Leading Financiers

The year 2007 started out as fantastically as 2006 ended, but the latter half of the year started to feel the pressure of the credit crunch. ACQ talks to the leading financiers and advisers about how the past 12 months has been for business, and what they expect to see in 2008. ACQ's Phil Grainger reports.

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> "With the onset of the credit, liquidity and now solvency problems in the banking sector and underlying investor base, management has become a much bigger issue for private equity firms in 2007."
>
> Chris Kirkness

Chris Kirkness is a partner at Whitehead Mann, a major international headhunting firm.

"I am head of our Private Equity Group, which provides support to our private equity clients through dedicated teams in London, Leeds, Paris and Frankfurt. Whitehead Mann has a strong specialisation in private equity where we provide an array of due diligence, assessment and buy-in/buy-out executive search capabilities.

"With the onset of the credit, liquidity and now solvency problems in the banking sector and underlying investor base, management has become a much bigger issue for private equity firms in 2007. Returns from multiple expansion and leveraged recaps will no longer be available, and the management of investee companies will again be the key differentiator. This puts our firm firmly in the spotlight, as a means of delivering to our private equity clients that key management differentiator.

"We advised PE firms during 2007 on many transactions, through auction processes and more proprietary negotiations, in providing pre-deal due diligence, buy-in team building and immediate post-deal management assessments. The most notable completed deals that we worked on were: Phase 8 (for Kaupthing Principal Investments); Threshers and Brighthouse (Vision Capital); Thames Water (Macquarie); Burtons Foods (Duke Street Capital); Agent Provocateur (3i); Alliance Medical (Dubai International Capital); M&M Direct (TA Associates); and Polypipe (HBoS Integrated Finance).

"The availability of debt has certainly been squeezed, and there has also been a material reduction in debt multiples offered. What have changed less slowly, if at all, are the price expectations of sellers, and this as much as anything will probably prolong the deal hiatus in H1 2008.

"There is a considerable body of evidence now that deals that go bad are usually down to poor management, rather than misguided investment theses, strategies or other extraneous factors. So our hope for 2008 is that our private equity clients commit greater resources to establishing that management teams they are backing are fully up to the job. We have an array of management due diligence and assessment capabilities that can test this rigorously.

"I think it is now fairly clear that there is a slowdown in the really big deals, which will run at least through the first quarter of 2008. However, activity remains high in the sub €500m deal space, and there is reasonable activity in the market up to perhaps €1500m. So, while deal values for 2008 will probably be down materially over 2007, deal numbers will be less affected.

"Interestingly, management teams are also looking at the prospective returns they might earn in LBOs, and are assessing the risk and rewards in some current deals much more critically. This poses yet another new challenge to private equity firms, from a constituency that hitherto had seen high upside and low risk in the sweet equity of LBOs, and are now seeing lower rewards against a much higher risk threshold."

Matthias Bruse is a partner at P+P Pöllath + Partners, Munich office.

"P+P Pöllath + Partners specialise in legal and tax advice on acquisitions (M&A), private equity/venture capital, real estate, family offices and asset management.

"Our landmark deals this have have been the acquisition of CBR group by EQT; the acquisition of SAG group by EQT; the acquisition of a real estate portfolio from DEGI by Whitehall Funds, and the acquisition of Tuja Zeitarbeit from Barclays by Adecco.

"We are a reliable partner to our private equity and other clients, advising them on the typical scope of private equity transactions with the exception of debt financing.

"While the first half of the year was booming in M&A, we have obviously experienced some decline in the second half after the credit crunch. However, notwithstanding that giga-transactions of private equity players hardly take place, we still see substantial deal activity in the mid-cap area and are proud to be involved in the SAG transaction in December 2007, on which we have advised EQT.

"We expect that the market will recover in the second quarter of 2008, although the deal activity will probably not be as significant as in the first half of 2007."

> "Luiga Mody Hääl Borenius is one of the largest law firms on Estonian legal market with more than 30 top-tier professionals serving mainly corporate clients."
>
> Priit Pahapill

Peter L Brechan is a partner in the Corporate & Commercial department of Haavind Vislie.

"Haavind Vislie is a full-service law firm based in Oslo, the capital of Norway. It has over 110 fee earners and is one of the largest in Norway. The firm is recommended within all sectors by internationally renowned listing publications, such as Chambers, Legal 500, PLC Which Lawyer, Who's Who Legal and IFLR.

"My work typically includes M&A, venture, private equity, project finance and regulatory work. I have prime responsibility for instructions, setting up teams of colleagues to address the needs and requirements of our clients. Haavind Vislie has 7 business areas, construction, building & supply; corporate & commercial; energy & natural resources; HR; real estate; technology, IT & telecom; and tax. In addition, each business area have specialists cover such areas as litigation, public procurement etc.

"Our highlights in 2007 included our US client Parker Hannifin's public to private acquisition of Scan Subsea worth in excess of NOK1bn; our Icelandic client Exista's purchase of 8% of Storebrand, a listed life insurer, with much regulatory issues involved; our US client Teleflex acquisition of part of the business of the Hydro-group; our Norwegian client, venture firm Northzone's acquisition of Chapdrive, Kaupthing's financing of over NOK 1 bn worth of real estate for PropInvest, Close Brothers first real estate investment in Norway, and numerous acquisitions by industrialist clients of the firm, both privately held, listed and PE-owned.

"We have been able to evidence a hands on approach in getting things done, have good working relationships with our clients, and deliver cost-efficient services.

"In the last 12 months conglomerates have divested non-core activities and assets, and there has been a lot of consolidation within certain area such as offshore supply.

"Some deals have been delayed as a result of the credit crunch, but so far none have been cancelled. We see that raising equity takes longer time, and prices have been reduced. But there have been no alarming tendencies so far. As a confirmation of this, by the first week of 2008 we had already closed a NOK 1,2 bn acquisition for our client, the listed facility manager EDB Business Partner, when it acquired the computing business of StaoilHydro, IS Partner, which also does business for other companies within the petroleum industry worldwide.

"There is so much capital that need investing, so I have every confidence that in 2008 deals will continue to be done, albeit at a slower pace. My advice to the deal-marking community would be to have your objectives clear and stick to them."

Priit Pahapill is a partner at Luiga Mody Hääl Borenius, a member of Borenius Group.

"Luiga Mody Hääl Borenius is one of the largest law firms on Estonian legal market with more than 30 top-tier professionals serving mainly corporate clients. Founded in 1998, the firm has established a widely recognised practice in the areas of M&A, corporate finance, capital markets, banking & finance, competition, taxation and IP/IT and dispute resolution.

"I head the firm's capital markets and banking & finance team. I also specialise in different aspects of corporate law counselling the clients on transactions for acquisition, transfer, merger, division and reorganisation of companies and shareholder agreements in connection therewith.

"Luiga Mody Hääl Borenius provides legal assistance in

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"The successful landmark deals we have helped on recently included Fat Face, Cotswold Outdoor, Musto, Crew Clothing, Able & Cole, Radley, Hotter Shoes, Smollensky's. Whilst of different sizes, these all required developing a fundamental understanding of the business model and the customer proposition."
Roy Palmer

following fields of specialisation: capital markets, banking & finance, corporate finance, M&A, private equity, securitization, project finance, financial regulatory, corporate & commercial, contracts, competition, real estate and construction, domestic and international taxation, tax disputes, IT/IP, commercial data protection, labour law, energy, dispute resolution, restructuring, insolvency and insurance.

Our highlights of the year included one of the first securitisation transactions in the Baltics where we acted for Merrill Lynch, worth approx. USD 125 mio; acting for European Investment Bank in the Pan-European Public Offering of Securities of Climate Awareness Bonds, worth approx. EUR 1 bio; and counselling the IPO of the largest Baltic media group Ekspress Group, worth approx. EUR 35 mio.

"We believe that our well-known quality standards and prominent expertise (including previous practice) has been the main factor of winning the deals.

"Due to the rapid development in the 1st half of the year and the harsh cooling of the economy in the 2nd half, the trend has been that there are no long- term trends. We believe, however, that 2008 is going to be dynamic for our line of business; smaller wave of bankruptcies cannot be ruled out. We also believe some growth in M&A and restructuring/insolvency sectors.

"The most clearly noticeable and direct impact of the credit crunch for our work has been the position of the banks in negotiating the terms and conditions of the financing transactions, which has shifted from being quite borrower-oriented and flexible to rather rigid. Therefore, the clients in need of financing have to focus more on alternative (i.e. alternative to ordinary bank financing) financing possibilities.

"I would advise the deal-making community to engage the lawyers since "day one" of a potential transaction, "day two" may already be too late and some of the positions, the criticality of which the client may initially be unaware of, have already been let go. Unfortunately in Estonia, this still does not seem to be the case.

"We are not that confident in the continuation of the boom in 2008. We however believe that the number of deals somewhat increases (but volumes of the deals decrease) and also that the deals (especially financing transactions) become more complicated/interesting.

"Steep increases in the price of labour and increased financial costs may bring along some interesting developments in the local M&A and capital markets. The companies, who until the end of 2007 had access to virtually unlimited source of cheap financing, have to start thinking more creatively and make their businesses more effective."

Roy Palmer is CEO of Pragma Consulting Ltd.

"I am responsible for all aspects of Pragma's strategic consulting business. Pragma advises a wide range of international blue-chip clients on revenue and profit growth strategies based on market and customer research, brand evaluation, operational and competitor reviews, and trading data analysis and modeling. Our sector specializations cover retail, consumer brands, leisure, travel, airports, financial services, and automotive. In 2007, we conducted some 18 commercial due diligence assignments in mens and womenswear fashion, consumer brands, direct response, personal accessories, specialist retail, and travel retail.

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business model and the customer proposition, and an analysis of the business revenue and profit model. In terms of duration, typically a CDD assignment takes us somewhere between three and five weeks for a team of three-five executives. This is largely due to the time to set up customer qualitative and quantitative research, plus desk research and trading data analysis where this is available, so we condense some 20 executive weeks into around just four weeks.

"The majority of the deals we have worked on have been madcap, ie around £30-100m, though we have a couple of deals we are currently working on with a size of £500 million plus. We have not seen any evidence as yet of any credit crunch impact at this level of midcap deal size, though we do think that the difficulty of raising cheap bank debt may bring the deal valuations generally down to perhaps a somewhat more realistic number. We do, however, think that the larger deals, ie £1bn plus, will prove difficult to finance, but the PE sector should still have funds available to invest in more manageable situations.

"Furthermore, if the government do go ahead with their ill thought through changes in capital gains tax and the withdrawal of taper relief, then there is likely to be an upsurge in the sale of smaller entrepreneurially run business over the next two-three months.

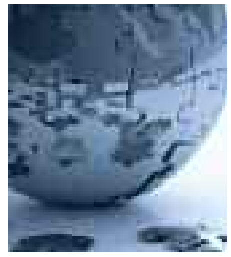
"One piece of advice? Easy! Make sure you understand fundamentally and totally those aspects of the offer that appeal to the customer and therefore that drive and sustain the revenue and gross margin performance of the business. At the end of the day, operating overheads, management resources, supply chain, property etc are all costs that can only be driven down to a point at which they reach a finite base level, but the upside that will drive the future valuation of the business is getting more customers to buy more and hence generate higher revenues and cash margin. To do that, you have to fundamentally understand all aspects of the customer requirements, the competitive set they are free to choose from, and their decision-making processes.

"We think that deals will continue to attract private equity interest in 2008 at around the same level in the midcap sector of the market, but at lower valuations. We think that the larger funds will find it difficult to raise interest in the larger deals of around £1bn upwards."

John Rathbone is executive chairman of JC Rathbone Associates (JCRA).

"The trends of the first half of the year were very different from those in the second half. The beginning of 2007 saw increasing deal size and increased leverage. Secondary buyouts, public to private transactions and debt refinancing drove demand for our advisory services on risk management. Since the credit crisis through the summer, new mega deals are completely absent and several which were in the pipeline did not make it over the finish line. Large deals have been noted by their infrequency and those on which we have worked have been notable by their much-reduced level of gearing. The credit crunch has had a more limited impact on medium and smaller sized transactions where there has been a solid stream in the second half of the year, probably as most would have not anticipated much higher levels of gearing than they actually achieved even before the credit crunch.

"The debt terms being offered by the financial institutions are changing, with pricing increasing due to the recent credit problems in the market. There is no longer the opportunity to achieve some of the lower



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lending margins, which were being offered at the beginning of 2007. The appetite from lenders has changed, as have the type of lenders who are 'in the market'. The deal making community need to look beyond their usual relationships and usual debt structures.

"Outside of the changes in the banking sector, the foreign exchange markets are increasingly volatile. A weakening US$ is causing problems for those non-US based companies receiving US$ revenues. The deal making community need to increase their focus on this element of the businesses they are investing in, ensuring that these FX exposures are identified, understood, and appropriately controlled.

"The debt market is in poor shape and we do not believe that the disintermediation of credit through the plethora of investment structures that have been created over the past several years is likely to return in 2008. Indeed, many of these structures are unlikely to ever see the light of day again. This is likely to reduce transaction volumes to much lower levels in 2008 outside the small and medium sized transactions."

Managing partner of Loyens & Loeff Luxembourg, Dirk Leermakers, attorney-at-law, heads the Corporate practice group of the firm. He specialises in corporate law, corporate finance, private equity, venture capital, mergers and acquisitions, and shareholder litigation.

"Loyens & Loeff Luxembourg is committed to offering the highest standard of integrated tax and business law advice. With more than 90 fee-earners, the office mainly services large and medium-size corporate clients, banks and other financial institutions and investment funds, operating internationally. Loyens & Loeff Luxembourg handles all matters relating to corporate and commercial law, real estate, investment funds, private equity and venture capital, mergers and acquisitions, banking and financial law, and tax law. It concentrates on all corporate and tax law aspects of international structures, financial products, holding and financing structures and corporate reorganisations. The office further has a strong reputation in tax rulings, tax litigation, and Luxembourg-related legal and tax opinions.

"In spite of the credit crisis, the Luxembourg market has remained very strong and continues to expand; somewhat less highly-leveraged transactions during the fourth quarter.

"Generally speaking, Luxembourg has been less affected than other jurisdictions, except that the number of highly-leveraged Private Equity transactions has somewhat receded at the end of the year. Our other areas of practice (international Tax Planning, Banking & Finance, Securitization, Funds) have remained strong.

"If the first ten days of January are of any indication, it appears that 2008 will be as strong as 2007." **ACQ**

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