# Remarkable resilience

**The COVID-19 crisis has caused the severest economic downturn in living memory. Yet the UK market for private company transactions has remained resolutely open for business. Looking at the latest data, Jim Keeling of corporate finance advisor Corbett Keeling finds particular strength at the lower value end of the market.**

In recent weeks, the extent of the economic damage from the coronavirus crisis has become increasingly clear. Meanwhile, the rising case count shows the difficulties of escaping from the lockdown and reminds us of the continued toll on the nation's health. Faced with this, owners of private companies who are looking to sell might be inclined to feel a little gloomy. And yet I see several reasons for cautious optimism.

First, activity in the market has remained brisk, particularly in the smaller value segment of the market. I will analyse the data in more detail below, but my personal experience is that plenty of deals are still being done. That is reflected in our survey of market participants, which shows a reassuringly sanguine mood.

The government and the Bank of England have also taken extraordinary steps to support businesses. One example which will clearly be of interest to anyone contemplating the sale of a business is the Chancellor's welcome decision to postpone the proposed increase in Capital Gains Tax.

Furthermore, global stock markets – which often provide a good indication of the future path of the economy – have stabilised in recent months.

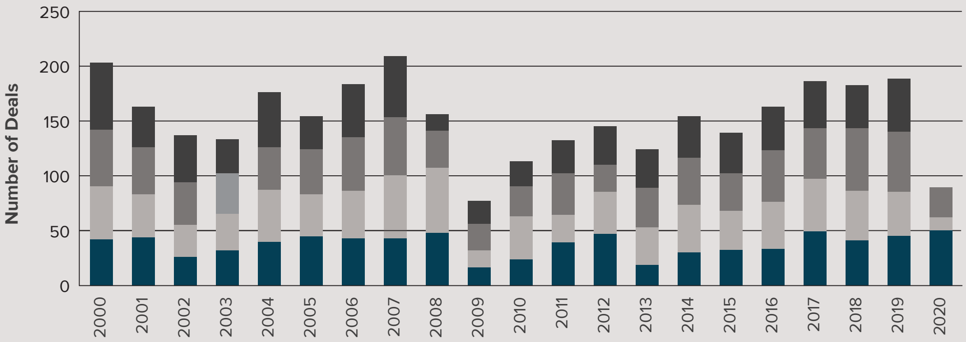
Most of all, though, I am encouraged by the large number of well-funded private equity and trade buyers who are still actively looking for opportunities to buy businesses. And I'm delighted to report that many sellers are obtaining high valuations.

Yes, the current environment is tough for many business owners. But I have been impressed by the resilience shown by everyone in the market and their determination to keep getting deals done.

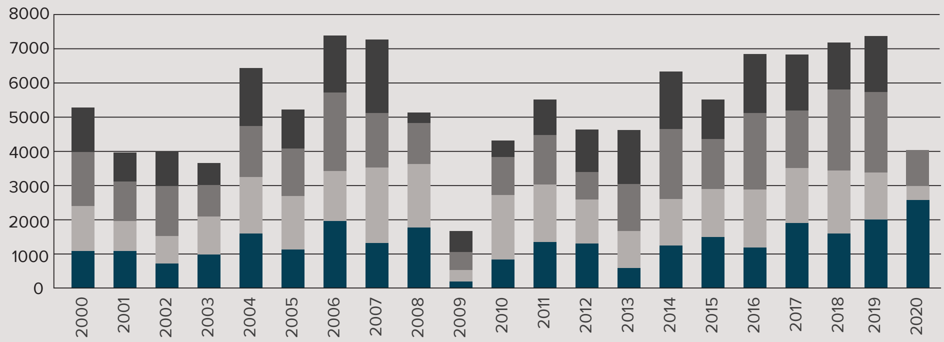
## Assessing the deal data

After a steep decline in the second quarter, the **smaller buy-outs** sector (transactions with enterprise value of less than £150 million) staged something of a bounce back. The volume of deals rose from 12 to 27, and the value leapt from £420 million to £1 billion. While these figures for both volumes and value were well down on the recent quarterly average, they were appreciably higher than in the aftermath of the global financial crisis.

Sub-£150m Buyouts by Volume




Sub-£150m Buyouts by Value




Key:

Q4

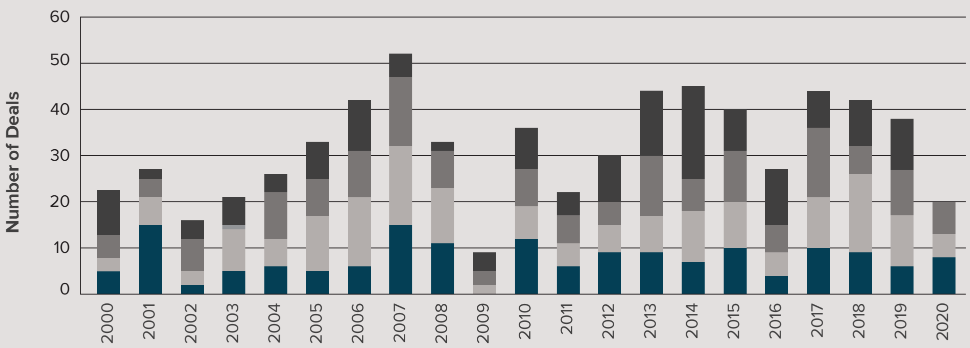
Q3

Q2

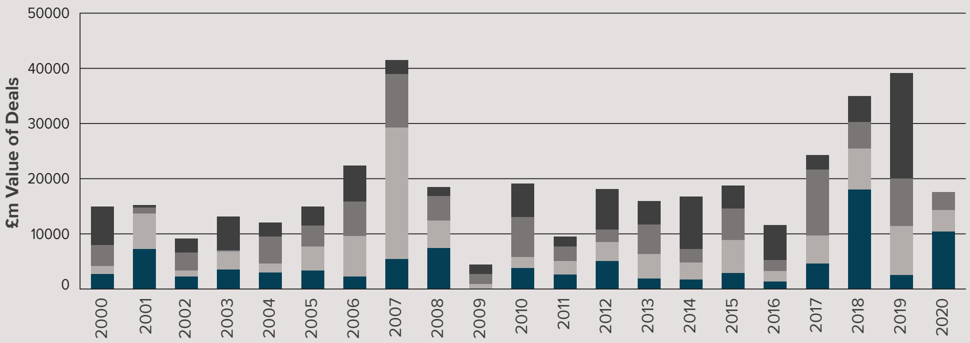
Q1

The **larger buy-outs** sector (enterprise value of £150 million or above) was little changed from the second quarter, when it was the least hard hit segment of the market. The number of deals rose from five to seven, around the long-term average. However, the value of transactions was down from £3.9 billion to £3.2 billion.

£150m+ Buyouts by Volume




£150m+ Buyouts by Value

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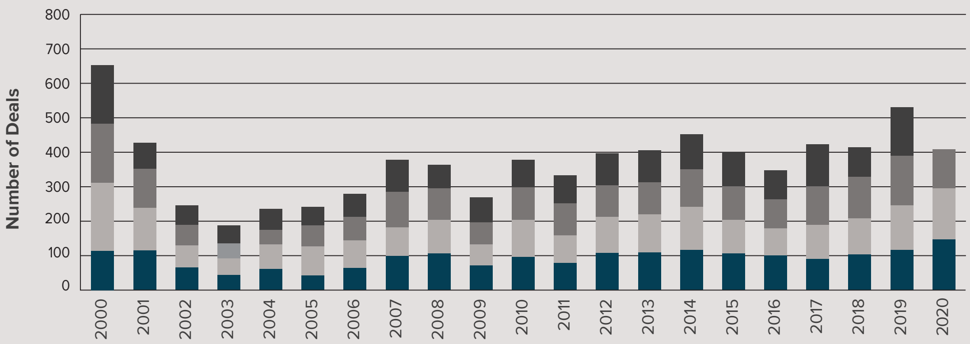
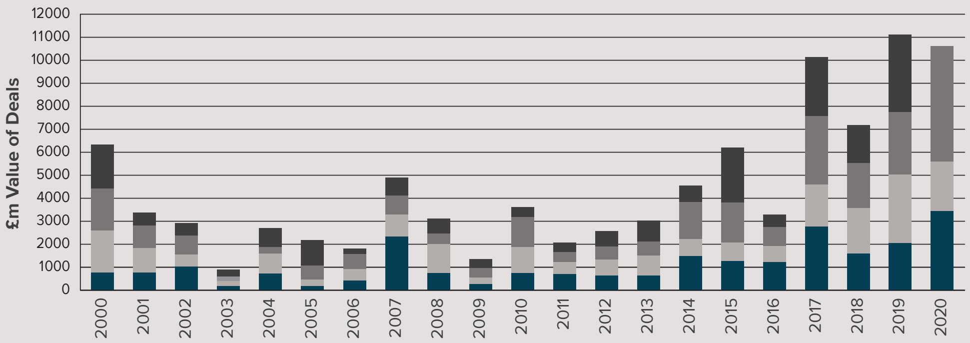
- Q4
- Q3
- Q2
- Q1

**Early-stage and expansion capital deals** had been easily the most resilient segment of the market during the second quarter, with volumes almost matching the recent record level. In the latest three months, the number of transactions declined from 147 to a still respectable 114. However, the value of these deals surged from £2.2 billion to a staggering £5 billion, comfortably the record quarterly figure for this segment, setting it on course for a record yearly total.

Volume of Early-Stage / Expansion Deals




Value of Early-Stage / Expansion Deals

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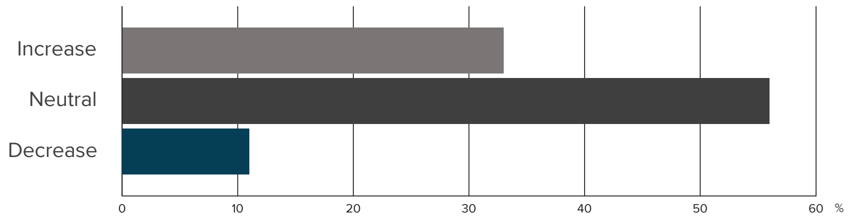
Corbett Keeling
Corporate Finance

# So what does our latest survey suggest?

Even after seven months and counting of COVID-related restrictions and the severe toll on the economy, the mood among market participants remains encouragingly upbeat.

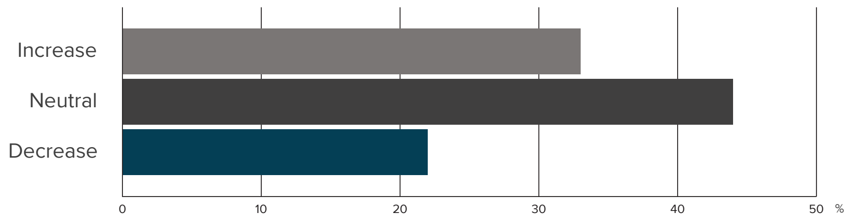
## 1 Do you expect deal volumes <£100m to increase or decrease?

For the smaller value segment of the market, the percentage of respondents predicting a rise in volumes over the next six months held steady, at 33%. However, the proportion forecasting a drop in activity halved, falling from 22% to 11%. The majority (56%) expect activity to remain around current levels.



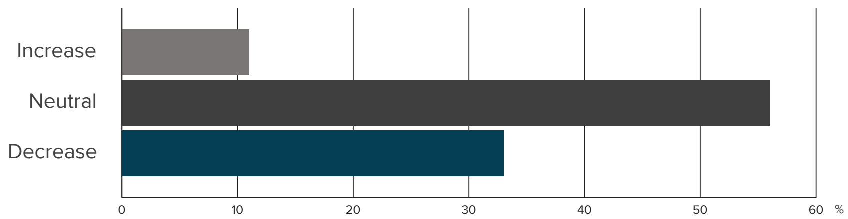

## 2 Do you expect deal volumes >£100m to increase or decrease?

For the larger value segment, the survey shows a slight increase in optimism, with a third now expecting an increase in activity, while only 22% predict a decline.



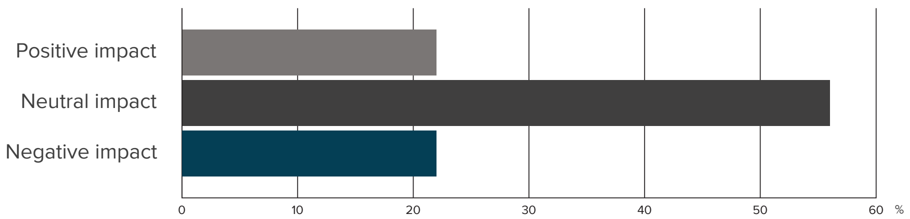

## 3 Is debt availability increasing, decreasing or neutral?

One slight concern is that the proportion of respondents saying that debt is becoming less available rose from 11% to 33%. That outweighed the 11% reporting an increase in debt availability.




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

When asked how the restrictions related to COVID-19 have affected portfolio companies, the majority (56%) said they had seen little impact overall. The remainder were evenly split between those reporting a positive and a negative effect.

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