

## Corporate finance

**M**idlands based companies are more likely to be proactively considering their funding requirements than businesses in other parts of England and Wales. Over six in ten regularly discuss the issue at board level – compared with five in ten in the North or South of the country. Midlands-based companies are also more likely to be planning corporate activity in the next 12 months with 36% looking to complete a deal.

In recent years, Midlands businesses have suffered disproportionately the effects of high interest rates, foreign exchange rates and increasing bureaucracy. But the figures may be a signal that the market is improving for the region. That has had an impact on the corporate finance market with many companies focusing on internal cost-cutting or maintaining margins rather than aggressively expanding. However, against a background of increased optimism, it may suggest a much more buoyant appetite for expansion than in recent years.

The region is now the most optimistic in the country with a full 82% declaring themselves to be positive about the

outlook – outstripping the national average of 76%. That consists of 15% that are very optimistic, the highest number across the country, and 67% that are fairly optimistic. The figures are a massive leap from exactly two years ago when exactly half the current number, 41%, took a positive view.

Corporate financiers in the Midlands are more likely to be kept busy over the next year than other regions as just 12% of Midlands based companies would not seek to raise any sort of external finance. When asked to choose their favoured funding method, Midlands firms rely on their traditional banking partners with 15% and 45% heading to the bank for an overdraft or loan respectively. Six per cent would tap private shareholders and 12% would look to a private equity investor.

Businesses in the Midlands are also more likely to look for a wider range of advice. Banks (21%), peer or business contacts (15%), independent advisors (9%) and private equity houses (9%) all get nominated as likely sources of advice.

The coming year will tell whether the improved economic environment and optimism about the future will get translated into being a busy year for those advisers.

### Turnover ▶

The Midlands has recorded its highest ever number of companies reporting higher turnover at 64%. But many are struggling to make it count at the bottom line with just 52% seeing profitability improve in the last 12 months. The figures compare with just 39% reporting improved turnover one year ago and 60% last summer. The 64% now reporting a rise in turnover brings the Midlands into line with the national average – which stands at 65%.

### Threats ▶

The biggest threats facing businesses in the region are increased competition and rising costs. Some 70% and 64%, respectively, report those as their biggest challenges. That is higher than their counterparts in other parts of the country. While 65% of Southern companies report rising competition, companies in the North are more concerned about staffing issues over the next months with 61% reporting that to be a challenge.

### Regional advantages ▶

Doing business from the heart of the country really does suit mid-market firms in the region. Twenty seven per cent cite local infrastructure as the biggest advantage to being in the region while 21% claim that their region allows them to keep close to customers and suppliers.

## Human capital at the heart of business

**J**ob prospects look brightest in the Midlands where a full 58% of businesses are looking to hire and a further 33% are maintaining staffing at current levels. Those numbers have risen from 43% and 44% respectively increasing and maintaining staffing levels.

Job creation among mid-market companies in the Midlands should outstrip other regions where just 44% in the South and 39% in the North are looking to hire.

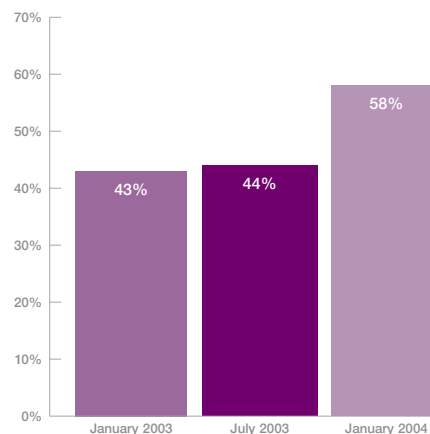
Midlands businesses are also investing more in their workforce in dealing with issues such as health and safety; compliance and employee legislation.

Health and safety is regularly discussed at board level by nearly nine in ten companies. This puts it at the top of the list in equal place with annual revisions of the business plan.

The next hot topic for Midlands directors, regularly discussed by seven in ten, is employee legislation. Board time is also taken up with compliance and industry regulations with 67% citing it as a regular agenda item.

The cost of keeping up to date on employee issues is also shown in the areas where Midlands-based businesses are most likely to spend money investing in external consultants.

**MIDLANDS FIRMS EXPECTING STAFF INCREASES**



# The Midlands View



**W**ith levels of optimism at a record high, the Gresham monitor confirms that business is booming in the Midlands. As businesses are seeing higher levels of turnover, increasing profitability and are expecting to expand over the next twelve months, there is little wonder that corporate finance is high on the board agenda.

Here at Gresham we recognise that local businesses are a focal point of the

community, an important job provider as well as being a platform for the UK's most entrepreneurial and motivated management teams.

We recognised the importance of making a long term commitment to the Midlands and we have had a dedicated office in Birmingham since 1999, building our relationships and presence in the local market. We believe it is a key aspect of our approach to be on the ground with an intimate knowledge of the local business community.

We have also developed valuable sector experience, focusing on the businesses that form the backbone of the UK economy – such as business services; consumer; industrial products; pharmaceuticals and healthcare.

Gresham backs businesses in the £5-75 million enterprise value range where the right backer is your partner – partners are selected on broader criteria than purely price differentiation. Gresham is often chosen over trade or financial backers prepared to pay a higher price for the business. Typical non-price differentiators include flexibility of approach, post investment style, sector experience and local presence.

We have supported a number of successful businesses in the Midlands. Earlier this year we backed the management

buy-out of leading stairlift manufacturer Minivator. Minivator, based in Kingswinford, provides bespoke stairlift and access solution products to the disabled and less able population in the UK and overseas. Minivator has invested heavily in extending its product range and customer service and the business now employs nearly 200 people. The business has demonstrated strong growth over the past three years with sales growing from £6 million to £20 million over the period.

This year we have also seen a record number of exits from the Gresham regional portfolio. One of our exits was the sale of Castle Donnington-based Dimensions Holdings Limited – a supplier of corporatewear to a number of the UK's leading retail businesses – to Johnson Service Group Plc. Gresham's Birmingham office backed the original management buy-out in December 2000.

Whilst there is no shortage of finance on offer, the intangible and qualitative factors will always be more important in choosing a business partner. At Gresham we have always recognised the importance of relationships and believe that our approach has paid dividends this year and we hope that 2005 will continue to do so.

*Simon Inchley, director of Gresham's Midlands Investment Team*

## About the Monitor

**G**resham is one of the few regionally-based UK private equity houses specialising in investing in mid-market companies. Transactions are typically valued at between £5million and £75 million.

The Gresham Monitor is a regular survey of the mid-market sector in England

and Wales. This latest survey looked at how the middle market finance business transactions and monitored aspects of their economic and corporate outlook and performance. This is the tenth issue and was conducted by ICM in November 2004.

The survey comprised board level interviews with directors of 100 mid-market

companies balanced between the service and manufacturing sectors, broadly reflecting the UK business population.

These companies typically have turnovers of between £10 million and £100 million, employ 50 to 500 people and account for nearly a third of the UK economy, as measured by turnover and employment.

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