PKF SMITH COOPER

DEAL DISPATCH - ISSUE 36

OUR CORPORATE FINANCE DIVISION'S REGULAR DEAL ROUND-UP

LOCAL KNOWLEDGE, GLOBAL EXPERTISE

Market overview

Welcome to Deal Dispatch, the first edition under our new PKF Smith Cooper branding - more of which later – that showcases some of our recent transactions.

Since our mid-Summer edition, the pandemic has continued to create difficult environments for many, so we count ourselves very fortunate to have had the benefit of a buoyant M&A market; whilst some sectors have obviously been detrimentally affected, others have prospered because of, or despite, the pandemic.

Businesses and the market have continued to benefit from government support, access to low-interest debt and plentiful "dry powder" in Private Equity coffers, a sharp economic recovery, and strong demand for internationally "cheap" UK assets - especially from the US and Europe.

However, the future heralds the winding down of government support, potential changes to Capital Gains Tax (CGT), and the possibility of inflation and tightening of the supply chain – all macro issues that may impact on the M&A market, whether positively or negatively. We look at recent opinion on CGT and inflation later in this edition.

Our overall conclusions are that the future is especially hard to predict at present, and so there are certainly good reasons, for both buyers and sellers, to seize the conducive M&A conditions we are seeing now.

John Farnsworth,
Head of Corporate Finance

PKF Smith Cooper recently assisted the Robot Exchange by securing investment from private equity investment firm, Foresight Group

The Nottingham-based business supplies Robotic Process Automation ("RPA") software and services to deliver efficiencies by streamlining and automating processes via robotic infrastructure, principally to clients in market sectors such as financial services, the lettings industry and wealth management sector.

The Robot Exchange appointed a deal team from the Corporate Finance division of PKF Smith Cooper, led by Partner Dan Bowtell, to obtain growth funding and negotiate the transaction through to completion.

The Foresight funding, supplied through the Midlands Engine Investment Fund, will be used for growth; specifically, to help further innovate in the RPA sector – by enabling greater investment in more technical solutions and increasing the volume of customers, markets and platforms served. The Company plans to create an additional five jobs in the near term.

Commenting on the deal, Dan said "The funding attained from Foresight Group and MEIF will play a vital role in helping The Robot Exchange realise its growth ambitions - to help to digitise the way businesses operate, boost efficiency and streamline operations."

Largest Starbucks business in the South West is sold to the Southern Co-op

In a deal managed by PKF Smith Cooper, Starbucks operator Amsric Limited, a subsidiary of multi-franchise group Amsric Holdings Limited, has been sold to fellow Starbucks operator Cobra Coffee Limited, a subsidiary of the Southern Co-op.

Amsric Limited (Amsric) has been a Starbucks operator since 2014, initially acquiring stores from the franchisor and subsequently opening additional stores to reach a tally of 12 stores, plus two in development.

Prior to the deal, Amsric was the most significant Starbucks franchisee in the South West of England, operating in locations such as Exeter, Plymouth, Portsmouth and Southampton. The stores' formats range from Drive-Thru and Drive-To, Retail Park and Shopping Centre, and on to High Street locations. The company employs around 140 and achieves sales approaching £10 million per annum.
The Board of Amsric's owner, Amsric Holdings Limited, turned to PKF Smith Cooper's Corporate Finance team, experts in franchise hospitality deal management, to undertake a strategic review, and to then market the company, negotiate terms, and to manage and advise on the sale process.

Acquiror, Cobra Coffee (Cobra), has been a Starbucks franchisee since 2013, and was itself acquired by the Southern Co-op in 2018. Southern Co-op is the large regional independent Co-operative which also operates retail stores and funeral services in the South of England. Cobra operates 35 stores, increasing to 47 following the deal, and will employ approaching 500 in the enlarged business.

Ragin Patel, Director of Amsric Holdings, speaking of the deal process commented "we are delighted with the guidance and expertise delivered so professionally by PKF Smith Cooper, and by our legal advisers, Burnetts; both laboured tirelessly to achieve a great result and ran a professional, slick process that brought efficiency and good-humour to the process".

PKF Smith Cooper's David Crump, a Director in its Corporate Finance division, said "Amsric is a very successful and professionally-run franchise, benefitting from an unusually high proportion of Drive-Thru and Drive-To units on major arterial routes in Devon and Cornwall; Cobra is an ideal buyer and that is well-placed to continue its development."

Corporate Finance Partner, John Farnsworth, added "we've known the Patels for years and so this first deal for their group was a welcome opportunity to demonstrate what we can do; we thoroughly enjoyed working with their highly professional family team and were delighted to assist in delivering their aspirations".

UK's largest manufacturer of printed adhesive tape sold to specialist investors, Amcomri Group

The Corporate Finance division of PKF Smith Cooper recently project-managed the sale of Premier Limpet, the UK's largest manufacturer of printed adhesive tape, to Amcomri Group, specialist investors in engineering and manufacturing businesses.

Premier Limpet operates factories in Cambridgeshire and Hertfordshire which produce over 40 million square metres of tape per year, selling it to the trade through a well-established network of distributors throughout the UK.

The sale provides a retirement exit for Premier Limpet's majority shareholders, Chairman Bob Edwards, and Finance Director Des Irwin. The company's Managing Director, Tony Edwards will remain with the business.

Producing an extensive range of custom and standard tape solutions, Premier Limpet prides itself on its service quality and product range. The company leads the way in environmentally friendly tape solutions, operating its own laboratory to not only test tape performance, quality and durability, but also its sustainability too.

The business traded exceptionally well during the COVID-19 pandemic, supplying social-distancing tape for floor application in various retail and other public settings. For this application, Premier Limpet developed its own unique tape formulation, durable enough to withstand footfall, whilst easily removeable without leaving a glue residue.

Amcomri Group is a fast-growing, acquisitive investor building a portfolio of quality British engineering and manufacturing businesses. Acquiring businesses through retirement or other disposal routes, the Amcomri team has a wealth of experience in optimising business performance. Mark O'Neill, investment director at Amcomri Group, will join the board of Premier Limpet.

The acquisition of Premier Limpet further diversifies Amcomri Group's portfolio, enhancing synergies between portfolio businesses, and providing Premier Limpet with the opportunity to further strengthen its market-leading position in its growing sector.

The Corporate Finance deal team from PKF Smith Cooper, which was led by Director James Ward, was appointed to advise Premier Limpet's shareholders, and to project-manage the entire disposal process.

Tony Edwards, Premier Limpet Managing Director comments "For the team at Premier Limpet, our focus remains unchanged as we continue to work hand-in-hand with our distribution partners across the UK. Recent changes in the global supply chain have highlighted the advantages of working with UK manufacturers, offering high-quality products delivered on a just-in-time basis."

PKF Smith Cooper Director, James Ward, added "The sale puts Premier Limpet in a strong position for continued growth and provides an opportunity to explore new markets with the backing of Amcomri Group and their extensive web of industry associations. I've no doubt the sale will present both businesses with a wealth of new openings, and I wish them both the best of luck."

Our new PKF Smith Cooper brand

From 1 September 2021, we have changed our brand name to PKF Smith Cooper, as we join the PKF International network. This network comprises over 220 member firms located in 150 countries, with a combined fee income that makes us the 11th largest UK accounting network.

Our aim in joining was, as ever, client focussed – the sharing of PKF members' ideas, expertise, and specialist resources enhances our UK client and international client offerings, allowing us to better cater to our clients' needs.

From a Corporate Finance perspective, this ability to leverage the combined strengths, knowledge, client networks and contacts of other UK and international member firms will of course be very beneficial to clients involved in both domestic and international deals.

However, the PKF network allows us to fully retain our independence and autonomy in the ownership and management of our firm – and so you can expect exactly the same service quality and personal service, delivered by the same teams, as before.

Inflation – transitory or not?

UK CPI eased to 2.0% in July (from June's 2.5%), the June spike being attributed to a combination of rising prices in energy, commodities, and in sectors stressed by re-opening (travel), and by bottlenecks in the supply chain. The US Fed, amongst many, argue that this fall is evidence that recent spikes in inflation are transitory - caused by the demand spikes of re-opening from the pandemic. Others expect that inflation will also lessen as QE is wound down, and that fiscal policy can be tightened without impacting recovery.

However, the UK labour market is very tight - job vacancies now exceed 1 million and average earnings in the 3 months to July rose by an annual 8.8%. UK output costs (the cost of goods leaving factories) also reached 4.9% year-on-year, the highest level since 2011. Capital Economics reckon inflation will reach 4.5% by the end of this year.

Clearly there's no consensus, but at present we expect the M&A market for strong UK businesses will remain buoyant for the time being. Beyond that, if inflation (and interest rates) did rise, it could draw funds from equity to debt markets, and result in downward valuations – so it's something to watch.

Capital Gains Tax – a ticking time bomb?

The speculation about increases in Capital Gains Tax (CGT) that were rife ahead of this year's Spring budget, and which prompted many business sellers to race to dispose ahead of the budget, seems to have dissipated over the summer. However, we believe business owners should not become complacent, and that it would be foolish to interpret Rishi's lack of action in Spring to be anything other than a deferral.

Why? ...a couple of main reasons shape our view:

Firstly, the last 18 months have put a massive strain on the UK's finances, with a growing deficit and reduced tax revenues – for example, CGT is expected to provide 29% less revenue this year.

Secondly, because the government asked the Office of Tax Simplification (OTS) to investigate it, and the OTS has since published two reports - in November 2020 and in May this year. The OTS recommended that:

- the rates of CGT should closely align with the (much higher) rates of income tax – to increase revenue and to eliminate the incentive for taxpayers to characterise certain receipts as capital gains rather than income; and
- Business Asset Disposal Relief ('BADR') be abolished, being replaced with a relief more focussed on retirement with qualifications including a minimum investment of 25% percent, a minimum holding period of 10 years, and an age limit pinned to retirement age.

BADR, which effectively reduces CGT from 20% to 10%, is now limited to just £1million of lifetime gains – so, whilst the maximum saving of £100k may not be too damaging to some shareholders' wealth, any attempt to equalise the 20% CGT rate with 40%+ income tax rates could have devastating effects.

What Rishi will do in the 2022 Budget remains a matter of speculation – but surely the direction of travel is clear. We're certainly advising shareholders considering an exit to hasten their investigation of the feasibility and timing of that. Those that aren't confident of significant growth in future profitability (and hence valuation) would be sensible to do the same – or risk finding that hard work to increase value over the next few years nevertheless results in a smaller net-of-tax receipt.

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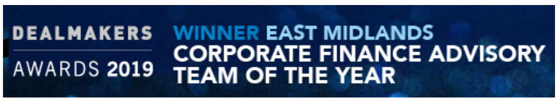

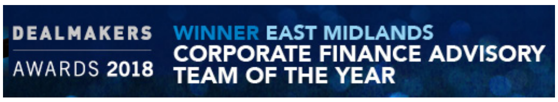

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