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Private equity firms lose faith in exit strategies

Michael Herman

European private equity firms have almost no confidence in either flotations or trade sales as a means of exiting mid-market investments, according to a new survey.

For the second year running, no European buy-out firms consider initial public offerings the most likely way to exit investments worth less than €250m ($325m) in the year ahead, according to Mergermarket, the M&A research house.

Only 4% of respondents expect trade sales to top their list of exit routes from portfolio companies this year, compared with 62% last year.

The gloom on sales and floats means private equity houses will be looking to secondary buy-outs, where one buy-out firm sells a company to another, as the most likely way to sell investments this year.

Almost half the respondents, 46%, consider secondaries the most likely way to sell a portfolio company this year. That compares with 10% last year, when the promise of trade sales doused expectations of secondary activity.

However, bankers remain optimistic despite the statistics, produced from a pool of 60 private equity firms involved in the mid market.

David Ascott, head of private equity at Grant Thornton, a mid-market advisory firm, said: "The figures sound distorted to me. There are public trade buyers, whose shares have rallied this year giving them a stronger acquisition currency, scouring the mid-market for acquisitions."

Ian Armitage, chief executive of HgCapital, a European mid-market buy-out firm, said: "Private equity firms selling quality assets still have the full range of exit options open to them. Two of our portfolio companies have gone to IPO in the past nine months and we have another in prospect. Investors are lapping up strong IPO candidates and trade buyers are keen to secure strategically-important assets."

However, Armitage and Ascott said secondary buy-outs, whose proliferation over the past 12 months has helped them gain acceptance among private equity fund investors, were here to stay.

Armitage said: "The levels of debt available to private equity houses and their willingness to use it means they can often make the highest bid for assets and as professional investors they can also move quicker in deals, giving them a double advantage over trade buyers."