

## UK corporates signalling confidence in M&A despite market uncertainty – Numis survey

- *Macroeconomic, financing and regulatory environments remain chief challenges to dealmaking in 2023 for both corporates and investors.*
- *UK corporates and investors are both more positive on M&A outlook than in 2022.*
- *94% of FTSE 250 directors expect to undertake some form of M&A in 2023.*
- *94% of FTSE 250 directors expect financing conditions to improve in 2023.*
- *97% of FTSE 250 directors expect increased competition in M&A in 2023.*
- *88% of FTSE directors view UK PLC as vulnerable to takeovers.*

**LONDON – 27 FEBRUARY 2023:** The prospects for UK M&A in 2023 may be better than the subdued start to the year, according to new research from investment bank Numis (**LON:NUM**). The findings of its annual M&A survey point towards an increased bullishness for UK deals and an expectation of UK equity outperformance.

Numis surveyed 80 board directors at FTSE 250 companies and 200 institutional investors in January of this year. It found that, despite the current challenging economic and financing environments, more than nine in 10 (94%) board directors at FTSE 250 companies, expected to undertake deals this year, compared to 86% in 2022.

Geographically, last year's survey highlighted that UK corporates were most interested in staying close to home, with the UK ranking as the most interesting geography for UK corporates. While the UK remained the most interesting geography in this year's survey, it scored less well, and the confidence of UK corporates in looking slightly further afield was demonstrated by the growth in appeal of M&A targets in the rest of EMEA.

Only 10% of institutional investors have a negative view on the M&A outlook, but their degree of positivity is slightly lower than amongst the corporates. Furthermore, the survey highlighted the importance of M&A returns to the total performance of an investment portfolio, with only 10% of institutional investors saying M&A returns were immaterial to their portfolio.

**Stuart Ord, Head of M&A at Numis, said:** *"2022 was a mixed year for M&A activity, with global economic pressures, constrained debt markets and broad volatility all negatively impacting the appetite for deals. These forces continue to weigh on the market this year, yet there seems to be a confidence in the boardrooms of UK PLC with respect to M&A. However, it remains to be seen whether the expected improvement in outlook will convert into deal activity."*

### **Improved economic and financing outlooks required to kick-start M&A**

Despite the brighter outlook, barriers to M&A remain. Investors were clear on the challenges facing dealmaking this year – the financing environment, regulatory change and the economic outlook were the top three concerns. Regulation was also a clear challenge for corporates, with 51% suggesting regulatory hurdles – including anti-trust or national security regulatory hurdles – would be their biggest challenge this year, up from 38% in 2022.

Unsurprisingly, inflation and interest rates were the top two concerns for corporate boards, with the financing environment ranked third. Interestingly, high leverage was not seen as an issue by corporates, reflecting that the balance sheets of many UK corporates are better capitalised than in previous downturns.

Despite a financing environment that remains strained, 94% of FTSE 250 executives expect conditions that are more favourable when compared to 2022 and corporates view their ability to access capital as having improved. 63% of corporates are looking towards cash from existing debt as the means of funding M&A this year, an increase from 48% in 2022 and the most popular ahead of cash from new debt at 46%. While equity capital markets could see an uptick in volumes given the constructive M&A outlook, the appetite of corporates to raise equity or use shares as consideration was diminished versus last year given valuation levels.

**Stuart Ord continued**, *“The UK’s economic outlook remains uncertain, with Q4 2022 trends continuing into Q1 2023 and implying that UK M&A volumes for 2023 will be lower than 2022. However, we are seeing some positive signs and consider that improved economic and financing outlooks could well drive bidder confidence in moving from deal consideration to deal execution, leading to a welcome increase in activity in the second half of this year.”*

### **Increased focus on and competition for deals**

UK corporates are motivated to pursue M&A and no FTSE 250 company directors are less focused on new deals than last year (2022: 16%) and 37% are highly focused on new deals, whereas no respondents were in prior year.

With overseas corporates and private equity firms also motivated to be active in UK M&A this year, it is no surprise that all but 3% of UK corporates expect to see increased competition for UK businesses and assets. The largest proportion of FTSE 250 directors think that domestic corporate buyers will be the source of increased competition, but private equity is seen as a significant secondary source of competition and much more likely than overseas corporates. Clearly, an improvement in financing conditions would be a catalyst for private equity to pursue more and larger deal situations. Investors also expect activity from private equity, with two of the top three trends they identified being more teaming up by private equity and strategics and more private equity co-investments.

A recent Numis survey (October 2022) of 200 private equity (PE) professionals in the UK found that 73% of their pipeline was focused on UK listed companies, with 92% referencing the opportunity for public to private deals. Investors and corporates alike appear to be equally positive with regards to the increased levels of private equity interest in the UK – 79% of investors and 84% of corporates agreed that PE buyer activity was beneficial for the UK.

### **Confidence means mid-sized deals a greater focus**

76% (over three-quarters) of corporates expect sizeable mid-range deals to be their most likely targets, which represents a growing confidence in the ability of corporates to fund and execute such deals. While this was also the area of largest focus in 2022, that number was only 55% with 36% expecting to pursue bolt-on transactions, whereas that is down to only 18% in this year’s survey. This was at odds with the view (or desire) of institutional investors that there will be a trend of more bolt-on acquisitions.

### **Financials still expected to see the most M&A activity**

From a sector perspective, 41% of institutional investors expect financials to be the most active from an M&A standpoint, more than twice the proportion of any other sector and further evidence of consolidation pressures across the industry. Energy was second, identified by 17% as likely to be the most active sector, followed by healthcare (12%).

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**Notes to editors****Methodology**

Numis surveyed institutional investors and UK board directors in January 2023, to understand their attitudes towards the outlook for M&A in 2023 and the driving factors behind expected activity.

80 board directors at FTSE 250 companies were surveyed. Of these, 34% were CEO's, 41% were Chairs and 11% CFOs, across a broad range of sectors. The remainder held other executive board positions. 200 institutional investors were also surveyed.

Of the institutional investors (based in the UK, US and Europe, investing in UK stocks), 22% had an AUM between £10.1bn and £25bn, and 24% had an AUM between £1.1bn and £10bn.

**About Numis**

Numis (LON: NUM) is an international 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 £1bn, 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 account for almost half of investment banking revenues. The UK M&A franchise is one of the most active and expert financial advisers in the UK mid-market.

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

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