature and purpose of the mandate entrusted to Capital & Dirigeants Partenaires in 2006?

After more than 20 years of daily effort, on the front line with teaching staff, students and their families, at age 53, my main objective for some years had been to sell the company and hand over its day-to-day management.

Capital & Dirigeants Partenaires explained to me that other there were other possible ways, notably via a conservative LBO arrangement, to enable me to realise a significant part of my assets, while allowing the company to benefit from the entry of a financial investor alongside me, to recruit a Managing Director and to accelerate growth by seizing external growth opportunities.

With a passion for my job and for the education sector, and convinced of the value provided by the private sector in a French-style semi-public segment, just as in healthcare, this solution naturally attracted me.
C&DП’s opinion:
The negotiations had to take into account two aspects: the present and future value of the business and its profitability (the “enterprise value”), and the present and future value of the property, given the building rights owned by the site. It is usually difficult to find an investor capable of appreciating the full value of these two aspects: conventional LBO investors find it hard to assign a value to property and to any tangible asset in general, while conventional property investors seldom take the risk of acquiring businesses. So, given that in this specific case the two overlapped in the company’s growth plan, the ideal solution was to find someone who could reconcile and appreciate both these assets. That is what we managed to do.

What were the most difficult stages in the negotiations?
In agreement with Capital & Dirigeants Partenaires, we started by waiting: for the 2006 school year to get under way and for me to have a better idea of how many students would be joining in 2007, in order to obtain confirmation regarding the business plan that I intended to carry out. At that time we were coming out of years of decline - in our training for the tourist sector following the September 11 events, and in our IT training following the bursting of the dot-com bubble.

These negotiations were completed in 2008. The process was very long and complex, because in the end we obtained the backing of a larger financial group, in which I was to become a manager involved in the buyer’s business plan. At the outset I could not have hoped that the deal would to this extent fulfil all my goals of securing the assets and continuing my action, with a far broader scope. The various stages of the discussions had to take into account the disposal, negotiating the valuation and guarantees, my re-investment in the project on an equal footing with the shareholders and my work contract as manager of the future business.

The discussions were long for reasons related to another takeover deal by this group, which took precedence over ours.

Finally, the most difficult moment was completion, concluding the deal, up to the day before signature, with everything that implied in the way of changes for us, especially since the operation involved moving to Paris for my family and myself.

What advice would you give to a manager in your situation or wanting to take his relationship with his company into a new phase?
My sole advice would be, in all circumstances, not to stay alone, to avoid ultimately fighting against yourself.

What are the main prospects for your institute in Bordeaux in the coming years, especially within the group that now backs it?
This backing will enable the company to establish beneficial synergies, in relation with a national and international network, by pooling resources, while starting consolidation. From the business viewpoint, it’s the best thing that could have happened to this company.
You recently sold your establishment. Since when did you own it and what is its positioning in its region?

Jean Carpentier: I bought this establishment 12 years ago. At the time it had suffered difficulties regarding the quality of the care provided and the attention paid to the residents, and had been placed under supervision by the authorities. By comparison with other establishments, its positioning is still that of a small old people’s home, with 40 beds, but it is firmly rooted in its region and specialises in receiving disoriented people, a specialisation of which we are pretty much the only provider between Valenciennes and Lille.

You are of Belgian nationality, and you wanted to sell your interests in France. What comparison can you make between the two countries from the business viewpoint in your sector of activity?

France has high quality standards, which is a good thing for the residents but more constraining for the entrepreneur. On the other hand, communication between the establishment and the supervisory authority is far clearer and more direct in Belgium than in France.

You appointed Capital & Dirigeants Partenaires at the start of 2008 to assist you with the sale of the company. What is your assessment of the assignment carried out?

The assignment was carried out in a satisfactory, professional manner. Capital & Dirigeants Partenaires upheld its commitments. The first very important factor is that the memorandum describing the company should be well presented. Then, determining and complying with the timing are very important. There was fluent communication and strong mutual trust between us. The end result is very satisfactory: for me, the valuation target was reached, while the establishment became part of a group capable of providing it with the means to expand, in particular for the construction of an extension to the building on the adjoining land that I had bought the previous year. This extension will enable it to redeploy its rooms, improve comfort and comply with the required standards for establishing healthcare facilities.

C&DP’s opinion:

We succeeded in identifying a determined, frank and swift buyer who was able to immediately win the confidence of the seller and his adviser.
Manager, planning to buy out the subsidiary he manages from the owner group, seeks partner(s) to negotiate and provide financing…

Service Affaires – Jean Sébastien Durand – Chairman

Can you describe the company that you manage?

Jean Sébastien Durand: Service Affaires is the biggest French company providing transport services in chauffeur-driven passenger cars and shuttles. Our current revenues are €7 million, growing regularly, with a prestigious customer base of large accounts and government departments. Until our buyout, this company was a subsidiary of the LeasePlan group, a leading global operator in long-term vehicle rentals.

The growth of Service Affaires is based on the appeal of the service in itself to those who do not know it (generally when they test it they adopt it), but also the desire of a growing number of private and public sector customers to outsource this service, with a view to continuity, security, flexibility and cost savings.

It’s an elitist luxury service…

Luxury, yes, through our demand for excellence at all levels of the service, tailored for each customer (driver, vehicle, additional services, etc.). Elitist, no: it is worth noting that the cost is moderate, for a service which provides optimal comfort for a company’s chairman and executive committee in terms of availability for work and travel security, in a secure personnel environment despite the possibility of practically total continuity of service. We are no longer in the era of the «gentleman’s carriage» with chauffeur. Today, the adoption of a solution of this type is a great lever for the activity of not only the chairman, but also of the whole senior management team, which can also use it (for shopping, transporting distinguished guests, etc.).

What were the origins of this buyout?

In early 2007, when I was Finance Director of the LeasePlan group, I was entrusted with management of this subsidiary, struggling at the time, which LeasePlan had initially bought with a view to synergies with its core business.

However, LeasePlan took several years to realise that we were in a service business, providing «value-added transport», in which the vehicle ultimately counted for very little, even though our financial clout enabled us to make substantial cost savings in this area.

The work I performed to turn around the subsidiary and the demonstration that this company needed its full independence coincided with LeasePlan’s desire to pull out. I therefore bought out the company with my two managers.

C&DP’s opinion:

For the manager and his adviser, a negotiation of this type is like active schizophrenia… It involves raising financing to make the acquisition, i.e. «selling» the company, while negotiating its sale with the seller, i.e. «buying».

More than in any other deal, both for its completion and for the company itself, the «adviser-negotiator-financier» must have a keen sense of the balance of relations and the fair conditions for the operation, whether the customer is the manager or the seller group.