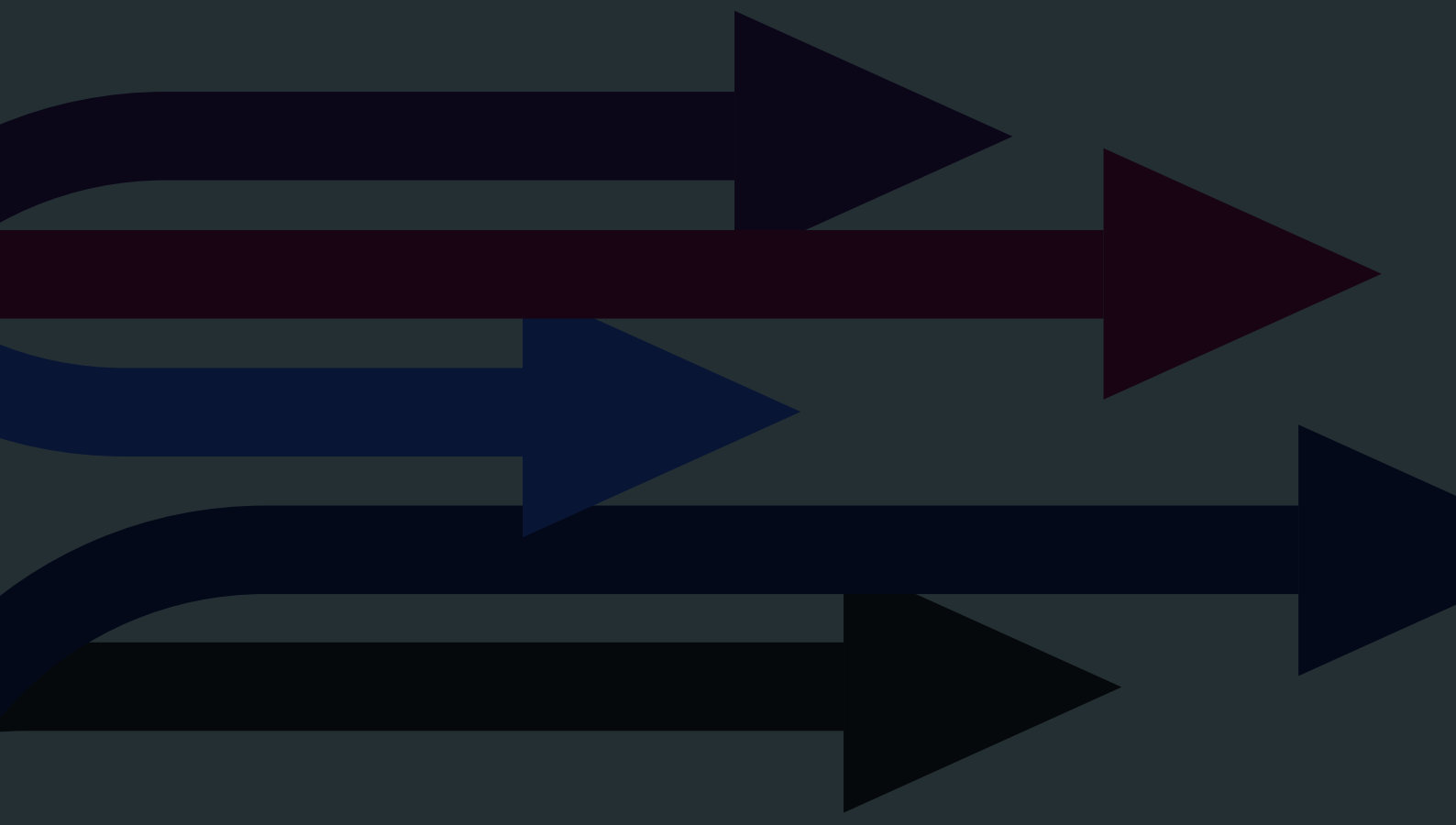


MONITORING MID-MARKET M&A

In the UK – 2022





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Foreword

A year ago, we assessed the mid-market dealmaking landscape and noted that smooth seas do not make skilful sailors. Despite those challenging conditions, opportunities remained. Since then, dealmaking activity has continued apace, with many in the industry reporting that they have been kept busier than ever. While a potential slowdown may materialise thanks to economic uncertainty, there is capital to be spent and any slowdown will likely be short-lived.

The numbers back this up. The last time we produced this research we found that, between Q2 2020 and Q2 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 buoyant since then.

In terms of deal volumes and values, the UK mid-market figures for H2 2021 and H1 2022 again reached historic numbers. It is clear that there is cash to deploy.

Specifically between September 2021 and August 2022, our research shows that 635 mid-market deals were conducted. The appetite to transact remains, but buyers and investors must exercise caution in picking the right opportunities, and sellers must pick the right time to transact while ensuring they present the strongest possible case to potential suitors.

From what our team sees on a daily basis, and from speaking to others in the market, we know that some existing trends remain deeply embedded in the M&A world, but nothing moves slowly in the dealmaking world and there is no shortage of new and emerging themes which must now be considered.

For this instalment of our multi-year research initiative, we unpack those themes old and new. We focus initially on the current dealmaking landscape, taking in data and insights related to transactional best practice (including preparing to transact, finding the right moment to transact, and post-completion priorities), where things go wrong, the importance of appointing good advisers, the place for technology, and the impact of current economic conditions on M&A.



In early 2023, we will release subsequent findings and analysis related specifically to where the dealmaking community stands on environmental, social and governance (ESG) issues, as well as taking a closer look at diversity, equality and inclusion (DEI) in M&A.

For each of these issues, we have spoken with expert voices from the corporate, private equity and advisory worlds to gather a range of views on how these trends are playing out and what the near-term future holds. The insights our sources have shared provide a valuable window into how the M&A mid-market is faring amidst considerable headwinds and, on behalf of the Trowers & Hamlin Corporate team, I would like to formally thank those contributors. To those reading, we hope you find the contents insightful and informative.



Tim Nye

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Our findings at a glance

Mid-market dealmaking activity over FY 2021-22:

Number of deals conducted



635

Number of deals closed



558

(88% of total deals closed)

Median deal size/value



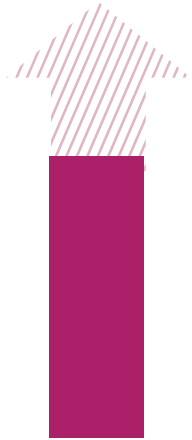
£52 million

Will company and deal values increase?

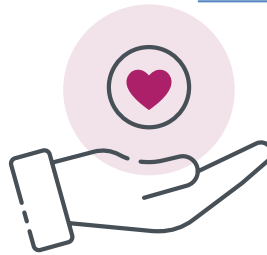
Looking positive

65%

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



What makes a target attractive?

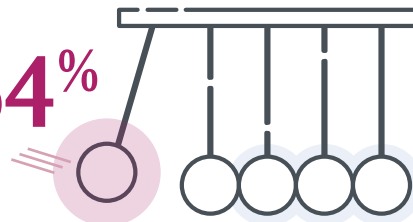


Priority: Financial health

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

Factors impacting dealmaking

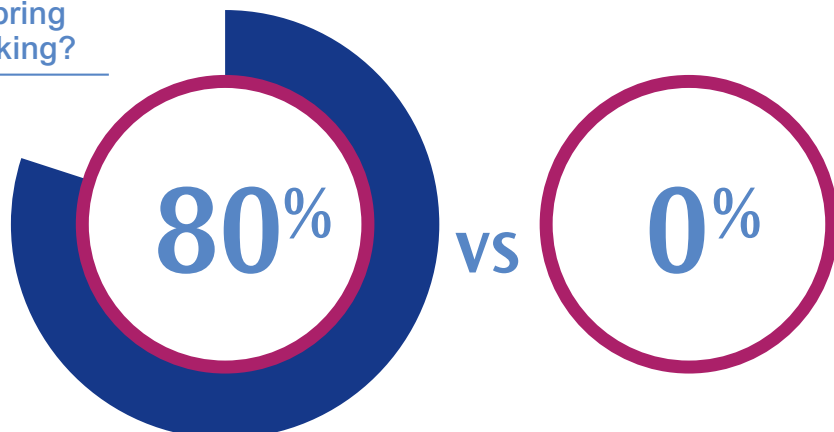
64%



say the current economic environment is 'significantly' impacting dealmaking.

Will the next 18 months bring opportunities for dealmaking?

A significant majority of respondents (80%) see opportunities in key markets for the next 18 months. Nobody sees zero dealmaking opportunities (0%). 15% see limited opportunities. 5% are unsure.



Distressed sales forecast

A significant majority (80%) expect current economic conditions to trigger more distressed sales but there is very little appetite to do "buy as seen" deals.



Specific economic factors

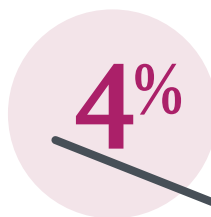
1/3 of respondents point to inflation as the most challenging economic factor currently impacting dealmaking.



Dominant motivating factors

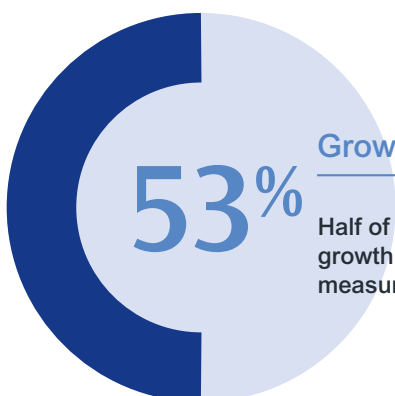
Going for growth

61% of respondents list growth and increasing market share in an existing market as the top motivation for transacting.



Current economic environment

Only 4% believe the current economic environment is having no effect on dealmaking



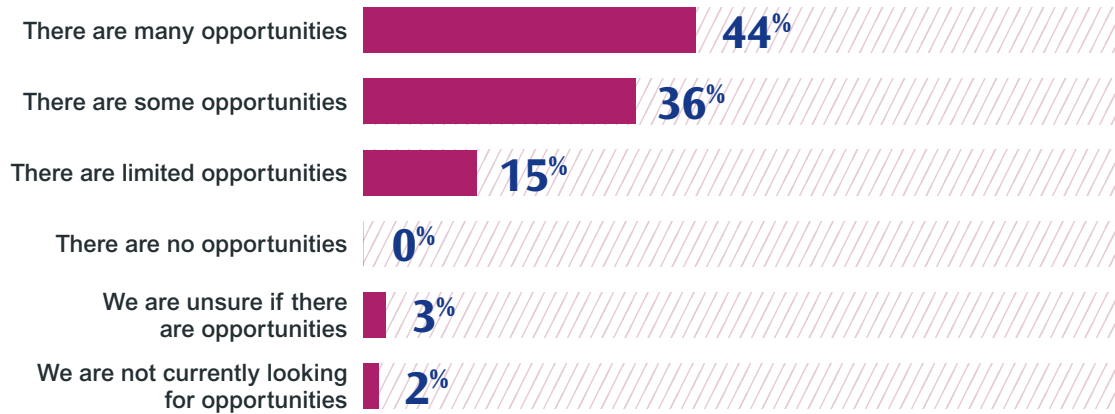
Growing in recession

Half of respondents look to organic growth and expansion via M&A in equal measure during economic downturn.

Trowers transaction trends

The current dealmaking landscape

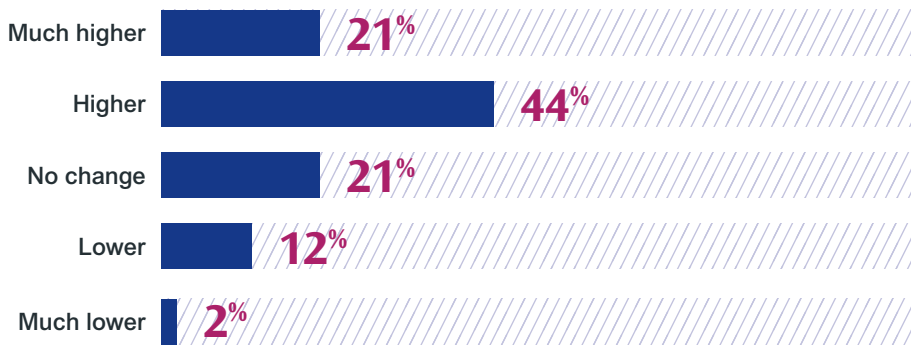
Dealmaking confidence: The M&A outlook for the next 18 months



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

2021 was a dealmaking year to remember, with capital, appetite and opportunity colliding to produce a buoyant seller's market characterised by high multiples and strong support for buyers from lenders. Optimism remains strong, with 80% of respondents to our survey seeing either 'some' (36%) or 'many' (44%) opportunities in their key markets for the next 18 months. Resoundingly, zero respondents (0%) say they see 'no opportunities', while 15% exercise caution in reporting 'limited opportunities'. Against a shift in economic circumstances which we will come on to examine in detail, this paints a remarkably healthy picture for the UK mid-market.

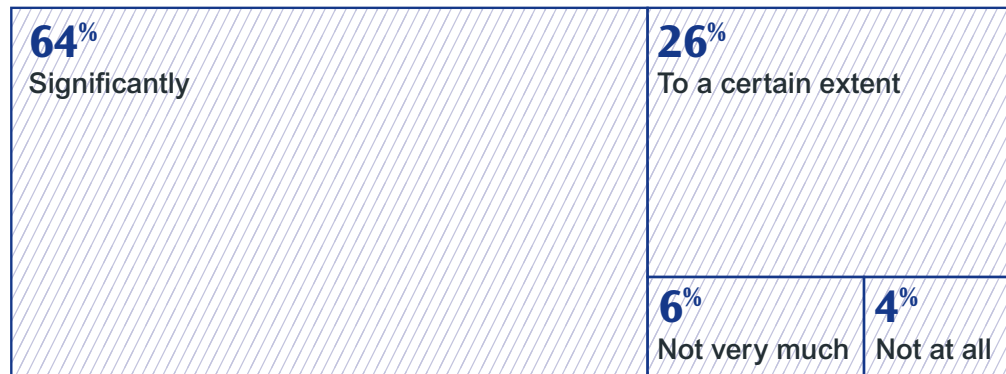
Expectations for company valuations and deal values in the next 18 months



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

Alongside this confidence in the M&A activity outlook, expectations for valuations also remain high. Two-thirds of respondents (65%) report 'higher' (44%) or 'much higher' (21%) expectations for company valuations and deal values in the next 18 months, compared with 14% who expect lower valuations. A sizeable contingent (21%) expect a steady continuation of where we currently stand, with no significant revisions up or down.

Current economic environment impacting dealmaking



Respondents were asked to outline their expectations for current economic environment impacting dealmaking in the next 18 months, compared with the previous 18 months

Sentiment is a powerful phenomenon in the M&A world and in financial markets more broadly. If market actors have faith and optimism, good things typically come to pass. In some cases, however, this may be unsustainable and honest conversations must be had to appreciate true value.

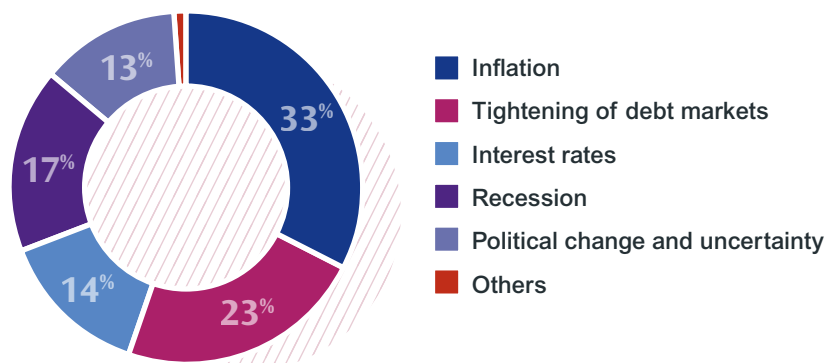
“For bigger companies, valuations are gained typically by looking at a combination of turnover and EBITDA. For smaller companies - SMEs who reinvest capital for growth - different valuation principles must apply. In recent times, early-stage funding rounds have seen some hopeful and inflated valuations, so that when it comes to a ‘final’ transaction the valuation could be seen to be disappointing. Currently we are seeing a revision of these as the economic situation continues to change,” says Joanna Jensen, founder of skincare company Childs Farm. “So when someone talks to you about valuation, you should appreciate that, while it may not be what you expect to hear, it is fair at that time and in that economic environment.”

Optimism, combined with a healthy dose of realism, is typically a good recipe for success. But recipe and reality often diverge. The recent environment has presented issues to contend with, and there is no question that others are still to come.

“The environment for dealmaking has changed a lot in recent years, with unusual conditions caused by a global pandemic, followed by global energy and inflation crises and war in Ukraine,” says Chris Bates, Director at Alantra. “Covid created opportunities and accelerated growth, but equally created some challenges, with investors uncomfortable around the sustainability of performance and therefore valuation.”

Looking ahead, 64% say the current economic environment is ‘significantly’ impacting dealmaking and a similar proportion (63%) point to economic uncertainty as the key factor likely to affect their (or their clients’) ability to pursue transactions in the coming 12 months. Just 4% believe the current economy is having no effect on dealmaking.

Current economic environment impacting dealmaking



Respondents were asked to identify which of the economic factors listed is proving to be the most challenging for dealmaking.

When it comes to specific economic forces, a third of dealmakers (33%) point to inflation as the most challenging economic factor to contend with, with 23% listing 'tightening of debt markets' and roughly equal weight apportioned to recession (17%), interest rates (14%) and political change or uncertainty (13%) – though it should be noted that our research was conducted just before Prime Minister Liz Truss departed office and was replaced by Rishi Sunak in late October.

“Inflation can mask poor performance, so important questions must be asked. What’s the underlying growth rate? Can you explain price variance and volume variance?”

Elliott Mannis, Chairman at London Bridge Capital

“Really, you’re buying or selling a forecast.”

The fact that we are seeing historically high levels of inflation should not be underestimated. Inflation’s impact on the cost base leads to uncertainty even when levels are more ‘normal’, as it can obscure true value and create challenges for growth-focused investors.

“The level of inflation we’ve been hit with is truly extraordinary, there will be an inevitable squeeze on discretionary spend, a change in purchasing patterns and corporates will have to revisit their investment plans,” says Ali Aneizi, Founder at Tamweel Capital.

The result is heightened risk for buyers and investors, who may naturally become more nervous and therefore pause decision-making or continue deal-doing but try to mitigate risk by ensuring it is reflected in transaction terms.

“Uncertainty is a big one,” says Bates. “Things not being good can be better than uncertainty, because you know how to value things. If people don’t know how things will play out, that can paralyse activity.”

Funding difficulties have started to become a factor as a result of continued economic uncertainty, and the situation could worsen further.

“Economic uncertainty breeds caution among the banking and investment community, so it becomes harder to pursue deals if using external funding,” says Andy Richards, M&A Director at Choice Care Group. “However, those that are well-funded or sitting on large cash reserves, have the opportunity to take an aggressive look at acquisition opportunities.”

Debt-funded deals are already beginning to suffer, with debt proving expensive... and growing even more so.

“As ever, certain sectors will be impacted differently and there is still money to be spent, but the writing on the wall is that, for the mid-market, debt as the primary funding choice, right now is all but ruled out for most acquisitions,” says Timothy Buckeridge, Partner at RPL Mergers.

As our research points out, it is the combination of inflation, tightening debt markets and recession which dealmakers must grapple with.

“It really is a mix of those factors,” says Buckeridge.

Tamweel’s Aneizi agrees. “It’s a perfect storm of headwinds all blowing at the same time.”

One upshot is that while onset of recession may cause overall deal volumes to fall, there will be a continued emphasis on quality.

“Some firms are paying a premium for resilience as well as growth. We are only interested in about 7% of deals completed in our market,” says Richard Chapman, Partner at PE investor ECI Partners. “The latest challenges polarize that market further and will increase competition for the already-scarce quality deals.”

Two primary drivers for buyers are quality and value. Economic deterioration will allow quality to shine through the gloom, while also highlighting where there may be value-for-money. A rise in distressed sales is likely, with a significant majority (80%) expecting current conditions to trigger this.

Anne-Laure Meynier, Investment Director at Apposite Capital notes that “some distressed sales will probably come from zombie companies that survived previously through Covid loans”.

In the absence of additional government support, the likelihood of distressed deals is higher, although investors like Ben Long, Partner at Inflexion, say there won't be many “bargain basement deals”. Nonetheless, more and more conversations are taking place with founders and sellers to explore options, much of which is driven by fatigue.

“Some founders are understandably bruised and battered by the mayhem of recent years,” says Aneizi.

“There’s a category of seller that wants to call it a day and cash in their chips. Another category wants to avoid falling victim to it, and are rolling their sleeves up, pursuing expansion and leaning into the backdrop.”

Ali Aneizi, Founder at Tamweel Capital

For those prospective sellers with greater risk appetite, looking to raise capital to fund expansion now could mean they benefit in years to come.

“The calculation they are making is whether accepting the cost of capital today is a price worth paying relative to the growth it’s likely to fuel,” says Aneizi.

More risk-averse sellers will step off deck or ride out the economic storms in whichever way they see fit, depending where in their lifecycle they stand, while buyers with appetite and resources will be looking at the upside of lingering uncertainty. Transaction levels may therefore track steadily, regardless of the current outlook, with some premium valuations for standout opportunities.

“You might argue that mismanagement of the economy has been a stimulant for deal activity,” says Long. “Everyone thinking ‘what next?’ can help deals. Sometimes the spectre of potential rates or tax changes can strike fear into people.”

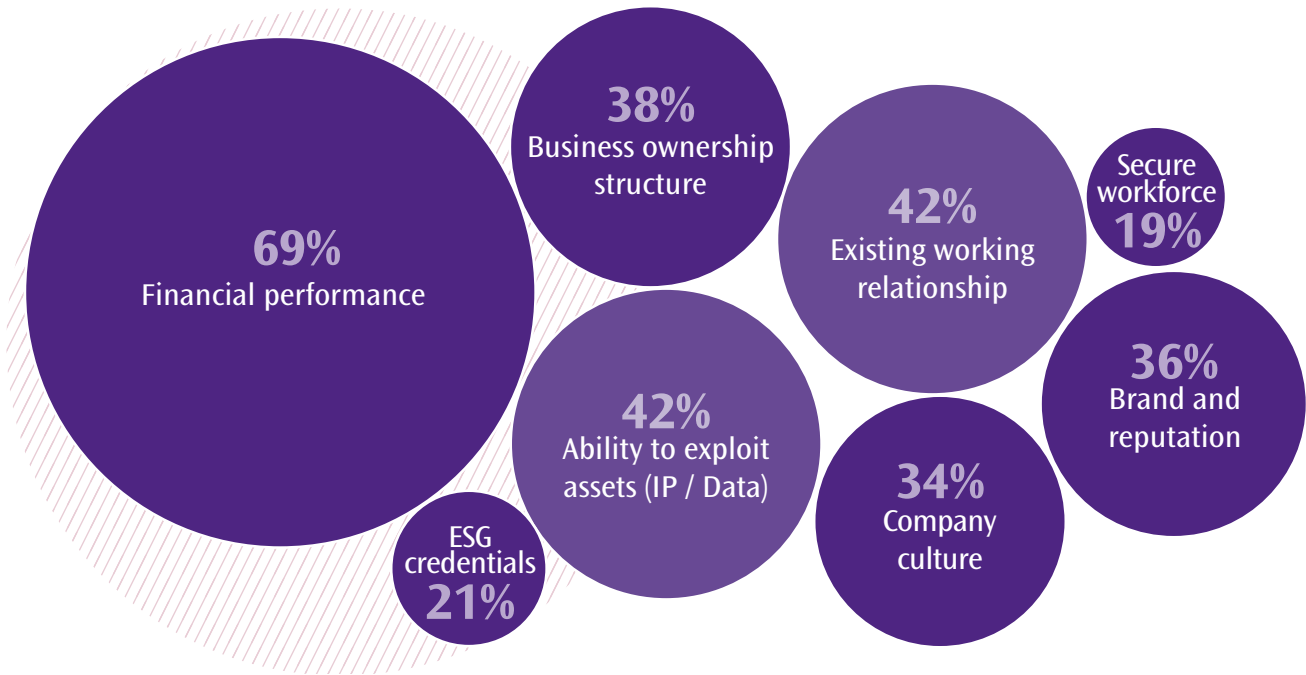
“While onset of recession may cause overall deal volumes to fall, there will be a continued emphasis on quality.”



Adrian Jones – Trowers & Hamlins

Advice for sellers looking to exit

Greatest weight when looking at the attractiveness of a target



Respondents were asked which of the following points do you assign the greatest weight when looking at the attractiveness of a target for M&A?

No two deals are ever the same. An organisation’s conception, journey and growth story represent unique fingerprints – just ask any founder who has poured their heart and soul into pursuing a dream and building a brand from nothing.

Nonetheless, overlaying the inherently nuanced approach to any given deal, certain constants remain. These tenets represent dealmaking ‘best practice’ and we asked our interviewees exactly what, good, should look like.

“Be aware of the work involved. It’s a marathon that ends with a sprint,” summarises entrepreneur Jensen.

This race to the finish line is not easy. The track is littered with hurdles and nobody involved should be under any illusion that the terrain will be smooth.

“You have to realise that selling a business is hard work,” adds Jensen. “You cannot go in thinking ‘this will be easy’ because you are inevitably running the business and the transaction at the same time.”

It may sometimes seem like there is no end in sight, but having a clear goal in mind, coupled with the willingness to be flexible and adapt, will keep you on the right path.

Strategy, organisation and preparation must all go hand-in-hand. Planning ahead means staying on top of things long before a transaction moment ever arrives, to avoid scrambling around during the deal process.

A consistent approach to dotting ‘i’s and crossing ‘t’s must not be underestimated if you wish to inspire confidence in a potential buyer.

“Have your prep and financial due diligence done so no red flags come out of the woodwork,” says Apposite’s Meynier.

What do buyers want to see?

“You want a clear business plan from management, a track record of growth and demonstrable evidence and numbers to back everything up. You are not just selling a business – you are selling the story.”

Even then, a story alone is insufficient. The story must be told in a compelling manner and, crucially, have proof points in the form of data to reinforce any assertions made.

“You want a strong management team that can present the business well to investors,” says Alantra’s Bates. “You also want to see strong data – you can’t scale quickly without good access to data, clear visibility on KPIs, clean and reconcilable financials, so people can easily analyse business performance.”

Aneizi agrees. “Be articulate, succinct and persuasive but also show an evidence-based path to growth. You have to have proof points and tell the story numerically, too.”

“You need internal buy-in on what you’re trying to achieve from an M&A event,” says Richards from Choice Care Group. “We identify what it is we want from an acquisition and set clear goals and objectives. Ultimately, what will get approved at investment committee or board level? There has to be strategic alignment.”

Our sources allude to certain fundamentals which will always apply to acquirer decision-making. Financial performance often tops this list and was by far and away the priority for respondents when asked to identify the primary issue they assign weight to when assessing the attractiveness of a target, with 69% of respondents ranking it as a top three consideration (and 42% ranking it as the number one consideration).

“Whilst financial performance is a key determinant in any deal, the underlying quality of the asset is of fundamental importance,” says Richards.

“Investors are looking for something that is growing quickly, has strong financials, evidenced profitability and a defensible and differentiated proposition so it cannot be easily replicated,” says Bates, a Consumer specialist. “You’re looking for best-in-class with evidence of a USP.”

That USP could be a business’ people or talent, identified by 46% of our respondents as a top three motivating factor for transacting, or intellectual property and proprietary technology (33%) but the ultimate means to an end is growth, with 61% looking primarily for growth in their existing markets.

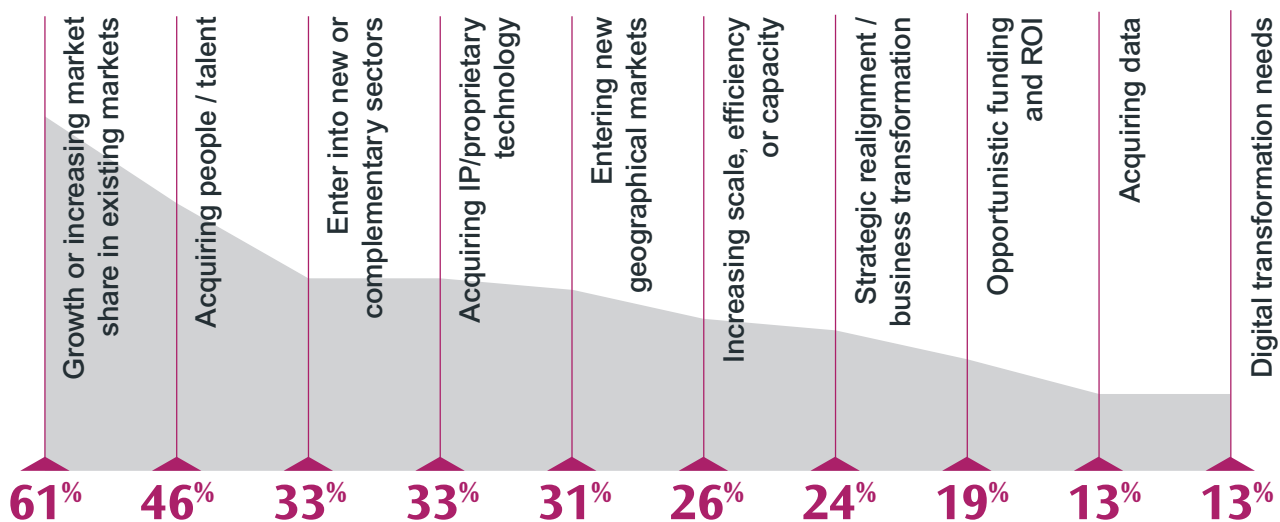
Regardless of how two parties come together, the dealmaking fundamentals of preparation, communication and efficiency should be at the forefront of their minds. A sprinkling of luck never hurts, of course.

“Success comes down to timing, finding a price the seller is happy with, understanding why the buyer is interested, then executing an efficient process, completing with fair terms,” says Buckeridge.

Long summarises things for dealmakers even more succinctly.

“Get your ducks in a row, then execute quickly,” says Long.

Motivating factors for you (or your client)



Respondents were asked what are, or would be, the dominant motivating factors for you (or your client) when considering or entering a transaction?

“Regardless of how two parties come together, the dealmaking fundamentals of preparation, communication and efficiency should be at the forefront of their minds. A sprinkling of luck never hurts, of course.”



Alison Chivers, Partner – Trowers & Hamlins



Why things go wrong

We have heard how preparation, communication, transparency and momentum are vital to getting deals done. As such, it follows that wherever these principles are found to be lacking, the risk of deal failure increases.

Aneizi says deals can fall over for “all sorts of weird and wonderful reasons” including sellers not wanting to let go when the reality of a transaction closing hits, through to things outside of anyone’s control such as the macro-economic backdrop – or even more extreme outside factors.

Sharan Soni, Investment Manager at specialist asset management firm Gresham House says: “In a previous role I was working on a solar farm deal where a major component set on fire while the transaction was occurring, so there’s always the risk of unexpected issues.”

For founders, transacting is a big deal. It represents a huge undertaking, a big milestone event in their life and therefore is very high stakes. Failing to prepare is preparing to fail.

“Sellers need to have answers and data to reinforce their assertions,” says Bates. “Investors can’t get comfortable if sellers are underprepared.”

“You don’t want to get things wrong, the consequences are painful, emotionally and financially. So plan, do your homework, seek advice from professionals but also from other founders, people who have been in the saddle and experienced this journey themselves,” adds Aneizi.

Indeed, listening – and maintaining a realistic sense of what is and isn’t achievable – is a soft skill that is often undervalued. Alongside clear goals, a willingness to be flexible and take advice is key.

“You must listen to your advisors,”

says Jensen. “You see businesses that hold out for an unrealistic number and it never materialises. As a founder, you should have a good grip of reality when it comes to valuations. You can’t cling onto past round valuations or hope value; you have to listen. Deals often fall down where people haven’t listened to their valuation advice.”

This may sound straightforward, but for founders and entrepreneurs, transacting can be an intensely personal affair. Technical preparation and process aside, emotional considerations must therefore be taken into account.

One key to transacting is having a willing seller. For a founder that has created a business from the ground-up, strong emotional attachment can be hard to overcome or lead to a gulf between what a seller thinks an asset is worth versus what the market thinks it is worth.

“Founders never like to let go, sometimes because they have a certain value in mind, but also because they naturally have concerns about delivering their business into good hands. It’s not just transactional,” says Mannis.

Transaction stress not only applies to individuals, it can also disrupt the normal functioning of business.

“Things go wrong where there is a lack of understanding of the stress that an acquisition can place on a business, and the resource needed to make it successful,” says Richards. “You also have to get operational buy-in and involve the wider team. It can be problematic post-acquisition if you don’t. That’s where value destruction – as opposed to value creation – can occur.”

In such a fast-moving environment, pace and momentum are deal-critical all-round. Transacting may take time to get right, but things can unravel much more quickly if forward progress is not maintained.

“You have to work at pace,” says Jensen.

“It’s well known that time kills deals,” adds Buckeridge.

“You need to be moving forward at reasonable pace. You need momentum and you need to manage that momentum, as unrealistic timetables can be just as damaging as a slow-moving buyer or seller.”

Buyers and investors may be involved in multiple processes at any one time and, naturally, will devote most attention to those that are progressing most efficiently.

Another failure stems from a mismatch between expectation and reality, particularly if numbers actualise during the dealmaking process which show projections have been too aspirational.

“You have to go in with eyes wide open and be mindful that everything will be scrutinised,” says Aneizi.

Accurate forecasting can be difficult at the best of times. Where mismatches do occur, for example where there is a disconnect between management’s view on valuation versus what anybody is actually willing to pay, advisers should steady the ship.

“There is an onus on the corporate finance and M&A advisers to manage expectations and align people,” says Buckeridge. “Sometimes market valuation must be explained to sellers who, in turn, rightfully want to see that a process to get the best price is in place.”

As well as leaning on advisory support, data is another invaluable resource.

“It’s vital to think about how you can alleviate any concerns the market might perceive,” says Bates. “Data is key in this. To get investors comfortable, you need a wealth of data at your disposal.”

“Rational decisions, backed up by a requirement or need, make deals work. Clarity is important, and red lines should be established very early on.”

Stevie Ingamells, Associate Director, Sustainable Infrastructure, Gresham House

“In such a fast-moving environment, pace and momentum are deal-critical all-round. Transacting may take time to get right, but things can unravel much more quickly if forward progress is not maintained.”



Nick Harrisingh, Partner – Trowers & Hamlins



Post-completion priorities and measuring success

Assuming all has gone to plan and a healthy mix of chemistry, preparation and determination have enabled a deal to proceed without falling foul of the pitfalls outlined above, a transaction will close. But then what? After what can be an all-consuming affair draws to a close, what should happen next and how should buyers and sellers measure success?

From a seller's perspective, this is of course a much simpler process of reflection, particularly if there is a 'clean break' and terms aren't tied to future growth.

"When a seller's been paid, the buyer can do what they want, but where this is contingent or deferred payment, there's more skin in the game, and there must be protections in place for sellers," says Buckeridge.

An asset may have changed hands, but it must still be maintained and nurtured on its ongoing growth path. For buyers, this is where the real work begins.

"Deal-doing is a means to an end. It is not where value is created. An acquisition is successful if it delivers on growth plans and strategic objectives."

Ali Aneizi, Founder at Tamweel Capital

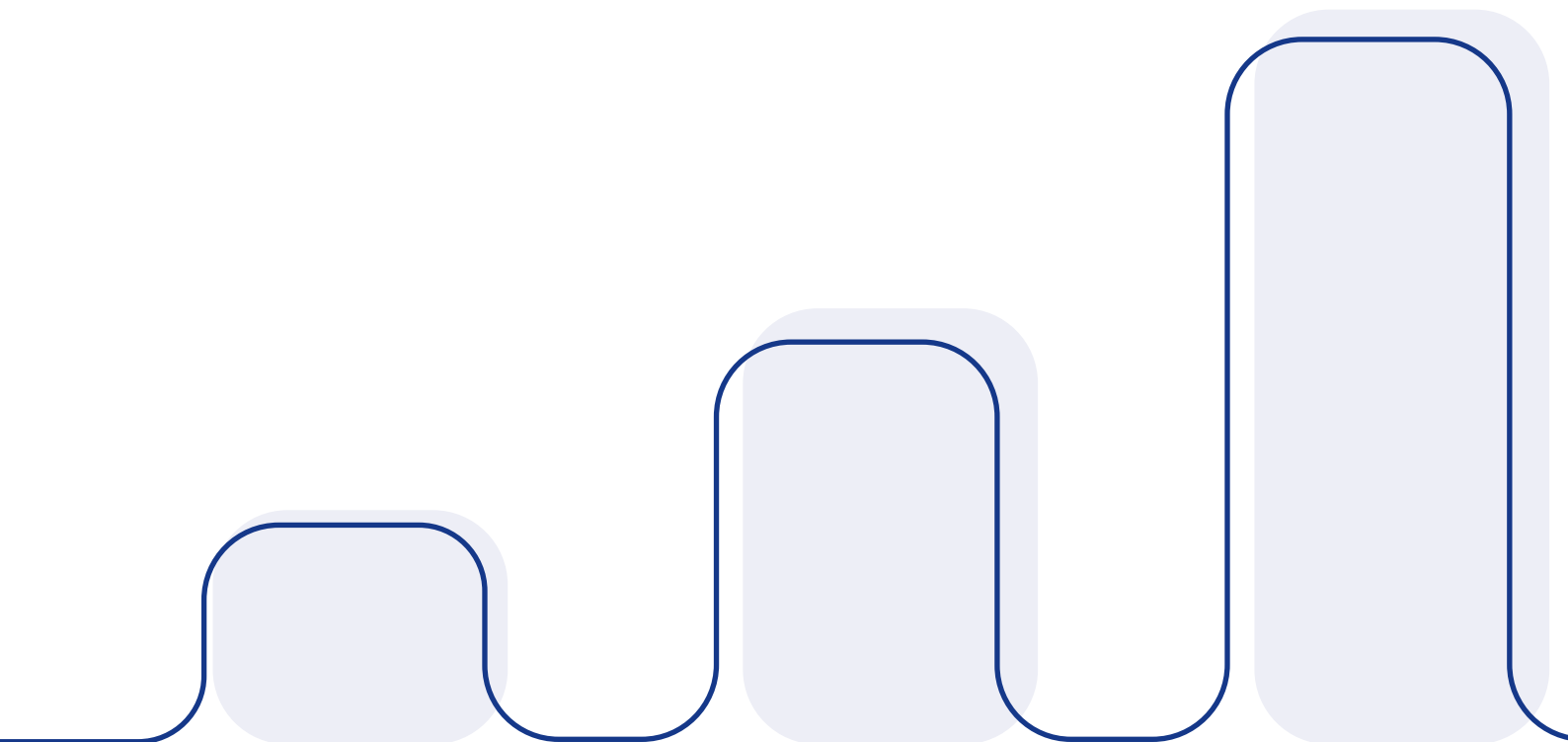
Naturally, price – and perceived value – is one early marker for measuring success, but it is how the buyer handles the asset going forward, to create greater value and therefore return on their investment, which is key.

"Buying at the right price definitely helps to determine a successful deal. The higher you buy, the better you need to perform to make a return," says Meynier.

While copious amounts of resource and energy go into any transactional event, success is really decided by what happens thereafter in terms of integration.

"Successful acquisitions are those that are integrated well. It's about getting married, not about having a wedding."

Mark Neath, Corporate Finance Partner at Old Mill



Depending on business priorities, this could include things like retention of staff and customer base. Merging different people, cultures and customers can be tough. Strategic decisions must be made around which elements of the business stay, and which go. Some of this begins before the deal closes. Enterprise management incentives and share schemes can be set up in advance, for instance.

“Make sure you have very early conversations if you want to retain people post-transaction. Know who your heroes are and look after them,” says entrepreneur Jensen. “And in a sale process it can be a hard transition. But ultimately the decisions now lie with the new owners and this must be respected.”

Other risks come into play with earnouts or deferred consideration, where part of a deal price may be contingent upon business performance. Buyers have to be mindful of where value is being held.

“For entrepreneur-run businesses, the entrepreneur may stay when there is deferred consideration. But

where they leave, this could create a potential crisis moment where the person driving things departs,” says Buckeridge.

Appropriate planning must be put in place to counter the potential loss of that entrepreneurial spirit. As with pre- and mid-transaction best practice, much hinges on being realistic and being prepared.

Getting integration wrong is the quickest way to undo the hard work that went into getting a deal done.

“I’ve definitely seen examples where a good business is being acquired but integration has been ham-fisted and value-erosive. It’s important to have an integration roadmap that ties to the value creation plan and a set of integration principles that will guide the decision-making process through the integration,” says Neil McManus, Partner and Head of Business Services M&A at KPMG.

“Getting integration wrong is the quickest way to undo the hard work that went into getting a deal done .”



Tim Nye, Partner – Trowers & Hamlins

The role of technology

Depending on how it is utilised, technology can be a great facilitator of relationship-building because it allows for instant and continuous communication. This dynamic was thrust upon the world during Covid and remains a core part of business operations.

“Through Covid, we transacted with minimal access to operational sites and management personnel. Three years ago, that would be unthinkable,” says Richards.

Of course, a transaction is a personal and emotional event and some aspects cannot be automated, but even if used minimally, technology can be a time-saver.

“Tools like DocuSign are useful, but people deal with people,” says Long. “They don’t want to agree terms virtually, they make buying and selling decisions based on relationships. Networking and events are still extremely important in our world.”

While the thornier issues often require seeing the whites of each other’s eyes in order to reach true consensus, most agree that technology serves as a useful facilitator of conversation. Hosting meetings online means reduced travel time, and the more mechanical elements of transacting do not really require everybody to be physically present in the same room.

“You can fit a lot more into the working week and things can happen at short notice,” says Aneizi. “I can’t see that reverting. It just works, though there is no substitute for in-person meetings when it’s crunch time.”

“It has worked surprisingly well, but difficult conversations with advisers or stakeholders are still better done face-to-face,” agrees Richards.

Due diligence today is different than it has been, historically. There remains a role for the full-scope commercial due diligence report, particularly in the PE world, but recent years have also seen a shift to greater use of data science as a means of analysing the performance of a business.

“Fundamentally, though, you still need a human to interpret the outputs,” says Bates, who adds that social media scraping and sentiment analysis is another area of assessing performance (and perception, for consumer businesses) that has become more mainstream in the past few years. Buckeridge agrees, adding net promoter scores and tracking of customer survey into the data analytics mix alongside social media-based sentiment review.

Previously, our research noted that when it comes to DealTech, it is a case of evolution not revolution. Trends tend to take hold at the bigger end of the market and trickle down from there.

The same pattern is likely to hold true for artificial intelligence and machine learning. Where successful AI and ML tools are deployed in the large cap space, they will likely filter down over time.

“These are people-led processes but technology can make us more efficient.”

“Complex data analysis techniques help advisers perform a more in-depth, granular analysis to support investment decisions,” says McManus.

Technology can act as an opportunity filter for investors, and greater use of analytics can also surface the right targets more quickly and allow professionals to focus on important human functions like critical and creative thinking, and stakeholder management.



One example of a specific tool is ECI Partners' Amplifind, an AI platform for sourcing and prioritizing leads. Its machine learning models were trained using ECI's Salesforce and it factors in new investment decisions as it goes.

Online platforms showcasing sales mandates are also increasing in popularity as a means of linking together suitable buyers and sellers. The process involves listing a one-pager teaser fact-sheet with key information such as sector(s), location(s) and recent financials, which can then be sent to a buyer pool.

How the role of digital analytics has changed in investment decision-making



Despite advances in some areas like those above, respondents are split over the extent to which technology, data and analytics is truly disrupting dealmaking. A third (30%) report that the role of digital analytics in investment decision-making has increased significantly and is more important than other factors, while a larger proportion of just under half (47%) say it has increased somewhat, but that other factors (such as relationships and sector experience) remain more important in influencing decisions. Around a quarter (23%) see no discernible difference in the role of digital analytics today, compared with previous years.

Ultimately, the magic formula requires a healthy balance of human and technological. This augmented approach will remain vital even as technology increasingly encroaches on all aspects of our lives. As of today, it is fair to say that technology facilitates the interactions required to get a deal done, rather than transforming the process entirely.

"M&A is still a people business, but tech makes things easier," summarises Neath.

"Ultimately, the magic formula requires a healthy balance of human and technological."



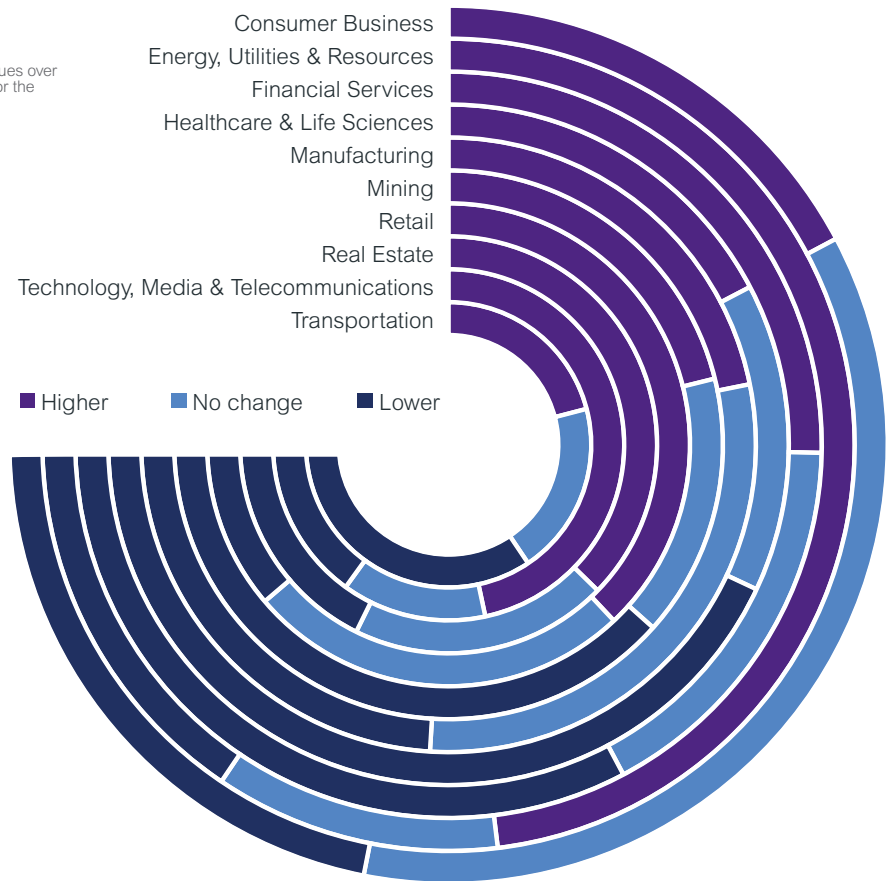
Adrian Jones – Trowers & Hamlins



2023 outlook

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



Tune into the news, or listen to sources dissect the state of the economy, and the 2023 outlook might at first appear bleak. But despite some nervousness around economic uncertainty, the past few years have shown us that deals will still go ahead whenever there is money to invest. That principle is still very relevant, today.

“There is still an inordinate amount of PE capital and a strong desire to deploy it, so I do think that when the volatility witnessed recently abates, we can expect relatively resilient dealflow into 2023,” says McManus.

“In the mid-market we aren’t seeing major corrections in prices and there hasn’t been much of a slowdown, as credit availability has still been good and things are still being brought to market,”

Ben Long, Inflexion’s Healthcare lead

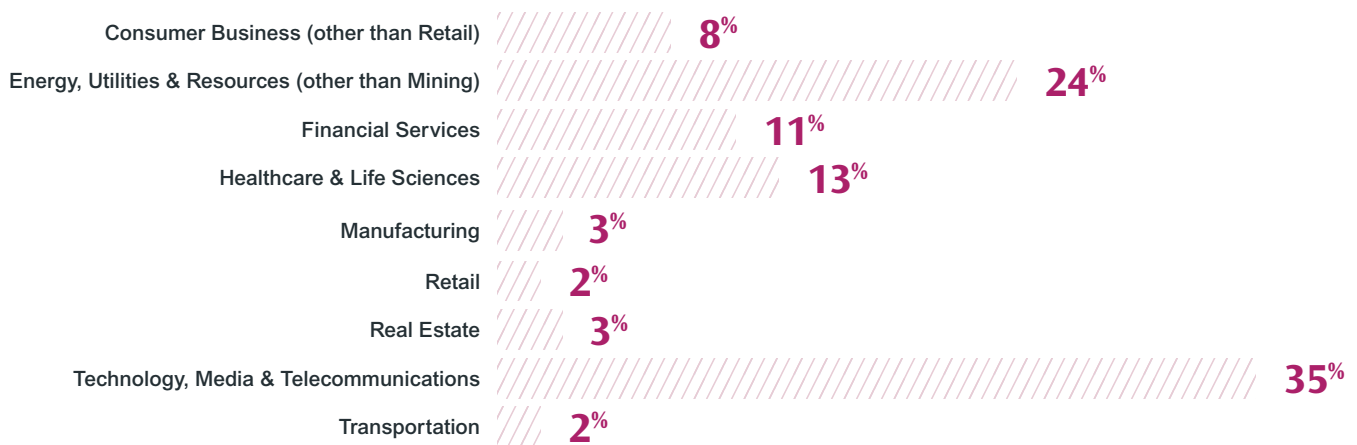
Those sectors such as Consumer or Industrials that are more exposed to commodity cycles – which are obviously hard to predict – may struggle with lingering uncertainty. Energy costs, in particular, will be watched closely in the coming months.

“Power price forecasting will be a factor for sectors heavily reliant on those resources,” says Soni, while colleague Stevie Ingamells, Associate Director specializing in sustainable infrastructure, adds that any business with high energy consumption will potentially face risks if they haven’t hedged out their pricing.

“For our portfolio companies we are very focused on analysing downside scenarios to ensure we are prepared for the current and upcoming months in light of various economic challenges,”

Stevie Ingamells, Associate Director, Gresham House

Which sectors do you think will be the most active for dealmaking



Respondents were asked regardless of the sectors which you or your client operate in, which sectors do you think will be the most active for dealmaking in the next 18 months?

Healthcare is one sector where activity should remain relatively strong despite these headwinds.

“Health and social care is resilient because it has to be provided. It’s not an optional service so activity remains even in a downturn,” says Richards.

This is reinforced by our respondents, with 74% expecting deal values in the Healthcare sector to either stay the same or increase.

Apposite Capital, Healthcare-focused PE investors, share this optimism but Meynier cautions that the economic landscape is still presenting challenges.

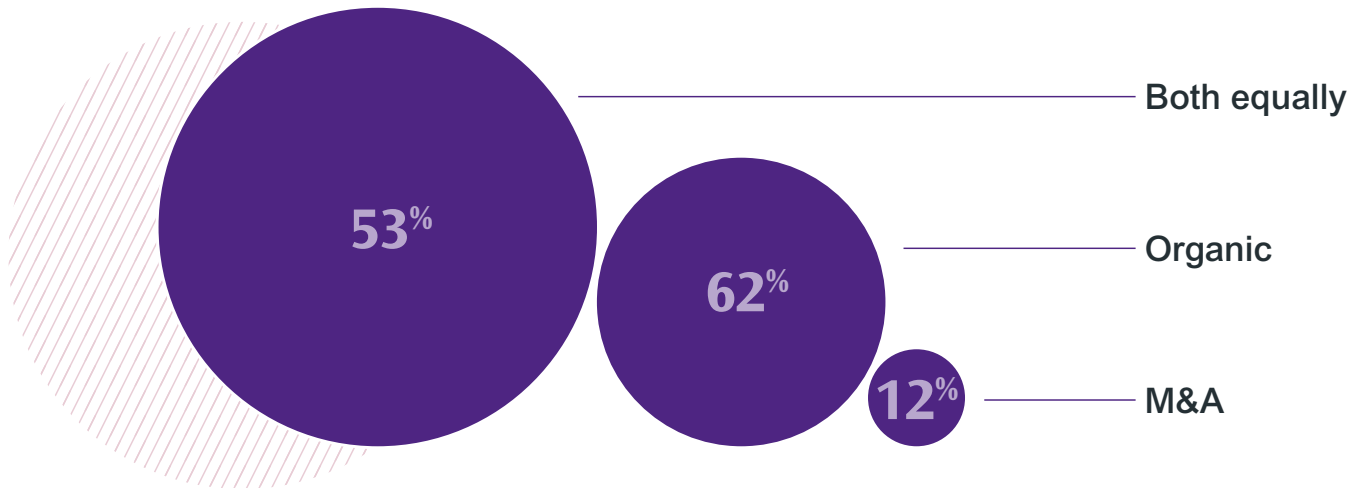
“Healthcare is resilient but not completely immune. We’re still impacted by rising rates even though we don’t put much leverage on deals. With uncertainty, people tend to postpone decisions. Some may sell before things get worse but most tend to wait, especially entrepreneurs who want liquidity. Money is better in the business than in a bank where it erodes due to inflation,” says Meynier.

As we discussed in earlier sections, some businesses will struggle and economic distress will lead to aggregation and consolidation activity.

“There will undoubtedly be some distressed or accelerated M&A in some sectors like the Consumer and Leisure space as the pinch on disposable income leaks into more discretionary markets. But Business Services and TMT should remain resilient and Healthcare fundamentals will remain strong,” says McManus.

Those operating in the Energy, Utilities and Resources (excluding Mining) and Technology, Media & Telecommunications carry the greatest expectations for higher deal values, with 55% expecting higher or much higher deal values in the Energy sector, and 61% expecting higher or much higher deal values across TMT.

Main focus on growth



Respondents were asked in a recession, where is your main focus on growth?

Alongside Healthcare, Transportation and Financial Services were identified as among the most stable, with a majority of respondents expecting either higher valuations or 'no change'.

Respondents paint a similar picture when it comes to the dealmaking outlook for sectors, generally (i.e. identifying the most active sector, regardless of which sector they themselves operate in), with TMT (35%) and Energy (24%) identified as the most likely to be active for dealmaking in the coming 18 months.

Businesses in all sectors are already reviewing plans to recession-proof their growth targets. For more than half of our respondents (53%) it is a combination of organic and M&A growth, in equal measure, which they will seek to pursue during economic downturn.

Again, while there are reasons to be cautious, activity will not grind to a halt.

"Undoubtedly there will be challenges, with fundraising becoming more difficult due to the economy, but it can still be done, it just might take longer than usual," says Ingamells.

The past two years have showcased the strength of the investing and dealmaking communities, with high levels of activity sustained well into 2022. Market conditions have presented challenges throughout, but

only partway through Q4 are we beginning to see a potential slowdown. Recent experience tells us that while uncertainty in the economy may have such an impact, it will not last long and – even if a slowdown does materialize – it will be sector-dependent, with the outlook for Technology and Healthcare, for example, still very bright.

There are plenty of reasons for dealmakers to be positive as we approach 2023. Indeed, optimism around opportunity remains consistent with a year ago. If that optimism translates into similar levels of dealflow activity, we are all set for another busy year. Of course, investors must continue to take a strategic approach to target selection and factor the economic landscape into their planning and due diligence processes, but that is always a core part of good decision-making around M&A, as we have discussed.

The trends identified throughout this report are impacting different players in different ways, but our research highlights the scale of opportunity that lies in store for dealmakers over the coming year. To discuss your situation in more detail and maximise these opportunities, please get in touch with one of our corporate team.

“Those sectors such as Consumer or Industrials that are more exposed to commodity cycles – which are obviously hard to predict – may struggle with lingering uncertainty. Energy costs, in particular, will be watched closely in the coming months .”



Nick Harrisingh, Partner – Trowers & Hamlin

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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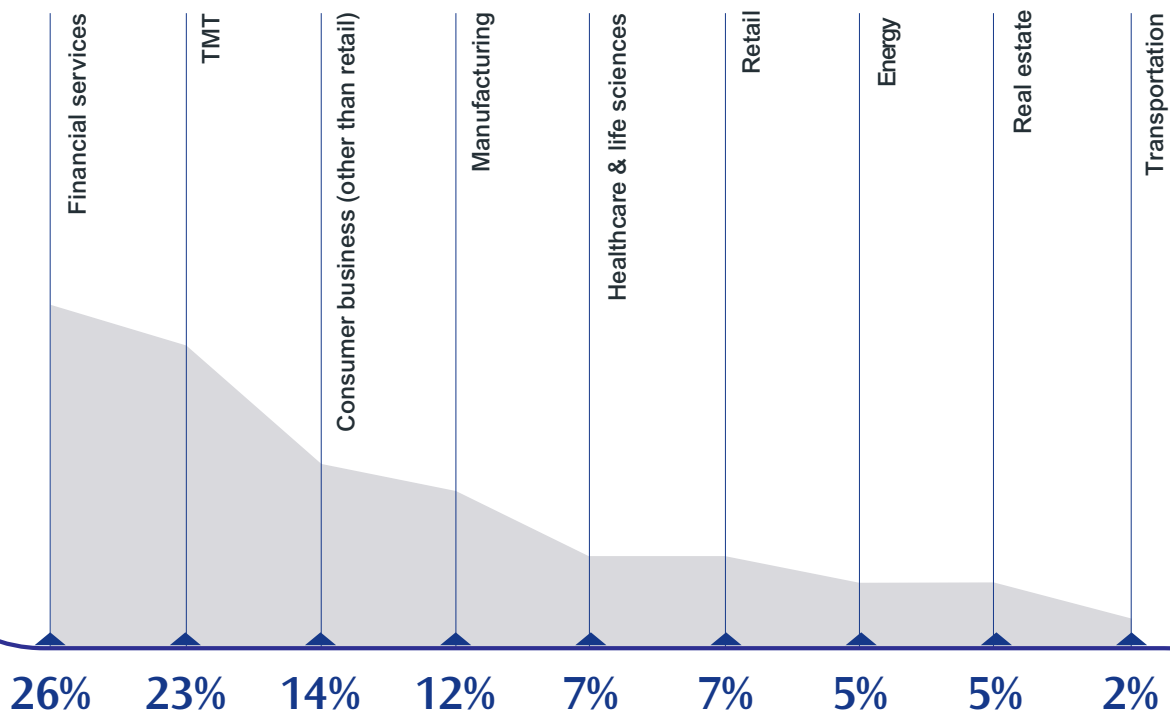
Appendix 1: About our respondents*



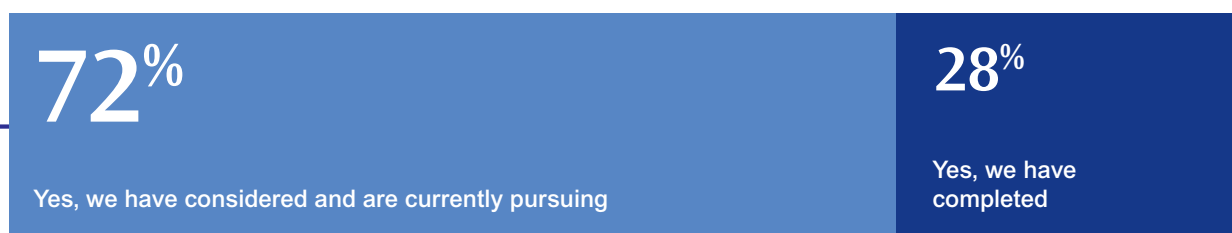
Respondent type



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: CEO, CFO, MD, Director, President, VP, AVP, Partner, Unit Head.

Appendix 2: Methodology – our research

Trowers & Hamblins' 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.

Our M&A benchmarking tool returns to track mid-market dealmaking activity involving a UK company for the period September 2021 to August 2022, 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.

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

These sources represent a range of industries, including Consumer, Financial Services, Healthcare and Life Sciences, Manufacturing, 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.

This is the second instalment of a research set which will be repeated annually to provide 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 mid-market.



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