DMH Stallard

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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.

For a further discussion on any of these topics, please contact me on:

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Issue No.1
Current trends in the M&A market

Despite negative economic news, the M&A/deals market remains surprisingly resilient.

Buyers with existing facilities in place, or cash funding, dominate over debt financing. This may change as the cost of borrowing drops, but currently asset finance is being used to close pricing expectations of buyers and sellers (invoice discounting/asset security).

Trade buyers have been more active than private equity, investing for scale and operational synergies; some private equity backed trade operators are in the market for multiple deals (particularly insurance broking and wealth management).

Over the last two years, M&A deals +£10m, have been active, with fewer deals sub £10m. This year we are seeing that change; the larger deals are continuing, but trade buyers are also looking at smaller deals.

For some businesses, however, sale is not appealing; they prefer to de-risk (take capital value now), by selling all or part of the business to their management teams. Typically, this takes the form of a management buy out (MBO), or an Employee Ownership Trust (EOT).

Having faced a difficult few years, more business owners are wanting to explore these options (sale/MBO/EOT), and to better understand the differences. It is sensible to talk the differences through with experienced advisors, to avoid costly mistakes.

Buyer/investor caution remains clear to see. There is a greater focus on diligence (investigating the target business from a legal and financial perspective), to avoid embarrassing mistakes.

Sellers need to be resilient, because we have seen a number of sales fail on the first attempt. However, if these issues can be resolved, strong businesses and resilient owners have successfully completed deals, with the same or different buyers.

Some business owners have been drawn into an initial negotiation, with an unexpectedly attractive offer, only to find that the buyer had made some incorrect assumptions when formulating the offer. Wiser and more aware, some clients have achieved much better deals, on returning to the market, with a carefully thought through plan.

Over the last three months, we have seen a number of deals heavily “front-loading” financial diligence. Traditionally, legal, and financial diligence run (pretty much) in tandem. Now the legal diligence is being held back until the financial risk/model is satisfied. While this is prudent, this can extend the deal process, or require the legal team to deliver in a far shorter timeframe.

Sector remains important, but not critical. Professional services, technology, data/cabling, digital marketing/training, and insurance, have all been active, as have SaaS, and data security. But.… sector analysis is imperfect as a tool, and we continue to see successful businesses close deals in a variety of sectors.

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