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M&A Monitor August 2023

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



Introduction

Thank you for taking the time to read this H1-2023 version of the UK&I M&A Monitor. This report consolidates research performed by Dealsuite, the leading UK&I and international platform for M&A transactions. It contains statistics and trends for the UK&I M&A mid-market (enterprises with a revenue between £1 million and £200 million) over the first half of 2023.

Dealsuite surveyed 327 M&A advisory firms operating within the UK&I M&A mid-market.

The aim of this study is to create periodic insights that improve the UK&I market's transparency and to 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.

Floyd Plettenberg MSc. EMFC
CEO Dealsuite



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I Transactions

Recovery in the number of buy and sell-side transactions.

The advisors that took part in this research were involved in the following number of transactions in the first half of 2023:

Figure 1. Number of transactions

	H1-2023	*Percentage
Buy-side	154	+7%
Sell-side	308	+4%

**Based on average number of transactions per adviser compared to H2-2022.*

Some of the businesses sold involved a respondent on both the sell- and buy- side. Therefore, we cannot sum up the sell- and buy-side transactions to arrive at a total number of transactions.

The challenging economic situation, caused by rising interest rates and high inflation, resulted in a significant drop in both buy and sell-side transactions in H2-2022. In H1-2023 the number of transactions has started to recover, with an increase of 7% in buy-side transactions reported and an increase of 4% in sell-side transactions.

I Transactions

Largest increase in the sectors Automotive, Transportation & Logistics and IT Services.

The distribution of transactions completed in H1-2023 across sectors is illustrated in Figure 2. Since the first publication of the UK&I M&A Monitor in H1-2020, most transactions had been closed within the Business Services sector. In H1-2023, the percentage of transactions closed within this sector slightly decreased from 21% to 20%. The percentage of transactions within the Industrial & Manufacturing sector dropped from 16% in H2-2022 to 13% in H1-2023.

The largest increases in the percentage of transactions were reported in the IT Services (11%) and Automotive, Transportation & Logistics sectors (9%). Both percentages increased by 3%.

Figure 2. Transactions per sector






	H1-2023	difference	H2-2022
Business Services	20%	↓ -1	21%
Industrial & Manufacturing	13%	↓ -3	16%
Construction & Engineering	12%	→ -	12%
IT Services	11%	↑ +3	8%
Automotive, Transportation & Logistics	9%	↑ +3	6%
Media & Communication	8%	↑ +1	7%
Healthcare & Pharmaceuticals	5%	→ -	5%
Software Development	5%	↓ -2	7%
Agri & Food	4%	→ -	4%
Wholesale Trade	4%	→ -	4%
E-commerce & Webshops	3%	↓ -2	5%
Hospitality & Tourism	3%	↑ +1	2%
Retail Trade	3%	→ -	3%

I Transactions

Increase in the average deal size.

After a decrease in average deal size in H2-2022, a significant increase in deal size is reported in H1-2023. The amount of transactions with a deal size of above 10 million increased from 16% to 21%. In total, the transactions with a deal size above 5 million increased by 13% to 52%.

Figure 3. Transactions per deal size

		H1-2023		H2-2022
10 million £ or above		21%	↑ +5	16%
7.5 to 10 million £		16%	↑ +5	11%
5 to 7.5 million £		15%	↑ +3	12%
2.5 to 5 million £		14%	↓ -6	20%
Below 2.5 million £		34%	↓ -7	41%

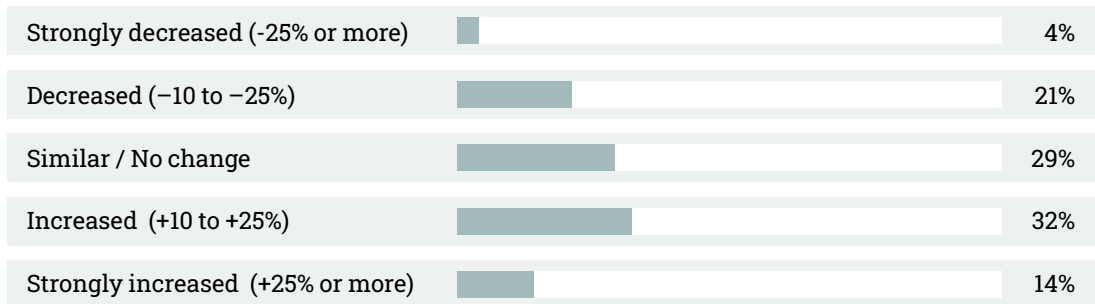
II Assignments

46% of advisors report an increase in the number of assignments.

The results are explained in more detail in Figure 4 below. These are assignments received in H1-2023 and completed in H1-2023. Some of these projects may be completed at a later time or canceled all together.

In H2-2022, the majority of advisors (54%) reported an increase in assignments. In H1-2023, a further increase in the number of assignments was reported by 46% of the advisors. 29% of the advisors reported a similar amount of assignments and the remaining 25% experienced a decrease.

Figure 4. Development in number of assignments compared to H2-2022



III Sector Multiples

The average EBITDA multiple remains stable at 5.1.

Sell-side advisors defined the average EBITDA multiple by industry. In this edition, the advisors were asked to revise the industry multiples from H2-2022. The results are shown in Figure 5.

Despite the challenging economic circumstances, the average EBITDA multiple for H1-2023 remains stable at 5.1. Individual sectors did note some adjustments. The biggest decrease in EBITDA multiple is reported in the Construction & Engineering sector, where the multiple dropped from 3.3 in H2-2022 to 3.0 in H1-2023. The E-commerce & Webshops, Agri & Food and Wholesale Trade sector multiples slightly increased.

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

	H1-2023	H2-2022	Difference
Software Development	8.1	8.1	-
Healthcare & Pharmaceuticals	7.9	7.9	-
IT Services	7.7	7.9	-0.2
E-commerce & Webshops	7	6.9	+0.1
Agri & Food	5.6	5.4	+0.2
Business Services	5.2	5.2	-
Industrial & Manufacturing	4.8	4.9	-0.1
Media & Communication	4.3	4.3	-
Hospitality & Tourism	4	4	-
Retail Trade	3.6	3.7	-0.1
Wholesale Trade	3.6	3.4	+0.2
Automotive, Transportation & Logistics	3.4	3.4	-
Construction & Engineering	3	3.3	-0.3

The applicable multiple differs strongly per sector

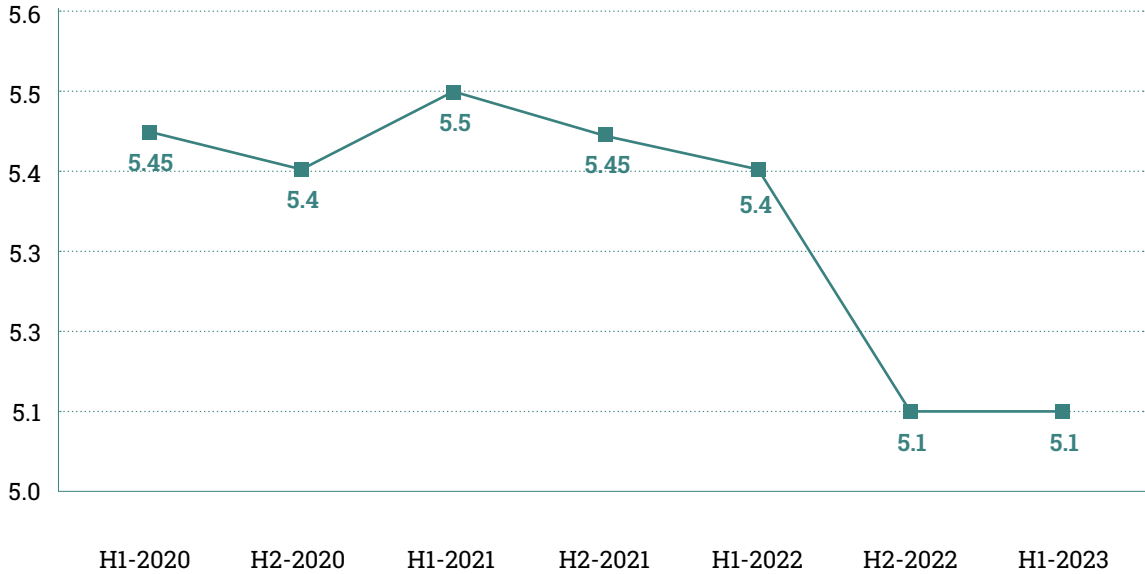
The average EBITDA multiple for the UK&I M&A mid-market was

5.1

III Sector Multiples

Figure 6 shows the development of the average EBITDA multiple since 2020. In H2-2020, during the pandemic, the average multiple dropped to 5.4. In H1-2021, the multiple reached its highest point at 5.5. Since H2-2021, the multiple has been decreasing to a low of 5.1.

Figure 6. Development of the average EBITDA multiple since 2020



III Sector Multiples

Biggest spread reported in the Agri & Food and Business Services sectors.

A sector can contain various types of companies with different characteristics. As a consequence, businesses in a specific sector may also vary in EBITDA multiple. Figure 7 shows the spread of EBITDA multiples per sector. For some sectors, a wider spread in EBITDA multiples is reported, compared to sectors that contain a higher proportion of similar companies.

Figure 7. Spread of EBITDA multiples per sector*

	Lowest	Average	Highest
Software Development	7.7	8.1	8.5
Healthcare & Pharmaceuticals	7.4	7.9	8.2
IT Services	7.3	7.7	8.3
E-commerce & Webshops	6.3	7	7.2
Agri & Food	4.8	5.6	6
Business Services	4.6	5.2	5.8
Industrial & Manufacturing	4.3	4.8	5.3
Media & Communication	4	4.3	4.7
Hospitality & Tourism	3.5	4	4.4
Retail Trade	3	3.6	3.9
Wholesale Trade	3.1	3.6	4
Automotive, Transportation & Logistics	3	3.4	3.9
Construction & Engineering	2.6	3	3.6

* The spread of multiples has been corrected for the two largest outliers.

IV Cross-border transactions

A comparison of EBITDA multiples between different countries highlights the advantages of cross-border deals. For example, it can be beneficial to buy a particular company abroad, or to sell a company to an international buyer. Figure 8 shows the differences in EBITDA multiples between Western European markets.

In all four countries/regions, the highest paid EBITDA multiple is reported in the Software Development sector.

Figure 8. Comparison between average EBITDA multiple by sector (Enterprise Value) in the United Kingdom and Ireland and neighbouring countries

	UK&I	DACH	France	The Netherlands
Software Development	8.1	8.7	7.6	6.8
Healthcare & Pharmaceuticals	7.9	8.3	7.5	6.2
IT Services	7.7	8.2	7.4	6.5
E-commerce & Webshops	7	6.8	5.6	5.1
Agri & Food	5.6	5.8	5.7	5.5
Business Services	5.2	5.7	5.3	4.9
Industrial & Manufacturing	4.8	5.6	4.9	4.9
Media & Communication	4.3	4.7	4.8	4.1
Hospitality & Tourism	4	5.3	4.3	2.9
Retail Trade	3.6	2.9	4.7	2.6
Wholesale Trade	3.6	4.4	4.2	5.3
Automotive, Transportation & Logistics	3.4	4.4	4.1	3.7
Construction & Engineering	3	5.2	3.9	3.9
Average:	5.1	5.5	5.3	4.65

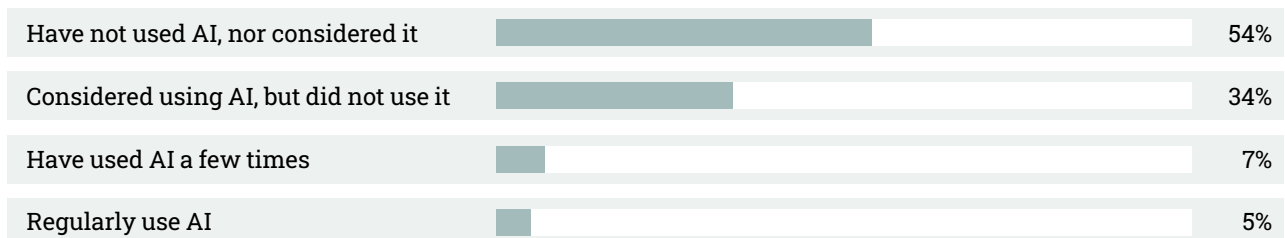
V AI (Artificial Intelligence)

The vast majority of M&A advisors have never used AI to support their M&A activities (88%).

The introduction of AI solutions such as Chat GPT allow for quick access to data and streamlining of tasks. New ways of working deepen understanding of potential deal partners in the broader ecosystem and decrease geographical barriers. Sourcing, screening and scoring deal targets have become a matter of clicks.

5% of the advisors regularly make use of AI to support their M&A activities. The vast majority of M&A advisors have never used AI to support their M&A activities (88%).

Figure 9. Role of AI on M&A activities in H1-2023 according to M&A advisors



AI can support in various M&A processes from market research to post-merger integration. 69% of M&A advisors agree that AI will add value to the market research process, where only 5% of advisors do not think it will add any value in this process. The opinions on the added value of AI in the Legal documents creation/evaluation process are diverse. 23% of advisors think AI will not add any value in this process, while 45% of advisors believe it will add significant value.

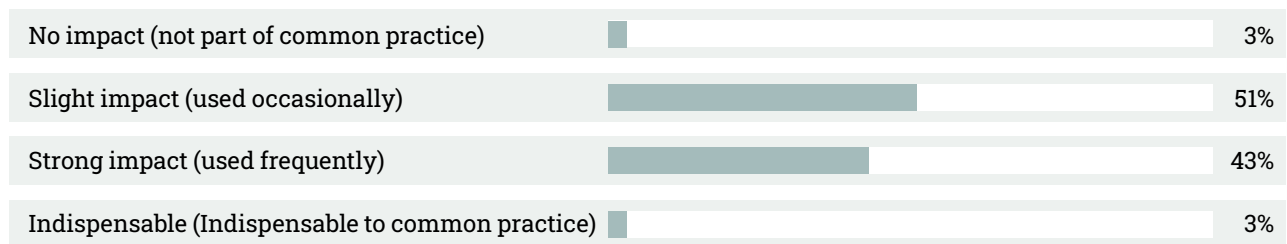
Figure 10. Expected value added by AI

	None	Little	Significant
Market research	5%	26%	69%
Identifying off-the-market opportunities	18%	37%	45%
Faster target evaluation	9%	48%	43%
Efficient Due Diligence process	14%	57%	29%
Legal documents creation/evaluation	23%	32%	45%
Post-merger integration	33%	61%	6%

V AI (Artificial Intelligence)

More people become familiar with AI and its benefits. Advisors were asked about how they see the role of AI develop in the upcoming 5 years. The opinions are mixed, 54% of the advisors expect AI to have a slight impact or no impact at all, while 46% of the advisors expect AI to have a strong impact or even be indispensable.

Figure 11. Expectations of the role of AI in the next 5 years according to M&A advisors



VI Buyers intent

Decrease in average number of interested parties per firm (7.5).

The overall number of interested parties per firm is high. There is more demand than supply. The current M&A market therefore remains a seller's market. Selling parties are in a luxurious position. The ratio between supply and demand is different for each sector. The advisory firms were asked to fill in the average amount of interested firms per sector. The results are shown in Figure 12. Compared to H1-2022, the average number of interested parties over all sectors has decreased from 9.2 to 7.5.

Figure 12. Average number of interested* parties per firm

	H1-2023	Difference	H1-2022
IT Services	13	↓ -2.7	15.7
Software Development	12.2	↓ -3.5	15.7
Construction & Engineering	10.3	↓ -3.2	13.5
Industrial & Manufacturing	9.2	↓ -2.3	11.5
Business Services	9	↓ -2.7	11.7
Automotive, Transportation & Logistics	7.4	↓ -4.2	11.6
Healthcare & Pharmaceuticals	6.6	↓ -1.6	8.2
E-commerce & Webshops	6.2	↓ -2.4	8.6
Media & Communication	5.9	↓ -2.3	8.2
Wholesale Trade	5.1	↓ -2.1	7.2
Agri & Food	4.7	↓ -1.9	6.6
Hospitality & Tourism	4.2	↓ -0.2	4.4
Retail Trade	3.2	↓ -0.9	4.1
Average	7.5	↓ -1.7	9.2

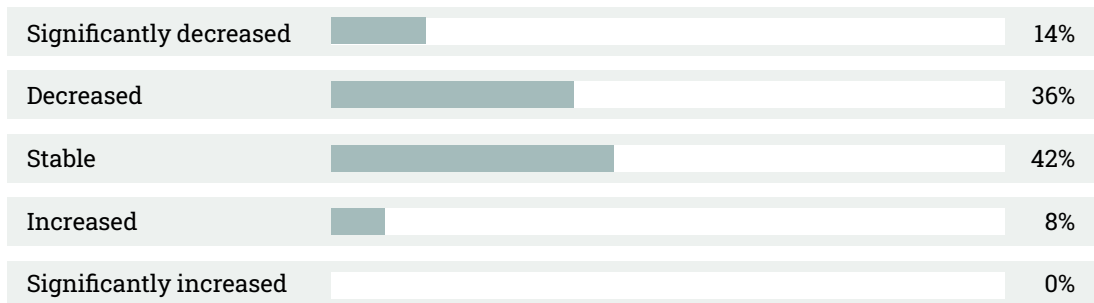
*Definition of 'interested': Someone who actually contacts the selling party.

VII Risk appetite

Decrease in the risk appetite of strategic buyers.

In the previous M&A Monitor, research was conducted on which buyer type usually offers the highest price per firm. In 61% of the cases, a strategic buyer made the highest offer. For this edition, M&A advisors were asked about the risk appetite of those strategic buyers in the current challenging economic conditions. Half of the advisors report a drop in the risk appetite of strategic buyers in H1-2023. The risk appetite also impacts the average interested parties per firm (Graham et al. (2010)).

Figure 13. Risk appetite of strategic buyers in H1-2023



VIII Outlook

Majority of the advisors (72%) are optimistic about H2-2023.

Assessing the performance of the UK&I M&A mid-market is based on many factors, including the willingness of entrepreneurs to sell their businesses, funding availability, macroeconomic developments etc. An 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 H1-2023 (retrospective) and H2-2023 (projection).

Just like the development of assignments, the opinions about the past six months are mixed. Over half of the advisors (51%) look back at H1-2023 with a dissatisfied feeling. In total, 49% of advisors were satisfied with the performance of H1-2023. The expectations for the second half of 2023 are more positive, 72% of the advisors have optimistic expectations for H2-2023.

Figure 14. Assessment UK&I M&A mid-market H1-2023

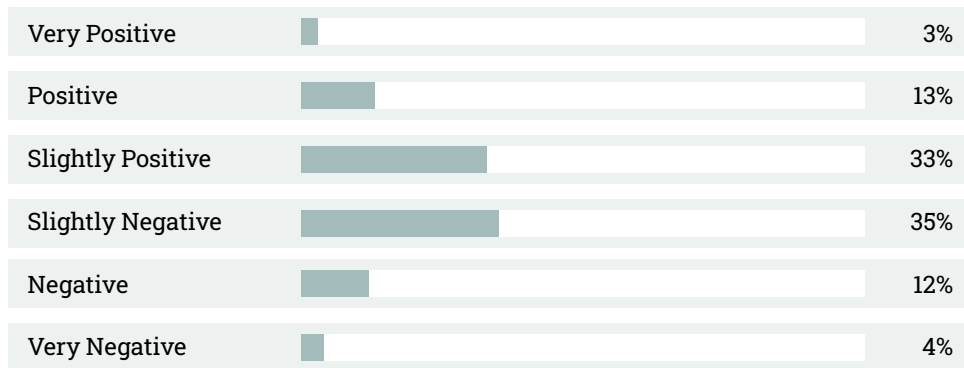
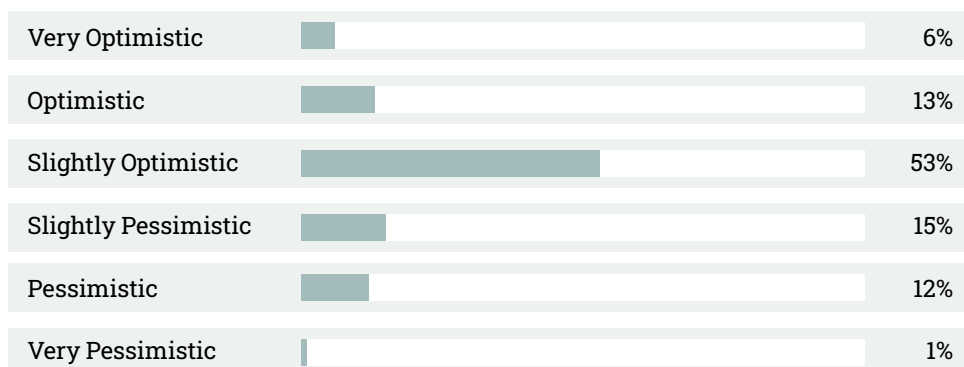


Figure 15. Expectations UK&I M&A mid-market H2-2023



IX References



As a group, we have recently completed our 16th acquisition with a number of these acquisitions introduced to us via our partnership with Dealsuite. We value the efficient service for identifying and contacting relevant targets.

Sameer Rizvi
Founder & CEO
RDCP



Dealsuite has been well worth the investment – within a month of using Dealsuite we were at HoTs with a purchaser identified via the platform. We have had numerous meetings with interested parties for our sell-side mandates and are delighted with the results.

Luke Rebbettes
Director
Kingsbrook



Thanks to Dealsuite, RBK has been able to effortlessly connect with international M&A advisors and relevant contacts. Dealsuite has been instrumental in keeping us informed about the latest opportunities in a user-friendly way which in turn empowers us to deliver added value to our clients.

Jennifer Brennan
Corporate Finance Director
RBK



Dealsuite provides a great resource for presenting opportunities and connecting with new contacts. The platform makes global networking effortless and uncomplicated.

Conor Martin
Corporate Finance
CKS

X Method

The majority of M&A transactions take place in the mid-market. This M&A Monitor uses the definition of a mid-market company as having a revenue between 1 and 200 million pounds. The survey that was the basis for this M&A Monitor was sent to 327 M&A advisory firms. Considering their combined input, they represent an essential part of the M&A mid-market in the UK&I. Out of the total of 327 advisory firms, we received 104 respondents (31.8% response rate).

Sources used:

- 104 survey responses from senior managers of UK&I M&A advisory firms
- Dealsuite M&A Monitors 2015 - 2023
- Dealsuite transaction data 2015-2023
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This research was conducted by Jelle Stuij, Bjorn Brenninkmeijer and Roos Bijvoet. For further questions, please contact Tariq Mooseajee or Edward Playfair.



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XI About Dealsuite

Dealsuite is the largest European M&A network. Dealsuite was founded by and for M&A professionals. They realised that a lot of time and costs that are incurred during the process of finding the right buyer or seller can be saved by making use of online networks. Dealsuite enables M&A professionals to communicate with each other easily and securely via a state-of-the-art platform. 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 rapidly expanding. Currently, Dealsuite is active in 50+ countries, with over 1,400 M&A advisory, private equity firms and strategic buyers connected. We are looking forward to welcoming you and your company to our community.

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