Datasite®

Where deals are made

The New State of M&A

United Kingdom

Contents

Executive Summary
Spotlight on the UK

For all the advances in recent years, just how digitally mature and technologically sophisticated is the M&A, due diligence, and asset marketing process in the UK?

Moreover, what does the process look like today, and how might technology and accelerating digitization change the dealmaking process over the coming years?

These are some of the key questions we wanted to investigate and answer in this research, which involved surveying 100 UK M&A practitioners from corporates, private equity firms, investment banks, and law and professional services firms, for their views on the subject.

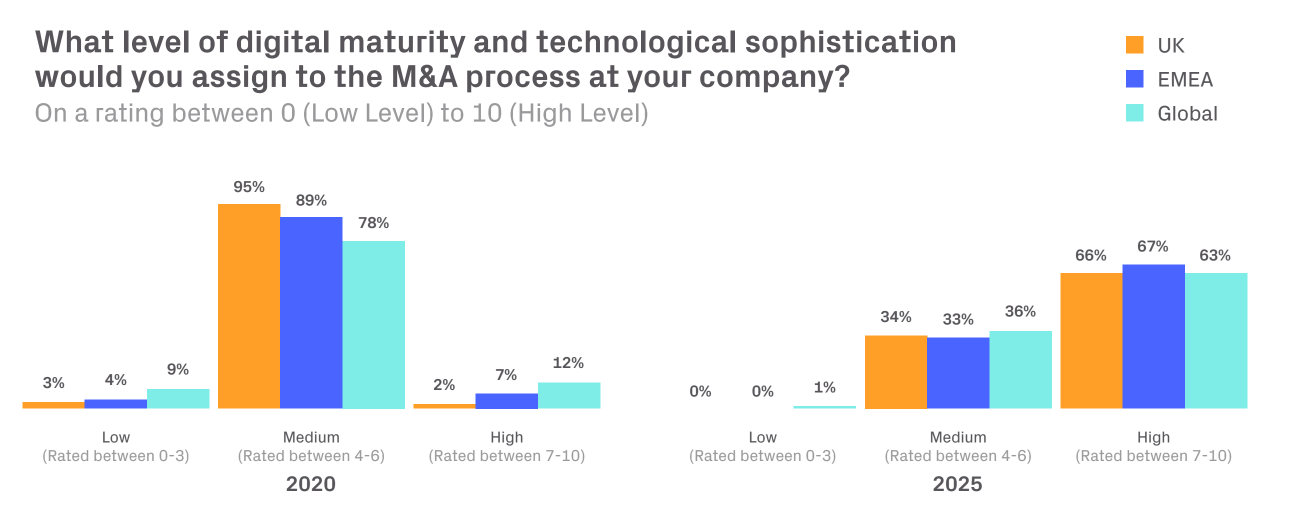
The UK respondents, who form part of a global survey of 2,235 practitioners, provide insight on the current and future state of the dealmaking process, and their responses reveal many similarities in opinion with their regional peers, too.

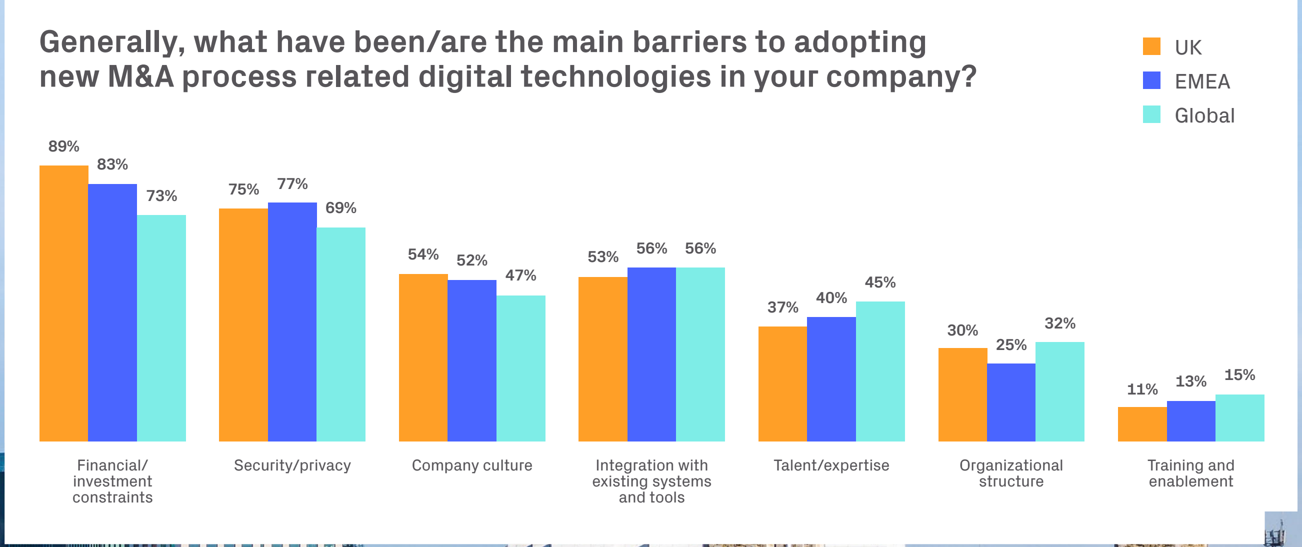
100 UK-based M&A practitioners surveyed

Conservative digital maturity and technological sophistication expectations vs EMEA peers

For instance, most UK practitioners today assess that the digital maturity and technological sophistication of the M&A process at their company and industry-wide is at a medium level, and they expect this to rise to a high level in five years' time.

This view is shared by their peers across Europe, the Middle East, and Africa, who also believe, similar to UK practitioners, that financial constraints and security and privacy issues are two of the main barriers to their company adopting M&A process-related digital technologies.





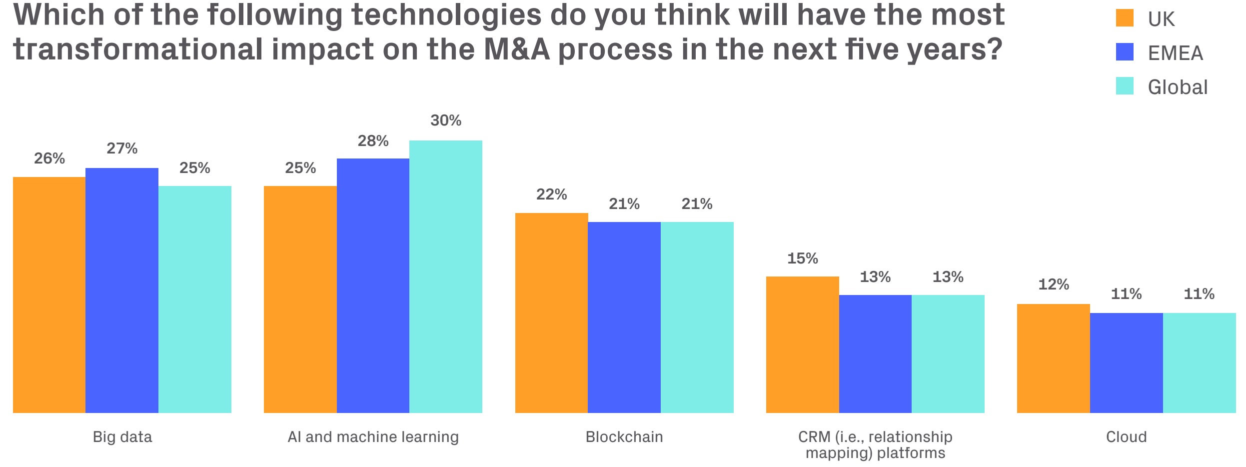
Big data, AI and ML, and blockchain to enhance M&A processes

Technological advances are, however, being made. And over the next five years, most UK practitioners, together with their EMEA peers, believe that technologies such as big data, AI and machine learning, and blockchain could potentially have the most transformational impact on the M&A process, and in specific areas of it.

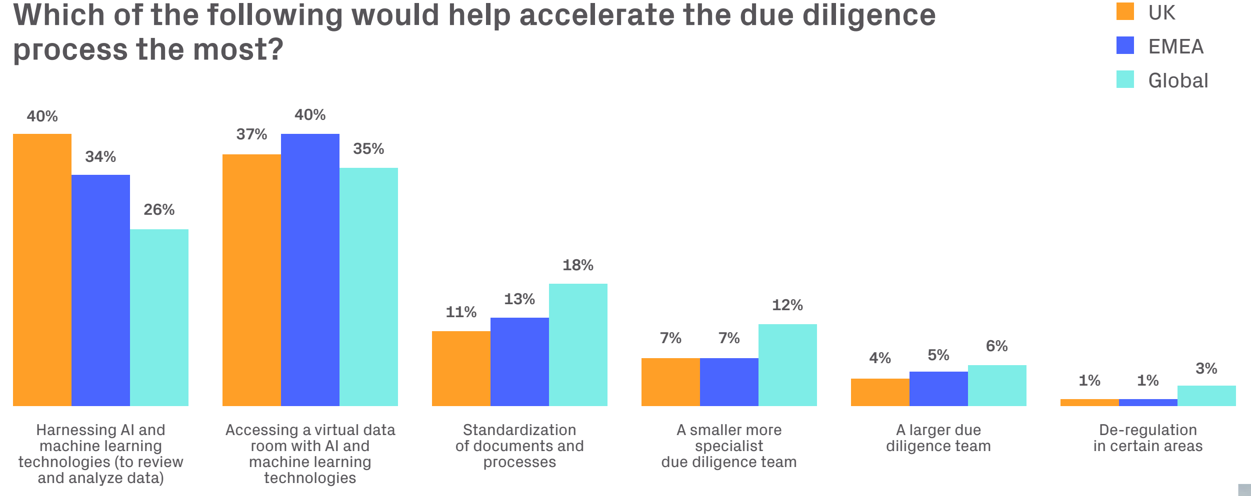
UK and EMEA practitioners, for instance, similarly believe that due diligence – the most time-consuming phase – could be enhanced most by new technologies and digitization.

In fact, most UK practitioners expect technology to enable greater analytical capability and security in the diligence process over the next five years. In particular, they are also placing greatest hope in AI and machine learning technologies, especially as part of virtual data rooms, to speed-up the due diligence process. They also see these technologies and others helping to improve data management and communications, scenario analysis, and analytics and reporting.

Which of the following technologies do you think will have the most transformational impact on the M&A process in the next five years?



Which of the following would help accelerate the due diligence process the most?

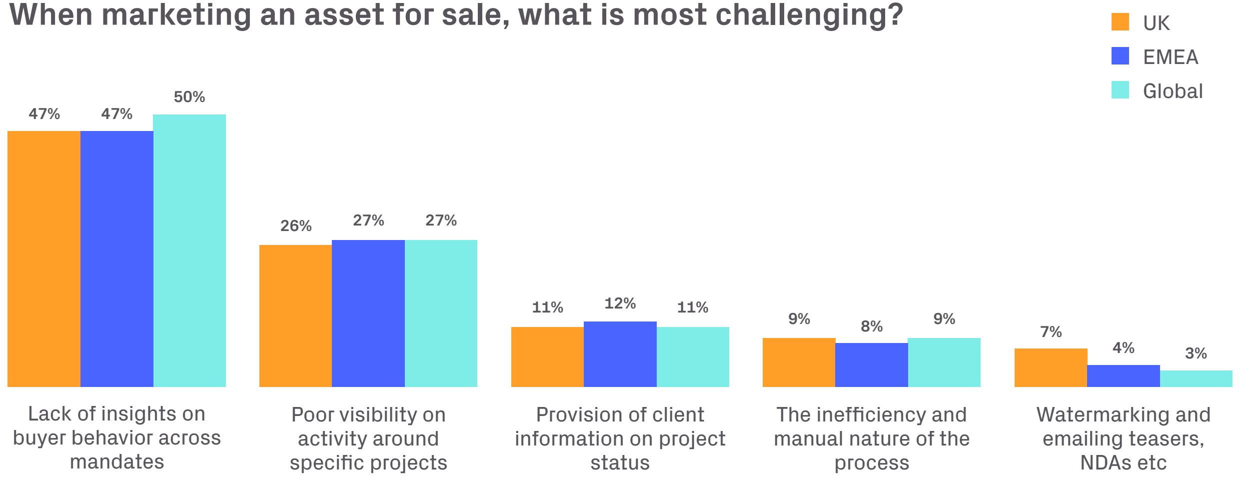


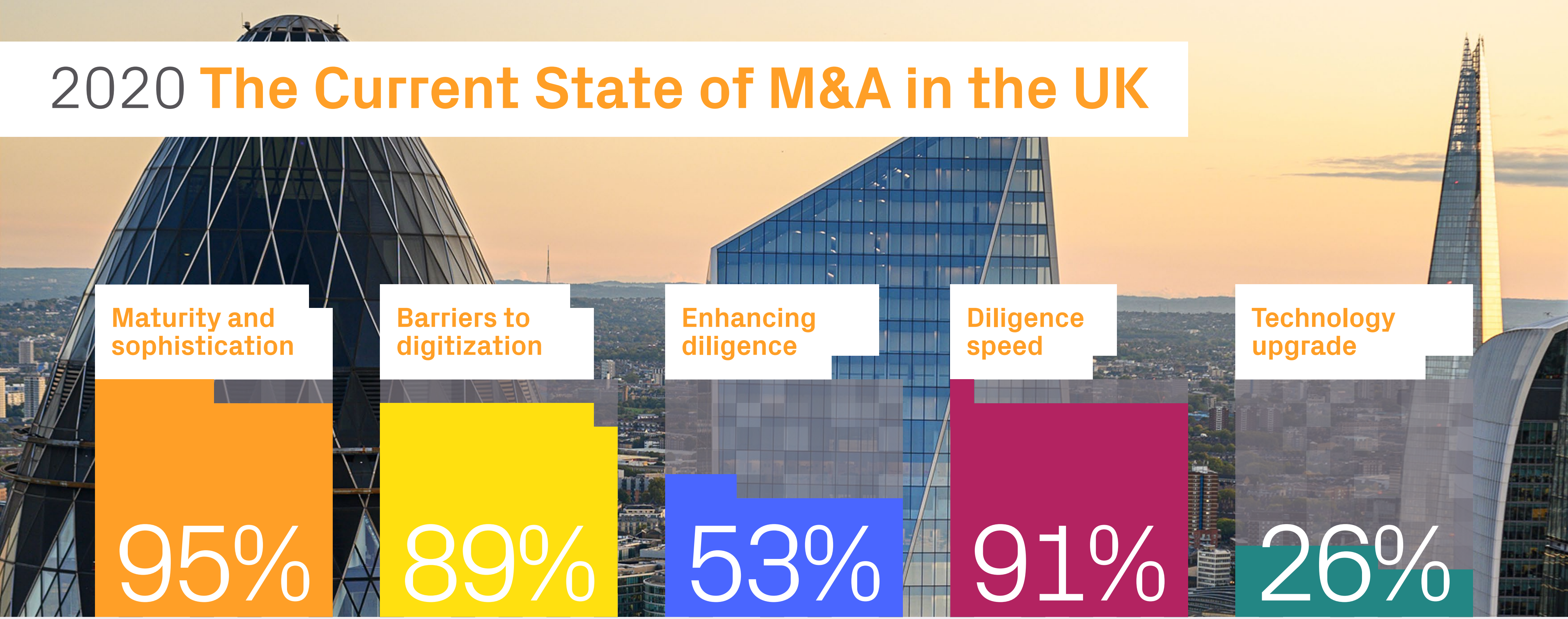
Technological benefits to and advances in other areas of M&A

What's more, these technologies have similarly beneficial uses in asset marketing, and could help address some of the key challenges in this process, such as a lack of insights on buyer behavior across mandates, according to most UK practitioners.

Without doubt there have been some significant technological advances across the M&A process in recent years. But in the next five years there is an expectation among UK and EMEA practitioners that both established and emerging technologies, perhaps built-in to the next generation of virtual data rooms, could transform key areas of the process. They may even transform the M&A process entirely.

When marketing an asset for sale, what is most challenging?





2020 The Current State of M&A in the UK

Maturity and sophistication

95%

of UK practitioners assess a medium level of digital maturity and technological sophistication in their company's M&A process. Some 89% of practitioners assess the same level industry-wide.

Barriers to digitization

89%

of UK practitioners say financial or investment constraints is one of the main barriers to their company adopting M&A process-related digital technologies.

Enhancing diligence

53%

of UK practitioners believe that among the key stages of M&A, new technologies and digitization could enhance due diligence the most.

Diligence speed

91%

of UK practitioners say due diligence takes on average 1-3 months to complete on a successful deal.

Technology upgrade

26%

of UK practitioners say inadequate technology supporting them in their role is the factor that slows the due diligence process the most.

2025 The Future State of M&A in the UK

Maturity and sophistication

66%

of UK practitioners assess a high level of digital maturity and technological sophistication in their company's M&A process by 2025. Some 57% of practitioners assess the same level industry-wide.

Transformational tech

27%

of UK practitioners expect big data analytics to have the most transformational impact on the M&A process over the next five years.

Advanced analytics

82%

of UK practitioners believe new technologies should enable greater analytical capability in the due diligence process over the next five years.

Diligence speed

71%

of UK practitioners believe due diligence on a successful deal will accelerate to one month or less in five years' time.

AI-enabled analysis

39%

of UK practitioners believe harnessing AI and machine learning technologies to review and analyze data would help accelerate due diligence the most.

Case Study
Houlihan Lokey

Technological solutions enabling deal activity

In the past five years Houlihan Lokey has been particularly acquisitive in the UK and Europe, seeking to establish itself in the region as a top tier corporate finance firm, especially in the booming middle market.

Since 2014, it has completed five acquisitions, with the most recent in Spain. Yet most of the others were in the UK, where in 2001 the US investment bank opened its first office outside of its home market.

Houlihan's London operations, in the heart of Mayfair, are core to its UK and European growth ambitions, and critical for it to be in among the deal flow, which has rebounded sharply after being impacted by the pandemic in the first half of last year.

Indeed, for Shaun Browne, Co-Head of UK Corporate Finance at Houlihan Lokey, activity levels in UK M&A have been "stellar" due to a number of factors that have come together.

Houlihan Lokey is a leading global investment bank with expertise in M&A, capital markets, financial restructuring, and valuation.

Shaun Browne
Co-Head of UK
Corporate Finance

HOULIHAN LOKEY

Time pressure and technology

He says one of those factors is that "sale processes that were put on hold back in March [2020] have been re-launched, as companies in certain sectors have traded better than expected." Another, says Browne, is the move by company owners to look at selling their businesses ahead of potential changes to capital gains tax (CGT) rules by the UK government later this year.

"There is a question over how the government will pay for their response to Covid-19, so some vendors are scrambling to get deals done ahead of the budget on March 3 [2021] fearing enhanced CGT rates," says Browne.

Under this time pressure, and given the restrictions due to the pandemic, Browne says sellers are using technology more so than in the past to get deals done. This includes using drones to conduct company visits, AI to analyze lease agreements, or virtual data rooms for due diligence.

Analysis, insights, and outcomes

More and better deals are no doubt being done at speed because of richer, deeper data analysis by financial advisors, including firms such as Houlihan.

In fact, on each transaction, the firm keeps a record of the bidding tactics of individual private equity firms, analyzing their conversion rate in terms of winning auctions, or how much they might amend an offer price between registering their initial interest and lodging a final round bid.

"This gives us a unique insight when it comes to advising clients on which is the best firm to buy their business, and crucially how likely they are to come through with a successful bid," says Browne.

However, no matter how good the analysis, some bids can be taken off the table completely if certain accepted human norms and practices are prevented from happening.

Technology can, of course, help facilitate negotiations, but sometimes there is no substitute for a face-to-face meeting.

"I worked on a deal where a party pulled out because they were not prepared to submit a bid for a business without meeting the CEO in person," says Browne. "Despite the benefits that technology has brought, this remains a business built on personal and institutional expertise."

Case Study
Arma Partners

Using analytics in the race for assets

Most M&A practitioners would agree that the application of advanced data analytics is a force for good across key parts of a transaction, essentially arming buyers with the type of analysis that enables them to make a more informed call on the whether to proceed or not.

But as much as the increasing embrace and use of analytics is beneficial, it can also make deals more complex and time consuming. This is something Jan Helle, Partner at Arma Partners, a specialist corporate finance advisor to companies and investors active in the global digital economy, sees happening on some deals in the UK, often involving private equity firms. This is partly because many of these buyers are advanced users of analytics.

“Private equity buyers have become very selective about how they spend time, energy, and resources. They have adopted a binary approach – either they are not interested in an asset, or they will pay up to secure it,” says Helle.

He adds that they are using data analytics to gain a far more granular understanding of the target company and the behavior and preferences of its customers.

Arma Partners is a specialist corporate finance advisor to companies and investors active in the global digital economy.

Jan Helle
Partner

David Smith
Partner

Armapartners

Incorporating data analytics up front

This, however, poses a challenge to advisors such as Arma that are trying to manage a sale process. To manage these buyers while keeping a sale process on track, advisors must do more advance preparation. In some cases, Arma will work with due diligence providers to incorporate data analytics upfront.

“We spend a lot of time and energy packaging and presenting information in a way that potential buyers want to see it. We do that up front so that once we launch, we keep real momentum in the process,” says Helle.

In the months ahead, Arma is likely to be spending even more time than last year doing this as dealmaking activity potentially surges in the UK.

“The UK market looks attractive relative to peers and a weaker pound makes it attractive for overseas bidders,” says David Smith, a Partner at Arma Partners.

Technology sector boosting M&A

He adds that certain sectors that are particularly compelling, such as technology, have traded well through the pandemic. “In particular, the software sector, with its strong recurring revenues, has been a beneficiary and companies operating in communications services have also seen great growth, reflecting the shift by consumers online during the pandemic,” says Smith.

Such appetite for technology assets will likely continue through 2021, but there are potential risks to deals. In the UK, for instance, some fear the government’s National Security and Investment Bill could usher in a new era of protectionism.

The UK has followed other countries by identifying sub-sectors of the technology sector, such as AI, robotics, satellites, and defense, which are central to national security and could be shielded from foreign predators.

As much as this may pose some risk to potential deals, it may also lead to a rush of transactions as buyers try to get ahead of any potential regulation, which will only further boost the pace of M&A activity across the UK tech sector.

Datasite with you every step of the way

Strategy | Sourcing | Deal marketing | Deal prep | Due diligence | Negotiation | Closing | PMI | Value capture

The M&A Lifecycle

Datasite Outreach

Improve every aspect of the deal marketing process. Whether compiling buyer lists, executing email communication, or managing NDAs, Datasite Outreach is your essential resource for driving deals faster than ever.

Learn more

Datasite Prepare

Accelerate deal preparation and get to deal outcomes faster in a single app. With AI indexing, smart categorization, redaction, and VDR integration, Datasite Prepare brings you into due diligence with one click.

Learn more

Datasite Diligence

Anticipate any roadblock you may face with Datasite Diligence. Set up your VDR faster than ever while gaining access to leading features and expert support to keep your deal moving forward in any situation.

Learn more

Datasite Acquire

Ensure your buy-side diligence stays on track with Datasite Acquire. Unearth insights with analytics, work smarter with secure collaboration tools, and keep your deal moving with improved workflow communication.

Learn more

Datasite

Research Methodology
United Kingdom

The analysis in this report is based on the survey responses from 100 UK based M&A practitioners.

These responses formed part of a larger global survey of 2,235 M&A practitioners.

By institution type, respondents were split between companies and private equity firms (55%), representing the acquirers; and investment banks, professional services and law firms (45%), representing M&A advisors.

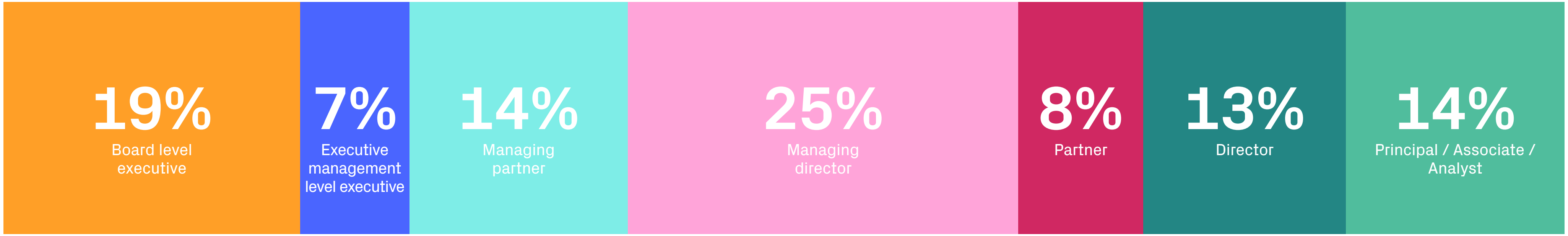
By seniority, board and executive management level executives comprised 26% of respondents, with managing partner, managing director and partner level executives comprising 47%. Director, principal, associate level executives comprised 27%.

The global survey was conducted by Euromoney Thought Leadership Consulting between February and April 2020.

Research Demographics
United Kingdom

Percentages in the following charts are rounded to the nearest 1%.

Which of the following best describes your position?



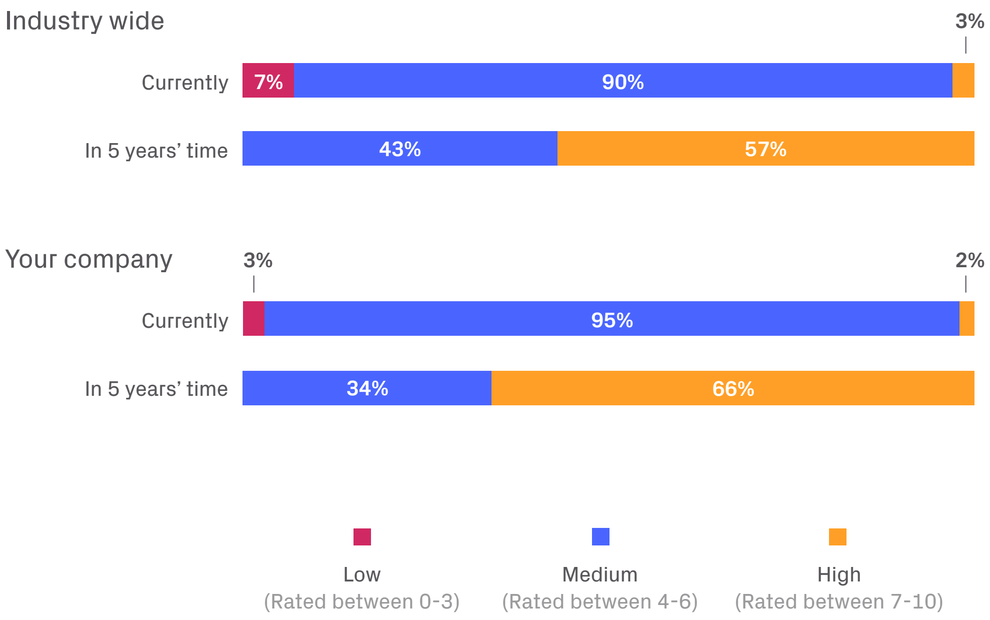
Company type

Digitization
United Kingdom

Of these key areas or stages, which do you believe could be enhanced most by new technologies and digitization?

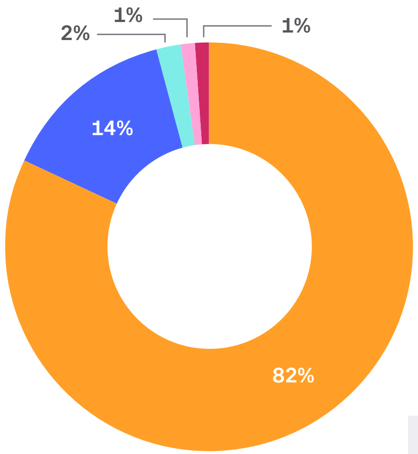
53% Due diligence
20% Strategy
8% Deal preparation
7% Asset marketing
7% Negotiation
4% Sourcing
0% Closing
0% Exit
0% Post-merger integration

What level of digital maturity and technological sophistication would you assign to the M&A process?
On a rating between 0 (Low Level) to 10 (High Level)



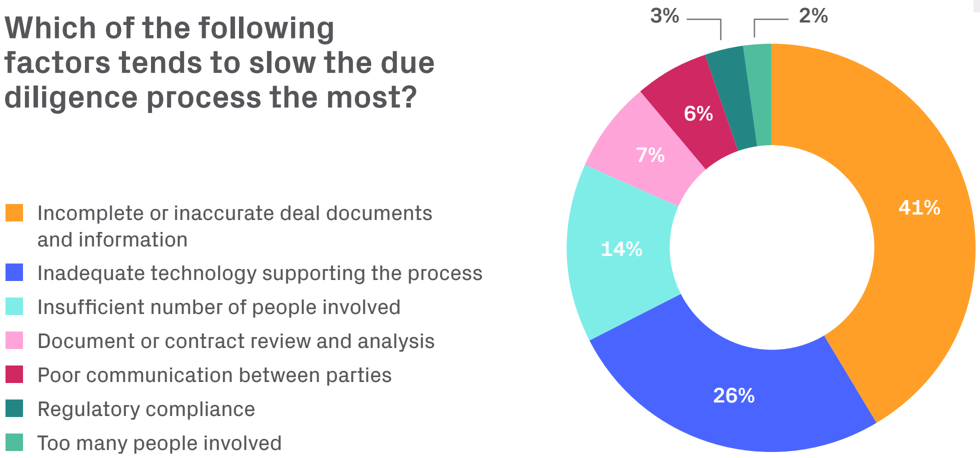
In the context of a M&A transaction, how do you expect technology to change the due diligence process over the next five years (to 2025)?

New technologies should...
- Enable greater analytical capability
- Enable greater security
- Reduce the total deal (resources and time) cost
- Make it faster to close deals
- Simplify the entire process

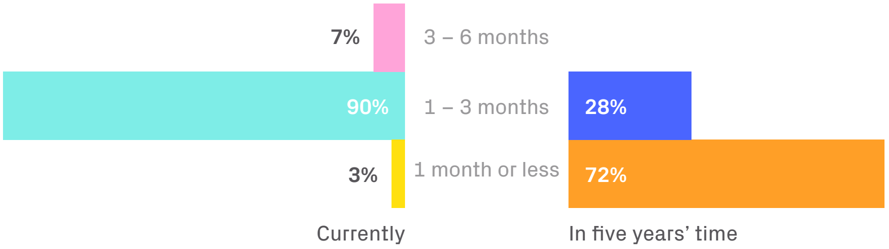


Due Diligence Process
United Kingdom

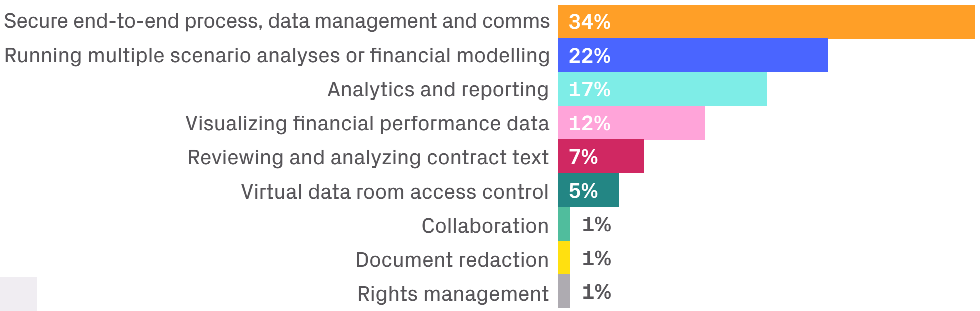
Which of the following factors tends to slow the due diligence process the most?



From sourcing a deal to deal completion, how much time on average does due diligence take on a single successful M&A transaction?

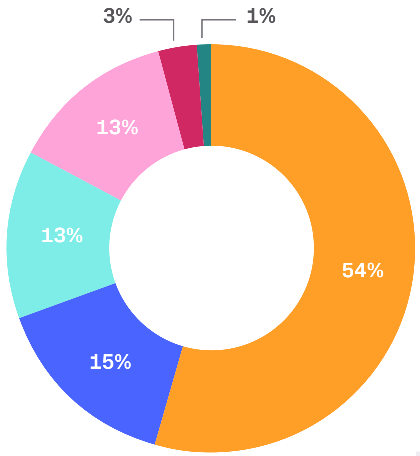


Which of the following do you believe technology could help improve the most?



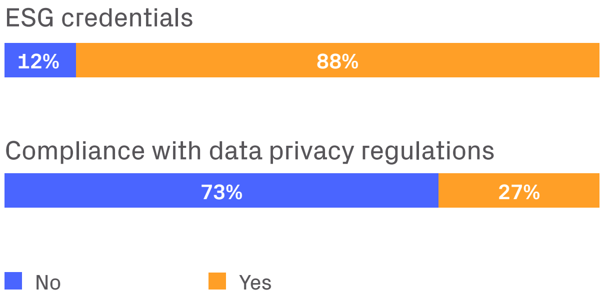
Due Diligence Concerns
United Kingdom

What is the most common issue uncovered in due diligence that causes the withdrawal from a deal?

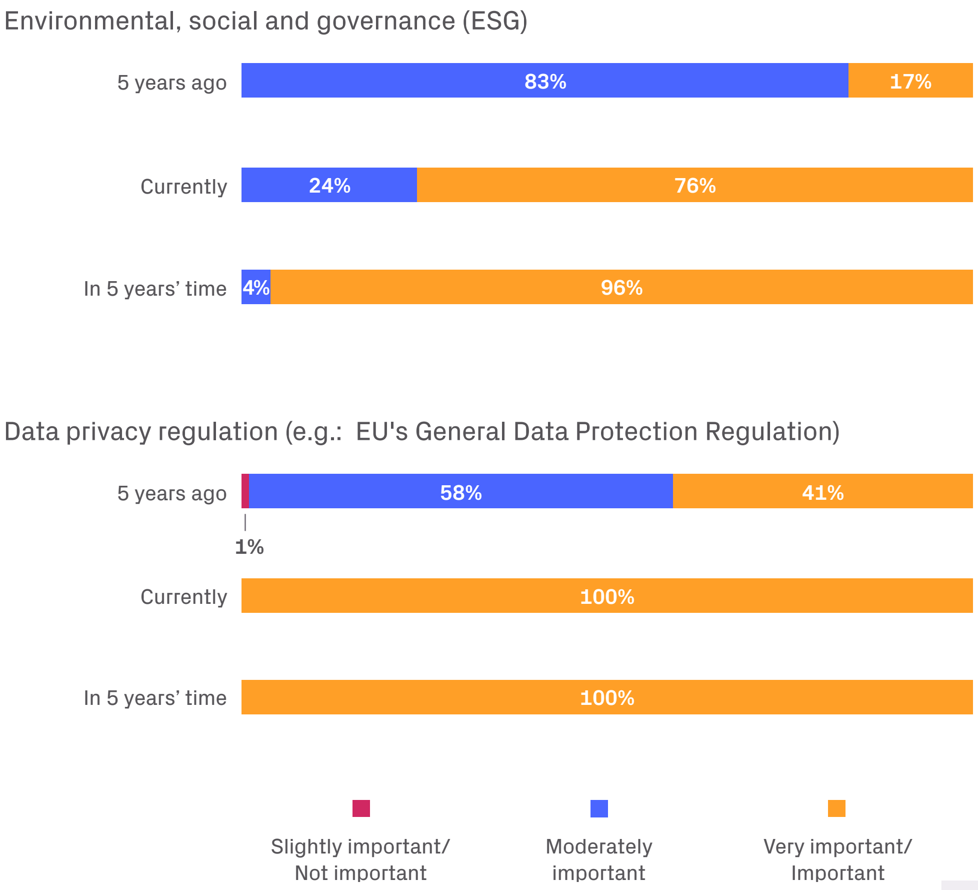


- Data or cyber security concerns
- Financial weakness or fragility
- Financial irregularities
- Leadership concerns
- Excessive valuation
- Regulatory non-compliance
- Staff concerns (No votes)

Have you worked on M&A transactions that have not progressed because of concerns about a target company's:



As a consideration in M&A due diligence, assess the importance of the following issues:



Asset Marketing and Acquisitions
United Kingdom

When marketing an asset for sale, what is most challenging?

47% Lack of insights on buyer behavior across mandates

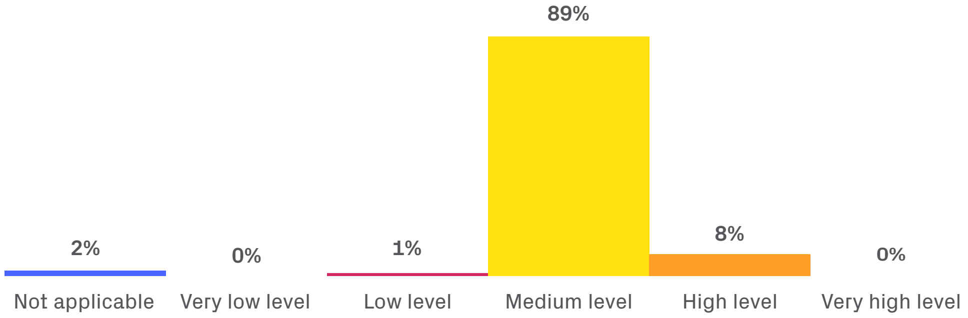
26% Poor visibility on activity around specific projects

11% Provision of client information on project status

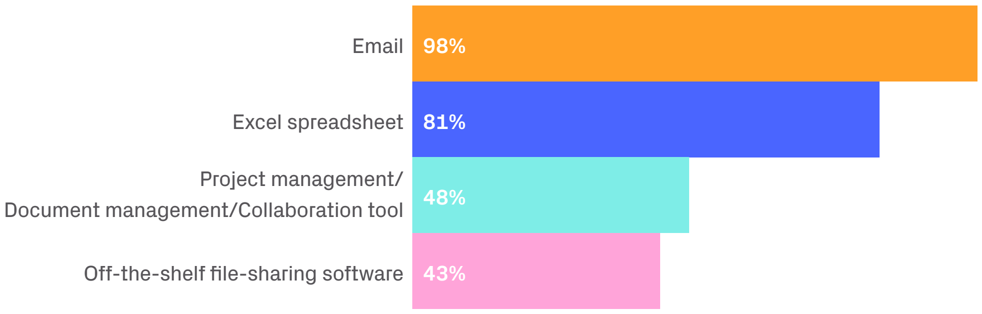
9% The inefficiency and manual nature of the process

7% Watermarking and emailing teasers, NDAs etc

When marketing an asset for sale, how efficient and effective is your company's current process of identifying, marketing to and tracking potential buyers?

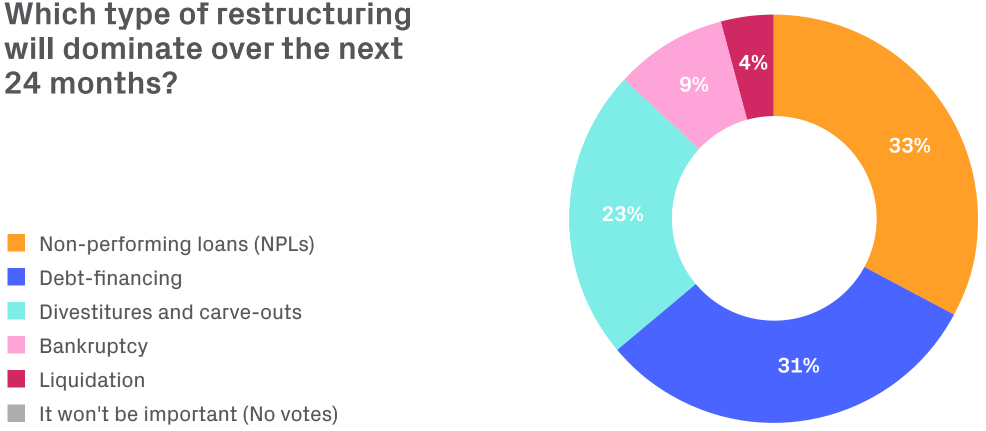


What tools do you use today to execute the workflow of the due diligence process on a potential acquisition target?

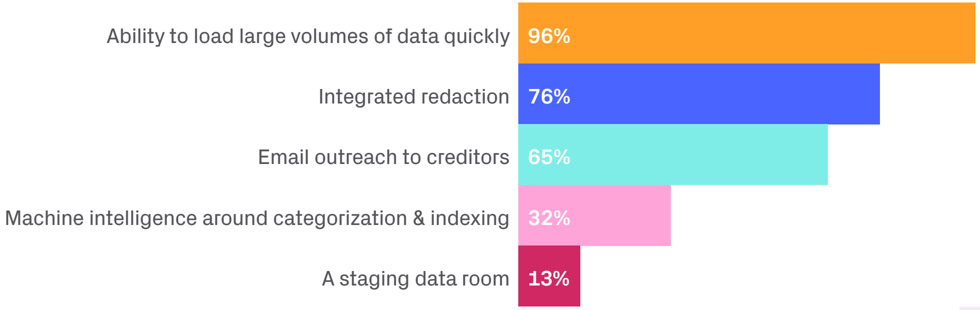


Restructuring
United Kingdom

Which type of restructuring will dominate over the next 24 months?



What tools are most useful for restructuring?



About this report

The survey was conducted by Euromoney Thought Leadership Consulting between February and April 2020.

Thought Leadership Consulting specializes in creating original, authoritative and impactful thematic research and content for global business and finance leaders.

Thought Leadership Consulting

A Euromoney Institutional Investor company

#Wheredealsaremade

Get in touch, visit www.datasite.com **or contact:** info@datasite.com **EMEA** +44 20 3031 6300 | **AMERS** +1 888 311 4100 | **APAC** +852 3905 4800

Datasite®