Corbett Keeling Corporate Finance

A time of change?

After a strong first half of the year, the pace of activity in the UK private deals market faded in the third quarter. Jim Keeling of corporate finance advisor Corbett Keeling considers whether this lull is likely to be temporary and what it means for company directors who are looking to sell.

There's been a lot of change over the past three months. For the first time since the 1950s, the United Kingdom has a new monarch. We also have a new Prime Minister – not such a rare event, it seems. And the tide of war appears to be turning in Ukraine.

We've also seen considerable change in the private M&A market. In the last issue, I wrote that the market was then still in an unusually sweet spot, with cash rich buyers paying good prices to a large number of sellers.

Buyers still have plenty of cash. But, as I noted last quarter, their appetite for deals can turn quickly, and that seems to have been the case over the past three months.

Perhaps that's not surprising. The economic outlook is clouded by concerns about a recession, interest rates are rising, making debt funding more expensive, and Putin is threatening an escalation of his war. All of this is reflected in our latest survey of market sentiment.

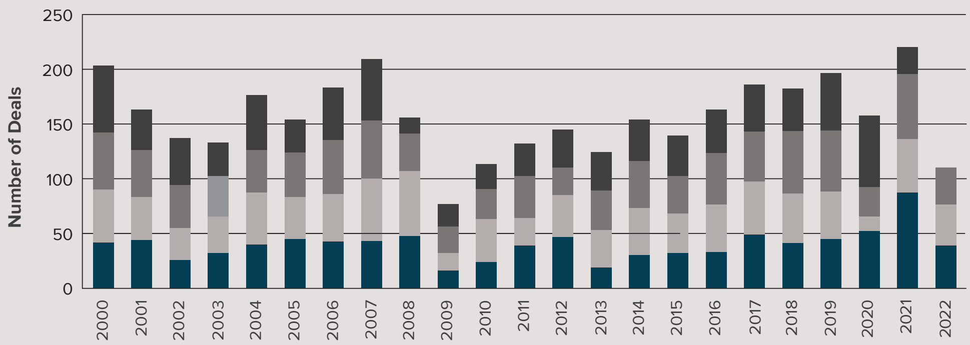
On the other hand, we have seen some positive developments. For example, the new government has shown that its key economic target is higher growth. Despite the market turmoil it caused, the mini-Budget was pro business, and we can expect further supportive measures in the coming months. In addition, the decline in the pound has made UK businesses look temptingly good value, especially to buyers from the US.

But, if business owners are worried by the possibility of a longer-lasting downturn, they need not be put off from selling. The value of any deal may not be quite as high as we have seen over the last two years, but plenty of buyers are still in the market. And our long experience of the market has taught us that many sectors continue to do well – and achieve good prices – even in an outright recession.

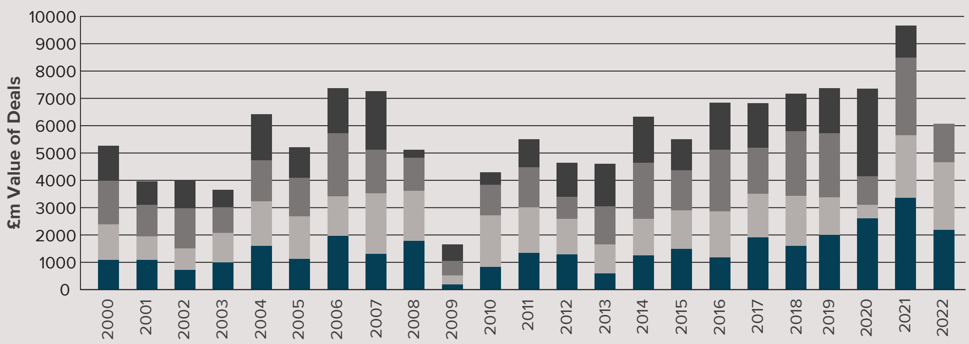
Assessing the deal data

Activity in the **smaller buyouts** sector (transactions with enterprise value of less than £150 million) remained broadly flat in the third quarter, with the volume of deals edging down to 34, from 37 in the previous period. However, their aggregate value fell significantly, from £2.5 billion to £1.4 billion, still a perfectly respectable figure.

Sub £150m Buyouts by Volume



Sub £150m Buyouts by Value



Key:

Q4

Q3

Q2

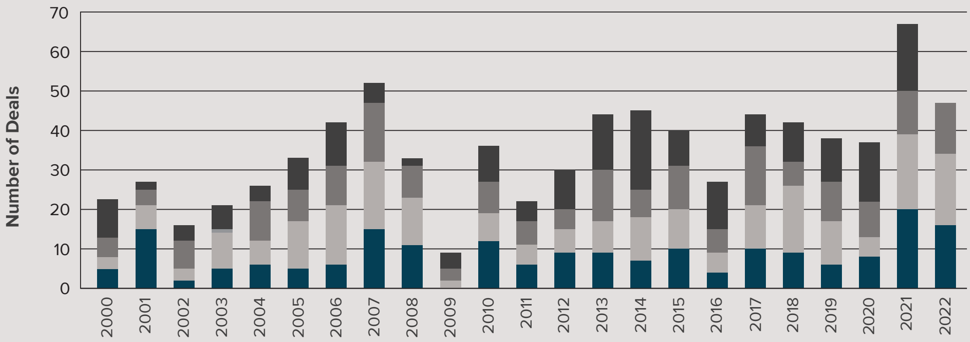
Q1

In the **larger buyouts** sector (transactions with enterprise value of £150 million or above), the number of transactions fell from 18 to 13, but the larger decline was in their overall value, which tumbled from the previous quarter's bumper £20.9 billion to £6.9 billion, the lowest quarterly figure for two years. Nevertheless, the total value of transactions for the first nine months set a new record.

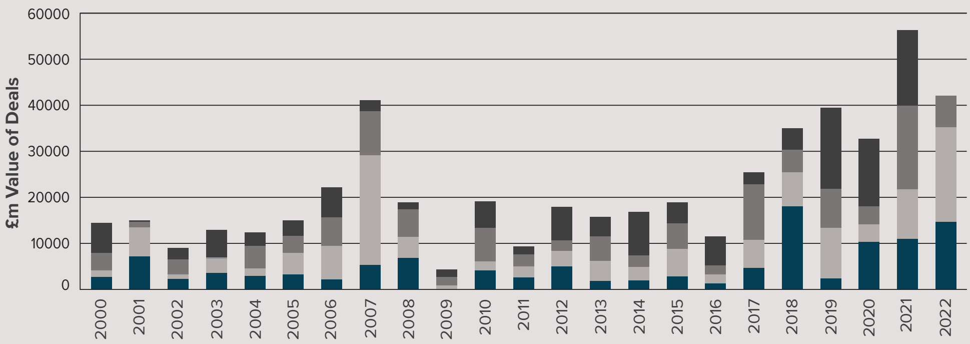
Key:

- Q4
- Q3
- Q2
- Q1

£150m+ Buyouts by Volume



£150m+ Buyouts by Value

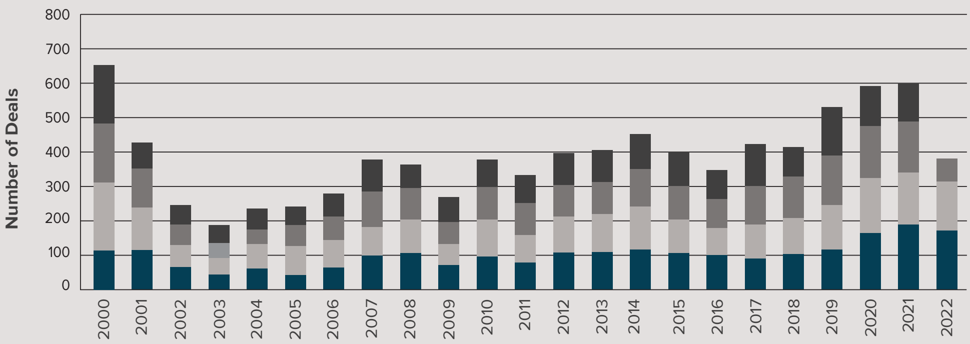


Early-stage and expansion capital deals also experienced a decline in both the volume and the value of transactions. The number of deals more than halved, down from 141 to 68, while the total value of deals fell from £4.3 billion to £2.2 billion.

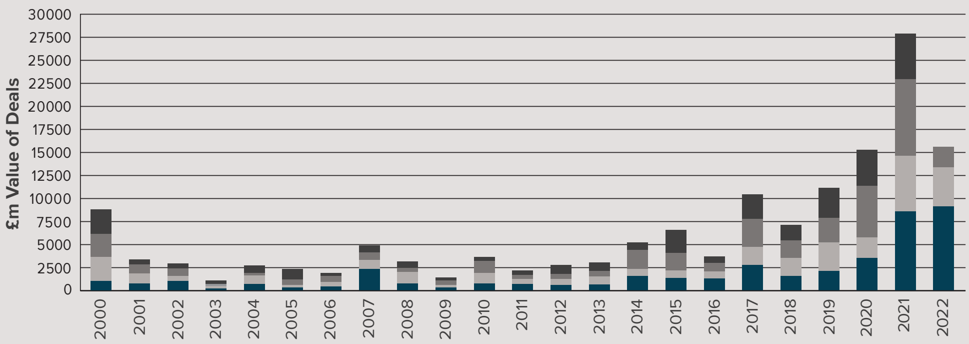
Key:

- Q4
- Q3
- Q2
- Q1

Volume of Early-Stage / Expansion Deals



Value of Early-Stage / Expansion Deals

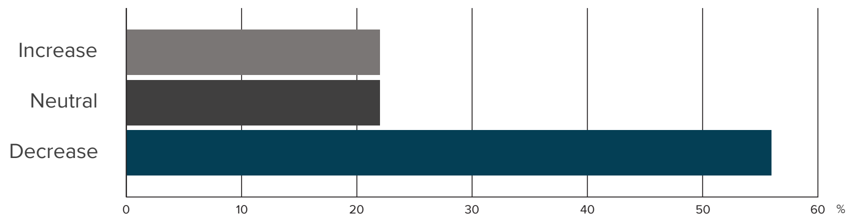


So what does our latest survey suggest?

With a backdrop of high inflation, rising interest rates and continuing concerns over weakening global growth, not to mention the ramifications of the Russo-Ukraine war, it's not surprising that market sentiment – usually so upbeat – has turned more negative.

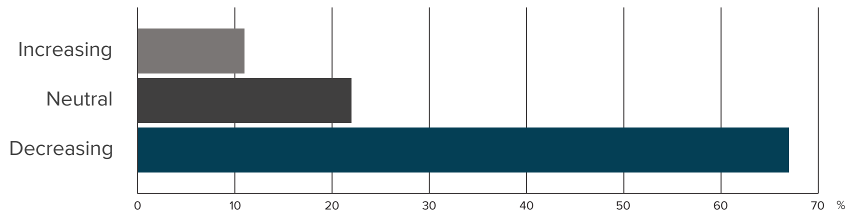
1 Do you expect deal volumes to increase or decrease?

The number of respondents expecting deal volumes to increase over the next few months fell from one third to 22%, while those forecasting a decrease rose from 11% to 56%. The remainder expect little change.



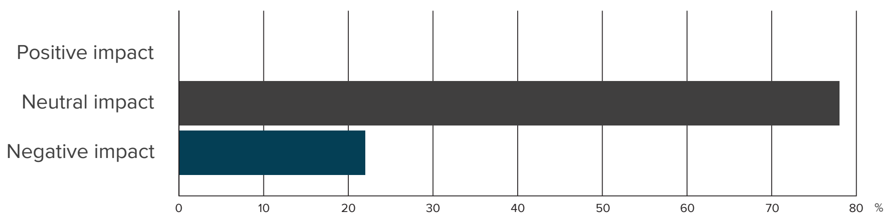
2 Is debt availability increasing, decreasing or neutral?

Concerns about debt financing rose significantly. The proportion of respondents observing a reduction in the availability of debt increased from 22% to two thirds.



3 Has Russia's invasion of Ukraine had an impact on your portfolio companies?

Even as the war in Ukraine escalates, respondents have become marginally less worried about the impact on portfolio companies. The proportion reporting a negative effect has fallen from one third to 22%, with the remainder seeing little or no impact.



Contact us

Jim.Keeling@corbettkeeling.com