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Comment & Opinion

2015 - Half full or half empty?

"One of the key factors that tells me to mark down 2015 as one of the good years, and to be positive about the medium term, is the level of M&A activity as we moved towards the end of the year. There have been a number of significant deals in both scale and nature where savvy, well informed and seasoned industry participants have invested for the mid to long-term."

Keith Pickering
Partner,
Catalyst Corporate Finance

To answer the question in the headline, in my view 2015 should go down as a positive year for the UK construction sector.

Activity levels were good (output is forecast to end around four percent up on 2014), macro-economic policy remains helpful, the UK (and London in particular) continues to be a magnet for global commercial property investment, the downward trend of oil and commodity prices, coupled with wage growth and employment stability, has delivered a confident consumer and, in returning a Conservative majority government, the UK public has given the sector a pro-building/pro-infrastructure administration and a five-year period over which to plan.

Strong fundamentals

However, as I write this two weeks before we head off for our Christmas holiday, the mood music from quarter 3 is more negative. In late October to early November all the major merchants made statements that ranged from cautionary (Travis Perkins said earnings growth would be at the lower end of expectations after third quarter demand turned out weaker than expected) to downright cataclysmic (SIG shares fell 22% on a profits warning driven by weaker RMI spend in quarter 3).

So why do I think quarter 4 will send us into 2016 feeling better about the future? In part because the third quarter noise was just one of those corrections that happen along the way in rising markets. The strong fundamentals and feel good factor stemming from the general election result had created an element of "puff" in both forecasts and share prices come the end of the quarter, and this had to be released at some point. Also, the correction was probably overdone, as witnessed by the bounce back in Travis Perkins and Grafton share prices, as both are now trading (December 2015) above where they were prior to the market statements.

Acquirers make their move

Another key factor that tells me to mark down 2015 as one of the good years, and to be positive about the medium term, is the level of M&A activity as we moved towards the end of the year. There have been a number of significant deals in both scale and nature where savvy, well informed and seasoned industry participants have invested for the mid to long-term.

Perhaps most significant of all was Breedon's acquisition of Hope Construction Materials. A £336m bet on the sector, creating the UK's largest independent producer of aggregate and building materials. Alongside this, Ibstock returned to the stockmarket, at a market capitalisation of some £750m, and is currently trading (December 2015) over 20% up on its issue price.

The fourth quarter also saw a healthy level of inbound investment from our European neighbours. Gerflor (France) bought Gradus and both Inwido (Sweden) and Hunter Douglas (Netherlands) added small UK operations to their global groups.

Financial investors active

In addition, private equity returned to the sector, with LDC, the UK's leading mid-market buy-out house, investing in Aqualisa. At the smaller end, Foresight's small growth capital investment into Folkestone Fixings and the Business Growth Fund's support of Braidwater, the Derry-based housebuilder, proved that the so-called equity funding gap does not really exist.

Having said this, the above are all deals that would have kicked off well before the start of the third quarter (Aqualisa being an exception – Catalyst secured the sale within ten weeks of first engagement), so has the negative news from quarter 3 impacted this appetite? I do not believe it has as I know there are a similar level of positive deals in progress at the moment, with large trade and private equity investors alike keen to deploy money in the UK construction market.

So to return to the question in the headline, I would rephrase it and say 2015 was three quarters full and one quarter empty, with a possibility that 2016's cup will be overflowing with opportunity for business owners and managers to realise value through selling companies and to raise cash to buy them.

This article appeared in the January 2016 edition of BMJ

Selected recent transactions

AQUALISA	morrells	CP electronics	ASPEN PUMPS
Sale to	Sale to	Growth capital investment by	SMBO
LDC	RPM	inflexion PRIVATE EQUITY	3i

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