

# M&A COMPASS

## Q4 2017





AS WE ENTER 2018, SENTIMENT  
ACROSS THE WIDER MIDLANDS  
REMAINS ROBUST...

68%

expect M&A activity  
to increase or remain  
unchanged in the next 3  
months.

FURTHER BOLSTERING THE SHORT  
TERM OUTLOOK OF OUR ECONOMY  
IN REGARD TO DEBT AVAILABILITY...

80%

anticipate either an  
increase or no change  
in the availability of UK  
debt,

AND A FURTHER...

30%

of participants express  
optimism, expecting  
an increase in the first  
quarter

WHILST UNCERTAINTY AMID  
ONGOING BREXIT NEGOTIATIONS  
LINGERS, SENTIMENT REMAINS  
STABLE AS...

48%

of respondents believe  
Brexit will have no impact  
on the M&A landscape.

# WHAT'S INSIDE?

## EXECUTIVE SUMMARY

### SURVEY RESULTS

- OPTIMISM PREVAILS, BUT MANY ADOPT A MORE CAUTIOUS OUTLOOK
- THE AVAILABILITY OF UK DEBT WIDELY ANTICIPATED TO REMAIN STABLE OR INCREASE
- RESPONDENTS ARE MORE RESERVED ABOUT THE IMPACT OF BREXIT

### GUEST CONTENT

JONATHAN EARL, INVESTOR, BGF

## GET IN TOUCH

**2017 WAS A CONSISTENTLY STRONG YEAR FOR M&A ACTIVITY ACROSS THE UK, AND THE THIRD BUSIEST YEAR ON RECORD ACCORDING TO OFFICIAL FIGURES PUBLISHED IN EXPERIAN'S 2017 M&A REVIEW.**

The Midlands has been placed 3rd in the UK and Ireland in regard to M&A volumes in 2017, and whilst deal volume was slightly down from 2016, the value of deals completed in our region has increased over 20%.

Our experience at Smith Cooper Corporate Finance is that we have experienced another increase in deal volumes. In 2017, we completed 35 deals, securing us a top 10 UK ranking and coming 9th by deal volume in the Midlands, placing us alongside a pedigree of international M&A advisers.

The findings from our survey suggests corporates and professionals based in the East Midlands are currently the most enthusiastic about future levels of M&A activity. This is in stark contrast to the results we yielded last time whereby the West Midlands was the far more optimistic region.

It's clear that, although sentiment remains strong, business owners and professionals alike are more cautious about the prospects of M&A activity in 2018. This does not seem to be specifically in relation to Brexit nor availability of debt, where sentiment remains largely unchanged. It appears that this is down to prospects in the general economy.

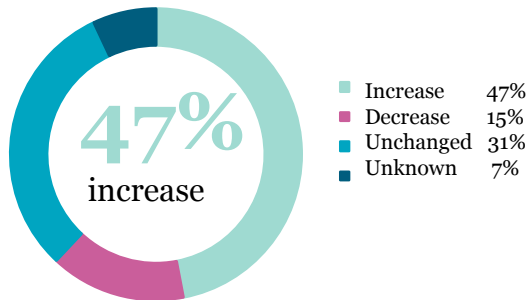
In this edition, we are proud to include comments from Jonathon Earl, BGF, who asked specific questions in the survey and provides his insight into availability of growth finance.



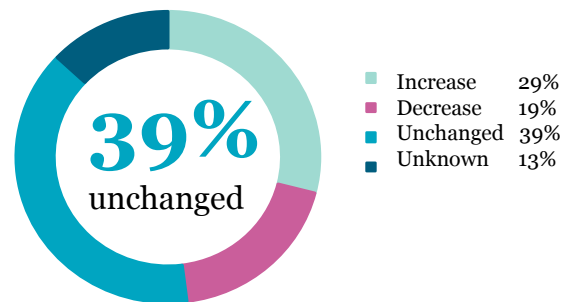
**DARREN HODSON**  
CORPORATE FINANCE | PARTNER

# OPTIMISM PREVAILS, BUT MANY ADOPT A MORE CAUTIOUS OUTLOOK

Q2 2017



Q4 2017



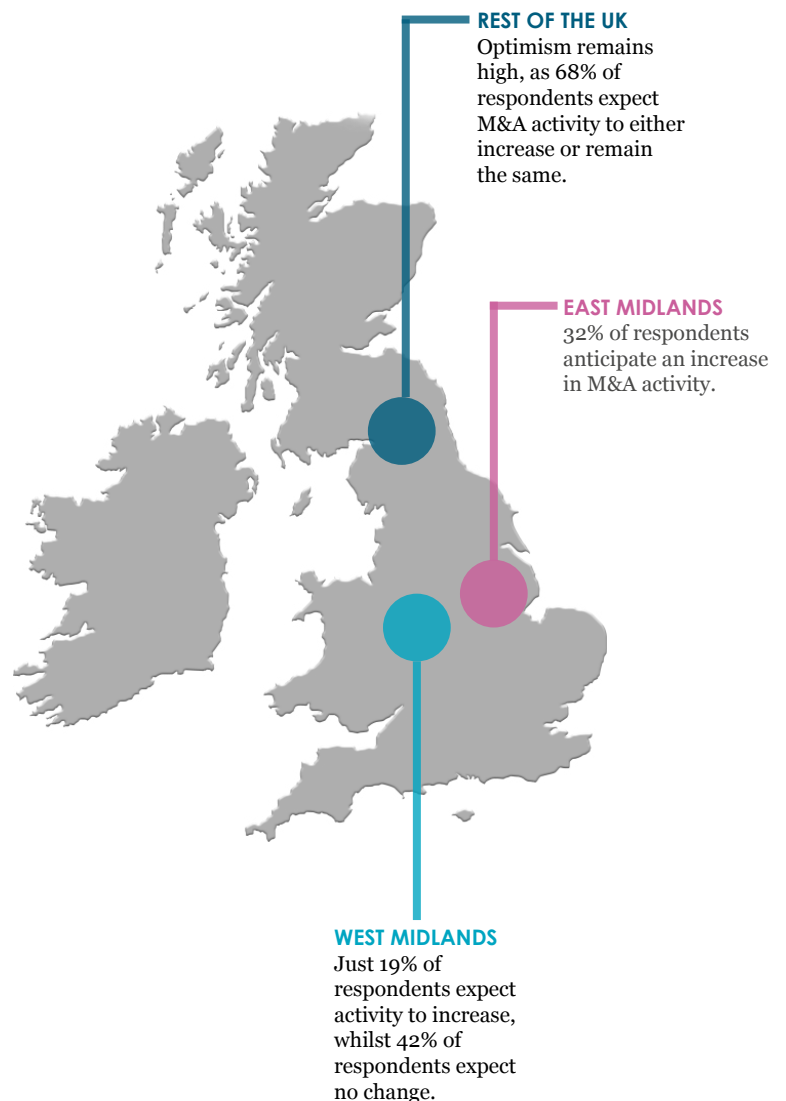
2017 was a buoyant year for dealmakers in the UK. Experian recorded a total of 946 deals in the Midlands in 2017, a drop from 2016, when 1,019 deals were recorded across the region. However, deal value has soared from £13.4bn to over £16.2bn in 2017, boosted by the completion of three large deals totalling £6.9bn.

The overwhelming response from the survey was that 68% of respondents expected deal volumes to increase or not to change. This is down from 78% (a decrease of 13%) so sentiment has softened but it still highlights how vibrant the M&A market is.

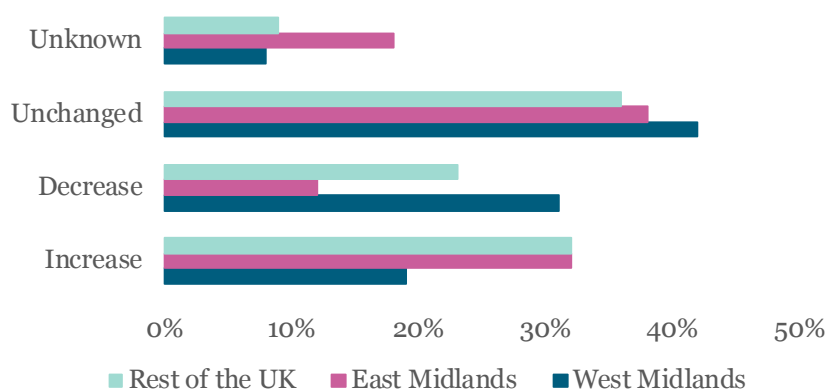
The most common response was that activity will remain unchanged of which 39% of respondents agreeing with this, an increase on 31% in the last 6 months.

29% of respondents anticipate an increase in M&A activity across the Midlands in the coming 3 months, a decrease on our last results when 47% of participants expected an increase. Whilst all regions expressed a softening of M&A activity, the most striking regional decrease was in the West Midlands which fell from 47% to 19%.

The East Midlands was most optimistic about M&A activity over the coming months, as 32% of respondents expected activity to increase, which was also echoed by the rest of the UK generally. The West Midlands expressed a more cautious outlook.



## DO YOU THINK M&A ACTIVITY IN THE UK WILL INCREASE OR DECREASE IN THE NEXT 3 MONTHS?



## THE AVAILABILITY OF UK DEBT WIDELY ANTICIPATED TO REMAIN STABLE OR INCREASE

Comparative to the last 6 months results, figures have remained stable, with over 50% of participants expecting no change to the availability of UK debt, and a further 30% anticipating an increase, indicating a boost in confidence to the resilience of the UK economy.

Regional responses suggest the East Midlands and the rest of the UK have marginally more positive expectations, with 30% and 32% respectively expecting debt availability to increase. Although, we do not expect there would be significant variations in the availability of debt as this is driven by national and international forces.

### WEST MIDLANDS

54% of respondents from the West Midlands state they expect the availability of UK debt to remain the same, and a further 27% are hopeful debt availability will increase.

### EAST MIDLANDS

Slightly more cautious than other regions, 46% of participants from the East Midlands expect the level of UK debt availability to remain the same in the coming months.

### REST OF THE UK

The most optimistic responses were from participants in the rest of the UK - 55% expect UK debt availability to remain the same, whilst a further 32% anticipate an increase.





**IN TOTAL, 87% OF RESPONDENTS FROM THE REST OF THE UK DEMOGRAPHIC EXPECTED THE AVAILABILITY OF UK DEBT TO EITHER INCREASE OR REMAIN THE SAME, CLOSELY FOLLOWED BY 81% IN THE WEST MIDLANDS AND 76% IN THE EAST MIDLANDS.**

**DEBT AVAILABILITY IS A BENCHMARK OF M&A ACTIVITY AS IT ALLOWS PURCHASERS TO FUND TRANSACTIONS CHEAPLY.**

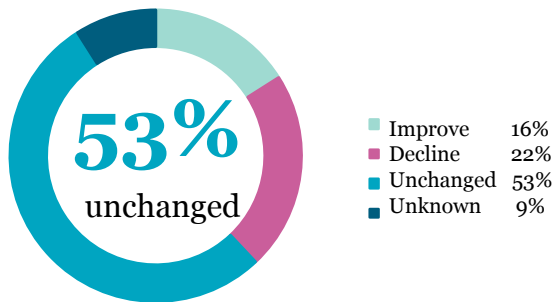
**AS SUCH THE STRONG SENTIMENT AROUND DEBT AVAILABILITY ALSO UNDERPINS A STRONG M&A OUTLOOK.**

**[ 87% ]**

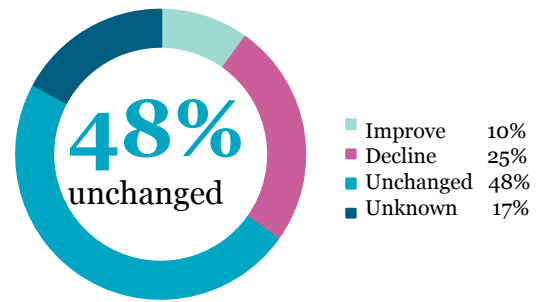
**OF PARTICIPANTS FROM THE REST OF THE UK EXPECT THE AVAILABILITY OF UK DEBT TO INCREASE OR REMAIN THE SAME.**

# RESPONDENTS ARE MORE RESERVED ABOUT THE IMPACT OF BREXIT

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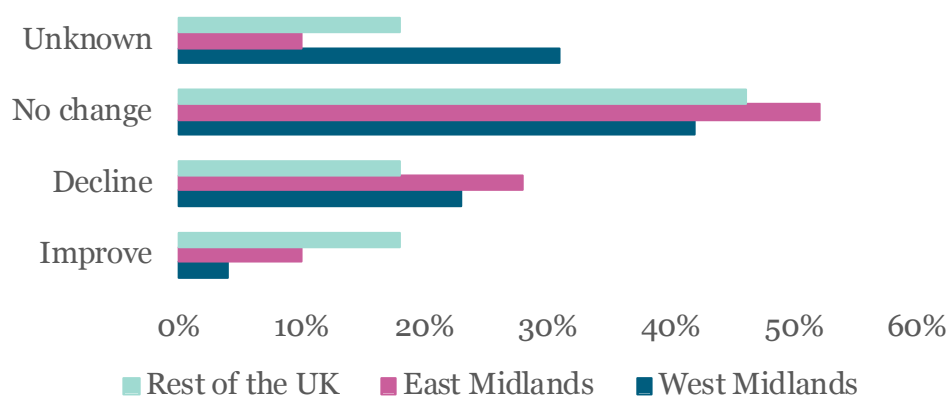
Amid our impending exit from the EU, respondents were more reserved about the impact that Brexit will have compared to the last 6 month's results. 17% were unsure as to how it would affect the M&A landscape, comparative with just 9% last time.

However, almost half expect it to remain the same, perhaps indicating that regardless of the outcome, many other confounding and contributing factors will determine the success of the M&A market.


Regionally speaking, the rest of the UK were by far the most optimistic – 18% of participants expect Brexit to improve M&A, followed by 10% of East Midlands participants, and 4% of West Midlands.



## DO YOU THINK BREXIT WILL IMPACT M&A IN THE NEXT 3 MONTHS?







“WHILST THE UNCERTAIN  
CONDITIONS SURROUNDING  
BREXIT MAY BE FAVOURABLE  
FOR CERTAIN DEALS, INVESTOR  
CONFIDENCE HAS CERTAINLY  
BEEN SHAKEN, AND WITHOUT  
A CLEAR EU EXIT STRATEGY  
ESTABLISHED, THIS UNCERTAINTY  
PREVAILS.

AT SMITH COOPER, WE HAVE  
SEEN NO REAL  
LET-UP IN OVERSEAS INTEREST  
IN UK ASSETS. ALTHOUGH,  
FOR SOME SECTORS, SUCH  
AS AUTOMOTIVE, WE HAVE  
SEEN EU BASED PURCHASERS  
TAKE A MORE CAUTIOUS  
APPROACH ON ACQUIRING  
UK ASSETS PREFERRING TO  
WAIT TO UNDERSTAND ANY  
ARRANGEMENTS AROUND  
TARIFFS.

NOW JUST 10% EXPECT BREXIT  
TO IMPROVE M&A ACTIVITY,  
COMPARATIVE WITH 16%  
LAST TIME, WHILST A QUARTER  
OF RESPONDENTS EXPECT A  
DECLINE AS A DIRECT RESULT  
OF BREXIT, AGAIN A SLIGHT  
INCREASE FROM THE LAST  
RESULTS.”

**DARREN HODSON**  
CORPORATE FINANCE | PARTNER



BGF IS THE UK AND IRELAND'S MOST ACTIVE INVESTOR IN GROWING BUSINESSES, AND WAS ESTABLISHED IN 2011 TO OFFER GROWING COMPANIES AND AMBITIOUS ENTREPRENEURS PATIENT CAPITAL AND STRATEGIC SUPPORT.

THE ORGANISATION HAS £2.5BN TO SUPPORT A RANGE OF GROWING COMPANIES, IN VARYING STAGES, ACROSS EVERY REGION AND SECTOR OF THE ECONOMY.

JONATHAN EARL IS AN INVESTOR AT BGF, WITH OVER 10 YEARS OF VENTURE AND GROWTH CAPITAL INVESTMENT EXPERIENCE.

**“AMID UNCERTAIN ECONOMIC CLIMATES AND EVER-CHANGING INDUSTRIES, WE THOUGHT IT PRUDENT TO SCRUTINISE EXACTLY HOW PROFESSIONALS WOULD ARTICULATE THEIRS AND THEIR CLIENT'S CONFIDENCE IN GROWTH PROSPECTS IN THE NEAR FUTURE.**

As a result, we discovered 40% of respondents were uncertain about their growth prospects for the next year, and whilst this may feel like a high percentage, caution now seems to almost be a norm. Brexit and surprise election results are undoubtedly key contributors to this, but other factors such as rapid technological changes may also be impacting.

Of those responding with a view, by far the largest proportion displayed medium confidence in growth prospects for the next year. There were more respondents displaying low or negative confidence than those with strong confidence. These findings correlate with the relatively modest economic growth that leading economists are forecasting for the UK in 2018.



**JONATHAN EARL**  
**INVESTOR**



*At BGF, we continue to meet hundreds of companies each year that are on a strong growth trajectory and with ambitions to further accelerate.*



Within every sector there will continue to be winners and losers - the best management teams will react quicker and more effectively to their environment taking advantage of opportunities and managing risks, and continuing to drive and develop their businesses.

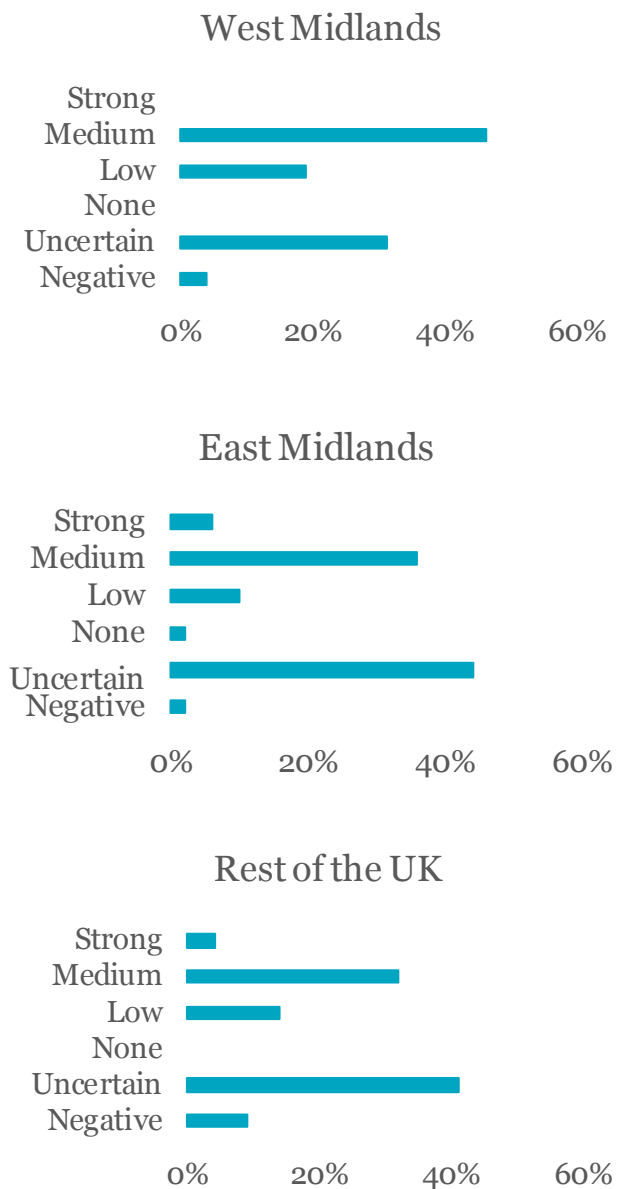
At BGF, we continue to meet hundreds of companies each year that are on a strong growth trajectory and with ambitions to further accelerate, despite any looming scaremongery.

To illustrate, during 2017 BGF has invested over £300m, with investments in 48 new companies across the UK supporting a wide range of growth strategies including acquisitions, international expansion, sales and marketing, capital expenditure projects, site roll outs, and new product development to name but a few.

Like Smith Cooper, whose Corporate Finance division completed a record breaking 35 deals in 2017, we too have seen a strong level of exit activity in our portfolio during 2017 with a number of successful realisations, with overseas trade and private equity being prominent acquirers.

We also continue to expand our office footprint, notably having just opened an East Midlands office in Nottingham alongside continuing to grow our investment team. We look forward to continuing to work closely with the businesses and entrepreneurs of the Midlands to help support their growth ambitions.”

**HOW WOULD YOU ARTICULATE YOURS OR YOUR CLIENT'S CONFIDENCE IN GROWTH PROSPECTS FOR THE NEXT YEAR?**







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## ABOUT THE SURVEY

- **Demographics**

51% of the respondents who took place in the survey were based in the East Midlands, whilst 27% were based in the West Midlands and 22% in the rest of the UK. Compared with last year's survey, 26% of respondents were based in the East Midlands, 58% in the West Midlands, and 16% in the rest of the UK.

- **A narrow divide**

47% of respondents were Private Shareholders/ Corporate, whilst 53% were M&A Professionals. When compared with last year's statistics, 31% were Private Shareholders/ Corporates, whilst 69% were M&A professionals.



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