

Portfolio Focus

PAINTING A PICTURE OF CHANGE



From left to right: Steve Mawdsley and Andy Pickford of RBS, Warwick Ley of Endless, Brian Davidson of Crown Paints, Chris Hawes of RBS and Neil Baishnab of Endless

If there was one word to sum up 2009 for Crown Paints, it would have to be “change” and tremendously positive at that!

When Endless acquired a majority stake in Crown Paints, the £180 million UK and Irish paint group, in September 2008, the world was on the verge of breakdown. Already tackling a highly complex turnaround and separation from its former Dutch owner, Akzo Nobel, the task became all the more challenging once the world events of October 2008 took hold.

A Testing Start

Consider this for the first month of the investment: the collapse of Lehman Brothers - the world's biggest ever banking failure; the pound sterling crashes by over 30% against the euro - a currency Crown is heavily dependent upon for its supply chain; the Icelandic banking crisis - Crown's banking partner was Icelandic; Britain's recession accelerates and construction and housing markets suffer heavily; Ireland's booming economy (where Crown is joint brand leader) suffers a dramatic crash. All of these events had a tremendous impact on market conditions and supply chain.

Neil Baishnab, Investment Director at Endless reflects, “As far as starts go for investments, it was pretty tough to say the

least! We already had a lot to do with the complexities of the investment and the seismic shift in the external environment didn't exactly help. But despite that, we always had a strong belief in the long term fundamentals and value in the business. We just had to get our heads down, roll up our sleeves and get on with it.”

With that backdrop, Crown has just released its 2009 financial results which show a £19 million improvement in operating profit. This has been achieved against the toughest market conditions seen for decades.

Laying the Foundations

The investment strategy, particularly in the initial 12 months, has been predicated on strengthening the management team, separating the business from its former complicated and parent-integrated operating structure, restructuring the cost base and refocusing the business for long term profitable growth. “We saw significant value creation by moving the business away from a complex and unwieldy structure to a highly focused, agile and entrepreneurial shaped organisation. This has meant driving significant cultural change through the organisation and strengthening management”, says Warwick Ley, Partner at Endless and one of Crown's main board directors.

Strengthening management has meant both internal promotions and external recruitment. For example, Brian Davidson, a seasoned and highly successful leader of corporate change, joined as CEO in 2009. Other high profile recruits have included Mike Polkinghorn, the ex- International Operations Director of US paint giant Sherwin Williams, Darryl Senior who previously held the position of buying director of a large European paint manufacturer and more recently a new Finance Director in Kathryn Hill. However, strategic change has also opened up many opportunities for the existing team, such as Joe Devitt's promotion to Group Commercial Director and Liz Hickson to Group Marketing Director, who is leading one of the biggest initiatives for 2010 - the summer repositioning and new communication and marketing strategy of the Crown brand. Liz explains "It's now a fantastically exciting time for Crown Paints. The change in strategy and move to independence has allowed us to be much quicker on our feet and presented great opportunities to re-invigorate the brand and our position in the market. Our marketing plans for 2010 are designed to really shake up the coatings market, which, in truth, has been static now for some time."

Brian Davidson, Group CEO reflects on these changes, "Crown Paints' strategy needed to shift. Despite its market presence, it had been losing focus under previous ownership due largely to being swept up in Akzo's global strategy which simply was no longer appropriate for an independent business. My job has largely been to re-invigorate the team and I have to say their response has been fantastic. We still have a lot to do, but the team is buzzing with excitement about what's been achieved in the last 12 months and, more importantly, what opportunities are there for the taking in the next 5 years."

Milestone Refinancing

It was this kind of outlook and level of achievement which attracted The Royal Bank of Scotland to the opportunity to complete the £25 million refinancing of Crown Paints in late 2009. Chris Hawes of RBS explains, "We were most impressed by the opportunities available to Crown. The achievements of 2009 have been excellent, but to be honest, we are more excited about what is ahead for the Group. It's important that RBS gets behind these good news stories in times of economic difficulty."

Some of the opportunities available to Crown include the growth of, and investment in the Decorator Centre network (a trade/retail network of 130 stores across UK and Eire), investment in factory facilities, growth of the export business, re-launch of the brand and new levels of presence and volumes with key customers.

Reflecting on Achievements to Date

Warwick Ley sums up the story so far from an investor perspective: "It's both very satisfying and exciting to play a role in helping transforming the fortunes of a business like Crown. The business has gone through some tough times, but it's personally very rewarding to be working alongside a highly energized management team which are tremendously focused and energized in taking the business to a higher level. This is the best part of working in private equity and turnaround - helping make lasting change for good."

Brian Davidson wraps it up with some caution though: "The most exciting part is that we still have a lot to do, but of course there are still many challenges in the market and economy. Despite the results so far, we are by no means complacent and have our feet firmly on the ground. Provided we keep that balance right, the further potential for this business in the coming years is very, very exciting. It's not every day a CEO gets an opportunity like this one."