Off to a solid start

As Brexit uncertainty continues, we are watching the data closely for any signs of an adverse impact on transactions for private companies in the UK. So far, however, as Jim Keeling of corporate finance advisor Corbett Keeling notes, there is little sign of a slowdown in activity. In fact, the smaller value segment enjoyed a robust first quarter.

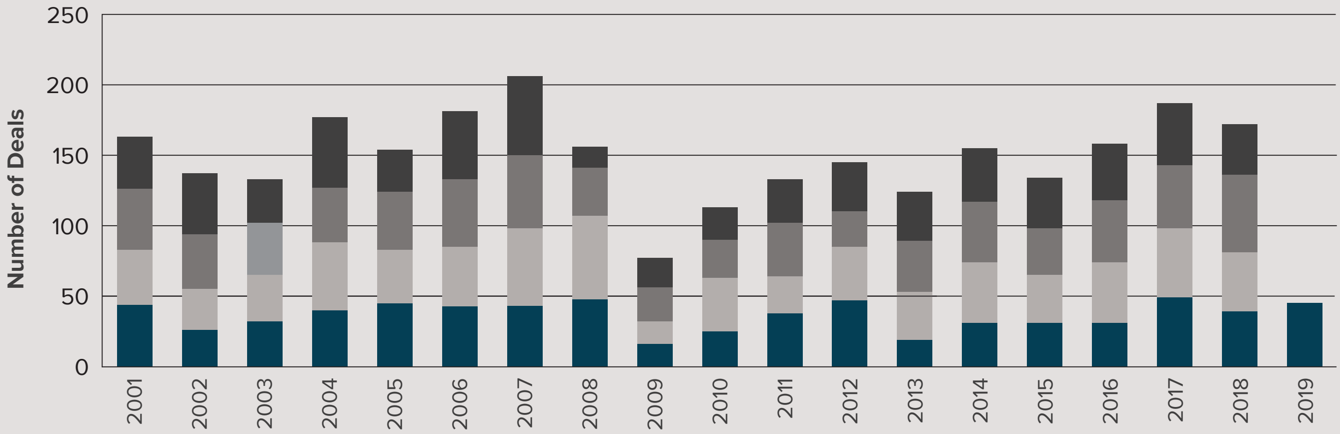
With the final figures in for 2018, it is clear that it was a very strong year for private company deal making. After the bumper vintage of 2017, it was the second best year for values since the global financial crisis. The question – as always – is whether that strong momentum can be continued in 2019. And the evidence of the first quarter as well as our market survey suggests that activity remains at solid levels, with the smaller value segment actually accelerating while the larger value segment, which tends to be volatile, weakened.

Of course, the Brexit story rumbles on, and we appear to be little clearer on the way forward than we were after the referendum in June 2016. But it is hard to know precisely what impact this is having on current activity levels. Certainly, the respondents to our market survey do not seem too concerned about the Brexit effect. And, if it is weighing on the market, then would it be fair to assume that any resolution of the Brexit conundrum could lead to a higher level of future activity?

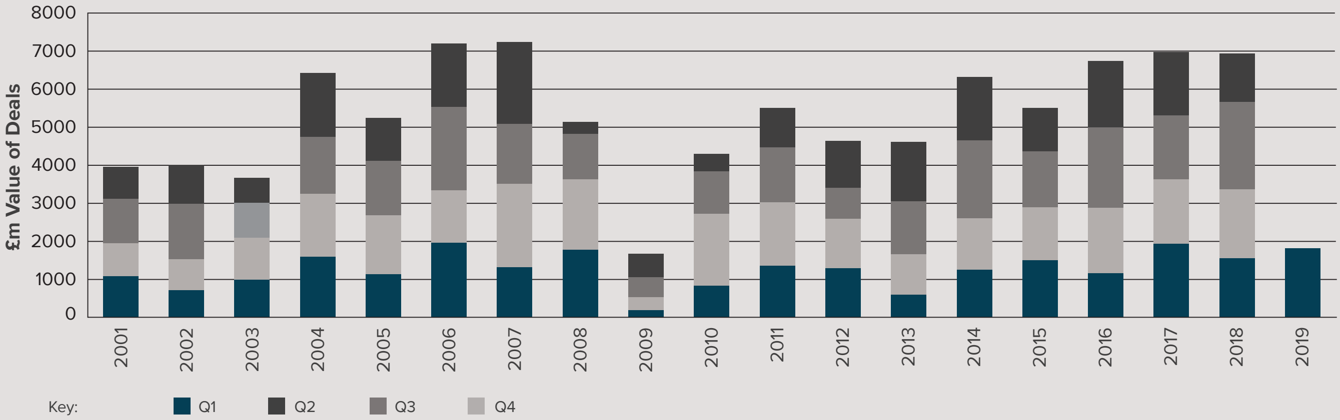
Assessing the deal data

Activity in the **smaller buy-outs** sector (transactions with enterprise value of less than £150 million) dipped slightly in the final quarter of 2018. But we are pleased to report that the pace and value of deals picked up again in the first three months of this year. The volume of deals rose from 37 to 45, while the value was up from £1.3 billion to £1.8 billion. That made it one of the strongest starts to any year since our data series began in 2000.

Sub-£150m Buyouts Volume

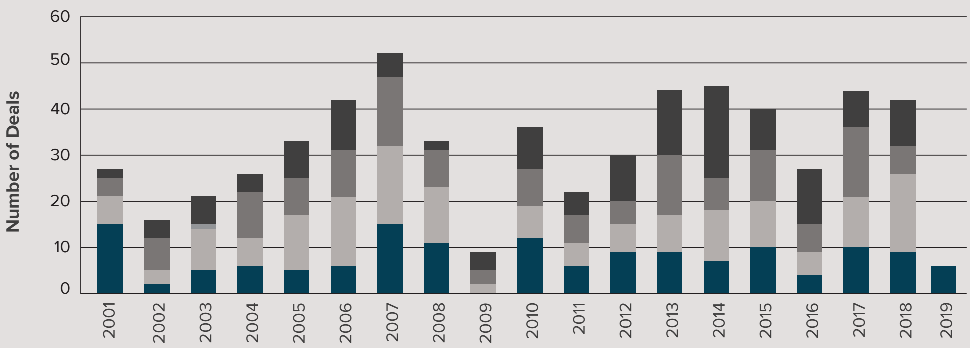


Sub-£150m Buyouts Value

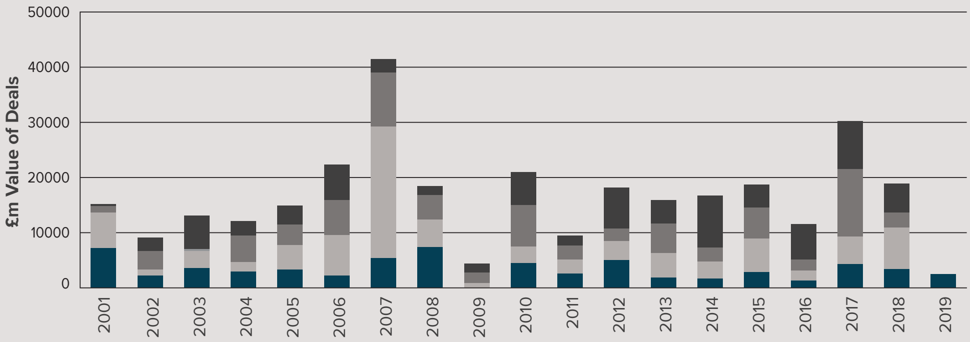


It was a different picture for the **larger buy-outs** sector (enterprise value of £150 million or above). The volume of deals fell from nine to six, while the value was down from £4.8 billion to £2.5 billion. Though well above recessionary levels, these were the lowest figures since the third quarter of 2016.

£150m+ Buyouts by Volume



£150m+ Buyouts Value

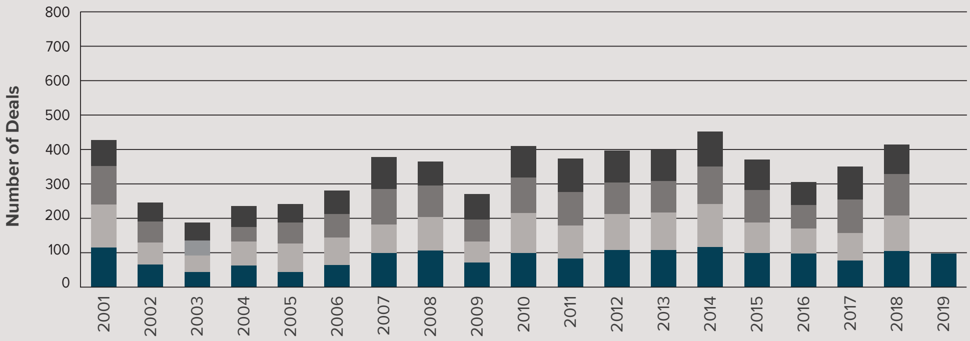


Key:

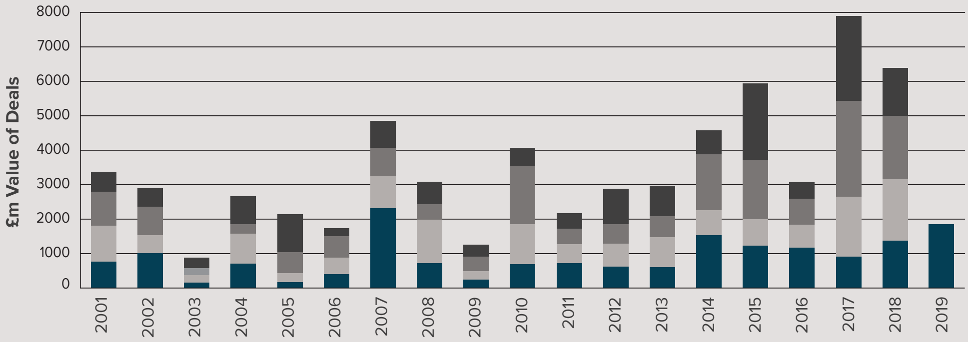
- Q1
- Q2
- Q3
- Q4

Early stage and expansion capital deals picked up a little momentum for the new year. The number of transactions could not quite match the heady pace of the first three quarters of 2018 but still registered a strong total of 97, up from 88 in the previous three months. The value of transactions also rose, from £1.5 billion to £1.9 billion, the highest figure since the last quarter of 2017.

Volume of Early Stage/Expansion Deals



Value of Early Stage/Expansion Deals



Key:

- Q1
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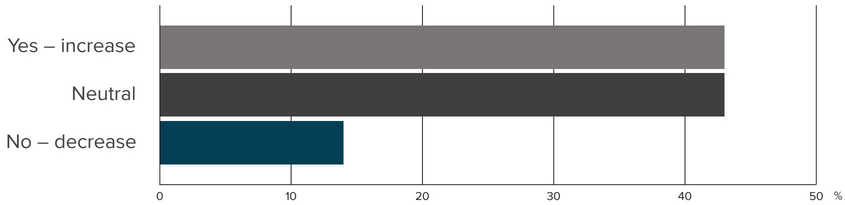
So what does our latest survey suggest?

In the last quarter, debt remained freely available and cheap, so it was little wonder that all equity buy-outs remain in the doldrums. Only two such deals were recorded in the last three months, which was a little bit below the already weak trend rate.

To see if we should have any reasons to be fearful for the rest of 2019, we turn to the latest evidence from our survey of market participants. Despite the continued uncertainty over Brexit and the signs of an economic slowdown on the Continent, their responses suggest that sentiment remains broadly sanguine.

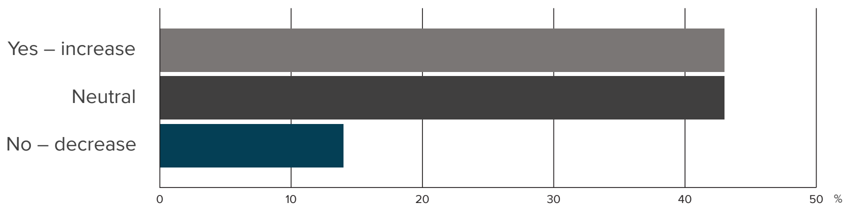
1 Do you expect deal volumes <£100m to increase or decrease?

For the smaller value segment of the market, the vast majority of respondents expected activity to increase or remain at current levels. Only 14% expected a fall over the next six months.



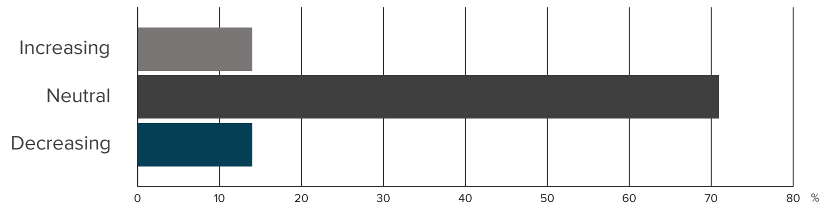
2 Do you expect deal volumes >£100m to increase or decrease?

For the larger value segment of the market, the vast majority of respondents expected activity to increase or remain at current levels. Only 14% expected a fall over the next six months.



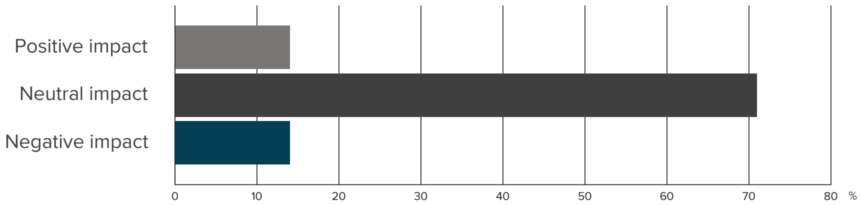
3 Is debt availability increasing, decreasing or neutral?

As we noted above, debt is still plentiful and cheap. However, the outlook may perhaps be becoming more balanced, with equal percentages forecasting an increase and a decrease in debt availability, while the vast majority predicts that the supply and cost of debt will remain broadly at current levels.



4 Has uncertainty over the Brexit negotiations affected investment decisions?

The media have talked about little else but Brexit over the past three months, and you'd be forgiven for assuming that the entire economy was going to hell in a hand-basket. Fortunately, those in the market appear to be getting on with business. Just over 70% of respondents said that the Brexit negotiations had not affected their investment decisions. The remainder were evenly split between positive and negative responses.



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