unquote analysis

uk watch

Produced in association with Corbett Keeling

Quarter 2 2015

Corbett Keeling | Corporate Finance

Second quarter 2015 – buyout boost

In his regular quarterly commentary on mergers, acquisitions and funding of UK companies, Jim Keeling of Corbett Keeling gives a practitioner's view of trends in the number, value and financing of completed transactions. He finds that the overall value of transactions completed in the second quarter of the year was strong, boosted by a number of very large deals

Jim Keeling, chairman and chief executive, Corbett Keeling

THE OUTLOOK appears to be brightening once more. At the end of the first quarter, we noted signs of a slight deceleration in the number of transactions among private-equity-backed businesses, which appeared to be partly attributable to a scarcity of attractive opportunities. While we remained broadly positive on the market's prospects back then, we have been pleased to see not only a clear improvement in the overall value of deals done in the second quarter of the year, but also a resurgence of optimism about the coming 12 months.

Before turning to the question of what our survey suggests about the prospects for the remainder of the year, let's analyse the data for the first quarter in more detail.

- Activity in the smaller buyouts sector (transactions with enterprise value of less than £150m) increased from the first quarter. The number of deals rose to 27, from 24. While that made it the lightest quarter for deal volume since 2009, the value of transactions rose to a very respectable £1.1bn, and the overall value for the first half of the year was close to matching the same period of 2014.

- It was a strong quarter for the larger buyouts sector (enterprise value of £150m or above). The volume of transactions dipped to eight, from nine in the first quarter, but the value of deals more than doubled, to £5.5bn.

- Early-stage and expansion capital deals were the most lacklustre sector of the market. The volume of deals fell to 42, the lowest quarterly figure since 2004. However, we would caution that the first quarter's volume figure was revised up appreciably in subsequent months. In addition, the value of deals, though well down on the first quarter, beat the figure for the same period of 2014.

With debt still cheap and available, it was no surprise that all-equity buyouts continued to languish in the doldrums. Only two deals were completed in the second quarter, in line with the rate since the second half of 2012.

Our most recent survey suggested a distinct firming of the market's mood, after signs of a slight wobble in some areas during the first quarter of the year.

- Forecasts for deal-making in both the larger (above £150m) and the lower value buyout segments of the market improved, with a clear majority of respondents now expecting activity levels to increase over the second half of this year.

- Our sector analysis revealed an even greater brightening of sentiment, perhaps reflecting the longer time frame. The proportion of respondents predicting a rising level of M&A activity over the next 12 months increased for all seven sectors, with the largest gains coming in media, technology and financials.

- While we had grounds for thinking the softening in confidence reported in April's edition was not attributable to pre-election jitters, it is clear that the returning of a Conservative majority government is seen as a good thing for the industry. More than 80% of respondents saw the election result as positive, while only 9% regarded it as broadly negative, partly because of concerns about the impact of the promised EU referendum.

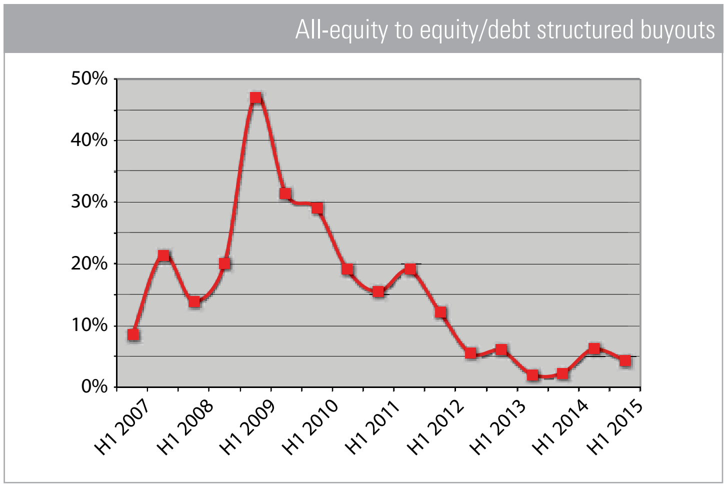
- In this mood, the market appears to be fairly sanguine about levels of debt leverage. Less than 10% of respondents said current structures appear unsustainable. Nearly 14% saw room for higher leverage levels, given the strength of the UK economy, especially relative to the rest of Europe. Over three-quarters of respondents, while recognising the concerns, were keeping an open mind on the issue.

- After a bumper year for exits, it is encouraging that just a quarter of respondents expect a slowdown over the next six months, while nearly three-quarters subscribe to the view that high prices, strong leverage markets and healthy appetite for initial public offerings contribute to a good selling environment.

It's always possible to find reasons to be anxious, particularly when politicians remain so directly and heavily involved in markets – the current situation in Greece being a case in point. Yet we see reasons for quiet optimism, as transaction levels stabilise or increase and market participants' confidence grows.

Jim Keeling,
Chairman and Chief Executive,
Corbett Keeling
www.corbettkeeling.com

All-equity to equity/debt buyouts



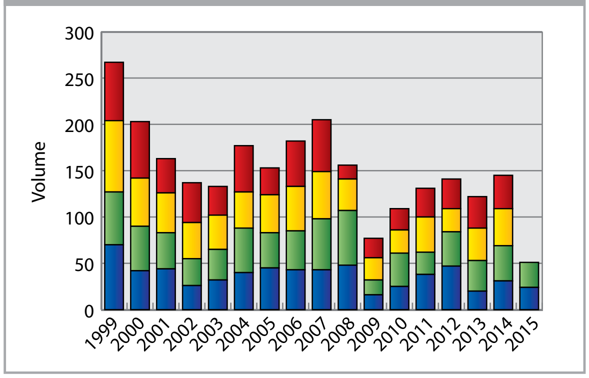
Source: *unquote" data*

Corbett Keeling | Corporate Finance

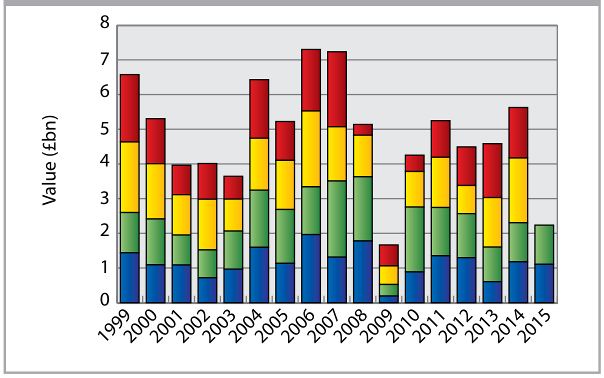
Value & volume

Key
- Q1
- Q2
- Q3
- Q4

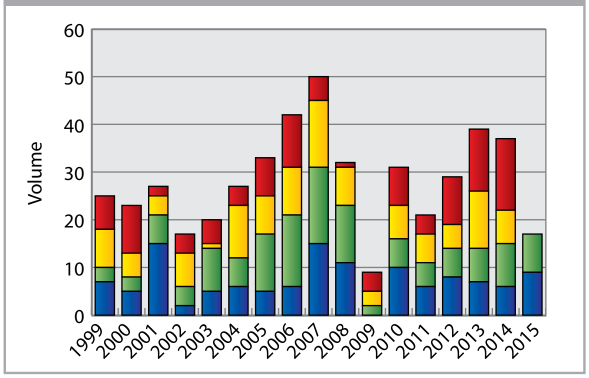
Sub-£150m buyouts by volume



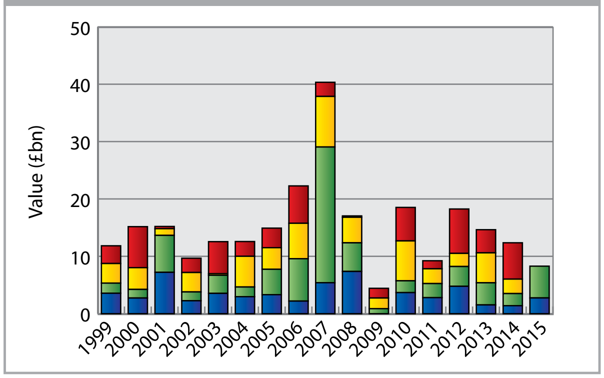
Sub-£150m buyouts by value



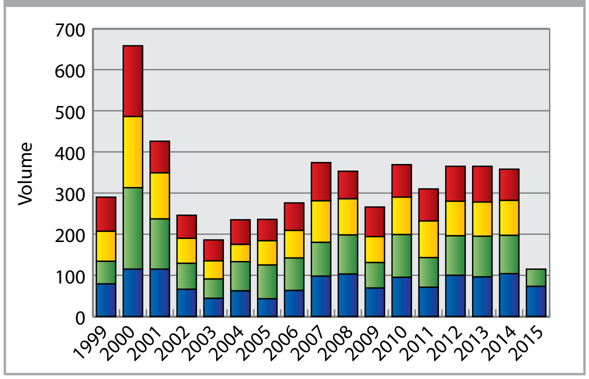
£150m+ buyouts by volume



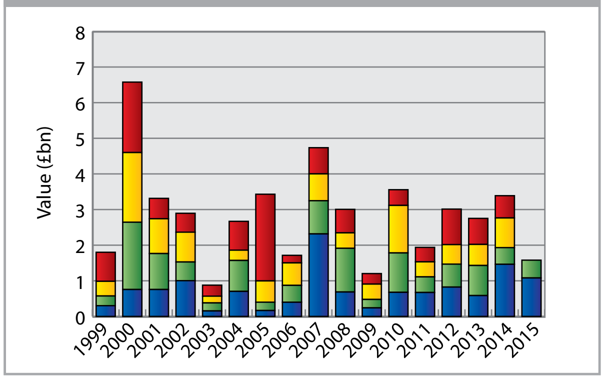
£150m+ buyouts by value



Early-stage/expansion deals by volume



Early-stage/expansion deals by value

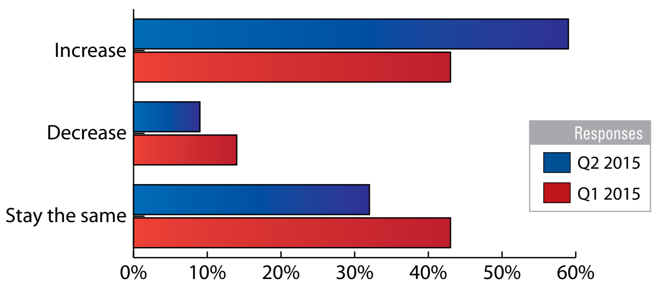


All graphs sourced from: *unquote" data*

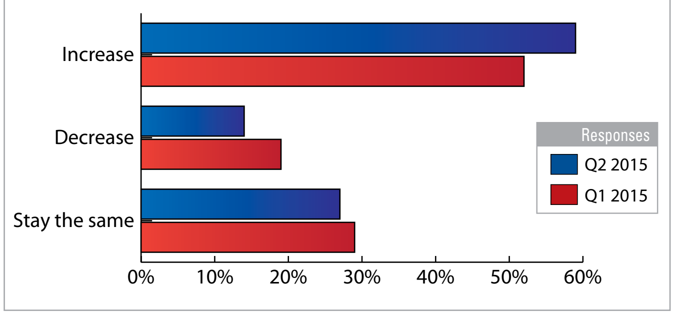
Watch survey results

More than 100 key players in the UK private equity and venture capital markets were surveyed to produce these statistics.

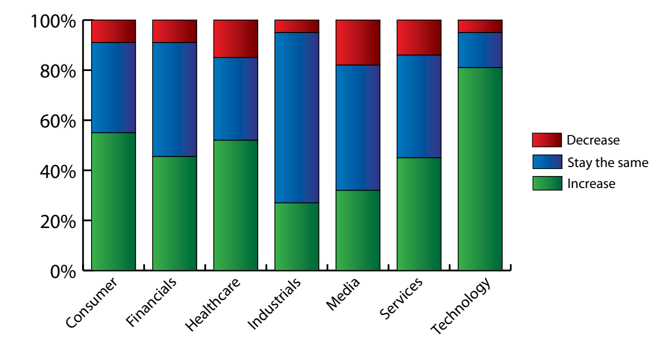
1 How do you expect M&A activity levels in the lower mid-market buyout segment (less than £150m) to change over the next six months?



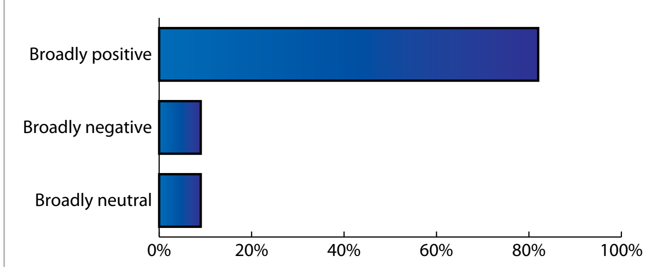
2 How do you expect M&A activity levels in the upper mid-market and larger buyout segment (more than £150m) to change over the next six months?



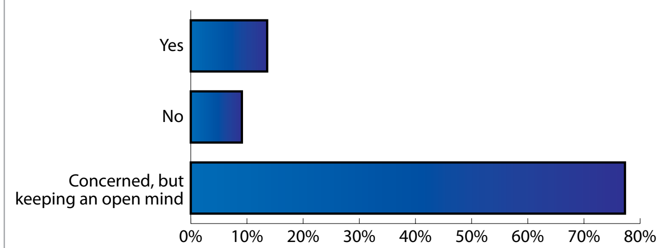
3 How do you think M&A activity in the following sectors will evolve over the next 12 months?



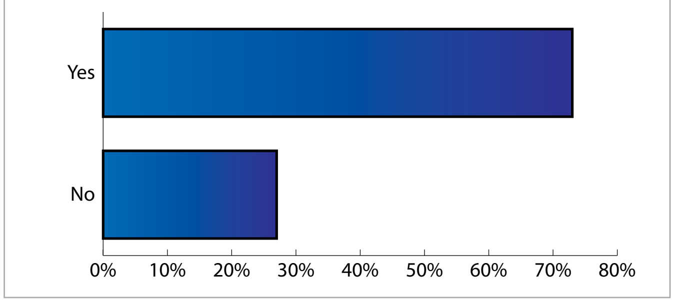
4 How will the result of the UK's General Election be viewed by the private equity industry?



5 Leverage levels are continuing to creep up: is this sustainable?



6 It has been a great year for exits. Can GPs continue to produce the impressive multiples recorded thus far in 2015?



All graphs sourced from: *unquote" data*

unquote" Analysis UK Watch is published four times a year by Incisive Private Equity Information Ltd
Haymarket House, 28-29 Haymarket, London, SW1Y 4RX, United Kingdom
Tel: +44 (0)20 7316 9000