Shareholder demands sink buy-out deals

Corporates adopt private equity model

Healthcare sector booms
Shareholder demands sink buy-out deals

Considering the column inches that were given over to speculation about private equity bids for public companies, large public to privates dried up during Q1 2006. Although there were an increasing number of approaches made during the period, including Associated British Ports, HMV, ITV, Kesa Electricals and GUS, all rejected private equity bids claiming they undervalued the companies.

With the huge funds that have been raised, there is a lot of money in the market looking for a home and public company shareholders have clearly decided they should be demanding a much larger premium.

“Private equity houses are having their bids rejected out of hand by shareholders in the hope that a bigger offer will be made – something that so far the private equity firms have baulked at.”

Tom Lamb, Co-Head, Barclays Private Equity

This has hit the buy-out market hard. Between January and March 2006 the market got off to a shaky start with only £3.0 billion of deals completed compared with £5.3bn for the same period in 2005 and £4.8bn in 2004.

In 2005 public to privates boomed hitting £7.2 billion (the second highest annual total) from 20 transactions. Yet, for the first three months of 2006 P2P value stood at just £485 million from four deals - £404m of which came from the take private of the Peacock Group, which was bought by a hedge fund consortium with no private equity involvement.
Corporates adopt private equity model
The corporate market is taking inspiration from the success of the dynamic private equity players in 2005. Influenced by the private equity model, plc boards are developing clear strategic plans for growth as well as working bank debt harder for special dividends and buy back plans. By becoming more familiar with private equity tactics, the corporate market is finding it easier to block private equity bids and persuade shareholders to support alternative plans for generating value.

Keep taking the medicine
The Healthcare sector continues to perform well at a record value of £4.6 billion in 2005, vastly ahead of the £1.5 billion total of 2004. Barclays Private Equity recently added to its healthcare portfolio with the £80 million acquisition of Robinia, one of the specialists in the provision of intensive support services for adults and young people with learning difficulties.

“While it is still feasible that we could see a consortium of the big private equity houses make a serious play for a FTSE 100 company, this year’s public to private figures show that the corporate market is becoming much more shareholder value focussed.”

Owen Clarke, Managing Director UK, Barclays Private Equity

“The healthcare industry is the biggest single sector in the UK, accounting for over 10 per cent of GDP. Historically, it was served purely by the public sector. The radical change in sourcing in the NHS, has fuelled the growth of the private sector as a participant in the healthcare industry. The volume and value of deals have been relentlessly increasing, driven by significant institutional appetite for assets.”

Nathan Elstub, Director, Barclays Private Equity
Deals head South
Buy-out market value in London reached £7 billion in 2005, way ahead of the closest competitor – the South East which generated deal value of £3.8 billion. London and the South East continue to account for almost half of all UK buy-out buy value. This is a complete reversal from 2004 where the South East was well ahead of London in terms of deal value - £5.6 billion and £4.2 billion respectively and also Q1 2006 when the South East was the most active region, with 23 deals at £921 billion.

“This is a case of too many ants at the picnic – private equity has become a victim of its own success.”
Tom Lamb, Co-Head, Barclays Private Equity