CORPORATE FINANCE FACULTY

ICAEW.COM/CFF

ISSUE 195
SEPTEMBER 2017

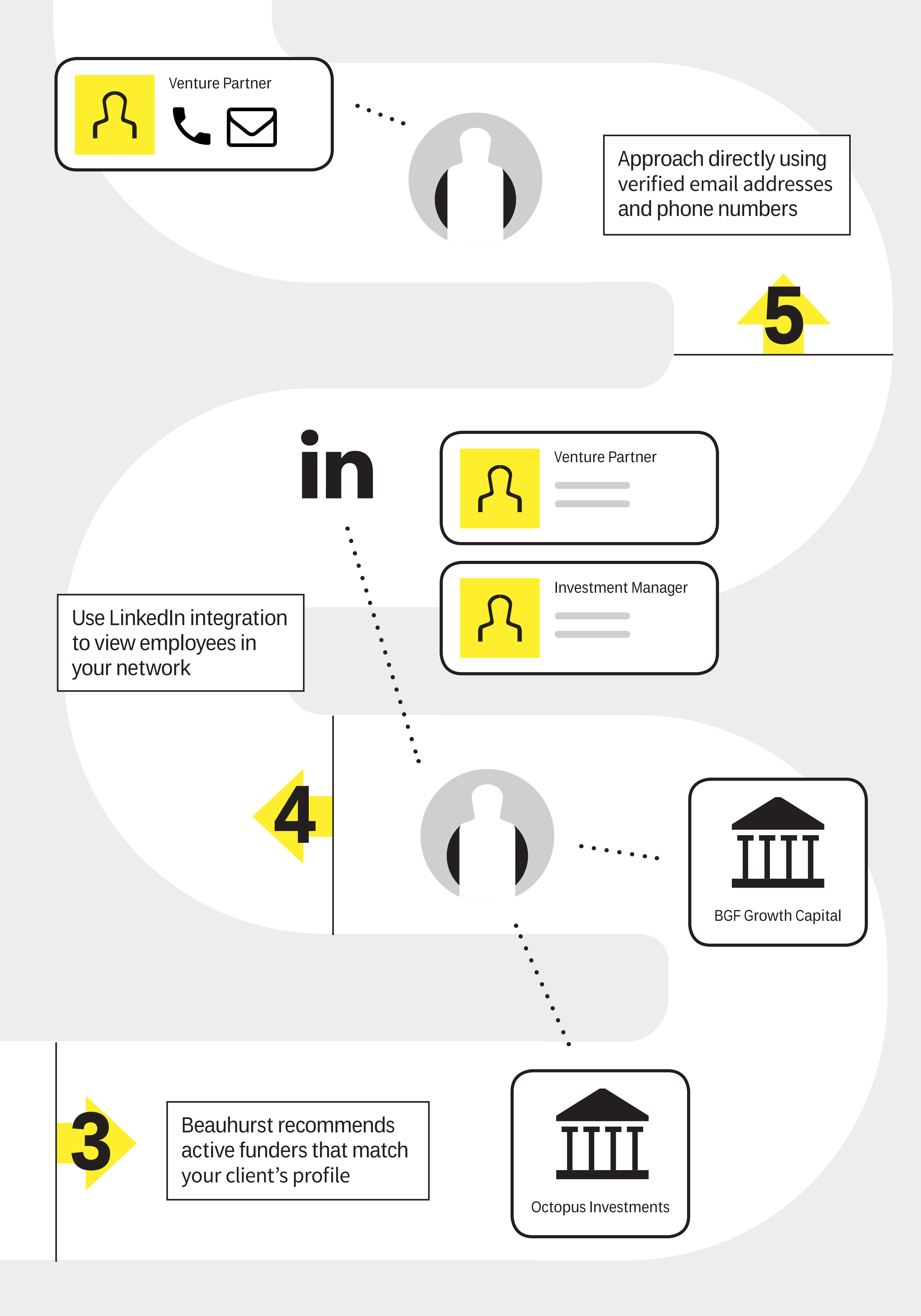
GROWTH
OPPORTUNITIES
EXPERTISE

ICAEW

Corporate Financier

NO ENTRY?

Will the political rhetoric of protectionism create new barriers to cross-border M&A?

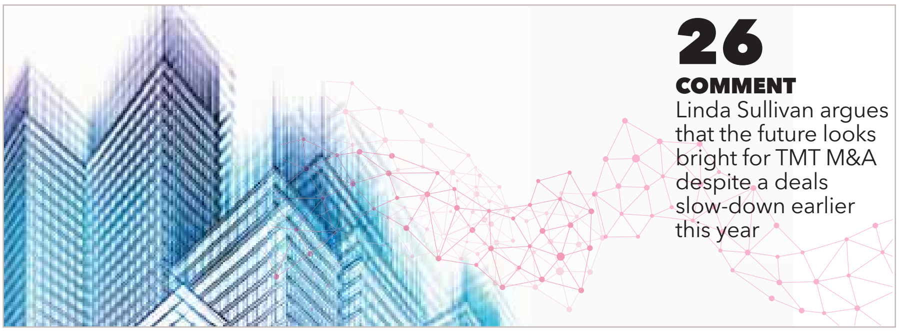


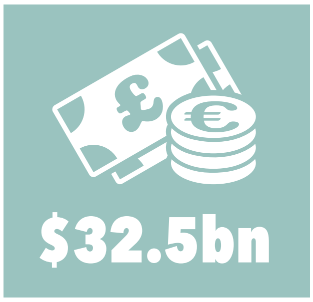
Venture Partner
Approach directly using verified email addresses and phone numbers
5
in
Venture Partner
Investment Manager
Use LinkedIn integration to view employees in your network
4
BGF Growth Capital
3
Beauhurst recommends active funders that match your client’s profile
Octopus Investments

September 2017 Issue 195

GROWTH
OPPORTUNITIES
EXPERTISE

@ICAEW_CORP_FIN
ICAEW Corporate Finance Faculty
icaew.com/cff





The value of M&A between the UK and the EU27 from 435 deals in H1 2017

ONE-WAY STREETS

"Earlier ages fortified themselves behind the sovereign state, behind protectionism and militarism," said Christian Lous Lange in his acceptance speech for the Nobel Peace Prize. The Norwegian historian and leading light in internationalism, was speaking almost a century ago, in 1921.

In this month's cover story, Grant Murgatroyd looks behind the political rhetoric of protectionism and economic nationalism, which is on the rise. Preventing acquisitions is one form of protectionism – and it can be carried out subtly or with a blunt instrument.

According to the World Trade Organisation, trade protective measures peaked in 2011 and have since hovered at the same level – between October 2016 and May 2017 there were on average 11 per month globally. The good (if rather unexciting) news is that between October and May roughly, the number of measures brought in to facilitate trade was more or less the same. And over the past decade there have been, if anything, more pro-trade measures.

Ownership regulation in the likes of Middle Eastern economies, India and China are often seen by US and European companies as barriers to M&A. The backdrop to the protectionist bombast is that those economies are investing significantly more in acquisitions beyond their own borders than is going in the other direction. It sometimes seems like a one-way street. How much of that is to do with regulation, and how much is to do with capital flows as a result of the huge amounts of cash these economies are throwing off, is debatable.

Announced last month, Great Wall Motors' proposed acquisition of either Fiat Chrysler or the Jeep brand from Fiat Chrysler Automobiles (FCA) is sure to test US thinking about protectionism, M&A and state support. Could such a sale of an iconic brand to a Chinese business be spun to fit with President Trump's "America First" claim to protect jobs? "China is trying to clamp down on overseas acquisitions by its companies. Hostility is growing in the US toward Chinese deals," stated the *New York Times*, baldly – hardly the most jingoistic of American newspapers.

But, perhaps most fundamentally, how would this latest Chinese-backed megadeal be funded? Great Wall produces just over a million vehicles a year, largely for the domestic market. FCA manufactures five million. Any deal would need financial support from the Chinese government – arguably as undesirable as protectionism for those who argue for free trade.

Marc Mullen
Editor

Icaew.com/cff

ICAEW

Corporate Finance Faculty

Mark Pacitti
Chairman

David Petrie
Head of Corporate Finance

Katerina Joannou
Manager, capital markets policy

Shaun Beaney
Manager, Corporate Finance Faculty

Owen Waite
Service manager
+44 (0) 20 7920 8689

Grace Gayle
Service and operations executive
+44 (0) 20 7920 8656

firstname.surname@icaew.com

Marc Mullen
Editor
marc.c.mullen@gmail.com

David Coffman, Mo Merali, Victoria Scott
Editorial advisers

For details about corporate and individual membership, please visit icaew.com/cff or contact the faculty on: +44 (0) 20 7920 8685

To comment on your magazine, please email: publishing@icaew.com

Corporate Financier is produced by Progressive Content 71-73 Carter Lane London EC4V 5EQ

To make any advertising enquiries email to: advertising@progressivecontent.com

ISSN 1367-4544

TECPLM15375

Printed in the UK by Sterling Solutions

Distributed to members of the Corporate Finance Faculty

PEFC Certified
This product is from sustainably managed forests and controlled sources
PEFC
PEFC/16-33-1391
www.pefc.co.uk

NEWS & EVENTS

LDC JOINS CORPORATE FINANCE FACULTY

The latest private equity firm to join the Corporate Finance Faculty is LDC, the UK's most active mid-market private equity investor by volume of deals.

Since being founded in 1981, LDC has committed over £4bn to more than 550 UK mid-market businesses. The firm plans to invest a further £1.2bn by 2020.

Chris Hurley, LDC's chief portfolio officer, says: "Corporate finance networks are incredibly important to deal flow. We understand that, and to that end we also understand the importance of being part of this faculty."

LDC invests off Lloyds Bank's balance sheet, rather than through limited partner funds. Hurley adds: "One advantage of this is that we don't have pressure for exits when we are looking to close a fund. That doesn't mean we are not looking to exit, but it does mean we have more freedom to choose the best time for us, for the business and for the management team, and to make sure that the best exit option is taken. We are backing the management team and their strategy, and want to see that through. In buy-outs, we most definitely offer patient capital."

As well as management buy-outs, LDC also takes minority stakes in some companies, providing expansion or growth capital.

The firm's UK network of offices includes Aberdeen, Edinburgh, Leeds, Manchester, Birmingham, Nottingham, Cardiff, Bristol, Reading and London.

"We have genuine presence across the UK through our regional offices. To us London is just another region," explains Hurley. "We put a lot of value in our local networks, relationships that help us identify opportunities to back businesses across the UK."

"We have genuine presence across the UK. To us London is just another region. We put a lot of value in our local networks"

LDC'S UK-WIDE DEALS

As an investor LDC describes itself as "sector agnostic". It has invested, for example, in more than 150 manufacturing and specialist engineering industrial businesses. In June it sold A-Gas to KKR, achieving a 3.3x money multiple on its original investment and an internal rate of return of 24%. It originally invested £29m in the chemical distribution and management company in 2011 and backed it with a further £30m of acquisition capital. The value of the KKR deal has not been disclosed.

In the TMT sector LDC has made more than 100 investments, including software company Mitrefinch's management buy-out (MBO) in October 2016. In July this year it sold the Creative Engagement Group to Huntsworth Plc for £25m, having first invested in the communications business in 2011.

In the support services sector, LDC backed the MBO of Devon-based traffic management business Amberon in July 2017.

In April it backed the secondary buy-out of Nottingham-based chilled pastry producer Addo, and the same month the buyout of Manchester-based Hill Biscuits, both in the retail and consumer sector.

Chris Hurley, LDC's chief portfolio officer, points out that LDC is also very active in the travel and leisure sector. In February it backed the MBO of online travel agency Blue Bay Travel. He says the pipeline in this sector is healthy.

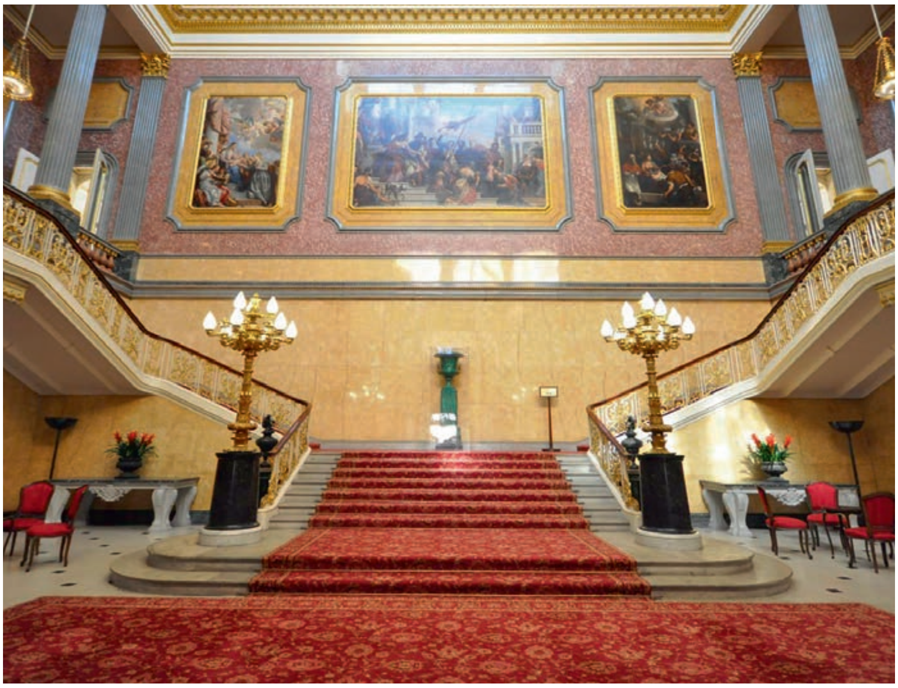
In healthcare the firm made a development capital investment in Lucid Group Communications in June and backed the MBO of medical comms agency Fishawack in January.

It has also done many deals in the construction and property and financial services sectors.

Hurley says that LDC prides itself on the use of its network of non-executive and executive directors, which it can call on to augment management teams.

£4bn

amount LDC has committed to UK businesses since 1981



NETWORKING AT LANCASTER HOUSE

A reminder that the Corporate Finance Faculty's annual reception takes place on Thursday 12 October at Lancaster House in St James's, London. Senior representatives of the faculty's many member firms from business, advisory, investment, government, academia, and from other major representative bodies, will be attending.

The evening will give faculty members the opportunity to learn more about Innovate UK – the government's innovation agency – which since 2010 has supported 8,000 enterprises and invested £1.5bn. This year's guest speaker is Dr Ruth McKernan CBE, chief executive of Innovate UK, who will share some thought-provoking insights about the innovation, growth and investment opportunities for British companies and their advisers.

The government has recently committed a further £400m to early-stage, spin-out and growth companies – a drive that is also likely to boost private equity, M&A and capital markets deals.

For more information about the evening and about joining the Corporate Finance Faculty, please contact Owen Waite at owen.waite@icaew.com or on +44 (0)20 7920 8689.

FACULTY CO-ORDINATES ICAEW'S PATIENT CAPITAL REVIEW RESPONSE

The Corporate Finance Faculty is co-ordinating ICAEW's formal response to the UK government's patient capital review.

HM Treasury's consultation, *Financing Growth in Innovative Firms*, covers long-term investment in young companies, such as those commercialising university research. The government has proposed to create a significant new National Investment Fund, partly to replace capital from the European Investment Fund (see 'Add Venture', *Corporate Financier,* June 2016). In his foreword to the consultation paper, chancellor Philip Hammond (pictured) stressed the significance of patient capital to boosting productivity in Britain.

To contribute to the faculty response, email katerina.joannou@icaew.com or shaun.beaney@icaew.com; see the documents at tinyurl.com/GOV-Innovate17

NEW MEMBER: LEXINGTON CORPORATE ADVISORS

Cardiff-based advisory boutique Lexington Corporate Advisors has joined the Corporate Finance Faculty.

Lexington launched in early 2016 by Gary Partridge (top), with Andy Morris (also pictured) joining later that year. They first met at Cardiff University in the late 1980s. Partridge led PwC's corporate finance team in the South West and South Wales between 2007 and 2015. Prior to that he was a corporate finance partner at PKF, a private equity fund manager at Finance Wales and also worked in corporate finance at BT Group. He trained as an ACA with PwC. Morris was previously a Wales area manager for UK Steel Enterprise, where he originated and executed transactions. He sits on the board of the South Wales Chamber of Commerce and represents the local region on the Young Enterprise UK board.

"We advise on mid-market deals, typically with an enterprise value up to £25m, working with SMEs and owner-managed businesses," said Partridge. "It gives us the opportunity to deal directly with decision-makers. We look at every transaction on its merits and judge whether we are able to add value."

To date, half of Lexington's business has been sale mandates, a quarter buy-side advice, and the remainder reviewing business strategies. Recent assignments have included the sale of specialist care provider New Bridges to Tracscare, the MBO of A&N Lewis and US-based Clinical Innovations on the acquisition of its German distributor.

Thomas Edwards recently joined from Cardiff-based Broomfield & Alexander's corporate finance team. John Tose, who joined from Cardiff University, is studying for ICAEW's Diploma in Corporate Finance.

"It's fair to say the team has an extensive relationship network across Wales and the South West with lawyers, funders and advisers," said Morris. "Joining the faculty will help us grow our network and reinforce relationships."

PA IMAGES

IN NUMBERS

Increasing value of UK M&A with the EU27, the largest private equity fund to date, and VC investments in Europe take a hit

LEADER OF THE PE FUND BUY-OUT PACK

$24.7bn
The value of Apollo Investment Fund IX on 3 August 2017

THE LARGEST EVER PRIVATE EQUITY FUND

$184bn
Buy-out fundraising globally in first seven months of 2017

ON COURSE TO SURPASS THE RECORD ANNUAL BUY-OUT FUNDRAISING OF **$249BN** IN 2007

$269bn
Private equity fundraising globally in first seven months of 2017

ON COURSE TO SURPASS THE RECORD OF **$413BN** IN 2007

SOURCE: PREQIN

Q2 2017
10.7x
The private company price index (PCPI)

THE HIGHEST LEVELS SINCE Q4 2014

Q2 2017
12.8x
The private equity price index (PEPI)

SOURCE: BDO

IN H1 2017
€6.6bn
European VC investment

FROM
1,244
deals closed

DOWN
47%
on H1 2016

40%
UK share of all European VC investment in H1 2017

SOURCE: PITCHFORK

$32.5bn
The value of M&A between the UK and the EU27 from 435 deals in H1 2017

MORE THAN DOUBLE THE **$14.6bn** IN H1 2016 (452 DEALS)

SOURCE: DELOITTE

$570bn
Amount allocated globally to buy-out funds

PREVIOUS RECORD WAS AT THE END OF 2007 ($478BN)

SOURCE: EY

35%
Increase in UK inbound and domestic M&A in H1 2017 Vs H1 2016

SOURCE: EY

23.7% 1st FRANCE

13.4% 2nd CHINA

9.3% 3rd UNITED STATES

France leads the way with its share of issuance on the green bonds market for the year to July 2017

SOURCE: THOMSON REUTERS

JON MOULTON

GUILTY (IF YOU SAY SO)

What hope is there of complying with the rules when an avalanche of financial regulation and legislation is just waiting to bury you alive? None whatsoever, argues our outspoken columnist

Ancient Roman law was inscribed on just 10 tablets. Back then "*ignorantia legis neminem excusat*" seemed pretty reasonable – ignorance of the law excuses no one.

Recently I found to my horror that I had broken a law. I had no idea said law existed. Or that anything like it could affect me. It was quite a specialised trap, and actually not far off insane, but whatever, it is the law.

Having rectified the situation, I am not disclosing my 'offence' for fear the authorities are alerted to a breach I had no idea I'd committed. I strongly suspect their best chance of solving this, genuinely victimless 'crime', would be if they were alerted to a *mea culpa* in this month's *Corporate Financier*.

The Romans had a simple concept – laws were only relevant where they had been publicised – 'promulgation'.

Let's pause for a moment and just think of the law and regulation that applies to the accounting world and corporate directors. UK tax code runs to some 17,000 pages, not including the many thousands of pages of relevant notes and case accounts. The International Accounting Standards clock in at 1,600 pages, (excluding 'explanatory' notes). You have to pay £3,641 for the FRC's 22-volume handbook.

Then there is health and safety (including 'gone mad' and 'not gone mad' versions), vehicle registration, company law (the 2006 Companies Act is 761 pages long, excluding orders made under it), Stock Exchange Regulations, financial services, asbestos and pollution regulations, discrimination and employment law, then data protection, money laundering and a lot, lot more.

No human being knows all this stuff. Related criminal offences are being routinely created in these subject areas.

Roughly 300 new offences come in each year in the UK, with the Department for Business, Energy & Industrial Strategy responsible for about a quarter of them. Many new offences arise through secondary legislation, with precious little promulgation. Many do not require anyone to prove that *mens rea* (ill intent) was present. Prosecutions are mostly rare, but you never know your luck.

Nowadays everything regulatory is available on the internet. Well, sort of – only if you spend all your available waking hours trying to stay current, and you know where to look.

INFO OVERLOAD

One way humans try to screw up internet systems is to launch a 'denial of service' attack – overloading a system with millions of requests for action. The poor machines lack the capacity to respond, and collapse in a fizzing electrical heap.

The analogy is obvious here – the vast volume of statutes and regulatory material thrown into the ether for us to find means we frail and feeble humans have no chance of absorbing the bombardment of new stuff, or any changes to old stuff.

Promulgation no longer works. Ignorance of the law is inevitable – if you live long enough, you will likely break the law at some level, from messing up a tax return or failing to follow an obscure statutory duty, to actually doing something quite significant. Just to depress you further, Brexit will allegedly require the consideration of and considerable change to approximately 12,000 EU regulations, 7,900 UK Statutory Instruments and 186 Acts of Parliament. This will certainly take a decade.

We simply cannot go on creating a world of such great complexity. The system now denies us the possibility of knowing the laws, and the rules we have to follow. Mass repeal of laws and regulation is attractive, but is simply not going to happen.

It does now seem time to introduce a new requirement for any prosecution – the defendant should reasonably have known and understood the law they have contravened.

The tables need to turn. Ignorance should be a defence. ●

AIMING *High*

Creating the number one AIM broker in less than 10 years needs a clear vision, Marc Mullen discovered when he spoke to finnCap founder and CEO **Sam Smith** about building a business that helps build businesses

"It was a mad risky crazy move, people told me," says Sam Smith about joining JM Finn 20 years ago from KPMG, where she'd trained as an ACA. Her new role was setting up a corporate finance division – something she had zero experience in. "Myself though – I didn't see it as a risk. A risk to me was moving to another massive company, which I probably wouldn't enjoy, and would then spend my time working out how to get out."

Smith led the MBO of the corporate advisory and broking division that she had been instrumental in creating, 10 years after joining JM Finn. She took on the role of chief executive of the newly created entity – finnCap. One big challenge was getting the staff ownership structure right for the MBO. Staff put in £500,000 in total into the buy-out for a 50% share of the business, while JM Finn retained 50%. The buy-out money raised was largely regulatory capital required to run and grow the business.

"Everyone bought into what we were doing – building the business – long term," says Smith. "We had been talking with JM Finn about an MBO for about three years. We simply couldn't have our salaries paying for the investment in Nomad status, while we had no equity."

TOP QUALITY FOR ALL

With Nomad status achieved around a year prior to the buy-out, finnCap's plan for growth focused on providing a quality of service to smaller cap businesses, "comparable to that the likes of Goldman Sachs and Rothschild offer FTSE100 companies", says Smith. A key issue to be addressed for smaller cap businesses was the perennial problem of liquidity in shares.

"We were not just raising money for clients," says Smith. "We were properly promoting their shares in the aftermarket, making sure they were moving. Prior to 2007 that was not necessarily on offer – most brokers would do an equity raise, and then move on to the next deal. When markets are busy, service levels go down."

Just over two years after the buy-out it became clear that to grow the business, they needed to buy out JM Finn's 50% stake. "We needed to separate to do our own marketing," says Smith. "And we needed to be able to offer shares to incentivise new joiners. We wanted to recruit good entrepreneurial people who would buy into the business, and our model was to incentivise them with equity."

Jon Moulton, founder of Better Capital (and a member of the Corporate Finance Faculty's board as well as a *Corporate Financier* columnist) joined as chairman. He helped negotiate the buy-out of JM Finn's shares, bringing "tremendous financial and commercial perspective" to the negotiations, recalls Smith, adding: "Once completed, we then had the momentum to build our business. It was a very big empowering move for us."

In the 10 years since finnCap spun out of JM Finn, and particularly in the past five, there has been a broadening of the range of services. In 2015 finnVentures was launched. Grant Bergman joined from Investec to head up this new arm, advising private companies that were looking for £2m-£25m scale-up capital, but not necessarily at a stage where they could consider going public.

Tapping into finnCap's network of family offices and high-net-worth individuals, business angels and VCs, finnVentures has recently raised: $18m equity capital for Inspecs; to back the eyewear designer and distributor's acquisition of French-Asian business Killine; £5m of growth capital for online baby gift store My 1st Years; and £4.5m of debt for UK contact centre business Direct Response. VCT, EIS funds and EU funding is also used by finnVentures.

"We know all these different finance providers, and give independent advice," says Smith. "Is it right to get one investor or a range of investors? Or a mixture of institutions with family offices? We want to have a long-term relationship with our clients. We want to grow with them, and take them all the way through their growth journey."

Continuing the theme of becoming a corporate adviser across the whole financing piece, last year

BEING A WOMAN IN THE WORLD OF FINANCE

Sam Smith has taken on lots of volunteer roles, including as finance chairman for the Entrepreneurs' Organization and sitting on the advisory board of the Centre for Entrepreneurs. She is also a member of the Corporate Finance Faculty.

As well as entrepreneurship, encouraging change when it comes to women in business and finance has been another passion. She is patron of the women's group of the Prince's Trust, a steering committee member of the Women's Oil Council, patron of the Modern Muse and advisory board member of Everywoman Ltd.

"To get sexual equality in business there are two key things – we have to start earlier and we have to get rid of unconscious bias. We need girls to have role models in schools – such as women entrepreneurs, inventors or those who have done well in industry – to ensure they know who the women who run companies are, and to start their own businesses. It is simply not promoted enough.

"You need to address the work-life balance, offer flexibility to get women back to work after having children. Most think it is too hard and don't really do it."

So what happens at finnCap in practical terms? "One key thing is that we have a very flexible maternity policy. It is important it is suited to each individual, and is not a blanket one size fits all – different people have different issues. The first couple of years are very difficult. It is important you don't lose important talented people, and find a way to keep these key people for the longer term."

BREXITWATCH

"Brexit has affected us in a general way, because of what has happened as a result of it in the market. It has had a big impact, but I feel that is priced in," says Smith. "Plans were delayed for about six months – the markets were quiet as decision-makers sat on their hands. They have now adapted and are making decisions, covering the worst-case scenario with back-up plans. Business does not stop – it motors on. There is a lot of appetite for risk, and a lot of money out there. For companies to be backable, either their growth plans must be unaffected by Brexit, or they have contingency plans. If the market gets spooked and people go anti-risk, and don't want to invest in small cap, that will be a problem. But it should be short lived."

finnCap launched an M&A advisory arm. Philippa Robinson was recruited from Liberum Capital to run the new service line, to approach and execute acquisition opportunities for corporate clients. Robinson was at KPMG at the same time as Smith, where they both trained as chartered accountants. After KPMG, Robinson worked in corporate finance for south coast firms, including WK and DHD.

And this year finnCap launched Slide Rule - a quantitative analysis tool for companies capitalised at between £50m and £2bn, and an investment trusts business, focused on alternatives funds. William Marle and Johnny Hewitson were recruited as managing directors from Edmund de Rothschild Investment Trusts to be in charge of this service.

So where to next? "We have lots of add-ons to leverage our now established and successful brand," explains Smith. "Being genuinely independent we can advise them on the best way to finance their growth."

NICHE DISRUPTORS

Smith says life sciences have always been an exciting sector for finnCap, "as there are so many opportunities that can be ground-breaking, and businesses tend to be high margin".

"Pharma companies want to acquire big ideas," she adds. "Growth factors are present in businesses in that sector, and have always been there. Perhaps not as good as in the previous two years, but devices and specialty pharma, where there is a real unmet need being addressed, and the business is generating cash." Tech has been a healthy sector too. "In both [tech and life sciences] you can take on a small business that can grow quite quickly. Our work last year was tech-dominated and that has continued into this year."

In May, finnCap advised on the IPO of Velocity Composites, raising £14.4m in a AIM listing, which valued the materials science business at £30.4m. "It was significantly oversubscribed - a clever tech business, applied engineering with industrial applications. Those types of very niche businesses are doing very well. Any interesting UK small cap business that is disrupting in whatever sector is attractive to investors at the minute."

"Key for us are niche businesses that will disrupt whatever sector they are in"

The resources sector has also seen activity; finnCap completed its first oil and gas sector IPO in April - Anglo African - which raised £10m on AIM. In January, they advised Global Energy Development as the oil and gas sector business undertook a fundamental change of business, as it acquired a fleet of offshore service vessels.

In the financial services sector, they advised K3 Capital Group on its £40m IPO (raising £17.8m) in April. Smith says: "This is an interesting corporate finance house that uses marketing as a point of differentiation for mass-scale corporate finance, primarily sales mandates for SMEs.

"We are even looking at possible IPOs in the consumer space - businesses that are seeing phenomenal growth and have great market share. You cannot say what sectors will work per se, but key for us are niche businesses that will disrupt in whatever sector they are in."

Last year the firm recruited Emily Morris from GMP Securities as a director in corporate broking and Richard Chambers as an executive from UBS. Jeremy Grime was also recruited as a director in research from Panmure Gordon.

"We are looking to hire in M&A and to aggressively build out the private company advisory and broking service," says Smith. "We can attract people working for smaller firms where it is perhaps hit and miss whether they close a deal. We are recruiting in lead advisory - people with contacts, those who want a career that is a bit more entrepreneurial, and want to play a part in our growth, and be rewarded for that - the same ethos as when we set up the firm 10 years ago."

So what are the challenges facing UK growth businesses? "Trade sales might well be the best way to take a business forward, but I do think tech companies in the UK sell out quite early," adds Smith. "As a result the UK doesn't build the big businesses that make significant amounts of money that can be recycled into earlier-stage businesses, to fund the growth of small- and mid-caps. The US ecosystem does see significant capital invested into the next generation of growth businesses.

"If UK early-stage companies sold out later, investors could make more money and recycle it back into other growing companies." ●

PHOTOGRAPHY: JON SNEDDEN

AUTO M&A TICK

With the automotive sector on the cusp of big change, Brian Bollen explores the drivers behind 3i's private equity investment in German process and testing firm Formel D – and how its future lies in new geographies

€255m

2016 turnover of Formel D – double its 2012 sales

7,000+

number of staff Formel D employs in 19 countries

The automotive industry is facing unprecedented and unpredictable change. The next decade will see the widespread adoption of electric vehicles and driverless technology, while new business models will emerge such as 'mobility as a service'. Navigating the strategic landscape has never been more difficult for either manufacturers or investors (see the *Corporate Financier* cover story, 'Fuelled by the future', June 2017).

Private equity investors with a three-to-five year cycle are particularly exposed to changes in consumer, manufacturer and market demand. Get the direction of travel, or timing, wrong and it means losing money or holding for a long IRR-reducing period. On the other hand, PE ownership is particularly effective when companies are undergoing change, whether it is due to investment, restructuring or entry into new markets.

It is this opportunity that attracted London-listed private equity firm 3i to Formel D – a developer of quality assurance and process optimisation solutions for automotive customers – based in Troisdorf, near Cologne, Germany. Ulf von Haacke, partner and head of industrial at 3i in Germany, described Formel D as a highly cash-generative business requiring little in the way of capital expenditure. "It has traditionally done well, and should continue to do well even if the auto industry were to experience a downturn. Major international businesses are very dependent upon stability when deciding where to manufacture and assemble, and OEMs are more prone to outsource. This is a challenge for the entire industry, but not one that will harm it."

Through its range of testing and inspection services for individual parts, systems and vehicles, Formel D is an integral part of the automotive value chain. Its touch points range from development through production to aftersales. Customers include premium automotive manufacturers BMW, Daimler, VW and Audi. With over 7,000 employees, it operates more than 80 facilities in 19 countries, with 50% of revenues generated in Germany, 25% in Europe (excluding Germany) and 25% in the Americas and Asia. In 2016, its turnover was around €255m, more than double the sales in 2012 (€124m), when German PE firm Deutsche Beteiligungs AG (DBAG) invested in it.

TWO YEARS IN THE MAKING

3i first took a look at Formel D more than two years ago. "We were very attracted to it as it sits within a sub-sector of the automotive space, which 3i knows well – testing and inspection," explains von Haacke. "It touches two of 3i's core sectors: business and technology services, and industrial – it falls in our sweet spot in terms of experience and track record."

He says the M&A process was competitive, but smooth. Investment bank Rothschild ran the auction for seller DBAG. It took just three months from initiation to the signing of a purchase agreement in May 2017. Price was a matter for negotiation, of course, but the final discussions were wrapped up in one night.

3i put in place a financial structure comprising a debt package, revolving credit and working capital facility. The debt component amounts to less than half the total price, the balance being equity. Embedded within the debt is the availability of further funds should they be needed to finance future acquisitions, which seem certain to take place.

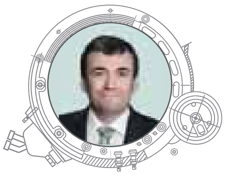
"Success to date has been purely by organic growth, but we have a clear M&A strategy," says von Haacke. "While it has already built a presence, 75% of revenue still comes from within Europe, so there is clear potential for the business to grow with its existing clients in the US and Asia, in particular China. In this fragmented market we see ample growth."

THE ROAD AHEAD

The vendors were satisfied with an investment that went almost exactly to plan. DBAG's investment thesis had been to expand the business by adding new customers, developing new services and taking

"In this fragmented market, we see ample growth"

Ulf von Haacke, head of industrial, 3i Germany



"3i is the ideal partner for us at this point in our development"

Juergen Laakmann, managing director, Formel D

them to market and starting to expand into new geographic markets.

"In the past four years, Formel D's management has very successfully driven the process-related and organisation changes that have enabled the company's strong growth," said Dr Rolf Scheffels, member of the DBAG management board. "Formel D is an excellent example of how a financial investor with the necessary sector experience can contribute within the scope of a family succession arrangement."

While the price had to be right, 3i was able to sell its international credentials to the management team, with Dr Juergen Laakmann, Formel D managing director in charge of Germany and the Americas regions, saying: "3i has a long track record of helping businesses to expand internationally and we feel it is the ideal partner for us at this point in our company's development."

The deal received the necessary regulatory approvals in July, allowing 3i to syndicate €72m of the equity investment to CITIC China Capital Partners. Headquartered in Hong Kong with offices in Shanghai, Beijing, Shenzhen, Tokyo and New York, CITIC has completed over 50 investments over the past years in China, Japan, the US and Australia. Formel D marks its first foray into Europe. CITIC Capital manages $4.8bn of committed capital.

"We take a four- or five-year investment view but will be prepared to hold for longer if appropriate," says von Haacke. "We are very focused on making it attractive to trade buyers in due course. In the meantime, we are very happy to have bought Formel D as it plays to our strengths: internationalisation, growth and margin improvement." ●

HERE'S THE DEAL

3i Group has agreed to invest up to €247m in Formel D along with management to acquire the business from Frankfurt-listed Deutsche Beteiligungs AG (DBAG), and DBAG Fund V, a private-equity fund managed by DBAG.

The purchase agreement was signed in May 2017, completing in July 2017, whereupon 3i introduced CITIC China Holdings as a co-investor. Its first European investment, the Chinese fund worked with 3i on the transaction.

3i's legal advisers were Willkie Farr & Gallagher. Sector specialist investment bank, Robert W Baird & Co was a financial adviser. 3i is a longstanding client of Baird. Thomas Fetzer, head of investment banking for the DACH region at Baird, said: "For the Formel D transaction, we provided 3i with buy-side M&A advisory and debt advisory services. This included tactical M&A and valuation advice, as well as support in structuring the debt financing for the acquisition."

PwC looked after accounting, tax, HR and IT issues. McKinsey wrote a commercial buy-side due diligence report. Rothschild advised DBAG on the disposal.

3i will have two partners on the board, Ulf von Haacke and Andre Perwas. Formel D's management team, led by managing director Claus Niedworok, will remain as shareholders.

GETTY

TRENDS IN M&A INSURANCE

The use of insurance in M&A has increased significantly over recent years, as has insured value. **Adrian Lamasz** and **Ben Crabtree** of JLT Specialty look at current trends in the market

UK INSIGHTS

Ben Crabtree, M&A partner, JLT Specialty

“Reviewing the UK market, new insurers are entering and driving change in pricing and policy terms. Certain areas that would have previously been uninsurable are now potential coverage options.

“Our index shows an increasing use of M&A insurance across different business sectors, diversifying from the initial strong points of real estate and manufacturing. Sectors including automotive, electricity and power, and leisure and hospitality all saw more policies placed in 2016 than ever before. As the knowledge and use of M&A insurance continues to grow, it is expected that its prevalence will increase across different UK market sectors.

“I expect a changeable year ahead, and one of increasing protectionism as recent political actions shape business confidence. M&A insurance will assist clients through this uncertainty by protecting them from seller breaches in transactions.

SIGNS OF MARKET GROWTH

16% increase in average limit of insurance purchased for all non-US transactions

$100m level of individual line sizes deployed by several insurers per deal

60% rise in the number of policies placed globally

SOURCE: JLT SPECIALTY GLOBAL M&A INSURANCE INDEX

PE INSIGHTS

Adrian Lamasz, Senior M&A partner, JLT Specialty

“Private equity clients are telling us that warranty and indemnity (W&I) insurance is a routine product in the mid and upper-mid market. Mandates will usually refer to W&I insurance in process documentation, and bidders are invited to agree to the purchase of the insurance as part of the transaction.

“Corporate finance advisers on the sell-side who have used the product have proven to be repeat customers – they are increasingly finding the protection a sensible solution for exiting shareholders. This market segment is growing.

“The current growth opportunity is in the management advisory domain. On private equity transactions warranty and indemnity insurance can be a useful enabler in the process.

KEY SECTORS BY VOLUME OF DEALS

1ST REAL ESTATE

2ND MANUFACTURING

3RD IT/TECH/COMMS

MEAN STREETS

Protectionist rhetoric is on the rise in the democracies of North America and Europe, traditionally the most open economies for M&A. But, with significant barriers to acquisitions in China and the Middle East, will it ever be a level playing field? Or will global capital flows have greater influence than politics? Grant Murgatroyd reports

After ascending his gold elevator to the role of leader of the free world, Donald Trump got straight to the point in his inauguration speech: "From this day forward, a new vision will govern our land. From this moment on, it's going to be America first. Every decision on trade, on taxes, on immigration, on foreign affairs, will be made to benefit American workers and American families."

In simple terms, protectionism is about shielding a country's domestic industries from foreign competition. However, in orthodox capitalist economics, protectionism is almost universally regarded as a bad thing.

"There are winners and losers, but overall most people and academics would agree that international trade is good," says professor Holger Breinlich, research associate in the globalisation group of the Centre for Economic Performance at the London School of Economics & Political Science, and a professor at the University of Nottingham. "Free trade lowers consumer prices, and that benefits everyone, especially those with lower incomes. But if you work in a steel plant and you lose your job, that might outweigh any gains you might get."

"Though there's been rhetoric with Trump in power, there have been very few protectionist moves"

Michael Knott, senior MD, FTI Consulting

A few politicians around the world may be talking protectionist talk, but are governments walking the walk? Analysis by the World Trade Organisation implies that some might be. Between mid-October 2015 and mid-May 2016, WTO members applied 154 new trade-restrictive measures, amounting to 22 a month - the highest average since 2011. Trade remedy investigations and general support measures have also been rising.

A TALE OF TWO NATIONS

The type of protectionism likely to be of most concern to M&A dealmakers would be the specific regulation of foreign investment and ownership. For example, in July German politicians, concerned in particular about a trend for Chinese state-backed deals in the country, voted for new regulations that would allow the government to block non-EU buyers from acquiring more than 25% of a German company, in certain specific sectors, including information technology and telecommunications, if it were deemed to be a threat to public order or national security. The move expanded the range of

protected sectors to include companies producing software for utilities, payment, medical and transportation systems. Matthias Machnig, state secretary in the Federal Ministry for Economic Affairs & Energy in Germany, called for an EU-wide veto of deals in which Chinese acquirers were funded by their own government. “This is an unequal fight. The main idea is: let’s be open, but not naïve,” he told *Handelsblatt Global*.

Last year Chinese entities bought 12 German companies, including Kuka (€4.5bn), EEW Energy from Waste (€1.4bn), Kraussmaffei Group (€925m) and Osram’s LEDvance (€400m). But a €670m takeover of chipmaker Aixtron by Fujian Grand Chip Investment was aborted in December 2016 after US authorities blocked the US element of the deal reportedly because of US security concerns as its chips are used in weapons.

“Chinese companies are investing a lot in Germany. They are supported in general and this is allowed,” says Christof Kautzsch, a Berlin-based partner and co-head of the European and Global corporate groups at law firm Dentons. “On the other hand, German investors face restrictions in China. This is why the German government is threatening Chinese investors that it will block their transactions unless German investors get similar access to the Chinese markets.”

Chinese authorities responded with a proposed change to the regulation of R&D in January 2017. Measures include a foreign investment catalogue, reduction of sectoral restrictions, changing regimes for R&D, infrastructure, procurement, licensing, fundraising and an end to discrimination against foreign investors. Kautzsch is cautious: “We shall see how this works out in practice.”

Attention this year has perhaps moved from China, to focus on the US (see box, *America First?*). “If you look at it objectively, even though there has been rhetoric, in the months that president Trump has been

€4.5bn

Price paid for German firm Kuka by a Chinese entity

£24bn

Amount UK’s ARM Holdings sold for to SoftBank

$13.8bn

Valuation placed on 61% takeover of National Grid

CHINA – ONE LEAP FORWARD, TWO LEAPS BACKWARDS

According to the WTO China has most recently produced a series of trade promotion measures, including reducing export duties, import duties, speeding up customs procedures, elimination of price controls on some products and quality standardisation programmes. However, the Chinese government has continued to use both formal and informal measures to block – or at least slow down – acquisitions of companies in the country by buyers from many other parts of the world, often by launching state investigations into proposed deals.

Chinese acquisitions of European and US companies have aroused accusations that the rules are not fair. Over the past couple of years, more acquisitions of businesses in China have been stopped. Law firm Linklaters estimates that while Chinese businesses completed $220bn of overseas acquisitions in 2016, $75bn worth of deals was blocked or withdrawn.

“The increasing regulatory scrutiny of Chinese outbound M&A reflects a threefold trend: an increase in deal volume, Chinese acquirers’ increased targeting of potentially sensitive sectors and a marked shift in the political mood and evolving policy concerns of regulators,” says Fang Jian, national managing partner for Linklaters in China.

Moves by some Western countries to block some deals, and by China itself to stem the flow of outbound capital, could lead to a degree of rebalancing of the M&A scales.

The Chinese authorities are more concerned about a falling Yuan and a drop in foreign exchange reserves, and as a result have implemented new policies to restrict offshore foreign investment. “These capital controls have significantly impacted Chinese outbound M&A activity this year, which has declined 42% compared to this time in 2016 when Chinese companies were enjoying a global shopping spree,” says Lucille Jones, Thomson Reuters analyst.

in power there have been very few protectionist moves to stop things happening," says Michael Knott, senior managing director at FTI Consulting in London. "Obviously he didn't go forward with the Trans-Pacific Partnership, and while president Trump has talked about renegotiating the North American Free Trade Agreement and import taxes, nothing has happened in terms of practical actions."

By contrast, in the early 1980s the UK government decided that competition concerns and not ministerial discretion should determine whether it intervened in takeovers, with the exception of a handful of strategically important sectors such as defence and media. This was written into the Enterprise Act 2002.

"Competition has been the key and the UK has been a very open market," argues Adrian Magnus, head of the competition practice at Dentons in London. "It's probably one of the most open countries in the world for inward investment, whether that be through agreed bids, private company share sales or even hostile takeovers. It hasn't always been reciprocal, because it's not necessarily as easy for UK buyers to purchase targets abroad as it has been for overseas buyers to buy assets in the UK."

OPEN COMPETITION Vs NATIONAL INTEREST

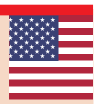
Just prior to taking over as prime minister in July 2016, Theresa May said that foreign takeovers of UK companies should be assessed to see if they were in the "national interest". But five days after taking power, she welcomed SoftBank's £24bn acquisition of Cambridge-based chip designer and software company, ARM Holdings. May described it as "a vote of confidence in Britain".

A few months later, 25% of ARM was sold to Vision Fund, an investment vehicle of SoftBank founder and chief executive Masayoshi Son that has so far raised more than $93bn from investors

"Chinese companies are investing a lot in Germany. On the other hand, German investors face restrictions in China"

Christof Kautzsch,
partner, Dentons

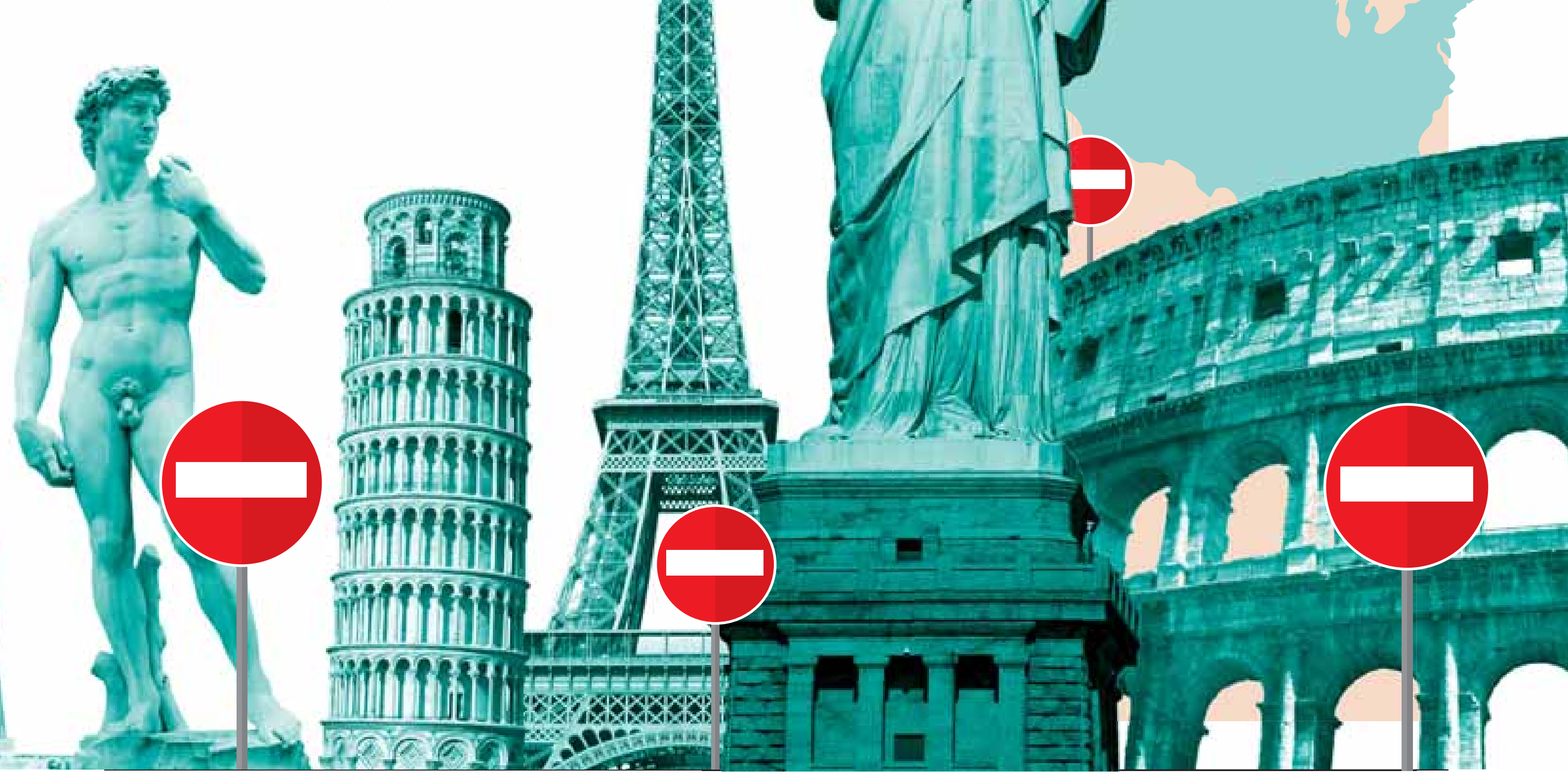
AMERICA FIRST?



When Donald Trump took up residency of the White House earlier this year to a chorus of "America first", the internet was flooded with humorous videos from countries that wanted to be second. But the jokes betrayed a genuine concern about the world's biggest superpower – and economy – potentially turning inwards.

Investment bank Morgan Stanley argued: "Such policies might improve US economic conditions in the near term, but the long-range effects of protectionism – from proposed tax reform to import tariffs and potential renegotiation of free-trade agreements – would be negative, both domestically and globally, with particular impact on countries such as China, and sectors such as telecom equipment, computers and cars."

Trump's stated agenda is to "bring jobs back" to the US, and protect jobs under threat from lower wage/cost economies. "German car manufacturers have facilities and production plants in the US, and many other jobs, directly or indirectly, depend on the strength of the German car producers," says Christof Kautzsch, Berlin-based partner at Dentons and co-head of the firm's European and Global corporate groups. He notes that about 111,000 US jobs have been created by German carmakers.



including Apple, Qualcomm, UAE-based Mubadala Investment Company, Saudi Arabia's PID public fund and Taiwan's Foxconn (see the *Corporate Financier* July/August 2017 cover story).

The UK government is certainly keen to show that the UK is open for business and foreign investment. In March a £13.8bn takeover of 61% of National Grid's gas distribution business to China's CIC Capital, Germany's Allianz Capital Partners, the Qatar Investment Authority, Australian bank Macquarie and other investors, was waved through ahead of any tightening of rules around foreign ownership of national infrastructure assets, and despite opposition from various quarters including the GMB union. "This was a significant and complex transaction under a tight timetable," explained National Grid chief executive John Pettigrew.

"You have to do as many things as possible to make the UK relatively attractive," says Knott. "Take financial services. A lot of people lay into the financial services sector, but it's an absolutely critical sector to the UK economy. We should be doing everything possible to make sure that we try to maintain as strong a financial sector as we possibly can, which means trying to ensure that there's no barriers to doing business apart from those that are going to be put in place as a result of Brexit. There are going to be so many negative flows as a result of the restrictions that we need to be countering them with policies that encourage investment."

TRICKLE-DOWN EFFECT?

Are protectionist measures something all dealmakers need to be aware of? Lawyers say they should be when attempting deals in sensitive sectors. "It definitely is increasingly," says Kautzsch. "When you work on deals in certain jurisdictions and sectors, you must be aware of potential restrictions in regard to protectionism, especially the governmental approvals

$25bn

Value of inbound investments to the MENA region in 2016

$17bn

Acquisition of Israeli companies by the US in 2016

MIDDLE-EASTERN PROMISES

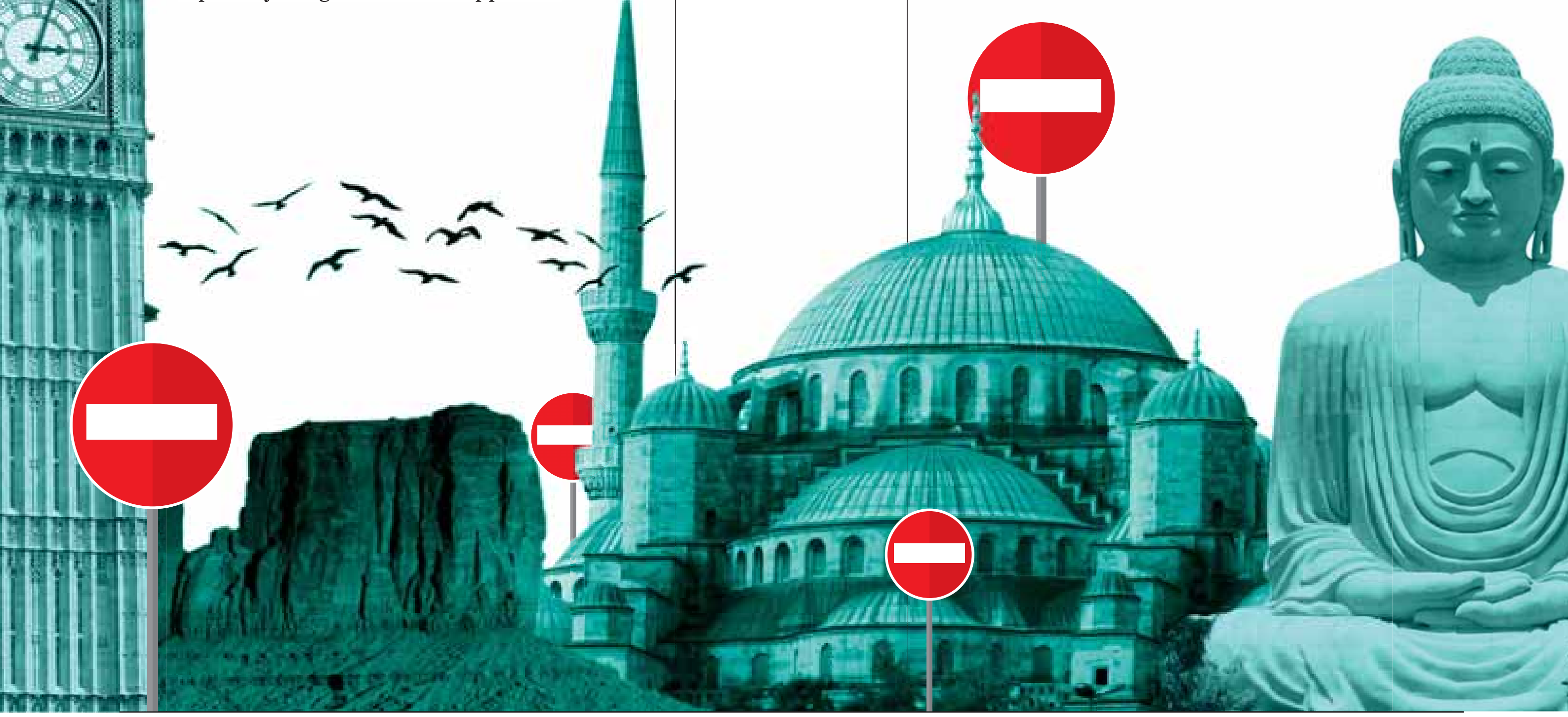
The MENA region may be opening up to foreign investors, but it is slow and highly selective. Overseas investor are guided to acquisitions in free zones, which exist in UAE, Oman, Bahrain, Jordan and Morocco. "It is not about which countries are most attractive, it is about which are most geared to accepting foreign investment," says Samer Qudah, head of corporate structuring in the UAE at law firm Al Tamim.

Inbound investments into the Middle East & Africa increased 55% to $25bn in 2016, the highest since 2013, according to Deloitte. China was the most active investor in the region, while there was $17bn of acquisitions of Israeli companies, mostly by US tech firms.

ANYTHING EU CAN DO...

In July the German chancellor Angela Merkel's cabinet approved rules that would protect the sale of strategically important businesses to non-EU investors. Takeovers where there is a risk of important know-how being lost abroad, must be approved by the Bundestag – doubling the review timescale.

"We remain one of the most open economies in the world, but we also need to take fair competitive conditions into consideration," said Brigitte Zypries, minister for economics and energy. "We owe that to our companies. They often compete with countries whose economies are not as open as ours."



you might require or the rights of the government to stop or block the transaction."

The additional uncertainty is forcing companies to reflect on whether they're going to embark on a transaction. "Uncertainty is never helpful in the transactions world," says Michel Driessen, senior partner, transaction advisory services at EY. "Certain kinds of deals may get put on hold or delayed for a little while but big, global deals will certainly continue. It will be interesting to see what the policies will be, but in the end I'm not sure how much a government can actually intervene." It does, however, add another layer of uncertainty. "The challenge from an adviser perspective is that clients like predictability," says Magnus. "If there is any sort of political discretionary element to takeover approvals it becomes inherently unpredictable. That tends to produce uncertainty for investors and vendors."

MID-MARKET POSITIVE

From a positive perspective in terms of deal flow in the UK mid-market, Henry Wells, UK head of M&A at Duff & Phelps, believes global protectionism has had little impact: "Of the deals we have completed in the UK over the past few years, which have been in the consumer, technology, services and industrials sectors, we have not seen any drop off in international buyer and investor interest and involvement." ●

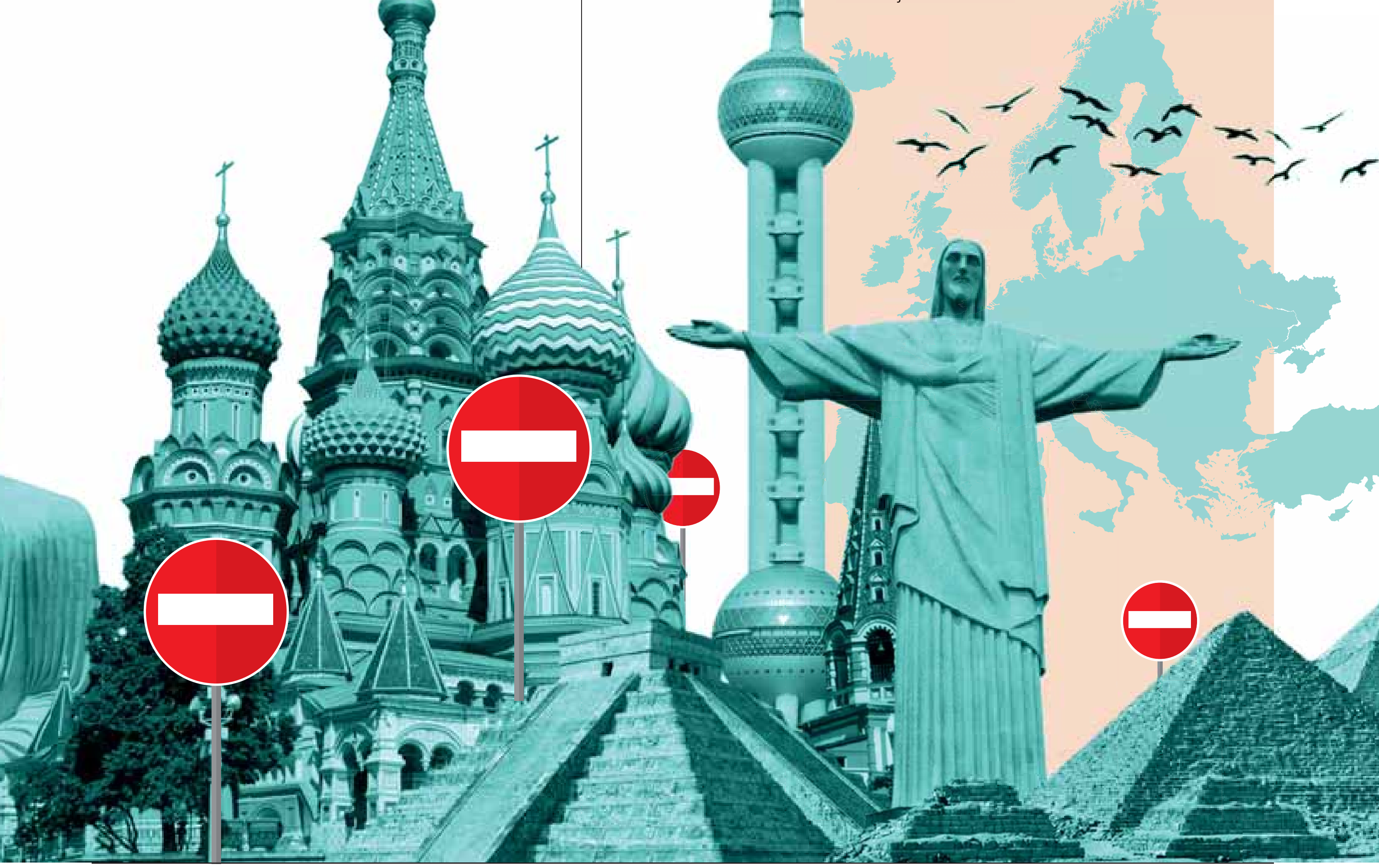
MORE THAN ONE WAY TO SKIN A CAT

Nestle over the years has established its business in China and the Middle East. In China it now has 30 factories, 47,000 employees and sales of more than CHF2.5bn in Greater China. In the Middle East the company's turnover is $2.4bn and it has 11,000 employees and 18 factories.

Nestle entered the Chinese market in 1987, establishing a presence in Shuangcheng, Heilongjiang province. Because the market was so underdeveloped, the firm had to start from scratch. It partnered with the local government to develop agriculture, and then followed that with partnership deals (rather than acquisitions) with Yinlu, Totole, Haoji, Dashan and Hsu Fu Chi.

Its Middle East strategy dates back to 1934, when it began importing products into Lebanon. In 1997 a host of national entities were consolidated into Nestle Middle East, covering the GCC and Levant.

The partnership approach has similarities with its development in Europe and the US, though in these developed markets, with a pool of established companies, acquisitions have been more significant. In the past decade, acquisitions have included Waggin Train, Kraft frozen pizzas, Prometheus Laboratories, Gerber, Novartis Medical Nutrition, Henniez, CM&D Pharma, Pfizer Nutrition, Pamlab as well as a host of joint ventures.



PREPARING FOR THE UNEXPECTED

Neil Kirton explains how Kroll's take on 'investigative due diligence' mitigates risk, protects reputations and improves the chances of completion

"What price are we paying? What is the equity raise required? How do we best present this information to the market? How will the market react?" These are the questions on the lips of directors, their investment bankers and corporate communications specialists. But, to get to that stage, it is highly likely that investigative due diligence will have been carried out to generate a higher level of understanding of a particular situation – whatever the specific due diligence may have been.

Capital markets aside, there are many different contexts where the need for investigative due diligence can arise. A client could be buying or selling an asset, funding an infrastructure deal, recruiting a key person, or wanting an understanding of a counterparty in a developing jurisdiction.

NEED TO KNOW

Investigative due diligence is often an extra information set, complimentary to the reports produced by the legal and commercial due diligence process, but probably outside the scope, for example, of the sell-side analyst.

When it comes to pre-transactional work, there is a recognition that people need and want to know more. If you are sponsoring an infrastructure deal in an emerging jurisdiction, the origination process can be long and complex.

CASE STUDY: PREPARING FOR AN ATTACK

A UK-listed company, which had rebuffed one takeover approach, believed a second was coming. In the first phase, Kroll worked with the client and its advisers to independently review the company's potential vulnerabilities in an M&A situation. Business intelligence and financial investigations were combined to add to the client's existing understanding of any weaknesses that a predator might focus on. Secondly, Kroll held a similar exercise on the predator. For both, Kroll undertook discreet reputational reviews, investigated the provenance of assets, and recommended to its client how it best shore up its defences.

M&A, like all commercial activity, is about balancing risk and reward. De-risking deals is key to getting them over the line. In times of uncertainty, managing risks effectively, efficiently and realistically is likely to become even more important. That's why, as part of a Corporate Finance Faculty initiative, *Corporate Financier* is running a series of features about how to anticipate and tackle risks - particularly in larger, complex and multinational transactions - and get deals done.

Lorraine Lloyd-Thomas's article on M&A warranty and indemnity insurance featured in our June issue, while Lizzie Wills examined political due dilligence in the July/August edition of *Corporate Financier*.

Reviewing bribery and corruption risks, understanding key stakeholders, security of tenure, the integrity of tender processes, all are essential components.

When an obscure activist investor, for instance, appears on a client share register, the board or their advisers might want to know more about them. A lot of activism goes on that never makes the mainstream press. Boards will approach us before a situation develops. Sometimes, more problematically, they do so after they're under public pressure.

Post-transaction, an acquirer may want to investigate further. They may want to fully address issues with the benefit of ownership. For instance, once the deal is completed, they may want to undertake bribery and corruption reviews or third party supply chain reviews.

Successfully integrating acquired businesses is vital to de-risking, as well as maximising the chances of economic success.

The real value from investigative due diligence is the provision of insight – well researched and triangulated – an extra information set, and the foundation for decision-making. There is an enormous amount of information out there, if you know where to look. Finding the relevant information is vital, but the crucial thing is that you address the key issues without prejudging what is and is not going to be important to the client.

CASE STUDY: PREDATOR ON THE HORIZON

A large European-listed company was enduring a cyclical downturn, constantly announcing reduced turnover and adjusted profit expectations. A potential predator announced a disclosable stake in the business. To help prepare the client for a potential attack, Kroll's forensic accountants analysed the stake-builder's accounts, and looked at the small number of fairly significant acquisitions it had made. Kroll reviewed the post-acquisition actions and management approach of the predator – the particular focus was on employee wellbeing. Kroll briefed the group board before a CEO-to-CEO conversation.

CASE STUDY: A POTENTIAL ACQUISITION IN THE UK

Kroll reviewed an individual described by its client as a key man in the management team of a business it was considering acquiring in the UK. With no significant pre-existing concerns, the subject had a long and well-documented commercial history, but the recent performance of the company had deteriorated.

A comprehensive review and analysis of public records, with discreet human resources enquiries, revealed several events and key management changes that had contributed to the individual's and the company's difficulties. Kroll recommendations were aimed at revitalising both the 'key man' and the company.

CASE STUDY: INVESTMENT IN AFRICAN INFRASTRUCTURE PROJECT

Kroll carried out a pre-transactional due diligence assignment on two infrastructure projects in Africa for a client looking to provide finance as part of a PPP structure to a large energy and transportation project. Kroll assessed the integrity of the entities, which were participants in the project, and also the governance and transparency of the project's origination. Using its networks, Kroll provided insight into the commercial and reputational risks associated with interacting with the state.

CYBER RISKS

One area that comes up more and more frequently is cyber risk. In the wake of the WannaCry virus that hit the NHS, as well as many other businesses and public institutions across the globe, it's very much in the forefront of a board's mind.

Many have seen the reputational and economic damage that can result from data breaches and attacks, perhaps most clearly in listed companies. In February it was announced that $350m was wiped off the price Verizon paid for Yahoo's internet business after two significant data breaches were disclosed. In October 2016, TalkTalk was fined £400,000 for a data breach involving 157,000 customers. There are many examples out there. The implementation of the General Data Protection Regulation in May 2018 is focusing attention on compliance.

Buyers and sellers are increasingly including data and network security reviews in pre- and post-transactional due diligence work. They want to know where data is, and how secure it is before buying a business. There are also increasing examples of pre-sale reviews.

SHOWSTOPPERS

Regulation and compliance are drivers of demand for investigative due diligence, but so too is the appetite to invest and divest – particularly in less developed jurisdictions. Our clients invariably know a lot before they come to us, but often need help interpreting information, or interrogating what they think they know.

Quite often, they are trying to fill information gaps and provide answers to questions that financial and legal analysis cannot capture. Investigative due diligence can deepen the client's understanding of a situation – a business counterparty's motivations, reputation, background and integrity. Going the extra mile to learn more can be valuable, not just to the assessment of a situation, but to how you then structure your approach and manage the situation post-transaction. By investing in thorough preparation, you can mitigate risk and refine your tactics and approach.

It's relatively rare that we see or find a showstopper of some sort. Investigative due diligence not only adds to the existing knowledge base, it can be vital to avoiding pitfalls that are damaging in terms of cost and reputation. ●

Neil Kirton, **head of business intelligence and head of Kroll's London office. Kroll Advisory Solutions is a member of the Corporate Finance Faculty**

TRANSFORMING TRANSACTIONS

M&A in the TMT sector may have seen a slowdown in the first half of 2017. But **Linda Sullivan** says there are dynamics that point to an increase in transactions

GETTY

Global dealmaking across the technology, media and telecommunications (TMT) sector dropped in the first half of this year. The TMT sector recorded 1,482 M&A transactions globally, worth $176bn - 20.9% down in value, and 84 deals lower compared to H1 2016 (1,566 deals worth $222bn). TMT was, however, the second highest in deal count after energy, mining and utilities for the period. The computer software subsector boosted deal volume.

The decline was in part driven by the high valuations TMT companies had been commanding before 2017, following the last two years of record deal flow. There has also been a dearth of megadeals announced compared to previous years. But there are a number of factors that suggest that the environment for TMT M&A in the UK and globally will improve over the next year. Increasing competition, companies' search for growth and disruptive technology all have the potential to help spark a rebound in transaction volumes.

ENCOURAGING MEGADEALS

The slowdown in M&A was pronounced across TMT subsectors in the US, according to figures gathered by MergerMarket. There was a decrease in deal value by more than 25% in the first quarter of 2017 compared to Q1 2016. In the UK, the value of deals in the first three months of this year was £32bn - a slight decline on Q1 2016. The lack of megadeals in the sector, such as SoftBank's £24.3bn takeover of ARM Holdings in 2016 and the planned £11.7bn Sky-Fox merger, largely accounted for this decline. Yet, against slowing activity in the US and the UK, European M&A climbed 16% over the same period to $215.3bn - the highest first quarter since 2008.

However, a number of TMT megadeals announced in the first half of 2017 point to an encouraging outlook ahead - Idea Cellular's takeover of Vodafone India for $12.7bn, Cisco's $3.7bn acquisition of AppDynamics, and SoftBank-backed OneWeb's merger with satellite operator Intelsat (valued at $14bn) suggest more transactions may be under way.

In the consumer media sector, deal activity was led by a number of notable transactions, including Amazon's reported $650m takeover of e-commerce platform Souq.com. Other large deals that were announced included Hubert Burda Media's acquisition of Immediate Media, publisher of special interest magazines, from Exponent Private Equity. All these deals point towards a gradual yet steady pick up in transactions.

BUSY MID-MARKET

Against a backdrop of global TMT consolidation, we have also seen increasing M&A mid-market activity. This has been largely driven by bigger media groups looking to enhance their offering through acquisitions of small and mid-market innovators, which are able to demonstrate the potential to be scaled up rapidly and provide access to new markets.

According to the Deloitte's *Media Metrics 2017* report, the top 100 UK media and entertainment companies have averaged growth of 6% over the past three years, and have a combined revenue of £87bn (as at April 2016). These companies have been increasingly acquisitive both within and outside of the UK. Particular interest was shown overseas in mature markets in Europe and North America, where companies have made acquisitions to boost their scale and international footprint. They have also acquired in emerging markets. For example, in January UK-based media group Dentsu Aegis Network acquired Indonesia's largest independent advertising and media network, Dwi Sapta Group.

DISRUPTION AS A DRIVER

Digitalisation is rapidly changing the business landscape for UK companies and businesses globally. It continues to drive M&A as firms turn to acquisitions in their search to rapidly expand and digitise their products and services.

The media and entertainment industry was among the first to show the power of disruptive innovation, with many large organisations transforming their businesses by diversifying. While the digital business model is still developing, there is an ever-growing need to capture new technologies and the opportunities they present. This explains why many have looked to improve their capacity to offer a compelling multi-channel experience across physical and digital mediums.

Many tech and media giants are now looking to diversify their services beyond their traditional remit. In March Intel acquired autonomous cars software developer Mobileye in a $14.7bn deal. The same month Cisco completed its takeover of AppDynamics.

Notable deals in the media space include UK consultancy Four's acquisition of Insight Consulting Group, as well as digital market group Be Heard's acquisition of marketing innovation consultancy Freemavens. Such targets, which are focused on virtual reality, e-retailers and companies providing software offerings via servers in remote data centres and through the cloud, will certainly continue to be attractive, and are likely to drive cross-border M&A, according to MergerMarket.

$176bn

global TMT sector M&A transactions for H1 2017

$650m

Amazon's deal for e-commerce site Souq.com

6%

average growth of top UK media firms in past three years

We are seeing growth in the data and analytics sector of media, and growth in events businesses

DIGITAL SHIFT

Demand for digital agencies offering a range of online design, development and marketing services has been strong as companies seek to enhance their digital capabilities in an effort to satisfy the demand for clients looking to improve their online experience. The expectation is that traditional media companies will continue to enhance their operations with acquisitions.

In addition, we are also seeing growth in the data and analytics sector of media, and growth in events businesses. Two examples are UBM transforming itself into an events business, and Ascential (formerly Emap), which has just acquired the US-based Medialink, becoming an information services and events business, and selling off its print assets.

These trends have been particularly strong in the UK. Examples of such deals include digital communications group Next 15's acquisition of B2B creative marketing agency Twogether Creative in 2016 – both companies were looking for a number of synergies. Businesses are recognising that embracing the continued shift to digital requires changes to the core business model. As a result we can expect more of the larger quoted media businesses to sell their print assets and acquire in the digital online and mobile sector.

LONDON LEADS EUROPE

Market activity that is marked by growing competition to innovate and cater for the changing needs of the tech savvy population means that M&A will remain an attractive tactic for many tech, digital, media and entertainment companies as they tackle structural change in the industry and explore new avenues for growth.

In the UK, factors such as London's position as a media and entertainment hub, as well as a global tech capital, should ensure that deal flow remains robust. The fall in the value of sterling is attracting overseas bidders. How Brexit talks proceed will prove crucial in ending some of the uncertainty around the UK economy, to give buyers confidence in valuations and acquisition strategies, which should see TMT deal flow increase over the coming year. The recent moves by BMW increasing UK manufacturing of the electric Mini and Google increasing the size of its European headquarters in London indicate that the UK remains a very attractive place to do business. ●

Linda Sullivan, partner and head of media and digital technology group Cavendish Corporate Finance, a member firm of the Corporate Finance Faculty


Chartered
Financial
Planners

WHO'S IN CONTROL?

Under EU regulation, AIM-listed businesses must highlight those with significant control in a special register, explains **Jane Bondoux** of Travers Smith

Since April 2016, unlisted UK companies have been required to identify individuals with significant control over them, be that directly or indirectly. Broadly it applies to those with more than 25% of shares or voting rights, or otherwise with the right to exercise significant control. Companies must publicly disclose details of any people with significant control (PSCs) in a PSC register. Details are filed at Companies House. LLPs are subject to similar requirements.

New regulations, which came into force on 26 June, have brought AIM companies, and certain other entities, within the scope of the requirement for a PSC register.

APPLICATION OF THE PSC REGULATIONS

Public companies, subject to securities law requirements considered equivalent to the PSC regime (including the Disclosure Guidance and Transparency Rules in the UK, and certain equivalent international regimes), were all previously exempt. However, as a function of the EU directive that the PSC Regulations implement, the exemption will now only cover companies listed on markets, which are EU regulated markets. As a result, AIM companies and companies quoted on the NEX Exchange Growth Market no longer benefit from the exemption.

TIMING

Companies newly subject to the regime were given a transitional period from 26 June to 24 July to investigate their PSCs, before the obligation to maintain a register would apply.

The Department for Business, Energy & Industrial Strategy has provided guidance that after this date, companies will have 14 days to enter the relevant information in their PSC registers, and 14 days from any entry in the register to file this information with Companies House. The company will be under an obligation to keep this information up to date and to file any changes at Companies House within 14 days. Failure to comply with this is an offence. ●

The exemption will now only cover companies listed on markets, which are EU regulated markets

Jane Bondoux, corporate lawyer, Travers Smith, who specialises in financial services

AIM REQUIREMENTS AT A GLANCE

Obligations for companies	Obligations for shareholders
• Take reasonable steps to identify PSCs • Contact the company's PSCs, or those who may know them, to obtain/ confirm PSC information • Write up the company's PSC register • File PSC information at Companies House • Keep PSC information in the register up to date • File changes to the company's PSC information at Companies House within 14 days	• Ascertain whether they are a PSC/RLE in relation to any UK company (the PSC regime only applies to UK companies) • Respond to any requests for information in relation to their PSC/RLE status (Legitimate requests would include any requests made under the Companies Act or the PSC regulations) • If no requests are received, report their PSC/RLE status to relevant companies • Notify any changes to their PSC/RLE status

OTHER CHANGES

The regulations have brought other changes to the regime in general. Most importantly, changes must be filed at Companies House within 14 days of being made to the PSC register, rather than annually as was previously required. The regime also now applies to a wider range of entities, including Scottish limited partnerships.

COMMENT

The imposition of this additional burden on AIM companies is a product solely of the drafting of the EU's fourth Money Laundering Directive. There is no logical reason to distinguish UK AIM companies from Main Market companies. Indeed, DTR5 of the Disclosure Guidance and Transparency Rules applies equally to both. It is to be hoped that there will be a rethink of this obligation in due course, as a result of Brexit or otherwise.

TEAM BUILDER

The Corporate Finance Faculty annually presents the two most successful students of the ICAEW Diploma in Corporate Finance with outstanding achievement prizes. Jo Russell talks to 2010 winner **Dan Nixon** – now a partner at Wilkins Kennedy

DAN MURRELL

WHEN DID YOU SIT THE DIPLOMA?

I sat the diploma in September 2010 and received my award in December. At the time I was an associate director in the corporate finance team at Wilkins Kennedy. I joined the firm in 2002, having studied accounting & finance at Nottingham Trent University and trained as an ACA. I moved into the corporate finance team in 2006, which was a new department at the time. I had a six-month secondment to the team and, as our managing partner Andy Coghlan would say, I've been 'on probation' ever since!

WHY DID YOU TAKE THE EXAMS?

As we were a corporate finance start-up, the diploma wasn't on our radar at first. But Wilkins Kennedy has a strong training environment and culture. We expected that over time the diploma would become similar to the ACA qualification, but for people who work in corporate finance, it would become the corporate finance standard. It was decided it would be the right thing to do for relevant members of the team to get the qualification.

IN WHAT WAY WAS IT USEFUL?

I genuinely believe it's the most relevant exam I've ever taken. The case study exam was based on a real life example of a deal that had occurred the year before. It was a private equity-backed take-private of an IT business, with an enterprise value about £20m. The work you had to do for the exam was primarily a valuation exercise. And that was entirely relevant to what we do on a day-to-day basis.

HAVE YOU APPLIED YOUR LEARNING?

I still use the Excel model I built during the exam. I still deal with cash flow, enterprise valuations, weighted average cost of capital, and beta based on comparable companies in that very same way. Recently we were acting for a client in the waste management sector on the buy-side of a deal. By using the model and method from the exam, we established that the valuation expectation of the sellers was too high. The colleague I worked with had just passed his diploma, so we were able to approach the exercise from the same perspective, talking the same language.

HOW HAS YOUR CAREER PROGRESSED?

We've continued to grow our corporate finance team – I'm now partner and head of transaction support, and we have a team of 16. Last year I won young dealmaker of the year at the South East Dealmakers awards, and this year we won corporate finance advisory team of the year. We started out as a small team with a limited profile and have grown to become an established corporate finance practice.

WHAT PROVED MOST USEFUL?

The art of corporate finance is often learned through real deal experience, coming across problems and finding solutions as the deal develops. When I took the diploma exam, we were a small, new team. I essentially learned what to do by working with my now managing partner, without much knowledge of the theory. The diploma was good for providing the theoretical background to that practical experience.

Returning to a college environment and being shown the theory framed everything I had learned up to that point. I'd definitely recommend getting some corporate finance experience under your belt before going into the exam. The exam is around the provision of complete advice from the beginning to the end of a transaction. If you are at a more junior level, you don't have that level of exposure and it might be difficult to understand the theoretical side.

WOULD YOU RECOMMEND IT TO JUNIORS?

We believe the diploma is a great basis for learning. Three of our team members have already sat it, with a fourth looking to start the course this year. The expectation within the team is that when people reach the appropriate level, they will sit the exam. It probably makes us even more appealing as employers. ●

Find out more at icaew.com/cfq

APPOINTMENTS

TAN WHITE JOINS BGF

Investor and entrepreneur Wendy Tan White has joined the Business Growth Fund's venture arm, BGF Ventures, to help manage its £200m fund. She joined from start-up builder Entrepreneur First (EF), where she will remain a limited partner and shareholder.

Tan White started her career with Arthur Andersen as a management consultant, and in 1999 co-founded SAAS business, Moonfruit. She became CEO in 2010, and oversaw the sale of the business to Hibu in 2012 for $37m.

She sits on the board of Tech City, and is an advisory board member of the Government Digital Service.

PROMOTIONS AT GRANT THORNTON

Grant Thornton has recruited Angela Haygarth as associate director and Gemma Legg as manager to its corporate finance team in Thames Valley and the south. The team has recently advised on the sale of the Reading-based automotive components manufacturer Magal Engineering, and the sales of Acoura, Worldnet International and SecureEnvoy.

Haygarth has joined from Nortons Group. She has almost 20 years' corporate finance experience, having previously also worked for BDO in Reading. Legg, who in February was named *Business Insider's* young dealmaker of the year in the south east, has joined from RSM Corporate Finance.

Both will work across the firm's offices in Oxford, Reading and Southampton.

The firm has also promoted Jon Stubbings to director in its transaction advisory services team in London. He specialises in the TMT sector, and joined the firm in 2006 from Peters Elworthy & Moore, where he trained as an ACA.

CASALI JOINS SMITH & WILLIAMSON

Smith & Williamson has recruited Daniel Casali to head up its investment strategy team. He has more than 22 years' experience in buy-side and sell-side advisory, in Europe and Asia. Most recently, he was lead strategist for RAYS Absolute Return Fund in Hong Kong. Prior to that he worked at Bank of America and Merrill Lynch.

Co-chief executive David Cobb (left) said S&W recognised the need for an experienced investment strategy team and was commited to continue investing in this area, before adding: "Daniel brings a wealth of experience."

NEWS IN BRIEF

Christian Mouillon (1), former global vice chairman at EY, has joined **Duff & Phelps** as a global senior adviser to grow the firm's valuation practice internationally. Yann Magnan (2), managing director and leader of Duff & Phelps valuation advisory services for Europe, is now the firm's EMEA leader.

UK Finance has been formed to represent the British finance industry, with the merger of six separate lobby groups: the British Bankers' Association (BBA), the Council of Mortgage Lenders, the Asset Based Finance Association, Financial Fraud Action UK, Payments UK and the UK Cards Association. Stephen Jones, previously of US private equity firm Cerberus, is chief executive.

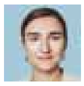
Daiwa, the parent of **DC Advisory**, has acquired Sagent and Signal Hill in the US. The combined businesses, **DCS**, will focus on North American M&A advisory.

Simon Quin (1) has been promoted to SME global transaction banking director for the North East, Yorkshire and Scotland at **Lloyds Bank Commercial Banking**, which provides invoice finance facilities to businesses with £1m-£25m turnover. Tracy Gillett (2) has been made working capital solutions director, based in London.

K3 Capital Group has recruited Martin Robinson (1) as an independent non-executive director, and Stuart Lees (2) has become executive director, after two years as non-executive.

Sunil Prabhaker has joined **Clydesdale and Yorkshire Bank**'s Birmingham acquisition finance team as director from Deloitte's transaction services team. He trained as an ACA with Grant Thornton.

Andrew Higginson, chairman of Bradford-based supermarket Morrisons and ITC Luxury Travel, as well as non-executive director at Woolworths South Africa, has been appointed UK chairman of **Clearwater International**. He was chairman of Poundland under Warburg Pincus ownership, and through its IPO. He also spent 15 years on the Tesco board.



Marta Jankovic has been appointed chairman of **Invest Europe**, the association representing European private equity and venture capital. Jankovic is senior investment and governance specialist at pension asset manager APG. She succeeds Dr Gerry Murphy.

BIG FOUR PROMOTIONS

PwC has appointed 52 new partners in the UK, of whom six were in transaction services: Steve Aherne, Bronwen Alexander, Simon Bradford, Syedul Hussain, Greg Main, Robert Turner, and Alan Hendry, who has been promoted to director in PwC's deals team in Scotland. Based in Glasgow, he has almost a decade of M&A experience, across a range of corporate and private equity clients.

Deloitte has promoted 57 partners in the UK, of which 10 were in the financial advisory sector. Roughly a quarter of the promotions were outside of London.

The 10 new financial services partners are: Ben Davies, who specialises in debt advisory, debt restructuring and business turnarounds; Caroline Waldock, who specialises in SPAs; Catherine Skilton, health sector transactions and restructurings; Christian Ebner, cross-border restructurings; Floris Hovingh, debt advisory; Jason Spencer, technology due diligence and post-merger integration M&A service; Mark Diffey; Oliver Tebbutt; Rob Beeney; and Russell McMillan.Waldock leads Deloitte's real estate SPA practice, Hovingh is head of alternative capital solutions in the debt advisory team and Beeney works in the equity capital markets team focusing on listings and public company transactions.

EY has made 63 partner promotions in the UK, including 14 in transaction advisory services: Paul Ahern, Peter Arnold, David Baker, Mark Clephan, Roy Cornick, Nicholas Fox, Jane Gray, Hilary Heap, Shane MacSweeney, Julian Ramsey, Matt Robb, Ally Scott, Michael Timmins and Matthew Webster.

LEGAL BRIEFS

Dentons has taken over the Scottish law firm Maclay Murray & Spens. The merged firm will have 800 fee earners in the UK, including 200 partners, with offices in Aberdeen, Edinburgh, Glasgow, London, Milton Keynes and Watford. Dentons will have around 8,700 lawyers and professionals.

Christopher Kellett has joined Linklaters' private equity practice in Germany. Earlier this year, he retired from Clifford Chance, where he led the private equity practice in Germany for 21 years.

Jeremy Davis has joined McGuireWoods in London, from K&L Gates, as partner to enhance the firm's global M&A capability. Prior to that he had worked for Jones Day and Linklaters.

Kirkland & Ellis has recruited Attila Oldag as partner in its Munich office, from Gütt Olk Feldhaus, where he had been a partner since 2013.

PE SHORTS

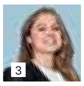
Albion Capital, Concentric Team, Mustard Seed Impact, Startup Funding Club and Venture Founders have joined the **London Co-investment Fund** (LCIF), the Mayor of London's early-stage business fund backing fintech, artificial intelligence and big data firms. They will invest in London start-ups through the LCIF's Tech Fund.

Launched in 2015, the LCIF, which supports firms looking to raise between £250,000 to £1.5m and is managed by Funding London, has invested £14m into 88 tech companies, which have attracted more than £98m of co-investment.

Will Fraser-Allen, deputy managing partner at Albion Capital, said: "The opportunity to partner with LCIF further builds Albion's position as a leading investor in growing and innovative London businesses. Digital health, automation, cyber and data analytics are important investment themes for Albion, and London is a great source of businesses for us to support."

Mid-market private equity firm **LDC** has appointed Gareth Marshall as investment director in Leeds from PwC, where he spent eight years as an M&A director in its corporate finance team. Prior to that he was at KPMG.

Key Capital Partners has promoted James Excell to investment director. He joined the London office of the private equity firm last year from FTI Consulting, having previously worked for Grant Thornton.



Maven Capital Partners has opened a new office in Durham; having earlier this year recruited a team following the announcement that the private equity firm would be managing the new £20m Finance Durham fund. Michael Vassallo (1) joined as investment director from Newcastle-based FW Capital, investment manager Michael Dickens (2) and marketing associate Emma Neal (3) from Rivers Capital.

Andrew Mainwaring (1) and Andrew Priest (2) have been promoted to partner at **Inflexion**. Mainwaring is in the private equity firm's enterprise fund team. Priest leads the firm's origination team, and works on building out its network of senior business leaders.

Oliver Hemsley (1) and Josyane Gold (2) have joined the board of advisers at **Palamon**. Hemsley is the founder and former CEO of Numis Securities, the London-listed small and mid-cap capital markets specialist. Gold has spent nearly 25 years as a partner at SJ Berwin (latterly King & Wood Mallesons).

THE CV

Neil MacTaggart FCA trained with Bishop Fleming in Torquay. He was founder and CFO of Suffolk Street Group, where he specialised in debt portfolio acquisition, finance and administration. Having gained a broad range of experience, including asset finance and corporate finance deals in the property, construction and leisure sectors, in 2002 he co-founded Media Asset Capital (MAC) and is its CEO. MAC is a long-standing member of the Corporate Finance Faculty.

Recent deals

- Ericsson on their acquisition of RedBee Media
- Riverwood Capital's acquisition of Sintec Media
- Vitec Group's acquisition of Teradek

IN OTHER NEWS...

Finding a suitor for a media business with an exiting management team isn't easy. It takes persistence, innovation and understanding, says **Neil MacTaggart**

WHAT IS THE DEAL?
UK growth capital investor FPE Capital's buy-out of Masstech Innovation from its original investor – Covington Capital – and the acquisition of SGL. They were then merged to create a £10m revenue business. Both manage professional digital video assets globally in broadcast news, production and playout. The complex transaction completed in May 2017.

HOW LONG DID IT TAKE?
We'd been looking at exit strategies for SGL, including speaking to potential trade buyers, for a couple of years. We worked on the Masstech option for a year and pulled the whole thing together around November 2016 with FPE.

WHAT DROVE THE DEAL?
The three SGL shareholders wanted to retire. They felt they'd done everything they could, but there was no second-tier management team, which restricted the ability to sell the company. You could only sell to a trade buyer with sufficient management bandwidth. Masstech was Canadian with most of its business in the US and a strong management team. It was 90%-owned by Covington Capital, which needed to sell the business to close its fund. Covington wouldn't back an acquisition of SGL and, although there was pressure to sell, they were not going to give Masstech away.

WHAT WERE THE GAINS?
Putting the two businesses together gave you a single entity with a better geographic spread – taking SGL into South America and Masstech into Australia and Asia. The merger gave improved product offering. And there was an opportunity to reduce overheads. They lost one management team and cut the marketing spend. The intention is now to expand and go aggressively after more business.

WHERE DID FPE COME IN?
Both clients had issues – they were too small to get critical mass in the marketplace and gain traction against multinational competition. We approached FPE Capital, whom we'd worked with in 2012 on its investment in Sohonet. We put the deal to FPE that it effectively invests in the Masstech management team – and buys both simultaneously. Another challenge was the fact that we had an English and a Canadian company, with a substantial part of both businesses in the US, and subsidiaries in more than 50 countries.

HOW WAS THE DEAL STRUCTURED?
FPE initially financed the deal with 100% equity. With the complexity of the deal, it was too difficult to synchronise it with introducing leverage. Obviously it would be looking to refinance.

WHO WERE THE ADVISERS?
Media Asset Capital was lead adviser to Masstech and SGL. Kitsons was legal adviser to SGL and Wildeboer Dellelce to Masstech. Partner Llewellyn John led the investment by FPE, who used RSM Corporate Finance for financial due diligence, CIL Management Consultants for commercial due diligence, Charles Russell Speechlys for legal due diligence and Intuitus for IT due diligence.

WHAT NEXT?
Both have substantial annuity income and 'sticky' product. That cuts both ways. In the US there is lot of consolidation going on, which is a threat but also an opportunity. Masstech is getting more product into the consolidators. ●

PHOTOGRAPHY: BILL MORTON

The Beauhurst platform lets you discover the UK's fastest-growing businesses.

Used by hundreds of organisations to

Find high-growth, innovative businesses.

Track their activity with instant updates.

Monitor market trends and developments.

The most innovative companies

9,500+ equity-backed companies

2,600+ accelerator participants

3,000+ scaleups

12,000+ Innovate UK projects

Comprehensive data including

50,000+ transactions

70,000+ key contacts

7,500+ news articles

6,000+ investors

We'd love to show you around the platform.

020 7062 0060

beauhurst.com

info@beauhurst.com

@beauhurst

/company/beauhurst

/beauhurstuk

Beauhurst

Beauhurst

www.beauhurst.com