Deals are definitely back

It's been a long haul but 2010 has seen the return of mergers, acquisitions and buy-outs and the outlook for 2011 is positive, writes Richard Willsher.

In the first nine months of the year the global volume of announced mergers and acquisitions totalled jus over US$ 2 trillion (£1.24 trillion), according to research from Dealogic. That was 22% ahead of the same period in 2009. But significantly both in the bigger picture and locally, it was in the third quarter of the year that the market really began to be confident. Worldwide, Q3 saw announced deals amounting to US$792 billion, (£492 billion) 55% up on the third quarter of 2009.

Closer to home the UK accounted for 24% of all European M&A during the first nine months of the year, which may have been boosted by the weakness of Sterling versus the Dollar and the Euro. Also, out of a UK total of US$140 billion (£87 billion) however, US$21.5 billion (£13.34 billion) was accounted for by GDF Suez' bid for British company International Power.

More striking is the volume of UK buy-out activity. "The overall value of UK buyouts in the first nine months of 2010 reached £13b," reports Nottingham University's Centre for Management Buyout Research (CMBOR). "[this was] more than double the total value of buyouts for the whole of 2009 (£5.6b)."

Commenting on these numbers Christiian Marriott, a Director at Barclays Private Equity, said, "Confidence is returning to the private equity buyout market with private equity deal flow dominating the overall M&A market in the UK in the first half of this year and an increase in consumer-related transactions. With several large deals in the pipeline, we might see the year ending at near 2008 buyout levels."

If this is the overall picture, how has this been reflected in the activity in the South East of England? We asked several local deal doers for their perspective.

"It has been a year of two halves in many ways," says Andrew Clayton, Reading-based head of corporate and structured finance for the Thames Valley and South East for RBS. "In the first half we saw several deals in the upper mid-sized corporate market. These included Pets at Home, Card Factory and Camelot that were all quite substantial. It wasn't until later in the year that deal flow in the mid-market, in the £25 million to £75m range, really developed momentum. For example we've seen deals for United House, the social housing firm, which we funded with Lloyds Development Capital and Leaders, the lettings business where we worked with Bowmark Capital. Now, with six weeks to go to the end of the year I would say that our work in progress is now as strong as its been for the last two or three years."

Nonetheless advisors such as accountants and solicitors say that deals are still taking a long time to complete. Bank approvals for funding propositions are taking longer and the processes are more rigorous than prior to the 2008 credit crunch and the collapse of Lehman Brothers. But at least the system isn't as petrified as it was.

"We are now seeing a lot more activity," says Richard Somerville, a director of Rice Associates, the Wokingham-based accountants and business advisors. "There are a lot more exit strategies for business owners who are talking about buy-out possibilities whereas a year ago there was no point in even talking to the banks."

At solicitors Charles Russell, Oxford-based partner William Axtell says, "We have definitely seen an upward trend in terms of corporate finance activity this year. Charles Russell have seen a decent amount of sell and buy side M&A, private and public fundraisings including three initial public offerings (IPOs) earlier this year. However, in relation to M&A, the availability of funding is still problematic and there is often a mismatch between sellers and buyers in terms of value."

But taking a rather different tack Andrew Killick of accountants Baker Tilly points out that banks are "now doing their job properly in the way they assess risk." He stresses the importance of understanding how to present a case for funding to a bank or private equity house. "You need to look at it from the funder's point of view rather than just the perspective of the business that is seeking the finance."

This approach has stood Baker Tilly in good stead and has enabled them to complete a number of deals in the year to date. He says that there is no shortage of cash, for example among private equity houses and that good businesses with strong propositions will always be able to find the funds that they need.

Looking ahead to next year there is general optimism among the corporate finance community. RBS' Andrew Clayton says, "While we may complete two or three more deals before Christmas, because processes are taking longer I'm expecting more completions in Q1 next year. I think it will be quite busy but also it is likely that some of those transactions which we've been discussing this year may come to the market in the first and second quarter."

Jonathan Hughes of Leumi ABL, the asset based lender believes that in 2011 there are likely to be more non-core disposals and strategic acquisitions now that the cycle looks as though it has reached the bottom.

At Charles Russell, William Axtell's view is cautiously optimistic. "We think that 2011 will continue on the same upward trajectory that we have seen in 2010. Although global economic conditions remain choppy, recent GDP figures suggest that a steady recovery is underway. As confidence grows along with the recovery we see corporate finance activity increasing and we are well positioned as a firm to capitalise on this."

At Rice Associates, Richard Somerville says, "I think the banks are going to need to get back to lending next year. They've weathered storm, beefed up their balance sheets, garnered their deposits and will be keener to lend. Yes, I'm optimistic."

All in all not a bad outlook. It's been a rough ride but 2010 may go down in corporate finance annals as the year the recovery really took root. If so, 2011 ought to be the year when deals flourish and bear fruit, despite all the talk of double dip and austerity.