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Lead Left Interview – Ian MacTaggart and Joan McCabe

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This week we speak with Ian MacTaggart, President & COO, and Joan McCabe, Managing Director, Brynwood Partners. Founded in 1984, Brynwood Partners is a controlled oriented, operationally-focused lower middle market private equity firm that is consumer sector focused and has established a strong niche in the corporate carve out sector. Brynwood is currently investing Brynwood VII, a $420 million fund that closed in September 2013.

The Lead Left: *Ian and Joan, you've been in the news recently with some interesting transactions. But for those of our readers who aren't familiar with your firm, perhaps a bit of background is in order.*

Ian MacTaggart: Thanks for speaking with us. Brynwood was founded thirty years ago by Henk Hartong, Jr. and Dick Niner. Henk and Dick were Harvard Business School friends, who pooled their collective talents – Henk Jr. had experience as an operator and Dick had a financial background, which was a unique combination a t the time but a strategy that we still employ to this day.

TLL: *How big was the first fund?*

Joan McCabe: $14 million, which everyone said at the time, was a big fund!

TLL: *Brynwood has a reputation as being hands-on operators.*

Ian: We definitely are and this has been the key to our investment strategy since the firm was founded in 1984. Our investment style, based on the fact that seven of our nine investment professionals were either CEOs or CFOs of both private and public companies, is very hands-on, control oriented. We tend to view the world differently than a lot of other middle market PE firms. We will only invest in a company / brand if we see a way to bring something to the investment other than money. In fact, we tend to leverage our businesses fairly conservatively and generate our returns primarily through operational improvements. The real differentiator for us is the industry knowledge that our firm brings to each of our portfolio company investments.

TLL: Ian, you joined a few years afterward the team's founders. How has the investing model changed?

Ian: I joined Brynwood 1996 after working at Merrill Lynch in investment banking. Henk Hartong III and I have known each other since grade school where we actually met in third grade. Henk III has a very strong sales and marketing background and before joining Brynwood worked at Nestle, Baskin & Robbins and Activision. Henk III is now Chairman & CEO of Brynwood. I wouldn't say that our model has changed but it has evolved over the years. Our collective work experiences and success have moved us to being a pure consumer fund where we have been particularly active in the purchase of "orphan" brands through corporate carve-outs.

Joan: The days of private equity generating returns by just showing up and employing a lot of leverage are behind us. Today you need a defendable niche and real operating expertise. Our operating partners are our Managing Directors and Principals of the firm. They stay with us when deals are sold so it is a very repeatable investment model. Few firms in the lower middle market have these types of industry relationships or in-house operational expertise. This is a valuable asset for us throughout the entire investment process.

TLL: *Rather than hiring a consultant to do it for you.*

Joan: Yes, in most cases we rely on our own contacts and relationships in the due diligence process.

TLL: *Do the Brynwood Managing Directors handle these relationships directly?*

Ian: Yes. As an example, Henk III works with our portfolio company management teams to oversee the sales relationships at many of the major retail accounts that our companies sell into. It's highly unusual to have the Chairman & CEO of a private equity fund actually making sales calls. Henk III developed many of his relationships with the retail trade when he was President & CEO of Lincoln Snacks Company, a very successful Brynwood III portfolio companies that the fund owned from 1998-2004. Our other Managing Directors and Principals have similar long-standing relationships too.

TLL: *Lincoln Snacks Company makes Screaming Yellow Zonkers, right? Blast from the past.*

Ian: Yes, and Poppycock and Fiddle Faddle too! Lincoln Snacks Company was Henk III's first President & CEO position and his entry into Brynwood. Lincoln Snacks Company was a great investment for Brynwood III. In a small, low growth category at the time, the company's sales grew from approximately $25 million to over $70 million, and EBITDA from zero to approximately $15 million. On the heels of his success at Lincoln Snacks Company, Henk III joined Brynwood in 2004 when we raised Brynwood V.

TLL: *How do you drive results?*

Joan: We are not growth equity investors, nor do we engage in financial engineering. We tend to utilize conservative capital structures and in many cases, initially, we will fund a transaction with 100% equity and refinance post-close. Instead, we focus on improving the operations of our businesses, by opening doors with retailers, developing new products and innovative packaging solutions and through various cost savings initiatives, such as better procurement enhancements and systems integration.

Ian: As an example, Zest, when we acquired the brand in 2011, was an older, yet iconic brand in the P&G portfolio. P&G strategy was to focus on its global brands. However, under High Ridge Brands' umbrella (the holding company that owns several brands, including Zest, Alberto VO5, Rave, Coast and White Rain), our management team goes to bed and wakes up thinking about Zest. Our managers, who in many cases have worked with us on prior Brynwood deals, understand our investment approach and know what we expect from them.

TLL: *Is there a common denominator to your management teams?*

Ian: We want passionate business executives who want to prove themselves and can work in a lean, entrepreneurial operating environment. We are in the business on investing in and building companies and we take great pride in the fact that we have created thousands of jobs over the years.

To be continued the week of October 6

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