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SEARCH: ALL-NEW FORD FIESTA

May 2018 Issue 202

GROWTH
OPPORTUNITIES
EXPERTISE

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If at first you don't succeed



"...then try, try again". It may not be a Japanese proverb, but it certainly seems to have been adopted by Japanese pharmaceutical company Takeda. At the fifth time of asking, it appears to have struck a deal to buy Irish pharma business Shire.

The price? Shire has come to the table to talk about \$65bn which, if completed, would make it the biggest ever acquisition by a Japanese

company. Of course, regulators may like to have a say – which is to be expected in a takeover of such magnitude.

Sitting down at a table certainly does not mean the deal is done, but Takeda's recent track record has seen it take transactions through to completion – including Ariad Pharmaceuticals last year for \$5.2bn, and in 2016 it paid \$32bn for Baxalta.

If Takeda completes its acquisition of Shire, it will be the 13th largest acquisition of all time. Unlucky? Well, in Japan four is considered an unlucky number, so maybe not.

As we all know, relying on luck in M&A is not a healthy approach. In this month's cover story (page 18) due diligence is in the spotlight. With valuations 'baking in' future upsides, advisory firms are adapting transactions services to meet their clients' changing needs.

The pharma and healthcare sector has been in good shape during the early part of 2018. A record \$183bn of pharma deals have been announced across the world in the first four months of 2018 – a record for any year for the sector, and more than the annual total for the previous two years. And there have been \$275bn of healthcare deals unveiled worldwide too – itself a record for the first four months of the year.

There are many drivers for M&A in these sectors – consolidation to cut costs is certainly one. In January 2017, Donald Trump, in his first news conference as US president-elect, turned his ire on the pharmaceutical industry, accusing it of "getting away with murder" when it came to the prices it charged. Trump was echoing concerns in the US business class about the rising cost of healthcare.

Corporate Financier ran a cover story in May 2016 about innovation in healthcare, highlighting a sector clearly set for disruption through technology. This trend is also now starting to appear in M&A.

In January 2018 Amazon, JPMorgan and Warren Buffett's Berkshire Hathaway announced they were teaming up to form a business that would cut healthcare bills. Amazon's involvement will no doubt convince some 'traditional' healthcare accompanies that it's time for a check-up.

Marc Mullen
Editor

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NEWS & EVENTS



THE FACULTY JOINS 10 DOWNING STREET ROUNDTABLE



ICAEW was invited to take part in a roundtable at 10 Downing Street with Jimmy McLoughlin (pictured, top left), the prime minister's special adviser on business.



The meeting was organised by Carolyn Dailey (left), founder of learning and networking platform Creative Entrepreneurs. Shaun Beane (bottom left) of the Corporate Finance



Faculty took part alongside several prominent entrepreneurs, academic and organisational directors from across the digital and creative world, including: Charlotte Tilbury, founder of Charlotte Tilbury Beauty; Matt Miller, co-founder of ustwo; Carmen Busquets, founder of Cabus Ventures; François Ortalo-Magnè, dean at the London Business School; Pat Loughrey, warden at Goldsmiths; Alice Black, director at the Design Museum; Jeremy Silver, CEO of Digital Catapult; Denzyl Feigelson, founder of Platoon; and Malcolm Murray, head of corporate at Lee & Thompson.

Subjects discussed included the government's general support for the creative industries, the lack of awareness

in the UK about creative entrepreneurship, the Industrial Strategy sector deal (still to be announced), advocacy of the sector by prominent entrepreneurs, and education and the perceived downgrading of creative subjects in state secondary schools in favour of science, technology, engineering and maths.

Beane set out the investors' and advisers' view of the relative risk profiles of different types of creative businesses, and how seed funding for scale-up companies from agencies, such as Innovate UK, and investment readiness programmes can lower risk profiles.

The meeting has built on ICAEW's ongoing contribution to the UK government's Industrial Strategy, which has also included membership of the Financing Growth working group of the government sponsored Creative Industries Council, Beane's chairmanship of Immerse UK's Access to Finance working group, and the ICAEW publications *Creative Industries - routes to finance* (published by ICAEW with 52 government, creative and investment organisations) and *UK television in focus* (published by ICAEW with PwC).

Beane recently worked with Creative Entrepreneurs in devising courses in partnership with the Design Museum for young start-up entrepreneurs.

FRP ADVISORY JOINS CORPORATE FINANCE FACULTY



FRP Corporate Finance (part of FRP Advisory) has become the latest independent M&A advisory firm to join the Corporate Finance Faculty.



The firm has five corporate finance partners: Matthew Flower (1) (London); Adrian Alexander (2) (Brighton); Adrian Gare (3) and Martyn Rickels (4) (Manchester); and Mark Naughton (5) (Bristol). Directors



Colin Strevens, based in Birmingham, and Harry Walker, Leicester, focus on the midlands market.



Rickels joined from

RSM in 2013, and Gare from Diagnostic Capital in 2015, having previously been at RSM and having held senior board level positions in the industry.

In February 2017 Flower joined from AlixPartners, having previously worked for Zolfo Cooper, Piper Jaffray, ING, Deutsche Bank, UBS and PwC. Naughton joined in July 2017 from Grant Thornton where he led the South West and Wales corporate finance team for 10 years.

In November 2017 Alexander joined after 24 years with Mazars, where he led the South East corporate finance team. He previously worked for Grant Thornton.

Stevens joined from PwC in January 2017 and Walker in April 2018 from Grant Thornton.

FRP Advisory managing partner Jeremy French said: "The firm is making a significant investment in the team and supporting infrastructure, and we're now on the road to becoming a serious player in mid-market transactions. Joining the faculty, which is the premier corporate finance representative body, is an important part of the firm being recognised in the market."



THE FACULTY WELCOMES ANTHERIS ABOARD



The Anthesis Group, the sustainability advisory firm, has joined the Corporate Finance Faculty. Historically known in the corporate finance community as a commercial due diligence adviser in the waste and energy sectors, the firm has recently significantly reinforced its environmental, social, governance (ESG) consulting and due diligence offering.

Tim Clare (1) is the team's director and joined Anthesis in

October 2017 from Ramboll Environ. He has also previously worked for WSP, URS, Dames & Moore and Babtie Group.

Clare said: "At Ramboll I saw the benefits and very much enjoyed being part of the Corporate Finance Faculty. The corporate finance houses and investment banks are a conduit to the private equity firms that we routinely work for. It's a great opportunity to network with those involved in transactions."

Much of the transactions team has been recruited from former European Ramboll teams during 2017. Clare said 80% of the work they currently do at Anthesis is transaction-related, with the other 20% about helping private equity firms develop procedures and policies for ESG, and working with their portfolio

companies to roll out procedures.

They determine key performance indicators and set and deliver related improvement targets.

"ESG is perhaps the most written about but under-delivered service," said Clare. "But that has definitely changed recently and there is now a big opportunity to use software and web-enabled solutions alongside traditional advice and draw more technology into our service line to help our clients meet their goals."

Sarah Gilby (2) is associate director in the UK ESG team, and joined from Ramboll at the same time as Clare. Gilby previously worked for Parsons Brinckerhoff and KPMG.

Satu Juntunen (3) heads up the Nordics and Chris Keller (4) leads Central Europe.

Anthesis has offices across the globe. The ESG team has its strongest presence in the UK, Germany, the Nordics and the US, and additional staff in Canada, the UAE and China. In the Philippines Anthesis has a team solely focused on developing software for ESG applications

Launched in 2013, with former WSP directors Stuart McLachlan as CEO and Malcolm Paul as chairman, Anthesis has grown dramatically - half through organic growth and half through acquisitions, so that it now has 250 staff. The *FT* and Statista ranked Anthesis the 75th fastest growing company in Europe.

It has a large roster of corporate clients, including Walmart, Tesco, The North Face, Target, Reckitt Benckiser and Neste.

INVESTORS JOIN THE FACULTY'S BOARD



Jane Vinson of the Business Growth Fund (BGF) and Chris Hurley of LDC have recently joined the Corporate Finance Faculty board.

Vinson is a portfolio specialist at the BGF, which she joined in October 2016, from Octopus Investments, where she was a portfolio director. Prior to that, she spent 10 years at Bridgepoint Capital.

Hurley is chief portfolio officer at LDC, which he joined in 2004 from Murray Johnstone Private Equity. He previously worked for Robson Rhodes, where he trained as an ACA.

DATE FOR YOUR DIARY: ANNUAL RECEPTION



The Corporate Finance Faculty's annual reception will be held at the Goldsmith's Hall on the evening of Thursday 15 November 2018.

The guest speaker this year will be Lord Smith of Kelvin, chairman of the British Business Bank.

IN NUMBERS

\$120bn of UK M&A in Q1 2018, CFO opinions, plus invoice finance and asset-based lending values

Q1 2018: THE STRONGEST Q1 ON RECORD

\$51bn

Venture capital deals globally

\$116bn

Private equity buy-out deals globally (including 24 deals of \$1bn+)



UK M&A ACTIVITY IN Q1 2018



\$120bn

THE VALUE OF UK M&A (FROM 681 DEALS)
- MORE THAN DOUBLE THE \$51BN IN
Q4 2017 (FROM 586 DEALS)



\$147bn

\$44.6bn

Value of telecommunications sector UK M&A



\$67bn

Value of inbound UK M&A (from 177 deals)
- the biggest riser since Q4 2017



\$13.5bn

Value of healthcare sector UK M&A



\$18bn

Value of automobile sector UK M&A



\$549bn



Global cross-border M&A in Q1 2018

+68%
Q1 2017

\$478bn



All European M&A in Q1 2018

x2
Q1 2017

UK CFO SURVEY - Q1 2018



of UK CFOs say there is a high or very high level of financial and economic uncertainty

DOWN FROM



say that now is a good time to be taking risk onto their balance sheets

DOWN FROM



say they expect hiring to slow as a result of Brexit

DOWN FROM



Q3 2017



Q4 2017



Q4 2017

UK INVOICE FINANCE AND ABL

£23.4bn

end of 2017

Amount of invoice finance and asset-based lending in the UK



on 2016

SOURCE: THOMSON REUTERS

SOURCE: DELOITTE CFO SURVEY

SOURCE: UK FINANCE

£199 PER MONTH¹

PLUS £2,388
INITIAL RENTAL

ALL RENTALS
+ VAT AT 20%

TERM
36 MONTHS

MILEAGE
8,000 p.a.

EXCESS MILEAGE
CHARGES APPLY

BUSINESS CONTRACT HIRE



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1. L200 Series 5 Titan rental shown is for manual transmission. Business users only, subject to status provided by Shogun Vehicle Leasing (a trading style of Lex Autolease Ltd, SK3 ORB). Excess mileage charges of 10.79p plus VAT per mile. Vehicle must be returned in good condition to avoid further charges. The offer is valid for new vehicles registered between 1st April and 30th June 2018, whilst stocks last. Other terms and mileages are available on request. Available in the UK (EXCLUDES Channel Island and I.O.M) subject to availability. Offer cannot be used in conjunction with any other offer and is correct at time of going to print. 2. 3.5 tonne towing capacity is possible with 3 axle braked trailer; 3.1 tonne towing capacity is possible with 1 or 2 axle braked trailer; 0.75 tonne towing capacity is possible regardless of the number of trailer axles or trailer brakes. 3. Super Select 4WD is not available on L200 Series 5 4Life models. The air conditioning system contains fluorinated greenhouse gases. Chemical name: HFC-134a. Pre-charged weight: 0.52kg. Global-warming potential ratio: 1430. Converted CO₂ weight: 0.74t.



JON MOULTON

There is no point pretending I'm not getting older. At 68, my specs need changing again, my knees are spring free and the dental work increases – and gets more expensive.

Life supposedly gets easier as the years pass. In some ways, that is true – better medicine, the internet and overseas cricket TV coverage. But in my continuing professional life, this trend is simply not there.

Regulation marches onwards, but not necessarily upwards. Just like the damage to my joints, it accumulates more and more scar tissue and becomes steadily more disabling. Where surgeons can at least remove damaged tissue, lawmakers and regulators never trim their outputs. Many of us die from numerous insults to the body. The same goes for regulation – eventually bits of the afflicted systems simply shut down.

The width and incessant pace of the continuous addition to the regulatory world is a challenge to the ageing. Can it really be true that 40 years ago I actually knew all UK accounting standards, the Yellow Book and the Takeover Code? I honestly did. Do current professionals know all the relevant rules? They do not. They simply cannot because there are so many. It rather concerns me that I can no longer claim to be current on all the stuff that's churned out.

FIT, PROPER AND VERY, VERY LONG

Because I'm still active in several regulated capacities, I must fill in forms regularly. I am currently filling in a controllership application – a form issued in compliance with the regulations of some 25 bodies or so and the Financial Services and Markets Act.

I have to be deemed 'fit and proper'. I might not be as fit as I once was, but I'd like to think I still meet the propriety test. Unfortunately, simple long-term

JUST NOT CRICKET

There is no escaping the red tape blues when it comes to filling in paperwork to prove you are 'fit and proper'

Many of us die from accumulated insults to the body. The same goes for regulation – eventually bits of the afflicted systems simply shut down

survival does not cut it. First, there are two forms to choose from – one for 'individuals' and one for 'natural persons'. Can an unnatural person be fit and proper? The latter form is the appropriate one for me, as ordained by EU rules. Unsurprisingly, it is longer.

The form's author does not believe in brevity – there are 14 repetitions alone of the phrase "in the UK or elsewhere". Questions include if I have ever had any criminal convictions and if I've ever been the subject of any civil proceedings. The latter catches divorce, family law and a host of other things that should not bear on an individual's propriety.

More concerning though, is that the author must have had a highly successful career. One question asks whether you have ever been refused any employment or ever been requested to resign from a job and, if so, to provide clear details of the "relevant circumstances and explanations". I think I applied for a dozen or so jobs when leaving university. Sadly, I have no idea why I did not get the jobs.

AGE DISCRIMINATION

"Has any company of which you were ever a director been required to produce documents to any authority?" There is no 'you bet' box to tick. How could you answer 'no' to that? Full details are then required!

I'm somehow supposed to know whether companies I ceased to be involved with three years ago have or have not been investigated or (among lots of other things) terminated any licence granted by a legion of regulated bodies. I simply don't know.

If regulation carries on growing in this cancerous way, then the tortured tasks dumped on my successors will amount to age discrimination. Only those too young to have much of a track record will be able to complete these forms. ●

SKY BLUEPRINT FOR *success*

As Manchester City picks up the Premier League title for the third time in six years, Jason Sinclair looks at how acquisitions are being deployed to make it the world leader in football

It's been nearly a decade since Sheikh Mansour bin Zayed Al Nahyan (pictured, right), UAE deputy prime minister and owner of the Abu Dhabi United Group, took one look at East Manchester and loved it so much that he decided to buy its local football club - Manchester City - for a reported £210m.

For what some may consider an indulgence, it might seem like a lot of money. But it was a relative bargain at the time, and certainly seems so now. The club's previous owner - Thailand's fugitive ex-prime minister, Thaksin Shinawatra - was a distressed seller of sorts. The (publicly-funded) £125m, 55,000-seat City of Manchester Stadium was thrown in, and the deal allowed instant access to the Premier League and its burgeoning riches. Mansour's acquisition was just the first part of a bigger plan for world domination in football.

PLAYTHING?

Ideas of this being an indulgence were scotched in 2015 when Mansour sold a 13% stake in what is now City Football Group (CFG) to the China Media Capital private equity consortium for £265m. This was more than he paid for the whole club seven years earlier. The group was now valued at over £2bn. Manchester City won its first Premier League title in 2012, repeating the feat in 2014 to become one of the top football teams in Europe before picking up the title again this year.

CFG, which was formed in 2013, has the goal of building the "first truly global football organisation". In looking at how it has set out to achieve that, one can see a potential future of football, which includes transnational or franchised companies remaining on the lookout for a deal.

Acquisitions are a huge part of it. In a partnership with the New York Yankees, CFG paid \$100m for franchise rights to create New York City FC (with the "City" brand name and the iconic sky blue kit) in North America's Major League Soccer. In 2014 the group bought Melbourne Heart - now known as Melbourne City - to gain a foothold in the Australian market. Last year, Uruguay's Atletico Torque introduced CFG to South America, while a partnership with Nissan for Yokohama F Marinos gave the group a foothold in Japan. The most recent deal was the 2017 purchase of a 44.3% stake in

Manchester City players celebrate a goal during the UEFA Champions League Group F game between Manchester City and SSC Napoli



Girona - a team in Spain's La Liga. A further 44.3% stake is owned by Girona Football Group, led by Pere Guardiola, the brother of Manchester City's Catalan manager, Pep Guardiola - perhaps the most coveted manager in football.

Dan Jones, Manchester-based partner at Deloitte - whose remit includes advising football clubs on strategic, commercial, financial and structural matters - says this plan may be a blueprint for others. "We're already seeing other people trying to emulate CFG's multi-territory model in different ways, so we'll see other clubs following that example. It might not be in exactly the same way, and it might not have the scale and ambition of CFG, but we will see it happening elsewhere."

MASTERPLAN

It is another Catalan, Ferran Soriano, who has masterminded CFG's strategy for expansion. When on the board of Barcelona, Soriano changed the financial culture at the club, trebling revenue on the back of on-field success. With the voter-members of Barcelona unwilling to follow his business model of a globally franchised club, he



Above: Sheikh Mansour bin Zayed Al Nahyan, UAE deputy prime minister and owner of the Abu Dhabi United Group



"It's going to be tough for City to push on that much higher because of who's above them"

Dan Jones,
Manchester-based partner, Deloitte



"Abu Dhabi is not doing this because it likes Manchester"

Simon Chadwick,
professor of sports enterprise, Salford Business School

Mansour sold a 13% stake in what is now City Football Group to the China Media Capital private equity consortium for £265m - more than he paid for the whole club seven years earlier

left the famous Camp Nou. He was soon tempted back into football by CFG as chief executive of their Manchester, Melbourne and New York clubs.

Soriano's vision - outlined in his book, *Goal: The Ball Doesn't Go In By Chance: Management Ideas from the World of Football* - was a mix of creative business management and the Hollywood studio model. Football was to be the core product. This would spin out to associated products beyond the game on the field, and - through franchises - the world, not the region, was to be the market.

"Abu Dhabi is not doing this because it likes Levenshulme [in Manchester]. It's doing it to seek sustainable revenue streams and provide currency inflows when the oil and gas has gone," says Simon Chadwick, professor of sports enterprise at Salford Business School. "You can't take the 'first eleven' to America one week, China the next, South Africa the next. So you franchise the name, sponsors, kit and image."

CFG is the vanguard of a possible coming trend for individuals, companies or sovereign wealth funds to control multiple clubs, allowing them to co-operate in the identification and training of players and the aggregation of marketing and sponsorship deals. As well as Red Bull Salzburg, the Austrian corporation Red Bull owns RB Leipzig in Germany (see box, below), Red Bull Brasil in Campinas, Sao Paulo state, New York Red Bulls in the US, and Red Bull Ghana in Sogakope. For them it is a promotional tool - pushing their marketing message relentlessly in the round-the-clock



BUYER BEWARE

Football takeovers are commercial propositions, but they don't always get the fans on board. Sometimes they don't get the fans on board precisely because they are commercial propositions.

When Red Bull expanded its portfolio in 2009 - having been knocked back by traditional clubs Fortuna Dusseldorf and FC St Pauli - with their purchase of fifth division German club SSV Markranstädt, it was a prelude to a series of events that has shaken German football.

Exploiting loopholes surrounding sponsorship (for example, that RB Leipzig are not called Red Bull, but Rasenballsport) and ownership (the German model insists over 50% of a club's voting rights are controlled by its members - RB Leipzig charged exorbitant membership fees and, with a veto over membership, packed the ranks with Red Bull employees), the team became "the most hated club in Germany", sparking opposition fan boycotts.

However, RB Leipzig (pictured above, after being defeated by Marseille last month), backed by the euros of the Austrian drinks giant, rose swiftly from the fifth division to the top flight Bundesliga, where a second place finish in 2017 meant the red shirts and logos of the team and company could be seen worldwide competing in the Champions League, from which position Bundesliga clubs can expect to glean annual revenues in the hundreds of millions.





Corinthians during the match between Red Bull Brasil and Corinthians, held at Moisés Lucarelli Stadium in Campinas

multi-platform coverage of the most watched sport in the world.

A potential deal to buy troubled Leeds United was scuppered because Leeds would have to change their colours from white to red, and be known as Red Bull Leeds - as unacceptable to the Yorkshire rivals of Manchester United as it would have been to Manchester City. Football franchising might have limits not apparent in other businesses. But equally, never say never.

SOFT POWERS

But if it's a pure marketing play for Red Bull, the drivers for Abu Dhabi United Group are less clear cut. It has been seen in some quarters as a safe haven for capital and a hedge against political risk - the group has reportedly shrewdly invested around £1bn in Manchester, mostly in property. Others look at it as a geopolitical power play, promoting soft power for the Gulf state through the world's most loved and visible game.

Some football journalists point to a potential circumvention of the UEFA Financial Fair Play rules, in which Manchester City's huge costs can be offloaded onto international subsidiaries. Or it could possibly be for profit.

Mansour's personal wealth is estimated at £17bn. For all the cash spent on the hyper-inflating transfer fees of players (over £1.2bn has been spent during his decade in charge), he can point to a club with burgeoning revenues, whose valuation has increased at least eightfold since his 2008 purchase.

CFG owns the professional contracts of 240 male and several dozen female professional footballers, as well hundreds of teenagers and children in its youth teams

£17bn

Estimated total value of Sheikh Mansour's personal wealth

1880

The year Manchester City was founded

Below: Pep Guardiola, Manchester City's manager, perhaps the most coveted manager in football



DID YOU KNOW?

Vicar's daughter Anna Connell founded Manchester City in 1880 to keep working men away from the prevalent evils of alcohol and fighting.

Partnerships will also allow City to increase the amount of young, talented players it can source - many may never play for the parent club, but working as cheap future options that can net a large profit if sold. *The Guardian* reports that CFG owns the professional contracts of 240 male and several dozen female professional footballers, as well hundreds of teenagers and children in its youth teams.

The global franchising model may be football's way forward, but other dealmakers have run into difficulties. Atlético Madrid bought, and quickly sold, significant stakes in clubs in India and France while maintaining part-ownership of Mexico's Atlético San Luis. Chinese corporate money has flooded into European football in recent years, with deals for AC Milan, Inter Milan, Southampton, Espanyol (another major club in Barcelona) and many others. This is now being questioned, with possible central policy reversals from the Chinese state. This could see further opportunities for partners and franchisers, while CFG are said to be actively looking to invest money in the other direction, building their brand by acquiring a Chinese club.

While last month United beat Manchester City at City's ground, delaying the club's crowning as champions, Manchester City has now gained another league title and is said to be overtaking Manchester United on the football field.

However, United remain at the top of Deloitte's 2018 Football Money League, with its cross-town rivals in fifth. Can the Sky Blues find a way, with a "City" in every market, to become the best-known and highest-valued team in the world?

"It's going to be tough for City to push on that much higher because of who's above them," says Jones. "They're aspiring to move up, and have Bayern Munich in their sights, but the clubs at the top have been there for a very long time and are aspiring to push on themselves. The top three are another step ahead in financial terms." ●



Out of Change comes Opportunities BREXIT

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GETTING IN EARLY

Advising early-stage businesses can be high-risk and hard work for small reward.

Sarah Abrahams and **Andy Morgan** explain how Grant Thornton is taking a unique approach to market opportunity

Advising innovative high-growth businesses is at the more interesting end of the advisory spectrum. But how do you make money out of it? The challenge has been that while there have been lots of interesting ventures with potential, the economics of a full-scale corporate finance offering has not historically added up. No one wants too much money disappearing out of a new funding round in fees, something that early-stage companies can perhaps afford less than others.

Following the dotcom boom and bust in the late nineties and noughties, advisers went from being kingmakers who controlled access to funders and made very healthy fees, to finding early-stage funding mandates difficult to get away with, and major challenges in short-term fee potential. But the early-stage market in the UK seems to be changing again and Grant Thornton has adopted a new approach with its 'G' Growth Finance team.

TAKE IT SERIOUSLY

Dabbling in early-stage business funding is unlikely to deliver results says Andy Morgan, head of corporate finance at Grant Thornton. Advisers have to take early-stage seriously and fully resource their efforts to be successful, tying themselves to such businesses as they grow and looking for further finance when they embark on M&A programmes of their own.

"We clearly see a market opportunity here," explains Morgan. "And we have backed ourselves to be successful in it. If we succeed, it is inevitable that others will do the same thing. That is good from our perspective and for the UK economy as a whole to create that investing ecosystem."

PwC has recently created a 'Raise Investment' programme for scale-up businesses. KPMG has developed 'Enterprise' services for growing businesses. Meanwhile, BDO has just recruited Paul Morris from private equity firm Livingbridge to develop a new growth finance advisory arm.





**SARAH ABRAHAMS,
HEAD OF 'G' GROWTH FINANCE**

Abrahams joined Grant Thornton in 2013. Prior to that, she spent five years working with business angels and venture capital, initially helping entrepreneurs connect to investors and latterly helping investors understand what options were available to them to invest in high-growth, high-risk businesses. As something of an aggregator, she had visibility of what the whole early-stage equity finance market looked like – the businesses, the investors and the funds.

When she started at Grant Thornton, the firm was still one of the main partners in the government-backed Growth Accelerator programme (rolled up in 2015/2016), which she initially worked on, largely getting businesses investor-ready.

Morgan says: “The challenge for other larger players is, ‘are you equipped or agile enough to figure out how to do it?’ Some will be keeping an eye on the market and participating in a limited way to have a profile. But their model will be set up to pick up businesses at a later stage in their development because that is the only way economics work for them.”

As part of ‘G’ Growth, Grant Thornton has published its fixed fee prices for companies that are looking to raise less than £1m. “We are very transparent about what they are paying, how they can plan to pay for that and what the outputs will be,” says head of the ‘G’ Growth national team, Sarah Abrahams.

Having the connections to a comprehensive and growing network of early-stage funders is absolutely crucial, argues Abrahams, adding: “The educational and networking events we do

“We are selective about where we support businesses in looking for investment. There is absolutely nothing in it for us in taking on lots of businesses that are not fit for funding”

out in the market are helping us build our footprint, but it is the advice we can offer on where to get funding that is key. Given the volume of opportunity, we work on at the growth stage, our constant dialogue with the funding community has fast become our biggest strength. Entrepreneurs should be getting advice at this level of fundraise. What we are doing is encouraging that culture.”

While other advisory firms have tried various growth programmes in the past, Morgan says they have not necessarily been focused in the same way that ‘G’ Growth Finance is. “For some it was just about marketing really, not actually being fully in that market,” he says.

NOT SCATTERGUN

The ‘G’ team does of course have to exercise its own judgement about what is and isn’t a good proposition. “This is not just a big-volume programme where you throw mud at the wall and hope some of it sticks,” insists Morgan. “We are selective about where we place our bets and support businesses in looking for investment. There is absolutely nothing in it for us from a brand, reputation or service delivery point of view in taking on lots of businesses that are not fit for funding. No matter what stage the business is at, we are interested in working with good management teams and businesses – and working with them to make their plans work. It’s about making the right connections to the right funders with the right propositions.”

CASE STUDY LET’S WORK TOGETHER

Avenue HQ is a co-working concept and event space launched in Liverpool in June 2017 by Matthew Kennedy. He was one of the first entrepreneurs to access the ‘G’ Growth Finance services. Prior to founding Avenue HQ, he managed a business incubator, advising very early-stage start-ups.

He said the experience showed him how limited the options were for businesses moving out of the incubator as they looked for scale-up capital.

“The idea for Avenue HQ had been forming for a while, but the strategic insight and advice from ‘G’ has been invaluable to help me make it a reality,” said Kennedy. The growth finance team helped him with the business plan, forecasts and devising financial projections, and gave him coaching for investor presentations.

Following a successful funding round, the business has taken an additional 5,500 sq ft in Liverpool and secured a new 40,000 sq ft site in Leeds, with others in the offing.





**ANDY MORGAN,
HEAD OF CORPORATE FINANCE**

Morgan was previously a partner at PwC, leading its UK technology, media and communications (TMT) sector team for more than 10 years. He joined Grant Thornton in 2012 as partner and head of the TMT sector. In 2015, he was appointed head of corporate finance.

He recognised the value of sector specialism early on in his career, first in automotive and then in TMT, which he retains responsibility for.

TMT remains one of Grant Thornton's most active deal sectors, and it advised on 49 transactions last year.

Obviously this is a different end of the market to traditional M&A, involving more established businesses. The types of entrepreneur are perhaps a little different and sweeping generalisations are not useful, but for now there is a little more bias towards tech businesses.

Grant Thornton has long seen itself as an adviser to smaller, privately-owned growth businesses as well as working for many much bigger companies. A greater proportion of its business is in that area compared with the proportion at the Big Four. "It's in our DNA," says Morgan. "The skills are different, as is how you approach it. The time horizons are generally shorter, for instance."

In early-stage businesses, an enormous amount of importance is placed on the management team - they need to be competent in understanding the key drivers behind the business and confident at representing the business in front of investors.

"When you have less financial traction, the competency of the management team comes higher up the agenda," says Morgan.

40%

of small business owners still believe their bank is where they should go to raise finance, according to Abrahams

400

Estimated number of growth early-stage fundraisings Grant Thornton has been involved in since 2013

BROADER CHURCH

Funding sources have become more and more diverse. Having moved up the food chain, some private equity firms now have a lower-end offering, or a pure growth capital offering. There are venture capital trusts and Enterprise Investment Schemes, the Business Growth Fund, as well as an increasing amount of private capital from high-net-worth individuals and family offices and corporate venturing.

"There is a great deal of competition among funders for deals. But, what has remained consistent is the knowledge gap in these businesses - 40% of small business owners still go to their bank believing that is where they go to raise finance. It is not reasonable to expect an entrepreneur to know all of the options, so we have to be on top of all of them to provide comprehensive advice," explains Abrahams. She says the angel and high-net-worth-individual approach has changed over the past 10 years with more syndication spreading the risk. An advantage to the entrepreneur is that they can get access to several investors.

There is of course debt and equity crowdfunding. Corporate venturing has been on the rise too, says Abrahams, as corporates look to obtain technology to give them an edge over the competition or be on top of new innovations. She adds: "Big businesses are setting up corporate venturing units to seed businesses, sometimes in a non-equity way, to see what technology gains traction."

Since Abrahams joined Grant Thornton, she estimates the team has been involved in more than 400 growth early-stage fundraisings.

Morgan sees opportunities for the new approach. "At the moment we have got an environment with significant liquidity in the market," he says. "The biggest issue in the mid-market for private equity is about the supply of good opportunities. In earlier stage, the dynamics are a little different as you have an increasingly diverse range of sources of capital. We've had a pretty radical shift to an early-stage investment culture, but quality will be all more important to keep feeding that appetite." ●



CASE STUDY SOMETHING'S BREWING

In January 2018 the 'G' Growth Finance team completed two deals related to independent brewer West Berkshire Brewery (WBB). The first was a £3.2m growth capital investment from the Wealth Club, which invests through venture capital trusts (VCTs) and Enterprise Investment Schemes (EIS) using experienced investors. The new funding will be spent on a larger, higher-specification brewing facility. Grant Thornton acted as

lead adviser and ran a competitive process involving VCT and EIS funds. It also provided tax advice to get EIS clearance from HMRC for the investment.

The second was a £5m growth capital investment by Downing in Maverick Pubs, an independent company managed and part-owned by the WBB. Again, the advisory team ran a competitive process and obtained EIS clearance from HMRC.



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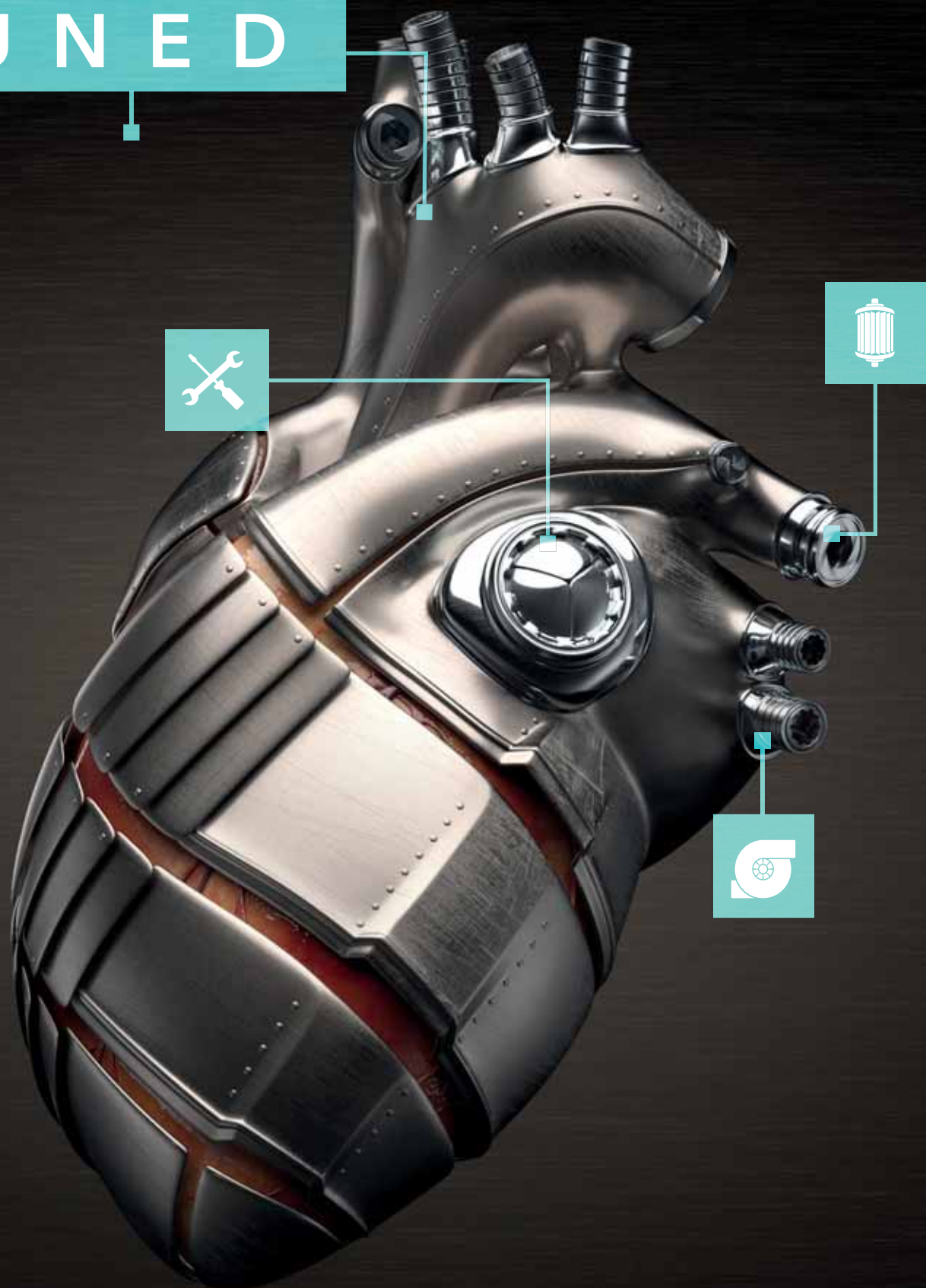
48 monthly payments	£359.00
Customer deposit	£5,500.00
Finance deposit contribution	£1,000.00
On the road price	£40,670.00
Member saving	£4,163.75
Revised on the road price	£36,506.25
Total amount of credit	£30,006.25
Interest charges	£4,675.75
Total amount payable	£41,182.00
Duration of agreement (months)	49
Fixed rate of interest (per annum)	2.52%
Optional final payment	£17,450.00
Mileage per annum	10,000
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FINELY TUNED



DUE DILIGENCE IS A HUGE PROPORTION OF THE TRANSACTION ADVISORY SERVICES PROVIDED BY THE PROFESSIONAL SERVICE FIRMS. MARC MULLEN TAKES A LOOK AT THE LATEST DEVELOPMENTS

Benjamin Franklin, one of the founding fathers of the US, described diligence as “the mother of good fortune”. The same could be applied to financial due diligence. ‘Good’ due diligence addresses the key issues a buyer has identified in a target, or the thinking underpinning their plans for extracting value from the acquisition. It removes reliance on luck for the success of a deal.

“In a market with vendors demanding very full prices, you need to be that much more sure about certain things you take into the valuation,” says John van Rossen, EY transaction advisory services partner for the EMEA region. “Following the financial crisis of 2008, lenders became insistent that certain box-ticking procedures had to be undertaken. These very elaborate requirements may have been relaxed somewhat, but while your downsides need to be due diligenced, now there is much more need to diligence your upsides.”

“These days it is very rare that any due diligence is regarded as box-ticking,” argues James Fillingham, UK head of transaction services at PwC. “Everyone has moved beyond that. They want to get comfortable with their investment hypotheses, especially in the market we are in today. GDP in some major economies is pretty flat. You need a very good value-creation story. So, which points do you need to prove to back up that story?”

CHASING GROWTH

There is perhaps a two-speed market for business valuations. Price multiples for ‘good’ assets are at historically high levels across the world. Research by Bain, published in February, suggested more than half of all large private equity deals globally in 2017 were valued at more than 11x EBITDA. This has in part been fuelled by an abundance of low-cost leverage, and partly because businesses are



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James Fillingham,
UK head of
transaction
services, PwC



“Clients often say they overestimate revenue synergies and underestimate cost synergies”

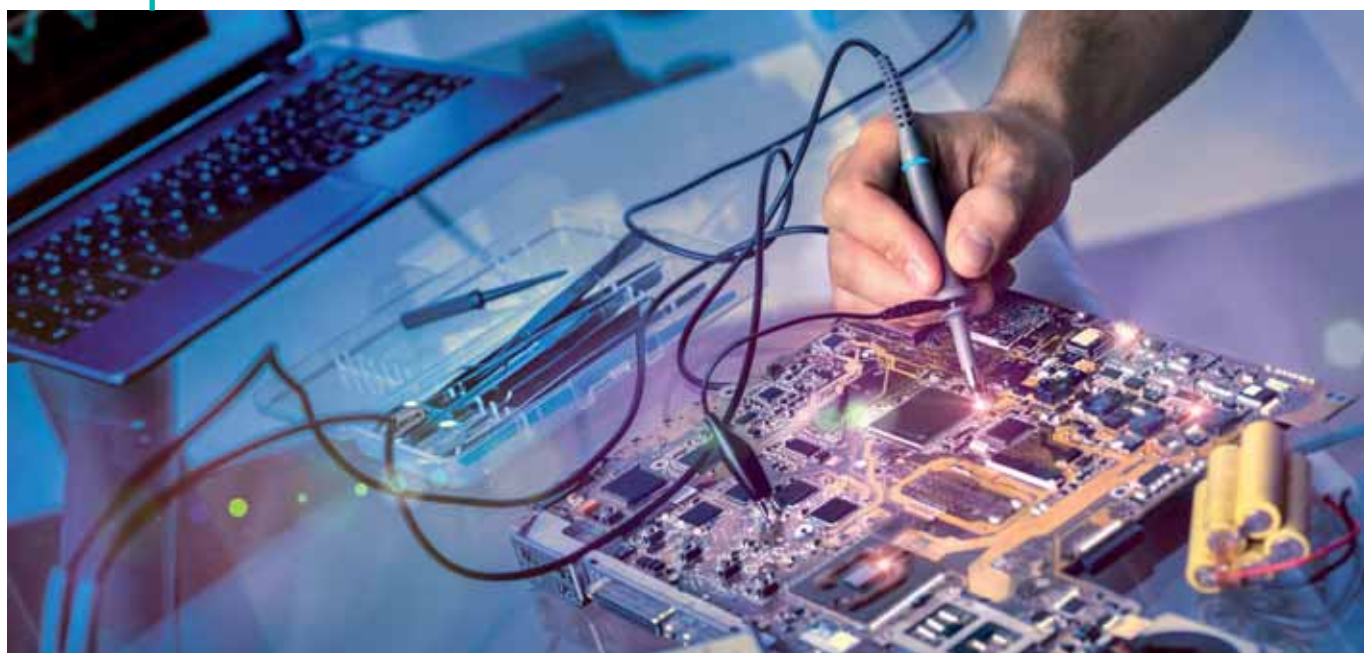
Maxine Saunders,
head of UK
transaction
services, Deloitte

searching for revenue growth through say cross-selling opportunities or an enlarged customer base, for operational synergies, this is really critical in justifying the amount being paid for an acquisition.

“It can be the difference between winning and losing a deal,” says Maxine Saunders, head of UK transaction services at Deloitte. “Clearly, if you identify a lot of synergies but aren’t willing to hand any of those over as part of your purchase price, there is a very good chance in the current market that someone else will come in, identify those synergies and pay for them. Clients often say they overestimate revenue synergies and underestimate cost synergies. Both can prove a problem.”

Management must be confident that savings or top-line growth can be delivered. While the due diligence team will advise on deliverability, it will often have worked hand-in-hand with a post-acquisition integration services team. The advisory team have worked with the client on a plan to deliver the efficiencies or increased revenue. Then as part of advisory firms’ approach to advising across the acquisition cycle, the post-acquisition integration team will work with the client on delivering on the actions needed to deliver on the plan, so they get the value required from their new acquisition.

Due diligence has always been about both assurance and advice to the client. Chris Grove, head of transaction services at BDO, explains that uncertainty about economic prospects is making investors a little more cautious and in need of greater assurance. “No one wants to catch the falling knife,” he says, pointing to the convergence of many issues - general economic uncertainty, potential international trade wars, Brexit, the impact of long-term low interest rates on the cost of leverage, and the aforementioned search for profit growth opportunities against that backdrop.



“There is probably a lack of quality assets in the market at the moment and pricing is quite keen, shall we say,” argues Grove. “Corporate finance houses competing for sales mandates are creating a level of price expectation that is ultimately leading to high valuations and requiring investors to move away from more traditional valuation techniques (see cover story, ‘High Value’, *Corporate Financier*, December 2017/January 2018). They are essentially ‘baking in’ some of the forward value that they would previously have been looking to drive out of the business in the first couple of years of ownership.”

Although the historic financial performance of an acquisition target remains very important in the understanding of where a company has come from, increasing focus is undoubtedly being placed on where the acquisition is going, or can go. “We are increasingly being asked to form views on economies of scale, synergies that buyers are looking to establish and the deliverability of some of the assumptions underpinning management’s growth projections,” adds Grove. “Ultimately, that shifts the risk profile and the focus of our work, because clearly we’re moving into areas of assurance - where there’s increased subjectivity.”

In the wake of the 2008 financial crisis, banks were pretty prescriptive about how due diligence looked at downside scenarios before any lending would be forthcoming. Van Rossen says that while that demand for pure financial assurance may have since fallen away, the assurance quantum required may not have, but may have changed in nature.

“Over the period since the crisis, diligence work streams and different types of diligence have evolved and widened,” says van Rossen. “The use of operational diligence and commercial diligence has grown. Advisers are in more of a position to give comfort on plans through an integrated



“Since the crisis the use of operational diligence and commercial diligence has grown”

John van Rossen,
EMEIA transaction
advisory services
partner, EY

approach to due diligence. And as you integrate your work streams, you avoid things potentially falling between the cracks.”

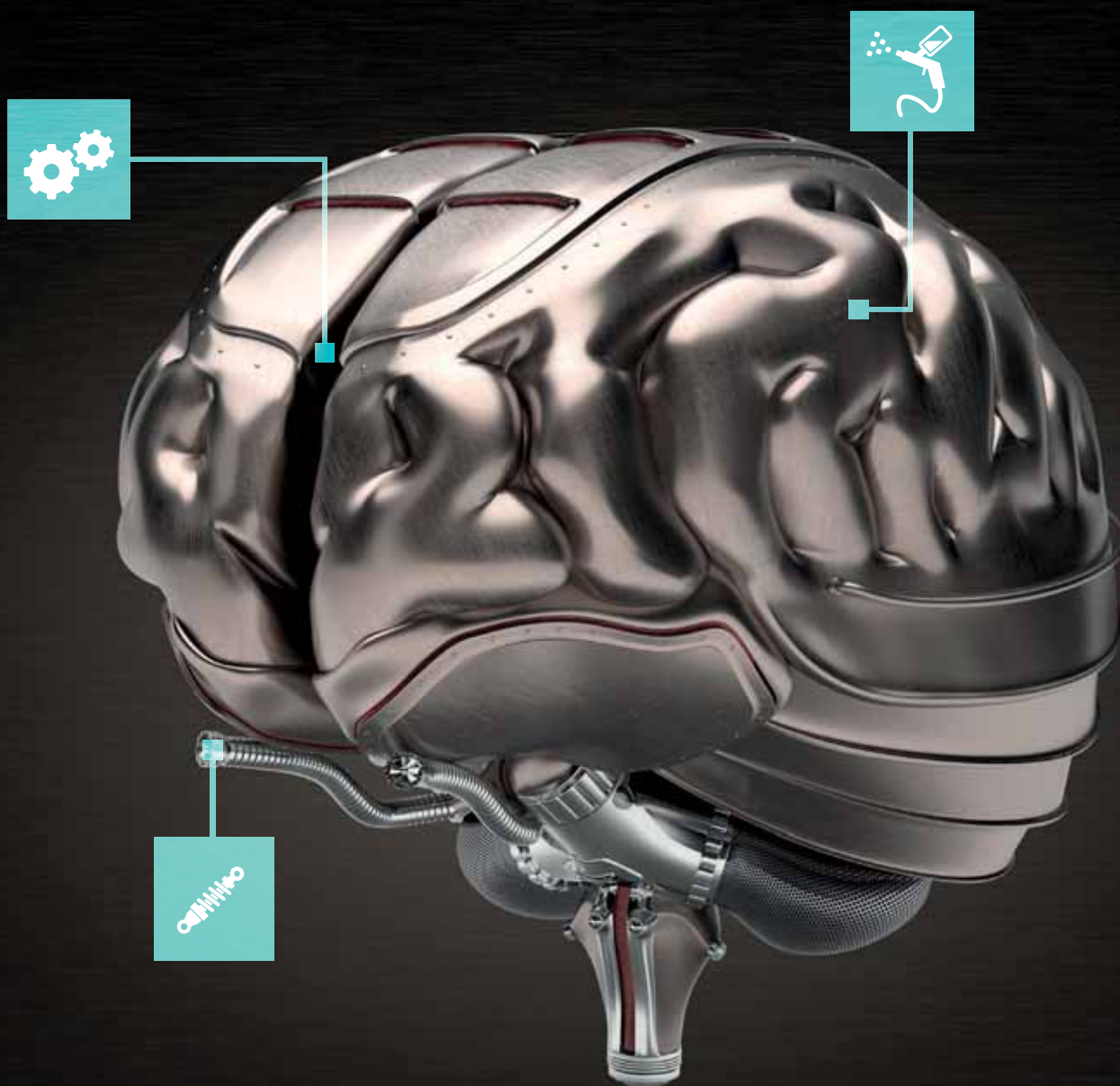
SCOPE AND FOCUS

With a wider range of diligence options, there is a danger that it ends up being a scattergun approach. Fillingham colourfully describes it as a “Chinese menu of options”, distinguishing due diligence from audit, where the output is to a large degree regulated. Focusing on important issues is vital to high quality due diligence advice, and making it happen starts with the scoping.

“What is the investment rationale?” asks Grove. “Why are they buying the business? What is underpinning the valuation? If, for example, investors are assuming £3m worth of synergies, focusing on the drivers for those and forming a view on how realistic the assumptions are in the context of the wider market opportunity, and not just the specific business is critical. Coming up with a very focused report with opinions on and real clarity around those issues is what investors are seeking.”

Is there a danger in clients deciding for themselves exactly what they need to focus on but perhaps missing a key risk area? Of course there is, but the interviewees say that more time

In the wake of the financial crisis, lenders were pretty prescriptive about how due diligence looked at downside scenarios before lending was forthcoming



A SELLER'S MARKET

European companies – and especially private equity firms – continue to step-up their use of vendor due diligence (VDD). Though it is understood in the US, there is less use of such reports on the other side of the Pond. It may be there is a more adversarial approach to deals in the US, but for whatever reason, US buyers are less comfortable, relying on reports commissioned by vendors.

In terms of creating a smooth process, VDD is widely recognised as useful to the vendor. Take up has also increased because it is something of a seller's market for M&A, and in an auction process, it really gives the vendor control of the sale process. Focusing on what an acquirer is likely to require is key to the report being of value all round. For the advisory firm, quality is all-important.

The quality of VDD can vary greatly. It is a highly competitive market and pricing pressures can drive down both the scope

and quality of work. Like anything – you get what you pay for.

"We do see VDD reports that barely warrant the name," says Maxine Saunders, head of UK transaction services at Deloitte. "Although in theory the process should be smooth and efficient, because that work's been done upfront we find our clients requiring us to do more. This can slow down the process because that work won't have been factored in at the beginning."

EY's John van Rossen says: "The report may go to 15 potential acquirers and all of their advisers. A poor VDD report will be seen by a lot of people. A due diligence report simply goes to the single acquirer."

"There is always a balance that the profession needs to maintain – still upholding the value of the VDD report as an independent opinion provided to the buyer community of a certain asset that they can rely on," explains Saunders.

DATA AND DILIGENCE

PwC now has a dedicated data analytics team, which when required, is brought in to support different types of due diligence assignments – financial due diligence, commercial due diligence or to evaluate cost reduction. “We have data scientists, people with PhDs, people doing programming for machine learning, writing algorithms to solve problems, downloading every bit of transactional data a company has, sorting millions and millions of data points and doing clever stuff, which just wasn’t possible before,” explains PwC’s James Fillingham.

Clever data analytics can be used to win mandates – to prove a hypothesis in relation to an acquisition on customer churn, or pricing evolution, or raw material price freezes, for instance. Data analytics work best when there are rich data sets – a chemicals business, a pharma-business or multi-site retail or leisure, suggests Fillingham. But he says its use is becoming more commonplace and is being embedded into the firm’s everyday offering.

Deloitte has developed its own analytical tool, used by its transaction services teams in all of its principal territories. And in the team there is a team of data analysts capturing, ordering and analysing data for the due diligence team.

“Those people bring additional skills and new ways of thinking about data, which helps the broader team to feel confident about how they can go about tackling big data sets,” says Deloitte’s Maxine Saunders.

Additionally, resource is outsourced to India. But they do not simply manipulate the data. “They are very much an extension of the team and are involved in the final delivery to the client.”

Inevitably, there will be time saving in larger deals, as well as the potential for new insights to prove a hypothesis or get the assignment focused more quickly. While Peter Vandervelde

(pictured below), a Southampton-based transaction services partner at RSM, can see some uses for the latest data analytics techniques, he is more circumspect about the benefits in many mid-market deals: “We are starting to think about how we can do more with it. So much of what we do is about being close to the numbers. It’s about intuition and thinking really hard about what we’re seeing.”

“I think as soon as you have some software doing part of the work for you, it can inhibit your thinking about what’s really going on. For 90% of the work we’re doing in the middle market I don’t see it being a game changer, but it might help at the edges.”

EY has invested in data analytics, primarily for efficiency, but across a broad range of its due diligence services.

Despite the increasing demands being placed on advisers and levels of supply and demand suggests that advisory fees should be on an upward trajectory, it remains a highly competitive market, says BDO’s Chris Grove: “Ensuring our work is properly scoped is key and inevitably we are looking to improve efficiencies – the use of technology is one such area. Data analysts are seeming incredibly important and are looking to use technology to take out some of the more basic analytical processes, how we can transfer quite a lot of the analytical tools from our audit business and into basic financial due diligence. But what I don’t think it will ever do is replace the human element and true value and experience that professionals bring to transactions.”



“So much of what we do is about being close to the numbers. It’s about intuition and thinking really hard about what we’re seeing”



is spent scoping nowadays, and all describe client relationships in this regard as much more collaborative.

“The days of the master-servant relationship between client and adviser have largely gone,” says Grove. “Clients are seeking our practical advice and input, and if we feel there are areas that a client should be having us look at, we are upfront. Clarity around the potential implications is key, so we can explore strategies to mitigate the risks. It’s generally a collaborative process.”

A bespoke approach is needed, possibly more than ever, in the current market. Of course, no two deals are exactly the same. Offering a generic approach would offer little value-add to a client.

IN PRACTICAL TERMS

Saunders says that Deloitte adopts an almost ‘modular’ approach, focusing on a couple of areas upfront: “Once the client has satisfied themselves around those particular areas, they then ask us to move on, look at further areas and throw ourselves into the much bigger chunk of work. It helps them manage cost, and means they get the answers to the questions that really matter to them early on. And in terms of managing our risk, by the time you get to the finish line they really have done diligence across what you might describe as ‘normal diligence’, albeit scoped for the particular deal.

It helps Deloitte and the client: “It might not win you any friends at the time, but you want to protect them from discovering too late that they’ve missed looking at something.”

Because the forward outlook needs greater understanding, Saunders says that there is now more involvement of industry sector specialists in the due diligence teams. “That trend has grown over the course of the last decade or so,” she says. “Private equity investors also require it more so now. So while their trusted adviser is



“There is probably a lack of quality assets in the market at the moment”

Chris Grove,
head of transaction
services, BDO

DECISIONS, DECISIONS

The due diligence services on offer continue to grow. Here are some of the options for the services to be included in a due diligence assignment:

1. financial due diligence;
2. commercial due diligence;
3. legal due diligence;
4. operational due diligence;
5. IT and cyber due diligence;
6. business valuation advice;
7. specialist valuation of assets – brand, IP, real estate;
8. share and purchase agreement (SPA) advice;
9. strategy advice; and
10. post-merger integration advice.

absolutely fundamental to every deal, they need that overlay of industry expertise.”

TECH-ENABLED

While offshoring in the wake of the financial crisis brought cost savings to the due diligence process, technological advances are now affecting how firms work. Many still have some way to go, with data analytics being more suited to bigger deals and deals in certain sectors (see ‘Data and diligence’ on page 22).

As well as efficiency gains, which help in a competitive market for deals, analytics can save time to help on tight deadlines. It can provide useful insights or angles on a deal, previously unavailable. It may also provide some insight to justify the price being offered and identify synergies or new revenue potential, which are critical in a market where prices mean quick flips are off the menu.

Saunders says operational due diligence is much more in demand: “Deals are becoming more complex, particularly some of the big carve outs, and vendor assist really helps the vendor present the business in a way which is clear and comprehensive.”

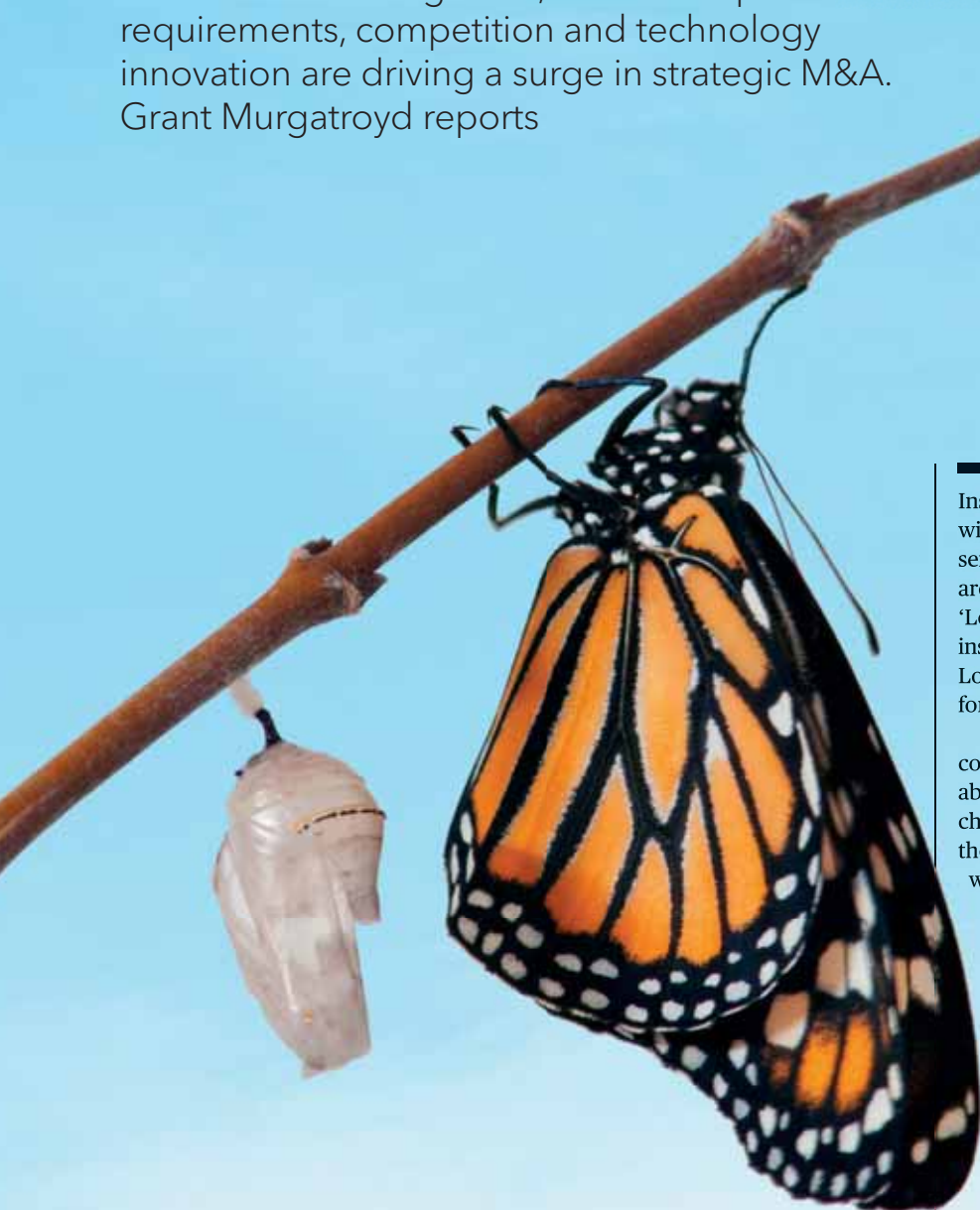
The other increase Saunders is seeing is in the demand for share purchase agreement (SPA) work as part of the due diligence. She is clear why that is happening: “In the current market, there is a genuine recognition from clients that applying the ‘so what?’ approach to carefully selecting what to look at is key, and actually getting to the next step on is absolutely critical, and that is to getting deals over the line.”

In October 2016 the faculty launched one of ICAEW’s most popular guidelines – *Completion mechanisms: determining the final equity value in transactions* – co-authored with Grant Thornton’s SPA team. ●

EMERGING FROM THE

Cocoon

Insurers have spent the last five years getting their houses in order. Pressures on core business from rising costs, onerous capital requirements, competition and technology innovation are driving a surge in strategic M&A. Grant Murgatroyd reports



Insurers could perhaps be described as the widget-makers of financial services. They're not sexy and they don't set the pulse racing, but they are hugely important to the UK economy. The 'London Market' - a collection of speciality brokers, insurers and reinsurers that includes Lloyds of London and services a global market - accounts for 26% of the City's revenues.

London's historically dominant position in commercial insurance is under threat (see box, above right), while technology and regulatory changes are reshaping consumer markets. If you thought insurers would respond to these challenges with strategic M&A, you'd be wrong. According to data provider Thomson Reuters the value of UK insurance M&A declined steadily from \$17.7bn in 2011 to \$5.7bn in 2016. M&A advisers are hopeful that the uptick to \$7.6bn in 2017 is a sign of better times ahead. However, globally insurance M&A increased from \$47.6bn to \$84bn last year.

Red tape rightly gets a share of the blame. The EU began the process of establishing a new regulatory framework for insurers in May 2001 with Solvency II. In July 2007 the European Commission adopted Solvency II with an implementation date of October 2012. After much back and forth, amends, delays and a global financial crisis, a revised framework eventually came into force at the start of 2016.

"Solvency II adoption was a particularly



THE LONDON MARKET MATTERS

In 2014 the London Market Group (LMG), a market-wide body representing specialist commercial (re)insurance broking and underwriting communities in London, joined forces with Boston Consulting Group to publish *London Matters*, an overview of London as an insurance centre. With \$67bn of gross premiums written in 2015, London is the largest commercial insurance hub and a leader in many segments.

London Matters was refreshingly frank about the challenges: customers prefer to buy in local markets, London is weak in emerging markets, it is losing reinsurance share, expense ratios were higher than competitors, regulations are increasing costs, and a prolonged soft cycle and superabundance of capital are eroding the market for additional capacity.

Over the last four years London

has generally maintained its position, but the challenges identified in 2014 remain. "The whole London Market has invested tremendous intellectual effort and emotional commitment to this endeavour so far," said LMG chairman Nicolas Aubert in the latest 2017 report. "Despite the market's continued strengths, the facts clearly tell us that this is not the time to be complacent."

The so-called London Market employs 52,000 people in the UK, including 17,000 outside London, and accounts for 26% of the City's GDP and 10% of London's GDP.

Brexit is a cloud hanging over London's future, but to date the response of insurers has been measured and pragmatic. Lloyd's of London established a base in Brussels, while other UK insurers have moved back office capability to

the continent so those businesses can stand on their own two feet.

"A few years ago we wondered whether we might see significant M&A activity to tackle the Brexit question, but that hasn't proved to be a major driver," says Ian Sparshott at Deloitte. "Most insurers now either have an executed Brexit plan or a plan going through the execution phase to restructure themselves to protect against the worst case, and we're not seeing any Brexit-related concerns dampening M&A activity."

52,000

people in the UK
are employed in
the London Market

challenging exam question for life insurers," says Ian Sparshott, who leads Deloitte's insurance sector corporate finance practice. "A lot of executive and senior management time and change capacity was tied up seeking to understand what Solvency II meant for their business model, products, capital requirements and shareholder returns. That understanding is now in place and change capacity is freed up, so people are better able to reassess their strategic position."

SELL OFFS

Traditional life insurers are selling legacy portfolios to reduce risk, free up capital and invest in new opportunities. Aegon, AXA, L&G, Standard Life Aberdeen, Zurich and Prudential - which announced plans to sell off £12bn of UK annuities as it focuses on the demerger of its UK and international businesses in March - have all sold substantial portfolios.

Buyer interest has come from closed book specialists such as the Swiss Re subsidiary ReAssure

London's historically dominant position in commercial insurance is under threat, while technology and regulatory changes are reshaping consumer markets



"Solvency II adoption was particularly challenging for life insurers"

Ian Sparshott,
global finance
advisory leader,
insurance, Deloitte



"Scale is important as regulation and complexity increases"

Mark Flenner,
head of UK financial
services M&A,
KPMG

and Phoenix. Scottish Widows, the life insurance arm of Lloyds Banking Group, has also made significant acquisitions. The life insurance market is also seeing significant interest in acquiring bulk purchase annuities with the likes of L&G competing for assets with PIC, Rothesay and Just, among others.

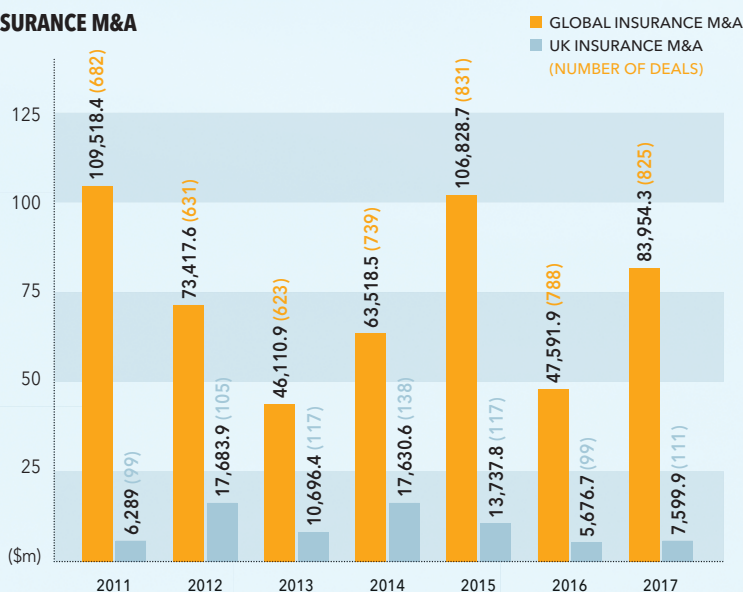
The deals are simple sales. To effect such deals, the buyer and seller typically enter into a reinsurance contract to transfer the economic risks and rewards of the portfolio before transferring the obligations legally. "Some sellers will accept taking a book loss initially from a profit and loss perspective, as the transactions are net positive through the release of capital that can be deployed in other areas of the business and remove a distraction for senior management," says Sparshott.

A second driver is acquisitions by large insurance companies of specialist expertise in products or markets. In January 2018 AIG signed a \$5.6bn deal to acquire Validus Holdings, a New York-listed provider of reinsurance, primary insurance and asset management services. AIG said the acquisition of Validus Re, which has a focus on property catastrophe, marine and specialty, "brings deep relationships with brokers and clients".

"Scale is important as regulation and complexity increases," explains Mark Flenner, head of UK financial services M&A at KPMG. "There is also a drive for access and geographies around the



INSURANCE M&A



SOURCE: THOMSON REUTERS

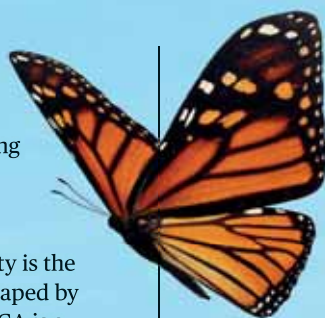
world and to acquire expertise in specialist markets and different distribution and underwriting channels. A lot of insurers are reforming their strategic maps.”

CONSOLIDATION PLAYS

For mid-market deals the hub of activity is the UK broker market, which is being reshaped by managing general agents (MGA). An MGA is a specialised insurance agent or broker that, unlike traditional middlemen, is vested with underwriting authority from an insurer. Many MGAs are applying new technologies in ways that are yielding quick gains.

In March 2017, private equity firm Vitruvian Partners backed a buyout of CFC, the largest MGA in the UK, at a reported valuation of £230m. Headquartered in London, CFC provides specialist and emerging markets risk cover. Backed by 34 Lloyd's syndicates, it has a global distribution network of over 1,900 broker offices and more than 206,000 customers. In the three years to 2016 CFC's gross premium income grew at a compound annual rate of more than 40% to over \$200m.

And it is not just MGAs. There are deals being done for businesses where the bigger players are not operating. Nick Jones, partner and head of technology at Cavendish Corporate Finance, advised Tempcover founder Michael Slack on the £13.3m sale of his business to a management buy-out team backed by Connection Capital, which completed in January. “Tempcover provides short-term motor insurance for temporary use of car situations, like students coming home from university, driving a mate's car on holiday and van rentals,” says Jones. “The gap exists because the major insurers work on annual policies and don't have the necessary systems or products to satisfy the niche.” ●



“Major insurers don't have the necessary products to satisfy the short-term insurance niche”

Nick Jones,
partner and head
of technology,
Cavendish
Corporate Finance

THE DISRUPTORS

Last September, Japan's SoftBank led a \$120m Series C funding round in Lemonade, a digital insurance company that uses artificial intelligence and behavioural economics to provide a “seamless user experience”. Existing investors Aleph, Allianz, General Catalyst, Google Ventures, Sequoia Capital, Sound Ventures, Thrive Capital, Tusk Ventures and XL Innovate also participated.

Older and more cynical readers may remember boo.com, an internet fashion retailer that had a marvellous time burning \$135m in just 18 months at the height of the dotcom boom. Quirky names and buzzwords don't necessarily make a sound investment.

Insurtech is the insurance subsector of fintech, one of the hottest technology plays around. To date it has yielded little in the way of substantial transactions but that may be about to change.

“Insurtech touches every aspect of the value chain in the insurance sector, from distribution to servicing, claims handling, product design and finance and more,” says Ian Sparshott at Deloitte. “Technology can and will have an increasing influence on improving all parts of that value chain. Certain of the largest global insurers have set up dedicated venture capital funds to back emerging technologies to help them grow and develop solutions that can be moved onto their main platform. We are seeing some mainstream M&A in the fintech space, but it's still quite small.”

KPMG believes 2018 is the year insurtech will hit its stride. In the introduction to predictions for 2018 report, it said: “Insurtech moves from proof of concept to production as minimum viable products are proven and scaled for wider launch”. It identified autonomous vehicles, cyber insurance, aviation and drone insurance and connected insurance as areas of opportunity.

CB Insights, a US-based venture capital information and data publisher, identified AXA Strategic Ventures (ASV) as the busiest investor among more than 25 active insurance corporates. Sebastien Loubry of ASV said: “ASV operates like any other investment fund. Part of our team comes from AXA but also, and above all, from the world of investment in new technologies. We have an additional mission: to place AXA at the heart of insurtech. AXA, the second largest insurance company in the world, cannot be left behind when it comes to the newest developments within the sector – indeed, it must be one of the companies pushing the envelope.”

Over the finish line

Earlier this year, JD Sports announced its largest acquisition to date: \$558m for US sports retailer Finish Line. With executive chairman Peter Cowgill leading the way, JD could be set to become the market leader in what he calls “athleisure”



REACHING THE FINISH LINE

In March 2018, JD Sports announced it was taking over US sports retailer Finish Line. The offer price of \$13.50 per share was at a 28% premium to its listed share price at the time. The offer valued the company at around \$558m.

The deal is expected to be complete in June. Finish Line chief executive Sam Sato said: “Finish Line has long admired JD and its commitment to serve customers with premium brands through a unique and innovative retail

experience. We look forward to realising the impact we will have on the marketplace together.”

Obviously JD is keen, given it's doing all the chasing. Its executive chairman, Peter Cowgill, celebrated by dubbing the products “athleisure” [sic] in his press release: “The acquisition represents an excellent opportunity for JD to establish its market leading multi-brand proposition in the world's largest athleisure market.”

WHO'S THAT CHAIRMAN?



Peter Cowgill is the executive chairman of JD Sports. An ICAEW member, he was previously financial director of the sportswear

business in 1999 when it listed on the London Stock Exchange. Cowgill stood down from the role in 2001, although he retained shares in the business. But then, after a series of profit warnings, he returned in 2004 as executive chairman – a role he's since held for 14 years.

Cowgill is still a corporate finance partner at Cowgill Holloway – the accountancy practice he founded in 1984. Specialising in retail, he is also the non-executive chairman of Quiz, United Carpets and Better Bathrooms.

However, one directorship he didn't get was at Manchester United, where he's still a season ticket holder. Rumours began circulating in February 2016, but petered out and came to nothing.



REJECTED FOR A BETTER OFFER?

There are a lot of interesting angles to this deal. Not only will it be JD Sports' biggest acquisition to date, it'll buck the general trend of the US/UK deal corridor of American businesses buying British ones. While Finish Line had long been picked out as a likely takeover target, it could have been another UK business that was the most likely suitor. In February, Mike Ashley's Sports Direct announced it had a 32% economic interest in Finish Line

through shares and derivatives.

Was Sports Direct jilted after a better offer? Perhaps. JD Sports – in which Sports Direct once held shares, before selling them in 2016 – does seem like a better match for Finish Line. Regardless, Ashley will still benefit from the acquisition as he owns a 9.85% stake in Finish Line.



JD SPORTS' ACQUISITIONS

DATE ANNOUNCED	ACQUISITION	VALUE
03/18	Finish Line	\$558m
01/17	2Squared Agency	ND
11/16	GO Outdoors	£112m
11/13	ActivInstinct	ND
11/13	Tiso Group	ND
02/13	Cloggs UK	ND
01/13	Champion Sports Ireland	ND
06/12	OneTrueSaxon	ND
02/12	Sabotage	ND
01/12	Blacks Outdoor	£20m

SOURCE: CRUNCHBASE

Just prior to its acquisition spree in 2012/13, 3i invested £28m in JD Sports.

The GO Outdoors acquisition was its previous biggest acquisition, but Finish Line moves it into new territories, both geographically and financially.



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WHAT'S THE ALTERNATIVE?

Published last year, the *Entrenching Innovation* report by Cambridge Centre for Alternative Finance looked into the UK alternative finance industry. **Bryan Zhang** sums up its findings

ALTERNATIVE FINANCE UK: AT A GLANCE (2016)

Type of finance	£bn
Peer-to-peer business lending	1.23
Peer-to-peer consumer lending	1.17
Peer-to-peer property lending	1.15
Invoice trading	0.45
Equity-based crowdfunding	0.27
Real estate crowdfunding	0.07
Reward-based crowdfunding	0.05

SOURCE: CAMBRIDGE CENTRE FOR ALTERNATIVE FINANCE

business lending providing an equivalent of 15% of all new loans lent to small businesses by UK banks. Alternative finance has entered the mainstream, and online alternative finance is likely here to stay.

But, within such a dynamic landscape, progress in financial innovation isn't linear. As market consolidation accelerates, there is greater pressure on alternative finance platforms to distinguish themselves through better services and more innovative products, while simultaneously responding to emerging regulatory and supervisory demands.

There were few new entrants to the market in 2016, and 35 UK online alternative finance platforms left the market due to merger or closure.

The trend toward greater involvement in alternative finance by established financial institutions continued. Funding from institutional investors such as pension funds, asset managers and banks accounted for 34% of peer-to-peer property lending, 28% of peer-to-peer business lending, and 32% of peer-to-peer consumer lending.

The survey found that 88% of loan-based crowdfunding platforms deemed existing FCA loan-based crowdfunding regulations to be adequate and appropriate, while 7% said existing rules were too relaxed and 5% too stringent.

For investment-based crowdfunding (which encompasses equity-based crowdfunding and debt-based securities), 93% of surveyed investment-based crowdfunding platforms said existing FCA regulation was adequate and appropriate, with 7% again finding them too relaxed. None said the rules were too stringent.

As far as the FCA's ongoing crowdfunding regulatory review process was concerned, 84% of surveyed platforms said they considered it adequate and appropriate. ●

***Entrenching Innovation* can be downloaded for free at tinyurl.com/CF-ENINO2**



Bryan Zhang,
executive director,
Cambridge Centre for
Alternative Finance

Alternative finance has entered the mainstream, and online alternative finance is likely here to stay



In the six years from 2011 through 2016 there was £11bn of UK alternative finance raised. In the last full year that figures were available (2016) there was £4.6bn, a 43% increase from the £3.2bn raised in 2015.

Alternative finance has become an increasingly important source of funding for start-ups and smaller businesses. As part of the work for the *Entrenching Innovation* report, the Cambridge Centre for Alternative Finance (CCAF), based at the Cambridge Judge Business School, surveyed more than 8,300 investors and lenders of online alternative finance, as well as 77 crowdfunding and peer-to-peer platforms in the UK. This formed the basis of the CCAF's input to the Financial Conduct Authority (FCA), which is reviewing the UK crowdfunding regulatory regime.

About £3.3bn - 72% of all 2016 UK alternative finance - was raised for UK start-ups and SMEs. The total was 50% up on 2015. Some 33,000 firms used alternative finance channels in 2016, compared with 20,000 in 2015. In contrast, the UK retail investor and lender market has been relatively stable.

Online alternative finance has become an ever more established component of the UK financial landscape. Equity-based crowdfunding now accounts for 17% of all seed and venture stage equity investment in the UK, and peer-to-peer

TRANSFORMING THE ECONOMY

Kim Taylor, president of clearing and post-trade services of CME Group, which assisted in the preparation of the report, said: "Crowdfunding and peer-to-peer lending are just two examples where new participants are accessing technological innovations to create new marketplaces. The size and

growth of the online alternative finance market, new entrants and partnerships, and the effect on regulation and tax incentives, have the potential to transform the global economy. This transformation can be best achieved with thoughtful analysis and a thorough understanding of the alternative finance landscape."



The UK government's amendments to EIS and SEIS rules came into effect last month. **Dave Morrison** explains what's changed and what this will mean for investment in knowledge-intensive companies in the UK

The Finance Act, which followed last year's Autumn Budget, came into effect last month. One key part of the act is the changes to Enterprise Investment Schemes (EIS) and Seed Enterprise Investment Schemes (SEIS). The good news is that knowledge-based companies will be allowed wider qualifying criteria for schemes. However, the not-so-good news is that EIS and SEIS companies must meet new 'risk to capital' requirements.

Of course, one can appreciate that the point of offering tax incentives to invest in new enterprises is to encourage job creation and boost the economy. Clearly tax structures that are asset-backed and lead to little growth or additional employment, with little risk to the investor, are not really what an incumbent chancellor would want to support. During 2017 the government's Patient Capital Review was published. And respondents joined in the pre-budget season consultation. The upshot was a new condition, which requires EIS and SEIS companies to have an objective to "grow and develop" their trade over the long term.

SIGNIFICANT RISK

Add to this a new requirement where there is a "significant risk that there could be a loss of capital to the investor of an amount greater than the net return". The approach taken by HM Treasury and HM Revenue & Customs (HMRC) is designed to be a fluid test, which allows some flexibility. This means

taking a reasonable overall view. In theory, only companies and advisers who are pushing the boundaries should be concerned. So what does it all mean? Well, the truth is that we will probably spend the next year or so trying to find out. In my opinion, this legislation is deliberately imprecise and is based on the somewhat vague notion that it is 'reasonable to conclude' that the tests are met.

Attitudes and interpretations can change over time. If one does have a situation close to the margin, even inadvertently or innocently, there is a risk that HMRC's view is not affirmative. If an application for advance assurance is rejected, there is no appeal process nor is one being considered. However, one can appeal via the tribunal if the application itself is rejected.

In corresponding with HMRC, businesses must understand that tax inspectors may not necessarily be familiar with the commercial world in which companies operate. What a business may consider

In corresponding with HMRC, businesses must understand that tax inspectors may not necessarily be familiar with the commercial world they operate in

'reasonable' may be different to theirs, and some sort of arbitration may be needed.

This matter has been of particular interest to the film and TV industry, in which I've advised many clients. It will also be relevant to businesses owning valuable assets (such as premises), like pubs or restaurants, for example.

There are no precise definitions of 'growth and development' or 'long term', but single projects are very unlikely to prove eligible. As for risk, the amount that the investor puts at risk of loss must exceed the net returns likely to accrue to them at the time of making the investment (including any tax relief).

NO ADVANCE ASSURANCE

Since January, HMRC no longer provides 'advance assurance' if an application fails to name individuals, fund managers or other promoters who are expected to provide the investment capital. Some guidance is needed about what, and how much, evidence will suffice (new guidelines are anticipated at the time of writing). It is unlikely that many EIS or SEIS will be fully funded before applying for advance assurance.

In part, this change is to discourage speculative applications for advance assurances by companies unlikely to raise capital. This may seem contradictory. If investors were lined up, why would they need a tax incentive? HMRC will need to clarify how much evidence of potential share subscriptions there should be.

It has been suggested that one reason HMRC wants to cut down on applications is that it cannot cope with the number of applications it receives, because EIS and SEIS have become so popular. Response times have been pushed out - it has taken up to 16 weeks to get a response. This can be attributed to the additional questions HMRC have been asking.

CLEARING THE BACKLOG

It was with some relief that we discovered that advance assurance was not going to be abolished. Another welcome announcement was that HMRC said it would clear the application backlog by April 2018. How will they manage this? Some may simply be nodded through, while others rejected in the knowledge that there is no appeal process for potential customers. Hopefully relevant questions

HMRC no longer provides 'advance assurance' if an application fails to name individuals, fund managers or other promoters who are expected to provide the investment capital

will now be raised at the outset, rather than created during the process, particularly ones that could have been asked to begin with.

CLEVER TACTICS

Future advance assurance applications for EIS and SEIS should include financial forecasts going beyond three years, identifying how turnover, projects and activities and employee numbers will increase following the new investment. Furthermore, the application should make it clear that the company is going to be managed with a long-term plan by a genuine entrepreneur and not an investment institution.

If HMRC does reject an application but the management team of the applicant company disagrees with the decision, then a solution may be to issue a small amount of shares, make an application and then go to tribunal over an actual rejected application. This course of action is possible here, unlike with advance assurances. But it is not desirable for anyone - HMRC included. However, in these cases it may resolve the issue.

KNOWLEDGE-BASED COMPANIES

A more positive change is that EIS limits have doubled for investments in knowledge-intensive companies (KICs). An individual can invest £2m (up from £1m) in any tax year, provided that anything above £1m is invested in KICs. Furthermore, such companies will be able to raise £10m (up from £5m) in any 12-month period.

There is subjectivity about what a KIC is. Broadly speaking it's a company that spends between 10% and 15% of its operating costs on R&D, innovates, has IP or has highly skilled full-time staff. The permitted maximum age (10 years for KICs, otherwise seven years) may be measured from turnover hitting £200,000, rather than from the first commercial sale, for KICs. Venture capital trusts are also set to benefit from the KIC 'upgrade'.

Nobody will envy HMRC in its quest to clear their backlog, but a reasonable approach would be welcome. As for getting to grips with what is 'reasonable' under the 'risk to capital' rules, this will be an issue to keep a very close eye on. ●

CONSULTATION ON FURTHER INCENTIVES

As part of the UK government's Patient Capital Review reforms, there is a consultation on the introduction of a new approved fund structure within the Enterprise Investment Scheme. The government is looking at potential additional incentives to attract investment. Such a fund structure would be focused on mainly investing in knowledge-intensive companies (KICs). The consultation, which closes on May 11, seeks views about possible elements and constraints of such a fund structure, while also seeking to better understand the capital requirements of KICs.

Katerina Joannou, ICAEW's capital markets expert, has been working very closely with ICAEW's Tax Faculty on a formal response.



Dave Morrison,
partner, Nyman Libson
Paul and former chair of
ICAEW's entertainment
and media special
interest group

APPOINTMENTS



Fenton Burgin (1) has taken over as head of the UK corporate finance advisory practice at **Deloitte** – a key part of the firm's financial advisory division.



Burgin joined Deloitte as partner 10 years ago from Close Brothers, where he'd spent 12 years. At Deloitte he initially co-led the firm's global debt and capital advisory practice. He has more than 30 years' experience in M&A, debt and equity capital markets having worked with Schroders and Lloyds Bank Capital Markets Group.

He has taken over from Paul Lupton (2), who will now leads the UK firm's "financial advisory corridor" (including M&A) with Deloitte's US practice. Chris Skinner (3) will take over from Burgin as

head of UK debt advisory. Richard Bell (4), who led Deloitte's UK regional businesses for the last two years, has taken over the leadership of the firm's UK financial advisory practice from Neville Kahn. Bell has been a Deloitte partner for 18 years, and sits on the UK firm's executive board. Kahn will continue as financial advisory leader for Deloitte across northwest Europe.



Alfonso Marone has joined **KPMG's** technology, media and telecommunications (TMT) practice in London as a deal advisory partner. Marone has 23 years' senior executive and advisory experience in the TMT sector globally, and will advise on corporate strategy and M&A. His expertise is in complex buy-outs, M&A, digital innovation, revenue development and operational improvement.

Previously he was managing director of independent M&A consultancy Point79. Prior to that he was chief development officer and divisional director of Euromoney Institutional Investor, overseeing M&A, strategic fintech investments and portfolio activity. He previously held senior roles at NBCUniversal and O2 and was a partner at Spectrum Strategy Consultants, where he advised private equity houses on more than \$10bn of media sector deals.

Marone holds an MBA from INSEAD in France, a master's degree in electronics

and communications engineering from the University of Rome, and has a specialisation in media from UCLA.



Paul Morris has joined **BDO's** corporate finance team after 14 years at Livingbridge. In a newly created role, he will head up growth advisory within the firm's private equity practice.

Previously he spent 18 years at Barclays.

Morris will advise ambitious UK businesses on growth opportunities with private equity investment. He has extensive experience in guiding mid-sized businesses through every stage of the private equity life cycle across many sectors, but in particular the business services and TMT sectors.

BDO's UK corporate finance team had a record year in 2017, completing 300 transactions worth more than £18.5bn. Private equity transactions also increased by more than 50%.

The firm has also recruited Adrian Wong as its new head of digital and innovation from AstraZeneca, where he was creative director. Prior to that he was at global online gaming company PKR, also as creative director.



Natalie Ord (1) has been promoted to corporate finance partner at **RSM** in London;



Jamie Miller (2) has been appointed restructuring advisory partner in Leeds; and



PE SHORTS



3i has recruited four people to its private equity team – three in Amsterdam and one in New York.

In the Amsterdam team, Reinier de Jong (1) has joined as associate director, Justin Pabst (2) as associate and Jelle Klein Teeselink (3) has joined as an analyst.

De Jong was previously a strategy consultant at Bain & Company, and prior to that worked at Morgan Stanley. Pabst has joined from Coolblue, where he was a commercial project manager. He previously worked at McKinsey.

Teeselink has a master's in financial engineering and management from the University of Twente.

And in New York,

Brendon Anderson (4) has joined as associate. He previously worked in the global industrials group at Citigroup.



Connection Capital has recruited

due diligence specialist Audrey Collins to its alternative asset funds team from International Asset Management. She also worked at

Man Investments and EY.



Karin Kovacic has joined **Monroe Capital** in New York as managing director from Alcentra Capital Corporation. She previously worked at CBIZ and Fifth Street Capital.

AXA Strategic Ventures has rebranded as **AXA Venture Partners**.



Declan Mackin (3) has joined the firm as economic consulting partner in the Belfast office.

Ord joined the firm in 2008, when it was Baker Tilly. Miller originally joined Baker Tilly in 2003 before the firm was taken over by RSM. And Mackin has joined from boutique economics and political consultancy PACEC, having previously worked for McClure Walters and Deloitte.

RSM has announced growth across every business line in 2017. In February the firm promoted David Gwilliam to CEO, with former CEO Laurence Longe becoming chairman of RSM UK.



Peel Hunt has recruited Scott Beattie (1) as director and head of debt capital markets (DCM) from Oppenheimer Europe (OE), where he was managing director and European head of DCM. David Kent (2) has also joined as director in the DCM team from Oppenheimer



Europe, where he was managing director in DCM. Stuart Galvin (3) has joined as director in the equity team from Cenkos Securities.

Prior to OE, Beattie was at KNG Securities, Fox-Davies Capital and City Capital Corporation. Kent previously held roles at KNG Securities, Fox-Davies Capital, Andersen, Deloitte and Kidder, Peabody & Co. He originally trained as a solicitor with Herbert Smith.

Galvin was previously head of DCM at Cenkos Securities, and prior to that had roles at Canaccord Genuity, HSBC, CSFB, JP Morgan Securities, Merrill Lynch, Kleinwort Benson and Salomon Smith Barney.



Charles Walker has joined the **London Stock Exchange** as head of equity primary markets from JP Morgan Cazenove. Previously, he was part of the capital markets team at JP Morgan, which included time in Australia and South Africa.



James Lewis has joined **Cairn Financial Advisers** from RSM, where he was M&A and private equity partner. He was previously co-head of Plc advisory at Deloitte corporate finance, and before that worked in European M&A at Credit Suisse and Deutsche Bank. He trained as an ACA with KPMG.

"As a boutique advisory firm, Cairn offers advice on IPOs and M&A, principally to clients on AIM. We are looking to do more M&A with our existing clients, as well as target new clients and opportunities. My track record and experience will add more to our offering," said Lewis.



Andy Hodgetts (1) has been promoted to senior corporate finance manager at **Buzzacott**. Hodgetts joined over a year ago from



Blippar, and focuses on Buzzacott's growth offering to tech companies. He previously worked for TNS.



Meera Shah (2) has joined the firm as corporate finance manager from Smith & Williamson, where she worked in the firm's valuations team.

Phil Walters (3) has been promoted to corporate finance manager. He joined the team two years ago.



PwC and Blooming Founders have launched the **Female Founders** scale-up programme, aiming to boost the number of women working in technology roles in the UK. Blooming Founders looks to give female founders a competitive edge in growing their businesses.

Sheridan Ash, women in tech leader at PwC, said: "We're aiming to support the next wave of pioneering women in the competitive and male-dominated scale-up space. By encouraging more women to start their own tech businesses, we're also hoping to provide role models to the younger generation and inspire them about the opportunities available in technology."

PwC has also launched 'Raise Investment', which helps companies with a £1m+ annualised turnover, looking to secure £1m-£10m in funding, get investor-ready.



LEGAL BRIEFS



Linklaters has promoted six corporate lawyers to partner in its London office. Sushil Jacob (1), who works on Indian deals; Christopher Boycott



(2), Jonathan Sadler (3) and Rachel Barrett (4) in mainstream corporate; Rachel Hetherington (5) in competition; and Sarah Lindley (6) in tax. Chris Yip, Marcin Schulz, Rémy Bonneau and Nicholas Edwards have been promoted to corporate lawyers in Hong Kong, Warsaw, Luxembourg and Abu Dhabi respectively. Stephen Song and Gloria Cheung have

been promoted to capital markets partners in Hong Kong, and Alexander Schlee in Frankfurt.

Addleshaw Goddard has recruited six real estate partners from Irwin Mitchell in Manchester, including the firm's regional real estate head Anita Weightman. Real estate partners Paul Barnard, Chris Perrin, Patrick Duffy, Tony Weightman and Emily Williams have moved with her.



Slaughter and May has promoted Nicholas Pacheco to corporate partner in London. Meanwhile, corporate lawyer Clara Choi has been promoted to equity partner in Hong Kong.



Stephen Knight has joined **Dentons'** banking and finance practice in Abu Dhabi from Allen & Overy. His specialism

is in infrastructure and PPP transactions. And Dentons has combined with seven law firms in Kenya, Mauritius, Cayman Islands, Barbados, Indonesia and Malaysia.



Dechert has recruited Mark Dillon as financial services national partner in its Dublin office from Deacons in Hong Kong. Previously, he worked for Dillon Eustace Solicitors.



THE CV

Derek Neil is a corporate finance partner at BDO. Based in London, he specialises in acquisition and vendor due diligence. He joined BDO from PwC in 2004, where he trained as an ACA in Newcastle. In 2011 he was seconded to Lyceum Capital as an investment director.

Recent deals

- The £11m sale of Comapi to dotDigital Group in November 2017
- Blackbaud Inc's £95m acquisition of JustGiving in October 2017
- Cogint Inc's merger with BlueFocus International in September 2017

CHECK IT OUT

Vendor due diligence is increasingly being used to facilitate transactions. **Derek Neil** of BDO says the process needs very careful planning – and focus

WHAT WAS THE DEAL?

The £100m fundraising by Hyperoptic in July 2017 in a club deal involving BNP Paribas, ING, RBS and Dutch investment bank NIBC. Hyperoptic is a gigabit broadband provider with 350,000 residential and business customers in more than 30 UK cities. The new finance was to be used to accelerate its fibre roll-out and expand its consumer and business footprint. There was also an opportunity to expand internationally.

HOW DID YOU GET INVOLVED WITH HYPEROPTIC?

Founded in 2011, Hyperoptic has grown quickly. In 2013, Quantum Strategic Partners invested £50m of equity, and

in 2016, the European Investment Bank provided £21m of funding. Our key contact, chief financial officer Ben Bresler, was part of the founding team. Hyperoptic became a BDO audit client three years ago.

WHAT WAS YOUR ROLE ON THE DEAL?

We prepared vendor financial and tax due diligence to support the fundraising. Vendor due diligence (VDD) is used on almost all private equity processes that we are involved in and it is increasingly being used in debt fundraisings. It gives the shareholders greater control of the process, minimises disruption to the business and allows for better presentation and early disclosure of

complex information. Our report was provided to the potential funders. As Hyperoptic is a very fast-growing business, the historical key performance indicators (KPIs) had limited relevance and our VDD report was about getting new lenders comfortable with more recent trading, run rates, where the business is right now and where it was headed.

WHAT WERE THE TIMESCALES?

We were appointed in mid-June 2017, and were able to provide a focused scope in a matter of days and completed our work in mid-July. The fundraising closed by the end of July – it was all very well-organised and fast.

WHO WERE THE ADVISERS?

LionTree Advisors were financial advisers, Solon Management Consulting provided commercial VDD and Allen & Overy were legal advisers.

WHAT WERE THE KEY CHALLENGES?

The banks wanted to see how Hyperoptic had deployed the

funds it previously raised. In our report we presented the funding and investment history of the business, highlighting what was operating and what was capital expenditure and setting out the returns from those investments. Together, with the management team and LionTree, we identified, evaluated and presented the KPIs that were the most informative for the banks in terms of looking forward.

AND ANY KEY LESSONS LEARNT?

VDD works best if you focus on key value drivers and the output is robust and balanced. It shouldn't just be a box-ticking exercise or an adjunct to an information memorandum. Everyone involved in this transaction bought into this. The report should be short and insightful, with detailed data for the banks' analysts if required. There should be discussion around what the key issues are and what analysis robustly evidences the value drivers. We don't want to be viewed simply as report writers, but as business advisers providing real insight. ●



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NEW AMERICAN DREAMS

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BEEN A RICH SOURCE OF M&A. V

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