Q&A

PETER HODSON

Investment Partner, NVM Private Equity

NVM Private Equity investment partner Peter Hodson explains how and why the firm has stayed true to its small-cap roots during a period of huge change for the industry.

How has private equity changed over the past 20 years?

I came into private equity in the year 2000. There were fewer intermediaries then, so there were fewer people that we had to contact to find the deals. There was also less competition, so it was easier to secure the investments that you wanted to do. It probably felt a bit less sophisticated. We did less due diligence, limited perhaps to a market report and a financial due diligence report by the accountants. Today, this is a much more involved process.

The driver of change has been that private equity has consistently generated very high returns, so more cash has been allocated to the sector. This has led to more competition as firms have fragmented, which has driven up prices, and this in turn has put more pressure on returns.

So we have had to raise our game at every stage of the process. At NVM we have been on a journey over the last twenty years. We have had to learn to buy better, to add more value to the companies we get involved with – through both our own involvement and through a wider network of non-executive and expert support – and, finally, to sell more effectively. Those are the three fundamental aspects of our role.

Now when we do due diligence, we do a "deep dive" into different aspects of the business: finance, operations/IT, the market, and the management team. When we actually sign the documents, we know the business extremely well.

It is then about building value into the company. While we are invested, we spend time with our management teams helping them to professionalise their companies so that they have good controls, good governance and the right people, all the building blocks in place to allow them to grow. We are much more proactive in making that happen than we ever used to be.

And the third point is that we are constantly assessing whether it is the right time to sell. Optimising the returns we generate is now a function of continually assessing the development of the business and the market we will be selling into with the help of our professional advisers.

The other change I would highlight is that in the UK and elsewhere we have been through a massive recession. While the UK economy has performed since then, it feels like we have never come out of uncertain times. Pre-recession, people were a lot more bullish, whereas now people are more careful. In the year 2000 you just thought that things were eventually going to return to where they were, but now we cannot take that for granted.

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How much has NVM changed as a firm during this time?

We have changed less as a firm than others have. When we started we were competing with firms like Inflexion, who have changed a lot. Why have we stuck to the small buyout end of the market? It is because this is what we believe in and what we enjoy doing, evidenced by the fact that we have been such a stable team.

Our strategy has, therefore, remained similar over the last fifteen years, and interestingly is not that different to the regional approach we were part of at 3i and other firms. Our regional focus has been sacrosanct, with our partners spread across our various UK offices. This is a strategy that has served us well. We believed in it twenty years ago, and continue to believe in it now.

Some things have changed for us, however. We doubled our investor base and adapted to the changes in the VCT rules by refocusing those funds on scale-up opportunities. We then raised a £142m (€160m) LP fund to carry on the strategy that we have always had of investing in small buyouts across the UK.

Will you consider investing in larger businesses in the future now you have accessed LP money?

As a headline statement, I would say no. We might inch up, but we have stayed where we are for the past 15 years because we enjoy operating at this end of the market and are confident that we will continue to be successful building value into smaller companies. These are businesses that we can influence and consistently take to the next level. As businesses get bigger, that is harder to do. It is also less competitive at the lower end of the market, which is helpful.

What do the next 20 years hold for private equity in general?

As part of getting better at what we do, the industry is using, and will continue to use, more and more specialists – for example, experts in a particular market sector, or in sales or manufacturing. Specialists help us to select businesses, and also help us to improve them. One of our great debates has been whether we should recruit in-house specialists or access them externally.

So I can only see us getting more involved with helping our management teams maximise their potential and that of their businesses. If you go back to 2000, private equity firms put money into a business, turned up at board meetings once a month, then eventually sold it and hoped all had gone well. Today it is a very different world. However, at NVM we will never forget that, while we will always be there to provide support, we are backing management to deliver their own plan.

What will never change about private equity?

The fundamentals are still the same and will continue to be same: We back management teams, align ourselves with them, and leverage our returns from this process. While I think those principles get stretched to some degree in some parts of the market, they are absolutely central to what we do now, as they were in the year 2000. ●