

M&A INSIGHTS

CP DEALS INSIGHT: M&A MARKET UPDATE – 2023 IN REVIEW

COOPER PARRY
DEALS

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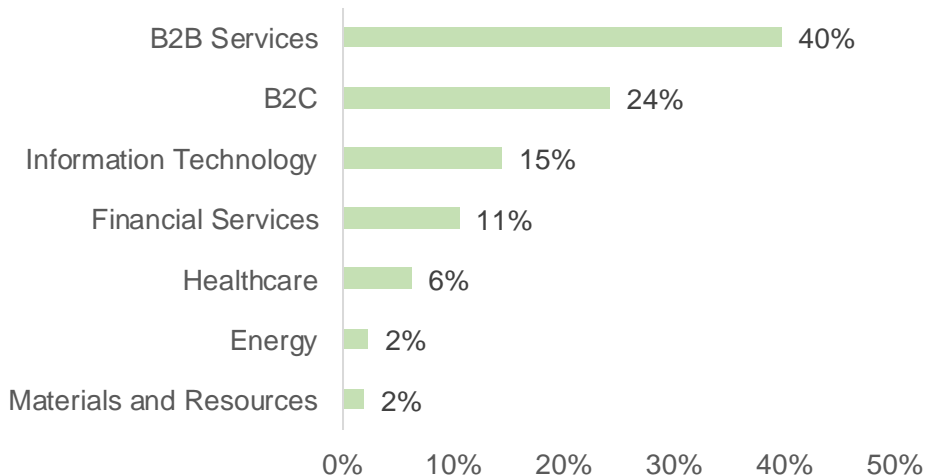
THE SHIFTING MACRO PICTURE IN THE UK

M&A markets continue to show resilience in the face of a challenging environment

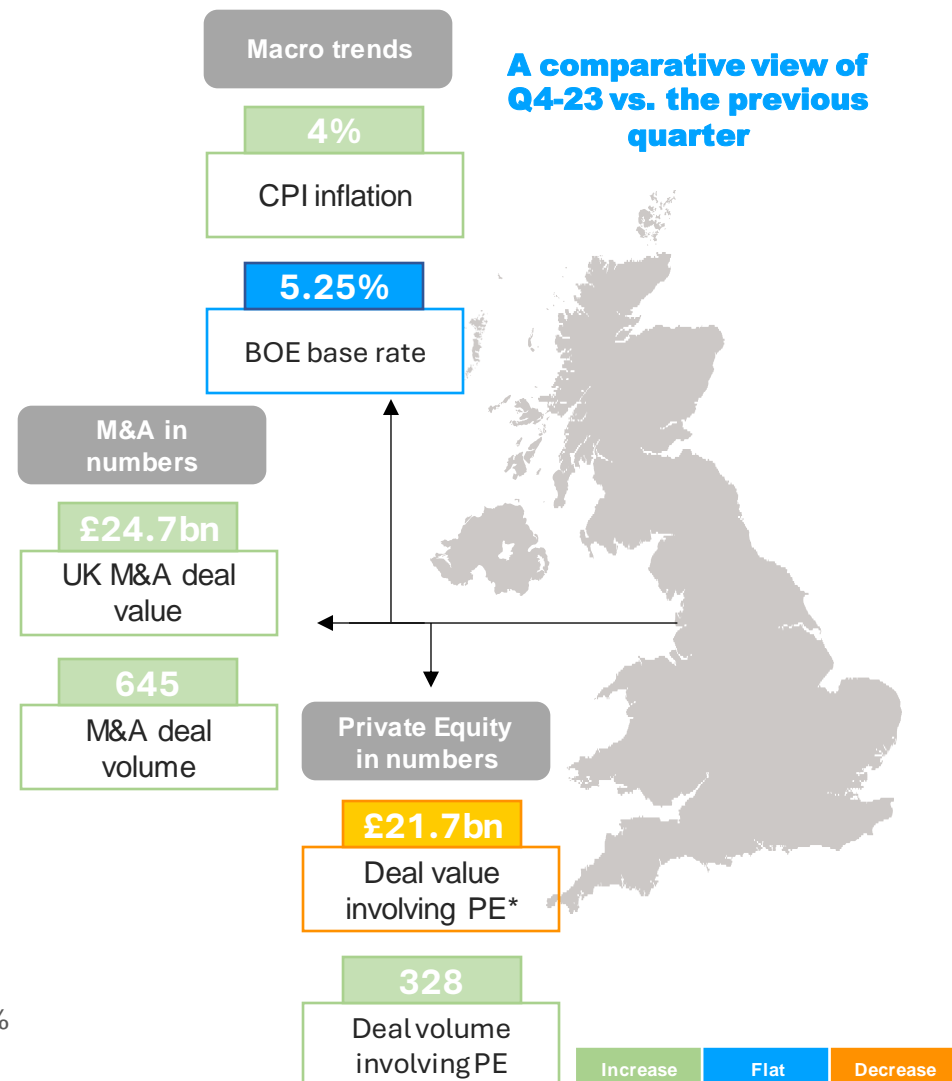
The UK investment landscape in 2023

5990	UK M&A transactions in 2023, a decline of 19% on the previous year
26%	Of deals were funded by private equity
4,129	UK companies currently backed by private equity

2023 M&A & PE transactions by sector in the mid-market



Source: Pitchbook, Goldman Sachs M&A outlook 2024, Cooper Parry analysis



Note: Value colour indicates the directional change from the previous quarter

KEY TRENDS – WHAT HAVE WE SEEN ON DEALS?

Debt levels are lower, impacting pricing and equity returns. More intense scrutiny through due diligence and increased regulation has slowed deals but they are still getting done

Debt market dynamics

- The debt markets have tightened significantly over the past 12-18 months in the wake of economic/geo-political uncertainty and high inflationary environment
- Therefore, running a lender education process is beneficial with clear articulation of revenue underpinning, financial analysis to help banks get up to speed and increase buyer confidence

Valuation gaps

- Gap in valuations between buyers and sellers continued to feed uncertainty, generally having a knock-on impact on multiples and leading to protracted negotiations

ESG agenda

- Environmental and social responsibility have become important considerations. Investors and stakeholders are increasingly concerned about a company's ESG practices, and these issues can affect the success of an M&A deal

Regulatory approvals

- M&A deals often require regulatory approvals from government agencies to ensure they comply with antitrust and competition laws. Changes in regulatory environments can impact the approval process and deal timelines, often leading to a split exchange & completion scenario
- Examples include the CMA, FCA and more recently NS&I – Acquisitions relating to national security

Due diligence

- Robust due diligence is essential to identify and mitigate potential risks. Deals are taking longer to get done with increased scrutiny and request for information
- Increased workstreams requiring front-loading preparation to ease the process with extra consideration to be made for VFDD/ VCDD

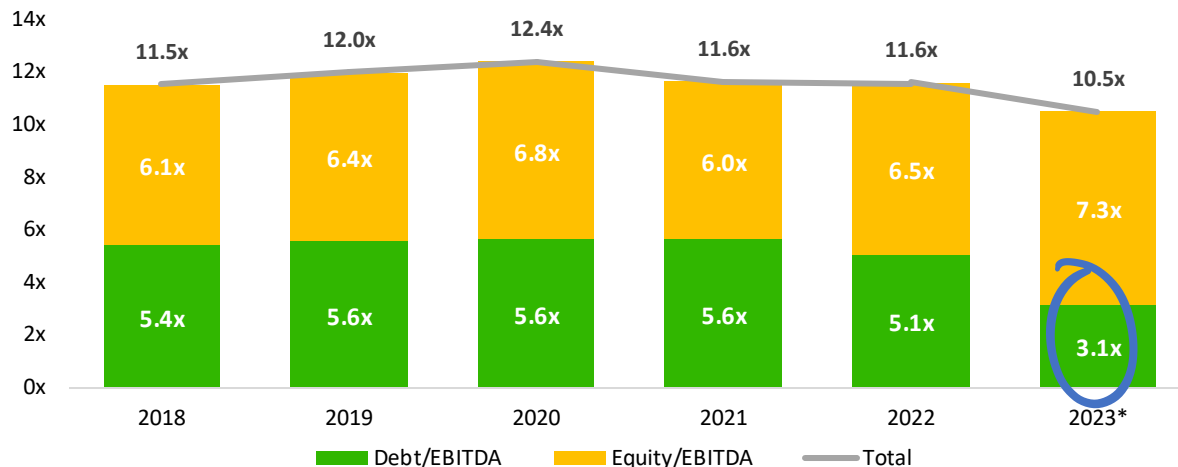
Cyber security & data privacy

- As data breaches and cyber threats continue to increase, assessing a target company's cybersecurity and data privacy measures is paramount. Failing to address these concerns can lead to significant risks and costs and ultimately disrupt a process if an incident happens

KEY TRENDS – PRIVATE EQUITY & CAPITAL STRUCTURE

Macro events and economic policies shifting the capital structure of deals

Global Multiple and Capital Structure



Lower debt into deals

As rate hikes continued throughout 2023, debt provision in the M&A markets inevitably tightened. A clear shift in capital structure became apparent as debt became more expensive for institutional investors, resulting in larger equity cheques being written. The impact is evident in average global M&A multiples with the debt turn to EBITDA falling from 5x in 2022 to around 3x in 2023.

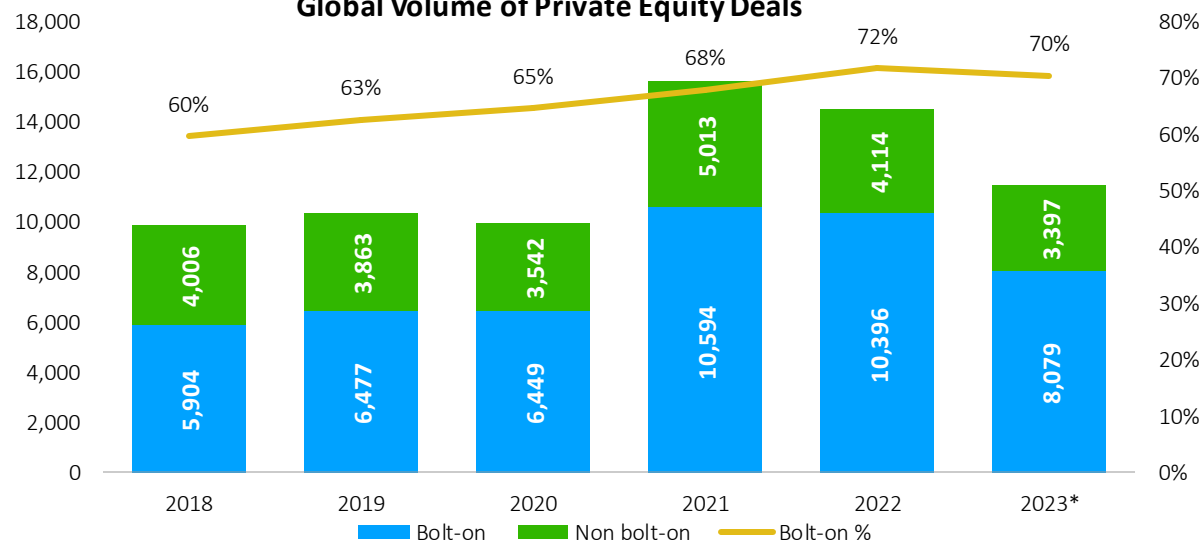
Private equity investors choose portfolio optimisation

In the face of a hardening market, private equity largely chose to take stock on existing investments in 2023. Portfolio optimisation through streamlining of core investments and choosing to strategically pivot into a buy and build platform were key themes.

Increasing equity underwrites

Still retaining a significant volume of capital yet to be deployed and in the face of tough debt markets, private equity increasingly turned to equity underwrites for their investments.

Global Volume of Private Equity Deals



Source: Pitchbook, Cooper Parry analysis *- where data is available

Note: Value colour indicates the directional change from the previous quarter

KEY TRENDS – DEBT IN DEALS

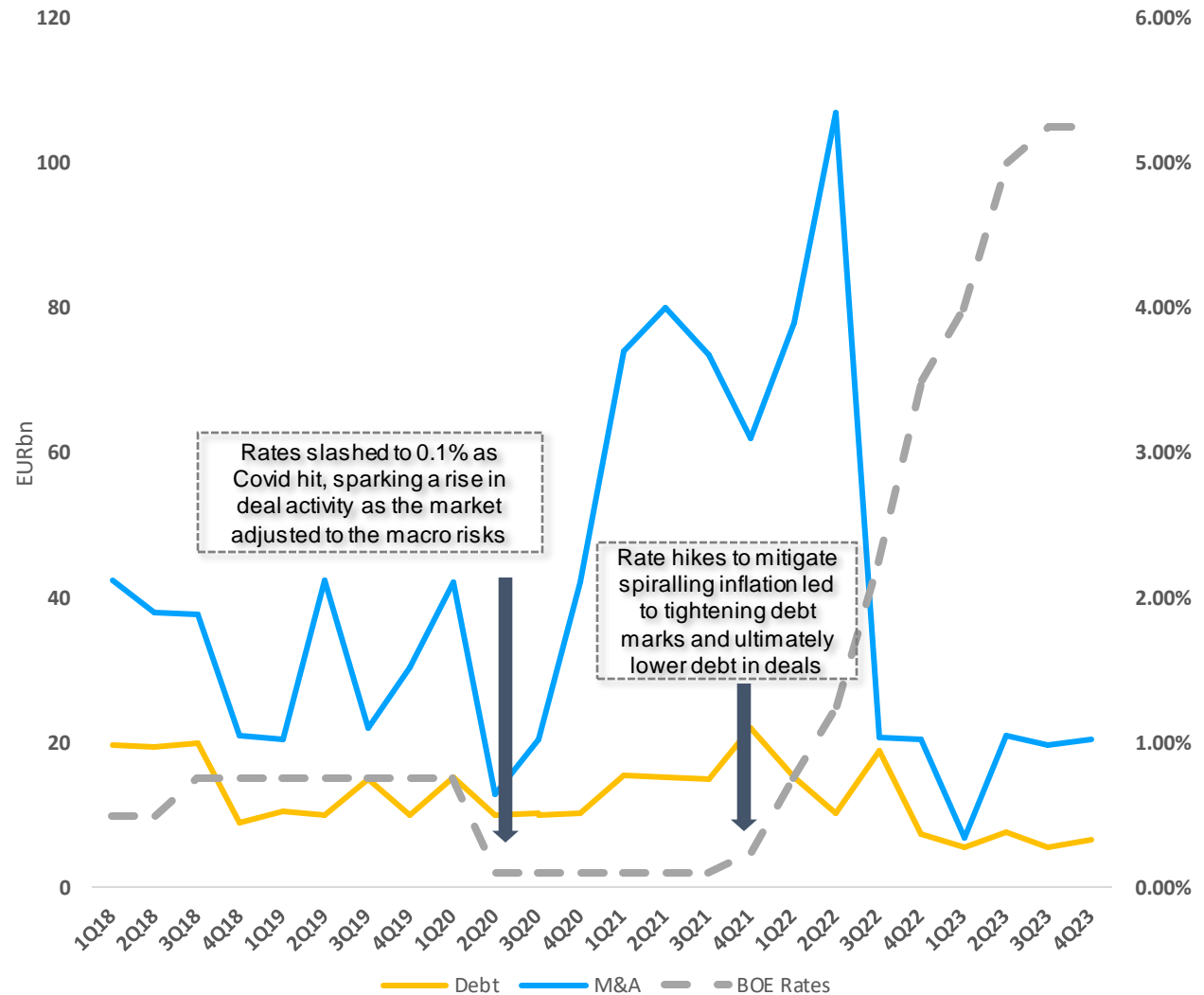
LBO debt volumes - in the face of higher interest rates and tightening debt markets, debt provision in deals is lower

M&A value returning to pre-Covid levels

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Debt provision in deals lower amidst rate hikes and uncertainty

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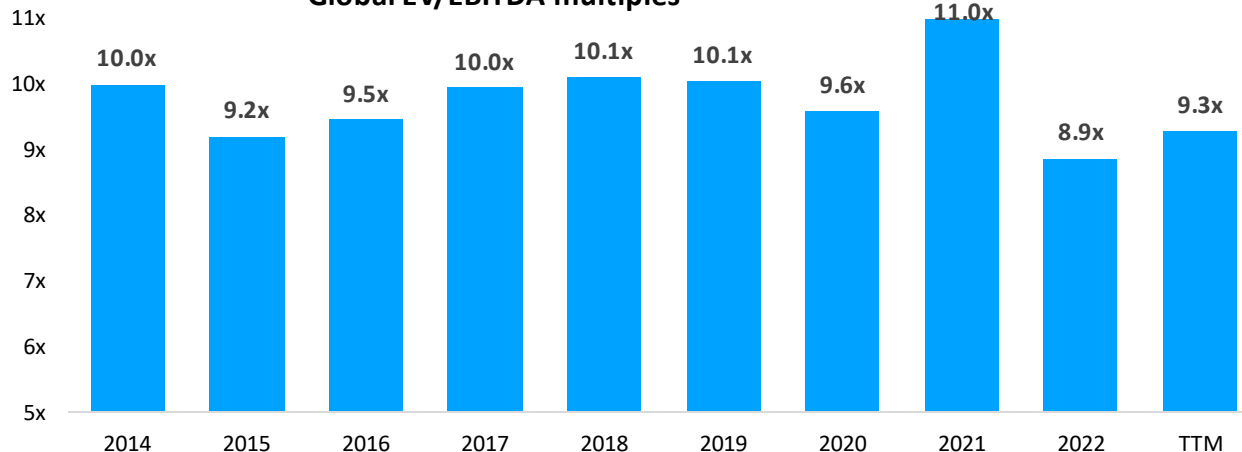


Source: Pitchbook, BoE, Mergemarket, Cooper Parry analysis

PRICING – WHAT ARE INVESTORS PREPARED TO PAY?

Pricing expectations converge with trade players once again looking at M&A as a lever for growth

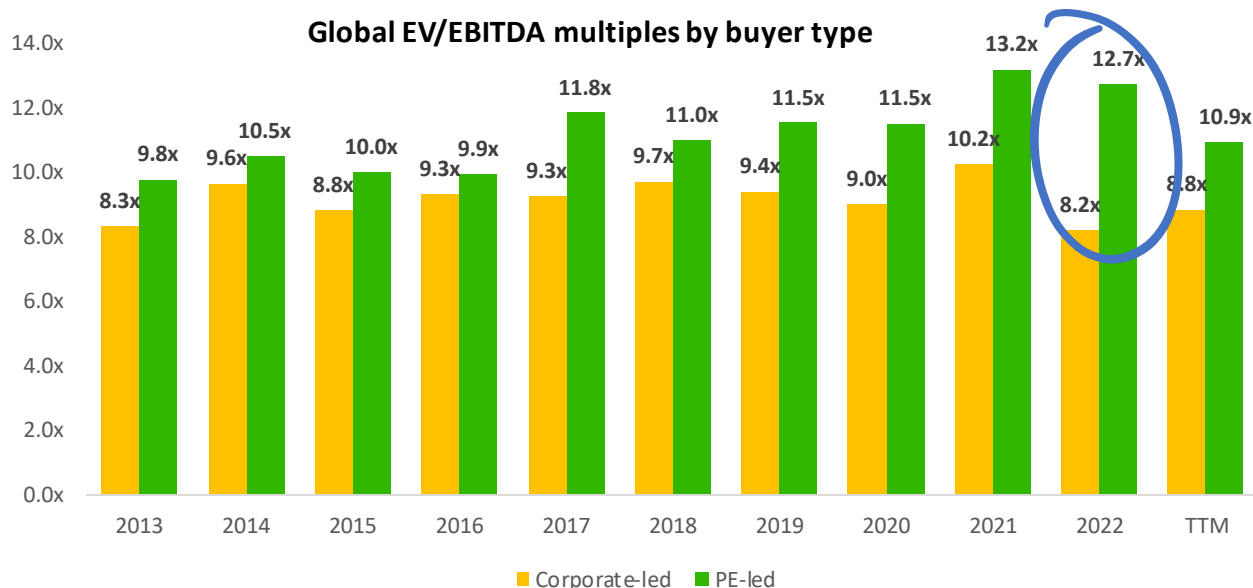
Global EV/EBITDA multiples



Green shoots as pricing recovers

A strong market correction in 2022 caused investors to implement a cautious approach to M&A, ultimately leading to differentials in pricing expectations between buyers and sellers. However, the latter half of 2023 saw green shoots with an uptick in pricing as activity picked up in the mid-market.

Global EV/EBITDA multiples by buyer type



Trade buyers once again competitive

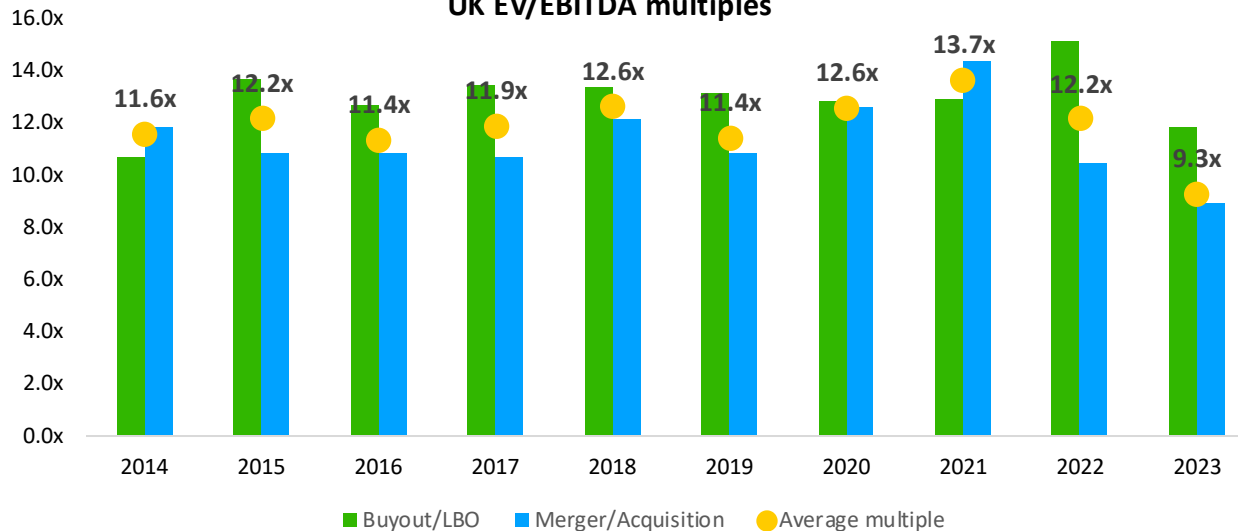
In a market where private equity investors have had record levels of 'dry powder', competition for assets and pressures to deploy led to spiralling pricing. A softer market in 2023 closed the gap between corporate and PE pricing as trade buyers saw opportunities for inorganic growth.

Source: Pitchbook, Cooper Parry analysis

PRICING – SPOTLIGHT ON THE UK

Valuation multiples likely to have bottomed out in a year of adjustment for M&A markets in the UK

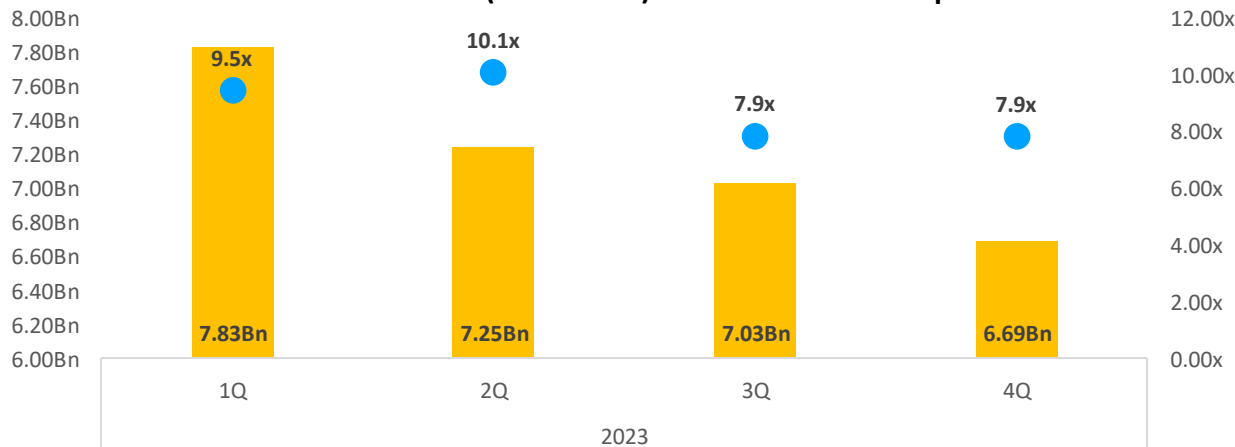
UK EV/EBITDA multiples



UK feels the effects of global macro events

Falls in pricing in the UK M&A markets have largely been attributable to a challenging wider macro environment. Geo-political uncertainty coupled with a sluggish domestic economy have seen corporates and institutional investors alike prioritise cash retention and organic growth.

UK lower mid-market (<£250m EV) deal value and multiples 2023



Pricing softened at the lower end of the market

In line with the broader trend, 2023 was a year of transition for the UK lower mid-market. Deal values dropped off towards the end of the year but remained strong with multiples hovering around 8-9x across all sectors. Businesses that provide mission-critical services in recession-resilient sectors should expect to command higher valuations in 2024.

Source: Pitchbook, Cooper Parry analysis

■ Deal Value ● Implied EV/EBITDA Median

TURNING THE CORNER?

The outlook remains positive for 2024



Record “dry powder” in PE hands needs to be invested



Increased confidence in the market and therefore, more accurate valuations



Cash-rich companies with private equity-backing continue to execute M&A strategies



Deal-making in core, recession-resilient sectors like Technology, Healthcare and Business Services to remain robust



Inflation and interest rates looked to have peaked, although probably remain relatively high, but stable for a few years



Future political and fiscal change around CGT to initiate shareholder action early

SIMON NICHOLS

PARTNER

TRANSACTION SERVICES - LONDON



Simon leads the Cooper Parry Transaction Services team in London & the South East. He was previously a Partner at both Azets and KPMG.

He has over 20 years of experience in leading cross border, multi-disciplinary teams on global and domestic acquisitions, demergers, disposals and capital markets transactions.

Hear Simon's thoughts on the current M&A market:

Simon Nichols: “2023 saw a stabilisation of M&A markets as deal flow recovered in the face of macro headwinds. There remains a mismatch across the market in buyer & seller price expectations, with vendors typically waiting for improvements in valuations before bringing assets to market. On the buyer side, identifying and delivering both cost and revenue synergies becomes ever more important in an environment of high interest rates and multiples”.

“Looking ahead, there are exciting opportunities for those bold enough to use M&A as a lever to disrupt technologically and transform their business model. Pent up demand with cash waiting to be deployed alongside an improving macroeconomic picture should drive an active M&A market in 2024”.

COOPER PARRY CORPORATE FINANCE

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MARK BROCKWAY

Partner



Mark joined Cooper Parry in 2022 as an M&A partner with 25 years' experience of selling a range of companies, focusing on business & professional services sector deals.

He spent 16 years with EY Corporate Finance where he was head of London mid-market M&A. He has advised on over 50 buyouts involving PE.

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NIALL CHANTRILL

Partner



Niall joined Cooper Parry Corporate Finance in 2015 having spent four years in the firm's audit practice.

He has advised on a wide variety of transactions, including privately owned companies and institutional investors across Services, Tech & Healthcare.

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LOREN DOCKSEY

Senior Analyst



Loren joined Cooper Parry Corporate Finance in 2020 as an analyst, assisting the team with deal origination and market research.

Loren has experience of both private equity and corporate clients, assessing investment criteria, mapping markets and originating acquisition targets.

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KATIE CASH

Manager



Katie joined the Cooper Parry Corporate Finance team in 2021 after having worked in the CP audit team beforehand.

Katie has recently advised on deals in the professional services and healthcare sectors.

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M&A INSIGHTS

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