

Still on course

Deal making activity remained robust overall in the UK private company market during the past quarter. And, as Jim Keeling of corporate finance advisor Corbett Keeling notes, market participants remain confident that the current overall brisk pace will continue over the next six months, shrugging off concerns about a possible global trade war.

While the value of deals across the market fell slightly overall during the three months to the end of September, this followed a robust second quarter and was entirely due to an appreciable drop in the value and volume of deals in the larger deal segment of the market. The sub-£150m and early stage/expansion capital deals have been very strong, roaring ahead in the third quarter.

The larger deal segment – where a couple of deals can make a massive difference to the headline figures – tends to be quite volatile from quarter to quarter. In fact, while lower than the previous quarter, the three months from July to

September were reasonably strong by historical standards, and the segment looks on course to come in above the annual average for both volume and value over the past ten years.

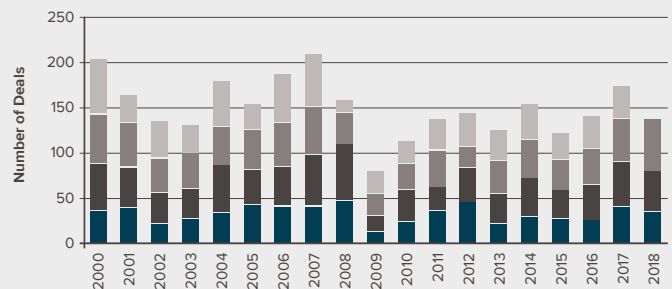
Our quarterly survey of equity and debt investors shows nothing to suggest a weakening of deal volumes or values. In the smaller value segment, sentiment has actually improved with 70% of respondents predicting an increase in deal volumes. In all, it's shaping up to be a good year for deal making activity, despite the supposed headwinds of Brexit and protectionism.

Let's explore the data

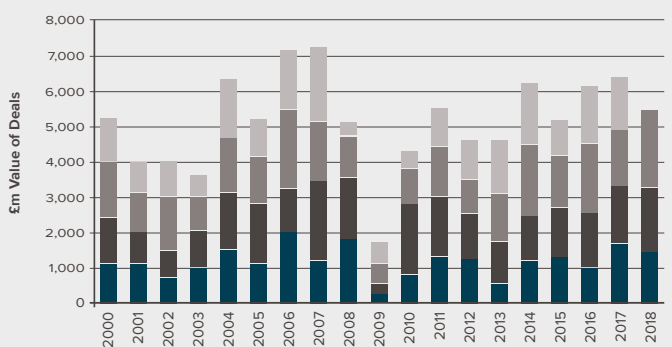
- It was a strong three months for the smaller buy-outs sector (transactions with enterprise value of less than £150 million). In fact, when the final figures are in, it may turn out to have been a record quarter for the value of deals, which the preliminary numbers put at £2.1 billion. There were 53 deals, the highest volume since the second quarter of 2008. 2018 could turn out to be a record year for values in this segment.
- Activity in the larger buy-outs sector (enterprise value of £150 million or above) was always likely to struggle to match the previous quarter's 17 deals. In the event, only six deals were recorded, for a total value of £2.7 billion, down from £7.5 billion in the previous three months. Nevertheless, the figures for both value and volume remain historically high for the first nine months of the year.
- Early stage and expansion capital deals picked up what was already a very brisk pace of activity. The volume of deals accelerated to 115 from 103 in the second quarter, the highest figure for four years. The value remained at the same level, a robust £1.8 billion. The total value for the first nine months of 2018 is only marginally down on the record figure for the same period last year.

Key: ■ Q1 ■ Q2 ■ Q3 ■ Q4

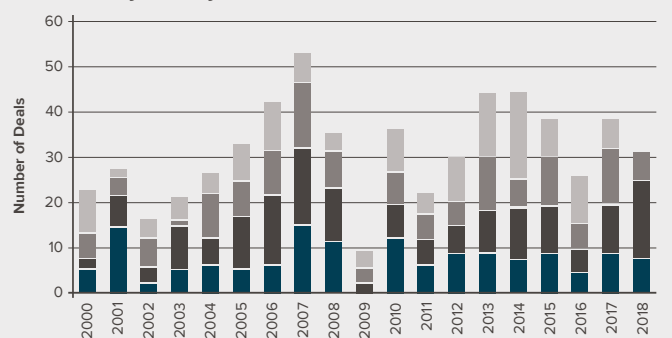
Sub-£150m Buyouts Volume



Sub-£150m Buyouts Value



£150m+ Buyouts by Volume



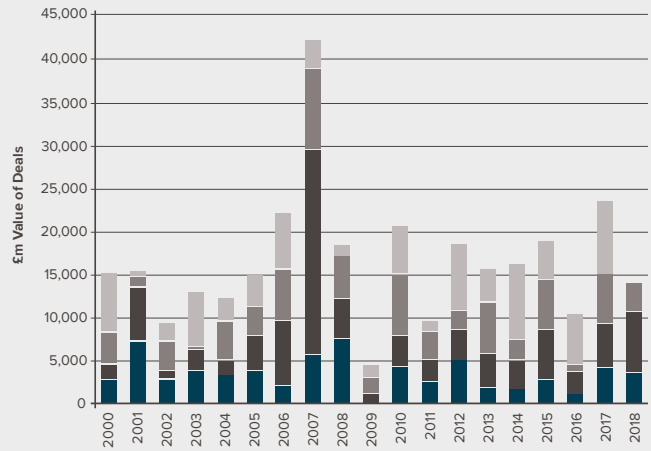
With debt still freely available at competitive rates from a variety of sources, all equity buy-outs remain in the doldrums. The number of such deals fell from four to two in the third quarter, representing only 3% of all deals.

If the overall pace of activity in the market is strong, what does our latest survey tell us about the outlook for the rest of 2018 and beyond? The headline is that we see nothing to suggest a weakening of deal volumes or values.

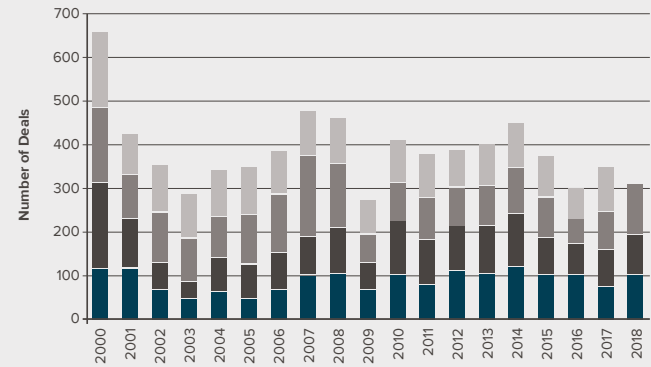
- Sentiment has actually improved for the smaller value segment, with the percentage of respondents predicting an increase in deal volumes rising from 50% to over 70%. The remainder is evenly split between neutral and negative expectations.
- For the larger value segment, the outlook is marginally less upbeat. That said, the optimists still outweigh the pessimists by 29% to 14%, with the rest forecasting broadly similar volumes.
- No end to the current environment of debt availability is in sight. None of our respondents forecast that funding would become any less readily obtainable, while the percentage expecting an increase in debt availability actually rose from 17% in the second quarter to 43% now, reversing the recent trend.
- Despite the persistent flow of headlines about increased protectionism, the mood on the ground is pretty sanguine. Only 29% of those surveyed thought a global trade war would have a negative impact on the M&A market. A clear majority expected no effect, while 14% thought it might actually be positive.

Overall, our quarterly survey results (see page 4) are good news, confirming what we have been seeing in the market place. However, as we have been saying for some time, potential sellers should not be complacent. After a decade of emergency monetary policy, interest rates have now started to rise, and debt will not always be this cheap or this available. Furthermore, the shape of the Brexit deal remains unclear. While we don't believe sellers need to exit before Brexit, there's no time like the present to get the sale process started.

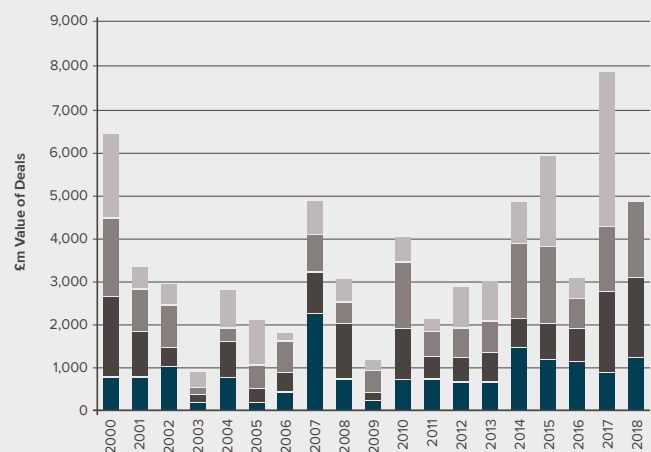
£150m + Buyouts Value



Volume of Early Stage/Expansion Deals



Value of Early Stage/Expansion Deals in £m



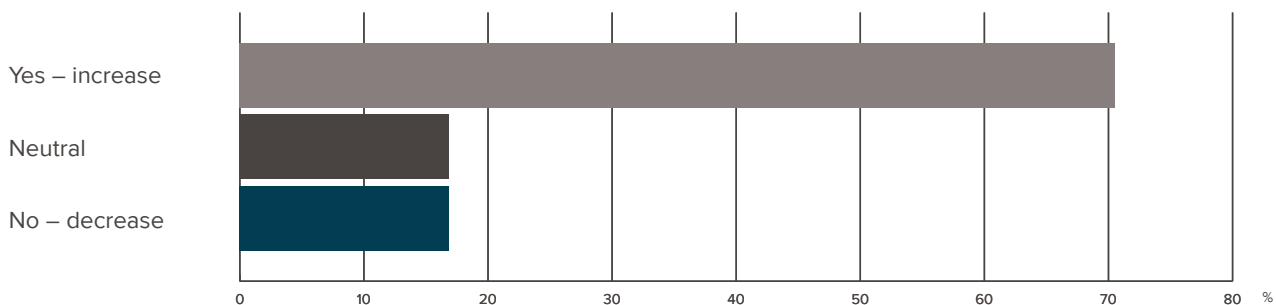
Contact us

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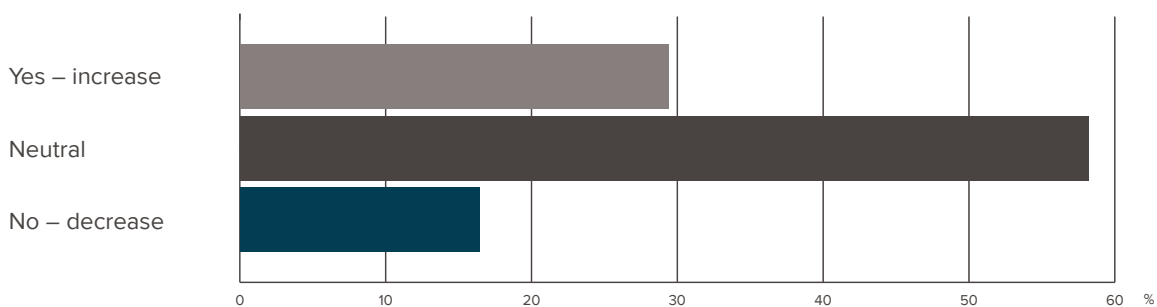
Survey of market expectations

In order to produce these statistics, key players in the UK private equity and venture capital markets were surveyed.

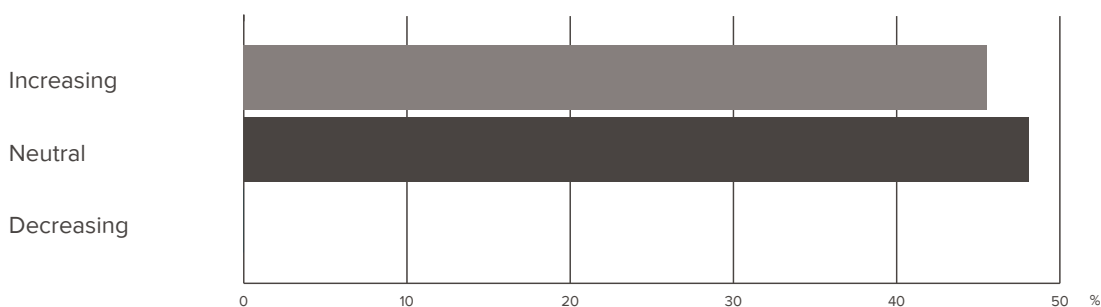
1 Do you expect deal volumes <£100m to increase or decrease?



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



3 Is debt availability increasing, decreasing or neutral?



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

