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Short-term consumer boost eases probable Brexit fallout

Consumer spending was widely credited as the reason behind the country's economic resilience post-EU-referendum, but inflation, wage stagnation and trade uncertainty threaten the market. **Kenny Wastell** reports

As was to be expected, the Brexit vote dominated the macroeconomic environment in the UK throughout 2016. Despite uncertainty in the run-up to the referendum and understandable market jitters in the immediate aftermath of the vote to leave the

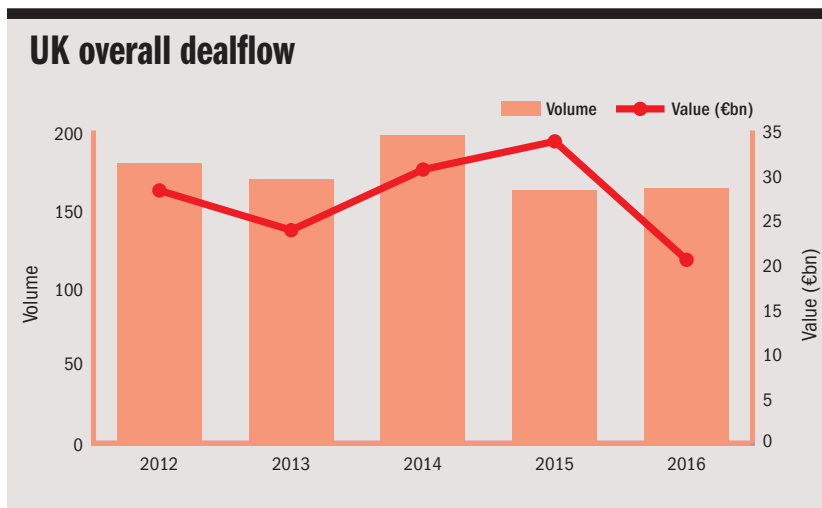
European Union, GDP figures held up relatively strongly.

According to the Office for National Statistics (ONS), the country enjoyed GDP growth of 2% over the course of the year, though this was admittedly lower than the 2.2% seen in 2015 and the 3.1% figure the previous year. Furthermore, the Bank of England is anticipating growth will remain stable at 2% throughout 2017. Unemployment figures have also been encouraging, with the jobless rate reaching an 11-year low of 4.8% in November 2016.

Yet many forecasters remain cautious about the medium-term economic implications of the UK's departure from the EU. In particular, the Bank of England is predicting CPI inflation of up to 2.7% by the end of 2017, largely attributed to foreign exchange movements: sterling lost 17% against the dollar and 9% against the euro in the six months following the referendum. The bank predicts this growing inflation will be coupled with a decline in wage growth from 2.7% to 2.2%.

The dominant impact of such developments for private equity may be twofold. Firstly, a decline in the robust rate of consumer spending following the Brexit vote might have a stifling effect on portfolio companies. Secondly, an increase in interest rates in response to higher inflation could signal the end of an eight-year post-crisis period of cheap borrowing in Britain.

On a strictly political level, there remains great uncertainty surrounding the nature of Britain's future relationship with the EU. With the government stating its intent to prioritise limiting or ending the free movement of European citizens into the country, portfolio companies – particularly



Source: unquote™ data

Private-equity-backed buyouts

	2012	2013	2014	2015	2016
Volume	179	169	197	162	163
Value (€bn)	28.29	23.85	30.63	33.79	20.53
Average value (€m)	158	141	155	209	126
% of European volume	30.3%	29.8%	30.1%	25.1%	22.2%
% of European value	37.0%	28.0%	30.9%	26.9%	17.6%

those dependent on low-skilled workers – will likely be concerned about the impact on recruitment.

Furthermore, questions surrounding passporting rights secured as part of a post-Brexit trade deal are likely to raise concern for the UK financial sector, and for PE fundraising itself.

Dealflow in 2016

The UK & Ireland buyout market witnessed great volatility throughout 2016, with particular impact seen in the quarters leading up to and immediately following the UK's EU referendum.



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Callum Bell, Investec

While aggregate value fell by 49% in Q1 2016 compared to the same period in 2015, the impact on deal volume was a less pronounced decrease of 18%. The second and third quarters, which sandwiched the Brexit vote, saw respective annual increases of 10% and 15% in dealflow. However, aggregate value in each quarter respectively tumbled by 55% and 61%, reflecting both a more cautious approach in the large-cap space and sterling's devaluation. Nevertheless, aggregate value recovered strongly in the final quarter, with the €9.1bn changing hands representing a 16% year-on-year rise against a marginal 2% drop in volume.

“The Brexit vote, in retrospect, was well-placed around summer, where people were naturally going to take a pause,” says Callum Bell, head of corporate and acquisition finance at specialist bank Investec. “But thereafter it picked up a head of steam into quarter four, where we saw a catch-up on deals that had been postponed. Also, there was an element of people coming to the realisation that, actually, it was still a good time to do deals.”

Across the year as a whole, deal volume was relatively stable at 163 buyouts compared to 2015's 162, though admittedly both years were significantly down on the 197 witnessed in 2014. In overall aggregate value terms, the €20.5bn changing hands for British and Irish businesses

in 2016 was 39% down on 2015 and marked the lowest total since the €17.2bn witnessed in 2011.

Drilling down into the numbers, the large-cap space saw the most severe drop in activity over the course of the year. The seven deals completed above €500m was significantly down on the 19 that took place in 2015 and represented an eight year low, while the €7.7bn aggregate value within the price range was down 62% year-on-year, 43% compared to 2014 and marked the lowest total since 2011. Despite this, the aforementioned annual increase in overall aggregate value in Q4 against relatively stable deal volume is indicative of returning confidence at the larger end of the market.

“When you have a big sterling syndication, and with sterling more uncertain given the FX changes that happened post-Brexit, these deals became more difficult to transact,” says Bell. “At the lower end of the market there remains an ability to do deals because businesses are more insulated from global finance markets, FX and international syndication markets.”

The upper-mid-cap segment (deals valued at €250-500m) also saw a decrease, with 11 transactions marking the lowest level of dealflow in four years, from 19 in 2014 and 17 in 2015. Similarly, aggregate value also dropped to a four-year low of €3.7bn, down 31%.

However, the lower-mid-market (deals valued at €50-250m) displayed a contrasting trend, reaching the second highest level in terms of both volume and aggregate value over the past five years. The €7.2bn total changing hands across 68 buyout transactions marked a notable increase on the €6bn invested across 56 deals in the price range in 2015. Similarly, buyout volume for assets valued at below €50m also increased from 70 to 77 year-on-year, though the total fell some way short of the total of 110, 87 and 89 seen in 2012, 2013 and 2014 respectively.

Says Squire Patton Boggs's head of UK private equity Tim Hewens: “Given the size of businesses in the small-cap and lower-mid-market space, the bulk of their revenue tends to be in the UK, and to date they have not been so affected by things that are going on overseas. Funds focusing on this segment of the market have raised and continue to raise large sums of money, which they haven't managed to spend yet – there is still a lot of money trying to find a home.”

Pricing trends

Despite volatility in the UK buyout market throughout 2016, valuations remained high, with the most recent Clearwater International and *unquote* "Multiples Heatmap" revealing entry multiples averaging 10.6x across Q1 to Q3 – the highest in Europe. As was the case in 2015, competition from US and Asian investors was strong, with their spending powers amplified by the devaluation in sterling following the Brexit vote.

Of particular note, the UK travel sector has seen relatively high valuations, having attracted significant interest from private equity buyers in recent years. Holiday park operator Parkdean Resorts was acquired by Canadian private equity house Onex for £1.35bn, representing a valuation of around 12.5x its 2015 EBITDA, while Exponent's acquisition of Leisure Pass was reportedly valued in the region of 13-14x its 2015 EBITDA of £11m.

However, some industry professionals argue there is a widening deviation in multiples for assets in sought-after sectors compared to those in less fashionable segments. "Price has been quite polarising this year," Rutland Partners' David Wardrop recently told *unquote*. "We have seen keen pricing for assets that have that certain quality: they are in a particular sector, the management team is highly regarded, etc. There has been a whole group of other things that haven't been flavour of the month and that are still sensibly priced."

Another factor impacting on pricing has been the growing number of large fundraises over the past few years, particularly in the lower-mid-market space. Of particular note, the £660m raised by Livingbridge for its sixth fund was almost double the £360m raised for its fifth vehicle, while the £250m raised by Synova Capital for its latest fund was more than double the £110m raised by its predecessor.

"There are large funds that need to deploy, so we're seeing quite a lot of competition between private equity houses and more widely with trade," says Investec's Bell. "Trade buyers have also been picking up a lot of exits from private equity in the last year. We're seeing multiples going up to extreme highs on top-tier assets and on lower quality assets we're still seeing difficulty in getting deals done. So, despite all of the current liquidity, people are still remaining fairly disciplined."



Deal sourcing

The majority of UK- and Ireland-based buyouts in 2016 were sourced from private vendors, with 85 such deals marking a significant increase on the 62 seen the previous year. The development



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Tim Hewens, Squire Patton Boggs

coincided with a decline in the number of deals GPs sourced from their peers, with a total of 59 secondary buyouts down on the 74 that took place in 2015.

The trend can be widely attributed to increased activity in the lower-mid-market, where numerous GPs have started deploying recently-raised funds, and to the growing financial clout of international trade buyers following the devaluation in sterling. Indeed, in aggregate value terms, the €11.8bn changing hands in SBOs was almost half the €21.8bn seen in 2015, suggesting a larger proportion of pass-the-parcel deals taking place at the lower end of the market, where competition from trade is less prominent.

Somewhat unexpectedly, given the aforementioned FX trends, there was a slight year-on-year increase in the number of assets acquired from foreign parents, up from five to seven. However, the total is still some way below the 11-13 deals seen in each year between 2012 and 2014.

Meanwhile, for the fourth consecutive year, there was a decline in the number of assets acquired from local trade vendors. This is widely in line with a wider trend across the continent, which has seen the lowest number of corporate spinouts on record.

Sector trends

Throughout the course of the year, investments across most sectors remained relatively stable compared to preceding years. Understandably, investments in the financial services sector have taken a hit, given there remains great uncertainty over how Brexit will impact the segment. Dealflow itself across the segment has remained fairly constant compared to 2015, though the total value of transactions fell to a five-year low of €2.1bn, down 58% annually.

However, of particular interest was a significant drop in the number of buyout deals in the consumer space, which saw the lowest deal volume over the last five years. Dealflow within the



space was down to 47 in 2016 compared to 60 in 2014 and 55 in 2015, while aggregate value dropped more significantly still, by 45% year-on-year from €12.5bn to €6.9bn.

This is somewhat counterintuitive, given the consumer sector has been widely credited as being the reason for the UK's economic resilience following the Brexit vote. However, economists had widely anticipated a severe drop in consumer confidence in the event of a Brexit vote.

"After Brexit, all the forecasters were saying the consumer sector wasn't going to do so well," says Squire Patton Boggs's Hewens. "It could be that private equity houses were listening to those economists and thinking: 'I may want to hold off investing in a space that everybody's been saying is going to drop off a cliff, even though I'm not actually seeing it myself in the numbers yet'."

Furthermore, the sector has been buoyant in recent years, with private equity players contributing significant funds to support growth, and is overdue a cyclical downturn, as Investec's Bell points out: "After a very strong run of consumer spending over the past three to four years, you're seeing people asking: 'How long can the sustained growth in consumer spending be maintained?' If you look at factors such as personal debt on credit cards, it's at an all-time high. So investors are rationally taking a step

back to reassess opportunities that are highly correlated to consumer confidence after a period of high spending."

Exit market

While the referendum had a mixed effect on the buyout market throughout 2016, the exit market was somewhat cushioned by a devaluation in sterling following the Brexit vote. In particular, this led to a number of divestments to trade buyers in the mid- and large-cap segment.

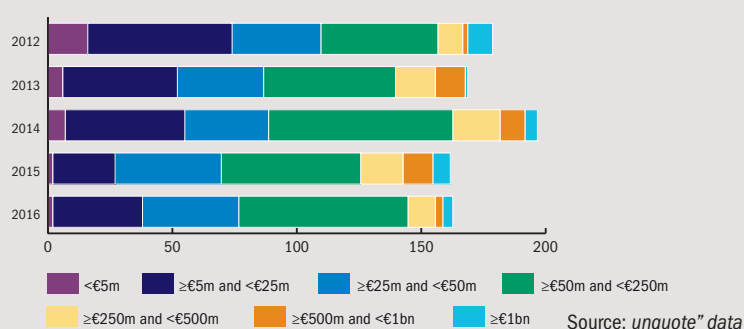
Indeed, while exit volume for trade sales valued at above €100m dropped from 33 to 29 annually and aggregate value dropped from €29.5bn to €25.7bn, this still represented the second highest level of activity over the past decade.

Notable examples include the £6.1bn sale of CVC-backed Formula One Group to US-based Liberty Media; the £1.4bn sale of Scottish Equity Partners-backed Skyscanner to China-based Ctrip; and, at the end of the year, the €1.69bn sale of Cinven-backed Host Europe Group to GoDaddy.

The IPO market slowed, with just two such exits taking place in H2 2016. However, the €5.1bn flotation of Nordic Capital- and Avista Capital Partners-backed medical products business ConvaTec in October marked the second largest exit of the year, second only to CVC's Formula One divestment. ■

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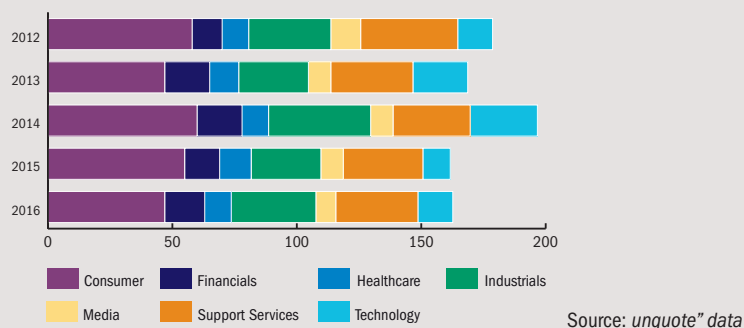
UK & Ireland buyouts by size range (volume)



UK & Ireland buyouts by €m size range (volume)

	2012	2013	2014	2015	2016
<5	16	6	7	2	2
≥5 and <25	58	46	48	25	36
≥25 and <50	36	35	34	43	39
≥50 and <250	47	53	74	56	68
≥250 and <500	10	16	19	17	11
≥500 and <1bn	2	12	10	12	3
≥1bn	10	1	5	7	4

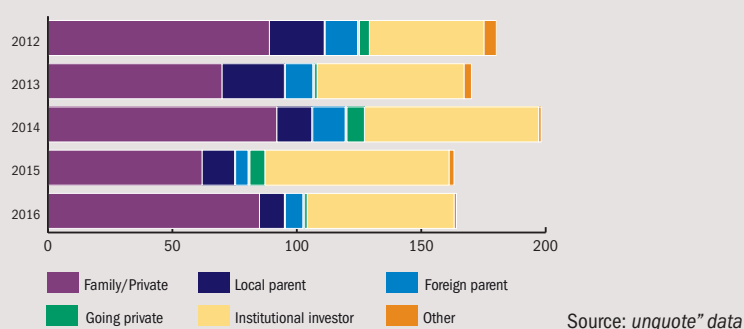
UK & Ireland buyouts by super-sector (volume)



UK & Ireland buyouts by super-sector (volume)

	2012	2013	2014	2015	2016
Consumer	58	47	60	55	47
Financials	12	18	18	14	16
Healthcare	11	12	11	13	11
Industrials	33	28	41	28	34
Media	12	9	9	9	8
Support Services	39	33	31	32	33
Technology	14	22	27	11	14

UK & Ireland buyouts by vendor type (volume)



UK & Ireland buyouts by vendor type (volume)

	2012	2013	2014	2015	2016
Family/Private	89	70	92	62	85
Local Parent	22	25	14	13	10
Foreign parent	13	11	13	5	7
Going Private	4	1	7	6	1
SBO	46	59	70	74	59
Other	5	3	1	2	1

STATS

UK & Ireland exits 2016

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
The Formula One Group	Trade sale	7,177.1	CVC Capital Partners
ConvaTec	Flotation	5,079.3	Avista Capital Partners, Nordic Capital
Brake Brothers (Brakes)	Trade sale	2,862.8	Bain Capital Europe
The Priory Group	Trade sale	2,036.1	Advent International
Host Europe Group	Trade sale	1,690	Cinven
Parkdean / Park Resorts	SBO	1,583.9	Electra Partners, Alchemy Partners
Plasma Resources UK	Trade sale	1,075.3	Bain Capital Europe
Oasis Healthcare	Trade sale	928.5	Bridgepoint, Duke Street Capital
Saga	Other	870.3	CVC Capital Partners, Permira, Charterhouse Capital Partners
Innovia Group	Trade sale	797.1	Electra Partners

€7.2bn

Largest UK & Ireland exit in 2016

UK & Ireland funds 2016

Fund name	Fund manager	Fund target (€m)	Amount raised (€m)
Advent International GPE VIII	Advent International	11,918.7	11,588.6
TPG Partners VII	TPG	6,990.7	8,648.0
Apax Fund IX	Apax Partners	6,731.8	8,252.3
Sixth Cinven Fund	Cinven	5,500.0	7,000.0
Carlyle Global Partners	Carlyle Group	2,676.1	2,874.9
Charterhouse X	Charterhouse Capital Partners	3,000.0	2,300.0
Investindustrial VI	Investindustrial	1,800.0	2,000.0
IK VIII Fund	IK Investment Partners	1,600.0	1,850.0
NB Strategic Co-Investments Partners III	NB Private Equity Partners	1,188.7	1,375.4
AnaCap Financial Partners III	AnaCap Financial Partners	900.0	850.0
Livingbridge 6	Livingbridge	705.8	796.1
GHO Capital I	GHO Capital	500.0	660.0
CBPE Capital Fund IX	CBPE Capital	503.4	633.2
Stirling Square Capital Partners III	Stirling Square Capital Partners	500.0	600.0
Mayfair Equity Partners Fund 1	Mayfair Equity Partners	414.6	513.2
MML Capital Partners Fund VI	MML Capital Partners	350.0	438.0

€11.9bn

Largest UK & Ireland fund in 2016

€20.5bn

Aggregate value of UK & Ireland buyouts in 2016

UK & Ireland deals 2016

Deal name	Business description	Deal value (£m)	Sector	Equity
Parkdean Resorts	Operator of self-catering holiday parks	1,583.9	Consumer	Onex Partners
V Group	Provider of independent ship management and marine manpower services	n/d (1,000+)	Industrials	Omers Private Equity, Advent International
Argus Media	Provider of price assessments, business intelligence and market data	1,277 (est)	Media	General Atlantic
NewDay	Provider of credit cards to consumers with poor credit ratings	1,157 (est)	Financials	CVC Capital Partners, Cinven
Calvin Capital	Provider of financing for the acquisition and installation of gas and electricity smart meters	n/d (500-1,000)	Industrials	KKR
MRH	Owner and operator of petrol filling stations	n/d (500-1,000)	Industrials	Lone Star Funds
Independent Vetcare	Provider of veterinary services and pet medicines	n/d (500-1,000)	Consumer	EQT
Morrison Utility Services	Provider of replacement, repair and maintenance services of utility infrastructure	n/d (250-500)	Business Services	First Reserve Corporation
Grainger Retirement Solutions	Provider of residential equity release services	441.2	Consumer	Patron Capital, Electra Partners
Park Holidays UK	Operator of holiday homes and caravan parks	424.7	Consumer	ICG
Priory Clinics	Provider of mental health and specialist care services	370 (est)	Healthcare	BC Partners
TOM Vehicle Rental	Provider of commercial vehicle rental services	n/d (250-500)	Industrials	Equestone Partners
Cath Kidston	Retailer of womenswear, childrenswear and home furnishings	n/d (250-500)	Consumer	Baring Private Equity Asia
Reiss	Provider of clothing and accessories for both men and women	291.1	Consumer	Warburg Pincus
Dobbies Garden Centres	Retailer of horticultural products	284.6	Consumer	Hattington Investment Partners
Envision Pharma Group	Provider of communications-related marketing services to biopharmaceutical and medical device companies	n/d (250-500)	Media	GHO Capital, Ardian
GL Education Group	Provider of products and services to assess primary and secondary schools	262 (est)	Consumer	Levine Leichtman Capital Partners
Frank Recruitment Group	Provider of recruitment services	253 (est)	Business Services	TPG Capital
Citation	Provider of professional advice and compliance packages	243.4	Business Services	HgCapital
CitySprint	Provider of same-day delivery services	233.8	Business Services	LDC, Dunedin Capital Partners
Infinis Energy	Operator of power plants comprising landfill gas sites and onshore wind farms	214.1	Industrials	3i Infrastructure Partners

UK & Ireland deals 2016

Deal name	Business description	Deal value (€m)	Sector	Equity
JD Classics	Seller of classic cars	n/d (250-500)	Consumer	Charme Capital Partners
Premier Research Group	Provider of clinical services	n/d (250-500)	Healthcare	Metalmark Capital
Exemplar Healthcare	Provider of residential nursing care to patients with physical and mental disabilities	181 (est)	Healthcare	Agilitas Partners
The Racing Post	Operator of a racing newspaper and website	176 (est)	Media	Exponent Private Equity
Interactive Investor	Provider of online and print information focusing on personal finance	n/d (250-500)	Media	JC Flowers & Co
Marston Holdings/ Marston Group	Provider of bailiffs and parking enforcement services	n/d (250-500)	Business Services	ICG
Loungers	Operator of a café-bar chain	160.7	Consumer	Lion Capital
AA Ireland	Provider of car, home and travel insurance	156.6	Financials	Carlyle Group
Simply Business	Provider of online brokerage services	152 (est)	Financials	Aquiline Capital
Lane Clark and Peacock	Operator of a financial consultancy focusing on pensions, investment and insurance	150.2	Financials	Inflexion
Meadow Foods	Provider of milk and dairy ingredients to the food industry	n/d (250-500)	Consumer	Paine & Partners
Leisure Pass Group	Provider of access for tourists to major London attractions	n/d (250-500)	Consumer	Exponent Private Equity
The Liberation Group	Operator of pubs, bars, breweries and restaurant chains	142.3	Consumer	Caledonia Investments
Reed & Mackay	Provider of travel management services	n/d (250-500)	Business Services	Inflexion
Independent Media Distribution	Distributor of broadcast advertising and new music	n/d (250-500)	Media	Inflexion
Enra	Lender and broker of bridge loans and commercial mortgages	n/d (250-500)	Financials	Living Bridge, Exponent Private Equity
Gaucha Group	Operator of a restaurant chain, serving Argentinian-style food	136 (est)	Consumer	Equistone Partners
Lifetime Training Group	Provider of training services	n/d (250-500)	Business Services	Silverfleet Capital
Steelite International Holdings	Provider of cutlery, crockery, glassware and catering equipment to the hospitality industry	n/d (250-500)	Consumer	PNC Riverarch Capital
Bybox	Provider of locker-based logistics solutions	124.4	Industrials	LDC
Adey	Producer of water treatment equipment for home and commercial heating systems	n/d (250-500)	Business Services	LDC
ABI Leisure	Manufacturer of caravan holiday homes	n/d (250-500)	Consumer	Close Brothers Private Equity
Inspiring Learning	Organiser and manager of school trips and holidays	n/d (250-500)	Consumer	Bridgepoint Development Capital