Debt Advisory update
Unlocking value

SUMMER 2019

Unlocking value using debt capital markets

Until recently, business owners looking to realise value or secure growth capital had a choice between doing nothing, and retaining control, or selling to a financial sponsor or trade, and giving up some or all control.

The rapid rise of alternative lenders and minority equity investors working in the mid-market has changed this, giving the ability to unlock capital or access growth finance while retaining economic and executive control. The markets are providing a much greater range of options than just the big step change between bank debt and pure equity. We are working regularly with these lenders to use a range of debt products to support buy-outs, growth plans and acquisitions, as well as de-risking transactions such as dividend re-caps.

The advantage for business owners is that these lenders apply a bespoke approach and provide flexible financing, whether that be higher leverage multiples, greater covenant headroom or, perhaps most importantly, longer-dated debt with no repayment burdens which constrain cashflow.

Rise of alternative lenders brings new capital to the mid-market

The alternative lender market consists of a range of institutions from global multi-asset managers and insurance companies to smaller dedicated debt funds. Over the last five years, a significant amount of capital has been raised by an increasing number of funds which lenders need to deploy. Many financial sponsors have now completed several deals with alternative lenders and continue to push them for ever more flexibility on terms. As a result, alternative lenders are facing increasing competition to deploy capital. This, coupled with a scarcity of high-quality assets, has created a very borrower-friendly market.

Alternative lenders are looking to partner with high quality private companies and to diversify away from the dominant financial sponsor-led strategy. This means a broad range of products are available which can be tailored to the specific needs of the borrower. Many of the larger asset managers follow multiple investment strategies and can offer a complete financing package from senior debt through to junior/quasi equity.

Private companies are increasingly turning to alternative lenders to fund transformational acquisitions and growth plans where bank lenders are simply unable to meet their financing requirements. Companies can raise a large quantum of capital from a single lender at greater leverage and increased flexibility without sacrificing control or ownership. This presents a significant opportunity for private company owners who are currently considering the need for an injection of capital.

"The variety and breadth of options to raise capital in the private debt capital market – for mid-market entrepreneurs, private companies and financial sponsors – has never been greater. Banks which have successfully repaired balance sheets and private debt funds which continue to raise record amounts of capital are competing for niches where they can make a difference. This means whatever your aspirations, there will be a set of active lenders that will want to meet you.

ANDREW SHELLARD,
PARTNER – HEAD OF DEBT ADVISORY

At a glance: alternative lenders, banks and private equity

Alternative lenders vs banks

BENEFITS

- Greater structural flexibility (including covenants, headroom, cash sweep, dividends)
- Materially larger hold capacity
- Significantly shorter decision-making chains and execution timelines
- Work day-to-day with empowered decision makers
- Pragmatic approach to diligence
- Greater competition and liquidity
- Follow-on capital appetite greater and timeline to receive it materially shorter

CHALLENGES

- Greater flexibility and higher leverage come at higher cost
- Do not completely replace banks which are still required for day-to-day transaction banking and working capital needs
- Fewer resources and smaller teams
- Focus on yield can make early repayment difficult
- Undrawn committed funds can be expensive
- Minimum deal size parameters

Debt capital vs Private equity

BENEFITS

- No equity dilution
- Cheaper cost of capital
- Management maintain control of their own destiny
- Management have freedom to execute the business plan without sponsor governance requirements
- Management benefit from value upside where the market has less confidence than management in the business plan

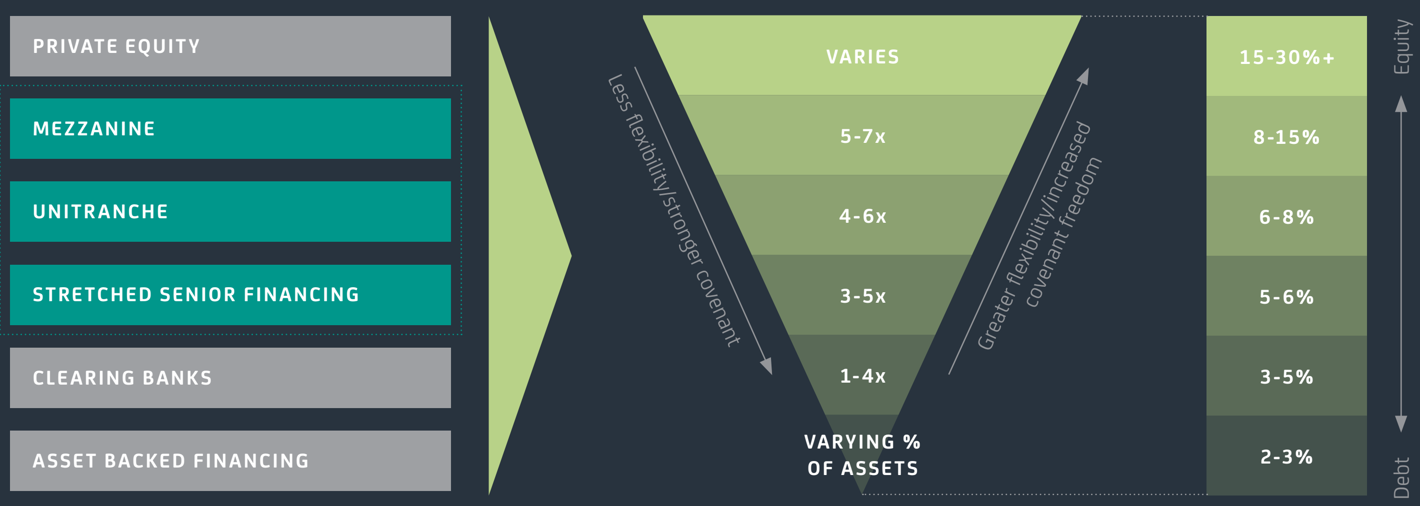
CHALLENGES

- Management equity in the business is relatively low with no sponsor investment in the business
- Can be challenging to maximise value without a sponsor
- If deal is to deliver a dividend or material cash out there can be meaningful tax implications
- Can be more challenging to grow inorganically without the availability of additional cash equity
- Sponsors can offer significant resources to aid management in execution of the business plan

Potential funders/products

Leverage

Margin/Yield



Case studies

Scan to watch our Gladman partnership video

Gladman founder David Gladman and Alantra Partner Richard Sanders discuss working together.

Gladman Developments: £100m debt refinancing

The situation

Gladman Developments (Gladman) is the market leader in strategic land promotion – helping land owners obtain residential planning permission and facilitating an onward sale. Gladman's sister business, Adlington, constructs luxury retirement apartments for independent living.

The business had reached a stage where it needed more capital to achieve its growth objectives: ongoing land promotion activity and maximising the growth of Adlington to enable it to become self-sufficient. The founders also wanted to realise some of the value they had created.

Our approach

We worked with the founders and their team for almost two years before the deal, advising on broader corporate matters including succession planning and incentivisation plans.

We undertook a detailed strategic options review which resulted in the decision to pursue a refinancing with a market-leading debt fund.

Gladman is a unique business in traditional debt terms due to unpredictable cashflows caused by planning permission and building cycles. Raising a new debt facility therefore posed some challenges. We prepared the business thoroughly for the transaction, separating the two divisions, preparing a detailed forecast model and business plan documentation.

Our understanding of Gladman and knowledge of the debt markets enabled us to introduce management to a select number of high quality, commercially-driven debt funds capable of supporting their objectives. This allowed them to select a fund, US-based Guggenheim, that was capable of supporting their ambitious growth and investment plans, as well as features around ownership structure and flexibility.

The result

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We eventually ended up with one chosen lender. We still have the ability to borrow from other lenders for some parts of the business and the deal lasts five years if we take it to full term. The money enables the businesses to grow very quickly, to get them to a much higher financial level, but it also enables the team to get the same satisfaction from a growing and successful business that I do.

DAVID GLADMAN,
FOUNDER
GLADMAN DEVELOPMENTS

Foster + Partners: transition to a partnership model

The situation

Foster + Partners is one of the world's leading architectural and design practises that we have worked with for over ten years. We originally advised on a minority investment by 3i which allowed the founding shareholders to realise part of their shareholding and extend ownership to key employees. Following significant growth across geography and services provided, Foster + Partners wanted to buy out 3i's shareholding using debt funding only, transition to 100% employee ownership and ensure there was flexibility to adopt a dividend model that could accommodate joiners and leavers.

Our approach

We advised the board of Foster + Partners on the strategic options available to them and, based on the recommendations proposed, led the negotiation of the transaction with 3i.

Based on our understanding of the practice, we were able to advise on the optimum structure to ensure that the practice could maintain its culture while continuing to develop on a global basis; retain, attract and reward the most talented individuals in the market; and implement its design-led integrated architectural and engineering services strategy.

We raised an innovative debt package from a syndicate of banks to provide finance to buy out 3i and to support the future growth prospects of the business under the new ownership structure. Following the agreement of the deal with 3i, our role involved advice in relation to the optimum shareholding, and board and organisational structure to support the long-term partnership model.

The result

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We look forward to continuing to build on our success, but now as a company that is fully owned by its partners and which keeps design excellence at the forefront of everything we do.

LORD FOSTER,
CHAIRMAN AND FOUNDER
FOSTER + PARTNERS

Selected debt advisory deals

GLADMAN DEBT REFINANCING GUGGENHEIM	Foster + Partners SMBO FOR THE PARTNERSHIP LLOYDS BANK RBS HSBC	dsm st francis group MANAGEMENT BUY-OUT Metric Capital Partners
SLR ACQUISITION FINANCING CHARTERHOUSE	PCMS ACQUISITION FINANCING inflexion PRIVATE EQUITY	LOD lawyers on demand ACQUISITION FINANCING BOWMARK CAPITAL
Alcumus Your Trusted Partner REFINANCING inflexion PRIVATE EQUITY	Collingwood Insurance Services REFINANCING JZ International Long Term Value Investor	EMVIA LIVING ACQUISITION FINANCING CHEQUERS CAPITAL

Alantra Global Debt Advisory team

We advise privately owned companies, private equity-backed businesses, large privately owned corporate groups and public companies on raising and refinancing debt capital.

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