

Brewin Dolphin and Bell Lawrie

Creating a forward looking corporate finance strategy for Scott Wilson plc

Scott Wilson is no stranger to the highs and lows of the engineering industry. With roots dating back to 1924, this leading infrastructure and development consultancy has had a track record of consistent growth via small acquisitions and organic expansion.

Unfortunately, despite this good track record, by 2005 Scott Wilson found that many of its competitors were growing at a faster pace. This threatened to push it out of the all-important UK top ten in its field - a ranking that grants a ticket to consideration for many of the larger engineering projects. Falling out of this elite group might mean a considerable downturn in fortunes. Yet it did not have easy access to additional capital.

Constrained capital

Scott Wilson had incorporated in 1995, creating a broad spread of employee shareholders. As part of that process several of the former partners agreed to convert their profit shares into off-balance sheet loans to act as a cheap financing option for the company. Ten years later, with many of those former partners approaching retirement age, those loans were up for repayment. Coupled with a significant deficit in its pension fund, the company found that the capital it had available for investment was severely

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constrained. It knew it had to make some changes so invited a number of corporate finance houses to pitch for a strategic review.

After a long selection process, a team from Brewin Dolphin secured the mandate to review the various corporate finance options available. Sandy Fraser, a director at Brewin Dolphin subsidiary Bell Lawrie, picks up the story: ‘The company evidently needed an injection of capital combined with some innovative financing solutions, the dilemma for us was whether it was best solved off-market via private equity or on-market as a public company.’

Private equity or IPO?

Fraser and his colleagues decided to weigh up the options by doing a pricing exercise. ‘We approached a couple of private equity providers and invited them to come back to us with indicative deal terms.’ Reviewing the results led to the Brewin Dolphin team to conclude that the private equity route would imply a significant discount to that which they believed they could achieve via the market. ‘It was initially a discount of around 20% but, as we approached the time of coming to market, we realised it had actually deepened to something more in the order of 30% plus.’

The pension fund deficit was another consideration. The deficit made it very difficult to finance deals and meant that a wider shareholder base, potentially paying off some of the deficit as a result of the capital-raising process, became an extremely attractive option. If this could be woven into the deal presented upfront to investors then it would promise a much healthier future for the company.



Several other factors also led the advisors towards the public market. 'The vanity issue – due to the fact that many of its competitors were on the Main Market – wasn't a big issue per se,' recalls Fraser. 'But the idea of having tradable stock was an important factor. There had been an attempt to create a mini internal market so that employees could trade shares but it was a very imperfect situation and highly illiquid. That meant it was very attractive to gain an external market in the stock.'

AIM or Main Market?

Once the basic decision had been taken to go to market, the big question was whether to choose AIM or the Main market. AIM has obviously been highly successful in recent years, offering a flexible regulatory and capital-raising environment for smaller companies. Scott Wilson, on the other hand, already had significant revenues, a significant history and some of its competitors were already listed on the Main Market. Fraser and his team were erring towards the Main Market but they had to be certain that the company would be comfortable with the ongoing requirements. 'The Main market isn't the right route for everyone,' notes Fraser, pointing to the more stringent disclosure and regulatory requirements. That said, as he points out, the rewards are much higher in terms of visibility and increased access to investors. 'In this case, we were talking about a company that had already been trading for some 70 years. They were used to governing themselves in the style of a plc. It made it an ideal candidate for listing on the Main Market.'

Of course, timing was also crucial. The company faced the challenge of adopting IFRS in advance of the listing, which meant that there was a very tight timetable to allow its documentation to satisfy the UK Listing Authority of its eligibility.

The accounting team - with Deloitte appointed as reporting accountants and Nexia Smith & Williamson as auditors - had to work extremely rapidly in order to prepare the previous half-year's financial information according to IFRS in advance of UKLA vetting and the marketing exercise.

They benefited here from an understanding and flexible approach from the listing applications team at the UKLA, who recognized the time pressures involved and worked well with the advisers to push the process through. Thankfully, this effective cooperation meant that the process ran more smoothly than expected.

In-between times, legal obstacles surrounding the pension scheme restructuring and unwinding the off-balance sheet loans were being dealt with by Mayer Brown Rowe & Maw as legal advisors to the IPO.

A question of teamwork

'It was a case of all the advisors working closely together to an extremely tight timetable in order to ensure that the corporate restructuring would fit in with the timetable for the float,' says Fraser. That coordinated approach meant that the placing went ahead on schedule with Brewin Dolphin raising some £68 million for the company in mid-March 2006.

“The end result? Scott Wilson has a more appropriate capital structure for the next phase of its growth. The Main market listing has helped reincentivise the employees and led to a more diversified ownership structure. The company also goes forward with a much healthier pension fund, having used some of the capital raised to top up its contribution. Crucially, though, it can also invest in the future of the business and compete on more of a level playing field with its peers. That, as Sandy Fraser, concludes ‘is a powerful driver’ for the business going forward.”