Definitive statistics and analysis on buy-out exits
UK exit market reaches new record for both number and value of realisations in 2004

With the buoyant buy-out market rebounding to its second highest level last year at £20.4bn - exits in the UK surged to a record number of 317. This uplift was an increase of more than 25 per cent on the 247 exits of 2003. All exit routes grew during the year with trade sales, flotations and secondary buy-out numbers rising sharply whilst the number of buy-out failures continued to fall. Altogether this brought a new record for the total value of private equity realisations which reached £18.2bn by the end of 2004, more than double the 2003 total of £8.8bn and well ahead of the previous record of £10.8bn set in 2002. Much of the increased activity last year was due to the continued surge in secondary buy-outs which reached an unprecedented level of 85 and contributed £7.1bn to the total exit value.

Trade sales bounce back having fallen each year since 2000

Last year, trade sales of buy-outs rose by 76 per cent to reach 118 having fallen steadily from the record 141 reached in 2000. Between 1995 and 2000, the number of trade sales had consistently been above the 100 mark; the 2004 total was the first to break this level since then.

Buy-out IPOs return to favour in 2004 with AIM now the market of choice for many new private equity listings

The reduction in volatility which characterised the stock market last year enabled many more private equity backed buy-outs to gain a listing than had been the case for several years. The total of 30 new listings was the highest since 1997 and was three times the 2003 figure. Many companies now prefer the less stringent listing requirements offered by AIM, with half of all last year’s flotations joining the junior market. The largest IPO of 2004 was the listing of the Barclays Private Equity backed Admiral Insurance, which had a market capitalisation of £711m on the first day of trading. Although buy-out IPOs rose sharply last year the total value of £3.7bn was still slightly below the total of £4.0bn from the 10 new listings which took place in 2003.

Secondary buy-outs hit new high

Secondary buy-outs first sprang to life in 2002 with 65 secondary transactions, almost double the 35 of the previous year. Since then they have become a major feature of the market with many of the largest exits now taking the secondary buy-out route. After the number fell slightly in 2003, to 63 deals, secondary buy-outs were back in force last year. The total reached a new record of 85, which equates to about an eighth of all UK buy-out market transactions for 2004. At £7.1bn the total exit value for secondary deals was also a new record, well above the previous peak of £4.4bn reached in 2002.

Buy-out failures decline for second consecutive year

Receiverships of buy-outs rose each year; from 84 in 1999, reaching 122 by the end of 2002. Since then the level of failures in the buy-out market has slowed. There were 107 recorded in 2003, with the total falling by a further 21 per cent last year to once again match the 1999 figure of 84.
Average time to exit for buy-outs was lower last year, having risen steadily throughout the 1990s; from around 42 months to more than 70 months by the end of 2003. The figure recorded for 2004 of just over 62 months was back in line with the 2002 average. All exit types saw a reduction in average holding periods last year. The surge in buy-out IPOs in 2004 coincided with a fall in the average time to exit for flotations, which decreased to 47 months from 58 months in 2003. Buy-outs exiting via trade sale also saw a decline in average time to exit from 68 to 60 months. Secondary buy-outs had an average lifespan in 2003 of 84 months but last year this exit type stood at 74 months.

Since the mid-1990s, the total value of exits has failed to keep pace with the surge in new buy-outs. This divergence was most pronounced when the market peaked in 2000 with £23.9bn of new investments and only £9.8bn realised through exits. Since then the gap has narrowed with £10.8bn recorded in exit value in 2002 and £8.8bn in 2003. Last year saw the second highest buy-out value ever recorded at £20.4bn. Exit value also rose sharply in 2004, with a record £18.2bn of realised value – just short of the new investment total.

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In terms of the size of exited buy-outs it is evident that larger buy-outs generally have a better track record than smaller deals. Last year saw a strong flow of larger exits, with more than 60 per cent of the £100m plus buy-outs completed in 1999 realised. This compares to just 40 per cent of buy-outs between £10-100m and below a quarter of sub £10m deals. Despite the improved environment for exits last year CMBOR data shows that a large number of un-exited mid-market and small deals remain within private equity portfolios.

The exit market sprang to life last year after several years of lacklustre performance. The return of the buy-out IPO saw a strong flow of new listings. Although many of these were smaller offerings, with two thirds of IPOs having a value of below £100m, there were three new listings with a market capitalisation of over £500m. Secondary buy-outs are now an established exit route for larger buy-outs both in the UK and on the continent. No fewer than 11 of the top 20 non-float exits were secondary deals amounting to £4.7bn in exit value alone. Nevertheless, trade sale numbers also grew last year with the largest, the Unique Pub group, sold to Enterprise Inns for £2.3bn and the Savoy Hotel group sold to Quinlan for £750m. With stock markets still showing reduced volatility in the early part of 2005 opportunities should remain for buy-outs considering an IPO this year. Although confidence has also returned slowly to the M&A market this has still not yet taken off as many would have hoped, but a continuation in the relatively stable economic climate experienced over recent years should help this process.
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.

Data on the private equity market is available from www.cmbor.com