Corbett Keeling
Corporate Finance

"Never seen anything like it"

After a first six months that set records for volumes and values in some sectors of the market, transaction activity maintained a rapid pace during the third quarter, with buyers still prepared to pay high prices for attractive businesses. Here, Jim Keeling of corporate finance advisor Corbett Keeling looks at the data and assesses the outlook for the rest of the year.

Deal making among UK private companies remains exceptionally strong. While rising inflation and potential Capital Gains Tax increases may eventually slow the current brisk pace of activity, that seems a distant prospect at the moment. And the strength has been broad-based, with some sectors already beating their previous annual records for volumes or values after only nine months of the year.

I believe this remains very much a "win-win" market. Cash-rich trade buyers and private equity funds are scouring the marketplace for ways to put their money to work, while many owners of private companies are keen to take advantage of this opportunity to exit their business, particularly after a tricky last 18 months. The result: a large number of deals are being done at prices that are good for buyers and sellers alike.

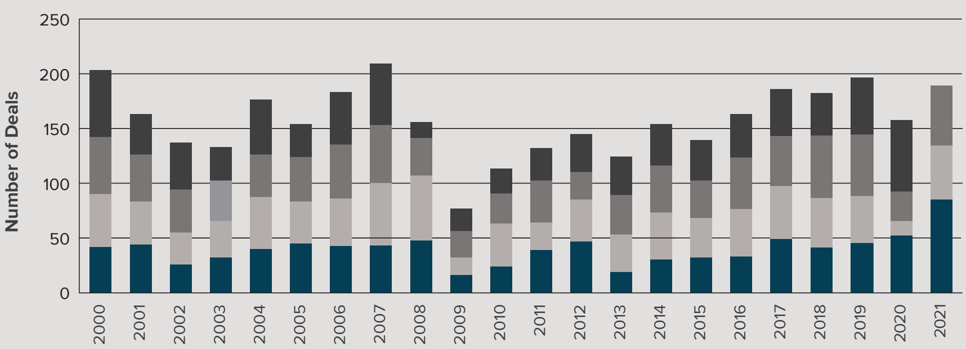
We have certainly been very busy at Corbett Keeling, and we are not alone. Indeed, advisors in the US M&A market, where we are currently advising on a deal with our US partner firm, say that they have never seen anything like it. As a consequence, we have sometimes faced a shortage of due diligence and legal professionals to help us with deals we are working on. This is one shortage which is definitely due to strong demand, rather than disrupted supply chains!

And, judging by the results of our latest survey of market participants, the pace of deal making activity is unlikely to slow over the remainder of 2021. But market conditions can change quickly, while sales are invariably time-consuming processes. So any owners of private companies who are contemplating a sale may wish to move promptly to make the most of this buoyancy.

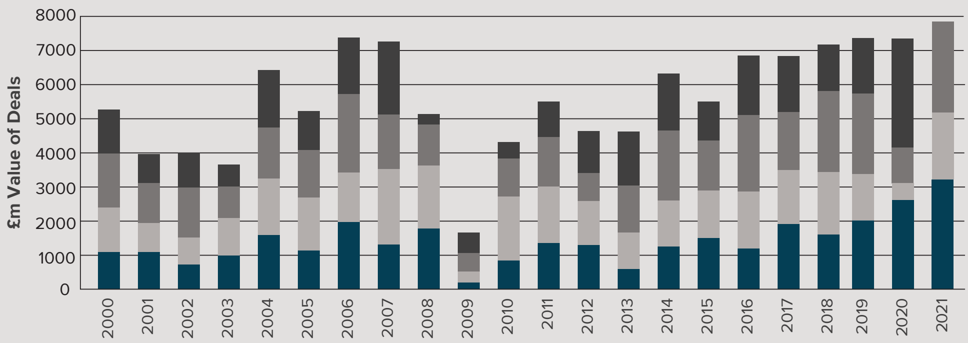
Assessing the deal data

Activity in the **smaller buy-outs** sector (transactions with enterprise value of less than £150 million) increased over the three months. The volume of deals rose from 49 in the second quarter to 55, while their value climbed from just under £2.0 billion to £2.7 billion. Although below the first quarter's total of £3.2 billion, that is still the third highest quarterly valuation figure since our data began, and it takes this sector to its annual record after only nine months of the year.

Sub-£150m Buyouts by Volume



Sub-£150m Buyouts by Value



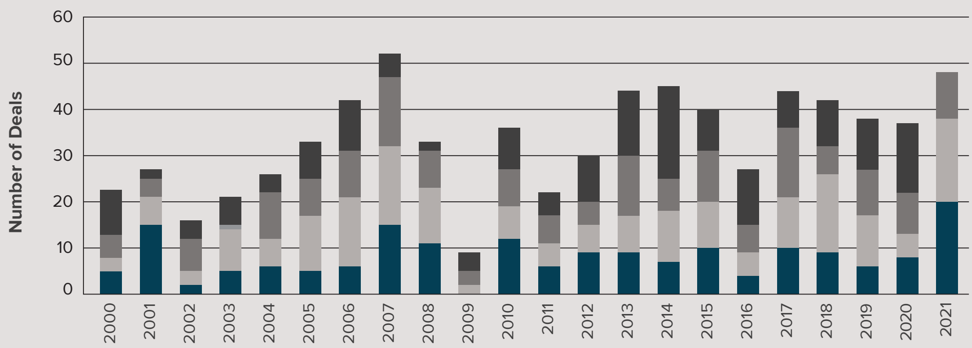
Key:
- Q4
- Q3
- Q2
- Q1

It was another impressive quarter for the **larger buy-outs** sector (enterprise value of £150 million or above). While the number of transactions fell from a very strong 18 to a still respectable 10, the prices achieved were very strong. Overall valuations held up remarkably well, dipping from £10.7 billion to £8.2 billion. Looking at the first nine months of the year, the valuations for this segment were the third highest on record, and the volume of deals set an all-time high.

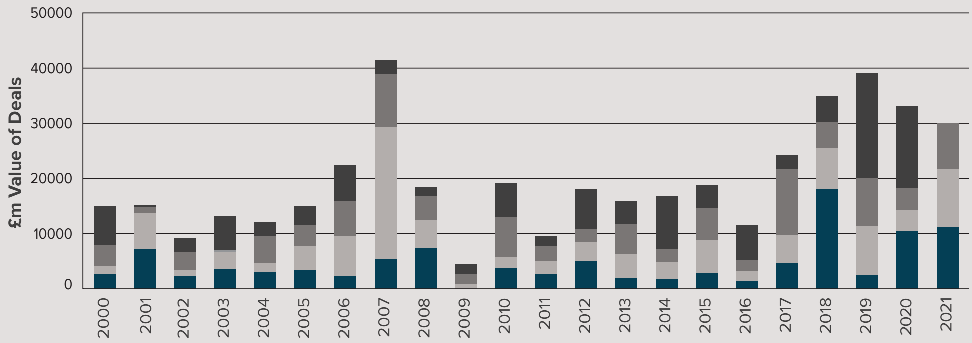
Key:

- Q4
- Q3
- Q2
- Q1

£150m+ Buyouts by Volume



£150m+ Buyouts by Value



The strength in the **early-stage and expansion capital deals** continued. The number of transactions held steady at 128 compared with 129 in the second quarter, still appreciably below the first quarter's total of 168. But the value of deals remained exceptionally strong, rising from £5.8 billion to £7.8 billion, not far off the first quarter's record total of £8.4 billion. So it's no surprise that this sector has already smashed the previous highest annual total for values, with three months of the year still to come.

Key:

- Q4
- Q3
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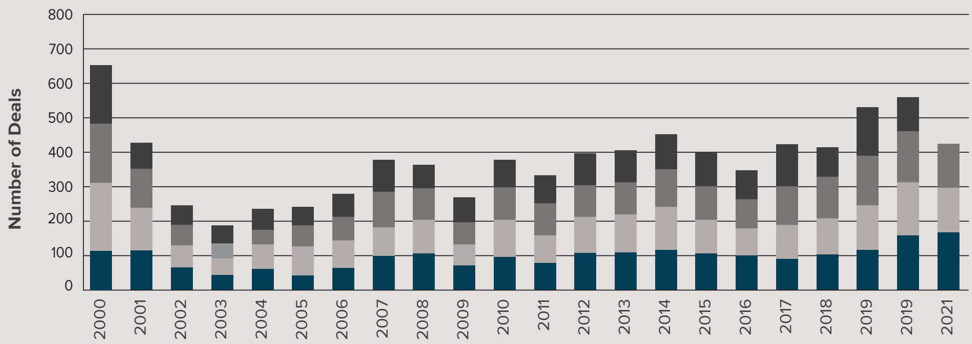
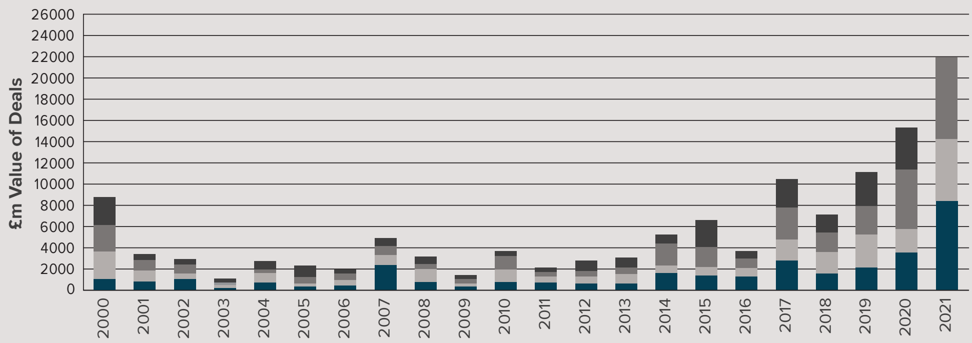
Volume of Early-Stage / Expansion Deals



Value of Early-Stage / Expansion Deals

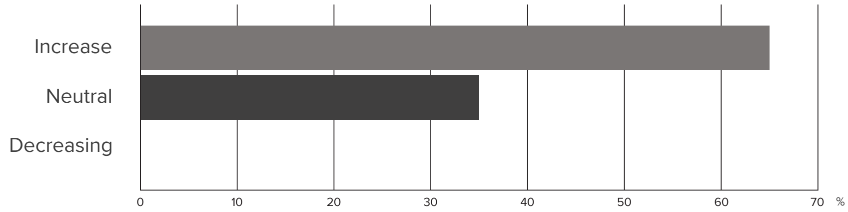


So what does our latest survey suggest?

Market participants appear to be in a buoyant frame of mind. Although they acknowledge that the recent disruption to supply chains has had a near-term impact on the businesses they own, that has certainly not dented their optimism – indeed, far from it.

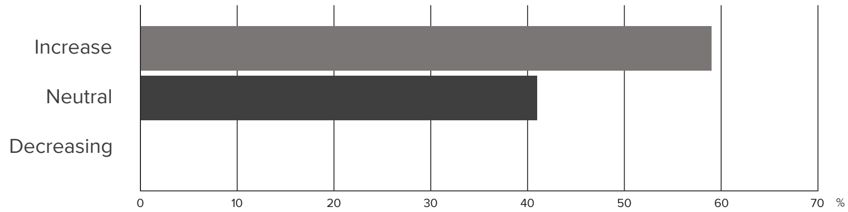
1 Do you expect deal volumes to increase or decrease?

Asked whether deal volumes were likely to increase or decrease, nearly two thirds of our respondents said they expected volumes to rise, while the remainder expected no change. That is far more positive than last quarter, when the clear majority predicted no change or a decrease in activity.



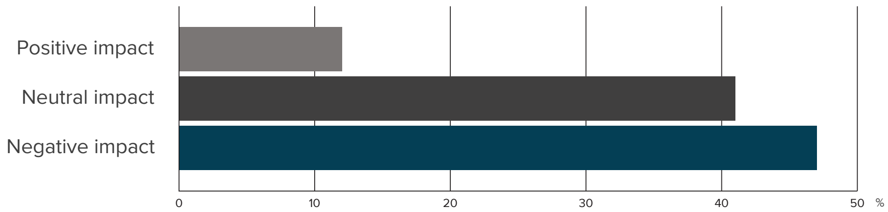
2 Is debt availability increasing, decreasing or neutral?

Similarly, any lingering concerns about debt availability seem to have vanished. Nearly 60% say they actually expect debt to become more freely available, and the rest are neutral. By comparison, one eighth of respondents in last quarter's survey expected debt availability to decrease while three quarters said it would be little changed.



3 Have recent supply chain constraints had an impact on your portfolio businesses?

As noted above, supply chain constraints are biting, with almost half of respondents reporting some impact on their portfolio companies. While that is a burden on businesses, we are encouraged that it shows no signs of dampening the market's overall enthusiasm.



Contact us

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