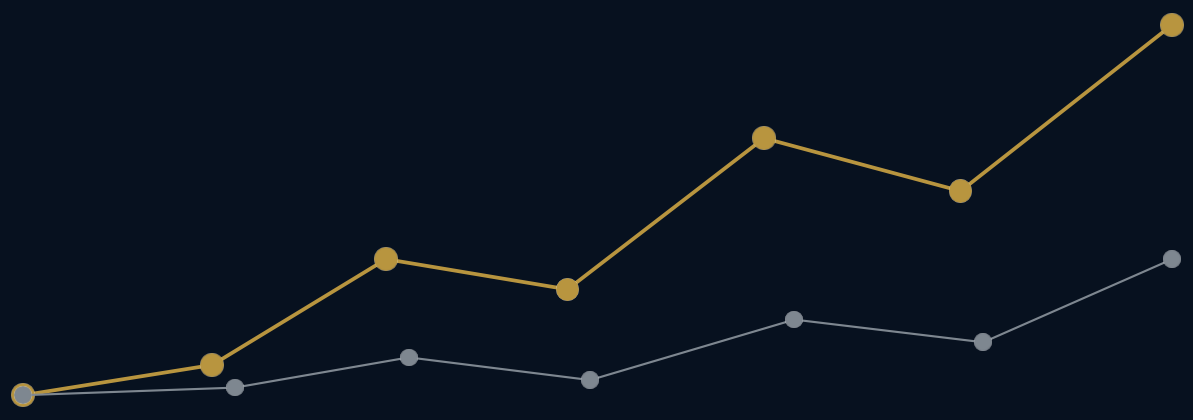
E. CARTIER & CO

GLOBAL STRATEGIC ADVISERS

DECISION BRIEFING / 02

The cost of capital has changed. Has the growth plan changed with it?

CAPITAL ALLOCATION | OWNERSHIP | STRATEGIC GROWTH



00 / PURPOSE & STARTING POSITION

A strategy approved under one capital regime should not inherit the right to survive another.

An international infrastructure, engineering and technology services group has spent eighteen months preparing the most consequential growth programme in its history. The company is not distressed. Customers are not leaving. Management is not rescuing a broken strategy. It begins with a credible platform and a credible four year ambition.

STARTING POSITION	
Revenue	£1.18bn
EBITDA	£123m
EBITDA margin	10.4%
Cash conversion	74%
Net debt	£320m
Net debt / EBITDA	2.6x
Available committed liquidity	£140m
Contracted / recurring revenue	46%
Jurisdictions	11

Management has a plausible route to approximately £1.8bn of revenue and more than £215m of EBITDA. The strategy includes a specialist acquisition, US delivery capability, technology and automation, working capital, international growth and the integration capability required to make the initiatives operate as one enterprise.

At approval, the programme requires £495m of gross investment. £170m is expected to be financed through internally generated cash, leaving £325m of external capital. Debt costs around 4.3% all-in; leverage approaching 3.4x appears supportable for the right credit; no material external equity is expected. The board approves the plan, people are recruited, management incentives incorporate the targets and transaction work advances.

Then the cost and availability of money change.

01 / THE CAPITAL SHOCK

A £325m funding plan becomes a £386m problem.

Eighteen months later the commercial opportunity remains. In several respects it has strengthened. What changes is the capital environment.

4.3% -> 8.6%	3.4x -> 2.5x	+£18m	+£43m
ALL IN DEBT COST	AVAILABLE LEVERAGE	FX IMPACT ON ACQUISITION	WORKING CAPITAL ABSORPTION

The original external funding requirement of £325m becomes £386m. Under the revised credit conditions, prudent incremental debt capacity is no longer around the amount the original plan expected to borrow. It is £95m.

The strategy therefore contains an unfinanced requirement of £291m. Nothing has happened to the revenue target. The strategic logic of the specialist capability has not disappeared. Customers still want the proposition. That is exactly what makes the decision difficult. A weak company would be forced to reconsider; a strong company can find enough capital to avoid reconsidering.

02 / THE £300M SOLUTION

A large institutional investor offers £300m of equity. The proposal almost perfectly solves the financing problem and allows management to preserve nearly the entire timetable. It would occur at group HoldCo level at 27.9% post money ownership.

The investor receives two board seats and a negotiated package of protections around material acquisitions, new borrowing, disposals, budgets outside agreed parameters, selected senior appointments and future capital raises, alongside a five year liquidity expectation and strategic protection around elements of the US opportunity. None of those terms is inherently unreasonable. Capital arrives with rights, expectations and future constraints.

The board can raise the money, complete the acquisition, build the capacity, fund technology and hit the growth targets without changing the strategy. That is the conventional route we allow to succeed.

03 / THE REFRAMING

E. Cartier does not begin with the term sheet.

The first intervention is not "Can £300m be raised on better terms?" It is a more fundamental question:

Which parts of the £386m actually require the enterprise to own something today?

The £386m has entered the board discussion as though it were one capital requirement. It is not. It contains capital required to acquire scarce capability; capital required to obtain access to capacity; capital absorbed because commercial contracts finance customers inefficiently; capital committed to technology before sufficient proof exists; capital required because several initiatives are scheduled concurrently; and capital required because the strategy has inherited its original timetable.

Those problems do not necessarily deserve the same financing instrument. They do not necessarily deserve simultaneous funding. And they do not automatically justify selling 27.9% of the entire enterprise.

04 / THE OBJECTIVE IS REWRITTEN

Preserve the economically justified growth opportunity while minimising unnecessary irreversible capital, protecting adequate downside capacity and avoiding the surrender of group wide ownership or governance rights where the capital purpose does not require them.

Had the objective remained "finance the £386m programme", the £300m investor would probably win. Once the objective becomes the quality of the enterprise created after financing, several decisions reopen. E. Cartier then established a single capital decision system around capital committed, evidence obtained, ownership surrendered, cash released, strategic capability obtained, liquidity remaining, governance rights created, reversibility preserved and the next point at which the board must decide.

The client retains the reserved decision. E. Cartier governs coherence around the objective, exposes unsupported assumptions and keeps dependencies visible; specialist legal, tax, accounting, lending and transaction work remains with the appropriately appointed professionals.

05 / ACQUISITION PERIMETER

The £220m acquisition was buying more company than the strategy needed.

The specialist target appears strategically compelling. Management wants the whole company. That assumption is tested rather than inherited.

When the rationale is decomposed, approximately 72% of the strategic value attributed to the acquisition is found to sit in a specialist engineering team, proprietary technical IP, approximately forty strategically important customer relationships and an operating capability the group cannot reproduce quickly enough internally. Those components represent materially less than 72% of the target's revenue.

A substantial remainder consists of lower margin installation and legacy activity that contributes revenue but is not necessary to establish the capability management is trying to buy. The original acquisition case has therefore been assessed primarily as "company versus no company". E. Cartier reframes it as "which capability genuinely requires ownership?"

Working with the client's directly appointed legal, tax, transaction and other appropriate advisers, the commercial architecture is redesigned around the capability perimeter required by the strategy, together with a multi year arrangement over selected services and an option to reconsider additional assets if subsequent economics justify ownership.

£220m	£132m	£88m
ORIGINAL INITIAL CAPITAL	REVISED INITIAL CAPITAL	INITIAL CAPITAL NOT REQUIRED

Nothing has been "saved" through negotiation theatre. The strategy simply stops buying assets whose ownership was not causal to the strategic objective.

06 / CAPACITY & CASH

Control, ownership and working capital were being treated as the same problem.

US CAPACITY

Management's original US capacity programme requires £95m. The operating assumption is that institutional customers will not regard the group as credible without substantial owned local infrastructure. Customer evidence says something more precise. Three prospective anchor accounts consistently place greater weight on guaranteed technical capability, reserved capacity, continuity, response time, local accountability and evidence that the group will remain committed to the market. They require control over the service outcome. They do not necessarily require the supplier to own every generic asset underneath it.

The architecture changes: proprietary and scarce capability remains owned; generic infrastructure is accessed through long term specialist arrangements; customer commitments are sought before all capacity becomes irreversible. The economics move from "build substantially first; prove demand second" to "prove enough demand to justify the next layer of committed capacity".

£95m	£48m	£47m
ORIGINAL US CAPACITY	REVISED INITIAL CAPACITY	INITIAL CAPITAL PRESERVED

WORKING CAPITAL

Twelve additional collection days create £43m of additional working capital absorption. Instead of stopping at consolidated DSO, the account economics are reconstructed. A relatively small number of large contracts account for a disproportionate share of the deterioration, with mobilisation before meaningful billing, late milestone invoices, large completion balances and slow dispute escalation.

Account by account changes are developed for renewals and new work. Mobilisation billing moves earlier where commercially supportable, milestone architecture changes, some completion exposure reduces, and invoice disputes acquire named owners and escalation deadlines. Not every negotiation succeeds. Enough do.

£43m	£22m	£21m
ADDITIONAL ABSORPTION	RELEASED OR AVOIDED	REMAINS A REAL ECONOMIC CHOICE

07 / EVIDENCE & SEQUENCE

The programme was right. Its commitment profile was not.

TECHNOLOGY

The board has approved £60m for technology, automation and data capability. E. Cartier does not conclude that the programme should be reduced to £18m. The strategic case may justify the whole £60m. The problem is that £42m would become committed before management had evidence that the first deployment was producing the operating change on which the full investment case depended.

The programme becomes an evidence gated sequence. The first commitment is £18m. Before the next material release, management must demonstrate adoption, productivity, operating reliability, customer effect, cash consequence and integration capacity. If the thresholds are exceeded, subsequent capital accelerates. If they are not, the next tranche remains available for redesign. During the critical financing period, £24m remains uncommitted until the enterprise knows more.

SEQUENCING

The acquisition, US capacity, technology deployment, working capital build and international expansion had been prepared substantially in parallel. Each workstream could defend its timing. Together they created the maximum funding requirement at almost exactly the same point. The enterprise had never been asked whether their concurrency was valuable enough to justify its cost.

The revised sequence brings forward activities capable of generating cash, customer proof or reusable capability. Commercial and working capital improvement begins earlier. Technology begins with the evidence generating tranche. US capacity follows anchor proof. The specialist acquisition proceeds within its revised perimeter. Later international commitments move behind operating and cash thresholds.

£24m	£20m
TECH CAPITAL HELD OPTIONAL	PEAK FINANCING TIMING BENEFIT

The programme has not been cut. The irreversible decision has been delayed until the evidence improves.

08 / CAPITAL BRIDGE

The £386m problem becomes a £185m problem.

The analysis has not "found" £201m. It has altered the underlying decisions that created the requirement. The bridge therefore matters more than the headline.

INTERVENTION	EXTERNAL CAPITAL EFFECT
Repriced external requirement	£386m
Narrow acquisition perimeter	-£88m
US capacity architecture	-£47m
Working capital redesign	-£22m
Technology evidence gates	-£24m
Sequencing / timing benefit	-£20m
REVISED EXTERNAL REQUIREMENT	£185m

The £185m remaining requirement is real. £95m can be carried prudently through debt under the modeled conditions. The residual equity requirement is therefore £90m. Only now does the capital structure return to the centre of the decision.

£386m	£95m	£90m
REPRICED REQUIREMENT	PRUDENT DEBT CAPACITY	RESIDUAL EQUITY NEED

The board has moved from contemplating £300m of group level equity to solving a roughly £90m ownership capital requirement.

09 / CAPITAL PERIMETER

£90m of capital does not need to buy 27.9% of everything.

The first investor proposal solves the original £291m gap through £300m invested at HoldCo. It would therefore participate in the mature European enterprise, existing group IP, businesses that do not require growth capital and future value across the wider perimeter. But the residual £90m is now predominantly required to finance the defined growth assets and activities produced by the redesign. The capital purpose has narrowed. The ownership perimeter should be reconsidered with it.

The route places £90m of minority equity into the defined growth perimeter at 25% post money ownership. The investor receives meaningful exposure to the enterprise its money is helping create. Existing shareholders retain the wider group's economics and governance. Group wide investor vetoes are avoided.

HOLDCO ROUTE

£300m capital. 27.9% of the wider group. Two board seats. Group wide consent rights. Exposure to assets and future value beyond the capital purpose.

DEFINED-PERIMETER ROUTE

£90m capital. 25% of the growth vehicle. Rights attached to the enterprise being financed. Wider group ownership and governance remain outside the bargain.

The investor does not receive a free percentage of unrelated property simply because historic corporate architecture happened to place that property above the point where capital was needed.

Capital purpose should determine capital perimeter.

10 / THE COUNTERFACTUAL

The original strategy is allowed to work.

We do not create a foolish counterfactual. The HoldCo investor behaves rationally. Management executes. The acquisition works. US expansion works. Technology is broadly successful. Four years later, both routes have produced real growth.

METRIC	STARTING	ORIGINAL STRATEGY FINANCED AS PROPOSED	E. CARTIER GOVERNED ROUTE
Revenue	£1.180bn	£1.820bn	£1.740bn
EBITDA	£123m	£215m	£238m
EBITDA margin	10.4%	11.8%	13.7%
Cash conversion	74%	69%	86%
Net debt	£320m	£460m	£275m
Net debt / EBITDA	2.6x	2.1x	1.2x
Available liquidity	£140m	£85m	£218m
Group equity issued	-	27.9%	0%
Growth perimeter minority	-	-	25%
Group wide investor consent rights	None	Material	Avoided
Capacity for another material transaction	Existing	Minimal	Restored

+£80m	+£23m	£185m	£133m
MORE REVENUE, ORIGINAL ROUTE	MORE EBITDA, GOVERNED ROUTE	LESS NET DEBT, GOVERNED	MORE LIQUIDITY, GOVERNED

The original route succeeds. It simply succeeds into a weaker owner and enterprise position.

11 / OPERATING BRIDGES

Every important outcome has to have a mechanism.

EBITDA

BRIDGE	INCREMENT
Starting EBITDA	£123m
Core pricing and mix	+£36m
Cross sell through acquired specialist capability	+£22m
US anchor customer economics	+£18m
Recurring data / service revenue	+£16m
Automation and productivity	+£14m
Capability integration / procurement	+£12m
Additional governance, specialist and institutional cost	-£3m
YEAR FOUR EBITDA	£238m

The revenue bridge reaches £1.740bn through core growth and mix, acquired specialist capability, US expansion, recurring technology and service revenue, international adjacency and cross sell, offset by £30m of revenue deliberately exited or not pursued because of weak economics. Lower revenue is part of the result: not every pound of revenue is treated as equally valuable.

CASH CONVERSION

The movement from 74% to 86% is through earlier mobilisation economics, improved milestone architecture, faster ownership of billing disputes, less capital tied up in generic owned infrastructure, a smaller acquisition perimeter, greater recurring service mix, lower integration complexity and evidence gates that prevent later technology capital being committed before early operating benefits appear.

NET DEBT

The route avoids or defers £88m of unnecessary acquisition perimeter, £47m of generic US infrastructure, £22m of avoidable working capital absorption, £24m of technology commitment during the critical window and £20m through sequencing. Those decisions reduce financing before stronger operating cash begins to fund later growth. Four years later, net debt is £275m rather than £460m.

12 / OWNER ECONOMICS

The most important difference is who owns the success.

ORIGINAL FINANCED ROUTE

EBITDA £215m
EV at 9.5x: £2.043bn
Less net debt: £460m
Equity value: £1.583bn
Existing shareholders retain 72.1%
Attributable value: £1.141bn

E. CARTIER GOVERNED ROUTE

EBITDA £238m
EV at 9.5x: £2.261bn
Less net debt: £275m
Consolidated equity value: £1.986bn
Less modeled growth-perimeter minority: ~£125m
Attributable value: £1.861bn

£720m

DIFFERENCE IN ATTRIBUTABLE OWNER VALUE

The result is not "E. Cartier created £720m". The analytical claim is narrower: six consequential decisions materially alter the owner position produced by a strategy that succeeds in both scenarios.

13 / ATTRIBUTION & OPTIONALITY

The firm should claim only the decisions it can trace.

DIRECT E. CARTIER CONTRIBUTION

#	CONSEQUENTIAL DECISION
01	Challenge the assumption that the entire acquisition required ownership.
02	Separate US service control from generic infrastructure ownership.
03	Treat part of the working capital deficit as a commercial contract problem, not simply a financing problem.
04	Gate technology capital against operating evidence.
05	Change programme sequence so early proof and cash help finance later commitments.
06	Prevent a residual £90m growth equity requirement from automatically becoming a sale of 27.9% of the wider group.

Management still has to execute. Customers still have to buy. The acquired team has to perform. Technology has to work. Markets have to cooperate. The board owns the decision. Directly appointed lawyers, tax advisers, accountants, lenders and transaction specialists retain responsibility for work within their professional perimeter. E. Cartier governs coherence between the decisions.

THE ORIGINAL ROUTE DID NOT FAIL

The investor was not predatory. Management was not naïve. The acquisition was not a mistake. The £300m solution was not irrational. The original route creates a company with £1.82bn revenue and £215m EBITDA. What changes is the property the shareholders own after success: more debt, lower cash conversion, less liquidity, minimal capacity for another material transaction, 27.9% group dilution and a new governance bargain around material future decisions.

The original strategy did not fail. It succeeded into a capital structure that made its success less valuable.

OPTIONALITY

At year four the governed enterprise retains £218m of liquidity, materially lower leverage and no group level minority with the original consent package. That means the company can still acquire, accelerate, wait, refinance, return capital or do nothing. Strategic freedom has economic value precisely because the opportunity requiring it may not yet exist.

14 / RE UNDERWRITING & FALSIFICATION

A recommendation that cannot lose is advocacy.

THE CAPITAL RE UNDERWRITING TEST

01 IRREVERSIBILITY

Which parts of the plan require irreversible capital before they produce meaningful evidence?

02 OWNERSHIP

Which strategic capabilities genuinely require ownership rather than access or control?

03 WHOLE BARGAIN

What property, rights or future decisions are surrendered under the revised funding route?

04 END STATE

If the strategy works, what company do the owners possess afterwards?

WHAT WOULD PROVE THE E. CARTIER ROUTE WRONG?

If diligence showed that the target's legacy business created materially greater strategic economics, the acquisition perimeter should expand. If anchor customers refused to contract without substantially greater owned US infrastructure, capacity ownership should increase. If working capital changes materially damaged retention or margin, the cash assumptions should be revised. If the first technology tranche exceeded its evidence thresholds, subsequent capital should accelerate.

If concurrency produced synergies worth more than the sequencing benefit, parallel execution should resume. If the HoldCo investor provided customer access, capability, risk absorption or strategic value sufficient to exceed the value of the ownership and governance surrendered, the broader investment might become superior. If Ring fencing created disproportionate legal, tax, regulatory or operational complexity, the perimeter would need to change. If retained liquidity caused the company to miss a clearly superior opportunity, capital should be redeployed.

The recommendation must be allowed to lose.

15 / MANDATE GOVERNANCE

A difficult result should not depend upon the brilliance of one meeting.

The E. Cartier Mandate Control Tower keeps one live view of the objective, capital committed, capital remaining optional, board decisions, open assumptions, proof thresholds, cash movement, ownership implications, specialist workstreams, risk and the next decision gate. The mandate should never become more complex than the system used to govern it.

DECISION	EVIDENCE THRESHOLD	BOARD STATE
Acquisition perimeter	Capability attributable to strategic thesis demonstrated	Proceed selectively
US owned capacity	Customer requirement for ownership vs controlled access established	Hybrid route
Working capital	Contract level concentration and customer response understood	Renegotiate selectively
Technology tranche 2	Adoption, productivity and cash thresholds achieved	Evidence gated
Additional geography	Anchor economics + operating capacity demonstrated	Conditional
Growth equity	Residual requirement and correct asset perimeter established	£90m defined perimeter

WHAT THE CLIENT RETAINS

The mandate does not end with a transaction. The organisation retains a capital allocation plan & implementation, decision ledger, evidence gated investment architecture, defined capital perimeter methodology, working capital ownership and escalation rules, customer proof thresholds for capacity investment, technology release gates, a sequence for later growth commitments, liquidity and downside triggers, and an explicit method for reopening the route if evidence changes.

The objective is not permanent dependency. The objective is a stronger organisation with the judgement and systems required to preserve the value created.

16 / THE BOARD DECISION

The growth ambition remains. The capital architecture does not.

At the end of the analysis, the board no longer faces "raise £300m or abandon the strategy". It can acquire only the capability that genuinely requires ownership; control US service capability without initially owning all generic infrastructure; stop unnecessarily financing customers; require technology to produce proof before receiving the next irreversible tranche; change the order in which capital is consumed; carry £95m through debt; raise £90m of equity against the assets the money is actually intended to create; and preserve the wider enterprise.

The destination is recognisable. The company used to reach it is materially different. That is what re underwriting is supposed to achieve.

E. CARTIER PERSPECTIVE

Boards understandably become attached to approved strategies. Once a plan has entered remuneration, recruitment, budgets, transaction discussions and external expectations, reconsidering it becomes institutionally harder than approving it was in the first place. Management is no longer evaluating an investment case in isolation; it is deciding whether to reopen commitments for which it has already accepted responsibility. Capital markets can move faster than that institutional willingness.

The correct response is therefore neither reflexive austerity nor stubborn continuation. Some programmes should receive more capital precisely because competitors have become constrained. Others should be resequenced. Some capabilities should be partnered rather than owned. Some acquisitions should become narrower. Some equity should be raised. Some liquidity should remain deliberately unused. And some strategies should be abandoned because the capital structure required to preserve them would leave shareholders owning too little strategic freedom after success.

The question is not whether the original plan can still be financed. It is whether, given what capital now costs in money, rights, ownership and optionality, the board would approve this version of the enterprise today.

A growth strategy should survive re underwriting, not memory.

PRIVATE CAPITAL & GROWTH REVIEW

A private review examines the capital embedded in the objective, the period between commitment and proof, working capital economics, acquisition perimeter, debt capacity, equity requirements, ownership rights, sequencing, downside resilience and the strategic options remaining after the plan is financed. The answer may be to continue exactly as proposed, accelerate, narrow an acquisition, change sequence, partner instead of own, raise less equity, change the capital perimeter or not proceed. There is no predetermined financing answer.

The objective comes first. Capital is permitted to serve it only on terms that preserve an enterprise worth owning.