London review

Mining company Rio Tinto's recent deal to acquire Canadian aluminium business Alcan for £18.7 billion understandably grabbed the corporate headlines around the city.

But while this was one of the largest deals involving a London-based – or indeed any UK – company in 2007, the majority of deals have been at the small to medium-sized level. For example, outsourcing and professional services firm Capita Group acquired insurance business CMGL for £32 million in April.

London-based businesses have also been active on the capital markets, with various companies listing in recent months, including identification technologies developer Matica and satellite telecoms provider Avanti Communications joining AIM.

This activity is underpinned by continuing economic growth in the region. In recent months output and recruitment have been above UK average levels.

The favourable economic conditions have also been partly responsible for the number of London-based businesses going into insolvency to decline. Business failures in London, outside of the City, fell by more than 25% in the first half of 2007.

Over the following pages, M&A reviews recent activity in London and the City and leading players give their take on corporate matters and the prospects for the remainder of 2007.

SPONSORED BY

Morgan Lewis

CLYDE&CO

London calling

Deal makers continue to be active in the capital, with small and medium-sized businesses underpinning headline grabbing megadeals.

By Daniel Parton

With global metal prices at record highs, leading players in the industry are seeking to consolidate and London-based mining firm Rio Tinto plc is at the forefront of this drive.

Rio Tinto, the second largest mining company in the world, announced in July that it had agreed a $38.1 billion [£18.7 billion] cash deal to acquire Canadian aluminium manufacturer Alcan, valuing each share at $101.

FTSE 100-listed Rio Tinto came in for Alcan after an earlier $27 billion bid from US mining firm Alcoa was rejected on the grounds that it undervalued the business.

Rio Tinto's bid was enough to price Alcoa out of the market and secure the support of Alcan's shareholders. The deal is now making its way through the regulatory process and is expected to complete in the coming months.

While it is one of the largest deals involving a company based in the capital this year it remains an exception, with the majority of M&A activity at the small to medium-sized level. For example, on April 2 outsourcing and professional services firm Capita Group plc continued its growth by acquiring insurance business CMGL from private equity firm Sovereign Capital Partners for £32 million.

CMGL employs more than 440 staff in London, Cheltenham, Birmingham and overseas. In the year to December 2005, it recorded a £41.4 million turnover with an operating profit of £1.2 million.

London-based SMEs have also proved attractive to acquirers. For example, marketing agency Sponsorship Media was acquired by French rival Havas Sports for an undisclosed sum in March 2007.

Sponsorship Media will now trade as Havas Sports UK and was bought by the French group as part of its plan to establish a UK operation before the 2012 Olympics in London.

In the same month, stage equipment provider Core Creative was acquired by rival Hawthorns for an undisclosed sum from The

Alex Hilton-Baird

Founder

Hilton-Baird Group

The London market is always vibrant because it responds more rapidly to commercial, economic and - more recently - governmental changes.

London is fast embracing asset-based lending (ABL) as the primary source of financing for leveraged and transactional deals. ABL deals were previously limited to a supporting role in M&A transactions; today they frequently take the lead.

With names such as Austin Reed and Focus DIY using ABL, many businesses are exploring it as a means of taking their businesses from public to private or to fund multi-asset and multi-jurisdictional deals. As an expert on structuring ABL deals, Hilton-Baird is certain that the fact that ABL lenders can now put as much as £1 billion into a single transaction will further increase interest in this method of financing.

While London continues to be recognised as a centre of excellence for the development of commercial finance, the UK is reaching overseas with its expertise and lending culture, and increasing numbers of financiers are opening offices in central Europe. As a partner of the EBRD and with offices in Warsaw, Hilton-Baird has unparalleled knowledge of Central and Eastern Europe and believes that the heightened presence of UK firms abroad will attract competition overseas and in the UK.

T: 023 8070 7390
E: alex@hiltonbaird.co.uk
W: www.hiltonbaird.co.uk or www.hiltonbairdgroup.co.uk

Concerto Group. The deal boosted Leicestershire-based Hawthorns' turnover to some £9 million, and brought its staff up to 87.

Hawthorns acquired Core Creative to give the company a permanent base in London, where an increasing amount of its work is based. It has since rebranded Core Creative as Hawthorns.

London-based SMEs have also turned to outside funders to accelerate their growth. Streetcar, a pay-as-you-go car club, received £6.4 million from private equity firm Smedvig Capital in March to fund its growth plans, which include geographic expansion and increasing the size of its car fleet.

Elsewhere, The Capital Fund, which invests in fast-growth companies in Greater London, has continued to expand its portfolio in 2007. Its deals this year have included a £250,000 investment in Kids Planet, a family activity centre operator. Kids Planet, which operates under the Jack & Lulu brand, will use the money to open new sites.

Capital gains

Other London-based companies have looked to the stock markets to continue their growth. For example, on April 10, identification technologies developer Matica plc joined AIM, raising some £1.88 million on debut.

Matica, which joined AIM to help further its international ambitions, designs, manufactures and markets machines that personalise credit cards, identification cards,membership cards and SIM cards. Its market capitalisation is now £8.9 million.

Earlier in the month, satellite telecoms provider Avanti Communications Group plc, which was demerged from Avanti Screenmedia in December 2006, also joined AIM.

While Avanti Communications did not raise any capital from its admission, its chief executive, David Williams, hopes the business will benefit from an improved profile from being on AIM.

Investment companies also continue to use London as a base for listing. Cash shell Vestpa plc, which raised some £3 million on its admission in June, is now evaluating several acquisition opportunities in sectors ranging from consumer goods to engineering and telecoms.

In addition, Ora Capital Partners plc, the latest venture from Richard Griffiths, the founder of broker Evolution, joined AIM in April, raising £35.21 million at 120p.

Ora already has several investments, including AIM-listed investment businesses Kanyon and Oxeco, which are focused on the resources and technology and science sectors respectively. Ora also has a 64% stake in growth company-focused corporate financier BankORA. The firm still has £60.5 million available to spend on further investments.

The firm has already met with investor approval. Ora's final results for the period from November 7, 2005 to January 31, 2007, revealed a pre-tax profit of £2 million. Since admission, its share price has increased to 142p and its market cap is now some £142 million.

Failures down

The relatively buoyant deal making activity in the capital is indicative of the positive economic climate in the capital. This is backed up by a fall in corporate failures in the first half of 2007, with 1,231 businesses going into administration, compared to 1,658 for the same period in 2006, according to business information provider Experian.

Indeed, the 25.8% fall in insolvencies year on year is the biggest fall in the UK and well above the average fall of 6.9%.

However, City of London businesses are finding conditions tougher, with 286 businesses failing in the first half of 2007, compared to 277 last year. While this is only a rise of 3.2%, there are indications that the City market is tightening. In Q2, insolvencies were up by 10.9% year on year – the biggest jump in the whole of the UK.

Nevertheless, in economic terms, London is also still performing well, and has grown consistently since mid-2003. While output fell to a 17-month low in April 2007, the economy has since enjoyed an upturn and is again above the UK average for growth, according to the Royal Bank of Scotland's latest PMI London Report.

But London's growth was outpaced by the Southeast and Southwest and matched by the Northwest in Q2. This demonstrates how buoyant the UK economy is, especially in the South.

This growth was driven by the service sector, while manufacturing production fell, RBS reported.

Another indicator of the buoyancy of London's economy is that employers are increasingly recruiting. Indeed, only employers in the Southwest recruited at a faster rate than those in London in Q2.

"The London private sector regained its status as a powerhouse of growth in June, posting an expansion of output second only to the Southwest among all UK regions," said Ross Walker, RBS economist. "Underlying the improvement in activity growth was a buoyant expansion of new business in the capital's dominant service sector. Latest data showed that firms kept hiring new staff at a brisk pace, reflecting rising workloads."

Richard Beresford

Partner

Grundberg Mocatta Rakison LLP

In H1 of 2007, we continued to see a good deal of IPO activity, especially on AIM, and are currently advising on several reverse takeovers as well as straight floats. Acquisition activity has also been high, especially in Eastern and Central Europe and the CIS.

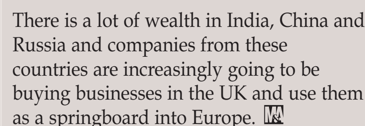
In IPO terms, we have seen continued interest from US businesses that, despite recent criticisms of AIM, still view it as a low-cost alternative to the US markets. While the criticism may have initially put some candidates off, we find that when US companies look at the reality of AIM they see it is a well regulated market.

As well as the US, we're also looking at potential floats from companies in China, India, Ukraine, Kazakhstan and Uzbekistan, among others.

M&A activity also has an increasing international aspect to it. We are increasingly advising on investment activity into China, including a US consortium establishing an automobile industry testing facility in the country.

Chinese businesses will increasingly come to Europe to make investments and acquisitions in the same way as Indian companies. We can already see this with China Development Bank's investment in Barclays. Indian companies are buying businesses here with good customer networks, take some functions back to India while leaving others and leveraging the existing market penetration.

There is a lot of wealth in India, China and Russia and companies from these countries are increasingly going to be buying businesses in the UK and use them as a springboard into Europe.



Grundberg Mocatta Rakison LLP
Imperial House, 15-19 Kingsway
London WC2B 6UN
T: 020 7632 1600 • F: 020 7632 1638
W: www.gmrlaw.com
E: Richardb@gmrlaw.com

Patrick Wilkins

London regional director

Venture Structured Finance

London is the financial capital of the world and compares favourably to New York due to increased regulation in the States.

Private equity firms are fuelling deal activity in the City and, importantly for asset-based lenders such as Venture Structured Finance, these firms are looking to leverage deals much more than in the past. However, the proposed changes to the tax regime affecting private equity firms should be examined carefully, as this may encourage them to leave London.

Venture's team stands out from the crowd because of its experience in the asset-based lending market at all ends of the spectrum. Venture is keen to work with a syndication of lenders to provide much bigger deals than have historically been possible.

Our new managing director, Chris Hawes, is spearheading a growth strategy that has seen Venture close a record number of deals in 2007. In the first five months Venture was involved in facilities worth more than £200 million. Our innovative approach to lending, combined with flexible market-leading products, is proving a recipe for success.

Venture is becoming involved in larger deals and additional significant funding opportunities are anticipated over the next few months. As an industry there is the capacity and desire to work together and a £1 billion syndicated deal is now a distinct possibility.

1st Floor, 15 Devonshire Square
London EC2M 4YW
T: 07984 978635 • F: 020 7655 4988
E: patrick.wilkins@venture-structured.co.uk
W: www.venture-finance.co.uk

Ian George

Head of mid-corporates, London and South

Bank of Ireland

The UK is Bank of Ireland's key priority – after its home market in the Irish Republic – and it is three years since I was tasked with rejuvenating the mid-corporate sector in London and the South. Since then, I have overseen more than 25 deals that have helped the Bank's UK Financial Services division deliver 29% of the group's overall profits in its most recent financial year, and I continue to be bullish about the market.

The team is doing deals across a spectrum of sectors, from hotels and food to electronics and manufacturing, and is seeing a rise in the number of integrated, 'one-stop shop' transactions, proving that flexibility, innovative delivery and true relationship banking are crucial in today's competitive environment.

The Bank is still recruiting and has a loan book target of well over £500 million for the coming year, which I believe is achievable due to the Bank's commitment to relationship banking. Not only is the team continuing to complete landmark deals – three since April and more in the pipeline – but is sharing its clients' success: as clients grow, the Bank is happy to increase its lending capacity to support them.

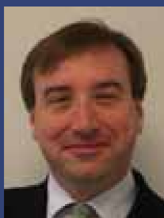
Our willingness to tailor solutions is in great demand. Deals are out there but customers are looking for added value and that's where the ability to deliver true relationship banking and innovative, integrated solutions is paying dividends.

T: 0207 634 3487
E: ian.george@boiuk.com

Jonathan Steeds

Director

Golder Associates Europe Ltd



For many international businesses the range and significance of environmental and social issues continue to rise exponentially in response to greater understanding and expectations of consumers, investors, regulators and other stakeholders.

In an increasingly globalised economy, businesses are also facing greater pressures to improve and to disclose their overall environmental performance. Some, but not all, businesses are responding to these new pressures, the risks and opportunities they present and their associated financial implications, with the result that environmental and increasingly social impacts on business are now a major boardroom agenda item for many companies.

As a consequence of this, in the past year Golder Associates' City of London-based environmental due diligence practice has been asked to advise on a wide range of environmental and social issues that go far beyond those which traditionally have been considered within an environmental due diligence process.

Carbon and energy management and social aspects are frequently of particular significance and increasingly can result in material financial liabilities, but also sometimes opportunities for business, hence their inclusion in the scope of any environmental due diligence that is undertaken as part of a transaction can provide vital information for the decision maker.

1 Alie Street, London E1 8DE
T: 0207 423 0940 • F: 0207 423 0941
E: TheCity@Golder.com
W: www.golder.com

Richard Kennett

Chief executive partner

Laytons

The year under review was again active. Trends of previous years continued but no truly new trend emerged.

Increasing globalisation was reflected in more deals relating to overseas jurisdictions or with a significant overseas element, demanding good multi-jurisdictional and project management skills.

Resistance to warranties by VC and other sellers led to increasing reliance on due diligence and insurance, while more sophistication was shown in structures to allow key employees to participate to sales.

Laytons
50 Victoria Embankment
Blackfriars
London
EC4Y 0LS

T: 020 7842 8000
F: 020 7842 8080
W: www.laytons.com

Chris Allner

Head of private equity

Octopus Private Equity

The investment environment in London had a slow start to 2007, possibly as a result of intense activity at the end of 2006, but Q2 has shown an increase in new transactions including MBOs and expansion capital.

There has also been an increase in transactions that include an element of money out to the management teams of companies raising capital. Historically, conventional wisdom suggested management should be 'kept hungry', with their incentive being to make a significant capital gain on exit. Nowadays, a more liberal approach is taken, which allows management who already hold equity to realise a part of this in a transaction.

There has also been some pure money out deals, where owner-managers look to realise a significant part of their holding but continue to run the business, with a longer term full exit in mind.

The lower mid-market has become more competitive and while it has not resulted in the price escalation seen in larger deals, straightforward transactions are hard fought over. We have focused on some less straightforward transactions, which take more work and an innovative approach to make happen and to resource the transaction post-investment.

We expect 2007 to remain buoyant for new transactions in the lower mid-market although there are signs of over heating at the larger end.

Octopus Private Equity
8 Angel Court, London EC2R 7HP

T: 020 7710 2800
F: 020 7710 2801
W: www.octopuspe.com

Keith Black

Partner

Morgan Lewis

The M&A market has seen a continued level of strong growth over the past 12 months resulting in our own deal volume continuing to be at an all time high.

Private equity buyers have continued to contribute significantly to this and we have seen the increasing visibility of hedge funds and similar financing vehicles in this market.

Of particular note is the re-emergence of strategic buyers that are competing on a slightly more level playing field with their private equity counterparts. In addition, in a number of auctions the target company has viewed private equity as unwelcome with the target looking for acquisition synergies as opposed to short term exit strategies.

We have seen an increased number of strategic acquisitions from US companies keen to expand their global platform, which plays to one of Morgan Lewis' key strengths.

The availability of relatively cheap debt financing should see this trend continue over the next 12 months but with UK interest rates continuing to increase it would come as no surprise if there was a slight downturn in activity levels.

Morgan Lewis
Condor House
5-10 St Paul's Churchyard
London
EC4M 8AL

T: 020 3201 5547
E: kblack@morganlewis.com
W: www.morganlewis.com

James O'Shea

Corporate insurance partner

Clyde & Co LLP

Law is a cyclical business and currently levels of insurance litigation are subdued. Fortunately, Clyde & Co has one of the strongest corporate insurance teams in the London market, and for us, business has been good.

So far in 2007, we have seen activity levels maintained in the corporate insurance sector with start-ups, acquisitions and disposals of established insurance businesses all featuring prominently in our work.

Bermudian insurers show considerable interest in establishing operations in the London market while areas like sidecars and loss warranties have opened up new avenues of legal activity. Also, hedge funds and investment banks have sharpened their appetite for investment in insurance and reinsurance.

We anticipate that during the last half of 2007/2008 M&A activity in the broker/intermediary sector will accelerate. Meanwhile, there is a marked increase in the number of teams moving locations, which has generated activity for our employment lawyers who specialise in this area, and produced some interesting judgments. Restrictive covenants remain an area where drafting skill and judgment, not precedents, are paramount.

E: james.o'shea@clydeco.com
T: 0207 648 1737
M: 07977 189740
W: www.clydeco.com

Mark Humphrey MRICS

Director – machinery & equipment appraisal

Atisreal

The value of assets involved in M&A transactions continues to increase year on year. However, this increase is less attributable to tangible assets than intangible assets, specifically intellectual property, as companies identify, appreciate and realise the high extent of value held within their sometimes considerable IP investment.

M&A valuations continue to increase year on year as interested parties realise the importance of countering their own due diligence asset review against that of an expert independent third party. We have found that this is more relevant to IP than tangible assets, as the independent IP appraiser is often able to apply more sophisticated methods to extracting value than the parties in the heat of the deal.

The increased recognition of tangible and intangible assets is having a higher value impact on the deal itself, especially in IP-hungry industries such as pharmaceuticals, biotechnology, aerospace, defence and the arts.

From our perspective, either through heightened asset recognition or deal volume, the M&A market looks set for further growth throughout the remainder of the year and beyond.

Atisreal UK
90 Chancery Lane
London
WC2A 1EU

T: 020 7338 4460
M: 07825 016388
F: 020 7404 6764