Survey of Welsh Company Exits 2020

During 2020, the UK economy was shocked by a combination of unprecedented events that caused disruption on a global scale. The Welsh private sector was forced to react the economic and social uncertainties posed by the Covid-19 pandemic and final Brexit negotiations which resulted in the UK leaving the EU.

Welsh companies responded quickly and adapted to operating in the new environment, whilst dealmakers' effective negotiation of Covid-19 normalisation adjustments, preserved optimal financial valuations, and transacted exit opportunities. In 2020, surprisingly, average deal consideration values increased on 2019 whilst the number of transactions equaled the previous decade's overall average.

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Introduction

Gambit Corporate Finance LLP has compiled and analysed a database of corporate exits involving Welsh companies during 2020. A year impacted by Brexit uncertainty and unprecedented operational restrictions induced by the Covid-19 pandemic.

Business exit volumes and valuations can be given context by the economic conditions which prevailed during the period under review.

Throughout 2020, the Covid-19 pandemic (apparently moreso than Brexit concerns) provoked a series of extremely challenging economic and social circumstances that limited shareholders' ability to engage and execute succession plans whilst simultaneously reducing corporate valuations in a number of sub-sectors.

Gambit's business exit 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 comprise of trade sales, buy-in/buy-outs and divestment. 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 delistings which are sale induced outcomes for quoted companies.

Transactions with deal values of over £100m, albeit limited in number, skew the trend analysis and by removing these outliers a clear picture of Welsh business exits emerges.

It is worth mentioning, Future plc announced the acquisition of the fintech price comparison website GoCo Group for £594m in Q4 2020 however the transaction was not completed until Q1 2021.

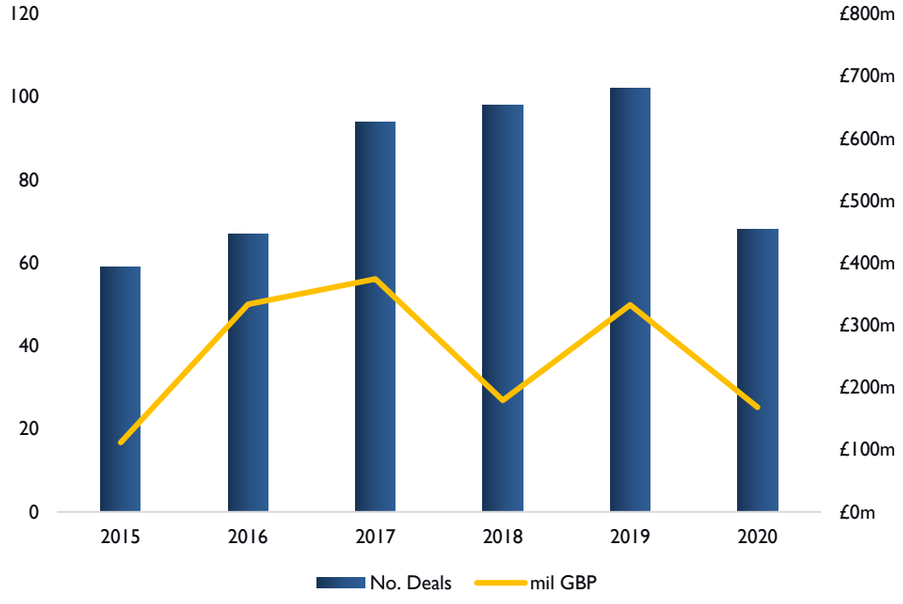
Additionally, in Q4 2020, Admiral agreed to sell its Penguin Portals and Preminen Price businesses which included price comparison website Confused.com to RVU, a subsidiary of Zoopla, for £508m and is expected to complete in the first half of 2021.

These deals, albeit announced during the time period under review, are excluded from the data but are indicative of the emerging trends that featured in 2020. Exits were concentrated in a number of sectors that expanded during the lockdown restrictions and eventually businesses were able to operate at or above normal levels of activity.

Despite the severe economic and social impact of the pandemic, Welsh business exits remained buoyant as 67 deals under £100m completed in 2020 with a cumulative disclosed value of c.£170m, compared with c.£333m in 2019, and not dissimilar to c.£180m in 2018.

Both deal volumes and values remained resilient when compared to previous years. Transactions were concentrated in sectors that did not suffer from the longevity of the lockdown restrictions or were able to adapt to the 'new normal' enabling shareholders to achieve an optimal valuation upon exit, in non-distressed businesses.

Total number and value for disclosed deals (less than £100m)



Events Timeline

January
UK Withdrawal Agreement Bill passes

March
UK-wide lockdown imposed

June
Lockdown restrictions eased

October
17 day 'fire break' lockdown

November
Covid-19 vaccine Developed

Trump loses U.S. election

December
UK-wide lockdown

UK withdraws from the European Union

Welsh business exits

Operating disruption and restrictions curtailed deal volumes in Q2 however as the constraints were lifted deal volumes rebounded, concentrated in sectors that did not bear the negative economic and social impact of the lockdown.

Trade sales continued to be the most favoured route to exit accounting for 79% of deals with an average consideration of £6.8m in 2020. The largest trade sale to feature during the year was the completion of Bidvest Group's acquisition of PHS Group for a £495m. For disclosed deal values under £100m, Icosa Water was acquired by Last Mile Water for £22m.

The second most prevalent route to exit was via a management buy-out (MBO). The largest disclosed MBO to take place in 2020 was the £115m Iceland Foods buy-out. Whereas, for deals under £100m the average consideration for an MBO was £16.2m. Notably, the MBO of TST Cardiff achieved the highest disclosed value in this category, with a consideration of £22m.

Historically, low interest rates and heightened levels of available investment capital enabled, private equity leveraged buy-outs (LBO) to be the third most popular exit route for Welsh companies. Peak Rock Capital's £35m LBO of Halo Foods was the largest disclosed deal to take place in Wales in 2020.

Only one IPO occurred, Penarth registered, EKF Diagnostics spin-out, Verici DX floated on AIM raising £14.5m while there were no delistings.

Despite the imposed travel restrictions, 16% of exits were cross border transactions. Over half of the foreign acquirers were domiciled in the United States, and European acquirors ranked second. A significant number of cross border deals occurred in Q1 2020 before the pandemic took hold.

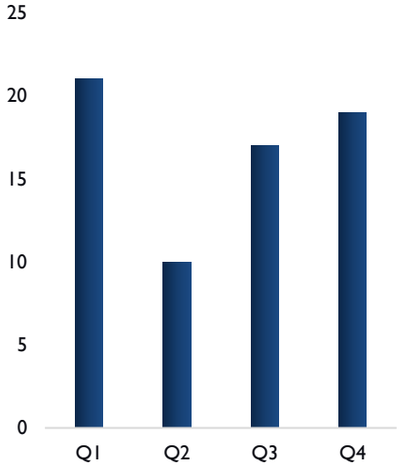
The largest disclosed cross border transaction was the £10m institutional buy-out of Chetwood Financial by US-based Elliott Management Corporation.

UK bidders accounted for 84% of acquirers whilst Welsh purchasers represented 48% of this cohort.

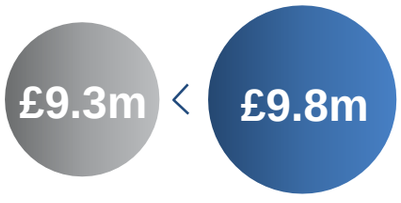
The services sector accounted for over 80% of exits and within this sector 22% of the deals were in the business and I.T. sub-sectors. Notable deals included the trade sale of Pinnacle Office Equipment to Ethos Group and Onecom's acquisition of Glamorgan Telecom.

The increased reliance on digital infrastructure during the pandemic supported valuations and subsequently encouraged shareholders to contemplate their exit options as buyers opted to scale operations and geographic coverage.

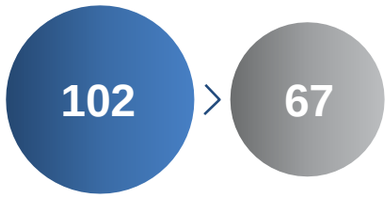
Quarterly exits volumes



Average consideration for disclosed deals



Number of deals per annum



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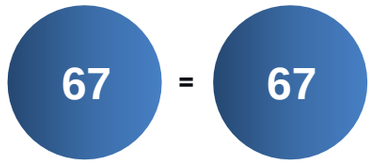
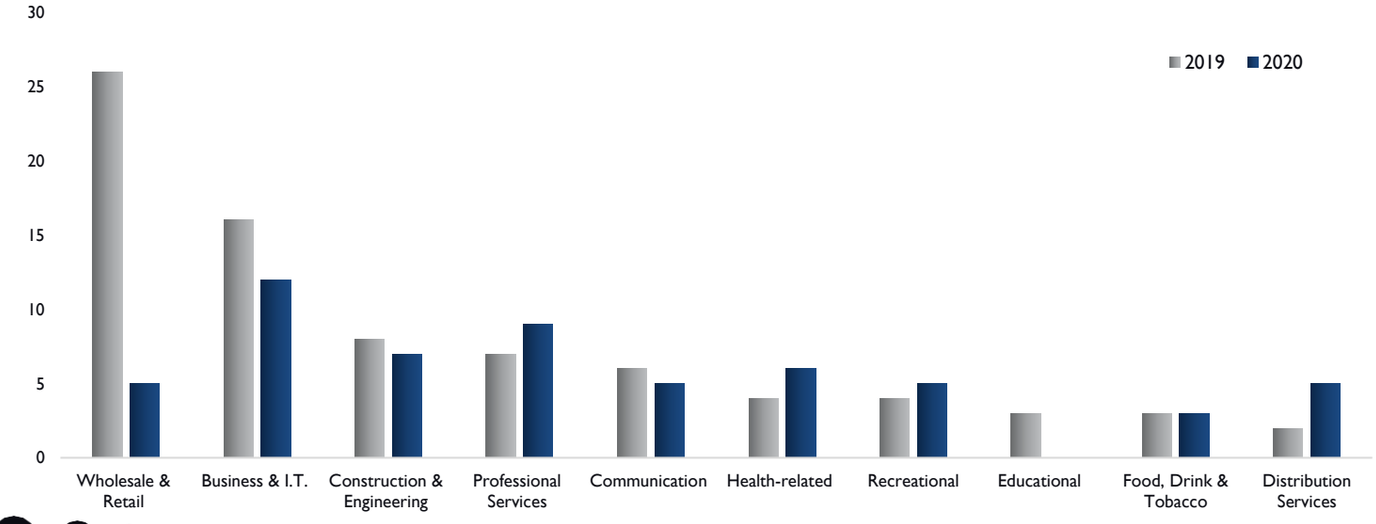


Deal exit volumes by sub-sector 2019 and 2020



Manufacturing deals were not as prevalent accounting for less than 20% of total exits, construction and engineering were the most favoured sub-sectors.

The construction sector was permitted to continue operating after the initial stages of the first national lockdown. This enabled businesses to continue generating revenue and supported valuations.

GS Engineering and Construction's acquisition of Elements (UK) for £12m was the largest disclosed transaction to take place in the sub-sector.

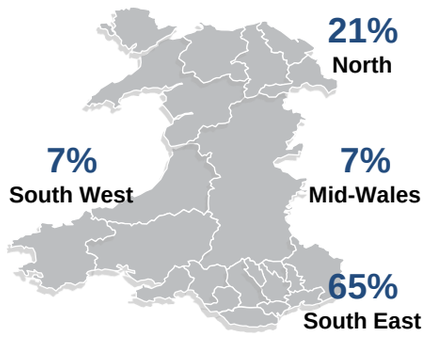
Within Wales, there persists a notable disparity among the regions with 65% of deals occurring in the South East. This share of total exits has moderately increased from 63% in 2019.

However, the proportion of exits in the South West fell to 7% from 17% in 2019, most likely due to the lockdown extinguishing exit options in the retail, tourism and hospitality sectors which account for a higher proportion of the regional economy when compared to the surrounding areas.

In contrast, the South East has a higher proportion of professional and I.T. sector businesses which did not experience the full financial impact of the lockdown and shareholders where able to engage in change of ownership opportunities.

North Wales accounted for 21% of exits in Wales. The largest disclosed deal being the £10m institutional buy-out of Chetwood Financial Group, referred to above. Mid-Wales continued to account for less than 10% of exits disclosed.

Exit volumes by region



In 2020, 35% of exits involved businesses that were less than 10 years old. Whereas, during 2010-2019 this stood at 43%. This could be a factor as acquirers focused on longer established businesses in a period of uncertainty.

Whilst companies of all ages were exited during 2020, 48% of those exits were incorporated between 1995-2010.

According to the latest data, in 2020, the average age of shareholders exiting via trade sale was 58 whereas by MBO the age was slightly higher at 60. Overall, the average age of shareholders exiting was 59, relatively unchanged from 2019, as expected.

A review of company exits during 2020 reveals that the pandemic has had a varied impact across the regions and industries. However, despite the uncertainties and harsh economic headwinds, deal volumes remained at a 10-year average whilst deal considerations increased on a year-on-year basis. This demonstrates that on average corporate valuations remained robust as Covid-19 normalisation adjustments to financial performance data were reinstated to support shareholders' aspirations on value.

Looking Forward

This is our fifth 'Survey of Welsh Company Exits' which looks to examine changes of ownership in Wales. Despite the distressed circumstances which prevailed in 2020, exits in Wales remained robust, a testament to the resilience and dynamic reaction of the Welsh business sector.

Looking forward, the Welsh private sector must respond to the 'new normal', embracing innovation in conducting business, preserving supply chains and reskilling the workforce.

The rapid roll-out and take-up of the vaccine will be a key driver in the relaxation of restrictions and subsequently spur private sector confidence, valuations and in turn encourage shareholders to contemplate their exit options.

During Q1 2021, 18 reported Welsh exits have taken place, notably the completion of Future Plc's acquisition of GoCo Group for £594m. A significant proportion of Q1 transactions included private equity backed buyers who continue to deploy their record levels of capital firepower.

As an indication of these M&A market trends, Gambit has completed 5 exit deals during Q1 2021 which includes Heathpak's sale to Dutch private equity backed Solidus Solutions and the MBO of Learna with funding from Harwood Capital.

A notable driver for shareholders was the rumoured potential increase in Capital Gains Tax which was given a reprieve during the Budget and on 'Tax Day'. However, this perceived threat remains on the horizon and will motivate owners to explore exit options including a notable increase in IPOs whilst capital markets remain buoyant.

Below is a summary of our key findings:

79%
Of business exits were trade sales

c.£170m
Disclosed deal values below £100m

16%
Of transactions were cross border

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Wales' most active dealmaker 2020 (Experian)

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