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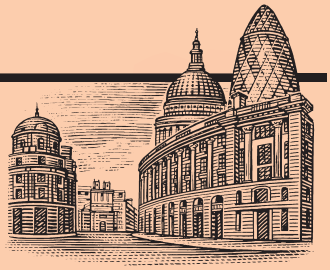
UK COMPANIES

Lombard



Smelling of (Mel)roses

Private equity without the debt sounds like an oxymoron. A bit like a skinny burger. Or alcohol-free lager. Or decaffeinated coffee. And, as any City diner knows, such compromises are seldom the order of the day for dealmaking's grandes fromages.

It is notable, then, that Melrose—often deemed private equity lite, for its "buy, improve, sell" strategy— has just enjoyed an 10.5 per cent share price rise after reporting on another lean deal.

Last year, it bought Nortek, a US maker of cooker hoods, for £2.2bn, and has already improved its margin by 4 percentage points, lifting operating profit by 35 per cent. Melrose's debt load, however, remains at 1.9 times earnings—well below the 3 to 5 times taken on by hungrier private rivals.

However, while healthier in many respects, the group's recipe may not be quite to contemporary tastes.

Melrose does cut out the dangerous exuberance that has caused many private equity deals to sour. By raising funds through share issues, it has to convince the City of a sound rationale for each of its acquisitions.

It also eschews the rich fees enjoyed by buyout bon viveurs—although it has just taken a bigger charge for its own incentive scheme.

And it tries to avoid the worst kind of cuts. While it does wield the knife to acquired companies' costs, it aims to be less slash and burn than pure private equity players—leaving research and development budgets intact. But its senior management learned these disciplines some decades ago, at old style conglomerate Hanson, and more recently at Wassall. Few dealmakers today show the same restraint, or any appetite for it. One Melrose executive admits the "old guys" possess "dying skills". For shareholders, then, the risk is not so much indigestion as succession.