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Survey of Welsh company exits 2007 - 2016

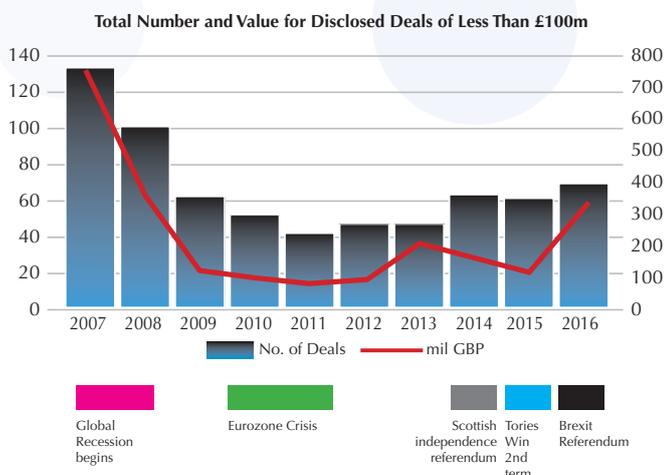
Slow recovery in the number of exit transactions from the lowest point in 2011, following global recession and eurozone crisis.

Decline in buyers from Europe, but notable increase in those from the Rest of the World.

Change in ownership has not had a negative economic impact on the Welsh economy. 85% of companies surveyed remain in Wales today.

Survey of Welsh company exits 2007 - 2016

Gambit Corporate Finance LLP has analysed a database of c.700 reported corporate exits involving Welsh companies, spanning ten years from 2007-2016. The database includes transactions with undisclosed values and, where possible, market intelligence or in-house knowledge has been applied. The data has been adjusted to exclude non-indigenous companies (e.g. subsidiaries of overseas companies) and property transactions. Exits include trade sales, buy-ins/buy-outs and divestments. Initial Public Offerings (IPOs), although not strictly exits, represent a significant change in ownership and have therefore been included in the survey data, as have stock market delistings.



It is apparent from the data that transactions over £100 million, albeit limited in number, have a significant impact on the 10-year trend analysis. Nine high value transactions occurred over this period, with a combined value of c.£2.5 billion - half of the total cumulative exit value of c.£5 billion. Most notable in this category was the delisting of Gyrus Group Plc for a reported consideration of £1.117 billion. To prevent distortion, we have excluded these from the data set.

By removing this information a clearer picture of Welsh company exits emerges. The overall trend for the remaining data set of £2.5 billion is one of slow recovery due to the various global economic shocks in 2008. The graph presents an unflattering trend for the last ten years but it must be remembered that 2007 was a record year for the global, UK and Welsh M&A markets. The average consideration for disclosed transactions below £100

million was £8.7 million. This is down from the average of £10.1 million reported in the 2000-2006 period.

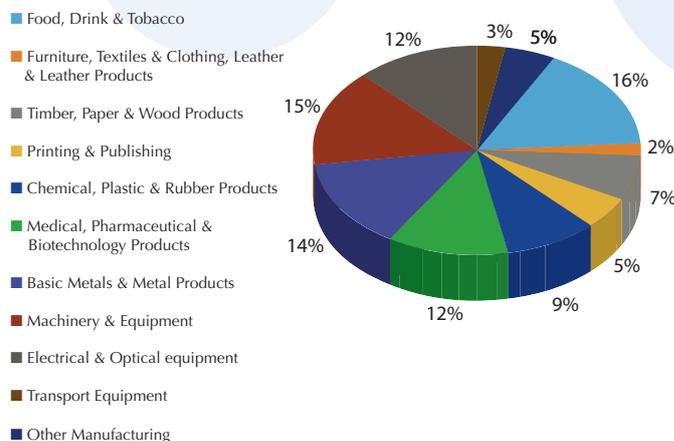
Exits from companies based in the services sub-sectors were more than double those in the manufacturing sector, in both number and total value. It is possible that this is indicative of sectorial shifts in the Welsh economy as it transitions away from its traditional manufacturing bias towards a more service-based economy.

The number of exits that occurred in the service sector were dominated by the Retail & Wholesale market which accounted for 19% of all service company exits, closely followed by Business & IT services accounting for 18% of exits. The largest exits in the service sector were the trade sales of GoCompare.com Ltd for £95 million and National Britannia Holdings Ltd for £91 million.

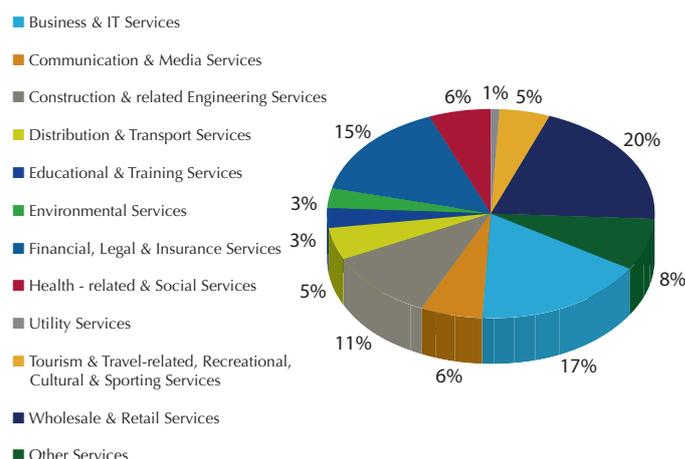
Whilst Retail & Wholesale was the most active in terms of overall deal numbers, the total deals value for the Business & IT sector was far higher.

Deals in the manufacturing sector below £100 million had a cumulative value of c.£800 million over the 10-year period. Of those, nine of the top ten deals in manufacturing were completed before 2010; seven of these being in 2007 alone. Exits were focused in predominately two areas: Machinery & Equipment and Food, Drink & Tobacco. The largest deals in this sub-sector were the leveraged buy-out of Peter's Food Services Ltd in 2007 for a consideration of £20 million, and the sale of Rachel's Dairy Ltd in 2010.

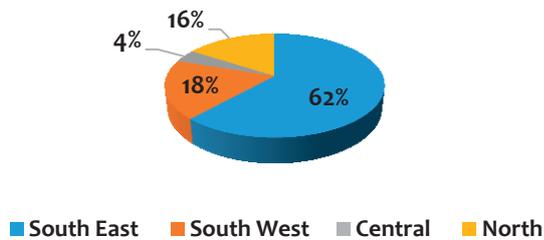
Manufacturing Exits



Service Exits



Exits within Wales by Location



The 10-year period includes 2007, a peak year of activity, during the boom years of 2000-2007 with the most deals completed and the highest total deal value (over £2 billion). This was followed by the global meltdown in 2008 and a deep recession affecting global economies, persisting until 2013 in the UK.

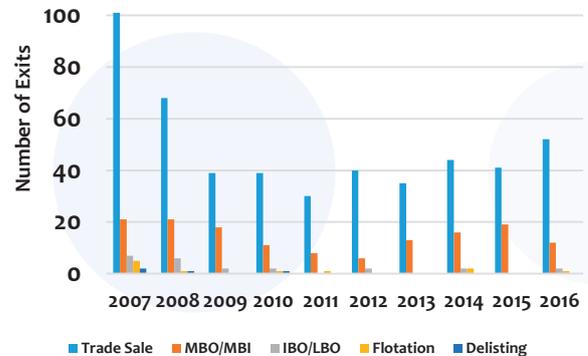
Disclosed Welsh exits experienced their lowest year in 2011 with a cumulative value of less than £50 million. From this point on there has been a gradual increase in corporate ownership transactions. The most popular route to exit over the ten years reviewed was the 'trade sale', which made up 72.8% of exits. Management buyouts (MBOs) were the second most prevalent transaction type representing 21.6%.

The largest MBO was Bluestone Resort Ltd in 2013 for £87 million, followed by the MBO of Penn Pharmaceutical Services in 2007 for £67 million. The use of capital markets remains a rarity in Wales with only 11 flotations taking place, the largest of which was the IPO of Watkin Jones for £131.3 million in 2016. Excluding Watkin Jones, the average value of flotations were £8.4 million. The most notable being Diurnal Group PLC in 2016 for £24.8 million and Sphere Medical Holding PLC for £14 million in 2011.

Meanwhile, four delistings occurred with an average value of £37.75 million, including BBI Holdings in 2007, which was privatised by the US based Inverness Medical Innovations Inc for £73.5 million.

As expected there were stark differences between Welsh regions. This is highlighted by the small contribution of Central Wales (4%) to total exits. The difference between North and South is more striking with South Wales responsible for over 80% of transactions. South Wales can be divided into South West and South East, with data showing that most exits over the 10 years took place in Cardiff, Newport and their surrounding areas.

Total Number of All Exits by Transaction Type



Nearly 75% of changes in ownership were to other UK businesses or their own management teams. This signals confidence in the UK and Welsh economy. The locations of the acquirers bring about some interesting observations. Firstly, from 2012 onwards there is a downward trend in European buyers that culminates in 2016 with no reported buyers. This pattern is unsurprising as it coincides with the Eurozone crisis and the Brexit referendum. This seems to be reversing now that Brexit is a reality and currency favours overseas buyers from Europe, America and China.

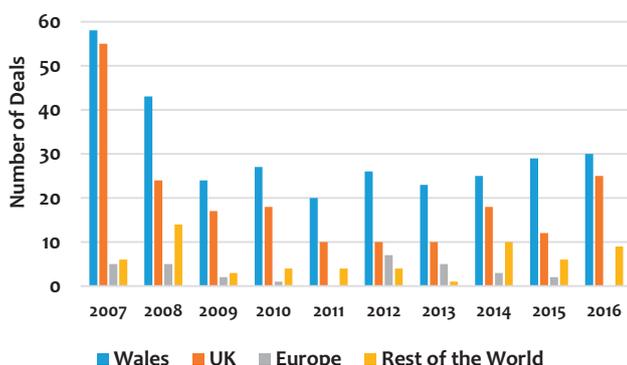
The increase in overseas buyers from outside Europe is an interesting factor in corporate transactions in Wales. In 2007, disclosed non-European buyers appeared in 4.8% of transactions. By 2016 this had increased to just over 14%. This can only be seen as positive as it is a sign that Wales is an attractive destination for foreign investment beyond Europe.

Whilst companies of all ages were exited over the period, more than 34% had enjoyed a life of between 10 and 25 years. This increase in the corporate age trend is not surprising relative to previous surveys where 65% of companies were less than 15 years old. Economic downturns, global uncertainty and availability of bank debt have impacted on the ability of owners to pursue exits, succession planning or other transitions of ownership.

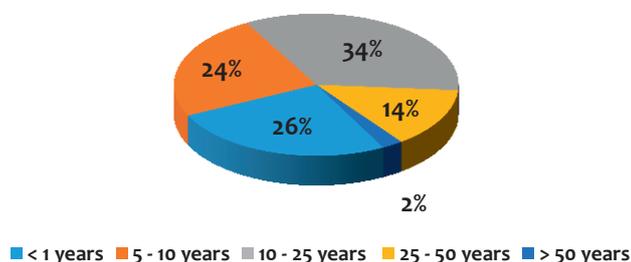
Previous surveys indicate that between 2006-2010, 45% of the directors of exited companies were below the age of 50. Inevitably, due to economic uncertainty and available finance, these owners have grown older, delayed exits and remained with their business. As expected, many are on average now over 50 years old.

A review of the current ownership of exited companies in the 10 years reveals that over 570 companies remain active in Wales today, dismissing the myth that ownership change creates a negative impact on the Welsh economy. So it is not accurate to say that exited businesses are relocated away from the Principality. On the contrary, 85% remain active and are still based in Wales; some perished but very few moved away.

Total Number and Location of Bidder Disclosed Deals



Target Age at Exit



This is our third publication on Welsh company exits. The period under review reflects extreme economic peaks and troughs of boom and bust, followed by slow recovery and prolonged economic uncertainty whilst the UK faces up to predicting life after Brexit. The trends, whilst predictable at the macro level, dispel some myths on the economic impact of changes of ownership and highlights the need to encourage longer-term ambition to create larger home-grown companies in Wales.

**J Frank Holmes – Senior Partner,
Gambit Corporate Finance**



We see owners selling their business as a critical component of the investment cycle. More often than not, the purchasers, which can include management teams, take the business to the next level with deeper pockets or funding to invest in the business and provide the next platform for growth. Finally, it provides the impetus to would-be entrepreneurs to take the plunge and start what could eventually become a future successful exit. Throughout the cycle, Finance Wales, and in due course, the Development Bank of Wales, will be there to provide the financial support needed for the development of micro, small and medium sized enterprises in Wales and the deployment of its succession fund.

**Giles Thorley – Chief Executive,
Finance Wales Group**



For those people that have worked hard to create a successful company, management buyouts are an important vehicle for realising the true value of their business. What is not always appreciated is that achieving the right value can also have a positive impact on the Welsh economy. As this survey shows, 85% of companies involved in a successful exit have remained in Wales. In this sense, attaining better value for company exits is good for the Welsh economy.

**Prof Brian Morgan –
Cardiff Metropolitan University**



Notable Deals

Year	Deal type	Target	Deal Value
2007	Trade sale	National Britannia Holdings	●
	MBO	Penn Pharmaceuticals	●
	MBO	Nu-Aire	●
	MBO	Peter's Food Service	●
	MBO	Williams Medical Supplies	●
2008	Trade sale	BBI Holdings	●
	MBO	David McLean Homes	●
	PE	Protectagroup	●
2009	Trade sale	Allen Group	●
	MBO	Techno Engineering	●
	MBO	Celtic Engineering	●
2010	Trade sale	Rachel's Dairy	●
	MBO	Nutrafeed	●
2011	Trade sale	Tritech Group	●
	Trade sale	7Side	●
	MBO	Wales Environmental	●
2012	PE	Buy As You View	●
	Trade sale	Safety Letterbox Company	●
2013	MBO	Silverwing UK	●
	Trade sale	IG Doors	●
	MBO	Bluestone Resorts Holdings	●
2014	MBO	Frontier Medical Products	●
	Trade sale	Williams Medical Holdings	●
	Trade sale	New Law	●
	Trade sale	Abingdon Flooring	●
	MBO	Vista Retail Support	●
2015	IPO	Medaphor	●
	Trade sale	Dragon Taxis	●
	MBO	Pinnacle Office Equipment	●
2016	Trade sale	Wheelies / Tredz	●
	Trade sale	ACT	●
	Trade sale	SET Office Supplies	●
	MBO	Bluestone Resorts Holdings	●
	MBO	Brickability	●

Deal Value Key

●	£0-£10 million	●	£20-£50 million
●	£10-£20 million	●	£50-100 million

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