Exit market in freefall
Could 2010 see a revival?

- Exits back to mid-1990s levels
- IPO market remains closed for buy-outs
- Average time to exit climbs to a record high
- Exits into receivership are up
Exit market in freefall
Could 2010 see a revival?

The global economic crisis has severely impacted on the number of UK buy-out exits in 2009, with the number of exits in the first three quarters of 2009 reaching only 186 – a disappointing fall of 30 per cent from the 263 in the same period in 2008, which in turn was well below the nine month total of 323 achieved in 2007.

Analysis of the figures would suggest a projected total of 248 by the end of the year, suggesting that exits have hit their lowest level since 1995 when exits numbered 245. By value, exits are at their lowest since 1991 when total exit value crept up to a mere £463 million. The total exit value for the first nine months of 2009 was only just over £1.3 billion. This is considerably lower than the £9.9 billion full year figure for 2008 and the record £27.2 billion recorded at the end of 2006.

By the end of the third quarter of 2009 the total number of exits has inched up to 186, still only just higher than the 178 exits seen in 1991. The average value of exits remained low in the third quarter, reaching only £4.4 million – lower than the overall average value for the first nine months of 2009, which was £7.2 million.

The figures for the first three quarters of 2009 reflect the overall malaise in the private equity market, where deal flow has fallen to levels last seen in the 1980s. Although there are some indications of our economic recovery, for the private equity industry a sustained run of successful exits looks unlikely any time soon.
Trade sale value at 18-year low

The number of trade sales in 2009 is down by 63 per cent on the 2008 figure and by over 75 per cent on the record 167 in 2007. This is the lowest number of trade sales since 1991 (38).

The average value of the 42 trade sales that have taken place in the first nine months of 2009 has been only £9m, the lowest in 15 years. This, together with the low number of exits by trade sale, has pushed the total exit value achieved through trade sales to £383 million in 2009. This is less than 10 per cent of the total value achieved through trade sales in 2008, and is also the lowest total value since the 1991 figure of £232 million.

This exit value was buoyed somewhat by the deal which saw Racal Acoustics sold to Esterline Technologies for £115m in what was the third largest exit of 2009.

Secondary buy-outs dominate the declining market

Despite a massive overall fall in secondary buy-out activity, this type of exit has continued to dominate total buy-out exit value, constituting more than two thirds of the total value of just over £1 billion. The principle exits in this category were Wood Mackenzie, Viking Moorings and Countrywide, which were valued at £553 million, £170 million and £75 million respectively.

The relatively high value of these exits, which are three of the largest that have taken place in the first nine months of 2009, shows that secondaries are still a viable exit option in the absence of trade buyers and IPOs, even though the leverage available for buyers has decreased.

IPO market remains closed for buy-out

Buy-out IPOs have been a relatively small part of the number of buy-out exits for some time, but have now dried up completely. The third quarter of 2009 was the seventh straight quarter to see no IPOs of former buy-outs, something that reflects the volatile stock market conditions in the past two years.
Exits into receivership are up

Unsurprisingly, given the current economic climate, 125 of all of the 186 exits from buy-out that have taken place thus far in 2009 were into receivership – 67 per cent. This number looks as if it will easily surpass the 147 exits into receivership that took place in 2008 by the end of the year. The buy-outs involved will come from a range of vintage years, stretching back into the 1990s. However the majority of exits into receivership have been predominantly at the bottom end of the market, mainly coming from sub-£10 million deals.

Only 41 of the 125 exits into receivership have been businesses which were private equity backed, a lower proportion than there were in the last two downturns in the early nineties and at the beginning of this decade.

Average time to exit climbs to a record high

Unsurprisingly, given the unfavourable exit environment at present, the average time taken to exit for UK buy-outs has continued to increase during the first three quarters of 2009, and has now reached its highest level since records began in 1985.

The average time to exit climbed from 67 months in 2007 to 69 months in 2008 and now reached its highest level since records began in 1985. The average time to exit climbed from 67 months in 2007 to 69 months in 2008 and 73 months to date in 2009.