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the horizon?



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November 2018 Issue 207

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05

NEWS AND EVENTS

Faculty convenes high-level roundtable to discuss national security threats and corporate finance deals



16

COVER STORY

Vicky Meek investigates whether trouble lies ahead for the debt markets



26

WHAT'S APP, DOC?

Elisabetta Zaccaria looks at what security measures private equity firms should take to protect communications in messaging apps



34

ON MY CV

Matt Katz of Buzzacott on the sale of BTC Group to Geiger



07

IN NUMBERS



Forecast total deal value in the UK hotel sector by the end of 2018 (up nearly 40% on 2017)

04 Editor's letter

Marc Mullen looks at deal values in light of the latest stunt by street artist Banksy

09 From the heavens

Jon Moulton thinks angels need to get tough in order to get their rewards

10 Carriage awaits

Great Rail Journeys shares its plans for the future after a follow-on buy-out rumoured to be worth £100m

13 Stiff competition

What can Europe learn from America when it comes to venture capital?

22 Acquisitive minds

Investec's James Stirling and Shaun Mullin reveal how they've helped to grow the firm's lending capabilities

28 Latest developments

David Staziker speaks to Jason Sinclair about how the Development Bank of Wales approaches investment

31 Brief encounter

Is John Connolly ultimately aiming to challenge the Big Four at Cogital?

32 Company news

A roundup of appointments across corporate finance, private equity and legal

Abstract lending



According to Greek myth, everything King Midas touched turned to gold. The same could be said today of the graffiti-artist-turned-Sotheby's-darling Banksy.

Last month, his *Girl with Balloon* was sold for £1m at Sotheby's – and was promptly shredded through a mechanism that had been built into the picture frame. The buyer of the work, renamed *Love Is in the Bin*, was unperturbed, because it

seemingly doubled in value in the 30 seconds after the hammer went down on the deal.

Would an international auction house like Sotheby's conspire with Banksy to destroy an artwork – and get all that free publicity? Banksy simply issued a press release: "A reputable auction house would never encourage their valued clients to bid on something they knew would be destroyed. Their credibility would never recover."

In September, Funding Circle listed in London at 440p per share. A decade ago the wannabe *enfant terrible* of peer-to-peer lending was but a twinkle in the eye of its co-founder and chief executive Samir Desai.

The British-based fintech raised £300m on flotation. The initial public offering (IPO) valued Funding Circle at £1.5bn. By the end of the first week of trading it was valued at £1.15bn, but at the time of writing it has recovered to £1.3bn.

Between its launch in the UK in 2010 and the IPO, Funding Circle received more than £40m in three rounds of venture capital funding and expanded internationally, both organically and by M&A. It has arranged £5bn-plus of loans to SMEs in the UK, the US, Germany and the Netherlands. It has also received significant government support, with the British Business Bank using it as a platform for some of its own lending. Despite all that – and last year seeing a 46% increase in turnover to £94.5m – Funding Circle has yet to turn a profit.

In this month's cover story (pages 16-21), Vicky Meek assesses how UK (and global) debt markets have changed dramatically in the decade since the financial crisis. Crucially, she looks at the challenges big lenders might face, and the potential consequences for businesses and investors if there were a downturn. Interviewees concur that negotiating with banks will be different to 10 years ago. It will be very interesting to see what happens to Funding Circle in such circumstances.

In a 2014 *London Evening Standard* interview, Desai quoted Facebook's famous campaigning slogan 'move fast and break things' as his own guiding mantra. Later that year, Facebook changed its approach to a much more conservative 'move fast with stable infra'.

Desai may now need the Midas touch – or at least the 'Banksy touch' – to move fast, break things up, double their value and make a profit for all of Funding Circle's stakeholders.

Marc Mullen
Editor

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Corporate
Finance
Faculty

Mo Merali
Chairman

David Petrie
Head of Corporate Finance

Katerina Joannou
Manager, capital markets
policy

Shaun Beaney
Manager,
Corporate Finance Faculty

Grace Gayle
Services manager
+44 (0) 20 7920 8656

Chrissie O'Connor
Manager, operations
+44 (0) 20 7920 8593

✉ firstname.surname@icaew.com

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

David Coffman
Rebecca Guerin
Selina Sagayam
Victoria Scott
Editorial panel

For details about corporate and individual membership, please visit icaew.com/cff or contact the faculty on: +44 (0) 20 7920 8689

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

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NEWS & EVENTS



Artist's impression of the proposed Hinkley Point C nuclear power station in Somerset



NATIONAL SECURITY THREAT AND UK CORPORATE FINANCE DEALS

Last month, the Corporate Finance Faculty organised a high-level roundtable meeting at Chartered Accountants' Hall. The subject? The government's consultation on increasing its M&A scrutiny powers through the *National Security and Investment* white paper. The aim? To garner the views of corporate finance advisers, private equity and venture capital investors, corporate lawyers, tech and innovation trade bodies, businesses and academics, and provide the government with practical insight into deal-making processes.

Officials from the Department for Business, Energy & Industrial Strategy (BEIS) – including Tim Jarvis, director, Consumer and Competition Policy – began by outlining main proposals for the new regulatory regime. The department is leading the consultation.

They emphasised that the white paper was only one part of the government's national security strategy. The aim of the new regime was 'not about stopping deals', but about increasing awareness, and giving the government a mechanism to understand what's happening in certain technologies being developed in the UK, and foreign ownership of those technologies. It was made clear that the government would not be detailing any specific threats that the new legislation would address.

Participants in the roundtable highlighted the importance of

communication with businesses on the aim and scope of the new legislation. They emphasised that confusion and unnecessary delays to M&A processes must be avoided.



THE NEXT STEPS

Points raised at the faculty's recent roundtable have been used to inform ICAEW's response to the consultation on national security, led by head of corporate finance, David Petrie, and capital markets policy manager, Katerina



Joannou (both pictured).

"There are two main areas of government concern – clever new technologies and infrastructure," said Petrie. "The British government doesn't want hostile powers to have undue influence because of their control of key technologies or national infrastructure."

The experts participating highlighted to BEIS officials the practical considerations for final policy. The most important points arising from the meeting have been included in a letter from ICAEW to Greg Clark, secretary of state.

"In our response, we have recognised the importance of having a regime for reviewing transactions on grounds of national security," said Joannou. "We accept that while 100% certainty will never be achievable, when it comes to trigger events and the notification

process, we'd like as much certainty as possible at an early stage for companies and investors."

The consultation refers to 'significant influence', rather than 'material influence', where there is more case law – control is not threshold based.

"The government needs to look at the likely resource needed, so that the system will not be clogged up," added Joannou. "A deal a day is probably the minimum. The number of deals in core sectors that could be caught by the new regulations could be between 200 and 280 per year. But that doesn't include loans, or transactions with critical suppliers to those businesses, changes in shareholdings, or dual-use tech."

The results of the consultation are expected to be published next year.

NEWS IN BRIEF

On 15 October, Corporate Finance Faculty manager Shaun Beaney represented ICAEW at a roundtable hosted by shadow culture minister Kevin Brennan MP at the Houses of Parliament. The meeting discussed the creative businesses research and development and access to finance – including the UK government's creative industries 'sector deal', which is part of its industrial strategy.



CASS M&A RESEARCH CENTRE WELCOMES DAVID PETRIE

ICAEW's head of corporate finance David Petrie has joined the board of Cass Business School's M&A research team.

Founded 10 years ago, the Cass M&A Research Centre (MARC), is the only such specialist unit at any major business school with a focus on deal practice. Based in the City of London, the business school prides itself on maintaining close contacts with M&A advisers, accountants, bankers, lawyers, consultants and other key players in deal-making.

Much of the school's activity is aimed at effectively linking academia with the practitioners of M&A. This is one of the biggest reasons why MARC has invited Petrie to join its board.

Professor Scott Moeller, director of MARC (pictured below), says: "David adds an incredibly useful component to the board given his extensive experience in M&A, first as an adviser and now in his role as head of the Corporate Finance Faculty. He has extensive links to industry and government. We look forward to David bringing his knowledge, experience and insight to bear on the unique research that we carry out at MARC."

The research provides insight into the entire M&A field, from deal origination to completion, and financing to integration. The centre's senior sponsors are Credit Suisse and EY. Acuris, Ardian and Willis Towers Watson are research partners.

MARC and the faculty have already worked together for several years, devising a unique methodology for the

faculty's corporate development award, presented to a major acquisitive public company at the faculty's annual reception (this year at Goldsmiths' Hall on 15 November).

Petrie said: "The centre's research provides additional insight to the market. Input to the research by M&A practitioners means that MARC is looking at hot topics."

"The board's oversight helps the centre to ensure that its research is relevant and focused on the latest, most important, trends in corporate finance."

The board is chaired by Susan Kilsby, who has spent 33 years with Credit Suisse. She is also chairman of Shire Pharmaceuticals and holds various non-executive directorships - at Diageo, Goldman Sachs, Fortune Brands Home & Security and BBA Aviation. Kilsby was previously a non-executive director at Coca Cola, L'Occitane en Provence and Kaurig Green Mountain. She is an adviser to US mid-market private equity firm Star Mountain Capital. The other members of the advisory board are:

- Alan Giles OBE (deputy chair), former managing director of Waterstones and former CEO of HMV;
- Cathal Deasy, head of European M&A at Credit Suisse;
- Robert Lawson, global head of M&A at BP;
- Professor Marianne Lewis, dean of Cass Business School;
- Philip Whitcelo, corporate development VP at Intralinks; and
- Professor Scott Moeller, director of MARC.



NEW BOARD MEMBER



Fenton Burgin, head of advisory corporate finance at Deloitte, has joined the Corporate Finance Faculty board.

Burgin joined Deloitte in 2008 from Close Brothers, where he was a managing director in debt advisory. He joined Deloitte as a partner to head up a fledgling debt and capital advisory team. Under his leadership that team has grown to more than 30 staff. He was promoted in March.

Burgin spent nearly 13 years at Close Brothers. Prior to that he worked in financing and structured products at Schroders, and in Lloyds Bank's capital markets group.

FACULTY REPRESENTATIVES

- Chairman: Mo Merali (head of private equity, Grant Thornton);
- Jackie Bowie (CEO, JCRA);
- Fenton Burgin (head of advisory corporate finance, Deloitte);
- Frank Carter (senior adviser, KPMG);
- Lord Clement-Jones CBE (consultant and former London managing partner, DLA Piper);
- David Collins (head of UK corporate, co-chair of global M&A, Dentons);
- Diane Craig (head of equity capital markets, RSM);
- Chris Hurley (head of portfolio, LDC);
- Jon Moulton (managing partner, Better Capital);
- Philip Robert-Tissot (non-executive director and former director-general of the Takeover Panel);
- Maggie Rodriguez-Piza (chief executive, Funding London);
- Selina Sagayam (UK head of transactional practice development, Gibson Dunn);
- Chris Searle (corporate finance partner, BDO);
- Duncan Skales (corporate finance partner, PwC);
- Steve Tudge (managing partner, ECI);
- Jane Vinson (Business Growth Fund portfolio team); and
- Ian West (M&A director, international division, Civica).

IN NUMBERS

Global M&A value hits record \$3.3trn by end of September, new unicorns appear, and UK business angels prioritise good management teams



2

Number of UK companies that became unicorns in 2018

REVOLUT

Founded in 2013, the digital banking business received \$250m of investment in April, which valued the business at

\$1.7bn

DARKTRACE

Cyber security business, founded in Cambridge in 2013, received \$50m of investment in September, which valued the business at

\$1.6bn



SOURCE: THOMSON REUTERS

\$3.3trn

Global M&A value to end of September - up 39% on 2017

\$314.2bn

Buy-out value globally for first nine months of 2018 - highest since 2007

88.3

Global Investor Confidence Index (ICI) at the end of September - down 5.7 points on the end of August

DOWN
5.7

84.5

North American ICI at the end of September - down 7.5 on August

DOWN
7.5

101.0

European ICI at the end of September - up 1.0 on August

UP
1.0

SOURCE: STATE STREET

SOURCE: BEAUFURST

SURVEY OF UK BUSINESS ANGELS

93%

said the most important attribute in a potential investment was that the management team has the relevant skills and experience

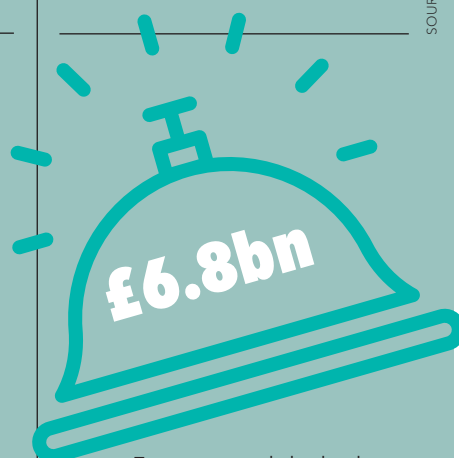
28%

said their second lowest priority was that the business had a clearly identified exit strategy

25%

said their lowest priority was social impact

SOURCE: THE KNOWLEDGE ACADEMY



Forecast total deal value in the UK hotel sector by the end of 2018 (up nearly 40% on 2017)

SOURCE: PWC

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*Wireless/Inductive Mobile Phone Charging is an option at extra cost.



JON MOULTON

For UK venture capitalists (VCs), returns have increased over the past few years. Consequentially, investors have been piling into venture with bigger and bigger funds, which is mostly a good thing as long as there are good enough ideas around (see 'Learning from the competition' on page 13).

These larger, institutional investors tend to arrive after friends and family or other private investors/business angels have blessed a business with funding to help it make its early progress. Given the tax incentives and a lack of 'sophisticated' structuring skills, angels normally invest in ordinary equity. Their shares have standard Companies Act rights in respect of voting and pre-emption rights.

As the company grows, that initial capital will be used and several million pounds of fresh equity might be needed to get it through the next phase. It's at this stage that the professional VC will arrive with a complex new toolkit in hand.

The business can reasonably assume that the incoming professional investor will be looking after their own interests first and foremost. Typically, it will suit the VC to keep friendly relations with management. So any changes to capital structure or governance are unlikely to favour existing angel investors. To be frank, the VC will likely view the angels as a nuisance - to be removed from the equation.

NOT QUITE HEAVEN

Angels usually lack cohesive leadership and individually will have a small proportion of votes. A VC will set its business valuation low and compensate management for their loss of equity value with a new and generous option scheme. Because it's normally the company's director rather than its existing investors who will negotiate with incoming VCs, a new

BEWARE THE VC

When early-stage businesses succeed and a venture capitalist comes a-knocking, angels need to be tough to make sure they get their just rewards

structure that favours the negotiators is easily implemented.

Incoming VCs will almost always use 'preferred' shares. They may make what seems like a generous offer of £5m for 25%. That means a pre-investment valuation of £15m, right? Wrong! It generally means that the VC gets the first £5m of any proceeds from an exit, then 25% of the rest. Unsophisticated investors or managers simply don't see that they are not exactly being paid

£5m for a straight 25% stake.

VCs use different structures, but really these are just variations on a theme. It is not unusual for the preference to be 2x or 3x the VC investment.

HELL BENT?

Cosmetically, a VC investment helps the company to look more valuable (provided you don't look too hard). The VC will not have to write down their cost, unless the whole company becomes worth less than £5m. A company is less likely to publish anything that's bad news for its investors.

Expensive legal help is at the VC's beck and call. After multiple rounds of preferred funding, the equity documents become unreadable and lawyers become a necessity. Complex 'anti-dilution' clauses appear. Only the drafter truly believes they understand these clauses - they have to say that. Such complexities do not help angels. And worst of all, the company often pays for this lawyering, not the VC.

Angels should expect to receive an enormous, complex set of VC agreements that they won't understand and can't economically review. And the timetable? Typically a couple of weeks.

All too often, VCs demand that angels lose most, if not all, of their rights. VCs appoint the board and decide on equity issues, while angels get no opportunity to participate. Angels lose rights to information and to attend meetings (if any are held).

In one of my recent investments, the VCs insisted on a refinancing, whereby angels lost all rights and their shares were transferred (without consent) to a structure controlled by the directors.

Angels fear who might tread on them and be tough. Strength of character and serious effort is needed if angels want to avoid being walked all over. ●

FULL STEAM AHEAD

Robert Louis Stevenson once said: "To travel hopefully is a better thing than to arrive." He'd obviously never commuted into London. But Great Rail Journeys offers the kind of experiences that he may well have enjoyed. Brian Bollen tracks the company's route to success

The world of consumerism is increasingly split between extreme commoditisation and highly specialised offerings. Customers want something that's reliable, efficiently supplied - and perhaps feels like a 'unique' experience (even if it isn't). Great Rail Journeys (GRJ), which was sold by ECI Partners to Duke Street Private Equity in July after five years of ownership, falls into the latter category. GRJ sells escorted rail (and also boat) tours, and is changing track for the next stage of its own journey.

During ECI's ownership, GRJ organically grew its core business of selling escorted rail tours to a pretty specific target demographic - UK customers over the age of 55 who have adequate levels of disposable income and the time to take several holidays a year.

Before being brought in to run the company by ECI, the tour operator's CEO Peter Liney had led various travel businesses, including Travelbag, an agency specialising in holidays to places like Australia and Asia, and STA, the world's largest student travel business. "The founders had the vision, and my task is to continue delivering that vision," Liney told *Corporate Financier*.

"What attracted me was the differentiation of the product. A number of companies deliver rail-based holidays of course, but no one else of scale does it in such a fundamentally differentiated way."

GRJ makes use of public rail networks across the world, Liney explains, offering a "quicker, more comfortable and more interesting way of travelling through a country - be it Scotland, Switzerland or Japan". He continues: "You need to know

GRJ has branched into river cruises



an awful lot about how rail networks work and even more about how you move 40 people around them - that's the key product difference."

OFF THE RAILS

As well as growing the core UK business, GRJ developed new international markets under ECI ownership, taking the same business model to Australia and New Zealand, and establishing a modest presence in the US. The company added river cruise holidays that involved commissioning a number of ships cruising down the Rhine and Danube.

The US has often proved to be a difficult place for British companies to do well, but it presents a huge growth opportunity for GRJ. And having got a foothold and bringing Duke Street partner Tom Salmon on board, the company could make significant inroads. Salmon previously headed up 3i's investment in Audley Travel - a UK company that runs "tailor-made holidays and private tours for the discerning traveller" and has successfully expanded into the US. Liney recognises the value that Salmon can bring. The new chairman, Charles Gurassa, has enormous experience of the travel industry, having previously worked for Thomas Cook, British Airways and TUI. His other non-executive board roles currently include being chairman of Channel 4, deputy chairman of easyJet and senior independent director at Merlin Entertainments.

"The business was in good shape, with strong potential for future growth as we had taken steady first steps with the new business lines, but it was time for a new investor," says ECI managing partner Chris Watt. "The challenge was to convince buyers of the potential of the new growth initiatives, with the US in particular needing more people and increased marketing spend."



"What attracted me was the differentiation of the product"

Peter Liney,
CEO, Great Rail Journeys



"Potential new growth includes more people and marketing in the US"

Chris Watt,
managing partner, ECI



HERE'S THE DEAL

In July 2018, ECI Partners announced the sale of Great Rail Journeys (GRJ), the "world's leading provider of escorted rail holidays", to Duke Street Private Equity. The acquisition generated a 3.6x return, in a deal reported to be valued at about £100m.

ECI acquired GRJ in March 2013 from Primary Capital to help the company build on its strong market position and develop new areas for growth. The equity element of the company's capital structure was greater than the debt element because of limitations on debt imposed by, as illogical as it might sound, the UK's Civil Aviation Authority - holidays often include a flight.

The York-based travel company offers almost 400 itineraries to more than 50 countries globally. Its target market is culturally minded travellers over the age of 55, who typically prioritise travel spend from their household budgets. Popular itineraries include a tour of India's "Golden Triangle", exploring the Swiss Alps on the Glacier Express, and an iconic journey from Dar es Salaam in Tanzania down to Cape Town.

On the deal, GRJ received corporate finance advice from Henry Wells at Duff & Phelps, legal advice from Travers Smith, while Deloitte carried out financial and tax advice, and PwC commercial work. Duke Street Private Equity's corporate finance adviser was Harris Williams, its legal adviser Ropes & Gray, while Alvarez & Marsal carried out financial and tax due diligence. Jamieson advised management.

£100m

Rumoured amount Duke Street paid for Great Rail Journeys

400

Number of itineraries that GRJ offers in 50 countries

£50m

How much ECI
paid to acquire
GRJ from Primary
Capital in 2013



turnover was £67m, and it was part of Amber Travel. Primary acquired the business from the founders in 2005, and disclosed that the secondary buy-out by ECI generated a 3.2x cost of investment.

Duff & Phelps' managing director, Henry Wells, says: "In advising our client, it was very important for us and the

management team that we found a

buyer who really bought into Peter's vision for the future of the business - especially around the growth areas into the cruise market and into the US market.

"GRJ's new investors are very smart and with their experience they will help GRJ develop these areas of the business. Developing the sales channel into the US is something that I am sure they will be successful in achieving."

Today, GRJ is highly cash generative and enjoys high levels of repeat business, says Watt. But the company has faced serious challenges over the past few years. Terrorist attacks in Paris and Brussels and media coverage of a 'European immigration crisis' did not play well with its target demographic. "These events, combined with the confusion surrounding Brexit and the potential impact on costs, did not help. Growth flattened off for a while," he says. "But the business is unusually resilient and has continued to recover and grow."

GRJ's turnover had grown to more than £100m. It employs 150 people and is based in York. ECI made other improvements, Watt adds, such as tweaking pricing models to reflect more accurately the niche in which the company operated. School holiday pricing made little sense when the core customers' offspring had long flown the coop, or if they hadn't, saw holidays as a chance to get a break from each other. "We put prices up in periods out of high season and reduced pricing in July and August," says Watt. "It's simply aligning price to the customer's willingness to pay."

LATEST TECH

In assisting the company prepare itself for sale, a Deloitte transaction services team led by partner Gurm Dhillon utilised iDeal - its M&A analytics platform - to perform data visualisation on the key drivers and performance indicators of the business.

"We see iDeal as being core to our work on deals in this sector. Given the breadth of data captured by the business and range of tours offered, the use of analytics was invaluable to the team's ability to dive beneath surface trends and explain these with reference to underlying tour level data," says Dhillon. "This was of particular importance in being able to analyse revenue visibility and security in a highly seasonal business, as a USP of the business. The effective use of customer and tour level data was critical to our ability to drive insights."

The management information and talent development processes were improved. ECI bought the company from UK-based Primary Capital in March 2013 for just over £50m. At that point its



"The effective use of customer and tour level data was critical to our ability to drive insights"

Gurm Dhillon,
transaction services
partner, Deloitte



"GRJ will be successful in developing the US sales channel"

Henry Wells,
managing director,
Duff & Phelps

TWO-LEG JOURNEY

Interest came from private equity and trade, says Watt. And the sale process proceeded as a two-round auction before Duke Street was given exclusivity. Price, of course, was not the only consideration. Getting there, in terms of deliverability, was also crucial. Duke Street was viewed favourably in that light, as well as being perfectly placed to deliver the future growth. Salmon's knowledge of the US market was key to that. Duke Street had also invested in the river cruise arena with the acquisition of Arosa. The existing management team, led by Peter Liney, will continue, including operations director, the ECI-recruited Noleen Pritchard.

Duke Street aims to develop the rail and cruise offerings further, both in the UK and internationally. "Next year - 2019 - will be the first year of the river cruise experience with GRJ," says Liney. "We'll be moving into ships with a five-star product accessible via multiple routes."

It won't be a holiday though. ●



LEARNING FROM *the* competition

Europe versus the US in the Ryder Cup in September proved a fruitless journey for the Americans. But when it comes to venture capital, the Europeans are still learning from their mentors, says Grant Murgatroyd

Imitation is the most sincere form of flattery - allegedly. The British Isles has, in alphabetical order: a Silicon Beach, Canal, Corridor, Dock, Fen, Forest, Glen, Gorge, Roundabout, Spa and a Walk. There are 'Silicon' locations in more than 30 countries, as far apart as Australia, Dubai, the Philippines, Peru, Mexico, Canada, Cameroon and Kenya. In the US there are 30 'Silicon' places, all named after the original, San Francisco's Silicon Valley (first coined in 1971).

Today, Silicon Valley's three largest companies are tech giants Apple, Google and Facebook. The next three largest are Wells Fargo, Visa and Chevron, with a further 39 Fortune 1000 companies in the area. But it is no longer a given that all the world's largest technology companies are American. Alibaba Group and Tencent Holdings in China and Samsung Electronics in South Korea have joined

30

Number of places named after the original Silicon Valley in the US

45%

Investment going into the technology of EU VCs

Apple, Amazon, Google, Microsoft, Facebook, Intel and Cisco in *US News & World Report's* top 10.

Matching Silicon Valley's success in Europe however will require a lot more than corny names. There is undoubtedly a growing role being played by venture capital (VC). But although European VC is at a 10-year high, with 45% of the investment going into technology (see box, 'European vs US VC - the numbers', page 14), the values still trail behind US achievements to date. What part does investment culture play in this difference between the US and Europe?

VC research specialist Dr Keith Arundale (a member of ICAEW and the Corporate Finance Faculty) has identified some big differences between these venture capital ecosystems (see box, 'Cultural differences?', page 15). "Things are definitely improving in Europe, and have been over the past few years," he says. "But there's a lot more that the UK/European VC sector could learn



\$34.6bn

Amount made from fundraising for US venture funds in 2017

€7.7bn

Amount raised by European VCs from fundraising in 2017



from the US in order to raise the overall performance. They're definitely more aggressive in the US in their impropriety than they are in Europe, where firms tend to be more timid. It's partly cultural, but there are also issues with the fragmented markets we have in Europe, and the lack of scale-up finance."

RAISE THE STAKES

The difference between the two sides of the Atlantic is the willingness and ability of US VCs to stay with investments for longer. The journey from seed to start-up through various venture rounds, to pre-IPO, and onto IPO or acquisition by a tech titan has been trodden many times in the US. Europe is now fairly well served at the outset of the journey, but less well equipped for the latter stages.

"There's generally an adequacy of capital for early-stage investment, including VC, business angel and crowdfunding finance, and there are many accelerators to assist high-growth businesses, as well as the British Business Bank," explains Arundale. "There's a higher number of interesting companies coming through for series A and B investment, as well as tech innovation from outstanding universities, centres of excellence in artificial intelligence, fintech and many other areas and exciting initiatives for digital businesses, such as TechNation UK."

The UK government initiated its Patient Capital Review (PCR) in November 2016, inviting comments from stakeholders, with the faculty leading ICAEW's

EUROPEAN vs US VC - THE NUMBERS

There is a long-standing difference in performance between European and US venture capital (VC) funds. According to the BVCA, VC fund returns pooled over the period 1991-2007 were on average 6.9% per annum for Europe and 18.9% per annum for the US. The gap is narrowing, with the *Cambridge Associates US Venture Capital Index* reporting a 10-year annualised return of 9.04% in 2017, while the European Investment Fund (EIF) reported 10-year returns to 2016 of 5%. Venture capital displays wide return variance between different fund managers. And the EIF's top 30 funds since 2007 have generated a median net return of 27%.

Fundraising for US venture funds slowed in 2017, with 283 funds raising a total of \$34.6bn, down from 322 funds raising \$41.1bn in

2016, according to Pitchbook and the NVCA. Average fund size rose to a 10-year high of \$141m in the first half of 2018, when \$20.2bn was raised. European VCs raised €7.7bn in 2017, a slight fall from the €8.2bn raised in 2016, but still markedly higher than the preceding four years, according to Invest Europe. Average fund size has risen to almost €100m, twice the average in 2007. Government agencies contribute 29% to the total VC fundraising amount, followed by family offices and private individuals (23%), funds of funds and other asset managers (18%) and corporate investors (8%).

US VCs are increasingly committing more money to fewer investments, with the first half

of 2018 seeing \$57.5bn invested in 3,997 companies, according to the Pitchbook/NVCA data. The first half total is more than the annual totals for each year from 2008 to 2013 and is on track to exceed the \$81.9bn invested in 2017.

In Europe, total VC investment increased 34% to a 10-year high of €6.4bn in 2017, while the number of companies backed grew 8% to nearly 3,800, according to Invest Europe. Seed and start-up investments grew almost 50, while later stage investments grew by 17% to €2.3bn, a level not seen since 2008. Technology was the largest sector, receiving 45% of the total VC investment amount, followed by biotech and healthcare (23%) and consumer goods and services (8%).



Dr Keith Arundale is a doctoral researcher at the Adam Smith Business School at the University of Glasgow, and visiting fellow at the ICMA Centre, Henley Business School, and University of Reading. He is also an ACA, and was formerly with PwC, where he led the venture capital and marketing programmes for the Global Technology Industry Group in Europe. He's a member of the Corporate Finance Faculty.

Arundale's discussion paper, *Exploring the difference in performance between UK/European venture capital funds and US venture capital funds*, is extracted from his PhD dissertation, which he completed in September. It drew on interviews with 70 VCs from 39 European and 25 US VC firms.



CULTURAL DIFFERENCES?

Dr Keith Arundale's research used data analysis and extensive interviews with VCs and other stakeholders on both sides of the Atlantic to identify the key differences in investment approach.

- US VCs have proportionately more partners who have operational and entrepreneurial backgrounds than European firms do. Of the 160 partners at US firms interviewed, 42% had operational backgrounds, while 16% had been entrepreneurs (compared with 32% and 14% respectively at UK firms).
- In the US, VCs use a theme approach to identify future areas for investment and pursue a "home run" investment strategy. Every US VC commenting on themes said they try to go deep to find differentiators, compared with just five in the UK and three in continental Europe. One UK interviewee said that they "pretended" to pursue a theme approach, and suspected others were doing the same.
- Three quarters of US VCs said due diligence was mostly done in-house, compared with 52% of UK VCs. US VCs largely form their own views as to the strengths of the management team, the attractiveness and growth potential of the market and the uniqueness and reliability of the product.
- US VC term sheets typically have 'entrepreneur-friendly terms', including higher valuations, and less investor friendly terms, such as full ratchets, multiple liquidation preferences and cumulative dividend streams. This was more pronounced in West Coast than East Coast VCs, and is most likely a product of competition.
- US VCs are more proactive in achieving optimal exits for their investments than European VCs, with 36% of US VCs taking steps such as appointing investment bankers to identify exit routes, compared to 27% of UK VCs. Only 14% of UK VCs and no European VCs said that they would wait for the best exit, regardless of hold period, even if there was the earlier opportunity to return capital to investors and facilitate further fundraising.

response. The industry panel set up by the government to look into the PCR, concluded: "The lack of capital availability forms one part of a negative feedback loop, together with historically low returns for venture investments, and low attractiveness of the UK market to top talent."

Arundale believes the key to success is replicating the best elements of the US model to create momentum and attract more capital. He suggests that European VC funds could consider:

- raising larger funds for follow-on funding and scaling;
- embracing a 'theme' approach to identifying hot areas for investment;
- pursuing more of a 'home run' investment strategy;
- taking a less proprietary approach to deals, with more networking and sharing of information and best practices;
- building collegiate syndicates; and
- focusing on data and metrics to drive their investment decisions.

MYTHICAL CREATURES?

'Unicorn' has entered the start-up lexicon as a word for a private company with a \$1bn-plus valuation. Of 277 unicorns listed at research company CB Insights, with a combined valuation of \$866bn, 130 were in the US, 79 in China and 14 in India (as at end of September). Only 31 of them were based in Europe.

Carolina Espinal, managing director at HarbourVest Partners, comments: "In Europe you have a number of venture firms that aren't necessarily looking to find unicorns. They're looking for outperformance, and can deliver that. It doesn't automatically mean a worse outcome for the individual fund and its investors, but it is for the ecosystem.

"It's less likely to end up with decacorns [companies valued at \$10bn-plus] because there are fewer people pursuing that strategy. This contrasts with the US, where many funds are focused on trying to find unicorns. Such companies attract entrepreneurs, alpha-seeking investors, and people with experience and operational knowledge of scaling a business. If you only have a concentrated set of individuals with that skill set, the ability to scale up is constrained." ●

36%

Number of US VCs taking steps to identify exit routes. In the UK it is 27%

75%

Number of US VCs that said due diligence was done in-house



"Unicorns attract entrepreneurs, alpha-seeking investors, and people with experience and operational knowledge of scaling a business."

Carolina Espinal,
managing director,
HarbourVest
Partners

**HANDLE
WITH
CARE**



FRAGILE

THE DEBT MARKETS HAVE FLOURISHED SINCE THE FINANCIAL CRISIS. AND AS BANKS REINED IN LENDING TO SMEs, NEW AND DIFFERENT FUNDING OPTIONS BECAME AVAILABLE TO COMPANIES LOOKING TO EXPAND. BUT LOOSER TERMS HAVE PROMPTED WARNINGS THAT THERE MAY BE TROUBLE AHEAD. VICKY MEEK ASKS IF WE SHOULD BE CONCERNED

The past two years have seen a boom in global M&A, with 2018 having a particularly strong showing so far. The first half of the year saw \$1.94trn of deals announced across 8,560 transactions - the highest value recorded since the financial crisis, according to Mergermarket figures. Geopolitics is in flux - including trade wars, real wars, and political crises in some parts of the world. But the World Bank says that global GDP growth "will remain robust" in 2018 at 3.1%. For their part, companies appear to be taking that prediction on board, and making hay while that particular sun shines.

Persistent low interest rates are at the heart of this M&A boom and drive for expansion among businesses. Yield-seeking investors have pushed into asset classes such as private equity. Dry powder exceeded the \$1trn mark for the first time ever in December 2017. Investors have also moved into private credit strategies, where assets under management broke records, with \$667bn held by private debt funds at the end of last year, according to Preqin - a 13% increase on the December 2016 figures. There is clearly a lot of liquidity in the system, and debt funds have boomed as banks reduced their exposure to SME lending.

Against this backdrop, the Corporate Finance Faculty launched a new guideline - *Debt for Deals* - in conjunction with Clydesdale and Yorkshire Banks (CYBG) earlier this month to help businesses navigate the increasingly complex debt landscape (see box, 'Debt for Deals guideline', on page 19). "High liquidity and increasingly sophisticated approaches to funding are enabling M&A, refinancing and deals to achieve more expansion generally," says Katerina Joannou, manager of capital markets policy at the faculty.



"The rapid expansion of direct lenders, in particular in the private equity arena, has led to a general erosion of the covenant landscape with many deals now cov-lite"

"Companies have never had so many options when it comes to funding growth." David Hayers, head of growth finance at CYBG, expands on the theme: "The M&A market remains very buoyant."

He adds: The weight of equity to be invested is driving appetite for deals and is also contributing to increasing prices. That, in turn, is encouraging sellers. Added to this is the strong availability of debt coming from both banks and funds."

SKY'S THE LIMIT

Valuations have, in fact, reached their highest levels for 30 years, according to the Q4 2018 edition of the *Intralinks Deal Flow Predictor*. Globally, the median enterprise value to EBITDA multiple for announced M&A during the first six months of 2018 was over 14x. Perhaps even more strikingly, private equity is paying similar valuations to strategic buyers, which is a significant development given that trade buyers often pay a significant premium for the strategic value of an asset. But it's important to keep in mind that these statistics include only announced deals, not those that have gone unreported or merely been rumoured.

"Valuations remain high," explains Chris Lowe, partner in the capital and debt advisory team at EY. "That's a function of both the demand for good quality businesses, and the fact that lower quality companies aren't shifting in the market."

Yet at the same time, the amount of debt being used to fund deals has crept up, as competition for business continues to intensify. "I've never seen such a competitive market between banks and funds as we see now," adds Lowe. "The credit funds are largely winning, in terms of attracting intellectual capital from banks and market share. They can write bigger



"We're already starting to see evidence of the cycle turning"

Fenton Burgin,
head of corporate
finance advisory,
Deloitte

cheques and take more execution risk in the leveraged space. Some funds are now moving into the corporate space and we'll see them increasingly target public limited company markets."

The effect of this competition and higher valuations is clear. In 2012, European leveraged buy-outs were funded, on average, with a 55:45 ratio of equity to debt. By 2017 that ratio reversed, according to PwC figures. This increased leverage has prompted warnings from some quarters that risk is building up in the system.

And it may not be long before we see how much risk some lenders have taken on. In the UK, a number of consumer-facing businesses - including House of Fraser and Jamie's Italian - have faced financial difficulty in recent months. "We're already starting to see evidence of the cycle turning," says Fenton Burgin, head of corporate finance advisory at Deloitte. "Look at the casual dining space, where a number of well-known names have hit the buffers, in part because of rising interest rates. As interest rates continue to normalise, we will see more of this stress migrating into other sectors."

The issue of what might trigger distress is up for some debate - Hayers, for example, sees the tightening of monetary policy as less of an issue than

55:45

ratio of equity to
debt of European
leveraged buy-
outs in 2012

45:55

ratio of equity to
debt of European
leveraged buy-
outs as of 2017

FRAGILE





DEBT FOR DEALS GUIDELINE



Published on 6 November by the Corporate Finance Faculty and co-authored by Clydesdale and Yorkshire Banks, the *Debt for Deals* guideline is aimed at executives of companies seeking to raise debt finance for expansion. It outlines the

main features of the UK's debt market and explores how it has developed and expanded since the financial crisis a decade ago. It also provides practical guidance on the process involved in raising finance, the types of debt available in the market and the key terms borrowers can expect to encounter when arranging debt.

"Debt funding is central to economic growth," says Katerina Joannou, manager of capital markets policy at the faculty. "It's a vital source of finance for companies looking to grow through acquisition, investment in greenfield projects and new developments as well as through change of control situations such as management buy-outs. Yet many businesses, particularly in the mid-market and below, can find it a challenge to raise debt finance. Our guideline is intended to help companies navigate what has become an increasingly diverse and complex market."

Covering topics such as the effect of competition on the UK debt market, the difference between bank and private debt fund finance and business models, considerations for borrowers when choosing lenders and how to mitigate the risk of debt finance, the publication aims to assist businesses in finding the right debt package to suit the needs of their business. As with all guidelines produced by the Corporate Finance Faculty, the contents have been peer reviewed by faculty's technical committee to ensure accuracy and impartiality. The new guideline will be posted to Corporate Finance Faculty members with the December issue of *Corporate Financier*.



"The faculty's new debt guideline will help companies and advisers to navigate an increasingly complex market"

Katerina Joannou,
manager of capital
markets policy,
ICAEW

Burgin. "Clearly, if interest rates rose quickly, that would have an impact, but that seems unlikely. Central banks are moving cautiously," he says. But among the interviewees, there is agreement that today's market conditions are largely untested through more difficult times.

TESTING TERMS

One of the standout features of today's debt market is the borrower-friendly nature of many of the terms being struck with lenders. A recent Moody's report, for example, suggested that nearly 80% of leveraged loans today are 'cov-lite' (loans with no maintenance covenants, only incurrence covenants) - up from around a quarter in the run-up to the crisis. Many aren't cov-lite, but are actually 'cov-loose', which means they only feature a leverage covenant.

Part of the driver for this has been the emergence of private debt funds. "The rapid expansion of direct lenders, in particular in the private equity arena, has led to a general erosion of the covenant landscape with many deals now cov-lite," says Burgin. "Overall covenant quality in leveraged loans is weaker today than in 2007 across every risk category."

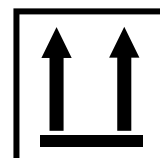
And it is this particular trend that is causing most concern, as Hayers explains: "Covenants are a good

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For businesses with private equity backing, some argue that the flexibility afforded by fewer covenants could give extra breathing space if they do not perform to plan

sense check for companies as well as banks, as they provide an early warning of any issues that need to be understood and addressed.”

For Burgin, the lack of an early warning system is storing up trouble. “In the immediate aftermath of the global financial crisis, restructurings were primarily bank-driven,” he says. In many cases, there was sufficient lead-time for banks to see covenant breaches coming. Lenders therefore had time to renegotiate terms or find other solutions before default. “Today,” adds Burgin, “because of the weaker covenant protections, by the time a company breaches any covenants, it won’t just have marginally missed the original plan and a cash call might well be imminent.”

Lowe says the concern about risks building is justified, as a lot of cov-lite loans are with average to indifferent performing businesses: “Interest rates will rise further, potentially linked to any currency volatility, although there is a case for short-term protection of sterling through interest rates. Those business that are not adequately



“Debt providers have had to shift their offerings as business models have changed”

Graeme Sands,
head of business
banking, CYBG

hedged in their positions may have issues if this happens.”

However, Hayers stresses that these terms are not present across the entire market. “We’re not seeing cov-lite or cov-loose filter down into the SME market,” he says. “By their very nature, SMEs are smaller, and generally less able to withstand significant shocks than the large corporates where cov-lite and cov-loose structures are more prevalent.”

For businesses with private equity backing, some argue that the flexibility afforded by fewer covenants could give extra breathing space if they do not perform to plan. “The prevalence of cov-lite and cov-loose is not a particular concern for most private equity-backed companies and, in fact, is likely to smooth the path to better performance,” says ECI managing partner Steve Tudge. “Sponsors would spot trouble early on, and be able to deal with the situation before covenants are breached – these terms give us more time to work on underperformance.”

Private equity firms have now adopted more sophisticated portfolio monitoring tools and practices. Running financial performance reports against typical covenant tests, despite the absence of covenants in loan documentation, allows them to spot trouble ahead that would previously have been flagged by covenant breaches.

KNOWN UNKNOWNs

Whether that will prevent businesses becoming distressed remains to be seen. But how will the different lenders behave when conditions

RISE OF THE DEBT ADVISER

Increasing amounts of product and provider choice when it comes to raising debt finance have inevitably led to good business for debt advisers. As the *Debt for Deals* guideline explores, debt advisory work no longer focuses simply on large, complex transactions.

“We are seeing greater acceptance of debt advisers in the mid-market space as the range of product has risen exponentially, the number of players has proliferated and complexity has increased,” says Deloitte’s Fenton Burgin. “Many companies now need independent advice to navigate the market in a way that wasn’t necessary 15 years ago when banks were the first port of call in the mid-market, offering

largely plain vanilla products.”

There are now over 100 debt funds operating in the UK. The five major clearing banks have been joined by a number of challengers that provide specialist debt packages across a wide range of sectors, for an increasing array of situations. “Debt advisers are now an important part of the market,” says ECI’s Steve Tudge. “There is so much more product out there, and there’s a lot more complexity. Advisers think about packages in a much more sophisticated way than we were ever able to when we arranged debt in-house. They look at the deal, what you’re trying to achieve, know the market and can match the right package to the business.”

There are some risks that companies need to keep in mind – ensuring borrowers know who they are dealing with is key. “We are very conscious of the risk that debt advisers get in the way of building relationships with lenders,” says Tudge. “We spend time getting to know lenders we haven’t worked with before, and building relationships. We are highly cognisant that we can’t completely outsource that job.”





change? For example, many debt funds have not been in business long enough to have operated through difficult times.

"It will be interesting to see how events unfold if we have a downturn," says Tudge. "A big change from previously is that, in the past, borrowers tended to deal with five or so clearing banks and relationships with these tended to be strong. Nowadays, there are a lot of debt funds and even some clearing banks have debt funds behind them, so it's harder for many borrowers to forge strong relationships with lenders. We don't yet know what the consequences of that will be if conditions change."

It's a point also picked up by Burgin. He says that banks have significantly improved controls since 2008, and are now in 'super-senior' positions. "That means they are much less likely to incur the first losses in default situations. As a result, they may not be in the driving seat on any negotiation where funds are the main capital providers."

The diversity of debt funding sources now in the market means that it's not just a variance in approach between banks and funds; there could be very different responses to portfolio company underperformance from fund to fund. "If a loan is extended by one of the larger direct lending institutions, for example, the scale and diversification of its portfolio may enable it to suffer some impairment without a significant effect on its broader fund performance," says Burgin.

"These lenders will be able to focus on their reputation and their ability to work with borrowers. That may not be the case for smaller institutions that may be quicker to act to protect their positions by, for example, quickly moving to sell the loan in the secondary market or to another institution." All of which can mean that companies could find they have very different partners around the table from the ones they originally negotiated with.

BONDS THAT TIE

There is some evidence of pushback among lenders. "Conditions in the debt market have probably peaked in the mid-market, but are still extremely good," says Lowe. "We are seeing a more cautious and conservative approach to the transaction environment generally."

Yet the next 18 to 24 months are likely to be something of a test for a debt market that has changed almost beyond recognition. There are bound to be some casualties - in both the lender and borrower camps - as conditions shift.

One element hasn't changed - the importance of strong relationships between companies and their lending institutions. "Open dialogue and understanding counts for a lot when things don't go according to plan," says Tudge. "This is harder when there are so many debt providers in the market, but our approach is to draw on our debt advisers' knowledge - they know the funds' track records, and how they react when situations don't go to plan." ●



"The weight of equity to be invested is driving appetite for deals"

David Hayers,
head of growth
finance, CYBG



"I've never seen such a competitive market between banks and funds as we see now"

Chris Lowe,
partner, capital
and debt advisory
team, EY



FUELLING GROWTH

While the mega-deals might grab headlines, a rather quieter movement has been going on in the background. Growth finance, which was largely the preserve of equity funding, has become an increasing area of focus for many challenger banks, funds and fintech lenders. SMEs are waking up to this. "There is growing awareness among companies now of what's available to fund earlier stage growth," says CYBG's Hayers.

Venture debt is one area that has seen substantial growth. CYBG, Silicon Valley Bank and even Barclays have stepped in to provide debt finance to earlier stage businesses. "Debt providers have had to shift their offerings as business models in the economy have changed over the last two decades," says CYBG head of business banking Graeme Sands. "It was uncommon 30 years ago to raise capital, run the business at a loss and focus on developing intellectual property, for example. The emergence of venture debt is a response to these changes - as industry and commerce evolves, banks need to find ways to continually develop financing solutions that meets demand."

There are now many different debt options that can be finely tuned to a company's sector and stage of development, from development finance for hotels and residential care businesses, to small-cap structured finance for businesses with EBITDA of less than £500,000.

CYBG's Hayers points to the example of small cap project finance in the energy sector. "The maturity of renewables is a good example of how debt providers have to be more agile and innovative. If you think back 20 years, power was generated from huge plants that were too big to be funded by banks - government often funded them. Today, you have lots of small scale generation plants and the energy market is increasingly fragmented - these projects and operations are much more suitable for bank finance."

CRISIS, WHAT CRISIS?

Growing assets under management tenfold post-financial crisis was quite an achievement for Investec. And the skills the bank drew on are likely to prove invaluable again, **James Stirling** and **Shaun Mullin** tell Marc Mullen

The story of Investec's trajectory over the past 14 years tells a tale of growth finance leading into the financial crisis and back out the other side. As a drama, the only problem with the story is that it is perhaps not warts and all. James Stirling, Investec's head of growth and acquisition finance, has been there for the whole journey. "We had a brilliant financial crisis," he says - by which he means they had a remarkably low loss ratio relative to the competition. There are some core values that he says the firm still holds dear. But he is very quick to acknowledge that "luck played a part" in that low ratio. Adaptability and resilience also had a role.

This positive assessment of the crash and its aftermath is from the perspective of a business that has grown its book tenfold over the past decade. When Stirling joined, the team, who are all members of the Corporate Finance Faculty, were focused on mezzanine-type investment to differentiate the firm and get it a relevant foothold in the debt structures of the SMEs they were investing in.

For mezzanine, competition came from ICG, some big banks such as HSBC, and a few funds such as Beechbrook Capital. Competition for acquisition finance came from every major bank. And the senior debt market was almost exclusively the domain of the big banks. Lower risk premiums and lower returns meant senior debt was not something that made sense for them to get involved in. But

post-crisis, the banks retrenched. Those were also the days before the rise and rise of the debt funds. And as the corporate finance world knows very, very well, change creates opportunities.

It's not just the quantum of investment that has increased. To provide growth and acquisition finance, Investec is no longer just a provider of mezzanine-type capital. It has filled in the gaps. As well as retaining an appetite for riskier intermediate capital, it now offers senior debt and will put minority equity to play, as well as use working capital loans where appropriate. "We've something of a one-stop shop approach now," says Stirling. "But we apply a bit of creativity, blending different products for the clients to deliver what they want and need."

From three people when Stirling joined, the team is now 11-strong. In 2012, Shaun Mullin joined the team from Barclays to build the firm's senior debt capability. When it comes to senior debt, Mullin says: "The key to being in the market is that the economics must reflect the underlying risk."

"As stakeholders and with an owner-manager mentality, whose financial interests are unashamedly aligned to the performance of our business, we simply don't want to write bad business," adds Stirling.

While they have many more products at their disposal today, Stirling says they don't have a product mentality, which he admits can often be something of a cliché to claim. "It's very rare that



PATIENCE IS A VIRTUE

Investigo, a recruitment agency for finance professionals, was founded in London in 2003. A decade later it had four offices and had expanded the sectors it covered to broader business and financial services. In 2013, Investec backed a management buy-out with a minority stake, providing growth capital for further expansion. Stirling first met the founders back in 2008.

The quantum of the deal was not disclosed, but was in the £10m-£20m range – the funding package included senior debt to allow founders to take some cash off the table and provide mezzanine finance for a minority stake, which effectively paid for the transfer of shares to second-tier management. RSM advised on the deal.

In July this year, Beijing Career International (BCI) acquired the business. Investec sold its stake, while management reduced their controlling stake to 47.5%.

From the start Stirling discussed succession plans with Investigo's founders. By 2013, there was a management team, and CEO-designate in Gary Watson, to back. "Spending significant time with first- and second-tier management – especially in a people business like that – is absolutely fundamental. Knowing who you're backing, understanding how their interests are aligned, and any conflicts with your own is key," Stirling explains.

Central to the business plan was a rolling succession plan. The £30m-plus deal was the first ever acquisition by a Chinese company of a London recruitment business. In 2017, Investigo turned over £101.9m, generating a profit of £5.2m. It has 185 consultants in its five UK offices, as well as one US office in New York.

Nick Baxter became CEO after the sale to BCI, leading the next management team. With a new owner on board, no doubt they will be aiming to expand into Asia, as well as further in the US.

Shaun Mullin (left) and James Stirling of Investec, whose growth and acquisition team are members of the Corporate Finance Faculty

we don't offer more than one solution to a client. Maybe they want to preserve cash. Perhaps they need to think about a different way of structuring the investment for their growth capital requirement. Maybe they don't need to raise equity, and some revolving facilities through asset-based lending capabilities would be better for them. I don't want it to sound more complicated than it is, because it's honestly not rocket science."

The approach is very much to patiently build relationships with businesses and view their progress (see box, 'Patience is a virtue', page 23). Joining in tight timetable processes and ticking boxes before they get to meet a client is not the way they work, Stirling notes: "We want to look our clients in the eyes and for them to look at us in the eyes. This will be a partnership for five or more years, so we need to work out if we'll get on."

Stirling has found regional boutique advisers the best source of such introductions over the years. The key is building a close relationship. "In the 14 years I've been working here not one business plan has gone according to plan, which is nothing to be ashamed of. But if you asked our clients how we've behaved when things didn't go as planned, I'd be very relaxed about what they'd say."

D-DAY APPROACHES

Stirling argues that there is increasing anecdotal evidence that the market isn't functioning as it currently should (although some buy-out specialists might disagree with him): "There's a mismatch between supply and demand. Despite hearing that it's a sellers' market, unless you have the perfect business it's hard to find a private equity investor."

And despite market flux having been at the heart of the growth and acquisition finance business's growth over the past decade, he is pretty desperate to see some certainty over Brexit: "It'd be nice, not just for private equity or the M&A market in general, but for everyone."

SHAUN MULLIN - THE CV

Shaun Mullin, originally from New Zealand, joined Investec at the start of 2012 to augment the senior debt side of the business. What had become increasingly apparent through the financial crisis was that the mainstream banks were retreating from senior lending in the SME space, ahead of debt funds and alternative providers making inroads in the market. The relative returns were increasing by default, and Investec wanted to offer bespoke funding packages.

Mullin graduated from Massey University in Wellington, New Zealand, in 2000 with a degree in

valuation and management, and went straight into his first job with Beca Group, an engineering and management consultancy. He moved into banking as senior analyst with ANZ. Then in 2004 he moved to London, first working with the leveraged finance team at WestLB before joining Barclays, where he worked in both the financial sponsors syndicate and leveraged finance teams.

"Investec's nimbleness appealed," says Mullin. "It was also not bogged down by bureaucracy, and nor did it have legacy issues."

Mullin expands on the issue: "Political - and consequently economic - uncertainty is creating paralysis. Businesses are trying to grow but can't move forward. Decisions aren't being made and that's manifesting itself as a lack of investment. We're seeing productivity go down. There's a whole tranche of metrics that are not good, as we approach this D-Day without any kind of certainty."

But whatever the outcome of the UK-EU27 negotiations, there will be other challenges for M&A and the backers of deals. Back in 2004, eight years before the B-word had been coined, Stirling says the competitive environment was really tough: "History now tells us that was the lead up to the financial crisis - very high-intensity deal-making, and a lot of cheap money, which sounds fairly similar to what we see now. The pleasing thing for us is that 10 years later our balance sheet is in a different position. I think we retain our core principles and street-fighting resilience." ●

JAMES STIRLING - THE CV

Leaving the University of Edinburgh in 1997 with a degree in classics, James Stirling joined PwC in London. He qualified as an ACA and was working in M&A tax, but decided a big organisation was not for him. He went smaller and moved to mid-market corporate finance boutique Livingstone Guarantee. December 2004 was a big month for Stirling - he got married and left Livingstone, having decided that wasn't for him

either. In January 2005, he joined the fledgling growth and acquisition finance team at Investec, initially as a consultant.

"It was a virtual start-up when I joined," he says. He was effectively offering funding solutions - innovative to an extent - to high-net-worth-entrepreneurs. But the team soon realised they needed to develop other franchises and broaden their appeal to institutional investors such as private

equity. Of course, 14 years ago this was itself a less mature industry than it is now.

They grew their book and their product offering. With smaller firepower than some of the competition, they had to be fleet of foot, innovative, and rely on their strength to building relationships. Stirling became head of emerging companies and, from 2016, head of growth and acquisition finance.



Way ahead

THE CORPORATE FINANCE FACULTY WOULD LIKE
TO THANK ITS MANY MEMBER ORGANISATIONS FOR
THEIR SUPPORT IN 2018 – AND INTO 2019



3i
ABN AMRO Commercial Finance
Addleshaw Goddard
Alantra
Albion Capital
Anthesis
Arbuthnot Commercial
Asset Based Lending
August Equity
BDO
Beechbrook Capital
Beer Mergers
Brewin Dolphin
BTG Corporate Finance
Burgess Salmon
Business Growth Fund
Buzzacott
Cantor Fitzgerald
Cass Business School
Cavendish Corporate Finance
Clydesdale Bank
Connection Capital
Corbett Keeling
Crowe UK
Deloitte
Dentons
Development Bank of Wales
Drooms

Duff & Phelps
ECI Partners
EY
Fieldfisher
FRP Advisory
Gibson Dunn
Grant Thornton
Haysmacintyre
HMT
ICON Corporate Finance
Investec
James Cowper Kreston
JCRA
JLT Specialty
Jumpstart
Kingston Smith
KPMG
Kroll Advisory Solutions
LDC
Lexington Corporate Finance
Linklaters
Marsh
Mazars
Media Asset Capital
Menzies
MHA MacIntyre Hudson
Mobeus Equity Partners
Moore Stephens

NorthEdge Capital
OMERS Private Equity
Panoramic Growth Equity
Perscitus Advisers
Pitmans
PKF Francis Clark
Price Bailey
PwC
Ramboll
RSM
Rutland Partners
Saffery Champness
Samena Capital
Simmons & Simmons
Slaughter and May
Smith & Williamson
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TAKEN ON TRUST

Many words are exchanged during a deal process. But as messaging apps increasingly replace face-to-face meetings and even video conferencing, what security standards should private equity firms ensure protect such communications?

Elisabetta Zaccaria finds out

Evaluating and completing a private equity investment will likely take several months, perhaps even a year or more. Through each step, a private equity (PE) firm creates, acquires, outsources, exchanges and otherwise processes a substantial amount of sensitive information with a large number of third parties. From a cybersecurity perspective, this creates a complex environment to protect.

During an investment process, a PE firm will interact with vendors, placement agents, law firms, accountants, tax advisers, banks and investment targets, to mention just a few. Sensitive data is exchanged between, and processed by, all these parties. It is therefore important to ensure that the technologies adopted by all parties are not only fit for purpose, but also support secure interaction across organisational boundaries.

GOOD GOVERNANCE

If data security is compromised during an investment process it can lead to strategic, regulatory, financial, operational and reputational damage for a PE firm. A loss of sensitive information could have a negative impact on deal sourcing, on deal valuation or closure, or ultimately lead to potential deal breakdown.

When adopting a messaging app, you should choose one designed specifically for enterprise rather than one for consumers

Under the recently introduced EU General Data Protection Regulation (GDPR), data breaches can result in fines of up to 4% of an organisation's annual global turnover - if the data relates to personal data of EU citizens.

Cyber risk related to messaging apps is an important cyber security area, and one where insufficient consideration has been given until very recently. This is especially striking when we consider that the most popular messaging apps in both leisure and business have billions of users. These allow us to make voice and video calls, send text messages, set up group chats and so on. A substantial amount of sensitive data is processed via these technologies every day. Yet there is very little information available about the security and compliance considerations we should be taking into account prior to adopting such technologies in our businesses.

SECURITY FIRST

When adopting a messaging app, you should choose one designed specifically for enterprise rather than one for consumers. The use of free consumer messaging apps may initially appear to be cost effective. But the business may find itself paying a much higher bill through compromising the security of its sensitive data, or due to its inability to comply with the regulatory frameworks related to data protection and privacy. Many popular consumer messaging applications were built to answer a need in the consumer market, and were not necessarily built with appropriate provisions for the security and regulatory compliance requirement of a business.

You should also favour applications with end-to-end encryption. This is a method of securing your messages, photos, videos, voice messages, documents and calls from the moment the information is created to the moment it is used. This approach prevents third parties from accessing data while it is being transferred from one end system or device to another, whatever the network. It also prevents access while the data is at rest, such as in a cloud backup system.

PE firms should select an enterprise messaging application that uses an open cryptography standard. Solutions based on open cryptography standards, by virtue of having been defined through consultation with field experts, provide confidence in its security. This is in contrast to proprietary encryption, which may not have been



Cyber taskforce

"At the faculty, we led the way in setting up a cyber security taskforce, and with the subsequent publication of our *Cyber Security in Corporate Finance guideline*," says ICAEW head of corporate finance, David Petrie. "Since then, the use of messaging apps has become far more prevalent. Such apps can speed up processes, but like any communications in M&A situations, security risks should not be compromised. For the most sensitive conversations, face-to-face dialogue will always be best."

For more details see icaew.com/cfcyber

evaluated outside the company that has developed the messaging app. Open standards in this area are developed and promoted by the Internet Engineering Task Force.

Because many enterprise and consumer messaging apps are based on proprietary encryption, it is difficult - if not nearly impossible - for a PE firm to assess whether its design and implementation has security vulnerabilities. This means it is also difficult to state with confidence to the relevant regulator that the firm has taken all reasonable cyber security measures to protect its data.

It is important to go with an app that can easily interoperate with other enterprise messaging apps or other relevant technologies. Open cryptography standards provide the best foundation for the development of interoperability standards, facilitating data exchange between different messaging apps, as well as other business IT systems.

By choosing an enterprise messaging application that's based on open cryptography standards, a PE firm takes part in the shift of the cyber security industry towards the development of interoperable products instead of the current mainstream vendor lock-in approach. This is when a business has to purchase all its required technology products from one vendor.

The vendor lock-in approach also presents a tangible barrier to any organisation wishing to protect its data beyond its own security perimeter and process data securely with its business ecosystem. With such an approach, secure exchange of data can only be achieved if all the relevant parties purchase from the same vendor. Clearly this is not feasible if we consider the magnitude of the global digital environment and the diversity of the products on the market.

From an administration and regulatory compliance perspective, PE firms should choose enterprise messaging apps that are built to give the enterprise full control of systems security. This is important because regulators will increasingly require access to specific data held by the PE firms - for example, subject access requests under the GDPR. Most current enterprise and consumer messaging apps have not been built to give the enterprise control over its own security system. This is especially important in regulated markets such as financial services, where compliance is paramount - and in some instances crucial - to conducting business. ●



Elisabetta Zaccaria, co-founder and chairman, Secure Chorus, a not-for-profit membership organisation. She was group COO and CSO of Global Strategies Group

WALES BANKS ON GROWTH

Regional and national development is going to become even more important across the UK post-Brexit. Jason Sinclair asks the Development Bank of Wales's **David Staziker** about its approach to investing in 300 businesses a year



Newport City's Millennium Footbridge

With more than £1bn of funds under management, the Development Bank of Wales offers a wide range of funding options to businesses in the country. “We’re not small any more,” says David Staziker, finance and administration director at the development bank. Is it a blueprint for other regions in the UK?

The bank reports that it has safeguarded or created more than 50,000 jobs in Wales since beginning life in 2001 as Finance Wales. The latest figures show that the bank invested £20.8m of growth capital in 69 businesses in Q1 2018, split between direct investment and additional cash from private sector funders.

“We have far more staff than a mid-market private equity house has,” says Staziker. “While they’re looking to do one or two transactions a year, we do up to 300, and it’s quite hard work to try to find them. The deals aren’t marketed by advisers - we actually have to go out and source them.”

Putting their message out there involves radio adverts and banners on the back of buses. “Getting people on the way to work is good - we try a whole variety of things to make it happen,” he says. High street banks are the development bank’s top referrers. While they may be more risk averse than they were, they seem to relish the opportunity presented by the bank’s offering, as “they can pick up the banking while we deal with the loans and risk”.

TAKING ON THE RIGHT RISKS

The development bank’s unique position within the public sector allows it to take on this risk. It has the backstop of grants and does not have the same absolute profit hurdles other investors do. While the ambition is to deliver the same returns as private equity and reinvest those returns in other Welsh businesses, the average default rate on Development Bank of Wales loans is 10%, compared with banks whose default rate is between 0.5% and 1%, because the development bank is taking on more risk.

“We’re tasked with taking this risk, but it means that it’s very difficult for the overall fund to break even - and the built-in grant funding allows for that,” explains Staziker. There is also another crucial point to the whole strategy behind the Development Bank



Wrexham, Clwyd, North Wales

300

Annual number of investments by the Development Bank of Wales

of Wales: “If we just tried to make a market return, all we’d do is displace a commercial funder. We can’t disrupt the market. We can’t displace the banks. The idea is that we go where they don’t go.”

Earlier this year the British Business Bank set up the £2.5bn British Patient Capital fund to offer long-term investments for British companies. It aims to do this by allocating taxpayer cash to venture and capital growth funds, which then invest in British companies to fund innovation and growth. But last month the new CEO of the fund, Catherine Lewis La Torre, told *The Daily Telegraph* that the bank was considering direct investment, “co-investing alongside our partners or the angel syndicates”. It now seems likely that the British Business Bank intends to invest at least some of its new money in a similar way to more traditional economic development banks around the world, including the Welsh one.

Regional and national approaches vary markedly. The Scottish government announced plans in February for a Scottish National Investment Bank, which would have £2bn of capital and should be making its first investments next year. Northern Ireland is arguably behind other regions in its policy. Invest Northern Ireland is a development agency. It doesn’t have a development bank as such, but post-Brexit that could prove invaluable economically and politically.

Without the development bank’s fund, a lot of Welsh SMEs would not get off the ground. Impact investing is a hot topic, and so the bank emphasises its impacts beyond return on capital - job creation and environmental factors are two areas.

“We’re investing in the poorest part of the UK, so every deal we do is an impact deal - we just need to get clever at marketing that. We’re creating high-paid jobs in an area of high unemployment,” says Staziker.

SPREADING THE LOVE

Marketing is vital for data flow. Staziker recognises that SMEs are busy with day-to-day business, and may have never borrowed money and so need guidance. The organisation has recently opened a new headquarters in Wrexham, and there are offices in Cardiff and Llanelli and shared spaces with the Welsh government in Llandudno and Newtown. Having a local presence is crucial.

WHAT WALES WANTS

The Development Bank of Wales is a ‘sector agnostic’ risk capital investor. It invests in Wales-based businesses, or businesses looking to set up a base in Wales. It offers debt and equity funds for start-ups through to growth, management succession and turnaround. Its funds are principally aimed at SMEs who are unable to raise their required funding from the private sector. In most deals the bank will co-fund with other investors on similar commercial terms.



CREO MEDICAL

In 2003, professor Chris Hancock, who works at Bangor University, founded Creo Medical (as MicroOncology). Nine years later, it received investment from Finance Wales (the forerunner of the Development Bank of Wales). David Staziker, finance and administration director at the development bank, says Creo was a deal that really worked: "We funded it since it started. It's worth over £250m now, and we're still the largest shareholder."

Creo is based in Chepstow, and has been there since 2012 when it received investment from Finance Wales, alongside the Angel CoFund. That initial investment allowed Creo to relocate its headquarters and product development facility from just outside Bath.

Creo develops and manufactures clinically innovative medical technologies. Its suite of products is largely based on electrosurgery technology. It initially launched in the flexible endoscopy market. Its long-term ambition is to expand into adjacent markets, either organically through partnership or acquisition. At present, it holds 70 granted patents including CROMA, a precise way of treating pre-cancerous lesions.

A 2015 funding round secured investment from Pentax Medical (part of Japanese medical giant HOYA group). In 2016 Creo listed on AIM, raising £20m. Finance Wales had provided over £3m over multiple funding rounds, and an additional £1.9m to support the IPO. In July, the business raised another £48.5m from an oversubscribed share placing - more than double the amount it had initially targeted.

The money will be used to commercialise Creo's flagship device, Speedboat, which is approved in the US and Europe and allows doctors to remove gastrointestinal tumours using an endoscope in less than an hour, instead of a three- or four-hour operation, which would require an overnight stay at hospital. The new cash will also be used to develop other products in the company's research and development pipeline.

The Development Bank of Wales said in a release at the time: "We've supported Creo over multiple rounds of equity investment, and leveraged significant private and corporate co-investment in the process."

Creo shares started the year at about 68p. At the end of September they were at 225p. Hancock is now chief technology officer at Creo. Its CEO, Craig Gulliford, said the support over various funding rounds had allowed it to accelerate its commercialisation strategy, develop new products, attract partners and enable the potential for future strategic M&A.



"The world doesn't stop for these businesses. People who need to do deals now, or need a cash injection now, still need to do those deals"

David Staziker,
finance and
administration
director,
Development
Bank of Wales

"Scotland and Northern Ireland, and indeed England, will have the same reasoning about using local teams to spread the benefits across the region," says Staziker.

The Welsh bank's remit - to fund any business in the region that is commercially viable and that needs government support - ensures that its investment strategy is 'sector-agnostic'. Inevitably they can only reflect the weight of companies in Wales so tend to include many in general manufacturing and the service sector.

In bringing skilled jobs to Wales, the bank mirrors both the aims and challenges of some of the businesses it lends to. Attracting staff to the region is not just an issue that can be solved with money. "Many of the businesses we work with find it hard to recruit into skilled jobs and pay high salaries compared with elsewhere in the UK. We even find that in our own business."

To some extent, Staziker expects things to stay broadly the same, but with change around the edges: "The world doesn't stop for these businesses. People who need to do deals now, or need a cash injection now, still need to do those deals."

In response to Brexit, it's been proposed that a UK Shared Prosperity Fund could be created to replace investment that has been made in the past by the European Regional Development Fund. "We're still at the early stage of working out what that means for each of the regions", says Staziker. Other money could come from HM Treasury, moving from grants to repayable money, and creating more opportunity for regional development banks, he predicts.

As European funding disappears, and if traditional banks tighten their belts, the regional development banks may have an increasing role to play - and not just for companies that struggle for traditional investment. The bank has taken six companies to IPO on AIM, and guided others to exits.

But Staziker believes money isn't everything, considering the benefits his organisation can bring to his community: "We have a portfolio club to help the businesses moving forward - as a network and advice forum and speaking platform. You're always asked, 'what do I get other than money?' And that's one of the answers from us. For Northern Ireland and Scotland, it's another thing to think about when they set up their enterprises. It's not just about money." ●

£20m

Amount raised by
Creo when it was
listed on AIM

£250m

Creo's current
market cap

Rise to the challenge

Building an accountancy firm to rival the Big Four? It's easy to state an ambition, but there's at least one man who might deliver on it

THE FIGUREHEAD

In August 2016, John Connolly re-emerged (rather than emerged) on the accountancy scene when he founded CogitalGroup, an accountancy consolidator backed by HgCapital. Two months later it acquired Midlands-based accountancy firm Baldwins.

Connolly left Deloitte after 35 years in 2011. At the time he was global chairman, UK senior partner and CEO. With a background in corporate finance, he may well be the perfect figurehead to build an accountancy firm to compete

with the Big Four, in size terms, if not in the same markets.

Cogital's first acquisition was Blick Rothenberg in the Nordics. It also acquired Visma, an outsourcer of accounting and payroll, also based in the Nordics.

Connolly is currently chairman of HgCapital, G4S, Metric Capital partners and Radius, as well as the Great Ormond Street Hospital Children's Charity. He was previously chairman of Elian Global and Amec Foster Wheeler.



PERFORMANCE AS OF JULY 2018

- More than **70,000** clients
- **6,000** employees
- **170** offices in seven countries - UK, Norway, Sweden, Denmark, Finland, Romania and Lithuania
- Revenue of **£500m** - **50%** in the UK and **50%** in the Nordic countries



A HISTORY LESSON?

Back at the turn of the millennium, as the tech bubble was still being inflated, two accountancy firms embarked on rapid growth trajectories, deploying consolidation strategies - Tenon and Vantis. Neither turned out well.

Vantis was listed on AIM in May 2002 and acquired Numerica in 2005, which had been on its own consolidation path, but was struggling, having overstretched itself. At the start of 2010, Vantis was the 13th

largest accountancy firm in the UK. By the end of June it entered administration.

In 2001, soon after Tenon had listed on AIM, it acquired five accountancy firms for £80m, making it the 15th largest accountancy firm in the UK and the only one that was a Plc. In 2009, there was a £78m merger with RSM Bentley Jennison. RSM Tenon acquired some of Vantis's offices when it went into administration in 2010. In 2013 it went into administration itself.

BUILDING AND BUYING

In 2016, Cogital's London division, Blick Rothenberg, acquired Westleton Drake, a specialist private client tax practice. Its client base is high-net-worth US families, executives and entrepreneurial business, which Connolly said perfectly "complements Blick Rothenberg's services to global private clients, as well as individuals working abroad on a temporary basis". Nilesh Shah, CEO of Blick Rothenberg, added that they were building "a high-quality business focusing on domestic and international entrepreneurial businesses and their owners".

In October 2017, Cogital made two acquisitions north of the border in Scotland: Campbell Dallas and Springfords. Campbell Dallas is headquartered in Glasgow, with offices in Aberdeen, Kilmarnock, Perth and Stirling. Springfords is based in Edinburgh, with offices in Livingston and Falkirk. These acquisitions added £20m to revenues and 300 staff to the group, and provide a platform for growth in Scotland.

In July 2018, Cogital (through Baldwins) acquired Wilkins Kennedy (WK) - the 18th biggest accountancy firm in the UK, which has 700-plus employees and partners, £54m turnover, and 18 offices in London and the South East. William Payne, Wilkins Kennedy senior partner, will become managing director in the South, and will join the board of Baldwin Holdings. Connolly said the Wilkins Kennedy acquisition simply marked the completion of "the first year of a five-year plan to build a leading, technology-driven, international business services group".

APPOINTMENTS



Chris Graves (1) has joined **Deloitte** as a corporate finance partner to lead the firm's TMT M&A team in the UK. Prior to his appointment, he was executive director at GP Bullhound, the technology advisory and investment firm.

His experience includes deals in digital services, mobile technology, content and IP, digital healthcare

and B2B information and events.

Fenton Burgin (2), Deloitte's head of advisory corporate finance, said the firm would continue to invest in expanding its TMT M&A team.

Prior to GP Bullhound, Graves was a director at Ingenious Media, and prior to that worked at Dresdner Kleinwort and Deutsche Bank.



Jamie Kennell (1) has been appointed partner at **Gambit Corporate Finance**. He will focus on developing the firm's advice on private equity deals. Before joining Gambit, he was director and owner of advising firm Mellifera. Prior to that, he worked at Beringea, 3i, KPMG and NatWest Markets.



Additionally, he has acted as a non-executive director for more than 20 companies during a 30-year career.

Gambit partner, Geraint Rowe (2), said: "Jamie's substantial private equity experience, track record of having run successful hospitality, leisure and media businesses and London-market focus is a strategic evolution for us."



Richard Zhu (1) and Linda Wang (2) have joined **Alantra's** China team from Lincoln International. John Zhou (3) has also moved to Alantra, while Iñigo Mateache (4) has transferred from Madrid to the firm's Shanghai office to head up cross-border M&A for China.



Prior to Lincoln International, Zhu worked at Morgan Stanley Huaxin Securities and Bain & Co. Wang was at Lincoln for more than 10 years, and started the firm's operations in China. Zhu said he believes

PE SHORTS



Ray Stenton (1) has been promoted to joint managing partner of



NorthEdge Capital, and will run the firm on a day-to-day basis alongside



Grant Berry (2). Stenton joined the firm's



Manchester office in 2011 as head of new business, from LDC. He previously worked in the corporate finance teams at Deloitte and Andersen.



Keven Parker (3), who joined

NorthEdge earlier this year after 12 years as partner and head of 3i's Manchester office, has been promoted to partner and head of portfolio.

In the firm's new-business team, Tom Rowley (4) has been promoted to head of Yorkshire and the North East. He joined NorthEdge in 2013 from Dow Schofield Watts, having previously worked for Zeus Capital, Deloitte and Andersen.

Catherine Bucko (5), who previously worked in deal origination, has taken on the role of talent manager to build the firm's talent network.

Nassim Ahmed (6) has joined NorthEdge as deal origination executive team in the firm's Birmingham office. NorthEdge has also

launched a data analytics and AI platform in partnership with Peak AI to help identify new investment and buy-and-build opportunities.

"Machine learning is set to revolutionise deal origination at NorthEdge," said Ray Stenton. "AI will help to automate and drive efficiency for our origination team. With more data, we can make better decisions, which means a better outcome both for NorthEdge and our investors."



Inflexion has appointed Derek Elliott



(1) as a partner in its partnership capital team, which focuses on minority investing. He was one of the founders and



managing partners of Darwin

Private Equity and was previously a member of Permira's TMT team in London. Ben Suquet (2) has also joined the team as investment director from European Capital. Prior to that, he was at Citigroup. Adam Moss (3) and Ravi Shah (4) have been promoted to investment executives in the partnership capital and buyout team respectively. And Alex Mathers (5) has joined Inflexion as an associate digital director. He previously worked for OC&C Strategy Consultants.



Martyn Vitty has joined **LDC** in Birmingham as portfolio director from LDC-backed high-growth manufacturer ELEY Group, where he

was interim CEO and FD. He established ELEY's US business and implemented its buy-and-build strategy, which included the acquisition of Texas-based KSS. He was previously FD at United Living Group and at Cable Management Products.



Catherine Lewis La Torre has been

appointed CEO of the **British Business Bank's** patient capital operations. A £500m managed funds programme has been set up to invest in large-scale funds of funds to boost the amount of patient capital available to UK SMEs. The bank has also established a regional angels programme to invest alongside angel investors. She retains responsibility for the

mid-market and sell-side M&A advisory is a "turning point in China".



DC Advisory has launched a UK capital advisory practice, combining restructuring and recapitalisation expertise with its established debt advisory practice, led by Ciara O'Neill (1), Jonathan Trower (2) and Edward Godfrey (3).



Justin Holland (4) has been recruited as a managing director from Gleacher Shacklock, and Sean Scoggins (5) as executive director from Moelis.



Holland previously worked for Jefferies and Houlihan Lokey. Scoggins is an ACA who previously worked for Close Brothers Corporate Finance and KPMG.



Nick Jones has been appointed managing director and head of European and global M&A at **Equiteq**. He has joined from Cavendish Corporate Finance, where he was partner and head of technology. He will co-ordinate M&A activity across Equiteq's five offices in New York, London, Singapore, Sydney and the newly opened Paris operation.



Alex Baskeyfield has been promoted to corporate finance partner at **Mazars**. He joined the firm's Leeds office in 2005 in audit, and joined the corporate finance team in 2008.



Adrian Howells has joined **Quantuma** as UK-wide corporate finance director from HMT, where he led in debt advisory.



Andrew Hay has been appointed chairman of **LGB Corporate Finance**. He has held senior corporate finance roles at Schroders, ING Barings and latterly Edmond de Rothschild in London, where he headed up corporate finance for 10 years.

Numis Securities founder Oliver Hemsley is leading a £20m takeover of **NEX Exchange**, from ICAP. He will become its CEO next year, subject to FCA approval.



Oliver Harvey has joined **Close Brothers Asset Management** as director in its HNW bespoke investment management service. He was previously at Rathbones and, prior to that, Fleming Private Asset Management.

bank's lending-based programmes.

Lewis La Torre joined the bank in 2016 from Cardano Risk Management, where she was head of private equity. Prior to that she was a partner at secondaries specialist Fondinvest Capital in Paris, having previously been a founding partner of fund-of-funds manager Proventure.



Matteo Busà has joined **Patron Capital** in London as partner from GIC, the Singapore Sovereign Wealth Fund. His primary focus will be the investment strategy for Italy.



Laurent Henrio (1) and Antonio Roman (2) have joined **Axiom**



Alternative Investments in London as portfolio manager, and research analyst respectively.

Henrio joined from Société Générale, and previously worked at Icmos Pangea Global Hedge Fund and JPMorgan Chase.



Jorge Fernandez Miret has been promoted to partner at **Sherpa Capital**. He joined the Spanish investment group in 2012 as an investment director from consultancy firm Improven.



Marc Dumbell has joined **Campbell Lutyens** to work in fund placement. He was previously at HSBC.

LEGAL BRIEFS



Addleshaw Goddard has recruited M&A lawyer James Dawson as a partner in its London corporate team. He has returned to the firm where he was a corporate partner until 2012. He was most recently a consultant at legal technology start-ups Objective Manager and DealScoper.

The firm also made six corporate legal director promotions: Jemma Clarke in the Manchester corporate finance team; Jeremy Cruse in the London corporate finance team; Laura Falls in Edinburgh; Charlotte Smart in Leeds; Alan Lee in the Hong Kong capital markets team;

and Owen Richards in the Dubai corporate finance team. The firm has also made nine promotions to managing associate: Jo Snedden; Kelly Brown; Joe Cobb; Liam Gasior; Sophie Cochrane; Kyle Rainsford; Mike Harris; Charlotte Marshall; and David Parker.



Bircham Dyson Bell and Pitmans will merge to become **BDB Pitmans**. The combined firm will operate from four locations: London, Reading, Cambridge and Southampton. It will have 80 partners and more than 400 staff, headed up by managing partner, Andrew Smith (above).



Bryan Cave Leighton Paisner has appointed litigation and corporate risk

partner Segun Osuntokun to its London office as managing partner.



Eunice Yao has joined **Dentons** in Singapore as a corporate partner from Fortis Law Corporation.



Taylor Wessing in Brussels has recruited Christian Dekoninck (1) as partner, Marie Keup (2) as counsel, and Marie-Dominique Van de Gucht (3) as a paralegal in its IP team.



Simmons & Simmons in Italy has recruited the IP team from Vanzetti e Associati, with partners Stefania Bergia (1) and Giulio Enrico Sironi (2) joining the Milan office.





THE CV

Matt Katz leads Buzzacott's corporate finance team – now 10-strong – which he founded on joining Buzzacott in March 2015. He was recruited from Roffe Swayne, having previously trained and learnt his corporate finance trade at Grant Thornton. He has a degree in economics from the University of Durham.

Recent deals

- Buy-side advisory for Moonbug on the acquisition of El Bebe Productions in August 2018
- Sale of Playsports to MiniClip in March 2018
- Sale of UK-based software business Pex to RealPage in the US in November 2017

YOU SAY TOMATO

Avoiding misunderstandings is vital when selling a UK business to a US buyer – even if they speak the same language, says **Matt Katz** of Buzzacott

WHAT WAS THE DEAL?

The disposal of BTC Group to Geiger in May 2018. BTC is one of the UK's leading branded and promotional merchandise businesses, selling to corporates including Microsoft, Tesco and the BBC. The deal value was not disclosed, but BTC's turnover is more than £10m and it employs about 60 staff.

WHAT WERE THE TIMESCALES?

Discussions between BTC and Geiger started in October 2017, heads were agreed in February 2018 and the deal completed in May 2018.

In this particular transaction there was no competitive process, which made it harder to ensure that the valuation

achieved was at the top end of what was realistically achievable. Positioning was therefore key, to ensure Geiger made an offer that was so compelling that BTC's shareholders felt they didn't need to create competition for the deal.

WHAT WAS YOUR ROLE?

We advised the shareholders of BTC, helping them with their initial positioning with Geiger. We then stepped in to lead negotiations, agreeing the deal on BTC's behalf. We project managed the process, including running the data room and liaising with all the lawyers and diligence teams, leading it through to a successful completion. We also provided tax advice to

the vendors and have subsequently assisted with the completion accounts.

WHO WERE THE OTHER ADVISERS?

Marriott Harrison provided legal advice to BTC. A BDO team from Washington, DC undertook financial diligence for Geiger, supported with tax advice from BDO in the UK. Shoosmiths provided legal advice to Geiger.

WHAT WAS THE STRATEGY BEHIND THE DEAL?

For the BTC shareholders it was an opportunity to both realise value for the business they had built, and to allow it to flourish under new ownership, with additional investment in systems and people. For Geiger it allowed them to compete more fully in the international market, and gave them a channel into Europe as its prospective next step. Naturally, there were also operational synergies that Geiger could benefit from. With Geiger's input and knowhow, BTC have improved the efficiency of the business, and can now

cope with significantly higher volumes from the same cost base.

WHAT WERE THE CHALLENGES?

It was the first time Geiger has made a UK acquisition. To make the transaction happen we needed to work with them to fill in their knowledge gaps. One of our specialisms is selling UK businesses to large US corporates, so we're fully familiar with the issues that can arise. There were slightly different motivations for the BTC shareholders. Frank Murphy, MD, and John Beirne, operations director, were staying on after the sale, whereas Peter Beirne, FD, was retiring. We helped maintain a good working relationship between the BTC shareholders and Geiger and kept any disagreements from escalating, and in any way prejudicing the good relationship or even the deal itself.

WHAT DID YOU LEARN?

Although we speak English in the US and UK, when it comes to M&A it is easy to have misunderstandings and these need to be resolved quickly. ●

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La meccanica delle emozioni



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