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Welcome to this monthly series for business owners, where I aim to demystify the corporate market and highlight trends in a non-technical manner.

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Is the M&A market about to turn?

Private Equity (PE) has been notable by its absence in 2023, and the resulting M&A market was more challenging, with less pressure on buyers to close deals. Given many PE deals are supported by debt, the high cost of borrowing combined with a series of global disruptions have limited appetite.

While we are not out of the woods yet, the picture is beginning to change. Certain sectors which have been quiet, such as travel, are now returning to a more normal pattern. Capital markets are becoming more active after a quiet couple of years, led in part by investors factoring in interest rate drops in 2024, plus increasing demand for natural resources and minerals. Whilst global events continue to have the potential to disrupt trade, the immediate impact of war and lockdown have been (largely) adjusted for.

PE are targeting high net worth investors looking for more exciting returns; this produces pressure to invest into growing businesses. PE need to “turn” their investments every three to five years, to generate required returns to investors. Many of those sales have been delayed over recent years, given the slower M&A market, but will need to happen soon. Sales will often be to other PE houses (secondary/tertiary deals) but they can also lead to IPOs, or trade sales.

While trade deals, management buyouts (MBOs) and employee ownership trusts (EOTs) have filled some of the gap left by PE, a more active PE market will increase competition for quality assets, impacting price and the pressure to close deals quickly. This will in turn drive up prices and reduce deal timetables.

Businesses coming to market in this climate are well advised to take time and be well prepared. Whilst businesses can wait for an approach, having your story and numbers clear, puts you in a far better negotiating position.

Finally (in case you have missed it), there will be an election in 2024/very early 2025, with the potential for tax changes. Whilst this should never be a reason for businesses to sell, the current attractive Capital Gains Tax rates will tempt some to take the opportunity while certain.

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