

THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING

Seminar outline

RSM Access to Finance Seminar

Welcome and introduction - Julian Caplin, RSM Ireland

The Irish funding market – John Madigan, SBCI

The private equity landscape - Charlie Jolly, RSM UK

View from an Irish/UK fund - David Gammie, BGF

Mezzanine finance - Adrian Dunne, AIB Mezzanine Finance

IPO overview - Ewan Grant, RSM UK

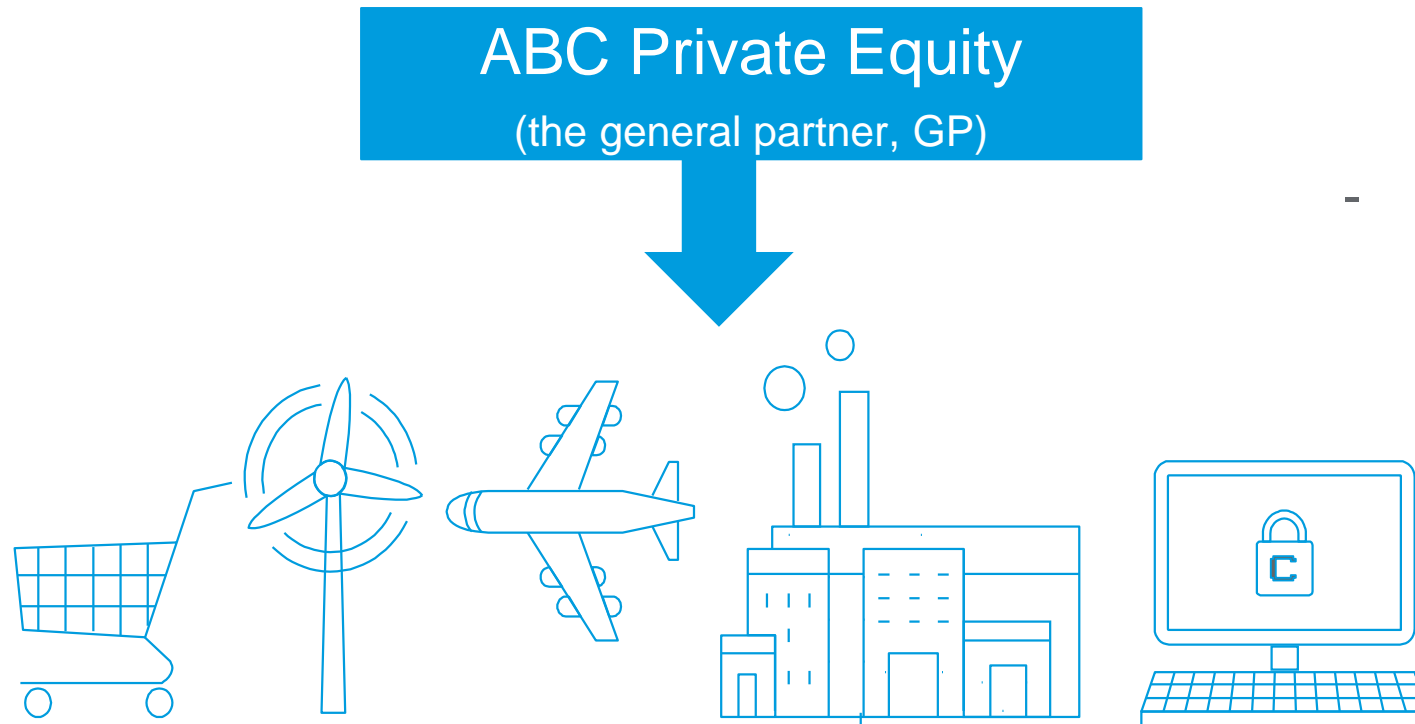
Wrap up - Brian Hyland, RSM Ireland



THE PRIVATE EQUITY LANDSCAPE

Charlie Jolly
RSM UK

What is a private equity fund?



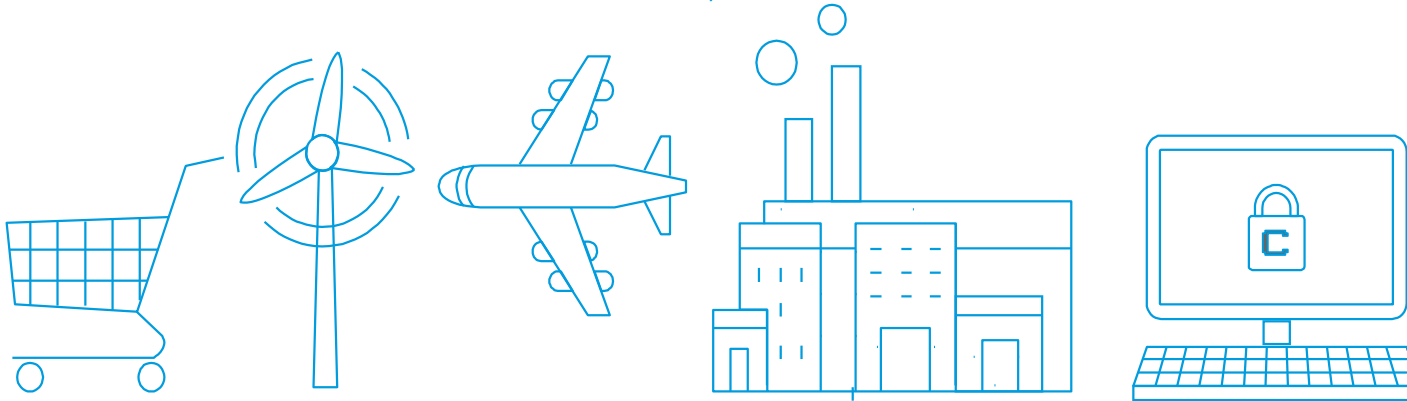
- Limited partners and general partners
- Generate higher returns than a stock market index

A fund management company that buys controlling/significant stakes in private companies, not listed on a stock exchange.

What is a private equity fund?

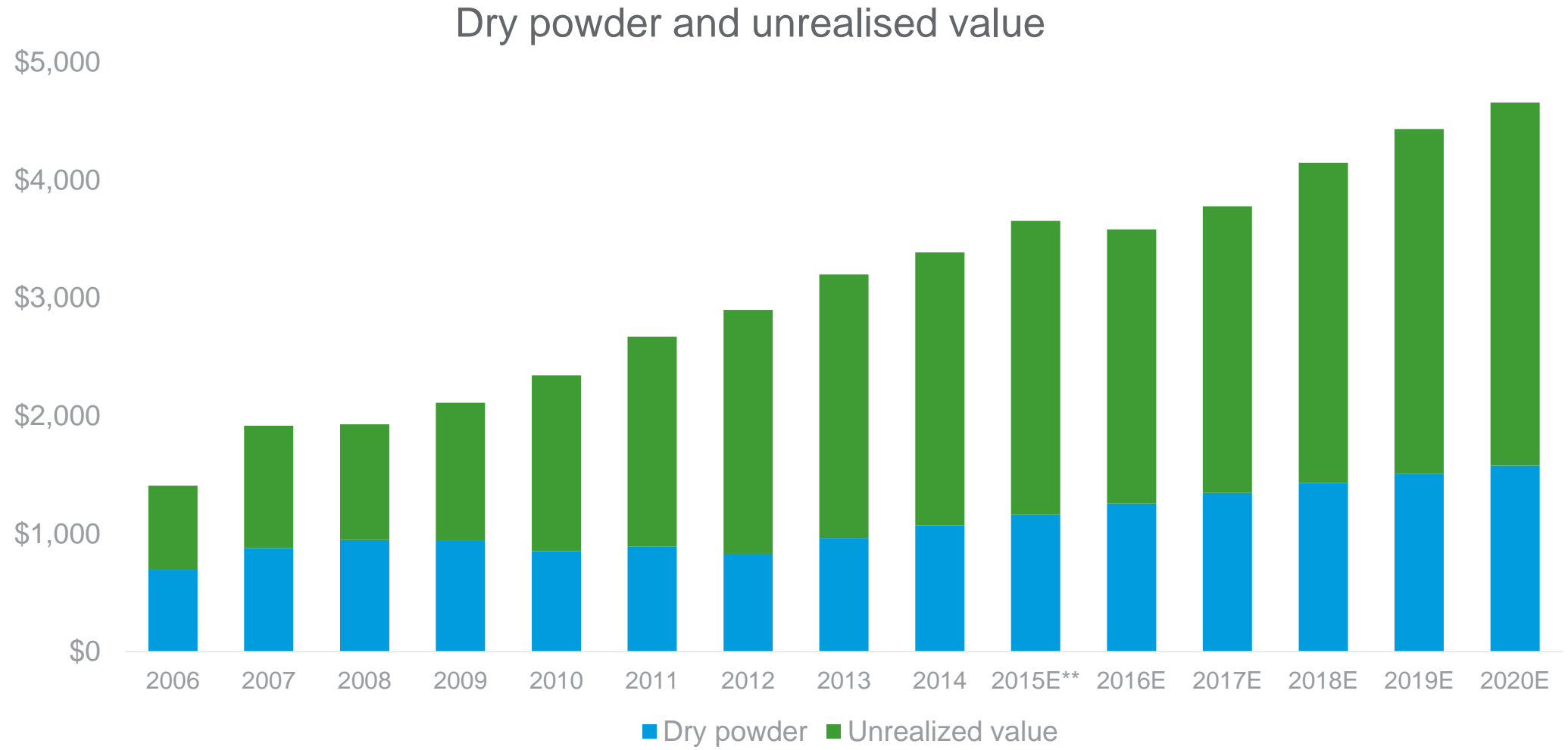
Pension funds, insurance companies, family offices, HNWIs
(the Limited Partners, LPs)

ABC Private Equity
(the general partner, GP)



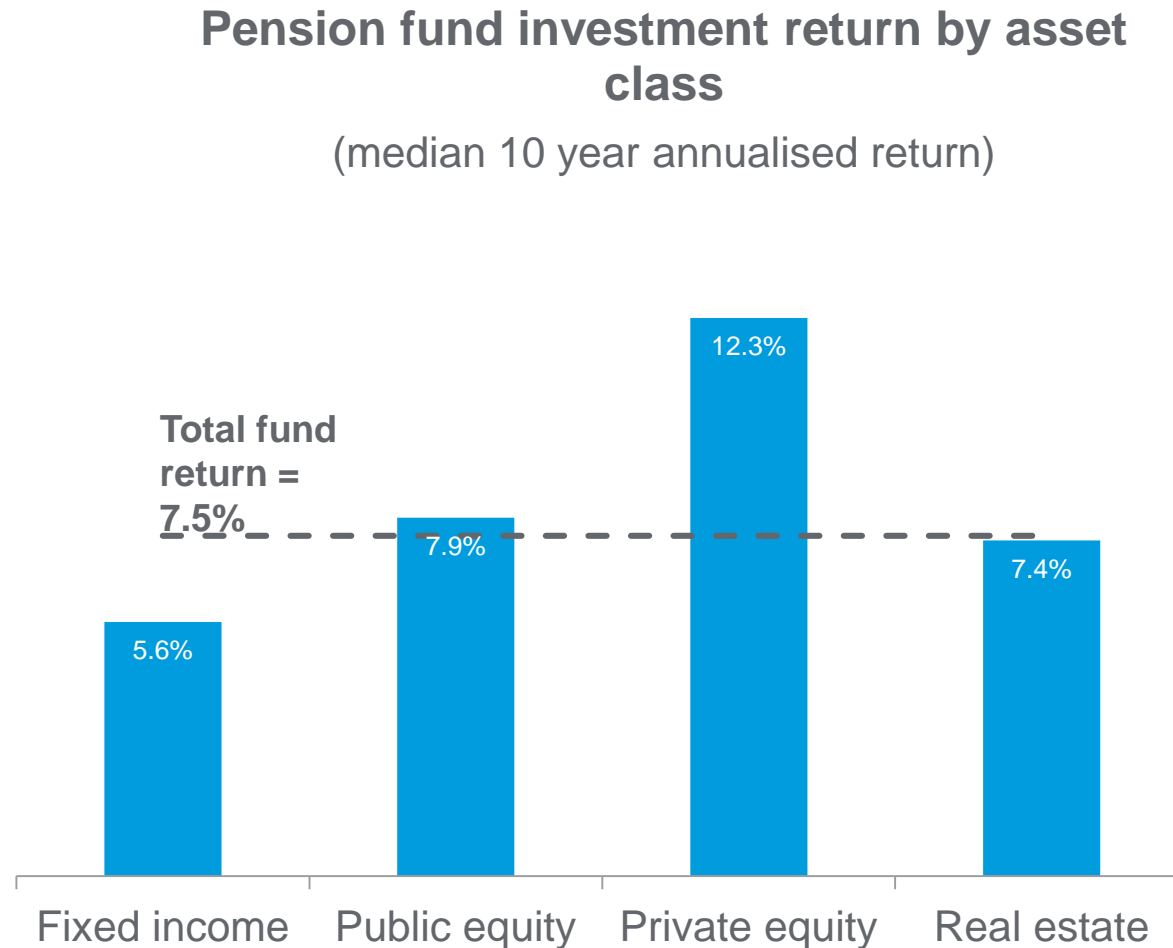
- '2 and 20'
- Control investors
- Management incentives and alignment of interest
- Selectivity

Forecast - an oversupply of private equity capital



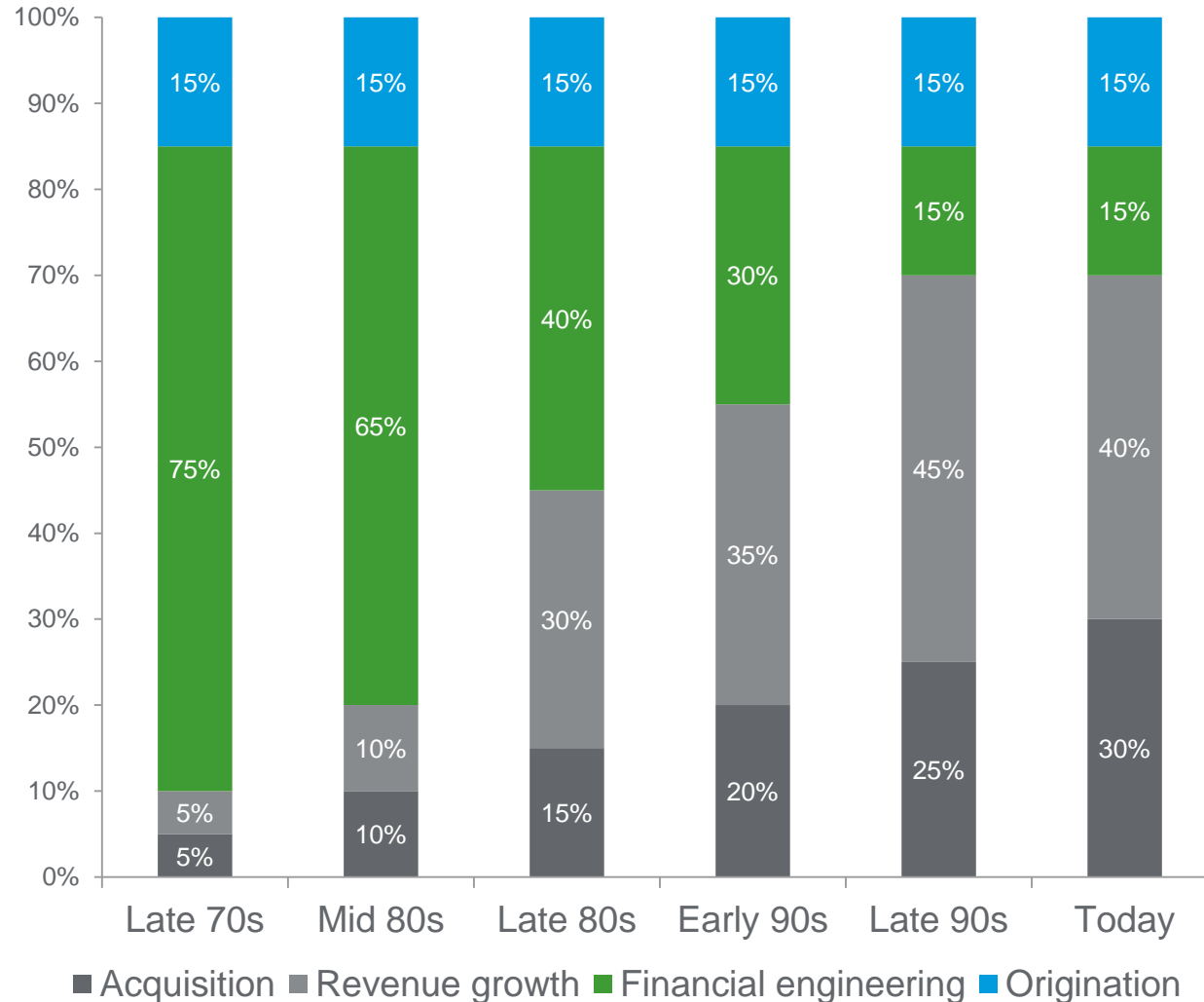
- Fundraising is forecast to rise for the foreseeable future

Why institutional investors like private equity?



- Pressure on investors to deliver higher returns due to low interest rates and ageing populations
- Highest performing asset class over the long-term
- Growing asset class as investors increase their allocations to private equity

How do PE funds generate higher returns?



- The key sources of return are revenue growth and acquisitions.
- Today there are over 500 private equity funds in the UK, over 2,000 in Europe and over 3,000 private equity firms in the US.

Focused funds

Private equity firms come in all shapes and sizes and pursue a wide range of **investment strategies**

Investment Strategy	Geography	Sector
Venture capital (VC)	Global	Generalist
Growth equity	United States	TMT
Mezzanine fund	South America	Healthcare
Leveraged buy-out (LBO)	Europe	Financial institutions
	China & India	Real estate
	Middle East & Africa	Industrials
		Aerospace & defence
Distressed buy-out		Infrastructure
	Southeast Asia	Consumer & retail



Trade or private equity?

Trade

Advantages

- ✓ May achieve the highest price
- ✓ Has the potential to provide a full exit for all shareholders
- ✓ Being part of a larger organisation may bring benefits, including geographic strength
- ✓ Less onerous due diligence as the acquirer will understand the market

Disadvantages

- ✗ Purchase price is likely to be structured with an earn-out
- ✗ Little opportunity for shareholders to share future growth of the business
- ✗ Confidentiality risk
- ✗ Trade buyers can be more volatile

Private equity

Advantages

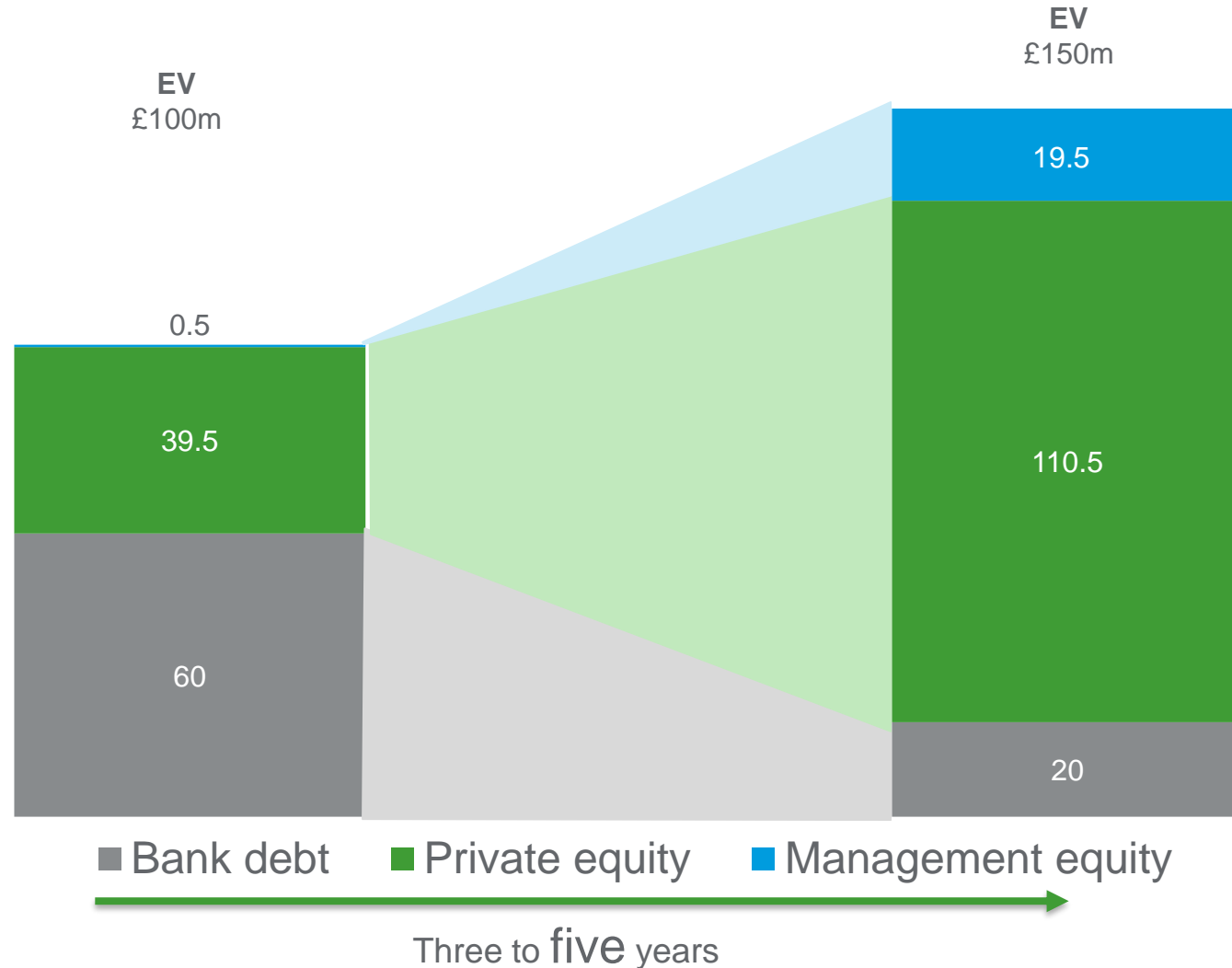
- ✓ Flexibility to provide a deal structure that meets the requirements of all shareholders
- ✓ Have record 'dry powder' to invest and can often outbid trade
- ✓ Control of information flow about a potential transaction to any competitors
- ✓ Ability to transact at speed

Disadvantages

- ✗ Due diligence will be onerous and detailed
- ✗ Requirement for management continuity
- ✗ May not provide a full exit for all shareholders
- ✗ Natural conflicts between exiting shareholders, rolling shareholders and management

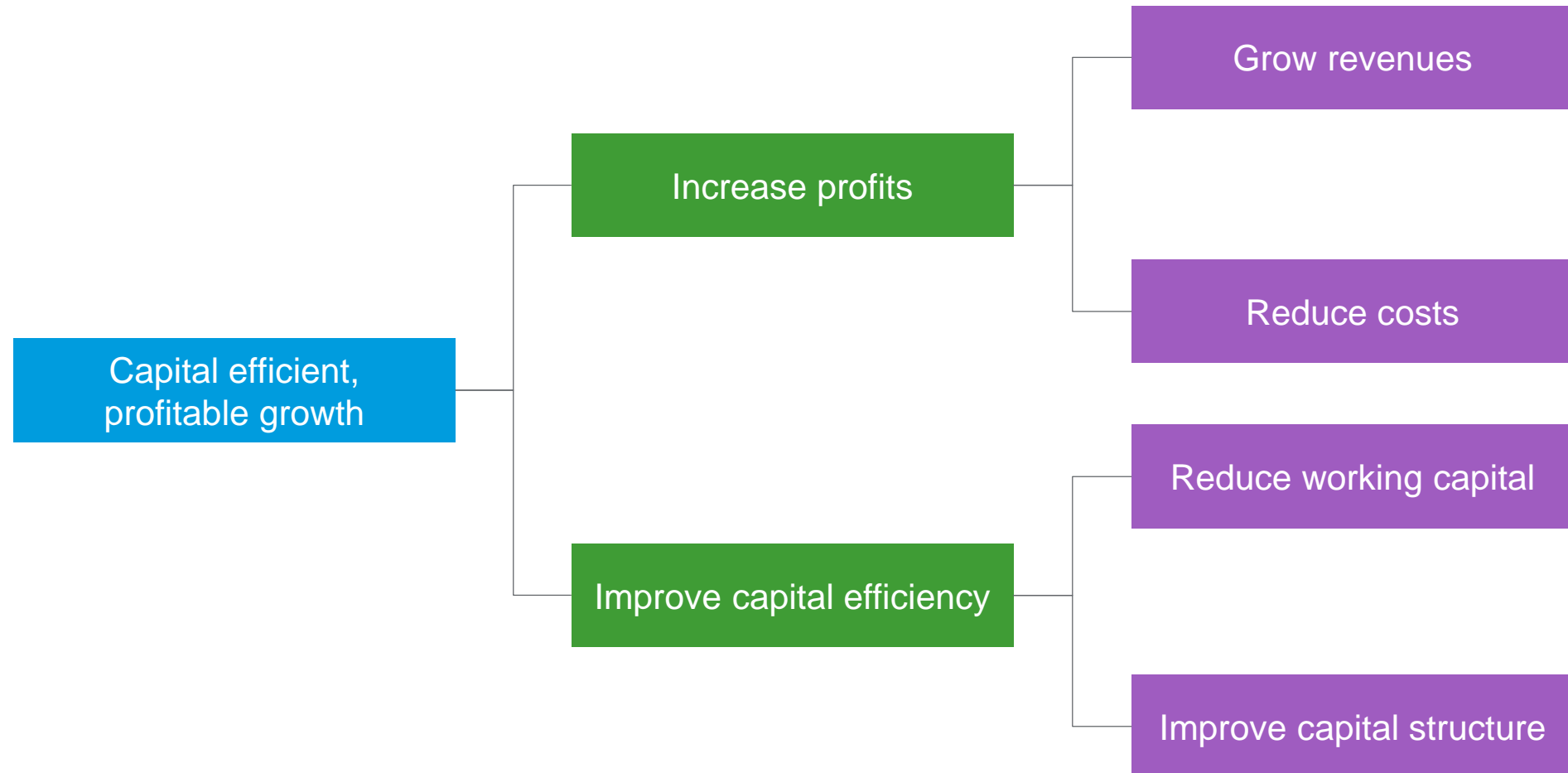
An example of private equity investment

Social Media Ltd is bought by ABC Private Equity from Search Engine Group for £100m.



Examples of value creation initiatives

Multiples are based on EBITDA and increase with revenue and being able to demonstrate that the company is in the top quartile for key industry benchmarks.




Private equity in the press...

Private equity model 'starting to look like spent force'

Industry adviser says increased competition and record cash is leading to lower returns

NOVEMBER 15, 2017 **Javier Espinoza** in Amsterdam

 5 comments

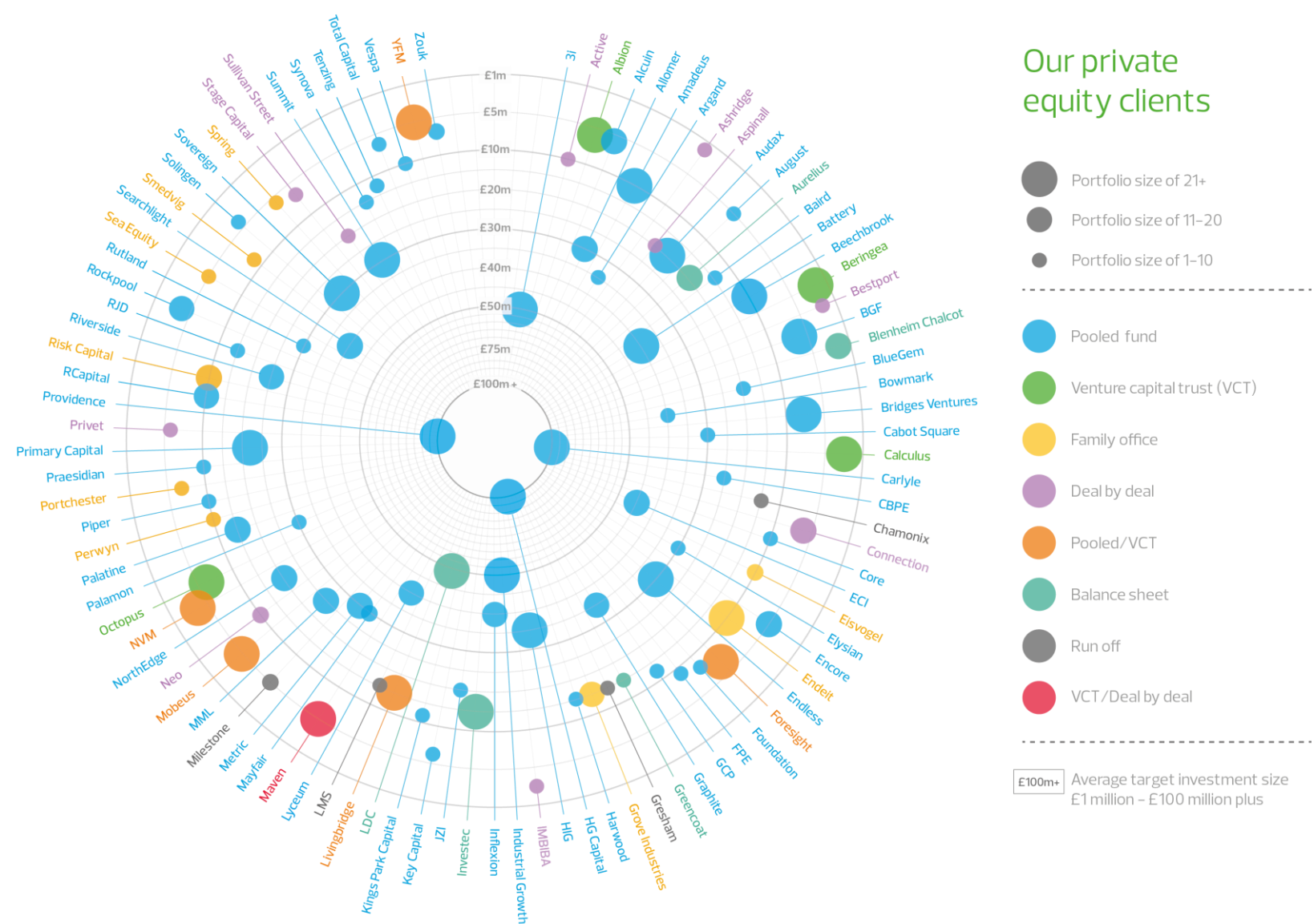
The private equity model “is starting to look like a spent force” because more competition and record cash available is leading to lower returns as operators are forced to take on more risk, an adviser to the industry has said.

Professor John Colley, associate dean at Warwick Business School, said the recent collapse of British carrier Monarch Airlines and the potential surrender of UK care homes operator Four Seasons to lenders exposed a weak model of ownership.

In a recent article, Prof Colley argued that private equity’s modus operandi may have run its course, likely to hit managers but also large pension funds, which

- Private equity is a relatively high risk asset class and, as in any market, not all deals work.
- The PE industry is growing because the vast majority of deals work. The few that don't will likely not bring down the industry.

Our private equity clients



THANK YOU FOR
YOUR TIME AND
ATTENTION



Introduction to BGF
David Gammie



Who we are.

Largest ever growth capital fund aimed at the Irish SME market.

BGF in Ireland

- Launched in November 2017
- €250m fund targeting established Irish SMEs
- Backing from Irish Strategic Investment Fund, Bank of Ireland and AIB
- Local team



Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

Ciste Infheistíochta Straitéisí d'Éirinn
Ireland Strategic Investment Fund



BGF in the UK

- Established in 2011 with backing from the UK's main banks
- £2.5bn fund
- UK's leading provider of growth capital
- Invested in over 200 businesses across the UK deploying more than £1.3bn of capital to date

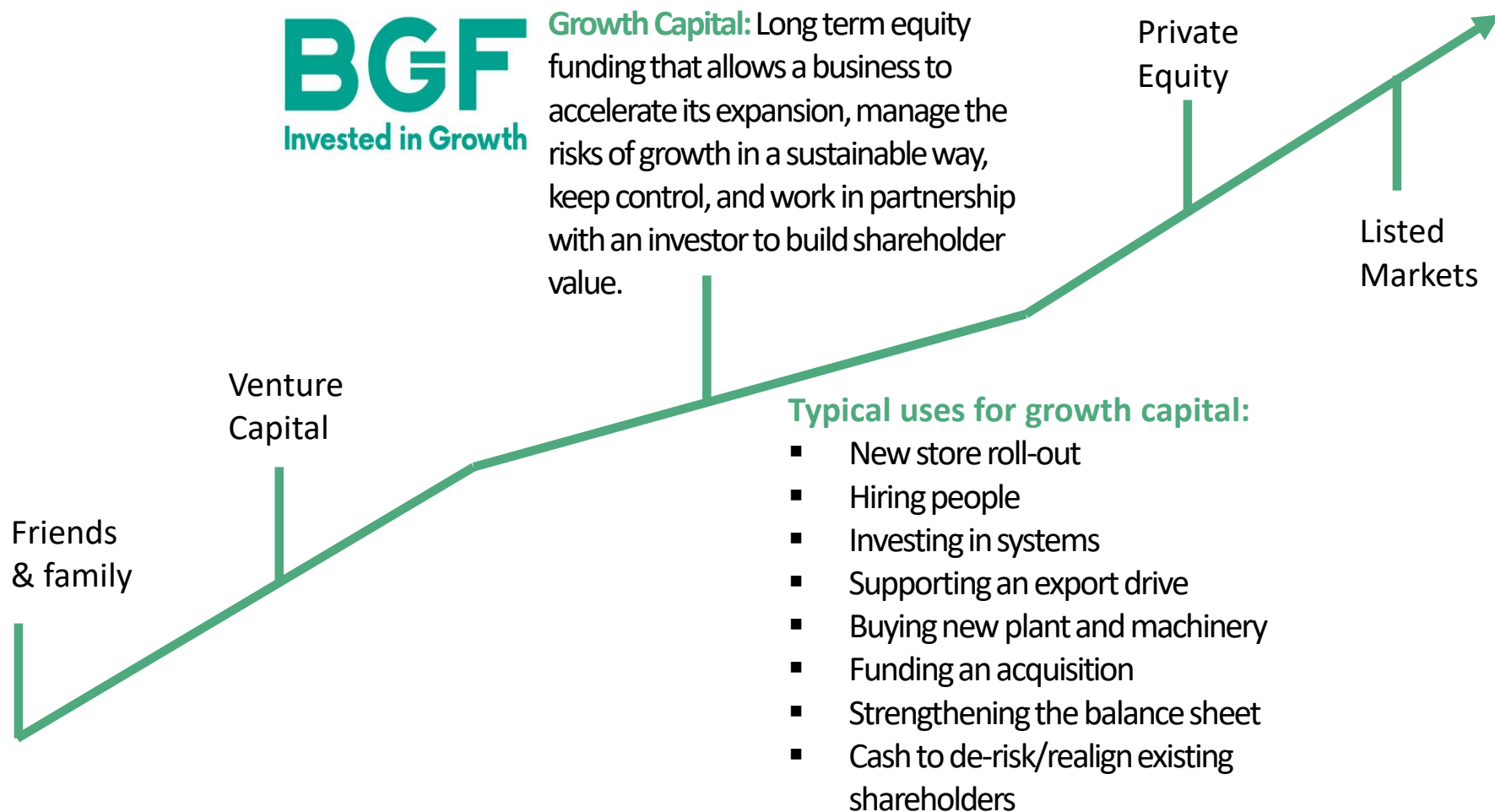
What we offer.

Long-term patient capital to help SMEs grow.

Funding, flexibility and support

- Supporting businesses typically with a **turnover of €5m - €100m**
- Initial **investment of €2m - €10m**, with appetite and capacity to follow our money
- Always a **minority partner** – management to retain control
- **Funding to support growth and equity release** for existing shareholders
- **Long-term and patient capital**, no forced exit
- **Flexible structures**: equity / unsecured loan notes. Invest alongside existing bank funding
- **Fast and focused** investment process
- Access to **huge network** and support

Equity providers – where does BGF fit in?



We are different to Private Equity.

- Always a minority partner
 - Management retain control
 - BGF does not buy businesses or run businesses
 - Want a say in around the board table, but day-to-day running of the business is for management
- We cannot drag management to a sale
- Flexible investment horizon – balance sheet investor with no fixed investment period
- Management friendly legal terms – e.g. leaver provisions

Our Portfolio

We invest across all sectors excluding regulated financial services and property

Energy, Oil & Gas



TMT



Business Services



Healthcare



Manufacturing



Retail



Leisure



In Summary:

Why BGF?

BGF can offer something different to other investors, **long term, flexible** and **management focussed capital**.

We've invested in over 200 businesses so far and have streamlined our investment process to minimise cost and distraction to business.

We are a non-threatening partner, with significant capital and network, but **not seeking control**.

We are passionate about backing ambitious, high quality CEOs and management teams.



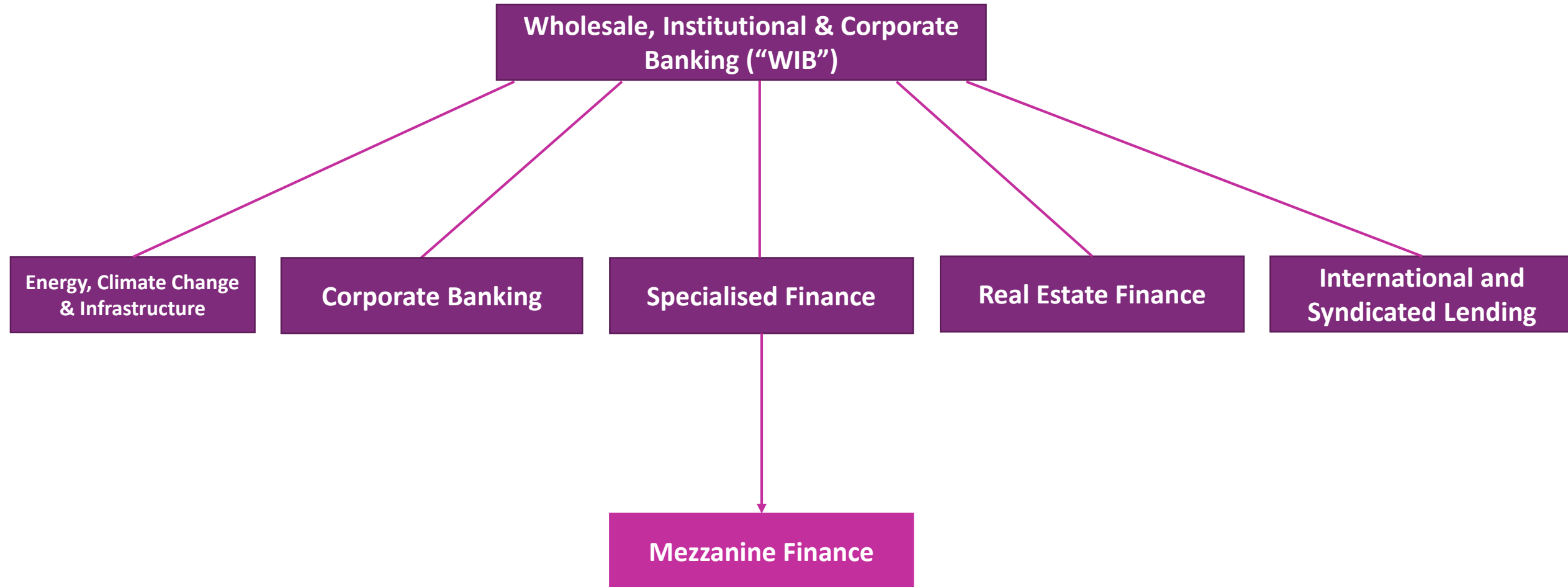
Mezzanine Finance

Presentation to RSM Access to Finance Seminar
21 November 2017

Adrian Dunne (adrian.p.dunne@aib.ie)



Wholesale, Institutional & Corporate Banking (WIB)



Mezzanine Finance Overview



What is it?

- Refers to the tier in a company's capital structure between Senior debt and equity (filling the gap)



Key Features

- Secured on a second ranking charge
- Higher interest margin versus Senior debt
- Bullet or balloon repayment ("interest only")
- Returns comprise a mix of:
 - Cash Pay
 - Payment in kind ("PIK")
 - Prepayment fees
 - Warrants (less frequent)
- Typically longer tenor than Senior debt

❖ Umbrella term for family of subordinated debt instruments e.g. Second lien, Unitranche, PIK etc.

Mezzanine Finance Overview



Why?

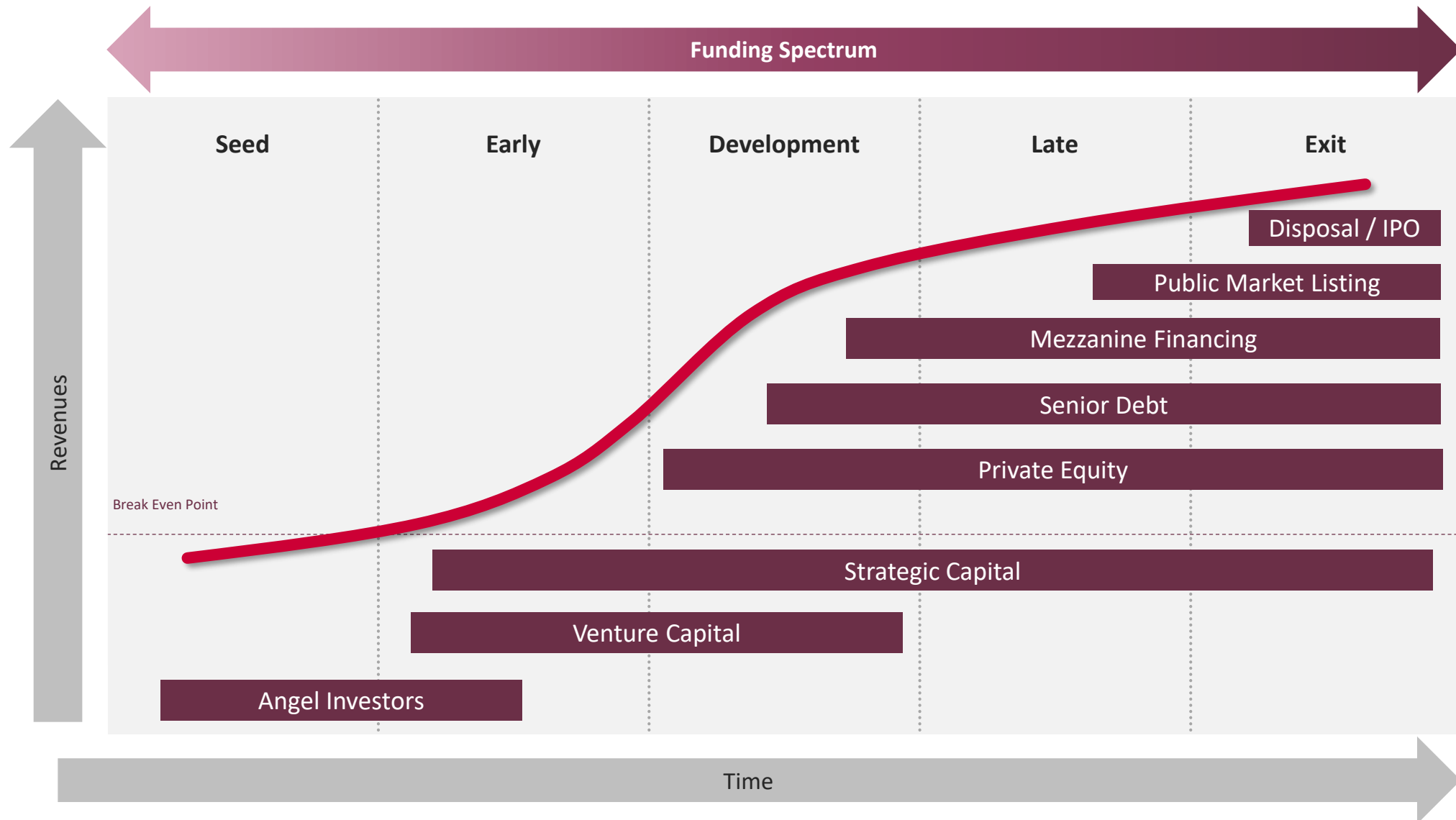
- ✓ Funding requirement beyond the limits of traditional Senior debt
- ✓ It provides flexibility as frees up cashflow (no amortisation)
- ✓ Minimise equity dilution (cheaper alternative to raising equity)

When?

- Mezzanine debt is typically used in the following situations:
 - ✓ **Expansion Capital**
 - ✓ **Mergers and Acquisitions**
 - ✓ **Succession Planning**
 - ✓ **Management Buy-Outs**
 - ✓ **Recapitalisation and Refinancing**
 - ✓ **Leveraged Buy-Outs**

- ❖ Mezzanine Finance is a riskier product than Senior debt given its security ranking and therefore, attracts a higher Margin as a result

Where Mezzanine fits in the Corporate Lifecycle



AIB Mezzanine Finance



AIB Focus

- SMEs & Corporates
- Sector agnostic
- Growth capital opportunities
- Commercial Real Estate
- Energy
- Infrastructure Finance
- UK Market

Customer Profile

- Can demonstrate stability in earnings
- History of cash generation capacity or strong visibility on cashflow to service debt
- Committed shareholder (alignment)
- Strong market position (leading or niche)
- Strong Management Team (usually the secret sauce)

Why Choose AIB Mezzanine Finance?

- **“One Stop Shop”** funding solution
- AIB can offer Senior, Mezzanine and ancillary facilities (overdraft)
- Significant sector expertise and knowledge
- Relationship focused not just transactional

AIB Mezzanine Structure

- Minimum size €1.0m
- Pricing ranges from 7% for strong asset backed transactions to 14% for trading cashflow businesses
- 5-Year Term
- AIB Senior and AIB Mezzanine = A Unitranche Solution

Recent 2017 Transactions



Structured solution to support IPO



Supporting international expansion plans



Supporting expansion of the Viking fleet



Mezzanine finance to support acquisition



Support Acquisitions in the UK



Mezzanine package to support refinancing



Mezzanine package to support buy out



Mezzanine financing to support the development of a Anaerobic Digestion project in the midlands

Deal of the Year Award 2017



Finance Dublin Deal of the Year Award 2017 for Loans and Financing, SME Sector.

Deal Overview

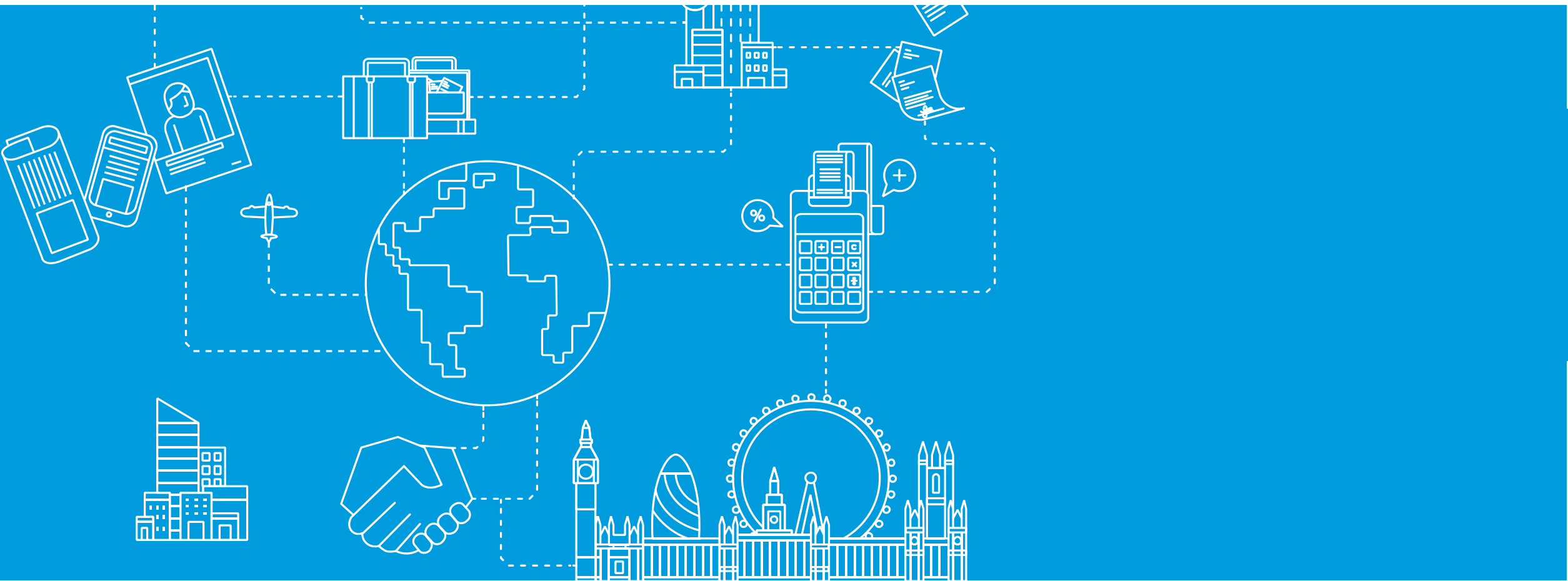
Background: Family owned hotel group, which consists of three hotels (Monart, Ferrycarraig, Hotel Kilkenny).

Request: Borrower was seeking a banking partner and comprehensive financing package to refinance legacy debt, which was sold to non-bank lenders during downturn.

Approach: AIB delivered a bespoke funding solution to the Griffin Hotel Group, which simplified their financing structure and supports their long term growth ambitions.

Solution: The final structure consisted of a combination of mezzanine and senior term debt, and enabled the Griffin Family to retain full ownership of their Business.

AIB Corporate + AIB Mezzanine Finance = Unitranche Solution



GROWTH FUNDING – CAPITAL MARKETS

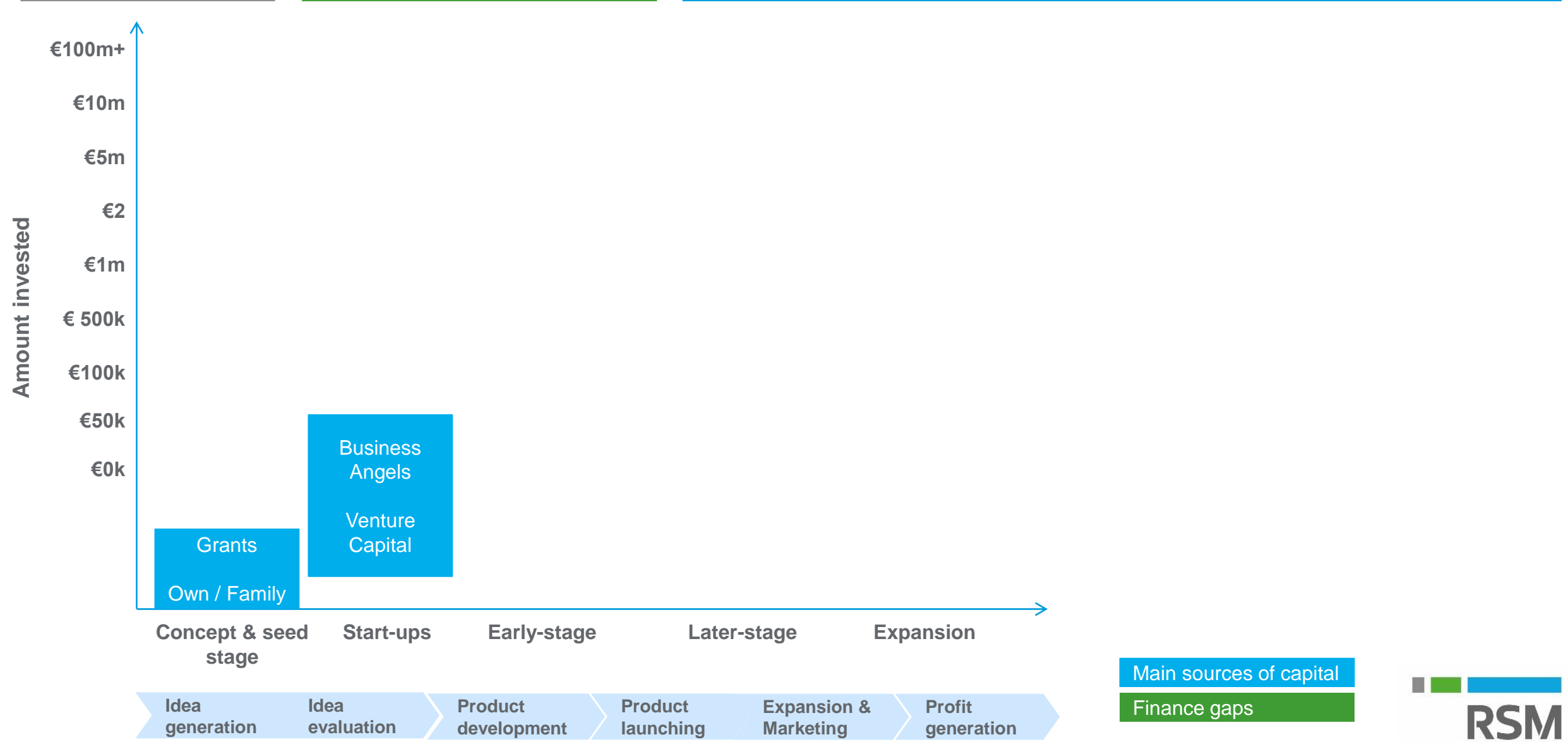
Ewan Grant

Partner, RSM Corporate Finance

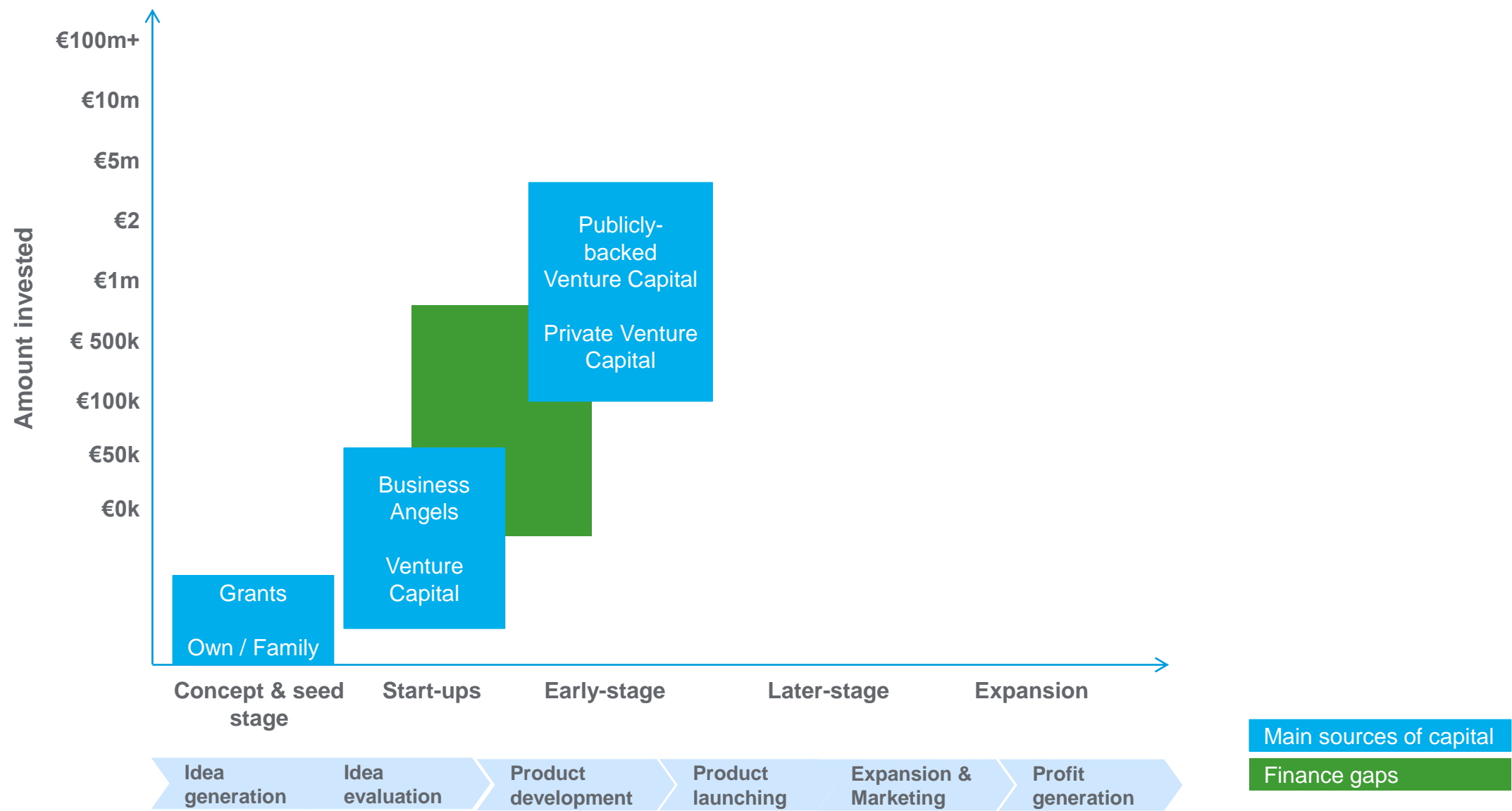
THE EQUITY FUNDING LADDER



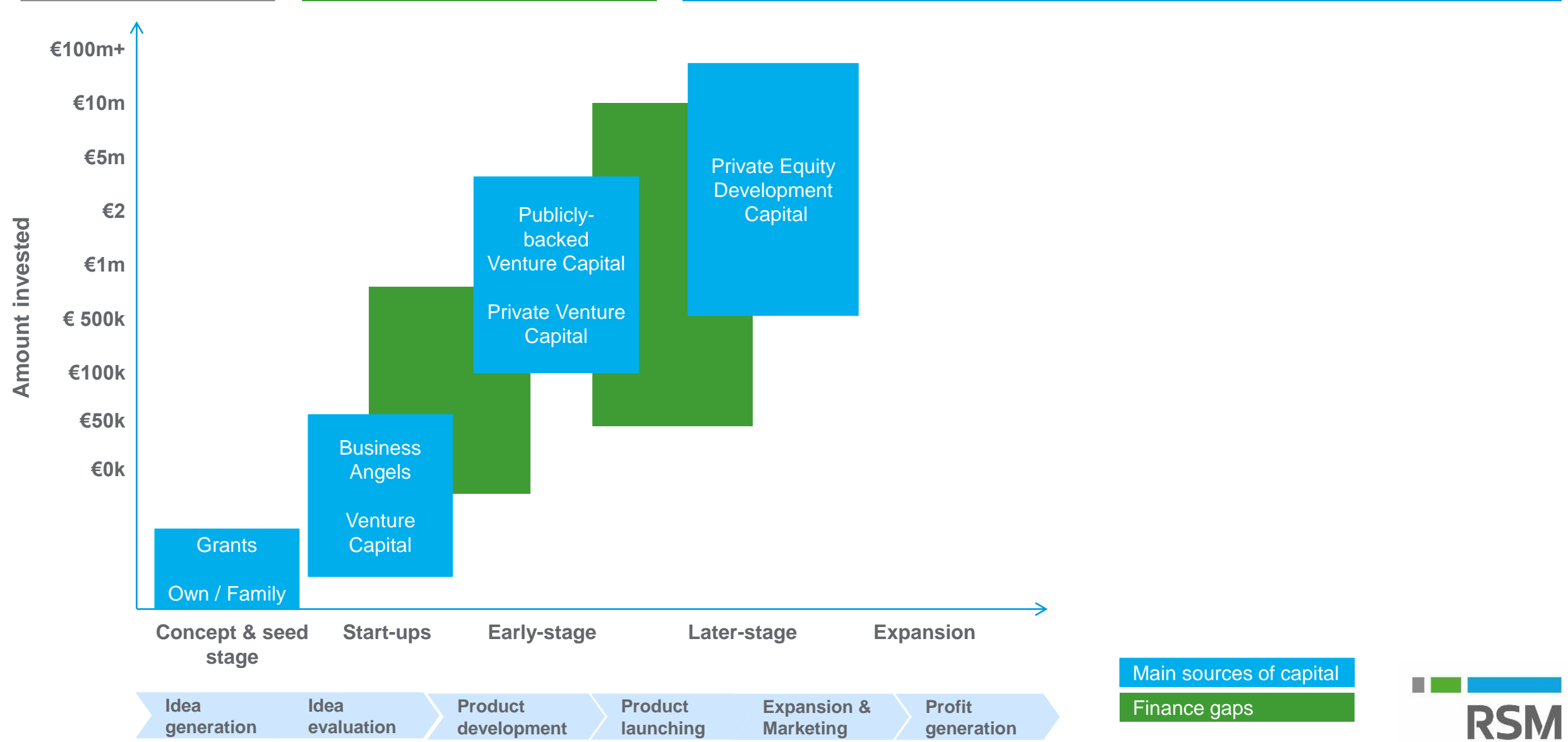
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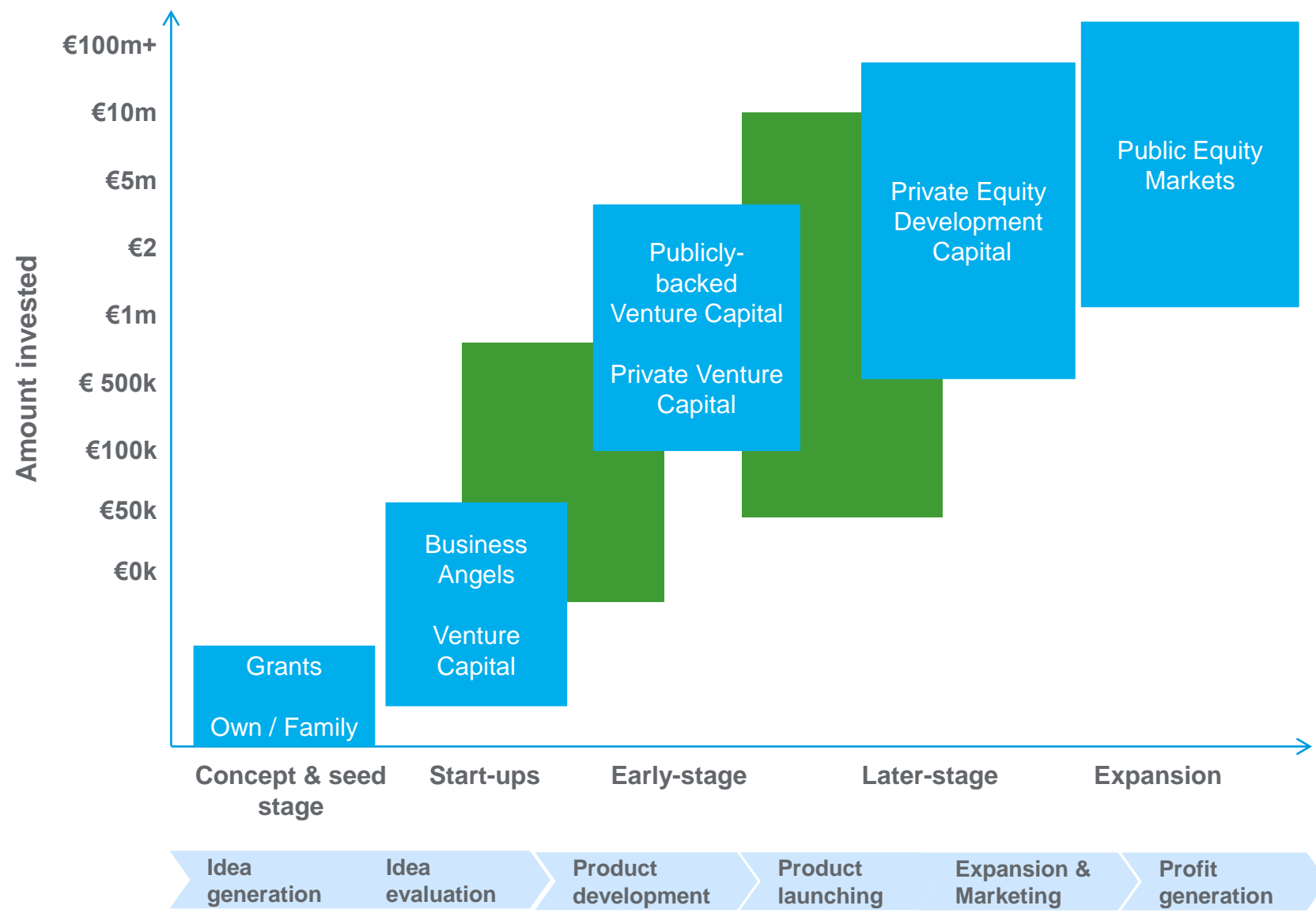
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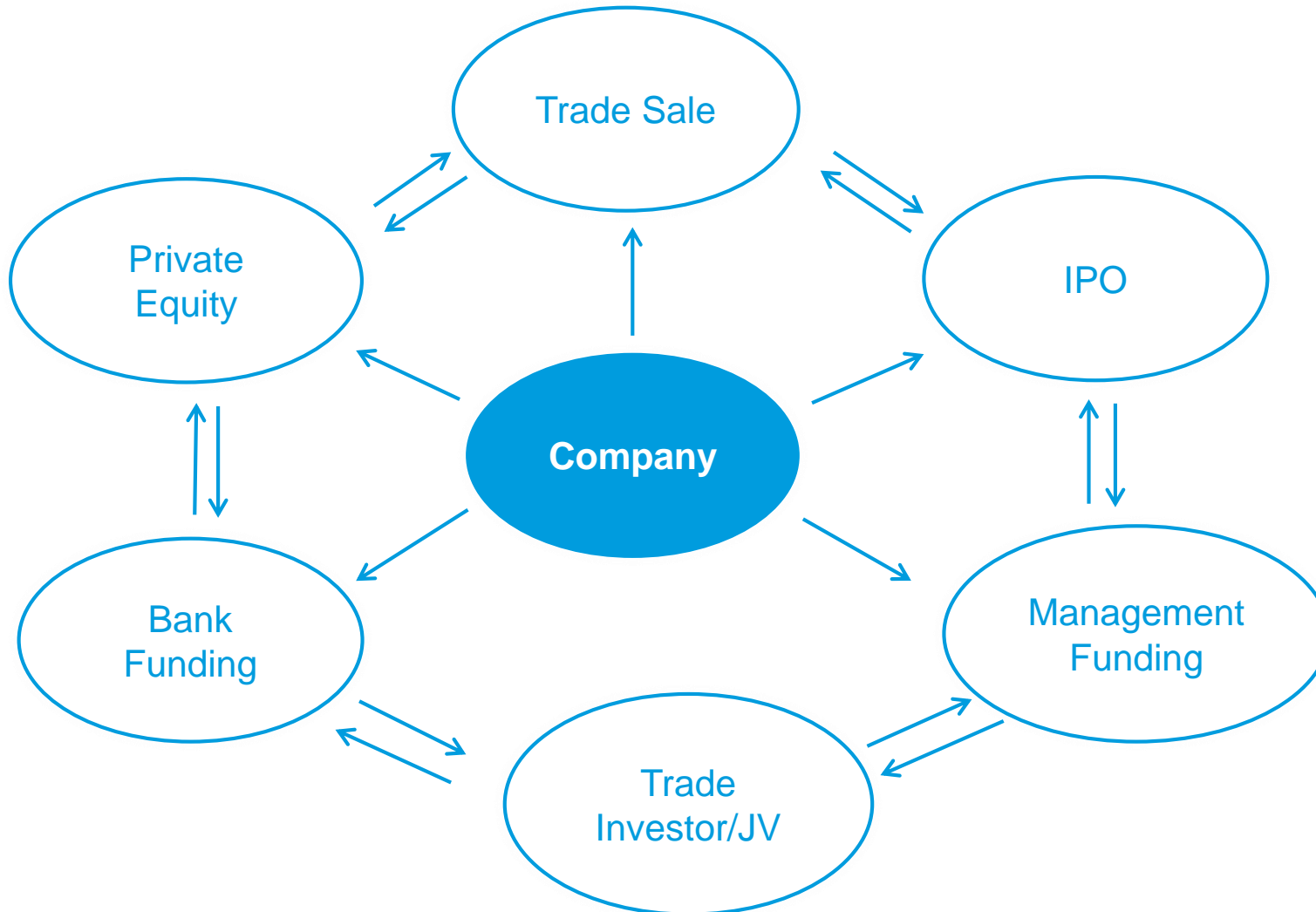
THE EQUITY FUNDING LADDER



Main sources of capital

Finance gaps

POTENTIAL FUNDING STRATEGIES



WHY CONSIDER AN IPO?

- Access to capital/funding
- Prospect for (some) cash out
- Transparent valuation mechanism for the company
- Employee incentivisation
- Increased profile
- Platform for further fundraising and acquisitions
- Company does not need to be large (or profitable)

PROFILING COMPANIES FOR 'GROWTH CAPITAL' INJECTION FROM PUBLIC MARKETS

Likely sector profile

- E commerce / M commerce
- Medtech / Life sciences
- Technology / Electronics
- Advanced materials
- Cleantech / Renewables
- Energy

Common key characteristics

- Credible management team
- Credible business plan
- Disruptive technology or first mover advantage
- Secure IP rights
- Clear path to profitability
- Explosive revenue growth profile
- Capital injection needed to drive growth
- Credible seed investors

AIM COMPANIES BY COUNTRY

UK	619
Ireland	20
Africa	61
Europe	64
USA	49
China	19
Australia	21
India & Bangladesh	16
Latin America	16
Other	70
Total	955

- 955 companies listed on AIM
- Average market capitalisation is £109m
- 20 Irish companies

CONSIDER THE BENEFITS OF AN IPO...

- ✓ Access to capital to deliver growth – current and future
- ✓ Access to debt
- ✓ Opportunity for partial cash exit for current owners at IPO
- ✓ Value growth opportunity through equity “carry”
- ✓ Potential equity incentives for management
- ✓ Management control retained
- ✓ Good governance model adopted
- ✓ Ability to make acquisitions using your “paper” as currency
- ✓ Increases profile of your business / vs being in the public eye
- ✓ Ireland PLC



CASE STUDY - SMS PLC

Key highlights

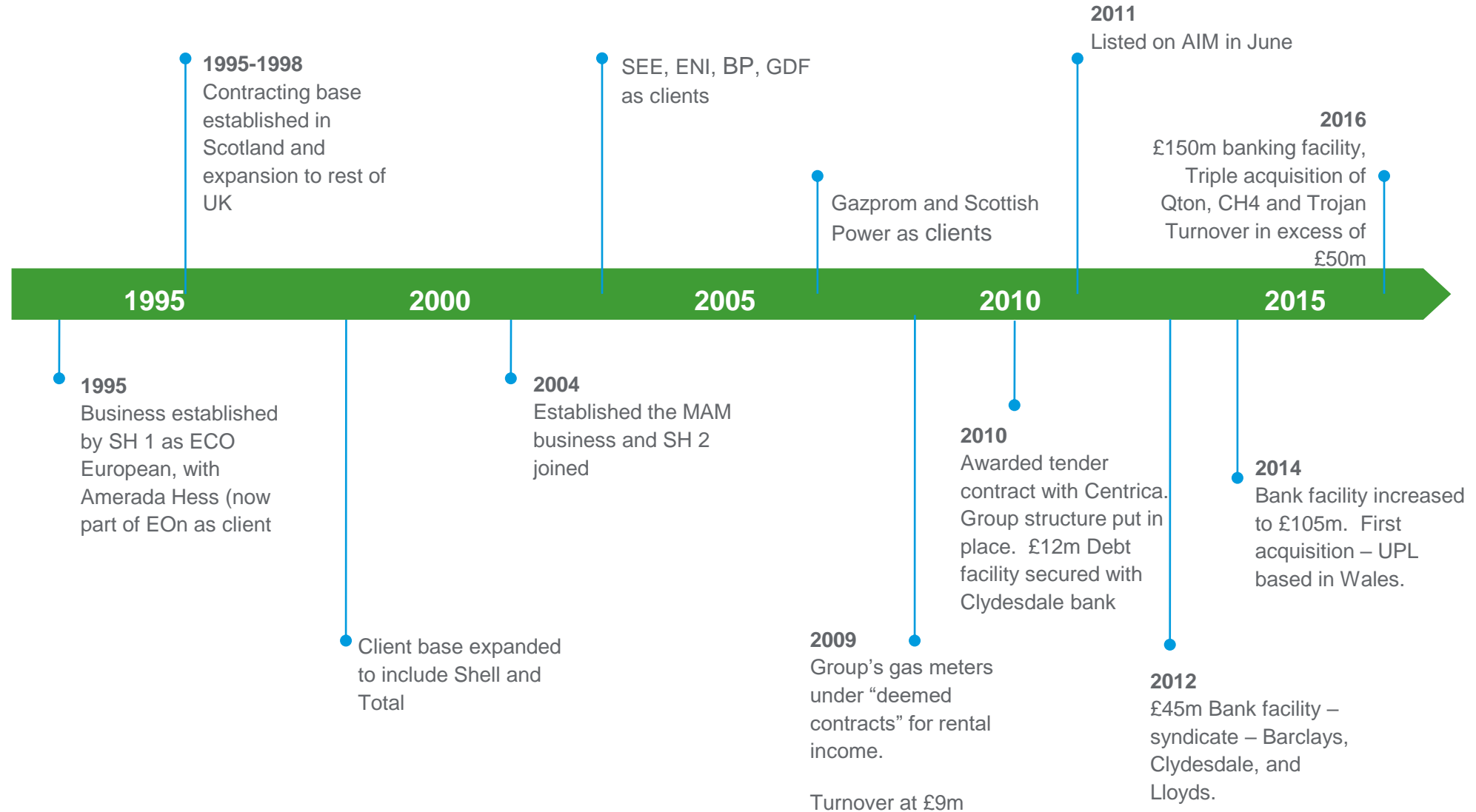
- 2010 - growing profitable business
- Shareholder looking for partial exit
- Seeking to raise capital for continued growth
- Considering trade sale or PE investment
- IPO not on the radar
- Turnover at IPO £12.3m

“The RSM team worked with us in advance of our eventual decision and used their UK wide market knowledge to help us assemble the deal team and also to ensure we fully appreciated the benefits to us and SMS of an AIM listing. We set a cracking pace and we are glad to say that RSM helped to deliver the deal and guided us skillfully through the process – we would recommend them to any other companies seeking growth – Thanks to you all!”

CEO

TIMELINE

Timeline, 1995 to date

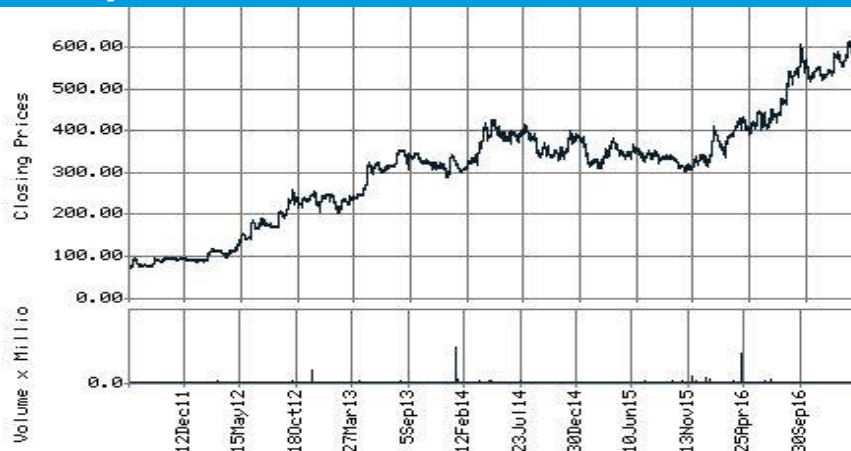


THE NUMBERS...

Transaction details

Admission date	8 July 2011
Money rasied at admission	£10m
Market cap at IPO	£50m
Current market cap	£543m
Placing Price	60p
Current Share Price	756p

Share price



On admission

- Shareholder 1 and shareholder 2 sold shares realising £7m in proceeds between them.
- Shareholder 1 retained 30%
- Shareholder 2 retained 16%
- Transaction cost £1.35m

Current position

- Shareholder 1 retains 5.25%
- Shareholder 2 retains 8.92%

THANK YOU FOR
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ATTENTION



BRIAN HYLAND, RSM IRELAND

Wrap up

Wrap up

In summary, the market in Ireland has **undergone a radical transformation**. We have moved from a number of years when there was little funding available, companies were in a standstill position and in many cases, were working largely to pay back their funding.

Wrap up

The market today is radically different. There are a myriad of funding opportunities available today, and the challenge is to decide **which of the different alternatives works best for the individual client**. Our role at RSM as an advisor is to help our clients to decide on the appropriate strategy for them in relation to funding. This will vary depending on the strength of their balance sheet and their business strategy and vision.

Wrap up

This morning has been focused on **exploring** some of the different **options available** to Irish companies.

- Growth funds
- Private equity
- Mezzanine finance
- IPO

Q&A