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COVERING NEWS OF THE PRIVATE EQUITY MARKETS IN EUROPE FOR MORE THAN 20 YEARS

in association with LDC

Private Equity Less Ordinary

UK regional focus

Regional deal activity across the UK has not only remained resilient, but shows encouraging signs of growth

November 2014 – unquote.com

Heart and soul of the UK

WITH THE IMF once again pushing up the UK's growth forecast, the country is fast-becoming the only bright spot in Europe. Of course, the hugely international levels of activity taking place in London, driven predominantly by large-cap deals, is often seen as the most obvious reason for the UK's current strength. However, it is arguably the rest of the UK that is driving the county's impressive growth in a continually difficult time for Europe.

By drilling down into deal activity over the past two years, it is the UK regions that have produced some of the country's most exciting and globally renowned transactions, both investments and exits. The growing emergence of major global private equity firms in cities such as Birmingham, Aberdeen and Manchester is a clear indicator of not only the stability offered by companies operating in these locations, but their encouraging global growth prospects.

In terms of deal volume across the regions, (*see chart 1*), while there hasn't been a significant uptick in transaction numbers, the regions are far less volatile compared with London. Where London-based deals took a hit on H1 2013, activity for that period in the regions remained consistent.

Furthermore, looking at activity since 2012, there is a small trend emerging (*see chart 2*) in the Midlands and more so in North for improved deal volume. The North has seen deal volume rise from 15 transactions in the second half of 2012, up to 23 in the first half of 2014. The encouraging level of activity is supported by the upbeat sentiment of regional market practitioners.

Through conversations with all of the participants involved in this report, it is clear in those areas outside of London where the UK really comes to life. Major cities including Manchester, Leeds, Birmingham, Reading and Bristol have built and maintained strong communities, working in a close and harmonious manner, while the companies operating in these areas are true global leaders. Furthermore, the increasing interest in UK's non-London engineering, manufacturing, TMT, business services and retail businesses are further testament to the country's true strength.

As the pace and scale of economic recovery continues, the vitality and verve of the UK's regional business and corporate finance communities looks set to play an increasingly important role.

Chart 1: Volume of £5-150m buyouts by region

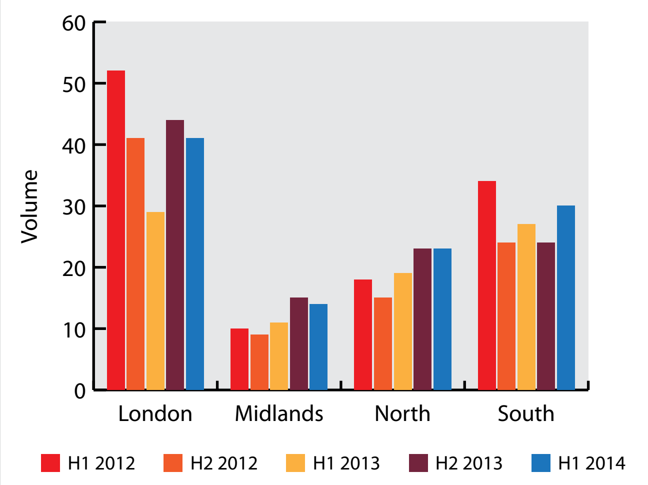
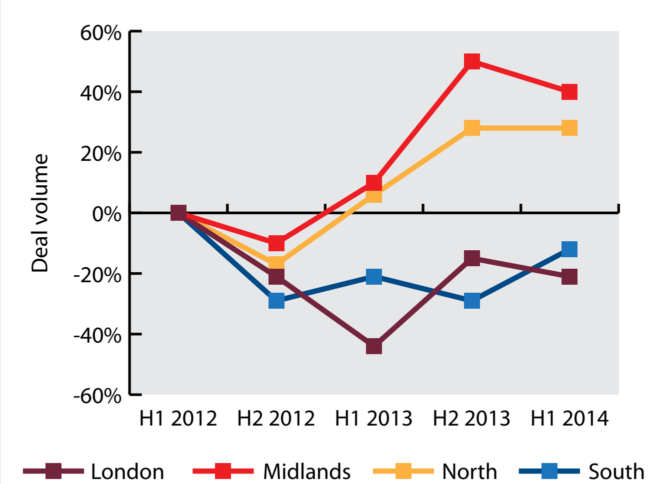


Chart 2: Evolution of regional £5-150m deal volume



Source: *unquote" data*

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The North

THE NORTH encompasses a large and diverse area of the UK, from the robust oil and gas sector in Aberdeen, to Manchester's vibrant retail sector, to Yorkshire's prowess in financial services, down to Sheffield's manufacturing heritage. When grouped together, the region is arguably the engine of the UK.

What is more, for private equity, the sophistication of the service provider market coupled with the closeness of the business community, makes this is an incredibly fertile region for transacting.

North West

Manchester is undoubtedly the capital of the North. The sheer number of private equity houses with a second office based in the city is a clear indicator of the Manchester's dominance in the region. A sign of the region's strength was its resilience during the downturn: "The North West is a pretty dynamic region and has come though the credit crunch in a strong state," says Phil Adams, group CEO of Altium.

Recent deals and trends

Looking at deal activity by sector (graph 1&2), for deals valued in the £5-150m range, the consumer sector in the North witnessed 28 deals since 2012. And, moving up to the £150-500m range, the sector is by far the most active with seven deals completed, totalling £1.6bn.

"Retail has really bounced back," says Ged Gould, co-head of LDC's North West office. "With consumer spending returning, coupled with the number of successful online retail businesses in the North West, including AO, Boohoo and The Hut, the level of interest in the region's retail sector is not surprising."

Adams believes one driver behind the success of retailers in the region is the need for a genuine offering when operating here. "The region has seen the growth of a host of successful retail and consumer businesses such as B&M, Iceland, Pets at Home which may be because they develop a really strong value proposition for the local market which then enables them to genuinely scale up nationally. Some retail and consumer business have done well in the regions where they have the right offering - for example, Wagamama does extremely well in Manchester because it's quick and good value whereas a number of high-end restaurants in Manchester have not typically fared as well because of the difference in footfall between the regional city centres and London particularly away from Friday and Saturday nights."

Competition

The vibrancy of the North West means the region is seeing increasing levels of competition. "Deal activity has really picked up, especially in the first half of the year," says Gould. "We've also seen lots of IPO activity, deals that might have otherwise gone to private equity. There has also been a lack of secondary buyouts on offer, probably because there were less deals completed four or five years ago," Gould also points out that trade buyers are back in force: "There is much more confidence and they have cash on their balance sheets to put to work."

While the well-oiled M&A machine that is the North West offers comfortable, well-trodden ground for deal doing – the ever rising interest from all parties means that competition, on both the equity and debt side, has the potential to put major pressure on pricing.

Community

Looking at the advisory community in Manchester, it is clear this city marches to the beat of its own drum. The big four have well-established teams operating in the region, and the boutique houses, including Altium, Clearwater International and Rothschild, see a large proportion of their activity taking place here.

Adams points out that the strong entrepreneurial spirit in the region is a key driver of activity. "The North West has created a real hot bed for entrepreneurship: there are great universities, property prices are more attractive and there's lots of funding activity. Successful entrepreneurs and business angels are very supportive of local businesses.

"Putting that all together, if you can get good labour, big warehouse space and good access to funding (there is a substantial private equity community in the North West), the region feels as though it's in very good shape. There are great entrepreneurial role models and a real 'can do' mentality, which puts the region in a great position to continue to foster and grow great companies."

Lenders

This is reinforced by the presence of major banks in the region, with the usual suspects including Lloyds, RBS and HSBC running large corporate teams out of Manchester. Furthermore, the increased activity from alternative lenders in the city highlights the ever-growing attractiveness of the region. "There are a lot more lending funds coming to market, and while unitranche is a fairly new feature in the North, it is clear the market is very competitive at the moment. Alternative lenders are predominantly coming up from the London to compete on deals alongside the active regulator high street banks," says Jonathan Bell, co-head of LDC's North West office.

LDC Fast Facts: Manchester office

- £402m of equity invested over last five years across 30 deals
- 23 exits delivered over last five years
- Manchester office opened in 2000

Yorkshire & North East

While this division of the North has not seen the same levels of activity and interest as the North West and Aberdeen, the mood is definitely positive. "We are by no means back to pre-recession highs but, the market has definitely started to improve. We're optimistic about the prospects that a recovering economy will bring in 2015," says John Garner, head of LDC's Yorkshire and North East office.

Recent deals and trends

Looking at activity in terms of sectors (*see charts 3 and 4*), industrial deals were the most popular, with 29 deals completed in the £5-150m value range. According to Garner, this can partly be attributed to Sheffield and South Yorkshire's stand out heavy manufacturing heritage.

Says Christian Mayo, corporate finance partner of KPMG: "There are pockets of specialism in the region; Sheffield has moved into aerospace and developed niche skills. Looking to the M62 corridor there are lots of valve makers especially for oil and gas, so there are inherently good quality industrial businesses."

Outside of industrials and manufacturing, the region enjoys a cluster of financial services business in Leeds and West Yorkshire, a stalwart businesses services sector as well as a solid retail market, with major players including Asda, Morrison, DFS Group, Go Outdoors and Maplin all based out of the region. According to Mayo, "Yorkshire and the North East do have a big financial services base and arguably one of the biggest legal bases outside of London."

Community

Leeds, like Manchester, stands out as a close knit community. "There's a genuine sense of keeping it in the family – using local advisors support transaction activity. That's not always true when you have, say, a London PE house transacting on patch as they're not part of that same community," explains Garner.

LDC Fast Facts: Leeds office

- £191m of equity invested over last five years across 14 deals
- 13 exits delivered over last five years
- Leeds office opened in 1989

Lenders

When it comes to lending, Yorkshire Bank is understandably more active here, working alongside major banks including Lloyds and HSBC. According to Garner, RBS and Barclays have recently returned to the market.

Says Mayo: "Over the past 12 months the market has freed up and at the larger end unitranche has been a bigger feature and the banks are back. That has pushed pricing up, which has filtered down into the mid-market."

Exits

It would appear that the area's engineering recognition on a global level is stirring up good interest in these assets. "Those industry niches have come back in vogue. These businesses were previously unloved when manufacturing was being outsourced to Asia. But now, the direction is for manufacturing to come back to the UK and for those businesses that have survived they are typically very lean, very IP heavy. So in Yorkshire we're seeing real battles over these sorts of assets," explains Mayo.

"Couple those factors with pricing loosening up and lots of overseas buyers looking at these assets (especially from US and Japan) – Yorkshire has a disproportionate number of industrial deals. These are world class businesses," adds Mayo.

Aberdeen

Aberdeen holds an enviable position in the UK thanks to its oil and gas sector, meaning it maintains an international prestige. For those active in the city, peers are more likely to be sat in Houston or Singapore than in other parts of the UK.

Recent deals and trends

One notable feature of the city's continued prowess is the growing number of large, international funds increasingly moving into the area in search of deals. "The oil and gas services sector is one of the few areas in the UK economy that has really grown. For private equity, that means we are seeing more generalists moving into the area that haven't previously been active here," explains Mark Kerr, head of LDC's Aberdeen office.

Indeed, over the past nine months Aberdeen has hosted two mega buyouts including Blackstone's investment in Siccar Point Energy and KKR's purchase of OEG Offshore Group.

Community

Due to the dominance of the oil and gas sector, Aberdeen's advisory community is overseen by just a handful of specialised players. The key benefit of this is the closeness of the business community: "We are very close. There are lots of dinners and events, which bring us all together, meaning that everyone knows everyone," says Kerr.

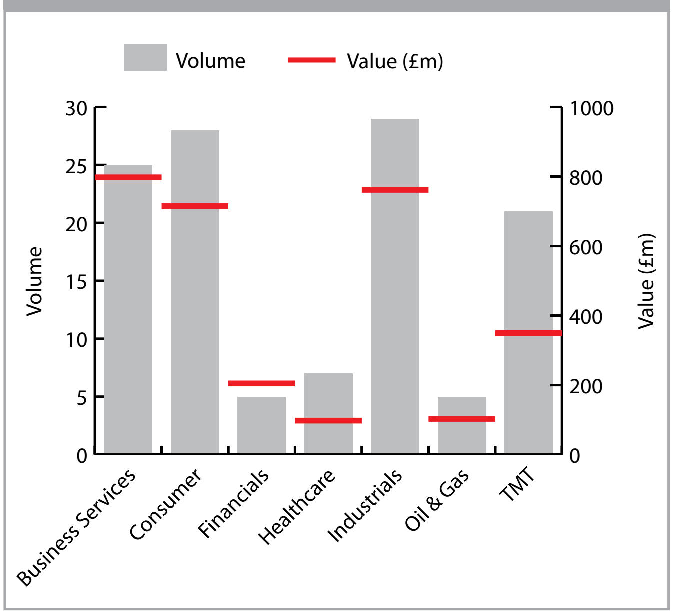
Challenges

While the M&A market in Aberdeen enjoys a healthy level of interest from private equity houses of all shapes and sizes as well as large international corporates, one downside to the area is its relative isolation to the rest of the UK. This can be an issue when attracting professionals to Aberdeen-based companies. Kerr believes recruitment in the private equity, corporate finance and legal firms is not an issue, however, "Recruiting into the professions is difficult and we are fishing in a small pool, generally all chasing the same people. It can also be quite difficult to persuade people from elsewhere to come to Aberdeen," notes Kerr.

LDC Fast Facts: Aberdeen office

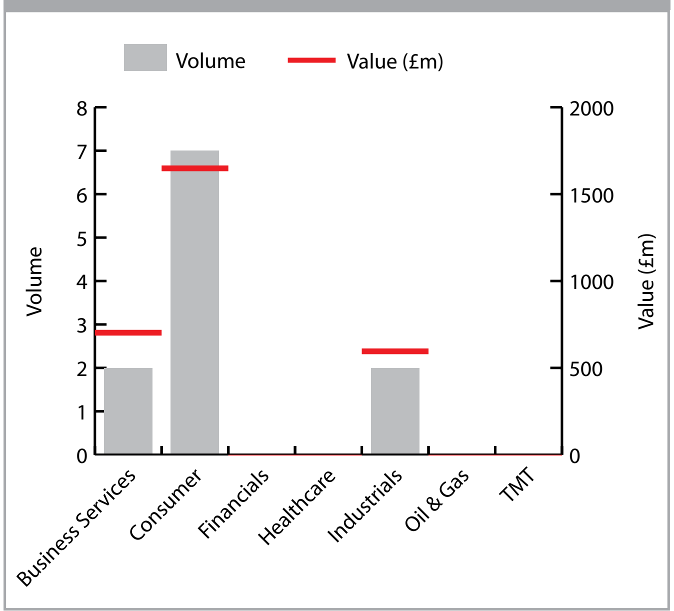
- Over £50m invested
- Aberdeen office opened in 2009

Chart 3: Sector activity in the North (£5-150m EV)



Source: *unquote" data*

Chart 4: Sector activity in the North (£150-500m EV)



Source: *unquote" data*

The Midlands

WHILE THE Midlands region, stretching from Nottingham to Birmingham, can boast a diverse and energetic business landscape, its globally renowned manufacturing industry gives this part of the UK an exciting edge.

One key driver of the region's engineering prowess is the local universities. Both Birmingham and Warwick Universities are renowned for their strong focus on engineering, creating an enviable pool of specialist professionals.

Recent deals and trends

Indeed, while there were 21 consumer deals completed in the region since 2012 in the £5-150m value range (*see chart 5*), and a further three in the £150-500m range (*see chart 6*), deals in the industrials sector are notable for their impressive aggregate valuations, reaching £391m and £770m, respectively. With 15 transactions done in the industrial space in the £5-150m segment, these deals achieved a combined value of £735m, hugely outweighing the £391m of total deal value in the consumer space.

Andy Grove, director in LDC's Midlands region highlights LDC's £500m commitment to the UK manufacturing and engineering space, which is led out of the Midlands. "As a region, the Midlands is one of the world's leading manufacturers with global recognition for highly skilled workers, design capability and technical innovation. We're famed for our strong industrial heritage, with a prevalent number of businesses operating in manufacturing and specialist engineering."

Grove sees manufacturing as one of the UK's most dynamic sectors. And, looking at the major corporates operating out of the Midlands, including GKN, Jaguar Land Rover (JLR) and Rolls Royce, it is clear that this section of the UK has made a name for its self on a global scale.

Richard Sanders, partner at Catalyst Corporate Finance, explains why these engineering giants have such a positive impact on the local area: "Looking at the wider picture of the Midlands, there's Rolls Royce in Derby and Sheffield has its steel industry, and both of these elements create a supply chain. Rolls Royce has been very supportive of its supply chain, especially during the recession; in some cases providing working capital support. That kind of behaviour breeds a network of loyal, financially sound and innovative businesses. In Birmingham and the West Midlands, we can see the evidence of the impact of JLR. JLR has invested a huge amount in the region – most notably with a major new investment in facilities in the west of the region. The international customer still places a premium on 'Manufactured in Britain'. These kinds of action create confidence."

However, because of the region's heritage in the industrials space, it is clear to see these companies demand higher prices. A quick glance at aggregate deal values for industrial deals in the Midlands, for both the £5-150m and the £150-500m ranges, shows that these deals racked up £735m and £654m, respectively. With just 15 deals completed in the £5-150m range, this denotes and average ticket size of £49m each. And in the £150-500m range, with just two deals completed, these investments average out at £327m.

Drilling down into the deals themselves tells a story of genuine international force, with one of these deals being Investindustrial's purchase of James Bond-famed Aston Martin. The other was Carlyle's acquisition of Nottingham-based packaging company Chesapeake, which operates 38 sites across nine countries.

Looking back to the region's impressive activity in the consumer sector, two of LDC's investments in the space neatly highlight the diversity of business in the Midlands. In September 2012, the Midlands team led an investment in Forest Holidays, a specialist in eco-friendly cabins for holiday-goers in locations including the Forest of Dean and Sherwood Forest. In June 2013, LDC provided follow on funding to Forest Holidays as the company opened a new site in Micheldever, Hampshire. While follow on funding is typical for a good proportion of LDC's investments, Forest Holiday's growth reflects the business climate in the Midlands, and looks set to grow further. Says Grove: "The economic diversity and prosperity of Birmingham and the wider Midlands region has continued to provide significant investment opportunities, which is helping to drive deal opportunities. We've seen a real shift in confidence recently and as 2014 has progressed, M&A activity has become increasingly upbeat - this suggests that a growing number of businesses are beginning to refocus their attention on future growth and expansion plans that they may have previously delayed."

Another notable consumer-related deal completed by LDC was its £22m investment in well-known fashion and homewear retailer Joules in November 2013. The deal followed several months of hot competition from several private equity bidders, most likely attracted by Joules' international growth prospects. The investment from LDC was at the time of the deal earmarked for growing the company in

LDC Fast Facts: Birmingham & Nottingham offices

- £605m of equity invested over last five years across 47 deals
- 42 exits delivered over last five years
- Birmingham office opened in 1987
- Nottingham office opened in 1998

existing markets such as Germany and France, as well as targeting new markets including Asia and the US.

Competition

While cities such as Manchester and Aberdeen demand a local presence, Birmingham's proximity to London can often mean that businesses transacting in the area are increasingly less likely to do so from a local base. Do businesses in the region prefer a local partner? Says Sanders: "A few years ago the answer would have been yes, but today the boundaries are less prevalent. Now it's more about the individual asset and its needs; companies just need the best proposition."

Community

The Midlands business landscape is built on a thriving community of business professionals, ensuring its position as one of the foremost locations for business outside of the capital. "The West Midlands is also fostering a host of emerging talent, as evidenced by organisations such as Birmingham Future, safeguarding its reputation as a leader in professional services," points out Grove.

Lenders

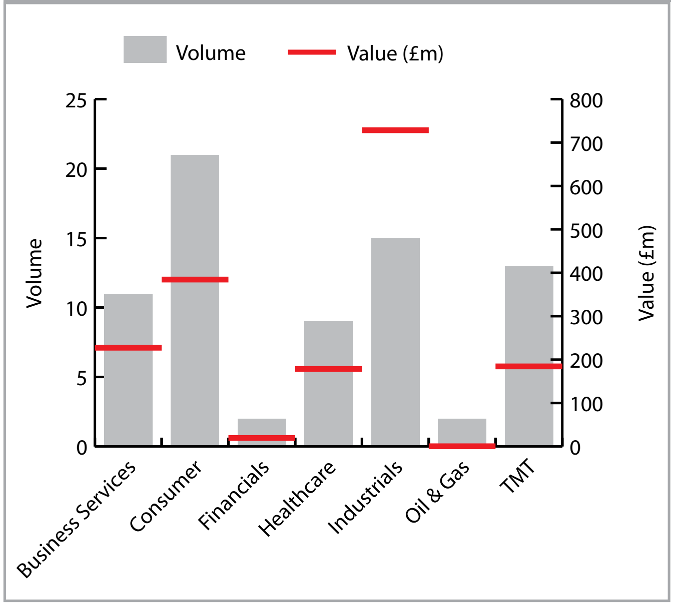
The strengthening local debt market in the Midlands reinforces its business strength. "Interestingly the depth of debt offerings continues to strengthen although the competition, as ever, only takes place when particularly strong businesses are involved in a transaction. We are increasingly seeing the specialist unitranche funds being more active in the mid-market and region, which provides alternative funding options for the right situations," says Grove.

Exits

A neat example of how private equity can benefit from the region's manufacturing prowess is LDC's sale of Leicestershire-based Benson Group, one of the UK's largest manufacturers of printed folding carton and sleeve packaging. It was sold in a £100m deal to NYSE-listed Graphic Packaging International. This transaction provided an excellent return in just less than two years.

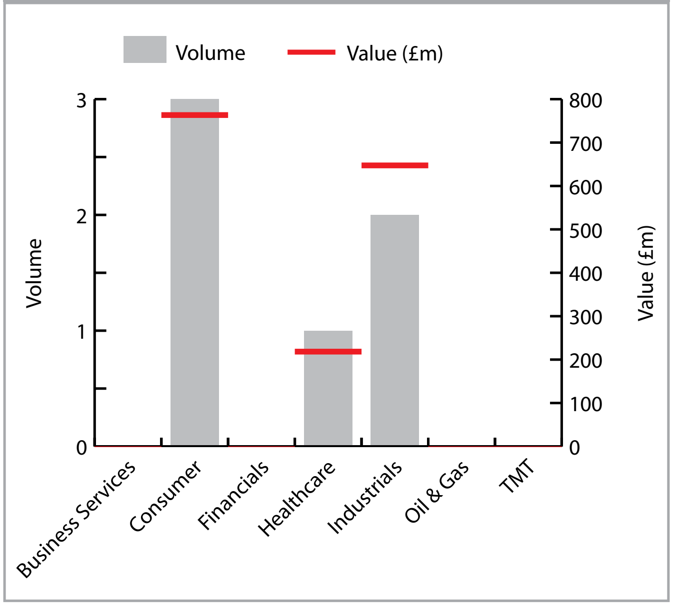
Indeed, according to Sanders: "From an M&A perspective there is a lot of international interest, especially from the US and Asia in UK engineering. From aerospace, defence, automotive and rail – there are many examples of highly successful local businesses attracting overseas support." ■

Chart 5: Sector activity in the Midlands (£5-150m EV)



Source: *unquote" data*

Chart 6: Sector activity in the Midlands (£150-500m EV)



Source: *unquote" data*

The South

FROM THE industrial powerhouse of Bristol to the tourist trade in Cornwall, the financial services hub of Reading and the creative scene in Brighton, the south and south west of England is defined by much more than London, with each city offering distinct opportunities for mid-market players. "It's easy to think of the South West as a homogenous region, but it's really a tapestry of smaller towns and cities – there are unique characteristics to the communities in Bristol, Cardiff, Exeter, Cheltenham," says LDC's Bristol office head Alastair Pendleton. "It's a mistake to think it's all about the capital."

Recent deals and trends

Far from being a collection of London satellites, private equity communities in the regional cities are developing as the capital's gravitational pull wanes. Increased dealflow is testament to the region's strength; in H1 2014, 36 deals occurred in the south and south west, a 24% increase on the previous half year, according to *unquote" data*, placing the south of the UK second only to London for private equity activity. And increased activity looks set to continue. "From here looking forward, there's also a lot more discussion about getting deals done, more forward planning and more offensive business strategies being seen," says Yann Souillard, head of LDC's Reading office.

Though the south may have long been associated with IT and IT-related services, with Reading a particular hotspot, the region's offering is expanding. Indeed, *unquote" data* reveals that the south is the leading region for industrial investments in deal volume, with 36 deals worth a total of £1.2bn in 2012-14. "The South West region alone has a number of sector strengths – from branded goods to aerospace and defence to creative services. Its economy is particularly rich and diverse in that respect," says Pendleton.

A closer look at the stats shows a particular strength in the aerospace sector as smaller companies take off, flanked by nearby behemoths in aerospace and defence. "Aerospace is very strong in Bristol, with Rolls Royce and Airbus. That has always meant that Bristol and the south west have had a very strong aerospace industry, from the big multinationals all the way down to SMEs," says Alastair Boorman, partner at Momentum Corporate Finance in Bristol. From LDC's sale of AIM Aviation, an aircraft cabin interior designer and manufacturer, to Towerbrook Capital Partners in October 2013, to WestBridge's purchase of Aero Stanrew, a manufacturer of electronic components for aerospace and defence, the sector is increasingly being targeted by PE.

The region also has a strong consumer offering, with several deals occurring in the food and beverage segment. From Bristol-based Loungers, a chain of neighbourhood cafes backed by Piper Private Equity, to Taunton's Ministry of Cake, a cakes and desserts producer bought by LDC from Matrix Equity Partners in 2014, mid-market opportunities are rife.

From industrials to food and beverage, as well as consumer retail targets such as Wiggle, and the tourism industry of the south, the region is expanding away from its traditional technology-focus. And as UK infrastructure develops, that evolution looks set to continue. Says Souillard: "We're seeing more retail and leisure operators moving head office locations away from central London and along the Thames Valley, due in part to cost increases but also proximity to Heathrow as an international hub."

Lenders

The return of traditional lenders and arrival of alternative players, including the likes of GE Capital, Aldermore and Centric has no doubt had a part to play in pushing up dealflow, with increased competition leading to more attractive terms for local businesses. "Banks are being extremely aggressive at the moment because there is a huge amount of alternative lending in debt funds. We now talk to around 60 debt funds, whereas a few years ago we might have spoken to four. The unitranche offering is a challenge to the banks as well – they are having to sharpen their pencils to compete," explains Duncan Wade, Reading-based director at EY.

Exits

The region's credible track record extends to the exit market too, with several GPs hitting the home runs. Isis's sale of cycling retailer Wiggle to Bridgepoint in 2011 saw the GP achieve a 69% IRR and a 15.1x money multiple. But pass-the-parcel deals are far from the only option for exiting investors; the stock markets have reopened too. Earlier this year, Inflexion generated a 3.7x money multiple on its listing of National Accident Helpline, which achieved a market cap of £82.5m.

LDC Fast Facts: Bristol office

- £48m of equity invested over last five years across 3 deals
- Bristol office opened in 2007

And while the region has been firmly on the map for national buyers for some time, it is increasingly catching the eye of international players, trade and private equity alike. "Over half of our sell-side transactions go to international buyers, a large proportion of which are North American buyers. They are very keen on acquiring UK businesses, often as a beachhead into Europe," says Boorman.

unquote" data reveals that 95% of all deals in the region between H1 2012 and H1 2014 occurred in the £5-150m. Average deal volume stands firmly in the small-cap segment and in the absence of headline-grabbing assets, international buyers could perhaps have been forgiven for not targeting the region. But times are changing. "We're going out with a £7m deal at the moment, speaking to the Far East, India and China so there is a lot of international interest," says Simon Davies, managing director at Spectrum Corporate Finance. "Overseas buyers will look at smaller deals now; it's no longer the case that they need a £25m base. Private equity buyers are still very competitive on the £20-100m EV. You get people paying good money in that area," he adds.

Community

Though just 41 miles separate Reading from London, the distance between London and Bristol is three times as wide. However, it seems for the city's private equity community, the distance is no bad thing, with the city walls becoming a little stronger as the miles clock up. "It's a reasonably self-sustained community in Bristol," says Boorman. "It's got enough critical mass and advisers, but it's far enough away from London that you don't have the transient nature you might get in some cities closer to London. Therefore having a proprietary network here is important in getting deals done," he adds.

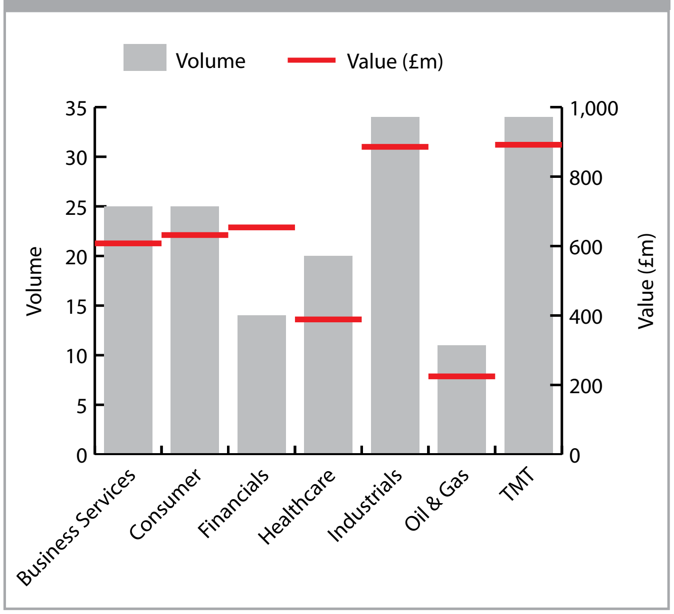
For the Reading market though, the proximity to London is a benefit, allowing for easy trips to the City's GPs, but it's also a challenge: "Reading market is still quite close to London so you will find some deal leaking; the South West market is tighter because of its distance from London. A strong local PE presence helps to keep the market tighter," says Davies. "The biggest challenge here is keeping deals on patch. There are still too few PEs in the region, so there's some slipping in that respect."

Nevertheless, personal connections are paramount. "The advantages of local relationships can't be underestimated," says Souillard. "Reputations matter more within local networks like ours. You don't get that kind of effect when you're travelling to and from the region to do business or staying over in hotels," he adds. "This creates a helpful and healthy symbiotic relationship between backers and advisors, and being part of that relationship is what our model is all about." Commitment is the key to the south. ■

LDC Fast Facts: Reading office

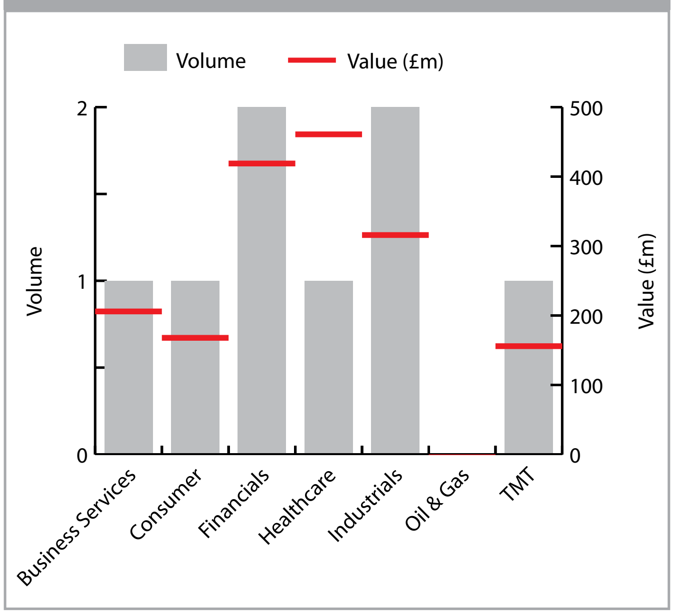
- £384m of equity invested over last five years across 19 deals
- 22 exits delivered over last five years
- Reading office opened in 1997

Chart 7: Sector activity in the South (£5-150m EV)



Source: *unquote" data*

Chart 8: Sector activity in the South (£150-500m EV)



Source: *unquote" data*

Q&A: Chris Hurley, co-head of LDC

LDC co-head Chris Hurley speaks to *unquote"* about the benefits of a regional network of offices and a local approach to deal sourcing

"We've invested £1.5bn into new businesses through our regional offices over the last five years"

Chris Hurley,
co-head, LDC

What are the main advantages of having a network of regional offices?
It's about having roots in the market and routes to market.

LDC is a mid-market player, and a significant part of that market is regionally-based businesses outside the M25. Being on the ground – close to the corporate finance community and in the business community – means we can better drive and support dealflow in our target area.

We've invested £1.5bn into new businesses through our regional offices over the last five years, compared to £918m out of London.

Couple that with our regional offices, staffed with local people – it becomes a self-reinforcing community that looks after each other.

Our regional footprint is also a key part of our approach to portfolio management. Ours is a value enhancing business model, based on proactive post investment management. With a portfolio of over 85 companies dispersed across the UK, we couldn't deliver on that promise without our regional teams. This is where LDC's regional model really makes the difference – working in close partnership and proximity to management teams and creating the shareholder value that drives the exit and overall investment performance.

UK regions are central to our model – they're part of the fabric of LDC. We've had a strong regional presence for almost 30 years and I don't see that ever changing. It's our DNA.

What are the challenges of a regional strategy?
The challenges only exist on a managerial level. If you operate out of just one shop the team will naturally be much closer together, so the challenge is creating a consistent cultural alignment across the UK - getting everyone working to the same principles and approach. We've been executing the model for 30 years now so you could say we've honed our approach.

How sophisticated are the advisory communities in individual regions?
The regions have fantastic professionals across accountancy firms, law practices and banks – all of the support services you need for a healthy deal-doing market. This is especially true in the big cities such as Birmingham, Manchester and Leeds; although this is equally applicable in the UK's smaller cities such as Aberdeen, Bristol, Reading and Nottingham. Whether in boutiques or regional offices of the major players, there's a consistently high calibre and quantum of expertise in the regions.

Do owner/managers really need a local backer when taking on growth capital?
We are relationship driven investors, so it's no surprise that when we're investing we want to know that we get on. We're investing in management teams that want us to be supporting them in their growth strategy, rather than just providing capital.

How well connected are the business communities in the regions?
Birmingham, Manchester, Leeds and Aberdeen have embedded corporate finance communities, and as a result, people help each other out with dealflow. It's an ecosystem.

Furthermore, local CBIs and networking groups are doing a great job at promoting their local regions as areas for private investment.

Can there ever be such a thing as an off-market deal in the regions if businesses know each other so well?
Having a regionally based model – where we're on the ground and in the community with experienced and sizeable teams - is definitely a key driver of origination.

Being close to a business means you gain a better relationship, which can mean you can have a longer run up to the deal – rather than meeting them after the IM has landed on your desk. You're more aware of opportunities before they formally come to market.

But is also means you can stimulate dealflow. We might work with earlier stage businesses to help prepare them for investment when the time and conditions are right, or we might work with the management team of a more established business to get them PE-ready. You just can't add that kind of value unless you have regionally based teams with the bandwidth to build relationships.

It's an approach which gives preferred dealflow, if not off-market exclusivity.

How do lenders approach the regions – do they also have local teams?
The big high street banks such as RBS, Lloyds, Barclays and HSBC have good regional teams and presence. They serve the regions well as they have corporate centres embedded in those communities.

We don't see alternative lenders in the regions – they are there more on a visiting basis. They are a source of debt but they're not embedded in the way the banks are. That predictability and reliability of debt funding is the lubricant for regional markets. However, while lenders are back in force, there are still a lot of all-equity deals being done.

Is there any region that particularly stands out from an international point of view? One that trade buyers would be more likely to target?
Aberdeen is naturally international because of oil and gas is a global market – it has strong access to Houston in the US as well as Brazil and Singapore.

We see assets in every UK region that are world class. A particularly good recent example of this at LDC is the sale of Penn Pharma to US-based Packaging Coordinators in a £127m transaction. Penn is based in South Wales and has a world-class reputation in the pharmaceutical manufacturing sector, which led to interest from significant overseas buyers.

LDC Fast Facts

- First regional office opened in 1987 (Birmingham)
- 8 regional offices
- Regionally-based portfolio companies employ almost 25,000 people and generate sales of more than £3.5bn
- £1.5bn of equity invested into new businesses through regional offices over the last five years

How much inter-connectivity is there between LDC's regional offices – particularly when expanding a portfolio company from one location to another?
There is competition between investment teams which is only natural but we are successful only if we work together – there's only one P&L account, and one target. We all help each other.

From the portfolio company perspective – if they want to move into a specific region we can put them in touch with the right people.

"There is life outside of London. There are so many companies out there in the UK, achieving incredible success both domestically and internationally"

How important is regional investment for UK economic growth and why?
There is life outside of London. There are so many companies out there in the UK, achieving incredible success both domestically and internationally - creating jobs, generating wealth, driving exports and GDP growth The sheer scale and size of the opportunity is astounding.

For LDC, we're a growth investor that wants to work with companies to fuel their ambition and fulfil their potential. Having a regional network of offices is about growing businesses. The whole thing is self-fulfilling; if we achieve success in the region, because it's not drowned out by the big PLCs and international companies there's a warm feeling of reward. You see it with family companies – that feeling of pride when they are doing well – exporting, hiring and looking after employees. It's much more heartfelt. Success is magnified. ■

A BALANCED APPROACH

Experience & Capability = Knowledgeable Investment

In a challenging environment having an experienced and capable team behind you is key; and this balance is essential when identifying and assessing opportunity, working with management teams and developing strategic exit plans.

Striking the right balance through experience and expertise is vital to successful private equity investment and is at the heart of LDC's focused approach to mid market transactions.

In a 24 month period that has seen LDC invest over £650million in 36 transactions and exit a number of businesses in targeted strategic sales, the balanced approach really does support knowledgeable investment. And with a portfolio of over 80 businesses valued in excess of £1.9billion still under LDC management, there's more to come.

For further information about LDC please give us a call at one of our regional offices by visiting www.ldc.co.uk for contact details or send an email to info@ldc.co.uk

- Minority and majority investments considered
- Up to £100million equity investment threshold
- Value adding approach with management teams
- Flexibility of post investment funding opportunities
- Ability to have appropriate investment hold period
- £2billion to invest over next five years

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LDC

Private Equity Less Ordinary

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