Q4 2024

UK Private Company Director

Welcome to the January 2025 issue of UK Private Company Director, the quarterly newsletter for directors of owner-managed, family and private equity backed businesses.

We cover financial, legal, tax, wealth management and similar issues crucial to both building and realising the value of your business. Corbett Keeling's report on deal activity in the private equity markets also provides a clear insight into financial investor appetite.

Inside this issue, we explore key topics for directors of privately owned UK businesses:

- **M&A Market Outlook:** While 2024 saw subdued activity, we highlight reasons to anticipate a cautious but positive resurgence in 2025 (pages 2 to 3).
- **US-Led Acquisitions:** A potential wave of American buyers could be on the horizon – discover strategies to enhance your business's appeal to this market (page 4).
- **Inheritance Tax Strategies:** As inheritance tax rules tighten, early planning remains essential to protect your estate and your business (page 5).

We hope this issue provides valuable insights and practical advice as you steer your business into the year ahead.

Megan Peel

Megan Peel, Editor
meganpeel@ukprivatecompanydirector.com

Corbett Keeling Corporate Finance 7IM TaylorWessing

A fresh chapter

As the UK awaited and then digested the first Labour Budget for nearly fifteen years, 2024 drew to a fairly quiet close for activity in the UK private company M&A market. Yet, looking ahead to 2025, Jim Keeling of corporate finance adviser Corbett Keeling sees reasons to be cautiously optimistic.

The start of a new year is always an interesting pivot point. It's a time for sober reflection on the year just passed. But it's also a time to look forward hopefully to the coming year – the unwritten chapter.

Let's start with the sober reflection. If we consider 2024 as a whole, the figures suggest it was not a great year. Zooming out, we can see that the UK private M&A market had a post-pandemic boom in 2021, and activity has been slowly returning to normal ever since. In this context, 2024 appears unexceptional – as we will see when we look at the data for the fourth quarter. But it certainly felt busy for some of us in the market including at Corbett Keeling.

And what about the year ahead? At Corbett Keeling, we are definitely glass half full people. You won't be surprised to hear that, while acknowledging the challenges, we see plenty of grounds for optimism.

Domestically, we have had the Chancellor's first Budget. Businesses now know the full scale of the challenges from increased taxes. They will adapt, as they always do. For anyone who is considering a sale of their company, the good news is that the worst fears for Capital Gains Tax have not materialised – so far, at least.

The government has talked a big game about raising economic growth. If it is to achieve that goal, it will have to enact some more business-friendly measures to outweigh the tax rises. Currently, the talk is of deregulation and investment. We shall see.

In the meantime, the UK isn't the only country with a new government. The re-election of Donald Trump – the self-proclaimed master deal maker – could be positive for M&A activity over here, particularly given sterling's recent weakness. See page 5 for a helpful discussion of ways to boost your business's appeal to American buyers.

Assessing the deal data

The figures for the final quarter confirmed that 2024 was not a vintage year for deals. But there is some reason to believe the tide may be turning in the smaller deals segment.

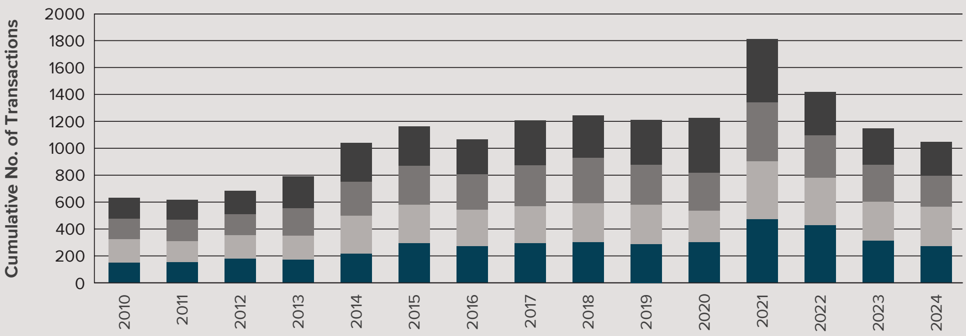
Smaller deals (enterprise value under £150 million) showed tentative signs of a re-acceleration in the last three months of the year. The number of transactions increased, from 230 to 250, and the aggregate value of deals was up from £6.1 billion to £6.9 billion. These figures are generally subsequently revised upwards for late reported deals, which would take them to solid levels. Nevertheless, the totals for the year as a whole were still lacklustre.

Key:

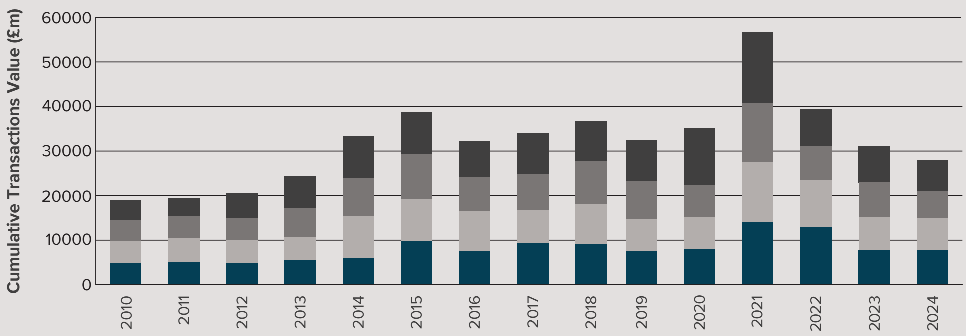
Q4 Q3 Q2 Q1

Data supplied by PitchBook.

Sub £150m Transactions by Volume

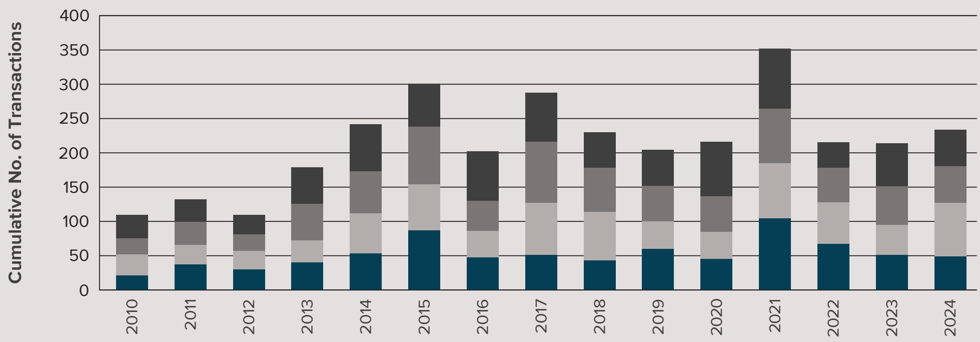


Sub £150m Transactions by Value

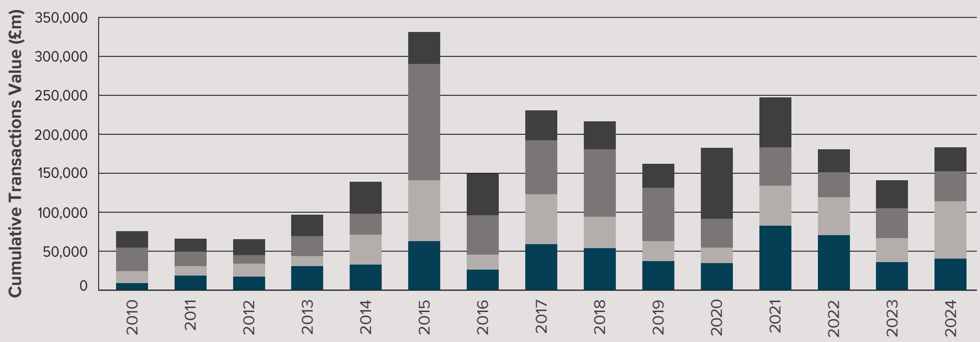


Larger deals (enterprise value of £150 million or more) did not show any sign of a resurgence. The number of deals inched up from 53 to 54 in the last compared to prior quarter, while the value actually declined, from £38.6 billion to £30.5 billion. For 2024 as a whole, however, this segment of the market showed considerable strength, with both the value and the volume of transactions surpassing the figures for 2022 and 2023.

£150m+ Transactions by Volume



£150m+ Transactions by Value



Key:

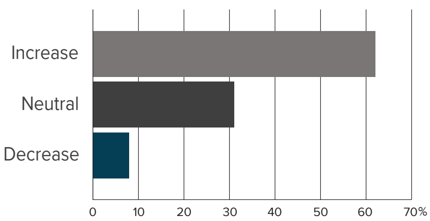
Q4 Q3 Q2 Q1

Data supplied by PitchBook.

So what does our latest survey suggest?

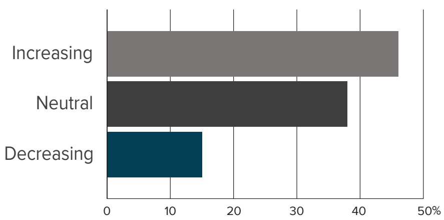
Overall, market participants appear to be in a marginally more optimistic mood than they were three months ago.

1 Do you expect deal volumes to increase or decrease?



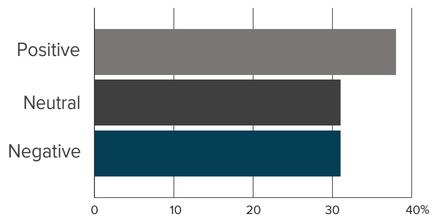
The proportion of market participants forecasting a higher volume of transactions rose from 58% to 62%, while 31% expected little change. Only 8% were expecting the number of deals to decline.

2 Is debt availability increasing, decreasing or neutral?



The picture is a bit more mixed when it comes to debt availability. While the percentage saying it was increasing rose from 33% to 46%, the proportion anticipating a decrease in availability was also up, from 8% to 15%. However, the optimists clearly outweigh the pessimists.

3 What is the likely impact of the UK Autumn Budget on your portfolio companies?



Perhaps surprisingly, given some of the media commentary, our respondents appeared fairly sanguine about the Budget's likely impact on private equity portfolio companies. Some 38% of respondents expected a positive impact, while the remainder were evenly split between those predicting a negative impact and those foreseeing little change.

Contact us
Jim.Keeling@corbettkeeling.com

TaylorWessing

How to attract US investment

With the dollar strong and expectations for an M&A boom driven by the incoming Trump administration, US acquirers are increasingly interested in UK companies. James Goold and Alexandra Poland of law firm Taylor Wessing look at what UK companies can do to facilitate a sale.

When a US-based private equity fund considers acquiring a UK company, several strategic motivations could be at play – achieving transformational growth, say, or expanding into new markets. A US buyer is also likely to concentrate on high-risk areas and hot topics in the UK.

To attract US investment and ensure a smooth transaction process, UK business owners should focus on:

- **Commercial contracts** – ensure you have comprehensive standard terms and conditions and well-negotiated agreements with key partners. US buyers will want to understand the target's approach to contracting and its risk appetite.
- **Intellectual property** – confirm that IP is properly registered with adequate assignments to evidence ownership. US buyers may also scrutinise open-source software used in developing IP.
- **AI compliance** – if the business is AI-focused, ensure regulatory obligations have been met, as specialist due diligence is likely.
- **Ongoing disputes** – the judicial systems in the UK and the US have their differences. Be prepared to provide information on any claims' nature, status and potential outcomes.
- **Regulatory requirements** – recognise differing regulatory landscapes between regions and implement adequate preventive procedures for issues like bribery, tax evasion and economic crime prevention.
- **ESG performance** – verify compliance with reporting requirements and maintain satisfactory performance metrics for environmental practices, health and safety standards and diversity and inclusion policies.

When preparing for a sale, it's also essential to understand the key differences between market practices in the UK and the US, so you can effectively bridge any gaps in expectations.

- **Closing conditions** – US buyers often expect a wide array of conditions (including the right to walk away from the deal if there is any material adverse change to the target), in contrast to the UK approach of limited mandatory approvals.
- **Pricing mechanics** – traditionally, US buyers have been accustomed to completion accounts, rather than the locked box mechanism commonly used for UK deals, particularly auction sales. However, US PE funds are becoming more comfortable with the fixed price of locked box mechanisms.
- **Restrictive covenants** – US non-compete provisions tend to be for longer, although a ban on non-competes in employment agreements has been proposed. In the UK, restrictive covenants typically last one to three years, as longer periods are often deemed unenforceable.
- **PE specific differences** –
  - Options vs equity: US transactions favour share options or profit interests, but these can complicate the capital gains tax treatment. In the UK, key managers are granted 'rollover' equity (shares in the company in place of cash) or 'sweet' equity (shares or options issued at a discount). Managers should carefully consider tax advice and request reasonable tax planning accommodations as part of their minority protections.
  - Leavers (rollover equity): in the US, investors often have a call option over rollover equity when someone leaves. In the UK, managers retain rollover equity, except in certain 'bad leaver' situations.
  - Leavers (sweet equity): 'bad leavers' in the US forfeit sweet equity and 'good leavers' exercise vested awards at fair value. In the UK, 'good leavers' typically receive fair value for sweet equity, whereas 'bad leavers' receive the lower of cost or fair value.
  - Vesting: this combines time and performance based criteria in the US but is generally just time-based in the UK (often used in 'intermediate leaver' situations, e.g. dismissal without 'cause'), with gradual vesting over one to five years.

Whether starting a sale process or preparing for future opportunities, understanding the market and tackling key transatlantic challenges is critical to ensuring a smooth transaction and achieving full value.

Contact us

J.Goold@taylorwessing.com

Inheritance tax – not a future you problem!

The Budget at the end of October may have painted a doom-and-gloom picture of the future for business owners and entrepreneurs. But, as Daniel Wood of 7IM points out, there are still ways they can protect the value of their estate from inheritance tax (IHT).

The common denominator of all solutions is early planning. Yes, you can often get away with not worrying about IHT until the later stages of your career. But unfortunate events can occur, which might mean a large chunk of your hard-earned legacy goes to HMRC, rather than your family. And, in any case, the sooner you start planning, the larger the benefits should be.

Whatever the stage of your career, or indeed of your business, going through the basics of financial planning in the context of how your business develops is vital, given the landscape is changing. Think, for example, of the changes to business property relief recently made by government, which will come into effect from 2026.

This is why financial advice can provide enormous value for you and your family's wealth over the long term.

Protecting you – and your business

The changes announced in the Budget will be rolling out over the next few years, so it's important to ensure you have the appropriate protection in place.

In some cases, that could mean arranging to put some elements outside your estate so they can be shielded from IHT.

For business owners, making use of a company life assurance policy could prove extremely useful. Where a business benefits from corporation tax relief, the policy itself can also sit outside your estate where the payout is made via a trust. It will therefore be exempt from IHT.

For employees, this is a benefit – exempt from employment income taxes – so it doesn't count towards their annual pension allowances. In addition, it doesn't trigger any capital gains tax, nor does it incur national insurance contributions on premiums.

For the company, the premium would be seen as a benefit in kind and would therefore be taxable at the marginal rate of the individual. In some cases, a life assurance plan could also be free of employer national insurance contributions on premiums, making it doubly tax efficient.

Life assurance policies can also strengthen business continuity, as they can be used to cover business loans or debts. They could help to fund shareholder agreements: in the unfortunate event of one shareholder's death, the policy would enable the surviving shareholders to buy the deceased's shares without impacting the company's cashflow.

Some policies could offer key person cover to protect the business, as well as protection extending to these employees' families. So it is worth investigating if it would make financial sense for the company to incorporate these aspects into the policy.

A life assurance policy can bring significant savings for both employees and the company. For business owners, it should always be perceived as a way to help the business grow and as an efficient long-term financial planning tool which sits outside their estate.

As always, taxation will depend on your individual circumstances and may be subject to change, so it is important to seek regulated financial advice to find the best course of action for your particular circumstances.

Contact us

Daniel.Wood@7im.co.uk

Contributors

Corbett Keeling Corporate Finance

Contact us

8 Angel Court
London
EC2R 7HP

+44 (0)20 7626 6266

Jim Keeling,
Chairman and Chief Executive

Jim.Keeling@corbettkeeling.com

Corbett Keeling guides owners of private companies on selling their business, raising capital and acquisitions. For 30 years our bespoke, personal service has delivered the optimal mix of Cash, Certainty and Chemistry for our clients. On average we achieve >40% uplift in sale value for our clients compared to initial expectations and we are proud to have a >90% deal completion record. Our broad sector expertise combined with access to global trade and financial buyers means we will find the best investor or buyer for you.

corbettkeeling.com

7IM

Contact us

1 Angel Court
London
EC2R 7HJ

+44 (0)20 3823 8844

Daniel Wood,
Financial Planning Director

Daniel.Wood@7im.co.uk

The ‘7’ in 7IM refers to the seven original founders of the business. Back in 2002, they couldn’t find a firm they trusted to manage their families’ money properly – so they started the kind of organisation they’d like to invest with themselves. Today, we manage over £20 billion for a wide range of clients from our offices in London and Edinburgh. With our purpose of ‘Succeeding Together’, we foster long-term partnerships with our clients and colleagues.

7im.co.uk

TaylorWessing

Contact us

Hill House
1 Little New Street
London
EC4A 3TR

+44 (0)20 7300 7000

James Goold,
Partner

J.Goold@taylorwessing.com

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