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Industrials

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Top 5 trends driving M&A in 2017



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Demand for refrigerant reclamation

Overseas interest in UK Electronics Manufacturing Services (EMS) businesses

Strong international interest in UK speciality chemicals and coatings

Industry giants see a bright future in autonomous technologies

China targeting the UK Aerospace & Defence sector

Demand for refrigerant reclamation



The sale of A-Gas by LDC to KKR was an Industrial's highlight of 2017 in the UK mid-market. The significant appetite to invest in A-Gas demonstrated the attractiveness of the refrigeration gas reclamation and distribution market. Hardly a surprise given the growing global demand for temperature controlled spaces and air-conditioning. With robust environmental protection surrounding the use and manufacture of refrigeration gases, specialists which operate in this growing, highly regulated and controlled market continue to be sought after.

Overseas interest in UK Electronics Manufacturing Services (EMS) businesses



While much of the EMS activities moved offshore to the Far East several years ago, many high value-add UK and European players continue to thrive. They often have proprietary manufacturing know-how which they apply to customer technical designs and operate in critical industries such as medical, automotive, aerospace and defence. Having suppliers close to the customer is still often highly valued by OEMs in these types of industries.

One lesser known transaction this year that caught our attention was Philippines-based Integrated Micro-Electronics' acquisition of UK-based Surface Technology International in April. Perhaps an interesting illustration of the point above. This deal helps IMI expand into the aerospace and defence market, an industry where the UK continues to be highly regarded internationally.

Strong international interest in UK speciality chemicals and coatings



The recent sale of Stirling Lloyd, a supplier of liquid waterproofing and coatings products, to NYSE-listed GCP Applied Technologies highlights the attractiveness of specialist UK chemical manufacturers to overseas acquirers.

With an enterprise value of \$94m, the deal represented a valuation of over 10x EBITDA and will allow GCP to leverage its global footprint to extend the customer base of the Stirling Lloyd products. As the UK continues to build its reputation for innovation and high-quality products within the speciality chemicals sector, interest from international acquirers is likely to increase further over the next 12 months.

Industry giants see a bright future in autonomous technologies



2017 has seen a seismic shift in large corporates' approach to M&A. During the year, we have seen long-established Tier 1 suppliers moving into the fast-growing and potentially lucrative autonomous vehicle sector. Software and control has become hot property and large suppliers are diversifying away from their traditional engineering roots into this emerging technology sector. ZF in particular has been busy, acquiring both IEE Sensing (November) and Astyx Communications & Sensors (March) in a bid to diversify their existing operations.

However, the typical size of these deals has generally been smaller than the industry average – the nascent nature of the technologies in question means many targets have been start-ups. Nevertheless, one deal in particular eclipsed them all in terms of size – Intel's \$15bn acquisition of MobileEye was by far the largest deal in the Autonomous technologies space. The two businesses bring together MobileEye's computer sensing, mapping and driving capabilities with Intel's expertise in 5G communications technologies and data centres to ultimately develop their own fleet of driverless cars. This proves the future value in the automotive industry is shifting towards technology, software and controls over mechanical superiority, and major players want a slice of the action.

China targeting the UK Aerospace & Defence sector



**Shaanxi Ligeance
Mineral Resources**



Shaanxi Ligeance Mineral Resources' £326m purchase of Gardner Group, a manufacturer of finished machine and fabricated detail parts, was one of the highest profile investments by a Chinese buyer in the UK aerospace supply chain. The deal generated a 7x return for Better Capital, which had invested in the Derby-based supplier to Rolls-Royce and Airbus in 2010.

This demonstrates a continuation of China's ambitious programme to increase its presence internationally in civil aviation manufacturing and to support the emergence of a home-grown aero-structure manufacturer. The desire to break the Boeing and Airbus global duopoly remains strong. With other recent acquisitions by state enterprise AVIC, the Gardner deal is the latest in a string of Chinese-led deals.

With significant regulatory restrictions on Chinese investment into the US and European defence supply chain, civil aviation looks set to remain the most likely focus of China's future aerospace investment.

Smart advice

Catalyst advises business owners and management teams on:

- Company sales and acquisitions
- Management buy-outs and buy-ins
- Raising private equity capital
- Raising and refinancing debt capital
- Equity Capital Markets

Global reach

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- Identification of overseas targets and acquisition execution
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- Local insight into M&A culture and tactics

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