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In late 2008, BPRI carried out 86 interviews in a survey that explored the views of main board directors of profitable quoted companies (QC) with a market value between £15m and £250m.

In the same period, BPRI also interviewed key decision makers in 50 institutional fund managers (FM) and 51 private equity providers (PE).

The survey examines a range of relevant topics such as valuation of quoted companies, attitudes towards private equity providers and attitudes towards public-to-private transactions.

Foreword

Most company management teams and fund managers agree that the capital markets are failing small and medium sized businesses in areas such as valuation, investor and analyst interest and access to growth capital. In the last few years many executives have been giving serious thought to taking their businesses off the market and now have a window of opportunity to proceed. Notwithstanding comparatively low valuations it is remarkable to note how receptive fund managers say they would be to a take private offer.

Liquidity in debt and equity markets is being conserved for essential refinancings and to support the largest businesses. This means smaller quoted companies could be further sidelined while the credit crunch and the knock on impact means an unprecedented level of capital has left the system and valuations will take many years to recover. This fundamental re-basing of value creates opportunity as companies who wish to go private are now less constrained by value aspirations.

Raising finance for a take private is not easy and the lack of debt will hinder larger deals for a while. However, private equity remains blessed with committed capital and is keen to invest at the right price over the next few years. P2Ps will be an attractive source of deals, particularly in the sub £100m market.

The survey suggests that there is a pent up demand for take private deals and that management and shareholders are keen to explore these. We are now seeing a combination of unsupportive capital markets, attractive valuations, shareholder desire for cash and availability of private equity funds which together has generated a unique window of opportunity for smaller and medium sized quoted companies to leave the market. For those one third of quoted company directors surveyed who wished they had never floated in the first place this is now the time to do something about it and go private.

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Corporate Finance Partner,
London

Michael Cobb
Corporate Finance Partner,
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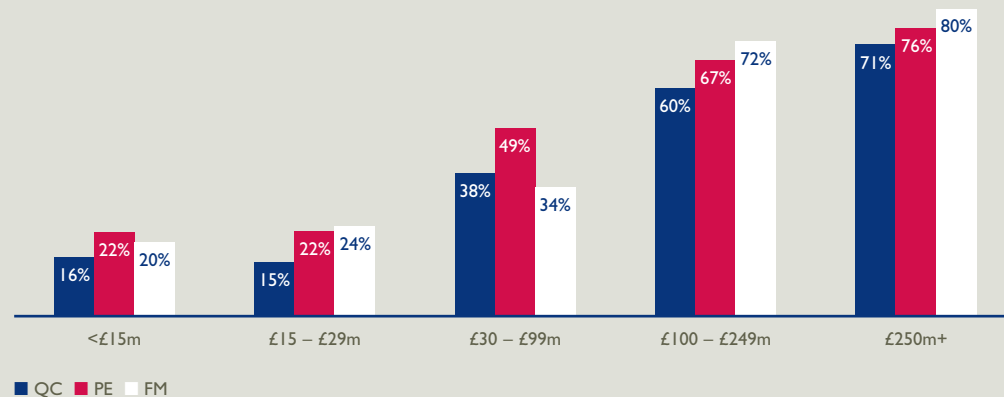
John Stephan
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Attitudes to the capital markets

The majority of respondents said that quoted companies below £100m are not fairly valued by the market

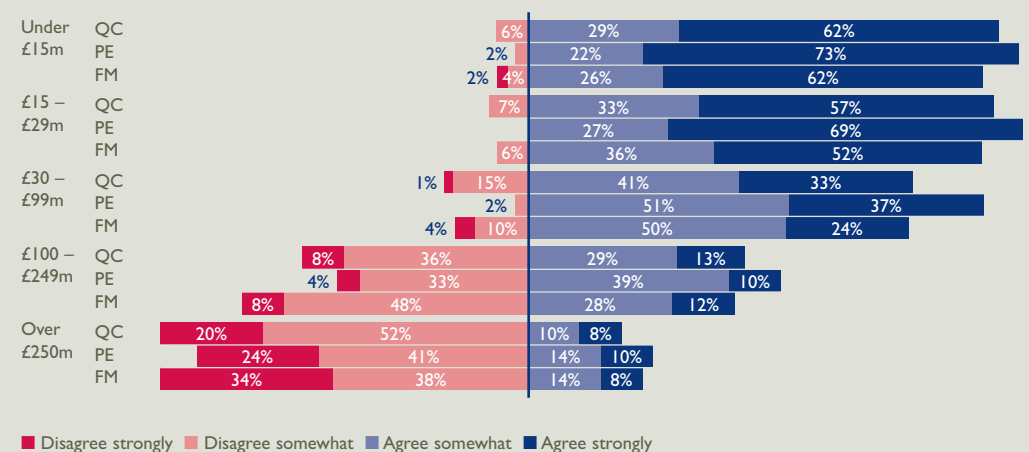
Q. Do you think that in general the financial markets fairly value profitable companies within the following stock market valuation bands?

Fairly valued by valuation band



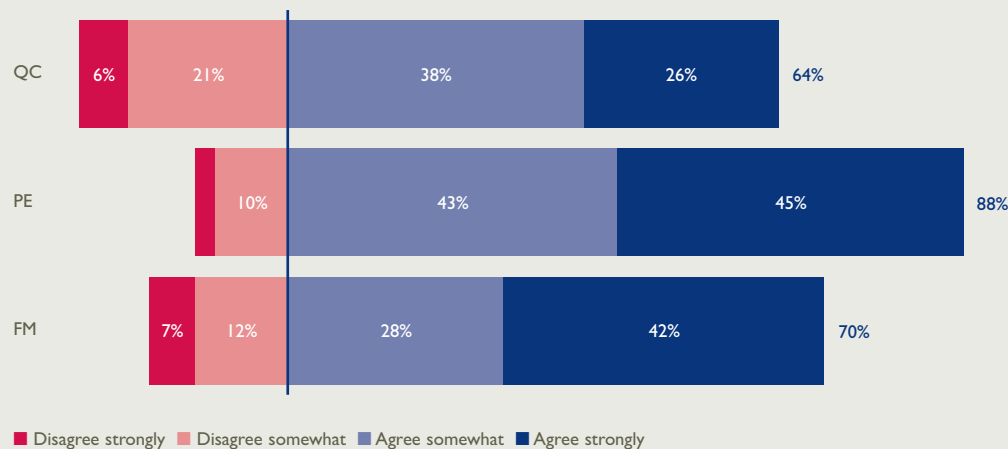
Most respondents agree that quoted companies below £100m do not attract enough institutional and analyst interest

Q. Thinking again about profitable companies within each of these valuation bands, to what extent do you agree with the statement: "Quoted companies do not attract enough institutional and analyst interest"



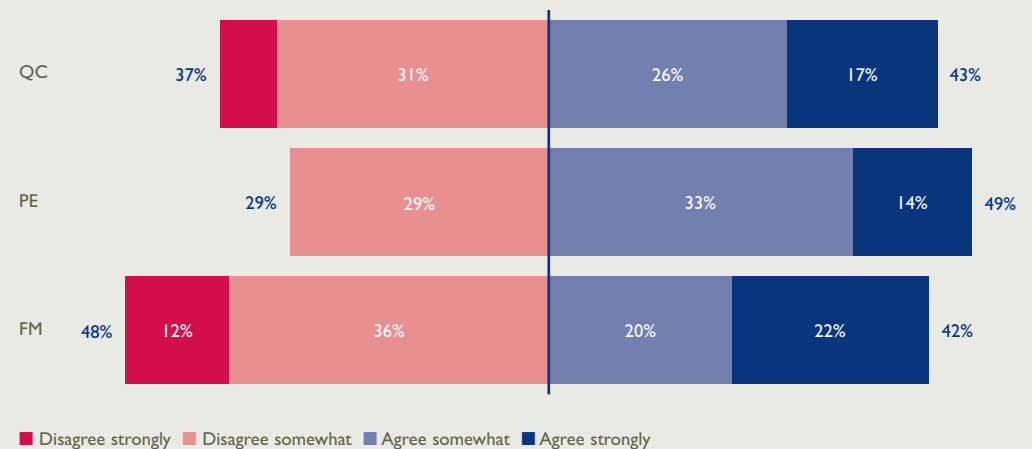
Nearly two thirds of quoted companies say their growth potential is constrained by access to new equity funds

Q.To what extent do you agree with the following statements – “The organic and acquisition growth potential of quoted companies is constrained by the lack of access to new equity funds”



Opinions are divided as to whether growth potential is constrained because capital markets are too debt averse

Q.To what extent do you agree with the following statement – “The growth potential of quoted companies is constrained because the public markets are too debt averse”



“The lack of access to new equity funds is an issue because there is not enough interest in the markets, there are too many companies and insufficient institutional capital.”

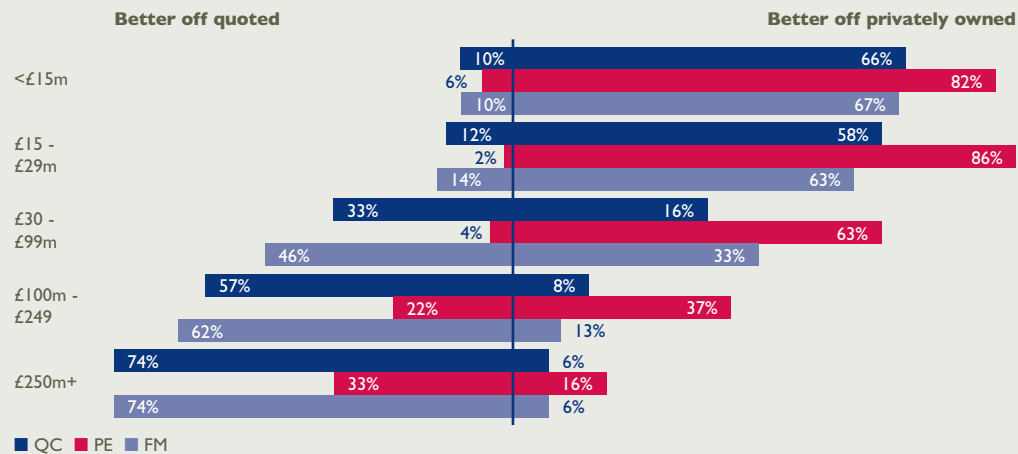
Institutional Fund Manager

“I don’t think they are constrained because the markets are too debt averse. There are some very highly geared companies out there. Until recently, it was not an issue at all, but it might be a problem going forward - and it won’t just affect smaller corporates.”

Institutional Fund Manager

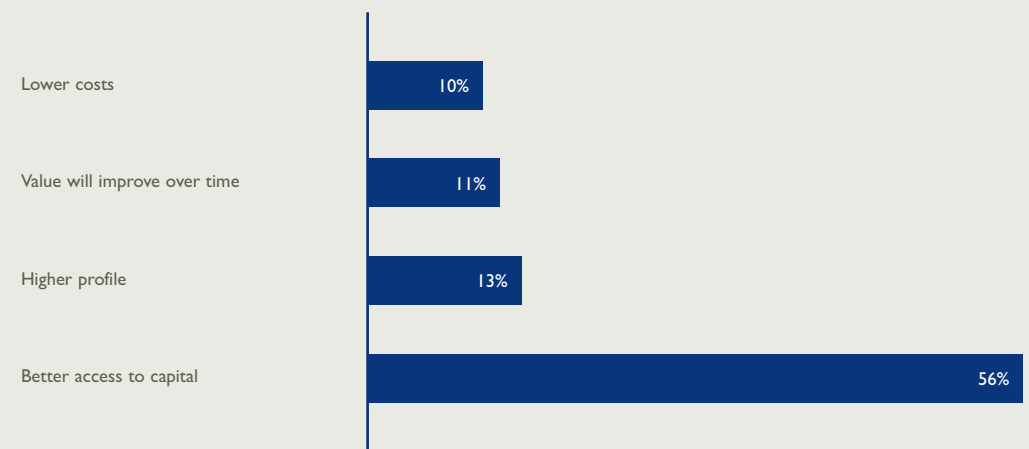
Only above £100m do companies think a public listing is, on balance, better than private ownership

Q. Do you think that quoted companies currently valued, in the value ranges below, would be better off as they are, privately owned, or does it make no real difference?



Better access to capital was the main spontaneous reason given by those who said companies were better off quoted

Q. Why do you think that quoted companies would be better off as they are – that is quoted?



“They have access to capital, there is currency in their shares and they can use that as acquisition currency.”

QC discussing quoted companies of more than £100m

“There is clearly a market for investment from the City. They need to put their money somewhere, and the larger companies are in that banding/profile where finance can be raised.”

QC discussing quoted companies of more than £100m

Lower costs and better access to capital were the main spontaneous reasons given by those who said companies are better off private

Q. Why do you think that quoted companies would be better off privately owned?



“The costs in areas such as management time, compliance and reporting etc takes too much effort, is too costly and is not justified by the benefits.”

Quoted Company

“Some smaller quoted companies would be better off if they were privately owned because I think that they would have more access to capital for expansion and a lower cost base.”

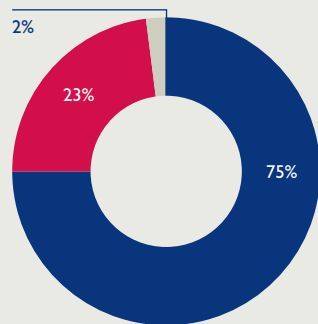
Private Equity Investor

Around one quarter of quoted companies say their business plan is not understood and that the market is not capable of fairly reflecting the value of their business in the future

Q. Do you think institutional shareholders and analysts understand your business plan?

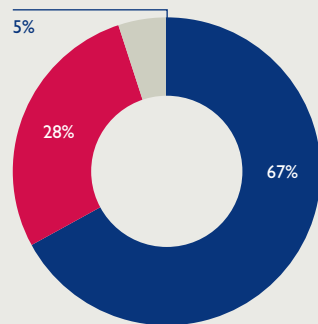
Q. Do you think the stock market is capable of fairly reflecting the value of your business in the future?

Understanding business plan



■ Yes ■ No ■ Don't know

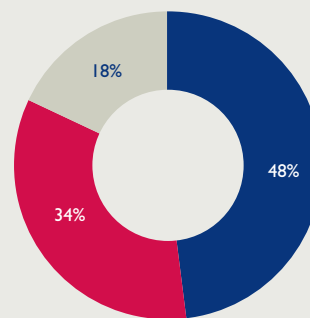
Fairly reflecting value of business



■ Yes ■ No ■ Don't know

Given the opportunity to 'turn back the clock' more than one third of company executives would not lead an IPO

Q. If you could 'turn back the clock' would you still have led an Initial Public Offering (IPO) for your business, or remain privately owned?

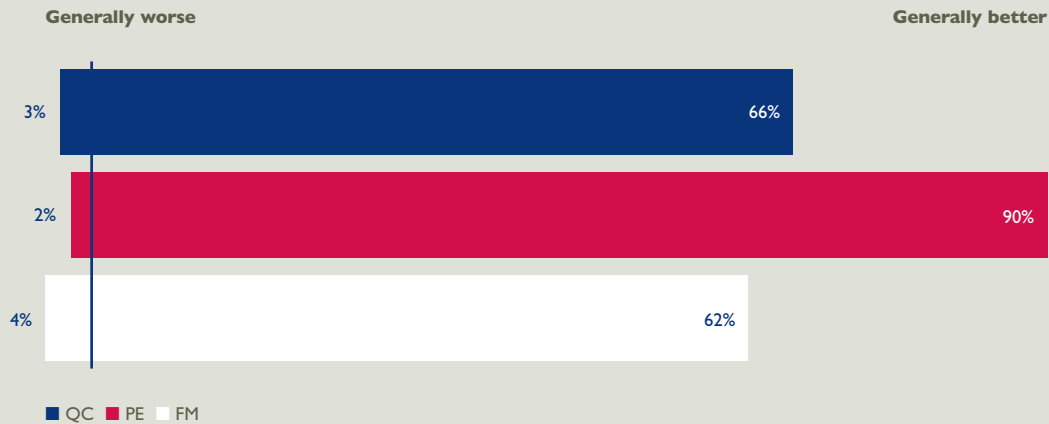


■ Lead an IPO ■ Remain privately owned ■ Don't know

Attitudes to private equity providers

Two thirds of quoted companies say private equity is better at incentivising management than the capital markets

Q. Do you think that private equity investors are generally better, about the same or worse than the market in 'incentivising management'?

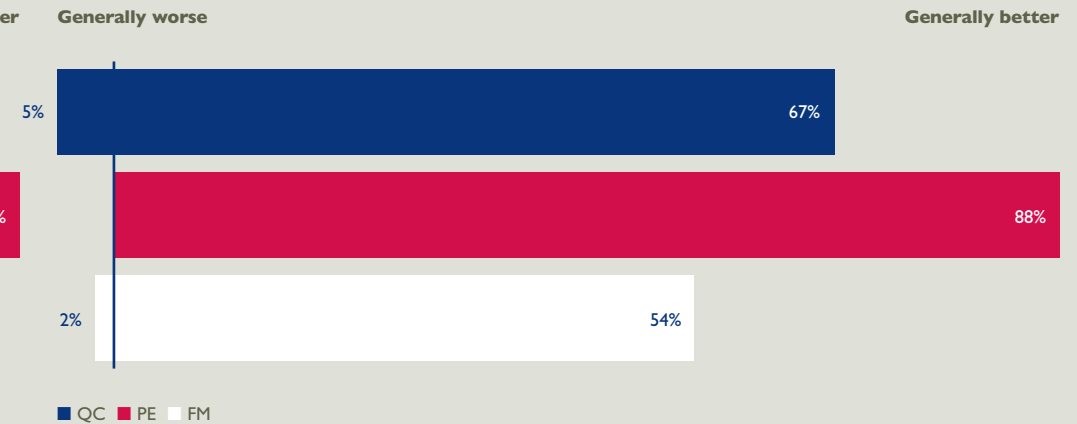


“They are better at incentivising management because they have very progressive reward systems that would not survive public scrutiny (in the main).”

Quoted Company

Two thirds of quoted companies say private equity investors are better at understanding and valuing smaller businesses

Q. Do you think that private equity investors are generally better, about the same or worse than the market in 'understanding and valuing smaller businesses'?

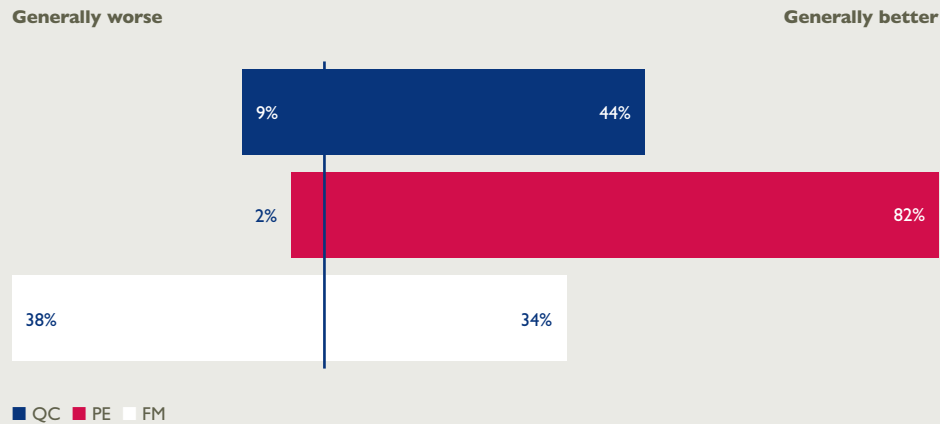


“They spend a lot of time understanding the business in a much more granular way. The markets are a bit more superficial.”

Institutional Fund Manager

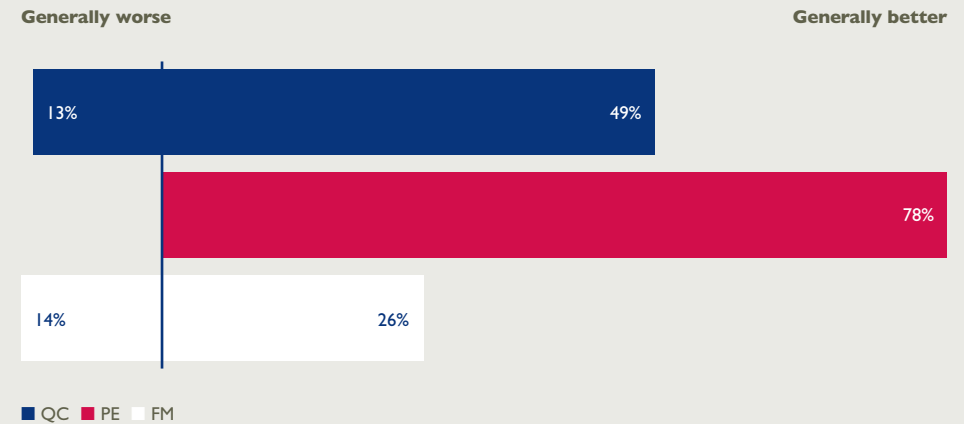
82% of private equity investors think they are better at optimising capital structure

Q. Do you think that private equity investors are generally better, about the same or worse than the market in 'optimising capital structure'?



Almost half of quoted companies think private equity is generally better than the market at investing in growth and acquisitions

Q. Do you think that private equity investors are generally better, about the same or worse than the market in 'investing in growth and acquisitions'?



“Private equity is not constrained by artificial limits on the sources of finance, they are better able to tailor a financial structure to maximise shareholder value and meet the needs of the company.”

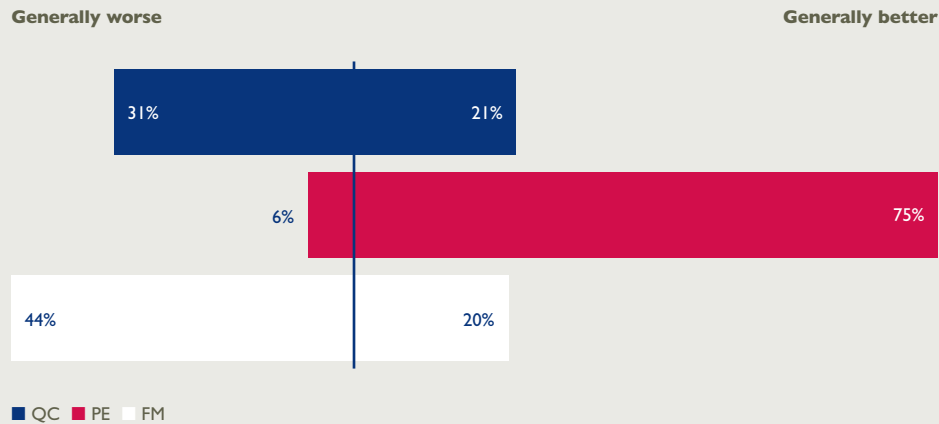
Private Equity Investor

“Private equity will be better at investing in growth simply because of its closeness to the business – they will be better informed at understanding the company’s needs.”

Private Equity Investor

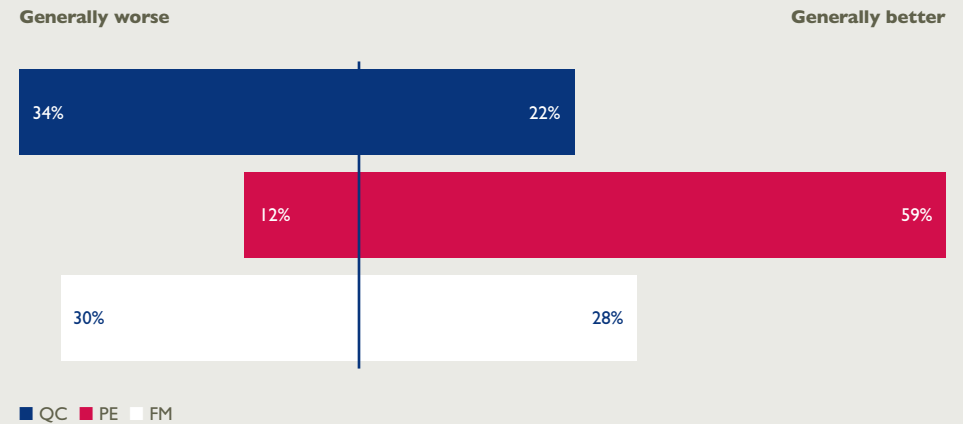
Only private equity investors are convinced that they are better than the market at building long term value

Q. Do you think that private equity investors are generally better, about the same or worse than the market in 'building long term value'?



Only 22% of quoted companies say private equity is better at allowing management teams to get on with managing the business

Q. Do you think that private equity investors are generally better, about the same or worse than the market in 'allowing management teams to get on with managing the business'?



“Private equity companies are running businesses to extract short term cash values, rather than injecting surplus capital back into the business for growth”

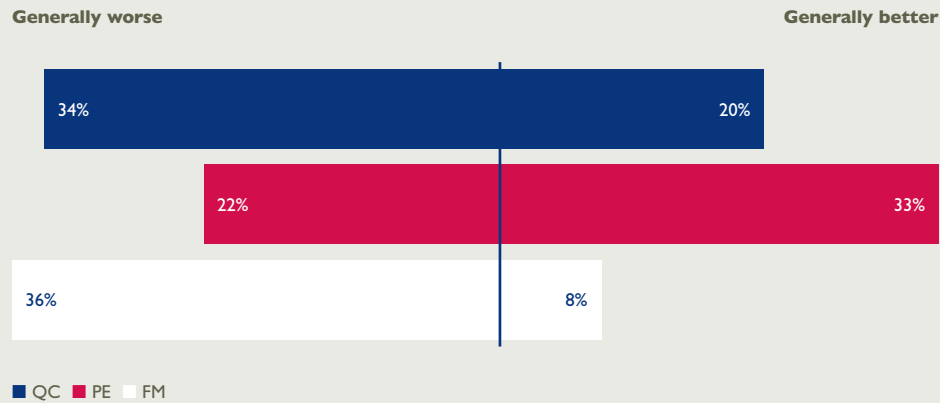
Institutional Fund Manager

“The public market takes an incredibly short-term view, in everything from profits to acquisitions, compared to private equity and this is why we are in the mess that we are in right now.”

Private Equity Investor

Opinions were divided on whether private equity investors are better or worse than the market on compliance, reporting and corporate governance

Q. Do you think that private equity investors are generally better, about the same or worse than the market in 'Compliance, reporting and corporate governance'?

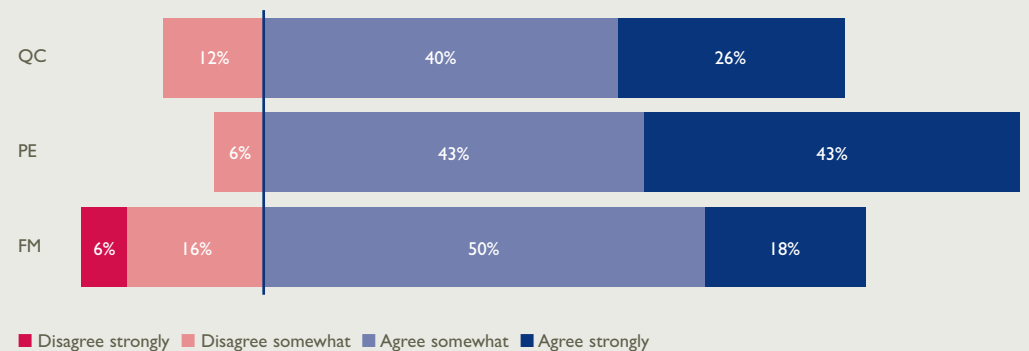


“Reporting and governance is more transparent, and visible, in the public arena which is why private equity is generally worse at this.”

Quoted Company

A clear majority of quoted companies and institutional fund managers believes private equity providers take time to understand the business so they can pay a fair bid premium

Q. To what extent do you agree with the following statement – “private equity providers take the time to understand the business and management so they can pay a fair bid premium – the offer price premium to share price”



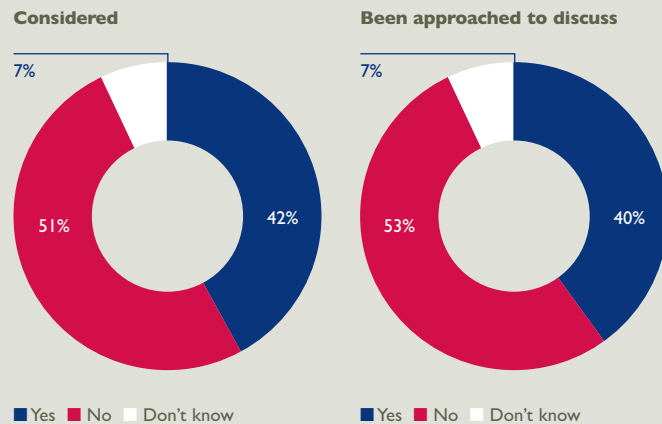
“Compliance is better with private equity because it is less about ticking boxes and more about what is really important - they can tailor structure to suit the needs of the business.”

Private Equity Investor

Attitude to public to private transactions

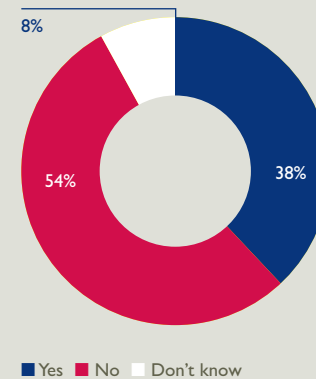
Approximately four in ten quoted companies have considered a P2P and/or been approached in relation to such a transaction in the last 1-2 years

Q. Has your company considered a P2P deal in the last year or two?



Over one-third of institutional fund managers have encouraged investee companies to seek funding for a P2P deal

Q In the last year or two have you encouraged any management teams in your investee companies to seek funding for a P2P deal? Why have or haven't you encouraged such funding?



“Because we are more interested in them running their business operations successfully. We’re not interested in the short-term, we really want to get a longer-term return.”

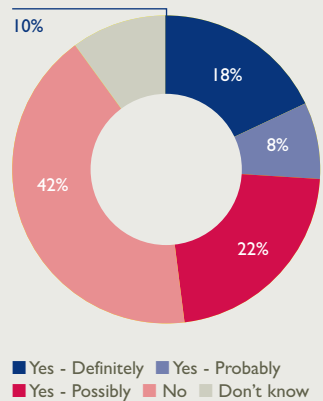
Institutional Fund Manager

“Because those companies shouldn’t currently be on the quoted market. They’re undervalued, so it’s not the best place to be.”

Institutional Fund Manager

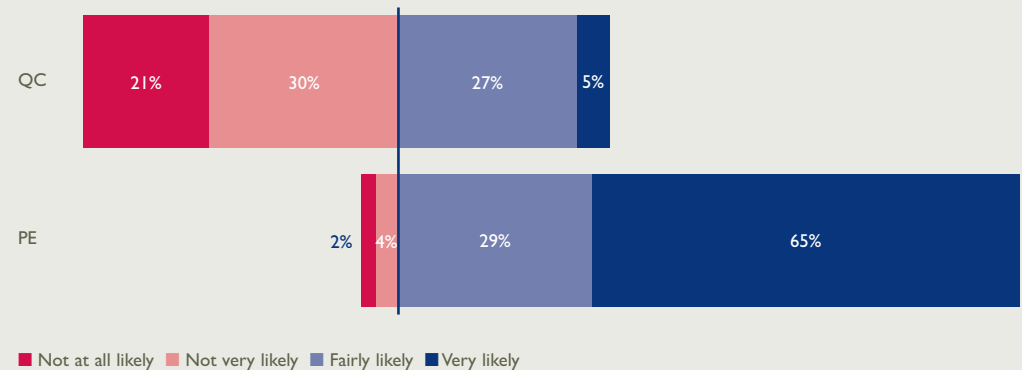
Nearly half of institutional fund managers will consider encouraging investee companies to seek P2P funding in the next few years

Q. In the next year or two do you think you will encourage any management teams in your investee companies to seek funding for a P2P deal? Why will or won't you encourage such funding?



Approximately one third of quoted companies will consider a P2P deal in the next 1-2 years

Q. How likely are you to consider a P2P deal in the next year or two?

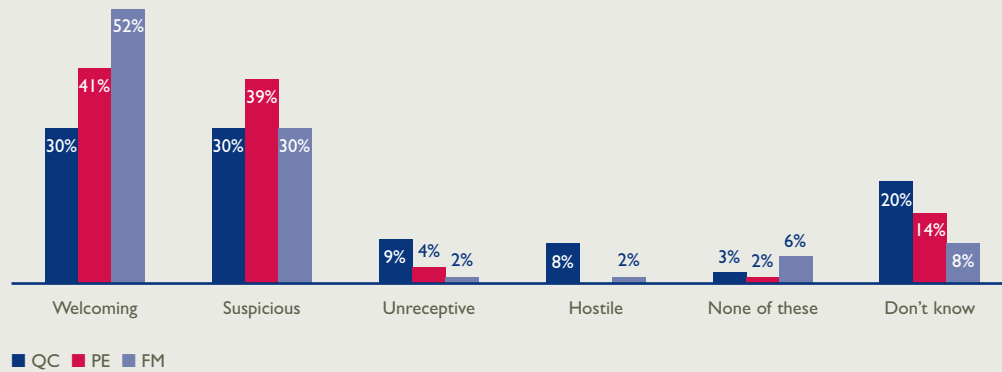


“There won't be the money to do it. The credit crunch will last for several years yet, so there will be no capital available.”
 Institutional Fund Manager

“The companies concerned have hit the buffers - there's no longer any point in being a public company. Nobody's interested in them.”
 Institutional Fund Manager

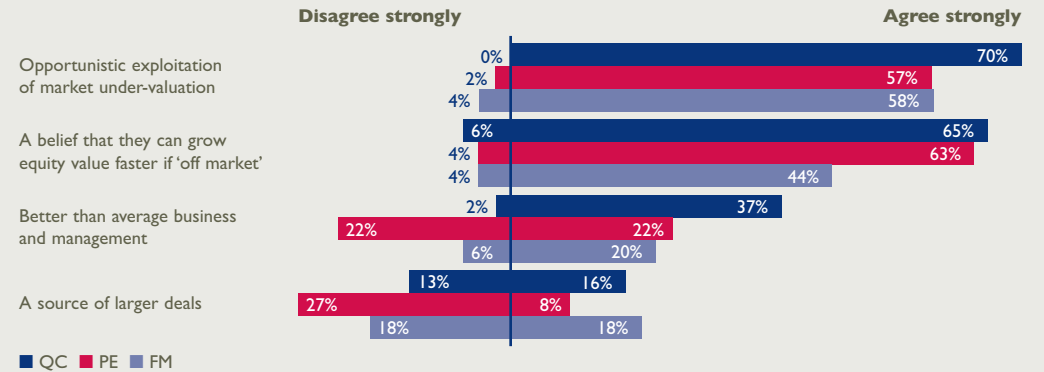
If approached, over half of institutional shareholders would be receptive to a P2P deal

Q. How do you think institutional shareholders would feel towards a P2P deal?



Company undervaluation and the belief that business can be grown faster 'off market' are the key drivers for P2P transactions

Q. I am going to read out a list of four possible reasons why private equity houses have been attracted to public to private deals. For each reason please say how important you think it is for them.



Market undervaluation is the key attraction to private equity

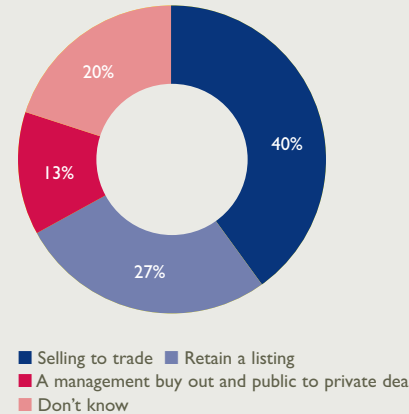
Q. Why do you think that some private equity providers are attracted to public to private deals – All respondents?

Companies are undervalued/bargains available 64%	“They are attracted because of the valuations. The market will have under-valued them and private equity has the capital to spend – particularly on small cap companies.” – Institutional Fund Manager
General gain/profit 13%	“More than anything, private equity is trying to find a niche that will be the next big thing – as well as making a quick profit over a short period.” – Quoted Company
Can strip out costs 6%	“Asset stripping and refocusing are attractive to private equity. They thrive on exploiting undervalued companies, buying them cheap and exiting quickly with a big profit.” – Quoted Company
Can help company grow 6%	“There is an opportunity to acquire businesses at sensible valuations where there is scope for further growth in value.” – Private Equity Investor
Quality of the business 4%	“Make money, they think the valuation is incorrect and that they could provide better management, extract extra value, cheaper access to equity.” – Institutional Fund Manager

But ‘selling to trade’ is considered most likely to maximise shareholder value in the next 1-2 years

Q. In the next year or two which of the following do you think is most likely to maximise your company’s shareholder value?

Q. Why do you say that?



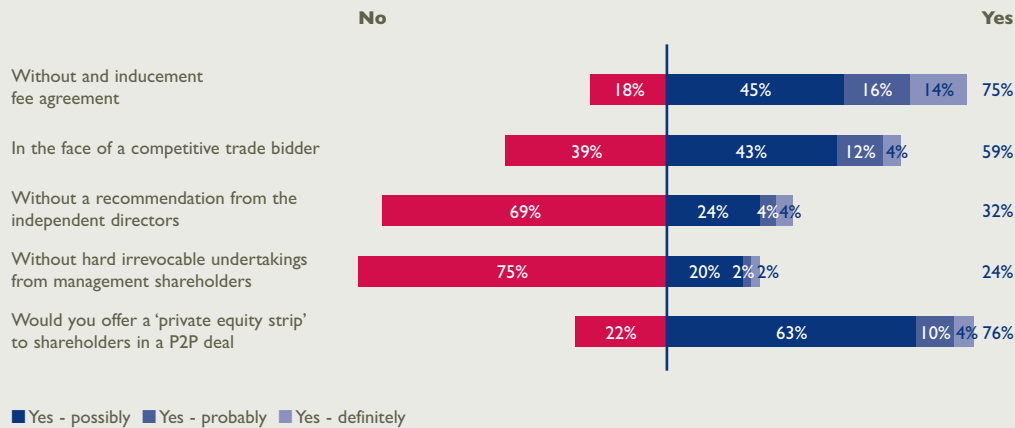
“There are companies that would see us as a good acquisition and would be prepared to pay a higher premium, which is why selling to trade is likely to maximise our shareholder value.”

Quoted Company

Private equity providers say they are open minded about most issues but are unlikely to go hostile or permit management teams to choose an alternative offer

Q. Would you be willing to progress a P2P deal?

Q. Would you offer a 'private equity strip' to shareholders in a P2P deal?

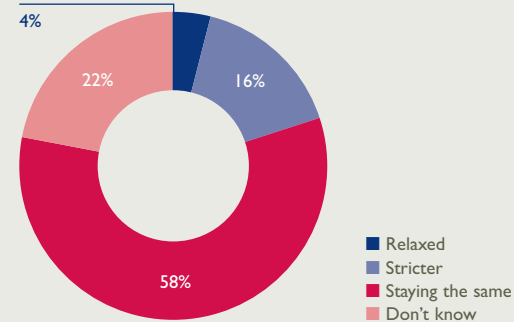


Although many fund managers would welcome a P2P, few intend to relax their stance on hard irrevocable undertakings and most cannot or would not accept a 'private equity strip'

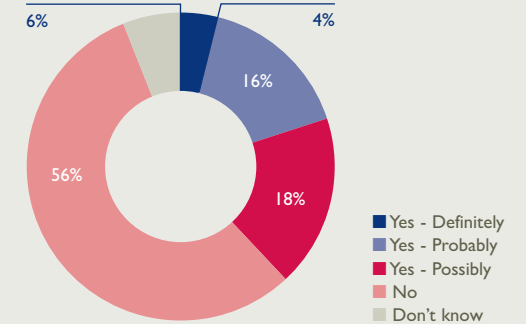
Q. Do you see your stance to providing harder irrevocable undertakings to accept an offer being relaxed, becoming stricter, or staying the same in the next two years?

Q. In principle would you consider accepting a 'private equity strip' in a public to private deal? Why would you not consider accepting a 'private equity strip'?

Stance towards irrevocable undertakings



Would you accept a 'private equity strip'?

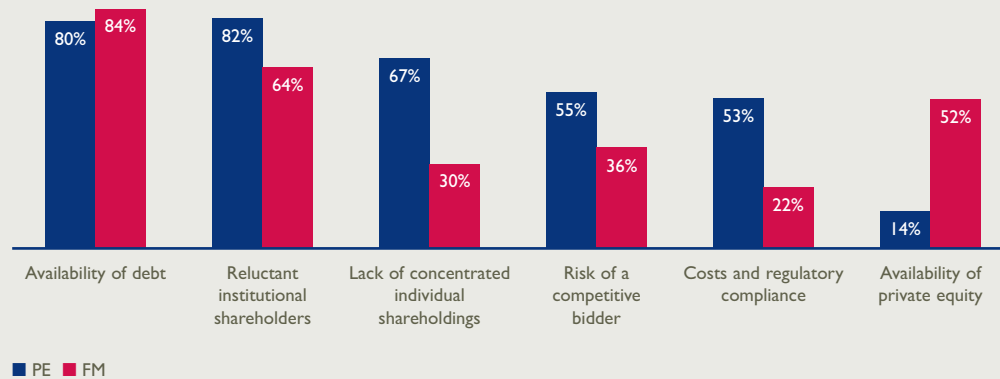


“We would not accept an ‘equity strip’, it would have to be cash – cash is king, why take something else onboard?”

Institutional Fund Manager

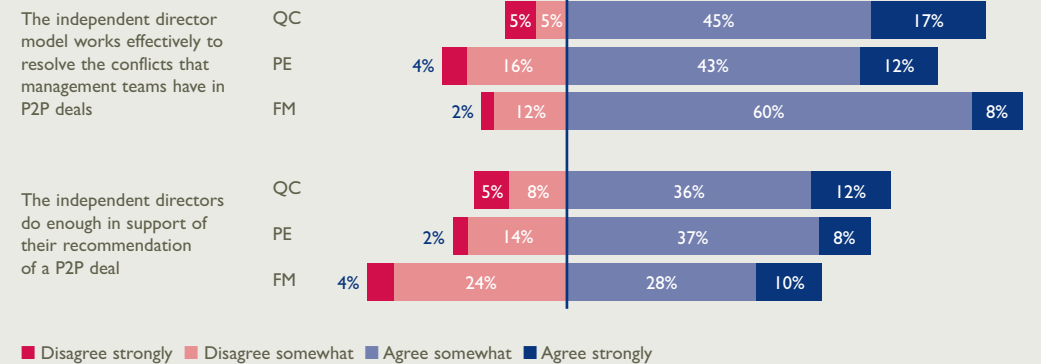
Availability of debt and reluctant institutional shareholders are the main barriers to a successful P2P

Q. Which, if any, of the following do you think are main barriers to the completion of a successful P2P deal?



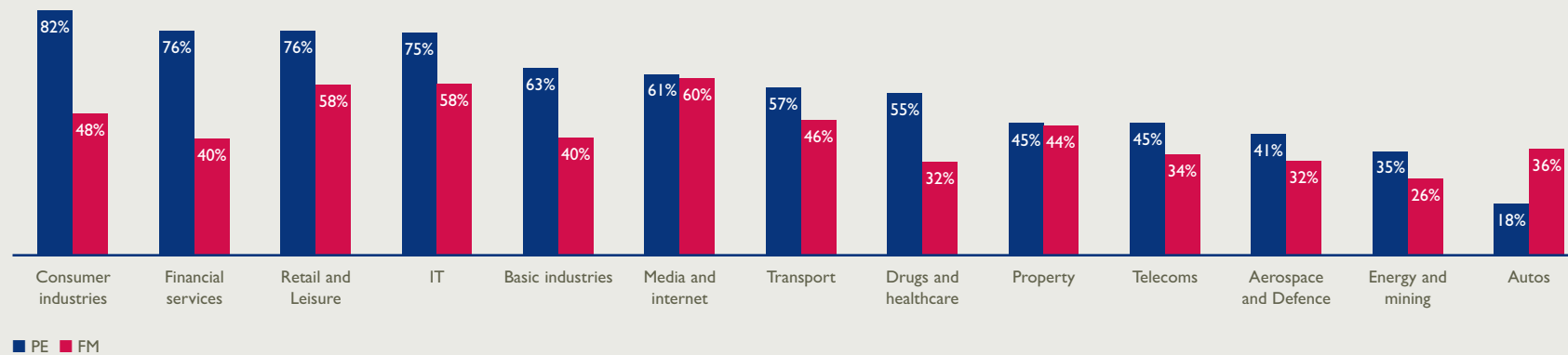
Respondents are generally confident that the independent director model effectively resolves the conflicts that arise in P2P deals

Q. To what extent do you agree with the following statements: “The independent director model works effectively to resolve the conflicts that management teams might have in relation to P2P deals” and “The independent directors do enough in support of their recommendation of a P2P deal”



Private equity investors think consumer, IT and financial services related sectors will be the most conducive to P2P activity

Q. Which of the following industry sectors do you think will be most conducive to P2P activity over the next five years?



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