

The market moves on

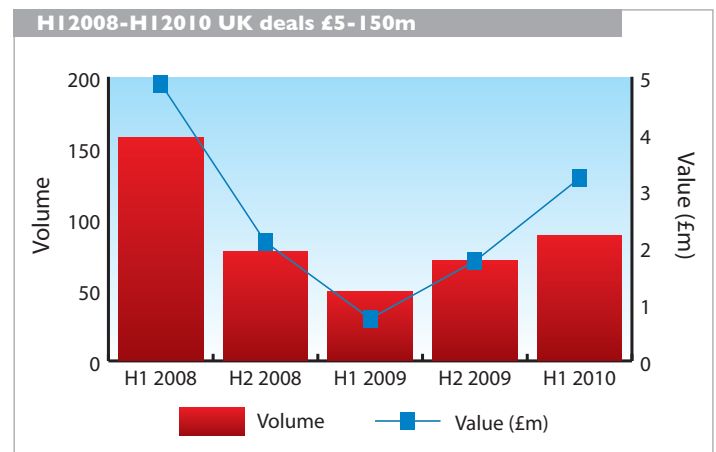
While there are remaining doubts about the economy’s growth prospects, the latest mid-market barometer shows that private equity activity in the UK is on the up

The UK mid-market statistics are in for the first half of 2010 and bullish observers will note that overall activity levels and value totals for deals in the £5-150m range have seen a constant rise since the nadir in the first half last year.

Indeed, looking back at this time last year the mood couldn’t be more different. After all, private equity activity in H1 2009 was dogged by the repercussions of the Lehman’s collapse in autumn 2008. Debt providers were frantically looking to restructure their balance sheets and retreated from the market altogether. Consequently, there was little if any leverage available to structure buyouts. The mainstream media cast doubts over the private equity industry itself as LPs faced the denominator effect due to tumbling stock market valuations, while proposed regulatory changes caused further market uncertainty.

With most of last year’s issues resolved, this year has been materially different as Darryl Eales of LDC points out. For a start, the pressure on banks is receding and institutions have a better understanding of whether they are able to lend or not. “There are more banks lending now than 12 months ago and one can get away with deals of up to £50m EV with competitive effort,” states Eales.

Then there is more clarity in the market about what the regulatory changes are likely to be, while the change in government has further eliminated the previous uncertainty about future policy direction. Most importantly from a private equity point of view, though, is the fact that LPs are more assured about their investment strategy. All this is mirrored in the UK mid-market totals for H1 2010. Year-on-year overall activity



is up by 80%, with the most dramatic change seen in the £50-150m deal bracket. While only two deals in this deal range were recorded in the first six months of 2009, H1 2010 has seen 25 transactions almost matching the H1 2008 29 deal total.

The market, therefore, is showing signs of recovery. Of course there remains a degree of uncertainty not at least due to shaky economic prospects, but on a whole the industry is moving on.

“Capital continues to be invested and divested and private equity portfolios have to be bought and sold. Despite the downturn there is still growth in certain niches in the market and opportunities abound. At LDC we’re certainly busier than we have been last year,” concludes Eales.

Methodology

- All data published in the *unquote*™ regional barometer is extracted from Private Equity Insight, the proprietary data system of Europe's leading private equity information specialist. Although every effort is made to ensure that the statistics contained within are as comprehensive as possible, the figures published in this edition are effectively a snapshot of the data held as at 31 July 2010. For this reason the statistics are likely to change over time as information on further deals comes to light.
- All details have been confirmed, where possible, with the private equity investors involved in the transactions. In some cases deal values have either been provided confidentially or have been estimated and these will not be shown in the text.
- Four regional groupings are analysed as part of this barometer. Each

of these is made up of more than one of the discrete regions as defined by the BVCA. The groupings are as follows:

North: North-West & Merseyside, Northern Ireland, Scotland, North-East and Yorkshire & The Humber;

London: London and Eastern;

Midlands: West Midlands and East Midlands;

South: South-East, South-West and Wales.

- For more information on the regional barometer, please contact: Emanuel Eftimiu, European research manager. Tel: +44 (0)20 7004 7464.
- For more information on Private Equity Insight, please contact: Nicola Tillin, commercial director. Tel:+44 (0)20 7484 9884



League tables

UNITED KINGDOM

Name	Volume
LDC (Lloyds TSB Development Capital)	8
Sovereign Capital	5
HgCapital	3
Balderton Capital	3
Sun European Partners	2
Bridgepoint Capital Limited	2
Duke Street	2
Graphite Capital Management	2
Primary Capital	2
Gresham Private Equity	2

LONDON

Name	Volume
LDC (Lloyds TSB Development Capital)	2
Index Ventures	2
Sovereign Capital	2
Scottish Equity Partners	2
Graphite Capital Management	1

NORTH

Name	Volume
HgCapital	2
LDC (Lloyds TSB Development Capital)	2
Energy Ventures IS	2
Dunedin Capital Partners	1
Phoenix Equity Partners	1

MIDLANDS

Name	Volume
LDC (Lloyds TSB Development Capital)	2
Gresham Private Equity	2
Vitruvian Partners	1
HIG Capital	1
Lyceum Capital	1

SOUTH

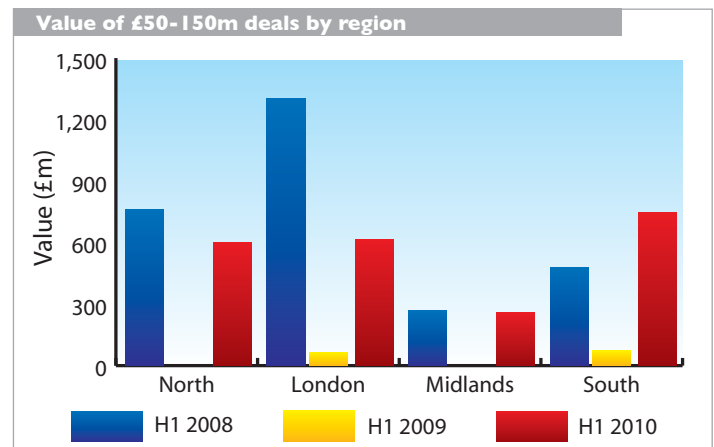
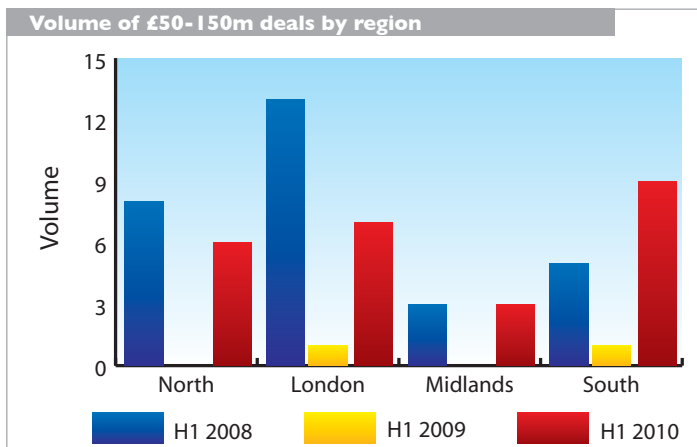
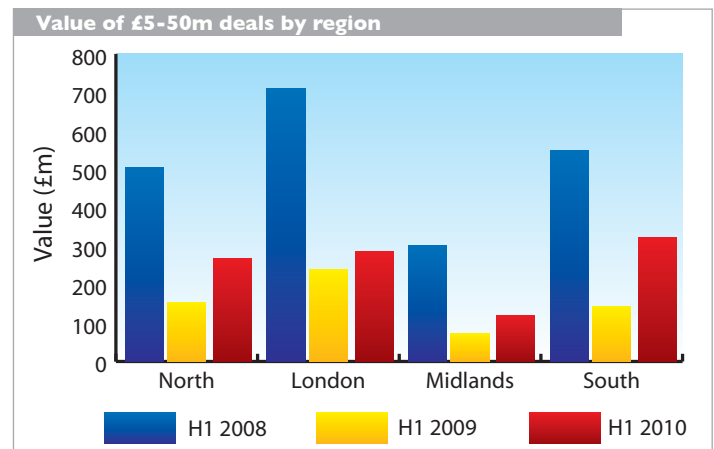
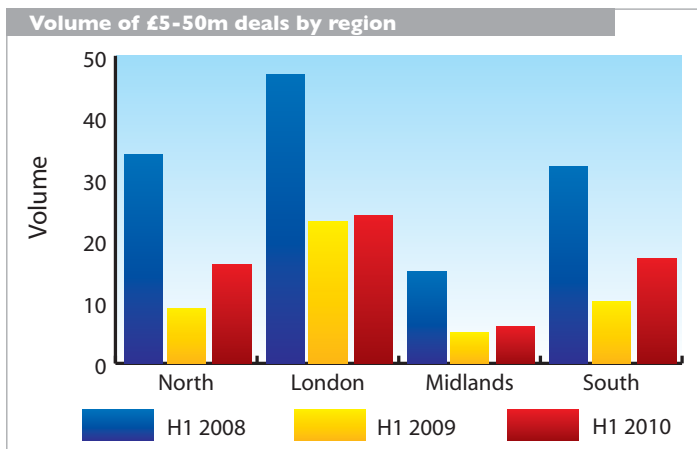
Name	Volume
LDC (Lloyds TSB Development Capital)	2
Primary Capital	2
Draper Fisher Jurvetson	2
Sovereign Capital	2
Montagu Private Equity LLP	1

National overview

- Following the extremely difficult economic circumstances of early 2009, it was perhaps inevitable that 2010 would see an improvement. Both deal volume and value in the first half of 2010 are up on the same period a year ago across all regions. However, early 2010 is still showing significantly less activity than in 2008, indicating the economic recovery has been quite limited thus far.
- At the lower end of the market, a recovery in activity was quite varied. Nationally, deal volume was up 34% with 63 transactions, but remains at less than half the level seen in early 2008. However, early 2008 figures may be distorted due to a change in capital gains tax rules at the time leading to a rush in completions. Both London and the midlands saw only a minor increase in deal volumes in the £5-50m range. Each saw just a single additional deal compared with H1 2009. However, the north and south fared considerably better, with volumes up 78% and 70% respectively.
- Deal values in the £5-50m range made a more significant recovery, with increasing average deal values across all regions. Total deal value

increased by more than 63% to £995.4m, but is less than half the £2.06bn seen in H1 2008. The south of England managed to knock London off the top spot in value terms, with £322m invested, more than double the amount seen in 2009.

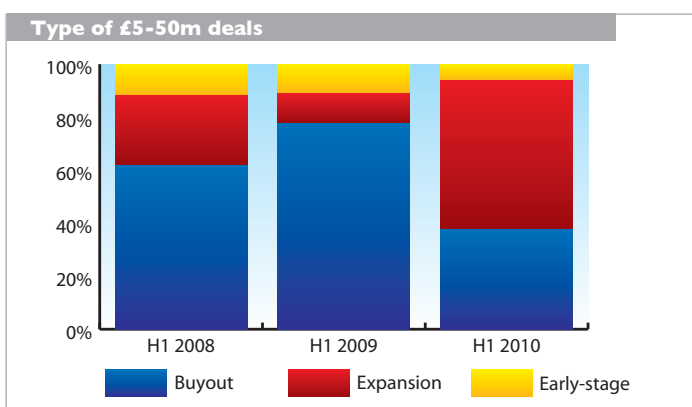
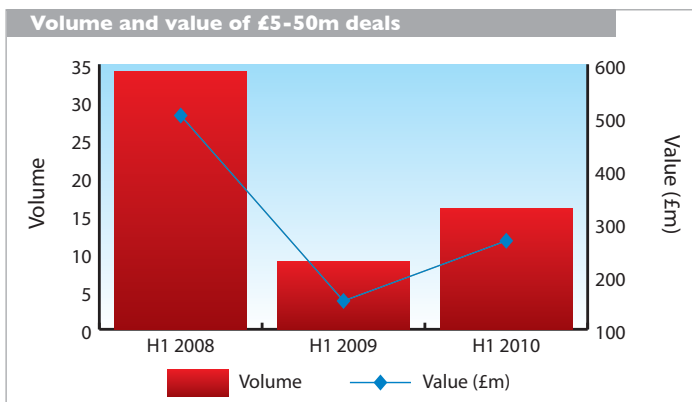
- While the availability of leveraged finance is still low by historical standards, the market recovered enough to allow a substantial increase in deal activity in the £50-150m range. In H1 2009, both the midlands and the north saw no deals in this size range, while London and the south saw just one deal each. This major blip resulted in an 800% increase in deal volumes between 2009 and 2010. Compared with H1 2008, deal activity fell by just 13.8%, though this was largely due to an 80% increase in volume in the south.
- Value totals in the upper mid-market also increased, although, again, these remain low compared with the first six months of 2008. The South was the only region to see a significant increase in value over a two-year period, up almost 56% to £747.4m.



North

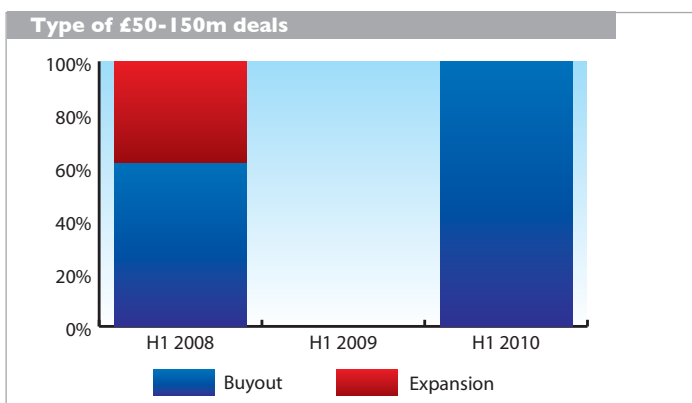
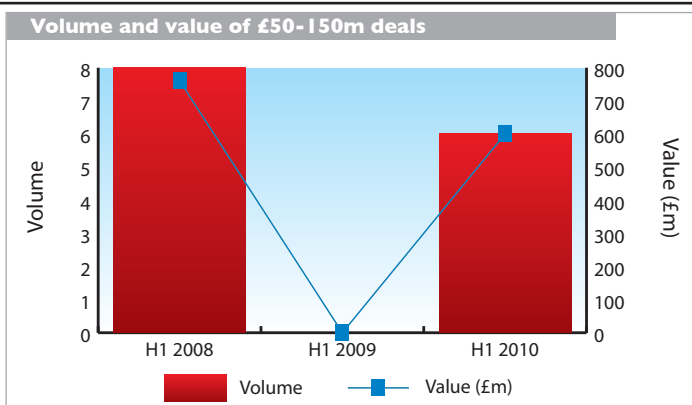
Deal activity in the £5-50m size range

- Deal volume in the north's lower mid-market increased in the first half of 2010, up to 16 compared with nine in H1 2009. While this is a significant improvement, deal activity in the region is still well below a highly active 2008, when 34 deals were completed in the first six months of the year.
- Deal valued climbed 74% to £267m, following some moderately sized deals, including Inflexion's £30m acquisition of Fish Insurance and a £24m investment in Willowbrook by Graphite Capital. However, average deal value fell slightly, from £17.1m in 2009 to £16.7m this year, though this is still higher than the £14.8m seen in 2008.
- Expansion deals accounted for more than 50% of activity in the region, up considerably after just a single expansion seen in 2009. Buyout volumes fell slightly while early-stage activity remained flat.



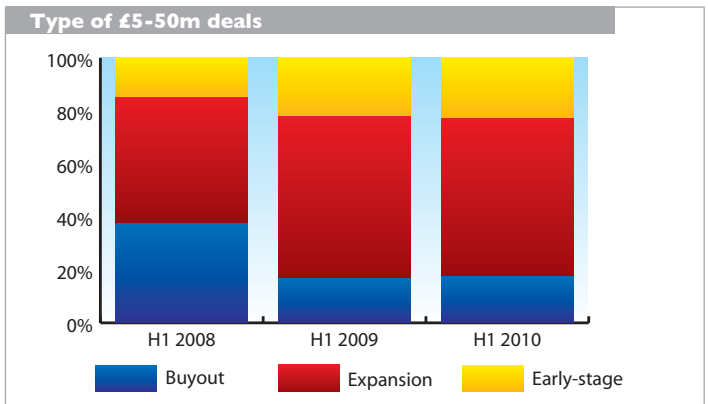
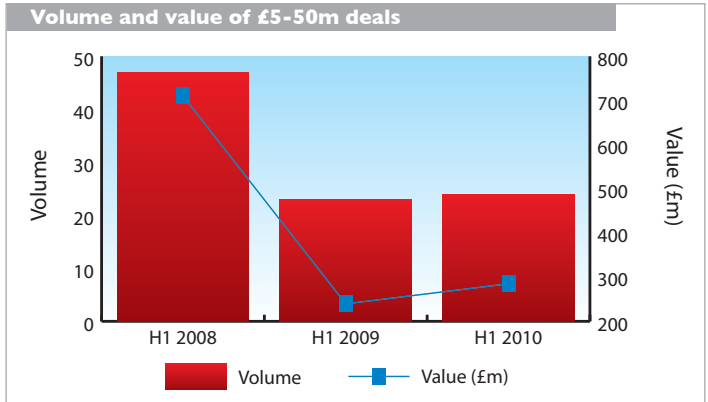
Deal activity in the £50-150m size range

- After seeing no activity in 2009, the northern region could not help but see an improvement this year. A total of six deals were completed in the upper mid-market, only slightly lower than the eight seen in 2008.
- Value rebounded strongly, with deals in the region worth a total of £600.2m. This gives the northern region an average deal value of just over £100m, the highest seen in any region. Several large transactions helped push up average deal values. Acorn Care & Education was the largest, with a £150m buyout backed by the Ontario Teachers' Pension Plan. Three other deals were valued at £100m or more.



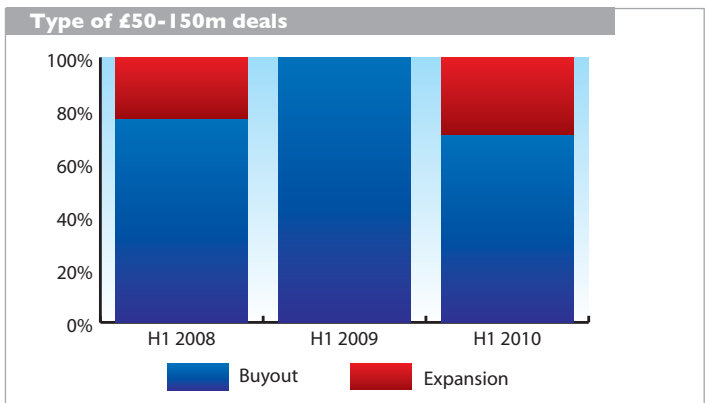
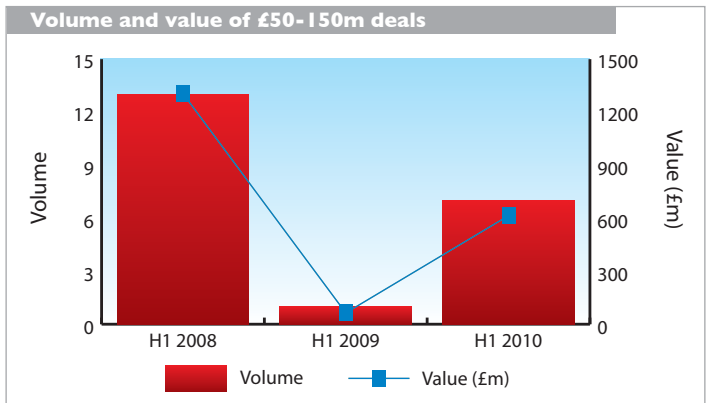
Deal activity in the £5-50m size range

- As usual, the London region was the most active across the UK. However, it did not see the same major recovery in deal volumes as other regions, such as the south and north of the UK. A total of 24 deals were completed in the first half of this year, up just one from the 23 seen in H1 2009. Deal volume remains around half the level seen in 2008.
- Deal value increased, up 19% compared with last year to £285.1m. However, this is still well below the level seen in 2008, when total deal value in the region amounted to £710.5m. Average deal value in the first half of 2010 was £11.9m.
- Expansion remains the most active segment in London's lower mid-market, accounting for almost 60% of all deals. The largest deal was a £30m expansion investment in Oasis Healthcare by Duke Street Capital and Partners Group.



Deal activity in the £50-150m size range

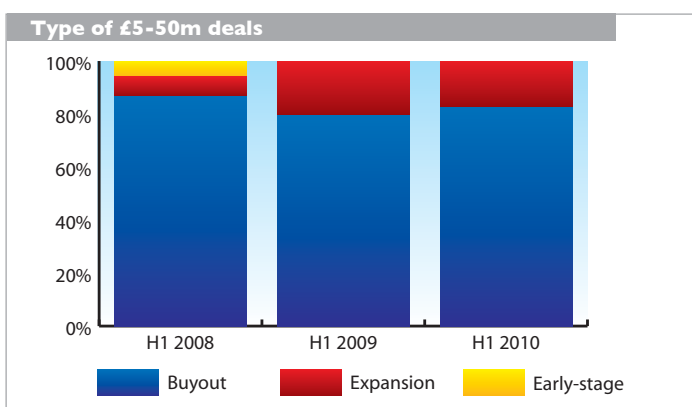
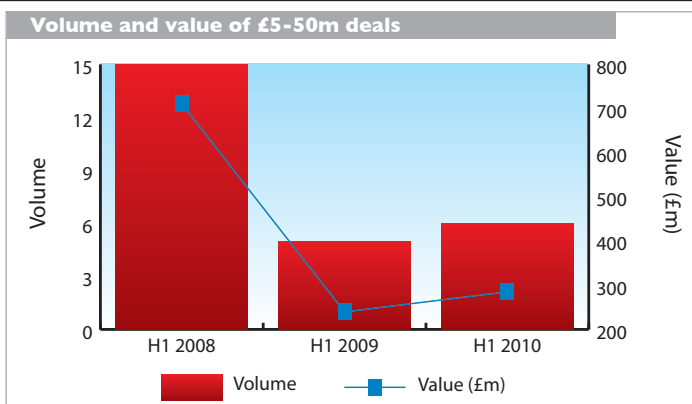
- Larger mid-market deals made a major comeback after a difficult 2009. A total of seven deals valued between £50-150m were completed in the first six months of 2010, compared to just one in the same period of 2009.
- Deal value was, unsurprisingly, up on 2009, with total value amounting to £614.3m compared to £64m a year ago. Average deal value also increased, from £64m in 2009 to £87.8m this year. However, the largest deal in the region was a £100m restructuring arrangement made by Terra Firma for beleaguered EMI.



Midlands

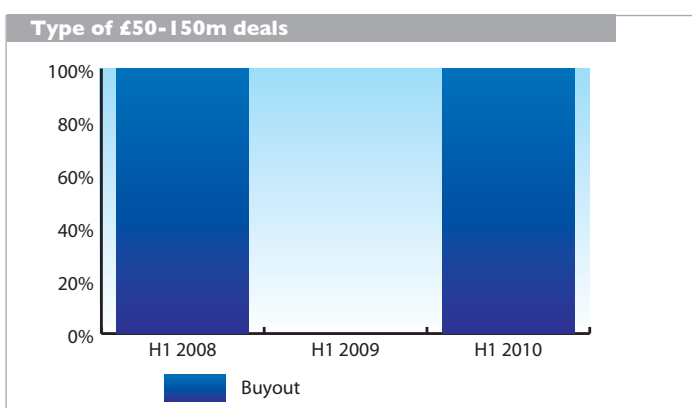
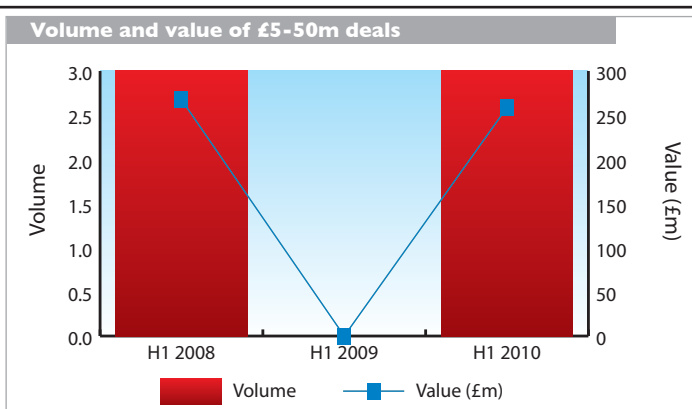
Deal activity in the £5-50m size range

- Market conditions in the midlands have shown little change in the first half of 2010. Volume increased from five deals in H1 2009 to six this year - still far below levels seen before the collapse of Lehman Brothers, with 15 deals recorded in the same period of 2008.
- Total deal value also saw a minor improvement, up 19% to £285.1m. Again, this is well below that seen in 2008, when deal value for the first six months hit £710.5m. Average deal value in the region has remained remarkably stable, with average values all between £47.4-47.9m in each of the past three years.
- Buyouts continue to make up the bulk of deals in the midlands, accounting for more than 80% of activity in the first six months of the year.



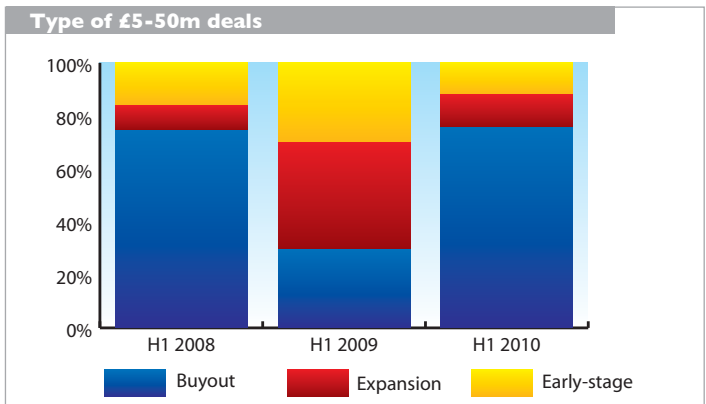
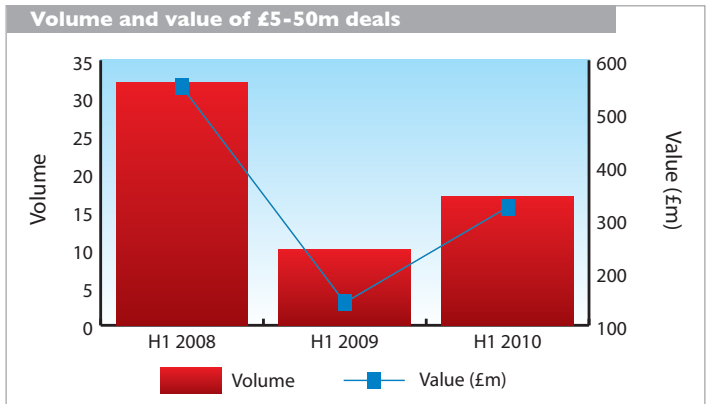
Deal activity in the £50-150m size range

- The upper end of the mid-market returned to 2008 levels, with three deals completing in the first half of 2010. By comparison, the first half of 2009 saw no deals in this segment at all, unsurprising given the economic turmoil at that time.
- Deal value was on a par with that seen in the first six months of 2008, with total deal value amounting to £258.8m this year, compared to £267.5m two years ago. The buyout of Inspired Gaming was the largest deal in this segment, valued at £133.8m.



Deal activity in the £5-50m size range

- Deal volume saw a significant recovery in the first half of 2010, unsurprising given the economic turmoil prevalent in early 2009. A total of 17 deals were completed in the first six months of the year, compared to just 10 in H1 2009.
- The total value of deals in this segment saw an even greater improvement, climbing 126% to £322.7m. Average deal sizes also improved, from £14.3m in H1 2009 to £19m in the first half of this year. This is also higher than in the same period of 2008, when average deal value was £17.2m. The acquisition of Leaders by Bowmark capital, valued at £48m, was the largest deal in this segment, accounting for 15% of total value.
- Buyouts made a major return, with 13 transactions recorded in H1 2010, compared to just three in the same period last year. The number of expansion and early-stage deals saw a slight decline, with two in each category.



Deal activity in the £50-150m size range

- Larger mid-market transactions also made a major comeback, after seeing just one deal in H1 2009. A total of nine deals valued between £50-£150m were completed in the first six months of this year, higher even than in H1 2008, when five deals were registered.
- As a result of increased volumes, total deal value also improved, with the recorded £747.4m roughly 10 times higher than the 2009 total. Average deal value increased from £72m in H1 2009 to £83m this year, but is lower than the £96m seen in the first half of 2008. The acquisition of Greenstar UK by Montagu was the largest deal, valued at £135m. The transaction was structured as a buyout, but will eventually be merged with waste disposal giant Biffa.

