

First quarter 2009: a chronic shortage of deals

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 deals ... and concludes there is a chronic shortage of transactions but perhaps also some very preliminary signs of hope.

Well! What a quarter, or maybe one should say what a six months! The deal drought that we saw at the close of 2008 has continued unabated into 2009. Whereas a year ago there was a scramble to get deals done before changes in the tax regime came into effect on 6 April, there has been no such boost for private equity investment activity this year. What we are seeing amounts to a chronic shortage of deals. To understand the scale of the slow-down it is helpful to examine the trend quarter by quarter for each sub-set of the private equity markets – larger buyouts, smaller buyouts and early-stage/expansion:

- First larger buyouts (>€150m) where the picture is starkest of all: we reported with some horror last quarter that this part of the market had recorded its first straight zero since we began commenting on the sector five years ago. Our reports will become a bit dull if this continues and so we find ourselves wondering if we will have to adjust the size brackets that we use in analysing transactions because, for the second consecutive quarter, we have the same result, not a single deal done. By comparison, the lowest number of larger buyouts in the January-March quarter since our records began was four and the comparable figure for the same quarter last year was 16 deals at a mouth watering total enterprise value of €10.6bn.
- The story for smaller buyouts (<€150m) is similarly bleak with nine deals at an aggregate value of €141m compared to 37 deals for almost 10 times the value at €1.3bn in the first quarter of 2008. One can also compare the latest result to the preceding couple of quarters – 10 deals for €300m in the fourth quarter of 2008 and 29 deals at an aggregate value of €1.3bn for

the three preceding months, which don't let's forget we described at the time as a "weak result" (correctly!). So whilst the story here is not quite the zero seen for larger buyouts, it remains very weak indeed and has been weak for a while now.

- Last quarter we suggested that one might expect earlystage/expansion capital to provide some respite on the grounds that it would include equity funders' efforts to turn round portfolio companies by providing extra cash: no such luck. The result for the first quarter of 2009, whether measured in terms of deals done or funds invested is around half the worst first quarter for any of the preceding 10 years at 37 deals done and just €146m invested.

Admittedly we are writing a few days before the end of March and so all the statistics on which we are reporting are preliminary – but we do not hold out much hope that the last couple of days of this quarter will make a huge difference.

By contrast, we do have some hope for the coming quarters as, across the board, the survey of future expectations shows some (albeit small) signs of optimism and this ties in with our own experience. By comparison to the preceding quarter:

- More people believe buyout activity will increase for smaller deals – where most of the transactions are done.
- More people think valuations now reflect the current economic outlook – which should mean more buyers will start to buy.

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- Contrary to some reports, there is – most people believe – debt available for the right transactions, with this expectation being accompanied by a small increase in the proportion of completed buyouts recorded as having a debt funded element.
- And, while those surveyed are not predicting the UK economy will grow this year, the overwhelming majority believe growth will return before 2011.

selling non core assets in order to reduce debt and previously private equity backed businesses that are now in the control of banks being sold by the banks to realise their security. In each case the party in control has an overriding need to sell at what is, in today's market, a sensible price. Therein the opportunity for those that are ready to buy.

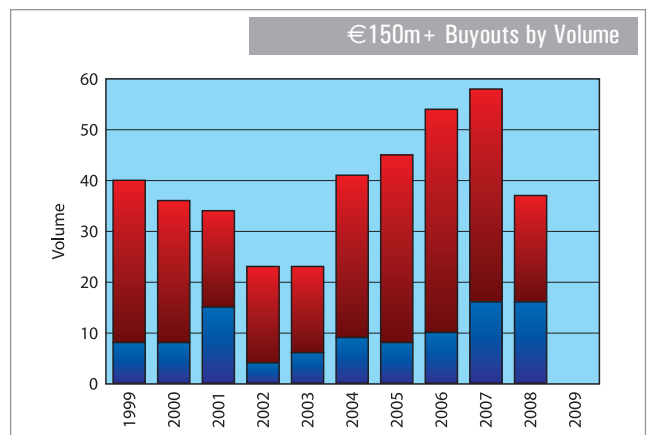
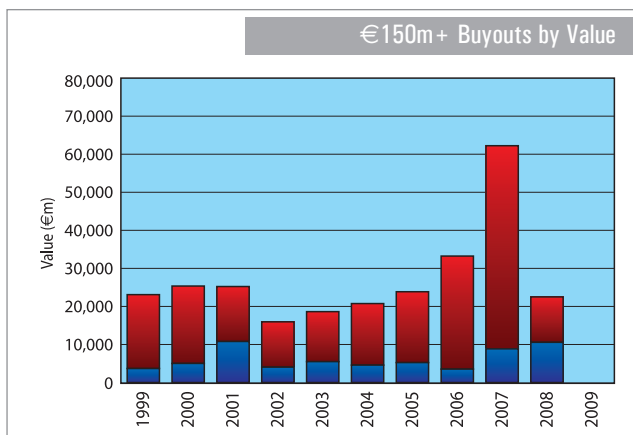
So where are the opportunities?

Those answering the survey see them coming mainly from distressed corporates and private equity backed businesses that are in difficulties. This corresponds with our experience as a firm, where we are seeing larger groups



Jim Keeling,
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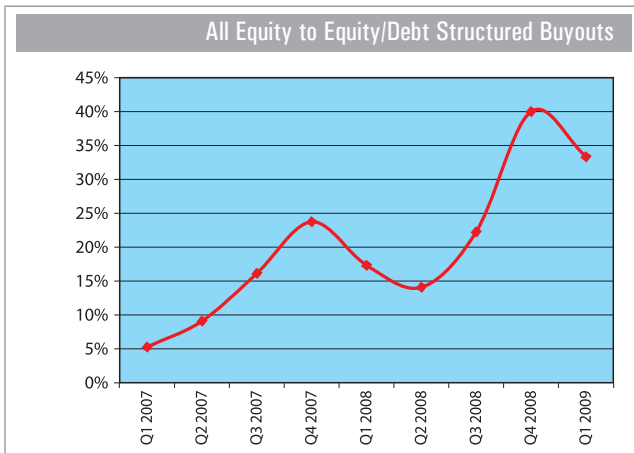
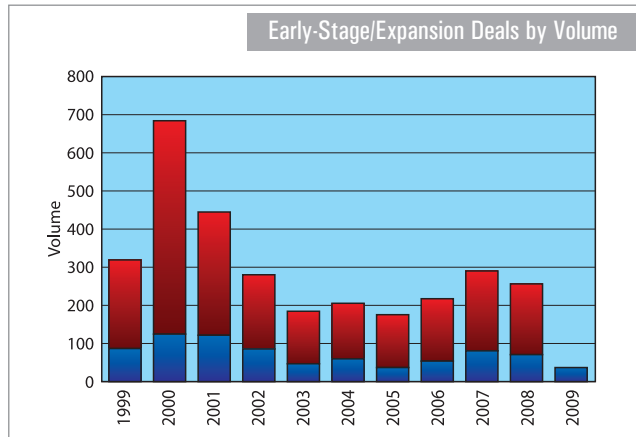
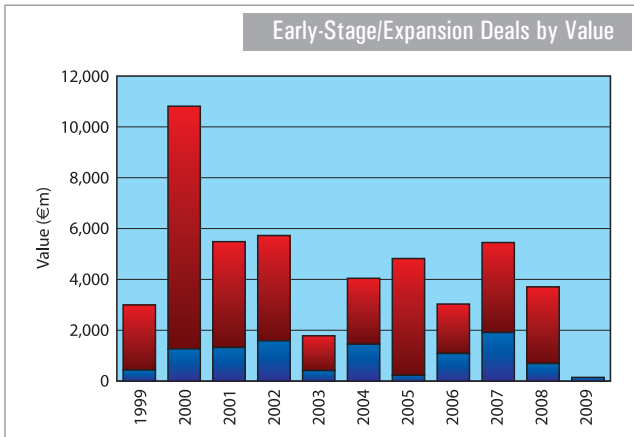
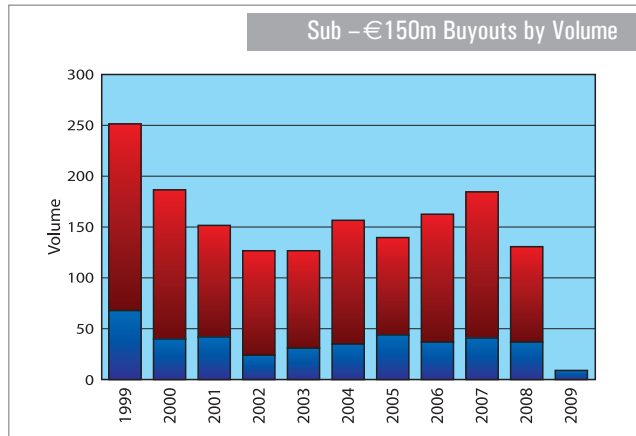
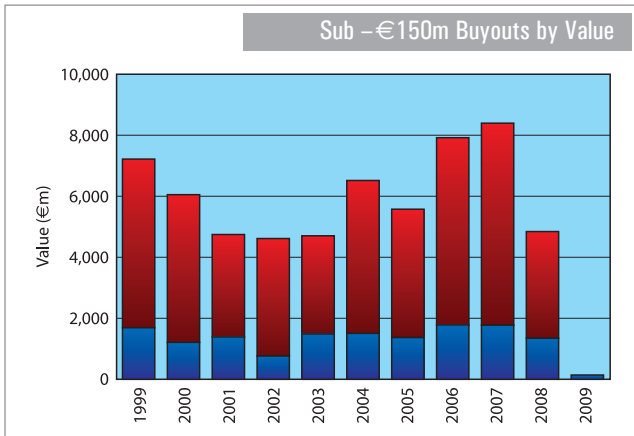
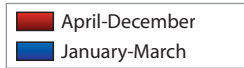


Corbett Keeling is a corporate finance advisory firm focused on the private equity sector. We specialise in:

- RAISING FUNDS FOR MANAGEMENT BUY-OUT TEAMS
- DEBT ADVISORY
- SELLING BUSINESSES

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Figures are based on all deals that were confirmed, at the time of going to press, as having an institutional private equity or mezzanine investor as a lead or syndicate partner investing in a UK-based business. Sourced from Private Equity Insight.

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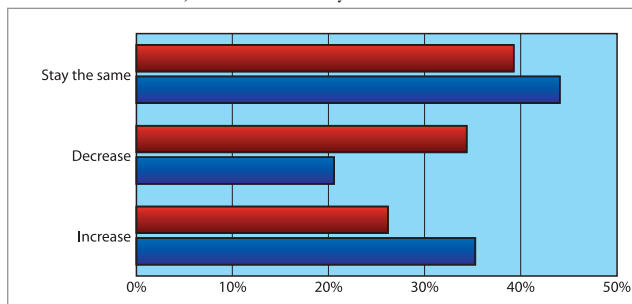
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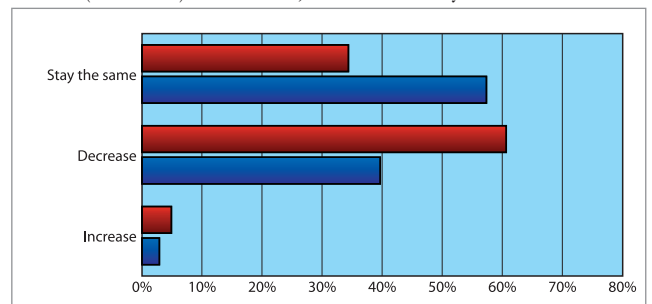
In order to produce these statistics, more than 500 key players in the UK private equity and venture capital markets were surveyed.

■ Q4 2008 predictions
■ Q1 2009 predictions

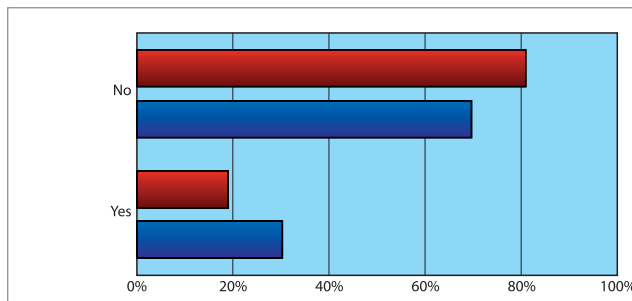
1 Over the next six months do you expect activity levels in the lower mid-market buyout segment (less than €150m) to increase, decrease or stay the same?



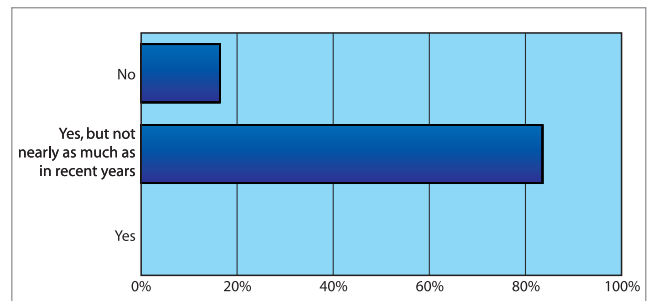
2 Over the next six months do you expect activity levels in the upper mid-market and larger buyout segment (>€150m) to increase, decrease or stay the same?



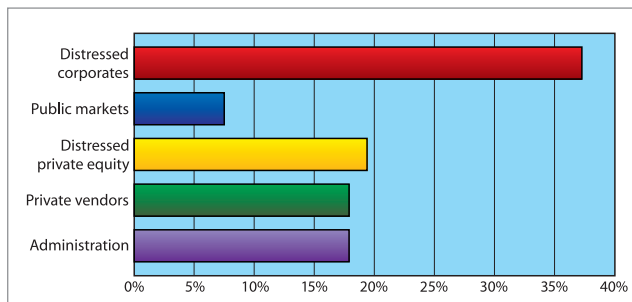
3 Have entry prices fallen sufficiently to reflect the current outlook for UK businesses?



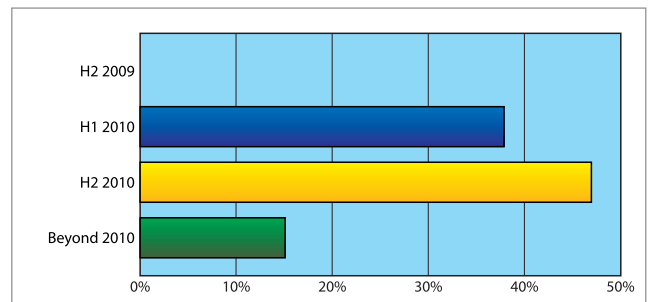
4 Is there any debt available for leveraged transactions?



5 Which source of deals offers the most attractive investment opportunity in the next 12 months?



6 When will the UK economy see positive growth again?



Corbett Keeling

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