Make hay while the sun shines

After a bumper year for transaction volumes and values across the private company market in 2017, Jim Keeling of corporate finance advisor Corbett Keeling looks at the data from the first quarter of 2018. He finds that activity, though down slightly overall from the second half of last year, remains robust. However, he warns that conditions for potential sellers will not always be this favourable.

Once the uncertainty of last June's general election was over, the market forged ahead. Taking advantage of a still business-friendly political environment and the continuing availability and low cost of debt, it posted the strongest six months of transaction values since before the global financial crisis.

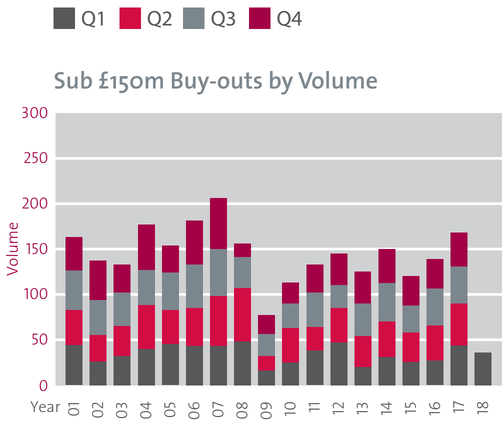
We find that, after a quiet January, activity in the first quarter of 2018 has stayed at a brisk rate across all segments of the market

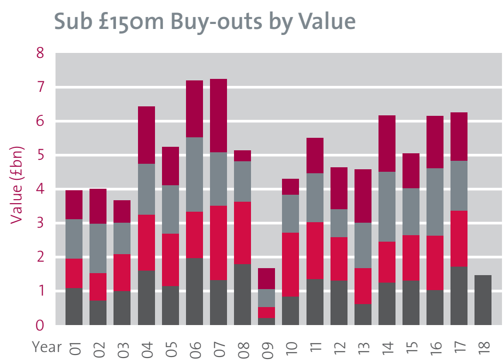
It was always going to be a big ask to maintain that momentum. However, we find that, after a quiet January, activity in the first quarter of 2018 has stayed at a brisk rate across all segments of the market. In fact, we would normally argue that the current level of activity should prove to be more sustainable than the heady pace of last year's final six months. Certainly, barring any unforeseen shocks, we see no immediate threat of a significant slowdown.

As regular readers will know, we are generally optimistic and by no means given to doom-mongering. However, we are conscious that current conditions are unusually favourable for owners looking to sell their privately held business and this cannot last indefinitely. While central bankers are keenly aware of the need to tighten policy only gradually, we can expect interest rates to rise from current historically low levels. Moreover, the Brexit negotiations have further to run, and they are likely to bring political and economic uncertainty at some point over the next few years. In particular, we are cognizant that a change in government might create a less favourable market backdrop for private businesses. At the industry level, buyers will not always be this flush with cash – or debt always this available – to fund acquisitions.

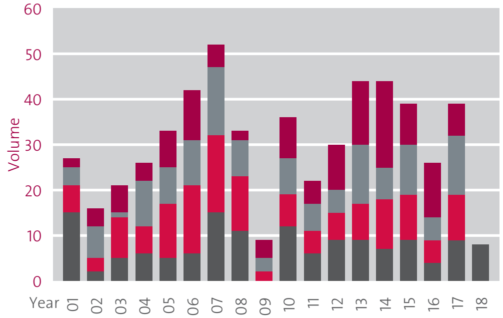
But that is a concern for the longer term. We will shortly turn to the near-term outlook. First, though, let's assess the data for the first three months of 2018.

- ***The smaller buy-outs sector was the one segment which maintained the same pace of activity as in the final quarter of last year. The volume of deals was broadly flat (with 36 deals recorded as complete at the time of writing, versus 37 in the previous quarter), and the value actually edged up from £1.4 billion to £1.5 billion.***

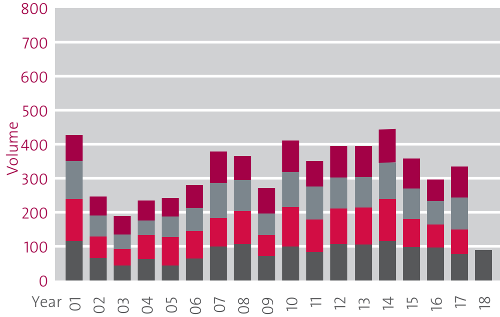




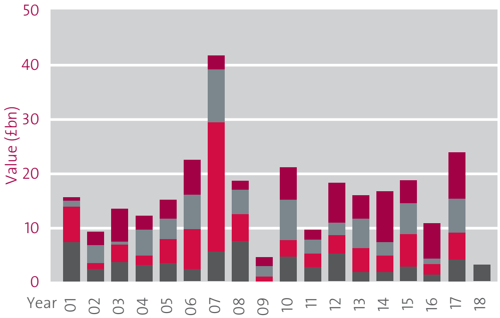
£150m+ Buy-outs by Volume



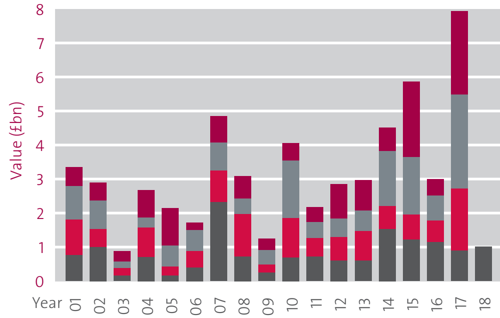
Early-Stage/Expansion Deals by Volume



£150m+ Buy-outs by Value



Early-Stage/Expansion Deals by Value



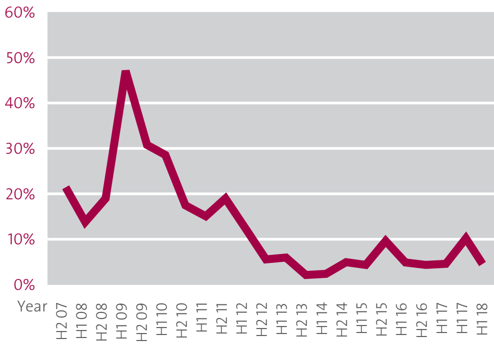
- While the value of deals in the **larger buy-outs** sector (enterprise value of £150 million or above) was down sharply from £8.5 billion to £3.0 billion, the number of transactions actually increased from seven to eight.
- Volumes also held up well for **early stage and expansion capital deals**, with 89 deals recorded, compared with 90 in the last three months of 2017. However, the value of deals – at a still perfectly respectable £1.0 billion – was markedly lower than the previous period's £2.4 billion.

All equity buy-outs show no sign of regaining their former glory. Only two such transactions were reported in the first quarter of 2018, down from three in the final three months of 2017. That is little surprise, given the continuing availability and low cost of debt funding.

So what does market sentiment tell us about the prospects for the months ahead? Anecdotally, some of our contacts in the market suggest that activity has eased slightly from the hectic pace in the second half of last year. And our survey of market participants is perhaps a fraction less optimistic than in January.

All but two buy-outs involved debt, which is little surprise given the continued availability and low cost of debt funding

All Equity Funded Buy-outs to All Buy-outs



- Half of respondents still expect deal volumes to increase from current levels, and only 14% thought that activity was likely to decline. The rest predicted little change.
- None of our respondents expressed any concerns about the availability of debt funding for transactions. That said, the proportion expecting increased availability came down from 50% to 29% (the remainder thought it would stay broadly at current levels).
- The market does not appear to believe that overall conditions for sellers are likely to improve from here. Asked if our current position in the economic cycle, the possibility of a change in government, less easy access to capital and the risks from Brexit all suggest that now is the time to consider selling a business, the unanimous result was a resounding yes.

The evidence from the transaction data confirms that participants are making hay while the sun shines

The current backdrop for deal making remains exceptionally benign, and the evidence from the transaction data confirms that participants are making hay while the sun shines. Furthermore, our survey suggests that they look set to continue doing so.

Given the length of the sales process, owners of privately held companies may wish to initiate proceedings sooner rather than later

However, we are becoming more concerned that this environment may not remain equally favourable in the next few years. So, given the length of the sales process, any owners of privately held companies who are contemplating an exit at some point may wish to initiate proceedings sooner rather than later.

E-mail: Jim.Keeling@corbettkeeling.com

Source: Transaction statistics supplied by unquote