

Western Morning News 2010 Deals Review

Analysis of Trends

Deals Review



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CORPORATE FINANCE

Deal volumes by type and location

On 18 November 2010, the Western Morning News published the ninth annual Deals Review. This brief report analyses the trends shown by the Reviews over recent years by type, volume, adviser, location and other relevant criteria. As with any analysis, these figures need careful interpretation. In particular, the analysis is based on deal volumes, rather than deal values, and takes no account of the complexity or size of any individual deal. Therefore we try herein to comment on general trends.

Overall deal volumes (as shown opposite) increased by some 12% from 2009 levels, which is an excellent result given the turbulent economic times. This does tie into the anecdotal feedback from the majority of submitters to the Review, in that deal levels have been very volatile, but overall volumes have held up far better than expected. In addition, many submitters report an upturn in work since the emergency budget in June, although many are still waiting to properly assess the effect of the recent Comprehensive Spending Review.

The most obvious changes in deal volumes are the increases in Joint Ventures (see page 2), Management Buy Ins (MBIs) and equity finance.

We review the equity finance increase in more detail later in this report where we review the funding of deals generally. However, it is an obvious requirement in the current climate for advisers to have to be more creative with financing arrangements, with equity being an obvious bridge for funding that was once (probably incorrectly) provided by some of the banks.

The MBI increase is interesting as these are generally regarded as the highest risk type of transaction, as reflected by last year's collapse in MBI levels. The highest profile of these deals was Pasta King, where a new management team came in (backed by Private Equity House NBGI) to continue the growth of the business. This business was bought out in an MBO in 2006 and is an example of deals done at that time that are now ready for exit. We expect to see a significant number of businesses that undertook deals in 2005, 2006 and 2007 look for an exit over the next few years, further helping deal volumes. Of the 2010 MBIs, none were funded purely by external debt, and I would suspect that the majority included a substantial vendor deferral to facilitate the deal.

Deal Type	2010	2009	2008	2007	2006	2005
Acquisition/sale	157	156	267	183	158	129
Management Buy In	5	1	7	5	6	5
Management Buy Out	18	19	40	17	22	20
Joint Venture/Merger	19	6	4	7	5	12
Raising finance - grant	8	8	3	5	7	5
Raising finance - equity	36	20	43	25	26	21
Raising finance - other	6	11	3	5	3	7
Stock exchange	3	4	6	3	8	2
Other	1	-	1	-	5	1
	<u>253</u>	<u>225</u>	<u>374</u>	<u>250</u>	<u>240</u>	<u>202</u>

Notes to tables: Years refer to the 12 months to 30 September.

Deal volumes by type and location

In terms of location, the opposite table contrasts local deals with non local deals (involving local professionals).

Acquisitions and sales show broadly the same split as for last year. Overall there are still far more businesses where ownership is being transferred out of the region rather than vice versa. However, the local professionals still act for a significant number of deals outside the locality.

The increase in Joint Ventures/Mergers was not just restricted to local deals, and included some high profile deals such as the Ashfords' advised formation of the MW Arden GP3 Team - a joint venture between Arden International Motorsport and Red Bull F1 driver Mark Webber.

This increase in Joint Ventures reflects the more creative approach to deals taken by businesses that may be unable to do a full acquisition/sale, but can solve the strategic aim by collaboration. Many of these involved the public sector, and we expect these to increase as the public sector seeks to increase efficiencies, perhaps in partnership with the private sector.

Although there were only 12 deals in the energy/renewable sector in this year's Review, we expect this sector to be very active over the next few years as Cornwall tries to establish itself as a natural centre for renewables. We comment further on this in the Review itself.

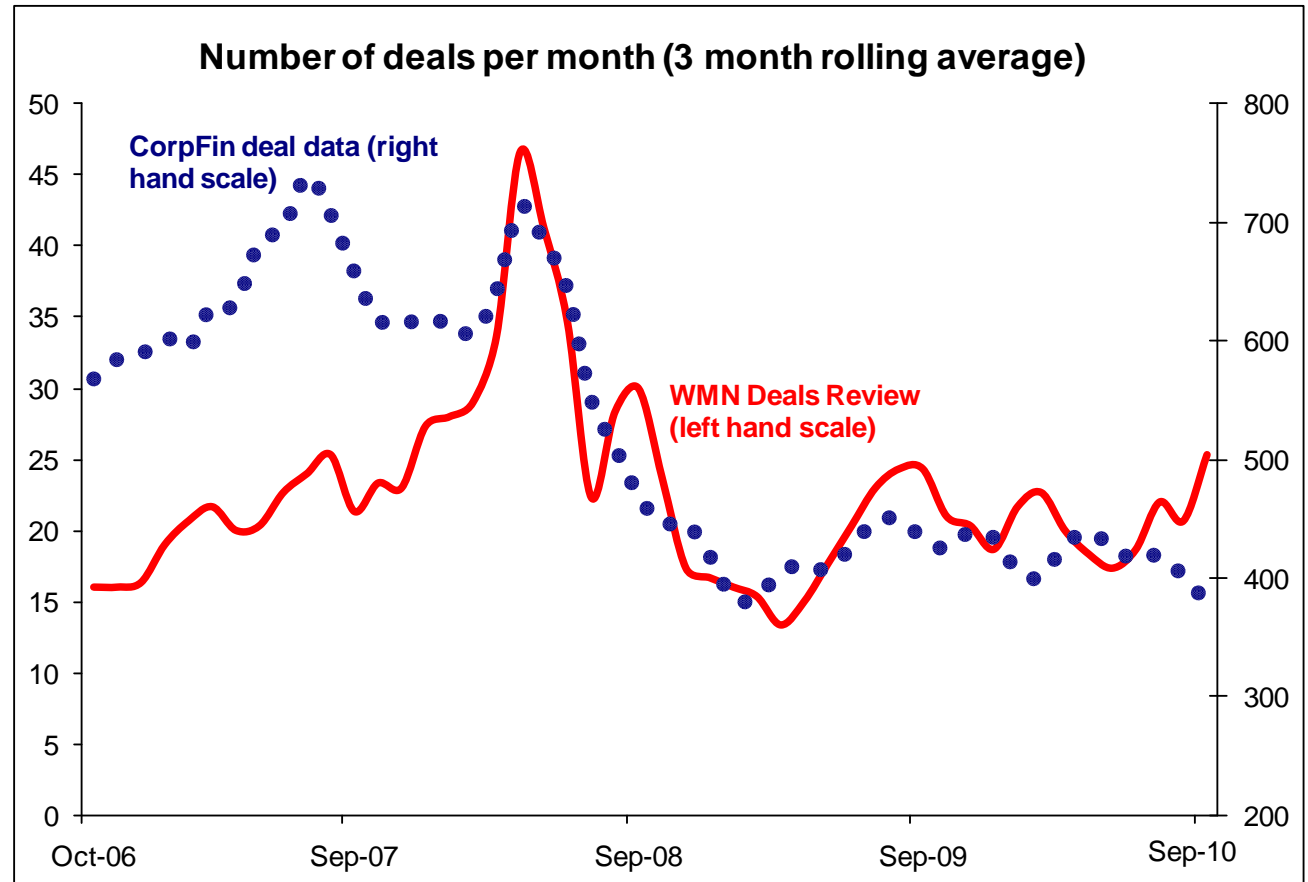
Notes to table: Local buyer/target is defined in terms of within the WMN sales region - broadly Devon, Cornwall and West Somerset/Dorset.

Deal Type by location					
	2010	2009	2008	2007	2006
Acquisition/sale - local buyer of local target	69	65	118	78	61
Acquisition/sale - non local buyer of local target	36	34	62	38	54
Acquisition/sale - local buyer of non local target	12	19	18	15	14
Acquisition/sale - non local buyer of non local target	40	38	69	52	29
	<u>157</u>	<u>156</u>	<u>267</u>	<u>183</u>	<u>158</u>
MBO - local target	13	15	29	17	20
MBI - local target	5	-	4	3	5
MBO - non local target	5	4	11	-	2
MBI - non local target	-	1	3	2	1
	<u>23</u>	<u>20</u>	<u>47</u>	<u>22</u>	<u>28</u>
Joint Venture/Merger - local businesses	12	3	1	4	3
Joint Venture/Merger - non local businesses	7	3	3	3	2
	<u>19</u>	<u>6</u>	<u>4</u>	<u>7</u>	<u>5</u>
Raising equity finance - local business	24	9	24	17	17
Raising equity finance - non local business	12	11	19	8	9
Raising grant finance - local business	8	8	3	5	7
Raising other finance - local business	4	2	1	4	3
Raising other finance - non local business	2	9	2	1	-
	<u>50</u>	<u>39</u>	<u>49</u>	<u>35</u>	<u>36</u>

Deal timing

An analysis by month of the timing of deal completions reported in the Review (**red solid line**) clearly shows the decrease in deal volumes in late 2008 and early 2009, and this is mirrored by an analysis of UK deals per Corpfin/Experian (**blue hatched line**).

The Deals Review figures then show a recovery from the nadir towards the end of 2009 followed by a partial stabilisation during 2010, again mirroring the UK trend. However, figures over August and September in the Review show a definite upturn and this does reflect the ad hoc evidence reported by some lawyers and accountants. This contrasts with the Corpfin line, but this tends to run a couple of months behind in deal filing. As such, the Corpfin line is usually understated for recent months and it should show an upwards trend when all deals have been included – let us hope so!



Deal funders

Turning now to one of the most interesting analyses in our report - the deal funders, especially relevant given the constant criticism of the main banks in the press. For this reason, we have analysed the figures in slightly more detail this year, although again we add our general caution that our analysis is driven by deal numbers and not size of deal or funding.

Overall, the number of bank funded deals (partially or total) has actually increased, although still well below the deal volumes seen in the period 2006 to 2008. The majority of this increase can be attributed to equity raising deals (see second table below) which will also have an element of bank funding. This does reflect the market feedback of increasingly having to secure additional sources of finance to secure deals. For example, in the Review many advisers commented on the greater number of deals that included vendor deferrals in order to complete the transaction.

Deals by funder	5 years to 2010												
	2010	2009	2008	2007	2006	Acquisitions	JV/Merger	MBO/ MBI	Other	Raise equity	Raise finance	Raise grant	Total
Banks:													
Barclays Bank	5	7	5	10	16	24	2	9	1	2	5	-	43
Clydesdale Bank	7	3	1	1	5	15	-	-	-	1	-	1	17
Bank of Scotland Corporate	-	2	4	6	9	13	1	5	-	2	-	-	21
HSBC Bank	10	4	15	16	19	36	-	20	-	1	5	2	64
Lloyds TSB Bank	13	15	10	16	15	49	1	15	-	1	2	1	69
Royal Bank of Scotland	21	14	43	32	21	102	1	16	-	8	4	-	131
	56	45	78	81	85	239	5	65	1	15	16	4	345

From the details submitted, there were very few MBO / MBIs that were funded purely from debt. This was one of the key signs in 2007 that the deal market was overheated, with some deals raising debt at a level that represented a very high multiple of profit, with little other sources of finance - effectively equity/mezzanine finance being sourced at debt pricing levels.

Deals funded by main clearing banks					
	2010	2009	2008	2007	2006
Acquisitions	35	32	61	60	51
MBO/ MBI	8	10	12	15	20
JV/Merger	2	-	-	1	1
Raise equity	8	1	1	3	2
Other	3	2	4	2	11
	<u>56</u>	<u>45</u>	<u>78</u>	<u>81</u>	<u>85</u>

Deal funders

Looking at the sources of finance for funded deals over recent years does show the impact of the (now ceased) Regional Venture Capital Funds, which funded 20 deals in 2008. This has proved hard to replace.

The underlying picture for 2010 is the emergence of a much larger number of funders, many only doing one or two deals, including:

1. Smaller banks such as Co-operative;
2. Foreign owned banks such as Santander, Handelsbanken, Deutsche Bank and KBC;
3. 15 different equity houses including Albion Ventures, Piper Private Equity, NBGI and Gresham.

Funding deals is unlikely to get much easier over the next few years as the austerity measures continue to feed uncertainty, GDP growth remains modest (and hopefully not negative) and some banks continue to rebuild their balance sheets.

As such, vendor deferrals and equity will continue to be vital, and we hope some of the measures recently announced by the coalition will increase the supply of equity to smaller (sub £10m) deals.

Sources of funds for all funded deals					
	2010	2009	2008	2007	2006
Main clearing banks	56	45	78	81	85
Other banks	10	5	14	13	7
Business angel funding	2	2	4	0	1
Local loan finance sources	2	0	2	1	3
Grants	8	8	3	5	8
Closed local VC funds	0	4	20	13	9
Non local equity funds	15	8	14	21	19
	<u>93</u>	<u>72</u>	<u>135</u>	<u>134</u>	<u>132</u>

Note to table: numbers may differ from other tables as this table shows the number of funders to deals (there may be more than one provider of finance to a single deal).

Deal types by adviser - lawyers

The opposite table shows the deals done by lawyers in the region.

We re-emphasise that this table is only based on deal numbers, and does not take account of deal size or complexity (apart from the minimum qualification criteria). As such, it must be treated as a general indication of trends rather than an accurate measure of activity.

Overall, there are few surprises from the table, with the main legal deal teams still remaining active, although many report very uneven deal flows that have generally picked up in the recent couple of months.

The larger deals this year included two financial service deals for Bond Pearce (one at £85m) and two public sector deals for Ashfords and Michelmores at £30m+.

Murrell Ashworth, Foot Anstey and Michelmores also managed to complete a number of renewable transactions both within and outside the region.

In region advisors	5 years to 2010																
	2010	2009	2008	2007	2006	Acquisitions	Joint Venture	MBO/ MBI	Other	Raise equity	Raise finance	Raise grant	Sale	Exchange	Stock	Total	
Lawyer:																	
Ashfords	39	43	71	34	36	83	4	9	1	41	5	-	76	4		223	
Bond Pearce	30	34	46	46	33	58	6	6	-	23	8	-	77	11		189	
Boyce Hatton	6	13	17	22	14	22	3	4	1	3	-	-	39	-		72	
Clarke Willmott	2	3	5	1	-	5	-	-	-	1	-	-	5	-		11	
Coodes	1	2	2	1	1	3	-	-	-	-	-	-	4	-		7	
Eveling	9	-	4	-	-	4	-	1	-	1	-	-	7	-		13	
Follett Stock	3	2	1	9	5	4	-	2	-	7	-	-	7	-		20	
Foot Anstey	45	43	62	39	35	83	10	20	-	22	1	-	85	3		224	
Gard & Co	5	3	2	1	-	6	-	-	-	-	-	-	5	-		11	
Hooper and Wollen	4	1	3	1	-	1	-	-	1	-	-	-	7	-		9	
Kitsons	15	16	25	14	12	33	-	6	-	1	-	-	42	-		82	
Michelmores	30	32	55	23	23	43	7	15	-	27	13	-	57	1		163	
Murrell Ashworth	10	10	6	-	-	3	3	3	-	10	1	-	6	-		26	
Nash & Co	6	4	7	12	10	17	-	1	-	1	-	-	20	-		39	
Over Taylor Biggs	5	3	6	2	5	2	-	3	2	1	1	-	12	-		21	
Slee Blackwell	3	1	2	7	2	8	-	-	-	2	-	-	5	-		15	
Stephens Scown	18	11	29	20	27	27	6	11	-	18	1	-	42	-		105	
Stones	3	3	5	9	14	15	-	2	-	1	-	-	16	-		34	
Tozers	4	2	1	5	1	8	-	-	-	1	-	-	4	-		13	
WBW	8	5	2	4	2	7	-	-	-	2	1	-	11	-		21	
Wolferstans	4	2	7	5	3	3	1	2	-	-	-	-	15	-		21	

Deal types by adviser - accountants

As noted in previous years, there are fewer accounting firms in the region (compared to legal firms) that are active in Corporate Finance, although many firms managed to increase the number of deals done this year. Overall the total number of deals advised on by local accountants increased by some 27% (versus 7% increase for lawyers overall). This probably reflects the more difficult requirements (especially advice on funding and tax structuring) to achieve deal completion, increasing the need for financial advice.

We are delighted to continue to report high deal volumes, especially for MBOs, which can be particularly demanding at the moment.

Bishop Fleming continue their strong performance particularly in the equity and grants arena with a significant number of Business Angel deals in 2010.

Winter Rule showed the largest increase in number of deals done, again boosted by a number of equity deals.

In region advisors	5 year to 2010														
	2010	2009	2008	2007	2006	Acquisitions	JV	MBO/ MBI	Other	Raise equity	Raise finance	Raise grant	Sale	Stock Exchange	Total
Accountant:															
AC Moles	3	-	3	-	2	6	-	-	-	-	-	-	2	-	8
Albert Goodman	5	4	4	3	4	7	-	3	-	2	-	-	8	-	20
Baker Tilly	4	2	2	3	1	4	1	2	-	1	2	-	2	-	12
Bishop Fleming	28	20	39	22	27	35	3	15	-	10	1	19	52	1	136
Bromhead	1	-	3	4	-	2	-	-	-	-	-	-	6	-	8
Bush and Co	3	-	1	2	1	2	1	1	-	-	-	-	3	-	7
Condy Mathias	1	1	1	2	2	2	-	1	-	-	-	1	3	-	7
Darnells	2	6	5	3	-	6	-	1	1	-	-	-	8	-	16
Dixon Walsh	1	2	1	4		7	-	-	-	-	-	-	1	-	8
Ernst & Young	-	4	10	13	18	14	-	2	-	4	3	5	17	-	45
Francis Clark	33	26	44	30	35	55	4	26	-	9	3	7	64	-	168
KPMG	6	4	9	10	4	20	2	1	-	3	-	-	4	3	33
Mark Holt	1	2	2	-	2	2	-	-	-	1	-	-	4	-	7
Milsted Langdon	5	6	18	10	7	16	1	8	-	6	1	-	13	1	46
Peplows	1	4	7	6	7	8	-	2	-	-	-	-	15	-	25
PwC	-	2	-	2	3	1	1	-	-	-	-	-	5	-	7
Robinson Reed Layton	3	-	3	1	6	3	-	-	-	3	-	-	7	-	13
Simpkins Edwards	3	4	7	6	2	6	-	3	-	-	-	-	13	-	22
Thompson Jenner	4	2	13	-	3	11	-	-	-	-	-	-	11	-	22
Thomas Westcott	3	1	5	2	-	3	-	2	-	-	-	-	6	-	11
Winter Rule	10	2	13	6	9	13	3	3	-	8	1	-	12	-	40

Out of region advisers

The Deals Review also includes a number of deals advised on by Bristol firms (or by local firms out of their non-local offices) as shown opposite.

Out of region office advisers

Lawyer:	2010	2009	2008	2007	2006
Burges Salmon, Bristol	6	2	8	8	12
Clarke Willmott, Bristol	4	3	10	2	7
Morgan Cole, Cardiff/Bristol	2	-	3	2	2
Osborne Clarke, Bristol	4	5	14	2	12
TLT Solicitors, Bristol	4	3	5	2	2
Veale Wasbrough, Bristol	4	1	11	4	1
Accountant:					
Baker Tilly	4	2	2	-	1
Deloitte	-	3	6	8	9
Grant Thornton	-	2	2	6	4
Ernst & Young	1	3	2	1	2
KPMG	4	3	6	3	2
PwC	9	7	8	17	4

Note on split of local and non local adviser tables in this report – Main tables on deal volumes and type by adviser are prepared on the basis of the deals undertaken by the local offices of the firms named. It excludes, for those firms with non local offices, work undertaken by those offices, some of which are covered above.

Individual analysis

As in previous years, we have compiled an analysis of the number of deals undertaken by each individual over the last six years, both overall and by deal type. This analysis is even more limited than that for deals as we only accept two individuals for each firm for each deal. Therefore for larger deals, it may exclude individuals who have made a critical contribution towards the transaction.

Unsurprisingly the tables are dominated by lawyers, apart from MBOs, sales and grants.

MBO deals are where financial advice and fund raising has always been vital, especially as we are all having to be more creative in completing deals. We are naturally delighted to continue to lead this category both as a firm and as individuals.

Tax obviously still remains a key issue, especially in sales where tax advisers from Francis Clark and Bishop Fleming top the table.

2010 - 6 YEARS							
All deals		Acquisitions		MBO/MBI		Raise finance - equity	
Individual	Deals no.	Individual	Deals no.	Individual	Deals no.	Individual	Deals no.
Simon Rous	75	Simon Rous	38	Mark Greaves	17	George Wilkinson	19
Stephen Morse	57	Keith Biggs	20	Gavin Davey	12	Katie Ashworth	17
Mark Greaves	54	James Evans	18	Richard Coombs	9	Andrew Betteridge	13
James Evans	53	Ian Brokenshire	17	Andy Hawkes	8	Stephen Morse	12
Richard Cobb	53	George Wilkinson	17	Nick Woodmansey	7	James Orpin	10
George Wilkinson	50	Mark Greaves	16	Robert Davey	6	Richard Cobb	9
Richard Coombs	49	Steve Hadley	15	Guy Eggleton	6	Tony Welford	9
Robert Davey	48	Stephen Morse	15	James Orpin	6	Johanna Probert	8
Steve Hadley	47	Andrew Browne	14	Richard Plunkett	6	Simon Rous	8
Andrew Browne	46	Annelie Carver	14	Antonia Power	6	Jerry Davison	7
Mike Clark	46	Richard Coombs	14	Sale		Richard Wadman	7
Raise finance - grant		Joint ventures / mergers		Individual	Deals no.	Stock Exchange	
Individual	Deals no.	Individual	Deals no.	Andrew Browne	27	Individual	Deals no.
David Armstrong	16	James Evans	5	Mike Clark	24	Richard Cobb	11
Ewan McClymont	15	Richard Cobb	4	Cris Boyce	23	Annelie Carver	4
Robert Davey	13	Mark Greaves	4	Steve Hadley	22	David White	3
Andy Hawkes	4	Samantha Billingham	3	Dominic Hollingsworth	22	Mathew Scott	3
Jonathan Williams	4	Mike Clark	3	Simon Rous	22	Chris Worrell	2
		James Orpin	3	Stephen Morse	21	Simon Rous	2
				Richard Coombs	20	Jon Sheldon	2
				James Evans	20		
				Johanna Probert	20		

Notes on the Deals Review supplement and this analysis

The Deals Review and this analysis are based solely on submissions made by professionals throughout the region, and we are grateful for everyone's co-operation, with deals submitted by all of the main deal making lawyers and accountants in the region. We are also grateful for the pre-filtering that some firms carried out for their submission, which greatly assisted in the compilation of the Review.

Disclaimer and apologies - We receive a significant number of submissions from numerous submitters. Cross checking and querying these deals for inclusion has been a time consuming task, and we, as ever, run the risk of having made errors. We therefore apologise in advance for any mistakes made.

Definition of a deal - For the purposes of the Review, a deal is based around a transaction involving the sale, purchase, joint venture or merger of a trading business, complex equity, grant and related finance raising assignments, and other similar transactions. Minimum deal value is set at £250,000. Further details were circulated to all submitters and are available for review upon request.

Inclusion of deals in tombstones and articles - We always receive more tombstones than can be easily included in the supplement. As in previous years, we remove the majority of project named or smaller deals (especially sales/acquisitions) as a first stage of filtering. We then balance the number of tombstones with overall deal numbers by professional; in doing so we use the more interesting project named/smaller deals. We also try to ensure that the more active deal advisers feature appropriately in the front section of the Review, subject to having sufficient stories and pictures featuring those advisers.

Time periods for analysis of trend - We have tried to include analysis of trends over the last five or six years in this report. Most of these tables are limited to five years as we changed the submission requirements at that time to show purchaser/vendors/funders advisers separately.

Note on tables in this report:

- Deal type by adviser tables are prepared on the basis of the role that each adviser actually plays in the deal, so an adviser involved in advising the vendor in an MBO deal would be classified in this analysis as advising on a sale rather than an MBO – this more fairly describes the expertise used.
- The individuals' tables show the top ten individuals (by number of deals) for individuals undertaking greater than one deal in any one category over the last five years. More than ten are shown where there was a tie for tenth place, unless this leads to the table being of excessive length.