Definitive statistics and analysis on buy-out exits
Welcome to Exit, the 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, Barclays Private Equity and Deloitte.

With continued economic uncertainty bringing about a generally lower level of investment into the buy-out market, buy-out exits in the UK also remain problematic. The private equity backlog of investment continues to grow and private equity houses remain under pressure to achieve successful realisations from their portfolios, particularly those looking to raise new funds. Trade sales have become increasingly difficult over the past three years and whilst the stock market has rallied from earlier lows the negative sentiment surrounding the quoted sector has so far meant that buy-out floats remain at relatively low levels. Private equity participants have therefore continued to turn to secondary buy-outs to fill the gap left by the dearth of trade buyers and the weak IPO market.

Trade sales still relatively scarce
In general trade sale exits were low in the early 1990s but as the buy-out market matured the number of trade sales increased, rising to over 100 per year in the mid 1990s before peaking at 136 in 2000. The excesses of the late 1990s and the gloomier economic outlook over the past three years has brought a sharp fall in the number of trade sale exits with the first six months of 2003 only recording 28. This latest figure compares to 79 such exits in 2002 and 95 in 2001.

Flotations again slow in 2003
Last year the number of flotations almost doubled with 11 completed although virtually all were confined to the early part of the summer. Indeed, only one flotation was recorded in the second half of 2002. This slowdown has continued in 2003 with only two IPOs in the first six months. Nevertheless, Yell Group got away successfully at the start of the second half and is now a component of the FT-SE 100 Index.

Receivership numbers flatten out
The high level of receiverships remained a cause for concern in 2002 but over four fifths of these were for deals below £10m, with only one receivership recorded for a deal worth more than £100m. The same pattern has emerged this year with a high level of receiverships recorded but again the vast majority had initial values of below £10m.

Secondary buy-outs hit record high
One brighter aspect of the exit market has been the increased level of activity in the secondary buy-out market. A record number of secondary buy-outs were completed in 2002, totalling £4.4bn against just £1bn in 2001. In the first half of 2003 secondary buy-outs have remained strong and are now on a par with trade sales in volume, again with many of the year's largest exits being in the form of secondary deals.

Although secondary buy-outs are only a partial solution to exit difficulties, they have provided private equity houses with a welcome degree of liquidity. For private equity vendors, these deals have the advantage of a 100 per cent cash consideration compared with an IPO where there is usually an element of value locked in post flotation. Secondary buy-outs are also a useful means of resolving different objectives of shareholders, where management may wish to continue as shareholders for a longer period than the original private equity backers.

UK Buy-out/Buy-in Exits

Source: CMBOR/Barclays Private Equity/Deloitte. Year 2003 figures are for first 6 months only.
Exit Numbers and Exit Values 1985 – 2003

Exit numbers steadily increased in line with buy-out market activity from 1985 to 1996, since when exits have reached a plateau. Encouragingly last year the total value of exits rose, skewed by a surge in mega deal exits. However, the first half of 2003 has experienced a slowdown, with exit value for the first six months standing at only a third of last year’s total.

Total Deal Value and Total Exit Value 1985 – 2003

Prior to 2002, exit values had fallen increasingly short of new deal values since 1996, although the gap between exit value and new deal value closed considerably in 2002. The data suggests that over the last five years, private equity houses have been net buyers – with a backlog of unexited investments now building up.

Average Time to Exit for UK Buy-outs/Buy-ins by Exit Year and Type

The average time to exit has increased steadily over recent years. In 2001, the average lifetime of a buy-out was just over five years, compared to 3.5 years at the start of the 1990s. The current difficulties in finding trade buyers and inability to exit via flotation has increased the backlog of investments awaiting realisation, with the average time to exit in 2003 approaching 70 months. Buy-outs exiting via secondary buy-outs have experienced a significant rise in the average holding period with an increase in 2003 to almost seven years on average. Although trade sales have reduced in number in recent years the average holding period has remained relatively stable at between four and five years.

Percentage of UK Buy-outs/Buy-ins that have exited by Value Range/Vintage Year

The typically quoted private equity exit target is three to five years but the CMBOR data shows a substantial population of older investments that do not appear to have a clear exit strategy. As would be expected, the number of deals exiting within two to three years of entry is relatively low, with the percentage of exited deals increasing thereafter.

Exit values increase in 2002 despite lack of trade buyers

Gap between deal value and exit value closed during 2002

Average time to exit continues to lengthen

Exit timescales determined by deal size

in many of these deals the private equity house would have taken a minority stake with a reasonable running yield but little control over the exit. The number of £10m plus deals which exited nearly doubled in 2002, contrasting with new deal activity, which saw a large decline in the number of transactions in that deal range. The largest exit of 2002 was the £2bn secondary buy-out of Bass Pubs/Voyager Pub Group. High value secondary buy-out exits have again dominated in 2003 with the largest being the bingo club and casino operator Gala Group, which was sold for £1.2bn.
The Centre for Management Buy-out Research was founded by Barclays Private Equity Limited and Deloitte 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.