Corbett Keeling
Corporate Finance

Signs of a softening?

With Brexit deadlines coming and going and political transitions in Brussels and Downing Street, it's not surprising that we see some evidence of uncertainty in our latest survey of market participants and slightly lower volumes of deals across all segments, compared with the same period last year. Yet, as Jim Keeling of corporate finance advisor Corbett Keeling observes, the overall value of deals was bolstered by a strong showing from the lower value segment.

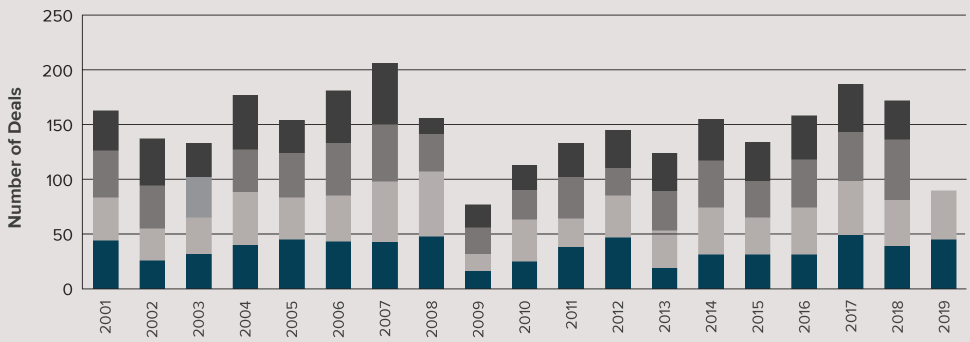
In the last issue of this newsletter, we noted that activity had got off to a solid start in the first quarter of the year, broadly maintaining the momentum from the second half of 2018. It was a similar picture in the second quarter. In fact, the overall value of transactions increased compared with the first three months of the year. We saw particular strength in the early stage and expansion capital segment, which had easily its best first half in the 19 years since our data began.

Of course, this may have been a case of buyers and sellers making hay before the rains come. Our most recent survey of market participants reveals a fall in expectations for deal volumes in the months ahead. Sentiment has clearly taken a turn for the worse, and we see signs of greater caution in the market. Nevertheless, deals are still being done, and we take some encouragement from the fact that the monthly data showed activity picking up in May and June after a disappointing April. Certainly, the strong average values paid over the past quarter suggests that buyers are still happy to pay high prices for good businesses.

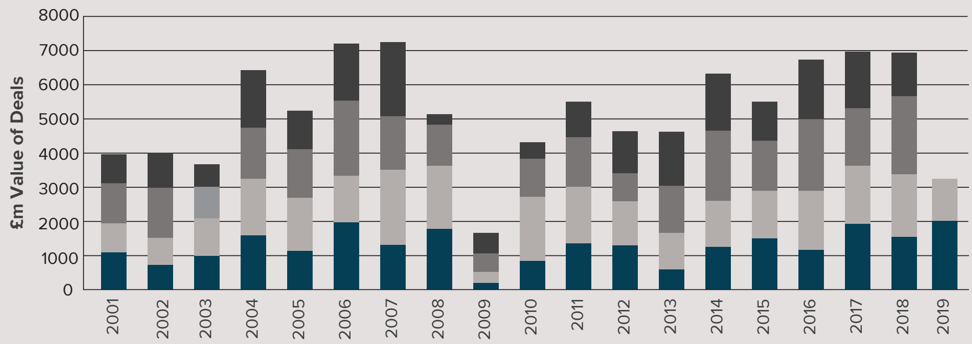
Assessing the deal data

Activity in the **smaller buy-outs** sector (transactions with enterprise value of less than £150 million) was down slightly over the last three months. The volume of deals fell to 36 from 45, while the value declined from £2.0 billion to £1.2 billion. Nevertheless, the totals for the first six months of the year were perfectly respectable, and we draw some encouragement from the fact that the volumes grew each month after a disappointing April.

Sub-£150m Buyouts by Volume



Sub-£150m Buyouts by Value



Key:

Q1

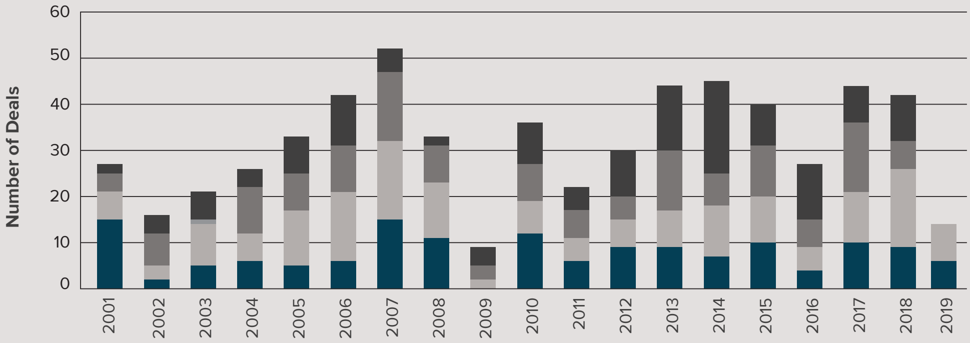
Q2

Q3

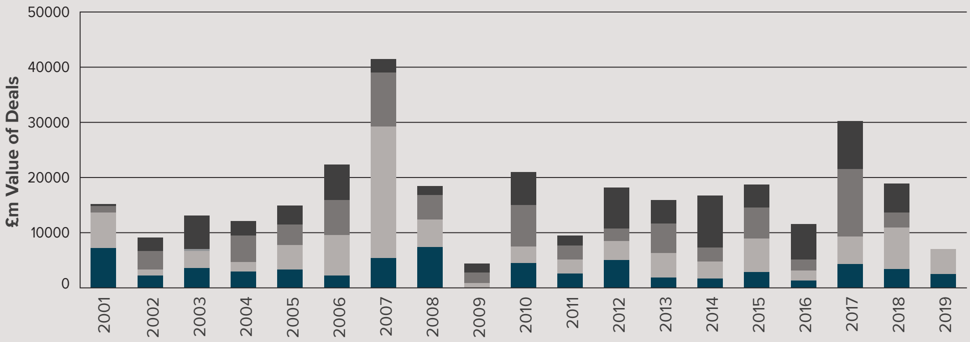
Q4

The **larger buy-outs** sector (enterprise value of £150 million or above). enjoyed something of a rebound after a lacklustre first quarter. The volume of deals rose from six to eight, while the value leapt from £2.5 billion to £4.5 billion, around the levels we were seeing in the second half of last year.

£150m+ Buyouts by Volume



£150m+ Buyouts by Value

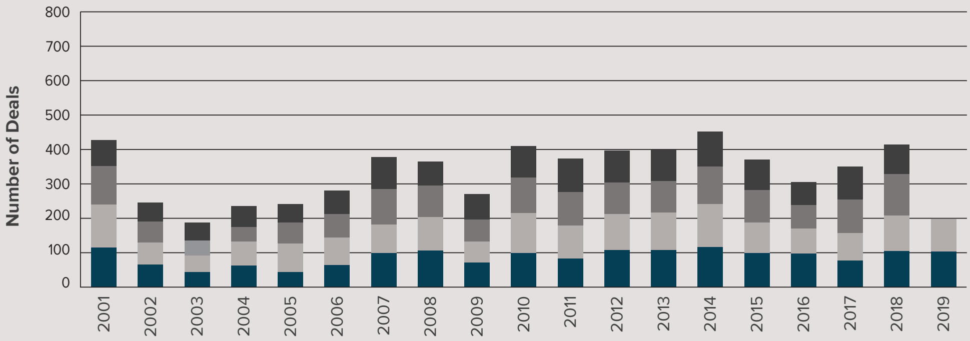


Key:

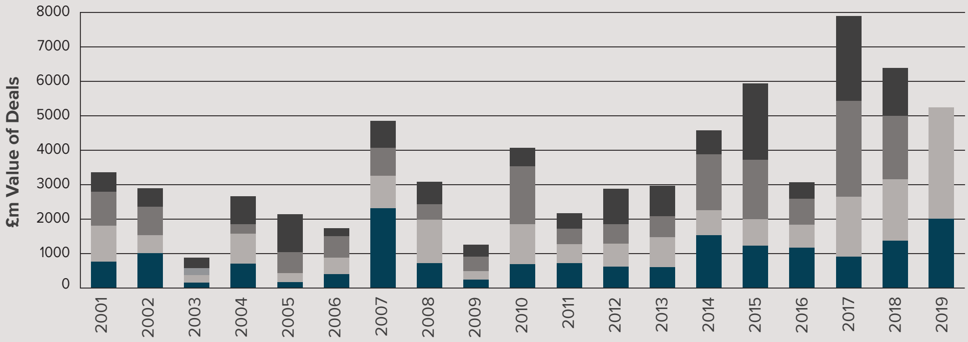
- Q1
- Q2
- Q3
- Q4

Early stage and expansion capital deals had a good second quarter. The number of transactions was down slightly, from 103 to 94 recorded so far. But the value of deals rose sharply from last quarter's £2.0 billion to £3.2 billion, making this the highest quarterly total for this segment of the market since the data series began back in 2000.

Volume of Early Stage/Expansion Deals



Value of Early Stage/Expansion Deals



Key:

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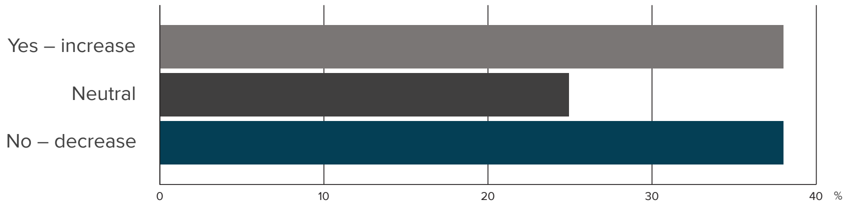
So what does our latest survey suggest?

Overall, then, the data from the past quarter showed some signs of slowing, at least relative to the strong pace of activity this time last year. But what does our latest survey of market participants tell us about the market's mood at the moment? Though far from gloomy, sentiment has clearly dipped.

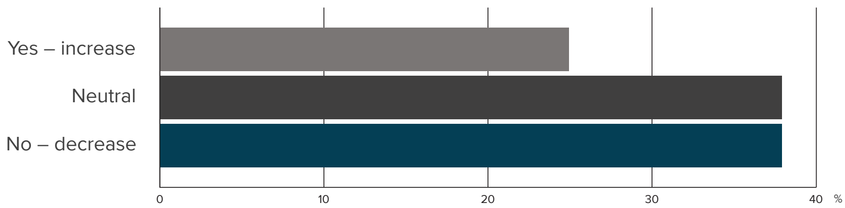
1 Do you expect deal volumes <£100m to increase or decrease?

For the smaller value segment of the market, the number of respondents predicting a rise in volumes over the next six months has actually risen, from just shy of 30% to 38%. However, the number expecting a decrease has gone up from 14% to 38%.



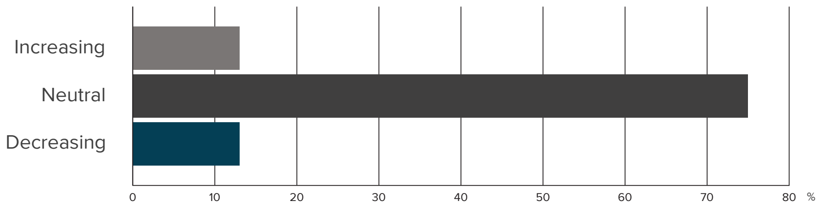
2 Do you expect deal volumes >£100m to increase or decrease?

For the larger value segment of the market, the number forecasting an increase has fallen from 43% to 25%, while the number predicting lower activity has gone up from 14% to 38%.



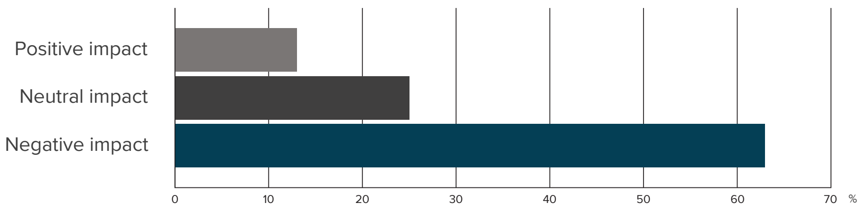
3 Is debt availability increasing, decreasing or neutral?

As last quarter, debt availability is expected to be little changed. Three quarters of respondents say they think the supply and cost of debt will remain broadly at current levels, while the rest are evenly split between negative and positive views.



4 Has uncertainty over the Brexit negotiations affected investment decisions?

As the uncertainty over Brexit persists, the percentage of respondents saying they have seen some adverse impact from Brexit on investment decisions has increased noticeably. While the number observing some positive impact from Brexit has stayed the same, the negative number has risen from 14% last quarter to 63% now, with the remainder seeing no impact either way.



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