

The north wind blows

Manchester has long had its finger on the financial pulse of the North West, but this year's nationwide retail slowdown is triggering a noticeable decline in deals there. **Marc Mullen** assesses its prospects

Manchester, financial centre of the North West, has a reputation for resilience and adaptability. But it will take a real fighting spirit to ride out the current dip in confidence in the retail sector, which is having a direct impact on the number and value of private equity and venture capital deals.

Outside London, the North West completes the biggest number and value of private equity, venture capital and development capital deals between £10m and £100m in the UK. Last year, £695m of deals were completed there – not far short of the £818m worth of deals in London.

This year has not been so fruitful. Up to the end of August, only nine deals worth a total of £301m were completed in the North West. Last year's interest rate rises have resulted in a slowdown of the credit-driven retail boom, and that has been the main factor in the dip.

David Rimmer, a Barclays director specialising in leveraged finance in Manchester, says: "This year could end up being one of our worst MBO years unless the final quarter picks up dramatically. The banks are all still willing to invest. The number of deals across desk has slowed to a trickle. It is not that unusual at this time of year, but usually we would have a reasonable pipeline for the last quarter. I just don't see it improving." Two big deals could complete

Associates, says: "The larger deals were fairly thin on the ground, but at the smaller end of the market where we operate, it has been active all year. The banks and finance houses are still falling over themselves to lend, unless it is retail. The local economy has proved resilient yet again."

Cole Associates has a typically entrepreneurial outlook of a small end player, and displays the spirit needed if Manchester is to become the main UK alternative to London. Only half its clients are from the North West. Jeremy Cole says: "Advisers have to be mobile. London tends to be London-centric. The national firms have offices in different regional towns, but we will jump on the train, where the fee justifies the trip."

The economy of the North West has traditionally been based on a wide variety of sectors, providing advisers with work in the manufacturing, food, retail and consumer and business services. A number of mid-market private equity houses, including 3i, Barclays Private Equity, ECI Partners, Isis Equity Partners, Gresham, Granville Baird Capital Partners, LDC and Montague Private Equity, have offices in the city.

David Rimmer is not fazed by the prospect of change: "We have never focused on one sector. Over the last five years we have been looking at manufacturing and predictably the boom in retail. We are now looking at business services." Paul

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before the end of the year - one for £110m and one for £70m.

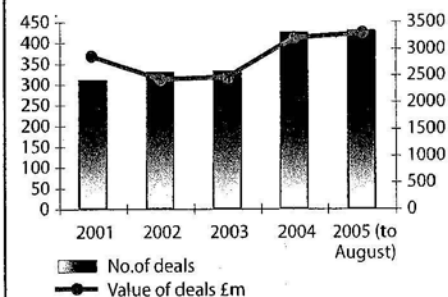
The decline in the retail sector has driven a drop in the prices offered for businesses in the sector – typical multiples of five times earnings have fallen to three.

The Corporate Finance Faculty held a North West private equity seminar in June. It wasn't all doom and gloom, with some attendees very upbeat about prospects. Jeremy Cole, partner at Cole

Lupton, corporate finance partner at Deloitte, adds: "Manchester is a regional hub for the retail sector. It is a big part of the economy, but we are not wholly dependent on it."

A quarterly sector survey by CBI and Grant Thornton, released at the beginning of this month, showed the rate of growth in both consumer and business and professional services to be slowing. The report reveals that business and professional service firms saw profitability fall at its fastest rate

Completed M&A deals involving a North West target



North West M&A transactions by sector: 2001 to August 2005

Sector	Number	Value (£m)
Retail & leisure	363	5716
Business services	598	4836
Manufacturing	612	3914
Transport & infrastructure	256	2789
Technology, media & communications	349	1963
Healthcare & pharmaceuticals	151	608
Financial services	126	489
Mining & agriculture	28	37

since November 2002, because of unexpected downward pressure on prices and a modest increase in costs. A further small decline in profitability is expected in the coming quarter.

If business services are not the saviour, where will the deals come from? Manchester has developed into a cosmopolitan city over the last 15 years. With four universities, many students carry on their professional careers in the city, shunning a move south. This has created a thriving economic and cultural centre – so will the interest of London equity houses in media production companies migrate to Manchester, perhaps spurred on by the BBC's much heralded and delayed move north? Despite the obstacles that must be overcome before that move, the increasing outsourcing of programme-making will undoubtedly create a number of production companies attractive to investors in Manchester, which has traditionally been a creative media city. Says Paul Lupton: "We have seen some of that already, when we advised Mersey TV on a deal."

Manchester has been more able and more willing to adapt to economic change than many other cities in the UK. But equity houses and financial advisers will have to ride out the current downturn before they can look at conquering the north. ■