

Alternative lending in action: Direct Lenders support the growth of Verastar

Verastar, formerly known as Universal Utilities, started life as an electricity broker in the late 1990s. The company grew steadily over the next twenty years to become a business with a customer base of approximately 120,000 and broadened its portfolio of services to include fixed line telecommunications and mobile phone services for the micro SME market (companies with up to 10 employees). In 2011, the company was bought by Vitruvian, a European focused private equity firm.



Prior to the acquisition by Vitruvian, the company was not levered. When Paul Doherty, CFO of Verastar joined the company shortly after the LBO by Vitruvian, there was a financing structure in place that included Senior Debt, Mezzanine and loan notes (PIK). As Paul puts it: *"It was expensive, but we had no wider view on the options at that time as we had no direct relationships with lenders"*.

Paul then went on to establish relationships with predominantly bank institutions. Bringing Lloyds Banking Group into the structure streamlined the company's debt facilities, enabling the mezzanine tranches to be replaced by a hybrid debt structure of revolving and Unitranche facilities. Although this new structure was considered a significant step forward, and the relationship with a high street lender added credibility to Verastar's position, Paul was concerned about the lack of flexibility the arrangement afforded which restricted the Company in its growth aspirations.

Fast forward to January 2015 and by this point Verastar was on track to be a £100m revenue business. It had successfully diversified its product base and broken into new markets. Paul says, *"our profit and cash generation were great; we were rapidly paying down debt, but inefficiencies remained on the balance sheet"*. Verastar then engaged Deloitte to provide an analysis of what the debt markets could offer.

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Following this exercise, Verastar decided to enter into a relationship with Ares Management, in a deal which enabled the repayment of shareholder and vendor loan notes and the existing debt funding. Paul explains, *"we met our primary objective of securing a structure that gave us the flexibility we desired. We quickly formed a strong relationship with Ares, who were extremely supportive throughout the deal process."*

Lloyds Banking Group reacted extremely positively to what was proposed, so what was eventually agreed was a pioneering structure with Lloyds as the term debt lender in front of a unitranche. Paul characterises his relationship with the two lenders as *"seamless: we have a small number of partners for a significant quantum of debt, so the conversations are fewer all round. We have a straightforward, understanding relationship which really works for me"*. He finds the new structure, also known as a bifurcated Unitranche, to be *"a great enabler, with the previous restrictions gone."*

For those companies potentially considering the debt markets as a means of funding, Paul has the following advice to give: *"Look at your plan for the next five years, and if you're planning on staying in private debt markets, you should definitely be aware of this kind of debt structure: it can provide you with an ease of dealing and a flexibility that could be additive to your business."*



Paul Doherty
CFO – Verastar

The Next Generation Service Provider

Since 1998, Verastar has been providing small businesses with the essential business services they need.

Verastar has a strong portfolio of brands and employs over 640 people in 14 offices throughout the UK. The company has a large, diverse customer base, encouraged by competitive pricing. Their unique and dynamic approach to customer service has resulted in the company growing total customer contracts year-on-year since 2005.

Verastar offers a range of essential business services across telecommunications, water and energy. No other provider offers this mix. As these markets open to increased competition, people are switching away from the incumbents. Thanks to this change, Verastar is achieving double-digit growth rates. The spectrum of products and services its brands offer is not just restricted to utilities and their offer is constantly expanding to meet the needs of its customers.