Corbett Keeling Corporate Finance

Better than it looks?

As some statistics point to a weakening in the private M&A market, Jim Keeling of corporate finance advisor Corbett Keeling evaluates current conditions and offers reassurance to potential sellers that it remains realistic not just to get deals done but to complete them at good prices.

The humourist Bill Nye said that "Wagner's music is better than it sounds." As someone with a degree in physics, I learnt to trust data. And yet sometimes the initial conclusions one might draw from the statistics don't reflect either the detail that underlies them or our experience.

Last quarter, I noted a divergence between activity in the larger and the smaller deal segments of the market. This quarter, the volume of deals in the smaller segment has also weakened, slightly. In addition, our latest survey of market participants reveals a rather more sombre mood than before.

That shouldn't come as a total surprise, given the more difficult environment of higher inflation and interest rates. And the pace of activity during the post pandemic boom couldn't last for ever.

But, at the same time the year to date volume of deals in our market (sub £150m enterprise value) is broadly in line with recent "good" years, and any perceived "weakness" certainly doesn't reflect our experience on the ground, where things are as busy as ever. We are still talking to lots of businesses which are not just surviving but thriving. And we are also finding plenty of private equity investors and trade buyers who are very interested in those businesses.

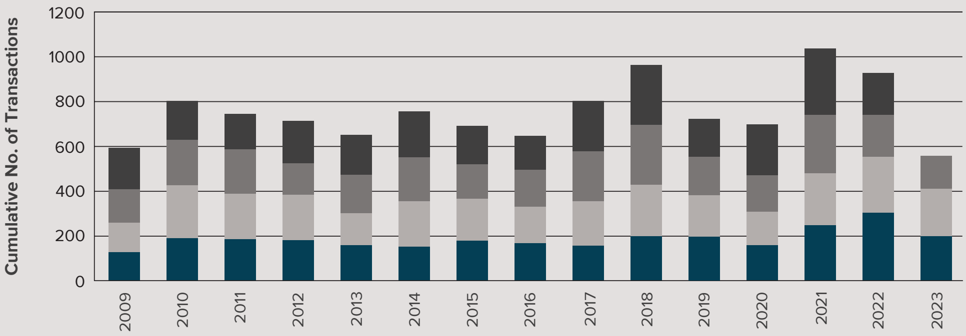
Of course, when it comes to selling a business, the timing is always crucial. Three different factors need to match up: the personal aspirations of the shareholders; what makes sense for the business itself; and finally the state of the M&A market in your sector.

The good news for anyone looking to sell a business at the moment? If the time is right both from your personal perspective and that of the business, I am pleased to say that the M&A market for sub £150m deals, remains absolutely strong enough to get you a good price.

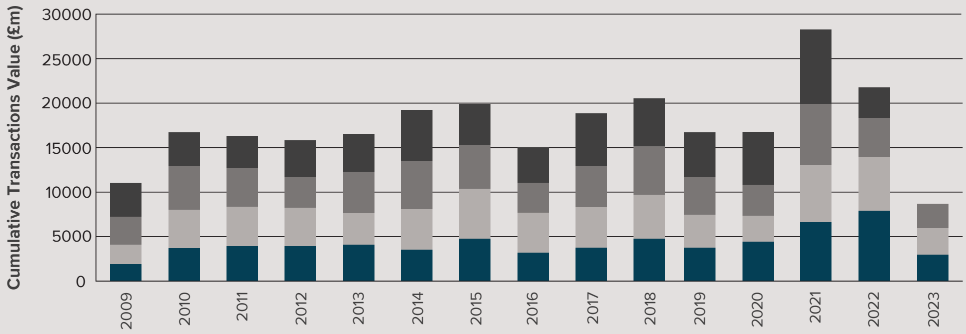
Assessing the deal data

Activity in the **smaller deals** sector (transactions with enterprise value of less than £150 million) declined over the quarter. The number of deals completed fell from 211 to 146. The decline in the aggregate value of transactions was less marked, down from £3.0 billion to £2.7 billion. But for the first nine months of the year, the volume of deals is around the pre-pandemic average.

Sub £150m Transactions by Volume



Sub £150m Transactions by Value



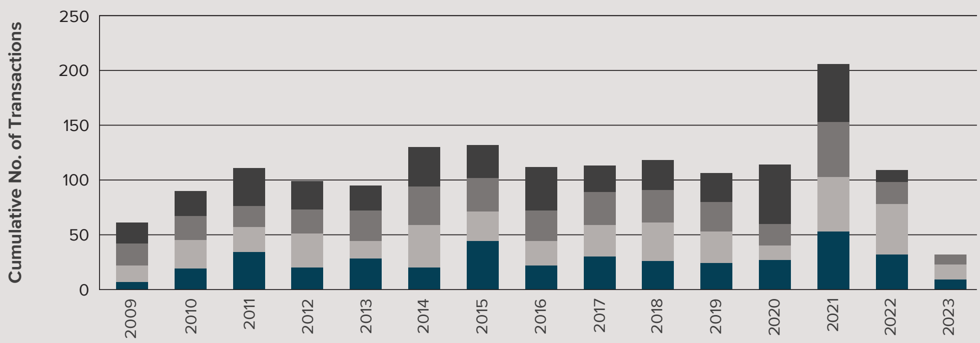
Key:

Q4 Q3 Q2 Q1

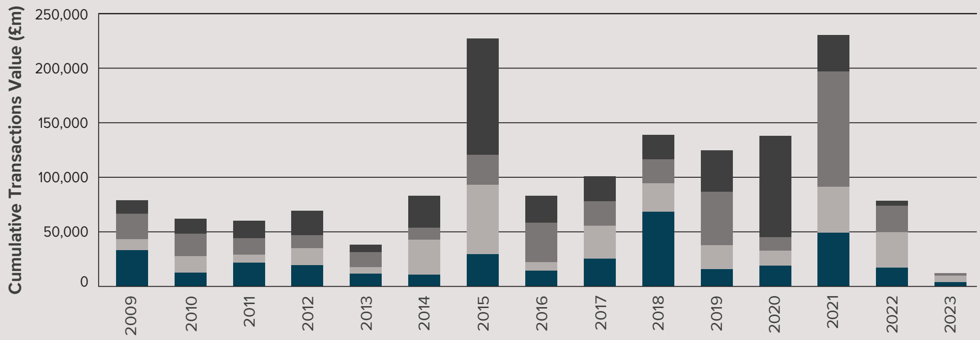
Data supplied by Thomson Reuters Eikon.

Tentative hopes that the **larger deals** sector (enterprise value of £150 million or above) might have turned the corner were dashed in the third quarter. The number of transactions fell from 14 to nine, and their total value was down from £5.8 billion to £2.3 billion, the lowest quarterly total since our data began. Barring a major turnaround in the final quarter, this sector is on course for a record bad year.

£150m+ Transactions by Volume



£150m+ Transactions by Value



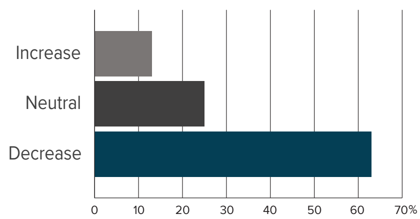
Key: Q4 Q3 Q2 Q1

Data supplied by Thomson Reuters Eikon.

So what does our latest survey suggest?

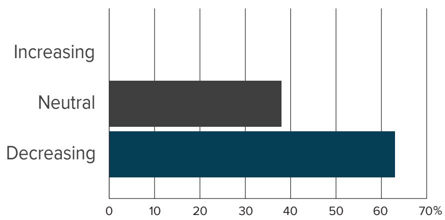
After picking up in last quarter's survey, sentiment among the market participants we've canvassed (across all deal sizes – larger and smaller) appears to have experienced something of a reversal.

1 Do you expect deal volumes to increase or decrease?



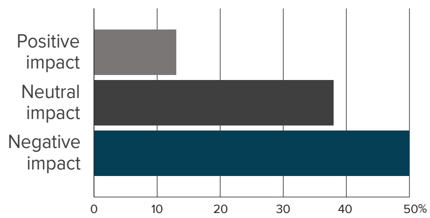
The proportion of respondents now predicting an increase in deal volumes over the next few months fell to 13%, down from a quarter. At the same time, the percentage forecasting fewer deals rose from 25% to 63%.

2 Is debt availability increasing, decreasing or neutral?



Concerns have grown about the availability of debt financing. Nearly two thirds of respondents said it was decreasing, up from 42% last time. Meanwhile, no one reported an increase in availability, compared with 17% the previous quarter.

3 Has the current economic climate, including the rising cost of debt, had an impact on your portfolio companies overall?



The current economic climate and the higher cost of debt are increasingly hurting portfolio companies, with the proportion of respondents reporting a negative impact rising since last quarter from a third to a half.

Contact us

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