Corbett Keeling
Corporate Finance

A varied landscape

While the larger deals segment of the private M&A market remains in the doldrums, activity in the mid and smaller segment has held up well. Jim Keeling of corporate finance advisor Corbett Keeling looks at the drivers behind the varied landscape.

The post pandemic boom in transaction activity has slowed. While the volume of deals in the larger transaction segment of the market has declined appreciably since the fourth quarter of 2022, the collapse in values has been little short of dramatic.

And yet we at Corbett Keeling have never been busier in the thirty years since our founding. So what's going on?

It appears to be a combination of factors. First, now that the post pandemic backlog of deals has been cleared, private equity firms seem to be turning their attention to smaller companies, which require less funding and give lower exposure to any one larger deal.

At the same time, owners of independent private companies, having survived the challenges of the last three years, now face further uncertainty in the form of stubbornly high inflation, rising interest rates and weakening economic growth. It's little surprise, then, that many are looking to find an exit.

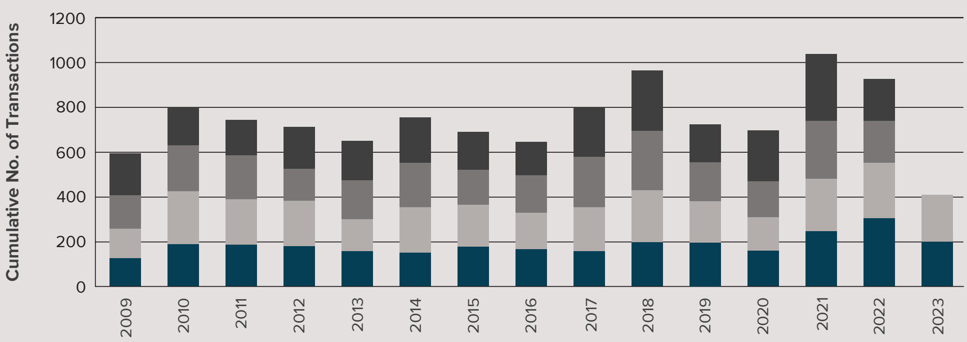
As a result, a large number of deals are still getting done in this segment of the market. And the more sanguine mood of market participants revealed in our latest survey suggests that the pace of activity should remain brisk in the coming months.

However, anyone looking to sell may wish to get the wheels in motion sooner rather than later. Deals normally take longer than you would think, and that's particularly true now with buyers in the current market often requiring greater due diligence, which can be very time-consuming, along with more extended earn out periods. And, with a general election due by the end of next year, the odds currently seem to be on a change of government which might well see increased capital gains tax as a source of additional revenues.

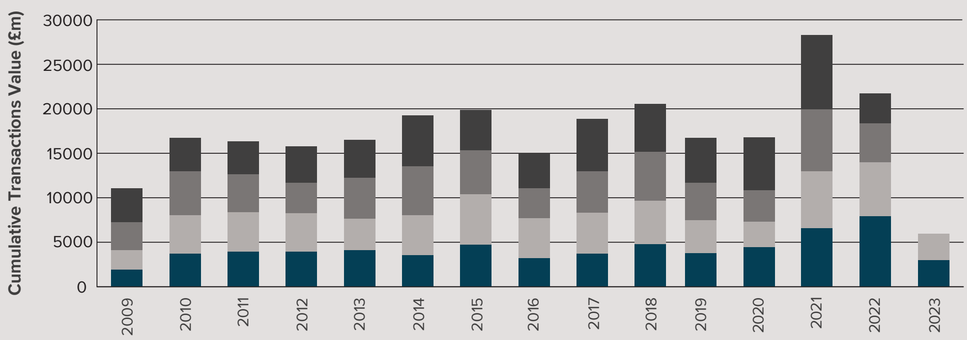
Assessing the deal data

Activity in the **smaller deals** sector (transactions with enterprise value of less than £150 million) continued to increase, with 211 deals completed, up from the previous quarter's 198. That represented a solid first six months of the year in volume terms and an improvement on the second half of 2022. The aggregate value of transactions in the second quarter held remarkably steady at £3 billion, reflecting a slightly higher number of smaller deals.

Sub £150m Transactions by Volume



Sub £150m Transactions by Value



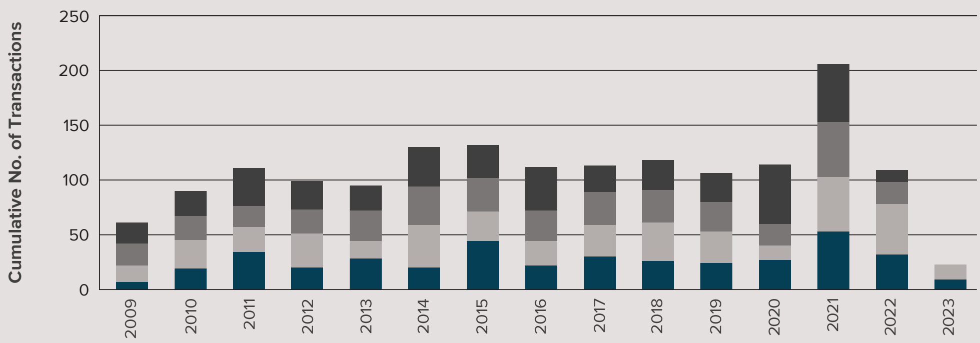
Key:

Q4 Q3 Q2 Q1

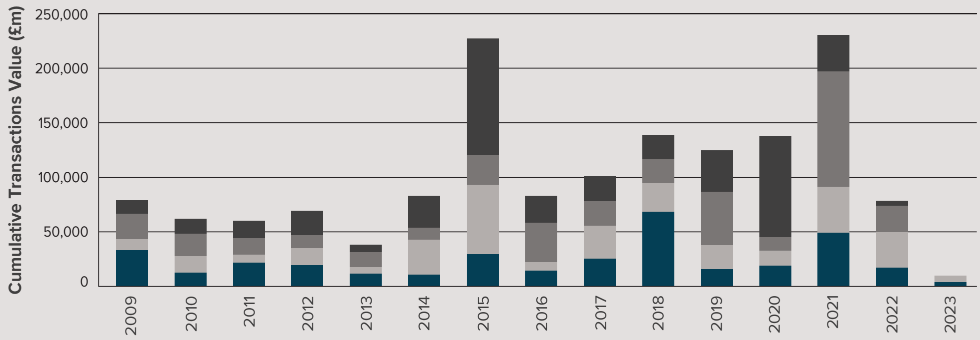
Data supplied by Thomson Reuters Eikon.

It's very early days yet, but the **larger deals** sector (enterprise value of £150 million or above) shows some signs of turning the corner. The number of transactions rose from nine to 14, and their total value was up from £3.9 billion to £5.8 billion. Nevertheless, this is by some margin the weakest first half of a year since our data began.

£150m+ Transactions by Volume



£150m+ Transactions by Value



Key:

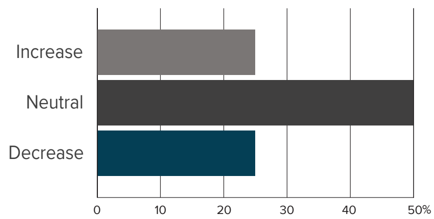
Q4 Q3 Q2 Q1

Data supplied by Thomson Reuters Eikon.

So what does our latest survey suggest?

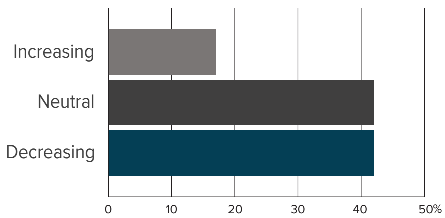
The mood of market participants, though still far from optimistic, seems significantly less downbeat.

1 Do you expect deal volumes to increase or decrease?



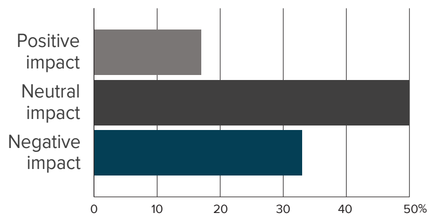
A quarter of respondents are now forecasting a pick-up in deal volumes over the next few months, up from a fifth last quarter. Meanwhile, the proportion expecting a decrease fell dramatically, from 60% to 25%. Half predict no or little change.

2 Is debt availability increasing, decreasing or neutral?



With the Bank of England still raising interest rates, debt financing remains an area of concern. That said, 17% of respondents reported an increase in debt availability, and only 42% said it was becoming less available, down from 60% in our previous survey.

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



Asked to evaluate the effect of the current economic climate on their portfolio companies, 17% of respondents reported a positive impact, up from 10% in the first quarter of the year, while the percentage observing a negative impact fell from 40% to 33%.

Contact us
Jim.Keeling@corbettkeeling.com