

M & A

Is Leasing About To See An Upsurge In M&A Activity?

By Malcolm Ogle, The Alta Group

Can we learn anything about the future from the extensive databases that we have at The Alta Group? One database shows equipment finance businesses seeking acquisitions and another, frustratingly very much smaller, shows equipment finance businesses that are for sale. Could the extent of this imbalance and the frustrations of our many clients, be about to change? For several reasons, we believe that it could, but to explain why we need to share some of our experiences with you.

First of all, consolidation in the banking and asset finance sectors means that there are, or will be, equipment finance businesses that do not fit for one reason or another. We are currently carrying out, on behalf of bank owned lessors, reviews of a number of businesses that have been acquired through the parent banks' acquisitions of other banks. We are looking at the market positioning of those businesses and their potential; whether they can prosper within the culture and business models of the acquirers. Undoubtedly, some of these businesses will be sold and, hopefully, we will be mandated to carry out the disposal.

Secondly, although a number of our clients are seeking acquisitions for strategic reasons – new territories, new market sectors, new delivery channels – the majority are after one thing; critical mass. But if the acquisition opportunities are not there in the short term, or if they are unable to fund acquisitions because of the current lack of liquidity in the banking markets, will they be able to achieve their objective? Some will not, and if they cannot achieve their critical mass, will they themselves become for sale? Quite possibly.

“Is my business likely to be worth less in three years time than it is today?” In many cases, the answer will be “Yes”.

Basel II is also having an influence, as banks compare in far more detail the respective performances of distinguishable lines of business. The consequence could well be more equipment finance businesses, or, more likely, parts of businesses, for sale.

So do the specialist leasing consultants have a role to play if there is an upturn in the market? They are, after all, small in relation to the firms one normally associates with M&A activities? Is this not the exclusive territory of Investment Banks and global firms of Accountants? We think not. Of course, Investment Banks and others have a role to play in very large transactions, but we have shown that advisers working solely in the equipment finance sector can add real value because of their hands on expertise, their detailed knowledge of the market and their understanding of the cultures and strategies of the principal players. Indeed specialised leasing consultants are often called in to work with Investment Banks on very large transactions where their specialist knowledge and understanding of the business is needed.

The specialist leasing advisor is well placed to learn early on about changes in strategies that could lead to disposals or acquisitions. Indeed he may well have had a role in assisting develop that strategic decision. They will often, in fact, be the catalyst that creates a deal where one didn't exist beforehand. Such an example would be the recent Bibby acquisition of Cash Reform in the Czech Republic. Bibby had asked us to find a suitable acquisition that would match their values, strategies and aspirations. Until approached by us, the target company hadn't even contemplated becoming part of a larger group.

On the selling side, a specialist leasing advisor may be called in because he will intuitively understand the business and will not need time to get to grips with the business before starting the sale process. Equally important, a specialist will instantly know who in the business is looking to make acquisitions in that segment. This was recently demonstrated by the Pacific Capital Bank's sale for \$280 million of its small ticket business to LEAF Financial Corporation. This was completed in record time by our colleagues in the United States, substantially as a result of their extensive contacts throughout the North American leasing industry.

So will M & A activities really increase in the equipment finance sector? We believe that they could if owners take a long and hard look at the value of their businesses, or the constituent parts of those businesses and ask themselves the question "Is my business likely to be worth less in three years time than it is today?" In many cases, the answer will be "Yes". Not surprisingly, we believe that we can help in the evaluation process, which should extend beyond traditional evaluation methodology and include an assessment of the aspects of the business that may be particularly attractive, and therefore valuable, to the right purchaser.

The evaluation process should also look closely at the constituent parts. Are there any parts of the business that can be ring fenced and managed as a separate business in order to increase its value prior to being sold? We think we can help here too!

In summary, we believe that M & A activities will increase, provided owners and senior management look at their businesses with an open mind and determine whether they are buyers or sellers. Some, of course, could be both!

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