New year, new hope

Last year turned out to be slightly disappointing for the UK company mergers and acquisitions (M&A) market. However, notes Jim Keeling of corporate finance advisor Corbett Keeling, there are positive signs for an upturn in 2024.

It should perhaps come as little surprise that deal volumes and values weakened in 2023. The post-covid boom, which had driven activity to record levels in 2021 and 2022, inevitably ran out of steam.

On top of that, central banks were forced to raise interest rates to curb the wave of inflation that was unleashed by the ending of the pandemic restrictions and the Ukraine War. In the UK, rates rose further and faster than at any time since the European exchange rate mechanism crisis in 1992. Inevitably, this tightening of monetary policy made debt more expensive and less readily available for potential buyers.

But inflation is now coming down. Even after the slight rise in December, the downward trend is widely expected to continue. Barring any spanner in the works – such as a closing of the Suez Canal shipping route – interest rates are expected to follow (down), oiling the wheels for buyers looking to finance acquisitions.

There are other encouraging signs in the market. The positive sentiment expressed in our own market poll (see below) is for example, mirrored in a survey of European M&A that sees the UK and Ireland as the likely hotspot for activity this year.

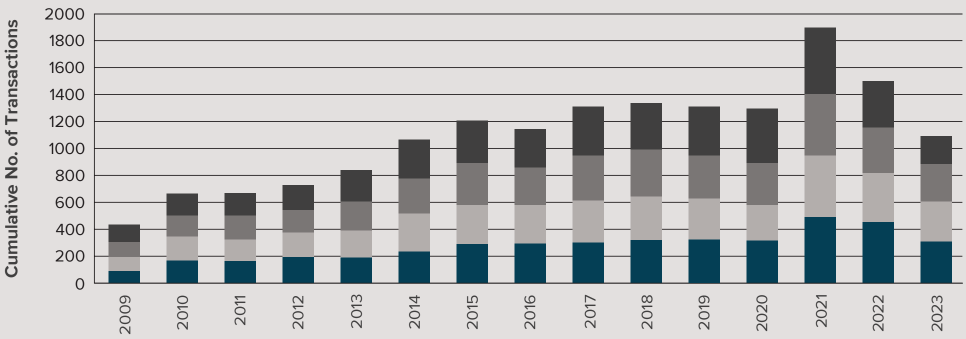
There is also growing optimism in the broader marketplace. A survey by PwC said almost half of UK CEOs it surveyed planned to increase their workforce by at least 5% this year, more than their G7 competitors. And in the construction sector, an industry some might not expect to be so buoyant in the current climate, one prospective client was putting off meetings because of an 'incredibly fast start to the year'.

But, a final note of caution. If you are contemplating a sale, the next General Election is due no later than 28th January 2025. Depending on the outcome, this could be a precursor to higher Capital Gains Tax. So, just at the moment, a quick decision to commence a sale process might be a big tax saver.

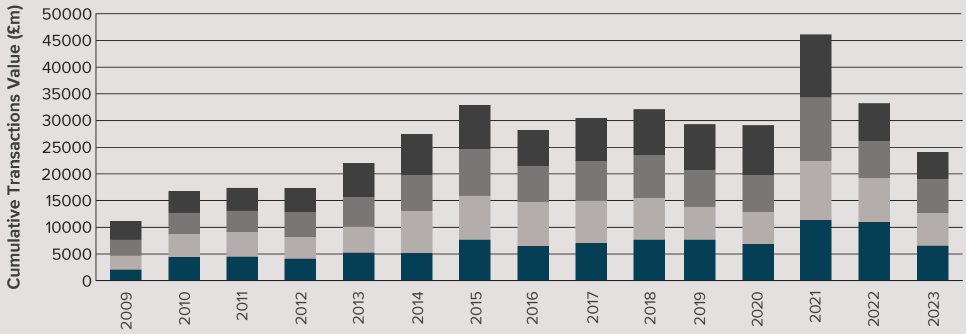
Assessing the deal data

Activity in the **smaller deals** sector (transactions with enterprise value of less than £150 million) was down compared to the prior quarter. The number of deals completed declined to 208, from 277 in the preceding three months. The value of transactions also fell, from £6.5 billion to £5.1 billion. The total for the year though were only a little below the "norms" for the period preceding the 2021/22 boom years.

Sub £150m Transactions by Volume



Sub £150m Transactions by Value



Key:

Q4 Q3 Q2 Q1

Data supplied by PitchBook.

The quarterly picture was slightly rosier in the **larger deals** sector (enterprise value of £150 million or above). The number of transactions rose from 42 to 45, while their total value also increased, up from £32.2 billion to £33.8 billion. Yet it was still the weakest year for the sector since 2020 by value and since 2013 by volume.

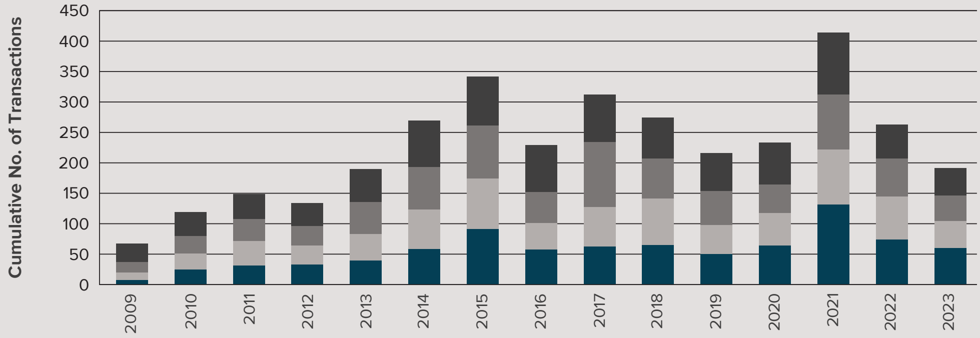
As we have commented before, larger deals generally get harder hit by interest rate rises, so it is little surprise that the comparison to pre 2021/22 boom is more adverse for larger than smaller deals.

Key:

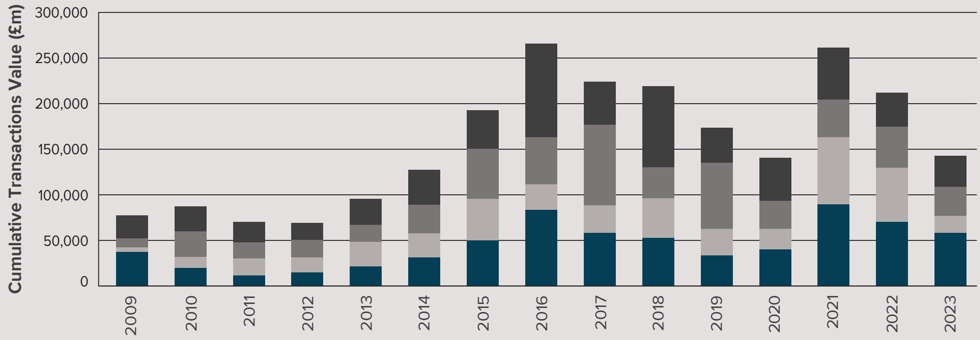
Q4 Q3 Q2 Q1

Data supplied by PitchBook.

£150m+ Transactions by Volume



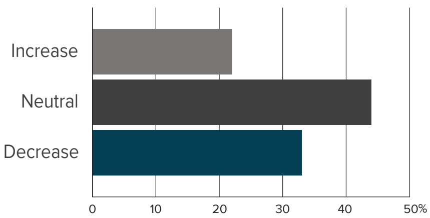
£150m+ Transactions by Value



So what does our latest survey suggest?

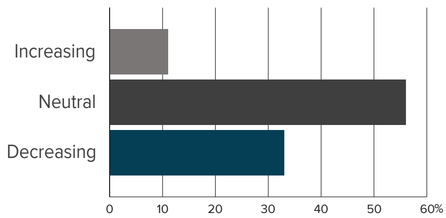
The market's mood, which had deteriorated somewhat in the third quarter of last year appears to have perked up noticeably, albeit with (understandable) remaining traces of caution.

1 Do you expect deal volumes to increase or decrease?



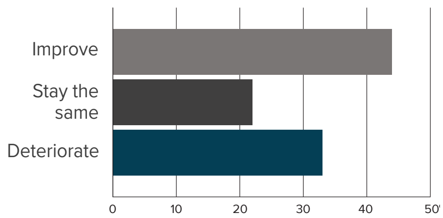
The percentage of respondents predicting an increase in deal volumes over the coming months rose from 13% to 22%, while those expecting little change increased from a quarter to 44%, and the proportion forecasting fewer transactions fell significantly, from 63% to one third.

2 Is debt availability increasing, decreasing or neutral?



Concerns about the availability of debt financing also abated. Some 11% of respondents reported an increase in availability compared with none the previous quarter, while those noting a decrease fell by 30 percentage points to 33%.

3 With a reduction in inflation and associated easing of interest rates are you confident the overall M&A environment will improve in 2024?



The most positive response was to the question whether the overall environment for M&A is likely to improve this year. Only a third thought it would deteriorate, while 44% thought it would get better.

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