

Corbett Keeling

Corporate Finance

Fourth quarter 2011 – a game of three thirds!

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. It finds a stark contrast between an apparently thriving smaller buyouts sector, faltering larger deals and an almost moribund market for development capital.

The really striking feature of the last quarter is the rise and rise of smaller buyouts (those of less than €150m). This is the sort of observation you might have expected in 2006 or 2007 but, no, here we are in 2012 reviewing the last quarter of 2011!

If all is well for smaller buyouts, the picture is radically different both for their larger cousins and for early-stage or development capital deals. You might say it looks like a game of three thirds rather than two halves – making it like ice hockey, which for obscure reasons takes place in thirds. But let's look at the historic statistics.

■ At the end of the third quarter of 2011, we reported an “uplifting” story for smaller UK buyouts (of less than €150m enterprise value). That has continued up to the end of the year. With 105 smaller management buyouts at a total value of €4bn, 2011 is ahead of 2010, which was itself ahead of 2009. And, whilst activity was not at the heady (most would say overheated) levels of 1999 and 2007, it compares well with 2001-2003; on the current trend, it would quickly return to 2004-2006 levels. So things look quite rosy for the UK private equity practitioners who occupy this space – surely an unexpected result, given the prevailing economic gloom.

■ The story for larger UK buyouts (€150m or above) is not so heartening. The pick-up of 2010 has been reversed. Both volumes and values are down, at 24 deals for a total of €11bn for the year, producing a gloomy – at best stuttering – trend, for the participants of this section of the market.

■ The picture is similar for UK early-stage and expansion capital deals. The result for 2011 fell to a lower level, both in terms of volume (140 deals) and value (€1.2bn), than any of the preceding 12 years. As ever, there is of course scope for more 2011 deals to be reported and recorded after we write, but the outlook for early-stage and expansion deals, as for larger buyouts, still seems bleak.

Let's see what *unquote*'s survey of market practitioners was predicting some weeks before the historic statistics were available. Were the survey results consistent with what the facts indicate?

■ The balance of views on the market for smaller deals is broadly optimistic: three times as many respondents suggest activity will rise as think it will fall. The picture for larger deals is almost the reverse, with roughly twice as many respondents reckoning deal activity will fall (given the current trend, that means fall further) than think it will rise. So, in both respects, the market view seems to be in tune with the facts.

■ The survey goes on to look at leverage. Respondents' views are split fairly evenly between those who think there is enough debt available and those who think there isn't. Interestingly, the proportion of deals entirely funded by equity has taken a significant upturn, from 17% to 27%, suggesting that private equity executives are losing patience with any perceived or real lack of bank debt and so are just getting on with deals. Certainly, we are finding that in order for an equity funder to be taken seriously in the current market, it is almost a prerequisite that they say they would, if necessary, be prepared to fund proposed transactions 100% themselves.

■ Almost half of respondents view values as having stabilised. This might reflect cost-cutting, which is expected to continue through reducing staffing levels, or it may simply demonstrate the operational strength of underlying

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- DEBT ADVISORY
- SELLING BUSINESSES

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businesses: as the head of one fund recently commented, 60% of its portfolio companies continue to trade ahead of the prior year.

Perhaps the most telling survey question, though, is the final one, even though it is not private equity specific. The overwhelming response to the question “Do you believe that Europe’s leaders are doing enough to restore some investor confidence in the eurozone?” is “No”. This is the feature of the current environment that could throw all historic trends and predictions off track – though one must also remember that turmoil and adversity always create opportunity for nimble operators.

In the meantime, despite anything you might read in the news, all is not doom and gloom for deal-makers. Indeed, considering that a large proportion of UK private equity deal-makers – whether principals, investors or advisers – are involved in deals of less than €150m, you could just as easily conclude that the outlook for 2012 is bright! ■

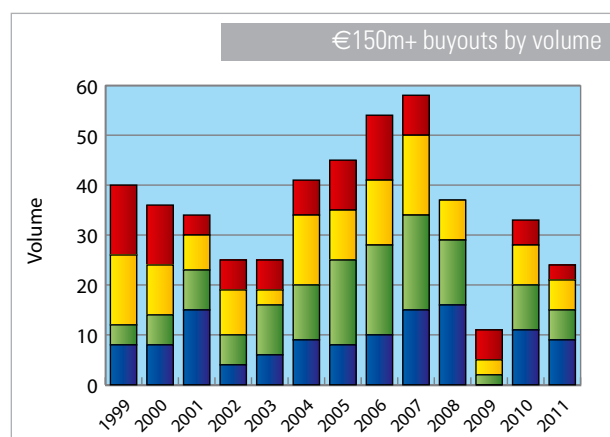
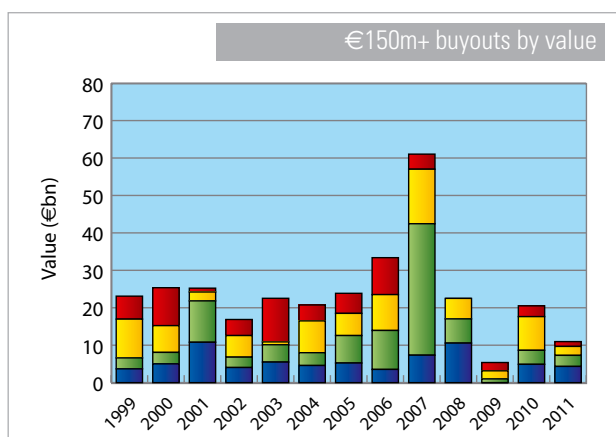
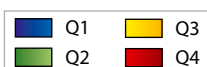
Jim Keeling, joint chairman

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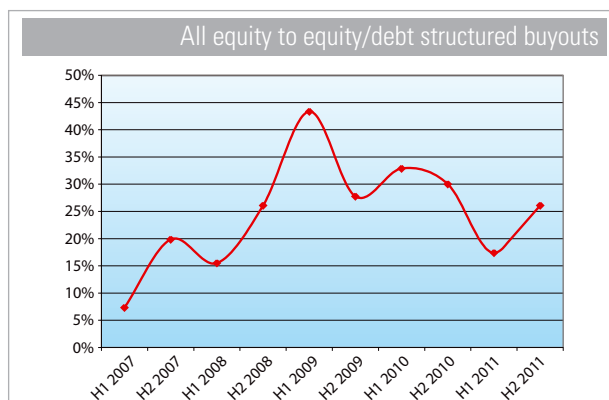
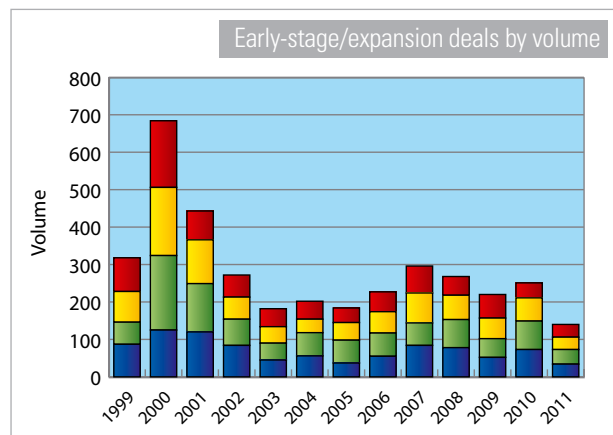
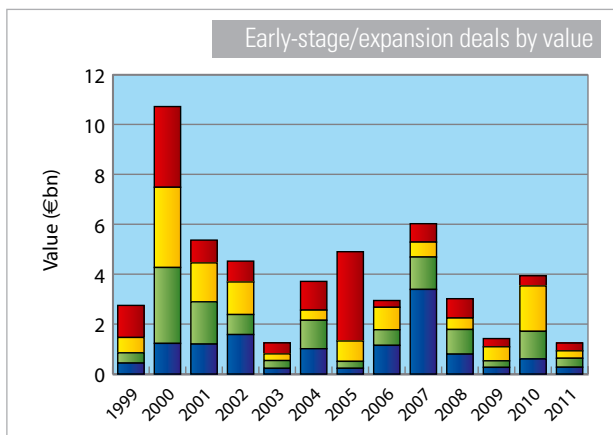
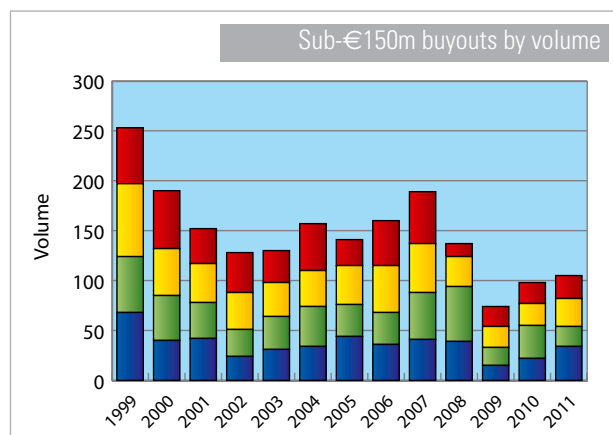
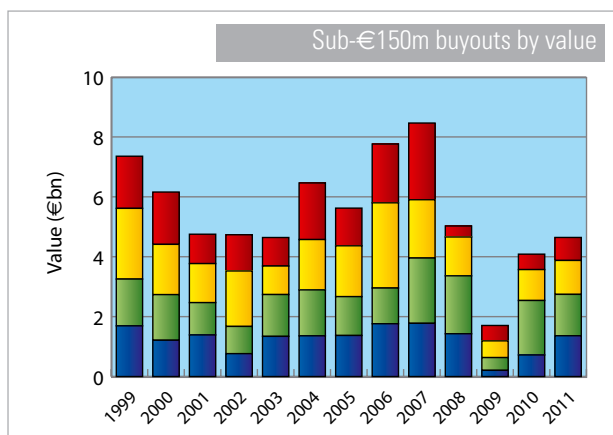
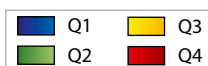


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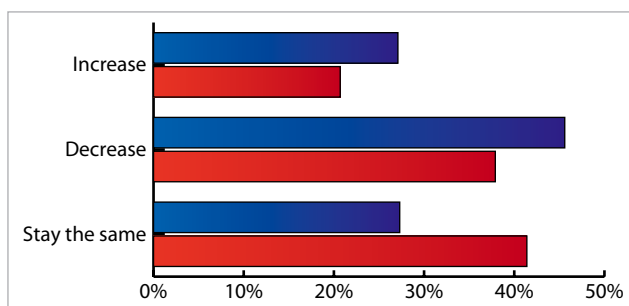
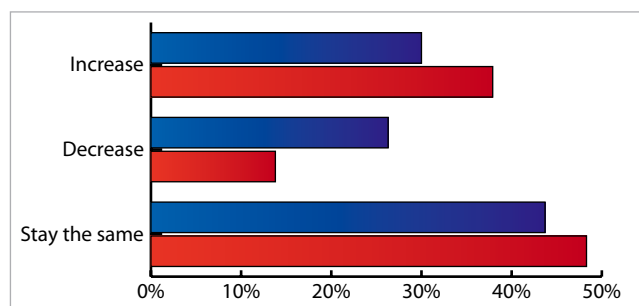
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In order to produce these statistics, more than 500 key players in the UK private equity and venture capital markets were surveyed.

1 Over the next six months do you expect activity levels in the lower mid-market buyout segment (less than €150m) to increase, decrease or stay the same?

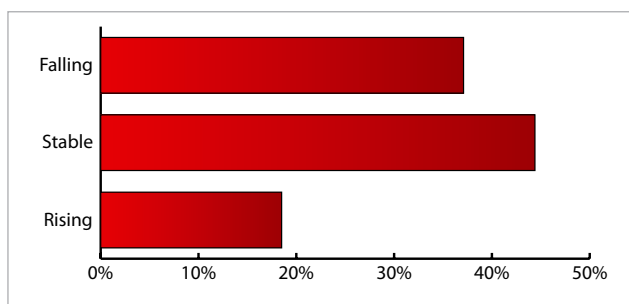
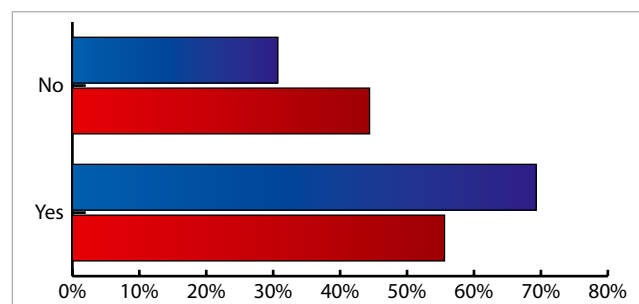
2 Over the next six months do you expect activity levels in the upper mid-market and larger buyout segment (more than €150m) to increase, decrease or stay the same?

■ Q3 2011 results
■ Q4 2011 results



3 Is there sufficient leverage to support primary transactions at the lower end of the market?

4 How are average entry multiples for PE-backed acquisitions being affected by the continuing economic concerns?



5 What is the outlook for employment levels in UK private equity backed businesses?

6 Do you believe that Europe's leaders are doing enough to restore some investor confidence in the eurozone?

