Upside

Spring 2014

DUFF & PHELPS

Valuation and Corporate Finance Advisors

We proudly support the ABFA Annual Conference in Edinburgh this year

Welcome


Paul Clark


David Whitehouse

Spring has arrived: a time for new beginnings

Since the last edition of Upside, the team in London have settled in to their new home at The Shard.

With the new year upon us and spring having just arrived, we are pleased to share with you the current edition of Upside. Since the start of 2014, we have made some strategic Partner-level hires, adding depth to our existing teams in both London and in Leeds – and adding capability for large, complex and cross-border situations. You will hear directly from these new additions later in this publication.

As a whole, our Restructuring team continues to make strides in further integrating with the other services and experts from the wider Duff & Phelps business. As the premier global valuation and corporate finance advisor, Duff & Phelps offers us a platform to drive creative solutions and options for our clients, and to generate more opportunities for our introducer base.

In terms of client facing work, the teams have been active over the winter and into the new year with a number of new and challenging engagements. We are also pleased to celebrate the first anniversary of the Leeds office in May of this year, and you will learn more about new Partner Keith Marshall later in this publication.

The team remains committed to preserving value and jobs, through the strategic turnaround and restructure of businesses, including Trigon Snacks, Bosal, Dwell Retail Limited and WTB Trading Limited (formerly Burdens Limited). These cases help cement our presence in the UK mid market restructuring arena, although we do now have a significant global reach that can, if needed, provide access to strategic investors and restructuring expertise.

As always, we remain supporters of ABL and the factoring industry as an effective financing structure to support growth, turnaround or restructuring situations. We are delighted to once again support the ABFA Annual Conference this year in Edinburgh, and you can read our preview later in this publication.

On a more serious note, we remember the memory of our friend and colleague, Matt Bond, whom we lost tragically one year ago. His memory lives on in the Matthew Bond Memorial Shield – Cricket Sixes Tournament, which we will host once again later this summer at the Honourable Artillery Company.

In this edition of Upside, we have feature articles on the retail industry, care homes and the recruitment sector. New Partner Steve Billot provides an overview of the key issues facing the legal sector, and new Partner Keith Marshall offers his views on how businesses must use social media. Bob Bartell, Duff & Phelps' global leader of corporate finance, offers his views on the current deal environment and a wider view of opportunities and development by Duff & Phelps. Finally, new London-based Partners James Cook and Mark Skelton describe their background and views on what they will focus on, in regards to complex and cross-border situations.

It has now been two and a half years since we joined Duff & Phelps. Our senior management team remains just as focused as ever on adding client value. We are very proud of the Duff & Phelps business, and we believe the transition has been a great success, with much more to come. Thank you for your continuing support as always and if any of the team can assist with consulting and restructuring advice, please do not hesitate to get in touch. We sincerely hope you enjoy this edition of Upside.

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Keith Marshall

Le Tour: a unique opportunity for tourism businesses to boost their online image

Online rating sites such as TripAdvisor and social media platforms like Facebook and Twitter are a vital element of any hospitality business's marketing strategy. In Yorkshire and the South East, the Tour de France's arrival in early July provides an ideal opportunity for hotel, pub and resturant owners to ensure they take steps to maximise their online reputation and build a lasting business platform.

During early July, no B&B, hotel or restaurant within reasonable reach of the first three stages in Yorkshire and the South East will have any capacity – largely irrespective of any previous perceptions or feedback, due to the exceptional demand associated with this event.

But what happens once the Tour is over and the summer surge of seasonal holiday business has gone? People who experienced the offerings of Yorkshire or the South East first hand, or witnessed the Yorkshire scenery on television or online, will start to research where to spend their time and disposable income in the future.

Apart from a business's own website, the first place a travel consumer will usually seek out is TripAdvisor or other user generated review sites. If used effectively, they can be powerful – and free – marketing tools. The following 'easy wins' and social media best practices can help you to begin the conversation with your clients about how they can grow their business with relatively little effort:

1. Ensure that the travel business's website honestly reflects the experience that a customer will encounter. Test and quality control all links on a regular basis, particularly any online booking enquiry functionality. Owners must be in a position to respond promptly to all enquiries.

2. Determine whether live Twitter and Facebook customer comments should be displayed on the business's website. Posting these comments may enhance the value proposition, but be aware that they are entirely subjective and may pose a challenge. Even if a business doesn't have a Twitter account, customers can 'tag' a comment to a specific site or page. Some business owners prefer to monitor comments and respond to them, rather than run a live feed or stream of comments onto their public website.

3. Encourage business owners to honestly describe their unique proposition on social media and user generated review sites. A business with an authentic value proposition that includes guidance on the types of customers it seeks to attract will connect with the right audience.

4. Respond to feedback quickly and sincerely. On TripAdvisor for example, business owners can respond to any feedback via the 'management response tool'. TripAdvisor leads free Master Classes for businesses, so they can become better site users. Travel business owners or managers risk giving the impression that they do not care when they do not respond to feedback. The manner in which comments are addressed gives a lasting impression to potential customers.

5. Views and opinions written on the internet are usually permanent. A business should avoid writing something on a public website forum in response to customer feedback that it may regret the following day.

6. Business owners and managers should listen to the feedback and be honest with themselves. If there is negative feedback, is there common theme to the comments, and can it be positively addressed?

Keith Marshall joined Duff & Phelps in April 2014 as a Partner in the Leeds office. He is a Chartered Accountant and a Licensed Insolvency Practitioner.

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James Cook

Mark Skelton

Meet our new cross-border specialists

We are delighted to have joined Duff & Phelps during a period of investment and expansion of the firm's global reach and capabilities across the M&A, Valuation Advisory and Restructuring service lines.

Whilst this expansion continues, we should highlight that Duff & Phelps has a rich history as the largest independent valuation firm in the world. This positioning helps us provide a unique offering to the market, particularly in larger and more contentious restructurings, where this independence and objectivity can be called upon to assist parties reach consensus.

We were pleased to arrive at the firm with a running start, advising a junior note holder in respect of Punch Taverns plc's £2.4bn debt restructuring. This assignment remains active, whilst at the same time we are in the market and meeting as many of the firm's clients as possible.

We typically assist stakeholders, company or creditor side, of businesses with complex capital structures or a presence in multiple jurisdictions, advising clients on the challenges that these multi-faceted situations tend to bring. Our past assignments have taken us across the globe from the U.S., the Caribbean and Cayman Islands, the breadth of Europe and parts of Australasia.

European opportunities and challenges ahead

In recent years much has been made in the media and in industry circles of the impending European debt "maturity wall," but the likelihood is that it will continue to be dismantled brick by brick rather than topple over. However, the volume of debt that is due to mature this year and next is still significant. Although many situations will continue to receive the "amend and extend" treatment, it is difficult to see that this will be feasible in all cases.

We believe the market in 2014 will remain highly liquid and that companies will continue to leverage the benign conditions to refinance on relatively low interest rates and covenant-lite terms.

Many debtors have also tapped in to the high yield bond market, replacing bank debt as well as increasing leverage to pay shareholder dividends. Whilst this approach is fine for now, these over-leveraged businesses may be exposed as markets turn and interest rates move closer to the long term average.

We are also seeing more M&A solutions for restructurings, given the buoyant market, with asset disposals being a productive route out of trouble. We shall be working closely with our London M&A colleagues to identify and assist those companies that could benefit from our global network and contact base to find buyers for these assets at the best possible price.

On a similar theme, whilst European banks disposed of some distressed assets last year, there remains plenty of work to do. The ECB's Asset Quality Review programme, where provisioning and capital adequacy will come under the spotlight, is also expected to accelerate the process and may be a driver of restructuring activity this year.

We also expect that distressed situations will continue to be resolved either through out-of-court restructurings, or via UK Schemes of Arrangement or U.S. Chapter 11s, which are both flexible and reliable processes. Whilst some European jurisdictions have tried to improve their restructuring regimes over the last few years, they remain relatively untested and the likelihood is that stakeholders will stick to what they know.

James Cook and Mark Skelton joined Duff & Phelps at the start of 2014 as Partners in London. Their mandate is to expand the Restructuring team's expertise for large and international restructuring assignments.

Our past assignments have taken us across the globe from the U.S., the Caribbean and Cayman Islands, the breadth of Europe and parts of Australasia

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John Potts

ABFA Conference heads to the North

For 2014, ABFA have changed the timing of the annual Conference to early spring and have decided to head north and over the border to my home country (remember your passport). This year, more than 300 of us will descend on the inspiring capital and financial centre of Scotland – Edinburgh, or Auld Reekie as it was called in days gone by.

Edinburgh is a cosmopolitan city in an unforgettable setting, with the magnificent Edinburgh Castle dominating the skyline from most streets in the city centre and beyond.

Edinburgh has something for everyone literally – whatever the time of day! You can enjoy stunning views of the city and the surrounding region of East Lothian from the castle as it sits atop the volcanic Castle Rock. At the foot of the historic Royal Mile sits the Scottish Parliament, which has been open since 2004. Amongst the other attractions is the impressive Museum of Scotland, and the Royal Yacht Britannia is now permanently moored at Leith Docks.

For the shoppers amongst you, Harvey Nichols and Jenners – an Edinburgh establishment – are un-missable, along with the boutique shops along George Street, which cater for any taste!

Scotland is hosting the Commonwealth Games this summer, starting on 23rd July and running for 10 days. During the Games, the home nations will be competing against each other rather than with each other – and national rivalries will come to the fore, I am sure!

In September this year, registered voters in Scotland will have the opportunity to vote for Scottish independence in the referendum. This vote will be one of the most emotive referendums to occur in Scotland in hundreds of years. The question remains – will they vote 'Yes' and bring back the Scottish £1 note and make deep fried Mars Bars compulsory for everyone? Perhaps you might visit one of the many late night eateries and order yourself one?

As a city, Edinburgh is famous for its vibrant nightlife, busy bars, restaurants and nightclubs. Across from this year's ABFA hotel (the Sheraton Grand Hotel and Spa) is All Bar One (which may well become the unofficial conference bar?). Just a short walk from the hotel is the famous Grassmarket, a cobbled street sitting at the base of Castle Rock which is full of pubs/restaurants and independent shops. Another vibrant area is Rose Street, which runs parallel between Princess Street and George Street – it's a long narrow street full of bars and restaurants. I am sure you may well find one of my colleagues on one of these streets at some point over the conference. I will, of course, be tucked up in bed early on both nights!

The conference itself has attracted an excellent moderator for the day – Declan Curry. Declan is a regular contributor on business matters to both television and newspapers. The programme is full of several industry heavyweight (not literally) speakers who will draw on their many years of experience and gravitas to bring this conference to life and stimulate debate amongst peers and suppliers alike. The keynote speaker before the dinner is the former Chancellor of the Exchequer, Alistair Darling. At present, Mr. Darling is the official leader of the "No Vote" party for Scottish independence, so his views could be very interesting indeed (well… from a Scotsman's point of view anyway, who doesn't get a vote).

We at Duff & Phelps wish all the delegates, officials and speakers at the 2014 ABFA Conference in Edinburgh all the best. We hope that you are able to leave the conference with some new ideas to share with colleagues and, as always, it is a great opportunity to meet new and old acquaintances.

Slainte and och aye.

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Andy Stoneman

The care home sector: an industry on life support

Estimates suggest that the 75 and over age group will multiply three times from 5 million in 2011 (7.9% of total population) to 15 million by 2081 (17.0%). Given these dramatic figures on the UK's aging population, the notion of care homes as an industry in distress seems to be counter-intuitive. Why is this happening?

Whilst the total spend on personal social services has risen from £9.73bn in 2010/11 to £9.98bn in 2012/13, the amount spent on elderly care has fallen in actual and proportionate terms over that period – from £3.45bn (35.5%) to £3.19bn (32%). Local authorities have shifted budget into services for children, the disabled and mentally ill, leaving elderly care services with a significantly reduced portion of the personal social services allocation.

The impending crisis of care homes has been caused in no small part by the Local Authority freeze (or reduction) on baseline fees and the increasing efforts to avoid residential placements wherever possible, in response to the challenging budgetary constraints.

Privately funded service users are seen as the "holy grail" for many operators. Demand from this source is steadily growing with operators reporting greater profitability and operating margins, often ahead of inflation.

Accordingly, operators in regions that are highly exposed to Local Authority service users will continue to suffer from a greater degree of margin pressure than operators in more affluent areas with higher levels of private payers, e.g., South East England. Private service users are now being asked to pay rates with more sharp increases, such that it is beginning to amount to a "hidden tax" as they bear the brunt of the government's austerity measures.

Increases in operating costs through rises in the minimum wage and utility prices, significant regional differences in the property market and the inability for operators to raise finance remain significant factors in care homes' financial "health".

From a regulatory perspective, there are a number of changes on the horizon for the industry. The CQC's intention is that by March 2016, every care home will be rated as either Outstanding, Good, Requires Improvement or Adequate. The reintroduction of an overall rating for services would fill a clear gap in the provision of trusted information on the quality of individual care services, enhance choice for families and potentially increase performance.

Following the failure of Southern Cross in 2011, the government is pushing for new financial regulation for the "difficult to replace" larger care home providers. From 2015, it is proposed that the CQC will have the power to require regular financial information, make the provider submit a sustainability plan, commission an Independent Business Review and request information from the operator to help manage a company collapse. However, and critically, the CQC has indicated that it will not force compliance with the outcome of any such review.

If you need assistance with challenges in the care home sector, please contact me, as our team have a wealth of experience on all the pertinent issues.

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Benjamin Wiles

Recruitment: the wave following the storm

In 2011, we wrote about national unemployment levels remaining stubbornly around 2.4 million and the related margin pressure in the recruitment sector. The sector, facing challenges from competition, had experienced a downturn between 2008 and 2010 from £27bn to £19.7bn (REC Recruitment Industry Trends). The firms who were succeeding were doing so by reducing head count, diversifying their offerings and controlling cash flow.

Despite the bleak outlook at that time, our key message was that recruitment businesses that successfully adapted to the recession would be well positioned to benefit from the industry upturn. Now, as we enter the 2014/15 financial year, we ask which businesses have survived, is the industry in upturn and what are the new challenges facing the sector?

During the recession many businesses eased their working capital requirements by turning to invoice discounting facilities and other facilities to help fund growth. They also sought restructuring advice and reduced their fixed costs to counter falling income and lower margins.

On a positive note, UK recruitment sector turnover increased to £26.5bn in 2013 (3.1% growth since 2011/12) and growth is forecast at 7% per annum over the next three years.

Recruitment businesses that survived the downturn, or new entrants to the market, now face a new set of challenges. The priorities now include effectively managing their working capital, efficiently reporting and monitoring KPIs, and maintaining margins at a sustainable and profitable level.

So how must recruitment businesses prepare for and take advantage of the recent upturn?

Businesses need to be cautious of managing their fixed costs and protecting against the often "lumpy" permanent income streams. Further, as turnover increases and margins remain competitive, businesses risk over-trading, which is a shortfall in working capital due to the following issues:

- Insufficient working capital facility limits.
- Delays in converting profit into a cash surplus due to continued slow debtor collections.
- Insufficient gross margins.

As a result of working capital shortfalls, we have seen an increasing need for recruitment businesses to take on invoice discounting facilities to align cash flow with working capital requirements. However, these businesses need to ensure they maintain or obtain the appropriate funds in use limits and an advance rate that works with the margins achieved by the business. In order to do this, the three corners of the "funding triangle" need to be in balance, which include:

- New business is assessed on margin contribution and not simply top line sales growth.
- Appropriate credit controls are in place to ensure debtor collections are monitored and customers pay within appropriate terms.
- Supplier and customer payment terms are aligned with facility limits.

As recruitment businesses grow, they should seek the appropriate working capital advice to ensure that their optimism does not turn into distress, a lack of confidence from stakeholders and, ultimately, failure.

Recruitment businesses that successfully adapted to the recession are well positioned to benefit from the industry upturn

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Philip Duffy

Game over?

The Court of Appeal in the Game Station case (Jervis v Pillar Denton Ltd, re Game Station Limited [2014] EWCA Civ 180) has overturned the decisions in the often reported cases of Goldacre and Luminar, and reasserted the reasonable principle that administrators should pay for their use of another's property, but no more and no less.

General consensus amongst those in the restructuring profession is that the Goldacre/Luminar decisions were not "quite right" as it led to the risk that certain IPs would purposely file a notice of intention to appoint before a quarter day, and then appoint after a quarter day. This meant that a business could be traded in Administration for up to three months without paying rent. This would most often be used in a retail scenario, where the rent roll was a significant proportion of outgoings. This approach to rent did not seem right and those IPs who regularly employed this strategy may now be having sleepless nights.

We always seek to achieve a "play and pay" strategy whereby we agree with the landlord upon a daily amount payable, as we thought that the Goldacre/Luminar principles would be overturned.

But is the Game decision correct? Certainly, we consider it is on a "pay and play" strategy, but, under this decision, if rent has already been paid for a quarter then a daily amount is still payable by the company in administration – which is "double bubble" as the renowned retailer Del Boy would say.

The Game decision will have many implications upon future cases, such as:

- The case provides more fairness and certainty around rental (and other third party) liabilities.
- Administrators are less likely to take risks on trading marginal properties and more likely to abandon such properties immediately after their appointment rather than incurring any rental liability. This would put some landlords in a worse position than before, as well as reducing the goodwill of certain businesses, particularly retail as the footplate reduces more significantly than may have been under the previous decisions.
- Administrators and liquidators may need to revise estimated outcome statements and take into account liabilities now due for any unpaid "first quarter" rent. This is particularly relevant to funders who may be waiting for a repayment under its facility from the estate. Administrators may now have to negotiate and settle with landlords, which will take time and potentially reduce the amount available to such funders.

- Expect increased focus on what constitutes "beneficial possession" of a property. Storage of small amounts of goods or securing a site can all be considered "beneficial possession".
- Dilapidations and other consequences of use of a property will need to be carefully considered. Photographic schedules of condition may become more widespread immediately post-appointment.

However, we do believe the position is clearer and more equitable for all concerned. We also believe the decision will lead to the timing of appointments being on clearer grounds, rather than waiting for a rent payment date to pass in order to obtain an unequitable rent-free period.

There may be more developments related to this case, but, for the time being, we believe that a sensible decision has been reached and the unknown element of property costs in an administration has been largely removed.

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Steve Billot

Has the "perfect storm" become a hurricane for the legal service sector

The impact of the 2008 financial crash and the stagnation that followed, lead us to wonder if now the conditions are such that for hundreds, if not thousands of firms, the approaching hurricane is about to blow them away.

There are currently some 10,000 "entities" providing legal services in England and Wales, of which 85% are comprised of four partners and below. These may be sole traders, traditional partnerships, Legal Disciplinary Partnerships, Limited Liability Partnerships (LLPs) or Limited companies and now we can have one of these but operating as an Alternative Business Structure, bringing in non-lawyer owners for the first time.

In our experience, we see that partners now nearing retirement with no plans, or prospects, for succession, run many of the smaller firms.

As a whole, the sector faces a number of challenges:

- New business models, as a consequence of the Legal Services Act.
- Nervous lenders.
- Low interest rates, which mean that firms no longer earn material interest on their client accounts.
- Government requirements to reduce spending.
- Organisational changes in the Legal Aid Agency (LAA) and a slowdown in payments.
- Legislative changes reducing legal costs and fees on personal injury cases.
- Closer financial supervision from the Solicitors Regulatory Authority (SRA) and their requirement that firms are financially robust.
- A new regime for Professional Indemnity Insurance (PII) since the abolition of the Assigned Risks Pool (ARP).
- Proposed tax changes to impose higher financial risk obligations on Partners.

Many firms have become overly reliant on cheap debt to provide their working capital including paying tax bills and more recently even VAT debts.

To add to the existing woes, the government has turned its attention to the legal aid budget. From 1st April 2013 c. £320m of the budget for family divorce and other matters became "out of scope" and the government is looking to kerb the £1bn spend on criminal legal aid with cuts of £200m.

The LAA has also added to the legal aid firms' cash problems. It has slowed the historic payment profile period from four to six weeks to approximately eight to 10 weeks.

The Jackson reforms introduced in April 2013 were intended to reduce the number of low value Personal Injury (PI) claims which were seen as adversely effecting insurance premiums.

Finally, what happens as the economy recovers and firms get busier? Predominately, the firms are compensated in arrears – that is, after the work is completed – yet costs such as staff and premises are incurred up front. Therefore, there is a substantial working capital gap when business increases. This can be masked in the short term as staff who have not been busy work longer hours, but eventually the firm will need to recruit more staff.

This "overtrading" cycle is commonly the most dangerous part of any economic cycle. The legal sector will have to cope with this dynamic at a time when all the other factors mentioned above are also in play. Given these conditions, it isn't surprising that the sector is now seeing more stress including high profile failures and "merger mania."

It would be expected that this change would produce well-managed, efficient business models, delivering excellent client and consumer services. But the impending hurricane is likely to see an increasing number of firms fail before the fittest survive and go on to thrive.

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Bob Bartell

View from the top

Today's global economy is quite challenging, yet full of opportunities. The U.S. credit markets are wide open and banks are lending at levels not seen since 2007. Credit remains widely available for PE-backed firms, yet consumers find it challenging to qualify for home and automotive loans. The U.S. housing market also seems to be roaring back after a five-year slowdown, given the historically low interest rate environment.

With respect to the economic recovery, we see some areas of stress including political risks in Syria, the Ukraine, South China Sea and parts of South America. Western Europe is in the middle of a recovery and in the midst of an era of "austerity", which is hindering job growth in Ireland, Spain and Italy. China, the world's second largest GDP has slowed-down to single digit growth. The FX currency rates will greatly impact the competitiveness of the world's manufacturers. Ireland has appeared to stabilise, but still faces a glut of distressed real estate problems that have plagued investors and Irish banks.

We live in an interconnected global economy and today's businesses are looking for acquisitions outside of their home markets to diversify their operations, customer base and currency receipts. The Chinese have been very active in acquiring U.S. and Canadian businesses. The Brazilians have been actively seeking businesses in the U.S. and Western Europe. Even in the lower middle market, with transaction sizes less than $100m USD, cross-border M&A activity is robust as acquirers look to supercharge their revenue growth numbers given hyper competitive pressures which restrict firms globally from increasing their prices.

In summary, equity market valuations are lofty. PE firms are flush with capital that they must deploy. Corporates are looking for growth, since organic growth is challenging to sustain. Hence, we expect to see more trans-Atlantic M&A deals and more interest from Chinese buyers of Western assets. It is a great time to be a seller of a business. But buyers must beware as valuations are quite high given the competition for targets and cheap credit terms.

Duff & Phelps' corporate finance advisory specialises in M&A advisory, fairness opinions, financial restructuring, private placements and financial due diligence. Our corporate finance practice is global, with offices in North America, Europe and China.

Duff & Phelps performed well in the 2013 full year league tables, We ranked #1 ranking for U.S. fairness opinions and #2 ranking for global fairness opinions. In addition, our U.S. Financial Restructuring Practice ranked #4 in 2013, with 16 bankruptcy cases.

Over the past year, Duff & Phelps has made several strategic investments in our financial restructuring and M&A practices. In the UK, we have hired four senior level professionals. New managing directors in London include: Joel Hope-Bell and Henry Wells. David Lu and Margaret Mi have joined Duff & Phelps from Cowen & Company in China. Our Chinese team is focused on cross-border M&A and capital raising assignments involving Chinese-based companies. Our financial restructuring team has grown with the additions of Steve Billot, James Cook and Mark Skelton in London and Keith Marshall in Leeds. This allows us to serve our banking sector clients and win more debt advisory engagements with borrowers and PE-backed debtors.

We live in an interconnected global economy and today's businesses are looking for acquisitions outside of their home markets to diversify their operations, customer base and currency receipts

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Paul Smith

What are my funding options?

As the economy continues to recover, many businesses will need additional capital to grow, invest and to support new opportunities. The banks and ABLs are clearly supporting both existing and new clients, and the availability of debt is as good as I have seen since before the crisis began in 2008. This is clearly great news for UK business.

Whilst a business's existing funder will always be the first port of call, we are seeing an increasing number looking to other providers of funding who can work alongside the existing bank. It's not a case of "either or" but more about a joint solution.

The Business Growth Fund

The Business Growth Fund (BGF) was formed in 2011, and is funded and owned by Barclays, HSBC, Lloyds, RBS and Standard Chartered. Its aim is to provide growth capital of £2m to £10m for a minority stake of businesses with turnover of £5m to £100m. The maximum equity stake is 40%. BGF appears to provide "patient capital" with no forced exit, and the typical tenure of their investment is five to seven years.

To date, more than £250m has been invested in close to 50 UK small and medium-sized enterprises (SMEs). As well as providing access to funding, an additional benefit is the extensive network of support it provides, including access to NEDs and chairmen that can assist the businesses in their growth plans. It appears to be willing to support all sectors with businesses such as Barburitto, Boost Juice Bars and Better Bathrooms securing funding.

Enterprise Ventures

Enterprise Ventures provides finance for SMEs in England and Wales. It is one of the few funders specialising in meeting the needs of small businesses and provide both venture capital and loans.

Established 30 years ago, it began as part of a regeneration scheme to help grow Lancashire companies. It is now an independent company, wholly owned by its management team, with a national reputation for helping small businesses to develop and grow.

It invested £30m in 2013 – up £5m on the previous year and another record for the fund manager. The number of transactions rose from 167 to 211. The figures highlight its role as one of the UK's most active SME investors, and one of the few which regularly supports businesses with under £10m turnover.

FW Capital

FW Capital manages the £45m North West Fund for Loans Plus, which replaced the North West Fund for Business Loans. The fund is part of the £155m North West Fund targeted at businesses finding difficulty obtaining finance from traditional investors, such as banks. FW Capital can lend between £50,000 and £750,000 in a single round and can also provide follow-on rounds. To apply for a loan, a business must be based in the North West of England and employ fewer than 250 people.

FW also manages the North East Growth Plus Fund, providing single-round debt, mezzanine and equity investments between £350,000 and £1.25m for North East businesses. To be eligible, the business must be based in the North East of England and employ fewer than 250 people.

The good news is there are now many options for funding available. The challenge is that despite the level of investments made by the Business Growth Fund, Enterprise Ventures and FW, many SMEs are still unaware of their existence.

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Case Study

Matt Ingram

SO Events Group of Companies

In 2013, Duff & Phelps was engaged by the directors of a national events and exhibitions business – SO Events Group (SOEG) – to advise the directors on their options and responsibilities given a looming cash crisis. The severity of the situation extended to include a business and options review for the senior lender; financial forecast modelling; critical cash management; execution of an accelerated M&A (AMA) process; and to advise the board and the senior lender on options and implications.

SOEG comprised a number of businesses, under common ownership through acquisition, but had not successfully integrated them in terms of financial and operational reporting. Turnover exceeded £40m per annum and SOEG employed over 350 personnel. At an operational level, the group contracted with major exhibition organisers to provide infrastructure, facilities support and event management services for large exhibitor events.

Trading losses, and historical debt associated with its acquisitive strategy, had resulted in a challenging balance sheet. SOEG utilised an invoice discounting facility and overdraft resulting in circa £7m debt due to the senior lender. The group also had a mezzanine facility of circa £3m to a secondary lender and circa £3m in loan notes due to shareholders. Additionally, several million was owed to suppliers.

Initial forecasts indicated that without a significant working capital injection, SOEG faced the very real prospect of failure. In this scenario, asset realisations to creditors could be as low as £2m. Additionally, there was a risk of landlord actions and potentially high levels of claims.

Raising further debt was not feasible, and equity investment would not be possible as the on-going losses, negative balance sheet, and limited timeframe for due diligence meant that an investor could not be certain of the extent of financial commitment required nor the ability to make a return on any such investment.

A trade sale was identified as the most favourable option. The first step was to ensure that it survived long enough for a rescue to be implemented. The lack of financial integration across SOEG required our restructuring experts to extensively re-model the financial information available, in order to clarify the short term cash requirement. It had about four to six weeks before its existing facilities would be breached.

With improved visibility on the groups' balance sheet, the senior lender agreed to maintain existing working capital facilities, whilst a trade sale was explored through an AMA.

Our goal was to ensure that cash reserves were preserved, and that we could monitor the performance of SOEG against the short term forecasts. The action plan called for critical payments to be made, as importantly, it ensured suppliers critical to SOEG during the period would not be prejudiced.

Our experts identified potential buyers who would most likely perceive strategic value in this acquisition and they were approached, on a confidential basis. Sales memorandums were compiled, enabling our team, together with the board of directors, to ensure that negotiations progressed.

Several weeks later, a sale of the business, goodwill and assets, was closed, following extensive negotiations with a U.S.-headquartered industry leader. The acquirer secured a significant foothold in the European theatre, thus benefiting from this strategic add-on to its business.

The challenges facing the business were formidable – and it was clear to our restructuring team that a complex assignment was ahead – but the outcome was successful and rewarding for our clients and for the new owners of SOEG. The financial outcome was several million pounds improved on alternative scenarios, all employee jobs were preserved and supplier relationships were maintained with on-going agreements with the acquiring group.

Our experts identified potential buyers who would most likely perceive strategic value in this acquisition and they were approached, on a confidential basis

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Office Updates

Paul Williams

Sarah Bell

London (Paul Williams)

We recently hosted our opening reception in our offices in The Shard. Many of you attended the event, which proved to be our most successful yet and gave us an opportunity to show off our new home as well as introduce our new Partners.

In Restructuring, we welcome Steve Billot, James Cook and Mark Skelton, whilst in M&A, Joel Hope-Bell and Henry Wells have joined the team. Congratulations to James Palmer who has been promoted to Managing Director in the Valuation Advisory team.

Whilst on the subject of congratulations, we have had a number of promotions within the team as well as the successful qualifications of Neil Dyer, Emma Peskett, Alex Lower, Ieva Skuse and Chantelle Dunne as Chartered Accountants. These significant achievements are continued evidence of our investment in people, which I mentioned in the last edition of Upside.

In terms of work won, Mark and James have secured an advisory role on the Punch Taverns situation, whilst in general a steady flow of formal and informal work has flowed into the Restructuring team, including the appointment to an airport parking business based in several of the UK's airports, most notably at Gatwick. We were also appointed to Hein Gericke, an iconic motorcycle accessory retailer. Both businesses were sold with a number of the workforce being saved. We have also been successful in securing our first of several NAMA appointments, a prominent apart/hotel chain in London.

In general a steady flow of formal and informal work has flowed into the Restructuring team, including the appointment to an airport parking business based in several of the UK's airports, most notably at Gatwick

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Manchester (Sarah Bell)

The Manchester office has continued to be busy with both advisory and formal appointments in the last quarter of 2013 and the first quarter of 2014. Those who follow industry league tables will have seen that Phil Duffy was included amongst the Top 10 Number of Administration Appointments in 2013 nationally, as reported by Insolvency Today.

We continue to work on varied assignments with all sectors, including manufacturing where, in relation to Trigon Snacks Limited and Concord Filing Products, we were successful in concluding sales of both businesses, thus saving 221 jobs. There continues to be a marked increase in the number of clients seeking advice regarding issues in the legal services sector, and we are already grateful to new partner Steve Billot for his knowledge and expertise in this arena. Steve has advised on a number of legal sector assignments including the recent solvent restructure of a substantial legal practice.

Our team continues to strengthen, with the addition of several new joiners since our last edition of Upside, including Alison Orrell, Dean James, Nicola McAvoy, James Gillibrand, Andrew Ward and Charlotte Bilby to the Corporate team. We continue to seek high calibre candidates for both Corporate and Business Consulting, to add further depth to the team. Finally, we congratulate Gary Hargreaves on passing his JIEB exam.

Phil Duffy was included amongst the Top 10 Number of Administration Appointments in 2013 nationally, as reported by Insolvency Today

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Office Updates


John Whitfield


Jeremy Bennett

Birmingham (John Whitfield)

As the economy emerges from recession and optimism returns, we have had an interesting blend of work in the Birmingham office.

Our Business Consulting team has been engaged on pre-lend reviews, where businesses have a specific requirement in order to extend a facility to fund growth. These assignments typically involve reviewing the robustness of the company's business plans and their strategy for the future, whilst also using our knowledge of the recovery world to advise on the exit strategies available to the funders.

There continue to be a number of companies who require "Time to Pay" arrangements with HMRC. If properly structured, these arrangements allow companies the "breathing space" to be able to take advantage of the increased demand and future profit opportunities that present themselves in the recovery phase. If properly negotiated, these arrangements ensure that a company's cash flow can be managed in such a way as to allow the opportunities to be taken and shareholder value increased.

Our Recovery team has remained busy on some high profile administrations, namely McKechnie Brass and Intertruck. In both cases, we are pleased to report that the primary secured lenders have been repaid in full.

We have recently celebrated the first student having qualified in our office since we opened in 2010: Congratulations to Georgina Wendon-Smith, who is now a Chartered Accountant.

On the subject of fund raising, Liz Dunbar will be accepting the "brutal" challenge of the Three Peaks Challenge later this year. This challenge requires Liz to reach the top of Ben Nevis, Scafell Pike and Snowdon (without using the train!) within a 24 hour period. All donations will be gratefully accepted at www.justgiving.com/ladiesthreepeaks. Good luck, Liz!

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Leeds (Jeremy Bennett)

Having just passed the milestone of our first anniversary, we can reflect with great satisfaction on a successful 12 months.

Although the market remains challenging for restructuring advisors, we have continued to see a strong flow of introductions, particularly on the advisory side, where we have been involved in an increasing number of pre-lend/due diligence assignments. Alongside this advisory work, we have undertaken the usual range of insolvency appointments, though the volume of formal appointments within the UK overall continues to decline.

We are delighted to announce that Keith Marshall joined us as a partner on 1st April. Keith has a strong reputation in the Yorkshire market amongst both funders and professionals and we feel certain that he will make a significant contribution to the next phase of our growth.

We have continued to see a strong flow of introductions, particularly on the advisory side, where we have been involved in an increasing number of pre-lend/due diligence assignments

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Leadership in Restructuring

Restructuring

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Global automotive parts group headquartered in Belgium, employing 7,000 people in 43 manufacturing plants and 27 distribution centres. Administrators to the UK company and achieved a going concern sale of part of the business.

Restructuring

Euro Search & Selection Limited

Recruitment company providing global solutions in the IT, oil/gas and e-commerce industries, with an annual turnover of c. £13m. Appointed Joint Administrators of the company, realising book debts and achieving sales of certain intangibles.

Business Consulting

Confidential Project

A wireless data network provider with annual turnover of c. £3m and indebtedness of c. £750k. Completed a contingency planning and options assessment and valuation of the business, which resulted in a successful shareholder restructure.

Business Consulting

Confidential Project

A specialist supplier of labour to the construction industry, with turnover of c. £24m and bank debt of c. £4m. Performed a forecast review for the bank lender to assess if the company was overtrading.

Business Consulting

Confidential Project

Specialist electrical installation, maintenance and engineering business with turnover of c. £20m. Secured a solvent sale of the company and rescue funding to stabilise the business.

Restructuring

Trigon Snacks

Specialist processor of nuts and dried fruit, supplying the UK's largest supermarkets, with an annual turnover of c. £26m. Achieved a sale of the business and assets as a going concern, following a four-week trading period.

Business Consulting

Confidential Project

UK top 100 law firm, based in London, with turnover of c. £23m and an overdraft facility of c. £6.25m. Engaged to review the Partnership's working capital and forecasts to determine the ongoing funding requirements.

Restructuring

WTB Trading Limited (formerly Burdens Limited)

Leading supplier of building materials and services to the utilities, infrastructure, construction and environment industries, with annual turnover of c. £280m. Appointed Joint Administrators to the company, achieving a sale as a going concern of the remaining depots.

Restructuring

Dwell Retail Limited

National furniture retailer with 24 stores, online and catalogue business with annual turnover of c. £30m. Appointed as Joint Administrators to the company, achieving a sale of the business and assets, securing the re-employment of c. 100 staff and repaying the secured creditors in full.

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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. For more information, visit www.duffandphelps.com.

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