# Corporate Financier

GROWTH | OPPORTUNITIES | EXPERTISE

ICAEW CORPORATE FINANCE FACULTY

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## GROWTH FORMULAS

FINANCE – THE CRUCIAL PART OF THE EQUATION

**MINER LISTING** PRAIRIE MINING'S IPO AND $640M PLAN
**FRENCH LESSONS** ENTREPRENEURS FUNDING GROWTH IN FRANCE

# Contents November 2015 Issue 177

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## GROWTH | OPPORTUNITIES | EXPERTISE





COVER: PA PHOTOS



### FEATURES



### REGULARS

# Flurry of deals?

CORPORATE FINANCE FACULTY

An increase in mid-market deal volumes will be welcome, but it won't come by chance. Businesses must put M&A at the heart of their growth plans. As we go to press, global political leaders will be beginning their preparations for

the climate change conference in Paris at the end of November. Corporate finance is going through its own 'climate change' of sorts - as winter approaches, the sun is shining. But the heat is more than the insipid warmth of a November sun.

The first nine months of the year saw $3.2trn (£2.1trn) of M&A announced globally, according to Thomson Reuters numbers. It's the healthiest deal-making performance since 2007 – up by a third on the value of M&A announced in the first three quarters of 2014.

When it comes to deals involving UK companies, EY reports that there was $318bn of M&A for the nine months to the end of September – up by 44% on the same period last year. Inbound M&A dominated, accounting for $192bn.

'Normal economic times' were legislated for in the UK parliament last month. I'm not sure what is normal nowadays. That said, M&A upturns usually foreshadow a broader economic recovery. But, in a world of tremendous flux, historic assumptions should probably be avoided.

Behind the happy headlines, M&A volumes have not recovered in the same way that values have. The increase in value has been powered by a 96% increase in the number of $10bn-plus deals, which accounted for a record-breaking 36% of announced transactions. So mid-market M&A is not quite enjoying the resurgence headlines imply.

Big-ticket M&A certainly does lead to much more deal activity. Take the world's largest brewer AB InBev's proposed $100bn+ takeover of the second largest, SABMiller. Competition regulation will more than likely generate even more spin-off M&A opportunities from that deal.

Research published last month by McKinsey revealed that companies making fewer than one acquisition per year had worse revenue growth than those that did no deals. Bad news? But companies undertaking one to two deals a year had double the revenue growth of those doing no deals. This is perhaps useful evidence for advisers, who know only too well that mid-market companies outperform when M&A is a central element of their growth strategies.

**Marc Mullen**
Editor



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# Faculty news

## STELLAR SPEAKERS AT ANNUAL RECEPTION

L-R: Michael Izza, Dale Murray CBE, Mark Pacitti, Gavin Petken, Tim Hawkins, David Petrie

The Corporate Finance Faculty held its annual reception at the Institute of Directors on Pall Mall on 15 October. David Petrie welcomed more than 200 guests to the Nash Room before introducing ICAEW chief executive Michael Izza.

Guest speaker Dale Murray CBE spoke of her experience in building Omega Logic, which in 2004 was sold to US-headquartered First Data Corporation. She then shared heartfelt insights from her subsequent success as an angel investor in early stage tech businesses.

This was followed by the annual awards presentation. Faculty chairman Mark Pacitti, and Tim Hawkins, managing director of Shawbrook Business Credit, presented the Corporate Development award to Gavin Petken, director of the Business Growth Fund and non-executive director of Victoria PLC. The award assessment is based on objective, empirical methodology developed by the faculty with the M&A Research Centre at Cass Business School, and Victoria PLC is the fourth recipient of the award.

The business is a fast-growing AIM-listed company. This will be particularly pleasing for the junior exchange, which celebrates its 20th anniversary this year. M&A has proved a critical part of its growth strategy.

With manufacturing bases across the UK, Victoria is a successful and well-established international manufacturer and distributor of carpets, floor coverings and floor accessories. The company is the European market leader and employs 1,250 people worldwide.

Victoria has had an extremely acquisitive strategy, with five deals in the last 20 months - including the acquisition of Interfloor for £65m in September, funded by a share placing, which raised £30.8m, on which Cantor Fitzgerald was the nominated adviser and sole bookrunner. Management plans to build a £500m revenue group and further M&A is expected as part of this growth strategy.

The Corporate Finance Diploma prizes were presented by Michael Izza, and Diane Leadbetter-Conway, director of BPP Professional Education. They went to James Cooper, corporate finance executive at Lovewell Blake (for the December 2014 sitting), and business consultant Ajay Vashisht (for the June 2015 sitting), who is currently working as a project consultant for the Post Office.

> Victoria PLC is a fast-growing AIM-listed company. M&A has proved a critical part of its growth strategy

ERROLL JONES

## CREATIVE INPUT

The Corporate Finance Faculty's Shaun Beaney took part in a roundtable about Nesta's Digital R&D Fund for the Arts at Arts Council England's London headquarters on 2 October. Other organisations represented at the event were: the Wellcome Trust, Esmée Fairbairn, Northstar Ventures, Creative United and the Knowledge Transfer Network.

Over the past two years, through the Digital R&D Fund for the Arts, the Arts Council, Nesta and the AHRC have jointly invested nearly £7m in 52 projects that have enabled arts organisations to develop new digital products and services to benefit their audiences and/or develop their business models.

In addition, Beaney is representing ICAEW on the Access to Finance working group of the Creative Industries Council (CIC). The CIC is co-chaired by Nicola Mendelsohn, Facebook's vice president for the EMEA region; Sajid Javid, secretary of state for business, innovation and skills; and John Whittingdale, secretary of state for culture, media and sport. The Access to Finance working group is chaired by Caroline Norbury MBE, chief executive of Creative England (see 'Creative Ferment', *Corporate Financier*, June 2015, below).

In the next issue of *Corporate Financier,* Vicky Meek will look at how the creative sector in the UK continues to punch above its weight.


L-R: Demetris Vakis, Shaun Beaney, Harris Georgiades, Angelos Gregoriades

## LOOKING FORWARD WITH CYPRUS

Shaun Beaney from the Corporate Finance Faculty was the guest speaker alongside Cyprus's Minister of Finance, Harris Georgiades, at a Nicosia dinner organised by the Cyprus Investment Funds Association (CIFA) and the Institute of Certified Public Accountants of Cyprus (ICPAC). Beaney was invited to speak on behalf of the ICAEW about the interaction of UK government policy, the British Business Bank, growth finance and venture capital.

The 120 guests also included the president of the Cyprus House of Representatives, Yiannakis Omirou, the president of the Cyprus Democratic Rally, Averof Neophytou, other Members of the House of Representatives, and representatives of many of Cyprus's leading financial institutions and businesses.

The dinner, which preceded the one-day Cyprus Funds Summit, was hosted by Angelos Gregoriades, president of CIFA and chairman of KPMG in Cyprus, and Demetris Vakis, president of ICPAC.

Beaney also outlined some of the faculty's policy and practical initiatives for access to finance, including its contribution to the *Breedon Report*, David Petrie's part in scoping the role for the British Business Bank, the research on Enterprise Capital Funds published by the faculty in 2014, the *Business Finance Guide* and the publication later this month of *Creative Industries - Routes to Finance*.

"Government programmes need to be long-term and consistent, and provide flexibility in fund management and investment styles," he said. "They should not be narrowly focused by geography or sector. There should be a diversity of fund management teams." He also emphasised the essential role of high-quality corporate finance and accountancy advice.

The ICAEW has 2,000 members in Cyprus. Last year, Christiana Diola, the institute's Cyprus representative, and Katerina Joannou, capital markets manager at the Corporate Finance Faculty, organised two very successful forums about private equity, co-hosted by KPMG in Nicosia and Limassol.

# CLYDESDALE AND YORKSHIRE BANKS JOIN THE CORPORATE FINANCE FACULTY

The specialist and acquisition finance (SAF) team of Clydesdale and Yorkshire Banks has joined the Corporate Finance Faculty.

The SAF team aims to redefine specialist lending to SMEs and owner-managed businesses in the UK. With a team of over 150 in seven key centres nationwide, it has developed a series of targeted lending propositions, focusing on the dynamic SME and mid-market segments of the UK economy to augment its existing debt-based offerings.

In addition to these specialist sector propositions, SAF continues to provide a full range of offerings including acquisition finance, true cash flow lending for larger SMEs and a venture debt offering - growth finance. The bank has a 178-year heritage in providing banking facilities to larger regional businesses. The specialist sector approach includes single dedicated national teams focused on areas such as hotel development, insurance broker finance, marine finance and automotive tooling finance.

David Hayers, head of growth finance at Clydesdale and Yorkshire Banks, said: "Clydesdale and Yorkshire Banks' SAF team has joined the ICAEW's Corporate Finance Faculty because it contains the country's largest community of corporate finance professionals and plays a vital role in the corporate finance market in the UK. Being part of such a community will be important for SAF as it continues to expand its remit."

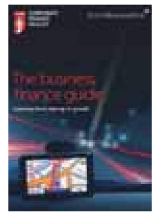
The wider SAF team includes around 40 chartered accountants or other professionals with experience of working in industry or private equity. These higher skill levels enable a quick and accurate understanding of a company's funding requirements. They are decidedly not taking a 'one size fits all' approach.

The size of the team and the approach enables the SAF team to provide the necessary speed, agility and flexibility in terms of decision-making. This is bringing a new and different challenge to the market. Furthermore, credit directors regularly attend customer meetings to ensure more informed decisions are made. As Graeme Sands says in the profile on pages 27-28 of this issue, the team puts the "right person with the right knowledge in front of the right customer at the right time".

David Hayers

## NEWS IN BRIEF

**Mariana Mazzucato** has been appointed as an economic adviser to leader of the opposition, Jeremy Corbyn. Mazzucato, chair of the Economics of Innovation at the Science Policy Research Unit in the University of Sussex, featured in the July/ August 2015 issue of *Corporate Financier* (see 'What UK Plc needs'). Her acclaimed book *The Entrepreneurial State* was also reviewed in September 2013 (see 'State of Flux').



***The Business Finance Guide***, published by the Corporate Finance Faculty and the British Business bank, is being reprinted. Since it was first published, 750,000 hard copies have been distributed to advisers, businesses, investors and lenders, in the UK and overseas.

In September, the Corporate Finance Faculty's **Middle East Network** took part in a discussion with ICAEW members and guests at Jumeirah Emirates Towers in Dubai, UAE to discuss the impact of lifting Iran's sanctions. Panellists included Dr. Theodore Karasik, geo-strategic and political economic analyst; Parham Gohari, co-founder and partner at Frontier Partners; Ali Borhani, founder of Incubeemea; and Sheila Shadmand, partner-in-charge at Jones Day. The discussion was moderated by PwC partner Mo Farzadi. The expert consensus was that the lifting of sanctions against Iran would significantly boost its economy, and positively affect the neighbouring Gulf Co-operation Council economies, especially the UAE, due to its solid trading infrastructureand outward-looking perspective.

ICAEW head of corporate finance **David Petrie** represented the ICAEW at the inaugural meeting of the FEE Financial Services and Capital Markets Union task force in Brussels on 5 October. The purpose of the group is to co-ordinate a response to the EU Capital Markets Union (CMU) project, on behalf of the 47 institutes of professional accountants and auditors from 36 European countries, including all of the 28 EU Member States.

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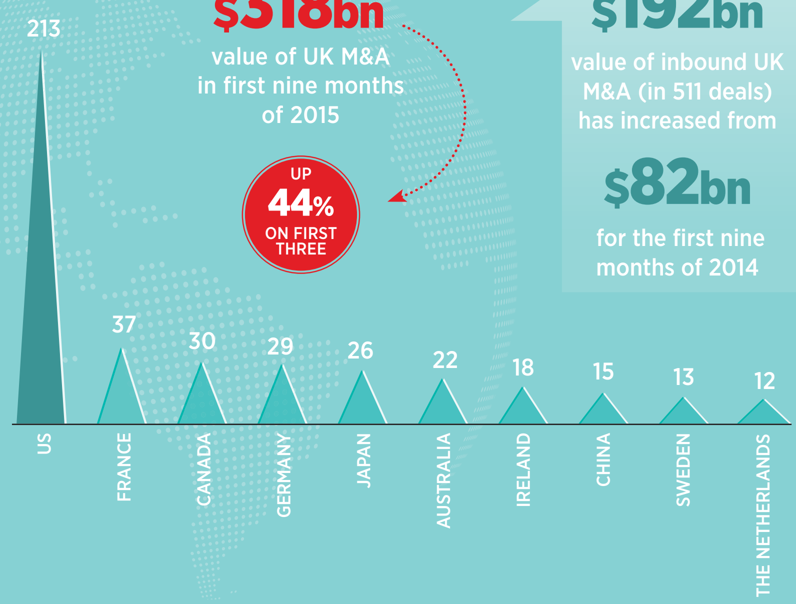
# In numbers

Global M&A on the rise, oil and gas boost, global private equity fundraising experiences third consecutive decline and London IPOs suffer

## TOP 10 INBOUND ACQUIRERS
by volume




**$318bn** value of UK M&A in first nine months of 2015

UP **44%** ON FIRST THREE

**$192bn** value of inbound UK M&A (in 511 deals) has increased from **$82bn** for the first nine months of 2014

SOURCE: EY

**$476bn** value of M&A in the oil and gas sector in the first three quarters of 2015

**20%** INCREASE ON THE SAME PERIOD IN 2014

**32%** increase in value of global M&A

2014

2015 FIRST 3 Qs

**$3.2trn** value of global M&A

FROM JAN TO SEPT 2015

SOURCE: THOMSON REUTERS

**111** up to...

**71** an increase from...

**56%** rise in number of deals by alternative debt providers in the UK and Europe in the first half of 2015

SOURCE: DELOITTE ALTERNATIVE DEAL TRACKER

**$340,000,000,000**

value of private equity exits globally in **first three quarters of 2015**, held up in Q3 by trade exits as IPOs, secondary sales and restructurings tapered off

**$116.9bn** value of global private equity fundraising in **Q3 2015**

DOWN FROM

**$129.3bn** in the previous quarter and the third consecutive decline in fundraising

SINCE

**$164.9bn** was raised in Q4 2014

SOURCE: PREQIN

**6** IPOs in London in Q3 2015 raised just **£194m**

VS

**19** in Q3 2014, which raised **£1.5bn**

SOURCE: EY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L-R: ICAEW president Andrew Ratcliffe, Kara Stein and ICAEW executive director Robert Hodgkinson

# CAPITOL HILL CAPITAL MARKETS

**Kara Stein**, a US SEC commissioner, recently spoke at the ICAEW. Here she outlines her views on disruption in international capital markets

From the industrial revolution and the emergence of corporations, the growth of railroads to the rapid developments in today's technology, the accounting profession has played a vital role in the development of modern capital markets.

Technological change is rapidly transforming business models, all but eliminating traditional borders. Digital disruption – more and more data, available nearly instantaneously around the globe – both connects us and overwhelms us.

The changing landscape is transforming financial markets too. Investors, and others, are accessing and analysing massive amounts of information from sources such as social media – unimaginable just a few years ago. At the same time, technology exposes new risks. A glitch could leave investors and markets temporarily frozen, flood the market with millions of erroneous orders or upset an initial public offering. A cyber attack could undermine an exchange.

I believe there are opportunities in this data-driven world for accountants to lead and provide new approaches to the traditional disclosure space, including providing investors with transparent, straightforward information about the stability of a corporation.

If data is opaque, unreliable, or not useful for decision-making what good is it? Accountants' expertise in summarising and presenting information makes them ideally suited to play a crucial role in ensuring the reliability and accessibility of the data that now drives our capital markets.

## 1. GAPS IN REPORTING

Many of the world's most disruptive businesses rely heavily on intellectual and human capital. Investors in innovative companies find themselves facing an increasing gap between the market value of an enterprise and its tangible net assets.

Many companies have begun providing information on economic, environmental, social, and governance matters – sustainability reporting. Some of these reports are being combined with traditional financial reports in an effort to address some of these informational gaps. Accounting standards need to evolve to meet the needs of investors in the digital era.

Accounting standards information provided to investors must be relevant, reliable and timely to be useful. The key in my mind is not necessarily to converge for the sake of convergence, but rather to expand timely access to information and provide for understanding differences.

## 2. GOING CONCERN

The financial crisis exposed fears that auditors were remaining silent about going-concern issues when they should have been sounding the alarm. The issues are complex because they deal with uncertainties and future events, but investors and creditors expect the auditor to raise concerns when a firm's survival is in question, to provide important transparency. This is an area that is ripe for disruption. Current disclosures, if they are triggered, are mainly binary. Shouldn't firms and auditors provide a thorough discussion of the material risks and how those risks are being addressed?

## 3. CYBER SECURITY

Technology and borderless business are changing not just types and forms of data and information that capital market participants need, but also the risks that these market participants face. Cyber security has become one of the most significant issues affecting investors, corporate issuers, and financial institutions. Insider trading was once the purview of the 'insiders' in the financial markets. We now face a whole new battleground that could fundamentally reshape the risks that investors and market participants face.

Much of our approach has been to rely on broad principles to improve systems integrity for key market participants. But who is checking to see if those are working? Let us try to tap the innovation, professionalism, and credibility of accountants to renew the confidence that investors have in our markets and companies.

US President Barack Obama appointed **Kara Stein** as commissioner to the Securities & Exchange Commission in 2013. Before working on Capitol Hill, she was an associate at the law firm of Wilmer, Cutler & Pickering.

# MAJOR MINER

**Despite the inexorable drive towards cleaner energy, coal mines are still being developed. Brian Bollen looks at Australia's Prairie Mining Ltd's listing in Warsaw and London as it seeks to become Europe's premier coal producer**

More than 200 years ago, coal was the fuel of the industrial revolution, the black gold that powered the British Empire. In the 1980s coal mining slid into near irrelevance in the UK, following the battle between the National Union of Mineworkers and the Conservative government. Widely recognised as the most polluting fossil fuel, it has been pushed down the pecking order over the last two decades, as developed countries made the dash for gas.

While coal is shunned in many developed countries as they move towards cleaner energy, coal does remain something of a mainstay in less developed countries. The presumption of the death of the coal industry is perhaps a little premature.

In September, shares in Prairie Mining, a Perth-headquartered coal development company listed on the Australian Stock Exchange, were traded for the first time on the main boards of the London Stock Exchange (LSE) and Warsaw Stock Exchange (WSE). It is the first Australian-listed company to also be quoted on the Warsaw exchange, and only the third Australian company to have a dual listing in Australia and on the main board of the LSE. In the short term the listings have been designed to raise profile rather than finance.

**722 MILLION TONS**
**THE LUBLIN COAL PROJECT'S RESERVES**

**$640M**
**PRAIRIE'S ESTIMATED TOTAL FINANCING NEEDS**

Though its primary listing is Down Under, the company's flagship project is in industrial Europe. The Lublin Coal Project (LCP) is an advanced, large-scale premium coal project in south-eastern Poland. The reserves are currently estimated at 722 million tons.

According to Prairie Mining's chief executive, Ben Stoikovich, modern technology and techniques mean they could mine coal at an even lower cost than its neighbour, the Bogdanka mining operation, which is currently the lowest cost producer of premium coal in Europe. Stoikovich is a mining engineer and corporate finance executive. He trained as the former with BHP Billiton before a spell as senior executive in investment banking at Standard Chartered in London.

Contrary to some misconceptions, coal mining has long been tightly regulated in Poland, in terms of both

**ADVISERS**
*UK solicitors to Prairie Mining:* Berwin Leighton Paisner
*Polish legal counsel:* Linklaters
*Australian solicitors:* DLA Piper
*UK Registrars:* Computershare Investor Services
*Auditors:* EY

administration and environmental impact. Stoikovich adds: “It has been a key strategic industry for the country for over a century, and while a number of permitting and environmental laws have had to be harmonised with European Union requirements, they were already highly developed.”

## FUNDING STRATEGY

The 517-page English-language prospectus was passported into Warsaw by the London listing. The Warsaw listing may have been to raise the profile of the business, but it also provides the company with access to new pools of capital, such as Polish mutual funds and pension funds, as well as to retail shareholders in Europe. The London listing provides increased liquidity for its investor base, as well as access to significant pools of capital, including large UK institutional shareholders.

“The Warsaw listing is key to our strategy,” says Stoikovich. “We believe the equity and funding that we expect to need will be available locally when we begin to raise funds in late 2016 or early 2017.” The current estimate is that they will need $640m (£422m). It is likely that London will provide a significant portion of that too. Stoikovich envisages that debt will account for 50 – 65% of the company’s total financing.

The board of directors has a successful track record of fundraising for natural resources projects such as large-scale coal projects. The company recently closed a deal with CD Capital, a specialist mining private equity investor in London, to fund up to $60m for the development of the LCP. Also, two members of the board were previously responsible for raising $2bn of debt and equity for the Maules Creek project in New South Wales – a similar venture to Lublin.

Alexander Keepin, a partner in the mining team at Berwin Leighton Paisner, acted as UK legal adviser to Prairie in relation to all elements of the listing. This involved liaising with the Financial Conduct Authority in relation to Prairie’s admission, and the passporting of its prospectus to Poland. He expects this flexibility to be most valuable when the company has the results of its pre-feasibility study (PFS) and moves to the next stage of development of the project.

The Lublin project is located close to well-established regional rail and port infrastructure. It is also adjacent to the Bogdanka coal mine, which has been in commercial production since 1982. Bogdanka has successfully demonstrated that the Lublin coal basin has the potential to host large-scale coal projects.

Bogdanka, for which Enea – Poland’s largest energy group – launched a $398m takeover in mid-September, has successfully demonstrated that the Lublin coal basin has the potential to host a new generation of large-scale coal projects. However, the very success of Bogdanka has created its own potential problems. In a series of court proceedings its owners have fought hard, but unsuccessfully, to lay claim to the Lublin deposits. While there is no guarantee they will stop arguing the case, Stoikovich is confident that Poland’s robust legal system eliminates what some might consider an additional risk that investors need to take into account.

He also takes comfort from the proposed takeover of Bogdanka: “It underscores the attractions of Lublin as a world-class coal basin, which will be key to Poland and Europe for energy security. Furthermore, our project will produce predominantly semi-soft coking coal, which is a commodity that is officially recognised by the EU as a ‘critical strategic raw material’. There is no substitute for this type of coal in steel-making, which is still a large and vital industry in Europe.”

“The Warsaw listing is key to our strategy”

**Ben Stoikovich**
**CEO, Prairie Mining Ltd**

### HERE’S THE DEAL

In September, Prairie Mining listed on the London and Warsaw stock exchanges, adding to its existing listing on the Australian Stock Exchange. The move is in preparation for the development of its flagship Lublin Coal Project (LCP) in Poland.

“The listings are expected to raise the profile of Prairie and facilitate the participation of UK, Polish and other European investors in our future growth,” says Prairie CEO Ben Stoikovich.

Prairie has appointed a joint team of consultants from Golder Associates and Royal HaskoningDHV Engineering to carry out a pre-feasibility study (PFS) for the LCP. The PFS will “support subsequent detailed technical and financial due diligence by strategic equity partners, offtakers and financial institutions” according to Prairie. The study is on track for completion this year, paving the way for the raising of an estimated $640m in debt and equity financing in 2016 or 2017.


# HIGH FLYING

An airship needs a lot of helium. But it also needs finance to get it off the ground. Stuart Rock looks at HAV, an ambitious Bedfordshire company that's on the way up

In a quiet corner of Bedfordshire, the world's largest aircraft is being built. The Airlander 10 is an aeroplane/airship/hovercraft hybrid that has the capability to travel for weeks and land just about anywhere that's flat. Crucially, its USP is that its running costs are only 20% of those of a conventional aircraft.

The Airlander 10 started out as a secret, experimental project on the drawing board of the US Army. Its first flight in British skies is now scheduled for spring 2016. Created against the odds, it stands to become one of British aviation's most remarkable stories.

Hybrid Air Vehicles (HAV), the company behind Airlander, is the brainchild of visionary inventor Roger Munk (who died in 2010) and current technical director Mike Durham. It has a father-and-son pairing in Philip and Hwfa Gwyn as chairman and CFO respectively. Chief executive Stephen McGlennan does not have an aerospace background - he is a lawyer. It's a technologically radical company with business brains on top - which explains how it has managed to steer its remarkable course to date.

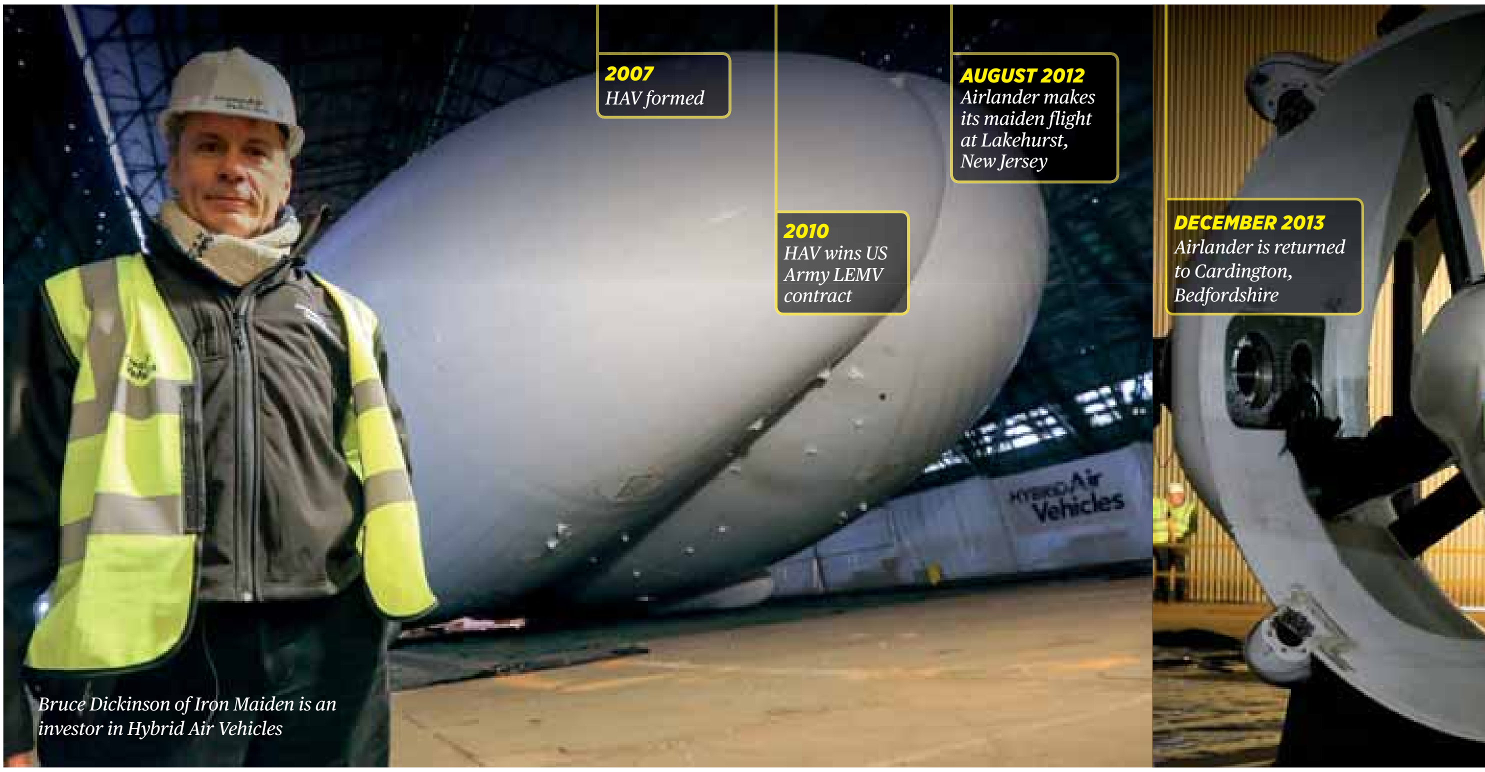
### STARTING UP

HAV was only three years old when, in 2010, it was part of a consortium led by Northrop Grumman that won the contract to develop the long-endurance multi-purpose vehicle programme (LEMV) - a US Army project to build a super spy in the sky that could conduct tasks such as detecting improvised explosive devices (IEDs) in Afghanistan.

The craft made its maiden flight in New Jersey in 2012. But then the project was cancelled as a result of budget cuts and the withdrawal of US troops from Afghanistan.

Throughout the LEMV development, HAV took the view that the design had far wider applications. "When LEMV was stopped, we put our case to repatriate the aircraft," says McGlennan. "We could take it forward and their money would not be wasted."

With the British Embassy in Washington pulling out the stops, HAV won over the Pentagon. Instead of it being cut up on an American airfield, the aircraft was demilitarised, disassembled and shipped to Cardington. The giant hangar in Cardington in Bedfordshire was the only place in the UK that could house it, having originally




*Bruce Dickinson of Iron Maiden is an investor in Hybrid Air Vehicles*

## MANY TALENTS

On paper, there are many potential applications for the Airlander. Mining companies, for example, could use it to ferry people and equipment into remote locations, as well as carrying commodities out. By removing the need to build the transport infrastructure, once-stranded mining assets could be made economically viable.

Given that the Airlander was originally designed for military surveillance, there are several equivalent uses in the civilian sphere – from scientific research and coastguard duties to disaster relief and filming operations – as well as data gathering and communications roles.

With a keen eye for history, McGlennan notes that developments and innovations in the aerospace industry have always taken years to come to fruition. "Frank Whittle filed his patents for a jet engine in 1930, but it wasn't until the end of the Second World War that his technology gripped."

been built for airship manufacturing in 1915.

The LEMV programme cost the US government approximately $300m (£197.5m). HAV retained the intellectual property of the hybrid design and bought the business and assets for $301,000. They had acquired $90m-worth of R&D paid for by Uncle Sam.

## FUNDING NEEDED

Having got it safely back to Bedfordshire, further rounds of finance were going to be required to make the Airlander a certified, airworthy craft with a commercial future. Raising equity finance and securing grant funding were key.

The mix of private investor and grant money is mutually reinforcing. "Grants have a catalytic effect," notes HAV's finance director Gwyn. The award of a grant validates a product for private investors, who can take comfort from the technical due diligence conducted by the government agency. And the wealthy individuals can 'stick with the story', and commit to follow-on rounds because of their personal commitment to the project.

"Our angels always knew that they would have to follow on; by and large, they have all done so," Gwyn comments.

The first tranche came from a £2.5m grant from Innovate UK; alongside this was an investment from a group of business angels, including Bruce Dickinson, front man for the rock band

> "We have only ordinary shares. I don't like preferences and convertibles – they are unpredictable"
>
> **Stephen McGlennan,** CEO, Hybrid Air Vehicles

Iron Maiden – who is also a part-time pilot. "He's super passionate, with a portfolio of interests in aviation," says Gwyn.

In February this year, HAV received a £3.4m grant from the UK governement's Regional Growth Fund, which in turn unlocked further private investor investment. Over the summer, HAV embarked on a third equity-raising round – this time from the crowd. Through the Crowdcube platform, the company raised £2.36m and welcomed 983 shareholders. This then helped HAV to win matched funding, the company receiving EU grants from the Horizon 2020 scheme.

In addition, the move towards crowdfunding was a deliberate step to build greater awareness of the project. "The crowd creates a market and


shows that there is real interest in the Airlander out there," says Gwyn.

This third round of equity and grant finance has cleared the runway. It gave HAV the green light to formally start its return-to-flight programme. The company has applied for official authorisation to fly. It is set to double its workforce to about 80 employees by hiring more specialist engineers for the project. Contracts are being signed, notably with industrial gas suppliers BOC Group, for the 38,000 cubic metres of helium that will fill the body of the plane.

Further out, there is the possibility of one final fundraising round before an IPO, which would be aimed at securing a small number of cornerstone institutional investors. McGlennan is focused on an IPO, he says most probably on AIM, late next year or the first half of 2017. A former senior partner and board director of international law firm Dentons, he has been keen to keep HAV's corporate structure stable and simple.

"We have only ordinary shares," he says. "I don't like preferences and convertibles - they are unpredictable. There are two investor classes: A-shares for the original founding investors and individual investors, and B-shares with precisely the same rights for family offices and institutions. Economically, they are all the same. It will make it very straightforward when we make the transition to being a listed company."

But an IPO has to wait until the first Airlander has flown and some initial orders have come from credible purchasers. After many fundraising rounds and grant applications, the biggest and best money is going to come from customers. Here, HAV is confident that it is creating a substantial new market. Its studies lead it to believe that there could be a market for 650 of these aircraft.

## THE HOME STRAIGHT

But HAV will face competition. At this year's Paris Air Show, Lockheed Martin announced its intention to enter the hybrid airship market. The US corporation, which was a failed bidder for the original LEMV contract, said that its research indicated a sizeable market for airships.

HAV is also confident that the Airlander has economics in its favour. With fewer components and tiny fuel bills, it's estimated that its running costs will be 20% of an equivalent-sized conventional aircraft.

Of course, setbacks are bound to happen, they just do in ambitious aerospace projects. But there is no doubting the steely optimism in McGlennan's voice. "This is a project that is inspiring and focusing people," he says.

A century ago, Bedfordshire was at the cutting-edge of the aviation industry. Now it is again. And if HAV demonstrates the commercial viability of the market, it will only be a matter of time before the giant aerospace companies come knocking.

GETTY

## THE ENGINEERING

Mankind has been flying in hot air balloons for longer than any other form of aerial transportation, and the principle of the hybrid airship has been around for many decades. The big break has been with the sheer enormity of the development costs. In Airlander's case, these were paid by the US Department of Defense.

The Airlander is a hybrid of an aeroplane and an airship: 60% of its lift comes from the free lift of the lighter-than-air helium that fills the hull; up to 40% of its lift comes from the aerodynamic wing shape of the aircraft. Its engines can rotate and direct their thrust in any direction.

A slew of technological innovations make the previously impossible, possible – from the skin to contain the helium to the lightweight composite materials for the cockpit.

Oh, and one more thing: don't mention the Hindenburg and other disasters of the past. You'll betray your ignorance. Those airships were filled with hydrogen, which is highly flammable. Helium isn't.

# ENTREPRENEURIAL EXPEDITION

In 2014, the French private equity industry saw a 22% increase in the amount committed by private individuals and family offices. Amy King looks at lessons to be learnt from the Entrepreneurs Funds Club founded by Afic

The local entrepreneur community may not be as large as its Anglo-Saxon counterparts, but entrepreneurs have increasingly come to define the French investment industry. "The problem with the French," George W Bush is rumoured to have said to Tony Blair, "is they don't have a word for entrepreneur."

François Hollande's newly-elected government in 2012 revealed plans to tax capital gains at the same rate as income. In a campaign spearheaded by Jean-David Chamboredon, chairman and managing director of venture fund ISAI, the French entrepreneur-investor community rallied against the proposals. The collective proved a worthy opponent to the government, and the plans were retracted.

"There are 17 funds in this club that can share experience"

**Jean-David Chamboredon,** chairman and managing director, ISAI

## JOIN THE CLUB

Three years on and entrepreneurs have continued to cement their position as investors. Realising their increasingly important contribution to the investment landscape, the national private equity and venture capital association, Association Française des Investisseurs pour la Croissance (Afic), has established the Club des Fonds d'Entrepreneurs (Entrepreneurs Funds Club).

Launched in late 2014, the club's members manage venture, growth capital and small buy-out funds, all of which draw significant capital contributions from entrepreneurs and business leaders. By April 2015 club members had raised about €615m (£456m), €450m of which was committed by roughly 900 investors.

Chamboredon's ISAI, which counts more than 100 tech entrepreneurs among investors in its fund, belongs to the club. "This is a good initiative," says Chamboredon. "There are already 17 funds in this club that can now share experiences and interact in a unified manner with the public authorities."

One area of focus for the club is the loosening of

**€1.58BN**
CONTRIBUTIONS FROM PRIVATE INDIVIDUALS AND FAMILY OFFICES IN 2014

**MEMBER FIRMS**

1. Aurinvest Partenaires
2. Breega Capital
3. Fa Dièse
4. Hi Inov
5. Isai Gestion
6. Newfund
7. Agregator
8. Alter Equity
9. Ardens & Associés
10. Axio
11. Capital Croissance
12. Capitem
13. Elige
14. GEI/Poincaré Gestion
15. Pléiade Venture
16. Tertium
17. Cap Ouest

## INTERNATIONAL EXPANSION

Founded in Paris in 2009, StickyADS.tv is a video advertising platform backed by ISAI since 2011. Having approached several venture capitalists (VCs), the business quickly realised the benefits of investment from an entrepreneur-focused fund.

Hervé Brunet, chief operating officer and co-founder of StickyADS, says: "This kind of money comes with advisers and a network. If we have a problem we can reach out to ISAI who can connect us to one of the 100 tech entrepreneurs that invest in their funds."

In 2013, StickyADS.tv raised a €3.1m series-B round led by Ventech, with co-investment from ISAI. "We chose them because at that point we wanted to take the company to a global stage," says Brunet. "Ventech has an office in Munich, which was one of our key markets, and an office in Shanghai – that's the longer-term view." Hoping to expand its US customer base, the company is now considering raising finance from an American VC.

restrictive regulation. According to club vice president Éric Neuplanche, founder of growth capital investor Capital Croissance: "We have exactly the same rules as big buy-out funds. We are trying to soften that."

The club also hopes to foster a structured approach to government lobbying on behalf of France's entrepreneur funds. Adds Chamboredon: "A good example of an initiative that the club should have is to make sure taxation schemes for private individuals are consistent, competitive and act as an incentive, and to propose amendments if this is not the case."

"We want to invest in a way that has a positive impact on society"

**Fanny Picard,** founder, Alter Equity

## FLOW OF CAPITAL

Sparked by an underlying tax relief that incentivises investment in third-party vehicles, entrepreneur funds have also been fattened by the swelling pool of capital amassed by web entrepreneurs. Having launched seed funds and small buy-out vehicles with capital raised through the sale of their businesses, entrepreneur funds now provide a solution for those individuals wanting to re-invest profits.

This source of capital is growing in France. According to Afic statistics, in 2014 private individuals and family offices contributed €1.58bn to French private equity and venture capital funds – a 22% increase on 2013 figures – only €43m less than insurance companies did. Private individuals and family offices now represent the third largest investor type in the market, committing just 3% less than insurance companies.

Reflecting this groundswell, more than half of the club's members have launched in the past three years. Neuplanche estimates that managers of entrepreneurs funds now hold about €1bn for investment in the country's start-ups.

In spite of these positive figures, France has not enjoyed the incentives introduced in the UK, where the Enterprise Investment Scheme and Seed Enterprise Investment Scheme have played a central role in encouraging private contributions to investment funds, many of which have acted as sidecar vehicles, co-investing alongside the country's active network of business angels.

But despite enjoying schemes that are absent elsewhere in Europe, Jenny Tooth, CEO of UK Business Angels Association, is convinced more can be done in the UK. Acknowledging the significant contribution of entrepreneurs that invest directly as angels, she says: "We still have some challenges in this country. We need to look at the threshold on entrepreneurs' tax relief and the support we give to encourage businesses to stay in this country, grow and re-invest capital back into other small businesses."

Taxation structures continue to top the agenda, both at home and abroad, throwing down challenges for those wishing to invest in local businesses. Nevertheless, given the increasing prominence of private investors to the French business community, any attempt to nurture the relationships between industry, individuals and government has been welcomed in a country that gave the world the term entrepreneur.

**22%**

INCREASE IN PRIVATE INDIVIDUALS AND FAMILY OFFICES CONTRIBUTIONS FROM 2013-2014

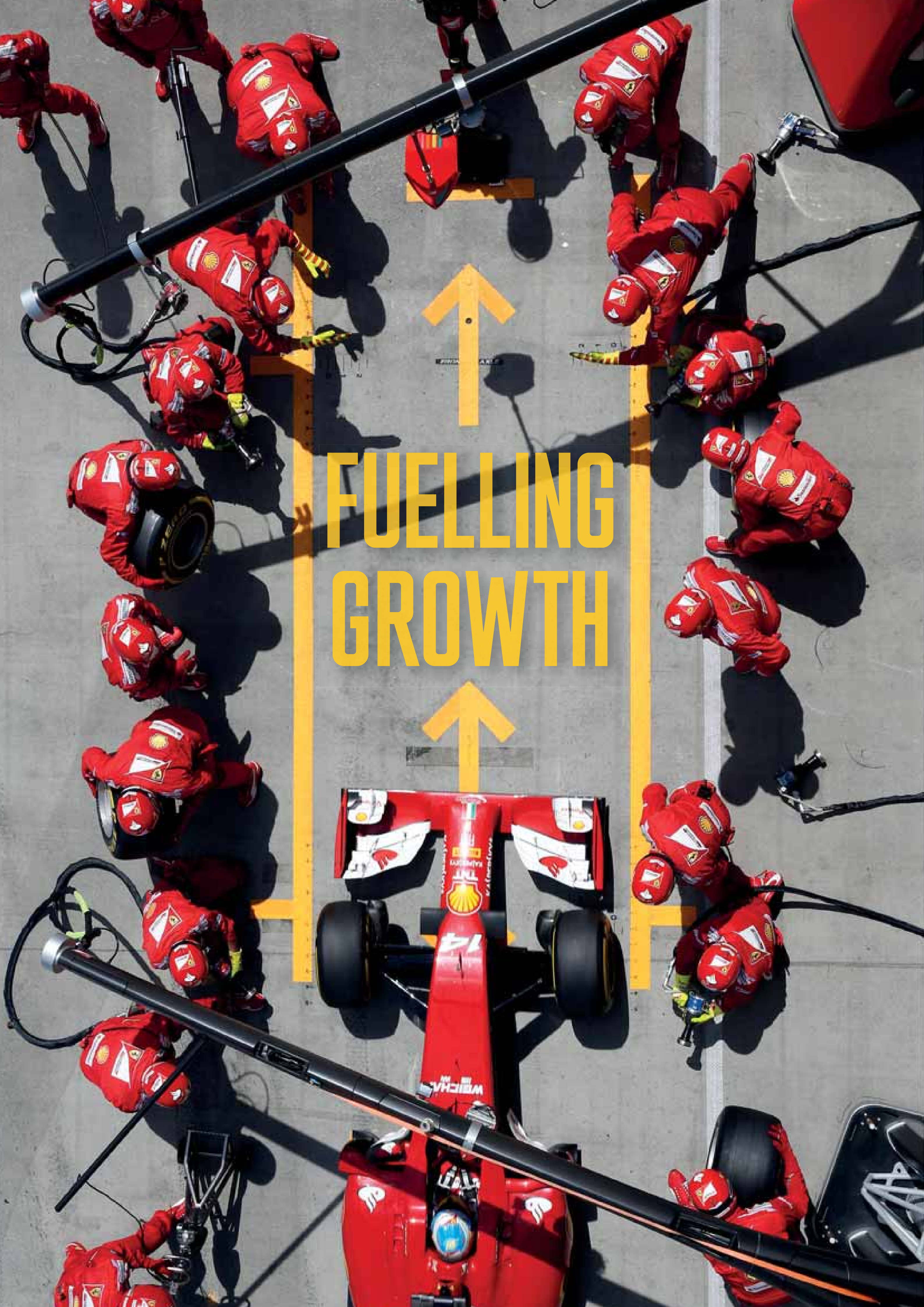
## PR ROLE

With an average size of just €40m, the managers belonging to Afic's Entrepreneurs Funds Club have limited resources to improve communications with the French public. Though the primary function of the club may be communication channels with government, it has a secondary role: public relations.

"Most private equity funds are considered financial actors, so to promote investors as successful entrepreneurs is a very good way to make private equity as popular as possible with the French public," says Emmanuel Picard, partner at EY.

Indeed the club wants to widen the definition of private investment. Founded by entrepreneur Fanny Picard, Alter Equity is an impact investment fund: "We want to invest in a way that has a positive impact on society. Sustaining this club and its range of members illustrates that there are different ways of investing, and that is something we want to show."

# FUELLING GROWTH



## M&A MAY BE A STRATEGY FOR ROLL-OUTS, A PUSH INTO NEW MARKETS OR, OF COURSE, THE FIRST STEP TOWARDS GROWTH. GETTING FINANCE AND THE RIGHT CAPITAL STRUCTURE IN PLACE IS THE NEXT. GRANT MURGATROYD TAKES AN IN-DEPTH LOOK AT GROWTH CAPITAL

Growth is firmly back on the agenda. In its latest annual *Global CEO Survey*, KPMG found that growth is the key priority for 89% of business leaders, following six years of risk-aversion and cost cutting. Fewer than a third of CEOs felt that they were not taking enough risks to achieve growth, compared to the 65% who felt that they were taking an appropriate amount of risk.

But earnings growth has been hard to come by for UK Plc, for example. Earning before interest, tax and amortisation (EBITDA) across FTSE 350 companies has barely grown over the past five years, coming in at £252bn in 2014 compared to £247bn in 2010, despite significant cost and efficiency savings, according to another KPMG report, *Ready Steady Grow*, published in August 2015.

Some investors have placed increasing reliance on consistent or even annuity-like dividends, with the result that dividend payout ratios have risen to unprecedented levels, up from 39% in 2010 to 54% in 2014. KPMG predicted that the payout ratio would continue to climb, but cautioned that earnings must improve to sustain dividend growth. So what needs to be done for genuine earnings growth?

### CAPITAL FOR GROWTH

In a continued development from recent years, the availability of capital is not a major constraint to UK growth. Albion Ventures' *Albion Growth Report 2015* revealed that access to finance has slipped down the list of CEOs' concerns to number six.

"Financing markets are not only highly liquid but have evolved and developed," says Tim Nicholson, director in capital advisory at KPMG. "What we have seen is a huge proliferation of different sources of capital, particularly with the emergence of direct lending from credit funds. This is providing a much broader range of funding opportunities for borrowers, including structures and products that allow businesses greater flexibility to invest and focus on their future growth. There's been a blurring at the edges with both traditional and alternative lenders - and sometimes together - now providing funding on a much more holistic and flexible basis across the capital structure, rather than what historically would have been classified as senior or junior debt."

The phrase 'growth capital' has changed in meaning. No longer does it apply to equity. Instead practitioners use a wider, more flexible definition of any form of external finance that enables a company to pursue a growth strategy. "It is capital that needs to be injected into the business to stimulate or facilitate growth, either organically through investment into Capex, R&D or working capital, or inorganically through buying a competitor," says Max Mitchell, head of direct lending at alternative asset and investment fund manager Intermediate Capital Group (ICG).

There is no matrix that says new acquisitions need to be funded by equity or new working capital must come from debt. First, not all funding solutions will be available to every company. "Generally bigger and

**£252BN**
EARNINGS ACROSS FTSE 350 COMPANIES IN 2014

**54%**
DIVIDEND PAYOUT RATIOS IN 2014

**£375BN**
INJECTED INTO THE UK ECONOMY THROUGH QUANTITATIVE EASING


## ALL CHANGE FOR VCTs?

Venture capital trusts (VCTs) are a form of state aid for SMEs. As such, the scheme is under scrutiny from European regulators. The first draft of the Summer Finance Bill 2015 proposed a tightening of the rules for qualifying companies. The maximum amount a VCT or Enterprise Investment Scheme (EIS)-qualifying company can receive over its lifetime will be limited to £12m (£20m for 'knowledge intensive' companies).

Qualifying companies will have to have made their first commercial sale in the past seven years, (10 years for 'knowledge intensive' companies). And state-aided money (including investments that qualify for tax reliefs) will only be able to be used for new capital, meaning that VCT or EIS money can no longer be used to fund management buy-outs and acquisitions.

The UK VCT and EIS sector is lobbying hard about the proposed new regulations. "The focus from the government is securing approval for these schemes," says Guy Rainbird, public affairs director at the AIC. "Re-approval is required because Europe brought in new risk capital guidelines at the beginning of this year and the UK had agreed in 2012 that if new guidance came into force it would revise the schemes accordingly."

The new rules will force VCT and EIS money to be used in a purely growth capital sense. Several VCT firms declined to comment on the proposals, given the legislation was still in draft.

"Companies won't be able to use money from VCTs or EISs to make acquisitions of other businesses," says Stuart Veale, managing partner at VCT manager Beringea, which focuses on growth capital investments. "The consequence is that it's going to be very difficult for VCT funds to finance management buy-outs. Fund managers who have done management buy-outs in the past are not happy about this, but their protests are falling on deaf ears." So far.

"We have seen a proliferation of different sources of capital"

**Tim Nicholson,** director in capital advisory, KPMG

"Capital needs to be injected into the business to stimulate growth"

**Max Mitchell,** head of direct lending and investment manager, Intermediate Capital Group

better companies will be regarded as less risky and will have access to the broadest range of financing solutions, including cheaper debt capital," says Mitchell. "Smaller companies may not have sufficient collateral or track record to be able to raise debt, and therefore might be more reliant on more expensive capital, which would be more equity-like."

Second, not all solutions will be appropriate for every company, even if they are available. For the company there is a clear trade-off between risk and cost. Bank loans may be the cheapest, but interest must be paid, and ultimately the capital too. Bringing in new shareholders means no interest or repayments, but might require giving up some control, as well as some future value.

Asset-based lending (ABL) is a perfect example of the increasing fungibility of capital. "The perception is still that it's working capital-based, but a lot of the larger transactions that we do are quite event-driven," says Peter Ewen, managing director at ABL provider ABN Amro Commercial Finance. "The good thing is that you can finance growth without giving away bits of equity. We see ourselves as very much a partner in the growth of a business."

Partnership is key to the approach of most capital providers, particularly (but not exclusively) at the equity end of the growth capital spectrum. "Growth capital is the provision of long-term capital and expertise, which can allow a company to take a risk on pursuing an opportunity to grow its revenues at a significantly greater rate than would otherwise be the case," says Ashley Broomberg, a partner at private

equity firm Mobeus Equity Partners. "Growth equity is frequently wrapped in the provision of some sort of value-added expertise. It's not only about giving a company the financial resources, but also the human capital to take a risk on pursuing growth."

The big banks see the opportunity in growth capital too. Santander has recently launched a growth capital business, aimed at supporting SMEs. Guy Rigby, head of entrepreneurs, tax and business services at Smith & Williamson, applauds the move but says that it is not growth capital in practical terms. "I would personally define growth capital as equity," he says. "You can have venture debt and things like that, but it tends to rely on the strength of the equity position in a company. Nobody's going to over extend debt funding to an undercapitalised business."

### PLUGGING THE GAP

With unprecedented - and the word is not used lightly - amounts of capital available, you would think that all companies could pick and choose their financing package from a wide range of options. You'd be wrong, particularly for smaller companies. Gavin Petken is the Midlands regional director at the Business Growth Fund (BGF), the growth-capital investor backed by the five major banks. "Private equity money has flown towards the bigger-cheque deals. BGF was established to fill the gap that was left behind," he says. "We're very clear about our mandate, which is to help smaller and mid-sized companies raise initial funding of £2m to £10m."

Harold MacMillan identified the problem of

"A lot of our larger transactions are event-driven ... We see ourselves very much as a partner in the growth of a business"

**Peter Ewan,** managing director at ABN Amro Commercial Finance

## REAL BARRIERS TO GROWTH

Red tape is the number one barrier to growth for SMEs for the third year running, according to Albion Ventures' *Albion Growth Report 2015*. The result doesn't surprise deputy managing director Will Fraser-Allen: "If you ask anybody 'do you want less regulation in your business?' what would they say? I think people fear the consequences of breaching red tape more than the fact that they need to operate to a set of rules."

The report found that difficulties in finding skilled staff is a bigger challenge for SMEs in 2015 and has risen to the second most important concern. However, access to finance continues to decrease in importance as a barrier to growth, slipping to sixth in the list, partly as a result of initiatives such as *The Business Finance Guide*, published by the Corporate Finance Faculty and the British Business Bank in 2014.

"Skilled labour is becoming more difficult to find, which is a consequence of economic growth," says Fraser-Allen. "How does one react to that skills shortage? It's about how you treat your employees, where you are located, paying market rates, having structured career paths and acknowledging that people have a desire for greater flexibility."

It's not just a skills shortage with staff, according to Guy Rigby of Smith & Williamson: "Leadership skills are a barrier. Most companies that are doing well don't have trouble accessing finance. A lot of the challenges are people-related – access to talent, to leadership, to people who have been there and done that."


"Growth equity is not only about giving a company financial resources, but also human capital"
**Ashley Broomberg,** partner, Mobeus Equity Partners

companies raising £250,000 in 1931 and coined the term 'equity gap'. Ever since then, governments have been trying to solve the problem. 3i was hugely successful for decades in doing that, but as a listed company it moved on to bigger ticket sizes. Adjusted for the RPI, £250,000 in 1931 is £14.8m in today's money.

Since it was established in 2011, the BGF has invested close to £600m in a total of 97 announced transactions. It has £2.5bn to invest. "We've only just scratched the surface," says Petken. "We feel that the appetite is there and we set up a regional platform so we are very close to businesses we want to invest in and have invested in. We don't need to be in control. We're very fortunate the balance sheet gives us longevity, and the volume that we're transacting gives us diversity. So we can take a different approach to that taken by traditional private equity and bank lending. It's all about the risk-reward curve. The structure we offer to the management team is appropriate for the risk we see and their ambition."

## SMALL ISN'T ALWAYS BEAUTIFUL

Life at the smaller end of the growth capital market is challenging. It is not that the limited partners that invest in traditional private equity are not attracted to growth capital, or development capital as it sometimes called, but that they find it structurally difficult to commit small amounts to funds.

"We're in the process of closing our second fund and we've found that it is relatively easy to invest in that part of the market due to high demand combined with a limited supply of finance sources," says Stephen Campbell, an investment partner at Panoramic Growth Equity, which invests £1m to £3m in SMEs. "I think where there is a problem is that smaller funds are facing a scale issue. It's not growth capital that's the issue, it's the scale. We are targeting a return higher than mezzanine, but lower than a venture capital target return."

At the smaller end of the growth capital market, government schemes, notably the EIS and VCTs, have had a massive role in financing SMEs. That is now under threat (see box: *All change for VCTs?* on page 20). "VCTs have raised over £5.8bn from retail investors since they were introduced in 1995," says Will Fraser-Allen, deputy managing partner, Albion Ventures. "That's a substantial amount of money that has gone into growing SMEs. The tax breaks enjoyed by VCT investors have been very important in attracting that money."

Private equity money is driven by the need for an exit in three to five years, which does not suit all business owners. Petken cites the example of Dudson in Stoke-on-Trent, a supplier of tableware to the hotel trade. The 200-year-old business is family-owned and the family has no intention of selling, making it a difficult proposition for most equity investors.

"We came up with a structure which has more


loan notes in it than equity and so we've got a structural return from the loan note, and a small warrant," he says. "The owners want to pass business on to the next generation of the family and our investment allows them to do that. We listened to the situation and to what the business needed."

## BUT IS BIG REALLY BETTER?

European Union technocrats may be focused on micro schemes aimed at helping SMEs, but it is hard to overstate the importance of quantitative easing (QE) in bringing liquidity to the markets. The Bank of England has pumped £375bn into the UK economy through its monetary policy. "Are we hooked on QE?" asks ICG's Mitchell. "I don't think so. What has happened is that we have seen a general recovery in consumer confidence - which was helped by QE - and we probably are in sufficiently robust economic shape in the UK to be weaned off QE over time."

There is much debate about whether QE has fed into the real economy. It is undeniable that much of it has gone to strengthen the balance sheets of the banks. Companies that struggle to raise funds complain that they are not seeing the benefits of QE, but there is plenty available for the right credit. "Good companies can access capital in the form of both debt and equity," says Mitchell. "Bad companies will struggle as has always been the case. Governments and central banks over the last few years have put capital into the market and now it's a lot easier to raise capital than perhaps four or five years ago, at the height of the crisis."

GETTY, PA, CORBIS

"Skilled labour is becoming more difficult to find, which is a consequence of economic growth"

**Will Fraser-Allen,** deputy managing director, Albion Ventures

## CASE STUDY: SAILBOATS NEED A CREW

Tushingham Sails is a UK manufacturer of inflatable paddleboards with an 18% worldwide market share in a market growing at 40% to 50%. It has developed proprietary technology, improving rigidity of inflatable boards. The opportunity is tangible, but more than capital was needed to grow the company.

"They're successful entrepreneurs but they realised that they have a tiger by the tail," says Bob Henry, partner at Mobeus Equity Partners, which has just provided a £4m growth capital facility to the company. "They knew they would need help in putting a proper infrastructure in place and developing the company. This business is going to reinvest all the profits in building the market."

Mobeus had already worked with the company's founder Roger Tushingham, a former member of the British Olympic Team, to strengthen management. "We put in a chairman who we've backed before, and who's used to high growth environments," says Henry. "This was a business of 12 people in the UK and at the first board meeting we agreed on three hires. And I expect the next meeting will agree to more and it's about bringing in the next tier of management. We bring a strategic view looking forward for three or four years, rather than the typical management view looking forward to the next year."

# SANDS BANKS

Finding what makes the UK mid-market tick is key to helping such businesses grow. Marc Mullen speaks to **Graeme Sands**, head of Clydesdale and Yorkshire Banks' specialist and acquisition finance team

Passion, says Graeme Sands, the head of specialist and acquisition finance (SAF) at Clydesdale and Yorkshire Banks, is key to creating an innovation culture, as it seeks to cement its position as the leading challenger to the UK's big banks. Addressing the needs of UK mid-market businesses and looking for growth is at the heart of the SAF team's approach.

"Innovation is a culture, not a process. We encourage innovation, but changing a culture takes more than a year or two," says Sands. "It all starts with people having a passion for a particular sector or industry - they get an insight they could not get without the passion."

Sands joined the bank nine years ago, having trained with and worked in corporate finance at Price Waterhouse (now PwC). He then moved into CFO and general manager roles in the tech sector. Having been on both sides of the fence he understood that having a deep understanding of client needs, and the bank's own capabilities, is of paramount importance.

## CULTURE OF CHANGE

The SAF team draws together three elements of Clydesdale and Yorkshire Banks' business: debt solutions for private equity through acquisition or growth finance; support for larger SMEs and mid-market businesses throughout the UK; and deploying targeted debt solutions to solve funding problems for a number of underserved industry segments.

"If we can create innovative new products for under-served markets where there is less competition, then obviously that is fantastic," he says. "But if we have got a truly differentiated proposition, it does not really matter if there is greater competition or not - we can still prosper."

In April, a specialist automotive team, led by Kevin Rimmer and Heather Griffin, was set up to target tier one, two and three manufacturing businesses in the sector, with a particular focus on those requiring tooling finance.

In June, Elaine Reed joined from the Co-operative Bank to lead a newly-formed social housing team. With more than 30 years' experience in social housing, she aims to build a presence in the sector, focused on sustainable lending.

**GRAEME SANDS**

Sands trained as a chartered accountant with Price Waterhouse (now PwC) in Aberdeen before moving to Glasgow to work in their corporate finance advisory team. During that time he focused almost exclusively on the technology sector.

In 2001 he took the role of CFO with Edinburgh-based, VC-backed fintech business KAL. After four years he moved to being general manager at a larger software business, Graham Technology Plc, which was subsequently sold in 2006.

He then joined Clydesdale Bank, focusing mainly on larger leveraged transactions. He became regional director of specialist and acquisition finance, which he now leads, from the banks' Glasgow office.

In July, Matt Smith was appointed head of a new team of marine finance experts. The bank will allow marine businesses to raise finance of between £500,000 and £50m on a 70% loan to fleet value basis. In the past this would have been on a boat-by-boat basis, with the complexity and cost of multiple funders.

"Our best ideas will not come from market research or thinking that because other people are doing it we should be doing it too," says Sands. "Innovating and creating a differentiated proposition will genuinely be a much better way of supporting customers."

## ONE NATION

Although the SAF team has regional directors, it very much operates on a national basis. Sands says it is about putting the "right person with the right knowledge in front of the right customer at the right time". That will often transcend geography: "We are flexible and really do respond across the whole of the country - there are no gigantically different needs based on location. Differences are more sector specific."

The burgeoning number of challenger banks is helping to create a culture of innovation, making customers more receptive to it and providing a broader range of financing options.

"Clearly there has been a proliferation of different types of debt and equity funding solutions in recent years, and more customer choice is a good thing," says Sands. "Appropriate finance will find its way to customers who need it. We are not threatened by competition - we see ourselves as the principal challenger bank in the UK. Expanding provision is something from which we are more likely to benefit."

"We have deployed venture debt for about four years now," says Sands. "It has been a tremendous source of funding for businesses looking to expand internationally. We have invested about £70m in what we call 'growth finance'. Unlike other challengers, Clydesdale and Yorkshire have a far wider range of products that can assist with export strategies - the UK export finance scheme, the export working capital scheme, letters of credit and documentary guarantees, among others."

Supporting the growth of UK mid-market companies internationally is a particular passion of his. Last year the bank launched SME cash-flow lending to help businesses that have few tangible assets, but are looking to finance overseas expansion.

"If you want to open offices overseas there is a cost to doing it and you might have two or three years without a return," he points out. "We can look at the core earnings of businesses, lend against recurring cash flow and use that to help expand your business."

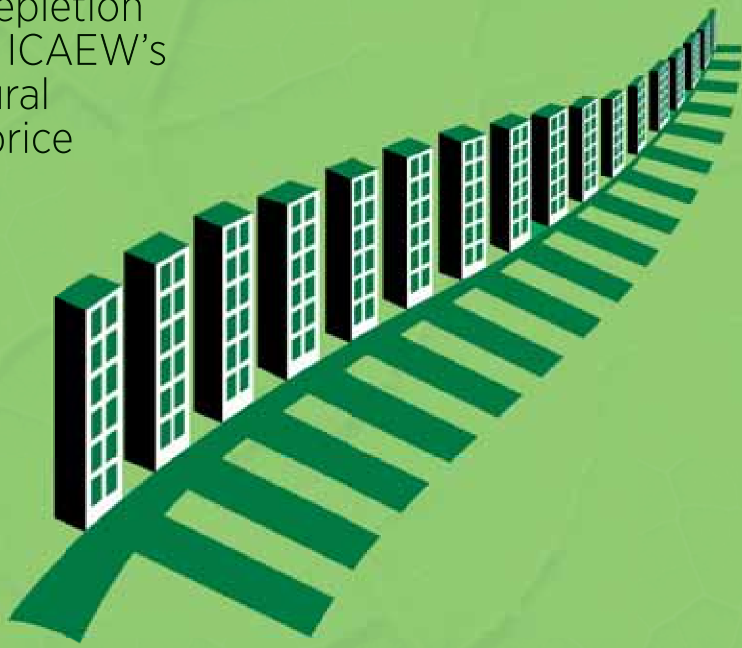
When it comes to innovation, of course not everything succeeds. There has been a period of perhaps unprecedented innovation driven by the markets and fintech advances.

"Not every business model will work," says Sands. "While I have no strong view on when there will be a shake out, or who will stand and who will fall, we will still have a wider range of funding options for mid-market businesses. A lot of the innovations will continue to be relevant in the future. I think our organisation will be more relevant, especially in the specialist markets where we have that passion for insight and innovation."

PHOTOGRAPHY: MARTIN HUNTER

# IT'S ONLY NATURAL

There is a cost to business of the depletion of critical assets. **Richard Spencer**, ICAEW's head of sustainability, looks at natural capital and why we need to put a price on running down natural resources



In looking at natural capital, basically the world's stock of natural assets, there is a question to be asked initially: how do I build information systems and decision-making tools into my business so that I understand my impact on the natural environment and then the impact of changes to the natural environment on my business?

How do you build in the impact to the price of widgets you might sell? Or make a decision as to whether you invest in widgets or in a company that makes widgets?

It is all well and good having empathy with the depletion of natural capital, but by prioritising natural capital in business planning and investments, companies stand to benefit in five mutually reinforcing ways:

## 1 RISK REDUCTION

By putting natural capital at the heart of business decision-making, a company can reduce threats to business continuity and harm to supply chains, facilities, workers and communities in places that are vulnerable to extreme weather, flooding, drought, fires, desertification or resource scarcity.

The business will also comply with, and stay ahead of, impending regulatory changes that could limit production options. By doing so they will avoid fines, suspensions, lawsuits and other liabilities due to excessive exploitation or contamination of natural systems. Finally, they will be in a better position to preserve their licence to operate in host communities and avoid damaging corporate reputation, reinforcing the sustainability of their business model.

## 2 BUSINESS RESILIENCE

The more you understand your business's relationship with the environment, both its dependency and its impact on it, the better placed you are to respond to shocks. You cannot know the future, and uncertainty is something business does not like, as opposed to risk, which gives business opportunity. But if your business is resilient it will respond to shocks by learning and adapting.

## 3 CUT IN COSTS

Valuing natural capital can be the starting point to boosting resource productivity and increasing resource efficiency by reducing ecosystem impacts. Businesses will save money by reducing waste and recapturing valuable materials that otherwise could harm ecosystems.

Avoiding costly manmade grey infrastructure can be done by opting instead for green infrastructure: investments in forests, wetlands, watersheds, and coastal ecosystems - often the cheaper, more effective long-term solution.

Businesses are more likely to explore natural solutions to cut costs on storm water management, flood mitigation, air quality management, carbon sequestration, water purification and climate-related threats. They will also invest in sustainable sourcing practices to postpone or avoid cost increases due to resource scarcity.

Putting natural capital at the heart of business planning will be the only option in the future, if it isn't already

## 4 ENHANCED BRAND REPUTATION

Businesses that embrace putting a value on natural capital will be rewarded with trust and loyalty from customers who value sustainability leadership. It provides a company with the opportunity to differentiate its brand from competitors by communicating superior purchasing, operating, investment or environmental practices.

It will help attract and retain top talent as a growing number of employees value working for a company that shares their values. Equally it will attract investors and lenders who increasingly factor environmental performance and exposure into their decisions.

## 5 GENERATE REVENUE

Such an approach will meet customers' growing demands for products and services that do no harm to sensitive ecosystems. It will create new revenue opportunities through new product and service offerings of innovative solutions that alleviate pressure on the environment or restore healthy ecosystems. It may also create new markets by educating consumers about high-performing and sustainable products.

When chartered accountancy first became a profession, in the nineteenth century, the role of the job was to ensure capital maintenance in a business – to help a business to understand if it was increasing or depleting its value. Once looked at longer term, a business model that depletes stock will be one that goes out of business. Businesses all depend on natural capital, to a lesser or greater extent. If key stock is being depleted, a company is quite simply not viable. Businesses must understand what of their natural capital is key stock and put that at the centre of their business planning.

## ICAEW AND THE NATURAL CAPITAL COALITION

ICAEW is one of the founder members of the Natural Capital Coalition (see box). When we first started engaging with businesses, we didn't expect the level of interest we received. The Natural Capital Protocol has more than 130 businesses lining up to take part. The protocol is about creating a framework to standardise the information so that business decision-makers can start to use it to make decisions. But there is more to it than that. We could create a framework that provides the information and many decision-makers could say: "That looks lovely, but why would I want to use it? I am cashing out in five years."

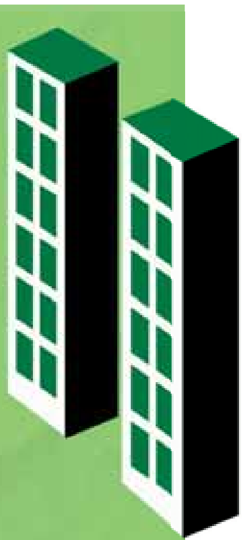
The ICAEW is working with the European Commission and Dutch and British governments and businesses. To establish the conditions where businesses would use the model, we are being more sophisticated than policymakers have been in the past, where the approach was to say, "just use it". Decision-makers need to understand their relationship with the natural environment.

For investors in a business, the business model must be more robust on the way out than on the way in. In the engagement work we have carried out for the Natural Capital Coalition, we have had businesses that have been only days away from running out of key supplies because of drought or storm damage. This was a big surprise to them. A lot of the time this inability to plan is because the information is not there to think about. Private equity firms, for instance, want a much more robust long-term model so that they deliver the returns they seek on exit, and this is key.

For financial services firms, the impact of their decisions is more remote. Their decisions influence corporate behaviour. What is the impact on the behaviour of their portfolio of investments? It may be easy when their investments are in the mining sector, but less so if it is in a food manufacturer. If a bank has provided an overdraft facility to a food manufacturer and crops fail, it is likely that is when the overdraft will be drawn down. So for the bank, their greatest exposure will be when the business is at its most vulnerable. By putting natural capital at the heart of the business plan, it makes the business and the bank's portfolio more resilient, creating sustainability all round.

There is a growing case for understanding the dependencies business has on natural capital, the risks and opportunities associated with this relationship and their real value. The rules of the game are changing as government and businesses alike are recognising the importance of valuing and managing natural capital. Those businesses that fail to adapt in a world of increasingly scarce resources will lose competitiveness. Putting natural capital at the heart of business planning will be the only option in the future, if it isn't already.

**The Natural Capital Coalition** is a global, multi-stakeholder open-source platform to support the development of methods for natural and social capital valuation in business. Its aim is to achieve a shift in corporate behaviour to preserve and enhance, rather than deplete the earth's natural capital. It is made up of early adopters from the business, policy, accounting and NGO communities. ICAEW is one of the 13 founding members – there are now more than 130 member organisations. We're a diverse Coalition, with members from business, accountancy, consultancy, academia, policy and government.



**Richard Spencer** is head of sustainability at ICAEW. He previously worked for Accenture, Rothschild and the Bank of England

PATRICK GEORGE / IKON

# Appointments

## ALISTAIR DICK MOVES TO PWC

PwC has recruited Alistair Dick from Rothschild. He will lead its corporate finance restructuring team. He was most recently head of Rothschild's debt advisory and restructuring practice in South East Asia, Australia and New Zealand. He spent six years in Rothschild's European debt advisory and restructuring team.

Heather Swanston, head of PwC's refinancing and restructuring practice, said: "Our restructuring business continues to achieve record growth and Alistair's appointment demonstrates our commitment to financial restructuring offering for corporates. His experience and track record in helping corporates navigate financial restructuring will be a huge asset to our expanding team."

John Dwyer, UK deals leader, said: "This appointment is part of a UK and global initiative to invest more in lead advisory services. We are currently recruiting top talent from within the investment banking and debt advisory sectors internationally, allowing us to advise on and originate many more deals."

## PLUMB JOINS NORTHEDGE

Private equity firm NorthEdge Capital has recruited Ian Plumb as portfolio director. He has joined from competitor Endless, where he has worked since 2007. He has significant experience as an investor and portfolio director.

"The firm has a broad portfolio across a range of sectors and my priority will be primarily managing and supporting these existing relationships," said Plumb. "This will allow for increased focus on value generation within the portfolio as NorthEdge continues to invest in and build businesses across the North." The firm has made 11 investments worth £140m from its maiden fund into northern business over the last two and a half years.

## NEW RECRUITS FOR TECH CITY

Eileen Burbidge, founding partner of early stage VC firm, Passion Capital, has joined Tech City UK as chairman. She succeeds Baroness Joanna Shields, who was appointed minister for internet safety and security in May 2015.

Burbidge will work closely with CEO Gerard Grech to develop a long-term vision for Tech City UK, liaising with politicians and those working in the digital sector, including advisers.

Four new members have also joined the Tech City UK Board: Robin Klein, founding partner at LocalGlobe fund; Tim Luke, VP of technology, media & telecoms at Barclays UK; Wendy Tan-White, co-founder and former CEO of website-builder Moonfruit; and Yonca Brunini, VP of marketing (EMEA and emerging markets) at Google.

The government set up Tech City in 2010 to support the emerging digital cluster in East London. In 2014, its remit was adapted to address the wider UK digital economy, becoming Tech City UK.

## NEWS IN BRIEF

Andrew Claymore has rejoined as director in **PwC's** financial services corporate finance team, from Standard Life, where he was commercial director.

**EY** has appointed Omar Ali as its new UK financial services leader to lead EY's people advisory services. In the Midlands, EY has promoted Mark Day (bottom left) as a director for transaction advisory services and Dougal Baxter (top left) has joined from BDO as a director.

Jaana Grüter has joined **Keensight Capital** in Paris as investment associate, from Five Arrows Principal Investments – Rothschild Group's west European mid-cap fund.

The **British Business Bank** has agreed to provide a £100m facility to **Hitachi Capital UK**, funding a portfolio of newly-originated small business asset finance receivables. It is the first transaction of the bank's new ENABLE funding programme – the European Investment Fund will guarantee 50% of the facility.

Dipali Buch has been promoted to corporate finance partner at **Alliotts Partners,** specialising in the food, drink and hospitality sectors.

**HMT** has opened an office in the City, in Beckett House, Old Jewry.

Robert Kidson (top) has joined **MHA MacIntyre Hudson's** London City office, and Jay Boyce has joined the firm's new Birmingham

## PATEMAN TO SHAWBROOK


Specialist challenger bank Shawbrook has poached Steve Pateman (top) from Santander to be its new CEO at the start of 2016. Pateman was executive director and head of UK banking, running Santander's corporate, commercial, business and retail banking operations, as well as wealth management. He joined the bank in 2008 to build its SME business, growing the corporate and commercial business to a balance sheet of more than £30bn and a 7% market share.

He spent eight years at RBS, where he was CEO of business banking, retail markets, and managing director of commercial and corporate banking. "I know the Shawbrook team well," said Pateman. "There is much ambition and the group's expertise and people are highly regarded throughout the UK banking sector."

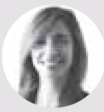
Shawbrook chairman Iain Cornish said: "Steve brings a tremendous breadth and depth of experience across all of our asset classes and an outstanding track record in building highly successful SME banking businesses."

The bank has also promoted Tim Hawkins (below left) to managing director, and Lisa Wood, to deputy managing director, Shawbrook Business Credit. Shawbrook is a member organisation of the Corporate Fiance Faculty. Stephen Johnson, deputy CEO, Shawbrook Bank, said: "Tim played a key role in the acquisition of the business (formerly Centric Commercial Finance, of which he was co-founder) in 2014, and is well respected throughout the industry. Shawbrook Business Credit is proving a strong addition, providing us with one of the highest regarded teams in the asset-based lending sector and complementing our suite of SME lending services."

office, as part of the firm's merger with Bloomer Heaven. Both specialise in M&A advisory.

British challenger bank **Paragon**, launched in February 2014, has acquired Five Arrows Leasing from Rothschild for £117m. The acquisition is part of the bank's strategy to enter the SME market.

Ian McVicar and John Drake (left) have joined **Close Brothers'** leasing and rentals division to set up a new technology services business. They join from Lombard Technology Services.



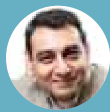
Catherine Lambeth has joined **Castle Corporate Finance** as a graduate trainee.

**Dow Schofield Watts** has moved its North West office to a new building in Daresbury Park.

The European Private Equity and Venture Capital Association (EVCA) has changed its name to **Invest Europe.**

Paula Holland (left) has joined **Cooley's** as partner. Tamsin Crane and Ciaran Rooney have joined as associates from WilmerHale.

## LONDON TECH START-UPS



Craigie Capital, Downing Ventures, Forward Partners and Seedcamp have joined up with the London Co-investment Fund to help bridge the funding gap for London-based tech start-ups. The fund now has 10 partners, including the original network comprising Angel Lab, Crowdcube, Firestartr, London Business Angels Network and Playfair Capital.

London Co-investment Fund manager Puneet Bhatia (above) said: "Each partner brings a unique investment focus and we hope to complement their specialist investment activities with additional value-added funding, to help deliver investments in 150-plus strong technology businesses in London, thereby creating strong economic value in the ecosystem."

## LEGAL BRIEFS

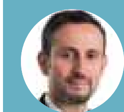
Ian Ivory has moved from **Berwin Leighton Paisner's** Moscow office to Hong Kong and taken on the role of head of corporate for Asia.

**Kingston Smith** has been granted an Alternative Business Structure licence by the Solicitors Regulation Authority and has recruited Andrew Bloom as head of legal services, from Steptoe & Johnson.

Angus Gill has joined **Addleshaw Goddard's** corporate banking practice from Hogan Lovells, where he worked in its international banking practice.

John Amberton has been appointed partner in **PwC's** legal division's international business reorganisations team. He joined from Baker & McKenzie.

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



Tarek El-Assra has joined **Morgan Lewis** as partner in Dubai, from Freshfields Bruckhaus Deringer where he was global head of Islamic finance.

# MORE THAN ADDING UP

## THE CV

Michel Driessen started in management consultancy with Twynstra Gudde in the Netherlands in 1989. He held a number of executive positions in Rabobank Nederland, Visa, Accenture and Fujitsu Services. After joining EY in 2006, he became the head of operational transaction services. This practice then grew from 21 to more than 180 people in eight years. In July he became the markets leader for UK and Ireland transaction advisory services.

He has an MBA with distinction from the University of Bradford, an MA in political sciences from the Radboud University Nijmegen and he is a senior visiting fellow in finance at Cass Business School.

### Recent deals

- GSK-Novartis $16bn three-way deal completed in May 2015
- Integration of Kier and Mouchel following £265m acquisition

Given 100 days to integrate a $1.2bn acquisition – success is down to planning, clarity of communication and sticking to the script, says EY's **Michel Driessen**

### WHAT WAS THE DEAL?

SNC-Lavalin's $1.2bn (£789m) takeover of Kentz Corporation was completed in August 2014. SNC-Lavalin is a Montreal-based global engineering business, listed on the Canadian stock exchange, with a number of divisions including oil and gas. Kentz was a FTSE 250-listed engineering and infrastructure business focused on the oil and gas sector. We were brought in just before the announcement to work on integration planning. They had identified almost £30m of annual run-rate synergies.

### WHAT WAS THE STRATEGY?

SNC-Lavalin wanted to go into a number of different markets - it wanted to make a revenue- growth play focused on Australasia and the Middle East - but felt it did not have sufficient presence. It was a transformative transaction. Although many staff were contractors, which is normal for the sector, SNC-Lavalin grew from 30,000 staff to 45,000.

### DIFFERENT CULTURES?

They were different businesses operating in different territories, but the sector is a global industry. Kentz has a number of good processes on the commercial side - their business development and how they go to market. The big difference was the culture of Kentz - smaller with a more entrepreneurial operating model - with a bigger organisation with a different culture and operating model.

We spent time educating people about the culture, to protect the culture of Kentz, and held various workshops with people from both companies co-heading work streams. We had very clear integration principles. Certain values were not to be compromised, but instead were to be brought into SNC-Lavalin.

### HOW TOUGH WERE THE TIMESCALES?

The regulators drove the timeframe. No big competition issues meant they could complete quite quickly. It was well planned, making a huge difference. Kentz had to be delisted, which went smoothly.

### WHAT WERE THE MAIN CHALLENGES?

It was very important for SNC-Lavalin that Kentz kept its business growing. We had to ensure clear communication within the oil and gas division of SNC-Lavalin. The cost-saving opportunities were built into the business plan, so from 1 December last year it was operating like an integrated company.

### WHAT WERE THE KEYS TO SUCCESS?

You must be clear about what you want to integrate and how fast. Have a consistent and transparent story, and do not deviate from why you have agreed to buy an asset. Consistency makes it more understandable for people. Key stakeholders and decision-makers must all be aligned for a successful deal and integration.

MICHAEL LECKIE