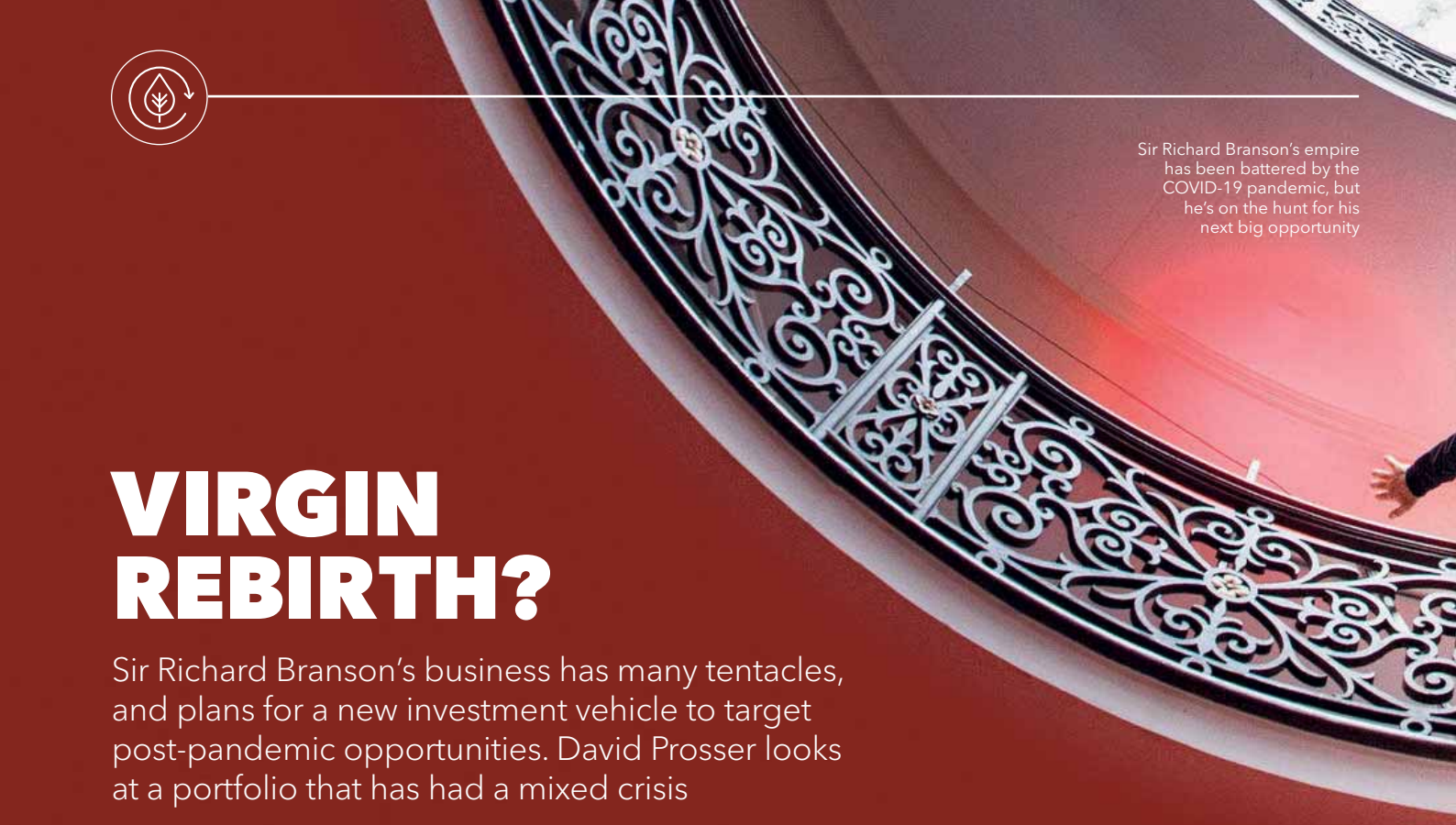


Sir Richard Branson's empire has been battered by the COVID-19 pandemic, but he's on the hunt for his next big opportunity

VIRGIN REBIRTH?

Sir Richard Branson's business has many tentacles, and plans for a new investment vehicle to target post-pandemic opportunities. David Prosser looks at a portfolio that has had a mixed crisis

Nobody could accuse Sir Richard Branson of overlooking Albert Einstein's advice that "in the midst of every crisis lies great opportunity". After months of firefighting at a host of his Virgin Group businesses caught in the eye of the COVID-19 storm, the billionaire is still on the lookout for the next big thing. In September, Virgin Group quietly filed a special purchase acquisition company (SPAC) with the Securities and Exchange Commission ahead of an NYSE listing that aims to raise up to $480m.

Virgin is one of a number of investors right now that are launching so-called 'blank-cheque companies', with war chests ready for rapid deployment as deal opportunities present themselves. Virgin's SPAC doesn't yet have any particular transaction in mind, but the group thinks the pandemic will leave fundamentally strong businesses in its favoured consumer sector on attractive valuations. It wants to be ready to strike. Money raised but not invested within two years will be returned. It's a pretty defiant move after an intensely difficult summer for Virgin Group.

Virgin itself is effectively a giant investment vehicle – a family office that looks after the wealth of the Branson family. Branson's day-to-day involvement is limited – the group is run by CEO Josh Bayliss – but his name and personal brand runs through the group. The aim is to build businesses, often with partners, and then partially or wholly divest, with the proceeds recycled into the next opportunity. The group recently used Rothschild, Barclays, Greenhill and RBS as advisers. In addition, a brand-licensing operation provides recurring revenues, smoothing the inevitably lumpy rewards of a buy, build and sell strategy.

"We see ourselves as patient and long-term capital and have held investments in some companies for more than 20 years, and in a few cases





With its many aircraft grounded and cruises cancelled, Virgin's revenues have plummeted

RECENT DEALS

2020 – Virgin Australia: Australian airline sold out of administration to Bain Capital

2019 – Virgin Galactic: space exploration company floated on NYSE via merger with Social Capital Hedosophia, valuing company at £1.8bn

2019 – Flybe: UK airline bought by Virgin Atlantic and consortium for £2.2m. Flybe collapsed in March 2020, but the business and assets were bought out of administration by Thyme Opco in October

2018 – Virgin Cruises launched in $2.5bn joint venture with Bain Capital

2018 – Virgin Money banking group sold to CYBG for £1.7bn

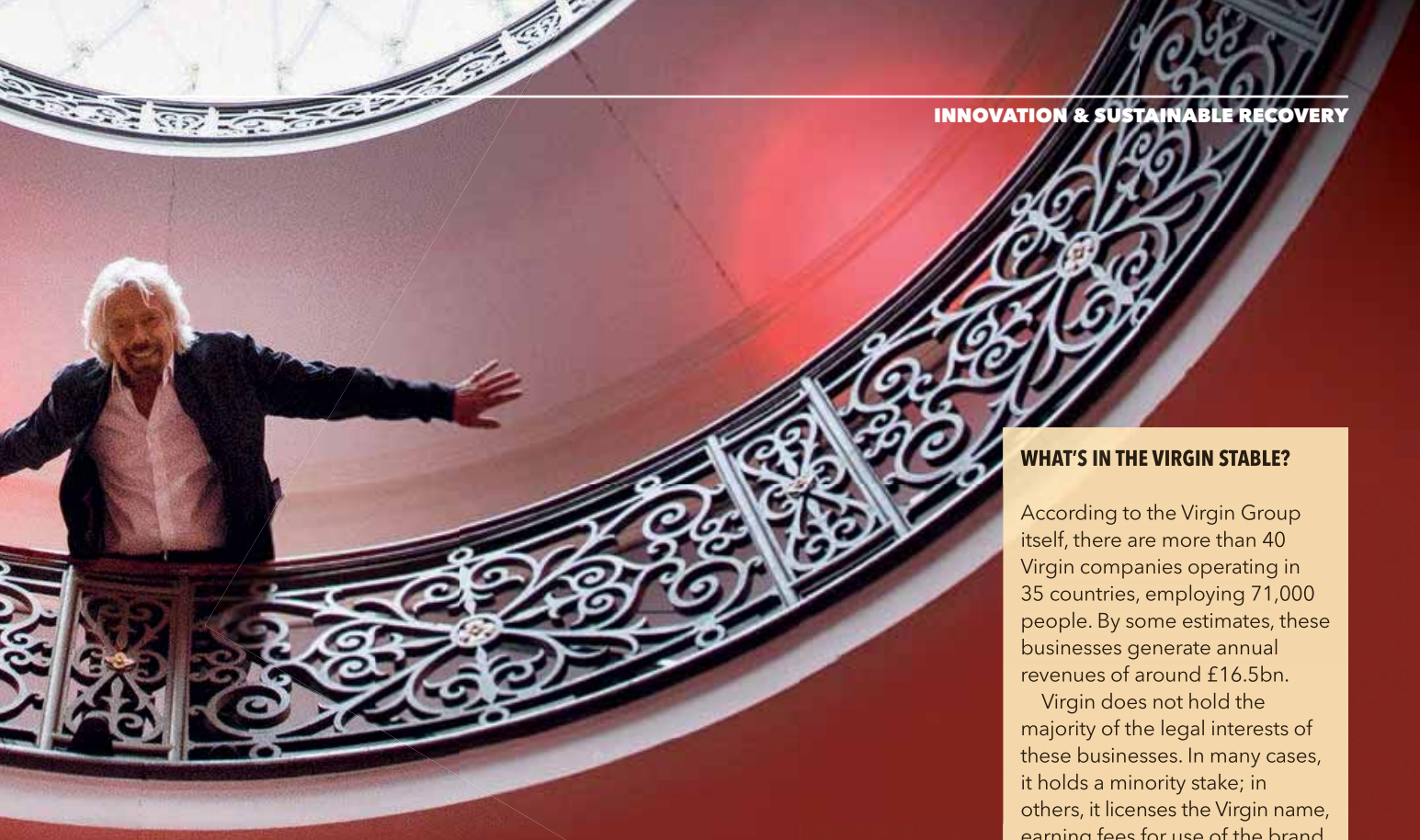
2017 – Hyperloop One: Virgin Group invests undisclosed sum in high-tech transport group

2016 – Virgin America: US airline sold to Alaska Air Group for $4bn

2015 – Virgin Mobile India sold to Tata Teleservices

2014 – Virgin Mobile France sold to Numericable-SFR for £265m

2013 – Virgin Media sold to Liberty Media for £15bn



for more than 30 years," explains Virgin Group's CFO Amy Stirling.

But, as for so many others, COVID-19 has been a black swan event. "We have felt this impact across our investee businesses operating in the travel and leisure sector in particular, like many other companies in these industries," concedes Stirling.

SHUTTING UP SHOP

Back in March, as Europe and the US followed parts of East Asia into lockdown, many of Virgin's businesses faced a near-total collapse in revenues. Branson's airlines, Virgin Atlantic and Virgin Australia, were grounded. His cruise company's ships – a relatively new venture – were stuck in port. His hotels operation shut up shop. The gyms had to close.

Moreover, Branson's room for manoeuvre was limited. In many cases, Virgin Group owns minority stakes in its businesses, making it difficult to move money and assets around the portfolio. Shared ownership models make for tough conversations about who should shoulder the burden of shoring up troubled businesses. While Branson initially hoped for government support, particularly for his airlines (see box, page 30), it quickly emerged none would be forthcoming.

"We see ourselves as patient and long-term capital and have held investments in companies for 20-30 years"

Amy Stirling, CFO, Virgin Group



The initial response was to commit $250m of his own money to Virgin. In April, Branson penned an open letter to employees around the world promising to "help our businesses and protect jobs", even though "there is no money coming in and lots going out". He offered to mortgage his luxurious Necker Island in the Caribbean's British Virgin Islands should it prove necessary.

Very quickly, however, it became clear this extra cash would be nowhere near enough for many of Virgin's businesses to survive the crisis. Virgin Australia went into administration the day after the letter.

HELP FROM SPACE

In July, Branson announced that he was selling a £396m stake in his space tourism business Virgin Galactic – relinquishing

2013 – Virgin Games sold to Gamesys for undisclosed sum

2012 – Northern Rock: state-owned bank bought by Virgin Money for £747m

2011 – Virgin Australia founded through merger of Virgin Blue, V Australia, Pacific Blue and Polynesian Blue

WHAT'S IN THE VIRGIN STABLE?

According to the Virgin Group itself, there are more than 40 Virgin companies operating in 35 countries, employing 71,000 people. By some estimates, these businesses generate annual revenues of around £16.5bn.

Virgin does not hold the majority of the legal interests of these businesses. In many cases, it holds a minority stake; in others, it licenses the Virgin name, earning fees for use of the brand but having no ownership rights.

The most notable exceptions are Virgin Atlantic, the airline that Virgin (with a 51% stake) owns alongside Delta Airlines; Virgin Hotels; cruise operator Virgin Voyages; healthcare business Virgin Care; and the group's rewards scheme venture Virgin Red. Virgin is also the majority owner of Virgin Trains, a joint venture with Stagecoach, though it lost its final train-operating contract in 2019 and now simply offers an online ticket service.

Minority holdings include the gym chain Virgin Active (20% stake), Virgin Money (13%) and Virgin Books (10%). The group also owns a sizeable stake in Virgin Galactic, the high-profile space exploration business, but has sold a chunk of its shares this year to raise cash during the COVID-19 pandemic. Similarly, until the summer, the group owned a 10% stake in Virgin Australia, but Australia's second-biggest airline went into administration and was subsequently bought by private equity group Bain Capital.

As for licences, the group's biggest deal is with Virgin Media, the television and telecoms operator. Similar arrangements are in place with Virgin Wines, Virgin Radio, Virgin Bet and Virgin Mobile.

ALAMY, GETTY IMAGES



Virgin Group has relinquished majority control of its space tourism business, Virgin Galactic. The funds from the sell-off will be used to support other branches of the group hit hard by the unprecedented impact of the pandemic

majority control in the process – with £200m of the cash to be invested in Virgin Atlantic. He also secured £200m of support from the US hedge fund Davidson Kempner, and a further £400m in the form of deferred payments to creditors.

That should be enough to buy the airline some time, says Richard Hunter, an analyst at the stockbroker Interactive Investor. However, the short-term outlook for the sector looks bleak. "There is certainly no guarantee of a return to form this winter and potentially even in the earlier stages of 2021, with pressure remaining on revenues and costs," he warns.

Virgin failed to salvage its stake in Virgin Australia. In August, US private equity group Bain Capital bought the company out of administration, but the deal effectively wiped out the airline's previous equity investors.

Meanwhile, Virgin needs the rest of the proceeds of its Galactic share sale to shore up other group companies. Its cruises and hotels businesses are under particular pressure, with international travel and tourism still so difficult, while Virgin Active has also struggled during lockdown. "These sectors remain under severe pressure as further lockdowns are either considered or implemented across the globe," warns Hunter.

This all adds up to further headaches for Branson and the Virgin Group – and underlines the gutsy nature of its SPAC listing. But the entrepreneur has never been one to dwell on problems or failures. The failure of Virgin Cola and the demise of Virgin Trains are problems he moved on from.

The family-office approach, with its mix of direct investment and licensing, will therefore continue. "In the past, we have tended to invest early and build companies by bringing in a management team and partners to expand the businesses, sometimes by buying companies in new markets," adds Stirling. "Over the years, we have also sold our stakes in Virgin companies to finance new ventures and have built up a portfolio of brand-only companies." ●

£396m

Branson's Virgin Galactic stake sold in July 2020

BRANSON'S PICKLE

When COVID-19 struck, Virgin Group's airline businesses, Virgin Atlantic and Virgin Australia, were caught in the eye of the storm. Richard Branson was quick to call for state support for the industry, citing the potential for devastating job losses and diminished competition. However, his pleas fell on deaf ears.

One problem was that the UK and Australian governments largely framed their responses to COVID-19's economic impacts with generalised support schemes, rather than industry-specific bailouts – let alone rescues for individual companies. Both governments – and the airlines' rivals – also pointed out that the two businesses were loss-making even before the pandemic.

A second factor is that while Branson is asset rich – *Forbes* puts his wealth at £3.3bn – he seems to be short on political capital. Ministers in the UK and Australia appear to take the view that someone with so much wealth should be funding their own bailout. Public opinion is no doubt a factor. As Bloomberg analyst Chris Bryant puts it: "The consequence of stamping the Virgin name on everything, often in return for no more than a licensing fee, is that the public think he owns half the economy and is in no need of a handout."

Such criticisms overlook the likely reality that most of Branson's wealth is illiquid, but controversies haven't helped his cause. Virgin Atlantic was criticised for asking staff to take time off with no pay during the crisis, though it insists this was an initiative supported by employees and their unions. The group was also accused of exploiting the NHS when Virgin Care took legal action after failing to win several contracts. Again, Virgin denies any wrongdoing, arguing that all monies have been ploughed back into the NHS. It doesn't help that Branson lives as a tax exile – his Necker Island home is in the British Virgin Islands – though he's always said he lives there because his family loves it, rather than for tax reasons.

Still, while Virgin Group eventually got no special help for its airlines, Branson hasn't done too badly on the bailout front. In 2018, the UK government agreed to write off more than £2bn that Virgin Trains – a joint venture with Stagecoach – had agreed to pay to run the East Coast train line.

