Quarter Two 2009
Centre for Management Buy-Out Research
news and updates

Standstill
Buy-outs grind to a halt in the second quarter
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The malaise in the UK buy-out market has not lessened in the second quarter of the year. If anything, it has got worse with just £1.4 billion of deal value from 86 deals. Although this is an improvement on the final quarter of 2008, aside from that quarter this is the lowest quarterly figure since 1996 and sets a depressing tone for private equity in the next two quarters of the year. Even when the data is analysed by half-year two quarters of the year.

So where do we go from here? We should not expect many surprises during the next half of the year. There are still a number of issues that need to converge, including earnings visibility and an increase in bank debt availability. This is not going to happen overnight and the market will just have to wait out the financial crisis before conditions improve.

Large deal flow slows to a crawl

There have been only two ‘mega deals’ in the past six months – NDS Group at £1.25 billion and Wood Mackenzie at £533 million, with the £325 million Chesapeake deal being one of only two buy-outs over £100 million in the second quarter.

Buy-outs under the £10 million mark have accounted for the majority of deals so far in 2009, but there have been only 21 deals valued at between £10 million and £250 million. These deals have only accounted for just over £1 billion, showing that the mid-market is all but completely inactive.

The lower end of the mid-market (£10-25 million, which is typically the most active) has all but collapsed going from 68 deals in 2008 to just four deals in the first half of 2009.

Buy-outs from receivership are up

Thus far in 2009, buy-outs from failed companies have accounted for 31.8 per cent (18.8 per cent by value) of all new deals, although the majority were not private equity backed. This is nonetheless a dramatic increase from 2008, when buy-outs from receivership accounted for only 11.2 per cent (1.3 per cent by value) of deals.

Whilst family/private buy-outs have not shown a large increase in the second quarter of 2009, only climbing to 7.5 per cent (up from 7 per cent in the first quarter) by value, secondary buy-outs have reversed their decline, rising steeply from 4 per cent by value in the first quarter to 21.8 per cent by value in the second quarter. This can be largely attributed to the secondary buy-out of Wood Mackenzie in June, as the other ten secondary buy-outs in 2009 have amounted to only £195 million between them.

Although public-to-private value has held up relatively well, this is largely accounted for by the £1.25 billion NDS group buy-out in the first quarter.

Still no floatations as exits fall to lowest level since 1992

The buoyant private equity market of 2006 and 2007 seems a distant memory as exits have fallen to their lowest level since 2003. There have been only 124 exits in the first half of 2009, only 56 of which have taken place in the second quarter. The total value of exits to date in 2009 is only £1 billion, the lowest value since 1992.

Of all the buy-out exits that have taken place in the first two quarters of 2009, a startling 85% have been into receivership. Even more disquieting is that the second quarter of 2009 was the sixth consecutive quarter in which there have been no exits by flotation.
Sectors still inching along

Although the recession has hit all sectors, reducing both deal volume and value, some sectors are weathering the storm better than others.

The business and support services, manufacturing, retail and TMT sectors are performing best in terms of deal numbers, although the retail sector is not faring particularly well in terms of value with 24 deals worth only £358 million. Overall, the TMT sector has performed best with 24 deals worth £1.52 billion.