

## Overseas appetite for UK retail sector M&A soars

3 years ago



New analysis from Grant Thornton UK LLP finds that overseas interest was a significant force in deal activity in the UK retail sector in 2021, with overseas acquirors present in 43% of deals across the year, the highest level of activity seen in a decade.

Notable deals include US private equity group Clayton, Dubilier & Rice's £7bn takeover of Morrisons and the £4bn acquisition of Selfridges by Thai-Australian alliance, Central Group and Singa Holding.

This is a significant increase compared to before the pandemic (2019), when overseas acquirors accounted for 35% of deals.

**Nicola Sartori, Head of Retail at Grant Thornton UK LLP, said:** "The UK is once again seen as an attractive proposition for international investors. The uncertainty surrounding Brexit that for many years made acquirors reluctant to invest in the UK has largely disappeared and the nation has regained its foothold as a strategically important market."

Grant Thornton's research also found that in Q4 2021, traditionally the busiest time of year for retailers and shoppers, investors and trade buyers were on a spree of their own, acquiring 19 UK-based retail companies. This took the total volume of UK retail and consumer deals in 2021 to 65, the highest level since 2017.

Disclosed deal value for the sector in 2021 returned to pre-COVID-19 levels, up at £13.5 billion, compared

to £7.9 billion in 2020. This reflects that deal activity all but ceased in the early days of coronavirus but returned in force in 2021.

One of the biggest trends over 2021 was the proliferation of private equity (PE) into the retail M&A mix, with PE activity in the sector at the highest level in over a decade. PE has been particularly interested deals involving eCommerce such as the Business Growth Fund's investment in Character.com, an online retailer of children's licensed apparel and accessories, and the Hut Group's £257m takeover of Cult Beauty.

Nicola Sartori continued: "Deal activity towards the end of 2021 highlighted a recalibration of 'the end of bricks and mortar' predictions to a more balanced approach, which saw investors placing value in the combination of physical store presence with a strong omnichannel offering. Furniture retailer Loaf, which was acquired by Blue Coast Capital in November is a good example of such a business: its strong internet offer is supported by eight shops across the UK.

"Not only has COVID-19 altered the way we shop, but also how we live. In Q4, buyers continued to seek deals that capitalise on post-pandemic consumer trends such as health and fitness and increased demand for home delivery. Examples include the sale of inflatable paddleboard brands Red Paddle to Myers Family Office and HIKS to profound Commerce as well as JD Sports' acquisition of a majority stake in Wheelbase Lakeland Limited, which has three bike stores in the North of England.

"In the home delivery space, a good example deal is Turkish grocery delivery company Getir's acquisition of Weezy (a rapid grocery delivery service that claims to deliver 'in minutes'). We also advised on many deals in the home delivery area this year, including Perwyn's investment in HungryPanda, an online delivery platform specialising in Asian cuisine.

"A combination of private equity's fondness for the sector, along with record amounts of dry powder stocked up during the pandemic, has the potential to drive up valuations and price trade buyers out of the market. However, a softening of the performance of the retail sector in capital markets throughout 2021 may be enough to temper growing multiples. As we progress through 2022, we expect to see more realistic valuation expectations on both sides of the table."

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