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# A Better Bet

**Jon Moulton** is Britain's most high profile private equity boss and no stranger to the West Midlands after his failed bid to buy MG Rover in 2000. Here he gives **MARK FOSTER** his candid view on how business and the economy will endure a tough time in 2010.

Jon Moulton is not a man to mince his words. Last year he said of the Chancellor, Alistair Darling, "He has taken no concrete steps to halve the deficit. Instead he's assuming the economy will grow like some form of advanced weed." When I reminded him of this and asked how he'd describe it now he replied, "an advanced weed with cancer." He reckons the chances of Mr Darling's forecasts for the economy being correct as no more than one in twenty and "he should focus his time on the contrast between his eyebrows and his hair."

Mr Moulton's outlook for the UK economy, and the West Midlands specifically, is not particularly heartening. The Stoke On Trent born financier predicts a modest recovery until the election when there will almost certainly be a discontinuity in public spending. "There could be the most severe cuts in public spending in living memory," he says, "and that could slow down the economy drastically." The West Midlands has 27 percent of its jobs tied up with the public sector and this high dependence means it could be affected disproportionately. "Cuts in public sector spending would hit the region very hard indeed," he warned.

The independent thinktank, Centre for Cities, says one way Birmingham and its neighbours could lessen its dependence on the public sector and improve employment prospects in the private sector is by tapping into the knowledge and expertise of local universities, spinning out new

businesses. Mr Moulton is sceptical. "This will not solve the problem; it will just chip away at it. University spin-offs is a wonderful but failed ideal. Over the past ten years the five or so businesses that have successfully been spun out of universities are collectively worth only around £100 million. Most have either gone bust or simply run out of cash and shut up shop."

That said, Mr Moulton would rather see cuts made by one decisive act than three or four bits spread out. "That would be a bit like the 1970s, which was not a good time, especially for the West Midlands. There were volatile interest rates, volatile inflation and volatile currency levels. Not good."

Staying with the '70s, Mr Moulton points out the current level of Government debt, in terms of its percentage of GDP, is the same as it was in 1975, when interest rates were 15%. "History says things could get a great deal worse. That's not a popular view but there you are," he says. Occasionally seen by The City as something of a maverick, Mr Moulton has nevertheless been accurate with his forecasts before. For example, in October 2006, he said, "We're looking at an overheated market. We'll see some spectacular falls in the next year or two. It's just a matter of time."

His current concern is with the huge level of Government Bonds, or gilts, that have been issued and the plans for more next year.

"The Government has issued £220 billion of gilts - £190 billion of it with

freshly minted paper. Next year the plan is to issue £250 billion. This will inevitably lead to the price having to change, leading to higher interest rates which could flow through to the rest of the economy. It will become harder to sell gilts, interest rates will rise and this will lead to sterling being devalued."

The one crumb of comfort for the region's manufacturers is that a weaker pound makes exporting easier and deters imports.

In 1997, Jon Moulton founded the private equity firm, Alchemy Partners, which went on to invest £2 billion of equity with an emphasis on dealing with troubled companies. In 2000, he and Alchemy attained notoriety when he attempted to buy MG Rover from BMW. His plan was to focus on MG sportscar manufacturing and ditch the Rover operation, leading to thousands of job losses but retaining a core of about 3,000 employees. His plan was rejected in favour of the Phoenix Four, who bought the operation for £10. Five years later, MG Rover collapsed with the brands and production shipped over to Chinese owners. The much promised MG production at Longbridge never really materialised. Does Mr Moulton feel vindicated?

"I think my plan could have worked but there was no guarantee. It would have been better than what happened." On the Phoenix Four, who exited with a total of £42 million, he agrees with the BERR report findings. "The lads seemed to spend an inordinate length of time on how to extract money from the

company rather than making it profitable," he says.

In October last year, Mr Moulton left Alchemy after a well publicised disagreement over the future direction of the business. He set up Better Capital, a reference to the parting shot in his letter of resignation when he said, "I would do it again, but better." Better's AIM flotation raised £142 million, an impressive sum given funds are still very cautious with whom they entrust their money. Mr Moulton, who has personally invested £15 million in return for a 10.5 percent stake, according to reports, says it could have been more but the Dubai debt crisis put off some investors.

It's Mr Moulton's track record that has attracted investors. Although he has admitted making some mistakes and encountering losses, his overall strike rate is impressive. One of his best known deals was based on his decision to back a £70m management buyout of Parker Pens in 1986 which went on to be sold for £312 million seven years later.

Better Capital will target distressed companies in the UK and Ireland.

"Turnarounds come with higher risk but also with huge enjoyment. They can

be very satisfying. They require intelligent insight and the ability to move very quickly, that's a tremendous premium. These businesses eat money before they're sorted and it is better to achieve 85 to 90 percent of what is required quickly than 100 percent slowly," he says. Better Capital will work with management teams, often putting in its own people, to turn a loss making business into a profitable one.

"The effect on morale of the people you're working with is mind blowing," says Mr Moulton, "and of course successful turnarounds can be very lucrative". Having put the company back on track, Better will sell the business after three to five years. The firm has looked at over 50 deals, mainly small to medium sized companies. Reports say Better will not invest more than £28 million in one single deal.

Unfortunately, struggling manufacturers in the West Midlands are unlikely to be embraced by Better Capital, particularly those in the automotive sector.

"They're difficult deals to do. Even if they can be made profitable they are not valuable. A company with 80 percent of its business supplying components to, say Jaguar Land Rover, is simply not valuable. The incentive to invest is low so deals are difficult."

Increased foreign ownership and

more overseas sourcing make the automotive sector unattractive to investors. The result could be that potentially profitable companies with cash flow problems will go under. "It's sad but that's the law of the jungle," says Mr Moulton.

His forecast for the private equity market this year is that it will slowly pick up and perform better than 2009. He says there is still capital to be spent but a lot will depend on interest rates and aggregate demand. He also predicts "quite a few casualties" this year.

In response to his departure from Alchemy, his successor there, Dominic Slade, wished him a long and happy retirement. But Mr Moulton, who's 59, shows no sign of easing up. "I responded that I wasn't retiring - I was just taking a day's holiday."

He was recently named as the chairman of FinnCap, one of the City's fastest growing corporate brokers, and continues with his own investments, several in sustainable energy companies. One project, Wharrels Hill windfarm in Cumbria reported a profit of £62,161 in the financial year ending in April 2009, according to accounts filed at Companies House. This after making a loss of £407,000 in 2008 and a loss of £223,000 in 2007.

"I've got investments in three windfarms and they're all making money. It's hard not to with wind. It requires a lot of money up front to build them but after that the wind is free - although extremely variable," he cautions. Mr Moulton has also invested in tidal energy. Is this because he has developed a green conscience or because they make money? "Both," he replies.

Mr Moulton was recently described by an anonymous City source as "rich, restless, incredibly smart and a man with an ego". When I ask him if this is an accurate portrayal, he replies that "there is an element of truth" to each point. You can add disarmingly honest to the list. ■■■

*Jon Moulton is a Chartered Accountant, a CF and Fellow of the Institute for Turnaround Professionals. Previously he worked with Citicorp Venture Capital in New York and London, Permira and Apax. He is a trustee of the UK Stem Cell Foundation and an active angel investor.*



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