UK Private Equity

M&A Outlook

2024

Deutsche Numis

Private equity continues to actively screen UK opportunities

During October 2024, Deutsche Numis polled 200 senior UK-based private equity professionals for unique insights into market sentiment.

2024 has seen an increase in M&A activity driven by an improvement in the economic and financing environments. Corporates have more confidence in standalone performance to look at inorganic opportunities, whilst private equity continues to take advantage of attractive valuations to deploy significant dry powder.

The average transaction size in public markets is significantly higher than in 2023, at £1.0bn year-to-date[1], whilst the run-rate volume of public-to-private (P2P) transactions has returned to its 2021 level.

[1]Source: M&A Insight as at 31 October 2024.
Note: Mean implied equity value from firm offers for a UK listed target in 2024 (2023: £334m).

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UK remains a highly attractive geography for private equity

Our research has revealed that private equity professionals continue to view the UK as a highly attractive investment destination.

81%

of respondents view the UK as 'more attractive' or 'significantly more attractive' compared to other geographies.

50%

believe that regulatory dynamics are an attraction of investing in publicly listed UK assets, which Deutsche Numis views as reflecting private equity's increasing familiarity and comfort with the Takeover Code regime.

Re-balance of private vs. public focus, and a willingness to look further afield

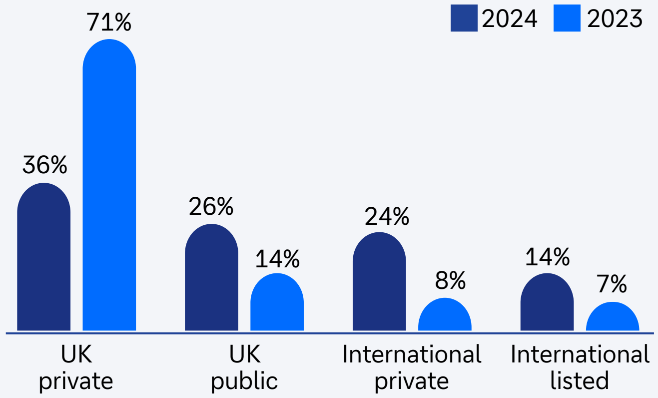
Sponsors have highlighted a significantly increased interest in UK public assets, with 26% of respondents viewing the asset class as the main pipeline focus (2023: 14%). This is supported by more experience amongst private equity professionals in executing P2P transactions – 65% of respondents have successfully undertaken a P2P in 2024 (2023: 51%).

Heightened focus on UK PLCs is also possibly driven by a continued, and growing, perception that institutional owners of UK-listed companies are receptive to take-privates, owing to persistent equity outflows and a very small number of unsuccessful P2P shareholder votes. However, Deutsche Numis, as a leading financial adviser and corporate broker in UK public M&A[2], maintains a constant dialogue with institutional owners across various transactions, which has suggested that some shareholders are less willing to support P2Ps than sponsors may expect.

The pivot in pipeline focus towards public markets is supported by sponsors' views that private assets are relatively more overvalued than public assets: 61% consider private assets as 'over-valued' or 'significantly over-valued', compared to 61% that view public assets as 'fair-' or 'under-valued'.

Private equity has also become increasingly geographically diversified in its dealmaking aspirations. 38% of respondents cited international targets as their main focus (2023: 15%), albeit UK assets remain sponsors' greatest focus.

Where is the main focus of your pipeline currently?



[2]Source: Bloomberg, M&A Insight as at 31 October 2024. Note: Includes financial advisers receiving credit on a deal involving an LSE listed target with an equity value greater than £200m. Excludes possible offers (i.e. R2.4) as financial advisers may be undisclosed.

Competition for assets remains elevated, with sponsors expecting to be increasingly active in 2025

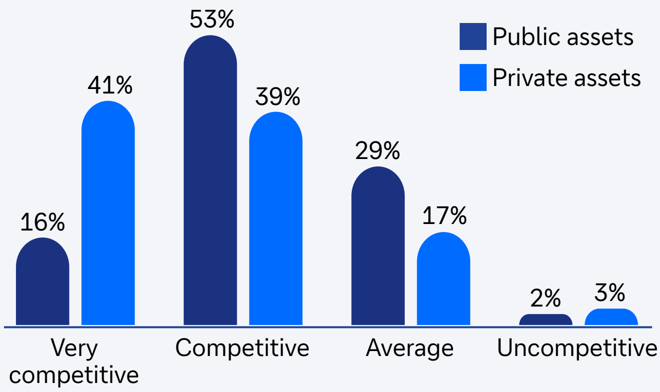
For the second time in a row, last year's prediction that competition for UK assets would increase has proven correct, with 80% and 69% of respondents currently viewing private and public assets as 'competitive' or 'very competitive', respectively. Sponsors are clearly eager to get on the front foot in 2025, with 84% expecting to execute a high single digit or more number of acquisitions. With respect to portfolio companies, transactions are tipped to be oriented towards 'transformational' (20%) and 'sizeable bolt-ons' (49%) after a period of primarily 'housekeeping' bolt-on transactions. Respondents have also identified 'sourcing of attractive assets' as the second largest constraint to deploying capital, increasing the likelihood of competitive tension.

Whilst competition clearly remains raised, our survey shows there has been a reduction in private asset sales perceived to be 'very competitive' (41% of transactions versus 54% in 2023). This possibly reflects narrower participation in private auctions as investment committees are more disciplined around resource and capital allocation. Deutsche Numis is seeing more extensive pre-marketing with sellers aiming to engage with a smaller number of high conviction bidders to underpin processes.

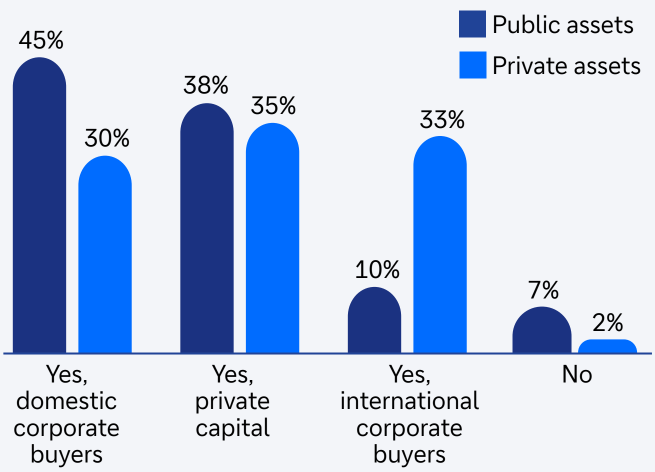
Domestic corporates are expected to continue to be the key source of competition for public assets, representing a growing confidence in the stabilising operating environment and the ability to use mixed cash and share or all-share considerations as funding, amid a challenging financing environment. Bidding activity from international corporates in private markets is also expected to intensify year-on-year, with 33% of respondents anticipating an increase in competition (2023: 18%), having accounted for approximately one-third of transactions in 2024 to date.[3]

[3]Source: Mergermarket as at 31 October 2024. Note: By deal volume.

How are you seeing competition for assets currently?



Do you expect to see competition in bidding for assets to increase in the next 12 months and, if so, from where?



Oliver Ives, Co-Head of UK M&A at Deutsche Numis commented:

We are seeing increased ambition from private equity going into 2025, with the majority expecting to execute on at least 5-10 deals next year. This is reinforced with respect to existing portfolio companies, where sponsors anticipate engaging in larger transactions after a period of primarily 'housekeeping' bolt-on deals.

Financing headwinds remain but show signs of abating

What do you believe will be the key challenges to asset disposals in the next 12 months?

2024	2023
1. Debt financing environment	1. Debt financing environment
2. Regulatory change	2. Political environment
3. Political environment	3. Economic outlook
4. Economic outlook	4. Valuation gap

Regulatory change ranked 5th in 2023; Valuation gap ranked 5th in 2024

While the proportion of respondents with concerns over debt financing has fallen materially from 2023 by 14 percentage points to 69%, it is still considered to be the key challenge to executing transactions. The subdued sentiment around transaction financing was shown by sponsors' views of the current debt markets environment for UK assets:

66% (2023: 73%)

consider the UK debt market as 'challenging' or 'significantly challenging'.

Whilst debt markets are seen to be open to support M&A, in some instances cost is incompatible with sponsors' hurdle rates; 41% of respondents cited the maintenance of interest cover in the face of higher rates as the limiting factor on debt availability (2023: 48%).

Our survey also highlighted a perceived deterioration in 'management's attitude towards debt', with 27% of respondents viewing this as the principal limiting factor on debt availability (2023: 18%).

Looking ahead, our respondents are optimistic that markets will moderate over the next 12 months:

84% (2023: 77%)

believe that current financing markets will improve over the next twelve months.

Akin to 2023, concerns over challenging debt financing markets have been exacerbated by the prevailing political environment as fears over the US election and Reeves' October budget in the UK were weighing on sponsors' sentiments.

The economic outlook and regulatory change were also flagged as key headwinds to executing deals by respondents, the latter possibly reflecting sponsors' perceptions of an interventionist Competition and Markets Authority.

Stuart Ord, Co-Head of UK M&A at Deutsche Numis commented:

In the post Brexit period, sponsors have rebuilt experience in UK public markets deals, which, combined with perceptions of both lower valuations and incentivised sellers, is driving interest in take-privates.

Sponsors' 'trapped capital' would be alleviated by a return of private auctions or strengthening IPO activity

Having ranked as the least preferred exit option in 2023, private auctions have emerged as sponsors' top preference in the current environment, reclaiming the position they held in 2022. This likely evidences improving financing markets, the potentially reduced expectations around viability of continuation funds and limited IPO exits during 2024. Dual tracks held the second position as a prioritised exit route given the flexibility they provide to the sale process.

Despite the slow year for IPOs in 2024, sponsors have demonstrated renewed optimism for a near-term rebound in IPO activity, with a significant improvement in sentiment compared to this time last year. Supporting this narrative, Deutsche Numis acted as sole global coordinator and bookrunner on the listing of Applied Nutrition in October 2024, the second largest UK IPO in 2024 so far, serving as an important bellwether for the market.

62% (2023: 16%)

of respondents expect IPO activity to return within a year.

Alec Pratt, Co-Head of EMEA Financial Sponsor M&A, commented:

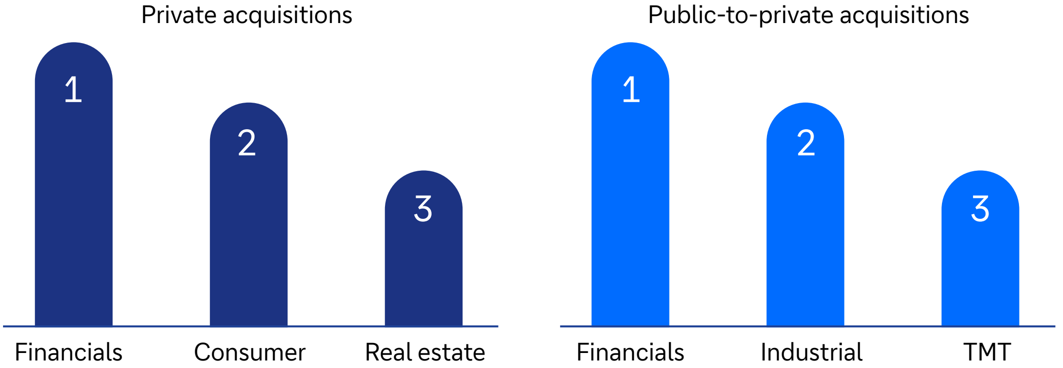
Demonstrating exits in cash is critical to private equity raising new funds. A tougher exit market in recent years has slowed returns to investors, which is increasing pressure on many sponsors to pursue exits. This could be a catalyst to a rebound in auction processes in 2025, and for sponsors to focus exits on what is most easily sold. This may create a bias towards higher quality and less cyclical assets in the exit pipeline next year.

How do you rank your preference for exiting assets in the current environment?

2024	2023
1. Private auction	1. Continuation funds
2. Dual track	2. Dual track
3. Continuation funds	3. IPO
4. IPO	4. Private auction

Once again, financials tipped to be the most active sector

Which sectors do you view as the most active/ competitive at present?



Last year's survey prediction that financials would be one of, or the most, active sectors in private markets has proven correct, accounting for c.19% of total transaction value year-to-date.[4] Respondents expect this trend to continue into 2025, with financials ranked as the most active sector for private deals at present, followed by consumer.

This year, respondents ranked real estate assets as the third most active and competitive sector for private M&A, reflecting a continued opportunity to acquire portfolios at an attractive discount to net asset values.

Likewise, financials assets have been tipped as the most active sector in public markets. This is likely a product of attractive valuations and an ongoing consolidation trend in asset and wealth management. Notable transactions include the ongoing take-private of Hargreaves Lansdown by a CVC-led consortium, Pollen Street Capital's acquisition of Mattioli Woods and Nationwide's takeover of Virgin Money.

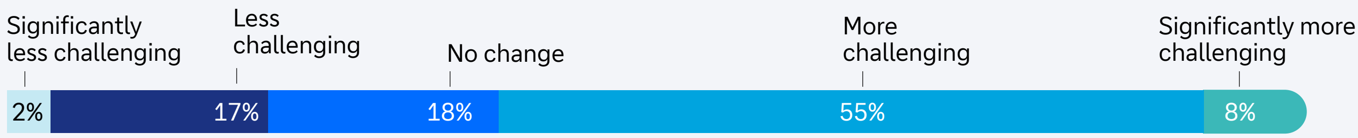
The trend of TMT-related take-privates since the 2022 'tech correction' continued in 2024. Recent transactions include EQT's take-private of Keywords Studios, Informa's acquisition of Ascential and Thoma Bravo's takeover of Darktrace.

Fundraising environment remains challenging

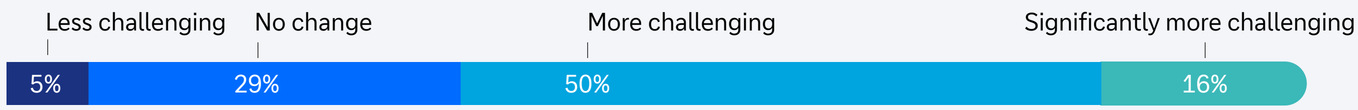
Private equity's prediction in 2023 that the fundraising environment would not improve during 2024 has proven correct. 2024 run-rate figures indicate that the volume of successfully raised funds across Europe decreased by c.19%, albeit total capital raised was broadly flat year-on-year.[5]

While 63% of respondents believe that the fundraising environment will be 'more challenging' or 'significantly more challenging' next year, this reflects an improvement in sentiment compared to last year when the equivalent proportion of respondents was 83%. Moreover, sponsors have a significant amount of 'dry powder' to deploy and are actively screening for opportunities across all asset classes in the UK.

How do you view the outlook for fund-raising over the next 12 months?



How do you view the current fund-raising environment compared to the last 12 months?



[4] Source: Mergermarket as at 31 October 2024; [5] Source: Preqin as at 31 October 2024.

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