

## Overview

In this newsletter we provide a brief overview of the latest Interim Management Statement ("IMS") of our major client Electra Private Equity PLC ("Electra"). In addition our recent acquisition of the Davies Group and the recruitment of new Investment Partner, Chris Hanna, are also covered alongside updates on a selection of our portfolio companies.

The feature article is an interview with Alex Fortescue, our Chief Investment Partner, who discusses what he has been engaged with since he joined Electra Partners six months ago and his priorities for the year ahead.

## Interim Management Statement

In July Electra released its Interim Management Statement to 30 June 2011.

Electra's unaudited net asset value per share was 2,206p (diluted) compared to 2,193p (diluted) at 31 March 2011, an increase of 0.6%. This, however, is not a complete reflection of the entire portfolio as only purchases and sales of investments, currency movements and bid values in respect of quoted investments are revalued for IMS purposes.

Electra had cash and liquidity funds of £307 million and had drawn down £169 million of borrowings under its £185 million banking facility. Inclusive of this facility, Electra had available investment capacity of over £300 million. Electra's listed portfolio was valued at £118 million and commitments to third party funds amounted to £103 million.

Colette Bowe, Electra's Chairman said: "The number of investment opportunities the Manager, Electra Partners, is actively pursuing continues to increase. The last three months have seen a modest uplift in net asset value ... Electra continues to perform well."

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## New Investment



*Deal team: Alex Fortescue, Charles Elkington, John Martin*

In September we led the £60 million buyout of the Davies Group ("Davies"), a leading provider of claims solutions to the insurance industry.

Recognised as one of the most innovative and well-respected providers of claims solutions in the UK, Davies provides a range of services across all sectors of the insurance market.

Operating from 19 UK locations, Davies acts on behalf of a range of insurance companies, specialist sectors such as Lloyd's of London, as well as service companies, brokers and self-insured entities. With a team of over 600 employees the business processes in excess of 125,000 insurance claims annually, equating to £500 million of insurers indemnity spend.

The Davies management team is led by CEO Charles Crawford, an established and respected figure within the industry, who has been with the company since 2009.



"Davies has been transformed under the leadership of Charles and his team and we are excited to be backing him to deliver further growth and innovation."

**Alex Fortescue**  
Chief Investment Partner, Electra Partners

"Davies now has the ideal platform to develop our market offering even further. In Electra, we have secured the right partner to support our shared vision."

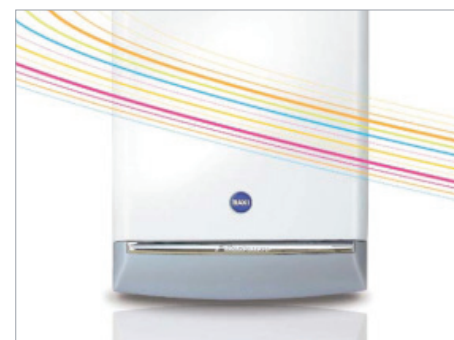
**Charles Crawford**  
CEO, Davies Group

## Realisations



*Deal team: Hugh Mumford, Sarah Williams*

In September we announced the sale of Electra's stake in heating products manufacturer BDR Thermea ending a very successful 15 year investment in Baxi. Completion is expected at the end of October and therefore this exit will be covered in more detail in our next newsletter.



## SAV Credit Limited

*Deal team: David Symondson, Rhian Davies, Charles Elkington*

In September we also agreed terms for the sale of Electra's interest in specialist credit card provider, SAV Credit. Completion is subject to competition clearance and so again this exit will be covered in more detail in our next newsletter.



## Portfolio Progress



In July Allflex, the world's leading animal identification systems manufacturer, completed the purchase of US competitor Destron Fearing Corporation for approximately \$25 million from its parent Digital Angel Corporation. This latest acquisition creates a number of synergistic advantages as well as further strengthening Allflex's operations in the US. This latest bolt-on acquisition is one of many Allflex has made since our original investment in 1998.



Gocompare has won the High Growth Business of the Year Award at the inaugural Private Business Awards. Sponsored by PricewaterhouseCoopers and HSBC Private Banking these awards celebrate the best private sector businesses and individuals the UK has to offer. Nine private businesses and individuals were recognised from over 300 nominations. Gocompare CEO Hayley Parsons was also shortlisted in the Private Business Woman of the Year category.



Another busy period for London & Stamford ("L&S") saw the property investment company complete three acquisitions and two refinancings in the third quarter of 2011.

Stepping up the expansion of its residential portfolio, L&S agreed to the purchase 107 private long leasehold residential units in Islington, London, for £49.1 million in July. These units are due to be completed in four phases between November 2012 and February 2013. In August the company acquired 74 private long leasehold residential units in Oval, London, for £24.4 million. In the same month, L&S acquired a distribution unit in Harlow for £22.9 million.

L&S also recently completed the £100 million refinancing of its City of London office assets at One Fleet Place and One Carter Lane, acquired in January 2009 and April 2011 respectively.



Premier's UK Money Market Fund, managed by Paul Smith, won the Best Money Market Fund of the Year Award at the Investment Week Fund Manager of the Year Awards. The awards aim to highlight funds that produce a consistent level of performance and returns, and where there is a high chance the manager will not disappoint in the future.



Unipart has won the Example of Excellence in Environmental Leadership Award at the Business in the Community (BITC) Annual Awards for Excellence. The BITC Awards for Excellence, the UK's most important corporate responsibility awards, recognised Unipart as amongst the best companies in the world for environmental leadership and its commitment to improving environmental performance.



In July Vent-Axia announced that in recognition of its outstanding product range and high standards of service, HM the Queen has renewed the company's Royal Warrant, thereby enabling the company to continue to use the by Royal Appointment crest, which it has held since 1985.

## New Investment Partner



In September we welcomed Chris Hanna to Electra Partners. Chris brings with him over 10 years of private equity experience, most recently at Phoenix Equity Partners where his investments included Nationwide Autocentres, NFT, ASCO and Ashtead Technology Rentals.

Chris will work alongside Alex Fortescue and the other Investment Partners in investing Electra Partners' £400 million investment capacity.

"I am delighted to welcome Chris to Electra Partners. He brings great experience and a successful track record. We have a very talented team and one of my first tasks since arriving in April has been to add to it."

Alex Fortescue  
Chief Investment Partner

## Outlook

Clearly conditions have changed very significantly since the last edition of this newsletter – equity markets have fallen, larger deal activity has all but shut down, and in the mid-market banks have reacted by increasing margins and further lowering debt multiples. These factors are all symptoms of a return to uncertainty over the future economic outlook.

We continue to remain highly selective in our approach to new investment opportunities, and will invest only when we see real value and equity stories which do not simply rely on market recovery. However, given the current market volatility and difficult fund raising environment we believe our flexible investment mandate and £400 million of firepower will enable us to continue to source opportunities which meet these investment standards.

Whilst we continue to consider opportunities across all sectors, we are focussing our deal origination efforts on businesses and areas that will grow in spite of, or because of, tough conditions. Those of particular interest are deals which fit one or more of our five macro growth themes – Austerity, Regulation, Ageing, International and Ecommerce.

# Interview with .... Alex Fortescue, Chief Investment Partner

*“People, processes and prospects”*

Electra Partners



You joined Electra Partners in April – what has been your immediate priority over the last six months?

My focus has predominantly been on all things related to deal origination - so people, processes and prospects.

In terms of people, Electra Partners has a very talented team which I will be adding to. Chris Hanna is the first - he joined us at the beginning of September - and I will be looking to make further appointments over the coming months.

The investment team has also been looking at upping the ante around deal origination. There are a few strands to this – improving our coverage of key intermediaries, clarifying to the market as a whole what types of deals we are most focussed on and above all getting out there and trying to identify and get to know businesses and their management teams.

In terms of types of deals, we have done two things. Firstly, pitching our target deal size at £75-300 million in order to try to increase our average equity investment towards at least £50 million, and secondly we have now identified five macro growth themes: Austerity, Regulation, Ageing, International and Ecommerce around which we are gearing the deal origination effort.

## Firstly, pitching our target deal size at £75-300m in order to try to increase our average equity investment towards at least £50m...

Can you expand on these macro themes and why you have felt it necessary to go down this route?

Sure. When we talk about Austerity, we are looking at businesses that help consumers and/or companies reduce costs or save money, such as our investment in esure which owns a 50% stake in gocompare.com, the market comparison site. In terms of Regulation, we see current and prospective regulation as a substantial driver of growth. A good example of this is our investment in animal tagging business Allflex which is well positioned to benefit from increasing regulation driven in response to public concerns over food safety and traceability of meat. Ageing is to do with services and products geared to and benefitting from the increasing older demographic – be it leisure, healthcare, financial services or consumer goods. International refers to the realised or unrealised potential to exploit growth in international markets. Our investment in Capital Safety is a good example of this as its products are used globally by workers across a number of sectors such as oil and gas, telecommunications and construction. And finally, Ecommerce is about B2B and/or B2C ecommerce businesses – both front end and infrastructure.

Why the five macro themes? Well, given the current market volatility we want to maintain the defensive nature of our portfolio and focus our deal origination efforts on businesses and areas that will grow in spite of, or because of, tough conditions.

This is a bit of a departure from the ‘no sector focus’ approach of before is it not?

Not really. As I mentioned earlier, if you look at the theme of ageing for example, that covers a number of sectors including financial services, healthcare and leisure. So what we are saying is that we will continue to look at all sectors but we are particularly interested in businesses focussed around these five themes.

How about if the business does not fit any of these themes?

We still want to hear about it! Just because it does not fit with the main themes does not mean we will not consider it.

What are your thoughts on the current market; it was fine at the beginning of the year and then took another beating in June. How has this affected deal activity?

From January to June we continued to see strong deal flow and gradually improving debt markets. In particular, a trickle of deals emerging from the debt for equity portfolios of the banks, strong secondary activity and the emergence of some more classic family and corporate situations meant that we had a significant number of interesting deals under review. During that time we did three deals - a secondary investment in Sentinel, which manufactures hot water and heating system treatment products, in March, closely followed by the acquisition of fine art materials supplier Daler-Rowney, and a secondary fund investment in Steadfast Capital's second fund in June. We came close on three other deals but lost out on price.

Clearly conditions have changed very significantly since the end of June – equity markets have been highly volatile, the high yield bond market has closed which has shut down larger deal activity and in our mid-market, banks have reacted by increasing margins and further lowering debt multiples. These factors are all symptoms of a great deal of uncertainty over the future economic outlook.

I do think though that these conditions will create great opportunities for us – when capital is scarce and risk appetite is low, our cash, long term perspective and flexibility are incredibly valuable.

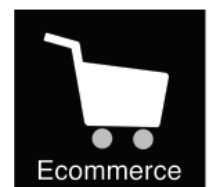
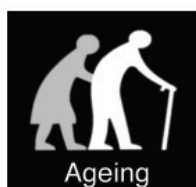
So what's the plan for the rest of the year?

Well, in terms of deal activity, we will be taking an extremely cautious stance and invest only where we see real value and an equity story which is not simply dependent on cyclical recovery. We've got a number of deals under detailed review that potentially meet this high bar, so I do expect that we will be continuing to put money to work.

## ...when capital is scarce and risk appetite is low, our cash, long term perspective and flexibility are incredibly valuable.

And in terms of your priorities for the next year?

Well really it is more of the same. We hope to add two Investment Associates to the team over the next month or two, keep on getting out there and meeting great businesses and slowly but carefully put our £400 million of firepower to work.



## ELECTRA PARTNERS

Electra Partners is an independent private equity fund manager with over 25 years experience in the mid-market buyout sector.

Our flexible investment approach allows us to invest across a broad range of sectors and financial instruments including equity, senior equity, convertibles and mezzanine debt.

Concentrating principally on Western Europe and with the majority of investments expected to be made in the United Kingdom, we typically seek to invest in the region of £40 million to £100 million per transaction.

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