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Corporate Talk

Issue 2

WHAT IS HAPPENING IN THE MARKET

LISTED COMPANY DIRECTORS BEWARE

CMS IN ACTION

ENTREPRENEURSHIP

Sir Rod Aldridge talks about Capita and teaching an entrepreneurial mindset

Talk is cheap...

Here's how CMS ranks in independent M&A legal adviser rankings

Consistently top-ranked...

1st IN EUROPE 2013

1st IN EUROPE 2011

3rd IN EUROPE 2012

1st IN EUROPE 2010

Source: Bloomberg/Thomson Reuters 2013, 2012, 2011, 2010 by deal count

Our recent award wins and shortlistings include:

LEGAL BUSINESS AWARDS 2013

THE PRIVATE EQUITY AWARDS

Bloomberg

THE LAWYER HOT 100 2013

Top Ranked CHAMBERS UK 2014 CMS

CorporateINTL LEGAL AWARDS WINNER 2013

Ranked in CHAMBERS 100 UK 2013

WINNER LEGAL BUSINESS AWARDS 2013

What is happening in the market

This year started with a burst of M&A activity causing many of us to wonder if the M&A tide had started to turn.

As I write this, commentators have been heralding the start of the M&A rebound and pondering whether "animal spirits" have returned to the M&A market; with over $100 billion deals alone announced on the first Monday of the year.

Looking back, there is no doubt that 2013 wasn't widely different to 2012 – deals took longer to close and were prone to collapse. In Q3 of 2013 we felt that deal activity was about to take off, but that never quite materialised.

However, we are hopeful that the recent increased deal activity is sustainable and won't stall like it did in the latter part of 2013. There is a renewed confidence that the global economy, including the UK market, is recovering and growing. Corporates and investors are sitting on record levels of capital which need to be spent, interest rates are still at an all-time low, unemployment is shrinking and IMF has increased it growth forecast for the UK economy (see chart below). The big deals announced early this year will undoubtedly embolden CEOs – keen not to let the competition steal a march on them. Many companies have spent the past few years of the downturn identifying what they want, so given the renewed confidence in the market it wouldn't be unreasonable to assume it is now just a matter of timing.

We don't anticipate that the deal fever of early January will continue at that level throughout 2014, but we are more confident that there will be more M&A activity in domestic markets, especially the UK market, this year than last year.

2013 also saw CMS open new offices around the globe and we ended the year being independently ranked 1st in Europe and 8th Globally for M&A deal activity, so we are excited about our role in the anticipated deal pick-up.

This edition of Corporate **TALK** features some of the issues that we have been discussing with our clients recently. Plus I am also delighted that Sir Rod Aldridge took the time to **TALK** to us about his time at Capita plc, his passion for education and whether an entrepreneurial mind-set can be taught. Sir Rod is arguably one of the UK's most successful businessmen, taking a small start-up to a FTSE 100 company in a matter of years. Hear his insightful thoughts over the page.

If you would like to **TALK** shop with us we would love to hear from you.

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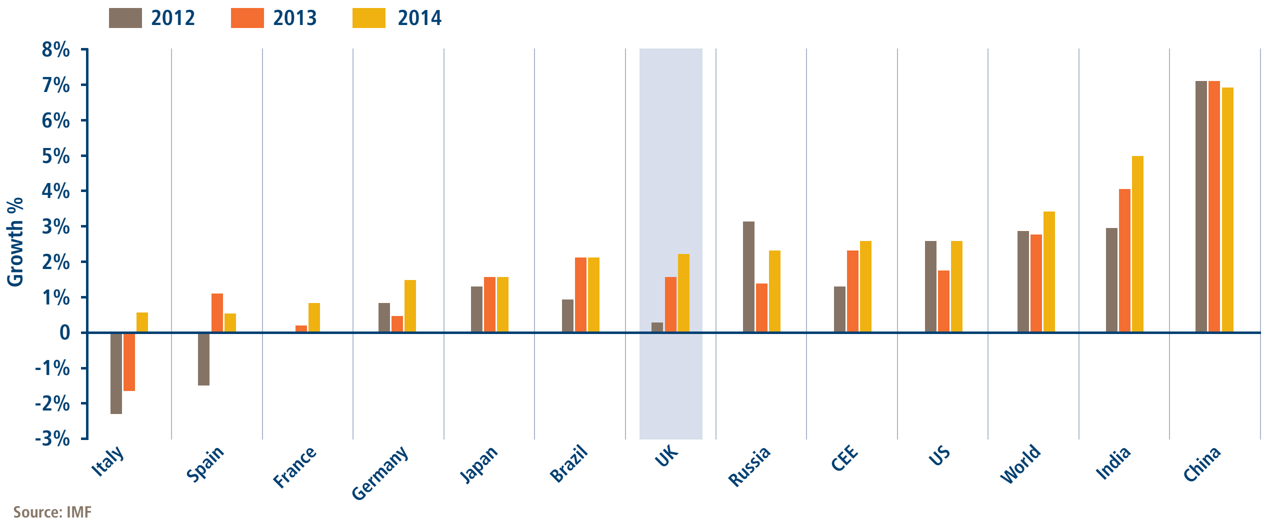
Latest IMF growth projections



Source: IMF

Our lead feature this edition looks at

The Entrepreneurial mindset

Sir Rod Aldridge talks about his time at Capita plc, how he transformed the outsourcing market and his passion for entrepreneurial education

Sir Rod Aldridge is both a business and social entrepreneur with over 40 years experience in the public and private sector. In a single career, he took Capita plc from a small start-up company to the FTSE 100 with the best performing shares ever in the FTSE – making him one of the UK's most successful businessmen ever. In 2006, he founded The Aldridge Foundation to help young people use their entrepreneurial skills to reach their potential.

Q: The company we now know as Capita started out in a very small way inside the CIPFA back in the 1980s. You were about 37 years old and had spent your entire working life in the public sector. During that time did you think you would become an entrepreneur?

A: I don't think I realised at the time how valuable what I was doing was - it gave me an amazing array of contacts at a senior level across the public sector. It meant that I understood what they were doing, what the issues were, they knew me, they trusted me, so that was the good side. But I was amazingly frustrated with the way my career was going, so when they asked me to become the Managing Director it was really an opportunity. I think my lesson to people is that when you see an opportunity, take it. I don't think you can plan for things but I think you have got to understand the market you are going into very deeply and that transition then becomes easier. A lot of people go from knowing a lot in where they are to knowing very little of where they move to and it is very dangerous because even if you are entrepreneurial your learning curve is very steep.

Q: Another key moment came when you bought the company with backing from 3i. How did the shift to being a VC backed company change the way you operated and what sort of opportunity does a transaction like that bring for an entrepreneurial-minded team?

A: Well the first thing I had to find out was what an MBO was because nobody had ever bought something out of the public sector. I found 3i who were very clearly after backing an organisation; they needed to know what we thought of the sector and what the opportunities were. They gave us confidence and without 3i's backing it would never have happened.

The discipline that they brought was important, we gave away 30% of the company and you could argue that that was done at the wrong time. We bought it for £370,000 but the company now has a market cap of about £6.5 billion, maybe we should have bought it ourselves rather than having 3i, but they were very helpful in helping us be a commercial company. When we floated, which was two years later, they didn't want us to float so they then became not as positive because they wanted us to remain a private company to grow the business more and then float. But we felt that floating was important for the discipline it would give us being a public company and our ability to do acquisitions.

Q: You're one of a very small number who have taken a company from start-up to the FTSE 100 in the space of a single career. Can you point to some of a turning points in the growth of that business and what you learned?

A: There were several key points. When we floated we were essentially a consultancy company and in my experience that is not a great business to float because your visibility of revenue is not huge. So the big turning point for us was when we moved from just advising people to actually implementing what we were advising them upon. We looked at back office services and we created the whole outsourcing world in the public sector. You had time to use the creative and innovative skills of the consultancy brain to then re-engineer and transform the services that you were taking over. We won the first 3 or 4 large contracts that were let by local government; that was a big move. I think the second big move was when we also then won contracts in central government – looking after teachers' pensions, the high profile and risky congestion charging in London, the Criminal Records and the TV Licence

Revenue. All of a sudden staff were transferring to us in large numbers and the business that was 30 people very quickly had 10,000 people in it.

That is a very different proposition. What I have learnt is you have got to keep your culture and your vision and your beliefs; you were successful because you were entrepreneurial and you were innovative. If you are not careful you become as bureaucratic as the people you were competing against. The brilliant thing as you get larger, however, is that you can attract probably better or more confident people. I am not saying that what we had wasn't competent, but you got people who could really make a difference to your business so that was a real upside; it became almost easier. But culturally, certainly for me, where I knew everybody I began to know very few and that therefore requires a different style. You have to have people in your business who carry your message and you have to keep close to them. You have to do a lot of work in telling people what is happening with the rest of the company especially as a lot of the people TUPE'd to us, these are people who have not chosen to work for you.

Q: What advice might you give to established businesses that need to retain that entrepreneurial way of doing things? How do they continue to succeed as they get big?

A: Well in a sense Capita has got that problem now because it's huge, it's 60-odd thousand people. I think it is very difficult to change a culture. We were very focused, unashamedly we were financially-orientated. I think we were sales-driven but very operationally-savvy. We didn't do things that we couldn't do well because you have got to cling on to your reputation; to change something that has got a bad reputation to having a good reputation takes a lot of time. I think this is the way to run a business because all the people who work for you become part of the success story. Over 60% of the people came from the public sector - the very people that Margaret Thatcher thought were absolutely incompetent. But what we gave them was a vision, the belief and the direction and they became successful. So success is important and once you have got that you have really got to retain it, so it is not easy building a business. We were a growth-orientated, we set out to grow at 20% per annum for as long as we could and I think we achieved it for 12 years. So growth is a good thing to have. If you are in a business where you have got to cut cost and change direction it is quite hard and it is possible that my mindset may not be as good in those businesses but all the time you are in a market that is growing I think there is a lot of opportunity.

Q: How do you see the future of the outsourcing industry?

A: I think there is a huge amount to come. I think the old adage "if its core you should be doing it and if it is non-core you shouldn't" still applies. If you want to drive change and take cost out of an organisation you cannot do it easily within, there is too much bureaucracy within. If you move it out you can transform it faster so you have got to find a partner that will work with you in that way. I think the outsourcing model needs to move on and I think mutuals, where staff and organisations have a stake in the asset that you are outsourcing, is where it has got to go.

Q: You stepped down as Chief Executive of Capita in 2006 and went on to found The Aldridge Foundation with an emphasis on applying this entrepreneurial mindset in a completely different field. What prompted you to focus on this?

A: It's not easy leaving a company that you started; it's a great part of my life. But what I have done for the last 7 years actually has been a far more tangible outcome of what you can achieve and I would not have missed it for the world and I am absolutely delighted that I made the move. I believe fundamentally in education and a good education gives you options in your life and a lot of young people don't get good education.
I learnt that some of the entrepreneurial attributes that I used to develop Capita were very relevant to a school. Therefore with the new academy programme it gave me an ideal opportunity to build the schools that we have. The sinister thing that is going on now is that a lot of young people are locked into situations simply by where they are born and I cannot stand that. I am a campaigning person because I think that you can change life, I did - I had certain great things around me but I still was academically challenged when I was at school and yet I qualified as an accountant at 23 which I did through a correspondence course on my own; so the brain was working but I wasn't being stimulated. So The Foundation has now got 10 academies and colleges around the country; and more to come.

Q: A central part of the mission of these schools is to foster this idea of entrepreneurialism, which a lot of people say is just a natural trait that occurs in some people. Can it be taught?

A: I think the attributes that we talk about can be, like being passionate, determined, risk-taking, working as a team. The earlier you get that into young people the more the brain is receptive to it. What we found is that it has opened the mind to learning, particularly around numeracy and literacy. It has given a purpose as to why they are being asked to do these things, because if they should want to run a business then they have got to understand how to present numbers, to write submissions and proposals and things like this. We found it has improved the performance of the schools to a point where we are now going to have curriculum on entrepreneurship and also open a studio school for entrepreneurs because we think that people who have got those traits could actually develop into people that could run businesses. The country needs people who can start businesses and employ people as opposed to waiting for people to employ you.

www.aldridgefoundation.com

Listed company directors beware...

The FCA (then the FSA) recently fined Nestor Healthcare Group Limited £175,000 for failing to take adequate steps to ensure that its board members and senior executives (persons discharging management responsibilities (PDMRs)) complied with the share dealing provisions in the Model Code.

Nestor had adopted a policy that complied with the Model Code and it had circulated this policy to all its PDMRs. However Nestor did not issue any reminders or training about the policy content or the requirement to comply with it, or otherwise reinforce awareness of the policy. This, combined with the infrequency of actual dealings, meant that the PDMRs forgot about the existence of the policy and the need to comply with it.

This substantial fine by the FCA is a stark warning that listed company directors need to put in place not just the correct policies regarding share dealings but also sufficient procedures to regularly remind all PDMRs of the existence and content of such policies.

> "How robust are your policies and processes...?"

We are in the midst of a global regulatory clamp down on insider trading. Figures just published show that investigations by the FCA in the UK in 2013 led to 15 arrests on suspicion of insider trading, compared to four arrests in 2012.

Last year was a record year for insider trading around the globe, with a significant increase in the number of investigations, arrests and fines being reported elsewhere, such as the US, France, Germany, Australia and Hong Kong.

Companies don't have to be complicit in the crime of insider trading to be hit by FCA fines. If there are weak or inadequate monitoring processes in place, companies may find themselves subject to heavy FCA fines.

If you would like any advice on these matters, please TALK to our Capital Markets team:

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WE DON'T JUST **TALK** THE TALK...

CMS in action

Deals we have recently acted on

ENERGY

Low Carbon
Advised on joint venture with Macquarie Capital to deliver a portfolio of solar projects.

TMT

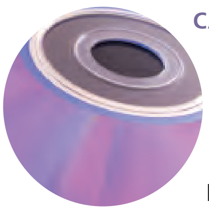
TDX Group
Advised on £200 million acquisition by Equifax.

PRIVATE EQUITY

Risk Capital Partners
Advised on buyout of Neilson Active Holidays from Thomas Cook plc.

LIFESCIENCES

Johnson & Johnson
Advised on UK corporate aspects of $4.15 billion proposed disposal of its ortho-clinical diagnostics business to the Carlyle Group.



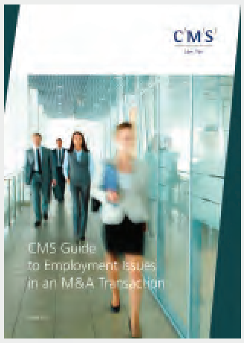
CAPITAL MARKETS

Cenkos Securities/RM2 International, S.A.
Advised Cenkos as Nomad and broker to RM2 on its IPO; the largest AIM float of 2013.

INFRASTRUCTURE & PROJECT FINANCE

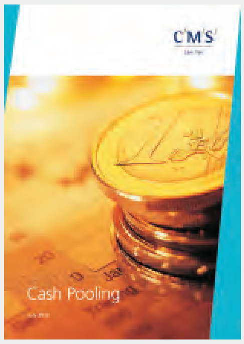
Infrared Capital Partners
Advised on acquisitions of Sheffield Schools, Derby and Newport Schools, Medway Police and RSME MoD Projects.

Recent CMS publications

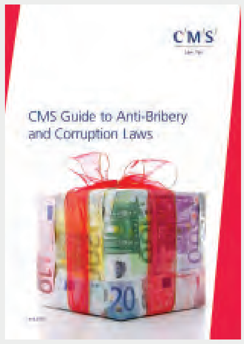


Guide to Employment Issues in an M&A Transaction

European M&A Outlook

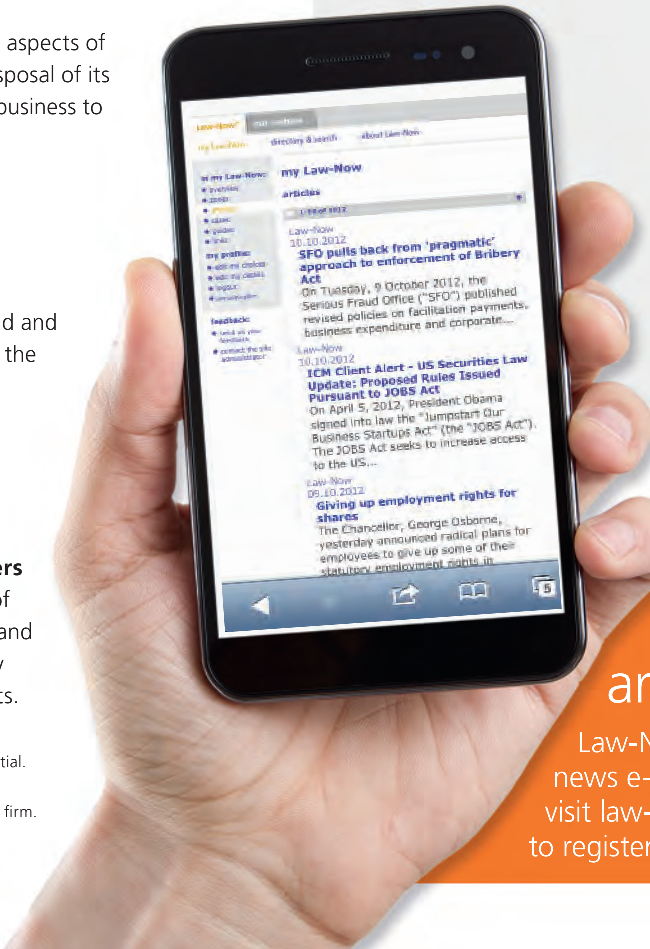


Cash Pooling



Guide to the Anti-Bribery and Corruption Laws

European M&A Study 2013



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