

Insider round table



GROWING BUSINESSES IN NORTHERN IRELAND

Northern Irish business leaders and advisers came together to discuss the regional economy, where the strengths lie and how to grow these in the future

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ATTENDEES:

MICHAEL TAYLOR Insider

KEVIN KINGSTON Northern Bank

CRAIG HOLMES Horwood & Holmes
Corporate Finance

HARRY PARKINSON Close Invoice Finance

IAN COULTER Tughans

PAUL HOLLWAY KPMG

IAN KERR Beltrae Partners

STUART MANSFIELD Arthur Cox

BARRY-JOHN KELLY BDO

DIERDRE TERRINS Crescent Capital

KENTON HILLMAN Ulster Bank

WENDY SMITH Experian

What options are advisers in Northern Ireland able to present to clients in the current climate?

Paul Hollway If you want finance in the current market you have to accept that banks want to see a very robust case. There is now more focus on looking at venture capital and private equity – from big institutional houses through to venture funds and even high net worth individuals, but these sources all have their challenges. What we're finding is that if someone wants to sell their business the best way is to do it without raising finance. We are seeing companies from Great Britain (GB) funding their own deals off their balance sheets – typically in relatively small deals from £5m to £10m, but they certainly



aren't coming to the local market looking for funding.

Craig Holmes We are seeing smaller deals at the lower end of the scale. Up to £20m, but they all want to get some support for their business as well as capital. We are noticing a number of high net worth guys looking to get involved in ventures and to invest a bit of their money

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in a business and provide some advice to the company on strategic growth. For us, the challenge is to find the right structure. Often these are companies that haven't had a structured strategy.

Barry John Kelly We're seeing lots of management buy-in teams looking for opportunities - one way we are looking at the market is to find well-resourced companies locally that can take a few bite sized acquisitions to give them an entry to the UK market.

Ian Kerr In Northern Ireland we have a small private sector dominated by family businesses who tend to trade within their local market. As a result they've not done much merger and acquisition work. We are seeing more activity on the technology side of things with spin outs from universities and even from existing corporates that all need funding. We do have a dearth of private equity funding options here. Family business culture in a way has held back the growth of our economy. You don't have that class of professional management running good businesses. You often have the wrong

members of a family running the business. There is evidence that things are changing over time, but in many cases it will take generations. We are seeing family businesses exiting and selling, but they are tending to sell to companies from GB. Historically you would see a lot of the overseas buyers purchasing companies here and not enough of the other way round.

Ian Coulter Yes, deal flow is up - and I 200 per cent agree with the idea that the buyer is not Northern Irish. There is a lot of private wealth in Northern Ireland that is being put to work in trading companies through backing management buyouts and private equity investments. The challenge for us as a corporate finance community is to try and get that into formal venture capital funds and structures. But overall there are more positives than negatives.

Deirdre Terrins There is more offered, but much of it needs some real heavy lifting and management capability. There are loads we can see. But we have contacts with capital and also contacts with complementary experience of high quality intellectual property. The fund we're raising at the moment is £30m which is a spit in the ocean compared to what we really need - the ability to sell, market and export.



What are the banks able to offer?

Kenton Hillman A lot of our smaller customers don't understand private equity. They are happy with their BMW car, their nice house and lifestyle and they don't really wish to grow their business any more than that.

Harry Parkinson In the last four years we've grown by over 700 per cent, but a lot of deals we haven't been able to do. That's because we do invoice finance and asset finance but could have done more if banking facilities had been there, but truthfully we haven't been able to get support.

Kevin Kingston We have seen a structural change. Historically we were, in my view, overbanked. We had banks competing aggressively and I do think that squeezed out the venture capital community. We're now in a position where the banks have been able to build some more competitive structures that will be able to survive the upswings as well as the downswings. But that means there is a funding gap, but there are still things we can do to help to close that gap. I take the point about asset finance, but I don't think banks should close that gap. If there is one lesson we need to learn it is that we've gone from a position of a bipartite structure, where the bank and the management team were getting deals done, with the support

of the advisory community - now we are getting to a tripartite situation. And now you need venture capital and private equity which is an opportunity for the advisory community. But we need third party at the table and we need to take the private equity and venture capital involvement not just so we can be ready for the upswing, but so we can have something else that can get us through the challenges recession too.

What have you seen as a banking lawyer?

Stuart Mansfield We haven't seen many transactions that are funded solely by bank debt. A lot of our work seems to be refinancing and some debt restructuring. Anything as simple as rolling up interest so a business can continue to trade right through to multi-creditor actions with multiple parties involved. We've also been involved in a couple of transactions over the last couple of years where the bank has been involved in more innovative structures such as a debt for equity swap, where a company has

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to pay for preference shares when the company is in profit. We've seen an increase in the securitisation market, where banks are raising capital on the back of their loan books. That could suggest the banks are recapitalising with a view to lending more in the future.

Coulter There are two key issues on the programme for the new government in Northern Ireland. One is export led growth, the other is alterna-



tive funding – and they are searching for new ideas about how they create better greenhouse conditions. And it is the people around this table that can really start to educate that process. You know what works, you know what doesn't. I'd certainly like to see more money released, an evergreen fund, rather than one with a fixed life of, say, seven years, because it just panders to the idea that you grow it to a certain size and you just cut. I think you'll see things happen over time, but it's something as a community we should focus on.

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Kingston I agree that it's a process of evolution I think there is a lot to be encouraged about with some of the initiatives that are happening on the ground with the various venture initiatives and what's happening with the Science Park. But we are still a long way off where we need to be. We're starting to cover the sectors and cover the bands, but we need options and competition which isn't there at the moment. On your export point there is a challenge for all of us, whether we are banks providing the finance, or advisers sitting alongside companies. We are talking so much about GB buyers coming in to this market and buying our companies, but we also need our own indigenous companies to grow and to acquire so we don't gradually see our small and medium sized companies just disappearing over time, which is what we're seeing at the moment.

Kerr Culturally there are older economy businesses here where it is anathema to them to have a non-executive director on the board, never mind a new shareholder. I think if you look back at a lot of acquisitions in the market back at the peak in 2006/7 there were a lot of deals done on balance sheet or with the bank. Now that there's a need for third party involvement, from private equity, that could change a great deal in the way companies see private equity and venture capital. The knowledge economy, the new economy, might embrace private equity...

Kingston There is an obligation on us as a community the part of funders and advisers to raise this issue, to educate, to hold the line.

Holmes There are a number of fundamental issues here in Northern Ireland that are fundamental to that process. I know this from having been involved in a number of private equity fundraising exercises. One is a lack of private equity in the market. It becomes a chicken and egg situation, without a history of private equity it is difficult to attract the kind of individual that in other regions would want to invest in a private equity fund. Here, a lot of high net worth individuals just don't feel comfortable with a fund. They are much more at home buying a property, or investing in a company, rather than parting with their money. They don't understand how to put their money in and how they eventually get their money out.

But we've got another issue here. We've got a £3bn pension fund that doesn't invest in private equity and venture capital, in other places in GB there are local funds that have local authority pension funds investing a couple of million into them, that is then topped up with high net worths. It's very difficult here. We actually had commitments from US pension funds but they didn't see that matched here.

Terrins The Northern Ireland Superannuation

Committee are like any other, they look at track record. There needs to be evidence they can do private equity.

Coulter It's fair to point out that there are private investors who will invest in businesses quietly and privately, off the record, but it is a different proposition to get them to enter a structured fund on a portfolio basis.

Hollway There are a couple of things happening here. On a macro level, they are skewing the market. It's only now that businesses are realising the extent to which banks will fund deals. Private equity needs these tripartite deals that are evidence of the market adapting. That creates opportunities for private equity. We're seeing acceptance for that. What I'm also seeing is high net worths forming funds that want us to bring them opportunities in six months or so.

The last thing we shouldn't lose sight of is corporation tax. Let's create activity acquisitions



in other geographic areas. Attract activity.

Kingston What I think you'll also see are some significant drivers for change in certain sectors that are ripe for consolidation.

Coulter There is a good point in there too about indigenous companies. Corporation tax shouldn't just be about Foreign Direct Investment, but give everyone a break too. There should be a huge push for that. We are now realising too that Northern Ireland has to pick winners and have some direction for where are we going to go. Picking winners and picking winning sectors also means picking losers. Northern Ireland can't do everything. Pick specific companies with a turnover of £30m and say – let's make it £60m. If you do that with a few indigenous companies you can make a massive difference.

Do you have any expectation for the new Business Growth Fund that the banks are all supporting?

Holmes We're alive to it, let's see what happens. The conference at the end of March brought over a number of private equity funds that we are building relationships with, what's been particularly useful is the interest shown by regional fund managers from Birmingham, Manchester and Leeds, not just from the big houses in London. It's important to build on those relationships with the advisory community here and see what kinds of deals they will do. I do believe that Northern Ireland PLC is pretty unsophisticated in terms of financing. Most companies I see are overdraft and term loan funded. You start to talk to them about mezzanine funding, private equity and venture debt and their eyes just glaze over.

Kerr I think we have to be patient. We are starting to see that change. We are seeing companies with management from outside of the family owners. That was unheard of in many of these



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cases. We are seeing more clients now that are willing to take a look at equity funding, or strategic partnerships. The grant culture has also changed.

Parkinson - It's so important as we move into this new area for businesses that the terms are right.

It's a new experience and can be an expensive way of "giving away a massive chunk of my business" as they may see it. There is that image out there.

Terrins In our world we see people who have outrageously inflated expectations of the worth of their businesses. We have businesses that have a customer base solely on the island of Ireland, a shrinking market. There's a lot of education needed to get some realism into the situation, whether they are technology start-ups or family owned businesses.

We do a number of a syndicated transactions, but we have to do a lot of work before we can start to put these deals in front of investors. We have to reach out beyond and do the early work otherwise you're just shooting at fish in a barrel. We're a lot better off than we were a number of years ago, but there's still a lot that's broken about the early stage funding space. You have to build a critical mass and accept the risk profile. That's our deal flow. On the corporation tax argument a lot of the

companies that we grow wouldn't have paid corporation tax, but the research and development tax breaks really matter as they develop their technologies. There's always a danger you could lose that if you win the argument for something else.

Coulter The other thing to point out about the private equity investment is that it really does open up a massive Rolodex of contacts that bring new opportunities and distribution channels overnight. It's not just money, it's contacts and strategic partnerships.

How can the skills of the business community here help the kinds of businesses who come to you for funding and, as Ian says, the partnerships that come with that?

Terrins We already direct them to the dealflow intermediaries. We have our own Rolodex too. It's worth saying there has been a growth of the culture that is part of a changing culture, recycling the chief executives, seeing more of that community of mind around entrepreneurship. All of the guys here do a lot to foster that.

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But we've also got indigenous companies coming through, which have proved attractive to external investors and can be funded by banks. It becomes foreign direct investment by any other name, but a perfectly viable route. It doesn't have to be an eagle landing from abroad, which might fly away again. But to look again at what it takes to be bold indigenous companies that are world leaders and attractive to other businesses.

