

Investing for the future

B. P. MARSH & PARTNERS LIMITED

NEWS: Hyperion climbs the league table

HYPERION INSURANCE GROUP has been rated as one of Britain's top profit-growth companies, achieving 77th place in the Sunday Times PricewaterhouseCoopers Profit Track 100 league table. Published in The Sunday Times on 10 April, the league ranks Britain's fastest-growing medium-sized companies by profit growth over their last three years.

This recognition reflects the success of the group and its operating divisions of Howden, Dual International, CFC Underwriting and the recently acquired JK Buckenham. With 52% year on year growth from £1.1m in 2000 to £4m in 2003, the Hyperion Group is now one of the fastest growing UK insurance groups in the UK employing 270 people in nine countries around the world. Since 2000 Hyperion has acquired three companies in the UK and Sweden and launched three operations in Israel, Australia and India.

David Howden, CEO of The Hyperion

Group, commented: "We're delighted and proud to achieve this recognition. Our strategy of focusing on specialist liability insurance, and outstanding customer service has proved a winning formula. We've experienced tremendous growth since we began in 1994 both organically and through acquisition, and our group is in a better position than ever before to continue to grow. We have an excellent team of people on board and a sound business model and are forging paths in many new areas"

Companies who achieve the top 100 status are ranked according to their annual growth rate in profits over the three years to their latest financial year. They are unquoted holding companies registered in the UK. Now in its sixth year, the Sunday Times PricewaterhouseCoopers Profit Track 100 was compiled independently by research company Fast Track.

Hyperion Insurance Group was established



David Howden, CEO of the Hyperion Group

in 1994. Its initial capitalisation was relatively small – £100,000 plus a £0.5m seed capital loan. The directors raised 75% of the capital themselves and went to B P Marsh & Partners Limited (BPM) for the remainder. Since then, BPM has made additional loans to finance Hyperion's rapid development.

VIEWPOINT: A sea change for the insurance broking market

AS AN INVESTOR which focuses on opportunities in the financial services sector, we've been keeping a close eye on developments in the insurance broking market in particular recently. For some time, we've been saying that the sheer size of the major players would lead to discontent among some key employees as they became embroiled in all the administrative functions associated with corporate bureaucracy, along with a feeling that they were no longer masters of their own fate. Inevitably, some of these key players would feel the need to break away and start up their own niche companies.

The investigation by New York Attorney General Eliot Spitzer into the contingency payments received by major brokers from insurers is accelerating this pressure. With the subsequent push towards transparency and the strong feeling that brokers receiving 'quantity discounts' from insurers relating to the amount of business they place with them cannot be truly objective, the major brokers are having to rethink their remuneration model. Without the significant sums from so-called contingency payments, some major brokers have been forced to make a large number of employees redundant.

What does this mean for the equity investment market? First, we are seeing very able and well-connected individuals entering the jobs market. Some of them will undoubtedly be thinking about using

their expertise and connections to start a business in their own niche area. Second, those people who have been retained by their employers because of their acknowledged value as business producers may nonetheless be seeing a 'red light'. Just how much does that value count when the chips are down? Seeing colleagues made redundant is a big eye-opener. Disillusionment could lead to further, unforced, departures and a growth in start-ups.

It is no exaggeration to say that at present the insurance broker market is in turmoil. And all over the world, their clients – risk managers and insurance buyers – are equally under pressure as CEOs ask whether they've really been getting a good deal from their risk transfer strategies.

As many have discovered to their cost, big does not mean better or lead to endless wins, usually the reverse. Issues like trust, innovation, speed and integrity have become paramount. As a result, the global broking market is likely to become far more fragmented with new, specialist broking firms playing a far greater role. The insurance industry and clients generally will benefit as a result. We are looking to back these new teams, helping them with our established industry expertise, so that they – and their clients – can take advantage of a vastly changed playing field.

Francis de Zulueta, Director, B. P. Marsh & Partners Ltd

An interview with one of the founding directors, Denis Holmes

THERE ARE OCCASIONS when effective communication between companies and their shareholders is not only important but essential. "In many European countries, companies need to ensure that they will have a quorum for their annual general meetings. It's a legal requirement for a minimum proportion of the shareholding to vote," explains Denis Holmes. "While this legal requirement is not an issue in the UK, there are still crucial occasions when companies need to talk to their shareholders and get their response on a whole variety of capital restructuring and corporate issues – and that's where we can help."

HQB Partners opened for business this year. Its shareholders had worked together at various times in the past at different companies and knew that they were experienced enough to take the plunge and introduce greater efficiencies in the shareholder communications process by forming a niche business. "Basically, we became disillusioned with working for larger corporations. Not only were there the restrictions of the

bureaucracy, but as part of a large multinational which has many different products and services, we thought that they were not focusing enough on what we did. We thought there was some ground to be made up which was being neglected," says Denis.

In order to realise the dream, Denis searched on the Internet for potential equity capital providers. "BPM was only the second venture capital company we approached. I got a very positive immediate response from Francis and went to see them the following day," he says.

"In addition to the financial help they've provided, we've been very pleasantly surprised by the support they are giving us. They have a broad, experienced knowledge base and are a good sounding board for bouncing ideas off. And we get quick free advice and guidance in areas which we might not be familiar with. None of us has started our own business before and there are many things you need to do. Going forward, there may also be some synergies between us which is an added benefit."

The new company operates as a conduit

between companies and their shareholders of all sizes. Issues can range from mergers and acquisitions and shareholders' resolutions to matters for discussion at extraordinary general meetings and rights issues. HQB provides an effective line of communication although Denis stresses that this has to be handled with sensitivity. "There are financial considerations so we can't give advice. Our role is to let shareholders know what the company's board recommends and why." On occasions too, the service is reversed, with HQB helping shareholders communicate their views to the board.

How does Denis see the future? "We want to grow the company to reach its full potential which will probably take us about five years. We're here to lead a niche role which we believe is currently neglected. We want to enjoy what we do, grow the business, fuel it – and naturally make some money!"

*Denis Holmes, Director, HQB Partners,
Tel: 020 7621 1358,
E-mail: denis.holmes@hqbpartners.com*

START UP: Summa Seguros Brokerage, S.L.

An interview with finance director Miguel del Riego

SUMMA INSURANCE BROKERAGE is a Spanish broking company which plans to grow – fast. In forming the company, the founding directors Miguel del Riego, José Antonio Vargas and Begoña Larrea are embracing the challenge of building a broking firm which will have a significant presence in Spain's current highly fragmented insurance broking market. The team consists of two seasoned professionals – José Antonio and Begoña – with wide experience in insurance and broking activities, and Miguel who has broad experience in mergers and acquisitions and venture capital. This makes for a good balance to develop the project.

Growth will be mainly by acquisitions, and the targets are small broking businesses, mainly dealing with personal lines and based predominantly in market towns and small cities. Miguel explains, "In the small regional centres that we're focusing on, these broking firms are often surprisingly unsophisticated. They may not even have efficient management software and at any one time may not be able to accurately assess how much their current commission income amounts to. In addition, they are coming under legislative pressure from the Government to consolidate, since the Spanish Government (as in any EU country) is keen to foster the professionalism of its insurance brokers. But nonetheless they are often very profitable.

"The benefits for them of joining Summa are that we will be able to revolutionise the way that they deliver products to their clients, set up cross-selling opportunities and incentivise on-the-spot local staff to grow the business. The result of economies of scale, greater efficiency

and better service for their customers will be greater profitability; for instance, their bargaining power with insurance companies will be much increased. It's a win/win situation for everyone. And whereas one of these broking firms on its own might only be worth X amount, the total will be worth more than the sum of the parts.

"We have studied so far more than 40 projects and expect to make at least two significant acquisitions before the end of the year."

When the directors decided they needed equity capital, they went to Barcelona and consultant François-Eric Perquel helped them in approaching BPM.

"It was good for us to meet BPM people as they understood exactly what we were looking to achieve. And we wanted a long term partner who was not only able to help us to grow the business through financing but also had in-depth knowledge of the broking market. We are very comfortable with the motivation and capability of BPM director Stephen Crowther who is working with us.

"Summa hopes to expand quickly and will probably be looking for another round of financing in about three years time. Once we have made the first acquisition and built the model, we'll be able to demonstrate that the strategy works and then go to the market for more cash so that we can do more."

*Miguel del Riego, Director, Summa Seguros Brokerage, S.L.,
Tel: (+34) 915 102149, E-mail: mdelriego@grupo-summa.com*

David Mardle of Taylor Wessing considers using the public markets as one way of realising the value of your investment and explains some of the most common jargon

THE EXPRESSION 'Initial Public Offer' (IPO) refers to the process by which a company raises new capital through the issue of shares or other securities or arranges for a sale of such instruments - in either case, in conjunction with the establishment of a securities trading facility. In the UK this process is also referred to as a 'listing', 'flotation' or 'quotation'.

Today, there is a three-tier equity capital market structure in London - which in priority of market capitalisation and liquidity is as follows:

- the Official List
- AIM
- OFEX.

In terms of liquidity, AIM is thought to be as liquid as the Official List when comparing companies with a market capitalisation of £300m or less. Liquidity for these purposes is by reference to the number of completed share dealing transactions per year.

BRINGING SECURITIES TO LISTING

There are several ways in which new securities can be admitted to trading on an investment exchange. The most relevant here are as follows.

Offers to the public - These can be in the form of an offer for sale or an offer for subscription.

The offer for sale can be used to allow existing shareholders to sell shares or to raise new money for the company. In such cases, money is raised by placing new securities with an investment bank which are then sold to the public or to existing shareholders.

An offer for subscription is an offer to the public of new shares by the company (as principal) or by a third party. The company would keep all the money raised through this exercise.

Placing - A marketing of securities already in issue but not listed or not yet in issue to specified persons or clients of the sponsor which does not involve an offer to the public or to existing holders of securities in the company.

IPOs – THE PROCESS

From start to finish the IPO process can take some four to six months. While each transaction will differ, there are common themes in each process which are worth noting.

Appointment of advisory team - At the outset the issuer appoints its advisory team to include solicitors, reporting accountants, sponsor or nominated adviser or corporate adviser (as appropriate depending upon the relevant market, but referred to here irrepectively as 'sponsor'), stockbroker, PR agent, share registrar and printers.

Timetable and list of documents - The first step will be for the sponsor to produce a draft timetable and list of documents. The timetable will map out the entire transaction and will set out responsibilities for various actions.

Due diligence - The sponsor will require a legal due diligence to be undertaken on the issuer.

Information should be reviewed with particular attention to matters of fundamental importance to the issuer. An outsourcing business is, for instance, dependent for its revenues and profits on the terms of its outsourcing contracts so a detailed review of these is essential. Shareholders' agreements (if any) should be considered and the impact of obtaining shareholder consent to the flotation will need to be worked into any timetable.

Long form accountants' report - While legal due diligence is on-going the reporting accountants will be preparing a long form report reviewing the issuer, its history and commercial activities, organisational structure, trading results, assets and liabilities, cash flows, tax filings, accounting policies and audit issues, management information control systems and employees.

Working capital review - The reporting accountants provide a private report to the issuer and its sponsor, based on the issuer's financial projections. The sponsor usually requires the report to cover 18 to 24 months after admission. From this the sponsor can form a view as to the minimum level of working capital headroom.

Production of draft listing particulars, prospectus or admission document - The sponsor prepares drafts of the relevant admission documents. These are circulated for review by all those involved in the process. It is vital such documents are issued so as not to be misleading. Each director has a duty to ensure this is the case, this duty being discharged through a process called 'verification'. While verification can often seem long-winded, it is designed to ensure the accuracy of all factual statements and, where statements of opinion or belief are included, to confirm that such opinions are reasonable.

Marketing the IPO - This may include a 'roadshow' presentation to potential institutional investors.

Pathfinder document - Assuming investor appetite for the new issue is established from the marketing presentations, investors are asked to confirm their interest. Each investor receives a final draft version of the listing particulars, prospectus or admission document, known as the 'pathfinder' or in the US a 'red-herring', together with a letter seeking confirmation of the level of interest.

Review by the regulatory bodies - The type, and degree, of scrutiny of the process and documentation will depend on the investment exchange on which the listing is to take place. The principal regulator for IPOs in the UK is the United Kingdom Listing Authority (UKLA).

CONTINUING OBLIGATIONS

While a detailed review of how a company is expected to conduct its affairs once it is publicly quoted is beyond the scope of this article, it is important to note that there are rigorous requirements concerning (amongst other things) share dealings, disclosure of information and corporate governance which the directors and officers of the company will need to familiarise themselves with ahead of the IPO.

*David Mardle, partner, Taylor Wessing,
Tel: 01223 446400*

“Vision is not enough, it must be combined with venture. It is not enough to stare up the steps, we must step up the stairs.”

Vaclav Havel

Jack Ogston of Clydesdale Bank looks at considerations relating to debtor finance

THE SEAT-OF-THE-PANTS drama of 'Dragons' Den' has captured the imagination of many would-be business people. And while the television show captures the personal excitement, in reality, the decision-making is normally less dramatic with the advisers usually more helpful and co-operative.

So how does your business make this critical leap forward? How much should you borrow from the bank as debt? And then what percentage of your business should you consider giving up to a venture capitalist or other investor as an equity stake?

EQUITY AND DEBT

For us, at Clydesdale Bank, the key is to structure an acceptable balance between equity and debt and this depends very much on the businesses involved. There is no magic formula. A lot of common sense is needed, so that all parties are comfortable with the risks – and the future rewards.

If you run a business you really don't want to stretch the debt too far because there are always some unforeseen hiccoughs that can suddenly push the business off track. Having a buffer is vital to ensure that you have enough cash flow to cover the business's obligations including the debt repayments.

On the flip side, you don't want to dilute your own equity too much and give all the future upside to the new investors.

FAIR VALUE

'Fair value' is one of the hardest things to assess. Intangible assets, goodwill and a strong reputation in the market are often very difficult to place on a balance sheet.

If you have run a business for many years, pouring your heart and soul into it, it is difficult not to become rosy-eyed about its worth. It can be an emotional issue and often people don't get as much as they anticipate.

Try and be realistic about your expectations. Remember if your strategy is to grow the business; it is better to have 80% of a significantly enlarged pie, rather than 100% of a smaller firm that is going nowhere.

GOING FOR GROWTH

Then you have to consider the kind of projects that will enhance the business. The increase in funds being made available by the

bank and venture capitalist isn't there so you can buy flashier cars, move to more salubrious offices and pay yourself more. It is about building the business and looking for the right opportunity.

Both the bank and new investors will be looking for your business to grow.

PARTNERSHIP

One of Clydesdale Bank's strengths is the mix and quality of our team which is made of bankers, accountants, lawyers and investment analysts. This enables us to look at opportunities from a number of different angles and come up with an innovative and flexible deal structure.

We're often asked when is the best time to come and talk to the acquisition finance team. Is this, for example, after you've seen something you want to buy? It might be a cliché, but you should arrange to come and see us as early as possible. This allows us to work with you from an early stage and to be your partner and adviser as your plan moves from the early embryonic idea through to completion.

This early dialogue also allows us, along with the venture capitalist, to provide a war chest to fund, for example, acquisitions, capital expenditure and expansion. Provision of the funding obviously depends on inter alia, the attainment of agreed milestones and conditions, but nevertheless it does allow you to pursue opportunities with a good degree of confidence.

AGREE GOALS

Find out as soon as possible about the future aspirations of your venture capitalist partner. Make sure you are all on the same track together. This includes your bank as we will look to structure facilities to reflect the aspirations of your investors.

And do give respect to the venture capitalist's position. The best specialists bring along wisdom and business acumen that is impossible to buy.

How much personal interest will the equity investor take in the business? Do they want to sit on your board? Will you be happy with this? Are they likely to want to influence the day-to-day running? This is something that must be sorted out early on.

There is nothing more disruptive than an equity investor and a business owner arguing over the direction of the business. This should all be set out in stone in the company's Memorandum and Articles of Association. Each role should be clearly defined, so that there is no room for misinterpretation. Bolt down the arrangements, and, if you're not sure, make a provision to review the situation in six months or a year's time.

And keep us involved. It might be inbuilt, but bankers just don't really like surprises!

*Jack Ogston, Head of Acquisition Finance,
Clydesdale Bank, Tel: 0131 456 4508*

B. P. MARSH PRIVATE EQUITY - OUR PHILOSOPHY

- We provide venture capital for financial services businesses, particularly insurance intermediaries where we have an exceptional bank of experience.
- We like to invest in people businesses with good management.
- We obviously do look for an exit from our investments at some point but not immediately. If management want to exit, we are there to assist.
- We like to provide successful companies with follow-up capital for further growth.
- We invest small amounts – anything from £200,000 to £3m, or more by arrangement.
- We will invest outside the UK.
- Our investment structures are flexible and can include minority equity stakes, term loans and redeemable shares.
- We provide consultancy and administrative services when required, usually complemented by a non-executive board position.
- Our aim is to be the capital provider of choice in the financial intermediary sector.

TELL ME MORE

If you are seeking private equity capital to finance a financial services start up or expansion, contact: Francis de Zulueta, B. P. Marsh & Partners Limited, Granville House, 132-135 Sloane Street, London SW1X 9AX, Tel: +44 (0)20 7730 2626, Fax: +44 (0)20 7823 5225, Email: deZulueta@bpmarsh.co.uk