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.

Buy-out exit market remains challenging throughout 2003

Although the total value of the UK buy-out market climbed higher last year, ending two years of decline, the climate for exits remained difficult. With trade sales again falling and stock market flotations also decreasing it was once more left to the secondary buy-out market to fill the exit gap. Secondary deals also accounted for some of the largest exits in 2003 with 11 valued at £50m or more. Given the reasonably healthy economic outlook and relatively benign stock market conditions there may be a gradual return of confidence in the M&A market in general. It is anticipated that this in turn should feed through to create an improved environment for buy-out realisations in the form of trade sales and IPOs during 2004.

Trade sales continue to slow

Trade sales peaked at 138 in 2000, after rising steadily from the early 1990s. Since then trade buyers have been relatively scarce and there has been a consistent decline in this type of exit over the past three years. Consequently last year’s total fell to below half of the 2000 figure, with just 66 trade sale exits undertaken during 2003.

Buy-out flotations yet to exploit stock market gains

Despite a relatively strong year for the UK stock market, the added confidence which returned to the listed sector did not filter through to buy-out market flotations in 2003. Nevertheless the year did see some notable large scale flotations, including the IPO of telephone directories business Yell Group in July, with a market capitalisation of £2bn at the time of flotation. The number of IPOs of former buy-outs ended the year at just eight, after 11 in 2002. This is in stark contrast to buy-out flotations in the mid 1990s when a record 48 joined the market in 1996 with a further 32 buy-outs gaining a listing in 1997. The latest figures may bring into question the viability of a stock market listing for many companies, especially for those operating in less fashionable sectors. The latest London Stock Exchange data shows that...

UK Buy-Out/Buy-In Exits

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considerably fewer UK companies now have their shares traded on the main London market. Since 1998 there has been a fall in listed companies from over 2000 to just 1557 by the end of last year. Interestingly there have been 205 public to private buy-outs but only 66 buy-out flotations during this period.

Some positive encouragement as receivership numbers fall
Buy-out receiverships were less prevalent last year with a fall of 15 per cent on the previous year’s total. The latest figure comes after a three year run of increased buy-out failures with the number rising from 85 in 1999 to reach a peak of 121 in 2002. Many receiverships in the buy-out market derive from smaller companies with 86 per cent of failures coming from companies which initially had a buy-out value below £10m.

Secondary buy-outs continue to fill trade sale gap
After reaching a record level in 2002, secondary buy-outs continued to provide an alternative means by which private equity providers could release some of their invested capital. This was especially the case for the larger buy-out sector, with six of the largest 10 non-float exits being secondary buy-outs last year. One of the six was Gala Group, the casino and bingo club operator, which ended 2003 as the second largest exit following a £1.2bn secondary buy-out. The total number of secondary buy-outs came close to overtaking trade sales, with the 63 secondary exits completed last year being just three short of the trade sale total.
Having risen continuously from 1985 to 1995, buy-out exit numbers levelled off towards the end of the 1990s. Since then non-receivership exits have declined markedly. The value of buy-out exits also increased sharply from the 1980s hitting a record £10.8bn in 2002. The total for 2003 however shows a fall in exit value by more than a fifth from this record figure.

Lack of trade buyers sees exit values decrease in 2003

Source: CMBOR/Barclays Private Equity/Deloitte.
Total Deal Value and Total Exit Value 1985 – 2003

From 1990 to 1996 total exit value and total buy-out value were relatively evenly matched. The years 1996 to 2000 saw a large annual increase in the amount of buy-out capital invested. As a result, although exit value has generally followed an upward trend, there has been a significant divergence between exit value and new deal value. The last few years have however seen a fall in buy-out value, which has brought these totals closer together. The data suggests that over recent years private equity houses have been net buyers – with a build up of unexited investments.

Gap between deal value and exit value has been smaller over last two years

Source: CMBOR/Barclays Private Equity/Deloitte.
The average life span of a buy-out has gradually increased since the beginning of the 1990s. In 2001, the average time to exit was just over five years, compared to 3.5 years at the start of the 1990s. The current shortage of trade buyers and difficult stock market conditions have resulted in a rise in the number of investments awaiting realisation. The overall average time to exit in 2003 was just under 70 months with secondary buy-outs having the highest average at 84 months. Difficulties in finding trade buyers has meant that the average time to exit for trade sales has increased to 5.5 years with flotation exits only marginally quicker.
Although private equity providers generally target a three to five year life span when considering a buy-out, the CMBOR data shows that there are still a substantial amount of older investments which have yet to exit. There is considerable disparity in exit prospects depending on the size of the original deal, with larger buy-outs showing a greater propensity to exit than smaller deals. Buy-outs over £100m have the best track record with over two thirds of the £100m plus investments made in 1997 now realised, compared with half of the £10-100m deals and only a quarter of the sub £10m deals. There remains a rump of unexited mid-market and small deals undertaken prior to 1997 within private equity portfolios. The total value of unrealised equity in portfolios is now estimated at £10.2bn, although a significant number of unexited investments reflect characteristics of deals of the early 1990s. In this period it is likely that 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.

### Percentage of UK Buy-Outs/Buy-Ins that have exited by Value Range/Vintage Year

![Graph showing percentage of UK buy-outs/buy-ins exited over time by value range.]

Source: CMBOR/Barclays Private Equity/Deloitte.
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.

Barclays Private Equity
Contact: Tom Lamb
5 The North Colonnade
Canary Wharf
London E14 4BB
Telephone: +44 (0)20 7512 9900
Facsimile: +44 (0)20 7773 4805
www.barclays-private-equity.com

The Centre for Management Buy-out Research
Contact: Andrew Burrow
Nottingham University Business School
Jubilee Campus, Wollaton Road
University of Nottingham, Nottingham NG8 1BB
Telephone: +44 (0)115 951 5493
Facsimile: +44 (0)115 951 5204
www.cmbor.org

Deloitte
Contact: Mark Pacitti
Deloitte
180 Strand
London WC2R 1BL
Telephone: +44 (0)20 7303 5871
Facsimile: +44 (0)20 7007 2354
www.deloitte.co.uk