

Reality strikes back

Dealmakers are adjusting to lower growth, but it may take a more brutal shake-out of weaker companies to accelerate deal activity next year, according to Leumi ABL

People have recognised that the world, and particularly Europe, is going to be in a low-growth period, at best, for some time to come,' says Phil Woodward, managing director of asset-based lender Leumi ABL. 'They have accepted that we won't be back to pre-2007 levels for some time.'

For Woodward, this realisation is behind the uptick in the number of ABL transactions supported by the firm over the past 12 months, which have consisted not just of the refinancing work that you would expect in a downturn, but an increasing number of deals that have expansion as their main driver.

It's a case of changed perceptions, Woodward adds, with many dealmakers deciding to press ahead with growth plans rather than wait for a full-blooded recovery that may be a long time coming.

EXPANSION FUNDING

In July, Leumi ABL supported a management buy-in at home textiles supplier Dawson Home Group in a deal that provided an exit for parent company Dawson International. The eight-figure lending deal consisted of an invoice finance facility and stock finance, and provided additional working capital alongside the acquisition consideration to help take the business to the next level.

As well as providing funding packages for UK M&A deals, Leumi ABL also hit the acquisition trail itself in October through the purchase of the UK receivables arm of Coface.

Woodward says the deal provided the company with additional experience and insight that it can bring to the table when helping to fund clients' acquisitions.

'When we talk to potential clients, whether it be businesses that want finance for growth or those that are going through a transaction themselves, we can sit there knowing exactly what they are going through and provide a bit of extra advice.'

'A lot of deals have been coming out of the high street banks' traditional lending divisions'

With M&A transactions accounting for 40 to 50 per cent of Leumi ABL's deal activity during 2011, Woodward says that continuing caution from banks is providing the catalyst for some deals.

'A lot of those deals have been coming out of the high street banks' traditional lending divisions, where exit situations have been sought due to the fact that they have not been able to provide the level of support that is required to allow the businesses to function properly,' he explains.

Woodward believes that a large number of UK businesses are now in a state of limbo, with their incumbent banks unwilling or unable to meet their funding requirements.

Despite the uptick in activity for Leumi ABL, Woodward concedes that it has been

an unpredictable year, without a steady stream either of refinancings or the straight acquisitions that characterised the pre-credit crunch years. He believes that the fortunes of the M&A market in 2012 will largely hang on events in the broader economy and the mood of lenders.

Woodward explains: 'Both of these factors are intrinsically linked as a number of the banks that would historically have put some of their clients into the distressed management part of their business, and then worked them out through an insolvency process, are now holding on to them.'

HANGING BY A THREAD

The situation is a marked departure from previous UK recessions, adds Woodward. With weak companies not going through the insolvency process and emerging on the other side as new businesses, nor being acquired by stronger rivals, they remain in what he describes as the 'intensive care unit'.

What happens next year in mid-market M&A depends on when and whether creditors decide to switch off the life support system. ■



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