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CORPORATE FINANCIER

“IPOs HAVE RETURNED WITH A BANG TO THE LONDON MARKET” PAGE 8

TIES THAT BIND

The transatlantic M&A deals worth $291bn

ONWARDS, UPWARDS
Anne Glover on life as a VC at Amadeus

LOOKING FOR A LEADER
The skills CFOs need in a PE-backed role

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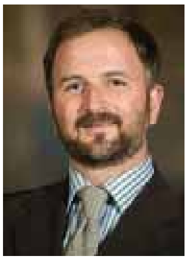
Altered states

CORPORATE FINANCE FACULTY

There is nothing more emblematic of the American dream perhaps than the car. And the recent history of the Michigan-centred automotive industry perhaps symbolises best the resilience and indefatigability of the American spirit.



In this month's cover story (pages 18-23), Richard Irving looks at the resurgence of the US and, in particular, the special relationship it has always had with the UK, in many ways as well as from an M&A perspective.

"Failure is simply the opportunity to begin again, this time more intelligently," said Henry Ford, founder of the Ford motor company a century ago. In our profile (pages 24-26) this month I speak to Anne Glover, whose career started in smalltown USA. She told me "moving fast, failing and learning quickly from mistakes" was something of a mantra to her.

So what of the US motor trade? Almost five years ago the then CEOs of Detroit's Big Three – Ford, General Motors and Chrysler - flew to Washington, cap-in-hand, for a bail-out. Congress rejected an aid package, the White House tapped the relief programme set up for the troubled financial industry and Chrysler and General Motors were thrown a short-term lifeline (Ford tapped a private source for its bail-out).

Chrysler is perhaps the most interesting of the two. Italian car giant Fiat ultimately saved Chrysler by taking a 58.5% stake in 2009. But since then the tables have turned. At the start of November, Chrysler announced it had made a profit for the ninth consecutive quarter. The $464m Chrysler profit more than covered Fiat's $340m loss.

The recovery of the US automobile market and the restructuring of Chrysler has left its Turin-based owners in a strange situation. They baulked at the price demanded for the remaining 41.5% of the business four years ago (by the retiree healthcare trust affiliated with the United Auto Workers union).

Now with the minority shareholder demanding an IPO, for Fiat that is the most sensible option on the table. Special relationship aside, that is certainly a lesson for corporate financiers in the UK – never write off the Americans.

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Faculty news

GETTY

CROWDFUNDING UNDER SCRUTINY

Crowdfunding and peer-to-peer lending are coming under increased scrutiny from regulators over the next few months. As part of this, the Corporate Finance Faculty plans to respond to two consultations on crowdfunding.

The European Commission has invited interested parties to share their views about the potential benefits, risks and optimal policy framework. The consultation (IP/13/906), which was announced by Michel Barnier, commissioner for internal market and services, covers all forms of crowdfunding, including donations, rewards and financial investments.

The UK's Financial Conduct Authority (FCA) has also published a consultation paper (CP13/13) about its regulatory approach to 'peer-to-peer lending' and crowdfunding platforms for trading unlisted equities. Crowdfunding already falls within the scope of regulation by the FCA if it involves people who are carrying on a regulated activity in the UK, such as arranging deals in investments, or the communication of a financial promotion. But the FCA says that its present rulebook "was not designed with crowdfunding in mind".

"We need to make clear the distinction between peer-to-peer lending and crowd equity funding," says faculty head David Petrie. "The latter presents a level of risk which seems out of step with the level of protection investors buying stock in larger companies on regulated exchanges are afforded. Consumers need to be aware of what they may be getting into by investing in equity via crowdfunding."

The consultation is one of a series about regulation of consumer credit activities. The US Securities & Exchange Commission is also consulting about its own regulation for crowdfunding.

If you would like to contribute to ICAEW's response to these consultations, please get in touch with Corporate Finance Faculty capital markets policy manager, Katerina Joannou, on **44 (0)20 7920 8806** or **katerina.joannou@icaew.com**

MMC VENTURES AND PRICE BAILEY JOIN FACULTY

Early-stage investor MMC Ventures has joined the Corporate Finance Faculty. The London firm backs fast-growing, entrepreneurial companies in business support services, financial services, digital media, consumer internet and software. The team of 11 is led by Bruce Macfarlane (below right), who founded it 13 years ago.

Earlier this year MMC launched a £22m investment vehicle, the MMC London Fund, with Mayor of London Boris Johnson, having won a competitive tender to manage the fund. It is part-financed by a grant from the European Regional Development Fund and by SME Wholesale Finance. MMC will co-invest this alongside VCs, business angels and MMC's own EIS Fund.

Chartered accountancy firm Price Bailey has also joined the faculty. It has seven offices, in East Anglia, London and Guernsey. Its corporate finance team is led by three partners, including Simon Blake (below left), who chairs the corporate finance panel of the UK200 Group of independent professional firms. Price Bailey assistant manager Iain Murrell won an outstanding achievement prize at the Corporate Finance Faculty's Annual Reception (see pp12-14).

Other new faculty member organisations in 2013 include the Business Growth Fund, Cass Business School, Kroll Advisory Solutions, Linklaters, Pitmans and Taylor Wessing.

FORMER FACULTY CHAIRMAN RECEIVES PEERAGE

Howard Leigh, chairman of ICAEW's Corporate Finance Faculty between 2000 and 2004, has been elevated to the peerage as Lord Leigh of Hurley.

Lord Leigh (pictured centre with Lord Fink, left, and Lord Feldman of Elstree, right) qualified as an ACA with Deloitte Haskins & Sells, and founded Cavendish Corporate Finance in 1988. In 2008, he received the faculty's Outstanding Achievement in Corporate Finance award.

As chairman of the faculty, Lord Leigh was an alternate to the president of ICAEW, serving on the Takeover Panel.

He was appointed as a treasurer of the Conservative Party in 2000, before being promoted to senior treasurer. He is chairman of the Leader Group, the Conservative premier supporter group.

CORPORATE FINANCE IN SOUTH WALES

The South Wales Society of Chartered Accountants (SWSCA) is continuing its popular series of corporate finance lunches in Cardiff. Kevin Gardiner, Europe managing director and chief investment officer at Barclays, was the guest speaker at SWSCA's most recent event on 22 October at the Cardiff & County Club.

Gardiner spoke about some of the international macroeconomic trends affecting corporate finance transactions. David Lermon, ICAEW's director for Wales, chaired the lunch. David Petrie, ICAEW's head of corporate finance, was among the many guests.

The next corporate finance lunch will be on 31 January, also at the Cardiff & County Club. To find out more, contact Emma Friedl, ICAEW regional executive, on **+44 (0)29 2002 1482** or email **emma.friedl@icaew.com**

GT'S MERALI JOINS FACULTY BOARD

Mo Merali of Grant Thornton has been elected to the Corporate Finance Faculty's board. Merali (below) is a London-based transaction advisory services partner who leads the firm's national private equity activities. He also runs buy-side and sell-side due diligence and bid-support teams for corporate and private equity clients across a number of sectors, including media, technology, healthcare and financial services.

Ian Smart has stepped down from the faculty's board. He was the chairman of the Corporate Finance Faculty's technical committee for several years, before serving as faculty chairman from 2008 until 2011. Smart has been managing partner of Grant Thornton's London office since 2009, and was managing partner of its UK corporate finance business before that.

David Petrie, head of corporate finance at ICAEW, said: "Ian has been a very important figure and a big contributor to the faculty since it was founded – not least as a chairman. He has been incredibly supportive and we're very grateful for his great advice and guidance."

Elsewhere, William Buckley, a corporate partner at Linklaters in London, has joined the faculty's technical committee. Buckley is a member of the law firm's international board, its governance body responsible for strategy and major decisions.

MAKING THE CONNECTION

THE CORPORATE FINANCE FACULTY WOULD LIKE TO THANK ITS MANY MEMBER ORGANISATIONS FOR THEIR SUPPORT IN 2013

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Briefing

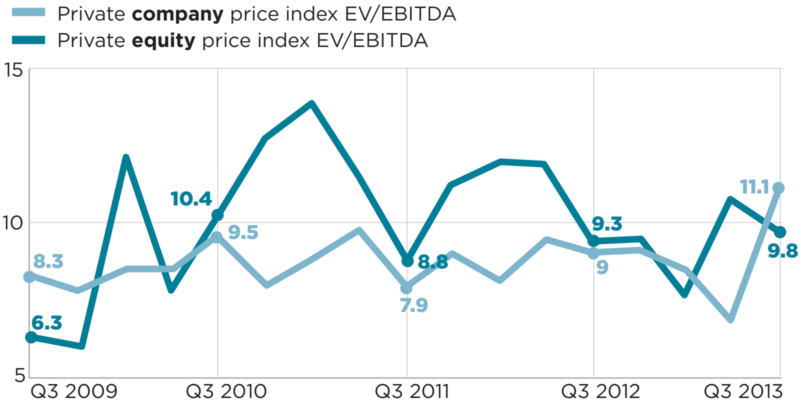
PCPI MULTIPLES IN FIVE-YEAR HIGH

The EV/EBITDA ratio paid by acquirers of UK businesses shot up 4.2 to 11.1 between Q2 and Q3 2013, the highest in five years, according to BDO's latest Private Company Price Index (PCPI).

The rise is supported by the increase in trade volumes, with the number of private deals being 405, compared with 380 in the previous quarter. Private equity volumes fell from 91 to 79 in the quarter.

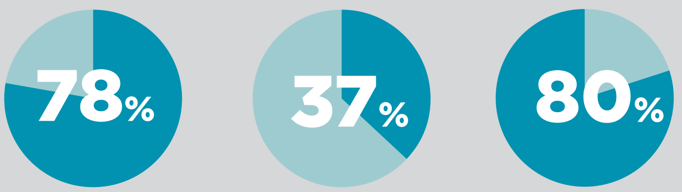
Tim Clarke, a BDO corporate finance partner (left), said: "If you combine the prices paid by both private companies and private equity this quarter, the overall picture indicates that valuations are at their highest for several quarters. The UK is seen by investors as a stronger growth market than some of its competitors, with private company growth at the heart of the recovery. This is driving up their attractiveness to both PE and trade buyers, a significant proportion of whom are coming from overseas." To see the index in full visit **bit.ly/1jpmGk1**

PCPI V PRIVATE EQUITY



SOURCE: BDO

EY'S SURVEY OF 1,600 SENIOR EXECUTIVES



of UK executives expect the global economy to improve (2012: 18%).

of companies will pursue acquisitions in the next 12 months (2012: 26%)

of UK executives expect deal volumes to improve over the next 12 months

SOURCE: EY'S NINTH BI-ANNUAL UK CAPITAL CONFIDENCE BAROMETER

"Globally and in the UK, M&A sentiments are buoyed by a much more positive view of deal fundamentals – there have been notable increases in the number and quality of acquisition opportunities, as well as a significant improvement in the likelihood of successfully closing deals. This is underpinned by growing confidence in the UK and global economy."

Jon Hughes, transaction advisory services leader, EY UK & Ireland

BACK WITH A BANG: IPOs

£13,520

amount a £1,000 investment in each of the 10 LSE main market IPOs this year (£10,000 in total) would have returned by 31 October

7x

the amount by which investment in the IPOs above would have outperformed the FTSE 100 over the same period

75.9%

uplift in Crest Nicholson shares between IPO on 18 February 2013 and 31 October 2013

"IPOs have returned with a bang to the London market. Seven of the [10] IPOs in the first 10 months of 2013 have outperformed the FTSE 100, typical of a new confidence surrounding IPO activity"

John Hammond, head of equity capital markets, Deloitte

SOURCE: DELOITTE'S IPO BAROMETER RESEARCH

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New lenders on the block

With alternatives to banks for corporate lending increasingly available, are we seeing a long-term shift towards the US model of the credit markets, dominated by direct lenders? By Jason Sinclair

Traditional banks have been retrenching from lending markets in Europe. And they look set to withdraw further as Basel III takes full effect, direct lenders have become more prevalent. This may have happened regardless of Basel III as Europe moves closer to the US-style lending model.

The spark for change may have been the post-Lehman Brothers fallout. In the UK this led to the de facto nationalisation of RBS and Lloyds, and a protracted period of deleveraging in all banks. It continued through Basel II and, certainly as far as SMEs were concerned, the banking sector's shrinking liquidity has moved them to a new norm in which they are far less willing to involve themselves in new loans.

NEW NORMAL

The UK and Europe differ hugely to the US, in that almost 90% of senior debt has come from banks, while in the US the majority originates from debt funds. In such a market, alternatives to banks inevitably appear to serve the need, and those alternatives are eyeing the opportunities this side of the Pond.

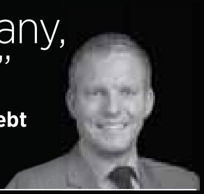
"Many funds are looking for corporate-type opportunities as banks retrench and dedicated secure lending is required," says Michael Grayer, head of debt advisory at Lazard in London. "A fair amount of money is established for this and it is good news for corporates, as money is still out there. The issue is that it's not inexpensive money."

Grayer says that in order to approach the US model of funding, European firms will

"The big positive as an SME is there's a choice of funding that your larger brethren have always had"

Andrew Shellard, debt advisory partner, Catalyst Corporate Finance

“There’s more leverage, a flexibility in terms and conditions and lower, if any, amortisation”



Peter Bate, director of debt advisory, KPMG

“Many funds are looking for corporate-type opportunities as banks retrench and secure lending is required”

Michael Grayer, head of debt advisory, Lazard

NEW PLAYERS

- In 2007 Los Angeles-headquartered **Ares**, which has directly lent $6.3bn to US mid-market companies, launched Ares Capital Europe. Its first European fund lent €1.5bn in the first four years and Ares Capital Europe II closed at €1.5bn in the first half of 2013.
- In June 2013 **Haymarket Financial** (also known as Hayfin), the European mid-market debt specialist founded in 2009 with the backing of US private equity firm Towerbrook Capital Partners, closed its latest special opportunities fund at €1.35bn, well ahead of its €750m target.
- **Avenue Capital**, the New York-based hedge fund group specialising in distressed debt, closed its first European special situations fund in 2008 at €1.5bn and its second last year at €2.78bn.
- In September 2012 **HIG Capital** launched HIG Whitehorse Europe, earmarking €1.5bn of capital for lending to the European mid-market.
- In April 2012 **ICG** launched its Senior Debt Partners fund with a €1bn target, to invest in directly-originated senior secured loans to European mid-market corporate borrowers.
- In September 2012 **Alcentra**, the LSE-listed investor in senior secured loans and floating rate senior-secured European secured bonds, returned to its shareholders for a further share issue to capitalise on the opportunity in the senior secured bank loan market.

BETTER QUALITY

The big players have been around long enough to gain a positive reputation. Indeed, the wheat has been sorted from the chaff to an extent. Pre-Lehman there were around 3,000 leveraged funds, but now there are just 300.

“Generally speaking, those left are the good ones,” says Andrew Shellard of Catalyst Corporate Finance. He says there are drivers, which will move the UK towards the US model more quickly than mainland Europe: “There’s the legal framework. There’s the fact that the funds are mainly based in London. Banks have networks. Funds rely on introductions. The UK has a longer history of leveraged companies. The availability of capital is very strong, there are billions out there. The demand side could do with boosting though: I’m not sure there’s the awareness from business that such funds and borrowing and leveraging options are out there.”

have to submit to a culture change, and at something of a price. “There are people out there putting stressed capital to work. Once, if a corporate thought about turning to a hedge fund they would think again. Now it’s acceptable, but for low teens returns. There’s still a slight issue that an EU company in mid-market is more used to getting less expensive money from banks. That’s not the case in the US.”

Andrew Shellard, Catalyst Corporate Finance debt advisory partner who was previously head of debt advisory at Barclays Capital, says that debt funds are more interested in yield than relationships in the way banks are, and that while debt funds may have started as an alternative to banks, they are becoming essential.

“Smaller companies had no choice,” says Shellard. “They could only use banks. Now they have choice and we’re seeing the beginning of a world where both are useful. The big positive as an SME, opposed to even two years ago, is there’s a choice of funding that your larger brethren have always had.”

CHANGING LANDSCAPE

There is a move towards unitranche funding, where senior and subordinated debt is combined. For the more credit-worthy companies, unitranche is an extra choice. This is becoming more apparent with the sheer number of investors coming to market with a range of flexibility in their structures.

Peter Bate, director of debt advisory at KPMG, sees a bank-led market gradually morphing into a credit-fund-influenced market - “anything from the Haymarkets and Ares to resprayed distressed debt and mezzanine funds, which now do unitranche for less.” He points to the pros and cons to using debt funds rather than banks: “There’s more leverage, a flexibility in terms and conditions, lower, if any, amortisation, and they’re more straightforward. The drawbacks are that they’re more expensive, and it’s untested how lenders will behave in a problem situation.”

Typical of the funds being set up to plug the finance gap is the one at Beringea. The private equity house has hired Mark Taylor from National Australia Bank to head its new debt-based growth finance business. Beringea is looking to lend purchasing or working capital with repayment terms of three to four years.

“We see debt-based growth finance as complementary to our growth capital investment business and believe it will bring us into contact with a wider cross-section of UK businesses,” said Beringea’s managing partner Stuart Veale of the launch of the new business.

In an opinion piece for *Financial News* two years ago, Lazards’ Michael Grayer wrote: “What we are witnessing now are the green shoots of a parallel funding market. With the right economics we may yet see it reach fruition.”

Now as well as being rather pleased with his foresight, he sees the market as being well beyond the green shoot stage, developing into a market with many players in which EU corporates will increasingly get ratings and avail themselves of the market beyond any stigma.

CORBIS

Rewarding success

The Corporate Finance Faculty celebrated innovation, technology and skills at its annual reception. This year was no exception, with Sir Nigel Rudd as guest speaker and industry experts rewarded

The Ironmongers' Hall in the City of London hosted this year's Corporate Finance Faculty annual reception. Almost 200 guests packed into the hall to hear Sir Nigel Rudd, chairman of Invensys, Heathrow Airport Holdings and the Business Growth Fund, give a whistle-stop tour of his remarkable 40-year business career. They also saw Sir Nigel present FTSE 100 multinational Intertek Group with this year's corporate development award.

The evening started with a warm welcome to guests from David Petrie, head of corporate finance at ICAEW. The audience represented the increasingly broad spectrum of faculty members.

Giles Derry, faculty chairman, then thanked the sponsors of the evening - BPP, Centric Commercial Finance and JLT Specialty - before welcoming the 2013 faculty joiners: Business Growth Fund, Cass Business School, Kroll Advisory Solutions, Linklaters, MMC Ventures, Pitmans, Price Bailey and Taylor Wessing.

Derry also announced the three new themes that would underpin the faculty's work in 2014: investing in growth, creating new opportunities and developing professional expertise.

"The theme of 'Investing in Growth' will highlight the contribution of corporate finance to entrepreneurship, innovation and development for

companies – large and small," said Derry. "This is of course a vital contributor to maintaining the economic growth of the UK, European and global economies."

He pointed to the pressing need for corporate finance knowledge and skills so that companies could engage with new markets, new technology, new deals and new ventures.

On the final theme he pointed out that successful corporate finance needs expert professionals who could "help businesses to develop their strategies, assess new initiatives, carry out in-depth due diligence, identify and raise the right sources of capital and execute transactions effectively and efficiently for benefit of their stakeholders".

CAREER PATH

Originally from Derby, Sir Nigel became the youngest ACA, passing his exams by the age of 20, and joining ICAEW on his 21st birthday. Some 46 years on, his greatest achievement was building Williams Holdings Plc, from an initial investment of £4m, which became one of the UK's largest industrial conglomerates. In November 2000, it was liquidated with the demerger of Chubb and Kidde.

Since then, Sir Nigel has been chairman of BAA, Alliance

Above: members enjoying the annual reception

Top right: Steve Wagner receives his prize from Giles Derry and David Bowden

Middle right: guests at Ironmongers' Hall

Far left: John Onslow, Sir Nigel Rudd, Lloyd Pitchford, Julia Thomas (both of Intertek) and David Petrie

Left: Giles Derry addresses the audience. Bottom right: guests network

MATT WREFORD

From right: David Petrie and Sir Nigel Rudd address the audience

Below: Iain Murrell is presented with his prize for the Diploma in Corporate Finance by Giles Derry and David Bowden

> "Intertek's M&A success has seen it continue to build in many international markets and countries"

Boots, Pilkington Plc and Pendragon Plc, and until January 2009 served as deputy chairman of Barclays. He is non-executive director of BAE Systems and Sappi, one of the world's largest paper manufacturers.

He is chairman of Invensys, the UK headquartered multinational engineering and IT company. In the £1.7bn sale of its rail signalling business to Siemens last November, he deployed a key lesson from his vast M&A experience: "Understand what the acquirers want and what determines the price they will pay." For Siemens that was the competitive threat of a sale to China. So when the German engineering giant attempted some last minute price chipping, there was mention of a flight to Beijing – this meant the price demanded was met, at a multiple of 23x earnings.

OUR AWARDS

In the award presentation, Sir Nigel congratulated Intertek Group CFO Lloyd Pitchford on the company being the winner of the second ICAEW Corporate Finance Faculty corporate development award. Pitchford was later joined by Intertek's vice president of corporate development, Julia Thomas.

In April 2011, it acquired Moody International for $730m (£450m) from private equity firm Investcorp. And in the past year alone, it has invested more than £100m on acquisitions, including deals in the US, Brazil, South Africa, Canada, the Netherlands and the UK.

The FTSE 100 company has a market cap in the region of £5bn, and its origins can be traced back to a lamp testing centre established by Thomas Edison in 1896. Today it provides testing, inspection and certification services to 200,000 customers in 17 sectors. It employs 36,000 people across more than 1,000 laboratories in more than 100 countries.

The award, which was devised by the faculty and is based on an empirical methodology developed with the M&A Research Centre at Cass Business School, recognises the major contribution of effective M&A to corporate growth, shareholder value and employment.

Faculty head David Petrie said: "Intertek is a UK-based multinational that is a genuine technological world leader. Its M&A success, supported by expert corporate finance advisers, has seen it continue to build in many international markets and countries."

Intertek CFO Lloyd Pitchford added: "As a UK Plc, our strategy of acquiring international testing, inspection and certification companies has enabled us to provide complete global services for our customers and thereby consolidate our position among the global safety services leaders.

"This ICAEW recognition reflects Intertek's work in developing and enhancing acquisitions that offer true quality solutions for our customers the world over."

Prizes were also presented to the best two students of ICAEW's Diploma in Corporate Finance: Iain Murrell, corporate finance assistant manager at Price Bailey in Norwich, and Steve Wagner, group strategy analyst at Lamprell Energy in Dubai, who had flown in from the UAE especially for the reception. They were presented by faculty chairman Giles Derry and David Bowden, director of professional qualifications at BPP.

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THE INSIDER

Private equity-backed CFOs are often brought in after buy-out. **Emma Cox** outlines the findings of a recent Deloitte survey that assessed the skills required of a financial leader

The private equity (PE) environment may have fundamentally changed in recent years, but little thought has been given to how the role of the PE-backed CFO has changed in response. To PE houses, the CFO role is critical to a company's success. Investors will often spend more time with the CFO than anyone else at the company. Compared with life in a listed company environment, CFOs can often expect daily interaction and demands from shareholders.

For those who do take on the role, doubtless it can be exceptionally rewarding. In return for a period of complexity, intensity and pressure, the best CFOs can expect significant wealth creation and status, as well as adventure.

HEADING FOR THE EXIT

Those working in a PE-owned environment face a unique set of challenges. This is not new and was the case when I set up Deloitte's PE-backed company programme six years ago. They all operate in a highly-leveraged environment, invariably dealing with a demanding shareholder with a significant focus on EBITDA growth, cash and working capital. They also have a clear goal from the start – the exit.

In Deloitte's recent UK-based, globally focused survey, *The role of the PE-backed CFO: survival of the fittest*, which examines the role of a PE-backed CFO, 150 experienced PE-backed CFOs, CEOs and chairmen were interviewed, along with senior PE investors. The aim was to provide an insight to the nuances of the role, its priorities and how it has evolved. The findings were by turn confirmatory and surprising in terms of the sheer intensity of such a CFO role today.

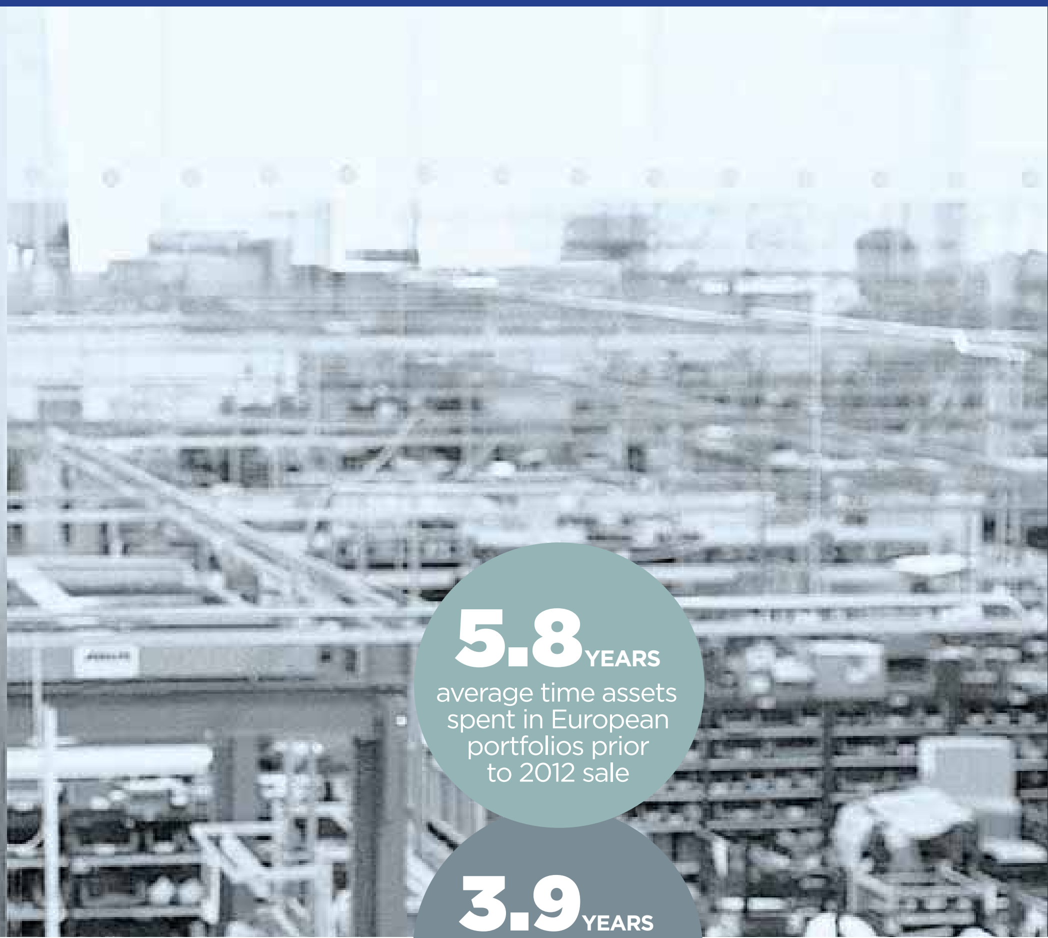
Though often highly incentivised, the business priorities of the CFO and the PE investor are not always perfectly aligned. Tough operating conditions of recent years have left many CFOs working hard just to survive. Their job is littered with crunch points throughout the ownership life cycle, particularly during the first six months post-buy-out.

To many, private equity represents one of the most challenging environments for an executive to operate. There are pressures on EBITDA, cash and banking covenants and the longer hold periods that many CFOs, and their PE owners, are experiencing. European assets sold in 2012 had on average been in investors' portfolios for 5.8 years, compared with just 3.9 years in 2006. Of course, this ignores the fact that many of these companies have not yet achieved an exit because of difficult market conditions.

Change of CFO with PE ownership is commonplace. Some 70% of PE-backed CFOs were brought in by PE houses. Just 19% were hired at the time of buy-out, meaning the rest arrived mid-cycle.

A DISCONNECT?

For me, the most significant finding was uncovering the differing set of expectations between CFO and the PE house over their role in contributing towards strategy. It became clear that CFOs seek more input into



5.8 YEARS
average time assets spent in European portfolios prior to 2012 sale

3.9 YEARS
average time assets spent in European PE portfolios prior to 2006 sale

70%
of PE-backed CFOs were brought in by PE houses

TOP TIPS FOR A PE-BACKED CFO

- Work hard to build your relationship and trust with the PE directors on your board.
- Discuss expectations upfront, set the boundaries around information requirements and how to deliver against those requirements.
- PE investors consider the most important attribute of a successful CFO to be an analytical focus on data and detail. Ensure you are on top of this from day one.
- Surround yourself with a great team. Don't underestimate the value of a strong financial controller. The most common failings for a CFO occur when there is a weak finance team in place.
- If you haven't previously experienced a PE environment, spend some time understanding the PE agenda. It will be important to get into the detail in areas such as cash forecasting and debt facility agreements.
- Always ask yourself: "What will be the impact on an exit?" because that is what PE investors will be asking.

strategy, and will often view their role as more proactive and strategic in delivering top-line growth than their investors think they are. PE-backed CFOs have sight of raw numbers, and are often able to identify potential problems or new opportunities faster than the CEO.

Being tied into the company for four to five years means these CFOs are also looking to expand their skills. Due to their incentivisation package, they can even find themselves looking at the business as an owner would. However, this strategic view from the CFO directly contradicted the views of the PE investors. The survey found PE investors wanted CFOs to focus on the numbers as the number one priority. Many investors had been burnt when CFOs strayed from this focus. Ultimately, as true owners of the business, the investors' view is what matters most.

The survey identified two other main pointers. CFOs now face longer timeframes in post, with 29% of the CFOs surveyed saying they had been in their current role for five years or more. There is no immediate prospect of this timeframe shortening, with only 25% of CFOs surveyed at 'exit readiness' stage. Long timeframes have increased their involvement in operational aspects of the businesses.

PRIZED SKILLS

The position of financial controller is crucial to a CFO's survival. A good one is typically hard to source, and even harder to retain in a high-pressure situation when they are unlikely to have been incentivised in the same way as the CEO and CFO. PE chairmen believe CFOs should be flexible to realise they may need to look beyond their in-house expertise and use deep networks outside their organisation to source potential recruits.

So what are the skills most prized in a PE-backed CFO today? CFOs themselves viewed "an ability to build relationships and trust" with stakeholders as top of the list. Building trust with the PE investor and obtaining buy-in from stakeholders from the CEO downwards is essential, particularly as conditions have got tougher and holding periods longer. As might be expected, the PE investor put "an analytic focus on data and detail". Perhaps most tellingly, both groups had no attributes in common across their top three.

The tough reality is that the role is multi-faceted. A PE-backed CFO must be able to handle the financials, understand the PE agenda, foster strong relationships with their shareholder and stand alongside the CEO to help build the company's strategy and take it through a successful exit.

KEY THEMES FROM THE DELOITTE SURVEY

- PE-backed CFOs face longer periods in post;
- Investors demand rigorous stewardship;
- CFOs need help in building their team;
- CFOs seek more input into strategy;
- Stresses and strains can lead to disconnects; and
- PE-backed CFOs turn focus to stakeholder relationships.

Emma Cox, head and founder of Deloitte's PE Backed Programme. Download the full report at bit.ly/GCIwnl

CORBIS

DAN MURRELL

The special relationship

Whether it's pronunciation or the lingo of financial transactions, it is often said the US and the UK are two nations divided by a common language. Richard Irving takes a look at their long-distance M&A relationship

It certainly seems that George and Ira Gershwin's protagonists were keen to find reasons to call the whole thing off - "you like to-may-toe, I like to-mah-toe" being one of the reasons. But when it comes to M&A there may be differences between the UK and the US, but there is an undeniable special relationship. Over the five years 2008 to 2012, US acquisitions of UK companies amounted to $151bn, according to Thomson Reuters. Quite incredibly - given the relative GDPs of the two countries - UK companies made just under $140bn of US acquisitions in the same period.

It is perhaps entirely fitting that the $124bn 'housekeeping' exercise between Verizon, America's largest phone company and Vodafone, the UK's largest mobile operator, has single-handedly put the global M&A market on track for its best year since the collapse of Lehman Brothers.

According to Mergermarket, the value of all deals announced in the first nine months of the year topped $1.57trn - up 4.6% on last year. Verizon-Vodafone aside, global M&A numbers have risen consistently quarter by quarter throughout 2013 and average deal sizes are at their highest level since 2008.

BRITISH VALUE

A recent research note by analysts at Société Générale (SG) supports the outlook for the UK-US relationship. It argues that the so-called sixth wave of M&A - inspired by the need for companies to go global - still has a long way to run. The idea that multinational companies need to drive growth by elbowing into emerging markets is by no means new, but the SG report argues that timing is everything and that UK assets are just as attractive, if not more so, than companies in riskier emerging markets - especially to US buyers.

The US economy already seems set fair for recovery. Earnings are bouncing back on both sides of the Atlantic. Free cashflow is rising quarter by quarter. But perhaps more crucially for the US-UK deal axis, British companies appear to be relatively cheap. The price-earnings multiple of the FTSE 100 index is currently at a discount of around three full percentage points to its 10-year moving average. And recent Deloitte research suggests that average bid premiums in the first half of 2013 actually dropped from around 24% to 18%.

Perhaps unsurprisingly, US commentators are more bullish than their UK counterparts, given the extent to which the US is now seen as ready to reassert its claim as the world's economic powerhouse.

"At the height of the financial crisis there was a feeling among many commentators that emerging markets such as China would power the global economy," says Jon Hughes, head of EY's UK & Ireland transaction advisory services practice. "But over the last 12 months the pendulum has swung back to the US and it is now clear that America will drive the global economy going forward."

And across the pond, Jack Maier, head of investment banking at Headwaters MB, an independent Denver-based mid-market corporate finance boutique, also sees the US economic recovery driving deal flow between the UK and US: "I have been in this business for 27 years and my sense is that the market is gearing up for a very vibrant 2014 and 2015. We've been through the whole process of balance sheet triage. Earnings are now far more predictable and that underpins valuations, which in turn encourages sellers back to the market."

US companies made seven of the 10 largest transactions in the first nine months of the year. However, despite the relative value in British assets, just one involved a British target - Liberty Global and its acquisition of Virgin Media.

GATEWAY TO EUROPE

And here is the rub. British companies may be cheap, but growth prospects remain relatively underwhelming. Indeed the flow of M&A across the Atlantic has remained flat. According to Thomson Reuters, US bidders spent just $10.3bn on 242 British companies during the first three quarters of the year - the lowest value since the credit crunch and almost half the value for the first

nine months of 2012, and a quarter of the value of the same period in 2011. Those figures do not include Verizon-Vodafone. UK acquisitions of US companies are similarly moribund.

But Europe as a whole has seen deal values almost halve to $41bn. Part of the M&A bond between Britain and America is the notion that US company chiefs prefer to establish a trading hub in the UK before launching into strategic markets in mainland Europe. Any fears that US buyers may leap straight into German, Italian and French markets are assuaged to a degree by those latest deal statistics.

Slaughter & May partner William Underhill, who has worked on many big-ticket transatlantic deals, says it is difficult to draw conclusions about emerging trends: "It's still very early days. We are certainly seeing the green shoots of recovery - but it is by no means full steam ahead. There isn't a reliable flow of deals as yet and that makes it difficult to judge where the market is going."

The recovery in US M&A may well be leading a similar uptick in the UK, in small part because US

companies appear to have been quicker to nurse their balance sheets back to good health, but also because they have traditionally been faster off the mark than their UK counterparts - UK companies tend to be more heavily constrained by shareholders.

"US companies are starting to get quite active in the UK again", says Martin Mendelssohn, corporate finance partner at CMS Cameron McKenna. "Each time a private equity-backed asset comes up for auction, there is at least one significant US public company in the process. American trade buyers see the UK as a steady market."

WEIGHING THE ADVANTAGE

That does not mean a US buyer is an easy catch for UK companies that hoist the "for sale" sign. For every American buyer who sees value in UK assets, there are those who view the UK as an ex-growth market. And for every strategic US bidder who sees the UK as a gateway to Europe, there are those who worry that such close proximity to the eurozone time bomb is a risk rather than a strategic advantage.

FRESH AND EASY?

Despite being the land of opportunity, opportunities are not easy to take in the US. When the possibility of Tesco opening a chain of low-cost convenience stores on the West Coast of America was first mooted, senior executives were sent to live with US shoppers to garner, first hand, their likes and dislikes.

In September 2013, the UK grocery giant put the 200-store Fresh and Easy chain into Chapter 11 bankruptcy protection in order to facilitate its sale to US supermarket turnaround king Ron Burkle. It is expected to fetch $150m, leaving Tesco $2bn out-of-pocket on the ill-fated venture. The grocer is just one of a long list of British companies that have failed to successfully cross the Atlantic, a list that includes Marks & Spencer and HSBC. Conquering the most sophisticated consumer market in the world is certainly not simple.

Terry Leahy, then arguably the most successful grocer of his generation, had a near flawless tenure at the helm of Tesco. And yet, he failed to grasp that basic tenet of doing business in the US business: America might be one nation, but it consists of up to 40 entirely separate markets. So, as well as national players, each of these markets has its own very aggressive local competitors.

"It's a brutal, brutal market", says Deloitte's Mark Pacitti. It is also, perhaps, the reason why US consumer businesses fare considerably better when they land in the UK." US bidders tend to be a lot more confident – by the time they are ready to look at cross border opportunities they are already likely to be in a strong position in their home markets and that is no mean feat."

The corollary is that when US bidders land on British soil, they are often better prepared for an admittedly less fragmented market. "Potential buyers have often worked very hard with strategic consulting firms in order to get to the starting line and they are backed by active institutional shareholders who encourage them to make big and bold moves in pursuit of aggressive growth targets," says Pacitti.

"US bidders tend to be a lot more confident – by the time they are ready to look at cross border opportunities they are already likely to be in a strong position in their home markets"

Mark Pacitti, senior partner and global leader, Deloitte corporate finance advisory

Sharath Sharma, EY's Americas leader of strategic accounts, transaction advisory services, says: "Some US companies are already reconsidering their position in Europe and in some cases this is actually leading to withdrawal. As a conduit, the UK will suffer from this trend."

But Mark Pacitti, a senior partner and global leader in Deloitte's corporate finance advisory arm, is more sanguine. The UK, he concedes, is probably not the place to come for a transformational deal, but it is a safe bet with a benign tax system, a deal-friendly regulatory landscape and a common approach to the rule of law and that makes it a convincing hunting ground for US buyers.

"If you are a US company looking to supercharge your revenues, then you are going to be looking south towards the markets of Latin America," Pacitti explains. "And by the same token, if you are British-based and looking for a similar play, then you will probably need to cast an eye east to the Asia-Pacific region or south into Africa."

So just how does that leave the US/UK axis? "US acquirers looking at the UK are not so much chasing local economic growth, but rather they are looking for sophisticated businesses with strong intellectual property and robust management."

And Headwaters's Maier agrees: "Transformational deals are not done in the UK any more - the place to do something heroic is Latin America or among the BRICS [Brazil, Russia, India, China and South Africa] nations." But that is certainly not to say that the UK has totally lost its lustre: "In the mid-market, at least, the notion of making a transformational play is not particularly appealing anyway - US companies are far more focused on looking for bolt-ons."

And if that opportunity comes with a ready-made platform from which to launch into Europe, so much the better. "It's a cliché, but US companies are still more comfortable making incremental add-on acquisitions in Europe if they already have a team based in the UK," says Maier.

Which is probably just as well, because some US companies can find the cultural and legal challenges associated with dealing in the UK problematic enough.

"You would have thought there would have been greater convergence between US and UK companies but there are deep-rooted transactional differences in the way deals tend to get done and they are as prevalent now as they were 10 years ago', says CMS's Mendelssohn. The impact of private equity on the dealmaking landscape is different in the UK compared to the US (see box *Different buy-out worlds*). Most crucially, UK private equity sellers resist price renegotiation after the deal has closed. They place a high premium on price certainty.

When you look at UK private equity exiting an investment, Pacitti says, there is a definite trend: "The first thing a private equity house asks in a pitch is whether you can source a trade buyer, the second is whether you can source a US trade buyer."

LIFE'S A GAS

With the US economy seemingly regaining firm control as the driver of the world economy, UK companies can see opportunities. Nick Luff, finance director of Centrica, recently told analysts in a conference call that the US represented a more attractive market for acquisitions than the UK.

"The low gas price makes acquisitions in North America relatively more attractive compared to the UK, where costs are increasing," said Luff. "The opportunities to grow via M&A are there and we'll continue to look at them."

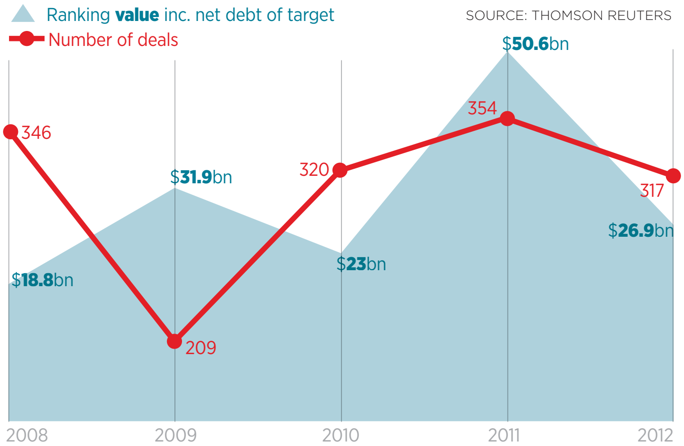
And EY's Jon Hughes expects other British companies to follow Centrica's lead as they race to tap into America's growth potential. "America has a highly innovative and burgeoning technology sector as well as the largest defence procurement budget in the world, making it a particularly attractive target for UK businesses."

One word of warning for US novices is that SEC broker-dealer regulations effectively prohibit non-US firms from doing deals in the US, and prevent solicitation of US counterparties. Most big advisory firms and banks will have SEC-registered US subsidiaries, while smaller advisers use US affiliates/partners.

"The opportunities to grow via M&A in the US are there"

Nick Luff,
finance director,
Centrica

US ACQUISITIONS OF UK TARGETS



$151bn US PURCHASES OF UK COMPANIES 2008-12

242 NO OF UK COMPANIES BOUGHT BY THE US 2013

4.6% YTD RISE IN GLOBAL VALUE OF M&A 2013 VS. 2012

OVER HERE AND OVERPAYING?

Two years on from Hewlett-Packard's $11.1bn acquisition of Autonomy, regulators on both sides of the Atlantic are still investigating allegations that the target's former management "inflated the underlying financial metrics of the company" in order to "mislead investors and potential buyers". Autonomy's former chief executive, Michael Lynch, strenuously denies the charges.

But, in writing off a staggering $8.8bn, HP effectively admitted that it had vastly overpaid for the UK software firm. The flipside is that the UK advisers argue they got the best price for Autonomy and allegations of impropriety are merely a smokescreen.

HP's disastrous foray into the UK M&A market, preceded by the controversy surrounding Kraft's $19.6bn bid for Cadbury, have perhaps made US buyers more circumspect of UK deals. But what are the concerns behind the headline grabbers and the anecdotes?

According to Selina Sagayam, an M&A partner at Gibson Dunn, US managers especially struggle with new disclosure rules. In particular, it is the rules requiring them to show their hand if there is an untoward movement in the target's share price, even if they have not yet made an approach to the target. That can be hard for US companies to get their heads around. The bid may be a defensive ploy against an unwelcome approach, or it may be tacit admission that the company's own strategy has gone awry.

"The odds do not play well for US bidders in the UK," says Sagayam. "They find it difficult to negotiate break fees, they can be made to go public in tenuous circumstances. They find it difficult to complete the level of due diligence that they would like and they have to have the financing in place on day one."

CMS's Mendelssohn agrees: "Some buyers see you as being tainted by the process that you are constrained by. People can get very tribal and retreat into themselves. It's my duty to tell them that these are standard provisions of UK M&A practice. If you're lucky, you might get a begrudging acceptance of that but more typically, US buyers will go away and seek verification from another US adviser."

> "The odds do not play well for US bidders in the UK. They find it difficult to complete the level of due diligence they would like"

Selina Sagayam, M&A specialist, Gibson Dunn

DIFFERENT BUY-OUT WORLDS

US buyers often complain that private equity sellers, disproportionately skewing the sales process in their favour, dominate the UK market.

US buyers prefer consideration be deferred until after a completion balance sheet has been drawn up. In most instances, UK sellers use a 'locked-box', fixing the price long before the transaction is due to close.

Keen for some downside protection, US buyers typically peg consideration to an earn-out clause, while UK sellers can baulk at such requests. The argument is that the sale price is ultimately linked to a period when they have no managerial control over the business and therefore no opportunity to influence profitability.

UK private equity sellers will resist any requirement to offer general material adverse clauses (GMACs) that allow potential bidders to walk away from a deal in the event of a significant change in the trading environment. To the extent that GMACs exist at all in the UK, they are very keenly negotiated and pegged to very narrow events.

Nothing ventured...

Anne Glover CBE, co-founder of Amadeus Capital Partners, tells Marc Mullen how literal, not metaphorical, alligators behind her and sharks to the front inspired her career in VC

Seek as much responsibility as soon as possible and move quickly. Move fast. Get on with things. Fail fast, and move on, move on." To describe Anne Glover's CV as colourful is something of an understatement. In June 2006 she was awarded a CBE for services to business. For the first 13 years of her career, the co-founder of Amadeus Capital Partners changed jobs every two years. Garnering as much experience

CHARLOTTE PLAYER

as possible, she would plan her next move. One of Glover's great passions outside the world of investing in early-stage companies is travel to places off the beaten track. That is not simply wanderlust; it is an insatiable curiosity - surely a prerequisite for any venture capitalist.

Her career started on the shop floor of Cummins Engine Company in Columbus. It was an unusual first job in a pretty unusual location - Indiana's 20th largest city no less. But it was Glover's single-mindedness that took her there. On completing her degree in metallurgy and materials science at Cambridge University the director of studies told her she should be either interested in "things or people", and if it was people she should go into management.

US BOUND

After Cambridge she was granted a fellowship to go to Yale School of Management. She was the only non-American in the inaugural year studying for a masters in public and private management. A tutor advised Glover to "take all the risks she could early".

Having decided she wanted to work with people on the factory floor and not be stuck in a research lab, Glover planned to return to the UK. But she says taking risks was not on the agenda in 1970s Britain.

"There was of course the issue of being a woman," says Glover. "But training programmes didn't take in the concept of someone with a degree on the factory floor. They thought a young woman with a degree dealing with men on the shop floor would cause them too many difficulties."

Having been brought up in Liverpool, the daughter of two academics, perhaps upping sticks to America was not so far from her consciousness. Although perhaps not for small-town Indiana. From there Glover moved to Cummins customer services in Jamestown, New York State, and then to a consulting job with Bain & Co in Boston, where she first encountered venture capitalists. After a Damascene moment while on a retreat on a beach in the Everglades - sharks to the front, alligators behind - she decided investing in young tech businesses was to be her next move.

She returned to the UK and was interviewed by Peter Englander at Apax Partners before travelling to Africa for two months. On her return, she was given a day to decide to join Apax or not. She made her decision and embarked on her career as an investor in early-stage businesses in the UK. Coincidentally, another offer had been waiting for her in Boston from a US VC. "I moved continent by accident," she laughs.

> "There is no room for thumb-twiddling. VC is more about dedication, persistence and belief in the entrepreneurs"

The five years at Apax were spent generalist investing, although her preference for tech grew. One big success was Virtuality Group, which she joined as COO "to burnish both my operating and my tech credentials".

Then in 1997, inspired and perhaps appalled by the scarcity of UK early-stage tech investors, Glover teamed up with serial tech entrepreneur and co-founder of Acorn Computers Hermann Hauser to found Amadeus. To get the firm started she brought in £5m from Dutch VC firm Gilde, while Hauser attracted the same from Microsoft Ventures.

"It was not particularly surprising that we had to go overseas to attract investors," she says. "In the UK at that time, institutional investors were deeply conservative, risk averse and short-term. We were and still are exactly the opposite."

BUILDING SUCCESS

The first Amadeus fund closed at £50m. By 2000 it had been "repaid plus some" and the firm's reputation was cemented. One successful investment was Cambridge-

CAMBRIDGE SILICON RADIO

Anne Glover did not work directly on Cambridge Silicon Radio (CSR), but it is the deal she identifies as the most significant for Amadeus. It was a spinout from a tech consultancy firm in Cambridge that was designing chips for Eriksson. With Eriksson, it developed a new technology – Bluetooth. 3i and Gilde also backed the spinout, which received seed funding of £6m in three tranches.

"By the time the third £2m tranche was in, they had working prototypes and Intel was trying to invest. Instead of the market they had predicted (garage openers), we helped them move into headsets and the mobile phone market."

In 2004, CSR listed on the London Stock Exchange and "more than repaid the fund", Amadeus having divested its stake over the next two years. Although it has moved on from its original business, which it sold to Samsung and is now their research centre, CSR last year turned over more than £650m.

"Everyone made money out of it – all the investors and all the employees. We created a global business leader in its space – at one point it had 80% share of Bluetooth design-ins worldwide."

THE GURU
Anne Glover was chairman of the British Venture Capital Association (BVCA) from 2004 to 2005, and a non-executive director of the UK Technology Strategy Board from 2005 to 2012. She is a member of both the European Research and Innovation Advisory Board and of the London Business School's Coller Institute of Private Equity. She is immediate past-chairman of the EVCA VC Platform Council, and chairman-elect of EVCA.

ANNE GLOVER ON... THE FATHER OF BRITISH VC

"Sir Ronald Cohen was a very big influence on me at Apax. He was an amazing financial entrepreneur. He watched the trends in the financial markets and developed new products to meet those needs, adapting them as necessary. It was inspirational to see that you could be an entrepreneur in financial services and be a huge success."

based voice recognition and speech synthesis business Entropic, which was sold to Microsoft. Another was lastminute.com.

Hauser had done most of his businesses and investments in partnership, but to Glover this was new. She was happy to lead the enterprise, as their skills were very complementary: "He is very good at thinking things through and helping us work as a team. We have very different personalities. He has a particular view of what he is looking for in an opportunity - massively disruptive technologies, not just by factors of one, but by two or three orders of magnitude, something that is absolutely disruptive. That way you have much more chance of success. He has great vision and a deep understanding of tech. The only problem is sometimes he thinks the disruption will happen sooner than it does."

Amadeus I was a top quartile fund and, on the back of that, £235m was raised for Amadeus II. But it was not quite such plain sailing for the second fund. It was fully invested by 2005, but today seven portfolio companies remain.

However, do not mention patience. "There is no time for thumb twiddling," says Glover. "It is more about dedication, persistence and continued belief in the entrepreneurs and the products. We will pull those companies through now. They have been through two crises - the telecoms bubble bursting and the financial crisis. We have learnt a lot through that." It's something that has been a mantra throughout Glover's career, 'learn and move on'.

Amadeus raises seed funds too - at the end of 2006, the £10m Amadeus & Angels Seed Fund successfully closed, which followed the Amadeus Mobile Seed Fund. In 2007, Amadeus III closed at £162m which, although smaller than Amadeus II, was still one of the largest European VC funds closed in the five years after the tech bubble popped. A later stage 'more balanced fund', it was fully invested by 2011. Amadeus invests in med tech and healthcare too, but as a rule avoids consumer tech.

WORLD STAGE

In July Amadeus held a $75m (£47m) first close on the first of its fourth generation funds - Amadeus IV Digital Prosperity Fund. The fund is a global proposition and perhaps most interesting is its cornerstone investor - MTN Group, the global telecoms provider with its headquarters in Johannesburg.

"MTN are big in the Middle East and Africa but not in Europe or the US, and they asked for bids to run a fund in this space. Originally we thought it was only a fund for Africa and the Middle East, but we jointly evolved it into a global mandate. We are connected to the mobile phone hubs, which has to include Bangalore as well as Silicon Valley, anywhere that develops mass communication ideas to serve the emerging middle class in emerging markets."

Glover says they have flipped the traditional approach to investor allocations: "We have said 'Here is the thesis - is anyone interested?' We will see. People think it is exciting. They are trying to get their heads round it and figure what bucket it comes out of," she laughs. "It needs imagination on the other side. And that is good. That is who we want - investors with imagination. The fund investors will self select."

While Glover has taken on a plethora of roles with private equity and VC policy bodies, she still loves the buzz of working with smart innovative entrepreneurs: "In my heart of hearts I like working with young entrepreneurs, or even old entrepreneurs (because now many are) to build new, impactful businesses."

For details about Amadeus visit amadeuscapital.com or call +44 (0)20 7024 6900

AMADEUS ON... EMERGING MARKETS

The Amadeus IV Digital Prosperity Fund, which had a first close of $75m in July, will invest in late stage venture and growth companies, developing online and mobile services targeting Africa, the Middle East, Asia and Latin America. The cornerstone investor in the fund is MTN Group, the telecoms provider headquartered in Johannesburg. It is the largest mobile phone operator in Africa and the Middle East, with over 200 million subscribers.

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One direction?

With insolvency levels remaining steady post-crisis, opportunities for turnaround opportunities have not materialised. Lyndon Driver asks the experts what they expect next

The widely predicted increase in M&A opportunities from UK insolvencies has not materialised. Having increased to a peak in Q2 2009, the quarterly numbers of liquidations decreased and since 2010 have remained fairly steady at about 4,000 per quarter, albeit higher than an average of just over 3,000 per quarter pre-crisis.

Indeed, the latest figures from the Insolvency Service revealed there were 3,875 company liquidations in the UK in Q3 2013 – a decrease of 2.6% on Q2, and 2.0% fewer than in Q3 2012.

"The decrease in corporate insolvencies is slightly surprising. Economic recovery usually heralds an increase in insolvencies," says Phillip Sykes, deputy vice-president of R3. "It may take a little while for the recent economic growth to have an impact on insolvency figures: growth over the past year has been solid rather than spectacular. Meanwhile interest rates remain low, which will continue to give struggling businesses a helping hand."

MORE STRESS

However, in May R3 released statistics that showed 134,000 businesses were struggling to pay debts when they fell due in May 2013, compared with 110,000 the previous June. So despite the insolvency figures, the number of 'stressed' businesses had continued to increase.

It is certainly the case that there are differences between the current recession and downturns. "One of the key drivers behind the relative lack of insolvencies up to this point is the fact that interest rates this time around have been kept low," says Mark Aldrige, CEO of private equity investor Better Capital. "This has given businesses and their clients breathing space. In the last downturn, in the early 1990s, interest rates went through the roof, which had an immediate impact on the trading ability of businesses."

And it has not just been interest rates. Jamie Constable, CEO of private equity turnaround specialist RCapital, sees other factors. "During this recession businesses have received a lot of support from a

> "Meanwhile, interest rates remain low, which will continue to give struggling businesses a helping hand"

Philip Sykes, deputy vice president, R3

number of parties, ranging from their own financial lenders to government institutions. However, the willingness to support these businesses has in some cases created 'zombie' companies – ones that require continued capital injection and support in order to stay afloat – which, unfortunately, is not a viable long-term solution."

The much talked about 'march of the zombies' has however failed to materialise. That is not to say there is not significant pressure on stressed businesses. Aldridge points to the sheer length of this downturn: "The downturn we are experiencing currently has turned out to be far longer, drawn-out and shallow than more recent recessions. This has the effect of stretching businesses to their limits, and it is only now that some of the more robust companies are starting to feel the pinch."

RETAIL CHALLENGE

In the high street retail sector, there remains that perennial stress point as Endless partner Darren Forshaw points out: "Many businesses are in need of financing in order to see them through their rent quarter days. High-street lenders typically provide new loan facilities or refinance an existing loan. Typically they are not providers of working capital, which is what the companies in this situation typically need. As such, we are seeing an increase in the number of closures due to failure to pay rent."

So what exactly are the prospects for those businesses that have emerged intact from the rigours of the latest recession, albeit perhaps a little battered and bruised? There is an argument that many of those coming out of the recession will have made cuts and emerge leaner, fitter and better placed for growth in an upturn.

> "The pressures arise from losses suffered by firms, whether from their own difficulties or the impact of customer failures"

Patrick Lannagan, restructuring partner, BDO

CORBIS

For them, BDO restructuring partner Patrick Lannagan sees opportunities. "Ultimately there will be a rebalancing, with consolidation occurring and opportunities for the stronger players to grow through acquisition. Companies which have conserved cash during the recession will be among those best placed to take advantage of these opportunities."

According to Experian Corpfin, the value of deals arising from insolvencies has remained relatively flat over the past four years at about £900m. This year looks set fair for a similar level of activity. But RCapital's Constable sees the possibility of this increasing. "Today we are seeing more insolvencies in the period coming out of a recession than we did going in," he explains. "One reason behind this is that companies are showing signs of renewed growth and more stable balance sheets, but are in need of further funding in order to sustain this rate of growth. However, banks are unwilling to provide the necessary funding. Without this, a growing business is often unable to fulfil its orders and obligations to its clients, and as such finds itself in financial difficulty once more. Perversely, the growth of the businesses is its very downfall."

TOUGH CLIMATE

It is worth noting that the statistics remain mixed. For example, there has been a year-on-year reduction in the number of companies entering administration (as opposed to insolvency), which suggests it is the smaller businesses that are being hit hardest and are failing. R3's Sykes points to the steadily rising number of winding-up petitions since the start of the year. These previously slumped from their most recent peak in 2009.

While BDO does not expect any significant increase in insolvencies, Lannagan says the usual pressures will hit businesses and certain sectors will be hit harder than others.

"Ultimately, the pressures arise from losses being suffered by firms, whether from their

> "Banks are unwilling to provide funding. Without this, a growing business is unable to fulfil its orders and obligations"

Jamie Constable CEO, RCapital

own trading difficulties or the impact of customer failures," he says. "Constraints on investment are also an issue for businesses that are underperforming, leading to a negative spiral of declining profitability. The economic environment remains difficult for a number of sectors and some businesses, which have done well to hold out to this point, are now reaching the limit of their ability to continue to trade. These increasing cashflow constraints may then drive creditor action to recover its debts."

Constable points to one key dynamic which may produce opportunities for turnaround specialists: "The banks' and our perception of the value of businesses has become more aligned, meaning we are seeing more opportunities. At the same time, more businesses are coming to us before they hit the wall."


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Long way round

Have the post-crisis revisions to Cyril Demaria's Introduction to Private Equity created an enlightening read? **John Gilligan** says its ambition may well be its undoing

Cyril Demaria's *Introduction to Private Equity* is a wide-roaming, dense tome. It travels through history from the financing of Christopher Columbus's expedition to the modern post-boom PE market. En route, he aspires to create a qualitative framework to analyse and explain a broad spectrum of "off-market" deals as well as the motivations and behaviours of many disparate participants. This is certainly ambitious stuff.

In 248 pages, Demaria looks at the PE market from the perspective of an investor in various funds which - as well as being a lecturer - is what the French author does. This angle is different to the usual take in such books. Academics generally focus on the quantitative and the general theories of finance. They wrestle with questions in the context of the efficient market hypothesis as amended by the three horsemen of the market apocalypse: game theory, agency theory and information theory.

Demaria rejects this approach, and instead searches for that quantitative and mathematical model beloved of MBA students - the complex diagram resplendent with boxes and arrows. Overambition is perhaps the book's downfall. As a direct consequence it fails to simplify and illuminate its subject matter. Mathematical and social complexity is distilled into one of many possible visualisations of such complexity. The resultant mind map, as a self-avowed theoretical work, fails.

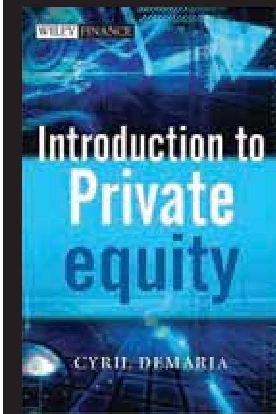
It must be said that as a descriptive piece there are some genuinely new insights scattered through the book. Only someone with access to detailed partnership agreements would have such insights. And Demaria's description of the limitation of data sources is a welcome addition to a very topical discussion.

> Demaria searches for the qualitative model beloved of MBA students – the complex diagram resplendent with boxes and arrows

However, the numerous visualisations and charts are plain confusing and some of the analyses simply strange. The author asserts: "Quick Flips... do not have the material time to generate value... Universal Owners, just like the economy, are net losers in that case." There is no real explanation why doing the same things slowly is, in principal, better. The ability to make a market-beating positive return quickly is generally a "good thing", unless it is due to a market failure. Instinct may be to baulk at a "get rich quick" society chasing a "quick buck", but that is no reasoned explanation as to why it is economically inefficient.

Then there are the errors. Without wishing to spoil the ending, on the last page alone there are several. Asset-stripping is not aggressively reducing costs to boost profits - it is buying companies at a discount to the value of its assets and then selling said assets to reap a profit, leaving the company without any future prospects. It is illegal in most countries. To date there is no proposal to change the treatment of the taxation of carried interest in the UK. In the US and Sweden, changes have been retrospectively challenged. And the UK was not at the forefront of proposing regulation of private equity. Indeed, the UK government vocally opposed the Alternative Investment Fund Managers Directive.

This book's expedition to clarity on the subject of PE is a journey I fear few readers will complete. An upfront definition of VC, growth and leveraged buy-outs would help somewhat, as would a simple explanation of the financial arithmetic of how leverage amplifies returns. That, in lieu of the strained analogy of Signor Columbus's trip, might help any novice learn more about PE, and quicker.



Cyril Demaria
Introduction to Private equity John Wiley & Sons, 2013

John Gilligan is partner at BDO, and head of the private equity service line. He is also the co-author of the Corporate Finance Faculty's *Private Equity Demystified*

Cyril Demaria is a writer and lecturer at Institut d'Analyse Financière, and manages a business angels fund - Pilot Fish I. He was previously an asset manager for a PE fund and a fund-of-funds

Appointments

NEW CEO FOR JCRA

JC Rathbone Associates (JCRA) has appointed Jackie Bowie as CEO. She has experience of risk advisory and debt structuring mandates across JCRA's client base, and was previously director of JCRA's regional UK business. She oversees all engagements in the private equity sector.

Bowie previously worked in US equity portfolio management at Aegon Asset Management, Murray Johnstone and Britannic Asset Management.

"Given the improving economic outlook and the resultant increasing deal volumes, together with the many new non-bank lenders funding these transactions, we are well positioned to serve increasing demand for our services, resulting in significant growth in the business. We will continue to deliver innovative hedging solutions and best value for our clients," said Bowie.

KPMG TECH AND ISLAMIC FINANCE MOVES

KPMG's interest in the tech sector grows, with the opening of the firm's second technology centre in the UK.

Last December it opened a start-up hub in London's Tech City. The new centre has opened in the Leeds office, and will create 200 new roles.

KPMG has also created a global Islamic finance leadership team to support the development of its international Islamic finance practice.

The team comprises Samer Hijazi (left) in the UK, Muhammad Tariq in the UAE and Oman, Mahesh Balasubramanian in Bahrain, Kashif Jahangiri in Saudi Arabia and Kuwait, Ahmad Nasri Abdul Wahab in Malaysia, Ahmed Jaffer in South Africa and Omar Mahmood in Qatar.

EY RECRUITS LEISURE SECTOR HEAD

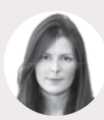
Nam Quach has joined EY's real estate lead advisory practice, to lead the firm's leisure sector transaction team. Experienced in M&A and capital market transactions across the hotels,

"Nam is well-known in the marketplace for his expertise"

gaming and leisure sectors, he joins from UBS Investment Bank, where he worked for 13 years.

"Nam is well-known in the marketplace for his transaction expertise in the leisure sector, having built up a reputation for leading on some of the industry's landmark deals," said EY head of lead advisory Dougald Middleton.

NEWS IN BRIEF



Venture fund manager **MMC Ventures** has recruited Camilla Dolan as investment manager from Bain & Co, where she was case team leader.

Alexandre Neiss has joined **Investec**'s corporate lending business from Deutsche Bank, where he worked in corporate finance in the healthcare investment banking team.

Linklaters' corporate partner Nick Rees has been appointed head of the PE team, following the departure of Richard Youle and Ian Bagshaw to the London office of White & Case. And Stockholm-based corporate partner Roger Johnson returned to the firm's London PE group.

Veteran banker Ron Emerson has been appointed the first chairman of the government-owned **British Business Bank**. He previously worked for Bank of America and Nomura and after leaving Standard Chartered Bank in 1996, became adviser to the Bank of England. Since 2001 he has held non-executive positions.

YFM Equity Partners has spun out from GLE Group to become an independently-owned private equity limited liability partnership. GLE acquired the firm five years ago, to enable its founders to retire from the business. Marsden Clark provided commercial advice on negotiating the deal terms.

UK mid-market private equity house **Dunedin** has recruited Karan Darroch (left) as financial controller, responsible for fund reporting and portfolio monitoring from KPMG where she was senior manager. Andrew Davidson (left) has also joined as an analyst from

RUGMAN IS S&W HEAD OF VALUATIONS

John Rugman is new head of valuations at Smith & Williamson. He succeeds Ian Burns, who retired in October. Rugman was previously director of the UK regional valuation team at PwC.

Giles Murphy, national head of assurance and business services, said: "John has a huge wealth of experience in valuations and will make a valuable asset to the team, which we have ambitions to start growing in time."

RESTRUCTURING M&A PARTNER JOINS BDO

Stuart Deacon has joined BDO as restructuring M&A partner from EY, where he led its national distressed and accelerated M&A network. Deacon recently worked on the sale of UK bed retailer Dreams to Sun Capital Partners and fashion retailer Republic to Sports Direct.

"The restructuring market continues to become sophisticated, with stakeholders requiring a deeper range of technical advice and support," said Deacon. "We also advise specialist investors and funds that have raised capital to focus on this distressed market sector."

CLIFFE TO HEAD HM

Haysmacintyre has promoted head of corporate finance services, Ian Cliffe, to managing partner. He succeeds Simon Wilks, who led the firm for six years. Cliffe has been a partner since 2001 and will continue to head up its corporate finance team.

"Our corporate finance practice is integral to the business, which I will continue to drive forward with increased vigour in my new role," said Cliffe. "We see our sector specialisms of creative media and technology, hospitality, property and financial services being our key focus, continuing our strong presence in AIM and ISDX work."

TAYLOR WESSING INFRA HIRE

Former head of Nabarro's infrastructure group Matthew Jones (pictured) has joined international law firm Taylor Wessing's construction and engineering group as partner. With extensive experience in real estate development and development finance, he has also been involved in energy, transport, health and education projects. He also deals with risk management and dispute resolution, and has a wealth of global experience.

"Matthew is extremely highly regarded in the construction and real estate community, and his hire is evidence of our commitment to those sectors," said Laurence Cobb, Taylor Wessing head of construction and engineering, "He has that ability which we value so highly at Taylor Wessing; great commercial instinct."

In Dubai the firm has recruited Habib Ullah from Nabarro as head of banking.

PwC's business recovery team. Usman Malik has been promoted to director of M&A at Grant Thornton, which he joined in 2002.

Duff & Phelps has recruited David Lu as managing director to head up its investment banking practice in China. He has joined from Cowen Group, where he was head of Asia investment banking.

Former EY chairman Nick Land has been appointed chairman of the **Walker Guidelines Monitoring Group**, the body that oversees the reporting and transparency standards of the UK's private equity industry. He replaces Sir Michael Rake, who has led the organisation since it was set up in 2008.

Joseph Chu has joined law firm **Simmons & Simmons** as a dispute resolution partner in its Beijing office, from Clifford Chance. His focus is on complex cross-border investment disputes, fraud cases, tax and trust disputes and regulatory investigations.

UK buy-and-build private equity firm **Sovereign Capital** recruited Barclays Ventures founding member Jeremy Morgan as director.

Silverfleet Capital appointed Jack Priestman as analyst from Perella Weinberg Partners.

Julian Jaffe has joined **Liquity**, the sales platform for qualified investors and unquoted company shares, as director of operations and technology.

Investment bank **Houlihan Lokey** has hired two managing directors to its capital markets group: Anthony Martino and Gregg Newman, both from Sagent Advisors, were co-heads of its alternative capital markets group.

Elizabeth Uwaifo (left) and Francis Nwokedi have joined law firm **Fasken Martineau** banking and finance team in London as partners from Clifford Chance and Unicredit Bank respectively.

Sachin Korantak has joined **Actis** as head of industrials from Sikorsky, where he had been director of M&A. Prior to Sikorsky he worked for McKinsey. Andreas von Paleske has also joined from Lion Capital as director of consumer.

Steady steering

Changing the fortunes of a €8.3bn buy-out – the biggest European leverage package ever at the time – was like turning round a freight ship heading for the rocks. EY partner **John van Rossen** explains how the day was saved

THE CAREER

John van Rossen is partner in EY's London transaction support group. He has an economics degree from the Erasmus University of Rotterdam, is a Dutch chartered accountant and has an MBA from Columbia Business School. He worked in the Netherlands until 2000, before a five-year spell in New York focused on private equity clients.
He has extensive international and cross-border experience assisting clients with buy- and sell-side due diligence.

Recent clients:

- Bain Capital
- Montagu Private Equity
- TowerBrook Capital Partners

WHAT WAS THE DEAL?

The turnaround of NXP Semiconductors. The Netherlands-based company had struggled following an €8.3bn buy-out from Philips Electronics in August 2006. Backed by KKR, Silver Lake Partners, Bain Capital, Apax Partners and AlpInvest Partners, it was the largest leverage loan package in Europe at that time. It was caught by the downturn but, following a successful turnaround, NXP was listed on NASDAQ in August 2010.

AND ITS SIGNIFICANCE?

You learn a lot about the private equity industry when it faces challenges and deals with them. No one could have predicted that NXP's slide would happen so quickly and so aggressively. At one point the investment was written down. But the PE investors stayed on board, worked together to turn the tide and came out capital intact, as did the lenders.

WHAT WAS THE STRATEGY?

To transform the company from top to bottom. PE got actively involved. A new CEO and CFO were brought in – both tech industry veterans. And one of the investor's operating partners went company-side as COO. There were several revenue-boosting initiatives and we at EY were brought in to support the turnaround of the cost base and cash control.

WHO WERE THE ADVISERS?

Bain Consulting and EY partnered to help identify cost reduction opportunities and support their implementation. There were also tax advisers from EY and local legal advisers.

WHAT WAS YOUR ROLE?

The company had to lose a substantial proportion of its cost base within a year. There were three strands to that – cost tracking, helping management get control of direct cash flow and support for financial planning and budgeting, which I led and was crucial for the IPO. I had 30 people working on that. The 'unallocated' element of costs had grown over time. We had to understand how the cost base was made up and capture all costs worldwide. The three business unit controllers were very involved in this.

AND THE CHALLENGES?

We started in early 2009, and by the end of 2009 were seeing the fruits of our labours. Management, whom I had a great respect for, had already gone through significant change by moving to the PE model. Keeping them onside, while asking them to go through even more significant change, was a huge challenge.

WHAT WAS THE KEY LESSON FOR YOU?

Besides getting a birdseye view of how financial sponsors direct and execute a change process, I had to work with employees who had a very uncertain future, but on whom I was wholly reliant. I had to be completely transparent and open. To do that you need to agree a governance and communication strategy early and stick to it, avoiding all temptation to break from it.

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Official fuel consumption figures for Maserati Ghibli range in mpg (l/100km): Urban 18.0 (15.7) – 37.1 (7.6), Extra Urban 38.7 (7.3) – 56.5 (5.0), Combined 27.1 (10.4) – 47.8 (5.9). CO_2 emissions 242 – 158 g/km. Fuel consumption and CO_2 figures are based on standard EU tests for comparative purposes and may not reflect real driving results. Model shown is a Maserati Ghibli S at £72,325 On The Road including optional mica paint at £660, 20" Urano design alloy wheels at £1,960, polished aluminium brake callipers at £2,160, fine grain extended leather interior at £2,420 and carbon fibre trim at £1,710.