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Deals round-up: Sub-£40m M&A shows signs of health

Analysis of deal activity and the broader market suggests M&A slowdown may ease

JIM KEELING

IT IS WIDELY acknowledged that we are in one of the worst recessions in living memory by any measure, from consumer activity to the level of business mergers and acquisitions (M&A).

But what has actually been going on in the insurance and wider M&A markets in the past few months, and will there soon be grounds for hope of a return to deal activity levels seen in recent years? Let's look first at the historic facts for recent numbers and values of deals.

The charts, produced by Corpfin, show insurance sector deal activity divided into transactions with value above and below £40m. In each case, these only include those deals completed in the period where the amount paid has been publicly disclosed and the buyer or seller has operations in the UK.

Looking at the larger deals charts, one is tempted to think we need to adjust the £40m cut-off: for the last two quarters, and three of the last four, there has not been a single larger deal. But history belies this. In the previous ten years there is only one quarter, in 2003, where the charts show nil deal activity in this bracket. This alone is grounds for expecting that larger deal activity will return. We will look at whether there are other grounds for seeing "green shoots" in a moment, but before that let's look at the broader historic picture, including smaller deals.

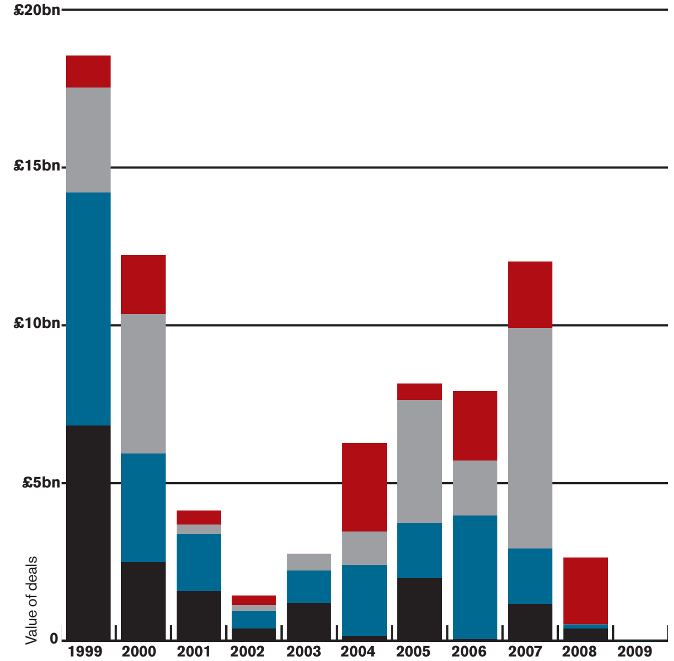
For deals with value less than £40m, the recent history is not so bleak. It is clear from the charts that the second quarter is not far below the average of recent years, whether measured in terms of numbers of deals or their aggregate value. Remembering that the charts exclude deals where value is not disclosed, in Q2 2009 they showed six transactions with a total value of £80m, which is spot on the average aggregate value per quarter for the preceding 10 years. Deal numbers are only slightly down compared to the historic average per quarter of 7.5.

With the traditionally slow August period upon us, we can expect the next six weeks to continue to be quiet. What is of interest is the period beyond that. Without wanting to display unwarranted optimism, here are four reasons that support the view that history will indeed repeat itself and we will see a return to more of the larger, as well as smaller, deals:

> **'Without wanting to display unwarranted optimism, there are reasons why we will see more deals'**

1) **Recent activity in broader markets:** Looking, for example, at management buy-out activity across all sectors, there are signs of a pick-up (and this is from a similar slowdown to the one we have seen for insurance sector M&A). The journal *unquote*, which monitors buy-out activity, recorded no deals of more than £100m in Q4 2008 or Q1 2009, but there were finally two in Q2 2009.
2) **M&A practitioners' expectations:** *unquote* also carries out a quarterly survey of the market's future expectations, which at the end of the second quarter recorded a positive view of the outlook for management buy-outs, with a large majority thinking buy-out activity is on the up. So it appears that some confidence is returning to the financial backers of businesses.
3) **Trade expectations:** Though one or two larger deals that appeared to be on the horizon have retreated – for example, the disposal by RBS of its insurance business and the sale of Chaucer Holdings – there is a plethora of others that are now rumoured or expected. These include Amlin's acquisition of Fortis, the sale of HomeServe's emergency services division, the funding and sale of HSBC's underwriting business, and perhaps a deal between Giles and Oval. So there is an expectation of deals among insurance practitioners too.

DEALS BY VALUE: MORE THAN £40M

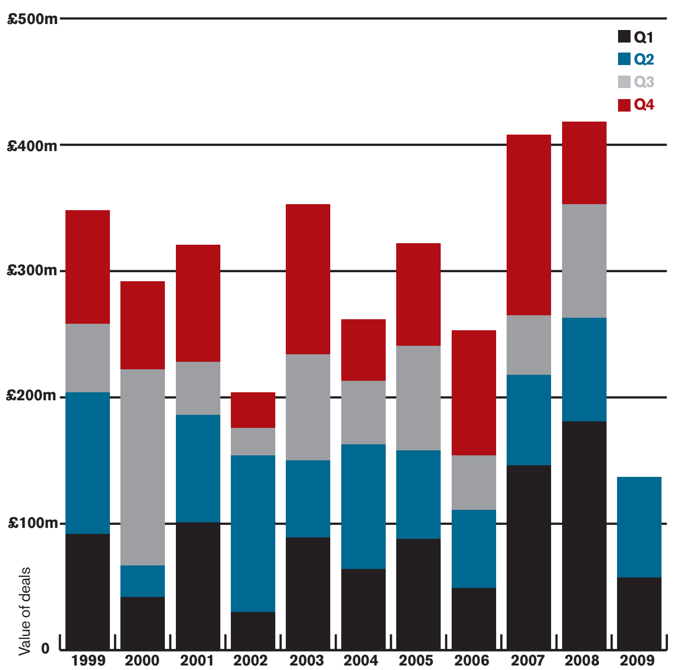


4) **Last but not least, old Father Time marches on**: Owner-managers get older, so their need to retire and sell grows, while financial backers get more impatient for an exit as their fixed life funds approach the end of their term. It's like water building up behind a dam – eventually the dam must break and normal flow returns.

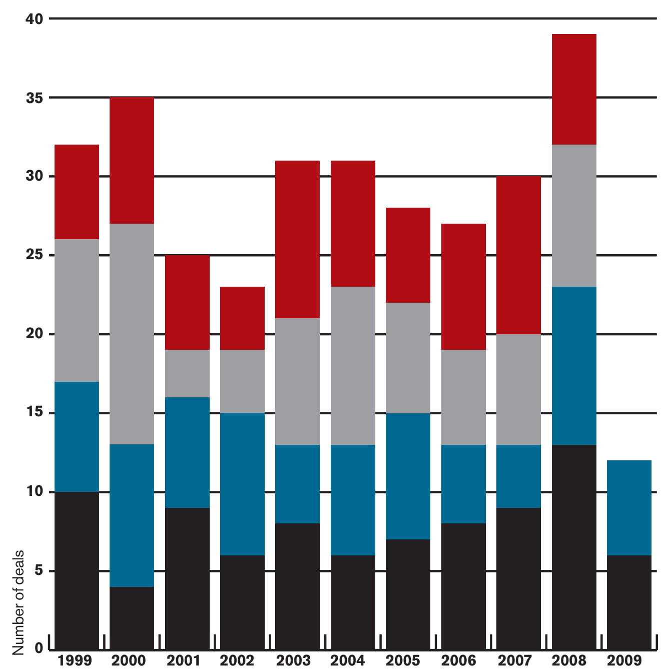
So there is certainly some hope that autumn 2009 will see the beginnings of an upturn. If there is any doubt, it is more a question of timing – it's about "when" rather than "if". **IT**

Jim Keeling is joint chairman of Corbett Keeling, which advises on funding buy-outs and selling insurance businesses

DEALS BY VALUE: LESS THAN £40M



DEALS BY VOLUME: LESS THAN £40M



DEALS BY VOLUME: MORE THAN £40M