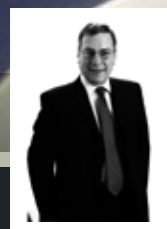
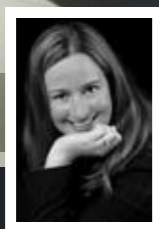


Midlands review...



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The Midlands' diverse corporate landscape and its strong industrial heritage have seen the area weather many a storm. Kirsty Hannon spoke to some of the Midlands leading advisers about their offerings and advising through the economic slowdown.

The Midlands covers a vast area of England and is split into two regions. The East Midlands encompasses the combined area of Derbyshire, Leicestershire, Rutland, Northamptonshire, Nottinghamshire and most of Lincolnshire. The economic development of the region is overseen by the East Midlands Development Agency (emda). The West Midlands comprises the counties of Shropshire, Staffordshire, Warwickshire and Worcestershire; the unitary authorities of Herefordshire, Stoke-on-Trent and Telford and Wrekin; and the seven metropolitan districts of Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton. Advantage West Midlands is the region's Regional Development Agency (RDA).

Businesses in the area, as in the rest of the country, are still facing serious difficulty in obtaining credit to see them through the rough times ahead. Lord Mandelson, the Business Secretary, has so far launched two schemes designed to help firms borrow money. The Treasury will guarantee up to 50% of loans to small and medium-sized businesses (SMEs) totalling £20 billion while credit guarantees of £1.3 billion have been offered to larger businesses. However, funding is still out there and deals are still being done.

Supporting potential

Mercia Technology Seed Fund (the Mercia Fund) is a provider of finance and intelligent capital to young technology-backed businesses based in the West Midlands which demonstrate the potential for high growth. The Mercia Fund can invest up to £0.75 million in such businesses which will often require from £1 to 10million in investment over their life.

Dr Mark Payton, fund principal, said: "We invest in businesses with limited or early turnover looking for capital and support to accelerate their businesses forward. We have forged numerous partnerships including: eight regional universities in the West Midlands; MidTech (NHS innovation hub in the West Midlands); and two key executive search agencies with a specific focus on early stage technology businesses (providing interim, full-time and non-executive management roles)."

The Mercia Fund has strong links with Advantage West Midlands. "The Regional Development Agency is putting considerable resource and effort into a variety of sectors within the West Midlands, for instance building on existing strengths in key technology sectors through initiatives such as Science City," Dr Payton explained.

The fund provides early stage, seed finance, and plays a very hands on role with its investees. Dr Payton said: "We work closely with them to enhance and develop their business model; build and improve on management teams; help accelerate the growth of their business; enhance their intellectual property position through analysis and guidance; and provide them with direct commercial leads.

The Mercia Fund has also developed an enviable track record in leading syndicate financings into our developing portfolio of young companies. "To date, we have invested £5.8million into 24 companies and leveraged in excess of £27million additional new capital into these businesses," Dr Payton added.

Grant Thornton UK LLP, one of the countries leading financial and business advisers, has offices in 30 locations nationwide and more than 25,000 individual and 15,000 corporate and institutional clients. In terms of corporate finance Grant Thornton was the most active adviser by volume of deals in 2008 in the Midlands and across the UK.

The firm has depth of expertise across its entire range of services; from advising entrepreneurs to listed plcs. Phil Jackson, corporate finance partner, said: "Being a successful adviser means being close to your clients and being able to respond quickly to requests for help and

being able to think ahead. This means guiding the client by coming up with ideas and solutions before they have asked the question."

GoIndustry DoveBid is a market leader in providing valuation of Machinery & Equipment, Inventory and Accounts Receivables. Birmingham based Elaine Shelley, who is responsible for developing new Asset Based lending work in Europe, thinks that when looking to raise finance secured against receivables, the initial step is to understand just how much can be leveraged against the asset. She said: "The accounts receivable profile, debtor quality, underlying supporting contracts and proof of debt all need to be well understood. We share this information with the lender and other interested parties to make the due diligence process streamlined and efficient."

The lender due diligence process is either undertaken by the lender or by an appraisal partner, which is often common when other assets are being appraised at the same time. "GoIndustry has provided independent collateral value assessment for multi-jurisdiction transactions over a wide range of industries. Our team has worked for Invoice Discounters and Asset Based Lenders as well as Professional Service Providers," Ms Shelley added.

People often view bankers as just lenders of money. The Royal Bank of Scotland's (RBS) approach in the corporate market has always been to position themselves as a valued business partner. As part of the wider Royal Bank of Scotland Group, one of the world's largest financial services companies, they see themselves locally as a full service provider.

Stephen Cockell, regional managing director of corporate banking, said: "We provide a multitude of banking solutions including activities such as day to day banking services, leveraged debt, risk management and importantly all of this can be delivered and serviced from here in the Midlands. Feedback from our customers is that they like to do business with people close to them who understand their issues."

RBS is the largest banking provider to UK corporates. Mr Cockell said: "From the group's multi-discipline functions we have number one positions in the UK for invoice finance provision – RBS Invoice Finance asset finance through our Lombard subsidiary, and we are one of the largest domestic and international payment operators in the world. Together with our corporate dealing room in Birmingham, we can provide all these services on a local level. Our aim is to be close to our customers and their needs."

Advising through the downturn

The economic slowdown has bought about much change in a relatively short space of time and certain sectors have fared better than others. In today's market,

given the prevailing economic conditions, Mr Cockell thinks that it is now more than ever about the strength of relationships. He said: "It really comes back to making ourselves a valued business partner."

The best banking relationships exist when the bank does not merely lend money, but is in close and active dialogue with the company over their plans. "The sooner a funder is engaged, the easier it is to structure the right funding solution for a company; be it to consolidate, fund growth or maintain day to day operations," Mr Cockell said. "One thing people sometimes underestimate is the strength and depth of a bank managers contacts book."

Phil Jackson has noticed that the transactional activity of M&A and buy out deals changed significantly throughout 2008. He said: "Volumes declined through the year as we moved from what was a sellers market to becoming a buyers market."

There has been a dramatic increase in distressed M&A deals which due to their nature, reach completion much faster than for a traditional deal. "There are also a lot of new corporate acquirers coming on the scene that are cash rich and sense the opportunity for a good deal," Phil Jackson added.

Businesses with contracted revenue streams like healthcare and social housing services are less affected by a downturn. Phil Jackson is aware that certain parts of the food and drink sector providing mainstream essentials are seeing volumes being maintained whilst chilled ready meal manufacturers and organic suppliers have seen large reductions in consumption.

Tight market conditions are currently making debt more expensive. GoIndustry believes that Invoice Discounting may provide a previously overlooked source of working capital and liquidity in a range of acquisition and buyout scenarios. Ms Shelley said: "In a number of cases it is becoming more common to raise finance against an entity's accounts receivable ledger. Debt finance secured against the accounts receivable normally takes the form of Invoice Discounting or forms part of an Assets Based Lending Facility. An ABL can include other assets reported within the balance sheet including inventory, plant and machinery, property and sometimes even intellectual property."

The trading environment has changed dramatically, requiring direct help from investors to support their investees. Dr Payton believes other investors are looking to support their existing portfolio rather than make new investments, thus making fund raising more challenging. He said: "Business valuations are undergoing a correction making new investment opportunities more attractively priced, but also making it more challenging for existing portfolio companies

to maintain their own valuations.

We are experiencing an increase in deal flow as business owners seek out 'smart' money."

The Mercia Fund has maintained a balanced portfolio approach in terms of risk/reward and technology sector exposure. "We find that certain sectors react differently in different economic climates," Dr Payton said. "In the current market, certain sectors such as healthcare and specific security applications are proving to be relative safe havens."

Moving forward

There is a perception that banks are not lending to UK businesses at the moment, but this is not the case. The number of funders in the UK, specifically international providers, has been lower since Autumn 2008. Mr Cockell has witnessed that it is the mainstream UK banks who are trying to fill this gap. He said: "Our UK lending, and that in the Midlands, was up in 2008 compared to 2007, but the demand for funds has changed. A nervous market, low on confidence does not look towards big investment borrowing in great volumes and the demand we are witnessing is predominantly for working capital and the restructuring of existing facilities as business adapts to today's economic conditions. Capital certainly exists in the Midlands to support well structured corporate transactions."

Most corporates are currently adopting a "wait and see" philosophy. Grant Thornton's Phil Jackson thinks that many sectors will see the recession as an opportunity to consolidate and increase market share. "This is especially the case with the Midlands manufacturing heartland," he said. "Property and financial speculators will emerge later in the year as they see the time is right to buy up bargains."

GoIndustry has an increase of deals from the Corporate Finance community where they have businesses who are being introduced to the world of ABL for the first time, because these businesses cannot obtain financing on the same terms or quantity that they did pre-credit crunch. "I am confident that those ABLs that have an appetite to do business in 2009 will be able to take advantage of this shift in the market," said Ms Shelley.

Dr Payton believes that innovation and cash management are key points in moving forward. "Many of our young investments have yet to reach a profitable trading position. We have focused on ensuring our investees are in a position, through existing resources or through current fund raisings, to have at least two years of cash on board," he said. "In our opinion, it's not just about surviving 2009 but about emerging stronger in 2010 at which point we believe the smaller, more nimble companies will be well placed to take market share from their larger rivals."