CORPORATE FINANCE FACULTY

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ISSUE 211
APRIL 2019

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Corporate Financier

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April 2019 Issue 211

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Transformers

"In times of rapid change, experience could be your worst enemy." It's an interesting thought – and not without merit. The words are those of billionaire oil tycoon J Paul Getty, more than 50 years ago.

The sentiment maybe has particular relevance today. I don't believe he was saying that experience or expertise should be dismissed, more that there are times for knowledge and cool heads, and times to set that aside and look at how things are developing.

In this month's issue of *Corporate Financier* we look at two changes affecting the world of corporate finance. In our cover story, we assess employee ownership as an exit option. Lead advisers are increasingly offering founders such corporate structures as a potential exit route. And they are increasingly being taken up, particularly in the UK since 2014, when the government introduced tax incentives for departing owners.

In this issue (pages 8-10), we also find out about activist investors. Such 'activists' last featured in *Corporate Financier* in February 2016, when we looked at their impact in the US. What a lot of change we have seen since then.

BOLDLY GO

Activist investors might not be everyone's cup of tea, espresso or Americano, but perhaps political leaders could learn a thing or two from their approach. These investors have pretty clear goals – usually a big financial return over a relatively short period. Crucially, they seem to employ pretty simple strategies and tactics. They identify a weakness in a company, moreover, an area for improvement. Returns are possible with bold decisions.

Employee-owned businesses, with consensus to a degree driving long-term approaches, are perhaps the opposite of the activist-type investors and their direct action. Consensus is only bad if it means that aims become somewhat nebulous. Perhaps both approaches are a sign of the times – and the shape of things to come.

Marc Mullen
Editor

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YOUR FACULTY

GLOBAL DEALS AND GEOPOLITICS AT CHATHAM HOUSE





The Corporate Finance Faculty is hosting a highly topical breakfast forum about geopolitics and global M&A at world-famous Chatham House in London on 21 May.

At a time of widespread worry about international relations, trade tensions and conflicts, but also continued growth in global cross-border investment, the faculty has convened a panel of experts in how politics and finance interconnect, how risks can be assessed and how large and small deals can be done.

The panel will include: Jackie Bowie (1), chief executive, JCRA; Stuart McKee (2), global head of corporate finance, PwC; professor Scott Moeller (3), director of the M&A Research Centre, Cass Business School; Mark Redman (4), global head of private equity, OMERS; and Paola Subacchi (5), professor of international economics, Global Policy Institute, Queen Mary University of London.

Chatham House is home of the Royal Institute of International Affairs, one of the most respected organisations for advising multinational bodies, governments and civil society. This will be the first time that the faculty – or any part of ICAEW – has hosted an event at the institution since it was founded in 1920.

The faculty is co-hosting the forum with member firm JCRA. Bowie, who is a member of the Corporate Finance Faculty's board, said: "The geopolitical risks globally are intensifying – regulatory, trade and tariff uncertainty just to name a few. Combined with the economic slowdown which is evident in the data, the impact on M&A is at the forefront of corporate financiers' minds."

Shaun Beaney, manager of the Corporate Finance Faculty, devised the event. He said: "There's no doubt that cross-border investment is still driving so much capital markets activity, M&A, buy-outs and venture capital – even in the UK, which has become very self-preoccupied in the past few years. But at the same time, there's both co-operation and conflict. So we thought this would be a good time to invite experts from across the faculty's membership to weigh up the opportunities and risks."

Corporate Finance Faculty members can register online for complementary places: tinyurl.com/CF-GeoGlo

"Cross-border investment is still driving so much capital markets activity, M&A, buy-outs and VC"

NEW MEMBER

BEAUHURST JOINS THE CORPORATE FINANCE FACULTY


Beauhurst, the data firm which focuses on in-depth analysis of the UK's fastest-growing companies, is the latest firm to join the Corporate Finance Faculty.

The company operates a data platform that includes information about every UK high-growth business, whether they are growing organically, through venture capital funding, or through M&A. The analysis typically involves all transactions, from private fundraising to M&A and IPOs.

Henry Whorwood (1), head of research and consultancy at Beauhurst, said: "Our analysis takes a holistic view of how these companies are achieving growth so that our clients know about their strategies even before there's a significant transaction."

Last year, Whorwood worked with Shaun Beaney, manager of the Corporate Finance Faculty, in researching and co-writing *Boosting Finance for the UK's Industrial Strategy* for the ICAEW's innovation investment conference in July 2018. Beauhurst also sponsors the faculty's annual reception.

The firm's data includes analysis of more than £54bn of investment, 7,500-plus funders and more than 25,500 companies. Some integral people at Beauhurst include: Pedro Madeira, head of data; Jonathan Ross, head of marketing; Zoe Carmichael, head of account management; and Pravish Patel, head of sales.

Beauhurst's CEO and co-founder, Toby Austin (2), is the son of Neil Austin – former chair of KPMG's global consumer practice, and member of KPMG's global executive board, who was also a member of the Corporate Finance Faculty's board.

"We look forward to being able to draw on the expertise of the faculty member firms as we expand datasets," Whorwood said.

ALAMY

The Royal Liver Building, Liverpool

NEWS IN BRIEF

DEBT FOR DEALS FORUM

The Corporate Finance Faculty and ICAEW's North West region are hosting a Debt for Deals breakfast forum at the Royal Liver Building in Liverpool on 24 April 2019.

On the panel are: Marion Bernard, UK managing director of the Firmament Group; Anil Gupta, Deloitte head of debt advisory for the north of England; Graeme Sands, head of business banking at Clydesdale & Yorkshire Banking Group; and Steve Stuart, chair of the Professional & Business Services Board, Liverpool Local Enterprise Partnership.

David Petrie, ICAEW head of corporate finance, will be moderator. The forum will cover topics such as increasing specialisation in acquisition finance, structured finance, SME lending, venture debt and real estate and more.

To reserve a place at the forum, please visit tinyurl.com/CFDFD-Deals or contact alex.pilkington@icaew.com +44 (0)192 559 4284.

ANNUAL GENERAL MEETING

The Corporate Finance Faculty's Annual General Meeting will be held at Chartered Accountants' Hall in the City of London on 2 May 2019, from 12:00pm to 1:30pm.

To attend, please contact Chrissie O'Connor at chrissie.oconnor@icaew.com or +44 (0)20 7920 8593.

THE ACCOUNTANCY PROFESSION STRATEGIC FORUM

ICAEW's head of corporate finance David Petrie will be part of an ICAEW delegation to the Accountancy Profession Strategic Forum (APSF) in Malta this month. The ICAEW delegation that will be attending the seventh APSF also includes Robert Hodgkinson, executive director, technical, and Paul Simkins, director of quality assurance.

The aim of the forum is to encourage the development of best practice by international accounting organisations. Core themes range from enhancing the anti-money laundering ecosystem to new types of business financing.

FACULTY INITIATIVE
AI IN CORPORATE ADVISORY

The Corporate Finance Faculty is leading a joint project by ICAEW and Drooms to look at the potential opportunities and risks of artificial intelligence (AI) in corporate advisory, including the applications, technological developments and best practice.

The faculty convened an expert advisory group at Chartered Accountants' Hall in London on 5 March that included the top AI, corporate finance and transaction services principals from major professional services firms, law firms and the Institute.

Drooms, a multinational provider of advanced secure data platforms and a member of the faculty, is providing technical expertise and co-financing the project.

The meeting was chaired by Lord Clement-Jones CBE (pictured below), co-chair of the All Party Parliamentary Group on AI and author of the House of Lords' Select Committee report *AI in the UK: ready, willing and able?* Lord Clement-Jones is a member of the Corporate Finance Faculty's board.

David Petrie, ICAEW's head of corporate finance, said that the objectives of the project were to help those involved in corporate transactions to make even better decisions, create new opportunities and manage risks effectively.

"We want to ensure the research clearly addresses corporate financiers' development aims and needs in relation to AI," he added.

The research is being co-ordinated by the Corporate Finance Faculty's Shaun Beaney, with the assistance of Vicky Meek, researcher, editor, journalist and feature writer for *Corporate Financier* magazine.

GETTY

IN NUMBERS

Global investors' concerns, the effect of acquisitions on companies, record M&A in the financial and healthcare sectors

of buyers who say their latest acquisition created significant value also say it was part of a broader portfolio strategy

SOURCE: PWC/MERGERMARKET

$3.3bn
Investment in UK fintech in 2018, of which...

UP 18%
on 2017

$1.6bn
Private equity growth investment

UP 57%
on 2017

SOURCE: INNOVATE FINANCE

CONCERNS OF GLOBAL INVESTORS

72%
of global investors in private equity cite high asset prices as a 'key concern'

35%
See competition for deals as a 'key concern' for 2019

3,749
Number of PE funds in market globally at start of 2019

SOURCE: PREQIN

$104.2bn
Global financial sector M&A
in the first six weeks of 2019

$126.2bn
Healthcare M&A globally
in the first six weeks of 2019

SOURCE: REFINITIV

£26.5bn
UK domestic M&A
in 2018

The highest since 2008, when it was
£36.5bn

£71.1bn
Inward M&A
in 2018

up from
£35.2bn
in 2017
(includes Comcast's acquisition of Sky for £30bn)

£22.7bn
Outward acquisitions
in 2018

down from
£77.5bn
in 2017

SOURCE: OFFICE FOR NATIONAL STATISTICS

FRIEND OR FOE?

Shareholder activism is headline-grabbing stuff. As hedge funds turn their attention to Europe and Asia, corporates and their advisers need to be prepared, says Grant Murgatroyd

Members of the *gilet jaunes* meet with representatives of the French government

Pensions are under pressure. In the 10 years to 2017, UK pension funds managed to return an average 7.1% per annum, but in 2018 they lost 6.2%, according to the *UK Personal Pension Trends Treasury Report* by Moneyfacts. Persistently low interest rates are forcing fund managers to look at riskier, higher-performing investments to boost average returns.

When an asset class - or sub-class - outperforms, capital floods in. We've seen it in private equity (PE), which has raised a staggering $3.5trn over the past decade, according to Preqin. Awash with capital, PE funds have scoured public and private markets for undervalued or underperforming assets. Nine $20bn-plus companies have been acquired by PE, the largest being TXU Energy, bought in 2007 for $32.1bn.

They are big deals, but until relatively recently the world's largest companies have been safe in the knowledge that their only predators were corporate rivals. Now these companies are being hunted by activist hedge funds and must adopt new strategies to survive (see 'Active or passive?' box, opposite).

Deloitte analysed data from industry bible *Activist Insight* and estimated that hedge funds had $300bn invested and had launched 850 campaigns worldwide in 2018. The current wave may have started in the US, but it has gone global, with the share of targeted companies based in the US falling from 70% in 2014 to just over 50% in the 12 months to October 2018. Activists are occupying a "disproportionate" amount of management and board time, according to Deloitte.

"I mostly get involved through clients who have had an approach, fear an approach or want to engage with hedge funds more positively," says Charles Honnywill, EY UK & Ireland divestiture advisory services leader. "At any one time I'm

working with five or six clients, and my work with at least one of them is related to activists."

In February 2019 activist Starboard Value took the unusual step of nominating five potential directors to the board of Bristol Myers Squib (BMS) after the pharmaceutical company announced a $74bn acquisition of Celgene in January. Starboard revealed it had bought a million BMS shares on 31 January. Though the holding accounts for just 0.06% of the company, BMS's management agreed to meet the hedge fund.

I'M A CELEBRITY...

Carl Icahn has turned himself into one of finance's most well-known names by going after Western Union, Phillips Petroleum, Texaco, Viacom, Revlon, Time Warner, Motorola and others.

But for most activists it is the companies they target that become more recognisable. In the summer of 2015, San Francisco-headquartered hedge fund ValueAct announced it had built a 5.5% stake in Rolls-Royce, sparking speculation that the diversified engineering group would be broken up. ValueAct's move came after Rolls-Royce issued four profit warnings in 18 months, and prompted an immediate 6% jump in the share price.

By November, ValueAct's stake was more than 10%, and the February 2016 announcement that Rolls-Royce would cut its dividend for the first time in 24 years was the straw that broke the camel's back. ValueAct's chief operating officer Bradley Singer became a non-executive director of the engineering company, reportedly in exchange for an agreement that the hedge fund would not publicly call for a break up of the group.

In April 2018, Singer secured a further two-year stint on the board, and was given freedom to talk publicly about strategy - a move that *The Times* suggested would increase the likelihood of a break-up. Having stood at 750p when ValueAct's investment was first revealed, Rolls-Royce's shares have gradually edged higher, reaching a peak of 1,094p in August 2018 before slipping back to about 900p at the start of March 2019.

Elliot Management, the most high-profile of the activists, targeted: Tesco, where it sought damages for the 2014 accounting scandal; National Express, where it sought board representation and a change in strategy; and Akzo Nobel, where it wanted the company to engage in talks about a potential takeover by US rival PPG Industries.

EUROPEAN LEAGUE

Europe is now seen as full of opportunities, with the number of campaigns up 30% in 2018 and a perception that the pool of investment opportunities has not been so heavily fished. EU directives aimed at encouraging investor participation may play into the hands of the activists as they ally with institutional managers - particularly the passive funds that account for more than 20% of market. Elliott Management took

"At any one time I'm working with five or six clients, and my work with at least one of them is related to activists"

Charles Honnywill, UK&I divestiture advisory services leader, EY

"Activists want the backing of institutional investors"

Ed Gunn, technical director, Deloitte

ACTIVE OR PASSIVE?

Strong returns put activist hedge funds on the radar of institutional investors and swelled their coffers. The average return from dedicated activists funds between 2009 and 2010 was 35.1%, significantly higher than the 21.6% return on the MSCI and 20.8% on the Standard & Poor's 500 (S&P500).

However, that outperformance was not maintained and, between 2011 and 2014 activists returned an average 9.9%, lower than both the MSCI (11.1%) and S&P500 (16.0%). In the most recent period, from 2015 to 2018, activists returned 6.9%, more than the MSCI (5.7%) but less than the S&P500 (7.7%).

Hedge funds operate with a 'two and 20' fee structure, where a high management fee is supplemented by a performance-related bonus. This structure, which is also used in private equity, needs persistent outperformance if it is to be justified by increasingly lean institutional investors.

Patchy performance does not mean that the activists have had their day. Activists' relationship with institutional investors is increasingly symbiotic. "Activists want the backing of institutional investors," says Ed Gunn, technical director in financial advisory at Deloitte. "They typically approach the management team with their ideas before applying private and public pressure, but often they have already tested the waters with institutional investors first."

The leading activists took advantage of this relationship. Josh Black (below), editor-in-chief at *Activist Insight*, explains: "The smart guys got in while the market was hot. They kept their influence and relevance by raising permanent capital and capital for specific campaigns.

"Investors in hedge funds may not necessarily want to invest in a long-short fund, but they are willing to back specific campaigns where they can see the opportunity and trust the manager."

GETTY

a 3% stake in German process machinery company GEA in October 2017 and raised the question over its restructuring plans - was it ambitious enough in terms of cost savings and efficiencies?

It is consumer goods and retail that have seen the most activity, accounting for about 18% of campaigns in Europe between 2014 and 2018, followed by energy and resources at about 15%. But activity has been spread across different sectors including financial services (14%), industrials (12%), technology (12%), services (10%) life sciences and healthcare (9%) and media (5%), according to Deloitte's analysis. It is difficult to nail funds down to specific strategies. Most seem to run with any opportunity that will turn them a profit.

"They do a lot of homework in advance, looking for where there is a gap between market value and intrinsic value," explains Jason Caulfield, M&A operations and value creation services global leader at Deloitte. "That might be simply excess cash in the balance sheet, or the options for M&A or disposals, or they might be looking at strategic and operational improvements."

"They do a lot of homework in advance, looking for where there is a gap between market value and intrinsic value"

Jason Caulfield, M&A operations and value creation services global leader, Deloitte

ALL GUNS BLAZING

How do activist hedge funds go about their business? The approach appears to be becoming more collaborative, at least according to Deloitte's analysts. In 2018, changes to the board overtook M&A/break-up as the most common demand, with more demands for changes to strategy or capital allocation. There were less demands for M&A/break-up, or changes in governance, management or operations.

"They have been successful - both in triggering change and for their investors," argues Caulfield. "Will they be successful in the long term? That's harder to say. But I do think they are here to stay.

Gilets jaunes (yellow vests) protesters take part in an anti-government demonstration in France

HOW TO BE AN 'ACTIVIST'

No large listed company is off limits for the activists. Companies need two lines of defence. First, they need to do what they can to avoid a public approach and second, they need a robust and tested defence plan.

The key to staving off an approach is thinking like an activist. "You need to make sure you've got people on your board who are bringing the activist frame of mind into the boardroom," says Charles Honnywill at EY. "It is a responsibility for the non-executive directors including the chairman."

This requires rigorous and honest self-assessment. Parthenon-EY suggests:

- appoint a **board member** to act like an activist and ensure their recommendations are followed;
- develop a 360-degree view of **shareholder value** and its key drivers in each business unit, particularly around the capital structure; and
- adopt **governance structures** to address likely activist goals.

Corporates also need a defence plan, drawn up with corporate finance advisers, accountants, lawyers and other advisers, that is tested regularly – ideally every six months. Equally important is to remember that attack is the most effective form of defence. "Plcs should be meeting these people," Honnywill says. "Ultimately an activist brings another source of capital and is a potential investor. They should be treated with this in mind and not automatically as 'the wolf at the door'."

"Now there is a spectrum of activists, some combative or focused on short-term gain while others are genuinely thinking about how to make a business more competitive and stronger against its peers. Ultimately, they are another layer of scrutiny on public companies - particularly those with lacklustre performance."

Institutions have been supportive of the outperformance historically associated with activist intervention. Parthenon-EY analysed three-year total shareholder return (TSR) before and after interventions in listed US companies in 2009, 2010, 2011 and 2012. Their results showed that activists did not buck the market, but were associated with greater increases in TSR than control groups. For 2009 investments by activists, the pre-investment three-year TSR was 0.4% rising to 39.6% post-investment. TSRs in the control group were 5.3% and 34.6%. In 2012, vintage investments the pre-investment TSR of 65.0% was significantly higher than the post-investment return of 54.1%, but still better than the control group's 68.6% and 31.8%. ●

JON MOULTON

HOPES AND DREAMS

A less complex life is in fact possible in post-Brexit Britain

I've just watched what feels like my 500th (or is it 5,000th?) news programme about Brexit. At the time of writing it still seems 'probable' (under either the US GAAP or International Financial Reporting Standard definitions of 'probable') that Brexit will happen in the next year or two. Whichever way we go post-Brexit, I believe we have a great opportunity thereafter.

The Brexit outcome is currently as unclear as the new lease accounting rules. I struggle to explain the need for capitalising leases to seemingly intelligent people. But then, ever since the profession decided that 'unobservable profits' were clear enough for users of accounts, it has been a daily activity to try to demystify the latest accounting standards for bemused people.

LESS IS MORE

The EU has generated masses of literally unreadable, often unnecessary, regulation of the worlds of finance and commerce. We will not need to follow this in future. We could even get rid of some of the bits in the accounts that Britain never really needed, in my view.

The UK has created great regulation in the past. The 1948 Companies Act worked very well. It was concisely drafted compared to its successor in 2006 that runs to over 700 pages and is a tough read. Despite being roughly twice the size, the 2006 version does not add a lot of value to the 1948 version. Nowadays, we suffer from truly monstrous regulations – especially in financial services.

Not so many years ago, we had accounting standards that could be read cover to cover in an afternoon. Today, the IFRS basic standards exceed 1,500 pages, which would take a week perhaps?

We all know that public company accounts are so long that cover-to-cover reading is a truly exceptional event. Audit reports are equally bloated – and unread. The multiplicity of bodies that generate regulation has grown and that multiplicity itself expands.

The current concerns about audit effectiveness have generated the Kingman review, a review by the Competition and Markets Authority, and now the Brydon Review (which of course needs two advisory boards). Between them, I expect around 200 to 300 recommendations. And, sadly, many of these will make it into regulation.

The UK may well have a tougher time in business post-Brexit than it has been having. One way to help the economy through it would be to halt fresh regulatory change. Ideally we would reverse and simplify what we currently have on the books. Business could avoid some useless costs, and devote resources to building better companies rather than in tedious and difficult form-filling that is then sent to places where good brains are all too often wasted.

Having clear, concise and rational regulation of all kinds is a way to attract investment into the UK, and to make the UK more productive. Britain may well need that edge.

PRAISE TO THE INSTITUTE

I recently joined ICAEW's Technical Strategy Board. The Institute's various committees, faculty boards and hard-working staff are often and unavoidably reduced to responding to the flood of proposed – and actual – regulatory changes on an extraordinary range of matters. I have been rather taken aback by the scale of these efforts, and certainly pleasantly surprised by the quality of that work.

There is a lot of ICAEW capability and it's pleasing to be part of it. Pending the arrival of the simple and competent world I long for, there is a constant need for bright people to join in making the best out of the wall of complexity that assails finance and business on a daily basis.

All too often proposed regulation does not need editing, but deletion. Any readers that can help the Institute – please join in. There is good to be done. ●

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WORKER TAKEOVER

AARDMAN, CREATOR OF WALLACE & GROMIT, IS ONE OF THE LATEST BUSINESSES TO GO FOR THE INCREASINGLY POPULAR EMPLOYEE-OWNERSHIP OPTION. MARC MULLEN ASKS IF IT'S A LONG-TERM TREND OR JUST FLAVOUR OF THE MONTH

For the founder of a business, saying goodbye can be the hardest thing to do. So tough, in fact, that some never do it. Often, founders will know every single employee. Another tie binding the owner to the company can be that it is an integral part of the local community.

Research by insurer Legal & General found that only 42% of the UK's family-run firms have planned succession. Today, for a plethora of reasons, the next generation is perhaps less willing to take over at the helm of the family business. And sometimes an owner-manager has so much control over the company they founded that the next generation of management has not been able to come through. Second-tier employees may not have any significant equity stake, or the means to re-mortgage their house to acquire such a stake.

"Owners must have a succession plan," says Deb Oxley, chief executive of the Employee Ownership Association (EOA), who was awarded an OBE in the 2019 honours for services to employee ownership. "And that plan must be about changing ownership and managing leadership succession."

42%

of the UK's family-run firms have planned succession

AF ARCHIVE/ALAMY STOCK PHOTO

Buy-outs are tricky without a proven management team. And buy-ins or trade sales might not appeal to a founder, because they may want the firm they have created to retain its identity. They will also feel protective of the employees who helped build it and fear the impact on loyal staff.

Employee ownership, which in many ways was pioneered by the John Lewis Partnership, can address many of those issues. The EOA has been trumpeting about this way of doing things, but word of mouth and what seems like a greater appetite for employee ownership has seen the number of such businesses increase. Since the UK government's introduction of the employee ownership trust (EOT) schemes (see 'The Tax Incentive', below) in 2014, uptake of the model has grown by about 10% a year, according to EOA figures.

John Lewis is the largest employee-owned company in the UK. The model is mostly popular among architect firms. But a scan of the UK's 50 largest employee-owned companies shows a broad range of industries: engineering consultancies (Mott MacDonald, Arup, CH2M, BMT, Black & Veatch); logistics (Unipart, Steer Davies & Gleave); social care and healthcare services (Shaw Healthcare, Bristol Community Health, Medway Community Healthcare, Locala Community Partnerships, Care & Share Associates One); retail (Riverford Organic Farmers and Oldrid & Co); manufacturers (Gripple and Scott Bader); and leisure (Alfa Leisureplex).

In November 2018, Aardman made a high-profile transfer to employee ownership. The Bristol-based stop-motion animation studio behind *Wallace & Gromit* and *Shaun the Sheep* transferred 75% of its shares into an EOT.

"Owners must have a succession plan"

Deb Oxley OBE, CEO, Employee Ownership Association

"One potential disadvantage is the inability to get cash out"

Martin Cooper, director, RSM

THE TAX INCENTIVE

In 2014, to encourage the uptake of employee-owned business structures, the UK government introduced the employee ownership trust (EOT) legislation. It encourages a genuine transfer to company employees. Unipart (pictured) has embraced this model, with more than £750m turnover and over 6,000 employee-owners.

To qualify for the tax advantages, a controlling interest (more than 50%) must be sold to the trust, which holds the shares on behalf of the company's employees.

The shares are sold at no more or less than 'market value', which requires a robust commercial valuation. The beneficiaries of the trust must exclude individuals who hold or have at some point held 5% of the company's equity. And employees must all be treated by the trust on an equitable basis.

Provided the structure meets these requirements, the vendors will be given relief from any capital gains tax that otherwise would have been due. This is a tax break for the founder or owner-manager. Income tax-free bonuses (up to £3,600) can subsequently be paid annually by the company.

Where less than 100% but more than 50% is sold to the trust, the owner-manager or founder has some options for their remaining shares. They can retain them, and perhaps sell down over time to the EOT, or they may be sold to management to further incentivise them to drive the business forward. This may even be done through another tax-advantaged share plan, such as the Enterprise Management Incentive scheme (see the case study of Arbuckles, page 19).

50%+

A controlling interest of 50%+ must be sold to the EOT in order to gain tax advantages

ALAMY

"In almost any exit, debt coming into the structure somewhere does limit the ability of the business to invest"

Ewan Hall, director, Baxendale

"With an EOT, the trading company effectively funds the transaction itself"

Richard Cowley, director, RM2 Corporate Finance

In a joint statement, Peter Lord and David Sproxton, who together founded the company in 1972, said: "We're not quitting yet. But we are preparing for our future. The creation of an employee trust is the best solution we have found for keeping Aardman doing what it does best - keeping the teams in place and providing continuity for our highly creative culture. Those that create value in the company will continue to benefit directly from that value."

Sproxton will continue as managing director (MD) for now, accountable to the EOT, but a new MD will be appointed some time this year, when Sproxton will move into a consultancy role.

"Employee ownership requires two things," explains Oxley. "There must be a mechanism where the ownership can be shared among all employees. Equally the business has to have a culture and a structure where employee influence and voice can be shared. The two are intrinsically linked." Otherwise all of the benefits will not be achieved.

NOT A PANACEA

In July 2018, the business-led Ownership Effect Inquiry published its report, *The Ownership Dividend*. Chaired by Baroness Bowles of Berkhamstead, the Ownership Effect Inquiry is overseen by a number of business organisations, including ICAEW.

According to the report, the employee-owned 'sector' accounts for well over £30bn of turnover in the UK. In her foreword, Baroness Bowles wrote that the sector is "thriving and fertile", but noted that the model is not necessarily "ideal". Nor is its impact automatically and universally

John Lewis, Birmingham

The EOT model is particularly popular with architects and other professional practices. But a scan of the UK's 50 largest employee-owned companies shows a broad range of industries

★ TOP 10 EMPLOYEE-OWNED BUSINESSES

#1 John Lewis Partnership
(84,500 employees, revenue £10.2bn)

#2 Mott MacDonald Group
(14,730 employees, revenue £1.5bn)

#3 Arup Group
(13,346 employees, revenue £1.5bn)

#4 Unipart Group of Companies

#5 Hyperion Insurance Group

#6 CH2M Europe

#7 AT Kearney Holdings

#8 Shaw Healthcare (Group)

#9 PA Consulting Group

#10 Control Risks Group Holdings

SOURCE: EMPLOYEE OWNERSHIP ASSOCIATION

transformative - it "must be worked for".

The report found that among employee-owned businesses, there were increased levels of productivity and efficiency, improved workforce retention, easier recruitment and employee-driven innovation. And longer-term decision-making seems to lead to greater resilience.

WHAT'S NOT TO LIKE?

One EOT characteristic for the selling founder is that they usually will not get full payment on completion. Another is that a philanthropic owner may compromise on price. And then there is how the deal is funded.

Richard Cowley, a director at RM2 Corporate Finance - a specialist adviser on EOTs - explains: "With an EOT, the trading company effectively funds the transaction itself, so the majority of transactions are funded by vendor loans or deferred consideration.

"These are repaid by the trading company, although excess cash could be used to make a repayment at completion. A minority will also get third-party bank debt again taken out by the trust, which will also be repaid by the trading company. Taking on third-party debt will allow vendors to receive a larger payment on completion. Vendor loans would be expected to be subordinated to the third-party lender."

Because of the leverage the trust - and by extension the trading company - has taken on, raising capital for growth can be limited. Being people-heavy and asset-light, there may be little security against which to raise debt for growth.

FACTS AND FIGURES

£19.8bn
Combined sales of the top 50 employee-owned companies in 2018, up 6.5% on 2017

9.2%
Median increase in operating profits year-on-year

7.3%
Median increase in productivity year-on-year

171,000
Employees in the top 50 employee-owned businesses

54%
of employee-owned companies are debt free

350+
Number of UK employee-owned businesses

200,000
People in the UK are employee-owners

50%
Proportion of professional services businesses in the sector

SOURCE: EMPLOYEE OWNERSHIP ASSOCIATION/WHITE ROSE EMPLOYEE OWNERSHIP CENTRE

CASE STUDY: BCS Consulting

In July 2018, management consultancy business BCS Consulting was acquired by its employees. BCS had delisted from AIM almost a decade before. Immediately following that, staff owned only 3% of its issued ordinary share capital. Over the next eight years there was a gradual buy-in, and by January 2018, 55% was owned by employees.

Since delisting, the number of consultants increased from 22 to 156, and the board believed that increased employee share ownership had contributed to the successful growth of the business.

A BDO team led by Matthew Emms (above, left) advised the company. "This transaction allows BCS to benefit from the numerous advantages of being employee-owned," says Emms. "As the company's workforce is its most significant asset, an employee ownership trust (EOT) was an obvious cultural fit and a way to improve engagement, innovation and business performance."

A separate BDO team, led by partner John Stephan from the firm's Birmingham corporate finance practice, acted as financial advisers, as required under Rule 3 of the Takeover Code, which it was still subject to because it had delisted nine years previously.

Once the trustees had received acceptance from 80% of the shares, they declared the offer wholly unconditional and those shares were transferred to the EOT. The remaining shareholders either accepted after this date or were 'swept up'.

In July 2018, when the majority of the shares were transferred to the trust, BCS's market value was £52m. The initial consideration for the shares was £7.5m, financed from BCS's existing cash resources. Cash generated from future trading will finance the £44.5m consideration still to be paid. The time period is therefore not definite. But it is anticipated that it will be paid annually over a number of years post-completion.

BCS's CEO Paul Brock (above, right) says: "Employee ownership offered a very attractive solution to a complex ownership succession problem. Acquiring the entire issued share capital of the company by an EOT proved to be the perfect method of achieving this, by providing an exit for all shareholders on equal terms, financed out of future profits, while also securing a long-term ownership model, which enabled the business to continue on its chosen path under the same management."

"An EOT offers an attractive route for those prioritising the legacy and culture of the business. It's more a philosophical decision than a financial one"

"An EOT is an attractive alternative succession option"
Anna-Louise Shipley, corporate finance manager, Buzzacott

However, providing it is well structured, there will be headroom in the repayment schedule, which allows for operating cash to fund growth.

"In almost any exit, be it an MBO or employee buy-out, debt coming into the structure somewhere does limit the ability of the business to invest," says Ewan Hall, director at Baxendale, which advises on employee ownership transitions. "It is inevitable, and it will be the case for a period of time."

Another solution, says Andrew Rutherford, commercial director at Arbuthnot Commercial Asset Based Lending (ABL), is to use an ABL facility to fund growth. "It's good that employees are investors in the business, and by working harder can grow," he explains. "The capital requirements for that work well with our facilities because they are revolving and grow as the business grows. The challenges are making sure the management team are locked in so that they can drive the business forward to repay us."

Martin Cooper, RSM director, says: "One potential disadvantage is the inability to get cash out. It may be too early to see the sales of EOT businesses. But it's long-term patient capital, which is what the founder wants, because they want to see the name remain and their business continue to grow."

This is a sentiment echoed by Anna-Louise Shipley, a corporate finance manager at Buzzacott. She says the employee ownership model is presented as an alternative option when speaking to owner-managers: "Rather than just being a stepping stone to a trade sale or a private equity buy-out, it's an alternative succession option. An EOT offers an attractive route for those prioritising

CASE STUDY: ARBUCKLES

In December 2018, John and Maxine Murphy, the founders of Arbuckles, sold the restaurant business to its staff through an employee ownership trust (EOT). Arbuckles is an American-style diner restaurant and bar, which has two outlets. The couple opened the first Arbuckles in Norfolk in 2008, before opening a second in 2016.

By the end of 2017, the business was making about £1.7m EBITDA, but the job had become all-consuming. The couple began thinking about an exit. They wanted a change of lifestyle, to cash in some value for their hard work and reward the staff. "I wanted the responsibility for the business to be handed over to the people who would be running it," said John Murphy.

He met Garry Karch, managing partner of EOT specialist adviser, RM2. "I thought it was too good to be true to be honest. It was a leap of faith," John Murphy said. The EOT option matched the Murphys' requirements for an exit. RM2 advised on profit projections and scenarios.

The company was given a market valuation of £7.6m – the lowest valuation of several that were carried out. "This was the most reasonable valuation in my view and would allow the loans to be repaid within about five years," explained John Murphy. "This monetary value, plus the value we attached to rewarding the staff, amounted to fair payment to us. It was also one that was accepted by HMRC."

51% of the shares were put into an EOT for the benefit of all staff. The other 49% went into an Employee Management Incentive scheme – the Murphys' youngest son Daniel had 15%, the operational director and MD had 5% each, assistant managers, chefs and other key staff 2%. For management, a 1% share in the company was worth £76,000, but they had option to buy each 1% at £1,400. Jeremy Glover from Jurit provided legal advice.

Of the share acquisition price, £1.5m was paid out of the company's cash flow, £4.4m was a loan from ThinCats and £1.7m came in the form of an interest-free loan from the Murphys.

John and Sharon Collins, who have taken over as managing director and operational director respectively, plan to retire in six years. By then, the loans will have been repaid in full. The repayment calculations were based on the business performing at 20% less than 2018.

"We will advise the board for free effectively," said John Murphy. "It's a way of easing ourselves out of the business. The tax incentives were a sweetener. Maybe we could have got more money, but if that meant selling the staff short then we never would have done it."

the legacy and culture of the business. It's more a philosophical decision than a financial one."

Hall says EOT businesses are approaching an interesting point: "There was a bubble of businesses that transitioned to an EOT structure in 2014 (as most organisations looking to transition in 2013 waited until 2014), that are now coming out of the repayment period. It'll be interesting to see what those businesses do now they have more cash. They can take some more risk and invest for growth, save some for a rainy day or crank up the dividend. Or they can do a blend of all three." ●

"There was a bubble of businesses that transitioned to an EOT in 2014. It will be interesting to see what those businesses do now"

"The whole point is that the EOT is taking over from day one"

Neil Palmer, corporate partner, Fieldfisher

CASE STUDY: PARFETTS

AG Parfetts, a cash-and-carry business set up in Stockport in 1980, became employee-owned 10 years ago. Steve Parfett, who was a graduate trainee at Waitrose before joining the family business, rose to managing director and then chairman. He stepped down as chair last year. The company now has seven depots across the North of England. Profits for 2018 increased 54% to £5m, while the number of employees was 560. Employees received two bonus payments in 2018 after surpassing targets.

Parfetts holds employee meetings to discuss the direction of the company. It has a process of continuous improvement for staff and has a lower than average employee turnover rate of 15%, which it credits to its employee ownership trust (EOT) structure.

James Wild (pictured, left), corporate finance partner at RSM, carried out the initial strategic assessment of Parfetts ahead of the sale to the EOT. "Initially the trust acquired a controlling interest. Later the company became fully owned by it," he explains. "The non-financial aspects were important to Parfetts, particularly rewarding employees over the long term and retaining independence. Obtaining bank funding was a critical obstacle. The bank was interested in governance and how management were rewarded and retained. The model was a real passion for Steve Parfett at the time and still is."

LEGAL OPINION

"The tax benefit is often a key motivator for any founder who wishes to sell their business to an employee ownership trust (EOT)," says Neil Palmer, a corporate partner at Fieldfisher, who has advised on many such deals. "The legal challenge is then designing something that meets all the legal requirements so that the seller gets tax relief but also delivers meaningful employee ownership." But the tax benefit is not the only driver for selling a business to its employees.

There are three requirements that the EOT ownership structure must meet. First, all employees must benefit. Second, they must benefit on an equitable basis. And third, there is the 'controlling interest' requirement – essentially the trust must have control in different ways over voting rights and profits.

"One challenge is how to balance the EOT legal requirements versus the concerns of the founders," Palmer explains. "For example, the founder says 'I'm not being paid in full for X years, because the consideration is through vendor loans or deferred consideration, so I want to control the company during that period'.

"You cannot cut across the rules. You cannot give control to founders. The whole point is that the EOT is taking over from day one. So you need to find mechanisms to give assurance to the founders which comply with the requirements."

This balancing act can prove the main hurdle for the lawyers. It will often depend on how the founder has come to the EOT decision. If letting go is a particularly big problem, then perhaps an EOT – or even an exit full stop – is not the answer that the founder is looking for. A sale to a private equity investor would significantly reduce the founder's control, as would a trade sale or initial public offering.

"Private equity will always want influence, even in situations where it puts in growth capital and just takes a minority stake," says Mark Gearing, a Fieldfisher partner who specialises in equity incentives. "Private equity comes with strings attached. It is more aggressive in looking to accelerate growth. This is not to say that employee-owned businesses are not looking for growth, it's just a different culture and model."

Gearing points out that many of the EOTs set up just after the legislation was introduced in 2014, will now be looking to the next stage of growth having paid off the original founders, and potentially investing to grow. "We'll see what happens," he says.

Fieldfisher has been very prominent in the creation of EOTs because much of the UK coalition government's thinking was shaped by *The Nuttall Review of Employee Ownership*, written by Fieldfisher partner Graeme Nuttall.

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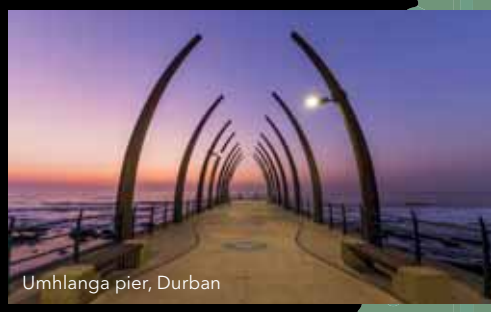
LETTER FROM SOUTH AFRICA


Umhlanga pier, Durban

Jenny Cope of WSP has spent just over a year in South Africa advising on the environmental and social aspects of M&A, having moved there from the UK. Here, she tells us about the local corporate finance community

It's interesting to compare the corporate finance markets in the UK and South Africa. There's a strong deal-making community in the latter - Johannesburg especially. Investors are aware of the potential sensitivities associated with investment into Africa, and seek robust due diligence advice as a routine part of investment; which provides opportunities for those in the advisory field. However, we still see a number of investors in Africa who are either based in or led out of London, with regional sub-Saharan Africa offices in Johannesburg. Of course, the capital market is far more developed in London, especially on the private equity and venture capital side.

M&A activity in South Africa itself slowed down in 2018, compared to previous years. Investec's Chetan Jeeva was quoted in *Engineering News* saying that South Africa accounted for about 30% of the M&A activity on the continent for most of 2018, but it used to account for 50%. Other African countries have seen an increase in deal volumes. Egypt, Nigeria and Kenya were reported to have been very prominent from a deal activity perspective.

There is a massive amount of private equity available for investment on the continent. But, to some extent, the private sector was held back by public sector inefficiencies. This is because the public sector needs to act as an enabler to the private sector to build on existing or first-established infrastructure.

The majority of investors and advisers are based in Johannesburg. However, there is good representation in and around Cape Town, where I'm based. The wine region is understandably popular. Other work is often serviced out of hubs in Durban, Port Elizabeth, George or Bloemfontein - particularly when it comes to the larger advisory firms such as those providing financial and legal due diligence. It is not uncommon to have investors and specialist advisers travelling throughout RSA from Johannesburg and Cape Town.

Sub-Saharan Africa as a whole is often served from the deal-making community in South Africa, with investors and advisers travelling to the relevant locations. The geographical area being served is large, and flights from South Africa are not only regular but serve most African countries directly.

50%

Volume of M&A activity in Africa that came out of South Africa historically

30%

Volume of Africa's total M&A activity that came from South Africa in 2018

FRUITFUL FUNDING

Investment in the South African industrial sector was strong in the first half of 2018, particularly from inbound investors. Infrastructure has standout sectors - private healthcare is growing rapidly. There is also significant investment in development projects. The water crises that hit Western Cape in 2017 through 2018, for instance, have brought about much-needed investment in water sector infrastructure. We are also seeing more development projects in the energy, ports, rail, roads and renewables space.

Africa has attracted inbound investment for a long time. Although strict anti-bribery and anti-corruption laws in some investor countries - such as the US and the UK - have made investors more cautious recently, it does not preclude deals. Regardless, WSP has seen an uptick in interest in our provision of governance due diligence services as businesses seek assurances in this area. This year WSP has worked with inbound

Cape Town

Johannesburg

PRIVATE EQUITY IN SOUTH AFRICA

There is a strong core of domestic firms, with a reasonable number of international PE firms investing, either from overseas offices or via regional hubs. The most prominent firms include:

- Actis Capital;
- Agile Capital;
- Blackstone Group;
- CapitalWorks Equity Partners;
- Carlyle Sub-Saharan African Fund;
- Catalyst Principal Partners;
- Globaldyne;
- Helios Investment Partners;
- KKR;
- Leapfrog Investments;
- Medu Capital;
- Old Mutual Private Equity Partners;
- RMB Ventures; and
- Rockwood Private Equity.

investors based in the US, UK and Australia, as well as for South African investors investing in other African countries.

There is reciprocal deal-making between Africa and the UK. This is brought about by factors such as historical ties, English as a common business language and broadly aligned time zones. It is speculated that Brexit has positively impacted investment into Africa, as UK investors reach out to historical trade partners.

According to analysis by Baker McKenzie of Thomson Reuters' M&A data, in terms of outbound investment, the UK had the highest number of investors from Africa during the first half of 2018 (20%), with 12 deals being completed in the first half of the year. India was the most attractive market in terms of value, and is also a developing economy. So African investors perhaps have a greater familiarity with the challenges and opportunities in India.

WSP's deal sheet for the last 12 months has been diverse, ranging from petroleum and gas storage infrastructure in Nigeria to financial services in Kenya.

We recently advised a number of international investors on renewables projects in southern and eastern Africa. The projects were supported by third-party, locally generated environmental and social impact assessments (ESIAs), and WSP provided gap analysis reporting. While the existing ESIA documentation suffices to meet local legislative needs and gain development authorisation, the documentation is distinctly lacking in some environmental and social areas that global institutional lenders would explore before lending towards these projects. Hence, obtaining international lending against these projects would require notable additional time and expense to complete further environmental and social studies.

In April/May 2018, WSP provided environmental and social due diligence advice to the Carlyle Group on its acquisition of a majority stake in Uganda-based Abacus, one of East Africa's largest pharmaceutical distributors and the largest manufacturer of parenterals (IV fluids, ear, nose and eye drops). The firm was founded 23 years ago, is headquartered in Kampala and has a network of 30 branches across Uganda, Tanzania, Burundi, Rwanda and Kenya. The deal was the first healthcare investment by Carlyle's $698m sub-Saharan Africa fund, launched in 2011.

A FAMILIAR PROCESS

As with deals I worked on in Europe, the advisory services commissioned are often deal-dependent: it hinges on the size of the transaction and its counter-parties. When working on behalf of sophisticated global investors and well-developed South African businesses, the process is very similar to that which I experienced in Europe.

For smaller investments into start-up phase business where investors see significant opportunity for growth, the process can be more 'informal'. Regardless, the diligence completed is thorough. Consequently, the advisory services are similar to the UK: financial and legal taking the top spots, then tax, insurance, commercial, IT, environmental, social and governance (ESG) (including health and safety), ethics and compliance, pensions and HR.

A greater proportion of deals here than in Europe include specialist ESG due diligence. Concerns around labour and working conditions, corruption and bribery, pollution prevention and resource management persuade investors to dig into these areas. WSP's services here are specifically designed to identify ESG financial and reputational liabilities, and then design action plans that can be practically implemented to minimise these risks and unlock value over the investment period.

The challenges we see often relate to timelines of deals; investing into Africa can be delayed by aspects such as obtaining visas for site inspections, availability of senior management when investing in start-up scale businesses, and general travel logistics. Where deals involve inbound investment there can be cultural expectation-based challenges; where global investment standards need to be sensitively explored in order to both satisfy the investor, and keep the target business open and co-operative. Such challenges can be minimised by careful planning and the use of advisers who are familiar with operating within various African jurisdictions. ●

Jenny Cope, associate, WSP, the global engineering services firm. She advises on environmental and social issues, including in M&A. She is based in Cape Town, having previously been based in the London office

This year, Buzzacott will celebrate its 100th anniversary. Marc Mullen speaks to **Matt Katz**, who has established the firm's corporate finance practice, about doing deals, setting up teams and serving canapés

BUILDING A BUSINESS

After the end of the First World War, in 1919, munitions accountant Fred Buzzacott set up an accountancy firm. A century on, the modern advisory firm offers much more than just bookkeeping services. The example that is perhaps the most relevant to readers of *Corporate Financier* is that Matt Katz joined Buzzacott four years ago to set up a corporate finance practice from scratch.

"You can't dabble in corporate finance," says Katz. That was something he learnt early on when he first worked in corporate finance at Grant Thornton. In the late 1990s, the firm moved from having audit partners working on transactions to having teams completely focused on deals. Some 20 years on, the GT approach demonstrates how a corporate finance business can be created. Now, albeit on a smaller scale, Katz is building just such a specialist service line at Buzzacott. His advisory team is 10-strong (see page 24), completing roughly 10 transactions a year.

Katz spent nine years with Grant Thornton, followed by two years on a career break running a corporate catering company, and then seven years as corporate finance partner at Roffe Swayne in Godalming (see 'Matt Katz – the CV', page 24). In 2014, Katz was looking for a fresh challenge and had a conversation with two former colleagues from his Grant Thornton days, who were now partners at Buzzacott. "They told me the firm had never done corporate finance before. We talked about the opportunity. My approach to corporate finance is collegiate. It's about the relationship – not just, 'let's just do a transaction and move on'," he says.

Katz joined Buzzacott in March of that year. The firm was keen to back his approach. Very shortly after he started, Katz got his first deal, advising former Cable & Wireless CEO Tony Rice on the acquisition of Shields Environmental. "That was good, because it brought in fees, and proved the worth of creating a corporate finance service line," says Katz. "But on the downside I was busy with the transaction and had little time for marketing and recruitment." The first recruit came 12 months in. They worked together on the sale of military communications company Vocality to Cubic Corporation in November 2016.

1919

The year Buzzacott was founded

10

Size of Buzzacott's corporate finance team

"My approach to corporate finance is collegiate. It's about the relationship – not just 'let's do a transaction and move on'"

The key skill Katz looks to develop in advisers is the ability to speak to smaller entrepreneurial companies, understand their growth plans and the personal and business drivers, and then translate that into a successful deal process. The firm is a member of the Corporate Finance Faculty.

The sweet spot for the Buzzacott team is entrepreneurial businesses with between £1m and £4m EBITDA – trade sales, management buy-outs, fundraisings and, more recently, employee ownership trusts and transactions.

They have completed a broad range of deals. 2018 was a breakthrough year, started by advising Open Energy Market on a £3m growth capital fundraise from Calculus Capital, followed by a range of other transactions: assistance to Corimar acquiring Morgan's Financial; promotional merchandise company BTC on its sale to Geiger; assisting leading architects ORMS on conversion to employee ownership; Moonbug Entertainment on its acquisition of several YouTube channels; and Octopus Investments on its investment in Eclipse Power. "In transactions sometimes you get lucky and learn so much, other times it stalls," reflects Katz. "But I'm a great believer in backing our people to back themselves, and help them develop. It's how we build the team and our business." ●

ONE DEAL, MANY LESSONS

For Katz there is one deal that showed him almost every aspect of a corporate finance assignment – this dates back to his days at Grant Thornton (GT). In 2002, Katz advised on the Alchemy-backed MBI, carve-out of MMS from Standard & Poor's (S&P). Headquartered in London, MMS International supplied analysis to global financial institutions that had staff in S&P offices across the world. PwC had spent six months working on an MBI, but it didn't work out.

Katz and the team looked at the deal afresh. The valuation was on a revenue multiple, which was a challenge. Under S&P's internal accounting, MMS didn't make a profit but, having dug more deeply into the underlying figures, the team found it made more than £5m a year. "They didn't really know what they were selling," says Katz. "And the jump was so big that most private equity firms we spoke to simply didn't believe it." One Friday night, David Brooks, the then head of corporate finance at Grant Thornton, called Jon Moulton (now a member of the Corporate Finance Faculty's board and *Corporate Financier* columnist). The following Monday morning, Katz and Brooks were presenting to Dominic Slade. Alchemy invested £7.25m for a 68% share of the £13.5m deal in September 2002 alongside management.

"They sold it just a year later to Informa, which had a near identical business, more than doubling their money," says Katz. "It was the highest internal rate of return Alchemy had made, and might still be." Three months after the buy-in, the FD of MMS left. "You help the FD during the process, but post-transaction they are exposed to the private equity owners, which doesn't suit everyone."

A proposed secondment to the then-Financial Services Authority for Katz did not appeal to his entrepreneurial instincts. So he pushed for a secondment to assist the new interim FD at MMS. Six months into his secondment, it was sold to Informa. Katz stayed on for another six months and worked on the subsequent integration. "The most interesting thing was what I saw post-transaction. I learned a lot in a very short time."

PHOTOGRAPHY: ALEX RUMFORD

...AND THE TEAM

While Katz leads a team of 10 advisory staff, the ambition is that one day he has separate specialist units: one dealing with disposals, one focusing on fundraising, one on acquisitions and buy-outs, and a due diligence team. He is also nurturing a team focusing on social investment. "Everyone in corporate finance must understand valuation inside-out."

1. PJ Walters is a manager in the corporate finance team, specialising in advising on international transactions. An ACA, he joined Buzzacott in 2013 from BNP Paribas.

2. Tony Dillow joined in 2012 and is now a senior tax manager specialising in M&A.

3. Andy Hodgetts is a senior manager. He joined the team in 2016 from AR tech start-up Blippar, where he worked in finance. He was previously at market research business TNS, having trained as an ACA at Kingston Smith. His focus is on fundraising.

4. Anna-Louise Shipley is a manager advising on acquisitions, disposals, valuations and fundraising. An ACA, she joined Buzzacott's audit team in 2011 and switched to corporate finance in 2017.

5. Meera Shah joined Buzzacott corporate finance as a manager in March 2018 from Smith & Williamson, where she was in transaction services. An ACA, she specialises in valuations for investment and tax, and advises on M&A and fundraising.

6. Calum Mitchell joined in 2015. He is an ACA and specialises in social enterprise investment, and joined the corporate finance team as an executive in January 2019.

7. Greg Westcott is currently studying for the ACA. He joined Buzzacott as a corporate finance analyst in January 2018, after a year working for G4S with the management team at the Wimbledon Tennis Championship.

8. Alex Judd leads the financial due diligence team, having joined in 2014 from Rawlinson & Hunter, where he qualified as an ACA. He specialises in the fintech sector and is also the financial modelling expert in the department.

9. Peter Ratcliffe is a tax consultant who joined the firm in 2015, having completed a maths and economics degree at the University of Nottingham. He is currently studying for the ACA.

10. Hamish Rosser joined the team last October as a corporate finance executive from Buzzacott's audit team, where he trained as an ACA. He joined in August 2015 after a year at HSBC.

MATT KATZ – THE CV

Originally from Surrey, Katz studied economics at Durham University. After graduating in 1996, he returned south to join Grant Thornton's audit team in London and train as an ACA.

"I followed the well-trodden path of Durham students becoming accountants," he says. After qualifying he joined Grant Thornton's fledgling corporate finance team. "It was very strong, with people who have gone on to great things. It was very entrepreneurial – very much 'let's go and find some clients to do some business with'. I loved that approach and it's stuck with me."

Katz became corporate finance manager – then decided it was time for a change on return from a secondment with MMS.

It is more common for corporate financiers to be eating canapés than serving them. But, between 2005 and 2007 Katz's idea of taking a career break involved running a high-end corporate catering business. Having built up the business, primarily in the City, he joined Roffe Swayne's corporate finance team in Godalming, Surrey in 2008 as a corporate finance partner. Lower mid-market deals were very much dependent on intermediaries and banks across the south. Then, after seven years, he joined Buzzacott in March 2015 to set up the firm's corporate finance department.

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Creation of a unicorn

After 15 years as a beauty product e-tailer, The Hut Group has become a worldwide success. And it is still acquiring

BUILDING THE HUT

"I wasn't planning on setting up a business – it just happened,"said Matt Moulding, founder of tech unicorn The Hut Group (THG). He graduated from University of Nottingham in 1993, before training as an ACA.

He then joined the Caudwell Group, a mobile phone distribution business, which at the time owned retailer Phones4U. He eventually became CFO of the group's distribution arm. Its founder, John Caudwell, began selling the business off (ultimately for £1.46bn in 2006 to Providence Equity Partners and Doughty Hanson).

In 2004, Moulding and his colleague John Gallemore decided to get into 'e-tailing'. They tried and tested various ideas, before selling health and beauty products with 40%-plus gross margins. THG was founded in Cheshire, with Gallemore as CFO and Moulding as CEO.

BELIEVE IN UK UNICORNS

Some 15 years after it was founded, in August 2017, Old Mutual – the South African-based global asset manager – paid £125m for a 5% minority stake. This valued the business at £2.5bn, making it a home-grown British tech unicorn.

From humble beginnings in the north-west of England, the group today operates 166 localised websites, and sells its products in 164 countries. In its latest accounts for the year to 31 December 2017, the privately owned group's turnover increased 47% to £736m (£512m overseas) – more than half from own brand premium products.

VIRTUAL WORLD, REAL DEALS

Last September, THG completed the acquisition of Acheson & Acheson, in a deal reportedly valuing the Somerset-based beauty product manufacturer at £60m. Travers Smith, EY and Deloitte all advised THG on the deal. Addleshaw Goddard and Baylor Klein advised Acheson & Acheson.

The plan is to invest £50m to replicate the business's state-of-the-art facility in Europe and the US, and sell into those markets.

Over the past 12 months THG has invested £164m in strategic acquisitions, including Espa, Glossybox, Illamasqua and RY.

In December 2016, THG's CEO outlined his growth strategy: "You have to either acquire your way into this sector, or spend many years building relationships through retail stores. We were in a far bigger hurry than that, so we bought in. We buy small, and because we have the right platform we can work with the brands to put a great offering together."

THE BACKERS?

Three years ago, THG announced it had received $200m of funding to back its acquisition plans. This came from a broad base – NY-based investment heavyweight BlackRock, Belgian investor Sofina and reportedly a Chinese backer.

Prior to this injection of new funds in February 2016, the talk was of a potential IPO. But Moulding said he only intended to float THG "as a big business, not a small cap".

Around this same time, US private equity giant KKR took a 19.2% stake in the business, matching the shareholding of UK venture capital investor Balderton, which had invested at an earlier stage.

In August 2017, South African-headquartered Old Mutual Group joined the roster of private investors.

A QUARTER OF VENTURE CAPITAL FIRMS WERE FOUND TO HAVE NO WOMEN ON THEIR TEAMS IN 2017

WOMEN IN CORPORATE FINANCE

A new report on the lack of women in venture capital; and the crowning of EY's second Corporate Finance Woman of the Year

BBB REVEALS VC BARRIERS FACING WOMEN

The British Business Bank's *UK VC & Female Founders* report has highlighted the difficulties women entrepreneurs still face in securing venture capital (VC) funds. The research, co-published with Diversity VC and the BVCA in February, revealed that:

- for every £1 of VC investment in the UK, all-female founder teams get less than 1p, all-male founder teams 89p, and mixed-gender teams 10p;
- £5bn of UK VC investment goes to all-male founding teams;
- VC investment in start-ups with female founders is increasing, but so slowly that it will take 25 years for all-female teams to reach 10% of all deals;
- 61% of VC firms didn't see any all-female teams in 2017; and
- a quarter of VC firms saw no women at all.

"The British Business Bank exists to lower the financial barriers that hold entrepreneurs back from achieving their ambitions," explained Alice Hu Wagner, managing director, strategy and economics at the British Business Bank.

"Experience tells us that seemingly simple solutions are attractive, but flawed. Mandating female decision-makers risks tokenism. Earmarking 'women only' money does not address underlying closed networks and experience gaps. Both approaches ignore the fact that women are not the only people under-represented in VC firms, and their investments. We need new approaches."

UK chancellor Philip Hammond commissioned the research as part of his 2017 Budget, to inform government work on tackling barriers and provide a boost to the economy. Some 45 firms assessed more than 4,000 pitches and over 900 investment committee decisions.

"It's incredible that in 2019 men seem to have a virtual monopoly on venture capital," argued Liz Truss, chief secretary to the Treasury. "We need more investment going into start-up ventures, and more women putting businesses forward. It's in everyone's interests that financing processes are open and meritocratic to grow the economy, and make use of all the talent we have."

PRESTIGIOUS INTERNSHIP FOR EY'S CORPORATE FINANCE WOMAN OF THE YEAR

Tiril Støle (pictured, centre) from Norway has won EY's Corporate Finance Woman of the Year award.

She was among 16 finalists whittled down from 1,500 applicants, who were all interested in future careers in corporate finance.

They took part in two days of assessments in London, working on a real-life M&A assignment prepared in collaboration with private equity firm LDC. Competitors had to link market trends and knowledge to find new solutions that delivered exceptional client service.

"Working on a real-life client case showed me the impact I could have in corporate finance, and the solutions I could bring to my future teams," said Støle. "Putting my theoretical knowledge and technical skills into practice, and applying negotiating and intercultural communication skills to help the client solve complex problems, were notable highlights."

The prize, only in its second year, is a 30-day multilocation internship with EY mentors and Transaction Advisory Services (TAS) teams around the world. The winner gets to hone their client, business, team and interpersonal skills.

Steve Krouskos (pictured, right), EY global vice chair TAS, said: "Each and every one of the finalists has excelled in a competition designed to dispel any perception that corporate finance and M&A is a male-dominated world."

Since 2018's inaugural competition, and other recent efforts by EY to improve gender diversity, the firm saw the number of female applicants in TAS increase last year by 6% to 51% in Asia-Pacific; by 12% to 45% in the Americas; and by 8% to 38% in Europe, the Middle East, India and Africa.

Julie Hood (pictured, left), EY global deputy vice chair of TAS, said: "We need to continue to demystify the world of corporate finance so we're attracting high-quality candidates from as broad a field as possible. Any stereotypes of who can and should be able to succeed in this industry are misconceptions and barriers to accessing high-performing talent. Ultimately having diverse talent supports our clients' most critical capital agenda needs."

Participants travelled from countries including Australia, Belgium, France, India, Japan, Mexico, Russia, Saudi Arabia, Singapore, United Arab Emirates and USA.

DESIRE PATHS

Albion Capital's investment director **Adam Chirkowski** tells Jo Russell about his route into venture capital

HOW WAS YOUR INTEREST IN VENTURE CAPITAL SPARKED?

I studied industrial economics at Nottingham University. I was always more interested in microeconomics than macroeconomics - what made companies successful, how they competed with each other and how they interacted within the market. While I always thought of venture capitalism as an end goal, I had a loosely formed idea as to what deal-making was. I was offered a scholarship to do a master's degree in corporate strategy and governance at Nottingham University Business School. That was a natural progression, and gave me an even broader understanding.

HOW DID YOU LAND YOUR FIRST JOB?

I was very keen to work in M&A, but knew how competitive it was to secure a place on a graduate scheme, just from the number of people applying at Nottingham alone. I thought both of my degrees would help, but your CV can't do the interviews for you. I applied to Rothschild and had two rounds of interviews followed by a 'super Saturday' with three or four panel interviews, and was offered a job. Fast forward four years and I was looking through graduate CVs. I realised then that you need some luck, as so many applicants have first-class degrees and have done internships. Something that's slightly different on your CV can help get you the interview. I'm from Yorkshire and I had spent three months selling shoes in San Francisco - maybe that helped, but who knows?

WHERE DID YOU START WORK?

I started in Rothschild's mining team in August 2008. Lehman Brothers collapsed a month later. There wasn't much pure M&A going on. But my first job was the £135bn BHP Billiton/Rio Tinto hostile takeover. That was a real baptism of fire. I was primarily involved with valuation modelling work. After the Rio Tinto deal, I mainly worked on project finance, before moving into the healthcare team. That sector is driven by private equity cycles of buying, building and selling.

HOW DID YOU MAKE THE MOVE TO VC?

After five years, I felt I had done as much as I wanted to at Rothschild, and wanted to get into VC. I had been advising established companies during sale processes and wanted to get more involved with the companies themselves. I joined Albion Capital in 2013. My job is quite different. A lot of it is people-driven. I'm trying to judge young companies that don't have years of historical data. It requires subjective judgement, and that comes from face-to-face meetings, rather than burning the midnight oil looking through reams of data and financials.

I started in Rothschild's mining team. My first job was the £135bn BHP Billiton/Rio Tinto hostile takeover. That was a real baptism of fire

WHAT IS YOUR ROLE AT ALBION?

Alongside typical VC work, we raised our first institutional fund in renewable energy in 2013. So I was involved in both deals and fundraising. Today, I still wear those two hats, and it's very enjoyable and rewarding.

WHAT IS YOUR INVOLVEMENT ON INVESTMENTS?

As an example, in May 2017, we invested £5m in G Networks, a fibreoptic broadband provider. It was a new sector for us, so my role spanned identifying the opportunity, studying the business plan, and gaining an understanding of the market, through to diligence, writing investment papers, getting to know the management team and negotiating the deal. Now I sit on the board. At Albion, we don't separate execution, diligence and monitoring. I enjoy this fully integrated approach, rather than seeing your deal being handed on to a portfolio manager, who might not see the opportunities the way you have.

WHAT ARE YOUR PLANS FOR FUTURE TRAINING?

Albion is supportive of training as and when it's required. I've had training on legal documents, which is something I didn't do at Rothschild. But in terms of plans for further study, my focus is more on getting experience from investing and the 15 boards I sit on. I led the G Networks deal, but worked closely with David Gudgin, partner at Albion Capital, on that (and other deals). He's played an important role in my development, and has decades of experience. From day one Albion partners were interested in my opinion. It's a great working environment. ●

CONNECTIONS

Matt Lister has joined **BDO Corporate Finance** in Reading as a transaction services partner from PwC. He will focus on entrepreneurial businesses and private equity clients in the Thames Valley region. He has expertise in the consumer and industrial manufacturing sectors.

BDO's merger with Moore Stephens is now complete – and the firm has also attracted five new partners.

Chris Grove, BDO head of transaction services, said: "The experience Matt brings to the team is an indication of our commitment to the Thames Valley."

Mark Farlow has joined **Spectrum Corporate Finance** as managing director, based in London. He has joined from Alantra, where he was partner. In 2013 he joined Catalyst Corporate Finance, which was taken over by Alantra in 2017. Prior to that he was a corporate finance partner at KPMG in Milton Keynes. He joined Grant Thornton in 1990, trained as an ACA and made partner by the age of 29, but left to join KPMG in 2000.

Reading-based Spectrum opened an office in London in 2016, and last year the firm relocated to larger offices in Soho. It now has 23 industry professionals, and is still recruiting. Farlow is the firm's first MD appointment since the firm was founded in 2010 by MDs Simon Davies, Clive Hatchard and Ian Milne.

Deloitte corporate finance partner Andrew Westbrook has been appointed Greater Manchester chair for **TheCityUK**. Westbrook will champion Manchester as the UK's fastest growing financial centre in the UK. He has taken over this new role from his Deloitte colleague Richard Bell.

Richard Bulkley (1) and Sanjiv Padmanabhan (2) have joined **EY**'s private equity value creation team – from CVC Partners and Endless respectively – as partner and associate partner. Adam Rosenberg (3) has joined the team in Manchester as a partner from Mercer, where he led the European M&A team, advising multinationals and private equity firms on benefit-related aspects of M&A.

At CVC Bulkley was director of technology assessment, providing advice to deal teams and portfolio companies, for IT transformation projects or technology-enabled value creation. He previously worked for EY, as well as Logica, Goldman Sachs, Accenture, Evolution and Morse Transaction Services, which he co-founded.

PE SHORTS

Matt Mead has joined **Mobeus Equity Partners** as venture partner to work across the mid-market private equity firm's VCT investments. He has joined from Mercia Technologies, where he was chief investment officer.

Mead has more than 20 years' experience in early-stage and scale-up technology investing, and was also previously investment partner in 3i's technology business and chief investment officer at NESTA. He was also a strategic adviser to Finance Wales. He has held board positions at Vistorm, Datanomic, Garlik and Polatis. He started his career with 10 years at EY, where he became corporate finance senior manager, before joining 3i.

Lloyd Williams (1) has joined **NorthEdge Capital** as a portfolio director, and Maninder Minhas (2) has joined as an investment manager. Both will be based in Leeds. Williams was formerly head of private equity for Kuwait Finance House (Bahrain), responsible for the management and exit of a $300m international investment portfolio. He previously held senior roles with KPMG, Deutsche Bank (Singapore) and Zeus Capital. Minhas has joined from Deloitte, where he was associate director for six years in the M&A team.

James Warburton has joined **Endless** as an associate director in Manchester from Deloitte, where he spent eight years in its Manchester restructuring team, and qualified as an ACA. During his time at Deloitte he had a 12-month secondment at LDC.

Sophie Brand has joined **BGF** in Leeds as an investor from Deloitte, where she qualified as an ACA, before joining the M&A team, working across the firm's Leeds and London offices. Her particular focus is on the retail and consumer markets.

Jay Wilson has joined **AlbionVC**, the technology investment arm of Albion Capital, as an investment manager from Bain & Co, where he had been consultant since 2016. Prior to this, he spent eight years as a broker at ICAP Securities. He has an MBA from London Business School.

Will Schaffer has joined **Mercia Fund Managers** as an investment manager, focusing on the Yorkshire area, from KPMG in Leeds. He spent the last 12 months on secondment to NorthInvest, developing an angel investor network for tech startups in the North. Born and brought up in the US, he started his career as a researcher at the Center for Strategic and International Studies, before moving into corporate finance, working for the McLean Group.

Jean-Christophe Germani has been promoted to the head of **CVC Capital Partner**'s private equity operations in France, succeeding Bertrand Meunier.

Padmanabhan was portfolio director at Endless, based in London. He previously worked for Deloitte, Bain and JP Morgan, as well as Arthur Andersen in India.

And Silvia Rindone has joined EY's strategy team in the UK as a partner from Capgemini Consulting, where she led the business model transformation practice and was on the consulting leadership team. She specialises in technology transformations. She previously worked for Alvarez & Marsal and Deloitte.

James Fadel has joined **Alantra** as a managing director to enhance its European structured finance capabilities. He joined from Deloitte, where he founded and led its European structured finance practice. He was previously head of EMEA structured debt capital markets at Jefferies International and head of European ABS at Morgan Stanley. He also worked in the US for Prudential Securities and Citibank.



Aadam Brown (1) has joined **Deloitte**'s equity capital markets team in London as a director from STJ Advisors, where he was UK head, advising corporates and private equity firms on IPOs, dual-track transactions, sell-downs and private placements.

Kiren Asad (2), winner of the ICAEW prize for the Diploma in Corporate Finance in 2016, has joined Deloitte from Strata Partners as an assistant director. Her focus will be on TMT M&A. She had been with Strata for eight years, having previously worked for KPMG in Pakistan.

Chris Bostock (3) has joined Deloitte's financial crime and cyber security practice as director from the economic crime team at the National Crime Agency.

Dr Alicia Greated has been appointed as CEO of the **Knowledge Transfer Network** (KTN). She was previously director of research and enterprise at Heriot-Watt University since December 2015, and prior to that she led the Newton Fund – a £735m government-backed research and innovation fund. She takes over from Chris Warkup, who has led the KTN – which is part of Innovate UK and UK Research & Innovation – since its formation in April 2014.

Martin Barron has joined **Begbies Traynor Group** in Leeds as a restructuring and corporate finance partner from Grant Thornton, where as partner he led the firm's restructuring team across Yorkshire and the North East. He previously worked at PwC and Deloitte as partner before joining Grant Thornton.

Campbell Cummings has joined **Johnston Carmichael** in Glasgow as a director in its corporate finance team from PwC. Prior to that he worked at Weir Group, the FTSE 250 engineering company that previously won the Corporate Finance Faculty's annual corporate development award.

GCA Altium has opened its 20th global office office in Leeds. Managing director Stuart Warriner will head up the office.

Amsterdam-based **Holland Capital** has hired Margot Engels as a partner to focus on the healthcare sector.

Northern Europe-focused private equity firm **Volpi Capital** has hired Erik Berggren from M&A adviser Arma Partners as a senior associate.

Mid-market private equity firm **Livingbridge** has recruited Vernan Richards from Alantra Corporate Finance as an investment manager in its Manchester office. He previously spent six years at PwC, where he trained as an ACA.


UK buy-out investor **WestBridge Capital** has promoted Tim Whittard (1) to director and Edward Minton (2) to investment manager.

Marc Benatar has joined **Apax France** as a partner in the healthcare team from GE Healthcare. He previously spent eight years at 3i in London and Paris.

LEGAL BRIEFS



Robin Baillie (1), Paul Muscutt (2) and Cathryn Williams (3) have joined **Crowell & Moring**'s corporate team in London as partners from Squire Patton Boggs, where Williams led the firm's restructuring and insolvency practice in London, and Baillie its infrastructure practice in the UK and Europe.


Emma Callow (1) joins the corporate team in **Irwin Mitchell**'s Birmingham office from Pinsent Masons. Callow specialises in strategic acquisitions, disposals, corporate restructurings and joint ventures, both domestic and overseas, and general corporate advisory work.

Irwin Mitchell has also promoted Matt Smith (2) to associate. He joined the firm in 2011.

Peter J Gennuso has joined **Drinker Biddle & Reath**'s corporate and securities group as a partner in New York, from Thompson Hine.


Dorsey & Whitney has recruited Helena Nathanson (1) and Paul Regan (2) as partners in its London finance and restructuring group, from Bryan Cave Leighton Paisner.

Browne Jacobson has recruited Peter Allen as a partner in its Manchester office, as it grows its north-west corporate practice. He has joined from Manchester law firm Kuits.

CMS Cameron McKenna Nabarro Olswang has opened an office in Liverpool, its first new office since CMS Cameron McKenna's tripartite merger with Nabarro and Olswang in 2017.

ON MY CV

BOXING CLEVER

If you have a self-contained asset to sell, preparation and controlling the process will maximise the price, says Castle Corporate Finance partner, **Victoria Ansell**

WHAT WAS THE DEAL?

The sale of AIM-listed Lok'nStore's records management business, Saracen Datastore, to US-based Iron Mountain for £7.6m, which was completed in January 2019. Saracen had grown during Lok'nStore's ownership and was contributing a good level of profits to the wider group. The proceeds were to be invested in Lok'nStore's core self-storage business.

WHAT WAS YOUR ROLE?

We acted as lead adviser to Lok'nStore. We designed and implemented a detailed deal process, prepared the related sales documentation, including the information memorandum, and approached a pre-agreed list of potential buyers. We helped negotiate improvements to numerous aspects of each bid, and convert the preferred bid to exclusive status – and ultimately a successful completion.

WHO WERE THE OTHER ADVISERS?

Goodman Derrick led by Joanna Higton was legal adviser to Lok'nStore. Iron Mountain used Mazars for financial due diligence and Mills & Reeve for legals.

WHAT WERE THE TIMESCALES?

Our first client meeting was in September 2018. From start to finish, it took 12 weeks – including Christmas – to complete as planned on 31 January 2019.

WHERE DID THE BIDS COME FROM?

We expected a trade play, as Lok'nStore had had informal enquiries recently. We knew who the likely bidders would be, but still conducted market research and generated a well-spread buyers' list to approach. The EBITDA multiple of 11x made it unlikely an SME would be interested, but it was not big enough to be a platform business for private equity. A trade consolidation was far more likely.

WHAT WAS THE PROCESS?

Given that it had been run as a subsidiary of an AIM-listed company for seven years, Saracen was perfect. The high-level round one data room was available to potential buyers for first bids. We also presented them with a key legal principles paper that identified the important legal points requiring early address, such as how the price would be structured, disclosure requirements and limitations of liability. We asked bidders to mark it up, and negotiated with them to improve their stance on each principle.

THE CV

Victoria Ansell studied accountancy, economics and French at the University of Bristol before converting to law. She spent almost a decade working as a corporate and commercial lawyer with CooperBurnett in Kent. In March 2016 she changed career and joined as a consultant to Castle Corporate Finance. She is now a lead adviser, drawing on her extensive legal and M&A experience.

Recent deals

- Sale of Twig Trading to RSK
- Raphael Hospital Group acquisition of Glenside Care Group

HOW USEFUL WAS THE DATA ROOM?

Nearly all our sale mandates now involve a virtual data room – it's the best way to manage the diligence process for everyone. It helps disclosure and you can keep track of what everyone is downloading. It was particularly important that we knew who was viewing what so we could tell who was really serious and who wasn't. It became clear that recurring revenues were a key aspect for driving interest and valuation.

DID A US BUYER POSE CHALLENGES?

Iron Mountain, a US-listed company, is very experienced in the UK and continental Europe. It's a massive consolidator. The acquisition will give it greater UK market penetration. It was reluctant to adopt our process and wanted to take its own approach. But this was a competitive process, so Iron Mountain had to adapt to our way of doing things. It's rare that an asset like this – a self-contained, profitable corporate subsidiary – comes to market. We knew it would attract attention. We were able to say: "If you want this asset, you need to crack on and do it." ●

PHOTOGRAPHY: DAVID HARRISON

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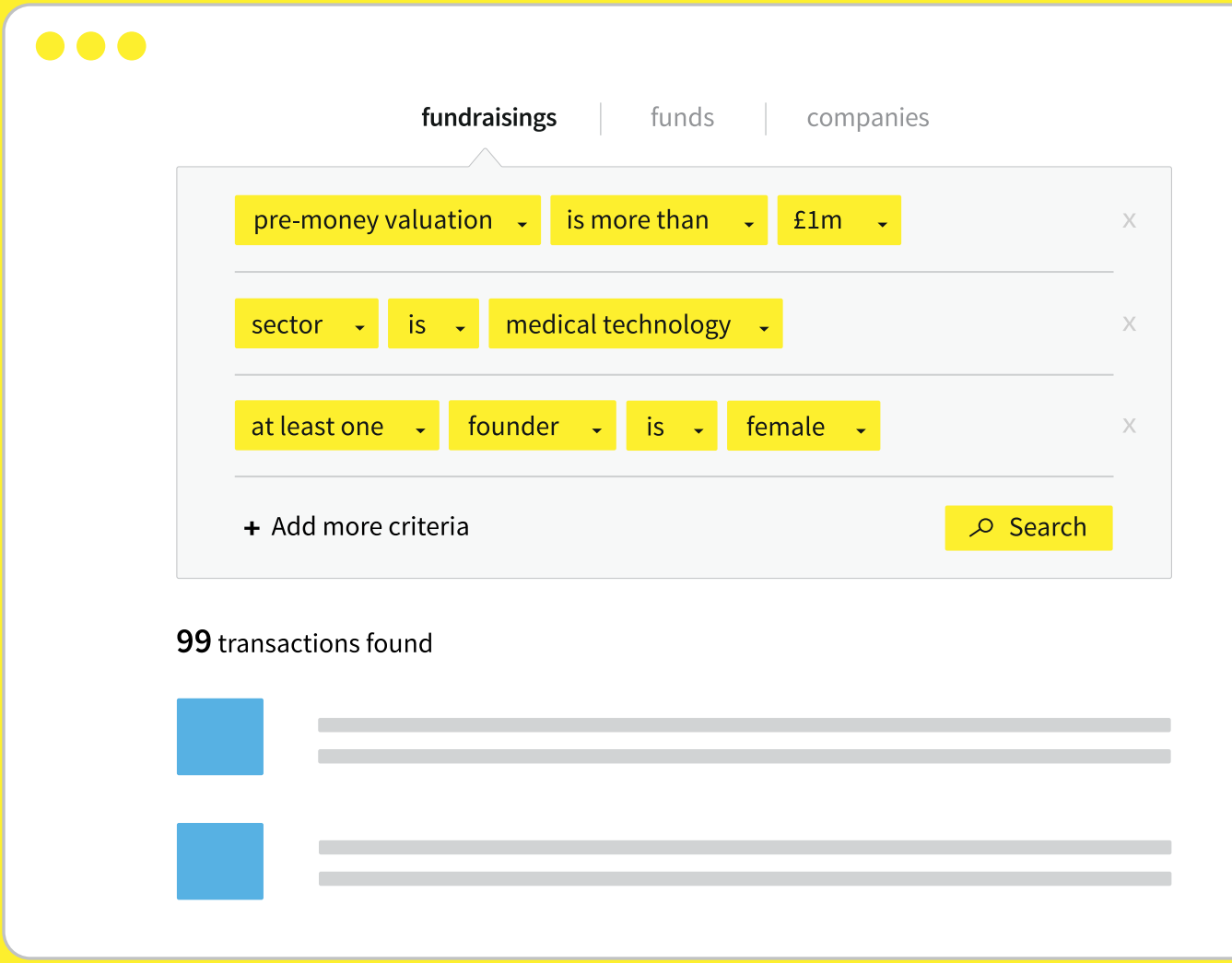

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