ICAEW CORPORATE FINANCE FACULTY

INNOVATION ENTERPRISE LEADERSHIP

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CORPORATE FINANCIER

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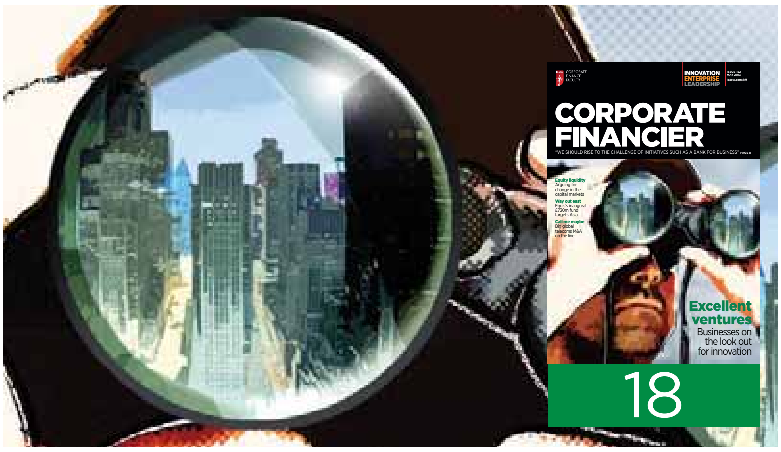
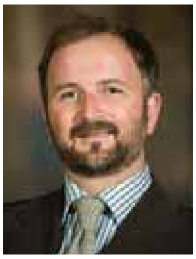


COVER: DAN MURRELL

Nothing ventured...

CORPORATE FINANCE FACULTY

"If we knew what it was we were doing, it would not be called research, would it?" Not the words of the head of a large corporate R&D department, but Albert Einstein. These *bon mots* are to be found on the wall of the Royal Observatory at Greenwich.



To many, stargazing may have just been an indulgence of Charles II, who founded the observatory, but it did have an application. A glance down the hill to the Maritime Museum is a clue. The star charts devised at the observatory moved ship navigation forward and were the innovation of the day, giving Britain's merchant navy an edge over its rivals.

Investing in innovation to grow revenue, profits and ultimately equity value is critical if businesses are to survive and not be overrun by the competition. This might not be rocket science, but it is certainly easier said than done. How to approach development is the question.

That investors in VC have become more risk averse is not new news. Their caution deploying capital in early-stage companies is in many ways justifiable. Unproven, often pre-profit and sometimes pre-revenue businesses in an economy where the future is unwritten means bold investors need to be sure they are not being just that bit too bold.

Step forward corporate venturing – whereby corporates effectively set up their own VC arms. Corporate venturing has been on the rise and we look at it in this month's cover story by James Mawson, founder of *Global Corporate Venturing* magazine and website.

Corporate venturing has a cyclical past. Will today's wave recede, as history has taught us? The 1960s boom ebbed when equity prices collapsed in the early 1970s. It again fell out of fashion after the stock market crashed in 1987. And the bursting of the tech bubble in 2000 brought the most recent phase of interest in corporate venturing to a close.

There's no surprise it has come to the fore in the current environment. Estimates put the amount of cash on European corporate balance sheets north of $2trn, so they certainly have capital to deploy. And with precious little return being made on cash piles and a desperate need for growth, it seems like all the stars are aligned for another corporate venturing boom.

Today, Intel Capital is perhaps the most successful corporate venture capital group, having invested some $10bn in innovation since being founded 22 years ago. Its current managing director for western Europe, Marcos Battisti, told the *Financial Times*: "Obviously, we have to be relevant to Intel, but we are not going to invest in something that will not make a return. If we were losing money, we would not be around." Evidently Intel Capital's longevity has not been the result of simply gazing skyward.

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Faculty news

LINKLATERS LINKS WITH FACULTY

Magic Circle law firm Linklaters has joined the Corporate Finance Faculty. The firm has a large team of corporate finance lawyers who work with clients and other dealmakers on complex and strategic transactions in many jurisdictions from its global office network.

London-based corporate partner William Buckley said: “Delivering deals for clients means working as a team with them and their other advisers, and joining the faculty will enhance our ability to do so.

“As the economic landscape shifts in response to the recent financial crisis, we’re increasingly seeing the need for a global reach and to work alongside other advisers,” added Buckley, who has also worked in Linklaters’ Shanghai and New York offices.

“The markets in Asia and the Middle East continue to grow and as a result alter the dynamic of many of the deals which we do, as sources of capital change and the deleveraging process continues.

“As the economic landscape shifts in response to the financial crisis, we’re increasingly seeing the need for global reach and to work alongside other advisers”

“We’re seeing increased cash-flow from Asia into Europe and continued investment in European assets.

“Foreign regulators are also showing more influence on international deals. For instance, the Chinese anti-trust regulator is increasing its scrutiny of transactions with ties to China and deals are taking longer to successfully clear competition controls.

“Looking forward, the recent revival in the equities markets offer grounds for optimism for IPOs in 2013 – in the UK and elsewhere.

“We are, without doubt, in an era of change and the markets will continue to develop and present new challenges. Corporates will demand joined-up approaches from their advisers as the regulatory environment evolves and the Corporate Finance Faculty provides an opportunity for them to come together and share perspectives.”

Corporate partner Lucy Fergusson (above) added: “Our team is looking forward to joining the Faculty and participating in a new forum for exchanging ideas.”

INTERNATIONAL EXPANSION ON AGENDA IN MANCHESTER

Private equity firm Dunedin and specialist information provider Experian Corpfin are co-hosting the Corporate Finance Faculty’s seminar and networking breakfast at the Manchester Art Gallery on Tuesday 11 June. The theme of the morning will be international expansion through M&A and buy-outs. The seminar will feature a major North West success story – military engineering firm WFEL.

Finance director Patrick Grady will explain how the Stockport-based military engineering group used the £48m raised in a buy-out to win new overseas customers, develop new products and eventually led to the successful sale of the business to German group Krauss-Maffei Wegmann (KMW).

Richard Bolton, head of Experian Corpfin, will provide an overview of transaction trends in the North West. Dunedin partner Nicol Fraser will explain how private equity investors back international growth, and UKTI regional director Clive Drinkwater will discuss government support for overseas expansion.

The seminar is part of a month of UK events promoting ICAEW’s Business Advice Service. Shaun Beaney, manager of the Corporate Finance Faculty, said the faculty had teamed up with ICAEW’s North West region, led by Melanie Christie, to create an informative seminar that will highlight how external equity finance can help to deliver this growth for companies. “It’s important that ambitious businesses get the right kind of financial backing if they want to really step up international exports and expansion,” Beaney explained.

Left-right: Nicol Fraser, Patrick Grady, Richard Bolton

To reserve a place, visit **icaew.com/cff** or for information email **shaun.beaney@icaew.com** or call +44 (0) 20 7920 8769.

CORBIS, GETTY

INVESTING IN PEOPLE POWER

The Corporate Finance Faculty's seminar, People Power: Corporate Teams, Risks & Opportunities, in London on Tuesday May 21, will look in depth at the key 'people' risks for those who are engaged in corporate M&A or buy-outs. The faculty has devised the breakfast event, hosted by Kroll Advisory Solutions, to follow up November 2012's oversubscribed 'De-risking Deals' seminar.

Melvin Glapion, Kroll managing director (pictured right), will set out the main challenges – and red flags – during transactions. He will focus on approaches to dealing with international stakeholders and counterparties and how corporate executives, specialist advisers, corporate financiers and legal counsel can work together to resolve problems early in the deal process. John Pearce, CEO of senior recruitment specialists Chief Officers Group, will talk about building good corporate teams.

The seminar is part of the Corporate Finance Faculty's 'Deal Leaders' programme for company directors, M&A advisers, buy-out investors and corporate lenders. Please note that due to high demand the venue has been changed to the Grange Tower Bridge Hotel, 45 Prescot Street, London E1 8GP. For more information visit **icaew.com/cff**.

PRO FORMA FINANCIAL INFORMATION

ICAEW is revising its guidance for those preparing pro forma financial information to reflect the EU's prospectus rules. The faculty is updating ICAEW Technical Release TECH 18/98, and to that end set up a working group in 2012 to begin consulting with market participants about areas of concern and potential risks.

Proposed areas for review are detailed in the status report enclosed with this issue of *Corporate Financier* magazine.

The working group welcomes contributions to the consultation process, as set out in section 4. An exposure draft of new guidance will be published in due course.

Katerina Joannou, ICAEW's capital markets policy manager, would like to hear the views of advisers and investors in listed companies. Telephone +44 (0) 20 7920 8806 or email **katerina.joannou@icaew.com**

COLLINS PROMOTED AT BLP

The Corporate Finance Faculty congratulates board member David Collins (pictured right), who has been promoted to head of corporate at international law firm Berwin Leighton Paisner. David Barnes has replaced him as head of corporate finance, and his predecessor as head of corporate, John Bennett, has become international business partner.

Collins is the second faculty board member in six months to get a major promotion. In November, Mark Pacitti, London head of corporate finance advisory at Deloitte, became the firm's global corporate finance advisory leader. For details of Collins's promotion, see page 32.

ICAEW AND SWAT UK'S ANTI-MONEY LAUNDERING SERVICE

ICAEW has linked up with accountancy training provider SWAT UK to launch an Anti-Money Laundering (AML) Service.

The service has been devised to help professionals to comply with increasingly complex money laundering regulations. As the AML supervisor to nearly 13,000 firms, ICAEW has a unique, practical and technical insight into AML compliance needs.

The service includes a package of online systems and insightful training seminars and new, easy-to-use web-based content. It is also available to the many Corporate Finance Faculty members who are not ICAEW members.

Specialist training in the form of webinars will also be available on subjects, such as corporate finance, insolvency and forensic accounting.

For further information about the service please contact **shyam.modi@icaew.com** or call him on +44 (0) 20 7920 8675.

CORBIS

International innovation

David Petrie, ICAEW's head of corporate finance, on the lessons from across the world about financing entrepreneurship and growth

One of the Corporate Finance Faculty's most important roles – of many – is to encourage and highlight initiatives and projects where its members in advisory, investment and companies can assist businesses in innovation. In my two years at the faculty, I have made it a faculty priority that we play our part in encouraging entrepreneurship and economic growth, learning lessons from success stories across the world.

In recent months – in *Corporate Financier*, as well as the faculty's online and social media, seminars and forums – we have looked at international centres as diverse as Berlin, Bangalore, Zhongguancun, Palo Alto, Sydney, Tel Aviv, Johannesburg and Florianopolis; and at subjects ranging from infrastructure finance to supply-chain finance and venture capital, IPOs to bond markets and lead advisory to transaction services.

An international view is increasingly important on the regulatory front. The faculty's technical committee, co-ordinated by Katerina Joannou, has recently reviewed the EU's new VC 'passport' and amendments to the Prospectus Directive. The faculty is also contributing to ICAEW's response to the European Commission's Green Paper on long-term finance for companies.

Through garnering and sharing ideas, the faculty is making sure that as much knowledge of innovations as possible is at members' disposal

UK BANKS ON CHANGE

Meanwhile, in the UK we should rise to the challenge of initiatives such as the government's creation of a bank for business. In February, I was a guest at an event hosted by Bloomberg, where business secretary Vince Cable made his frustration with existing commercial banks abundantly clear. But so too was his hope that the new business bank would stimulate long-term, 'patient' capital.

The Corporate Finance Faculty agrees with the bank's primary aims – to diversify the suppliers and types of equity and debt in the UK. In effect, this might see the seeding of privately-managed funds and in some cases co-investment in commercially-focused initiatives.

The new bank is considering loan-portfolio guarantees, bonds and other aggregation mechanisms for SME lending. I continue to contribute to the government's working group on this. The £300m pencilled into the UK government's budget to extend non-bank lending via the Business Finance Partnership is another positive step.

EQUITY AND DIVERSITY

I am enthusiastic about serious, networked and informed equity investment in early-stage businesses, and as such I have contributed to Lord Young's Downing Street working group on business angel investment. Encouragingly, the government is doubling the size of the Angel CoFund to £100m. As a boost to VC, it is topping up Enterprise Capital Funds and the £150m UK Innovation Investment Fund.

The faculty has played its own small part in encouraging alternatives to bank lending, contributing to last year's *Breedon Report*. We hosted the report's launch in March 2012 and welcomed the report's author Tim Breedon back to the ICAEW's 'Boosting Finance' conference devised by faculty manager Shaun Beaney in December.

Our seminars for entrepreneurs and advisers in Birmingham, Cardiff, Bristol and London complemented this, as did the publication with the Department of Business, Innovation & Skills of the *SME Finance* guide.

Learning is a two-way process. So it was fascinating to meet representatives of the Malaysian Securities Commission in March, who were very interested in different approaches to stimulating capital markets for SMEs. I also continue to work closely with my ICAEW colleagues in Dubai and with Declan Hayes, chairman of the Corporate Finance Faculty's network in the Middle East, to exchange ideas from that region.

There are no easy answers on any of these fronts. Corporate financiers know that knowledge is power. Through garnering and sharing ideas, the faculty is making sure that as much knowledge about innovations as possible is at members' disposal.

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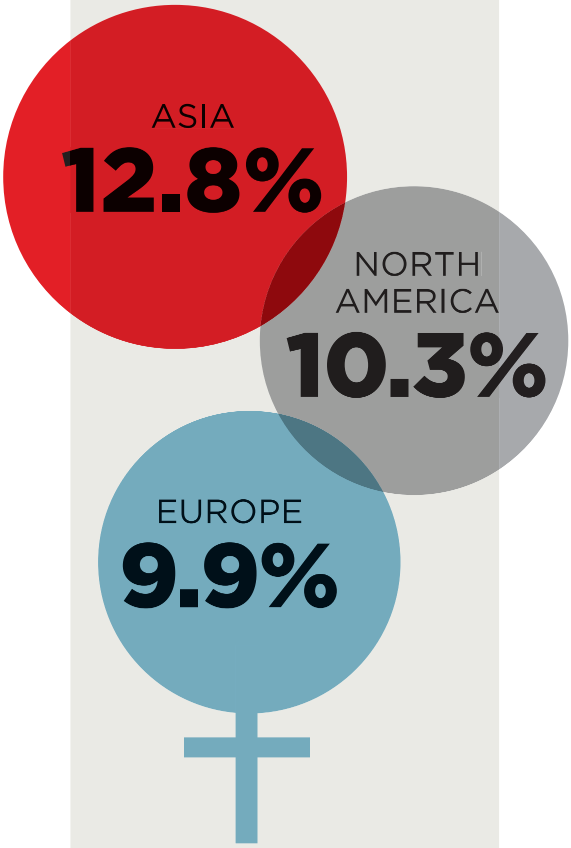
Briefing

Percentage of senior private equity roles held by women
by international region



The representation of women in high-level roles in private equity firms is highest at Asia-based firms, according to research by **Preqin**.

Research by **ING IM** reveals 49% of UK-based active fund managers say insurers have increased their exposure to 'new' asset classes such as infrastructure over the past 12 months. In addition, 77% expect this exposure to increase over the coming three years.

A survey of 130 credit risk managers from 41 countries by predictive analytics company **FICO and Efma** found the "credit gap" between credit supply and demand narrowed. While 31% expect the aggregate amount of credit requested by small businesses to increase, 29% expect the amount issued also to increase.

LET'S TALK ABOUT SECONDARIES

- Just over half of investors say the secondary market is of core or growing importance to private equity portfolios.
- Secondaries funds that closed in 2012 raised an aggregate $21bn, almost double the 2011 figure.
- 45% of funds sold on the private equity secondary market in 2012 were of vintage years 2006-2008 (many of which had ultimately underperformed).
- Two thirds of limited partners looking to sell fund interests on the secondary market plan to exit buy-out funds.
- Average size of secondaries funds that closed in 2012 was $1.4bn. The 2011 average was $596m.

PREQIN'S SPECIAL REPORT: PRIVATE EQUITY SECONDARY MARKET

BANKS TIGHTEN PURSE STRINGS

BDRC Continental research into SME lending has revealed lending problems for first-time applicants (FTAs) in the UK got tougher last year. The lending figures analysis showed more than half (54%) of FTAs for a loan or overdraft failed.

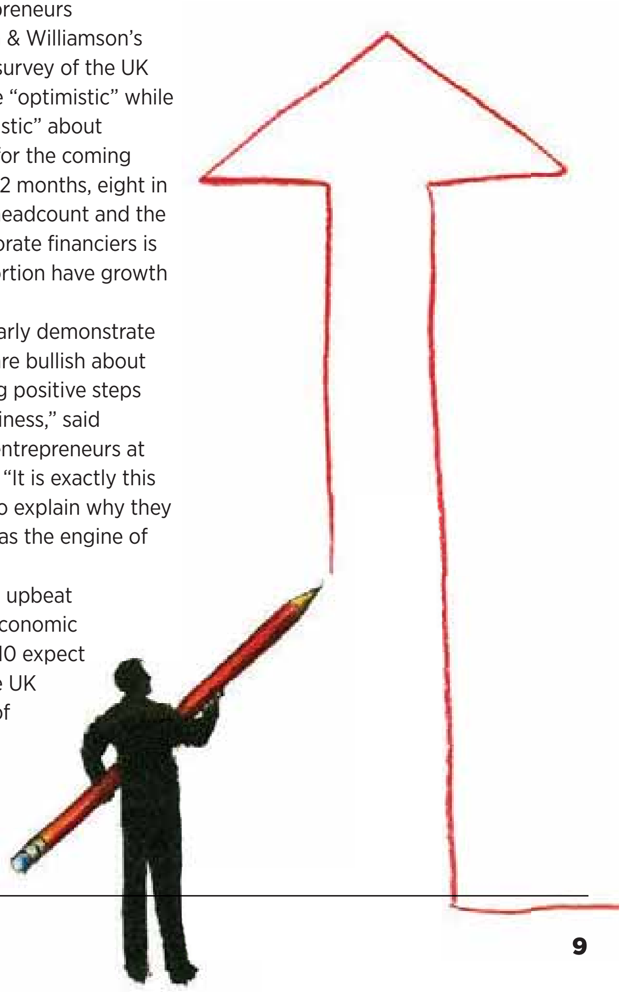
The failure rate for non-FTAs was 21%, and 8% for those renewing an existing facility over the past three years. Back in 2010 the failure rate for FTAs was 42%. Over the same period there was a 9% increase in entrepreneurs using personal cash to finance their business.

BULLISH ENTREPRENEURS

Some 80% of entrepreneurs responding to Smith & Williamson's inaugural quarterly survey of the UK enterprise sector are "optimistic" while half are "very optimistic" about business prospects for the coming year. Over the next 12 months, eight in 10 plan to increase headcount and the good news for corporate financiers is that the same proportion have growth or acquisition plans.

"These results clearly demonstrate that entrepreneurs are bullish about the future and taking positive steps to develop their business," said Guy Rigby, head of entrepreneurs at Smith & Williamson. "It is exactly this attitude that helps to explain why they are often described as the engine of our economy."

Entrepreneurs are upbeat about the broader economic outlook – six out of 10 expect improvements in the UK economy. And 41% of respondents said they are more prepared to take on borrowing than three months ago.



CORBIS

SOVEREIGN RISING

Across the globe sovereign wealth funds continue to amass capital, and their importance to the investment landscape is increasing. Vicky Meek looks at why the UK is proving to be one of the main targets for investment

In March the *Financial Times* reported that the UK government was involved in talks that could see Qatar investing £10bn in key UK infrastructure projects – energy plants, road and rail projects and a "super-sewer" beneath London. If a more visible sign of the times than a sewer is needed, there is the Shard – a consortium of Qatari investors owns the tallest building in the EU.

Over the last decade, sovereign wealth funds (SWFs) have become an important investor category across a variety of asset classes – and cash-strapped developed economies are increasingly looking to tap into this source of capital. SWF assets under management have increased significantly. In 2003, SWFs had just under $1.6trn assets under management, according to a new study, *Sovereign Wealth Funds*, by TheCityUK.

Last year, it had grown to $5.2trn – an increase of 8% over 2011. TheCityUK estimates this will further increase to $5.6trn by the end of 2013. And those figures do not include the $7.7trn held in other sovereign investment vehicles, such as pension reserve funds and development funds.

HUB CULTURE

Since 2005, the US has been the most popular destination for direct investment by SWFs, accounting for a fifth of the total in the seven years to 2012. However, the UK is not far behind, attracting a sixth of SWF direct investment. Other important destinations include China, France, Switzerland and Germany.

Financial services are the most popular sector for direct SWF investment and London is seen by many "as a clearing house and location from where some of these funds are managed", according to TheCityUK's report.

"London has a strong position as a financial services sector hub," says Raquel Hughes, strategy director at TheCityUK. "It benefits from a cluster of expertise and offers certainty because of the international position of English law."

A number of SWFs have offices in London, including the Kuwait Investment Authority, Brunei Investment Agency, Abu Dhabi Investment Authority and Temasek, with Korea's National Pension Services opening up a new office last year.

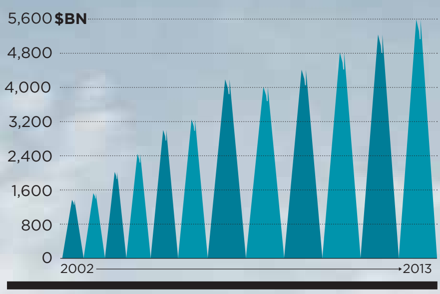
"The UK, along with Germany, is seen as a more stable part of Europe," says James White, director of global private equity and sovereign wealth at KPMG. "London is a large financial centre and so a number of SWFs have opened offices here. They are often quite small, but they give SWFs a presence they don't have elsewhere."

Between 2005 and 2012, financial services accounted for a third of transactions. Real estate, energy and infrastructure also account for a large proportion of direct investments by SWFs. These sectors suit the long-term horizons of sovereign investors.

Nevertheless, there has been a shift in investment appetite over the past year, the report notes. Consumer goods, IT and materials investments all increased in importance in 2011 and 2012, whereas energy, utilities and financials decreased in importance. But SWFs' overall investment strategy varies widely according to the individual set-up of each fund.

"SWFs are not a homogenous group - they are at different stages of maturity," explains Simon Perry, partner at Ernst & Young. "Some operate independently of government policy, others are much more driven by government policy and you have others that operate somewhere in between. However, the more mature, professionally run SWFs tend to have a realistic desire to generate sensible returns and, if they can generate a cash yield as well, so much the better. One area that provides them with this is brownfield infrastructure projects. These are highly regulated and provide limited upside, but also offer downside protection."

SWFS' ASSETS UNDER MANAGEMENT



SOUCRE: SWF INSTITUTE; THECITYUK ESTIMATES

Equally there is no standardised mode of investment. While the assets under management of SWFs have continued to rise, the report shows a significant fall in direct investment during 2012. This declined to $57bn in 2012, a six-year low and down by a third since 2011. It is also a very small amount compared to the overall total of $5.2trn in assets under management.

"A lot of people tend to focus on SWFs' assets under management," says White. "However, the amount of direct investment they make tends to be quite low. Even accounting for the fact data is quite hard to come by - the $57bn is probably lower than the actual amount - it's still a small fraction of their overall assets under management. If you put that into the context of the global buy-out market, which deploys around $180bn globally each year, it's a relatively modest amount."

"SWFs start investing with third-party managers in safer asset classes and move into new asset classes"

James White, director, global private equity & sovereign wealth, KPMG

DIRECT FUTURE

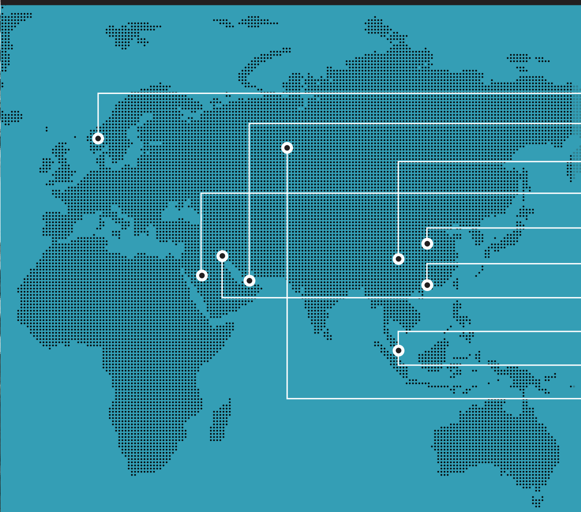
Despite last year's fall, the longer-term trend is for more direct investments by SWFs. This follows the lead of the Canadian pension plans. "Many SWFs and indeed pension funds are increasingly moving from fund investments to direct investing as they build capability in-house," says Perry.

White concurs. "SWFs are building up in-house teams to deploy more capital directly. SWFs tend to start out by investing with third-party managers in safer asset classes and then move geographically into new asset classes and then finally into direct investments. However, we won't see a major rush into direct investing and this will be a medium-term trend - SWFs are mainly looking to deploy capital directly in less complex asset classes, such as real estate."

For those seeking a slice of the increasing SWF pie, fostering contacts is critical. "Building relationships with SWFs is, in many ways, just the same as with other institutions," says Perry. "However, if you are dealing with some SWFs, especially in the Middle or Far East, you have to consider whether there is a political dimension involved and be sensitive to that."

Overall, SWFs' direct investment levels look set to rise, with the UK among the most attractive destinations. However, the report does point to increasing investment by SWFs in markets such as the BRIC economies.

While the UK's "openness and willingness to attract foreign investment, good system of law and benign regulatory environment are attractions for SWFs," says Perry, "the UK is certainly not the only place that provides good investment prospects."



LARGEST SWFs

Project name	AUM $bn	Country
Government Pension Fund – Global	664	Norway
Abu Dhabi Investment Authority	**627**	**UAE-Abu Dhabi**
SAFE Investment Company	568	China
SAMA Foreign Holdings	**533**	**Saudi Arabia**
China Investment Corporation	482	China
Hong Kong Monetary Auth. Investment Port	**299**	**China (HK)**
Kuwait Investment Authority	296	Kuwait
Government of Singapore Investment Corp.	**248**	**Singapore**
Tamasek Holdings	158	Singapore
National Welfare Fund	**150**	**Russia**

SOUCRE: SWF INSTITUTE; THECITYUK ESTIMATES

"London has a strong position as a financial services hub. It benefits from expertise and offers certainty"

Raquel Hughes, strategy director, TheCityUK

GETTY

Call waiting

Vodafone and Verizon manoeuvrings over a mobile joint venture might ring in the changes for the sector. Richard Irving looks at the opportunities for big-ticket telecoms M&A

One big question has been hanging over the telecoms sector – is the age of the mega deal dead? According to Thomson Reuters, while deal volume has been flat, deal value has been increasing. In 2012 there were 722 deals worth £73.8bn announced globally, compared to 723 worth £63.8bn in 2011. In the first quarter of 2013, there have been 134 deals worth £28.3bn compared to 176 deals worth just £8.1bn for the same period last year.

Some shareholders might hope for a return of the telecoms mega deal. Others might not, as big telecoms management teams have shown quite a flair for destroying value through M&A. More than £30bn in write-offs later, Vodafone, for example, is still worth 30% less than the £112bn it paid for Mannesmann in 2000.

Meanwhile in the US, Sprint has written off all but $5bn of the $35bn it paid for Nextel Communications back in 2005 – the enlarged business is now worth just $17.2bn. Carlos Slim, the world's richest man, took a €2bn loss on the stake of 27.5% he built in KPN, the troubled Dutch phone operator, last year.

Ever since Vittorio Colao, chief executive of Vodafone, persuaded Lowell McAdam, his opposite number at Verizon, to join him on a 50-mile charity bike ride two years ago, relations between the two phone giants, which before might have been described as "frosty", have been thawing.

NOTHING OFF LIMITS

At issue is ownership of their mobile partnership, Verizon Wireless. The US giant, which owns a controlling 55% stake in the venture, wants to take the operation in-house to compete with its arch rival AT&T. But Vodafone, whose revenues are falling by 10% per annum or more in key European markets, cannot afford to sell up.

However, the sale of its stake to Verizon looks the most likely endgame. Vodafone has enjoyed a considerably higher stock market valuation than Verizon, precluding the US giant from any aggressive move. But this year, Verizon's market capitalisation overtook Vodafone's and analysts say that could break the impasse.

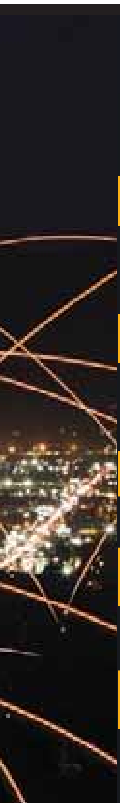
The full-scale merger option would be a $250bn tie-up harking back to the good old days of the tech bubble,

> "Most telcos are trying to control the footprint they have built up"
>
> **Adrian Baschnonga,** senior analyst, Ernst & Young

complete with the execution risks that such a mega deal would entail. The argument goes that if Verizon wants to pursue growth, it will have to go further than its domestic market battles with AT&T. In the US, regulators have already shown they will block mergers of any meaningful size.

"No deals are off the table," says Philip Kendall, of Strategy Analytics. "The balance of power has shifted from Vodafone to Verizon. We are in a pragmatic era where anything is possible."

However, it is not clear why Verizon would want to take on Vodafone's troubled European business, even assuming McAdam has the appetite for a transformational deal.



TOP 10 GLOBAL TELECOMMUNICATIONS M&A TRANSACTIONS
(31 JANUARY 2012 - 01 FEBRUARY 2013, SOURCE: THOMSON REUTERS)

ANNOUNCEMENT DATE	TARGET COMPANY	TARGET DOMINANT GEOGRAPHY	BIDDER COMPANY	BIDDER DOMINANT GEOGRAPHY	DEAL VALUE (US$M)
15 OCT 2012	Sprint Nextel Corp (70% stake)	USA	Softbank Corporation	JAPAN	35,544
22 AUG 2012	China Telecommunication Corporation	CHINA	China Telecom Corporation	CHINA	13,315
3 OCT 2012	Metro PCS Communications	USA	T-Mobile	GERMANY	7,845
18 JUL 2012	Suddenlink Communications	USA	BC Partners; and Canada Pension Plan Investment Board	UK	6,579
1 OCT 2012	eAccess	JAPAN	Softbank Corporation	JAPAN	4,436
15 AUG 2012	VimpelCom (14.8% stake)	NETHERLANDS	Altimo	RUSSIA	3,600
08 MAY 2012	Koninklijke (23.2% stake)	NETHERLANDS	America Movil SAB de CV	MEXICO	3,456
12 AUG 2012	Egyptian Company for Mobile Services (63.64% stake)	EGYPT	France Telecom	FRANCE	3,281
24 APR 2012	MegaFon (10.7% stake)	RUSSIA	AF Telecom Holding	RUSSIA	2,886
24 OCT 2012	Jupiter Telecommunication Co (28.26% stake)	JAPAN	KDDI Corporation; and Sumitomo Corporation	JAPAN	2,701

Adrian Baschnonga, a senior analyst in Ernst & Young's global telecoms practice, says in the current climate few dealmakers have the appetite. "Apart from any competition considerations, most telcos are not in a "land-grab" frame of mind - they are still trying to gain control over the footprint they have built up," he says.

If anything, Baschnonga adds, big telecoms businesses are getting more risk averse because dwindling revenues in established markets mean that they simply haven't got the cash to throw at a big deal.

A more manageable solution would be for Verizon to buy the wireless unit outright. It is currently valued at about $120bn. That would entail paying up as much as $60bn in cash and shares - a hard sell to existing shareholders.

Both Verizon and Vodafone routinely pour cold water on suggestions of a deal. So when McAdam conceded in January that a deal to buy out Vodafone was "feasible" and the company was financially strong enough to pull it off, the rumour mill began to turn. And when, in February, Colao said he was willing to keep an "open mind on everything", it moved up a gear.

FULL WAR CHEST

Such rumours are important in the telecoms sector because Vodafone treads a lonely path as a mobile-only phone company. The proceeds from a sale of Verizon Wireless would give Vodafone a huge war chest with which to go shopping.

"If the group were to sell its 45% stake in Verizon Wireless, Colao could sort out his fixed-line issues in pretty much every major market in Europe and still have change to hand back to shareholders," says Darren Ward, an analyst at the London-based independent research firm Echelon.

Crucially, Vodafone might be about to go shopping just as European regulators have cleared the decks for another round of consolidation. Earlier this year, European regulators approved a bid by Hutchison Whampoa, Austria's third largest mobile operator, to buy Orange Austria, the fourth biggest, for €1.3bn. The approval is significant because it suggests that competition authorities are willing to reduce the so-called "magic number" of competitors they insist upon in small and often overcrowded local markets, from four to just three players.

In Spain, the top three players have all expressed an interest in buying the number-four operator Yoigo, while in France, reports have suggested that SFR and Free Mobile would be keen to explore a merger. Similarly, analysts are looking over the top four players in Germany, Italy and Greece and the consensus is that a round of deals mirroring that in Austria will follow.

However, Andrew McMillan, a partner at Simmons & Simmons and head of the law firm's technology media and telecoms group, warns against reading too much into the ruling: "The hurdles for regulatory clearance have not been lowered - it took almost a year for the regulatory process to run its course."

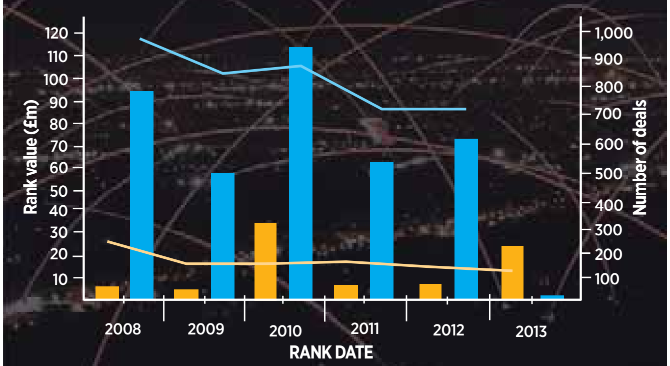
The European Commission has said it views many European markets as being concentrated and the protection of consumers and innovation will be key.

"That said, it has made a distinction between in-market consolidation from cross-border consolidation and the latter is potentially less problematic," adds McMillan. Nevertheless, any scramble to be part of that consolidation will gain impetus if a cash-rich Vodafone enters the fray.

"The hurdles for regulatory clearance have not been lowered"

Andrew McMillan, head of telecoms at Simmons & Simmons

TELECOM SECTOR GLOBAL M&A



SOURCE: THOMSON REUTERS

GETTY

Thirst quenchers

The debate about what to do with 'zombie' companies rages on. Tim Stocks says improving liquidity in equity markets would help to resolve inherent capital structure problems

Should 'zombie' companies be pushed over the insolvency edge for the good of economic growth? It is a question that continues to be asked in the UK media. Kept alive by loose monetary policy and low interest rates, but generating insufficient cash from operations and starved of capital, they can neither invest in plant and equipment, nor present a three-year track record of progress with strong prospects.

The UK government's Funding For Lending Scheme, where the Bank of England (BoE) offered cheap funding for bank loans to qualifying companies, has been widely reported as a failure. Banks, quite rightly, have not got carried away with the offer of cheap lending and have been applying prudent lending criteria. Despite these companies having an urgent need to replace worn-out equipment or for working capital for new contracts, a recent history of no growth, weak balance sheets and under-capitalisation is not what banks are looking to lend to.

But before writing off the zombies, are the problems rooted in their business model or their capital structure? Having continued to trade through arguably the worst UK recession in the last 100 years suggests their business model is not broken. This points to the capital structure as the problem. With that resolved they could attract lending and investment, then grow.

LIQUIDITY, LIQUIDITY, LIQUIDITY

The starting point to correct these capital imbalances has to be access to equity capital. Let's look at the UK's stock exchanges. Today this life-blood of equity funding is at best anaemic. Despite IPOs for Crest Nicholson, e-sure and Direct Line, the facts are that by February 2013 there had been four London IPOs, two down on the paltry six in the first two months of 2012. Balance sheet restructuring is clearly not under way. By contrast there are reportedly some 700 Chinese companies lining-up for IPO in China.

So what are the impediments to equity investment in UK companies today? Feedback from investor roadshows typically includes "don't usually invest in IPOs", which translates as "share price likely to trade at a discount, due to a lack of liquidity". Investors often say the IPO is "too small" - code for "too illiquid". They will add, for absolute clarity, that the offering is "too illiquid".

For institutions, the ability to hold investments which are readily realisable is critical. As an asset class, shares in listed companies on, say, AIM or outside the FTSE-250 would not be considered so.

The BoE's Discount Window Facility, (DWF), provides banks with short-term liquidity, for bank specific or system-wide problems. Banks that are "eligible participants" in the DWF can deposit loan portfolios with the BoE. Then, for a fee, and for a period of 30 days, the BoE will advance gilts against this security.

A two-fold expansion of the DWF could go some way to address the equity liquidity issue. Extending the range of "eligible participants" to include insurance companies, institutions and pension funds, and the definition of "eligible collateral" to include equity securities in "qualifying" trading companies, could be the key. A portfolio of equities could be exchanged for gilts and act as a liquidity backstop for participants. This could be the boost equity needs, which could see the capital structure problem in zombie companies start to be addressed, wake them up and start them going for growth.

Join this debate on the faculty's LinkedIn group at: ICAEW Corporate Finance Faculty.

Tim Stocks, UK head of financial institutions and markets, Taylor Wessing. Contact t.stocks@taylorwessing.com

KERRY ROPER/IKON

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.

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FORCE BEHIND THE POWER

Equis Funds Group has secured $730m for energy and infrastructure platforms in Asia in its first fundraising. CEO **David Russell** tells Brian Bollen how the firm sets itself apart from other investors

David Russell is a force of nature. As CEO of Equis Funds Group he could be forgiven for basking in the glory of a successful fundraising that saw him secure $730m for its maiden Equis Asia Fund I (EAF1). Far from it. With two investments under its belt, Russell says deals are lined up that will see the fund fully invested by the end of the year – and he already has one eye on fund two.

Inviting Russell to explain the firm's approach is like setting off a firework. Light the blue touch paper and stand well back. Even speaking from the other side of the world with a patchy connection, he is impossible to interrupt, let alone stop.

The decision to set up Equis was, it seems, something of a no-brainer. The market had an appetite for an independent fund, he explains, so he and the rest of the management team left Macquarie in 2010 and, together with other industry colleagues, set up on their own. "We are one of the

"Some of the largest pension funds in the world are investing with us"

David Russell,
chief executive, Equis Funds Group

GALLERY STOCK

only independent, self-owned managers in this sector in Asia," he says. "We have the largest, deepest team in the region and some of the largest pension funds and endowments in the world are investing with us. For the majority, it is the first time they have ever invested in an Asian equity investment fund. What we are doing is different. Traditional infrastructure investment focuses on assets, yield and cashflow. We are establishing and expanding utility businesses that aggregate hard assets within them."

DRILLING DOWN

Equis's sector mapping and risk/return benchmarking is designed to identify asset classes that are undergoing unique transformation and offering alpha returns. This has enabled it to develop what it describes as a strong proprietary pipeline of investment opportunities. The main focus today is on energy infrastructure growth and expansion investment, cherry-picking growth leaders across the region, rather than buy-outs, Russell says.

The firm is determined to stay ahead of the game, and says first-mover status enables it to snare the better projects in sectors that are in the throes of transformation. These sectors will change as industries move through their life cycle, going from immature, to growth, to fully developed, delivering lower returns to investors as they progress. "We're trying to pick the right time, the right spot and the right sector, and to exit when a country or a sector matures," says Russell.

India is a case in point. The sub-continent's installed electricity-generating capacity is less than 100% of peak demand, resulting in rolling brown-outs and black-outs. "The macro-demand story around thermal generation sounds compelling but the risk/return dynamic is not one we are prepared to take," says Russell. In making that decision not to invest, Equis mapped the sector and made some simple, but fascinating and potentially highly-profitable, discoveries.

"Hydro-electric generation in North India benefits from the monsoon rains, and Himalayan snow melt," he observes. "This enables PLFs [plant load factors] of 50-60%, compared with 35-45% elsewhere in India, and around 40-45% in China. Do you invest in China, or in north India? It's a pretty easy comparison, once you understand local construction costs, tariffs dynamics, debt markets and tax."

> "I give the team 10 out of 10. It is a compelling story told by seasoned professionals"
>
> **Mounir Guen,** founder and CEO, MVision

ON THE GROUND

With head office in Singapore, other offices are to be found in Hong Kong, Chengdu, Bangalore, Delhi and Bangkok. The team has invested, managed and exited more than $2.3bn of equity capital in Asian infrastructure and energy assets and has executed more than 120 transactions across China, India, Korea, Japan, Taiwan, Philippines, Vietnam, Thailand, Sri Lanka and Australia in sectors such as renewable and conventional energy generation, power and gas distribution, water supply and treatment, and road, rail and port terminal transportation.

"I give the team 10 out of 10," says Mounir 'Moose' Guen, founder and CEO of MVision, the placement agent for EAF1. "It is a compelling story told by highly-seasoned professionals who look at a potential investment – not in a 360 degree way, but twice that level of intensity, considering it in three dimensions, even four dimensions. It is not often in my career I have seen so many stars line up as in this case."

HERE'S THE FUND

Equis Asia Fund 1 (EAF1) is structured via three different vehicles, offering a blend of private equity limited partnership and an evergreen structure. "It was an exceptionally innovative structure satisfying the tax and regulatory requirements of a diverse and global investor base, and provided opportunity for investors who had previously not invested outside their jurisdiction to make their first extra-jurisdictional private equity investment," says Tony Gibson, head of private funds, East Asia, at SJ Berwin, which advised Equis. It was structured through the Cayman Islands.

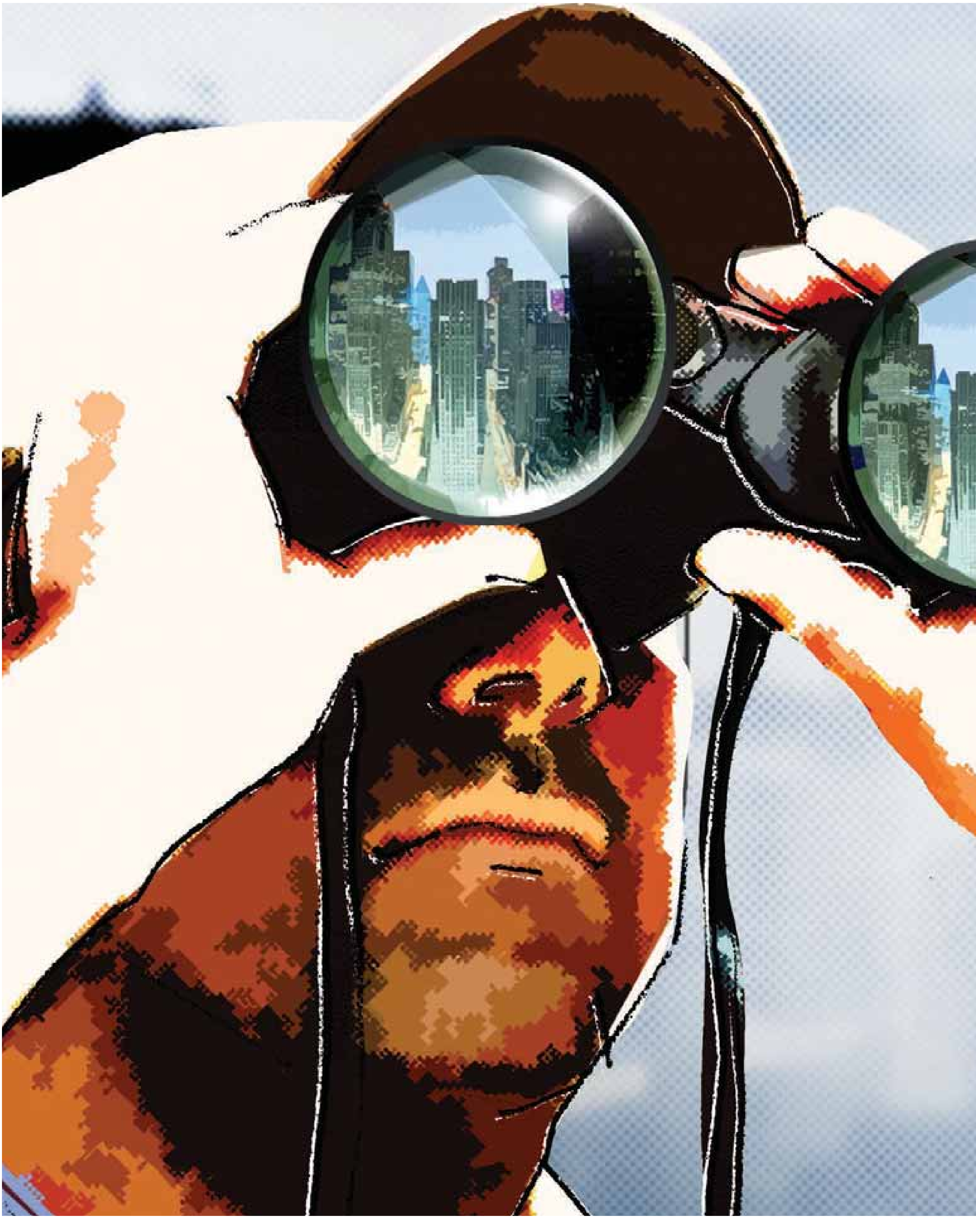
Fundraising began in the first quarter of 2011, with a first close at $185m in November 2011. The fourth and final close, at $647m plus additional co-investment capital commitments took the total under management to $730m, in December 2012. EAF1 was awarded the title of Asia-Pacific Infrastructure Fundraising of the Year 2012 by *Infrastructure Investor.*

HERE ARE THE DEALS

EAF1 has made two investments, is currently finalising its third and fourth, with a further two expected to complete in the second quarter of 2013. Russell says the entire fund will be invested by the end of this year.

Dans Energy in India is a run-of-the river hydro power developer, owner and operator. Dans is building two hydro generation facilities in the country's north-east region. The first plant should be completed in 2014 and the second in 2015.

Soleq is a Singapore-based Asian solar utility business with the ambition of becoming Asia's largest independent solar power producer. Soleq has already acquired the rights build 10 photovoltaic farms in Thailand.



DAN MURRELL

LIFE'S BIG VENTURE

Corporate venturing has a rich but rather chequered history. On the rise again, companies have adapted their approach. **James Mawson** looks at the lessons from earlier pioneers

"If you always do what you always did, you will always get what you always got," said Albert Einstein. In a world where what businesses 'always got' is on the wane, they have to find new ways of doing things, and often that means looking beyond their rigid corporate structures.

Corporate venturing enables larger companies to invest and gain access to a smaller company's research and development (R&D) or other skills in an area of interest, new ideas or a more entrepreneurial culture. It is maybe no surprise – as businesses look to innovate for growth – that corporate venturing is increasing. But the history of corporate venturing reveals a pretty mixed track record.

In previous waves, from the 1960s through to 2000, investment from corporates in third party firms increased considerably towards the end of the economic cycle. Most recently, many corporations invested late in the technology boom of the 1990s and then retreated from their venture capital initiatives after that bubble burst.

Governments have often inadvertently encouraged this process by offering tax breaks or regulation changes at the tail-end of the cycle to try to pull in a final group of uncertain stragglers. The UK's Labour government introduced the Corporate Venturing Scheme in the 2000 Budget – which it subsequently withdrew.

This tendency towards cyclical investment and the burnt fingers of the early noughties meant most corporations retreated from corporate venturing. Incubators and investment teams were either shut or spun off and limited partnership commitments sold to venture capital funds. Reuters sold its Greenhouse unit, and Shell Technology spun off Kenda Capital.

FORWARD THINKING

However, corporate venturing is once again on the rise. More than 200 funds or units have launched since 2010 worldwide, including more than 60 with investment staff in the UK. Advertising agency BBH launched the Black Sheep Fund and Cambridge-based tech firm Marshall launched a start-up investment firm, Martlet, in 2011. GlaxoSmithKline's (GSK) venture arm SR One launched a £50m UK fund last year. There are now more than 800 corporate venturing units doing more than 1,000 deals per annum worldwide, of which the UK makes up about 6%, according to *Global Corporate Venturing*.

This growth is attracting the interest of policymakers. According to research by Gary Dushnitsky at the London Business School, companies that did not sell off or dissolve and held on to their venture capital units are outperforming those companies that do not have a minority investment strategy.

Crucially, corporations are aware that an opportunity exists to invest at the beginning of the business cycle rather than the end. Many businesses are fully aware the role innovation can play in boosting the value of their equity through new revenue or cost-cutting.

According to newswire Bloomberg, corporations remain well capitalised, with $1.5trn of cash sitting on the biggest European companies' balance sheets and $2trn on those of their US peers. They certainly have the means, but do they have the desire to turn to corporate venturing for innovation? By contrast, the pool of alternative long-term institutional investors funding venture capital firms has declined.

Corporations have learned some lessons from the past and are now establishing and running their venture units in a new way. They are hiring mixed teams of experienced venture capitalists to work alongside business managers and entrepreneurs while ensuring senior buy-in within the corporation.

Despite all these positive developments, the current state of corporate venturing in the UK remains mixed. Corporate venturing is proving an effective way of channelling foreign investment into the country. It is an approach that offers greater diversity and longer timeframes for investments than traditional VC. However, the scale of corporate venturing in the UK remains modest, with few deals reaching the scale that VC would consider an efficient size.

The eternal question over access to suitable and high-volume deal flow persists. Some corporations fear the regulatory framework is not as friendly as it could be, and that the UK government is not as supportive of corporate venturing as other governments. These concerns may be more about perception than reality because other investors are more positive about the environment and the opportunities. Challenging perceptions may be important, but getting strong deal flow in the right sectors and creating as friendly a regulatory environment as possible will be vital to attract corporate venturing to the UK.

DOING MORE THAN **1,000 DEALS** PER ANNUM WORLDWIDE

WHAT TO DO?

In the April Budget, the UK chancellor George Osborne announced no direct measures to encourage corporate venturing. James Mawson, founder of *Global Corporate Venturing* and *Global University Venturing*, argues that several fiscal measures would support the environment for infrastructure investing:

- An accelerated 'qualifying venture investment allowance' for corporations would reward or recompense risk-taking by corporations in UK ventures.
- 'Serial venturing' could be encouraged by deferring capital gains tax on disposal profits, provided these profits are reinvested in further qualifying corporate ventures in the UK.
- For overseas companies investing in UK-based risk assets, a structure to allow them to use offshore cash and repatriate profits – with minimal UK tax if the investee sets up a subsidiary in the UK – would encourage venturing. So would putting corporate venturing on the same tax footing as independent venture capital funds.
- Corporations could be encouraged to be limited partners in independent venture capital funds, if they were treated as tax exempt as pension funds and investments.
- A relaunched Corporate Venturing Scheme, with a higher proportion of relief against corporation tax than the previous scheme and an increased size of qualifying target company (from £7m to £25m say), would provide a boost.

STRUCTURING A CORPORATE VENTURE FUND

Corporations can support third-party entrepreneurs either directly by taking equity, or through a loan. They can offer indirect support by becoming a limited partner in an independent VC fund.

To invest directly in start-ups, corporate venturing units can be funded from the corporate's balance sheet or run effectively as a VC fund – the general partners (GPs) manage the deal flow and call on the parent company's commitment when they find a suitable deal. Structuring the corporate venturing unit as a fund with the corporation as limited partner allows the GP to raise money from third parties too. Irish utility ESB's funding of Greencoat Capital (formerly ESB Novusmodus) and the creation of Aster Capital by Schneider, Alstom and Solvay are such examples.

By keeping the deals on the balance sheet, corporations potentially keep tighter control on investments they have made. There have been some notable corporate commitments to VC funds in the UK recently. Healthcare companies GSK and Johnson & Johnson provided half of Index Ventures' life sciences fund. However, in general, VCs have found it harder to raise money from corporations, according to EVCA research.

SWEET SUCCESS

The chance to take ideas mainstream is one benefit of a corporate venturing partnership between large, established corporations and nascent businesses.

In 1994, organic chocolate maker Green & Black's Maya Gold was the first UK product to go on sale in the UK with the Fairtrade stamp. In 2002, the UK's largest chocolate maker, (then) Cadbury Schweppes (before its acquisition by Kraft Foods), acquired 5%. In 2005, Cadbury bought Green & Black's outright.

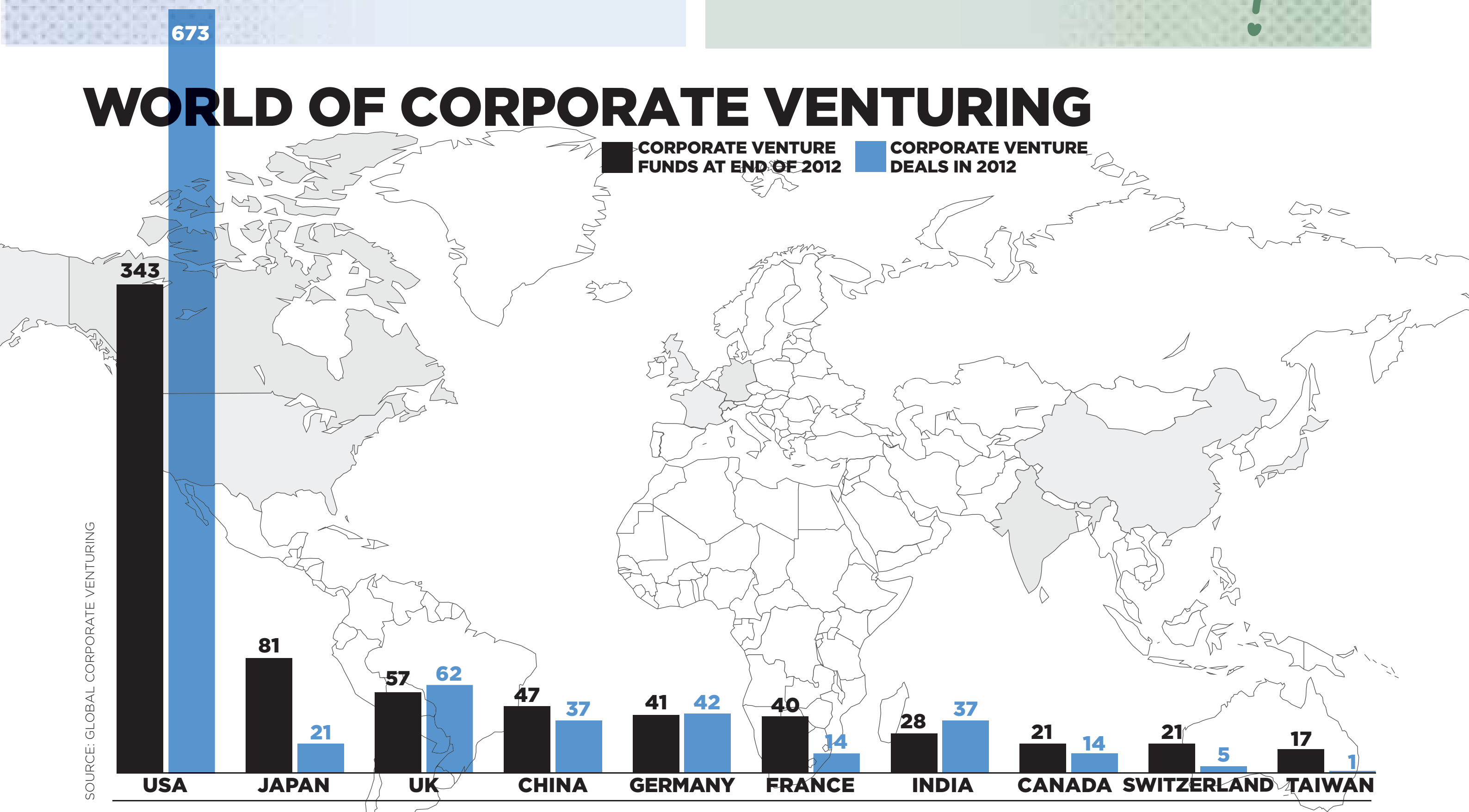
At the time, many worried Cadbury would reverse Green & Black's organic and ethical stance on buying chocolate from Belize farmers at a fair price. In 2004, Cadbury repeated its opposition to the principle of Fairtrade pricing for cocoa farmers. However, it later rolled out the Fairtrade logo across its broader range of chocolate. Clearly it saw the marketing potential Green & Black's had spotted earlier.

Cadbury Schweppes

+ GREEN & BLACK'S

= ORGANIC ?

WORLD OF CORPORATE VENTURING



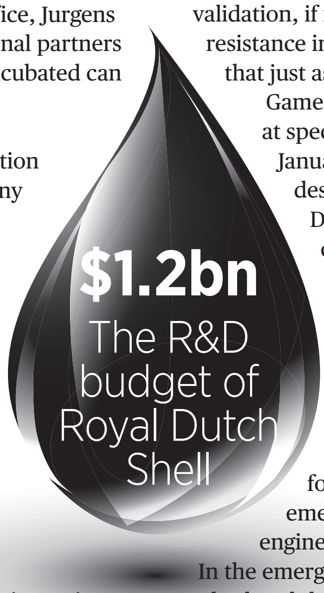
OILING THE WHEELS OF DEVELOPMENT

In corporate venturing it is a "struggle for long-time seasoned technology managers to accept that, in order to get the most out of the technology, sometimes you have to lose some control", says Chris Haase, adviser to the chief strategy officer at Royal Dutch Shell.

But in a 100-year-old oil company with a history of successful innovation and long-term growth, it is a struggle the company is willing to undertake. Earlier this year, Shell appointed Thijs Jurgens to the role of vice-president of innovation to pull together its corporate venturing units and its internal technology and business development teams. His focus is on Europe and sub-Saharan Africa.

Reporting to the chief technology office, Jurgens is looking at how innovation with external partners and encouraging internal ideas to be incubated can help a capital-intensive industry make technological advances.

Shell has been expanding the innovation toolkit at Jurgens' disposal. The company has set up a Pathfinder incubator for internal ideas as well as creating Shell Technology Ventures (STV) II – a corporate venturing fund to back external entrepreneurs and complement its first STV vehicle. This is being managed by Kenda Capital, which was spun out of Shell. Shell remains an investor in Kenda alongside Coller Capital and the Abu Dhabi Investment Authority.



GAME CHANGERS

This new approach is in part based on pioneering work by Germany-based industrial conglomerate Siemens, according to Shell insiders. Siemens has tools for indirect investing in funds, direct investment and internal R&D.

Both STV and Pathfinder, which is specifically looking for future and alternative energy projects, are being seeded with ideas going through Shell's GameChanger programme, which supports and funds pioneering projects to the proof-of-concept stage. Shell or other VC firms then step in to continue the funding.

In a speech in February at the CEIBS business school in China, Jurgens said GameChanger had seen more than $250m invested in more than 2,000 ideas, with about 200 ideas having been commercialised in just over a decade. Haase explains the approach in detail: "Our technology platforms are managed very much like independent businesses, with their own decisions, their own returns and their own dynamics and business drivers. However, that is just not enough and Shell has been very active for decades in the area of corporate development, particularly with venture capital. The conventional partition of internal and external R&D is largely a red herring. Each of Shell's 30-plus technology platforms has an external technology component.

"The real value is captured through the integration of the internal and external R&D, and putting it to work in the business. As for the 'not-invented-here' syndrome, when we bring a technology in for validation, if it meets some modest technology resistance internally about challenging 'we can do that just as well', that is probably a good sign."

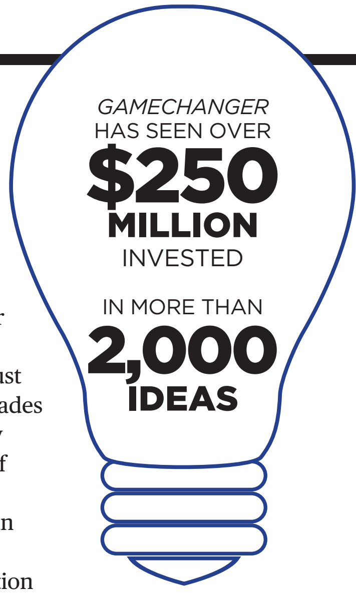
GameChanger's latest projects include looking at specific technologies, such as cars. In January Shell, along with crowdsourcing design network Local Cars, set up the Driven energy-efficient car design competition. The LM Urban Pod car by Paulo Encarnação from São Paulo was one of five competition winners and Shell's GameChanger team will turn the design into a quarter-scale model to showcase at events around the world.

Shell categorises its various projects on four technology platforms – core, first, emerging and enabling. In the core category, engineers review and improve existing projects. In the emerging category, engineers pursue cutting-edge breakthroughs, such as clean energy. The enabling category refers to support and upkeep of platforms. To give some context, Shell has a $1.2bn R&D budget.

"The big challenge we face from a corporate venturing and corporate management perspective is that extracting the most value from the technology and applying it and deploying it fastest in the field sometimes requires losing control," says Haase. "[Sometimes that means] not taking a controlling position but taking a minority stake.

"That minority stake does a few things. It brings fresh DNA in, it brings in external validation of the technology from other investors and allows that technology to grow and replicate faster in the market, which ultimately drives down cost and improves the quality of product offerings."

> "Our technology platforms are managed very much like independent businesses, with their own decisions and dynamics"
>
> **Chris Haase,** adviser to the chief strategy officer, Royal Dutch Shell



WITH AROUND
200
HAVING BEEN COMMERCIALISED

THE INNOVATION SELL

It certainly catches the eye when a chief executive of a pre-revenue start-up berates the market for failing to support its vision when it has just raised £15m. But in September Oxis Energy, a UK-based rechargeable battery maker for electric bikes and cars, did exactly that.

"Over the past two years, it has become apparent to me that the European and North American energy companies lack the understanding of the significance of the Oxis Energy technological breakthrough, and its impact on the future method of propelling vehicles and energy storage," said Oxis CEO Huw Hampson-Jones in September 2012.

A case in point, last year South Africa-listed energy and chemicals company Sasol invested £15m for a 30% stake in Oxis through venture arm Sasol New Energy (SNE). "Sasol fully understands the profound implications of this new chemistry and technology," added Hampson-Jones.

Founded in the 1950s, Sasol first developed technology to convert some of South Africa's extensive coal reserves into oil and gas and associated chemicals. When it changed its strategy to look at renewables, a cost-effective battery storage system was one emerging technology of interest. As Henri Loubser, SNE managing director put it: "Energy storage will be a critical link in the success of a low carbon mobility value chain."

"The European and North American energy companies lack the understanding of the significance of our breakthrough"

Huw Hampson-Jones,
CEO,
Oxis Energy

The Andros Ii 03 electric car made by Evo Electric, which was given a corporate venturing boost by UK-listed GKN in 2012

Cavan Hill, his deputy, said in March: "We looked at the market, at who was working in these areas and saw Oxis. Oxis, in turn, realised their technology needed scaling and commercialising and we could help."

GETTING ACCESS

The collaboration will see the leveraging of Sasol's R&D expertise, chemical process commercialisation capabilities, and Oxis having access to Sasol's laboratories.

Oxis' options have not been closed off. A future option is to work with UK-listed industrial group GKN, which last year made a corporate venturing investment in electric vehicle motor maker Evo Electric. Hampson-Jones said GKN's access to defence and aviation markets, where safety and weight-to-power ratios and storage capacity were important, would be an opportunity. The deal with Sasol, which has a $30bn market capitalisation, put Oxis near new potential customers.

"Our finances are now stable and we have the support of a major corporation," Hampson-Jones said. "It really is transformative."

Previously, Oxis's shareholders, who included venture firm Hazel Capital and angel investors, had put in £14m. This early funding helped prove the concept. But pre-revenue deals bring challenges. Sasol had only done one or two similar deals in the past decade, so it only had a process for larger company M&A.

Neil Foster, London-based partner at law firm Baker Botts, which represented Sasol in the deal, said: "An important area of corporate venturing is on every deal there is a range of outcomes for the corporation, from buying, selling or holding, so you have to prenegotiate at entry for the what-ifs."

So what will prove it a successful deal? Hill said: "For us, success metrics will come down to whether Oxis's technology is successfully commercialised and applied, which will give financial success."

Reference points

The fundraising landscape for private equity is challenging and becoming even more competitive. **Neil Sackett** explains how portfolio company CEO referencing can give investors an edge

What separates the winners and losers in private equity (PE) fundraising? Past performance? Timing? Team stability? Strategy? Amount of limited partnership (LP) 'churn' and new money sought? Rumours? Luck? All of the above? It is a question that is exercising the best minds in many PE houses.

The fundamentals of success in the 'new normal' environment have not changed. Track record is undoubtedly critical. Beyond that it is about having a credible narrative and generating momentum. What has changed is the context. Investors are more picky about who they back and are looking globally to find managers they like in markets they think will deliver growth. Due diligence is deeper and processes are longer. With some limited partnerships exiting the asset class, investing less or reducing their general partner (GP) relationships, the search for new seams of capital is also on.

The testimony of portfolio company CEOs provides tangible evidence of the PE firm's strategy in action and crucial insight into areas of particular LP interest, such as a GP's origination processes, execution skills and ongoing post-deal engagement, particularly in cases where success was hard won.

Referencing of investees by LPs is commonplace, but ensuring CEOs' voices are heard is challenging. A GP's world is one of large networks of realised and current investees scattered across time zones. Their CEOs' prime focus is their own businesses, not that of their investors. For their part, many LPs are resource-constrained, with boards and trustees demanding they raise the due diligence bar and look further afield for returns.

Increasingly, PE houses are commissioning their own references produced by an independent supplier - essentially a form of vendor due diligence. These sit in the virtual data room, positioning the GP as open and transparent while effectively allowing the voices of CEOs to validate its story. For first-time funds these independent references are even more important, bringing together a virtual portfolio of investments from the executives' former roles. In other cases, GPs have included references from a broader range of stakeholders, including bankers and corporate finance advisers.

This plays to the LP mantra of transparency, and the fact that regulation is increasingly seeking to ensure a level playing field in terms of access to information, while also positioning the GP as prepared - essential in the search for momentum. However, key to the effectiveness of independent referencing of this nature is credibility, and it is essential for GPs to put themselves in the shoes of LPs and to provide the information they want in the format in which they want it.

THINKING LIKE LPs

Careful preparation and management of the fundraising process is key to building and maintaining momentum. With LPs wanting to get further under the skin of a GP's strategy and see how value is created, investee businesses are a valuable fundraising resource. GPs should:

- Be proactive – LPs will do this anyway;
- Be open – portfolio CEOs are your most valuable resource, don't hide their testimony;
- Think like an LP – what would you want if you were in their shoes?
- Ensure credibility – make sure information presented is independently verified; and
- Be transparent – with those you had to work at as well as the home runs.

Neil Sackett is a director of Arbor Square Associates, a consulting firm undertaking CEO referencing.
Visit arborsquare.com

For first-time funds these independent references are even more important

GREAT LEAP FORWARD

The Nuttall Review sought to create a new corporate landscape of UK employee ownership. **Laurence Lumb** of Field Fisher Waterhouse gives his views on moves to empower employees

Significant changes to the UK's statutory regime for share buy-backs took effect at the end of April. But what exactly are these exciting new developments, and how will they affect companies and their professional advisers?

Simplifying the procedures for share buy-backs implements one of a range of recommendations made in the July 2012 report *Sharing Success: the Nuttall Review of employee ownership*. In January last year, the UK government commissioned a report by Graeme Nuttall, my colleague and partner at Field Fisher Waterhouse, with the aim of coming up with suggestions about how to dismantle barriers to employee ownership.

Subsequently there has been a boost for employee ownership in the 2013 Budget. The government confirmed its commitment to implementing the review's recommendations. It announced the provision of an annual fund of £50m from 2014-2015 to further this purpose. It also unveiled a new Capital Gains Tax (CGT) relief from April 2014 on the sale of a controlling interest in a business to an employee-owned structure.

The *Nuttall Review* identified the need to encourage direct employee share ownership by improving the operation of internal share markets. However, the impact of reforms will be much wider.

Three of the six measures outlined below are not restricted to buy-backs in connection with an employees' share scheme. They will assist private companies generally as well as treasury shares and unlisted public companies.

CHANGED APPROACH

Following the government consultation in October 2012 and the response paper published in February 2013, Part 18 of the Companies Act 2006 is being amended to provide for the following:

- **Authorisation of a share buy-back:** Approval of a share buy-back contract by the shareholders will require only an ordinary resolution, rather than a special resolution.

£50m

annual fund earmarked by the UK government from 2014-2015 for employee ownership

- **Single authority for multiple buy-backs:** A single ordinary resolution may be passed to authorise multiple share buy-backs for the purposes of an employees' share scheme. This authority can last up to five years and must specify a maximum number of shares to be acquired, as well as a maximum and minimum price to be paid for the shares.

- **Payment for a share buy-back by instalments:** To aid flexibility on financing, a private company can (if agreed with the selling shareholder) pay in instalments for shares that are being bought back for the purposes

POWER TO THE PEOPLE?

Cass Business School and the Department for Business Innovation and Skills recently published *The Employee Ownership Advantage*, a review gauging the benefits of being an employee-owned business (EOB). The key findings were:

- EOBs have a stronger long-term focus. Non-EOBs are more conservative when it comes to balancing short- against long-term responses to changing demand, and are more preoccupied with efficiency and costs. EOBs are more likely to favour activities that have a long-term payback horizon and put greater emphasis on forward growth planning.
- Increasing employee representation at board level can improve EOBs' performance. Increasing employee representation by less than 30% had no impact on performance, but increasing employee representation by at least 30% had significant impact on performance. However, increasing representation by more than 60% does not deliver additional benefits.
- EOBs invest more in human capital than non-EOBs.
- EOBs face greater problems when it comes to raising capital and dealing with regulatory requirements.
- EOBs get more of their growth from adding new customers, compared with non-EOBs.
- EOBs show greater preference for organic growth over growth through M&A. This is particularly true for manufacturing and processing firms.
- EOBs have a more positive media image than non-EOBs, particularly in the manufacturing and processing sectors.
- Employee commitment supports the strategic imperatives of EOBs depending on which sector they operate in.

30%

the increase in employee representation at board level that had a positive impact on company performance

of an employees' share scheme. The period and frequency of payments will be for the parties to determine.

- **Small cash purchases:** A private company may buy back shares each financial year up to a limit of either £15,000 or the cash equivalent of 5% of its share capital – whichever is lower – without having to identify the source of funds.

- **Solvency statement buy-backs:** A private company buying back shares out of capital for the purposes of an employees' share scheme is able to use a special resolution and directors' solvency statement only. This procedure will be similar to that available to private companies for non-court capital reductions.

- **Disposal of the repurchased shares:** Shares of all limited companies, whether public or private, which are purchased from distributable profits or by way of a small cash purchase, can be held as treasury shares following a buy-back, and subsequently be reissued to new shareholders.

WHAT DOES IT ALL MEAN?

The reforms should certainly serve to remove the perceived limitations of share buy-backs revealed in the *Nuttall Review*. They should also encourage companies to take a fresh look at how these may be used.

For companies wanting an internal share market, particularly for an employees' share scheme, what is now offered is an easier and less costly alternative to arrangements involving employee benefit trusts. All limited companies could now decide to operate a treasury regime.

At first sight, there may be a perception that the reforms will reduce company directors' reliance on specialist accounting advice in relation to buy backs. Companies that lack significant distributable profits may be able to proceed without having to follow the detailed procedures for a buy-back out of capital, including obtaining an auditor's report.

In practice, the overall volume of share buy-backs is expected to increase as some companies use these for the first time. Those companies already undertaking larger value buy-backs out of capital will not necessarily be able to take advantage of the simplifications. As with capital reductions, while there is no statutory requirement for a formal auditor's report to support a directors' solvency statement, directors will often wish to seek advice and input from the company's auditors. The reforms therefore offer flexibility and opportunities to both companies and their advisers.

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laurence.lumb@ffw.com

FOR REFERENCE

- Details of the Nuttall Review can be found at: **bit.ly/zGogHr**
- Details of the statutory instrument can be found at: **bit.ly/Y3Y9N8**

CORBIS

What the doctor ordered

Funding a growing business is never easy, and getting hold of funding for SMEs has recently been something of a mystery. **Richard Grethe**, finance director of Focus Pharmaceuticals, tells Marc Mullen how he cracked it

IN THE BEGINNING

Back in 2003, what was to become Staffordshire-based Focus Pharmaceuticals sat within ADL Healthcare, and it was not sitting entirely comfortably. Across the rest of the business, ADL management was looking for a return period of a matter of months for any investment. Focus had a very different business model. Between £100,000 and £250,000 was required to get its generic drugs to market, which involves a two-to-four-year development cycle. This investment would take up to two years to make a return.

As a result, a buy-out was on the cards. Plans were set in motion involving three directors at ADL - Mark Cresswell, who subsequently became managing director; Roland Brown, business development and marketing director; and Ray Maginley, medical and regulatory affairs director.

Prior to the buy-out, Richard Grethe was finance director of Celltech in the UK - a branded drugs company. However, he worked up the business plan with the team, planning to join them in the buy-out and knowing the MBO needed funding, because it would be cut loose from the overdraft facility it had under ADL.

"In a way, it did help that I was independent from the team," says Grethe. "There had to be an element of trust between us - I was relying on the numbers the other guys were supplying me.

"As I knew I was going into the business I had to be sure it all stacked up, as well as the business and the management team."

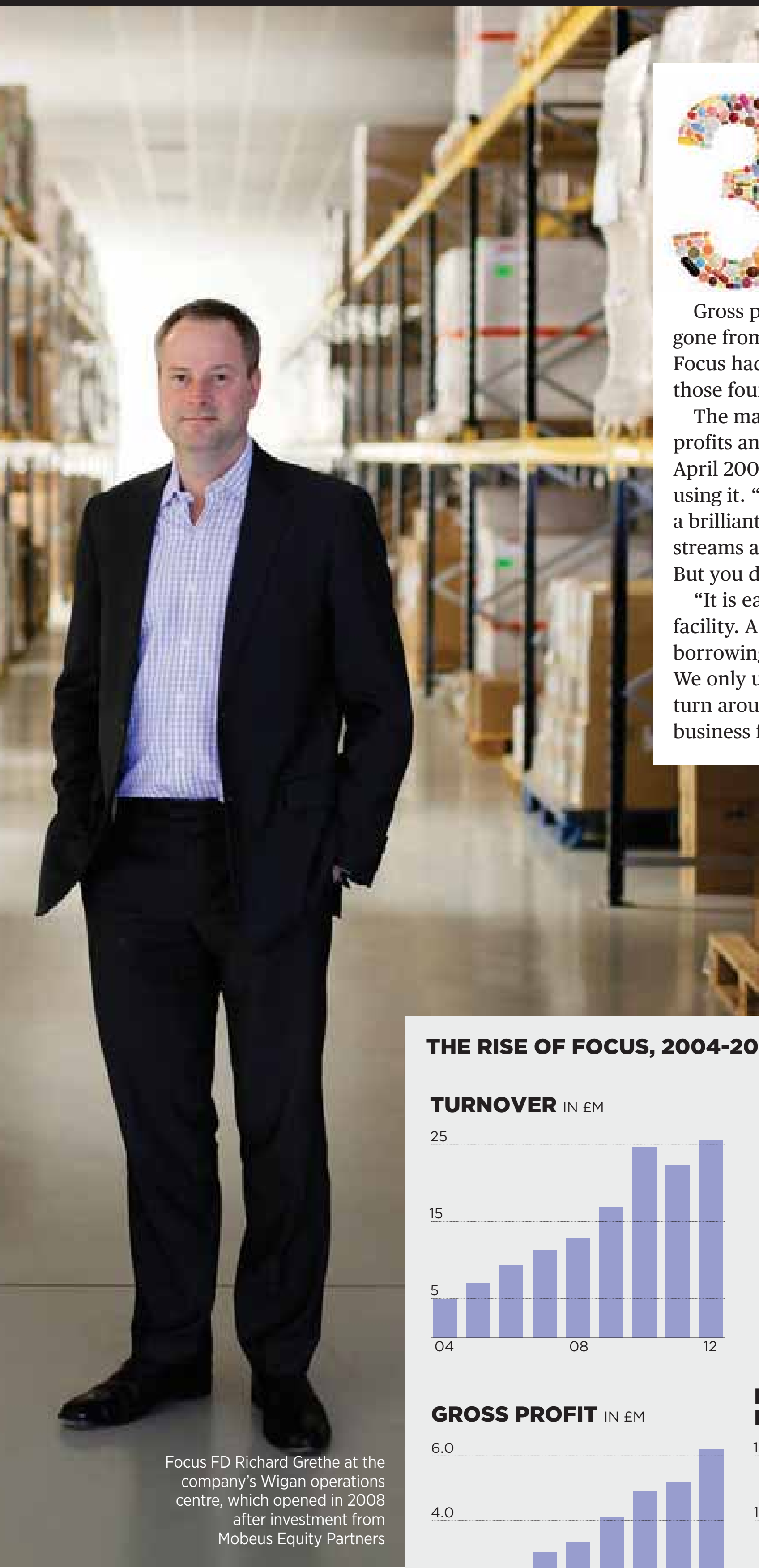
THE BUY-OUT

In November 2003, the buy-out of the embryonic new company was completed. An angel investor who knew the business and the management team backed the MBO and provided the initial seed capital. There had been other offers, but for the team it was important to have a backer they knew and trusted too.

"You need understanding from an investor at that early stage," says Grethe, who joined the board in 2004. His investment stake was very small, but for him and the team it wasn't the cash which was the real skin in the game.

"The real risk we were taking was the opportunities given up elsewhere," he says. "I gave up a great salary, a guaranteed bonus, career progressions in a secure business in a large company, a wonderful final salary pension scheme and lots of opportunity and travel, for a twice-a-week commute to the Midlands from London - with all due respect to the Midlands. It might or might not come off.

"We all gave up a lot, but that was quite invigorating. It really made us work. You do not want to be part of a failed business - you put everything into making it work."



Focus FD Richard Grethe at the company's Wigan operations centre, which opened in 2008 after investment from Mobeus Equity Partners

MISHKA HENNER

3 FUELLING THE GROWTH

With £1m of funding in place, the plan gave Focus three years to grow before it had to raise £3m to buy out the angel investor, who held the majority stake. In its first year post-MBO, Focus's turnover was £5m. By 2007, when it was looking for a new backer, it had more than doubled to £11.4m.

Gross profit had grown from £1.2m to £3m, but operating profit had gone from breaking even to just over £0.4m, the reason being that Focus had invested £2.4m in external product development during those four financial years. It had been investing for future growth.

The main fuel for this R&D growth had been the reinvestment of profits and also invoice discounting, which the business has used since April 2005. You have to be confident that the business will grow before using it. "We have used it every day since April 2005," says Grethe. "It is a brilliantly flexible tool for a growing business with stable revenue streams and a solid customer base, really easy to use and good value. But you do have to be disciplined in your approach.

"It is easier for banks to get their heads around it as an asset-backed facility. As your invoice book and turnover grows, so too does your borrowing ability. We started out with £1.5m facility, but now it's £4.5m. We only use a few hundred thousand at the moment, but I know I can turn around and press the button and produce another £3m-£4m if the business finds a good use for it."

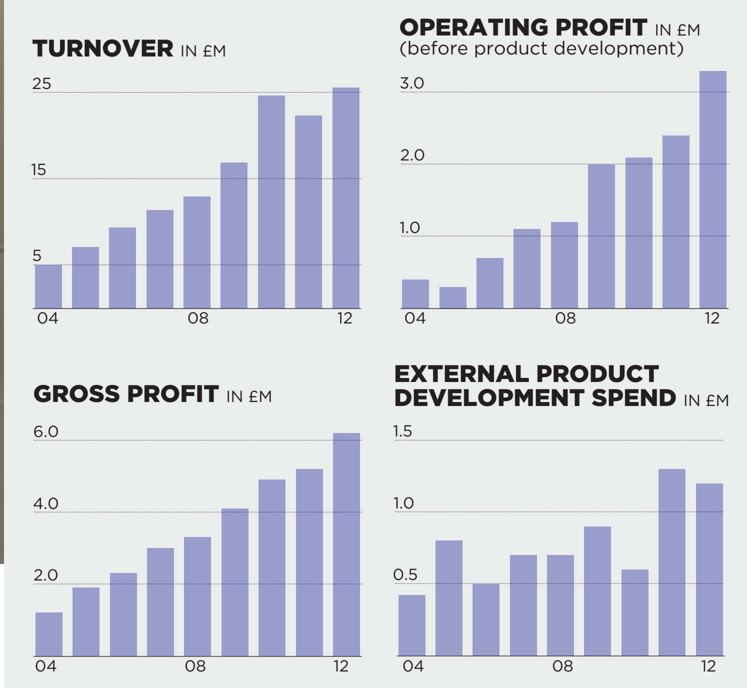
ALWAYS LISTENING

"I don't think you can ever be equipped with full knowledge of the markets for financing your business. The best thing you can do is be open-minded," says Grethe.

"The first deal I did, venture funding and venture debt were looked at, which have now gone by the wayside.

"Now we have crowdfunding, which you look at and say 'I don't know about that'. You have to keep speaking to the banks and the funders and the debt funders and consultants to find out what is out there."

THE RISE OF FOCUS, 2004-2012



4 THE VCT COMETH

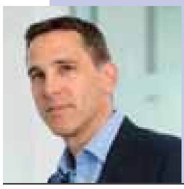
In 2007, with a track record of growth and a pipeline of new products in development, the business needed to raise £3m to buy out the angel investor. Retaining the angel with the majority stake was still an option, but not management’s preferred option. A bank loan to buy him out was another option, but Grethe could not get to the banks to provide the headroom he felt they required.

Focus engaged CIL advisers for vendor due diligence (commercial and strategic). As the October 2007 deadline loomed, Grethe compiled a list of buy-out houses from the BVCA’s website. He spent two weeks with the business plan in a rucksack, knocking on doors.

After whittling it down to about four potential private equity investors, Grethe and the team decided that an original recommendation from CIL best fitted the bill – Matrix Private Equity Partners (now Mobeus Equity Partners). Focus ticked all the boxes for the investor – good growth prospects, a unique selling point, strong management team and willing to sell an appropriate amount of equity. “Ashley Broomberg drove the deal through pretty quickly – the financial and commercial due diligence, the legals and the tax. The plan was they would fund the deal providing the equity and the banks funding the debt. In the end [Mobeus] funded the whole amount and kept the banks out. VCTs were last on our list, but they should not have been.”

THE VIEW FROM MOBEUS

Ashley Broomberg, partner at Corporate Finance Faculty member firm Mobeus Equity Partners, (pictured below) says: “We were attracted by the strong growth and ultimate exit prospects for the business, as well as the strength of the management team. We felt there was significant security value in the portfolio, which underpinned our investment and enabled us to offer attractive equity terms. The business easily serviced the VCT loan obligations. We were comfortable extending the terms of our original investment to provide the company with a flexible platform to continue to drive growth.”



5 KEEP ON GROWING

The debt provided by Mobeus came as a loan note with five-year bullet maturity. Focus’s profit continued to grow through to 2010, when operating profit was £1.5m. In 2011 it dipped as sales dropped slightly due to some third-party supply issues and the business ramped up its product development spend. But last year it grew again, with the business delivering £2m operating profit.

In January 2012, £1m was repaid and with £2m falling due in June, Grethe looked at the options. He called on the banks. RBS and Lloyds – now able to see a healthy track record of growth and a plan for further growth – offered the full amount.

“I think the banks are genuinely open for business. Clearly you have to get fundamentals right and once you do they are actively trying to lend. They definitely wanted our business.”

In the end, Grethe decided to leave the loan notes with Mobeus – which varied the conditions of the loan – as he felt this offered the business more flexibility for the future. The next stage will no doubt be a secondary buy-out or a trade sale, although these are not options for the real near term. Grethe’s initial investment has turned into something in the region of £4m – not a bad return.

“It feels really great to have created that equity value,” says Grethe. “We feel successful and lucky that we are where we are now, rather than working in a big corporate environment. That ‘lovely safe environment’ is maybe not such a safe place anymore. It has been quite a long slog, but we are certainly not finished. There is still a lot of value to be created as the products come on stream from the increased R&D investment.”

Appointments

Collins to head corporate at BLP

"I am confident we can continue to gain in our chosen markets"

Berwin Leighton Paisner (BLP) has promoted David Collins (above) to corporate department managing partner and the firm's main board.

Collins became BLP partner in 1996. He had been head of corporate finance and a member of the international law firm's strategy group since 2001. He is also a member of the Corporate Finance Faculty's board.

Under Collins, BLP's corporate finance practice has grown organically as well as through strategic lateral hires, such as M&A heavyweights Alan Paul from Allen & Overy and David Barnes from Linklaters last year. Barnes joined BLP after 36 years at Linklaters where he was global corporate head between 2005 and 2010.

"Continuing the upward momentum of our corporate practice remains a key strategic priority for the firm," said Collins. "While economic conditions remain extremely challenging, I am confident we can continue to gain in our chosen markets."

David Barnes replaces Collins as head of corporate finance. Collins' predecessor as head of corporate, John Bennett, is international business partner focusing on USA and China. Four senior associates in the corporate team were promoted to partner – Ian Benjamin, Chris Bryant and Richard Werner in London and Nikolay Voznesenskiy in Moscow.

HILLBROOK TAKES OFF WITH FOUR NEW RECRUITS

Justin Symonds, former head of transport and infrastructure, and Charles Roast, former head of UK corporate finance at RBS, have co-founded Hillbrook Partners.
The new firm will specialise in infrastructure and transportation, and offer corporate finance advice, capital raising and funding advice, plus operational advice to transportation businesses.

The pair, who left state-owned RBS in January when its advisory unit closed after a buyer failed to materialise, have so far recruited a team of four.

Symonds has more than 20 years' experience. Prior to RBS, he worked for the EMEA transport teams at Morgan Stanley and Citigroup. He has a degree in modern history from Oxford University, and is a qualified pilot with a masters in air transport management from Cranfield University. Roast has 17 years' investment banking experience, having previously worked at Merrill Lynch and Deutsche Bank. He trained as an ACA with Ernst & Young.

"We reflected on the nature of what was happening in the market

"As a team we have an excellent track record in the airport sector"

place and increasingly felt there was a potential opportunity," said Symonds. "As a team, we have an excellent track record in the airport sector, where there is a fair amount of activity and we expect to continue to see high levels.

"Equally, with the privatisation requirements on governments, we expect broader infrastructure opportunities to arise."

NEWS IN BRIEF

Neil Miller has joined **Linklaters** in Dubai as global head of Islamic finance from KPMG where he was a partner and also global head of Islamic finance.

Jonathan Bloomer has joined **JLT Employee Benefits** as non-executive chairman from Cerberus Capital, where he was European partner and a senior member of the global operations team. He previously worked at Prudential, Egg and Arthur Andersen.

Andy Bates is now business restructuring partner and Rosanna Bryant (left) financial regulation partner at **Addleshaw Goddard**.

Lucinda Coleman has been promoted to business recovery director at West Country-based advisory firm **Francis Clark**.

Tom Rowley has joined mid-market private equity firm **NorthEdge Capital**, as an investment manager in its Leeds office, from corporate finance advisory firm DowSchofield Watts.

Adrian Jones and Roger Clarke have moved to the Oman office of **Towers & Hamlins** to strengthen the law firm's corporate, banking and finance offerings in the Sultanate.

Duff & Phelps has recruited Jeremy Bennett as partner in its global restructuring advisory practice from law firm Cobbetts, where

“Samir has worked on a number of successful deals for 3i and has a deep understanding of our portfolio in India”

PALOD HEADS 3I INDIA

Samir Palod (above) has been promoted to managing director of 3i India. He joined the Corporate Finance Faculty member firm’s Mumbai office in 2005 and is a partner in its infrastructure business. Prior to 3i, he worked at Citigroup and Arthur Andersen.

The Mumbai and Delhi teams he now leads are focused on managing the infrastructure investments of 3i’s India Infrastructure Fund and its private equity portfolio.

His predecessor, managing partner Anil Ahuja, and partner Girish Baliga have left the firm, but will continue on a part-time consultancy basis.

Simon Borrows, 3i chief executive, said: “India is an important market for 3i. Samir has worked on a number of successful deals for 3i, and has a deep understanding across our portfolio in India.”

RAWSTRON TO IRWIN MITCHELL

Chris Rawstron has joined Irwin Mitchell as partner, as part of the law firm’s strategic drive to grow its commercial practice. The firm plans a further wave of recruitment over the next 12 months, having added 12 new partners, including Andrea Cropley, Matt Ainsworth and Jon Close to its north of England corporate team over the last year.

Rawstron (left) was managing partner at DLA Piper in Birmingham between 1999 and 2010. After leaving DLA, he retained a consultancy role.

He sat on the international law firm’s global board between 2005 and 2006.

SIMMONS EURO EXPANSION

Rezah Stegeman (below) has joined Simmons & Simmons as partner in the Amsterdam office from Clifford Chance. A specialist in financial services-related work, he has particular expertise in banking supervision and the European Market Infrastructure Regulation.

Head of the financial institutions sector at the international law firm, Jonathan Hammond, said: “We are significantly expanding our international finance team and Rezah’s expertise will build on our already strong capabilities in this area.”

In Paris, Noro-Lanto Ravisy who became corporate partner in February, has been joined by Christophe Fichet as counsel. Fichet has 12 years’ experience in regulated industry sectors; principally TMT as well as life sciences and biotechnology. He has also worked on transactions across Africa and the Middle East. He was previously responsible for TMT and life sciences practices at Fasken Martineau in Paris.

he was a partner. He will also head the investment banking firm’s new Leeds office.

Mark Spinner has joined **Osborne Clarke** as private equity partner. The former head of Eversheds’ UK corporate practice has more than 25 years’ sector experience.

Andrew Carnwarth has joined **Scottish Equity Partners** as an associate in the renewables and cleantech sectors, working on the environmental energies fund. He was an investment manager in the private equity funds team at F&C Asset Management.

Paul Mann has been promoted to corporate finance partner at the Leeds office of international law firm **Squire Sanders**. In addition to a lot of M&A experience, his focus is on private equity transactions.

European investment and private bank, **Berenberg Bank**, has recruited Chris Snoxall as director in its UK equity capital markets team based in London. In Hamburg, the bank has recruited Stefan Keitel as chief investment officer from Credit Suisse, where he held the same position.

EU and UK competition law expert Trudy Feaster-Gee has joined **Walker Morris**’s regulation and competition team in London. She was previously head of legal at Volkswagen UK.

PwC has expanded its higher apprenticeship scheme to include recruitment to business recovery services. In total the firm will recruit 109 higher apprentices this year, a 10% increase on 2012. Six will join business recovery.

Maclay Murray & Spens has recruited seven partners from Semple Fraser (SF), following SF’s administration. Six real estate and one corporate/renewable energy specialist have joined MMS’s Glasgow office in UK-wide roles.

Dr William (Billy) Charlton joins global private equity firm **Altius Associates** as partner and head of US investments.

One for all

Backing an MBO involving more than 300 shareholders is a pretty daunting task. **Matthew Robinson** of ICG explains how innovation and resilience ultimately brought success

WHAT WAS THE DEAL?

In February 2010 we (finally) completed the £440m MBO of CPA Global, an international patent renewal and intellectual property services business. Two years later we sold the business to Cinven in a secondary buy-out. Although we did not disclose the sale value, the return we made beat our initial expectations.

WHO WERE THE ADVISERS?

Travers Smith provided legal advice on the MBO, and DC Advisory and HSBC the M&A advice. PwC and BCG provided us with due diligence and tax advice. BDO acted for the vendors and management.

WHAT WAS CHALLENGING?

There were more than 300 shareholders, split into several nominee voting groups. There were several differing views on what they wanted to achieve, and buying out all the shareholders 100% was not going to be achievable. We put together a hybrid solution, which enabled the vendors to have a mix of cash out, as well as a dividend income and minority stake. It worked for all shareholders and made the deal stand out for me.

HOW LONG DID THE MBO TAKE?

We had to be pretty resilient – we were speaking to the company for nearly two years before we completed. Until May 2009, we spent time on due diligence, structuring and developing our tactics. The intense period was then from May to December 2009. We closed the following February, because to facilitate the exit we had to go through a scheme of arrangement in the Jersey courts. That added yet another layer of complexity.

THE CAREER

Robinson studied at Bristol University and then trained with KPMG as a chartered accountant before joining ICG in 2000. He is a director in the UK team and focused on origination and execution of UK mid-market deals. Robinson also manages his portfolio of investments.

Recent transactions

- Investment in CPA Global in 2010 in a £440m buy-out
- Sale of Marken to Apax in 2010
- Sale of CPA Global to Cinven in 2012 for an undisclosed sum
- Investment in Westbury Street Holdings
- Investment in ATPI

HOW WAS THE SALE FINANCED?

It was a traditional leveraged buy-out with a senior debt club of banks. Given the 2009 market conditions, that was a challenge. We provided a mix of mezzanine and equity capital alongside vendor and management capital.

HOW DID CPA THEN PERFORM?

With management focused 100% on running the business, CPA outperformed its plan. That accelerated our exit timing. The previous shareholders focused on cashflow for dividends rather than growth. With the buy-out structure, management had a clear motivation to create equity value. They re-engineered the sales function and had individuals selling a suite of products. This opened up new business opportunities and improved margin.

CHARLOTTE PLAYER

CORPORATE FINANCE FACULTY SPRING/SUMMER SEMINARS 2013

IPOs FROM AN INTERNATIONAL PERSPECTIVE
Innovation & Corporate Finance

Tuesday 5 March 2013, 08:30–10:30 • Taylor Wessing LLP, 5 New Street Square, London EC4A 3TW
What are the opportunities and challenges facing companies looking to float in 2013–14? How is the international IPO picture changing? What regions and sectors are in – and out – of fashion with IPO investors?

THE NEXT WAVE OF M&A IN THE TECHNOLOGY SECTOR
Innovation & Corporate Finance

Tuesday 16 April 2013, 08:30–10:30 • Simmons & Simmons LLP, CityPoint, One Ropemaker Street, London EC2Y 9SS
Technology, media and telecoms (TMT) is an area of sustained growth in venture, M&A and buyout opportunities. This seminar includes expert insights from corporate, advisory and legal perspectives about the big trends in tech sectors.

PEOPLE POWER: CORPORATE TEAMS, DEALS, RISKS & OPPORTUNITIES
Deal Leaders

Tuesday 21 May 2013, 08:30–10:30 • NEW VENUE – Grange Tower Bridge Hotel, 45 Prescot Street, London E1 8GP
This seminar looks in more depth at some of the key ‘people’ risks in corporate M&A and buyouts. What are the main challenges – and red flags – involving corporate executives and financial principals in deals?

INTERNATIONAL GROWTH, BUYOUTS & M&A – NORTH WEST
Financing Entrepreneurship

Tuesday 11 June 2013, 08:30–10:30 • Manchester Art Gallery, Mosley Street, Manchester M2 3JL
North West networking morning – co-hosted by Dunedin and Experian Corpfin – brings together company directors, investors and advisers to look at the success factors companies need to expand into international markets. How can private equity finance multinational growth? When is overseas M&A the right route?

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