

# unquote<sup>99</sup>

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## analysis

# uk watch

Produced in association with Corbett Keeling

Quarter 2 2012

# Second quarter 2012 – SMEs keep recovery ticking

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. Despite difficult market conditions and fears over the state of the global economy, the statistics suggest the UK market has remained surprisingly resilient.



**Jim Keeling,**  
joint chairman,  
Corbett Keeling

**Y**ET AGAIN, smaller buyouts (those worth less than €150m) are coming to the fore, with continued volume growth in the second quarter.

We have remarked in past quarters but it is worth reiterating again that, against a backdrop of global economic strife and Britain's double-dip recession, smaller buyout practitioners have consistently defied the glum economic conditions.

By contrast, larger deal-makers are finding conditions more difficult, hit by financing troubles as banks continue to cut back their lending activities. There is, however, some hope the situation may improve in the coming months if Bank of England's recent moves to pump money into the UK economy help ease the supply of finance. Early-stage and expansion activity has remained largely static since last year, but given variable 2011 market conditions this can be seen as a relatively positive sign for this market segment. With this in mind, let's review the figures for the latest quarter.

- Smaller buyouts (worth less than €150m) are on track for another strong year in terms of volume, with 67 deals recorded in the first six months, the highest half-year total since 2008. This is significantly up on the 55 deals seen at this stage in both 2010 and 2011. The value picture is not quite so rosy, with total deal value amounting to €929m in the second quarter, down from €1.4bn in the comparative period of 2011. However, a look at historical figures indicates 2011

smaller buyout deal value was exceptionally high and the numbers for 2012 are so far in-line with the average for the past decade.

- Larger buyouts (valued at €150m or more) recorded just four transactions in the second quarter, down from six in the same period last year. Deal values in this segment are also down, with €1.36bn invested in the second quarter 2012, compared to €2.95bn invested in the comparative 2011 period.
- After a difficult 2011, early-stage and expansion deal activity has stabilised, with 36 deals recorded in the second quarter bringing the 2012 total so far to 77, similar to the 79 transactions seen at the half-year point in 2011. Deal value has climbed slightly, with €930m worth of deals completed at the end of the first half, up from €874m a year ago.

Although the numbers paint a rather mixed picture for private equity activity in the UK this year, we believe the UK market remains fundamentally strong and able to weather the storm. Britain's smaller buyout market in particular stands out as being healthily active and has exhibited continued growth since the financial crisis. Clearly there is a wealth of small and medium-sized, innovative companies out there that are a good match for the private equity model. The industry has demonstrated on many occasions its ability to create value by helping these sorts of firms expand their capabilities to serve

**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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*“Last quarter we noted that Britain was on the long road to recovery and we maintain that view”*

markets both at home and abroad. The figures in the sub-€150m segment indicate this is continuing and so perhaps will be a key driver behind economic recovery.

In the larger segment, availability of debt finance is still a major concern and has put the brakes on recovery. Money put into the system by Bank of England has so far not had the desired effect, being used to shore up bank balance sheets instead of aid investment. However, the latest Bank of England announcement indicates a more concerted effort to ensure this capital is deployed to help businesses and we are hopeful this will help drive recovery at the upper end of the market.

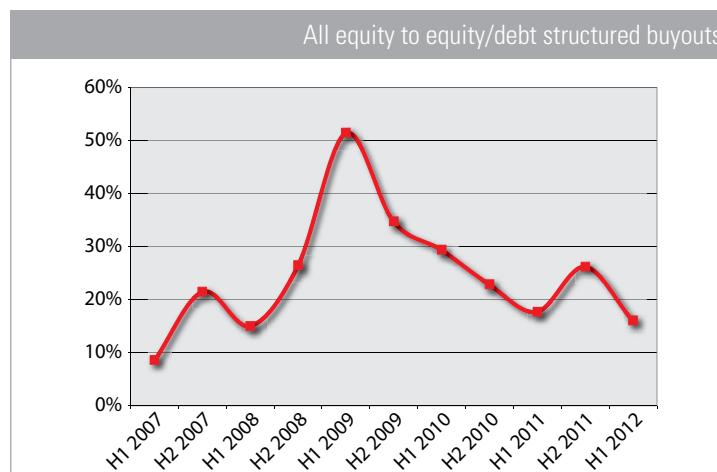
Interestingly, the *unquote* survey of market practitioners indicates core sectors of financials, industrials, services and healthcare are all expected to

see growth in the next 12 months and it is these sectors that will underpin economic recovery. A recovery in the economy is also expected to help loosen up lenders' purse strings, with 63% of survey respondents expecting that debt multiples will start to increase following an improvement in the economy.

Last quarter we noted that Britain was on the long road to recovery and we maintain that view. In particular, we believe the smaller buyout story is particularly positive, and indicative of the role private equity will play in driving the UK out of recession and back to growth.

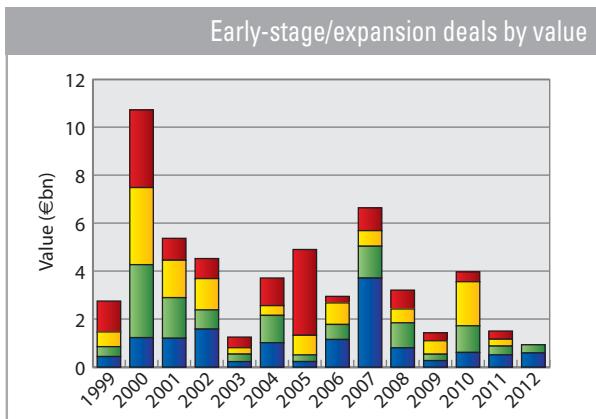
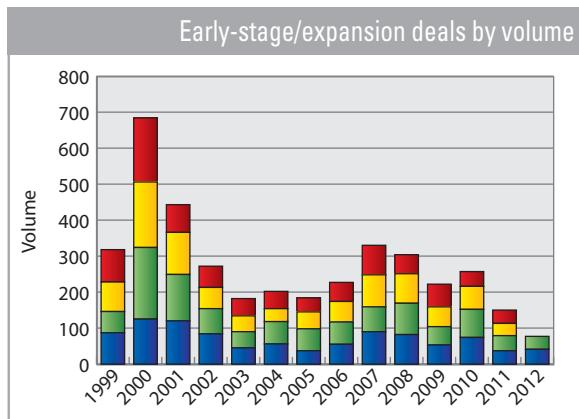
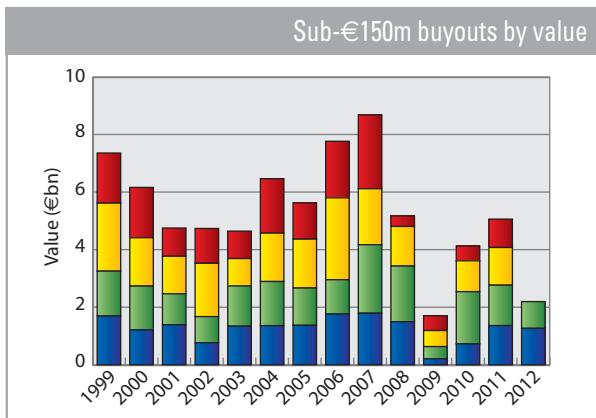
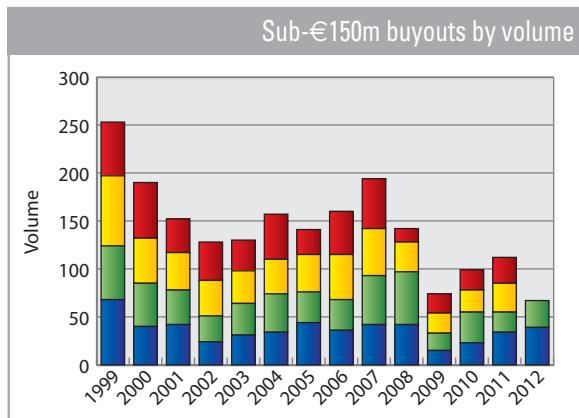
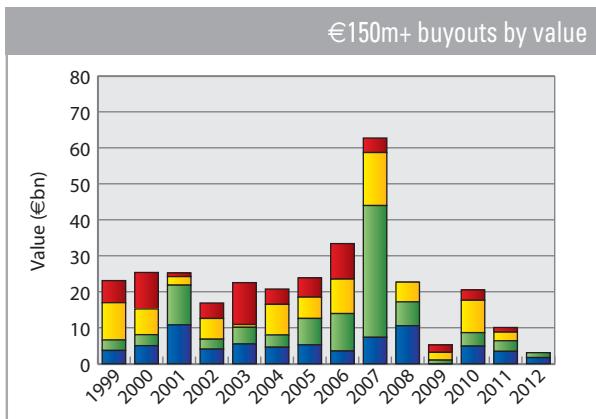
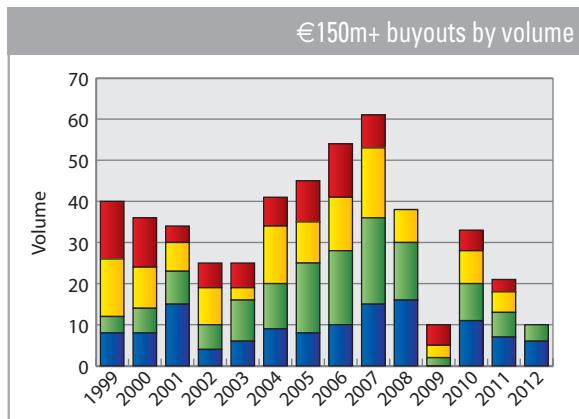
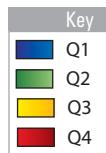
Jim Keeling, joint chairman  
Corbett Keeling  
[www.corbettkeeling.com](http://www.corbettkeeling.com)

## All equity to equity/debt buyouts



Source: *unquote* data

## Value &amp; volume



All graphs sourced from: *unquote* data

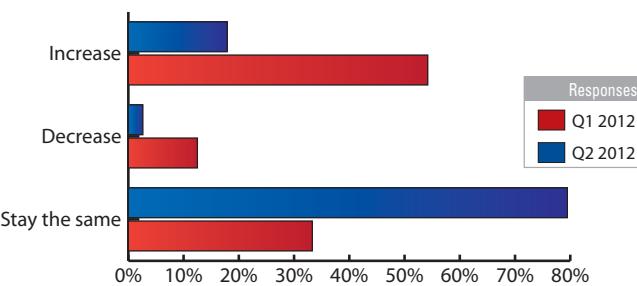
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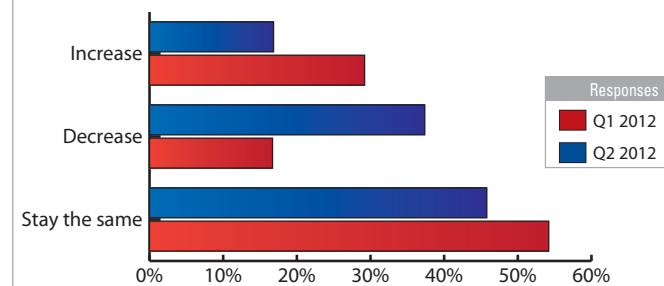
## Watch survey results

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

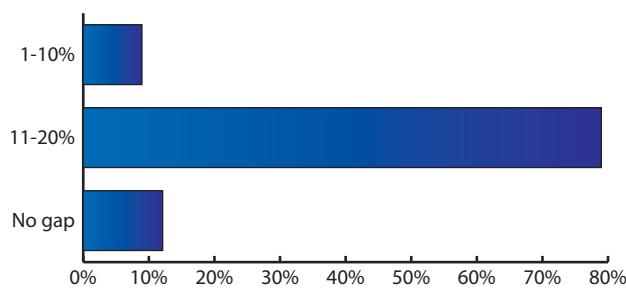


More than 100 key players in the UK private equity and venture capital markets were surveyed to produce these statistics.

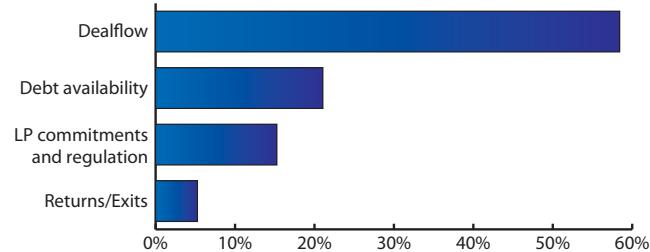
**2** How do you expect activity levels in the upper mid-market and larger buyout segment (more than €150m) to change over the next six months?



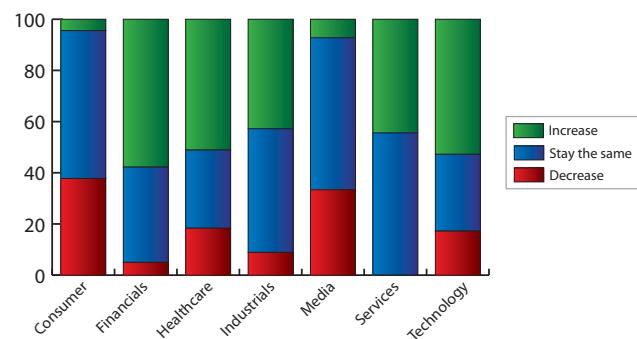
**3** Do you expect there to be a price expectation gap between buyers and sellers in the UK over the next 6 months? If yes, how big will the difference be?



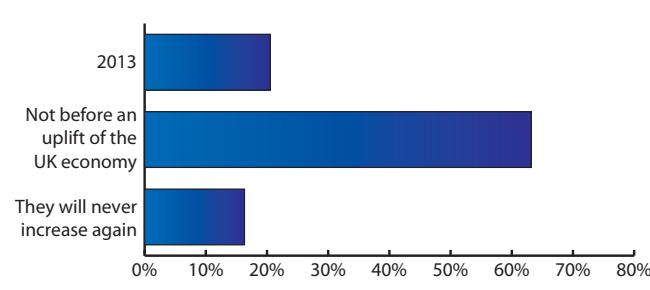
**4** What is your primary concern regarding the immediate future of the private equity industry?



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



**6** When do you expect debt multiples to increase?



All graphs sourced from: *unquote* "data

