

M&A update

Building Materials



AUTUMN 2019

Corporate reorganisation and private equity roll-ups create new strategic acquirers

The last 12 months have seen a high level of M&A activity. While this might seem perverse given the uncertain times in which we are living, it does reflect the UK market's core structural robustness. On the one hand, the larger groups have been under pressure to simplify their models – all the major distributors have sold, or are trying to sell, significant parts of their business. On the other hand, private equity, and more recently the public markets, have discovered an appetite for the sector.

SIG has offloaded a couple of smaller businesses to both private equity (VJT to Primary Capital) and trade (RoofSpace to Saint Gobain) and continues to have larger units in process – the disposal of its air handling business has recently completed. The desire by Travis Perkins to sell off both Wickes and its plumbing and heating (P&H) business has been well trailed in the press. Travis Perkins also sold a small peripheral business, Birchwood Price Tools, to Toolstream, which is part owned by Wolseley UK.

On this tack, the UK business of Wolseley, now Ferguson plc, is being divested via a spin off into a new listed company (more on this below). Finally, Grafton has now offloaded Plumbase to Marlowe (PHIL), alongside having sold some marginal businesses in both the UK and abroad.

As mentioned, capital markets have woken up to the robust fundamentals of the UK market, underpinned by a belief in the long term need for increased new residential build, the large annual RM&I market spend and the promise of large infrastructure projects breaking ground. There are two significant caveats to this interest: the acquired/floated business needs to be able to act as a platform for further bolt-on acquisitions to drive growth and the entry price needs to be sensible. These factors are evident in the investments made by Inflexion Private Equity in Huws Gray/Ridgeons and in Marley (another example of a large player, Etex, taking a strategic decision to divest), and in the roll-ups being undertaken by Cairngorm Capital in the plastic fabrication, general merchants and timber

products markets. The recent initial public offering of Brickability is another example of investor capital buying into the sector to support a buy and build business plan.

Alongside these deals, the period has also seen selective interest from strategic trade buyers, mainly in product manufacture but also in modular housing. Masonite added to its composite door portfolio with the acquisition of Solidor; Polypipe acquired Manthorpe Building Products; and Sekisui House, Japan's largest housebuilder, has invested in Urban Splash's house business. Recent results from Marshalls plc suggest it will be keen to secure acquisitions to drive the next stage of growth.

Key takeaways

This is a seller's market for quality distribution businesses

There are now a handful of new strategic buyers – Wolseley UK, Brickability, Huws Gray/Ridgeons, Marlowe (PHIL), and Cairngorm's general merchant and timber businesses – competing for good businesses. These players are likely to be joined by CRH's European distribution business, the third largest building materials distribution platform in continental Europe recently acquired by Blackstone. This could provide the elusive overseas buyer of UK merchants.

There are bolt-on opportunities still to come out of the larger players

While the focus will be on the bigger divisions already signposted as for sale, both UK and European building material providers will be looking to divest smaller periphery activities which might appeal to privately owned UK businesses looking to drive the next stage of their growth, or to private equity.

The US still sees the UK as the best overseas market

US strategic trade players remain active buyers of UK businesses, a theme that could accelerate if a US trade deal comes to the fore in the aftermath of Brexit. Given valuations in the US tend to be higher than in the UK, such an outcome could present a unique transaction opportunity for quality UK product (and construction service) businesses.



US strategic trade players remain active buyers of UK businesses. Given valuations in the US tend to be higher than in the UK, a post-Brexit trade deal could present a unique transaction opportunity for quality UK businesses in the sector.

KEITH PICKERING,
PARTNER

Selected transactions in the period

DATE	TARGET	TARGET DESCRIPTION	BIDDER
Oct 19	Plumbase	Plumbing and heating products	Plumbing and Heating Investments (PHIL)
Oct 19	SIG Air Handling Division	Air handling and ventilation products and systems	France Air Management
Aug 19	Brickability	Specialist provider of bricks and other construction materials	Initial public offering
Oct 18	Ridgeons	Independent builders' merchant operating in East Anglia	Inflexion Private Equity
Oct 18	Manthorpe Building Products	Manufacturer of moulded and extruded plastic and metal products	Polypipe Group plc
Jun 18	VJ Technology	Distributor of fasteners, fixings and construction consumables	Primary Capital Partners
Apr 18	Huws Gray	Independent builders' merchant operating in Wales and the North West	Inflexion Private Equity
Mar 18	Parker Building Supplies	Independent builders' merchant operating in the South East	Cairngorm Capital Partners

Selected deals

  MINORITY INVESTMENT IN  	  SALE TO  	  ACQUISITION OF  
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