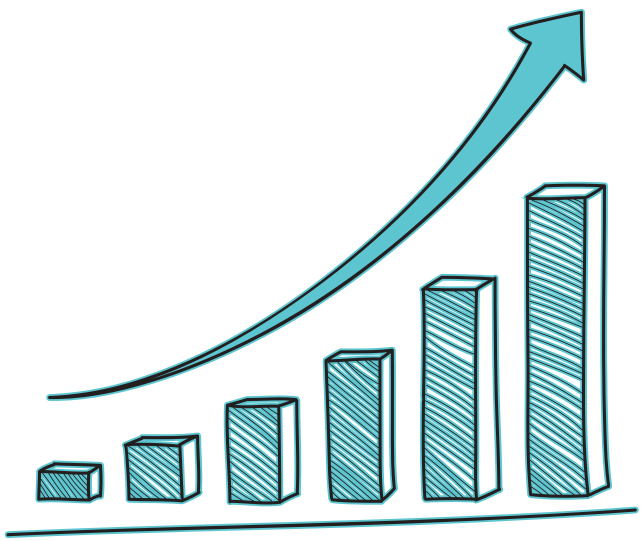
SQUIRE SANDERS

PRIVATE EQUITY EXITS VIA LONDON IPOs IN 2013

February 2014



Market Commentary

The London IPO market started its comeback in 2012 but 2013 proved to be the turning point with a significant improvement in market confidence and investor appetite.

As ever, private equity sponsors have been quick to take advantage of the IPO window. During 2013 there were 105 IPOs on the London markets, of which 18 were IPOs of private equity-backed companies (12 onto the Main Market and 6 AIM transactions). This equated to 54% of all financial sponsor-backed IPOs in 2013 on European exchanges. The early successes of 2013 have driven more and more businesses to consider the IPO route. The market is anticipating approximately 50 -60 IPOs during the first quarter of 2014, many of them will have started the process in earnest during the second half of 2013 in response to the deals that got away at that time. This is the strongest pipeline that London has seen for some years and at its current pace 2014 may exceed the 252 IPOs recorded in 2007.

Given the importance of the IPOs that took place in 2013 as a point of reference for what is happening in the market currently, we have prepared a detailed analysis of those deals on the pages that follow.

Our analysis looks separately at IPOs on London's Main Market and AIM. A comparison of the 2 sets of data highlights a number of features worth noting:

- in broad terms a deal at sub-£100m market capitalisation at IPO is more likely to go to AIM and above that level to the Main Market; however, in our view at a market capitalisation between £100m and £200m it is debatable whether AIM or the Main Market is the right listing venue and the decision may well turn on a number of factors. For example, if the company has a high growth strategy which is likely to lead to regular M&A activity or additional equity financing then AIM may be a better listing venue in the first instance given its lighter regulatory regime;
- it may be a surprise to some to see the relatively small size of some of the deals that have been successfully completed on AIM (and the strong share price performance that has ensued in many cases). We believe that 2014 will produce more exits for small and middle market sponsors;
- an IPO is rarely a full exit for a sponsor. However, if the deal is priced appropriately, our analysis shows that share price performance has been overwhelmingly positive, giving an opportunity for further exits at higher valuations in the short term;
- the aggregate equity stake retained by sponsors on AIM deals has been lower on average than on Main Market transactions;
- unsurprisingly, an AIM transaction is much less likely to warrant a syndicate of investment banks;
- underwriting commissions on AIM deals have traditionally been higher (in part that is a reflection of the smaller amounts being raised and in some cases the higher execution risk), although competition appears to be increasing all the time for deals with good quality assets. We expect the combination of base and discretionary commissions at levels not dissimilar to Main Market transactions to become more prevalent in AIM IPOs involving private equity sponsors during 2014;
- whilst the lock-up period on a Main Market transaction is invariably 180 days with no additional orderly market restrictions, on AIM transactions an additional orderly market period is much more likely (a reflection of the lower trading volumes likely for some of the deals referred to and therefore the greater risk of volatility in the after-market);
- a common feature across both markets is the concept of a relationship agreement, designed to ensure that the company maintains independence from its controlling shareholders following the IPO. This agreement has become a device for maintaining certain investor protections for the private equity sponsor, most notably board representation whilst it retains voting rights above a pre-defined percentage. You will see from our analysis that the precise terms tend to vary from deal to deal but the principle is generally accepted by the market, although there are obvious conflict of interest and confidentiality issues for both the company and the sponsor to consider when putting these arrangements in place.

There are a number of features of the current market that suggest that there is still plenty of capacity for more deals. For example, the fee pressure on underwriters and other advisers indicates that there is fierce competition among advisers, particularly to work on deals with good quality assets.

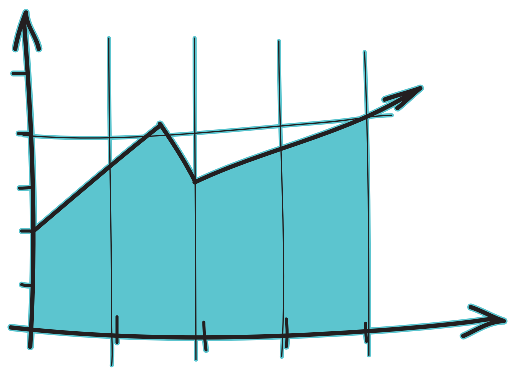
The size of underwriting syndicates seems to be increasing, typically with a mix of bulge and mid-market firms involved. The discretionary element of the commission structure has become standard and is increasing as a proportion of overall commissions, with issuers becoming more sophisticated in terms of how they determine whether such fees should be paid, and, if so, when and to whom. Similarly, in many cases, total deal expenses look low relative to the size of the transactions indicating very competitive pricing among legal and accounting advisers.

However, the market is not achieving this level of efficiency on its own. One of the most notable developments in the current IPO cycle is the increasing prominence of independent financial advisers, such as NM Rothschild and Lazard. These firms are often appointed by companies (and their owners) at a very early stage to advise on the viability of an IPO and other potential exit routes.

If an IPO is pursued, the independent financial adviser will run much of the IPO process, including a detailed selection process of underwriters and other advisers. The fee expectations of such financial advisers may make it uneconomic to involve them on smaller deals, but on larger transactions their appointment has become commonplace.

Whether or not an independent financial adviser is involved, if you are considering an IPO of a portfolio company, early test marketing to a select number of potential investors is crucial. The feedback from that exercise should give an early indication of both the viability of an IPO and the likely valuation range. With the benefit of that information the company and its owners can make a better informed decision on whether or not to pursue an IPO. Given that test marketing is relatively easy to achieve with little (or no) upfront fee exposure, it seems a sensible strategy to undertake.

If you would like to meet with us to discuss our findings or if you have questions about the IPO process or the current market please contact us.



Private Equity Exits Via London IPOs in 2013

Date	Company	Sector	Private equity sponsor	Market cap at IPO (£m)	IPO size (£m)[1]	Sell down as proportion of IPO[2] (%)	Price change since IPO[3] (%)	Aggregate sponsor retained stake on IPO[4] (%)	Banks	Commission/fee structure	Total estimated expenses (including commissions) (£m)	Relationship agreement[5] (key terms)	Sponsor lock-up + orderly market periods (months from IPO)
Main Market													
18 Feb	Crest Nicholson Holdings plc	Real Estate	Varde; Deutsche Bank; KBC; Natixis (and others)	553	225	75	66	47	Barclays Bank; HSBC; Lazard; Numis Securities	2% plus up to 1% discretionary	6	• Subject to certain conditions, terminates when voting rights fall below 30%	6 + 0
25 Mar	Countrywide plc	Real Estate	Oaktree; Apollo; Alchemy	748	200	0	63	62	Goldman Sachs; Jefferies; Credit Suisse	2.5% plus up to 0.5% discretionary	8.8	• Certain standstill provisions • Right to nominate 1 director • Terminates for each sponsor when voting rights fall below 10%	6 + 0
27 Mar	esure Group plc	Insurance	Tosca Penta Investments	1,209	604	92	-6	12	Deutsche Bank; JP Morgan; Canaccord Genuity; Numis Securities	2% plus up to 1% discretionary	7	N/A	6 + 0
2 Apr	Hellermann Tyton Group plc	Electronic & Electrical Equipment	Doughty Hanson	420	212	86	52	46	Goldman Sachs; JP Morgan; Numis Securities	2.5% plus up to 1% discretionary	5	• Right to nominate 1 director whilst voting rights above 10% • All other material terms end when voting rights fall below 30%	6 + 0

1 Assuming no exercise of an over-allotment option (if any). Such option, if exercised following the IPO, typically involves the sale of shares representing up to a further 10-15% of the offer.

2 Assuming no exercise of an over-allotment option (if any). Note that in addition funds raised by the company through the IPO in many instances are used to repay debt or to redeem other instruments in the capital structure.

3 As at 31st January 2014.

4 Assuming no exercise of an over-allotment option (if any).

5 A relationship agreement governs the relationship between the company and any controlling shareholders following the IPO, requiring them to maintain the independence of the company from such shareholders.

Sources: London Stock Exchange and relevant company prospectuses and announcements.

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12 Jun	Partnership Assurance Group plc	Insurance	Cinven Partners	1,540	485	75	-16	56	Bank of America Merrill Lynch; Morgan Stanley; Evercore Partners; Keefe, Bruyette & Woods; Panmure Gordon	1.5% plus up to 1.5% discretionary	22	• Right to nominate 2 directors whilst voting rights above 30%, otherwise 1 director • Terminates when voting rights fall below 15%	6 + 0
26 Jun	Al Noor Hospitals Group plc	Healthcare	Ithmar Capital	672	221	56	46	28	Deutsche Bank; Goldman Sachs; HSBC Bank; NM Rothschild	1.75% plus 0.35% on proceeds not procured by underwriters plus 0.25% sponsor fee plus 0.5% plus up to 1% discretionary	12.3	• Certain non-compete restrictions • Subject to certain conditions, right to nominate a maximum of 2 directors • Terminates when voting rights fall below 10%	12 + 0
25 Sep	Foxtons Group plc	Real Estate	BC Partners	649	390	86	52	28	Credit Suisse; Numis Securities; Canaccord Genuity; NM Rothschild	2% plus up to 1% discretionary	6	• Certain voting, non-compete and non-solicit undertakings • Right to nominate 1 director • Terminates when voting rights fall below 15%	6 + 0
11 Oct	Arrow Global Group plc	Financials	RBS Asset Management	358	189	74	19	29	Goldman Sachs; Jefferies; Canaccord Genuity; Numis Securities; Lazard & Co	2.5% plus up to 1% discretionary	8	• Right to nominate 2 directors whilst voting rights above 20%, otherwise 1 director • Terminates when voting rights fall below 10%	6 + 0

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25 Oct	Stock Spirits Group plc	Beverages	Oaktree	470	258	80	23	38	JP Morgan; Nomura; Jefferies; Berenberg	2.25% plus up to 0.75% discretionary	8.3	• Right to nominate a director • Terminates when voting rights of each principal shareholder falls below 10%	6 + 0
13 Nov	Merlin Entertainments plc	Leisure & Recreation	KIRKBI; Blackstone Group; CVC Capital Partners	3,193	957	79	15	66	Goldman Sachs; Barclays Bank; Citi; Morgan Stanley; HSBC; Unicredit; Lazard & Co	1.25% plus up to 1% discretionary	35	• Certain voting and non-solicit undertakings • Certain anti-dilution protection • Right to nominate 1 director whilst voting rights above 10% • Terminates when a significant shareholder's voting rights fall below 5%	6 + 0 (and a separate orderly sale agreement between significant shareholders and company)
15 Nov	Just Retirement Group plc	Financials	Avallux	1,125	343	13	11	62	Deutsche Bank; Nomura; Execution Noble; Keefe, Bruyette & Woods; Panmure Gordon	1.5% plus up to 1.5% discretionary	20	• Certain voting undertakings • Right to nominate 1 director • Terminates when voting rights fall below 15%	6 + 0
20 Nov	Infinis Energy plc	Utility & Energy	Monterey Capital	780	234	100	-0.6	69	Barclays Bank; Deutsche Bank; RBC Capital Markets; Kempen & Co; Liberum Capital	1.5% plus up to 1.5% discretionary	15.7	• Certain voting and non-solicit undertakings • Right to nominate 2 directors whilst voting rights above 30%, otherwise 1 director and 1 observer • Terminates when voting rights fall below 10%	6 + 0

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AIM													
14 Feb	Digital Globe Services Ltd	Support Services	The Resource Group	47	13	61	40	44	N+1 Singer	4% plus up to 1% of market cap (discretionary) plus 0.5%, 5 year warrant	1.2	• Certain voting restrictions and standstill provisions • Vote to ensure at least 2 independent directors and right to nominate 1 director • Terminates when voting rights fall below 30%	12 + 12
28 Jun	IBEX Global Solutions plc	Support Services	The Resource Group	58	14	26	38	75	Liberum Group; Cenkos Securiites	5% plus a corporate finance fee (undisclosed)	1.3	• Certain voting restrictions and standstill provisions • Vote to ensure at least 2 independent directors • Terminates when voting rights fall below 30%	6 + 18
31 Jul	Conviviality Retail plc	Retail	ECI Partners	66	64	48	81	0	Zeus Capital; Oriel Securities	£250,000 plus 4% plus 2%, 10 year warrant	4.24	N/A	N/A
20 Nov	Bonmarché Holdings plc	Retail	Sun Capital Partners	100	40	100	41	52	Investec Bank	£200,000 plus 2% plus 0.5% discretionary	1.5	• Right to nominate a director and observer; right to appoint chairman above 30% voting rights • Terminates when voting rights fall below 15%	6 + 9

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20 Nov	Applied Graphene Materials plc	Chemicals	IP Group plc; Top Technology Ventures; Northstar Ventures	26	12	8	151	45	N+1 Singer	£703,500 fees and commissions paid by Company; plus 2%, 5 year warrants; sellers paid 4% commission	1.1	Not disclosed	12+12
28 Nov	Eclectic Bar Group plc	Leisure & Recreation	Avanti Capital	21	15	30	4	0	Panmure Gordon	4% and corporate finance fees (undisclosed) paid by company; 2.3% paid by seller; 0.5%, 2 year warrant	1.4	N/A	N/A

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Mergermarket Global M&A Legal Advisors Review 2013

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The Legal 500 UK 2013 Corporate

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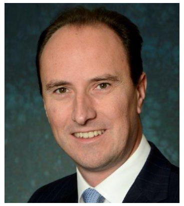
The Right People with The Right Expertise in The Right Places



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