Rounding off another strong year

Jim Keeling of corporate finance advisor Corbett Keeling reflects on the past year and what 2019 has in store for deal making activity.

What a year that was! Throughout 2018, the headlines were full of doom about the possibility of a full-blown trade war between the US and China and other instances of rising protectionism around the world. Nearer to home, of course, Brexit dominated the news, with the media projecting blood-curdling predictions of mayhem for British businesses. Meanwhile, every fresh display of no confidence in the Prime Minister raised the prospect of a Labour government led by Jeremy Corbyn, whose policies could scarcely be described as business-friendly.

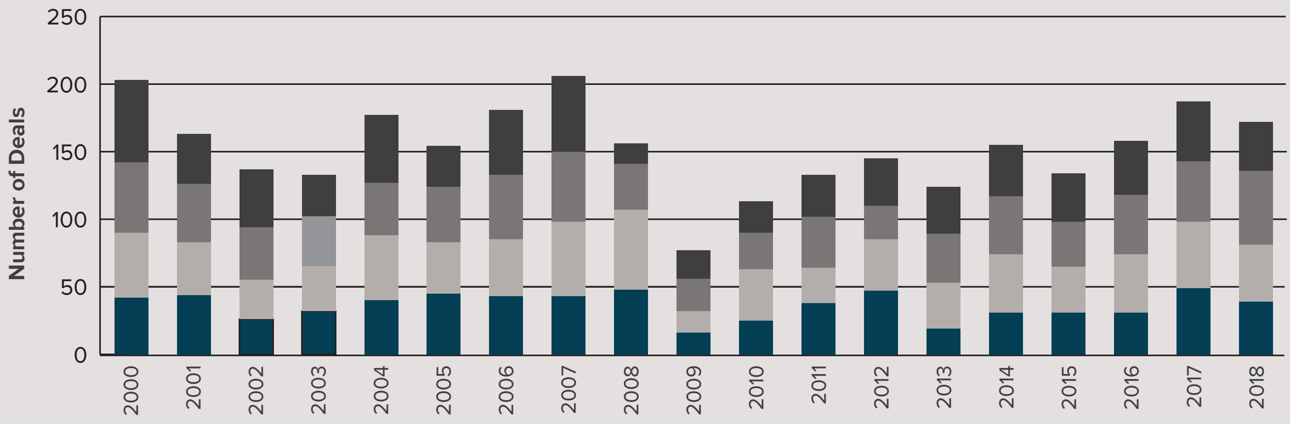
And how did the owners of private companies respond? Just as we'd expect, they rolled up their sleeves and got down to business, and that included a large quantity of mergers and acquisitions. Indeed, activity in 2018 was not far off the heights of the previous year, and the middle and smaller-value segments of the market held up especially well.

Was this a case of buyers and sellers frantically making hay while the sun was shining, or will the momentum be sustained? Only time will tell, of course. Our latest survey shows no sign that market participants are expecting a precipitous decline in activity after 29th March. Far from it.

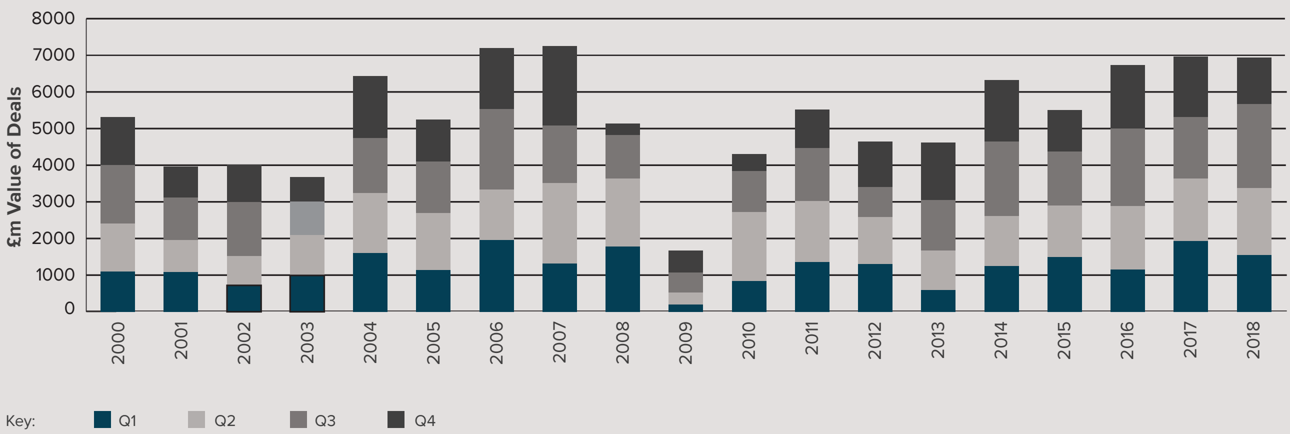
Assessing the deal data

Activity in the **smaller buy-outs** sector (transactions with enterprise value of less than £150 million) was always likely to see something of a pause in the final three months of the year after setting a new all-time high for values in the third quarter. The volume of deals declined from 55 to 36, while the value was down from £2.3 billion to £1.3 billion. These were nevertheless respectable figures, wrapping up an excellent year which will be only fractionally below the highest value since the data series began in 2000.

Sub-£150m Buyouts Volume

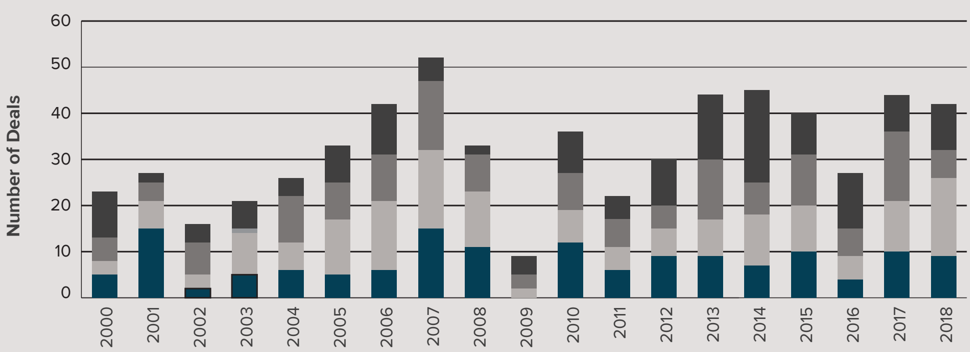


Sub-£150m Buyouts Value

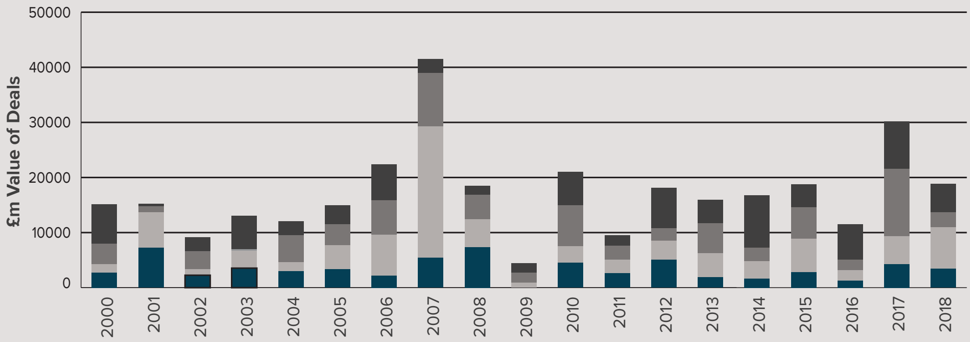


After a sluggish third quarter, the **larger buy-outs** sector (enterprise value of £150 million or above) bounced back. The volume of deals increased from six to ten, and the value soared from £2.7 billion to £5.2 billion. Although below 2017's post crisis high, the value of transactions in the year as a whole was the 2nd highest since 2010. The annual volume was comfortably above average.

£150m+ Buyouts by Volume

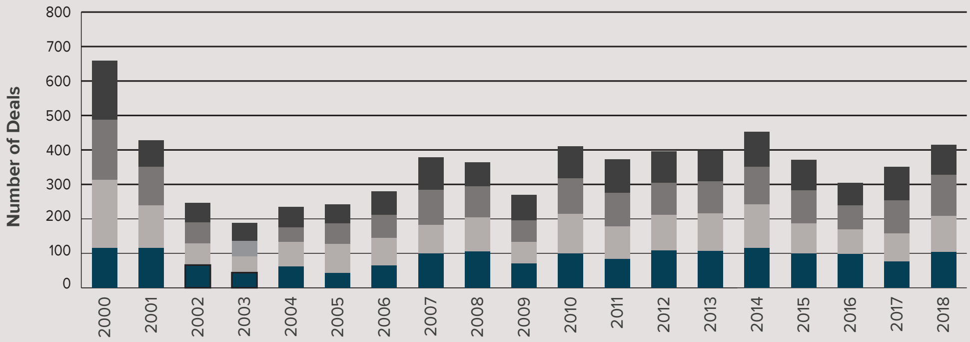


£150m+ Buyouts Value

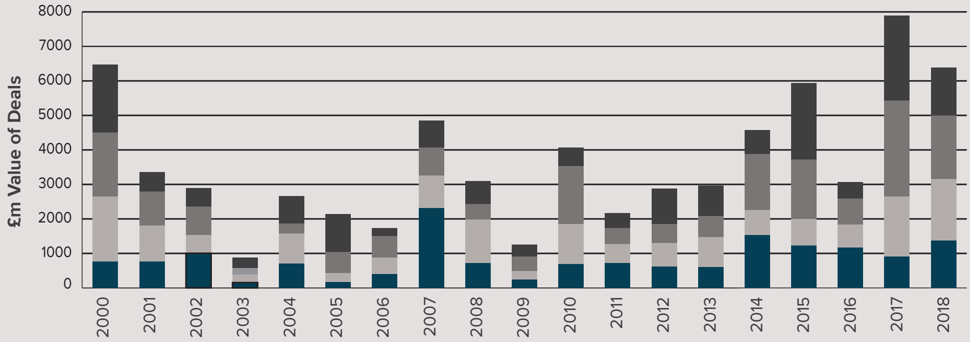


Early stage and expansion capital deals faded slightly after a very strong third quarter. The volume of transactions fell from 120 to 86, while the value was down from £1.8 billion to a still solid £1.4 billion. That rounded off a bumper year for the segment, with the volume of deals at the second-highest level since 2001, and the final figure for values likely to be second only to 2017.

Volume of Early Stage/Expansion Deals



Value of Early Stage/Expansion Deals

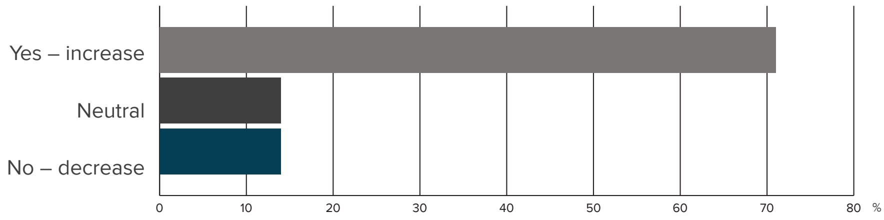


Corbett Keeling Corporate Finance

So what does our latest survey suggest about the outlook for 2019?

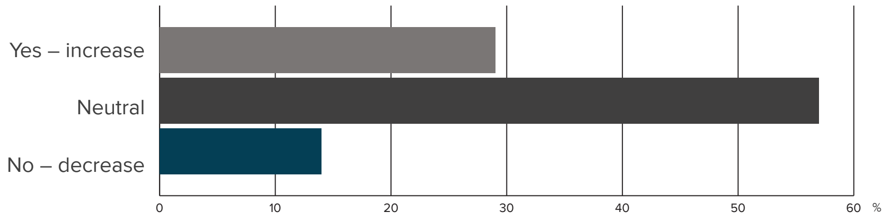
1 Do you expect deal volumes <£100m to increase or decrease?

Sentiment remained optimistic for the smaller value segment, with the percentage of respondents predicting an increase in deal volumes holding above 70% and only 14% expecting activity to decline.



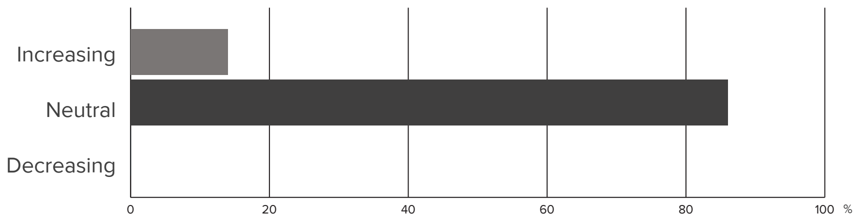
2 Do you expect deal volumes >£100m to increase or decrease?

For the larger value segment, the outlook remains broadly sanguine. The majority of respondents expect volumes to stay at a similar level, while twice as many expect the number of deals to rise as to fall.



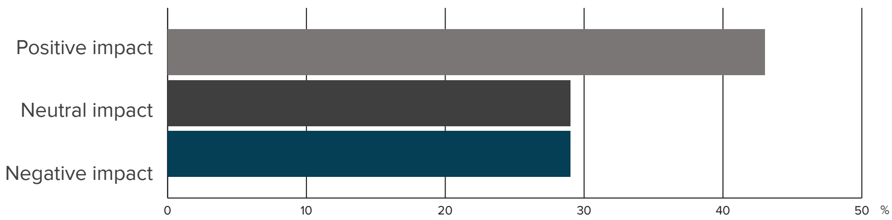
3 Is debt availability increasing, decreasing or neutral?

Market participants still see no end in sight to the current easy credit picture. None of our respondents expected debt availability to decrease any time soon, while 14% thought it might actually become more plentiful.



4 How would a global trade war affect the M&A market?

Asked what impact a global trade war might have on the UK M&A market, a perhaps surprisingly high 43% of respondents said they expected a positive impact. The rest were evenly split between predicting a neutral effect and a negative one.



With debt still in plentiful supply at attractive rates, it was little surprise that the proportion of all equity buy-outs continues to bump along the bottom. The number of deals ticked up from two in the third quarter to three in the fourth, for an annual total of 12.

We would certainly not rule out the potential for some disruption in the year ahead, particularly if the risk of a Corbyn government increases. However, the survey – and our own experience of the market over recent months – gives us confidence that sellers of privately owned businesses who know where to look will still be able to find buyers looking to put cash to good use.

Contact us

Jim.Keeling@corbettkeeling.com