



MHA Corporate Finance

Deals Analysis &
Transaction Insights 2020

Now, for tomorrow

Completed transactions 2020: Key facts and figures

86 Reported completed transactions in 2020

National Rankings

On a consolidated basis, MHA would rank 7th overall in the UK Experian National 2020 rankings by volume of deal completions for 2020.

Small cap (deals sub \$50m)*:

- UK – 16th (per p.5)
- Europe – 25th (per p.5)

Mid cap (up to \$500m)*:

- UK – 20th
- EU – not ranked

**Refinitiv for Baker Tilly International*

Transaction type



33%

Disposal



23%

Financial & tax due diligence



20%

Equity & debt fundraising



14%

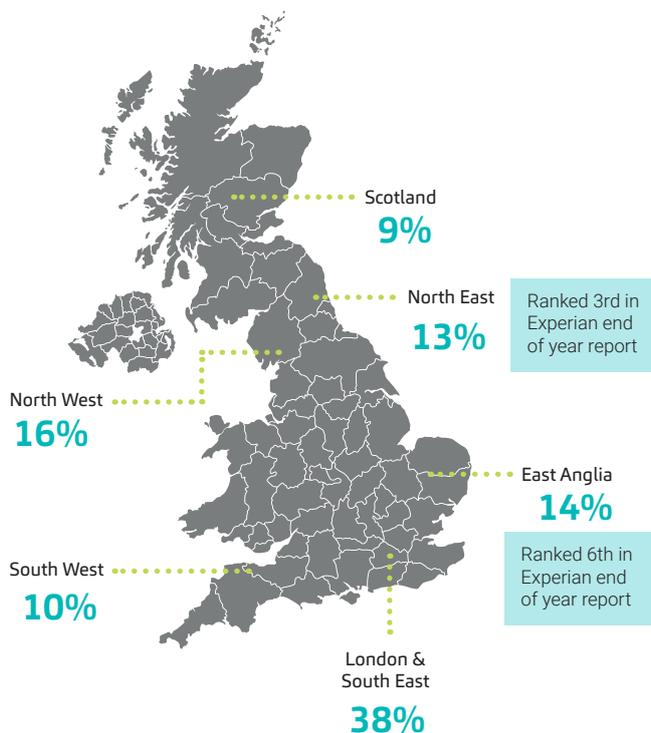
Acquisition



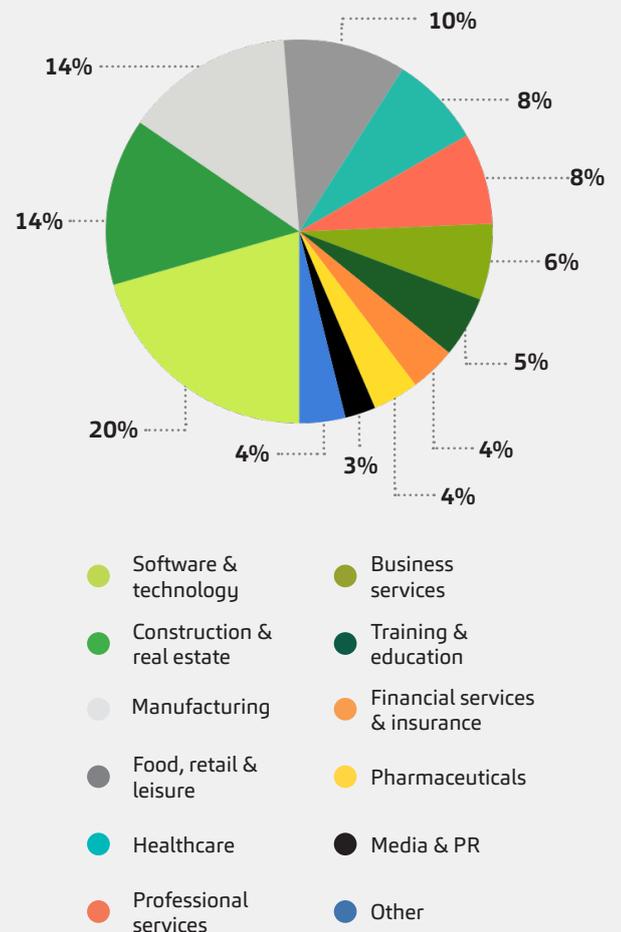
10%

MBO

Transactions by region



Transactions by industry sector



Looking back at 2020 and to 2021 ahead



2020 represented a year of extremes in the UK M&A market – it was bookended by the spectre of potential changes to the CGT regime, and punctuated intermediately by the COVID-19 global pandemic.

Experian reported overall transaction volumes down 15% as compared to 2019, albeit the value of UK deals grew in 2020, influenced significantly by the impact of so-called ‘mega-deals’. Despite a tumultuous market, the national MHA Corporate Finance team delivered a strong performance in 2020 – the team completed more deals than 2019, saw average enterprise values increase, and on an aggregated basis would rank nationally as 7th by volume of transactions completed.

2020 started positively for the lower and mid-market with high transaction volumes in Q1; a result of a confluence of high liquidity meeting threatened changes to the Entrepreneur’s Relief (“ER”) regime. Chancellor Sunak of course used his first budget in early March 2020 to introduce changes to ER, replacing it with ‘Business Asset Disposal Relief’ (“BADR”). Whilst BADR maintained the 10% capital gains tax (“CGT”) rate for qualifying individuals, the lifetime allowance was reduced significantly from £10m to £1m.

Transaction volumes declined in Q2 As COVID-19 took hold across the globe, the impact on the M&A market was sharp with many live projects being paused to allow buyers and sellers alike to assess the impact of the burgeoning pandemic, and unfortunately some being abandoned entirely. Unsurprisingly, transaction volumes declined in Q2 to a level not seen since the 2009 global financial crisis; the MHA team’s focus pivoted to supporting clients to understand and navigate the impact of national and international ‘shut-downs’.

A quick recovery in Q3 - Whilst Q2 represented a clear nadir, appetite for M&A activity in the lower and mid-market started to recover quickly from the beginning of Q3, with monthly deal completions broadly tracking global share indices. Having stabilised portfolio companies, many of our contacts in private equity were asked to redouble efforts to deploy funds from June onwards – the clear and obvious challenge was a stark and emerging sector-based disparity; historically active and important segments of the UK economy including for example, leisure, restaurant and (non-essential) retail remained challenging sectors in which to transact. However, sectors including software, technology, healthcare, and others either buoyed by the effects of lockdowns, or viewed as ‘safer havens’ underpinned by recurring revenues, benefited from increased competition for good assets.

Q4 saw a continued increase in completed transactions. Against the backdrop of burgeoning Government spending on COVID relief packages, the request by the UK Chancellor to the Office of Tax Simplification (“OTS”) in July to review CGT caused further consternation amongst many entrepreneurs. Whilst an October statement was ultimately shelved as a result of additional waves of COVID-19 sweeping Western economies, Q4 saw a continued increase in completed transactions across all segments of the market.

The Year Ahead - 2021

At the time of writing during Q1 of 2021, M&A activity has remained strong – but still very-much sector-led. The OTS published a draft report setting out recommendations for potential reform of CGT in November 2020 – this caused a continued and concerted effort to complete transactions in advance of the Budget in early March 2021. This is likely to remain a topic of ongoing focus throughout 2021; as vaccine penetration increases and COVID rates decrease, aside from corporation tax increases already announced, the Treasury is likely to become increasingly focused on how to pay for the financial aid dolled out throughout the pandemic – and meet policy commitments at the last election to ‘level up’ regional economic disparity across the UK.

Key themes and predictions for lower and mid-market M&A in the remainder 2021 include:

- Appetite for M&A is likely to continue to be sector-dependent;
- Private equity investors continue to hold significant ‘dry powder’ and to raise new funds – competition for good assets is therefore likely to continue to inflate pricing multiples;
- The continued threat of changes to CGT will likely drive a continued push to deliver processes in advance of the next budget in November 2021;
- As COVID relief packages are phased out, we are likely to see an unfortunate increase in insolvency processes – accelerated M&A will therefore present an opportunity for some buyers; and
- Protectionism will be a key focus in 2021 as the UK Government takes further steps to introduce legislation to bring a greater degree of scrutiny and control over cross-border M&A across all size segments of the market.

Transaction insights 2020

£11.6m
Average transaction enterprise value



£1.25m
Average client EBITDA



9.3x
Average multiple



Key sector-based average multiples in 2020:



Software & technology – **10.3x**



Healthcare – **6.9x**



Construction & real estate – **6.8x**

30%

of MHA transactions completed in 2020 involved private equity

Average time taken between agreement of offer terms and completion in 2020: **5-months** (influenced higher by COVID-19)

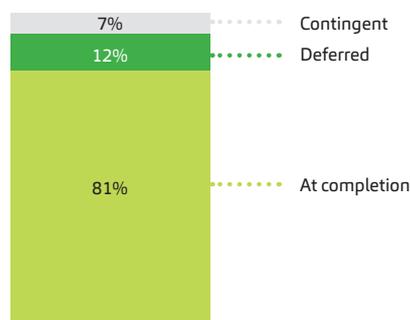
Completion mechanism:

- Locked box - 31% vs Completion accounts - 69%

Recent analysis of wider market activity in 2020 in partnership with Mark2Market¹ showed 38% of transactions completed nationally were structured to include an element of deferred consideration and the quantum ranged between 22-51% of proceeds. Analysis of completed transactions where MHA advised showed a higher average proportion of consideration paid at completion (81%), with only 19% deferred – and critically only 7% contingent upon future performance.

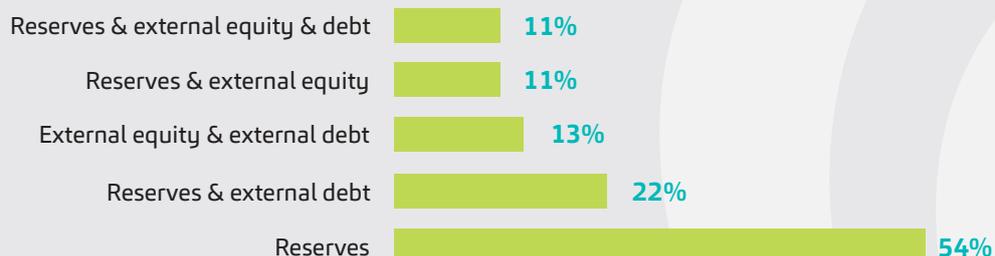
¹[Mark to Market, 2021](#)

Average split of consideration proceeds in 2020 (£)



The graph below summarises acquirer's sources of funding for transactions completed in 2020 – given the impact of COVID-19, it is unsurprising that a majority of deals were funded through reserves alone.

Acquirers source of funds



Source: data presented on this page based on representative sample of MHA firms' completed transactions in 2020, only where such information is available and does not include all 86 MHA completed transactions.

About us

MHA is an association of progressive and respected accountancy and business advisory firms, with a dedicated corporate finance team specialising in advising entrepreneurs and owner managed businesses.

We provide both national expertise and local insight to clients from offices in over 50 locations across England, Scotland and Wales.

Baker Tilly International

As an independent member of Baker Tilly International, a top 10 global advisory network, MHA offers clients unparalleled access to a broad range of in-country international specialists where overseas projects are on the horizon.

We provide expert advice to those looking to expand internationally and to introduce overseas investors and purchasers.

National Reach



International Reach



National and European Rankings 2020

7th

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16th

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20th

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**Refinitiv for Baker Tilly International*

Read our Baker Tilly International: Cross-border M&A in 2021" report for further information on Global M&A trends

Global dealmakers:
Cross-border M&A in 2021

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INTERNATIONAL

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