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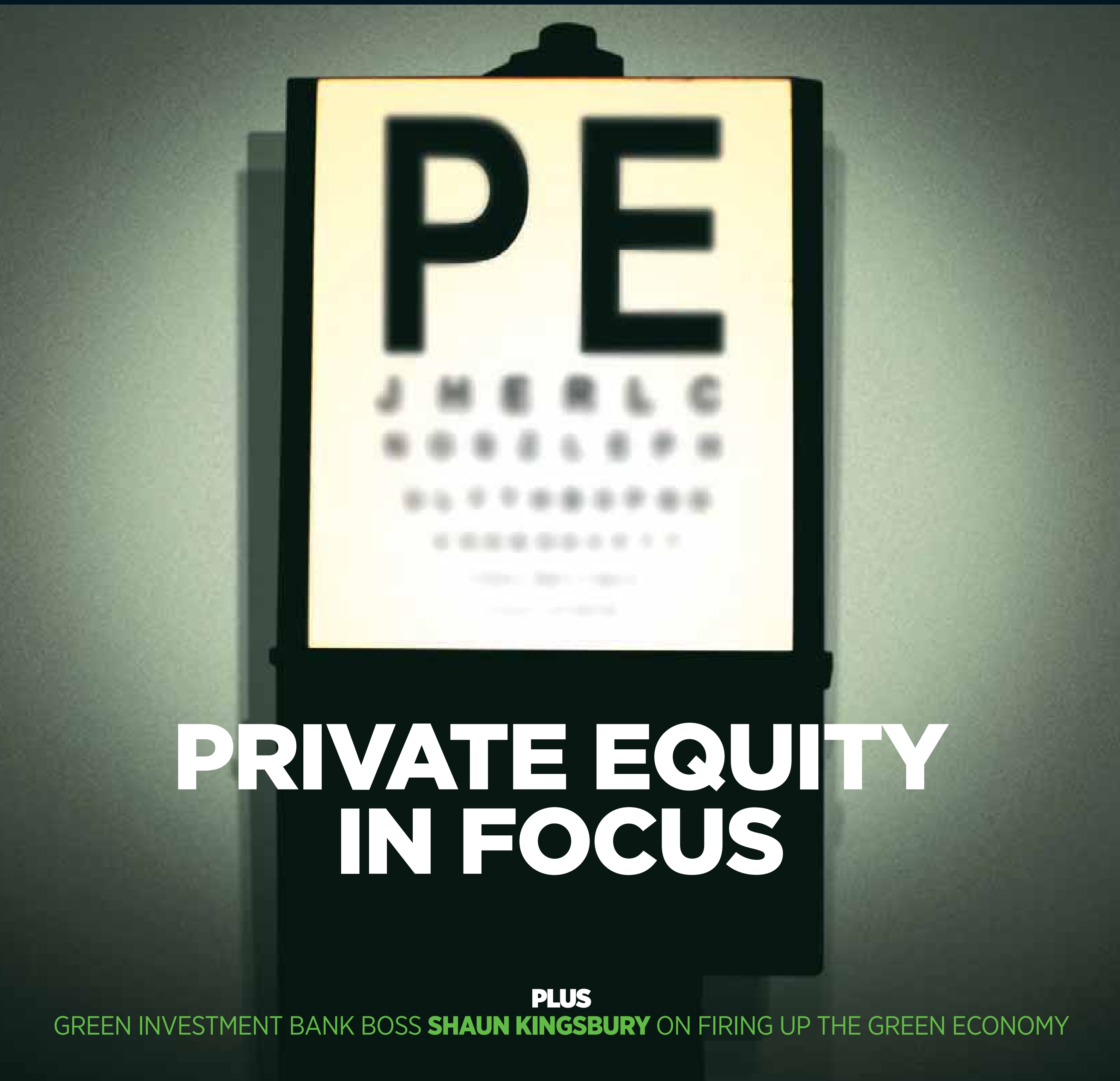
CORPORATE FINANCIER

“AS A SECTOR, VCTs MAKE A BIG EFFORT TO GET OUT REGIONALLY” PAGE 11



PRIVATE EQUITY IN FOCUS

PLUS

GREEN INVESTMENT BANK BOSS **SHAUN KINGSBURY** ON FIRING UP THE GREEN ECONOMY

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Barbarian hiatus?

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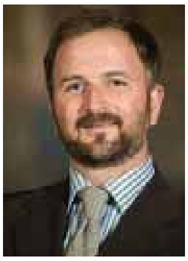
"The problem with doing nothing is not knowing when you're finished," the American founding father, polymath and sage Benjamin Franklin once said. A twist on that quote – "the problem with doing nothing is we are finished" – could well have been the thinking of TPG last month.



For one of the largest global private equity firms, with more than $50bn of assets under management, time had run out to invest its $19bn TPG VI fund. So it has asked its investors for an extra year to find opportunities for $3bn of undeployed capital, from the fund it raised in 2008, just ahead of the market crash. TPG is reportedly offering to waive management fees and other charges.

TPG's story demonstrates just how tough it has been to find good deals for big players through this global recession. Its latest move also shows a pragmatism perhaps not associated in many minds with such a PE big gun, as it readies itself for another fundraising.

The headlines have certainly been grabbed by the decline of the 'Barbarians' – 'Duke Street abandons fundraising', 'Candover in run-off', 'Permira raises third of target'. This month we take an in-depth, but more measured look at the state of private equity (see pages 18-23).

Even if a private equity firm can demonstrate historic returns, that on its own would not be enough to persuade limited partnerships (LPs) to part with allocations in the current climate. There are portfolio issues to deal with, extended hold periods and lower availability of debt for deals. On page 17 Steve Currie of Catalyst Corporate Finance explains how the industry is innovating its approach to fees.

As Christian Marriott tells Grant Murgatroyd in our cover story, LPs need to know successful historic performance can be repeated. Focus and sticking to what has served a firm well is one approach, but identifying growth opportunities in a changed investment landscape is something altogether different.

Much continues to be made of East Asian promise. In a recent Preqin survey, 37% of investors said Asia presented the best opportunities in the current financial climate. Indeed in July KKR's Asia Fund II closed at $6bn – a record for the region. The appetite is clearly there, but the reality has been that fundraising in the region has fallen through the recession.

Developed markets have certainly shown some recovery this year. In the first seven months of 2013, PE-backed M&A was up 23% globally to £196.4bn according to Preqin – this is the industry's strongest period since 2007, with the US leading the way. There is another Franklin quote, which may be more relevant to the Barbarians: "He that is good for making excuses is seldom good for anything else."

Marc Mullen
Editor

icaew.com/cff

Faculty news

CALL FOR LONG-TERM FINANCE

ICAEW has responded to the European Commission's (EC) Green Paper about long-term financing of the European economy by calling for more investment from the pensions and insurance sector.

With bank lending unlikely to return to pre-crisis levels, ICAEW argued that alternatives such as institutional investors and asset managers should step into the breach for long-term infrastructure and SME funding. The Commission should encourage prudent lending by creating the right framework.

ICAEW would also support responsible securitisation of SME loans and welcomed the EU's proposed European Long-Term Investment Funds. These would finance infrastructure, transport and sustainable energy projects with lock-in periods of up to a decade.

The institute also suggested that the EC should now take the opportunity to quantify the long-term financing gap across Europe, country-by-country. A clearer picture would help cross-border capital flows and help to ensure that programmes are better targeted.

Katerina Joannou, Corporate Finance Faculty technical manager (pictured), coordinated the response, which also covered other areas of ICAEW expertise, such as capital markets, project finance, SME finance, corporate governance, fiscal policy, financial reporting and financial services regulation.

The full submission ICAEW REP 94/13, can be found online at **icaew.com**

FROM DEBT TO CLEANTECH: THE SEMINAR PROGRAMME

The Corporate Finance Faculty's autumn programme of seminars and forums kicks off with the 'Debt for Deals' breakfast seminar on 10 October.

To be held at Travers Smith in London, the panel will look at the impact of trends in the debt markets on mid-market buy-outs and corporate acquisitions, opportunities for refinancing, structuring businesses more efficiently to support acquisitions, emerging alternative forms of finance and international legal and regulatory considerations.

Bridgepoint partner Hamish Grant; Barclays Bank director Tara Moore; Investec director Tristan Nagler; Intermediate Capital Group director Matthew Robinson; and Jeremy Walsh, head of banking & corporate recovery at Travers Smith, make up the panel.

The seminar is part of the Corporate Finance Faculty's 'Innovation & Corporate Finance' programme, which also includes extensive coverage in *Corporate Financier* magazine and via ICAEW's online and social media.

Later in the autumn there will be seminars on cleantech and environmental ventures, and a seminar on the challenges of running private equity-backed businesses.

Find out more at **icaew.com/cff**

Hamish Grant

Tara Moore

Tristan Nagler

Matthew Robinson

Jeremy Walsh

GETTY IMAGES

DAVID PETRIE AT DEAL ORIGINATION CONFERENCE

The Corporate Finance Faculty is taking part in a deal origination conference in London on 24 October – 'PE Deal Flow 2014', organised by BIE Events and research consultancy Arbor Square. David Petrie, ICAEW's head of corporate finance, will chair a morning panel discussion: 'Quality corporate finance advice: a new landscape?'

Other contributors include Del Huse, managing director, Oakley Capital Private Equity; Andrew Rinaldi, corporate development director at Taylor Wimpey; Charlie Johnstone, origination partner at ECI; David Silver, head of European investment banking at Robert W Baird; Jacques Callaghan, deputy head of European investment banking at Canaccord Genuity; and Sebastian Wood, vice-president, corporate finance at BT Group.

Derek Zissman, co-founder of the KPMG's corporate finance and private equity groups in London and New York, will be chairing the all-day event. The theme of the day is how private equity deal origination professionals and corporate financiers interact to source finding and winning deals. For more information visit **bieevents.com**

TAYLOR WESSING JOINS FACULTY

The latest law firm to join the Corporate Finance Faculty is Taylor Wessing. With 900 lawyers and 22 offices in Europe, the Middle East and Asia, the international law firm's core practice areas include corporate, commercial, finance, real estate, IP and private wealth.

Taylor Wessing's corporate finance expertise includes handling debt and equities securities issuance on all major exchanges across the world. It advises on transactions from its offices in the UK, France, Germany, Dubai, Singapore and China.

Tim Stocks, UK head of financial institutions & markets, said the firm was keen to access the faculty's know-how about changing of market practice in corporate finance, contribute to the faculty's policy and thought- leadership initiatives and raise his firm's profile with other faculty member organisations. Partner Tandeep Minhas is a long-standing member of the Corporate Finance Faculty's technical committee.

FCA APPROVAL FOR DIPLOMA IN CORPORATE FINANCE

The UK's Financial Conduct Authority (FCA) has officially approved ICAEW's Diploma in Corporate Finance. The FCA recognised that the diploma meets the full qualification requirement for advising on investments in the course of corporate finance business. It has been listed at fca.org.uk as part of the *FCA Handbook* **(bit.ly/121z7gX)**

The diploma was developed by ICAEW in partnership with the Chartered Institute of Securities & Investment, with significant input by practitioners via the Corporate Finance Faculty. It is the only practical qualification of its kind for professionals involved in corporate finance transactions.

To find out more about the qualification, visit **icaew.com/cfq**

CORBIS


MILLER GROUNDBREAKING, CRAMLINGTON
OUR LENDING COULD HELP YOUR BUSINESS BREAK NEW GROUND.
It certainly helped keep things moving in the right direction for manufacturer Miller Groundbreaking.
In fact, at Lloyds Bank Commercial Banking we've approved 80% of all business loan and overdraft applications because we appreciate that finance is the cornerstone of any business.
To see how we can help your business, go to lloydsbankcommercial.com/lending
LLOYDS BANK
Funding for Lending
Supported by the Bank of England and the British Government

Briefing

VOLUNTARY CODE FOR OPERATIONAL PFI/PPP CONTRACTS

The UK government has published a voluntary code for public sector bodies and their private sector partners – investors, lenders, construction contractors and service providers. The guidance seeks to codify best practice and create partnerships of projects to identify and deliver operational efficiencies and savings on PFI and PPP operational contracts.

Details of the code can be found at **bit.ly/1a7yk1l**

RICHARD THRELFALL

UK head of infrastructure at KPMG

"Hopefully, the ongoing skirmish over PFI is finally put to bed by this code of conduct and the industry and government can move on from here. The content is pretty benign and largely amounts to the public and private sectors playing nicely and taking a shared approach to the pursuit of project savings.

"The only part of the code that seems out of place is the commitment on vendors or purchasers to inform the contracting public sector body, sponsoring department and Treasury whenever ownership of the project company changes hands. It has clearly been added in to address a bugbear in government about them losing track of who owns what in the market."

ALISTAIR HYND

UK head of financial modelling and project finance at Baker Tilly

"How the code is applied on the ground will depend almost entirely on the quality of the relationships between specific protagonists. Some might say the voluntary nature of the code recognises this; others would accuse it of lacking teeth. I find it difficult to imagine the code having a big impact relative to current practice. To my mind, the lack of depth of contract management and commercial procurement skills in the public sector is a bigger issue. While it is undoubtedly the case that we have seen improvement in recent years and that there are bright spots, there is still a way to go."

Slough Grouped Schools PFI

MARK WILLIAMS

Government finance and commercial expert at PA Consulting

"It is great to say codify best practice, but how do we do it? How do we make sure it happens, and have the skilled resource necessary? Reviews of skills, while useful, are most practical if they are around actually improving skills and increasing the availability of skilled resource to implement PPP contracts – that is important. Public sector contract management could certainly be enhanced, and the Treasury and the Cabinet Office are certainly carrying out lots of work on this. In the medium-term the public sector may wish to bring in private sector resources to address the skills gap."

NEWS IN BRIEF

SELF-REGULATION FOR ABFA

The Asset Based Finance Association (ABFA) has launched a self-regulatory framework, and appointed Lucy Armstrong as chairman of its newly-established Professional Standards Council. Based on six key principles, at the framework's heart is an independent complaints process, focused on supporting smaller businesses and managed by the Ombudsman Services.

"In a financial services environment under significant scrutiny, a new self-regulatory framework for the asset-based finance industry is an important and responsible step forward," said Armstrong (pictured below), who is also chief executive of The Alchemists, a consultancy for high-growth, mid-sized corporates.

ISDX MARKET RULES

ICAP Securities and Derivatives Exchange (ISDX), has introduced new market rules, and a revised framework for corporate advisers. The exchange for growth companies, which was launched in October last year after ICAP took over the PLUS exchange in June 2012, aims to encourage liquidity and improve investor confidence.

Details can be found at **bit.ly/1bMOtJb**

GETTY IMAGES

FILLING IN THE GAPS

Almost 20 years after the UK government introduced venture capital trusts to plug the smaller company funding gap the UK, their impact has been assessed in a new report. Vicky Meek looks at their effect on investments

The finance gap for companies seeking more capital for growth in the UK over the next five years is estimated at between £84bn and £191bn, according to a report commissioned by the Department for Business, Innovation & Skills (BIS).

In the current lending environment, businesses finding it toughest to raise the finance needed are small and medium-sized enterprises (SMEs). BIS's report suggests a third of SMEs seeking bank finance had applications rejected.

However, there is a well-established market designed to address the funding gap faced by businesses too small for traditional private equity investment but too big for help from business angels, family or friends – VCT funds.

A new report by the Association of Investment Companies (AIC), *VCTs: Investing for the Future*, has assessed VCTs' performance track record since such funds started in the mid-90s. The average VCT investment has been £2.8m and as the report points out, "VCT funding is firmly targeted at the finance gap." And according to the report, VCTs have had a significant impact.

COUNTRY-WIDE

Investee companies created on average 52 new jobs and £10.8m of new turnover following VCT investment, according to the AIC report. These impressive figures are backed up by the experience of individual firms. The performance of a sample of NVM Private Equity portfolio companies provided to *Corporate Financier* by the firm, which has four VCT funds, shows the lowest employment growth rate over the two years to 2012 was 9%, the highest 125%.

Given the mood music around corporation tax at present, the report is at pains to point out that VCTs are an efficient use of state money. "Tax paid [by investee companies] in 2012 alone is equivalent to 82% of the initial investor tax relief," it says. Patrick Reeve, Albion Ventures managing partner, concurs: "Return on investment for the UK treasury of VCTs is very high."

The spread of VCT investment across sectors is wide. Largely prohibited from investing in financial services, they have played a role in helping to diversify the UK economy. Business services, technology and IT and renewable energy have all seen high levels of investment over the years. Renewable energy was boosted by some sector-specific funds to take advantage of now altered government incentives.

> "More job creation is needed across the UK to create a long-term sustainable economy. VCTs can help"
>
> **Patrick Reeve,** managing partner, Albion Ventures

NATIONWIDE IMPACT

While many VCTs are either headquartered in London or operate entirely out of the capital, the geographical spread of their investments is much wider. Some regions have seen greater VCT investment than others. London has received the largest amount of VCT capital over the years – £222.1m. However, the Midlands & East Anglia has received £209.3m, and the South East, (excluding London), £188.6m.

"The regional spread of investments is possibly greater than you might expect, given the relative sizes of the business communities – London and the South East are home to many more businesses than elsewhere," says Ashley Broomberg, partner at Mobeus Equity Partners. "This demonstrates that there are very good regional communities of advisers working up deals and shows VCT managers do a good job of getting outside the M25."

"As a sector, VCTs make a big effort to get out regionally," says Peter Hodson, partner at NVM, which has its HQ in Newcastle. "The levels of investment across the North East and North West as well as the South West are impressive given the lower density of commercial activity in these areas. Investment is not as concentrated as many people might think."

Nevertheless, some parts of the UK appear to have done less well. Scotland received £32.9m, Wales £20.3m and Northern Ireland just £5m. Reeve says his firm sees many opportunities north of the border: "I'm surprised by the low amount for Scotland. We do a lot of investment in Scotland – there are a lot of great technology companies coming out of the Scottish universities, for example." Albion has portfolio companies Memsstar, based in Livingston, and Dysis Medical in Edinburgh.

The relatively small amount invested in Wales is the combination of two factors; the impact of other sources of local development agency funding, particularly Finance Wales, and the economic environment. “Wales never really recovered from the decline of the coal and steel industries,” says Reeve. “We have made some investments in Wales, but these have been mainly in renewable energy businesses and, unfortunately, these do not tend to employ many people.”

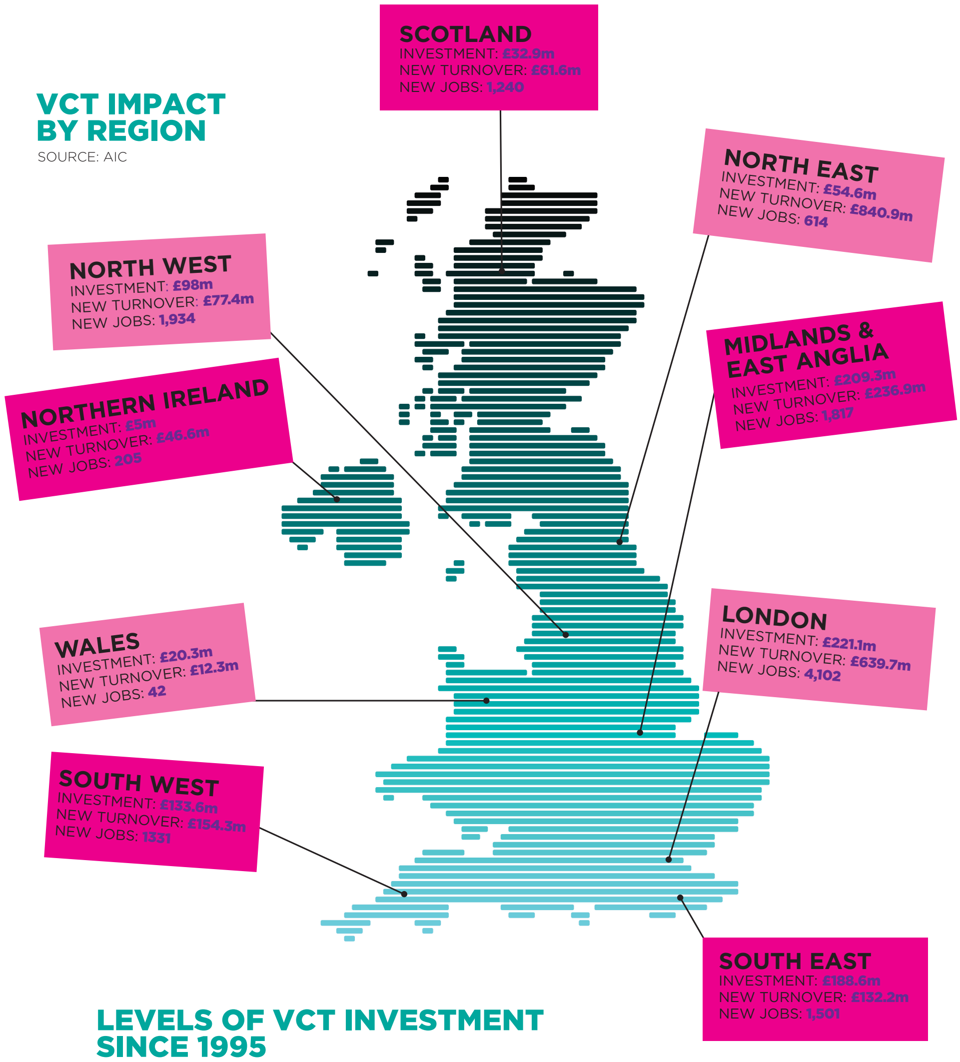
Northern Ireland’s record is perhaps more of a puzzle – new turnover from the tiny amount invested there is impressive. At over £46m, it is nearly 10 times the £5m of VCT capital the region has attracted. The North East is also showing some good results, where £54.6m of investment has produced £840.9m of new turnover.

“This is likely to be because businesses there are higher turnover, but lower margin,” says Reeve. “Those in the South East, by comparison, tend to be higher margin, lower turnover.”

Stating the case going forward he adds: “More job creation is needed across the UK to create a long-term sustainable economy and VCTs can help achieve this.”

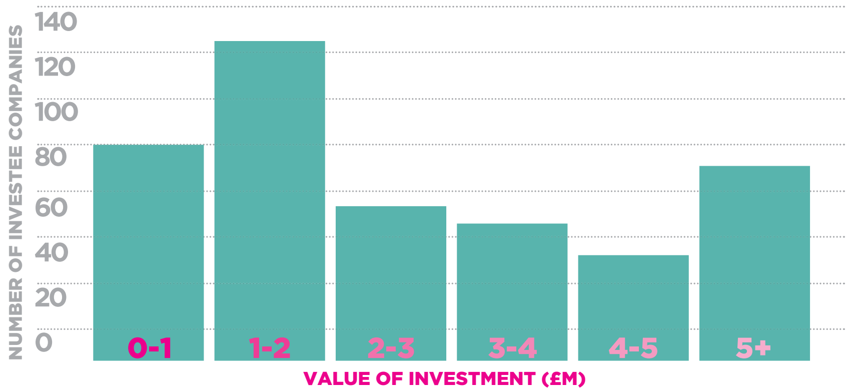
VCT IMPACT BY REGION

SOURCE: AIC



LEVELS OF VCT INVESTMENT SINCE 1995

SOURCE: AIC



> “The regional spread of investments is greater than you might expect, given the relative sizes of business communities”

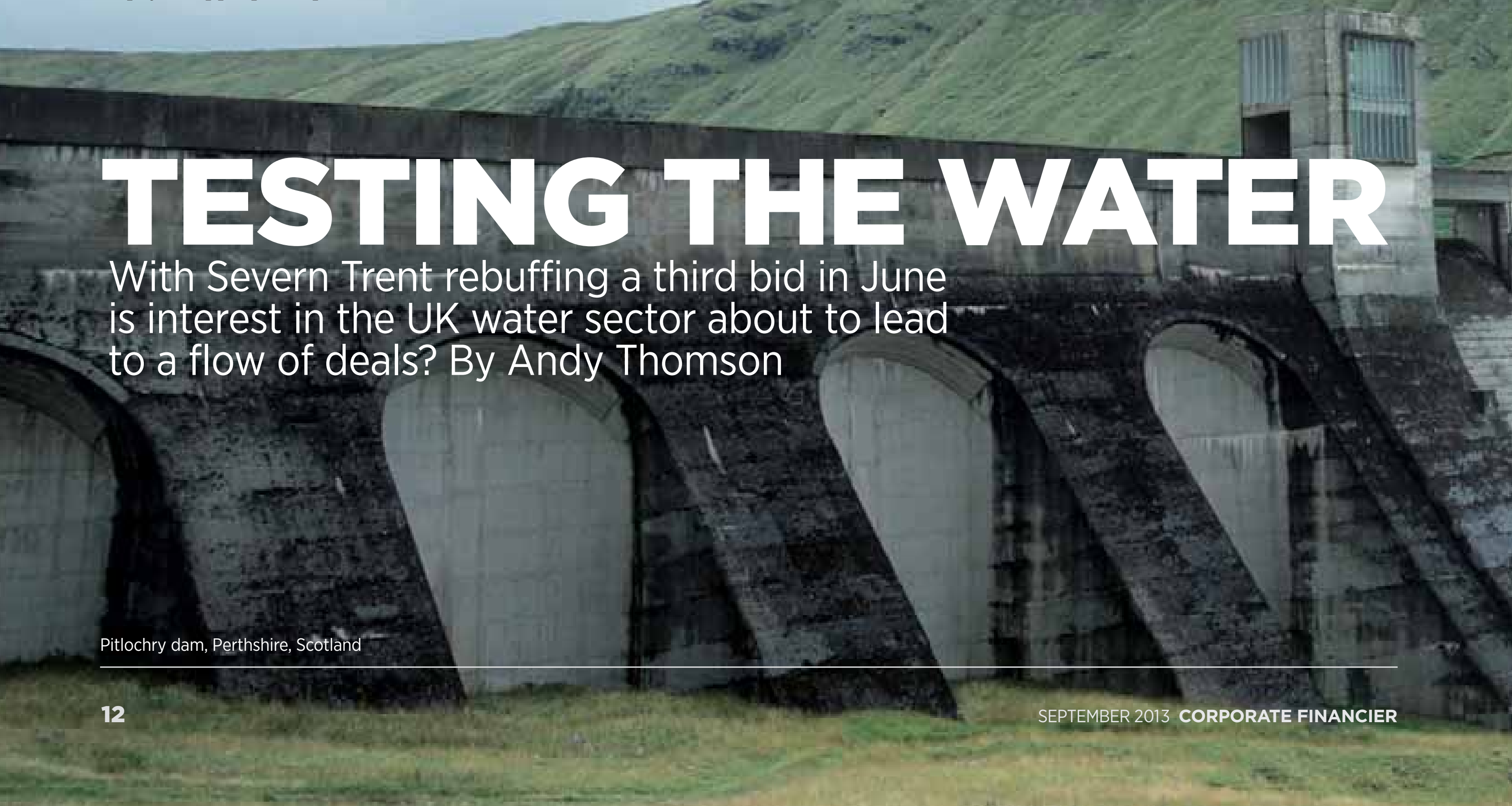
Ashley Broomberg
partner,
Mobeus Equity Partners

LOOSER RESTRICTIONS

Overall, the VCT market appears to be doing well in creating new jobs and turnover as well as addressing the lower end of the finance gap. While the industry – and the AIC report – is broadly more supportive of government measures on VCT, can more be done to provide growth finance? VCT rules changed last year – the annual investment limit per company was increased to £5m, and the employee limit from 50 to 250.

“The employee limit can be difficult,” says Stuart Veale, managing partner at Beringea. “If you have an employee-intensive business, such as a restaurant chain, it’s not hard to reach 250 employees.”

Guy Rainbird, public affairs director at AIC, agrees. “If we are trying to fill the finance gap, what relevance is the number of employees?” he asks. The report even suggests that this cap is counter-productive. If, as a recipient of VCT funding, a company grows its headcount to exceed the 250-employee limit, this would prevent it from receiving follow-on rounds.



TESTING THE WATER

With Severn Trent rebuffing a third bid in June is interest in the UK water sector about to lead to a flow of deals? By Andy Thomson

Pitlochry dam, Perthshire, Scotland

Three times the LongRiver consortium came knocking at the door of FTSE100-listed water utility Severn Trent. And, like many a cold-caller, three times it trudged away empty-handed.

"The Severn Trent board has shown no interest in discussing our pre-conditional offer with us," said a seemingly crestfallen Borealis Infrastructure president and chief executive Michael Rolland after the final £5.3bn offer received short shrift in June. Canada's Borealis was part of a three-way consortium that also included fellow pension manager the Universities Superannuation Scheme of the UK and the Kuwait Investment Office, a sovereign wealth fund.

The intransigence of the Severn Trent board reportedly left some major shareholders puzzled. The Borealis offer was at a 34% premium to Severn Trent's regulated asset base (RAB) - at the top end of UK utility valuations post-crisis. So, were Severn Trent and its advisers being too bullish in their valuation?

Not necessarily. "There are currently only a finite number of UK-listed water assets remaining, which creates a natural competitive tension given these are sought-after assets and as such continue to demand a high price level, especially as, for a number of investors, the UK is still seen as more attractive than the eurozone," says Deloitte M&A partner Jason Clatworthy. "The board commented that it believed it had a scarcity value and therefore the bidder should be prepared to pay an appropriate premium."

NEXT GENERATION

Expectation of a good price from institutional investors such as LongRiver is particularly acute. The UK water industry is moving from a first generation of ownership by infrastructure funds, such as the Macquarie-led consortium's purchase of Thames Water in 2006, to a second generation, by institutional and strategic investors. The funds expected returns of 20% in the mid-2000s, when cheap debt was widely available. Today, expected returns have reportedly dropped to 8% to 10%.

This is probably not enough for the funds, says Steven Bryan, partner and utilities specialist at law firm Hogan Lovells: "A lot of funds are today unable to participate given the implied return on equity of prices paid as they will not be able to hit their hurdle rates."

However, infrastructure assets are an attractive alternative to low-yielding bonds or more volatile equities for institutional investors. Is this creating an asset bubble?

"It feels like we're in a very toppy market for water assets," says Bryan, pointing to Sumitomo Corporation's £164.5m acquisition of Sutton and East Surrey Water in February at a reported 40% premium to RAB. "That kind of deal may require strategic objectives outside the headline return on capital."

> "For a number of investors, the UK is still seen as more attractive than the eurozone"
>
> **Jason Clatworthy,**
> **M&A partner, Deloitte**

If a corporate like Sumitomo can accept a lower return, while it develops expertise and understanding of such assets, so can others. The overriding aim may be simply to get a presence in the market.

ELEPHANT IN THE ROOM

There is a big question mark over the timing of such high offers. Next year, the UK water industry undergoes its regulatory review by Ofwat. This will set limits on the prices water companies can charge customers from 2015 through to 2020. The review may not be favourable. In June, Ofwat chairman Jonson Cox warned that the industry needed to improve its standards or face tougher regulation.

Institutional investors may price any such regulatory risk into a transaction. Some observers say a regulatory review 'discount' might have been factored into the Severn Trent offer price. But institutional investors are ultimately looking for a long-term match with their liabilities. Infrastructure, with relatively safe and predictable returns, fits the bill. An institutional investor may hold the asset for decades.

Michael Barben, co-head

of private infrastructure at Swiss private markets specialist Partners Group, is cautious about whether this long-term hold stance justifies the lofty multiples: "Institutional investors can say that they'll hold these assets forever, but are they locking in a low return? Core infrastructure can still deliver up to 10% and that can make sense relative to other investment options, but there is not a big margin for error."

Looking ahead, the attractiveness of the sector - and the potential for M&A - will probably remain high. Those not prepared to take regulatory risk will wait to see what Cox has in store and make their approaches after the Ofwat review in a more transparent regulatory climate.

While only a few listed UK water companies remain, the first generation of funds will continue to look to sell stakes to deal-hungry institutions. A flavour of this is provided by a current process which sees InfraCapital and Citi Infrastructure Investors seeking out possible buyers for stakes of 13% and 17% respectively in Kelda Group, the parent company of Yorkshire Water.

Given the exit pressure on fund managers, cold-callers are likely to find the knock on the door answered more often than not. And they might even be invited in for a chat.

UK WATER COMPANY OWNERSHIP

COMPANY	OWNER
Severn Trent	Publicly listed on FTSE
Thames Water	Macquarie Group infra fund
Northumbrian Water Group*	Cheung Kong Infrastructure Holdings
South West Water	FTSE250 (Pennon Group Plc)
Wessex Water	YTL Corporation Berhad (Malaysia)
Yorkshire Water	Saltaire Water Consortium, owner of Kelda Group
Affinity Water**	Morgan Stanley and M&G Investments
Bristol Water	Grupo Agbar
Cambridge Water	Alinda Infrastructure Fund (South Staffordshire Plc)
South East Water	Caisse de dépôt et placement du Québec and Utilities Trust of Australia
Scottish Water	Government
Northern Ireland Water	Government
Welsh Water	Glas Cymru (company limited by guarantee)

*Owns Essex and Suffolk Water ** Supplies parts of South East England

THE HISTORY OF SEVERN TRENT

1973 Established as the Severn Trent Water Authority under the Water Act 1973, supplying fresh water and treating sewage for eight million people in the Midlands.

1989 Privatised as Severn Trent Plc.

1990 Group began to build a products and services business in the USA, beginning with the acquisition of Capital Controls Company.

1990s Through a series of acquisitions, the Plc created Severn Trent Services, water and wastewater treatment businesses in the Americas, Europe, Middle East and North Africa (MENA) and Asia Pacific.

2012 Its revenue was £1.77bn, net income £266m.

2013 In June, Severn Trent board rejected third bid for Plc from Kuwait Investment Authority, Borealis of Canada and the UK's Universities Superannuation Scheme, which valued the business at £5.3bn.

CORBIS

Where credit is due

The positive impact of private equity on innovation, productivity and competitiveness across Europe is rarely recognised. Greg Gille looks at EVCA's latest report which aims to set the record straight

The European private equity industry has faced a well-documented uphill PR battle post-Lehman's. Attracting international investors to commit to private equity funds in particular remains a challenge. The lure of emerging markets and mounting regulatory pressure conspires to handicap European general partners (GPs) in an increasingly competitive fundraising market.

Highlighting the importance of a 'local' private equity industry in Europe has therefore never been so important for the European Private Equity and Venture Capital Association (EVCA). The trade body recently commissioned research from Frontier Economics to analyse the contribution of private equity to economic growth. The resultant meta-study report, *Exploring the impact of private equity on economic growth in Europe* (available at bit.ly/15lPHaC), pooled the results of 60 studies published in the past decade to evaluate the impact of the industry in three key areas: innovation, productivity and competitiveness.

PE – THE SUCCESS

The study looked at innovation through the lens of granted patents and patent citations, as a proxy for innovation activity. The report argues that GPs tend to funnel capital investments towards the more innovative sectors of the economy. While private equity-backed companies account for less than 6% of total private sector employment in Europe, they account for 12% of all industrial innovation.

What's more, private equity investors appear particularly effective at optimising R&D expenditure. According to one paper included in the meta-study, each €1 of private equity finance can be up to nine times more effective than €1 of non-private equity finance when it comes to patent generation.

The report also found that private equity involvement helps companies generate innovation that is more economically relevant. David Mott, managing partner at venture capital house Oxford Capital, says that they offer businesses far more than just capital. The added value is key to the success of the PE-backed business: "The capital is just the tip of the iceberg – it is important that we spend time looking at getting businesses out into the market."

Private equity players have long prided themselves on allowing businesses to reach their full potential by working alongside management teams to increase productivity, creating leaner and more efficient companies. The Frontier Economics report supports this claim to a large extent, notably when looking at operating performance.

According to one study of 122 UK-based leveraged buy-outs (LBOs) between 1995 and 2000, operating profitability was up to 8.5% higher than comparable non-LBO companies in the three years immediately after the private equity investment. Another study of 322 realised mid-cap buy-outs between 1991 and 2007 found two-thirds of overall returns originated from strategic and operational activities, as opposed to the simple use of leverage.

The report challenges a persistent view; far from bringing businesses to their knees under the weight of debt and shedding jobs to achieve these productivity gains, private equity backs companies that end up at least as resilient as comparable organisations. A 2010 study showed the failure of portfolio companies was up to 50% lower than that of non-PE-backed businesses.

As for employment, the new EVCA paper recognises that more research could be conducted to properly evaluate long-term impact. But several signs again point to a generally positive effect. One E&Y study in particular shows that from 2005 onwards, employment in private equity-backed companies grew by an average of 2.2% per annum while overall, Europe-wide figures hovered between 1.8% shrinkage and 1.8% growth.

Nick Money-Kyrle, managing partner at German mid-cap firm Steadfast Capital, notes that this growth-focused approach is the only one still relevant in the post-financial crisis era, especially in the mid-market. "Without growth in the company, our business is a failure. We're not vulture funds, getting into companies to rip them apart and reduce costs. It's all about creating growth, assisting it and making resources available for that to happen."

> "The capital is just the tip of the iceberg – it is important that we spend time looking at getting businesses out into the market"
>
> **David Mott,**
> **managing partner, Oxford Capital**

Frankfurt

HEARTS AND MINDS

Given these encouraging findings, along with the comparatively poor image of the industry across Europe in the public domain at least, private equity players are unsurprisingly welcoming of this EVCA initiative.

"These efforts at quantifying the positive impact of private equity on a pan-European level are extremely important - and we might not have done it enough, or seriously enough, in previous years," says Charles Diehl, partner at French buy-out house Activa Capital.

Mott agrees. "This can only help: we are faced with lots of anecdotal evidence but it is generally difficult to get a broader view of the sector, and the more positive aspects tend to get overlooked."

At a time when upcoming European regulations such as the AIFM Directive could have a significant impact on the private equity industry, it is no coincidence that Frontier Economics framed the report around key elements of the EU's Europe 2020 growth strategy.

Diehl argues that this message could very well fall on sympathetic ears: "European politicians are rightly obsessed by SMEs at the moment, and these absolutely need growth and internationalisation. They also know that stock exchanges are a no-go for financing these ambitions on a large scale. There really is no alternative to private equity in that context, and as a result the small- to mid-cap industry is viewed in a favourable light by both national and European regulatory bodies."

And Rob Moffat, a principal at UK-based Balderton Capital, echoes this sentiment when it comes to venture capital. "Government support for entrepreneurs and early-stage investors has been improving over the past few years and is to be welcomed," he says.

Other private equity practitioners, however, argue that the industry might ultimately need more than data-led, dispassionate arguments to see this constructive attitude translate into less punishing regulation.

"We'd need huge lobbying efforts to be successful in curbing regulatory constraints," warns Money-Kyrle. "At the moment there's no political capital to be gained by painting a positive picture of the financial sector. As a result there is little incentive for European politicians to try to make a better distinction between different asset classes when it comes to regulation."

"European politicians are rightly obsessed by SMEs at the moment, and these absolutely need growth and internationalisation"

Charles Diehl,
partner,
Activa Capital

GETTY

Higher or lower?

A consensus about lower to mid-market private equity arrangement fees has been broken. **Steve Currie** says the historic "rule of thumb" percentage invested is set to be an increasing part of negotiations

In the past any debate about private equity (PE) arrangement fees focused on the principle of such fees and what was the market norm. Prior to the credit crunch there was a pretty standardised approach to such fees.

Banks would typically charge between 2% and 2.5% of the debt facilities provided, for arranging the leverage (equivalent to the first year margin over Libor). PE firms would charge slightly more – 3% of the equity element of the buy-out. The justification was that PE firms would underwrite some or all of the due diligence costs. The quid pro quo for picking up any abort costs if a deal failed was that the general partner (GP) would take higher arrangement fees on those buy-outs that did get across the finish line.

However, post-credit crunch the established approach has given way to a new emerging attitude to arrangement fees. With less capital available to lend to buy-outs in the wake of Basel I and II regulations, arrangement fees charged by banks crept up. Typically, the amount charged on the debt element of a deal increased to anywhere between 4% and 5% (to reflect the increase in the cost of borrowing over Libor). PE arrangement fees increased to keep pace with bank arrangement fees.

This rise in fees came against a backdrop post-2008 of limited partners (LPs) reviewing fund performance and structure – looking at the fee for funds under management, monitoring fees, the hurdle at which carry started and how much carry GPs received.

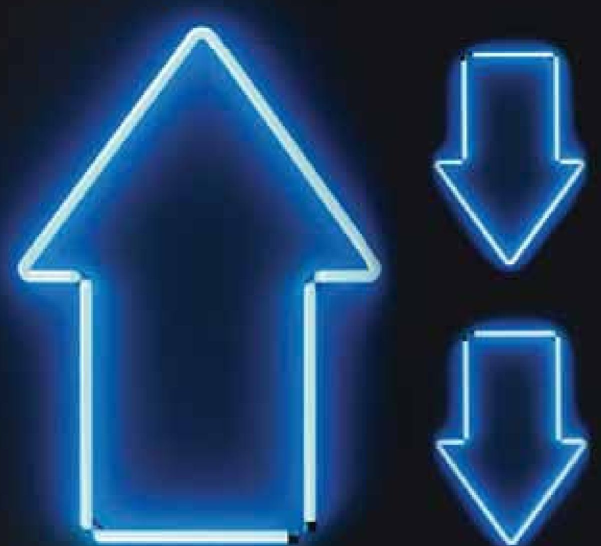
Traditionally, GPs retained between 50% and 100% of arrangement fees, but now some funds are structured so that the LP takes 100%. Responsibility for abort costs would pass on to the LP in such situations. In general, such revised fee structures, where the LP receives all (or maybe most) of the arrangement fee, the goal alignment between LP and GP is arguably stronger.

Previously when you sat down with a PE house, my advice to a management team would have been to pick the battles you can win and focus on the financial terms that had the greatest financial impact on management returns over a three- to five-year period. Arrangement fees were unlikely to be at the top of this list, because those fees went straight to the GP's P&L account and although they impact on the Day 1 cash requirement they had a low impact on overall returns.

Now that is not necessarily the case. Arrangement fees range from 0% to 5% of the total deal value and therefore do have a material impact on returns. A GP may be far more willing to negotiate, and use a lower fee as a differentiating factor to win a deal.

The arrangement fee has shifted from being an emotive subject to a material financial factor in the selection of which PE backer a management team may plump for. Where there was always some debate over inclusion of the arrangement fee in the private equity IRR and Money Multiple calculation, now it must be included when modeling such different offers.

We will increasingly see PE GPs using it as a bargaining tool and my advice to clients would now be to look closely at the arrangement fee – how much is it and who ultimately receives it.



BEN MINERS/IKON

Steve Currie is a partner at Catalyst Corporate Finance

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BIE EVENTS

ALL EYES ON PRIVATE EQUITY

The more things change, the more they stay the same. Despite the moribund economy Grant Murgatroyd finds the private equity sector not only surviving, but prospering

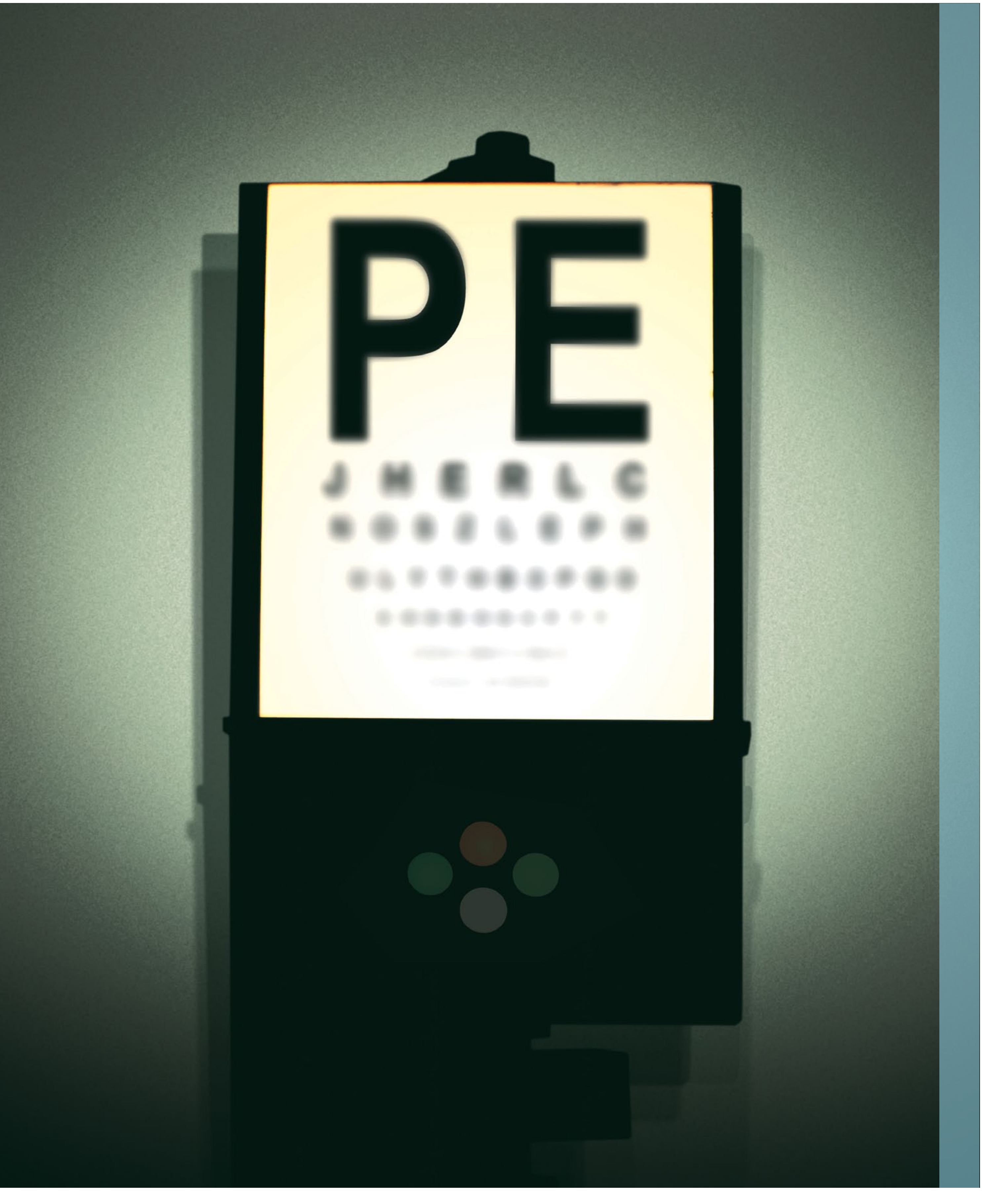
We worked diligently as a team to raise this new fund in an extremely challenging market, firmly beating our target of £250m," UK mid-market private equity firm Dunedin said of its latest £300m fundraising, announced in July. Dunedin followed in the footsteps of other private equity houses. Larger recent fundraises included Cinven, which raised €5.3bn; HgCapital, €2.3bn; Advent International, €8.5bn; and Equistone, €1.5bn. Like others, Dunedin was keen to highlight its success in the "challenging" conditions.

So just how tough is the fundraising market? According to Preqin there were 272 buy-out funds worldwide in the market in the summer of 2013, looking to raise $204bn. This compares with 204 funds closed, raising a total of $145bn in the 18 months to June 2013.

"If you go back a few years you could see that on an annual basis less than half the capital being sought was raised each year," says Nicholas Jelfs, senior analyst at Preqin. "There is still a lag, but it has narrowed. However, buy-out funds are still taking on average 16 months to close."

A look at the largest European funds raised over the past few years (see table on page 21) reveals a list of names that is familiar to anyone who has been following the private equity industry for the past 20 years. Much has been made of Duke Street Capital abandoning plans to raise a new fund last year. The UK-based buy-out group, which raised €963m in 2006, has had to ask for money from investors ad hoc since last year and in June sold a 35% stake in itself to French fund manager Tikehau. Circumstances forced Candover into run-off last year, with the UK-listed investor looking to return capital to shareholders within four years.

"There are a lot of funds seeking a lot of capital," says Armando D'Amico, managing partner at placement agent Acanthus Advisers. "Not all are going to be successful and many will waste a lot of time and money failing to raise funds.



DAN MURRELL

PERFORMANCE MATTERS

Circumstances have meant general partners (GPs) have had to become more conscious of how and why they would appeal to limited partners (LPs). Nic Humphries, chief executive officer at European private equity firm HgCapital, says the basic message from LPs was pretty simple: "Focus, focus, focus. Same-sized fund. Same sectors. Same geographies. Same types of deals. Even the same business model within those deals. So you don't need to leap over tall buildings to make a decision; you either like what we do and invest or you don't."

Like HgCapital, Dunedin is a firm sticking to what it has been successful at and what it feels it will continue to do best. "A GP with a good track record and strong returns is crucial," says partner Giles Derry. "But within that there are probably some layers of returns data that are of particular interest to LPs. Consistency across funds is important, but LPs are also looking at consistency within the fund."

Fund managers targeting the public markets are required by law to point out that past performance is not necessarily a guide to future performance. LPs are increasingly of the same view with private equity. Even those funds that have been successful have had to open themselves up to far greater scrutiny than before.

"Only a small minority of buy-out managers are raising money easily at the moment," says Christiian Marriott, investor relations partner at European buy-out firm Equistone. "Even if you have a very compelling proposition that the market is interested in, investors will put you under a huge amount of scrutiny before parting with their allocations. They are not looking at the returns you have made in isolation, but asking whether or not you can repeat them. Have you been a smart buyer and bought well? Have you transformed the company under your ownership? Are you a good seller? I don't think investors are particularly bothered about whether you made good returns from the boom years. They want to know how you have done since 2008 and how you will invest in the future."

One thing that has remained mostly unchanged is the "2-20" fee model of a 2% annual management fee and 20% carried interest after a performance benchmark is hit. Buy-out funds currently in the market or closed with vintage years 2011-2013 have an average annual management fee of 1.9%.

STAYING ON TOP OF THE GAME

Despite major ongoing headwinds in terms of moribund domestic economic circumstances, continued eurozone weakness and volatile financial markets, UK private equity funds have continued to deliver strong returns for investors in recent years, according to the latest *Performance Measurement Survey* by the BVCA.

The one-year IRR in 2012 for all funds in the survey was 11.5%, compared to 12.3% on the FTSE All-Share and 8.4% for pension fund assets. Over the past decade, annual returns of 15% are considerably higher than those from the WM Company's universe of UK pension fund assets (8.3%) and the FTSE All-Share (8.8%). Looking more closely at the last five years, where the global financial crisis has really taken hold, UK private equity funds generated an annual return of 6%, outpacing the 2.5% generated to investors by the All-Share and the 3.8% returned to holders of pension fund assets.

"I am not sure whether investors will tolerate mistakes made during the recession," says Robert Ohrenstein, global head of private equity at KPMG. "Private equity funds operate on 10-year cycles, so we haven't yet seen the full performance of funds through the five to seven years of global financial crisis and economic

"Investors will put you under a huge amount of scrutiny before parting with their allocations"

Christiian Marriott, investor relations partner, Equistone

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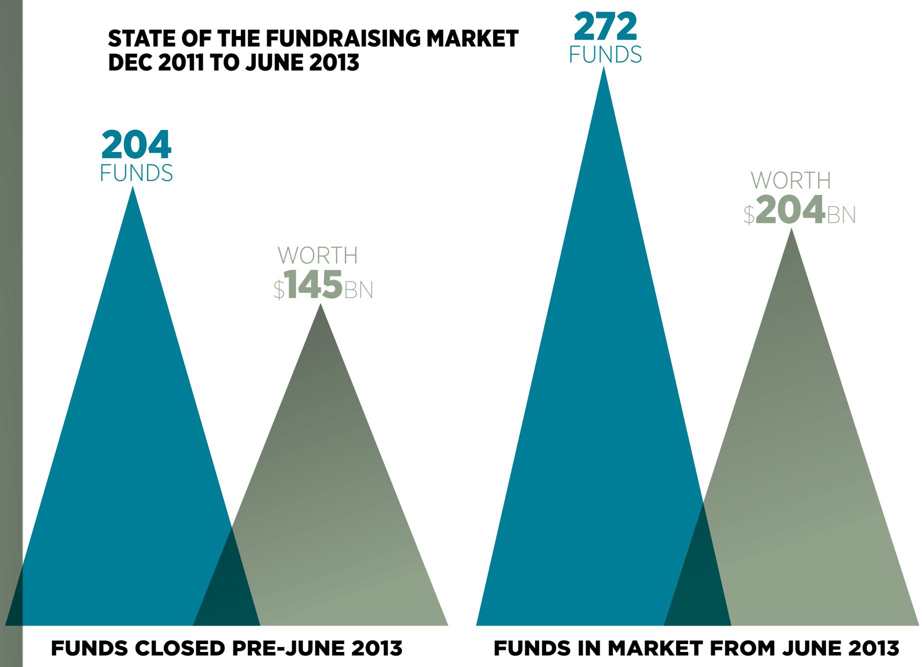
are considerably higher than those from the WM Company's universe of UK pension fund assets (8.3%) and the FTSE All-Share (8.8%).

SOURCE: PERFORMANCE MEASUREMENT SURVEY, BVCA

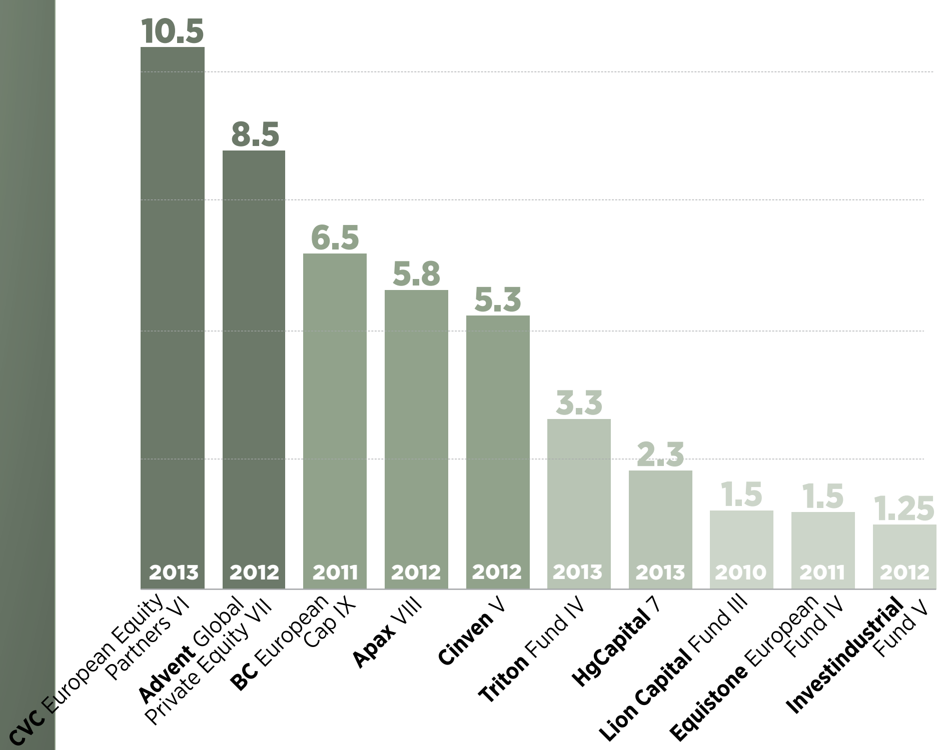
STATE OF THE FUNDRAISING MARKET
DEC 2011 TO JUNE 2013



SOURCE: PREQIN

TOP 10 LARGEST EUROPE-FOCUSED PRIVATE EQUITY BUY-OUT FUNDS TO CLOSE SINCE 2011

FINAL SIZE €BN



downturn. It may be that there will be an accepted norm of performance and, if you have operated in the top half or quartile of that, you will have a moderately successful fundraising. If you haven't, you will be at risk of raising a significantly reduced fund. The successful fundraisers will be very successful and for the unsuccessful ones it will be dire."

STAND OUT FROM THE CROWD

When you talk to GPs today, it is notable how much more concerned they are with LP relationships and trying to see things from the perspective of their LPs than was the norm a decade ago. "Differentiation is an area where I have a great deal of sympathy for the LPs, because they are inundated with information memoranda and it is difficult for them to pick the key points of differentiation," says Richard Green, chairman of August Equity. "But the Holy Grail of differentiation is origination. No matter how good your deal-doers are, if you don't get a good flow of deals and an opportunity to consider them outside the auction process, your chances of putting together a good portfolio are limited."

There are a lot of mid-market funds out there and it can be hard for potential LPs to tell one from the other. "It is important we can demonstrate to the investment community what it is we do differently, not just to produce above average returns," says Mark Owen, director of NBGI Private Equity. "The directors of our UK team, for example, all have operational backgrounds and our investment thesis is usually based around how we can add value to the company beyond the standard transactional skills that are now almost generic."

For advisers, it is about how private equity firms have behaved on transactions in the past. As the industry has moved further and further into the mainstream, general partners are being held much

Buy-out funds currently in the market or closed with vintage years 2011-2013 have an average annual **management fee** of

1.9%

more accountable for their behaviour. "Sell-side advisers are looking for a different type of track record to LPs. It is track record of how they have performed in processes in the past. Have they delivered on what they said they were going to deliver? Have they chipped the price at the last minute?" says Mick McDonagh, director at Liberty Corporate Finance.

When it comes to emerging markets, PE has been very cautious in dipping its toes in tropical waters through the crisis. Asian fundraisings peaked in 2008 at $84.4bn according to Preqin, plummeting to $31.9bn in 2009. While it staged a steady recovery since then, last year fundraising fell to $52.7bn, and for the first half of this year just $23.9bn was raised. However, even if delivery is not quite there, the appetite is - there is $32bn being raised currently, which is healthier than in Europe.

From whichever side you look at it, it comes down to track record. GPs have to be more transparent than ever before about what they do, how they do it and how they will do it in the future. The only people who really know how the private equity industry is performing - the limited partners - are continuing to support the industry.

"With Europe and other regions showing little or no GDP growth over a prolonged period, the PE portfolio has inevitably been affected"

Sachin Date,
leader, equity for EMIA

ADDED VALUE?

Fundraising may grab the headlines, but exits are the lifeblood of private equity. When Cinven announced the close of its €5.3bn European fund it used the opportunity to remind the media – and the wider world – that it had realised more than €6bn of value for investors since 2011.

Across the board, however, the industry has been struggling to return capital. Exit numbers dropped last year in Europe to 61 from 2011's total of 85, according to research from EY.

"With Europe and many other regions showing little or no GDP growth over such a prolonged period, the PE portfolio has inevitably been affected," says Sachin Date, EY's private equity leader for Europe, Middle East, India & Africa. "Profits growth in businesses exited in the boom times was running at over 15% a year. The figure for businesses exited in the last two years has fallen to 5%. Driving portfolio business growth has become very difficult indeed."

Tim Green, managing partner at GMT Communications Partners, agrees: "The days of financial engineering and heavily geared buy-outs and marginal improvements that have exponential impacts on returns are over. Growth investing is very much about buying businesses where you can see a very clear strategy to growth, picking the right management team in the right sector and buying and selling at the right price."

Hold periods have been creeping up. The average hold period for private equity-backed portfolio companies sold in 2012 was five years, compared to 3.9 years for those sold in 2008, according to data firm Preqin. The issue is most pronounced at the top end of the market, where average hold periods for deals of more than $1bn exited in 2013 has almost trebled from 2.1 years in 2008 to 6.2 years so far this year.

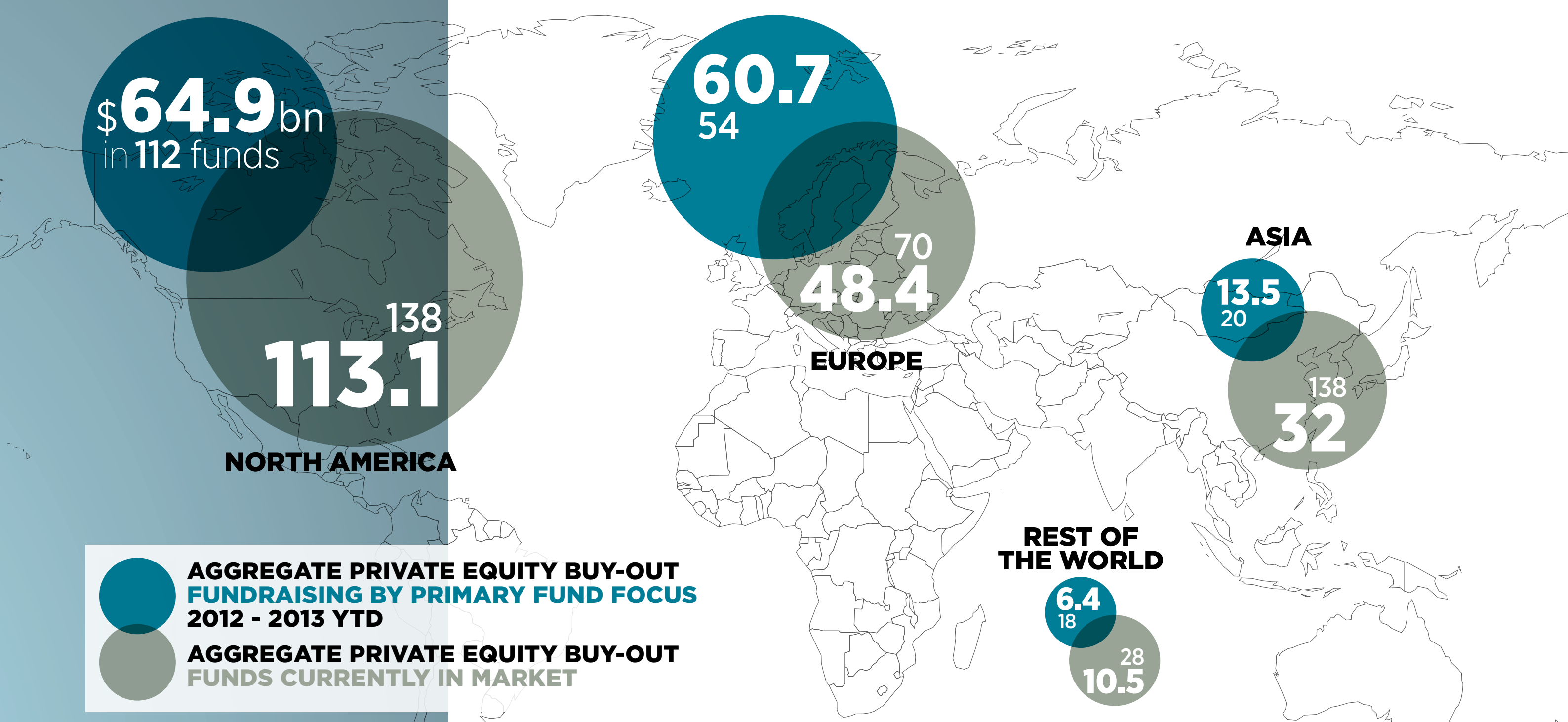
Private equity funds have even started offering warranties and indemnities when exiting investments, a clear sign that the balance of power resides with the buyer and of the lengths general partners will go to to return capital.

Indicators of health

"Private equity funds have had to look at ways of exiting cleanly, particularly when they are down to the last one or two investments in the fund," says Will Hemsley, senior vice-president in the transactional risk practice at insurance broker Marsh. "We are seeing lots of funds looking to use insurance capital to secure against those issues so they can turn to the liquidator, and evidence that they have no overhanging liabilities, seeking agreement to wind the fund down and return the money to investors."

However, low levels of exit activity should not be interpreted as an indicator of the PE portfolio's overall health. While, according to the EY data, 20% may generate less than one-times equity return, more than 40% are expected to achieve investment returns of at least two-times equity invested. As a counterpoint to the oft-cited 80-20 rule, which states that 80% of the return on a fund comes from 20% of the investments, EY found that 80% of exited portfolio companies increased their value under PE ownership. Private equity investors are under more pressure than ever to find growth in the portfolio, but it is not something that can be pulled like a rabbit from a hat.

"Growth is completely embedded in this business, like



the words in a stick of rock," says Charlie Johnstone, origination partner at UK mid-market firm ECI. "We will only back growth businesses and therefore we are experts at helping those businesses grow and that means we are better at picking them, better at winning them and better at helping them grow more."

Seeking out a market

A key area of growth for mid-market companies is internationalisation, says Johnstone. In ECI's current fund, raised in 2008, 60% of sales by its UK portfolio companies come from overseas markets, compared with just 30% in the predecessor fund's portfolio.

"Most PE houses are looking at how they can add value, but fundamentally they try to find businesses in growth markets, with good management teams and let them get on with it," says Mick McDonagh, director at Liberty Corporate Finance. "I still think that is the scenario that is most likely to be successful, but people are spending an awful lot of time working out what the growth markets are they want to be in."

DEBT: BIGGER IS BEAUTIFUL

With no shortage of risk capital for private equity deals, the bigger question mark hovers over the supply of debt capital. For borrowers, diversity of funding sources is good and private equity firms are finding a widening pool of potential lenders, with deepening liquidity in the high-yield market and the emergence of dedicated debt market funds.

"There is significant loan liquidity at the moment, but the high yield product has proved very compelling for a number of private equity houses," says David Whiteley, Managing Director at Lloyds Bank Commercial Banking's Acquisition Finance team. "With high yield, there are no maintenance covenants, no amortisation, it is fairly easy to tap and many deals have put portability clauses in so the financing will survive a change of ownership. Issuance by the high yield market has exceeded the loan market so far this year."

A DLA Piper survey revealed that "unitranche" funding, (where a single fund backs an LBO with a combination of senior and subordinated debt in one instrument), would become the "second most important source of finance to senior loans." Further down the deal size spectrum, debt is harder to come by. Lloyds Banking Group last year completed 60 deals in the UK. "Deal flow in the mid-market is flat, so the mix of business has moved from supporting mostly primary transactions, to bolt-ons and recaps. Where the business has de-leveraged significantly, we are happy to releverage and give some of the loan stock back," says Ian Sale, managing director at Lloyds Bank Commercial Banking's Acquisition Finance team.

"Debt is easier to come by at larger transaction sizes," says Dunedin's Derry. "If you are a sub-£10m business and you don't have a financial sponsor involved, it is harder to get debt than it used to be."

Some smaller buy-out firms have started providing companies with a blended mix of debt and equity. When Mobeus Equity Partners backed the £11m MBO of Veritek Global, the Eastbourne-based provider of outsourced technical services, in July 2013, it provided a combined debt and equity package, and a cashflow loan alongside asset-based finance from RBS.

"We're increasingly providing both the equity and debt finance in acquisitions," explains Mark Wignall, managing partner at Mobeus. "It's harder than ever to get bank finance for smaller transactions, but also we find we can generate an attractive blended return from the package."

"Growth is embedded in this business like the words in a stick of rock. We only back growth businesses"

Charlie Johnstone,
origination partner, ECI

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State of flux

Can institutional investors, companies and governments work together to finance innovative early-stage ventures? **Shaun Beaney** assesses three very different points of view

At a time when the word 'innovation' is scattered around some public policy documents like confetti, Mariana Mazzucato's new book *The Entrepreneurial State* is a well-argued and engaging look at the interplay between government, finance and new technology.

Many financial institutions are either reluctant, or not permitted, to consider the volatile risk and returns of venture capital, particularly in Europe's relatively equity-averse investment culture. But Mazzucato takes aim from a different direction: VCs don't take the big technology risks at all, she argues. It's the state that does. In fact, she claims, VCs merely move in later and reap big financial returns.

Mazzucato, professor of economics at the University of Sussex, has a rising profile in UK political and media circles. In this book she aims to debunk old assumptions. Innovation is not the state's main role, she writes. But many governments have historically provided the entrepreneurial push to "make things happen that otherwise would not have" and "take the risks that business won't". That goes a long way beyond merely patching up market failures.

Mazzucato outlines how US government defence, academic and investment agencies have helped to create a lot of the superpower's tech and internet infrastructure. For example, the algorithm behind Google's success was financed by the public sector. Meanwhile, the main technologies in Apple's iPod were government-funded. Even the CIA had a hand in creating the now-ubiquitous touch screen.

NEW THINKING?

Not all of this is new ground. How the US government, and its defence sector in particular, shaped Silicon Valley's VC culture was covered by Harvard academic Josh Lerner in his lyrically-titled 2009 book *Boulevard of Broken Dreams*. Lerner's main argument is that state-backed VC programmes need to be kept simple, scalable and long-term to be effective.

Mazzucato questions the role of venture capital, full stop. VCs "took years" to start backing biotech or nanotech companies. VCs are risk-averse "impatient capitalists" who avoid capital-intensive and technologically complex sectors.

It's not incidental that many VCs prefer sectors such as digital media and consumer finance. VC "speculation" in sectors such as biotech has, she insists, actually been "unproductive".

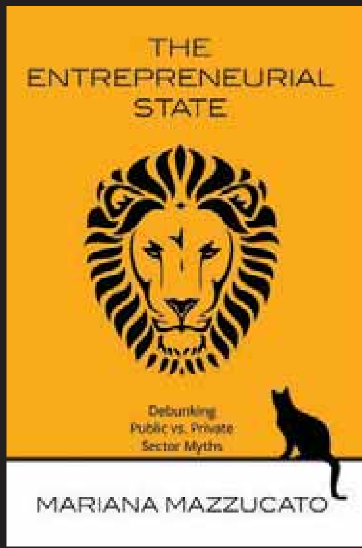
But there's the swishing of baby and bathwater here. Mazzucato acknowledges the importance of a small number of successful, fast-growing businesses for economic innovation, growth and the creation of skilled jobs. But she throws out the expertise, know-how and connected capital of sophisticated VCs.

There are widely-recognised funding gaps in commercialising new technologies and in follow-on rounds of funding that are not filled by Mazzucato's 'entrepreneurial state'. On this count, she also neglects the role of big corporations in turning expensive R&D into new ventures.

These are subjects tackled by Bill Janeway in his book, *Doing Capitalism in the Innovation Economy*. Janeway, who set up Warburg Pincus Technology Investment, draws on four decades of experience (and colourful anecdotes) as a successful VC to make his case. The Innovation Economy depends on a combination of upstream infrastructure financed by the state and large companies with a downstream 'pull' of financial speculation by the private sector, including VCs.

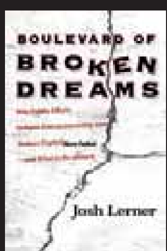
For example, from China to the US, governments have had to lead the way in cleantech. But they should then stand back to allow (in Janeway's highly idiosyncratic words) "hosts of hopeful commercial monsters funded thereby to explore the new economic space".

Tech-savvy professional VCs - if adequately and consistently capitalised by financial institutions and supported by high-quality advisers - could be an even bigger factor in the next wave of entrepreneurial innovation and growth.



Mariana Mazzucato
The Entrepreneurial State: debunking public versus private sector myths
Anthem Press, 2013

FOR THE BOOKSHELF: VENTURE CAPITAL



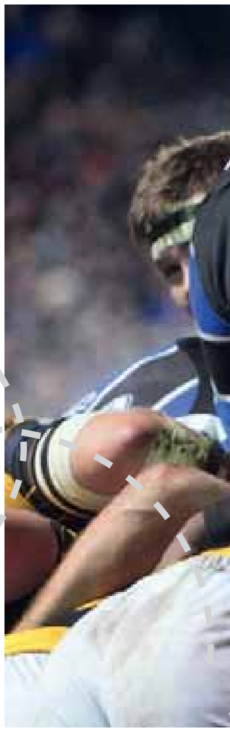
Josh Lerner
Boulevard of Broken Dreams: Why public efforts to boost entrepreneurship and venture capital have failed – and what to do about it
Princeton University Press, 2009

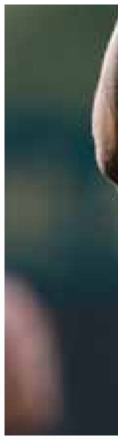
William Janeway
Doing Capitalism in the Innovation Economy
Cambridge University Press, 2012

Shaun Beaney is Corporate Finance Faculty manager. You can join in the debate online at bit.ly/13jvXWk

Hard-earned points

When it comes to sports teams, the heart can rule the head. The sale of London Wasps needed a cool approach to ensure success on and off the pitch. By Jason Sinclair





April 2012, and a vital last-ditch tackle by London Wasps winger Tom Varndell on Bath's Sam Vesty secured a vital losing bonus point for the Wycombe-based rugby club. That point was enough to secure survival in rugby union's Aviva Premiership. As Vesty broke for the try line, Baker Tilly partner Jim Clifford was probably more nervous than the other travelling Wasps fans. Failure to stay in the top flight would quite possibly have scuppered the deal he'd been brokering to sell Wasps. Administration, points deductions and the death of the club would not have been unfeasible.

"Falling out of the premiership in rugby leaves a club with lower potential gate revenues," said Clifford, who heads Baker Tilly's valuations team. While Wasps would have retained the premiership shares that give it access to TV rights and other similar income, it would have probably been forced to sell them, according to a preset formula, to a promoted club without any such shares.

"That puts income further under threat, and escalates the level of investment needed to get back into the premiership," adds Clifford. "With continued loss-making, there is inevitably something of a ticking time bomb. Either the vendor must inject initial funds, which [owner Steve Hayes] did to some degree during the sale period, or the club risks running out of money. If a club fails and goes into formal insolvency, it suffers a points deduction, and it would need consent to play on in the next season."

Despite increasing TV and commercial revenues most professional rugby union clubs lose money, and there is only so long they can be run as a labour of love. Wasps were heavily in the red each year under Hayes. He also owned Wycombe Wanderers football club, and pivotal to his ownership strategy had been the potential development of new stadium facilities. But the council refused planning permission, so he slapped a 'for sale' sign on both clubs.

For Wasps, Varndell made that critical tackle last April. Clifford and Hayes lost the game but they won the deal. Hayes had made his fortune building the now defunct online finance broker loans.co.uk, which he sold to MBNA. But he was sustaining losses of between £1.5m and £3m a year at Wasps. He wrote off £10m of shareholder debt, and found a buyer in a consortium led by former Wasps player Ken Moss. The £2m sale was completed in September 2012, just as the 2012/13 season started.

SCRUM DOWN

Finding the right buyer and choosing between the different strategies of the shortlisted parties was a tough job. "Unlike football clubs, there's not a clear, homogenous market," says Clifford. He says the potential buyers were motivated variously by a love of the club, the opportunity to exploit the Wasps brand, the opportunity to redevelop the ground, or the prospect of trading it as a self-sustaining profitable business.

"Funding lines for buyers were similarly varied, with collaborative investments in most, from parties with differing focus points and desired outcomes," says Clifford. "So it was harder than in a general commercial deal to assess how fundable each proposal was."

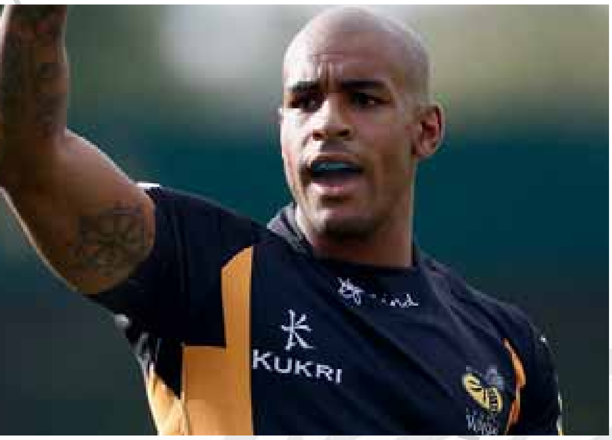
One time-critical aspect of the deal was the need for new owners to secure enhanced sponsorship, a major revenue stream. Sponsorship is

"With continued loss-making, the vendor must inject initial funds, or the club risks running out of money"

Jim Clifford,
corporate finance partner, Baker Tilly

Pitch for success: The Wasps deal was followed by good results for the team on the field (left)

Tom Varndell (below left)



ROVING CLUB

Wasps have certainly wandered more than Wycombe Wanderers since being founded in Hampstead, north London, in 1867. They have had home grounds in Sudbury, and west London football team QPR's Loftus Road ground, before moving to Buckinghamshire in 2002. The new buyers wanted to return to west London to a ground share with Brentford FC.

Traditionally one of the powerhouses of English rugby, and champions as recently as 2008, Wasps' success on the pitch had been hampered by off-field problems – home attendances of just 7,000 and ground facilities inadequate to compete with the big players of European rugby. Not uncommon for British rugby union clubs, Hayes, Moss and Richardson show that while benefactors do exist, even successful businessmen can struggle to come up with a winning strategy.

GETTY

generally arranged annually in advance of a new season. The dilemma was whether to sign up the following season's sponsorship, or leave that task to the new owners.

Deals involving sports clubs, and crucially fans of the team, are often complicated by the kind of attention a transaction of this size would not normally attract. "The sale was played out in the semi-public arena of the press and the rumour mill," says Clifford. "This posed the risk of buyers being put off by unhelpful comment."

But Hayes was full of praise for Baker Tilly's never-say-die attitude: "This project had many twists and turns. The Baker Tilly team showed remarkable tenacity dealing with complex issues proactively and creatively."

David Smellie, a BP Collins corporate partner, who provided Hayes with legal advice on the deal, said: "The deal was testing due to the complexities which involved us having to consider different deal structures before settling on the final structure. In addition the transaction had to be completed very quickly. It is pleasing to see the success Wasps have had on the pitch since the transaction completed and we were delighted to have played a part in ensuring the continued success of such an iconic local club."

One particular complexity was Moss's consortium taking on a loan of £1.5m, secured against shares in Premiership Rugby. By early 2013, there were rumblings of problems with Moss's ownership, and Derek Richardson, an Irish entrepreneur who made his fortune creating online insurance broker 123.ie and selling it to Royal Sun Alliance, had put £1m into the club. By spring, he had acquired it from Moss.

SUCCESS AWAITS

Clifford believes Wasps can find that magic formula: "The brand was widely recognised by buyers as a leader in rugby, and indeed sporting, circles. With the rugby world cup coming [to England] in 2015 it adds to the potential. The potential for sponsorship enhancement, gala matches and other sporting entertainment, in the UK and overseas, gives considerable opportunity for revenue growth. Various buyers anticipated getting to a positive trading position once the footfall to matches could be increased."

Short-term financial future secure, the prospect of a new ground to rival Saracens' Allianz Park in the pipeline, and a respectable eighth-place finish in 2013's Aviva Premiership means Wasps are looking forward with some hope. Says Clifford: "Provided Wasps get their sponsorship and premises elements right they stand a realistic chance of achieving a self-sustaining model."

BLADE FUNDER

Firing up investment in carbon reduction projects and making the UK greener is no small task. But Green Investment Bank CEO **Shaun Kingsbury** has a strategy for change, as Marc Mullen finds out

"I am not an activist, I'm an investor," may have something of an ad agency-ring to it, but when Shaun Kingsbury delivers the line for the third time it is clear he is not attempting to plant some subliminal message – he is getting to the core of the Green Investment Bank (GIB) mission.

As fledgling financial institutions go, GIB has significant firepower. Last October, when the government received the green light from the European Commission (EC) to fund the bank, it announced £3bn seed capital would be fully committed by March 2015. In June, the government announced another £800m to see it through to March 2016. The nascent bank's inaugural investment impact report to the end of March 2013 revealed it had committed £635m. Crucially, the 11 transactions it invested in had attracted £2.3bn of capital in total.

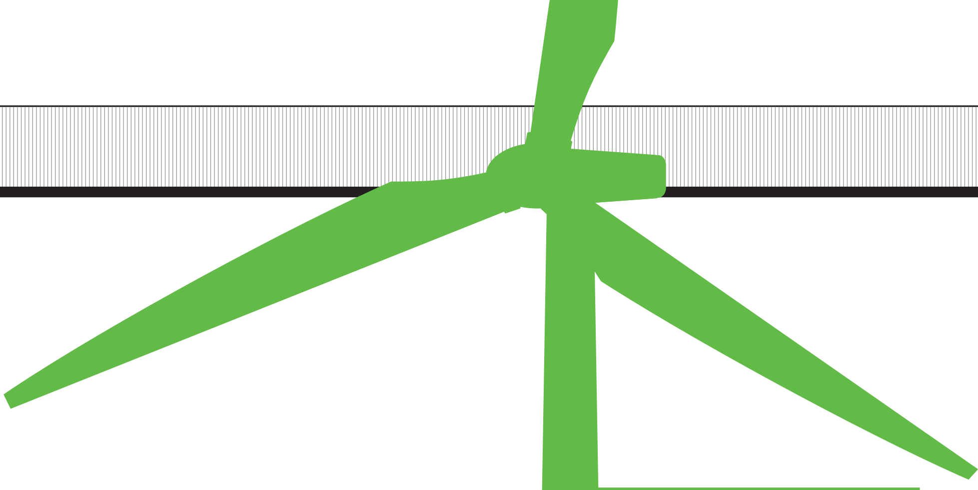
Laudable as that is, the scale of the task in hand is enormous. It is estimated that the UK needs close to £200bn of green investment over the next 10 years if it is to get its carbon-reduction targets on track. According to Bloomberg New Energy Finance, green investment in the UK was down 17% in 2012 at around $8bn.

"We have a hiatus over liquidity issues and the energy market review issues," says Kingsbury. "I don't see there being a situation in the near future where there is too much capital in this business."

GETTING TO WORK

So what exactly is GIB investing in? It has four priority sectors: offshore wind, waste recycling, waste-to-energy and energy efficiency, which will account for 80% of its capital. Kingsbury says these areas "have scale and need capital most".

Prior to EC clearance GIB invested in



> "The right kind of deals for us are both green and profitable, not green or profitable. We want more capital to come in"

funds through the Department for Business, Innovation and Skills's (BIS) UK Green Investment team. Once granted, it began direct investing in earnest. In January, it contributed £30m to a £122m bank syndicate loan to Shanks Group. Shanks had won a £750m, 25-year contract from Wakefield Council to build and run a recycling, waste treatment and sustainable power generation plant in West Yorkshire. In March its first direct investment in offshore wind was a £57.5m 25% stake in Rhyl Flats Wind Farm.

The other 20% of its capital will go to non-priority green sectors: biomass, carbon capture and storage, and renewable heat, wave and tidal power. It will not invest in onshore wind, solar or hydro, where there is a longer history of capital inflow.

GIB has flexibility in where it can invest on the capital structure - debt, equity, mezzanine, or even guarantees. According to Kingsbury it can look at "any clever structures we think are appropriate".

While some opportunities landing on Kingsbury's desk are clearly defined in terms of the investment required, say providing the last piece of debt in a syndicate, others need the team to put their thinking caps on.

"Sometimes people will bring us something that is quite innovative," says Kingsbury. "Energy efficiency say, and rolling out new models for that, like smart meters and the communication networks that make them all work. There will not be a roadmap of how that would be financed. So we sit down with the other parties and say: 'We are interested - how can we do this?'"

Then of course there are the many projects out there not yet ready for investment. Either they are not yet profitable, the technology too immature or the project itself not quite ready.

"We will not invest until it meets the minimum of our green guidelines, our investment guidelines and it provides an appropriate rate of return for our capital," says Kingsbury. "However, we will work with those people, and hopefully help get them to an investable stage."

BIGGER PICTURE

So how will GIB kick start the transformation of the UK into a green economy? The success of the bank over the next couple of years is pivotal. If it shows it can invest in green projects which generate profits, cashflows and then - crucially for investors - yields over the longer term, private capital will follow.

GIB assesses investment opportunities using what it calls a "double bottom line". Financial profitability is one half. The second is the green impact of GIB's investments. There are three aspects to 'green purpose': reduction in greenhouse gas emissions, improved efficiency in natural resource use and protection of the natural environment. "The right kind of deals for us are both green and profitable, not green or profitable," says Kingsbury. The 'crowding in capital' concept is central to whether GIB says yes or no to participating in a project.

"We have to be additional, and that means we are crowding in capital," adds Kingsbury. "We want more capital to come in to the market. The very reason we are here is to crowd in capital. If

GREEN KING

Having started his career in the energy business with Shell International, Shaun Kingsbury was responsible for developing and managing businesses within the gas and power sector in Africa, South East Asia, the US and London. He was responsible for the development of Shell's global gas and power strategy. In 1994 he moved to the US. After 10 years with the oil giant, he joined Centrica as vice president of sales and marketing for its retail power business in Texas, whose revenues grew from $100m to over $1.5bn during his tenure.

At the turn of the millennium, his interest in the emerging wind energy sector was piqued. Turning his large energy project finance skills to renewables, he advised 3i on a number of renewable energy transaction opportunities in Europe. These included the private equity firm's €170m acquisition of wind business Gamesa Energy Services from its Spanish parent.

He was a founding partner of Pulsar Energy Capital in London. After leading several transactions in the wind sector for the boutique energy investment firm, he joined Hudson Clean Energy Partners, as investment partner and managing director of the private equity firm's European arm.

In 2010 he founded the Low Carbon Finance Group, a non-political group of senior practitioners in energy finance with the aim of advising policymakers on the best ways to attract capital to green investing. In September last year he was appointed GIB chief executive.

He holds both British and Irish citizenship and has a BA in business from the University of Ulster.

people look at our success and deploy more capital into the areas we invest, that is success for us. We won't compete with them - that is not the point. I am comfortable with that because the size and the scale of the opportunity for investment is huge."

As the only such bank in existence, GIB has aroused curiosity around the world. The Australian government and New York City are looking at the GIB model. In April, the bank entered into an agreement to look at clean energy investment opportunities in the UK with Masdar, the Abu Dhabi-backed renewable energy company. In 2008, it invested £500m in the London Array - the world's largest offshore wind farm, which became operational in April - 175 wind turbines generating enough power for 470,000 homes in south-east England.

"This agreement is a great stamp of approval for what we are doing and is a model for what we will be doing - reaching out to others from around the world who want to invest in green opportunities in the UK."

CLEANING UP
UK government's key 2020 commitments

34%
reduction in GHG emissions (against 1990 levels)

15%
of UK energy sourced from renewables (from 3% in 2010)

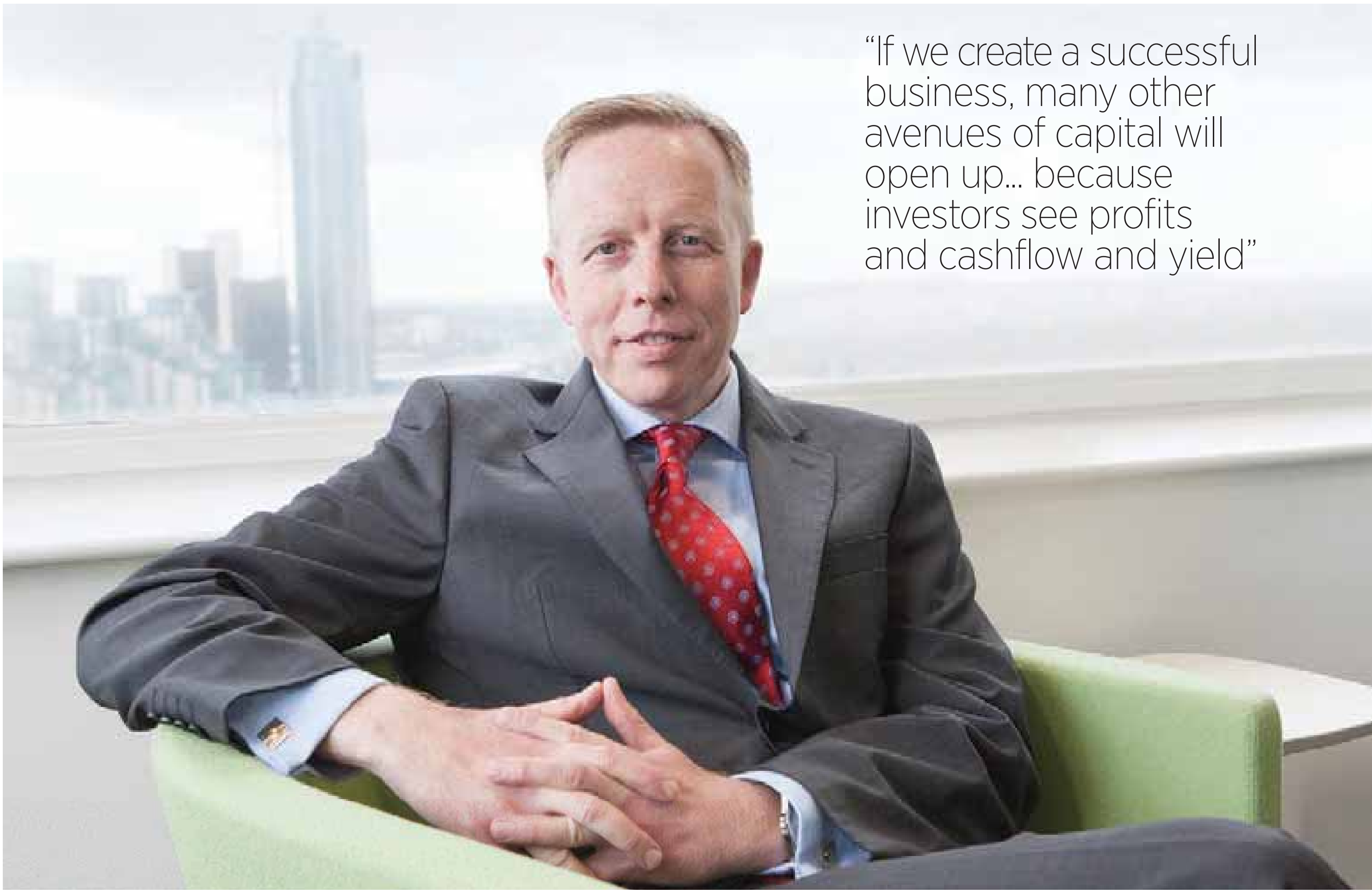
65%
reduction in biodegradable waste to landfill (since 1995)

BIRD'S EYE VIEW

Kingsbury splits his time between GIB's head office in Edinburgh and its London office. In Millbank Tower he has a bird's eye view of Westminster, perhaps a constant reminder of the politics involved in the bank. But to him it is an irrelevance. Kingsbury is full of appreciation for the broad cross-section of people who have brought the bank into being. Looking ahead, he is similarly open-minded.

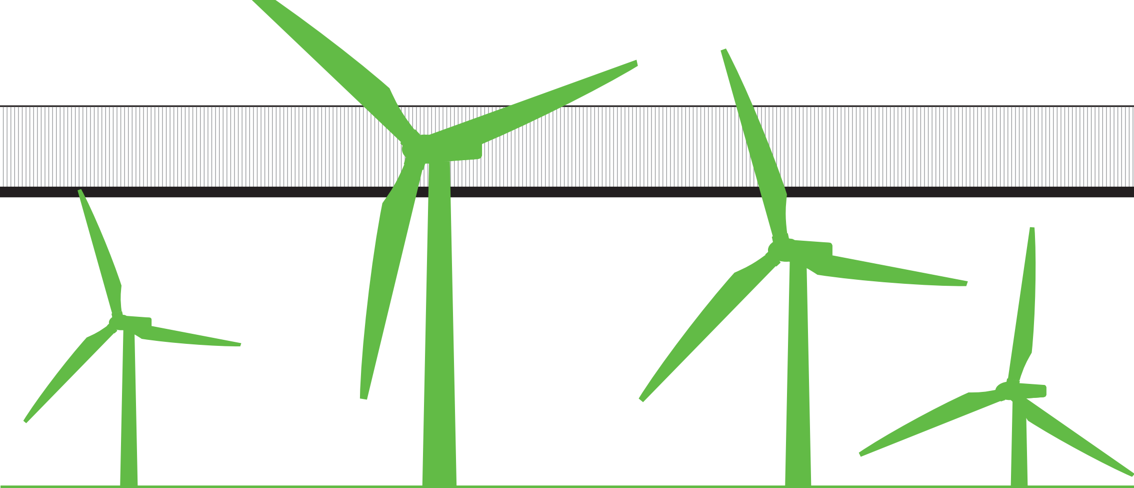
"We need to have as many sources of capital as we can, not just the government," he says. "If we create a successful business many other avenues of capital will open up, and we will be able to raise money, not because people are really worried about climate change, not because people really love green, but because institutional investors see profits and cashflows and yield.

"To have the maximum green impact and move the UK towards a more green economy, we have to create an enduring institution. We want to be around for many many years and continue to do other things, not to invest our money by 2016 and then disappear."



"If we create a successful business, many other avenues of capital will open up... because investors see profits and cashflow and yield"

CHARLOTTE PLAYER



GREEN SHOOTS: THE PROJECTS SO FAR

To the end of March GIB had committed £635m to 11 investments:

Date	Investment		Committed £m	Total transaction £m
Apr 12*	Foresight fund	Waste/biomass	50	100
Apr 12*	Greensphere fund	Waste/biomass	30	60
Aug 12*	SDCL fund	NDEE	50	100
Aug 12*	Equitix fund	NDEE	50	100
Dec 12	Drax	Waste/biomass	100	990
Dec 12	Walney	OSW	46	224
Jan 13	Gloucester	Waste/biomass	47	185
Feb 13	Wakefield	Waste/biomass	30	122
Mar 13	Aviva Energy Centres Fund	NDEE	50	100
Mar 13	Rhyl Flats	OSW	57	115
Mar 13	Green Energy Fund	Green deal	125	169

NDEE – non-domestic energy efficiency OSW – offshore wind
* - initial commitments by BIS, transferred to GIB upon its incorporation in November 2012

THE GREEN MEN AND WOMEN

GIB employs 83 people across its two offices in Edinburgh and London

Robert Mansley, managing director of capital markets, was head of European renewables at Morgan Stanley in London. Head of investment banking **Edward Northam** founded Viridis Clean Energy, Australia's first listed and dedicated clean energy infrastructure fund.

Dr Patricia Rodrigues joined BIS's green investments team in 2011, and led the establishment of four funds for small-scale energy-from-waste, waste recycling and NDEE investments. She was previously a director at Macquarie Group, managing a Spanish infrastructure portfolio. **Anthony Marsh**, chairman of GIB's investment committee was CEO of power development company ContourGlobal. Chief investment officer **Ian Nolan** spent almost 25 years at 3i, having been appointed its first CIO in 2009.

Euan McVicar was recruited as general counsel from law firm Pinsent Masons. At the end of May, the bank announced it had completed its senior team with the appointment of **Christine Brockwell** and **Gregor Paterson-Jones** as managing directors of offshore wind and NDEE respectively. Brockwell joined from Global Capital Finance, a Germany-based advisory firm, where she was responsible for European renewable energy transactions. Paterson-Jones was previously CEO of Sterling Waterford Securities in South Africa.

Adrian Judge, managing director of waste and bioenergy, has more than 15 years' experience in the sector.

Charles Abel-Smith, NDEE director, has spent more than 30 years in banking, most recently as head of the PPP advisory practice at engineering consultancy Arup. **Malcolm Ball** is also NDEE director and joined from Arup, where he led the global energy strategy practice.

GROWING A GREEN BANK

October 2008 Climate Change Act 2008 comes into effect, obliging the UK to reduce greenhouse gases by 80% by 2050 (compared to 1990), thereby turning the UK into a low-carbon economy.

2009 Two reports – by Climate Change Capital and the Policy Exchange – lead calls for a state-backed bank to finance green infrastructure projects.

April 2010 £2bn is earmarked for a UK 'green investment bank' scheme in the final budget of the Labour administration.

June 2010 Following the formation of the UK coalition government, the Green Investment Bank Commission, (chaired by Bob Wigley, former chairman of Merrill Lynch's business in Europe), published its report on how the GIB should be structured.

May 2011 BIS announces Sir Adrian Montague CBE, non-executive chairman of 3i, will lead a panel of independent experts in setting up the UK GIB.

May 2012 GIB formed as a public company, with SSE chairman Lord Smith of Kelvin as chairman.

October 2012 GIB granted State Aid approval by the European Commission to make investments on commercial terms. UK government provides £3bn of start-up funding, to be committed by March 2015. Deal pipeline and staff of UKGI transferred to GIB.

April 2013 GIB enters investment alliance with Masdar, Abu Dhabi's state-backed renewable energy investment company.

June 2013 UK government announces £800m more funding, giving it £3.8bn to be committed by March 2016.

Appointments

GLOBAL ROLE FOR MAHAPATRA

Deloitte's Timothy Mahapatra (below) has been promoted to managing director of the firm's global financial advisory practice. Having joined Deloitte in 2002, he previously led its Europe office, the Middle East and Asia division, and UK financial advisory practices. He took on overall responsibility for global financial advisory, a practice of more than 10,000 professionals in June.

He said: "My priorities over the coming two years are to continue to build scale in our business, particularly in less-developed markets. We have large practices in the developed markets globally but we still need to grow scale and breadth in certain markets through talent acquisition locally, together with a major emphasis on the mobility of our people to support development. Good examples of such mobility include India, China, the Middle East and parts of Latin America.

"We are also very focused on offering the market a breadth of services even in our largest practices. For example, in the US we have invested in corporate finance advisory and restructuring through a couple of strategic acquisitions."

In July, Deloitte's US practice acquired advisory-focused investment bank McColl Partners, and about 70 professionals in four locations. Hugh McColl, who co-founded the firm in 2001, has been appointed senior strategic advisor to the US practice.

In the UK, Ed Shedd is now head of Deloitte's TMT practice.

RSM TENON BOLSTERS TRANSACTIONS AND RESTRUCTURING

Andy Hosking, Simon Bonney and Sarah Batchelor (below) have joined RSM Tenon's transactions and restructuring team in London. Hosking, who is national head of lender services, was previously a partner at Grant Thornton. Bonney, who previously worked for Vantis, initially joined RSM Tenon's Thames Valley offices. Batchelor, a specialist in independent business reviews with more than 20 years' experience, has joined from Baker Tilly.

At the end of July Baker Tilly said it was considering a cash offer for RSM Tenon. After revealing the two firms were in talks, Baker Tilly revealed it 'may or may not' lead to an offer for the entire issue share capital of the company.

CHANGES AT 3i

Fredrik Karlsson (below) and Mattias Eklund have been appointed co-heads of 3i's Nordic team. They replace Tomas Ekman, who left the private equity firm after completing the disposal of portfolio company Xellia in May.

London-based 3i partner David Whileman has joined a smaller private equity firm to focus on minority investing. Meanwhile, 3i Debt Management (3iDM) has recruited Lisa Johnson from Parker Global Strategies as investor relations director in Singapore.

NEWS IN BRIEF

Mike Di Leto is the new head of **Saffery Champness**'s business advisory group. A corporate financier, specialising in advising FSA regulated businesses, private equity and property funds, Di Leto has been with the firm 15 years, and was made partner in 2001. He replaces Nick Kelsey.

Matthew Tooth has joined **BC Partners**, after nine years as a managing director in Blackstone's European private equity group.

Bradley Fried, former head of Investec and South African financier Dennis Levine, who previously founded Burdale Financial, have launched **Grovepoint Credit**, a debt fund focused on distressed UK businesses. Peter Jaffe, former head of restructuring for Europe and Asia at JPMorgan, has also joined the team.

Jamie Ensor has joined the corporate recovery and insolvency team at **Dillon Eustace** in Ireland from Eugene F. Collins.

Constance Hunter has joined **KPMG** as chief economist for the firm's alternative investments practice. The founder and former chief executive of Coronat Asset Management, is New York-based.

Regulatory consultancy **Bovill** has recruited Edward Black as principal from Katten Muchin Rosenman, where he was a special counsel and partner. Prior to that, he was a partner at Field Fisher Waterhouse and Denton Wilde Sapte.

Grant Thornton has bought the UK financial services advisory arm of consultancy Navigant.

AG HIRING AND PROMOTING

Angus Rollo and Guy Winter (below) have joined Addleshaw Goddard's corporate team from Shepherd and Wedderburn. Both partners have expertise in advising on oil & gas, renewable energy and water and wastewater, as well as with energy sector clients in Africa.

"Growing our understanding and capability in the energy sector is a priority for us"

Corporate division managing partner Philip Goodstone said: "Growing our understanding and capability in this area is a priority for us so we are better able to support the firm's existing energy practice and our clients."

The firm has also recruited restructuring expert Simon Thomas to its business support and restructuring team from BLP. Mark Haywood has taken over as real estate division managing partner from Adrian Collins, who will focus on client work and key client relationships. Haywood specialises in investment and development transactions. In Manchester, professional support lawyer Laura Battley joins, having previously been at Slaughter and May.

In the past year Addleshaw Goodard has added six new partners – it now has 26 London corporate partners.

TWO NEW PARTNERS FOR BDO

Ruth Percival (below) has been promoted to M&A partner at BDO in Manchester. She joined the Manchester team in 2007, and recently led the £95m sale of MediaVest to Aegis Group. David Roberts has been recruited as partner from Littlejohn, where he was head of insurance, to the firm's financial services practice. In April, Littlejohn replaced PKF as the international network's UK member firm, following PKF's merger with BDO.

BDO managing partner, Simon Michaels said: "David and Ruth bring their skills and experiences to the partnership and are committed to being senior leaders within our newly merged firm."

RABLEN JOINS INVESTEC

Investec Specialist Bank has recruited Paul Rablen (below) to work on deal origination and execution, with mid-market businesses on integrated debt/asset-based lending financing structures.

From 2009, he was in Lloyd's Banking Group's acquisition finance unit, most recently as originations associate director.

Gary Edwards of Investec Growth & Acquisition Finance said: "Paul's knowledge and experience will make an important and valuable contribution to our continued and successful growth."

The 45-strong Navigant team, which includes three partners, has particular expertise in the retail financial services market.

Linklaters has recruited Bertrand Sénéchal as capital markets partner in its Paris office from Shearman & Sterling where he has been partner since 2005. He has extensive experience of the French debt and equity markets.

Association for Financial Markets in Europe has named Frédéric Janbon as chairman. He is currently global head of fixed income, member of the executive board and member of the group executive committee at BNP Paribas.

Hampshire-based firm **Moore Blatch** has hired corporate finance partner Stephen Clow from DMH Stallard to launch a new London office.

Crowe Clark Whitehill has appointed David Mellor as chief executive, replacing Andrew Pianca. Mellor was previously London office managing partner and head of the corporate business team.

Baker Tilly has promoted Chris Cooke and Damian Webb to director in its restructuring and recovery team. The team has also recruited Diana Frangou (above) from Ernst & Young. Frangou and Webb are based in Birmingham, Cooke in Milton Keynes.

Peter Wear has joined **HMT** as an associate director. Wear, who joins from RSM Tenon, is in the advisory firm's transaction support team. Due diligence specialist Paul Read has been made a director.

Jim Higginbotham has been promoted to managing director of the large corporate & specialist asset finance division of **Lombard**, the Royal Bank of Scotland's asset finance division.

Duff & Phelps has recruited Dafydd Evans as managing director in its European M&A practice from DC Advisory. He previously worked at PwC.

Insolvency specialist **Wilson Field** has opened three new offices in Swansea, Cardiff and Bristol. Jon Law will lead the South West and Wales operations.

Wholly Alliance

Competition is tough for smaller regional deals. **Helen Dixon** of Grant Thornton in Bristol explains how focus-driven value is key to client satisfaction

WHAT WAS THE DEAL?
In June 2013, Alliance Pharma's acquisition of the worldwide rights, titles and interests to Syntometrine - a branded drug used in childbirth - from Novartis, for $11.5m.

WHAT WAS THE STRATEGY?
The AIM-listed Wiltshire-based pharmaceutical group's strategy is to expand its branded drug portfolio internationally, both organically and through acquisition. Alliance already had the rights to Syntometrine in the UK, so the deal fitted with its global ambitions.

WHAT WAS YOUR ROLE?
We provided transaction support services, including financial due diligence (DD). The transaction didn't require shareholder approval and the deal was financed through existing revolving credit facilities. However, due to the group's close relationship with its lender, Lloyds Banking Group, it was given access to our report.

WHAT WAS THE SCOPE OF YOUR WORK?
Our DD was tailored to meet the needs of the client. Gone are the days of full-scope DD and a report the size of *War and Peace*, particularly on smaller deals. We had worked on Alliance's acquisition of Opus Healthcare last October. It is very useful having a close relationship with the client. We understand their thinking and crucially on this deal exactly what they, and their lenders, were looking for.

WHO ADVISED?
Taylor Wessing provided the legal advice, PwC tax advice.

WHAT WAS THE TIMESCALE?
Pretty short - three weeks from start to finish. But we were focussed in our approach, and that meant the timetable was achievable.

WAS BEING A REGIONAL TEAM IMPORTANT?
With our south-west team being based in Bristol, we are less than an hour away from Alliance's headquarters in Chippenham. Being in close proximity to a client cannot be underplayed. If required, we can be on-site, at relatively short notice. And that is particularly helpful when working to a tight deadline.

ANY LESSONS LEARNT FROM THE DEAL?
The deal went to plan, but it showed the importance of clearly agreeing the scope upfront so the client gets what they want as well as genuine value for money. Being an adviser to the client, someone they can bounce ideas off and work with to come up with the best solution, provides far better value and output than taking the approach of a service provider who just produces a report.

THE CAREER

Helen Dixon graduated from Cardiff University with a degree in accounting and management. After qualifying with Grant Thornton she transferred to the firm's transaction advisory services (TAS) team. Following a spell with KPMG's TAS team, she joined Connaught Compliance. Last May she re-joined Grant Thornton in Bristol. She's responsible for the firm's TAS service in the South West and Wales.

Recent transactions:

- acquisition of aerospace assets for Avingtrans Plc from PFW Aerospace
- Paragon Automotive's acquisition of Stobart Vehicle Services from The Stobart Group
- Bond Aviation's £200m senior secured loan note offering

ANDY LOPO