insider BUSINESS Breakfast ABERDEEN

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Breakfast gathering reveals an increasing appetite to do deals

EXPERTS in the north-east's deal-making market say there is a nascent but growing sense of optimism, with activity levels gradually improving and an increasing appetite to do deals.

Speakers at last month's Insider and CMS Deals & Dealmakers Business Breakfast acknowledged there will be no swift rebound in the oil and gas sector. However, confidence levels are improving.

"I think for the M&A market it's pretty clear that we reached the bottom of the market in 2015," said Nicholas Dalgarno, managing director of **Simmons & Co International**.

"We had an imperfect storm of collapsing numbers, buyers not believing sellers' forecasts and then applying much lower multiples to those numbers than the sellers thought were appropriate, and so it was almost impossible to do deals in what was something of an Armageddon."

But the outlook did brighten in 2016 in what Dalgarno believes will be a continuing trend.

Above: L-R: Ken Symon, Insider editor; Frank Fowlie, CMS; Stuart Brown, Barclays; Nick Dalgarno, Simmons & Co; Jon Shelley, PwC; Jane Stewart, William Tracey Group; keynote speaker, Mike Sibson, BGF; and event host Nadine Dereza

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"I think I see more of the same, albeit with some more positivity - unless you are in the subsea sector - across the board," he said. "The US market is strong, we have got this low-cost shale, the wall of capital and we are already seeing both public multiples and multiples for private transactions racing away and focused on 2018 forecasts rather than trailing 12 months."

Dalgarno was one of six speakers who took part in the event at the Mercure Ardoe House Hotel, where more than 200 guests from Aberdeenshire's business community gathered to hear what the future holds for transactions in the north-east. Hosted by

business insider

Nadine Dereza, the crowd also heard from Norman Wisley, head of the Aberdeen office of **CMS**.

Wisely said the legal firm had noted a slight recovery in the broader market during 2016 after what had been "a fairly miserable couple of years". Much of this was driven by insolvencies, restructuring and "significant dispute – good for lawyers, good for accountants, not good for anyone else".

But as a result of this pain, the oil industry is now much more efficient than previously, with increasing collaboration and "pragmatic" amounts of investment feeding through into rising transaction activity.

"What does all that mean for Aberdeen and Aberdeenshire? Well we hope to see some sort of rebound in oilfield services, maybe this year, maybe next year – the panel are much better qualified than I to comment," Wisely said.

Given the difficult task of addressing the market for public listings, Frank Fowlie of CMS pulled no punches.

"Aberdeen and IPOs have not been happy bedfellows over the last few years, given that there haven't been any, and the next 12 months don't look as if it is going to improve much," he said.

But there have been three oil-related listings in London during the past year, so there is "clearly an appetite in public markets" for exploration and production stocks. Fowlie then touched on the need to look differently at transactions in the North Sea, and "how we work with our oilfield services businesses".

"If you look at aerospace, and aerospace has been a huge success, and the key to that has been encouraging small businesses to be innovative," he said. "Giving them long-term contracts rather than buying them out to encourage them to come up with the next business idea, and perhaps that can assist the north-east and root business here."

Speaker Mike Sibson

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Turning to low-carbon opportunities in the offshore sector, Jane Stewart of **William Tracey Group** said now is a good time to transact, particularly for those willing to look at collaboration and other deal-making alternatives.

"In tough markets I think you need to be innovative and creative in your approach to deals," she said. "It doesn't always take cash to transact. Outright acquisition or divestment might not be right for you or your capital structure."

From the banking perspective, Stuart Brown of **Barclays** said the question on everyone's lips is whether lenders are prepared to support the green shoots of activity.

"Banks make money when they lend money, so banks do want to do deals, and it all comes down to how do things look going forward," he said "If the business risks stabilise, if companies are well-capitalised, if there is more visibility on the revenues looking forward, then there are deals to be done."

Jon Shelley, head of corporate finance at **PwC** in Scotland, said the post-Brexit fall in the value of sterling has fuelled a rise in the number of unsolicited approaches from overseas companies. There has also been an increase in the level of activity from non-traditional sources of finance.

"We are without a doubt seeing a lot of desire for infrastructure assets," he added.

"People will be aware that many of our major oil companies have major infrastructure on their books, and we are seeing pension funds, infrastructure funds and such like seeing that as really attractive assets classes to get into for yields which they struggle to get anywhere else at the moment."

Keynote speaker Mike Sibson, investment director at **Business Growth Fund**, said the £2.5bn Government-backed BGF has eight oilfield services investments in the north-east. Noting the crowd's desire to get past the "doom and gloom" and look to the positives, Sibson talked through the difficulties and dangers posed by lower oil prices, the possibility of a second Independence Referendum and Brexit before turning to the signs that the "conveyor belt" of deal activity might once again be moving in the right direction.

"So has the trading environment improved? I would say it has," Sibson said. "This is a graph from one of our portfolio companies...(which shows that) it has stopped getting worse, and I think if you squint a bit, and look at it from an angle, it has actually started to get better.

"There was a lot of false tendering last year which involved re-tendering work but with no outcome. The cynic would say it was procurement departments keeping busy – this year there is a lot more real work, and tendering exercises actually have an outcome." ■