Q1 2025

UK Private Company Director

Welcome to the Spring 2025 issue of UK Private Company Director, the quarterly newsletter for directors of owner-managed, family, and private equity-backed businesses.

We cover financial, legal, tax, wealth management and similar issues essential to both building and realising the value of your business. Corbett Keeling's report on deal activity in the private equity markets also provides insight into current investor appetite.

In this issue:

- **M&A Market Update** – Although the latest figures suggest deal activity slowed in the first three months of the year, market participants remain fairly confident about the prospects for the rest of 2025 (pages 2 to 3).
- **Employment Law Reform** – The most significant change in decades is under way. We highlight what business owners need to know (page 4).
- **Wealth Planning** – While building a business, it is easy to neglect your personal finances. We look at how pensions, protection and succession planning can help (page 5).

We hope this issue provides useful insights and practical guidance for the months ahead.

All the best,

Megan Peel

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Corbett Keeling Corporate Finance

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Corporate Finance

No one likes a nasty surprise

After a solid year for the UK's private M&A market in 2024, the new year seems to have got off to a fairly slow start. Jim Keeling of corporate finance adviser Corbett Keeling considers the latest data and looks ahead with cautious optimism.

No one likes a nasty surprise. And that certainly applies to business people and investors. You do not want to have a business plan that relies on exports and then find yourself in the middle of a trade war.

In an ideal world, policies and regulations would stay unchanged, allowing us all to plan for the long term and focus on running and growing businesses. In the real world, though, things are always changing. With the Trump tariffs, it might seem as if we are in a period of particular upheaval, even a reversal of decades of globalisation. Perhaps it really will be the start of a major shift, perhaps not. Only time will tell.

But there is always some concern looming over us. If I flick back through past issues of this newsletter, we have in recent years seen the challenges of Brexit, the pandemic and the invasion of Ukraine, to mention just a few. All were the subject of endless media commentaries forecasting doom, and they did indeed pose challenges for many companies.

One of the things I most enjoy about my job is meeting business people who have the drive and adaptability to overcome these obstacles and find ways to succeed, building companies which provide real goods and services to make the world a better place. These are the people who take advantage of all the opportunities and supportive factors which tend to get pushed out of the headlines by the scare stories.

And when the time comes for them to sell, I like helping them find a buyer who is right for the business they have built, so that the value they have created over the years can be not only realised financially but continued into the future.

As for the present, I said at the start of the year that there were grounds for cautious optimism. That has not yet been reflected in the deal data – which we will come on to shortly – but we continue to see strong interest behind the scenes, particularly from buyers looking for quality businesses. Our latest survey also suggests that sentiment remains reasonably positive, even if dealmakers are being a little more selective. We expect to see activity in the market pick up over the year.

Assessing the deal data

While 2024 ended up being a pretty good year for private market deal-making, the first quarter of 2025 shows signs of a slowdown across both segments of the market.

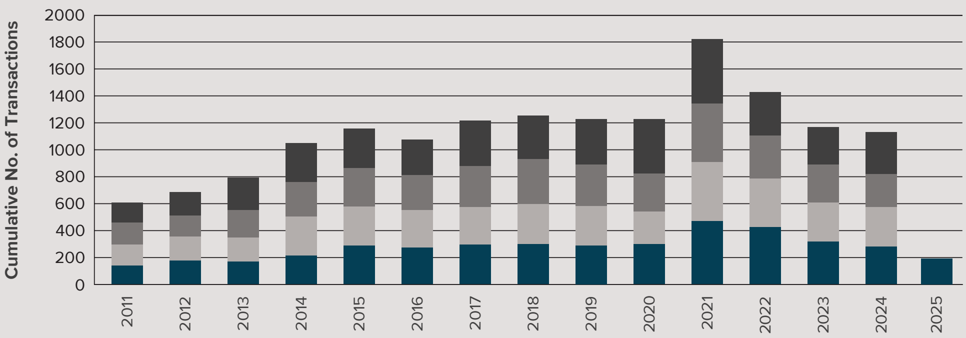
Smaller deals (enterprise value under £150 million) saw a sharp drop in activity at the start of the year. Just 192 transactions completed in Q1, down from 309 in Q4 2024 and 280 in Q1 last year. The total value of deals also fell significantly, from £8.3 billion to £6.0 billion. This suggests a pause after a busy end to 2024, with some transactions likely pulled forward into the previous quarter.

Key:

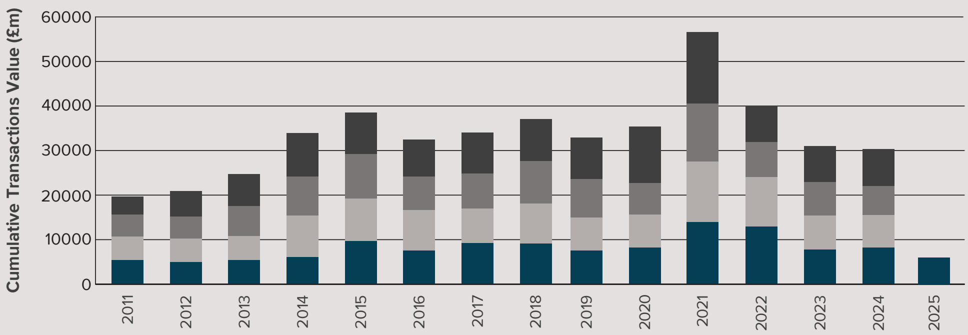
Q4 Q3 Q2 Q1

Data supplied by PitchBook.

Sub £150m Transactions by Volume

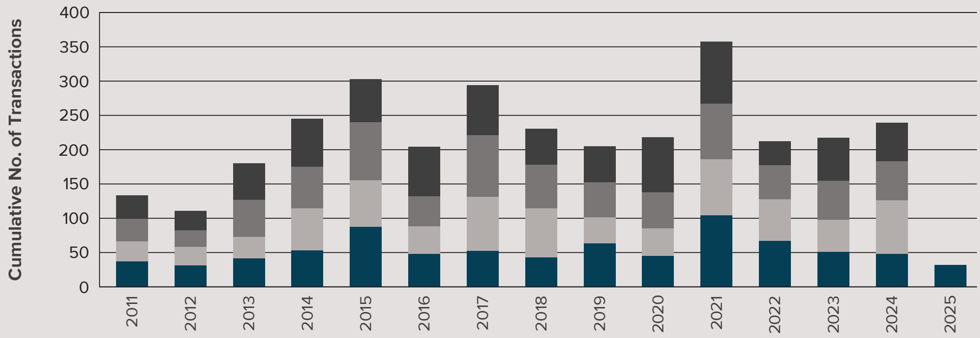


Sub £150m Transactions by Value

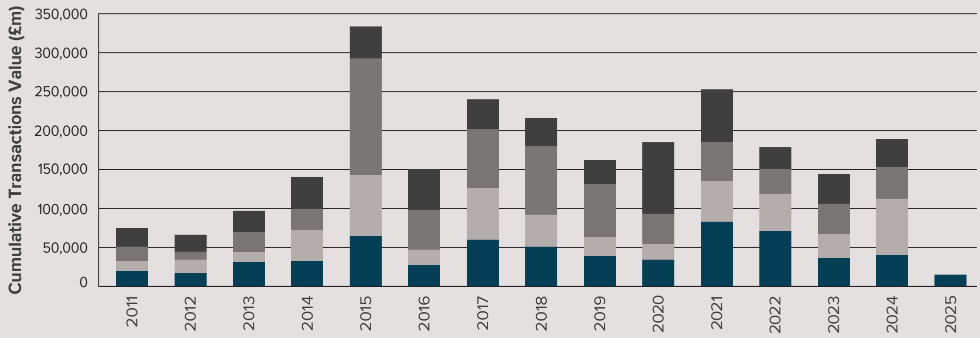


Larger deals (enterprise value of £150 million or more) also had a quieter quarter. Deal numbers fell from 48 in Q1 2024 to 32, and total value dropped from £39.7 billion to £15.1 billion.

£150m+ Transactions by Volume



£150m+ Transactions by Value



Key:

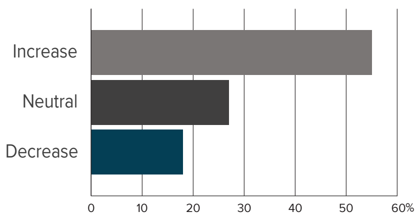
Q4 Q3 Q2 Q1

Data supplied by PitchBook.

So what does our latest survey suggest?

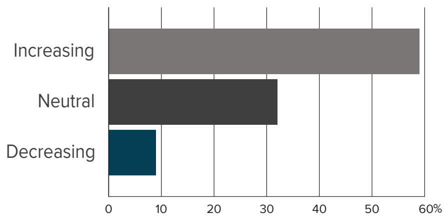
The market's mood is proving pretty resilient thus far. However, there appears to be a little less optimism than at the time of our previous survey.

1 Do you expect deal volumes to increase or decrease?



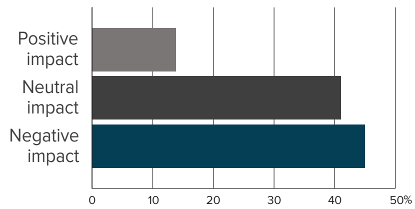
The percentage of market participants expecting a higher volume of deals in the coming months was down slightly, from 62% to 55%, while 27% had no firm view. The proportion forecasting a reduction in the number of transactions rose from 8% to 18%.

2 Is debt availability increasing, decreasing or neutral?



The market's view on the availability of debt improved a fraction. The percentage saying it was increasing rose to 59%, up from 46% the previous quarter, while the proportion of respondents reporting a decrease fell from 15% to just 9%.

3 Will US tariffs have a major impact on your portfolio companies?



The tariffs imposed by the US are weighing on overall confidence. Some 45% of respondents said they expected a negative impact on their portfolio companies, and only 14% foresaw a positive impact. That is a significantly larger hit to sentiment than we saw from the Budget last autumn.

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Employment rights: what to expect

The Employment Rights Bill is now being debated in the House of Lords. The Bill, which was revised this month after consulting with businesses, is one of the most significant reforms of UK employment law in decades. Pulina Whitaker and Charlotte Moorhouse of law firm Jones Day outline some of the most pertinent changes that will affect private companies in the UK.

Day-one unfair dismissal rights

One of the most significant changes is the right for employees not to be unfairly dismissed from day one of their job. Currently, employees generally need two years' service to qualify for this protection. The government, acknowledging that employers do need to assess the capability of new hires, has said it will introduce a statutory initial period of employment (akin to a contractual probationary period), expected to be around nine months. This will give employers more flexibility to terminate employees within that period. However, they will still need a fair reason for the dismissal, which may include poor performance or conduct.

Once the legislation comes into force, businesses will need to follow a full and fair process each time they are faced with a potential dismissal situation after the new statutory probation period. It will also be more important than ever for managers to identify, manage and address issues early, during the probation period.

Redundancy consultations

Employers must currently consult with employee representatives when planning 20 or more redundancies at a single establishment (one location) in a 90-day period. However, it is anticipated that a new company-wide threshold test (details of which are awaited) will dovetail with the establishment test, so collective redundancy consultations could be triggered more readily. The maximum penalty for non-compliance will also double to 180 days' uncapped pay per affected employee. For many employers, this means more consultations, with greater risks for non-compliance.

Limits on zero hours contracts

The Bill does not ban zero hours contracts outright. Instead, employers must offer guaranteed hours to zero or low hour contract workers or agency workers who regularly exceed minimum contracted hours. Naturally, this will impact organisations which rely on contingent labour the most, such as the hospitality and retail industries. But all businesses will need additional record keeping and internal processes to ensure compliance with this new regime.

Other notable changes

The fire and rehire ban: a dismissal will automatically be considered unfair if employees are dismissed as a result of not agreeing to proposed changes in their employment contracts. The only exceptions are where the employer can evidence financial difficulties and the need to make the change was unavoidable.

Flexible working: employers will have to show any refusal of a flexible work request is reasonable, although the eight statutory reasons to decline a request remain unchanged.

Employers' liability for harassment: the Bill includes three new provisions to enhance protection against harassment in the workplace. First, employers must take **all** reasonable steps to prevent sexual harassment (the current obligation is to take reasonable steps). Second, employers are liable for third-party harassment – that is, from someone outside the company. Third, the amended whistleblowing legislation recognises a disclosure relating to sexual harassment as 'qualifying', with consequential whistleblowing protections for the reporter (possibly not the person who suffered the harassment).

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UNION BANCAIRE PRIVÉE

Wealth planning for business owners

It's important for business owners to protect their own wealth, not just their company's. Andrew Dixon, of Union Bancaire Privée (UK), explains how.

Building a business can be all-consuming, and it's easy to delay taking steps to look after your own wealth. In addition, a lot of decisions can be clouded by emotions, particularly where family is involved. A Wealth Planner can help by providing clear, impartial guidance and ensure your personal financial goals work in tandem with your business objectives.

Pension schemes for business owners

Some owners rely on the eventual sale of the business to fund their retirement. But pensions offer several benefits. For example, if you invest profits from your business into a pension scheme, you don't pay tax on them immediately.

With a Small Self-Administered Pension Scheme (SSAS), a business can potentially receive corporate tax reductions on the cost of running the scheme. It also gives members control and flexibility over what they invest in.

SSAS schemes generally have under 11 members and are set up by Company Directors. They can be open to family members, even if they don't work for the business.

How do I future-proof my business?

If you run a company with a business partner, it's wise to have plans in case one of you dies. The deceased person may drive the profits or have knowledge and experience vital to the business's continued success. Key person insurance can protect your business by paying out a lump sum if the named individual dies. Some providers also offer a lump sum payment following the diagnosis of a critical illness.

You also need to think about what happens to the ownership if your business partner dies. Shares often pass to a spouse, who may know little about the business. Life insurance is one way to ensure cash is available to buy out a surviving spouse.

When should I retire or pass on my business?

The decision to retire or pass on your business will depend on what type of business owner you are.

If you have always intended to sell your business and use the proceeds as your pension, you will probably do this in your 50s or 60s. However, you should be certain you will make enough from the sale to maintain your lifestyle in retirement.

A Wealth Planner can help you calculate how much income will be generated from the sale proceeds to support your decision.

If your family has owned a business for generations and your children expect to take the reins, the timing will often depend on when they are ready. Will they join the business at 18, go to university or work elsewhere first?

Things can become complicated if one child takes on the business and the others don't want to be involved. For example, is it fair to hand down equal shares if one child is driving the business's fortunes? You need to engage with all stakeholders and have a well thought through plan to avoid family disputes.

Conclusion

The changes to business property relief and inheritance tax announced in the Autumn 2024 Budget make succession planning more important than ever. A Wealth Planner can help you create a strategy to secure your business, protect your wealth and ultimately pass it on smoothly, so all your hard work reaps the rewards it deserves.

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