



# “Is it safe?”

For those of you not familiar with this question, this great line is from the 1976 film *Marathon Man*, a scary nightmare thriller best known for the suspenseful scenes and a truly repellent scene of torture. This question, “Is it safe?” has today become a frequent ask by a range of equity investors and lenders who realise that as we shift out of recession, new opportunities are created; however, experience also tells us that with opportunity comes risk.

We know that history is littered with examples of good lends that have gone bad, but has this created a shortage of organisations brave enough to play the long game?

MCR have been reviewing the facts to avoid you having to go to the extremes of the evil Szell, played by Laurence Olivier, to obtain the answer.

## Asset values

A large cause of the recession was speculative trading in the property market, with buying off plan and selling on, and limited hard cash to support the transaction. Unfortunately, this activity attracted the incompetent amateur looking for a quick return. MCR has recently dealt with a number of part built projects and fortunately through our network of contacts we have been able to manage a successful outcome for the stakeholders. In some cases this includes de-risking and mothballing the project.

The good news is that the UK is an island with limited land mass for residential and commercial development, therefore through expanding trade and population, demand for good property is likely to return and values should, in theory at least, be stable to good. Part of the learning from the past 18 months has been the imperfect increase in values over the previous 10 years, where we noted rapid movement and therefore a correction in value was predicted, but even with this we note that the Nationwide Building Society’s latest house price indicator records an increase of 1.2% in January 2010 and a 8.6% year-on-year increase.

## Independent support

The return to positive growth, albeit at a very modest rate, has been welcomed but there is caution that this indicator on its own is insufficient to see the launch of new lending initiatives or a rush to provide a full asset-based lend with a top up cashflow loan.

There is an argument for those wishing to wait and see in that the full effect of unemployment has yet to be seen on household incomes and this could dampen the fragile consumer confidence and growth. Others argue that business leaders are gearing up in anticipation. More recently at MCR we have been answering the call to provide our opinion of business proposals and road test the numbers, assumptions

and capability. This process has reassured us that there are a growing number of new proposals that are worth backing, with the right combination of equity and loan capital.

## Platform for growth

At MCR our recent engagement with lenders and equity investors has asked for an assessment of management capability and question what they are going to do differently to be the best in class. In forward looking organisations we see a concentrated effort by management to reduce and offload legacy costs and where practical switch from fixed to variable costs.

Other positive actions include lean consumption – a framework that forces thinking about what you do and why? At MCR our recent analysis of where future good lending opportunities exist, suggests that certain actions form part of the essential indicators of management doing the right things to position the organisation for investment and hold appeal for lenders.



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## Key messages:

- Organisations are taking this opportunity to reposition costs and drive efficiency
- Capability of management remains a positive differentiator
- Outsourcing non core activities creates room to grow the business.