



# unquote

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analysis

## uk watch

Produced in association with Corbett Keeling

Quarter 1 2013

# First quarter 2013 – optimism in spite of activity

In its regular quarterly commentary on UK private equity investment activity, Corbett Keeling gives a practitioner's view of trends in the number, value and financing of private equity deals. They report a weak quarter for activity which is strangely at odds with the market's expectations for months ahead



**Jim Keeling,**  
joint chairman,  
Corbett Keeling

**L**AST YEAR, the UK regained the number one spot in Europe for buyouts. However, it was helped by a final quarter that was boosted by a handful of mega-deals. In January, we reported that respondents to our survey doubted this trend would continue. Sure enough, the value of larger deals fell significantly, contributing to the worst quarter for activity levels since 2009. While the figures are likely to be revised slightly as statistics on deals reported late come through, this is clearly not good news, and there is no one obvious culprit to blame it on. Yet respondents to our survey remain reasonably optimistic about the prospects for the next six months. That suggests the first quarter's weakness may well prove a temporary dip.

Before looking at predictions though, let's delve in more detail into the historic data for the first quarter of the year.

- After a poor second half of 2012, activity tailed off further at the start of 2013. In the first quarter, there were just 17 smaller buyouts (those with enterprise value of less than £150m), the lowest since early 2009. Values were also down, with aggregate smaller deals totalling only £538m, down from £840m for the final quarter of 2012.
- Larger deals suffered something of a hangover from the strength of the previous quarter. There were five large deals (enterprise value of £150m or above) in the first quarter – half the previous quarter's figure. But it was

the aggregate value which really fell, to £1.0bn from £7.7bn in the fourth quarter of 2012.

- UK early-stage and expansion capital deals had been weakening in the latter part of 2012, and that trend continued. While the volume of deals – at 57 – was not especially low, values fell to £367m, the lowest level for nearly two years and well down on the £841m recorded in the fourth quarter of last year.

Last quarter, we noted that all-equity buyouts were in a declining trend – indicating an increasing return of debt funding. Now, for the first time in our survey's history, all of the buyouts in the first quarter involved at least some debt so the trend appears to be strengthening. However, let's not forget that money can be made without debt funding – as indicated by RJD Partner's all-equity buyout of Ipes in 2008 which recently came to a lucrative conclusion, as the backer tripled its money.

Despite the gloomy backdrop for deal activity, the *unquote* survey reveals that market practitioners remain reasonably optimistic of a rebound.

- In both mid-market and larger buyouts, the proportion of survey respondents expecting activity to increase or stay the same has risen over the past quarter. While this is, of course, from low levels, at least market participants do not expect a fundamental worsening of conditions.

**Corbett Keeling** is a corporate finance advisory firm focused on the private equity sector. We specialise in:

- RAISING FUNDS FOR MANAGEMENT BUYOUT TEAMS
- DEBT ADVISORY
- SELLING BUSINESSES

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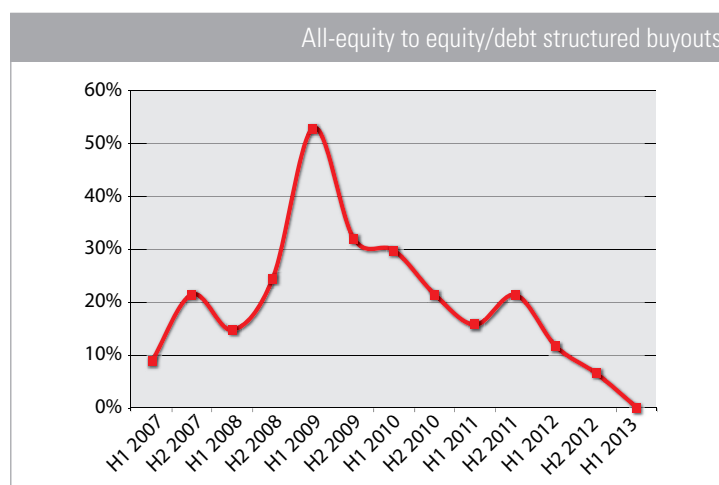
*“The first quarter of 2013 has been undeniably disappointing”*

- This expectation of a pick-up extends to six out of seven sectors. Activity in the consumer sector is still expected to fall, but sentiment on the industrials sector has risen substantially, while services and technology still attract the greatest optimism. This certainly matches our experience of, currently, strong deal activity.
- Views as to pricing expectations are mixed – with a fairly even split between those thinking prices may be too high and others.
- There has been recent talk of a resurgence of initial public offerings (IPOs), with European values for the first quarter exceeding those for the whole of 2012. Our respondents remain to be convinced, though. Only one said IPOs were back for good, while most said it is too early to tell.
- In response to a new question on the role of family offices, most correspondents thought they would act as partners to private equity firms. Only 10% viewed them as a threat.

The first quarter of 2013 has been undeniably disappointing. However, while we don't wish to come across like sportsmen “focusing on the positives” after a sound beating, it does give us a measure of comfort that market participants remain cautiously optimistic for the rest of the year – and that is in line with our current experience of strong deal activity.

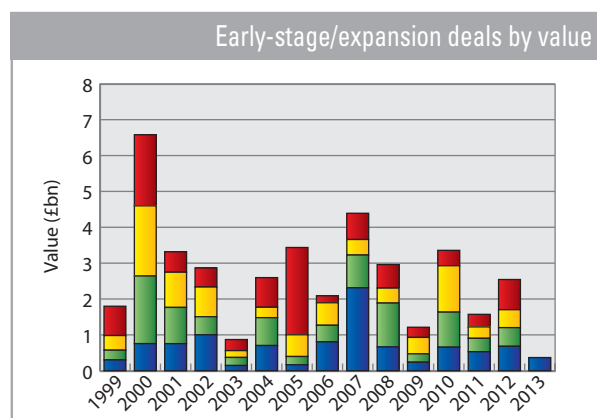
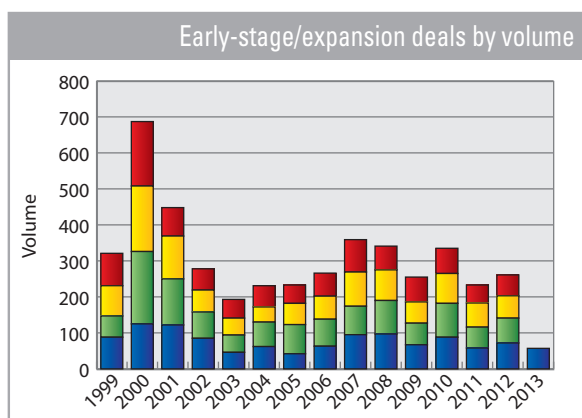
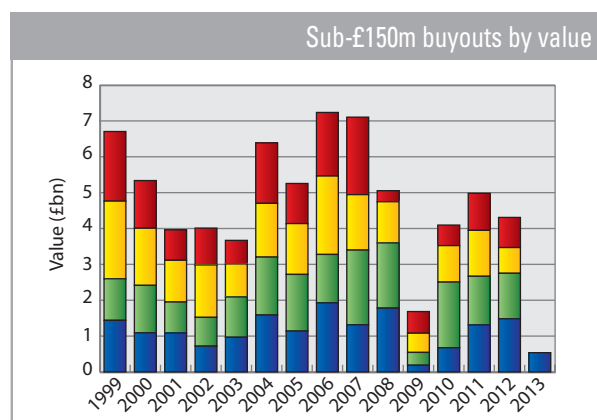
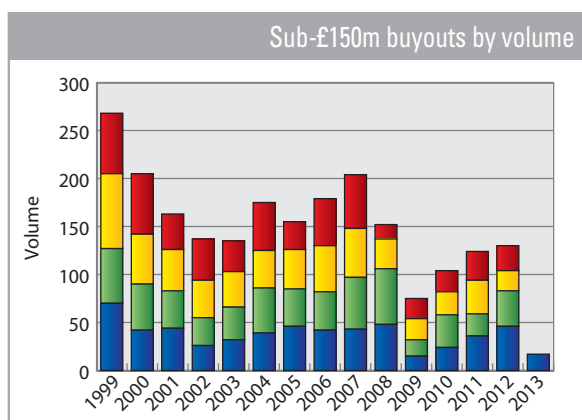
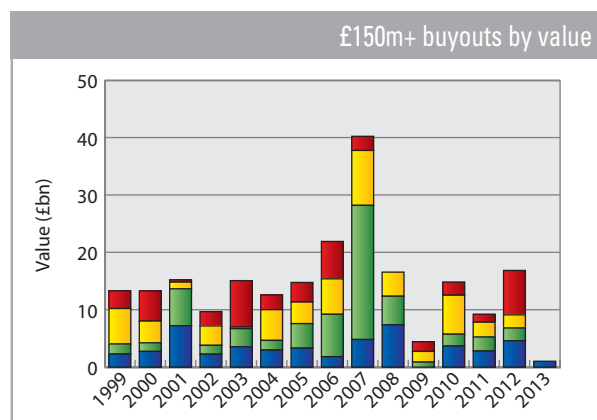
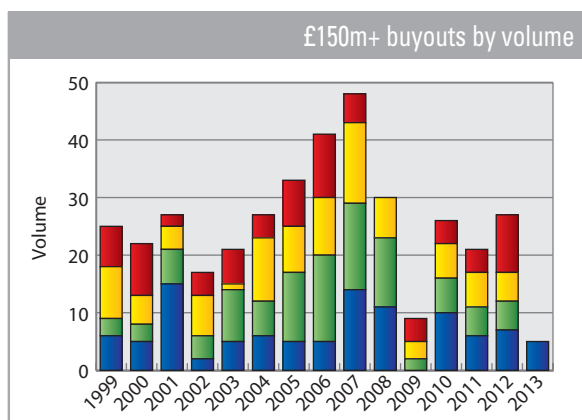
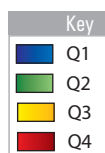
**Jim Keeling,**  
Joint chairman,  
Corbett Keeling  
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## All-equity to equity/debt buyouts



Source: unquote™ data

## Value &amp; volume



All graphs sourced from: unquote" data

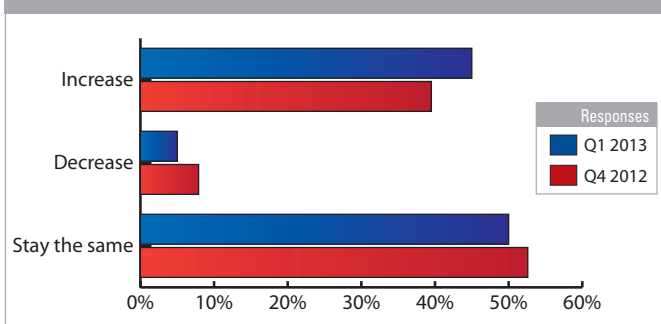
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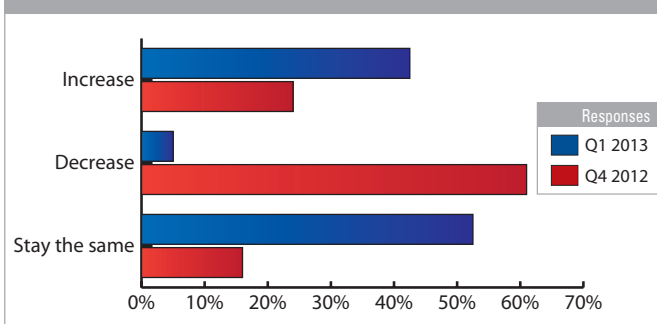
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## Watch survey results

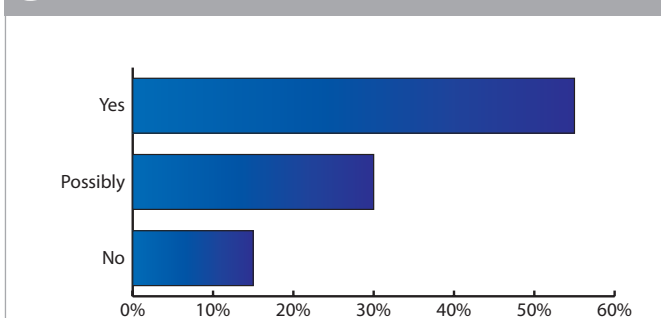
**1** How do you expect activity levels in the lower mid-market buyout segment (less than £150m) to change over the next six months?



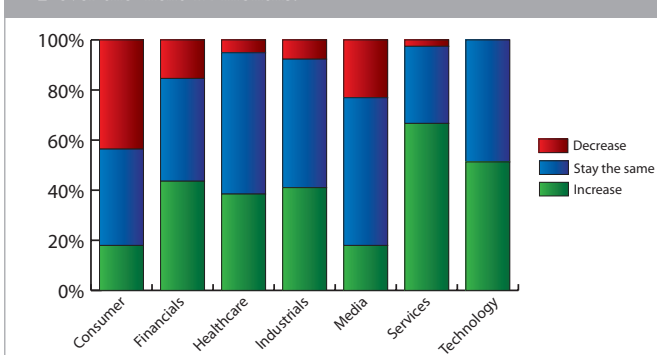
**2** How do you expect activity levels in the upper mid-market and larger buyout segment (more than £150m) to change over the next six months?



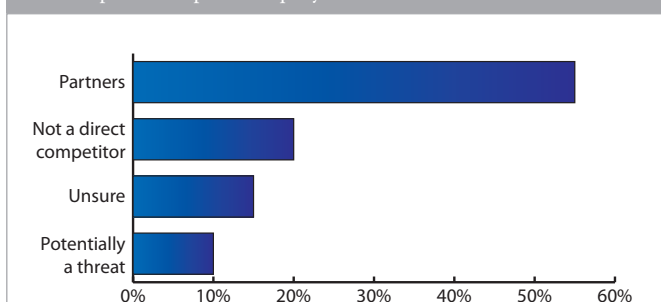
**3** Do you believe vendor's price expectations are unrealistic?



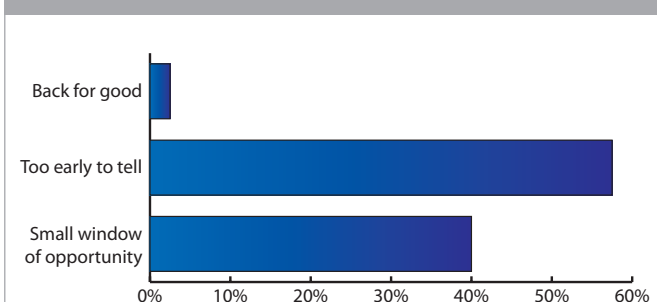
**4** How do you think activity in the following sectors will evolve over the next 12 months?



**5** Do you believe family offices will act as a partner or a direct competitor to private equity firms?



**6** Do you think IPOs are back as a viable exit route or is this another small window?



All graphs sourced from: unquote™ data

