Corbett Keeling | Corporate Finance

Second quarter 2011 – a cold chill

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 that even the most hardened optimist of a deal-maker must be feeling a cold chill as they review the latest statistics.

Recent press reviews of global mergers and acquisitions activity have contained some positive news. For example, data provider Dealogic reported that mid-market deal-making has got off to a good start in the first half of 2011 compared with an already strong 2010. In a similar vein, Mergermarket reported that buy-out activity for the first quarter of 2011 was well ahead of the comparable period in 2010.

But just a passing glance at our own *unquote"* statistics, focused as usual on UK private equity activity, paints a different picture: one that is more likely to put a chill down the back of deal-makers than give them a glow of warmth.

Before rushing to any conclusions, though, let's sift through the detail of the hard facts. We will as usual start with larger UK buyouts of more than €150m enterprise value, then UK buyouts of less than €150m and finally early-stage and expansion capital deals.

- Thirteen larger UK buyouts (€150m or above) have so far been reported as completed in the first half of 2011. Only 2002 and 2009 had weaker first halves, measured by numbers of deals. The picture is marginally worse in terms of aggregate value. At €6.5bn, 2011 comes second from the bottom of the preceding 12 years, only 2009 being weaker.
- The picture for smaller UK buyouts (below €150m) is very similar. In terms of numbers of deals, the first half of 2011 – at 45 – was second from bottom. Again, only the 2009 result was lower. For these smaller deals, it is in terms of aggregate value, at €2.2bn, that the first half has managed to be better than both 2002 and 2009, but no other years.
- The same theme continues for UK early-stage and expansion capital deals. At 67 deals in the first half of 2011, the result is 25% below the worst other year on record! In terms of value, the picture is slightly better, with 2011 being fourth from bottom for first half results – but that is small comfort for UK private equity practitioners, given the depth and breadth of other adverse developments.
- Perhaps not surprisingly, the bad news is accompanied by an increasingly pessimistic view of life from industry practitioners that participated in the *unquote"* quarterly survey of expectations. Significantly lower proportions than three months ago think that deal activity will be on the increase over the next six months. Government cuts are expected to hit the sector hard. And industry participants believe that the net result will be private equity firms going out of business and a high proportion of the deals done being pass-the-parcel, with one private equity owner simply passing its investment on to another.

What comfort, if any, can be drawn from this picture?

- First and foremost, we remain firmly of the view that all mergers and acquisitions activity is highly cyclical. It always has been and always will be: only a very brave person would venture to predict otherwise. With activity currently running at around 60% of levels seen a couple of years ago, one might not only wonder at the resilience of principals and advisers involved in the sector, but also realise that they are surely expecting in the long term (maybe more than six months) to

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be in for a strong upswing. It is just a matter of "hanging on in there", as our American cousins would say.

- Talking of which, the global picture – driven of course in part, if not mainly, by the United States – is encouraging as the wider merger and acquisitions statistics testify. Perhaps that is the most reliable lead indicator of things to come.
- And failing that, as I write, the European debt crisis is unfolding. One man's problem is another's opportunity. If the UK stays sufficiently on the edge of (not in) Greek and Spanish troubles, they too will throw up opportunities.
- For ourselves at Corbett Keeling, we are seeing a strong ground-swell of prospective transactions. The difficulty is in getting deals across the line, but the desire to do them is certainly there.
- And debt is increasingly becoming available, as evidenced by the chart showing a decreasing proportion of all equity deals to all deals.
- Lastly, the historic UK buyout statistics that we are reporting on are, of course, preliminary. The final figures for the second quarter on which we are reporting are not yet in, and more deals are still likely to be reported as having finished in the period.

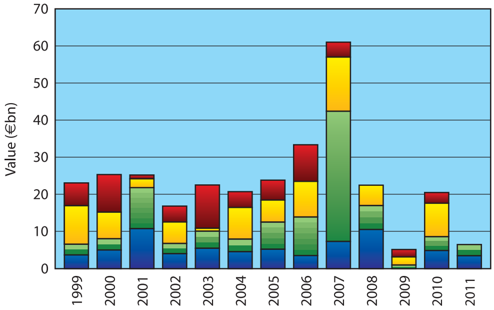
So hold your heads up high, UK private equity practitioners. Whether or not you are among the despondent respondents to the *unquote"* survey, every cloud has a silver lining and, for this one, we believe it is not far away. Yes, the summer may as usual be quiet, but we are looking forward to the next 12-24 months. As the New Testament tells us, the same sun will shine on us all!

Jim Keeling,
Joint Chairman, Corbett Keeling
www.corbettkeeling.com

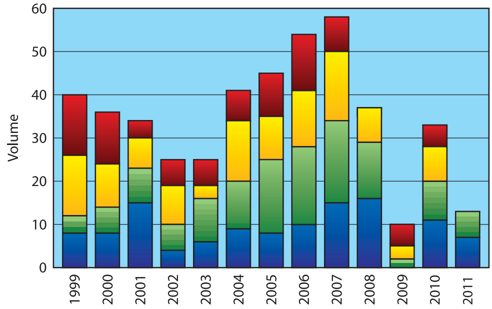
VALUE & VOLUME

Q1 Q2 Q3 Q4

€150m+ Buy-outs by Value



€150m+ Buy-outs by Volume



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- SELLING BUSINESSES

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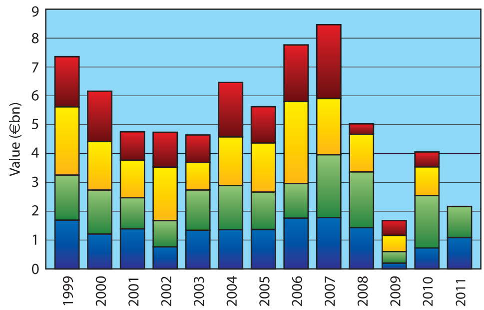
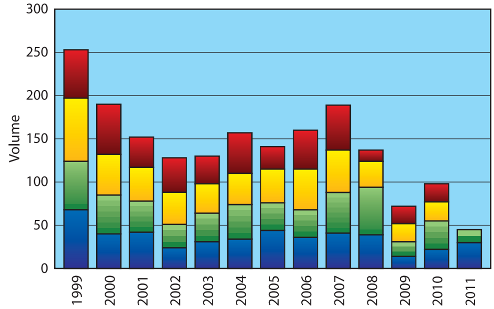
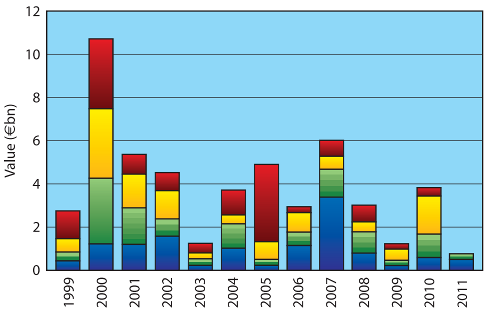
Sub €150m Buy-outs by Value



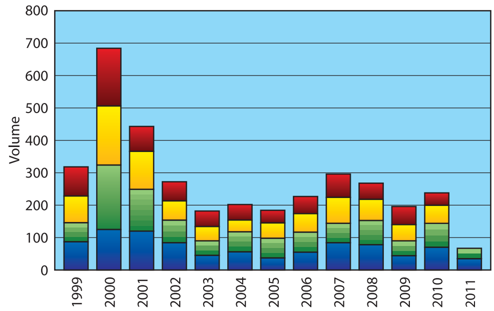
Sub €150m Buy-outs by Volume



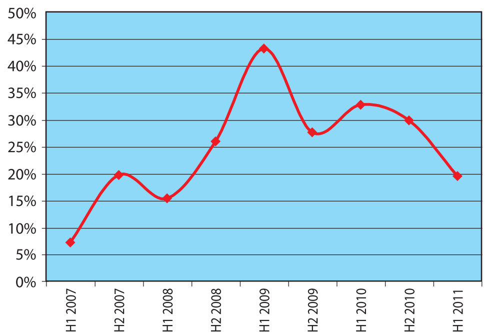
Early-Stage/Expansion Deals by Value



Early-Stage/Expansion Deals by Volume



All Equity Funded Buy-outs to *All* Buy-outs



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.

UK watch period to end of June 2011

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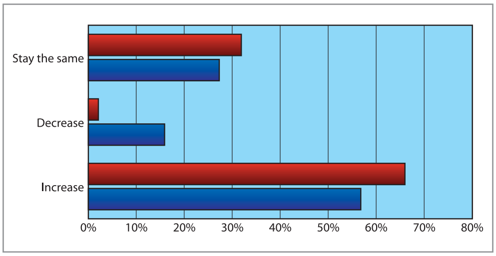
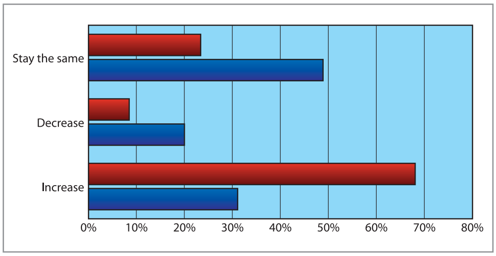
In order to produce these statistics, more than 500 key players in the UK private equity and venture capital markets were surveyed.

Q1 2011 predictions
Q2 2011 predictions

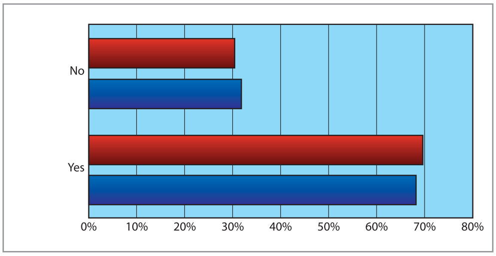
1 Over the next six months do you expect activity levels in the lower mid-market buyout segment (less than €150m) to increase, decrease or stay the same?



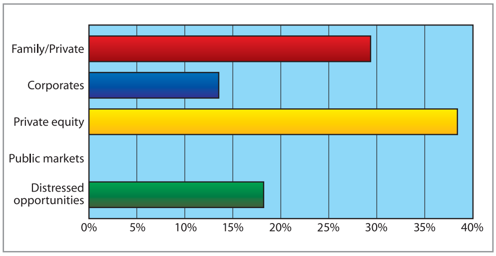
2 Over the next six months do you expect activity levels in the upper mid-market and larger buyout segment (more than €150m) to increase, decrease or stay the same?



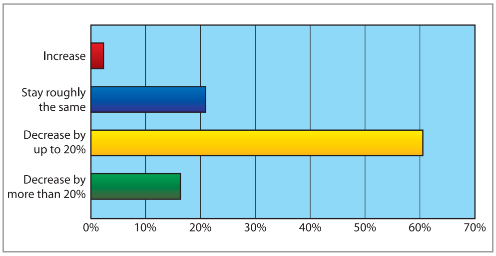
3 Is there sufficient leverage to support primary transactions at the lower end of the market?



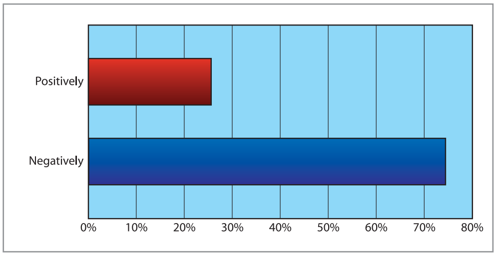
4 Where will the majority of dealflow be sourced from in the next six months?



5 How will the number of GPs operating in the UK change in the next five years?



6 How do you anticipate government spending cuts to affect private equity portfolios?



Corbett Keeling

Corbett Keeling, 13 St Swithin's Lane, London EC4N 8AL, United Kingdom

Telephone: +44 (0)20 7626 6266 Fax: +44 (0)20 7626 7005 www.corbettkeeling.com