Pace Equity 2017 Hot Sector Picks

Infrastructure

The UK Government has committed to the National Infrastructure Spending Plan, with a project pipeline of £483bn between 2016 – 2020 (as at Spring 2016). Since then a number of significant projects have received further backing with the chancellor committing to investment in order to stimulate the economy post Brexit. High profile projects include Hinkley Point Power Station, the Stonehenge Tunnel, HS2 and Heathrow.

The scale of the projects will lead to firms forming joint ventures or buying in further resource and expertise in order to ensure they are well placed to maximise their opportunity. Firms operating outside the sector will also eye infrastructure acquisition targets.

Recruitment

According to the CBI, 2017 is expected to be a good year for recruitment, with science and technology industries leading the way. Moreover, almost every part of the private sector is expected to hire more staff over the next 12 months, the CBI's annual employment survey found with 41% of companies expecting to grow their workforces in 2017, compared with just 13% expecting payrolls to shrink.

With this backdrop we expect to see strong interest in well-structured recruitment businesses that have sufficient critical mass to prosper under new ownership.

Healthcare

The NHS is under increasing pressure from patients, suppliers, medical staff and market trends. This situation is not going to improve unless new vision and new technologies are permitted to take hold. We are witnessing the early birth of digital healthcare which must be encouraged to replace old thinking and old entrenched practices. The 90's generation and even millennials are coming of age and already adapting with wearable technology and a better attitude to self-control of health, fitness and well-being. We only need to recognise the massive increase in cycling in the UK over the last 10 years, to see that the modern generations are rapidly adopting new technologies to keep fit and healthier than their parents and grandparents. Fintech has enjoyed a revolution in the last 5 years, Medtech is about to take off in pursuit

We expect rapidly growing tech and M&A activity in Biopharma, medical devices, data analytics and diagnostics. Wider technology and IT solutions that increase efficiencies, including mobile, are likely to attract strong interest, which will feed a vibrant M&A market.

Oil and Gas

The recovery in oil price has meant a measured revival in the UK oil and gas industries which have suffered such major declines over the last 3 years. Higher oil prices will allow firms to plan new exploration in 2017 as well as increasing investments in operations. New investment will lead to increased M&A activity.

As we enter 2017, a sense of cautious optimism is rearing its head in the industry. We witnessed the beginning of an increase in M&A and acquisition/divestiture activity in 2016 with OPEC finally announcing production cuts of 1.2 million barrels per day. With rig counts growing, albeit slowly, once again, there is a sense that better times are ahead.

Investment in controversial Shale Gas exploration means that the industry is in better shape than it has been for over 3 years. With this cautiously increased activity level and improved confidence we expect M&A activity to build slowly but steadily over the coming year. Good value acquisitions will be possible.

Fintech / Alternative Finance

According to a report by EY in late 2016, the UK has the strongest Fintech ecosystem, closely followed by California and New York. The Fintech workforce is estimated at over 61,000 employees – more than Hong Kong, Singapore, and Australia combined and Fintech is estimated to have generated over £6.6 billion in revenue during 2016. The competitive advantage of the UK lies in supportive regulations, tax incentives and innovative policy makers. Fintech may have plateaued in 2016, but with some Brexit uncertainty behind us and a range of positive 2017 economic forecasts, we are confident that Fintech will regain its relentless upward march.

On the Alternative Finance front we are witnessing ever increasing innovation. While Regulatory scrutiny is bound to have some impact the sector is growing and maturing and banks are now getting actively involved, taking stakes in platforms to service customers that they cannot support through traditional means.

As the market grows and evolves we expect active consolidation with more traditional providers acquiring the innovation and services that they cannot build under the old traditional financial systems.

Cyber Security

We believe Cybersecurity growth is set to smash all records in 2017. The market is moving at lightning speed with new innovations from only 2 years ago being discarded as “old hat”. The Trump election clearly illustrated that we are engaged in an international Cyber war, which only the most innovative will win. Britain has an outstanding reputation in Cyber security innovation, with new companies and new technologies being created daily.

With the vast increase in breaches and increased legal responsibilities for businesses to protect the data held, as well as bring-your-own-device and the internet of things, Cyber Security growth will continue unabated. M&A activity will be strong as new companies and technologies come to the fore. The global Cyber Security marketplace is expected to grow from $122bn in 2016 to over $200bn annually by 2021, a CAGR of over 10% p.a., while forecasts for the UK set CAGR rates at 14-15% p.a. to 2021.

Pace Equity has been in business since 1989 and is one of the UK’s longest standing and most authoratitive M&A Boutiques. We offer a full M&A advisory service specialising in mid-market private companies.

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