Corbett Keeling Corporate Finance

Chalk and cheese

While the larger deals segment showed clear signs of weakness during the first quarter of 2023, the rest of the M&A market held up well. And, as Jim Keeling of corporate finance advisor Corbett Keeling observes, activity remains particularly strong at the smaller deals end of the market.

It's sometimes hard to keep data in perspective. But it's always important to make sure you are comparing like with like. Not surprisingly, the period immediately after the pandemic was exceptionally strong for M&A activity in the UK, as deals delayed by COVID-related uncertainty came through in a rush.

So what are activity levels really like now? Yes, they are down on last year. But, to get a fair comparison, you have to look back over a longer timeframe. If we evaluate the whole period since the global financial crisis, we can see that the larger deal end of the market is weak at the moment, with both the volume and the value of deals down significantly on what we would consider normal levels.

But, in the lower/mid-size deal segment, the volume of deals is as high as it ever was in the decade leading up to the pandemic. In fact, we see a ton of activity as thriving companies meet buyers who still have plenty of cash to invest in the right businesses.

Despite what you might read in the press, business owners are still achieving good valuations at the lower/mid-size end. Where the overall value of deals in this segment is somewhat down, I think that largely reflects the size of the businesses being sold, not that buyers are less willing to pay fair prices.

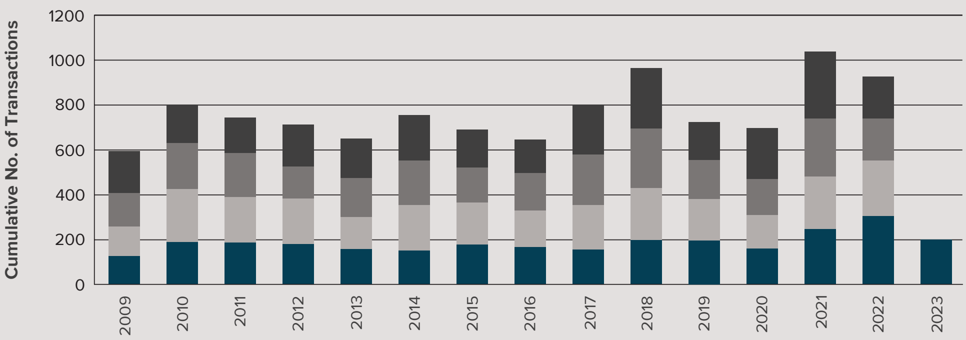
Furthermore, market sentiment shows signs of turning more positive again, after becoming a bit downbeat in the second half of last year. That was not surprising, given the inflationary shock, the Ukraine war, increasing economic uncertainty and decreasing debt availability. But now the market seems to have adjusted and is getting on with business, as it always does.

So let's look at the transaction data for the first three months of the year.

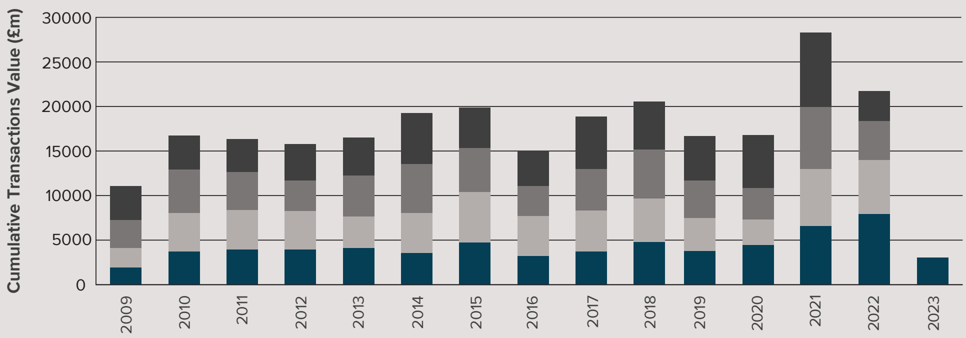
Assessing the deal data

Activity in the **smaller deals** sector (transactions with enterprise value of less than £150 million) was buoyant over the first quarter of the year. The volume of deals actually increased from the previous quarter's 187 to reach a total of 199. In volume terms, it was the strongest start to a year since the global financial crisis, excluding the pandemic period. However, the aggregate value of transactions declined slightly, from £3.4 billion to £3.1 billion.

Sub £150m Transactions by Volume



Sub £150m Transactions by Value



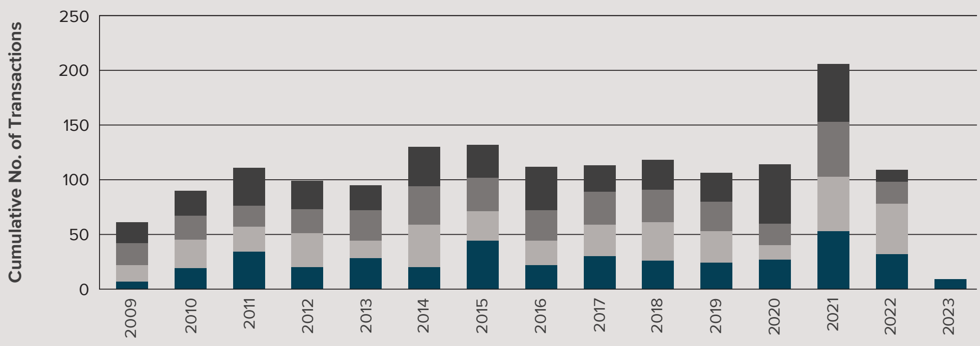
Key:

Q4 Q3 Q2 Q1

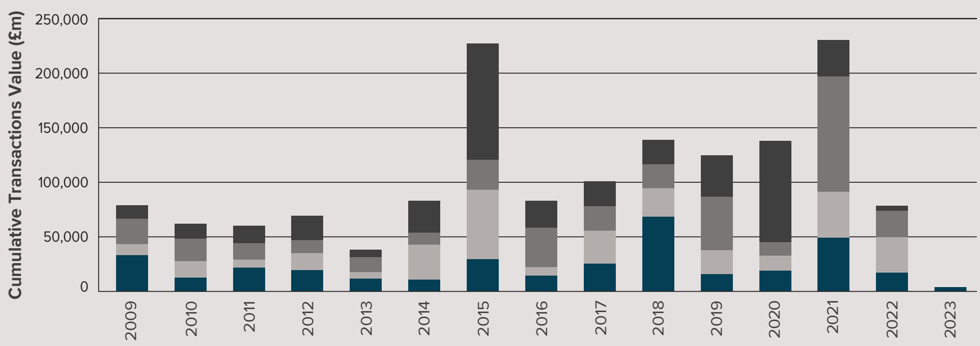
Data supplied by Thomson Reuters Eikon.

It was another weak quarter for the **larger deals** sector (enterprise value of £150 million or above). The number of transactions fell from 11 the previous quarter to 9, the second lowest since 2000. Meanwhile, the total value of deals dipped from £4.4 billion to £3.9 billion, setting a new quarterly record low.

£150m+ Transactions by Volume



£150m+ Transactions by Value



Key:

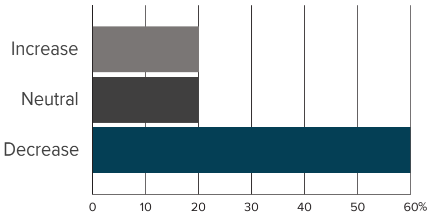
Q4 Q3 Q2 Q1

Data supplied by Thomson Reuters Eikon.

So what does our latest survey suggest?

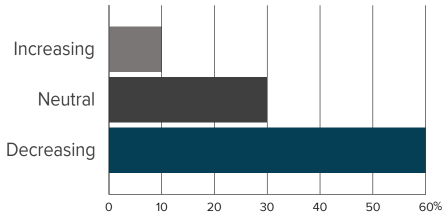
While market participants' responses are rather downbeat, they have become appreciably less negative overall than they were in the previous quarter.

1 Do you expect deal volumes to increase or decrease?



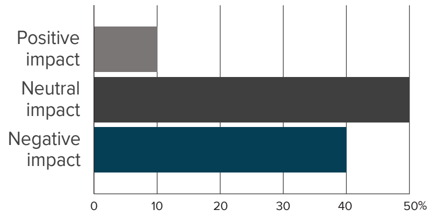
The number of respondents expecting deal volumes to increase over the next few months rose from 11% to 20%, while those forecasting a decrease fell from 78% to 60%, with the remaining fifth in the neutral camp.

2 Is debt availability increasing, decreasing or neutral?



Not surprisingly, market participants are still concerned about debt financing. However, the proportion reporting an actual decrease in availability dipped from 67% to 60%.

3 What impact has the current economic climate had on your portfolio companies overall?



It was a similar story when asked whether the current economic climate is adversely affecting their portfolio companies. The percentage reporting a negative impact edged down from 44% to 40%, while half said they had seen little effect one way or the other.

Contact us

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