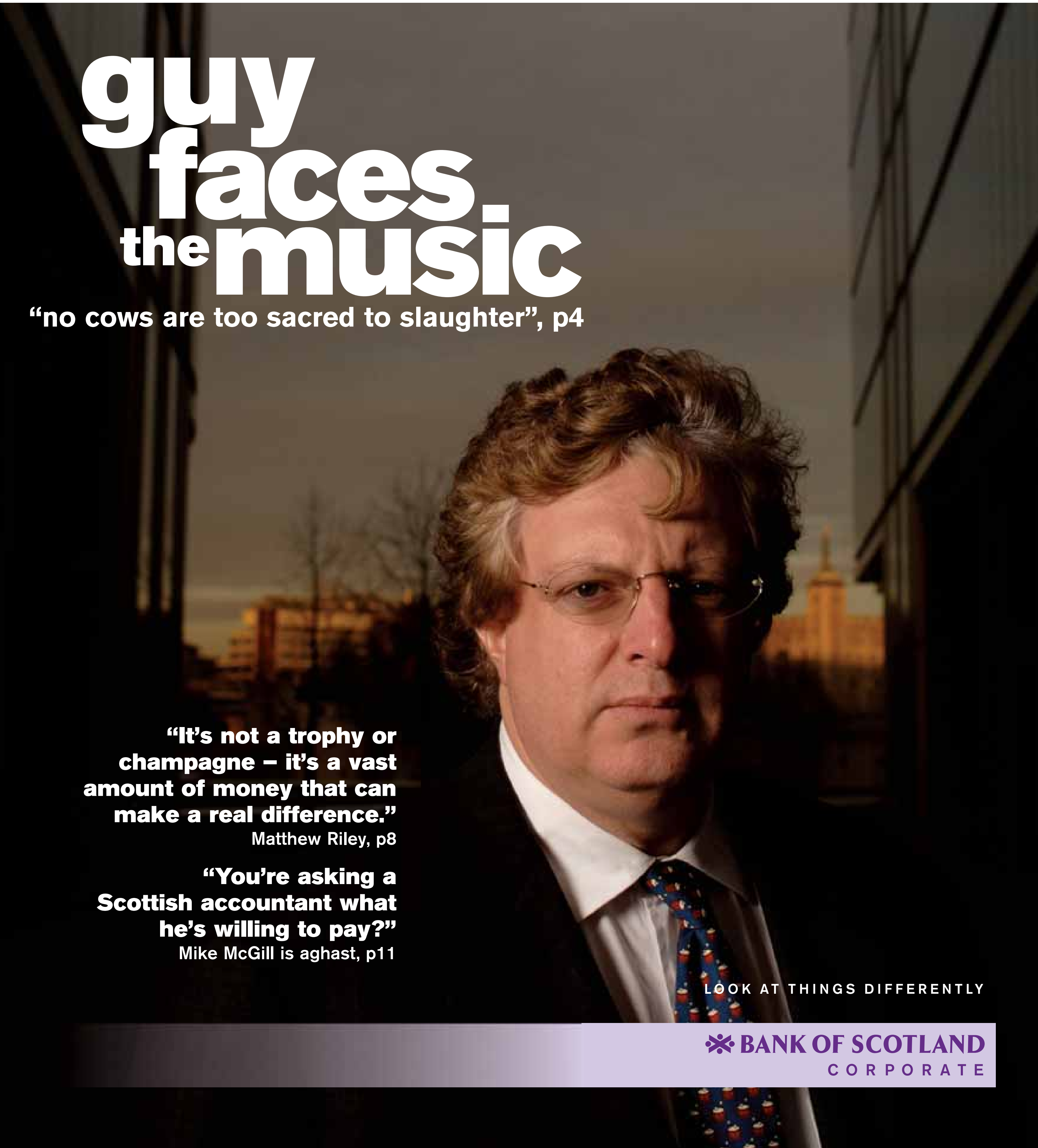
COME ON IN
A new attitude in the stockmarket

SOAPBOX
Lord Stevenson on the Bank's approach

deal leaders

FINANCING THE VISION OF ENTREPRENEURS

Spring 08 Issue 19



guy faces the music

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ON YOUR BIKE!

Three Corporate Board members were among 300 colleagues who took part in the inaugural Bank of Scotland Corporate Cairngorm Mountain Bike Challenge. The gruelling event involved 'off-road' cycling and was a team event with three different challenges – bronze (60km), silver (80km) and gold (100km). Outstanding support came from various Corporate clients in the supply of provisions, equipment and sponsorship. Peter Cummings was also there leading and encouraging the support teams in his own inimitable style. At the end of the Challenge there was a ceilidh for 800 people, including participants, their support teams and families and volunteers from the charities.

The event raised over £520,000 with matched funding for HBOS Foundation and its charities for 2007 – British Heart Foundation, WRVS and Holidays via RNLI. It was a great example of CSR in action, combining team work with fitness training.

Plans are already underway for the 2008 Cairngorm Mountain Bike Challenge in September and training has started in earnest.

What we're now experiencing is almost certainly a one in 100 year event. The liquidity crisis that's generating today's turbulence in financial markets is confronting us all with a new dimension of uncertainty. And there's an understandable worry about the possible depth and severity of the contagion in the wider economy during the months ahead.

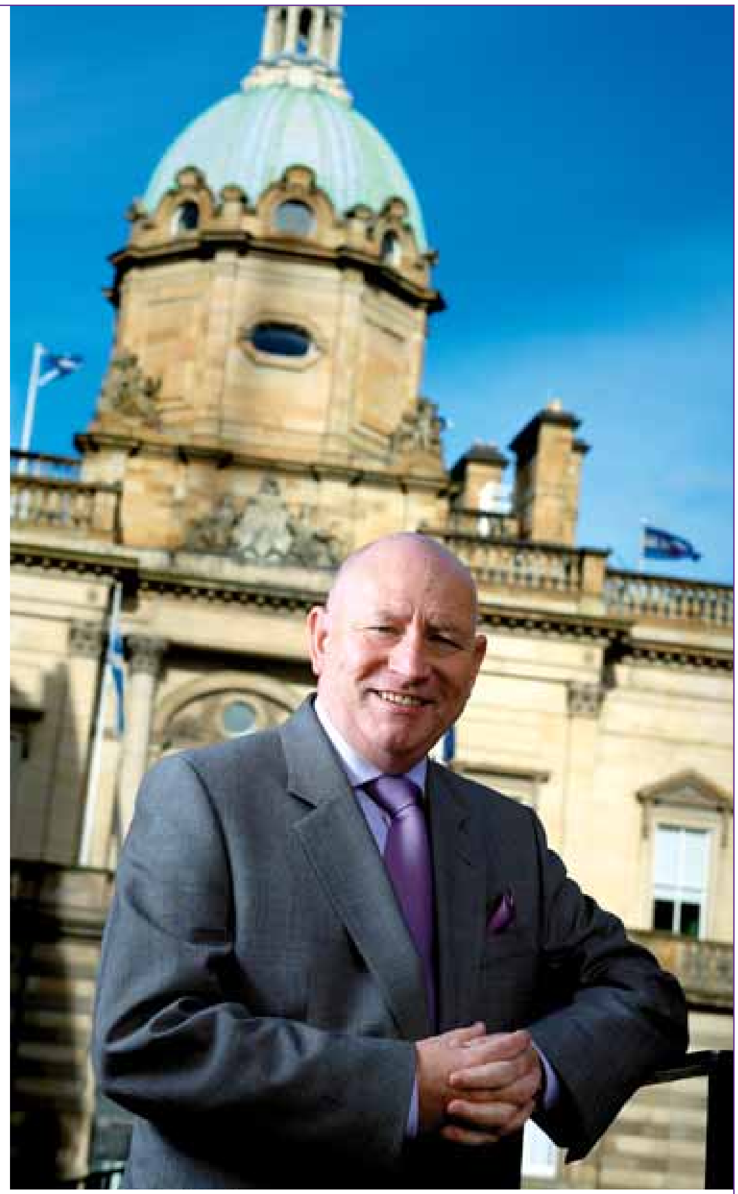
All the same, I can see three clear reasons for confidence – at Bank of Scotland Corporate and among our partners. The first is the strength of the commercial relationships we've cultivated over the years. Partly, that stems from what we're not. We are not an investment bank. We're not subject to the ever-demanding ethos of investment banks which often display a disregard for the client in the interest of fees.

On the contrary, our strength derives from what we are. We're a transaction bank that's highly reliant on the quality of our partners and clients. The job of banks is to assess risk but, in the last 18-24 months, that's a job many banks seem to have forgotten and have taken huge hits to their balance sheets as a result. We never forgot. Our decisive strength is assessing credit risk and – it's part of the same tapestry – assessing people. We're better at it. That's the basis on which we back our partners as through-the-cycle lenders and investors.

> "We'll see the re-emergence of M&A activity by well-led, strong balance sheet FTSE companies. The era of the trade buyer may well see a new dawn."

The second reason to be positive is that we have positioned ourselves to exploit the opportunities which we know from previous experience will undoubtedly arise from today's testing environment. During the last three years we have completed a radical reshaping of Bank of Scotland Corporate to intensify our focus on key asset sectors – Specialised Industries (including Infrastructure, for instance, and Oil & Gas); Real Estate and Private Equity.

The success of this new model has strengthened our strategy to capture a significantly increased share of the market in England and Wales as we see real disarray developing among our competition. And we don't expect to be playing in a static corporate finance market either. I think, for instance, that we'll see the re-emergence of M&A activity by well-led, strong balance sheet FTSE companies. Some real opportunities will emerge there (see p11) precisely because of a slow down in private equity's availability to fund transactions. The era of the trade buyer may well see a new dawn. And our commercial business is well-placed to exploit that.



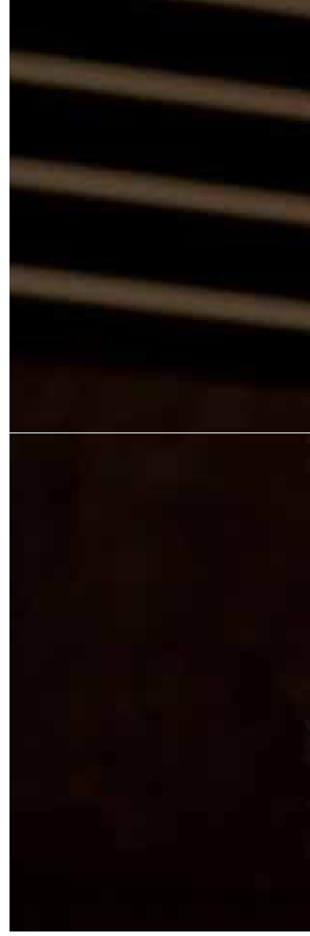
We're confident, finally, because of Bank of Scotland Corporate's renowned spirit of enterprise – "Far more entrepreneurial and fleeter of foot than other corporate banks," says HBOS chairman Lord Stevenson (p7). "We make judgements about human beings and situations, and we stick to them. That's why we've become the bank of choice for entrepreneurs."

This was amply demonstrated in our first £25m Entrepreneur Challenge, won by telecoms provider Daisy Communications. They aim for a virtual tenfold increase in the size of the company to £200m in just two years (p8). That ambition is typical of the huge excitement generated by the Challenge – so we're repeating and extending it this year to offer £35m in funding packages to the national and regional winners.

I think what surprised me was the number of people who saw this as a platform for raising their own business game. The pace of the competition in that Challenge simply exploded. No evidence of gloom there either.

Peter

Peter Cummings
Chief Executive, Bank of Scotland Corporate



Prolific deal-maker and entrepreneur Guy Hands rarely runs for calm water with the private equity craft, Terra Firma, he launched six years ago. His £3.2bn acquisition and painful restructuring of the ailing music major EMI, saw him hit rough waters with some of the label's stars as he plans to cut almost 2,000 jobs to save £200m a year. As **STEVE PARKS** discovers, it's the bracing style of this particular helmsman to head straight into the storm.

sharp mind, blunt message

"When private equity firms are cutting costs and changing businesses, they're doing something productive. When they're just tinkering at the edges, it's not productive. What they're not so good at is explaining why they're doing it. That's something we've tried very hard at, however our style is to be straightforward and blunt which is quite a contrast from others but we do explain what we're doing and why.

People don't always like hearing the truth, but I think we've got respect over the years for not shirking our responsibilities. That's probably meant that we've had more than our share of press.

Our latest and highest profile deal is EMI. The issue there is the huge variation between those artists, on the one hand, who've got lots of money and can, quite frankly, choose what they want to do with their lives; a lot can be indifferent to their label. However, on the other hand, there are those artists who have not earned much or who are just starting out and want their label to focus on them; they want to spend a lot of time with their label and they need support.

As an entrepreneur, rather than a financier, I understand their motivations and I think I can understand what their frustrations are. But, the sensitivities of the artists, while incredibly important, are having less impact on the economics of the business today than they've ever had.

This is because, over the last 10 to 15 years, the record industry has slowly found itself in a position where making money out of new music has become more and more difficult. Look at the releases with more than two million sales: it's a very limited quantity and it comes from no more than 10 to 20 new label artists worldwide, and then a few additional new artists from places like X-Factor, Disney and so on that can make real money. Unfortunately not a lot of new artists can make substantial money for themselves or the labels anymore.

What the industry has failed to do is tell the truth about its economics to artists. The recorded music industry has declined enormously. In reality, 90% of the value in EMI is in publishing or catalogue (the rights to old music). Everyone gets excited about the big artists and new releases, but the real value is hidden and not as exciting. That's why we invested, but it doesn't get as much press attention.

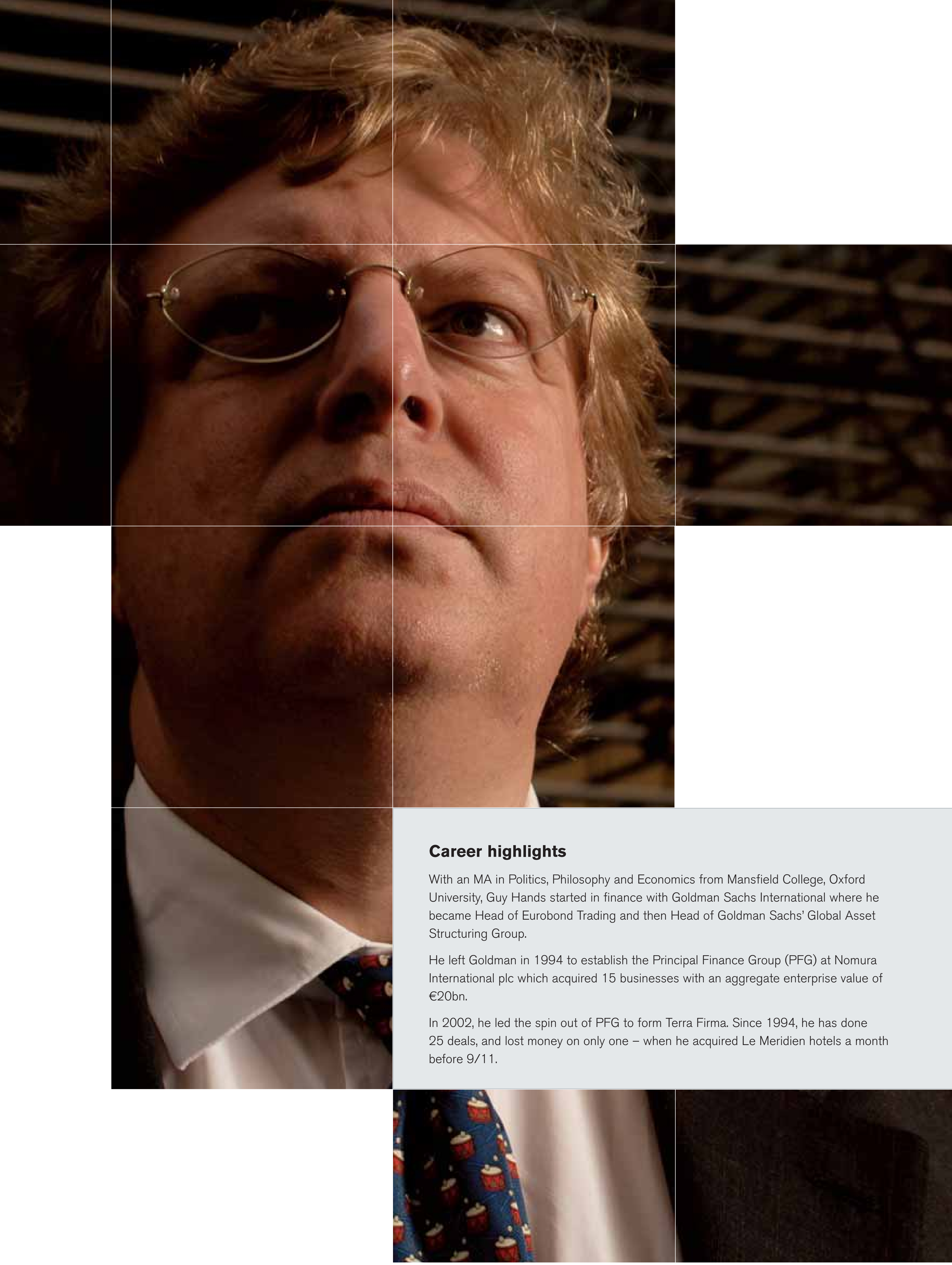
I think what we can do, coming from outside the industry, is to be very honest about the real situation. We have no sacred cows that we are scared of slaughtering. Telling the truth is what we've been doing, and that's been very hard for people, particularly EMI's employees and artists.

I was originally inspired by a 70s TV programme The Brothers. It was about a haulage firm where the father died and this rather odious bean counting son comes back from the City to try to save the business. It turned out he wasn't so odious – in fact, he was the only one who had any common sense and he did save the business. I liked the idea of taking the skills learned in finance and applying them to a business.

As a teenager, I started a door-to-door picture selling business, and continued it when I went to Oxford. It became very successful and eventually I opened an art gallery. It was doing okay, but not great, so in 1982, I decided I needed a proper job. I applied to Goldman Sachs and ended up staying there until 1994.

As a place to train and get experience of financial markets, it's probably one of the best firms in the world.

I've always been motivated by looking for hidden value to invest in, finding things that other people haven't seen – and that's still true for me today. The biggest lessons I learned are that your first loss is



Career highlights

With an MA in Politics, Philosophy and Economics from Mansfield College, Oxford University, Guy Hands started in finance with Goldman Sachs International where he became Head of Eurobond Trading and then Head of Goldman Sachs' Global Asset Structuring Group.

He left Goldman in 1994 to establish the Principal Finance Group (PFG) at Nomura International plc which acquired 15 businesses with an aggregate enterprise value of €20bn.

In 2002, he led the spin out of PFG to form Terra Firma. Since 1994, he has done 25 deals, and lost money on only one – when he acquired Le Meridien hotels a month before 9/11.

Lead mandate

Deal Highlights

Company		Investment-exit	Deal value
EMI Group	Music	2007-	€5,900m
Thresher	Off-licence	2000-2007	€350m
Inntrepreneur	Pubs	1997-2006	€1,900m
Waste Recycling Group	Waste	1997-1999	€1,200m
Voyager	Pubs	2001-2002	€1,000m
William Hill	Bookmaker	1997-1999	€1,100m
Odeon/UCI	Cinema	2004-2006	€1,000m
Inn Partnership	Pubs	1999-2002	€600m
Pheonix Inns	Pubs	1995-2001	€400m
Le Meridien	Hotels	2001-2006	€3,500m

your best loss, you should run with your successes, and trust your gut instinct. If your gut instincts aren't good, you shouldn't be in the investment business.

My gut-feel strength is around trying to understand what the customer is looking for. It's not based on the understanding of how a business is organised or the operations of a business. It's simply a question of 'does the business have a role in serving the customer and what is it?'

So, when doing a deal, I look for two things: a business that could fulfil that role of serving the customer better, and a business that has assets to support the investment. When we've invested in pubs, for example, we certainly believed we could run them better than they were being run. But we also knew that, if things went wrong, we'd at least end up with a large property portfolio.

In the end most deals worked out very well. In the case of the off-licences, however, the supermarkets ended up serving the customer better than we could, but we still ended up with a very good property portfolio and still managed to make some money on the deal – although less than we're used to.

> "I've always been motivated by looking for hidden value to invest in, finding things that other people haven't seen."

I always regard our worst deals as the ones we didn't do. When I joined Normura International, one interesting example in the late-90s was when oil was at $11 a barrel and North Sea oil wells were nearing the end of their predicted life. The major oil companies wanted to transfer those wells to somebody else. I tried to get Nomura to buy a big portfolio of these stub oil wells for £250m but couldn't persuade them. The one person I know who did invest put in quarter of a million and saw it go to £34m!

My skill is the big strategic idea. For the execution of the deal and the due diligence, I have some very clever financiers, operators and lawyers around. I'm quite happy to leave the room once we've dealt with the big picture of a deal and let the team get on with the details. I'm severely dyslexic and don't find reading and writing easy, so wading through mountains of paperwork or drafting documents isn't something I can do. Therefore, my involvement is normally on the phone or in meetings.

I love this work because I like trying to change things and build things. If I see something that's not working as well as it could, I want to fix it. At primary school, I liked to fix clocks. That excited me. Today I'm not fixing clocks, I'm trying to fix businesses. The difference is that, with a static thing like a clock, you have whatever time you need to get there. But, with a business, your time to fix it is always running out and you have to do it quickly. The excitement with private equity is that you do have the ability to move that quickly."

"we make judgements about human beings and situations, and we stick to them"

Serial entrepreneur and chairman of HBOS plc, Lord Stevenson is ideally placed to explain why Bank of Scotland Corporate should be the first port of call for entrepreneurs.

"I was chairman of Halifax when it merged with Bank of Scotland in 2001 and it didn't take us long to realise that Bank of Scotland Corporate was the jewel in the crown – it was far more entrepreneurial and fleeter of foot than other corporate banks.

We all knew this stemmed from former Bank of Scotland governor, Bruce Pattullo, who made two important decisions about 20 years earlier. One was not to compete with other banks by lending money to the world's biggest companies but, instead, back small or medium-sized companies. The other was to gain a reputation for giving people answers and decisions very quickly.

After the merger, when I became chairman of HBOS, I discovered Pattullo's legacy was thriving and Bank of Scotland Corporate had become, by a long way, the Bank of choice for entrepreneurs. I would think there are very few successful entrepreneurs in the UK who haven't tried to engage us in their business.

Today, I'd describe our approach in two ways. First, it's a one-stop shop. You take your business to the Bank and it will make lending decisions for you, but at the same time it will put investment suggestions on the table. We don't have the internal political pressure of other banks with huge lending silos, so we've been able to develop a pool of people we trust implicitly to make lending and investment decisions at the same time.

Second, the Bank has a huge commitment to its entrepreneurs throughout the economic cycle – that's obviously very relevant at present. We make judgements about human beings and situations, and we stick to them. We want people to say of us: 'Here's someone who lends me money and is prepared to invest alongside me. They'll occasionally question my judgement and challenge my decisions but when the going gets rough, they'll still be there behind me and will continue to invest in me.'

"The Bank has a huge commitment to its entrepreneurs throughout the economic cycle."

The current global economic climate is challenging for business. The combination of uncertainty in financial markets and the pressure on banks to ration capital is tough, particularly for entrepreneurs who are often pretty exposed. I would like to think our inner circle of entrepreneurs are finding us completely loyal, and that's a very strong position to be in."

The bottom line

Lord Stevenson was a self-confessed 'serial entrepreneur' between the ages of 25 and 40. During this time he set up 16 businesses from scratch. Here, he gives his personal rules for success.

- Never be frightened of things you don't know. But do think things through properly – start with a blank sheet of paper and use your head.
- Don't be undercapitalised. That's the quickest way of throwing your shareholding away.
- Develop a business gradually.
- During my entrepreneurial stage, every time we tried to do something dramatic we always got it wrong. Every time we muddled through and did things more gradually – sometimes taking two steps forward and one step back – we did well.
- Be brutally honest with yourself and don't be afraid to show vulnerability. One of the great defining characteristics of good leaders is that they're prepared to say "I don't know what to do" or "I'm frightened about this". You don't need to be too emotional about it, just be honest with yourself and with others. It took me until I was 30 to realise that.
- Only get involved in businesses that you're passionate about.

take the lead

For more information, email: **dealleader@bankofscotland.co.uk**

life of riley

"It's not a trophy or a bottle of champagne," Matthew Riley tells **HAZEL REID**. "It's a vast amount of money that can make a real difference to our business and all our people. We just had to have a go."

It's not every day you're offered a £5m opportunity to conjure a virtual tenfold increase in the size of your company. And a chance to make a reality of your dream of achieving that £200m goal in just two years.

Matthew Riley has always been ambitious since founding the little telecoms provider Daisy Communications seven years ago. Last year, Daisy turned-over £23.7m with profits of £1m; this year Riley aims to raise that to £36m – and, after that, his sights are on £200m with profits of £25-£30m.

No mean aspiration. "It should take us about two years," says Riley, with cool confidence. In the last couple of years, he has fortified Daisy's organic growth in the provision of telephone and internet services with the acquisition of five businesses. "We want to be recognised by SMEs as the real alternative to BT."

> “It was just amazing to see a bank doing something quite so entrepreneurial. It looked simply incredible.”

And suddenly that’s all come a huge stride nearer. He was named overall UK winner of the Bank of Scotland Corporate £25m Entrepreneur Challenge. It won him and his enterprise £5m of funding, interest-free for three years and much else besides. “Now,” he says, “we’ve got the right backer to help us make the further acquisitions we need to get there.”

The audacious competition to find the UK’s best entrepreneurs was launched by Bank of Scotland Corporate last year. Five regional finalists now share a funding pot of £25m, culminating in December’s national final in London. As the winner of the top accolade, Daisy also secured four days of mentoring with one of the country’s top entrepreneurs, the legendary Arcadia retailer, Sir Philip Green.

The competition, run in partnership with *The Sunday Times*, is being expanded this year – the total funding, now being offered across seven regions, increases to £35m. And it was the details in the paper that caught Matthew Riley’s eye.

“It was just amazing to see a bank doing something quite so entrepreneurial – and put it in the press,” says Riley. “I thought it looked simply incredible. And to be mentored by someone as successful as Sir Philip Green was too good an opportunity to miss.

“£5m is a huge prize. It’s not a trophy or a bottle of champagne. It’s a vast amount of money that can make a real difference to our business and to all our people. We just had to have a go!”

Having completed the comprehensive application form, Daisy Communications heard they were through to the next stage. “Someone from Bank of Scotland Corporate visited us for a ‘getting to know you’ meeting.”

As contestants were whittled down to 20, there was another visit from Bank of Scotland Corporate to examine different parts of the business in greater depth. The final five contestants went through a challenging interview, after giving a 20-minute presentation about how they’d deploy the £5m prize. “That was difficult,” admits Riley, “especially for a company which does something as complicated as we do – it did take a bit longer to explain.”

Riley remembers feeling “absolute elation” on winning the Northern Regional Final and “just incredible” about his National Final triumph. “Winning the National Final felt somehow more personal,” he says. “It was the first individual recognition of what our team had achieved. And you simply can’t put a price on the learning time I’ll spend with Sir Philip.”

Riley is perfectly clear about what Daisy will do with that prize money. “We’re just in the final throes of acquiring two more customer bases which will give us 5,000 or 25% more customers and a lot more revenue.”

Moreover, he feels that winning the competition has “given us credibility as a real alternative to BT in the UK business market. The growth potential is almost boundless: calls alone represent an SME business market worth some £4bn, of which BT currently has a 65% lion’s-share. I like to think Sir Philip also sees it as a great opportunity to take on the big boys.”

One of the best lessons of the competition for Riley was that it gave him the chance to stand back and take a good look at the company. “As an entrepreneur, you very rarely do that. You’re too busy driving the business. So it was both enlightening and reassuring. Many entrepreneurs wonder if they’re doing the right thing and it’s good to find that we are and that people value us.”

There’s a real collective spirit about this enterprise. “We’re all enthusiastic about the business. We’re dedicated to it, and I think that’s a lot of why we got to the final. One of the most important things within the company is the development of our staff.

“They’re the people who make a difference day-to-day – I only guide them. So it’s important to look after them. Seeing the staff develop as individuals is one of the things that motivates me, along with a feeling of achievement, of getting things done.”

Riley voraciously studies successful entrepreneurs, reading biographies and management titles, pulling out anything relevant to his personal style. To him the secret of success is simple: hard work. “You’ve got to keep practising and getting better all the time. But you also have to be enthusiastic, enjoy doing business, doing deals and meeting people."

He's critical of the lack of assistance for budding entrepreneurs in the UK. "There should be many more government initiatives to encourage people," he says, "whether it's tax breaks or interest free loans. When you think how much money entrepreneurs put back into the UK, creating jobs and supporting suppliers, I just don't think there's nearly enough help. Local initiatives set up by the government are so far removed from what's actually going on."

That's why he finds the support Bank of Scotland Corporate is giving entrepreneurs so inspiring. "They're undoubtedly the UK's leading entrepreneurial Bank and they're backing some of the most successful entrepreneurs across all business sectors. With this competition, they're clearly identifying the next generation of Sir Philip Greens, knowing that, if they back entrepreneurs now, they'll reap the rewards over the next ten to 20 years. I'm so pleased we entered and would say to anyone out there thinking about entering this year's competition to do it today. The whole process was a fantastic learning experience and who knows – you might even win!"

take the **lead**

Visit: **www.theboschallenge.co.uk** to find out how to enter and for more information.

THE DNA OF A WINNER

How to build a daisy chain

Matthew Riley couldn't wait to leave school. With no qualifications, he went straight into a Youth Training Scheme (YTS) with a local family-run office equipment company.

"I learned more from that company than I've done working for anybody else," he says. "It was a very passionate company – passionate about people, passionate about what they did. They involved everybody in the company in how the business was performing – a philosophy I've tried to follow myself."

At 21, Riley went to Deutsche Telecom, working on UK corporate sales. Here he saw the key business opportunity in telecommunications and, still with Deutsche, he launched a recruitment company and came up with the name which would eventually make him a leading entrepreneur.

"We were all sitting in the pub one night," he says, "trying to think up a good name for a recruitment company. And, after hours of suggestions, we came up with Daisy, the name of the wife of one of my colleagues. We thought: 'Yes, that's the one!' It's quite fresh and appealing and it could do for any type of company."

Eventually, Riley's management team bought him out of the recruitment company but part of the deal was that he could take the name Daisy with him. Daisy Communications was set up in 2001.

"There were just two of us," he recalls, "and we spent the first six months setting up the things we needed to run the business – a simple billing platform that could grow with us, and all the ISO standards we'd need. We hadn't any customers at that stage but we wanted to set everything up rather than leave it until we were too busy to deal with it."

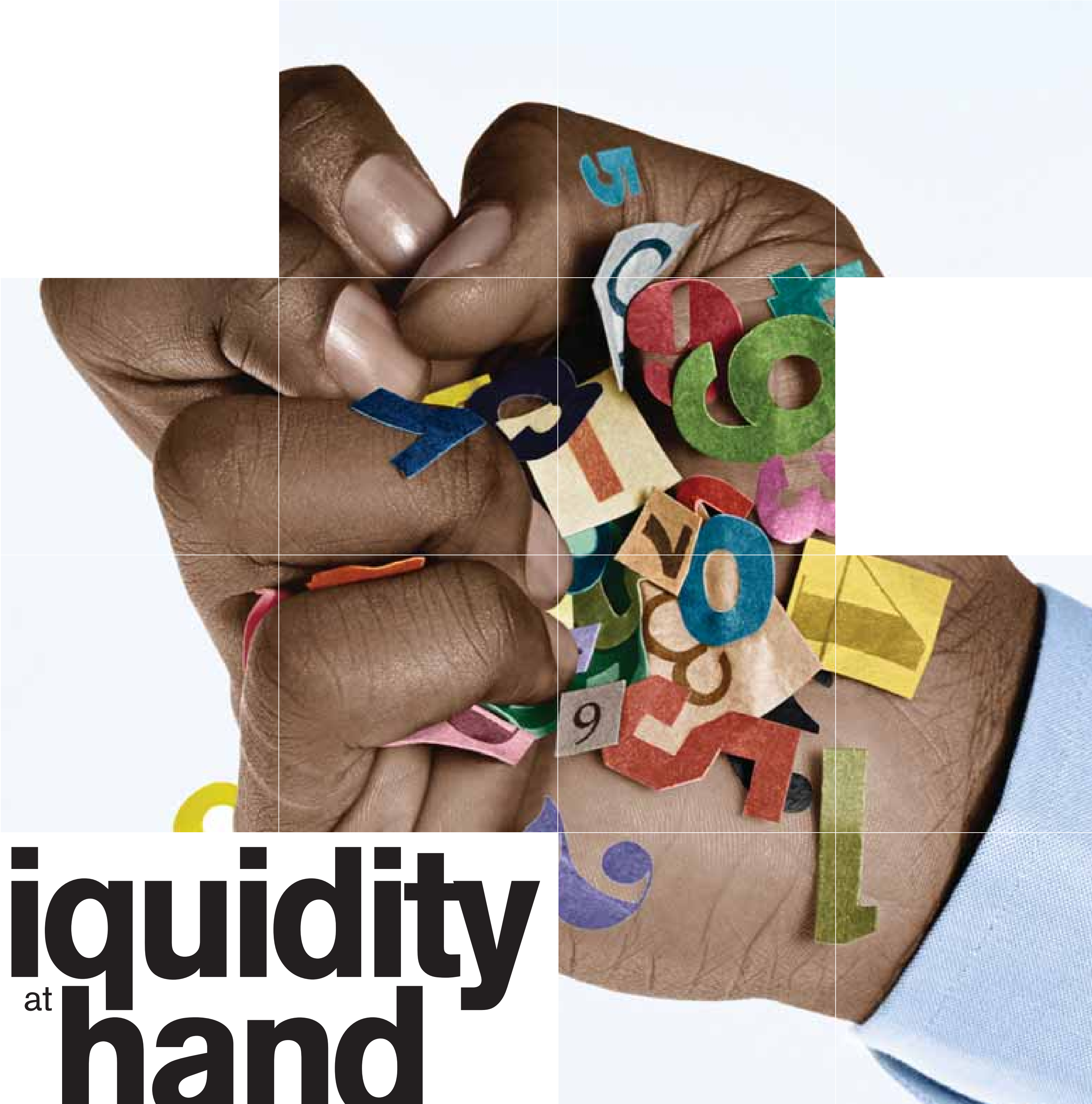
Real trading started – slowly – in September 2001. "We took on each customer, one at a time, making quite sure we were delivering the services they wanted. We spent a lot of time talking to customers and finding out just what they needed from a telecoms service provider."

A year later, Daisy really began to take off and staff numbers went up to nine. Now there are 150 staff offering fixed-line services – calls, broadband and mobile – to more than 20,000 customers. All are charged on a single bill so customers aren't dealing with multiple bills and providers. "We're a one-stop-shop," says Riley, "for small to medium-sized enterprises with all their communications from one source. With a basket of products, you can give a basket discount."

Riley, now 33, wasn't a Bank of Scotland Corporate customer when he entered the Entrepreneur Challenge, but is now. He admires the Bank's own spirit of entrepreneurship and feels that the reason they're prospering through today's liquidity challenges is because of their long-term insistence on "through-the-cycle" investment in the domestic arena. "That's probably why they're not suffering like some other leading banks at the moment," he declares.

And he nurses his own private dreams. "I'm not the sort to take up golf and retire," he says. "I really enjoy working. I'd like to be like Sir Philip some day – I couldn't imagine anything better than being Sir Matthew and parking my boat next to his in some exclusive marina!"

"To be mentored by someone as successful as Sir Philip Green was too good an opportunity to miss."



liquidity at hand

No more easy liquidity. But this doesn't mean the M&A pipeline will dry up, finds **LINDSEY ROGERSON**. We're likely to see a more acquisitive appetite among trade buyers who are no longer squeezed out by big buyout houses.

The dictionary compilers may well delight in adding 'credit crunch' to their next volumes, such is the popular linguistic fallout from the sub-prime mortgage fiasco in the US. The tougher but more intriguing question, though, is defining the likely beneficiaries of this crisis – who (if any) and when?

Trade buyers. And now. That's the instant assumption of **Mike McGill**, Finance Director at Murray International Holdings. The curtailed ability of private equity groups to leverage deals should help level the playing field for trade buyers, he forecasts. "Private equity may not be able to gear up to levels that previously just squeezed the trade players out. Suddenly, that advantage has diminished."

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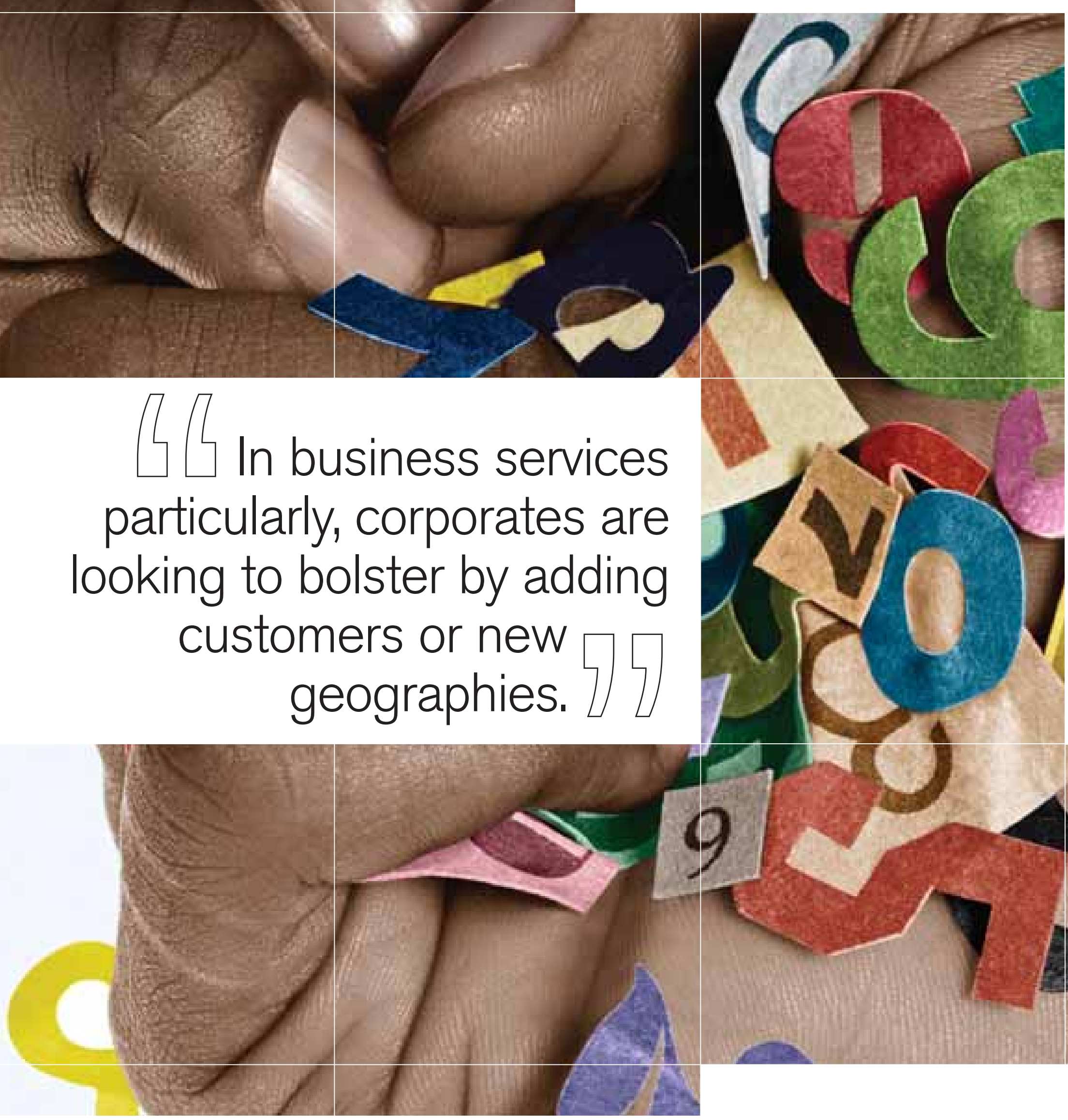
Ross Butler, Editor of private equity journal, *Real Deals*, also sees a power-shift. "The private equity houses are feeling somewhat weakened by the credit crunch. It's certainly not going to be so much of a walkover to win deals for the next year or so."

And private equity managers themselves see a resurgence of the trade player. **Peter McKellar**, co-manager of Standard Life Private Equity Trust, foresees corporates taking a bigger slice of deals as trade sales become more prominent.



"In business services particularly, corporates are looking to bolster by adding customers or new geographies."

Private mega deals have more or less dried-up and, even though private equity will still complete deals in the £10m-£100m space, they'll have to put more into deals for the foreseeable future.

The days when private equity houses could borrow 80% of their deal capital are gone, according to Hamish Mair, Head of Private Equity Funds at F&C Asset Management. Once the markets settle, he speculates, debt-to-equity ratios will fall back to something more like 50-60%.

On the other hand, the dearth of liquidity almost certainly means higher borrowing costs for deal-seeking corporates. A *Financial Times* survey of 107 companies with turnover of £10m or more finds a majority expect credit to become hard to come by and its cost increasing.

All the same, says **Ross Butler**, a lot of companies are sitting with cash on their balance sheets and looking to do deals. "In business services, in particular, the private equity groups are very aware that corporates are looking to bolster by adding customers or new geographies."

Mike McGill also senses these consolidation opportunities. "M&A activity is still going on, albeit not on the scale there was six months ago. A number of people are looking to consolidate in sectors such as the metal industry, where they actually feel they are too small. And changes in the Capital Gains Tax (CGT) regime are also encouraging some people to try and sell their business pre-April."

The potential of the CGT changes to stimulate new M&A opportunities also enlivened a recent Reuters Small Companies Forum. A consensus there also believed the looming rule change would see owners flocking to sell-up ahead of the 6 April deadline.

Richard Lambert, Director-General of the CBI, believes the last minute changes to the new rules will do little to halt some more established companies selling, because they still discriminate against those who have built up considerable businesses over time. Those seeking to maximise their return from a lifetime's work would have to sell up before the existing rules ran out.

So, if there are so many more sellers around, will prices simply come down? "You're asking a Scottish accountant what he's willing to pay for something?" asks **Mike McGill**, theatrically aghast. "Well, the last few months may have softened some vendors' expectations, but everyone has a price at which they will or won't sell.

"I do think pricing has come down a little, though. And it's possibly more of a buyer's market than six months ago. But, to buy, you still need to have the funding and the management in place."

Grant Gordon, Director General of the Institute for Family Business, believes the tougher liquidity environment could ultimately help well-capitalised long-standing firms to grow. "The liquidity crunch has, perhaps counter-intuitively, served to showcase one of the great strengths of the family business sector. They have a different business model – longer-term investment horizons than the capital markets, allowing greater stability and flexibility during a credit shortage."

Mike McGill agrees about the importance of longevity and experience. "Who knows how long the cycle will last. But what we know from the last downturn in the early 90s is that you have to position yourself to seize whatever opportunities arise."

This fleetness of foot does not mean that Murray International will jump at any deal. "You have to kiss a few frogs before you find a prince," says McGill, "and that certainly applies right now. We'll gather considerable intelligence and research on what competitors and customers are doing. I think there could well be a real pause for the first quarter of this year while people assess how things have changed." And, despite all the media talk of bargains now emerging in commercial property, McGill – a former insolvency practitioner – believes it's too early to expect distressed sellers. "I think it will take a little longer for real bargains to materialise. There are too many unanswered questions right now: Is the liquidity crisis going to continue? What will happen with UK interest rates, inflation and the economy? Is the US going to go into recession? While you've got all that uncertainty, I'm not sure all the conditions are there for the bargains to become available. It's more likely to be the latter part of this year before you start to see people seizing what are perceived to be bargains from forced sales."

That said, McGill believes the Murray group of companies benefit from their diversity, with a combination of trading businesses that have benefited from global demand, including the commodities boom, and an established property group on the other. "If you thought there was no way forward, you'd shut up shop, and that's not the case. We do see opportunities. We do see a future. And we do see this coming out positively. I just think the next year is likely to be harder work – and we relish the challenge."

> "Who knows how long the cycle will last. But you have to position yourself to seize whatever opportunities arise."

THE BANK'S VIEW

LUCY O'CARROLL
DIRECTOR OF RESEARCH
BANK OF SCOTLAND TREASURY

If anything could remind us that the only sure things in life are death and taxes, it must be the financial market turmoil of the past six months. But there are good reasons to think that, while the combination of the liquidity squeeze and uncertainty over the economic outlook has put paid to some high-profile private-equity deals, trade buyers' appetite for acquisitions is growing.

Why is this so? By softening sellers' expectations, the lower profile taken by private-equity groups is leading to more attractive pricing. Trade buyers are well placed to take advantage of this trend, given the fact that – even after the events of last August – corporate profitability has so far remained buoyant and balance sheets strong.

Such considerations may be a 'pull factor', drawing trade buyers back into the market for acquisitions, but there are a number of 'push factors', too. Despite the downturn in the economy's prospects, cost pressures remain significant. Indeed, one of the major challenges facing the Bank of England in steering a course through dangerous waters this year is, as Bank Governor Mervyn King has admitted, dealing with the conflicting signals from slowing growth and rising inflation. The attractions of increasing purchasing power – lowering cost pressures by increasing economies of scale – are obvious.

Additional gains may also be there for the taking, if risk can be reduced by increasing diversity through an expanding customer base or geographical reach.

None of this is, of course, to ignore the challenges faced by the corporate sector in an environment where funding has become scarcer and more costly. However, if the events of the early 1990s tell us anything, it is that the winners tend to be the corporates who take advantage of the opportunities that inevitably arise in challenging times, leaving themselves well-placed for better times ahead.

learning to love the stockmarket

KEITH AITKEN explores how a new model could transform the traditionally turbulent relationship between entrepreneurs and the City.

An innovative new investment company that mixes private equity with a public listing could be set to provide a compelling answer to the old prejudice that the stock market is no place for an entrepreneur. The new venture is the brainchild of serial entrepreneur **Peter Dubens**, with whom Bank of Scotland Corporate has worked in a string of eye-catching acquisition deals in the telecoms and media sector.

Dubens, best known for heading broadband provider Pipex and online gaming group 365 Media, last year set up a new investment fund, Oakley Capital Investment, in which the Bank is one of several private investors. What is unusual, if not unique, about Oakley, is that alongside the equity stakes held by its private investors, there is also a publicly listed vehicle, the capital of which has been raised by flotation on the Alternative Investment Market.

For Dubens, the decision to admit a publicly-quoted element to his investor profile was a measured and conscious strategy and one, he says, which he felt able to pursue with a confidence born of having previously run two public companies and gained a respectful reputation on AIM. This faith in Dubens' capacity to make a success of the unusual capital structure of the fund is echoed by Bank of Scotland Corporate which, though likely to be involved only in the private end of the fund, is conspicuously enthusiastic about the new venture.

Stuart Gibson, who heads the Bank's Telecoms & Media team, says: "Our interest lies in backing Peter further. What we see in this is an opportunity to back a guy who over the last three or four years has been very successful. It buys us a stake in a venture which is managed by individuals who have a good track record. And it buys us a seat at the table every time the new fund makes an investment, an opportunity both to co-invest in the target company and also to provide the leverage that the fund will want."

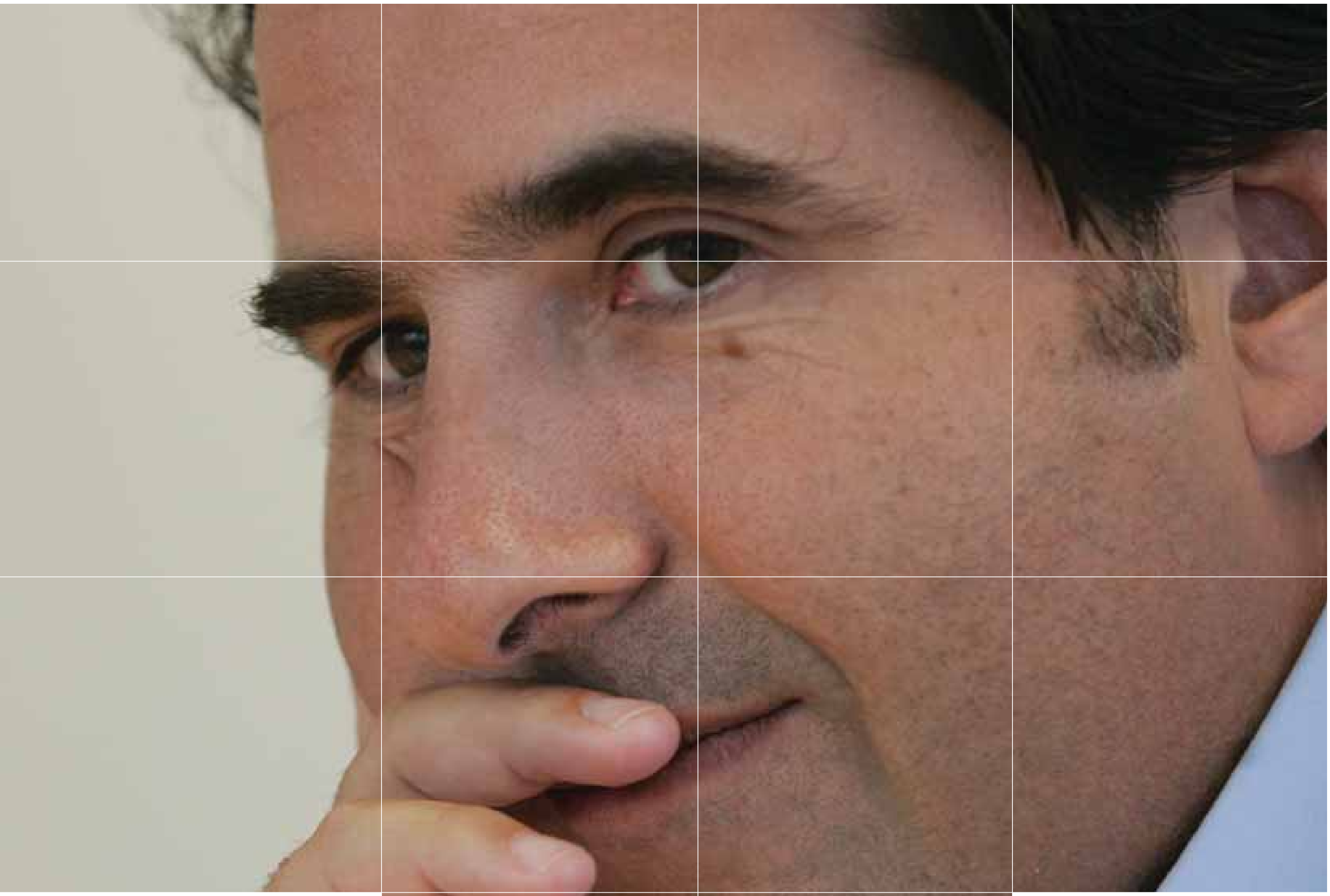
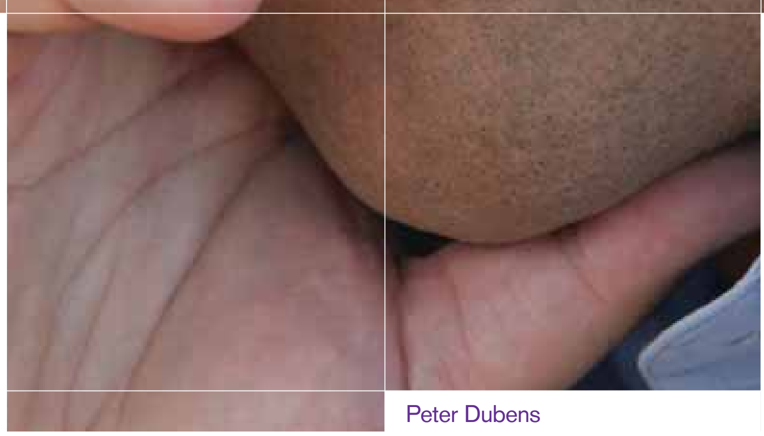
Yet, the Dubens approach runs against an enduring orthodoxy which says that the stock market's tendency towards sentiment-free impatience makes it an unforgiving environment for entrepreneurs; and that, very often, entrepreneurs are people whose talents lie in directions other than an aptitude for making faceless institutions richer. Market folk memories are well-stocked with sour anecdotes from entrepreneurs who have found the experience of floating their lovingly-nurtured firms both brutal and punishing. The market, runs the classic entrepreneurial complaint, is a great place to churn money, but no use if you believe there are other purposes to being in business.

> "The stock market's tendency towards sentiment-free impatience makes it an unforgiving environment for entrepreneurs."

High-profile casualties have included the likes of **Laurence Graff**, who took his Graff Diamonds public in 1973, just in time to fall foul of the oil price hike and ensuing recession; and Sock Shop's **Sophie Mirman**, who blamed market greed for her abrupt transition from Businesswoman of the Year in 1988 to receivership in 1990.

Such casualties commonly blame the stock market for:

- investor impatience and short-termism, forcing companies into unwanted acquisitions to expand faster than their orderly organic growth can deliver.
- extra compliance costs, which can outstrip the capital benefits of going public if the company is not valued highly enough to excite fund managers.
- fund manager indifference towards smaller stocks, so distorting valuations, reducing liquidity and, in extremis, causing a stock to slide off the bottom of the markets.
- high dividend distribution costs, particularly if a flotation attracts a lot of small shareholders.
- tempestuous external influences on stock values that are not the fault of you or your company.



Peter Dubens

A case in point is **Sir Richard Branson**, who floated the Virgin Group (minus its airline division) in 1986, only to take it private again in 1988. During the intervening two years, he watched his cherished brand almost come a cropper in the crash of 1987 – to such an extent that he was able to buy back his shares at 1986 prices.

Rarely noted for his reticence, Branson reportedly emerged declaring never again. Yet, a decade and a half later, he floated his cellphone business on the London Stock Exchange. Horses, evidently, for courses – which is also the Dubens view.

“The thought process was that the style of what we’re doing, which is basically to consolidate businesses within a certain sector, is quite difficult to do actively as a public company. If we created a public fund, feeding into a private partnership, that would have advantages,” Dubens says. Like **Stuart Gibson**, Dubens places some weight on having built a reputation for his shrewd stewardship of publicly-quoted companies, alongside his more classically entrepreneurial successes. He exudes confidence that he knows what he is doing, and that the market will share his conviction.

Yet he also retains the entrepreneur’s belief in knowing your shareholders. He knows all those who have contributed to the $350m raised thus far, though of course the public shares can ultimately be traded. But he is also hopeful that his own history with AIM companies will encourage investor loyalty. “All investors really want is to make a good return,” he says. “Personality comes into it only in terms of whether they trust you to manage their money properly, and historically I have made investors a very good return.”

There are, he agrees, additional compliance costs involved in a flotation, and they can amount to a tidy sum. But he sees the challenge of compliance itself as a healthy discipline, which is worth the bill. Operating as a publicly quoted company, he says, bestows “an extra layer of good controls.”

Nor is he worried about being buffeted by recent market turmoil, which has seen company values tossed hither and yon in the global turbulence that followed the US credit crunch and sub-prime lending scare. On the contrary, says Dubens, he sees the instability as providing opportunities for a private equity group like Oakley to acquire companies at advantageous prices. And what of the old entrepreneurial gripe that stock market investors prefer their jam yesterday? “Yes, the stock exchange can be impatient,” Dubens chuckles. “But if you look at myself as an investor – and I’ve bought 28 companies over the past five years – then my style is that I’m quite impatient too!”

more bridges

ALISON BIRD finds out how Bank of Scotland Corporate Infrastructure Finance has been able to position itself as a global leader, transcending national boundaries to enable its partners to take advantage of opportunities wherever they arise.

There is nothing small about infrastructure deals. They concern huge projects, long timescales, vast sums of money in complex transactions, and are delivered on a global scale. While enormity is the norm – bridges, tunnels, roads, multi-country consortia – the relationships behind the deal are on a very human scale: one-to-one, negotiations built through trust and experience. The 'one' element is central to Bank of Scotland Corporate's infrastructure business culture – not only do clients deal with people they know, but they also have access to an integrated product combining debt facilities with risk capital investment from the same source. Now positioned as the leading market player in the UK and globally (*Project Finance International and Infrastructure Journal League Tables January 2008*) its growth has been both strategic and organic.

"The short history of Infrastructure Finance is an interesting one," says **Sameer Amin**, Head of the Origination arm of the business. "The UK was in the vanguard in setting up a model whereby government started to use PFI and PPP as procurement tools for developing infrastructure in addition to complementing the private sector investment in the privatised and deregulated markets such as airports ports and the utility sector." This 'model' was then exported or reworked in Europe and elsewhere. Amin continues: "In short, it was an opportunity for us to export our own model in providing finance for that procurement into those other geographies and jurisdictions."

The successful coming together of a consortium (involving French infrastructure giant, Bouygues) to bid for the design and construction and maintenance of the €1bn M6 expressway in Hungary is a clear example of how the model works in practice (see side panel for more on the deal).

"Our core strategy," says **Gershon Cohen**, Head of Infrastructure Finance, "is developing a working relationship with companies (many of which, by nature of their sector, are global players), through which we could help them deliver on any project in which they wished to spread their wings. It's a chicken and egg situation; we work with our partner companies to come up with innovative ways of funding a deal, using our extensive experience of PFI and PPP, and this in turn enables them the freedom to realise ambitious projects."

Cohen continues: "This is the effect globalisation has had on our business – instead of responding to opportunities in the UK we are also responding to opportunities our partners are looking to develop – wherever that may be. But the 'wherever' has a caveat – we need to be near our partners, and understand where they want to go; but most importantly we need to be clear that we are comfortable in those places. Political and economic risk will play a big part in that decision making, as will a country's legal system and structure."

With respect to a new project, another 'political' as well as practical consideration is engaging the local economy. It will often be an international consortium bidding for a new project, as it will have the combined technical ability, experience and competence, financial backing,

into europe

> We're helping companies deliver – whenever they spread their wings.

and moreover track-record of delivering, that a government will be looking for. But naturally governments will also be looking to benefit the local economies where infrastructure work is being carried out.

Philippe Nacson, Director of Infrastructure Finance, based in Bank of Scotland's Paris office, explains how it works. "A company the size of Bouygues, for example, with its 15-year track record in infrastructure business, has expanded its geographical zones throughout continental and central Europe, North America and South Africa. It has built a vast amount of experience in dealing with different legislations and ways of doing business in a wide variety of jurisdictions.

"A Bouygues consortium will usually involve one of its subsidiaries. It will then partner or buy a smaller company in the country in which the business is focused for several reasons. Although that partnered company may not have the technical expertise to deliver the scale of the project that Bouygues has, it will have the competent manpower resources, language as well as the local knowledge necessary for a smoother operation. Recruitment is always key. While this local partnership has many practical benefits, it also meets the need to help boost the local economy directly."

Cohen adds: "We also work very closely with companies expanding from a UK base to become global in operation. A company that has very successfully 'gone global' is John Laing. It is a significant UK sponsor in the development of infrastructure projects, but has moved its position from being a major construction company to being a promoter and sponsor of infrastructure projects globally. In order to form this new business they had to identify growth markets outside the UK and bedded down in various countries to understand the political risks and economic risks, as well as to understand the potential deal flow. Their people on the ground will have been developing relationships and partnerships which is how they have developed a sustainable business model leading them to win business."

The Hungarian project is a case in point, says Amin. "John Laing was part of the consortium bidding for the tender – so it worked well for us. We had a major French relationship and a major UK relationship both coming together to work on a Hungarian opportunity. It was ideal from our point of view, to develop a new project in a new jurisdiction with companies that we know well."

Bank of Scotland Infrastructure Finance is a team of 55, based in four offices across Europe, with teams focusing on different geographies and working closely with companies domiciled in those countries. "So as companies want to venture into different jurisdictions we can help make that process smooth. Key to this for our partners is that the relationship always remains one to one."

In short, says Nacson: "We look to grow our own business as the business of infrastructure grows wherever that may be."

A SHORT HISTORY OF INFRASTRUCTURE IN HUNGARY

The Bouygues group, with revenue in 2006 of €34,840.10m, runs more than 40 subsidiaries and affiliates around the world, including Colas (road construction and maintenance) Bouygues Construction, and Bouygues Immobilier, the company's property development arm. The company has increased its stake in Bouygues Telecom (France's no.3 mobile phone carrier) and owns around 43% of TF1 (France's no.1 TV channel). The company also has a stake in ALSTOM, which is a builder of rail cars, seagoing vessels, and power plants.

Henri Chauveau, one of the main Directors in charge of Project Finance within Bouygues Construction (100% owned by Bouygues SA) comments: "Bank of Scotland Corporate has financed some of our projects on domestic markets for us such as France (A28 motorway) and in the UK (Tyne tunnel). An interesting feature for us is the capacity of the Bank to intervene on both debt and equity or quasi equity products."

The winning consortium Bouygues/Colas/Strabag/ John Laing Infrastructure/ Intertoll will design, build, refurbish, operate and maintain a section of the M6 expressway between Szekszárd and Bóly and a section of the M60 expressway between Bóly and Pécs in the Republic of Hungary under a 30-year Public Private Partnership Contract.

take the lead

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flexible funding

Bramdean

£100M LENDING FACILITY

The Bank's private equity specialist investment team within Fund Investments broke new ground working alongside Nicola Horlick's new alternative asset class investment company, Bramdean Alternatives Limited (BAL).

Nicola had set up BAL with the objective of further opening up some of the so-called alternative asset classes (primarily private equity and hedge funds) to a wider investor base. Due to significant minimum investment size and restricted entry, this area of the market has historically been limited to specialist institutional investors and major family offices.

Bramdean planned to raise capital via a public listing and make investments in managers that have in the past delivered attractive and consistent returns. However, during the listing process, a number of top tier managers were about to complete their fundraising programmes that would have ordinarily prevented Bramdean from investing until the managers returned to the markets – typically every three to five years.

Through early discussions with Nicola and her team, the Bank structured a £100m lending facility that enabled Bramdean to complete investment commitments to chosen managers prior to raising capital via the stock market. The challenge was to ensure that the Bank also understood the nature and complexity of each of Bramdean's commitments to enable the whole deal to work.

Scott McIntosh, Associate Director of Fund Investments, recalls that "from a banking and a specialist private equity perspective, the trick was to ensure all parties were aligned and agreed with the commercial aspects of not only the lending facility but also each of Bramdean's subsequent investments."

Bramdean completed seven investments under the Bank's facility and subsequently had a very successful debut on the main London Stock Exchange, raising £131m, the second largest fundraising in the investment company sector during 2007.

David Lyall, Director of Fund Investments, commented: "Negotiating on a case by case basis with each of Bramdean's investee managers added an additional

Nicola Horlick

degree of complexity to this deal. However, our team had a relationship with many of these General Partners, for example Terra Firma, where the Bank is a long-standing investor, so our reputation within the private equity market worked extremely well for us. Nicola has rightly earned a huge reputation for entrepreneurial flair and it was extremely rewarding to work with her and her team on

Appetite for growth

OIL & GAS FINANCE FACILITY

Bank of Scotland's Oil & Gas team recently arranged its first debt and equity facility for Valiant Petroleum Limited, a growing independent oil and gas company focused on North Sea oil and gas developments. The facility was the team's first upstream equity investment and included Senior and Mezzanine facilities to fund asset development and appraisals.

Doing such a deal for the first time creates challenges in itself but the Bank's team managed to put together the facility in a short timeframe, displacing the incumbent lending bank.

Charlie Houston, Associate Director, Oil & Gas explains: "By combining Corporate's appetite for integrated financial products with the Oil & Gas team's upstream sector knowledge and structuring capability, we delivered a competitive funding solution to Valiant, enabling it to fund its corporate and development needs to grow its production and asset base."

While every deal is different in the oil and gas sector, diligence had to be paid to Valiant's specific circumstances. Charlie adds: "We had to modify upstream lending structures to allow additional funding flexibility in a way that both met our client's needs and was palatable for the syndication market."

"In essence, our competitive advantage was our ability to combine the Bank's reservoir engineering capability with product knowledge and – through the equity and mezzanine facilities – offer Valiant a 'pre-Field Development Approval' funding package. This removed the need for Valiant to raise equity externally and has ultimately given our client a flexible facility on which it can draw knowing that we understand its funding requirements and fully support its business strategy."

Towergate

£300M FACILITY

Expanding insurance intermediary Towergate succeeded in acquiring Open International, the country's leading supplier of IT solutions to insurance brokers, in September of last year with the help of the team at Strategic Relationships.

What should have been a straightforward acquisition on paper was complicated by the turbulence in the banking market as Emma Waldon, Associate Director of Strategic Relationships London, explains: "Given the conditions at the time, we wouldn't have been able to get the transaction approved by the existing banking syndicate despite the transaction making sound business sense."

such an innovative transaction."

"The arrangement with Bank of Scotland enabled Bramdean Alternatives Limited to commit to some very attractive, quality private equity limited partnerships which, due to timing, we – and our investors – would otherwise have been denied," added Nicola Horlick. "The facility made a significant difference to the marketing programme since we were able to show potential investors not just what we would like to have in our portfolio, but what we actually had. It was a pleasure to work with Bank of Scotland – the team was diligent, supportive and accommodating throughout the process and there is no question that their willingness to work alongside us contributed significantly to the successful launch of Bramdean Alternatives Limited."

As Towergate has been a successful, growing customer for a number of years, alternatives were quickly investigated. In the end, a special purpose vehicle was created for the acquisition with the Bank fully underwriting £300m of facilities through this standalone vehicle. Emma continues: "We went down the route of finding other ways to finance the acquisition as it was of strategic importance to a key customer in Towergate." Peter Cullum, Executive Chairman, Towergate, confirms: "The Bank maintained a very customer-centric approach to what was a pivotal deal for Towergate and provided a first-class solution via a SPV."

take the **lead**

For more information, email:
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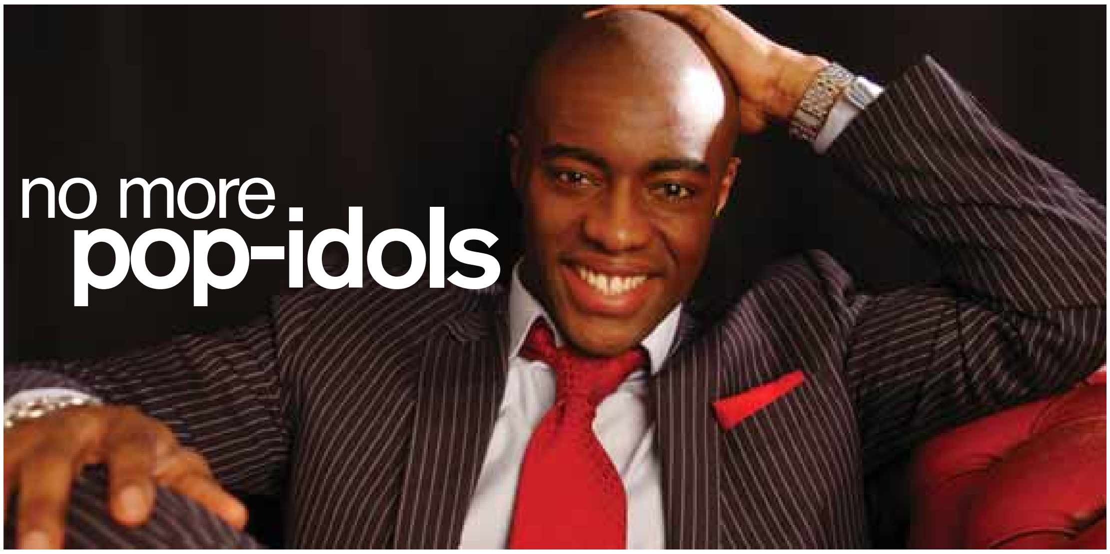

Tim Campbell was the first Apprentice, winning the chance to work with Sir Alan Sugar. He now runs his own business, the Bright Ideas Trust, a charity to help young entrepreneurs.

I was given a fantastic opportunity to become an 'accidental entrepreneur' after the Apprentice as part of a very entrepreneurial start-up company within a plc while working for Sir Alan. I learned so much about confidence, management and leadership skills but also about the possibility of running a business myself.

I'm incredibly proud of being the first Apprentice. I could have stayed with Sir Alan for years but I thought I was at the point where I had enough inspiration and education from him to want to go and try it out for myself. When I left in February 2007, I wanted to set up the Bright Ideas Trust as well as a male grooming products business. At the moment the focus is on the charity but I've still got the idea of my own corporate venture in the background.

> **"Everyone thinks mentors are only for senior people but everybody from start up to exit should have one."**
> **Tim Campbell, The Bright Ideas Trust**

I've been very lucky. Others haven't. A lot of people go down train tracks in education and career when they could put their skills into entrepreneurial ventures. That's why I've set up the Bright Ideas Trust. It's a registered charity which helps people, aged 16 to 30, who want to start their own businesses. We focus on individuals who may not have had the best start in life; maybe they've been in prison or in care or just fallen out of the education system. A lot of people like that have passion, drive and energy. Instead of seeing them as a 'lost generation' we should see them as untapped potential for business start ups in the UK.

People don't get told how to access finance. They approach banks and say 'can I have a loan please?' without any research about whether that's the best way forward. They need real world business information from people who have been there, done it and got the t-shirt, and access to trusted people who will help them – accountants, lawyers, management consultants. That's what we're trying to do with the Bright Ideas Trust.

We've had a very good response so far; a lot of people want to support us. Not just financial support – they might want to be a mentor to young people. You can never have enough advisers. I'm greedy – I've got four mentors. Everyone thinks mentors are only for senior people but everybody from start up to exit should have one.

I think we need to change the way entrepreneurs are seen as pop-idols rather than real people, or as loose cannons if they go off in their own direction. It's serious and hard work. You need to be tenacious, patient and a logical planner. Those who are really determined to get on will do so and we can help them by showing them which way to go.