



# JAMES CAAN

## AT THE PRESIDENT'S LUNCH

### 24th OCTOBER 2008

As soon as I landed from London, I knew Dublin was very nice and very smiley. Then I turned on the radio and heard that the markets crashed by another 300 points and I thought, what is going on out there. I've never seen a market like this. It's quite amazing that right now the most stable financial institution is the kid who won the lottery about two weeks ago. He is the only guy I think I could be investing money with, so what is happening to the banks and their share prices is quite unprecedented.

I thought I would share with you a little bit about my own background and how I started my career and ended up in that very wacky TV programme (*Dragons' Den, BBC2*) and, in fact, I'm glad I came here today because one of the entrepreneurs who came on the show came out with this glove just for the left hand and I was thinking, would I invest in that and just seeing Derry Grey with his one capable hand I think I've actually found him a customer. So Derry, can you leave me your phone number? (Editor's note: Derry had an accident shortly before this speech was delivered and his right hand was in plaster).

A lot of people ask me about the show. Are there any investments that I've seen on the show that I regret not undertaking and there is only one that comes to mind where, recently, we had this couple that came in with an amazing idea – a bed sheet with a line down the middle. I remember sitting there for twenty minutes thinking, there must be more to it than that; surely they haven't come on this national TV show with a bed sheet with a line down the middle and the idea was that married couples have this dispute every night about which side of the bed they're going to be on. I'm sitting there thinking, do I really want to ask a question because what question do you ask somebody with such a ridiculous idea. So the best thing I could come up with was that I said to the couple, can you tell me how long have you been working on this for and they looked at me really seriously and said two years. What an amazing show!

My father had a textile business and, as with any family business, there was always a passion on my father's part to encourage me to join the business. However, being an Asian family, it wasn't a question of would you like to, but more along the lines of you absolutely are going to join the family business. At the age of 16, therefore, I had a bit of a row with my Dad and left home, so I didn't actually stay on to get any qualifications or get a university degree.

I went out to the big wide world to see what I could create for myself and I started out with one of those post office bank accounts which my mother

gave me, which contained my children's allowance, and I had £30 to my name and essentially went out and got myself a job and accidentally entered the world of recruitment, a business I had never really thought about, but it was one of those things which just connected with me and, having initially joined a couple of different firms, I decided that I wanted to set up on my own. I saw a particular company I wanted to work for and they said I was too young and had no experience or university degree. Like any 22 year old who thinks he is smarter than he really is, I thought, you know, I can do this myself.

So I set up my business called Alexander Man in the mid 80's and sold it in 1999 when it had about £130,000,000 in turnover. While I was building that business, one of the things that I had learned is that business is all about people and not necessarily about products and for the last twenty years, pretty much everything in my background really focuses on the value that people bring and the impact they have.

While I was establishing Alexander Man I decided that I wanted more of a global business and although I had never opened another branch before, I had these visions of being in China and Malaysia and Indonesia and I recruited an international business development guy with a view that we would become global and we formed another business which we called Humana International to enable us to expand internationally. And one of the key things which I learnt in those days was that when I was bringing on highly talented people, the best currency to attract the right people was equity.



Enjoying a pre-lunch chat(left to right): Michael McNamara, McNamara Construction; Donald McDonald, Hooke & MacDonald; Aidan Bailey, Bank of Ireland and Paul Gahan, Gahan-Ritchie Solicitors.

I think a lot of people are very passionate about not sharing equity in their business but, for me, it's always been an amazing opportunity where you attract people that you otherwise would never get. To illustrate the point, I recruited this chap Doug and we launched Humana in a space of seven years and we grew the business to 147 offices in 30 countries around the world. The guy was an absolute genius and I probably would never have been able to attract him if I wasn't willing to share any of the equity in the business. Having identified people that I've backed, one of the things that I've created in the firm was the concept of entrepreneurship.

Pretty much everyone listening to or reading this address employees people within businesses and one of the things people used to say to me was, you know you back other people, what if I was to come up with an idea? What typically happens is that, whether it's in Ireland or anywhere in the world, there is this concept where if you have got a really talented employee who has a great idea, the natural order is that they have to leave you and do it with somebody else or they leave you and do it on their own. I suppose my question is, if they were that good and they worked for me and I knew them, why wouldn't I back them.

So I used to encourage people if they believed that either they had an idea or wanted to go out and start a business. Rather than go out against me, why don't they do it with me, because somebody who is building a service business where, when your hiring people on commissions or agency work, you take three steps forward, two steps back. As soon as people become really successful, they leave and go and do it on their own, so I thought I'm going to observe the masses and do the opposite.

I'll give you a really amazing example. A young Irish lady called Rosaleen Blair ran a nanny agency here before she left Ireland for the UK and applied to me for a job. She was with me for about six months as a recruitment consultant and wasn't particularly successful. She met me after six months and said, this is not for me, but I do have this great idea where I think recruitment as an industry is going to change. She thought the way recruitment operates, i.e. we go to companies and we take individual vacancies, could change to where we as recruiters should go to people like Vodafone and say 'give us all of your recruitment; let me take over your entire recruitment' which, in theory, sounded great, but I thought who the hell is going to commit because all organisations deal with 50 – 100 different suppliers. Would one organisation commit to one agency but, the way she pitched to me with her Irish passion and that conviction and those green eyes, maybe, just maybe, if she can convince me she might be able to convince larger Corporates to do this so I said, I'll tell you what we'll do, because your idea is conflicting with what we do, we'll set up a new division and call it Alexander Man Solutions.

We have an empty office on the third floor; why don't you go upstairs and we'll back you to start this division and my investment was quite huge actually – we put in the grand sum of £47 for her business cards, which was the extent of the investment. This year, in fact, if you look on Google you will

see that we sold that division to a private equity firm called Graphite Capital who bought it for £93 million with a turnover £380 million. Last year Rosaleen won the business woman of the year award in the UK, which is one of the most prestigious awards. It just goes to show that if I hadn't fortunately recognised the talent in that individual, she would have been our biggest competitor because the business she created was actually bigger than that business I had.

When I am sitting in Dragons' Den, unlike some of my other colleagues on the show, I don't focus on the product. I'm very passionate about the individual because what I have learned in business is that it's not actually products or services that succeed – it's people, for it's they who breathe life into opportunities. Too often we over analyse the margin, the product or the engineering, and where the product is made. It actually doesn't matter how much time you spend on that. The reality is, can that person actually deliver their passion and their vision?



Left to right: Mr. Gerry Burke, Bank of Ireland Corporate Banking (Sponsors of the Lunch); Edward Carey, IAVI President and James Caan.

I'll give you a classic example of this type of investment. When I originally accepted to do the show, it sounded like quite a good idea as I'm an investor and I do this for a living. To do something like Dragons' Den would be quite easy but then, when you realise it is your own money, it doesn't really matter how wealthy you are. When you walk into that Den and you meet somebody who you have never met before, never seen before with an idea that's probably the last thing that's ever come across your mind and within 20 minutes you're expected to write a cheque for €100,000 well, actually, you know, it's not that easy.

I literally sat there for five days and couldn't do a deal, just couldn't put my hand in my pocket because just as I was trying to get my head around it, you know Deborah would say, I'm out or Theo would make a comment and I'd say, oh well obviously it's not that great. So, five days go by and I'm getting dressed in the morning, my wife says you know, Darling, how's it going and I said, I'm still a virgin; I haven't done a deal. She said, sweetheart, you can't

be on the whole series and not do a deal. You've got to do at least one deal. So I thought, you know maybe she's right, I've got to go in there, and I thought, I'm not going to be smug, and when I walk in there today the first person that walks through that door I'm just going to put my hand out and say, I'm in and that business involved of all things a dog treadmill. You may laugh, we've done extremely well, we've sold 400 but, having said that, 380 are in my garage but we shouldn't include those. So I am now an expert in the veterinary business.

But, actually, you do get some fantastic ideas. One guy came in with the chocolate box which was an electrical gadget where you get two wires which, when you put them together – the Government have now outlawed those, they're a bit risky, so you put them in a box and I'm sitting there thinking, there is a guy making £300,000 profit – they sell a million of these units a year – so I'm thinking, where is the catch. Theo is slagging the bloke off saying why are you here, you're here for an advert and Peter's digging into the guy because obviously they're thinking, why does he need the money and the truth is he didn't actually need the money. When I was growing up, I was taught you don't look a gift horse in the mouth. The guy has got a business, it works and he makes money; he offered 10% and I think I offered him £150,000 for 40% of the business and negotiated down to 36% and then



**Left: Norman Adams, President, Institute of Certified Public Accountants and John Davidson, Chairman of the Royal Institution of Chartered Surveyors Northern Ireland.**

literally within 2 weeks of coming off the show I introduced him to a global supplier of electrical components that placed a £25 million order with him over a five year period, so it was actually a great deal.

One of the things I have learned in business is that sometimes we try and be too clever and, even now, if you're looking at what's happening in the market, there is so much evidence that the one thing that we all seem to have lost is common sense. I think probably the reason is because it isn't that common when you look at areas like the real estate market. People are asking me, what are you investing in at the moment and it's property, because right now value opportunities exist. Seriously, four weeks ago if you had asked me would I be buying a property, the answer would be, you

must be mad, but actually an agent called me and I think what you should be doing right now is changing your mindset.

Because you know the economy in Ireland for the last ten years has been very much one way and I think you've adapted very much and you've probably started to believe too much in your own publicity. You know, the market is different now but that doesn't make it worse; it's just different and I think that's the way to look at opportunities. I'm exchanging contracts on a property that somebody offered me and his pitch was that the market has dropped so significantly that, in prime locations today, you can buy properties that actually have dropped 30%, 40% or even 50% and the property that he offered me was in Grosvenor Street in Mayfair.

Normally those are the kind of prime locations that I've never bothered looking at, because they are always so ridiculously expensive but, all of a sudden, at £800 a square foot the property has dropped 50% in value and, he said, James, just go and have a look because you would have paid double the price a year ago and do you really believe that Mayfair as a market will crash because you can't build there and there is nothing available there. Walk down, have a look and, even though the market is pretty difficult right now, at that price you know this is a value proposition. Right now I think there are fantastic opportunities in the real estate market but I think the problem is how you're presenting them.

Today, the presentation should be based upon the value of the opportunity, not necessarily the way you've come at it before because there are people who have made a lot of money through your economy in the last ten years. There are people who are still fairly cash rich; the question is how are you approaching them and with what are you approaching them.

In terms of value propositions, I looked at a particular stock, which was priced 54 pence per share when the Government had agreed to buy the company at 65 pence per share. I've never been that great at maths but there is a gap there, so I rang the broker and said, is it me or am I missing something and he said no, the Government are going to pay 65p. I said so why is it 54p. He said I don't know. I said ok, well buy some then. Anyway, by 7 o'clock that evening the share price had got to 74p and while, in the morning I was a very long term investor, by the following day I became a trader – of course I flipped. And so I think, even in this market, if you're mentally in tune with what's going on, and looking at opportunities outside the box, there are as many people who make money in these markets as there are when the markets are growing.

The only issue is that the economy has just seen such a good run for so long that this market is slightly scary for us but, I think, certainly for me as an entrepreneur, I am absolutely not afraid because I think in these markets, the philosophy for me is observe the masses and do the opposite. When everybody else is leaving the room, that's the time to join the party, because that's where the opportunities really lie.

I think the only other thing that I wanted to share with you is that businesses generally go through ups and downs. People who are a little bit more experienced with economies all over the world see that markets rise and fall but, at the end of the day, I think a few years from now we will look back at some of the opportunities that exist at the moment and say my God, where was I when that opportunity arose or when that particular piece of real estate was at the kind of price that you are seeing today.

Look at Tesco's as a share right now. They have just released their results and I think their turnover is up 18%, with £1.6 billion profit; it's the number one brand in the country, yet it's lost 40% of its value in the stock market and for what reason – for no reason, but because of sentiment. As business people, if we forget the media and just focus on fundamentals, the basic things we were taught when we started businesses and go back to those principles, we might see the world from a different point of view.

There was a banker I met recently who was telling me that he came into investment banking, taking deposits in and lending money to businesses. Today, there are products the banks sell that even the bankers don't understand and I think we've overcomplicated – whether it's real estate or the stock market. I'm a simple entrepreneur who started a business from nothing, who never got too complicated and who stuck to the basic fundamental principle that cash is king. Accounts may look great but a company that does not regularly bank any cash has a problem, regardless of projections.

In private equity terms, it's amazing that when you go and talk to businesses, you'll have a one-hour presentation but the word cash never gets mentioned; you'll get spreadsheets and graphs and charts and as much analysis as would fill the room but, when you actually ask the guy, tell me, from a cash perspective, what's the current state of the business, they don't know. I think a lot of that is because we have forgotten the basic principle of business that providing you manage your cost base against your income line, that's the trick; there actually isn't anything more sophisticated.

I think the problem is because we are so well educated now, because of the internet, because of technology, we're constantly thinking there must be more to it. It's a bit like my own naivety with the couple with the bedsheet with the line down the middle. Even when you give me something as simple as that, I'm sitting there for half an hour thinking any minute now it's going to explode on me because I'm so used to thinking that things are more complicated and actually it *was* that simple.

So, the message I will leave you with is that with these opportunities and in these markets, people who are able to think outside the box still continue to perform and succeed. You are very experienced and very knowledgeable; use the knowledge that you've got in a practical way, because you can still perform and you can still succeed. I wish you all well. ■



Back Row L-R: Walter Murphy, Murphy & Sons, Sligo; Philip Carton, PN O'Gorman Ltd, Wexford; John Dawson, Dawson Real Estate Alliance, Carlow; Bruce Murphy Dublin; Ciara Slattery, Warren Estates, Wexford and Peter Fitzpatrick, FQP, Dublin.

Front Row L-R: Daphne Kaye, Daphne L Kaye & Associates, Dublin; Frank McGuinness, Property Partners McGuinness Lambert, Wexford; Anne Carton, PN O'Gorman Ltd, Wexford; Matthew Conry, Dawson Real Estate Alliance, Carlow; and Martin Gilmartin, Daphne L. Kaye & Associates, Dublin.