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LEADING FROM THE FRONT

British businesses making acquisitions across the world

October 2018 Issue 206

GROWTH
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Power to the people

We are now less than six months from the UK parting company with the EU. Deal or no deal – which is the current debate – Britain's last day of membership will be Friday 29 March 2019.

For the auto sector, Brexit probably couldn't have come at a worse time. It's an industry in flux. In the wake of the diesel emissions scandal, the move away from the internal combustion engine towards electric power is picking up momentum.

In May, BP – formerly of course British Petroleum – invested $20m in StoreDot, a developer of an ultra-fast rechargeable EV battery. They claim it can recharge in five minutes, giving a car a range of up to 300 miles. Of course, it's not in a mass-produced car yet, but it certainly shows the direction of travel.

A month later, BP acquired Chargemaster. The UK's largest EV charging network operator, it is, interestingly, also a big supplier of the charging infrastructure.

According to the Society of Motor Manufacturers and Traders, 856,000 people are employed across the sector in the UK and 186,000 are in manufacturing. Roughly 80% of cars made in the UK are exported. In 2017, 1.67 million cars were manufactured or assembled in the UK and the industry added £20bn to the UK economy. Almost 80% of new cars registered in the UK in 2017 were from the EU.

Motor industry big hitters have been positioning themselves for Brexit. Last month, Jaguar Land Rover (JLR) announced that about 2,000 employees would be put on a three-day week at its Castle Bromwich plant in the Midlands. Its CEO, Ralf Speth, was accused of Brexit scaremongering by some. But the reality is that his duty is to his business and its shareholders. JLR is owned by Tata. BMW says it's also taking stock of the situation.

The move from diesel and petrol to electric presents an opportunity for auto manufacturers to revisit where their production facilities are. It's crucial that the UK incentivises investment in research and development (R&D) and investment in engineering and component development for the new power trains used in production.

That will also provide an opportunity for local innovation – and for those small smart businesses, potential for M&A. UK Plc needs these high-quality businesses, because otherwise if they are lucky there will be assembly jobs in the UK, but R&D located elsewhere – probably in the EU.

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NEWS & EVENTS

LSE LAUNCH FOR FACULTY 'DEBT' GUIDELINE IN NOVEMBER


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The Corporate Finance Faculty has organised a wide-ranging forum about emerging trends in debt markets and deal structures.

The Debt for Deals breakfast event at the London Stock Exchange on 6 November will mark the publication of the faculty's latest best-practice guideline, following the success of its guidelines about valuations and on completion mechanisms.

The forum will look at how increasing specialisation affects, variously, markets for acquisition finance, structured finance, SME lending, venture debt and real estate, respectively, trends in cover pricing, covenants, leverage ratios and refinancing and how challenger banks and independent debt funds are continuing to change the UK and international market.

Panellists will include Chris Lowe, capital and debt advisory partner, EY; Graeme Sands (1), head of business banking, Clydesdale and Yorkshire Banks; Katerina Joannou (2), capital markets policy lead, ICAEW; Mike Hodges (3), director and deputy head, Corporate Coverage London, HSBC; Steve Tudge (4), managing partner and chairman of the Investment Committee, ECI Partners; and Tara Moore (5), managing director – Corporate Credit Group, Guggenheim Partners.

The faculty has developed the new *Debt for Deals* guideline with expertise from member firm Clydesdale Bank's corporate and structured finance division, the faculty's Technical Committee and other specialists from across the membership. Joannou acted as technical editor, and *Corporate Financier* feature journalist Vicky Meek authored the publication. In February, the faculty hosted a Debt for Deals roundtable at Chartered Accountants' Hall (see 'Debt is a four-letter word', *Corporate Financier*, April 2018).

The new best-practice guideline will be posted to faculty members with the December issue of *Corporate Financier*.

To keep up with the latest developments, follow the faculty on Twitter @ICAEW_CORP_FIN or in the LinkedIn group, entitled: ICAEW Corporate Finance Faculty.

LORD SMITH OF KELVIN TO SPEAK AT FACULTY ANNUAL RECEPTION

Lord Smith of Kelvin KT CH (pictured), chairman of the British Business Bank, will be the Corporate Finance Faculty's guest speaker for its annual reception at Goldsmiths' Hall in London on 15 November. Lord Smith will discuss his many experiences as a prominent private equity investor and company director as well as how the British Business Bank is developing its new £2.5bn patient capital programme. He has previously chaired the Green Investment Bank, as well as SSE Plc, and Weir Group Plc. He has also been a non-executive director of Standard Chartered Bank, a governor of the BBC and on the board of the British Council. His CV also includes ICFC – the predecessor of 3i, RBS, Charterhouse Development Capital and Morgan Grenfell Private Equity. He is a member of the Institute of Chartered Accountants of Scotland.

The faculty has invited many senior representatives of its 90 member organisations and many collaborators and stakeholder organisations to the annual reception. Goldsmiths' Hall is home to one of the City of London's grandest livery companies. The hall was opened in 1835 with dinner guests including the Duke of Wellington and Robert Peel.

David Petrie, ICAEW's head of corporate finance, said: "Given the many areas of collaboration between the British Business Bank and the faculty, we thought it very appropriate to invite Lord Smith to speak."

For more information, please contact Grace Gayle, the Corporate Finance Faculty's services manager, on +44 (0)20 7920 8656 or at grace.gayle@icaew.com

CHRIS LOWE JOINS CORPORATE FINANCE FACULTY'S BOARD

EY corporate finance partner Chris Lowe has joined the Corporate Finance Faculty board.

Lowe, who co-leads EY's UK capital and debt advisory practice, joined the firm from Citibank in 2009, when a specialist capital and debt advisory team was first set up by EY. He had been an associate director in Citibank's infrastructure finance and advisory and global securitised markets.

Prior to that, Lowe was a project finance director at HSBC. He has also previously held various roles at BAE Systems, having joined after graduating with a degree in business economics from the University of Salford in 1996. He's an Associate of the Chartered Institute of Management Accountants.

Lowe sees technology as a crucial issue for corporate financiers: "Just as keeping pace with technological change is important at EY, the faculty must stay relevant as digital disruption increases the amount of change brought about through technology."

Another subject he views as important is the mental well-being of professionals: "The corporate finance market is a pretty brutal environment. We're working longer – and to later retirement ages. Mental health is a growing issue, and one that is getting better understood. The faculty needs to learn and support its members in those areas and it is an area I am keen to really get into with my fellow board members."

In terms of financial markets, he predicts tougher times ahead: "I think we're full cycle now. It's been a tremendous 10 years, but increased volatility is coming. Cov-lite is the big risk to global financial markets, which is brewing."

Lowe said that he was "very pleased" to contribute to the faculty: "It's a great time to be involved and a superb network to be a part of."

NEWS IN BRIEF

David Petrie, ICAEW's head of corporate finance, was amongst the speakers at the annual conference about the City Code on Takeovers and Mergers in London on 27 September. He spoke about the important implications of the government's proposed new policy on national security and infrastructure deals for takeovers in the UK (see pages 27-29 of this issue). Other speakers included Simon Lindsay, director-general of the Takeover Panel, and Ursula Newton, a capital markets partner at PwC. Petrie was invited to speak by conference organiser City & Financial.

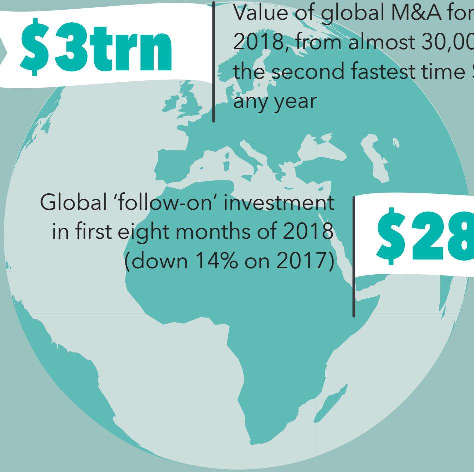
The Corporate Finance Faculty is developing guidance for preparers of prospective financial information. The faculty will not only provide specific guidance to those preparing profit forecasts for capital markets transactions, but will provide general guidance, which can be applied to any forecast preparation. An exposure draft based on the initial public consultation will be circulated before the end of the year for further consultation. During the first half of 2019 responses and feedback will be used to shape the final guidance, which should be published later next year. The guidance is being prepared by a working group of practitioners, co-ordinated by the faculty's technical manager Katerina Joannou.

Shaun Beaney (second, left) represented ICAEW at 10 Downing Street on 18 September at a meeting about investment in the creative industries, organised by the Prime Minister's Office and Carolyn Dailey (centre), founder of Creative Entrepreneurs, along with businesses, advisers and institutions from across the sector.

IN NUMBERS

Global M&A in the first eight months of 2018, private equity investment in Central and Eastern Europe, and the Global Investor Confidence Index

GLOBAL M&A SO FAR...



$3trn Value of global M&A for the first eight months of 2018, from almost 30,000 transactions worldwide – the second fastest time $3trn has been reached in any year

$289bn Global 'follow-on' investment in first eight months of 2018 (down 14% on 2017)

$554.6bn Global private equity-backed M&A for first eight months of 2018 (up 27% on the same period in 2017)

$321.6bn Technology M&A in first eight months (up 57% on 2017)

SOURCE: THOMSON REUTERS

GLOBAL INVESTOR CONFIDENCE INDEX (ICI)

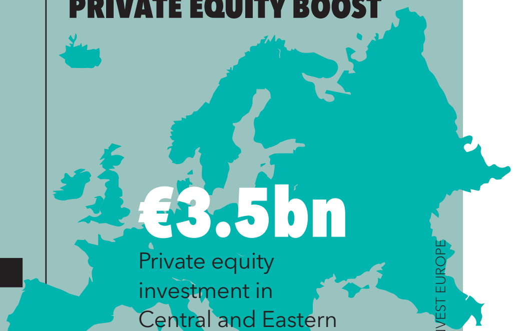
92.5 North American ICI declined from 103.1 in July

99.5 European ICI rose 8.1 points from 91.4 in July

94.3 Global ICI was down 7.4 points from 101.7 in July

SOURCE: STATE STREET

PRIVATE EQUITY BOOST



€3.5bn Private equity investment in Central and Eastern European companies – record levels

SOURCE: INVEST EUROPE

Amount of advances to UK businesses by invoice finance and asset-based lending providers at the end of Q2 2018 (up 1.9% on Q1 2018)

SOURCE: UK FINANCE

Forecast for dividends to be paid by AIM-listed companies in 2018 (19.6% growth on 2017) – the first time more than £1bn will be paid out

SOURCE: LINK ASSET SERVICES

CALLING UK SMEs
READY STEADY GROW!

BRITAIN'S *got talent*

The ability to transact quickly in today's market can be the difference between winning and losing a bid for a high-quality asset. Marc Mullen speaks to OMERS Private Equity and its advisers about its £820m tertiary buyout of **Alexander Mann Solutions** in May

Growing a British business from scratch to more than a billion dollars in enterprise value in 20 years is quite an achievement. What's even more impressive is when its management wants to take the company even further. That is what attracted OMERS Private Equity to Alexander Mann Solutions - a major international company in recruitment process outsourcing (RPO) services. The private equity arm of OMERS paid New Mountain Capital £820m for the business in May.

Alexander Mann Solutions was founded in 1996 by Rosaleen Blair. As CEO, she has been central to the firm's phenomenal growth over the last two decades. Still headquartered in London, Alexander Mann Solutions' typical clients are large international corporations, who it assists in recruiting and retaining talent. It employs more than 4,000 people worldwide and has more than 100 clients in 85 countries. Blair, who was awarded a CBE last year, remains key to its future growth.

"Rosaleen had a vision of the RPO market that meant she was well ahead of others in developing a proposition that subsequently has proved very successful," says Martin le Huray, co-head of OMERS Private Equity in Europe, who led the investment.

The business has grown dramatically over the last decade, expanding from its UK beginnings into Europe, North America and Asia Pacific. OMERS has financed the company to expand geographically, built its sector expertise and helped it emerge as a significant player in new sectors such as healthcare and public services. Le Huray says OMERS will also support them as they innovate through the latest technologies.

Alexander Mann Solutions has a team of data scientists and robotics programmers bringing the latest technology to play - according to le Huray,

"I think Rosaleen Blair has worked incredibly hard to build a really strong first-tier workforce"

Martin le Huray, co-head, OMERS Private Equity Europe, on Alexander Mann Solutions' CEO


Prince Charles presents Rosaleen Blair with a CBE

PA IMAGES

HERE'S THE DEAL

In May 2018, OMERS Private Equity acquired Alexander Mann Solutions from US-based private equity firm New Mountain Capital. It was a tertiary buy-out, which put an enterprise value of £820m on the global talent management company. Martin le Huray, co-head of OMERS Private Equity in Europe, led the investment.

NM Rothschild acted as financial advisers to OMERS Private Equity. Its legal advisers were Weil, Gotshal & Manges and Ogier. A team from PwC, led by Nicola Preedy, carried out the financial due diligence. Marcel Brinkman led a McKinsey team that carried out commercial due diligence.

"We have repeat relationships with not only the same advisory firms, but the same individuals in those firms," says le Huray. "We think of our advisers as part of our team, and include them as such. We've got some strong, deep relationships among our advisory network and we find that's the way we get the most out of them. We also find it works for them too."

HSBC led a syndicate of banks in providing the debt package for the deal. Rothschild's debt advisory team was involved in negotiating the funding package. Deloitte and law firm Dorsey & Whitney, led by Fabrizio Carpanini, advised management.

this will become an increasingly important part of the venture.

RISING TO THE CHALLENGE

The fact that Alexander Mann Solutions was such a high-quality asset created the biggest challenge: "It is a unique and attractive company, and so it was a highly competitive process," said Stephen Griffiths, who led the corporate finance team from NM Rothschild, which advised OMERS. "It's not uncommon in the current environment that management had a shortlist of who they wanted to work with. OMERS accelerated through the process to deliver the deal quickly. The question for us, in such a situation, is how do we get to a deliverable point, while understanding the numbers and the due diligence ahead of everyone else?"

Le Huray says OMERS's strategy is to be in pole position with the vendor once the process starts. Because of the work done in advance, the vendor was persuaded that OMERS was very credible, able to deliver on an attractive price and crucially management were comfortable with them as future partners.

"The next best thing is we've done enough work, we've built a strong enough relationship to be able to move very quickly within processes,

"It's not uncommon in the current environment that management have a shortlist of who they want to work with. OMERS accelerated through the process to deliver the deal quickly"

£820m

Enterprise value of Alexander Mann Solutions in May 2018

and that's what we were able to do here," says le Huray. He adds that OMERS's offer was appealing to New Mountain and the sellers, and that they were able to stand behind all of the funding for the transaction.

Such a fast process is not uncommon for high-quality assets in today's market, explains Griffiths. But people being prepared to put in the resource to push the process quickly are critical for success: "You still need the same focus and rigour, but in a slightly condensed timeline for quality businesses."

Of course, in most instances this suits all parties. The vendors will have been satisfied with the offer. And management will want to get on with running and growing the business. "They have targets to achieve and day-to-day operating plans to put in place," adds Griffiths. "It helps if everything can be done in a swift but controlled manner."

MORE THAN JUST ITS MANAGER

Alexander Mann Solutions is not just Blair. Those around her have a lot of experience too. "Rosaleen is at pains to point out the importance of team and culture," says le Huray. "She has worked incredibly hard to build a really strong first-tier workforce."

Chief financial officer Richard Timmins joined in 2011, with experience in M&A and strategy development in global businesses. He previously worked for Towers Watson, Thomas Cook Financial Services, Andersen and Reconomy. Chief commercial officer (CCO) Matthew Rodger has been with the firm since 2001. He joined as sales director, and has held various senior positions before becoming CCO. Andrew Weyland joined as chief technology officer in 2015, leading many innovations including digital

THE LEAD ADVISER

Stephen Griffiths, managing director at NM Rothschild, was already familiar with Rosaleen Blair and the management team at Alexander Mann Solutions. "We understood the company, the process and that a number of people were looking at it. We had good intelligence, not just on the quality of the asset and the team, but also on the profile of buyer they were seeking."

Rob Dunnett, who leads Rothschild's coverage of the wider HR space, was a critical member of the team. He brought further insight. With his input the team had a good understanding of the market more generally – in the UK, Europe and North America.

Griffiths explains that he immediately understood OMERS' interest in bidding for the company. "They definitely fitted management's acquirer profile. NM Rothschild understood the type of business OMERS were interested in, their long-term view on investment horizons, and their ability to deploy follow-on capital. All of that reinforced our view that they would be a very good buyer for Alexander Mann Solutions."

transformation, talent analytics, robotic process automation and artificial intelligence programmes. Weyland is an ACA who previously worked for PwC, as well as at Michael Page and Hudson.

The team is no stranger to private equity ownership. OMERS are Alexander Mann Solutions' third private equity backer. New Mountain paid Graphite Capital £260m for the business in October 2013. "There is real depth to the management," says Griffiths. "And their appetite to take the venture forward is phenomenal - they are very driven."

Following the deal, le Huray and Charles Miller-Jones from OMERS's UK team have joined the board, as well as Eric Hayley from its North American private equity team. "It's an important market where we think there are some exciting opportunities. We wanted to reflect the company's geographic nature," says le Huray.

FUNDING M&A

One big attraction for Alexander Mann Solutions will undoubtedly have been OMERS's ability to provide follow-on capital, where required, to fund growth. OMERS had C$95bn in net assets, and is a direct investor. The substantial capital pool, direct investing and the partnership philosophy are differentiating factors for the firm, which in certain situations is appealing to vendors and management teams.

Blair certainly agrees: "OMERS's partnership approach, its substantial and unconstrained capital base and its experience of supporting businesses organically and through acquisition make it an ideal partner in this next stage of our journey."

The majority of Alexander Mann Solutions' previous growth had been achieved organically and with new contract wins, in addition to high

"There is real depth to New Mountain Capital management. And their appetite to take the venture forward is phenomenal – they are very driven"

levels of client retention. "In many ways they created and were continuing to create the market they were in," says Griffiths. He added that in future there may well be opportunities for acquisitions "to bulk up certain aspects and propel Alexander Mann Solutions forward".

"M&A was a reasonably small part of the growth story historically, but the business does have experience of executing and integrating acquisitions," says le Huray. "One of the attractions is that they've got the capability, the skill and the network to originate and execute on M&A." Griffiths says that while there will undoubtedly be interesting M&A and consolidation opportunities, they were not the primary drivers for the deal.

INTERESTED PARTIES

OMERS inevitably faced competition in the process. While the details of other bidders were not made public, the business would likely have attracted interest from both private equity and trade. However, the fit with private equity for the next stage of its growth was pretty compelling. "We obviously love bilateral situations, but equally for those businesses that we have real conviction in, we're comfortable being in processes and confident we can win them," says le Huray.

A good level of interest at the start is useful for a private equity investor, who will have an eye on the way out. "As advisers on the buy-side we look at all exit options - a private equity deal, a potential trade sale or a dual track IPO. We looked at the timing of OMERS investment cycle, the course the business is on and the size it would potentially be when they get to the end of that investment period. All three would be interested," says Griffiths.

Alexander Mann Solutions' clients are global - Rolls-Royce, Royal Mail, GE, HSBC, Equinor, Deutsche Bank, Citi, BNP Paribas, Barclays, CapGemini, Santander, Deloitte and Jaguar Land Rover, to name just a few. So moves into new territories, such as South America, would likely have several existing clients immediately keen to use their services.

Alexander Mann Solutions' vision is to break through £100m EBITDA in four years. Global talent management for skilled workers is on the increase and being at the forefront of digitalisation is of paramount importance. OMERS will be keen to ensure management's plans are fully resourced. ●

JON MOULTON

POST-TRUTH MADNESS

We are living in a world where fake news, half-truths and hard facts are being thrown into one big melting pot. But we mustn't get drawn in

Donald Trump has really brought the art of discrediting those who would dare to promulgate bad news about him to near perfection. His ability to label criticism of him as "fake news" and to persuade many of his followers that truths are lies is pretty remarkable.

The president by no means invented this process. He merely perfected it with what many may think is a counterintuitive approach. Chanting outshouts reality. Nearer to home, some of the alleged facts in the Brexit debate were manifestly untrue, but widely believed.

Trump would not have made it as a chartered accountant. Consistency, following the rules and basic validity are not standards he adheres to. But he has confounded many of the media's early predictions by remaining a going concern as president nearly two years in.

NEW REALITY

But if we look to the accounting profession today we see lower credibility about what we do, less belief in its utility and grave suspicion as to our business practices. Whatever the reality, this perception is now widely held.

For instance, listed companies very commonly disclose adjusted earnings. In the US, some 30% of companies beat their market expectations of "profits" using the adjusted measure, but only 10% would beat expectations if GAAP criteria were applied. Bad (not fake) news is edited out of the adjusted figures, whereas the good (also not fake) news, is all too often heaped in with other things – not strictly fake, but certainly 'less real' than confirmed facts.

The adjusted measure is nearly always higher than GAAP numbers too – largely because some things (such as share option expenses, redundancies, restructuring) are often added back. The readers of accounts are spoiled – they get two sets of numbers. But what to believe?

Despite being quite rare, periodic collapses and scandals in accounting and auditing have a profound impact on our profession's credibility. They grab headlines. But there is little chance of a good audit making it onto the TV news any more than cats stuck up trees.

When I was learning the trade, accounts were very short even for listed companies. The audit report was two or three lines long. There was attraction in the simplicity and purity of these thin documents. And quite often, they were actually read.

Of course, things were not perfect. I fondly remember working on the audit of a large international commodities group. Inter-country accounts had not been reconciled in 20 years, but the partner was relaxed about it. The audit report read: "…true and fair as far as practicable." This struck me at the time as remarkably honest.

The hideous length and complexity of modern annual accounts, as well as the obscure language used in them, conceals and confuses facts, and obfuscates reality. Tracts about social purpose are of little general interest, and even less credibility. Truth, if indeed it is present, is increasingly hard to find.

Like an individual squinting desperately at a departures board in the middle of a crowd at a strike-hit train station, a particularly frustrated would-be traveller can be spotted, but only after a lot of searching.

CLARITY CALLS

For decades we have relied on the mysterious "true and fair" wording. I wonder if nowadays it in fact tends to mean "not in breach of the accounting standards to a great extent". It was never clear.

The comparison with Alice's conversation at the Mad Hatter's tea party is increasingly appropriate. The March Hare told Alice: "You should say what you mean," to which Alice countered: "I mean what I say – that's the same thing, you know." Uncomfortably close to home.

I am old fashioned. I think the accounting profession should be too. Opinions should be intelligently formed and clearly delivered.

Honesty should be respected, dishonesty punished. Intermediate positions should be discouraged. Society does not do this. Senior souls involved in the banking crisis remain untouched, some even honoured.

If the perception of truth is allowed to triumph over the reality of facts, then much of what we do as accountants becomes futile.

Accountants must not become an expensively trained sub-species of public relations consultants. ●

DIVEST TO INVEST

The total value of global divestments topped $1trn last year. And this is set to continue to increase as businesses look to reposition themselves in a digital age and focus on delivering shareholder returns.
Jason Sinclair reports

A combination of plentiful capital available to private equity and corporates, a benign business environment in the US, pressure from shareholders for more focus on activities that deliver returns and a feeling that the good times might be about end has fuelled a huge boost in divestment activity across the world in the past year. That's the view of corporate executives, private equity investors and corporate finance advisers in two recent reports on the global divestment landscape by Deloitte and EY.

Deloitte's survey found that seven in 10 divestors were concerned about employee morale, almost six in 10 worried about customers and nearly half feared excessive complexity.

In 2017 the global value of company divestments was $1trn - an increase of 16% from 2016. EY's 2018 global corporate divestment study, based on 1,000 interviews with senior corporate and private equity executives, found that twice as many companies (87%) planned to divest in the next two years. Only 43% said they had such a strategy in the 2017 study.

Charles Honnywill, EY partner and divestment leader, says the theoretical predicted boom in divestment is being borne out on the ground: "One of the most surprising things about the survey was that the number of people expecting to divest doubled between the 2017 and 2018 surveys, and we only see that continuing since the survey was done."

TECHNOLOGY DRIVING INVESTMENT

Beyond the capital and tax drivers, the most important finding from the EY survey is the

TRUMP CARD

"For probably the first time in the history of our global divestment study, the word 'tax' is driving people to accelerate divestments," says EY's Charles Honnywill. "US tax reform, you could argue, is changing the way people are doing M&A, so you're seeing people accelerate divestments because they take cash offshore more cheaply and are seeing a more benign corporate regulatory regime. Donald Trump thinking about allowing companies to report semi-annually rather than quarterly has been very well received. Whether it happens or not, or whether it's good or not, it's another intervention that suggests a benign business environment. If you're holding onto assets, you're an American company and you're tempted to sell, it's a good time to sell them now. We're seeing that in practice."

Fenton Burgin (pictured below), Deloitte's UK head of corporate finance advisory, agrees: "The clarity now around the US tax regime is making US corporates look more favourably at M&A, particularly M&A where they can repatriate cash back to their domestic market."

multi-layered impact of digital. Almost three quarters of respondents (74%) said the changing technology landscape was influencing divestment plans: "People are looking to divest because of digital. They're also looking to perform the divestment process with more digital elements in it. Most businesses are seeing their processes affected by digitalisation or robotics or artificial intelligence, or just more powerful computer firepower. This means they're having to invest more in those areas where they make more money and therefore allocate capital more carefully. So they often have to divest some components, because they run out of capital or management bandwidth."

"So, you have to decide whether they're going to invest more money in things they want to digitise and keep - and so sell off old, analogue models." Of course a buyer is needed for such divestments.

"On the flipside, there are companies that have excellent, digitally enabled business models but haven't got the capital or time or understanding to make the most of it and can get more money by selling."

Another side to digital is that it's enabling companies to conduct more portfolio reviews - Honnywill recommends two per year, if not a permanent, rolling process - and stresses that getting value from divestments depends very much on good data. "Not just compared to a decade ago, but compared to six months ago, we're doing more data-mining than ever before," Honnywill says. "The rate of change is itself exponential. Also, the data is a lot more operational than it was in the past, and we're getting a lot better at working out the value of

"Buyers are hungrier for data and want data and analytics to compile their deal thesis"

Paul Laurnecik, transaction services director, Deloitte

87%

of companies plan to divest in the next two years (SOURCE: EY)

$1trn

Total value of global company divestments (SOURCE: EY)

intangibles. How do you value a big brand? We're getting much better at capturing that with all the scanning capabilities, meaning we can measure and forecast much more intangible things in a way that, in the context of divestment, is a lot more reliable than it has been in valuing a business."

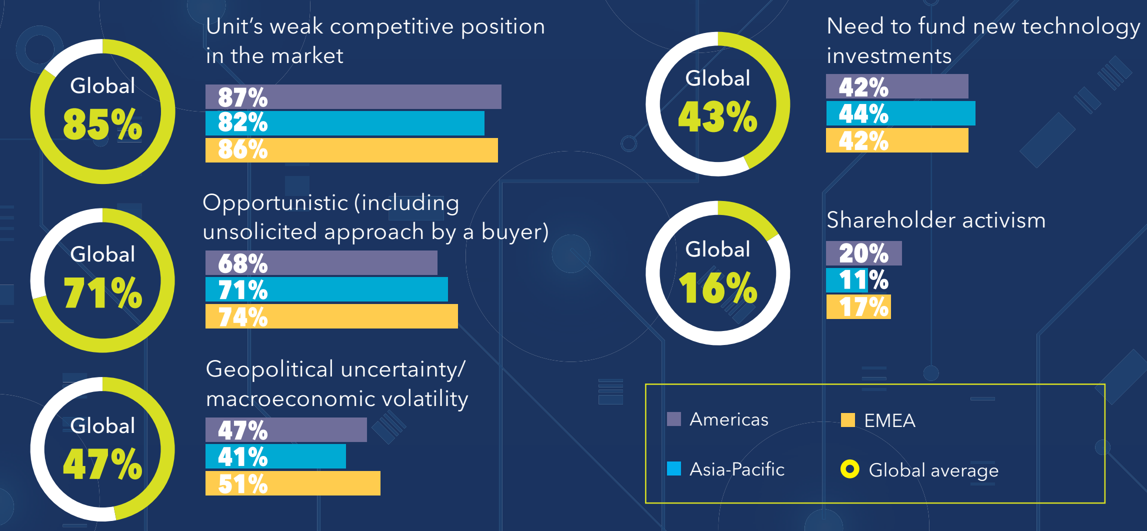
Paul Laurnecik, Deloitte transaction services director, supports this view: "Buyers are hungrier for data and want data and analytics to compile their deal thesis." He sees four main drivers to the divestment market: "First, conglomerates performing portfolio reviews and divesting because of changes in strategy, management or market environment - or just to increase share price by getting value from an undermanaged asset. Another driver is regulatory divestment as a part of larger mergers. Activist investor-inspired divestment is also a driver, as is a rise in private equity actively contacting corporates and looking for deal opportunities."

PERFECT TIME TO SELL

Deloitte's UK head of debt advisory, Fenton Burgin, says that valuations in the US and Europe are both at record highs, and that landscape is carved out by low interest rates. He also says that the potential for an interest rate rise is a further M&A driver, as well as liquidity trying to find a home in the private equity space. "Now is a good time to be a seller, and the balance of probability is that market conditions are going to be less favourable in 18 months time," he says.

Honnywill is also cautious about the medium term - while a good 2019 deal flow might look like a bonanza, he argues that there are problems looming behind the boom. "I'd say we know pretty

TRIGGERS THAT PROMPTED A COMPANY'S MOST RECENT MAJOR DIVESTMENT (PERCENTAGE OF RESPONDENTS)



SOURCE: EY

much that there's going to be downturn, there's going to be a correction before, let's say, 2020. Interest rates have nowhere to go, they're already as low as they can reasonably be - so the capital markets are going to in some way correct, and if you have to buy or sell something to rejig your portfolio, you'd better get on with it. 2019 could be a year where those that move quickly are winners and those that don't, aren't."

MORE HASTE?

Because of the need to transact quickly, some buyers will undoubtedly overpay and some sellers will undersell. "One of the questions we ask every year is 'what is more important to you, speed or value?'," says Honnywill. "And there's a balance between preparing really carefully to get the optimum price, or wanting to get rid of a business and spending time on other things. The answer is that all CEOs want both - they want a high price quickly." He thinks they will be keener on speed than value over the next year.

"The sun may not have set on one of the strongest market periods we've had, but it definitely feels as though we're in the twilight, with interest rates on the up and with the UK environment a lot less certain than many would have hoped," says Burgin, assessing the coming year.

The elephant in the room, he adds, is that companies are keenly awaiting far more clarity regarding Brexit and what it means. Honnywill agrees: "Brexit is still an unknown quantity and existential risk, but in our terms it's just another risk. Everyone is asking the question but no one knows how to answer it. Existential risk is turning into scenario planning - but there are still too many variables."

"Brexit is still an unknown quantity and existential risk"

Charles Honnywill, partner and divestment leader, EY

Burgin adds that in Deloitte's M&A business he's seen a shift. This shift is from people feeling confident about running a far-and-wide process over an extended period of time - where the sole priority of the vendor is to achieve the highest value regardless of time - to an attitude where getting a deal wrapped up in a short amount of time is a much higher priority. "Processes are running to completion in as few as eight to 10 weeks," he says.

A sale can also be driven by activist investors - 21% of respondents in Deloitte's survey said they divested due to shareholder pressure.

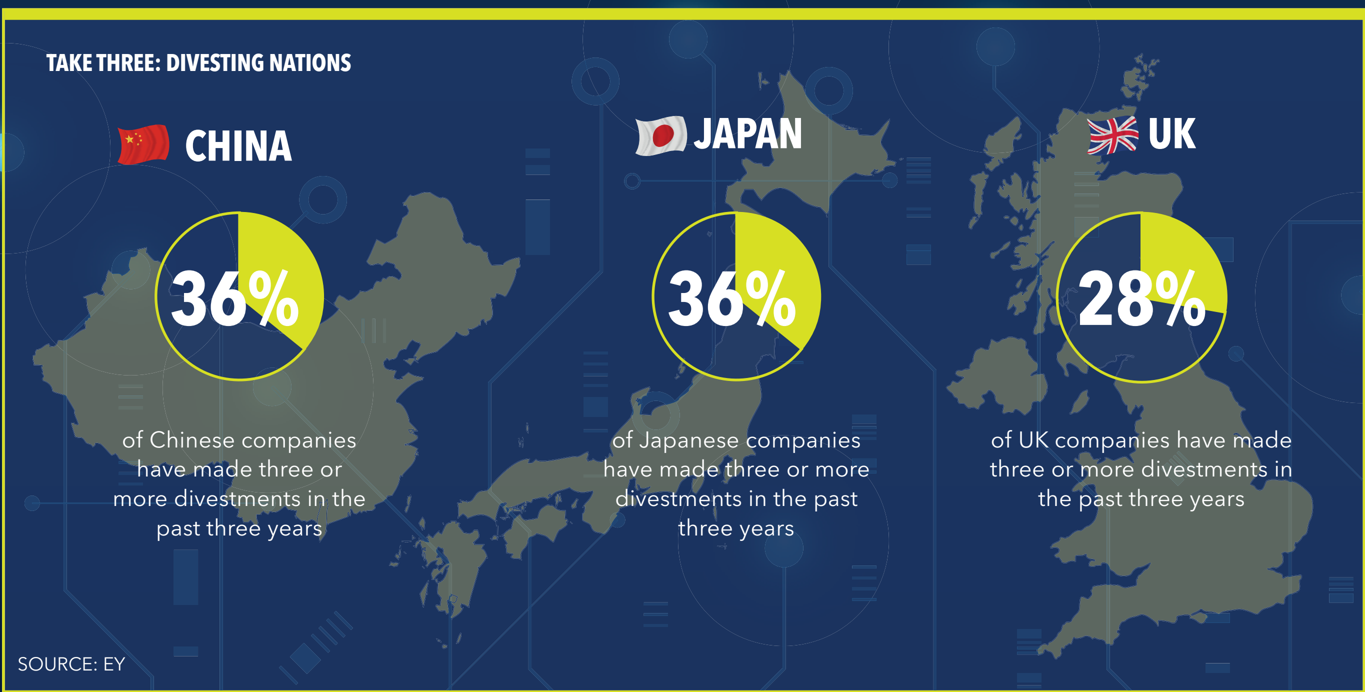
21%

said they divested due to shareholder pressure
(SOURCE: DELOITTE)

WHO'S SHOPPING?

In terms of businesses that are acquiring, Honnywill points to mid-market private equity houses acquiring smaller businesses that need the next stage of development capital. He also points to companies that are "as awash with capital as private equity". With benign debt markets, acquiring for growth or for geographical or product adjacencies is definitely an option for them.

"Sometimes there's a valuation play where the acquirer needs to pay a higher price, because of the impact on business," says Honnywill. "Often, we do per-bidder synergy analysis. It's not always in the shareholders' interest to make a big, ugly competitor bigger and uglier. There are some sectors where it's inevitable that it happens - in manufacturing we see a lot of consolidation around ever-bigger players to get the economies of scale." ●

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FOR THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND
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LEADING FROM THE FRONT

TRADE WARS. PROTECTIONISM. BREXIT. THESE MAY BE UNCERTAIN TIMES FOR UK BUSINESSES, BUT DEALMAKERS ARE PICKING UP THE PACE OF CROSS-BORDER M&A. BUYERS AND SELLERS ARE DEMANDING CREATIVE SOLUTIONS TO GET TRANSACTIONS THROUGH TO COMPLETION, REPORTS GRANT MURGATROYD

The Foreign Office has branded its post-Brexit policy 'global Britain', but what exactly does it mean? Minister after minister has since repeated the mantra, but cynics have criticised the phrase as a hollow piece of branding. The chair of the Foreign Affairs Select Committee, Conservative MP Tom Tugendhat, said: "The UK is a global player, but a slogan is not a policy and the country needs a clear strategy to shape our actions or we risk damaging our reputation overseas and eroding support for a global outlook at home."

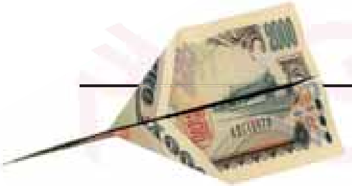
That may be, but for M&A professionals, 'global Britain' is not new, nor is it an empty slogan. It has been the reality of their working lives for many years and is the norm, not the exception, on most deals. From dealing with jet lag to managing multiple teams in many countries and making fee-sharing arrangements work, being international is not only desirable, it is absolutely necessary.

For decades the likes of bankers, professional services firms and boutiques have promoted the reach and depth of their international networks. What may have started out as an optimistic sales pitch is now backed up by hard evidence.

HOME AND AWAY

Data from Thomson Reuters shows that there were 1,806 domestic UK M&A transactions with an average value of $51.3m in 2008. Activity fell to 1,490 deals with an average value of $41.2m in 2009. Deal numbers have remained fairly consistent ever since, with 2017 seeing 1,782 domestic UK deals, though average value has fallen, coming in at $30m last year. Large deals, including the pending £15bn merger of supermarket chains Sainsbury's and Asda (if it is eventually cleared by the competition authorities) and the £8bn hostile takeover of industrial group GKN by Melrose (see cover story, 'Let battle commence', *Corporate Financier*, June 2018), have pushed the value and average deal size up to $70.7m in 2018.

In 2008 there were 1,132 inbound acquisitions of UK companies with an average transaction value



"Companies not only need to know how they are going to survive at a domestic level, they also need to know how are they going to export their products"

of $82.6m. Acquisitions slumped after the financial crisis, with an average of 853 deals a year and an average value of $67.9m over the five years from 2009 and 2013. Between 2014 and 2017, the average number of transactions climbed to 1,132 and the average value $134.7m. In the first seven months of 2018 there were 607 deals and average value had soared to $286.5m.

Acquisitions by UK companies overseas have varied more year to year - from a low of 447 deals with an average value of $36.5bn in 2009 to 594 deals with an average value of $106.0m in 2014. But last year was the busiest since the financial crisis, with 708 outbound M&A deals with an average value of $92.9m. This year has also been strong, with 548 deals at an average value of $158.2m in the first seven months.

"After 2008 there was a period where corporates were very, very focused on preserving cash and strengthening balance sheets," says Paul Lupton, a senior corporate finance advisory partner at Deloitte. "But you get to the point where you can only build cash for so long. You need to spend it or return it to shareholders. This, combined with very low interest rates and debt readily available, means the effective cost of capital for doing M&A is pretty low, and therefore the appetite for M&A has increased materially."

THINGS ARE LOOKING UP

The referendum has had less of an effect than some people expected. Sterling's immediate fall put processes on hold, but they quickly resumed with some overseas buyers - particularly those from the US - keen to get over the line quicker to take advantage of cheaper assets in dollar terms.

"In June 2016 we had three or four processes go on hold in the immediate aftermath of the Brexit vote," says Lupton. "Those deals all completed four to eight weeks after the vote. We had a couple of US buyers buy assets in the UK that wanted to get the deal done quickly because they expected sterling to strengthen in the short term after falling such a long way."

While the fall in sterling may have made UK assets more attractive to overseas buyers, the low interest rate environment and ready availability of debt is reducing the effective price of M&A. "Companies are coming to the UK because it's very cheap and people are seizing the opportunity to leverage their acquisitions," says Dr Naaguesh Appadu, a researcher at the M&A Research Centre at Cass Business School. National security is a potential break on future acquisitions.

"Appetite for M&A has increased materially"

Paul Lupton,
senior corporate finance advisory partner, Deloitte

In the past two years, only the 2017 acquisition of Sepura by China's Hytera and the Gardner-Northern Aerospace deal (see UK-China) have been screened over security issues, but the *FT* reported that regulations introduced in July 2018 could increase the number of deals being referred over security concerns to 50 a year. "The government is being more stringent about who can buy UK assets," says Appadu. "It is scrutinising everything and putting a lot of effort into safeguarding British assets."

OUR FRIENDS IN EUROPE

In corporate finance, familiarity breeds transactions, rather than contempt. Despite the uncertainty about Brexit, deal activity between the UK and its continental neighbours has held up.

And UK companies have led the way, buying up assets in Germany (144 companies), France (131), Italy (103), Spain (102), the Netherlands (82), and the Republic of Ireland (65). Vodafone's €18.4bn acquisition of the German, Czech, Hungarian and Romanian cable assets of Liberty Global is the biggest outbound UK deal in the EU this year. The acquisition of a business that earns revenues in euros will protect Vodafone against any long-term fall in sterling. The deal will be financed from cash, debt and mandatory convertible bonds issued in euro markets, which are deeper, more liquid, marginally cheaper and will act as a natural currency hedge.

"Sterling is very low but UK companies need to complete outbound M&A because the Brexit deal has not been signed," says Appadu. "Companies not only need to know how they are going to survive at a domestic level, they also need to know how are they going to export their products. Their best bet is to find an attractive target and buy it. It might cost you, but you don't want to become isolated."

Lupton has also observed the defensive nature of some outbound UK M&A: "We have seen smaller companies doing deals overseas for the first time. That's partly a function of those companies having a little bit more cash on the balance sheet and a bit more access to capital, but there is also some nervousness about UK growth rates. Investing your capital overseas taps you into markets that may have more growth potential in the medium term."

While UK companies have been more acquisitive, the traffic has not been one-way. French (98 deals) and German (88 deals) companies have been the most acquisitive in the UK, followed by companies from the Republic of Ireland (62), Sweden (58), Switzerland (35) and Italy (34).

Though advisers say there have been examples of Europeans pulling out of deals because of Brexit, in most cases it hasn't been the only factor. On the whole, buyer interest has not waned and any drop-off in acquisitions by continental buyers is more likely down to them losing out in auctions to aggressive US buyers.

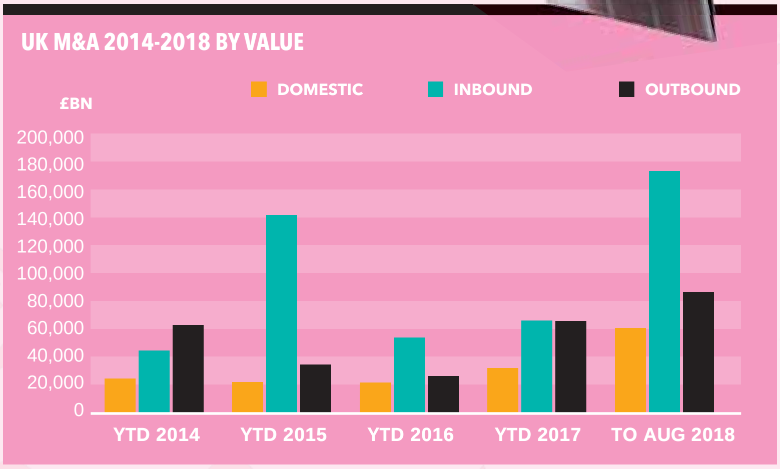
AMERICAN PIE

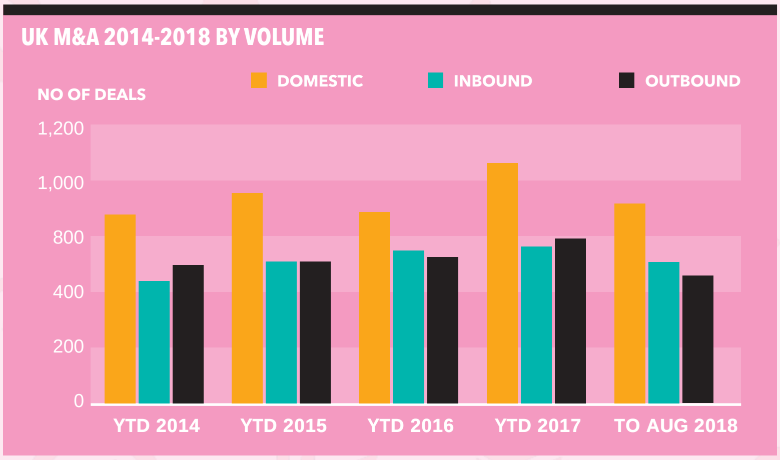
The Trans-Atlantic deal corridor has always been the busiest for M&A. US companies are highly acquisitive and the UK, with its similar language and business practices, remains an attractive place for the Americans.

For the past decade, US companies have bought about 200 UK companies with an aggregate annual value of $10bn-$20bn. Far from slowing down with the approach of Brexit, US companies are rushing to complete deals, with 225 deals worth a combined total value of $19.8bn completed in the first seven months of 2018, more than any full year since 2008.

Any jitters caused by the referendum result were short-lived. Processes were put on hold, but US buyers quickly moved to take advantage of sterling's plunge against the dollar. On some deals, structuring with earn-outs and deferred payments has over-ridden any uncertainty.

In July, Audax-backed US medical devices company Katena Products bought Solihull-based Blink Medical, a rapidly growing distributor of single-use ophthalmic equipment. In February, it sold eTech Solutions to US-listed Core Logic Group. "Deal structures with US buyers frequently include a combination of significant amounts of cash at completion supplemented by earn-outs and long-term incentive plans to look after the management," says Andy Parker from Cooper Parry (a member firm of Global M&A Partners), which advised





SOURCE: THOMSON REUTERS

$158.2bn

Average outbound M&A deal value so far in 2018

548

outbound M&A deals completed so far in 2018

Blink and eTech's shareholders. "While the price paid to the shareholders is always important, buyers recognise they have to put something on the table that locks these people in and makes them want to keep growing the business."

SILK ROADS

It is not just its billion-strong domestic market that makes China an attractive proposition; Chinese companies have been increasingly acquisitive in recent years. In 2013 Chinese enterprises went into double figures for UK acquisitions, with 87 completed in the past five years. So far in 2018 they have bought 17 companies with a total value of £647m.

"Chinese businesses have typically bought in the UK and Europe not for market presence but for capability, technical knowledge and/or for brands that are relevant to the Chinese market," says Jeremy Harrison, partner at Alantra. In June 2017 Shaanxi Ligeance Mineral Resources (SLMR) bought Gardner Aerospace, which then acquired Northern Aerospace. "The Chinese have been particularly keen to buy UK and Western aerospace assets to build technical capability and supply chain expertise to support the relatively nascent Chinese aerospace industry, which has ambitions to challenge the US and European dominance in aviation."

It is not just widget makers that have desirable technology. In 2016, Chinese travel company Ctrip paid £1.4bn for Skyscanner, a leading flight sales site.

"A couple remain but most have nothing left"
Herman Sambucetti, partner and Argentina country head, Alantra

"People are seizing the opportunity to leverage their acquisitions"
Dr Naaguesh Appadu, researcher, M&A Research Centre, Cass Business School

Inbound investment from China comes with its own complications. The Gardner Northern Aerospace deal was referred to regulators, in part because of concerns over military technologies the Chinese were acquiring. "China is now perceived as more of a rival globally, particularly in the US, where it is very hard for Chinese businesses to undertake acquisitions in many sectors. The UK has always been an attractive location, but I think there's going to be more regulatory oversight in the future," says Harrison.

There is also sometimes a big question mark over deliverability, he continues. "It's often very difficult to get certainty around the deliverability of a Chinese buyer because of the opaque nature of corporate structures and ownership. Limited availability of public information in China can make the assessment of your counterparty's financial strength, leverage and track record somewhat challenging. The result is that Chinese buyers often have to pay a premium, because they are being perceived as less likely to deliver. Capital controls in China also come into play. On one recent industrial mandate we were involved with, there was a six-month approval process for the capital to be transferred out of China."

Foreign ownership restrictions are the main barrier to acquisitions in China. UK companies made 37 acquisitions between 2012 and 2014, compared to just 19 in the next three years.

Difficult does not mean impossible, of course. Hawksford, a provider of regulatory, financial and tax compliance services for financial services clients, started growing its Asian presence in the former colonies of Hong Kong and Singapore,

A HELPING HEDGE

Jackie Bowie, chief executive of JCRA, sets out how companies should think about currency risk

For businesses making overseas acquisitions, volatile currency markets means more due diligence needs to be carried out on underlying net currency exposures, and the impact of foreign exchange (FX) movements on the target's valuation. Can transactions be funded locally, or if existing capital sources are used, perhaps be swapped into the local currency?

Purchase proceeds are not transacted until the deal actually completes. There is material FX risk between a deal announcement and completion. The currency exposure for the acquisition itself only arises if the transaction successfully completes. The acquirer wants to protect FX risk as soon as the deal is exchanged, without having to terminate a hedge (potentially at a large cost) in the case when it does not complete.

An acquirer can hedge this risk on a contingent basis; allowing the buyer to be fully hedged, but able to walk away with no obligation if not. The pricing and structuring of contingent hedging is bespoke. Independent advice is crucial. The 'contingency' is paid via a slightly 'worse' protected rate.

If an acquisition is made in a developing country – where exchange rates tend to be less liquid, more volatile and sometimes not fully convertible – the cost of hedging rises significantly, due to the high interest rate differential. This does not mean hedging is unnecessary – a sensitivity analysis can show the potential impact.

Potential profit and loss volatility can be caused by entering into derivatives, or by using foreign currency denominated debt as a hedge for foreign net assets, when a group acquires new foreign operations. If FX hedges are used to neutralise spot rate changes, management needs to understand the potential profit and loss impact of fair valuing those hedges.

but in the summer acquired China-based P&P. Now, more than half its employees are based in the Far East.

NEW MARKETS

Are the emerging markets the future for UK businesses? In August, prime minister Theresa May announced the “UK’s first post-Brexit trade deal” with six sub-Saharan African countries. Alongside a lofty ambition to become the largest G7 investor in Africa by 2020, the deal (which will allow the UK to trade with the countries on the same terms it did as an EU member) committed £4bn of government money that is “expected” to encourage at least as much private sector investment.

In the post-Empire era, UK companies’ experience in emerging markets has been mixed. In Latin America, for example, there was a wave of investment in the 1990s. UK heavyweights from BP to British Gas, Royal Sun Alliance and HSBC bought into the region. “A couple, notably BP and British American Tobacco, remain, but most have nothing left. It looks - at least from our shores - that the retrenchment was not driven by any particular issues with the Latin American businesses, but because of decisions made in the UK to concentrate on their core businesses and markets,” says Herman Sambucetti, partner and Argentina country head at investment banking and asset management firm Alantra.

There has been renewed interest from UK companies in recent years, though the approach has been targeted on growth consumer sectors in the

“China is now perceived as more of a rival globally”

Jeremy Harrison,
partner, Alantra

“Buyers recognise they have to put something on the table that locks people in”

Andy Parker,
Cooper Parry

"While the price paid to the shareholders is important, buyers recognise they have to put something on the table that locks people in"

more stable countries. “They have gone where they see growth prospects with a more stable environment,” says Sambucetti. “BUPA started in Chile and then went to Colombia, but didn’t go to the larger markets of Brazil and Argentina. It has pursued specific opportunities in stable countries in segments that are concentrated where it can make large acquisitions and immediately become a market leader.”

In the other direction, emerging markets can deliver a pool of unusual buyers prepared to pay a strategic premium. Cooper Parry was appointed last year to find a buyer for Edina, a Manchester-based consultancy in the combined heat and power, gas and diesel power generation systems space. Management emerged as the successful bidder. Edina Power Services was acquired with financial backing for the £55m deal from state-owned Indian energy businesses, Energy Efficiency Services.

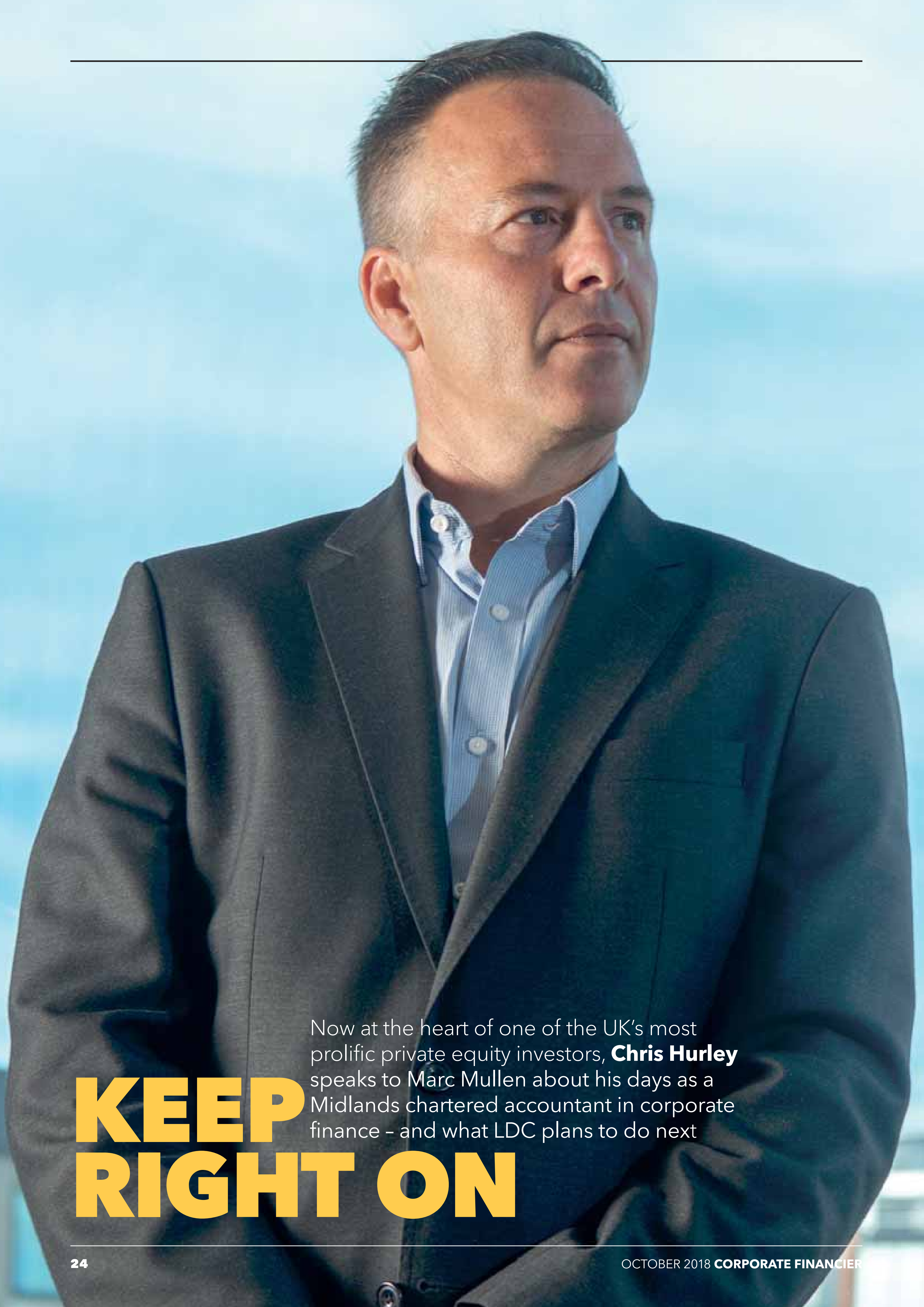
“Edina was effectively bought by the Indian government to use the skills and strength the business has in the UK and Ireland markets and use them in India,” says Parker. “We are seeing more deals where the buyers have a desire to pick up technology, skills and know how.” ●

£647m

Value of Chinese acquisitions in UK so far in 2018

£1.4bn

Amount Chinese company Ctrip paid for Skyscanner in 2016



KEEP RIGHT ON

Now at the heart of one of the UK's most prolific private equity investors, **Chris Hurley** speaks to Marc Mullen about his days as a Midlands chartered accountant in corporate finance – and what LDC plans to do next

If at first you don't succeed, try, try and try again. Some 22 years ago, Chris Hurley's career in M&A stalled before it had started. While at Robson Rhodes training as an ACA in 1996, he was asked to cut his teeth on the MBO of Sims Food Group, an abattoir business. But the BSE crisis hit, and his corporate finance assignment was put back in the holding pen.

Today, as chief portfolio officer at LDC, he is responsible for "co-ordinating the creation and realisation of shareholder value" across LDC's portfolio companies, which are now more than 90.

The Corporate Finance Faculty board member works alongside CEO Martin Draper, maximising the private equity firm's returns. "We buy to sell, so we've always got our mind on the strategy of the business and how that plays into the exit," says Hurley. "Do certain decisions enhance an exit or actually make it more challenging?" Understanding where management is in their careers and life, their ambition and mindset, will shape much of the exit thinking. "If you have a CEO in his late 50s who wants to retire in three years' time, you need to find their successor today."

Some management teams are completely averse to an IPO as an exit option. Others are not. Hurley points to the £217m AIM listing of games developer Team17 in May, which raised £107.5m. "The management team at Team17 made it clear they were interested in an IPO from the start."

THE CV

In 1995, Chris Hurley returned to his home city of Birmingham after graduating from the University of Salford with a degree in business economics. He joined Robson Rhodes, and qualified as an ACA in 1997. He got involved with corporate finance projects as soon as he started at the mid-tier firm.

The first deal Hurley completed at Robson Rhodes was the buy-out of Sealine, a motor yacht manufacturer, improbably based in landlocked Kidderminster and quite unbelievably owned by a man called Frank Fish.

With plenty of early exposure to private equity professionals and venture capitalists, Hurley decided that was the next step for his career: "The concept of private equity, where you form a relationship with a management team, then join the board and see it through, really appealed."

In 1999, he joined Murray Johnstone Private Equity in Birmingham as investment director. "I worked out pretty early on in my career that I like making decisions. As an adviser you lay out the options, but I would get itchy fingers. So it was a perfect job."

Headquartered in Glasgow, Murray Johnstone was a regional-based private equity firm investing in smaller growth capital and buy-out deals. Hurley backed more than 20 deals in his five years there.

The next move was to LDC in 2004. He became chief portfolio officer in 2016.

ALL BASES COVERED

Outside London, LDC has nine offices: Aberdeen, Birmingham, Bristol, Cardiff, Edinburgh, Leeds, Manchester, Nottingham and Reading. While investments are in UK businesses, international acquirers are on LDC's radar. In June, software company Validus-IVC was sold to NASDAQ-listed data analytics outfit Verisk. While US, Italian and German acquirers have bought LDC businesses, exits to Asian acquirers have not come to fruition. Timescales is the issue: "When we decide to sell, we want it done in six months. But we have found Asian acquirers saying 'maybe in two years' time'. They may offer the highest price, but that timescale may not necessarily work for us."

More competition for better businesses is driving up multiples. "It's the first lesson in economics," says Hurley. "You have a massive supply of money and a finite number of companies, the prices increase because people are attracted."

Abundant leverage from an increasingly diverse range of debt providers is affecting prices, but Hurley is confident that LDC's growth investment approach will continue to succeed: "We're more interested in how management can actually use cash to grow a business than putting an extra turn of debt into a business. When we come to exit a business, we want to take a better asset to market than the one we acquired." Buy-and-build strategies, professionalisation, moves into new markets and developing new products are all part of the portfolio strategy.

Debt funds have changed the lending landscape. "That money is going to be there for a while and the banks are back in the market," he says. "So, it's a very different debt market to 10 years ago. But experienced private equity houses don't want excessive financial stress in their businesses."

ONWARDS AND UPWARDS

LDC typically invests between £5m and £100m in a particular company, and on average invests £400m in growth businesses across the UK annually. Portfolio companies are predominantly in the £60m-£100m revenue range. It plans to invest £1.2bn over the next three years. Between 2015 and 2017, it generated £2.2bn from exits.

In the last year, LDC has invested in a nationwide value enhancement group - functional experts with industry experience and a focus on digital, IT, sales force effectiveness, sales pricing, lean manufacturing and procurement. "They have deep industry experience," says Hurley. A typical SME would be unlikely to be able to afford procurement or a digital director. The team works on specific projects to create shareholder value. They have been well received by management teams which, of course, have to implement any plans.

Once a deal is completed, LDC's lead investment director will sit on the portfolio company board. "For us, management is buying into that person as much as LDC. They have the knowledge of the business and a relationship with management, built

UK INVESTMENT ACTIVITY AT LDC

Chief executive Martin Draper joined LDC in 2002 from Bridgepoint, where he was a director. He worked in the mid-market private equity firm's London, Manchester and Birmingham offices on various sector deals. He initially joined LDC's Birmingham office and worked with Chris Hurley to grow the Midlands business. In 2014 Draper became chief executive. He is responsible for UK investment, and is chair of LDC's investment committee.

LDC REGIONAL HEADS

- London & the South, **Yann Souillard**
- South West & Wales, **Andy Lyndon**
- Midlands, **Richard Whitwell**
- North West, **Jonathan Bell**
- North East, **John Garner**
- Scotland, **Mark Kerr**

during the intensity of the deal process – why would you throw that in the wastepaper basket?" Of course circumstances can change, and "sometimes you do need a fresh pair of eyes to look at a portfolio company". Flexibility is at the heart of LDC's approach. Non-executives are carefully selected to fill gaps in management team skills.

Until 2004, Hurley worked at Murray Johnstone Private Equity in Birmingham, which had a similar regional approach to LDC (see 'The CV', page 25). He learned the importance of the local 'ecosystem' of corporate finance advisers for a flow of investable deals. The network built then still generates deals today, he says: "It's about cultivating relationships with local advisers and SMEs."

With hundreds of deals under their belt as a firm, LDC's deal teams can call on sector expertise from across the firm, although Hurley makes clear that they are not sector specialists. LDC's network of non-executive directors also gives them sector insight.

LDC has a flexible approach to deal structuring, because it effectively invests from its parent bank's balance sheet, rather than a fund. "Deals can be structured to meet the company's requirements, which resonates well with entrepreneurs," says Hurley. "We're as comfortable taking minority stakes as majority stakes, structuring deals so that they don't have to be sold in two years, and can be sold in five years if that makes more sense."

The availability of follow-on capital is key. In August, pest control portfolio company Pelsis was given the backing to acquire US-based Curtis Gilmour. In May, Eque2 acquired Birmingham-headquartered JNC Construction Software.

LDC also has a flexible approach to hold periods. In July, the Pallet Network was sold to AIM-listed Eddie Stobart Logistics for £52.6m. During 10 years of investment, the Midlands-headquartered business's turnover trebled. At the other extreme, in June, PEI Media Group was sold to Bridgepoint Development Capital, generating a 3.5x money multiple return, after just three years of ownership.

'Captive' private equity investors – trade jargon for being part of a larger financial institution, as LDC still is – are far less common than they were 10 or 20 years ago. But Hurley argues that being a 'captive' has its advantages when compared with the ubiquitous independent buy-out firms: "We can structure deals for what the company and situation requires."

How does Hurley view the prospects for M&A? "The outlook remains strong because of the amount of dry powder out there. Corporates have repaired balance sheets hugely since the credit crunch, are cash rich, and investors want them to invest in growth opportunities. There are obvious headwinds from Brexit, but the average economic cycle is around seven to eight years. The world may be in the midst of a macroeconomic experiment with interest rates and quantitative easing, but it is 10 years since the last downturn." ●

A DOZEN LDC INVESTMENTS IN 2018

- FC Business Intelligence – global events company
- Neilson Active Holidays – provider of overseas active holidays
- Martin Audio – high-performance loudspeaker designer and manufacturer
- Linley & Simpson – residential lettings and sales agency
- NBS – provider of data services to the architectural, engineering and construction industries
- Right Choice Insurance Brokers – vehicle insurance specialists
- Asset Solutions Group – retail and financial support services provider
- Mandata – market-leading developer of transport management software
- Paladone – designer and supplier of gifting products
- Precision Micro – photo-chemical etching company
- The Duncan & Todd Group – optical provider
- ATCORE – technology provider to the global travel industry

PHOTOGRAPHY: ROBIN PALMER

WORLDWIDE NATIONAL SECURITY?

In response to growing national security threats, the UK government – like many across the world – is looking to strengthen its powers of review when it comes to investment and M&A for British high-tech companies. David Prosser assesses the potential impact on corporate finance

National security and M&A has climbed up the political agendas of many Western governments over the last couple of years. In July, the UK government launched a consultation about increasing its M&A review powers, publishing a white paper on national security and investment. That same month, the German government encouraged its state-owned development bank KfW to acquire a 20% stake in the high-voltage power network operator 50Hertz in order to prevent the State Grid Corp of China buying it up. In the end, Belgian grid operator Elia, which owned 60% of 50Hertz, acquired the 20%. Earlier in the year, the US government vetoed a series of overseas bids for US technology companies on national security grounds, including Singapore-based chipmaker Broadcom's mammoth $117bn takeover offer for its US rival Qualcomm.

The UK government has been less than explicit in explaining exactly why legislation is required, and has not pointed the finger at China or Russia, for example. Launching the white paper, business secretary Greg Clark said: "Britain is recognised the world over as one of the best places to do business, attracting investment that benefits communities and workers across the country. These proposals will ensure we have the appropriate safeguards to protect our national security whilst ensuring our economy remains unashamedly pro-business and open to high levels of foreign investment in future."

Louisa Penny, senior counsel at Taylor Wessing,

"There is definitely an appetite to be more interventionist, even if that is tempered by a sense of realism"

Louisa Penny, senior counsel, Taylor Wessing

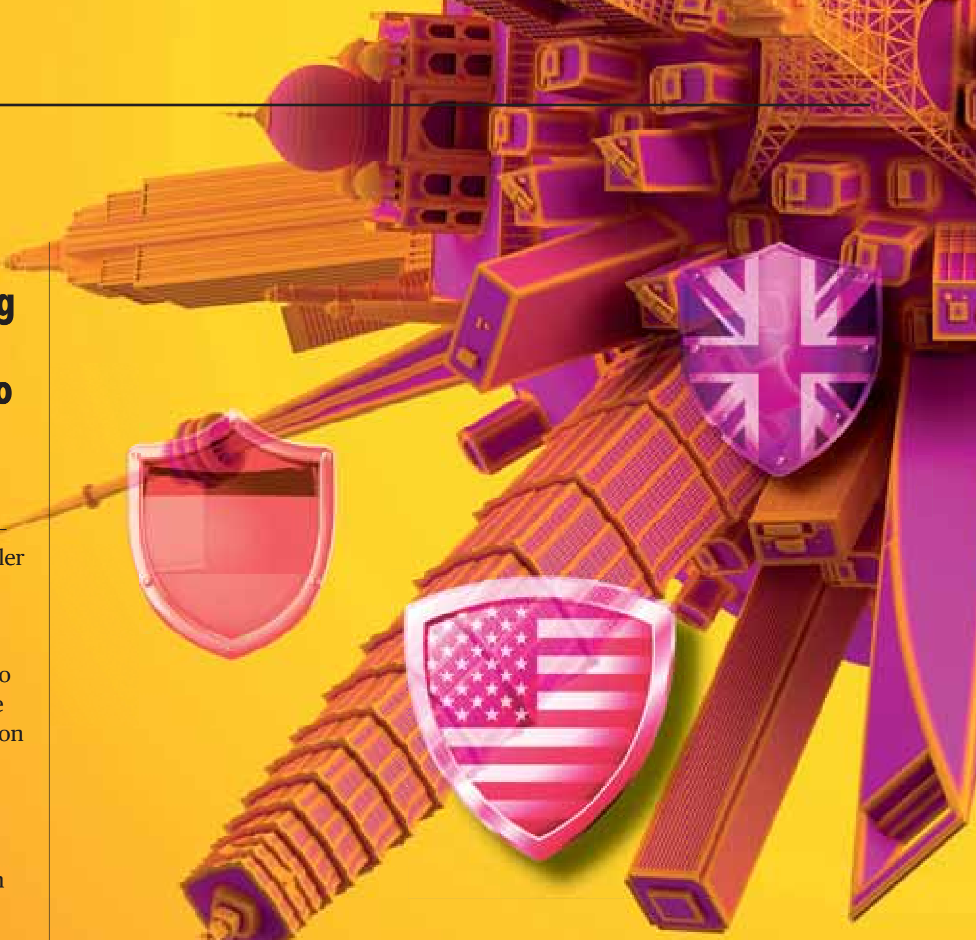
$117bn

Broadcom's vetoed bid for US rival Qualcomm

says: "There is definitely an appetite to be more interventionist, even if that is tempered by a sense of realism. The Competition and Markets Authority (CMA) already operates on stretched resources, so as the government considers reforms - introducing a mandatory notification regime perhaps - it has to think about the CMA's ability to respond."

The first changes came into effect in June, with a broadening of the Takeover Code rules about when the government is entitled to use national security to initiate a review of a proposed offer:

- the revenue threshold for potential intervention was reduced from £70m to £1m;
- the previous requirement that a review could be launched only if a deal would increase the combined firms' market share to 25% has been scrapped;
- the shake-up applies to companies that design and produce items for the military, as well as those that make dual-use items, such as navigation systems that have civil and military applications;
- the advanced technology sector is also affected, with ministers arguing that many devices and systems pose a threat to the UK's security if hostile actors access or control them - multi-purpose computing hardware developers, and quantum computing and communications sector businesses are covered; and
- it must be noted that UK law makes no distinction between foreign takeovers and domestic deals in the context of national security interventions.



"The real test is yet to come as the government ponders taking more power to intervene directly rather than leaving it to the competition watchdog"

In isolation, these measures may not seem radical – simply an extension of takeover regulation to smaller companies than would have traditionally been covered. These are changes the government could make without new legislation.

The government expects 200 deals per annum to be referred and 50 a year to be sanctioned in some way as part of the extended rules. Its consultation on the *National Security and Investment* white paper closes on October 16. ICAEW's head of corporate finance David Petrie is leading the institute's response on behalf of members, which is being co-ordinated by Katerina Joannou, ICAEW's lead in capital markets policy.

"These reforms have to be seen as a two-stage initiative," explains Selina Sagayam, head of UK transactional practice development at Gibson Dunn and a member of the Corporate Finance Faculty's board. "The June changes addressed the gaps caused by the rapidly-changing technology landscape, where the rules did not capture the reality that our leading innovators are often small businesses by turnover, or that so many technologies are of dual use. The real test is yet to come as the government ponders taking more power to intervene directly rather than leaving it to the competition watchdog."

Peter Broadhurst, a Simmons & Simmons partner in the firm's EU, competition and regulatory group, warns that ministers face a difficult balancing act: "Post-Brexit the UK will want to be seen as open to foreign investment. Equally, if Brexit is about taking back control, takeover policy may be part of that."

In its white paper, the government admits it is not working in isolation. Many specialists in takeover law suspect ministers will find it difficult to resist the temptation of a power grab, given the international context (see 'International perspective', page 29).

However, that would be a very significant break from past practice: UK governments of all political persuasions have traditionally been reluctant to use their national security powers in takeover cases. There have been only seven formal interventions under the current regime. The most recent example was last year, when Chinese manufacturer Hytera's £74m bid for Cambridge-based communications business Sepura was reviewed but eventually cleared by business minister Clark. In September 2016, prime minister Theresa May gave the green light to Chinese involvement in the Hinkley Point C nuclear power plant despite security concerns. Chinese government-owned nuclear energy company CGN would own a minority stake in that project. But CGN could also own a 66.5% stake – and provide the reactor technology for a new plant at Bradwell in

GURPREET MANKU, DEPUTY DIRECTOR-GENERAL AND HEAD OF POLICY, BVCA

"The government's objective behind these proposals is to make the UK safer, and it has provided examples of the types of threats the new regime is seeking to monitor. We welcome the fact that the government has proposed a voluntary regime, as this is more proportionate than the mandatory regime that was initially floated.

"However, we remain concerned by the extremely broad scope of the proposed powers and the lack of clear guidance as to which transactions could raise national security concerns in the eyes of the government. It is difficult to predict precisely which technologies and acquirer jurisdictions may be of concern to the government at any particular point in an evolving geopolitical landscape. The broad scope of the new regime and the subjectivity inherent in decision-making presents challenges to those planning transactions. This is likely to increase timeframes during deal processes and require greater due diligence on targets and potential acquirers.

"Practically, all transactions may need to be assessed to some degree from a national security standpoint. Even seemingly innocuous transactions might still raise concerns, and participants in proposed deals will need to become adept at assessing potential security risks. The UK courts may end up playing a key role in helping to define the boundaries of the government's powers.

"The expected increase in government interventions from one or two a year currently, to an estimated 50 transactions per year, will require venture capital and private equity fund managers to spend more time on understanding the regime when contemplating exits."

GETTY

INTERNATIONAL PERSPECTIVE

- Donald Trump's political interventions in big deals have grabbed the headlines, with his administration now more willing to use the Committee on Foreign Investment in the United States to block takeovers of domestic companies - and more wide-ranging in its definition of national security.
- The European Commission is currently negotiating over the detail of proposals to screen foreign direct investment more closely, with France, Germany and Italy pushing for a more interventionist approach.
- This summer, the German government used the foreign investment law it passed in 2017 to block the takeover of a small engineering company (Leifeld Metal Spinning) by a Chinese company. The law was passed in the wake of the €4.5bn acquisition of Germany's largest maker of industrial robotics, Kuka, by Chinese appliance maker Midea in 2016.
- In May, the Canadian government blocked China Communications Construction Company International Holding's proposed \$1.2bn acquisition of Aecon.
- In January, a proposed \$1.2bn merger between Ant Financial, the digital payments affiliate of China's Alibaba, and Texas-based MoneyGram failed to win approval from the US foreign-investment panel. In February, the \$580m acquisition of Massachusetts-based semiconductor testing company Xcerra by a Chinese state-backed fund was blocked.
- Australia announced it was tightening the rules on foreign investment in electricity infrastructure and agricultural land, amid concerns about growing Chinese influence.

Businesses affected by the changes already made to the Takeover Code... will need to think carefully about these concerns ahead of any deal process

Essex, with EDF (owned by the French government) holding the remaining stake.

The shift in the UK government's approach has caused concern among some corporate finance advisers. A bigger role for government in takeover situations could increase political risk for dealmakers, with political leaders facing pressure to intervene in even more high-profile cases. Execution risk could also be increased. While competition regulators must stick to strict timelines when considering deals, not all the steps in a public-interest intervention are subject to proscribed deadlines. Some processes could drag on for some time, according to some commentators.

Businesses affected by the changes already made to the Takeover Code - and those potentially caught up in further reforms - will need to think carefully about these concerns ahead of any deal process, whether as a bidder or a target.

"Any company potentially within the reach of the regulation should start with an impact assessment, seeking advice on whether they would be caught," advises Sagayam. "This is likely to be an iterative process: the government wants to give itself flexibility, not least as technology evolves, so this is going to be a matter to keep under review."

"In a post-Brexit world, the UK will want to be seen as open to foreign investment"

Peter Broadhurst, partner, Simmons & Simmons

"These reforms have to be seen as a two-stage initiative"

Selina Sagayam, head of UK transactional practice development, Gibson Dunn

In a 'live' deal situation, businesses will need to consider how to mitigate the risk of an intervention - and of a formal block on their intentions. It may be that concessions or undertakings are required, says Broadhurst. Melrose was able to head off a formal intervention in the takeover of GKN by giving undertakings that any subsequent sale of the business with national security interests would be discussed with the government first - and that purchasers would be required to offer protections.

"There is usually a way to make manageable concessions," explains Broadhurst. Buyers need to plan ahead, he suggests, particularly as a target on the end of several bids will take the possibility of intervention into account when choosing a preferred bidder.

Indeed, any business now more likely to get caught up in such cases needs to think about how it would respond. "We don't yet know exactly how the new rules will be applied, so the first of these interventions will be pivotal," says Penny. "But there is certainly going be a need for greater due diligence and additional risk assessment." The international trend towards interventionism looks to be coming to the UK. ●

FUTURE PROOFING

Innovate UK aims to help fund even more of Britain's cutting-edge ventures with its new loans programme. Marc Mullen spoke to **Nigel Walker**, who leads the initiative

FIRST WINNERS

- **CitiLogik:** analysing people's demand for movement in cities.
- **G-Volution:** cheaper, cleaner and greener dual-fuel engines.
- **Alert Technology:** world's first portable asbestos detectors.
- **Alcove:** Internet of Things-based technology to assist the elderly.
- **Catagen:** catalyst emissions testing and simulation.
- **Utonomy:** smart gas grid control.
- **3-Sci:** moisture monitoring system for corrosion under insulation.
- **Lightfoot:** connected car technology

Innovate UK's final competition for loans to finance innovative ideas in small or micro businesses opened for applications last month. When this competition closes at the end of November, Innovate UK's pilot programme will have run five competitions, pledging £50m in loans of between £100,000-£1m to more than 80 UK businesses.

"The idea behind the pilot is that we prove there's demand for such loans," says Innovate UK's head of innovation lending, Nigel Walker. "And we can show that, in terms of both the level of demand and the quality of applications. We have shown how we can manage the process and make sensible credit decisions. But, most importantly the businesses we lend to must show growth, and make this public money work harder and go further to drive growth in the economy. They must be able to demonstrate that they can pay interest, repay the capital on time and need the public funding."

The applications must be to finance projects to develop new products, processes or services, or innovation around existing ones. For this final competition, the proposal can come from any technology and any part of the economy. The focus must be on commercialisation, growth or scale-up, with priority given to those likely to lead to growth, productivity gains or access to new overseas markets. Projects can last up to five years (up to three years on late-stage research and development, and up to two more on commercialisation of the product or service) and loan repayments can then be made over the following five years.

Nigel Walker, head of innovation lending, Innovate UK

TWO-STEP PROCESS

The assessment of the application is a two-stage process. First, it is assessed from an innovation and project point-of-view. Then it is financial – the Innovate UK credit committee looks at the suitability of the business to take on debt finance over a long period of time. Walker sits on the credit committee alongside chief investment officer Tim Sawyer CBE and Scott O'Brian, head of lending operations and risk, who are on secondment to Innovate UK from the British Business Bank. "The first two competitions had specific scopes," explains Walker. "In the first, we were particularly interested in businesses innovating in the areas of infrastructure systems – smart infrastructure or urban living, for instance. The second was focused on manufacturing innovation."

The first competition saw 13 businesses receive pledges of £8m of loan capital – nine have started drawing down on their loans. The second saw £11m being pledged and so far one has started drawing down. The others are in the process of finalising the documentation to meet the conditions of the loan. Applications for the third and fourth competitions are still being assessed.

Interest (at 3.7%) is only charged on drawn down amounts. Security is taken, but not personal guarantees – fixed and floating debentures are taken against the assets of the company, to guard against intellectual property developed using the Innovate UK loan being taken to a new company via a liquidation. The Innovate UK loans will rank ahead of junior debt and behind senior commercial debt in the future (if either is taken on).

Walker is pleased about the broad interest from across the UK in the pilot: "In the West Country we have pledged to lend to Lightfoot and Alert Technology, in Belfast, Catagen and Southampton, Utonomy. We have already had applications from businesses in the Midlands, the north of England, Scotland and Wales." ●

APPOINTMENTS




FRP Advisory has made three appointments in its London corporate finance team. Dani Patel (1) has joined as manager from Saffery Champness. He was previously part of EY's banking and capital markets team, having trained as an ACA with MacIntyre Hudson. Robbie Wirdnam (2) and Joel Coulson (3) have joined as assistant managers. Wirdnam joins from SRC Corporate Finance in Brighton, while Coulson joins from Manchester-based firm Beever and Struthers, where he qualified as an ACA. He was previously an analyst at Deloitte.

FRP corporate finance partner Matthew Flower said: "In the increasingly complex business landscape of today, the appetite from business owners looking for advice in order to navigate new opportunities means we are seeing a growing demand for our corporate finance services."




The **Development Bank of Wales** has promoted three investment executives: Navid Falatoori (1), Ruby Harcombe (2) and Jo Thomas (3).

Falatoori and Harcombe both joined the bank in 2016 as assistant investment executives. Falatoori previously worked for the Principality Building Society, while Harcome held several positions at the Royal Bank of Scotland. Thomas joined the development bank in 2005.

New business director Bethan Cousins said: "We are actively recruiting and developing the very best talent in Wales to ensure that we have the breadth and depth of commercial experience required to meet the needs of Welsh businesses."


John Price has been appointed as a director at **RSM**'s corporate finance team in Reading. Price joins from EY, where he focused predominantly on the technology and travel sectors. He previously worked for Grant Thornton, Hurst Morrison Thomson Corporate Finance and KPMG, having trained as an ACA with UHY Hacker Young.

"John already has a strong track record as a dealmaker and his expertise will be invaluable to our mid-market and financial investor clients considering M&A," said RSM corporate finance partner Rebecca Guerin.



Adnan Sajid (1) has joined **UHY Hacker Young** as corporate finance partner in Manchester from Menzies, where he led the M&A team. He qualified as an ACA with Deloitte. Tracey Pye (2) has joined as turnaround and recovery partner from her own consultancy – Storm Advisory. She worked at BDO for 16 years as a business restructuring partner, and prior to that she was at PwC.

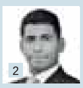


Richard Austin (1) and Ryan Grant (2) have joined **BDO**'s restructuring team as partners. Austin joins the London team from Thorngate Advisers, a network of senior consultants that he founded four years ago. He previously worked for AT Kearney, AlixPartners and Alvarez & Marsal.

PE SHORTS

Martin Morgan, Ian Barlow and Lisa Rodwell have joined **MMC Ventures**' newly formed advisory board and venture partner programme. Morgan has more than 30 years of experience, building the B2B portfolio at Daily Mail and General Trust (DMGT), where he led its print-to-digital transformation and scaled up its international operations. Barlow is a former UK head of tax and legal at KPMG. Rodwell is the former CEO of Wool & the Gang – an MMC investment – and chief revenue officer of Moo.com, having previously held senior marketing roles at eBay and Yahoo.


Edward Collins has joined **Earth Capital** as CEO from Aldbourne Investment Management, where he was CIO.



Aurelius, a pan-European mid-market investor, has recruited Philip Stoner (1) from PwC as investment associate, and Daven Chopra (2) as operations manager from Deloitte, where he worked as a strategy and operations consultant in both the UK and US.



Tom Burgess (1) has joined **Investec** as a debt originator from HSNC, where he worked in leveraged finance. It has also hired Joerg Bachtler (2) from Unicredit, to support its corporate lending team.


Hartwig Kos has joined **DWS**'s multi-asset team in Frankfurt from SYZ Asset Management in London. He previously worked at Baring Asset Management, most recently as investment director of the global multi-asset group.

GCA Altium has opened two new East Asia offices in Taipei and Ho Chi Minh City.



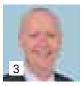

Genesis Capital has recruited Tatiana Balkovicová (1) as investment director from Deloitte, Martin Viliš (2) as senior investment director from Česká Spořitelna and Tomáš Sýkora (3) as senior investment analyst from Patria Finance.

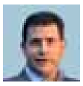

Daan Knottenbelt has joined

Grant has joined the firm's Birmingham office from AlixPartners, where he worked for the last eight years and was partner.

"With Brexit on the horizon, it's an uncertain time for businesses, so I'm looking forward to using my knowledge of the local market in and around Birmingham to support those who may be underperforming, in crisis, or just looking to secure a healthier and more prosperous future," said Grant. "The region is seeing a significant amount of investment as of late and is an exciting place to be doing business."




Paul Greenhalgh (1) has joined **Duff & Phelps** as managing director in its real estate advisory group in Manchester from Eddisons, where he was a director in the chartered surveyors' valuations team. While at Eddisons, he had secondments with the Royal Bank of Scotland and Lloyds Banking Group. David Cran (2) and Phil Kelly (3), have also joined the team from Eddisons as directors.


EY has promoted Ryan Burke to global growth markets leader. His focus will be on the mid-market and building relationships with the growth companies of tomorrow.


Johnston Carmichael has promoted Donald McNaught, partner in the firm's Glasgow office, to managing partner. He joined the firm in 2011 and succeeds Matt Henderson. He previously worked for Invocas Financial and Grant Thornton.

Andrew Milner has joined **Grant Thornton**'s major projects advisory team in Bristol as a director. He was previously a London-based corporate finance partner at KPMG, where he had worked for almost 29 years.


Quantuma has recruited Adrian Howells as corporate finance director from HMT, where he led the firm's debt advisory practice.

bfinance, an independent investment consultancy, has recruited Sweta Chattopadhyay as director to head up the private equity advisory practice. She was previously a senior investment manager at the UK Railways Pension Scheme, RPMI Railpen, where she was responsible for leading private equity and debt investments. Previously, she worked at Adveq, the Universities Superannuation Scheme and in M&A at ABN Amro.

The **BVCA** has announced its director general Tim Hames will stand down in spring 2019. It is expected the organisation will announce his successor by the end of the year.


Charlotte Valeur has been appointed chair of the **Institute of Directors**, replacing Lady Barbara Judge, who resigned earlier this year.

Punter Southall Transaction Services has rebranded as **Xafinity Punter Southall**.

Crowe Clark Whitehill has rebranded as **Crowe UK**.

Chain Accelerator, which claims to be Europe's first accelerator dedicated to supporting blockchain start-ups, has been launched in Paris.


Arbuthnot Specialist Lending has been launched to augment the asset-based lending business set up earlier this year, which is headed up by Tim Hawkins.

KKR from Palamon, where he was partner and had worked for 18 years. He previously worked for McKinsey.


Pantheon has opened an office in Tokyo and recruited Akitoshi Yamada from Nippon Life as managing director and head of Japan.



Pamela Brent (1) has joined **Epiris** as investment manager from Linklaters. Owen Wilson (2) and Ian


Wood (3) have been promoted to partner. Wilson previously worked for Palamon Capital Partners, Candover and Bain & Company; Wood for GCP Capital and Silverfleet Capital.



Jeremie Sokolowsky has joined **Arma Partners** in London as partner. Bruno Nehme (2) has joined the London office as a managing director.

LEGAL BRIEFS



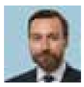


Robert Chidley (1) has joined the corporate team at **Bircham Dyson Bell** in London as director. The global law firm has also promoted Andrew McGlashan (2), Toby Richards-Carpenter (3) and Tessa Trevelyan Thomas (4) to director in its London corporate practice.


Pedro Jimenez has joined **Paul Hastings** from Jones Day as partner in the New York restructuring practice.



Vincenzo Paparo (1) has joined **Orrick** in New York as partner in its banking & finance group from Proskauer Rose. And in Munich, Christine Kaniak (2) has joined the firm as partner from Kirkland & Ellis.


Gerald Schumann has joined **DLA Piper** from Baker McKenzie as an M&A adviser.


Matthew Dickman has joined **Debevoise & Plimpton** in London as international counsel from Kirkland, where he was partner.

Travers Smith has recruited Oliver Bethell as the law firm's first chief technology officer from Freshfields Bruckhaus Deringer.

THE CV

Andy Coghlan is managing partner at WK Corporate Finance (now a Cogital Group company), having co-founded the firm in 2006. He previously was a partner at Samuels Corporate from 1998 until 2005 after four years as FD of Leading Edge Publishing a venture capital backed, automotive publisher.

Recent deals

- Fintech firm Munnypot on its series A capital raise from Livingbridge in June 2018
- A Cloud Guru on a $10m investment from US-based Elephant Equity Partners.
- Atomwise's sale to Adept Plc

ANYTHING CAN HAPPEN

Expect the unexpected when working on a transaction, says WK Corporate Finance's **Andy Coghlan** – and then turn a problem into an opportunity

WHAT WAS THE DEAL?

Completed in February 2018, it was the £14m investment by Mobeus Equity Partners in Geotech Holdings. The transaction brought together the operating company, Geotech Soil Stabilisation (a manufacturer of Geobind), Stable Earth and MASH, which owned the patent for Geobind. Mobeus took a minority stake, management rolled forward a majority stake, and further equity was created for incoming management.

WHAT IS THE GROWTH STRATEGY?

Geotech is a specialist soil stabilisation business in the temporary road and compound market, utilising Geobind on construction and infrastructure projects. There's an opportunity around the HS2 rail link, which will require numerous temporary roads and compounds. The Geotech soil stabilisation system is quicker, more cost-effective and far more eco-friendly than traditional methods. After the work is completed, uniquely Geotech can return the land to the original state and crops can be grown again. The system can also be used to contain contaminated soil. We expect an exit within the next three years.

WHAT WERE THE TIMESCALES?

We tested out the Geotech proposition with Mobeus, who we'd known for many years. Mobeus met all management's requirements in terms of the stake, the investment and the ability to source management resource with sector experience. They were such a good fit, and convinced management they would get the deal over the line in time to meet the HS2 opportunity. We started our work in November 2017 and completed in February 2018.

WHO WERE THE ADVISERS?

We gave corporate finance advice and PDT Solicitors gave legal advice to management. Wilson Partners carried out financial due diligence for Mobeus, Fairgrove Partners commercial due diligence, Stratton HR management due diligence, and Osborne Clarke gave Mobeus legal advice.

WHAT WERE THE CHALLENGES?

Bill Hinge, who founded Geotech in 2014, was an entrepreneur. He knew the current management needed considerable support to deliver the next stage of growth at Geotech, and he was not the person to run a £50m-plus business on a day-to-day basis. We agreed with Mobeus that as part of the process they had to source the additional management required. It was a fairly unusual deal. Mobeus could see the massive market opportunity and were confident they could find a suitable chairman, finance director (FD) and managing director. Subsequently they introduced Tim Read as chairman and Rex Orton as FD. Finally, patent lawyers had advised that Geobind could never be patented, but, a month before completion, a patent was granted. We all agreed we had to acquire the patent from MASH, which owned it, simultaneously with the other transactions.

AND LESSONS LEARNT?

Something can always happen during the process that can throw the deal off course. You have to adapt and find a solution that works for all parties. Now Geotech have a patented product, this locks out direct competition in the market. A problem was turned into a significant competitive opportunity. ●

PHOTOGRAPHY: DAVID HARRISON