panoramic

NEWSLETTER
SPRING 2016

FUNDRAISING

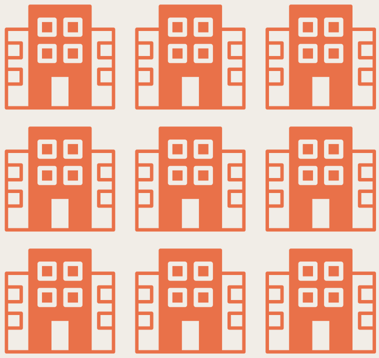
Panoramic Growth Fund 2 achieves £65m final close

In May, we announced the final close of our second fund, Panoramic Growth Fund 2, which was oversubscribed at £65m. All investors from Fund 1 have reinvested alongside a number of new institutional investors. This brings total funds under management to c. £100m, solely focussed on the UK SME market.

The fund will invest between £1m and £5m in companies with a turnover of more than £1m and the potential for fast growth across a range of sectors.

This is a continuation of the successful investment strategy adopted by Fund 1 that saw us invest in 9 businesses and achieve 3 successful exits with an average IRR of over 70% in five years.

As the new fund is primarily supported by institutional capital, it has the flexibility to invest in a wide a range of situations including development capital, replacement capital and management buy-in/buyouts. ■



9 companies backed in 5 years

3 exits achieved, with an average IRR of over 70%

Panoramic Partner Stephen Campbell:
"Our success in raising our second fund is a result of backing a number of exceptional businesses in our first five years. We are excited about the potential for Fund 2 as it offers more flexibility in the types of transactions that we can undertake and funds that we can deploy. As the market for development capital and buyout capital for SMEs continues to shrink as a result of new EIS and VCT rules, Panoramic is strongly placed to maintain its position as one of the leading investors in UK SMEs."

INVESTMENTS

Buyout of Midlands based Precision Engineering firm

In January, we invested £2.2m as part of the buy-in management buyout (BIMBO) of Precision Technologies International Limited (PTI). This represents the first transaction from Panoramic Growth Fund 2.

Established in the 1960s, Tamworth-based PTI has more than 50 years' experience in the manufacture of specialist precision components across a range of sectors including Formula One, medical, oil and gas and aerospace. The funds will see the firm increase its current service lines and move into new markets such as nuclear and defence.

Additional funding for the transaction was provided by Finance Birmingham and Santander Invoice Finance.

Panoramic Partner Malcolm Kpedekpo: "PTI represents the best the UK has to offer in terms of high quality precision engineering expertise. As the business looks to grow its current market position and expand into new sectors we look forward to working with Kevin and the management team." ■

PRECISION
TECHNOLOGIES

FOLLOW ON INVESTMENT

Captify

In July 2015, we provided additional investment to Captify, one of the fastest growing advertising technology businesses in Europe and a market leader in search retargeting. Our commitment of £1.2m formed part of £8m of Series B funding led by incoming investor Smedvig Capital.

We originally invested £1.2m of Series A funding in 2013. Our investment has helped Captify to lead the way in the development of search intelligence technology, expand its product suite and accelerate international expansion.

Panoramic Partner Malcolm Kpedekpo: "We have worked closely with the team since 2013 when they accepted institutional capital for the first time, and in that short period Captify has achieved exceptional growth, realised its ambition to move into overseas markets and significantly built its base of in house talent. They have strongly held their dominant market leading position in Europe against competition from US competitors and are well placed to make their mark on the global search intelligence market."

Edesix

In December 2015, we committed £750,000 of follow on capital to Edinburgh based Edesix, a UK-based market leader in body worn camera (BWC) solutions, that we initially backed in 2014. This capital will fund expansion into new markets and the continued development of its technology, product range and sales infrastructure both in the UK and overseas.

Panoramic Partner David Wilson: "This additional investment from Panoramic demonstrates our continued support for Edesix to build on the excellent progress the company has made since we first invested in 2014." ■

EXITS

Specialist Tours

In May 2015, we made our third exit from Panoramic Enterprise Capital Fund I, with the sale of Specialist Tours, a niche multi-brand tour operator in a secondary buyout to Kings Park Capital and management.

The sale generated a strong return on investment in the two and a half years since we invested in the company to deliver a roll up of niche travel brands.

During this time, Specialist Tours acquired three trading brands and integrated all of them successfully. Revenue doubled to over £9m by 2015 and the company now provides a service to almost 5,000 holidaymakers a year, visiting more than 80 destinations.

Panoramic Partner David Wilson: "This is an example of an excellent management team delivering a clear plan professionally and efficiently. A huge amount of work has taken place to grow and integrate the acquired brands successfully. It also demonstrates how the private equity food chain works well supporting companies as they move through different development stages." ■

OTHER NEWS

We are delighted to announce the launch of our new website. Please visit us at **www.pgequity.com**

Congratulations to our investment director Jane Reoch, who was named as one of the top business women in the UK under 35.

Portfolio achievements

Heck was named the 4th fastest growing private business in the UK by the 2015 The Sunday Times Virgin Fast Track 100 and was crowned the winner of the Telegraph Festival of Business Award in November 2015.

Dog was ranked in the top 25 digital agencies in the UK by The Drum's annual benchmarking and research report, The Digital Census, in September 2015.

Captify was ranked in The Sunday Times Hiscox Tech Track 100 for 2015.

Working with entrepreneurial companies to: take the next step

Entrepreneurs are rightly ambitious for their businesses. But too many sell up early with a lingering feeling of regret that they didn't take their business as far as they could have. And while some business owners may be attracted to the principle of accepting external investment, they sometimes assume that the unerring focus of a private equity investor will be to build a business for sale in three to five years.

But this is far from reflecting reality as we have seen in our own investment portfolio.

There is no one answer to the question, where do we go next? What suits one business or management team may not suit another. Certainly not all are heading for the door marked "exit", and we have worked with a number of our companies both to identify the right next step and to help them achieve it.

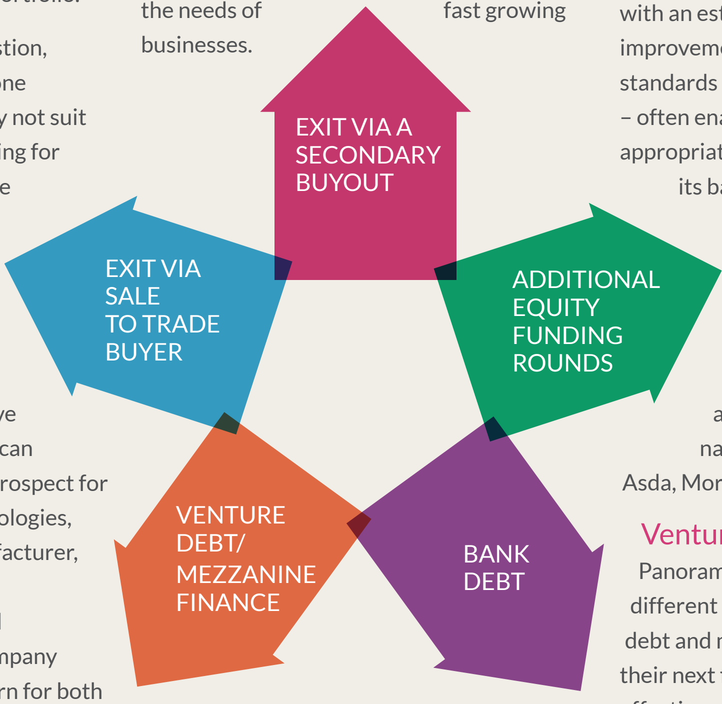
Exit via sale to trade buyer

For some a full sale is the right move and with the right help, a business can become an attractive acquisition prospect for a trade buyer. Take Cascade Technologies, the gas sensing instruments manufacturer, which was acquired in December 2014 by U.S. headquartered global manufacturing and technology company Emerson, generating a strong return for both management and Panoramic.

Cascade is a fantastic UK manufacturer that developed the world's first real-time technology for the detection, measurement and monitoring of gas emissions using quantum cascade lasers. With our support, the business was able to triple revenues, expand its customer base, attract high quality staff and ultimately win the attention of a large multinational company. The sale to Emerson has given the business valuable new opportunities to increase its international presence and achieve further growth.

Exit via a secondary buyout

A sale may also be motivated by the requirement for a more significant level of investment. In May 2015, we sold our stake in Specialist Tours Limited, a niche multi-brand tour operator, in a secondary buyout to private equity investor, Kings Park Capital, and management. This course of action best met the needs of the management team. Having enjoyed rapid growth in our two and half year investment period, they were looking for significant additional capital to support five to six acquisitions over the next few years and also wanted to take some cash out to derisk their personal positions. It is an excellent example of how the private equity food chain works well to support the needs of fast growing businesses.



Additional equity funding rounds

Another option is to commit a further round of capital to a growing business. Captify, one of the fastest growing advertising technology businesses in Europe, – which we initially backed with £1.2m of Series A funding in 2013 – demonstrates this. Over two years, Captify's revenues increased by 300% and its workforce grew six fold. It attracted business from almost 200 media agencies across Europe, as well as from the world's largest brands.

With that track record, Captify was well-placed to launch an £8m Series B funding round last year, when it was seeking capital to consolidate its market leadership in the UK and pursue further international expansion. We were pleased to provide a follow-on commitment as part of the round.

Bank debt

Sometimes, the next move will be to secure new debt facilities that can support the business's growth ambitions alongside its equity funding. This was the case for Heck, the premium sausage manufacturer that we backed with £1m in 2014.

As Heck discovered, the increased credibility of a business that is working with an established investor – boosted by improvements in governance, reporting standards and, above all, financial strength – often enables it to negotiate much more appropriate and attractive debt facilities with its bank.

With the right capital structure now in place, the company is going from strength to strength, with run rate revenues now in excess of £10m and distribution deals in place with nationwide retailers such as Tesco, Asda, Morrisons and Waitrose.

Venture debt/Mezzanine finance

Panoramic also helps businesses explore different forms of funding such as venture debt and mezzanine finance as part of their next funding step. This can be an effective way to move a business forward to a new valuation point, without requiring an exit from investors or any dilution of shareholders' equity.

There are many uses for this type of finance. For example, at high-tech component manufacturer Precision Technologies, mezzanine finance was an important element of the funding structure alongside our £2.2m investment in the buy-in management buy-out in January 2016.

Venture debt/mezzanine can be used either to fund a particular project or as a cushion of additional capital that provides comfort when a business expands rapidly. Our role as a supportive investor is to help our businesses find the optimal finance mix to meet their needs and provide the right balance of flexibility and cost. ■

In conversation with:
Ian Finlay, Specialist Tours

In May 2015, Panoramic sold its stake in specialist tour operator, Specialist Tours Limited, in a secondary buyout. The sale generated another strong return on investment for Panoramic in the two and a half years since it invested in the company to deliver a roll up of specialist travel brands.

The business is led by chief executive and entrepreneur, Ian Finlay, the former MD of Tui's Educational division.

1. Could you describe the funding requirement that you experienced in 2013?

My situation was a little different to other investments that Panoramic has made in that it was a buy and build strategy. I had found a business that I wanted to buy (Andante Travels) – and I approached three private equity firms with a business plan to create a portfolio of specialist travel brands.

2. Why did you choose to partner with Panoramic?

I felt that I could work well with David Wilson at Panoramic and that made all the difference. It goes without saying that a good relationship with private equity investors requires an alignment of vision but from my past experience of building businesses, I knew how important it was to work with people that I liked, respected and enjoyed meeting at the boardroom table.

Panoramic's support went beyond the provision of capital. I valued their pragmatic forward-looking perspective, and importantly their lack of bureaucracy. That would have proved inhibiting in an entrepreneurial, fast growing business.

3. In May 2013, Panoramic invested £1.8m in Andante Travels, the UK market leader in archaeological travel. What happened next?

We executed our business plan, successfully growing turnover and profitability. This involved expanding into new markets, notably the US; and acquiring two further businesses, Historical Trips and Archaeological Tours, in 2014.

Our growth was rapid. Within two years our revenues more than doubled to over £9m and we now provide a service to almost 5,000 holidaymakers a year, visiting more than 80 destinations.

4. How did you integrate the three brands successfully?

It was relatively easy to integrate Historical Trips as the business was small and still at start up stage. I think the fact that Panoramic was supportive of the acquisition of this business at such an early stage of development is indicative of their flexible approach. It proved more challenging to integrate Archeological Tours, not least because the business is based in the US.

We completed two acquisitions with Panoramic's support but we assessed perhaps 10 businesses: their role in deciding which to rule out was extremely valuable.

5. You have experienced rapid growth in a short space of time. What challenges did you face?

Staffing was probably one of the biggest problems that we faced as the business expanded. This is inevitable when you are acquiring owner-managed businesses and unfortunately we found that some people had to exit the business, which can be painful. We needed to find the right people with the appropriate blend of skills and experience to manage what quickly became a much larger business. Panoramic was instrumental in helping us do this.

6. You previously sold a business, Travel Class, to First Choice in 2006. How did that experience influence the decisions that you made this time?

Travel Class was also private equity backed and when I bought it, I changed my mind about which investor to partner with half way through the deal process. That decision proved to be the right choice for the business longer term and it taught me the importance of the right chemistry and fit.

7. Panoramic sold its stake in May 2015 to Kings Park Capital and management. Why did you make this choice?

With Panoramic's help, we had grown the business to more than double its size and in 2015 we felt the time was right to take Specialist Tours to the next level. For us this means investing significantly in five to six acquisitions over the next few years; and it also meant that we needed more capital than Panoramic was able to provide.

We didn't run an auction but spoke to two parties. We had offers from both and chose the people with whom we felt we could work best.

Exit planning can go wrong. Management and private equity are not always aligned in their thinking, particularly in the context of a secondary buyout where management is rolling over a portion of their investment and valuation is always going to be a sensitive issue. There were points that could have been contentious, but I had no difficulty talking these through with Panoramic.

8. Where do you intend to take the business next?

There is still huge growth potential in the business and we have set ourselves ambitious goals. We intend to pursue our active acquisition strategy – I am currently assessing a number of live opportunities, with the intention of completing two to three acquisitions this year. While working with Panoramic, we developed a strategy to establish a sales office in the US that would sell all our brands. This is now driving a high level of sales. Within two to three years, I envisage it will be time to start considering an exit and where we go next! ■

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