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Pole Position

Executives from Bank Leumi (UK) and Leumi ABL on why deals are back



LIQUID ASSETS

GE's Adam Johnson says the M&A waiting game is over



ACTION STATIONS

Forced sales will drive deals, says VSF's Peadar O'Reilly



AN OWN GOAL

Bircham Dyson Bell's John Turnbull on Liverpool FC

Deals are coming back in a big way. That's the message from the decision-makers at Bank Leumi (UK) and Leumi ABL. *M&A* meets them

The icy relationship between banks and entrepreneurs shows little sign of thawing. Business owners remain frustrated by the way that financial institutions remain averse to risk-taking of any kind, often only offering credit on the most unattractive terms.

It's not a tenable state of affairs. Well-run companies in need of extra headroom are stagnating and, when it comes to financing M&A activity, sensible deals are needlessly falling by the wayside. Larry Weiss, CEO of Bank Leumi (UK), a subsidiary of the Israel-based Bank Leumi, regards this perceived failure among the larger institutions as an opportunity for a niche lender to both fill the liquidity gap and boost market share.

'Our parent company did not get burned by the credit crisis,' says Weiss. 'As a subsidiary, we do not have the problems of some of our competitors where all of a sudden the subsidiaries of the parent have to dispose of their assets. We feel this is an opportune moment to grow the business.'

Collin Cumberland, head of corporate and commercial banking at Bank Leumi (UK), observes that the organisation didn't expose itself excessively to bad debt. 'A lot of the problems with the UK banks came out of their property portfolios. We never chased

the market with the 80 to 90 per cent loan to values that some banks were undertaking.'

ADD IT UP

The financial results posted in 2009 tend to back the view that the bank has capital and liquidity ratios in line with what has been stipulated by Basel III.

Established in London in 1902, Bank Leumi (UK) now has assets of £1.4 billion, a lending book in excess of £1 billion, capital of £150 million, and customer deposits and assets under management of £1.2 billion. Bank Leumi Group is ranked internationally by *The Banker* at 149 by Tier 1 capital, and at 153 by assets.

Despite a prudent approach to lending, Bank Leumi (UK) has not been immune from the effects of recession on its clients, with an impairment provision of £17.7 million due to 'a small number of specific customer situations'. This did not deter the bank from continuing to lend. A separate risk management department was established to implement the latest techniques of credit assessment, review and monitoring. The new department worked alongside the corporate teams to get deals done. At the operating level, income rose by 19 per cent to £46.4 million and pre-tax profits to £3.2 million. The overall balance sheet remains strong

despite the wider market conditions.

As the market opens up, the focus now is on winning new clients. The bank has 200 staff in offices in London, Leeds, Manchester, Brighton, Birmingham, Reading and Jersey. At present, approximately 17 per cent of revenue comes from commercial finance, 13 per cent from commodity finance, 15 per cent from its asset-based lending division, Leumi ABL, and 30 per cent from property finance. The balance comes from private banking, a re-established media finance group and other activities.

Weiss states that each division is seeing the benefit of higher demand, none more so than the asset-based lending division, which operates as a subsidiary of Bank Leumi (UK). Although much of the work stems from companies looking to refinance, there are an encouraging number of M&A transactions that need ABL backing to go through.

Phil Woodward, MD of Leumi ABL, says, 'There is genuine M&A activity out there. Venture capital firms are looking to invest in companies, particularly in turnaround situations. Some larger businesses too are eager to dispose of non-core divisions, and that can lead to trade sales and buy-outs.'

In short, it's the return of distressed M&A. 'Strategic M&A work hasn't been buoyant but it's the accelerated M&A work that's out

Opposite page, left to right: Phil Woodward, Collin Cumberland, Larry Weiss and Paul Hird



‘If interest rates start creeping up, that will lead to more transactions as many companies are just about washing their faces at the moment’ Phil Woodward

there keeping the venture capital firms busy. A number of firms are buying household names and turning them around.’

Leumi ABL provides between £1 million and £25 million to companies through a traditional suite of ABL services, such as invoice, inventory and plant and machinery finance. It also works closely with Bank Leumi (UK) on deals, whereby its commercial banking division can provide working capital, credit facilities and property financing.

‘The bank can get involved right at the start of a transaction with respect to providing trade finance,’ comments Woodward. ‘This helps the additional working capital requirements of businesses that need to go out and purchase goods. In turn, this flows through to the facilities that we can provide.’

Paul Hird, CEO of Leumi ABL, says that a recent deal with aerospace company Mettis Aerospace demonstrates how the various strands of the bank’s services can be pulled together. Based in

the Midlands, Mettis is backed by venture capital firm Chamonix Private Equity, which acquires companies from other professional investors and VC firms.

Mettis, which has sales of £70 million, needed extra headroom and so Leumi ABL provided invoice discounting and financing against stock, plant and machinery, while Bank Leumi (UK) arranged finance against property to enhance the long-term working capital of the business.

Likewise, Beeswift, a West Bromwich-based wholesaler of corporate clothing, work-wear and personal protective equipment, received a £6.5 million financing facility from Bank Leumi (UK). This included trade finance, stock and receivables funding, foreign exchange and cash management. It also refinanced the existing funding arrangements, while at the same time providing additional working capital.

FLEET OF FOOT

Woodward is keen to point out that one of the advantages of being a smaller organisation is that the financing for these types of deals can be put together speedily. ‘Reporting lines are short for us, as only one UK credit committee is involved in each deal.

‘We look at a business holistically. We don’t have one division that meets the management team and another separately

analysing the merits of the business. We join forces right at the start as we assess how to best manage the proposition for the client.’

The Leumi executives argue that this is in contrast to the larger financial institutions, with their elusive, enigmatic credit committees. Weiss, an American who earned his stripes working for Chase Manhattan Bank for 12 years before spending 18 years in senior positions in a natural resource trading company, says, ‘Throughout my entire career I’ve seen that, as vital as it is to undertake a credit analysis, it’s also extremely important to meet the individuals you are dealing with and make a direct assessment.’

Weiss is quick to clarify that if business is being won from competitors, it doesn’t mean that Bank Leumi and Leumi ABL should be seen as soft touches for gaining finance. ‘People need to be committed and have fire in their bellies, but once you get through our door we feel very strongly that we want to work with clients on a long-term basis.’

Woodward concurs. ‘We aren’t cavalier – we take time to understand a business and get underneath its skin. We’re really looking for businesses with a good plan, good product and good management. If they have these elements then we can give them additional confidence by allowing them to have the headroom to move forward.’

'Our parent company did not get burned by the credit crisis. We feel this is an opportune moment to grow the business' Larry Weiss

WHEAT AND CHAFF

Of course, the current environment means that companies that meet the triumvirate of plan, product and management can be hard to find. This is where working with VC and mid-market private equity firms can be useful, as they will be providing a sound indicator of the quality and long-term ambitions of a business. 'There are a lot of deals floating around, and some of them do have their flaws,' says Woodward. 'The VCs we speak to are a good filter because if the deal stacks up then a number of VCs and PE houses will be looking at it.'

Encouragingly, the volume of deals that do 'stack up' is increasing, which is fortunate – many of the VCs need to make investments as the clock is ticking on funds raised in 2007 and 2008 that they have been sitting on for the past 18 months or so. It's a case of use the funds or return them to investors.

Interestingly, Woodward comments that

VITAL STATS: BANK LEUMI GROUP

256
branches in Israel
78
offices in 18 countries
13,000
employees
\$218bn
in assets under management

the financial dynamics of deals has changed when backing VC-led buy-outs. 'There is now a tendency for firms to bridge any gaps in a deal with their own funds. A few years ago it was very much a case of them stating what they were prepared to invest and we were expected to provide the rest. We were almost required to put a level of mezzanine finance in; that's no longer the case.'

The economy will be a clear driver of whether deals will continue to pick up and what kind of transactions they will be. While Weiss and Hird believe that the UK may be heading for a double-dip recession, Woodward stands by his view that the economy will continue in its current state. All agree that conditions are not going to be any easier for management teams, and that will create pressure points for companies in the year ahead.

Hird says, 'If there is a double-dip, that creates volatility, which in turn creates rationalisation and synergistic opportunities. There will be a lot more distressed M&A.' Weiss goes as far as to suggest that the underlying failings of the UK economy will shortly plunge the country back into recession. 'The reintroduction of quantitative easing that will happen in the US will happen here as well,' he adds.

Interest rates need to be watched carefully, says Woodward: 'If they start creeping up, that will lead to more transactions as many companies are just



about washing their faces at the moment because the rates are low. As soon as there is a shift in rates then companies will become stretched and [the larger] banks will be forced to take action, as opposed to closing their eyes and covering their ears.'

Woodward expects the number of deals worked on this year to be around 60, with a similar number next year. 'It'll be refinancing and distressed transactions,' he says. 'The buying of value is some way off until the larger secondary market comes back.' ■

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