# UK M&A Outlook 2024

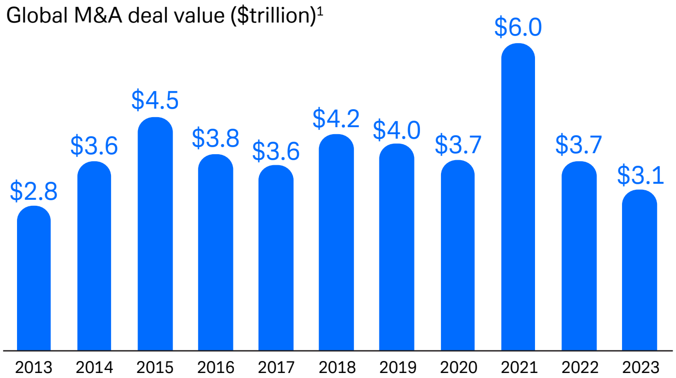
Deutsche Numis

# Recent increase in deal activity encourages optimism for 2024

Cautious hope for an improved M&A environment last year failed to materialise as the anticipated economic recovery was stalled by protracted macroeconomic uncertainties throughout H1 2023. Despite this and increased geopolitical concerns, there was a promising increase in UK deal activity in the last few months of 2023 as confidence grew in the outlooks for inflation and interest rates.

Globally, the total value of M&A fell by 17% year-on-year to $3.1 trillion. In North America, the aggregate deal value decreased by 7%, while in Europe the total decreased by 29%[1].

Global M&A deal value ($trillion)[1]

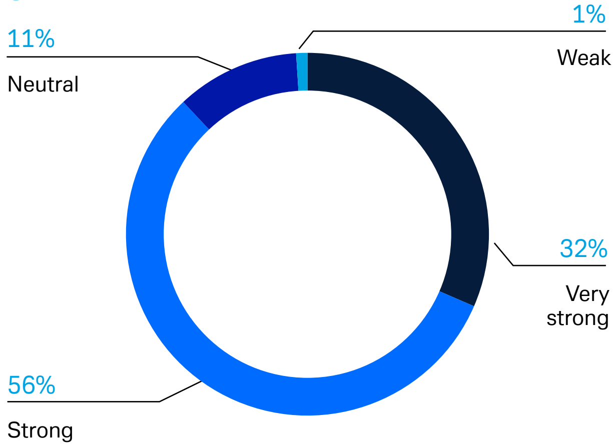



In the UK, M&A deal value totalled £109 billion – a 43% decrease on 2022 – while the 2,620 transactions involving UK-based companies completed in 2023 was down 4% versus prior year[1]. Public M&A in the UK saw a total of 59 firm offers announced for companies listed on the Main Market and AIM index, up from 48 in 2022, albeit with an average public UK transaction size of £330m, down a very significant 66% compared to the average for the period from 2020 to 2022[2].

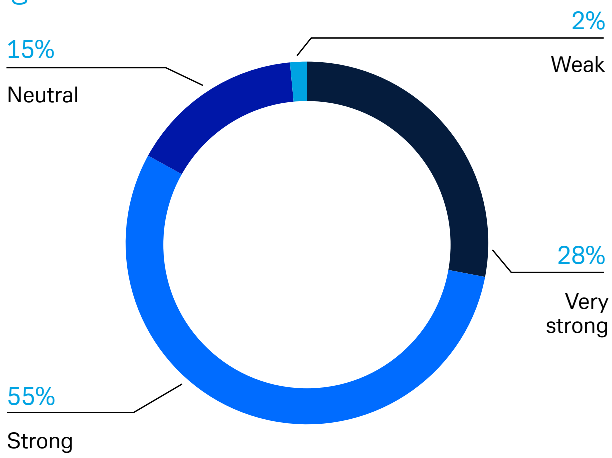
Looking ahead, corporates show similar optimism on the M&A outlook in the UK as they did in 2023. Almost 9/10 respondents have a positive view on the M&A outlook, with 32% of FTSE 350 directors assessing the outlook as 'Very strong'. Investors are equally optimistic, with just 2% of respondents having a negative view on outlook and will welcome this positivity from corporates, given 57% of investors consider M&A returns as 'Very material' to their portfolio's total performance.

Corporates also expect UK assets to be more attractive to buyers in 2024. 76% of FTSE 350 directors suggest bidders will view the UK 'More favourably' versus 2023, with a mere 4% anticipating bidders will look at the UK 'Less favourably'. This is likely driven by stabilisation of the macro-environment and reduced market volatility; 86% and 80% of corporates and investors, respectively, anticipate UK stocks to 'Outperform' or 'Strongly outperform' versus 2023. Respondents were similarly bullish on M&A valuations, with 87% of corporates and 81% of investors expecting valuations to be 'Higher' or 'Significantly higher' in 2024.

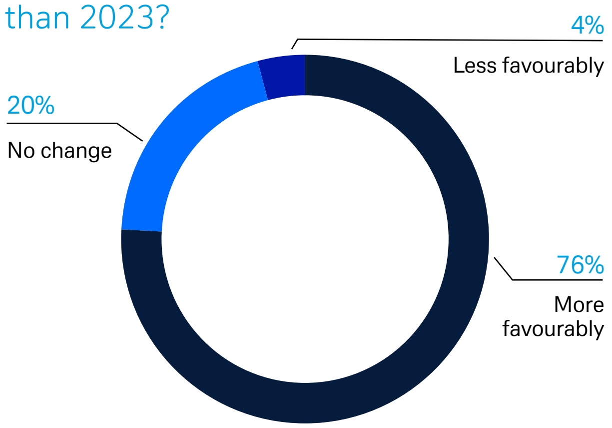
## Corporates: What is your view on the general outlook for UK M&A in 2024?




## Investors: What is your view on the general outlook for UK M&A in 2024?



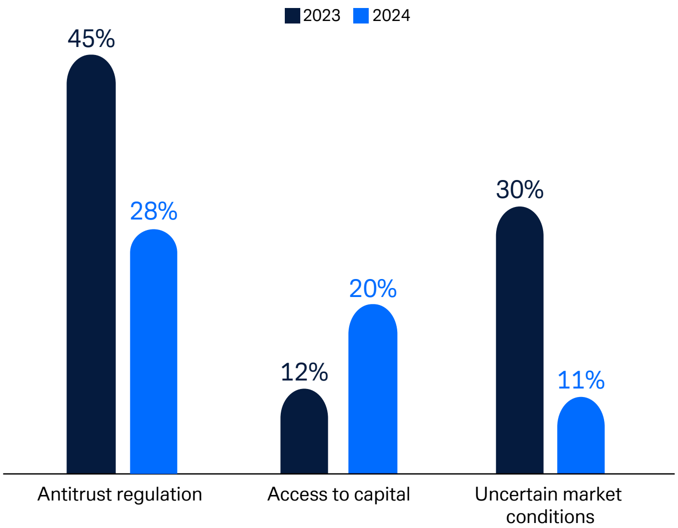

## Corporates: Do you think buyers view M&A investment in the UK more or less favourably than 2023?



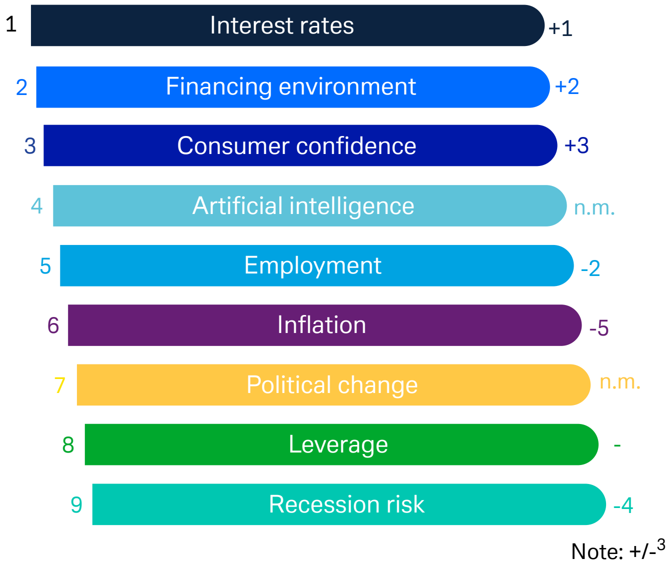

1 Dealogic (January 2024).
2 Filings expert, M&A Insight (January 2024).

# Concerns remain over antitrust regulation and access to capital

## What is your company's biggest challenge to successful M&A in the current environment?




## Rank the key themes your board are considering for 2024?




For the third consecutive year, corporates view antitrust regulation as the biggest challenge to the execution of public and private M&A in the UK. Despite a reduction from 45% to 28% of respondents selecting the issue as the primary concern, both corporates and investors agree that the regulatory environment for UK M&A has become tougher, with 90% and 78% viewing regulation as more difficult, respectively. This perhaps reflects notable transaction completion postponements resulting from antitrust referrals by the Competition and Markets Authority during 2023, such as Microsoft's acquisition of Activision.

Cost of, and access to, capital is clearly an important priority for corporates with interest rates and the financing environment ranking as top themes around the board table in 2024. Boards are keen to deploy capital through inorganic strategies and respondents signal optimism in debt financing markets with 89% of FTSE 350 directors expecting conditions to improve year-on-year (2023: 91%). That said, 20% of corporates noted access to capital as their key obstacle to executing M&A, up from 12% in 2023. Our view is that this reflects M&A feeling more immediate to corporates than it has in recent years, as well as some companies not yet fully appreciating the recent improvement in conditions in UK capital markets and the expected further improvement during H1 2024.

In terms of their anticipated M&A funding strategies, corporates indicated they are more likely to use new debt (51%) and cash from equity raises (53%) in 2024 as opposed to a preference for existing debt and cash on balance sheet in 2023. The increase in likelihood of raising debt and equity relative to 2023 reflects a growing confidence in UK corporate prospects, macroeconomic outlook and capital markets. In a positive sign for UK equity markets, almost 70% of respondents would be 'Highly likely' or 'Somewhat likely' to raise equity in 2024 to fund M&A.

Concerns regarding uncertain market conditions also remain but have fallen significantly as equity markets and the macroeconomic environment have stabilised, albeit geopolitical risk clearly remains. It is positive that corporates highlight reduced concern about inflation and recession risk in 2024. This gain in confidence is recent as demonstrated by the contrasting views expressed in our Deutsche Numis survey: *The UK mid-market private equity outlook*[4] conducted in September 2023 when respondents identified much greater concern over macroeconomic outlook and ranked political uncertainty owing to numerous upcoming elections in the US, UK and EU as a material barrier to M&A execution.

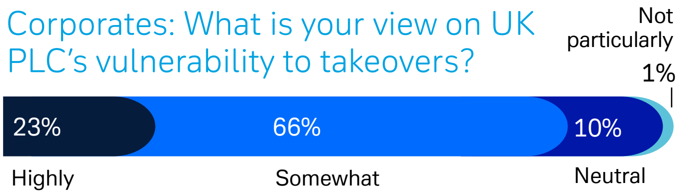
3 Note: +/- reflects increase / decrease in priority versus 2023 survey. 'n.m.' reflects themes excluded from 2023 survey.

4 Deutsche Numis' UK mid-market private equity outlook survey (September 2023).

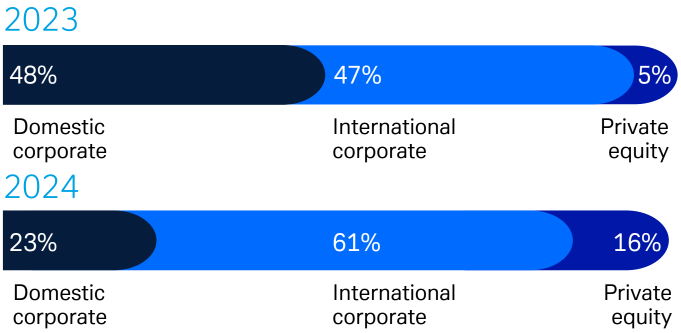
# International corporates expected to lead charge on takeovers of UK PLCs

The perception that UK PLCs are vulnerable to takeover has been a consistent theme for many years and 2023 saw an increase in the number of public takeovers even though the average takeover size was much smaller. While M&A is a very important part of the returns to investors, the long-running trend of de-equitisation is an undoubted cause of concern to many investors and indeed all those with an interest in the success of the UK capital markets.

## Corporates: What is your view on UK PLC's vulnerability to takeovers?



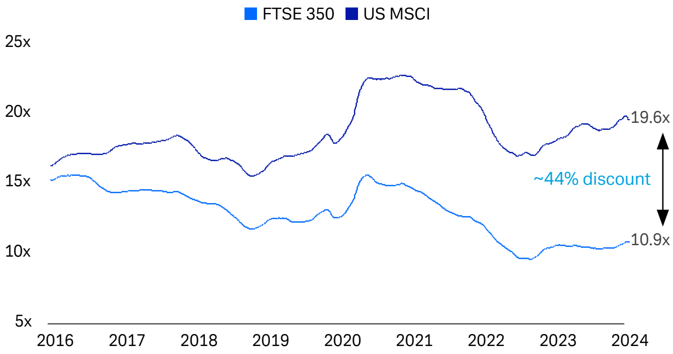

## If you were a target, who would you expect to be the buyer?




With greater confidence around outlook, Deutsche Numis is seeing UK M&A interest from all bidder categories and expects all of domestic corporates, international corporates and private equity to be more active as bidders than they were in 2023, when a significant proportion of public takeovers had a private equity bidder (2023: 42%, 2022: 27%)[5]. It is therefore no surprise that 23% of FTSE 350 directors assessed UK PLCs to be 'Highly' vulnerable to takeovers (2023: 23%), with a further 66% suggesting UK PLCs are 'Somewhat' vulnerable (2023: 66%).

When asked if they were a target, who they would expect to be the buyer, 61% of FTSE 350 respondents identify international corporates as the most likely with 23% identifying domestic corporates, no doubt in relation to smaller and mid-cap transactions. Only 16% identify private equity, presumably lower as a function of the take-private deal sizes that would be required at the larger end of the index and corporates' perception

## UK vs US through-cycle NTM P/E[6]




of leveraged finance markets. We agree that international corporates will likely be the most active bidder type in UK public takeovers in 2024. Despite some concerns over the regulatory environment, the UK takeover regime is a well-trodden path for international corporates, especially those from the US, which are often able to benefit from one or more of favourable exchange rates, valuation arbitrage and scale. On a next-twelve-months P/E basis, the FTSE 350 index currently trades at its largest discount to the US MSCI index, which is a proxy for large- and mid-cap US public companies, since January 2022, reflecting the significant multiple arbitrage opportunity available to North American corporates.

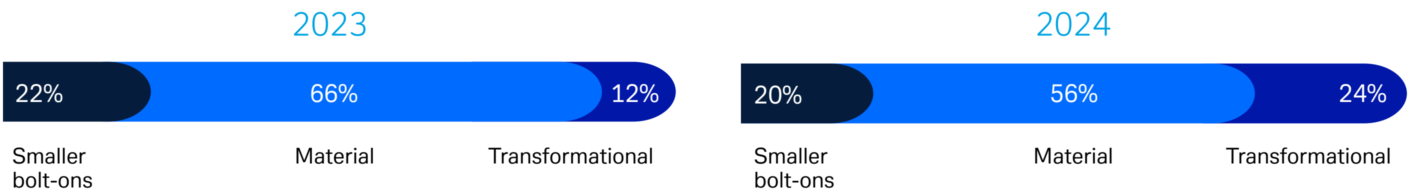
Investors and corporates alike continue to welcome private equity, with 85% of investors and 88% of FTSE 350 directors having a positive view on private equity activity in the UK and not one of the 200 directors viewing it as a negative. Private equity firms have been a significant part of the UK M&A landscape for many years and that is unlikely to change this year. While some may have portfolio management or financing issues that will restrict buy-side activity and see them trying to "survive to 2025", others are experiencing a recovery in their fundraising and are primed to deploy unprecedented levels of dry powder[7] into public and private M&A situations. Private equity continues to proactively screen for quality and actionable UK targets and is encouraged by an ability to access improving financing markets and solve execution issues with more tailored and collaborative transaction structures (e.g. co-investments or partial share alternatives).

The primary focus of private equity in the UK shifted in 2023 to UK private markets[8] driven by a perception of a greater opportunity set and better value. Deutsche Numis expects to see that continue alongside significant activity in UK take-private opportunities of a slightly larger size than was attempted in 2023.

5 Source: Filings expert, M&A Insight (January 2024).
6 Source: Refinitiv Eikon (January 2024).
7 S&P Global Market Intelligence and Preqin (December 2023).
8 Deutsche Numis' UK mid-market private equity outlook survey (September 2023).

# Confidence and collaboration expected to drive larger deal sizes

## If you are considering acquisitions, what type of deals are you most likely to go after?

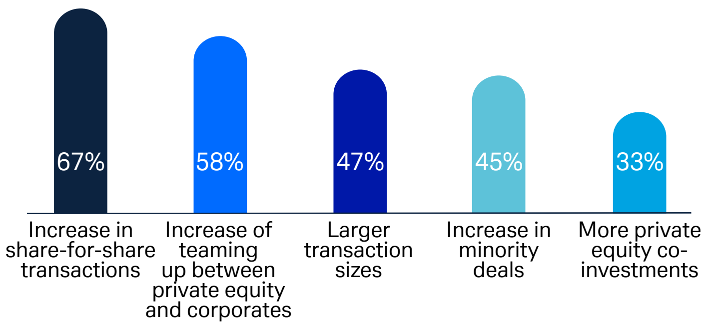



With limited confidence amongst corporates to execute M&A in uncertain market conditions, last year's deal activity was primarily associated with small-to-mid cap and 'housekeeping bolt-on' transactions. This year, corporates considering acquisitions have demonstrated increased ambition in terms of deal size and target geography.

56% of corporates consider their most likely targets to be of a 'Material' size to them (2023: 66%), representing a continued confidence in the ability of corporates to fund and execute such non-transformational deals. Most positively, double the number of respondents (24%) compared to 2023 expect to execute 'Transformational' deals in 2024. Corporates also have more confidence in their peers executing large-cap M&A, with 16% of FTSE 350 directors expecting £3bn+ deals to be the most active deal size bracket, almost triple their 2023 forecast.

Geographically, last year's survey reflected the caution of UK corporates with the largest interest being in domestic targets (77%) and then those in the rest of EMEA (48%). This year, whilst corporates' main focus remains on UK assets (79%), our respondents have become increasingly geographically diversified in their dealmaking aspirations, with a significant increase in interest in targets situated in EMEA (ex. UK) (62%) and the Americas (33%). The increased willingness of FTSE 350 corporates to broaden the search for quality M&A targets internationally evidences UK corporates' confidence in both macroeconomic and M&A conditions in 2024 at home and abroad.

## What trends do you see growing in 2024?




Through challenging M&A environments in 2022 and 2023, bidders have had time and motivation to explore more tailored transaction structures, whether to limit upfront capital requirements or increase deal deliverability, amongst other benefits. An example of this would be private equity's use of co-investments or partial share alternatives in public takeovers. 67% of corporates expect to see an increase in share-for-share deals; 58% anticipate an increase of teaming up between private equity and corporates; 45% believe minority investments will play a larger role; and 33% expect more private equity co-investments to facilitate larger transactions. Corporates will be pleased to know their efforts have been recognised by investors, with 90% acknowledging that, where necessary, more tailored and collaborative deal structures are being employed in the current environment. In private M&A, our 2023 private equity survey[9] showed concerned vendors were increasingly considering employing alternative exit approaches such as continuation funds. However, we expect the recent increase in confidence to result in more dual-track processes in 2024 as vendors look to explore the potential to exit via private sale processes or an IPO.

As a leading UK corporate broker, Deutsche Numis has been privy to numerous recent instances of shareholder activism around a range of topics, including M&A, and acknowledges that activism is often a source of positive strategic initiatives at corporates. The survey shows that both corporates and investors welcome input from activists, with 89% and 85% respectively, viewing their role as 'Often positive' or 'Mostly positive'.

9 Deutsche Numis' UK mid-market private equity outlook survey (September 2023).

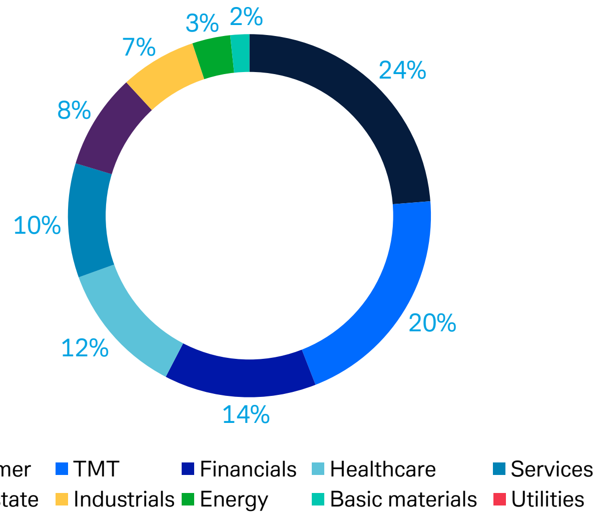
# Financials and real estate tipped to be most active sectors

Investors expected the most active sectors for M&A activity in 2023 to be financials (41%), energy (17%) and healthcare (12%).

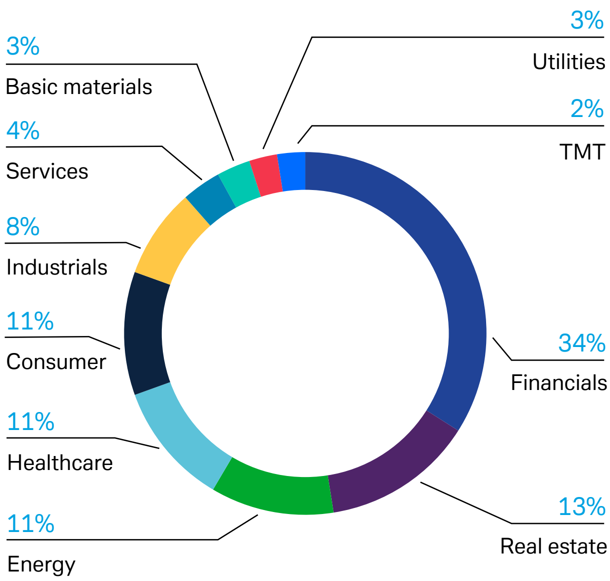
Financials remained an active sector in 2023, accounting for 14% of public takeovers, albeit consumer and technology, media and telecoms (TMT) takeovers were most prevalent, comprising 24% and 20% of public takeovers, respectively. Notable consumer deals included Apollo's take-private of The Restaurant Group and Alpha Auto Group's takeover of Lookers. As has been a continuing trend since the 2022 'tech correction', the TMT sector also saw several public-to-private takeovers, such as Francisco Partners' acquisition of Blancco Technology Group, and the Providence-Searchlight co-investment to take private Hyve Group.

For 2024, investors once again expect financials to be the most active sector (34%), more than double the level of any other sector. Deutsche Numis considers this to reflect attractive valuations and opportunities for consolidation in industries such as asset and wealth managers. Interestingly, real estate has climbed into second place with 13% of investors expecting it to be the most active sector, double that of 2023, as bidders look to take advantage of attractive valuations in the sector. With three out of the four firm offer announcements so far in 2024 being share-for-share mergers between real estate companies, including one above £1 billion, a number of our survey's investor and corporate forecasts are off to a promising start. Consumer, healthcare and energy sectors are also expected to be active with each receiving 11% of votes. Despite, but also perhaps because of, recent UK takeover activity levels in the TMT sector, only 2% of investors expect this to be the most active sector. However, investors gave the same 2% return in the 2023 survey and the TMT sector defied that expectation to be the second most active sector.

## Sectoral split of firm offers for UK-listed companies in 2023[10]




## Investors: What sectors do you view as being the most active for M&A in 2024?




10 Filings expert, M&A Insight (January 2024).

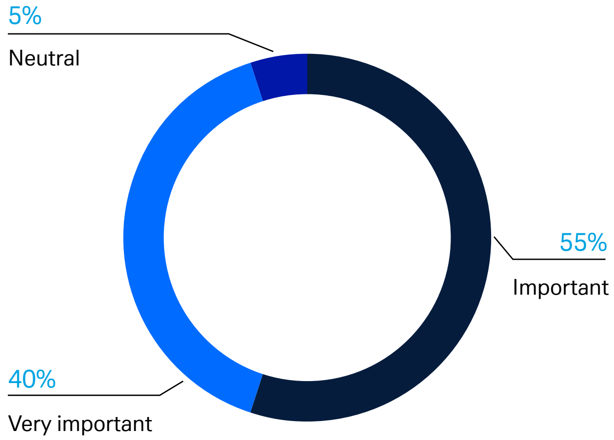
# AI joins ESG as important M&A consideration

Within the sphere of M&A activity, ESG has remained very relevant in the boardroom discussions of UK PLCs. A significant majority of corporates (95%) considers ESG to be 'Important' or 'Very important' for their M&A strategy, reflecting greater awareness of investor focus on issues such as carbon footprints and net zero targets in their acquisitions, compared to 92% in previous year.

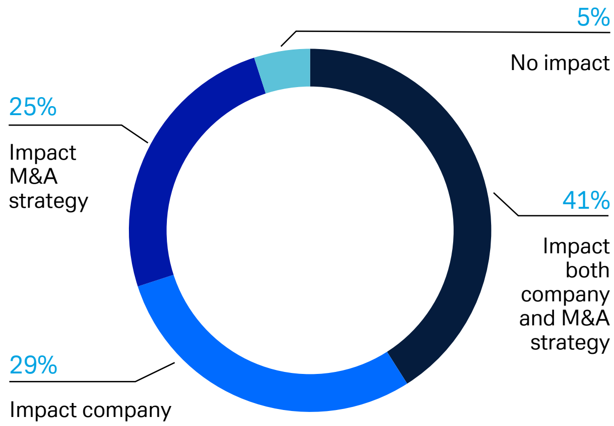
This year, investors have displayed a unanimous front to consider ESG-related issues when deciding on whether to support M&A transactions, with zero 'Not at all' responses (2023: 2%). Expectations have remained relatively unchanged from last year, with 64% of investors expecting scrutiny of ESG screening within deals to increase over the next three years. Corporates have also shown increasing acceptance of ESG when assessing M&A activity, as 93% believe that investors should look beyond valuation when assessing M&A opportunities.

While the importance of ESG remains unwavering, this year's survey sees AI also identified as an important theme in M&A and 95% of corporates believe AI will have an impact on their company, their M&A strategy or both. Investors are aligned with this view, with 96% stating it is 'Important' or 'Highly important' that their portfolio companies consider AI. Deutsche Numis expects to see AI-driven M&A across all sectors, not just TMT.

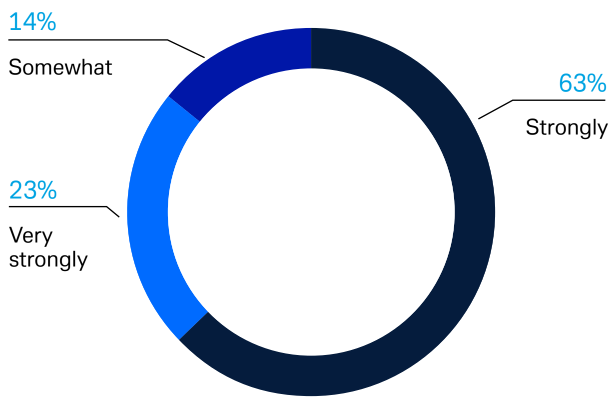
## Corporates: How important is ESG for your M&A strategy?



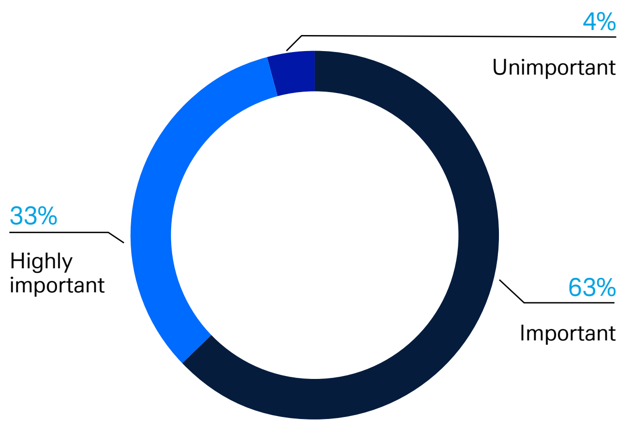

## Corporates: Do you expect AI will impact your company and / or your M&A strategy in 2024?




## Investors: Do you consider ESG issues in whether to support management on a potential M&A transaction?




## Investors: How important is it for the companies you invest in to pursue a strategy that involves AI?



# Corporates and investors optimistic on M&A

The findings of the Deutsche Numis 2024 annual M&A survey demonstrate an increase in confidence in the M&A environment compared to where sentiment was as recently as September 2023 in our private equity survey[11]. While the cautious optimism of last year's annual M&A survey proved unfounded in 2023, this year's optimism from both corporates and investors feels well founded, given the already improved outlooks for inflation and interest rates and the encouraging uptick in deal announcements and activity in the last months of 2023 and the first weeks of 2024. We are pleased to confirm that there is a heightened level of dialogue on UK M&A that supports our survey's encouraging conclusion that 2024 is positioned to be an improved year.

Nonetheless, investors and corporates remain cognisant of the challenges. Unsurprisingly, the main concerns are in respect of antitrust regulation and the ability to access capital in a more active M&A market, although there is a belief that capital market conditions have improved recently and will continue to do so through 2024. Positively, the survey shows that there is now less concern around the board tables of UK PLCs with respect to the UK macroeconomic environment, possibility of recession and political change. While a deterioration of the geopolitical situation would undoubtedly hit markets and confidence in the UK M&A environment, that is not seen as a primary concern at present.

Assuming stable or improving conditions in the macroeconomic, financing and political environments, both corporates and investors are more confident that UK M&A can be executed. After two years of assessing but not executing, the survey shows that UK corporates expect to be on the 'front foot' in their pursuit and execution of larger deals more than has been possible in recent years. It also shows a confidence to look overseas and an increased willingness to look beyond Europe, especially to North America. With improved conditions in the capital markets, the survey also highlights a pivot from using existing cash and financing arrangements to funding M&A with new financing arrangements, equity raises or even share-for share deals, all of which are facilitating larger deals. Corporates and investors also expect there to be more tailoring and collaboration in deal structuring in 2024, whether to facilitate larger deals or to solve execution issues.

Both corporates and investors expect the UK stock market to rise in 2024 but many UK corporates remain undervalued and exposed. The survey shows that UK PLCs feel vulnerable to takeover and that there is an expectation that international corporates will be leading the charge on UK public takeovers. Deutsche Numis expects to see private equity active on both private and public M&A in 2024 but FTSE 350 corporates see less of a takeover threat from private equity, which is surprising given their vulnerability and the 'dry powder' and debt financing conditions that private equity has access to.

The survey shows that UK M&A, whether takeovers or portfolio company M&A, is very important to investor returns and that investors are positive on the outlook for UK M&A and will support transactions that are well thought out and sensibly valued and structured. Investors tip the financial services and real estate sectors to be the most active in 2024.

At Deutsche Numis, we believe the UK M&A market can provide significant opportunities for both companies and investors in 2024. With one of the most experienced M&A teams in the UK, we stand ready to help clients capture those opportunities.

11 Deutsche Numis' UK mid-market private equity outlook survey (September 2023).

# Background

Deutsche Numis commissioned a survey of 200 FTSE 350 board directors (split equally between FTSE 100 and FTSE 250 directors) to understand their views on the UK M&A market and their expectations with respect to M&A investment opportunities in 2024. This survey was completed in December 2023. This report provides an overview of the key findings and a comparison with results from previous surveys conducted by Deutsche Numis.

Deutsche Numis also commissioned a survey of 200 investors in the UK stock market (based in the UK (50%), US (25%) and Europe (25%)) to understand their views on the UK M&A market and their expectations with respect to M&A investment by UK corporates and public takeovers in 2024. This survey was completed in December 2023. This report provides an overview of the key findings and a comparison with results from previous surveys conducted by Deutsche Numis.

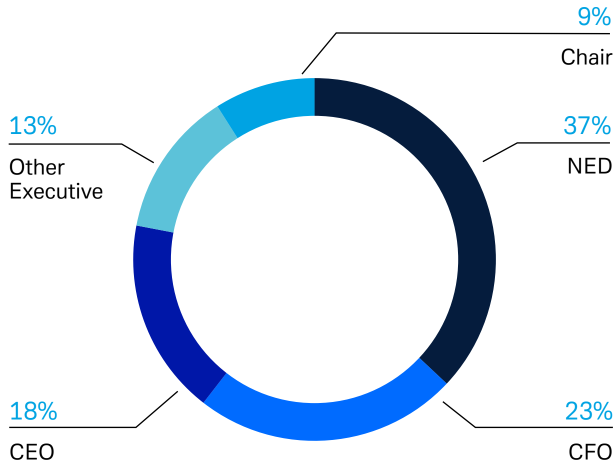
Deutsche Numis is a leading UK-focused investment bank that partners with the most ambitious companies and investors, offering strategic advice, unique insights and connectivity to the capital markets.

Already a leader in the UK market, Deutsche Numis is the adviser of choice for listed companies, including one-fifth of the FTSE 350 index[12], with an average market capitalisation of £1.5bn[13], and has acted on more UK public M&A transactions by volume and value since 2022 than any other financial adviser[14].

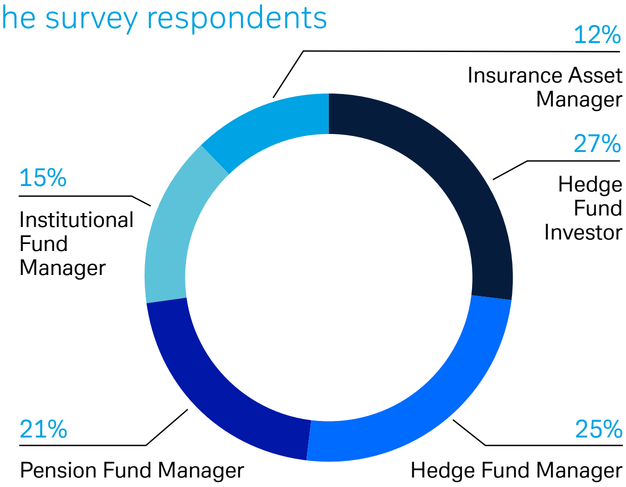
Deutsche Numis offers advisory services, corporate broking, research, sales and execution, and has the expertise and strength of the wider Deutsche Bank Group to offer comprehensive and global solutions.

Deutsche Numis is a trading name used by certain investment banking businesses of Deutsche Bank AG, Numis Securities Limited and Numis Europe Limited in the United Kingdom and Ireland.

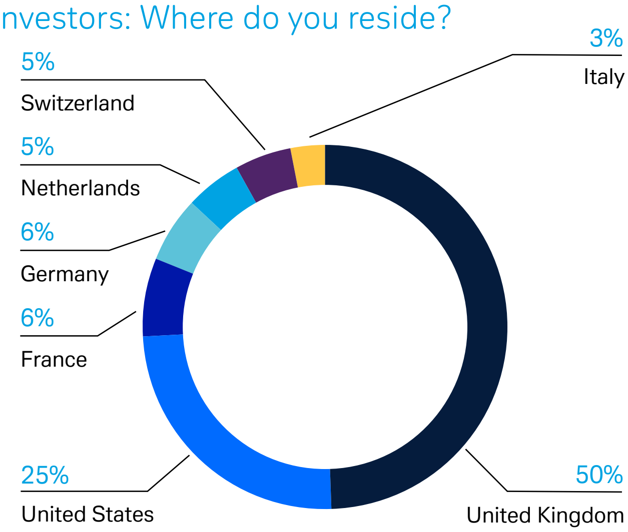
## Corporates: What is your role




## Investors: A breakdown of the survey respondents




## Investors: Where do you reside?




12 Corporate client base includes 70 companies out of the FTSE 350, ie one-fifth – Deutsche Numis data (January 2024).
13 Average market capitalisation of corporate client base £1.5bn – Deutsche Numis data (January 2024).
14 Bloomberg by volume and value (January 2024).

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