

ALLIANCES by Richard Rivlin

Shared words ease path to shared winnings

A marriage of industrial and finance bidders can be heaven, or hell if partners are not clear about each other's intentions

Competition for deals is driving a wave of *realpolitik* to descend across the European private equity market. The number of funds available to invest in new deals is rising, but is not matched by new opportunities.

For every deal that a private equity firm sources itself and secures at a good price, there are 20 deals that are auctioned off to the highest bidder.

Vendors, who historically might have undersold their unwanted assets, now invariably use an investment bank to squeeze the highest possible price from any asset.

This state of affairs is prompting a shift in approach and outlook from the more nimble deal makers: today's transactions are likely to feature an alliance of trade and financial sponsors, converging together to become a single equity provider.

For example, the high profile bidding war for the UK's United Biscuits was resolved when competing trade and financial bidders came

together. Financiers Cinven, Paribas, and Deutsche Bank linked up with trade bidders such as Danone and Nabisco.

In the mid market, Duke Street Capital, whose investments include the DIY chain Focus Do It All, joined forces with Allied Leisure - a quoted UK leisure business - to buy MegaBowl, the 10 pin bowling business from First Leisure.

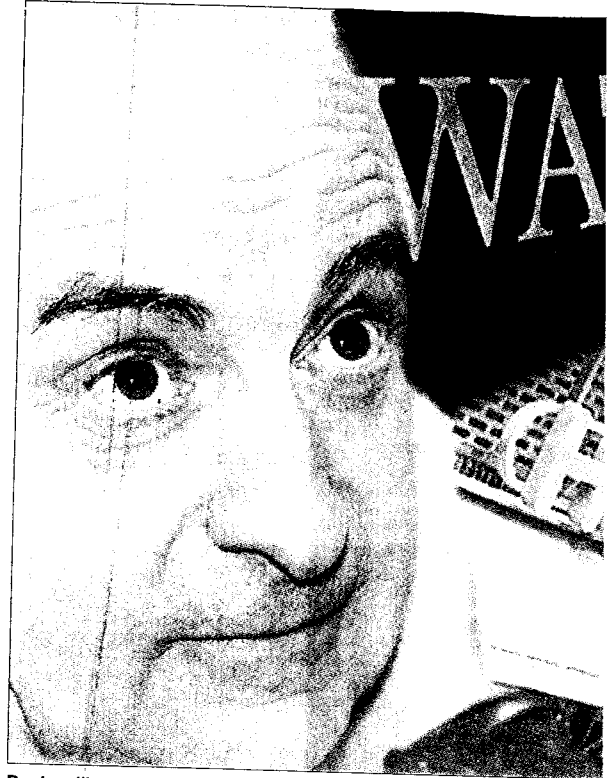
"What was important on United Biscuits was that each side adds expertise and not just money. Together we can make better decisions on deciding what to do in terms of strategy and focusing on the areas of growth," says Amaury-Daniel de Seze, the President of Paribas Affaires Industrielles, the private equity arm of BNP Paribas.

More prosaically, partnering with a trade bidder cuts out a key competitive threat in completing the deal. But alliances also raise difficult issues. For instance, who should decide - trade partner or venture capitalist - when to sell or float the business, or buy up another

company or sell off part of the business? Who makes the decision if the management needs changing? And what happens if one of the partners wants to exit before the other?

"The benefits include a greater certainty of winning the deal. The downside is that when the time to exit comes, there could be a divergence of view. Tensions can also come up earlier so it is absolutely key to sit down and work out the issues before, during and after the deal," says Edmund Truell, managing director of Duke Street Capital.

This is a view echoed by others. Christopher Finn, managing director of private equity specialists, Carlyle, was involved in one of the largest ever alliance investments. It is a 60 per cent shareholder in Dr Pep-



Rocky alliance: Scott Lanphere of Advent International (right) teamed and Waterstones bookshop, founded by Tim Waterstone (left)

per/7Up Bottling backed by Cadbury Schweppes.

"All the issues such as time horizons and exit strategies must be worked out before a deal is consummated. Both sides must understand the objectives that each other has in terms of how long they intend to own the asset."

Given the current competitive nature of the market, many more deals of this type will come.

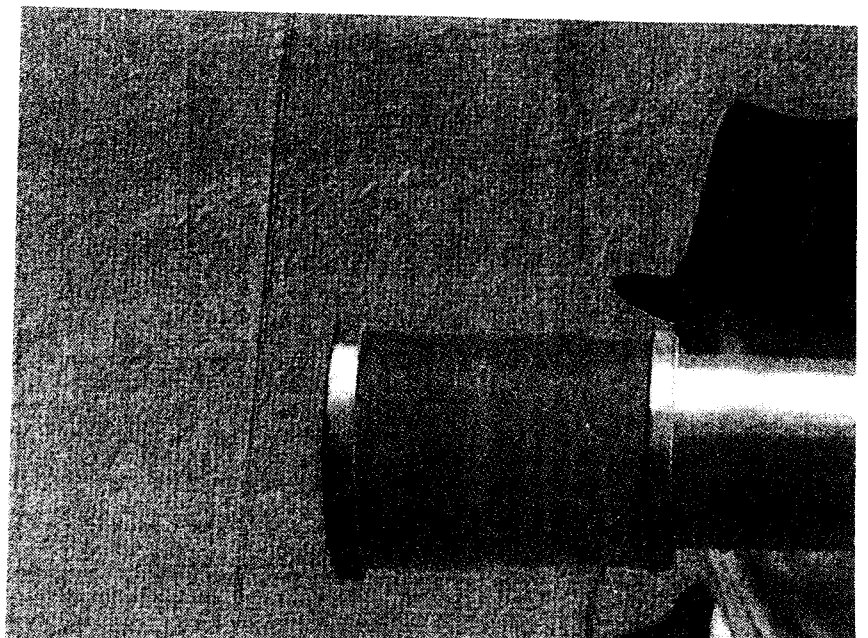
The latest example is Advent International, the private equity firm, partnering with Kingfisher, the retail company and Flextech, the media and television group, to back the expansion

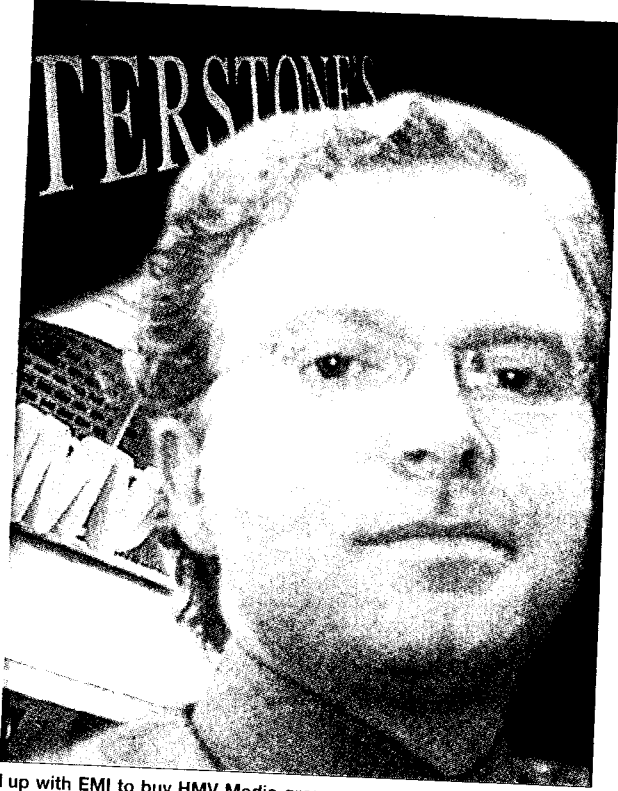
MEZZANINE FUNDS by Rebecca Bream

Debt funds move into mainstream

The private equity market, particularly in Europe, is turning more attention to the benefits of mezzanine debt

Well-established as a niche debt with cheaper successful niche product in funds. And the range of the





Team up with EMI to buy HMV Media group, owner of HMV music stores
 S Lynch, A Ashwood, C Batson

executive at HMV Media Group, diplomatically.

Advent International remains one of the leading operators in alliance investing. Bruce Barclay, one of the best connected investors in the European market, says: "We have completed six deals in this field. We bring equity, transactions structuring expertise, expansion and recruitment skills and an expertise in handling the exit."

It is a sign of how established the private equity market has become that so many senior trade bidders are willing to align with venture capitalists to bid jointly for companies.

"Our whole industry profile has changed dramatically in the past three to four years," says Charles Sherwood, a managing director at Schroder Ventures.

"The private equity firm is now an acceptable player and has been rehabilitated," he says, after a period in which companies saw it as almost a sign of failure to sell a business to a private equity firm.

So long as the money is being raised to invest and protagonists are looking for deals to back, lower risk deals with trade partners are likely to flourish. But only so long as both sides are clear of what the future hurdles could be.

of improveline.com.

But the partnership is unlikely to be trouble-free. Advent International teamed up with EMI to back HMV Media Group, which includes HMV music stores and Waterstones book shops, in 1997. Three years on there are questions about the future strategy of the group.

Neither side is likely to achieve all they had hoped.

"One of the potential problems could be a difference in views in terms of the time horizons and exit strategy. But overall it is more good than bad and the total of the two investors together is bigger than the sum of its parts," says Alan Giles, chief

