Spring forward?

Last quarter, we saw promising signs for an upturn in 2024. Yet these signs haven't shown up in the actual data for private market M&A deals. However, as Jim Keeling, a corporate finance advisor at Corbett Keeling, observes, the market is busy and participants' mood has turned noticeably upbeat, possibly heralding a more benign outlook.

Last year was disappointing overall for private M&A activity in the UK as the bounce-back from the post-pandemic surge finally faded. And as the latest figures show, this sluggish trend has continued into the first quarter of 2024.

But there's a curious contrast in the air. The mood among market participants has turned considerably more optimistic. How will this gap between mood and data resolve itself? We have several grounds for thinking that the survey results are showing the way, and activity will pick up as the year unfolds.

First, even with recent, slightly disappointing inflation figures, the Bank of England is still widely expected to start cutting interest rates later this year as inflation falls back to its 2% target. This would boost the economy and make funding more accessible for potential buyers in the market.

Second, both trade buyers and private equity firms are sitting on significant funds ready for acquisitions. Over recent months, we have seen plenty of evidence – including our survey – that they are now showing greater willingness to put those funds to use and are actively seeking deals.

Third, the government will almost certainly call a General Election this year, and it is likely to lose. A change of government might be seen as beneficial in some quarters, leading to a boost – at least in the short-term. Also, some business owners, fearing Capital Gains Tax rises if Labour wins, might consider selling now.

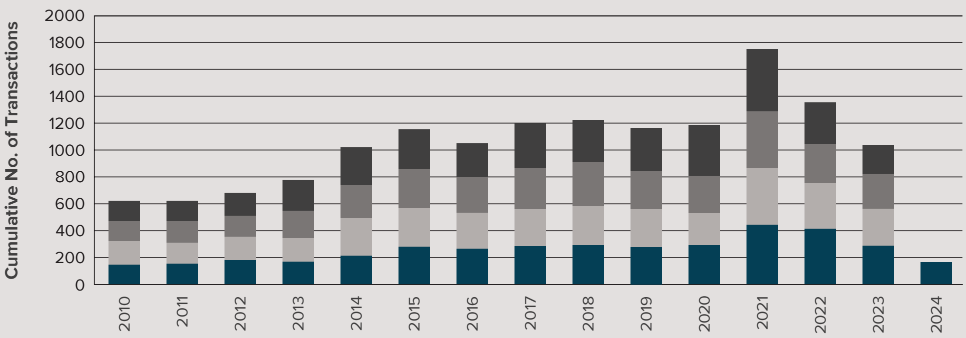
And let's not forget the big summer of sports ahead – with the Olympics in France and Euro 2024 in Germany to name but two. Is it too much to hope that success on the sports fields could translate into redoubled optimism in the world of business? It will certainly be beneficial for some sectors of the economy.

Because of all these factors, we expect the forward-looking surveys and market sentiments to soon outpace the lagging indicators of past deal data.

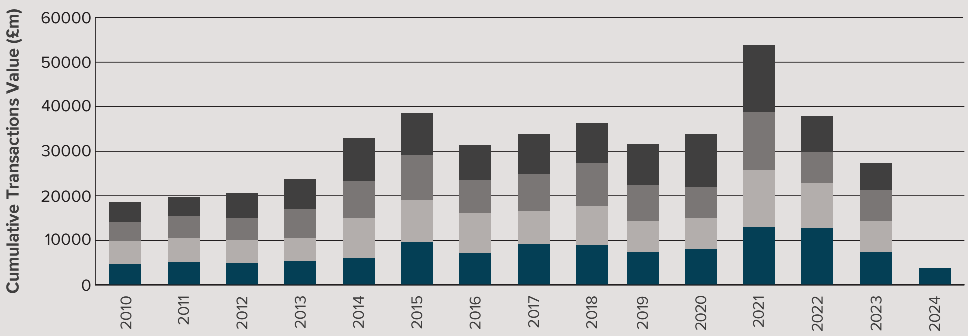
Assessing the deal data

Activity in the **smaller deals** sector (transactions with an enterprise value of less than £150 million) declined over the first three months of 2024, with the number of deals falling from 218 to 165. The value of transactions also decreased from £6.1 billion to £3.7 billion. On both measures, it was the worst start to a year since 2010.

Sub £150m Transactions by Volume



Sub £150m Transactions by Value



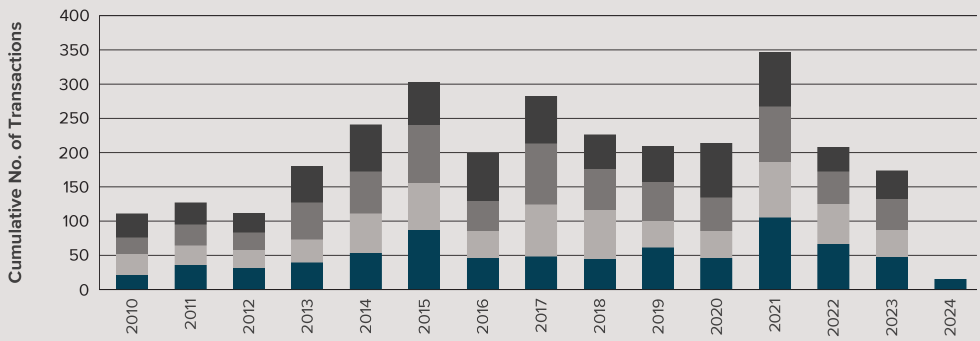
Key:

Q4 Q3 Q2 Q1

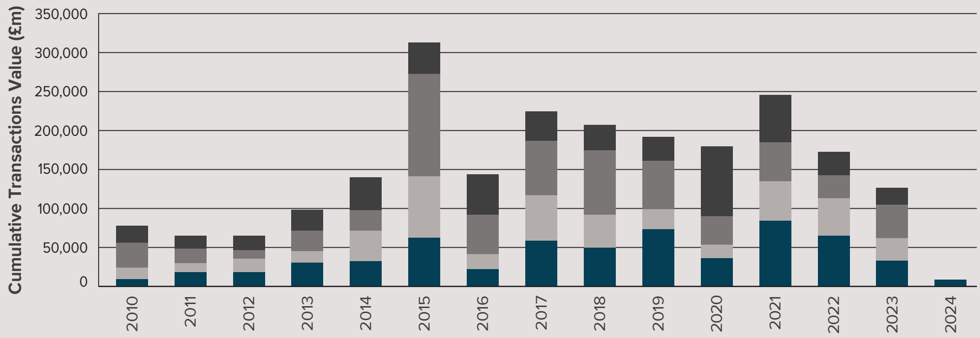
Data supplied by PitchBook.

It was a similar story in the **larger deals** sector (transactions with an enterprise value of £150 million or above). The number of transactions fell from 42 to 15, and their total value declined from £21.2 billion to £8.7 billion. That made it by some distance the weakest first three months of a year for this segment.

£150m+ Transactions by Volume



£150m+ Transactions by Value



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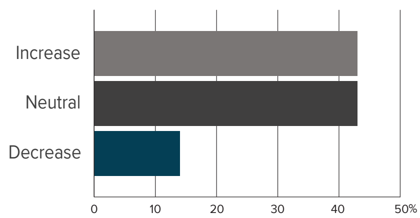
Q4 Q3 Q2 Q1

Data supplied by PitchBook.

So what does our latest survey suggest?

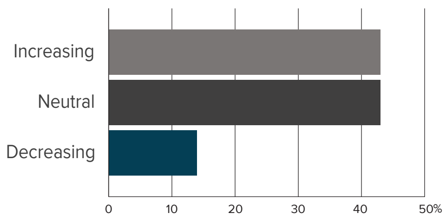
Last quarter, our survey of market participants indicated a possible turning of the tide, though from a previously low watermark. This quarter, the mood among market participants is categorically buoyant.

1 Do you expect deal volumes to increase or decrease?



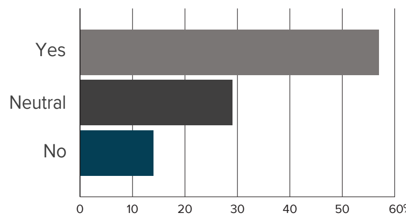
The percentage of respondents forecasting an increase in deal volumes over the coming months doubled to 43%, while those predicting a decline fell from one-third to 14%. The remainder expected little change either way.

2 Is debt availability increasing, decreasing or neutral?



There was also a decided change in the reported availability of debt. Last quarter, only 11% thought it was increasing, compared to 43% this time. The proportion reporting a decline also fell from 33% to 14%.

3 With a reduction in inflation and interest rates expected to fall, do you think the overall M&A environment will improve in 2024?



This shift is reflected in the overall outlook for the M&A environment this year, with just under half expecting an improvement and most of the rest (29%) predicting a fairly stable backdrop.

Contact us

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