



unquote”

analysis

uk watch

Produced in association with Corbett Keeling

Quarter 1 2014

First quarter 2014 – A misleading blip?

In its regular quarterly commentary on UK private equity investment activity, Jim Keeling of Corbett Keeling gives a practitioner's view of trends in the number, value and financing of private equity deals. He finds that, despite a drop-off in deal-making momentum and the potential for rising interest rates in the medium term, sentiment in the private equity community remains largely positive



Jim Keeling,
joint chairman,
Corbett Keeling

IN THE second half of 2013, both the volume and the value of deals in the private equity industry increased, and survey evidence suggested this would continue into the new year. While there was certainly no repeat of the woeful first quarter of 2013, the first three months of this year turned out to be pretty lacklustre, with falling volumes and values in both smaller and larger buyouts. However, early-stage and expansion deals picked up, and a clear majority of market participants who responded to our survey remain optimistic about the prospects for the rest of the year.

So what do the hard figures reveal about the first quarter?

- In the smaller buyouts sector (transactions with enterprise value of less than £150m), volume was down only slightly, with 28 deals completed, compared with 33 in the final quarter of last year. However, values suffered a larger percentage drop, down to £1.01bn in the first quarter of 2014, from £1.42bn.
- Volumes of larger deals (enterprise value of £150m or above) fell to seven in the first quarter, down from 13 in the previous period and matching the total of the first and second quarters of 2013. The total value also fell significantly, to £2.59bn from £4.04bn in the fourth quarter and £5.22bn in the third. Yet the first-quarter figure remained more than £1bn up on the same period last year.

- Thanks to a bumper January, the volume of early-stage and expansion-capital deals rose to 93 in the first quarter, from 81 in each of the latter quarters of 2013. Values also increased, rising to £1.11bn from £729m in the fourth quarter of last year. January accounted for £760m of the first quarter's total, making it the best month since July 2010.

All-equity buyouts remain distinctly out of favour. It may be premature to call them extinct – all things go in cycles – but we have now had two successive quarters without a single all-equity buyout. Moreover, this is clearly part of a long-term trend: the past seven quarters combined have produced only 10 all-equity buyouts. That is a remarkable turnaround, considering the numbers of such buyouts in previous periods.

It seems that the somewhat disappointing level of deal activity in the first three months of the year has not clouded the outlook for most of the respondents to our latest survey.

- For the third survey running, not one of our respondents expects a reduction in buyout activity over the next six months. In fact, the proportion of respondents predicting an increase rose for both segments, from 78% to 83% in the lower-value segment and from 67% to 78% in larger-value.

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

Tel: 020 7626 6266 Web: www.corbettkeeling.com

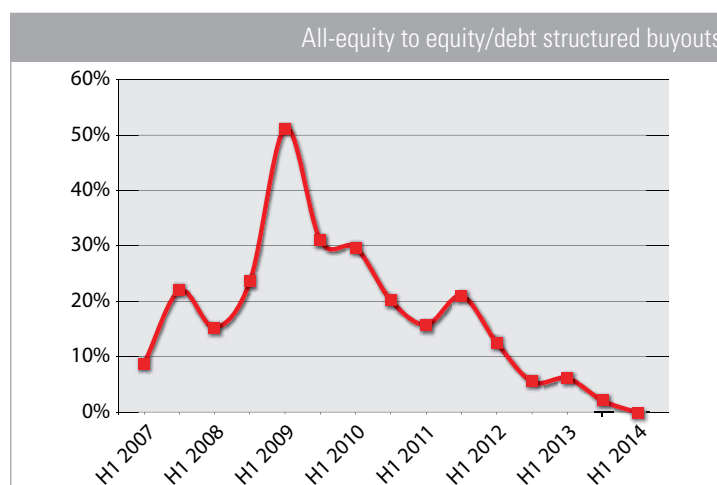
- At the sector level, too, the mood is buoyant. Optimism is highest in the services sector, with 83% of respondents expecting an increase in activity over the next 12 months, and more than 50% of respondents forecast an improvement for the consumer, industrials and healthcare sectors.
- In the other two sectors (financials and media), those expecting an increase still overwhelmingly outnumber those predicting a decrease.
- Perhaps the most optimistic indicator was that almost three quarters of respondents expect a steep rise in the number of exits, with a large backlog of assets still to be sold. The rest said exits will remain opportunistic, depending on how the recovery plays out. None thought private equity houses will prove reluctant to sell.
- The clear consensus forecast is that interest rates will not rise until next year (indeed, 13% of respondents

predict no rise before 2016). Interestingly, the largest impact is expected to be a higher number of opportunities as economic confidence picks up, with the second-largest effect thought to be on the restructuring of portfolio company debt.

So, while we are naturally a little disappointed at the level of activity in the first quarter, we see few signs that industry participants are worried about the prospects for the rest of the year – and beyond. Their view absolutely corroborates our current experience at Corbett Keeling of a significant surge in activity and so gives us confidence that, contrary to the conclusion one might draw from the historic statistics, a regaining of momentum is on the cards for the remainder of 2014.

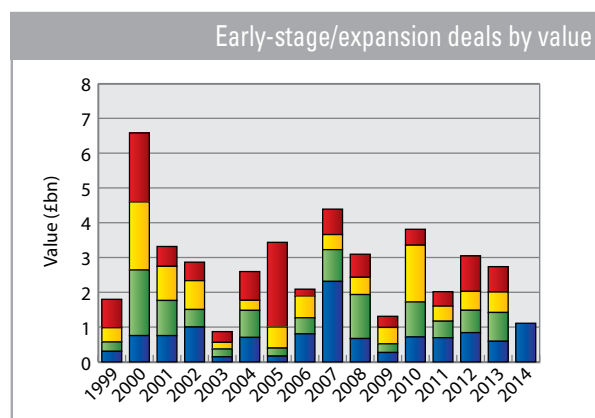
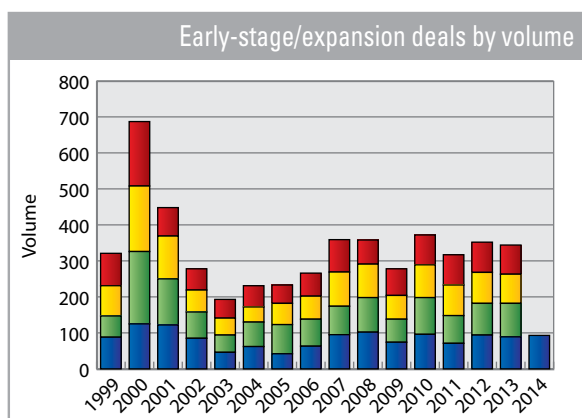
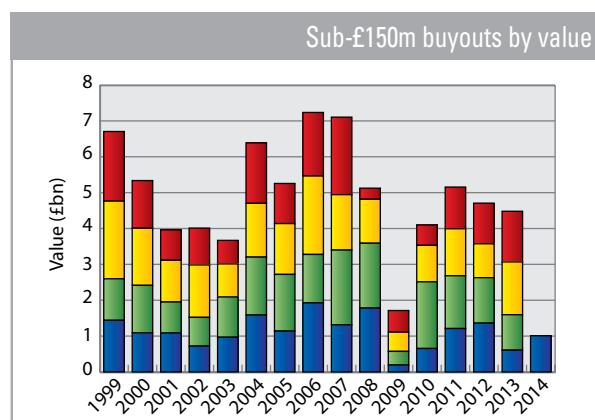
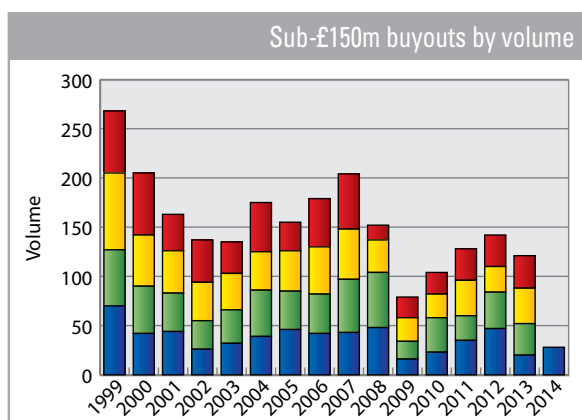
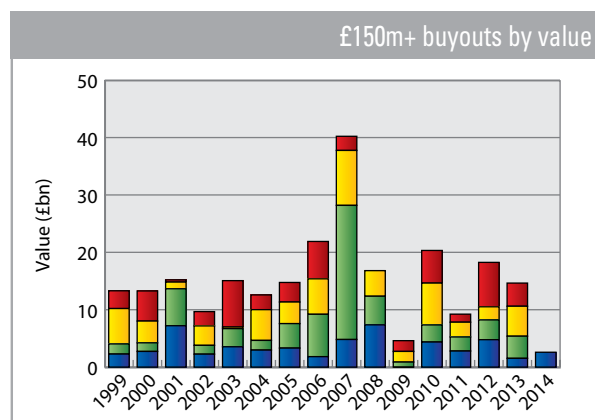
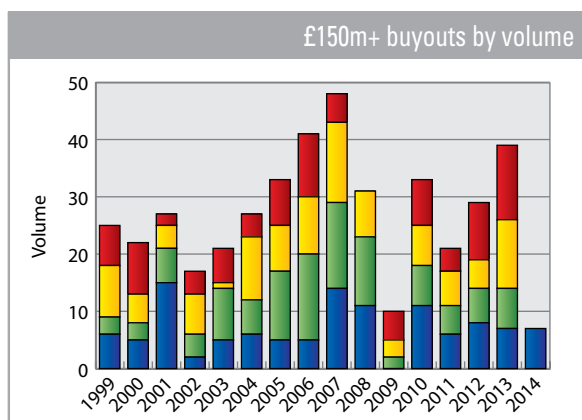
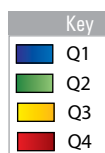
Jim Keeling,
Joint chairman,
Corbett Keeling
www.corbettkeeling.com

All-equity to equity/debt buyouts



Source: unquote™ data

Value & volume



All graphs sourced from: unquote" data

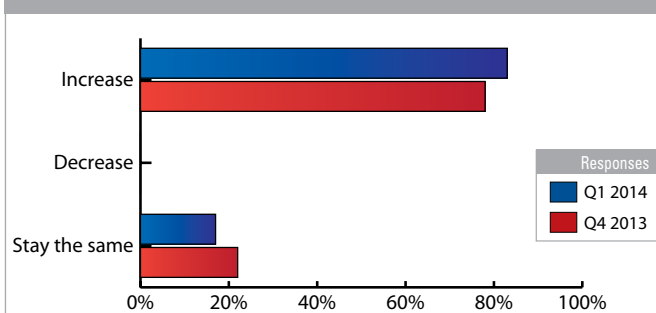
Corbett Keeling is a corporate finance advisory firm focused on the private equity sector. We specialise in:

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

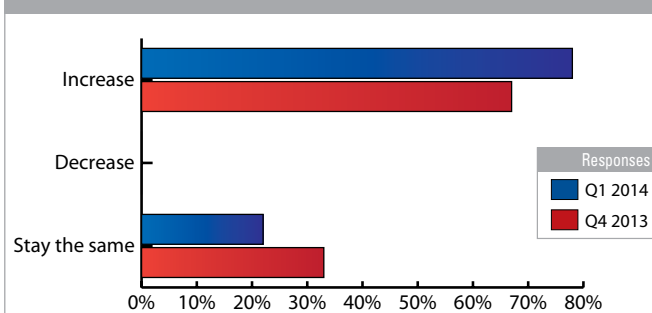
Tel: 020 7626 6266 Web: www.corbettkeeling.com

Watch survey results

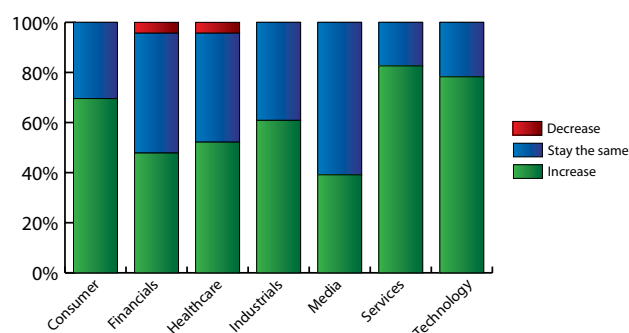
1 How do you expect activity levels in the lower mid-market buyout segment (less than £150m) to change over the next six months?



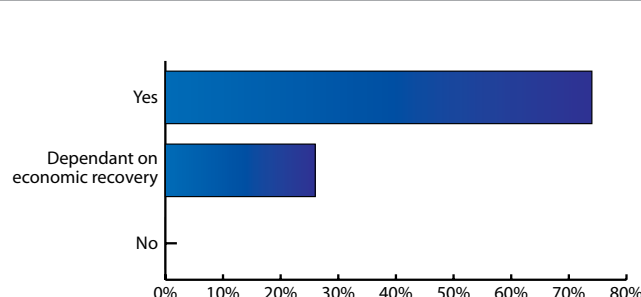
2 How do you expect activity levels in the upper mid-market and larger buyout segment (more than £150m) to change over the next six months?



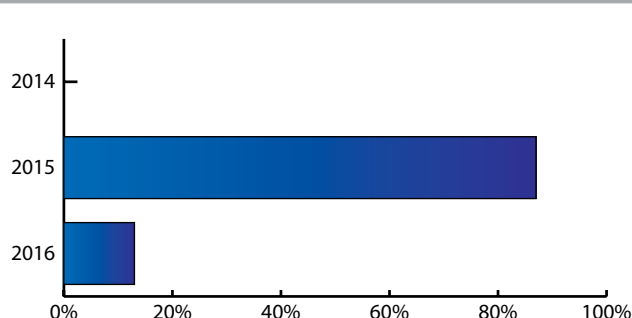
3 How do you think activity in the following sectors will evolve over the next 12 months?



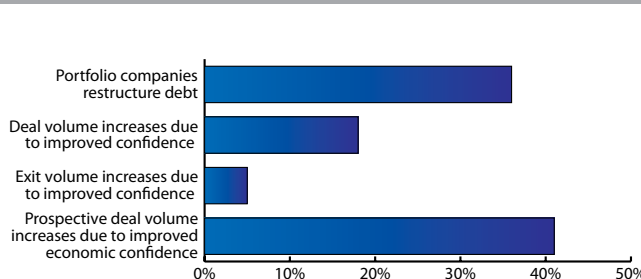
4 As the UK economy continues to improve, do you expect to see a sharp rise in the number of exits?



5 When do you expect interest rates to rise?



6 What will be the most significant impact of a rise in interest rates to the UK private equity market?



All graphs sourced from: unquote™ data

