

Corbett Keeling

Corporate Finance

## Second quarter 2010 – activity and optimism hold up

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 finds activity and optimism are holding up.

Unquote's preliminary statistics for private equity investment in the second quarter of 2010 show that activity is holding up across the board. Of course, deal-making has not returned to the dizzy heights of 2007, but it seems there has been enough activity to fuel optimism around the market. 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.

- The total number and aggregate value of larger UK buyouts (€150m or above) is already, after just two quarters of 2010, ahead of the total for the whole of 2009. The total number of deals (at 16) compares with 10 for all of 2009. In value terms, transactions worth €6bn have already been completed in 2010, compared with €5bn over the whole of 2009. So, larger deal-makers can continue to take solace that the drought of 2009 seems to be over.
- The drought for smaller UK buyouts (below €150m) was not nearly as severe as for their larger cousins, but the recovery has been comparatively more modest. However, there is some encouragement here too, with the aggregate value of smaller deals already touching on the total for 2009, at €1.4bn so far in 2010, compared with €1.5bn for all of 2009. By comparison, the number of deals is up only a little in the first six months, at 34 completed transactions, versus 29 in the same period of 2009.
- The picture for smaller buyouts is mirrored in the statistics for UK early-stage and expansion capital deals: the value

of these deals, at €1b after six months, is only just off the €1.2b for all of 2009, even though deal numbers – at exactly 100 in the year so far – are only a little ahead of the 87 recorded in the first six months of 2009.

At the end of the first quarter of 2010, we noted two big risks, namely the general election and the advent of new European legislation on UK fund managers. One might conclude that private equity has sailed through both unscathed. But two questions remain:

- While we are through the election, how much of last quarter's activity was driven by capital gains tax considerations, with owners seeking to crystallise gains before rates increased, therefore simply bringing forward deals rather than creating an underlying increase in activity? There was certainly plenty of noise around the market that deal-making was in part being driven by tax considerations.
- Is the devil in the detail of European legislation – will it yet make a material impact on the UK's competitiveness for carrying on private equity activity?

Next quarter's result will give us some clue as to the answers to both questions but, in the meantime, what are market practitioners saying of their views as to the future? Unquote's survey of future expectations gives us some helpful pointers:

- There is increasing optimism about smaller deals, with 82% of respondents to the survey predicting that activity will rise.
- At the same time, a large majority (94%) thinks larger deal activity will either increase or be maintained – at what is already, at least in terms of deal numbers, a reasonable level.

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

- RAISING FUNDS FOR MANAGEMENT BUYOUT TEAMS
- DEBT ADVISORY
- SELLING BUSINESSES

Tel: 020 7626 6266      Web: [www.corbettkeeling.com](http://www.corbettkeeling.com)

Interestingly, while all-equity funded buyouts have seen a sharp rise (to 45% of all buyouts, compared with 25% last quarter), most respondents feel that sufficient bank debt (leverage) is available in the market to support transactions. At the same time, they are almost exactly evenly split as to whether, with the Bank of England taking over from the FSA, the new regulatory regime will have a detrimental impact on the future availability of debt.

The final pressing question is what will be the impact of the changes to capital gains tax announced in the emergency budget. Perhaps not surprisingly, a majority of private equity practitioners are in favour of the tax remaining at historic levels. Now, though, everyone must consider whether the increased rate of 28% – which,

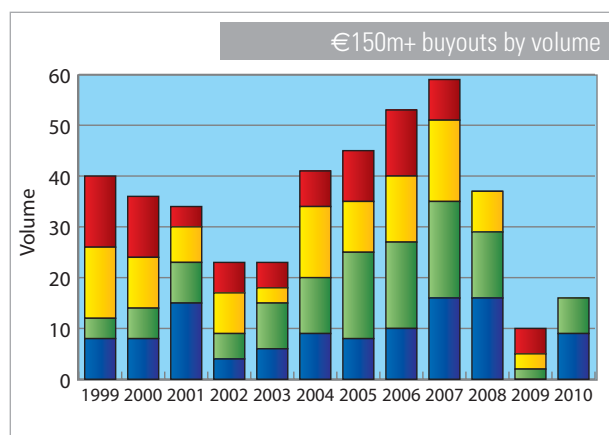
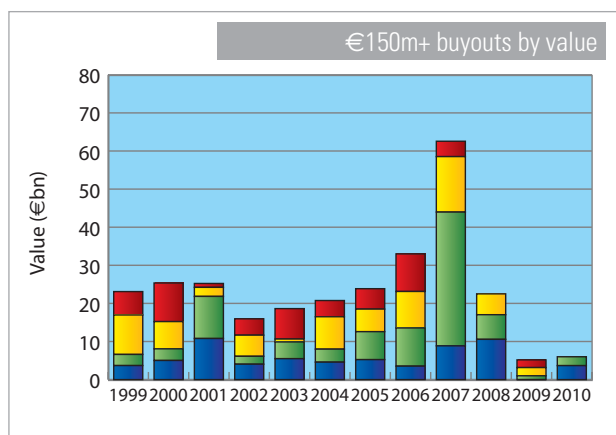
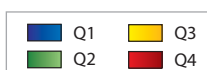
according to analysis by the British Private Equity and Venture Capital Association, makes Britain's rate the highest but one of its 16 nearest peer nations – will be detrimental to entrepreneurial and investing activity.

Only the coming months – or years – will tell. In the meantime, we will keep watching whether current optimism manifests itself in deal activity during the traditionally quieter summer months.

Jim Keeling, joint chairman  
Corbett Keeling  
[www.corbettkeeling.com](http://www.corbettkeeling.com)



## VALUE & VOLUME

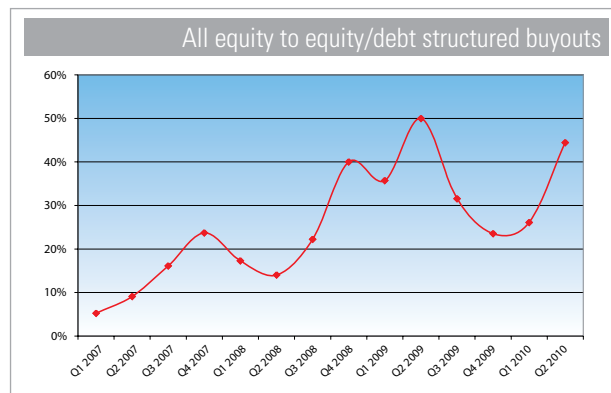
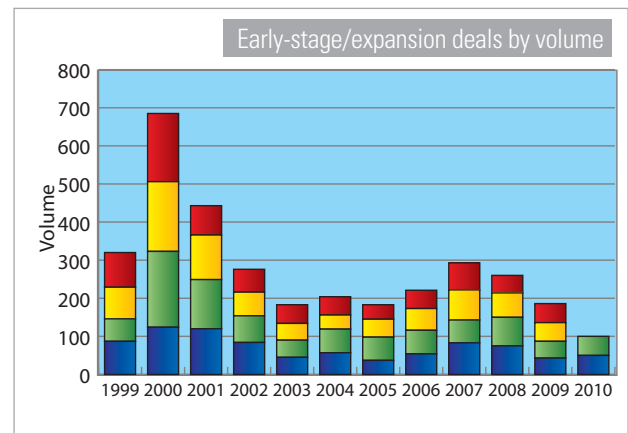
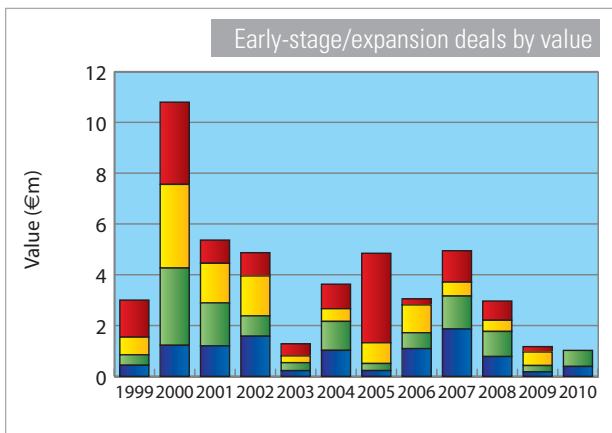
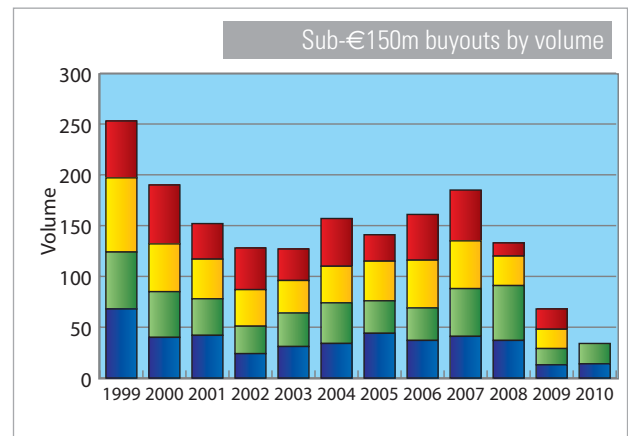
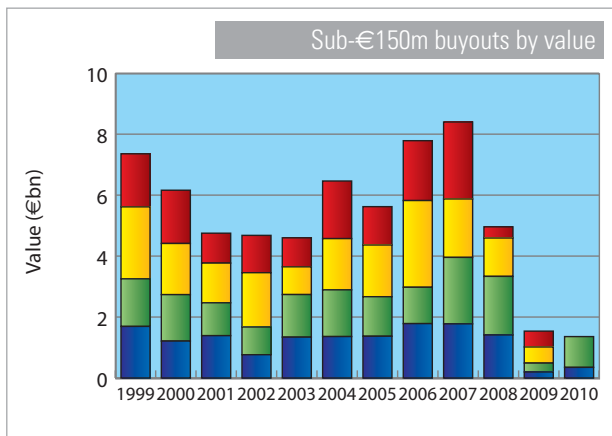


Tel: +44 20 7626 6266



# Corbett Keeling | Corporate Finance

## VALUE & VOLUME



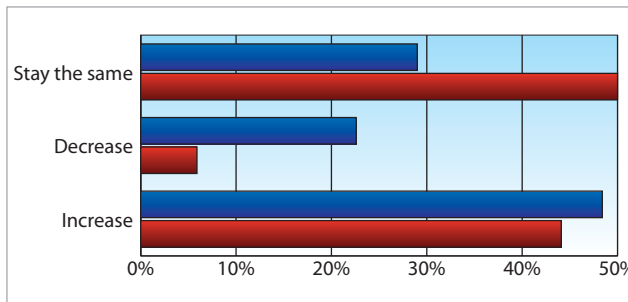
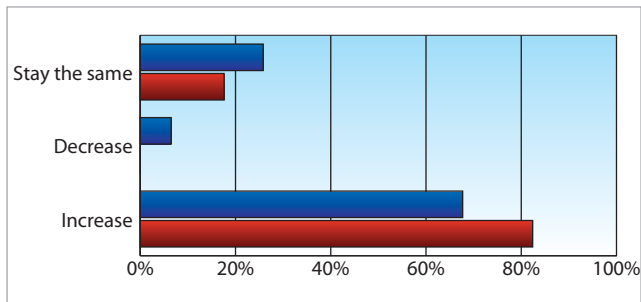
Figures are based on all deals that were confirmed, at the time of going to press, as having an institutional private equity or mezzanine investor as a lead or syndicate partner investing in a UK-based business. Sourced from Private Equity Insight.

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?

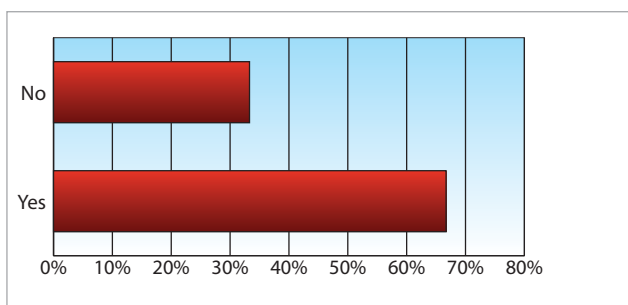
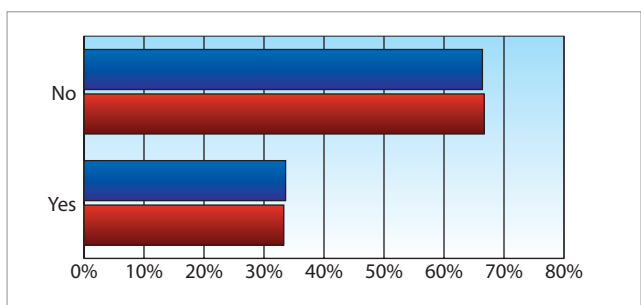
2 Over the next six months do you expect activity levels in the upper mid-market and larger buyout segment (more than €150m) to increase, decrease or stay the same?

■ Q4 2009 results  
■ Q1 2010 results



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

4 Is there sufficient leverage to support primary transactions at the lower end of the market?



5 Will the Bank of England's new role of regulating retail and investment banks have a detrimental impact on leveraged transactions?

6 Which is the most feasible capital gains tax policy?

