

Corbett Keeling

Corporate Finance

## Third quarter 2009 – light at the end of the tunnel?

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 asks: are we seeing a dawn and, if so, is it false?

The talk in financial circles is all about whether the outlook is brightening and, if so, whether it can last. Everyone is asking if things have changed significantly since they returned from their summer holidays.

The preliminary third quarter 2009 historic statistics show few deals but, nevertheless, some promising signs. Let's have a closer look before deciding how we should interpret them. As usual, we will first examine 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 market for larger UK buyouts (of €150m or above) remains weak. As in the second quarter of 2009, there were just two completed deals. Although this is better than the nil result for each of the two preceding quarters, it is still minimal compared with an average of 10 for the third quarter over the preceding 10 years. The total value of deals is also low, at €1.9bn compared with an average for the preceding 10 years of €7bn. The only solace here is that, although the third quarter value was low, it was the best – by some margin – in the last 12 months.
- Smaller UK buyouts (below €150m) have also recorded their best result for the last 12 months, with 18 deals. That compares with an average of 14 in the preceding three quarters. More importantly, aggregate deal value doubled to €500m, having totalled around €250m in each of the previous quarters. Taken alongside the larger buyout result and bearing in mind that we are looking at the traditionally quieter summer months, this may support the view that a new dawn is breaking.

- By contrast, deal activity for UK early-stage and expansion capital deals shows a slight decline with 38 deals compared to an average of 44 in the preceding three quarters. That said, aggregate amount invested increased by 30% to €380m in the third quarter, on the back of more prominent add-on acquisitions.

Of course, one of the difficulties in interpreting the data is that any talk of a dawn refers to the period of just a few weeks since the world came back to work after the August break. So, any dawn there has been has had only three – or at most four – weeks to make an impact on the preliminary third quarter figures.

Perhaps it is more relevant, on this occasion, to steer away from the historic statistics and listen to what is being said around the marketplace. We are repeatedly hearing from funders that they have been seeing “more and higher quality” deals since the start of September. At one bank, the head of the division that provides debt to buyouts told us that his team, which normally backs around 15 new deals every six months, had done only one in the second half of 2008 and another one in the first half of 2009. However, when we spoke to him in mid-September, the team was already up to three deals – all completed since he returned from holiday. More importantly, he thought their pipeline of new deals was looking likely to put his team back at 15 for the second half of 2009. That is a picture of a step change – down and up again – and a clear view that a deal-makers' dawn is breaking. For ourselves at Corbett Keeling, we are certainly seeing more new deal activity at the moment than at any time in the last 12 months.

Perhaps the banker's view of an increase in deals is reflected in the chart plotting the ratio of all-equity funded buyouts to all buyouts. This showed a sharp drop from 50% in the second quarter 2009 to 30% in the third quarter – demonstrating that equity providers are no longer being left to carry the day alone, but are now getting significantly more support from banks.

**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

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The survey of future expectations seems also to reflect optimism – at least in the short term:

- 45% of respondents think that larger buyout activity is on the increase, compared with just 21% last quarter;
- The corresponding figures for smaller buyouts rose to 83%, from 75%;
- And there is more optimism this quarter than last that entry prices have fallen far enough to reflect economic conditions – and therefore trigger deal activity.

But large majorities of those surveyed also believe that institutional funding for the private equity community itself will remain low and that the dawn we are seeing is false. And there is an interesting footnote to this quarter's survey that is not recorded in the charts: it had more respondents than we have ever seen since we started

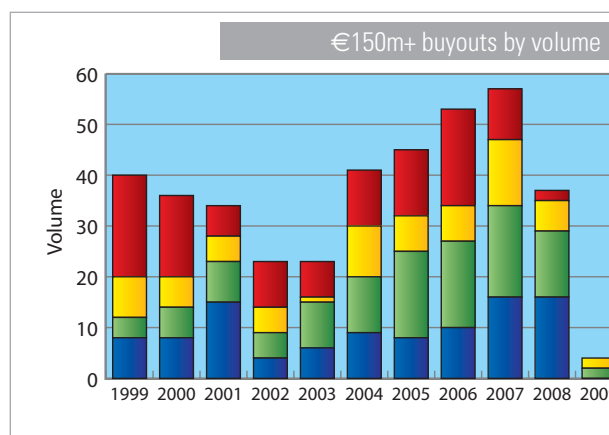
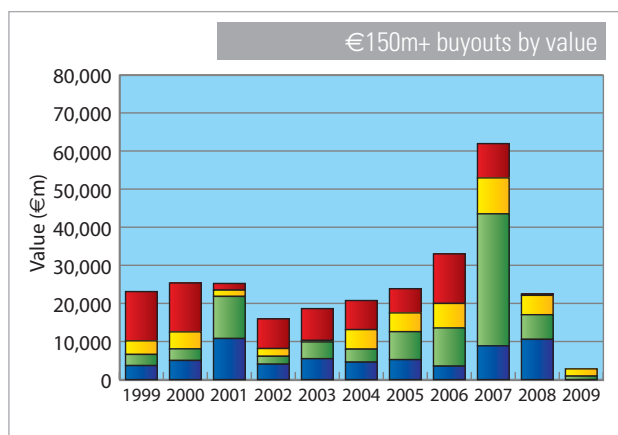
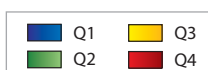
doing the surveys some years ago. Perhaps this indicates that the private equity community is mellowing or, as the cynics would say, that there are a lot of people without enough to do! If the latter, what does that say about a dawn?

Our view, though, is that the trend in completed deals supports market opinion that a deal-making dawn is breaking. The question is whether the pessimistic 77% are right about it being a false dawn. That is another story that will only be told by the results for the fourth quarter...

Jim Keeling, joint chairman  
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## VALUE & VOLUME

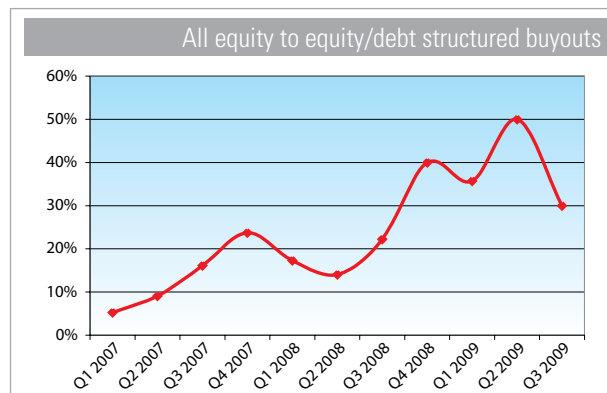
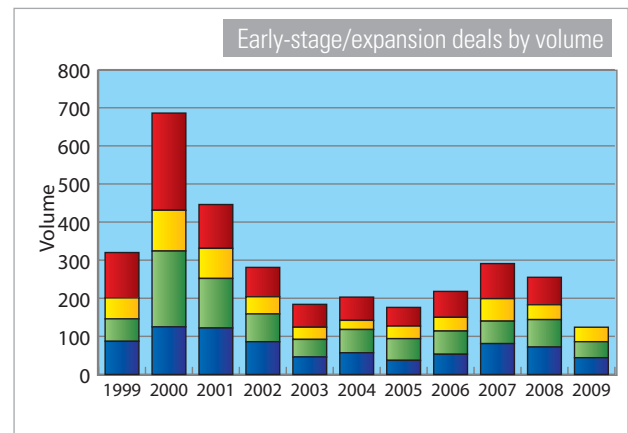
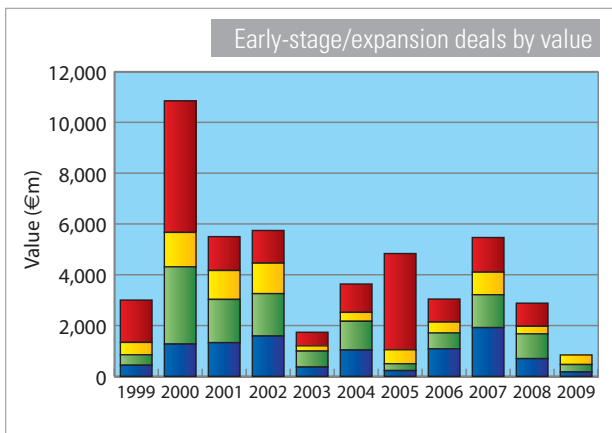
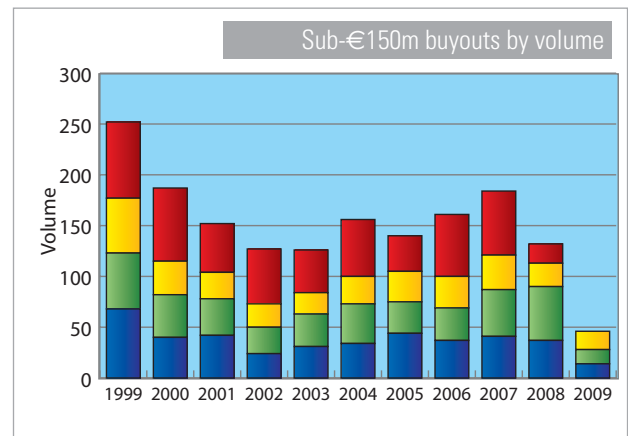
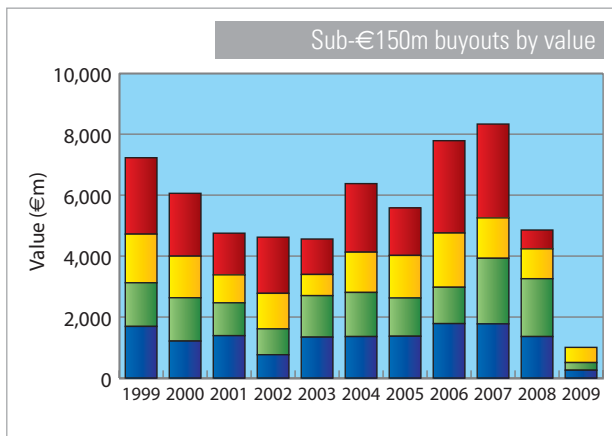


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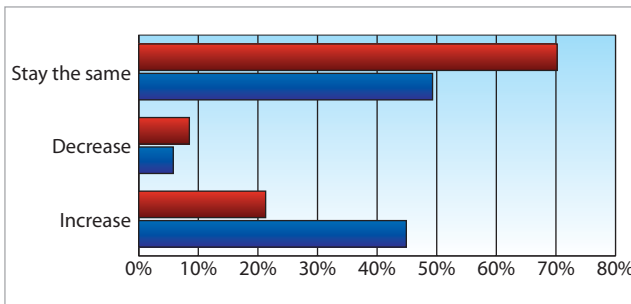
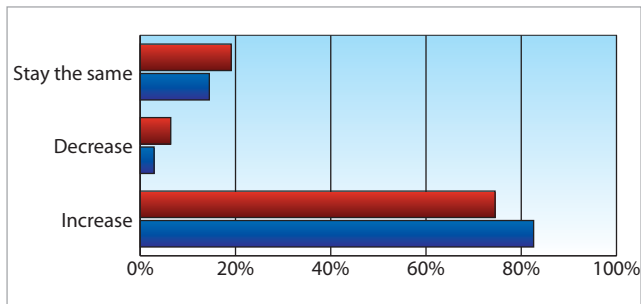
Figures are based on all deals that were confirmed, at the time of going to press, as having an institutional private equity or mezzanine investor as a lead or syndicate partner investing in a UK-based business. Sourced from Private Equity Insight.

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?

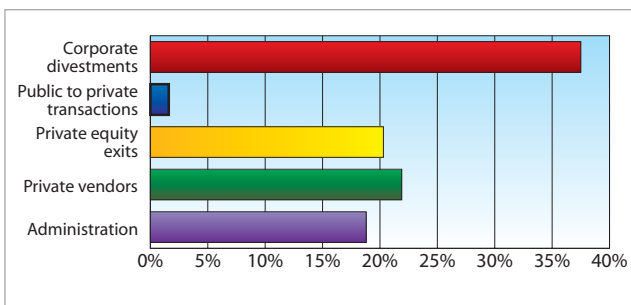
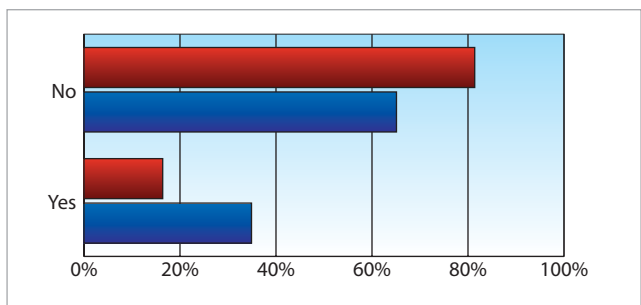
2 Over the next six months do you expect activity levels in the upper mid-market and larger buyout segment (>€150m) to increase, decrease or stay the same?

■ Q2 predictions  
■ Q3 predictions



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 Economic data suggests the UK to be out of the recession but is this a false dawn?

6 Private equity fund-raising has stalled in the current market but do you expect LP commitments to remain low in the coming years?

