Going down!

Buy-outs in the fourth quarter plummet
Going down!

Buy-outs in the fourth quarter plummet

It has finally happened. After a resilient performance in the first three quarters of 2008, the buyout market has bowed to global financial pressures and recorded its lowest quarter for over 13 years. The value of buy-outs in the fourth quarter of 2008 reached just £1.1 billion – the lowest figure since the third quarter of 1995 (£989 million). This is down from £5.6 billion in quarter three and £5.7 billion in the same quarter in 2007. To set the figure in context, the size of the market in quarter four 2008 is not much higher than the largest European buy-out fund raised in 1995 ($700 million).

This brings total private equity in 2008 to £19.2 billion from 567 deals, a fall of over 58 per cent on 2007’s record figure of £45.9 billion from 671 buy-outs.

Although 2008 started off well with the strongest quarter one on record, deal activity was being driven by changes to capital gains tax. From then on the market witnessed marked falls in buy-out activity.

It is unlikely we will see any significant leap in buy-outs in the first half of 2009. There is still a great deal of uncertainty in the world’s financial markets and on the high street meaning that market sentiment is likely to remain subdued.

### Exits leave the building

Exit activity fell to its lowest level since 1990 with just 65 in the fourth quarter of 2008. This is down from 67 in quarter three and brings the 2008 exit total to 314 down from the record 411 in 2007. In terms of value, exits in 2008 stand at just £9.9 billion, less than half the £23.8 billion in 2007 and almost two thirds lower than the 2006 record (£26.9 billion).

Trade sales reached 105 in 2008, down from the record 162 in the previous year and secondary buy-outs fell by over half the 2007 total of 129 to just 64.

Flotations continue to be an issue in private equity, reflecting the continuing turmoil in global financial markets and none took place in 2008, compared to 14 in 2007.
Mid-market no longer immune

After a strong first half, deals in the lower mid-market contracted sharply as 2008 drew to a close. The value of deals in the £10 million to £100 million bracket reached only £320 million in Q4 – the lowest figure since quarter four 1993. Deals in the £100 to £250 million bracket did not fare well either reaching only £222 million from one deal – the second lowest value since quarter three 1997.

In the sub-£10 million category deals fell to just 79 in the final quarter with a value of £144 million. This is hardly surprising because the changes to capital gains tax at the start of 2008 encouraged vendors to bring deals forward before these changes took effect. This resulted in a record quarter two for sub-£10m deals with 146 recorded.

The £500 million plus category had an equally depressing 2008 with just eight deals compared to 15 in 2007. In terms of value this was just £8.7 billion, a fall of two thirds on 2007’s £27.5 billion.

Looking for strength in sectors

Deals across all sectors are down on last year. Although all the sectors have been affected by the global credit squeeze, analysis reveals some interesting trends. Deals in the support services sector have increased their share of total value to 33.6 per cent, up from 16 per cent in 2007. This increase must reflect investors’ appetite for deals and opportunities in recession-resilient sectors. Deals in the TMT sector also increased from 12.6 per cent to 19.6 per cent of total value.

Not surprisingly, however, the retail sector experienced a huge fall in its share of buy-out activity, reflecting the situation on the high-street. In 2007 the retail sector notched up 31.2 per cent of total deal value, but by the end of 2008 this was down to just 3.2 per cent.

Public to privates hold up

Public to privates continued to fare well during 2008. As a proportion of the value of all deals, public to privates reached 39.0 per cent - only marginally down on the 2007 figure of 42.4 per cent. This figure is still the second highest by proportion since 2000.

There were 17 public to privates in 2008 worth £7.5 billion. The biggest public to private of the year was the delisting of EMAP in March at £2 billion, while the largest public to private in quarter four was Xpertise Group at £9.6 million.
Mixed picture in the regions

The London and South East region was definitely the biggest casualty of the 2008 buy-out crunch notchting up just £3.0 billion from 80 deals, compared to £21.5 billion in 2007 from 102 deals.

In terms of deal volume, 2008 was the North’s year. The North East and North West both increased deal volume from 22 to 31 and 83 to 94 deals respectively. These deals, however, were mostly at the lower end of the market as deal values only managed to reach £129 million in the North East and £1.8 billion in the North West – both big falls on 2007 totals.

Last year was also a comparatively good one for Scotland where deal value tripled on the 2007 figure of £527 million to £1.6 billion. This is largely down to the public to private of Abbot Group, which added £906 million to Scotland’s total deal value.

Family firms

Despite a strong showing in the first nine months of 2008, family and private deals fell sharply in the fourth quarter to just 24, from 47 in quarter three and 103 in quarter two. Annually, there were 242 family and private deals – not dramatically down from the 276 of 2007. By value however family and private deals fell from £3.7 billion in 2007 to £2.4 billion at the close of 2008.

As a proportion of deals, however, family and private deals were the largest at 42.7 per cent – a figure that has been growing since 2003. Secondary buy-outs on the other hand have continued to fall as a proportion of all deals to 11.3 per cent from 18.9 per cent in 2007.