Upside

DUFF & PHELPS

Valuation and Corporate Finance Advisors

Autumn 2014

Meet our New Team in the Republic of Ireland.

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Paul Clark

David Whitehouse

Welcome

2014 is sprinting toward a finish and we are pleased to share with you the autumn edition of Upside.

With economic indicators favoring the UK and our region over the rest of Europe, we expect the focus to be less on politics and more on economic recovery. Whilst Macro statistics show the UK is forging a strong recovery, the SME sector continues to struggle to fund growth with working capital liquidity hard to find.

Many of the main clearing banks have chosen to pursue debt portfolio sales to the alternative debt market to free up capital to redeploy in the UK SME markets. This creates an interesting dynamic where investment funds are deploying huge resources to exploit European debt purchase opportunities, but these funds are not constrained by the regulatory obligations of the vendor entities, nor are they as concerned in the same way with conduct risk issues, which have a major bearing on the risk behaviors of traditional regulated lenders. The net effect of this redeployment of capital resource is unknown, but many borrowers with weak LTV debt ratios are likely to experience a very different approach when they meet their new debt financier to agree facility extensions or renewals.

Also pointing toward recovery, in some respects, is the UK property market. Booming commercial property values and new construction are attracting global investors, but are also creating challenges for existing UK businesses whose customers' disposable incomes may be getting squeezed by the increase in real estate prices.

Within this edition, Andrew Stoneman describes the commercial property trends and their impact on particular SME sectors on pages 3-4.

We examine other challenges and opportunities for the aviation, recruitment and charity sectors in separate articles beginning on page 7.

We are pleased to welcome Jeremy Harrison as our guest contributor. Jeremy is the inaugural president of the Commercial Finance Association's European chapter, and, on page 12, explains why the future is bright for asset-based lending in the region.

We also take this opportunity to highlight what is happening at Duff & Phelps. Our biggest news this year is the expansion of our European Restructuring team. Duff & Phelps acquired the Restructuring and Insolvency Division of RSM Farrell Grant Sparks, located in the Republic of Ireland. The acquisition brought nearly 60 new restructuring, insolvency and property asset management professionals to Duff & Phelps, and grew our global Restructuring practice to more than 200 staff. We are thrilled to have the Irish team on board and include an introduction to our business in Ireland written by the leaders of the practice, Declan Taite, Pearse Farrell and Anne O'Dwyer.

Our London, Manchester, Birmingham and Leeds offices also provide an update with details on notable engagements, team promotions and other announcements within each office.

And to show that we, too, can move with the times, Paul Smith shares his top 5 tips for how we use LinkedIn.

We sincerely hope you enjoy this edition of Upside. Thank you for your continuing support, and as always, please contact us if we can assist with consulting and restructuring advice.

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Duff & Phelps
Expands into the Republic of Ireland

As you hopefully heard this summer, Duff & Phelps recently acquired the Restructuring and Insolvency Division of RSM Farrell Grant Sparks, located in the Republic of Ireland.

Our Division is recognised as one of the largest dedicated restructuring and insolvency teams operating in the Republic of Ireland. The team has a strong reputation for providing a broad array of high quality turnaround, corporate recovery and property asset management services to local, regional and global businesses throughout Ireland and internationally. The Division currently offers corporate restructuring, corporate insolvency, property asset management, forensic and asset tracing and personal restructuring services and has particular expertise in real estate, construction and development, hospitality and retail sectors, among others.

We are very pleased to be a part of the global restructuring practice at Duff & Phelps. We are confident that Duff & Phelps' broader resources and diversified capabilities will benefit many of our existing clients and, likewise, we believe that our technical expertise, strong local reputation and deep knowledge of the restructuring landscape will help Duff & Phelps grow throughout Ireland and internationally.

Our business has been on a significant growth trajectory since 2009 and currently has its highest number of staff ever. We now have nearly 60 team members and, as we roll out and evolve new service offerings in conjunction with our international colleagues, we would anticipate that this number will grow.

We've been fortunate over the past number of years to have worked on some of Ireland's largest and most complex corporate recovery and insolvency assignments. Our current and recent caseload includes Court Appointed Liquidators to Mount Carmel Hospital, Receiver to Bernard McNamara Group of Companies, Court appointed world wide receiver to certain Sean Quinn Family members, Liquidator to Ritz Carlton and Receiver to Capital Bars Group.

Our acquisition by Duff & Phelps is timely and opportune for a number of reasons — our business needed an international partner to fully capitalise on the market potential that we believe exists. There has been a significant volume of loan book and asset sales transacted in Ireland over the past 12-18 months, the majority of which have been acquired by U.S. funds and private equity firms. A number of the acquirers of these loans and assets are existing Duff & Phelps clients and we hope to leverage off these existing relationships to provide our three core service offerings, namely restructuring, insolvency and property asset management. One of the additional advantages of being part of Duff & Phelps' extensive international network is now having access to worldwide investors and capital markets. This will be of huge benefit as we anticipate that the restructuring side of the business will see significant growth over the coming months as the market evolves to informal workouts and refinancing, and away from the traditional corporate insolvencies and restructuring work.

Our business also includes a fully integrated property asset management capability with an aggregate portfolio of €1billion currently under management for various financial institutions, NAMA and private investors. The property asset management division has 10 staff and is led by Peter Coyne. The property asset management division also conducts independent advisory work for third parties (including banks and funds from overseas looking to acquire assets in Ireland) and seeks to develop relationships with acquirers of debt, with a view to providing advice and management services and local expertise on the Irish market.

We very much look forward to the weeks, months and years ahead as part of the Duff & Phelps family.

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Andrew Stoneman

UK Commercial Property: Challenge and Opportunity

From our office here at the Shard, London doesn't look like a city still taking the first tentative steps towards economic recovery.

Ours isn't the only iconic new building on the London skyline. The view from my desk is a roll-call of modern British architecture. From the Heron Tower to the Walkie-Talkie, the City of London is visual testament to growing confidence in our economic future.

The trend is continuing. Before those new buildings, the first thing you notice about the view is the number of cranes. Like its residential counterpart, London commercial property is booming and appetite to fund the new-builds is keen, especially from foreign investors.

The boom in construction is mirrored by returns for investors in commercial property. June proved to be a turning point in the sector, as the average value of commercial real estate climbed 1.6 per cent from the previous month – the highest monthly improvement since the recovery in commercial real estate began in May last year.[1] Total returns, which combine property values with rental income, were 2.1 per cent for the month, with rents having gained the most in almost eight years.

The climb in commercial property values was more modest in July, the most recent month for which figures are available, at 1.1 per cent, but this was still the second-highest rate of increase since the recovery in the sector began and the direction of travel is clear. Rental values have now risen for 12 continuous months, improving by more than one per cent for offices in the inner south east region between June and July alone.

But while the sector is booming from an investment perspective, growing real estate values – and especially higher rents - do not necessarily benefit the businesses that occupy UK commercial property.

For many firms that bought commercial real estate in the furtherance of their business activities before the 2007 crisis, rising property values now are simply too little too late, especially in the context of a probable hike in interest rates in the opening months of 2015.

While the figures quoted above are impressive, values fell by more than 30% from the 2007 peak before commercial property started to recover in 2013, leaving business purchasers of property – and the lenders that funded them — with a problem that in many cases has still not been resolved.

Businesses that borrowed to fund property acquisitions when valuations were unsustainably high in the years leading up to the financial crisis are struggling to service the debt associated with their purchases, a problem that will only worsen when rates eventually go up.

While the sector is booming from an investment perspective, growing real estate values — and especially higher rents — do not necessarily benefit the businesses that occupy UK commercial property.

1. All figures from Investment Property Databank Ltd

This of course is a problem for the UK banking sector, which continues to hold millions of direct property loans, many of them non-performing. In this respect the 2007 crisis remains alive and well for business and the banks alike. Indeed, Duff & Phelps has wide past and current experience of advising on debt sales, restructurings and administrations triggered by the hangover from pre-crisis lending and valuations.

Particularly vulnerable sectors include: retail chains with a large estate, which are already losing out to online retailers; care home operators; pub, restaurant and hotel chains; and other participants in the leisure sector, such as the operators of cinemas, bingo halls and bowling alleys.

Their vulnerability lies not just in the difficulty of servicing debts on overvalued assets — a problem that will worsen if rates go up — but also the squeeze in disposable income among firms' customer base that rising rates may bring, at just the time businesses will need revenues to stay strong in order to keep their heads above water amid rising fixed costs.

The banks have a problem too of course, in that they have large portfolios of property loans of varying quality, in terms of the borrowers' ability to pay. These are based on a range of assets, some easier to extract value from than others. Making a call on that latter point is a headache for which lenders have neither time nor resources. They could spend a lot of time delving into their portfolios, working out which are the best assets, foreclosing on the loans and working on a sale — based on a trade buyer, change of use or whatever is the most appropriate exit.

Their vulnerability lies not just in the difficulty of servicing debts on overvalued assets — a problem that will worsen if rates go up — but also the squeeze in disposable income among firms' customer base that rising rates may bring.

But banks and other lenders aren't set up to do this, and in the case of holders of large and varied portfolios, it would still leave the problem of assets from which an immediate exit would in all likelihood prove elusive. Securing a change of use exit might be an easy prospect if you own a UK warehouse; it would probably be a different matter if you are trying to offload a handful of pubs in the north-west.

Thankfully original lenders, hopeful when they wrote their cheques of a simple yield and full repayment, do not have to do this to obtain some value from their lending, and nor is their only other option to appoint an administrator.

Once lenders accept that portfolio values in stressed sectors are worth less than the associated debt, a new and simple option is open to them. A new generation of distressed funders, many of them U.S. funds backed by institutional money, is prepared to take on discounted loan portfolios.

This is of course not an act of charity – once they've become the lender they can effect a workout and extract value creditors don't have the time or expertise to identify — but it offers a solution that can work for both lenders and borrowers.

In many cases such funds will work with companies – and even invest more — to turn them around, but even when this is not possible they have the experience to find an exit that works for them.

Our experience suggests that some of the best opportunities currently concern loans made to companies with large property portfolios. Whether you are a lender keen to make an early and simple sale or a fund looking for assets, Duff & Phelps is perfectly positioned to match capital with risk.

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John Whitfield

Don’t Get Wet with an Umbrella Company

The Recruitment Sector has historically been a very attractive funding proposition for the ABL industry. The UK has grown to become home of the second largest recruitment sector in the world, with revenues of £26.5 billion in 2012/13.

Furthermore, it is expected to continue to grow in 2013/14 to exceed the pre-recession peak of £27 billion (source: The Recruitment and Employment Confederation, or “REC”). This continued growth reflects the desire of recruitment businesses to fine tune their resourcing strategies as demand returns to the economy and to give the work force greater flexibility. This is highlighted by the fact that four out of ten people in the UK say that they are considering temporary work in the future.

The sector also has the attraction of being relatively easy to fund from a practical view point. Transactions are fairly easy to monitor, there are weekly timesheets that can be verified by the ultimate debtor, and there are rarely any long term contracts in place as flexibility is attractive to the recruiting company.

Historically, growing sectors have tended to attract new entrants, and as a result we have seen a rise in the influence that Recruitment Process Outsourcing companies (“RPO”) have on the sector. De Poel is the largest purchaser of contingent labour in the UK, and boasts that it can reduce the labour costs of the end user’s agency by 6-12% as well as deliver other “quantifiable service efficiencies”. It is not difficult to see why RPOs are so attractive to end users of temporary labour and it can be assumed that the influence of RPOs will only increase in the future.

Yet, contracting with RPOs is a double-edged sword for temporary recruitment businesses. On the upside, the opportunity to work with an RPO can ensure that access to a wider market is achieved through one relationship. The most notable downside however, is an increased reliance on a smaller pool of customers and the margin erosion that results from RPOs striving to drive down the labour costs that will be incurred by their customers. They may also incorporate terms and conditions such that the agency only gets paid if and when the RPO gets paid. By doing so it subsequently increases the cash flow volatility of the agency and also increases the risk that liabilities may be incurred in circumstances where the end user does not pay. Therefore, for agencies to survive, they must strive to achieve economies of scale, reduce costs and become more creative.

Creative solutions are primarily provided to the sector by “umbrella” companies, which are dedicated staffing bureaus that provide payroll services to recruitment agencies. These umbrella companies act as an employer to agency workers and often exploit the IR35 wording on expenses. By deducting expenses such as travel, lunch, uniforms and secretarial costs from the “self-employed” worker’s pay, the liability for NI and tax can be reduced by 60% when compared to an individual who is performing the same job as an employed staff member. This means more pay for the “self-employed” worker whilst providing the agency with the ability to recoup some, if not the entire margin that was lost by contracting with RPOs. The added benefit to the recruitment agencies is a reduced administrative burden, as the timesheets would be handled by the umbrella companies together with employee and CRB checks. Further still, agencies can obtain a “smoother” cash flow, due to the input VAT that is included on the invoices from the umbrella companies, mitigating the quarterly VAT liabilities.

However, there are always potential associated downsides when working with umbrella companies. To protect against these risks the funder should:

- Require that agencies obtain confirmation that the relevant umbrella companies have approved dispensation from HMRC for their treatment of expenses;
- Ensure that agencies receive regular evidence that the employees are being paid as and when due;
- Approach the medical sector with caution, as there is an ongoing dispute between HMRC and the NHS regarding VAT; and
- Seek to avoid “off shore” umbrella companies that are seeking to exploit different VAT and PAYE rates, as these schemes are more likely to fall victim to HMRC rules.

As a significant creditor to most temporary recruitment agencies, HMRC take a very keen interest in the sector and can quickly take action to protect their position. Action from HMRC may include an insistence that the recruitment agency provide VAT or PAYE bonds, or seek to make the agency liable for any VAT or PAYE it does not collect from the umbrella company. These steps can significantly reduce the time available for the funder to take action to protect its exposure to a recruitment agency.

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Paul Smith

Top 5 LinkedIn Tips

LinkedIn is by the firm's own description the world's largest professional network. More than 300 million professionals globally are on LinkedIn, including more than 16 million people in the UK. LinkedIn has become an important tool to research firms and people you may do business with.

Over the past several months, Duff & Phelps has become more focused on the sales and marketing opportunities on LinkedIn. Many clients attended a training session that we hosted in our London office in Q1. We are by no means experts, but we have learned a fair bit this year and thought we would share some of the tips we received along the way.

1. **Pay attention to privacy settings on your individual profile.** You will want to, for example, think through whether you want all your connections to see an update when you connect with a potential prospect or begin a relationship with a potential new supplier. If you want to keep these types of activities private, you'll need to adjust your settings accordingly. Another privacy setting to consider is your profile visibility. You may want people outside your network to be able to see your full name, read your summary qualifications or review the detailed description of your experience. You can select which sections, if any, are visible to people beyond your first degree connections.

2. **Optimise your profile in the same way you would optimise your firm's website.** The more people visiting your individual profile, the better it is for your firm's brand. Key levers to increase traffic include:
   - **Your headline.** You have 120 characters to describe your specific expertise and value you provide your clients. The keywords in your headline help determine whether your profile is included in search results and a more descriptive headline helps your profile stand out on the search results page.
   - **Your skills.** LinkedIn automatically adds certain skills to your profile based upon your summary and experience. Often, LinkedIn gets it wrong. You'll want to edit your skills section to add keywords that your prospects most likely will search for. I recently discovered that "debt advisory" for example was missing from mine even though it is a core thing I do!
   - **Your summary.** Who has time to read an entire profile? Write a short description of the key problems you solve for clients in your summary and be specific about how you want prospective clients or suppliers to contact you.

3. **Align your business contact list with your LinkedIn connections.** An easy way we were able to get started was to import our contacts from our work email list and then selectively invite contacts. If you send personal messages, it takes a while to do this and we are still in the process of connecting with our clients. If you haven't connected with us yet on LinkedIn, expect an invitation soon!

4. **Stay in touch with your contacts by sharing company news, events or articles.** We definitely do not want to "spam" our contacts, but have tried to share our most interesting updates: for example, our recent expansion into the Republic of Ireland.

5. **Follow clients, competitors and service providers.** There is a lot of great information being shared on LinkedIn. We are reading the information our clients are sharing and even gaining a competitive edge by paying attention to other financial services providers. It is hard to imagine a type of business that wouldn't want to know what its clients and competitors are announcing.

To learn more about Duff & Phelps, visit our LinkedIn page at www.linkedin.com/company/duff-&-phelps or connect with me at uk.linkedin.com/in/paulsmithduffandphelps.

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Philip Duffy

Aviation and Aviation Engineering Strategies to Recover Assets

Year to date statistics show that manufacturing and engineering account for nearly a third of all administrations by industry sector in 2014. So on the face of it, lending to that sector is fraught with a higher than average risk. The subsector aviation and aviation engineering (AAE) is subject to this risk profile. Investors in this subsector should explore the nuances of the industry's risks.

AAE is a very specialised and highly compliant business, which is a relief given the number of flights we all go on these days. This degree of compliance can create better security for funders.

The locations, employees and processes of AAE businesses are approved by regulatory authorities (e.g. the Civil Aviation Authority) and the customers of these AAE businesses almost certainly will find it impossible to move suppliers at short notice.

In times of stress or distress this puts the AAE business in a better negotiation position as the customer will be very concerned about short-to-medium term continuity of supply. Without that continuity, the customer's business may well find itself being unable to produce its own finished product.

In cases where the AAE business has had to go into a formal insolvency (almost certainly an administration), the key to a better realisation of assets (and thus a better recovery for funders) is to enable the customers to receive short-to-medium term supply whilst ensuring that historic invoices are paid in full. These negotiations often involve requests for:

1. price increases in the short term;
2. customers to cover any trading losses; and
3. a payment per week just for continuity of supply.

This may not be well received by the customers, however they do come to realise they have nowhere else to go in the short-to-medium term and concede to the increased demands.

The downside is that this strategy can put an end to the long term prospects of a business as the customers may seek to move suppliers over the medium-to-long term due to the stress and often tough negotiations entered into by the administrator. Whilst funding an existing AAE business has risks that can be managed, funding an AEE business exiting from an administration process is likely to be more risky as customers will have almost certainly looked to resource their needs elsewhere.

A real life example of the ability to recover more than the face value of assets is below.

Company A supplies a regulated engineering product to Company B. Company B sells to Original Equipment Manufacturer OEM under a supply contract with delay and destruction consequences.

Company A enters administration. Administrators agree to supply Company B on the proviso that Company B pay its debts in full, ongoing supplies pro forma and pay a further £X per week as an opportunity cost.

Company B states it will pay 50% of £X per week. Administrator says actually it's now 200% £X as the administrator only negotiates upwards.

Company B refuses, but then subsequently agrees. Administrator says it's now 300% £X because of initial refusal.

Company B agrees.

Company B had nowhere to go and potentially had significant liabilities if it could not supply the OEM.

This strategy may result in the demise of the business as Company B may look for a new long term supplier, but this is always a significant risk whether or not price increases and upfront payments are sought by the administrator. Customers of highly regulated businesses would always seek to minimise any future risk of a supplier failure.

In summary, look at the product chain and determine who is most at-risk and how that can assist with obtaining a better degree of security.

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Cross-Border Considerations: High Yield Bonds and Tax Jurisdictions

One of the questions we get asked is what has been the impact of high yield bond markets in recent years.

The total value of high yield debt issued in Europe year to date already exceeds the €75 bn debt issued for the whole of 2013.

Corporates have been taking advantage of the liquidity available from alternative capital providers, chasing yield in a low interest rate environment, to refinance maturing bank debt from the weakened banking sector.

The advantage for corporates in seeking bond refinance over bank debt results from relaxed covenants available in the credit market. Bonds tend not to contain the financial maintenance typically seen in loan agreements and in addition the terms and structure of bond issuances tend not to be negotiated as vigorously as bank debt.

The consequence for restructuring professionals is that the much talked about 'wall of debt maturities' arising out of the prior cycle hasn't materialised yet.

On the other hand, the changes have created opportunities for investment bankers, lawyers and ultimately restructuring professionals. In taking out the banks while still satisfying the needs of corporates, high yield notes structures have evolved to include issuances at a senior secured level within the capital structure, including super senior secured revolving credit facilities.

Significant restructuring opportunities also arise out of the diverse nature of European legal jurisdictions. Corporate issuers are generally based in tax efficient jurisdictions, however the corporate's operating assets are generally elsewhere and often spread over multiple jurisdictions. This gives rise to a mix of laws governing the bond documentation, including intercreditor, security and loan documents. Another consideration is that in Europe, the majority of successful restructurings are negotiated consensually and out of court and implemented using the laws of the jurisdiction most effective at binding all creditors.

This has given rise to forum shopping, and in larger restructurings, it has become the norm with English Schemes of Arrangements and Chapter 11 the prevalent tools. The English courts have enabled Schemes of Arrangements to be a transaction friendly implementation tool in order to facilitate a restructuring, support the commercial intentions of the stakeholders and cram down dissenting creditors if needed. Examples where Chapter 11 have similarly been used include Truvo, CEDC and Lyondell Basel.

Indeed the flexibility of the English courts in accepting and expanding jurisdiction of the English schemes of arrangements has been welcomed by UK restructuring professionals and stakeholders alike. A recent example is Apcoa Parking (UK) Ltd & Others, where the English courts accepted jurisdiction to give effect to a scheme of arrangement, based simply on the change of governing law of the restructured debt from German to English law.

Financial stakeholders (particularly those based in New York and London) like established precedents, so despite changes and improvements in other European restructuring regimes, English Courts and Chapter 11 will remain key forums for the implementation of restructurings for European debtors.

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Steve Billot

The UK Voluntary Sector – Challenges in the Modern World

The UK voluntary sector comprises some 161,000 entities from small local charities raising money for their own purposes to international organisations looking to change the lives of many. The sector generates income of c£40bn, employs over 800,000 people, and has become an increasingly important part of society.

The last few years have seen the sector face many challenges including an increasing demand for its services as the economic recession started to bite. At the same time, the government announced that it intended to impose cuts and also to seek to gain further value for money from its spending — no bad thing — but a major shock for many charities.

The UK Government spent c£15bn on services delivered by charities in 2010/11. The cuts announced and implemented by 2011/12 amounted to c£1.4bn which has had a huge effect on the sector. Plus, there are further cuts of another £1bn due in the next few years. In these austere times, it is unlikely any future Government will be able to alter the direction of these cuts so the sector must become accustomed to lower funding levels.

Many Charities that historically relied on "grants" — effectively gifts from Government – now have a contract to deliver the services. If they fail to deliver, the contract can be removed and on its renewal a "commercial" organisation may compete with them for the contract. This is a further threat to Charities which are regulated and have defined "charitable purposes" that they cannot stray from. So many are not light on their feet and cannot change fast enough in an increasingly changing world.

The corporate governance of the sector is also not designed to make swift, decisive decision making easy. The Trustees have the "corporate" responsibility to ensure the entity is directed properly (and for un-incorporated charities the Trustees will be personally liable for any debts the charity incurs) but they may only ever meet three or four times a year, so how do they provide real oversight?

Trustees frequently act out of altruistic motives — wanting to give something back to society — and the employed and volunteer staff often work for low rewards as they also want to contribute.

The management teams in the middle are frequently the key to the effectiveness of the charity. Whilst many are highly skilled, unfortunately for the under-performing charity, the heart of the problem frequently lies with the management team.

This division between responsibility (the Trustees) and control (with management) is frequently a real source of tension and potential conflict. If management disagree with the Trustees' views they can ignore them and often the Trustees will not want to force through radical change in an organisation they do not "work in".

The Charity Commission has issued some excellent guidance on "managing financial difficulties and insolvency in charities (CC12)," which is worth reading. We have broad experience in the sector and are always available to assist if needed.

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Jeremy Harrison

Room for Everyone

Jeremy Harrison, inaugural president of the Commercial Finance Association's European chapter, explains why the future is bright for asset-based lending in the region.

Anyone active in European markets knows that there's a lag between being told something's going to happen and actually seeing the evidence.

Nowhere is this more true than in the bank lending market. We all know that corporate finance in Europe has, for many years, been dominated by long-term relationship lending. While borrowers in the U.S. have access to a wide variety of funding sources, from secured lending to the bond market, corporate Europe remains reliant on bank credit.

This, however, is finally changing. New capital requirements in the wake of the financial crisis are inhibiting banks' ability to lend on an unsecured basis and both they and borrowers are looking for alternatives. This is the background to January's launch of the CFA in Europe.

Asset-based lending — corporate finance secured on current assets such as accounts receivables and long-term assets like property and equipment — is of course nothing new here. We at Bank of America Business Capital in London have been doing it for 20 years, but the changing environment is now bringing other players to the table.

U.S. banks are leading the way, either through their regional operations or by following their domestic clients to new markets by lending to European subsidiaries, but European banks are also getting in on the act. Comparatively little cross-border financing goes on here but banks are increasingly willing to seek assets outside of their domestic markets, creating a ready-made membership base for an organisation like the CFA able to introduce them to new contacts and expertise throughout Europe.

Bank lenders are core to our growing membership but they are not the only constituents: law firms, debt advisory firms and even some institutional investors are likely to join the roster, as we have seen in the U.S.

New capital requirements in the wake of the financial crisis are inhibiting banks' ability to lend on an unsecured basis and both they and borrowers are looking for alternatives.

The benefits to capital providers of asset-based lending, and those of an organisation like the CFA, are clear, but the impetus is also coming from borrowers.

Some in Europe associate the market with distressed funders unable to source financing elsewhere, but we work with the biggest firms who have continuous access to the whole range of wholesale funding.

They actively seek out the asset-based market because of the flexibility and competitive pricing it offers. ABL financing can be used for acquisitions, working capital and returning cash to shareholders and, if the assets permit, it can be arranged with minimal or no covenants attached.

A product for lenders to the mid-market and above, ABL has a defined place in the capital structure. Hedge funds and private equity remain available with facilities such as second-lien loans for borrowers lacking the assets to borrow on a secured basis, and other lenders cater for those with smaller capital needs. The market works as part of a wide range of options in the changing European marketplace.

I urge any business with assets and a lending requirement to consider asset-based lending. The team at Duff & Phelps, the European branch of the CFA and my own team at Bank of America Merrill Lynch would be happy to discuss your options.

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Office Updates

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As we head into the last months of 2014, and whilst we are unable to reflect on our National sporting success, we are at least able to reflect on a busy summer in terms of work won.

In particular we have been engaged by a prominent distressed fund in relation to two significant debt sales. Ben Wiles and Paul Clark were appointed to Fantasy Island, a theme park and residential caravan park in Skegness, which they are currently trading.

Paul Clark, David Whitehouse and I have been appointed as Administrators to UK Group of Hotels Plc and its subsidiaries, a group of 21 hotels across the UK. Following an extensive stage of planning and operational change management, we sold the hotels to a new corporate structure via a pre-pack. Our Manchester colleagues were also engaged by a global private equity manager. Did you know that as a global firm we also advise over 2,500 hedge fund and private equity clients?

Our Debt Advisory and International Restructuring team have also seen more success since our last Upside issue. James and Mark have been mandated on a number of European and transatlantic matters, including the sale of U.S. arbitration awards, fund raising for several European companies, and advising an Italian financial institution on the sale of its non-performing loans.

Examples of our success with fund raising in the SME sector include securing equity and working capital investment for an electrical engineering firm working predominantly in the rail sector and securing equity investment for a leading UK manufacturer of fire safety products.

In terms of our team, I am pleased to announce that Owen Walker has been promoted to Director of our Business Consulting team, whilst Tim Smith has been promoted to Vice President in our trading team. I also would like to welcome our nine new placement trainees and congratulate Nicola Banham and her husband Dave on the birth of their son Harrison. Congratulations also go to Geoff and Lisa Bouchier on the birth of their twins Harrison and Harvey.

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Manchester

We are delighted to announce that David Fleming has been promoted to Managing Director with effect from 1 September 2014. David has been with us since January 2009, developing into a much valued team member and specialising in advisory assignments in Business Consulting for a growing number of clients in a wide range of industry sectors. We are hosting a number of client events to celebrate David's promotion, which we hope you will be able to attend. On the subject of promotions we are also pleased to announce that Mike Parsons has been promoted to Vice President in the Business Consulting team.

A warm welcome to our three graduate placements, Alex Houghton, Rhys Davies, and Richard Sanders who already seem to have got their feet under the table, although the Manchester "Veterans" Five, a side team advise me that the "Youngsters" were well and truly outclassed on the pitch recently — much improvement needed.

The Manchester office team of David Whitehouse, Steven Muncaster, Jimmy Saunders, Andrew Knowles, Elaine Yarwood, Steve Barry, Mala Patel, Pete Broadbent, Perry Higgins, Chris Sykes and Luke Berry were nominated in the category of "Business Rescue of the Year — £21 million plus turnover" at the Insolvency & Rescue Awards 2014. This is in relation to the Administration of Trigon Snacks Limited, which resulted in the rescue of a local well known business which had traded for over 40 years, a 100% debt collection and the generation of a trading profit of £750,000 during the Administration trading period. Congratulations for the nomination!

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Office Updates


John Whitfield


Keith Marshall

Birmingham

The Midlands economy continues to grow, albeit more slowly than we were expecting this time last year and this is continuing to result in a wide range of assignments for the Birmingham office.

Our Business Consulting team continues to be engaged in monitoring roles. These monitoring roles are more focused on businesses that are growing and requiring growth funding rather than businesses that are in a distressed situation. Layered on top of the ongoing financial monitoring is the requirement from lenders to identify potential exit strategies should problems arise. We have a wide experience in exploring and effecting exits for our clients in many of our engagements.

We have also been engaged in insolvency situations ranging from animal feed producers to a local television station.

BLTV Limited was awarded a local franchise licensing agreement by Ofcom with the intention to start broadcasting in November 2014. The company fell into administration in August and since that date, we have been in negotiation with various interested parties to assign the license to allow broadcasts to commence as close to the original November date as is possible. We are hoping to complete the assignment of the license in the near future.

We need to congratulate both Charlotte Crawford and Andrew Ritchie for continuing with their 100% pass rate in their professional exams and obviously wish them good luck for upcoming exams in the near future.

Finally, we are delighted to welcome Andrew Spencer to the Birmingham team. Andrew has joined us on a placement year from Bath University. Andrew replaces our placement student from last year, Ben Crowe, who returns to University. We wish Ben good luck in his final year and hope that he will join us when he has completed his degree.

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Leeds

The Leeds office is now well established and, despite challenging market conditions, we have seen a good flow of restructuring opportunities introduced from a wide range of our contact base.

Whilst formal insolvency appointments are tracking at 21% behind 2013 levels, locally we have seen an increasing appetite from mainstream banks and ABLs competing for new business. After five years of particularly low levels of new lending from, in particular, mainstream banks, this is good news for restructuring professionals. However, it is the early stages of lending recovery, so it remains to be seen when this will translate into higher volumes of restructuring work.

The Leeds office has developed a good market share in the region, most notably with the appointments on Galglass in South Yorkshire and Autobuy in the North East. Both assignments saw our team work closely with other Duff & Phelps offices to secure the appointments and also run the administrations together.

In addition to these high profile appointments we have undertaken a number of Business Consulting assignments on behalf of a range of lenders and some smaller formal appointments.

Whilst the market is quiet, the Leeds office has worked hard over the first 18 months to establish the Duff & Phelps brand. We are now well positioned to take full advantage when activity levels pick up.

This spring, we hosted our anniversary drinks reception, which was attended by over 150 people from across the region's business community. The quantity and quality of the guests at the event was testament to our ever increasing reputation.

Finally, we congratulate Perry Higgins on his recent promotion to Senior Associate which is well deserved!

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David Grier

Value Optimisation

We are all aware that the world of banking and finance has evolved almost beyond recognition in the last five years with the new landscape being forged by portfolio debt sale and the emergence of new lenders in both main stream banking and asset based lending.

New competition in this area, it is argued, is vital and good for business and businesses seeking to grow, develop or perhaps exit on value for shareholders. Countering this is the the feedback of many SMEs that securing working and or development capital is still a challenge. However, our analysis of this challenge often points back to the organisation where, following our involvement, we identified areas of development and gaps in the joined up thinking that cause the lending organisation's credit process to ask if this particular credit request is an acceptable risk.

Duff & Phelps' business consulting team has recognised for some time that for management teams to be successful, it's not always about the quantity of work, it's much more about the quality of action and implementation.

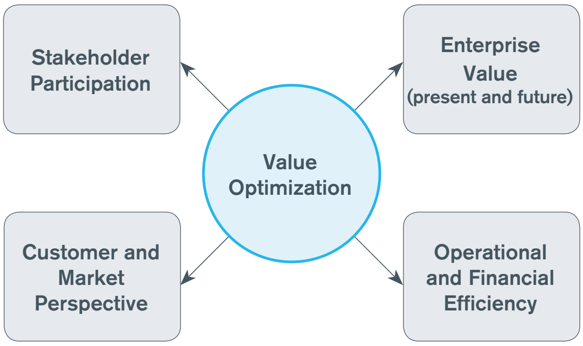
In recognising some of the criticism of the 1982 study by Peters and Waterman, which considered the traits of already successful companies as a guide to 'excellence', we believe that achieving long term commercial success and survival has much more to do with reducing value seepage and driving efficiencies.

Conveying this message and putting in place the framework to help drive value is not achieved in a couple of days, but over the longer term. We generally suggest that most organisations need external assistance to fully develop this integrated thinking. The starting point is to 'think with the end in mind'. Unfortunately for many SME this can be as short term as achieving the next quarter's revenue, but with some deeper thinking, a most holistic vision can be achieved.

Our suggested framework has at its core the aim of 'value optimisation'. To this central objective, there are four supporting structures that have individual actions and accountability, where long and short term goals include the mixture of quick wins and more challenging hurdles. This is as much about setting a future target for enterprise value as it is about maintaining short term cash flow and solvency required to meet the day to day operations and assure lenders and key stakeholders that management are fully in control.

There is no doubt that a number of similar frameworks exist, however the simplicity of this framework helps with its acceptance and ease of implementation;

Framework and Key Components for 'Value Optimisation'



Interestingly, we have yet to come across a situation where management does not have operational and financial efficiency as a top action point with plans in place to improve and deliver better performance; however we find that it's the implementation that can be easily side-lined through necessity and challenge of business.

That is why our approach is to concentrate on implementation and thereby help management deliver longer term sustainable value. We are always available to discuss a specific situation with you or your clients to determine how quickly we can add value.

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About Duff & Phelps

Duff & Phelps is the premier global valuation and corporate finance advisor with expertise in complex valuation, dispute consulting, M&A and restructuring. The firm's more than 1,000 employees serve a diverse range of clients from offices in North America, Europe and Asia.

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