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Produced in association with Corbett Keeling

Quarter 2 2013

Corbett Keeling | Corporate Finance

Second quarter 2013 – onwards and upwards

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 private equity deals. They report a solid recovery after a weak first quarter, with market participants seeing scope for further improvement to come

Jim Keeling, joint chairman, Corbett Keeling

DESPITE SOME signs of improvement in the broader economy, the first quarter of this year was the weakest for private equity deals since the dark days of 2008-2009. Nevertheless, respondents to our survey did not appear despairing. In fact, they seemed reasonably upbeat about the outlook. As it turned out, the second quarter bore out their cautious optimism. While deal activity for the private equity industry as a whole was far from boom territory, overall values improved significantly, and the mood among our survey respondents suggests activity should remain robust in the next few months.

But first let's look in more detail at the deal data for the second quarter of the year.

- Volumes in the smaller buyouts sector (transactions with enterprise value of less than £150m) picked up, rising to 28 deals from 20 in the first quarter. Values also rose, with aggregate smaller deals of £855m. While that remains well down on the average quarterly total for the last two years, both volumes and values were picking up in the final month of the quarter, indicating some positive momentum.

- Larger deals (enterprise value of £150m or above) held steady in volume terms from first-quarter levels, with seven transactions completed. However, largely thanks to a bumper April, the aggregate value more than doubled, to £3.9bn from the first quarter's paltry £1.5bn. Values were also well up on the same period last year.

- In volume terms, early-stage and expansion capital deals fell a little, with 57 deals versus a final tally of 73 for the first quarter. But values moved in the opposite direction, rising to £636m in the second quarter from £542m in the first. That was almost entirely due to June, which was the second-strongest month since July 2010.

Last quarter, we declared the demise of all-equity buyouts as, for the first time in the history of our survey, all deals in the sector had involved at least some debt. It seems we were premature: the first quarter's figure was revised to show one all equity buyout, while the second quarter saw a grand total of three. Nevertheless, all-equity buyouts remain at very subdued levels, averaging just two a quarter over the past 12 months.

Next, let's look in more detail at the survey to see how our respondents view the industry's prospects for the months ahead.

- In both mid-market and larger buyouts, the percentage of survey respondents expecting activity to increase or stay the same, though not quite as high as in last quarter's survey, still significantly outweighs the proportion expecting a fall.

"The mood among our survey respondents suggests activity should remain robust in the next few months"

- Encouragingly, this optimism extends across all sectors covered by the survey. Over half of the respondents expect activity to increase for both services and healthcare, while the views on other sectors are also overwhelmingly positive or pointing to activity levels being maintained.
- The number of private equity deals ultimately resulting in receiverships has stayed at a high level for the last eight years, averaging 23%. Nearly half of our respondents attributed this to difficult market conditions, while almost 40% blamed either unrealistic expectations or bad management.
- Despite this tough environment, limited partners still seem satisfied with the long-term prospects for the private equity industry. At least, that is the implication of a survey response from general partners, which revealed that 79% of limited partners reinvesting in a new fund have either maintained or increased their commitment. The other 21% reinvested too, though their commitment was reduced.

So it would appear that we have turned a corner in terms of private equity deal-making. Activity levels show signs of a decent recovery from the nadir in the first quarter, and the moderately optimistic mood of our survey respondents suggests scope for that to continue in the second half of the year.

Jim Keeling,
Joint chairman,
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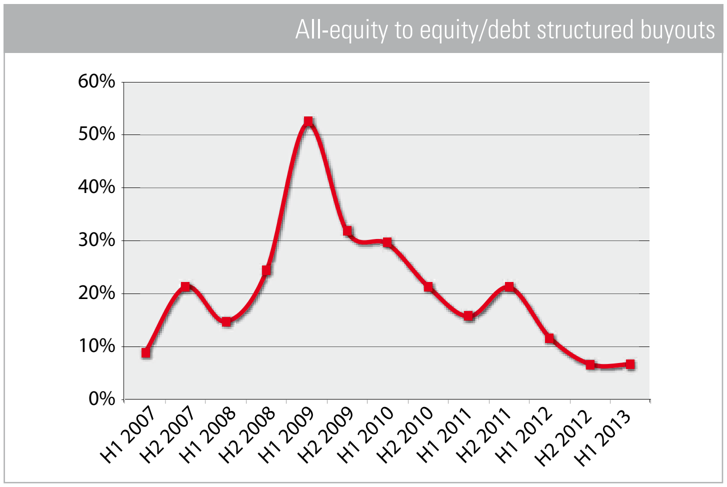
All-equity to equity/debt buyouts

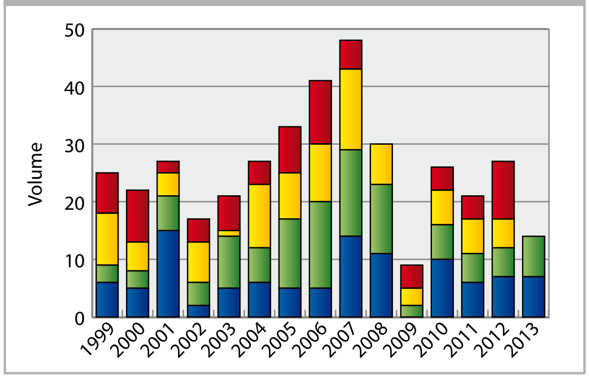


Source: *unquote" data*

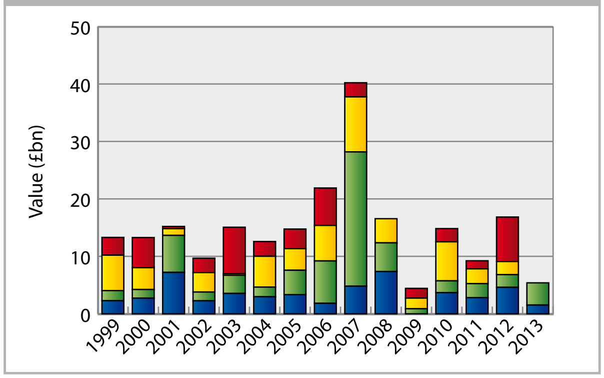
Value & volume

Key
- Q1
- Q2
- Q3
- Q4

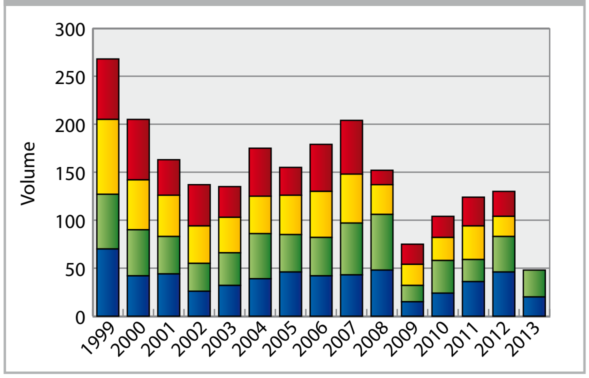
£150m+ buyouts by volume



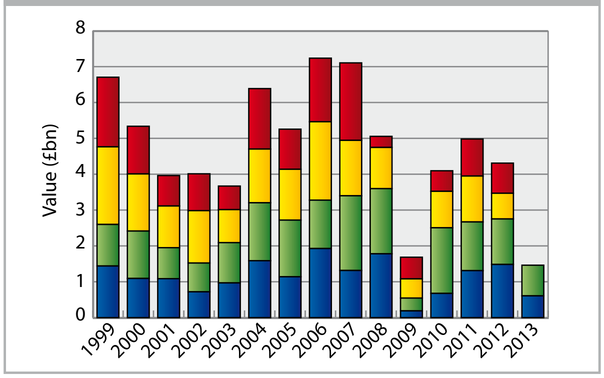
£150m+ buyouts by value



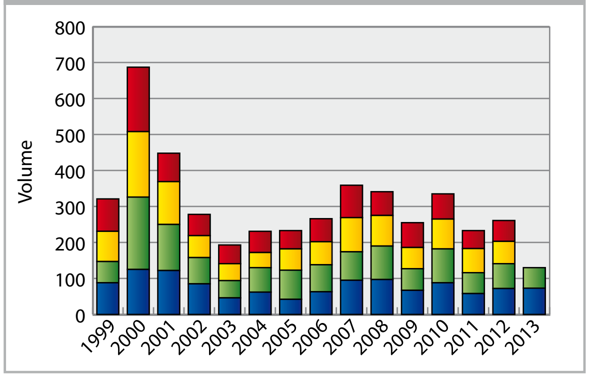
Sub-£150m buyouts by volume



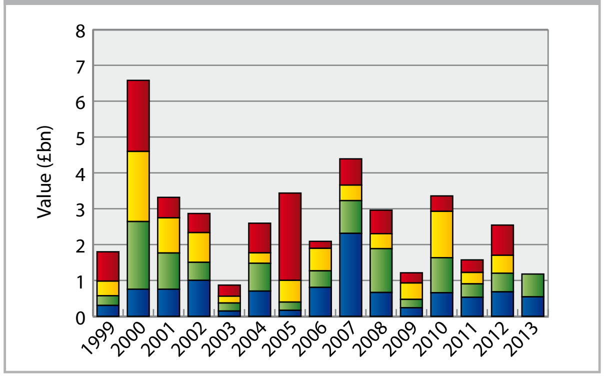
Sub-£150m buyouts by value



Early-stage/expansion deals by volume



Early-stage/expansion deals by value

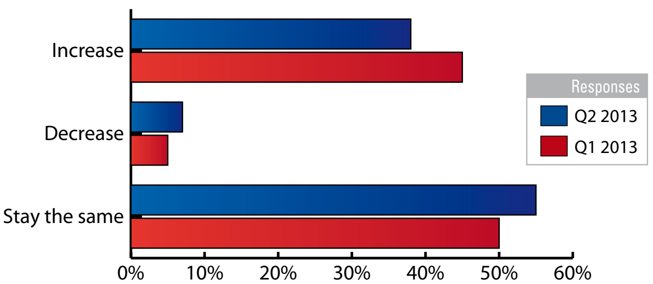


All graphs sourced from: *unquote" data*

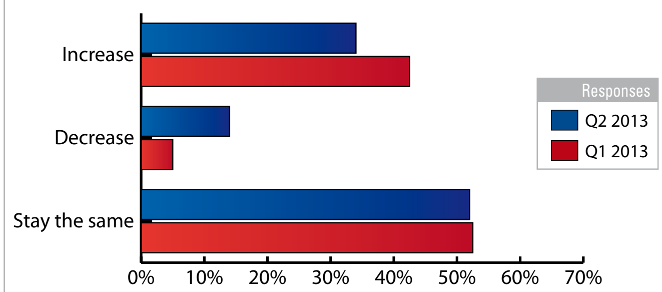
Watch survey results

More than 100 key players in the UK private equity and venture capital markets were surveyed to produce these statistics.

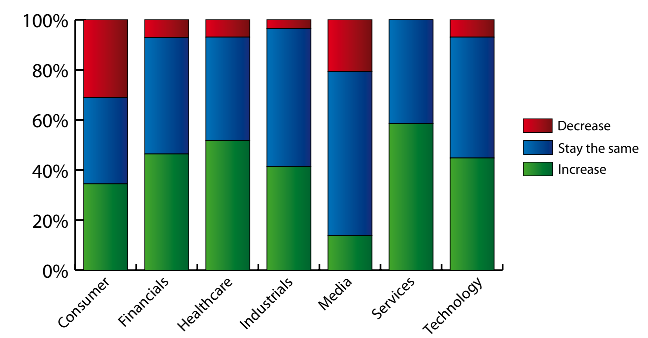
1 How do you expect activity levels in the lower mid-market buyout segment (less than £150m) to change over the next six months?



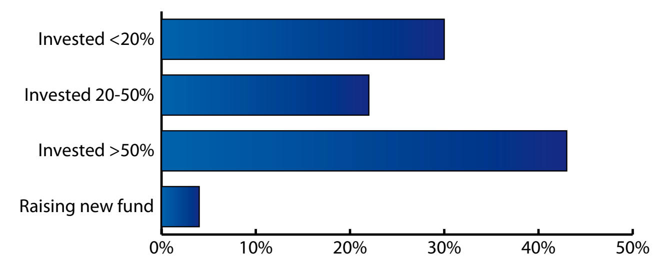
2 How do you expect activity levels in the upper mid-market and larger buyout segment (more than £150m) to change over the next six months?



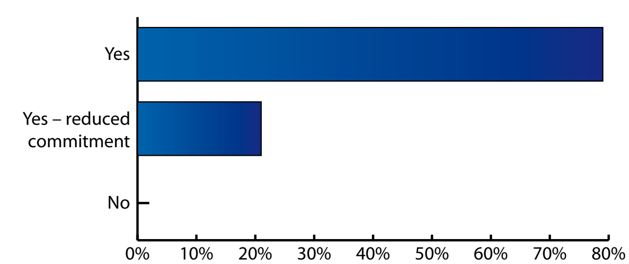
3 How do you think activity in the following sectors will evolve over the next 12 months?



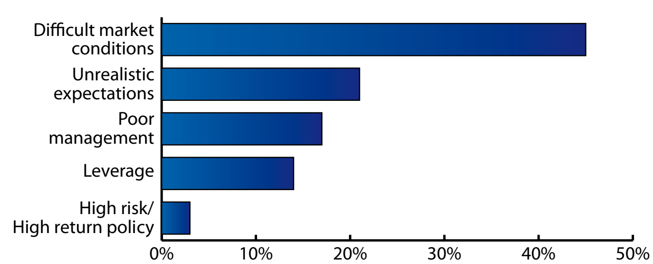
4 If you are a GP, what is the current cash availability of your fund?



5 If you are a GP, have LPs from your previous fund re-invested in your current fund?



6 Over the last 8 years, PE deals resulting in receiverships has been stable (23%). To what do you attribute this?



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