Bumper exit year but buy-out market hits the brakes

Exit volume hits new peak with 400 recorded in 2007
Trade sales popular with a record 156 completed – but for smaller deals
IPOs down, receiverships up, whilst secondary buy-out boom continues
Breaking a four year trend, new deal value outstrips exits
Healthy exit market in 2007, but value falls short of 2006 record

The UK exit market was in rude health throughout 2007, with 400 exits worth £23.8 billion. While exit volumes have surpassed the 2006 figure of 335, the total value for 2007 fell short of 2006’s record figure of £26.9 billion.

This was largely due to conditions in the new deal market, in which a record first nine months gave way to a much slower fourth quarter. The exit market has been increasingly dominated by secondary buy-outs (see page 3), although this may change in 2008.

Trade sales popular but for smaller deals

After a low of 68 in 2003, trade sales have recovered, with the total increasing to 156 in 2007. However at the combined value of £7.2 billion, total trade sale value was well below the record full year value seen in 2006 of £13.4 billion.

The largest trade sale recorded was that of the spirits producer JBB/Whyte & MacKay, sold to United Spirits for £595 million in May. Cory Environmental was the next largest trade sale, having been acquired by a consortium of infrastructure investors for £588 million earlier in the year.
Secondaries move into first place

With competition for primary deals getting stronger, a sharp increase has been recorded in both the number and value of secondary buy-outs in recent years. This growth was maintained in 2007 with 124 deals.

Last year secondary buy-outs had a total value of £14.4 billion, which was a record total deal value. This is a continuation of the trend of the last few years: this part of the exit market reached a record £8.7 billion in 2005 and a further £8.0 billion was recorded in 2006, with secondary buy-outs now accounting for over half the total exit value.

IPOs down, receiverships up

Last summer’s volatility in the debt and equity markets made IPOs a much less credible exit route for private equity backed firms.

Last year saw only 14 former buy-outs going public, with a combined market capitalisation of £2.2 billion compared to the 21 IPOs in 2006 worth a record £5.5 billion. The largest buy-out float last year was Safestore with an initial market capitalisation of £449 million.

On the other hand, the rate of company failure in the buy-out market rose with a total of 106 receiverships recorded, easily surpassing the 70 receiverships in 2006.

New deals outstrip exits

After four years in which the sharp increase in buy-out value was mirrored by the exit market, in 2007 this trend markedly changed, with new deal value significantly outstripping exits.

The buy-out market value surged in the first nine months of 2007 with over £40 billion recorded, boosted by the Alliance Boots deal which contributed over £11 billion, although the market slowed significantly in the fourth quarter with the year end total ending at £45.6 billion.

The total exit value ended 2007 at a lower level than 2006, with £23.8 billion worth of exits. This marks a significant reversal of the trend from prior years, in which exit value has tracked the new buy-out activity.
Following the credit crunch seen last summer, we have definitely seen a slow down in exits and deals. The large and mega buy-out market is very quiet, due to the absence of debt underwriting, with several large deals struggling with difficult syndications. This will have a knock-on effect on secondary buy-out exit activity, particularly for larger deals, making this popular exit route for buy-out managers significantly harder to achieve.

Large stock market flotations all but dried up last year, although it is still too early to assess the depth of the slowdown and we wait with interest to see the figures for 2008.