ICAEW CORPORATE FINANCE FACULTY

INNOVATION
ENTERPRISE
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MARCH 2013
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CORPORATE FINANCIER

"NEW YORK OFFERS AN INCREDIBLY DYNAMIC ATMOSPHERE FOR START-UPS" PAGE 22

Roar of the tiger
M&A in Singapore and South East Asia

Beat the drag
How to integrate your new business

Coming up roses
Stuart McKee of PwC on CF's challenges

Worldwideweb
Tech hubs attracting VC around the globe

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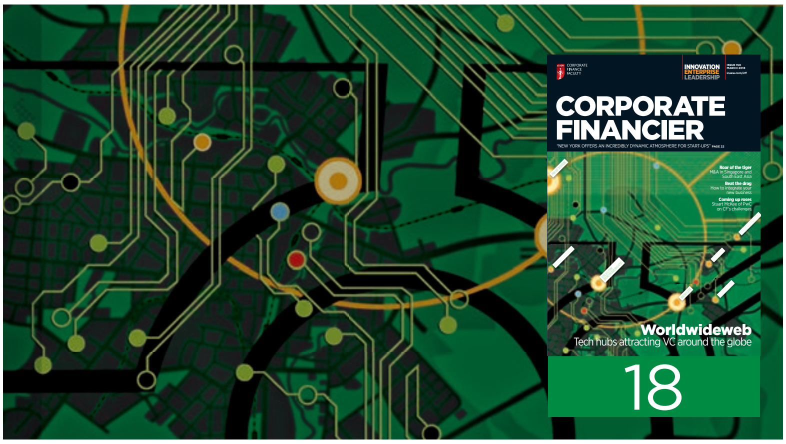

COVER: DAN MURRELL

Creative capital

CORPORATE FINANCE FACULTY

Venture capital in Europe is often seen as the US VC industry's poor relation across the pond. Much of this may be myth, but Silicon Valley in California has clearly been the most successful tech hub in the world.

The first record of Santa Clara Valley being dubbed Silicon Valley was in 1971 in *Electronic News* magazine. Apple, Oracle, Cisco Systems, Google, Intel and Hewlett-Packard are the Fortune 1000 companies headquartered there. Sand Hill Road is the hub for VCs.

This Californian model shows exactly how such tech hubs are built by a virtuous cycle – innovative thinkers attract investment, which attracts more innovation and in turn more VC. Growth of world tech leaders or successful exits embed that culture of innovation. Crucially it creates the ambition to monetise creative thinking.

This month *Corporate Financier* looks at tech hubs around the world, many of which are at very different stages with very different approaches - from Bangalore to Berlin to the Big Apple.

'Silicon Roundabout', as the creative hub around Old Street underground station in London has been called, is to undergo a £50m renovation and grow up into the more corporate-sounding Tech City. It has already attracted Google and Amazon. There is the 'Tech City' Investment Organisation, and KPMG has set up a Shoreditch office to focus on advising tech start-ups.

To those who have never visited the area, a modern-day Jane Austen might be more likely to attribute to it a 'sick city' nomenclature than the futurist vision its branding implies. Appearance may go some way to attracting investors and innovators, but substance is key.

A pre-Christmas visit to a watering hole a stone's throw from Old Street highlighted a step backwards through the use of technology. Clearly in an attempt to be of-the-minute, staff would only do anything through the iPads with which they'd been equipped. The idea of supplying something in exchange for money was so passé. The resulting closing time chaos in 'iPub' meant if I had not been so belligerent in my insistence on paying up, technology would have de-monetised their business.

Creating a hub is far more than prefixing local topography with the word silicon or tech and using an iPad for everything. VC is risk capital not stupid capital. Turning Silicon Roundabout into a real tech city is a huge challenge that won't happen overnight. Perseverance will be needed, not least because there is competition from budding tech hubs across the globe.

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Faculty news

FACULTY AGM

Corporate Finance Faculty members and contributors are very welcome to attend the faculty's AGM at noon on Tuesday 14 May 2013 at Chartered Accountants' Hall in London.

There will be an opportunity to hear about the faculty's plans for 2013-14 and to meet members of the faculty's advisory board, its technical committee, representatives of its many member organisations and the faculty's staff.

Notice is also hereby given that elections will be held in 2013 for two seats on the Corporate Finance Faculty's Board. Nominations for these elections must be received by David Petrie, ICAEW's Head of Corporate Finance, by noon on 14 March 2013. Polling day will be on 9 April 2013.

Please contact Georgina Tanner at the faculty on +44 (0)20 7920 8440 or email georgina.tanner@icaew.com if you would like to attend the AGM or request a nomination form.

TOMMY JOHANSSON

MEETING OF MINDS: BGF JOINS FACULTY

The Business Growth Fund (BGF) has joined the Corporate Finance Faculty as the firm continues to increase its investment activity and looks to source more deals.

BGF was set up two years ago to help finance the UK's growing SMEs. It was established as an independent company with capital of up to £2.5bn, and backed by five main UK banking groups – Barclays, HSBC, Lloyds, RBS and Standard Chartered.

BGF invests between £2m and £10m per business in growth-capital deals in return for minority equity stakes and a seat on investee companies' boards. The firm has seven offices and to date has invested approximately £120m in 24 companies in 18 sectors – ranging from healthcare to oil & gas services, and from leisure & hospitality to IT & telecoms.

It plans to invest more than £200m in between 30 to 40 companies in 2013.

BGF chief executive Stephen Welton (pictured above) said: "I'm delighted that BGF is joining the Corporate Finance Faculty. Both organisations share many similar values. We hope our membership will be a great platform to meet fellow members, including ambitious companies."

"We hope our membership will be a great platform to meet fellow members, including ambitious companies"

Corporate Financier included one of the first interviews with Welton following the launch of the BGF (see June 2011 issue). He joined the Corporate Finance Faculty's board last year.

CORPORATE FINANCIER RECRUITS PUBLISHING EXPERT TO REVIEW PANEL

Victoria Scott (below), head of marketing & communications at faculty member firm Albion Ventures, has joined the *Corporate Financier* editorial review panel. She has extensive experience of magazine publishing, as commercial director at Bertelsmann in the UK and as a board member at EMAP, as well as in international product development at *Reader's Digest*. She also worked for the launch team at *Mail on Sunday* and in marketing & sales at The *Observer*.

"Getting involved in the faculty and joining the editorial panel reviewing *Corporate Financier* is not only an honour but a real pleasure," she said. "The recent readers' survey showed that the magazine is already hitting the spot, so the challenge will be to continue the great work and drive the standards even higher."

Victoria's commercial background will complement the extensive practical and technical knowledge of editorial panel members Nigel Crockford and David Coffman and of the faculty staff. The panel reviews each issue with editor Marc Mullen, the faculty team and publisher PCP prior to publication.

SPRING SEMINARS: DATES FOR YOUR DIARY

The Corporate Finance Faculty has finalised its spring seminar programme:

IPOS FROM AN INTERNATIONAL PERSPECTIVE
Tuesday 5 March 2013, 08:30–10:30
Taylor Wessing, 5 New Street Square,
London EC4A 3TW

THE NEXT WAVE OF M&A IN THE TECHNOLOGY SECTOR
Tuesday 16 April 2013, 08:30–10:30
Simmons & Simmons, CityPoint,
One Ropemaker Street,
London EC2Y 9SS

PEOPLE POWER: CORPORATE TEAMS, DEALS, RISKS & OPPORTUNITIES
Tuesday 21 May 2013, 08:30–10:30
Kroll Advisory Solutions, Nexus Place,
25 Farringdon Street, London EC4A 4AB

INTERNATIONAL GROWTH, BUY-OUTS & M&A – NORTH WEST
Tuesday 11 June 2013, 08:30–10:30
Manchester Art Gallery, Mosley Street,
Manchester M2 3JL
Hosted by Dunedin and Experian Corpfin

For more information on these events or to book a place, visit icaew.com/cff, follow us on LinkedIn at 'ICAEW Corporate Finance Faculty' or on Twitter @ICAEW_CORP_FIN

REGULATION: EC REVIEW OF TAKEOVER BIDS

The review of the Takeover Bids Directive began in 2010 and aims to bring the European jurisdictions into line in how they apply the directive.

A study of the application of the Directive was completed last year and the European Commission (EC) needs to establish which areas highlighted by the study merit further attention.

The European Parliament will then decide which areas are to be amended.

Areas of possible further attention include:

- the concept of 'acting in concert';
- the mandatory bid rules; and
- protection of employee rights in takeover situations.

The European Parliament's legal affairs committee and the committee on employment and social affairs recently produced draft reports on the study, which will be voted on in mid-April.

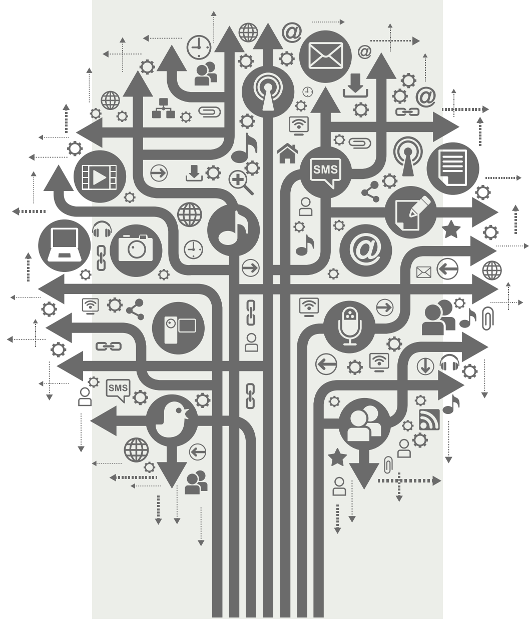
In its response to a survey undertaken on behalf of the EC, ICAEW highlighted issues such as protection of the interests of stakeholders other than shareholders, and the Directive's facilitation of takeovers.

FACULTY ONLINE FOLLOWING HITS 3,000 MARK

The Corporate Finance Faculty's social media following has topped 3,000 – including its lively LinkedIn group and its fast-growing Twitter account @ICAEW_CORP_FIN.

Shaun Beaney, who manages member communications at the faculty, said Twitter had become a very useful way to share interesting information, research and opinions with professionals across the world. He added:

"We're also very keen to encourage more interaction with the faculty's many business members via our LinkedIn group. It's become a pretty handy discussion forum."



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Briefing

RENEWED APPETITE FOR M&A

According to KPMG's January 2013 *Global M&A Predictor*, not only is M&A confidence returning to companies, but they have also increased their capacity to undertake deals. Global forward PE ratios, by which KPMG measures appetite, rose 15% over the last six months and are up 12% year-on-year. And the forecast net debt to EBITDA ratio, which measures companies' capacity to transact, shows an expected improvement of 15% in the year to December 2013.

Driven by a desire to cut debt over the past two years, companies have seen their capacity for M&A steadily rise, tempered by an equally steady decline in confidence. However, the tide appears to be finally turning.

Tom Franks (below), UK partner and global head of corporate finance at KPMG, said: "The outlook for 2013 is more positive than it has been for over two years and undeniably this is a winning combination for the health of the global M&A market. After a prolonged period of negativity things are moving in the right direction. Without a doubt, the next six months should be even more interesting to watch."

PREDICTOR FINDINGS

- Eurozone appetite for M&A was up 19% and forecast capacity 12%.
- Germany's M&A appetite increased 26% and capacity 20%.
- In the US, (admittedly from a higher base), appetite has increased 10%, capacity by 21%.
- The UK matches the global confidence figure at a healthy 15%, with expected capacity rising by 11%.
- Appetite in healthcare rose by a modest 11% in the six months to the end of December 2012, the expected increase in capacity in the sector is up 40%.
- In technology, there was a 9% rise in appetite, and an expected 32% increase in capacity.
- Industrials saw appetite increase 22% and capacity 16%.
- Basic materials were another success story with a 16% rise in capacity and a 37% jump in appetite.

40%
expected increase in healthcare capacity

9%
rise in technology appetite

19%
rise in eurozone appetite


The healthcare sector is braced for activity

NEWS IN BRIEF

64%
Increase in value of overseas acquisitions of UK food and beverage companies

- According to a report by Grant Thornton, last year saw an increase of 64% to £7.9bn in the value of overseas acquisitions of UK food and beverage companies. Some 14% of acquisitions in the sector were made by firms based outside the UK, compared to 7% in 2011. Trefor Griffith, head of the food and beverage sector at Grant Thornton in the UK, said: "Iconic British brands such as Weetabix and KP Snacks are now foreign-owned and we expect the BRIC countries to increase their acquisition of top British and Irish food and beverage businesses."

- According to 45% of executives responding to Ernst & Young's annual globalisation report, rapid-growth markets other than BRICs will be the most important source of new revenue in three years' time. Some 26% think they are already the most important source of new revenue. South Africa, Indonesia, Mexico and Turkey are the most competitive locations — 82% of respondents expect to increase investment in these markets, and four-in-10 by more than 10%.

- The share of M&A investment in power and renewables by institutions (such as insurance, pension and sovereign wealth funds) has more than doubled year-on-year, according to PwC's latest *Power & Renewables Deals* report. Together with infrastructure funds, institutions accounted for a third of all power and renewables deal value in 2012.

- Begbies Traynor *Red Flag Alert* research into UK corporates shows a 12% decrease in the level of 'combined distress'. The number of HMRC petitions almost halved in Q4 2012 compared to Q4 2011, bucking the 2012 trend as a whole, when HMRC petitions were up 23%.

Of myths and monsters

New research into into early-stage investing suggests European venture capital is on the tail of its US counterpart. Vicky Meek reports

For a decade, European venture capital has suffered from something of an image problem. As an industry largely built up over the boom period of the tech bubble, it is hardly surprising that limited partners (LPs) have been disappointed by subsequent returns. European venture capital and private equity's latest performance data suggests that pooled internal rates of return (IRRs) from inception to the end of 2011 stand at 1.51% – hardly an appetising prospect for investors given the risk profile of younger companies.

The sector is often compared to the US, where there have been countless venture capital-backed success stories, generating multi-billion dollar returns for investors; think Facebook and Google, for example. Historically, this disparity has been put down to an inability to commercialise technology, a fear of failure among entrepreneurs, a lack of experienced VCs, a lack of an IPO market in Europe and overall, or that the US environment for entrepreneurs is simply superior to that of Europe.

Yet a new report by London School of Economics (LSE) academics Dr Ulf Axelson and Milan Martinovic, sponsored by the British Private Equity & Venture Capital Association (BVCA), sets out to examine what it calls the "myths" surrounding European VC.

TRACK RECORDS

Overall, the academics' findings are positive for European venture capital. They suggest that there are few structural differences between the US and Europe, but that Europe is at an earlier stage of development. It's a view that VCs on the ground have been arguing for some time now.

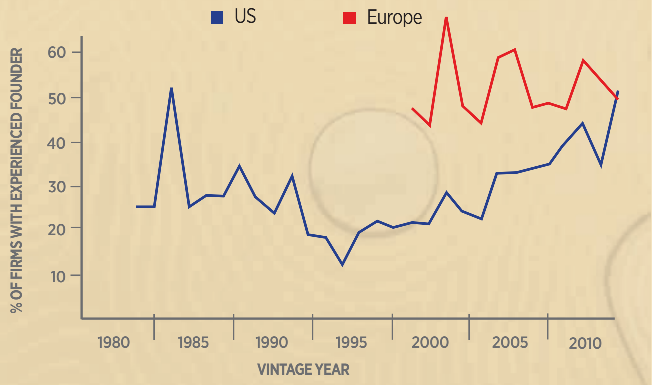
CORBIS

"Performance has been the biggest block to the development of the European venture capital industry in Europe," says Hendrik Brandis, co-founder of Earlybird. "Clearly, high returns are what attract investors. The last decade has been the most challenging for VCs since inception in Europe and the US alike. Yet the US VCs largely have a track record that is 25 to 30 years older than we have here. They have been able to prove past performance and that goes a long way to giving LPs confidence."

> "We now have a density of success stories that we never saw before"
>
> **Hendrik Brandis**, co-founder, Earlybird

WHAT STIGMA?

Fraction of 'serial' firms with unsuccessful founder experience by vintage years



SOURCE: DOW JONES VENTURESOURCE

Yet this is something that could change in years to come. The finding that serial entrepreneurs, when backed by experienced VCs, have an equal chance of success on both sides of the pond means that Europe should start seeing better performance numbers. "We had only around 7% of repeat entrepreneurs in our 1998 fund," says Brandis. "By our 2007 fund, that had risen to 57%. We have made three investments so far from our latest fund and all of them feature serial entrepreneurs."

He and many others point to their current investments. "There are many companies in European portfolios that have already reached $1bn-plus valuations – look at Rovio, SoundCloud, Spotify, Amen, Bigpoint to name a few," he says. "We now have a density of success stories that we never saw before. When these start coming to market, perceptions will change as the numbers will be there to back up our case."

> **25.3%** Successful European exits achieved

WORLD-CLASS CLUSTER

The ecosystem in Europe has been developing over recent years. In particular, hubs and clusters have emerged across the region. "You can't just look at it from a macro view," says Fred Destin, partner at Atlas Venture. "Clusters such as Silicon Valley may be more developed and larger, but hubs such as London are world class. If you look at the density of entrepreneurs in these clusters, the academic institutions, plus the availability of good advisers and experienced VCs, the ingredients are all there. Companies such as Zoopla and Supercell, for example, will achieve great exits."

Patrick Reeve, managing partner of Albion Ventures, agrees: "Europe, particularly via its excellent universities, could see further world-beaters in the coming years."

There will be some challenges. The disparity between the US and Europe in trade exits is not a factor that will change overnight, given that the large tech companies in particular tend to be based in the US. "Our European and US track records are broadly similar," says Destin. "The big difference is that in Europe there is a scarcity of local buyers. US companies have a physical proximity to trade buyers that European companies generally don't."

And then there's the issue of IPOs in Europe. While the report suggests the probability of exit via IPO is similar in the US and Europe, some VCs suggest there are structural differences between the two.

CULTURAL DIFFERENCES

Destin says the European markets are inefficient and not well adapted to fast-growing technology companies. Cultural factors come in, too. "In the UK, for example, investors prefer profitable companies that provide them with dividend streams. In the US, investors are very comfortable with companies not yet profitable but that promise high growth," he says. The result, he adds, is that a lot of exits for VCs are now coming from the private equity world. "We can organise auctions for attractive businesses with 10 to 15 participants and achieve competitive pricing," he says. "While IPOs can occasionally provide irrational valuations, they pose a liquidity challenge. As a result, we don't rely on them as an exit source."

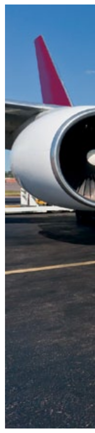
MYTHBUSTERS: REPORT FINDINGS

European Venture Capital: Myths and Facts by Dr Ulf Axelson and Milan Martinovic covered 12,315 European and 23,483 US VC-backed companies from 1995 and 1980 respectively to 2011. They found the following:

- Overall, US VCs were better at realising their investments but by far less than received wisdom would have us believe — 38.8% recording a successful exit in the period versus 25.3% in Europe.
- However, when looking at investments made in the same year, this falls to 9.1%.
- Perhaps surprisingly, once the academics looked solely at exits via IPO, the difference disappeared completely. So European VC-backed companies have just as much chance of a stock market exit as those in the US.
- Where serial entrepreneurs are involved in Europe, the success rates are the same as where serial entrepreneurs are involved in the US. The difference is that they are only recorded in 15% of European companies, versus 35% of US deals. Success rates for experienced VCs involved on both sides of the Atlantic were similar.
- The "stigma of failure" is another myth: failed entrepreneurs have the same chance of attracting VC funding for successive ventures in Europe as the US.

Alternative finance: seeking out the ORB

Specialist marine and aviation underwriter Beazley turned to the LSE's order book for retail bonds (ORB) to raise funding. Jason Sinclair explores an increasingly popular alternative to bank finance



In September 2012, Beazley became the first insurer to launch a fixed rate bond issue for retail investors on the nascent London Stock Exchange (LSE) order book for retail bonds (ORB). The bond issue raised £75m for the specialist insurer. That target was reached within just eight days of marketing. What made Beazley decide to use this method of financing? And what can it tell us about the texture of the retail bond market?

Beazley went public in 2003 and has used debt finance since 2006. Martin Bride, Beazley finance director, says: "We were looking at refinancing and knew that some companies had looked into retail bonds. Our financial advisers recommended that market and the board took the decision. It looked attractive because there was a potentially significant market, with people with money in ISAs and so on, who could look at this market and then buy into it in a straightforward process."

QUICK TAKE-UP

Beazley insures and reinsures a vast portfolio of businesses through Lloyd's of London, participating in the insurance of 20% of the world's ocean-going tonnage, and with worldwide business in aviation, political risk, liability and property. Since its establishment in 1986, Beazley has grown into one of the largest Lloyd's of London-based insurance and reinsurance groups, underwriting gross premiums of $1.7bn in 2011.

"It took four to six weeks from the decision for us to launch a prospectus," says Bride, "giving financial information signed off by auditors (as with institutional borrowing), and then going to the main distributors Lloyds Bank Debt Capital Markets and Numis Securities and sub-distributors."

A roadshow ahead of the issue aimed to establish exactly how large a market for the book there could be. "It was difficult to know how much demand there would be," adds Bride. "Our business is not based on great cashflow, but we have £1bn of equity capital to support claims, so we thought we'd be an attractive issue."

Since the LSE set up the ORB in February 2010, almost £3bn has been raised. The ORB allows investors to buy and trade in fixed income instruments directly rather than through a corporate bond fund (see November 2011 *Corporate Financier* for ORB launch coverage).

Marcus Coverdale, a director in debt capital markets at Lloyds Bank, has been involved in many issues on ORB, including Beazley.

"We work with clients to structure debt transactions; selling paper, dealing with wealth managers and retail brokers. We work out what features to offer and who to engage with," explains Coverdale. "It's a new market and we're learning about the depth of demand from each new deal."

Bride expects to use around two-thirds of the capital for liability management and the rest for growth plans. Coverdale and Bride quickly came to the range of value likely to be raised: "I talked to

HERE'S THE DEAL

Specialist insurer Beazley raised

£75m

(£74.25m net of fees) through a retail bond issue on the LSE's order book for retail bonds (ORB) in September 2012.

The coupon rate of the bonds is

5.375%

and they mature in 2019.

The minimum subscription was

£2,000

Mayer Brown and Linklaters provided legal advice on the deal. Beazley's auditors KPMG provided accounting and consultancy advice. The joint bookrunners were Lloyds Bank and Numis Securities.

GETTY

LSE TURNS TO ITSELF

The LSE tested the demand from retail bond investors itself in November last year. It raised £300m in a nine-year 4.75% bond from the ORB. The offer period closed six days early.

Gillian Walmsley, head of fixed income at the LSE, has been delighted with the success of the first three years of its retail bond market: "ORB was launched in 2010 in response to strong private investor demand for greater access to fixed income. Since then, ORB has become an increasingly attractive platform for companies looking for alternative sources of funding outside of traditional bank financing. Almost £3bn has been raised on ORB through new issues, including the recent successful issue from Beazley. We continue to be encouraged by the strong pipeline of issuers. As the market develops we also expect to see a more diverse range of companies seeking to issue bonds on ORB."

"Our business is not based on great cashflow. But we have £1bn of equity capital to support claims so we thought we'd be an attractive issue"

Martin Bride, finance director, Beazley

Martin about his medium-term aims and building the book. We thought a £50m to £100m offering was advisable."

Beazley's bonds roadshow travelled across the UK in August, then Coverdale opened the book: "We hit a good time in the market, with [money broker] ICAP capping demand on its ORB issue and the market bubbling up. We advertised in the press and there was good momentum in the book-build. We had to put an early closure notice out and ran over."

Coverdale sees complementary forces generating the traction of the retail bond sector. On the demand side, for savers and investors, fixed-rate bonds from banks have diminishing returns (well down from the 4.5% available 12 months ago). "People are looking around for alternative investments with decent coupons."

Of the supply side, he says: "There's a very different playing field for companies raising debt. German and Italian banks have gone home from the UK corporate market, and there's less bank lending in general. It's very hard to get attention unless you're completely blue-chip, and the minimum issue size is £250m.

"This opens up space for mid-size corporates in the retail bond market which need smaller ticket sizes that can help them manage refinancing structures."

BACK FOR MORE?

For Beazley, this raises the possibility of returning to the ORB when it needs to. With investors increasingly having retail bonds in their portfolio and low barriers to entry on the demand side, the bond could become an increasingly important asset.

Oliver Hemsley, founder and chief executive of the other joint bookrunner Numis Securities, said the growth of retail bonds is a reflection of a broader wariness of the banks, on the investors' side as well as the borrowers'. "Investors take the view that if they can get between 5% and 7% on their money from decent corporate credits, that's got to be an awful lot better than keeping it on deposit at the bank, which is then lending it to the same people at the same rate, if not higher, and taking a significant frictional cost on top."

Hemsley also raised the point of retail bonds being a better deal for the taxpayer: "At the moment you've got banks lending with an explicit taxpayer guarantee, which allows them to have a leveraged balance sheet. That's completely wrong. By disintermediating the banks, retail bonds don't put any future risk on the taxpayer."

Christoffer Mollenbach, head of financial instruments and debt capital markets at Lloyds Bank, says: "The speed at which we were able to raise the funds clearly demonstrates strong investor appetite, with Beazley reaping the rewards for pursuing this alternative funding source. We are committed to supporting high-quality issuers such as Beazley accessing this market."

Streamlined for success

Corporate inertia means some UK businesses are being coy about M&A despite having the firepower. **Mark Gregory** of Ernst & Young explains how companies can avoid the trap

Company executives' pessimistic view of the global economy has increased over the last year, according to the latest E&Y *Capital Confidence Barometer*. On the other hand, almost 80% of respondents expect a recovery within two years. This combination of short-term gloom and longer-term optimism means many UK businesses are sitting on their hands waiting for a sustained recovery before engaging in M&A. The fact UK corporates are sitting on £700bn (roughly 50% of GDP) in cash highlights the bias towards risk avoidance and corporate inertia.

Most economists believe there will be an economic recovery, but not immediately to the pre-crisis boom that ended in 2008. In simple terms, low growth in mature markets will be the 'new normal'.

In that context the danger is that in using decision-making criteria developed in the pre-crisis decade, they will inefficiently deploy capital. Corporates must re-evaluate their portfolios of businesses in the light of the new economic reality.

- **Sector and product analysis** can both identify prime assets for acquisition in high-growth markets and reveal non-core assets for divestment. Freed-up cash can be invested in higher growth geographies and sectors. This is an important consideration, as those star performers may now underperform in the new economic world.
- Detailed **business model reviews** – cost structures, rates of inflation, commodity prices and labour costs – can identify the most efficient approach to production, which may have changed since the downturn. The workforce should be flexible enough for the demands of the business and in the right place to service growth markets.
- Set **realistic forecasts and hurdle rate targets** for investments. A return on investment (RoI) of around 15% may have been realistic three years ago, but in the current climate is probably unachievable. If every time an investment is made the RoI targets are falling short, such overly optimistic hurdle rates will ultimately stifle investment and encourage businesses to sit on cash.
- The old adage **'cash is king'** is as relevant as ever, but businesses need a **balanced financing strategy** to enable them to access capital when needed. Bond markets may be open for businesses, but these are unpredictable and as a source of finance can close as quickly as they open. Bank funding may be more reliable, but can take more time to access. The right balance of financing in place will mean that when acquisition opportunities present themselves, executives can act quickly.
- **Close monitoring of markets** in which the business operates is a must. In a low-growth market, there may be less competition for deals, but unless there is an assessment programme, deals can be overlooked. In a weakened market, shrewd businesses can steal a march on competitors by snapping up choice assets and growing inorganically.

Simply sitting on cash in the hope of an upturn is a foolhardy approach. There are good opportunities for those corporates with an eye for a deal, and in the current market, fortune will favour the brave.

Mark Gregory is an E&Y transaction partner and the firm's chief economist. He has over 25 years' experience of working in more than 40 countries, including for corporates and governments

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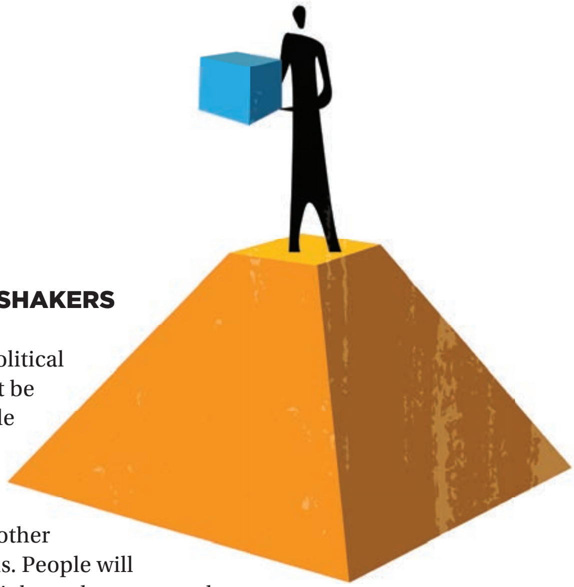
Managing mergers

Planning is the most important part of any integration effort. Independent adviser on integrations **Danny A Davis** shares his views on how to achieve a successful merger



1 FULL SPEED AHEAD

Speed is of the essence. Planning earlier, delivering faster – the aim must be to achieve synergies sooner and in turn reap more benefits. Going through any change will leave people uncertain. How comfortable and how much they contribute will change as they are managed through the change curve. However, moving faster will reduce uncertainty – or at the very least get them through that uncertain period quicker. The aim is to minimise any dip in productivity through the change period.

2 BUT PATIENCE IS A VIRTUE

Initially information will be poor, but it will improve. An understanding of the newly acquired company will come. Communication improvements need to be delivered and once they have there will be effective data sharing and then, of course, better decision-making.

CORBIS

3 MOVERS AND SHAKERS

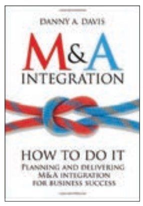
The impact of misinformation and political manoeuvring must not be underestimated. People will inevitably be concerned about their jobs and livelihoods, as well as other issues such as pensions. People will manoeuvre for power, jobs and money, and will often think of themselves. Many types of misinformation can occur, but understanding what information there is and its quality is critical for good decision-making. Choosing between the target and acquirer CFO may be easier than the marketing directors. A look at the product ranges may be necessary before assessing the managers.

4 DECISIONS, DECISIONS

The ability to make decisions is a must. Going with a 60/40 decision rather than waiting for 90% certainty may result in some mistakes, but speed decision-making is critical and wrong choices can be tidied up afterwards. Of course information is never perfect. Decisions must be made or the whole process grinds to a halt. Employees in the target will generally want to go slower than the acquirer, because they will be unsure of the direction the acquirer wants to take, and also because they will not want to make a bad decision so soon after being taken over.

5 CLEAR-CUT

Be bigger and bolder with the programme – change more when addressing growth or cut harder if looking at savings. In general steps are always diluted in any integration programme and if things are cut too much they can be rebuilt. Leaving people in a position where there are question marks is always a bad idea. A couple of years later when they are removed, they may have done a lot of damage, having resisted the change you need for a successful integration, or having suppressed useful points being made by their subordinates. This can be why many transformations do not deliver what they should. At the outset there should be a very hard and strong plan with little room for dilution. That will be transformative.



Danny A Davis is an adviser on integrations and author of *M&A Integration: How To Do It*. He founded DD Consulting, helping plan and run mergers and separations of all sizes, including Fortune 500 and FTSE 100 deals

impetus

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Gateway to Asia

Singapore is at the heart of South East Asia, and has a projected growth rate of 8% this year. **Ken Cheung** tells us about its prospects

$7.3bn
Amount paid by DBS for PT Bank

$159m
KKR's investment in Masan Consumer Corporation

With a history of political and economic volatility, investors have historically viewed South East Asia with caution. However, it is now the third largest emerging market bloc after China and India. With GDP of $3.3trn (4.2% of the world total), according to the Economist Intelligence Unit, it beats Brazil and Russia. With a projected annual growth rate of 8% for 2013, competition for deals in the region is also on the up.

For the seventh year, the World Bank has ranked Singapore the easiest place in the world to do business. The World Economic Forum named it the second-most competitive economy in the world. The city-state is undoubtedly one of Asia's most critical trade and financial hubs with a network of private equity funds, banks, family offices and large corporations.

REDUX/EYEVINE

Along with Hong Kong, Singapore is very well-placed to benefit from the outpouring of China's wealth across the region. M&A activity in the Asia-Pacific has decelerated with companies becoming more cautious as they keep an eye on the eurozone. But M&A activity in South East Asia – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam – has increased.

Recent deals include DBS's $7.3bn bid for PT Bank Danamon and Malaysia Petroliam Nasional's $5.3bn acquisition of Canada's Progress Energy Resources. KKR's $159m investment in food and drink manufacturer Masan Consumer Corporation is the largest private equity deal in Vietnam to date. Many investors view Singapore as the gateway to these markets.

OIL AND GAS BOOM

South East Asian growth is largely driven by the strong demand for its natural resources such as oil and gas, minerals and palm oil. Related industries such as oil and gas services, transportation and logistics are expanding. Economic and political liberalisation, including the relaxation of foreign ownership restrictions and the strengthening of intra-regional relationships, is transforming the business landscape. The suspension of US and EU sanctions in Myanmar (Burma) has created a huge surge in foreign investor interest in that country.

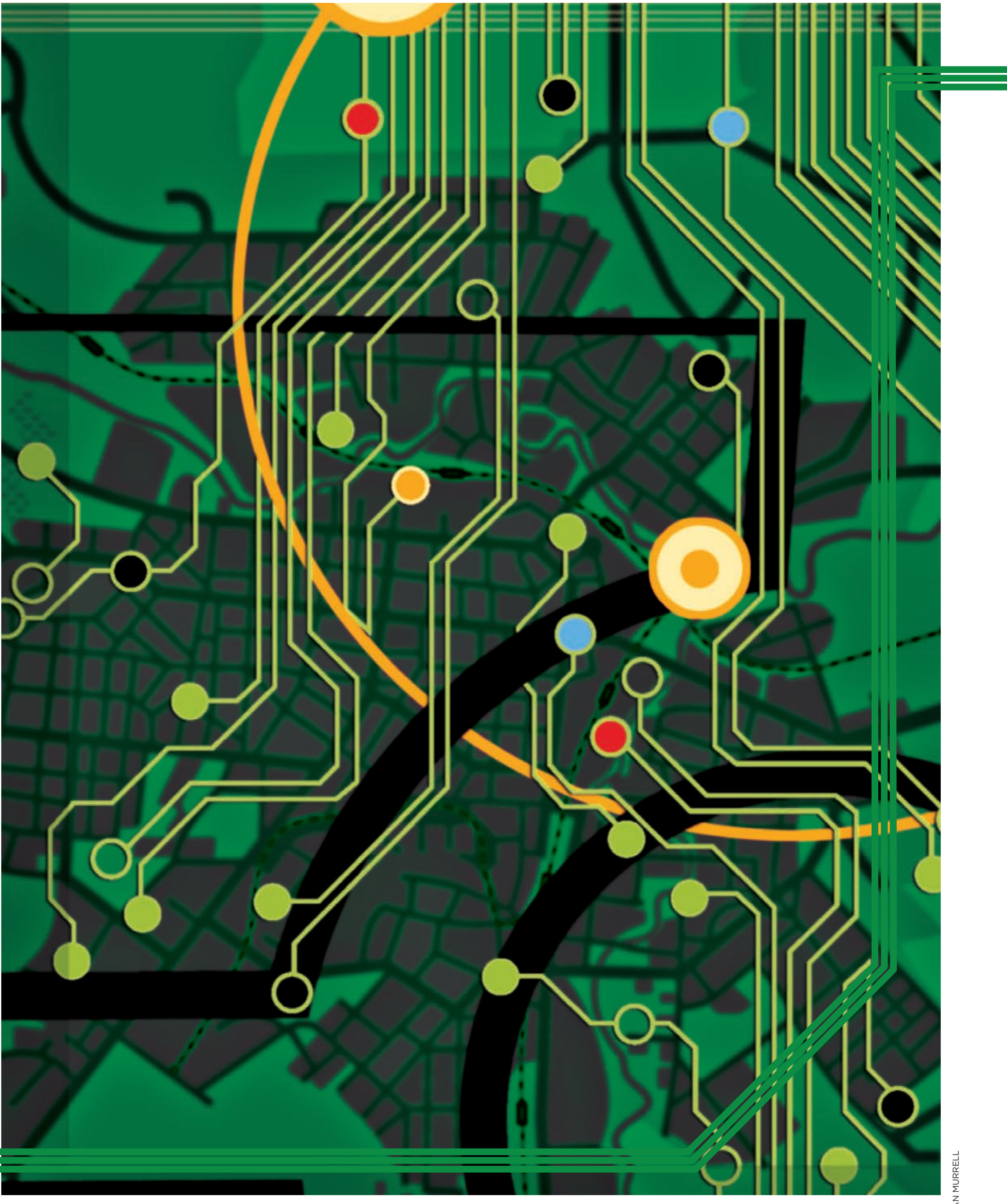
Another key factor in South East Asia's growth is the rapid expansion of its consumer class. The Boston Consulting Group forecasts that the number of middle-class households will increase from 75 million now to 102 million by 2015. Accelerating consumer expenditure will create deal opportunities in transportation, telecommunications, healthcare and retail.

Navis Capital's $62.4m acquisition of clothing manufacturer King's Safetywear is an example of the shift of manufacturing operations from China to South East Asia. Analysts predict an upsurge of manufacturing deals as investors seek to avoid Western curbs on Chinese goods in favour of South East Asia's competitive costs.

Access to debt, minimising regulatory and tax implications and protecting interests through robust commercial contracts are some key issues faced by investors in the region. With undeveloped laws and regulations, local knowledge can be poor and company documentation limited. Thorough and rigorous due diligence must be carried out to minimise risk. Cultural and business differences and corruption pose further risks in cross-border transactions. Advisers with extensive experience in the region and access to a trusted network of local counsel are a must.

Ken Cheung is a Berwin Leighton Paisner partner, based in Singapore. His work covers cross-border transactions, foreign investment, M&A and private equity in the region

TECH HUBS, CLUSTERS OF INNOVATION, ARE GROWING. BANGALORE IS HOME TO IT INCUBATOR ELECTRONICS CITY AND IS ADDING BIOTECH INNOVATION. IN THE BEIJING SUBURBS ZHONGGUANCUN EMPLOYS MORE THAN HALF A MILLION PEOPLE IN THE TECH SECTOR. TEL AVIV HAS MORE VC INTEREST PER START-UP THAN SIMILAR BUSINESSES IN EUROPE. AND BERLIN WANTS TO TURN ITS CREATIVES COMMERCIAL. SILICON VALLEY REMAINS THE TECH HUB BY WHICH ALL OTHERS ARE MEASURED, BUT SILICON ALLEY IN MANHATTAN IS LOOKING TO MAKE ITS OWN MARK. AND IN THE UK, TECH CITY IS GROWING UP AND OUT FROM SILICON ROUNDABOUT



DAN MURRELL

Silicon Roundabout

Will more support see the East London hub produce world-beating UK businesses? By **DAVID PROSSER**

Just before Christmas, UK prime minister David Cameron unveiled a £50m redevelopment of London's Old Street roundabout. "We are seeing it continue to grow and go from strength to strength," he said of what was first dubbed Silicon Roundabout five years ago by social networking pioneer Matt Biddulph. "That is down to the talented, creative entrepreneurs who have set up there."

There is no denying the growth: Biddulph identified the area around Old Street roundabout as a tech hub on the basis of just 15 early-stage technology companies clustered near the tube station in Shoreditch, East London. The Tech City Map puts the figure at around 1,300, but some estimates are about three times higher.

Now renamed the more corporate-sounding Tech City, the area has developed with little assistance from policymakers and has grown from low rents, with limited external investment. A local community using coffee shops and shared work venues as meeting places has fostered a collaborative spirit.

INBOX HALF EMPTY

So where next for Tech City? What has happened in Shoreditch undoubtedly represents a triumph of innovation, but the commercial rewards are, as yet, less tangible. Some of the best known names of the internet have moved into the area – Google has set up the Google Campus in Shoreditch, while Amazon is opening a Digital Media Development Centre near the Barbican Centre.

Obviously there is scepticism about the longer-term impact Silicon Roundabout will have. In January, the inventor Sir James Dyson called for a more considered approach to public investment in engineering and science, blasting the UK government for its focus on Tech City.

He bemoaned the seeming obsession with Silicon Roundabout: "I am concerned we are sometimes distracted by the glamour of web fads and video gaming rather than the development of tangible technology that we can export."

Possibly the most common complaint among Tech City's critics is that while start-ups have proliferated, profitable companies are hard to find. There have been few cases where founders have been able to take their businesses to market for an IPO or sale. Shoreditch's beacons of success are businesses such as Mind Candy, the company behind children's social networking phenomenon Moshi Monsters, the online business card manufacturer Moo.com, and business-to-business email marketeer Mimecast.

The area's biggest ever deal came six years ago, before the area was even dubbed Silicon Roundabout, with the £140m sale of Last.fm to CBS Interactive, part of the media and entertainment titan. Then, in 2009, mobile phone giant Nokia paid £12m for Dopplr, Biddulph's own social networking firm – it subsequently mothballed the business. And in 2011, Twitter paid £25m for TweetDeck, a business that developed applications for using the messaging site more effectively. Since then, however, there have been no exits on this scale – the pipeline to the market appears to have dried up. Maybe new impetus is required?

> "It wouldn't be going this well without the density of businesses"
>
> **Eileen Burbidge,** partner, Passion Capital

Andrew McMillan, head of the technology team at law firm Simmons & Simmons, says: "Banks historically have not been able to get their heads around technology companies, particularly pre-profit businesses, and in the current climate for the banking sector it has only got worse."

In November last year Silicon Valley Bank, an investment bank with a history of funding start-ups in the US, opened its first UK branch next door to the Bank of England, which happens to be a stone's throw from Tech City. McMillan is cautiously optimistic, but points to this launch as a positive development. He says

TECH REGIONS

Silicon Fen
Around 1,400 technology companies in Cambridge employ more than 53,000 people and turn over more than £13bn a year. Cambridge University is a major player in the local technology scene, as is the hugely successful Science Park, but the private sector dominates. The city has produced world-leading companies such as ARM Holdings.

Silicon Spires
Oxfordshire has also capitalised on academia. More than 3,000 high-tech businesses are based here, collectively employing around 45,000 people — technology and biotech sectors dominate.

Silicon Glen
Scotland's technology cluster, mostly located in the triangle formed by Dundee, Inverclyde and Edinburgh, has been hit by the withdrawal of large employers such as Motorola and NEC, but still

REX, GETTY

consists of several hundred businesses employing tens of thousands of workers.

Silicon Gorge
A University of the West of England paper has argued that the area formed in the triangle of Bristol, Gloucester and Swindon is Europe's fourth biggest technology cluster. Well-known technology businesses in the region include HP Labs and Imagination Technologies.

Emerald Valley
Entrepreneurs in Newry are attempting to position the town as Northern Ireland's centre for high-tech start-ups – around 10 businesses are already located there.

Cwm Silicon
An area to the west of Newport in South Wales is still home to a small number of technology businesses, though ambitious development plans first outlined a decade ago have yet to be realised.

£50m
The government budget for redeveloping the Old Street roundabout

1,300
The number of technology start-ups now active in and around Tech City

£25m
The sale price of TweetDeck, the biggest deal in Tech City in the past five years

the equity finance environment for those businesses prepared to give up stakes has become healthier.

NEXT LEAP FORWARD

The private equity and venture capital sectors are active, led by the likes of Index Ventures and Accel Partners, which have been growing operations in the UK and the rest of Europe. Eileen Burbidge, a partner at venture capital firm Passion Capital, arrived in Shoreditch three years ago following stints at Skype, Yahoo! and a decade in California's Silicon Valley. She is confident Tech City will succeed.

"There will no doubt be failures – maybe 90% of these businesses won't make it, but if 5% or 10% do, that's 5% or 10% more than would have made it without this ecosystem," argues Burbidge, who also sits on the advisory board of the Tech City Investment Organisation. "It simply wouldn't be going this well without this concentration and density of businesses – and the collegial environment that encourages them – in a single area such as Tech City."

Innovation among investors is also providing new finance sources. The crowd-funding model is a good fit for many start-up technology businesses, offering modest sums from a diverse range of investors. Crowdcube, which has just become FSA-regulated, was the first such business in the UK, and Seedrs, launched last year, has offices in Shoreditch.

Additional support for early-stage technology businesses comes from incubator and accelerator operations. These include Wayra, the Telefónica-backed organisation, which provides funding of up to €50,000 to nascent digital businesses, as well as a range of mentoring and development services. It already has a portfolio of more than 20 companies in the UK.

Seedcamp, a pan-European investor that offers start-ups funding of up to £50,000, provides office space in Google's Shoreditch offices. There is also Springboard here, which offers equity finance to business founders who undergo a 13-week intensive training course at its Shoreditch and Cambridge offices. The Business Growth Fund has been getting in on the act, having already bought into one Tech City firm, Unruly Media.

The advisory community has started getting a presence in the area. Tim Kay, technology start-up lead at KPMG, which opened a Shoreditch office in January, thinks Tech City sceptics are in danger of missing the boat. "This is not a typical sector, even compared to the technology sector of the past when you had IBM, say, growing over several decades," he argues. "The lifecycle is very different and if you want to be involved, you have to take a different approach – that's why we're now in Shoreditch."

Kay argues that more widespread commercial success for Tech City businesses may be closer than people realise. "There are companies here that have been working very hard for five years or more and they are proper businesses – they are transactional and increasingly international," he says. "And while Silicon Roundabout originally came out of London's creative sectors, we're now beginning to see a second wave based on the other backbone of the city, which is financial services."

KEEPING ITS COOL

There is a challenge that Tech City must soon confront. The low rents that attracted the first start-ups have disappeared as the area's brand value has grown, potentially depriving the area of new lifeblood.

Moreover, the Google and others' arrival not only exacerbates the trend towards higher costs, but the positive effects may be over-stated. "For technology start-ups, the most important thing is protecting their intellectual property," one investor argues. "They are going to feel very uncomfortable with any arrangement that feels as if they're undermining the protection of that intellectual property"

Steve Pette, founder of Central Working, one of several shared working offices in the area, says this is one reason why ventures such as his are important. "It's not overly corporate and there's a great deal of independence," he argues.

However, Lee Marshall, director of IT advisory services at E&Y, argues Silicon Roundabout has to work out how to move on. "Hubs such as Tech City are great, but the co-location is only one aspect of what will generate long-term growth," he says. "The benefits have to be cemented because the cool factor will go as soon as rents become unaffordable."

Fairytale of New York?

New York City is staking a claim to be the number two technology hub in the United States. By **MARY LISBETH D'AMICO**

In 2007, New York mayor Michael Bloomberg put making the city less dependent on Wall Street at the top of his agenda. Since then, the Big Apple has indeed become something of a digital technology hub – an upstart rival to Silicon Valley. Hot start-ups such as Tumblr, Gilt Group, Foursquare, Kickstarter, Mashable, Etsy and Fab.com all call 'Silicon Alley' in Lower Manhattan home. Silicon Valley giants such as Google, Twitter, Facebook, eBay, LinkedIn and Yelp have opened offices there in recent years – and are planning expansion.

The New York Tech Meetup, an informal twice-monthly gathering of people connected to the tech sector, currently logs more than 23,000 members. In 2008 it had 7,500 members. According to a May 2012 report by New York City think tank the Center for Urban Future (CUF), information technology jobs in the city have increased by 28.7% since 2007, from 41,100 to 52,900. CUF ranks the city second to Silicon Valley in its concentration of companies, with more than 1,800 tech companies. Boston comes in third. However, between 2007 and 2011, the area drew a 32% increase in venture funding, while Silicon Valley and Boston experienced decreases.

But a small reality check is in order. Boston-based start-ups still raised more money in 2012, according to data from private equity database Prequin, with 284 deals valued at $3.2bn to date, compared to 280 deals totalling $1.6bn in NY. Silicon Valley companies dwarfed both with 1,180 deals worth $13bn. Many of the NY investments are at the seed stage, where investments tend to be much smaller.

FERTILE TESTING GROUND

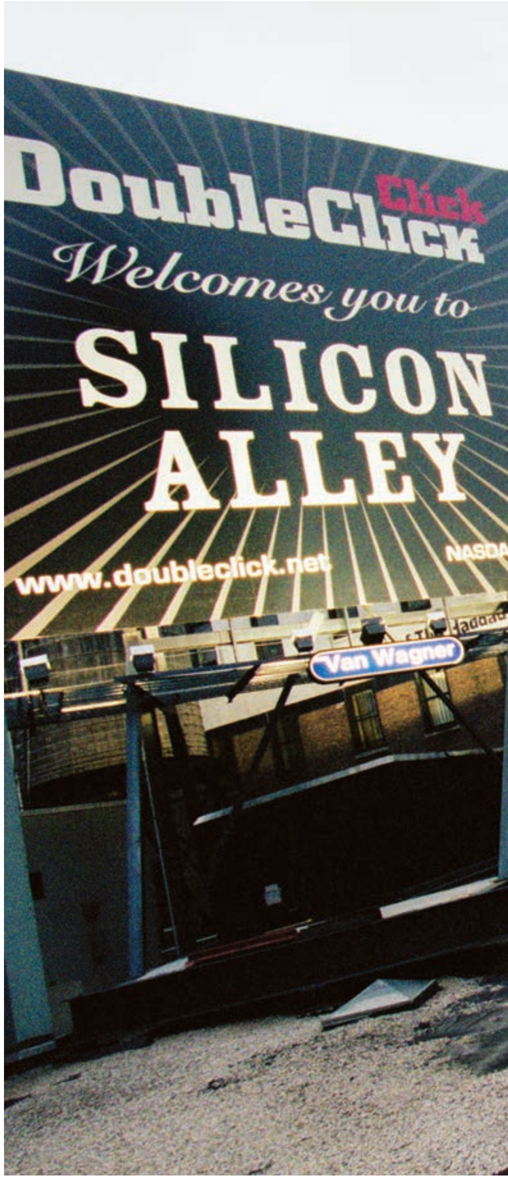
There is strong demand for tech companies that create content, sell products and provide services online. "New York is a great place to try out new consumer apps and services due to its density," says Warren Lee of Canaan Partners, a Boston-based VC that opened a New York office in 2011. "New York offers an incredibly dynamic atmosphere for start-ups." The firm's NY investments include digital network Blip TV, online semantic advertising company Peer39 and Tremor Video, a digital video technology company that serves online advertisers and publishers.

Start-ups that settle in the city feed off its other well-established industries. "If you have a company that wants to serve media, finance, advertising or marketing, you'd better be in New York," says Weston Gaddy, principal with Bain Capital Ventures, the venture arm of Bain, which has invested in online designer dress company Rent the Runway, and Stamped, a product recommendations app that sold for an undisclosed price to Yahoo in October. NY-based companies now make up around one third of its portfolio, according to Gaddy.

> "New York is a great place to try out new consumer apps and services"
>
> **Warren Lee,** partner, Canaan Partners

Successes such as DoubleClick and AOL also work in New York's favour — they produce "alumni" who go on to found other ventures.

The presence of such large tech firms means that there is an exit option for start-ups, that the venture can be reabsorbed. Yahoo, for example, recently bought San Francisco-based mobile startup OntheAir just to hire its engineers.

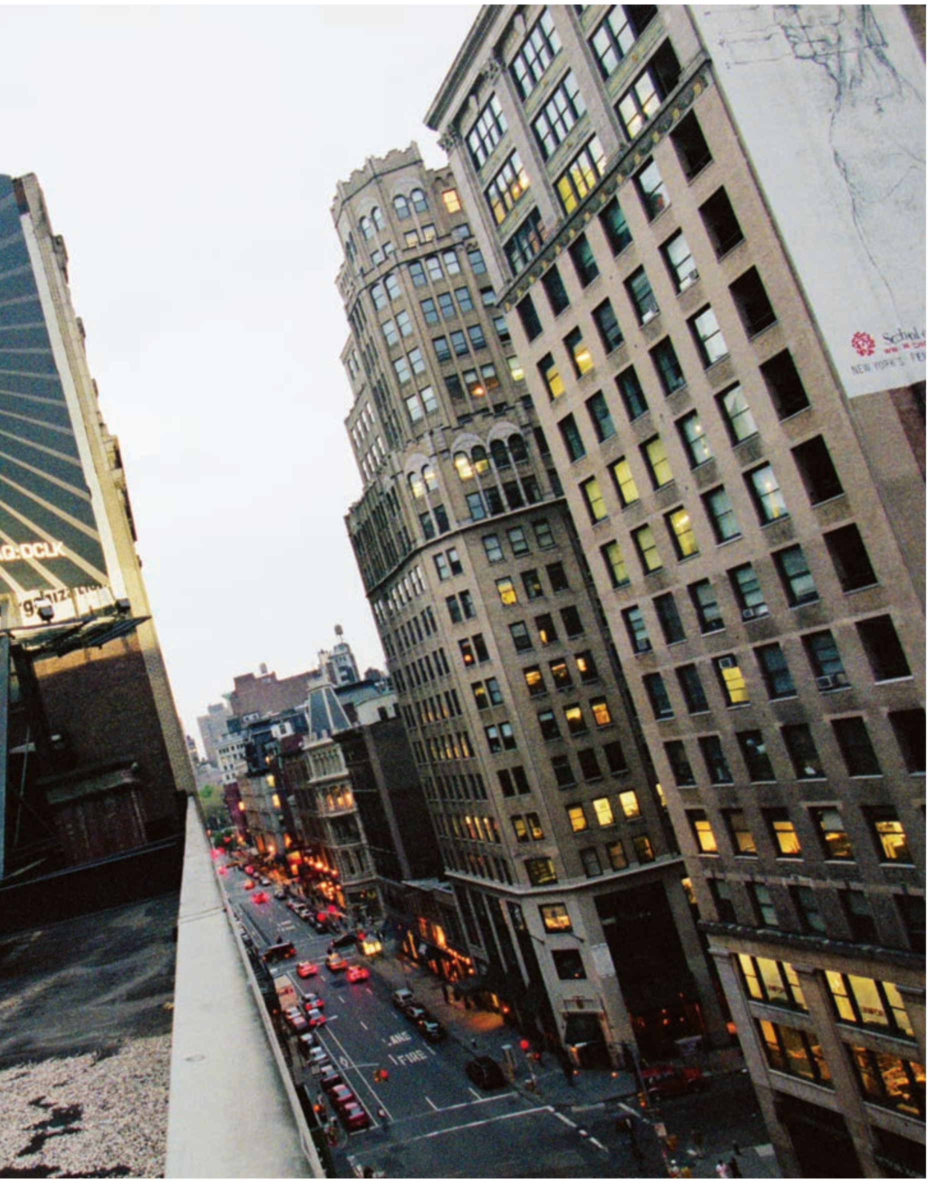


CORBIS

There is also a dramatically increased fund availability. Of the tech start-ups founded in New York since 2007, 15 have raised more than $50m in investments, 27 have investments of at least $25m and 81 have raised at least $10m, according to the CUF.

MANHATTAN TRANSFERS

Venture firms Accel Partners, Matrix Partners, New Enterprise Associates and First Round Capital have all opened NY offices. There are also specialty funds such as Trigger Media, founded in 2011 by entrepreneur Andy Russell, who has invested in Zynga, Silicon Alley Insider, DailyCandy and Thrillist. The $22m fund operates like an incubator, as it is closely involved in setting up new companies, according to Vanessa Liu, COO at Trigger. So far the fund



BIG APPLE'S DIGITAL AGENDA

- **NYC Tech Talent Draft** – A series of on-campus information sessions held at Carnegie Mellon, Harvard, Cornell, MIT and Princeton aimed at making computer science and engineering students aware of tech start-up opportunities in the city.
- **NYC Next Idea** – A global business plan competition, which will next year enter its fourth iteration, to encourage innovative ventures to launch and operate in New York City.
- **NYCEDC Incubator Network** – Ten early-stage incubators, six focused on tech, receive support from the city: NYU-Poly Varick Street Incubator, NYU-Poly DUMBO Incubator (Brooklyn), BMWi Ventures Incubator, Hive@55, General Assembly and Sunshine Bronx. The mayor's office says incubated companies have attracted approximately $83m in funding since 2009 and have spun off 42 companies.
- **NY Digital Map** – An online map developed by the city that plots start-ups, investors and incubators across the five boroughs.

has made investments in InHook, geared to "guys who have limited time, but discerning taste and a thirst for experiences", as well as Host Committee.

However, a note of caution for fledgling incubators is that accelerator Y Combinator in Silicon Valley recently announced it would take on far fewer investments.

"Only good companies will get financed further," says Miles Spencer, an angel investor in companies including Operative, Mojiva and Cellufun, who proclaims himself an incubator-model sceptic. And with many "me-too" companies, Canaan's Lee says "it's hard to break out".

> "Now we have more community, infrastructure and financial resources"
>
> **Zeeshan Zaidi,** CEO, Host Committee

Chris Dixon, a huge advocate of NY's tech investing scene, recently announced he was joining Californian VC firm Andreessen Horowitz in California. Although Dixon says he is not giving up on NY, he stated: "If you are going to do venture capital at scale, it's clear to me that California is where you'd want to be based."

New York has yet to produce a spectacular exit. Of those that have made the journey east, Facebook and Zynga haven't fared well since they went public and IPO candidate Gilt Group, the fashion e-commerce site funded by Draper Fisher Jurvetson, has put its plans on hold. Yet the VCs are not about to turn tail. "Overfunding is part of the VC business," adds Lee, who says this actually illustrates that NY's investing scene has gained critical mass.

"When I started out, people would say, 'wow, there are start-ups in NY?'" recalls Zeeshan Zaidi, who moved from Sony BMG to music start-up Limewire in 2009.

Zaidi, who is CEO and co-founder of Host Committee, an online platform for event organisation, says: "Now we have more community, infrastructure and financial resources.

"I always thought I would have to move to the West Coast, but I think you can have a long and successful career here and never leave this city."

Venture spree

The emergence of Berlin as a tech start-up hub dates back to 2005. Will it live up to its billing as Silicon Allee, or are their heads in the clouds? By **BRIAN BOLLEN**

Before the wall came down, the western half of Berlin was both the frontline in the Cold War and a Mecca for creatives. After 1989, it saw enormous development and cheap rents continued to attract a counterculture. The next wave of development is seeing tech creatives proliferate in the German capital.

Berlin's Senate Department for Economics, Technology and Research recently produced a report on the transformation of Berlin to 'Silicon Allee', which described the city as a 'Mecca for Web 2.0 companies'. Dr Alex von Frankenberg, managing director of the German government's High-Tech Gründerfonds (HTGF) initiative, which invests in young, innovative technology companies based in Germany, traces the development of what has come to be known as Silicon Allee back to around 2005.

"It's clear in hindsight that the trend started around then," he says. "In 2006, Berlin accounted for around 12% of our investment commitments. That figure rose to 32% in 2012, making the city the number one location for venture capital investment in Germany."

HTGF estimates that total inflows to Berlin, combining seed finance with later stage finance, amount to €200m to €250m annually. The HTGF itself invests in 40 to 50 new companies a year, providing seed finance of around €20m, of which €7m flows to Berlin. Launched in 2005, investors in HTGF's first fund include BASF, Deutsche Telekom, Siemens, Daimler, Robert Bosch and Carl Zeiss, as well as the BMWi and the KfW Banking Group. In October 2011, a second fund was closed. In total it has about €565.5m under management in its two funds.

Locals observe that Berlin, despite its lack of status as a financial centre, has become one of the places to be. Despite relatively high levels of unemployment, it certainly has a vibrant artistic, cultural and music scene, which has attracted a mass of creative people from across Europe.

CREATIVE AND VISIONARY

Berlin has everything that a city needs, attests Behrend Freese, serial entrepreneur and currently CEO at Bitplaces, a Cloud platform that enables the integration of location-based services into smartphone apps. "Berlin has creative, visionary people, it is a great place to have fun and it's not very expensive. It has good technical universities, and people who made money in the first dotcom boom who are prepared to invest in modern start-ups," he says.

Prominent in the pantheon of the last named group are the three Samwer brothers, founders of the European Founders Fund. Their first venture, in 1999, was Alando.de, which grew to become the market leader of internet auctions in Germany and was bought by eBay.

After the success of their second venture Jamba!, a ringtone seller for mobile phones, the brothers decided to become investors: "We are familiar with every stage of establishing a successful company, raising money, getting started, building and growing an organisation into a very large business and realising significant value for all stakeholders."

Stefan Tirtey, a Munich-based technology partner at Doughty Hanson, points to music app SoundCloud as the poster child for what is happening in Berlin. The company was launched with seed capital in 2008. Doughty Hanson became the first institutional shareholder when the next round of 'proper' venture capital financing took place in 2009. A year later, Index Ventures and Union Square Ventures climbed aboard. The near-legendary Mary Meeker of Kleiner Perkins Caulfield & Byers joined SoundCloud's board after a $50m round of financing at the start of 2012.

"There are hundreds of companies starting in Berlin, although there are hardly any of the major venture capital players based there," says Tirtey. "It's easy to attract international talent to such a vibrant city, the cost of starting a company is lower than in, say, London, and there is plenty of finance available at the seed stage."

"It's easy to attract international talent to such a vibrant city"

Stefan Tirtey,
technology partner,
Doughty Hanson

GALLERY STOCK

TECH WORLDWIDE

SILICON SAMBA

Various parts of Brazil compete for the title "Brazilian Silicon Valley": Florianopolis in the far south, with its large software industry; the financial and university centre of São Paolo; the engineering hub in the interior of Minas Gerais. But it is Campinas, north of São Paolo, that lays major claim to the phrase.

Campinas has a large university and research centre, and is also home to major foreign companies like Samsung, Motorola and IBM. It grew as a technology and telecommunications centre when state-held Telebras and Petrobras set up research centres at a time when Brazilian-made technology was protected against imports.

Brazil spends $13bn a year online, and 2012 saw the big VC firms join in. "At the start of 2012, no foreign venture capital fund had yet invested in Brazil. Now there are more than a dozen... desperately looking for investments here," says Julio Vasconcellos, CEO of deal website Peixe Urbano, one of Brazil's most successful start-ups. It has had investment from Morgan Stanley Investment Management, as well as Monashees and Benchmark.

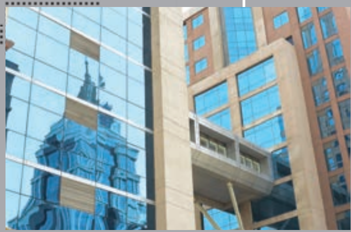
But the flood of foreign capital, with Intel Capital, Pitanga Fund and Bosch Capital prominent, has left some observers warning of a bubble. In the past year, Redpoint Capital has put $19m into travel site ViajaNet, and Atomico raised $8.7m for retailer Connectparts. One entrepreneur said: "The excessive liquidity is causing problems. Companies have started to lose focus in their business and focus on readying themselves for investments. There is a bubble." Pessimists will point to a lack of skilled workers to sustain the tech boom – programmers and engineers are being trained and imported. To North American eyes in Brazil, stifling bureaucracy remains, but others say the VC industry learnt its lessons from the Internet bubble of the 1990s.

SILICON WADI

Tel Aviv has a thriving tech industry, and with more than 600 start-up companies is well supported by a healthy VC network. The Mediterranean city, whose tech centre has been dubbed Silicon Wadi, was ranked number two in the world for tech start-ups by Startup Genome. Local tech VC firms include Battery Ventures, Greylock Partners, Venrock Associates, Bessemer Venture Partners and Sequoia Capital's Israeli operations.

Tel Aviv has more home-grown talent than other tech hubs – just 13% have worked in Silicon Valley, compared with a quarter of those in London and Paris. While access to VC is put at 20-times higher than in Europe, Israeli entrepreneurs tend to have a lower appetite for risk, says Startup Genome.

"If you take the amount of VC per capita, in Europe, it is $7. In the US it is $72. In Israel it is double that," Jan Müehlfeit, Microsoft's European chairman asserted last year. Microsoft, Google and Facebook all now have operations in Tel Aviv.



INDIAN SUMMER

The power of India's tech hub, in the southern city of Bangalore, is well-known. The gleaming tech parks that house the software and R&D arms of multinationals, as well as public-sector space and biotech research programmes, mean that Bangalore has the highest concentration of scientific talent in what will soon be the most populous country on earth.

There is barely a major tech company that doesn't have a presence in Bangalore, but the question remains whether the city can attract the entrepreneurship to become a replicator of Silicon Valley rather than its back-office.

There are many stories of Indian-born engineers who, having made a fortune in California, go "home" to Bangalore, but with a more American attitude to risk and starting businesses. Rajiv Kaul of CMS Info Systems and formerly of Blackstone, told *Forbes* magazine: "There are a few things which happened in India. After the dotcom period, a lot of people burnt their hands, including us. We barely managed to get the money back and were lucky. I think that we are very risk-averse as a society."

However, Bangalore-based companies raised $1.17bn from private equity in 2012, with the bulk of this in the IT sector. Online retailer Flipkart – now valued at $850m – received a $150m investment from Iconiq, MIH and Tiger Global. Consulting firm Technopak Advisors estimates India's current digital (e-commerce) economy is $600m, but predicts it will rise to $70bn by 2020. The potential for deal-making is clear even outside the systems and software sectors that have previously driven Bangalore.

THE CHINA QUESTION

Zhongguancun, in Beijing's northern suburbs and close to the Chinese Academy of Sciences, has established itself as mainland China's tech hub. Long the home of Chinese firms Founder, Legend and Lenovo (which now owns IBM), the city is home to the Chinese arms of Google, Sony, Intel and Microsoft. It is estimated that more than half a million people are employed by tech industries in the suburb

China's internet market is the largest in the world, and there was a rush to IPOs on the US markets in the mid-2000s. But a raft of accounting scandals and fears of greater scrutiny from the Chinese government have turned investors off Chinese tech. VC investment is down fivefold year-on-year, with e-commerce operations missing out.

"In the first wave of capital that goes into a sector, there's a lot of relatively dumb money," said Gary Rieschel of Qiming Venture Partners. "The assumption on e-commerce was that everyone is going to be like Amazon, and it's starting to be clear that that's not going to be the case."

Venture capital is now looking for areas with high barriers to entry, with Rieschel seeing a shift towards companies involved in analytics and cloud computing, where intellectual property and technical skills are paramount. Fidelity Investments have launched a Chinese VC fund worth $250m. Meanwhile, Chinese money is active (in China and elsewhere), with leading Chinese PE firm China Science and Merchants Capital Management due to invest more than $1.75bn in at least 300 companies in 2013.

Tailor-made for corporate finance

The current markets present corporate financiers with many challenges, but as **Stuart McKee** of PwC tells Marc Mullen, that's the deal they sign up to

CHARLOTTE PLAYER,. EYEVINE

Good M&A mandates are scarce," says Stuart McKee, head of PwC's corporate finance practice in the UK. "So if there is an opportunity out there we have got to be hungriest. Win or lose we solicit feedback on all of our deals. When you win, you find you were hungriest and when you lose someone was hungrier. Sheer determination and just refusing to lose is key to winning and delivering mandates."

McKee practices what he preaches – a genuine hunger to succeed is evident throughout his career. By 16 he had passed his Scottish Higher exams, but was unable to start university until he turned 17. He joined the management training programme at Coats Viyella (now Coats), the thread, yarns and zips company, based in his home town of Glasgow. The training took in spells in research, production, marketing, sales, finance and purchasing. He went on to pass his ACCA exams while with the business. In 1987 he joined Deloitte Haskins & Sells.

McKee learnt about the value of brand in his early training days at Coats. Suits were flying off the production line at the then Coats-owned subsidiary Jaeger. He asked the factory manager what the difference was. "About a hundred quid" – one batch was branded designer, the other a famous high street retailer.

So what of PwC's brand? "The PwC brand is fantastic in terms of credibility and door opening, but once in there you have to live up to those expectations and you should constantly be looking to raise the bar on that. The real opportunity is for us to mobilise the outstanding range of skills and specialists located not just locally but throughout our international network. That is the real power of the brand."

McKee points out that the corporate finance arm of PwC in the UK grew its revenues by 20% in the year to the end of June last year – no mean feat in a sliding market. Under the umbrella of corporate finance at PwC are three broad service headings – M&A advisory, debt and capital advisory and infrastructure and government. There are also sector specialists, so that the practice has a matrix-like structure.

McKee says the firm sees growth in all three service areas. In M&A the firm is strengthening certain sectors where it sees specific growth opportunities – TMT, financial services and oil & gas. The firm established an M&A practice in Aberdeen, which has been up and running for 18 months. He says the firm plans to invest further in this team.

"I do not see any quick return to the levels of M&A we might all wish to see," he says. "So you have to be on your game to take market share effectively. The biggest challenge to doing deals in this market is confidence. We have political instability around the world, economic instability and uncertainty, and trading which is erratic, almost week-to-week."

One phenomenon he points out is that within the last year his team has advised on a dozen transactions involving Japanese companies. "I don't think we were involved in 12 transactions with Japanese companies in the seven years preceding that. They

> Sheer determination and just refusing to lose is key to winning and delivering mandates

HIS OWN PATH

Stuart McKee joined Coats Viyella's management training programme in Glasgow, at 16. He completed his ACCA training with Coats, but soon decided it was time to move on, as he felt the rigid structure of career progress would not sate his ambitions: "If you started on the Tuesday and I started on the Wednesday, it was always going to be difficult for me to get ahead of you," he says. "That frustrated me."

In 1987, he joined Deloitte Haskins & Sells' audit practice. He then moved into the firm's special investigations team, in many ways a forerunner to transactions and corporate finance work. The ad hoc nature of assignments exposed him to a broad range of situations – due diligence, grant applications and fundraising.

Deloitte merged with Coopers & Lybrand in 1990 in the UK and in 1998 with Price Waterhouse to become PwC. McKee had remained based in Glasgow, but covered the UK and spent increasing periods in London. He had become the firm's specialist in retail and brands M&A, and in 2000 was made corporate finance partner. In July 2011 he was promoted to UK head of corporate finance, although he says his 'day job' remains retail and brands M&A.

have suddenly become very active in buying in the UK – they are suffering from low domestic growth, a strong yen is making it affordable and there is government and banking encouragement to invest overseas."

Last March McKee advised on LDC's sale of swimwear and lingerie business Eveden Group to Japanese trade buyer Wacoal. While sitting firmly in the UK, he says international buyers will be an increasing theme for his clients. He expects Chinese acquisitions to increase and the US to continue to be a major acquirer. With PwC's international network he feels he has the best resource possible to exploit such opportunities, but refuses to take anything as a 'gimme'.

Infrastructure and government is seeing a lot of its growth coming internationally, the firm taking the skills honed and developed in the UK and exporting them to projects in wide infrastructure markets – Scandinavia, the US, the Caribbean, Australia, Central and Eastern Europe. They are also using their knowledge on energy projects in Africa. But McKee says the Middle East is among its most active regions.

For McKee, the message he gives his team is about having HEART – a convenient, but not overly-contrived acronym – hunger, energy, anticipation, relationships and teamwork. When it comes to teamwork he says he actively avoids "the cult of personality". Relationships are a given: "If you are shaking hands with someone for the first time when you are pitching to them, then you will probably have to get lucky to win the mandate." That he wants his corporate financiers to be "bristling with energy" and hunger goes back to possibly his core strength.

> "You should be thinking two or three steps ahead – like playing chess"

Anticipation is something he learnt early on at PwC, when a partner advised him that to progress, you should always strive to produce work which requires no input from the next person up the ladder, and that applies to giving advice with real value: "You should be thinking two or three steps ahead – like playing chess."

McKee has a realist's view of the market, but in it sees an opportunity to rise to the challenge: "I think when the market is tough great corporate financiers can win. Is the market tough? Yes. Is every deal a battle? Yes. But actually, that is what most of us signed up for – to do real corporate finance work, which means that you have to be innovative in terms of how you think about transactions, and operationally very intense to make sure you get things done."

FLOWER POWER

Having initially moved into the special situations team at Deloitte Haskins & Sells in the 1980s, McKee identifies one deal he led which would have certainly fallen into that category – the demutualisation of Interflora in 2004. Steve Richards had become CEO the previous year and had promptly brought in PwC to conduct a strategic review of the 80-year-old organisation. The resultant plan for demutualisation and commercialisation of Interflora, funded by a £23.2m investment by 3i, had to be sold to the 1,850 florist members.

"If I could have anticipated the trauma and the length of that transaction, I might have thought a bit more about it. A lot of clients we work with are fairly sophisticated buyers of corporate finance services – they understand what they are buying, what it is we do and are pretty clear what the goals and objectives are. But we were dealing with hundreds of florists, who were asking why on earth they would want to agree to the plan, convinced that the price of their flowers would just go up."

The project taught McKee firstly the power of good communication and secondly that to communicate effectively, you must avoid assumptions about what people know and understand. The demutualisation would allow the florists to become commercial in their purchasing, by taking advantage of bulk deals.

"We had session after session and stakeholder meetings, culminating in a huge event at the Birmingham NEC, when all the florists had to vote. Months and months of work came down to this vote. Throughout this time we had to be able to explain the value in what we were trying to achieve. To do that you have to really challenge yourself and get down to the nuts and bolts about why you are doing it and then articulate that."

The florists voted for demutualisation on 23 January 2005, and the demutualisation was approved in the High Court on 4 February 2005. As a result, PwC won the corporate finance deal of the year award from *Accountancy Age*.

Venture philanthropy organisation Impetus Trust has invested £1m in IntoUniversity, an initiative to improve the life chances of disadvantaged children. Jason Sinclair reports

Helping hand to a degree

Impetus Trust supports IntoUniversity, which encourages young people into higher education with the help of student mentors

As UK government ministers flesh out their "Big Society" idea and talk of improving social mobility, a new sector of venture philanthropists is using its business skills to help charities and social organisations improve their performance. The aim is to have an impact on the life chances of some of society's most disadvantaged members.

Venture philanthropy uses the principles of venture capital – backing investment with focussed management support and specific business expertise – but with the aim of maximum social, rather than financial, return.

DELIVERING RESULTS

Impetus Trust is a prominent UK organisation in the sector, supporting a range of projects from finding work for ex-offenders or the homeless, to raising the aspirations of at-risk teenagers. On each project, Impetus provides pro bono work, both from in-house experts and volunteers from blue-chip City institutions.

"We're VCs for the charity sector," explains Impetus CEO Daniela Barone Soares. "We give hands-on expertise to social entrepreneurs who have the potential to be game-changing, and each year through our portfolio we reach 500,000 people."

In October 2012, Impetus announced the largest investment in its 10 years of operation – £1m will be granted to IntoUniversity, which works on increasing social mobility by raising the aspirations of children otherwise vulnerable to educational stasis. IntoUniversity offers after-school study schemes, mentoring and motivational guidance for children from the poorest backgrounds who have not been encouraged to consider higher education. Barone Soares says that Impetus's model is to provide an effective 4x multiplier of its cash investment from investment support and pro bono work.

"KPMG and PwC are among the companies which give support through due diligence. PwC does financial due diligence for all our clients, and the consultants will provide financial modelling, budgeting and so on. It is exactly the same as they would for a commercial client." Over 150 individuals and 32 companies have contributed their skills to Impetus projects.

Dr Rachel Carr, CEO and co-founder of IntoUniversity, has welcomed the investment from Impetus: "We've had such helpful pro bono projects through Impetus. OC&C Strategy Consultants has done some big projects around our business plan, from developing our database, to employment advice to creating financial systems. We've had consultancy that we could otherwise never have had, and Impetus broker this very carefully and think which of their contacts can provide that

support so nobody wastes their time."

Another way that members of the corporate world can support IntoUniversity's work is through direct mentoring of the children in the scheme. IntoUniversity aims to provide children from the age of seven with the sort of direct aspirational support that more fortunate children receive as a matter of course. At younger ages this can be academic support or confidence building.

Also offered is a demystifying of university through link-ups with undergraduates and university visits (Year 6 children are taken on visits to University College London, Imperial College and the School of Oriental and African Studies). There is also a Corporate Mentoring Scheme, where Year 13s (A-level students) are paired with graduates in successful careers, from City workers and lawyers to retail. The support continues through university, where those from the target group are considered more likely to drop out than their peers.

GROWING OPERATION

IntoUniversity began in 2002 with one centre in North Kensington, and £16,000 of investment. Impetus Trust first became involved in the initiative in 2007. Now there are nine centres throughout London and the UK, reaching 9,000 students. Many of these children begin their relationship with IntoUniversity at primary school, and can attend several sessions each week at the centres. Some 77.1% of IntoUniversity's Year 13 students progressed directly to university in 2012, compared with 52% of Year 13 students nationally, and 18% of those on free school meals. With the new tranche of funding, and with no shortage of children in need of their services, the size of the operation is set to double.

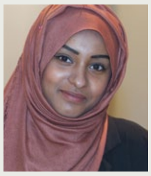
Dr Carr says her plans are to "scale up with new centres across new areas". The way the organisation has been run so far ensures its scalability. "We do feasibility studies and map schools which meet our criteria and build relationships with primary and secondary schools."

Barone Soares emphasises this scalability: "When we started investing in IntoUniversity in 2007 they were already so successful in moving young people with no role models into further education, and creating social mobility. The team at Impetus doesn't get involved in the granularity of their work, but we help the management. Together we completed a spin-off so it became a charity in its own right, sorted out its business plan, and put in a fit-for-purpose board to scale up the organisation and enable its model to be replicated."

"The new £1m investment is for a new cycle. The Holy Grail is embedding IntoUniversity into the education system as a bridge between universities and those who would never go there."

There are new challenges in guiding those from poorer backgrounds towards university, but Dr Carr is determined that high tuition fees will not damage her group's work: "We are trying to make the young people we work with understand that they can still get support to go to university, rather than only seeing the obstacles presented in the media."

For information visit impetus.org.uk and intouniversity.org



MENTOR FOR FORIDA

Forida Khatun (left), on her own initiative, began attending IntoUniversity in Bow, East London, in 2009, at the age of 15. Struggling academically, she was frequently disengaged at school. As well as finding IntoUniversity a quiet place to study, Forida was paired with a mentor from Queen Mary University. They met 16 times with a focus on Forida's GCSEs.

Forida continued meeting her mentor during her A-levels and receiving academic support. She was able to visit universities and take workshops at UBS.

In her final year Forida was matched with a corporate mentor, who worked with her on revision and preparing for university entry. After gaining two A*s and one B, she was offered a place at City Law School (City University).

Forida says IntoUniversity is "a place where people can study peacefully and you always get the help you need". Two of her sisters have since become involved with the programme.

Appointments

Rory Pope joins BGF

Rory Pope has joined the Business Growth Fund (BGF) as an investment director from Advent International, where he was a partner. He joined Advent in 1998, and set up the international private equity firm's Tokyo office between 2007 and 2010, and then he returned to London. He will be based in the capital with BGF.

His focus at Advent was on the healthcare, life sciences and industrial sectors. He previously worked at Baring Brothers in London and Singapore, and has a first class MA in biochemistry from Oxford University.

Marion Bernard, BGF regional director for London and the South East, said: "We are seeing real investment momentum across the region and there are clearly plenty of ambitious companies in our market looking for growth capital. We are looking to appoint good deal originators and also people with considerable hands-on experience of working with management teams and their businesses to drive growth."

"We are seeing real investment momentum and there are plenty of ambitious companies"

BGF has joined the Faculty. Turn to page 5 for details.

GT NEW RECRUITS

Shaun O'Callaghan has joined Grant Thornton (GT) as UK head of restructuring from FTI Consulting, where he was a senior managing director. Prior to that he was lead partner for KPMG's strategic and operational restructuring practice.

GT has also announced the promotion of Sarah Bell, a hotel and leisure sector specialist, to the post of restructuring partner.

NEWS IN BRIEF

Venture philanthropy organisations the **Impetus Trust** and the **Private Equity Foundation** are to merge. Impetus chief executive Daniela Barone-Soares said: "We are merging to pool our expertise and our support, and to redouble our determination to help many more people solve their own problems with the help of the organisations we support." **See our feature on page 30**

Law firm **Addleshaw Goddard** has opened a second Middle East office in Muscat, Oman. Roger Byrne (pictured) and Charles Schofield jointly head the office, in association with local law firm Nasser Al Habsi.

Law firm **Simmons & Simmons** has opened a Munich office, its third in Germany. Dr Oliver Beyer (left), joined from RBS RöverBrönnerSusat as corporate partner in M&A.

RSM has boosted its due diligence capability in France with the admission of MBV & Associés to its network.

Jean Bonnavion and Ricardo Caupers (top right and below right) have been promoted to partners at **Palamon Capital Partners**. Bonnavion joined the private equity firm in 2005 from Bain & Company. Caupers joined in 2009 from Boston Consulting Group.

Actis has promoted Adiba Anyaoku Ighodaro to partner. She set up the private equity firm's Nigerian office in 2000 and will be focused on North American investors in her new

ROBERT-TISSOT TO HEAD TAKEOVER PANEL

Philip Robert-Tissot, chairman of M&A at Citigroup for the EMEA region, has been appointed new director-general of the UK's Takeover Panel. He assumes the role from the beginning of April and will be on a two-year secondment from Citi.

Robert-Tissot (right) was previously head of UK banking and broking at Citi, having started in the City of London at Schroders in 1989.

Lord Collins of Mapesbury has been appointed deputy chairman of the Takeover Appeal Board.

Lord Collins was a partner at Herbert Smith between 1971 and 2000 and served as a justice of the UK's Supreme Court between 2009 and 2011.

WALLER JOINS HAMILTON LANE

Paul Waller, former managing partner at 3i, has joined private equity investment and advisory firm Hamilton Lane as a partner. He will focus on client development.

Waller (left) who recently retired from 3i after 35 years' service, had been a member of 3i's senior leadership team since 1999, where he was responsible for investor relations and fundraising.

He has a broad network throughout Europe and the Middle East, as well as Asia and North America.

Waller was previously co-chairman of 3i's investment committee, and is a former chairman of the European Private Equity and Venture Capital Association (EVCA).

MCF WOOS PAXTON MAN

Stuart Marcy has joined Menzies Corporate Finance (MCF) as director from Paxton Advisers, the independent corporate finance boutique he founded in 2010. He will be based in London.

NEW POLICY HEAD AT EVCA

Michael Collins has joined the European Private Equity & Venture Capital Association (EVCA) as public affairs director. He will head the policy department.

role. Arjun Oberoi (left) has also joined the emerging market investor from Stryker Corporation as global healthcare sector head. Ivy Santoso (left) has joined as new Indonesian country head from Avenue Capital.

Regulatory expert Julian Korek has been appointed CEO of **Kinetic Partners**. Senior ex-regulators Andrew Shrimpton and Monique Melis join an expanded management team at the global adviser to the financial services sector.

Pension covenant specialist Lorant Porkolab, (left) head of **Punter Southall**'s covenant advisory services, has been promoted to principal.

German-based global virtual data room specialist **Drooms** has appointed Howard Revens as managing director of its recently-established London office, with Piyus Shah recruited to work alongside him.

Patrick Sherrington is the new head of corporate asset finance at **Lloyds Bank** in the UK. He joined from RBS in 2007.

NVM Private Equity has recruited Andy Leach to its Manchester based investment team from North West Business Finance, where he was CEO. He was previously director of LDC in Manchester. Charlie Pidgeon also joins from PwC's corporate finance practice.

Brett Williams (left) has joined **Kuber Ventures**, the full service multi-manager of EIS portfolios, as adviser to the senior management team. The former chief executive of Skandia UK has more than 30 years' investment experience.

Healthcare specialists Philippe McAuliffe and Nick Johnston have joined **Perella Weinberg Partners** from JP Morgan. McAuliffe will be based in New York, Johnston in London.

Joachim Suter has joined **Altius Partners**, as a partner in its EMEA investor relations team, based in the private equity firm's London office.

Hand in glove

Tristan Nagler of Investec explains how an owner-manager sponsoring a management buy-out (MBO) can be the perfect fit for lenders and corporate financiers

WHAT IS THE DEAL?

The MBO in October 2012 of BM Polyco, which is the UK's largest technical gloves business. Founded in 1979 by Greg Murray and Leslie Blustin, it is based in Enfield and employs 125 staff. It supplies re-usable and disposable gloves for large multinationals and SMEs, as well as for retail.

WHAT WAS YOUR ROLE?

The two founders wanted an exit from the business and the best option was an MBO by the senior management team, led by MD Mark Holdaway. We worked with the founders, the management team and their financial and legal advisers to structure a transaction meeting all parties' requirements.

WHO WERE THE ADVISERS?

We developed a relationship over a two-year period when BM Polyco's corporate finance adviser KPMG introduced us to the deal. Deloitte carried out vendor due diligence. MacFarlanes were our legal advisers, Pinsent Masons acted for management and the company, while SNR Denton provided legal counsel for the founders.

HOW WAS THE DEAL STRUCTURED?

The two founders sponsored the transaction, supporting the MBO. We provided an integrated debt facility, which blended amortising and revolving debt, funding the MBO, the group refinancing and supporting the working capital needs and growth ambitions of the business. We ensured there was sufficient capital for investment and acquisitions. Reinvestment by the founders was a powerful signal to us of their confidence in backing a business they knew better than anyone.

WHAT WAS CHALLENGING?

KPMG originally considered a traditional acquisition-finance loan. While happy to deliver this, we felt an integrated debt offer would better meet shareholders' requirements. The structure was less familiar to the deal principals and advisers. So, we invested time working up a viable plan B. The go ahead was given once plan A had been fully tested.

WHAT HURDLES DID YOU OVERCOME?

In these challenging M&A markets, deal fatigue can see off a deal. As soon as the principals and advisers were able to engage transparently, the deal was rapidly agreed and delivered.

WHAT WERE THE LESSONS LEARNT?

The owner-manager sponsored MBO will not be every entrepreneur's preferred exit option, however with the right financing partner, it provides a highly compelling strategic option.

CAREER HIGHLIGHTS

Tristan Nagler works at Investec Growth & Acquisition Finance, originating, structuring and executing integrated debt transactions. He has a first-class history degree from the University of Leeds, an Executive MBA from the École Nationale des Ponts et Chaussées (Paris) and qualified as an accountant with KPMG. He worked in corporate finance on M&A, and was promoted to director. He left after 10 years to join Investec.

Recent transactions

- Founder-backed MBO of BM Polyco
- BlueGem-backed MBO of Enotria
- Founder-backed buy-out of 2M Holdings

CHARLOTTE PLAYER

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