

Case study

How Rutland Partners turned round H&T Group

Rutland Partners, the UK private equity firm, bought the UK's largest pawnbroker Harvey & Thompson Group (H&T) from Cash America Inc for £49 million in 2004. Rutland tripled its money after floating H&T Group on London's Alternative Investment Market (AIM) in 2006.

A Rutland investment typically involves a UK company that is facing difficult strategic challenges or which may be underperforming, in need of restructuring or entering a period of change. The company will have defensive properties through its market niche, asset underpinning or other forms of competitive advantage and will ideally possess strong operating management. Through the proactive involvement of its team, Rutland seeks to assist operating management to effect a transformation of the prospects for the company.

Paul Cartwright, Rutland managing partner, explains how Rutland executed its typical hands-on operational role in the turn round of H&T.

Background

H&T is the UK's leading pawnbroker now with over 70 outlets across the UK. The group's core business is pawnbroking but it also retails jewellery and provides cheque cashing and pay-day advance loans.

Rutland acquired H&T in September 2004 from Cash America International Inc on a debt-free/cash-free basis for £49.0 million with Rutland investing £15.4 million and the balance provided by bank acquisition finance.

While H&T was profitable and cash generative, it had flat trading and was underperforming its potential prior to acquisition. Rutland was introduced to the pawnbroking sector by an intermediary contact of Rutland's who was working with Peter Middleton, an experienced leader in financial services with recent sub-prime experience. Rutland's desktop review identified H&T because its value was underpinned by assets, it had a high market share compared to its competitors and a protected brand. However, it was materially underperforming given its market-leading position. Rutland made a

direct approach to the group's owners, Cash America, to ascertain their interest in selling the group.

For strategic reasons Cash America was keen to sell H&T and also sold Rutland a £3.0 million controlling investment in Svensk Pantbelaning, Sweden's leading pawnbroker, at the same time. This left Cash America with only US interests.

Extensive due diligence process

Rutland was able to negotiate exclusivity and carried out extensive due diligence prior to acquiring H&T which lasted from spring 2004 to the purchase from Cash America in September 2004. While Rutland got access to financial information on H&T, there was limited access to H&T management. It was clear to Rutland that the US parent had taken little interest in its subsidiary and the CEO had surrounded himself with a relatively weak, and incomplete, management team.

Financial due diligence was carried out by Deloitte and legal due diligence by Eversheds. Rutland took a particularly hands-on approach to the commercial due diligence process, visiting high-street stores and utilizing OC&C to carry out demographic analysis and run a series of customer focus groups in order to check the group's potential for growth.

Hands-on operational role by the private equity firm

Post-acquisition, Rutland reshaped the senior management team. Peter Middleton was appointed as executive chairman. One of the chairman's key roles was to act as mentor to the existing CEO. Rutland brought in a commercial director, replaced the finance director with the ex-finance director of Oddbins and recruited externally to fill key roles in marketing and property. Changes were also made to the regional and area management structure of the group. The new team was driven and worked well together. At maximum dilution Rutland was to hold 80% of the shares and the senior management team were to hold 20% which vested over 18 months.

Over the following 18 months, Rutland worked closely with management to improve operational efficiency, develop new products such as the introduction of pre-paid debit cards and accelerate the roll-out of new stores with the addition of 12 outlets.

Prior to acquisition by Rutland, H&T was overstaffed in store on the pawnbroking side of the business and had inconsistent and poor-quality advertising and marketing literature. Other parts of the business, which Rutland helped develop, included third-party cheque cashing (typically for customers who do not have bank accounts or don't want the proceeds to go through a bank account or need the cash right away), the sale of unredeemed pledge stock (mainly gold items which are melted down and sold on through the stores), cash in advance of employer pay-days, unsecured loans to pre-qualified customers at a high annual percentage rate (APR) and pre-paid credit cards.

Paul Cartwright and another Rutland team member were heavily involved in the operational aspects of the business post-acquisition, working in a store to familiarize themselves with the operations, gaining an understanding of what the staff were doing all day, and also reviewing the operational and procedural systems and the IT systems. One result of this was a task-orientated analysis to work out how many people each store should ideally be employing. This resulted in 15% staff savings. A more effective IT system, particularly for database management, was also commissioned. Management reporting was improved, with better statistical analysis and a clear focus on key performance indicators (KPIs).

In addition, a university mathematician was contracted to model from historical transaction data the effect on the business of varying the key elements of a pawn loan, such as interest rates and amount of loan. This enabled changes to the proposition to be made with the confidence of how this would impact the business. Another improvement was to re-engineer the process in the business to enable non-redeemed jewellery (representing about 20% of pawned jewellery) to be allocated to stores in the network where it was needed and could be sold effectively, rather than leaving it with the store where it had been pawned in the first place.

Flotation

Having strengthened the business to become the sector leader, and increased the number of stores to 69, Rutland went on to list H&T on AIM in May 2006. The enterprise value of H&T on flotation was £91.9 million with a market capitalization of £54.2 million. Rutland

achieved an 89% IRR, a return of nearly three times its original investment.

Rutland retains its £3.0 million controlling investment in Svensk Pantbelaning made at the same time as the original acquisition of H&T.

Paul Cartwright's tips for entrepreneurs

Paul Cartwright has the following tips for entrepreneurs seeking venture capital finance:

- Get good people around you; don't feel threatened by people who might be more qualified than you.
- Bring resources on board to cover any gaps in your team.
- Review and control where money is spent regularly – always cut costs where possible.
- Never stop challenging yourself on business.

www.rutlandpartners.com

Taken from Arundale, K (2007) *Raising Venture Capital Finance in Europe*, Kogan Page, London, pp 254–57. Available from www.kogan-page.co.uk