Q3 2024

UK Private Company Director

Welcome to the October 2024 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.

As always, this edition addresses issues we believe are of great importance to directors of privately owned businesses:

- Despite an appreciable downward trend in the deal data amid concerns about the Chancellor's tax plans, underlying demand for well-run businesses remains high (pages 2 to 3).
- The sale of a business can be a just reward for a lifetime's work, but it can also have significant impacts on your family. Careful planning is the key to avoiding potential pitfalls (page 4).
- The new Digital Markets Act introduced some important changes to the competition and consumer protection regimes which business owners should be aware of (page 5).

All the best,

Megan Peel

Megan Peel, Editor
meganpeel@ukprivatecompanydirector.com

Corbett Keeling Corporate Finance

Cazenove Capital

Corbett Keeling
Corporate Finance

Underlying appetite for well-run businesses remains strong

After a strong second quarter, the private M&A activity appears to have softened over the past three months. Yet, as Jim Keeling of corporate finance adviser Corbett Keeling observes, many deals are still progressing, and 2024 is shaping up to be a reasonably active year overall.

While both the number and value of deals completed in the third quarter were down compared with the previous quarter, this isn't particularly unusual. Quarterly figures often fluctuate, and they are normally subsequently revised upwards for late-reported deals. It's part of the natural rhythm of the M&A market. What matters most is that the underlying appetite for well-run businesses remains strong, and that's both what we're seeing on the ground and as evidenced by our survey. Buyers are still out there, particularly those looking for companies with solid growth potential.

Some of the recent dip is surely down to uncertainty surrounding government policy. Talk of potential changes, particularly to Capital Gains Tax, may have prompted some business owners to bring deals forward to avoid any unfavourable consequences, but many others have simply hesitated. Both are understandable reactions but, until we have more clarity from the Chancellor, a degree of caution is to be expected.

That said, the broader economic picture is more positive than it may first appear. The UK economy grew at its fastest rate since 2021 in the second quarter, and inflation has fallen below the Bank of England's 2% target. There's a growing sense that interest rate cuts could be on the way, which would be good news for those concerned about the cost and availability of debt. On top of that, a weaker pound continues to attract overseas buyers, keeping valuations attractive for UK businesses.

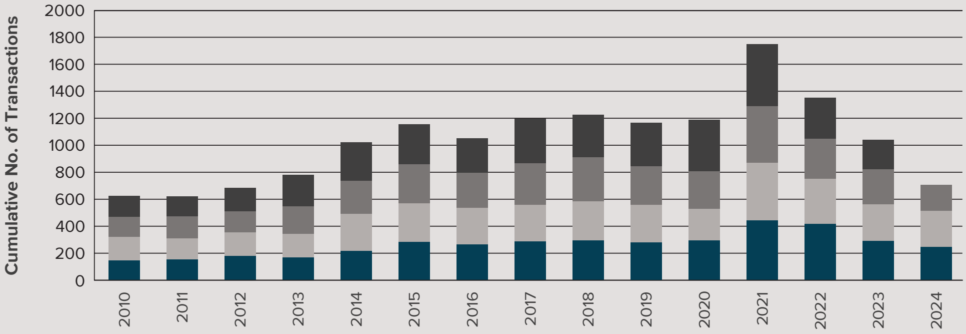
Looking back over Corbett Keeling's 30 years in the industry, we've seen many political and economic shifts. And, despite the challenges that come with such changes, the private M&A market has always found a way forward. Deals get done, businesses are sold, and capital is raised, regardless of the broader economic conditions. The lesson here is that those who are well prepared fare best. If you've taken the time to get your house in order, you'll be in a stronger position to act when opportunities arise – and opportunities do arise, even in uncertain times.

Assessing the deal data

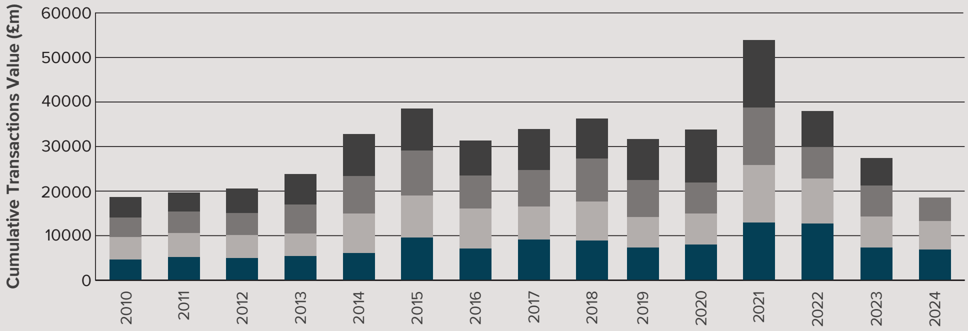
The third-quarter data reflects some mixed signals, but there are positives to take away:

Smaller deals (enterprise value under £150 million) saw a drop in the number of transactions, falling from 270 to 192. The total value of transactions fell from £6.5 billion to £5.3 billion, a smaller percentage decline, suggesting there's still appetite across the board but particularly for larger, perhaps better prepared, businesses in this sub £150 million segment.

Sub £150m Transactions by Volume



Sub £150m Transactions by Value



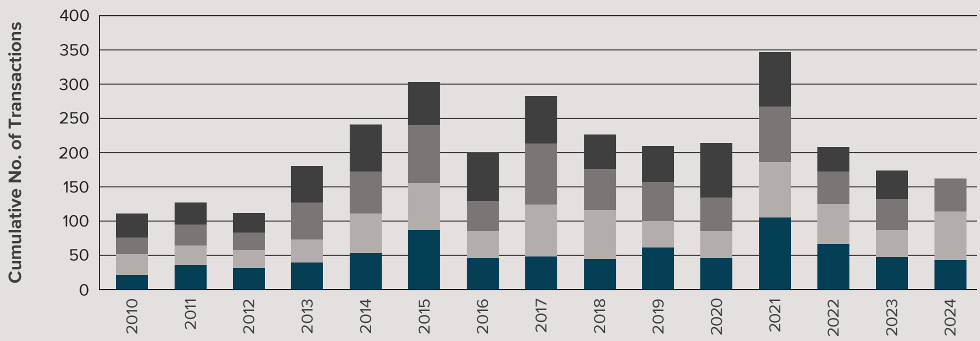
Key:

Q4 Q3 Q2 Q1

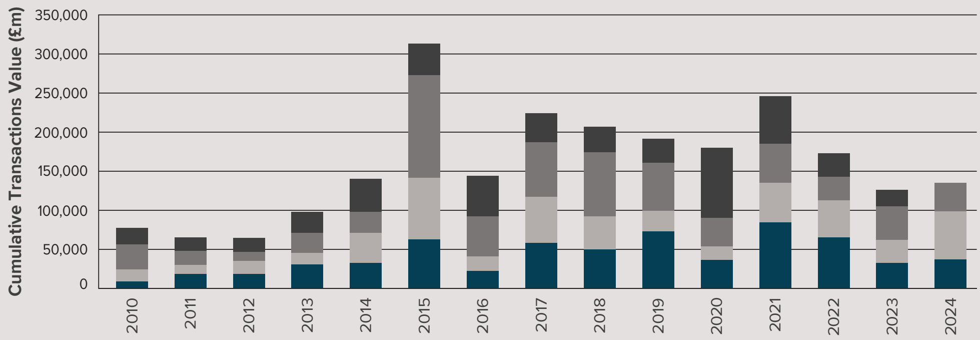
Data supplied by PitchBook.

Larger deals (enterprise value of £150 million or more) also saw a decline in both the number and value of transactions. Numbers fell from 71 deals in Q2 – the highest since 2021 – down to 48 in Q3. The total value of these deals dropped significantly from £61.6 billion to £36.6 billion. Even so, the sector is still on course to surpass last year's total for both volume and value, demonstrating the underlying strength of the market.

£150m+ Transactions by Volume



£150m+ Transactions by Value



Key:

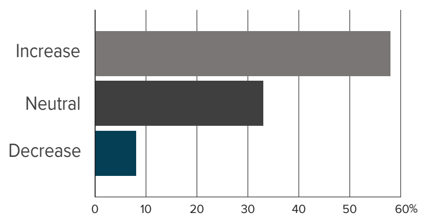
Q4 Q3 Q2 Q1

Data supplied by PitchBook.

So what does our latest survey suggest?

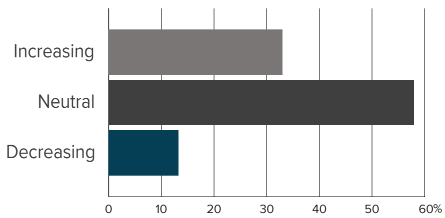
Our latest survey of market participants shows a slightly less optimistic outlook than three months ago, but there are still positive indicators:

1 Do you expect deal volumes to increase or decrease?



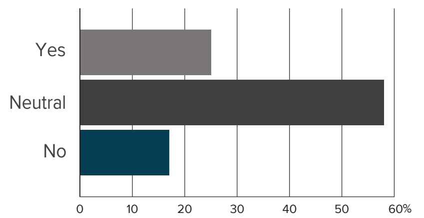
The percentage of respondents expecting an increase in deal volumes edged up from 56% to 58%, with those predicting a decline dropping from 11% to 8%. Roughly a third expect deal volumes to remain steady.

2 Is debt availability increasing, decreasing or neutral?



Optimism about debt availability dipped, with 33% of respondents now saying it's becoming more available, down from 44%. However, those reporting less availability also dropped slightly, suggesting the picture is not worsening dramatically.

3 With the upcoming budget and risk of capital gains tax rates increasing are you confident the overall M&A environment will improve?



Concerns about the forthcoming Budget have dampened sentiment somewhat. Just a quarter of respondents now expect the overall M&A environment to improve, down from 56% in the last survey. Meanwhile, the proportion anticipating a deterioration has risen from 11% to 17%, reflecting the ongoing uncertainty about government policy.

Contact us

Jim.Keeling@corbettkeeling.com

Cazenove Capital

Selling your business: the impact on your family

Selling a business is usually a cause for celebration. However, it is also likely to be a time of significant change for you – and, just as importantly, for your family, too. George Maltby, Portfolio Director at Cazenove Capital, explains why it's important to consider the wider impacts – on family members' career plans, for example, and on your estate planning.

Business owners going through the sale process are often most concerned with whether they are selling the company to the right partner. In addition, they want to make sure that the sale proceeds will be sufficient to support their family's lifestyle in the years ahead.

They may also seek reassurance that the sale will not adversely affect their family's lives. Coming into life-changing amounts of money places not only the entrepreneur but also potentially their family in the spotlight.

So it's important for sellers to discuss exit plans with them as early as possible, particularly when family members either work for the company or may have been expecting to join it in the future.

Passing it on

The crystallisation of wealth through a business exit opens new possibilities, but also brings new responsibilities. One area where clients may need to review their plans in the run-up to an exit is inheritance. Thinking about this early on allows for more effective tax and succession planning.

Business assets in the UK currently benefit from Business Relief, allowing them to be passed on free from Inheritance Tax. However, a sale of the business for cash jeopardises this. Careful planning can help in this scenario.

The sale of a business may also require you to change your plans for the division of assets between members of the next generation. An exit may create scope to divide assets equally, but it could also disappoint individuals who had been expecting to take over the leadership of the business.

One business owner we worked with had agreed to sell his company for a nine-figure sum. However, he pulled the plug on the deal in its final stages because he did not want to deprive his eldest son of the opportunities and satisfaction the company gave him. The son had worked in the business for over 20 years, and it was his passion.

It's a good example of just how important it is to understand the family dynamics and the range of aspirations of different family members before embarking on a sale. The sale process can be a highly pressured and emotional time, and that's not usually the best time to start a difficult conversation.

Despite the challenges, selling a business can come with huge benefits for the family – and often for others beyond the family unit. It can provide the flexibility and financial freedom to explore new passions and pursuits. In many cases, it has also allowed families to donate large sums to charity and use their resources and expertise to help others.

This article was written before the government's October 2024 budget review announcements.

Contact us

George.Maltby@cazenovecapital.com

Digital Markets Act – what you need to know

The Digital Markets, Competition and Consumer Act, passed earlier this year, introduces the most significant reforms to the UK's competition and consumer protection regimes for two decades. Mark Jones of law firm Jones Day explains the key implications for UK companies and how to prepare for the new landscape.

The reforms have two main aspects:

(i) the new consumer protection regime, which is relevant for all consumer-facing businesses;

(ii) the new regime for regulating large digital platforms, which will give new protections to the many businesses outside the tech sector that interact with these platforms as suppliers, customers and competitors.

Consumer protection reforms

The consumer protection reforms codify a number of new rules on issues such as subscription contracts, drip pricing and fake reviews which will be relevant to some businesses. But the transformational change for a much broader set of businesses is that it empowers the UK Competition and Markets Authority (CMA) to enforce consumer rules directly, without the need to go to court, and to impose huge fines of up to 10% of global turnover.

Once these changes come into effect early next year, the risks for businesses which (even inadvertently) fail to comply with consumer rules will become much more tangible. So now is the time for all consumer-facing businesses to review their compliance frameworks to ensure they are fit for purpose. This should include appropriate escalation procedures for customers to raise consumer law concerns, reducing the risk that any allegations of breaches make their way to the CMA, rather than being resolved with the affected customers.

New digital markets regime

The new regime follows last year's European Union's Digital Markets Act and pursues similar objectives. It enables the CMA to designate businesses with 'substantial and entrenched market power' and 'a strategic position' with respect to digital activity linked to the UK as having Strategic Market Status. Once so designated, these businesses will be subject to firm-specific conduct requirements and targeted 'pro-competitive interventions' which the CMA can impose without needing to prove any unlawful conduct has occurred. They will also need to report any M&A activity above certain thresholds.

Designation of a business by the CMA may give customers, suppliers and other stakeholders interacting with that business a range of additional protections as a result of the new conduct requirements. They will also have an easier route to complain to the CMA about potential violations of the new regime or other forms of anti-competitive conduct.

The CMA has not yet confirmed which businesses or specific digital activities will be designated and which specific conduct requirements will apply (except that they will be based on principles of fair trading, open choice and trust and transparency). But the focus of these new rules will certainly be on the largest tech companies. Businesses which interact with them should take the opportunity to influence the way the new regime will operate by participating in the CMA's consultation processes on how the new system will work – which tech companies will be designated for regulation, what conduct requirements will be imposed on them and what, if any, pro-competitive interventions are proposed. Participation should help businesses to ensure their interests are fully considered.

Contact us

Lnferera@jonesday.com

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

Contact us

21 Tudor Street
London
EC4Y 0DJ

+44 (0)20 7039 5959

Leon Ferera,
Partner

Lnferera@jonesday.com

Jones Day is a global law firm with more than 2,400 lawyers in 40 offices across five continents. The Firm is distinguished by: a singular tradition of client service; the mutual commitment to, and the seamless collaboration of, a true partnership; formidable legal talent across multiple disciplines and jurisdictions; and shared professional values that focus on client needs.

jonesday.com

Cazenove Capital

Contact us

1 London Wall Place
London
EC2Y 5AU

+44 (0)20 7658 1152

George Maltby,
Portfolio Director

George.Maltby@cazenovecapital.com

Cazenove Capital helps its clients manage their wealth to meet a wide range of long-term objectives. We look after individuals, families, family offices and charities, drawing on our expertise in investment, wealth planning and banking. Our headquarters are in London and we have offices across the UK.

cazenovecapital.com