



WELCOME TO THE MAYFAIR BUSINESS CLUB

FIRST
CLASS



Mid-Market Deals in Mid-Recession

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Jeremy Whiteson (Forsters LLP) plus panel

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BUCKINGHAM
CORPORATE FINANCE LIMITED



Overview

- Ian Leaman and Jeremy Whiteson:
 - opportunities for corp fin solutions in troubled market
 - structures for distressed deals
- Panel of speakers on recent deal experience

Why Talk About Deals and Why Now?

- Many MBC members depend upon deals market as investors, investees, funders or advisers
- Market affected by economic turmoil
- Are we moving to a new phase of the recession?
- Identify threats, dynamics and opportunities



Opportunities 1: Good Business Bad Funding

- Can it be refinanced and if so by who?
- Debt or equity?
- Restructuring debt (debt equity swaps, postponement of debt, extracting business assets from corporate shell)?

Opportunities 2: Bad Business Good Funding

- Can the business be restructured to make it good?
- Extract and repackage good aspects of the business (or extract/close bad bits)
- New management and/or strategy
- Strategic merger



Limitations Imposed by a Downturn

- Lack of funding (especially bank debt)
- Lack of consumer confidence
- Lack of investor confidence
- Depressed asset values
- Urgency of dealing with distressed businesses



Opportunities Created by a Downturn

- Less competition for some deals
- Good value investments
- Business failure creates market gaps
- Market used to dramatic change - aggressive restructuring looks less shocking



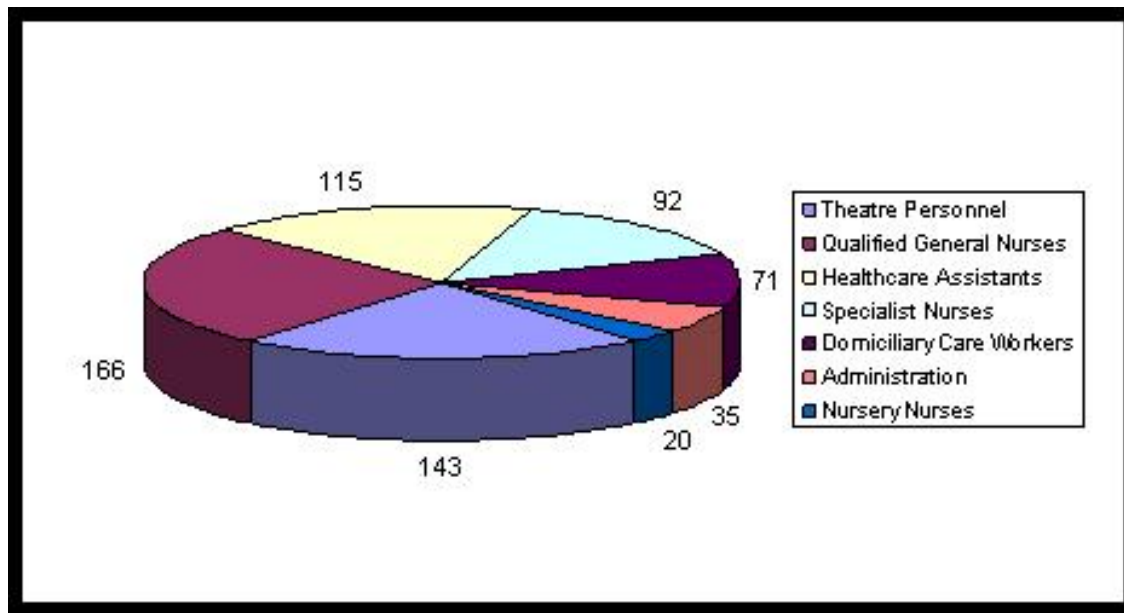
Finding a Solution – An Example

Business Profile

- *Established in 1992, the Business is a CSCI registered Nursing and Domiciliary Care Agency.*
- *Main activity – Specialising in providing operating department practitioners, speciality nurses, registered nurses, healthcare assistants, domiciliary care workers, nursery nurses and admin staff to both the public and private sector.*

Finding a Solution – An Example (cont. 1)

- *Currently 642 candidates are on the Business's active database as shown below:*



Finding a Solution – An Example (cont. 2)

- *Geographical strengths of the Business are in the West Midlands, South Yorkshire and London.*
- *The Business is included in the LAP3 Agency Framework Agreement for supply of critical care nurses.*
- *The Business is outside the Agency Nursing Multi Regional Framework Agreement and whilst revenues have declined, gross margins have held up.*

Finding a Solution – An Example (cont. 3)

- *Notwithstanding the exclusion from the Framework, the Agency is highly regarded in the market place due to the specialist staff, which it provides.*
- *Turnover for the last completed financial year was £6m. Currently monthly turnover is £400-450k.*
- *The Business employs 11 operational and 10 support staff.*

Finding a Solution – An Example (cont. 4)

- *Key assets of the Business are:*
 - *Strong candidate base of operating theatre personnel and specialist nurses*
 - *Receivables ledger*
 - *High quality customer relationships*



Finding a Solution – An Example (cont. 5)

- *Reasons for sale:*
 - *Turnover has fallen since the exclusion from the NHS Framework*
 - *Buyer been sought who could benefit from a strong market position, candidate database and reputation*

Sale Structures: Expedited M&A

- Sale by shareholders/directors – not IP
- Shorten the DD process (data room, fixed cut off)
- Shorten (or eliminate) the bidding process
- Shorten the negotiation process (seller draft agreement)



Expedited M & A Example

- *Major US retailer with loss-making perfume shops in UK*
- *Tried to sell through conventional sale structure but losses too big and management too lose*
- *Reputational issues of insolvency of wholly owned sub*

Expedited M & A Example (cont.)

- *Sold to experienced retailer with all consideration deferred and option for shares*
- *Seller avoided insolvency in group and received value on re-sale*



Sale Process: Pre-Packs

- Directors not able to sell (or buyers willing to buy)
- But business to be shielded from extended insolvency
- Buyer and terms agreed before admin appointed



Sale Process: Pre-Packs (cont.)

- Deal closed immediately after admin appointment
- Legal but need disclosure and proper value
- Directors may be at risk (wrongful trading, re-use of company name)



Pre-Pack Example

- *Restaurant chain with insufficient funding to implement their business plan*
- *If closed properties would be vacated, employees would lose jobs and all creditors would go unpaid*
- *The company was placed into administration and the business sold to a management owned vehicle in a pre-packaged deal*
- *New vehicle raised working capital by placing debt and equity instruments with new investors*

Restructuring Process: Agreement

- Many parties to the deal
- Is it possible in smaller companies

Restructuring Example

- *Old established manufacturer of wedding dresses with insufficient funds to meet immediate liabilities*
- *Explored opportunities for strategic partnerships and new sales outlets but insufficient to preserve business*
- *Intellectual property in new designs sold to larger business*



Restructuring Example (cont.)

- *Planned orderly sale of stock of old dresses*
- *Informal standstill requested from creditors shattered by statutory demand*
- *Administrator was brought in to allow an orderly sale of stock*



Restructuring: Company Voluntary Arrangements

- Deal between debtor and creditors which binds all when approved by 75% of debts (and 50% of shares)
- Possible moratorium for negotiations for small companies and individuals
- Challenge for unfair prejudice and material irregularity within 28 days
- Recent use for leases in JJB and Stylo-Barratt

The Mid-Market Deals Market - Experience of Others

- Steve Ryman - Shipleys LLP
- Mark Bruce-Lockhart - Philips Lockhart
- David Menton/Andrew Muir-Simpson - Synova Capital



THE NEXT MEETING OF THE
MAYFAIR BUSINESS CLUB WILL
BE ON 17 SEPTEMBER 2009