



Bank of Scotland's Integrated Finance team brings you up to speed

Issue 10

inFORM

LOOK AT THINGS DIFFERENTLY

Integrated Finance

 **BANK OF SCOTLAND**
CORPORATE

www.bankofscotland.co.uk/corporate



WELCOME

inFORMBank of Scotland's Integrated Finance team
brings you up to speed

I'm delighted to deliver the latest issue of *inForm* – the newsletter brought to you by Bank of Scotland Integrated Finance (IF), featuring some of the deals we have recently funded.

**Mark Hammond**

It gives me great pleasure to be able to report a number of extremely successful completions – including a range of deals at enterprise values towards the larger end.

Rest assured though that this does not represent a change of strategy for Integrated Finance. Our core market is in EVs between £20-200m and indeed the majority of our deal flow, particularly in our regional business, falls within that range. The IF model is, however, applicable at higher enterprise values provided the businesses fit our investment criteria – that is exceptional management teams who seek funding to take control of their own destiny.

I have written previously about the trade off between capital and yield and reading through this issue of *inForm*, our flexibility in this regard is apparent. It's a clear demonstration that we have the capabilities to turn our hand to situations which don't fit our traditional template.

**...that's the beauty of the IF model –
it's one cheque from one team**

Essentially, our proposition is underpinned by backing great management teams and beyond that, there is no fixed upper limit for the scope and scale of deals we can handle.

As the reputation of Integrated Finance grows in the UK marketplace, more and more management teams are seeking us out. That's because we don't try and tell them what to do – we just support them in their businesses and leave them in operational and strategic control.

One of the key benefits of IF, which I have always spoken of, is the strong deliverability of our deals. This comes from being the sole provider of capital. In credit markets which remain volatile, I am pleased to have control of all the funding we need rather than to be relying on third parties to help us fund deals. That's the beauty of the IF model – it's one cheque from one team.

Don't hesitate to get in touch if you're looking for a creative funding solution – we'll be delighted to hear from you.



Mark Hammond, Bank of Scotland Integrated Finance

LOOK AT THINGS DIFFERENTLY

in this issue

2 **Apollo**

SBO at housing and education maintenance group

3 **Keepmoat**

Largest buy-out in Yorkshire to enable growth in sustainable communities

4 **David Lloyd**

Acquisitions and merger to create gym giant

6 **Polypipe**

Off-market approach leads to speedy deal

7 **Bifold**

Acquisition facility seals oil and gas buy-out

8 **Lambert Smith Hampton**

Property group returns to private ownership after 11 years

9 **Red Funnel**

Reflections on a successful partnership

10 **Contact us**

Senior Management team

11 **Integrated Finance**

Partnerships



Bank of Scotland's Integrated Finance team brings you up to speed

Issue 10

inFORM

Integrated Finance

LOOK AT THINGS DIFFERENTLY

 **BANK OF SCOTLAND**
CORPORATE

www.bankofscotland.co.uk/corporate





LONDON

APOLLO

£410m integrated debt and equity package SBO



Bank of Scotland Integrated Finance (IF) enabled the continued growth of leading housing and education maintenance specialist Apollo Group by supporting the incumbent management team, led by Chief Executive Officer Gary Couch, in a £410m secondary buy-out. The buy-out enables Lloyds TSB Development Capital to divest its minority investment in the company and ensures management and key employees will hold 79.5% of the equity going forward.

Robin Winning, Director, IF, comments: "Integrated Finance has particular experience in the property refurbishment and maintenance arena and we are really looking forward to working with Apollo to drive the business forward. The nature of its business fits perfectly with areas where we have very strong connections, creating networking opportunities in the future."

Apollo is looking to grow both organically and by acquisition in an evolving market and

the SBO allows it time to mature with the market. Robin adds: "Our track record in the property services sector also ensures we can help the group establish the best way to take the business to the next level."

The incumbent management team chose to go with the IF team because of the flexibility the deal allowed. Robin explains: "The team was really impressed with what IF was offering. In particular, they liked the exit time frame and level of control that funding the deal through IF ensured – it meant they stay in control of the business and can drive

“ ... they liked the exit timeframe and level of control ”

it forward in the way they want."

Gary adds: "We are delighted to have received the support of Integrated Finance and look forward to continuing the success that we have achieved in recent years. The new structure and the expanded shareholding will provide significant benefits to our customers and our staff."

Bank of Scotland Integrated Finance (IF) recently provided a debt and equity package to support the management buy-out of community regeneration business, Keepmoat plc – the £783m deal marks the biggest ever buy-out in the Yorkshire and Humber region.

The Doncaster firm plays a significant role in delivering sustainable communities through its Homes and Regeneration divisions, aligning itself with key government policy.

The Group employs over 3,000 people and has delivered or improved more than 34,000 homes in the last 12 months. Earlier this year, Keepmoat was recognised as one of the UK's 100 most successful private companies by the prestigious Fast Track organisation and has won numerous awards.

Chief Executive David Blunt said: "The support of Bank of Scotland is great news for everyone connected with Keepmoat. The key to our continued success has been, and is, the outstanding delivery performance of our people; our commitment to making a lasting difference to the lives of people in the communities where we work and our approach to working in a true spirit of partnership. We are extremely pleased that we have chosen to partner with IF at this exciting phase in our development and are confident that the investment is now in place to enable us to grow our business and to deliver our long-term goals."

As Mike Allen, Director, IF explains, this, along with the excellent track record of the management team, made Keepmoat "a key business in our region with which we were keen to build a partnership".

This deal is a classic example of the solutions the IF team can create, underpinned by the quality and breadth of the regional IF offering. Mike explains: "We genuinely start with a blank piece of paper when structuring a transaction; this deal highlights the full toolkit we have available to us to provide innovative funding solutions to quality companies."

THE NORTH

KEEPMOAT

£783m integrated debt package MBO



“
...this deal highlights the
full toolkit
we have available”

*Left to right:
Terry Bramall (exiting shareholder), Mike
Allen (IF), Dick Watson (exiting shareholder),
David Blunt (CEO), Martin Jenkins (Deloitte)
and Donald Fowler (IF).*



LONDON

DAVID LLOYD**£925m** integrated debt and equity package

 The logo for David Lloyd Leisure, featuring the name 'DAVID LLOYD' in a stylized font above 'Leisure' in a script font, all within a dark blue rectangular background.

Bank of Scotland Integrated Finance (IF), in partnership with London & Regional Properties, has acquired the racquet-focused premium health clubs business, David Lloyd Leisure Ltd, in a highly competitive sale process, beating interest from a significant number of trade and financial buyers. Simultaneously, the IF team completed the acquisition of Next Generation Clubs and the businesses will now be integrated to create Europe's largest racquets, health and fitness club group. The combined entity will operate 79 clubs in the UK and a further ten sites across Europe.

“...the deal represents a

a fantastic opportunity
to create a clear market leader”

Andy Powell, Head of Integrated Finance: London explains: “It is very much a merger rather than a takeover. They are very similar businesses with similar concepts and the deal represents a fantastic opportunity to create a clear market leader in premium health and fitness.”

Completed within just eight weeks from

when the Bank first got involved, Andy believes the deal showcases “just how flexible Integrated Finance is” as well as offering the chance to work with London & Regional Properties, “a partner that the Bank has a lot of association with, not just in IF but in Joint Ventures and Real Estate”.

A competitive OpCo/PropCo financing structure was devised for the deal, benefiting





from the significant freehold asset base as well as the fantastic covenant presented by the combined operating company across Europe and the whole of the UK. "IF doesn't simply offer conventional banking solutions," explains Chris Smith, Associate Director, IF. "We look at each deal on an individual basis to ensure our funding delivers the best results for all parties involved." Going forward, the combined business will be run by the

Next Generation Clubs' management team, led by current CEO Scott Lloyd. Scott commented: "This deal combines the two leading brands in racquets, health and fitness, creating a portfolio of family orientated clubs with unrivalled facilities and service levels for our members, and provides an excellent platform to take the business into the next stage of its development while reinforcing our clear market-leading position."



The management team of leading plastic piping systems manufacturer, Polypipe, succeeded in their ambitions to position the company for further growth by refinancing with backing from Bank of Scotland Integrated Finance (IF).

Having over-performed against their original business plan, management were granted a small window of opportunity to pursue a secondary buy-out from US private equity house Castle Harlan. The team's advisers, Livingstone Partners, approached Bank of Scotland Corporate, and a deal with a distinctive financing structure was completed within four weeks.



From left:

Kristian Gavan (Livingstone Partners), Alex Sheffield (Livingstone Partners), Ben Barker (IF), David Hall (Polypipe), Jenny Meister (Livingstone Partners), Paul Rice (Polypipe).

Jim Kottler, Director, Integrated Finance: London, explains: "Polypipe had an existing high-yield bond structure in place, so we structured a financing package which took this into account. As a result of the change of control of Polypipe, the existing bond investors have the right to ask Polypipe to buy back their investments. We have put in place a flexible facility to allow the company

to finance the repurchase of the bonds that have been put back on them." The value of the Bank's debt and equity package was £420m.

The strength of the Polypipe management team was fundamental. Unfazed by the aggressive timetable to complete the transaction, they have already completed one acquisition. Additionally, they have also pursued two other acquisitions and disposals as well as managing the usual reporting requirements for bond investors and private equity owners.

"From top to bottom, there is a very deep management structure; nearly 50 managers of Polypipe had invested in the original MBO backed by Castle Harlan, and all of these individuals have reinvested in the SBO," continues Jim. "That not only provides a great sign of commitment and belief in the future of the business, but demonstrates the desire for these individuals to continue to develop their careers."

“

...they understood the environment in which we operate...”

”

The IF team certainly impressed Polypipe CEO David Hall: "They were streets ahead in terms of getting out of the traps quickly and getting something on the table for us to look at. They understood the environment in which we operate so they got up the learning curve quickly."

David declares himself to be "very happy with the end result" and is looking forward to developing the relationship with the Bank: "We are very confident that they will be supportive of our strategy and work alongside us in delivering our strategic objectives."



BIFOLD

£35m integrated debt and
equity funding package **SBO**

Bifold FluidPower
Limited

Bank of Scotland Integrated Finance (IF) has backed the £35m secondary management buy-out (SBO) of Manchester-based oil and gas valve manufacturer Bifold Fluidpower.

Bifold is a leading precision engineering company that designs, manufactures and provides high quality, reliable and durable directional control valves and pumps to the global oil and gas industry.

The integrated debt and equity package provided by the IF team included an acquisition facility designed to fuel the company's expansion plans in the buoyant oil and gas market – a factor which Ritchie Clark, Director, IF, believes was influential in Bifold selecting IF. "Management were looking to buy out their existing institutional investor and they approached us to see if we could fund the deal," he explains. "One of the differentiators from the Private Equity competitors was that we had the ability to provide an acquisition facility. Management had a couple of acquisition targets they had identified to pursue over the forthcoming years, and they wanted certainty that there was funding and facilities in place that would allow them to react quickly to future acquisition opportunities. As sole funder to the business we could provide them with that assurance and put those facilities in place from day one."

It wasn't just the ability of IF to offer a flexible funding solution that sealed the deal; the team also introduced an experienced Non-Executive Chairman to work with management and assist them in taking the business forward. Ritchie comments: "We worked closely with management to identify a Non-Executive that would

supplement the skill set of the management team and introduced them to one of our Non-Executives from the IF Chairman's Club. Following their initial meeting management could instantly see the value he could bring."

Gary Jacobson, Managing Director of Bifold, said: "Their experience of investing in the oil and gas sector means they were able to deliver a truly unique and powerful funding proposition." He explains he was also impressed with IF's "calm and listening" approach and added: "It was the right deal for us to do, we are pleased to have come on board with IF and I am pleased and comfortable we have made the right decision. I can imagine we will have the makings of an ongoing relationship with Bank of Scotland."



**...they wanted certainty that there was
funding and facilities in place that would
allow them to react quickly
to future acquisition opportunities**



LAMBERT SMITH HAMPTON**£46.5m** integrated debt and equity package **MBO**

Leading commercial property consultant and agent, Lambert Smith Hampton (LSH) has recently completed a management buy-out (MBO) from parent company WS Atkins plc. The MBO, led by CEO Mark Rigby and supported by Bank of Scotland Integrated Finance (IF), sees LSH return to private ownership for the first time since 1996.

In a current market climate where most businesses are being sold on-market, this deal was different as it, in part, originated through a direct approach to the IF team. “We were hand-picked because of our reputation as one of the leading equity buy-out specialists in the mid-market and our deliverability, as we offer a single source of funding from one investment team through a single credit process,” says Andy Powell, Head of Integrated Finance: London.

“We were impressed with management and their appetite to buy and grow LSH and saw it was an opportunity to support a great business with a strong brand and real potential,” explains Kostas Manolis, Associate Director, IF.

“We have structured an Integrated Finance deal to secure the business from Atkins,” says Mark, “and to give LSH control of its future. Our next intention is to agree a scheme within the business to distribute equity more effectively across the company, creating wider ownership. This is immensely positive for everyone in LSH and will be a significant factor in helping us to achieve our targets for growth.”



...I've stayed awake at night thinking about how we can drive this business forward

Despite a challenging timetable set by the Vendor, the IF team worked tirelessly to deliver a solution for management. The MBO will undoubtedly make a significant difference to the management team and the company as it goes forward. Andy comments: “It’s transformational. The team has effectively gone from having no equity incentivisation in the business to holding an 80% stake.”

Mark added: “As a result of the MBO, we feel in charge of our own destiny. I’ve stayed awake at night thinking about how we can drive this business forward. It’s hugely motivational and we’re all very excited by it.”





“...both IF and the firm’s management team enjoyed a sizeable return on their investments”

RED FUNNEL

Integrated debt and equity package **EXIT**



The three-year relationship between Bank of Scotland Integrated Finance (IF) and the management of Red Funnel has come to an end, as the Bank has sold its equity stake in the company. A number of refinancing options for the business had been explored over the last few months and the decision to sell the equity capitalises on the high demand for infrastructure-type assets – a fact reflected by the particularly short auction process.

Ferry operator Red Funnel specialises in services to the Isle of Wight and has been running the Southampton to Cowes route since 1861. The company owns the largest and newest vehicle ferries ever to serve the island.

The IF team backed the secondary management buy-out (SBO) from JP Morgan in May 2004 in a landmark deal which was

the first £100m Integrated Finance deal completed. As a result of the support from IF, Red Funnel has enjoyed significant growth, with over 3 million people journeying on its ferries every year. Recently, the business has also diversified and launched its own coffee company for use on its vessels.

Tom Docherty, Red Funnel’s Managing Director, commented: “We acknowledge the excellent co-operation, assistance and positive support rendered by the IF team throughout the tenure of our association with the Bank.”

Infracapital, Prudential’s infrastructure fund, completed the recent exit at a price which ensured both IF and the firm’s management team enjoyed a sizeable return on their investments. The senior management will remain in place and will continue to hold a significant equity stake in the business going forward.

Senior Management team

**Head of Integrated Finance**

Mark Hammond
0207 012 9004



Head of
Integrated
Finance:
Asset Management

David Cowie
0131 659 1112



Head of
Integrated
Finance:
Partnerships

Frank Summers
0131 659 0662



Head of
Integrated
Finance:
Regions

Mike Gillespie
0161 255 0505



Head of
Integrated
Finance:
London

Andy Powell
0207 012 9342

Regional Director
Scotland

John Duncan
01224 283 302

Regional Director
North of England

Donald Fowler
0113 215 0847

Regional Director
Midlands

Arthur Sherry
0121 234 1653

Regional Director
South of England

Nigel Irvine
0117 302 7755

Expertise in practice

The Integrated Finance: Partnerships team is underpinned by its ventures with some of Europe's top entrepreneurs.

Headed by Frank Summers, the Integrated Finance: Partnerships team comprises 17 colleagues including six directors. Frank explains: "It's been said that Bank of Scotland is the bank of choice for entrepreneurs and Integrated Finance: Partnerships was formally established in November 2005 to extend our offering to such individuals. We work with proven entrepreneurs, providing a single source of debt and equity to our partners who provide both experience and empathy with the management teams we collectively support as well as equity capital. As we're inherently entrepreneurial by nature, we think like a partner who's determined to make things happen, instead of thinking like a bank. Our track record over the years speaks for itself."



We are also continually working to identify new partners to work with and align ourselves with their acquisition strategy."

One classic example of the Integrated Finance: Partnerships team working in practice is its role in leading the recent £1.2bn acquisition of McCarthy & Stone, the UK's leading provider of retirement homes. Integrated Finance: Partnerships originally worked with private investors Reuben Brothers and Sir Tom Hunter and subsequently has invited other partners to co-invest in this exciting business.

Frank explains: "In winning this transaction in October 2006, with the Bank investing over £220m in equity and around £850m in debt

“...our track record over the years
speaks for itself”

Integrated Finance: Partnerships' funding packages combine both debt and equity to create one-off funding solutions for every deal they are involved in, with a value typically greater than £100m.

Frank adds: "The Integrated Finance: Partnerships team prides itself not only on being able to respond quickly to opportunities but also identifying opportunities where we can proactively work with our partners. We work and co-invest with top entrepreneurs, including Sir Philip Green, the Barclay Brothers, Sir Tom Hunter and the Reuben Brothers, to create inventive funding solutions to ensure that they can get on with what they do best – creating significant value for all stakeholders.

alongside our partners, we used our considerable knowledge of the house building environment and identified significant value-enhancing opportunities, which we are now working closely with management to deliver. The consortium's combined experience and an innovative approach to deal structuring were pivotal in securing this outstanding investment asset. We really had to think like an entrepreneur and use all the combined experience of the consortium to make this happen. We are delighted with the excellent performance to date and look forward to an exciting future for the business under the stewardship of Howard Phillips, CEO."

“

Integrated Finance were
streets ahead

in terms of getting out
of the traps quickly
and getting something
on the table for us to
look at.

*David Hall, CEO,
Polypipe*

”