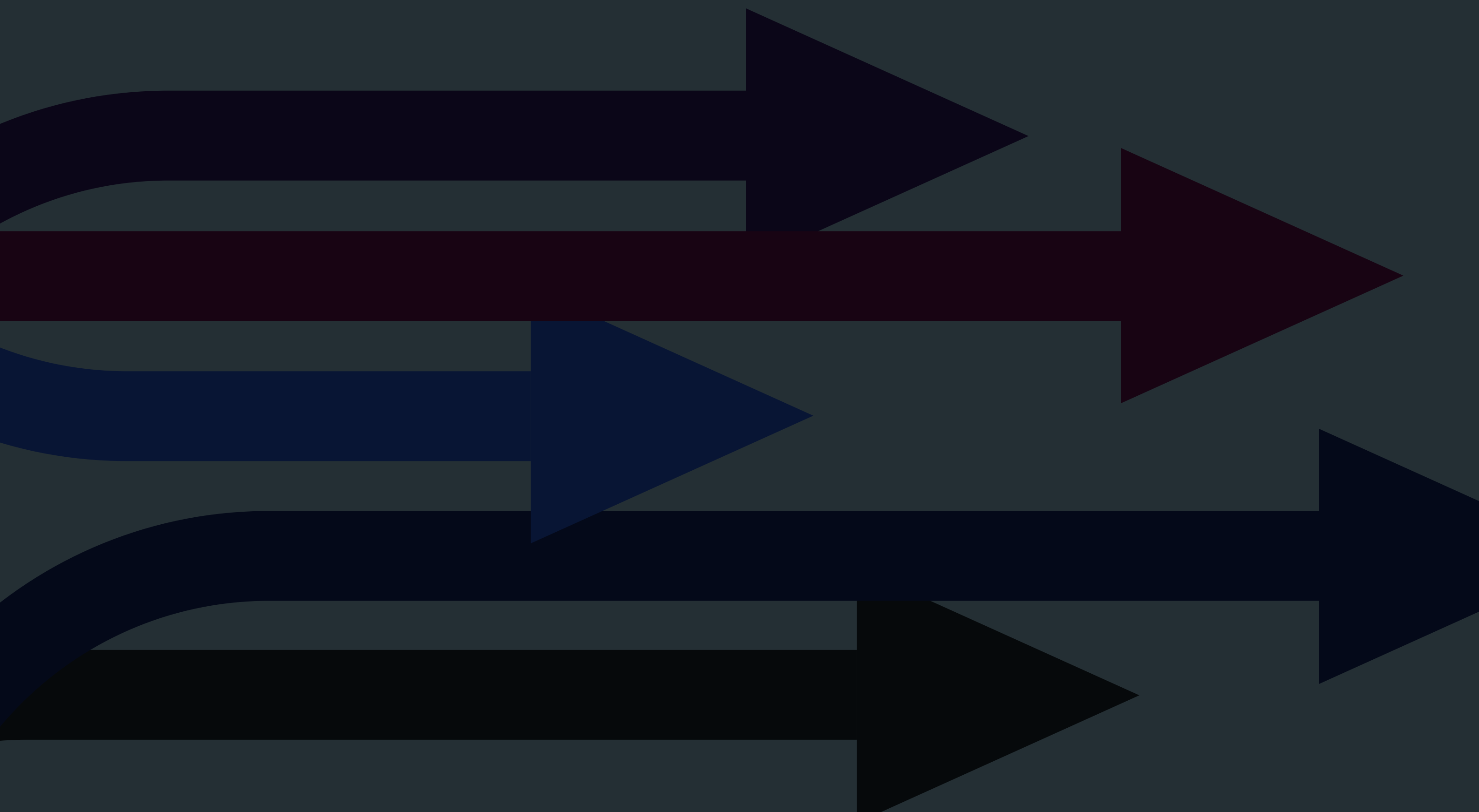
trowers & hamlins

MONITORING MID-MARKET M&A

In the UK



Contents

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Foreword

Uncertainty may be the enemy of decision-making and growth, but smooth seas do not make skilful sailors. Opportunities abound for the bold, and those that weather the storms of adversity always emerge stronger for it.

In the short term, we have seen the disruptive effect of a global pandemic and economic downturn cast a new light on corporate growth strategies, business transformation and dealmaking.

Nowhere is this concept more poignant than in the mid-market. Economies of scale, and size more generally, provide a buffer for larger entities, while smaller organisations have faced challenges so unique that no two responses have been the same. In the mid-market, however, these two statements converge.

Deal-flow temporarily paused at the start of the pandemic but, along with valuations, has since reached new highs as a return of confidence combines with pent-up demand and cash reserves. With a mix of organisations that thrived or struggled during the pandemic, there are opportunities for consolidation, with bigger companies buying up smaller rivals.

Crisis is the mother of invention and the pandemic has also seen many businesses pivot, or otherwise innovate in increasingly creative ways. This means new entrants to markets, and disruptive start-ups have either been born or entered new sectors, creating a bedrock of potential dealmaking activity.

Businesses that have shown operational and financial resilience during a turbulent period provide investors with the comfort that their business model is set up to withstand even the toughest unforeseen tests.

However, there is a level of caution around business and financial modelling, particularly for those businesses born, or still in their infancy, during the pandemic. Financial projections cannot reasonably be scrutinised given the abnormal conditions that have persisted over the past two years. Underlying performance and consistency of growth have become more difficult to assess and lack of visibility of earnings is unsettling for investors targeting high recurring revenue businesses.

Regardless, we have been kept busy and the mid-market has seen no shortage of transactional activity, though certain sectors are clearly more buoyant than others.

Between April 2020 and March 2021, during the peak of the pandemic, ***475 deals*** *valued between* ***£25 million and £150 million****, involving a UK company, were conducted, and deal activity has remained strong since then.*

These numbers are mirrored in the broader M&A market, with ONS data showing a strong overall uptick in monthly M&A activity in late 2020 and throughout 2021, while Experian reports “a frenzy of dealmaking in the first quarter of 2021, when the number of mergers and acquisitions in the UK reached record-breaking heights”.

Indeed, Experian data shows that ***5,137 UK transactions*** *were announced in the* ***first nine months of 2021****, up by more than a fifth on the 4,277 recorded at the same point in 2020.*

While microphones may have been on mute, dealmaking activity has not remained so, with the sustained activity outlined above following a brief period of ‘pause’ in H1 2020. Strong appetite from private equity in particular has driven much of this activity, as shown by the research we present in this report.

In the coming pages, we analyse mid-market M&A activity and seek to answer questions around: dealmaking sentiment and outlook across sectors; the impact of Covid-19; where transactions typically fall down; the impact of technology; the role of communications; deal mechanics including seller financing and warranty and indemnity (W&I) insurance; what makes a good adviser; and where dealmaking stands in relation to environmental, social and governance (ESG) issues.

Each of these issues warrant detailed exploration and we have consulted with expert voices from the corporate, private equity and corporate finance worlds to gather a range of views on how these trends have played out and, crucially, where we are headed next. On behalf of myself and the Trowers & Hamlins Corporate team, I would like to formally thank the many contributors to this report. We hope you find the contents insightful and informative.

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Methodology: Our research

Trowers & Hamlins' research into the UK mid-market dealmaking landscape is designed to provide timely insight into, and understanding of, the role of transactional activity in business transformation and corporate growth, in the midst of major political, social and economic upheaval.

Our M&A benchmarking tool tracks the levels of mid-market dealmaking activity involving a UK company for the period April 2020 to March 2021, analysing the number of deals conducted, the number of deals closed, deal size, type and the key industries for target and acquiring companies.

For the purposes of this research, 'mid-market deals' were identified as deals valued between £25 million and £150 million. Given Trowers' particular expertise in the mid-market, we have applied this magnifying glass to our research in order to more closely analyse qualifying M&A activity during a key period in the UK's recent economic history, at the peak of the coronavirus pandemic. Our qualitative interviews with dealmaking professionals ensure that our analysis extends beyond the snapshot captured by our data, presenting a rounded view of the trends impacting transacting at all levels.

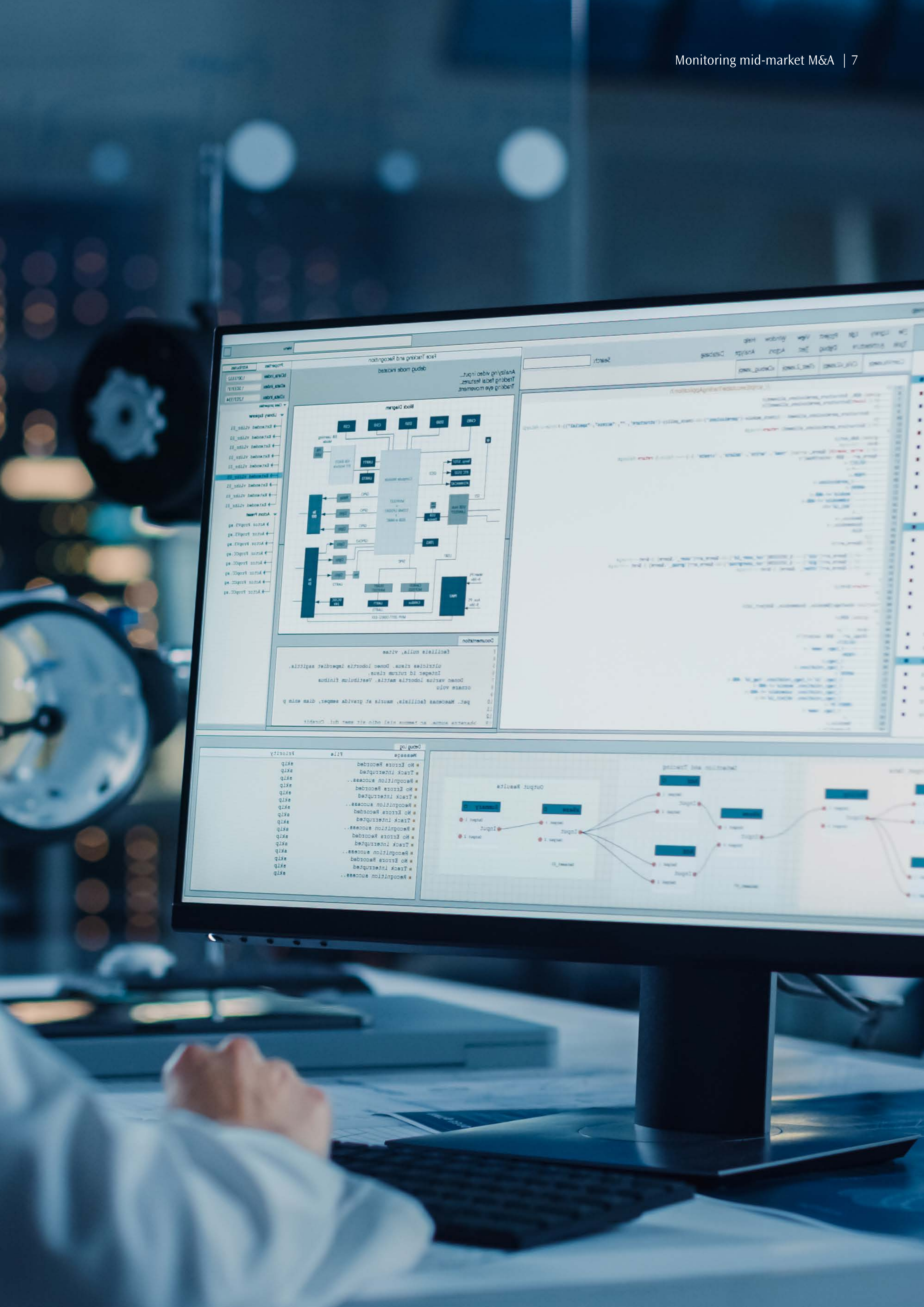
Alongside the benchmarking tool, our research includes a survey of dealmakers including those from the corporate finance and corporate advisory world, together with investor insight from private equity practitioners.

These sources represent a range of industries, including Consumer, Financial Services, Healthcare and Life Sciences, Manufacturing, Mining, Retail, Technology, Media and Telecommunications, and Transport. All respondents had recently completed, or were currently pursuing, a deal.

Supplementing these two data sources, our research team conducted a series of qualitative interviews with representatives of the corporate c-suite, their professional services advisers and the investment community, to hear first-hand how the trends unearthed by our data tools are playing out in practice.

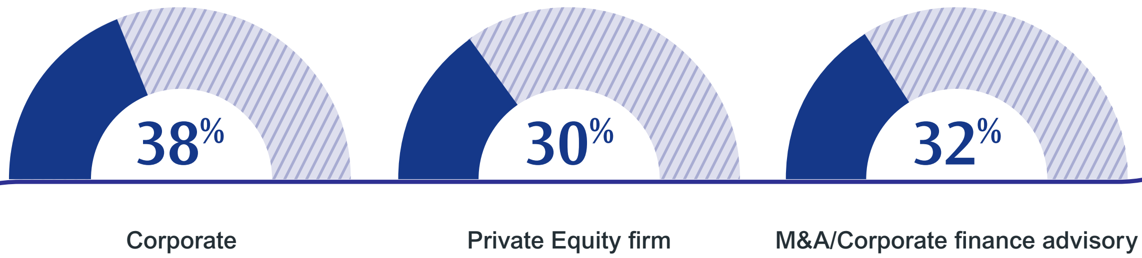
We hope this combination of data-led research and anecdotal insight of the core topics driving decision-making around dealmaking provides a useful perspective through which to view this crucial part of the UK's broader economic trajectory.

The research will be repeated annually to provide a year-on-year comparison of dealmaking activity and trends, focused on how corporate growth and economic health are impacting – and being impacted by – the M&A market.

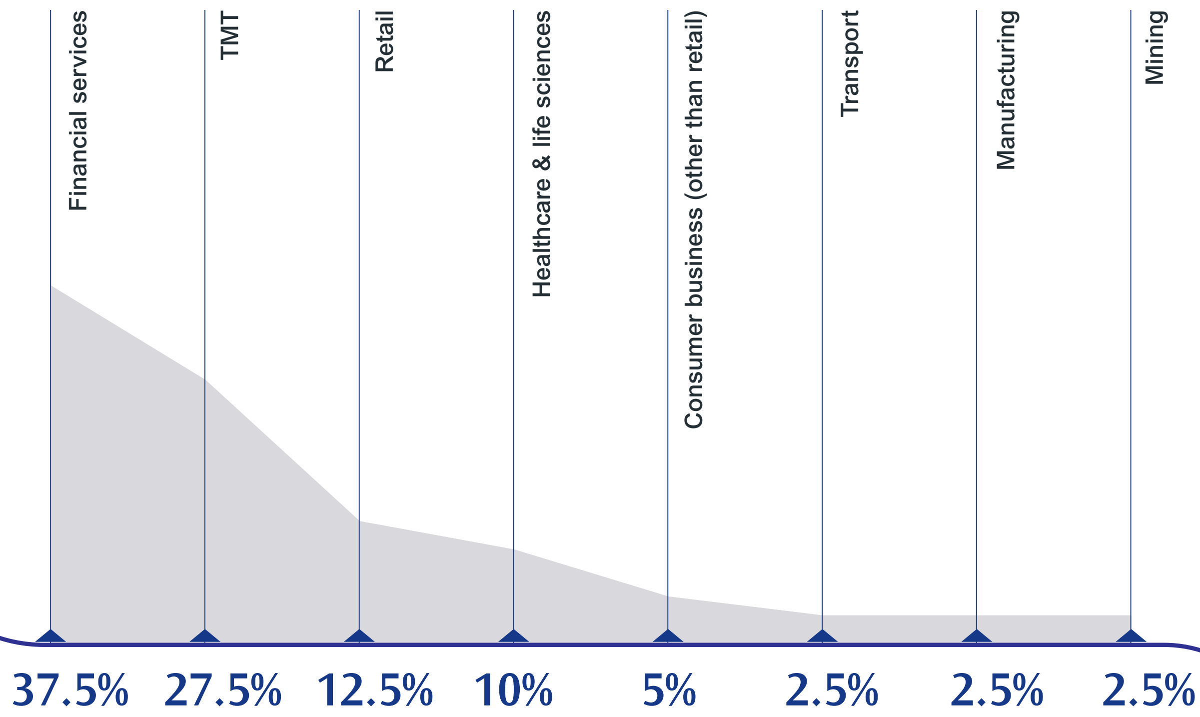


About our respondents*

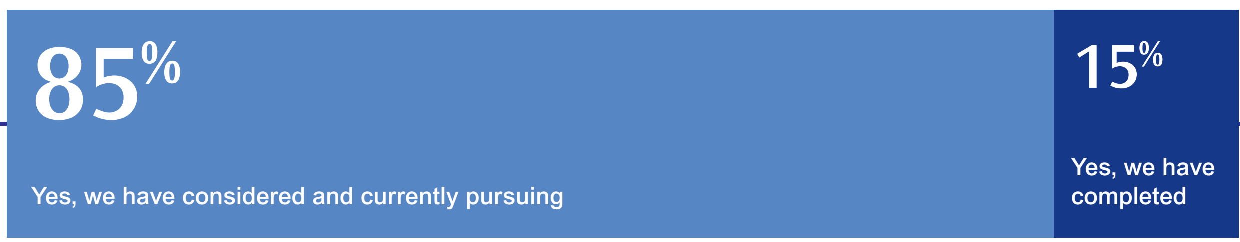
Respondent type



Which of the following industries best describes your primary business?



Has your business considered or completed an M&A transaction in the past 18 months?



* All respondents were primary decision-makers or part of a team that shares decision-making responsibility. Respondents all have one of the following job titles: CFO, Director, President, VP, AVP, Partner, Unit Head.

Our findings at a glance

Mid-market dealmaking remained active over FY 2020-21:

Number of deals conducted	Number of deals closed	Median deal size/value
475	417 (88%)	£45.01 million

Will the next 18 months bring opportunities for deal making?

80%

2%

A majority of respondents (80%) see opportunities in key markets for the next 18 months. Only 2% see no dealmaking opportunities.

COVID: Inconvenient not insurmountable

Respondents say the most significant impacts of Covid on M&A have been:

30%

The way transactions are executed

30%

The length of time taken to complete

What makes a target attractive?

Priority: Financial health

When assessing the attractiveness of a potential target, financial health (profit, revenue, cashflow) is assigned the greatest weight.

Will company and deal values increase?

70%

expect company valuations and deal values to be higher or much higher in the next 18 months.

What will stop deals getting done?

69%

Economic uncertainty was picked by 69% as a key factor likely to impact the ability to get deals done in the next 12-18 months.

Transacting: What will motivate buyers?

Going for growth

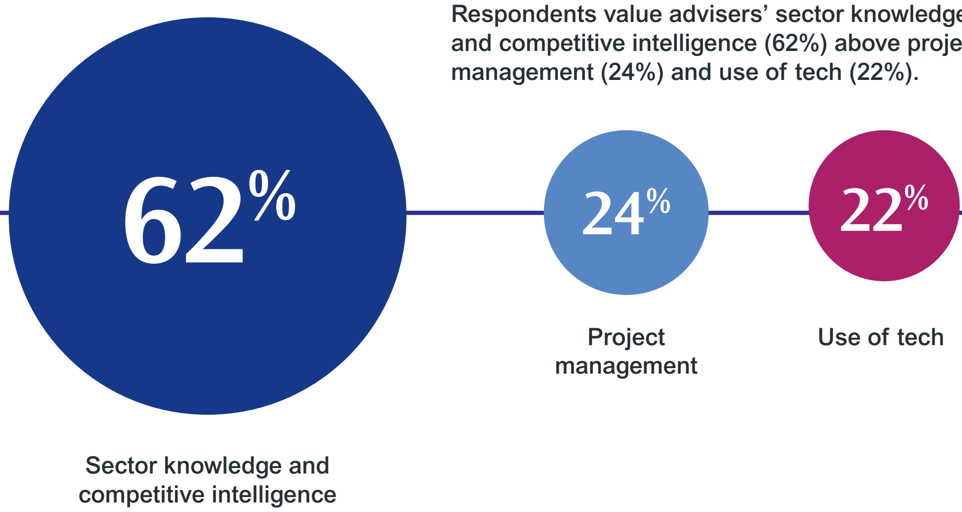
74%

of respondents list growth and increasing market share as a top motivation for transacting.

What can the advisor bring to the deal?

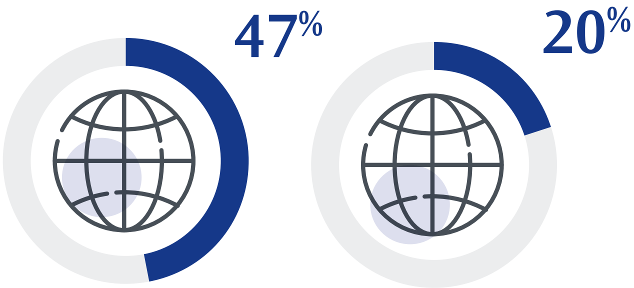
Competitive intelligence > project management and use of technology

Respondents value advisers' sector knowledge and competitive intelligence (62%) above project management (24%) and use of tech (22%).



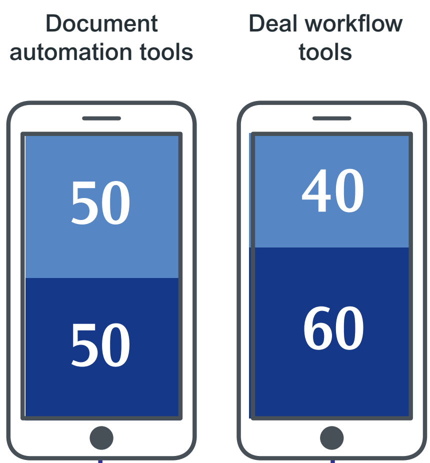
Is ESG important to investors?

Respondents are split on the extent to which ESG considerations are part of decision-making around a potential acquisition target. 47% say 'to a certain extent' while 20% say 'not very much'.



DealTech yet to take off

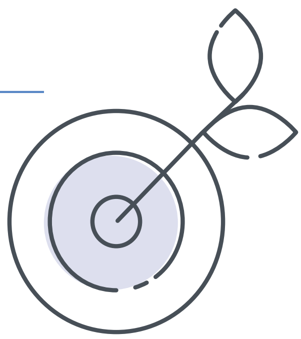
Use of technology varies, with respondents split 50/50 on whether they use document automation tools and 60/40 on deal workflow tools.

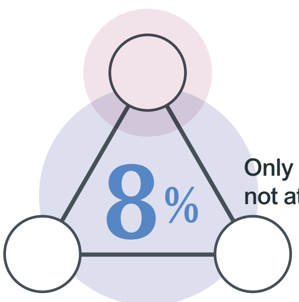


How ESG factors rank

Sustainability > tax planning and executive remuneration policies

A target's approach to sustainability was ranked the most important ESG factor, with tax policy ranked least important.



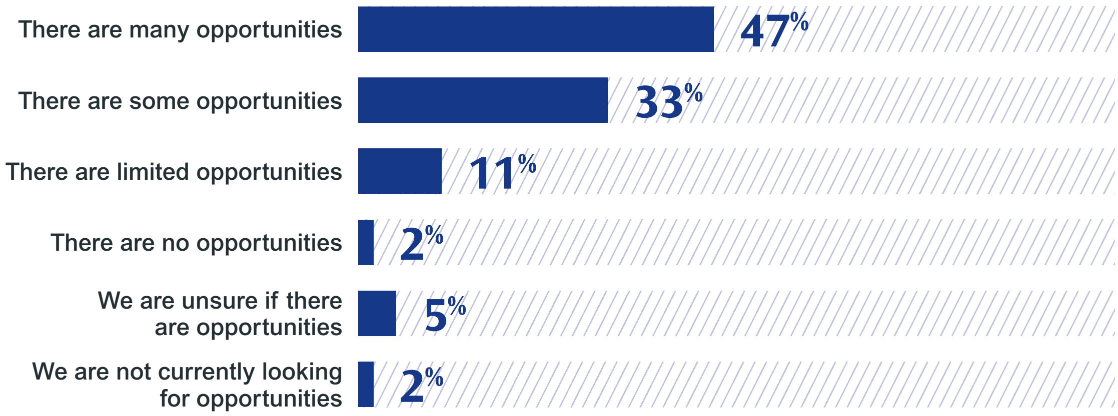


Only 8% of respondents say ESG considerations are not at all part of the M&A decision-making process.

Core insights

2021's perfect storm: Deal-flow and valuations hit record highs

Dealmaking confidence: The M&A outlook for the next 18 months



Respondents were asked about their confidence around dealmaking opportunities in their key markets for the next 18 months'

Global transactions topped $5 trillion for the first time ever during 2021, with Bloomberg Business Week remarking that this is "all the more exceptional considering all the reasons not to make a deal". Those reasons include the on going pandemic, a volatile global economy, and the prospect of tougher competition regulation.

So why is dealmaking booming?

In short, despite the headwinds listed above, a perfect storm has been brewing, both globally and in the UK mid-market.

Confidence and valuations are at record highs because capital, appetite and opportunity are all there. Low interest rates and excess cash reserves have been present for some time, alongside appetite to put that cash to work and optimism about doing so.

Charlotte Lewis-Williams, VP and Corporate Counsel at Pricoa Private Capital (part of PGIM) and colleague Jack Gilbert, Head of Direct Lending, UK and Europe, finance M&A both in the corporate and private equity world, so levels of deal-flow they see are a good barometer for M&A across the economy. They note that activity levels are as high as they've ever been.

One reason for heightened appetite is that 2019/2020 was a down year for obvious reasons, so many investors – including PE funds investing on set time horizons – were essentially squeezing two years of activity into one.

"We've seen a collapsing of multiple years' worth of deals falling into a relatively short period," explains Gilbert.

This view is shared by James Knott, Acquisitions Director at Tenzing, a founder-focused, growth equity investor.

“The cadence of deals is an upshot of the classic PE dynamic of wanting to put money to work,” he says. “People are trying to make up for 18 months of cash burning a hole in their pocket.”

The continued growth of PE as an asset class and the sheer abundance of capital flowing into the economy and chasing deals are clear drivers of activity. In some cases, this could even escalate beyond what would be routinely manageable levels.

“This can be hard to manage, if organisations are staffed for trend levels of deal-flow,” says Gilbert. “Constraints could now arise because of bottlenecks in the service economy if organisations are ‘fully booked’.”

This potential constraint has not yet materialised, even while appetite, capital and opportunity remain strong.

“We certainly haven’t seen a summer slowdown this year,” says Lewis-Williams. “Nothing has ground to a halt at any stage.”

Usman Malik, M&A Partner at Grant Thornton, agrees, calling 2021 “probably the most buoyant M&A market I’ve worked in, in 20 years of M&A experience”. He, too, points to liquidity as the fundamental driver of deal-flow activity. This liquidity is founded on the availability of cheap debt, a low interest rate environment and the volume of capital that can be put to work.

A black swan event such as the pandemic can cause a wait-and-see attitude among both buy-side and sell-side actors. But the aftermath of the pandemic’s peak – thanks to the pent-up demand and high volume of capital outweighing the number of deals available – has seen confidence return and valuations soar. Seismic change drives transactions, as corporate growth plans are adjusted, portfolios are repositioned, and businesses manoeuvre themselves to adapt to the new realities they face.

“It’s been super-hot, phenomenally buoyant,” says Marcus Archer, UK managing partner at Clearwater International Corporate Finance. “Multiples are the highest they’ve ever been and support from banks and debt funds is the strongest it’s ever been.”

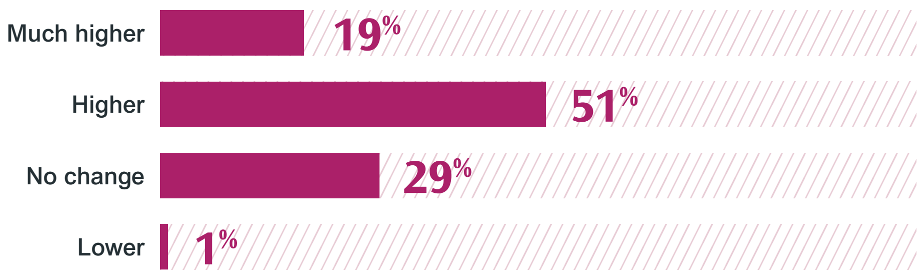
Archer notes that there was a slight drop-off in Q2 2021 which might have represented a return to normal levels after a ‘post-Covid bounce’ but that, overall, the M&A market has remained “unbelievably buoyant from where we thought it might be early in 2020”.

With capital outweighing opportunities, competition has skyrocketed. Knott has seen the same “punchy multiples” that Archer references.

“It’s definitely a seller’s market. It’s a hot market and multiples have pushed up,” says Knott. “For businesses with recurring revenues even at sub-£5 million turnover business, in many instances if you’re not paying four to five times turnover plus, you won’t get in the door.”

These trends show no signs of abating, which is reflected in our research. Half of respondents (47%) believe there are many dealmaking opportunities in the next 18 months, and a further 33% see ‘some’ opportunities, while only 2% of the corporate respondents asked are not currently considering dealmaking activity.

Expectations for company valuations and deal values in the next 18 months



Respondents were asked to outline their expectations for company valuations and deal values in the next 18 months, compared with the previous 18 months

Similarly, sentiment around valuations remains strong, with just 1% of respondents expecting valuations to be lower over the course of the next 18 months, compared with 70% expecting higher valuations (51% higher; 19% much higher).

The stats paint a clear picture. Be prepared for dealmaking levels – and valuations – to remain strong throughout 2022.

“People are trying to make up for 18 months of cash burning a hole in their pocket.”

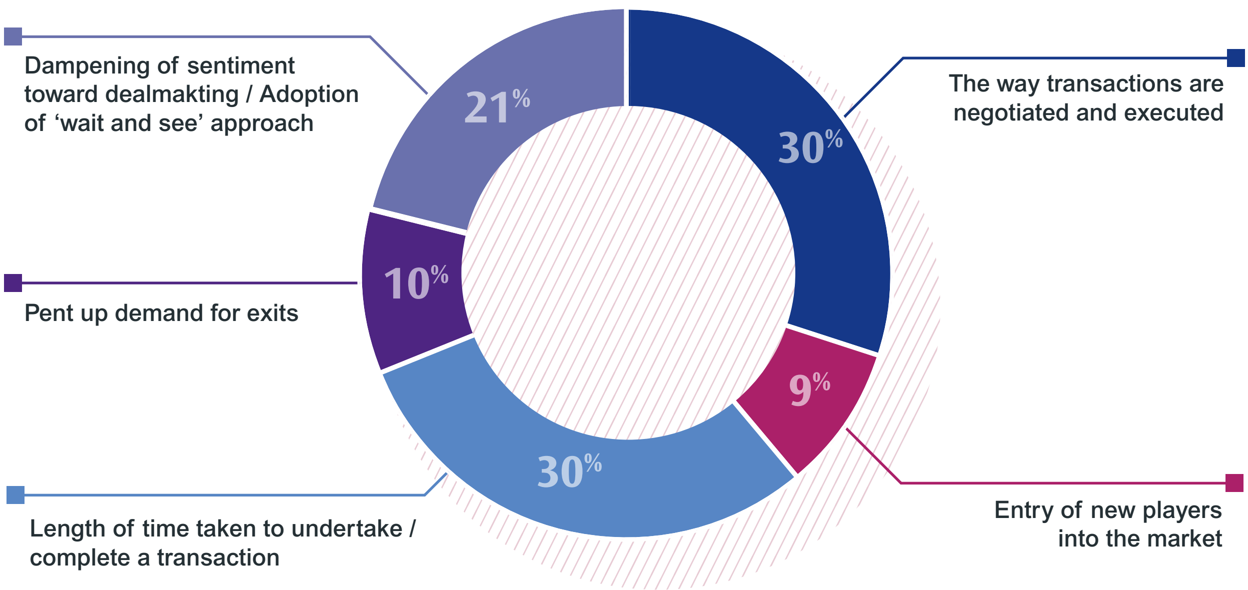
James Knott, Tenzing

"At the start of the pandemic there was a very short, two-month hiatus. Ever since, dealmaking has been booming in a sustained manner, which is not simply a market correction, to the extent that we have seen deals almost outweighing capacity levels at times. There are no signs of this slowing down in H1 2022"

Tim Nye, Partner – Trowers & Hamlins

Covid-19: Moving the goalposts of UK attractiveness for international investors

The most significant impact of Covid-19 on dealmaking



Respondents could only select one option

The UK has long been an active dealmaking jurisdiction. Investment attraction to the UK has historically been fuelled by the business environment, the strength of the economy, the country’s reputation as a leading Financial Services hub and geopolitical force, the stability of the political, legal and regulatory environment and a relatively business-friendly tax regime, among other factors.

But how has Covid-19 changed the UK’s standing on the global investment stage?

International investors are increasingly seeing value in the UK, it seems, with growing interest from sources like the US in the past 18 months.

“Previously, US investors felt they had more than enough to keep them busy in the States, unless they were seeking a strategic acquisition that gave them a European flag,” says Malik.

The UK’s divergence from EU regulation as a result of Brexit has potentially increased its attractiveness as an investment area, while there are US push factors which may have been heightened by the pandemic, too.

“A lot of US funds and investors may be nervous about possible tax changes,” says Malik. “They want to diversify their portfolios. That makes the UK more interesting.”

Elsewhere, Khaled Alanani, Head of Real Estate Investments at Bank of London and the Middle East (BLME), says the Middle East has always been fascinated by opportunities in the UK, but that the socio-political events of recent years have had a ripple effect on how the UK is viewed, internationally.

“There was a period since Brexit that investors adopted a bit of a ‘wait-and-see’ approach,” he says. “But people remained active and it was competitive, despite this. Then the pandemic hit and we really knew what ‘wait-and-see’ meant.”

Around a fifth of our respondents (21%) listed the initial adoption of wait-and-see attitudes as the most significant impact of Covid-19 on dealmaking. This initial pause on activity may not have lasted long, but it did move the goalposts – both for buyers and sellers.

“Sellers held back because they didn’t want to be viewed as distressed or under pressure to sell,” says Alanani. “And buyers didn’t want to buy unless there was a significant discount due to Covid.”

This stand-off came with difficulties. To apply a discount to an acquisition, you would first have to understand the impact an event would have on value, so the discount could reflect that.

"Nobody said they weren't interested in the UK anymore, but everybody wanted the right deal and it was difficult to see what the right deal looked like," adds Alanani.

The perception that there were distressed discounts out there did not necessarily match reality. Government support schemes played a role, and banks were very forgiving, accepting that an extraordinary event was disrupting business-as-usual.

Such support provided a boost as dealmakers faced other challenges around process disruption, with a third (30%) of respondents saying the length of time taken to complete a transaction was Covid's main impact on dealmaking.

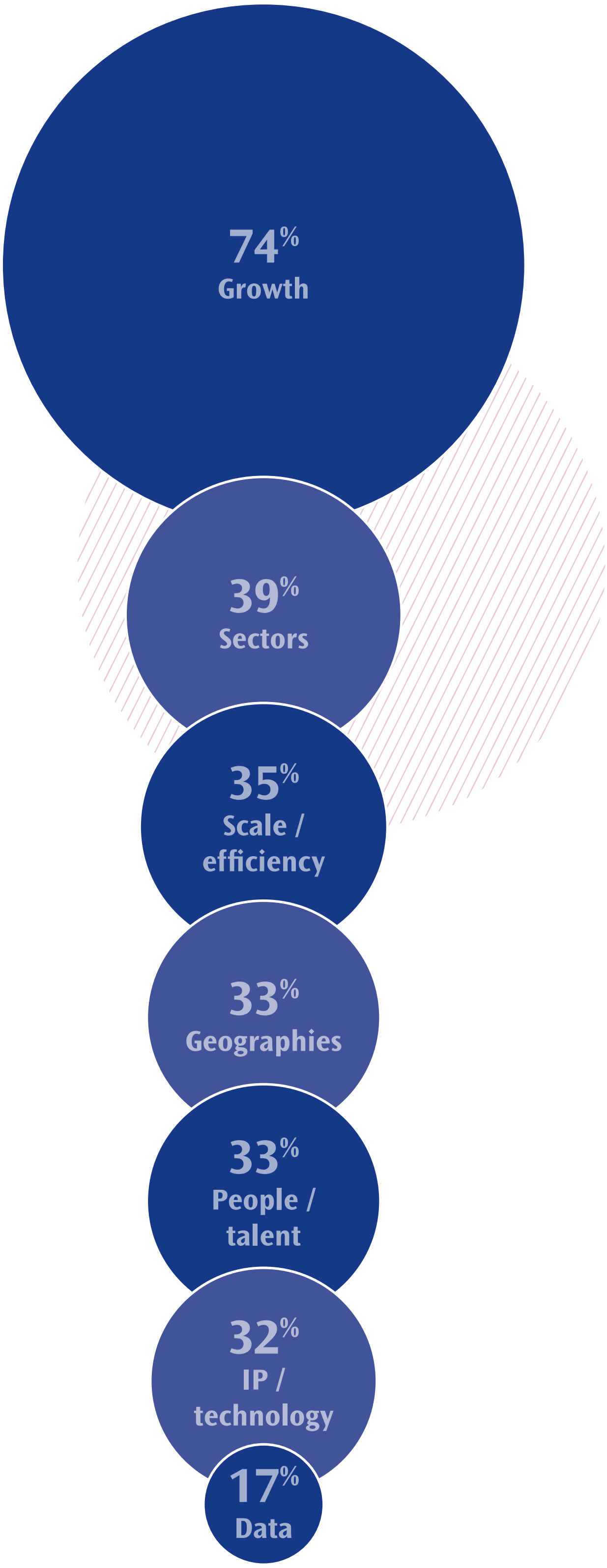
Another 30% listed the way that transactions are negotiated and executed (with changes to due diligence processes and virtual meetings replacing in-person interactions) as the main impact, indicating that the fundamentals of dealmaking were actually not too drastically altered by the pandemic.

> *"There was a period since Brexit that investors adopted a bit of a 'wait-and-see' approach…*
> *Then the pandemic hit and we really knew what 'wait-and-see' meant."*
>
> **Khaled Alanani, BLME**

> *"As international travel opened up again, activity levels increased. On a more granular level, we've seen strong US interest in operating tech companies that are pre-profit, so they're chasing the US money. With risk and appetite remaining strong across the Atlantic, that investor base is also being attracted into the UK."*
>
> **Nick Harrisingh, Partner – Trowers & Hamlins**

Transacting is inherently tied to growth strategy

The dominant motivation for entering a transaction



Respondents were asked to rank three dominant motivating factors when entering a transaction. The results above show the proportion of respondents that identified each factor as a top three consideration

Despite the profound impact of an event that shook the UK – and the world – from a social and economic standpoint, many dealmaking maxims remain ever-present. After all, the corporate world is accustomed to riding the economic rollercoaster and keeping its wheels on the tracks throughout.

When it comes to the motivation for seeking a transaction, dealmaking is centred on one goal: growth.

Andrew Stopforth, Group Corporate Development Director at construction supplier SIG plc, says the specific motivation for a transaction may be situational, but that fundamentally M&A is a vehicle to achieve corporate growth and execute a strategy.

"You can organically grow markets, you can JV, you can look to M&A. They're all tools that can be used for corporate growth," says Stopforth. "It starts and ends with your strategy. If it aligns with your strategy, then M&A is a tool to help you execute."

Our research unearthed 'increased market share' and 'entering new sectors' as the most common motivations for entering a transaction and Malik agrees that whether the strategy is to enter new markets or consolidate in an existing one, growth is the ever-present, underlying ambition.

"One consistent theme on any deal is growth. Why is one party buying another business?" asks Malik. "It's to drive growth. Whether to take increased market share, or realise synergies, it's all about growth, ultimately."

The buy-side sees room to take a target to the next level, while the sell-side acknowledges that scale can best be achieved through acquisition.

The research bears this out, with 74% of respondents identifying growth and increasing market share as a top three motivator for entering a transaction. Entering into new sectors was cited as a top three motivator by 39% and 35% pointed to increasing efficiency and capacity.

In terms of the forces of attraction for investors, Stopforth points to a target's financial health as a top consideration. The numbers help to map growth, past and projected.

"You are looking not just at short-term figures, but a history of sustainable growth and performance," says Stopforth. "A pandemic-related challenge is that many organisations have had a blip, so you need to establish what the underlying performance is."

At Tenzing, Knott's team remains anchored to key financial metrics to use when weighing whether to buy a business. Those metrics include certain thresholds for recurring revenues, EBITDA margin and revenue growth.

"That's our acid test. If those metrics are satisfied, that tells you a lot about a business," says Knott. "Organic growth, high recurring revenues and strong margins are essential to driving and maintaining strong valuations, hence why we are so focused on these."

This type of business is primed for growth but may not be in a position to grow quickly enough to outpace competitors.

"The magic piece of the jigsaw is scale," adds Knott.

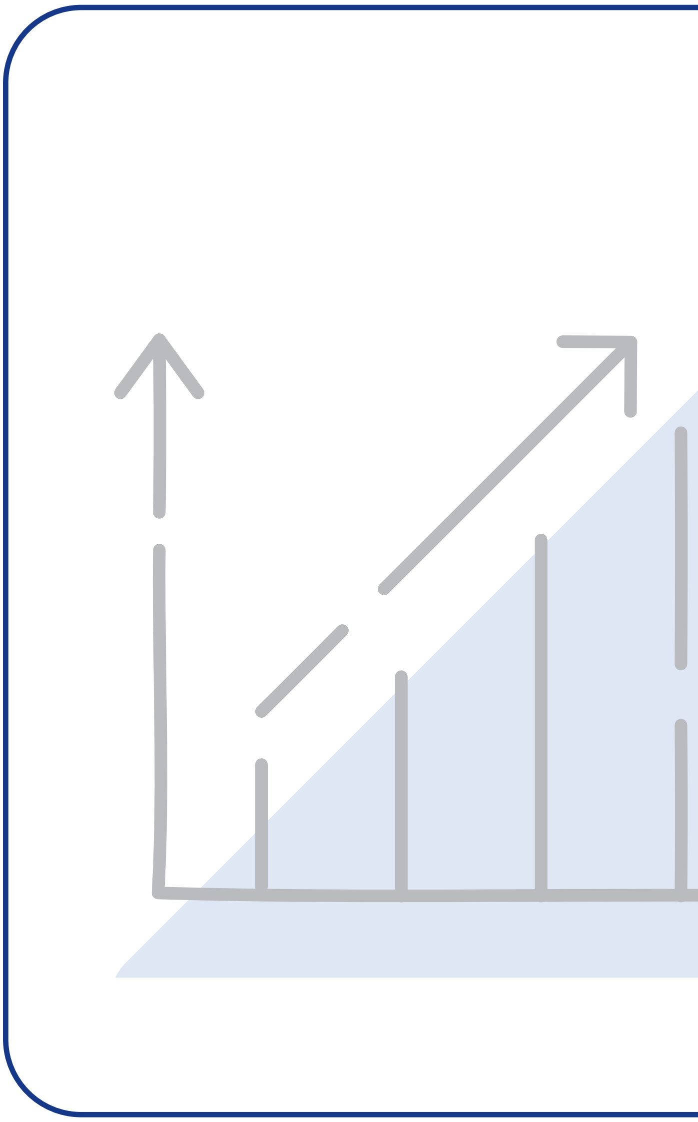
Investing and transacting provides the missing piece required to fulfil and outpace an existing growth strategy.

"It starts and ends with your strategy. If it aligns with your strategy, then M&A is a tool to help you execute."

Andrew Stopforth, SIG plc

"A pandemic-related challenge is that many organisations have had a blip, so you need to establish what the underlying performance is."

Andrew Stopforth, SIG plc



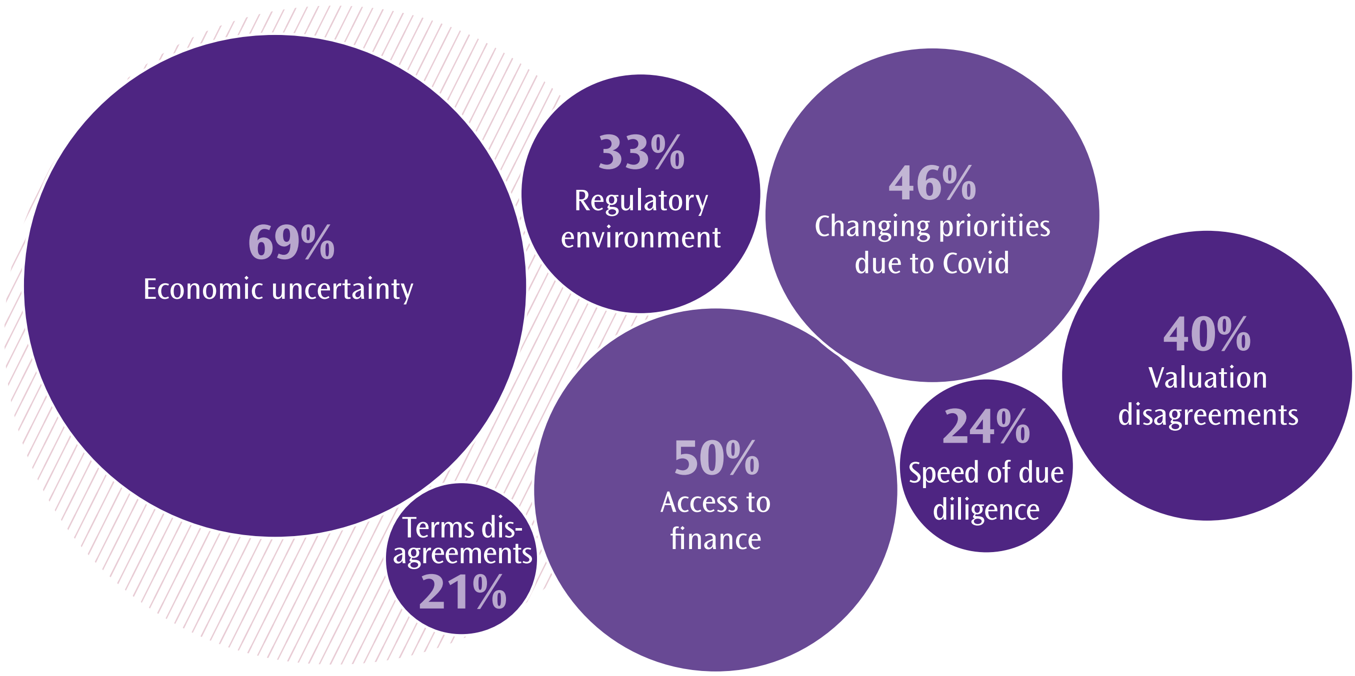
"M&A is process-driven and execution requires strong processes. We pride ourselves in investing a lot of time to truly understand a client's overall strategy. That way we can join them on their growth journey by guiding them down the most efficient route to deliver on their goals throughout the transacting process.

Transacting for growth is often about proactive expansion, as our survey shows. But, whether it's buying in capacity, products, facilities or suppliers to protect the supply chain, growth can also be protective and defensive in terms of futureproofing a business, so understanding motivations is crucial to guiding this process."

Adrian Jones, Partner – Trowers & Hamlins

Failing to find closure: Mismatches lie at the heart of deals falling over

Key factors impacting the ability to complete transactions



Respondents were asked what they see as the key factors likely to affect their (or their clients') ability to pursue or complete transactions in the next 12-18 months. The results above show the proportion of respondents that identified each factor as a top three consideration'

When deals fall over and do not complete, the failure comes down to one key concept: mismatch. Many transactions may not get off the ground to begin with but, assuming there is a desire for a deal to be done, the most obvious stumbling block is price.

"99% of deals do not happen because of price," says Javier Asensio, Managing Director Spain at Falck Renewables, noting that most transactions he is involved with relate to renewable energy assets where there are fewer legal, reputational or employment aspects to consider.

Mismatches in pricing are fuelled by two main factors: unrealistic expectations (or mismanaged expectations) and competition.

"A founder or owner may have a figure in mind – maybe they've seen a peer sell for a high multiple so have high expectations themselves," says Forbes Stuart, Partner at Ignite Growth. "Or maybe comparable transactions which valuations are based on are actually much bigger businesses, so things get skewed."

Sometimes advisers (whether acting for buyer or seller) have to grasp the nettle and address mismatches head-on, to save pain later down the line.

"Every vendor thinks they have the next Amazon," says Malik. "The first thing to do is manage expectations. Some shy away from doing that, but having clear expectations managed from the outset is important. If everyone is aligned, structuring can always get you to bridge a deal."

Knott agrees, noting that from an investor perspective, PE houses typically have clarity on what they want to achieve from a transaction, so it's a case of articulating things clearly – and early – before moulding to an owner's needs where necessary.

"Asking direct questions isn't always in a person's nature, but it helps galvanise a relationship," says Knott. "We're not dancing around handbags, we like to be honest, open and up-front as it makes everyone's lives easier and allows people to reach the right conclusion more effectively."

If mismatches are allowed to bed in and fester, they will inevitably come crashing together later during the deal. If an issue arises during due diligence, it must be surfaced and dealt with. Burying of heads in the sand and hoping for the best is a critical error.

"You need constant dialogue and can't leave too many things open-ended. It's quite easy for different people to leave the same meeting with different interpretations of what was said, so be sure to confront issues and bite the bullet," says Stopforth. "Make sure expectations are managed through diligence, so no surprises come out of that after earlier discussions around price point."

Expectation management is not just incumbent upon the advisory side – all parties to a deal must come together and promote realism. Blurring reality to win business, or to promote a sale, are potential offenders.

“If somebody’s been sold the dream of a massive multiple by an adviser in order to win a project, but those goals aren’t achievable, then the deal doesn’t happen,” says Archer. “Sometimes the business oversells itself and it doesn’t stand up to scrutiny.”

Setting the right tone for transacting is vital for the internal mechanics of a deal, but outside forces can also provide obstacles. This is particularly poignant in the current climate.

In the near-term, the economic environment displaces price and expectation mismatches as the top challenge to dealmaking. Our survey respondents identified economic uncertainty as the main factor likely to affect the ability to pursue or complete transactions in the next 12-18 months (ranked by 69% as a top three concern for their business, or their clients’ businesses, and ranked by 34% as the main concern).

Access to financing was identified as a top three concern by 50% (though only 19% ranked it as the top concern), changing priorities as a result of Covid-19 was ranked top three by 46% and disagreements around company or deal valuation was cited by 40%. All other factors – including the global regulatory environment, speed and accuracy of due diligence and disagreements around deal terms – were ranked as lesser concerns.

Despite Covid-19 causing a change in corporate priorities and decision-making, Archer says that, fundamentally, nothing has changed in why deals fall over, nor in what makes a deal likely to succeed. A longer-term outlook that adapts to recent events but isn’t too drastically perturbed by them, remains essential.

“It’s a bit of magnifying glass in terms of a hot market where everyone’s talking about buoyant multiples, everything being worth a fortune,” says Archer. “But a good deal is still about having a good business with resilience and the right business model. People lose sight of that sometimes just because the market appears to be hot.”

“Every vendor thinks they have the next Amazon. The first thing to do is manage expectations.”

Usman Malik, Grant Thornton

“We’re not dancing around handbags, we like to be honest, open and up-front.”

James Knott, Tenzing

“The only way to avoid mismatches is to devote time, effort and attention-to-detail at the start to iron out potential issues. Heads of terms should be thorough enough to ensure everybody is aligned on deal structure and timings. Managing expectations and troubleshooting upfront will pay dividends and prevent parties from meandering into endless negotiations during document review stage.”

Adrian Jones, Partner – Trowers & Hamlins

Integration: Communication is the best defence against disappointment

Assuming a deal does get over the line, the main reason for a (completed) merger or acquisition ultimately not proving successful lies in integration. To counter this, transacting and integration must go hand-in-hand.

Just as managing expectations was identified in the previous section as a key to completion success, communication is essential for the merged or acquired business to integrate and, ultimately, deliver on the growth goals that motivated the transaction to begin with. Post-transaction, communication breakdowns can undo the hard work associated with getting the deal done.

"You've bought this Faberge Egg and you don't want to drop it within the first few months, so communicating with people is vital, particularly for integration," says Stopforth.

"There's this juxtaposition of getting a deal done, everyone's excited and then you turn up on site full of energy and may be met with terrified employees who are unsure of their futures," he adds. "So getting the Day One internal comms right is key and then continuing to support people beyond that. The same goes for other stakeholders – getting on the phone with customers, suppliers and so on."

The personal touch pervades the entire spectrum of dealmaking from first contact to post-transaction integration. Relationship management is important even where the strategy is buy-and-build or bolt-ons. Buyers need to find management teams that share a desire for growth.

"We want facetime and the 'whites of the eyes' moment to see whether we are aligned and to help build a rapport which is always easier face-to-face and I believe always will be," says Knott. "We're acquiring businesses as much for the people as anything else, so having a common view and goal matters."

It may be counterintuitive, but sometimes success in integration is very light-touch and hands-off. An investor wants to add value, of course, but trusting the existing operation goes a long way, too. Less can sometimes be more.

"If you're the acquirer, remember why you're buying a business – because it is successful at doing what it does," says Stopforth. "So don't change too much. Protect the front-end."

Part of maintaining continuity is taking employees on the journey with you, and securing management buy-in. This involves understanding management and monitoring personnel during integration, particularly where a large corporate acquires a smaller business, because the dynamics of working for a small entrepreneurial business versus a large corporate are markedly different.

"If management teams have been working in small, entrepreneurial environments, they may not enjoy working in a different environment," says Stopforth.

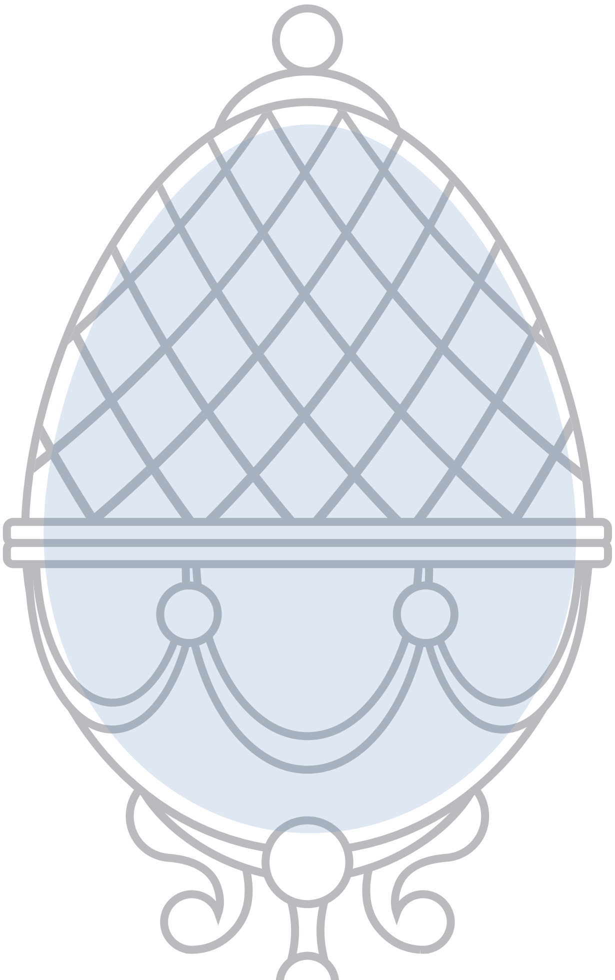
Where views are not aligned, the absence of communication means things can become much thornier than they need to be. With open dialogue, most challenges can be overcome as parties on all sides come together to problem-solve.

"You've bought this Faberge Egg and you don't want to drop it within the first few months, so communicating with people is vital, particularly for integration."

Andrew Stopforth, SIG plc

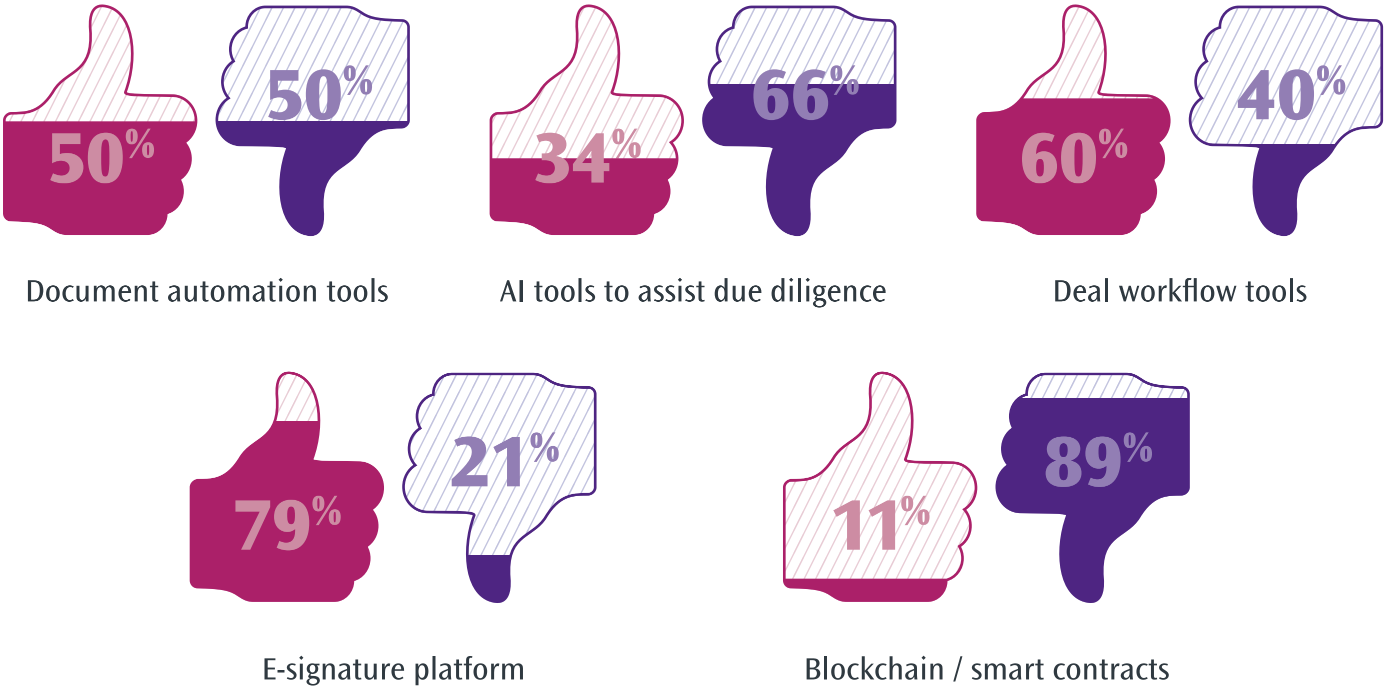
“When you undertake a transaction you are actually undertaking two, one is the acquisition and one is the integration. How you achieve the latter is a business decision but you need to have made that decision and have a clear plan and strategy at the time you complete the acquisition. Figuring out how to integrate a business once it has been acquired is too late and the lost time can damage relationships and value. Integration planning and strategy drives long term value.”

Tim Nye, Partner – Trowers & Hamlins



DealTech: The transformative power of technology is yet to be realised

Technologies used during transactions



Respondents were asked which of the technologies listed they routinely use (or expect their advisers to use) when undertaking M&A transactions'

It is safe to say that technology is a key pillar in 21st Century life. In our personal and professional lives, digital tools are relied upon to assist in anything from the most menial tasks through to the most sophisticated.

But while technology has been key to transformation across many markets and sectors in recent years, the impact of technology on transacting is not as far-reaching – at least not yet. Digital aids that have by now become commonplace are of course used by dealmakers, but on the whole, dealmaking remains a largely people-centric business.

“Technology is not driving activity,” says Gilbert. “But it clearly has a role in facilitating things for the underlying businesses we invest in.”

“Our approach is relationship-driven, so we aren’t overly reliant on any particular technology,” explains Lewis-Williams.

Stuart agrees that the impact of technology is limited. While CRMs to stay on top of deal pipeline and processes may be used by some, DealTech isn’t at a level of sophistication whereby it will help decision-making around whether to invest in a business or not.

For now, technological assistance in dealmaking remains largely limited to administrative functions such as electronic signature platforms for deal completion (cited by 79% of survey respondents as being routinely used during transactions), deal workflow tools (used by 60% of respondents) and automation tools to assist in document drafting (used by 50%).

Even then, project management software tools probably only make sense for larger organisations with busy dealmaking calendars.

“As a smaller investor, everything we do is people-focused and I don’t see that changing,” says Stuart.

“I tried a project management tool and found it pretty unhelpful,” agrees Stopforth. “If you’re a big corporate with big deal teams and tens of deals a year, maybe those tools work. But if you’re working with smaller teams doing a couple of deals a year, it just isn’t that useful.”

The other area where technology is rife is in lubricating the flow of information. This is predominantly in communications.

"Digitalisation and new platforms can have a transformative role in the near future," says Asensio. "It's about facilitating interactions."

Emerging technologies such as artificial intelligence-based tools to analyse contracts during due diligence processes (used by 34% of respondents) or blockchain and smart contracts (used by only 11%) are not yet part of the dealmaking furniture.

However, technological transformation in any sector has the potential to take hold suddenly and permanently, so this is a space that should be monitored closely.

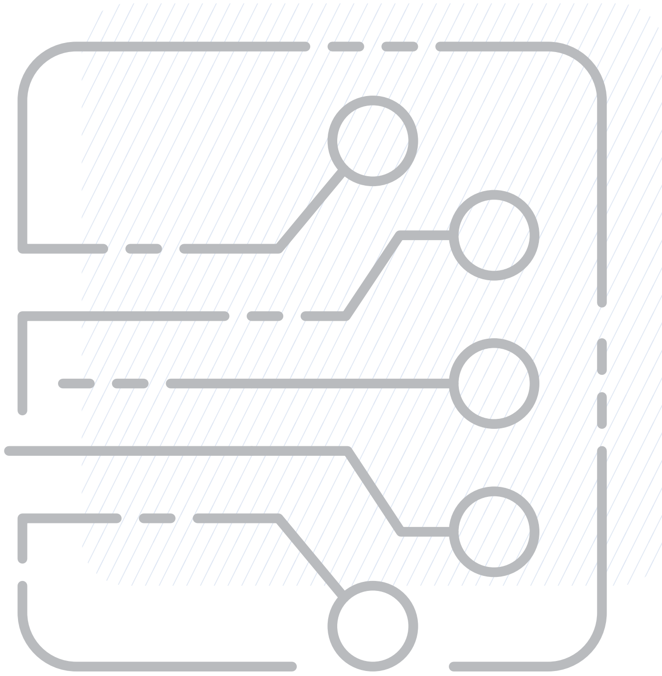
"There are definitely elements of M&A process, and integration, that have been around a while, so in theory it lends itself to tech solutions," says Stopforth.

The adoption of new solutions requires people to embrace them, and organisation-wide, if not sector-wide culture change.

"It's no good having the tech and not embracing or using it efficiently," says Knott. "Otherwise you get information gaps. It's a cultural thing and a fish rots from the head so if the top people embrace it, everyone else will."

"Our approach is relationship-driven, so we aren't overly reliant on any particular technology."

Charlotte Lewis-Williams, Pricoa



"For large cap M&A or large real estate transactions we have seen technology used to solve volume or complexity conundrums. In the mid-market, however, technology sits in the background, where its role is confined to due diligence and workflow management. Transacting remains people-driven and there is no substitute for personal relationships."

Alison Chivers, Partner – Trowers & Hamlins

Deal mechanics: Bespoke structuring has never been more important

The mechanics of getting a deal done – from finding a suitable target to structuring a suitable deal – have to be flexible.

Seller financing – such as earn-outs and other forms of deferred consideration – has been an option explored by many, with 64% using it in some capacity to get deals done over the past year. Specifically, seller financing has been used in deal agreements 'very frequently' by 27% of respondents and 'occasionally' by 37%. A fifth of respondents (20%) have never used seller financing for deals they have been involved in during the past year, while 15% answered 'rarely'.

Aside from its impact on purchase price and upfront consideration, seller financing can have benefits for integration, particularly if the buyer is looking to keep an existing management team in place, though it shouldn't be viewed as a silver bullet. Structuring will depend on the specifics of any given transaction – and the goals of the parties involved.

"You can use earn-outs or similar models to incentivise people to stay and secure continuity, but earn-outs aren't always satisfactory," says Stopforth.

In terms of other deal structuring trends, Stopforth acknowledges that the pandemic has changed behaviours.

"We put lots of structuring into deals done during the pandemic, to protect us from potential long-term impacts or shifts, particularly if we are unsure how quick the pandemic 'blip' recovery might be for a business," he says.

This involved paying a maximum 50% of consideration upfront, with elements of deferred consideration and use of earn-outs / contingent consideration.

Pricoa's Lewis-Williams says she sees a range of structuring from the more traditionally lender-friendly mechanisms through to the more aggressive, leveraged end of the market.

"We will always want to seek the best protections because we are generally going longer on deals," says Lewis-Williams.

Gilbert says his experience is that the level of activity in the mid-market has meant that there has been good 'discipline' in deal terms.

"The focus is on getting deals done rather than moving the needle on terms that are technical and may not realise much value for any party," he says. "If deal activity subsides and you have lots of people chasing fewer deals, that's when you see some terms erosion."

When it comes to closing a deal, our research indicates that completion mechanisms during the pandemic have been decided on a deal-by-deal basis, with no strong preference identified for the flexibility of a Completion Accounts mechanism versus the efficiency of a Locked Box mechanism.

Asked which of the two main completion mechanisms they used for deals from the past 12 months (or planned for completion within the next 12 months), the majority (65%) said this was deal-dependent. A fifth of respondents (19%) listed Locked Box as their main completion mechanism, with a slightly smaller proportion (16%) using Completion Accounts.

Increased competition for deals and the associated need-for-speed might prompt concerns around insurance protections, but use of Warranty and Indemnity (W&I) insurance over the past year has been mixed, with 58% of respondents reporting that they have never used W&I insurance in deals they have been involved in, and 42% saying they have used it. Only 5% said they routinely use W&I insurance on every deal.

The main takeaway for deal structuring is that decision-making is entirely tailored to the circumstances in which an M&A opportunity arises. This comes as no surprise, though the proportion of dealmakers electing not to use W&I suggests that a bigger emphasis is being placed on thorough due diligence to mitigate risk later down the line.

"The focus is on getting deals done rather than moving the needle on terms that are technical and may not realise much value for any party."

Jack Gilbert, Pricoa

Deal completion mechanisms

Respondents were asked which of the two main completion mechanisms they have used in deals they were recently involved in (deals which closed in the past 12 months or which are due for completion in the next 12 months).

Use of seller financing

Respondents were asked how frequently seller financing – such as earn-outs – has been included in deals they have been involved in during the past 12 months (or is planned to be included in deals due for completion in the next 12 months)

Use of W&I insurance (past 12 months)

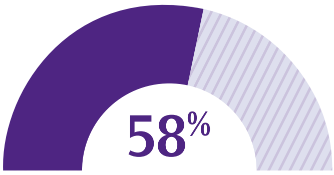
I have used W&I insurance at least once

I have used W&I insurance on every deal

I have used W&I insurance on some deals

Respondents were asked how often they have used Warranty and Indemnity Insurance in deals during the past 12 months

Use of W&I insurance (historically)



Have never used W&I insurance

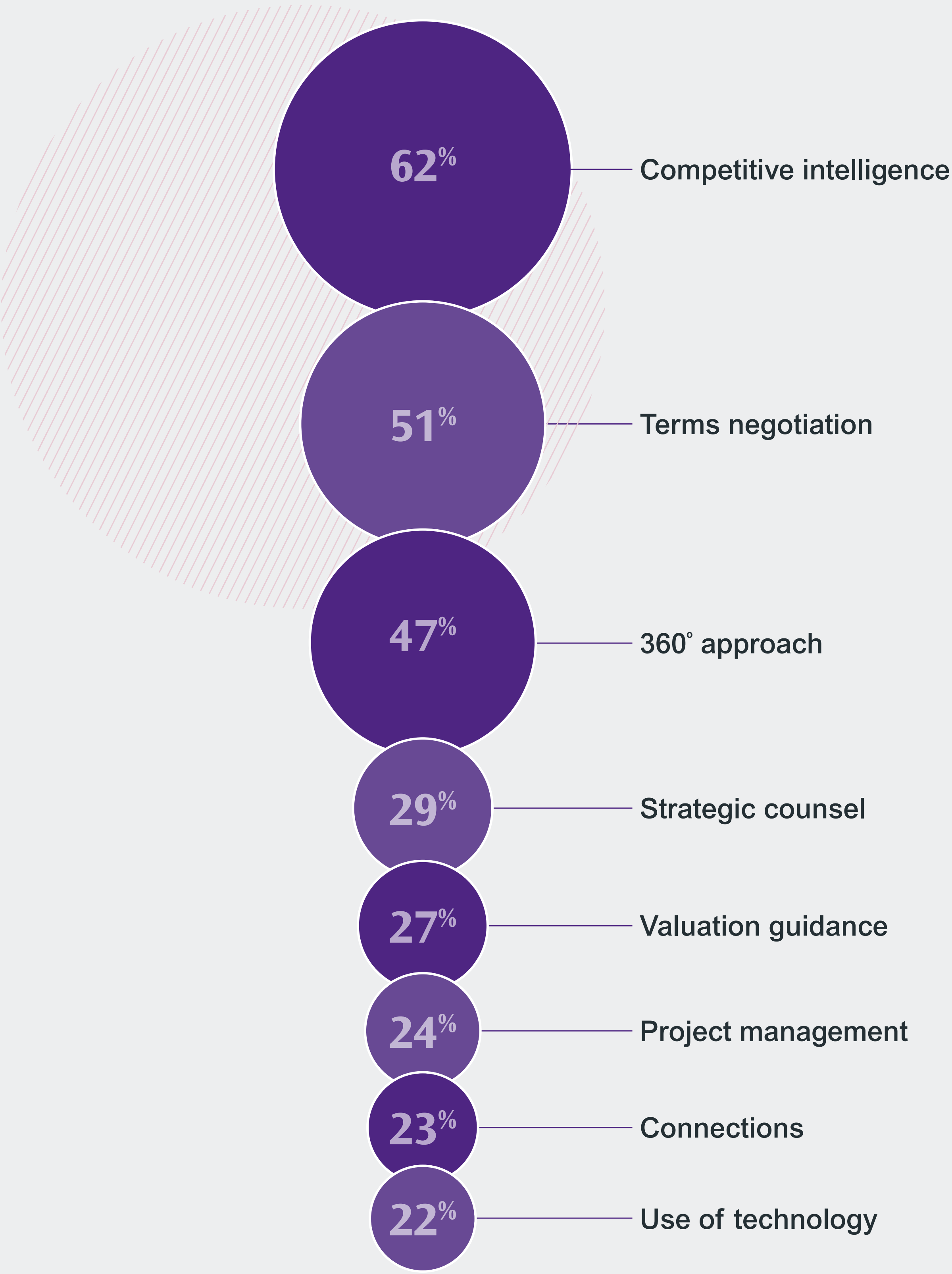
"Anecdotally, a lot of buyers have been using earn-outs more to protect them from potential pandemic froth and unusual trends that may have emerged. This is a sensible hedge in cases where the sustainability of certain numbers is difficult to map.

The other trend to note is that many buyers ultimately want off-market transactions. If a seller is well-advised, they may well offer that, but the trade-off is that it must be done with simplified deal mechanics."

Adrian Jones, Partner – Trowers & Hamlins

Proactivity and practicality separate the advisory wheat from the chaff

Professional advice: The greatest value-add from lawyers



Respondents were asked to rank their top three most important areas of 'value-add' from a legal services provider. The results above show the proportion of respondents that identified each factor as a top three consideration

Advisers come in many shapes and sizes, and play pivotal roles in the lifecycle of a transaction from initial scoping exercises and due diligence, through to deal closure, covering all aspects of tax, legal, banking and corporate finance along the way. But what does good advice look like?

In times of adversity, this is actually easier to assess. BLME's Alanani notes that it is during such moments that advisers really show their worth.

"It's easy when things are going well and you look like the hero, but could in reality just be riding a wave of positive economic outlook," says Alanani.

By proving their worth when the going gets tough, advisers can strengthen the relationships they hold with clients.

"In tougher times, advisers can calm the waves, and you build trust that way," adds Alanani. "Advisers know to sit through a cycle and understand the real impact before projecting a doomsday scenario."

Alongside technical expertise – which is expected as a minimum service requirement – our research identified sector knowledge and competitive intelligence, and negotiation of terms as the greatest legal service value-adds, cited by 62% and 51% of respondents as top three factors, respectively.

"Lawyers are a key part of the deal team," says Stopforth, who notes that they can be pivotal in setting a tone of proactive project management which is driven in the pursuit of getting a deal done. "Timetables matter, so lawyers who can give clear advice and maintain relentless focus on what's important are very valuable."

"Lack of momentum in deals is paralysing," adds Stopforth. "The best advisers are constantly moving things forward rather than waiting to be instructed. Deals gain and lose momentum, and when they lose momentum it's painful. The longer people have to think about it, the more issues can crop up."

This appreciation of the need-for-speed is not just limited to legal service provision. Thinking about advisers in the round, thorough scenario and mitigation planning (often to keep knee-jerk reactions from clients in check), and proactivity are among the most sought-after value-adds.

"Advisers have to anticipate," says Alanani. "Don't wait for something to happen before you react. Whether it's the legal team or tax advisers, the good ones pre-empt discussions."

Proactivity and practicality of advice crop up time and again in assessment of the premium advisers. Clear, actionable guidance and demonstrative commerciality are valued highly.

"You want somebody that can guide you and provide quality insight that informs your decision-making," says Asensio. "They have to understand your commercial position."

Emotional intelligence and the ability to connect are soft skills which have gained importance in the remote working world of the pandemic, where physical meetings and non-verbal cues have been somewhat lost in transition. Technology has assisted in overcoming the remote challenge to a degree, but dealmaking remains a people business.

"People hire people they trust," says Knott. "They want lawyers who are commercial with some EQ, and they want visibility with the specific individuals they know and trust. There's always some nuance to a deal, so trust breeds confidence that someone will think about the problems you won't consider, providing effective and value-add advice."

Some of these items have always been on the advisory wish-list but, elsewhere, some perspectives are shifting and a culture change has meant that 'best' no longer just means 'biggest'. Personal connection and track record matter more than simple name-recognition.

"That old adage that 'you don't get fired for hiring IBM', is gradually falling away," says Knott. "It's about quality of output and individuals, not necessarily the brand above the door, which I personally welcome."

"Lack of momentum in deals is paralysing. The best advisers are constantly moving things forward."

Andrew Stopforth, SIG plc

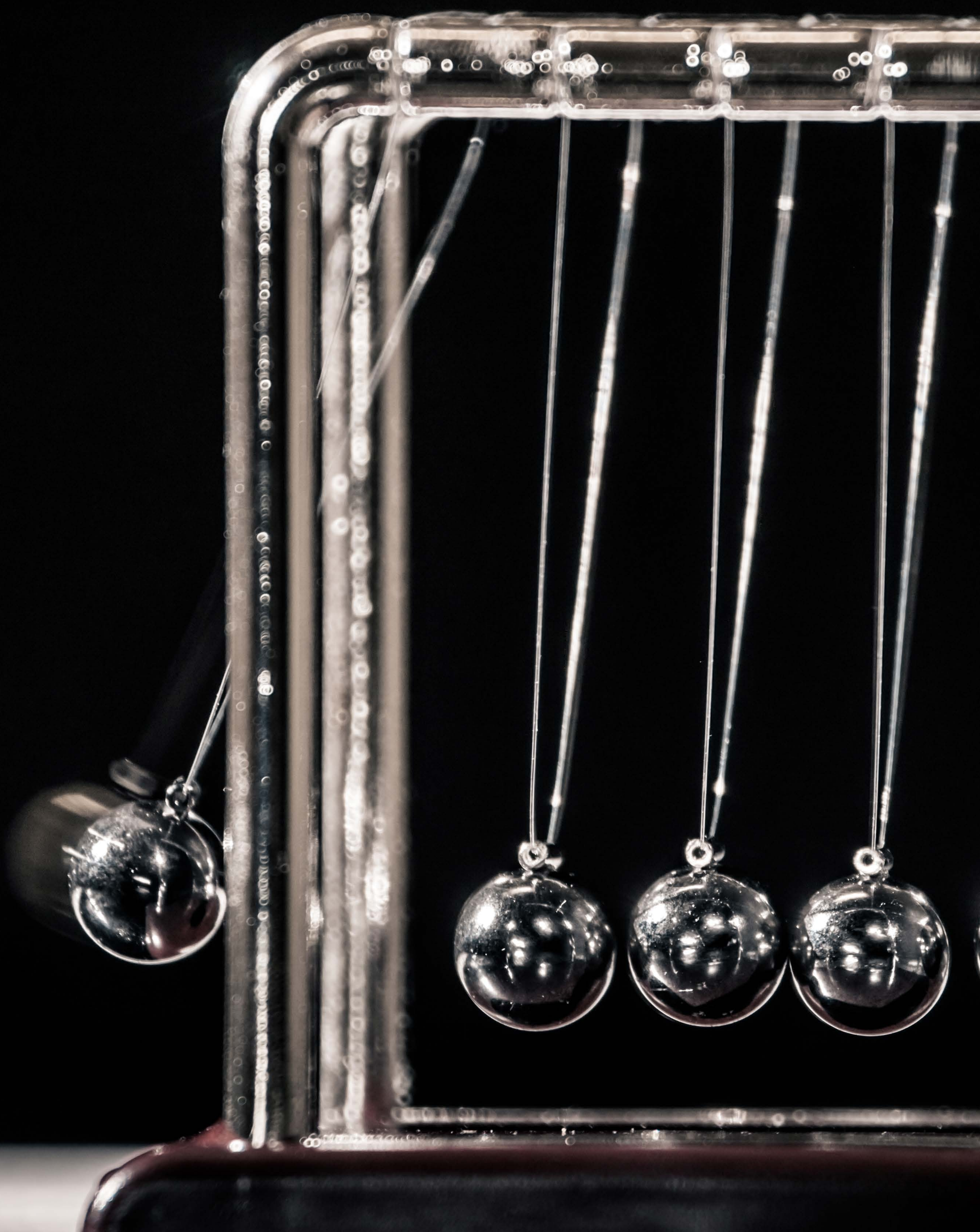
"That old adage that 'you don't get fired for hiring IBM', is gradually falling away."

James Knott, Tenzing

"Momentum drives dealmaking. Advisers must know their role, understand it and be proactive in moving the deal forward. At Trowers, we see ourselves as an active law firm that knows our role both in project managing and in providing legal advice.

From a legal perspective, it's important to understand that this isn't litigation. There are different 'sides' and parties involved, but ultimately we are all striving for the same objective. Embedding that mutual understanding and proceeding in a non-adversarial manner is key."

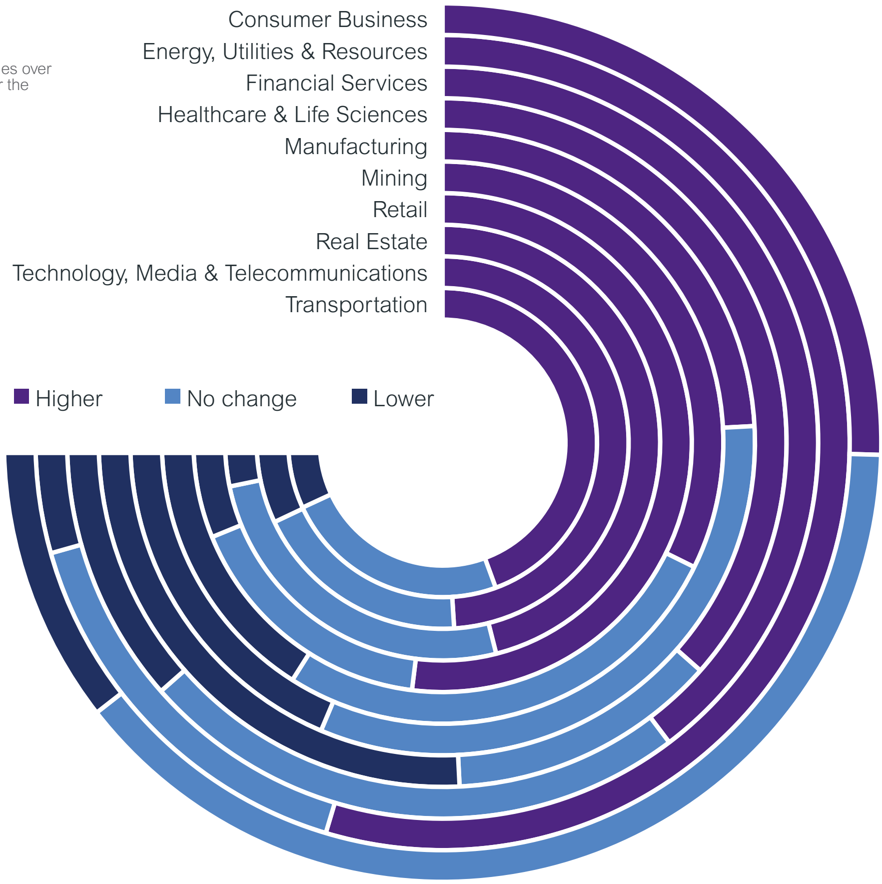
Alison Chivers, Partner – Trowers & Hamlins



Financial Services, Healthcare and Technology sectors lead the way

Deal value expectations by sector

Respondents were asked about their expectations for deal values over the next 18 months (compared with the previous 18 months) for the sectors they are most active in



At a sector level, there have been pandemic winners and losers, with some areas – largely through fortune rather than foresight – predisposed to deal with such an event more easily than others.

The creation of such imbalance has repercussions for dealmaking. In some sectors, organic growth has become trickier and consolidation makes sense, with bigger players picking up their smaller rivals.

Some sectors were well-positioned to respond to the changing demands and needs created by Covid. Healthcare (particularly HealthTech) along with areas such as Logistics saw surges in demand as the pandemic altered the way we lived our daily lives and changed our immediate priorities. In terms of dealmaking, our data shows that Financial Services and Technology, Media and Telecommunications were particularly active sectors for mid-market M&A during the peak of the pandemic, with FS providing 94 target firms during the period studied, followed by TMT providing 109 (made up of 78 software firms and 31 ICT firms).

Unsurprisingly, FS firms played a dominant role on the buy-side, with the vast majority of acquiring firms coming from that sector. Private equity showcased its resilience through the height of the pandemic, with a large number (115) of PE firms involved as acquiring firms in the mid-market between April 2020 and March 2021.

“PE firms have become more malleable, doing majority deals, minority deals and everything in between,” says Malik. “In a market with so much capital, capital has to become more malleable.”

Archer lists Pharmaceuticals, Life Sciences and Healthcare, FS and Technology (including artificial intelligence, cybersecurity and fintech services and solutions) as particularly active sectors. Malik adds Business Services into that mix.

“High amounts of government backing and public sector spending in those sectors help to give a high degree of visibility of earnings going forward,” he says.

Real Estate has also rebounded defiantly, with Industrial and Logistics leading the way while other sub-sectors are reconfiguring and reassessing space. Leisure and Hospitality have suffered the most.

Stuart notes that doing Consumer or Leisure focused deals is harder because of the uncertainty around footfall and the permanency of certain online habits but that he still sees exciting opportunities in those sectors nonetheless.

Elsewhere in Real Estate, Stopforth notes that Construction has remained active, with high demand being maintained, while Alanani points to Industrials and Logistics as sub-sectors of continued importance in the context of global supply chain issues.

In terms of commercial space, Offices remains a tenant's market, which has a knock-on effect for valuations. Downward pressure on rents in the short term may re-correct as optimism returns and even where hybrid working models are being permanently adopted, organisations are likely to have a high percentage of the workforce in for certain parts of the week.

Regardless of sector, robust business plans and strategies for the mitigation of shock events have undoubtedly helped organisations to deal with uncertainty. Such preparations include digital strategy and a roadmap for remote working, alongside client or user feedback mechanisms to ensure any response or change is appropriate and well-received.

Looking ahead, our research highlights continued optimism for dealmaking in the next 18 months, particularly in TMT (picked by 26% of respondents as likely to be the most active sector for transactions), FS (selected as the top sector by 18%) and Healthcare & Life Sciences (ranked first for dealmaking optimism by 15%). Respondents could only select one sector, from a shortlist of 10.

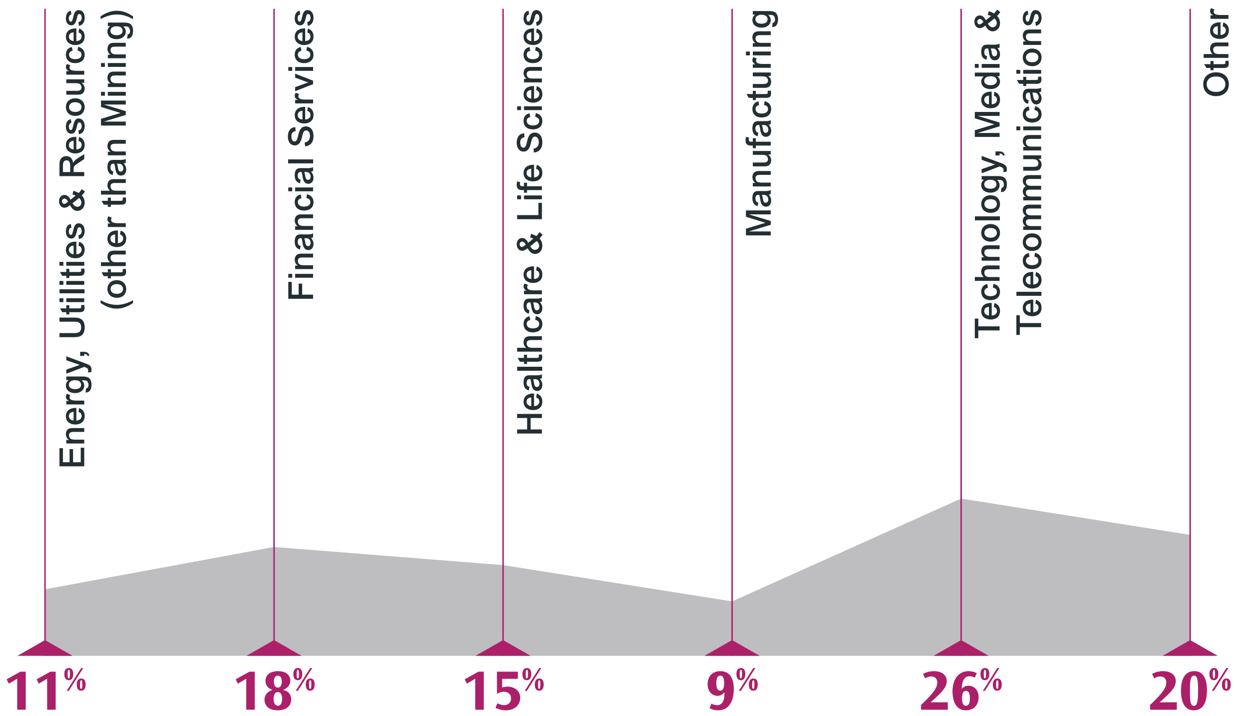
The same sectors lead the way in optimism around deal valuations. For TMT, 63% of respondents envisage deal values to be higher or much higher in the coming 18 months; in Healthcare 57% see valuations rising; and in FS 52% expect deal values to increase.

Across most sectors, there is clear but cautious optimism among the dealmaking community for the future.

"When the pandemic hit, we entered a dark tunnel with no light at the end of it," says Alanani. "We can now see the light, but we don't know if there is another tunnel to enter ahead."

> *"In a market with so much capital, capital has to become more malleable."*
>
> **Usman Malik, Grant Thornton**

Sectors which are considered most likely to be active for dealmaking in the next 18 months



Respondents were asked which sector they think will be the most active for dealmaking in the next 18 months. They could only select one answer. 'Other' consists of Consumer Business, Mining, Real Estate, Retail and Transportation.

“Digitalisation has happened everywhere, but HealthTech in particular is a huge growth area because the way people interact with healthcare services has changed forever. There is a lot of money looking for HealthTech deals, but this is an area to watch because many HealthTech businesses are still early-stage.”

Alison Chivers, Partner – Trowers & Hamlins

“Real Estate is a particularly interesting mixed bag, because different asset classes have been impacted in different ways. Hotels, leisure and hospitality have all taken a hit, whereas other sectors such as logistics and residential build-to-rent are in huge demand. Across the board we are likely to see consolidation in a number of sectors throughout 2022, particularly leisure and retail, taking into account changing patterns in consumer demand.”

Nick Harrisingh, Partner – Trowers & Hamlins

ESG is finding its place within dealmaking

Environmental, social and governance (ESG) considerations have risen up the corporate agenda to become a boardroom staple. This is particularly true for larger organisations, but SMEs are also taking action to cater to ESG risk factors. While the overall direction of travel on ESG is clear, with younger generations ensuring that such issues will only rise in prominence and become even more deeply ingrained in corporate decision-making, its role in dealmaking is less well-established.

Corporates value ESG issues highly, and the investment community is clearly active in developing ESG-friendly products, but many actors in the dealmaking process are still primarily focused on the numbers. The financials of a particular deal must add up, and the ability to provide a value-add before securing return on investment remains critical for private equity funds. Fiduciary duties underpin much of this central focus.

“We consider ESG factors in the round. For any given investment, you weigh risks and opportunities and assess the most important factors,” says Gilbert. “But clearly it’s top of mind. Having an ESG policy is essential now in the market.”

Quite how ESG is monitored will differ from deal-to-deal.

“Generally, the E, S and G have all got to be important, though there will be different weighting in each deal, of course,” says Lewis-Williams. “This forms part of risk assessment.”

While the three-letter moniker may be relatively new, some of the issues now huddled under the ESG banner have always been considered, as Lewis-Williams alludes to. This is particularly the case when it comes to governance issues, some of which – for instance health and safety policies – have long been in place.

“Some ESG factors are a given,” says Stuart. “Private equity has always brought governance into play. The E and the S depend on the business and the impact you can have.”

As a dealmaking priority, however, ESG still has some way to go. It’s on the radar, but it isn’t a dominant factor in assessing a potential target for acquisition, for example.

“The primary goal today is to deploy capital, but you do of course check for ESG-related red flags and this is becoming more prominent, but it still feels like as an industry we have a way to go on this front,” says Knott.

BDO statistics showing that just over half of UK PE firms have made investment strategies more ESG-focussed during 2021 indicate that behaviours have begun to change, though it remains one element of an overall decision-making process, rather than a dominant factor.

“We’re investing in sustainable projects that cost more which we wouldn’t previously have done,” says Stuart. “It’s not leading the way we invest, but it’s part of an overall consideration.”

These attitudes are reflected by half of our respondents (47%) saying that ESG considerations are “to a certain extent” part of their decision-making process. Only 14% answered “very much so”, while 20% say “not very much” and 8% “not at all”.

A combined 61% value ESG factors when making M&A decisions, and this figure should be expected to rise in the coming years, even for smaller organisations. At present, however, ESG is still finding its place in the mix of mid-market dealmaking considerations.

Adding value(s)

Much like formulating a digital strategy for smaller businesses they acquire, executing an ESG strategy is another area where investors can add value. For smaller, owner-managed businesses in particular, sophisticated governance or ESG policies may not exist. This is understandable, and many investors simply won't expect organisations to have such policies in place.

Unless ESG is built into the DNA of a business which exists to serve an environmental purpose, other priorities often take precedence for smaller organisations.

"It's Maslow's hierarchy of needs," says Stopforth. "Owner managed businesses in particular are focused on running their business, keeping their customers, suppliers and employees happy and for many, ESG just isn't a priority."

But part of investors adding value and driving growth is to bring some of that sophistication and those governance skillsets, where they may currently be lacking.

"Most businesses we look at won't have a sophisticated digital strategy and the same applies to ESG. They've thought about it, but won't have acted on it too drastically," says Stuart. "As a small cap investor, those are areas we have a role in. We ensure that when we come to exit, we have the right digital strategy, the right ESG strategy, the right culture and management team to lead the business."

For those assessing ESG risk factors when weighing a transaction, most of their concern is tied to factors that impact future growth potential and the bottom line. Two-thirds of respondents (65%) ranked a target's approach to sustainability as a top three ESG factor when assessing a potential merger or acquisition. Behind sustainability, 40% chose workforce diversity as a top three factor, while 34% listed leadership diversity.

The ESG journey has begun, but clearly has a way to go. The Covid-19 pandemic has had an accelerative effect on behaviour and attitudes, though, as people reassess values and – with their own mortality staring them in the face more pointedly during a global crisis – are prompted to think longer-term about their futures and the future of the planet. Climate change, Covid and stakeholder demands for greater social responsibility are forcing ESG considerations up the agenda in M&A decision-making.

"The pandemic has given people opportunity to step back, evaluate strategies and think about what the future looks like. Naturally, ESG became a very hot topic," says Alanani. "We have looked at potential assets in the past 18 months which we have walked away from for ESG purposes."

In certain sectors, ESG ranks more highly. Those in renewable energy are naturally conscious of environmental impact, but Asensio says other ESG factors are equally important.

"We wouldn't buy an asset that has acted badly with the local community during the development phase," says Asensio. "We map all risks. We look at corporate structures for red flags, which may include activity in tax havens, or background checks on management and leadership figures."

ESG or not ESG?

Even where ESG is further up the agenda, lots of opportunities touted as ESG-centric may not be quite what they appear. Savvy investors will see through those businesses that treat ESG as a box-ticking exercise or otherwise lack genuine commitment.

“You have to be acutely aware of whether it’s genuine or whether greenwashing is at play,” says Lewis-Williams.

With each passing month, regulations and standards around ESG disclosures for businesses and for investors become more deeply rooted, leaving less and less room for greenwashing or poorly constructed policies.

Archer echoes the view that greenwashing is destined to fail, and notes the impact of taking ESG seriously on talent attraction and retention, too, as younger generations enter the dealmaking profession and want to see commitment to change.

Proactivity in making ESG-related changes can pay dividends, but strategies that fail to monitor and measure performance are less likely to succeed. The more data is gathered, the stronger the case for change will be.

“Firms that demonstrate not just a commitment to ESG but data to prove the impact of their approach are now in a better position to attract investment,” says Sarah Ziegler, Private Equity Director at BDO. “An increasing number of studies have shown that ESG or sustainable investing leads to better returns across a range of asset classes, including private equity.”

Whatever an organisation’s stance may be, authenticity of approach is vital.

“When looking at investments, you want them to reflect the values you have as a company,” says Alanani. “Otherwise it can be slightly hypocritical. If you’re deploying your money to work, that money should also empower the values your organisation embodies.”

As ESG continues to find its ultimate place within dealmaking, the trajectory is upwards – and that curve is steep. Alongside Covid ushering in an era of social pressure for organisations to become more conscious of their impact on society and the world, stakeholders are demanding that companies show they are taking action.

“It’s been an awakening for many people,” says Asensio, who adds that this will continue towards the key dates of 2030 and 2050 – the next milestones in combatting climate change through carbon neutral agreements. Asensio adds that huge portfolios will be transacted in the coming years, many of which are being created now. “We will see huge renewables portfolios in a few years” he predicts.

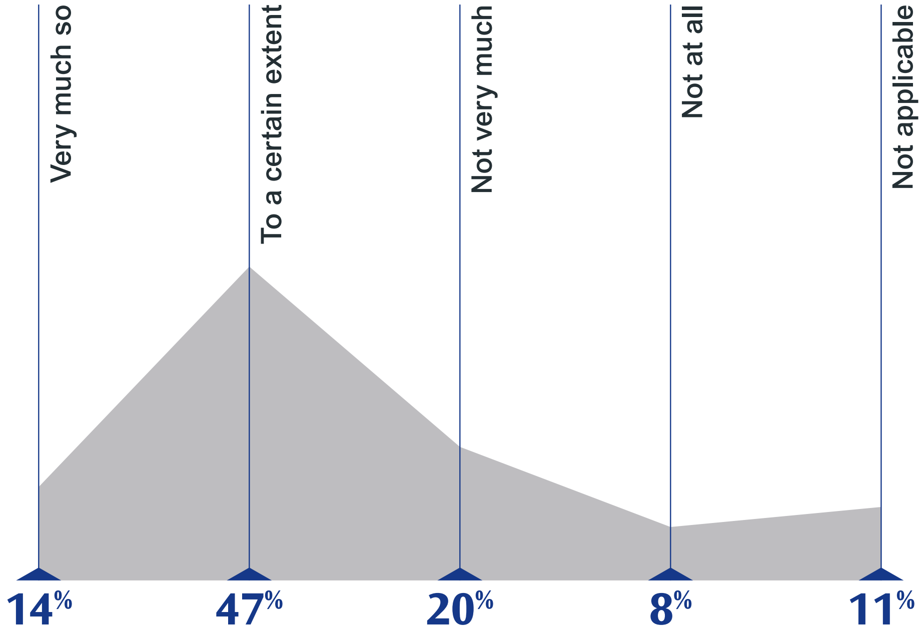
“It’s not leading the way we invest, but it’s part of an overall consideration.”

Forbes Stuart, Ignite Growth

“If you’re deploying your money to work, that money should also empower the values your organisation embodies.”

Khaled Alanani, BLME

The extent to which ESG considerations inform decision-making around a potential acquisition



Respondents were asked to outline the extent to which ESG considerations form part of their decision-making process when looking at a potential acquisition target.

Important ESG factors when assessing a potential company for merger or acquisition

Respondents were asked which ESG factors are the most important to them when assessing a potential target company for merger or acquisition. The results above show the proportion of respondents that identified each factor as a top three consideration

"ESG may mean different things to different stakeholders right now, but the ability to demonstrate your credentials in these areas is quickly moving from being beneficial to being essential. Expectations are shifting and the spotlight looks set only to intensify further. Whether you are a corporate, investor or adviser, those that are ahead of the game in getting their ESG strategy in place will benefit, while those that dither risk losing out on everything from tenders, investment, financing or insurance, right through to talent attraction and retention."

Alison Chivers, Partner – Trowers & Hamlins

2022 Outlook: Optimism and opportunities abound

Our research has shown how initial uncertainty was quickly replaced by proactive decision-making, as corporate growth strategies adapted to the extraordinary market conditions thrust upon businesses. Organisations of all shapes and sizes were temporarily rabbits in the headlights as society and the economy were shaken by unprecedented turmoil. But for the M&A market, this did not last long. Wait-and-see subsided, and aggression and appetite to pursue opportunities drove deal-flow and valuations to new highs.

Deal making looks set to expand, and optimism will further solidify into outright confidence as the UK successfully emerges from the tough winter period, both socially and economically. Momentum around M&A activity is strong, while new and emerging trends such as the rise of special purpose acquisition companies (SPACS), which have proved popular among investors in the US, could further take hold and add to overall activity.

Ongoing disruption to supply chains could see distressed deal-flow rising, while insolvencies will continue in certain sectors, too. Regardless of such projections, a lot of activity is being driven by mid-market private equity, and this is set to continue for at least the next 6-12 months.

Investors with the liquidity to take advantage of opportunities remain a driver of activity and optimism. Our research indicates that dealmakers expect high valuations to continue (and in some cases climb further) across most sectors for the coming year, with fierce competition for quality assets, including interest in the UK from overseas. Financial Services, Healthcare and Technology, Media and Telecommunications in particular are earmarked as areas of high investor interest, and are therefore well-placed to sustain the strong activity levels seen this year.

The role of ESG in decision-making around M&A will also mature over 2022, with the direction of travel well-understood. While current mismatches between rhetoric and action remain, expect to see further movement in the coming months, as new regulations and guidance from various bodies in the UK and Europe continue to be embedded into corporate thinking and strategy.

A target's approach to sustainability came out as the top ESG consideration in this year's research, but risk factors including environmental approach and leadership or workforce diversity might be expected to rise in prominence. Overall, the shift is likely to be in raising ESG considerations from the current position of spotting red flags toward actively seeking green flags. Those that seek to get out in front of these issues will be well-placed to deal with the undoubted development of further regulation in future.

Many corporate digital strategies have been enhanced over the past year through necessity, and technology may also be on the cusp of real disruption to dealmaking mechanics and processes. Alongside communications and project management tools, tech-enabled data analysis during due diligence looks set to be a short-term growth area. Other technologies such as blockchain and smart contracts may lag behind, but should be kept in mind as having the potential to embed themselves into the M&A process in the medium term.

A key period lies ahead. Coronavirus variants have brought continued uncertainty, while a key trading period around the festive break has been hindered for many retail, leisure and hospitality businesses. As the effects of government support schemes being withdrawn take hold, we are likely to see some distressed transactions in certain sectors, with restructuring, insolvency and consolidation activity all predicted to be highly likely.

However, appetite for cross-border investment and growth, coupled with large volumes of uninvested capital, mean that optimism and opportunity remain key watchwords. The momentum generated in mid-market M&A over the past year will take some stopping and, as the UK successfully navigates the winter months to start 2022 strongly, peak deal-flow and valuation levels may yet be still to come.

About Trowers & Hamlins' corporate team

Businesses today face a range of challenges as well as opportunities when looking to grow – our role is to help you navigate complexity, prepare for change and adapt to a shifting political and economic landscape. Our corporate lawyers will help you assess and make decisions on your growth strategies – recognising that this involves balancing risk and legal considerations with your commercial business objectives. Simply put – we're here to help your business operate, grow and succeed.

From acquisition activity, partnering in joint venture arrangements, raising finance in the public or private investment arena or seeking to overlay corporate governance arrangements on your business – our specialists understand what you need.

Whether you are adopting a buy and build approach, engaging in a strategic acquisitions programme, seeking to establish a stronger capital base whether through entering the public market or raising investment by partnering with private equity, we can assist. We know investments and we know acquisitions. From structuring the transaction to undertaking core due diligence, to drafting and negotiating investment agreements, shareholder agreements, sale and purchase agreements, we know how to kick off, execute and deliver transactions. Our experts will advise and guide you throughout the whole transactional lifecycle, and post deal support.

We make it our business to understand how your business operates – knowing what's important, what's current and what's coming next – investing time and commitment into building collaborative partnerships and on-going dialogue with you. Many of our client relationships have lasted years and decades – so businesses benefit from our knowledge of company history, mutual expectations and establishing working relationships.

So whatever stage you are in your growth strategy – you can be sure you are working with a team who understand the transactional lifecycle, what your business needs and how to partner with you to execute your strategy.

In brief

- Passionate about helping businesses operate, grow and succeed
- Dedicated middle-market specialists
- Market expertise combined with sector knowledge
- Dedicated experts with M&A, corporate finance, corporate governance, cross-border investment, fund formation, group re-organisations and restructuring, private equity and joint ventures
- Bridging private and public sector collaboration

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