Corporate Financier

GROWTH | OPPORTUNITIES | EXPERTISE

ICAEW CORPORATE FINANCE FACULTY

ISSUE 182
MAY 2016
ICAEW.COM/CFF

AN APPLE A DAY...

HOW INNOVATION AND INVESTMENT IN THE £200BN UK HEALTHCARE SECTOR IS SHAPING THE FUTURE

A NICE TOUCH: UK APP CREATOR TOUCHTYPE'S $250M SALE TO MICROSOFT

IN THE DRIVING SEAT: THE GLOBAL AUTOMOTIVE INDUSTRY ACCELERATES TO $64BN

@ICAEW_CORP_FIN
Join the faculty's LinkedIn group:
ICAEW Corporate Finance Faculty
icaew.com/cff

Contents May 2016 Issue 182

GROWTH | OPPORTUNITIES | EXPERTISE

Healthy choices for all

Many of you will never have heard of Chris Dancy. Don't worry. He's not the winner of a jungle challenge or runner-up in a singing 'talent' show. And he isn't an actor from a reality soap opera based in Essex or Chelsea –

or Orange County, for that matter. Two years ago, Dancy – in fact an IT director from Denver, Colorado – was dubbed the most connected man on earth. For the previous five years he had monitored himself by attaching 10 electronic devices to his body, and 13 others to his home and car. He had created a one-man, self-focused "big-data" analytics project.

Some of his findings would no doubt have been inane – perhaps just how many jungle challenge or talent contests he'd been watching on his TV. But, the point of most interest was how the analysis of the data helped him effect lifestyle changes and improve his health.

In this month's cover story (pages 18-23), David Prosser takes a close look at healthcare of the future – and the technologies attracting investment and corporate deals that will shape the provision of healthcare in future. Investment in innovation is needed. There will be more and more demand for services, but probably with lower spend per head (or heart, or lung), in some countries. The UK's National Health Service is expected to make savings of £22bn by 2020. But the NHS also offers maybe the best platforms for developing innovation healthcare solutions, with a worldwide application.

$160bn is another big number in healthcare. That was the value put on the proposed Pfizer/Allergan merger, which was finally cauterised last month. It would have been the biggest healthcare merger in history, and also the highest profile 'tax inversion' deal in history.

Tax was the primary deal driver, and at the same time the very reason the deal fell over. The US government was simply not going to wave goodbye to the tax revenues from Pfizer as the business set sail for Ireland. Allergan shares fell, and Pfizer will have to pay the company compensation for the failure of the deal.

Corporate financiers put together well thought-through narratives to support any merger. It would be naïve to suggest tax is not a significant consideration, but a deal solely for tax 'efficiency' would be an anathema to most dealmakers.

The *Economist* headlined its piece on the collapse of the transaction *Pfiasco*. Maybe Pfizer could learn from Dancy and closely monitor itself – that way it would be able to improve its own 'healthy lifestyle' choices.

Marc Mullen
Editor

icaew.com/cff

ICAEW CORPORATE FINANCE FACULTY

THE FACULTY

Mark Pacitti
Chairman

Giles Derry
Vice-chairman

David Petrie
Head of Corporate Finance

Katerina Joannou
Manager, capital markets policy

Shaun Beaney
Manager,
Corporate Finance Faculty

Lorraine Sinclair
Services manager
+44 (0) 20 7920 8685

Veronica Zabrini
Operations executive
+44 (0) 20 7920 8440

firstname.surname@icaew.com

Marc Mullen
Editor
marc.c.mullen@gmail.com

David Coffman, Mo Merali, Victoria Scott
Editorial advisers

Corporate Financier is produced by
Progressive Content Limited
71-73 Carter Lane
London
EC4V 5EQ

Advertising enquiries
advertising@progressivecp.com

ISSN 1367-4544 TECPLM14474
Printed in the UK by Sterling Solutions

Corporate Financier is distributed to members of the Corporate Finance Faculty.

For details about corporate and individual membership, please visit icaew.com/cff or contact the faculty on +44 (0) 20 7920 8685

To comment on your magazine, please email publishing@icaew.com

PEFC Certified
This product is from sustainably managed forests and controlled sources
PEFC/16-33-1391
www.pefc.org

Faculty news




The joint conference, held in Moscow (top left) included speakers Robert Hodgkinson (top right), Ljubov Orloff of SWIFT (bottom left) and Andrey Yakushin from the Bank of Russia (bottom right).

BRITISH EMBASSY HOSTS MOSCOW CORPORATE FINANCE CONFERENCE

UK Trade & Investment and ICAEW co-hosted a conference in Moscow on 31 March about the opportunities for young professionals in corporate finance in Russia.

The forum was opened by British ambassador Dr Laurie Bristow CMG, and participants included senior representatives of KPMG, PwC, EY, Bank of Russia, SWIFT, the Moscow State University, RANEPA and the Chartered Institute for Securities & Investment.

Welcoming the audience of more than 70 young professionals and business representatives, Robert Hodgkinson, ICAEW's executive director of technical strategy, led two panel sessions that reviewed current trends in mergers and acquisitions and challenges for infrastructure investment.

The forum was organised by Anna Bourne, ICAEW international relationships manager for Russia and Eurasia. George Littlejohn, from CISI, moderated a session about professional services education, training and qualifications.

Following the forum, the British ambassador's residence hosted a graduation ceremony for newly qualified ICAEW members, and a signing of the MoU by the Institute, with the Unified Certification Commission of the Russian Federation, the body that awards Russian audit licences, obligatory for all audit entities in Russia.

During a busy programme in Moscow and St Petersburg, Hodgkinson held meetings with senior representatives of the Ministry of Finance, the Central Bank of Russia, the National Organization for Financial Accountant & Reporting Standards, the St Petersburg Higher School of Economics, and the Graduate School of Management of St Petersburg State University, as well as ICAEW member firms.

After the forum, the British ambassador's residence hosted a graduation ceremony

GLOBAL INVESTMENT, M&A AND RISK MANAGEMENT IN 2016: **EUROPE AND BEYOND**





What is the likely impact on businesses of the big economic, financial and political shifts – including a potential 'Brexit' – in 2016?

A breakfast forum, organised by ICAEW's Corporate Finance Faculty and member firm JC Rathbone Associates (JCRA), will assess how important factors such as the changing global economic picture, the UK's EU referendum in June and US presidential elections later this year are shaping the M&A strategies and risk profiles of corporates and private equity investors.

The breakfast forum takes place at the Institute of Directors in London on Wednesday 11 May, with registration from 08:30am.

Panellists will include (pictured from top) Jackie Bowie, chief executive of JCRA; Scott Corfe, economist and director at the Centre for Economics & Business Research; Nic Humphries, managing partner at HgCapital; Mark Pacitti, global leader for corporate finance at Deloitte and chairman of the Corporate Finance Faculty; and David Petrie, head of corporate finance at ICAEW, moderating.

For details and to book visit jcra.co.uk or email Zoe Baker at events@jcra.co.uk

DENTONS: CONNECTING WITH CORPORATE FINANCE FACULTY "VITAL PART OF GROWTH"

Fast-growing global law firm Dentons has joined the Corporate Finance Faculty. The firm's UK corporate practice of 50 lawyers services a variety of UK and global clients, including public and private companies, private equity firms and other investment houses. The firm combines transactional expertise with a deep knowledge of the industry sectors in which its clients operate, including real estate, energy, financial institutions, private equity, technology and telecoms. It advises on all types of corporate transactions, including M&A, private equity and equity capital markets.

The UK practice's extensive client list includes Total, Kier, Blackstone and KSL Capital Partners. Dentons advised KSL Capital Partners on its £363m disposal of the Malmaison and Hotel du Vin hotel group to Frasers Hospitality UK Holdings Limited following advising on its acquisition.

Currently Dentons is advising Canadian listed and US headquartered NYX Gaming Group on its £270m acquisition of the UK based sportsbook and gaming technology provider, OpenBet, with operations in Continental Europe, North America, Singapore and Australia.

The global firm has grown rapidly to 140 offices in over 50 countries. It operates in 19 of the world's top 25 financial centres, and recently created new combinations in China, the US, Australia, Singapore and Luxembourg, as well as expanding in South Africa, Hungary and Italy. It is the largest global law firm by number of lawyers.

David Collins (left), head of the UK Corporate practice and co-chair of Global M&A at Dentons, said: "Connecting with the key professionals and organisations in the faculty is a vital element of our growth plans. We aim to create a brand that resonates as strongly in the UK as it does for cross-border corporate transactions."

FINANCING THE CREATIVE INDUSTRIES

Shaun Beaney, manager of the Corporate Finance Faculty and co-author of *Creative Industries – routes to finance*, has been invited to take part in a London conference on 7 June about the future of UK arts, culture and heritage.

Organised by Westminster Forum Projects, the conference follows the publication of the Culture White Paper by the Department for Culture, Media & Sport and minister of State Ed Vaizey, in March.

The conference will be chaired by Lord Howarth of Newport and Baroness Hilton of Eggardon, co-chair and vice-chair respectively of the All-Party Parliamentary Arts & Heritage Group.

To attend, please visit westminsterforumprojects.co.uk

ALPEN CAPITAL STEPS UP FACULTY INVOLVEMENT

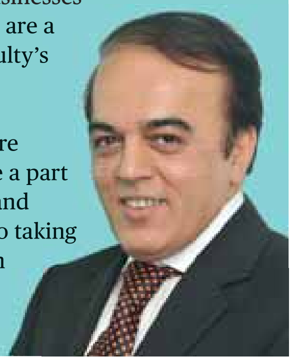
Alpen Capital, a boutique investment banking advisory firm with more than a decade of experience in the Gulf Cooperation Council countries and South Asia, has joined the Corporate Finance Faculty.

Alpen Capital advises on transactions involving debt, M&A, equity and capital markets by some of the biggest business conglomerates in the region, and in many sectors, including retail, education, healthcare and insurance.

Sanjay Vig (pictured right), managing director of Alpen Capital and a prominent member of the faculty's Middle East network, said: "We have worked with the Corporate Finance Faculty informally for several years now and find its industry insights and research to be very informative. Its business events are also very engaging and act as a platform to promote the exchange of ideas between business leaders.

"We are delighted to be a part of the faculty and look forward to taking our association to the next level"

"Being a member of the faculty also provides us with the opportunity to understand businesses elsewhere that are a part of the faculty's extensive international network. We are delighted to be a part of the faculty and look forward to taking our association with it to the next level."



In numbers

Venture capital investment across the globe, a rapidly expanding alternative finance market and CFO opinions about EU membership

$34BN (£24bn) global VC investment in Q1 2016, up on **$27BN** in Q4 2015, and **$30BN** in Q1 2015

$1.6BN VC investment in India in Q1 2016 up **47%** from **$1.1BN** in Q4 2015

$12.2BN VC investment in China in Q1 2016 up **51%** from **$8.1BN** in Q4 2015

SOURCE: PREQIN

323% growth in online alternative finance market, including peer-to-peer lending and crowdfunding, in the Asia-Pacific region – to $102.8bn

SOURCE: THOMSON REUTERS

70% of investors want greater visibility on the performance of underlying assets in private equity portfolios

SOURCE: STATE STREET CORPORATION

£126BN

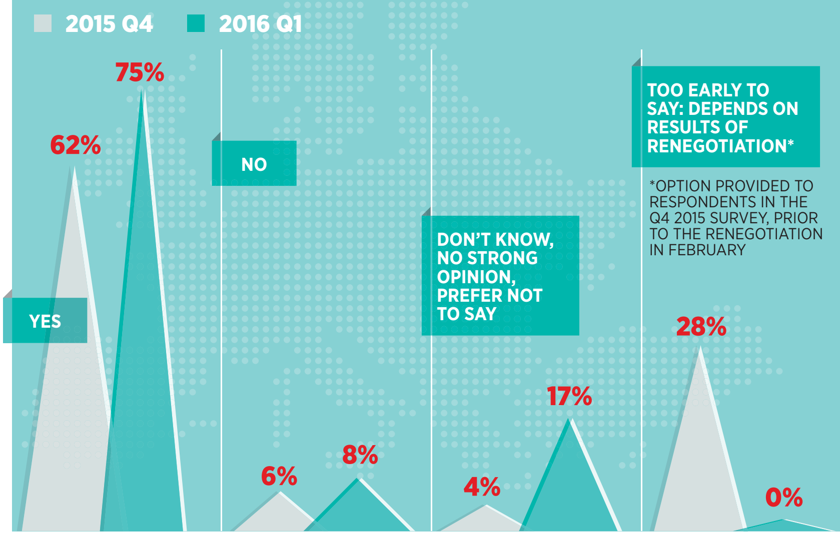
ESTIMATED UNTAPPED INVESTMENT IN UK SMEs

as **34%** of investors, with more than **£100,000** in investments, would invest in the UK's SMEs, but say they do not have the knowledge to do so

SOURCE: IW CAPITAL

FAVOURABILITY OF EU MEMBERSHIP

UK CFOs gave the following responses when asked whether it is in the interests of UK business for the UK to remain a member of the EU



*OPTION PROVIDED TO RESPONDENTS IN THE Q4 2015 SURVEY, PRIOR TO THE RENEGOTIATION IN FEBRUARY

83% of CFOs rate external economic or financial uncertainty facing their business as above normal, high or very high - the highest in over three years

25% of CFOs say that now is a good time to take greater risk onto their balance sheets – down from 51% a year ago

44% of CFOs say their top priority is cost reduction over the next 12 months – the most common priority and up from 34% last year

SOURCE: DELOITTE CFO SURVEY

QUANTUM. SPEED. CERTAINTY.

ESG GROUP

Glass Manufacturing

WORKING CAPITAL SOLUTION

ACQUISITION & GROWTH

£5,600,000

"There are two aspects of Shawbrook's funding that operate perfectly in tandem together: a confidential invoice discounting line and a cash flow loan designed to provide additional working capital to smooth the peaks and troughs of the facility."

Scott Sinden, Managing Director

GARDNERS

Specialist Printing

WORKING CAPITAL SOLUTION

GROWTH

£2,700,000

"As a challenger bank, Shawbrook offers a highly flexible approach and they were able to provide a higher level of funding than the high street banks. They are easy to work with and put the deal together in a stress-free manner."

Richard Courtney, Managing Director

Shawbrook has the ability to provide funding across all asset classes and leverage further with a cash flow term loan for those businesses with stronger EBITDA generation. We enjoy substantial backing as a strong platform to meet the growth ambitions of UK businesses. Recently, our individual facility limit for clients has been increased to £25 million.

Find out how our working capital solutions can help your clients realise their business ambitions.

TALK TO US TODAY

T 0330 123 1740
businesscredit@shawbrook.co.uk
WWW.SHAWBROOKBUSINESSCREDIT.CO.UK

SHAWBROOK BANK

THIS ADVERTISEMENT IS INTENDED FOR INTERMEDIARY USE ONLY AND MUST NOT BE DISTRIBUTED TO POTENTIAL CLIENTS.

Wings clipped

New taxation treatment in respect to carried interest in the UK is the latest move against private equity, says **Jon Moulton**. But where to next for the industry?

In the past few years regulators have found a rather undeserving target - private equity. The usual purported benefits of transparency, disclosure and control are put forward, without either evidence of genuine benefit or concern for cost. And the regulatory tide simply sweeps in.

Recent months have seen the UK government impose effective taxation on carried interest at an especially high 28% capital gains rate, if you pass a complex set of tests on what you do. Otherwise it is at full income tax rates. Contrast this with the previous position, where if you got decent tax advice on esoteric tax issues, like CGT basis shifting, you could, entirely legally, pay very little or even no tax at all. These were wonderful days for the industry - and my pocket.

Public company CEOs moaned. But now, if anything, their tax position is better than that of private equity titans. And they don't have to wait anywhere near as long as they did to get their big payday.

The tax position of a UK entrepreneur, who made a business valuable, was similarly worse than that of the private equity partner who invested in them. But the tax changes mean entrepreneurs are much better off.

In the US this spring, tax rules were tightened and increased enforcement efforts announced. More is happening in other jurisdictions worldwide. At the margins, these unfriendly tax changes will persuade some high-quality humans to shy away from private equity and move to being an entrepreneur (probably a good thing), or to move into the public company world.

These unfriendly tax changes will persuade some high-quality humans to shy away from private equity and move to being an entrepreneur

RICHARD ANSETT

HALCYON TIMES

At an investment level, the typical portfolio company rarely used to pay a lot of corporate tax, due to the opportunity of relief on interest charged on the loans from the private equity house. This area was a bonanza for tax advisers, as the rules were both exceptionally complex and frequently changed, with the usual obscure and specialist tax language and acronyms. Needless to say, these rules will still hang around when the UK moves to a general limit of 30% of EBITDA for interest deductibility, as recommended by the OECD. Of course, there are several exemptions around and scope for international planning too.

In my estimation, the effect of this would be to reduce investee cash flow by something like 1% of revenues by the additional tax take. Over five years this is a not inconsiderable reduction in an investment's value.

However, there is no reason to be in despair in private equity. Historic returns are strong and fundraising is healthy. Failure levels are low and exits really quite chirpy. It is a well-established industry, with some highly competent people in it.

Another advantage is worth thinking about - debt. In 2008 the leveraged buy-out firms (LBOs) had very highly levered portfolio companies, and economies looked bleak. I confidently predicted Armageddon as interest rates rose. Younger readers will not remember that interest rates actually can rise. However, I was in the LBO business when base rates hit 14.875% in 1989.

Well, rather than Armageddon, the low interest rates from 2008, designed to save the banks, enabled failure rates to remain very low in LBOs. In recent times the debt markets have become aggressive again. Deals are frequently done with debt at 6x EBITDA - getting quite close to the levels of 2007.

I cannot help but wonder, as the world economy starts to stumble, what will happen to interest rates in the next downturn. Will everyone be surprised as rates rise? If this were to be the case, then the private equity advantage of using lots of debt will become its weakness.

MIDAS TOUCH

Exits in the UK tech sector are delivering great returns to their early backers. Brian Bollen looks at TouchType, the latest company to be snapped up by Microsoft

American tech giants have been paying top dollar for UK tech businesses in recent times. Perhaps the biggest was in 2014, when Google paid about $500m (£349m) for DeepMind - the artificial intelligence (AI) business that recently grabbed the headlines when its AlphaGo programme beat the Go world champion. In February, Microsoft crossed the pond - the tech giant acquired TouchType for $250m - the latest in a series of notable acquisitions of UK IT companies by US giants such as Amazon, Google and Apple.

The app creator TouchType is best-known for the SwiftKey AI predictive keyboard, which is installed on millions of smartphones. SwiftKey has also been part of an ambitious project to enhance the communication system used by world-renowned scientist professor Stephen Hawking.

The company was set up by Cambridge University graduates Jon Reynolds and Dr Ben Medlock in 2008, and is the latest UK AI firm to be bought by a US tech company.

The sale made a tremendous return, not just for the two founders, but also for Octopus Ventures (which had backed the company for more than five years) Index Ventures and Accel (for about two years), and a collection of angels who had joined in financing rounds over the intervening period.

THE VC INPUT

Octopus first invested in the company in 2010, providing a large amount of seed capital. The investment was a neat fit with its investment style, says Alex Macpherson, chairman of the VC firm's Investment Committee: "We back unusually talented entrepreneurs, and when we met co-founders Reynolds and Medlock we thought they were quite exceptional people."

At that stage Octopus was the only institutional investor. There were a number of angel investors. Jo Oliver, Octopus Ventures director, joined the TouchType board. Having run several businesses of his own, Oliver had joined the investment team at Octopus Ventures in 2009 - he is also a non-executive director on Octopus's Titan VCT 5 board. In 2011, Octopus

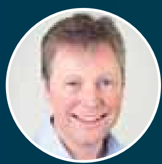
$250M

PRICE MICROSOFT PAID FOR APP CREATOR TOUCHTYPE

introduced Richard Gibson, a former investment manager at NVM Private Equity, to SwiftKey. He became CFO and last year, in the run-up to the sale, became executive chairman.

Macpherson stresses that it was very much TouchType that created the company's success, with some advice and guidance from themselves: "We were a value adding partner to the founding entrepreneurs and their team, but I want to stress that really successful businesses are usually down to backing A-grade management teams, and that was certainly the case here."

TouchType initially launched SwiftKey on the Android platform, and, having seen how the founding duo executed their plans, Octopus was happy to deepen its involvement when the time came to provide more funds. In December 2011 it led a $2.4m round of Series A funding. In September 2013, Index Ventures - which was a new investor - led a $17.5m Series B round. Octopus committed "several million pounds" this time. Accel also came on board alongside some significant new investors and existing angels - including Nick Hynes and Carl Uminski (Somo), Jon Craton (previously Cramer Systems) and the Cambridge Capital Group.



> "We had reached the natural time for an exit, and Microsoft is a very strategic buyer"
>
> **Alex Macpherson, chairman, Octopus Ventures Investment Committee**

Having opened in London, SwiftKey expanded into Korea and San Francisco in pursuit of growth.

When it came to the sale to Microsoft the timing was in sync with the stage of the company's life cycle, says Macpherson: "The business had developed to that certain level at which everyone asks: 'What is the next stage?' The sector has in recent years seen a number of artificial intelligence and machine-driven companies created and sold, so a sale very much fitted into this

THE CAST OF ADVISERS

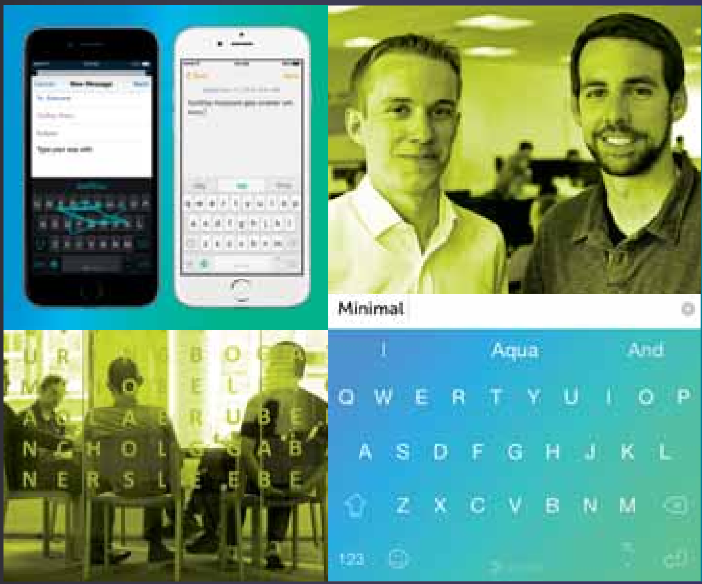
There was a vast array of advisers involved in the deal. Lead partner Deloitte handled accounting matters for TouchType. Lead partner EY looked after the accounting and tax issues of the deal for Microsoft. An in-house team from Microsoft dealt with the corporate finance aspects of the deal.

San Francisco-based specialist IT corporate finance boutique, Qatalyst Partners, advised TouchType. Qatalyst was founded by Frank Quattrone, who stepped down as CEO in January. Over the past four decades, Quattrone, and teams he has led, have advised on more than 500 M&A transactions in the tech sector, with an aggregate transaction value of more than $650bn.

A team from Shoosmiths, led by partner Alastair Peet, provided Octopus Ventures with legal advice. Jo Oliver, director at Octopus Ventures, which has been a long-term client of Shoosmiths, said: "In a deal such as this, it's important to have lawyers who understand our approach and how we think."

Reed Smith were legal advisers to Microsoft. Reed Smith partner, Mike Young, said: "Microsoft is a longstanding client of the firm. We have worked with them on many deals over the last decade. The deal shows the continued activity of US technology companies looking to the UK to strengthen their offerings."

Cooley acted in a legal capacity for TouchType and its founders. "Given the number of parties involved, and the short timeframe we were working with, this was a complex transaction but I am delighted that the founders, investors and shareholders generally have achieved their goal, which is a great case study for Tech UK," said David Bresnick, a London-based partner in Cooley's corporate team, who worked on the deal.



HERE'S THE DEAL

In February 2016, US IT giant Microsoft acquired London-based tech company TouchType for a reported $250m. TouchType's best-known product is the SwiftKey artificial intelligence predictive keyboard app, which is installed on millions of Apple iOS and Android devices, and has been part of an ambitious project to enhance the communication system used by University of Cambridge-based and world-renowned scientist professor Stephen Hawking.

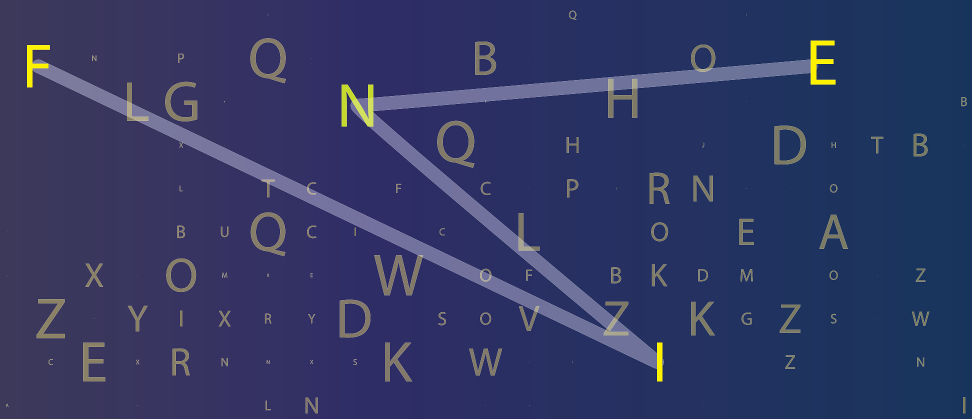
The men who founded the company, Jon Reynolds and Dr Ben Medlock (opposite, L-R), reportedly both stand to make more than $30m from the deal.

The business received $20m backing from venture capital; initially by Octopus Ventures, and later by Accel Partners and Index Ventures.

$20M

VALUE OF VENTURE CAPITAL BACKING FOR TOUCHTYPE

> "This is what it takes to build a large global tech company; not only exceptional skills and personality traits but also a sense of timing"



industry landscape. We had reached the natural time for an exit, and Microsoft is a very strategic buyer."

Reynolds was pleased with the support the business had had in its growth strategy: "The UK has become a great place to build a tech business. We've been lucky to have the support of early angels who understood our vision, then Octopus Ventures as our first institutional investor, followed by Index and Accel as we scaled the business."

Some have seen the sale as more opportunistic than strategic, with suggestions that the offer came out of the blue, and was simply too good for TouchType to turn down.

MANY HAPPY RETURNS

Whatever the nuances, founders Reynolds and Medlock were delighted with the deal, and with their new owners: "Microsoft's mission is to empower every person, and every organisation on the planet to achieve more. Our mission is to enhance interaction between people and technology. We think this is a perfect match, and believe joining Microsoft is the right next stage of our journey. Our number one focus has always been to build the best possible products for our users. This will not change."

Harry Shum, Microsoft executive vice-president, technology and research, was clearly pleased with the catch and its potential: "In this cloud-first, mobile-first world, SwiftKey's technology aligns with our vision for more personal computing experiences that anticipate our needs versus responding to our commands, and directly supports our ambition to reinvent productivity by leveraging the intelligent cloud."

Shum described the acquisition as typical of Microsoft's commitment to bringing its software and services to all platforms. "We'll continue to develop SwiftKey's keyboard apps for Android and iOS," he says. "As well as exploring scenarios for the integration of the core technology across the breadth of our product and services portfolio. Moreover, SwiftKey's predictive technology aligns with Microsoft's investments and ambition to develop intelligent systems that can work more on the user's behalf and under their control."

Martin Mignot of Index Ventures was clearly pleased with the exit just over two years after they had made their investment, writing on Index Ventures' blog that the acquisition was a great outcome for "one of the few companies that has managed to turn cutting-edge AI research into a mass-market mobile product globally, used by hundreds of millions of people every day".

"This is what it takes to build a large global tech company: not only exceptional skills and personality traits (chief among them, resilience in the face of adversity)," he wrote. "But also a sense of timing. A secret insight not only into how the world is today, but how it will be tomorrow, and in eight years' time."

HOME AND AWAY

Having sold five businesses to international corporates in the past two years, **Ashley Broomberg** shares tips for attracting overseas interest

In the past 25 years the UK SME landscape has changed dramatically. It now boasts best-in-class businesses with genuine international reach - be they world-class engineering companies or innovators - and new approaches to disrupting markets. But it was certainly not always so. In many cases, working with private equity has enabled fledgling businesses to scale up into SMEs operating globally, and to move into position to attract international corporates.

Having sold nine businesses in the last two years, five to international buyers, my firm Mobeus Equity Partners, has some insight into how international buyers operate. Although growth rates are low, the UK is currently the fastest-growing economy in the EU. Cash-rich corporates - particularly acquisitive US businesses - are willing to acquire UK businesses to provide them with a stepping stone into the European market.

Such acquirers will always have different drivers, but there are some common themes for international buyers when looking at businesses. So what should SMEs do to attract interest and maximise value in such deals?

BE DESIRABLE

Businesses must offer a truly first-class product or service. Corporates simply will not look overseas for a 'me too' business. For example, in 2014 GE was attracted to our portfolio biogas-to-energy business Monsal because it had revolutionary anaerobic digestion technology, which could turn waste into energy. More recently, we sold niche engineering consultancy Tessella (1.9x) to French consultancy firm Altran (2.9x).

BE SCALABLE

Building scale helps - as a rule of thumb, the closer you get to £5m EBITDA, the better your chances of attracting international trade buyers. Scale is attractive because it mitigates risk. Global corporates want a substantial, well-established business whose profitability makes it less of a risk than an early-stage venture.

> Scale is attractive because it mitigates risk. Global corporates want a well-established business whose profitability makes it less of a risk than an early-stage venture

ALL ABOUT TIMING

Mobeus backed the 2005 buy-out of Youngman from Harsco Corporation, providing £3.5m towards the deal. The company produces access equipment, including specialist step and loft ladders, access and work platforms, and extension and combination ladders. It was founded in 1926 and remained private for 53 years until it was bought by scaffolding business SGB. At the time of the Mobeus-led buy-out, the business was generating £37m in revenues.

It was a time of escalating confidence 11 years ago in Britain – with a boom in house building and DIY – which in turn created demand for Youngman's products. This did not last, and with the downturn came challenges. Youngman showed remarkable resilience, maintaining competitive advantage in its markets.

The business received approaches prior to the ultimate sale, but Mobeus felt the offers didn't represent the true value of the company, and so held out. Eventually, US-based WernerCo – the world's largest ladder manufacturer – agreed a deal with management and Mobeus. The sale generated a 2.5x money multiple for investors. Timing and patience were key.

A MARKET LEADER

Analytics software services and consulting company, Tessella, was founded in 1980 in Oxfordshire. The company opened its first international office in the Netherlands in 2001, and followed with a launch in the US in 2003. Tessella received the Queen's Award for Enterprise in Innovation in 2011 for its work on preserving the integrity of digital information over long periods of time, irrespective of changes in technology.

In 2012, Mobeus backed a £16.7m MBO of the business, with a combined £5.6m debt and equity package before introducing Dr Steve Curl to the business as chairman. In the three and a half years that followed, revenue increased 43% from £18.5m to £26.5m. At the end of last year, French consultancy Altran acquired the business, resulting in a 2.9x money multiple and 42% IRR for shareholders.

£16.7M

VALUE OF MOBEUS'S MBO OF TESSELLA IN 2012

£26.5M

REVENUE GENERATED BY TESSELLA IN 2015

ENSURE QUALITY MANAGEMENT

Behind every great business is a high-quality management team. International buyers want a packaged solution, especially when the geography is unfamiliar. They often value, and will pay for, access to a high-quality management team that can run the business for them and expand its services or products and geographical reach. Technical building services provider Westway, which we sold to US-based facility management services providers ABN at the end of last year, was just such an example. ABM wanted the business, but was equally keen to secure its senior management (for a 6.8x multiple).

BE PREPARED

Preparation is key. US buyers in particular act quickly and decisively. So a protracted process, where the business needs tidying up, will only diminish value. It is crucial to ensure that it is as easy as possible for the buyer to execute the transaction. Having done legal and technical due diligence in advance is a must. Beware that any delays or problems are likely to see the buyer lose interest and walk away.

TIME IT RIGHT

The most important thing is timing. When selling a business you are subject to vagaries of the market, especially when the acquirer is a large, quoted company. The financial markets have stagnated somewhat since 2015, so buyer appetite is unlikely to be as voracious as it was a year ago. Prior to our sale of access systems producer Youngman in 2014, the business was subject to ups and downs for a couple of years. However, we were patient and sold at a time when the market - and thus the offer (2.5x) - was attractive. This made a big difference to pricing. Holding on for that window was crucial.

BUILD RELATIONS

Try to develop commercial relationships with potential buyers. Corporates often make strategic acquisitions to bring a supplier in-house - these sales can allow you to command a better price than if you are selling to a firm less familiar with the target. We were able to get a full price for manufacturing software specialists Machineworks in April 2014 because the buyer had been using the software for some time prior to the deal (4.2x multiple).

International buyers want a packaged solution. They value access to a high-quality management team that can run the business for them

GET GOOD ADVICE

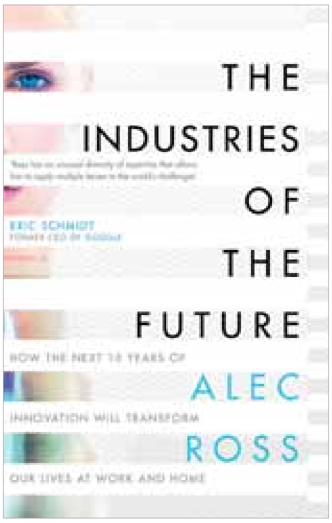
Use of a high-quality corporate finance house with international reach and credibility is important, not only because of its contacts, but also because it will understand the nuances of selling internationally. Warranties and indemnities, for example, are very different in the US. The decision-makers and processes vary in different countries. Precisely who the decision-makers are can vary tremendously - a strong corporate finance house can help you navigate that.

Ashley Broomberg, partner, Mobeus Equity Partners, a member organisation of the Corporate Finance Faculty

OTTO DETTMER/IKON

Future tense

Don't get scared – get informed. **Shaun Beaney** looks at Alec Ross's book on the tech innovation revolutionising business



Futurology may excite you, or it may leave you cold. But far from being an academic Mystic Meg, in *The Industries of the Future* Alec Ross has written a thoroughly accessible, thoughtful and thought-provoking account of the innovations that are already transforming, and will continue to transform, our lives and commerce.

Ross has witnessed many of the biggest industrial advances first-hand, visiting 41 countries as senior adviser on innovation to Hillary Clinton when she was secretary of state – "building a bridge between America's innovators and America's diplomatic agenda".

TECH REVOLUTION

Ross argues that the next wave of globalisation will see technological, economic and sociological developments over the next 20 years, as thoroughgoing as those of the late 20th century.

In robotics Japan is leading the big five countries (with the US, Germany, China and South Korea following) in their expansion from manufacturing into domestic work, healthcare and transport – driverless cars anyone? A million Americans have already undergone robotic surgery.

Investment by governments, corporations and venture capitalists in robotics is growing fast. Venture capital accounted for $341m in 2014. The same year, Google bought British neural networks developer DeepMind, reportedly for more than $500m. Ross argues that in terms of potential, robotics today is where the internet was 20 years ago.

PAST, PRESENT, FUTURE

The past half-century of unparalleled advances in life sciences may be "dwarfed by the innovations yet to come". Examples include the application of genomics to oncology, to neurological disorders and ageing. Mobile telecoms are boosting community healthcare, diagnosis and monitoring. Ross lists the necessary ingredients for success in life sciences as "great scientists, lots of capital for academic research, and a venture capital market to help turn academic research into commercial products" (see cover story, 'Healthcare revolution', page 18).

In financial services, one billion of us will be using mobile banking by 2017. That will have a big impact "regardless of whether you're a plumber or CEO of a Fortune 500 company". Ross also includes a very accessible explanation of how Bitcoin works as a fiat currency. Blockchain technology "will force a rewrite of the compact between corporation, citizen and government ... bringing frontier economics onto the global playing field while destroying middlemen and traditional authorities."

DARK WEB

On the darker side of business, the "weaponisation of code" means the rapid growth of cyber security as an industry is inevitable. Big companies are vacuuming up cyber skills and dexterous start-ups with smart research. Many have spun out of government agencies, academia or multinationals.

Meanwhile, big data is already revolutionising language translation, creating precision agriculture and expanding the power of fintech from trading desks to retail financial services. Data visualisation companies are literally changing the way we see the world.

Ross asks some very important questions about how big data could change human behaviour, personal relationships, social interactions, politics and economics – with privacy and confidentiality set to become even bigger public-policy issues. Far from being a techno-utopian, he explains: "Many people will gain. Some people will gain hugely. But many will also be displaced ... [Some people will feel] increasingly under siege by rising inequality and unwelcome disruption ... rattling many societies".

Some big sectors are missing from Ross's survey of industries of the future, including several that rely on international cooperation – space technologies, aerospace, materials sciences and renewable energy. Creativity pops up once, but the creative industries do not.

The UK is mentioned very favourably in terms of sectors such as fintech and cybersecurity, but Ross warns: "The biggest wins from new technology will go to the societies and firms that don't just double down on the past but that can adapt and direct their citizens towards industries that are growing."

The Industries of the Future, by Alex Ross, was published in the UK by Simon & Schuster
Price £20.00

This is an edited version of a a longer article, which is available at tinyurl.com/CF-AlecRoss

Shaun Beaney, manager of the Corporate Finance Faculty, is co-author of *Creative industries – routes to finance*. icaew.com/creativeindustries

HEALTHCARE

The rising cost of healthcare provision and an ageing population could create a perfect storm for healthcare services. However, with innovation in medical research and technology offering a cure, David Prosser looks at how the UK is positioning itself to finance a transformation

Perhaps the healthcare innovation that Simon Stevens, chief executive of NHS England, most wants is a cure for insomnia, because he must have difficulty getting to sleep at night. On the one hand, he has promised the UK government £22bn of efficiency savings in the health service by 2020. On the other, his organisation faces ever-increasing demands from an ageing population, as well as a panoply of challenges, from soaring drug costs to the knock-on effects of social care shortages.

However, there is help at hand. The UK's burgeoning healthcare innovation sector – a convergence between technology and medical science companies – might provide some solutions. With technologies that will enable healthcare professionals to do more with less, these businesses might just be the key to the NHS rising to the challenges it now faces without blowing its budget.

Privatisation might be a dirty word around the NHS, but there is no doubt that a huge commercial opportunity exists for entrepreneurs and their backers. They have the chance to offer technologies that could improve patient outcomes at an affordable cost, given the global potential of any innovation; potential that has been successfully proven in the UK.

Investors are therefore looking at the sector with great interest. Early-stage companies are attracting business angels and venture capital, while private equity and trade are competing for the best assets. Also, large and traditionally risk-averse healthcare companies are buying up proven technologies for a shortcut to innovation and profit growth.

Still, the digital health sector remains relatively small – a government study co-authored by Deloitte put its value at only £2bn at the end of 2014, but projected it would grow to £3bn by 2018.

UK-WIDE INNOVATION

Businesses making headlines include the likes of AIM-listed Cambridge Cognition, which is working on wearable devices that could detect signs of dementia or depression by tracking changes in people's behaviour. London-based Touch Surgery has games industry developers and healthcare professionals collaborating on a training

£22BN

EFFICIENCY SAVINGS THE NHS HAS COMMITTED TO BY 2020

£3BN

PROJECTED VALUE OF THE DIGITAL HEALTH SECTOR BY 2018

(R)EVOLUTION

BIRTH OF AN IDEA

DrDoctor is an early-stage healthcare technology business that has developed a text messaging and web tool to provide NHS patients with up-to-date information about their appointments, as well as support if they want to make changes or access additional support. The idea is to ensure fewer missed appointments and better-informed patients.

With more than £100,000 of early-stage funding from social technology investor Nominet, the business has been able to develop its technologies alongside the Guy's and St Thomas's NHS Foundation Trust's gynaecology department, which estimates improved attendance rates are now saving it £317,000 a year.

Having proved the concept, Nominet is now working with the business to scale its growth and to provide marketing support. The company has already begun new ventures with two other hospital trusts and says the annual savings it is achieving on behalf of the NHS now total £1.2m. Patient satisfaction has also improved.

"We're building technology to bring simplicity and clarity to visiting hospital," writes Tom Whicher for DrDoctor. "By using clear digital communication we can take the hassle out of managing care – the result is far less stress for patients and more time for hospital teams to focus on patients who need help."

60%

OF PEOPLE ARE PREPARED TO MONITOR A CHRONIC CONDITION VIA A MOBILE DEVICE (SOURCE: NUFFIELD)

app for doctors. In Yorkshire, Inhealthcare provides telemedicine tools that connect patients and doctors remotely.

However, it is not just small-scale start-ups doing this work. DeepMind, the British artificial intelligence company bought by Google two years ago, has begun working with the NHS on a range of initiatives. These are aimed at identifying patients at risk of particular conditions, so that preventative treatment - cheaper than reactive therapies - can be offered.

But are individuals ready for such advances? A Nuffield Health study published last year found that 75% of respondents regularly search the web for health information. In the same survey 90% of individuals said they would be happy to use an online GP appointment booking service, or a Q&A service with their doctor, and 60% said they were prepared to monitor a chronic condition using a mobile app. However, only 2%

> The broader digital health revolution spans a wide range of technologies, leveraging tools from mobile channels to big data and analytics

> **"WEARABLE TECHNOLOGY IN HEALTHCARE IS EXCITING, BUT IT'S ALSO PRETTY NASCENT"**
>
> **Martin Gouldstone,** head of life sciences, BDO

of respondents said they had ever had any kind of digitally-enabled interaction with the NHS.

"The application of wearable technology in healthcare is exciting, but it's also pretty nascent," says Martin Gouldstone, head of life sciences at BDO. "There are lots of start-ups doing all sorts of interesting things, but it is disappointing to note that they're really struggling to commercialise, let alone to attract funding."

Some technologies are commercialising faster than others. Gouldstone points to investments in the medical trials space. Last year, private equity firm Vitruvian invested in CRF Health, which uses data analytics and cloud technologies to more effectively assess the results of clinical trials. Meanwhile, a similar business in the US, ERT, was sold in March by its private equity backer Genstar Capital to Nordic Capital for a reported $1.6bn (£1.1bn).

The broader digital health revolution spans a wide range of technologies, leveraging tools ranging from mobile

43K

MEDICAL APPS NOW AVAILABLE ON ITUNES (SOURCE: APPLE)

500M

PEOPLE GLOBALLY WILL USE A HEALTHCARE APP IN 2016 (SOURCE: BECKER'S HEALTHCARE)

channels to big data and analytics. In January London-based Babylon Health raised $25m from investors, including Hoxton Ventures, to further develop its robot doctor app, which offers remote consultations via smartphones.

Handle My Health, a British start-up that integrates big data from healthcare provider systems, personal apps and medical devices, was sold to a Chinese telecoms company last year for more than £70m.

There is a growing trend towards electronic health records, despite the UK's high-profile failure to introduce a workable solution nationwide. Larger providers, such as Cerner and Epic, may dominate the market but a growing number of small-scale providers are serving niches with specialist products – on hospital wards for example.

PATIENT PATIENTS

Technologies such as remote patient monitoring, taking advantage of wearable devices and video conferencing are gathering pace. The idea of the digital hospital is also taking off, with large telecoms companies already offering online digital medical imaging services.

"We need digital health to be user friendly," says Peter Jennings, Grant Thornton director in the healthcare advisory practice. "If patients have a Fitbit-style device that automatically uploads information into an electronic health record, say, that will free up doctors from mundane work and give them more time for diagnosis and care."

There are digital therapies for mental health also being developed. One example, Big White Wall, which works with the NHS

"IF PATIENTS HAVE A FITBIT-STYLE DEVICE, THAT WILL FREE UP DOCTORS FROM MUNDANE WORK"

Peter Jennings,
director, heathcare advisory practice, Grant Thornton

FREQUENT FLYERS

Nottingham-based software business Exco InTouch, whose software is used by pharmaceutical companies to monitor clinical trial data and patient engagement, has been built on a series of partnerships. The company is best known for a large-scale venture with AstraZeneca, and a number of NHS trusts, on a program designed to help patients with chronic obstructive pulmonary disease (COPD) much more effectively.

"COPD patients are typically known as frequent flyers, because they will see them between eight and 10 times a year. And they'll be exacerbating, so they'll be in pretty poor state and when they come into the hospital they'll be there for at least a week," Tim Davis, the company's chief executive, says of the program's scope to improve outcomes and reduce costs. "Typically a bed day cost, as the NHS calculated, is about £2,000 a day, so quite expensive, and several million of these patients are in the UK at the moment."

The business has also worked closely with Pfizer and is now engaged in a venture with Oracle Health Sciences that is designed to use the latter's data capture system on its Exco patient engagement platform.

The success of these collaborations has enabled Exco to complete two successful funding rounds, raising more than £6m from investors, including Albion Ventures and Scottish Equity Partners.

in different parts of the UK, has won £1m of funding from Impact Ventures to develop its suite of services.

These advances are happening alongside more established technologies and over time they will coalesce with work already going on in areas such as drug delivery, genomics, diagnostics and more. The potential, in other words, is for the transformation of the healthcare sector, as new entrants and established players come together to form new value chains.

That will play to the strengths of another evolving area, says Andrew Nicholson, a partner specialising in healthcare at KPMG. He points to the increasing number of companies that work with healthcare providers to improve their operational efficiency. "You can rapidly build a very big company by taking a process, doing it better, and then selling it across the marketplace."

Such businesses are attractive to investors. The recent sale of specialist healthcare support services provider DBG, which works with dentists and GP practices, from Synova Capital to The Carlyle Group and Palamon Capital Partners, is one such example.

Over time, there may even be scope for investors to return to areas of the healthcare industry that have come to be seen as unattractive. For example, the care homes market, widely seen as unappealing to investors since the collapse of Southern Cross four years ago, is attracting interest again, despite complaints that the introduction of the national living wage in the UK would raise costs. Springfield Healthcare received £4.4m of funding from the Business Growth Fund, and has built a bespoke care village, offering different levels of residential and nursing care in a single location.

MORE INNOVATION?

Why then, given the enormous potential of all these advances, has there not been more progress in the UK? Why do deals in the healthcare technology sector remain few and far between? One specialist in healthcare finance, who wished to remain

"YOU CAN BUILD A BIG COMPANY BY TAKING A PROCESS, DOING IT BETTER, AND THEN SELLING IT"

Andrew Nicholson,
partner, healthcare, KPMG

£209BN

FORECAST TOTAL SPENDING ON HEALTHCARE, WELLNESS AND FITNESS IN UK BY 2020 (SOURCE: PWC)

THE NHS AND INNOVATION

"We have huge opportunities for introducing a whole variety of [healthcare technology] innovations into our NHS," Professor Sir Bruce Keogh, NHS England's medical director has said. However, while the NHS would like to harness the entrepreneurial spirit of innovators, its structure has often got in the way – the scale and fragmentation of the organisation makes it difficult to operate coherently and consistently. Its £10bn National Programme for Information Technology, for example, ultimately collapsed, promoting widespread criticism.

Some progress has been made though, as Jennings says: "An increasingly devolved approach, giving power to local NHS groups and commissioners, does make it possible for the NHS to be an interesting place for innovation, with small-scale projects that operate with single trusts, say."

Moreover, at a national level the NHS has launched initiatives such as the Innovation Exchange, which offers groups a chance to interact and share ideas online. It also operates a fellowship programme for those developing new ideas in healthcare.

Financial support, however, is thin on the ground, despite the potential for innovative UK companies to capitalise on successful ideas in the global marketplace. The NHS's Regional Innovation Fund has not made an award since the 2014-15 financial year and previously operated with tiny sums.

Other publicly funded innovation programmes are also in short supply, at least outside academia, though the Department of Health continues to operate the Innovation Challenge Fund in conjunction with the Wellcome Trust. There is no doubt that the NHS has the potential to provide one of the best platforms for innovation worldwide.

"UNLIKE IN THE US, CONSUMERS HERE JUST AREN'T FAMILIAR WITH PAYING FOR HEALTH"

Andrew Elder,
head of healthcare, Albion Ventures

"THERE IS INNOVATION AROUND DEBT SOLUTIONS, WITH ALTERNATIVE FINANCE PLAYING MORE OF A ROLE"

David Jones,
leader of healthcare and life sciences corporate advisory practice, Deloitte

2.4%

FORECAST AVERAGE ANNUAL INCREASE IN HEALTHCARE SPENDING IN WESTERN ECONOMIES BETWEEN 2014 AND 2018 (SOURCE: DELOITTE)

8.8%

ESTIMATED INCREASE IN OVER-60s IN DEVELOPED NATIONS BETWEEN 2010 AND 2040 (SOURCE: UN)

anonymous for perhaps obvious reasons, makes it brutally simple: "The NHS is the biggest inhibitor of innovation that you could possibly imagine. It is utterly risk-averse, and does almost nothing to incentivise and encourage innovation."

That may seem harsh, but NHS initiatives to promote new technologies have been pretty small fry (see *The NHS and innovation*, page 22). But there are small-scale trials of new ideas being carried out at individual NHS trusts around the country. Nevertheless, the status of the NHS can mitigate against invention.

"One problem is that this is a highly regulated landscape," says Andrew Elder, head of the healthcare team at Albion Ventures, which holds a number of healthcare businesses in its portfolio. "The other major issue is that it's not clear who is going to pay for digital health in the UK - unlike in the US, where people are used to paying for health, consumers here just aren't familiar with that idea."

That, of course, leaves the burden on the taxpayer at a time when NHS resources are already thinly stretched. The knock-on effect is that investors are very wary about committing themselves. "Digital health is coming in the UK and all these different strands will eventually come together, but it's very difficult to pick out the winners at this stage," Elder adds.

That puts the onus on sellers - both to convince investors of their concept, and to encourage them to come onboard. At Deloitte, David Jones, leader of the healthcare and life sciences corporate finance advisory practice, says advisers must work hard to build deals that assuage the fears of anxious buyers. The level of due diligence required on even the smallest deal is equivalent to that on a £100m enterprise value transaction, he says. "Buyers are definitely risk-averse, and we're seeing a lot more deals that come with debt packages in place." He adds: "There is a lot of innovation around debt solutions, with alternative finance now playing more of a role."

Over time, as more buyers enter the fray, that may change. Big pharma and established healthcare providers, which are making myriad investments in other areas such as outsourced research and compliance expertise, represent the obvious next step for private equity funds selling on. For now, however, the digital health revolution is just getting started.

GETTY

LESSONS FROM THE PRIVATE FINANCE INITIATIVE

Is the private finance initiative (PFI) a busted flush in healthcare? Roundly criticised by some as offering poor value for money, some of the most controversial examples of costly projects have been in the healthcare sector where PFI has a bad reputation these days. There have, in any case, been relatively few new deals since the credit crunch.

Nevertheless, there are those who still believe that with the right safeguards in place, PFI could deliver cost-effective and large-scale investment in public-sector projects – they point to the transformational effects on schools and hospitals, among other things, of the 700 or so deals signed over the past 20 years. Mark Williams, a member of the Chartered Institute of Public Finance & Accountancy's central government panel, has recently argued in his piece *It's time to reappraise PFI*: "Experience shows that with the right interventions, significant savings and improved outputs can be made in operational PFI."

The key is to learn lessons from the failures of the past, with PFI agreements that ensure risk is genuinely transferred to the private sector and that the efficiencies that the deal has the potential to deliver can compensate for the additional cost of funding compared with government borrowing. Refinancing is possible at a later date as market conditions change.

Crucially, well-constructed PFI contracts can bring key benefits for example: competition during the procurement stage, clearly defined performance targets, greater use of public sector assets and the potential for renegotiation later on. To ensure value for money however, such contracts must be designed effectively in the first place and then managed on an ongoing basis. And perhaps crucially, PFI does need reappraising given the shortage of cash available for investment in the NHS.

CAPITA DEPLOYMENT

Making 140 acquisitions in the past 10 years, Capita is one of the UK's most habitual buyers of UK SMEs. Marc Mullen speaks to its director of acquisitions, **Ian West**, about how to keep things moving

JON SNEDDEN

Ian West, director of acquisitions at Capita, the London-headquartered FTSE 100 business processes outsourcing giant, offers insight into how his business works: "When a deal is done we in the M&A team move on to the next one. We don't focus too much on what was difficult or what wasn't. We don't sit back, slap ourselves on the back and say 'Wasn't it great what we did here?'. It may sound a bit glib, but when we complete a particular deal we're already working on the next one."

In 2015, Capita had revenue of £4.7bn, up 7% on 2014's £4.4bn, and an integral part of the company's growth strategy has been acquisitions. Last year the business invested £402m, buying 17 businesses (and setting up its Fera public sector subsidiary partnership).

While last year was busy, it was merely an uptick in M&A activity. In the decade that West has been in his M&A role, Capita has made more than 140 acquisitions as the business has expanded into new sectors and internationally. Founded in 1984 as a division of CIPFA (the Chartered Institute of Public Finance & Accountancy), Capita was privatised through an MBO in 1987. It listed on the London Stock Exchange Main Market in 1991 and has diversified to such an extent that its business is split roughly 50:50 between the public and private sector.

At a run rate of just over one deal a month for the past 10 years, West says the team he has built looks to 'crack on' with the process. So where did his 'rolling the sleeves up' approach to M&A come from?

GETTING TO IT

Having studied history at Oxford University, West joined Coopers & Lybrand (now PwC) in 1992. After qualifying as an ACA, he moved into the Big Four firm's insolvency and business services practice. Here were the beginnings of his 'get to it' approach.

"There are situations where there is an underlying business in an insolvent situation and removing whatever constraint or impediment is causing the problem creates a viable proposition," he says. "You can invest time in improving that type of business."

West spent eight years in insolvency at PwC, which included a three-year secondment Down Under. Although his role at Capita was to focus on buying operations, his PwC experience was more focused on selling, and in some cases it was managing businesses. While in Australia he ran a car dealership, a restaurant, and spent two years turning around a five-star luxury resort in Queensland before it was sold to Australian media company and theme park operator, Village Roadshow.

130
DEALS MADE BY CAPITA OVER THE PAST 10 YEARS

£402M
WORTH OF INVESTMENTS MADE BY CAPITA IN 2015

£4.7BN
REVENUE FOR CAPITA IN THE YEAR ENDING DECEMBER 2015

> "We don't focus too much on what was difficult or what wasn't. It may sound glib, but when we complete a particular deal we're already working on the next one"

"That was about putting in a decent manager, monitoring the performance, ensuring there were decent occupancy rates, and that the prices people were paying for the hotel rooms meant revenue was maximised. Then we could sell it."

For those in insolvency, the opportunity for that hard work is something of a luxury. Far more common was the urgent sale, because the business was simply unviable, and it was these deals that taught him his key lesson.

"Those situations are all about making the best of a bad situation and doing it as quickly as possible. It brings focus - you need to roll your sleeves up and get things done now. If you don't, the business will fall over and you will have nothing to sell. That was a big lesson for me that I have taken forward to my role at Capita. If there is a particular issue that requires a decision, make the decision and do it now."

Having cut his teeth on insolvency, any challenge is just part of the process: "Lawyers sometimes ask if they can increase the fee by 'x', because we had this or that issue. There is an issue on every deal - it is not extra-special that you have dealt with it - it is just part of the process."

MASTERCLASS

West joined Capita in 2002, initially becoming MD of a business unit, which was a specialist in treasury outsourcing. In 2005 he took on the role of director of acquisitions. He would be directly reporting to chief executive, Paul Pindar, who had been with Capita since 1987. Pindar also trained as an ACA with Coopers & Lybrand in the 1980s before joining 3i, and while with the private equity firm he advised on the MBO of Capita from CIPFA. He became CEO in 1999, and had been very much a driving force behind Capita's growth to that point. Taking on the role was a no-brainer for West.

"We are really not interested in a private equity feeding frenzy... For us, most deals are a result of bilateral conversations"

"Paul had a phenomenal track record in growing Capita. He is an incredibly good and straightforward 'deal-doer'. Most days it felt like a masterclass in deal-doing. He was an incredibly swift decision-maker, a great reader of situations, and negotiator."

Pindar retired from Capita in 2014 and was replaced at the helm by the deputy CEO, Andy Parker, who trained as an ACA with EY, and is another advocate of small to mid-size acquisitions as part of a growth strategy. Pindar has since returned to private equity, joining TowerBrook's senior advisory board.

OPPORTUNITY KNOCKS

Capita's approach to acquisitions has significantly evolved over the past decade. First, resource - there is now a team of seven. Second, there is more proactivity. "10 years ago we were largely reactive to opportunities that were presented to us," says West. "Now, while we retain that reactive capability for opportunities, we are more on the front foot for potential opportunities. We speak to corporate finance advisers and pound the pavements, talking to advisers and entrepreneurs around the country, as well as tapping into ideas generated in Capita businesses."

While deal theses are generated internally, the bulk of deals still comes from corporate finance advisers. Four of the M&A team are focused on sourcing opportunities - liaising with the network of corporate financiers around the UK and leaders of Capita business units. "If we do have a target that people are interested in, we will then facilitate and manage that potential opportunity and negotiate an offer price with the owners."

THE DIFFERENTIATOR

When it comes to the third stage of the process - the due diligence exercise - West has created something of an M&A machine at Capita, targeting legal completion in about a month from agreeing a deal price. "We have three project managers in the team who will organise the diligence stage.

MEMBER OF THE BOARD

Last year Ian West joined the Corporate Finance Faculty's board: "Hopefully I can bring an industry perspective. Often M&A people in industry or corporates are people passing through the role – doing two years, and then parachuting in somewhere else, to a business they may have acquired. That is a feature of how M&A has been approached by corporates.

"Capita is at the opposite end of that spectrum – if we are going to do M&A, we bring in people who are used to making acquisitions and retain them. I think other corporates are moving in that direction. We are focused on how we can do M&A better, and so it is looking to the corporate finance industry to help us all with that, as well as offering my experience and insight."

It is a key differentiator for us as a corporate acquirer. Many corporate acquirers are not good at doing what they say they are going to do and will work incredibly slowly. Private equity houses say they will work quickly, but often find that difficult because they don't have the resource. We are very well practiced at moving very swiftly through that stage."

MAKING THE RIGHT DEAL

A path less trodden by Capita is the auction. "We avoid multi-stage processes," says West. "We are really not interested in a private equity feeding frenzy that drives up prices, in wasting time on those exercises. For us, most deals are as a result of bilateral conversations. Game playing is not a feature for buyer or seller in our deals - that is half the headache in those auction situations."

In February 2015 Capita made its biggest acquisition to date - the £157m acquisition of German customer services firm Avocis from Equistone Capital Partners. The acquisition was the strategic cornerstone for Capita to establish a growth platform in Europe. Capita Europe was subsequently formed, consisting of Avocis, tricontes (acquired in June 2014) and Scholand & Beiling (acquired in January 2015). Capita Europe's main focus at present is outsourcing in the telecoms, e-commerce and utilities sectors.

Back in the UK, last September Capita acquired communication infrastructure designer Electranet for £37m. Last August it paid £35m for Vertex Mortgage Services, provider of specialist mortgage administration software. In July, it added critical mass to its real estate business, with the £25m acquisition of GL Hearn, an independent UK property consultancy. Then there have been tech innovation acquisitions. At the end of last year, Brightwave, a specialist in bespoke e-learning and content creation, was acquired for £7.5m, strengthening Capita Learning Services' digital capability.

So, what is the current environment like for a habitual corporate acquirer in the lower mid-market? "It is mixed," he accepts. "If there is a business growing at 15% per annum in private equity hands, or that would suit a private equity owner, and it is in an appealing market, then it can be very competitive for that type of asset. But we avoid these auctions like the plague. Away from that, smaller UK businesses or where businesses are perhaps not in tip-top condition, we are finding plenty of opportunities. It is definitely still possible to do deals at sensible prices in those scenarios."

$64BN

GLOBAL AUTOMOTIVE M&A SECTOR VALUE

AUTOM&ATIC

M&A in the automotive sector has been steadily accelerating. Brian Bollen looks at the dynamics for deals in a sector that seemed to be written off eight years ago

Automotive sector M&A globally climbed to $64bn (£45bn) last year - $4bn up on 2014 and more than double the $30bn of deals in 2013, according to Thomson Reuters. Crucially for the mid market, deal volume also broke through 1,000 for the first time since 2011.

Last year's M&A uptick was perhaps skewed to a certain extent by a handful of mega-deals. At the end of last year there was the $9.9bn spinout of Ferrari from Fiat Chrysler, with an IPO of the iconic car brand on the New York Stock Exchange. In October last year, China National Chemical Corporation paid $8.4bn for Pirelli. Professor Howard Yu, of the IMD Business School, says the Pirelli transaction is an example of China looking to branch out overseas as it moves from being an imitator to an industry leader.

"Last year was certainly busy, but just not quite as busy as we thought early in the year, and notably lacking in blockbuster deals," says Mark Short, EY's Detroit-based global leader of auto M&A. He cites continuing political instability in many countries as a factor preventing companies from expanding into other geographies. In a relatively short space of time, Russia, for example, has turned from being a very attractive destination to being just short of an international pariah. Slumping commodity prices and currency fluctuations have also put the brakes on the sector, preventing it from delivering levels of performance some had expected.

NEW BUSINESS MODELS

However, Duncan Johnston, Deloitte UK manufacturing leader, says strong M&A in the second half of 2015 has continued into 2016, notwithstanding the marked weakness in public stock markets around the world since the start of the year. Of course, lower valuations could kick-start activity.

"The industry is keeping me busy in different ways," says Felix Kuhnert, Frankfurt-based global auto advisory leader for PwC. "If industry players want to be ready to meet the major changes that we see taking place in the long term they must rethink their skills and business models, and this will likely mean growing through M&A as well as organically."

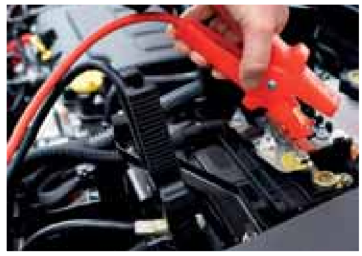
Johnston highlights that consolidation aimed at achieving cost savings, synergies, and greater scale and efficiency continues to be a key driver for M&A. Joint ventures, alliances, partnerships and other forms of association between vehicle manufacturers and IT giants are perhaps more likely than traditional M&A. Whatever form it takes, the sector will inevitably become consolidated globally, says Short.

THE FUTURE

Looking to the future generates some fascinating projections. Technology and automotive production will continue a process of merging as customers demand change. The pace of this revolution is expected to accelerate. "If you were to ask me what the single biggest sector-specific driving force is I would point to the emergence of technology," says Short.

One potentially fertile area for M&A is with mid-market parts suppliers (companies with annual sales of up to $5bn). Should they invest significant capital to continue to produce competitively in a sector where concerns about safety, economy, connectedness and ease of use dominate consumer views?

$8.4BN
AMOUNT CHINA NATIONAL CHEMICAL CORPORATION PAID FOR PIRELLI



POWERING THE WORLD

In November last year BorgWarner bought Remy International for $1.2bn. It was a classic consolidation in the parts sector. The global player acquired the Indiana-based powertrain supplier, which operates in 10 countries on five continents.

BorgWarner is a product leader in highly engineered components and systems for powertrains. It operates manufacturing and technical facilities in 18 countries and produces powertrains to improve fuel economy, reduce emissions and enhance performance. The acquisition will provide the business with a ‘complementary combination of technologies, and global operations will solidify BorgWarner’s product leadership position’, said James R Verrier, president and CEO, BorgWarner.

The emissions scandal that engulfed VW has brought even sharper focus on environmental impact. That will perhaps inform whether mid-market parts suppliers become acquirer or acquiree.

Original equipment manufacturers (OEMs) have been pondering the impact millennials, who may not necessarily want to own their own vehicle, may have. Should these predictions translate into reality, the world could witness a significant reduction in vehicle production. “If people share one vehicle rather than buy their own, the implications are obvious,” says Johnston.

OEMs are investing in Lyft and Uber and entering into partnerships with IT companies. “Everyone has operations in Silicon Valley to take advantage of the technology, and a new sector, that we might call the mobility sector, is beginning to develop,” Johnston says. “External players such as Google and Samsung are entering into alliances in order to access the mobility services market we see emerging,” adds Kuhnert.

However, “Apple is mooted as developing the Apple car”, notes Khush Purewal, a Birmingham-based corporate finance partner at KPMG. Tesla Motors, the Nasdaq-listed manufacturer of electric vehicles, has been mooted as an Apple target. Tesla itself is looking at transport and energy in a whole new way, and could be an acquirer of note in the coming years.

In this scenario, vehicles become less important than what people want from those vehicles. “People want more than a vehicle,” continues Short. “They want their technology. They want 24/7 connection, connection to other people, connection to other cars, connection to infrastructure.”

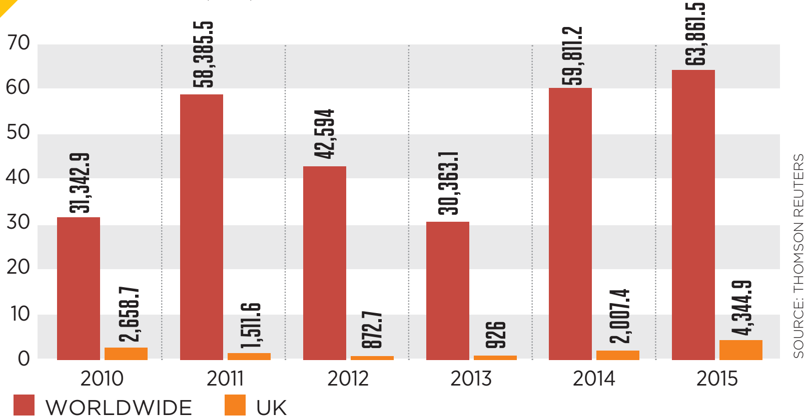
Johnston agrees that the arrival of the autonomous/connected vehicle could help shape the long-term future of the industry, possibly affecting vehicle manufacturers and their supply chain, adding that it may be 15 years before significant changes create a new norm.

Purewal predicts the industry will change beyond imagination in the next 20 years as we face a revolution on a par with that in which cars replaced horses. “The traditional internal combustion engine is on the way out,” he says. “Driverless cars on the way in. Television advertisements for the Skoda Fabia focus not on performance, or the quality of its interior, but on the fact it connects seamlessly with your smartphone. Could we have imagined that 10 years ago, when the iPhone didn’t even exist? The key to the future in the automotive sector is technology. It needs to be taken seriously in every boardroom. The companies that will prosper will be those with a top notch research and development facility and long-term strategic vision.”

NUMBER OF DEALS: AUTOMOTIVE SECTOR 2010-2015

1,002	53	1,012	48	914	47	871	58	970	49	1,003	52

VALUE OF DEALS ($BN)



ALAMY

WHO'S THE BOSS?

Carl Richards and **Tamasin Little** scrutinise the new Senior Managers & Certification Regime in the UK

The financial services sector, and particularly the banking sector, has been under constant scrutiny since the financial crisis. The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) have increasingly been trying to hold individuals to account for their actions when things have gone wrong at a firm, but have struggled to do so.

In March, the Senior Managers & Certification Regime (SMCR), a new UK regulatory framework for individuals working in banks and large investment firms came into force. Little consideration has, as yet, been given to how far the new focus on individual accountability may affect M&A and corporate restructuring decision-making.

THE SCOPE

The SMCR currently applies to UK banks, building societies, credit unions and PRA-designated investment firms, as well as UK branches of foreign banks (relevant firms). Similar, but not identical, rules have also been put in place in the insurance industry.

Other financial sector firms should note that the government announced, last October, that it planned to extend the SMCR to all authorised firms. Legislation to effect this extension is being finalised, following which the FCA will consult on detailed rules intended to implement the regime across the board in 2018.

The three main elements of the SMCR are the Senior Managers Regime (SMR), Certification Regime and new Conduct Rules. They affect different categories of staff, as summarised below.

SENIOR MANAGERS REGIME

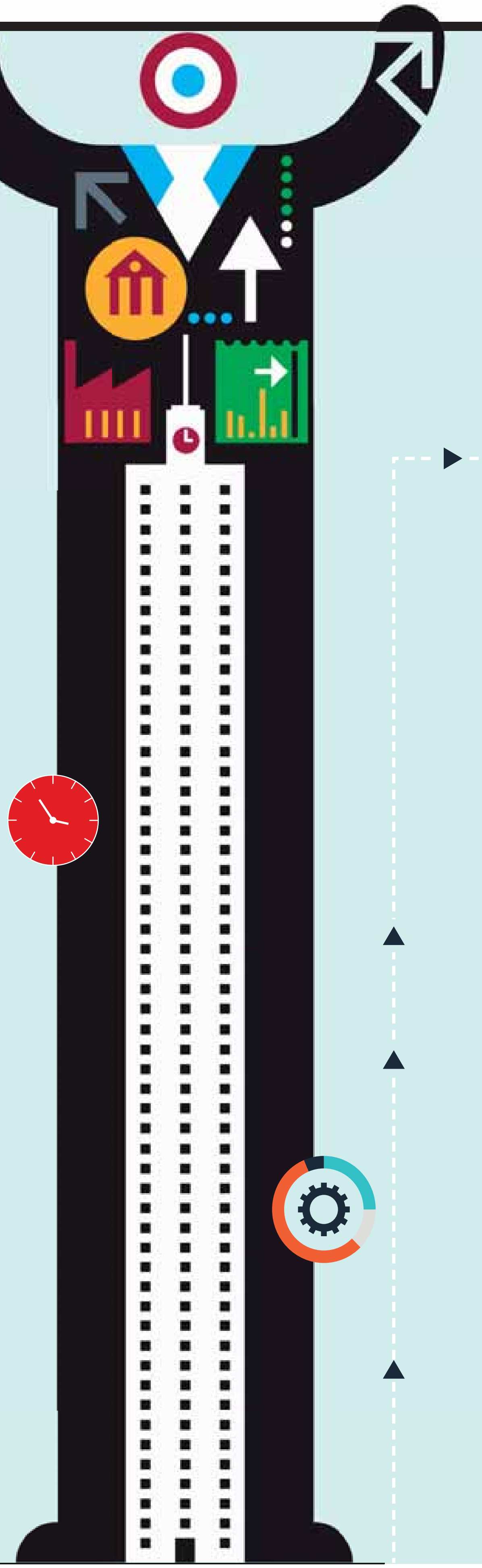
The SMR requires that individuals performing senior management functions be pre-approved by the relevant regulator.

Precisely who is captured by the SMR will vary from firm to firm, but broadly speaking all board members (apart from non-executive directors, with a non-specific role); along with the layer below the board will be senior managers under the SMR. Heads of key business units, individuals in group or parent companies, who exercise significant influence over the firm's affairs, and individuals ultimately responsible for certain key functions, are also caught.

The main elements of the SMR are:

- **Recording responsibilities**

Relevant firms must keep an up-to-date 'statement of responsibilities' for each senior manager, together with a 'responsibilities map' that describes their management and governance arrangements. The maps should show clear lines of responsibility, cover all the business functions the regulators think important – which range from finance and risk management to whistle-blowing and firm culture – and leave



GRUNDINI/IKON

The regime introduces criminal sanctions of up to seven years in jail if a senior manager recklessly causes a relevant firm to fail

no gaps. They must be provided to the regulators, and may in practice be used to apportion blame if things go wrong.

Duty of responsibility

If there is a breach in an area for which a senior manager is responsible, the individual may face disciplinary action for misconduct (and potentially fines, public censures and bans on some types of future employment) if the regulator can demonstrate that they failed to take reasonable steps to prevent the breach. Crucially, this will allow the regulators to strike where a senior manager failed to take appropriate (or any) action, as well as where they have been involved in active wrongdoing.

Originally, the regime included a controversial presumption of responsibility where the onus was on the senior manager to demonstrate that they took the required reasonable steps to prevent a breach from occurring. After criticism that this effectively made managers guilty until proven innocent, this "reverse burden of proof" was removed. Much was made of this apparent U-turn, but it remains the case that the identified senior manager will be first in the regulatory firing line for his or her area of responsibility.

Criminal offence

The regime also introduces criminal sanctions of up to seven years in jail if a senior manager recklessly causes a relevant firm to fail. Successful prosecutions under this provision are likely to be rare in practice, but the threat is now there.

CERTIFICATION REGIME

Employees who are not senior managers, but who could pose a risk of significant harm to the firm or its customers, are not subject to regulatory pre-approval. Instead, their fitness and propriety status must be certified by the firm, both before appointment, and on an on-going basis. This regime catches more people than the current Approved Persons regime. Relevant firms have been concerned about the burden of identifying and certifying relevant employees, particularly due to the potential loss of regulatory intelligence on individuals who move firms.

CONDUCT RULES

New conduct rules have also been introduced that apply to almost all staff of relevant firms (apart from ancillary staff such as cleaners and caterers). Two levels of Conduct Rules apply - some apply only to senior managers, the rest to everyone.

The Conduct Rules are quite similar to the statements of principle for Approved Persons. The key changes are their broader application and relevant firms' obligations to training, and regularly notifying the regulators of breaches. The regulators will be able to take disciplinary action against any relevant individual who breaches the Conduct Rules, which was previously only possible for Approved Persons.

Carl Richards, partner and head of employment, King & Wood Mallesons

Tamasin Little, financial regulation partner, King & Wood Mallesons

IMPACT ON M&A AND CORPORATE REFINANCINGS?

The background to the introduction of the Senior Managers & Certification Regime (SMCR) included criticism of various high-profile acquisitions in the financial sector, and of some bank financing of other corporate transactions.

It is hard to predict at this stage exactly how the SMCR will affect relevant firms' attitudes to particular transactions. However, many other changes to regulation, most notably regulatory capital changes, have affected risk appetite, and increased individual accountability is a clear trend pervading the corporate, employment and regulatory arenas. In this post-crisis world senior managers will be acutely aware that the regulators can and will re-examine their decisions with the benefit of hindsight should things go wrong.

There has been speculation that the new rules will lead to a more defensive and less collaborative style of decision-making in relevant firms, although whether this will be the paradigm cultural shift that the regulators intend is as yet unclear. Certainly as the intention of the regulators is to improve governance and personal accountability throughout regulated firms from the top down, we expect these changes will produce a more cautious approach from relevant firms more generally.

Future M&A in the financial sector will require earlier focus on the post-transaction allocation of responsibilities, rather than allowing this to remain blurred over a transitional period. Senior managers will be keen to ensure a strong paper trail to show they have taken reasonable steps to prevent regulatory breaches or corporate failures. This will mean that some firms require more, or slightly different, signoffs for both corporate and financing decisions, and will focus more on the decision-making process. There is already anecdotal evidence of more focused management information and due diligence being required by some senior managers as they consider their personal responsibilities.

In the new world, senior managers will inevitably balance their personal exposure against the commercial objectives of a particular deal or refinancing. At the very least, the SMCR will make them think twice in the hope that the buck does not stop with them.

Appointments

SENIOR PARTNER ROLE FOR PENNEY

Addleshaw Goddard (AG) head of corporate finance, Charles Penney, has been elected as senior partner for a three-year period, which will run to the end of April 2019. He succeeds Monica Burch.

The former secretary of the UK Takeover Panel joined AG in 2005 and has acted for both domestic and international clients on big-ticket M&A, IPOs and joint ventures. Penney will retain his existing client responsibilities. Alongside the governance aspects of the new role, he will focus on growth across the firm's UK and international markets. "We are well recognised in our chosen sectors and markets, both in the UK and internationally," said Penney. "Alongside client commitments, the continued focus on our growth, our brand and our culture will be key priorities for me as senior partner."

The firm has also recruited M&A lawyer, Elvan Hussein, to its corporate team, from Allen & Overy. She trained with Simmons & Simmons, before working at AG as a junior lawyer between 2004 and 2006.

KPMG NEW HEAD OF RESTRUCTURING

Blair Nimmo has been appointed head of restructuring at KPMG, succeeding Mark Firmin, who is leaving the firm. Simon Collins, KPMG UK chairman, said: "In uncertain economic conditions, restructuring businesses are attractive prospects to trade and private equity buyers, and we have already seen deal activity. We have recently received an offer for our own restructuring practice but have declined this offer as the business is an integral and profitable component of our multi-disciplinary firm."

It has been reported that the failed bid for the 31-partner £100m-revenue practice came from Alvarez & Marsal.

DELOITTE CREATES VALUE

Mo Habbas has joined the value creation team at Deloitte as a partner, from Alvarez & Marsal, to advise both corporates and private equity houses. He has great experience, providing operational improvement support to private equity clients such as Advent, Charterhouse and EQT.

"We aim to deliver performance improvements to our clients' acquisitions, not just for private equity houses, but also for corporates who have the advantage of integration synergies," said Jason Caulfield, head of the team. "Mo brings over 18 years of experience as well as a specialism in turnaround of under-performing businesses and driving improvements in profitability and cash working capital."

Jan Rattay also joined the team as partner at the end of last year, from EY.

NEWS IN BRIEF

Berwin Leighton Paisner has promoted three to partner in its corporate department – Gareth Jones (top left) and Kieran Saunders (centre left) in London, and in Moscow, Anton Panchenkov (bottom left). Panchenkov is head of BLP's corporate/M&A group in Moscow. Prior to joining the firm in 2009, he spent five years as head of legal and corporate at one of Russia's largest glass producers, Saratovstroysteklo.

NorthEdge Capital has hired David Walters as digital and data director. He has more than 25 years' experience leading technology, digital, product and analytics teams.

RSM has announced two new corporate finance partners: Simon Martin (top) in London and Steven Hubbard (below) in Leeds, among the promotion of 19 to the UK partnership. Martin leads the firm's valuation service. Damian Webb in London and Guy Jackson in Guildford have been promoted to restructuring partners.

Financial risk management consultancy **JC Rathbone Associates** has appointed Francisco Carballo as director to lead its derivatives accounting practice. He was previously director at EY.

Private equity house **Key Capital Partners** promoted Philip Duquenoy to partner in its London office. Before joining the firm three years ago, he was CFO at James Harvard International, a

KWM CAPITAL MARKETS HIRES

Greg Stonefield has joined King & Wood Mallesons (KWM) as partner in its London capital markets team, from Mayer Brown's corporate and securities practice, where he was partner. Prior to Mayer Brown, he spent 12 years at White & Case.

European capital markets specialist Rudolf Haas (pictured) joined KWM's Frankfurt office in March, from Latham & Watkins where he was a partner for 15 years. The firm has also hired a number of US capital markets partners, including Bart Capeci, who joined the firm's London office last year. Christine Chen joined the Beijing office, and Gary Lock and Hao Zhou joined the Hong Kong office last year.

"Adding Greg, together with the recent hire of Bart Capeci's US securities expertise in London, gives us a significantly broader and stronger equity capital market (ECM) offering to our international and domestic clients," said Michael Goldberg, London head of corporate at KWM. "Leveraging the strength of our global platform, Greg will help grow our ECM capability and capacity, as well as adding to our leading M&A practice."

European capital markets specialist Rudolf Haas joined KWM's Frankfurt office in March

FORESIGHT RECRUITS IN THE NORTH WEST

Claire Alvarez has joined Foresight as senior investment manager, to become the first member of the small cap private equity investment manager's new Manchester-based team. Prior to this she was assistant director in corporate finance at Deloitte in Manchester, previously having worked at KPMG and corporate finance firm Altium Capital.

The new office will have three investment professionals when it is up and running, who will deploy the recently launched Foresight Regional Investment Fund. The fund, which will invest £1m-5m in growing SMEs in the north west of England, North Wales and South Yorkshire, had a first close in January at £38m, and is targeting a final close of £60m. It is Foresight's second regional fund, the first being the £40m Foresight Nottingham Fund, which started investing in 2013.

Foresight partner, James Livingston, said: "Establishing a regional office in Manchester is an integral part of our fund strategy, demonstrating real commitment to the region, and enabling an even deeper local network, delivering the best opportunities for investment."

private equity-backed international recruitment business. He was previously with PwC and Baird Capital.

Beechbrook has launched fundraising for its third private debt fund, Private Debt III. First close is targeted for this month.

Martin Muirhead has been appointed **Kingston Smith** senior partner, replacing Sir Michael Snyder, who was managing partner from 1979 to 1990, and since then senior partner. Muirhead has been a partner for more than 25 years.

Sally Jupp (top left) has been promoted to partner in **Burges Salmon**'s real estate team. She joined the firm in 2003, qualified in 2005. Andrew Eaton (bottom left) has joined the firm's banking practice in the corporate restructuring and insolvency team, from Travers Smith.

Martin Cooper has been appointed chairman of the **Asset Based Finance Association**. He is senior vice president of operations at Firstsource, and succeeds ABN AMRO Commercial Finance managing director, Peter Ewen. IGF Invoice Finance managing director, Tracy Ewen, has been appointed vice-chairman.

Joe Dyke has joined **Clearwater International** as debt advisory director in the Midlands. He was previously a director of corporate banking at RBS, and prior to that worked in corporate finance at Grant Thornton. In February Alex Brindley and Steve McQuillian joined the Birmingham office as corporate finance associates from Deloitte and KPMG respectively.

Mike Creasey has left Deloitte to join business transformation consultancy **Moorhouse** as client director, leading its M&A and divestment service line. He previously worked in M&A at Atos KPMG.

Stuart Marcy has joined **BKL**'s London office as corporate finance partner, from Menzies. His recruitment reflects the advisory firm's overall growth strategy. He is the third partner in the CF team, joining Daniel Shear and Tom Gallop. He previously worked for Deloitte and Smith & Williamson.

Signed, sealed, delivered

Corporate Financier assesses the buy-out of CitySprint, February 2015

THE CV

Nicol is partner at Dunedin. Based in Edinburgh, he leads its new investment team. He joined the mid-market private equity firm in 2001 after five years at Bridgepoint. After graduating in 1988 with a degree in business and accounting from the University of Edinburgh, he joined Tenon's Edinburgh office. After qualifying as a chartered accountant he moved into its corporate recovery practice, qualifying as an insolvency practitioner in 1996.

Recent deals

- £90m MBO of Kee Safety
- £19m MBO of Formaplex
- Sale of Etc Ventures
- Sale of Gardner Aerospace

Understanding the dynamics of a competitive market and disruptive innovation was crucial when it came to selling CitySprint, says **Nicol Fraser**

WHAT WAS THE DEAL?
The secondary MBO of same-day delivery business CitySprint, completed in February 2016. It was backed by LDC and valued at £175m. Dunedin had originally invested £33.1m in an MBO in December 2010. Revenue had more than doubled since 2010, and 21 acquisitions had been made.

WHO WERE THE ADVISERS?
Catalyst Corporate Finance ran the sales process, with Steve Currie leading the team. After his appointment to advise us in January 2015, he attended board meetings for a year so that he would be aware of the business development and strategy. Squire Patton Boggs were legal advisers and Liberty Corporate Finance advised management. Financial and taxation vendor due diligence was carried out by PwC and OC&C commercial. LDC used PwC for top-up commercial due diligence and Eversheds for the legals.

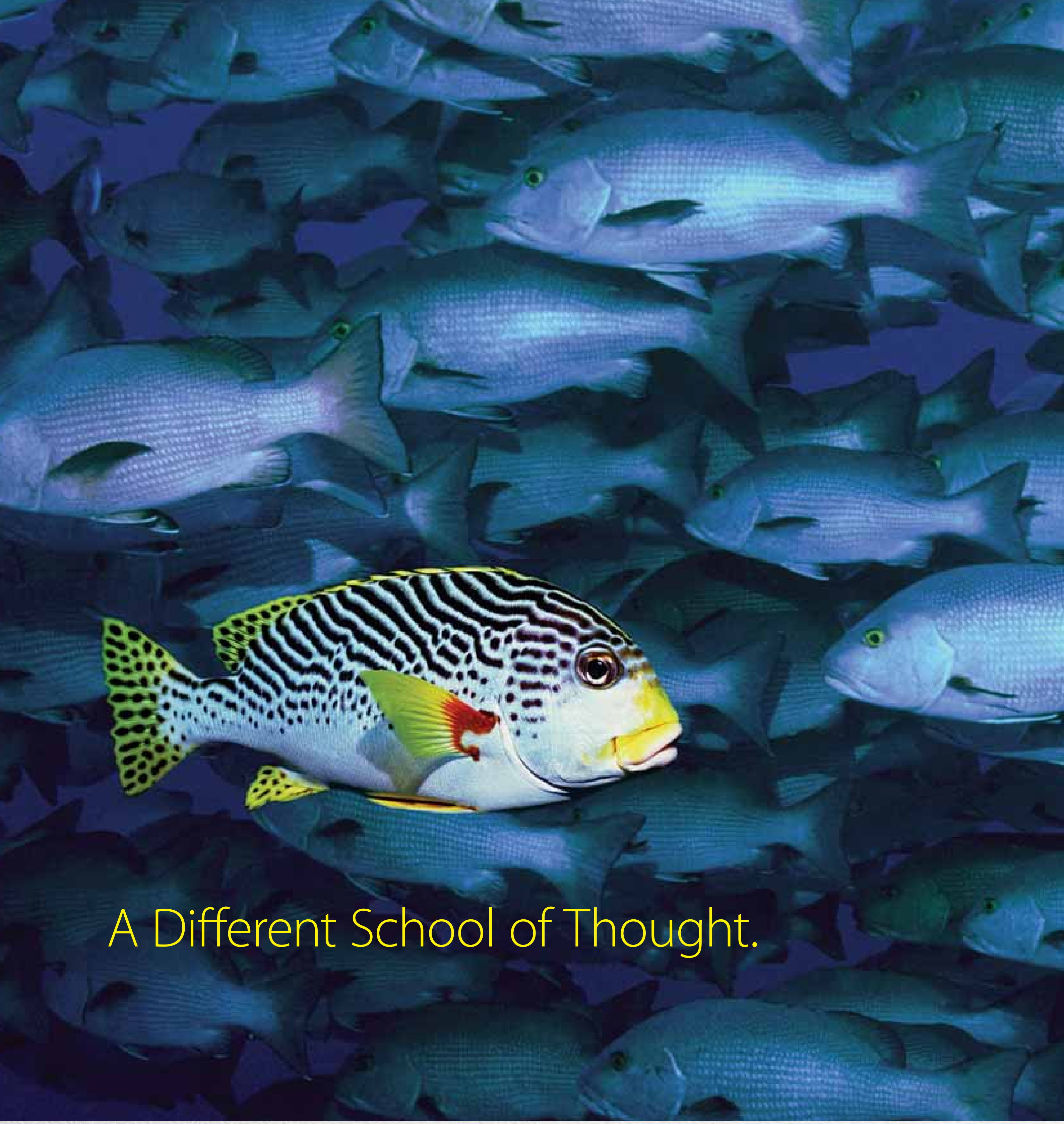
WHAT WAS THE SALE PROCESS?
Information memoranda were circulated around September 2015. We had offers from both trade and private equity. While trade offered a premium to private equity, it was not a sufficient premium. We felt we had invested a lot in the business and the management team was keen to undertake a secondary buy-out with a view to perhaps selling to trade next time. LDC won the process on a combination of price and structure. They were innovative in building the structure around the understanding that we were keen to retain a stake.

WERE THERE ANY DIFFICULTIES?
It was relatively smooth. CitySprint has a high-quality management team – that helps in any process. We confronted what we thought would be the key commercial issues early with commercial consultants, OC&C. The talented second-tier management ensured the business did not miss a beat during the sale process.

WHAT WERE THE CHALLENGES?
There is a perception that the courier sector is very competitive due to some high-profile failures and the presence of companies such as Fedex or UPS. But the same-day business model has very different dynamics to next-day. Combining organic growth, acquisitions and investment in technology, CitySprint has increased its market position in a niche premium space (see the *Corporate Financier* article on CitySprint from February 2015, inset above). We had to know what would happen if businesses such as Uber moved into the parcel space, like they are trialling in parts of US. Buyers had to understand the potential disruptive technologies and the potential effect on CitySprint. A lot of education was needed for the issues to be fully understood.

HOW WAS THE DEAL STRUCTURED?
We retained a stake in the business as we could see the upside from future growth. When we bought the business it was a courier business that had started to do logistics. In five years we developed the logistics side and invested 25% of its profits in technology every year, which will generate significant value and is part of the reason we retained a stake. That gave LDC confidence that we had faith in the business.

MARTIN HUNTER


A Different School of Thought.