trowers & hamlins

Monitoring mid-market M&A

In the UK - 2025

Contents

Introduction

Welcome to this latest edition of the Trowers & Hamlins Mid-Market M&A Report, in which we once again analyse the deal activity taking place in the UK and consider the trends that will shape dealmaking in the year ahead.

In this year's report, we find ourselves reflecting on a 12-month period that proved somewhat quieter on the M&A front than we had anticipated. Coming off the boom years of 2020 and 2021, activity levels shifted in the middle of 2022 and, despite predictions to the contrary, we are still yet to see any meaningful bounce back, though last year was notably more stable after a rocky period. Following the Covid recovery, dealmakers have navigated periods of high inflation, rising interest rates and supply chain disruption; in 2024, many of those challenges abated, only to be replaced by a degree of political uncertainty that continued to dampen UK M&A.

Over the following pages, we are pleased to share our insights on how the UK deal markets navigated first the general election, then the change of government and the impact of Labour's first budget for 14 years. Based on our own conversations with clients, and drawing on comprehensive deal data provided by our partners at S&P Capital IQ, we have delved into 2024 transactional activity involving UK private company targets valued between £10 million and £250 million in order to analyse the way the shifting political landscape has hit deals.

What the numbers reveal is a flat year in which both deal volume and value remained largely consistent. In all, there were 180 mid-market deals reported in the UK in 2024, much in line with the total reported for 2023. The total deal value recorded for mid-market transactions in the size bracket on which we are focused dropped a little from £11.4 billion in 2023 to £10.8 billion in 2024, while the average deal size decreased to £30 million.

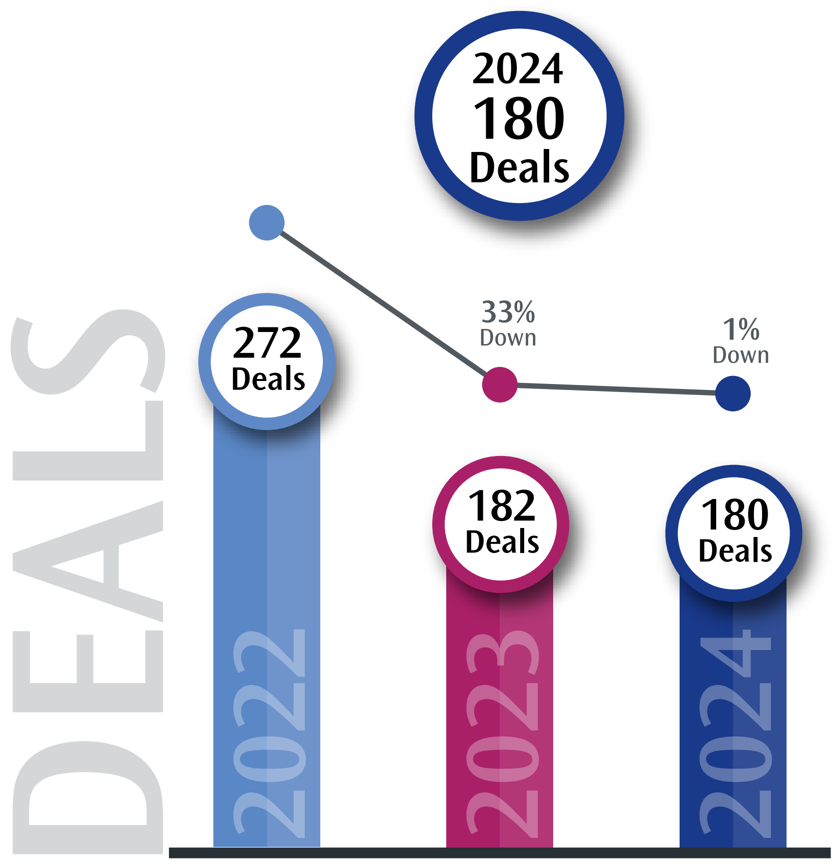
The fact is that 2024 was another year in which dealmakers sat on their hands as sellers waited for valuations to improve and buyers sought more certainty before making investments. But the fundamentals have moved over the past 12 months and we are optimistic that dealmaking will pick up in 2025, given the relative stability of the economic outlook and political situation compared with the two prior years.

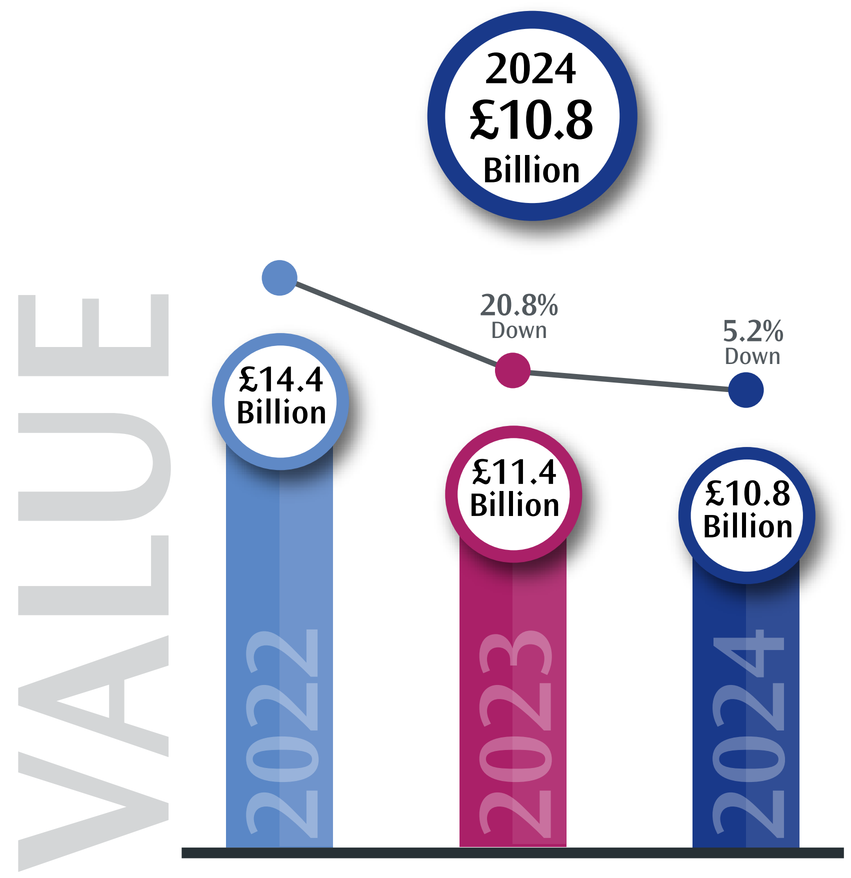
Mid-market businesses continue to navigate challenges but there are signs of private equity firms with deep pockets once again gearing up to do deals, which should fire up activity. Our pipeline suggests a busier year and we expect volumes to gradually improve as the months unfold. We look forward to working with clients to unlock growth, overcome hurdles and capitalise on business potential in the coming months.

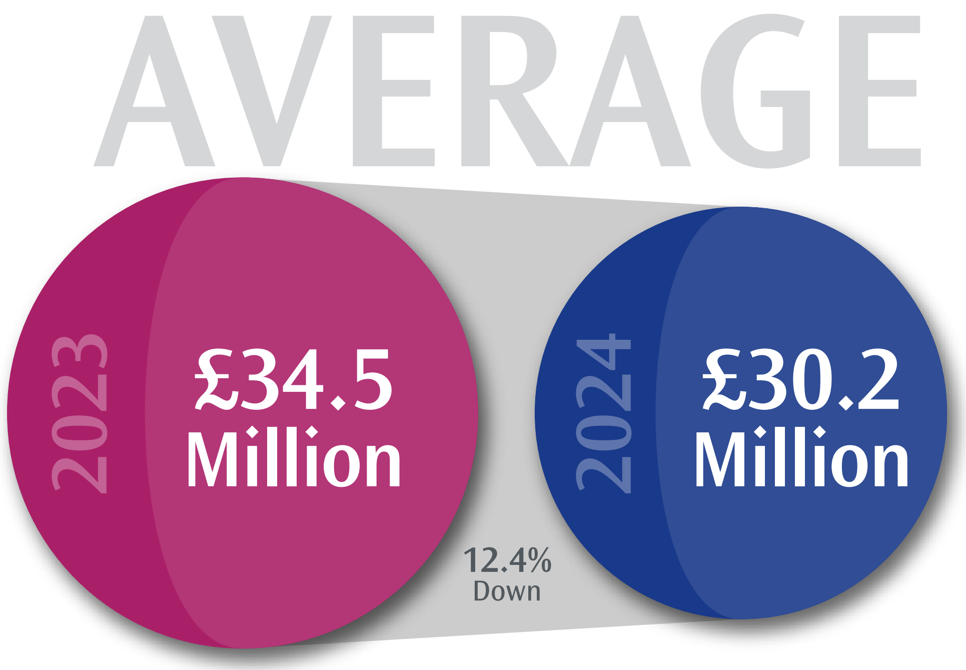
Tim Nye
Partner, Head of Corporate

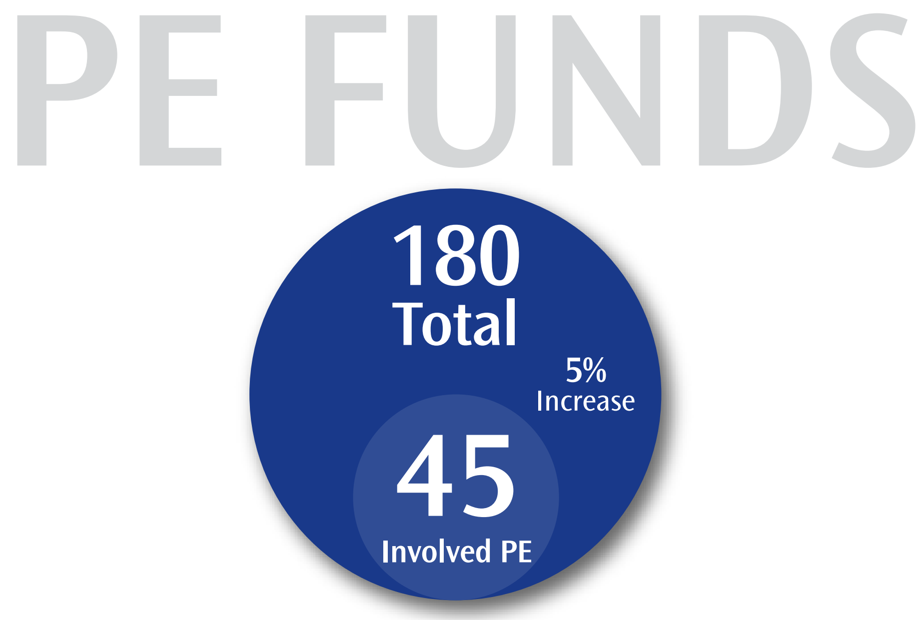
Dealmaking at a glance

In comparison to the previous year, overall recorded deals are only down by 1% but the collective value is down by 5.2%. The average deal for 2024 was £30.2 million, down by 12.4% on the previous year but there was an increase in the amount of deals involving private equity funds.



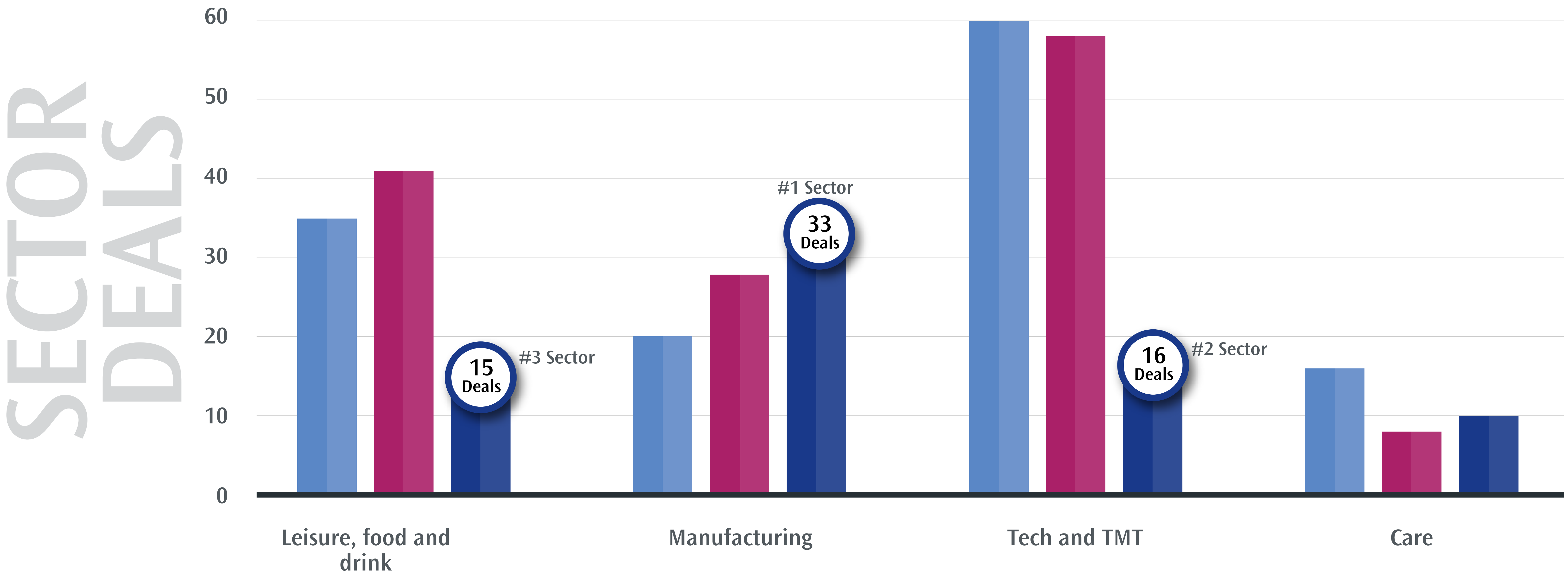






Dealmaking at a glance - Sectors*

Manufacturing and Care are the two Trowers sectors to increase in comparison on the previous year.



*The sector statistics displayed include only M&A deals where the deal value has been reported between £10m - £250m. Consequently, these numbers may fluctuate due to the exclusion of deals with undisclosed values.

Factors driving dealflow

UK mid-market M&A is yet to return to peak activity levels seen back in 2021, with the reset having proved far more prolonged than anticipated when inflation hit post-Covid. Investors are cautious due to several factors, but we hope that government policies and stable economic conditions will ease these concerns in 2025.

Investor optimism stirs

Despite a level of optimism pervading the market at the start of 2024, with fundraising picking up and buyers preparing to transact, the May announcement of a pending general election hit the pause button. Once the election took place in July and with a change in government, business leaders chose to wait and see what the first Labour budget would hold before making significant investment decisions, and as a result much of the year passed in a series of false starts.

As we enter 2025, the Labour leadership is showing the first signs of articulating a clear business strategy, but we nevertheless see preparatory work underway on a growing number of deals as buyers finally see a bit more stability in the outlook. The mismatch between what buyers are prepared to pay and seller expectations around valuations has been a key roadblock for activity in the past year or two, but with more clarity around the political backdrop and the interest rate environment, we now see that gap starting to close. Pressure is also building on both the buy-side and the sell-side, where transactions have been delayed multiple times, so this year looks to be the year in which deals start happening.

Government policy beginning to take shape

While the new Labour administration has not so far fully set out its plans to drive growth, UK businesses can now begin to see the direction of travel for government policy. Government policy will provide some deal drivers: for owner-managed businesses, for example, the announced changes to Business Asset Disposal Relief that will mean sales made on or after 6 April 2025 will be taxed at 14 percent and, from 6 April 2026, at 18 percent, will make a material difference to some sellers and inevitably drive activity in Q1.

On the other hand, the changes announced to employer national insurance rates and thresholds have had a meaningful impact on small and mid-market companies, driving down valuations in most cases. That challenged deal appetite at the end of 2024 but we expect the ramifications of the blow to be digested so that its effects can be understood and factored into deals by the second quarter.

Private equity gears up for deals

Private equity funds remain key players in the mid-market M&A landscape, but have been far less active in the mid-market since rising interest rates began impacting their cost of leverage. Buyout firms have found themselves under pressure on several fronts in the last two years, with fundraising down, institutional investors hungry for returns at a time when exits have been challenging to execute, and new deals harder to finance.

Whilst this slowdown is apparent in the mid-market deal landscape, there was a significant increase in the number of deals that involved private equity funds in 2024 versus 2023, with PE showing up on 514 UK transactions (of all sizes) versus 296 the year before. In 2024, we saw financing become increasingly available to institutional investors with good track records, particularly from a growing roster of private credit funds with whom sponsors typically have longstanding relationships. At the same time, funds were involved in a good number of bolt-on acquisitions as they focused their efforts on value creation within portfolios rather than new platform deals.

Where funds were forced to hold onto assets longer than they might have liked because of the depressed buyer market, there was growing use of GP-led secondary transactions as a means to rollover assets into new funds and return capital to limited partners.

Moving into 2025, many private equity firms are now sitting on large amounts of dry powder, as well as assets in their portfolios that they have been looking to exit for some time. Under pressure from their investors, we expect them to be both more active buyers and sellers in the UK mid-market over the coming 12 months.

Labour markets remain tight

An ongoing challenge for mid-market businesses in the UK centres around the shortage of skilled labour in a number of key sectors and a war for talent that continues to push up salaries. The increase in employer national insurance contributions has exacerbated difficulties for many companies, while the impact of Brexit changes to free movement also continues to play out for some.

The Labour government introduced a package of reforms to employment rights in October 2024 that includes provisions to make parental and paternity leave a right from day one, give employees more rights around flexible working and restrict fire and rehire practices. While these new rules will inevitably impact UK plc, it remains to be seen what other steps the new government might take to address the challenging employment market.

Deal structuring offers way forward

As noted in our report last year, creative deal structuring is an increasingly useful tool to help both buyers and sellers bridge valuation gaps and overcome liquidity challenges in order to deliver on deals.

Earn-outs, other deferred consideration mechanisms and warranty and indemnity insurance have all proved popular ways for buyers to mitigate the risks of overpaying, particularly for growth businesses, in the last two years. Our view is that such tools will remain a feature of mid-market M&A for some time to come as markets work to rebuild confidence and embrace a sustainable rebound.

Outlook for 2025

Businesses can look forward to the year ahead with much more certainty than they faced 12 months ago. Despite several unknowns, we are anticipating a steady recovery as investors build confidence and start to deploy capital as the outlook becomes clearer.

The new government faces calls for it to start delivering on a strategy for growth that will revive the economy. Data from the Office for National Statistics showed the UK economy shrank one percent in both September and October, defying expectations in the summer that it was on the brink of a return to growth.

The good news is that the issue is top now of the agenda, and with planning laws in the spotlight and more policy announcements promised, the outlook is more positive than it has been. With inflation broadly under control and interest rates set to fall, albeit at a slower pace than had been anticipated, we expect M&A volumes to turn a corner in 2025.

Adrian Jones, corporate partner at Trowers & Hamlins, says:

"Our expectation is that, by the end of the first quarter, businesses that have been impacted by the hike in national insurance will have worked things through, any impact on business fundamentals or valuation will have been factored in, and so deals will pick up.

"There is much greater certainty around for investors now and so that hesitancy will be less of an issue moving forward."

With a new government in place, the UK may also prove a more attractive destination for foreign investment, particularly as the impacts of both the Ukraine war and Brexit are increasingly digested. Towers corporate partner Nick Harrisingh says:

"It might well be that we are in a favoured position when it comes to investment into the country from overseas because of ongoing problems elsewhere, most notably in places like France and Germany. We may see investors from the United States viewing the UK as a safe place to put their capital as they start to get clarity from the new government."

Dealflow will likely continue to gather pace among owner-managed businesses, fuelled in the early part of the year by the changes to Business Asset Disposal Relief but then subject to the usual drivers such as succession or a need to take cash out.

"so many businesses that adopted a 'survive until 2025' mantra continue to tread water and those will come to market in the fullness of time."

Private equity firms are ready on the sidelines with assets to sell and capital to deploy. Partner Alison Chivers says:

"There are plenty of deals waiting to happen. There is a realisation among private equity clients that taking things to market in the may not necessarily deliver premium valuations, so they continue to hold onto assets that are ready for sale or move them into continuation vehicles."

She adds: "The last 18 months have been quiet for private equity coming off Covid peaks for deal activity. We do expect to see a pickup because of the pressure these funds are under to deploy capital, and clients that have been busy buying targets in Europe rather than the UK, or doing bolt-ons rather than platform deals, may shift back to doing more UK buyouts by mid-year."

While many of the challenges that have stood in the way of dealmaking in 2024 are not yet solidly in the rearview mirror, and it is too early to determine for sure whether a wave of insolvencies has been avoided, all indications are that transactions teams will be more active.

Paul Ellaby, corporate partner, concludes:

"We did not expect 2024 to be as quiet as it proved to be, as both buyers and sellers opted to stand back and wait for a clearer picture on the state of the UK economy.

"The uptick in transactions that was widely predicted to arrive in the first half of last year is now long overdue. Buyers in 2025 will proceed carefully, taking a risk-averse approach to structuring and spending time on thorough due diligence, but it is likely that more deals will make it over the finish line."

Cautious optimism is the abiding mood going into the new year. We look forward to supporting our clients as businesses continue to navigate bumpy roads ahead.

Contributors

Tim Nye
Head of Corporate
tnye@trowers.com
+44 (0)20 7423 8061

Paul Ellaby
Partner
pellaby@trowers.com
+44 (0)161 838 2050

Nick Harrisingh
Partner
nharrisingh@trowers.com
+44 (0)20 7423 8517

Alison Chivers
Partner
achivers@trowers.com
+44 (0)20 7423 8597

Stuart Mathews
Partner
smathews@trowers.com
+44 (0)1392 612529

Adrian Jones
Partner
ajones@trowers.com
+44 (0)20 7423 8158

Methodology

Our analysis of M&A trends in the UK mid-market is founded on data from reputable sources in the industry. The values and volumes cited in this publication are based on completed transactions with a reported deal value between £10 million to £250 million and where the target is a UK entity. Our detailed sector analysis includes completed deals which we believe to be in the mid-market where the deal value was not disclosed. The data was provided by S&P Capital IQ and supplemented with our independent research and analysis.

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