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A value view

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We have seen several takeover approaches or full bids for UK mid-cap companies in the past few months. Why is this, when there has been doom and gloom in the news for some time now? There are three factors at play.

First, there is a fantastic valuation opportunity in the UK. While the overall market has been hitting highs, many domestically exposed sectors trade on low valuations due to concerns about Brexit, political risk or structural factors. However, for corporate buyers willing to look longer term, these valuations can represent rare opportunities to buy sound businesses at bargain prices.

Shopping centre owner Intu Properties was trading below half its asset value before property developer Hammerson bid for it. Ladbrokes Coral was depressed by a continuing regulatory review when GVC launched its approach. And global engineering group GKN was laid low by a profit warning before investment company Melrose pounced with its hostile (and ongoing) takeover bid.

Second, the interest rate cycle may be turning. While rates are likely to rise only slowly, the window of cheap finance may be starting to close. Cheap financing is an important factor, allowing asset manager Brookfield to try to buy serviced office group IWG for cash, an approach that failed.

Third, corporate confidence is high and investors are receptive, at a time when companies are struggling to grow organically. This can be critical, because mergers and acquisitions activity is cyclical and linked to stock market confidence. Recently, investors have been responding well to most deals, including Tesco's purchase of wholesaler Booker.

Times may have been challenging on Britain's high street lately, but companies, at least, have been getting their wallets out.

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