Making the most of the sweet spot

The pace of deal activity remains brisk, with many private companies still achieving strong valuations on sale. But how long will these favourable conditions last? Jim Keeling of corporate finance advisor Corbett Keeling assesses the evidence.

The post pandemic boom in transactions continues. The market continues to enjoy a rare sweet spot where cash rich, deal hungry buyers are finding plenty of business owners who are eager to sell.

Buyers are still sitting on a pile of cash, much of it accumulated during the lockdowns, and they don't show any sign of losing their appetite to put this cash to work. However, appetites can fade quickly.

And on the other side of the table, we are coming across a lot of owners who have built up their businesses over decades and managed to survive 2 or 3 recessions and the tricky trading conditions through the pandemic but who are now reassessing their lifestyle and looking to sell. And the prospect of a possible recession has certainly focused their minds.

The economic outlook appears unusually murky. The cost of living crisis is putting pressure on consumers and businesses alike, and the Bank of England is raising interest rates to tame inflation, causing concerns about the availability and cost of debt.

What is more, the Ukraine war and the COVID-related lockdowns in China continue to cause supply chain problems across a range of industries. As a new cold war with Russia and China reverses some of the globalisation of recent decades, these issues are likely to persist – witness the recent joint statement by the FBI and MI5 on efforts to counter Chinese espionage, both military and economic.

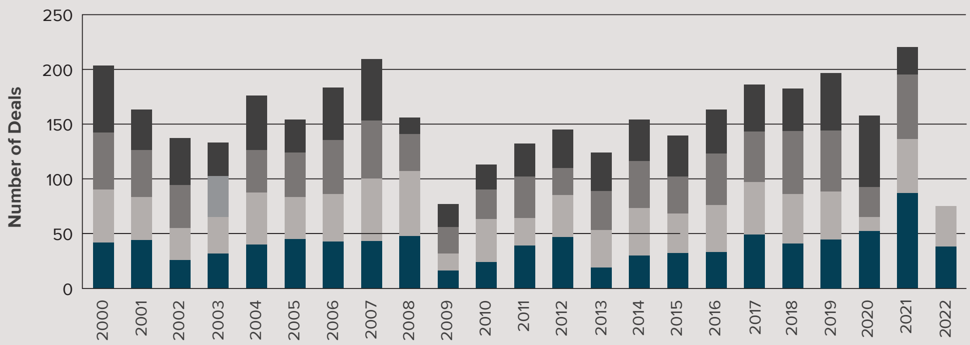
So we would encourage any owners who are considering a sale not to delay. The current market environment is highly unusual, and we know from past experience that it can't last indefinitely.

These favourable conditions are reflected in the latest quarterly data, which we now turn to.

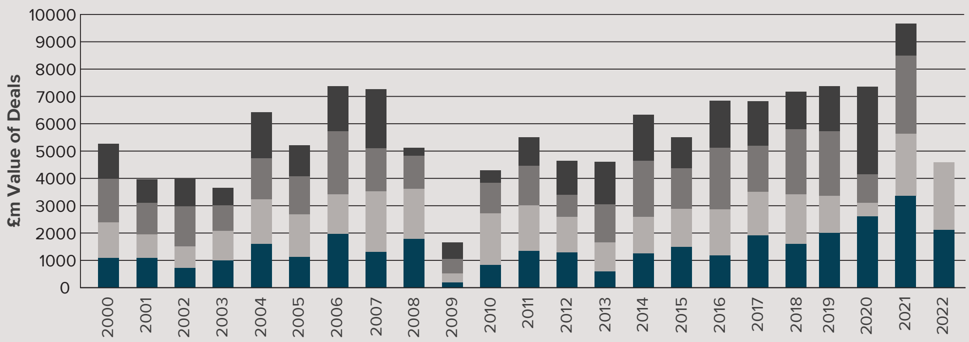
Assessing the deal data

Activity in the **smaller buyouts** sector (transactions with enterprise value of less than £150 million) held steady in the second quarter of this year. The volume of deals dipped very slightly from 38 to 37, but their aggregate value jumped from £2.1 billion to £2.5 billion.

Sub £150m Buyouts by Volume



Sub £150m Buyouts by Value

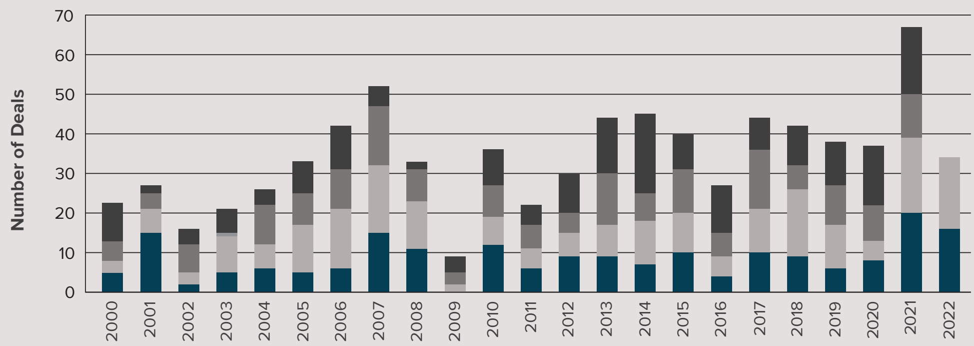


Key:

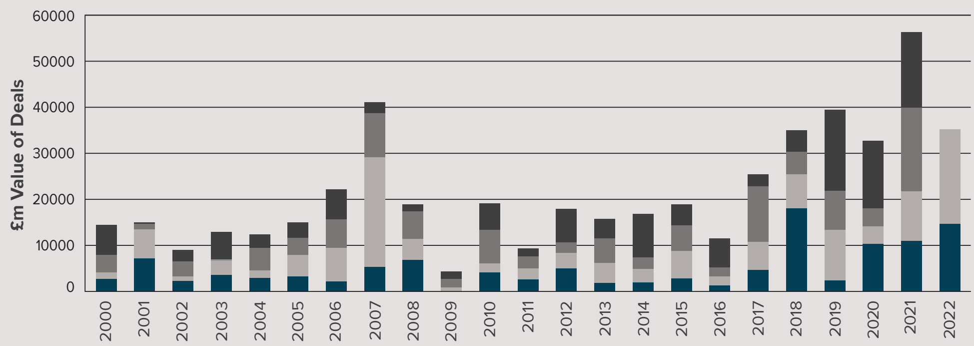
- Q4
- Q3
- Q2
- Q1

The **larger buyouts** sector (enterprise value of £150 million or above) enjoyed a very strong quarter. While the number of transactions edged up from 16 to 18, their overall value soared from £14.8 billion to over £20.9 billion, the second highest quarterly figure on record. That takes the total for the first half of 2022 to nearly £36 billion, the strongest ever start to a year.

£150m+ Buyouts by Volume



£150m+ Buyouts by Value



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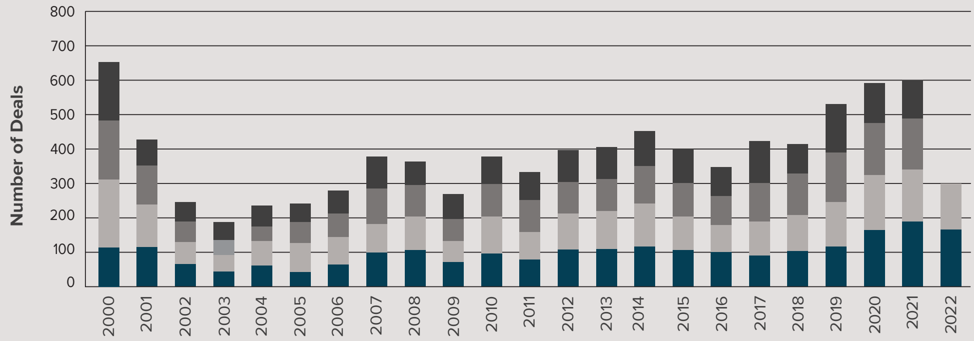
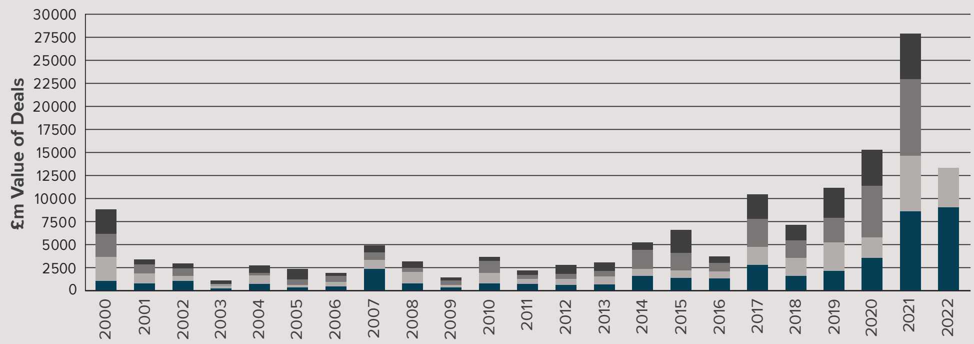
Early-stage and expansion capital deals were the least strong segment of the market. The number of transactions declined from 166 to a still robust 134. But the average value was down more significantly, as the total value of deals fell from £9.1 billion to £4.3 billion.

Volume of Early-Stage / Expansion Deals



Value of Early-Stage / Expansion Deals



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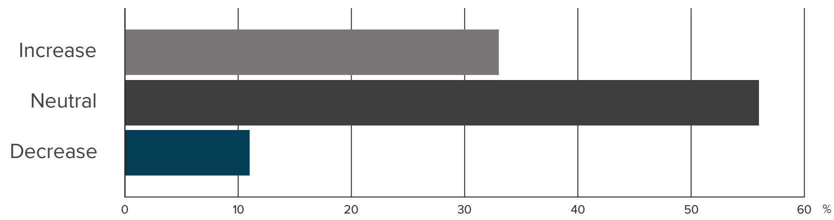
So what does our latest survey suggest?

The economy has had a lot to contend with, given rising inflation, tightening financial conditions, disrupted supply chains and the worsening situation in Ukraine. Nevertheless, our quarterly survey of market participants suggest that the market's mood remains pretty sanguine.

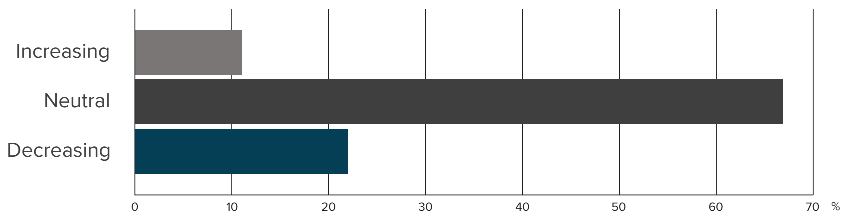
1 Do you expect deal volumes to increase or decrease?

Most respondents still expected that deal volumes would either increase (one third) or be little changed (56%) over the next few months. Meanwhile, over the quarter those forecasting a decline halved, from 22% to 11%.



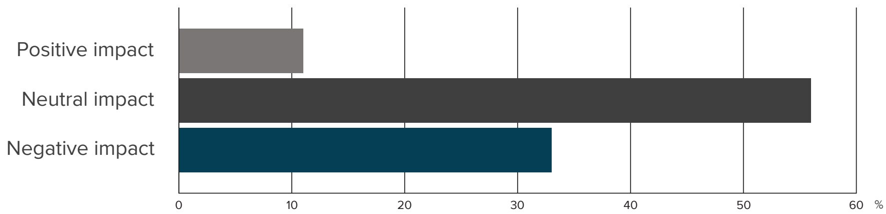
2 Is debt availability increasing, decreasing or neutral?

Concerns about the ease of debt financing are ticking up. Those expecting an increase in availability fell from 22% to 11%, with a corresponding rise in those predicting less availability.



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

As the war in Ukraine continues, respondents see it having a more significant adverse effect on portfolio companies. While 11% still think it is having a positive impact, the number citing it as a negative factor has risen to one third.



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