

2007

# Three Delta

And its pursuit of Sainsbury's



## EXECUTIVE SUMMARY

Three Delta is an investment fund which receives its funding from the Qatar Investment Authority (QIA), an investment arm of the Qatari government. A subsidiary of Three Delta, Delta Two recently attempted to make an offer on J Sainsbury PLC, but then decided to withdraw. The abandonment of the takeover was, most likely, a result of worsening credit availability and a pursuit of a far more lucrative takeover.

Three Delta was formed less than a year and half ago, and so far has bought up £3.5 billion in assets from companies. They control these assets through subsidiaries. Three Delta has bought many companies that are considered to be long term investments.

Three Delta is currently in rough waters, as a result of the withdrawal of their Sainsbury's bid. The managing director of Three Delta, Paul Taylor, must convince the QIA that investing in the UK is necessary to the overall QIA investment strategy. A deal that renews confidence in Taylor must occur quickly and seamlessly, or else Taylor and his team may be considered irrelevant and will become tied down to a relatively small portfolio of companies.

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## NOTE ON RESEARCH

This report focuses on the attempted bid of J Sainsbury PLC (Sainsbury's) by Delta Two, otherwise known as Three Delta, and includes a full background report on Three Delta.

Due to the private nature of sovereign wealth funds and investment firms, there is a cloak of secrecy surrounding their activities and internal affairs. Most of the companies involved with Three Delta are Limited Liability Corporations and as a result, little and in some cases, no information is publicly available. The attempted takeover of Sainsbury's opened up some information on Three Delta. This report will be updated when new information comes to light or if events warrant an update.

THIS REPORT WAS PREPARED BY

PATRICK FLAHERTY ([pflaherty@amadaninternational.com](mailto:pflaherty@amadaninternational.com))

KIRSTIN ELLISON ([kellison@amadaninternational.com](mailto:kellison@amadaninternational.com))

AMADAN INTERNATIONAL IS A RESEARCH FIRM LOCATED IN  
WASHINGTON, DC.

*STRATEGIC THINKING, RESEARCH, AND ANALYSIS*

+1 (202) 425-2510

[info@amadaninternational.com](mailto:info@amadaninternational.com)

## FORMATION

Three Delta was formed in June 2006. The company was established on the Isle of Man as a Limited Liability Corporation; however, they are based out of London. The funds to establish this company were given by the Qatar Investment Authority (QIA) and at the time, Deputy Prime Minister, Foreign Minister, and head of QIA Sheikh Hamad bin Jassin Bin Jaber Al Thani personally invested 5% of the equity.

Paul Taylor is the Manager of Three Delta (please see page 6 for more information). The name Three Delta comes from his childhood and was dubbed by a teacher to describe Taylor and his group of friends.

It appears that there are no other investors in the fund outside of the QIA. It is possible that Taylor has invested some of his personal money.

## ACQUISITIONS

### Three Delta's Acquisitions

According to Paul Taylor, Three Delta and its subsidiaries have over £3.5 billion in assets. Since its formation in June 2006, Three Delta has acquired four companies. They have bought into multiple others, but due to the private nature of Three Delta we unfortunately cannot come up with a complete list. We believe they have only invested in two PLCs: Sainsbury's and, most recently, Bellway. We also believe that Three Delta has limited itself to companies in the UK and Ireland; however, investments in continental Europe are not out of the question.

Three Delta uses different vehicles for every acquisition, with one exception. The name Three Delta was used to purchase their first company, the Senad Group. Since then, they have used different limited liability companies to buy stock and eventually acquire companies, with the exception of Delta Commercial Property, which they used to buy Four Seasons Health Care and NHP Portfolio, most likely due to being similar health care companies. Please see the following chart.

#### Three Delta's Acquisitions 1s

Name of Investment Arm	Company being Acquired	Date of Acquisition
Three Delta	The Senad Group	3 July 2006
Delta Commercial Property	Four Seasons Health Care	31 August 2006
Delta Commercial Property	NHP Portfolio	13 December 2006
Delta Fund	Care Principles	1 August 2007
Delta Two	J Sainsbury PLC	Not Acquired. 25% share of total stock.
Instow	Bellway PLC	First purchase on 9 November of 4.1%

## **STRUCTURE**

### **Management**

Paul Taylor is the managing Director.

Three Delta has three non-executive Directors: Sir Peter Middleton, the former Chairman of Barclays Bank and Permanent Secretary at HM Treasury, Sir Christopher Howes, former Chief Executive of the Crown Estate, and Nick Land, former Chairman of Ernst & Young LLP. David Mellor, former Tory cabinet minister, is now business development director of Three Delta. He was actively involved with the Sainsbury's bid.

### **Paul Taylor**

Paul Taylor is the Managing Director of Three Delta, and controls its subsidiaries, including Delta Two. He was born Paul Vincent Taylor on 19 October 1962, and grew up in a rough part of South London. While young, he was placed in a low-achieving class in school from which the headmaster said nothing good would ever come. It is believed that the name "Three Delta" was dubbed by a teacher to describe Taylor and his group of friends. Now a very successful man, his rise out of disadvantage to become a millionaire is a source of great personal pride.

Taylor went to work as a bricklayer at age 16; after a couple of years he decided to try his hand at banking and got a job as a cashier at NatWest in its East Sheen branch. He showed an immediate talent with money, and over the course of the next 17 years he worked his way up the ladder, eventually earning the position of Head of Structured Finance.

He left NatWest in 2000 to take the position of Chief Executive at Rotch Property Group, where he became the right-hand man of brothers Robert and Vincent Tchenguiz. When the Tchenguiz brothers split Rotch in 2001, Taylor went with Vincent to the Consensus Business Group, where he served as Chief Executive for six years. He left Consensus, reportedly on amicable terms, in March 2006 to form Three Delta.

When Taylor formed Three Delta in March 2006, he brought a handful of people over with him from Consensus. He hired 16 people at the outset, and rounded up his small group of notable non-executive directors. He commenced working full-time with initial

capital from Sheikh Hamad bin Jassim bin Jabr al Thani, the Prime Minister of Qatar, and the Qatar Investment Authority he controls.

In the company's early months it made noise by acquiring for £1.4 billion the Four Seasons health care group, and then by acquiring for £150 million the Senad Group. Today Taylor essentially works full-time for the Qatar Investment Authority (QIA) through his Three Delta company, advising them on their investments in the UK and on the continent. He is good friends with the Prime Minister, Sheik Hamad bin Jassim bin Jabr al Thani; they speak with each other every day. Their business is structured so that the QIA invests in Delta Commercial, which is "advised" by Three Delta. Everything is controlled by Sheikh Hamad and Taylor.

## **Qatar Investment Authority**

Qatar Investment Authority, also known as the Qatar Investment Fund, was established in 2000 with \$40 billion. The fund does not report how much money it has invested or how much they have added to the fund. As a result, there is much debate on how much the fund actually has. There have been estimates of \$50 billion and as high as \$75 billion. Most likely it is around \$60 billion.

The QIA is controlled by Sheikh Hamad bin Jassim bin Jabr al Thani, the Prime Minister of Qatar.

QIA, is a sovereign wealth fund, devoted to diversification using money from its energy sector to invest in non-energy related sectors. Their investments have mostly been in the real estate market. QIA also invests within Qatar. QIA goal is to reduce risk from relying on the energy market due to possible energy market downturns. QIA policy is to invest for the long term, with pay offs in 10 to 15 years. The overseas investments tend to focus more in Europe and Asia, with a few investments in the US. On November 18, Kenneth Shen, QIA's Head of Strategic and Private Equity, said in an interview with the Financial Times that QIA future plans are to invest more heavily in Asia and other Emerging Markets with less focus on the US.

QIA's international investments include the London Stock Exchange, Nordic Exchange OMX, Lagardere of France, Singapore's Raffles Medical Group, Industrial & Commercial Bank of China, and the European Aeronautic, Defence and Space Company (EADS). This is in addition to the investments made by Three Delta.

## **Qatari Diar**

Qatari Diar is an investment vehicle wholly owned by the Qatar Investment Authority. It has separate management and leadership, but it is chaired by Sheikh Hamad bin Jassim bin Jabr al Thani. By its own claim, the Qatari Diar resources are valued at \$1 billion (USD)

It was launched in March 2005, and in a relatively short period of time has undertaken a number of sizable projects. Currently these include affordable housing plans with Barwa (a joint-venture partner in which Qatari Diar has a 45% stake), a new Doha Convention Centre and Tower, the Ras Al-Hadd eco-tourism resort in Oman, the Al-Houara district in Tangiers, and the massive Lusail community in Qatar.

In June 2007 Qatari Diar was part of a consortium that bought Chelsea Barracks, home of the Coldstream Guards, for £900 million, making it the most expensive development site ever in the UK. This is one of the first forays into the London market for Qatari Diar.

Business partners include the Barwa Real Estate Company, VINCI Construction Grands Projects (VCGP), and Singapore's Capital International Asset Management (CIAM, part of the RSP Group). Qatari Diar is a major shareholder in two Qatari Banks, Masraf Al Rayan and the Khaleeji Commercial Bank.

## SAINSBURY'S DEAL

### Bidding Process

Delta Two presented an offer of £10.6 to takeover J Sainsbury PLC. Delta Two ultimately decided not to proceed with the deal three days before it was to be agreed upon. Delta Two is an investment arm of Three Delta.

In February 2007, a private equity consortium comprising CVC Capital Partners, Kohlberg Kravis Roberts & Co. Ltd. and Blackstone Group International Ltd. expressed interest in Sainsbury's but the deal fell through due to Sainsbury's rejecting it.

Over the course of three months in three different increments, Delta Two acquired 25.007% of total Sainsbury's shares. In the middle of July, Delta Two and Sainsbury's held talks about a possible takeover. The original deal included a 600 pence cash offer for shares. The original deal also included £3.5 billion investment for new stores, and other improvements. Due to negotiations and pressure from the Sainsbury family, Delta Two had to update its bid to include money for the employee pension fund. Please see Appendix B for more information.

### Withdrawal

On November 4<sup>th</sup>, Paul Taylor called Philip Hampton and informed him that Delta Two would not continue its bid on Sainsbury's. The ramifications of this were felt the next day with Sainsbury's stock losing 21% of its value.

The decision by Three Delta not to proceed has opened a lot of questions about the current state of play at Three Delta. Paul Taylor said in a press release:

Delta Two has strict investment criteria and has approached this opportunity in a disciplined manner. Having given careful consideration to the additional funding requirement and its impact on prospective investment returns, Delta Two has regretfully concluded that a recommendation to proceed with the proposed transaction would not be in the best interests of stakeholders, and therefore such

recommendation cannot be made. We greatly appreciate the co-operation of the Board and management of Sainsbury, and the constructive and collaborative nature of our discussions with both them and the trustees of the Sainsbury pension funds. Sainsbury is an excellent company with a strong management team, leading market position and strong long-term growth opportunities. Delta Two remains fully supportive of management's operational strategy.

Many in the press and business community have offered these reasons for the dropped bid:

- Credit crunch and the availability of capital prevented Three Delta from getting the necessary financing.
- QIA or Sheikh Hamad bin Jassim bin Jabr al Thani did not want to go through with the deal.
- Three Delta is comfortable with the management team in place and felt that nothing would be gained by a takeover.
- A rift between Paul Taylor and Robert Tchenguiz. As mentioned previously, Paul Taylor worked for the Tchenguiz brothers. Robert Tchenguiz is a 10% shareholder in Sainsbury's and encouraged the Sainsbury's board and management to separate its property portfolio, estimated to be worth £8.6 billion, into a separate entity. As a result of the pull out of Three Delta, Tchenguiz had a paper loss on one day's trading in the order of £225m. Taylor, when recently asked after the deal about his relationship with Tchenguiz, replied "I love Robbie. I think Robbie is a great guy. I spent five or six years with him and I learnt a lot from him, and he learnt a lot from me. He is a great businessman." It is very unlikely that a rift caused Three Delta to pull out, since Robert Tchenguiz and Paul Taylor were not allowed to speak to each other, given the legal implications.

## FUTURE OF THREE DELTA

We feel that there were a variety of factors for the pullout. In addition to the reasons that were listed above, we believe that Paul Taylor and his team have found a better deal with another company. At this point, we are unsure of what deal it could be. Four days after the Sainsbury's deal collapsed on November 8, Instow, another subsidiary of Three Delta, bought a 3.48% share of Bellway PLC (BWY:LSE), the 4<sup>th</sup> largest homebuilder in the UK. Bellway shares are considered to be undervalued and appropriate for a takeover bid. On November 13, Instow increased its shares to 4.05%. They have spent roughly around £46 million. A bid by Three Delta to takeover Bellway is quite feasible. Bellway would work very well in the overall portfolio of Three Delta. It would also fit well with its long-term outlook, as Paul Taylor says that Three Delta's goal is to invest in the long term rather than for short term gains.

Three Delta will probably continue with a very limited amount of funds due to the changing nature of the QIA. Kenneth Shen, QIA's Head of Strategic and Private Equity, said in a recent interview with the Financial Times that QIA future plans are to invest more heavily in Asia and other Emerging Markets.

As a result of the dropped bid, Three Delta is now barred from making a further bid for Sainsbury's for six months. It is possible that Three Delta might bid again if it feels it can shore up the necessary funding, but this is assuming that it doesn't spend its capital on another company.

## CONCLUSION

Three Delta is at a crossroads. Paul Taylor and his team have to realize that they must move forward and quickly. If they do not, they might be forgotten by Sheikh Hamad bin Jassim bin Jabr al Thani and QIA. Taylor must convince the QIA that investing in the UK is necessary to the overall QIA investment strategy. If QIA moves on to other markets, less attention and resources will be provided to Three Delta. A deal that renews confidence in Paul Taylor must occur quickly and seamlessly, or else Paul Taylor and his team may be considered irrelevant and tied down to a relatively small portfolio of companies.

## APPENDIX:

### (A)Timeline of Three Delta

**8 November 2007:** Instow, a subsidiary of Three Delta, bought a 3.48% share of Bellway PLC.

**5 November 2007:** Delta Two pulls out of takeover of Sainsbury's.

**1 August 2007:** Acquired Care Principles for £270 million.

**18 July 2007:** Public announcement of discussions between Sainsbury's and Delta Two.

**13 December 2006:** Acquired NHP Portfolio.

**31 August 2006:** Acquired Four Seasons Health Care for £1.4 billion.

**3 July 2006:** Acquired The Senad Group for £120 million.

**June 2006:** Three Delta LLC, is formed on the Isle of Man.

**March 2006:** Paul Taylor left Consensus to start Three Delta.

## **(B) Timeline of Sainsbury's Deal**

**5 November 2007:** The pullout of Delta Two is released publicly and Sainsbury's stock loses 21% of its value.

**4 November 2007:** Paul Taylor calls Philip Hampton and informs him that Delta Two will not bid on Sainsbury's.

**26 October 2007:** A Board committee and Delta Two agree that a decision must be made by November 8.

**20 September 2007:** Board of Sainsbury's unanimously agreed to allow Delta Two to undertake confirmatory due diligence after receiving an updated bid. This updated Sainsbury's Bid consisted of

- An offer price of 600 pence in cash per Sainsbury's share
- A £0.85 billion increase in offer funding by way of ordinary shares and preference shares, which will result in a total of £4.85 billion in funding by way of ordinary shares, preference shares and payment-in-kind notes
- New commitment letters from Delta Two's financing banks in respect of debt facilities totaling £9.6 billion
- The appointment of a non-executive Chairman to the Board of Sainsbury's and enhanced reporting and disclosure standards
- Delta Two business plan and capital structure
- Delta Two has a high regard for Sainsbury's management and employees
- Delta Two to work constructively with the trustees of Sainsbury's pension schemes
- Delta Two and the QIA

**19 July 2007:** Release of the possible deal:

- 600 pence in cash per share.
- This is in addition to the 7.35 pence cash dividend to be received by shareholders of Sainsbury's on Friday 20th July 2007.
- The offer would be funded by £4.6 billion in the form of equity and subordinated PIK shares and notes, and debt finance of £6 billion provided by a banking syndicate.
- Investment of £3.5 billion over the next five years to fund new store expansion, further store refurbishment and the development of Sainsbury's non-food offering.
- Roughly around £10.6bn.

**18 July 2007:** Public announcement of discussions between Sainsbury's and Delta Two.

**31 May 2007:** Delta Two acquires an additional 7.068% of Sainsbury's, bringing its total, including Sheikh Hamad bin Jassim bin Jabr al Thani's shares, to 25.007%.

**5 April 2007:** Delta Two acquires 17.406% of stock in Sainsbury's. Hamad bin Jassim bin Jabr al Thani has an additional .018% of shares.

**19 February 2007:** Delta Two acquires a 1% stake in Sainsbury's.