Corporate Financier

GROWTH | OPPORTUNITIES | EXPERTISE

ICAEW CORPORATE FINANCE FACULTY

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MAY 2014
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SPECIAL EDITION FUNDING BRITAIN

WATCH AND LEARN DOING BUSINESS THE PE WAY

KEEP IT LOCAL EQUISTONE IN GERMANY

ELECTRIC DREAMS AO WORLD'S £1.2bn IPO

EXCLUSIVE INTERVIEW WITH BRITISH BUSINESS BANK CEO
KEITH MORGAN

FACULTY RESEARCH GIVES THE LOW DOWN ON ECFs

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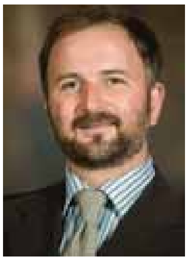
Number crunching

CORPORATE FINANCE FACULTY

“Look after the pennies and the pounds will look after themselves” was a saying my gran didn’t coin, but loved to say, invariably as she handed me a handful of pennies that was well short of a pound.



But that phrase has been turned on its head post-credit crunch.

Bank bailouts and the sovereign defaults mean that the big numbers are so big they mean absolutely nothing to most people, who are busy with ‘real’ numbers. As a rough rule of thumb millions are understandable to most, billions are big, trillions are conceptual and (you read it here first) quadrillions will be the next big thing.

One big number in this month’s issue is £3.9bn – the amount with which government has backed the new British Business Bank. This month we take an in-depth look at ‘the bank’ (pages 13-17). It is effectively the pooling and outsourcing of many government schemes to what will be an arm’s-length organisation, but the government hopes it will stimulate competition and diversity in lending to growing businesses.

There’s also another big number in this month’s issue – £1.6bn. That is the market value AO World hit on the day of its flotation in March (pages 26-28). That is AO World, the online white goods retailer, which last year made £8m of pre-tax profit. Don’t worry, the shares settled down the day after the issue, to the far more ‘sensible’ £1.5bn market cap. By April 22, and despite hitting its target revenue outturn for the year ended March 2014, AO’s market capitalisation had already fallen back to £1.1bn.

Far be it for me to knock ambition, but its CEO John Roberts’ assertion that it can get near the scale of Tesco within the next five years is perhaps as likely as England winning the football World Cup in Brazil (or in the interests of fairness Scotland qualifying for the one after).

Then there is a slightly smaller number – £543.5m, the amount committed to Enterprise Capital Funds (ECFs) since 2006 (pages 18-22). Exclusive research by the Corporate Finance Faculty, published in this month’s issue, reveals that more than half is still available for investment. To date, 178 early-stage and high-growth companies have benefited from these venture capital funds.

Not wishing AO World’s market value to be the number by which all other numbers are judged, but one-third of the valuation of an £8m pre-tax profit business does not seem enough in layman’s terms to be investing in the future of business in the UK. Please let’s not just assume we can leave the billions to look after themselves.

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Faculty news

BRITISH BUSINESS BANK CHIEF BOOSTING FINANCE IN THE MIDLANDS

Keith Morgan, chief executive of the new British Business Bank, will make one of his first public appearances in the role on Thursday 15 May at a special forum organised by the Corporate Finance Faculty and ICAEW in the Midlands.

The UK's first economic development bank, launched by the government, aims to generate up to £1bn of new lending and equity investment every year from public and private-sector funds.

The breakfast forum, 'Boosting Finance for Business Expansion', is a unique opportunity for companies, investors and advisers to find out what business and corporate finance opportunities will be created by the new British Business Bank, across the UK, as well as locally in the Midlands. PwC in Birmingham is hosting the event for ICAEW.

Morgan (profiled on pages 12-16) will also take part in a panel discussion about financing entrepreneurial and growing companies. He will be joined by Stephen Welton, chief executive of the Business Growth Fund; Martin Morrin, chairman of the Asset Based Finance Association; PwC partner, Matt Waddell; and David Petrie, ICAEW's head of corporate finance. Mark Smith, chairman of PwC in the Midlands, will introduce the event.

Corporate Finance Faculty manager Shaun Beaney said Morgan had been invited to take part in the forum because of the impact the British Business Bank is likely to have on corporate finance for small and mid-sized companies over the next few years. "We thought it would be very appropriate to ask him to speak in Birmingham, because it's very important that the bank makes an economic impact across the UK, and not just in London and the South East."

Places at the forum are complimentary, but limited in number. Please register at **icaew.com/cff** or call the faculty's services manager on +44(0)20 7920 8685.

Keith Morgan | Martin Morrin | Stephen Welton | Matt Waddell

CORBIS

DATES FOR YOUR DIARY

RIGHT MOVE: CREATING THE BEST CORPORATE STRUCTURES FOR EFFECTIVE M&A
Tuesday 17 June 2014, 08:00-10:00
Royal Society of Chemistry, Burlington House, Piccadilly, London W1J 0BA

LAUNCH OF THE BUSINESS FINANCE GUIDE
Thursday 26 June 2014, 09:00-10:30
Chartered Accountants' Hall, Moorgate Place, London EC2R 6EA
Guest speaker: Rt Hon Vince Cable MP, Secretary of State for Business, Innovation & Skills.
icaew.com/cff

FACULTY AGM
Thursday 22 May
Corporate Finance Faculty members are welcome to attend the faculty's annual general meeting at Chartered Accountants' Hall in London from 12pm on Thursday 22 May.

Chairman Giles Derry and faculty head David Petrie will also outline some of the faculty's policy, technical and practical priorities for 2014-15 to members of its board, its technical committee and representatives of its many member organisations. If you would like to attend, please contact **Georgina.Tanner@icaew.com**

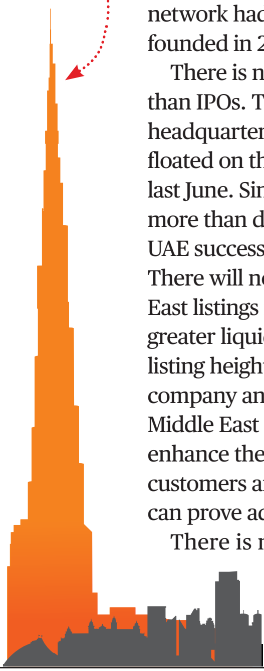
Corporate Finance Faculty members who are also ICAEW members might like to know they can access the Institute's 2013 annual review online at icaew.com/review. ICAEW members are also invited to vote online or at the Institute's annual and special meetings at Chartered Accountants' Hall on Tuesday 3 June or at icaew.com/agm

Outlook on the Middle East

The view of downtown Dubai from the world's tallest building, the Burj Khalifa, has changed radically since the opening of the 830m-high building just over four years ago. It opened as the emirate's investment vehicle Dubai World was in the midst of the restructuring of its $26bn debt. The emirate stared into the abyss, but looking down from the world's tallest building it is clear Dubai has moved onwards, and definitely upwards.

During my visit to Dubai in February there were more than just the architectural symbols of confidence in the region. Sentiment was certainly more upbeat. The many corporate financiers I met told me of a return to hiring advisers and increasing M&A pipelines.

From practitioners I sensed a key driver for M&A in the Gulf region is that many successful businesses are family-owned with multiple shareholders who have differing views on the future strategy for the business. Sale then becomes the best option to allow the business to grow further. Geographical acquirers looking to get a foothold in the region will be able to structure a deal so as to shortcut the business and real estate ownership regulations. It gives owners more control than a joint venture.



The Burj Khalifa is the tallest building in the world at 830m

ON THE LIST

Then there are IPOs. While in Dubai the Corporate Finance Faculty's network in the Middle East hosted the seminar 'The Journey to IPO'. The Lord Mayor of the City of London, Fiona Woolf, attended along with more than 100 professionals. It was the best-attended event the network had arranged since its was founded in 2010.

There is no more topical a subject than IPOs. The Abu Dhabi-headquartered Al Noor Hospital Group floated on the London Stock Exchange last June. Since then, its market cap has more than doubled to almost £1.3bn - a UAE success story in the City of London. There will no doubt be more Middle East listings in London, where there is greater liquidity for shares. A London listing heightens the public profile for a company and its shares far more than a Middle East listing would do. That can enhance the status of the business with customers and among competitors, and can prove advantageous to operations.

There is no shortage of capital or investors in the Middle East, so businesses must chose which listing would suit the business best - London, Dubai or perhaps a dual listing. And that is where joined-up corporate finance thinking will come to the best solution.

A WARM WELCOME

Finally, I'd like to welcome a new chairman for the faculty's network in the Middle East - Sanjay Vig, managing director at Alpen Capital in Dubai. He takes over from Deloitte partner, Declan Hayes. Declan was chairman for two years and has taken the network to the next stage of development. The Big Four global advisers in the region are all now members of the Corporate Finance Faculty.

Sanjay will look to expand the network to include investment banks, independent advisers and law firms. He will be supported by EY partner Matt Benson, who has been appointed deputy chair. The network will continue to support and encourage members as M&A picks up across the region.

David Petrie
is head of corporate finance at ICAEW

In numbers

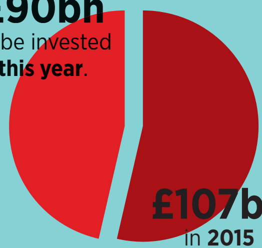
Deloitte's latest survey of senior executives finds businesses in the mood for investing in the UK

David Sproul,
Deloitte UK chief executive

"Over the last 12 to 18 months, the steadily improving economy has led to an increase in corporate risk appetite. However, that has not yet translated into the level of investment policymakers had hoped for. In 2013, businesses invested just £3bn more than they did in 2009. A well-balanced recovery requires a significant rise in corporate investment and a shift away from consumer-led growth. This investment is much needed and with the Office for Budget Responsibility also forecasting a 50% increase in capital spending over the next five years, all the signs are that it is on its way."

Amount **UK** businesses will **invest over the next two years**, according to a Deloitte survey of 132 senior executives of companies with revenues of over £1bn.

£200bn



Almost **70% of the businesses** surveyed will **invest more than** **£250m** this year.

There is a marginal preference for **organic** over inorganic **growth**, with 56% intending to invest in the former.

When it comes to investing in high growth markets, **66% of companies favour** **M&A** as a means to enter a new market.

China, **UK**, **Asia Pacific** and **the EU** are the top markets for investment.

China and the wider Asia-Pacific region are most attractive for large businesses, with 73% and 66% **forecasting growth** in those markets respectively.

Chief Secretary to the Treasury, **Rt Hon Danny Alexander MP**

"It is vital that UK businesses play their part to cement the recovery. I have been calling on businesses to up their investment since last year, and this report suggests businesses are set to act. The government has paved the way by slashing red tape and reducing corporation tax. We then went further at the Budget by cutting energy bills for business and doubling the annual investment allowance. It's now up to business to back the UK and get investing – there's never been a better time to do so."

We let our clients do the talking . . .

Bottle Manufacturing
Asset Based Lending
Acquisition | **£12,100,000**

"Centric was able to meet the tight timescales required in turning around this deal from first site visit to completion within 3.5 weeks. The team provided a comprehensive ABL offering, including Invoice Discounting, Stock, Plant & Machinery and Property."

Fine Chemicals Manufacturer
Asset Based Lending
Funding Growth | **£5,650,000**

"Centric are a world away from the usual 'spreadsheet, tick box' approach. Centric was always considerably ahead of the competition because of the holistic view they took of the opportunity. Centric led the process positively from the start, rather than being led by it, and this proactive approach gave us a great deal of confidence throughout."

Printing Company
Asset Based Lending
Funding Growth | **£7,500,000**

"With the funding facility from Centric Commercial Finance in place, we now have a very strong working capital platform and significant increased headroom to enable us to take advantage of market opportunities. Centric's communications were excellent throughout the deal process and we got on very well with the senior management team."

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CENTRIC
COMMERCIAL FINANCE

More than fee gathering

Jon Moulton argues that more critical and rigorous due diligence would reflect better on accountants

RICHARD ANSETT

I'm getting old. But getting old at least allows me to look back at better times with diminishing likelihood of contradiction. I believe, with uncomfortable conviction, that in my younger days the accounting profession was something with strong values and a strong image of honesty and quality, but that this is no longer necessarily the case.

Consider modern practice on a "due diligence" report. First there is the engagement report, which marks the beginning of a relationship and starts from the proposition that you are not supposed to rely upon the work being done for you. Quite recently, I got such a report with "NOT TO BE USED FOR INVESTMENT PURPOSES" stamped across the front of it. Its only possible purpose was to help make a decision on an investment. Erm?

In my experience, it is highly unlikely that the modern-day investigating accountant will do much more than reproduce the words of the management or owners of the target business on dazzling logo-plastered PowerPoint pages. Rigorous checking or verifying is a rare activity. For some reason this low-intellect activity is supposed to be 'high-risk' and 'value-added', so fees should be far higher than for an 'assurance' engagement. Really?

A professional should test the accuracy of the data, intelligently analyse and discuss it. Then he can be proud that his client got something he could, or even should, rely on.

Let us then enter the wonderful world of vendor due diligence (VDD). The accountant is supposed to work for the benefit of the ultimate acquirer of the business, but in practical terms is instructed by the seller and his investment bankers. The buyer pretty much has to accept whatever is offered. Successful VDD practitioners do not find or emphasise issues with the 'for sale' company, or point out that forecasts are based upon deeply improbable assumptions.

Clients are not stupid. Practice development and scope creep nowadays often bash up fees without commensurate benefit for the client

Curiously investment bankers, (even today not a group that many chartered accountants would like to be compared with), prefer reports with more of the feel of the bright uplands about them and tend to employ accountants who provide such reports.

THE GOOD OLD DAYS?

In my younger days the profession was amazingly uncommercial by today's standards. Audit proposals were just arriving and fees were rarely negotiated. Individual performance appraisal was much more about quality and image than about commercial success.

Companies with lousy accounting systems got clobbered with big audit fees. Better ones got less of a bill. However, there was respect in quantities that are rarely seen today so complaint was actually unusual.

Clients are not stupid. Practice development and scope creep nowadays often bash up fees without commensurate benefit for the client. Distrust and dislike are all too often the result of this and the trusted professional role has all but gone out of the window.

I feel that respect too has greatly declined within the profession. It does feel increasingly like we are in an organisation that has the aim to grow numbers internationally whilst subsiding to a private educational college in its homelands.

Due diligence assignments need to produce real value and real quality that investors can see and feel. Producing tangibly beneficial advice for clients needs to be at the forefront of advisors' minds from the off.

There needs to be a repurposing of the profession. We need to be an elite. Limit membership to the best. Strongly enforce ethical and quality standards and let respect regrow. Pride can be better than money.

SIX OF THE BEST

From benchmarking plans to anticipating shareholders' needs, companies can learn a great deal from private equity firms about creating value. **Bridget Walsh** takes us through the key lessons for corporates

Private equity (PE) firms tend to relentlessly focus on value creation throughout the entire investment life cycle and, in most cases, before they even invest. According to EY's study of 230 PE-backed portfolio-company exits from 2006 to 2012, those companies demonstrated EBITDA growth of roughly twice that of their publicly traded peers.

The PE value-creation approach of capitalising on growth opportunities and implementing fundamental operational and strategic improvements can provide us all with good insights. So what does PE typically do?

Bridget Walsh is partner and head of the UK private equity team at EY

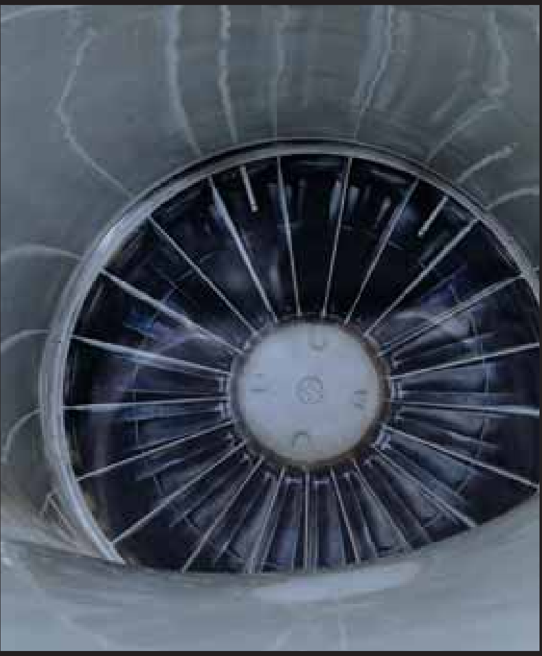
1 EARLY COSTS ASSESSMENT

If the largest shareholder, or possibly an activist shareholder, demands that a publicly held company makes changes to its back-office cost structure, because its strategy lags behind that of its peers, what should the management do? How a PE firm manages such a dilemma is a good start. A PE firm would carry out:

- a quick assessment of spending and resource allocations and how they align with the strategic business priorities, then identify quick-hit savings opportunities;
- 'zero-based budgeting' or other techniques for the longer-term alignment of the business cost structure; and
- identify and prioritise opportunities to eliminate redundant and inefficient activities, outsource non-value-added operations, optimise operations that are necessary for competitiveness and where necessary make changes to the management team.

2 TARGET PERFORMANCE IMPROVEMENT FROM THE OUTSET

During diligence, PE firms typically develop value-creation insights to support their investment thesis. These will be based on identified issues and upside opportunities, such as margin enhancement and revenue growth. Those insights will be the basis for developing targeted performance-improvement initiatives for implementation during the holding period. The list may include revenue improvement through change of sales-force incentives, margin improvement through strategic sourcing of key commodities or use of lower cost countries as suppliers, or even improved capital efficiency through change of inventory-stocking policies.



ALAMY

3 VALUE CREATION ROAD MAP

At the outset, PE firms frequently develop a value-creation road map that details key activities, highlights expected results, assigns responsibilities, identifies key milestones, and develops key metrics and dashboards for tracking performance.

As part of that process, the quick wins will be executed as early as possible to gain stakeholder confidence and to generate cash to fund the longer-term activities.

This work throughout the entire ownership period tends to be rigorous, disciplined, fast-paced, analytics-driven and measurable. They also tend to hold people accountable and reward performance.

The value creation framework PE firms create would usually consist of:

- developing plans to address portfolio companies' strategic requirements;
- determining, prioritising and implementing key value drivers; and
- establishing key enablers (people, processes and systems) to make a permanent shift in performance.

Key value drivers are at the core of the value-creation framework and include operational improvement initiatives to drive revenue enhancement, margin improvement and capital efficiency.

4 ENHANCING REVENUE

PE focuses on revenue growth in every investment, which can be achieved either organically or through strategic add-on acquisitions that add capabilities or scale to the existing business. For a sustainable revenue-growth strategy, product strategy and capital strategy need to be tightly aligned.

Once a company has defined its key business-strategy drivers, such as market trends and growth regions, it needs to assess current product-line profitability and growth prospects. Then it can decide on future investments or rationalisation opportunities.

It is also important to evaluate its sales approach. If the fixed cost does not justify revenue in a direct-sales model, a full-service, third-party distributor may improve sales effectiveness, reduce headcount and simplify infrastructure.

5 MARGIN IMPROVEMENT

PE firms have something of a reputation for reducing excess costs and improving margins. They tend to focus on reducing:

- non-value-added processes, such as accounts payable or receivable, payroll and order-taking;
- simplifying core processes, such as supplier qualification and cash management; and
- optimising high value-added processes for competitiveness, such as product-pipeline management and key-account management.

From a profit-and-loss standpoint, a combination of plant rationalisation, strategic sourcing and logistics cost reduction can improve cost of sales, while outsourcing or moving to a low-cost shared services model for back-office operations can improve operating margins. These measures can take time, and PE firms typically make short-term investments to achieve longer-term objectives.

6 CAPITAL EFFICIENCY

PE firms focus on improving working capital, releasing cash and optimising the business's capital structure as soon as they can. One example is that PE firms will try to carefully track inventory throughout the supply chain to reduce disconnects between sales, manufacturing and supply chain. They will also consider opportunities to sell and lease back fixed assets to free up cashflow. The PE performance track record provides a powerful reason to consider this approach to value creation.

HOW IS PE DOING?

According to EY's recent *How Private Equity Creates Value* series, PE firms' goal is to position themselves for 'value-crystallising' exits. PE firms have sharpened their focus on getting the thesis right at the outset of the deal, backing the right management teams and implementing sustainable value creation.

Consistent with prior years, PE continues to outperform comparable public market companies across the globe, with strategic and operational improvements delivering a large share of the returns over the entire study period (2006-12) in terms of EBITDA growth.

4.7 years

average holding period for Europe – the longest since studies began

The analysis of sources of EBITDA growth clearly shows organic revenue growth has been a vital component. In North America, this increased markedly in the most recent recovery period. In the years since the recession, organic revenue growth has increased to over half of the value created.

In Latin America and Africa, there is a greater focus on growth capital, partnering with entrepreneurs to formalise businesses and strengthen corporate governance and finance functions.

Value also lies in the provision of access to networks and the ability to expand companies' operations geographically. While PE's value-creating capability has catalysed growth in its companies in the face of challenging economic conditions, an increase in holding periods still plagues the industry. EY's most recent analysis exposes the longest hold period since our studies began – 5.1 years for North America and 4.7 for Europe.

As economic prospects improve, PE faces its next challenge – to increase the focus on selling and prove it can generate strong realisations more quickly.

STEPPING UP

With £3.9bn of government resources, and with the aim of attracting private capital to create £10bn of lending, the British Business Bank could be just what the doctor ordered for growth companies. Marc Mullen speaks to CEO **Keith Morgan** as it ramps up its operations

"For decades, British industry has lacked the sort of diverse, long-term finance that is quite normal elsewhere. We need a British business bank with a clean balance sheet and a mandate to expand lending rapidly. It is all about making the right decisions now to secure our long-term industrial success." These were the words of Vince Cable, secretary of state for business, innovation & skills, in September 2012. Eighteen months on, the British Business Bank is a reality.

The idea of a government-backed institution to support lending, in some shape or form, to British growth companies has been floating around for several years. In the wake of the financial crisis, finance for all but the largest corporates was challenged, to say the least. The proposition gained momentum following Tim Breedon's report, published in March 2012, on non-bank finance. It recommended a single institution to address long-standing, structural gaps in the supply of finance.

Once it receives EU State aid approval in the autumn, the British Business Bank, whose non-executive chairman is veteran international banker Ron Emerson, will become its own legal entity, with £3.9bn of government funding at its elbow. In the next five years it is looking to leverage those committed resources with private sector capital to create £10bn of funds. But will we be seeing a TV advertising campaign in the vein of Santander, say, with cameos from Olympic athletes? In short, no.

"We will be operating with and through the market," says Keith Morgan, who was named CEO last December. "We do not intend to establish our own distribution mechanism, to have branches on the high street or lend directly to SMEs themselves."

MISSION POSSIBLE?

Before being appointed CEO, Morgan had worked for LEK Consulting, Abbey and then for UKFI, managing the government's stakes in Northern Rock and Bradford & Bingley (see box, right). After selling part of Northern Rock to Virgin Money he was brought in to lead the establishment of the new bank.

Morgan is pretty clear about business bank's purpose: "We are commercial, but not in that we are maximising profits. We are here to fulfill a public sector goal, which is to help ensure that SME finance markets work efficiently and effectively in areas where the market is not working perfectly. Secondly we are here to encourage and enhance diversity in those markets, both in terms of the finance options available and the range of providers."

He also points out that for credibility it is important they are "very close to SMEs that benefit and must be arm's length from the government". The first job for the nascent institution was to identify the issues it should address.

DAVID HARRISON

Four key problems were identified:

- Smaller, less established SMEs were struggling to secure equity, debt, development or working capital.
- There was a broader lack of longer-term development capital.
- Lenders were capital constrained and therefore prioritising more capital-attractive lending options.
- The high concentration of SME lending was leading to a lack of funding choices.

Given that the bank is not setting up its own distribution, it will have a relatively small team (see box, page 15), who will run a combination of existing government programmes and new ones it has launched or that are in the development phase.

To tackle the first issue, there are two approaches. Firstly, working with the Business Angel CoFund, some 39 high-growth potential SMEs have received equity investment totalling £75m, of which £15m is government money.

"We will be operating with and through the market. We do not intend to establish our own distribution mechanism or lend to SMEs directly"

Then there are Enterprise Capital Funds (ECFs), (see pages 18-23). There are 16 ECFs with £543.5m to invest in growing SMEs looking for up to £2m of equity. On the debt side, it also has the Enterprise Finance Guarantee, which encouraged £330m of new lending last year. It also supports Start-Up Loans. To date more than £70m has been loaned to over 14,000 young companies.

To address the broader issue of the lack of longer-term development capital, and the lack of choice, Morgan says: "This is an area where we are focusing on creating diversity. Those investments will be focused on alternative providers of debt finance, including debt funds and peer-to-peer lenders. The investments we

THE MAN IN CHARGE

Keith Morgan was brought up in Barrow-in-Furness, Cumbria, and educated at Barrow Grammar School. He studied economics at Oxford. After graduating in 1985, he joined LEK Consulting, a two-year-old early-stage company with just 30 staff. Morgan took two years out to do an MBA at Harvard Business School, then became a partner. He focused on financial services sector consulting. He spent 17 years with LEK in total.

"By the time I left LEK, it had more than 400 staff," says Morgan. "It had grown significantly from an organisation very much founded in the UK, into a business with offices all around the world – in Europe, the US and Asia. Albeit starting at a junior level, I had seen how a business grows from the inside. I witnessed all of the issues a professional services firm would face."

In 2004 he joined Abbey National, which had just been rebranded as Abbey. It was in turnaround mode, under new CEO, Luqman Arnold. In less than a year it was sold to Spanish banking giant Santander.

Morgan was at Santander for five years, on its executive committee in the UK and the US, then ultimately at its US subsidiary Sovereign Bancorp.

In 2009 he joined UK Financial Investments, the organisation set up by government to manage its stakes in the nationalised banks: Lloyds, RBS, Northern Rock and Bradford & Bingley. Morgan was responsible for Northern Rock and Bradford & Bingley, working closely with the board and management of the two banks. The former was split in two and the 'clean' portion was sold to Virgin Money.

The remainder was integrated with Bradford & Bingley. That is now in the hands of UK Asset Resolution.

“We think there is value in bringing in more diversity and encouraging competition. We want to ensure there are choices for SMEs”

have made so far have been to increase the senior debt funding of those organisations, to increase their capacity to lend in the market place.” The aim is to get more money to SMEs more quickly, and allow those alternative providers to accelerate the scaling up of their business.

The bank currently has a portfolio of 10 commitments totalling £172m across its investment programmes invested in such providers of debt. These have supported more than £800m of lending capacity, including, most recently, a further £40m (alongside private investors) via peer-to-peer lender Funding Circle.

“Disproportionately, our effort will be directed towards the newer and the smaller providers of finance in the market place, because we think there is value in bringing in more diversity and encouraging more competition,” says Morgan. “We want to ensure there are as many choices for SMEs as possible. More choices mean there is more chance that the SMEs will find the finance that is relevant for them.”

In 2013 the schemes run by the bank supported £660m of total financing,

LEAN TEAM

An organisation without its own distribution does not require the same level of staffing as a traditional bank. At present there are around 70 employees at the BBB. At full strength it is likely to be 100. The former Capital for Enterprise (CFE) set-up was the platform for its Sheffield office. CFE managed the Angel and VC finance, as well as the Enterprise Finance Guarantees programmes.

Morgan describes the resource they still need to add: "Since we are establishing ourselves as a financial institution, we have to have the appropriate risk and financial management skills a financial institution needs. We will be guardians of significant amounts of government resources and responsible for planning the investment of those resources over a number of years. To a large extent we will draw those skills from the outside."

THE SENIOR MANAGEMENT TEAM

PETER WILSON
MD investment programme

KEN COOPER
MD Equity solutions

JUDITH OZCAN
MD Lending Solutions

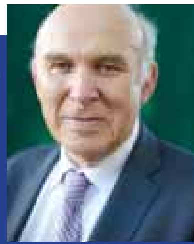
REINALD DE MONCHY
MD Wholesale solutions

ANDREW VAN DER LEM
MD Market, Policy & comms

RICHARD PAUL
CFO finance & central functions

MARK GRAY
MD Risk & Compliance

VINCE CABLE, UK BUSINESS SECRETARY



"Alongside the private sector, the bank will get the market lending to manufacturers, exporters and growth companies that so desperately need support.
Its success will not be the scale of its own direct interventions, but how far it shakes up the market in business finance and helps to ease constraints for high-growth firms."

which was up 73% on 2012, half of which was through alternative finance providers. It estimates that 25,000 businesses were benefiting from its schemes at the end of last year, when there was a total of £1.5bn lending and investment outstanding.

In March's Budget, the launch of a Wholesale Guarantees pilot was announced. This would address the third issue the bank has identified. Participating banks benefit from a government-backed portfolio guarantee. It would cover a portion of a designated lending portfolio's losses beyond an agreed 'first loss' threshold, in exchange for a fee.

"It will make the area of SME lending more productive from a capital point-of-view," says Morgan. "Smaller banks have to hold a large amount of capital against an SME loan, but by applying a government guarantee, the amount of capital they have to hold will reduce, because effectively they have transferred some of the risk to the government."

BOTTOM UP APPROACH

So will the bank's programmes have any sector or geographic focus? It may well do but not by design - only if that comes about as a result of their targeting the issues faced by the market.

> "Our effort will be directed towards the newer and the smaller providers of finance in the market place because we think there is value in competition"

"If we target the market imperfections, the market will adjust to deliver the finance required," says Morgan. "That will reveal the degree to which there may have been some national or regional characteristic to it, or whether there is a sector that has been particularly held back. Equally, focus on the marketplace problem is the best way of making sure resources are allocated effectively."

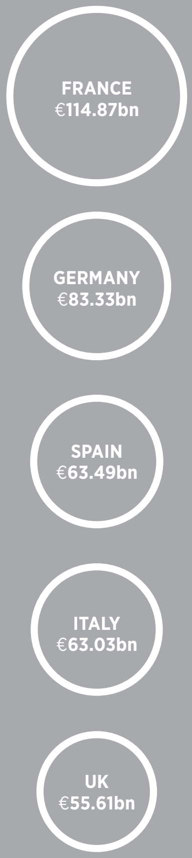
The private sector has a very important role to play in this. Apart from private institutions leveraging up government money by an average of 2-3x, advisers will play a very important role in ensuring companies are aware of the breadth of options as they develop.

"Maintaining relationships, such as

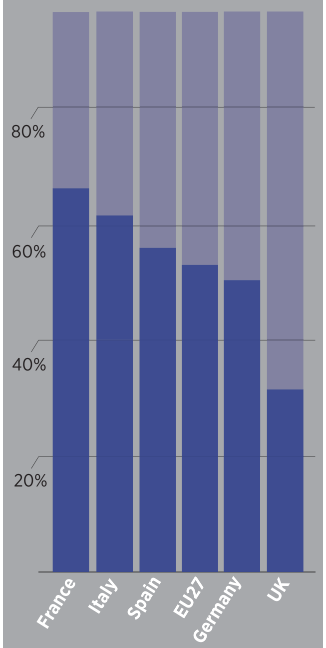
ALAMY

ABSOLUTE LEVELS OF SME BUSINESS INVESTMENT (2011)

SOURCE: BIS



SHARE OF TOTAL BUSINESS INVESTMENT BY COMPANY SIZE (2011)



Solid colours indicate percentage of total business investment for companies with <250 employees
SOURCE: BIS

FRENCH CONNECTIONS?

One of President François Hollande's key election pledges for stimulating business growth in France was that he would set up a state-owned investment bank. The Public Investment Bank (PIB), established at the start of 2013, is owned 50-50 by the French state and CDC, and funded to the tune of €42bn:

- €20bn lending capacity;
- €12bn for credit guarantees; and
- €10bn for equity investment.

The PIB is clearly not solely looking at French SME finance. The level of funding for the PIB does not in any way faze Morgan: "I think we have to build an institution, which is right for the conditions and marketplace in the UK – and importantly, which doesn't distort the market"

When it comes to absolute levels of business investment by SMEs, the UK is fifth behind not just Germany and France, but Spain and Italy too (see graph). It is also below those four and the EU average when it comes to the percentage of total business investment made by the SME sector.

FACULTY EVENT

Keith Morgan will take part in a panel discussion about financing entrepreneurial and growing companies at the breakfast forum, 'Boosting Finance for Business Expansion' on 15 May. The event has been organised by the Corporate Finance Faculty and ICAEW in the Midlands and will be held at PwC's offices in Birmingham. He will be joined by Stephen Welton, chief executive of the Business Growth Fund; Martin Morrin, chairman of the Asset Based Finance Association; PwC partner, Matt Waddell; and David Petrie, ICAEW's head of corporate finance. See page 5 for more details.

through the Corporate Finance Faculty, is absolutely key to us having the right intelligence to develop the programmes that will make a difference," says Morgan. "It is very important we don't do things the private sector would do anyway. Why should the government do it? We have to understand where markets do not work perfectly, then we will develop plans to make it work differently and create a solution. Importantly, that intelligence comes from the organisations and professions closest to what is happening."

Some issues faced by growing businesses are structural and arguably will always be present. Others relate to the economic cycle, so it could be said that to some extent its job will never be done. So what about the longer term?

"It's important we don't do things the private sector would do. We have to understand where markets do not work proplerly and develop plans"

"We will get repayments and our job will be to redirect those resources to the areas of greatest need," says Morgan. "If we believe there is a need for further investments above and beyond the capacity we have, we would need to make the argument to our shareholder - the government."

Morgan firmly believes that the British Business Bank can work with private sector lenders and investors to support companies as the economy moves out of recession: "Many companies have plans to grow and invest, yet there is a lot of deleveraging going on in the economy and banks have to think very carefully about how they allocate capital. If we create the conditions for banking capital to be used more effectively in supporting new SME lending then that is something that will help the situation emerging now."

Corporate Finance Faculty spring/summer 2014 forums

ACQUIRING A BUSINESS & BUILDING CORPORATE VALUE
Creating New Opportunities

Thursday 1 May 2014, 08:30–10:30 • KPMG, 8 Salisbury Square, London EC4Y 8BB

Corporate acquisitions are a very important way of creating new business opportunities and for companies to grow and change. But how can you ensure success? This forum will ask a very experienced corporate and advisory panel about effective acquisition strategies, timing and executing transactions, due diligence and integrating new businesses to enhance post-deal value.

BOOSTING FINANCE FOR BUSINESS EXPANSION: THE NEW BRITISH BUSINESS BANK
Investing in Growth

Thursday 15 May 2014, 08:30–10:30 • PwC, 19 Cornwall Street, Birmingham B3 2DT

The UK government is launching the new British Business Bank to boost finance for growing companies. It aims to generate £1bn of new lending and equity investment every year from public and private-sector funds. This forum is a unique opportunity to find out what business opportunities this will create – across the UK.

RIGHT MOVE: CREATING THE BEST CORPORATE STRUCTURES FOR EFFECTIVE M&A
Developing Professional Expertise

Tuesday 17 June 2014, 08:00–09:45 • Royal Society of Chemistry, Burlington House, Piccadilly, London W1J 0BA

How do companies need to structure their finances effectively to ensure successful M&A that creates value for their shareholders? This forum – hosted by JC Rathbone Associates – asks leading corporate executives and advisers about new approaches to optimum financial structures, liquidity and risk management, corporate development and corporate treasury.

in ICAEW Corporate Finance Faculty   @ICAEW_CORP_FIN

ICAEW CORPORATE FINANCE FACULTY

BUSINESS WITH CONFIDENCE   icaew.com/cff

PUTTING CAPITAL TO WORK

Exclusive research by the Corporate Finance Faculty into the performance of Enterprise Capital Funds since their inception in 2003

GLASGOW

FORESIGHT NOTTINGHAM FUND
Foresight Group *foresightgroup.eu/nottingham*
High-growth businesses based in Nottinghamshire
Notable investment: **Positive Outcomes**

Fund size	From government	Invested
£40.0m	£25.0m	£2.0m

Investments	Exits	Launched	Investing
2	n/a	2013	YES

CATAPULT GROWTH FUND
Catapult Ventures *catapult-vm.co.uk*
Invests in early growth-stage companies across most sectors
Notable investment: **Oxford Biotherapeutics**

Fund size	From government	Invested
£30.0m	£18.0m	£25.5m

Investments	Exits	Launched	Investing
20	1	2006	NO

IQ CAPITAL FUND I
IQ Capital Partners *iqcapital.co.uk*
Focuses on seed and early-stage high-tech ventures
Notable investment: **Neul**

Fund size	From government	Invested
£25.0m	£16.7m	£22.8m

Investments	Exits	Launched	Investing
14	3	2006	NO

AMADEUS & ANGELS SEED FUND
Amadeus Capital Partners *amadeuscapital.com*
Makes seed-stage tech investments
Notable investment: **OneDrum**

Fund size	From government	Invested
£10.0m	£6.5m	£6.0m

Investments	Exits	Launched	Investing
8	1	2006	NO

AMADEUS IV EARLY STAGE FUND
Amadeus Capital Partners *amadeuscapital.com*
Seed and early-stage disruptive tech in 'big data' analytics, cloud computing, cyber security, low-power computing, 'internet of things', medical tech and digital healthcare
Notable investment: **N/A**

Fund size (to date)	From government	Invested
£33.2m	£15.0m	£0.0m

Investments	Exits	Launched	Investing
0	n/a	2013	YES

OXFORD TECHNOLOGY ECF
Longwall Ventures *longwallventures.com*
Invests in early-stage science/healthcare, engineering and software
Notable investment: **Merciria**

Fund size	From government	Invested
£30.0m	£20.0m	£22.0m

Investments	Exits	Launched	Investing
19	2	2008	NO

LONGWALL VENTURES ECF
Longwall Ventures *longwallventures.com*
Disruptive early-stage science, engineering and technology B2B ventures.
Notable investment: **Oxford Photovoltaics**

Fund size	From government	Invested
£40.0m	£25.0m	£3.5m

Investments	Exits	Launched	Investing
8	n/a	2012	YES

PANORAMIC ECF1
Panoramic Growth Equity *pgequity.com*

Private equity investor in UK growth SMEs with £1m+ revenues across all mainstream sectors, except life sciences and turnarounds

Notable investment: **Solfex Energy Systems**

Fund size	From government	Invested	
£34.0m	£20.0m	£10.7m	
Investments	Exits	Launched	Investing
8	1	2010	YES

DAWN CAPITAL ENTERPRISE FUND
Dawn Capital *dawncapital.com*

Traditional industries adopting innovative technology to improve products and services

Notable investment: **Mimecast**

Fund size	From government	Invested	
£30.0m	£20.0m	not disclosed	
Investments	Exits	Launched	Investing
12	0	2006	NO

MMC ENTERPRISE CAPITAL FUND
MMC Ventures *mmcventures.com*

Invests in technology-enabled businesses in high-growth sectors, including financial services, business software and services, digital media and e-commerce

Notable investment: **AlexandAlexa**

Fund size	From government	Invested	
£30.0m	£20.0m	£22.4m	
Investments	Exits	Launched	Investing
13	0	2008	NO

REGENTS PARK PARTNERS II
Sussex Place Ventures *spventures.com*

Backs early-stage technology ventures

Fund	From government	Invested	
£30.0m	£20.0m	£0m	
Investments	Exits	Launched	Investing
n/a	n/a	2014	YES

NOTION CAPITAL 2
Notion Capital Partners *notioncapital.com*

Focuses on cloud computing and software-as-a-service businesses

Notable investment: **Shutl**

Fund size	From government	Invested	
£76.3m	£25.0m	£19.5m	
Investments	Exits	Launched	Investing
13	1	2012	YES

SUSTAINABLE TECHNOLOGY FUND
Disruptive Capital Finance *disruptivecapital.com*

Invests in cleantech, green and sustainable-technology ventures

Notable investment: **ECO Plastics**

Fund size	From government	Invested	
£30.0m	£20.0m	£24.0m	
Investments	Exits	Launched	Investing
6	0	2006	NO

PASSION CAPITAL
Passion Capital *passioncapital.com*

Seed investor in digital media and consumer technology ventures

Notable investment: **Mendeley**

Fund size	From government	Invested	
£37.5m	£25.0m	£18.0m	
Investments	Exits	Launched	Investing
39	4	2011	YES

SERAPHIM CAPITAL FUND
Seraphim Capital *seraphimcapital.co.uk*

Invests £600,000-1.5m in 'disruptive', scalable early-stage tech

Notable investment: **Sirigen**

Fund size	From government	Invested	
£30.0m	£20.0m	£25.2m	
Investments	Exits	Launched	Investing
12	1	2006	NO

EPISODE 1 INVESTMENTS
Episode 1 *episode1.com*

Backs UK software start-ups that have launched viable products to a few "reference" customers

Notable investment: **Carwow**

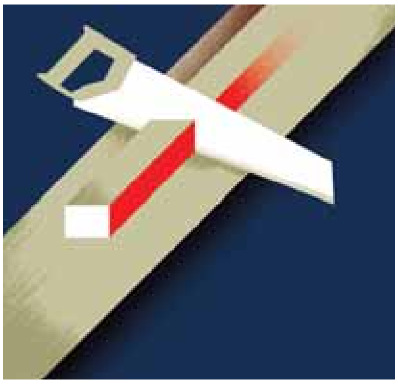
Fund size	From government	Invested	
£37.5m	£25.0m	£2.1m	
Investments	Exits	Launched	Investing
4	n/a	2013	YES

£543.5m has been committed to **16 ECFs**, managed by **14 fund managers**. **£321.2m** has been committed by government. **More than £204m** has been **invested** in **169 companies**, leaving more than **£300m still to be invested**.

SOURCE: ICAEW CORPORATE FINANCE FACULTY RESEARCH - ECF FUND MANAGERS

CUTTING EDGE

As the British Business Bank takes on the financing of fast-growing companies with Enterprise Capital Funds, **Shaun Beaney** assesses if they will reshape the UK venture capital landscape



The British Business Bank is the UK's first economic development bank. Backed with £3.9bn of government money, the bank will invest via existing and new equity, debt and alternative finance programmes. One key tool in its box is Enterprise Capital Funds (ECFs).

The track record of state-financed venture capital schemes globally is patchy and the UK is no different. The largely unsuccessful experiment with Regional Venture Capital Funds just over a decade ago arguably created more headlines than successful businesses. But that does not mean attracting capital to fast-growing or start-up ventures should not be a crucial area of public policy. So what has been the impact of ECFs since their launch in 2006?

HALFWAY TO A BILLION

The Corporate Finance Faculty has researched how ECFs are performing, eight years on from the first funds' debut (detailed on pages 18-19).

So far 16 funds (managed through 14 fund managers) have invested more than £204m in 169 ventures. With just under £543.5m committed to those funds, there is more than £300m left to invest. With British Business Bank backing, more ECFs will be launched this year. Of the £543.5m, £321.2m has come from government.

Have investments to date proved a success? It's too early for commercial take-off of most ECF-backed ventures. However, there have already been some solid, if not stellar, successes. There have been 14 exits so far, and there are some very exciting new companies - and technologies - still emerging within existing ECF portfolios. It is possible these could be tomorrow's big growth stories, corporate finance deals and IPOs.

As always, the key with venture is there will be winners and losers. One definite is that through the financial crisis the programme has seeded new VC teams and investment syndicates, as well as encouraging interplay between entrepreneurs, business angels and institutional investors.

LESSON FROM AMERICA

When ECFs were first mooted in 2003, HM Treasury held a wide-ranging consultation. The then chancellor Gordon Brown was keen to boost business investment and enhance the Labour government's business credentials. Perhaps it is a testament to the ECF model the coalition government is supporting them as a cornerstone of the new bank.

The long-established US programme for Small Business Investment Companies (SBICs) was the basis behind some of the thinking about ECFs. Some of the SBICs are often credited with kickstarting some of the American start-ups that have grown into global giants, although some VCs would point to other factors behind US tech successes. For instance, there is also a system of grants from the country's Small Business Innovation Research scheme.

Ironically, back in 2003 the SBIC programme was in a crisis after the dot-com boom and bust. But the UK government wanted to emulate the successful aspects of SBICs, which contributed to the creation of AoL, Apple, Build-a-Bear Workshop, FedEx, Intel, Sun Microsystems and Staples.

Crucially, in creating ECFs, the UK government modified the SBIC model, including how state money was invested, drawn down and how

SHARP END
Longwall Ventures

Longwall Ventures has deep roots in Britain's fertile scientific soil. Based at the Harwell Science & Innovation Centre in Oxfordshire, it invests in early-stage science and healthcare, engineering and software ventures.

Matthew Frohn, David Denny and Michael Penington set up Longwall in 2011 to manage the Oxford Technology ECF (£30m), which had been launched in 2008. They've since raised the Longwall Ventures ECF (£40m). Between them, the two ECFs have backed 27 ventures so far.

Longwall CFO Jane Burgoyne says given the time needed to commercialise new technology, patient and experienced investment managers ready to take risks and who understand technology are a must.

In March 2012, Oxford Technology ECF sold its stake in Bristol-based **Meciria**, which has been developing a drill steering tool with huge cost-saving potential for the oil industry, for £16m, realising £9.4m on its total outlay of £1.48m, plus earn-out. Recent investments include Oxford Photovoltaics and Oxford Space Systems. Burgoyne says ECFs show "the government is not scared of some of the risks in venture investment and the time frame – it has recognised the scarcity of investment capital in this area and is supporting people who know what they're doing."

WELL CONNECTED
MMC Ventures

London-based MMC Ventures tapped its extensive network of wealthy private investors and family offices to raise its £30m ECF in 2008 (which has 44 limited partners). The fund's sector focus is financial services, business software and services, digital media and e-commerce.

The ECF's portfolio of 13 companies includes **Base79**, now the largest YouTube multi-channel network in the EMEA region. Base79 raised growth capital in 2012 from the Chernin Group, an international LA-based media holding company. Base79's content partners include BBC Worldwide, Endemol's Tiger Aspect, IMG Media and Simon Cowell's Syco Entertainment.

MMC Ventures partner Rory Stirling (pictured) says: "We believe the [ECF programme] has been a very successful programme and has no doubt addressed a significant funding gap in the UK market."

FLYING START
Seraphim Capital

Seraphim Capital's £30m early-stage tech fund, was the second ECF to be approved, but quickest out of the blocks by making the first ECF investment in 2006.

Originally sponsored by the Summit Group and Greater London Enterprise, Seraphim brought together a coalition of investors and business angels, including Advantage Business Angels, Archangels, London Business Angels and Pi Capital, as well as US-based New Vantage Group.

The £10m private part of the ECF was oversubscribed. "People were fighting to get in," recalls Seraphim chairman Kit Hunter Gordon (pictured). Now fully invested, save almost £5m for follow-on rounds, the fund has backed 12 ventures in hard technology and innovation.

Meanwhile, Seraphim's co-investment in **Pyreos** is a case study in bringing together different kinds of investor. Based at the Scottish Microelectronics Centre in Edinburgh, the Siemens spin-out has developed infrared sensors based on advanced materials.

Pyreos is backed by Robert Bosch Venture Capital, Siemens Technology Accelerator and Scottish Investment Bank, as well as Seraphim. The company is already growing sales in the US, Brazil, China, India and the rest of Asia.

ENTREPRENEURIAL
Panoramic Growth Equity

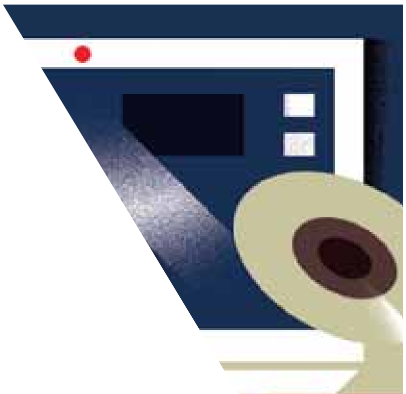
Stephen Campbell (pictured) and his partners managing the Panoramic Growth Equity fund have focused on well-established but expanding companies, rather than start-ups or early-stage tech businesses.

"One of the strange things we've found is that there was relatively little demand for growth equity in a recession, when survival was top of the agenda for many companies," explains Campbell. "But that's changing rapidly as the UK comes out of recession."

Panoramic raised its £34m ECF in 2010 despite the dreadful economic conditions. It had backing from three large local authority pension funds as well as others – despite VC being "a relatively new thing for them".

The London and Glasgow based team has invested in companies across the UK. Its eight-strong portfolio includes a manufacturer/exporter, a distributor, marketing businesses and specialist tour operator.

Panoramic achieved an impressive IRR of 62% on its £1.25m investment in **Solfex Energy Systems** when Travis Perkins acquired the business in January 2013 – rising to a potential IRR of 120% following the earn-out period. Panoramic partner Malcolm Kpedekpo led the investment.



returns were aligned with those of the private investors in the funds.

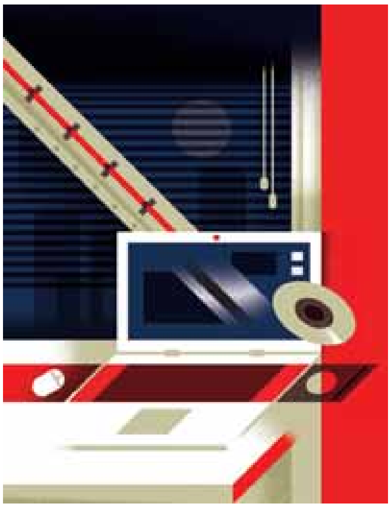
Ken Cooper, was a central figure in the development of ECFs while they were run by Capital for Enterprise, which is now within the British Business Bank. Now MD of venture capital projects at the bank, Cooper points out there has been a lot more careful manager selection and due diligence for ECFs than was traditionally the case with the SBICs. "We look for strong teams with some track record and evidence that private-sector investors are willing to back them in an ECF. We aim to make two or three awards a year, so it is a very competitive process."

GETTING UNDER WAY

Six ECFs were launched in 2006, after a lengthy European Commission (EC) state-aid clearance process. There were 47 bids to manage funds in the pathfinder round. Although the financial crash slowed development, there were 15 ECFs at the end of 2013, and a 16th was launched last month. The largest so far, managed by Notion Capital, raised £76m (including £25m of UK government money).

Up to £2m can be invested in each venture by an ECF. Follow-on investments up to a total of 10% of the fund size could be made in any particular portfolio business. Given that the largest original ECF was £37.5m, this capped the investment at roughly £4m - a relatively small amount to be able to invest in a fast-growing venture. It was therefore tricky for ECFs to follow their money if businesses took off, without the ECF being potentially sidelined by other investors.

The programme is designed to be



broadly cost-neutral for the new bank over the medium term. The government has invested up to two-thirds of the capital in each ECF - to a maximum of £25m. In return, it receives a gilt-rate prioritised return (currently 3%) on it original capital plus a limited share of the fund's profits, up to a specified ceiling. On one hand, there is no downside protection for the private investors and they are taking a genuine commercial risk. On the other, there is potentially more up-side for private investors, because of the geared profit share.

Fund managers cannot take out carried interest until the end of the fund's life. Some managers might charge companies an arrangement fee of 3% and annual monitoring fee of 2%. Those fees will usually revert to the fund, rather than the fund's manager. There is standard legal documentation ECFs use, which keeps investee companies' transaction legal costs below £20,000.

ONWARDS, UPWARDS?

Within this broad structure, each ECF manager is allowed flexibility in its investment approach. There has been a healthy variety among the 14 fund managers. Some invest in early-stage cutting-edge technology development, others are growth-equity investors with a focus on the digital media sector.

Meanwhile, the EC is happy ECFs are attracting new private capital to growth companies and meet its principle of "additonality". Earlier this year the EC announced it would lift the caps on the potential size of new ECFs and their investments. The £25m limit on total state-supported money in each fund has been increased to £50m, and the cap on initial investment per company has been raised to £5m. Notionally €15m (£12.4m) is the cap on any investment in an individual company, but given new ECFs can invest 15% of a single business, and there is no total fund size limit, it will be far easier for ECFs to follow their money.

Cooper only expects to see two or three more ECFs approved each year. It may not revolutionise the UK's venture capital scene. But it does mean after years in the shadows, it's a show worth watching again.

MEDIA SAVVY
Notion Capital

Like some of the other ECF managers, Notion Capital has been set up by a team which has turned to VC after big successes in software and digital media ventures globally.

Notion Capital was the concept of the highly successful group behind MessageLabs after its $700m (£422m) sale to Symantec. Notion's second fund raised £76.3m. Its founding partner and CFO, Ian Milbourn, explains the investment strategy: "Our investment thesis in 2009 was there was a megatrend – a move from old-world software on devices to the cloud."

While there were many business-to-consumer ventures tracking that, they were faddish and riskier, he says: "B2B plays should have greater longevity. These are markets that are ripe for disruption by second and third-generation software."

One of Notion's ECF investments, **Shutl**, links retailers to local same-day courier companies, and was responsible for the fastest e-commerce delivery – just 15 minutes. eBay snapped up the business last year.

Milbourn argues that it is important for venture-backed companies not to sell out to acquirers too early in their growth: "I believe there's space in Europe for a very successful early-stage tech VC, especially in the ecosystem in London."

Shaun Beaney is manager of the Corporate Finance Faculty. He also writes and blogs about private equity and venture capital

Join the debate about the future of ECFs on

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ICAEW Corporate Finance

follow **@ICAEW_CORP_FIN** on Twitter

or via the corporate finance blogs:
bit.ly/QxYbdC

Impetus Trust invests in carefully selected charities, to help transform their impact. We do this by applying the principles of venture capital, but the aim is for a social, rather than a financial, return. All charities in our portfolio receive funding, management support and specialist expertise.

> In philanthropy as well as business, money alone can only do so much; it is money combined with skills and experience that achieve real impact. Impetus Trust is leading the way in creating lasting change through this strategic combination.
>
> Sir Ronald Cohen
> Impetus supporter

What's the result? BIG impact!
In 2011/12, our charities reported an average annual growth in the number of people they helped of 39%, and an average annual growth in income of 19%. The charities in our portfolio are now helping over 480,000 people a year to break the cycle of poverty they are trapped in, and gain the education, skills and jobs they need to lead more independent lives.

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Turning around more lives

Impetus is grateful for the generous support (both time and money) of many Corporate Finance Faculty members.

To find out more about Impetus Trust and how you can become a corporate partner or volunteer your skills, please contact Amie Hoyland, Deputy Director of Philanthropy and Partnerships.

E: amie@impetus.org.uk
T: +44 (0)20 3551 7049

impetus.org.uk

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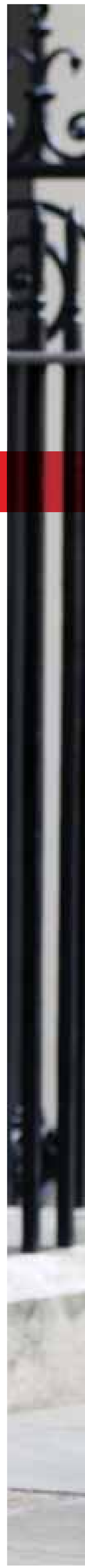
RESOLUTION OR REVOLUTION?

The recent UK Budget headlines suggest a 'pensions revolution' is in the offing. Aside from personal annuity changes, the regulator is looking at action that could affect pensions in M&A. **Sankar Mahalingham** explains



A noticeable shift in the pensions landscape is currently under way. The difficult terrain navigated by sponsors and investors in defined benefit pension schemes in recent years is gradually easing. So what exactly are the key drivers for change? And what approach should corporate sponsors and investors adopt to take full advantage of the potential smooth road ahead?

The regulatory environment

The UK's Pensions Regulator (TPR) has been given a new draft objective by the Department for Work and Pensions (DWP) in respect of funding defined benefit pension schemes, which is to "minimise any adverse impact on the sustainable growth of an employer". Last December, TPR published a new draft *Code of Practice* (CoP) about funding defined benefits. The draft CoP emphasises collaboration and collective engagement between trustees and employers. This signifies a clear shift in direction by TPR, which previously encouraged trustees to robustly engage with the employer in funding negotiations and ensure prudence is at the forefront of discussions.

This change of emphasis is to be welcomed by corporate sponsors. It should allow a wider consideration by all parties of the sponsor's often-conflicting needs to reward shareholders, invest in the business and meet pension commitments. Trustees are therefore expected to be more supportive of the employer's business needs. They will also better engage in broader discussions of the support being provided to the pension scheme, both in cash terms and in the form of the employer covenant.

The CoP provides companies with an opportunity to drive the pensions agenda in line with its wider business objectives and get more involved with the strategic decisions concerning deficit funding and liability management. Adopting a proactive stance alongside more flexible and pragmatic trustees may transform the pensions burden into a manageable business risk.

The economic environment

Record-low interest rates have prevailed in the UK economy for the past five years. Coupled with lower gilt and bond yields, this has served to increase pension scheme deficits by increasing the value placed on the scheme's liabilities through the use of lower rates to discount future cashflows.

However, speculation is now increasing about the timing of future interest rate rises. It is widely expected that these will occur in the short to medium term. Any increase in underlying interest rates which results in gilt and bond yields rising should serve to ease the pain that has been experienced by pension schemes due to their recent poor funding positions.

The new landscape

The focus in recent years for many pension schemes has been on derisking and reducing pension schemes' exposure to movements in financial markets. However, perhaps the time is now right to 're-risk', by making a judgement about future market movements and the scheme's risk profile – if, of course, there is sponsor support in the form of the employer covenant to justify it. Rather than hedging interest rate, inflation and other risks now via the investment strategy, a position could be taken to 're-risk', enabling the pension scheme to benefit from expected changes to the economy.

Many companies and pension scheme trustees have often seen buying out the pension scheme with an insurance company as the Holy Grail. This should no longer be the immediate default position for a pension scheme. Instead, careful management of the liabilities to reduce risk alongside an improving employer covenant and a well-judged investment strategy might provide a better overall result for the sponsor.

Approaching a deal

It remains essential that full pensions due diligence is undertaken when approaching any kind of corporate transaction. A full consideration of the attaching risks, including the potential ultimate cost of securing the pension scheme liabilities with an insurance company through a buy-out, should be undertaken. However, headline-funding positions are beginning to show a gradual improvement, so the bleak initial views taken in recent years will no longer be so common. Also, sound judgement is required when taking a view on what might be achievable in respect of the pension scheme over the hold period.

The journey plan

The plan for the pension scheme over the period of investment should reflect a best estimate of the funding position at exit and the cash costs payable over the period. This journey plan should reflect any proposed exercises to be undertaken to manage the liability risk profile, for instance, closing to future accrual and

member option exercises. One example would be pension increase exchange exercises and the reshaping of individual benefits.

Allowance should also be made for any improvement in the sponsor that will result in an improved employer covenant supporting the pension scheme. This would result in a lower degree of prudence being adopted in the setting of the scheme's liabilities for funding purposes. In turn this would lead to lower cash contributions being payable to the scheme in the short to medium term. It must however be noted that the ultimate cost of providing the benefits will be unchanged as this will be unknown until the final benefit payment is made to the last surviving member. The acquirer may also want to consider the impact of increasing interest rates on both the assets and the liabilities of the pension scheme during the holding of the investment.

The exit

If the scheme is closed to the future accrual of benefits it is likely that the size of the scheme (and hence the attaching risks) may have fallen over the term of the investment. For a short-term holding, this effect will be muted. In addition, market yields may have risen, resulting in an improved funding position. If this can be coupled with an improved employer covenant supporting the plan and a proactive management of the liabilities, then the reported funding position may be considerably improved by the time of exit.

Staying ahead

Corporate sponsors and investors should be proactive in managing their pension risks. They should be keeping an eye on the road ahead and the steps that can be taken to improve the funding position of their defined benefit pension schemes. Sponsors should be proactive and drive discussions with trustees who are likely to be more amenable under TPR's new draft CoP. This could lead to savings and may transform what was initially perceived as a pension burden into a mere molehill.

Sankar Mahalingham is a principal at Punter Southall Transaction Services, specialising in pension risk and strategy

REX FEATURES

BOILING OVER

The CEO of AO World, which successfully floated on the main market in March, claims the white goods online retailer, could be as big as Tesco in five years' time. Brian Bollen looks at online IPOs and asks – are we in another bubble?

The recent slew of initial public offerings (IPOs) of internet-related companies has raised concerns about its sustainability. The perceived aggression in the pricing of companies such as Appliances Online (AO) has fuelled much talk of Internet Boom 2.0, followed by debate about whether the world is inevitably headed for Internet Bust 2.0. Indeed, by the end of April the view through that IPO window was looking decidedly less sunny. Whether it was closing or not remains to be seen.

AO World Plc announced that it successfully commenced trading on the London Stock Exchange on 26 February 2014, "marking a significant point in the group's history and providing an exciting opportunity for the future", according to the directors. It was valued at £1.2bn, and the directors say they believe that the listing on the main market offers an "excellent platform for the growth of the group", particularly as they look to expand their product range and expand their business into new territories.

The ebullient CEO John Roberts told *The Sunday Times* in March that his company has the potential to become nearly as big as Tesco in the next five years, if its plans to access the European market succeed. If it doesn't, the £111m of cash he personally took from the table should see him through.

Richard Rose, chairman of AO World, joined Marcus Stuttard, head of UK primary markets at the London Stock Exchange, for the Market Open Ceremony or 'ringing of the bell' to signify AO's first day of dealings. Julie Hilling, MP for Bolton West, and Joanna Shields, chairman of UK Tech City also joined to celebrate the occasion.

NOT FOR EVERYONE

There was much to celebrate. The shares leapt as high as 44% on the first day of trading, although 85% of the total issue was allocated to just 15 investors, leaving many would-be shareholders frustrated.

This resulted in a company valuation of £1.2bn on pre-tax profits of under £8m in 2013. And that isn't a typographic error. It assumes a price/earnings ratio of over 150 pre-float. In fact, *FT*'s *Alphaville* calculated the trailing sales multiple to be an even higher figure of 235.

AO World's apologists say that this disparity will shrink as profits rise, but with the UK retail market experiencing an intense era of competition and uncertainty, those with slightly more scepticism suggest that the optimism could be misplaced. Legacy-encumbered retailers such as Comet and Woolworths might have been dinosaurs ripe for the culling, but that does not automatically guarantee lasting commercial success for any of the younger players.

To take a couple of examples, the IPO of Poundland, the discount retailer with a traditional and growing high street presence, rose 23% on day one. Pets at Home, by contrast, slipped nearly 3% on day one of trading, perhaps because its instore services such as microchipping cannot be done online – it will always be a customer-facing retailer. If it can tackle those issues, perhaps it will receive its reward in the e-commerce premium that investors are paying.

£1.2bn
Value of AO World on pre-tax profits of under £8m in 2013

44%
Increase in value of AO World shares on day one of trading

£111m
Amount earned by AO World CEO John Roberts upon its flotation

HERE'S THE DEAL

On 26 February 2014 AO World (formerly DRL Holdings) floated on the main market of the London Stock Exchange. The business, which is based in Bolton, Lancashire, is an online retailer of major domestic appliances.

The IPO involved the issue of 21,052,631 new ordinary shares (representing 5.3% of the issued share capital), and the placing of 127,412,880 existing shares (representing in aggregate 34.3% in the company). The listing price was at 285p per share. Gross proceeds of the offer received by the company amounted to £60m, while selling shareholders received £363m, making the aggregate value of transaction £423m.

The flotation valued the business at £1.2bn and after rising to £1.6bn, had fallen back to £1.1bn. The company intends to use net proceeds for general corporate purposes, including for additional working capital.

Rothschild ran the IPO, Deloitte were the reporting accountants and Herbert Smith Freehills provided legal advice. Jefferies International and JP Morgan Cazenove were joint sponsors, joint global co-ordinators and joint bookrunners. Numis Securities was also joint bookrunner and Simmons & Simmons provided legal advice to all three bookrunners.

FROM BOLTON TO THE WORLD

2000
In a pub in Bolton, a friend of CEO John Roberts bet him £1 that Roberts wouldn't go through with his claim that he could change the way white goods are purchased via the internet. The AO business was born as DRL Limited, founded on Roberts' premise that electrical good retailers "cannot even spell customer service."

2001
Group's first e-commerce website, AO, is joined by Appliance Deals, which aims to offer high-quality kitchen appliances at low-cost prices.

2003
High street retailers spot the value of retailing white goods online while putting efforts into customer service, and bring AO on board to supply and deliver these products to their customers as a third party.

2004
J Sainsbury became the group's first client, closely followed over the next six years by Marks & Spencer, Debenhams, Shop Direct Group, Screw Fix, Argos and B&Q. Today, Next, House of Fraser, Boots, JD Williams and Empire Direct, among others, charge Appliances Online with building and maintaining online platforms for the sale of white goods under their brand names.

2009
Two-man delivery company Expert Logistics, bought from supermarket chain Iceland, gives control over the distribution of goods. J Sainsbury drops AO Online as its e-commerce sub-contractor.

2014
AO World floats on the London Stock Exchange, and changes its retail name to simply ao.com

285p
The listing price of AO World shares

£60m
Gross proceeds of the offer received by AO World

In the same month as the AO World flotation, there was the IPO of fashion retailer boohoo.com on London's junior market, AIM. An immediate success, the company's shares rose as much as 70% on the first day of trading before settling back to a 40% premium to listing price.

Older readers may recall the cautionary tale relating to its near namesake, boo.com (although there is no link between the companies) which has become a byword for dot-com busts. The British online fashion retailer spent $135m (£80m) of venture capital money before going under in 1999, following some quite spectacular acts of self-indulgence.

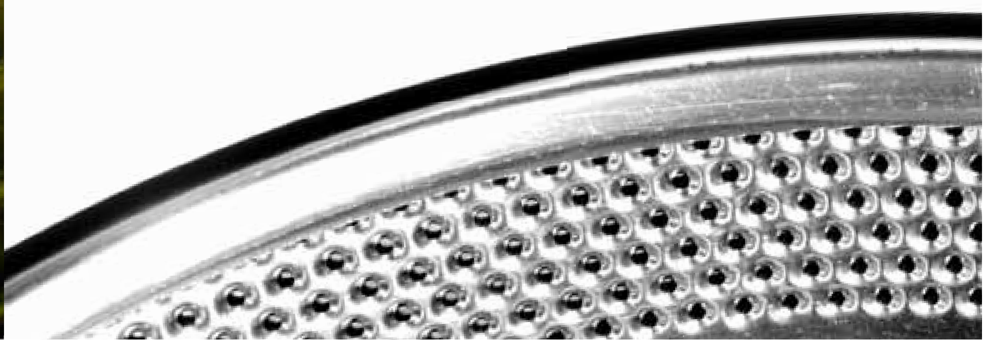
BLOWING BUBBLES?

Doubts persist as to whether the IPO window will remain open. Thomson Reuters calculates that European IPOs have tripled in the first three months of 2014, compared to the same period last year. However, that must be put into the broader context of a long-term downward trend – there were 200 IPOs in the first three months of 2014 compared to almost 700 in the same period in 1996.

On the one hand, believers point in the first instance to the demand for private equity houses to exit investments in which they have been compelled by recent market circumstances to remain for longer than they might have liked. And in the second instance to the signs of economic recovery that are finally showing in at least some economies.

On the other hand, doubters point to prices they regard as overinflated, and argue that the likely end of quantitative easing could let at least some of the air out of what is being seen by some as a classic pricing bubble. And retail overall will surely be impacted by interest rate rises - perhaps in particular purchases that can be postponed.

It is surely only a matter of time before someone says 'this time it's different'. Or taxi drivers start doubling up as share tipsters. Those who ignore history, or conveniently forget it, are doomed to repeat its mistakes. More than a decade after the boom went bust, there are signs that this phenomenon is indeed taking hold. It is perhaps time for a steady hand on the mouse.



A private equity firm focused on all three of Europe's main economies has a wider pool for fundraising, but as **Dr Peter Hammermann** tells Marc Mullen, the local investment culture remains the key to Equistone's success

INVESTMENTKULTUR

Equistone Partners Europe is an intriguing private equity proposition: its funds are raised from across Europe and North America primarily, but also from the rest of the world. It mainly invests in mid-market companies in major European economies - UK, France, Germany and Switzerland, and has autonomous investment teams at six offices in London, Birmingham, Manchester, Paris, Munich and Zurich.

Dr Peter Hammermann, Michael H Bork and Dirk Schekerka are the three managing directors based in Munich. Hammermann joined Barclays Private Equity (as Equistone then was), in 1998 to set up its German operations. Prior to that, he was a founding partner in the DM250m private equity fund, Odewald, Hammermann & Stelzer.

Hammermann, who has a PhD in economics, explains what attracted him to the firm: "I liked its strategy. I liked its international approach, the chemistry, the investment philosophy, the way of thinking, the mentality. Those things created some basis on which to start these operations. And it was absolutely the right decision because later on it became clear there was no market player around with this very sophisticated, but very positive balance between national independency and a pan-European approach."

In January 2013 the fund manager announced its fourth fund had reached a successful final close of €1.5bn (£1.24bn) of commitments. It was something of a landmark announcement for the firm - it was the first fund Equistone had closed since its spinoff from Barclays.

EPE'S GERMAN DEALS

Date	Investment	Deal type	Deal range	Equistone stake	Industry	Employees
Aug-13	Karl Eugen Fischer	Tertiary	€50-100m	93%	Tyre cutting systems	490
July-13	OX Group	Tertiary	N/A	N/A	Outsourcing services	600
Nov-12	Sunrise Medical	Secondary	€100-250m est	86%	Rehabilitation	1,600
Sept-12	VIVONIO Furniture	MBO	€100-250m est	67%	Furniture	800
July-12	EuroAvionics	MBO	€100-250m est	84%	Avionic systems	40
May-12	E Winkemann	MBO	€25-50m est	N/A	Metal processing	300

GOING IT ALONE

In November 2011 Equistone had bought out the Barclays Private Equity management firm from founder Barclays. In the course of the spinoff, it had to ensure there was sufficient capital for its medium- to long-term survival.

"That was essential," says Hammermann. "We knew that Barclays would not be a funder of the team in the future, given its background and what had happened in the financial crisis. That was why it was so important to raise another fund, which we did in parallel to the process of spinning out of Barclays."

The fundraising process took a little longer than usual because of the financial crisis and the spin out. To date, roughly 60% of Fund IV has been invested.

Little has changed in the investment approach according to Hammermann, other than the obvious - there are "fewer deals being done than in the peak years of 2004 through to 2007." He adds: "We don't complain about our deal flow. We have a large portfolio, which is increasing, and the level of deal flow is very similar to that before the financial crisis." Hold periods have gone largely unchanged in the post-crisis period too.

The opportunity for private equity to make acquisitions from the much-talked-about *Mittelstand* (family-owned mid-market companies) is potentially huge. The problem in the past has often been the reluctance of the *Mittelstand* to consider financial investors as an exit route. Hammermann adds: "The more successfully exited private equity deals known in the market will change the way private equity is pre-judged in Germany."

NOT SO DIFFERENT

In spite of acceptance, Hammermann expects secondaries and tertiaries to be the most prevalent source of deals. As in the UK, multiples have come down and the share of debt in transactions has reduced.

"In Germany the banking environment has changed dramatically when it comes to leverage for deals. That said, we have never had any problem getting finance. Returns are very attractive and money is available. We are seeing a number of refinancings again."

While the firm is very connected across Europe from a fundraising perspective, the Equistone investment committee's pan-European approach is for each member to have a veto on an investment. Each territory is represented. Investment-wise they are largely autonomous.

So what is different about Equistone's approach in investing in Germany? Hammermann says other funds that have been dominated by a single US or French shareholder have failed because they have tried to "establish their way of thinking and their philosophy" in a different business culture. "It would not make sense for me to take a German approach to the UK."

THE GERMAN/ SWISS TEAM

- Managing directors: Dr Peter Hammermann, Michael H Bork and Dirk Schekerka
- Investment directors: Marc Erni and Alexis Milkovic
- Directors: Dr Marc Arens, Stefan Maser, Oskar Schilcher and Philippe Stüdi
- Associates: Leander Heyken, Dr Katja Mühlhäuser, Maximilian Göppert
- CFO and COO: Stephan Köhler

CASE STUDY: TUJA

Much was made in the press of the German operation's investment in TUJA, an employment agency specialising in skilled temporary workers, especially after it was sold to Adecco, the world leader in HR services, for about €800m in June 2007.

TUJA had been founded in Bavaria in 1992. The business boasted particular expertise in the automotive, aerospace, and metal processing industries. Equistone (as BPE at the time) acquired the business from Berlin-based investment company Odewald und Compagnie in March 2006.

Management took a 10% stake in the buyout. Dirk Schekerka and Oskar Schilcher, who are still EPE directors, looked after the investment, which supported the implementation of a successful buy-and-build strategy. TUJA was headed up by its founders, Peter Jackwerth and Werner Tutschek.

In 2006 the group's turnover almost trebled compared to 2005. It made six acquisitions, including A+K Zeitarbeit, Boetronic and Gross Business. Organic growth was more than 40%. By the time of the sale to Adecco, TUJA had increased its headcount by 12,000 and had a network of 127 branches, 105 of them in Germany, 11 in Switzerland, and 11 in Austria.

While the return on capital was not disclosed, it was clearly a star performer. Sales and profits tripled under the period of ownership, and as Hammermann points out, they identified the right strategic buyer to optimise return. "The way we see it, every signature is a great achievement," says Hammermann.

Appointments

BRIDGES BUILDS GROWTH FUND TEAM

Bridges Ventures has recruited three senior investment professionals to manage its new Sustainable Growth Fund: Oliver Wyncoll (below left) as partner, Mark Blower (centre) as deal origination director and Khidhr Shafiq (right) as associate.

Wyncoll has joined as partner from Langholm Capital, where he was partner and a board director on portfolio companies, which included Dorset Cereals and Tyrrells Crisps. Prior to Langholm, he worked at Rabobank, HSBC and BZW.

WEALTH OF EXPERIENCE

Shafiq has joined from Deloitte, where he specialised in business modelling, advising on M&A, refinancing and special situation deals across the UK and Europe.

Blower previously worked at Gresham Private Equity, where he was partner for four years and responsible for new investments and deal origination. Prior to that he was head of the north-west acquisition finance team at Lloyds Banking Group and before that worked for Rothschild as head of acquisition finance.

Philip Newborough, Bridges partner and co-founder, said: "Bridges has gone through a period of rapid growth and our investment approach and philosophy continues to attract highly experienced people from the worlds of investment, finance and entrepreneurship."

NEW BVCA CHAIRMAN

The British Private Equity & Venture Capital Association has appointed LDC managing director Tim Farazmand as chairman. He has taken over from Simon Clark, managing partner at Fidelity Growth Partners Europe.

"One key area I will be focusing on is social impact investment," said Farazmand. "Certain figures from the private equity and venture capital community have been blazing a trail in this area. With the new social investment tax relief announced by the chancellor in his Budget statement, we are now in a position to make a difference to social enterprises across the UK."

NEWS IN BRIEF

Anton Hong has joined **JC Rathbone Associates** from PMC Treasury, where he developed bespoke hedging strategies for financial sponsors and advised on risk management and debt structuring. He started his career at JP Morgan in London and Hong Kong, before moving to Dresdner Kleinwort, working in the global derivatives team.

David Coffman has joined the corporate finance team at **Daniel Stewart & Company**. Coffman will continue to advise smaller quoted companies, which he has done for more than a decade, most recently at Keith, Bayley, Rogers & Co. He is a long-standing member of the Corporate Finance Faculty's board.

Dr Maria Maher has joined **KPMG's** competition economics practice from AlixPartners. An economist with more than 20 years' experience, she specialises in competition policy in the telecoms and utilities sectors and will advise KPMG's forensic advisory clients.

Grant Thornton has promoted restructuring specialist partner Mark Byers to UK head of advisory. He is already global head of restructuring for Grant Thornton International.

Restructuring specialist Phil Dakin has joined **BTG Financial Consulting** from KPMG.

Former trade and investment minister, Lord Stephen Green of Hurstpierpoint, has been appointed chairman of **TheCityUK's** advisory council. He takes over from Sir Win Bischoff.

Duff & Phelps has opened a new office in Madrid with managing director Javier Zoido at the helm. And in London James Palmer has been promoted to partner in valuations.

Cavendish Corporate Finance has tied up with Chinese

LONSDALE'S NEW BELT

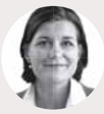
August Equity has promoted David Lonsdale to partner. He joined August in 2008 and most recently led the firm's investment in the MBO of veterinary group Westpoint, as featured in last month's *Corporate Financier*. He also led the MBO of Minerva Education last year.

Lonsdale began his career in KPMG's corporate finance department in London, before spending two years with ITV's business development operation. He then joined British Sky Broadcasting's corporate finance team.

Lonsdale said: "Our current fund, August Equity Partners III, recently closed at the hard cap of £200m, so our priority is completing new investments. Our deal origination model has been very effective in sourcing off-market investment opportunities. This has proved particularly successful when identifying businesses in adjacent areas to our portfolio companies, as with the Westpoint investment.

"Deal flow remains strong and we are seeing a lot of opportunities in our space."

cross-border corporate finance house, **HFG China** to attract Chinese investment for growth in UK SMEs.



Pioneer of UK venture philanthropy, **Impetus – The Private Equity Foundation**, has appointed Hanneke Smits, chief investment officer of Adams Street Partners, to its board of trustees.

Fund manager Neil Woodford has left Invesco Perpetual to join private equity investor and corporate finance adviser **Oakley Capital Management**. And Rebecca Gibson has joined Oakley Capital Private Equity as partner.

THE LEGALS

EY GAME CHANGER

EY, which is setting up a legal capability in the UK, has poached Phillip Goodstone from Addleshaw Goddard (AG), where he was corporate managing partner. EY is in the process of being authorised as an alternative business structure (ABS), which would enable the firm to offer legal services in its own right. **PwC Legal** moved into the ABS legal market at the end of January, when the Solicitors Regulatory Authority approved its licence application.

"The appointment has been made with a view to building a legal capability for EY in the UK, subject to regulatory approval, which would complement the firm's existing service offerings," said a statement from EY.

Goodstone will not join EY until September. He joined AG 17 years ago from Clifford Chance, and became partner in 2000. In 2011 he replaced Andrew Rosling as head of the firm's corporate group.

Leeds-based private equity partner Yunus Seedat has taken over as AG head of corporate.

AG managing partner Paul Devitt told *The Lawyer*: "Our ambitions for corporate remain unchanged; we will continue to invest in and develop further our strong platform."

"The alternative business structure appointment has been made with a view to building a legal capability for EY in the UK, which would complement the firm's existing offerings"

NEWS IN BRIEF

Andy Ryde has taken over as head of corporate and Stephen Cooke has been re-elected as head of M&A at **Slaughter and May**. The Magic Circle law firm has also promoted Susannah Macknay to corporate partner and Tom Vickers to restructuring partner.

Addleshaw Goddard has promoted Mark Hallam and Nathan Pearce to partner in its corporate team, based in Leeds and London respectively. Richard Oman has been promoted to partner in the Manchester banking team and Ben Slack, in Leeds, is now partner in the business support and restructuring team.

Burges Salmon has promoted Rachel Ruane to partner in its banking practice and Tom Dunn to partner in its investment funds and financial services practice.

Berwin Leighton Paisner has promoted Dylan Mackenzie, Marc Trottier and Usman Wahid in London, and Matvey Kaploukhiy in Moscow to partner in its corporate team. In Hong Kong, Nigel Ward is now partner in its global finance practice.

Walter Henle has joined **Taylor Wessing** in Munich as partner and head of private equity for Germany from Skadden Arps Slate Meagher & Flom partner, where he had worked for 10 years.

Peter Veranneman has joined **Bird & Bird** as corporate partner based in Frankfurt, from bond company DGVA.

Maclay Murray & Spens has elected Kenneth Shand, partner and head of its corporate department, to the post of chief executive.

Law firm **Allen & Overy** has hired Karan Dinamani as partner in the private equity practice of its London corporate group.

Wake up to minibonds

Alternatives to bank finance are on the rise. **Roger Gregory** of Pitmans tells us how bespoke bedmaker Warren Evans snuggled up to a £2.5m bond issue

WHAT IS THE DEAL?
It is the retail bond raised by bed and furniture manufacturer and retailer Warren Evans. The offer opened on 21 October 2013 and the target was successfully reached in just over two weeks.

HOW MUCH WAS RAISED?
The £2.5m 'minibond' was at an interest rate of 7.5%, which is competitive when compared to bank deposit rates. Other recent issues such as Hotel Chocolat and Mr & Mrs Smith offered higher interest rates in the way of vouchers, but this was not appropriate for Warren Evans. The bond was unsecured and repayable in a bullet after three years.

WHO WAS IT RAISED FROM?
The initial marketing was to the Warren Evans customer database, which is made up of about 75,000 people. There were adverts in the press in the two weeks leading up to the offer, and hard copies of the information memorandum were in-store. The average amount subscribed for was £4,000, so it was more people who had some emotional attachment to the company than those looking to make a huge amount of money. The issue also acts as marketing for the company and its growth plans.

WHAT WAS THE PURPOSE OF THE ISSUE?
Warren Evans started in Camden Town and there are now nine stores (seven around London, one in St Albans and one in Brighton). The cash will be used to finance more high street store openings.

WHO WERE THE ADVISERS?
At Pitmans we acted as legal advisers for the company, the corporate finance advisers were Hub Capital and the authorised person was Odyssey Partners. The business is 100% owned by its founder, who is actually Warren Adams. Although it had a strong management team, we had to introduce a corporate governance structure and formalise the board, more akin to that of a public company. Hub helped with that, and we prepared the contracts for the non-executives.

THE CAREER

Roger Gregory was educated at Doncaster Grammar School, and studied law at Manchester University. He completed his Law Society finals at Chester School of Law, and in 1984 joined Clifford Turner (now Clifford Chance). In 1986 he joined 3i, and became the firm's in-house investment lawyer. He has subsequently been head of private equity at Nabarro and corporate partner at Dorsey & Whitney. He is now corporate partner at Pitmans. He is a member of the Corporate Finance Faculty's technical committee and specialises in M&A, corporate finance, private equity and venture capital transactions. He has an interest in clean technology, food manufacturing and retail.

Recent transactions

- Chrysalis VCT Plc's investment in K10
- Dr John Cavill and Enterprise Ventures on their investments in AppLearn
- The management team of GTK in its YFM Private Equity-backed MBO

HOW DIFFICULT WAS THE PROCESS?
It was fairly straightforward. Making sure everything the directors say in the information memorandum was verifiable was key. That was done in a very professional and thorough way.

WHO SHOULD CONSIDER MINIBONDS?
Warren Evans was debt-free and needed capital to expand. Looking at this alternative to the banks allowed the owner to raise that money without having covenants on the business. The whole process has enhanced the brand and protected its customer relationships. I think more such businesses should consider them - not only is there capital for such issues out there, it is relatively simple and does have other benefits for the company.

NEIL GENOWER