Numis research: PE professionals upbeat on UK opportunities despite high competition and complex valuation dynamics

- **UK companies remain relatively more attractive than other geographies.**
- **Deal pipelines have drastically pivoted to private assets compared to 2022 but appetite remains for public deals.**
- **Transaction execution headwinds remain with financing a key concern and reduced positivity regarding the exit environment.**

LONDON – 4 October 2023: Research from Numis, which polled 200 UK-based senior private equity (PE) professionals, has revealed that PE professionals are seeing attractive opportunities in the UK market compared to other geographies.

UK companies – both listed and private - remain an appealing opportunity for sponsors, with 85% of respondents viewing the UK favourably versus other regions. A third of respondents (33%) highlighted regulatory tailwinds as a key factor supporting their view of the UK, with depressed valuations in UK public markets also highlighted by 29% of respondents. That said, 73% of PE professionals noted financing conditions as a prevailing challenge weighing on their sentiment.

Against this context, respondents were clear there has been a significant increase in assets that are considered overvalued compared to 2022. Driven by a shift in the cost of capital and a constrained financing environment, over half (53%) of PE professionals believe that private assets are overvalued, with 37% highlighting the same for public assets.

Significant switch of focus towards UK private market assets

Despite this apparent relative value opportunity in public assets and recent public-to-private activity, today's deal pipelines have pivoted towards private assets, with 71% indicating their preference for private companies. This comes in stark contrast to 2022, where 73% of respondents highlighted that their deal pipelines were focused on UK-listed companies.

The decline in PE's appetite for public assets reflects the growing perception that it is becoming harder to agree terms with Boards and shareholders for public assets. This execution challenge is similar in private markets, but with a broader opportunity set, sponsors have shifted their pipelines to private assets.

Competition expected to increase further, with Financials and Industrials most active

Competition remains fierce for both public and private assets. 87% believe competition is either competitive (54%) or very competitive (33%) for private assets, and 74% thought the same for public assets (55% competitive and 19% very competitive).

PE professionals noted that financial and industrial-related assets across both public and private markets were among the most active and competitive sectors. In private markets, Consumer is seen to be the most active, arguably reflecting a degree of distressed M&A in that space.

In terms of the outlook for the next year, private equity professionals were clear that competition for both public and private assets would continue to intensify. Whilst respondents anticipate that sponsors will lead competition for private assets, interestingly, domestic corporates are forecast to serve as the main competition for public assets.

Headwinds continue to weigh on transaction execution

As concerns over covid-19 and buyer distractions have dissipated, the financing environment has become the most significant barrier to transaction execution, with 73% viewing the debt financing environment as a key challenge. Respondents also cited political uncertainty owing to multiple upcoming elections as an exacerbating factor, on top of the ongoing macroeconomic environment. Private equity continues to actively assess private and public opportunities, but financing conditions have remained challenging, despite a slight perceived improvement possibly reflecting mindset adjustment to the higher rate and lower leverage environment.

Our research was also clear that the sell side are less confident in the exit environment than they were last year. Respondents cited Continuation funds as the preferred exit option and demoted Private auctions from the most to least favoured position, reflecting the aforementioned headwinds. The IPO route is now more preferred than a private auction, although the vast majority do not anticipate a fully functioning IPO market before Q4 of 2024. As a result, it seems that dual track processes are being prioritised to retain optionality.

Stuart Ord, Head of M&A at Numis, commented: "The conclusions of this year's survey are multi-layered and highlight an environment with both opportunities and complexities. There are still significant funds to deploy but there are material transaction execution headwinds to be overcome with limited prospect of near-term improvement identified making it more difficult to find and execute deals.

However, the continued PE activity observed so far in 2023 demonstrates the resilience and adaptability of the industry and suggests that the difficult financing environment is becoming the new norm. We expect to see corporate bidders becoming relatively more active but remain confident that private equity will remain an important and significant component of UK M&A."

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Numis Private Equity Survey 2023

During September 2023, Numis conducted an online survey of senior UK-based private equity professionals who focus on the mid-market for unique insights into mid-market sentiment.

About Numis

Numis (LON: NUM) is 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, Numis is the adviser of choice for listed companies, including one fifth of the FTSE 350 index, with an average market capitalisation of £1.4bn, and has acted on the most UK IPOs over the past decade.

Since 2016, Numis has diversified its strategy to grow its UK M&A franchise, expand internationally and develop its private markets business, which combined now accounts for almost half of investment banking revenues.

Numis is listed on London's AIM and has offices in London, New York and Dublin.

For more information please contact:

Noreen Shah, Head of Communications and Marketing, Numis

n.biddleshah@numis.com

Direct Dial: +44 20 7260 1441

Mobile: +44 7711 356 978

Daisy Hall, Senior Managing Director, FTI Consulting

T: +44 7807 298568

E: numis@fticonsulting.com