

First quarter 2011 – steady as she goes, with a touch of optimism

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 the market is “steady as she goes” – with perhaps a hint of upside hope mixed in.

Taking a broad view of *unquote*'s buyout statistics for the last ten years, the over-riding feature is the downward step change in activity in the final quarter of 2008. That change has broadly stuck with us ever since.

So the big question for principals looking to execute MBOs, and for their advisers, is whether the market will remain at these lower levels or recover to something nearer the heady heights of the mid-2000s. Or is there a third route – could there even be a further fall?

To assess which seems the more probable outcome, let's look at the facts, starting as usual 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.

- The aggregate number and value of larger UK buyouts (€150m or above) in the quarter just finished – at just four deals completed for a total of €2bn – was by both measures only marginally below the average for the preceding eight quarters. So, on the face of it, the picture here looks steady compared with the downturn period since the end of 2008. It shows no evidence of either an upturn to prior levels or a further downturn.
- It was a similar picture for smaller UK buyouts (below €150m), with 20 deals for a total of €600m. This is again just below the average for the preceding eight quarters, but not so far below as to suggest any material evidence of a

downturn. Indeed, compared with the final quarter of last year, the total value of deals has increased by 30%.

- UK early-stage and expansion capital deals don't present such a reassuring picture. The number of deals, at just 22, is around half the average for the preceding eight quarters, and the total funding of €413m, while stronger than the final quarter of 2010, is about two-thirds of the quarterly average for the whole of calendar years 2009 and 2010.

Alongside these hard facts, it is probably helpful to bear in mind some softer factors.

- In this electronic age, we report deals done sooner after the quarter end than in the past. Inevitably, though, news of some deals completed just before the quarter end may not reach *unquote* until a few weeks later, after we write this summary. This quarter, with volumes and values just below recent averages, any extra deals could easily tip the balance from a marginal fall in activity to a rise.
- Some of the recent budget changes produced a clear incentive to delay deals until after 5th April. For example, the increase in entrepreneurs' relief to £10m produced a potential additional tax saving of £900,000 for an owner-manager selling a business after that date rather than before – a clear incentive to delay some deals that would otherwise have closed around the end of March.

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- Statistics coming in from other regions are also encouraging: for example, mergers and acquisitions activity in the US jumped 84% in the first quarter compared with the same period in 2010, fuelling a rise of 26% in global M&A activity.
- And there is positive news nearer home, too. The Argos Mid-Market Index tracks median EV/EBITDA multiples (the ratio of enterprise values of businesses acquired to their earnings before interest, tax, depreciation and amortisation) on a 12-month rolling basis, and the latest data from Argos showed a 2010 year-end figure of 6.7 times, 15% up on six months earlier.
- Looking forward, *unquote's* survey of deal-makers' expectations suggests sustained (if slightly tempered) optimism about deal activity, with around two-thirds of respondents expecting the number of MBOs to rise. At the same time, there is an increased majority saying

the supply of debt funding is now sufficient to support this deal-making.

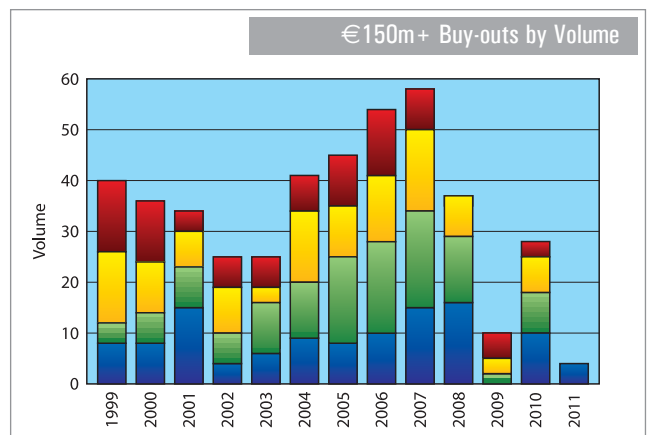
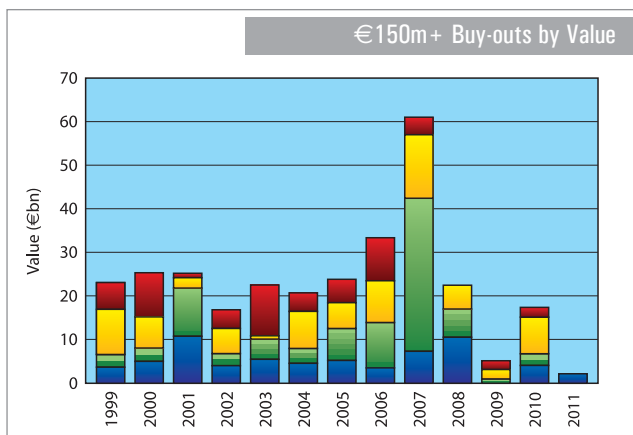
- Finally, there is of course the simple fact that most private equity investors have made far fewer new investments in the past 24 months than they would like. Their funds are mainly fixed life, and so their fund providers are now demanding they put their feet down on their deal-doing accelerators.

To conclude, there is definitely no evidence of a further downturn. At worst, it is "steady as she goes". Perhaps, however, if we look at the broader picture of soft factors, there is a case for optimism, and we should over the coming year expect an upturn towards pre-2009 activity levels.



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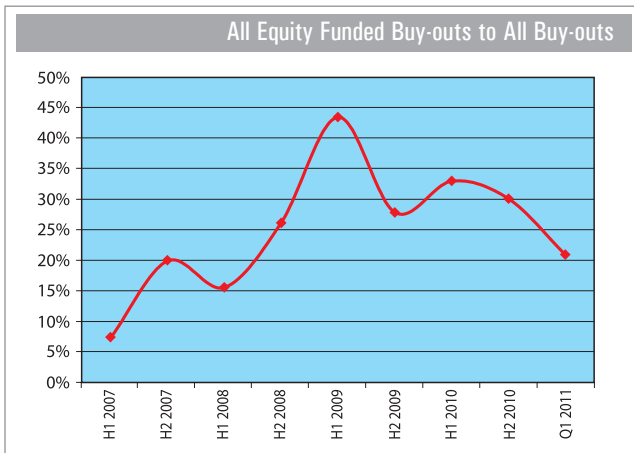
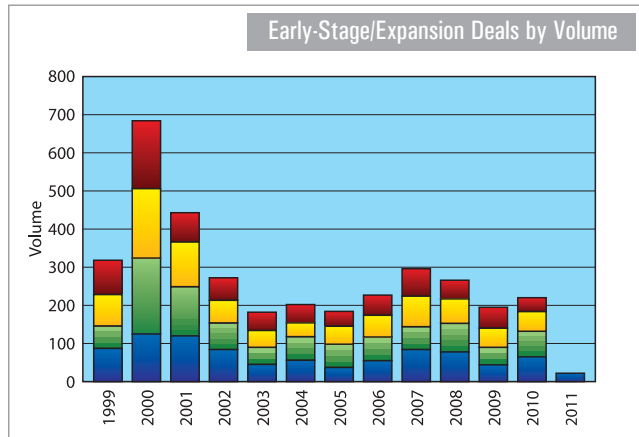
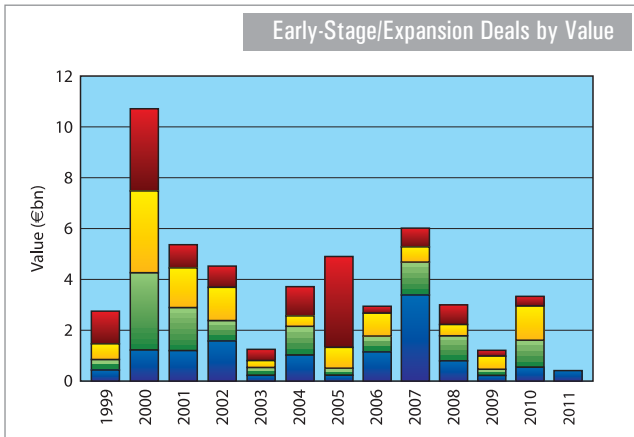
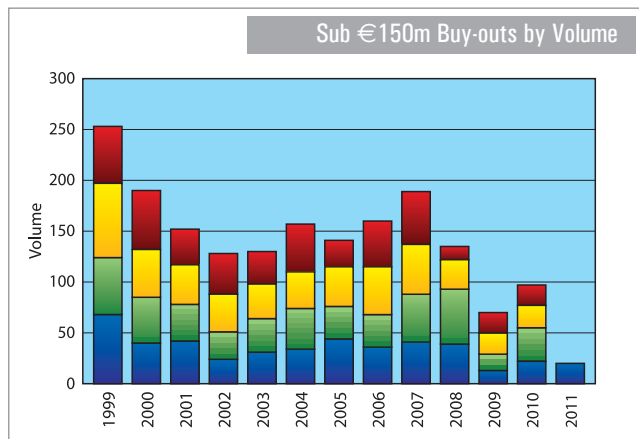
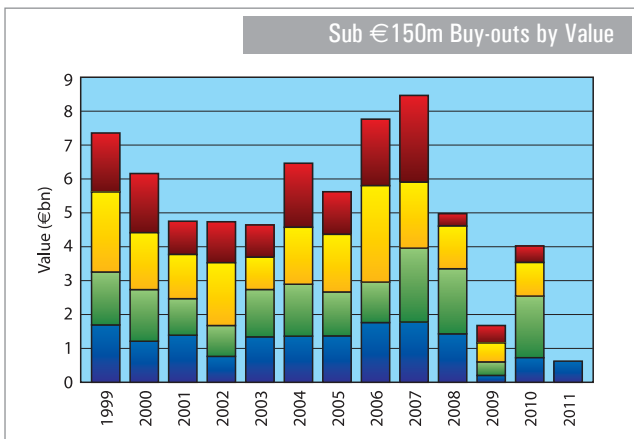


Corbett Keeling is a corporate finance advisory firm focused on the private equity sector. We specialise in:

- RAISING FUNDS FOR MANAGEMENT BUY-OUT TEAMS
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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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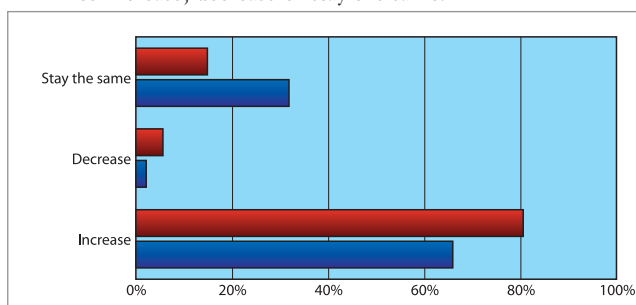
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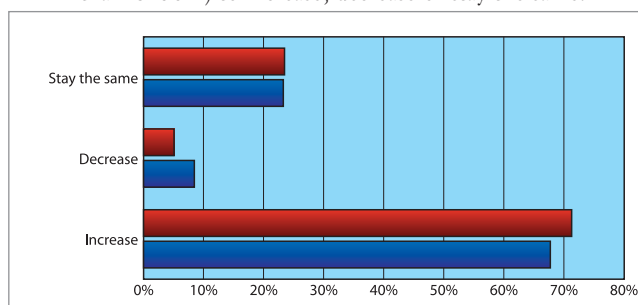
In order to produce these statistics, more than 500 key players in the UK private equity and venture capital markets were surveyed.



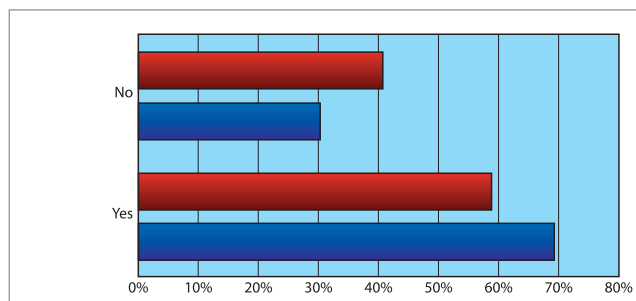
1 Over the next six months do you expect activity levels in the lower mid-market buyout segment (less than €150m) to increase, decrease or stay the same?



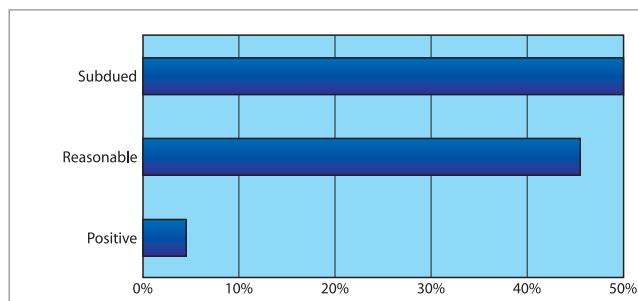
2 Over the next six months do you expect activity levels in the upper mid-market and larger buyout segment (more than €150m) to increase, decrease or stay the same?



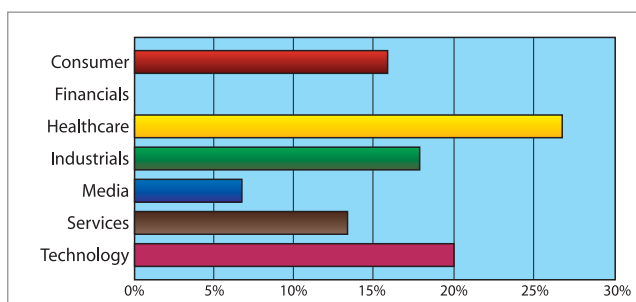
3 Is there sufficient leverage to support primary transactions at the lower end of the market?



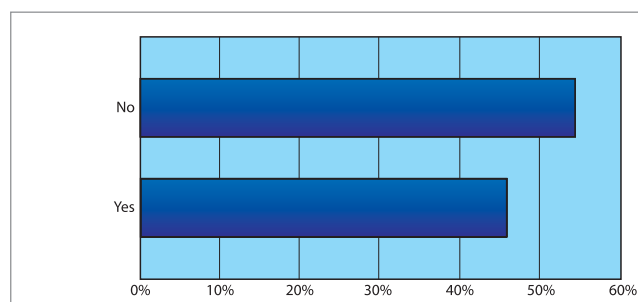
4 How would you describe institutional appetite for UK IPOs?



5 Which will be the "hottest" sector for dealflow in the next six months?



6 Do you expect the Bank of England to increase interest rates during Q2?



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