Marching on

LDC's regional managing director Chris Hurley talks to Greg Gille about the challenges facing the UK mid-market

Mid-market activity seems to have had a slow start in 2013, with H1 figures failing to match those seen in the first half of last year. What has been LDC's experience of these first six months on the ground?

Given that uncertainty is always the enemy of dealflow, as it makes projections and valuations problematic, the slow start to the year was perhaps understandable. The global economic picture was still very unclear, with the US only narrowly avoiding its fiscal cliff, the eurozone still mired in sovereign-debt-related concerns and in the UK the debate was whether the country would avoid a triple-dip recession. Though the macro-economic picture brightened in the second quarter, this was partly offset by fears that the quantitative easing (QE) programmes in the UK and, in particular, the US might be tightened.

Despite these difficult conditions, LDC has continued to be very active, investing £250m over 13 deals, reflecting our philosophy of investing through the cycle. In addition, we have completed seven exits, including the sale of Avelo, in which we initially invested £42m, to Australian software firm IRESS for £210m and, most recently in September, the sale of Matrix Energy to leading UK energy supplier E.ON. Both our investments and exits have involved a wide variety of sectors and have come from across the regions, with our offices in the north, the Midlands and London being particularly busy.

It would seem that activity started gathering momentum before the summer, though. What are your expectations in terms of dealflow for the later part of this year?

Dealflow did start to pick up in Q2 and it was buoyed by the more optimistic economic and business outlook. In particular in the UK, the economy's growth rate doubled in the second quarter and some forecasts estimate that Q3 growth will be over 1%.

We see a continuing improvement in dealflow as the most likely scenario for H2 2013, though the potential for shocks remain, such as too sharp a halt in QE. Overall, the economic and business backdrop is now far more supportive, as are broader market trends. The debt markets are now more favourable with the resurgence of debt funds, the rise of alternative lenders and new instruments such as unitranche facilities. A number of PE funds that have been reluctant to sell portfolio companies are now more willing to do so as valuations are more attractive, while PE houses that have been slow to deploy their funds are more tempted to invest and are under greater pressure to do so by their investors or face having to return their funds.

At LDC our approach remains to identify excellent management teams that we believe have the businesses and strategies to deliver outperformance and can currently best capitalise on the improving economic and business environment.

Are there industry sectors in particular that stand out as promising for LDC at the moment?

Although we are a generalist investor covering most sectors, a number stand out for us in terms of presenting the best opportunities. Specialist engineering and manufacturing is one we favour. LDC has invested in more than 130 businesses in this area. Two years ago we announced a £200m funding commitment to the sector led out of the Midlands and, after completing 11 deals and investing £190m, earlier this year we announced that we were increasing our funding commitment to £300m. Previous successes in this sector include Electrium, Andor Technology, CMG and Britton Group, while existing equity commitment in this sector is in excess of £250m.

TMT is another area we believe has strong prospects. LDC has made a strong commitment of £200m of investment into the sector. Our past successes include Iris, Software Solutions Partners and Mersey TV. This year we have already been involved in the Node4 MBO, providing capital to accelerate the continuing growth of this expert IT and communications firm through data-centre development and acquisition, as well as successful exits from Avelo and Trustmarque Solutions.

The other two sectors we favour are healthcare and retail. LDC has invested in more than 20 healthcare businesses and our current focus is on producers of medical equipment, products and services, pharmaceuticals and provision of services to the healthcare sector. In retail and consumer, we have made more than 60 investments, with this year being particularly busy, with investments in uSwitch, New World Pubco and Fever Tree.

Methodology

unquote" data

- All data published in the *unquote*" regional barometer is extracted from *unquote" data*, the proprietary data system of Europe's leading private equity information specialist. Although every effort is made to ensure that the statistics contained within are as comprehensive as possible, the figures published in this edition are effectively a snapshot of the data held as at 12 September 2013. For this reason the statistics are likely to change over time as information on further deals comes to light.

- All details have been confirmed, where possible, with the private equity investors involved in the transactions. In some cases deal values have either been provided confidentially or have been estimated and these will not be shown in the text.

- Four regional groupings are analysed as part of this barometer. Each of these is made up of more than one of the discrete regions as defined by the BVCA. The groupings are as follows:

  North: North-West & Merseyside, Northern Ireland, Scotland, North-East and Yorkshire & The Humber;
  London: London and Eastern;
  Midlands: West Midlands and East Midlands;
  South: South-East, South-West and Wales.

- For more information on the regional barometer, please contact Pierre Le Saux, project manager, on Tel: +44 (0)20 7316 7609.

- For more information on *unquote" data*, please contact Julian Longhurst, online content manager, on Tel: +44 (0)20 7316 9950.

League tables

UNITED KINGDOM

Name	Volume
LDC	11
Growth Capital Partners	4
Palatine Private Equity	3
NorthEdge Capital	3
ISIS Equity Partners	3
Invesco	3
MML Capital Partners	2
Phoenix Equity Partners	2
Balderton Capital	2
Enterprise Ventures	2

NORTH

Name	Volume
Growth Capital Partners	3
LDC	3
Arlington Capital Partners	2
Enterprise Ventures	2
NorthEdge Capital	2

MIDLANDS

Name	Volume
LDC	2
Palatine Private Equity	1
ISIS Equity Partners	1
Better Capital LLP	1
Sun European Partners	1

LONDON

Name	Volume
LDC	5
DFJ Esprit	2
Wellington Partners	2
Advent Venture Partners	2
Balderton Capital	2

SOUTH

Name	Volume
Sports Investment Partners	1
Notion Capital	1
MMC Ventures	1
Argos Soditic SA	1
Piper Private Equity	1

National overview

Deal activity in the £5-50m size range
Five years ago, the regional mid-market barometer mentioned how difficult the year 2008 had been for UK private equity. At the time of publication, nobody thought that year could ever become a high-water mark. Still, with 83 investments completed over the first six months of 2013 – against 141 in H1 2008 – the UK private equity market could do much worse than reverting to this level of activity.

The Midlands were on good form compared to the same period last year, having completed four more deals, while the North managed to match H1 2012's activity levels.

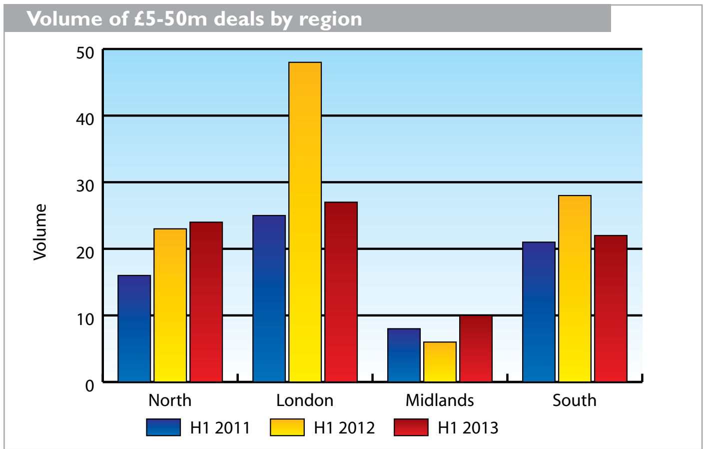
Dealflow in the South and most importantly London slowed down significantly. Given the importance of these two regions, it is therefore not surprising nationwide figures for this size range look bleak.

Overall deal value somewhat resisted to the downward pressure with a decrease of 'only' 22%. London's overall value figure was halved but the Midlands' value total jumped up by an impressive £114.5m – a 105.5% increase – therefore sending mixed signals around the country.

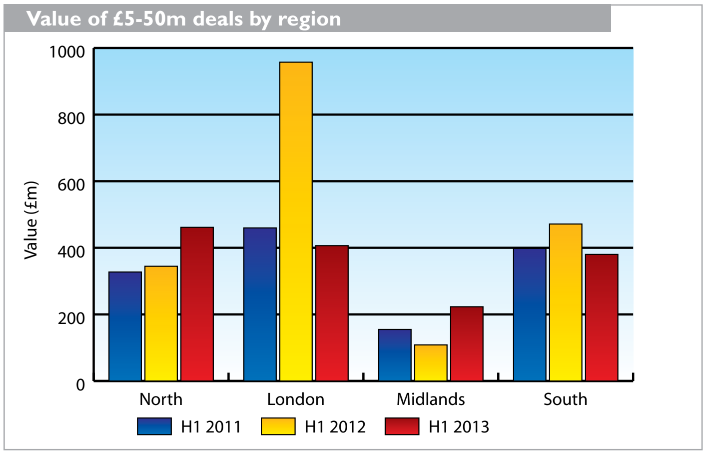
Deal activity in the £50-150m size range
Similarly to what is happening in the smaller section of the market, deal activity in the £50-150m size range dropped significantly in H1 2013 with only nine deals done, compared to 19 investments over the same period last year.

The average value of deals in the size range improved from £89m in H1 2012 to £103m in H1 2013, thanks in large part to three investments valued above £100m. Nonetheless, the overall value in the size range dropped by 45% against H1 2012.

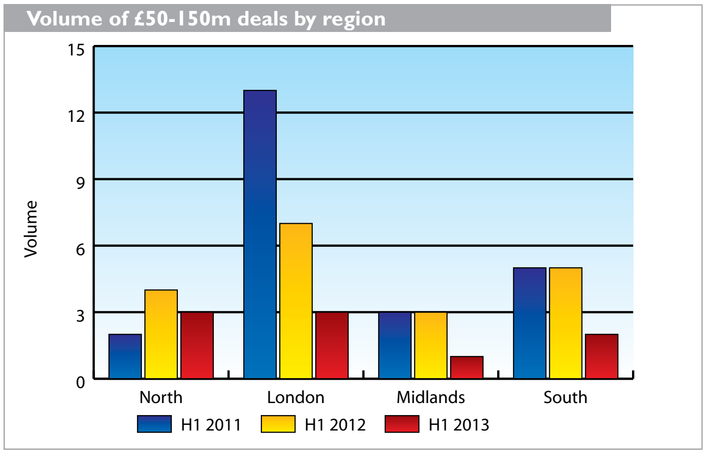
Volume of £5-50m deals by region



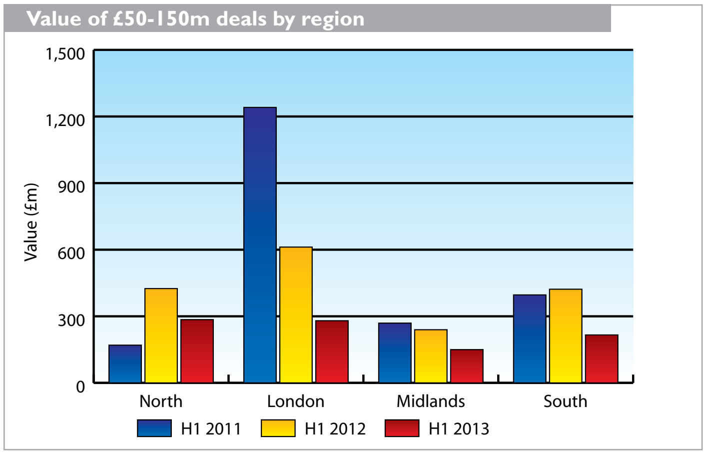
Value of £5-50m deals by region



Volume of £50-150m deals by region



Value of £50-150m deals by region



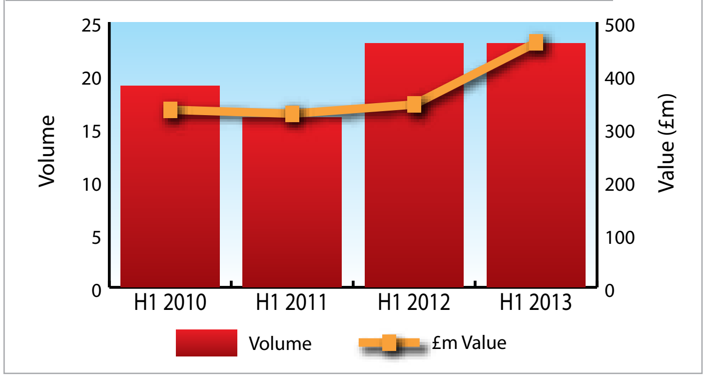
Deal activity in the £5-50m size range

Deal volume in the first six months of 2013 remained stable year-on-year, as 23 deals had already been recorded in the £5-50m size range in H1 2012. Aside from Amber Travel, a provider of rail tour holiday packages bought by ECI Partners from Primary Capital for £50m, the region saw 14 more buyouts, eight expansion deals and one early-stage investment in the size range. With eight deals recorded, Scotland came a close second behind North West & Merseyside's 10 investments. Yorkshire and the Humber provided five deals while the North East claimed Argos Soditic's buyout of Sage Group.

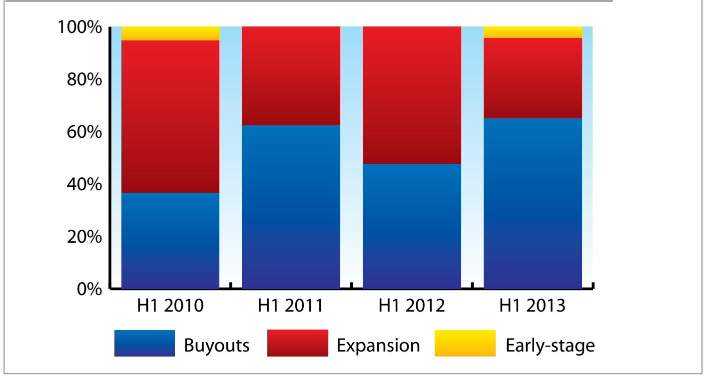
While still far from the record value of £630.2m witnessed in H1 2008, H1 2013 managed to outscore H1 2012's overall deal value by some margin. The three secondary buyouts of Amber Travel, MB Aerospace and Trustmarque Solutions, as well as the two buyouts of James Briggs and Help-Link UK, contributed to this performance.

The 11 buyouts and 12 expansion deals recorded last year resulted in an average deal value of £15m. With four more buyouts under its belt, the region saw average deal value creep up to £19.2m, still £1.3m short of H1 2001's performance, the high point in our six-year sample.

Volume and value of £5-50m deals



Type of £5-50m deals



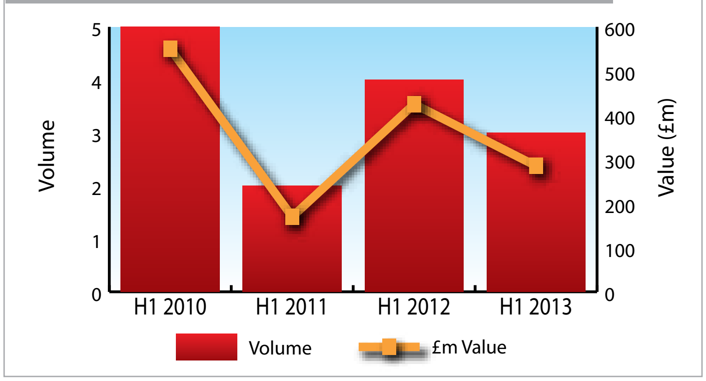
Deal activity in the £50-150m size range

The North's larger mid-market dealflow didn't go unnoticed in the first half of 2013. The region may have been one investment short compared to last year's H1 activity figure, but the region also performed on par with London and ahead of the Midlands and the South. CCMP Capital Advisors – which acquired gym chain operator Pure Gym – as well as Equistone Partners, which sold two of its businesses (Hydrasun Limited and AFI-Uplift) to Investcorp and Rutland Partners respectively, were behind the region's relatively good performance.

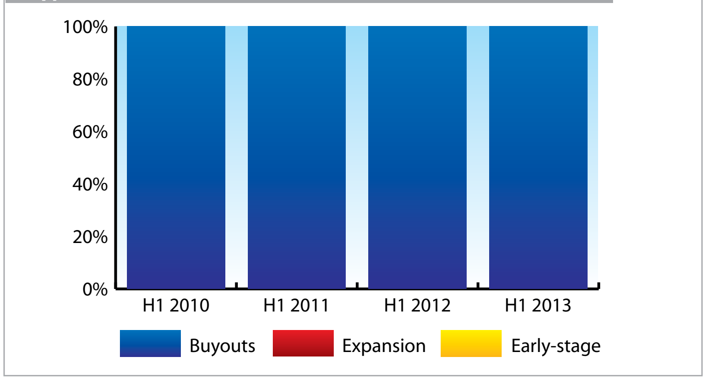
The overall value of larger private equity deals in the North may oscillate year-on-year, but the region nonetheless managed to attract £5m more than London in H1 2013, which allowed it to top the nationwide league table in this size range. That said, overall value was down by £140m compared with last year's first semester and the record deal value of H1 2008 has yet to be matched, giving the region some room for improvement.

Not surprisingly given the decrease of both deal volume and overall value, average deal value also decreased by around £11m compared to H1 2012.

Volume and value of £50-150m deals



Type of £50-150m deals



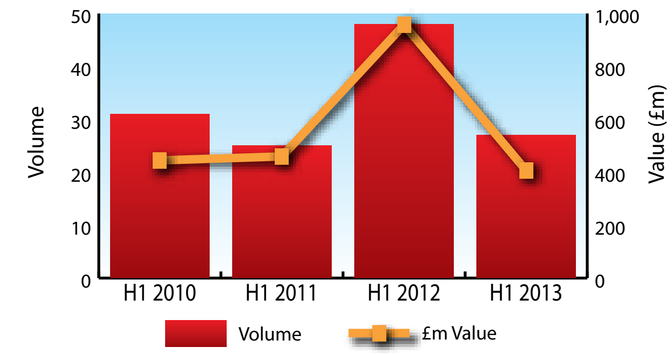
Deal activity in the £5-50m size range

The London region's level of activity dropped for the first time in six years. With 27 deals done in the first six months of the year, the region now accounts for less than 35% of the country's volume of activity. While this is down significantly on the 48 investments reported in H1 2012, deal volume still remained above that of H1 2011. The £48m growth capital deal for beverage company Fever Tree as well as the £50m secondary buyout of restaurants operator D&D London provided some solace in an otherwise morose market.

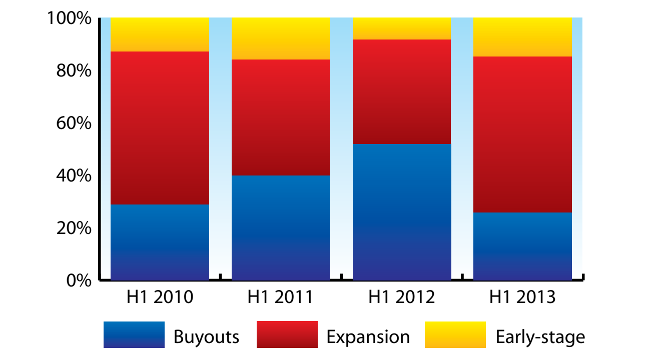
Total deal value for the period is also significantly behind that of H1 2011, when £459.7m was put to work. The rebound seen in H1 2012, with £957.3m worth of investments, was therefore short-lived. The dominance of expansions deals (16 out of 27) in the first six months of the year was however an important factor in H1 2013's lacklustre figure.

If the 21-deal drop wasn't enough, the £4.8m dip in average deal value will undoubtedly be further cause for concern among local deal-doers.

Volume and value of £5-50m deals



Type of £5-50m deals

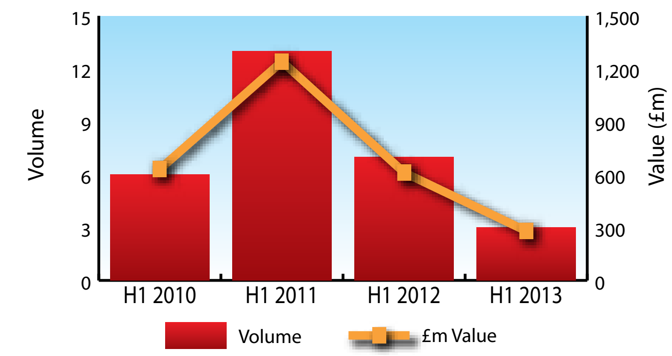


Deal activity in the £50-150m size range

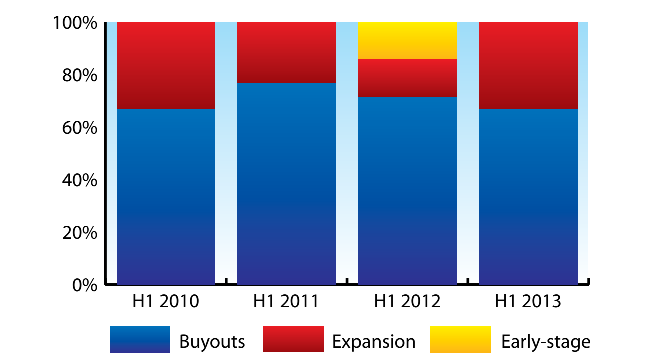
London was home to only two secondary buyouts and a secondary purchase in the upper-mid-market size range over the last six months. Thomson online Benefits was acquired by Abry Partners in what was the largest transaction in London, valued at £100m. Phoenix Equity Partners' acquisition of The Gym and the purchase of Hyperion Insurance Group by General Atlantic–London also contributed to the region's level of activity.

Although average deal value increased by £5.9m, the region performed poorly in overall value terms. London and the East of the UK experienced a drop of more than £330m compared to H1 2012 – while deal value had doubled between H1 2010 and H1 2011, it has decreased by more than four times since then.

Volume and value of £50-150m deals



Type of £50-150m deals



LDC
Private Equity Less Ordinary

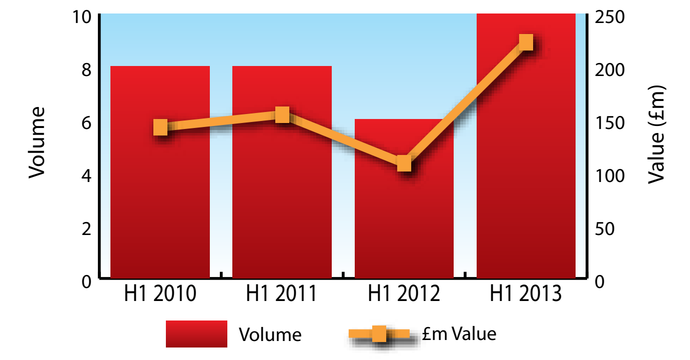
Deal activity in the £5-50m size range

The technology sector was prominent over the last six months, with four investments reported in the size range. Industrials, healthcare and consumer services also contributed to the region's best performance since H1 2008 and its 15 investments.

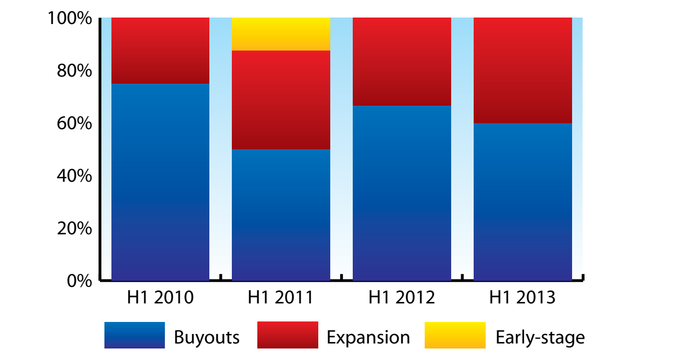
The Midlands are unlikely to reach the highs in total deal value observed elsewhere in the country. Still, the region is the only one which experienced a lift in deal value over the last period, gaining £114.5m to reach £223m at the end of June 2013.

More investments and a jump forward in total deal value led to a substantial increase in average deal value, now reaching £22.3m, or £4.2m higher than in H1 2012.

Volume and value of £5-50m deals



Type of £5-50m deals

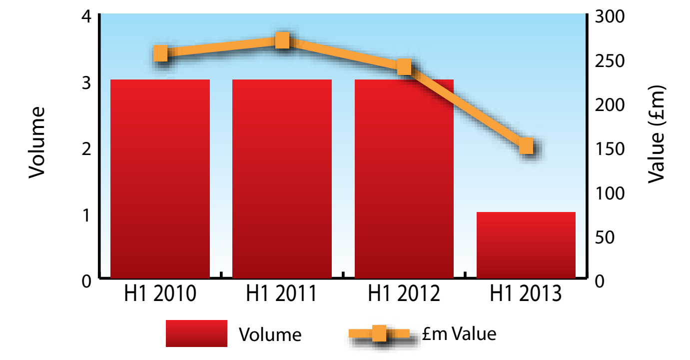


Deal activity in the £50-150m size range

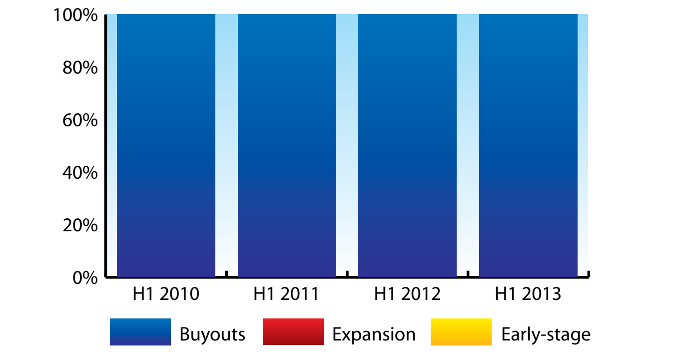
Smaller investments seem very much in demand in the region. The same cannot be said about the upper end of the market, which remained muted in H1 this year. The secondary buyout of Paragon Print & Packaging aside, no sizable deal has been reported since January, while three investments had been recorded in each previous first half, starting in 2010.

Only nine investments were reported in the £50-150m size range across the UK in H1 2013, and Paragon Print & Packaging happens to be the largest one (£150m). The deal is also one of four investments reaching this value point since H1 2008.

Volume and value of £50-150m deals



Type of £50-150m deals



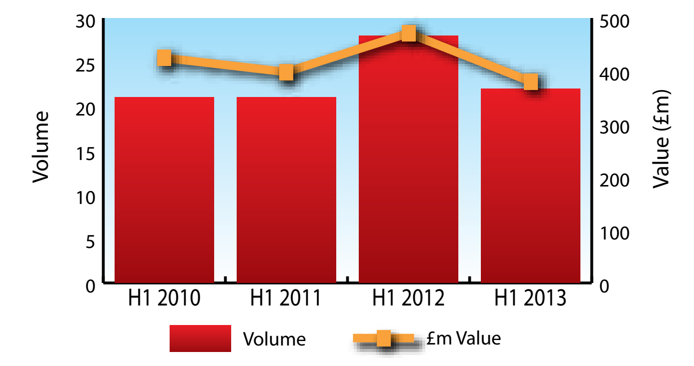
Deal activity in the £5-50m size range

The first six months of the year were home to 22 deals, against 28 investments recorded in H1 2012. The picture could be seen as gloomy, but the first half of last year may be the exception there: 21 investments were recorded in both H1 2010 and H1 2011. What is however more worrying is the smaller number of buyouts. The first half of each year since 2010 saw 15, 14 and 13 buyouts respectively, but only 11 such investments were made in H1 2013.

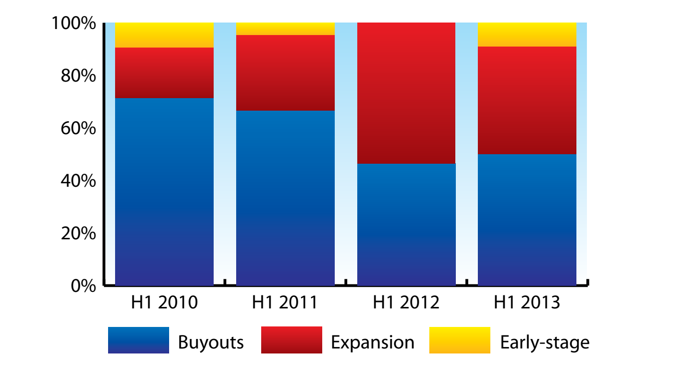
One less buyout in any given semester – when not counter-balanced by more expansion deals – usually results in a significant decrease in total deal value, as evidenced by the post-2010 value trend. Silverfleet's secondary buyout of IPES from RJD Partners was the biggest transaction recorded in the South this semester.

Fewer investments and a drop in overall deal value, combined with the lower number of investments worth £10m or more (18 in 2012 vs 12 in 2013) could have resulted in a lower average deal value. Yet the region managed to buck the trend with average deal value increasing by £500,000 to £17.3m.

Volume and value of £5-50m deals



Type of £5-50m deals



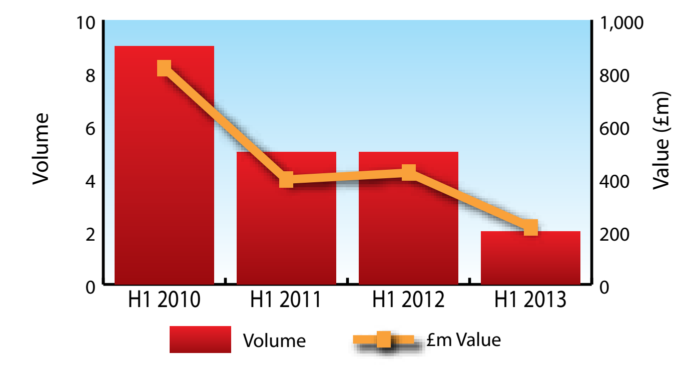
Deal activity in the £50-150m size range

The chances of matching H1 2010's dealflow appear increasingly slimmer as years go by: nine investments were made in the size range at the time, yet only two deals were recorded in H1 2013. The buyout of MGM Advantage, a retirement income solutions provider, and the expansion of Into University Partnerships, specialised in educational services, barely lifted the region's spirit.

This paucity of dealflow was however counter-balanced by a healthy value total as the region managed to attract £216m in overall investments as opposed to £285m for the North and £280m for London.

With two deals at each end of the size range spectrum, the region managed to increase its average deal value and beat H1 2008's previous record of £107.5m per deal – although the latter was seen across twice as many deals.

Volume and value of £50-150m deals



Type of £50-150m deals