DEALS ROUND-UP

M&A shows hopeful signs despite unconvincing start

Deal volumes are still hovering around the 10-year low mark, but deal-makers remain upbeat

AT THE CLOSE OF 2009, we found ourselves reporting on statistics showing that, compared to the preceding 10 years, last year was the worst for deal-making in the insurance sector. That was demonstrated by every measure we normally use – whether total numbers of deals or aggregate values – and for both smaller and larger transactions.

To make things more worrying for those wanting to buy and sell companies, the very end of 2009 showed no change in this trend. Surprisingly, though, notwithstanding the historic evidence, there seemed to be some optimism around the deal-making marketplace. So the question was: what would 2010 bring? Was the optimism well-founded?

We answer this as usual by looking at the hard facts for deals done in the first quarter of 2010. These are recorded in the charts here, using data compiled by Experian Corpfin, and divided into transactions with values above and below £40m. In each case, they only include deals completed in the period where the amount paid has been publicly disclosed and the buyer or seller operates in the UK.

In the first quarter, there were just four smaller deals (value below £40m) recorded. This is hovering around the lowest volume seen across all quarters over 10 years, though perhaps some comfort can be drawn from Q3 and Q4 of 2009,

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which registered just one and three deals, respectively. So at least the current quarter is an improvement on that.

Aggregate deal values in the quarter came to £55m, again at around the 10-year low level, with few previous quarters having recorded much less.

Larger transactions have similarly got off to an unconvincing start. Just two larger deals were recorded, for a total of £330m. They include the long-awaited buy-out of Esure, but there is no hint yet of a return to anything remotely approaching the strong mergers and acquisitions markets of the boom years.

If one is looking for signs of encouragement, perhaps they come from the wider market as recorded by the private equity journal *Unquote*, which monitors sales of businesses via management buy-outs across all sectors.

After a severe drought in 2009, there was a marked upturn for buy-out deals with an enterprise value greater than €150m (£133m). Activity returned to 'normal' levels as seen over the preceding 10 years, with nine larger buy-outs in the first quarter of 2010 at a total value of €3.7bn. This was not only a reasonable performance compared with earlier years' first quarters but is already nudging the comparative figures for the whole of 2009.

Last quarter, we reported on one private equity funder who commented that his larger buy-out team "had not done a deal for 18 months" and was "really hungry to get a transaction over the finishing line". It appears he, and many of his peers, have reacted to that experience by pushing hard to restart the larger-deal machine.

Unquote also carries out a survey of future expectations and, while smaller buy-out activity has not yet picked up, there is considerable optimism: two-thirds of those surveyed think smaller deals are on the up. At the same time, banks appear to be getting back into the habit of lending, with 80% of buy-outs being reported as funded with bank debt as well as equity finance.

So the picture is one of an insurance sector in which deal-making activity, while not increasing, has at least stabilised, against a backdrop of deals being kick-started in the wider economy. That appears to give encouragement for the coming months that there will be a pick-up in insurance to match that in other sectors.

But, of course, the second quarter of 2010 has its own peculiar uncertainty caused by the forthcoming general election. The market should not be surprised if this causes a hiccough, with deal-makers hesitating as they wait for the result.

So we must not be worried if the second quarter of 2010 is flat, but look beyond that, with hope, to a more active second half of the year. **IT**

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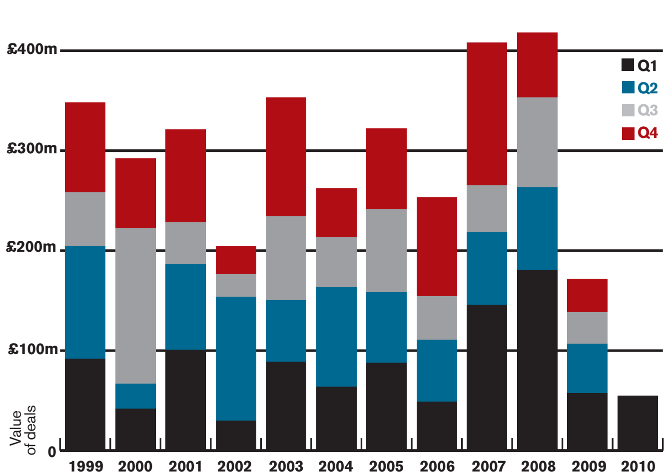
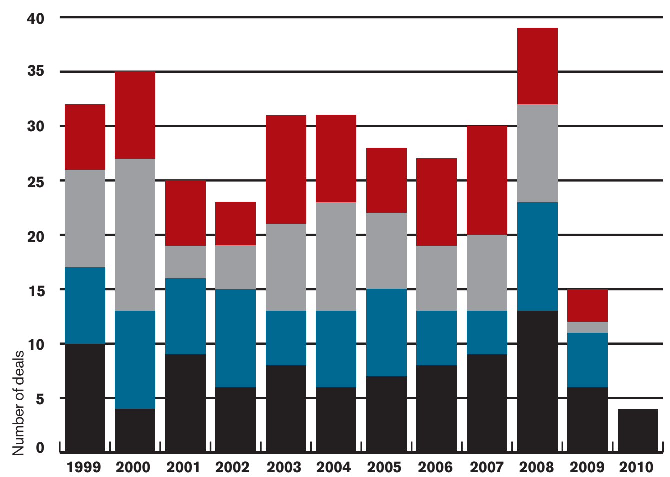
DEALS BY VALUE: LESS THAN £40M



DEALS BY VOLUME: LESS THAN £40M



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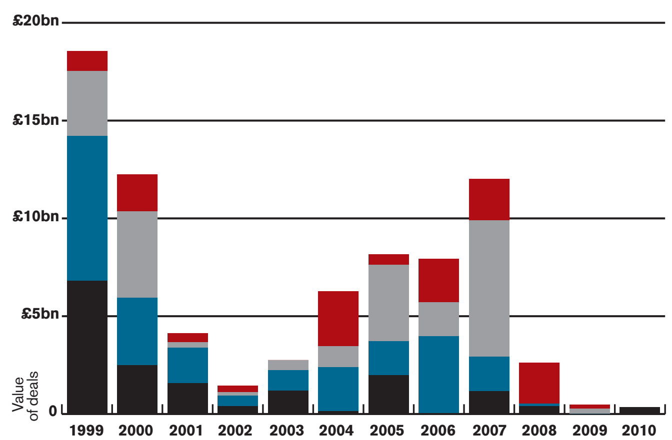

DEALS BY VOLUME: MORE THAN £40M

SOURCE: EXPERIAN CORPFIN