Corporate Financier

GROWTH | OPPORTUNITIES | EXPERTISE

ICAEW CORPORATE FINANCE FACULTY

ISSUE 186
OCTOBER 2016
ICAEW.COM/CFF

TIGHT FIT?

CAPITAL RAISING IN A WORLD OF EVER-EXPANDING DEBT AND EQUITY EXCHANGES

EXCLUSIVE: MOBEUS ON COMBATING VCT CHANGES WITH CAPITAL-BACKED FUNDS
THE STRONGEST LINK: BLOCKCHAIN BRINGS A WEALTH OF INVESTMENT OPPORTUNITIES

Contents October 2016 Issue 186

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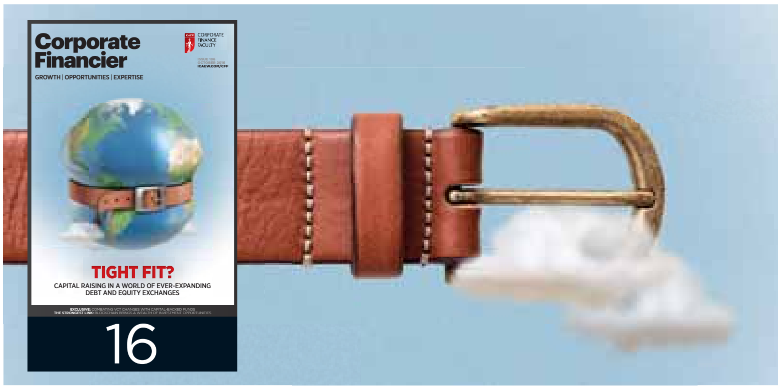

FEATURES

REGULARS

Equal footing?

CORPORATE FINANCE FACULTY

A century ago, there were more than 20 stock exchanges across the UK. Today, the London Stock Exchange competes for investors and companies on a world stage. And with its 'merger of equals' with the Deutsche Börse group progressing, what

the subsequently enlarged group will look like, and what it will be competing with, is the subject of this month's cover story.

Equity issuance may be the most relevant exchange activities for corporate financiers. But, for the world's exchanges this is a mere fraction of their income today. High-frequency trading and other ancillary services have made them less dependent on IPO windows being open.

This may smooth out revenue streams, but listings and the ability to raise follow-on capital is absolutely essential – London has that capability in abundance. It simply must continue to attract investors and grow businesses.

China, (the subject of next month's cover story), is of course home to many growing businesses. Despite Chinese growth forecasts being revised downwards, the two mainland exchanges – Shanghai and Shenzhen – have a different problem to overcome. The backlog of companies looking to IPO is overwhelming the amount of capital that is seemingly available to invest in the People's Republic.

According to Dealogic data, $7.5bn has been raised for IPOs in Shanghai so far in 2016 – the second highest of the world's exchanges, behind Hong Kong, which has seen $9.5bn raised. Shenzhen, which is home to more start-ups, tech stocks and pharmaceuticals, has raised $4.1bn and is ranked sixth.

But, according to the Chinese Securities Regulatory Commission, at the beginning of last month there were 836 companies in the IPO queue. There are apparently more than 700 businesses in another queue to join that queue. The UK might be best placed to help them out, given that global reputation for dealing with queues.

Since the UK's Brexit vote – but still in pre-Article 50 limbo land – the IPO window seems to have been tentatively opened. O2, Biffa and Misys are planning to list on the Main Market of the LSE, as is Brait, the South Africa-based investment group that controls New Look, Iceland and Virgin Active. PureGym and Hollywood Bowl are also planning smaller listings. It is providing some fresh air in the short term.

Exchanges the world over have bull-shaped sculptures at the entrance. Not the LSE however – it has a shepherd and sheep, symbolising the former use of Paternoster Square. The future success of the City of London will need to be carefully mapped out. More about shepherds. Less about bulls in the China shop.

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

Advertising enquiries
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ISSN 1367-4544 TECPLM14478
Printed in the UK by Sterling Solutions

Corporate Financier is distributed to members of the Corporate Finance Faculty.

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

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Faculty news

FACULTY AND PWC TUNE INTO THE POTENTIAL OF THE UK'S TV INDUSTRY

The Corporate Finance Faculty and PwC have published a joint report, *UK Television in Focus,* about the UK's burgeoning TV industry. It highlights the substantial investment and volume of sizeable deals in the sector, fuelled by new digital technologies, fast-changing consumer trends and big changes in the international market.

There were 194 deals globally in 2015, worth a total of more than $100bn, according to Thomson Reuters. PwC forecasts that the global TV market will be worth $325bn in revenues by 2020.

Britain is regarded as a world leader of ideas, content, technical and creative talent. Exports from the sector are a major contributor to UK GDP. UK television companies are adapting quickly to new content, platforms and changing viewing patterns around the world.

Funding TV productions has become more complicated in the past few years, while flexible operations, effective capital allocation, and recruiting and retaining the right skilled staff are high on boardroom agendas.

The report was co-written by Phil Stokes, entertainment and media and creative industries leader at PwC, and Shaun Beaney, of the Corporate Finance Faculty. Beaney also co-authored the ICAEW's guide *Creative Industries - Routes to Finance.*

The new publication features interviews with several leading figures from television investment and production:

- Tom Betts, director of corporate strategy, mergers & acquisitions, ITV Plc;
- Fiona Clarke-Hackston, chief executive, British Screen Advisory Council;
- Laura Franses, head of growth fund, Channel 4;
- Julian Freeston, CFO and chief operating officer UK/Belgium/ Netherlands, Banijay Group;
- Tobi de Graaff, executive vice president Western Europe, BBC Worldwide;
- Alistair Levack, UK media & entertainment deals leader, PwC;
- Stewart Mackinnon, principal, Headline Pictures; and
- Iain Pelling, managing director, Arrow Media.

Stokes said: "British television - always international in its outlook - is becoming even more so, with an increasing amount of high quality content gaining global recognition and creative awards. As sources of funding evolve, the industry is adapting constantly. This PwC/ICAEW report examines the critical importance of combining financial leadership, skills and professional advice alongside great programme ideas in order to strengthen investment into this vital part of the UK's creative industries."

David Petrie, ICAEW's head of corporate finance, said: "TV is a big sector for international deal flow. It's one where Britain's reputation and expertise mean that it's developed world-beating production companies. This report with PwC highlights the important role of corporate finance as part of that success story."

UK Television in Focus can be downloaded from icaew.com/television

"British television - always international in its outlook - is becoming even more so, with an increasing amount of high-quality content gaining global recognition"

Phil Stokes, entertainment & media lead partner, PwC

Faculty news

LORD CLEMENT-JONES TO BE FACULTY GUEST SPEAKER

Lord Tim Clement-Jones CBE, the man who masterminded the biggest merger of UK political parties in the late 20th century, will be the guest speaker at the Corporate Finance Faculty's annual reception.

As chairman of the Liberal Party from 1986 to 1988, Clement-Jones brought the party together with the SDP to create the Lib Dems, with Paddy Ashdown its first leader. The reception, on Thursday 10 November, will be in the impressive setting of the Guildhall Art Gallery & Old Library in the City of London. It provides faculty members with an opportunity to network with other major deal doers, businesses and investors.

Lord Clement-Jones is also deputy chairman of the All-Party Parliamentary Group on China, and vice chairman of the All-Party Parliamentary Groups on Turkey, the UAE, the Iraqi-Kurdistan Region, intellectual property, and ovarian cancer.

He is honorary president of Ambitious about Autism, a member of the council of University College London, and on the advisory board of the College of Medicine.

In addition, he was legal adviser at Kingfisher Plc from 1986 until 1995, and held senior legal positions at Grand Metropolitan and London Weekend Television. He graduated with an MA in economics and law from Trinity College, Cambridge.

To find out more about the Corporate Finance Faculty's annual reception, please visit icaew.com/cffar16

If you are a faculty member and have not yet received an invitation, please contact veronica.zabrini@icaew.com +44(0)20 7920 8440 or dan.wilson@icaew.com +44 (0)20 7920 8483

DIGITAL ACCELERATOR

The Corporate Finance Faculty participated in an advisory group on the creation of the first Digital, Arts & Culture Accelerator, as part of a joint project led by Arts Council England and innovation charity Nesta.

Launched in May 2016, the 12-week accelerator programme benefited nine UK products and services, originally backed by the £7m Digital R&D Fund for the Arts. The Accelerator Network managed the programme, which culminated in a presentation day in London on 15 September.

The faculty's Shaun Beaney (above) took part in the advisory group, providing investment and funding expertise following ICAEW's publication of *Creative Industries – Routes to Finance* in November 2015.

MARKET ABUSE REGULATION IN FULL SWING

At the start of July, EU-wide legislation, the Market Abuse Regulation (MAR), came into force. Just two weeks after Brexit it alters the existing UK regime on market abuse, for both Main Market and AIM companies:

- **Disclosure of inside information**
  Unless disclosure is likely to prejudice a listed company's legitimate interests, inside information must be announced as soon as possible. Any delay must not be likely to mislead the public. A record must be kept of timings and why conditions for the delay were satisfied.

- **Insider lists**
  MAR extends insider lists obligations to AIM companies. An electronic insider list must now be prepared. And the personal information required has been expanded.

- **Restrictions on dealings by directors and managers**
  Persons discharging managerial responsibility (PDMRs) or people closely associated (PCAs) remain substantively the same, but under the new regime a more precise list must be prepared.

- **Disclosure of dealings by directors and managers**
  MAR will require a PDMR or PCA that deals on his or her own account to notify the company and FCA within three business days (reduced from four) of the transaction.

- **Share dealing codes**
  The FCA will delete the Model Code, and MAR does not provide a template dealing code for companies to adopt. However, the FCA will require companies (Including AIM-listed companies) to have effective systems and controls in place for dealing clearance.

- **Safe harbours**
  "Market soundings" safe harbours have been introduced to deal with the offence of unlawfully disclosing inside information. Certain disclosure and record-keeping, in respect of pre-marketing to potential investors to gauge interest in a transaction, will allow a safe harbour to apply.

In numbers

Global appetite for deals, non-performing loans in European banks and this month's Investor Confidence Index

27%

average global M&A insurance policy cover as a percentage of embedded value in H1 2016 (H1 2015 25%) – forecast to continue rising

1.39%

average global premium rate as a percentage of M&A insurance policy limit, H1 2016 (1.54% H1 2015), forecast to remain at all-time low

SOURCE: JLT SPECIALTY GLOBAL MERGERS & ACQUISITIONS (M&A) INSURANCE INDEX

89.7

Global Investor Confidence Index (ICI) for August 2016 (down 8.3 points from 98.0 in July)

86.8 European ICI for August 2016 (92.4 in July)

89.5 North American ICI for August 2016 (99.8 in July)

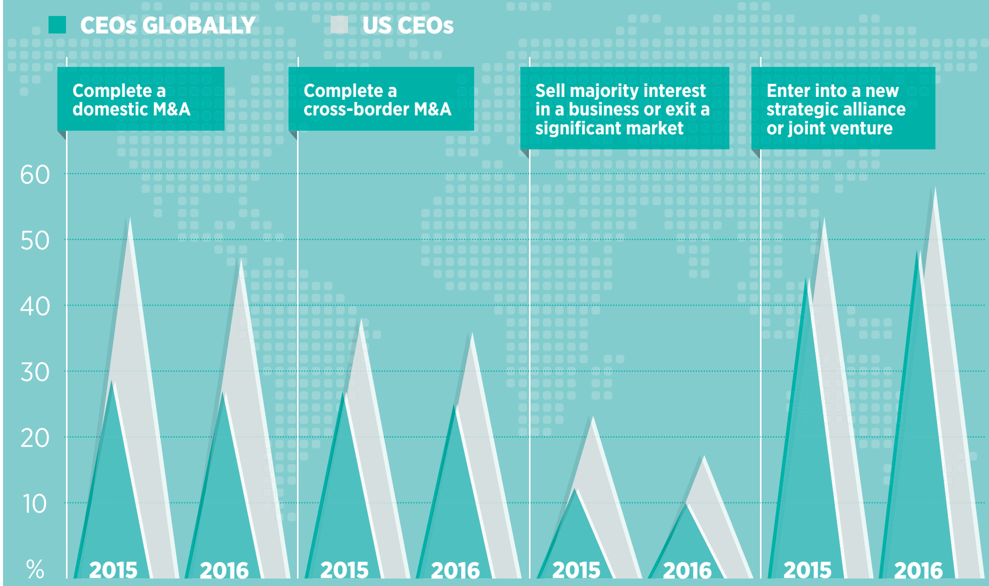
SOURCE: STATE STREET GLOBAL EXCHANGE

€112,000,000,000

SALE OF NON-PERFORMING LOANS IN EUROPEAN BANKS, H1 2016 (€104.3BN IN 2015)

SOURCE: DELOITTE

APPETITES FOR DEALS AND STRATEGIC ALLIANCES FOR GLOBAL CEOs



SOURCE: PWC

41%

of CEOs around the world who anticipate significant transformation of their company over the next three years

65%

of CEOs are concerned that new entrants are disrupting their business models, as the lines between industries blur

77%

of CEOs fear their organisation is not abreast of new technologies

72%

of CEOs believe that the next three years will be more critical for their industry than the past 50 years

SOURCE: KPMG GLOBAL CEO OUTLOOK

Death from above

Drones are employed by a Big Four firm. But, **Jon Moulton** asks, should we be carrying out higher-level reviews or getting a bit closer?

RICHARD ANSETT

A *Financial Times* article recently informed me that PwC had launched a drones business at its Polish operation. Obviously, this brings a whole new meaning to performing a 'high-level' review.

Apparently, drones will be deployed instead of people "hanging from ropes", which is a situation for auditors I have previously only fantasised about - and I earnestly hope I see it at least once before such technology takes off.

In fairness, though, it seems that drone technology is, somewhat disappointingly, to be used only in the construction industry initially. But given time, I can imagine an auditor sitting at home with a remote control, while a much cheaper drone carries out the physical bits of a stock take.

The audit seems to increasingly consist of youngsters hunched over laptops, filling in checklists, and knocking out PowerPoint presentations

Dictionary definitions for the word drone still reflect a former, less technological world, but could also be applied to the world of auditing.

'A low continuous humming sound' - as in "he nodded off to the drone of the car engine". A common image of the auditor is as a sleepy drudge.

Alternatively: "*A male bee in a colony of social bees, which does no work, but can fertilise a queen.*" Perhaps an even less attractive, but commonly held, view of the auditor.

For some years, I have been concerned that the larger accounting firms have moved away from the old-fashioned, substantive audit procedures of tick and bash. Rather, the audit seems to increasingly consist of youngsters hunched over laptops, filling in checklists, and knocking out PowerPoint presentations. It cannot be as reliable as the old-fashioned approach!

In the corporate finance world we are in the very odd position whereby full due diligence for an acquisition - often involving nothing more than enquiry and management representation - must cost a multiple of the fees for the audit in which some of the validation had already been done. To me, that's odd.

There is a serious issue about the loss of basic checking in acquisition reviews. I have first-hand experience of such a review, which failed to find substantial accounting issues. A more thorough check would have reflected operating issues, and it is most likely we would never have proceeded.

Nothing has emerged that is better than substantive work to substantiate results. It should be done more, not less.

ALTERNATIVE FLIGHTPATH

Changing subject to the all-powerful Financial Reporting Council (FRC), which I have previously criticised for handing out pronouncements without (it seems) attempting any cost-benefit analysis.

There is a fine control called 'impact assessment', which regulators, including the FRC, are supposed to do before imposing greater regulatory weight on the poor put-upon regulatees. My heart leapt joyfully on seeing two impact assessments on the FRC website.

One took up four pages - two of which were blank - to arrive at the view that no assessment was needed. The other took three pages to arrive at the same conclusion.

Where are the impact assessments for the mighty weight of work being done, at the FRC's insistence, on viability statements or succession planning? We need desperately to reduce the complexity of our world, and the FRC can go some way in helping us here. It should retrospectively see if the benefits of its historic output outweigh the costs, particularly when the impenetrability generated is taken into account.

Not all bird's eye views are the same. Some hawks' eyes are needed.

LIFE AFTER VCTs

Private equity is all about investing, exiting – and fundraising. So what happens when your main source of capital is cut off? **Ashley Broomberg** explains to Marc Mullen how Mobeus Equity Partners adapted to big restrictions on VCTs

The big rule changes for venture capital trusts (VCTs), announced in the UK's Finance Bill in October 2015, meant such funds could no longer be used for MBOs. For Mobeus Equity Partners, which had been successfully investing VCT money to back SMEs across the UK for nearly 20 years, that meant finding a new source of capital.

This month, it has announced the first close of Mobeus Equity Partners IV, more than halfway to its £150m target. The fund will focus on small-cap buy-outs, as Mobeus always has, investing between £5m and £15m. Crucially, however, rather than using VCT money, the fund has been raised from institutions - pension funds, insurance companies and fund-of-funds - in the UK, continental Europe and the US. "We have a good, solid, broad base of investors," says Mobeus partner Ashley Broomberg, clearly proud of this achievement.

"There is a real liquidity gap at this end of the market in the UK," he adds. "There is a great deal of private equity in the UK, but the smaller end is relatively underserved. Big deals with big names and big advisers may get all the attention, but it is crucial to have capital and advisers in the small-cap market. The symbiotic relationship between the investors and the advisers means that getting capital flowing back into small-cap deals is very important for the corporate finance community - these are also the fuel for the larger deals of the future."

BRIDGING THE GAP

The VCT rule changes have clearly taken a chunk of capital out of the smaller buy-out market. This is compounded by the fact that, as is their wont, institutionally-backed firms have raised larger funds and moved closer to the mid-market. In June 2015, for instance, Palatine Private Equity raised a £220m fund - its largest. And in March this year, NorthEdge Capital closed its second fund at £225m - £100m more than its maiden fund.

Has Mobeus also moved up the deal chain? "No," stresses Broomberg. "We have calibrated the fund to maintain our total focus on the small-cap end of the market (transactions with an enterprise value of up to £20m). We have been investing

> **"We feel we now have much more flexibility in how we can approach deals"**
>
> **Ashley Broomberg,**
> partner, Mobeus Equity Partners

between £30m and £35m in buy-outs per annum from our VCTs, and we believe we can maintain that investment rate into quality opportunities. The fund has the typical structure that mainstream institutional investors look for - an investment period of five years and a 10-year life."

He says Mobeus was not completely caught cold by the VCT rule changes because it had been considering raising institutional capital for some time. It was therefore reasonably well prepared to go to the institutional market. When the rule changes were announced, Mobeus set to work immediately, and formally started fundraising in January.

Broomberg says that Livingbridge is the only private equity firm investing institutional-backed funds in similar

£150M
TARGET SET FOR MOBEUS EQUITY PARTNERS IV FUND

£220M
FUND RAISED BY PALATINE PRIVATE EQUITY IN 2015 – ITS LARGEST TO DATE

£225M
RAISED BY NORTHEDGE CAPITAL ON CLOSING ITS SECOND FUND IN MARCH

CASE STUDY: FIRST INVESTMENT

In mid-September, Mobeus completed the first investment from its new institution-backed fund – the MBO of one of the UK's leading design and innovation consultancies, Kinneir Dufort. The Bristol-based business was founded in 1977, and created the UK's first pocket cell-phone and the original washing machine detergent ball. It has a roster of global blue-chip clients including Roche, Unilever, Shell, Smith & Nephew, Coca-Cola, Honeywell, Thales and Mars. It provides integrated design development services across strategic planning, branding, innovation, research, design, engineering, prototyping and manufacturing.

Richard Babington led the transaction for Mobeus, and was assisted by Freddie Bacon. The deal value has not been disclosed. Mobeus's advisers were RSM, DAC Beachcroft, CIL Management Consultants and Highwire Consulting. The management team – client services director, Merle Hall; design director, Craig Wightman, and Michael Norris, who leads the business's finance function – was advised by Momentum Corporate Finance and Osborne Clarke.

small-cap buy-outs. But, it already had institutional capital in funds. Mobeus is the first VCT-manager to raise a limited-partner fund since the rule change.

"Although we are well known among advisers in the UK small-cap market, we were a total unknown quantity to large international investors," says Broomberg. "They are very interested in this space because they see it as a segment, where private equity has made a lot of money historically, and where you can still make acquisitions on relatively attractive terms."

TRACK RECORD

Mobeus used placement agent Asante Capital to help raise the fund. Although this was a new type of fund for Mobeus, its big selling point was the firm's successful track record. "We had the foresight to get up and running very quickly with the fundraising. It was a challenge and very arduous - there were a lot of meetings with institutional investors, and a lot of international travel. Despite our very longstanding VCT investment track record, we were perceived as a first-time fund."

Although it will be investing in the same types of UK businesses, it will not be investing in exactly the same way as in the past. There are some nuanced differences. Institutions tend to be more interested in internal rate of return (IRR), while VCT investors focus on money multiples. Because VCTs are evergreen funds, their investors are more relaxed about hold periods. By contrast, institutions are focused on how long their capital is put to work. "Our approach from the outset will need to be far clearer about our exit intentions and timescales," says Broomberg.

VCT investors prefer steady, ongoing income streams whereas this concerns institutions less, provided the IRR requirements are ultimately met. In general, institutions expect smaller portfolios and more active portfolio management, not least for exit management.

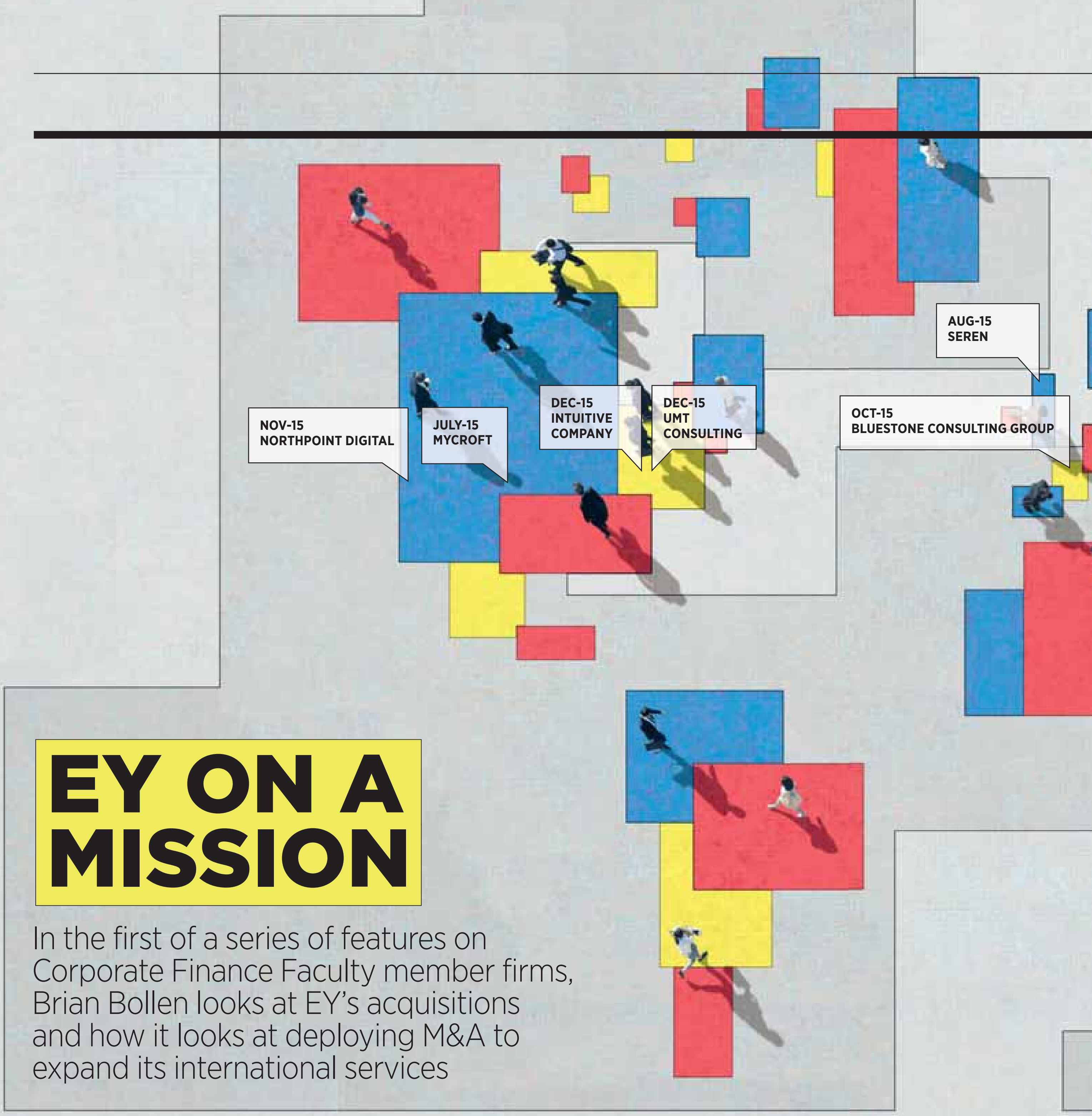
Broomberg says that in some ways Mobeus feels "unshackled" by no longer having to adhere to the VCT rules that constrained how deals were structured. "Making investments qualify could be quite onerous. We feel we now have much more flexibility in how we can approach deals."

GROWING THE EXPERTISE

Danielle Garland joined Mobeus last month from KPMG and will be followed soon by an experienced corporate financier from a well-known boutique, both as investment managers. The enlarged team adds resource as Mobeus pushes for its final close. It will be investing from its new fund and the existing VCTs. The firm is refocusing its current VCTs on £2m-£5m growth capital deals.

The original target date for the new fund's first close was 24 June, the day after the EU referendum. Broomberg says that while there was surprise at the result, and not a little concern, Mobeus had built the momentum to sign up their first investors soon afterwards.

"At the smaller end we are far less affected by Brexit than in the mid-market. Most businesses we invest in are doing business primarily in the UK and with our single funding solution, we are not relying on significant amounts of leverage. We are dealing with owners of businesses that are typically looking for retirement sales or dealing with succession - they are people who need to transact. They don't just stop, just as we didn't just stop last October."



EY ON A MISSION

In the first of a series of features on Corporate Finance Faculty member firms, Brian Bollen looks at EY's acquisitions and how it looks at deploying M&A to expand its international services

EY's move into a fully fledged global organisation continues to build momentum. The first few months of this year saw no fewer than 14 acquisitions take place - a core part of the business's strategic goals.

"We have closed more than 50 acquisitions since 2012, in Italy, France, Switzerland, the UK, the Netherlands, New Zealand, South Africa, and across the US," says Steve Watson, EY's global performance improvement leader, the man responsible for acquisitions and alliances.

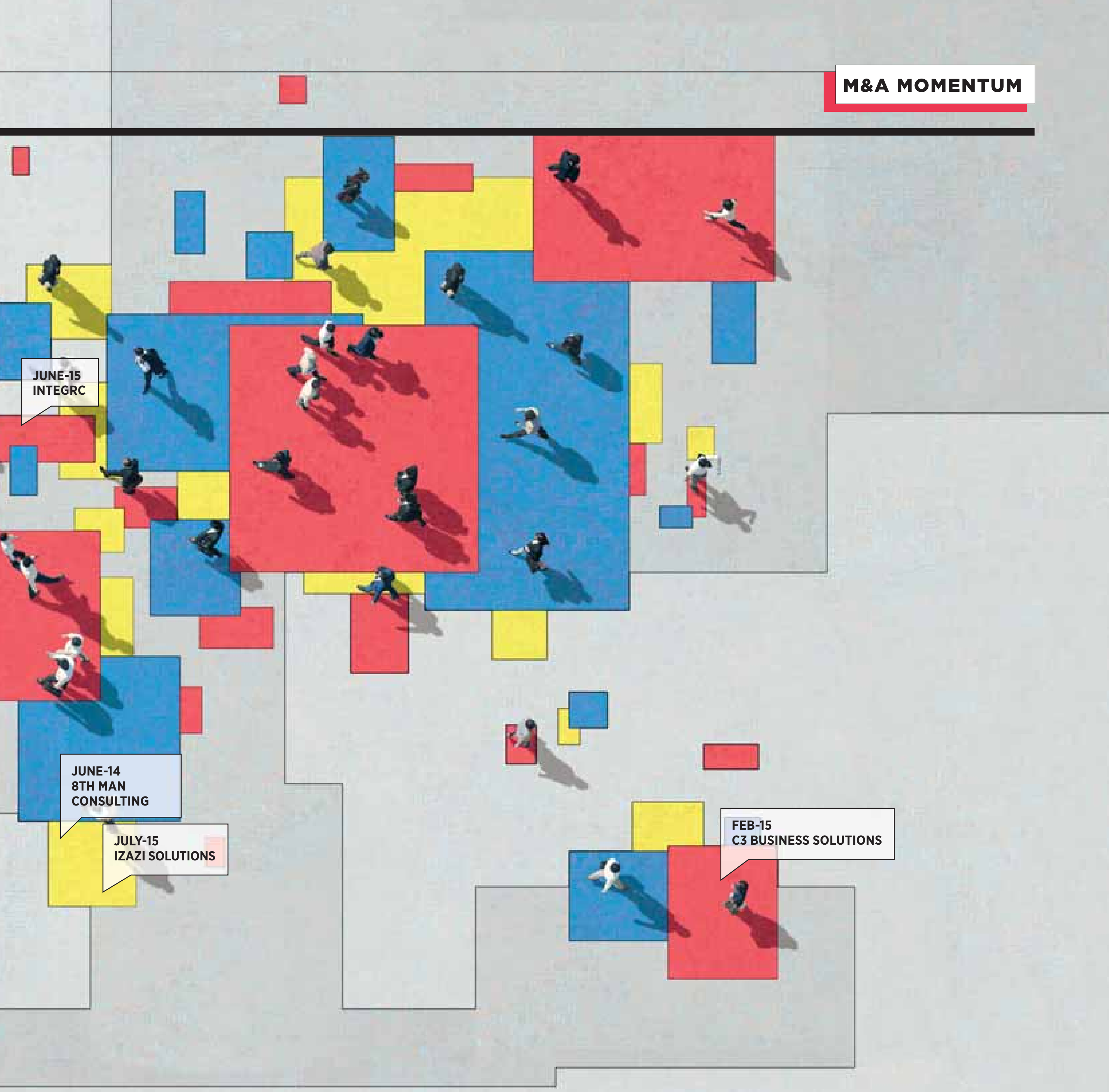
Under EY's 'Vision 2020' strategy, it plans to re-establish itself so that it has a presence in more than 140 countries, creating a truly global footprint, and aims to achieve annual revenues of $50bn by 2020. Of this, EY advisory services would be generating $15bn, compared with the $7.3bn delivered last year. This target will be met through a combination of organic growth, the introduction of a range of new services and products, and acquisitions and alliances.

"Making acquisitions has moved from an ad hoc process aimed at building raw capacity, to a more planned and structured environment," says Steve Martin, former EY global deputy vice chairman for advisory. He says these acquisitions are, on their own, expected to add 2% of overall growth.

NEW TECHNOLOGIES

With this in mind, the firm has put in place processes and mechanisms to help identify potential acquisitions, initiate and execute those that make it through the rigorous initial triage, and integrate those it eventually completes. "We are very clear about what we want and about the process we will follow in order to get what we want," says Watson. "We want additional capabilities and technology, focused on assets. This means we target complementary acquisitions, not duplicative ones."

A strategy focused on bringing in new skills, tools and services to sell to clients has been drawn up. Recent examples include



GETTY

Australian companies EYC3 - a leading analytics and business intelligence specialist - and EY Sweeney, which provides cutting-edge market research in areas such as market segmentation, brand trading, urban planning and new product development.

"C3 is a company based in Melbourne, and we are looking to leverage off it and draw value from it globally," says Watson. "The aim is always to get the best value from the partner capital we are putting in."

Seren, a UK-headquartered design consultancy, is another company that joined the EY family and now has combined branding. EY-Seren offers international digital design and innovation of customer

EY ACQUISITIONS TO DATE

Date	Acquisition	HQ	Services
June-14	8th Man Consulting	RSA	Performance management consultants
Feb-15	C3 Business Solutions	Australia	Advanced analytics
June-15	Integrc	The Netherlands	Governance, risk and compliance
July-15	IZAZI Solutions	RSA	Technology-enabled business consultants
July-15	Mycroft	USA	Cloud-based identity-as-a-service, identity and access management
Aug-15	Seren	UK	Digital design consultancy
Oct-15	Bluestone Consulting Group	France	Enterprise cloud computing
Nov-15	Northpoint Digital	US	Digital consultancy
Dec-15	Intuitive Company	USA	Digital design, and engineering consultants
Dec-15	UMT Consulting	USA	Cloud-based identity-as-a-service

SOURCE: EY

“A $2m deal will require as many resources as a $20m deal”

Steve Watson, EY’s global performance improvement leader

service and experience. Their advisers work with leading firms across a number of sectors, in particular, telecoms and financial services. EY acquired Seren in August 2015.

The integration of new staff is important, and alignment of interests is key. Typically, the seller of any business will have built it to a point where they cannot take it any further without becoming part of a very big organisation, observes Watson: “They are motivated by globalisation, leverage and scaling the business.”

The question of whether or not the people involved are a cultural fit with EY surfaces very quickly, he continues, adding that this is as true of organic growth as inorganic. EY will not necessarily take on all existing employees. Each case is treated on its individual merits - much will depend on whether the firm is building capability and assets that it does not already have or whether it is scaling existing capabilities.

In most cases, however, the principals in an acquired company will become EY partners, with total remuneration based on their contribution to EY’s revenues. Every acquisition has a detailed two- or three-year business plan, against which that contribution can be measured.

BUSY BEES

Watson identifies $20m-30m as the sweet spot in terms of deal size. $500m-plus deals would consume “massive” amounts of management time, and be hard to integrate.

At any given point, there can be 400-450 deals in the EY acquisitions pipeline, and this pipeline needs to be managed methodically. A simple first filter is therefore needed. The first step in their assessment is a ‘six stars’ filtering process: size, capability, geography, business model, assets and sector. “On size, we ask if it’s worth putting our resources behind exploring an acquisition,” says Watson. “A $2m deal will require as many resources as a $20m deal. On capability, we ask if the potential acquisition is focused on the capabilities we want to continue to strengthen.”

For geography, the acquisition must be in a market where EY needs to supplement growth inorganically to drive strategy. This is most likely emerging markets.

“Then we examine if the targeted acquisition has an innovative business model that we can leverage,” adds Watson. For assets, we ask if it brings true intellectual property, which we can leverage across EY. And then, we analyse if the potential acquisition is in a priority sector.”

Each deal must score highly on the stars system if they are to investigate taking it forward. If someone is sponsoring what turns out to be a two-star deal, they call a halt immediately.

“Rather than take a scattergun approach, we prefer to be snipers and the stars are an excellent short cut to assessing a potential buy,” says Martin. An added attraction of such a clear and simple approach working to rigid and well-defined parameters is that initial assessment can be entrusted to relatively junior staff, without jeopardising the overall strategy. Killing something early saves everyone time, energy and emotion.”

Potential deals are proposed by EY staff, banks and other external sources, including would-be sellers. No one route to a successful deal is viewed as inherently superior to the other.

The central recording of each proposed deal is mandatory to ensure the efficient use of resources. “If anyone within EY advisory is looking at a deal, it is logged,” says Martin. “Before we implemented this, people could become very excited about their own ‘pet project’, which could be a non-deal. That doesn’t happen now.”

140

NUMBER OF COUNTRIES EY PLANS TO HAVE A PRESENCE IN BY 2020

$50BN

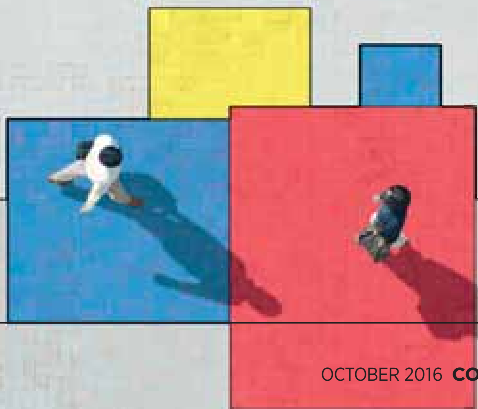
ANNUAL REVENUE EY AIMS TO ACHIEVE BY 2020

$15BN

AMOUNT EY ADVISORY SERVICES SHOULD GENERATE ANNUALLY BY 2020

$20-30M

EY’S SO-CALLED “SWEET SPOT” IN TERMS OF DEAL SIZE



QUANTUM. SPEED. CERTAINTY.

VIRTUA UK LTD

Communications Infrastructure Services

ASSET BASED LENDING

FUNDING GROWTH

£4,000,000

"Shawbrook stepped up to provide a more substantial working capital facility, with the level of headroom appropriate to fund Virtua's growth expectations. Shawbrook offers very short reporting lines right through to the underwriters. Having worked with the team on a few transactions now, they have proved themselves to be relationship-driven, communicative and responsive, giving us total confidence in deal execution."

Miles Otway, Partner, Connection Capital

ARMOUR HOME

Distributor of Hi-Fi Products

ASSET BASED LENDING PLUS CASH FLOW LOAN

FUNDING GROWTH

£5,750,000

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BIGGER. BETTER?

When it comes to stock exchanges, size really does matter. The logic of the LSE-Deutsche Börse "merger of equals" seems compelling. But are new technologies and regulation also fundamentally changing capital markets? Grant Murgatroyd reports

If at first you don't succeed, try, try, and try again. On 1 June 2016 the London Stock Exchange (LSE) and Deutsche Börse (DB) published documentation in support of a merger. It was the third time the two have looked at tying the knot. There were too many other suitors back in 2000 and 2004, but this time they might just make it down the aisle.

Europe's two largest exchanges could fit together very nicely - the revenue, cost and strategic synergies would make a list as long as your arm. "Our strategy was always to extend from our domestic focus to become one of the small number of players that would be global," Xavier Rolet, chief executive of the LSE, told *The Telegraph* in April. "I've always said that I thought there would be a small number, three maybe four, and we want to be part of them."

Note Rolet said 'part of them', not 'one of them' - it is being sold as a 'merger of equals'. The boards of both companies recommended the deal, and on 10 August it was announced that more than 75% of DB shareholders had agreed to it. "This high acceptance level is a strong vote of confidence and a major milestone," said Gregor Pottmeyer, CFO of DB. "We will now focus on receiving regulatory approvals."

Never easy, the regulatory picture was complicated by the UK's decision to leave the European Union. In spite of the surprise referendum result, the terms of the merger are substantially unchanged.

POWER STRUGGLES

In July the *Financial Times* reported that incoming prime minister Theresa May wanted to defend British firms from foreign ambitions. "A proper industrial strategy wouldn't automatically stop the sale of British firms to foreign ones, but it should be capable of stepping in to defend a sector that is as important as pharmaceuticals is to Britain," she told the *FT*.

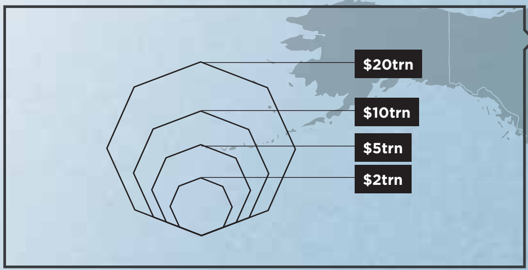
That comment was a reference to Pfizer's £69bn bid for AstraZeneca in 2014. But in the speech, made during her campaign to become prime minister, she also referred to Kraft's takeover of Cadbury. A week later though, having moved into 10 Downing Street, May welcomed the £24bn takeover of ARM Holdings, the UK's largest technology company, by Japan's SoftBank. Masayoshi Son, Softbank's founder, had assured her that the chipmaker would retain its Cambridge HQ.

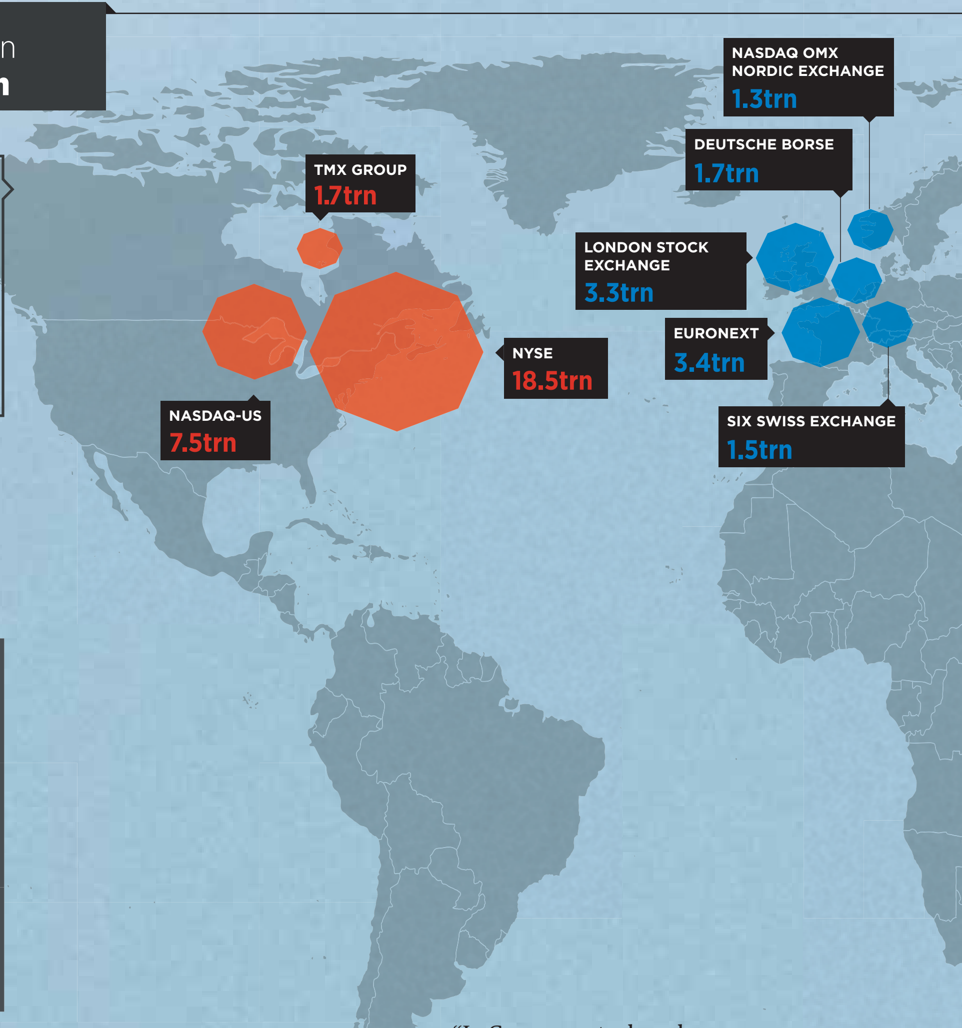
However, it will take more than a phone call to get any such assurances about a combined stock exchange. Ulrich Caspar, an MP for the German state of Hessen, told *CityAM* that German politicians would not support a joint HQ, let alone a London one.

£21BN
VALUE OF THE LSE-DB "MERGER OF EQUALS"

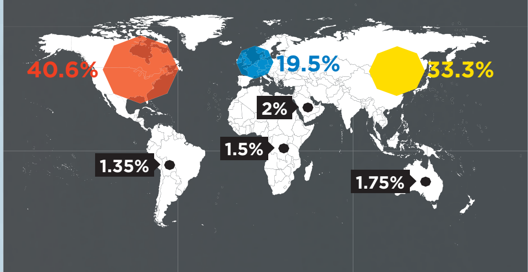
75%
OF DB SHAREHOLDERS AGREED WITH THE MERGER

There are **60** major stock exchanges in the world, with a total value of **$69trn**

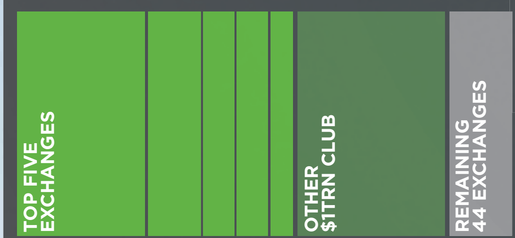




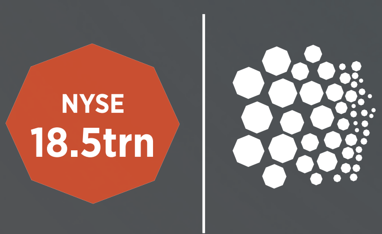
Over **93%** of global stock value is divided between three continents



The 16 exchanges that comprise the '$1 Trillion Club' account for **87%** of global market capitalisation



The **NYSE** itself is bigger than the world's 50 smallest major exchanges



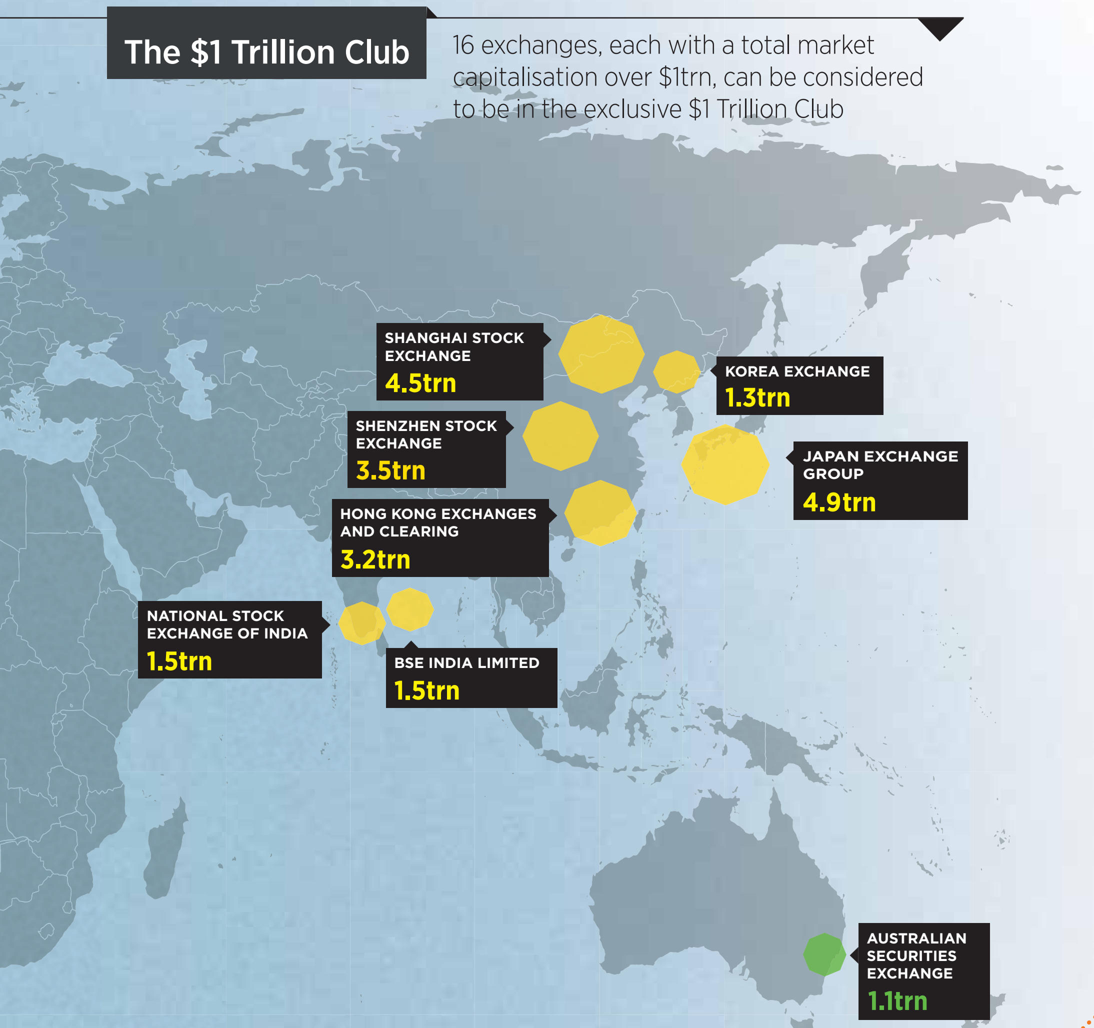
"IT IS ALMOST INEVITABLE THERE WILL BE A MOVE TOWARDS THE LARGER COMPANIES"

Delphine Currie,
head of London equity capital markets, KWM

"In Germany, stock exchanges are public institutions, not private companies. DB is the operator of the Frankfurt Stock Exchange and Eurex. Therefore, from a political point of view it is essential that it operates under regulatory supervision, which in this case is by the state of Hessen."

Interestingly, post-Brexit, the deal makes more sense to UK regulators and politicians. "UK regulators will probably be slightly more in favour because, certainly in terms of the Financial Conduct Authority, the tie-up is going to mean that we still get the benefits of passporting under the EU legislation," says Delphine Currie, head of London equity capital markets at law firm KWM. "If we have a tie-up with the DB, I suspect it would be easier for companies listed in London to use DB as an entry point into Europe."

There is an assumption that the LSE-DB merger will, if approved, deliver on its prospectus promises. "For shareholders this is a messier business," says John Colley, an M&A veteran, now professor of practice in



strategy and leadership at Warwick Business School. "I've never known a merger of equals to work. They generally lack leadership and they struggle to create the synergistic benefits. There are battles for power internally and, usually after a few years, one party takes control, but only after the business has suffered."

BIG CHALLENGES

Merging for scale is not a choice for stock exchanges, but a necessity. "The exchanges of the future will be large," says Raj Mehta, managing director of corporate finance at KPMG. "Big is beautiful. In a world where you've got globalisation and evolving regulatory landscapes, the need to provide services across many asset classes - derivatives, equities, fixed income, foreign exchange, whatever else - and the demands and investment required in technology means there is an advantage of being big and having a number of different markets."

The LSE has the Main Market - which itself has Premium, Standard, Specialist Fund and High Growth segments - AIM, the Professional Securities Market, Fixed Income Markets, Derivatives, Borsa Italiana and Turquoise.

The multilateral trading facility Turquoise was launched in 2008 by a consortium of investment banks, including BNP Paribas, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, Merrill Lynch, Morgan Stanley, Société Générale and UBS. It was effectively a mutual exchange. Only 18 months later, the LSE took a 60% stake in Turquoise and integrated it into its Baikal Global trading facility. The move took out a potential competitor because Turquoise had gained a 7% market share. It ensured that profit remained central to the exchange's operation (see box, right). If consolidation is the way forward - and the experience of most global industries says it is - what does this mean for public companies?

"From an issuer perspective, larger exchanges provide a deeper liquidity pool, and a more global investor

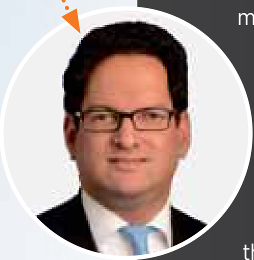
WHAT EXACTLY DO EXCHANGES DO?

The London Stock Exchange (LSE) describes a stock exchange as something that 'allows companies to raise funds by providing them with access to a pool of private and institutional investors'.

Since it demutualised in 2000, the LSE has increased its top line from £164m to £2.38bn. "If we look at where stock exchanges make their money, they don't necessarily make it from listings," says Gary Wright, chief executive of BISS Research. "They earn a lot of their money from data selling and ancillary services."

With total contributing income of £330.6m, capital markets is the third biggest business line for the LSE, behind information services (£517.4m) and LCH Clearnet post-trade services (£360.7m). CC&G & Monte Titoil post-trade services, technology services and others make up the rest.

The conflicts of interest are apparent, with similarities to the role the rating agencies played in the financial crisis. "Exchanges have demutualised and become self-listed," says Raj Mehta (below) managing director of corporate finance at KPMG. "They have a role to play regulating companies, and there has been much discussion about whether that conflicts with their profit-making activities. They're not just platforms for trading stocks and fixed-income products, they also play a role in terms of governance or regulation of listed companies."



The privatised stock exchange model has its critics, because of the dominance of areas such as high-frequency trading, which accounts for the majority of trades. The volume of this trading on equity exchanges is about 60% in the US, 40% in Europe and 10-15% in Asia.

"There are deep problems here," says Michael Mainelli of Z/Yen. "The exchanges have not really fulfilled their goal of raising money for firms, and firms are finding that there's less of a window for an IPO. Now companies are going past that stage to a multi-billion trade sale to an Amazon, Microsoft or Apple."

base," says Mehta. "If you are a blue-chip company raising capital, then you are more likely to do it on a global stock exchange."

SIZE MATTERS

Investors too are growing, managing ever larger pools of capital, which provide further impetus to grow. "It is almost inevitable there will be a move towards the larger companies," says Currie. "Investors tend to be more comfortable with the larger companies, which are seen as less risky.

"There will always be a place for junior exchanges, because a lot of smaller companies do not meet the entry requirements for the senior markets. Junior markets are needed for the newer, smaller, growing companies to have a market to raise money, and have their shares traded. The merger, if it goes ahead, will be good news for AIM and for the junior markets operated by the Deutsche Börse."

Individual investors too will gravitate to the super exchanges. "Larger exchanges allow people to trade and create liquidity for shares," says Colley. "The greater the liquidity, or ability to trade, the more attractive an exchange is. It also means people can own shares

"STOCK EXCHANGES EARN A LOT OF THEIR MONEY FROM DATA AND ANCILLARY SERVICES"

Gary Wright,
CEO, BISS Research

TECHNOLOGY DISRUPTORS

The most prominent new technological challenge for shareholders is blockchain (see *New kids on the block* on page 26), which has entered the public domain through the prominence of virtual currency Bitcoin. In tech speak, a blockchain is a distributed database that maintains a continuously growing list of data records that cannot be tampered with or revised. It consists of blocks, which hold batches of individual transactions. Each block contains a timestamp and a link to a previous block. In essence, a blockchain is a cheap and efficient means of executing and recording transactions.

Exchanges are embracing the technology. "Nasdaq is a financial technology company," argues Fredrik Voss, vice president and head of blockchain innovation at Nasdaq. "As well as being an exchange, we provide technical solutions and software-related services to other market operators. Our blockchain initiative is one work stream in the larger portfolio of technical innovation initiatives. We are also looking at, among other areas, cloud computing, big data and augmented reality."

At the end of last year, Nasdaq completed a private securities transaction using blockchain technology. Chain.com, a blockchain developer, documented the issuance of shares into a private equity investor using Nasdaq's blockchain-enabled technology. Nasdaq said that the technology significantly reduced settlement time and eliminated the need for paper stock certificates.

Computing giant IBM is at the forefront of commercial blockchain development. "We've committed significant resources to make blockchain ready for business and we are actively working with hundreds of clients," says Keith Bear, vice president of financial markets at IBM. "We are very committed to the need for cross-industry open standards with open governance."

IBM is a premier member of the Linux Foundation's Hyperledger Project, along with more than 80 other companies including CME Group, Deutsche Börse, Digital Asset Holdings, DTCC, Fujitsu, Hitachi, Intel, JP Morgan Chase and R3. Earlier this year, IBM launched a collaboration with Japan Exchange Group to use blockchain technology in low-volume transaction markets as a test bed for wider applications.

Despite this, the shift in attitudes is reminiscent of the development of the internet. "Our history has been built around the view that centralising creates economies of scale and provides reduced risk. By centralising everything, control has passed to the banks and market infrastructure organisations," says Gary Wright, "That view is becoming old fashioned. New technology, customer and investor demands, and regulators are changing the landscape. The modern view is that choice of service provider – enabled by decentralising – brings better services, better prices and reduces risks."

"WITH NEW TECHNOLOGY, YOU HAVE TO DEMONSTRATE TO REGULATORS THAT IT'S SAFE AND SECURE"

Fredrik Voss,
vice president and head of blockchain innovation, Nasdaq

"I'VE NEVER KNOWN A MERGER OF EQUALS TO WORK. THERE ARE BATTLES FOR POWER INTERNALLY"

John Colley,
professor of practice in strategy and leadership, Warwick Business School

across wider geographies. As an individual, you are much better off on bigger exchanges."

But some people are more sceptical about the future value of stock exchanges, arguing that raising money on a stock exchange, even a junior market, is an increasingly expensive business. "Post-financial crisis, regulation has gone through the roof," says Michael Mainelli, chairman of commercial think tank Z/Yen. "The cost of listing firms in London, in my experience, has quadrupled over the last four years. There's word in the market that you're an idiot if you do IPO, unless you're about to sell out. That's fine, but it does show that the idea that one of the social benefits of an exchange is helping the formation of appropriate venture capital is false."

24%
NYSE'S CURRENT SHARE OF EQUITY TRADING

72%
NYSE'S SHARE OF EQUITY TRADING 10 YEARS AGO

KNOWLEDGE IS POWER

The New York Stock Exchange's share of equity trading has fallen from 72% to 24% during the past decade, as competition from new exchanges and 'dark pools' - private platforms run by banks and other institutions - has intensified. However, over the same period, the share price of its owner, Intercontinental Exchange, has risen from less than \$50 to \$280.

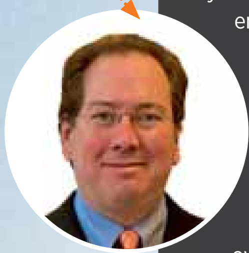
The big stock exchanges have changed their business model and now make more money selling data than they do from facilitating trades, which is not necessarily a bad thing. "If this vision comes true, markets become service suppliers," says Gary Wright, CEO at think tank BISS Research.

"They can use research and their great knowledge to promote good companies or introduce retail and family investments into SMEs, or start-ups, so that companies should have greater access to increased market for investment. Investors should also benefit, as they will have better knowledge and better information about the companies they want to invest in, and reduce the risks, to make more money. It goes back to the traditional role of financial services firms. There is clearly a move away from great big monolithic banks that started after the 2008 crash. Information and knowledge with good research, coupled with increased distribution and liquidity, produces the capability to supply a choice based on high-quality service to the customer at reduced risk and cost."

HARES OR TORTOISES?

In recent years, speed has ruled. Hedge funds and banks set up trading centres in close proximity to the exchanges. "Speed was of the essence," says Gary Wright of BISS research. "There was a rush to drive latency [transaction time] down, to be as finite as physics will allow. The net effect was a massive amount of transactions per second within the wholesale banking industry, causing high volatility. This is not necessarily attractive to institutions like pension funds looking for long-term gains. Liquidity has been increased, but in a two-speed market, where investors and investment banks have different objectives and needs."

Is it a positive development? "I'm a vocal critic of high-frequency trading," says Michael Mainelli at Z/Yen. "Before 2000, the primacy of first in first out was not universal. The LSE had a complicated algorithm to try and do best allocations. We threw all that out when the exchanges were demutualised and moved to a cost-per-transaction model. The cost of administering pensions, insurance funds and asset management has gone up, yet we Europeans are getting less out of our pensions than we were 16 years ago."



But there may be a different way. This summer, the Securities & Exchange Commission approved a licence for IEX Group to launch the US's 13th national exchange. IEX's technology exchange includes a "speed bump" that slows transactions by 350 millionths of a second – enough to put off high-frequency traders. The approval came at the end of a long and drawn-out battle that saw IEX pitched against high-frequency traders such as Citadel and Intercontinental Exchange, owner of the NYSE.

Intercontinental chief executive Jeff Sprecher told analysts that granting IEX approval was "un-American".

"The fact that the SEC has allowed IEX to go through is interesting because it may start to prove to the buy side that high-frequency trading doesn't really bring them very much except extra cost," says Mainelli.

SOUNDING BOARDS

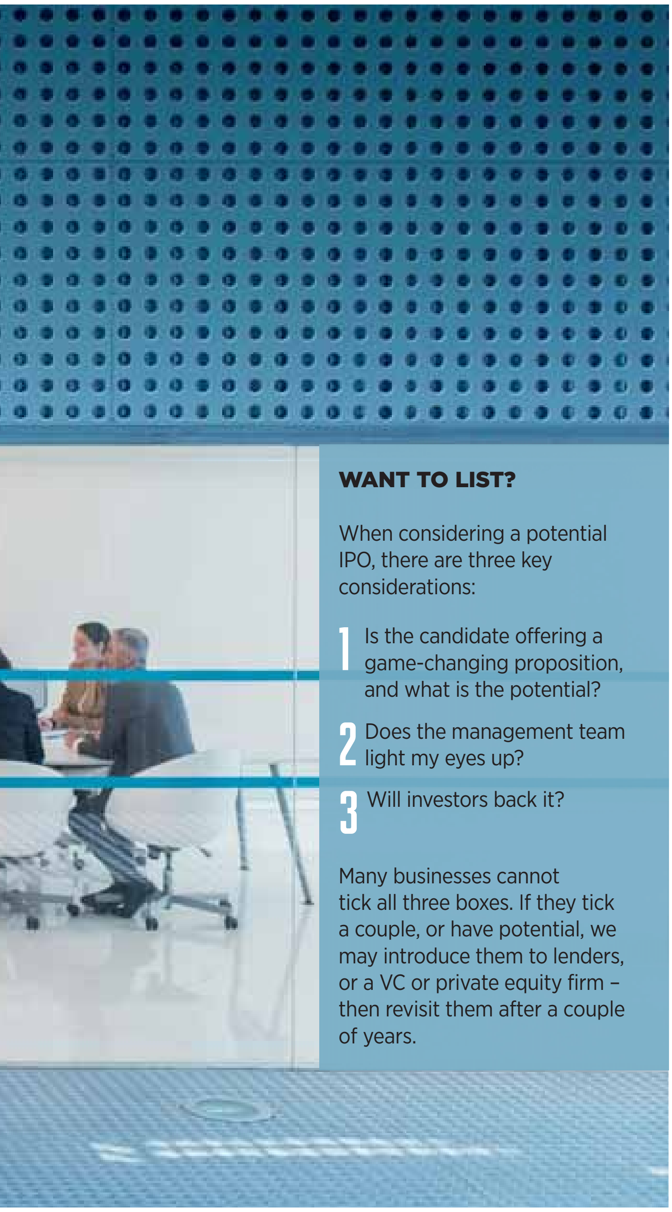
An IPO is one giant step for a growing company. **Rick Thompson** explains how non-executives help make the move a bit easier for entrepreneurs

What is the DNA of companies that look to go from private to public? At Cantor Fitzgerald we spend a lot of time sifting through potential IPO candidates. Public listing is for the minority of companies we see, not the majority.

Management has to ask itself: "If I were writing my own cheque, would this proposition grab me?" If the answer is no, then it is unlikely to grab the attention of new investors either.

We may spend several years courting potential IPOs, whether the company is earlier stage, or a more mature business. We are not just discussing the merits of listing, we help them compare and contrast other potential routes to finance.

There are companies that have already had some form of independent finance (third-party investment). Investors may be keen to exit their investment, or to take the company to its logical



WANT TO LIST?

When considering a potential IPO, there are three key considerations:

1. Is the candidate offering a game-changing proposition, and what is the potential?
2. Does the management team light my eyes up?
3. Will investors back it?

Many businesses cannot tick all three boxes. If they tick a couple, or have potential, we may introduce them to lenders, or a VC or private equity firm – then revisit them after a couple of years.

next step. The company might have been through friends and family, EIS or VCT money and then private equity. Those companies are arguably of most interest. The management team might have been schooled by private equity firms and will be focused on growth already. The company might be thinking about a secondary buy-out, or they might consider the other obvious option - an IPO.

A FIGUREHEAD IN THE MAKING

Behind any successful IPO candidate will stand a driven entrepreneur. However, not every entrepreneur is suited to being a chief executive at a Plc. Some have a listing firmly in mind as part of their growth plan, but they don't understand the detail of it, or the continuing obligations that, although manageable, are considerable. And many, usually VC-backed, companies, trot out the stock-in-trade phrase: "We're looking for a trade sale or an IPO in three years." They do not excite us *per se*

GETTY

THE SERIAL NON-EXECUTIVE DIRECTOR

Dick Steele is something of a serial non-exec and has been for almost 20 years at UK Plcs, PE-backed businesses and private family companies, as well as a university and a hospital trust.

He was previously chairman of Hobbycraft, and oversaw its growth from four to 36 stores. He is chairman of LSE-listed Portmeirion Group, the Stoke-based manufacturer of ceramics that has an £80m turnover and exports three quarters of its output around the world.

"The most important skill for a Plc chairman is absolute independence and integrity," says Steele. "If the board says it needs a non-exec with marketing skills, what they actually need is a marketing director; wanting a non-exec with finance experience to help cover the FD means they need a new FD. Non-execs are there to make sure the company is run properly on behalf of its shareholders, not to run it. At Portmeirion, I run the board and my CEO runs the business."

Portmeirion has two other non-execs:

Barbara Thomas Judge (left), a US lawyer and former director of News International, Samuel Montagu Plc and previously chairwoman of the UK Atomic Energy Authority. And Janis Kong (below), who

was previously chairwoman of Heathrow Airport, and is on the boards of TUI Group, Copenhagen Airport A/S and Bristol Airport.

"I think it works best with a small team of strong non-execs – if the execs misbehave you have the weight to get them in line," says Steele. "With a big board it must get very difficult to run the company, but I would say that as my experience is in smaller companies. I just think it is difficult for execs answering to so many non-execs."

In private companies it is somewhat different. Steele is non-exec at ASL, and at Country Baskets, which runs eight cash-and-carries for florists across the UK. Both are Mobeus Equity capital-backed businesses (see *Life after VCTs* on page 10).

"I have public and private in my portfolio and that helps. You can take what you have learned from each type and add value."

PORTMEIRIONGROUP

and it always comes back to the three points when considering an IPO (see *Want to list?*, previous page).

Go-getting entrepreneurs can lack self-discipline, don't listen to advisers and forget that in taking on third-party investment, they are no longer the owner-manager. A potential Plc CEO has to be someone who is going to listen, is fully self-aware and knows the limitations of their skills and experience – which is often out of kilter with their ambitions. The successful entrepreneur will know when to step back and acknowledge that they need someone to run this business and invest accordingly – "I need a COO, a finance director rather than a financial controller and now I need these advisers." These advisers are being paid for, so they should be listened to.

Verification processes can raise red flags, rather than give you a feel for management. Ultimately it is our intuitive feel as a team about an entrepreneur. You do not have to work with people you really warm to, but it is about trusting that they will get the relevant issues. A good test is seeing how an entrepreneur reacts when they are sitting around a table with stony-faced advisers. We can assess what kind of skills they need around them and, crucially, what kind of non-executives help to drive the business forward.

If a company hasn't had private equity backing, it at least must recognise that it must have structure and controls. If we see companies coming through without these things, we tell them that they need to have them in order to proceed.

MORE THAN MEETS THE EYE

The days are long gone when non-executive directors did little more than exude a strong smell of formaldehyde at board meetings. My own view is that non-executives take on an awful lot of risk for not a lot of money these days. Typically a non-executive director will receive £30,000-35,000 and a non-executive chairman will earn £50,000-70,000. Now they are recruited to add value to very particular scenarios.

THE NON-EXECUTIVE DIRECTOR

Neil Warner is chairman of Enteq Upstream (an AIM-listed oil and gas drilling company) non-executive director at Trifast (an LSE-listed manufacturer of industrial fasteners) and at Vectura Group Plc (an LSE-listed respiratory product and delivery development company).

"As a non-executive you can add a lot to help in governance and in areas such as internationalisation of a business," he says. "I do a lot of strategic market research in companies, particularly the small ones, to understand their opportunities and risks.

"I don't think you can do much more than two or three at a time. The roles can be different, and that is good. The common requirement throughout is having the ability to get to grips with the key drivers of the business, and helping give the executives a different perspective on things. You need to be trusted, and must not try to impose your will, but act as a sounding board for ideas."

Warner's experience means that he will perhaps take a closer involvement with the CFO on acquisitions, interrogating the rationale for the deal and its funding. He has been through the process of flotation and fundraising as a non-executive several times.

"On a flotation you can be involved every day, looking at the financials and how they are presented, and making sure that the team has the impetus to see the IPO through," he says. "But it can vary greatly depending on the experience of the management teams. It is important that the execs do not see the non-exec role as that of consultant but as wise counsel and an appropriate challenger of risks."

"It is important that non-execs do not see the role as that of a consultant, but as a wise counsel and an appropriate challenger of risk"

Neil Warner, chairman, Enteq Upstream; NED, Trifast and Vectura Group

The days are long gone when non-executive directors did little more than exude a strong smell of formaldehyde at board meetings

A non-executive director will pretty much take it as read that they will do a policeman's role. But today it is about what else they can bring to the party, who they can introduce the business to, and what new markets or new territories may be worth investigating.

A retired audit partner might be great for the numbers, but when it comes to the commercial side, or to M&A, they may not have the experience. We create a wish list for the ideal non-executive for a particular business and help companies find them.

The exact nature of the non-executive role often depends on the maturity of the business. It can range from mentoring a relatively inexperienced management team, challenging management's strategic plans, asking the important questions about management plans for the business (and all the numbers behind that), and applying checks and balances.

EXPERIENCE COUNTS, NOT GREY HAIRS

Typically non-executives in Plcs know they have to do specific policing roles, but at that stage of life, where they will have several non-executive roles, what they enjoy is the facilitating, then enabling and bringing previous business relationships to bear on the Plc. They want it to flourish and do well. The exact nature of their role and how they engage will be agreed between the non-executive and the company.

It is mostly relevant experience that is looked for in non-executives, and that does not necessarily mean grey hairs. There are a lot of bright and able younger people, such as in early-stage tech businesses.

It is very common that non-executives want to help with mentoring the business and the management team. The degree to which that happens depends on the need and agreement with the company. Obviously where we think it necessary we will counsel that, and the Plc CEO should be receptive to that advice - good ones always are.

Rick Thompson,
managing director and head of corporate finance, Cantor Fitzgerald, and member of the Corporate Finance Faculty's Technical Committee

THE ENTREPRENEURS AND THE NON-EXECS

On 22 August 2016, engineering business Autins Group floated on AIM. The IPO, which valued the 50-year-old business at £37.1m, raised £26.6m. Autins was the largest new issue in the City of London since the Brexit vote on 23 June.

The business is headquartered in Rugby and designs noise-reduction components for cars in the UK. But as well as manufacturing in the UK, it has operations in Sweden and Germany. Its customers include Bentley, Porsche, Volvo and JLR, and in the three years to 2015 its revenue had grown by about a third to £19.9m.

"Listing was the right strategy to fund our growth plans," says CEO Jim Griffin, who was part of an MBO in 2006 and worked under the previous management for almost two decades. "We had been growing at a very fast rate and that was being funded by very expensive bank debt."

Autins has three non-executive directors. Chairman Adam Attwood trained as a solicitor with Norton Rose, before spending five years in quoted company advisory and European M&A at Charterhouse Bank. After seven years with ISIS Equity Partners (now Livingbridge) as investment director, he has spent the past 10 in various non-executive roles, including chairman of Mills CNC Group. He joined Autins' board in January 2016, having provided strategic guidance to the board since April 2013. He chairs the nominations committee.

"Adam brings us back to reality with our ideas," says Griffin, who met Attwood at Warwick Business School just after the MBO. "He gets us to look at where there really is a benefit from an initiative. He knows a lot about business innovation and growth, and helped us implement our strategy."

Terry Garthwaite has over 35 years' experience as a director of both publicly listed and private companies. He trained as an ACA with PwC, and held a number of senior finance positions within Foseco, including director of corporate finance. He spent 11 years as group FD at Senior, and has held non-executive positions at Wilmington Group, Brammer and Renishaw. He chaired the audit committee at each – a role he has taken at Autins.

Ian Griffiths spent nearly 30 years with GKN, latterly as group managing director of GKN Automotive, serving on the board of GKN from 2001 to 2006. He joined Autins as non-exec in April 2016, ahead of the IPO process. he chairs the remuneration committee. He has been non-exec director of Ultra Electronics Holdings, is a non-exec director of Renold and chairman of AIM-listed Hydro International.

"Terry has helped on the financial side – he has been there, seen it and done it," says Griffin. "We needed that depth of knowledge. Ian has brought insight to the manufacturing side. It is a mix of the formal duties for the board, and the informal insight they bring. I would have more non-executive directors – they cost money, but can prove great value."

NEW KIDS ON THE BLOCK

It is like the Gold Rush when it comes to investors looking at M&A opportunities in blockchain. But what is it and how does it work? asks Jason Sinclair

The past year has seen the word blockchain leap out of technology seminars and into boardrooms. And what are they saying about it? According to Fred Wilson, the legendary venture capitalist of Union Square Ventures and a man who first invested in blockchain companies in 2013, they're saying: "Oh s**t, I need some blockchain. Where do I get some blockchain?"

Wilson was referring to the eagerness of banks and finance companies to rush into deals with blockchain start-ups, putting part of the motivation down to the fear of being left behind. "When the dumb money turns up, it's time to get out," he said, adding another expletive somewhere in the middle of that sentence. But what is Wilson railing against? We need to rewind...

WHAT IS IT?

Blockchain, in the simplest terms, is a data-recording tool. It provides a digital ledger of transactions, agreements, contracts, or anything else that needs to be recorded and verified. It is a distributed database, which produces an ever-growing list of data records. These records are secure, because they cannot be tampered with or revised.

The key to blockchain technology and security is that the ledger isn't stored in one place. Instead, it is copied into all the computers in a participating network. Data is stored in fixed structures called 'blocks', each of which has a timestamp, and are combined to form a 'chain'. The multiplication of participants provides security for the transactions. With its speed and low operating cost, it's suitable for use in currency, as well as in governmental or financial services. As the technology grows and applications specialise, there will be many applications for blockchain technology across many sectors.

Crucially, and here is the commercial value, blockchain is a cheap and efficient means of executing, and recording transactions. Most notably perhaps so far, blockchain is being used to power digital currency, including Bitcoin, in which blockchain can be seen as the hardware, and Bitcoin as the software.

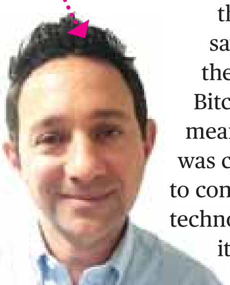
Bitcoin, specifically, is probably the most famous application of blockchain. Bitcoin is a cryptocurrency with something of a mixed reputation. To many it is on the edge of

$1BN
VENTURE CAPITAL INVESTED IN BLOCKCHAIN COMPANIES TO DATE

legitimacy. Wilson has actually been a big advocate of Bitcoin, and other public blockchain tech. His ire is reserved for those building private blockchains that he sees as defeating the point. Although weakened by all its problems with fraud and regulatory issues, turning that on its head, he says that is the very sign of its resilience. “One would think, after all the self-inflicted wounds, the world would have moved on.” Wilson argues that it hasn’t.

Central to financial services firms’ interest in blockchain is the promise of the amount of money it could save them - they have a massive spend on transaction and other technology. Goldman Sachs has suggested $6bn a year, Santander estimates it as $20bn. The $1bn of venture capital that’s been invested in blockchain companies to date pales into insignificance next to the banks’ estimates of the benefits.

But that will change. Specialist investment bank Magister Advisors predicts an additional $1bn will be spent by large financial institutions across 2016 and 2017, with multiple $100m+ funding rounds in blockchain companies this year. Even those institutions with a bearish viewpoint on Bitcoin have started falling over themselves to invest in blockchain - not just for the start-ups’ potential multiples, but because of the savings they could generate directly. Incubator labs are springing up at Barclays and Santander, while 42 banks have joined to form R3CEV, a consortium experimenting with the technology.



BEYOND FINANCE

Jeremy Millar, founder of boutique fintech advisory firm Ledger Partners, sees other applications for blockchain. One is trade finance, where the multi-step transfer process fits perfectly on a blockchain. A number of start-ups, including Skuchain, Wave and Tallysticks, are using blockchain to address issues around trade credit and invoice financing.

Away from the world of finance, Millar sees identity verification as a possible market, with the cryptographic security of blockchain potentially providing a global record of digitised birth certificates, which could be used to increase security around identity theft, human trafficking, and, more prosaically, micropayments for internet content or aiding compliance processes within banks.

Other potential uses being explored by start-ups include things as disparate as verification ledgers for diamonds and unambiguously time-stamped wills. If VCs and corporates are thinking of investing in blockchain companies, there’s no shortage of choice.

David Coffman, now corporate finance director at Cairn Financial Advisers, was adviser on the float of Consilium, a London-based blockchain specialist investment company, in late 2015 when he was at Daniel Stewart & Co. Consilium received £1.2m investment for a market cap of £7m on the ISDX Growth Market. Consilium invests in companies before the VC stage and aims to develop, accelerate and spot synergies between their companies. Its investment documents state: “We believe that Bitcoin acted as a proof of concept for blockchain technology and now tech entrepreneurs, banks, large corporates and governments are recognising the other potential applications of this technology.”

While Coffman had no previous experience of the sector, he can claim to be the corporate finance adviser who floated the first blockchain company on a regulated market. Asked about the particular challenges of the IPO, Coffman says: “As with anything new and pioneering, there are challenges. People were aware of Bitcoin and Silk Road and Mount Gox, which meant their initial reaction was often that this was connected with drugs and fraud. We needed to convey that this was about the underlying technology on which Bitcoin is based, and how it can be adopted in financial services,

UP AND AWAY

The hot new name in blockchain, “Bitcoin’s experimental younger brother”, Ethereum is also a cryptocurrency, but one that can run smart contracts – contracts that execute themselves autonomously on a decentralised machine when certain conditions are met.

While Bitcoin was considered a “shared world ledger”, Ethereum considers itself a “shared world computing platform”, allowing any application to be written on top of it, with rules enforced by blockchain. The currency behind Ethereum, the Ether, is worth $1bn.

A crowdfunding drive, seemingly analogous in the virtual world with an IPO, for the decentralised autonomous organisation – a hub laid on top of Ethereum’s blockchain to disperse money to other projects – raised $168m.

"The thing that is challenging is the multiplicity of risk"

Fred Wilson, Union Square Ventures

record-keeping or indeed anything where having an immutable distributable ledger could offer significant advantages over current practices."

Meanwhile, helpfully for credibility, the banks were developing R3CEV and many Wall Street analysts were talking up the technology.

Coffman says that Coinsilium's investment strategy was similar to most very early stage funds. "They're not all going to be winners, but if you get two successes then you would expect to at least break even, given the nature of the stage and size of investments."

Wilson invests at a later stage, but says: "The thing about Bitcoin and blockchain that makes it so interesting to me, but also so challenging as an investor, is that you have a multiplicity of risks. You have the risk that the technology itself will get adopted. You have the risk of the individual cryptocurrencies, and how they're going to get adopted. Then, you have the businesses that are being built on top of them. And so all three of those things have to come together to really make the investment work. And that's why, I think, it's fraught with a lot of risk."

With risk, comes opportunity. Deloitte's report on blockchain - one of many that have been published this year - is succinctly titled: *Blockchain: Enigma. Paradox. Opportunity*.

The head of Santander's VC innovation fund, Mariano Belinky, says that to achieve maximum revenue opportunities, blockchain needs to achieve mainstream adoption. Santander is leading the way in using the technology to process international payments, but Belinky says more "legacy systems" need to be replaced. And despite Bitcoin being up-and-running for seven years, Belinky doesn't think a blockchain network has been sufficiently tested in an enterprise environment. Hence, we have a world where private blockchains are being implemented by financial insituitutions, an area where he believes some of the banks are moving relatively fast.

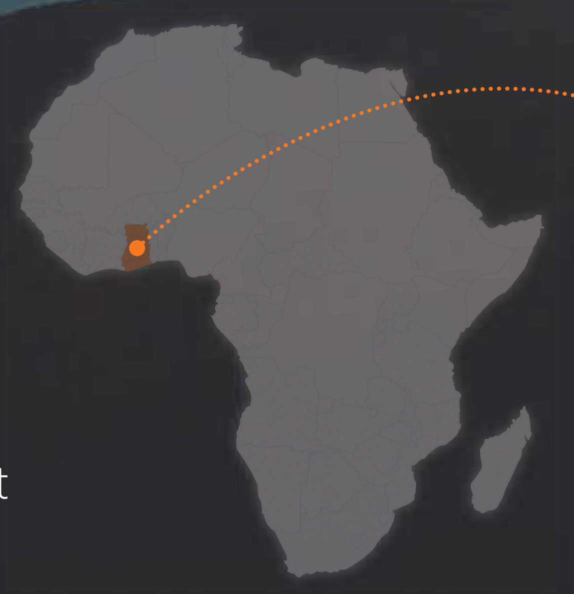
This is against Wilson's idea for the best investment opportunities in the sector - Ethereum is the current buzz company - but whether types of blockchain will chiefly have value as an investment opportunity, or as an efficiency tool, is what separates corporates from VCs. Whichever way, the deals look like they're going to multiply.

BLOCKCHAIN APPLICATIONS

- financial services – securitisation, cheaper settlements, transaction tracing;
- transparency;
- healthcare – encrypted information sharing, regulatory compliance;
- insurance – intra-company settlements, smart contracts, digital identity applications;
- identity – secure voting systems, birth certificate ledgers, wills, insurance; and
- the Internet of Things – fractional ownership, property registration.


Route to
growth

LIGHTING THE WAY



Investors have struggled for a while to create a sustainable microfinance model in Africa. **Tom Parry** reports on innovation that's helping to power remote villages in the west of the continent

Bringing light to the remotest parts of equatorial Africa is a massive challenge. But a Ghana-based business has just received backing from UK and European venture funds, to the tune of $7.5m, to roll out its innovative approach to empowering those in rural Ghana.

PEG, the largest off-grid solar company in Ghana, provides loans for solar-power systems and other assets for off-grid homes in West Africa, giving much-needed help to move these communities forward. PEG can help these off-grid customers, who are often rural and considered risky by banks and microfinance, because it offers loans using pay-as-you-go financing. This allows PEG to control assets remotely in the field, while customers are repaying them.

Having already proven the business model, in June, PEG closed a $7.5m Series A funding round. The new capital will be used to expand both PEG's operations in Ghana and its management team, and to launch in Ivory Coast.

"We aim to reach 2.5 million people in four countries in the next four years," says PEG founder and CEO, Hugh Whalan. "It may just be a drop in the bucket, but it is something that will start to make a tangible difference. And the only way this is possible is with a profit-focused approach, which is able to attract the necessary resources."

Whalan points out that both Ghana and the Ivory Coast each have 1.5-2 million off-grid households, which equates to an estimated 10 million people: "I would estimate that the off-grid populations in these countries spend between $400m-500m each year on kerosene, candles and batteries for lighting. There is also the money spent on phone charging. To do that villagers often need to walk to the nearest town and pay someone simply to charge their phone, because nothing in their own village can charge it."

THE POTENTIAL

It is estimated that 500 million people in sub-Saharan Africa live off-grid, and roughly 170 million of those are in West Africa. At present, PEG has nearly 15,000 customers, and operates 29 service centres in seven regions of Ghana. It has 150 full-time staff and more than 200 sales people. This model is beginning to be rolled out in the Ivory Coast, which suffered two civil wars in 10 years, but is emerging with strong growth and a very positive outlook.

PEG's typical customer is a farmer or fisherman living in a rural area, or in the hinterlands where an urban area meets a rural area (also known as peri-urban areas). Typically, they earn between $1 and $10 a day, up to 30% of which is spent on poor quality, inefficient and/or polluting fuels such as kerosene, candles or batteries.

"We aim to reach 2.5 million people in four countries in the next four years"

Hugh Whalan, PEG founder and CEO

A customer using PEG's solar product; a PEG Service Centre in Ghana; and a sales agent with a cattle herder from Zogbedji

170M
ESTIMATED PEOPLE LIVING OFF-GRID IN WEST AFRICA

£7.5M
SERIES A INVESTMENT IN PEG IN 2015 AND 2016

$4.3M
SERIES A-2 INVESTMENT IN JUNE 2016

The World Health Organisation estimates household air pollution from kerosene and coal kills 4.3 million people a year – more than the combined deaths from malaria, TB and HIV-related illnesses.

PEG offers customers a solar product on an affordable 12-month payment plan, with an initial $35 deposit, followed by daily mobile payments. After completing the payment plan, customers own the home solar system, with multiple lights, mobile charging, a lantern and a radio. The system comes with a two-year warranty.

With customers able to pay over time in small increments, PEG can reach many customers, who would otherwise be unable to afford such life-changing products. "The warranty we offer customers is taken very seriously, and is often the first serious experience that rural villagers have had with aftersales service," says Whalan. "We think this is key to our strategy, which aims to build a trusted and respected brand that is tied to quality."

Another crucial factor in helping these communities progress is the PEG loan, which – as less than 30% of customers have access to banks – helps customers to build a credit history and improve their subsequent access to finance.

ADD VENTURE CAPITALISTS

The Series A investment came in two rounds. The $4.3m A-2 round closed in June, following the $3.2m A-1 round in September 2015. The A-2 round was led by Energy Access Ventures, and included Blue Haven Initiative. Lauren Cochran, director of private investments at Blue Haven Initiative adds: "PEG represents our first investment in West Africa, a region that has been under the radar of most energy-focused investors for far too long."

Other investors include Investisseurs & Partenaires, Engie Rassembleurs d'Energies, Impact Assets and Persistent Energy Capital. The PEG fundraising comes on the back of a worldwide campaign called Energy Africa, spearheaded by the British government. Last November, the then UK international development minister Grant Shapps visited Ghana to see the impact the initiative was having on daily lives.

Whalan says this business model is likely to have a transformative and sustainable effect. "Traditional microfinance – providing cash loans – is certainly positive, but providing quality products with aftersales service is transformational...Poor consumers routinely pay too much for too little, and product and service providers tend to ignore the rural poor because they believe they are not profitable to serve. This is absolutely not the case, and the pay-as-you-go business model is the first substantial shot I have seen proving this prevailing theory wrong.

"These customers may earn only a dollar a day, but they are aspirational and want to live the life they see on TV, with all the mod-cons that they see people enjoying, and are capable of paying for those things. They just need to be able to buy assets over time, because they rarely have the cash upfront to do it," Whalan considers. "Pay-as-you-go allows this to happen, and if it can work, and continue to rapidly grow, it will absolutely transform the lives of the rural and peri-urban poor."

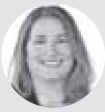
More so, Whalan is hopeful: "The sky's the limit for the business model. Energy is the first step, but there is no reason that TVs, fridges and other goods can't be financed to customers."

Tom Parry, senior feature writer, ***Daily Mirror*** and ***Sunday Mirror.*** He was awarded Feature Writer of the Year at the 2014 British Press Awards

Appointments

NEWS IN BRIEF

John Moth has been promoted to partner at **KPMG** in the firm's Manchester transaction services team.



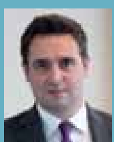
EY has promoted 12 new partners in its transaction advisory services practice: Karina Brookes (left, top), Mark Carroll, Richard Cooper (left, centre), Tony Davis, Chris Locke, Brian Marshall, Neil Meredith (left, bottom), Philip Milne, Joanne Robinson, Gerard Sweeney, Michael Wada and Lisa Ashe (left).

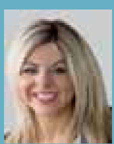
Inflexion Private Equity has promoted Mark Williams from investment director to partner. He joined the investment team in 2011 from Sovereign Capital. He previously worked for Bank of America and Close Brothers. The firm has also recruited Andrew Neville to its investment team as assistant director from Octopus Healthcare.

MHA MacIntyre Hudson has promoted Justin Moss to partner in the corporate finance team. Based in its High Wycombe office, he joined the firm in 2009 as a graduate trainee. He will now support the firm's lead advisory teams based in London, Milton Keynes & Leicester.

Endless has recruited Tom Jack as partner in Manchester from EY, where he was partner for

EXCITING TIMES AHEAD FOR NORTHEDGE CAPITAL





Mid-market private equity firm and Corporate FInance Faculty member NorthEdge Capital, which has more than £525m of funds under management for investment in the north of England, has recruited James Hales to its newly-launched specialist deal origination team.

Hales has joined as head of origination from Clearwater International, where he spent seven years leading the corporate finance advisory business's origination activities.

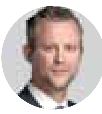
In his new role, Hales will support Ray Stenton, partner and head of new business. He will be responsible for identifying new investment opportunities and management teams looking to grow their businesses.

Catherine Bucko, who has been with NorthEdge for four years working in transaction execution and business development, has been made a deal origination executive. The new team will also provide ongoing support to a number of current portfolio investments, which are pursuing acquisitive growth strategies.

In March NorthEdge Capital Fund II reached a final close, at a hard cap of £300m."With two investments in Fund II already made, and a healthy pipeline in place, now is a great opportunity to leverage existing relationships and create new ones," said Hales.

INTERNATIONAL

James Cook, a former managing director in **Duff & Phelps's** restructuring practice in London, will relocate to Hong Kong. He will specialise in local and cross-border financial restructurings, distressed and special situations, and debt advisory.



Benelux law firm **AKD** has recruited Erik Koster as senior associate from Loyens & Loeff. He focuses on shareholder disputes and post-acquisition claims.

Agnes Rossi has joined **Simmons & Simmons** in Paris as partner. Highly experienced in complex international fund structures and regulation, she has joined from King Wood Mallesons. Simmons & Simmons has also launched dedicated Iran desks, in each of its Middle East, Europe and Asia offices.

UK LAW ROUND-UP

Taylor Wessing has recruited Duncan McDonald as partner in its private equity practice from Olswang. McDonald is an experienced international private equity lawyer, having advised sponsors, management teams and companies on management buy-outs and buy-ins, portfolio company transactions, exits and growth capital deals.

James Howe has joined **Gibson, Dunn & Crutcher** as partner in the firm's London office, from Proskauer Rose. Howe focuses his private equity practice on nine years, and head of the regions for EY's restructuring team. The private equity firm has also recruited Sanjiv Padmanabhan as portfolio director in its London office, from Deloitte.

Michael Treskow has joined **Eight Roads Ventures** as partner, from Accel Partners, where he was principal.

Devesh Mehta has joined **Grant Thornton's** financial services team as partner from Nomura.

David Coffman has joined **Cairn Financial Advisers** as corporate finance director from Daniel Stewart. Coffman is a member of the board of the Corporate Finance Faculty.

Martin Fleischer has joined **Intermediate Capital Group** in its strategic secondaries group, as vice president, from Coller Capital. The team has also hired Robert Campbell as principal from American Capital, and Daniel Ayeroff as associate from Lightyear Capital, both in New York.

BlackFin Capital Partners has launched a new fintech-focused venture fund. The firm has recruited Julien Creuzé and Maxime Mandin as the first two members of the investment team. Creuzé has joined from Aster Capital in Paris. Mandin most recently worked at Seventure Partners, focusing on the fintech space in France and Germany.

The **Business Growth Fund** has added Octopus Investment's Paul Stevens to its BGF Quoted team, which backs businesses listed on AIM. Stevens spent more than 10 years at Octopus, where he also worked on investments in small listed companies. He is an ACA. BGF Quoted head, Tom Jenkins, said that the BGF plans to increase the number of investments it makes in small listed companies.

Oliver Seiler has joined **Latham & Watkins** as corporate partner in Frankfurt from Allen & Overy. Experienced financial regulatory practitioner Nicola Higgs has joined the firm's financial institutions group in London as partner from Ashurst.

Emanuela Campari Bernacchi has joined Italian corporate law firm **Gattai Minoli Agostinelli & Partners**, from Legance, as partner to take charge of a new structured finance department. She has brought three other lawyers from Legance: Valentina Lattanzi as senior associate, and Salvatore Graziadei and Allegra Arvalli as associate. Bernacchi previously worked at Freshfields Bruckhaus Deringer.

Christoph Thiermann has joined German law firm, **Noerr's** private equity & VC practice group in Munich, as an associated partner, from P+P Pöllath + Partners.

Sebastien Veil has joined **Advent International** as director in Paris from PAI Partners. Prior to PAI, he was an adviser to the president of the French Republic, specialising in labour laws. He began as a junior judge at the French Supreme Court for Administrative Justice (Conseil d'Etat).



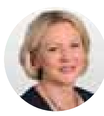
Morgan Lewis has set up a new office in Shanghai – its second in China and sixth in Asia. Global corporate transactional leaders Mitch Dudek, Todd Liao, Alex Wang, Cindy Pan and Eddie Hsu will lead it.


public and private M&A, with a particular emphasis on cross-border leveraged buy-outs, buy-ins, and strategic sales and acquisitions. Prior to Proskauer, he was a partner in the private equity group at Kirkland & Ellis's London office.

Matthew Newing has joined **Addleshaw Goddard** as a partner in its London-based infrastructure, projects and energy group from Charles Russell Speechlys, where he was head of projects. He focuses on investment in the UK's social infrastructure market, particularly in healthcare, social care, education and housing. Natalie Barron, his former colleague at Charles Russell Speechlys, has joined the firm as associate.

Proskauer Rose has recruited Ben Davis as partner in its finance practice, from Reed Smith. His primary expertise is within the leveraged finance market.

Faegre Baker Daniels' London-based corporate partner, Gary Laitner, has been appointed co-head of the firm's international practice (with Indianapolis-based corporate partner Angella Castille).



Berwin Leighton Paisner has recruited Judy Mackenzie Stuart as knowledge strategy director from Shearman & Sterling. She will look to leverage new technologies to benefit clients.

Keeping cool

THE CV

Paul Rablen is a director in Investec Growth & Acquisition Finance. He joined in July 2013 from Lloyds Bank's acquisition finance unit, having been part of Lloyds's graduate programme in 2004. He has a degree in physics from the University of Manchester. In 2007 he completed the Lloyds/ Royal Military Academy, Sandhurst Leadership programme.

Recent deals

- Palletforce – £19m debt package, supporting EmergeVest's £30m buy-out
- Coe Vintners – £13m debt package, supporting Enotria's bolt-on acquisition
- Park Resorts – £27.5m debt package, supporting Electra's £46m MBO

Supporting a buy-and-build strategy for a chilled food business with seasonal working capital required flexible funding. **Paul Rablen** explains how

WHAT WAS THE DEAL?

In July 2016, NFT Distribution - a UK chilled and ambient food logistics company - acquired NR Evans - a smaller, South Wales-based competitor. The deal valued NR Evans at about £20m. We provided a £13m debt package - a blend of asset-based and cash-flow lending. It incorporates an evergreen £8m receivables finance line and a £5m cash flow lending tranche.

HOW LONG WERE YOU INVOLVED?

EmergeVest, a Hong Kong-based sponsor, backed the secondary buy-out of NFT in April 2014 - its first deal in the UK market. We provided a £42m funding package to back that deal with follow on funding capability to support a buy-and-build strategy. The original package was designed to support the acquisition, working capital, small acquisitions and expansion capex. NR Evans is a much more significant acquisition than the original debt allowed for, but follow-on funding for future acquisitions was always our intention.

WHO WERE THE ADVISERS?

KPMG provided financial and tax due diligence on behalf of NFT and EmergeVest. We received legal advice from Irwin Mitchell, NFT from Eversheds and Ashurst, and the vendor from JCP Solicitors. We are not rigid in the way high street banks can be in requiring due diligence every time they do a deal. We understand the sectors we back and know the management do too. Having worked with NFT for a while, we knew they had done their homework. We also conduct our own on-site due diligence, usually over a day, so we rely less on third parties.

WHAT WERE THE TIMESCALES?

Being a proprietary deal, heads of terms took time to agree but once at that point there was normal pressure to complete swiftly. Once moving, we completed the deal in two to three weeks.

WHAT DOES THE COMBINED BUSINESS LOOK LIKE?

NFT transports about £11bn of goods annually and NR Evans roughly £1bn. NR Evans' products are typically meat or dairy. It had strongly invested across its 180 trucks, 300 trailers and nine national depots. Combined, the business will have more than 3,000 staff and nearly £200m in revenues. NR Evans will remain a brand post-deal, with former owner Neil Evans taking a consultancy role. A key opportunity will be improving 'backhaul' - running fuller trucks more often.

AND THE CHALLENGES?

There is often an element of stop-go with owner managed businesses which needs patience on all sides. Getting the relevant information together and due diligence can also take time but it is critical to get it right. Separately, the typical features of distribution, logistics and food/drinks sectors can be tough when thinking in conventional debt structure terms - in particular, the working capital requirement and seasonality. Our debt structure is designed specifically to cater for this so it becomes more of an opportunity.

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