Definitive statistics and analysis on buy-out exits
Welcome to the first Exit, the new report which provides definitive statistics and analysis on buy-out exits. The data is compiled by the Centre for Management Buy-out Research with analysis and commentary provided by its sponsors, Deloitte & Touche and Barclays Private Equity.

Exit volume in 2001 at lowest level since 1995

2001 was a difficult year for exits, with volume at its lowest level since 1995, as the general slump in M&A activity significantly impacted on the sell side of the private equity market.

Trade sales in 2001 down 33%

Trade sales were 33% down on the previous year with just 92 recorded, largely due to the general economic uncertainty and resultant lack of earnings visibility. This environment made most potential buyers considerably more cautious about pursuiting acquisitions and, in any case, many businesses were completely distracted by their own performance issues.

Buy-outs as percentage of stockmarket listings have continued to fall

With stockmarket conditions difficult, flotations were at an all time low. Buy-outs as percentage of all stockmarket listings have fallen heavily in the last few years, from a high point of 19.3% in 1993 to a mere 2.4% in 2001.

Secondary buy-outs increased

With other exit routes closed, secondary buy-outs as a proportion of all exits increased slightly on 2000. Private equity houses have become increasingly willing to buy from and sell to each other as the opportunities for alternative exits and indeed new deals prove limited in the short term. The proven track record of the incumbent management within the leveraged environment is a particular attraction to the incoming private equity house.

Receiverships at highest level since 1992

Receiverships were at their highest level since 1992, a symptom of the economic conditions in 2001 and the effect on corporate profitability. The number of buy-out failures has now risen for four successive years.

2002 has offered little let up in exit difficulties

So far this year there has been little let up in exit difficulties, with only 130 recorded in the first half of 2002, against 242 for the whole of 2001. Within this figure receiverships have provided the largest source of all exits. Flotations of former buy-outs saw a flurry of activity, with the same number of buy-out listings recorded in the first six months as there were last year in total – nine to date. The momentum has slowed, however, as renewed stockmarket volatility and the postponed IPOs of Yell and Focus have sapped already fragile confidence.

Secondary buy-outs continue to grow in 2002

Secondary buy-outs are continuing to prove a more viable exit channel with 33 such deals recorded in the first half of this year compared to 36 for the whole of 2001. Secondary buy-outs are now almost on a par with trade sales, only 37 trade sales have been recorded to date in 2002, making it unlikely that the 2001 total of 92 will be reached by the year-end.

UK Buy-out/Buy-in Exits

![Graph]

Source: CMBOR/Barclays Private Equity/Deloitte & Touche  * Year 2002 figures are for first 6 months only
Despite the dip in the volume of exits, the dramatic increase in the size of private equity deals over the last few years means that total exit value has held up in recent years. However, since 1996, exit value has fallen increasingly short of new deal value. The recent exit conditions mean that the gap does not appear to be closing and the backlog of exits is building.

The typically quoted VC exit horizon tends to be within the three to five year range but the CMBOR figures show that less than a quarter of three and four year old deals have exited. As we might expect the number of deals exiting within two and three years of entry is low. Thereafter it climbs reasonably steadily. The figures also suggest there is a 'rump' of unexited deals completed prior to 1990 representing c.50% of deals done in that period which remain in VC portfolios. It is likely that a proportion of these relate to debt-only deals or transactions where the VC has a minority stake with a reasonable running yield but little control over the exit. Such investments have been less common over recent years.

The average time to exit has increased steadily over the last few years. In 2001, the average life span of an investment was just over five years, compared with three years back in 1982. The time to exit is set to increase further as a result of the backlog of investments awaiting realisation. Last year, the type of exit had little bearing on the time frame. This contrasts to the mid 90s when investments realised by secondary buyouts had the longest duration, perhaps reflecting that this exit route used to be more of a last resort but is now being considered sooner.

The table also provides data on the last major downturn in the early 90s, showing that deals done in the period 1988 to 1990 suffered a high failure rate. During the present downturn we have not seen such a pattern emerge although it is still early days. However, this downturn has so far been a less severe one and the interest rate environment has been much more benign so it is reasonable to hope that the failure rate will not reach 20% this time around.

Private equity market continues to look for exit solutions as difficult market conditions continue

The economic uncertainty over the last year or so has caused a cyclical downturn in buy-out exits. A continuing drought is likely to cause mounting pressure on the private equity market generally, but most particularly on those players who need to deliver some strong realisations from their portfolio to support their fund raising. Whilst there is undoubtedly a backlog of planned flotations and trade sales, there also remains a substantial population of older investments which, whilst apparently performing satisfactorily, do not seem to have clear exit strategies. The private equity market is increasingly looking for solutions and we expect to see a further rise in secondary buy-outs, the secondary market, refinancings and similar transactions in response.
The Centre for Management Buy-out Research was founded by Barclays Private Equity Limited and Deloitte & Touche in March 1986 to monitor and analyse management buy-outs in a comprehensive and objective way. It has developed a wide-ranging and detailed database which provides the only complete set of statistics on management buy-outs and buy-ins in the UK and continental Europe.

The Centre is part of Nottingham University Business School.