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FACULTY

CORPORATE FINANCIER

ISSUE 108 DECEMBER 2008 £10.00

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Thin Blue Line

To the rescue

What role can sovereign wealth funds play on the world economic stage now they have introduced a code of conduct?

Trendwatch

Treasure hunt

The lending landscape may look harsh, but those who are tenacious can still find funding for deals

Insider Dealing

Experience pays

Charles Garthwaite reveals the lessons learned from a rapid succession of acquisitions and integrations

STRATEGIC MOVES

Why corporate finance firms must develop repositioning tactics to survive and thrive in a troubled economy

“At the moment, we’re seeing many zombies – banks that look like banks, and walk and talk like banks, but are not lending”

Robin Menzel, partner, Augusta & Co **page 8**

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ISSN 1367-4544

TECPLM7909

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Editor's view

Grant Murgatroyd

The season to be jolly

It's almost Christmas (unless it is cancelled or nationalised). So what is top of people's wish list this year? When I asked John Jenkins of GE Commercial Finance (see pages 16-17), I got a one-word answer: 'clarity'. He's not alone in wanting that.

Corporate finance firms have been trying to react to the changing circumstances (see pages 12-15). On the one hand, they are reluctant to cut back too heavily for fear that they will be found wanting when conditions improve. On the other, they need to be realistic that activity levels – and income – will fall.

The search is on for new areas of business. Debt advisory and restructuring are the two practice lines that stand out – though if restructuring work makes up for the shortfall in M&A, the wider consequences are truly frightening. Many are building their teams in the Middle and Far East, but these markets no longer look so sunny.

The new year should provide at least a small window on the future of credit markets and the availability of debt.

At the moment, there is no incentive for banks to lend as they try to rebuild their balance sheets ahead of the year-end.

Come January, they will be under pressure to lend. After all, it is how they make money (whether from interest or fees). There are said to be a number of deals in the pipeline waiting to be financed (see pages 8-9).

Mr Jenkins will probably get a little of what he wants. But if it's his present and not a stocking filler, then markets will breathe a collective sigh of relief, before settling down to watch *The Great Escape*.

FACULTY NEWS

Celebrating a busy year



Vera Sabeva

Rachael Evans

protagonists with different views and expertise.

Future activities will include briefing papers and high-quality research, public discussions and debates, issue papers and guidance for practitioners. The first work, *Private equity demystified – An explanatory guide*, has been welcomed as a significant contribution to the debate on private equity. For more information and to get involved, contact **Katerina Joannou** on +44 (0)20 7920 8806 or katerina.joannou@icaew.com, or look up Financing Change on our website at www.icaew.com.

The Corporate Finance Qualification continues to gain momentum. Last year, almost 400 students took the course, with a 34% increase in the number of papers sat on the Intermediate course and 94% increase at the Advanced stage. As well as the UK, students have come from 30 countries.

During 2008, the faculty submitted representations to three consultations from the Takeover Panel. We also responded to the FSA's proposals for the structure of the UK's listing regime and its review of the sponsor regime.

The faculty places great importance on building links with professional bodies and associations, and during the year met with representatives of the BVCA, FSA, Takeover Panel, London Stock Exchange, HM Treasury, EVCA and Securities Market Unit, EC Internal Market and Services Directorate Generale. Our goal is to bring together

As we head into a new year, the Corporate Finance Faculty can look back on what was a successful year and consider what we can do to help our members in these challenging times.

In May, Ian Smart, managing partner of corporate advisory services at Grant Thornton, took over as chairman of the faculty. He took over from Chris Ward of Deloitte, who held the position for four years. There were also changes to the faculty executive, with Rachael Evanstaking over from Caroline Kearns as manager, professional development. She took over from Caroline Kearns.

The faculty launched its new thought leadership programme, Financing Change, which aims to advance the overall economic contribution of corporate finance activity by promoting better understanding and practice. Financing Change will use the ICAEW's power to convene to bring together

“Corporate Financier is one of the few magazines I read. The articles are of a high standard and on a good mix of topics”

Philip Marsden, Managing Director, Vantis Corporate Finance

► Faculty Awards

We would like to invite all members to submit their nominations for the Corporate Finance Faculty Awards 2009. Please send your nominations for Corporate Financier of the Year and Outstanding Contribution to Corporate Finance to rachael.evans@icaew.com by no later than Friday 19 December 2008.

participants in corporate finance, not just from the advisory community, but also entrepreneurs, corporates and private equity firms.

Our membership is increasingly international, with more than 600 members based outside the UK. We will be investing in electronic services to better serve all our members, but specifically those from outside the UK. We will continue to build on the success of events such as the Buyout Breakfast and Corporate Development Forum.

We would like to take this opportunity to wish all of our members and friends a very happy Christmas and a prosperous New Year.

In the club

New corporate members include Hunton & Williams, a US law firm with offices in Europe, Asia, Africa and South America. It serves numerous companies in the financial services sector, including banks, insurers, institutional investors, borrowers, issuers and private equity groups.

Membership of the Corporate Finance Faculty is available for 15 months for the price of 12 from £120.

For more information, please contact **Thomas Stewart** on +44 (0)20 7920 8659 or thomas.stewart@icaew.com.

Directors, CBI and British Chambers of Commerce were in attendance at the event, which was organised by the Associate Parliamentary Group on Business, Finance & Accounting. The ICAEW held 24 events around the country as part of Global Entrepreneurship Week.

The ICAEW has brought together a host of information and resources to help individual members understand and navigate their way through the credit crunch, from public policy implications to help for those facing redundancy. For more information, visit www.icaew.com.

European Investment Bank's (EIB) Loan Scheme for SMEs on 30 October. Chancellor Alistair Darling and Business Secretary Lord Mandelson hosted the meeting. The EIB is making £4bn available to UK businesses over the next four years as part of a £24bn Europe-wide package designed to stimulate lending to SMEs.

In November, the faculty was at the Global Entrepreneurship Week, dispensing literature and advice on access to finance for SMEs. More than 120 parliamentarians, entrepreneurs and stakeholders, including the Federation of Small Businesses, Institute of

► The faculty supports SMEs on financing options

The Corporate Finance Faculty is committed to helping educate small and medium-sized enterprises (SMEs) on the financing options available to them.

In October, the faculty hosted *Corporate Finance for SMEs*. More than 140 delegates saw presentations on topics including venture capital, stock markets, debt, grants, tax, legal issues and government policy on SMEs.

The faculty was also represented by Matthew Meadows, a partner at member firm Kingston Smith, who, together with Clive Lewis, head of SME issues at the ICAEW, attended a round table discussion on the

NEWS

Moody's: European speculative-grade default rate to reach 9.7%

Ratings agency Moody's Investor Services has predicted that the European issuer-weighted corporate speculative-grade default rate will rise to 9.7% over the next 12 months from just 1.0% at the end of October. Moody's said the default rate had risen from 0.7% at the end of September and would hit 2.2% at the end of 2008.

Globally, Moody's speculative-grade default rate edged higher to 2.8% at the end of October from 2.7% a month ago. The global default rate stood at 1.1% at the end of October 2007. The US default rate also increased in October, to 3.3% from 3.1% one month previously. Moody's predicts that the global speculative-grade default rate will rise to 4.3% by the end of 2008 and more than double to 10.4% by October 2009, with the US rate hitting 11.4%.

'European default rates are not expected to climb as sharply as US and global default rates due to the relatively higher ratings

currently assigned to European issuers,' said Kenneth Emery, director of Corporate Default Research at Moody's.

Moody's distressed index closed at 48.5% as at end-October 2008, more than 60% higher than 29.7% at end-September and the highest level since 1996 when the index began. Moody's said the durable consumer goods sector is likely to have the highest default rates in Europe, while in the US the most troubled sector will be consumer transportation.

Worldwide, a total of 10 Moody's-rated corporate issuers defaulted in October. Three were in the US, three in Iceland, while there was one issuer from each of the UK, Mexico, Japan and Hong Kong. Five of the 10 defaulted issuers were rated investment grade a year ago. This brings the year-to-date global total of defaulted companies to 71, compared with only 16 in the same period last year.

France has best private equity environment

France has replaced Ireland as having the most attractive fiscal and legal environment for private equity deals. The change highlights a concerted effort by French policymakers to encourage private equity investment. In 2003, France was ranked eighth, according to the 2008 EVCA Benchmarking Study.

The UK, which was ranked first in Europe until 2004, has dropped out of the top three for the first time. It was displaced by Belgium, which has made beneficial changes to its pension fund environment and introduced new fiscal incentives. Ireland, which was ranked number one in 2006, slipped one place.

'Amid the current financial turmoil, the need for a strong private equity and venture capital market is more crucial than ever,' said Javier Echarrri, EVCA secretary general (pictured). 'Several European countries have shown good progress in the past two years in improving the



environment for private equity and venture capital. But those countries slipping down the rankings should take this as a wake-up call that their long-term economic health is in jeopardy.'

The study, carried out in collaboration with KPMG M&A tax services, assesses the tax and legal situation across 27 European countries for limited partners, general partners and investee companies, as well as the environment for retaining talent at investment firms and portfolio companies.

► Commission to regulate credit rating agencies

The European Commission has put forward a proposal for regulating credit rating agencies, a move it says is necessary to restore market confidence and increase investor protection.

Under the rules, credit rating agencies may not provide advisory services; will not be allowed to rate financial instruments if they do not have sufficient quality information to base their ratings on; must disclose the models, methodologies and key assumptions on which they base their ratings; must publish an annual transparency report; must create an internal function to review the quality of their ratings; and should have at least three independent directors on their boards whose remuneration cannot depend on the business performance of the rating agency.

'I want Europe to adopt a leading role in this area,' said Internal Market & Services Commissioner Charlie McCreevy. 'Our proposal goes further than the rules that apply in other jurisdictions. These very exacting rules are necessary to restore the confidence of the market in the ratings business in the European Union.'

► Quarter of UK firms eye acquisitions

Despite the economic gloom, senior decision-makers at over a quarter (27%) of UK companies with turnover of more than £10m expect to make an acquisition in the next 12 to 24 months, according to a survey by Investec growth & acquisition finance. Two thirds (66%) said they still expected to grow organically over the same period.

The stumbling block remains the availability of debt: 61% of companies said they were reliant on raising additional capital to achieve their growth targets, leaving many firms frustrated by the lack of necessary finance to meet their ambitions.

'A reduced appetite for lending among traditional banks is likely to have a profound effect on the ability of UK corporates to achieve their growth strategies over the next six months to a year and possibly longer,' said John Clifford of Investec. 'Yet for good businesses, there will still be funding options available, particularly among the more niche mid-market lenders.'

Reflecting market conditions, only 24% of respondents said their first port of call for funding growth would be the debt markets. Just 3% would use the public equity markets, but about a third of businesses said they would turn to private equity firms. 'The mid market has so far remained the most resilient part of the market in terms of M&A activity volumes, and financial sponsors that are focused on this market are still doing deals,' added Clifford.

The research also showed companies owned by a private equity group or another financial institution were most bullish, with 43% saying that they are likely to make an acquisition and 77% saying they are likely to grow organically in the next two years. By comparison, 36% of publicly listed companies and just 15% of family-owned businesses expected M&A activity.

Mind the GAPP

Despite a huge leap by cash-rich SWFs towards improved accountability, European governments are adopting a protectionist stance, says **Elliot Shear**

On 11 October, the world's 26 leading sovereign wealth funds (SWFs) published 'The Santiago Principles', a comprehensive set of 24 self-regulatory proposals to ensure proper governance and accountability. Also known as the Generally Accepted Principles and Practices (GAPP), they are likely to make the \$3trn that SWFs have to invest more attractive to recipient countries. Western governments should take a break from their economic woes to publicly welcome this giant stride by the SWFs. Instead, some European governments have responded with protectionist rhetoric, such as Italy and France.

Primary aims

The GAPP address the two key concerns that governments frequently posit against SWFs: independence and transparency. They are also intended to ensure that SWFs contribute to the maintenance of a stable global financial system, comply with all regulatory and disclosure requirements in investment recipient countries and invest on the basis of economic and financial risk and return-related considerations.

The first objective is to set out a sound legal basis on which SWFs are to be established and their investments mandated. Regardless of specific legal form, an SWF should be clearly authorised under domestic law, and should include a mandate for the manager to invest the fund's assets, the ownership of which should be clearly defined legally.

The GAPP recommend public disclosure of the SWF's constitutional arrangements, policy objectives and approach to funding

and withdrawal. They also propose greater clarity and coordination regarding the role of SWFs in relation to other government authorities in their home states.

Other sections of the GAPP establish clearly that, regardless of the specific governance framework of a SWF, its operations should be conducted on a fully independent basis, with a clear separation between the owner or governing body of the SWF and the agency responsible for its management. This is a key step towards increasing the confidence of recipient countries that SWFs will operate free of undue political influence and interference.

The GAPP recommend that SWFs implement a detailed investment policy, which will demonstrate how to achieve the SWF's defined objectives and commit the SWF to a disciplined investment plan. The investment policy will also address the extent to which external investment managers are used. Further, any exclusions of investments for reasons other than economic (such as social, ethical or religious reasons) should be clearly set out and disclosed in the policy.

Under the GAPP, SWFs will undertake not to seek or take advantage of privileged information or inappropriate influence. SWFs aim to invest on a long-term, patient basis: consequently, they should publicly disclose their general approach to voting shares of listed entities.

Finally, an important objective of the GAPP is to ensure that SWFs have a strong risk management culture, a clear, publicly disclosed framework that identifies and manages the risk of the SWF operations and accurate and consistent reporting of investments and their performance.

Willing participants

The GAPP are voluntary and do not deal in detail with how the principles will operate in practice, although SWFs have stated that they support the principles and either have implemented or aspire to implement them. As a voluntary self-regulatory system without any formal or informal enforcement mechanism, the principles are vulnerable to the charge of inadequacy. However, we believe that SWFs operating in a spirit of enlightened self-interest would find it strongly beneficial to comply with the GAPP and that this should provide a measure of reassurance to anxious recipient countries.

Nonetheless, Italy has already called for further restrictions on SWFs, such as preventing them from buying more than 5% of individual Italian companies and excluding them from sectors such as defence. French president Nicolas Sarkozy has suggested that EU members form domestic sovereign wealth funds to defend national interests from the attentions of circling Asian predators, while France will unilaterally set up a 'strategic investment fund' with the objective of preventing SWFs from acquiring control of currently cheap French industrial assets in strategic sectors.

After many years of advising governments and corporations on the use and abuse of golden shares, we have consistently encouraged the SWFs to follow the example of the hedge funds and pre-empt government objections by introducing a set of strong and clear self-governing rules. We believe that the Santiago Principles are a giant leap in the right direction, dealing head-on with the main objections to SWF investments. It is to be hoped that the UK government leads the way in providing a

constructive response. ■

Elliot Shear is corporate partner at Nabarro.

All quiet on the banking front

The past few months have decimated the world's banks, with the UK's financial institutions among the worst affected. **Vicky Meek** asks what it means for companies seeking funding for deals

At the moment, it's a pretty bleak picture. Leveraged loans are off the table. 'The availability of leveraged finance is extremely tight as the institutional flow has long gone into reverse, and banks are not advancing any new money,' says Ian Hazelton, chief executive of Babson Capital Europe. 'The market is currently hostage to banks' ability to lend, and new deals are not their biggest priority right now.'

'There has been a considerable retreat in leveraged lending, particularly among any leveraged player or those banks that have had to go to the government,' agrees Robin Menzel, partner at Augusta & Co. 'All are having to repair their balance sheets, with banks being required to have capital adequacy ratios of 8%, up from typically 6%. We expect to see several leveraged lenders retreat for good from the market. At the moment, we're seeing many zombies – banks that look like banks, and walk and talk like banks, but are not lending.'

The problem is that most have gone into a state of shock. 'Banks are struggling to determine what to do,' says Jonathan Trower, managing director at Close Brothers' debt advisory group. 'Some are seriously struggling and it would be nigh on impossible to get finance from them. Most don't know what their capital positions are, what the cost of their funds is and have yet to work out the extent of this gloom and therefore what their risk appetite really is.' Even with the Bank of England's surprise

1.5% base rate cut, designed, many think, to force banks into passing on rate cuts to customers, interbank lending rates are remaining stubbornly high, making it hard for banks to lend at reasonable rates in the current environment.

Cover the bases

All of this is making it hard to determine who to turn to for debt financing of any kind. 'Which banks will support a deal has become unpredictable, so it is best to form a wide club of banks when raising finance to mitigate against the risk of lenders pulling out,' says Paul Davies, partner at PricewaterhouseCoopers corporate finance. 'Banks no longer underwrite deals, so for this reason as well we have to form bank

Stepping back in time

In April 2008, Fitch produced a report suggesting deals structures were reverting back to pre-2005 levels. In 2007, multiples of senior debt were typically 5.5x Ebitda in larger transactions, total debt was 7.4x and equity made up just 22% of the capital structure. In 2004, the figures were 4x for senior debt, 5.25x for total debt and just over 34% for equity.

Since the banking crisis has taken hold over the past couple of months, Fitch has revised its prediction to suggest even lower levels of debt and higher equity percentages. 'We now think structures will revert to pre-2002 levels,' says Pablo Mazzini, senior director of leveraged finance at Fitch. 'They will be much more conservative than we've been used to over more recent times.'

clubs for our clients, where each bank will take and hold their respective position in the deal.'

With banks no longer underwriting, any financings are taking a long time to put together. 'Banks are now very unlikely to underwrite,' says Trower. 'You now have to do club deals, which takes much longer and means that you have to ensure that every box is ticked. The distribution model has gone for the time being.'

Selective appetite

Yet some deals are getting done. The smaller end of the deal spectrum has been far less affected than the other areas. Matrix Private Equity, for example, recently acquired publisher Metropress. 'There is debt about,' says partner Jonathan Gregory. 'Rates are a little higher, but I wouldn't say they were outrageous. But there are fewer people playing in the market than say they are – it's hard to know who is really lending at the moment.' The Metropress deal was done with a conservative debt multiple of 2x Ebitda, although more was on the table had Matrix opted to take it up. 'There was also another bank interested in funding the deal,' adds Gregory.

Some mezzanine houses are also stepping in where banks fear to tread. 'We are being offered quite a few deals to provide mezzanine in place of senior debt,' says John Clifford of Investec growth & acquisition finance. 'They are potentially very attractive because we can get

mezzanine returns for first ranking debt.' One source of deals on the market at the moment, he adds, is businesses funded by Icelandic banks. 'They are looking for new sources of finance. The only problem is that in the current environment it's hard to work out a fair price and determine how best to structure the deals.'

For the most part, however, new deals are not getting financed. Instead, banks are looking to support existing relationships, even if those businesses are starting to show signs of stress – they don't want more bad debts on their books, after all. 'Banks have been very helpful where they can be,' says Bob Ward, restructuring partner at Ernst & Young. 'They have been negotiating covenant resets or waivers to prevent work-outs, although they want the metrics to work for them. If the business was financed at, say 8x Ebitda, they'll be looking to lower that by getting the buyout house to put in more equity where it's a private equity deal, for example.'

Fearing the future

But we haven't seen a swathe of failures or defaults – yet. 'The first half of next year looks set to flush out a lot of restructurings,' says Ward. 'There will be a lot of businesses that are off plan, although because of the looser covenants or covenant-lite packages set before the credit crisis, there will be little that banks can do about it in many cases. There may well be a lot of living dead companies – those that are massively overgeared and underperforming. Where a private equity house is involved, they will work hard with management to come up with strategic or operational solutions.'

We've already seen private equity houses buying up tranches of senior debt at substantial discounts – Bridgepoint buying £10m of debt in Fat Face at 60%, for example – and some houses setting up or buying distressed debt arms, such as Cinven's acquisition of debt investor Indicus. Many believe debt investments by private equity houses may well accelerate over the coming months as restructurings gather pace.

Bypassing the bankers

Private equity houses may also be looking to put debt into new deals. 'As financial sponsors raise debt funds, the likelihood is that they are building up the infrastructure to bypass banks altogether,' says Pablo Mazzini, senior director of leveraged finance at Fitch. 'We haven't yet seen any deals done on that basis, but I think we will.'

They may have little choice. The alternative is funding deals on an all-equity basis. Some have been done, such as Advent

Saving the banks?

Debt markets had become pretty moribund by recent standards even before the collapse of Lehman Brothers in September changed the credit crunch into a full-blown crisis. It all started after US subprime lenders started facing difficulties in April 2007. The gravity of the situation started to become clear after BNP Paribas warned investors in August 2007 of a 'complete evaporation of liquidity' and Northern Rock faced the biggest run on a UK bank for more than a century after asking for financial assistance from the Bank of England. Interbank lending continued to be tight as the Federal Reserve, the European Central Bank and Bank of England make hundreds of billions available to fuel liquidity over the following months and cut interest rates. Many thought a line might have been drawn under the crisis after the ailing Bear Stearns was acquired by JPMorgan Chase in March 2008.

Yet state intervention into US mortgage giants Fannie Mae and Freddie Mac in early September demonstrated that the pain was far from over. The subsequent collapse of Lehman Brothers, the takeover of Merrill Lynch and the bailout of AIG cut so deep that the financial markets are still reeling from the shock. HBOS then fell, to be picked up by Lloyds TSB in the UK, and in the US Washington Mutual was closed by regulators and sold to JPMorgan Chase. A wave of bank failures followed, including Fortis, Wachovia, Dexia and Hypo Real Estate.

The US's \$700bn bailout fund, the UK's £400bn package and the eurozone's estimated €1,000bn rescue plans may have staved off the collapse of any more banks, but the moves have been far from sufficient to restore confidence and lower interbank rates. A globally coordinated 0.5% rate cut on 8

BANK	DATE	STATUS
Northern Rock	17 Feb	Nationalised
Bear Stearns	24 Mar	Collapsed and sold
Fannie Mae	07 Sep	Nationalised
Freddie Mac	07 Sep	Nationalised
Lehman Bros	15 Sep	Collapsed
Merrill Lynch	15 Sep	Taken over
AIG	16 Sep	Part-nationalised
HBOS	17 Sep	Taken over
WaMu	25 Sep	Collapsed and sold
Fortis	28 Sep	Nationalised
Bradford & Bingley	29 Sep	Nationalised
Wachovia	29 Sep	Taken over
Glitnir	29 Sep	Nationalised
Hypo Real Estate	06 Oct	Rescue package
RBS	13 Oct	Part-nationalised
Lloyds TSB	13 Oct	Part-nationalised

October provided temporary relief, but central banks have still been forced to inject further liquidity into the system and further rate cuts have followed, including the Bank of England's hefty 1.5% cut in November.

The crisis has also spread worldwide, with banks in countries such as South Korea and even Kuwait suffering as a direct result of the lack of liquidity in the market. With a crisis of such epic proportions, it will be some time yet before confidence between the banks is anywhere close to being restored.

International's acquisition of Experian's electronic payment business with the involvement of strategic partner Doc@Post, but for the most part, this remains a highly risky strategy given the huge uncertainty surrounding future financing. 'We have seen a few all-equity deals, but I'm not sure we'll see many going forward,' says Hazelton. 'The original thesis was that the suspension of leverage was only temporary and that the sponsors would be able to refinance pretty quickly once the debt market returned. No one thought it would take a year or more.'

Many people believe that banks will start lending once more early next year. Yet the jury is out as to whether they will finance new deals then or even for some time beyond that. 'The market is in a state of quasi paralysis now, although I'd be surprised if that didn't ease up early next

year,' says Trower. 'The banks will be under political pressure to lend, although how far that will extend to M&A remains to be seen. My guess is that there will be few M&A deals, particularly if they require new money, but that if you're looking to rearrange the deck chairs rather than find new ones then your deal will be OK.'

'Larger deals are being deferred to next year to avoid stressing bank balance sheets at year end,' says Davies. 'This means there is likely to be a swathe of borrowers looking for finance early in the new year, although it's far from clear that banks will have the appetite to fund this wave of borrowing. This will mean the marginal deals will get deferred, only the more robust or remunerative ones will get financed.' ■

Vicky Meek is a journalist specialising in private equity and M&A.

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Expect delays

America's SEC may have laid out a roadmap for the adoption of IFRS, but **Robert Bruce** believes it will be some time before the destination is reached

Great financial crises, like other impending disasters, are supposed to concentrate the mind. But it looks as though America is putting up the shutters. And the whole issue of financial reporting, and international financial reporting standards (IFRS), is being sidelined.

Only a few short months ago, it was very different. At the end of August, the main US regulator, the Securities & Exchange Commission (SEC), issued what it called a roadmap, a series of proposals which would see IFRS become the system of financial reporting in the US.

This alone was remarkable. The Americans have always insisted that their own system was rigorous beyond belief, sternly policed, and admirable to the exclusion of all else. The idea that they had cottoned on to what the rest of the world was up to was astonishing.

And like all late converts to something, they had taken it up with a vengeance. At the launch of the roadmap, SEC commissioner Elisse Walter started her speech: 'The IFRS proposal we have before us today is truly a momentous one. I would like to thank the staff for their tireless efforts on this release. I would also like to thank you for putting up with my passion with respect to this issue.'

But the real reason for this enthusiasm was an effort to overcome the traditional insularity of the US political community.

The SEC knew that it and the US capital markets were over a barrel on this one. In his speech at the launch, SEC chairman Chris Cox made the facts plain. There are more than 100 countries around the world, including all of Europe, where IFRS is permitted. About 85 of those insist that IFRS has to be used by all listed companies.

Jumping on the bandwagon

Cox had done, as the Americans would put it, the math. The market capitalisation of the stock exchanges in those 85 countries added up to 35%, and rising, of global market capitalisation. The total market capitalisation of the US exchanges was 28%. And what happens when China, Japan or India is added to the mix? The consequences for the US of standing outside the system were obvious. Hence the roadmap. But there are signs that the US will not follow a roadmap, but will instead use their own eccentric sat-nav system.

For a start, the roadmap had to be couched in careful terms. If it is agreed, US companies would start to use IFRS in 2014, 2015 or 2016, with a possibility of some voluntary use of IFRS in 2009. Even in Europe, where financial reporting was much more disparate than in the US, IFRS was successfully implemented in a shorter time. But in the US, we are in the *Alice in Wonderland* world of 'due process' where anything that is done efficiently, effectively

and swiftly is regarded as deeply flawed. A process that takes as long as possible is seen as having much more integrity.

Americans argue that no one has any experience of this new and mysterious system, so lengthy overhauls of accounting education will be required. But any large US company with subsidiaries overseas has been using IFRS for some years now. Equally, there has been a growing chorus of complaint about how complicated IFRS is. But, as UK finance directors have been pointing out, it is not that challenging. And we have the argument that IFRS is a product of an organisation that is not accountable to Congress, by which American politicians mean that they cannot bully independent standard-setters in the way they do their own.

And in their eyes IFRS is produced by foreigners. We must never forget that US business culture is at about the same stage of development as English society was in the 1950s when the idea of letting 'Johnny Foreigner' have a say was greeted with horror. The *New York Times* headline was: 'Accounting Plan Would Allow Use of Foreign Rules'. It pointed out that 'foreign regulators are beyond the reach of Congress'. So don't be surprised if implementation of IFRS in the US takes years longer than expected. ■

Robert Bruce is contributing editor on *Corporate Financier*.

Thinking ahead

With M&A activity stagnating and recession looming, corporate finance firms are repositioning their teams. **Marc Mullen** explains how debt advisory and restructuring are seen as engines of growth

On 21 October Mervyn King, the governor of the Bank of England, used the dreaded 'R' word. The threat of recession has moved from the back to the front of people's minds over the past year, but Mr King's utterance, closely followed by Gordon Brown's first use of the term, was enough to cause panic on the UK's financial markets.

The capital 'R' word leads to several more small 'r' words. Some dreaded: redundancies and retrenchment. Some middling: restructuring, redeployment and refocus. Some vaguely positive: recruitment and recovery. The shake-out in financial services has already started, but there is undoubtedly more to come. Corporate finance advisers, many of whom have never experienced the 'R' word, will be facing up to change and the uncertainty that holds.

'This is not like the downturn in recruitment in 2002/03, where people were still happy to move,' says Darren James,

managing director of Definitive Consulting. 'The sheer volatility and speed of this means there is a lot more fear in the market now. A large proportion of individuals, particularly those under 38, will never have seen anything like this before and they won't know how to react. They have been protected from this ever since they qualified 10 years ago.'

Large firms must strike a balance between cutting back teams and positioning themselves for the eventual recovery. In the early 1990s, graduate recruitment dried up and whole peer groups were taken out, leaving some firms short of partner

candidates 10 years later. In 2001, Merrill Lynch infamously wielded the axe after its chopper for its cheque book in the ensuing years to rehire, in some cases, the exact same staff.

Flexibility and redeployment

Redeployment is the 'r' word on the lips of many advisers and especially the corporate finance heads of the big accountancy firms. Debt advisory and restructuring are the service lines viewed as a natural hedge to their M&A advisory services in these troubled times. 'As the economy turns, the

"You only have to look at the size of the collapses going on at the minute – Lehman Brothers, the Icelandic issue – to see that the debt advisory, restructuring and insolvency practices are going to be busier"

Darren Forshaw, Endless

fleet-of-foot accountancy practices will start to deploy their people into the arenas that are going to win more fees,' says Darren Forshaw, co-founder of private equity firm Endless. 'You only have to look at the size of the collapses going on at the minute – Lehman Brothers, the Icelandic issue – to see that the debt advisory, restructuring and insolvency practices are going to be busier.'

To date, accountancy firms have avoided a mass cull, but there have been redundancies. Simon Collins, head of corporate finance at KPMG, says the firm made some targeted headcount reductions earlier this year: 'The job cuts were not savage, but necessary paring of costs for a different transaction environment.'

Others have privately been offering voluntary redundancy packages to specific individuals. Craig Hoyland, manager of the advisory division at Definitive Consulting, says: 'There are certain firms who have been forthcoming in the press about redundancies and others who have been less so. From our candidate base, we know that there are certain large firms that have been offering voluntary redundancies.'

While the outlook is certainly bleak, and there are undoubtedly feelings of uncertainty and insecurity, the key to riding this out from both an advisory firm's and an individual adviser's point of view is an 'f' word: flexibility.

Continuous advisory service

The Lehman Brothers administration is a good example of how corporate finance teams will be blended in with other advisers in distressed situations. Since Ian Powell took over as head of PricewaterhouseCoopers (PwC) in April 2008, he has pushed the 'one advisory' concept, where valuations, business recovery, corporate finance and forensics all work together under a business advisory umbrella. Included in the 350-strong PwC corporate finance team are traditional corporate finance advisers, as well as debt advisory and restructuring specialists. Neil Sutton, PwC head of corporate finance, says there have been more non-recovery professionals than business recovery advisers on the Lehman's engagement.

'We have one of the largest recovery practices in the UK and that is obviously driving a lot of the work we are doing,' he says. 'On the Lehman's administration, our corporate finance team has been working alongside the administrator on all of the transactional activity, which is pretty high-profile evidence of us working together. What is important is that our advisory business as a whole works together and we can look at our resource base as a whole

► **Wielding the axe**

In mid-October, William Thompson, comptroller of New York City, painted a stark picture of the impact of the financial crisis. He warned that the city could lose 165,000 jobs over the next two years – with 35,000 people directly employed in the financial sector likely to lose their jobs. On this side of the Atlantic, things are just as bleak. Oxford Economics is predicting that the City will lose 35,000 jobs. Overall, London could lose 194,000 jobs over the next two years, with even previously resilient sectors expected to shed workers.

The *Financial Times* has been charting global job losses at investment banks, which made grim reading even before the crisis deepened in October. Top of the list was Citigroup (23,500), followed by Lehman Brothers (13,390), Bank of America (11,150), Bear Stearns (9,159), UBS (9,000), Commerzbank (9,000), Wachovia (8,393), RBS (7,200), Merrill Lynch (5,220) and Morgan Stanley (4,400). In Morgan McKinley's latest *London*

Employment Monitor, the banking and financial services recruitment specialists revealed the number of new job vacancies fell 42% in September, and in perfect symmetry the number looking for jobs rose 42%.

In October, Merrill Lynch CEO John Thain said he expected thousands of job cuts after the bank's takeover by Bank of America as the enlarged entity looked for \$7bn of savings, while Goldman Sachs was said to be culling 10% of its workforce. At the beginning of October, UBS announced 2,000 job cuts, in addition to the 4,100 it announced in May. In September, HSBC slashed 1,100 jobs from its investment banking division, 500 in the UK and the remainder in the US and Europe.

Some firms are planning selective recruitment. In July, John Mack, CEO and chairman of Morgan Stanley, announced the bank would use up to \$1bn of its savings from making 4,800 job cuts this year to recruit top executives.

“You cannot pick up a whole practice and say you are now restructuring people, because you cannot just swamp a practice with inexperience”

David Hughes, Ernst & Young

rather than the individual silos. On Lehman there is a significant forensic team and a significant corporate finance team.'

David Hughes, head of transaction advisory services at Ernst & Young, is cautious about redeployment: 'All the major firms are rapidly mobilising people out of transaction services and M&A into restructuring or distressed M&A. But you cannot pick up a whole practice and say you are now restructuring people, because you cannot just swamp a practice with inexperience. You have to be extremely careful. It is about getting the right blend. Accountancy firms have cut too deep many times before and we are conscious of that. There are different ways of dealing with a downturn and it is about how we best utilise our resource. If you cut very deeply, you find that as you come out of that downturn a big chunk of what you cut is what you need to thrive as the business environment changes.'

Facing up to reality

'A significant number of Top 30 accountancy practices and major global advisory firms are looking for experienced restructuring candidates or insolvency practitioners,' says Nicholas Broughton,

director of Fortuna Search & Selection. 'Company owners can be quite reticent about bringing in that type of advice – admitting they have to cut out problems before they really take hold.'

For many investors, this is uncharted territory. 'If you look at the vintages of some private equity houses, some of them haven't been through this before,' says Andrew Ware, partner at BDO Stoy Hayward. 'Some that have are quite happy to engage and see the merit. Those that haven't are still trying to work out how they engage with the restructuring guys. We are seeing real interest from the mid-market equity guys, particularly around preserving equity values.'

Another issue for redeployment to restructuring is that while staff are highly trained and intelligent individuals, they have little experience of distressed situations, and so retraining is necessary in both the technical and soft skills required on very different transactions. Often, in this fast-changing environment, training is on the job, in a pressured, accelerated manner. 'We have been redeploying staff from corporate finance as well as making external hires,' says James Douglas, who heads up Deloitte's debt advisory practice. 'Clearly, there are lots of debt advisory opportunities, and a combination of some internal redeployment where people have debt skills combined with experienced external hires has resulted in our team expanding to meet client needs.'

Strong sectors

Anticipating an increase in dealflow, KPMG has brought together its public and private

specialists. It is taking the view that while there has been much advisory work on PFI and PPP, and much M&A advisory work, M&A advisory work on PFI and PPP businesses is set to grow. 'M&A advisory work has definitely slackened, but has been compensated by a rise in restructuring, debt advisory and distressed disposal services. We have been moving resource around to reflect this – we knew the direction it was heading in – we just didn't know when or how rapidly it would happen,' says Collins.

Recruitment consultants say that, outside of senior business development appointments, posts are being filled with specific projects in mind. There is a range of prognoses for different sectors ranging from bleak for retail and construction, where it is accepted that most transactions will have a significant element of distress, to positive for energy, public sector and infrastructure.

Financial services is seeing a wave of activity. 'Trying to hire very good people in financial services is always a challenge. It is a very active sector, many financial institutions are challenged and the need for advice is clearly greater,' says Malik Karim, managing partner of Fenchurch Advisory Partners, which specialises in financial services. 'Every investment bank with financial services professionals is very busy because there is a lot of advisory work in that sector.'

Pastures new

Secondments overseas have proved another method of redeployment for the bigger firms, who have identified that the global structure of capital flows has changed, with capital flowing from the Middle East, China and Russia. Firms have sought to get closer to these sources of capital, to nurture relationships, so that they are able to advise on strategic acquisitions. The new

► **Tough times for recruiters**

'Over 40% of recruitment firms go bust in any downturn, so there will be half as many companies pretty much by the time we come out of this one,' says Darren James of Definitive Consulting.

Recruitment firms have already been feeling the squeeze from many quarters. Web portals and networking websites have been making it far easier to recruit candidates for more junior posts, so even where recruiters are getting mandates, fees are falling. Big firms have been setting targets for their HR departments of 70% of appointments through direct contact. 'Because of the internet, people like Goldman Sachs and Merrill Lynch are increasingly using the power of their own brands to attract candidates,' says Vic Daniels, founder of hereisthecity.com, a career website. 'They also have more sophisticated employee

referral schemes and I think the current climate will accelerate their use.'

Nicholas Broughton of Fortuna Search & Selection says: 'I would not be surprised to see use of recruitment agencies in filling the £40-80k bracket coming down dramatically. The margins are still very high at 25% and in that mid-range lots of people can do it. In IT they only charge 10%, so I would expect to see pressure on fees in financial services.'

Consolidation is also expected as times get tougher. In September, the board of Michael Page turned down Adecco's advances, saying its 400p a share offer undervalued the business. There could also be further deals as established players look to counter upstart competitors by making a strategic acquisition of a well-positioned internet recruitment company.



climate is forcing flexibility on corporate finance professionals. 'A year to 18 months ago when the Middle East was mentioned, 90% of candidates were not interested, but now that has completely flipped and 90% are jumping at the chance to explore opportunities,' says Broughton. While a dip in oil prices may have dented the idea that the Gulf was credit crunch-proof, firms still see the gravitation to the Middle East as a long-term phenomenon.

'Without a doubt, capital flows are increasingly emanating from the Middle and Far East,' says E&Y's Hughes. 'And therefore my task as leader of the business is to make sure that we have got our people flexible and mobile. For example, our Indian practice is still growing very rapidly. Our Middle East practice is still growing very rapidly with the increasing impact of sovereign wealth

funds on global markets. Clearly, nobody is immune from the current climate, including sovereign wealth funds and private equity, but frankly this is a phenomenon that isn't going to go away and organisations are already learning how to adapt.

Other advisers are confident of continued activity, particularly at the smaller end of the market. Mark Greaves, who heads up the corporate finance department of Francis Clark, concentrates on family-owned businesses in the West Country. 'In 2000-01 the vast majority of our transactions kept going – people still need to retire, to sell their business, acquire businesses. At the sub-£10m range, there will still be an effect, but it isn't as pronounced as for the big boys. All we are getting is fallout from bank managers panicking a little, though someone should point out that they don't make money unless they lend money.'

While carefully managing expectations of staff brought up on higher-than-inflation pay rises and bonuses, corporate finance leaders have to prepare themselves for the upturn, because it will happen. It is just a matter of when. Now is the best time to sort out their organisation for this and take advantage of the availability of strong candidates. 'At the moment clients only want the very best and the question on the lips of any hirer looking at CVs is why were they made redundant,' says James. 'You feel for the juniors who will have to retrain. The focus is more on strategic hires at a more senior level – people that will improve the business long term rather than do the work, which is not there at the moment.' ■

Marc Mullen is a reporter on Corporate Financier.

IMAGE: STOCKPHOTOS

IMAGE: GETTY IMAGES

Mixed blessings

John Jenkins of GE Commercial Finance is in an enviable position. Competition has all but evaporated and asset-based lending is popular in a downturn. But will he have the capital to take advantage? He talks to **Grant Murgatroyd**

John Jenkins can see some positives in the credit crunch. 'This is the first time in 20 years where there is more new business than you can deal with,' says the CEO of Business Finance UK, the UK asset-based lending (ABL) arm of General Electric's Commercial Finance operation. 'I've never had to turn away so many good opportunities.'

That is not to say it is all good news. In the 12 months to 10 November, GE's share price halved, though it still boasted

a market capitalisation of \$163bn. When you consider that GE makes half its profits from financial services, the performance does not look so bad.

Overall optimism

GE is heavily reliant on the \$1,500bn commercial paper market, where it is the biggest borrower with \$88bn in short-term loans. Throughout 2008, it was able to meet its funding requirements, but only by selling more paper at shorter durations, increasing its funding costs. Despite that uncertainty,

Jenkins is upbeat about the business unit's prospects. With the general lack of liquidity in debt markets and the economy deteriorating, ABL is likely to become a more popular form of finance, both in operational and transactional situations. 'ABL is a product that works well in a downturn and tends to be more sustainable throughout the cycle,' says Jenkins.

Another advantage in difficult times is that ABL facilities provide more flexibility in terms of use of valuable cash. 'In restructuring situations we have shown our

willingness to live with quite big revolving facilities as opposed to having amortising loans, which would be the preference of a traditional lender.'

Bring us your deals

Unlike when Jenkins started out in the industry two decades ago, he says that the advisory community now largely understands how ABL can be used and that its past stigma as financing of last resort has largely gone. Around 90% of business comes from KBIs (key business introducers), namely accountants, corporate finance boutiques, lawyers, turnaround consultants, as well as introductions from the client base, such as their suppliers or customers. Of course, the GE empire also produces its share of leads, particularly on larger transactions.

The product range GE Commercial Finance offers is extensive, including factoring, invoice finance, credit protection, trade finance, and ABL, lending against assets, including plant, machinery, inventory and property. Depending on the situation, multi-product facilities can be put in place to fund organic growth, improve cash flow, maximise working capital and increase flexibility, and also acquisitions, MBOs and MBIs.

Growing complexity

Many of GE Commercial Finance's deals are small and medium-sized scale buyouts and buyins. Midlands-based Fern Plastics is a typical example. In September 2008, after an introduction from Fusion Corporate Finance, GE Commercial Finance and Alliance & Leicester Commercial Bank provided funding to help Iain Graham and two members of the existing management team buy out Fern's retiring shareholders in a 'multi-million' pound deal. But in recent years, ABL facilities have been used in ever more complex, creative and larger situations. In the UK, GE Commercial Finance helped finance HgCapital's acquisition of Boosey & Hawkes' music catalogue and was also part of a syndicate, led by GMAC and Burdale Financial, that arranged a £350m facility for Woolworths.

Jenkins believes that private equity firms are becoming more comfortable with using ABL to finance transactions: 'We have had criticisms in the past from the private equity community that ABL is more cumbersome in execution. They said that it's tougher to do a deal with ABL because

► What is Business Finance UK?

John Jenkins took up his current position three years ago as CEO of GE Commercial Finance, Business Finance. In that time, the business has grown its loan book from £550m to around £1bn, supporting 1,000 companies. It now employs 200 people operating out of offices in Reigate, London, Bristol, Birmingham and Sale.

Business Finance UK itself has four segments. The Small Business division focuses on the smaller end of the SME market, with typical exposure of £100,000-£150,000, and handles the majority of the companies in the loan portfolio. The SME group supports business at the next level up, with turnover of £2m-£20m and credit lines are between £500,000 and £2m. The Mid-Market group sits above that and manages clients with exposures of £2m-£4m. Lastly comes the Corporate team, established three years ago to do the larger, cross-border deals for companies with revenues north of £100m. Deals in this segment tend to be more complex, including leveraged expansion plays, restructurings, refinancings and M&A.

Business Finance UK is a unit of GE Corporate Financial Services Europe, which has seven other operating units. GE Corporate Finance Bank SAS (France), Factofrance (France), GE Heller Bank (Germany), GE Artesia Bank (Netherlands) and Business Finance Italy all provide ABL solutions to SMEs. Working Capital Solutions and Trade Payables Services provide receivables and payments to other GE companies and multinationals. There is also GE Leveraged Finance Europe, which provides finance to private equity firms.

GE Corporate Financial Services Europe is part of GE Commercial Finance, a unit of GE Capital, which also includes Aviation Financial Services, Energy Financial Services, GE Money and Treasury.

GE Capital is itself a unit of General Electric, which has four other operating lines. Technology Infrastructure has four arms: Aviation, Enterprise Solutions, Healthcare and Transportation. Energy Infrastructure has three arms Energy, Oil & Gas, Water & Process Technologies. NBC Universal has five arms: Cable, Film, International, Network and Sports & Olympics. Consumer & Industrial has four arms: Appliances, Consumer Electronics, Electrical Distribution and Lighting.

It is a giant network of businesses employing 307,000 people and generating revenues of \$169.7bn in 2007. Forbes ranked it the 14th largest company in the world by revenues and the seventh excluding the oil and gas sector.

they don't know how much they will get until the last week or the last day. I think we've got round that by having stretch cash flow pieces attached to ABL structures. It takes some of the uncertainty away.' On some deals, the flex piece has been 30%-40% of the structure.

Cross-border challenges

With business and M&A increasingly international, cross-border transactions are a growth area. 'They are complex deals. You have to deal with different jurisdictions

and know whether you can get security over certain types of asset, how friendly a particular country is to lenders, and so on. For example, in Germany you have to buy debtors without recourse, meaning that if there is a dispute you have no recourse back to the seller, other than what they warrant on the day you buy. In the UK, there is an implicit right to sell them back if they are found to be in dispute, if there are returns or if the ultimate customer fails. But we're getting our heads around the issues.'

An example of the increasingly complex transactions that are possible came in July 2007, when GE Commercial Finance acted as sole arranger on €170m of facilities for a group of European subsidiaries of Dana Corporation, the US automotive supplier that was in Chapter 11. The structure put in place a five-year multi-currency facility secured by the receivables generated across 12 operating units in Belgium, France, Italy, Germany, Austria and Spain.

'It is a kind of securitisation in that the business hives up all of its receivables and puts them into a special purpose entity and we then provide a loan to that entity,' explains Jenkins. 'But it's not really a securitisation because we don't distribute it. It's really more a loan to a debtor pool. Because it was multi-jurisdictional, the only other alternative would have been to have lots of small facilities, which is not what the client wanted.'

All change

Jenkins believes the new year could prove a boon time for ABL and for GE Commercial Finance in particular. 'We're in an unprecedented liquidity crisis that looks like it's a precursor to an economic recession, so it's tough to say how much we will have available to lend. But GE has always been a prudent lender and we will continue to be a prudent lender.'

'It's going to be fascinating. The Icelandics have been very aggressive and have used the product well. And some of the UK banks that have been using the product effectively - Lloyds TSB and HBOS, for example - have other things that are perhaps occupying their minds.'

'I think everyone will have a desire to be aggressive because it is a very good solution set in this environment, but it will depend on who has capital.'

Grant Murgatroyd is editor of *Corporate Financier*.

"This is the first time in 20 years where there is more new business than you can deal with"

John Jenkins, GE Commercial Finance



Blazing a trail

Resolution grew its business through a succession of mergers and acquisitions, before being bought by rival Pearl. Charles Garthwaite shares the lessons of a stream of transactions with **Brian Bollen**

In troubled times, the value of experience comes to the fore. Since the early 2000s, Charles Garthwaite has been involved in a series of transactions in the insurance and pensions industry, gaining an awareness of the challenges and opportunities that acquisitions and integrations can present, and hands-on experience of avoiding, anticipating and solving problems.

A chartered accountant by training and trade, Garthwaite's CV features a prolonged spell in what he describes as the 'distressed life and pensions business', first as part of the Equitable Life rescue team in 2002-03, and then with Britannic, which he joined in mid-2003 to support CEO Paul Thompson's efforts to turn the company around.

A role that began with a risk management foundation quickly extended to include corporate finance projects, M&A, corporate reorganisation and outsourcing. Britannic pursued a strategy of consolidating the closed fund business with the £110m purchase of Allianz's Cornhill business in December 2004, followed by the £45m acquisition of Century Life in April 2005. Hardly had the ink dried on the Century deal than Britannic was completing a £2.3bn

merger with Resolution, established by Clive Cowdery in 2003. Garthwaite was part of the due diligence and transaction team on that merger, which completed in June 2005. The Britannic/Resolution merger was largely a reaction to the £1bn acquisition of Pearl by Sun Capital/TDR in December 2004: 'The view was that a merger would provide a full FTSE 100 listing and the larger new company would have the scale and financial and management capability to take on bigger transactions and beat off the opposition in the closed funds space,' says Garthwaite. The acquisition team was soon in action again, agreeing the £3.6bn purchase of Abbey National's retail life and pensions business in June 2006. The team then turned its attention to a merger with Friends Provident. The deal was aborted after Pearl used contracts for differences to build up a blocking stake in Resolution.

Subsequent negotiations with Standard Life in turn sparked off a bidding war for Resolution. 'My role by then could be likened to manning the ramparts, looking on while two armies fought over us,' says Garthwaite. Pearl eventually acquired Resolution for £5bn in May 2008, financed by borrowing by Sun Capital and its private equity partner TDR. Garthwaite supported the incoming Pearl management team with the post-acquisition integration planning until August 2008 and is now examining new opportunities in the financial services sector.

Everything has a value

The lessons learnt about what to do and, more importantly, what not to do, are varied and instructive. 'Looking back at the pre-acquisition stages, the first key lesson is that everything has a value. In the excitement of a fast-moving deal, it can be easy to lose sight of that fact,' says Garthwaite. He cites Britannic's Century Life acquisition in 2005, where the servicing of the life book had been outsourced to Liberata and the terms of the contract led to very difficult negotiations: 'We inherited a contract that was unusually

remunerative to Liberata and unusually loose in terms of outsourcing delivery by prevailing trends today. The FSA certainly wouldn't approve of such an arrangement now.

'As I negotiated with Liberata on this inherited position, I was focused on getting the change we needed when we had few bargaining chips. The challenge was to identify all the issues from Liberata's perspective and spot additional negotiating points. In the event, we secured the changes to the contract we needed without a material value impact, but the experience on this relatively small renegotiation was to prove invaluable in subsequent transactions.'

Two sides to the story

The primary lesson is that anyone who is doing a deal needs not only to pay attention to detail, but also to do so from the other side's perspective. A second lesson is that a small team in which every member is multitasking may not be the best solution. Resolution would come to benefit from the establishment of an almost completely separate M&A team to make sure integration could take place swiftly and smoothly.

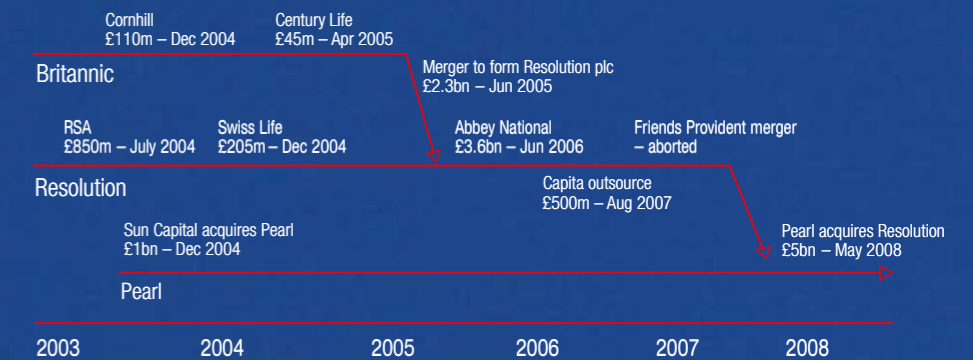
'Britannic was unusual in the scale of major projects and deals we were doing and the timescale they were being delivered in,' he adds. 'When you are in rapid deal-making mode, having a focused M&A team is very important. You don't want people being whisked off to resolve operational issues when they should be focused on the deal.'

Entering early dialogue with the FSA is something Garthwaite recommends: 'They can have a significant influence on transactions, putting very onerous conditions on them, which can have clear implications for the value of what you're trying to buy. Deal-makers who ignore the regulatory authority do so at their peril. For example, on the Abbey National deal we set out very clearly for the FSA how we would organise, manage and control the new business.'

The central role that advisers have to play before, during and after a deal is something Garthwaite readily acknowledges. 'In most deals we did, and in others we looked at but decided against, their role was critical. If you only have a small in-house team, you can only have so much professionalism and experience on that team. The advice and support of experienced professionals, especially when you are dealing with listed companies, is vital.'

Garthwaite highlights the importance of the natural chemistry between the in-house team and its external advisers. He recalls the loss of three days' preparation time in a tight timescale when he and an advisory firm lead disagreed on the collation of information to assess potential liabilities: 'He did what

Transaction timeline



"In rapid deal-making mode, having a focused M&A team is very important"

Charles Garthwaite

he wanted, not what I wanted. That was a very worrying moment as I didn't have the answers I needed to enter into principal discussions on value. I managed to resolve it by putting in an enormous amount of work in a very short time, assisted by his very practical number two. I assumed the lead would do a good job, but never again.'

Effective communication

Garthwaite emphasises the necessity for early post-acquisition integration planning and communication. 'It should be a core element of the pre-acquisition work. Getting clarity on management structures, organisation design and the way of working and then communicating that clearly with all stakeholders as soon as possible is very powerful. At deal announcement, we made sure that as much attention was paid to internal communications with our existing staff and those staff we were acquiring as we did to City and press communications. By deal completion, we would have a detailed 100-day integration plan - which was always

more than 100 days - and we'd ensure our management and the target management and staff understood this.'

What not to do? One piece of advice will sound familiar to *Hitchhiker's Guide to the Galaxy* fans: 'Don't panic!' Too often, individuals succumb to the pressures and start missing key points. 'Don't get distracted by problems and changes of tactics that don't affect what you're doing,' he advises. 'You'll end up not adding anything to the final deal.'

A final word of advice centres on process and documentation. 'You need to have a clear list in your head and in writing of what you expect in transaction negotiations, and to know your own value points and the other side's value points. It is vital to keep a clear record of what you have found in your investigations of the target and the value implications. Having a well-structured transaction and due diligence process is very powerful in forcing this behaviour.'

Brian Bollen is contributing editor on *Corporate Financier*.

The Corporate Development Forum

The story of Britannic/Resolution, a closed fund life insurance business, which grew by acquisition and merger before a £5bn sale to rival Pearl, is one that highlights many important elements of successful M&A strategies. From target identification to internal communications, documentation and operating in a tightly regulated environment, financial services deals bring their own challenges.

Charles Garthwaite, who joined Britannic in 2003 and worked closely with Britannic CEO Paul Thompson and Resolution founder Clive Cowdery on a series of transformational deals until the sale to Pearl in May

2008, shared some of the lessons with fellow M&A professionals at the fifth meeting of the Corporate Finance Faculty's Corporate Development Forum.

The Corporate Development Forum is an exclusive group for M&A and finance directors from business, hosted by the faculty. The informal, off-the-record format encourages open and frank debate among like-minded professionals. If you would like to come to the next Corporate Development Forum or want to find out more about these events, please contact **Thomas Stewart** on +44 (0)20 7920 8659 or email thomas.stewart@icaew.com.

SPRINGBOARD

Quality control

An effective appraisals process is essential for success in corporate finance



The reputations of corporate finance advisory firms, accountants, lawyers, investment banks and private equity houses live or die by the performance of their staff. As people businesses, appraisals make up the quality control process and serve to protect that reputation. This mission critical process has become more sophisticated over the years, as businesses have moved away from systems that constituted form-filling exercises.

'The appraisal process has adapted a lot in the 14 years I have been in the profession,' says Carol MacKinnon, corporate finance talent partner at Deloitte. 'The generation we see now want feedback and are used to it. The trend is for bespoke appraisal systems, so that it becomes completely relevant to what people do. For instance, we launched a new SAP HR web portal system two months ago, and transaction support is adapting the system to meet the needs of its business.'

Performance appraisal is essentially an opportunity for individuals and those concerned with their performance, not just line managers, but also senior partners or directors, to engage in a dialogue about the individual's performance, development and the support required from the firm. But the assignment-based nature of corporate finance work performance is continuously assessed on a less formal, but no less important, basis.

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➤ Key elements of appraisals

- **Measurement** – assessing performance against agreed targets and objectives.
- **Feedback** – providing information to the individual on their performance and progress.
- **Positive reinforcement** – emphasising what has been done well and making only constructive criticism about what might be improved.
- **Exchange of views** – a frank exchange of views about what has happened, how appraisees can improve their performance, the support they need from their managers to achieve this and their aspirations for their future career.
- **Agreement** – coming to an understanding by all parties about what needs to be done to improve performance generally and overcome any issues raised in the course of the discussion.

No stone left unturned

'We do annual appraisals on everyone in the business,' says Michael Reeves of Clearwater Corporate Finance. 'The advantage of an organisation like ours with 53 members of staff is that you do tend to know everyone. We try and encourage people to work for different partners and we take as many views from around the business as possible on an individual.'

Obtaining the input of as many people as possible is the logic of 360-degree feedback as an appraisal technique, which has been steadily growing in popularity in recent years. Usually between eight and 10 people fill in questionnaires describing the individual's performance, and often the individual assesses their own performance by completing a questionnaire too. Ideally, the whole process is anonymous and the feedback presented to the recipient by a skilled coach. Personnel business YSC, which provides leadership assessments of staff and counts Deloitte, Freshfields, HSBC and 3i among its clients, takes things a stage further. In some cases, it asks the appraisee to nominate friends to assess the character of the individual.

'In our appraisal system, a scorecard is completed every six months and feedback is taken when a job is completed from the people you have worked for, be it other departments and/or direct bosses,' says Matt Eves, head of Target Corporate Finance. 'But on jobs of any size, we have a process of getting direct feedback on individuals both during and after the process. That is important because if you leave it until after then you cannot correct anything on the job. It wouldn't be a dynamic management process. We recently did a £7m MBO and we took feedback on the team from HSBC, the client and Osborne Clarke.'

As well as having an open exchange of views, a good appraisal system will result in clearly understood objectives, which, among other things, will address training needs.

'It is all about the conversations around the process, but the process makes people formulate their views in a more organised manner. In corporate finance, a lot of the job is about the softer skills – talking to people, managing processes and getting the most out of people, both clients and our own people,' says Reeves. ■

Badge of Honour

Acuity Capital engaged Tenon to carry out an urgent review of ice cream manufacturer Hill Station. Peter Vandervelde, head of Tenon Transaction Services, explains they were able to do more than a traditional financial review.



What is your chosen deal?

In September, Acuity Capital contacted us to say that Hill Station, whom it had invested in, was struggling and it was considering putting more cash into the business. Its turnover had fallen from £14m to £10m and the situation was becoming pretty tight. Acuity asked us to review and confirm the financial model at short notice and report back in a few days, because the business was coming under increasing financial pressure.

What was special about it from your point of view?

The initial scope discussed was a straightforward financial review, and a risk-averse approach focusing on a narrow financial brief could have resulted in a poor decision being made. Instead, we identified that commercial due diligence and, in particular, customer referencing should be included in the scope. Acuity agreed that this was the right approach and without it the key issues would not have been uncovered or resolved.

What were the key issues uncovered?

The key issue did not specifically arise from the financial review – that was just half the story. What we needed to do was find out exactly what the customers were saying, which was particularly important as Hill Station was selling into the large grocery multiples.

In any business where turnover is concentrated with key customers, you need some assurance over those customers' future intentions before you make an investment. We were able to identify certain adverse information from one customer in particular that was critical to the assessment of the medium-term forecasts. But we made constructive and positive assessments based upon our work, which underpinned the basis of a proposal for an alternative funding strategy.

What was the resulting strategy for Acuity Capital?

Acuity decided they would not get a sufficient return on any further investment and so decided not to put in any more cash – either the business went into liquidation or another solution was found. Here, Tenon Recovery worked with the company on an accelerated sale process, offering the business in the marketplace while simultaneously discussing

a possible sale to the management, who were interested in buying it.

Gareth Roberts, a director in Tenon Recovery, acted as administrator and successfully disposed of the business to a management team, which will allow the business to grow and flourish.

As a result, various stakeholders potentially stand to get something back rather than nothing. The deal has allowed the business to survive, with

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Peter Vandervelde

70 jobs being saved. Our early action resulted in the deal being done quickly, ensuring certain stakeholders got value, as well as maintaining continuity of trading.

What was tough about the deal?

The restricted time you had to get to the answers needed for the parties to respond quickly, which is also about making sure you ask the right questions. The key to that was ensuring we had senior people with deep experience to provide the flexibility of thinking and speedy response.

What lessons can be learnt from the deal?

I think in the current climate there will be many more of these types of deals. Indeed, we have done another more recently where the deadline was even tighter. The key thing is to use the right senior staff and then have flexibility and innovation in your thinking. This is far broader than simple due diligence. It is really understanding the key things the client wants and being able to get to the right solution under pressure.

The other lesson is that the traditional transaction services product is a report with lots of caveats. But in this situation, it was far less about a report, but about what you really think and what is your advice.

Moving on

The effects of globalisation and the creation of new centres for capital and commerce have been brought into sharp focus by the results of a survey by Mercer, the international provider of consulting, outsourcing and investment services. In the past three years, the number of expatriate employees has increased by almost 90%.

Mercer's 2008/2009 Benefits Survey for Expatriates and Globally Mobile Employees is a comprehensive research into the expatriate policies of 243 multinational companies worldwide. It found there were more than 94,000 expatriates, compared with 50,000 in 2005/06.

'The growth has been driven by companies' desire to be globally competitive. To successfully launch new ventures abroad and gain advantage over competitors, companies generally bring in their own experts from other locations to lead projects on a short-term basis, rather than rely on local talent,' said Robert Lockley of Mercer. 'Increasingly, these people are corporate global nomads, seasoned professionals who move from project to project within the same multinational company. They bring solid experience in transferring knowledge, and a consistent approach.'

Of the companies surveyed, 47% said they had increased the deployment of traditional expatriates (employees on assignments of between one and five years' duration) and 38% reported an increase in global nomads (employees who continuously move from country to country on multiple assignments).

The bulk of companies taking part in the survey (86%) viewed benefit provision for expatriate employees a medium or high business priority, although 26% admitted to having no overarching policy. 'Establishing an international policy is essential to stay competitive, maintain geographical consistency and control costs,' says Lockley. 'Even against a backdrop of economic uncertainty, there is still competition for the best talent.'

International retirement plans are key to making sure expatriates' pension benefits are not hindered by compliance problems in their home country. Almost three quarters of companies with an international plan restrict eligibility to certain expatriates who cannot be kept in the home or host plan. ■



COMPANY NEWS



Fox-Davies secures US licence

The US subsidiary of Fox-Davies Capital (FDC USA) has become a member of the Financial Industry Regulatory Authority (FINRA). The membership enhances FDC USA's international placing capability, allowing it to place deals directly to investors in the US.

'The North American capital pool is one of the largest in the world, providing vast amounts of capital to quality companies in the resources sector to help them build their businesses,' said Daniel Fox-Davies (pictured), chief executive officer of FDC. 'FDC traditionally has strong links into Europe and the FSU, and the newly granted US licence, combined with the recently granted Canadian licence, now provide FDC with access to the major resource investors in the northern hemisphere.'

Two new partners at Aaronite

Restructuring and corporate turnaround specialist Aaronite Partners has recruited Sean Sullivan and Jeremy Jensen as partners. Sullivan has been involved in major public sector turnaround savings programmes for the NHS and has provided evidence to the House of Commons Select Committee on NHS finances. He has also completed a number of international assignments at CEO level. 'With declining volumes and income, many market sectors are experiencing pressure on profitability and cash,' said Sullivan. 'Now is the right time to call in the company doctors.'

Jensen joined Aaronite from Cable & Wireless, where he was on the board of C&W Europe, UK, America and Asia, as interim CEO and CFO between 2005 and 2007. He worked on the turnaround of the business, which secured financial stability and integrated the acquisition of Energis.

Valuers form alliance to challenge Big Four

Property and asset valuation consultants Edward Symmons and actuaries and consultants Lane Clark & Peacock (LCP) have formed a strategic alliance to challenge the Big Four accountancy firms in providing valuation advice for purchase price allocations on acquisitions. In July 2009, IFRS 3 (Revised) comes into effect, which will require the allocation of part of the purchase price of an acquisition to the fair values of the underlying assets, liabilities and contingent liabilities acquired. 'It is our belief that acquisitive companies and their investors in the current market need to be more careful than at any time in the last decade as to how they analyse the fair value of acquisitions,' said Edward Symmons partner Bernard Stirzaker.

'We decided that it made sense to form an allegiance – that LCP would deal with intangible assets and we would deal with tangibles. We are talking to our three major corporate clients. The market is dominated by the Big Four as it is easy to pass this work on to their accountants who are providing other advice on the deal. 'We see our expertise as valuers and not as accountants. We have worked in over 60 countries and dealt with facilities as diverse as the Sydney Opera House and the North Peruvian pipeline. So we have a wide experience of a whole range of industries. All the big accountancy firms have offices around the world, but they don't do valuations all around the world.'

Tenon eyes fund management

Tenon Group, the AIM-listed accountancy firm, has launched Tenon Capital Management (TenonCap), a fund management business that is aiming to raise a first fund of between £15m and £20m. The fund will target investments in distressed businesses with turnovers of between £5m and £30m.

Tenon Group will commit £1.5m as a cornerstone investor intends to commit £1.5m and the directors of TenonCap will invest up to £250,000. TenonCap will invest in companies where it has identified exit routes through trade sale or secondary sale, MBO, MBI or IPO.

The members of the TenonCap investment committee are Matthew Bowker (pictured), Andrew Raynor, Carl Jackson and Mark Lucas, who have a wide range of banking, financial intermediary and insolvency practitioner connections.

'Having seen several economic downturns, we are greatly aware of the opportunities they can produce,' said Matthew Bowker, chief executive officer of TenonCap.



Pinsents partner hire

International law firm Pinsent Masons has appointed Gregg Davison as partner in its UK private equity team. Davison, who was lawyer of the year at the 2007 North West Business Insider Awards, will be based in Manchester and joins from Hammonds, where he was a partner. He will work nationally but will have a particular focus on the North West.

Mancunian candidate at BPE

Steven Whitehead has joined Barclays Private Equity (BPE) as investment manager in its Manchester team. He moves from Altium Capital, where he was an assistant director in the corporate finance department, with a particular focus on support services and consumer and travel.

BPE director John Walker, who heads up the Manchester team, said: 'People are our most important asset and we are always looking to build our reputation through our staff. We believe Steven will be able to add invaluable support to our current investments, such as ATP International, Zenith Vehicle Contracts and AFI-Uplift.'

Gatehouse bags Shariah chief

Mufti Muhammad Nurullah Shikder has joined the senior management team of Gatehouse Bank, the UK-based Shariah-compliant investment bank, as head of Shariah advisory and Shariah compliance. Shikder joins after three and half years with Dubai Islamic Bank (DIB) in the Shariah coordination department, where he was involved in structuring sukuku, Islamic funds, Islamic syndications and other corporate and retail products. He also sits on the Shariah boards of Lloyds TSB, Albuqaq of Arab Banking Corporation and Scottish Widows Investment Partnership.

New director for Arcapita

Arcapita Bank, the Bahrain-based international investment firm, has appointed John O'Donohue director of Arcapita Ventures, based at the firm's London office. He was previously managing director of Motorola Ventures, Motorola's venture capital investment arm, where he made more than 20 international investments. O'Donohue has more than 20 years' operational and strategic experience in telecoms and technology.

Baker Tilly recruits M&A expert

Adam Fraser-Harris has joined Baker Tilly as M&A director in its southern region. He will focus on the central southern area of the region, splitting his time between the Guildford and Basingstoke offices. Fraser-Harris's most recent role was as finance director of Yellowfin, a Southampton-based powerboat manufacturer that he raised finance for in his previous role as founding partner of BC Capital. He previously worked for Charterhouse Securities and ING Barings.

'I have done a lot of listed company work, so it will be that experience I will bring to Baker Tilly,' said Fraser-Harris. 'In the current climate, I expect a big part of my remit on listed company work will be public-to-privates and working on non-core disposals for listed companies. Companies need to rationalise operations and get capital back into their businesses.'

Bryan Garnier bolsters European team

Boutique investment bank Bryan Garnier, which focuses on the European mid market and the TMT, healthcare, renewable energy and environment sectors, has bolstered its European team. Jean-Yves Coste (pictured), who will be based in Paris, has joined from SG Cowen as senior adviser for the healthcare practice. Before SG Cowen, he was head of M&A at pharmaceutical giant Boehringer Ingelheim and before that worked on M&A for Deutsche Bank. The bank has also appointed four senior analysts to its equity research team in London: Geoffroy de Carbonnières will head up the media research team; Martin Brunniger the healthcare research team; Deborah Aitken will cover HPC and luxury goods; with Annie Cheng covering biopharmaceutical companies. De Carbonnières joins from Credit Suisse, Brunniger and Cheng

from JP Morgan Cazenove and JP Morgan and Aitken from SG Warburg. 'We will continue to prospect senior talent, expanding our equity research and corporate finance capabilities in London,' said managing partner Bruno Tourme. 'As we are growing fast, it is a good time to attract some very good quality people. We are hiring in the areas which are important for us: healthcare, consumer, pharma, business services, renewables and technology. Like many companies in the current market, we are taking our opportunities. I think over the coming year we will see more strategic M&A and disposals of non-core assets,' he adds.



Close opens office in Switzerland

Corporate finance advisory firm Close Brothers has opened an office in Zurich and appointed a head of its Swiss operations. Jürg Glesti has joined as managing director for Switzerland from BNP Paribas, where he was a global relationship banker for mid-cap and large corporates. Before that, he was with KPMG for nine years, ultimately heading up its Swiss corporate finance division.

Close's Swiss operations are focused on mid-market companies in the advanced manufacturing, chemicals and consumer goods sectors. Stephen Aulsebrook, corporate finance division CEO, said: 'We see great opportunities in the Swiss market. When many other advisory firms are retracting, we believe this is a good time to be expanding our European presence to capture the opportunities that are emerging from today's unprecedented market conditions.'

Bowmark Capital expands team

Julian Masters (pictured) has joined mid-market private equity firm Bowmark Capital as partner and Tom Shelford has joined as investment director. Masters has more than nine years' private equity investment experience and joins from European Capital, where he was a founder member and director of the UK buyout team. He began his private equity career with PricewaterhouseCoopers' transaction services group. While at DLJ Merchant Banking, he worked on the buy-and-build of Gala Group. Shelford joins from Nomura Private Equity, where he was an associate focusing on mid-market investments in the UK business services sector.



Silverfleet boosts investment team

Johannes Huttunen has joined European mid-market private equity house Silverfleet Capital as an executive. Huttunen joins from European Capital, where he worked in buyouts in the UK mid market. The Finn previously worked in M&A at Deutsche Bank.

'Johannes's appointment caps a tremendous 12-month period for Silverfleet,' said Neil MacDougall, Silverfleet managing partner. 'Almost exactly one year ago, we undertook our buyout from our long-term parent, Prudential. Since then, we have completed two exceptionally successful exits, Jost and TMF. Despite the ongoing turmoil in financial markets, Silverfleet Capital's strong realisation track record and independence mean that we are ideally placed to make new investments in the coming months.'