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Global transactions landscape 2024/25

A review of global transactions from 2023/24 and a forecast into 2024/25 from international Baker Tilly merger and acquisition specialists

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Foreword

Welcome to the Global Transactions Landscape for 2024 brought to you by our experts across MHA and Baker Tilly International.

Despite the M&A markets enduring a difficult year in 2023 with challenges such as rising interest rates, high energy prices and geopolitical uncertainty, the UK and overseas has continued to support businesses through these challenging conditions which have ultimately had a significant impact on the UK M&A market.

Throughout 2023 there was a strong pattern that saw dealmakers begin to shift their focus on deals which gave them the chance to make bold, market-shaping deals, and as a result, the UK corporate finance team has been very active within a variety of sectors.

In this report our Baker Tilly network discuss M&A activity in a variety of sectors and what businesses can expect from international markets in 2024/25.

Thank you to our Baker Tilly International colleagues from across the globe for contributing to our 2024/25 transactions landscape."

Andrew Feeke,
Head of Corporate Finance, MHA UK

Our global transactions report is supported by our Baker Tilly colleagues from afar:

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Pitcher Partners Australia

Jasper De Decker
Baker Tilly Belgium

Mike McIsaac
Baker Tilly Canada

Jerry Ding
Baker Tilly China

Gert Michael Mortensen
Baker Tilly Denmark

Antoine Duval
Baker Tilly France

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Baker Tilly Spain

William Chapman
Baker Tilly US

Dr. Andreas Fröhlich
Baker Tilly Germany

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Key sectors in 2024/25

Which sectors domestically are predicted to be most active in terms of transactional activity in 2024/25 internationally?

Due to the level of natural resources in Australia, they expect Energy, Mining and Utilities (EMU) to have a high level of deal activity, followed closely by Technology, Media, and Telecom (TMT) and services businesses.

They have seen TMT activity decline over the past 12 months as a result of reduced competition and pricing – which has been particularly at the top end. In terms of pricing, this is set to improve as the year progresses, which is likely to intensify the level of activity in the sector.

TMT is likely to start slower while multiples are subdued, but expected to pick up as the year progresses and pricing improves. In regards to services businesses, there has always been a strong demand across Australia, and this is not expected to change over the coming year.

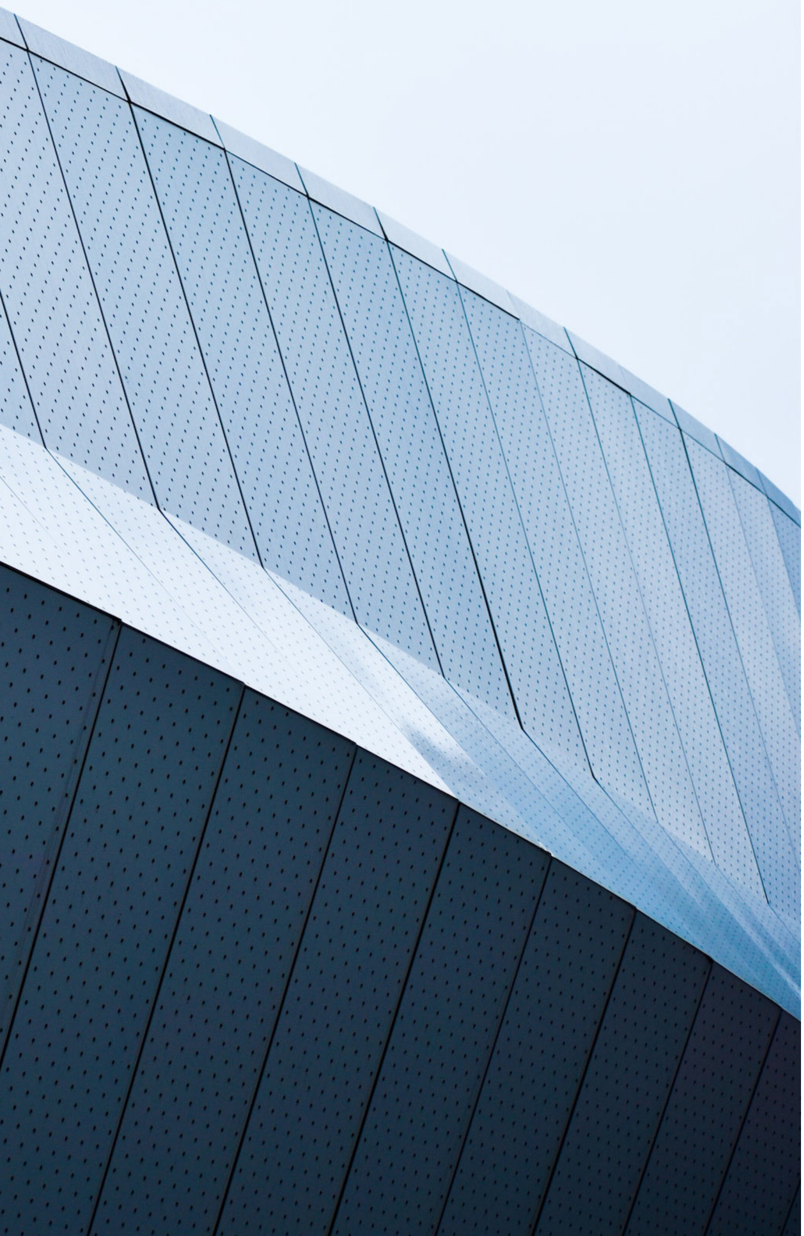
Belgium identified the energy transition as a key sector in the M&A landscape for 2024. Increasing emphasis on sustainability and achieving net-zero goals is predicted to drive activity in this sector.

In China, transactions in 2023 were heavily focused on fields such as semiconductors, new energy, advanced manufacturing, aerospace, and artificial intelligence – with these trends expected to continue into 2024. However, based on the internet and data, advisors in China are aware TMT will always be an important direction for development. Compared to general entertainment type TMT assets, assets with strategic significance will be predicted to be more favoured by investors.

In Antoine Duval, Managing Director at Baker Tilly France's opinion, there are 4 main sectors that will truly contribute to 2024/25 M&A transactions:

1. **Personal services and healthcare** (including ageing and dependency) due to a major shift in the French age pyramid.
2. **Education** because of the need for an increasingly skilled workforce in cutting-edge professions.
3. **IT and new technologies** (particularly cybersecurity and AI).
4. **Green services** (including engineering) because of the need to fight global warming.

Tech giants will need to keep the pace of evolution that this brings and will probably acquire capabilities when the internal developments are not sufficient.”



Another key sector that is set to be very active in the UK, as well as Canada and Belgium, is Healthcare. In Belgium healthcare is expected to witness heightened activity due to staffing challenges, rising cost pressures, and reductions in government funding, compelling healthcare providers to seek digital efficiencies to bridge the gap. In Canada, in particular long-term health care and facilities. An aging population is putting extreme pressure on public health care and not meeting demands. Companies are beginning to focus on healthcare solutions, age-in-place living facilities, medical devices, and biopharmaceuticals which will see increased transactional interest and valuations.

As well as Healthcare, E-Commerce and Retail, Technology is also set to rise due to a shift towards online commerce and integration of technology which will drive M&A growth in this space. In particular, the ability to offer ‘seamless’ online shopping experiences (shop-pay-delivery-returns) will attract attention.

Other active sectors expected for 2024 in Spain include energy and targets relating to decarbonization (renewables, hydrogen, mobility and water treatment).

Xavier Mercade Sanmarti, Partner & CEO at Baker Tilly Spain says: “This sector will still be very active in the lower/middle market, when identifying rather small but profitable companies to be acquired.

William Chapman, Partner at Baker Tilly US expresses: “With interest rates climbing last year, many tech companies, particularly SaaS business, were still getting funded due to their financial characteristics (recuring revenue streams, low operating leverage, low revenue volatility, etc.).

“However, total leverage multiples for tech companies fell to 2x ARR last year but began to recover in recent months back up to 3x. This should provide a small boost to activity in the sector in 2024.”

Technology on top

The TMT sector remains resilient - so what does this mean for tech giants and those looking for opportunities in 2024/25?

Dr Andreas Fröhlich, Head of Corporate Finance at Baker Tilly Germany believes in Germany: “the weakening economy is likely to be a driver of market consolidation, even for the otherwise stable TMT market. This will also create opportunities for tech giants.”

Mike McIsaac, CEO and Managing Director of Baker Tilly Canada, expresses the resilience of the TMT sector often stems from its dynamic nature, driven by constant innovation and adaptation to changing consumer behaviours and technological advancements.

“For tech giants, this resilience implies an ongoing demand for their products and services, as well as an opportunity to lead in emerging technologies.”

Some implications for tech giants and those seeking opportunities in the TMT sector:

1. **Continuous innovation:** Tech businesses will need to keep investing to stay ahead. AI, 5G and cybersecurity will be key growth areas where they will need to invest and acquire to stay ahead.
2. **Digital transformation:** This trend will continue across industries. TMT giants will have solutions to assist SMEs in adapting/adopting to meet changing consumer needs/demands.
3. **Consumer behaviours and preferences have never been more in flux:** Matched with the speed of technology advancements, this makes for precarious times unless TMTs stay dialled into the shifts (in real time) and resulting demands on their products ands services.
4. **Expansion:** TMTs must be thinking about growing across borders.
5. **Media and Entertainment:** The format for delivering ME and content consumption probably presents the greatest risk and opportunity for TMTs. Majors need to be resilient in the face of rapid changes from consumers and competition driving prices down.

Jerry Ding, Partner at Baker Tilly China states: "Based on the internet and data, TMT will always be an important direction for development:

From a global perspective, we have been caught up in a silent competition between technology and information technology. Compared to general entertainment type TMT assets, assets with strategic significance will be more favoured by investors."

In France, the TMT sector benefits from the tech giants appetite for new technologies, Antoine adds:

"Even if we are in a tighter economic environment, they continue to pay significant amounts for disruptive assets. There is currently no reason why consolidation should not continue in TMT sector in the current year."

Gert Michael Mortensen at Baker Tilly Denmark concludes:

Sellers are being attracted to consider sale, as demand is still there and valuations remains at acceptable levels – resulting in acquisitive tech companies still seeing competition and fairly high expectations when it comes to valuations".

Buying overseas

What should a business owner consider when acquiring overseas?

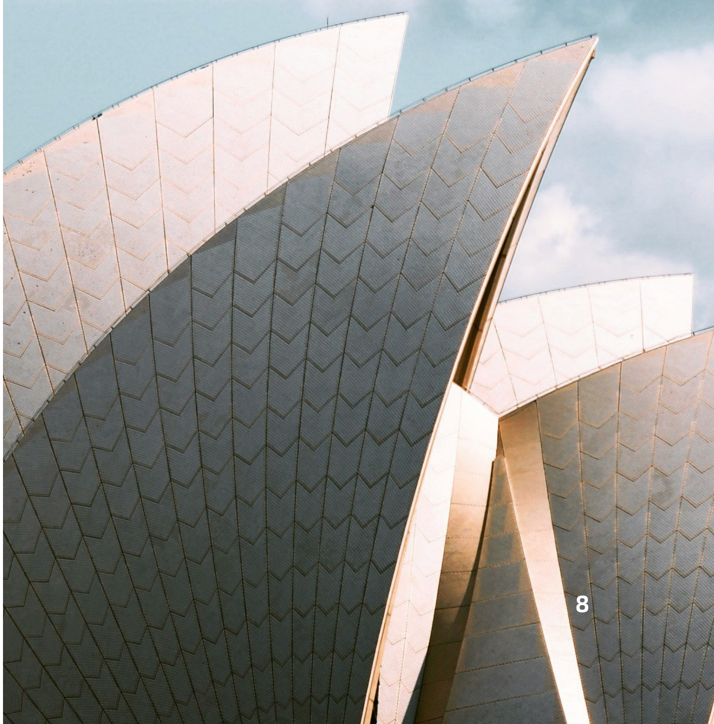
Michael Sonego, Partner at Pitcher Partners Australia highlights: "Australia is a popular destination for inbound investment due to the political and financial stability it offers. However, many people don't realise that we are a federation of states and as such there are laws and taxes that differ from state to state, which can make it difficult to understand what state laws and regulations apply, especially when federal laws and regulations are overlayed and there is cross over in their application.

Jerry Ding, Partner at Baker Tilly China discusses the importance of knowing the situation in the country before considering the risk and return of the transaction itself. "It is necessary to have a sufficient understanding of the following points:

- The policies and laws of China and other countries.
- The transaction motivation of overseas customers.
- Fully understand the transaction background and interests.
- Protective clauses that comply with international conventions.
- Properly handling cultural differences."

Michael Sonego
Pitcher Partners Australia

New investors into Australia need to ensure they obtain appropriate advice on additional taxes and duties an investment might attract."



Cross-border transactions add an extra layer of complexity. Legal and regulatory considerations play a big part.”

Lorijn Van Leersum
Baker Tilly Netherlands

Lorijn van Leersum, Partner at Baker Tilly Netherlands adds: “Cross-border transactions add an extra layer of complexity. Legal and regulatory considerations play a big part, for example foreign ownership restrictions, labour laws, taxation, intellectual property rights, and compliance issues.

“Consulting local advisors is therefore recommended. Moreover, integration can be especially difficult. Agreeing upon a sufficient transitional period with the Seller could be of great value.”

William Chapman, Partner at Baker Tilly US outlines key considerations in America:

- Local and Provincial tax is always an issue.
- Statutory social liabilities (severance or retirement benefits) that are not recorded on the balance sheet due their contingent nature.
- Anti money laundering compliance.
- Repatriation of cash.
- US GAAP vs IFRS – understanding the differences.
- Foreign exchange rates and volatility
- Geo-Political risks that might interrupt supply chains, create regulatory issues, etc.
- All the usual investment thesis validation that are found in typical due diligence (financial, tax, IT, HR, Commercial, legal, regulatory, etc).

The impact of ESG on global transactions

Businesses are taking social stands in very visible ways on previously taboo issues including the environment, politics, and social injustices."

Mike McIsaac
Baker Tilly Canada

ESG is one of many factors considered when acquiring a business anywhere, including the UK, Michael Sonego, Pitcher Partners, Australia addresses:

"As with financial performance and compliance with laws, there is a minimum standard that acquirers expect and businesses that are likely to attract negative publicity or are not likely to see the level of interest as those that are more compliant."

In China, Jerry Ding, adds that ESG is a global hot topic, and large clients will inevitably pay attention to the relevant ESG situation during acquisitions. In cases where transaction conditions are similar, ESG may become a major determining factor. However, in Spain, this sentiment differed as Xavier Mercade Sanmarti recognised although ESG is an increasing factor, and progressively being present in more parts of an acquisition process, for example, due diligence, in Spain it is still not the driving force in the selection criteria for an investment.

Mike McIsaac of Baker Tilly Canada Capital suggests: "In the past, brands thrived or died based on the functional benefits of its products and services. Today, consumers - among other stakeholders - are exerting extreme social and financial pressure on brands to have a social purpose beyond those mere functional benefits.

"As a result, businesses are taking social stands in very visible ways on previously taboo issues including the environment, politics, and social injustices. Large established brands who have grown just fine without a well-defined social purpose are at a pivotal junction in their journey in deciding how to respond to the very real challenge of developing an authentic social purpose fitting for their organisation.

"We at Baker Tilly Canada Capital believe that we are experiencing the beginning of a major business and cultural transformation that will disseminate social purpose (aka grand purpose) to all levels of business.

In this scenario, businesses must adopt a social purpose and implement it through their strategy, and organizations that don't engage in a purposeful way will be held as suspect, resulting in a degraded brand with potentially tremendous financial consequences. As this happens, it will change the very nature of what it means to be a commercial entity in business.

In summary – it's very important to consider where a target business in on its Social Purpose / ESG journey."

William Chapman of Baker Tilly USA outlines: “ESG regulations must be met by certain SEC reporting entities, compliance with those regulations will be a condition to closing those transactions.

“That said, being free of environmental liabilities (and sound compliance practices) has long been important for buyers.

“If an entity is not following a best practices approach to governance, or it is otherwise ineffective, buyers will make the appropriate changes post-closing to protect their investment.

“Appropriate social policies is a critical aspect of attracting and retaining talent, thus, just good business.”

Lorijn van Leersum of Baker Tilly Netherlands adds:

“The implementation of new Corporate Sustainability Reporting Directive (CSRD) regulations make it mandatory for an increasing number of companies to report on their sustainability.”

“This is a new challenge our clients will also have to face. In the Netherlands we have a dedicated ESG team that can advise our clients with their current and future ESG-related challenges.”

The market outlook for 2024/25

Andreas Fröhlich, Baker Tilly Germany outlines: “The decline in market activity we saw in the past was primarily driven by uncertainty stemming from the poly crisis. Therefore, a more stable economic development could somewhat revitalise the M&A market. On the other hand, I believe that the influence of interest rates - at least as far as strategic investors are concerned - is rather small, as there are often still large amounts of funds available for acquisitions. For PE investors, who regularly finance transactions with high leverage, this is of course often a deal breaker.”

When discussing the landscape in China, Jerry Ding expresses: “We all hope for a decrease in interest rates without considering inflation and personal asset depreciation. However for China, before the valuation centre of the stock market returns to a normal range, the decline in interest rates should not be used too early as a powerful stimulus weapon.”

Mike McIsaac, Baker Tilly Canada positively forsees: “Increased deal flow, stability and lower interest rates are generally good signs for M&A activity, combined with real urgency for those looking to exit their businesses, means that our outlook for 2024 is robust.

“However, it is unlikely that interest rates will fall significantly in 2024 which impacts financing-ability and puts downward pressure on valuations.”

In terms of investor appetite, “we see growing number of new PE entering the market seeking good opportunities *and* existing PE launching new funds and expanding into new markets. All signs are good for players and available capital funding transactions in 2024.”

Antoine Duval, Baker Tilly France, expresses: “It is proved that stability (and therefore confidence in the future) has a significant impact on risk-taking. This increased capacity to take more risks encourages candidates to submit better quality bids. Besides, we can reasonably think that the European Central Bank (ECB) will start soon a cut in its key interest rate due to falling inflation, which will have a positive impact on the cost and access to credit.”

Is the mid-market expected to remain strong in 2024/25?

In France it is expected that 2024 will be the year of catching up due to investment funds continuing to raise substantial amounts of money, which must be invested within a given timeframe and buyers should benefit from attractive prices for certain assets, combined with easier access to borrowing.

A more stable economic development could somewhat revitalise the M&A market.”

Andreas Fröhlich
Baker Tilly Germany

Jasper De Decker, Corporate Finance Manager for Baker Tilly Belgium denotes: "In the near term, we anticipate that the prevailing macroeconomic conditions and geopolitical tensions will exert the most significant influence on the current landscape of mergers and acquisitions (M&A).

"While M&A activity is on the upswing, we foresee intermittent setbacks stemming from geopolitical unrest and macroeconomic uncertainties. These factors will contribute to fluctuations in both the volume and value of M&A transactions in the medium term. Nonetheless, we hold an optimistic outlook for the Belgian M&A markets in 2024."

"We project an increase in activity levels compared to 2023, encouraged by increased stability and declining interest rates, albeit still at elevated levels. However, we anticipate that deal volumes may not reach the heights observed in the post-pandemic period. Alongside greater stability, 2024 presents challenges such as the energy transition, digitalisation of businesses, and a volatile international environment."

"Consequently, we anticipate a rise in private equity (PE)-backed M&A activity during 2024."

Jasper De Decker
Baker Tilly Belgium

Notably, the mid-market in Belgium, supported by PE, tends to adopt a buy-and-build approach, which provides a degree of insulation against macroeconomic fluctuations."

"Nevertheless, there persists an expectation gap between sellers and buyers, driven partly by funding costs. This necessitates innovative solutions, including alternative funding structures like vendor loans and deal structures such as minority investments and earn-outs."

UK business: new horizons for growth

Despite recent political and economic upheaval, the UK remains Europe's primary market for M&A and very much an attractive place for foreign capital.

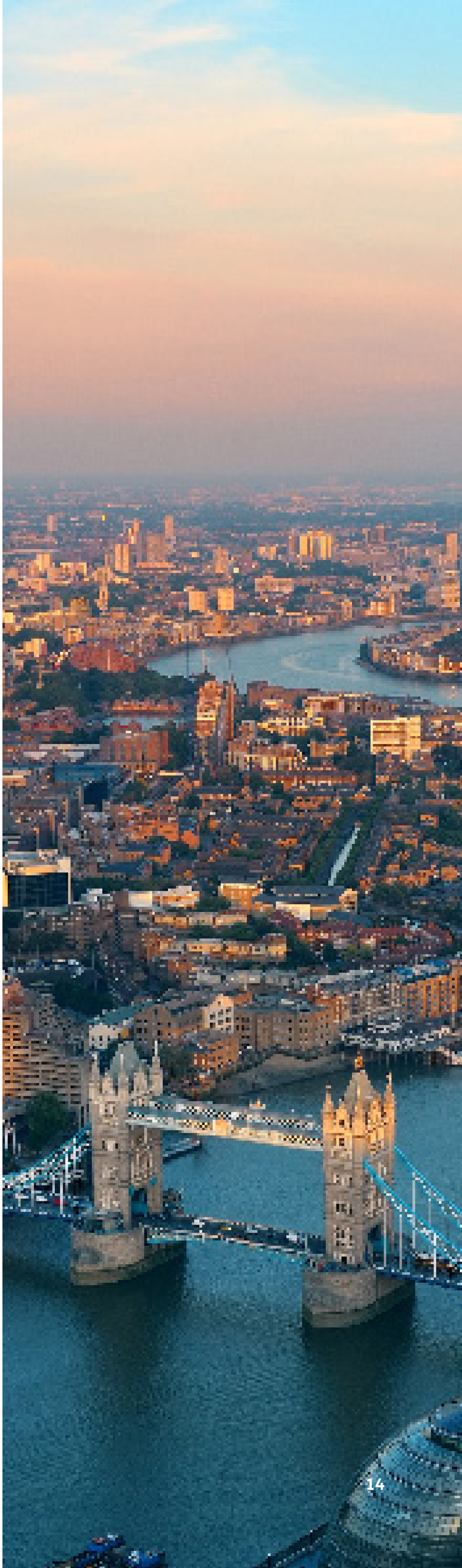
"As leading corporate finance advisers to owner managers and corporates in the lower-mid and mid-market in the UK, the firm expectation is that 2024 will deliver improvement in M&A activity compared to last year.

Global equity markets have started 2024 positively as investors anticipate the likely timing of reductions in interest rates. Consequently, focus has begun to return to M&A as a means by which to capture new market opportunities and deliver strategic transformation to existing business models.

The cost of debt was a significant factor in the lower volume of so-called 'mega deals' in the UK in 2023. The cost of debt finance is expected to remain at recent historical highs creating continue pressure on valuations in some instances. However, corporate activity for entrepreneurs and growth companies is often less reliant on extensive gearing, and competition for quality investment opportunities from both trade and financial (private equity) acquirers has the prospect to diminish further downward pressure on multiples.

We're also seeing consistent interest from overseas investors in UK growth companies. Despite recent political and economic upheaval, the UK remains Europe's primary market for M&A and very much an attractive place for foreign capital. **This is supported by a strong entrepreneurial culture of innovation leading to some fantastic home-grown business success stories."**

James Lawson
Partner, MHA UK



Baker Tilly International and MHA UK key facts

13th

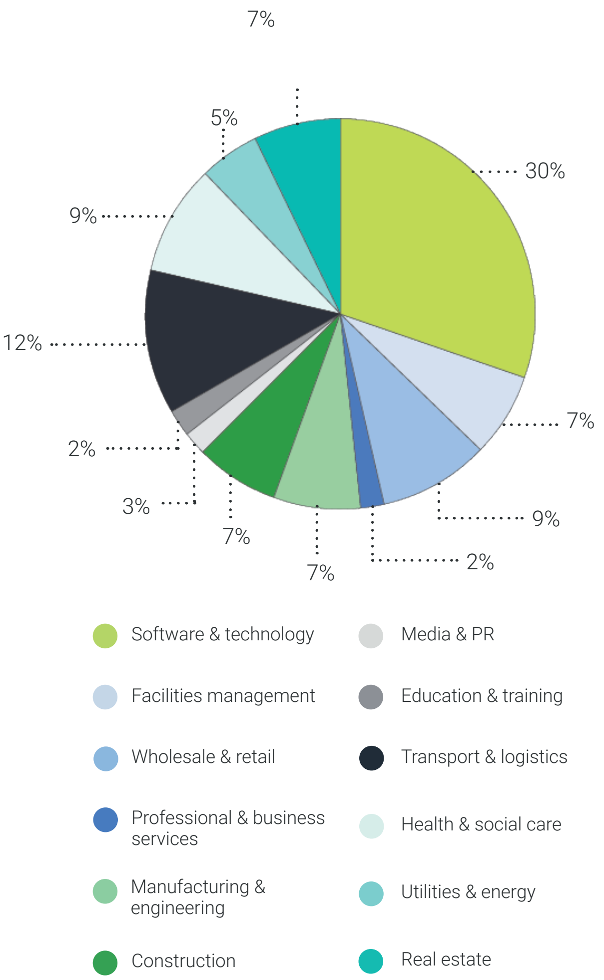
Baker Tilly International ranked 13th largest adviser by deal count in 2024

6th

Baker Tilly ranked 6th amongst accounting networks globally in 2024

A look back at 2023: Our UK corporate finance team transactions

Transactions by industry sector:



Transactions by type:

56%
Acquisition (advisory and due diligence)

35%
Disposal advisory

9%
EOT/ MBO

23% of our UK deals in 2023 involved an overseas buyer

MHA UK have completed deals in:

- Australia
- Belgium
- Canada
- France
- Germany
- Holland
- Luxembourg
- Netherlands
- Poland
- Singapore
- Sweden
- Switzerland
- UAE
- USA

UK corporate finance senior team

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Head of MHA Corporate Finance

James Lawson
Corporate Finance Partner

Rob Richardson
Corporate Finance Partner

Justin Moss
Corporate Finance Partner

Rob Dando
Corporate Finance Partner and Transaction Services Leader

Rob Dawes
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Robin Stevens
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