Corbett Keeling
Corporate Finance

# Past the worst?

**The COVID-19 lockdown has clearly taken a severe toll on economies and businesses around the world. But what has it meant in terms of deal activity for private companies in the UK? Jim Keeling of corporate finance advisor Corbett Keeling analyses the data from the second quarter and finds a perhaps surprisingly upbeat outlook for any business owners looking to sell.**

Even as the lockdown eases, the situation remains precarious for many businesses and the path ahead appears uncertain. Yet I don't share the gloomy outlook of many commentators in the media. In fact, I have been hugely impressed with the resilience shown by business owners as they have adapted to their new circumstances. Over the last few weeks we have spoken to many private equity firms, and it feels as if the impact of Covid has been split equally across their portfolios; a third have been negatively impacted, a third report a neutral impact, a third have found Covid had a positive impact on their businesses. The Governor of the Bank of England appears to agree, having recently expressed his confidence that the recovery may be stronger than previously expected.

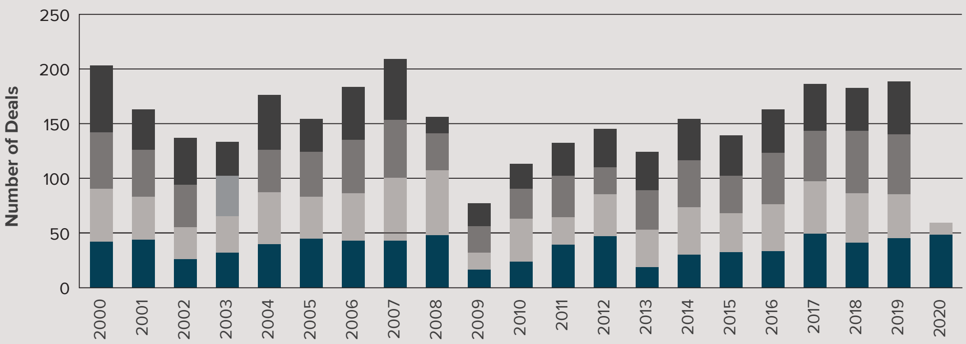
Of course, a drop in activity in the private company transactions market was only to be expected, and some segments have been hit hard since March. That said, the overall figures for the second quarter of the year are well above the levels seen during the global financial crisis, as I explain in more detail below. And it could well be that we are already past the worst.

The good news is that we continue to see lots of activity in the market. In particular, private equity firms have plenty of funds available, and they are actively looking for opportunities to put that money to work. This means that many sellers are still managing to achieve full valuations for their businesses even where earnings have taken a temporary knock as a result of the lockdown. Our latest survey responses confirm that market participants are in a realistic but determined mood, working hard and getting deals done.

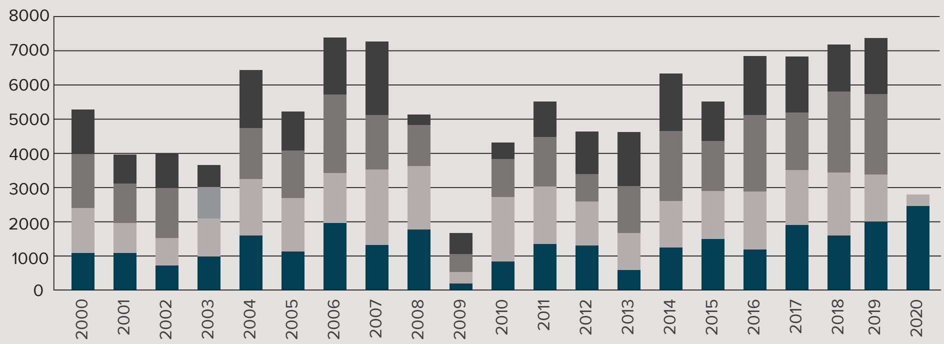
## Assessing the deal data

After a record strong start to the year, the **smaller buy-outs** sector (transactions with enterprise value of less than £150 million) took the hardest hit in the second quarter. The volume of deals fell from 48 to just 11, while their value was down from £2.5 billion to £338 million, the third lowest quarterly figure since 2000.

Sub-£150m Buyouts by Volume




Sub-£150m Buyouts by Value




Key:

Q4

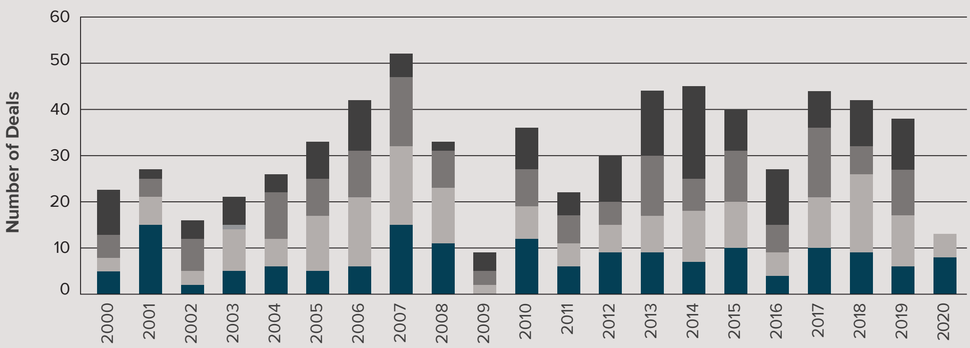
Q3

Q2

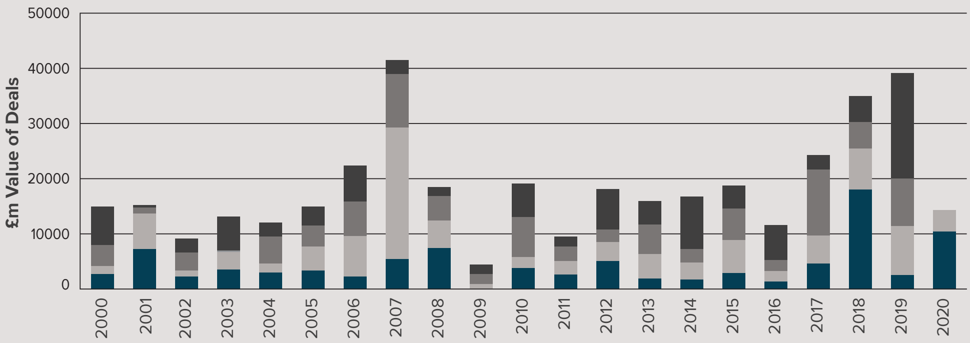
Q1

The declines were not as steep in the **larger buy-outs** sector (enterprise value of £150 million or above). The number of deals was down from eight to five, and the value of transactions also fell, from £10.4 billion to £3.9 billion. Still, that is a respectable quarterly figure, and the total values for the first six months of the year are very similar to the same period last year.

### £150m+ Buyouts by Volume




### £150m+ Buyouts by Value

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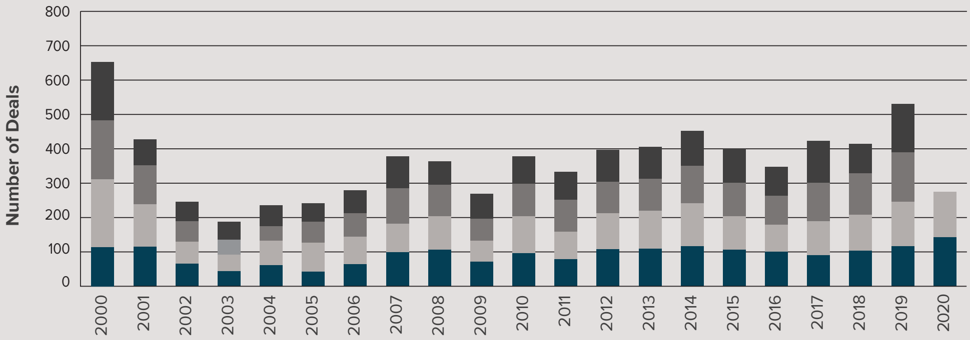
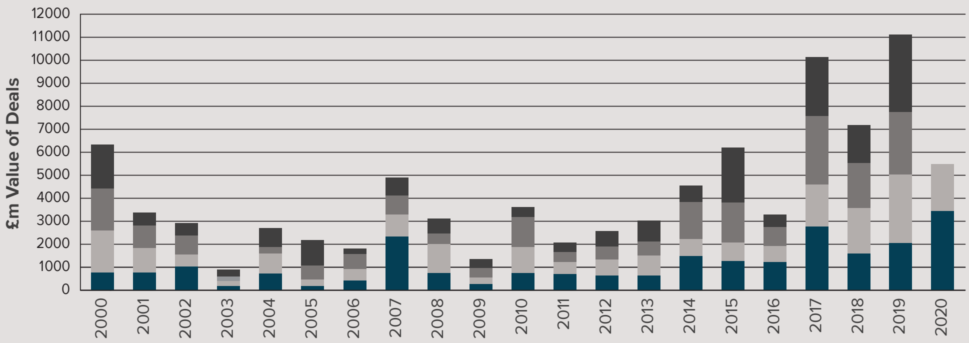
**Early-stage and expansion capital deals** were easily the most resilient segment of the market. The number of transactions held remarkably firm, edging down from 143 the previous quarter to 131. The value of these deals declined rather more significantly, from £3.4 billion to a still very acceptable £2.0 billion. That enabled the segment to set a new record values total for the first half of any year.

### Volume of Early-Stage / Expansion Deals




### Value of Early-Stage / Expansion Deals

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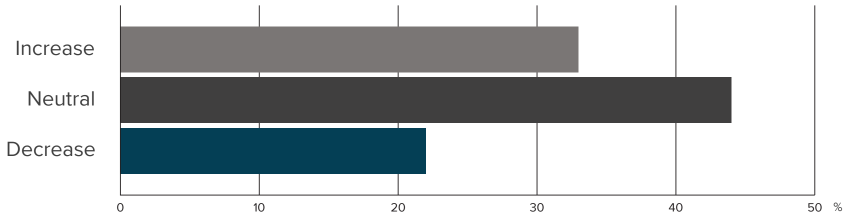
# So what does our latest survey suggest?

With the lockdown restrictions only just beginning to ease and the shape of the recovery still uncertain, it's little surprise that sentiment remains subdued. However, I find it encouraging that we received more positive than negative responses to our survey of market participants.

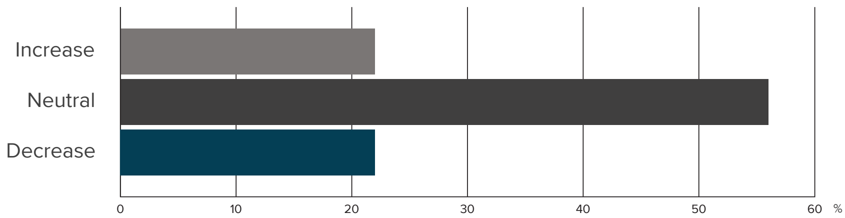
## 1 Do you expect deal volumes <£100m to increase or decrease?

For the smaller value segment of the market, the percentage of respondents predicting a rise in volumes over the next six months has fallen from 55% to 32%. However, that outweighs the 22% forecasting a drop in activity, which is little changed from last quarter's 18%. The remainder (45%) expect activity to stay around current levels.



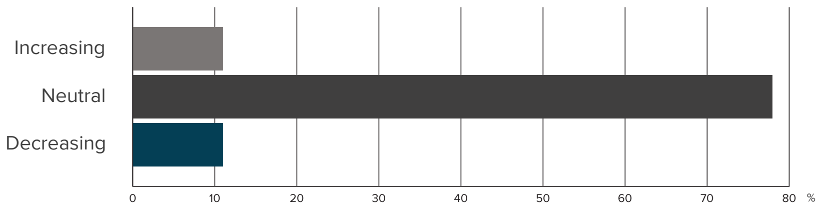

## 2 Do you expect deal volumes >£100m to increase or decrease?

For the larger value segment, most respondents expect little change. Of the rest, 22% predict a rise in activity, the same proportion as those forecasting a decline.



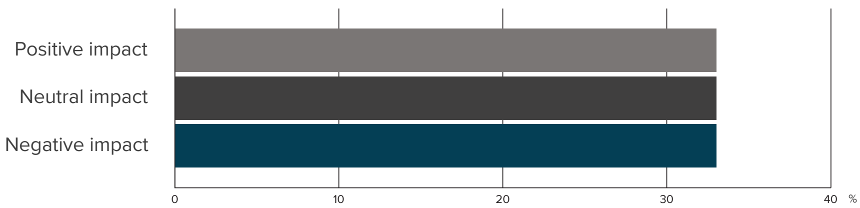

## 3 Is debt availability increasing, decreasing or neutral?

With the Bank of England in full supportive mode, debt availability is not seen as a problem. Over three quarters of respondents said they expect debt availability to remain around current levels, and only 11% thought it was decreasing.




## 4 How have the restrictions imposed to stop the spread of Covid-19 affected your portfolio companies?

When asked how the restrictions related to COVID-19 have affected portfolio companies, our respondents were evenly split between those reporting a positive, negative and neutral impact.




**Contact us**

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