Lost momentum?

UK buy-out market plateaus in second quarter
Lost momentum?

UK buy-out market plateaus in second quarter

The strong start to the year, driven by a surge in large secondary buy-outs, has now slowed with the total value of buy-outs in the second quarter reaching just £3.2 billion, little more than half the value of the first quarter at £5.3 billion. Buy-out volume continues to rise but only slightly with just 200 buy-outs completed by the end of June.

Global equity markets, unsetled by growing concerns over sovereign debt levels, combined with the general election in the UK, contributed to growing ambiguity and a sense of uncertainty in an already shaken private equity market in the second quarter. It is therefore unsurprising that momentum in the recovery of the buy-out market was lost.

Despite this, figures for the first half of 2010 do indicate that the UK buy-out market appears to be recovering with a total value of £8.6 billion, already more than fifty per cent above the full year total of £5.6 billion for 2009.

When looking at the last three years, with the UK buy-out market reaching a record £46.5 billion in 2007 before halving dramatically to £19.7 billion in 2008 and last year’s dramatic fall to just £5.6 billion, this year’s figures are encouraging. Private equity backed deal volume activity stands at 99 deals for the first half of 2010, an improvement on the 59 at this stage in 2009, while the value of these deals is a much healthier £8.3 billion compared to the depressing £4.7 billion total for last year.

So what’s the outlook? The latest budget has put severe pressure on government departments to cut spending and UK growth is still projected to be subdued this year and next. Under the threat of low levels of economic growth, a more difficult borrowing environment and increased government regulation, the private equity market is unlikely to regain the highs experienced in the mid-2000s for some time.

Smaller deals suffer impact

The volume of buy-outs of £100 million or over have already increased by more than five times this year from just five in the first half of 2009 to 26 by the end of June - accounting for £7.2 billion of total market value. Buy-out numbers in the lower mid-market (£10-100 million) range have seen 38 deals completed in the first half of this year, almost double the 20 of H1 2009, however value remains low by previous standards at £1.1 billion.

The small deal sector (less than £10 million) is suffering from the impact of the economic slowdown far more than the wider market with only 136 deals completed at £246 million in H1 2010 compared to 167 at £278 million in H1 2009.

The largest buy-out so far in 2010 is the secondary buy-out of pharmaceutical logistics services company Marken, sold by ICG to Apax Partners for an estimated £975 million in March.

UK buy-out market plateaus in second quarter

The strong start to the year, driven by a surge in large secondary buy-outs, has now slowed with the total value of buy-outs in the second quarter reaching just £3.2 billion, little more than half the value of the first quarter at £5.3 billion. Buy-out volume continues to rise but only slightly with just 200 buy-outs completed by the end of June.

Global equity markets, unsettled by growing concerns over sovereign debt levels, combined with the general election in the UK, contributed to growing ambiguity and a sense of uncertainty in an already shaken private equity market in the second quarter. It is therefore unsurprising that momentum in the recovery of the buy-out market was lost.

Despite this, figures for the first half of 2010 do indicate that the UK buy-out market appears to be recovering with a total value of £8.6 billion, already more than fifty per cent above the full year total of £5.6 billion for 2009.

When looking at the last three years, with the UK buy-out market reaching a record £46.5 billion in 2007 before halving dramatically to £19.7 billion in 2008 and last year’s dramatic fall to just £5.6 billion, this year’s figures are encouraging. Private equity backed deal volume activity stands at 99 deals for the first half of 2010, an improvement on the 59 at this stage in 2009, while the value of these deals is a much healthier £8.3 billion compared to the depressing £4.7 billion total for last year.

So what’s the outlook? The latest budget has put severe pressure on government departments to cut spending and UK growth is still projected to be subdued this year and next. Under the threat of low levels of economic growth, a more difficult borrowing environment and increased government regulation, the private equity market is unlikely to regain the highs experienced in the mid-2000s for some time.

Smaller deals suffer impact

The volume of buy-outs of £100 million or over have already increased by more than five times this year from just five in the first half of 2009 to 26 by the end of June - accounting for £7.2 billion of total market value. Buy-out numbers in the lower mid-market (£10-100 million) range have seen 38 deals completed in the first half of this year, almost double the 20 of H1 2009, however value remains low by previous standards at £1.1 billion.

The small deal sector (less than £10 million) is suffering from the impact of the economic slowdown far more than the wider market with only 136 deals completed at £246 million in H1 2010 compared to 167 at £278 million in H1 2009.

The largest buy-out so far in 2010 is the secondary buy-out of pharmaceutical logistics services company Marken, sold by ICG to Apax Partners for an estimated £975 million in March.

Lost momentum?

UK buy-out market plateaus in second quarter

The strong start to the year, driven by a surge in large secondary buy-outs, has now slowed with the total value of buy-outs in the second quarter reaching just £3.2 billion, little more than half the value of the first quarter at £5.3 billion. Buy-out volume continues to rise but only slightly with just 200 buy-outs completed by the end of June.

Global equity markets, unsettled by growing concerns over sovereign debt levels, combined with the general election in the UK, contributed to growing ambiguity and a sense of uncertainty in an already shaken private equity market in the second quarter. It is therefore unsurprising that momentum in the recovery of the buy-out market was lost.

Despite this, figures for the first half of 2010 do indicate that the UK buy-out market appears to be recovering with a total value of £8.6 billion, already more than fifty per cent above the full year total of £5.6 billion for 2009.

When looking at the last three years, with the UK buy-out market reaching a record £46.5 billion in 2007 before halving dramatically to £19.7 billion in 2008 and last year’s dramatic fall to just £5.6 billion, this year’s figures are encouraging. Private equity backed deal volume activity stands at 99 deals for the first half of 2010, an improvement on the 59 at this stage in 2009, while the value of these deals is a much healthier £8.3 billion compared to the depressing £4.7 billion total for last year.

So what’s the outlook? The latest budget has put severe pressure on government departments to cut spending and UK growth is still projected to be subdued this year and next. Under the threat of low levels of economic growth, a more difficult borrowing environment and increased government regulation, the private equity market is unlikely to regain the highs experienced in the mid-2000s for some time.

Smaller deals suffer impact

The volume of buy-outs of £100 million or over have already increased by more than five times this year from just five in the first half of 2009 to 26 by the end of June - accounting for £7.2 billion of total market value. Buy-out numbers in the lower mid-market (£10-100 million) range have seen 38 deals completed in the first half of this year, almost double the 20 of H1 2009, however value remains low by previous standards at £1.1 billion.

The small deal sector (less than £10 million) is suffering from the impact of the economic slowdown far more than the wider market with only 136 deals completed at £246 million in H1 2010 compared to 167 at £278 million in H1 2009.

The largest buy-out so far in 2010 is the secondary buy-out of pharmaceutical logistics services company Marken, sold by ICG to Apax Partners for an estimated £975 million in March.

Lost momentum?

UK buy-out market plateaus in second quarter

The strong start to the year, driven by a surge in large secondary buy-outs, has now slowed with the total value of buy-outs in the second quarter reaching just £3.2 billion, little more than half the value of the first quarter at £5.3 billion. Buy-out volume continues to rise but only slightly with just 200 buy-outs completed by the end of June.

Global equity markets, unsettled by growing concerns over sovereign debt levels, combined with the general election in the UK, contributed to growing ambiguity and a sense of uncertainty in an already shaken private equity market in the second quarter. It is therefore unsurprising that momentum in the recovery of the buy-out market was lost.

Despite this, figures for the first half of 2010 do indicate that the UK buy-out market appears to be recovering with a total value of £8.6 billion, already more than fifty per cent above the full year total of £5.6 billion for 2009.

When looking at the last three years, with the UK buy-out market reaching a record £46.5 billion in 2007 before halving dramatically to £19.7 billion in 2008 and last year’s dramatic fall to just £5.6 billion, this year’s figures are encouraging. Private equity backed deal volume activity stands at 99 deals for the first half of 2010, an improvement on the 59 at this stage in 2009, while the value of these deals is a much healthier £8.3 billion compared to the depressing £4.7 billion total for last year.

So what’s the outlook? The latest budget has put severe pressure on government departments to cut spending and UK growth is still projected to be subdued this year and next. Under the threat of low levels of economic growth, a more difficult borrowing environment and increased government regulation, the private equity market is unlikely to regain the highs experienced in the mid-2000s for some time.

Smaller deals suffer impact

The volume of buy-outs of £100 million or over have already increased by more than five times this year from just five in the first half of 2009 to 26 by the end of June - accounting for £7.2 billion of total market value. Buy-out numbers in the lower mid-market (£10-100 million) range have seen 38 deals completed in the first half of this year, almost double the 20 of H1 2009, however value remains low by previous standards at £1.1 billion.

The small deal sector (less than £10 million) is suffering from the impact of the economic slowdown far more than the wider market with only 136 deals completed at £246 million in H1 2010 compared to 167 at £278 million in H1 2009.

The largest buy-out so far in 2010 is the secondary buy-out of pharmaceutical logistics services company Marken, sold by ICG to Apax Partners for an estimated £975 million in March.
Receivership values fall while secondaries take over

Last year buy-outs from failed companies provided one of the main sources of activity with 29 per cent of all new deals coming from companies in receivership, a vast increase compared to the one-tenth of the market for the majority of the last ten years. This year the percentage is still high at around 17 per cent of all new buy-outs coming from companies in receivership however the value has fallen from one-fifth of the market value in 2009 to just one per cent this year.

In 2010 secondary buy-out activity has been strong and these deals account for 15 per cent of total volume. There was a surge in large secondary buy-outs at the beginning of the year and at £5.1 billion in H1 2010 these deals account for a record 59 per cent of market value compared to only a fifth of value last year.

Retail resumes leadership position

Retail sector buy-outs reached a record across all sectors of £14.3 billion in 2007 (including Alliance Boots at £11.1 billion) but fell in 2008 to just £713 million with a further fall in 2009 to just £348 million. In the first half of this year Retail has picked up dramatically at £2.6 billion from 19 transactions.

By volume, Manufacturing is generally the largest sector in the UK but last year the number fell to just 88 buy-outs and in 2010 this has fallen to just 40. This makes Business Services the largest sector in 2010 for the first time with 43 deals recorded worth £1.9 billion. The Healthcare sector fell to just £455 million last year but has already recorded £1.5 billion in the first half of 2010 from 12 buy-outs.
Exits remain slower

The first half of the current year has seen a significant improvement on last year with 143 exits with a collective value of £7.7 billion, however in comparison to previous years this is still slow progress and has not picked up in Q2, which yielded just 61 compared to the beginning of the year’s 82.

IPOs remain a problem but there has been some progress this year with three listings and the floating of Jupiter Asset Management in June with a market capitalisation of £755 million.

Exits of PE-backed buy-outs are much lower than for the whole of the UK buy-out market due to the far lower level of PE-backed buy-outs in circulation. However, in the first half of this year 77 PE-backed exits have completed with secondary buy-outs (22) already 57 per cent above the full year 2009 total. There have already been 31 trade sales compared to just 38 for the whole of last year. Receiverships do still remain a problem for the market and 22 PE-backed companies have failed this year compared to 56 for the whole of 2009.

Debt reaches lowest level on record while equity soars

The average percentage of debt in buy-outs of all values has almost halved from 51 per cent in 2006 to 27 per cent this year, the lowest level recorded by CMBOR, a very low level considering the number of all-equity deals at the larger end of the market.

The uncertainty of further regulation in the market looks set to be difficult to navigate for buy-out firms for some time yet.

It can be refinanced when debt markets loosen. The growing tide of restructurings expected to amount to around £120 billion by 2014 (Standard & Poor’s) in the European LBO market, means that the leverage finance market looks set to be difficult to navigate for buy-out firms for some time next year.

Average Deal Structures by type of Finance (%) 1996-2010

Exits of Buy-Outs and Buy-Ins 1991-2010

Disclaimer

This document has been prepared by Barclays Private Equity Limited (“BPE”) for information purposes only, based on data provided by the Centre for Management Buy-Out Research. The Centre for Management Buy-Out Research (CMBOR) is supported by Barclays Private Equity Limited and Ernst & Young, having been founded in March 1986 to monitor and analyse management buy-outs and buy-ins in the UK and continental Europe, in a comprehensive and objective way. Visit the CMBOR website (www.cmbor.com) for access to research, quarterly reviews and other publications. You may not rely on any communication (written or oral) from BPE as investment advice or as a recommendation to enter into a transaction. BPE accepts no liability whatsoever for any consequential losses arising from the use of this document or reliance on the information contained herein.

The information contained herein has been obtained from sources believed to be reliable but neither BPE nor any of its subsidiaries or affiliates is given as at the date hereof and are subject to change. BPE does not undertake any obligation to provide any additional information or to update any of the information or the conclusions contained herein or to correct any inaccuracies which may become apparent.

This document is a “non-retail communication” within the meaning of the UK Financial Services Authority’s Rules and is directed only at persons satisfying the FSA’s client categorisation criteria for an eligible counterparty or a professional client. This document is not intended for and should not be relied upon by a retail client. An investment in private equity involves a high degree of risk and is suitable only for sophisticated investors who can bear substantial investment losses. This document does not constitute research or a financial promotion and was prepared without regard to the specific objectives, financial situation or needs of any particular person who may receive it. No further distribution is allowed without prior written consent of the Issuer.

The Centre for Management Buy-Out Research
Nottingham University Business School
Jubilee Campus, Wollaton Road
University of Nottingham
Nottingham NG8 1BB
Telephone: +44 (0)115 951 5493
Facsimile: +44 (0)115 951 5204
Contact: Professor Mike Wright
www.cmbor.com

Barclays Private Equity

Birmingham
Bank House
8 Cherry Street, Birmingham B2 5AL
Telephone: +44 (0)121 631 4220
Facsimile: +44 (0)121 631 1071
Contact: Phil Griesbach
phil.griesbach@bpe.com

London
Condor House, St Paul’s Churchyard
London EC4M 8AL
Telephone: +44 (0)20 7512 9900
Facsimile: +44 (0)20 7653 5350
Contact: Paul Goodson
paul.goodson@bpe.com

Manchester
55 King Street, Manchester M2 4LQ
Telephone: +44 (0)161 214 0800
Facsimile: +44 (0)161 214 0805
Contact: John Walker
john.walker@bpe.com

Milan
Foro Buonaparte 51
20121 Milano
Italy
Telephone: +39 (0)2 8029 0534
Facsimile: +39 (0)2 8029 0535
Contact: Marco Pennisi
marco.pennisi@bpe.com

Munich
Platzl 4
80331 Munchen, Germany
Telephone: +49 89 24 20 640
Facsimile: +49 89 24 20 6433
Contact: Peter Hammermann
peter.hammermann@bpe.com

Paris
Centre d’affaires Paris-Trocadéro
112 avenue Kléber
F - 75116 Paris, France
Telephone: +33 (0)1 5669 4343
Facsimile: +33 (0)1 5669 4344
Contact: Gonzague de Blignières
gonzague.deblignieres@bpe.com

Zurich
General Guisan Quai 34
CH-8002 Zürich, Switzerland
Telephone: +41 (0)44 289 80 90
Facsimile: +41 (0)44 289 80 91
Contact: Philippe Studi
philippe.studi@bpe.com

CMBOR | Quarter Two 2010