Corbett Keeling
Corporate Finance

The market is open for business

Deal making in the final quarter of 2019 remained strong, with plenty of activity and good values obtained across all segments of the market. But what of the year ahead? Jim Keeling of corporate finance adviser Corbett Keeling takes the temperature of the market and finds it in very good health, which augurs well.

Despite the uncertainty caused by a General Election and a looming Brexit, the private company transactions market stayed very buoyant in the last three months of 2019. Once again, the early-stage / expansion deals segment of the market led the way, but the strength was very broad-based.

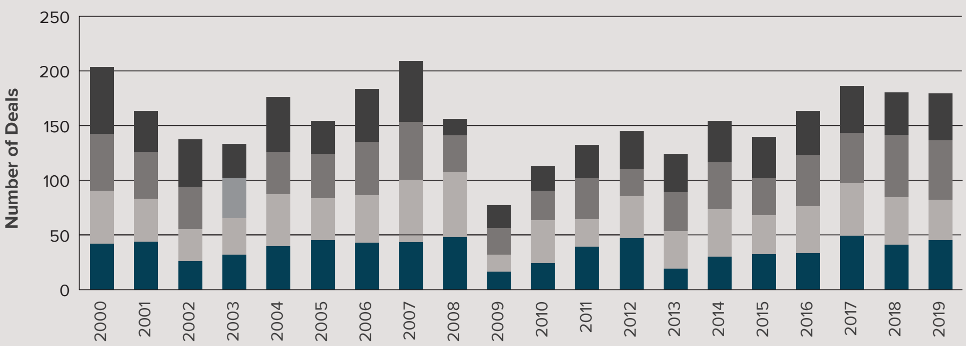
The question is whether this is a welcome indication of further activity to come or evidence that market participants were desperate to get deals completed before a Labour government under Jeremy Corbyn could throw a spanner in the works. Of course, only time will tell. But, in my view, the signs are largely positive.

Not only is the mood of the market upbeat, as the results of our latest survey confirm, but conditions remain supportive for deal making. Debt is cheap and freely available, and it is hard to see the Bank of England wanting to raise interest rates significantly during the Brexit process. Demand from overseas buyers remains strong, as they take advantage of the weaker pound to purchase UK-based businesses which offer long-term value. The global economy appears to be picking up momentum once more, helped by progress in talks to resolve the US-China trade conflict. On top of all that, the strong Conservative majority should help to reduce uncertainty and provide a more favourable regime for business owners. In short, I see plenty of reasons to believe that 2020 should be another strong year for the market.

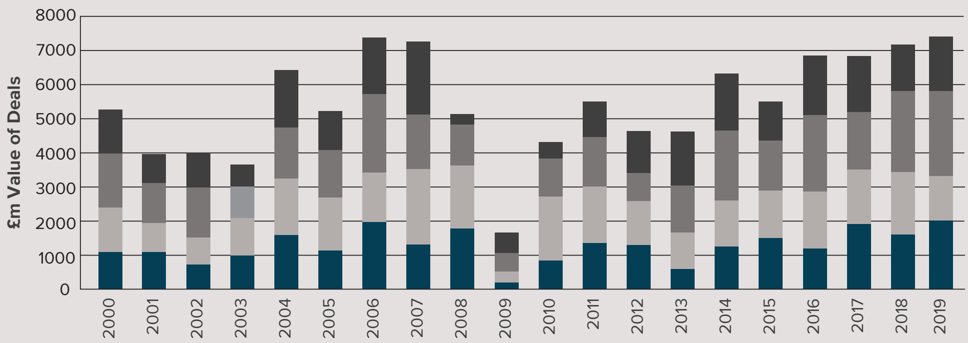
Assessing the deal data

Activity in the **smaller buy-outs** sector (transactions with enterprise value of less than £150 million) eased slightly from the strong pace of the third quarter. The volume of deals declined from 54 to a still respectable 43. The value of deals also fell, from £2.3 billion to £1.5 billion. That said, both the total value and the final quarter volume exceeded last year's robust numbers.

Sub-£150m Buyouts by Volume



Sub-£150m Buyouts by Value



Key:

Q4

Q3

Q2

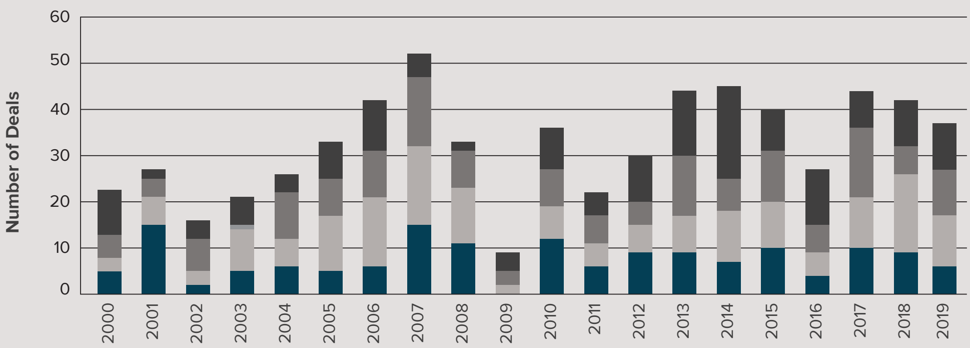
Q1

The **larger buy-outs** sector (enterprise value of £150 million or above) rounded off a strong year with another impressive quarter. Ten deals were completed this quarter, the same total as the previous quarter. However, their value soared from an already strong £8.7 billion to a remarkable £18.8 billion, the second highest total of the past two decades. For 2019 as a whole, the volume of transactions was slightly down on the previous two years, but their value was significantly higher than last year and only just below 2007's very strong figure.

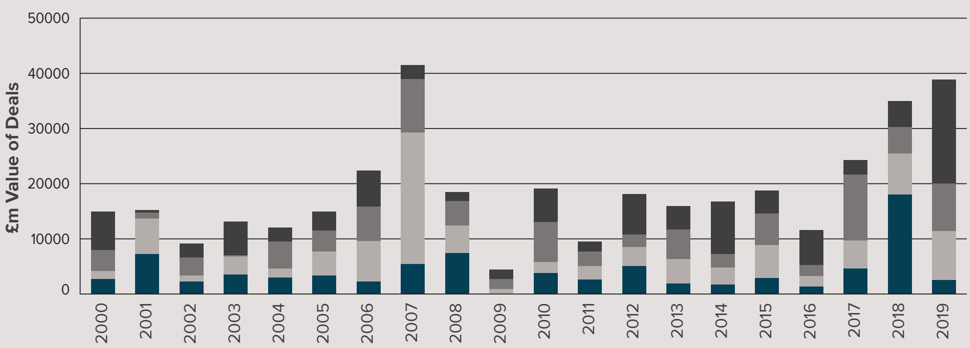
Key:

- Q4
- Q3
- Q2
- Q1

£150m+ Buyouts by Volume



£150m+ Buyouts by Value



Early-stage and expansion capital deals showed further strength in the final quarter, confirming that 2019 was a vintage to remember. The number of transactions, at 128, held very close to the previous quarter's 134, bringing the annual total to the highest since 2000. Meanwhile, the value of deals leapt from £2.7 billion in Q3 to £3.2 billion, a record quarterly number. That took the annual figure above £10 billion, comfortable surpassing the previous record of just over £8 billion, set two years ago.

Key:

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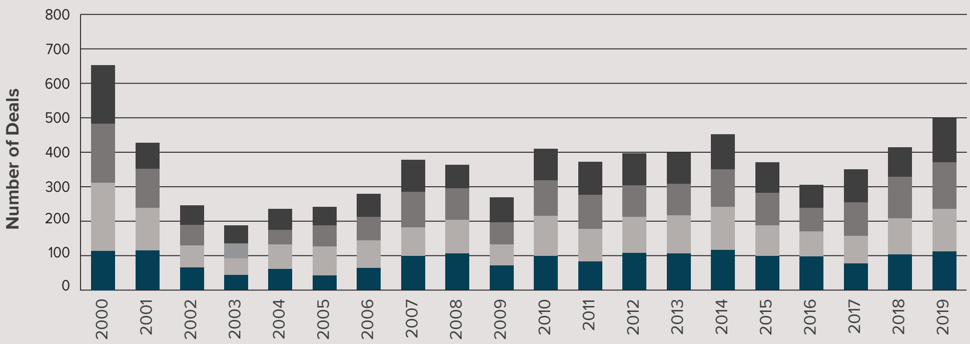
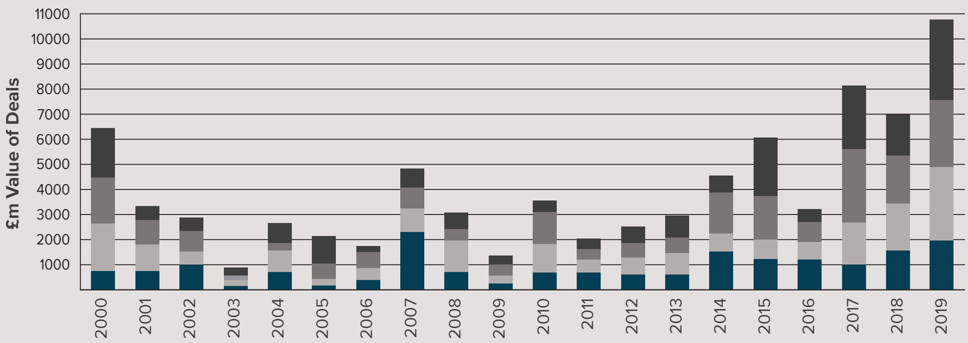
Volume of Early-Stage / Expansion Deals



Value of Early-Stage / Expansion Deals

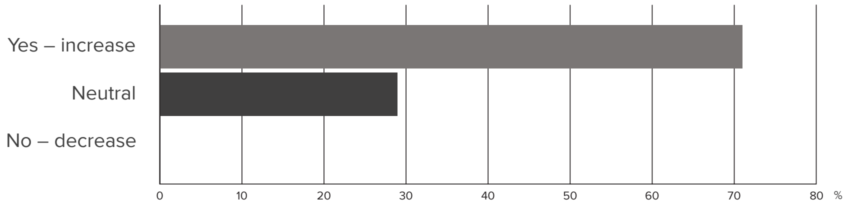


So what does our latest survey suggest?

Market participants appear to be in a confident frame of mind. Our respondents expect a further pick-up in deal making activity from already strong levels, and they clearly welcome the decisive outcome of December's General Election.

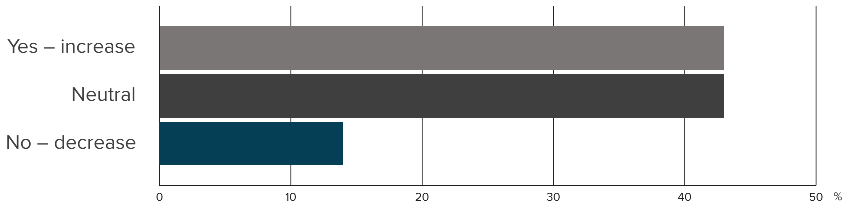
1 Do you expect deal volumes <£100m to increase or decrease?

For the smaller value segment of the market, the percentage of respondents predicting a rise in volumes over the next six months has more than doubled, up from 33% to 71%, with the remainder expecting no change.



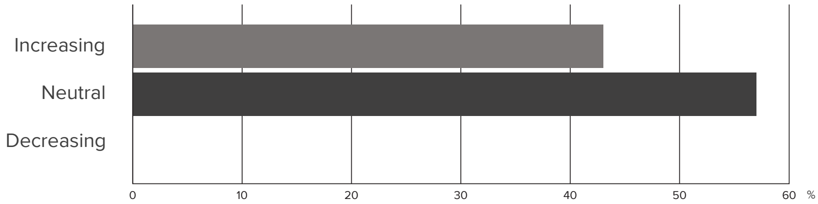
2 Do you expect deal volumes >£100m to increase or decrease?

Even after a strong quarter – and year – for the larger value segment, sentiment remains buoyant. The percentage forecasting an increase has soared from 17% to 43%, though 14% expect a decline in volumes over the first half of the year.



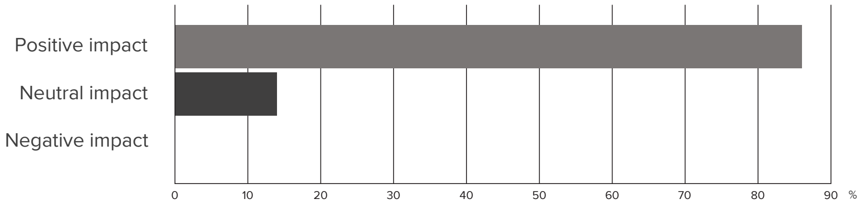
3 Is debt availability increasing, decreasing or neutral?

There is little change in expectations for debt availability. None of our respondents are yet forecasting availability to decrease.



4 How will a Conservative government affect business confidence?

It's little surprise that the election of a majority Conservative government – and the dashing of the Corbynites' hopes – has given the market a boost. Some 86% of survey participants said they thought the election result would support business confidence, while the rest expected little impact.



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