Weathering the Storm

Buy-outs defy expectations with highest quarter one on record
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Since the beginning of the credit crunch in August 2007 many commentators on the UK private equity market expected deals to grind to a halt. The impact of the worldwide retraction of credit led many to believe that the good times were over and that a rough ride was in store. The final quarter of 2007 seemed to illustrate this, with the number of buy-outs falling significantly compared to the record performance of the previous three quarters.

However, data for the first quarter of 2008 has found the UK buy-out market to be in robust shape and defying expectations. Deal values in the first three months of the year reached £7.2 billion – a significant increase on the £4.2 billion achieved in the same period last year. However the value of exits only managed to reach £3 billion – a significant reduction on the £4.2 billion achieved in the first quarter of 2008.

Exits hit the breaks

The exit market in 2007 fell short of 2006’s record value, but did produce a record 403 exits with a total value of £23.8 billion.

Although the market is suffering a lack of readily available debt for larger deals, 2008 has begun steadily: in the first quarter of the year there were 88 exits, compared to 87 in the same period last year. However the value of exits only managed to reach £3 billion – a significant reduction on the £4.2 billion achieved in the first quarter of 2008.

Mega deals: Remember them?

2007 witnessed some of the biggest deals on record.

The much touted Alliance Boots deal hit £11.1 billion and there were a number of others, such as AA / Saga, EMV and BUPA Hospitals. The landscape in 2008 is likely to look markedly different with the number of mega deals all but falling off the radar in the face of the credit squeeze. Nevertheless, the number of deals over £100 million in the first quarter was 15, which is one more than in the same period last year. The largest of these deals is EMAP at £2 billion, followed by Abbot Group at £906 million.

Secondaries show resilience

Last year secondaries proved their resilience and settling back to levels last seen in 2005-06. There were 21 secondary buy-ins in the first quarter of 2008 with a value of £1.8 billion compared to 23 worth £2.1 billion in the same period in 2007.

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All change: Industry sectors switch positions

Figures for the first quarter of 2008 reveal that previously buoyant sectors such as Retail, Leisure and Food & Drink are showing signs of lower activity.

During 2007 these sectors accounted for 40 per cent of total buy-out value (20 per cent without Alliance Boots) but have fallen to less than five per cent in the first three months of the year. Sectors which are not as closely linked to consumer spending such as Business & Support Services, Manufacturing and TMT have all grown strongly in the first quarter of the year and account for 30 per cent, 21 per cent and 18 per cent of deal activity respectively.

PTPs still being completed

The first three months of the year recorded six public-to-private deals worth £3.8 billion.

Going forward it remains to be seen whether a combination of turbulent stock markets and a lack of other opportunities will see PTPs reach the heady days of 2007/2006 when they hit 24 and 25 respectively.