Corbett Keeling | Corporate Finance

Fourth quarter 2009 – optimism pervades

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 that optimism pervades, even though last year was the worst on record.

Well, now it's official! Across the board, by whatever measure you take, the *unquote”* statistics for 2009 UK private equity activity show that the year was the worst ever – and that's comparing it with all the ups and downs of more than 10 preceding years.

This record contrasts sharply with a degree of optimism among practitioners in the market – and with some positive signs from deals done towards the end of the year. However, before we get carried away with any positive market views, let's take a closer look at the facts for the last quarter of 2009, and the year as a whole. 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 more) has continued to improve, albeit from a very low base. Regular readers of this review will know that there was an unprecedented slowdown in larger deal activity at the end of 2008, with the two quarters straddling the year-end both recording nil activity – previously an unheard of event for even one quarter. But there were two or three deals in each of the second and third quarters of 2009, and then five in the fourth. The total value of larger buyouts for the year was €5bn, compared with a low of €15bn in the preceding ten years. Nevertheless, the larger deals snowball seems to have started rolling again and now appears to be gathering pace.

- The picture for smaller UK buyouts (less than €150m) has been much steadier – although, of course, this part of the market never suffered such a catastrophic decline in the first place. Deal numbers have hovered around the 15 per quarter mark all year, albeit with a small uptick to 19 in the third quarter. But the total number of deals for the year remains half of the ten-year low point – previously 2003. The aggregate deal value was even harder hit, being less than a third of the previous low.

- UK early-stage and expansion capital deal numbers is the one statistic that, although lower than in any preceding years, is not markedly down. There were 172 deals in the year, spread pretty evenly across all quarters. However, the aggregate amount invested (€1.1bn in the year) was a long way down on the previous low water mark of €1.7bn in 2003.

So, what do we conclude from this? In the previous quarter, a large proportion of the deals were completed in the final month – during September 2009. The question, then, was whether this trend would be continued. The good news is that it has and, in the case of larger transactions, the deal rate has even accelerated.

But will this trend be sustained into 2010? Let's look at the survey of future expectations. The view on smaller deals remains bullish, with roughly 80% of survey respondents expecting deal activity to increase. And around 60% are optimistic about larger deals – well up from the previous figure of 45%.

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

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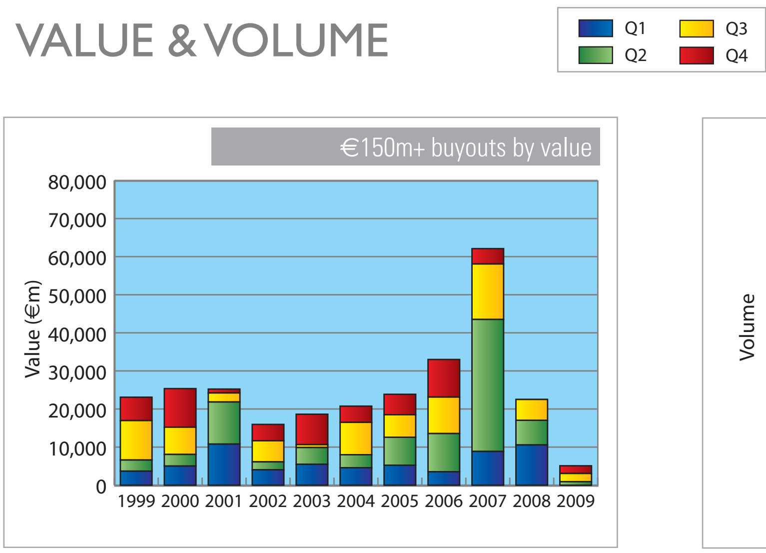
One larger deal funder commented to us that his firm had not done a deal for 18 months, and his team is now "really hungry" to get a transaction over the finishing line. Another firm, fed up with finding itself the under-bidder in too many auctions, is increasingly prepared to bid at higher multiples than in recent months. At the same time, debt funders are coming back into the fray, as evidenced by the decreasing ratio of all-equity deals. So, the market certainly appears to expect a continued increase in deal activity.

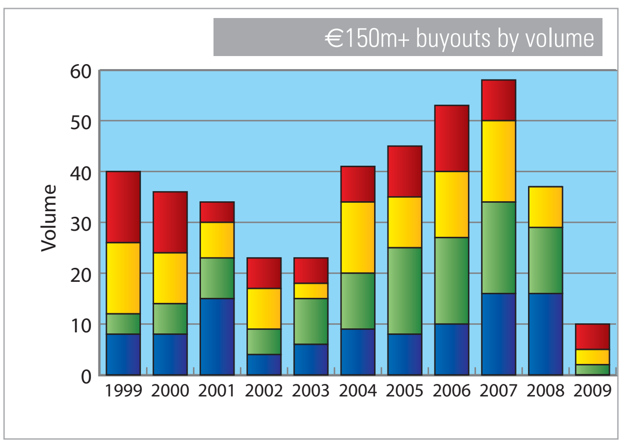
Our view, based on the activity of our own clients and contacts, is that market confidence is well-placed. Assuming that, as the survey also indicates, deal prices do indeed still have further to fall and that trading visibility must improve from its current low level, we see all the more reason to expect a recovery in deal volumes and values across the board.

So, we look forward to 2010!

Jim Keeling, joint chairman
Corbett Keeling
www.corbettkeeling.com

VALUE & VOLUME





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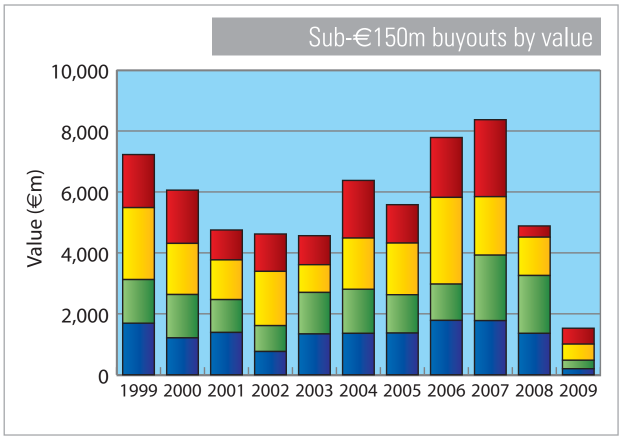
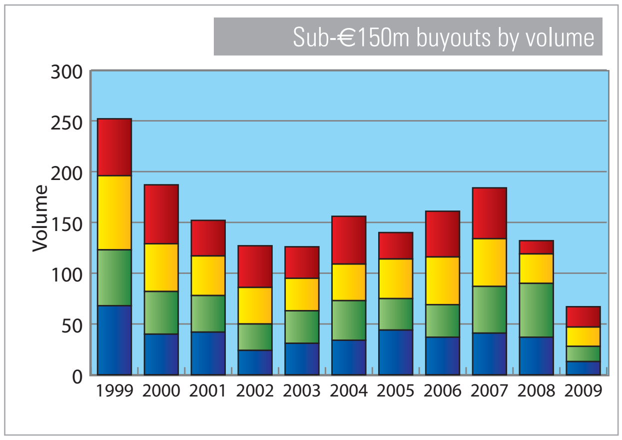
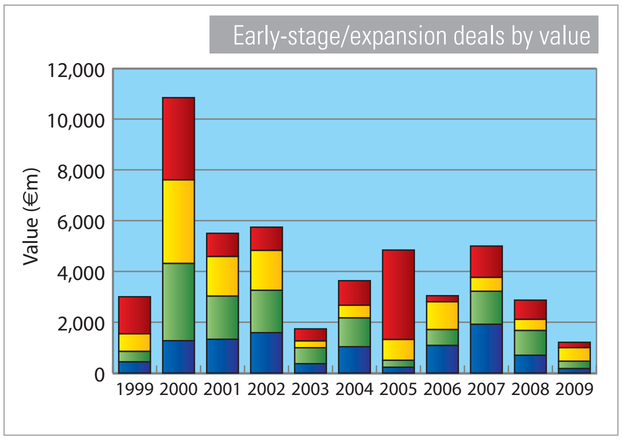
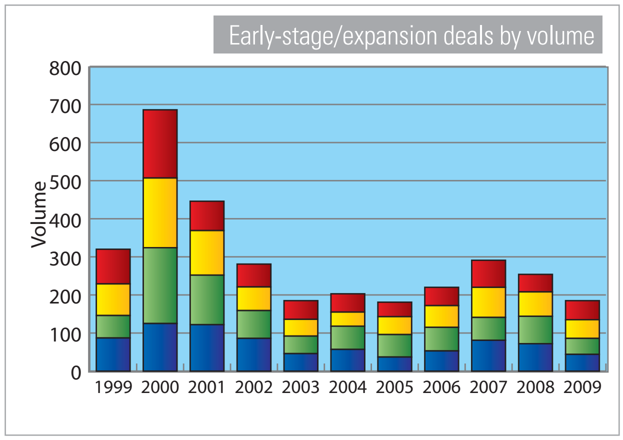
VALUE & VOLUME

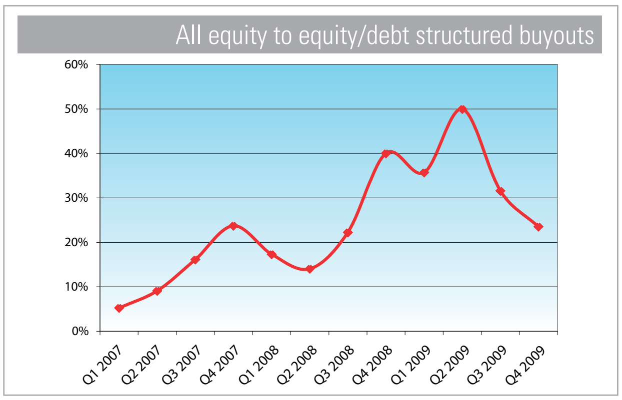
Q1 Q3
Q2 Q4











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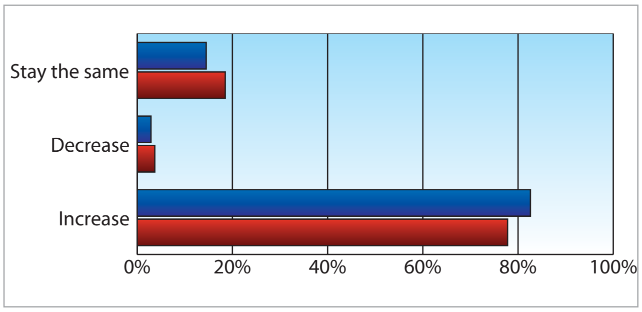
Figures are based on all deals that were confirmed, at the time of going to press, as having an institutional private equity or mezzanine investor as a lead or syndicate partner investing in a UK-based business. Sourced from Private Equity Insight.

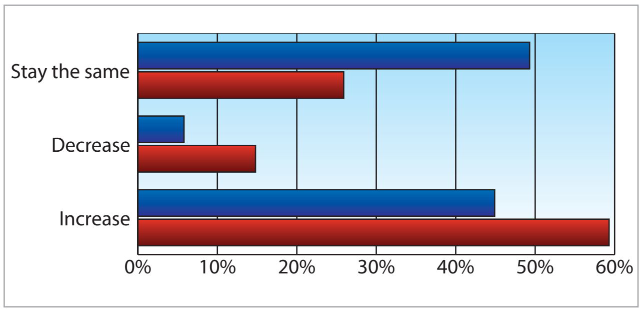
In order to produce these statistics, more than 500 key players in the UK private equity and venture capital markets were surveyed.

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?

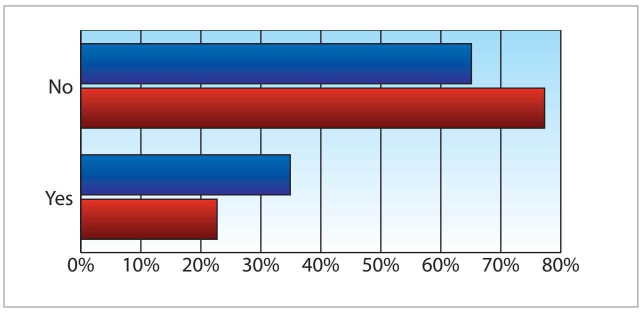
2 Over the next six months do you expect activity levels in the upper mid-market and larger buyout segment (>€150m) to increase, decrease or stay the same?

Q3 results
Q4 results

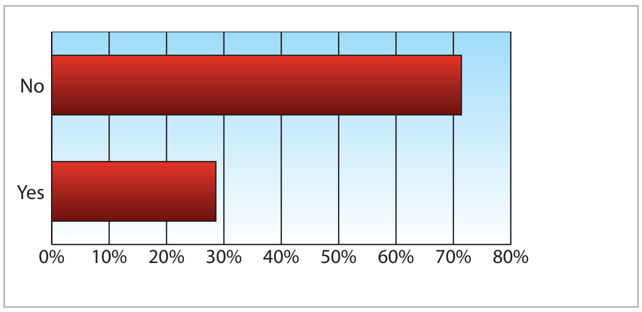




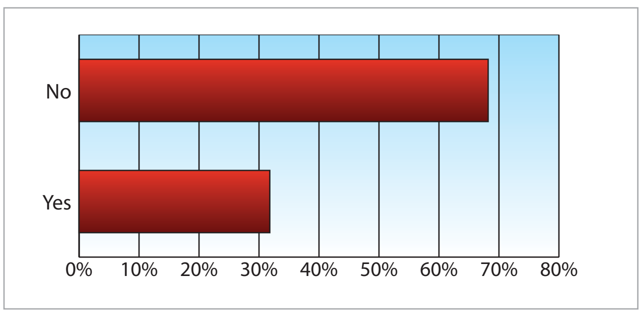
3 Have entry prices fallen sufficiently to reflect the current outlook for UK businesses?



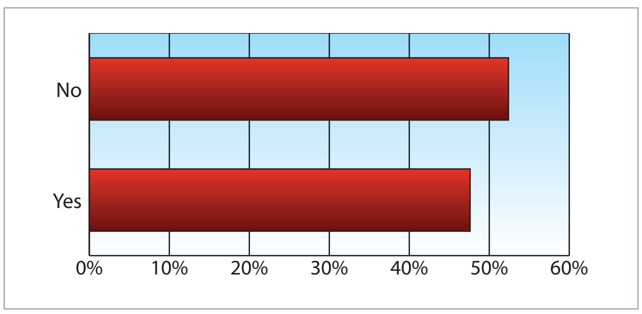
4 Has trading visibility improved sufficiently to give GPs and lenders confidence when structuring transactions?



5 Will the current debate over remuneration result in a significant shift away from the traditional 2:20 model?



6 The government is forecasting that the UK will officially be out of recession by end of Q4 2010. Do you agree?



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