

Third quarter 2011 – mixed feelings

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 finds that the market is mixed however you care to measure it – by historic activity, future expectations or deal processes.

The press is full of worry about a renewed, or as some would simply say continued, financial crisis. But what has actually been happening by way of UK private equity investment activity? And, in these uncertain times, what do market participants think will happen in the coming months? As usual, we will look at these questions by reviewing the preliminary data produced by *unquote*™ for the third quarter of 2011.

We start with the historic facts for numbers and values of larger UK buy-outs of more than €150m enterprise value, then UK buy-outs of less than €150m, and finally early-stage and expansion capital deals.

- At the time of writing, only three larger UK buy-outs (€150m or above) had been reported as completed in the third quarter of 2011. Together, they had a total value of €1.7bn. Of course, one or two additional deals may be reported late. That said, the only period with a worse result was the nadir in deal-making at the end of 2008 and the beginning of 2009. The picture is more encouraging for the year-to-date, as the first two quarters were stronger. However, in the light of the current global financial situation, it probably makes more sense to put greater emphasis on the most recent period.
- For smaller UK buy-outs (below €150m), it's a more uplifting story. Whether you look at the statistics for the most recent quarter or the year-to-date, they are a good match for most of the comparative 12 years (even if, not surprisingly, they are some way off the heyday years of 1999-2000 and 2006-07).

The preliminary result for the quarter is 25 deals for an aggregate of slightly over €1bn.

- Unfortunately, UK early-stage and expansion capital deals take after their larger buy-out cousins. The picture is of weak activity, signalling investors' unwillingness either to take risks backing younger businesses or to put fresh money (development capital) behind existing companies. Just 22 transactions have been reported so far this quarter – a quarterly record low since *unquote*'s records began. And the aggregate investment, at €256m, was itself not far off the low for all recorded periods.
- Against this backdrop, the proportion of all equity deals to all deals has levelled out at around 20%. This is maybe not surprising given it had already come down significantly from a peak of 45% in early 2009.

So the picture painted by the historic data is mixed, with the mid-market holding up, helped by a constant supply of gearing, while larger and venture or development capital deals perform weakly. *Unquote*'s survey of market participants also gives mixed signals:

- A large proportion of respondents expect smaller deal activity to remain at recent levels, supported by an adequate supply of bank debt. However, larger deal activity is expected to decline, even from its current low levels.
- Against this backdrop, respondents are, perhaps surprisingly, recruiting to build their teams. Less surprisingly, they believe that higher inflation and the eurozone crisis are having a negative impact.



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What conclusions can we draw, then? In our last quarterly review, we said all mergers and acquisitions activity is highly cyclical, so the current downswing should be expected to lead to a strong upswing. Our regular readers will be pleased to know that we have not changed our tune.

What we are seeing, both in recently completed deals and in the pipeline at our own firm, is the market adapting to the new reality: owners remain nervous of putting their heads above the parapet by starting a sale process; but, as they sense this may remain the case for a while, they are more receptive to one-on-one approaches from buyers. And those buyers with the funds – including many private equity groups – are sensing the same and are consequently more inclined to initiate one-on-one sale processes.

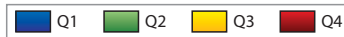
Where buyers do this, they find that sellers are far more prepared to go along with them than in the past, when they might have immediately put their business up for auction. For our part, we have seen many more of these sorts of one-on-one processes in the last few months than in previous years.

So we remain optimistic. As ever, deal-makers will have to adapt, maybe focusing more on the mid-market and being prepared to do deals out of auctions. But, for the fleet of foot, there should be plenty of activity.

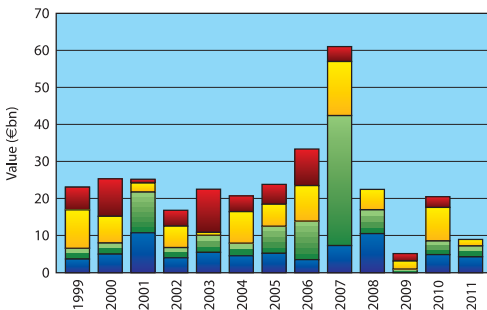


Jim Keeling, Joint Chairman, Corbett Keeling www.corbettkeeling.com

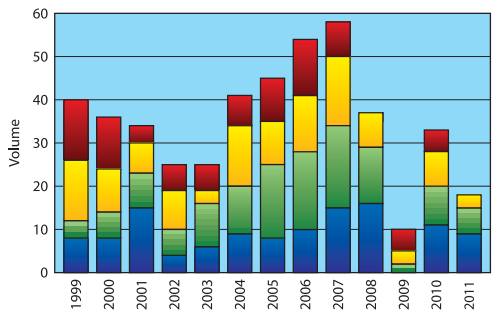
VALUE & VOLUME



€150m+ Buy-outs by Value



€150m+ Buy-outs by Volume



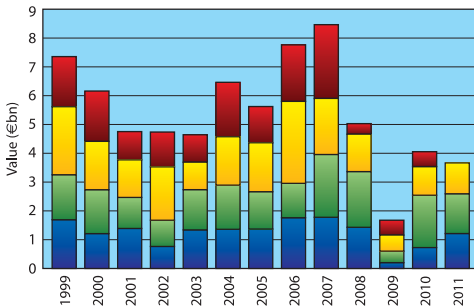


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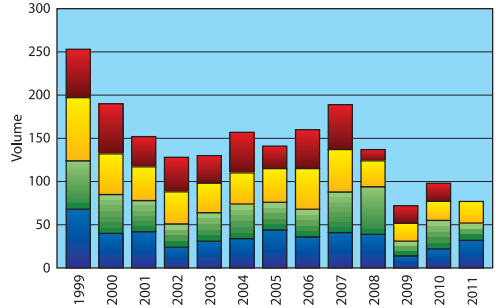
- RAISING FUNDS FOR MANAGEMENT BUY-OUT TEAMS
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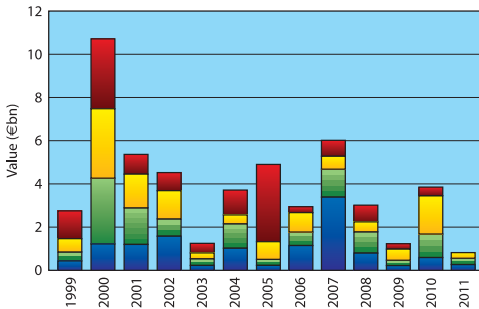
Sub €150m Buy-outs by Value



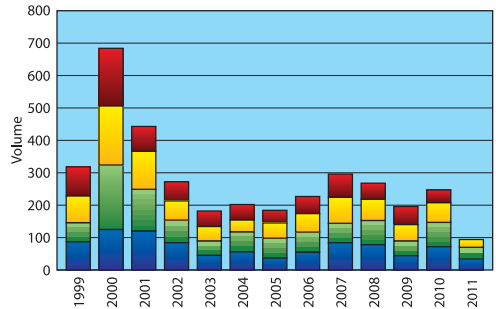
Sub €150m Buy-outs by Volume



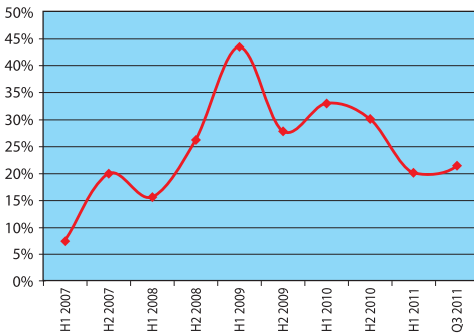
Early-Stage/Expansion Deals by Value



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 September 2011

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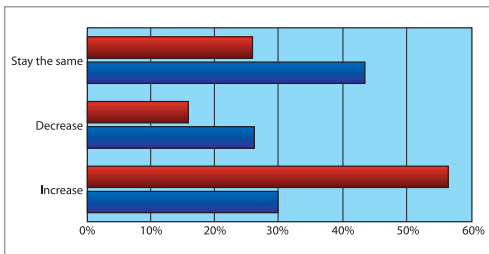
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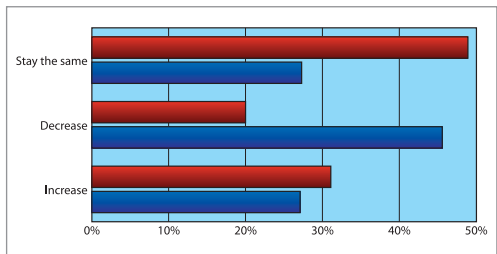
In order to produce these statistics, more than 500 key players in the UK private equity and venture capital markets were surveyed.



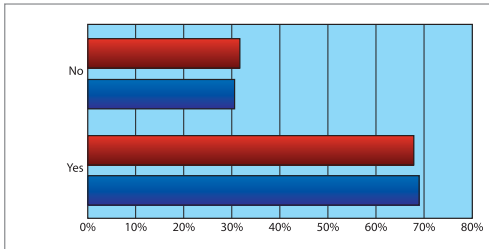
1 Over the next six months do you expect activity levels in the lower mid-market buyout segment (less than €150m) to increase, decrease or stay the same?



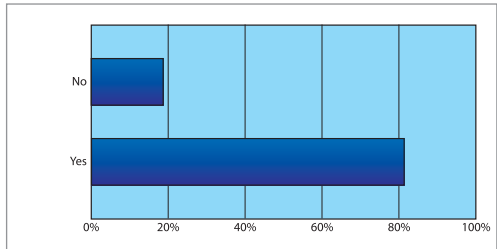
2 Over the next six months do you expect activity levels in the upper mid-market and larger buyout segment (more than €150m) to increase, decrease or stay the same?



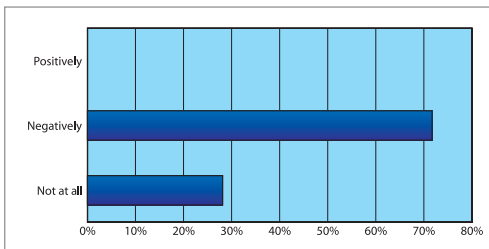
3 Is there sufficient leverage to support primary transactions at the lower end of the market?



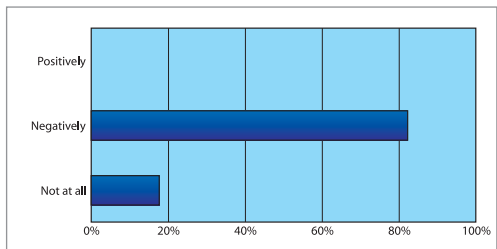
4 Are you looking to expand your team in the next six months?



5 How is higher inflation affecting the prospects of UK private equity portfolio companies?



6 How is the eurozone crisis affecting Euro-exposed businesses?



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