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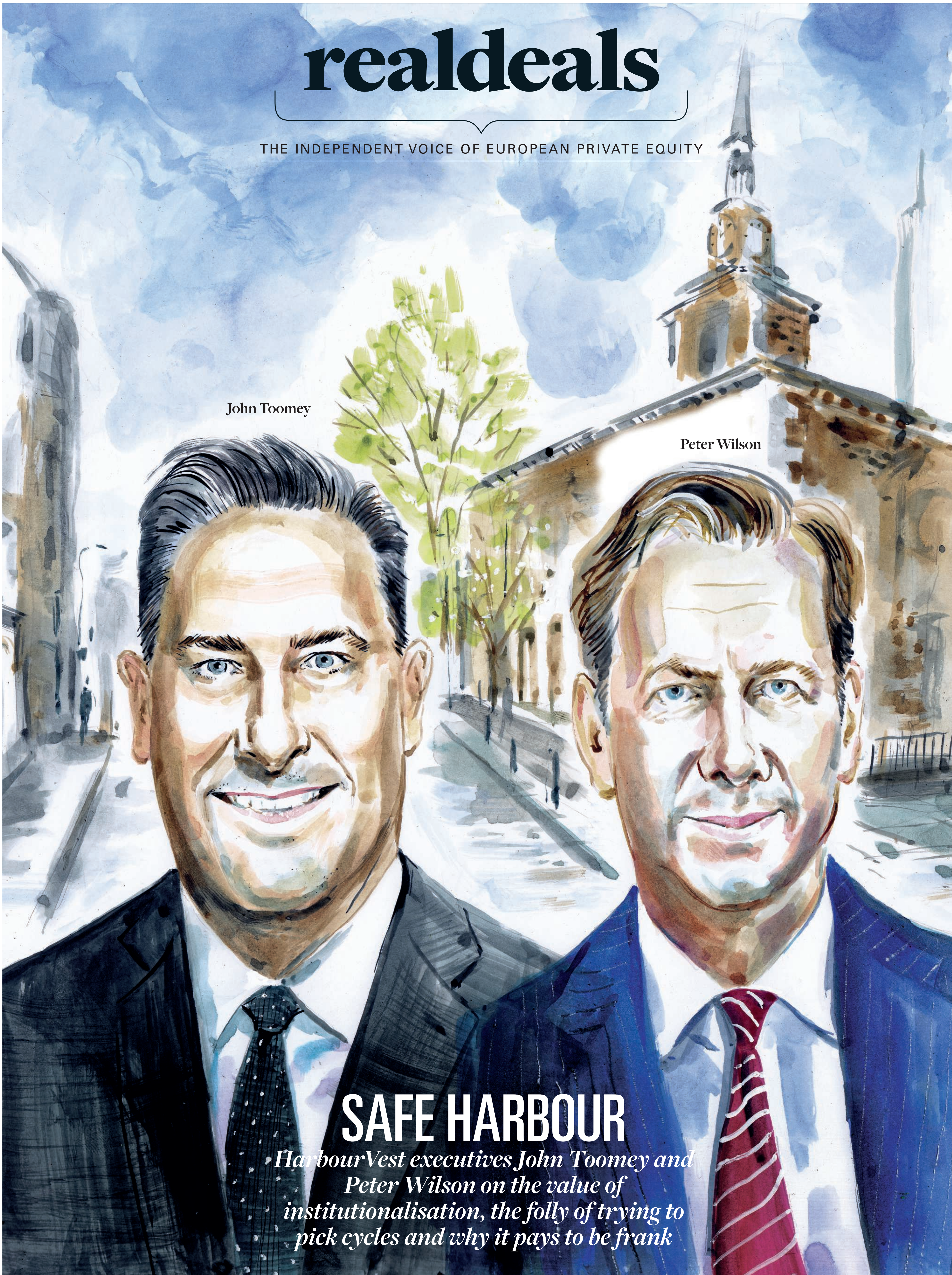

SAFE HARBOUR

HarbourVest executives John Toomey and Peter Wilson on the value of institutionalisation, the folly of trying to pick cycles and why it pays to be frank

Q&A

DRIVING CERTAINTY THE GROWING ROLE OF ASSET VALUATIONS AND COLLATERAL DUE DILIGENCE

Paul Craig, managing director, SIA Group

SIA Group's Paul Craig discusses the importance of asset valuations and collateral due diligence in driving certainty and reducing execution risk for sponsor-led asset based lending transactions.

It seems more private equity firms are using asset valuations and collateral due diligence. Is that the case?

There has been a significant shift in the last few years in terms of the extent to which private equity firms want to understand how asset values are made up. Historically, asset valuations and collateral due diligence have been the poor relation to financial, commercial and legal due diligence.

However, more recently, they have become more prominent as private equity firms demand a deeper knowledge of the asset base, value drivers and the mechanics of the business. Collateral due diligence is more granular than other forms of due diligence and provides the opportunity to combine complex data with on-the-ground human insight. Diligence becomes scrutiny as you glean issues as they happen on the ground, as opposed to looking at high-level historic reporting trends. You get the opportunity to verify and validate the assets, "kick the tyres" and assess conditions and controls.

The raising of sufficient finance has always been one of the most testing tasks facing a business buyer. With asset valuations and collateral due diligence, that shouldn't be the case. With industry knowledge, technical analysis and realistic valuations at hand, the challenge of raising finance for an acquisition or buyout can be managed quickly and effectively, while providing transactional confidence.

How would you characterise current market conditions and is demand for collateral due diligence increasing?

It is fair to say that it has been an eventful last 12 months. So many tectonic decisions have been made, yet so much remains uncertain. With 2018 promising to be equally challenging, never has it been more important to be fully informed of asset values and the collateral base in an event-driven deal scenario.

ABL services are continuing to flourish, fuelled in no small way by an active private equity market. According to the latest statistics published by UK Finance, the industry trade association, the total advances for asset-based finance to UK businesses have grown by 13 per cent (as of September 2017), from £20.7bn to £23.4bn. In particular, funding against inventory and plant and machinery have seen increases of 21 per cent and 8 per cent respectively over this period, highlighting the importance of asset valuations unlocking the value tied up in these business assets.

With so much change, how can you offer an accurate assessment of asset values?

The key is to provide certainty to transactions and help private equity firms and ABLs maintain a deep understanding of asset values in uncertain times where rapid change and disruption have become the norm. The fundamental issue is to have a proper understanding of the secondary market for an asset.

Markets change all the time, and, for example, it might be that the best market for an asset belonging to a UK company is now Eastern Europe.

Valuation specialists today, therefore, need to have global experience and access to a vast database of asset types and potential buyers in order to determine the best values for clients, regardless of their location and business sector.

Asset valuation isn't just about assisting disposal. It helps companies raise working capital for growth and supports the organisation, investors, lenders and advisers to make informed decisions on the performance of the underlying assets, such as accounts receivables, inventory, plant and machinery, property and intellectual property.

Making an effective valuation, therefore, increasingly requires valuers to look at all aspects of an asset – the valuation could be based on the income that it generates as well as its value. Lenders and investors are naturally concerned about their exit strategies and here too they can be reassured by a comprehensive, detailed asset valuation and collateral due diligence report, driving greater certainty.

Biography

Historically, SIA Group had an established asset valuation and disposal business working for restructuring firms. However, prior to 2011 it was not providing asset valuation advice to ABLs, banks or private equity firms. Having worked in the ABL sector we identified a requirement for incisive, informed asset valuation reporting within tight timelines.

Today, SIA Group provides private equity houses, debt funds, asset-based lenders and special situations firms with independent collateral due diligence and valuation advice for all types of industrial and commercial assets including accounts receivable, inventory, machinery and equipment, property and intellectual property in a broad spectrum of industries globally.

Paul Craig joined SIA Group in June 2011 to build a distinctive advisory services business as part of a strategy to meet financial sponsors' and ABL's valuation and collateral due diligence requirements. Prior to SIA Group, Paul worked in various roles at Investec Bank, The Royal Bank of Scotland and GoIndustry DoveBid and has advised on numerous high-profile leveraged buyouts of UK mid-market companies.