Definitive statistics and analysis on buy-out exits
Welcome

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.

Exits ignite UK buy-out market in first half of 2004

After some difficulties in recent years the first half of 2004 has brought a substantial improvement to the buy-out exit market. With a healthy economic outlook and relatively good stock market conditions there are signs of a return of confidence to the M&A market in general. As anticipated this has created an improved environment for buy-out exits in 2004. Although secondary buy-outs have still provided a high proportion of private equity realisations this year, there have also been some large scale trade sales. Furthermore, after a slow start to the year, flotations took off in the second quarter with more new listings during this period than in the whole of 2003. This increased activity, especially for larger exits, has resulted in a total exit value of £8.5bn for the first six months of 2004, almost matching the £8.8bn total recorded for the whole of 2003. The latest six month exit value is the highest ever six month total and is actually higher than the total value of new buy-outs this year, which reached £7.8bn by the end of June.

Trade sale numbers improve but still matched by secondary buy-outs

Trade sales have proved difficult in recent years with only 67 recorded in 2003, less than half of the total from 2000. There has been a slight revival in buy-out exits via trade sale this year with 38 recorded in the first six months. No fewer than eight of these have had an exit value greater than £100m.

Buy-out IPOs spring back to life following improved stock market performance

Adding to the generally more positive exit environment this year has been the return of the buy-out IPO. Despite a relatively strong year for the UK stock market in 2003 there were just nine floats. After a slow start with just one buy-out exit via IPO in the first quarter of 2004, the buy-out market has seen a raft of new listings in the second quarter, with 11 buy-out flotations as Halfords led the way in value terms, entering the market in June at a market capitalisation of £593m.

Number of buy-out failures appears to have peaked

Although the majority of receiverships in the buy-out market are smaller companies, with 86 per cent of failures coming from companies which initially had a buy-out value below £10m, the increasing failure rate in recent years had raised concerns. However, following three years of rising numbers, buy-out failures were less prevalent in 2003 with the total number falling by 12 per cent to 107. In 2004 this more positive trend has continued with the number of buy-outs ending in receivership during the first six months falling to 49.

Secondary buy-outs remain buoyant

After reaching a record level of 65 in 2002 secondary buy-outs continued at this rate in 2003, providing alternative means for private equity providers to release some of their invested capital. The total number of secondary buy-outs came close to overtaking trade sales in 2003, with the 63 secondary exits completed being just four short of the trade sale total. The first half of 2004 has continued in this vein with a further increase in the rate of secondary deals, producing 37, matching the number of trade sales.

UK Buy-Outs/Buy-Ins by Type of Exit

Exit Numbers and Exit Values 1995 – 2004

Source: CMBOR/Barclays Private Equity/Deloitte.
* Year 2004 figures are for first 6 months only.
The average time to exit for buy-outs rose steadily throughout the 1990s from around 42 months to more than 70 months by the end of 2003. The first half of this year has seen a reduction in this measure for all exit types with the overall average time to exit now standing at just over 61 months.

Average time to exit via flotation has decreased this year to 47 months from 64 months in 2003. Buy-outs exiting via trade sales have also seen a decline in lifespan, with the average now standing at 60 months after lasting 69 months on average in 2003. Both secondary buy-outs at 75 months and receivership exits at 55 months also have significantly lower average holding periods this year.

CMBOR statistics show that larger buy-outs have a better exit record than smaller deals. Recent improvements in exit prospects have seen more high value buy-outs exit relatively quickly. Over half of the £10bn plus buy-outs completed in 1999 have now been realised, compared with a third of the £10-100m deals and only a fifth of the sub £10m deals. The data shows that there remains a large number of unexited mid-market and small deals within private equity portfolios. Despite an increase in realisation value in 2004, the total value of unexited deals remains high with an estimated £37bn of unrealised private equity market investment.

The first half of this year has seen an improved exit environment with both value and volume of exits looking healthier. There have already been 14 trade sales or secondary buy-out exits valued at over £100m with the Unique Pub Group, which was purchased by Enterprise Inns for £2.3bn, being the largest exit so far. Furthermore, the improved flotation environment has seen five buy-outs listed with an initial market capitalisation of more than £100m. Provided stock markets remain calmer than in recent years and private equity backers are flexible on IPO pricing then this trend should continue into the second half of 2004. With total exit value standing at £8.5bn in the first half alone the year should easily surpass the highest recorded total exit value of £10.8bn, which was achieved in 2002.
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.