Corbett Keeling
Corporate Finance

Surprising strength

Although 2020 had many challenges, the market for private company transactions continued to function well. And, looking ahead, Jim Keeling of corporate finance advisor Corbett Keeling finds a number of reasons for optimism about 2021.

Last quarter, I talked about the remarkable resilience the market had shown in bouncing back from the second quarter lockdown. But even I have been surprised by the data from the latest quarter. Looking at the figures, it's hard to imagine that the market has just been through by far the deepest recession since records began.

True, the market hasn't matched 2019's exceptional vintage. But, despite a weak second quarter, 2020 has been strong overall – and far better than during the global financial crisis. Even when the volume of deals has been down, the valuations achieved at sale have mostly been very good.

Will this continue in the new year? I believe it can, despite the latest lockdown and the new strain of coronavirus. Of course, certain parts of the economy, such as the hospitality sector, may take many years to recover fully from the COVID shutdowns. Others may have changed for good. Think of the way most of us shop now.

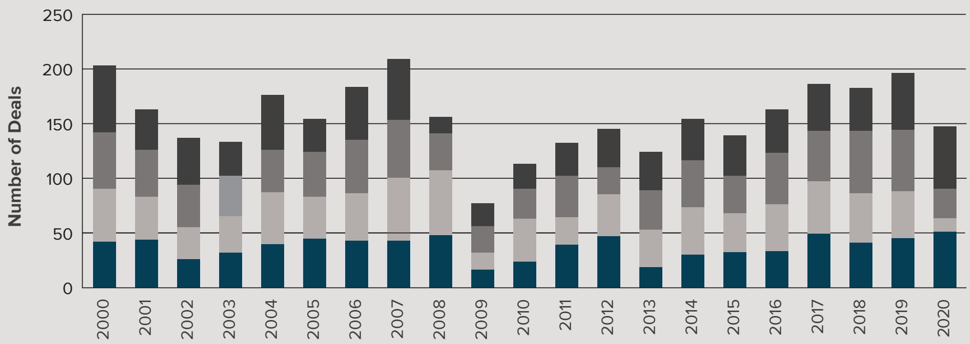
Yet I see several reasons for optimism as I look ahead. The government and the Bank of England continue to provide support, which should help many businesses to weather the immediate storm. Meanwhile, the rapid development of vaccines should allow a return to normality over the coming months. While some of our survey respondents anticipate debt may be less readily available in the coming year, this should be counter-balanced by plentiful equity. The agreement of Brexit terms will remove a major source of uncertainty for some business and encouragingly it may also herald an influx of new funds from overseas investors who had been waiting to see the terms of the deal before investing. And that's in addition to the existing money that was already looking for interesting opportunities among privately owned businesses.

Assessing the deal data

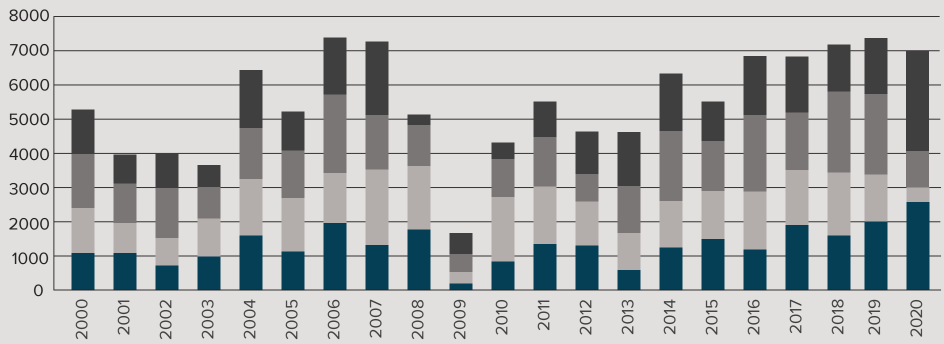
The impressive recovery from the second quarter's weakness forged ahead in the **smaller buy-outs** sector (transactions with enterprise value of less than £150 million). The volume of deals rose from 27 in the third quarter (and 12 in the second) to 57, the highest figure for over two years. Meanwhile, these transactions' value soared from £1.1 billion to over £2.9 billion, making this comfortably the strongest quarter since our data series began more than 20 years ago. So, even after the abrupt halt in activity mid-year, the overall value figure is not far off last year's robust total.

Key:
Q4
Q3
Q2
Q1

Sub-£150m Buyouts by Volume



Sub-£150m Buyouts by Value

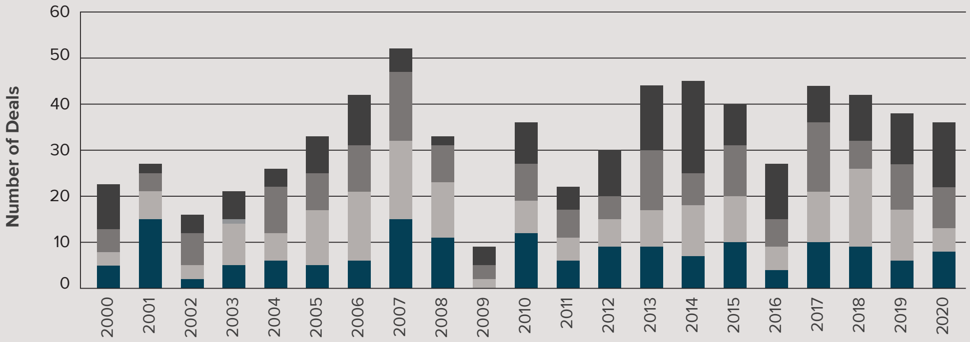


It was a similar story in the **larger buy-outs** sector (enterprise value of £150 million or above) with both the volume and the value of deals marking their strongest quarter of the year. The volume rose from nine to 14, the highest for two and a half years, and the value rose from just under £4 billion to £13.7 billion, the fourth highest quarterly total in our series. For the year as a whole, volumes were around average for the period since the global financial crisis, while values were very strong, if not matching 2019's record figure.

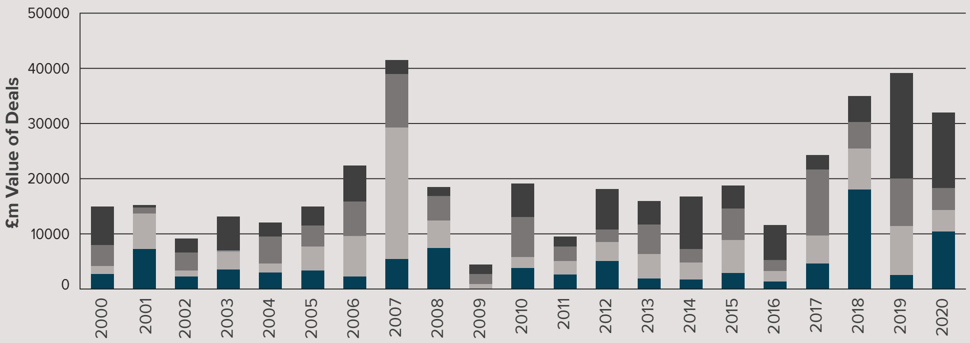
Key:

- Q4
- Q3
- Q2
- Q1

£150m+ Buyouts by Volume



£150m+ Buyouts by Value

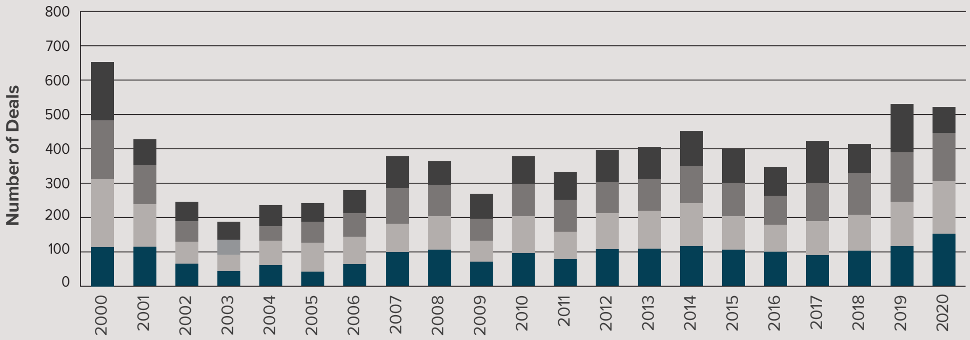


The quarterly picture was more mixed for **early-stage and expansion capital deals**. The number of transactions fell steeply from 140 to 77. However, the average value of these deals was strong, with the total holding up nicely at £3.4 billion. Although well down on the third quarter's £5.6 billion, that had been far the highest number since our series began, and the annual total easily beat last year's record figure.

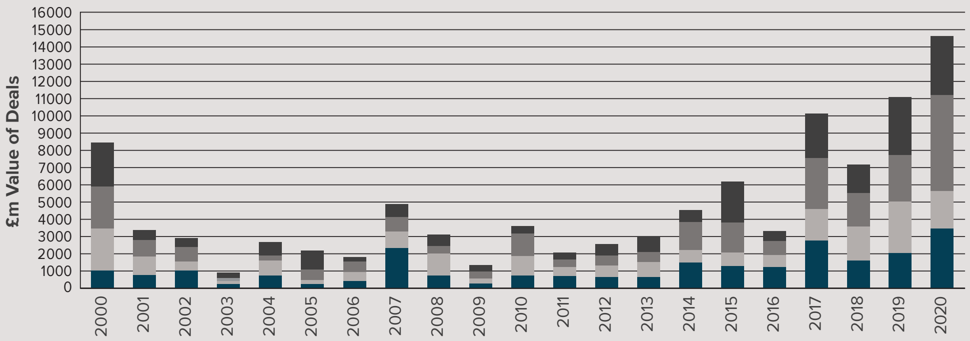
Key:

- Q4
- Q3
- Q2
- Q1

Volume of Early-Stage / Expansion Deals



Value of Early-Stage / Expansion Deals



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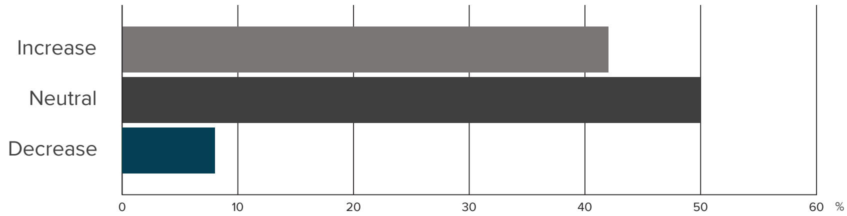
So what does our latest survey suggest?

As we enter the new year, with fresh COVID restrictions being introduced even as the economy seeks to recover from the worst recession in living memory, the market's mood was never going to be exactly sunny. However, I remain impressed by just how confident sentiment is, particularly with regard to future deal activity.

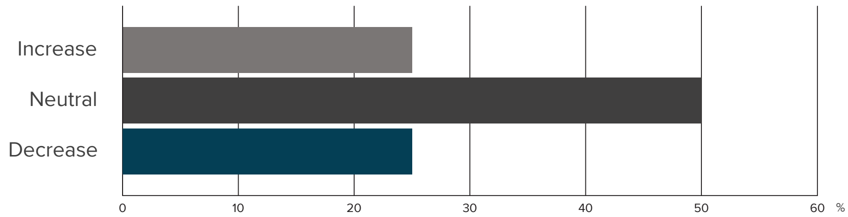
1 Do you expect deal volumes <£150m to increase or decrease?

For the smaller value segment of the market, the percentage of respondents predicting a rise in volumes over the next six months increased from 33% to 42%, with only 8% expecting a decline. The remainder are forecasting activity to stay around the current level.



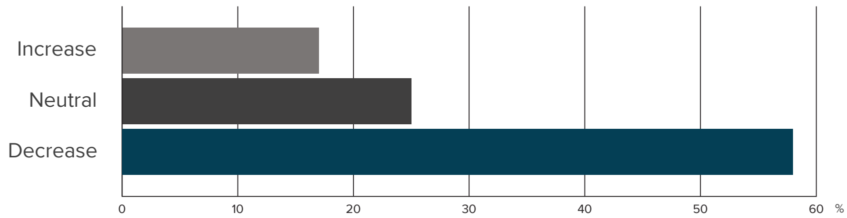
2 Do you expect deal volumes >£150m to increase or decrease?

For the larger value segment, sentiment is fairly evenly balanced. Half of the respondents expect little change in activity, while the rest are evenly split between the optimists and the pessimists.



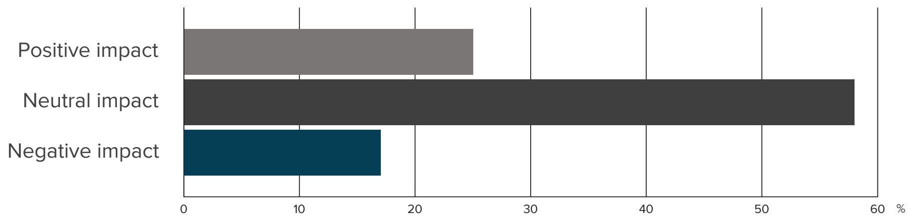
3 Is debt availability increasing, decreasing or neutral?

Last quarter, our survey flagged a growing concern about debt availability. That concern has persisted this quarter, as the proportion of respondents saying that debt is becoming less available rose from 33% to 58%, in stark contrast with the 0% figure at the start of the year.



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

When asked how COVID-19 has affected portfolio companies, nearly 60% reported a neutral effect. Only 17% had observed a negative impact, while a quarter said the effect had actually been positive.



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