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Produced in association with Corbett Keeling

Quarter 3 2014

# Third quarter 2014 – strength in numbers

In its 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. Despite concerns expressed in some quarters about the broader economy and the durability of the M&A cycle, activity picked up overall, with particular strength in the smaller buyouts segment, and sentiment remains generally upbeat



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

**T**HE PAST three months have been a little unsettled in the wider world. Financial markets have weakened, reflecting concerns about geopolitical events and the health of the European and Chinese economies, not to mention the Scottish referendum. But none of that appeared to deter private equity deal makers. Values of completed deals increased across the board, and at least two out of three segments look set to surpass last year's totals. That appears to be the clear message from our latest survey of market participants, as well as from our day-to-day dealings.

So what are the hard facts about the third quarter of the year?

- Activity in the smaller buyouts sector (transactions with enterprise value of less than £150m) remained strong in the third quarter. The number of deals rose to 40 from an already strong 38 in the second quarter, while the value of transactions soared from £1.5bn to £1.9bn, the highest for six years.
- The picture was a little less rosy for the larger buyouts sector (enterprise value of £150m or above), with both the volume and the value down on what was admittedly a bumper third quarter last year. Relative to the second quarter, however, the volume of deals held steady at six, and the value rose from £1.6bn to £2.1bn.

- After signs of weakness in the second quarter, we saw something of a recovery for early-stage and expansion capital deals. Volumes actually fell to 74, from 85 in the second quarter. However, the value of transactions leapt to £787m, from the previous period's £486m. Given the very strong first quarter, the total value for the year so far has already eclipsed 2013.

The third quarter contained more all-equity buyouts than the previous three quarters combined. Nevertheless, there were only three deals in total, so this reflected the lack of activity over the last couple of years, rather than any sudden shift in favour of all-equity transactions.

Despite some concerns about the current macroeconomic environment, the responses to our latest survey indicate that the market's mood remains broadly positive.

- Expectations for activity in both the larger and smaller buyout segments of the market have declined marginally. That said, just short of 70% of respondents predict that activity will increase over the next six months for the lower-value buyouts (below £150m), while half forecast an increase for the higher value segment. Encouragingly, no respondents in either segment are pointing to a reduction in activity.

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

- MANAGEMENT BUYOUTS
- SELLING BUSINESSES

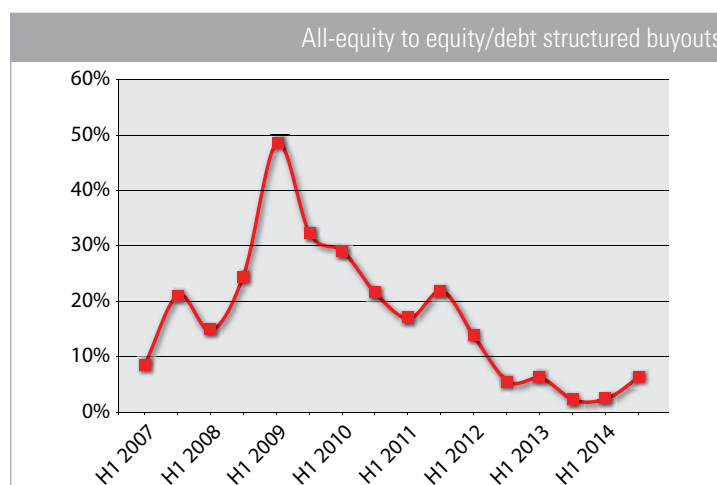
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- Sentiment is little altered at the sector level, remaining predominantly positive across the board. The only noticeable change in mood was in the consumer sector, with those expecting a pick-up in activity falling to 46%, from 76% in the second quarter. However, only 8% of respondents predicted an outright decline in activity.
- More than three quarters of those surveyed said they either expected the upturn in M&A activity to mirror previous cycles, lasting three or four years, or thought it was too difficult to tell. Less than a quarter said they thought the cycle could not last long.
- On the vexed question of whether aggressive debt structures are filtering down into the small-cap end of the market, almost half of respondents said it was becoming a more common feature. Only 31% thought structures remain broadly sensible, while the remainder said the usages of such structures were mainly justifiable.
- We also saw some signs that the gap in pricing expectations between buyers and vendors may be widening too far. While just over half of respondents said any widening of the gap was only for the highest quality assets, nearly a third thought sellers' expectations were moving beyond the reach of sensible buyers.

Last quarter, we noted that our main concern was geopolitical risk. Since then, we have seen some evidence that the Ukraine-Russia crisis is contributing to further weakness in Europe, particularly in Germany. But we see little sign that it is yet having any noticeable impact on either private equity investment activity or the mood in the market. We therefore remain hopeful for further strength in the final quarter of the year.

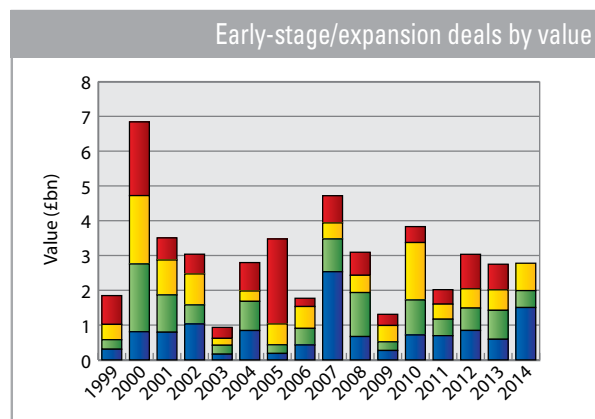
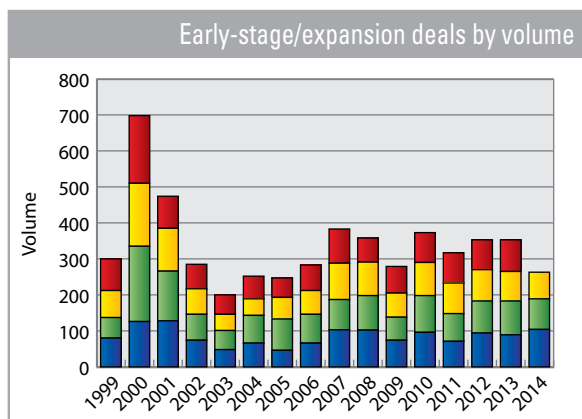
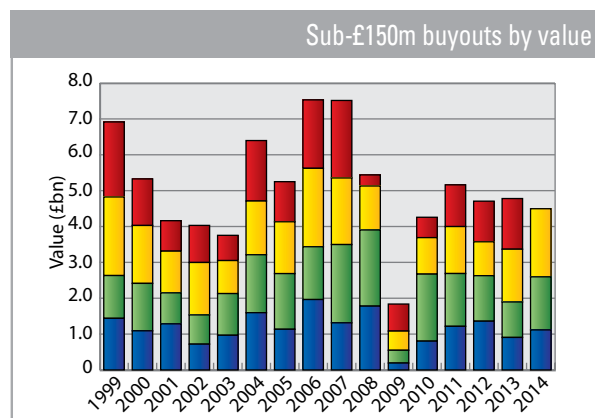
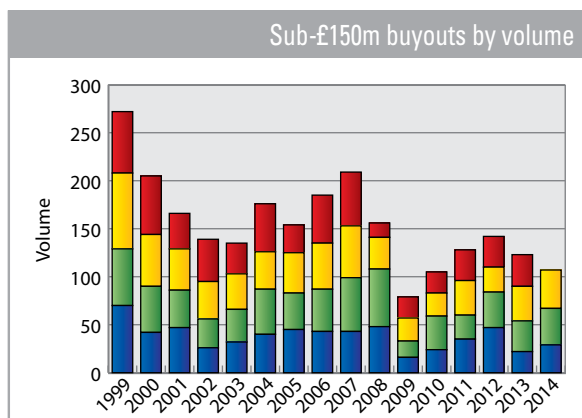
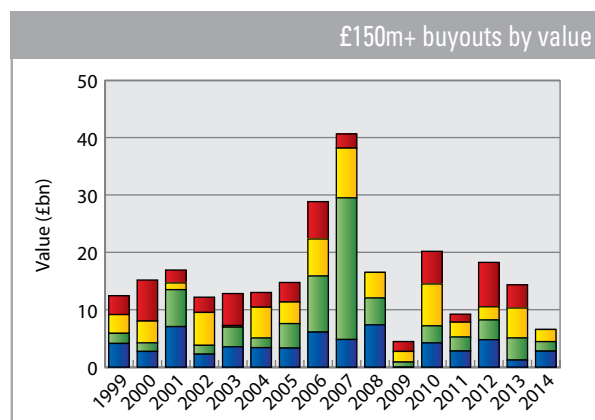
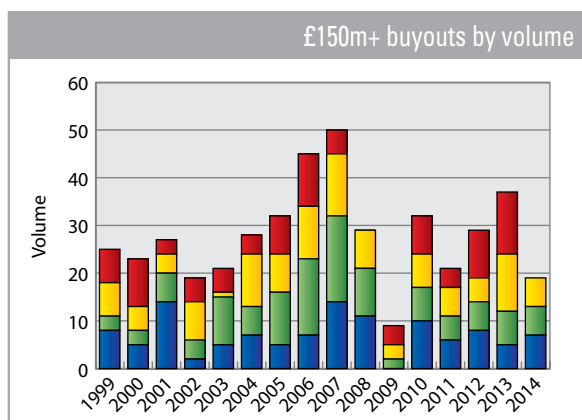
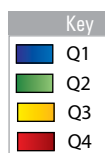
**Jim Keeling,**  
Joint chairman,  
**Corbett Keeling**  
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## All-equity to equity/debt buyouts



Source: unquote™ data

## Value & volume



All graphs sourced from: unquote" data

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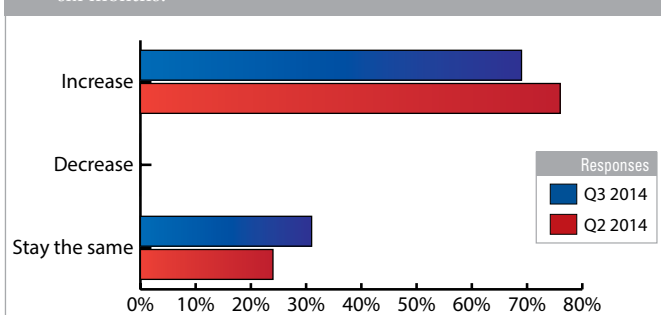
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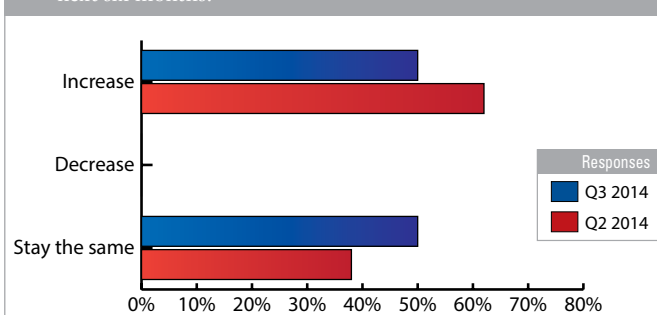
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## Watch survey results

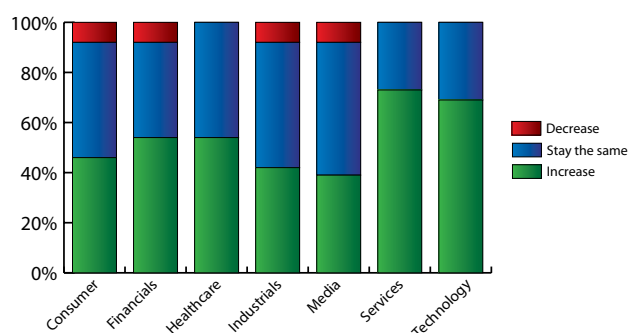
**1** How do you expect activity levels in the lower mid-market buyout segment (less than £150m) to change over the next six months?



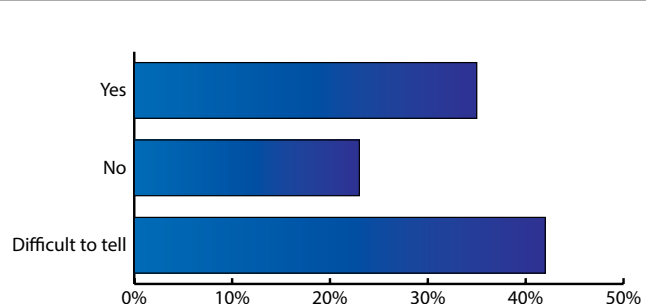
**2** How do you expect activity levels in the upper mid-market and larger buyout segment (more than £150m) to change over the next six months?



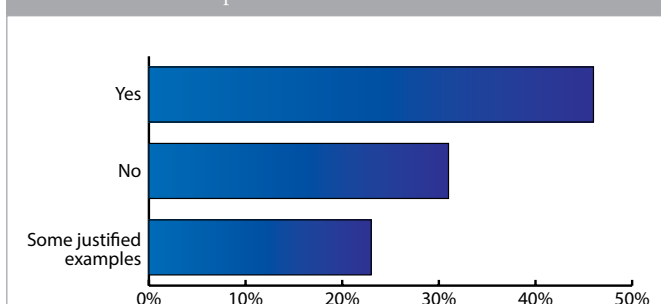
**3** How do you think activity in the following sectors will evolve over the next 12 months?



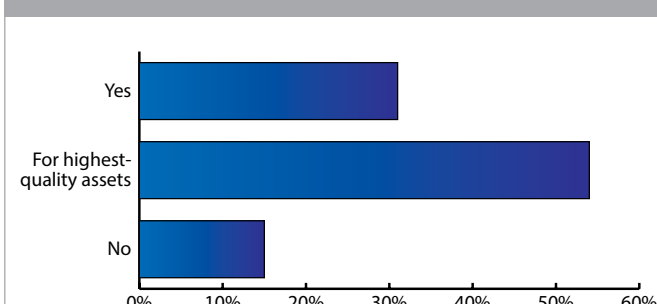
**4** Will the upturn in M&A activity mirror previous cyclical rises, lasting three or four years – or will it grind to a halt sooner?



**5** Are more aggressive debt structures filtering down into the lower and mid-cap brackets?



**6** Is the gap between buyer and vendor expectations widening?



All graphs sourced from: unquote™ data

