

The UK's December 2019 general election delivered an 80-seat majority for the Conservative Party. The swing, however, did not come from traditional swing seats. Instead, it came from an area that the media had, in the run-up to the election, labelled the 'red wall' - a set of constituencies in the Midlands and the North of England. As a result, some believe that the new Boris Johnson-led government, beholden to the intake of new Tory MPs in largely provincial towns, will mean a fresh look at infrastructure spending across the UK, a subject covered in the cover story 'Building Britain' in *Corporate Financier* in November 2019.

"The infrastructure market is a coiled spring at the moment, and everybody is waiting to benefit from it," says Andrew Hodgson, a corporate finance partner at KPMG in Bristol. Like many others, Hodgson argues that infrastructure spending would be the best way to 'reward' the new Tory constituencies, with work and long-term benefits from such investment.

"There's an enormous pent-up road and rail building programme, and if you're selling the machinery used in that then you're well placed," he adds.

That's fortunate. KPMG in Bristol has just advised one such company - Avonmouth-based Molson - on its £11m equity raise from the Business Growth Fund (BGF), which was completed while prospective MPs were knocking on doors last November. Maybe



"The key challenge with this process was establishing run-rate earnings"

Kay Drury,
corporate
finance partner,
KPMG, Bristol



"What we want to do is gain scale and be multi-brand"

Robin Powell,
co-founder,
Molson

there will be an even stronger set of exit options if infra investment does take off.

Molson is a major heavy equipment supplier to the infrastructure and recycling sectors. It is one of the largest suppliers of Korean and Japanese-built excavators in Europe. It sources dump trucks, bulldozers, road rollers, demolition rigs and wheeled loaders, and is also Hyundai's biggest dealer in the whole of Europe. The company has anticipated a new boom by sealing two funding rounds with the BGF. The new capital funds will be used to embark on a series of targeted acquisitions.

"In the past, dealership in construction has been based regionally around 'mom-and-pop' stores," explains Robin Powell, who co-founded Molson with Jonathan Wilson. They still share an office. "I'm not sure they've gained scale at the right time."

His company's story is based on keeping the product knowledge and local connections of these small businesses, while also bringing more technology and professionalism to the whole thing. He says that many firms thought having Sage installed made them cutting edge. "We wanted to make it 21st century," he adds.

For Molson to grow it needed capital investment to develop its brand portfolio, which now includes Hyundai, Turmec, Kobelco, Ammann, Sennebogen and Trommall. The 2018 acquisition of Finlay Group

Infrastructure investment across the UK looks set for a boost, and the BGF is getting ahead of the curve with its investment in construction equipment supplier Molson, finds Jason Sinclair

DIGGING DEEP



saw Molson secure the distribution rights of Terex crushers, while geographic reach was expanded by the takeover of Young Plant Sales in Scotland.

Such plans, of course, need investment. The BGF put £6.3m into Molson in 2018 and followed that with £11m in November 2019. Kay Drury, a Bristol-based corporate finance partner who led the KPMG team, says: "It was a finance-raising exercise, injecting capital into Molson at the same time as the shareholders were de-risking and taking money off the table. The exit review that was undertaken related to the BGF's future options, and a trade sale and a secondary management buy-out were the two main options we considered."

Cash is earmarked for the redevelopment of Molson's Avonmouth site as a national parts centre, and to expand the group's international reach and its distribution in the waste management and recycling spaces. "Again, this tends to be distributed by small stores with small capital bases that understand the product," Powell explains. "What we want to do is gain scale and be multi-brand while retaining the product knowledge."

KPMG carried out a traditional due-diligence exercise, looking at financial performance, balance sheet, working capital and cashflow. There was a particular emphasis on underlying earnings given Molson's history of acquisitions and geographic



"The infrastructure market is a coiled spring at the moment"

Andrew Hodgson,
corporate
finance partner,
KPMG, Bristol



"The client objective was to bring in some growth capital to consolidate"

John Gill,
partner, TL T

expansion. "It was an equity raise and not a sale," says Drury. "The key challenge with this process, as with many equity raises, was establishing run-rate earnings (as Molson has made a number of acquisitions), and then extrapolating these financials forward to support management's forecasts."

She adds: "The finance raise was completed, which included business valuation to determine what proportion of the equity the BGF should receive for the investment that they made."

Investment director Paul Oldham now represents the BGF on Molson's board. He also led the BGF's first investment in Molson. "The whole point is to be a supportive minority investor, and to be patient," he says. "We're not an owner of the business and we don't act like one. The BGF is designed to be attractive to entrepreneurs and owner-managers, and that's one of the reasons we've done so many deals over the last decade."

Set up in the wake of the financial crisis in 2011, the BGF's original remit was to invest through bad times, in circumstances where private equity (PE) was holding off. Now some companies like Molson are choosing the BGF even when multiple other PE firms would also be interested in them. "The BGF has a reputation of being fair and reasonable to deal with," says Powell. "PE doesn't necessarily always have that reputation. We thought we could get the



TIMELINE

- **1996** Molson formed by Robin Powell and Jonathan Wilson in Avonmouth as a used construction equipment dealer and servicer
- **2007** Appointed Hyundai dealer for Wales and Southern England
- **2014** Opens new service unit in Warrington, Cheshire
- **2015** Molson Green appointed UK supplier for Ecotec environmental equipment
- **2017** Annual turnover tops £100m for the first time
- **2018** First round of BGF investment of £6.3m
- **2018** Molson acquires Finlay Group
- **2019** Acquires Young Plant Sales; new depot opened in Inverness
- **2019** Second round of BGF investment, of £11m
- **2019** Annual revenues set to reach £220m



fairest deal making a long-term patient investment.”

TLT partner Jon Gill, who provided legal advice to Molson, says: “The client objective here was to bring in some growth capital to consolidate within its sector. That was really what the BGF was designed for. Its approach was entirely suitable at first fundraise, and then, as we’ve seen with other BGF portfolio companies, there’s a track record of the original investment not being the end of the story.”

The other attraction of the BGF as an investor, says Powell, was that it had feet on the ground close to Molson’s south-west base: “The BGF is local to us. Although we intend to be an international company, it’s close to our head office and that was important. It was also more understanding of our model and seemed to have taken more time to understand it and give an insightful view in a way that the PE houses we approached just didn’t.”

Oldham’s board remit also requires him to draw on his corporate finance experience to advise on acquisitions and making their investment more valuable. “We are a commercial concern and understand how to build and realise value towards any sale process, and we have expertise in that,” he adds. Future exit options, perhaps unsurprisingly, are primarily focused on trade sale and private equity. ●

WHERE TO GROW?

So, just what are the growth plans of this 300-employee company that has an annual turnover of £220m? First, it plans to redevelop its main Bristol site into a centre of excellence with after-market repairs and maintenance becoming a bigger part of its business. Second, there will be further acquisitions. Finally, there will be working capital investment in stock as it takes on franchises of other brands seeking a route to the UK market.

“Molson has just won the Sennebogen sole distributor franchise for the UK,” says BGF’s Oldham. “They’re getting those opportunities because they’re the leading independent dealer. The only businesses bigger than Molson are Caterpillar and JCB, and if you’re the manufacturer of a quality piece of kit outside the UK, Molson is probably your best choice for market coverage.”

KPMG’s Hodgson says: “The wider construction market in 2019 has been challenging. Molson was starting to see some potential headwinds - but on the other hand there are massive opportunities in infrastructure spending coming down the track. Many stars are aligning in this sector, such that over the next five years we expect a significant uptick in M&A in the capital equipment part of the infrastructure market.”

While Molson’s Powell adds: “The UK is desperately overdrawn at the infrastructure bank. That now seems to be politically understood, but BGF saw this some time ago. We have a portfolio of brands rather than one brand. Wherever investment takes place, we will serve it.”



£11m

The amount BGF invested in Molson in November 2019

**PAUL OLDHAM,
BGF REGIONAL DIRECTOR FOR
THE SOUTH OF ENGLAND**

“Molson is one of our bigger investments. Now we have £17m invested. The deal had all the characteristics BGF looks for - a good solid business, a strong management team and lots of growth opportunity. There’s risk to the construction sector, so some investors would have swerved it, but that’s not how we think. We have a great spread across sectors and that diversified portfolio insures us”

