Q2 2025

UK Private Company Director

Welcome to the July 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 crucial to both building and realising the value of your business. Corbett Keeling's report on deal activity in the private equity markets also provides a clear insight into financial investor appetite.

As usual, we look at subjects which should be of interest to directors of privately owned businesses in the UK:

- While activity in the UK private M&A market was subdued in the first half of the year, private equity firms and others have a lot of liquidity to deploy over the next few years, so good businesses should continue to find willing buyers (pages 2 to 3).
- The National Security and Investment Act aims to improve the UK's security, but its scope and impact is often unexpectedly far reaching. Business owners need to be aware (page 4).
- None of us likes to think about the death or illness of key personnel, but sensible planning can help to protect the business against such unexpected eventualities (page 5).

All the best,

Megan Peel

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CORBETT KEELING

The mid-way point

Despite recent signs of a recovery in the larger deals segment, it has clearly been a weak start to 2025 for private M&A activity. Jim Keeling of corporate finance adviser Corbett Keeling considers the state of the market as we enter the second half of the year.

It's been quite a first six months. Back in January, I don't think anyone was predicting that Israel – let alone the US – would bomb Iran. And few could have envisaged the scale and breadth of the tariffs Donald Trump would impose on friend and foe alike. As I noted last quarter, the resultant uncertainty has forced many people to reappraise their plans and possibly put some on hold.

Here in the UK, tax rises have also hit business confidence, as the latest GDP figures show. And it looks as if the Chancellor may be forced to raise taxes further come the autumn.

All of this needs digesting. But there is plenty of good news as well. For one thing, concerns about tariffs have eased, and the UK looks as if it will escape relatively unscathed. In addition, cooling inflation and weak growth increases the probability of further interest rate cuts from the Bank of England, which should encourage investment, all else being equal. The tariffs and the call for European nations to spend more on defence have also created significant long-term growth opportunities in several industries.

And, while deal activity has slowed down, it is not for want of available liquidity. UK-based private equity firms have around £190 billion to invest over the next three to five years, according to estimates from the British Private Equity & Venture Capital Association. That's a lot of dry powder.

If private equity firms' greater caution is taking us back to proper, well-structured deal processes, that should be of benefit to all parties in the long run.

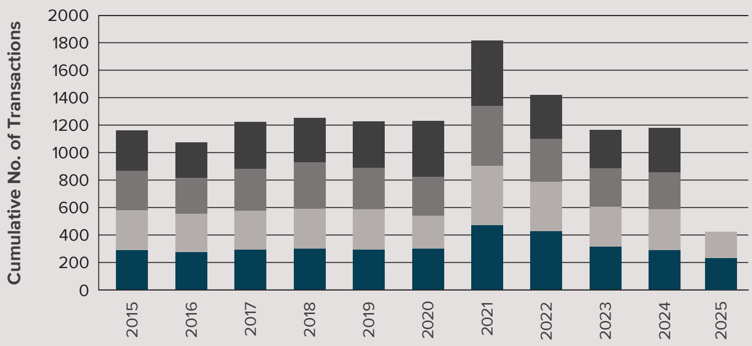
Assessing the deal data

After a slowdown in activity in the first quarter, the second produced a tale of two segments. Larger transactions increased in value, while smaller deals remained more subdued.

The data point to a market that's cautious but still active. At the smaller end, deal flow is being held back by longer timelines and hesitation around valuations – buyers and sellers aren't always aligned on price. Larger transactions are still happening, but more selectively.

The rise in value among bigger deals suggests that capital is available for high-quality opportunities, even if overall momentum hasn't yet returned. Buyers are still in the market – they're just taking a more measured approach.

Sub £150m Transactions by Volume



Smaller deals (enterprise value under £150 million)

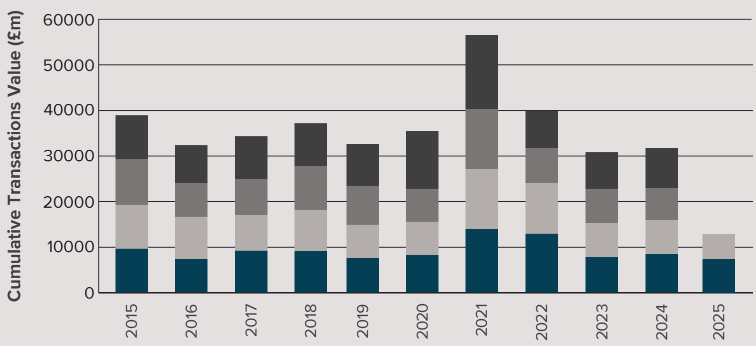
Smaller deals declined in both volume and value. The number of deals fell from 229 in Q1 to 194 in Q2, and the total value dropped from £7.4 billion to £5.5 billion – broadly in line with the slowdown in activity.

Key:

Q4 Q3 Q2 Q1

Data supplied by PitchBook.

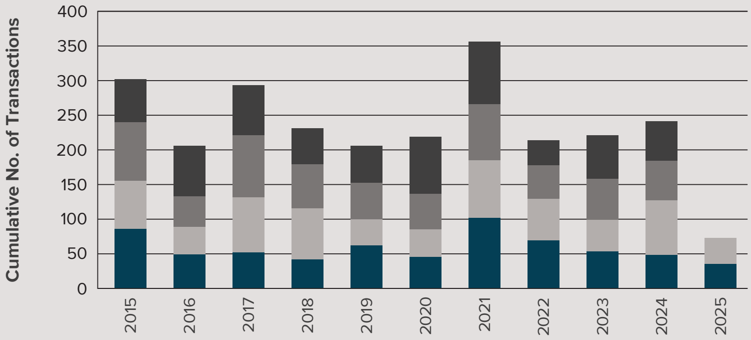
Sub £150m Transactions by Value



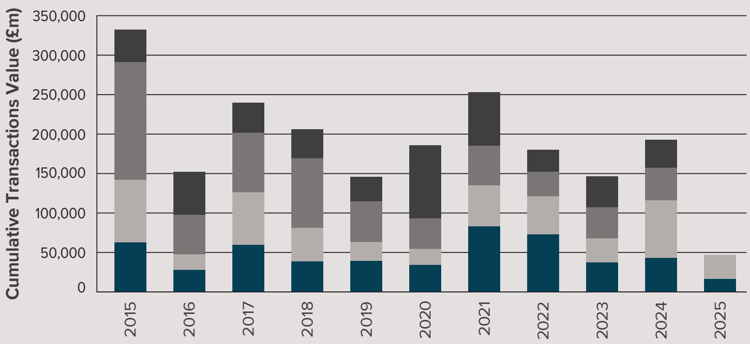
Larger deals
(enterprise value of £150 million or more)

Larger deals saw little change in volume – 38 in Q2 compared to 35 in Q1 – but total value almost doubled, from £16.3 billion to £30.5 billion. That jump appears to reflect a few materially larger transactions rather than a broad-based uplift.

£150m+ Transactions by Volume



£150m+ Transactions by Value



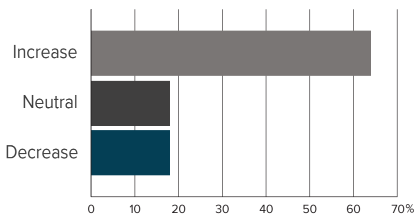
Key:
Q4 Q3 Q2 Q1

Data supplied by PitchBook.

So what does our latest survey suggest?

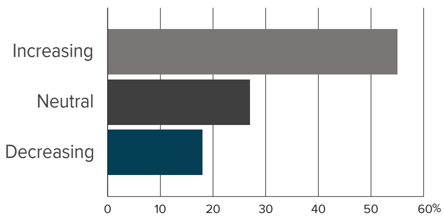
Our respondents seem in a reasonably confident state of mind, with their answers overall more positive than at the end of the first quarter.

1 Do you expect deal volumes to increase or decrease?



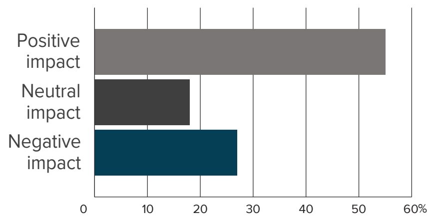
The percentage of market participants predicting a higher volume of deals in the coming months rose from 55% to 64%. The proportion forecasting a decline in transactions held steady at 18%, with just over a quarter expecting little change.

2 Is debt availability increasing, decreasing or neutral?



Overall, respondents are fractionally less optimistic about the availability of debt. The number saying it was increasing inched down from 59% to 55%, while the proportion saying debt was becoming less available rose from 9% to 18%.

3 How do you view the current trajectory of bank rate cuts in the UK?



Asked how they view the current trajectory of UK interest rate cuts, 55% replied that it was positive, easily outweighing the 27% who said they thought it was negative.

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NSIA – avoiding unwelcome surprises

The National Security and Investment Act 2021 (NSIA) came into force on 4 January 2022. It gives the UK government broad powers to review certain corporate transactions and to impose conditions on, block or retrospectively unwind them. The NSIA is intended to protect national security, but its scope and impact are often unexpectedly far reaching. Josh Smith of RPC outlines some of the pitfalls and explains how to avoid your business being caught out.

Unlike many foreign direct investment regimes, the NSIA's focus is on the activities of the entity in question, not on the identity or nationality of an acquiror or investor. It imposes a mandatory obligation to notify the government of certain activities where the business operates within one of 17 specified sensitive sectors (see box).

The NSIA's 17 sensitive sectors

- Advanced materials
- Advanced robotics
- Artificial intelligence
- Civil nuclear
- Communications
- Computing hardware
- Critical suppliers to government
- Cryptographic authentication
- Data infrastructure
- Defence
- Energy
- Military and dual-use
- Quantum technologies
- Satellite and space technologies
- Suppliers to the emergency services
- Synthetic biology
- Transport

Not surprisingly, these include sectors like defence, energy and critical suppliers to government. However, they also encompass areas touching many modern organisations (such as artificial intelligence and data infrastructure). Moreover, the interaction with these sectors does not have to be extensive – even a small business line, contract or arrangement on the periphery of a specified sector can be an NSIA tripwire.

Crucially, there is no financial threshold for the NSIA to apply, so even low value deals fall within its scope. The NSIA is also not just about M&A transactions where there is a change of ownership – notifications can be required where investors simply gain material influence (for example, through board control rights) or the ability to pass or block certain shareholder resolutions.

Perhaps counterintuitively, intragroup transactions are also not exempted. So you may need to notify and obtain clearance before undertaking routine group reorganisations – for example, inserting new holding companies or moving subsidiaries, including where there is no ultimate change of ownership. Even the appointment of liquidators or receivers can be caught.

Practical impact

Once an NSIA filing is made and has been accepted (which can take a week or more), clearance decisions are generally issued close to the expiry of the statutory review period of 30 working days. There is no fast-track process, even where the transaction or activity clearly doesn't raise national security concerns.

The potential 'called-in' phase – when a transaction is subject to more detailed review – can be lengthy and uncertain. So, where the NSIA is in play, timetables are often disrupted and deals and processes can become unexpectedly complex and costly, particularly if the requirement to notify is only identified late in the proceedings.

Getting it wrong

If you are planning to sell, bring in new investors or restructure, it's unsafe to assume the NSIA regime won't apply to your business. Relevant M&A deals and other corporate events that are not notified and cleared will be automatically void, and the evidence so far suggests that the government monitors market developments to identify relevant transactions. Non-compliance can also attract severe civil and criminal penalties, and buyers now routinely ask sellers to stand behind warranties that the NSIA does not apply in sale and purchase agreements. Owners and directors should therefore seek appropriate advice as early as possible in their processes. Failing to do so may result in unwelcome surprises.

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RATHBONES

Future-proofing your business

In the dynamic world of entrepreneurship, business owners often focus on growth and operations. And quite right, too. But it is crucial not to overlook critical protection planning. Samantha Boyd of Rathbones emphasises the importance of proactive financial planning to safeguard your business against unpredictable events, such as the death or serious illness of key personnel.

None of us like to dwell on the risks of death and illness. But ignoring them can lead to unnecessary complications should the unexpected happen. As usual, a little planning can go a long way, providing you and your family with peace of mind and helping your business to navigate these bumps in the road.

All businesses face three primary financial risks:

1. **loss of income or profits** due to the absence of a key individual;
2. **ownership succession challenges**, especially in partnerships or limited companies;
3. **financial compensation** for families or co-owners after a death or serious illness.

These risks can be mitigated through a combination of insurance, legal agreements and structured trusts. We recommend undertaking a comprehensive review of ownership structures and succession intentions, supported by professional financial planning.

Planning for the unexpected

The death or serious illness of a business owner can lead to a number of issues, including reduced profits, debt repayment issues and disruption of operations. Insurance policies – such as life assurance and critical illness cover – can provide essential financial support to enable the business to keep running smoothly. Businesses should consider key person insurance to cover potential losses and the costs of recruiting replacements.

Ownership and succession

For businesses with several owners, succession planning is vital. Without clear formal agreements, the death of an owner can lead to business intestacy, where the law – not the owners – determines the future of the business. It's worth considering:

- **cross-option agreements**, which allow surviving owners to buy out the deceased's share, ensuring business continuity as well as fair compensation for the family;
- **life assurance in trust**, which ensures tax-efficient payouts and avoids delays from probate;
- **regular reviews** of business documents and personal wills to ensure they are aligned with current wishes.

Sole traders and consultants

For sole traders, the business often ceases if the owner is incapacitated. Securing life assurance with critical illness cover, a family income benefit policy and income protection should help to protect the family's finances if the unexpected happens. Relevant life policies may also be recommended for those operating through limited companies, as they can provide tax-efficient protection.

Six succession tips

For a smooth transition during a serious illness:

1. ensure funds are available for share purchases;
2. arrange appropriate cover for illness or death;
3. account for potential Capital Gains Tax (CGT);
4. leverage Business Asset Disposal Relief;
5. prepare trusts and legal agreements;
6. consult financial planners to tailor solutions to your circumstances.

Inadequate preparations for the death of a business owner may lead to complications for the business and for the family. Sound financial planning can guide you through every step of succession planning or the sale of your business and establish a bespoke plan that protects the legacy of your entrepreneurial effort and safeguards the future of your business and your family.

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