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Comment & Opinion

A surprise result in May

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"Private business owners should see the next couple of years as a good time to consider selling and will have the necessary length of positive financial performance to support this activity."

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I ended my Q1 Construction sector M&A review by saying we were likely to be entering a period of political stalemate and this could have consequences for the industry and deal activity. Well I got that wrong – the political stalemate bit – although I was in pretty good company.

We now sit here with a Conservative government having a clear mandate for the next five years to carry on the "good work", a key aspect of which was the management of the economy. This, allied to the continuation of the Help to Buy scheme, the Chancellor's personal commitment to policies such as the Northern Powerhouse and a helpful credit market, all point to a positive environment in which to do business. Now all we have to do is sort planning policy and there will be no excuses!

Election inertia

However, that is for the future (more of which later). Q2 was a story of inertia, probably caused by the election and the knife-edge on which it appeared to be balanced, and more newsworthy for what didn't happen than did.

Although not impacted by the UK election, the Lafarge/Holcim merger remained in debate throughout the quarter (finally completed in late July) and we saw no acquisition activity from any of the major distributors.

There was a complete absence of international buyers investing into the UK and the only manufactured product deals completed were smallish debt and private equity funded transactions.

Conflicting data

In addition those larger deals that did complete were not necessarily driven by wholly positive dynamics, for example Kier plc's acquisition of Southdale Homes and Galliford Try's purchase of Shepherd Building Group's regional housebuilding activity.

And all of this against a backdrop of the Construction Products Association survey confirming construction product sales had risen for nine consecutive quarters and the NHBC registration figures showing an 11.6% increase on Q2 2014.

Pressure to buy

This can only mean one thing – we will start to see increased deal activity. Corporates, both UK and international, will be under pressure from their institutional shareholders to utilise cash balances and the positive credit environment to acquire and drive earnings per share. For example, when are Bain and Lone Star going to use acquisitions as a means to create value at Ibstock and Hanson respectively? When are Travis Perkins and Wolseley going to re-enter the fray and make sizeable acquisitions? When are US acquirers going to use the strength of the dollar to gain a foothold in the UK? Last, but not least, the Private Equity and Debt markets are awash with more capital than we have seen in a lifetime and will not want to miss the cycle.

Inclination to sell

Due to these factors, private business owners will see this period as a good time to consider selling and, importantly, will now have the necessary length of positive financial performance to support that activity.

Indeed, just six weeks on from the end of Q2, the Lafarge/Holcim deal has completed. This has unblocked CRH's €5bn bid for a collection of cement, aggregate and concrete production assets required to be sold under competition requirements. Also, a number of UK mid-market deals have concluded (for example Norcros' acquisition of Croydex, Quanex buying HL Plastics and Masonite's purchase of Performance Doorset Solutions) with a clear pipeline of further deals in process before the year end.

Two deals in the pipeline

Unlike the political soothsaying at the end of my Q1 article, I can make this last comment with some confidence as I will be announcing two such deals in the near future – both mid-market UK businesses, one being acquired by a strategic trade buyer and one a management buy-out backed by UK private equity. Both businesses have flirted with selling over the last 18 months and will now complete at values and multiples higher than were on offer at that point.

In conclusion, and I recognise this will not sit easy with everyone, the next two years should be a great time to swap business assets for cash.

This article appeared in the September 2015 edition of BMJ.

Selected recent transactions

AQUALISA — Sale to — LDC

morrells — Sale to — RPM

CP electronics (intelligent energy control) — Growth capital investment by — inflexion PRIVATE EQUITY

ASPEN PUMPS — SMBO — 3i

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- Raising and refinancing debt capital

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