Corbett Keeling
Corporate Finance

Win-win market in the strongest start this century

Deal activity in the private company market was exceptionally strong, marking the best first quarter of a year this century. Here, Jim Keeling of corporate finance advisor Corbett Keeling explains why he thinks this is a good time for buyers and sellers alike.

The year has got off to an excellent start, with strength in both values and volumes of deals across the market.

This result – perhaps surprising amid continuing end of lockdown gloom – is being driven by an exciting combination of factors. First, strong trade buyers are emerging. Those businesses which have managed to stay cash rich during the pandemic are now looking to take advantage of opportunities as the economy re-opens.

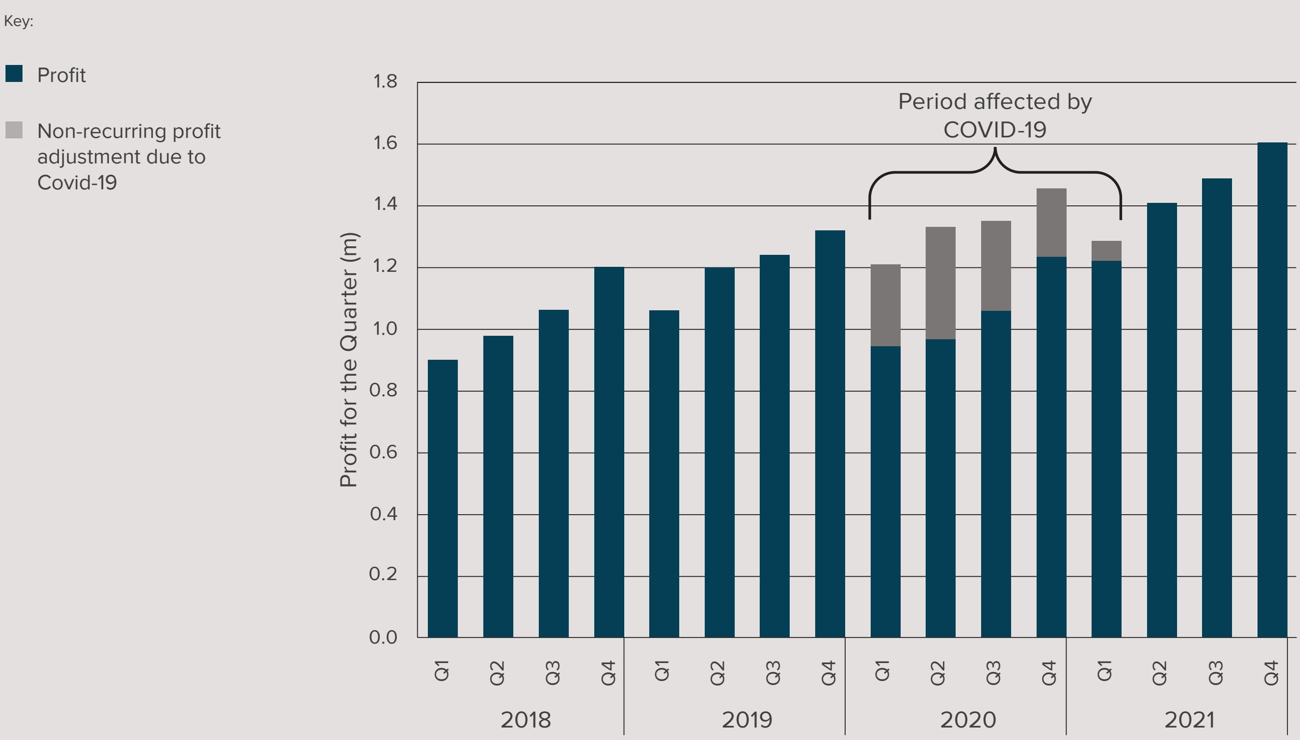
Second, financial buyers (such as private equity funds) were well funded at the start of the pandemic but have mostly waited to see whether lockdown would have a lasting impact on their portfolio companies. Generally they found it has not and, now, they are all the hungrier to buy, having been starved of new deals for a while.

Third, many owners are wondering whether to avoid another downturn by selling now or to wait for an upturn. Some are concerned about achieving a fair value if prospective buyers base their valuations on a multiple of profits which have suffered in the lockdowns. We have developed a model to demonstrate that the damage done was temporary and how the business is projected to recover in future quarters. This helps to reassure buyers that valuations should be based on future, not "lockdown", profits.

Corbett Keeling was established on the belief that a good deal can satisfy all parties. I was brought up with an old family story about my grandfather negotiating the rent for his new office. He was delighted to have secured premises but realised that, flushed with success, he had left his umbrella in the meeting. When he got back to the office, he found the landlord dancing round the umbrella, in celebration of finding a new tenant! The lesson – that any successful deal should make both sides happy – stood my grandfather in good stead over a long career and has subsequently been passed on into the DNA of Corbett Keeling.

So I firmly believe that the current "hot" market for transactions can be good for buyers and sellers alike, with deals done at prices satisfying both parties.

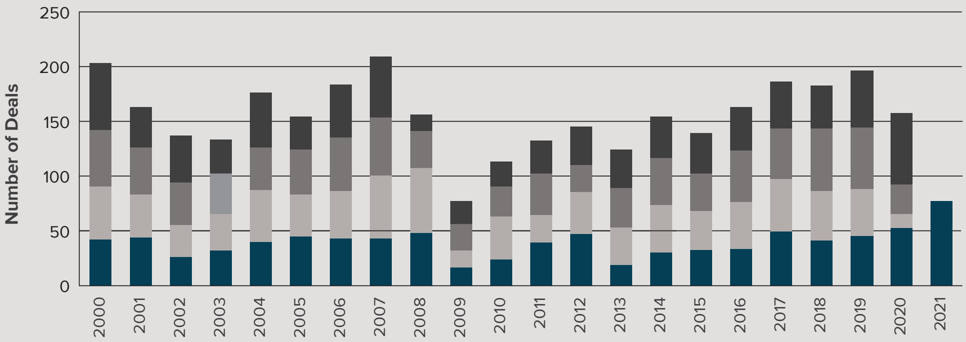
Non-recurring profit adjustment due to Covid-19



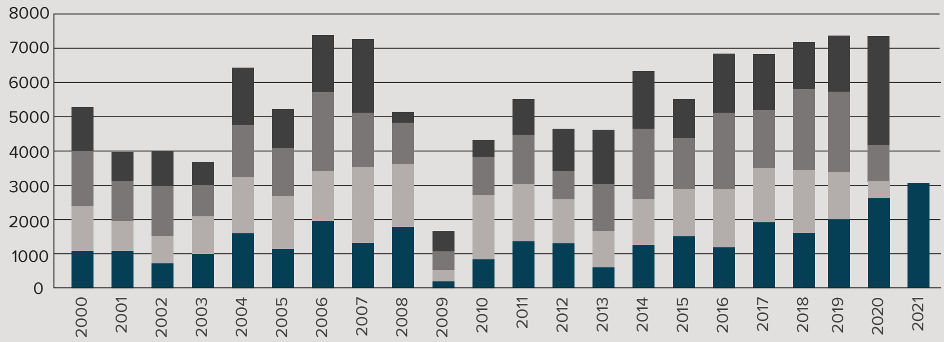
Assessing the deal data

After a bumper end to last year, the **smaller buy-outs** sector (transactions with enterprise value of less than £150 million) forged ahead strongly, making this the best start to a year this century. The volume of deals rose from 65 in the fourth quarter of 2020 to 77, a new record. Their value dipped slightly to £3.1 billion, just down from the previous quarter's all-time high of £3.2 billion.

Sub-£150m Buyouts by Volume



Sub-£150m Buyouts by Value

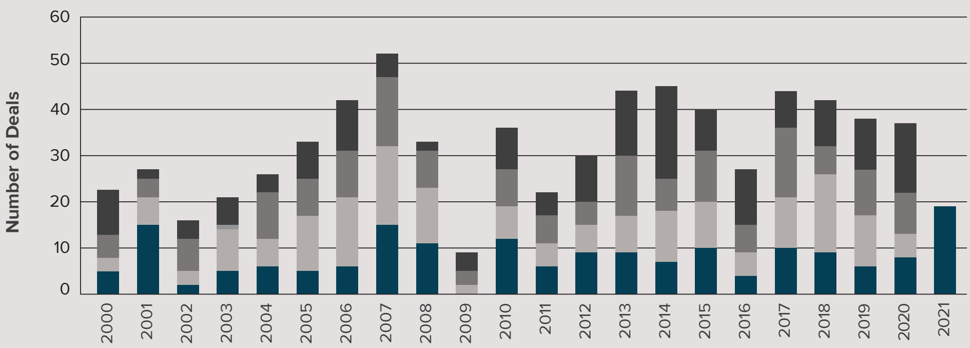


Key:

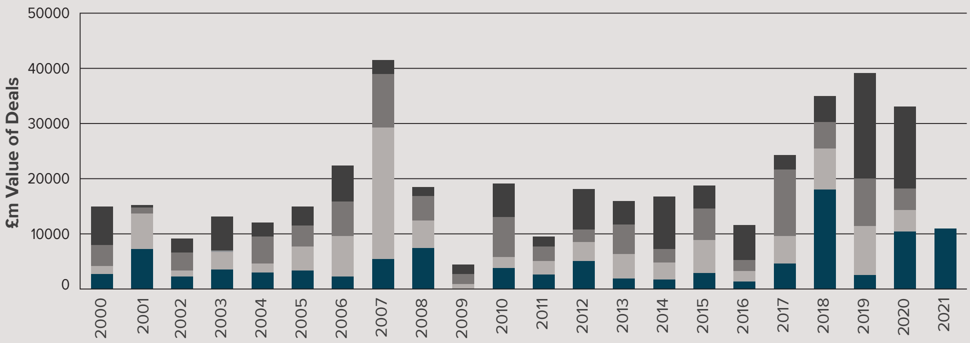
- Q4
- Q3
- Q2
- Q1

We saw a similarly strong start in the **larger buy-outs** sector (enterprise value of £150 million or above). The volume rose from 15 to 19, the second strongest quarterly total on record. The value of these transactions came to £10.9 billion, down slightly on the previous quarter's £14.8 billion. That represents the second strongest start to the year for this sector.

£150m+ Buyouts by Volume



£150m+ Buyouts by Value



Key:

Q4

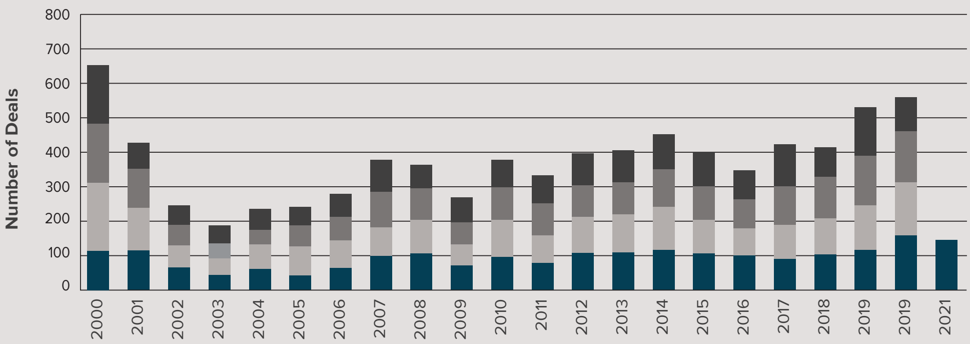
Q3

Q2

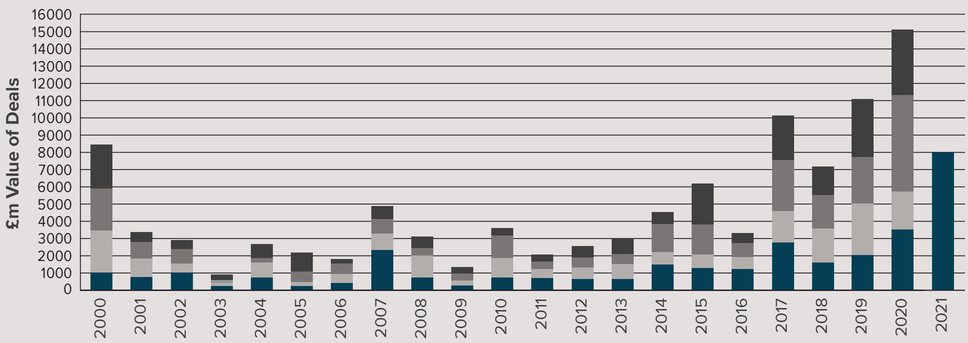
Q1

The picture was even rosier for **early-stage and expansion capital deals**. The number of transactions, which dipped 99 in the final quarter of 2020, rebounded to 145, around the average for the first three quarters of last year. But the great news for anyone looking to sell a company is that the values achieved rose from £3.8 billion to a fraction below £8 billion. That smashed the previous record, with this one quarter matching half of 2020's record annual total.

Volume of Early-Stage / Expansion Deals



Value of Early-Stage / Expansion Deals



Key:

Q4

Q3

Q2

Q1

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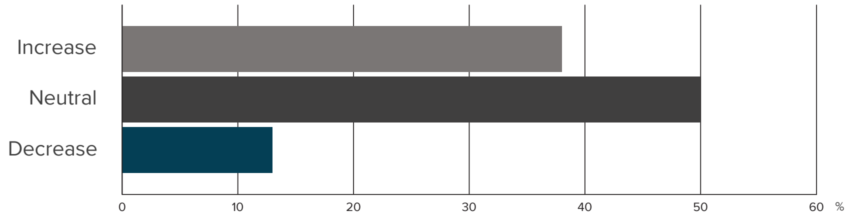
So what does our latest survey suggest?

With uncertainty persisting over the re-opening of the economy, it would be little surprise if market participants were feeling a little cautious. But our latest survey shows an overall improvement in mood, which suggests that the strong start to the year may continue.

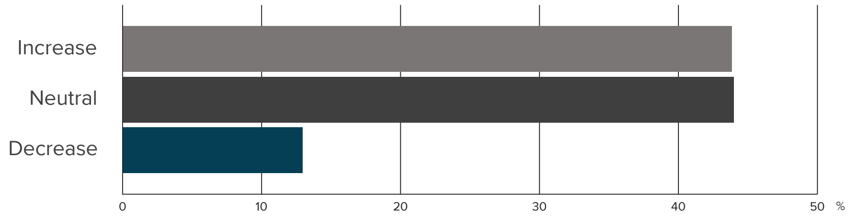
1 Do you expect deal volumes <£150m to increase or decrease?

For the smaller value segment of the market, the percentage of respondents predicting a rise in volumes over the next six months was down marginally from 42% to 38%, but 50% were expecting little change. The proportion predicting a decline was up from 8% to 13%.



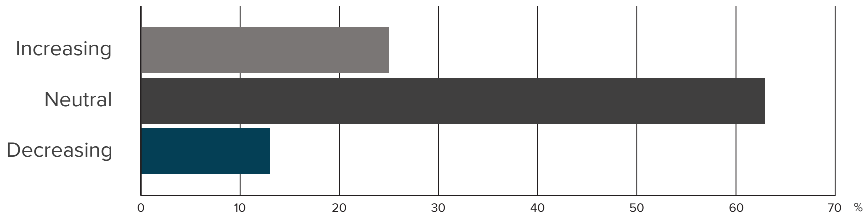
2 Do you expect deal volumes >£150m to increase or decrease?

For the larger value segment, sentiment showed a big improvement from the previous quarter. Nearly 90% expect a rise in activity or little change, while the percentage forecasting a drop halved from the previous quarter's 25%.



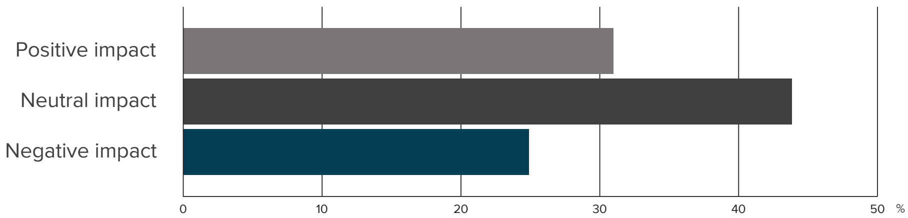
3 Is debt availability increasing, decreasing or neutral?

Respondents' recent concerns about debt availability appear to be fading. The proportion saying that debt is becoming less available plummeted from 58% to 13%, and a quarter reported seeing an increase, up from 17% in the last quarter of 2020.



4 On balance, how has the impact of COVID-19 affected your portfolio companies?

When asked whether COVID-19 would have a lasting impact on portfolio companies, 31% expected a positive effect, up from 25% last quarter. However, the proportion expecting a negative impact also rose, from 17% to 25%.



Contact us

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