Corporate Financier

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ICAEW CORPORATE FINANCE FACULTY

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★ THE BUSINESS FITNESS ISSUE
YOUR DIVESTMENT STEP-BY-STEP GUIDE

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GROWTH | OPPORTUNITIES | EXPERTISE

COVER: GETTY

ICAEW CORPORATE FINANCE FACULTY

Going, but not gone

There was a smidgen of good news for humankind just as we went to press. Lee Sedol, South Korean world champion at Go (the ancient Chinese board game), had pulled one game back in his match with AlphaGo – Google's

artificial intelligence (AI) computer programme. The bad news is that Lee had already lost the first three games in the best-of-five series. Considering these as losses of course assumes you are rooting for man rather than machine.

Wherever your support lies, AlphaGo is a good-news story for the UK. It is perhaps the most public output of DeepMind – the UK start-up founded in 2010 by chief executive Demis Hassabis when he was studying neuroscience at University College London. The start-up was sold to Google for £400m in January 2015, and is testament to UK research and innovation.

WINNERS AND LOSERS

I have played Go just the once (against a human). Having finally beaten my opponent at chess, after years of trying, he asked if I had ever played Go. When I replied no, it was a precursor to me getting put back in my place. Despite relatively simple rules, there are reputedly more potential moves in Go than there are atoms in the universe. Intelligence, a strategic mind and mental fortitude make Go winners. I lost.

Corporate financiers often need such skills. But does AlphaGo's victory herald a future where dealmakers may find themselves negotiating with robots? I don't think so.

I'm clearly no expert in the game, but it was reported that AlphaGo "made a few amazing moves that human professionals could not think of" in the first game. But by the fourth game it was making blunders, pressured by Lee's "aggressive play".

Could AI replace real intelligence in deal-making? While great analysis of the numbers must underpin any corporate finance transaction, and be at the fingertips of a corporate financier, reading the situation beyond the numbers is absolutely critical in a great dealmaker.

That fourth match defeat tells us AlphaGo is perhaps more human than we may think. Having bagged the series, the computer may have put its virtual feet up and pondered the point of the last two dead rubbers. Not to be. AlphaGo won the last game. Maybe I could have helped Lee claim a famous (albeit meaningless) victory for us people.

Marc Mullen
Editor

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Faculty news

CORPORATE FINANCE EXPERTISE HIGH ON ASSET-BASED LENDING AGENDA IN MAY

The Asset-Based Finance Association (ABFA) has invited the Corporate Finance Faculty to take part in its annual conference, which is on 4-5 May in Dublin.

Jeff Longhurst (pictured), ABFA's chief executive, said the conference theme will be meeting new challenges and creating new opportunities.

David Petrie, ICAEW head of corporate finance, will be speaking about the role of expert advice in increasing business awareness of asset-based finance, particularly as part of the financial structure of mid-market, multi-asset deals.

His fellow panellists will include Chris Hawes, country head transaction risk management, HSBC Global Trade and Receivables Finance.

By the end of 2015, ABFA members were advancing a total of nearly £20bn to UK and Irish businesses, supporting companies with total sales of almost £300bn. It has also become increasingly popular among private equity investors for some types of buy-out.

Longhurst said: "We look forward to welcoming our friends and stakeholders from ICAEW and the Corporate Finance Faculty. The landscape for our industry, and of corporate finance more generally, is changing rapidly. The conference is a chance for us to come together and consider the challenges and opportunities."

ABFA is expecting more than 250 members from across the UK and Ireland to attend. They range from lenders focused on SMEs to those dealing in large, multinational corporate transactions.

Matt Davies, director of policy and communications at ABFA, said. "The audience will be particularly looking forward to David Petrie's perspective on the place and potential of ABL, and a view from across the various disciplines that comprise the wider corporate finance world - not least given his own M&A advisory experience."

"The audience will be particularly looking forward to David Petrie's perspective on the place and potential of ABL"

The conference will be hosted by BBC broadcaster John Humphrys, who will also make the keynote address at a reception and dinner on the first evening.

ABFA is one of the 19 organisations that supported the publication of the *Business Finance Guide* by the Corporate Finance Faculty and the British Business Bank in 2014.

It is also contributing its expertise to the second edition of the guide, which will be published later this year.

More information on ABFA can be found at abfa.org.uk

BUZZACOTT STEPS UP CORPORATE FINANCE

London-based accountancy firm Buzzacott, as it continues to extend its advisory capability, has joined the Corporate Finance Faculty.

The largest single-office firm in the UK, Buzzacott boldly says that it provides niche expertise to a diverse client base that ranges "from nuns to hedge funds".

Matthew Katz (right) joined the firm in March 2015 to set up a corporate finance team to specialise in disposals, acquisitions, fund-raising and MBOs. The team also undertakes valuations and assists in resolving shareholder disputes.

Katz said: "It's been a great first year. The demand we anticipated is there. However, as with any new business, the challenge has been balancing building a strong long-term corporate finance business with looking after the immediate transactions and client needs."

The majority of companies that the team advises with profits of between £500,000 and £5m are owner-managed and based in London and the South East. Notable transactions have included advising on the acquisition of Shields Environmental, a service provider to the mobile telephony industry, and the disposal of LightGraphix, a lighting designer and manufacturer for architectural, marine and display purposes.

Katz added: "We are delighted to join the Corporate Finance Faculty. It's an invaluable resource and network for industry professionals. Being a member allows us to raise our profile among our peers, as well as providing us with resources that our clients and Buzzacott can benefit from."

Clockwise from top left: Fiona Francombe (Bottle Yard Studios); Shaun Beaney (Corporate Finance Faculty); James Smith (Amalgam Modelmaking); David Jarman (Bath Spa University); and Christian Annesley (Insider Media, far left) questions the panel

FACULTY JOINS CREATIVE INDUSTRIES KNOW-HOW IN WEST OF ENGLAND

The national growth of the UK's creative industries is being demonstrated by more entrepreneurship and investor interest in the sector across the regions, according to the Corporate Finance Faculty.

Speaking at a forum for creative entrepreneurs at Bath Spa University on 15 March, the faculty's Shaun Beaney, co-author of the ICAEW publication *Creative Industries - routes to finance*, told an audience of companies, advisers and investors that he saw signs of an increasing number of creative start-ups across the UK, although it would take time for that to feed through into more deals.

> The West of England is an important hub for the creative industries and corporate finance know-how

ICAEW's Business Advisory Service (BAS) sponsored the forum, which was organised by Insider Media.

Speakers included Fiona Francombe, director, The Bottle Yard Studios; Simon Barbato, founder and managing director of Mr B & Friends; David Jarman, director of enterprise at Bath Spa University; Paul Appleby, chairman of Bristol Media; James Smith, director, finance & architecture, Amalgam Modelmaking; and Rachel Bowers, film commissioner, Bath Film Office.

Jon Blake, ICAEW's regional director for the South West, said: "The West of England is an important hub for the creative industries. Bringing ICAEW's corporate finance know-how and utilising the BAS for the benefit of entrepreneurs was a big part of the Bath forum."

ROUTES TO FINANCE REACHES 20,000

More than 20,000 copies of the ICAEW publication *Creative Industries – routes to finance* have been distributed to creative organisations, advisers and funders across the UK since November. There have also been thousands of downloads from icaew.com/creativeindustries

The publication, a Corporate Finance Faculty initiative, was launched at the National Theatre on 18 November by Minister of State Ed Vaizey, ICAEW chief executive Michael Izza and the Creative Industries Federation's chief executive John Kampfner. It has since been included in official communications by the Department for Culture, Media & Sport, UK Trade & investment, Arts Council England, Creative England and the Intellectual Property Office, among others.

Routes to finance, which was researched and co-authored by Shaun Beaney of the Corporate Finance Faculty, lists 100 sources of UK public, philanthropic and commercial funding and advice. The launch was supported by 52 organisations, including the Creative Industries Federation, and #RoutestoFinance was top-10 trending on Twitter at the launch.

In numbers

A look at online alternative finance platforms, growth in crowdfunding models, and sales of loan portfolios by deleveraging banks in Europe

€141BN
global boost that industrial manufacturers would get from improved working capital management

SOURCE: PWC

1.09M
people invested, donated or lent via online alternative finance platforms in the UK in 2015

£3.2BN
invested, donated or lent via online alternative finance platforms in the UK in 2015

84%
increase on 2014

SOURCE: NESTA

FAST GROWING UK ALTERNATIVE FINANCE MODELS:

DONATION-BASED CROWDFUNDING

GREW BY **507%**

FROM £2M IN 2014, TO £12M IN 2015

EQUITY-BASED CROWDFUNDING

GREW BY **295%**

FROM £84M IN 2014, TO £332M IN 2015

SOURCE: NESTA

$9.5BN
value of Japanese acquisitions of UK businesses in 2015

COMPARED TO **$0.67BN** IN 2014

SOURCE: DELOITTE

$45.1BN
value of the China National Chemical Corporation takeover of Swiss-headquartered Syngenta – the largest M&A transaction with Chinese involvement to date

SOURCE: THOMSON REUTERS

37%
of deleveraging was in the UK

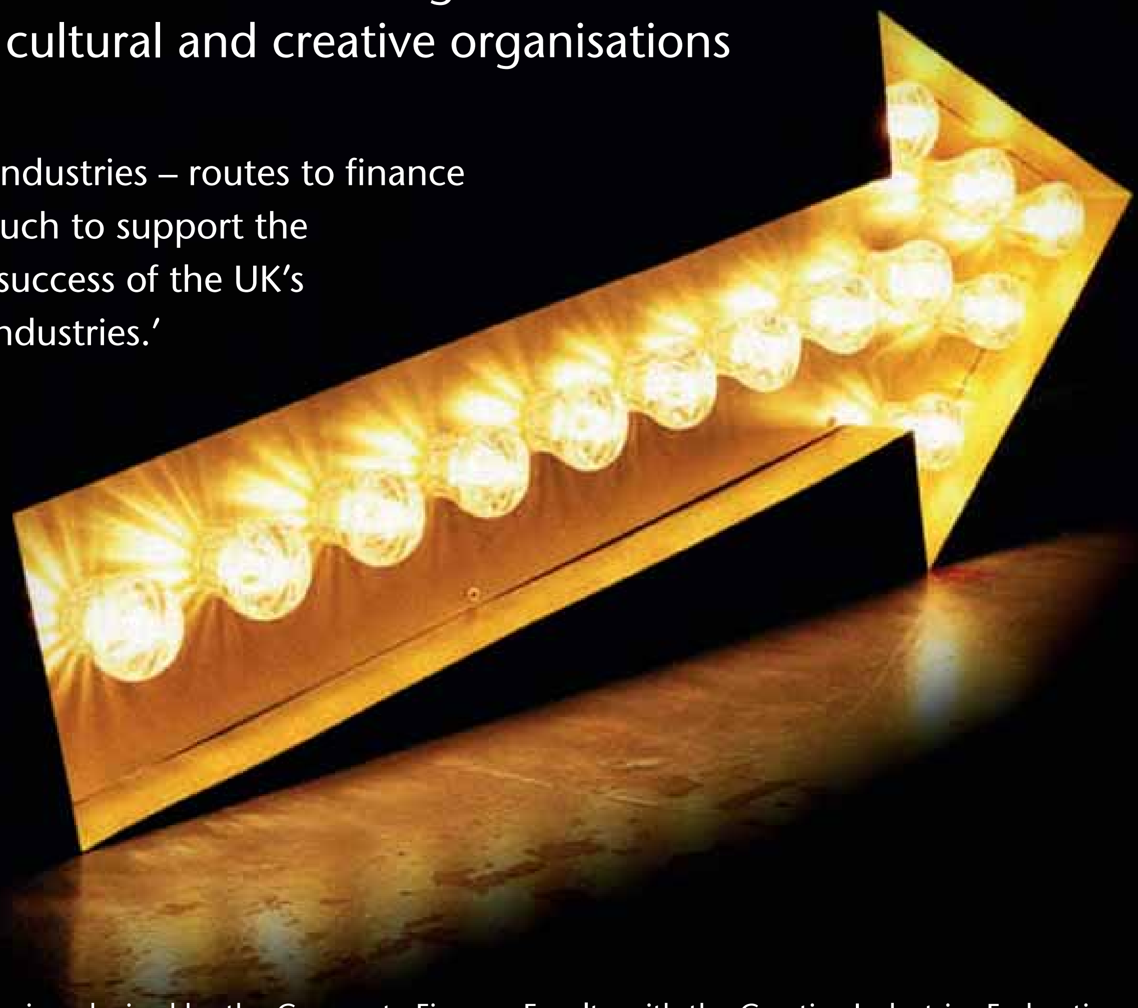
€104BN
sales of loan portfolios by deleveraging banks in Europe in 2015 – a record

SOURCE: KPMG

Creative industries – routes to finance

A guide to sources of funding and investment for arts, cultural and creative organisations

'Creative industries – routes to finance will do much to support the ongoing success of the UK's creative industries.'



A unique overview devised by the Corporate Finance Faculty with the Creative Industries Federation. Featuring 100 UK sources of public, private and philanthropic investment, information and advice. Co-authored by Shaun Beaney and John Kampfner. Get creative.

To download a free copy, visit **icaew.com/creativeindustries**
or to request a printed copy email **lorraine.sinclair@icaew.com**

@ICAEW_CORP_FIN #RoutestoFinance

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Wish you were here

It's impossible to escape email. **Jon Moulton** is Down Under, planning some communication ground rules so he can have a proper gap year next time

RICHARD ANSETT

Nowadays it seems that 65-year-old(-ish) successful souls must take gap years in distant lands. I haven't got a spare year, but a six-week tour of New Zealand and some Pacific islands is sating my wanderlust.

I keep meeting (mostly) Brits of a similar age on extended, and sometimes adventurous, trips. However, most have had the wits to retire. So while they may be heavy users of the internet, they don't suffer the endless flow of emails that hound me.

The nature of leisure has changed for those of even modest success. The instant gratification of communication by email means that no one gives a thought to deciding to send an email. Many inbox pings could vanish without practical effect.

I am old enough to have been in private equity in the 1980s. No email, but we did have other forms of communication. Phone and phone messages - I'd get half-a-dozen a day on holiday, perhaps 30 at my desk. Fax - on holiday two or three a day. Because it was a bind to do this, mostly they were about things that mattered, such as draft legals, and because they were few in number, they warranted careful responses and would get them. No faxes in the last two weeks!

Fast forward to 2016. Now I get about 100 emails a day, with half requiring a response. But I'm not actually any more productive than I used to be. Indeed, in the still common pain of a slow connection I spend far too much time waiting for a monster download - one, it transpires, I never needed to see in the first place.

Seeing a vast distribution list means that many recipients assume that others have read the documents and either assume it is all fine or just superficially skim them

So why do I need so much communication? Well, being here on an extended break has forced me to think about it, and the answer is clear - I don't. It is only by looking back that you see the impact of email. The most recent generation has grown up without the insight of this hindsight.

NEW TECH, NEW RULES

Before email became the norm, legal documents went through much less drafting and redrafting. Partly because of this, they were simpler. Now endless minor redrafts create much opportunity for things to be missed, and to get complex. Legal bills have increased proportionately throughout my career - and email is part of the problem! This I can, and will, address. In future, I will only allow a very few revised versions to be published.

One other phenomenon is the massive distribution lists. Now this was a real pain by fax, so distribution was much more restricted, without it seems any corresponding benefit in quality. Indeed, my experience is that seeing a vast distribution list means that many recipients assume that others have read the documents, and they will either assume it's all fine, or just superficially skim them. I have a solution to this - I will send emails that require a response from those expected to have read and responded to drafts and, to really ram it home, I will ask the lawyers who has actually responded!

While New Zealand is lovely, I have had a look at the local accounting scene. It is with regret that I see a nation that produced good academic work on the excesses of financial reporting, and a sensible standard on summary reporting, stuck firmly on the same dreary path as the UK and USA. A sound and wholly adequate, principles-based system is descending into the mass of prescription, leading to the usual unreadable excess, requiring scarce talent to produce and police.

Anyway, enough of this, the sun is shining and I've cleared the overnight email stack.

M&Asterchefs

The UK's restaurant and bar sector, despite a fall in the number and value of deals last year, fed many private equity firms during the recession. But as competition for assets grows fiercer, asks Grant Murgatroyd, can it take the heat?

Britain is dining out. Since the recession hit, spending in UK restaurants has gone up 39%, according to research firm MC Allegra FS. Casual dining is the fastest growing segment, and, according to Ten Live Group, spending with food service companies rose 2.9% in real terms to £46.6bn in 2014.

This growth has attracted private equity investors hungry for a recipe that is easy to replicate. In theory, it's simple: find an established operator that has proved its business model at a handful of sites, and roll it out across more sites. Then, sell it, usually to another private equity (PE) firm with a different capital structure and risk profile. PE is active across the entire restaurant sector, with an emphasis on the aforementioned casual dining. Deal flow has been steady. Since 2009, there have been between 13 and 22 M&A deals per annum in the sector, the majority backed by PE (see chart on page 12).

The leader of the pack is Casual Dining Group (CDG), which operates a host of leading brands including Bella Italia, Café Rouge, Las Iguanas, La Tasca, Belgo and Huxleys. It has 10,000 employees and claims to serve 20 million meals per annum from a total of 300 sites.

A VERITABLE FEAST

Despite the recognisable brands, CDG is a new kid on the block. It was formed in April 2014 when US turnaround specialist Apollo Group bought a portfolio of restaurants known as Tragus Group from private equity giant Blackstone. Blackstone had paid Legal & General Ventures £267m for Tragus in 2006, when it had EBITDA of £33.3m on sales of £193.1m.

CDG's turnaround plan saw two brands, Café Rouge and Bella Italia, enter into Company Voluntary Arrangements (CVAs) before emerging with a stripped-down portfolio. At the same time, 43 Strada sites were sold to financier Hugh Osmond for £37m. The pared down business had 160 sites. Debt was immediately cut from £258m to £91m, and a series of acquisitions quickly followed.

In 2015, CDG bought Spanish tapas bar La Tasca for £26m from Germany's Commerzbank, and Icelandic bank Kaupthing, who had themselves taken control of the business through a debt-for-equity swap with property magnate Robert Tchenguiz in 2013.

Founded in 1993 by Neil Gatt, La Tasca grew with publicly listed buy-out group 3i, until it was bought for £28.2m by Glasgow-based private equity firm Penta Capital in 2001, when it had 16 outlets. By 2007, it had 73 outlets, and was sold for £123m to Bay Restaurant Group (then Laurel Pub Company) – Robert and Vincent Tchenguiz's investment company, which also owned bar chains Slug & Lettuce and Bar Med (bought for £80m in 2005 out of administration).

CDG acquired the 41-site South American-themed dining chain Las Iguanas for £85m from mid-market private equity firm Bowmark Capital last year. Bowmark had paid £27m to Piper Private Equity for the chain in 2006 when it had 14 sites.

"Restaurants have done well through the recession"

Jonathan Garbett, director, Kingston Smith

£250M
AMOUNT BC PARTNERS PAID FOR FRENCH BISTRO CHAIN CÔTE

Bella Italia is part of the Casual Dining Group along with Café Rouge, Las Iguanas, La Tasca, Belgo and Huxleys

The Daily Telegraph reported that CDG had won a BDO-run auction, beating Bridgepoint Capital (owner of Ask, Zizzi and Pret-A-Manger), Graphite (Groucho Club, Corbyn & King, Hawksmoor, Wagamama and C-Side) and ECI (which had bought Tragus for £25m from listed leisure group Whitbread in 2002, and sold it for £90m to Legal & General Ventures three years later, generating a 5.3x return).

ALL THE INGREDIENTS?

That is a lot to digest, but what is clear is that PE is feasting on the sector. "Restaurants have done very well all the way through the recession," says Jonathan Garbett, a director at Kingston Smith. "People are eating out more, so brands and formats that have been attractive to the consumer have performed extremely well in like-for-like revenue terms."

Achieving good performance across multiple sites, ideally in different types of location, is the key to attracting investment. "Finding the perfect site is an issue," says Henry Wells, managing director at Duff & Phelps. "A danger for restaurateurs doing roll-outs is that they always have to compromise on sites, and sometimes where there are pressures to open a site they can compromise against their own criteria or their own better judgement for the sake of the roll-out. These sites often come back to bite operators."

But finding sites is not the only success factor. Restaurant chains can attract very large multiples. Close Brothers Private Equity (CBPE) beat Bridgepoint and TA Associates, with a £100m bid for French bistro chain Côte Restaurants, which had 45 sites. Côte's sell-side adviser, Hawkpoint, initially sought £120m. And CBPE was proved right to have pursued the acquisition at that price. Less than two years later, BC Partners paid £250m for the business, with CBPE pocketing a 2.9x return and an IRR of 78%.

An obvious question is whether PE firms can continue to sell these assets to each other.

"People are eating out more, so brands that have been attractive to the consumer have performed extremely well in like-for-like revenue terms"

AMERICAN APPETITES

With the exception of the fast food giants, restaurants tend to be domestic businesses. But concepts do get imported, albeit with a local flavour added. One notable import is chicken specialist Nando's, which originated in South Africa but has made its mark among UK diners, though the business model is different.

But what trends from the US might be finding their way over here? The first is the macro trend of people spending an increasing proportion of their income eating out. Last year, America spent more money in bars and restaurants than in grocery stores for the first time since Department of Commerce records began in 1992. The Restaurant Association says: "Millennials tend to favour fast food, deli food and pizza restaurants over coffee shops, high-end dining and casual dining."

"One particular theme we are seeing is the US," says Henry Wells of Duff & Phelps, "is the rise in the fast-casual pizza – the likes of Blaze, 800 Degrees Pizza and MOD Pizza, where consumers select their own toppings and enjoy high-quality, made-to-order pizza in less than five minutes. These operators are rapidly taking share from both traditional food-service pizza players and frozen pizza at retail."

While McDonald's saw revenues and profits fall 10% last year, "fast casual" outlets have been doing well. Yum! Brands, owner of Taco Bell, KFC and Pizza Hut, has opened several new fast casual concepts, including US Taco Co, Banh Shop, and Super Chix.

ALAMY, GETTY

Private equity has, on the whole, done very well from the restaurant sector. But it is now so well understood that they will have to take more risks to achieve returns

Secondary and tertiary buy-outs have served limited partnerships (LPs) well so far. "It's how the game works," says Peter Hemington, partner at BDO. "It clearly works for LPs because LPs generate fantastic returns from PE. It works for people like me. In the old days you used to regard PE as the last refuge of a desperate M&A adviser. But these days, in certain sectors, the majority of deals are done by PE firms."

Some advisers argue that it would be good if the parcel could be passed to the public a bit more often. When Patisserie Valerie floated on London's AIM market in May 2014 with a £170m valuation, it priced at the bottom of the 170p-200p range promoted by broker Canaccord Genuity. The business, which grew with support from Luke Johnson's Risk Capital Partners, ended 2015 with its shares trading at 410p.

The restaurant sector is constantly changing as customer preferences change. Some private equity firms are even beginning to look at "wet-led" offerings. "Casual dining is something PE is very fond of, and roll outs are relatively predictable ways of growing businesses," explains Will Baxter, director at Grant Thornton. "Increasingly there are some wet-led drinks businesses that are attracting private equity. Cocktail bar chain Be At One was backed by Piper Private Equity, and it has been a great success in terms of like-for-like sales. They're capturing the trend for younger people to drink spirits, rather than the more typical offerings of beer and wine in pubs."

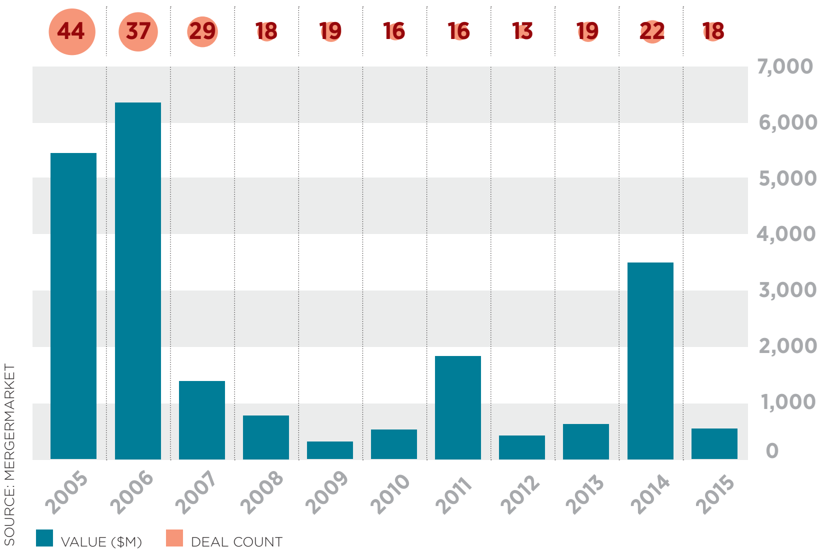
"The majority of deals are done by PE. It's how the game works"

Peter Hemington, partner, BDO

So where does an operator go if it has filled its niche in the UK? Taking businesses international is a common strategy for larger private equity firms, but will this work in the restaurant sector? "The UK is an engine room of innovation in terms of new concepts," says Baxter. "There are examples of UK businesses going overseas and there are examples of overseas businesses coming to the UK. Wagamama was one of the first to make that journey. Yo! Sushi is looking to the US for growth. Pret a Manger got its fingers burnt, but it learned a few lessons and is going back. Hawksmoor is opening a 14,000 sq ft site in New York. It's an opportunity, but it's not without risk. People are questioning the wisdom of taking steak to the US."

Private equity has, on the whole, done very well from the restaurant sector. But it is now so well understood that they will have to take more risks to achieve returns, whether by trying out new segments or moving into new geographies. Whatever the case, there seems to be enough M&A activity to share the food around for the moment.

UK RESTAURANT M&A DEALS



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Chris Taylor, Jasper Corporate Finance

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TALKING TECH HEADS

The tech sector has continued to perform and attract M&A activity despite uncertainty in the global economy. Jason Sinclair looks at the trends in a vibrant sector

Companies in the technology sector continue to outperform equity markets in a "low growth, low inflation world" that is somewhat haunted by concerns about commodity prices, the future of Europe, ISIS, China and the US elections, according to ICON Corporate Finance.

With macro conditions remaining (at best) mixed, ICON states that there is still plenty of available funding from cheap debt and cash-rich corporates continuing to benefit the M&A market.

A report from ICON suggests that "values are trending higher due to a combination of factors, including more cross-border strategic deals, and more acquisitions of start-ups in high-growth sectors". It identifies social media, e-commerce, big data, digital marketing and niche software, and points to "strong interest for these higher growth businesses in a low growth world".

The report says that alongside the headline-grabbing mega-deals, the main story of 2015 was "the extraordinary amounts of money and eye-watering valuations put on unlisted technology companies. This is part of the reason behind the reduction in the number of IPOs in 2015, as companies delay floating because they can access capital at great valuations in private markets."

Tech M&A fell in the UK year-on-year in 2015, but VC funding increased by 70% to £2.4bn, while global M&A rose for the sixth straight year. The report crucially asks: "Is this the top of the cycle?" But comfort is taken from the fact that the cash holdings of corporates are double 2007 levels, and that 50% of M&A in 2015 was financed partly with equity, more than double the 2007 figure. It predicts the hotter areas in tech M&A for 2016 will be data analytics, mobile, video, the Internet of Things, wearables, machine learning, cyber security/compliance and fintech.

Megadeals in the sector often blur the underlying trends. The hunt for potential Unicorns (or Decacorns) can lead to frothy valuations. But analysts in the sector are pointing to the maturity of many companies that are coming up for exits, headed by second-time entrepreneurs who have already learned from their mistakes.

£2.4BN

OF VC FUNDING IN 2015, AFTER YEAR-ON-YEAR INCREASES

The ICON report, published in January, points to the Sophos IPO as a potentially positive harbinger, reversing the trend of London-listed tech companies, such as Logica, Autonomy and Northgate, opting for going private. The report concludes: "Innovation and growth are likely to remain at the forefront of investors' minds in a slow growth world in 2016."

So what do those who are in tech M&A and investing think?

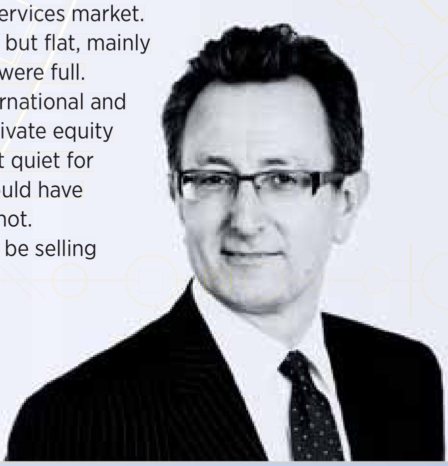
ANDY MORGAN

PARTNER AT GRANT THORNTON

"High-level fintech is one of the hotter areas right now, with a good mix of headline-grabbing deals, and larger players acquiring the right sort of capability for their platform. Cyber security is still strong, and another area I would flag is data business, flowing into analytics, which I think is going to be quite an active area over the next 12 months. I also think there is going to be a slight return to activity from a relatively quiet few years in the infrastructure services market.

"Last year's activity was solid but flat, mainly because prices for good assets were full. There's been a good mix of international and cross-border M&A. We found private equity in the UK was busy for exits, but quiet for investments – lots of houses would have loved to deploy capital but did not.

"It's been an easier market to be selling in than investing in, and some investments have been flipped quickly – quicker perhaps than their original theses. And there is still a backlog to work through."



10% OF THE UK MARKET IS ACCOUNTED FOR BY PRIVATE EQUITY

90% OF THE UK MARKET IS ACCOUNTED FOR BY TRADE BUYERS

50% OF M&A IN 2015 WAS FINANCED PARTLY WITH EQUITY

BRIAN PARKER

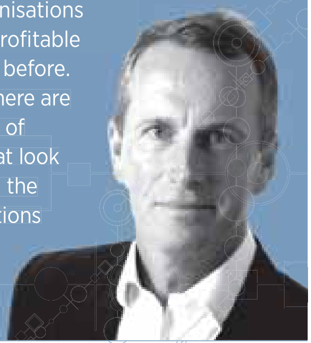
HEAD OF M&A, ICON CORPORATE FINANCE

"There's still plenty of relatively cheap finance around to help buyers structure deals, but PE in the UK only accounts for about 10% of the market, while trade buyers are 90%. Within that, foreign buyers – mainly the US – make up around 40% of the total.

"There are few sub-sectors that are doing well beyond the headline deals. We're seeing continued demand in the UK for energy management and managed services – which is not over sector. Quite a few deals closed in 2015.

"Most things to do with data and analytics are in demand.

"You get to stages in the cycle where company or sector health changes. In the UK we've had six years of increased M&A activity in a row and businesses have had six years of an up-cycle to recover, so most of them are much healthier than they were at the beginning. They have been through reorganisations and are more profitable than they were before.



"Obviously there are a small number of transactions that look overvalued, but the core of transactions we see are pretty sustainable."

ANDREA TRAVERSONE

PARTNER AT AMADEUS CAPITAL

"Clearly fintech is an area where there are a lot of traditional industry players buying more innovative companies. The whole area around artificial intelligence is exploding. People are paying huge amounts of money in effect for capabilities rather than companies. Digital media is down, I would say. E-commerce, particularly in emerging markets, is up. Software as a service, although the multiples are down, is still vibrant from both investment and exit points of view. Trade buyers still provide the majority of exits in this sector, but financial buyers are holding up and every year that's becoming a more viable route.

"Here in Europe we hardly see bubbles – not in pricing, not in exit, and certainly not in the sense that you sometimes see it in the US. Some things, like Instagram, look like bubble transactions at the time, but in fact turn out to be very good deals. Another way of looking at it is: 'where do we see pricing that implies such phenomenal forward growth that it looks irrational?' Where we operate, that's the case in very few sub-sectors or regions. Probably the only one is B2C in India, and even that is readjusting. Other than that, we'll see the odd transaction where individual companies are overvalued, but that's not a tech bubble, it could happen in any sector.

"I think we're at the beginning of a cycle of great companies that are going to hit an exit window in the next three to five years, particularly in sectors like security, medical technologies and second generation internet infrastructure. Many of these will be VC-funded companies at the series A/series B stage, and there's an impressive cohort ready to mature in a few years.

"The reason the quality is going up all the time is that you have second-time entrepreneurs and executives with a lot of experience. So there has been that element of learning entrepreneurship that means the companies make fewer mistakes and are stronger – while business models have also become more established and efficient, and any learning from trial and error has been done."

> "People are paying huge amounts of money in effect for capabilities rather than companies"

INNOVATION AT ITS HEART

The chancellor recently said the Midlands are England's "engine for growth". And while this region may not be as loud as the Northern Powerhouse, it is keen to prove its worth beyond the Westminster-approved moniker, says **Khush Purewal**

The Midlands' reputation is as a hub for manufacturing and industry, but newer industries have also moved in over the past decade, earning it some renown for technology and innovation, and highlighting continuing investment in the region. These factors are contributing to the growth in the local economy and, in turn, a flourishing M&A market.

It can be difficult to define the Midlands region. Roughly, it starts in the M5 corridor between Bristol and Birmingham, north to Stoke, across through Derby and Nottingham as far as Lincoln, and then south through Leicester and Northampton to Rugby and Milton Keynes. The exact boundaries are less important than the sectors represented in the region.

The traditional sectors of heavy industry and manufacturing can certainly still be found in the Midlands. Automotive is dominated by Jaguar Land Rover (JLR), which over the past three years has invested to double its production capacity. leading to significant growth in the auto supply chain. Aerospace has significant presence with Rolls-Royce in Derby, and again, its supply chain spreads far and wide across the Midlands. And then there there's the food, drink and agriculture sectors, with the East Midlands home to many established and growing businesses.

TECH ADVANCES

Each of these sectors has a common theme, and one that is boosting the region's M&A market - technology. Tech is increasing innovation, boosting growth, and making Midlands businesses increasingly attractive M&A prospects. Many may think tech start-ups are primarily found in East London, but KPMG research highlighted that in 2015, Warwick had the highest growth of tech enterprises of any UK local authority. Why? Primarily because the manufacturing and auto industries are hungry for growth, providing the perfect environment for new ideas, products and services. Inevitably, this innovation in the supply chain attracts interest from buyers domestically, but importantly, it also attracts significant amounts of foreign direct investment.

One interesting aside is the extent to which the region's high net worth individuals are involved in M&A, and backing Midlands business with more than money. VC fund manager Mercia Fund Management, backed by evergreen private equity fund Forward Group, is developing innovative technologies. Mercia has long been a provider of VC and VC-related services to start-up and early stage businesses.

Midlands-based Mark Hales, who sold his business Claimar Care Group in 2009, has since been investing in small high-growth businesses in a variety of sectors where he believes he can provide insight, as well as money.

Tech innovation is not restricted to start-ups and new ideas - it is increasingly being found in the region's larger corporates. Businesses are making technology a firm fixture on boardroom agendas, focusing on a long-term strategy to become more competitive in the UK, and globally.

One such example is the Warwick Manufacturing Group, led by Lord Kumar Bhattacharyya, whose aim is to reinvigorate UK manufacturing by improving the competitiveness of organisations through the application of value-adding innovation, new technologies and skills deployment. JLR is another example - in January it confirmed plans for a new 800,000 sq ft technology campus, creating 4,000 jobs to keep the auto firm at the forefront of technological change, and

4,000
JOBS TO BE CREATED BY JLR'S NEW TECHNOLOGY CAMPUS

Birmingham's Selfridges building by St Martin in the Bull Ring (left) and Central Library (above); Leicester (bottom left); the Jaguar plant in Derby (right)

the growing demands for more efficient low-emission vehicles.

NECESSARY CAPITAL

The strength of innovation, and of the Midlands market as a whole, means that deal volumes are increasing. Deal sizes range from small venture financing for niche spin-outs from the region's elite universities, such as Warwick, Birmingham and Nottingham; to follow-on funding for fintech businesses on the region's science parks; to overseas expansion by regional powerhouses such as IMI, which acquired Bopp and Reuther in Germany last year, or GKN, the global automotive and aerospace group.

Of course, there is another factor necessary to make the conditions for M&A right - the money. The Midlands is not immune from the lack of availability of capital, whether in debt or equity markets. Just a couple of examples are the IPOs of Epwin in 2014, and Marshalls of Cambridge in 2015, which were advised by KPMG teams based in the Midlands. In addition, the region has a host of well-capitalised corporates, both private and public, that have used their profits to pay down their debt, so they are now perfectly poised for growth. If a strategic acquirer wants an asset, they have the capital and the wherewithal to outbid private equity.

> The strength of innovation, and of the Midlands market as a whole, means that deal volumes are increasing

ALAMY

The truth is that they don't have to look far for a deal - a great many have been signed on the dotted line recently. Naturally, with JLR being on patch, the automotive supply chain has been in the fast lane, and is expected to continue to attract M&A attention as JLR requires its suppliers to grow with it, whether in the UK or overseas. Examples are plentiful - the acquisition of Covpress by Chinese group Shandong Yongtai in 2013, or Stadco by Canadian Magna last year.

Aerospace also continues to fly high, with several companies regularly attracting attention - Shimtech and MB Aerospace to name just two.

Interestingly, the travel sector has also been active in the Midlands over the past few years, with Audley Travel, Riviera and Victoria Travel all changing hands: perhaps more a reflection of the in-vogue nature of this sector nationally, with regional operators following suit.

MORE PE PLEASE

Yet the Midlands M&A market does appear to be underweight in private equity, compared to London and the North. Perhaps this is due to its proximity to London. LDC is the volume player in the region. Beech Tree, Bridgepoint Development Capital, Living Bridge and Equistone are all present. The Business Growth Fund has also been very active, with the announcement of its investment in automotive stamping business Sertec Group. The recent addition of Palatine Private Equity is most welcome.

Rumours of more arrivals abound. Of course, London private equity houses all actively target the region, and can regularly be seen doing deals. Looking five, 10 or more years down the line though, it would be safe to predict a more consistent local private equity base could be established, particularly when HS2 becomes operational and the Midlands' connectivity with London intertwines the two markets further.

It may have seemed in the past that the Midlands M&A market was low key, but there's increased activity across the region. Obviously the international macroeconomic issues, that have seen greater caution since the start of 2016, will impact the Midlands, as it will the rest of the UK. However, there will remain many businesses with strong fundamentals that will provide a pipeline of M&A opportunities.

Khush Purewal, partner, head of corporate finance for KPMG in the Midlands

FITTER, FASTER, STRONGER

WITH COMPANIES FOCUSING ON CORE GROWTH AREAS, DIVESTMENTS ARE COMING OUT OF THE SHADOWS AND CREEPING UP THE BOARD AGENDA. HOW CAN THESE OFTEN-COMPLEX DEALS CREATE MAXIMUM VALUE – FOR BOTH BUYER AND SELLER? VICKY MEEK REPORTS

Achieving growth in today's economic climate is no mean feat. The Organisation for Economic Cooperation and Development's chief economist, Catherine L Mann, recently spoke of prospects flatlining as the organisation's forecast for global growth in 2016 was cut to 3% (from a long-running average of about 3.75%). So to deliver shareholder returns companies must focus on growth areas while trimming non-core operations.

"Corporates are now facing up to the 'new normal' of economic uncertainty, a strong US dollar, declines in oil prices and challenging conditions for growth," says Paul Hammes, EY's global divestiture advisory services leader. "They are using divestments to invest in R&D and product development, fund acquisitions and grow the core business."

Shareholders are increasingly demanding evidence that companies are unlocking value in their portfolios. "Shareholders now expect corporates to conduct strategic reviews regularly and with rigour - and divestments are one outcome of this," says Selina Sagayam, head of UK transactional practice development at Gibson Dunn. "You are also seeing activist-inspired divestments. Activists are looking at whether there are non-core businesses in a group or if there are parts of the business that could be sold to return cash to shareholders."

General Electric is one such example. Once a sprawling financial and industrial giant, in 2015 alone it disposed of $157bn (£112bn) of GE Capital assets, following a decision to focus on manufacturing. Honeywell too - it shed its nylon fibre, wax and performance fibres businesses recently to home in on what it calls "growth platform technologies".

$1.86TRN

of corporate divestments worth $10bn in 2015

SOURCE: DEALOGIC

"We are seeing a lot of divestments in EMEA that haven't yet started the process, but are in preparation mode"

Charles Honnywill, European head of sell-side services, EY

$157BN

of GE Capital assets disposed of by General Electric in 2015

SOURCE: DEALOGIC

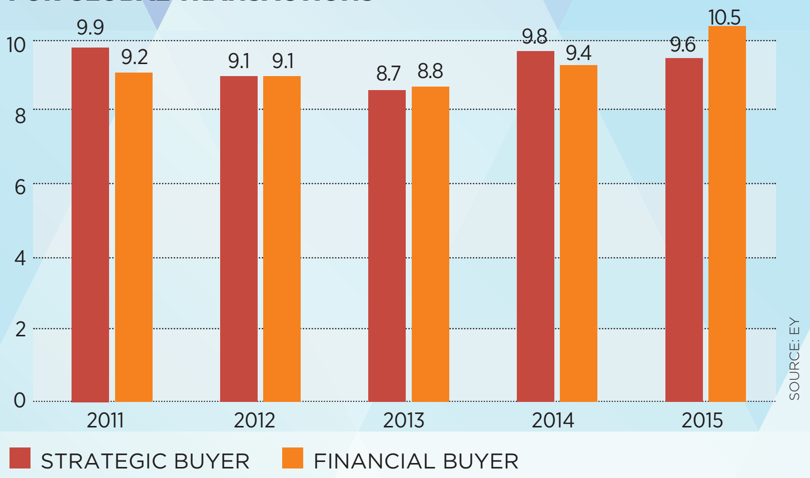
A new study by EY into corporate divestments found that almost half of its 900 executive respondents globally were planning to sell parts of their companies over the next two years, and all of them had made a divestment in the past three years.

There are signs of a divestment pipeline filling up. "We are seeing a lot of divestments in EMEA that haven't yet started the process, but are in preparation mode," says Charles Honnywill, EY's European head of sell-side services. "These will start coming on to the market over the next 12 months."

Further down the line, there will also be considerable fall-out from the recent spate of mega-deals, such as the $117.4bn SABMiller-AB InBev tie-up, Royal Dutch Shell's $81.5bn deal for BG Group and the $160bn Pfizer-Allergan merger. Last year, there were a record 67 deals valued at more than $10bn, worth $1.86trn in total, according to Dealogic data - more than double 2014's $803.4bn total. Competition and regulatory issues, as well as strategic aims, are bound to result in a wave of divestments from many of these giant-scale integrations.

Nevertheless, divestments tend to be complex and often fraught affairs. The EY study found that only 19% of divestments met three key success criteria - a positive impact on the valuation multiple of the remaining company, a sale price above expectations, and closing ahead of timing expectations. Perhaps unsurprising, but how can businesses get trim?

MEDIAN IMPLIED EV/EBITDA MULTIPLES PAID FOR GLOBAL TRANSACTIONS



BE PROACTIVE

The EY study found that just over half (52%) of divestments were opportunistic. This suggests many corporates are being reactive, and therefore not managing their portfolio of businesses proactively, to bring focus to core activities.

Nearly half of EY respondents carried out strategic reviews to determine which businesses to grow, and which to divest, more than annually. Those who carried out quarterly reviews were 30% more likely to achieve divestment success. "Portfolio reviews are such a vital part of divestment," says Hammes. "Without them, how can you know you're making the right decision?"

The latest analytical tools harnessing the plethora of data available, both internal and external, should be used to inform divestment decisions. More than half of respondents admitted they had held assets too long - diverting valuable resource from core areas.

GETTING INCENTIVISED

Making divestments more attractive for the employees involved is crucial. "Divestments are inherently less glamorous than acquisitions and people tend to believe there is less success associated with them," says Dan Beanland, partner in transaction services at Deloitte. "That can lead to rapid sales that fail to optimise value."

Ian West, acquisitions director at Capita, says that those involved must be motivated to make the deal successful: "At the very least there needs to be a deal team drawn from the centre of the organisation to work on the transaction. The management team needs to be incentivised, but so do other people doing the legwork, to ensure that the deal happens - and that it happens successfully."

ALL IN THE PREP

Shareholder and quarterly reporting pressure, the need for secrecy and a desire to divest an underperforming business and move on quickly often mean disposals are completed in a matter of months.

"Many companies underestimate the amount of time, effort and cost required to separate and sell a business," points out Beanland. "Very frequently we are told that a business is already largely standalone. Yet when we dig deeper, we find that there may be 20 or 30 touch-points with the parent. The necessary confidentiality around the transaction means that those that take the decision to sell usually have limited knowledge of what's required."

"Divestments are inherently less glamorous than acquisitions and people tend to believe there is less success associated with them"

Dan Beanland, partner in transaction services, Deloitte

52% of divestments were opportunistic according to a survey by EY

30% increase in likelihood of achieving divestment success if quarterly reviews were carried out

11% of respondents in the EY survey had sold to a private equity house

"The management team needs to be incentivised, but so do other people doing the leg work, to ensure that the deal happens – and that it happens successfully"

Ian West, acquisitions director, Capita

Excess haste has knock-on effects. "The seller often underestimates the risks, which can have real impact on valuation," says Nick Morrill, managing partner at Rutland Partners, a turnaround buyout investor.

To generate maximum value, divestments need time and resources to be spent on preparation. Robust financials are key, as is identification of separation issues - from contract renegotiations through to the potential cost implications for buyers of central functions such as finance, HR and IT.

"Companies need to think through how the separation will work, what the costs will be, what kind of transitional service agreements will need to be in place and for how long and what will happen to supplier agreements," says Hammes. "If you can think about these issues and present them to buyers as a roadmap for what you've done, what you're willing to do by functional area and geography, you can help create competitive tension when the process starts."

OUTSIDE THE BOX

Many corporates have a tendency to favour doing deals with other corporates in the belief that they will achieve a higher valuation. Only 11% of respondents to the EY survey had sold to a private equity house. But private equity should be on their radar - buy-out houses have a record $752bn of dry powder globally, as at December 2015, according to Preqin.

If potential acquirers are identified early enough, information can be tailored to different buyer needs. For strategic buyers, transition arrangements may be

LAWS OF THE GAME

The legal aspects of running a divestment are often critical. Unless a business is sufficiently prepared, they can overwhelm or even derail the whole process.

1 Transition service agreements (TSAs): The extent of these can depend on whether it is a private equity or a strategic buyer and need careful consideration, and pragmatism. "TSAs should be akin to a mega-outsourcing agreement and cover areas such as service levels, charging structures and who will do what during the transition," says Gibson Dunn's Selina Sagayam (above). Capita's Ian West adds: "Negotiating TSAs can sometimes take 10 times the effort and brainpower used for the actual sale and purchase agreement, so common sense should prevail on both sides to rein this in."

2 Liabilities: Historical liabilities can prove an issue for sellers. "Any potential liabilities should be identified in advance and managed," says Sagayam. "Likewise, tax liabilities can be a headache. Sellers need to make sure that no such liabilities will result from a divestment."

3 Third-party consents: "These need to be in place, but it's hard to hold these conversations with suppliers and customers when there is a need for confidentiality around the divestment," says Sagayam. "Having a plan to discuss such issues before signing, or when the deal is announced, identifying any truly material third-party consents early on and working out the approach, is advisable."

4 Micro-detail: In Europe, factors such as Tupe and data privacy need to be considered. "There can be a lot of painful detail in separation that can be hard to unpick," says Sagayam. "Get good operational people to work through all this."

MANAGING MANAGERS

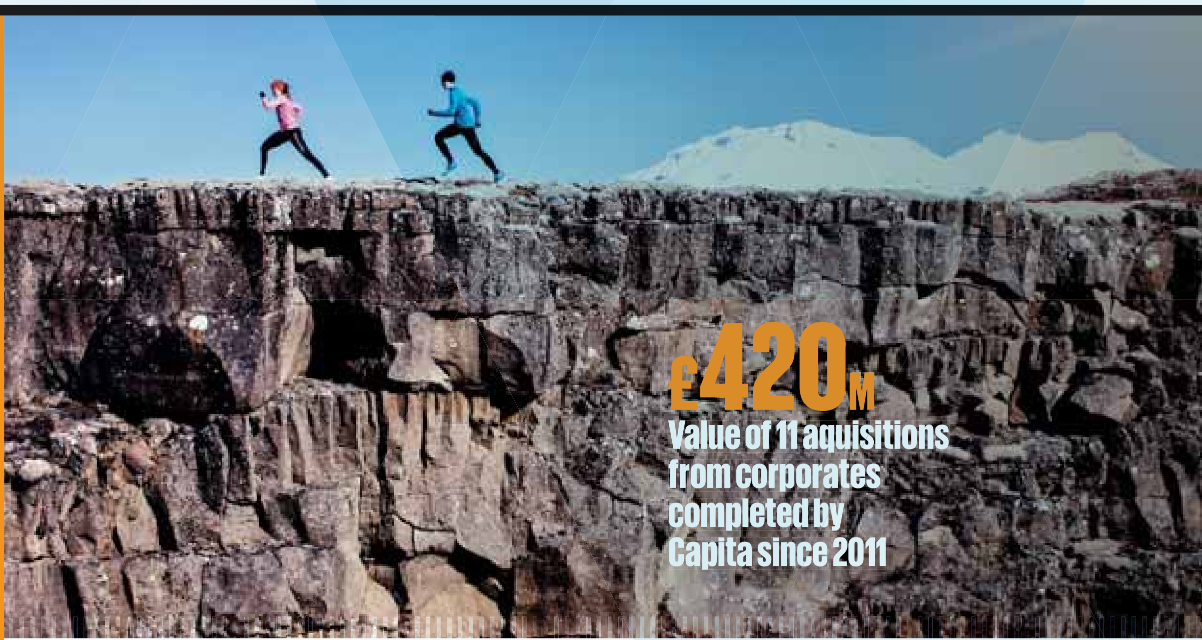
The management team of the business being sold are a vital element in the deal. "If buyers don't buy into the management team and get comfortable with them, they will have a level of scepticism around all the data the seller provides," says EY's Paul Hammes.

EY's Charles Honnywill adds: "Any buyer, but particularly private equity, will look critically at the management team." Sellers therefore need to make sure they are open and upfront with the team about what they can expect from the deal, both during and after the process.

"It's an emotional time – new tasks need to be done, advisers dominate their lives and private equity buyers may even change management before the deal completes," says Honnywill. "And all this is over and above the day job."

Management may also find their loyalty pulled in different directions. "Management needs to be looked at carefully," says George Budden, corporate finance partner at Deloitte. "While they remain in place to run the business, they are often the ones also managing the divestment. Not only does that add pressure, but it's also true that as the transaction proceeds, their incentives become more aligned with the new owner than the current one."

Having a representative from the parent in all discussions with the new owner can reduce the risk that value is given away.



Complexities may cause headaches during the deal – and perhaps even after – but the rewards can be substantial

less of a focus, while creating a roadmap for synergies might be an important way of creating value from the divestment.

"Private equity buyers, by contrast, will need to build up services from scratch - and that may require vendors to paint a picture for financial buyers of what the business would look like on standalone basis," says Deloitte corporate finance partner George Budden. "Private equity is also likely to need vendor due diligence."

UNDERSTANDING MOTIVATION

Good advisers, appointed early on, will show their worth in finding the right buyers and presenting the information appropriately. "Many companies struggle with answering the question: 'What value is the business to others versus us?'" says EY's Honnywill. "Companies often fail to prepare the equity story for the next owner of the business. It's not an easy thing to do because it often has to be done covertly, and you, as the vendor, have formed a view that the business is not going to grow. That's why getting an external view is so important."

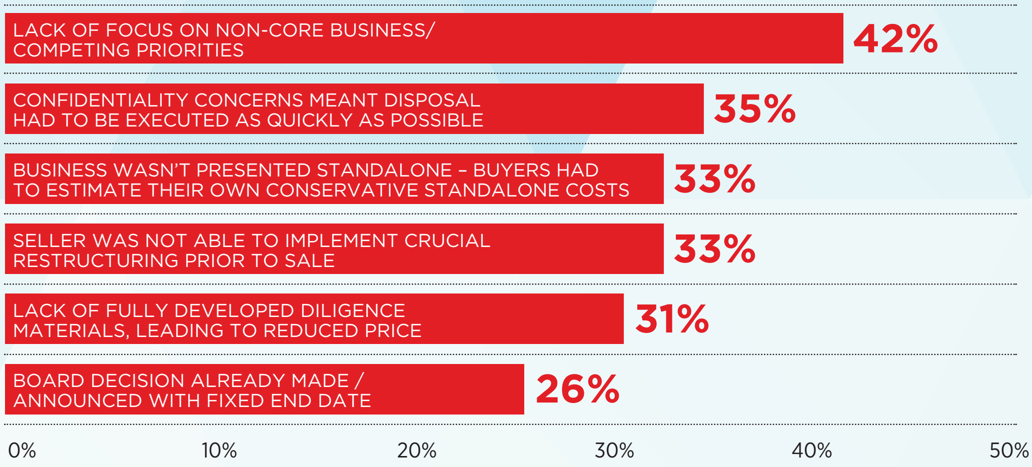
And it's not just the advisers themselves who point to their value-add in the process. "If advisers are brought in early, you usually find that the business is properly prepared for sale," says Dunedin partner Giles Derry. "Where this isn't the case, the deal tends to drag on and that can cause value erosion - if you're trying to tie up loose ends during the sales process, that can cause a deterioration in the business."

For divestments to remain attractive, they must work for buyers. Acquiring from a corporate can be complex compared to a standalone transaction. Over the past five years, outsourcing services company Capita has completed 11 acquisitions from corporates, worth £420m (out of the 80 acquisitions worth £1.5bn it has made since 2011).

"There is a very different set of incentives in a corporate deal, versus one where you have an owner manager," says West. "In the latter, you will have someone who is motivated to sell because they will bank most of the proceeds, and you have a high degree of confidence that the numbers will stack up, because you will have historical data based on a standalone entity. In the former, you may be dealing with people that are not as motivated to get the deal done, and the numbers need to be pushed much, much harder, because historical performance may have been skewed by cross-charges, missing cost lines and one-offs."

Then there is how to motivate

MAIN CAUSES OF VALUE EROSION



SOURCE: EY

management post-acquisition.

"As a buyer, you need to understand who the key managers are, ensure they are financially incentivised to make the business a success and help them understand why being part of a new parent is an opportunity," says West.

The same goes for private equity. Rutland Partners turned around Pizza Hut from an unloved, loss-making division of corporate Yum! into a profitable, growing business (see the May 2015 issue of *Corporate Financier*). One of Rutland's first tasks was showing management the opportunity their investment could bring.

THE FLIP SIDE

"Our approach is to try to engage existing teams with an open chequebook and mindset," says Morrill. "We'll work with them to determine what it will take to make the business address the market better. This requires a lot of sincere and honest discussions that should help management see the underperformance is actually an opportunity."

Complexities may cause headaches during the deal - and perhaps even after - but the rewards can be substantial. "Carve-outs can be attractive opportunities for us," says Morrill. "They can offer the opportunity to buy a scale business that is on the back foot, into which you can breathe life, investment and a new culture to move it forward. They are often better value propositions than many other deal types, and there can be significant potential for multiple expansion."

"Carve-outs can be attractive opportunities. They offer the opportunity to buy a scale business that is on the back foot"

Nick Morrill, managing partner, Rutland Partners

CAMERA PRESS, GALLERY STOCK, GETTY

FITNESS TIPS

1 Cash counts: Detailed historical and forecast financial information must be collated to reflect the divested business as a standalone entity. "You need to be able to articulate what the cash flow of the business will be once it's separated," says EY's Charles Honnywill. "How else can a buyer understand how much risk it is taking on?"

2 Bottom out the numbers to be presented to buyers: "When numbers are changed part-way through the process, the deal has a higher chance of unravelling," says Capita's Ian West. If possible, get the numbers verified by local management and externally.

3 Define transaction perimeters early: "This includes intangibles such as brand, tax and pensions," says Deloitte's Dan Beanland. "These can be hard to untangle, yet without being clear on these, you cannot understand the financial implications for both buyer and seller."

4 Support management with expert resource: A team of experts involved who understand how different business functions operate, and how to separate them, is required. "People from head office really need to be involved in the separation," says Beanland. "The management team of the business to be divested won't know the detail of the IT separation, for instance, that will be required."

5 The board on board: "Board exposure to divestments is critical," says Honnywill. "If it is not discussed several times at board level, it's less likely to be successful." Boards also need to communicate clearly the rationale – to ensure parent valuation is maximised post-sale.

UNDER THE CARPET KING

Victoria Plc picked up the faculty's Corporate Development award at the annual reception last October. Marc Mullen speaks to its executive chairman **Geoff Wilding** about carpets, underlay and M&A

Some 25 years ago, Geoff Wilding was working for an investment bank in Auckland, New Zealand, when he spotted that while the bank was making money from the fees charged to raise equity capital or debt funding "the real money was being made by the people that owned the businesses".

He and a friend bought a transport company out of receivership, worked to turn the business around, and then sold it on just 10 months later. For funding, the pair had financed the deposit for the acquisition by maxing out on about 20 credit cards. "It was real bootstrap stuff," says Wilding. "But we did pretty well out of it."

Emboldened, the pair bought another transport business, "because we thought we now knew a bit about that sector". The strategy this time was to grow through acquisition.

"The first business we bought turned over around NZ$10m [approx £3.6m in 1990] and grew the group, Transport Investments, to a business turning over just over NZ$70m. In 1996 the management team did an MBO, buying it off my partner and me. That proved a very successful outcome for us."

In the intervening time he has acquired, built and grown businesses in the printing, manufacturing and transport sectors that have then been sold on. In 2002 he set up print holding company, Pacific Print Group. In late 2005, a 50% stake was sold to Australian investment firm, Gresham Private Equity, for NZ$220m.

UK-BOUND

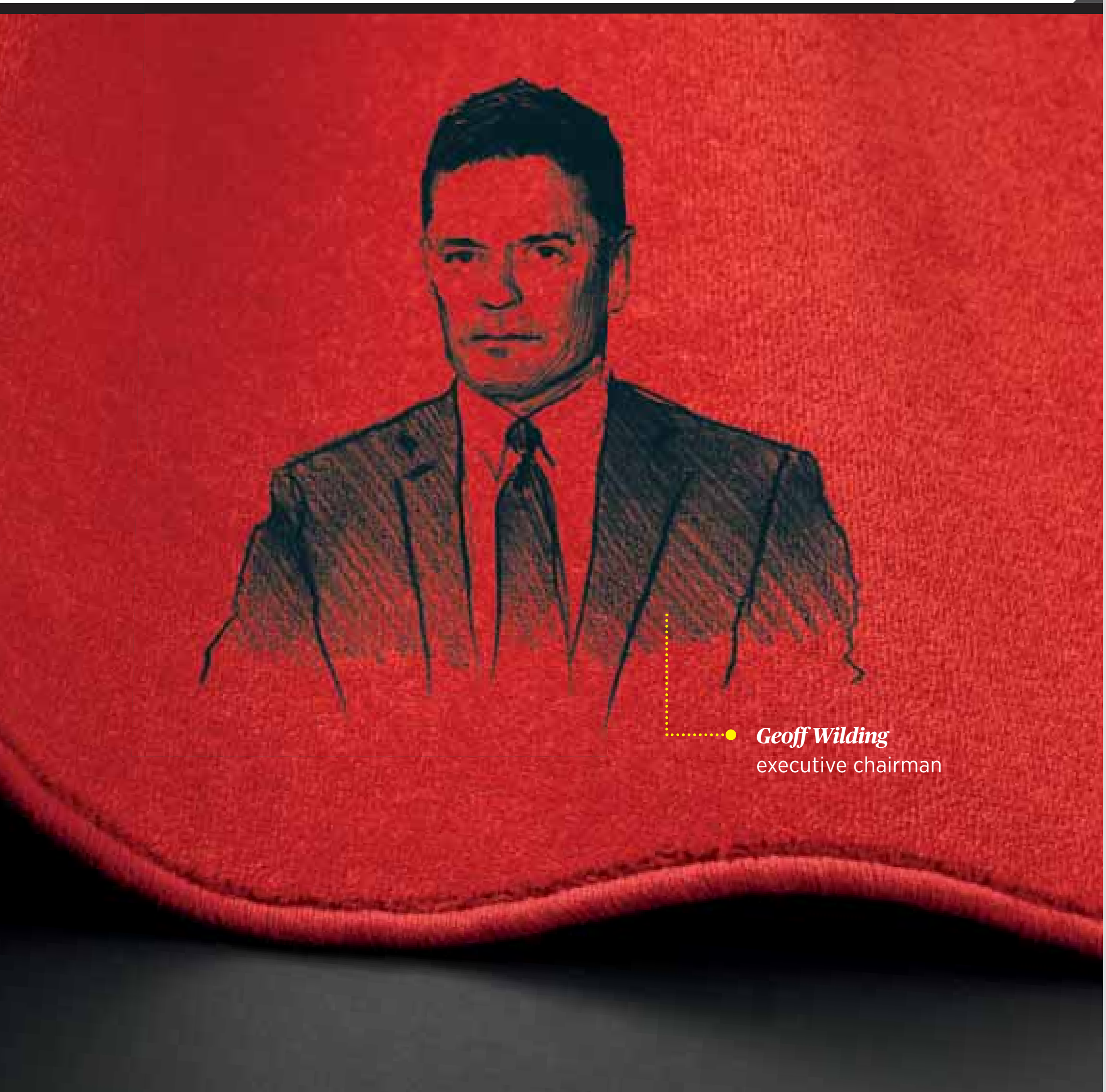
Now, 20 years on, Wilding sits at the helm of Victoria Plc. Founded in 1895, Victoria designs, manufactures and distributes carpets and other floor coverings, targeting the mid- to high-end market, under a number of different brands. The business is headquartered in Kidderminster with manufacturing and retail operations in Australia and the UK, employing more than 600 people. The company's carpets are found in Buckingham Palace, Balmoral Castle and several other royal residences. It manufactured the carpet used in Westminster Abbey for the royal wedding of the Duke and Duchess of Cambridge.

Wilding was appointed executive chairman of the Midlands-based business in October 2012, and since then the AIM-listed company's share price grew dramatically from 240p-per-share to a high of 1,425p last September. It has since dropped back to around 1,275p, but that is in line

£300m
Victoria Plc's annual turnover after acquiring Interfloor Group

600
The number of people that Victoria employs

1,425p
Victoria's share price in September 2015



Geoff Wilding
executive chairman

with the falls seen on the market as a whole.

In February 2013 a proposal – determined fair and reasonable by the company's broker, Cantor Fitzgerald, and approved by the London Stock Exchange – was put to shareholders to ensure Wilding's interests were wholly aligned with them. In return for an initial payment of £20,000, the company would issue Wilding with 7.1 million shares, provided shareholders received a £3-per-share dividend within two years. Wilding would pay a further £100,000 if the shares – then about £2.20 – didn't reach £3 within two years. 93.1% of shareholders voted in favour. In June 2014 the company paid shareholders the £3 dividend, and so in July Wilding was issued 7.1 million shares.

The strengthening of the share price has been largely due to a dramatic increase of earnings per share as a result of Wilding's acquisition strategy – the company has made five acquisitions in the past three years. In October last year the company was presented with the Corporate Finance Faculty's prestigious Corporate Development award. The annual prize goes to the listed company that has most effectively deployed its M&A strategy to grow shareholder value. The month before the award Victoria acquired Interfloor Group, for £65m (see box, right) which will take annual turnover for the group through the £300m threshold.

"M&A is vital to our growth strategy," says Wilding. "In order to create the value I believe is achievable in the industry, we need scale. I can see very clearly that when we have sufficient scale we will be able to dramatically improve the profitability of the business. I look at the larger US manufacturers and they demonstrate that. With the market overall growing roughly at rates of 3-5%, acquisitions are the only way to reach our objective within my lifetime."

BUILDING SCALE

Acquisition targets are identified through discussions with Victoria's management and competitors, visits to trade shows, and in industry magazines. For Wilding the next step is not rocket science: "I then simply telephone the owner and ask for a meeting. Things develop from there."

Victoria's mission is "to create wealth for shareholders", something that is at the forefront of Wilding's thinking when it comes to financing M&A: "When the share price was significantly undervalued, as it has been for the last three years, I make more use of debt to avoid unnecessary

THE NEED FOR SPEED

Last September, Victoria Plc paid £65m for Interfloor Group, a leading UK carpet underlay and flooring accessories manufacturer. The Interfloor acquisition brought the established Tredaire and Duralay to the group.

Interfloor was backed by private equity house Milestone Capital. Cantor Fitzgerald analyst Freddie George said of the deal: "Before taking into account any synergies, this deal leads to a 27% upgrade in 2017 earnings, in our view."

The transaction was part funded by the placing of 2.5 million new ordinary Victoria shares, which raised £30.8m.

Wilding says "speed was of the essence" for the completion of the deal. He says they had decided to enter the underlay market early last year. Having carried out research on the market, and businesses that might fit best with the group, a report was prepared on Interfloor. Then, while presenting the annual results to the City in one of a series of roadshows, Wilding got wind of a potential IPO of Interfloor.

"The moment the presentation ended I called up Rothschild, told them to get hold of the owners and tell them not to go down the IPO route - we would buy them."

The IPO was pencilled in for September, so Wilding and Victoria had to move quickly. "Understandably, they didn't want to pull their IPO until they had certainty we would complete. We had a very quick negotiation. Fortunately, we were able to rely on the due diligence reports they had already prepared for the IPO process. Also, we didn't need shareholder approval, which was fortunate too, as that would have slowed us down."

Interfloor management and its backers wanted certainty of price too - certainty that was perhaps not available through the IPO process.

"We agreed on a fair price range very quickly," says Wilding. "I was not trying to steal it off them, and I didn't want to waste my time. They understood that."

"I get value from spending time with the vendors and crunching the numbers myself"

dilution of existing shareholders. However, I am financially conservative, and before the debt is taken on, I ensure there is a stress-tested plan to repay it. Fortunately this is helped by the fact that our businesses generate significant operational free cash flow."

Victoria does not operationally integrate businesses it acquires. They look to identify and extract synergies wherever possible, but the day-to-day management remains independent post-completion. It's not just about acquisitions. At the end of last year it divested its wholly owned subsidiary, Westwood Yarns Limited. "We could not see the business making a long-term contribution to the group," reasons Wilding.

When it comes to assessing a target Wilding says he spends a great deal of time with management before making a decision to proceed: "You will learn far more from talking and listening to the management team than any amount of formal due diligence will ever tell you. I get value from spending a lot of time with the vendors, going to the premises, and crunching the numbers myself. It allows me to get close to the business and the management team, and see what makes them both tick."

That said, the primary provider of due diligence is Grant Thornton for Victoria; Brown Rudnick provides legal advice. The board is quite tight-knit. Solicitor Andrew Harrison is a non-exec, as is Alexander Anton, who is a member of the founding family, and Gavin Petken, of the Business Growth Fund (BGF), which has invested in the business (see box, right). In January Michael Scott joined the board as group finance director from Rothschild, where he spent eight years. He qualified as an ACA with PwC. Cantor Fitzgerald, Smith & Williamson (reporting accountants for Victoria) and the BGF are all members of the Corporate Finance Faculty.

Consistency of earnings and profitability are key for Wilding. However, if he gets a negative feeling about management, the performance becomes irrelevant. "Management must have commitment, enthusiasm and belief in the business's future. I look at their management style and personality, because I always keep the management teams on after completion."

When it comes to running a Plc he admits it is a balancing act between running the business, and being there to grasp opportunities. But, he says: "I never forget that the business is owned by shareholders. Keeping them informed and listening to them is very important."

GOVERNMENT BACKING

The Business Growth Fund, (BGF), has invested a total of £14.5m in Victoria. Its initial investment was in September 2014, and was BGF's first investment in a publicly listed company.

The initial investment was in the form of loan notes, with a cash-paid coupon, and no capital repayment for the first five years, and the capital then repaid over the following three years. BGF also had an option to buy equity in Victoria at a later date. The investment was unsecured and flexible, in line with the BGF's approach as a provider of capital to support companies' development over the longer term.

BGF's Gavin Petken, who collected the Corporate Development award on behalf of the company at last year's Corporate Finance Faculty annual reception, serves as a non-executive director on Victoria's board. "We saw this as an excellent opportunity to back a company with global ambitions, and the potential to expand organically and through acquisitions such as Abingdon which adds significantly to the group's product offering," he says.

£14.5m

The amount the BGF has invested in Victoria

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New RELATIONS

Changes to partnership law in the UK have been a long time coming. What will it mean for VC, private equity and other closed-ended funds? **Rob Mailer** looks at the implications

The UK's Limited Partnerships Act 1907 (the Act) is often seen as rather archaic by corporate lawyers. However in July 2015, after more than a century without major changes, the UK government announced that it intends to bring its limited partnership law into line with other jurisdictions such as Delaware, the Cayman Islands, Jersey, Guernsey and Luxembourg.

The key driver behind the proposed reforms is the acknowledgement that, while it may be far from what the Act's original draftsmen had in mind, limited partnership is the most common vehicle for venture capital, private equity and other closed-ended private funds, and many of the statutory eccentricities inherited from the Edwardian era are no longer particularly useful or helpful in this context.

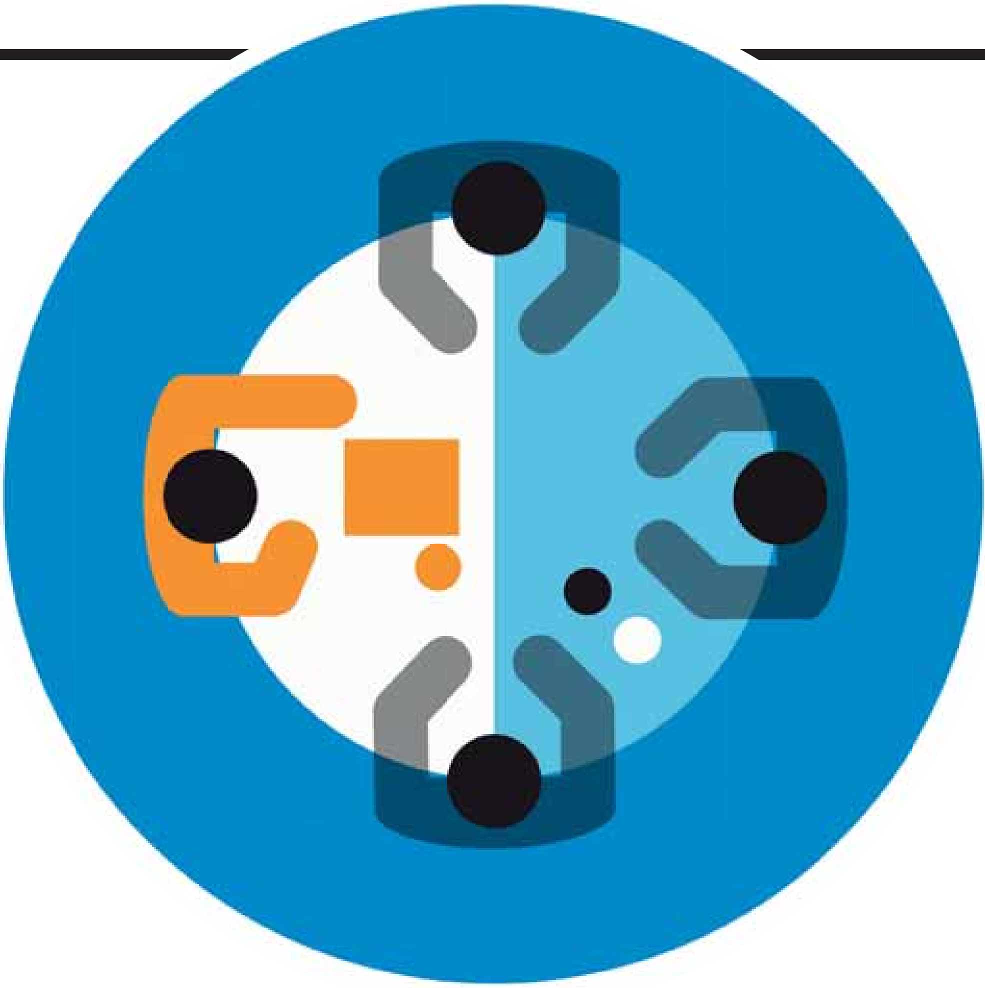
Following its announcement, the UK government published a consultation paper and a draft legislative reform order through which the changes will be made. The government's stated intention is to "maintain and enhance the UK's competitiveness as a centre for fund domicile and to minimise costs to investors", by creating a new regime within the existing Act that will apply to limited partnerships that satisfy certain criteria to be classified as "private funds", but which will not apply to other "non-fund" limited partnerships.

Existing partnerships that do qualify as private funds will have one year to opt in to the new regime from the date the changes come into force. The envisaged criteria are that the limited partnership is governed by an agreement in writing, and that it is a collective investment scheme as defined in the Financial Services & Markets Act 2000. As currently drafted, a fund's legal adviser needs to certify that the fund fulfils the criteria, but given that one of the stated aims of the amendments is to reduce costs and relieve administrative burden, this certification requirement seems unnecessary, as does the arbitrary time limit of 12 months from implementation for existing funds to opt in. It may instead be preferable for the general partner to provide the certification, allowing it to seek legal advice (and therefore incur additional costs), only if required.

WHITER THAN WHITE

One of the more welcome proposals for the new regime is the inclusion of a "white list" of activities that a limited partner can undertake without the risk of being considered to be involved in the management of the fund. At present this would mean such a limited partner losing the protection of limited liability for the debts and obligations of the partnership. The permitted activities of a limited partner in this "white list" include actions such as taking part in decisions about:

- the variation of the partnership agreement;
- whether to allow a type of investment or a particular investment;



GRUNDINI/IKON

- the prospects of the business;
- whether the general nature of the business should change;
- changes in persons responsible for day-to-day management (such as following the trigger of a key person clause); and
- approving the valuation of the partnership's assets.

A second helpful proposed change is the removal of the prohibition on returning capital to a limited partner during the life of a partnership, as well as removing the requirement for a limited partner to make a capital contribution at all. Currently, the prohibition on the return of capital means that most UK limited partnership agreements require investors to "loan" money to a fund, rather than invest it as capital.

This requirement creates a 'loan/capital split', which is not a feature of limited partnerships in jurisdictions outside the UK. The change would therefore bring the UK more into line with those jurisdictions and give flexibility to limited partnerships to decide which approach they would like to take; whether it be the current loan/capital approach or not.

Existing partnerships that do qualify as private funds will have a year to opt in to the new regime from the date the changes come into force

The requirement to publish a notice in one of the *Gazettes* when the interests of a limited partner are transferred, or when a partner changes from a general partner to a limited partner is also set to be abolished. This will allow transfers to be effective from the date the transfer documents are signed, rather than the date of publication in the *Gazette*, and will also reduce the time, and cost, that goes into complying with this rather antiquated requirement.

Other notable changes to reduce administrative burdens include:

- the removal of the requirement for limited partners to obtain a court order to wind up the limited partnership, when the general partner has been removed;
- the ability to remove limited partnerships from the Companies House register;
- the scrapping of the obligation to inform Companies House when changes occur to the business or duration of the partnership; and
- the amount of capital invested by limited partners (if any).

There has also been much talk of the intention to allow English limited partnerships to elect to have separate legal personality. Scottish limited partnerships currently have separate legal personality, but English limited partnerships do not. Such a change would allow English limited partnerships to become partners in other English partnerships, and therefore avoid the need to establish certain partnerships in Scotland. While this change would be most welcome, it would require primary legislation to enact and therefore it has not been included in this round of reforms.

The consultation period ended in October 2015, and the government having no doubt analysed the many responses received from the fund management industry have announced that the final amendments will be published on 24 March. It is to be hoped that the next step in the process will be taken soon, as these proposals will have a positive impact on both fund managers and investors using UK limited partnerships.

Rob Mailer, managing associate, King & Wood Mallesons, dealing with private equity investment fund formation and fundraising

UK SMEs eagerly await the proposed government legislation promised to land in the first half of this year, which will bring an end to big business customers being able to contractually impose bans on the use of invoice finance. For many businesses whose growth has been held back by late payment and the strains this brings to cash flow. The imminent Bill *Nullification of Ban on Invoice Assignment Clauses* is long overdue, and simply cannot arrive soon enough.

The Bill will be a hugely positive move for the growth of Britain's SMEs, mirroring similar rules already in effect in the US, Canada and Australia and would become part of the government's wider Small Business, Enterprise & Employment Act, which will introduce a number of measures this year to tackle our infamous late payment culture.

HOW HAVE WE GOT HERE?

Once passed, many SMEs attempting to drive growth can look to establish uninhibited trading relations with larger firms, protecting themselves from the unsympathetic treatment of payment terms, or contractual agreements prohibiting a solution being sought. Past government initiatives such as the *Prompt Payment Code* have, in practice, had little effect on the payments landscape, making this latest change all the more necessary and important.

The government consultation ahead of this change sought a broad range of opinions from across the industry. It seems that the final change has arrived largely as a result of evolving perceptions of the invoice finance and asset-based-lending industry.

Increasingly viewed as a progressive solution for flexible growth, and injecting capital for transitional opportunities, the benefits of this type of funding for ambitious businesses across the spectrum are far more widely appreciated than they perhaps once were. The legislation, which is undoubtedly aimed at empowering firms to shake off the shackles of poor working capital by utilising invoice finance, will contribute to making the "UK the best place in the world to start and grow a business", as business minister Michael Fallon put it.

WHAT WILL CHANGE?

Invoice finance is used by more than 44,000 UK businesses to close the funding gap. Increasingly, SMEs have found themselves to be the "squeezed middle", having to accept enforced terms and delayed payment from their biggest customers, while struggling to honour their own commitments to staff and suppliers. This has been hugely detrimental to growth opportunities for many SMEs, and with a staggering £26bn estimated to be owed in unpaid invoices at any one time in the UK, SMEs are struggling to thrive.

£26bn
estimated to be owed in unpaid invoices

Could the 'late-payment culture' finally be overcome? **Deborah Bell** looks at how the ban on invoice assingments could help fuel UK SME growth

OUT WITH

THE CHANGES

In August last year, the government announced that the nullification of the ban on invoice assignment clauses should:

- apply to business-to-business contracts only (and not business to consumer contracts);
- extend to all businesses, regardless of size;
- exclude financial services contracts;
- exclude contracts with interests in land;
- not create any special provisions for supply chain finance arrangements. This will allow suppliers to opt into supply chain financing arrangements, or seek alternative arrangements with other invoice financers;
- permit debtors to take action against suppliers if they breach commercial confidentiality;
- begin from commencement of the regulations. This means it will not apply to contracts retrospectively; and
- only apply where the parties conduct a business-to-business transaction using English contract law, and one of them carries on business within the UK.

44k UK businesses use invoice financing

> Bigger businesses will be forced to take a more collaborative approach, and SMEs everywhere should take advantage of the change in law

Invoice finance allows SMEs to gain immediate access to their working capital as soon as the invoice is raised. Up to 90% of the invoice value is provided straight away by the provider, avoiding a delay of 30, 60 or even 90 days that some customers might take to pay.

To date, bans on assignment rules have meant that bigger customers can refuse to deal with an invoice finance provider when they come to collect on an invoice or invoices. This means that, for many suppliers, the joy of winning a large contract is soured by a huge cash flow conundrum. Many SMEs have been able to opt for "confidential" agreement, but while this has been a perfect solution for some, many others would have better benefited from full credit-control services.

An unrestricted choice of service will increase accessibility, and enable far greater numbers the freedom to explore this type of funding solution, selecting the right option to suit their needs.

FREEDOM TO GROW

The upcoming legislation is a huge step forward in releasing SMEs from a set of conditions that restrict growth. Not only will it aid those companies that are trying to expand and accelerate growth by establishing links and securing orders from bigger businesses, but it will be an important first step towards eradicating Britain's late-payment culture (although there are several other factors that contribute to late payment). Unpaid invoices are often the biggest asset small businesses have, and to date the law has been unfairly stacked against them.

Bigger businesses will be forced to take a more collaborative approach, and SMEs everywhere should take advantage of the change in law to review, and renegotiate their contractual agreements and explore whether invoice finance could fuel their business growth. There are many lenders out there offering practical and cost-efficient solutions for SMEs. This legislation will herald an opportunity to match supply with increased demand from those ambitious, growth-oriented businesses.

The invoice finance industry will now seek to play its part in raising awareness of the change in law, and highlighting in a transparent and accessible way the numerous benefits released to a much wider audience. It's time for more SMEs to shake off the constraints of cash flow, and delight in this new freedom to grow.

Deborah Bell, head of sales, ABN AMRO Commercial Finance

90% of invoice value is provided straight away

THE OLD

GETTY

Appointments

TRIO JOIN PALATINE



Kieran Lawton, Tom Wildig and James Painter have joined **Palatine Private Equity** in Manchester, as the firm looks to bolster its presence in the North West. Lawton (above left) has joined as investment director from BDO corporate finance, where he was director in the leisure and hospitality M&A team. Wildig (centre) has joined from Deloitte, where he was assistant director in the firm's corporate finance team – he previously worked for BDO as corporate finance executive. Painter (above, right) has joined as investment executive from KPMG's corporate finance team. The private equity firm closed its third Fund at £220m last year, and in December opened a Birmingham office.

GOLDSBROUGH STANDARD

Ken Goldsbrough has joined **Duff & Phelps** as a managing director in the M&A advisory practice from Houlihan Lockey, where he was a managing director in the European capital markets team. He was previously the head of European debt advisory at Greenhill and has held senior roles at GE Capital, Barclays and Paribas. Nick Bayley has also joined the firm as a managing director in its compliance & regulatory consultancy practice in London. With over 25 years' regulatory and investigative experience, he has joined from the Financial Conduct Authority, where he was head of its markets policy & international division, senior markets adviser and responsible for the regulator's MiFID II policy project.

Jacques Callaghan has been appointed senior managing director and head of UK financial sponsors at **Macquarie Capital.** Based in Macquarie's London office, he has joined the corporate advisory, capital markets and principal investment arm of Macquarie Group from Canaccord Genuity, where he was co-head of European investment banking and head of financial sponsors coverage.

Deloitte partner, Bill Stamatis (left), has moved from the firm's Toronto office to its UK valuations team. A partner for 15 years, he led valuations for a number of high-profile life sciences, private equity, infrastructure and industrial clients.

Colin Tait (above), a valuations director based in Edinburgh, recently joined the team from PwC. His focus will be financial services.

Michael Crane QC will take over as chairman of the **Takeover Panel** in October, when current chairman Sir Gordon Langley retires. Crane will be a deputy chairman until then. He was called to the Bar at Fountain Court Chambers in 1975 and has dealt with major commercial and corporate litigation, as well as international arbitration in a variety of jurisdictions. He has given evidence as an expert in English Law to courts in the US, Australia, Italy, Denmark and Ireland.

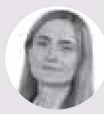
Sue Kershaw has joined **KPMG** as a director and UK head of infrastructure programmes and project management. She is a board member of the Association for Project Management, and brings more than 30 years' experience as a civil engineer and programme manager. She has joined the firm from infra consultancy, CH2M Hill.

PRIVATE EQUITY IN BRIEF

Tom Green has joined **Inflexion Private Equity** as value enhancement director, from CPA Global, where he was corporate development director of the Cinven-backed IP legal services business. His focus will be on the origination and execution of bolt-on acquisitions across North America and Europe.

Ken Eichmann has joined European specialist healthcare investor **GHO Capital** as principal from Stirling Square Capital Partners, where he was an investment executive. Prior to that he was with Odewald & Compagnie in Berlin, focused on central European mid-market buyout investments.


LBO France has appointed partners Louis-Roch Burgard and Sophie Chateau. Burgard becomes a member of the executive board, and Chateau head of investor relations.



Vjerana Spajic (left) has been promoted to vice president in **17Capital**'s investment team; and Owen James (centre) and Fokke Lucas (below) to investment director.

Jason Wunscher has joined the London-based private equity firm from investment bank Canaccord Genuity.

Close Brothers Asset Management (CBAM) has recruited Shirley Coe as director of business development. She was previously a director at Coutts & Co. CBAM has also hired Jonathan Moon to the business development team after five years with Tilney Investment Management. Andrew Benns has joined from Flemming Family & Partners. The financial advisory firm has also opened a new office in Gatwick.

Hilde Laga has been appointed chairwoman of European infrastructure investor, **Gimv**, replacing outgoing chairman Urbain Vandeurzen.

Norwich-based insolvency firm **Parker Andrews** has opened a new office in Portsmouth. Nick Cusack will head up the team.

Aldermore has set up a new team to provide financing to dealers in the agriculture, construction, transportation and materials handling industries. Tim Biddle (pictured), who joined Aldermore two years ago from Siemens, leads the team. He is joined by Ian Smith, formerly of HSBC and CNH Capital, who covers the North; Brian Warbrick, who has joined from BNP Paribas Leasing Solutions in the Midlands; Alan Yetts, formerly of Volvo Financial Services, covering the East; and Russell Nicholls, who joined from CNH Capital, in the South and West.

FRP Advisory has acquired **Litmus Advisory**, the debt advisory firm specialising in asset-based lending for companies and private equity.

Paul Zalkin has been hired by **Quantuma** in London as director. He joins from Moorfield.

Pamplona Capital Management has recruited Pedro Rapallo as operating partner to drive new investment opportunities in Spain and Portugal. He has joined from The Boston Consulting Group, where he was partner.

Shardul Shah has been promoted to partner at **Index Ventures** in the US, and former Twitter CEO, Dick Costolo, has joined as venture partner. Shah joined Index in 2008 as an associate and has worked at all Index's European offices, prior to moving to San Francisco three years ago.

Partech Ventures has recruited Claire Godron to its seed team as senior associate in its Paris office from Aster Capital.

Global growth equity firm, **General Atlantic**, has recruited Achim Berg, former CEO of Bertelsmann subsidiary, Arvato AG, as operating partner.

LEGAL BRIEFS

Walker Morris has recruited James Crellin as a director in its banking & finance team from the Birmingham office of DLA Piper.

King & Wood Mallesons has recruited Tejaswi Nimmagadda, a senior aircraft and asset finance specialist, to its Hong Kong office, from Stephenson Harwood.

Arnaud de La Cotardière (left) has been nominated by **Linklaters** as national managing partner for France, for a three-year mandate. He specialises in litigating in corporate finance, stock market litigation, market abuse and commercial litigation. Jonathan Ching has joined the firm's capital markets practice in New York from Jones Day.

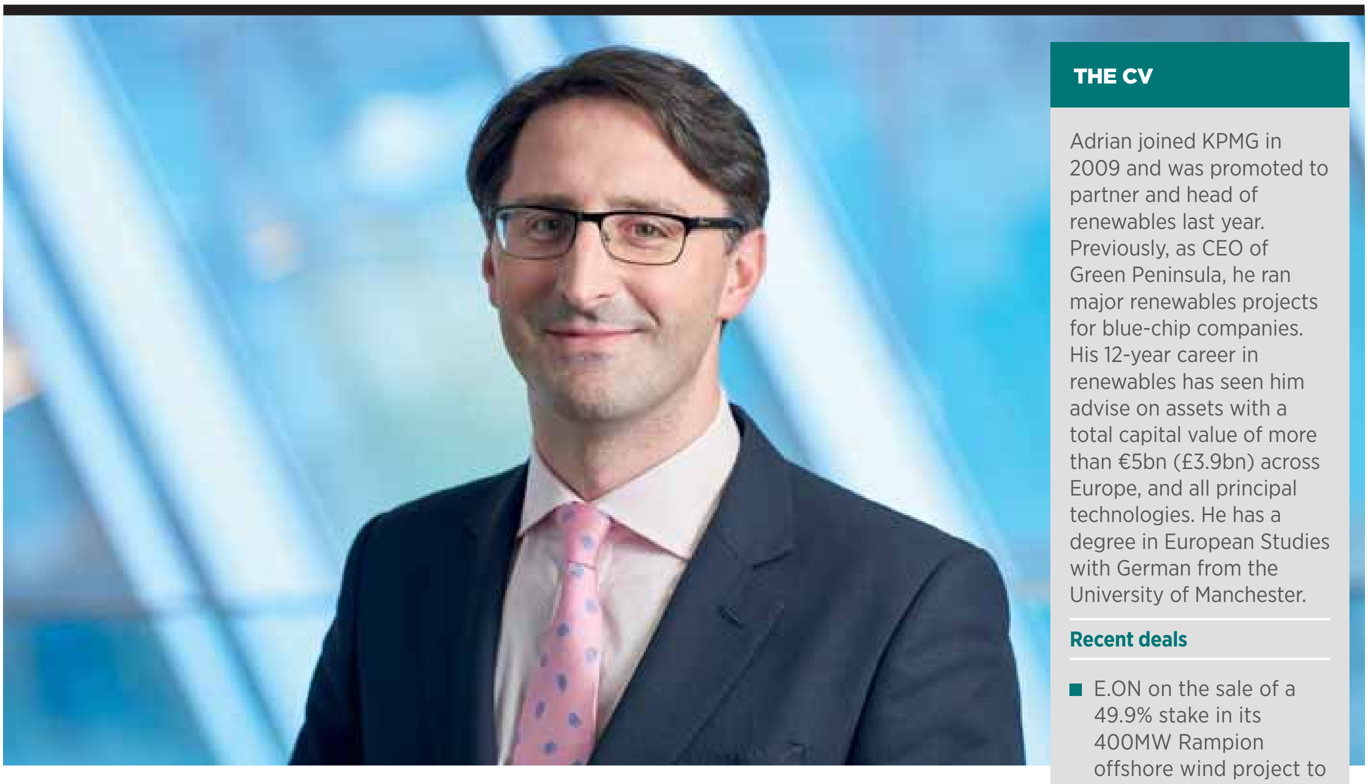
Orrick has recruited Weyinmi Popo (left) from Jones Day, as partner in its M&A and private equity practice, and Africa team, based in London. The London office has also recruited Dominic O'Brien as partner in its finance team from Jones Day, and oil and gas sector adviser Peter Roberts to lead its global oil and gas practice. He was previously head of oil and gas practice in Andrews Kurth's London office.

Laura Berezin has rejoined **Cooley**'s in Palo Alto, from Hogan Lovells. She represents public and private companies, investment banks, venture capital funds and financial institutions within the life sciences sectors that operate in the US and Europe.

Dentons has recruited Stephen Levy as corporate partner in London from Pinsent Masons, where he had been a partner since 2006. His arrival follows the recent hires of corporate partners David Collins, Nikolas Colbridge and Martin Mankabady.

Morgan Lewis has recruited Omar Shah and Joanna Christoforou to its London antitrust and competition practice. Shah has joined as partner from Latham & Watkins. Christoforou has joined as counsel, from Ashurst. Both specialise in EU competition law.

Catching the breeze



THE CV

Adrian joined KPMG in 2009 and was promoted to partner and head of renewables last year. Previously, as CEO of Green Peninsula, he ran major renewables projects for blue-chip companies. His 12-year career in renewables has seen him advise on assets with a total capital value of more than €5bn (£3.9bn) across Europe, and all principal technologies. He has a degree in European Studies with German from the University of Manchester.

Recent deals

- E.ON on the sale of a 49.9% stake in its 400MW Rampion offshore wind project to the UK Green Investment Bank and Enbridge.
- Vattenfall on the sale of a 49% stake of its 150MW Ormonde offshore wind farm to the Swedish pension fund AMF for £237m.
- EOS on the acquisition of a 105MW portfolio of solar PV and onshore wind projects.

When selling wind farm assets, preparation and knowing the market are key to ensuring a successful sale, says KPMG's **Adrian Scholtz**

WHAT WAS THE DEAL?

The sale of a portfolio of four operating onshore wind projects in the UK to RBS Pension Fund, by infrastructure fund manager Infrared in December 2015. The projects have a total net capacity of 90MW. The enterprise value of the deal was more than £200m.

WHO WERE THE ADVISERS?

We were lead adviser to Infrared, and ran a two-phase auction process. Infrared's legal adviser was Pinsent Masons. Norton Rose was legal adviser to the RBS Pension Fund.

HOW DID THE ACQUIRER APPROACH THE DEAL?

Hastings Fund Management, an experienced infrastructure manager, ran the investment on behalf of RBS Pension Fund. About 18 months ago, RBS allocated £600m to infrastructure, and put out a tender for the role of sourcing investment opportunities, executing the transaction and managing these investments afterwards.

HOW WAS THE BUYER IDENTIFIED?

To us it was common knowledge that the RBS Pension Fund was interested in such assets. It is absolutely key that you know the market, have intimate knowledge of the market and are very focused on the space.

WHAT WAS THE STRUCTURE?

Each wind farm was in a special purpose vehicle (SPV). And each SPV had a series of contracts for the sale of power and associated renewable energy benefits, as well as all operating activities. Some of the wind farms had SPV external debt finance, provided on a non-recourse basis, secured on the assets.

HOW DID HASTINGS APPROACH THE DEAL?

Hastings is very experienced and thorough. Even though it had not bought wind farms before, we knew what we would get - a strong execution team.

WHAT HURDLES HAD TO BE OVERCOME?

Infrared performed comprehensive technical and legal vendor due diligence (VDD) reports, as well as a tax memo and transaction model, to aid buyers through the process. Robust asset and SPV preparation is absolutely necessary to ensure a smooth and efficient sale process in a transaction such as this. It maximises interest from a range of potential acquirers, and helps avoid price chips during the process. You have to make sure the assets are 'shiny'. There are two or three permutations of VDD that can be produced, but by being in the market you know the variables. Different buyers will look at different sale prices, others at alternative ways of financing, and others at building flexibility into the financing strategy.

WHAT WERE THE LESSONS LEARNED?

A lesson that was really reinforced was that preparation is key to a smooth process, particularly in the current market, which is a strong sellers' market. It is worth investing resource up front.

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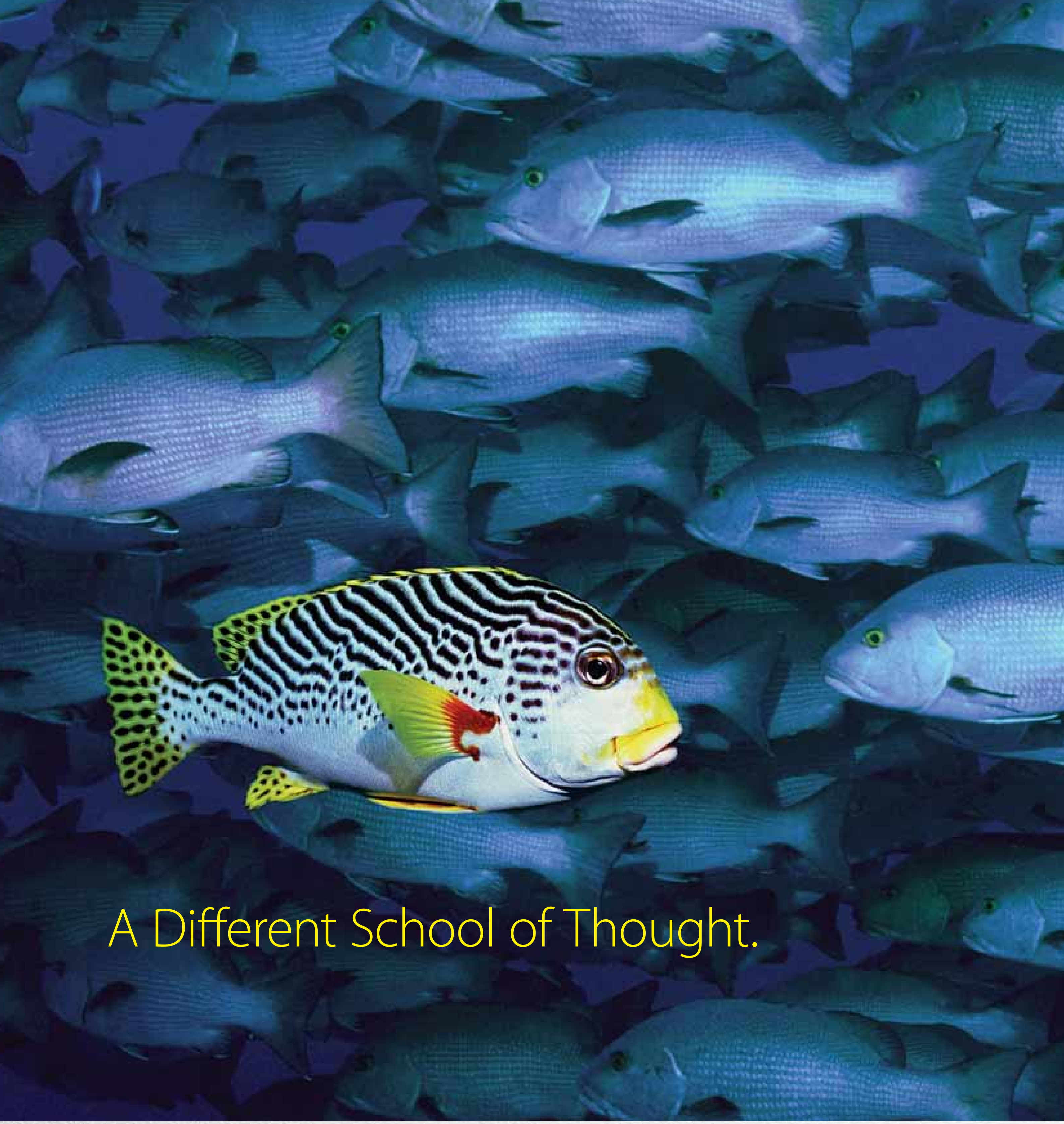

In today's competitive market, it is rare to find a private equity firm who appreciates a growing company's unique qualities and actively supports its vision for building a strong business.

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