Q&A

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David Silver, the head of European investment banking at Baird, discusses positioning a buyer to win a competitive auction, how private equity firms are navigating a market where valuations are full and why good preparation gives dealmakers an edge.

Almost every general partner that *Real Deals* speaks to says competition for good assets is very intense and pricing high. Why do you think that is?
In short there are very few really good assets and when they are being sold the desire amongst the private equity community is high.

A lot of private equity money has been raised and it needs to be invested. In particular, private equity has become very selective – the high quality firms want to invest in companies that offer downside protection and upside potential, typically with global reach or the ability to grow globally. There are only so many companies with those characteristics out there and probably not enough of them to match the dry powder that private equity has to deploy.

We saw a recent example of this when we advised Investcorp on its sale of GL Education to Levine Leichtman. The education sector is a defensive one, so there was the downside protection, but there is scope for significant global expansion alongside a strong domestic growth story. There were a large number of parties interested in buying the company.

Given the high amount of competition, what do processes look like now?
The market is competitive but very different to 2007. Processes have developed significantly since 2007.

High quality vendors are putting significant time and money into due diligence and disciplined preparation when selling businesses.

You have to allow investors the time to warm to an asset and really understand the business and its market.

If they are rushed, they will often step back. Competition builds when a quality group of buyers have invested time and money in an opportunity and then develop the mentality that they

have to win. They will do this because they know they have to pay up for all investment opportunities and hence when they do so it has to be for the very best businesses.

As things stand, are terms and processes seller-friendly?
You could say that. Management equity packages are more aggressive, there is less time set aside to negotiate legal documentation and the use of warranty and indemnity insurance is now standard. But you can't bash people around. If a process is too aggressive and the timelines too short, people will step out and you can quickly find yourself sitting with a busted process.

I am surprised how many bankers win a mandate and within a matter of days are out in the market telling potential bidders that they have to pay a big price for a business – more often than not that leads to turning off bidders who are not yet in a position to determine why the business is worth that price. Similarly the banker is not yet in a position to explain the drivers to them.

What about advising on the buy side? What is that like?
First off I do think that with any buy side mandate you need that little bit of luck. That said, there are things you can do to put your client in the best position possible.

Before we take on any buy side work we work hard to understand why a bidder is keen on a business, what they have done in that sector before and why a vendor would see them as a compelling buyer for that business. Once we have answered all those questions we can start to work on tactics and execution.

I would also say that we want to be a true partner with the client and in a position to influence the outcome. We do not want to be on the outside and unable to make a difference, and we will only take on buy side work where we feel that we can add genuine insight to a sector and deal.

Finally, it is important to mention that we are not just there to cheer a client across the line by pushing them to pay the highest price so that we can pick up a fee. It is equally important to outline all the downsides, make sure that a client's investment thesis is rock solid and if necessary advise to step back.

What are firms doing tactically to gain an edge in processes?
A broad observation I would make is that the best firms have a very clear idea of the four or five deals they want to pursue at the beginning of a year, and then do all they can to make sure that when those assets come to market they are ready and able to react quicker than anyone else.

A good example is 3i's purchase of Aspen Pumps from Inflexion, where we advised on the buy side. 3i knew the asset, had a clear plan of what they wanted to do with it and were comfortable with running very hard to win it. They proactively did a significant amount of due diligence in the first round. That put them in a position to effectively shut the process down because they were happy to come to the table and offer a good price, underwrite the deal themselves and complete in a couple of days. It wasn't a pre-empt but they accelerated through the process.

Any thoughts on why Baird has done well in this market?
Investment banking is very competitive and we are very fortunate to have great clients who have chosen us to work with them. It means a huge amount to us and it is important to emphasise that our development is a function of the clients we work with.

"Competition builds when a quality group of buyers have invested time and money in an opportunity and develop the mentality that they have to win"

Vinay Ghai collects the award for Baird

EUROPEAN CORPORATE FINANCE HOUSE OF THE YEAR: BAIRD

Strong sector focus, a culture of collegiality and an impressive list of deal mandates made Baird a worthy winner.

It is unusual for private equity partners to gush openly about the merits of the corporate financiers they hire. The panel of GP judges for the 2016 Private Equity Awards, however, couldn't help but express their admiration for the work of Baird, chosen by the judges as the winner of the European Corporate Finance House of the Year category.

"There is a depth of knowledge that Baird brings to the table that is very impressive. The team delivers that extra bit of industry expertise and insight," one of the GP judges said. "Baird is a firm that has stood out this year and is making headway across Europe," said another.

For David Silver, Baird's head of European investment banking, the comments are a pleasing vindication of the way his team likes to do business.

"It is very pleasing to get this kind of recognition. I hope it shows that we are getting better known across the market and that clients see the value that we can deliver for them," he says.

Silver says Baird has built its European M&A business around the pillars of deep sector knowledge in its core focus areas of industrials, technology, services, consumer and healthcare, providing quality advice and a company structure that encourages its people from around the world to bring global resources and insight to the table.

With regards to sector expertise, Silver says that from day one the team has been actively built around certain industries in order to differentiate the Baird offering.

"Sector focus is at the heart of what we do. Typically you will find that M&A advisers are generalist by nature, but our belief is that we need to have a sector focus to add value. We want to be able to bring a unique insight into the mix," Silver says.

An example of this sector expertise in action was the advice Baird provided to Equistone Partners Europe on its sale of Switzerland-based customer contact centre avocis to UK-listed outsourcing company Capita.

The deal was Capita's first outside of the UK and also a rare case of the company participating in an auction.

Baird's specific industry knowledge, however, put it in a position to bring Capita to the table despite the buyer's aversion to auction processes and reticence to step out of its domestic market.

The avocis mandate also serves as an example of Baird's cross-border capability, as does the work Baird did for human resources technology company Reward Gateway on its sale to Great Hill Partners, the US firm's first foray into Europe. Baird also advised US trade buyer SC Johnson on its purchase of Charterhouse-backed washroom services company Deb Group.

"I think our deals show that we have a very strong global capability, where we are able to guide foreign buyers through unfamiliar deal processes and position assets to international buyers who we know well through our work with them in other countries," Silver says. "Baird has one P&L globally, so it benefits everyone across our international offices to work with each other. It means that on every deal we know we can bring a comprehensive team, for example a senior M&A banker with global expertise, a senior sector partner, global private equity coverage and a debt adviser to the table."

It is a desire to provide advice of the highest quality that underpins Baird's investment in international and sector expertise.

"We are set up with the express aim of providing trusted advice that is independent, thoughtful and challenging," Silver says.

He adds: "We go to great lengths to understand what the client wants and whether we are able to meet those needs and add value. If we don't think we can do that, we are not afraid of saying that. When we say we will do something, we will do it."

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Repeat deals with numerous private equity firms are a manifestation of this.

"Working with a client on multiple deals over time is very satisfying and something that we take great pride in. Hopefully it shows that people who have worked with us like what we do and see value in working with us again," Silver says.

With regards to the future Silver says recruitment to support Baird's growth will be one priority, and that the firm will be working hard to find talented individuals who understand Baird's culture of teamwork.

"Recruitment is important, but not easy because we are quite different to other banks. All our senior people are very focused on team performance rather than individual performance, which is unusual in this industry," he says.

The other priority is to "stick to our knitting", Silver says, and continue using sector know-how and global relationships to provide independent advice of the highest quality. The GPs who have been impressed by Baird's approach to date will surely approve of that. ●