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analysis

uk watch

Produced in association with Corbett Keeling

Quarter 3 2013

Third quarter 2013 – building on foundations

In his regular quarterly commentary on UK private equity investment activity, Jim Keeling of Corbett Keeling gives a practitioner's view of trends in the number, value and financing of private equity deals. He sees the recovery in deal activity gaining solid momentum amid a broad improvement in sentiment among market participants



Jim Keeling,
joint chairman,
Corbett Keeling

AFTER A dire start to the year, deal activity picked up in the second quarter, with mild optimism in our survey suggesting that the recovery was set to continue. That optimism was borne out in the third quarter: the value of transactions increased overall, despite a decline in early-stage/expansion deals. The good news extended to our latest survey which points to a further improvement in the months ahead.

Before sifting through the survey evidence for clues to future trends, we will take a closer look at what happened in the third quarter.

- Volumes in the smaller buyouts sector (transactions with enterprise value of less than £150m) held steady. Thirty deals were done, one less than the second quarter but still 50% up on the first quarter. The news was even better in terms of values. Aggregate smaller deals came in at £1.2bn, a marked increase on the previous quarter and twice the total for the first quarter.
- Larger deals (enterprise value of £150m or above) picked up in terms of volume. Ten deals were completed, an increase on the seven completed in the second quarter. In fact, it was the equal highest number of deals in any quarter for more than five years. Values also rose, to £4.4bn from £3.9bn in the previous quarter, but it remains to be seen whether

2013 will be capped by a bumper final quarter to match last year's.

- Early-stage and expansion capital deals were the only disappointing sector of the market over the third quarter. Only 43 deals were completed, down from 61 in the second quarter and 73 in the first. Values also decreased, falling to £388m compared with the second quarter's £645m, a figure that was admittedly almost entirely due to a bumper June.

One market trend that remains firmly in place is the low ratio of all equity buyouts to total buyouts. The third quarter produced a grand total of two all equity buyouts, in line with the average for the previous four quarters.

Looking ahead, the survey showed an increase in the level of optimism about the general prospects for the industry over the next six months.

- Unusually, not one of those surveyed expected a decrease in buyout activity for either the lower value or the larger value market segment. At the same time, the proportion of respondents forecasting an increase in activity rose significantly to a clear majority in both segments.
- This sanguine mood extends across most industry sectors. Over half of respondents predicted an

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- RAISING FUNDS FOR MANAGEMENT BUYOUT TEAMS
- DEBT ADVISORY
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outright rise in activity levels for five out of the seven sectors. Even for healthcare and media, the only exceptions, 48% and 44% respectively voted for a rise in activity while the rest expected activity to remain stable.

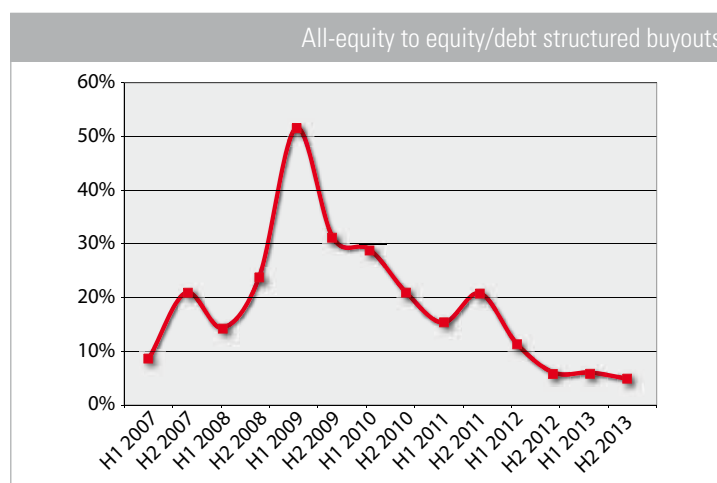
- The pick-up in market sentiment does not appear to signal a return to the boom times, however. Asked about the prospects of a spike in fundraising by private equity firms by the end of next year, nearly 40% of those surveyed said the market was finally picking up. But over half said they were either unsure or thought plenty of cash remained to be invested.
- Concerns about debt availability at the lower end of the market appear to be fading. More than two thirds of respondents thought there was enough leverage to support primary transactions.

- As for which type of vendor is expected to generate the most attractive private equity transactions over the next two years, families and entrepreneurs were the clear winner (58%). Corporations were seen as the second best source (27%), with public-to-private transactions and receivers and administrators the least likely sources.

So, overall, the market appears to be gaining a head of steam after the disappointment of the first quarter of 2013. Against a backdrop of a generally improving economy and a healing banking system, we trust that the general level of optimism revealed by our survey will prove well founded over the rest of the year and into 2014, and so reflect the strong showing of the last two quarters.

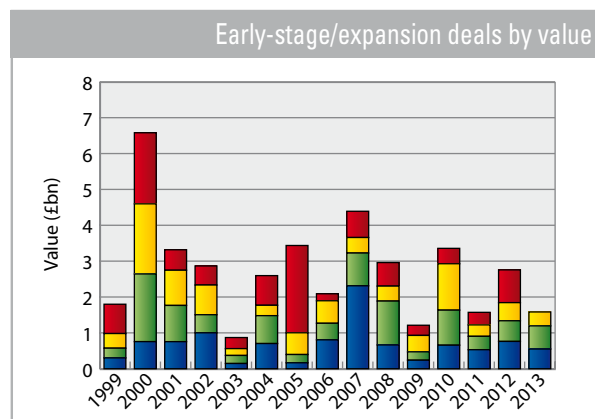
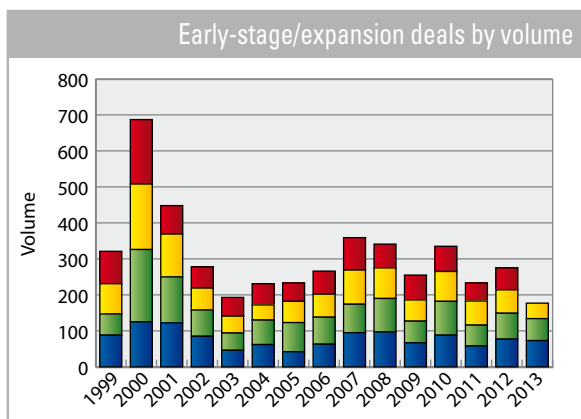
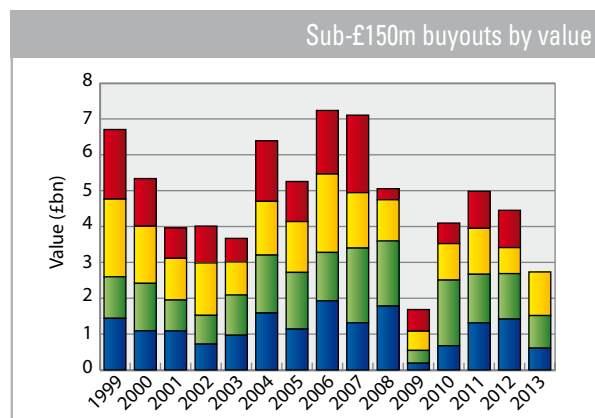
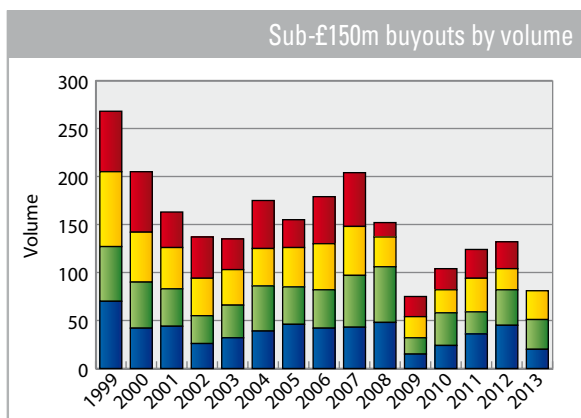
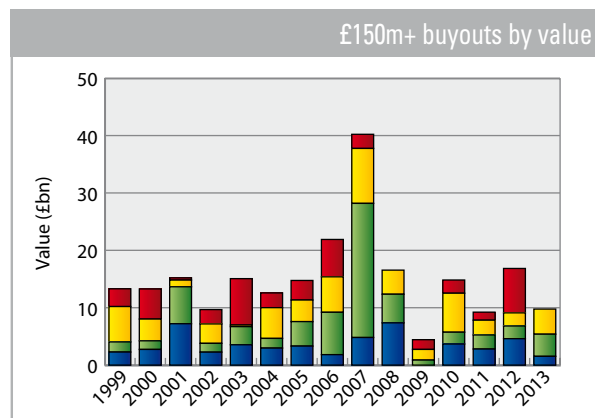
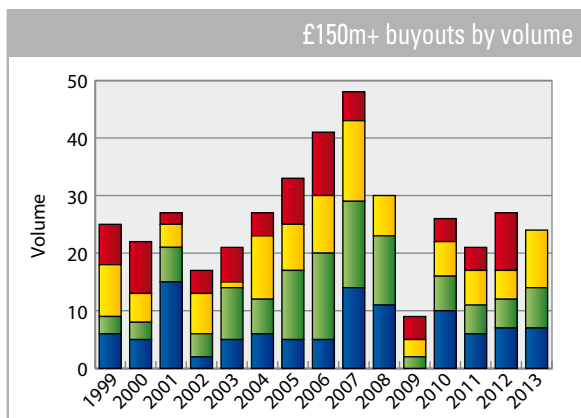
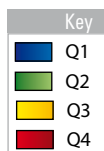
Jim Keeling,
Joint chairman,
Corbett Keeling
www.corbettkeeling.com

All-equity to equity/debt buyouts



Source: unquote™ data

Value & volume



All graphs sourced from: unquote" data

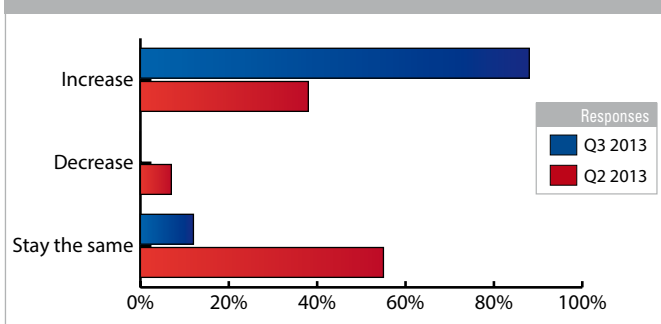
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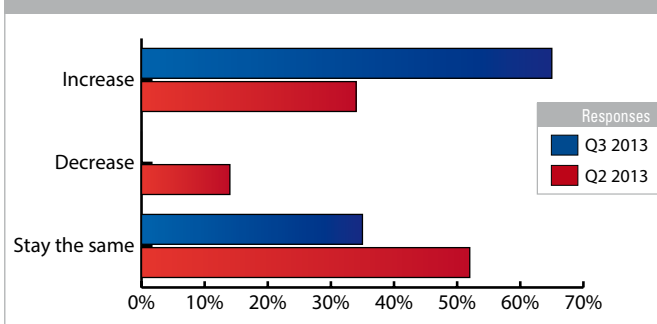
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Watch survey results

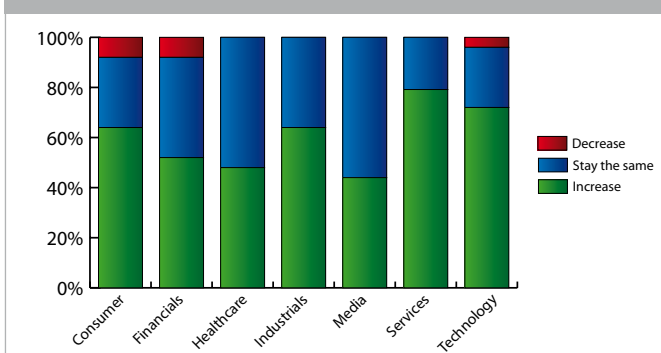
1 How do you expect activity levels in the lower mid-market buyout segment (less than £150m) to change over the next six months?



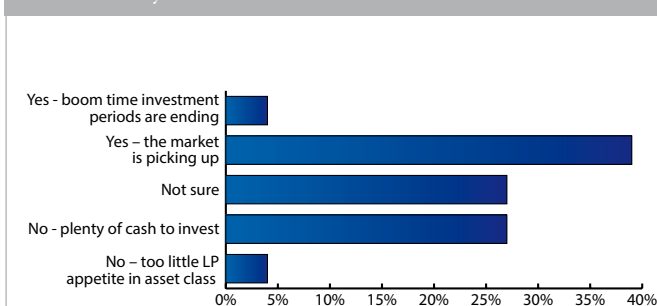
2 How do you expect activity levels in the upper mid-market and larger buyout segment (more than £150m) to change over the next six months?



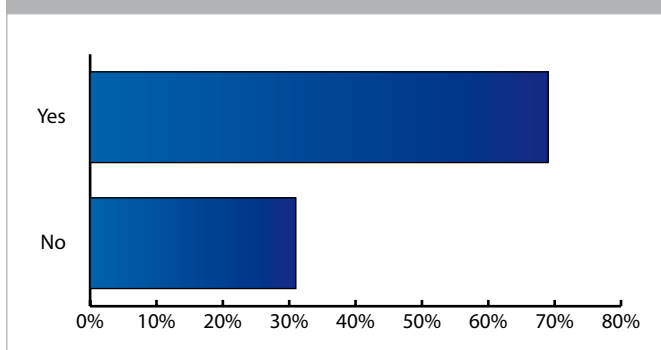
3 How do you think activity in the following sectors will evolve over the next 12 months?



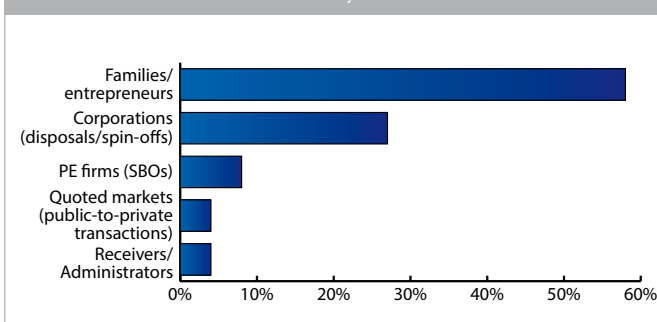
4 Do you expect to see a spike in fundraising by private equity firms this year and next?



5 Is there sufficient leverage to support primary transactions at the lower end of the market?



6 Which type of vendor will produce the most attractive PE transactions over the next two years?



All graphs sourced from: unquote™ data

