Print this page
Save to disk
Go back

Private companies rethink pricing

/unquote/analysis/2183632/private-companies-rethink-pricing

12 Jun 2012, John Bakie, unquote

Despite recession and turmoil in the financial markets, company valuations have remained stubbornly high. While high valuations can be a boon to sales processes for private equity houses, they can also hamper dealflow. However, those on the ground say the trend is now turning in the acquirer's favour.

"We felt a change in the investment climate in September last year. The euro crisis cut off a rally of recovery abruptly and shareholders started to become realistic about the value of their businesses," says David Barbour, co-head of FF&P Private Equity. The sentiment chimes with Argos Soditic's recent findings, which indicate valuations fell across Europe's mid-market in the first quarter of 2012 from an average of 7.7x to 7.4x.

But the picture is inconsistent, with many businesses continuing to attract relatively high valuations despite the many economic problems currently facing Europe. Barbour, who is primarily focused on smaller UK buyouts and growth capital, says non-owner managed businesses tend to be more likely to cut their valuation: "In a lot of businesses, shareholders are taking a portfolio view and are now coming into the market looking to gain liquidity. Often we see businesses with a number of shareholders with many looking to exit, and the rest can be rolled over into the buyout structure," he explains.

By contrast, owner-managed and family owned businesses have tended to be far more sticky on their pricing, holding out for a better price. For those who do not need liquidity and place a premium on the value of the businesses they have built up, it is unlikely they will drop valuations unless they have to.

Some business owners will no doubt be eyeing up corporates who have hoarded cash during the downturn and are now looking at acquisition opportunities to help them grow, putting pressure on private equity buyers in the deal room. "Corporates are competing a lot more on deals today, and have lots of cash on their books. Private equity buyers have to work a lot harder to find the types of opportunity they need," says Jeremy Rayment, director at Menzies Corporate Finance.

Cash-rich corporates can certainly afford to pay for highly valued businesses. However, they tend to be looking for those businesses that are very much pre-packaged, and can be added on to their existing businesses with minimal disruption. This is where private equity bidders should see an opening to buy businesses that are a little rough around the edges to refine and sell on to corporate bidders. Obtaining exclusivity and avoiding auction processes will also be important for firms looking to capitalise on lower valuations.

"Relationships and value-add are key elements in the UK lower mid-market. Private equity firms need to emphasise their style to vendors, as well as experience they may have through their existing portfolio," adds Rayment. Putting in the effort to build a relationship and put forward a solid business plan before a first meeting with a management team could pay dividends for private equity buyers, giving them an edge over corporate bidders.

With the euro crisis unlikely to be resolved soon, confidence will continue to be hit. But the impact on valuations will not be so clear cut and hard work and due diligence will be key to acquiring the right business at the right price. As one market player recently told *unquote"*: "In 2007 every business had a high valuation. In 2012, lots of businesses also have a high valuation, but they have to be very high-quality businesses to sell."

Print this page
Save to disk
Go back