Definitive statistics and analysis on buy-out exits

Barclays Private Equity
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.

After a record 2004 the UK exit market continues at high level of activity in 2005

The UK buy-out market saw a record number of exits in 2004 with 323 completed by the year end. Moreover, exit value also rose considerably with the total of £18.2bn in 2004 not far short of the £21.1bn of new deals which also took place last year. Trade sale, flotation and secondary buy-out numbers all rose sharply whilst the number of buy-out receiverships fell for the second consecutive year. In the first half of the current year the number of buy-out exits is again on track to reach a healthy full year total with 161 exits already completed by the end of June. Furthermore, value appears to be holding up well with £8.5bn of exits recorded in the first half of 2005 against £13.1bn of new deals in the same period.

Trade sales maintain momentum after strong showing in 2004

Buy-outs exiting via trade sales rebounded sharply last year from a mere 67 in 2003 to end 2004 at 118. The first half of the current year has seen a continuation of this trend with 64 recorded, already, almost matching the full year total from 2003.

Flotations slow markedly in 2005 after a sharp increase in buy-out IPOs last year

The return to a more benign stock market environment in 2004 meant that a number of former buy-out companies were able to gain a stock market quotation. Although over fifty percent of the new listings chose to float on AIM or a lower market last year there were nonetheless some large buy-out IPOs. In total three companies had a market capitalisation of over £500m with Admiral Insurance at £711m, Halfords at £593m and Premier Foods £527m all joining the main market in 2004. Despite a slowdown in buy-out IPOs this year the total of 9 completed in the first half is only one short of the full year 2003 number. The largest IPO in the first half has been Inmarsat with the satellite communications company having a market capitalisation of £1.1bn. Spread betting firm IG Group floated for £393m and Merant Micro Focus had a value of £260m.

Secondary buy-outs continue to boost buy-out market

The secondary buy-out remains a popular form of exit. Following just 35 secondary buy-out exits in 2001 the market almost doubled in 2002 to 65 transactions. After treading water in 2003 there was again a new record for this type of exit in 2004, which reached a total of 87 last year. The current year continues to see a large flow of secondary deals with 51 already completed by the end of June and 6 of the 10 largest exits this year have been secondary buy-outs.

Buy-out failures decline for second consecutive year

Buy-out failures climbed from just 57 in 1997 to a total of 123 by the end of 2002. Since then the number of receiverships has declined in consecutive years with 107 taking place in 2003 followed by a fall to 87 last year. In the first six months of the current year the buy-out market has again experienced a lower level of company failures with 37 announced by the end of June.

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

Exit Numbers and Exit Values 1995 – 2005

Source: CMBOR/Barclays Private Equity/Deloitte.
* Year 2005 figures are for first 6 months only.
Secondary Buy-out Numbers and Values 1995-2005

Last year saw the buy-out market rebound with the total for new deals rising by a quarter to £21.1bn. Much of this increase in market value was attributed to the sharp rise last year in the value of secondary buy-outs which rose from just £2.8bn in 2003 to a record £7.1bn in 2004. Secondary deals made up a third of the value of all new deals last year after a 16 percent market share in 2003. The current year has also seen a strong flow of secondary deals with 51 already completed. This amounts to a total value of £4.1bn again representing a third of the £13.1bn of new deals this year.

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

The average holding period for all types of buy-out exit fell last year after having risen steadily throughout the 1990s from 42 months in 1990 to 71 months by the end of 2003. Last year the average time to exit stood at 63 months, whilst the first half of 2005 is just below this level at 62 months. There was a fall in holding periods for all types of exit last year, a trend which has generally continued into 2005. An increase in the number of buy-out IPOs in 2004 coincided with a fall in average time to exit for floats to 46 months; this has fallen further to just 33 months in 2005. Secondary buy-outs now take 73 months on average to exit and receiverships are down to 48 months. Conversely, trade sales are now taking 64 months to exit after 60 months in 2004.

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

Buy-outs over £100m have generally been the most successful in their ability to achieve an exit. Of the deals in this size range before 1998 the vast majority have now exited, whilst for buy-outs over £100m completed in 2000 two thirds have already made an exit. Figures for mid market transactions (£10m-£100m) show that of those buy-outs before 1996 three quarters or more have now exited. However, by 2000 this figure falls to two thirds having made an exit. The exit rate for smaller (sub £10m) buy-outs has been much lower with just over a third of pre 1996 buy-outs and only 16 percent of 2000 buy-outs having exited.

Summary

The greater confidence experienced in the buy-out exit market last year has continued into this year with both the number and value of exits at a level above those recorded in recent years. However, much of the current increase in exit number and value is accounted for by the continuing surge in secondary buy-outs, which now dominate the larger end of the exit market in particular. This shows no signs of abating with several large scale secondary deals already completed in the second half of 2005 including Travelex at £1.1 billion and Priory Group at £872 million. The stock market continues to offer reasonable opportunities for private equity houses to realize their holdings in larger buy-outs with RHM already the subject of an IPO in the second half with a market value of £958 million. Private equity sponsors appear to be pricing flotations at levels which promote strong institutional interest with several of the larger IPOs this year producing healthy premiums on the first day of trading. At the same time private equity backers are generally retaining a sizable equity stake post flotation in order to benefit from these share price gains.
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.

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