

DATA & TRENDS IN THE UK M&A MID-MARKET

Dealsuite.com  
M&A monitor  
H1-2020

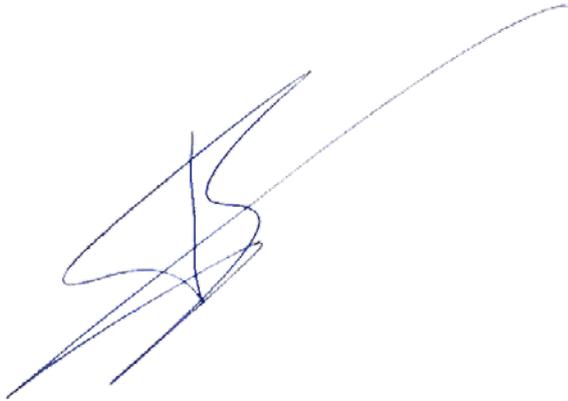
September 2020

# Introduction

This is the UK M&A Monitor H1-2020. The UK M&A Monitor consolidates research performed by Dealsuite, the leading international platform for M&A transactions. It contains statistics and trends for the UK M&A Mid-market (enterprises with a revenue between £1 million and £200 million) over the first half of 2020.

Dealsuite surveyed 308 M&A advisory firms operating in the UK M&A mid-market.

The aim of this study is to create periodic insights that improve the UK market's transparency and can serve as a benchmark for M&A professionals. We are convinced that sharing information within our network leads to an improved quality and volume of deals.

A handwritten signature in blue ink, appearing to read 'Floyd Plettenberg', is positioned above the name and title of the signatory.

**Floyd Plettenberg MSc. EMFC**  
*CEO Dealsuite*

# Content

I	Transactions .....	4
II	Assignments .....	6
III	Sector multiples.....	7
IV	Deal structures .....	8
V	Sell-side projects .....	9
VI	Market outlook .....	11
VI	Set up .....	12
VII	About Dealsuite.....	13

# I Transactions

## THE PROFESSIONAL SERVICES SECTOR HAD THE HIGHEST NUMBER OF DEALS: A FIFTH OF ALL TRANSACTIONS COMPLETED IN H1-2020

The advisors that took part in this research were involved in the following numbers of transactions:

*Figure 1* **Number of transactions covered in H1-2020**

	H1-2020
Buy-side	108
Sell-side	83

Transactions may be reflected in both numbers stated above, on occasions when both the buy- and sell-side advisors took part in the survey.

The total number of transactions cannot be derived from the sum of both numbers.

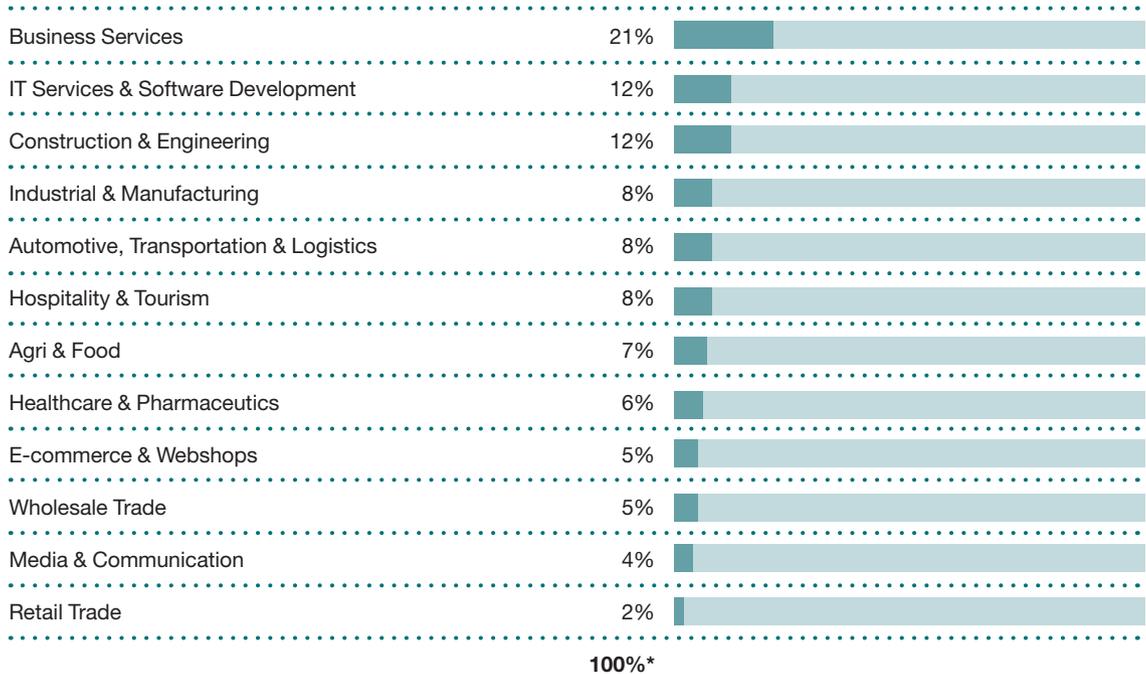
Based on the data of the UK M&A Monitor, the total number of transactions can be divided over industry sectors.

Professional Services is the sector where most transactions took place (21%), followed by IT Services & Software Development and Construction & Engineering (both 12%).

These three sectors account for almost half of the total number of transactions completed in H1-2020.

# I Transactions

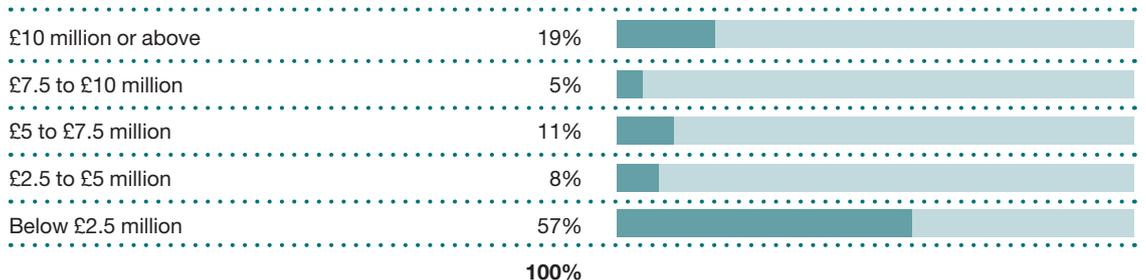
Figure 2 Transactions per sector



\* Percentages might not add up to 100% due to rounding differences

The data shows that in H1-2020 most transactions that were performed had a deal price below £2.5 million (57%). About one in five transactions (19%) surpassed £10 million in deal value..

Figure 3 Transactions per deal size



## II Assignments

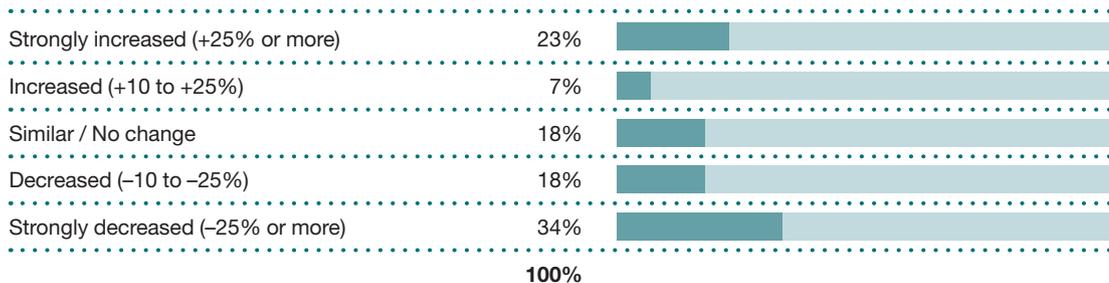
OF ALL RESPONDENTS 23% WITNESSED A HIGH GROWTH (> 25%) IN NUMBER OF ASSIGNMENTS DURING H1-2020 COMPARED TO THE PREVIOUS HALF YEAR

Approximately half of the respondents noticed a decline of at least 10% in the number of active projects. In our survey from April 2020 (“Impact of the corona outbreak on the UK Mergers & Acquisitions mid-market”) 64% of the M&A advisors responded that they expected a decrease of at least 25% in their projects.

If one compares the expected decline in projects from April with the actual changes provided by the outcomes of the survey “Impact of the corona outbreak on the UK Mergers & Acquisitions mid-market” we performed in April, it can be concluded that M&A advisors were probably too pessimistic in April.

The total number of projects does not tell us anything yet about the type of projects (buy-side, sell-side, due diligence, valuation, restructuring, etc.), which may vary in terms of work intensity. In Section VI developments in the number of sell-side projects will further be analyzed.

Figure 4 Development of number of assignments compared to H2-2019



### III Sector Multiples

Our respondents provided us with their view on the current EBITDA multiples across business sectors. The average EBITDA multiple in the UK mid-market in H1-2020 was 5.45.

The sector-specific outcomes vary between 3.75 (Wholesale Trade) and 8.3 (IT Services & Software Development).

The results from this research are a baseline for comparison between the applicable multiples per sector, providing guidance for cross-checking company valuations in the future.

In upcoming editions of the M&A Monitor, the outcomes will be reviewed and adjusted when needed, in order to improve the level of accuracy.

Figure 5 Average EBITDA multiple per sector (EV/EBITDA)

	H1-2020
IT Services & Software Development	8.3
Healthcare & Pharmaceuticals	8.05
E-commerce & Webshops	7.3
Business Services	5.95
Media & Communication	5.6
Agri & Food	5.35
Retail Trade	4.65
Industrial & Manufacturing	4.65
Automotive, Transportation & Logistics	4.65
Hospitality & Tourism	4.1
Construction & Engineering	3.8
Wholesale Trade	3.75

The applicable multiple differs strongly per sector

The average EBITDA multiple for the UK M&A mid-market was

**5.45**

## IV Deal structures

THE MAJORITY OF TRANSACTIONS WERE FINANCED WITHOUT ANY FORM OF DEBT, EARN-OUTS WERE APPLIED IN 40% OF THE CASES

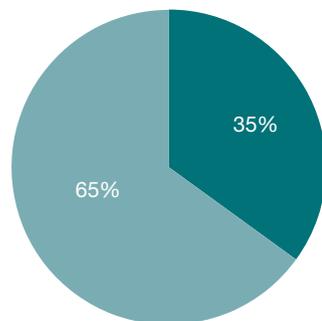
In the survey two topics related to deal structures were included: debt finance and earn-outs.

The results show that in about one third of all transactions a debt instrument was being used. In those cases where debt was being used, it made up for half of the total transaction price.

Furthermore, 2 out of 5 deals were structured with an earn-out clause.

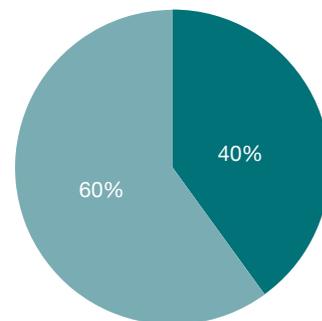
The average earn-out had a length of 28 months and accounted for 38% of the total deal size.

Figure 6 Debt



■ Transaction financed with debt  
■ Transaction financed without debt

Figure 7 Earn-out clause



■ Transactions with an earn-out clause  
■ Transactions without an earn-out clause

The average share of debt in a debt-financed transaction was

**50%**

The average length of an earn-out was

**28** months

The size of an earn-out relative to deal size was on average

**38%**

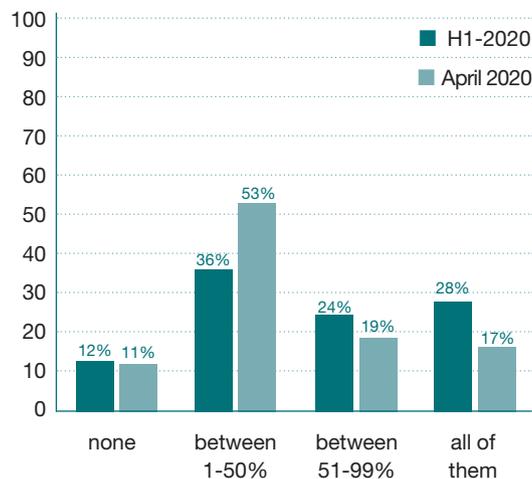
# V Sell-side projects

## A GROWING NUMBER OF PROJECTS ARE BEING CANCELLED, WHILE UNCERTAINTY STILL SURPRESSES MARKET ACTIVITY

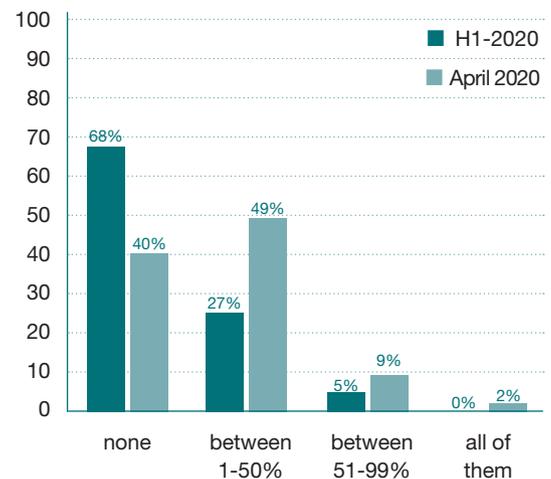
In April 2020 (“Impact of the corona outbreak on the UK Mergers & Acquisitions mid-market”) we asked how many sell-side projects had been stopped and cancelled. In this M&A Monitor, these results are compared with the data from our latest survey.

We assume that the status ‘on hold’ represents uncertainty (i.e. it is not sure whether/when the project is going to be resumed), while the status ‘cancelled’ is a negative, but certain outcome. Then the results suggest that the market has started absorbing the impact of the coronavirus outbreak, leading to a shift in sell-side projects that were initially put on-hold now being cancelled. Notably, the group of advisors that didn’t have any sell-side projects cancelled declined from 68% to 40%. Thus, three in five respondents now mentioned that at least one project has been cancelled at their firm.

*Figure 7* Percentages of respondents that answered to the question: “how many sell-side projects have been placed on-hold?”



*Figure 8* Percentages of respondents that answered to the question: “how many sell-side projects have been cancelled?”



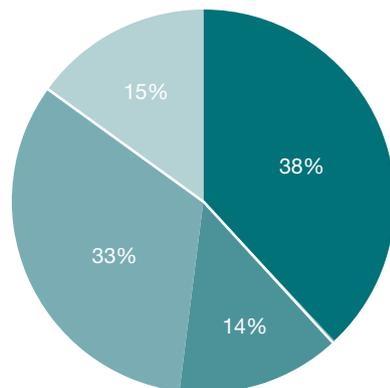
## V Sell-side projects

As the corona outbreak initially caused a spike in uncertainty, which we observed through the number of projects on hold, our latest data suggests that the number of cancelled projects is rising.

This does not mean that uncertainty has been totally eased; still 1 in 3 projects were on hold at the end of H1-2020. The seasonal effect during Summer, when activity is typically low, should not be disregarded. The respondents expect activity to pick up again from September onwards.

It seems that the summer of 2020 offers, now more than usual, a moment for the market to reconsider and prepare for a reboot of activity in Fall.

*Figure 9* Distribution of projects according to activity status



- Ongoing projects: 38%
- On-hold in April – already resumed: 14%
- On-hold in April – not yet resumed: 33%
- Cancelled: 15%

***The data collected for our survey in April and for this Monitor shows that 38% of sell-side mandates in the UK were on-hold after the coronavirus outbreak. Of these, 29% are now resumed.***

# VI Market outlook

## ADVISORS EXPECT IMPROVING CONDITIONS IN THE SECOND HALF OF THE YEAR

Forecasting the performance of the UK M&A mid-market is based on many factors, including the willingness of entrepreneurs to sell their businesses, availability of funding, macroeconomic developments, etc. A complex interpretation of these factors is needed to determine how the market will develop. The survey included both assessments of the M&A mid-market in H1-2020 (backward-looking) and H2-2020 (forward-looking). A majority of over 83% expressed a negative sentiment (slightly negative, negative or very negative) on the overall market in H1, while just 37% were pessimistic (slightly pessimistic, pessimistic or very pessimistic) about H2. The data clearly shows that advisors are confident that conditions will not deteriorate further and are generally optimistic about H2-2020.

Figure 10 Assessment UK M&A mid-market H1-2020

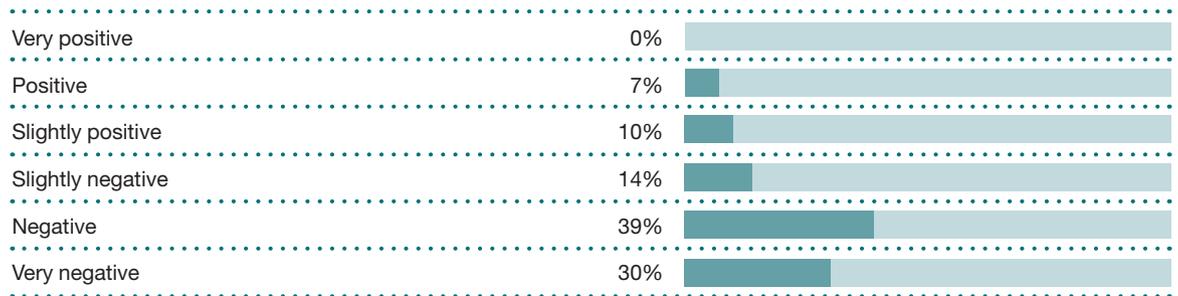


Figure 11 Assessment UK M&A mid-market H2-2020

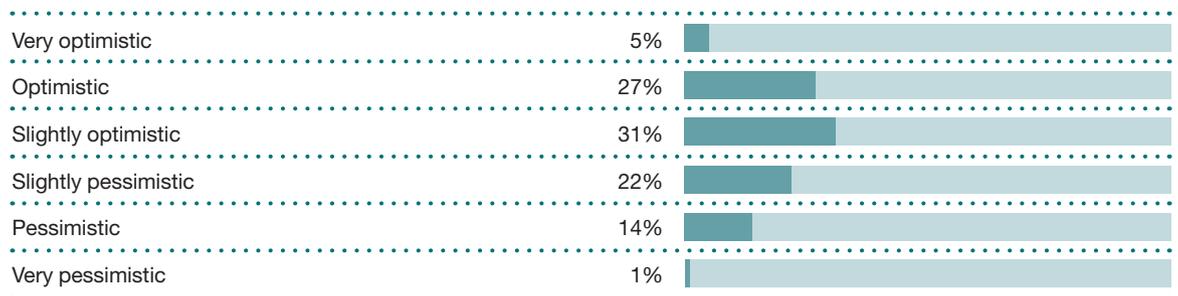
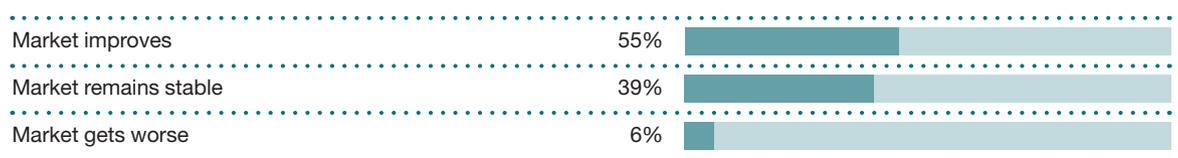


Figure 12 Relative assessment



## VII Set up

The majority of M&A transactions take place in the mid-market. This M&A Monitor uses the definition of a mid-market company by having a revenue between 1 and 200 million pounds. The survey that was the basis for this M&A Monitor was sent to 308 M&A advisory firms. Considering the total of their input, they represent an essential part of the M&A mid-market in the UK. In this first edition, out of the total of 308 advisory firms, we received 83 respondents (27% response rate)

This research was carried out under the direction of Tariq Mooseajee. If you have any questions related to the results, please do not hesitate to contact Tariq.

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## VIII About Dealsuite

Dealsuite is the largest European M&A network, founded by and for M&A experts. The founders realized that a lot of time and costs that are incurred during the process of finding a right buyer or seller can be saved by making use of online networks. As a solution, Dealsuite offers a state-of-the-art matching platform that allows M&A experts to communicate with each other easily, efficiently and securely.

Dealsuite is offered as a plug-and-play SaaS solution, making it very user friendly. Thanks to the commitment of our renowned customers and our excellent reputation, the Dealsuite network is a rapidly expanding. Currently Dealsuite is active in over 50 countries, with over 1800 M&A advisory and Private Equity firms connected.

Not a member yet? We are looking forward to welcoming you and your company to our community. Visit us at [www.dealsuite.com](http://www.dealsuite.com) for more information.