

Re: UK Construction Consolidation 2017-2022

In November 2016, having completed a 300-page report on the industry, I presented my views, and those of others on corporate strategies and M&A opportunities, to the leaders of major construction groups, in a confidential report review [*copy attached*]. The full report was subsequently published on-line at [www.thinkbigpartnership.com](http://www.thinkbigpartnership.com)

Sir Neville Simms, Chairman of Thames Tideway said in his Foreword to the report that “British contractors are in danger of missing out on major international projects in the future, if they lack financial muscle and diversity of say a £15bn-a-year contractor to handle the more complex projects.”

The study was inspired by a prior report published by Ernst & Young in 2015 entitled “UK Construction- consolidation ahead” which saw a weak construction industry being a significant risk to major counterparts to the sector. With contractor risk being a growing concern, they predicted significant consolidation.

<http://www.ey.com/Publication/vwLUAssets/ey-uk-construction-consolidation-ahead/%24FILE/ey-uk-construction-consolidation-ahead.pdf>

But by July 2017, it had become only too apparent that construction groups had not heeded the advice for the urgent need for industry M&A, and several major companies had declared significant losses or made profit warnings, decimating balance sheets and company market values. The collective effect has been to the detriment of the financial strength of the UK construction sector. Construction News published my views in an article on July 13<sup>th</sup>, with particular reference to Carillion’s woes, making it too late in the day for them.

<http://nebula.wsimg.com/28e78a59a3991aa9e63cc07241d71c07?AccessKeyId=95B6737F98B38E354D56&disposition=0&alloworigin=1>

Stronger balance sheets, and diversity and size, will be required to attract investor interest, and re-create UK construction conglomerates which can lead the industry. The ability to build such groups will require M&A, now probably involving foreign capital. Inspirational leadership will also be required, but it’s putting the cart before the horse in my view to seek new CEO’s to turn struggling groups around, until future ownership and funding is clear. It’s like trying to recruit a top Premiership Manager to turn around a near bankrupt Championship football team. Jose Mourinho I suggest would not take the job.

Consolidation in the industry must and will take place, it’s inevitable; and may include some bankruptcies as well as more welcoming M&A. The right move made by a few will “harness the potential of many by a singular vision.” Eventually the process should mirror that seen in comparable industries where the supply base has consolidated around leading participants as it did in the Automotive and Aerospace industries, and the Big Consulting Professional Services firms.

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