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analysis

uk watch

Produced in association with Corbett Keeling

Quarter 2 2014

Second quarter 2014 – Busy times ahead?

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, while the transaction statistics for the second quarter were slightly lacklustre, the overall position for the first half of the year remains strong and expectations have not been dented for an increase in activity over the rest of the year



Jim Keeling,
joint chairman,
Corbett Keeling

THE UPBEAT mood of market participants and the signs of activity we see on a daily basis were not fully reflected in the deal-making data for the second quarter of the year. Nevertheless, aggregate activity levels for the first six months of the year were higher than in the same period of 2013, and sentiment in the private equity community remains very positive overall. So, perhaps the second half of 2014 will follow the pattern for the first half, beating the same period of 2013 with a strong pick-up, just as we saw last year.

But, before looking to the future, let's first analyse the data from the past three months.

- The smaller buyouts sector (transactions with enterprise value of less than £150m) held up relatively well in the second quarter. Both the volume and the value of transactions were up. The sector recorded 34 transactions, up from 28 in the first quarter, and values inched up to above £1bn. Furthermore, both the volume and the value of deals were significantly higher than in the same period last year.
- It was a mixed picture for larger deals (enterprise value of £150m or above). While the volume of deals rose slightly to nine in the second quarter from eight in the first, the aggregate value fell to £2.1bn, from £2.9bn in the first three months of the year. For the year so far, the volume is higher than

the first six months of 2013, while the value of deals is roughly level.

- The weakest segment of the market was early-stage and expansion capital deals. The volume, though well down on the first quarter's 103, was at a respectable 84 deals completed. The value of transactions came in at £485m. While that is a large drop from the first quarter's bumper £1.5bn, the first two quarters taken together were still well up on the same period last year.

All-equity buyouts, which had been flat-lining for two quarters, came back from the brink. However, with only two deals, there was no sign of a significant resurgence. The trend away from all-equity buyouts remains firmly in place: only four such deals have been completed over the past 12 months.

Even though the expected pick-up in activity remains modest, the market remains confident about the outlook for the rest of 2014, according to the results of our latest survey.

- Expectations for activity levels, if slightly down on the previous quarter's survey, remain nevertheless overwhelmingly upbeat. Over three quarters of respondents expect activity to increase during the remainder of the year for the lower value buyouts (below £150m), while more than 60% forecast an increase for the higher value segment.

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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- At the sector level, the picture is mixed but still mainly positive. Sentiment has weakened slightly in industrials, media, services and technology, though the number of respondents expecting an increase in activity comfortably outweighs those expecting a decrease in all sectors. In the consumer sector confidence has actually improved.
- Interestingly, nearly a quarter of respondents thought the window of opportunity for IPOs is already closing, while a further 43% expect it to close before the end of this year. This contrasts with our own view at Corbett Keeling: we are firmly among the bulls – any downturn in activity is likely to prove temporary, given the long period of closure after the financial crisis.
- Debt levels are starting to worry some market participants once more, with almost a quarter of respondents saying they were climbing to unsustainable levels. However, two thirds of respondents regard the rise in debt multiples as no source of concern. Certainly, we have seen a number of new debt providers

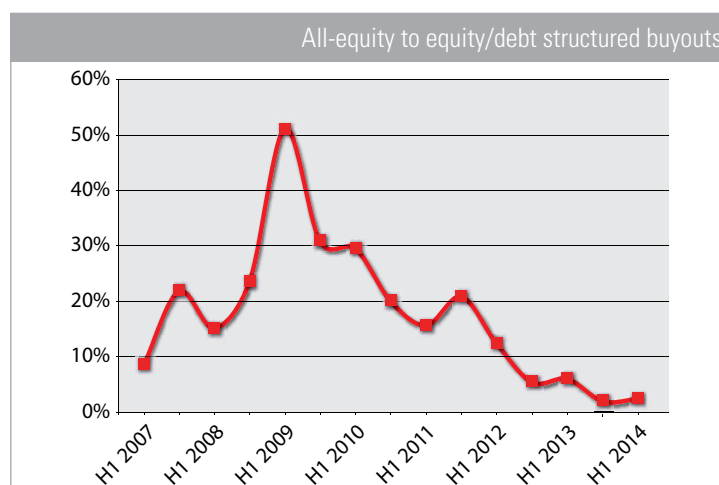
coming into the market, for both larger and smaller deals. Some are providing combined packages of senior debt, mezzanine and even equity.

- While only 5% of respondents said pricing remains broadly stable, the vast majority of the rest thought any rise in prices was in line with their expectations. Just less than a quarter expressed concern about the pace of increase.

The big unknown in our view is geopolitical risk exemplified by the Ukraine and the Middle East. Events there could turn all projections upside down in the space of days. That aside though, the continued optimism revealed in our survey and our own experience, supported by a strong first half of 2014, lead us to expect a busy time in the next year or so – and beyond.

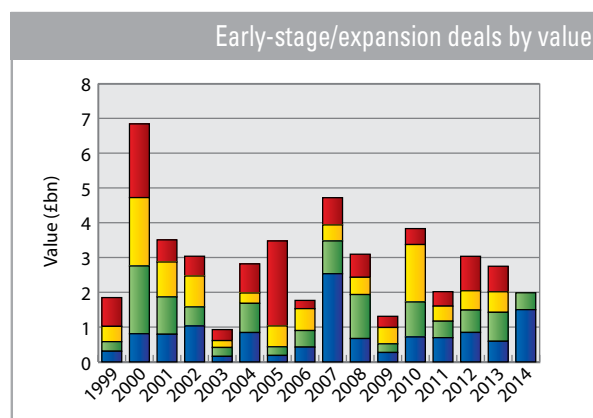
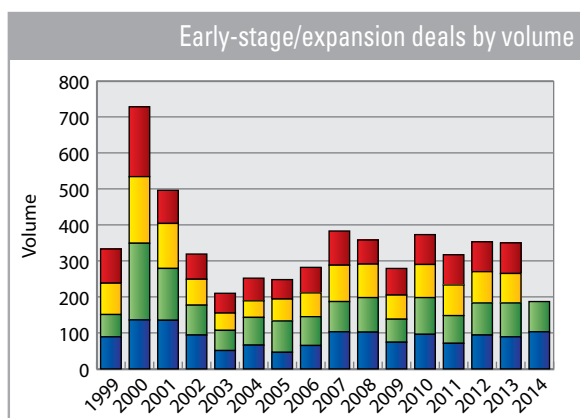
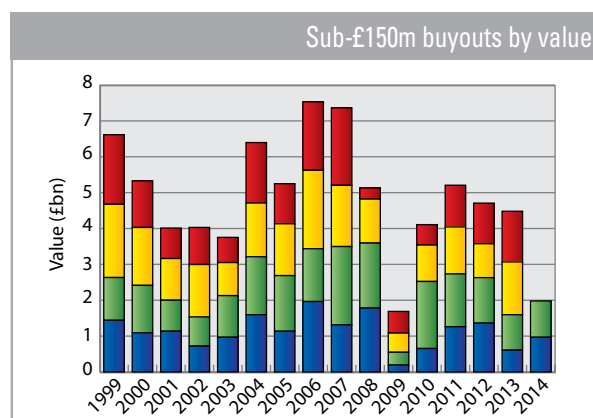
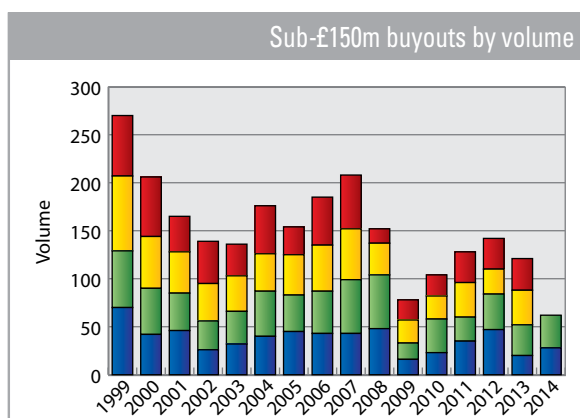
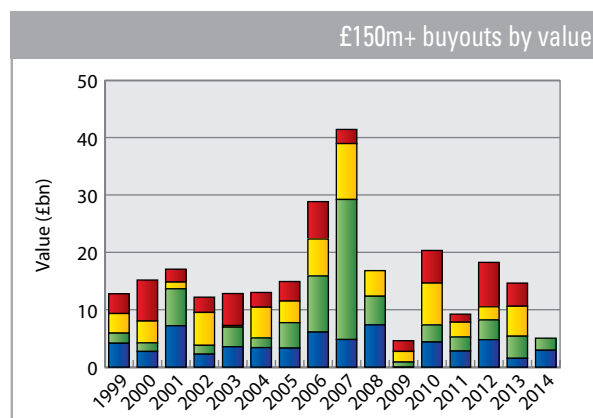
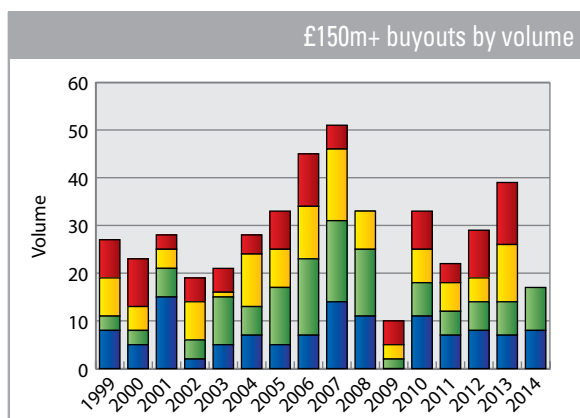
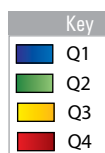
Jim Keeling,
Joint chairman,
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All-equity to equity/debt buyouts



Source: unquote™ data

Value & volume



All graphs sourced from: unquote" data

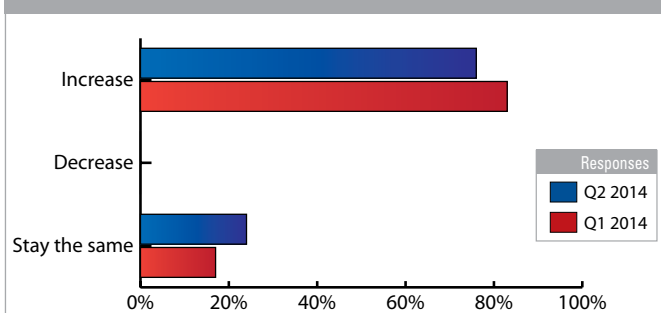
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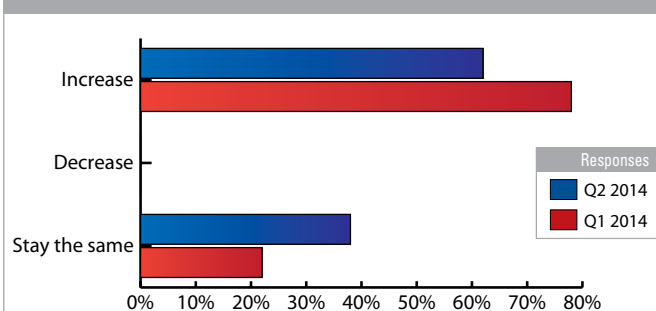
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Watch survey results

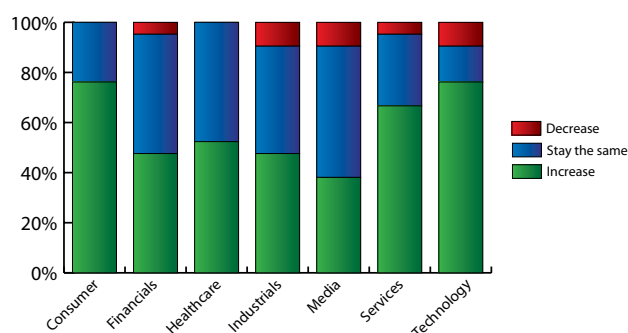
1 How do you expect activity levels in the lower mid-market buyout segment (less than £150m) to change over the next six months?



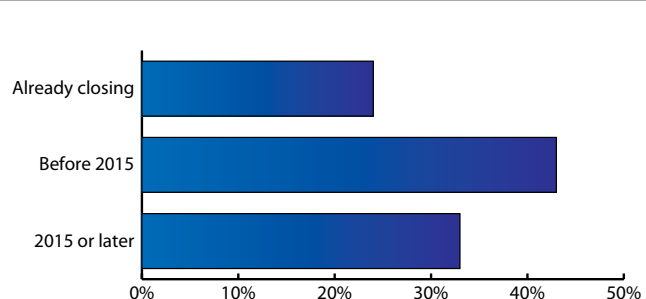
2 How do you expect activity levels in the upper mid-market and larger buyout segment (more than £150m) to change over the next six months?



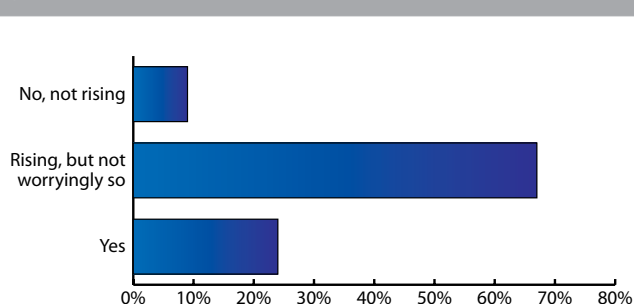
3 How do you think activity in the following sectors will evolve over the next 12 months?



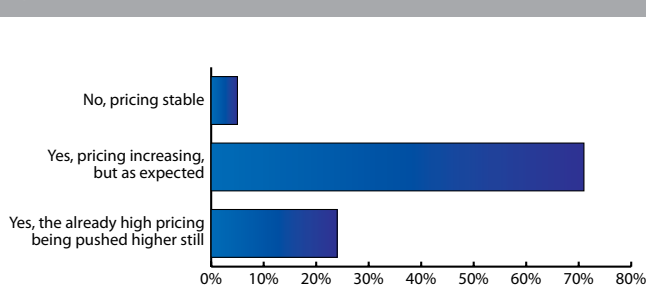
4 The current window of opportunity for IPOs has attracted much attention. How long do you expect it to remain open?



5 Are debt multiples once again rising to dangerous levels?



6 Are debt multiples once again rising to dangerous levels?



All graphs sourced from: *unquote* data

