

Market Outlook

## THE VIEW FROM ENDLESS

What does the current market hold for a turnaround investor like Endless? Birmingham based Investment Director Nick Leitch examines some of the key emerging trends we will be keeping an eye on in 2010.

Logic suggests these turbulent economic times should present opportunity for investors such as Endless and in recent months we have seen an increase in opportunities. With this context in mind we thought it might be helpful to share some of our current observations on emerging trends in the turnaround sector.

### Rebalancing Markets

Darwin's theory of natural selection is now gathering momentum in the business environment. Revenues in most sectors are falling and whilst challenging, many businesses able to weather the storm will be positioned to take advantage of any future space that appears in their markets. 'Winning market share' is the new mantra as absolute sector or market expansion will be a rarity. This does mean that those businesses trading at the margins may struggle to obtain investment and therefore survive as independent entities.

### Trading patterns

These appear to be normalising in such a way that greater confidence can be placed on budgets and forecasts. This will assist in better determining working capital, cash and headroom needs in turnaround investments. It also enables better judgement to be applied to the question 'what is a satisfactory entry price?' and thereafter forecast exit expectations when markets return.

### Availability of debt

Leverage capacity remains limited but evidence from recent transactions suggests it is returning modestly. Asset based lending capacity appears robust and Endless have good experience of funder capacity up to £50m and beyond. Whilst these structures do not suit every opportunity they often work well with turnarounds.

### Non-core assets

As expected we are seeing an increase in orphan assets coming to market due to a change in strategic direction or a need for cash at larger corporates. Disposing of an asset that is negatively impacting group banking covenants is also an ever increasing characteristic.

### New money requirements

For over leveraged transactions new money requirements have not reached the levels we expected yet. There is plenty of talk in the market about how the banks must have numerous highly indebted positions.



However low interest rates, existing shareholders following their money and senior debt holders resetting covenants are preventing, or possibly just deferring, the need for external new money solutions. Furthermore HMRC assisted many businesses in late 2008 and early 2009 by allowing them to defer tax payments but more recently we have seen a tightening of their deferrals policy.

### Trade credit

Working capital continues to be a concern and Endless are seeing more opportunities as this issue increases. Looking forward, as markets return the pressure on working capital will increase as businesses seek to satisfy new orders. Historically this has been a good time for investors and we want to lead the charge with such opportunities.

Endless remain committed to numerous sectors preferring to focus on the fundamental investment needs of corporate turnaround rather than sector preferences. Clearly we seek opportunities that present an 'equity story' i.e. can demonstrate over time a meaningful capital gain on our investment. Opportunities with turnover between £50m and £500m remain our primary area of focus with history showing that without critical mass recovery can be high risk. The two key factors that really get us excited are firstly a requirement for new money via recapitalisations, refinancings or buyouts. Secondly situations which require an accelerated solution are our forte; we have a record of funding in days and weeks rather than months.

So I ask you to please keep Endless front of mind through the remainder of 2009 and 2010. We have a strong track record of delivering successful turnaround investments and have significant funds at our disposal to support your transactional needs. We look forward to working with you in the near future.