Corbett Keeling | Corporate Finance

First quarter 2010 – the return of the larger buyout

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 deals – and concludes the market is improving, led by a clear upturn in larger deals.

Finally, at the start of 2010, comes some solace for those working in the larger buyout market. After a record-breakingly weak 2009, funders and advisers alike can draw comfort from a marked upturn in larger deals. Let's look at the facts, as usual examining first larger UK buyouts of more than €150m enterprise value, then UK buyouts of less than €150m and finally early-stage and expansion capital deals.

- It wasn't hard for the first quarter of 2010 to see its statistics for larger UK buyouts (€150m or above) beat the comparatives of a year earlier, when there was a highly unusual straight zero. Encouragingly, though, activity has done far better than just beating zero: it has returned to levels seen in the opening quarters for much of the last 10 years. Indeed, only three years – 2008, 2007 and 2001 – saw significantly greater volumes and values than 2010. The result for the first quarter of the year, at nine larger buyouts with total value of €3.7bn, was not only a reasonable performance compared with earlier years' first quarters, but, by both measures, is already nudging the comparative figures for the whole of 2009.

- The first-quarter 2010 result for smaller UK buyouts (below €150m) was much more pedestrian, coming in at almost exactly the quarterly average level since the downturn at the end of 2008. At the time of writing, admittedly still a few days before the end of the quarter, there had been just 14 deals, with an aggregate value of €350m. This may seem a reasonable result compared with the number of larger deals, but of course in a "good" quarter there would normally be far more small deals done than large. So the improvement in larger buyouts has not yet filtered down to their smaller cousins.

- Likewise, UK early-stage and expansion capital deal numbers, though not dramatically down, fail to provide any excitement for deal-makers. There were 50 early-stage/expansion deals in the first quarter of 2010, with an aggregate amount of €390m; both statistics are in line with recent weaker years, but a long way below years when activity was high.

So what do we conclude from this? Last quarter, we reported that one larger-deal practitioner's firm "had not done a deal for 18 months" and his team was "really hungry to get a transaction over the finishing line". It appears he, and many of his peers, have reacted to that sentiment by pushing hard and finally re-starting the larger-deal machine.

The question is whether, over the coming months, this trend will be sustained for larger buyouts and then spread to smaller deals, especially given the uncertainty created by a general election. The survey of future expectations shows some helpful and generally positive pointers:

- While fewer respondents than three months ago think numbers of larger deals will continue to increase – which is perhaps unsurprising, given the larger buyout result – two thirds of respondents still think numbers of smaller buyouts are on the up.

- The proportion of respondents that think prices have fallen far enough to trigger more deal activity also continues to increase.

- The question concerning sources of deal-flow indicates a return of the secondary buyout, with respondents favouring private equity-owned businesses as the greatest source of future deals. This perhaps reflects the difficulties that sparsely-available debt caused for many private equity-backed businesses during 2009 – causing many to get into difficulties and therefore come up for sale in 2010.

- Finally – and this may be little wonder, given our prime minister's recent last-minute intervention – the world seems split down the middle on the likely impact of European legislation (AIFM) on private equity.

The graph of all-equity buyouts to total buyouts shows the ratio being maintained at just above 20%, providing encouragement that banks are settling back into the buyout game – and that should be positive for deal-making.

At the coal-face, activity has certainly increased since last autumn and, as yet, there has been no let up in dealflow. So, we are hopeful that, notwithstanding the twin negative impact of general election and AIFM uncertainty, we will continue to see increased deal activity and a fruitful 2010.

Jim Keeling, joint chairman
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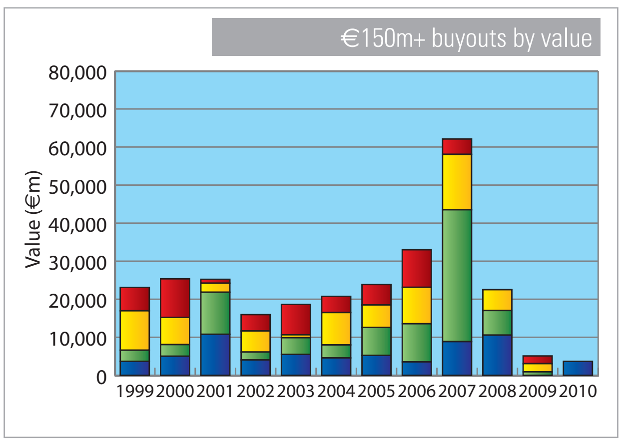
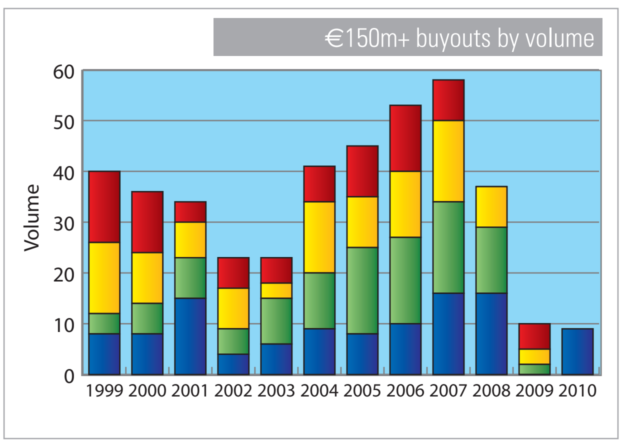
VALUE & VOLUME

Q1 Q2 Q3 Q4





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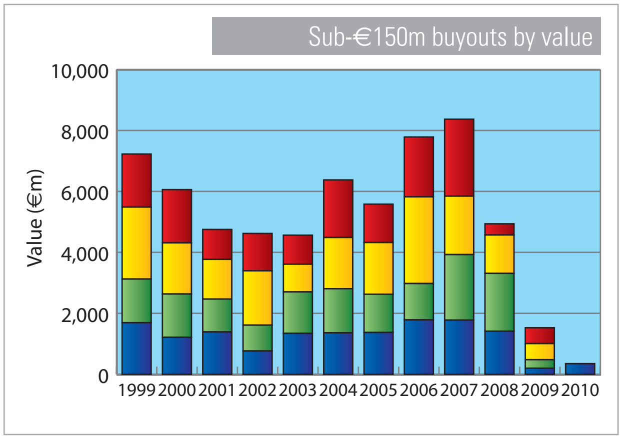
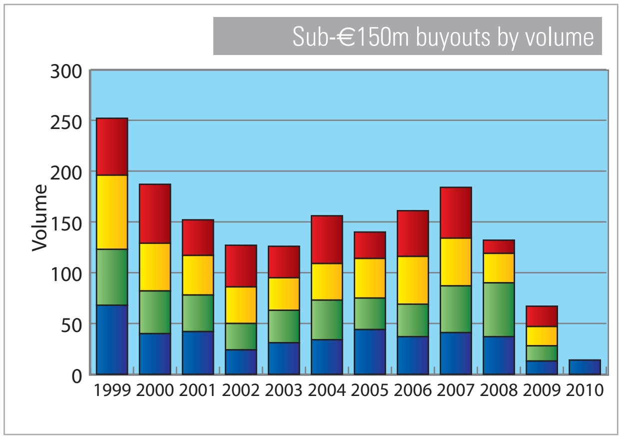
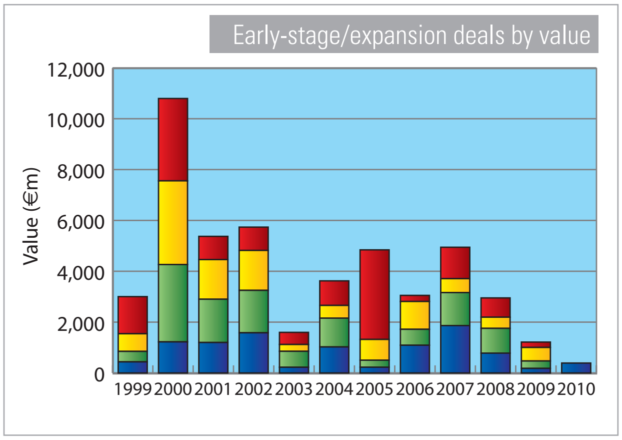
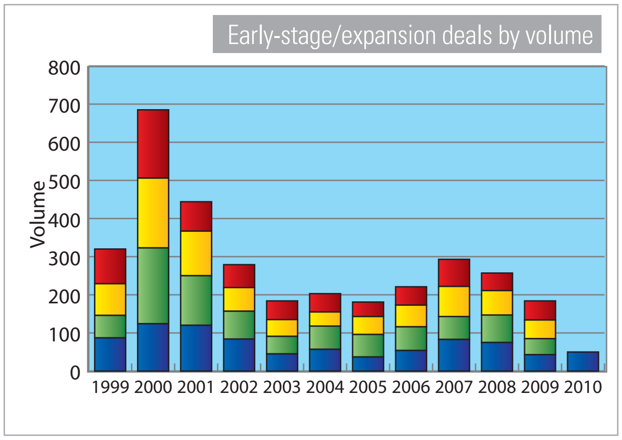
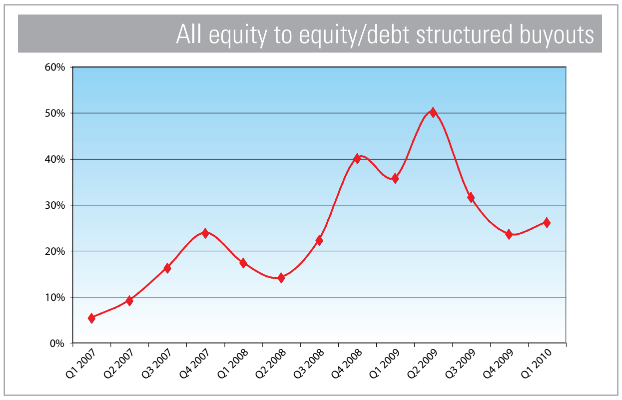










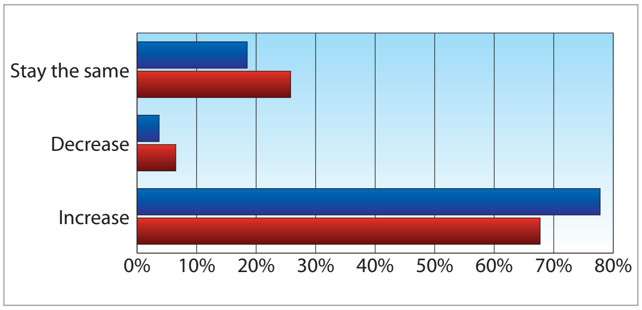
Figures are based on all deals that were confirmed, at the time of going to press, as having an institutional private equity or mezzanine investor as a lead or syndicate partner investing in a UK-based business. Sourced from Private Equity Insight.

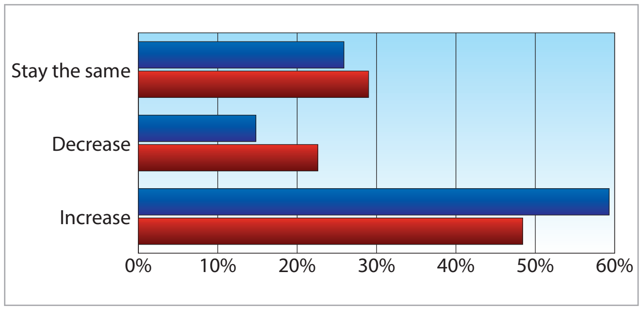
In order to produce these statistics, more than 500 key players in the UK private equity and venture capital markets were surveyed.

1 Over the next six months do you expect activity levels in the lower mid-market buyout segment (less than €150m) to increase, decrease or stay the same?

2 Over the next six months do you expect activity levels in the upper mid-market and larger buyout segment (>€150m) to increase, decrease or stay the same?

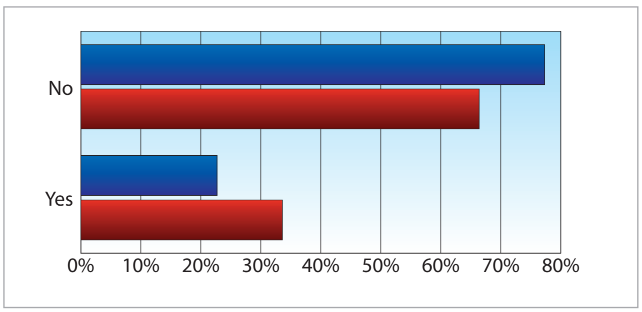
Q4 2009 results
Q1 2010 results

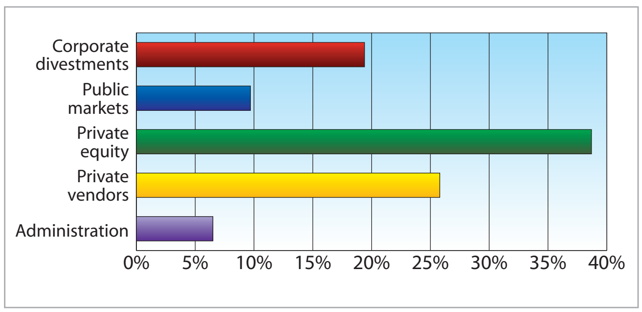




3 Have entry prices fallen sufficiently to reflect the current outlook for UK businesses?

4 What is going to be the main source of dealflow over the next six months?





5 Is limited debt availability still hindering deal completions?

6 Are the likely effects of the AIFM directive overstated?