

A toast to firms that don't lose their bottle



Grant Thornton's David Maxwell measures the mood in boardrooms of Britain's mid-market companies as the global economy stutters

GENE KOSOY

factors include rising difficulties in financing takeovers and a widening valuation gap between potential buyers and vendors. Today, potential buyers are taking account of growing economic uncertainty when calculating a price, but potential vendors are not yet prepared to revise their expectations downwards.

As a result, deal volume in the third quarter is at its lowest since the 1990s, our preliminary data show. We expect the number of takeover bids by domestic, foreign, and private-equity buyers to have fallen by a third, although the value has risen thanks to the £6.2 billion acquisition of Autonomy and the £4.6 billion purchase of Northumbrian Water Group.

Yet a number of opportunistic firms on the Top Track 250 have done deals that bring them new products or markets. In July, security software group Sophos (No 187) acquired firewall specialist Astaro, and in the same month greeting-card retailer The Card Factory (No 144) snapped up the online gift store Getting Personal, both for undisclosed sums.

Further ahead, we expect activity should return as the valuation gap shrinks and bank funding starts to flow more quickly. It is impressive (and important for Britain) that whatever the economic outlook, dynamic mid-sized private firms and their backers will find a path to growth.

■ David Maxwell, partner at Grant Thornton UK, was talking to Catherine Wheatley

Britain's mid-market firms are searching for yet more creative growth strategies as consumer confidence wavers and bank finance remains scarce.

Last month the IMF warned that the global economy had entered a "dangerous new phase" and trimmed its UK growth forecast from 2.3% to 1.6% next year. The European sovereign debt crisis spread beyond Greece and Ireland to encompass Italy and Spain, and at the end of the third quarter Grant Thornton's UK Business Confidence Monitor index showed optimism at its lowest level since the country was hit by recession two years ago.

Yet, as this year's Top Track 250 research shows, dynamic mid-sized private firms, many of which would fit comfortably in the FTSE 250 if they listed, are starting the next stage of growth by unveiling new products, seeking out fresh markets overseas or acquiring struggling rivals. Some are backed by ambitious and highly knowledgeable private-equity investors.

Others have been run by the same family for generations. But after cutting costs and con-

serving cash when the recession hit, most are concentrating on building sales and profits. This heartland of Grant Thornton is an under-recognised but important segment of business for the economy.

Take the Edrington Group, the whisky distiller and distributor at No 4 on the league table. In recent years the Glasgow firm, founded 150 years ago, has refocused on a small number of key brands. In 2008 it expanded beyond whisky for the first time by acquiring Brugal & Co, a producer in the fast-growing rum category. Last year it bought the Cutty Sark label from Berry Bros & Rudd (No 95), and in June it sold the Speyside distillery Tamdhu.

Now the firm, which also owns The Famous Grouse, The Macallan and Highland Park brands, is expanding overseas. Three years after striking a sales-and-distribution alliance with the international drinks business Beam Global, Edrington is improving market penetration in emerging countries including China and Russia. As a result, sales rose 18% to £553.4m in 2011.

Britax Childcare (No 149), the

Surrey-based maker of children's car seats, buggies and other child-safety equipment, is also continuing to grow through the downturn in partnership with private-equity backers. Revenues at the company, acquired from the Carlyle Group by Nordic Capital in January for a reported £450m, have benefited from new, stricter regulations across Europe and emerging markets that require the use of children's car seats. As a result, sales rose 14% to £231.7m in 2010.

The firm, which already has operations in America, Australia and Germany, is eyeing Brazil and China, which are improving road-traffic safety. Private-equity investors, which hold stakes in 87 league-table firms including Britax, are still looking to back outstanding concepts and management teams, although we have noted a slowdown in mid-market buyout activity since the start of the year. Just seven deals valued at £100m-£500m were completed in the first half of the year, according to the Centre for Management Buyout Research, against 33 over the same time last year.

On the league table, these



Whisky A Go Go: distiller and distributor the Edrington Group is expanding overseas and has moved into rum as well

included Charterhouse's tertiary buyout of a 65% stake in the environmental consultancy ERM (No 26) in May, a deal that valued the firm at a reported £585m, and General Atlantic's £126m acquisition of

a minority stake in anti-virus software group Kaspersky Lab (No 90) in January.

Encouragingly, our most recent Grant Thornton Private Equity Barometer, measuring sentiment over the third

quarter, found that investors still saw good opportunities involving firms with proven track records and established brands. The most active sector groups are expected to be business-support services, infra-

structure and logistics, followed by manufacturing and engineering, the survey of 100 private-equity managers found. The M&A market has also experienced a marked slowdown in recent months. Contributing