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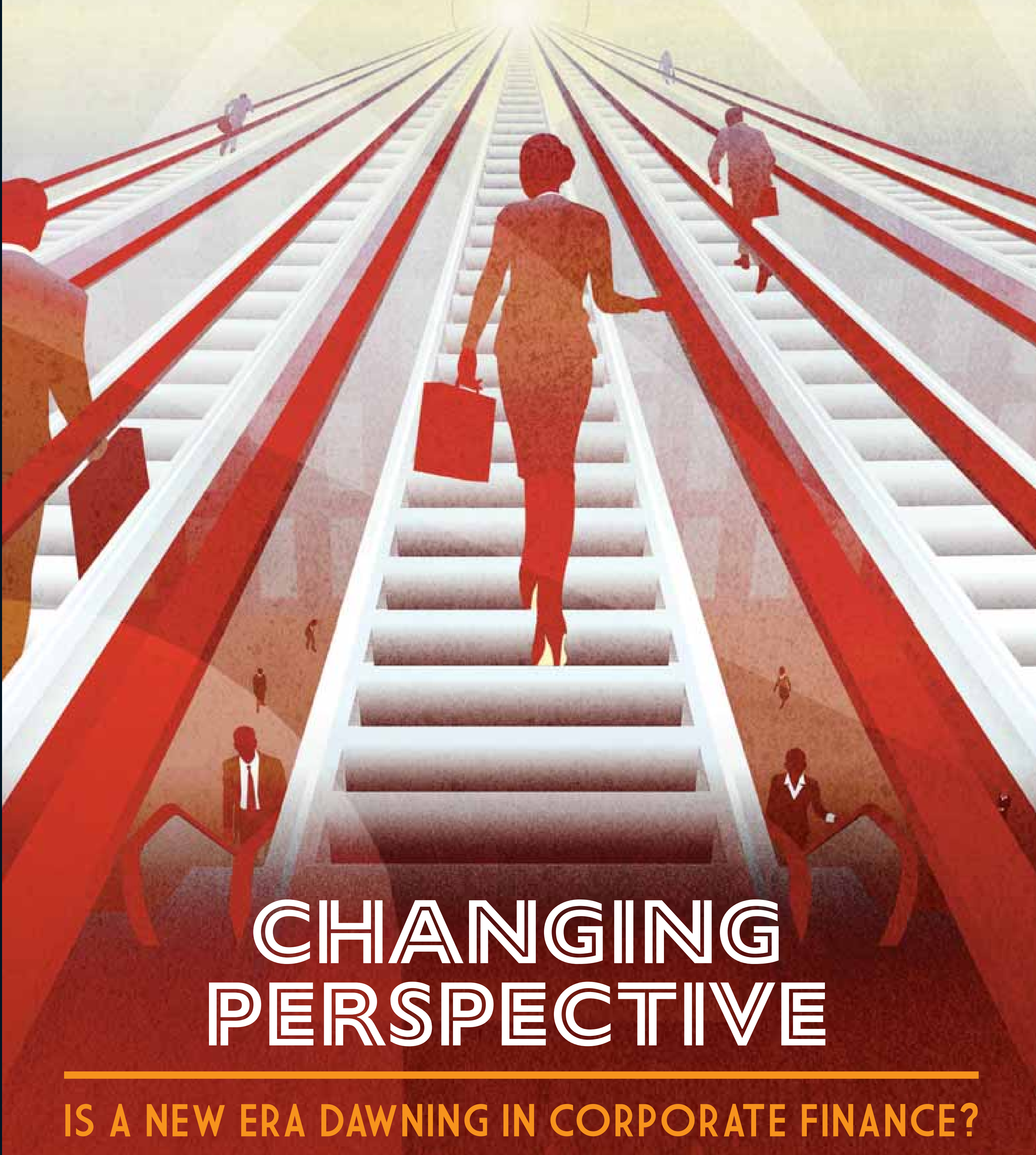

CHANGING PERSPECTIVE

IS A NEW ERA DAWNING IN CORPORATE FINANCE?

FORCE AWAKENED WOMEN IN PRIVATE EQUITY • **DISRUPTIVE NATURE** ACTIVIST INVESTORS IN THE INDUSTRIAL SECTOR

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COVER: NEIL WEBB/IKON, DAN MURRELL

Acting up

Last month world leaders met in Davos for the 46th World Economic Forum. That is, world leaders and Oscar-nominated actor Leonardo DiCaprio. The film star picked up a Crystal award for the environmental protection work his

foundation has been carrying out. I guess we're in an age of celebrity and, for better or worse, the the forum has always reflected that. Was this photo-op just a sop to environmentalism this year? If it was, it backfired in that DiCaprio grabbed column inches for lambasting the fossil fuel industries, which had got the private jets parked on the nearby airstrips. He did not have the good grace to thank the fuel producers for getting him from Hollywood to the Swiss Alps.

All publicity is good publicity is the mantra, and that probably even applies to Davos! But there must have been bigger environmental achievements than Leo's over the last year. Or maybe not.

The stunt highlighted the fact that the environment was not among the big issues being discussed by political and business leaders. On the eve of the forum, the *Financial Times* reported that four main items were on the agenda: the fourth industrial revolution, China, emerging markets, and a UK exit from the EU. All meaty topics. The latter three are arguably more immediate than climate change.

The world economy is jittery. PwC published the results of its 19th *Annual Global CEO survey* at the opening of the Davos forum. Two thirds of the more than 1,400 CEOs interviewed said there were more threats to their business now than there were three years ago.

One lesson learned since the last global downturn is that wobbles in far-flung places can affect confidence far closer to home. Other immediate threats could well have been on the agenda – global terrorism, cyber security, oil supply and price, developed economy interest rates, and the unwinding of quantitative easing.

At the end of this month, DiCaprio is hotly tipped to pick up another award – an Oscar for his role as a fur trapper facing the most extreme adversity in *The Revenant*. Corporate finance activity – including investment and M&A – has historically led economic recoveries. Something of the frontiersman spirit may be needed this year, and possibly next. But, without spoiling the film, let's hope the challenges faced are not as extreme as DiCaprio's.

Marc Mullen
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Faculty news

M&A IS "POWERFUL TOOL" FOR GROWTH IN DYNAMIC SECTORS

Professor Laurence Capron

Steve Webster

M&A is a vital route to growth for companies in fast-changing sectors such as telecoms, software and consultancy, according to professor Laurence Capron of business school INSEAD.

Speaking at the Information for Better Markets conference – *Accounting for M&A: strategy, management and financial reporting*, organised by ICAEW, she said that although the risks were high for companies and average returns very mixed for investors, acquisitions may be the only way to obtain new capabilities and "disruptive innovation".

"At the end of the day, acquisitions remain a very powerful tool to grow your company," she said. "It is very unlikely today, in very dynamic industries or knowledge-intensive industries, that a firm can only grow with their own organic growth."

Capron pointed to the major global accountancy firms as an example, because in order to remain relevant they have had to "refresh their capabilities". The big professional services firms have made many successful acquisitions in IT and consultancy on which they have then built even more organic growth.

Best-in-class acquirers balance organic growth with acquisitions, alliances and joint ventures, Capron explained. The biggest M&A mistake is when acquisitions become the corporate's strategy per se, instead of just one of many strategic tools.

She described acquisitions as not "an easy short cut" when core growth is under pressure.

Capron also pointed to evidence that repeat corporate acquirers have a significantly bigger chance of successful M&A. This is because over time they build up skills to deliver on their acquisition programmes. "If you are a one-timer and you make a big deal, the likelihood of creating value is much lower than if you repeat acquisitions."

Capron is professor of strategy at INSEAD in Fontainebleau and director of the business school's executive education programme in M&A and corporate strategy. She was the opening speaker at the ICAEW conference, held at Chartered Accountants' Hall in London on 14 and 15 December.

Steve Webster, who holds several non-executive directorships and is a former partner at PwC, was responsible for nearly 300 acquisitions worth £5bn in 15 years as CFO at Wolseley Plc. He responded to the speech and pointed out that the risk for companies that undertake relatively small acquisitions is low and "bolt-on" deals in fragmented markets can be integrated very quickly and effectively.

Alignment of culture and ambition in an acquirer and target company was much more difficult in big deals, he explained: "It's really important that [corporate] executives who are engaged in the acquisition are disciplined enough to walk away from deals that don't meet the acquirer's financial criteria or that can't be successfully negotiated for whatever reason."

> "It is very unlikely today, in dynamic or knowledge-intensive industries, that a firm can only grow with their own organic growth"

More than 150 academics, advisers, company directors and policymakers from around the world attended the event, which was organised by Brian Singleton-Green, the corporate reporting specialist in ICAEW's Financial Reporting Faculty, and Gillian Knight, academic research manager.

Introducing the conference, Robert Hodgkinson, ICAEW's executive director, technical, described M&A as one of the biggest and most controversial issues for business and accountants, particularly during the recent global takeover boom.

BREWIN DOLPHIN JOINS FACULTY

Brewin Dolphin has joined the Corporate Finance Faculty. The listed firm is one of the UK's leading independent providers of personalised, discretionary wealth management services, with £28.3bn of funds under management. It provides investment management and financial planning services to 100,000 accountholders, accountants, solicitors, charities, trusts, pension funds and financial intermediaries. The firm employs 50 financial planners and 400 investment managers in 26 UK offices.

Brewin Dolphin works closely with several hundred professional services firms and has also developed wealth management services specifically designed for accountants and solicitors, including bespoke, discretionary investment management, retirement planning and tax-efficient investing. The firm is also developing new services to help corporate finance professionals get their clients' deals over the line.

Matt Sullivan, the firm's head of professional services (below), said: "An increasing number of corporate finance professionals are seeing the value of bringing a wealth adviser into the early stages of the transaction process, rather than after completion. We see the Corporate Finance Faculty as a crucial pillar in keeping our knowledge up to date and maintaining a strong network of professional advisers."

EC PROSPECTUS DIRECTIVE CHANGES

As part of its Capital Markets Union (CMU) initiative, the European Commission (EC) has proposed significant amendments to the Prospectus Directive, with the aim of simplifying the rules for companies that wish to issue shares or debt. The Commission hopes that this will encourage more cross-border investment as part of a truly single market.

After consultation, the EC has proposed the following changes:

- no EU prospectus for capital raisings below €500,000 (£374,000) (previously €100,000);
- a lighter regime with less complex prospectuses for smaller issuers;
- shorter and clearer prospectus summaries with more clearly specified information requirements;
- a new, simplified prospectus for companies already listed on public markets that want to issue additional shares or raise debt;
- an annual Universal Registration Document for frequent users of capital markets – a sort of 'shelf registration', with a five-day fast-track approval; and
- a free and searchable online access point for all EU prospectuses.

Katerina Joannou (pictured below), ICAEW's capital markets manager, coordinated the response to the Commission, on behalf of ICAEW and its Corporate Finance Faculty.

"As well as being important for faculty members involved in capital markets, our work on changes to the Prospectus Directive and the regulation of European Venture Capital Funds (EuVECA), is part of the ICAEW's public-interest remit," said Joannou. "It is about making access to public markets or venture capital as efficient and robust as it can be, not just easier.

"We need businesses of all sizes to get the appropriate finance, including from the public markets, private equity and venture capital."

The proposals now go before the European Parliament and the Council of the EU for discussion and adoption (expected in early 2017).

COMMENTS ON EUVECA

ICAEW has responded to a review of the EuVECA Regulation – a tool that was introduced in 2013 – which seeks to attract capital into European SMEs and start-ups. The review is part of the European Commission's Capital Markets Union (CMU) initiative. The ICAEW's submission pointed out that while venture investment in European companies has grown, the regulation had "negligible success in altering the domestic nature of venture activity" in member states.

ICAEW's capital markets manager, Katerina Joannou, said: "Much of the growth in venture activity has stemmed from outside Europe. There is a case for opening the regulation to non-EU VCs. European venture is reliant on funds from outside Europe. We really cannot ignore it, or make it feel unwelcome."

The submission also suggested that the regulation be opened up to venture managers authorised under the Alternative Investment Fund Manager Directive. For more information, go to **icaew.com/cff**

'Honest, Guv'nor'

When all around you is falling apart and the proverbial has hit the fan, honesty is the best policy, argues **Jon Moulton**

My career has included a regrettably large number of **ck-ups - two pairs of letters can replace those stars (that I know of). There have been disasters that were not actually mistakes, but just the random bad things that happen to you. Maybe for once I really am speaking with authority on a subject.

Last year, the extent of VW's appalling behaviour in "fixing" the software on its diesel cars unravelled as management in Wolfsburg tried, ultimately in vain, to manage what was way more than a **ck-up. It made its diesel cars look good in testing, but in reality they were belching out illegal volumes of noxious fumes. VW boosted its profits. But it is also likely the company contributed to emissions that can cause death and serious illness.

I was brought up in Stoke-on-Trent, where coal (long known as an antagonist of respiratory conditions) poisoned the air as it powered industrial furnaces. As a result, I had TB as a child, so I feel very strongly about callous polluters. I also happen to own one of the gerrymandered vehicles. Not so many years back, VW was found guilty of accepting bribes, so perhaps the moral satnav was malfunctioning in this corporation.

If what was done was crooked, or so morally reprehensible that no one will have sympathy, then it's harder – and so it should be

Blessedly I have never been involved in anything so repugnant. But nonetheless, I have certainly been publicly lashed for obvious failures with businesses. I think the business response should be similar in all horror shows.

The natural thing is to deny or attempt to hide these horrible things, whether you did them deliberately or not. The attractions of such a strategy are obvious.

Be aware (or maybe, beware!) - there is a whole industry of lawyers and PR types, who will urge businesses to string these issues out. "Don't admit guilt!", "Obfuscate!" "Delay!", "Blame the regulatory or legal process!" All this advice leads to a longer and more painful process. The kicker? All these self-centred advisers will have enriched themselves in the meantime.

NO HIDING PLACES

In the modern era of emails and protections for whistleblowers, concealment will nearly always fail. Trying to hide skeletons is likely only to add to your problems.

It's best to get on the front foot as soon as the issue arises. Say sorry, explain what has happened and what you are doing to put it right. If you weren't crooked, then you will get some sympathy for admitting your own blunders.

If what was done was crooked, or so morally reprehensible that no one would have any sympathy, then it's harder - and so it should be. All those responsible should be identified and dismissed (in accordance with due process, of course). Legal risks aside, prompt action will be nearly always worth doing.

This "find and eliminate" strategy was largely not followed by the banks on Libor, foreign exchange fiddling or PPI. The continued disdain for bankers is due to their attitude - at least in the eyes of the public - that crookedness is OK if it's done in pursuit of profit (and, of course, bonuses).

I think CEOs should take the bullet when things go wrong, even if they really did not know what was happening. Most times, they should have done!

Offering a proper investigation by credible outsiders and getting on with it can be a good strategy. There can be different business approaches - clearing the issue up means a fast investigation, but a leisurely one (a favourite tactic of Her Majesty's Goverment) can mean the original issue gets largely forgotten.

Business needs a moral framework. Those who are incompetent are one issue; those who use deception or fraud deserve rapid sanctions - and to be treated as outcasts.

RICHARD ANSETT, DAN MURRELL

In numbers

Strong IPO performances in 2015 as well as increased success for SMEs, and an optimistic year ahead despite a slight drop in confidence

Turning up the volume

"While M&A values increased last year, volumes did not show the same signs of recovery. However, we have seen many US corporates pursuing European investment opportunities. Furthermore, US private equity houses are also bidding for European businesses despite not having offices in Europe. Moving into 2016, I see both corporates and PE from the US continuing to complete transactions in Europe in what is the world's most active and valuable deal corridor.

"The IPO market proved a healthy exit route for private equity in 2015, and I see it remaining open for at least part of this year. 2015 IPOs outperformed the market, which is positive and will encourage more. As we go to press, global stock indices were sliding into bear market territory. That is both an indicator of market nerves, and in a circular manner fuel to that nervousness. How that impacts IPO's, and indeed M&A, time will tell.

"Alternative lenders have been another driver behind the resurgence in M&A last year, and with the liquidity in the debt markets, the vast and increasing array of alternative lenders will continue to drive activity and valuations.

"When it comes to deal valuations, we will continue to see a flight to quality, with the top decile assets commanding big premia. The high-volume sectors will again be financial services and TMT, but I also see consumer business and manufacturing M&A volumes increasing.

"Overall, businesses are perhaps more cautious about taking risk, particularly outside of markets and jurisdictions where they are already established. Caution can also drive defensive M&A. Deal volumes should increase but we will probably see small steps forward given the global macroeconomic environment."

Mark Pacitti, Corporate Finance Faculty chairman and Deloitte global leader, corporate finance

2015 – THE YEAR THAT WAS

$4trn+
the value of M&A globally in 2015 (the highest value since 2007)

$3.3trn
the value of M&A globally in 2014

1/3
of M&A was in the deal corridor between North America and Europe

SOURCE: DELOITTE M&A INDEX 2016

44%
of UK SMEs applying for development finance in 2015 were successful (up from 27% in 2014)

SOURCE: ALBION VENTURES

14%
increase in European debt transactions with alternative providers in 2015 in comparison to 2014

SOURCE: DELOITTE ALTERNATIVE LENDER DEAL TRACKER

88%
of main market capital raised was for PE-backed IPOs, which accounted for 60% of the total

21%
average premium to newly listed stock prices in 2015

€16bn
value of IPO activity in London in 2015 (€19.4bn in 2014)

SOURCE: PWC IPO WATCH

€58,000,000,000
amount raised in 2015 across Europe's exchanges – the highest value since 2007 – beating the €49bn raised in 2014

€380m
average IPO proceeds (€275m in 2014)

SOURCE: PWC IPO WATCH

OUTLOOK – 2016 AND BEYOND

UK CEOs

70%

of UK CEOs have become more confident about the British economy over the last year

19%

of UK CEOs are looking to invest significant capital into expansion overseas

GLOBAL CEOs

61%

of CEOs globally have become more confident about their own national economies

47%

of CEOs globally are looking to invest overseas

SOURCE: KPMG CEO OUTLOOK REVOLUTION OR EVOLUTION

73%

optimism among UK businesses for year ahead

67%

optimism in Q3 2015

36%

the global business optimism rate

SOURCE: GRANT THORNTON INTERNATIONAL BUSINESS REPORT

72% 2014

37% 2015

proportion of UK CFOs who think the time is right to take risk

SOURCE: DELOITTE CFO SURVEY

101.0

the confidence of UK businesses in November 2015 (down from 103.9 in November 2014)

SOURCE: BDO CONFIDENCE INDEX

$1.5trn – $1.9trn

the global value to be added to merged companies in 2015 if all cost synergies are delivered

SOURCE: DELOITTE M&A INDEX 2016

AND IN OTHER NEWS . . .

$63bn

predicted value of the gig economy – where people buy and sell services and jobs via online platforms – globally by 2020

SOURCE: PWC, MY LIFE, CONNECTED

31%

increase in number of tech-related enterprises between 2010 and 2015

SOURCE: KPMG/MARKIT TECH MONITOR UK SURVEY

39%

of UK SMEs believe the availability of better technology will be the most important contributor for business growth in 2016

SOURCE: BARCLAYS BUSINESS

THREE Ps IN DUBAI

As Dubai changes its thinking from 'post-oil' to a low oil price, it has joined a growing list of governments that are developing a public-private partnership-specific law. **Stephen Knight** asks: will it be a game changer?

Public-private partnerships (PPPs) in the United Arab Emirates (UAE), or, indeed, the wider Gulf Cooperation Council (GCC), are not new. Historically, they have typically been undertaken under project-specific legislation.

Mubadala Development Company initiated various PPPs in the UAE: in 2007 with UAE University; in 2008 with Paris Sorbonne University Abu Dhabi; and in 2009 with Zayed University.

Dubai has also partially embraced PPP for operation and maintenance contracts, such as the Dubai Metro. And GCC governments have had a successful history of quasi-PPPs in the electricity and water sectors, such as the ADWEA Mirfa IWPP programme. Significant PPP investors so far are Mubadala Development Company, Abu Dhabi Commercial Bank, Abu Dhabi Water and Electricity Authority, Besix Group and ZonesCorp Infrastructure, Black & Vetch and Veolia.

The benefits that GCC governments looked for from PPPs differed from many other countries. Instead of wanting to avoid having to pay for significant infrastructure programmes up-front, they wanted new skills, risks reallocated to the private sector (including timetable and budget issues) and, crucially, help diversifying their economies away from carbon reliance.

Enthusiasm for PPPs in the GCC faltered in the wake of some high-profile restructurings, when governments tightened their belts and prioritised initial capital expenditure (which it could afford to pay from its own pocket), over whole-life project costs.

However, the current low oil price has encouraged GCC governments to look again at PPP. As well as Dubai, Kuwait (which also has a PPP law), Oman, Qatar and Saudi Arabia have all been looking at PPP structures to assist with their infrastructure programmes.

THE DUBAI PPP LAW

Projects, works, services or the supply of materials in the electricity and water sectors are expressly excluded from the new PPP law. Dubai's Supreme Committee for Financial Policy (the Committee) may also exclude certain contracts and, in line with general international practice, contracts in excess of 30 years are also excluded.

The objectives of the new law are reassuringly not surprising, and include:

- Encouraging private sector participation in development projects;
- Increasing investment to serve Dubai's economic and social growth;
- Enabling the government to perform strategic projects efficiently and effectively;
- Using the private sector for the public to obtain the best services at the least cost;
- Increasing productivity and improving the quality of public services;
- Transferring knowledge and experience from the private to the public sector;
- Minimising the financial risks to the government; and
- Increasing competition for projects (locally, regionally and internationally).

The law also enshrines the principles of equality amongst users of the services/assets and (other than to the extent of an unsolicited bid) publicity, transparency, competitiveness, equal opportunities, equality, announcement of competition, and the public interest.

Projects are to be approved by:

(a) The director general of the relevant government department, if total costs are less than $55m (£37m);
(b) The Department of Finance (DoF), if between $55m and $135m; and
(c) The Committee, if total costs are more than $135m.

It is not clear whether approval thresholds are to be calculated on the basis of capital costs, or (noting the maximum 30 year tenor) whole-life project costs. Given the thresholds, it is likely that the majority of projects will

require Committee approval. There must be a budget allocation for the whole of the project, and, given that Dubai's budget is allocated on an annual basis, this adds to the expectation that the majority of projects will require Committee approval. Increased Committee approval should help bring consistency to large-scale projects.

The principal benefit of the new law is that it codifies both the pre-procurement and procurement process – government departments must follow this to procure a PPP project. Public stakeholder buy-in for each project should, therefore, be obtained at the outset, and lessons learnt from some of the region's aborted projects.

There is a process to be followed in cancelling any tender, and, in line with global market practice, no compensation will be paid to any bidder on cancellation of any project.

The detailed terms of any risk allocation will be fleshed out in the regulations and guidebook, to be issued by DoF. Only the project company will be liable for any third-party financing of any project. This inadvertently appears to preclude any corporate financing / support from any shareholders of the project company. But it is intended to prevent the government from guaranteeing any third-party debt (as opposed to PPP contract payments).

GAME-CHANGER

For the Dubai PPP law to be game changing, Dubai must create a pipeline of projects that increases the attractiveness to sponsors. This means focusing on particular sectors, so that the same types of sponsors are willing to incur bid costs knowing that, if they are unsuccessful, they can simply roll over their resources into the next project.

Traditionally, GCC governments have been extremely successful in creating in-roads in the electricity and water sectors. Turkey has focused on healthcare projects, and, more latterly, schools. Previously, so did Abu Dhabi, with a focus on universities. A sector-focused pipeline also assists with the governments' value for money and affordability challenges, because such an approach allows for the private sector to increase bid efficiency, and reduce bid costs and execution time.

A second challenge is ensuring that risk allocation and pricing are sufficiently attractive to international project financiers, so that they fill any local bank void. Reduced oil revenues are not just impacting government cash flows but also local banks' capital reserves, and therefore liquidity, significantly. However, this does not mean that the government should pay more. Rather, it should have a greater focus on value for money.

For example, the requirement to provide a performance bond for the life of any project does not provide value for money, and is simply an added cost (approximately 1-2% per annum) with no discernable benefit to a genuine PPP – the profile of any compensation on termination will only typically exceed the bond value between years 18-20. Instead, reliance on set-off rights would be a better value for money, and a more affordable solution.

The introduction of the PPP law is a welcome sign of Dubai's intent. But there remain significant challenges to PPPs re-starting in Dubai and the wider GCC.

Stephen Knight is a senior associate at Allen & Overy, Abu Dhabi. He is a PPP specialist and has experience advising grantors, sponsors and lenders. Allen & Overy Dubai partner Andrew Shoorlemmer is a member of the Corporate Finance Faculty's Middle East advisory panel

ALAMY, GALLERY STOCK, GETTY

COMING FROM AMERICA

PureTech is the latest US medtech/healthcare business to list on the London Stock Exchange. What's the attraction? Jason Sinclair explores

Over the past decade, US capital markets have seen a glut of healthcare and life sciences companies listing. There is a broad investment market for such offerings in North America, and a mature advisory community. But over the past two years, US companies in the sector have also made initial public offerings (IPOs) in London. In July 2014, Allied Minds - a US-focused science and technology development and commercialisation company - raised £76m on the London Stock Exchange's (LSE) Main Market. Then, in May 2015, Californian biotech Verseon raised £65m on AIM, and last July Boston-based PureTech raised £108m through its LSE flotation. Neil Woodford's Patient Capital Trust (see box, right) has invested in both Allied Minds and Verseon. PureTech's chief executive Daphne Zohar said that the UK is "the best place for us, because investors understand the model".

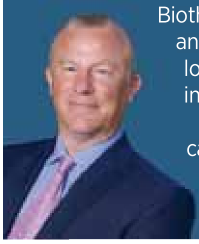
KPMG, PureTech's auditors, were also reporting accountants on the IPO. Linda Main, partner and head of KPMG's UK capital markets group, says there are several reasons why such US companies are turning to London's primary capital market: "The sector is well understood in London. Investors understand it, and there are a number of comparable businesses now listed on the LSE. London is also a good place to list if you are a smaller business than those listing on Nasdaq - you don't have to be a unicorn. It is a bit of a myth that London does not understand medtech

"It is a bit of a myth that London does not understand medtech in the way it is understood in the US"

Linda Main, partner and head of UK capital markets group, KPMG

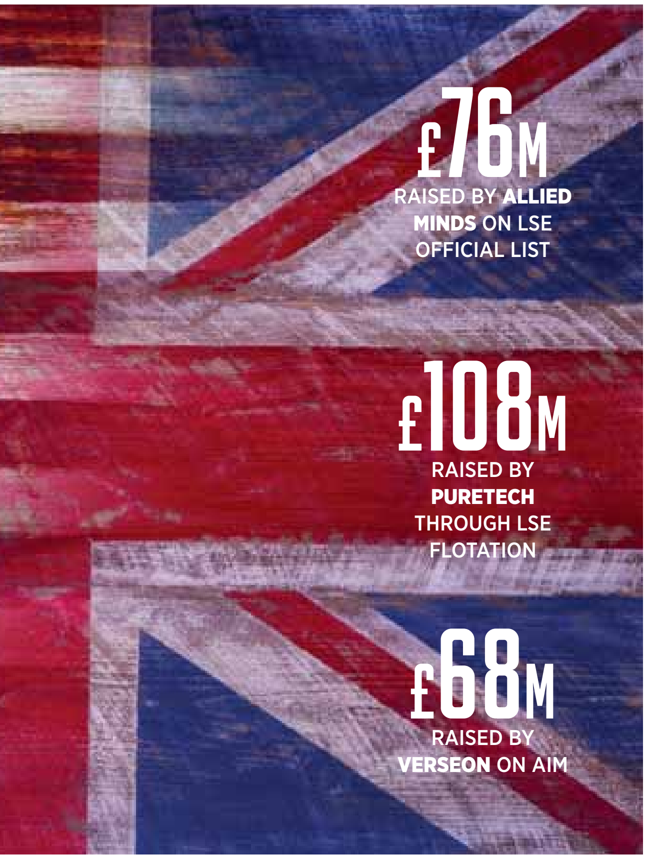
THE SAGE OF ST JAMES'S?

Neil Woodford – viewed by many as Britain's own Warren Buffet – launched his own general investment fund in 2014 after 25 years at Invesco, where he became a feted stock picker. In 2015, he launched Woodford Patient Capital, an £800m fund to be invested predominantly in biotech and life sciences companies. Three quarters of the fund was earmarked for early-stage and university spinouts. This fund has invested in Allied Minds and Verseon. Of its top 10 holdings, eight are healthcare firms and two are incubators of scientific intellectual property.



In the wake of questions over financial governance at one of the fund's smaller investments – the Maryland-based biotech company Northwest Biotherapeutics – Woodford has recruited several biotech analysts and advisers to beef up his due diligence processes. Woodford looks for shares he can hold long term. As the name suggests, initial underperformance is unlikely to spook him.

"The problem innovators have is getting access to long- term capital," Woodford said at the fund launch. "As soon as they get the cheque from the venture capital fund, they have to start thinking about what to do when that fund exits."



PURE AND SIMPLE

PureTech started life in 2004 as PureTech Ventures. It invests in new companies, but is not built like a venture firm – it does not raise the scale of funds that venture capitals generally do. Rather, it is structured as a large healthcare operating company, with its start-ups functioning as subsidiaries. The ventures are designed to be long-term, revenue-generating holdings that appreciate in value.

The first part of the strategy is identifying a healthcare issue, breaking it down to its core attributes, and then formulating potential solutions. The company then identifies partners that can progress the solution.

Chief executive Daphne Zohar (right) was a co-founder. The other co-founders are biotech entrepreneur Dr Robert Langer, who is non-executive director, and Ben Shapiro, who is a non-executive and was previously vice president for research at Merck. The other non-executives include ex-Sanofi CEO Chris Viehbacher, and former head of R&D at Pfizer John LaMattina.

Zohar says PureTech looks for innovative problem-solving approaches: "We screen everything that's going on, look at what has failed in the past and think what we could do differently."

So far, PureTech has merged medicine and technology to develop unconventional approaches to healthcare problems, ranging from ADHD to autism, and hair-loss to schizophrenia.

PURETECH
Giving Life to Science®

in the way it is understood in the US - a few listings in 2015 have shown it does."

There is an established base of intellectual property commercialisation companies on the LSE - Net Scientific, Imperial Innovations, BTG and IP Group. Martin Penn, counsel for DLA Piper, who worked on both the Allied Minds and the PureTech IPOs, says: "There's an investor base with an appetite for this sector. There's a perception that you have to be a bit bigger to list in the US." There are a number of attractions for companies coming from outside the UK to the London market. "PureTech came in at a market cap of about £360m, and that stands out a bit in the UK, while in the US there are a lot at that value and above."

The regulatory demands of Nasdaq can be an issue. At the launch of the Verseon IPO, its CEO Adityo Prakash told the *Financial Times*: "We're not ruling out a US listing in future, but we're not in a rush to get on the quarterly reporting treadmill that comes with Nasdaq." Companies on AIM are only required to report their financial results every six months.

"PureTech qualified as a scientific research-based company for UK listings rules purposes, which meant that it had the benefit of some derogations from requirements in the Listing Rules, particularly regarding a representative three-year financial track record, and some other exemptions," says Penn.

PureTech is in effect what Penn calls a "portfolio IP" company: "There's certainly a trend for

"There's certainly a trend for pharma and life sciences companies coming to the UK market"

Martin Penn, counsel, DLA Piper

pharmaceutical and life sciences companies coming to the UK market, and probably coming to the UK market a little earlier than they would go to the US markets. These companies want to get funding for pre-clinical trials or pre-viable products. There seems to be an appetite in the UK for that type of higher-risk investment."

PureTech chose Penn and DLA Piper after the company referenced its work on the Allied Minds IPO. According to Zohar, London was her "top choice", because it "leads the world in the listed technology-transfer space, and there are pioneering investors in this space, as well as peers, and analysts that really understand the model".

PureTech is a company that doesn't fit in with traditional "healthcare" IPO models. It focuses on building an early-stage science and technology portfolio, typically from universities. With the IP commercialisation cluster - both UK and US - growing on the LSE, London could be developing an advantage over New York in advisory expertise.

Are there more deals in this sector in the pipeline? "I would be surprised if there weren't," says Penn. "We have IP commercialisation companies, and there's certainly a trend for pharmaceutical and life sciences companies coming to the UK market."

This is echoed by KPMG's Main: "We are talking to a few US businesses who are considering listing in London. Market conditions permitting, there is no reason why we won't see more London listings of US businesses over the next few months."

GETTY

WHEN ACTIVISTS COME A KNOCKIN'

Diversified industrial and engineering businesses have attracted much activist investor interest in the US. Grant Murgatroyd looks at the lessons to be learned, as more UK corporates come under fire

When a so-called activist investor takes a position in a company, it is rarely good news for the CEO. Rolls-Royce has been under pressure since US investor ValueAct took a 5% stake last summer. By December the UK-based diversified engineering giant had been forced into a boardroom reshuffle and cost-cutting restructuring. At the time of writing, Rolls-Royce was holding out on giving ValueAct the boardroom seat it was demanding. "ValueAct has made a request for a seat on the board but no decision has yet been taken," the company said.

ValueAct's move has grabbed public attention, but it is an increasingly rare approach among activists. According to Capital IQ data, in 2005 about 80% of activist interventions in the US were "hostile". Today fewer than 40% are.

"In the US, shareholder power is quite a bit weaker than it is in Europe," says Conor Kehoe, a director at McKinsey in London. "As a result, if management digs its heels in, the activist often has to take a high-profile route in order to get attention. In the UK, if you can assemble a 5% stake, you can demand that management call an extraordinary general meeting within 28 days. You don't need to be too publicly aggressive, because you have a big stick."

Earlier last year, ValueAct took a less than 3% (therefore undisclosed) stake in UK diversified industrial Smiths Group. Andrew Reynolds took over as Smiths CEO in September, and ValueAct quietly sold its stake down.

medical devices. Baxter rebuffed his request for two seats on the board, but responded with a strategic restructuring. A few months later, Loeb had a letter published in financial newspapers praising management for taking action.

"We are entering a more nuanced phase," says Paul Staples, former head of UK corporate finance at BNP Paribas, who joined Deloitte as partner last year. "Activist shareholders have understood that a more balanced set of tactics should exert a positive influence over time on their likely success rate, predicated on thoughtful and intelligent lobbying.

"This is part of an evolution into a more intricate marketplace, prompting a shift towards constructive engagement, and placing pressure on investor relations teams to demonstrate that boards are being highly responsive to shareholder concerns."

"Activists are looking primarily to deliver alpha returns across a range of time horizons, and show a propensity for patience"

SECONDS OUT...

Some activists like a fight. Daniel Loeb, founder and CEO of Third Point, a New York-based hedge fund with more than $14bn (£9.5bn) under management, is renowned for his combative style. Loeb started his career at private equity firm Warburg Pincus and moved to Island Records before setting up Third Point. Companies that have felt his wrath include Sony, Sotheby's, Fanuc, Ligand Pharmaceuticals and Yahoo!

But he appears to be mellowing with age. In the summer of 2015 Third Point took a 7% stake in Baxter International, a manufacturer of

SHAREHOLDERS UNITE

A key element of the emerging activist strategy is getting other institutional investors on their side. As more and more pension fund assets are switched into passive management schemes (where they track an index) there is increasing opportunity for activist investors to collaborate. Fund managers have neither the resources nor the expertise to get deeply involved in corporate strategy.

"Activists are the collaborative frontmen for a lot of big funds that can't afford to do this themselves," says Kehoe. "The activist becomes the frontman and takes the initiative. But it is not just the activist saying, 'We've had a look at widget manufacturer X, would you support us because we think there's a lot more value there?' Sometimes it is the other way around, and if the big passive institutions have a sense that a company may be off-kilter, it may send a signal to the activists."

So what has driven the rise in activism? The most obvious driver is that there has been a dramatic

CASE STUDY: AMERICAN SPIRIT

In the US, the story of diversified industrial Illinois Tool Works (ITW) and Relational Investors started in 2011. That was when the activist investor took a 2.1% stake in the business and began agitating for change, reflecting in many ways the wider views of institutional shareholders.

By February 2012 a compromise had been reached. Relational Investors nominated a board member in return for refraining from a public battle to redirect strategy and maintaining its stake below 10%.

Portfolio review and rationalisation was then key to ITW's improved performance. In February 2013, Scott Santi, who had recently become CEO, announced a major restructuring.

ITW had more than 800 strategic business units, including $15m-$30m turnover businesses that were simply too small. While it was profitable and cash-generative, the opportunity to continue to grow profits looked sparse. It needed synergies from scale, and to bring more focus to the business.

Some $2bn was returned to shareholders in buybacks and dividends. Intended as a spin-off, its industrial packaging business was sold to Carlyle for $3.2bn in 2014. Last year, the refocused business said it had allocated about $1.4bn to further share buybacks and bolt-on acquisitions, to continue its new strategy.

increase in capital available to activists, motivated by excellent performance. In 2014 71 dedicated activist funds with $119.2bn of assets took in a record $14.2bn in new money, nearly tripling the $5.3bn taken the previous year, according to *Hedge Funds Review*.

Chuck Whitten, partner at Bain & Company in Dallas, highlights a recent Bain study of 400 publicly disclosed activist investments, which revealed the incremental lift in shareholder value was on average 130 basis points higher than the normalised index. "That means that increasing amounts of capital are flowing to activists, which is in turn fuelling more and more activism," says Whitten. "As an asset class, activists are now outpacing traditional hedge fund and private equity by a considerable margin."

As with private equity, there is considerable variance in returns. Bain found that while the average return was higher after intervention, there was no increase in value in about half of engagements. "These activists are looking primarily to deliver alpha returns across a range of time horizons, and are showing a propensity for patience where required," says Staples. "There is not a clear internal rate of return, or cash return threshold, as you would expect with private equity, and they are taking a clearly differentiated approach. We expect them to continue making their presence felt."

If activist hedge funds are actually generating alpha, this might be good news for other institutional shareholders. But the reality is

The instinctive reaction of any CEO to an activist approach is to go on the defensive, but sometimes the best defence is offence

more nuanced. "Activism can be harmful when it's not tied to a value-creating thesis," says Whitten. "The most successful activists have a well-articulated thesis, often focused on a company sale, a portfolio restructuring, or a change in strategy."

The instinctive reaction of any CEO to an activist approach is to go on the defensive, but sometimes the best defence is offence. "What are the value levers, and how might we unlock them?" says Whitten. "We advise management teams to understand the common patterns and investment theses that activists are bringing to bear, specifically the ones that are most predominant in their specific sectors. Be your own activist. If there's no arbitrage to be found, the activists are going to hunt elsewhere."

Diversified industrials, by their very nature, offer many opportunities for activity. Equally, management's regular reviews of the portfolio can be tweaked to view the business just like an activist would.

Conor Kehoe, director, McKinsey, London

Paul Staples, partner, Deloitte

Chuck Whitten, partner, Bain & Company

MANY BREEDS OF SHARK

In *Agitators and reformers: How to respond to activist investors*, Bain & Company identified seven broad investment theses pursued by activist investors:

1 FINANCIAL
Activists seek increased shareholder returns through additional payouts to shareholders, and changes in company capital structure. Examples include distribution of a special dividend, a share buyback programme, recapitalisation or restructuring.

2 BUSINESS STRATEGY
Activists engage with management to change a business's strategic goals, or the means of achieving current goals. This may involve fixing misaligned cost structures, or seeking a change in top management.

3 EXECUTIVE COMPENSATION
Activists often seek to tie compensation with company performance, or to the value the executive adds. Changes demanded may include suspension of stock options or raising performance evaluation issues.

4 M&A: OUTRIGHT SALE
Activists push for the sale or liquidation of the corporation.

5 M&A: PORTFOLIO RE-EVALUATION
Activists evaluate and recommend changes to the target's portfolio or divisions. This may involve spinning off divisions, opposing a merger with another company, an asset sale or divestiture.

6 CORPORATE GOVERNANCE
Activists push for changes in governance, ie, replacing the CEO or board members. Forms more than 75% of activist demands.

7 NO EXPLICIT THESIS
Activists' theses are not made public, or are identified only vaguely, eg, pursuing general engagement with management to address undervalued stock.

TALK THE TALK

A key component of any defence is communications. "In the US, the approach is often a very public campaign involving a lot of media," says Katie Ioanilli, director at PR firm Brunswick Group, who has worked in the US and is now based in London. "In the UK and Europe, a lot more is happening behind the scenes because the American approach doesn't work. There are channels for more behind-the-scenes engagement."

The rise of activism means that companies need to be sure their strategy and performance is being clearly communicated.

"The right thing to do may be to stick to your existing strategy," says Andrew Garfield, a partner at Brunswick. "There may be a job to do making sure that you're communicating to shareholders and the media why you're doing what you're doing, and what you're doing to deal with the challenges."

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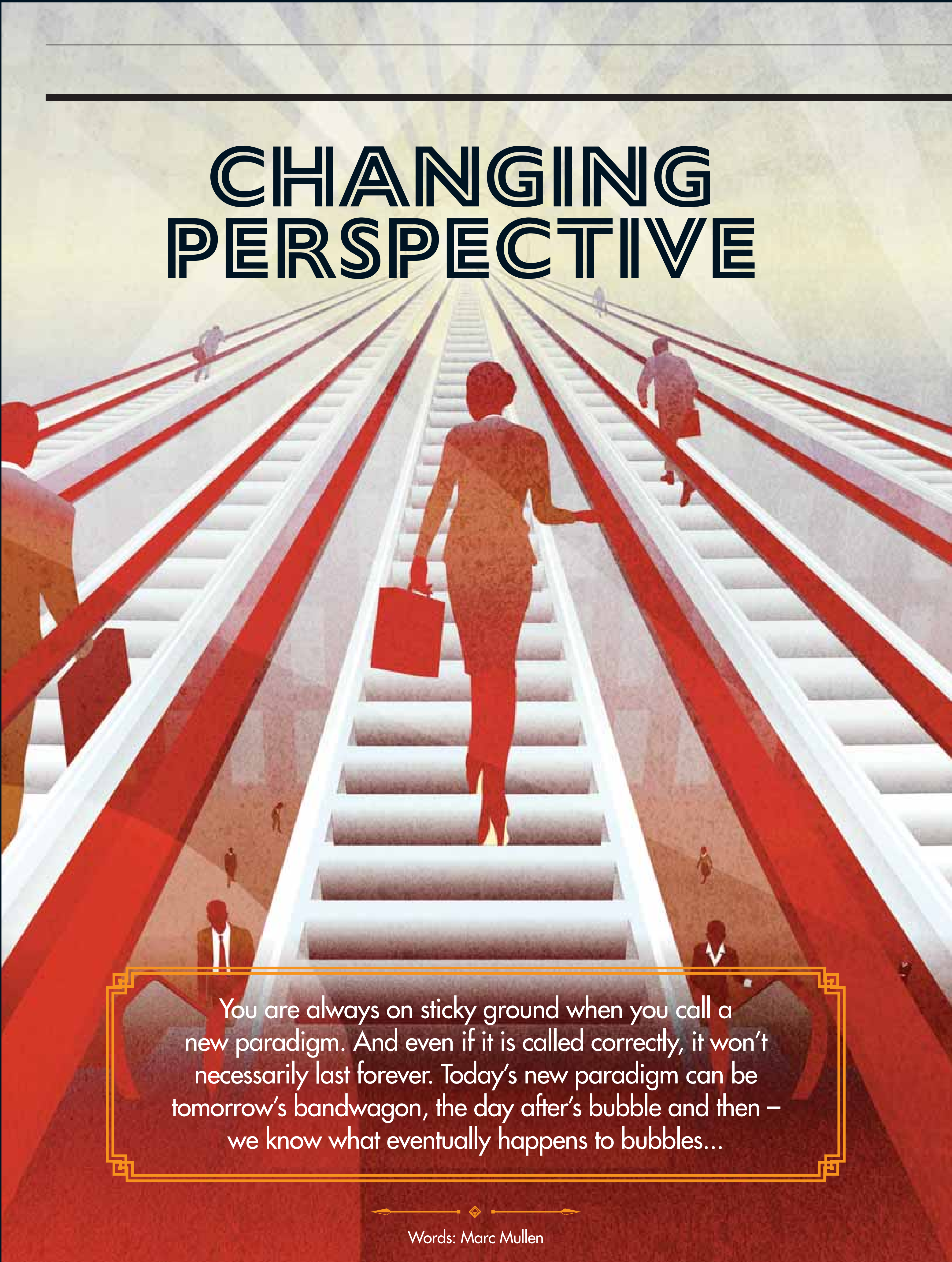
CHANGING PERSPECTIVE



You are always on sticky ground when you call a new paradigm. And even if it is called correctly, it won't necessarily last forever. Today's new paradigm can be tomorrow's bandwagon, the day after's bubble and then – we know what eventually happens to bubbles...

Words: Marc Mullen

We are seeing changes in how corporate financiers can expect to act as intermediaries with institutions. In some ways it is being driven by the liquidity available, and the desire to access growth in a low growth environment. The rise of the 'unicorns' and the valuation techniques being deployed require a new way of thinking, particularly as these techniques are not just being applied to $1bn plus enterprises.

Elsewhere there is simple innovation around a theme. 'Stealth IPOs' help bring the valuation expectations of exiting private equity (PE) houses and investors closer together. The aim is to give the IPO route a greater chance of success. With that string in their bow, corporate financiers have more chance of creating genuine competition between the various exits available to buy-outs.

So what is new?

STEALTH IPO

Just what is a stealth IPO? Rather than presenting the target to a large number of institutions, the bookrunner selects the institutions it thinks are best suited to the investment opportunity. They will be building upon relationships they already have. The company's key metrics, and value drivers are presented to the potential suitors, but the name and details of the management team are held back. Based on the data provided, the institutions give an indicative price. The idea is that the timetable, investment case, positioning and valuation messages remain within the control of the management team and the bookrunner. It may prove a less adversarial process in some ways, but it is price volatility that the PE houses are keen to avoid.

> "We don't go public with the intention until we've got the pricing right. We show the metrics of the business and the value drivers, get their 'yes' and then reveal the business name"

Christian Hess, transaction sponsor group head, Investec

Christian Hess, head of Investec's financial sponsor transaction group, says: "We don't go public with the intention until we've got the pricing right. We show the metrics of the business and value drivers, get their 'yes' and then reveal the business name. It avoids a knee-jerk reaction from institutions even before they've met the management team."

The UK's version of a stealth IPO should not be confused with the US, where it is an exemption under the Jobs Act; this allows companies meeting certain requirements to file confidentially, withholding certain metrics and price information.

Investec's own research perhaps sets the context for why the stealth IPO approach might be well-received in the market place. According to the firm's proprietary database, some 40% of all PE-backed M&A exit processes where the enterprise value is up to £250m fail. In the £250m-£500m range, a third fail. By 'fail' they mean there is no change of control; the IPO or the M&A transactions does not complete. A refinancing is not deemed a successful outcome for the purposes of this analysis. Having tracked this for seven years, Hess says the trend has continued despite valuations seemingly reaching a high watermark.

Investec has been a champion of the process. Hess says: "How can we enable the board to get closer to a 100% chance of exiting the business, rather than around 60%? Sometimes the board can be too focused on what they believe is the end result they can achieve in six months' time. While their decision to go with an outright sale or an IPO may be the correct decision at the time, we do live in a world where things change outside of the control of the management team, or of the controlling company."

LOSERS' BURDEN

There are no winners in a failed process. But often it is the management team that suffers most. During the process, management are diverted from day-to-day operations. And if the process ultimately fails, they are encumbered by the negative association. Any new investors would have been to a large extent investing in management. So if the transaction fails, the management team's courtship will have been rebuffed.

When it comes to the IPO exit, private equity are not fans of the investment of time, effort and money required. Add to that the uncertainty of the public markets and according to Tim Field, corporate partner at Addleshaw Goddard, "they fall back on their preferred exit route of trade sales, or sales to secondaries or refinancings".

In October 2014, Miller Homes shelved its plans to raise £140m from an IPO, which would have valued the business at £450m. Less than six months later, its 66-year-old CEO, Keith Miller, stood down after 20 years at the helm of the house builder. At the same time, the company announced that flotation "remained an option".

After the £1bn IPO of Travelex was pulled, the foreign exchange group was sold to Bavaguthu Shetty, owner of UAE Exchange. Peter Jackson stood down as CEO of Travelex in March 2015. Then in December, Shetty announced plans for an IPO for the whole group, including Travelex, on the LSE Main Market.

In May 2014 Fat Face cancelled its £440m IPO, which would have raised £110m to fund international expansion of the fashion chain. The business was refinanced and its expansion delayed, but Anthony Thompson remained in post as chief executive. When the company announced that it was opening its first US store, in Boston, Thompson said of the aborted flotation: "It was distracting and tiring and we had to regroup after it. It slowed the momentum a little bit."

Dual-track processes are perhaps less likely with a stealth IPO, but the adviser will always be aware that nothing is guaranteed. Because of it's very nature it will be unclear about how many stealth IPOs fail.

"The thing about the stealth IPO is that it is a perfectly sensible thing to do with the right company – the process won't turn a bad company into a good one"

Tim Field, corporate partner, Addleshaw Goddard

Just what are the pros of a stealth IPO? The company does not break cover - so some of the benefits of a private M&A process are effectively introduced into the IPO process. "You are flying under the radar and you have more control over the timetable," says Hess. "Also it allows management to get an early indication of the price that will be paid."

The idea that a stealth IPO will take up less management time than a traditional public IPO may not necessarily be right. Investors are given more time with management than they are on a traditional roadshow. They are buying into the growth story, and are given the opportunity to dig into the nuts and bolts of the plan, meeting the second tier of management in most cases.

"It is more akin to what you would see in a private M&A process, but never in an IPO process," says Hess. "It gives investors more confidence, privately, as to how the business will perform on the public markets. What are the growth drivers? How credible are they? How scalable is the business? Can it grow into different countries, different markets, products or service lines? Can the format be rolled out? Can it cross-fertilise across the different divisions and get each into growth mode?"

In June 2014, Inflexion Private Equity made an impressive 16.2x return on the stealth flotation of IT services company FDM Group. Investec was sponsor and sole bookrunner. Having slowly climbed from its flotation price of 320p per share, to about 360p per share over its first year, the investors began to see a dramatic after the announcement of its results after one year on the LSE. Having briefly hit 575p in November 2015, the shares are now trading at 515p per share.

"FDM was very dependent on two large customers and the financial sector," says Hess. "Today, it has massively expanded its regional footprint into the US. It is an international business on its way to becoming a global business. It has a much greater mix of customers."

Some fundamentals are necessary for the success of stealth IPOs. "It is important in these IPOs that investors have a good experience and are making money," says Hess. So far this seems to be the case. The FDM IPO has seen everyone leave the party with a balloon so far.

In November 2014, LDC-backed high-end soft drinks manufacturer Fever Tree listed on AIM through a £154m stealth IPO. Just 18 months previously, LDC took a 25% stake,

MAY 2014

£440M

CANCELLED IPO OF FASHION RETAILER FAT FACE – IT WOULD HAVE RAISED £110M FOR EXPANSION

MARCH 2015

£1BN

VALUE OF ABORTED TRAVELEX IPO – BEFORE THE EXCHANGE FIRM WAS SOLD AND FLOATED AS PART OF A GROUP

NOVEMBER 2015

595p

PRICE OF A SHARE IN SOFT DRINK MANUFACTURER FEVER TREE – UP FROM 170P AFTER £154M STEALTH IPO IN 2014

which valued the business at £48m. The listing price was 170p per share. At the end of 2015 it was 595p.

By contrast, AO World floated in February 2014 at a share price of 285p per share to much investor clamour and fanfare. After initially soaring 40% to 398p per share, giving the online retailer a staggering £1.7bn valuation, they have since plummeted after a profit warning to 156p.

Of course there is no way that every single IPO that follows the stealth process will see the performance of FMD or Fever Tree. Equally one bad IPO using the process does not mean the process is fatally flawed - although the market would likely become more reticent.

"A decade or so ago the accelerated IPO was a new way of dealing with private equity exiting into institutional money," points out Field. "That was very successful, but then there were couple of bad IPOs and the structure was blamed. The thing about the stealth IPO is that it is a perfectly sensible thing to do with the right company - the process won't turn a bad company into a good one. If somebody gets a bad company away, it would be a shame if it were seen as a product of the stealth IPO."

UNICORNS RISING

Unicorns were the stuff of myth in ancient times. So too were start-ups with a $1bn-plus valuation based on fundraising. But first they appeared in the US, then China, India, Europe and Australia. There are almost 150 unicorns across the globe now. Is this proliferation a sign of another tech bubble? Or are the

"When you see that real shares and real money are changing hands in a liquid market based on similar principles, investors get comfortable with that"

John Rugman, head of valuations, Smith & Williamson

valuations justified? Is it just a new way of thinking that is needed? The top 10 unicorns alone (according to *Fortune* magazine) have attracted more than $220bn in capital - to be pedantic on the definition, those with valuations north of $10bn have been dubbed 'decacorns'.

Just how do they get to the valuations that justify the amount of investment? "For a venture capitalist, obviously it depends on the stage of investment," says Simon Jones, managing director in Duff & Phelps valuation advisory practice in London. "First, they are looking at the credibility of the management team. They will want some sort of model for the future potential performance of the business, but that may be given a reasonably low weighting, in terms of the decision making process, certainly when you are at an early stage.

"But as you move through process, that model is likely to be given greater weighting. It is perhaps a litmus test as to whether the portfolio company is grounded - they don't want to see a model that says they will go from nothing to hundreds of millions in five years. A large addressable market, with the potential for disruption is the key thing."

The highest Fortune-ranked UK unicorn is POWA Technologies - a mobile payments business, which has attracted $2.7bn of funding from Bright Station Ventures and Wellington Management. Other investors in UK unicorns include IA Ventures, Index Ventures, SV Angel, IDG Ventures, Kleiner Perkins Caufield & Byers and Buran Venture Capital.

"If you look at what has the potential to be in the next wave of unicorns, we have very interesting things happening in the

NEIL WEBB/IKON, DAN MURRELL

TOP 10 UNICORNS

RANK	1	2	3	4	5	6	7	8	9	10
COMPANY	Uber	Xiaomi	Airbnb	Palantir	Snapchat	Didi Kuaidi	Flipkart	SpaceX	Pinterest	Dropbox
SUB-SECTOR	Transportation	Consumer electronics	Lodging	Big data	Social media	Transportation	Internet retail	Transportation	Social media	Cloud storage
EST	2009	2010	2008	2004	2012	2012	2007	2002	2008	2007
COUNTRY	US	China	US	US	US	China	India	US	US	US
VALUE $BN	51.0	46.0	25.5	20.0	16.0	15.0	15.0	12.0	11.0	10.4

UK - Silicon Roundabout in East London," says John Rugman, head of valuations at Smith & Williamson. "Something similarly spectacular could emerge from there. We are seeing international tech money looking at those London-based companies. Undoubtedly, there are pools of capital for unicorns in the US - in the Silicon Valley institutions - but there are pools outside of the US, including here in London, looking at those types of things. In the early days they don't need huge amounts of money."

By the time the business is attracting capital to move it to unicorn or near-unicorn stage, scalability of the operating model is crucial. The capital being invested will be to fund the growth that will give the business 'first mover advantage'.

"You want the product to be the best product as quickly as possible, so that it will dominate its market," says Jones. "In some cases that will require an extraordinary amount of capital to fund the manpower needed for organic development. Yet by the same token you may not be able to grow as quickly as you need to organically, and so there needs to be a war chest, so you can go out and buy the tech and/or IP."

Rugman believes that valuations have become more professional over the past 15-20 years and are capable of being more closely aligned to the way investors appraise investment decisions. Clearly this is the case with unicorns, where the valuation analysis can be based upon future market development and what a business might be worth on exit.

But what must not be forgotten is that when the unicorns tap the public markets and have a share price, the market can move against them. The IPO of Square Inc last year was something of a debacle, with it being priced at $9 per share, more than $6 less than the last private buyers bought in at. Despite a ratchet protecting most of the later shareholders, it cost the company money - and, of course, credibility.

"Venture capitalists will want some sort of model for future potential performance, but that may be given a low weighting in the decision-making process"

Simon Jones,
MD valuations advisory, Duff & Phelps

Despite sophisticated valuation models, which rely to an extent on comparable company performances, investors will take comfort in the market ultimately. As Rugman puts it: "When you see that real shares and real money are changing hands in a liquid market based on similar principles, investors get comfortable with that."

HUGE SCALE

Field suggests that tech valuations will ease off in the next 18 months. But, the sheer amount of capital unicorns are attracting is of a scale more usually associated with the IPOs of later-stage, more traditional EBITDA multiple-valuation-based companies. The capital is coming from both VCs and institutions that would usually invest in public markets.

Some would argue that this is reducing the funds available to invest in public offerings, but there is a counter-argument that there are not the growth opportunities available in the public markets. One thing is for sure; this shift means that businesses looking to raise such amounts of capital no longer need to list. And while it lasts that is a paradigm shift.

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GENERATING ALPHA FEMALES

Level 20 has laid down a challenge for private equity – they want 20% of senior roles to be held by women before 2020. Vicky Meek looks at the issues faced by the industry, and the benefits of change

In 2011, Lord Davies published a report, *Women on boards*, which sought to address the gender imbalance in senior positions in the UK's corporate world. At the time women occupied only 12.5% of FTSE 100 board positions. Fast forward to 2015 and it is 26%. Quite some achievement. But there are pockets of the economy where female participation in senior positions remains very low. Private equity is one of them.

Preqin estimates that in 2015 women globally held 10.5% of senior positions in buy-out firms. Invest Europe suggests it is just 5% in Europe. That compares with 16% in investment banking, according to a *Financial Times* report.

Private equity cannot afford to get left behind, points out SVG Capital CEO Lynn Fordham:

CAROLINE DENT, INVESTMENT DIRECTOR, ECI

"Mixed teams do better – you need diversity of opinion and balanced debates to arrive at better decisions. How you build mixed teams is down to two factors. First, you need to create an environment in which gender isn't an issue, and second, women need to choose to come into and stay in the industry – the only way we will get change is if women stand up and be counted. Targets help, but this will only work if firms continue to operate as meritocracies."

HANNEKE SMITS, LEVEL 20 FOUNDER AND FORMER CIO OF ADAMS STREET PARTNERS

"One of the reasons private equity is behind other industries is its long-term nature. If you have firms organised around funds with a 10-year life and strong key-man provisions, there is a structural barrier to change. Many teams were formed 20-plus years ago and many people came out of investment banking – itself a male-dominated industry then."

"A number of recent academic studies have shown that it is beneficial to have a diverse board and investment selection team, although this isn't limited to gender diversity. Any companies that don't address this will potentially miss out."

A Credit Suisse Research Institute paper, published in 2012, found that companies with at least one woman on the board delivered higher average returns on equity, lower gearing, better average growth and higher price/book value multiples over the previous six years than those with all-male boards. There are, however, signs of change - the 10.5% figure quoted above is an improvement on 2013, when women occupied only 8.7% of senior roles.

"Any companies that don't address diversity will miss out"

Lynn Fordham, CEO, SVG Capital

"Private equity has always had an issue with gender imbalance"

Josyane Gold, non-executive director, Electra Private Equity and consultant, KWM

"Private equity has always had an issue with gender imbalance," says Josyane Gold, a non-executive director at Electra Private Equity and consultant to King & Wood Mallesons. "One of the issues is that change can't happen quickly. You have to allow time for women to progress up the career ladder, even if you are hiring more now. However, I do sense that there is more energy around getting more gender diversity in private equity now than there ever has been in the past."

KKR, for instance, recently announced that it would pay for children (up to one year old) and nannies to travel with executives - actively encouraging new mothers to stay on the career ladder.

In September 2015, a female private equity networking group created Level 20. Its goal is to see women make up 20% of equity partner roles in the industry by 2020. The group of senior female private equity professionals is deploying a variety of initiatives to provide an impetus for change.

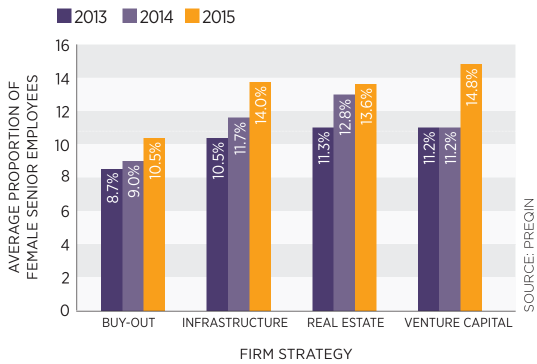
"We have four main pillars to achieving our goal - mentoring, networking, philanthropy and working with men in leadership positions in private equity firms," explains Hanneke Smits, former chief investment officer of Adams Street Partners, and one of Level 20's founders. "This last point is important, not only because we've found that most have been very welcoming of the initiative, but also because we recognise that effecting change is as much about education, and setting the right culture in organisations, as it is about putting programmes in place. You can't achieve that if you are only working with women in the industry."

An area that can be addressed relatively quickly is changing recruitment processes. While there is little appetite for quotas in the industry - most agree that merit is preferable to being forced to meet targets - many firms are now actively seeking female candidates.

One of the issues that private equity faces is that many women don't opt in. Half of all graduates are female, yet only about 30% choose to go into some of the traditional areas from which private equity hires - strategy consulting and investment banking (although the picture is brighter in accountancy, another popular recruiting ground for PE firms). So, by the time private equity firms are hiring, they are faced with a candidate list that is roughly 80:20 men to women. Smits says: "We are therefore working on an outreach programme at business schools, and universities, to inspire younger women to choose private equity as a career path by showing them that there are role models in the industry."

"All shortlists that we put forward nowadays have to include women,"

FIGURE 1: **FEMALE SENIOR EMPLOYEES AS PROPORTION OF GLOBAL TOTAL BY PRIVATE EQUITY FIRM STRATEGY**



says Gail McManus, managing director of Private Equity Recruitment (PER). "If they didn't, we'd get more than a few raised eyebrows from clients. We've even been engaged specifically to find more female candidates, so things are changing."

Level 20 offers support to smaller firms, which may find addressing the issue more challenging. "We want to be a resource for firms," says Smits. "So, for example, smaller firms may not have the resources, such as HR departments, to get up to speed with some of the programmes they could put in place. We want to share best practice with them, show them what has worked in other firms."

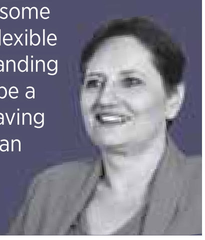
With more women in board positions - not just in the FTSE 100, but more broadly - private equity is going to need to redouble its efforts to build teams that reflect the make-up of society and the people the industry does business with. As Smits says: "Portfolio company management teams are changing. If you turn up with an all-male transaction team these days, it doesn't create the best impression."

JENNIFER STRATTON, INVESTMENT MANAGER, LIVINGBRIDGE

"While gender balance wasn't necessarily top priority for me when I first met with Livingbridge, the fact that I could see there were women in the firm who had clearly been supported through their careers was an attraction. More broadly, I think having a diverse team is valuable and enriches the culture of the firm."

GAIL MCMANUS, MD, PER

"Many people come into the industry from advisory roles, such as those in investment banks, strategy consultancies and the Big Four accountants, where they are working for clients and therefore there is less room for flexibility. Private equity firms are the clients and so in some ways it is easier to find flexible solutions. It's still a demanding environment, but it can be a better option if you're having to juggle, because you can manage your own schedule."



GALLERY STOCK

LEARNING FROM EXPERIENCE

With many other areas of financial services having started the process of change earlier, private equity firms can benefit from the experience of other organisations, including those in accountancy and other professional services. "I think we can learn a lot from other professions," says Hanneke Smits of Level 20. "I know of one major consultancy, for example, that removed time limits on reaching partner level because they could see this was a barrier to people who took time out to have a family and they were losing too many of their high-performing women."

"In constructing Level 20 we also created an HR Advisory Council"

Jennifer Dunstan, founder, Level 20 and partner, 3i

Indeed, Level 20 has looked to emulate best practice in its mentoring programmes for female private equity professionals. "In constructing the Level 20 programme, we looked across different industries to see how others have approached their mentoring programmes," says Jennifer Dunstan, Level 20 founder and partner at 3i. "We also created an HR Advisory Council that brings together HR specialists from several GPs including Advent, Cinven and CVC, as well as headhunters from Russell Reynolds and Egon Zehnder. This has enabled us to access a broad range of experience in debating how the programme should be constructed and setting it up."

For the Big Four and law firms, the decision to tackle gender diversity has been borne out of necessity. KWM consultant Josyane Gold says law firms have been pragmatic: "The legal profession now attracts more female than male graduates, so there is not an issue at a junior level. Firms then invest a lot in training people, so it doesn't make economic sense for them to lose valuable staff. The focus in many firms is on how they can retain women and bring them through to seniority."

Specific initiatives can be undertaken, but in practical terms it is about creating the right environment. "One of the main ways to make all this work is to encourage talented women to devise their own ways of working to meet their own needs and arrangements," says Gold. "You need a certain flexibility around this and that takes a change of culture and attitude among both men and women in senior positions. There needs to be an understanding that everyone in an organisation has a role to play in making a difference."

BUILT TO LAST

Setting up a challenger bank is a tough call. **Mark Sismey-Durrant**, chief executive at Hampshire Trust Bank, shows the value of experience, in a market of opportunity

INOIRA FLACK

It is fair to say that Mark Sismey-Durrant is more than just the CEO of Hampshire Trust Bank – he is the architect who, with the backing of Alchemy Partners, has turned a UK building society-owned bank focused on lending to solicitors into a genuine challenger bank focused on the SME market. "A successful challenger bank is likely to be one that dances in the cracks," he says.

Looking back over his career, it is clear why Sismey-Durrant was the right man for the job. His banking career began at Midland Bank, where he gained a wide range of head office and business experience over 13 years in retail, corporate and international banking.

He then joined the newly formed banking subsidiary of Canadian life assurance company, Confederation Life, which became Sun Bank. In 1995, Sismey-Durrant was appointed chief executive of Sun Bank, and went on to diversify the business across residential and commercial mortgages, buy-to-let, asset finance and retail and business savings (onshore and offshore). He successfully grew profits and the bank's balance sheet prior to its sale to Portman Building Society in 2001 for £95m – it is known today as The Mortgage Works.

Sismey-Durrant joined Heritable Bank in 2002 and then diversified the bank beyond residential property development finance into residential mortgages, buy-to-let and asset finance, as well as solicitor practice funding, following the acquisition of Key Business Finance in 2006. Retail and wholesale deposits funded this business. It also ran the online savings business for its Icelandic parent Landsbanki, until the crisis in 2008 saw the start of the process which saw Landsbanki go into liquidation.

LEADING A BUY-OUT

With such a wealth of banking and diversification experience behind him, Sismey-Durrant joined Hampshire Trust as interim CEO in 2012. His task was to prepare it for sale from its previous owners National Counties Building Society.

After a couple of false starts, Alchemy Partners – the special situations private equity investor – was selected as an appropriate partner that shared the growth ambitions for the bank.

Sismey-Durrant helped Alchemy Partners to obtain the necessary regulatory approval for a change in control of the bank. This was based on creating a specialist diversified lending balance sheet comprised of property, asset and commercial finance, funded by retail deposits.

Alchemy was particularly interested in the property market, and the addition of other business lines added balance. All of this was articulated in a regulatory business plan submission of about 800 pages.

In May 2014, together with the backing of Alchemy Special Opportunities Fund II, he led a management buy-out of the bank, creating specialist challenger bank Hampshire Trust Bank. The bank was one of the few new entrants to have successfully achieved authorisation in 2014.

Under new ownership, it was effectively a start-up business backed by a significant capital injection from Alchemy and the bank's new management team. New recruits, new systems and new premises in London all followed.

Having set up successful commercial, asset and property finance teams before, Sismey-Durrant set about doing it again, pulling together many experienced banking professionals from his previous companies. He also relaunched the bank's business savings service to complement the existing personal savings offering.

In many ways, Hampshire Trust Bank has benefited from having a very limited legacy. Its growth has been organic in contrast to other recently floated challengers that have also relied on acquisitions to support their early growth.

Sismey-Durrant recognises the markets they are in are competitive because of the increasing number of challengers and alternative finance providers, but he is unfazed.

He says: "The most important thing is that by being specialist, you can concentrate on individual customer needs. Bigger banks look at customer segments, and determine how to deploy resources. Right across the spectrum we can write good quality business, with prime customers who either don't even register on the major banks' radar, or

> "There is scope to grow our business and retain what makes the bank successful, but we have to make sure we always understand what that is"

where they have applied a one-size-fits-all to them. There is plenty of room for competition."

Sismey-Durrant says: "With Sun Bank and Heritable we went on similar journeys - diversified them, and grew them quite substantially and profitably. This is my third time, albeit from a lower base. It is a bit different with Alchemy as backers, but only to the extent that they are independent investors. It is really hard work, then it gets a bit easier. This year we will be focusing on sustaining and supporting revenue growth across all business lines and profitability."

MISSIONS AND LESSONS

Slightly longer term, of course, Alchemy will have an eye on an exit route. But at the moment sustainable growth and performance is the mission.

"The lesson for challenger banks is that they don't grow so much that they become little versions of a big bank, because then they lose their edge and the reason why people did business with them in the first place. It is a bit like venture capitalists moving up the food chain: you risk losing your entrepreneurial flair - what makes you different.

"There is scope to grow our business and retain what makes the bank successful, but we have to make sure we always understand what that is. You have to do it consciously, knowing when you change a winning formula. Customers will be loyal. We want to build a bank to be proud of - for how we do business and who we are."

HAMPSHIRE TRUST BANK DIRECTORS

Ketan Malde – CFO
With over 30 years' experience in financial services, Malde joined as CFO in May 2014. His previous role was as chief operating officer and finance director of Heritable Bank, and prior to that was finance director of Sun Bank until 2001.

Graham Picken – non-executive director and chairman
Picken has spent more than 30 years in a financial services career with Midland and HSBC Banks – he was responsible for commercial and corporate banking, chief executive of Forward Trust Group and chairman of First Direct. He is a non-executive director of Skipton Building Society and Connells, and is chairman of the FTSE 250-listed HICL Infrastructure.

Jamie Drummond Smith – non-executive director
Drummond Smith chairs the audit committee. He is an ACA, who spent 25 years with Deloitte, where he became corporate finance partner. After Deloitte, he was FD at Barbon Insurance and then consumer finance company, Cattles.

Robert East – non-executive director
East chairs the risk committee. He has been chief executive of Cattles since 2010. He was formerly chief risk officer of Barclays subsidiary Absa. He spent more than 30 years with Barclays in a number of senior roles. He is a non-executive director of Skipton Building Society.

Dominic Slade – non-executive director
Slade is managing partner of Alchemy. He joined the private equity firm in 1998, became partner in 2001 and managing partner in 2009. He previously worked in investment banking at UBS.

Alex Leicester – non-executive director
Leicester joined Alchemy in 2007 and became a partner in 2011. He previously worked with Deloitte, where he trained as an ACA.

DIGITAL GAMECHANGERS

Technological innovation is changing business models in many sectors. **Tony Qui** explains how a business should approach a transformational acquisition

Digitalisation has created major opportunities for businesses in today's rapidly evolving market. Consumer appetite has undergone a paradigm shift and we now expect everything to be attainable at the touch of a button. Fast-developing technologies offer customers greater choice and convenience, and the ability to perform transactions anytime, anywhere. This change has forced businesses to focus more on the customer value chain, as opposed to traditional product or supply chains.

Digital technologies also offer businesses the chance to better understand and engage with customers, and the ability to develop new products or services driven by data analytics. Those who embrace this new wave of technology, and see how their businesses can best use it, will prosper. Those who fail to recognise the shift in market expectations could fall behind the curve, leaving room for their rivals to overtake them. The impact that digitalisation is having on current business models is therefore game-changing.

TAKING THE LEAD

A number of sectors, such as financial services, retail, consumer products and energy are more evolved in the adoption of digital technologies. For example, consumer-focused companies have quickly come to recognise the use of digitalisation from a research and development perspective, and have leveraged social media to collect timely customer feedback on products, reducing their product development lifecycles. Similarly, mobile banking and payment delivery is driving different customer behaviours and increased convenience across this sector.

Clearly, technological growth and innovation have created new opportunities for businesses to expand. But with these new prospects come new considerations that businesses may not have encountered before. Therefore businesses will be looking at how they can monetise these expanding technological horizons, and how they can be utilised as a catalyst for business growth.

The first question businesses must ask themselves is whether they have the capability to develop these new technologies internally. The alternative is to acquire another company, or specific assets, with existing technological capabilities that can facilitate the expansion of their business. The latter is often the preferred option for many firms, due to potential time constraints and lack of experience internally to apply these new technologies.

As such, digitalisation has become an increasingly popular motive for partnering, setting up joint ventures or M&A. There are several considerations that businesses looking to acquire digital companies must take into account if they are to make a success out of the transaction, integrate the acquired technology and move their business forward ahead of the competition.

JUST WHAT IS 'DIGITAL'?

Digital is often referred to as being the digitisation of products or services that has a pervasive impact on customers, organisation and employees.

In this context, digital is largely driven by the evolution of four key technologies:

- cloud computing;
- big data;
- Internet of Things (machine-to-machine); and
- mobile.

Including social media, these present a platform that companies can use to brand themselves differently, reaching a new audience with greater ease, while making products and services more readily available.

GETTY

TOP TIPS

Digital strategy
Companies must invest time in developing their digital strategy that takes into account industry trends, competitors, customers and its organisation. This strategy must be all-encompassing, otherwise innovation and benefits may be stifled.

Understand capabilities
One of the biggest considerations is how to develop and build the digital capability within the organisation. Depending on the digital strategy, this can be achieved in many ways as outlined above. Specifically, M&A can only work if companies make the effort to fully understand what the gaps in digital capabilities are and the capabilities they are seeking to acquire - this is crucial to realising the value of the acquisition. Is it the team and their capability, the customers or the data? In my experience, it's often the technical platform that can help transform operations or improve the end user's experience.

More than technology
Often overlooked, the team that developed the technology is another crucial consideration when looking at an M&A opportunity. When acquiring a start-up, the acquirer is not only getting a company, but also a talented leadership team. In many cases, these people can be just as valuable an asset as the technology being acquired. For that reason, it is essential to protect their philosophy and culture, keep them motivated and ensure that the technology, or data they have built, can continue to develop at the same rate.

Enabling their values and beliefs to be preserved is one of the most important considerations when undertaking an acquisition. The acquirer will be unable to reap the benefits of the disruptive/emerging technology and capabilities unless they fully understand what it is capable of achieving, and how this can support their strategic objectives.

Power of experience
Given the fact that assessing the underlying technical platform, data and processes of a business can be a complex task, particularly when it comes to unique and disruptive companies, it is vital that businesses have the right experience and expertise to assess any potential acquisition. Can it be scaled to meet the strategic objectives of the businesses? Is the intellectual property (IP) protected and valued correctly? Most importantly, will the acquisition assure the delivery of the digital strategy? If the acquirer's assessment of these factors is insufficiently robust, then assets can be overvalued. Technical platforms may require significant investment just to achieve scalability and IP or intellectual capital can be lost post-acquisition.

> Those who embrace this new wave of technology will prosper. Those who fail to recognise the shift in market expectations could fall behind the curve

Conducting due diligence for the acquisition of a digital company requires a specialist understanding of the tools, technical platforms, data, people and processes. This not only protects the acquirer's interests, but ensures it gets the maximum return from its investment.

Tony Qui, lead partner of EY's operational transaction services practice, with a team of nearly 200 transaction specialists. He is also the Global IT transactions services lead partner

Appointments

KPMG RECRUITS FROM UK GOVERNMENT

David Curley has joined KPMG as a senior adviser in the firm's government and infrastructure practice. He previously worked for the UK Shareholder Executive - part of the Department for Business, Innovation & Skills - where he led on a number of corporate finance programmes.

In his new role he will lead corporate finance advice to the Shareholder Executive, and will develop KPMG's capabilities in HMG's asset disposals, realisations and related corporate finance situations. He has over 20 years' corporate finance and advisory experience. Before joining the civil service he was a senior corporate financier with UBS Investment Bank.

Kru Desai, head of government and infrastructure at KPMG UK, said: "Citizens, government, investors and business are searching for better value, transparency and trust in how public services are designed, regulated and delivered. The combination of David's experience and the capabilities of KPMG will enable us to work with our clients to help them navigate through this challenging fiscal environment."

David Ferbrache OBE, former head of cyber & space at the Ministry of Defence, has joined KPMG's cyber security practice as a technical director. The growing practice has also seen the promotions of Bia Bedri to partner, specialising in financial services; and Ruth Anderson, Alejandro Rivas-Vasquez and George Scott to director.

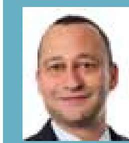
PROMOTIONS AT RUTLAND



Rutland Partners has made three promotions in its deal team: Michael Reynolds to investment director and Matthew Hamilton-Allen and Jason Birt to investment manager. Reynolds joined in 2012 after two years in Hawkpoint Partners' corporate advisory group. He qualified as an ACA at KPMG.

Hamilton-Allen also joined from Hawkpoint at the end of 2014, where he worked in its corporate advisory group on PE-backed buy-side and sell-side transactions. Birt joined from Rothschild in 2014, where he worked in the consumer, retail and leisure team. Prior to that, he spent four years in EY's corporate finance division.

DAVID COLLINS JOINS DENTONS



Dentons has recruited David Collins as partner in its London office. Collins was former managing partner of corporate at Berwin Leighton Paisner. He has been appointed UK head of corporate, and co-chair of the firm's global M&A group. He is also a member of the Corporate Finance Faculty's board. Richard Barham, who led UK corporate for the past four years, will return to full-time fee-earning engagements.

Collins said: "As many law firms continue to reflect on how to position themselves for the future in an increasingly competitive environment, I have been impressed by Dentons ... [Its] corporate businesses continue to evolve, reflecting the wealth of opportunities arising from the firm's rapid growth and international expansion."

Collins was Dentons' third London corporate hire in 2015, following the arrival of capital markets partner Nikolas Colbridge and corporate insurance partner Martin Mankabady.

NEWS IN BRIEF

Corbett Keeling has promoted Freddie de Lisle to head of financial services. He specialises in strategic corporate development advice to insurance companies and specialist sector knowledge as part of the transactions team.

The **Business Growth Fund** has recruited Mike Clarke to its investment team in Leeds, from BDO's corporate finance team.


Karen Brown and John Pollington have joined **Hampshire Trust Bank's** property finance team as directors. Brown ran her own training company, and before that worked for RBS. Pollington previously worked at Jordan International and Investec.

Andy Lister has joined tech M&A boutique, **Acuity**, as partner from KPMG, where he was corporate finance director.

Nestor Paz Galindo will join **UBS** as head of sell-side and financial sponsors M&A for EMEA, in March, from JP Morgan where he has worked for 22 years.

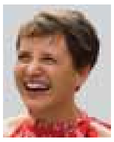
John Cowie has been appointed as a partner in **Kingston Smith's** corporate finance team. He has extensive experience advising AIM-listed companies, and previously worked for Kreston Reeves and Seymour Pierce.

PRIVATE EQUITY MOVERS

Simon Jobson has joined UK buy-and-build specialist **Sovereign Capital** as investment director from Growth Capital Partners, where he spent nine years. Prior to that, he worked in Deloitte's corporate finance department having qualified as an ACA with Arthur Andersen.

James Hall has joined **Key Capital Partners** as a director based at the firm's Leeds head office. He previously held senior positions at Royal Bank Development Capital, ISIS Equity Partners and most recently, NorthEdge Capital.

General Atlantic has promoted Jörn Nikolay (left) to managing director in its Munich office. The PE firm has also promoted Roni Elchahal, Andrew Ferrer, and Rajat Sood to principal in its London, New York and Mumbai offices, respectively.



Erica Young has joined **Anthemis Group** as director, based in London. An experienced industrial designer, she was chief product officer at Insight Robotics – where she remains an adviser.

Mathilde Sergent has joined French private equity company **Activa Capital** as manager in Paris. She comes from Nomura where she spent five years as an associate.

Ralph Guenther (top left), Graeme Keenan (middle) and Alex Scott have been promoted to partner at **Pantheon**. More than 30 promotions have been made. Guenther's focus is on Germany, Austria and Switzerland. Keenan joined in 1999 and is chief risk officer. Scott is a senior member of the European primary investment team (UK and Italy).

Investec Specialist Bank has recruited Richard Morgan from Lloyds Bank to its institutional sales group. He is in charge of the syndication and distribution of power and infrastructure finance transactions.

Jonathan Dixon has joined independent corporate finance adviser **Blue Sky Corporate Finance** from the British Business Bank, He is based in the Yorkshire and north-east office.

The **UK Business Angels Association** has launched a pioneering online marketplace called the UKBAA DealShare Platform. It is an online marketplace for private investors, angel investment organisations and early-stage venture capital investors to find co-investors, showcase deals and interact with one another.

Clydesdale Bank has launched an Emerging Technology Unit to provide between £500,000 and £1m in debt finance for established start-ups.

LEGAL BRIEFS

Linklaters has recruited Ben Rodham as partner in its private equity practice, based in London. He joins from Shearman & Sterling, where he was a partner in its private equity group. In Amsterdam Guido Portier has joined as partner from Loyens & Loeff, where he was corporate partner for 10 years and led the New York corporate practice between 2005 and 2009.

Giles Distin has joined **Addleshaw Goddard's** corporate finance practice as partner, from Squire Patton Boggs. He has experience advising on UK public company transactions and is on the Corporate Finance Faculty's working group that supports ICAEW's membership of the Takeover Panel.

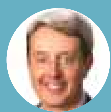
M&A specialist lawyer Oscar Hoefnagels has been promoted to partner at **Simmons & Simmons** in Amsterdam. And in London, real estate finance specialist Will Greig has joined as partner in the financial markets group, from Pinsent Masons.

Lionel Spizzichino has joined the Paris restructuring team of **Willkie Farr & Gallagher** from Paul Hastings in Paris.

EY has recruited Matthew Whalley as director, from Berwin Leighton Paisner where he was head of legal risk. He will spearhead EY's legal risk practice.

Costanza Russo has joined **Faegre Baker Daniels'** corporate team as partner in London, from Winston & Strawn.

Bert Capeci has joined **King & Wood Mallesons'** global capital markets practice in London, as partner, from Sidley Austin, where he was a capital markets partner.



Law firm **Cooley** has recruited Steven Tonsfeldt as partner in Palo Alto, from O'Melveny & Myers, where he worked in global M&A and private equity practice.

Morgan Lewis has recruited Lisa Cargill as partner in its structured transactions team in London from Sidley Austin.

Coming up roses

ROBIN PALMER

THE CV

Satvir Bungar joined Coopers & Lybrand (now PwC) in 1996. He qualified as an ACA in 1999, and moved to EY's corporate finance team. He advised on M&A across a range of UK sectors. In 2004 he joined a FTSE 250-listed group as director of business development, working on group strategy through strategic acquisitions. In late 2005 he joined BDO, and is a director in M&A advisory as well as the national leader for BDO's facilities management sector M&A. He has a first-class honours BSc in management from King's College London.

Recent transactions

- Sale of Graphite Capital-backed Sure Maintenance to Lakehouse Plc
- VINCI Energies acquisition of Iceni Capital-backed Mentor IMC
- Key Capital Partners-backed MBO of Alliance in Partnership

Selling a landscaping business is challenging in austere times. But perseverance reaps dividends, says BDO's **Satvir Bungar**

WHAT WAS THE DEAL?

The sale of The Landscape Group (TLG) to French market leader, idverde. TLG provides ground and landscape services to local authorities, housing associations, hospitals and the construction industry. At the time, it employed 1,000 staff, had yearly turnover of £50m and a forward order book of about £300m. In 2008, Elysian Capital had backed a management buy-out of TLG.

WHAT WAS THE STRATEGY?

TLG's entire share capital was sold to idverde, which is backed by Paris-based investor Chequers Capital. They had been considering entering the UK market through acquisition for some time. Management who stayed with the business were incentivised separately, post-acquisition in the enlarged group.

WHAT WAS THE TIMESCALE?

We started the process several months earlier by market-testing the business with trade buyers. Broader market conditions meant we paused the external process until late 2014. Prior to marketing TLG externally, we prepared the documentation, and carried out vendor due diligence (VDD) to prepare the assets for sale and maximise value. Some original potential acquirers returned to the second process and others, such as idverde, joined. We had several potential suitors in the second round, and held strategic workshops to assess synergies and negotiate acceptable terms. The deal closed in April 2015.

WHO WERE THE ADVISERS?

We acted as corporate finance adviser to TLG's shareholders, Elysian Capital and senior management. Charles Russell Speechlys was legal adviser to Elysian Capital and senior management. KPMG carried out the VDD.

WHAT HURDLES HAD TO BE OVERCOME?

TLG's clients were operating in the public sector, and were subject to sustained reductions in public spending budgets during a period of austerity measures in the UK. Trying to predict forward earnings and provider buyer confidence on maintainable margins was difficult. Potential buyers were facing cuts in their own clients' budgets so ensuring the appetite to transact was a challenge. During this process it was crucial that TLG continued to grow its contracted order book and maintain its margin position to demonstrate market leadership. We had to ensure any client variations to contract performance were adequately reflected in business plans.

WHAT WERE THE KEY LESSONS?

M&A can be tough to complete. While TLG had a great track record, dedicated early-stage marketing of the story engaged the key purchasers. Early-stage exposure to senior managers of both businesses built trust and ironed out unjustified fears of change. A great deal of time was spent by idverde analysing projections, so the management team had to be comfortable about every component of the story, as well as being fully abreast of idverde's business model and sensitive to a different overseas culture.

Route to growth

The Corporate Finance Faculty would like to thank its many member organisations for their support in 2015

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ABN Amro Commercial Finance
Addleshaw Goddard
Albion Ventures
American Appraisal
August Equity
Baker Tilly
BDO
Beechbrook Capital
Beer Mergers
Berwin Leighton Paisner
Better Capital
Brewin Dolphin
BTG Corporate Finance
Burges Salmon
Business Growth Fund
Cantor Fitzgerald
Cass Business School
Castle Corporate Finance
Catalyst Corporate Finance
Cavendish Corporate Finance
Clydesdale Bank
Corbett Keeling
Corporate Finance Network
Crowe Clark Whitehill
Definitive Consulting
Deloitte
Dunedin
ECI Partners
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ICON Corporate Finance
Investec
James Cowper Kreston
JC Rathbone Associates
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Kingston Smith
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