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analysis

uk watch

Produced in association with Corbett Keeling

Quarter 4 2014

Fourth quarter 2014 – positive momentum

In his regular quarterly commentary on UK mergers and acquisitions activity, Jim Keeling of Corbett Keeling gives a practitioner's view of trends in the number, value and financing of private equity deals. He finds that the momentum building in the third quarter of 2014 carried over into the final three months of the year, while sentiment remains broadly positive, auguring well for 2015



Jim Keeling,
joint chairman,
Corbett Keeling

THE FIGURES are in, and 2014 turns out to have been a good year overall for deals in the UK private equity world. Interestingly, the pattern closely mimicked 2013, with a relatively sluggish start to the year followed by a strong sprint over the finishing line. As we forecast last quarter, values of completed deals surpassed last year's totals for both smaller buyouts and early-stage and expansion capital deals. Moreover, larger buyouts had an excellent fourth quarter, with a bumper December for volumes and values. Both the latest survey responses and our experience within the market suggest that this strong head of steam is likely to carry over into the new year.

But let's examine the data for the final quarter of 2014.

- Activity in the smaller buyouts sector (transactions with enterprise value of less than £150m) remained robust even though it failed to match the very strong third quarter. The number of deals dipped from 39 to 34. Meanwhile, the value of transactions, though down from the previous quarter's six-year high of £1.9bn, came in at a more than respectable £1.4bn, rounding out the best year since 2007.
- The larger buyouts sector (enterprise value of £150m or above) had a rousing end to 2014. The volume of transactions hit 13, its joint highest level since mid-2007, while deal values soared from £2.1bn in

the third quarter to just shy of £6bn, boosted by an impressive £3.2bn in December, the best month for more than two years.

- It was also a strong year for early-stage and expansion capital deals. Both the volume (68) and the value (£401m) of transactions were down slightly on the third quarter. Nevertheless, the volume for the year overall was only marginally lower than 2012 and 2013, while the value was the highest since 2010.

All-equity buyouts show no sign of a resurgence. Three all-equity deals were recorded in the fourth quarter, bringing the total for the year to eight. That barely surpassed 2013's record low of six. So debt is firmly back in the financing picture.

Our survey suggests market sentiment remains broadly positive, if a touch less bullish than in recent quarters.

- Forecasts for deal-making in both the larger and smaller buyout segments of the market, though down slightly, remain overwhelmingly positive. In the lower value buyouts segment (below £150m), a majority of respondents still expect an increase in activity over the next six months, while the rest predict that the level will stay the same. For the higher value segment, 11% of respondents are forecasting a reduction in activity, but nearly four times as many expect an increase.

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

- MANAGEMENT BUYOUTS
- SELLING BUSINESSES

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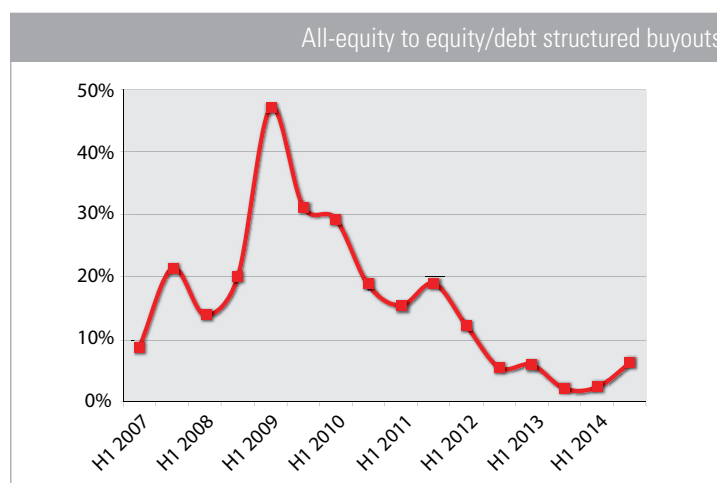
- At the sector level, sentiment is little altered from last quarter. Financials is the main gainer, with 68% predicting a rise in activity in 2015. Sentiment has deteriorated somewhat on the services sector, though it is still broadly positive.
- Imbalances in pricing between the South East and the rest of the UK show little sign of driving dealflow away from the capital. Only a quarter of respondents said that they found regional investment strategies an increasingly important way to deploy capital. A third thought that the flow of high-quality opportunities in the South East is in line with the pricing, while the rest expected no material shift in dealflow.
- Ahead of May's General Election, the Chancellor's Autumn Statement was seen as having little to offer the private equity community. Just 16% of respondents considered it broadly positive, while just over a quarter thought it would have a negative impact.

- Firms are showing some caution on recruitment for 2015. Opinion was fairly evenly split between those who have no plans to add staff, those who are already hiring and those who will wait to assess deal activity before committing to take on additional employees.

Volatility in broader financial markets increased towards the end of 2014 as concerns grew over slow growth in Europe and the plunging price of oil. Yet I am glad to report that activity within the private equity industry accelerated, and market participants remain upbeat, as both anecdotal and survey evidence, supported by our own experience, shows. We are therefore optimistic that momentum will stay positive in the new year.

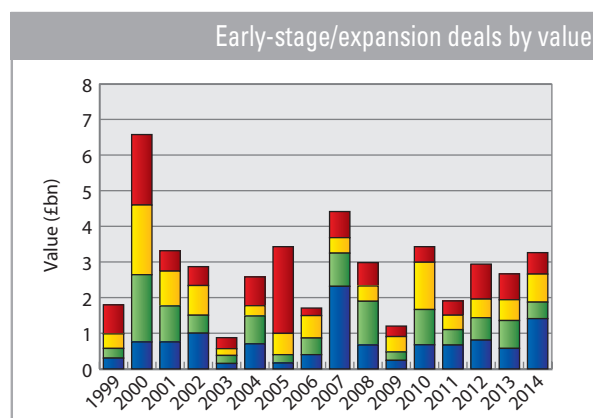
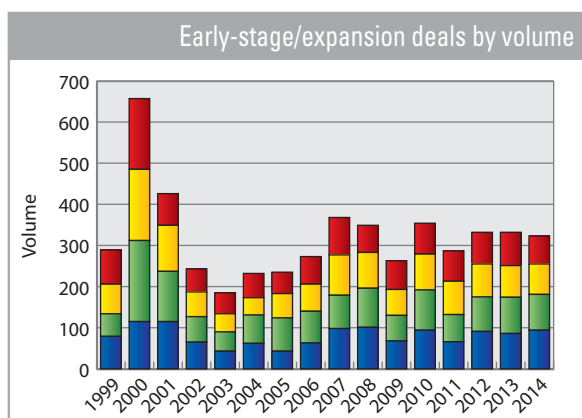
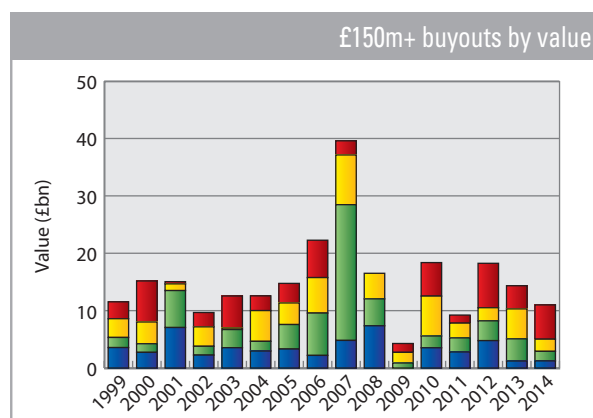
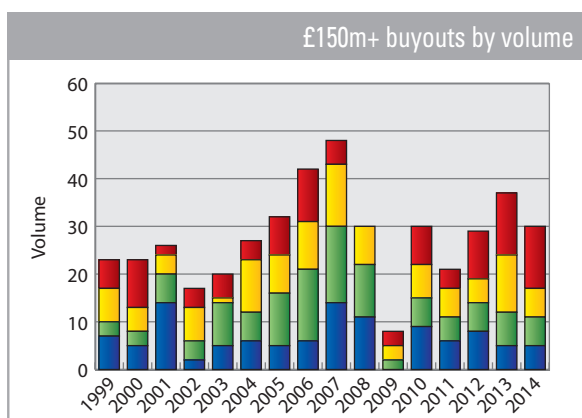
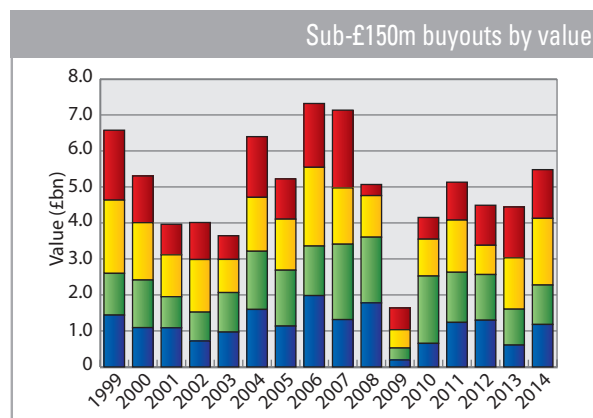
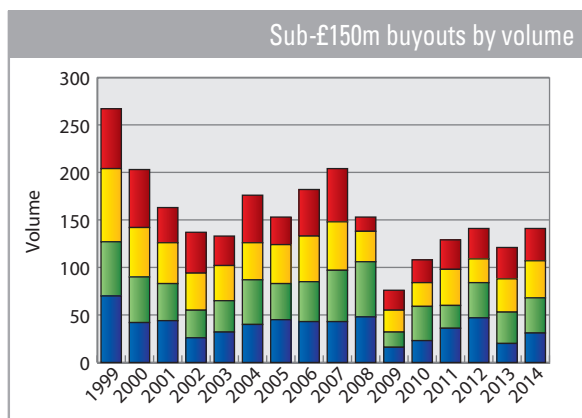
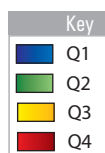
Jim Keeling,
Joint chairman,
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All-equity to equity/debt buyouts



Source: unquote™ data

Value & volume



All graphs sourced from: unquote" data

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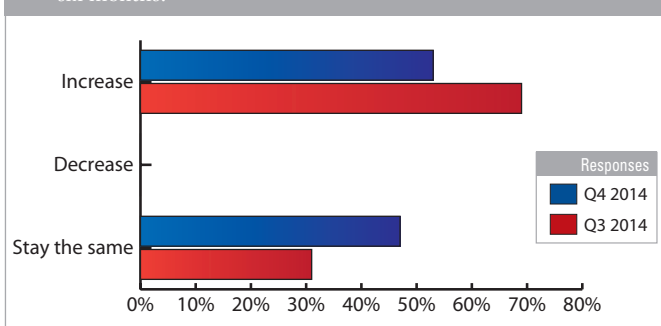
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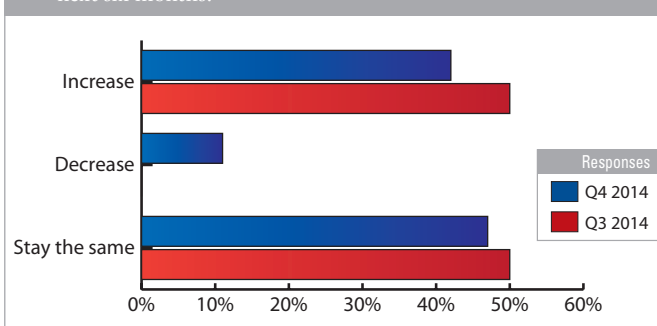
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Watch survey results

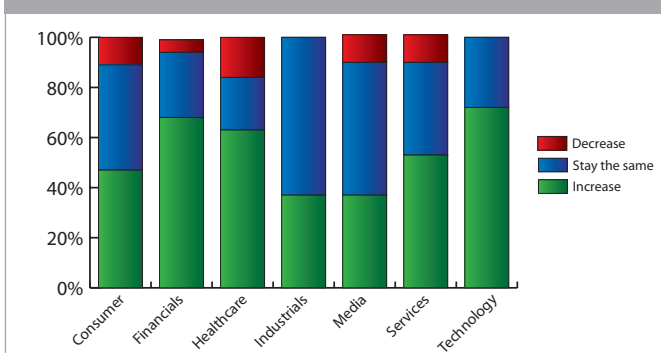
1 How do you expect activity levels in the lower mid-market buyout segment (less than £150m) to change over the next six months?



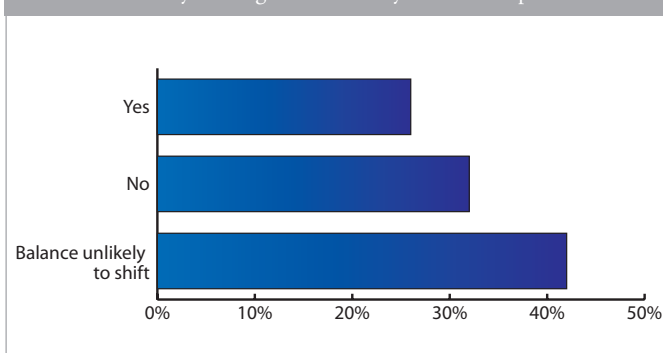
2 How do you expect activity levels in the upper mid-market and larger buyout segment (more than £150m) to change over the next six months?



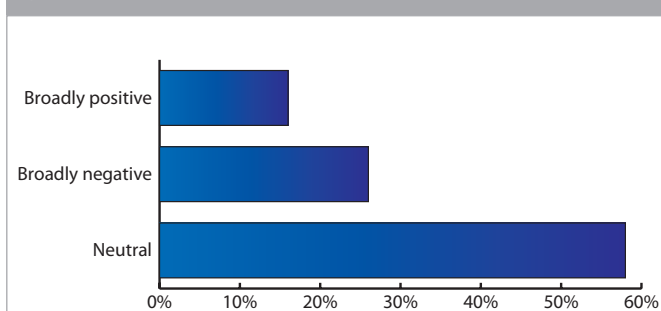
3 How do you think activity in the following sectors will evolve over the next 12 months?



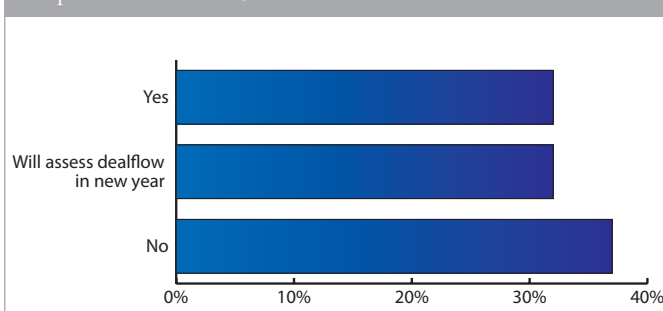
4 Are the imbalances in pricing between London/SE and the rest of the country driving dealflow away from the capital?



5 In what light did you view the Chancellor's Autumn Statement?



6 Are you expecting to hire more investment/advisory professionals in 2015?



All graphs sourced from: unquote™ data

