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spectrum

THE NEWSLETTER FROM RITSON SMITH

New payroll
division
brings peace
of mind to
employers

page 3.



IN THIS ISSUE:

2. Introduction from Niall Farquharson
3. Payroll division brings peace of mind to employers
3. Profile: Katy Christiansen
4. MBO's; Moving up the corporate ladder
6. Client Profile: Duncan Taylor
7. Budget blues for business?
8. News in brief

Introduction



Time is flying by this year as Summer is upon us already. It hardly seems a moment ago when I was in Houston where Graham Alexander and I were attending OTC which was once again staged in the magnificent Reliant Centre. The theme of the conference was Waves of Change – change in technology and change in workforce which highlighted not only the need to keep pace but also anticipate future developments.

As many of our clients work in the Oil and Gas sector it is important, if we are to understand their requirements and provide appropriate support, that we continue to learn about the latest industry developments. We are able to do this in Houston where we have access to the main players in the industry, our clients and fellow professionals.

While the outlook for the industry continues to look buoyant with oil prices reaching new heights, we are now seeing the impact of the credit crunch with banks having to strengthen their balance sheets and being more stringent in their lending criteria.

If Aberdeen is going to live up to its title of 'energy capital of Europe', it is vital that we continue to attract the global headquarters of energy companies and we are excited by the recently announced plans by ACSEF (the Aberdeen City and Shire Economic Forum), to transform a 30-mile stretch of North-east coastline into a global technology corridor of energy related businesses between the Bridge of Don and Peterhead.

Change is not limited to the Oil industry however and nor is our client base. In this issue of SPECTRUM you can learn about the impact of changes on businesses and individuals as a result of the Capital Gains Tax regime and the expansion of our Payroll service.

In addition, we are delighted to welcome another food and drink company into the fold, the prestigious Duncan Taylor whisky company. Owner, Euan Shand has ambitious plans for growth and diversification and we are excited about accompanying them on their journey.

I do hope that you find some interest in this issue and if you have any points you wish to make on any of the articles please do not hesitate to contact myself or your regular contact within the Firm.

Niall Farquharson Managing Partner

Payroll division brings peace of mind to employers

Whether you are a small firm with big ambitions or a large company that employs many, operating a reliable and accurate payroll service is crucial to keep both your employees happy and keep you on the right side of the law.

In response to the increasing burden of tax legislation facing employers and requests from current clients, Ritson Smith has established a dedicated payroll services team under the direction of experienced payroll professional, Katy Christiansen.

Katy was previously a Team Leader (Payroll Manager) with a global payroll specialist for six years with responsibility for a range of clients from one man companies to large, international oil service companies.

She is responsible for the delivery of Ritson Smith's payroll services to clients. Katy is currently studying towards the final sets of exams for her Professional Diploma in Payroll Management.

If you are considering outsourcing your payroll services, please contact Payroll Manager **Katy Christiansen on 01224 643311 or email kc@ritson-smith.com**

Profile: Katy Christiansen

Why did you decide to specialise in payroll?

Payroll is something I fell into by accident! After experiencing payroll in my work placement year from University I never looked back.

What is the trend when it comes to payroll? Are more companies outsourcing and if so, why?

Over the past few years outsourcing has definitely been the way to go. Payroll is a very specialised area where the legislation is always changing.

Employers prefer to outsource this part of their business to ensure complete accuracy and confidentiality.

What is the most challenging area of your role?

Keeping the clients happy! Working in a Bureau environment with lots of clients can be very crazy at times especially when there are always deadlines to meet and numerous client specific requests to be carried out as quickly as possible.

What would you do if you didn't work in payroll?

I would love to own and run my own flower shop!

What are your interests when you are not working?

I enjoy hitting the tennis court or more recently the golf course!



Moving up the corporate ladder

The move from Manager to Owner/Manager is a significant one. Ritson Smith's Corporate Finance Partner, Graham Alexander, takes a look at the whys and wherefores of the Management Buy Out.

MBO's happen for a variety of reasons: often because the current owners of a business wish to retire. Opportunities for MBO's can arise from other situations however. For example, following an acquisition, the purchaser may decide that only part of what was acquired is needed and they look to dispose of the "non-core" part of the now enlarged business.

MBO opportunities can also arise where the owner is experiencing financial difficulties and they seek to raise cash by selling off part of their business. Alternatively, an owner may have carried out a strategic review of their business and as a result decide to dispose of certain parts which are no longer considered "core" to the business going forward.

Irrespective of how the MBO opportunity may have come about the one common denominator is that the existing management see an opportunity to take the business to new heights.

Once a new management team has taken over the reins of a business, sometimes they find out that being the owner brings new challenges along with a need to increase the level of their performance to meet the objectives set for the company.

This is not the case for every MBO and indeed, because management teams often know their businesses so well, they can transform the success of otherwise underperforming companies, regardless of whether or not the business is profitable. This may sound peculiar at first glance but what is critical is that the business is viable i.e. capable of making a profit.

Preparation and knowledge is the key to success. It is imperative to ensure that any party taking over the helm has the right skills set in order to add value to the business and can plug any obvious gaps by recruiting talent. Recognise your strengths and don't be afraid to take new blood on board to help with the areas that are lacking.

Fundamentally, for any MBO to happen a realistic price has to be negotiated for the business. Too low and the vendor will not sell and too high and the management team will almost certainly have difficulty raising the requisite funding because the institutional investors will require any agreed valuation to reflect the business's potential. This is why the management team needs an experienced corporate financial adviser on board.



Keith Allan of Royal Bank of Scotland and Central Investment Services MD Graham Cobban with other members of the MBO team. Ritson Smith were Lead Advisors in this multi-million pound deal earlier this year.

Going through a purple patch?

The key to realising shareholder value is early expert planning.

Our Corporate Finance team has an outstanding track record in providing expert professional support to management teams aiming for strategic listing, merger, acquisition or disposal.

We've recently helped some notable high-growth businesses to seriously enhance their shareholder value.

Once appointed, your corporate finance adviser will be on hand to steer you and your team through the acquisition maze. To help you to get through the due diligence process to buy the business at a sensible price and to help you to get the funding in place.

But that is not all – perhaps most importantly, your adviser will help you determine the optimal transaction structure which when you come to exit, could enhance the proceeds you realise from your investment and hard work. Your adviser will also want to work with you through this eventual exit, partnering the management team through the lifecycle of the investment.

So it is essential that you choose someone who not only has the right track record and credentials but also someone you feel you can work with because you will be working very closely with that individual over a period of time that could last for several months.



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MBO of Central Insurance Services Ltd

Advisors to the MBO team
Ritson Smith Corporate Finance

January 2008



has been acquired by Optima Solutions Holdings Ltd (OHS)

Financial Due Diligence undertaken on behalf of OSHL
Ritson Smith Corporate Finance

February 2008



has been acquired by Global Resources Group Ltd

Lead advisors to the vendors of Reel Group
Ritson Smith Corporate Finance

March 2008



TGH (UK) Limited has acquired Dynamic Positioning Services Ltd

Financial Due Diligence undertaken on behalf of TGH (UK)
Ritson Smith Corporate Finance

March 2008



MBO of Central Investment Services (Aberdeen) Ltd

Lead advisors to the MBO team
Ritson Smith Corporate Finance

March 2008



MBO of Averaon Engineering Ltd

Lead advisors to the MBI team
Ritson Smith Corporate Finance

March 2008



Client profile: Duncan Taylor

There is no doubt that Scotland will always be regarded as the home of some of the finest whisky in the world. Made in the glens of Scotland for hundreds of years, today whisky is one Scotland's biggest exports and the reason that Euan Shand, Managing Director of one of Scotland's older whisky companies, Duncan Taylor, spends a high proportion of his time overseas.

Being brought up at a distillery (Glendronach in Huntly) where his father was Manager, it is perhaps no surprise that Euan would end up working in the industry himself despite a stint in the oil sector which resulted in the acquisition of an engineering company.

When Duncan Taylor came to his attention in 2002, it was a dormant company as the New York based owner had died. The opportunity to venture into an industry that he knew and loved with massive potential for growth was too much to resist.

Duncan Taylor has its origins in 1930's Glasgow when the company was a merchant and broker of Scotch whisky casks. Devotion to providing only the finest casks to be filled at Scotland's most prestigious distilleries has been a key feature of the company's history and this tradition of building an outstanding portfolio of only the finest Scotch whiskies, including some of the oldest and rarest, is still the same today.

In recent years, the amount of Scotch whisky sold abroad has risen to record levels as more than one and a quarter billion bottles were exported in 2007. The value of global sales that year rose 6% to £2.8bn (\$5.4bn), representing a quarter of all the UK's food and drink exports. There is growth in all leading markets in Europe, the Americas and Asia with demand in Venezuela, China and South Africa particularly

buoyant. Combined with the surge in online sales, business is booming for Duncan Taylor which is expecting a turnover of £4million this year and pushing for £5 million next.

With global taste for the wee dram still growing, Euan has significant plans for expansion in the drinks industry as a whole; "We are developing a number of new brands including a Vodka and a Gin. We have already developed drinks brands specifically for a range of supermarkets in the US and we are looking to do the same in China."

“We have aggressive and exciting plans for the company and we need to have advisors on board that have the maturity, experience and business acumen to handle that.”

In addition, Euan has recently announced plans to build a single malt distillery in his hometown of Huntly and is actively on the acquisition trail for other businesses that would add value to the Duncan Taylor brand.

"The time is right to move the business to a new level", explained Euan when asked about why Duncan Taylor has appointed Ritson Smith as accountants and advisors. "We have aggressive and exciting plans for the company and we need

to have advisors on board that have the maturity, experience and business acumen to handle that. I looked at a lot of firms before deciding on Ritson Smith but I liked what I saw. They have a sensible, no nonsense approach and a good track record in corporate finance. The prospects are bright for Duncan Taylor and we feel confident that we have the right team of advisors behind us."

Budget blues for business?

by David Dowell, Senior Manager, Corporate Tax

With the Finance Bill now making its way through Parliament, the message from Ministers has been resolutely consistent – that this was ostensibly a Budget aimed at reducing the burden on business, particularly SMEs.

Simpler Corporation Tax rules for smaller businesses, say Ministers, have been further enhanced. Such measures include a temporary increase of 20 per cent in the finance available through the Small Firms Loan Guarantee scheme. However, while the main Corporation Tax rate fell by 2 per cent to 28 per cent in April, the Small Companies rate went up by 1 per cent, to 21 per cent.

The disquiet prompted by the new Corporation Tax rates has, however, been eclipsed by the changes to Capital Gains Tax (CGT). The new 18 per cent flat rate applies to disposals by individuals and trusts, with neither any longer entitled to indexation allowance or taper relief. One consequence was an 11th-hour scramble by some of the UK's wealthier citizens to sell or transfer assets ahead of the 5 April deadline.

And in another ironic twist, there was clear evidence of a sharp rise in the number of SMEs coming onto the market ahead of April as proprietors opted to minimise their tax liabilities. This created a strong buyers' market where the chief winners have been private equity firms – the very sector from which Mr Darling was aiming to extract more tax with his CGT changes.

A change that has largely stayed under the radar is the phasing out of Industrial Buildings and Agricultural Buildings Allowances (IBAs and ABAs). This is a 2007 Budget measure which took effect in April this year and it changes the basis on which tax relief is given for business expenditure on some buildings. Until April, it allowed annual tax relief in the form of a writing-down allowance of 4 per cent of the total amount spent on constructing or buying the building. From April, the allowance drops by 1 per cent a year until it goes altogether in 2011. The full implications have yet to emerge, but the hospitality industry is already pointing to problems as hoteliers not only shy away from future expansion but also face losing relief on completed projects.

So is there any salvation in another of Mr Darling's new measures, Entrepreneurs' Relief? Introduced from 6 April, this provides for the first £1 million of gains arising from a business disposal to be liable for a special 10 per cent CGT rate. Gains made on different occasions qualify up to a cumulative lifetime total of £1 million; anything more is taxed at the regular 18 per cent rate.

For qualifying "entrepreneurs", the new CGT rate will in certain circumstances be welcome; for those not qualifying and whose gains are modest it brings no joy. Although the tax rate reduces, the benefit of the annual exemption also reduces from an effective rate of 40% to 18%.

The biggest losers, however, could be many farmers sitting on land with development potential – the loss of indexation allowance, which has tended to be overlooked in all the press obsession with the abolition of taper relief, has potentially increased their tax bills on any land disposals by upwards of 1,000%.

The proof of Mr Darling's first Budget pudding remains in the eating. But it is already looking to be neither too substantial nor sustainable in that he has already had to invoke, for the first time in living memory, a mini Budget to correct the abolition of the 10% rate, introduced by his predecessor, which was clearly a politically motivated move in the first place.

The problem with the solution is that this is being paid for by more borrowing and, whilst many basic rate taxpayers may be happy this year, they are unlikely to be so next year when they find themselves worse off.

News in brief

First time in Practice for new faces

Ritson Smith is delighted to welcome **Andrew Good** and **Clare Chapman** to the team.

For both new recruits, this is their first time in an accountancy and professional services practice. Andrew who joins as Tax Manager in the Ellon office, was previously with the Inland Revenue and Clare, who has become a member of the Audit and Accounts team, was with oil service company, Vetco.

Also starting with us recently were Laura Stewart in Personal Tax, Rachael Abernethy in Administration and two new placement students from RGU, Ben Jamieson and Kathryn Shaw.



Food for Thought

Ritson Smith was once again a key sponsor of the ever popular Taste of Grampian festival at Thainstone Mart on 7 June after a successful debut last year.

Partner, Jean Main commented: "With so many of our clients involved in the food and drink industry and that likely to increase given growing demand from consumers for good locally sourced produce, we were delighted to support this event once again.

With glorious weather on the day the attendance was better than ever at what is now the North East's largest food festival."

