Alternative lending in action: Direct Lenders support the refinancing of IRIS

IRIS is the UK's market leading provider of business critical software and services to the UK accountancy and payroll sectors. During its 35 year history, the company has experienced successful growth, due in major part to its strong customer relationships and ensuing loyalty. What this creates is strong, annuity-like subscription income, as well as a platform for future growth, as additional updates, products and services are introduced.

The challenge that the business faces is also its largest opportunity – as Mark Lewis, CFO of IRIS, puts it – "we need to keep a fresh perspective and remain agile enough to seize opportunities". These opportunities come in a diverse form; from considering how Cloud technologies can impact the delivery of IRIS services, to the acquisition of relevant adjacent business, through to ensuring a swift and nimble response to significant legislative changes such as auto-enrolment pensions.

For the last fifteen years, IRIS has been owned by a series of Private Equity firms, most recently Hg Capital who has been supporting the growth of IRIS for over 10 years. Following a recent extensive 're underwrite' process Hg Capital decided to re commit to the business for a further period and therefore worked closely with management to construct an appropriate capital structure. Mark explains: "We needed a debt and equity structure to support the future growth of the business and it also made sense to take advantage of market conditions – we could get debt with better terms and achieve better alignment with our strategic objectives than we could in 2011".

When deciding which funding strategy to pursue, the company looked at a number of options – renewing arrangements with existing lenders carried the risk that the existing group wouldn't have the funding capacity required by the company, so broader, more innovative options were considered. In part to avoid the increased diligence and rating requirements of an underwritten deal, the team chose a self-syndicated triple tranche senior, second lien and holdco PIK structure of in total £430m which satisfied the aspirational goals of the company. The majority of capital in the senior tranche was provided by bank lenders, with alternative lenders providing the junior capital.

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IRIS's strong position as an attractive credit asset meant that lenders were keen to offer their services, which led to a competitive lender selection process. Mark describes the level of flexibility built into the resulting syndicate: "We were looking for lenders who could play at different levels within the structure, at different levels of risk… we also wanted flexibility for follow on capital, so that for example we didn't lose any of our ability to be nimble around making acquisitions". Also crucial to the selection of lenders was pinpointing those teams that aligned strategically to IRIS and who shared a long-term view on supporting the company. As Mark puts it, "There will always be problems to solve during the term of a loan; that will be easier to do if we build strong relationships from the start and have aligned objectives".

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Despite Mark's assertion that IRIS were "quite picky, on the alignment of objectives, and the structure itself", raising the debt was a smooth process – this was partly due to the market conditions available at the time, but the process itself was well organised, making an ambitious timescale possible. As Mark describes, "we really benefited from preparation time – not only having all our due diligence lined up, but also presenting the IRIS story and plans in such a way that lenders could easily understand and find the information that would be needed for their credit committees".

For European companies considering alternative lenders to help fund growth, in addition to re-emphasising the preparation point above, Mark counsels that a clear view on the objectives governing the transaction is essential. "When we wanted to do this transaction, the market conditions were really strong. It was important that we took a step back and thought about what we were trying to achieve and what would be valuable for the company. You can get caught up in the excitement of the deal, but we should judge our success in the context of factors such as timeliness of closing and the quality of the syndicate, rather than simply by the headline terms achieved".

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CFO IRIS Software Group Ltd