Total UK private equity buyout value falls by a third in 2011

Lower mid-market buyouts remain strong

The value of all UK private equity buyouts dropped by over a third (36%) to £12.1bn in 2011 according to the latest data published by the Centre for Management Buyout Research (CMBOR), sponsored by Equistone Partners Europe (previously Barclays Private Equity) and Ernst & Young.

Buyouts decreased by a third in 2011 compared to a total value of £18.8bn in 2010, due predominantly to a sharp decline in larger deals. With the exception of 2009, when only £4.8bn worth of buyouts took place in the immediate aftermath of “the crash”, the 2011 total value is the lowest since 1997 (£9.6bn).

Highlights

- The value of private equity buyouts has slowed quarter by quarter during 2011, recording £3.6bn in Q1, £3.0bn in both Q2 and Q3 and reducing further to £2.3bn in Q4.

- The number of deals completed in 2011 decreased only slightly from 183 in 2010 to 176 in 2011, representing a lower average deal value of £68.7m (2010: £102.6m)

- Deal-making in the lower mid-market bolstered the market. Buyouts in the £10m to £100m range numbered 81 with a total value of £2.7bn in 2011, compared to 69 deals with a total value of £2.3bn the previous year.

- The level of private equity buyouts was healthy compared to an overall sluggish M&A market – private equity accounted for nearly two thirds (64%) of the total value of overall M&A activity (source: ONS) in the first three quarters of 2011*. This is a similar proportion to the peak of the private equity buyout market in 2007 when private equity comprised 62% of overall M&A activity.

- Private equity investors remained active in realising investments, showing a slight increase in the number of exits in 2011 with 151 deals compared to 142 the previous year. However, the total value of exits declined by 24% in 2011, recording a total value of £8.5bn compared to £11.2bn in 2010.

- Secondary transactions continue to dominate the UK buyout market with 57 such deals recorded in 2011 compared to 49 in 2010. The total value of secondary buyouts was £5.4bn, representing nearly half (45%) of the total market, a similar proportion to 2010 when a total of £8.6bn was recorded (46% of the total value).

- More debt is being used in UK buyouts with a typical deal structure for deals over £50m containing 42% debt compared to 36% in 2010 and 37% in 2009.

* Office of National Statistics data is available up to Q3 2011 only. All other data cited for 2011 refers to the full year.

1 – CMBOR / Equistone Partners Europe/Ernst & Young UK buyout data full year 2011
Christiian Marriott, Director at Equistone Partners Europe commented:

“Despite a severe weakening of confidence in the markets and Eurozone uncertainties, the private equity buyout market in the UK remained fairly resilient in 2011 following a marked resurgence of deal activity in 2010.

“Deal making conditions remain competitive but it is encouraging that there is still the ability to raise debt for sensible transactions. Private equity firms are showing that they are open for business as usual with a healthy level of exit activity, particularly to international trade buyers, and a good pipeline of deals expected for 2012.”

Sachin Date, EMEIA Private Equity Leader at Ernst & Young said:

“The UK buyout market hasn’t held up as well as some of its European neighbours in 2011, particularly France and Sweden both of which saw increases from 2010 values. Deals have been taking longer to complete and for private equity firms financing has been difficult to obtain, impacting the volume of deals.

“However, while the market has been subdued, we must remember that total deal value in 2011 is more than double compared with the trough of 2009 and average deal size is 74% higher than 2009. Looking forward, the pipeline of deals in the first half of 2012 is showing some signs of recovery with a few high-value deals pending completion suggesting there is still confidence in the industry.”

Exit market active in the UK

- In 2010 the exit market in the UK made a strong recovery reaching a total deal value of £11.5bn from 142 exit transactions. The number of exit transactions increased to 151 in 2011 with a combined value of £8.5bn.

- Private equity-backed listings on the public markets have been non-existent in 2011, with only two taking place in Q2 2010. There were 54 secondary exits and 54 trade sales completed in 2011. This compares to 43 sales to creditors.

- The most active quarter for exits was Q2 with a combined value of £4.2bn across 45 transactions. These included the £677m secondary buyout of Phones4u, and the £585m sale of oil services company PSN.

Value of buyouts from overseas owners doubles

- More private equity investors are buying assets from overseas owners. In 2011, the value of private equity-backed buyouts from foreign companies in the UK totalled £1bn, nearly double the total value of foreign parent deals in 2010 (£520m).

Decline in larger deals

- The upper mid-market (£100m to £500m range) declined by 40%, with £4.5bn total value in 2011 compared to £7.4bn in 2010. This is in contrast with the lower mid-market (£10m to £100m) which showed a 17% increase from £2.3bn in 2010 to £2.7bn in 2011.
• The number of large buyouts (over £500m) more than doubled in 2010, with seven deals completed at a total value of £8.9bn compared to two deals in 2009 totalling £1.8bn. In 2011, there have been six deals in this value bracket totalling £4.6bn, including the buyout of RAC for £1bn in September 2011 and the buyout of the Priory Group for £925m in March.

• A number of large deals are in the pipeline for 2012, including the possible buyouts of GlaxoSmithKline’s consumer pharmaceutical assets and RBS Insurance.

**Business and support sector dominates**

• The business and support services sector was the largest sector for buyouts with a combined value of £2.5bn, accounting for 20% of the total value of UK buyouts in 2011 (£12.1bn). Business and support services also saw a high volume of deal flow in 2011 with 37 deals reported, including the £586m sale of Environmental Resources Management (ERM) by Bridgepoint to Charterhouse Capital Partners.

• Manufacturing had a combined value of only £950m in 2011 compared to just over £5bn recorded in 2010 which was predominantly due to the £2.9bn buyout of Tomkins in September 2010. However, the manufacturing sector saw the highest volume of deal flow with 39 transactions completed, accounting for almost a quarter of all deals.

• Following an active year for buyouts in the retail sector in 2010 with a total value of £2.8bn, 2011 was more subdued with only £1.2bn recorded. This includes the £677m buyout of Phones4U in April, indicating a marked slowdown for the rest of the sector.

• Despite a drop in the volume of transactions in the sector in the UK (14 deals in 2010, reducing to nine deals in 2011), the value of healthcare deals in 2011 reached a total of £1.8bn compared to £1.6bn in 2010 and just £450m in 2009. However, the high value of healthcare sector transactions in 2011 was skewed by the sale of Priory Group for £925m in March.

**London loses dominance; increased deal flow in North**

• The total value of deals in London decreased in 2011 falling to £4.6bn from £9.8bn in 2010. By volume, there were 36 transactions completed in London in 2011 compared to 45 in 2011.

• Private equity buyouts in the West Midlands region have increased in value by 35% to £1.1bn in 2011 from £801m in 2010 and up 1123% from just £88m in 2009. Private equity deals completed in the West Midlands in 2011 include the £677m secondary buyout of Phones4u in April and the £146m local divestment of Pattonair in July.

• Deal flow in the North of England increased by both volume and value in 2011. In the North East, deal flow more than doubled in value from £83.4m to £280.8m, largely due to the buyout of Aesica Pharmaceuticals for £200m in November. At the end of 2011, deal flow in the North West was up by 44% by volume from 18 deals in 2010 to 26 in 2011.

- Ends -
Fig. 1: Number and Value by Quarter

Source: cmbor/Equistone Partners Europe/Ernst & Young

Fig. 2: UK Buy-outs as a percentage of UK M&A

Source: cmbor/Equistone Partners Europe/Ernst & Young  Year 2011 figures are for first 9 months only
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**Notes to editors**

**About CMBOR**

- The Centre for Management Buy-out Research (CMBOR) was founded at Nottingham University Business School in 1986 and has been sponsored by Equistone since its establishment. It is now based at Imperial College London and celebrated its 25th anniversary in 2011.
- CMBOR is world-renowned as the long-standing leader in providing robust analysis of the buy-out market.
- CMBOR data covers all buyout activity and therefore includes transactions funded on a cash or debt-only basis as well as traditional private equity-funded buyouts.
- CMBOR only uses completed deals to calculate its data. Any pending deals at the end of each quarter are carried over to the following quarter.

**About Equistone Partners Europe**
Equistone Partners Europe is an independent investment firm owned and managed by the former executives of Barclays Private Equity

Equistone acquired the management company of Barclays Private Equity from Barclays Capital, the investment banking division of Barclays Bank PLC, in November 2011

The Company is one of Europe’s leading investors in mid-market buyouts with a successful track record spanning over 30 years, with more than 350 transactions completed in this period

Equistone has a strong focus on change of ownership deals and aims to invest between €25m and €125m of equity in businesses with enterprise values of between €50m and €300m

The Company has a team of 33 investment professionals operating across France, Germany, Switzerland and the UK, investing as a strategic partner alongside management teams

The three country teams operate with a high degree of autonomy to source and manage investments, leveraging their European franchise but as local participants

For further information, please visit www.equistonepe.com