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analysis

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Produced in association with Corbett Keeling

Quarter 1 2015

# First quarter 2015 – remaining resilient

In his regular quarterly commentary on UK mergers and acquisitions 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, while deal-making momentum has eased somewhat, the total value of transactions in the first quarter of the year remained reasonably high



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

**A**FTER A strong – and indeed, rousing – end to 2014, the number of transactions among private equity-backed businesses slowed in the first quarter of this year. And, if the results of our survey are to be believed, the slight deceleration is not caused by uncertainty about May's general election. Rather, a scarcity of attractive opportunities may be at the root of it.

At this stage, we are not too concerned about the outlook as the total value of transactions remained solid. Furthermore, sentiment remains broadly positive in the market, as both the survey and our experience of market conditions suggest.

Before seeing what the future may hold, however, we will look in greater detail at the data for the first quarter of 2015.

- Activity in the smaller buyouts sector (transactions with enterprise value of less than £150m) slowed appreciably from the pace set during the second half of 2014, which was the strongest six months since the financial crisis. The number of deals fell to 22, from 36 in the final quarter of last year. The value of transactions also decreased, from £1.5bn in the previous quarter to a perfectly respectable £958m.
- The larger buyouts sector (enterprise value of £150m or more), although well down on the exceptionally strong final quarter of 2014, showed evidence of continued strength. The volume of transactions fell from 14 to 9, while deal values more than halved, falling from

£6.1bn to £2.7bn. These were, nevertheless, the best first-quarter numbers since 2012 for values and 2010 for volumes, bolstered by a strong January.

- The transaction volume for early-stage and expansion capital deals fell to 57, the lowest quarterly figure since 2005. The average value of those deals was high, however, as the overall value jumped from £605m in the previous quarter to £1.0bn – the second-best quarterly number since 2010.

After showing faint signs of life in the second half of last year, all-equity buyouts seem to be flatlining once more. Only one all-equity deal was concluded in the first quarter of 2015, down from three in each of the preceding two quarters. Debt remains the preferred financing option in the overwhelming majority of cases.

Our most recent survey indicates market sentiment is still overwhelmingly positive. However, the signals are now a little more mixed.

- Forecasts for deal-making in the larger buyout segment (more than £150m) of the market have become more optimistic. The percentage of respondents expecting activity to rise over the next six months has increased from 42% to 52%. Sentiment in the lower-value buyout segment has declined, by contrast, with 14% of respondents now predicting a fall in activity, compared to 0% last quarter. That said,

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more than three times as many are still predicting activity levels to rise.

- At the sector level, we see a slight dip in the mood of the private equity community. The percentage of respondents expecting an increase in activity over the next 12 months has fallen across the board, and sentiment for the media sector is now evenly balanced between those predicting a rise and those forecasting a decline. Nevertheless, sentiment is still predominantly positive in all other sectors – overwhelmingly so for technology, consumer and services.
- Asked what they thought the main trend in deal sources would be this year, a majority expected secondary buyouts to keep growing in importance, thanks to high asset valuations and supportive leverage conditions. More than a third of replies predicted more deals from family or private sources tempted into sales by strong valuations.

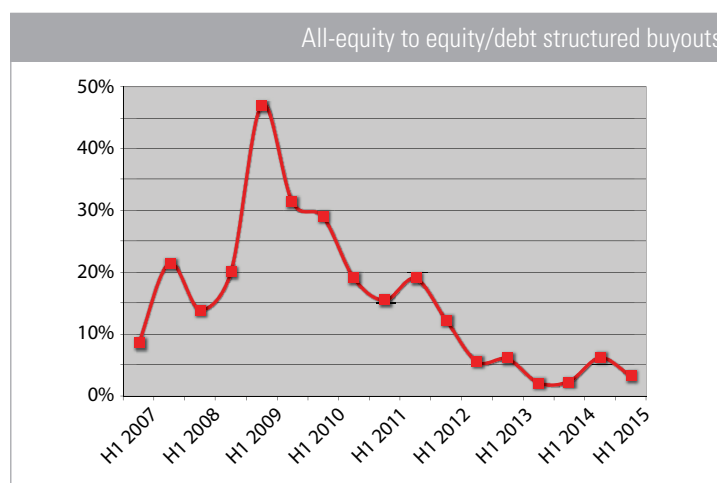
- There is some concern that competition between banks and alternative lenders may be leading to unhealthy levels of debt. While only a third have already seen firm evidence of problems, 38% think it might become an issue in 2015.

- If activity has decelerated slightly, few appear to be blaming the early start to the general election campaign. Only 14% of respondents expect to see a slowing of deal flow because of the resulting uncertainty.

While acknowledging the recent signs of a slowdown in deal-making activity, we see no reason to be too cautious at this point. With values remaining resilient and strong volume numbers for the higher-value segment of the market, we remain confident in the outlook for the rest of 2015.

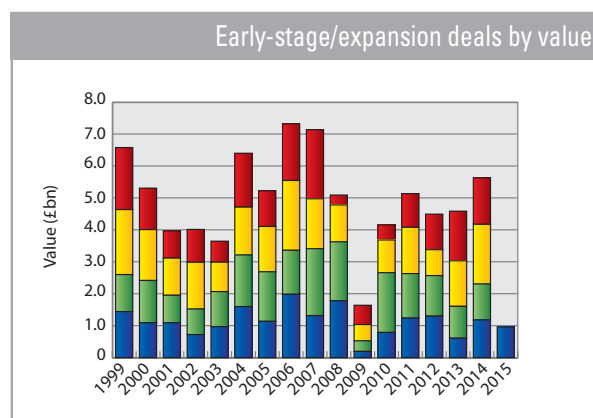
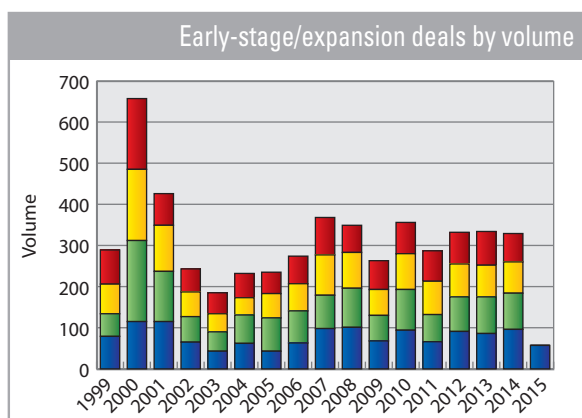
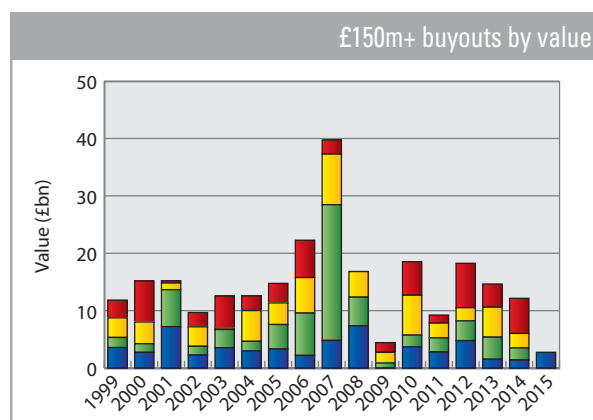
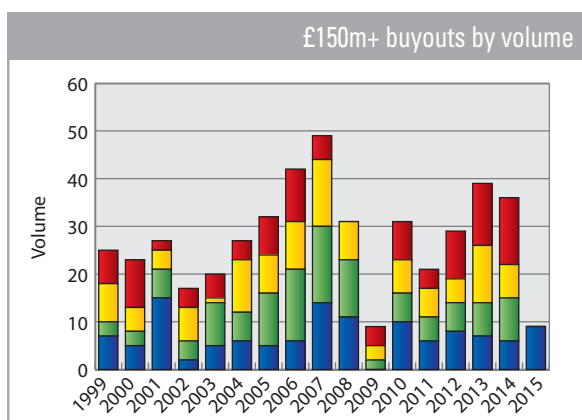
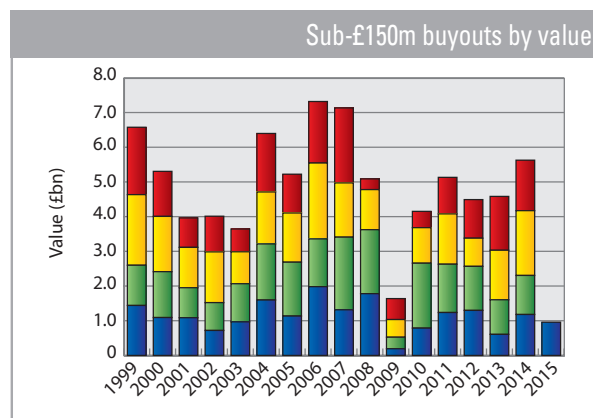
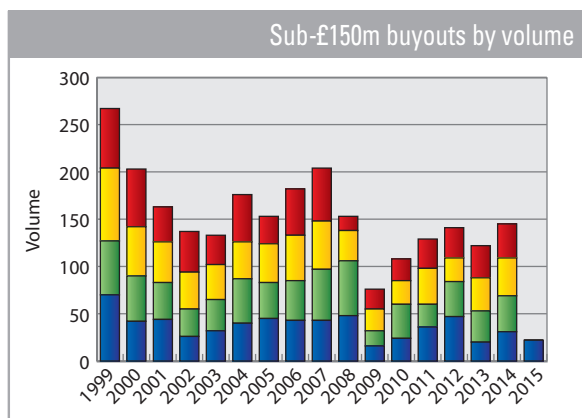
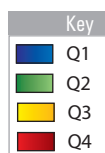
**Jim Keeling,**  
Joint chairman,  
**Corbett Keeling**  
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## All-equity to equity/debt buyouts



Source: unquote™ data

## Value &amp; volume



All graphs sourced from: unquote" data

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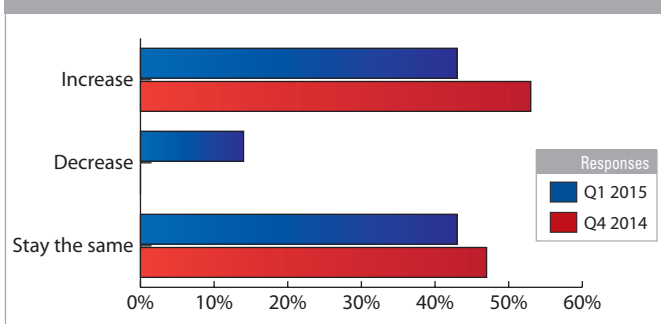
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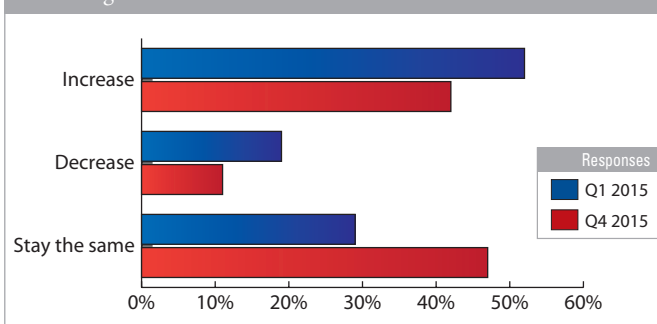
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## Watch survey results

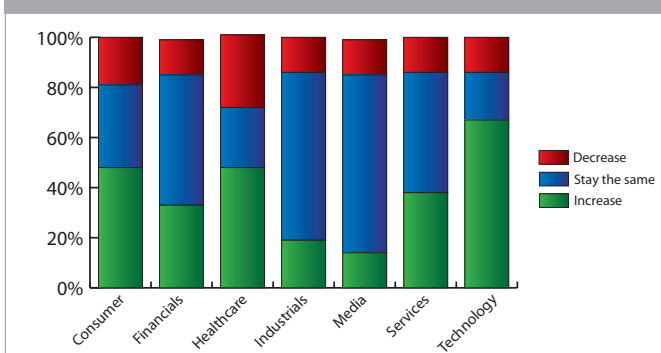
**1** How do you expect M&A activity levels in the lower mid-market buyout segment (less than £150m) to change over the next six months?



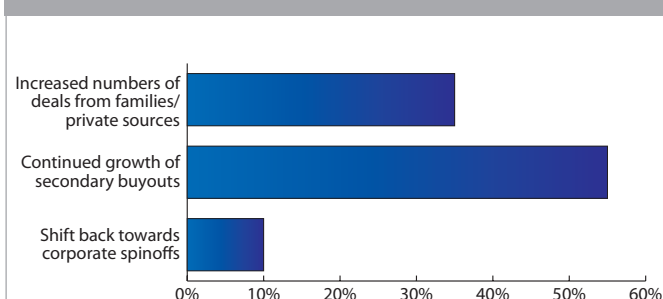
**2** How do you expect M&A activity levels in the upper mid-market and larger buyout segment (more than £150m) to change over the next six months?



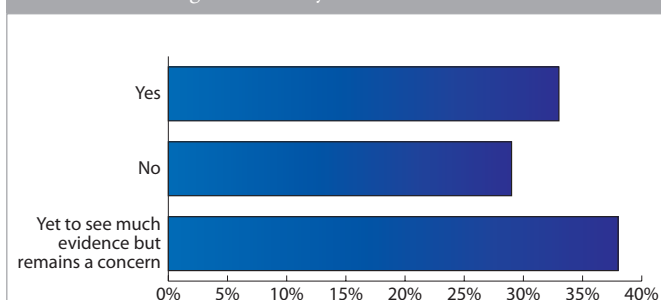
**3** How do you think M&A activity in the following sectors will evolve over the next 12 months?



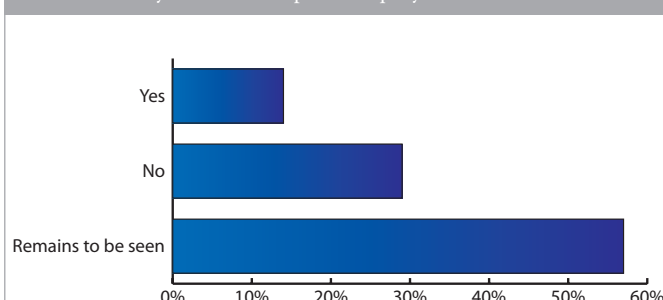
**4** In terms of deal sources, what will be the main standout trend in 2015?



**5** Is heightened competition between banks and alternative lenders leading to unhealthy levels of debt?



**6** Has an early start to the election campaign introduced uncertainty into the UK private equity market?



All graphs sourced from: unquote™ data

