



M&A Market Monitor 2025

For what comes next
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Overview

M&A activity in the UK has experienced fluctuations over the past 24 months influenced by economic, political and global uncertainties, as well as rising interest rates, inflation, and energy costs.

Deal activity began to stabilise in the second half of 2024, especially as the outcomes of the UK and US elections were confirmed.

There was a notable surge in transactions completed ahead of the Labour Government's Autumn Budget, driven by anticipated capital gains tax increases.

M&A transactions are picking up momentum, with particular growth in sectors such as Financial Services, Healthcare, Artificial Intelligence, Technology and Construction. Transactions across the Future Energy sector and those involving secondary succession planning in evolving Employee Ownership Trusts also remain particularly robust and dynamic.

Although the economic outlook for UK M&A is becoming more stable with the steadying of interest rates and a reduction in inflation, we still anticipate challenges. Business valuations will remain a critical area, with pricing mechanisms playing a key role in bridging expectation gaps between sellers and buyers. This is also impacting deal timelines, as buyers extend their due diligence to ensure a comprehensive understanding of the businesses they are valuing and their performance with a growing cost base.

In this latest edition of our M&A Market Monitor, we look at key legal issues negotiated in the acquisition and disposal of private companies over the past two years (from 1 January 2023 to 31 December 2024). Our analysis is based on data from 59 transactions completed by our Corporate team across England and Scotland, reflecting broader trends in the M&A market.

This edition includes new analysis of M&A trends in Financial Services, particularly focusing on timescales for regulatory clearances.

We focus on the following areas:

- Sectors, parties, and completion arrangements
- Pricing mechanisms
- Purchase price retentions
- Earn-out arrangements
- Seller limitations on liability (including Warranty & Indemnity insurance)
- Restrictive covenants
- M&A trends in Financial Services
- Key themes and future outlook



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Example deals analysed



Advising **Newcastle Building Society** on its merger with Manchester Building Society, the first such merger for five years and one of only five building society mergers that have occurred since 2013.



Advising specialist sports travel provider and long-term partner of the British & Irish Lions and England Rugby, **The Mike Burton Group**, on its acquisition by international travel management leader, Destination Sport Group.



Advising the shareholders of award-winning European tech business, **Amdaris**, on its sale to Fortune 500 Solutions integrator, Insight Enterprises.



Advising **Tay River Holdings Ltd** on its sale to US headquartered global insurance brokerage, Arthur J. Gallagher. The transaction included the sale of Tay River Holdings' group of marine insurance underwriting businesses: Vessel Protect, Trafalgar Marine Trades, BMM (Ports & Terminals), Freeboard Maritime and Fortify Marine.



Advising **XPS Pensions Group** on the sale of XPS Pensions (Nexus) Limited, principal employer and scheme funder to the National Pension Trust (NPT) to SEI®.



Advising the shareholders of **Infrastructure Gateway Limited** on the sale of a majority shareholding in Infrastructure Gateway and its holding company The Gateway Group of Companies Holdings Ltd to South Staffordshire plc.



Acting for international strategy, insight, and planning consultancy **Rainmakers CSI** Ltd on its sale to global strategic insight and customer analytics group, STRAT7.



Advising leading UK-based software firm **Insight Legal Software Ltd** on its sale to Canadian-listed, multinational provider of mission-critical software for legal, financial and business professionals, Dye & Durham.



Advising Swedish headquartered and Nordic Capital backed **Sortera** on its acquisition of Reston Waste, establishing Sortera as the largest independent construction waste management company across Greater London.



Advising sustainable waste-management leader **Biffa** on its acquisition of Eco-Power Green Energy, a subsidiary of the Eco-Power Environmental group. This follows its acquisitions of Scotland's only post-consumer plastics recycling facility Green Circle Polymers and industrial waste business Total Recycling Services.



Advising leading ICP and EV ChargePoint installer, **Envevo**, on its acquisition of Advance Product Services, expanding Envevo's offering to provide a fully end-to-end service.



Advising **K3 Capital Group** on its acquisition of business management software solutions specialist, Pinnacle Computing. This follows various bolt-on acquisitions, including the £42m purchase of restructuring, insolvency and advisory firm Quantuma, as well as randd UK, Knight Corporate Finance Group, Knight R&D, Professional Insight Marketing and HMA Tax (International).

Sectors, parties and completion arrangements

TLT deals – sectors

- Over the past 24 months, our M&A activity has encompassed a variety of sectors, with a notable focus on Digital and Financial Services. This reflects the broader UK trend, where UK financial services reached record levels in the first half of 2024. As the most represented sector in our sample, we have carried out detailed analysis of financial services deal trends on pages 29-33.
- Technological advancements, particularly in AI and generative AI, have driven businesses to seek opportunities to develop and adopt technology so that they can scale and compete. M&A activity offers a route to achieve this without the time and cost of in-house development or reliance on third-party suppliers.
- Sectors such as Retail, Leisure, and Travel continue to face challenges. These stem from shifts in consumer behaviour towards greater online shopping and high operational costs, interest rates and inflation, particularly during 2023.
- Inflation is now much closer to the target rate of 2%, and we are optimistic that consumer confidence will grow. Businesses that can adapt to meet consumer demand will likely find new opportunities for M&A activity.



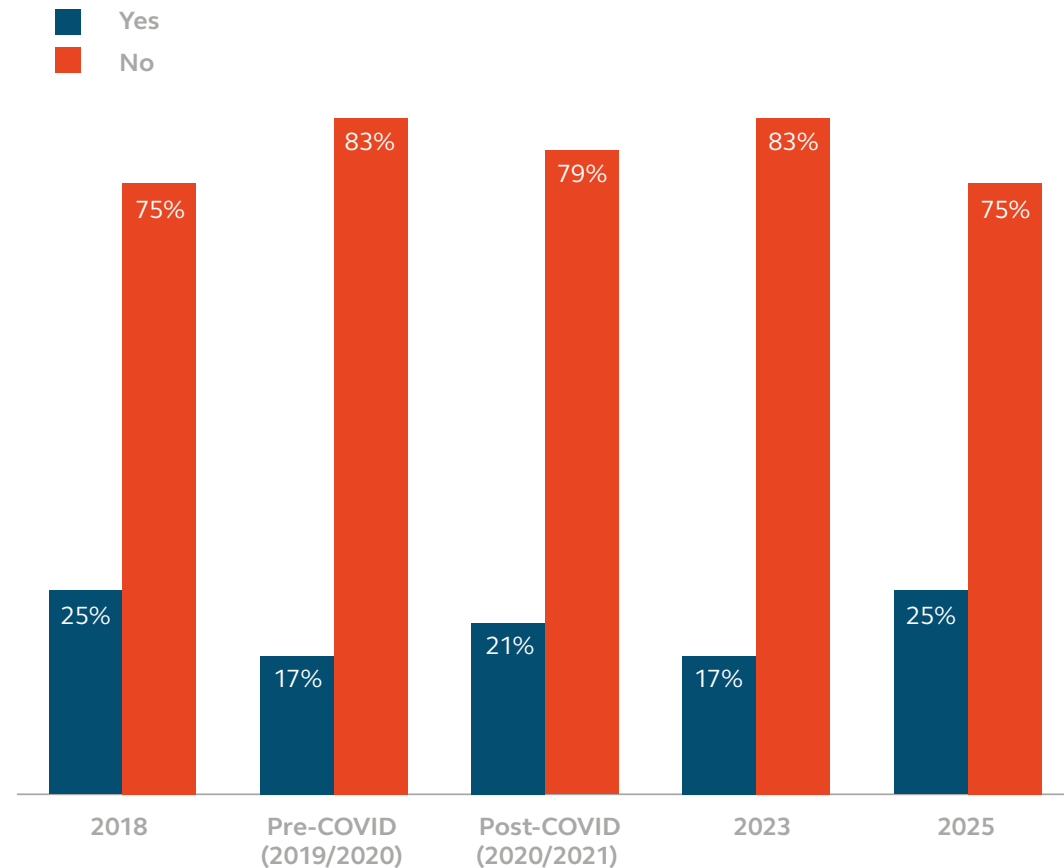
Philip Barratt

“The Financial Services sector continues to experience a period of transformation. FS businesses are seeking growth opportunities in an increasingly competitive industry, whilst executing longer-term transformation strategies, including improving their use of technology, divesting non-core assets and divisions and addressing regulatory changes. We anticipate a continued trend for a broad range of deals in the FS sector, including mergers of large FS institutions, acquisitions by private equity backed platform businesses and investments in strategic partnerships with fintech companies.”



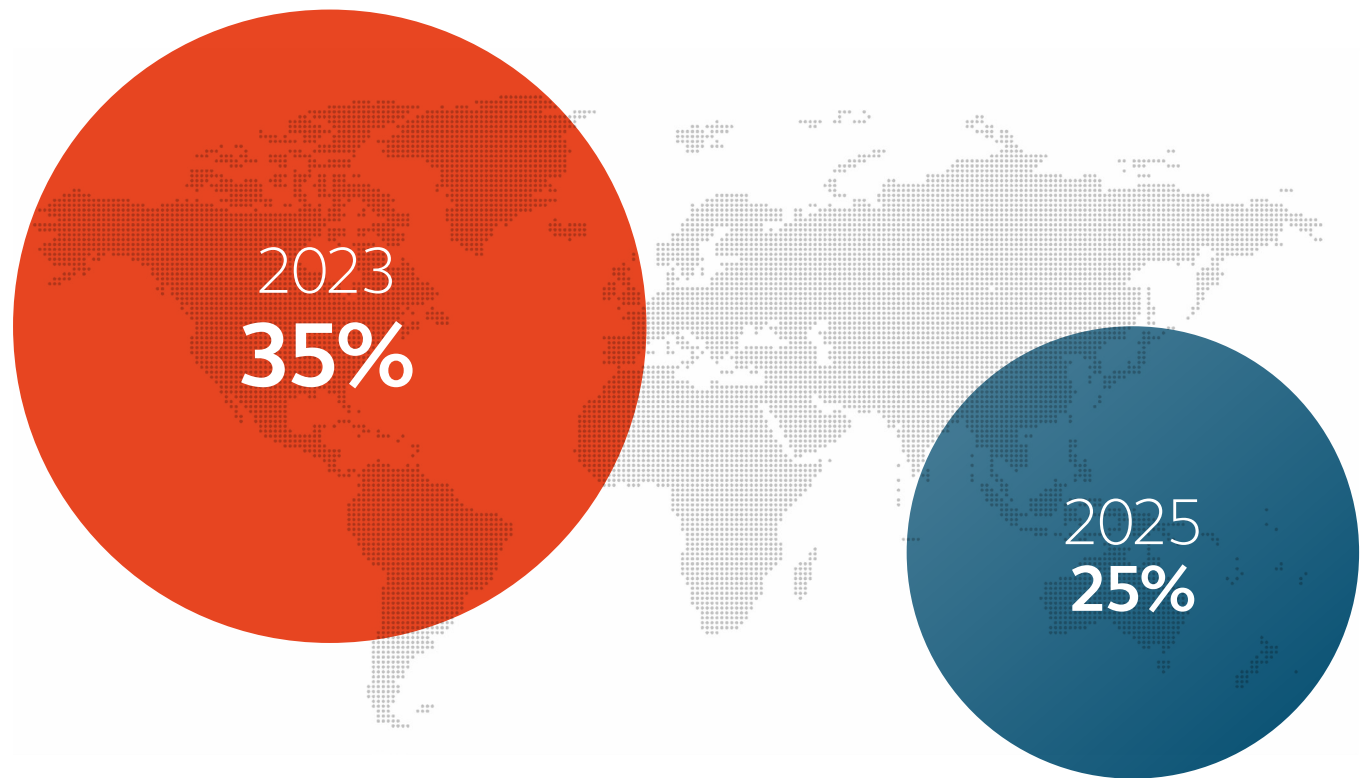
TLT deals – involving private equity

- The level of PE involvement in our M&A over the past 24 months has increased, matching figures last seen in our 2018 deal sample. There have been increased opportunities for private equity funds, particularly in the Fintech, Technology and Renewables sectors.
- Valuations have remained challenging which, together with the increased cost of debt, resulted in longer and more thorough due diligence to determine anticipated returns. This has led to longer deal timelines and an increased use of earn-outs and ratchets to bridge valuation gaps.
- As we move through 2025 and beyond, the level of PE interest may depend on lending costs. However, with the base rate appearing more stable and if inflation can remain closer to the Government's target, confidence may continue to grow leading to more transactions. Some funds may have been waiting for greater market stability to exit and will need to look at opportunities over the coming years. Continuation funds could also be used to enable funds to "sell to themselves" where disposals need to be made.



TLT deals – involving overseas entities

- There has been a slight decrease in the number of our transactions involving overseas entities, reflecting a general decrease during this period. This may indicate that overseas buyers and investors are taking time to understand increasing regulatory requirements in the UK, such as the National Security and Investments Act 2021 and the impact of global and local economic and political uncertainty.
- If interest rates continue to stabilise and inflation is controlled, the UK should become more attractive to overseas buyers seeking growth opportunities.
- We are well placed to advise on the impact of foreign investment and international deals, with our expertise in advising on global cross-border strategic transactions working with a network of trusted independent alliance and strategic partner firms. Our approach to our international capability enables us to work with the right firm for each client and to provide seamless cross-border services.



TLT deals – was there a gap between exchange and completion?

- There has been a significant jump in transactions including a gap between exchange and completion. This change is primarily due to the need for third party consents on the deals sampled, including regulatory approval from bodies such as the FCA, PRA or Pensions Regulator or under the National Security and Investment Act 2021.
- Parties and their advisors must assess at an early stage whether any regulatory requirements are relevant and their potential impact on due diligence, contractual arrangements and timing.

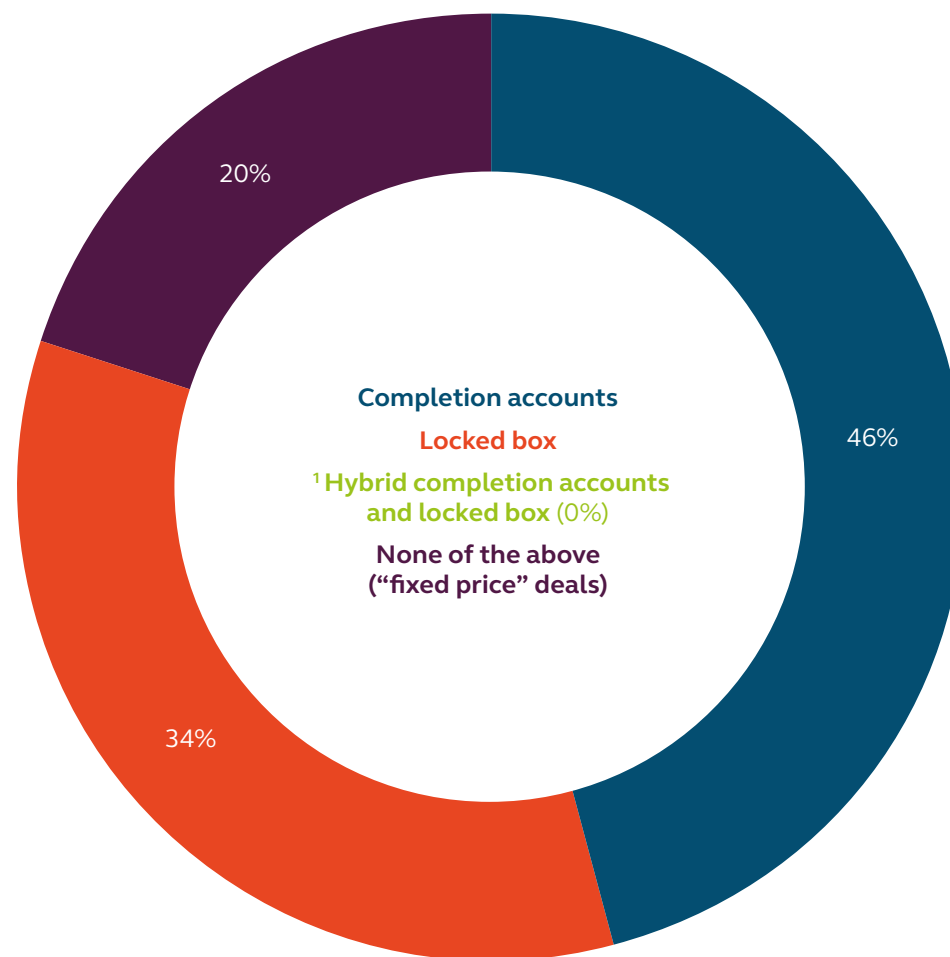
24% 2025
14% 2023

percentage of deals surveyed which
included a **split exchange** and **completion**

Pricing mechanisms

Pricing mechanisms – completion accounts or locked box?

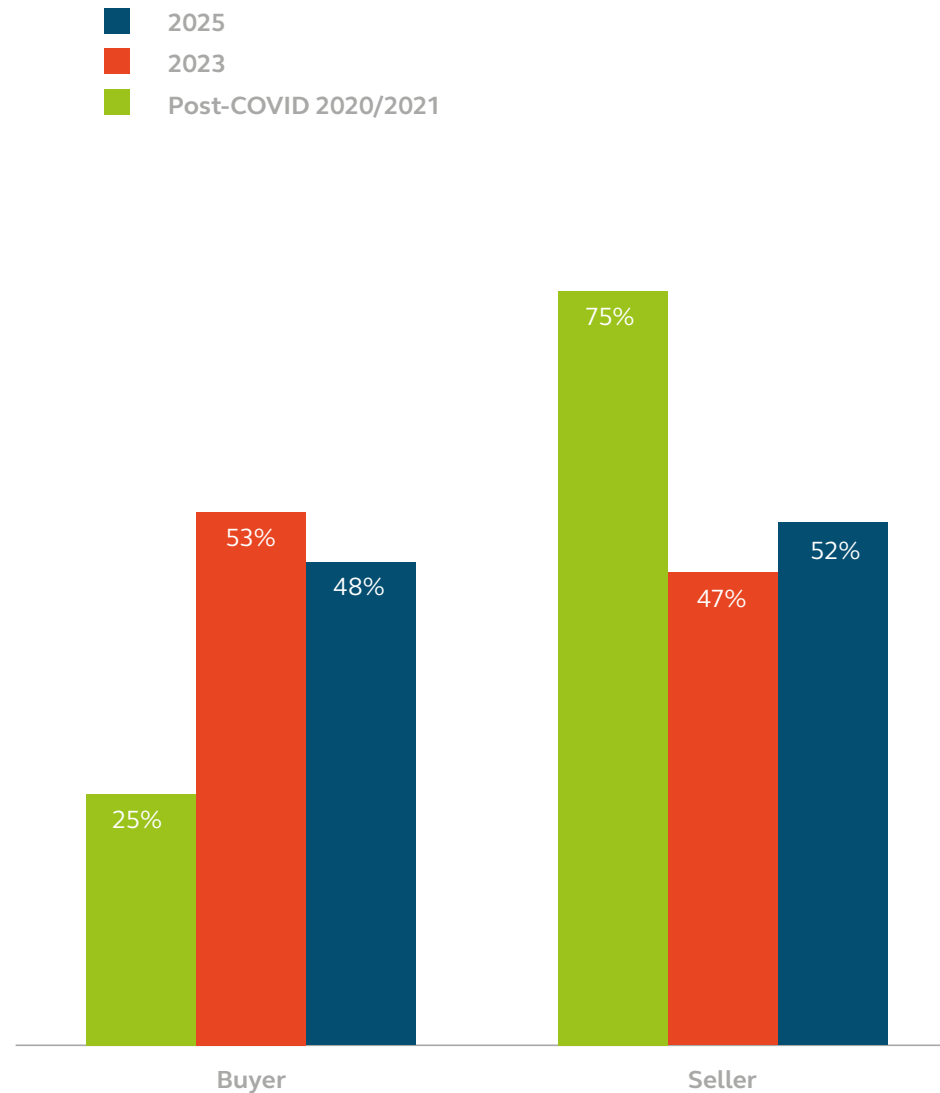
- Valuing businesses in 2023 and 2024 has remained challenging and a substantial majority of deals in our sample (80%) employed some form of pricing mechanism. However, this is slightly down from 88% in our 2023 report, which may indicate heightened competitive tension for certain targets.
- The use of locked box mechanisms as a pricing method has risen, reaching levels last observed in our 2018 deal sample. While buyer-friendly completion accounts remain preferred, the increased use of the more seller-friendly locked box suggests a potentially improving market for sellers.



¹ By way of explanation, the hybrid approach typically involves completion accounts being prepared for the month end before completion, with these becoming the locked box accounts for the period to completion (with customary leakage protection).

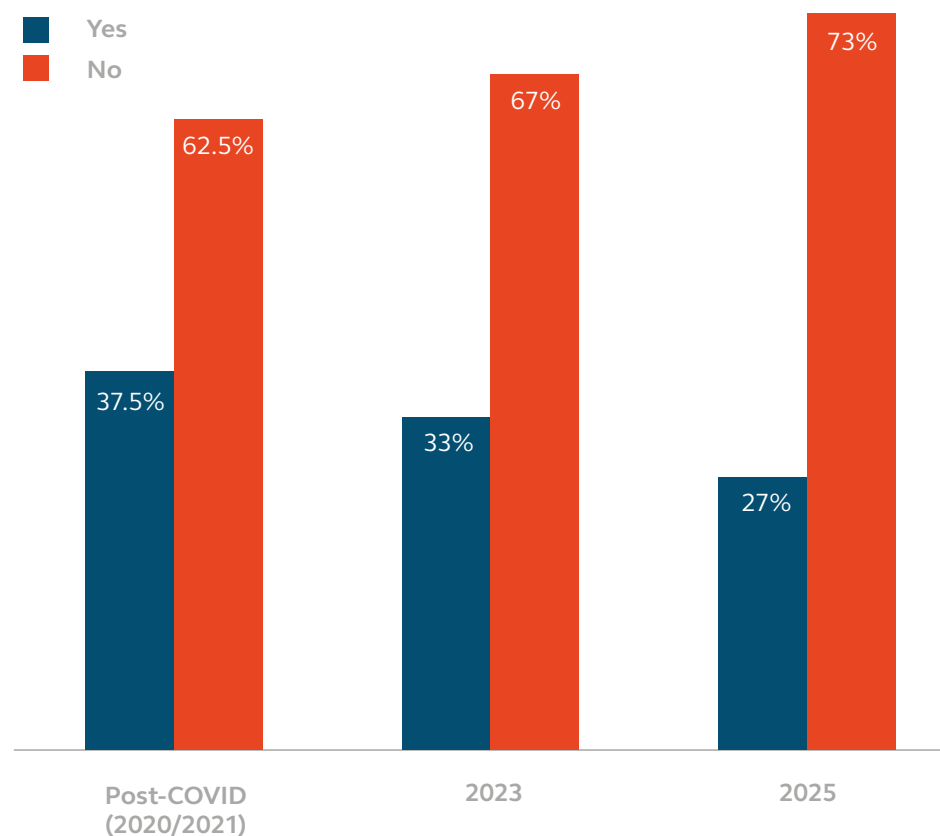
Completion accounts – who prepared and what was tested?

- Our current deal sample saw an almost even split between buyers and sellers preparing completion accounts. Although buyers typically seek to control this process, sellers are now controlling the process in most cases, suggesting a shift towards a seller's market for the period this report covers.
- In our 2023 report, 34% of transactions tested net assets, compared to only 15% of deals in this sample. Additionally 78% of deals in this sample tested working capital (on a cash/debt free basis), compared to 66% in our previous sample. This reflects a return to the pre-pandemic position.



Deferred consideration – was there any?

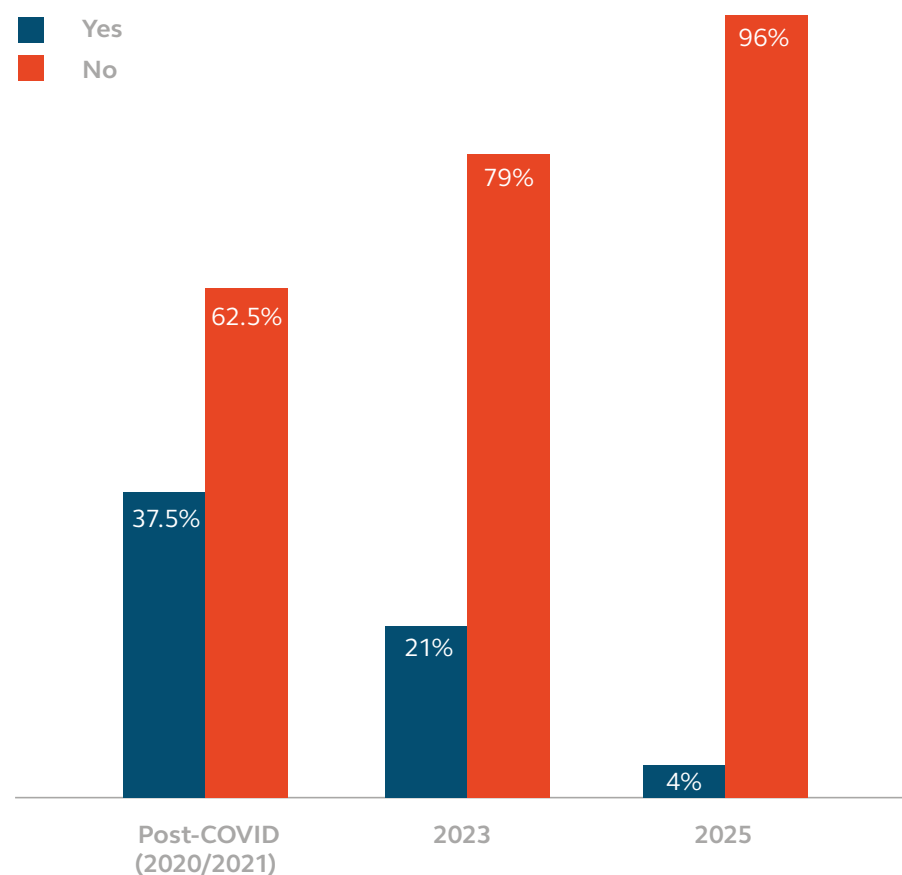
- Deferred consideration as part of deal pricing has decreased during the past two years
- There continues to be substantial variance in the proportion of consideration that has been deferred, ranging from 5% to 81% of the total purchase price. These variations are typically very deal-specific. The mean average is 30% of the total purchase price.
- This average is higher than seen previously, likely due to a small number of deals where a large amount of consideration was deferred. For example, in one transaction, the existing relationship between the parties resulted in a significant portion of the consideration being deferred.
- Note that true contingent or earn-out consideration has been excluded for the purpose of this particular analysis, so this data shows deals where there was an element of "vendor finance".



Purchase price retentions

Purchase price – was there a retention?

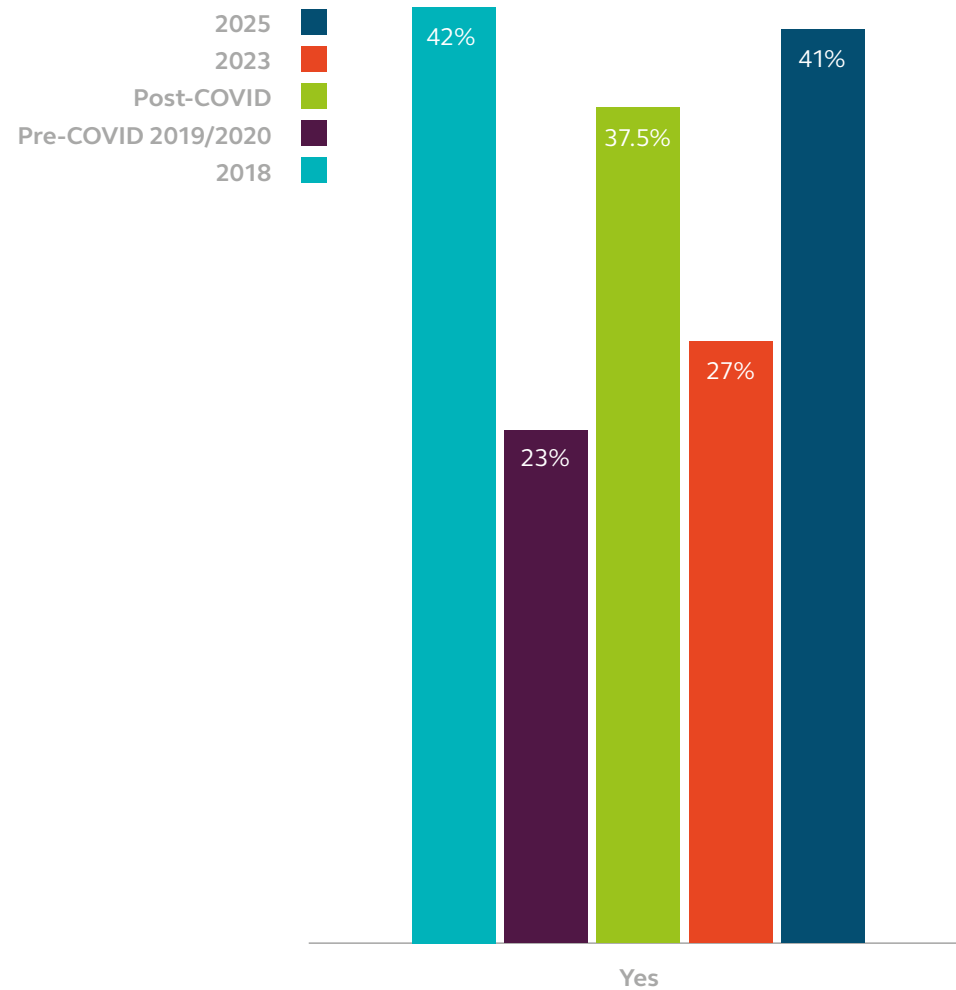
- The number of transactions involving a retention has significantly decreased over the past 24 months.
- This decline is likely due to the cost and administrative burden associated with establishing a formal escrow arrangement, particularly for non-substantial amounts. Regulation now almost always necessitates the appointment of a formal third party escrow agent, prompting parties to consider alternative structures, such as paying larger amounts as deferred consideration.
- In instances where retentions were utilised, they accounted for less than 5% of the purchase price, similar to the position pre-pandemic.
- These retentions were primarily used to cover specific tax liabilities and potential claims under the share purchase agreement prior to the earn-out consideration becoming payable. All were for 12 months or less.
- A retention for this purpose is a portion of the consideration paid by the buyer into a specific escrow or retention fund at completion.



Earn-out arrangements

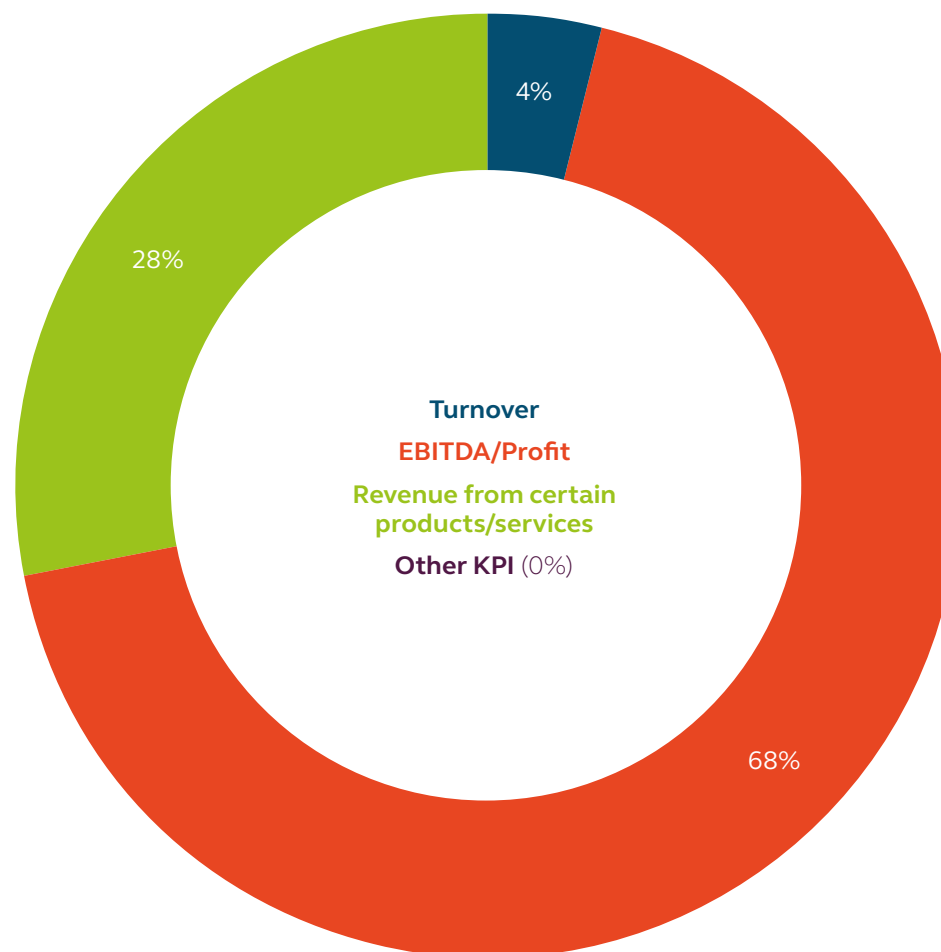
Earn-out – was an earn-out used?

- The increase in the use of earn-outs over the past 24 months, reaching levels comparable to those last observed in 2018, can be attributed to the ongoing difficulties in aligning the valuation expectations of buyers and sellers amidst an uncertain economic and political outlook.
- An earn-out mechanism allows sellers to benefit if the business meets or surpasses expectations, while alleviating buyers' concerns about potential overvaluation. When an earn-out is agreed upon, the transaction involves an initial price payable at completion, with additional consideration contingent upon the business's future financial performance.



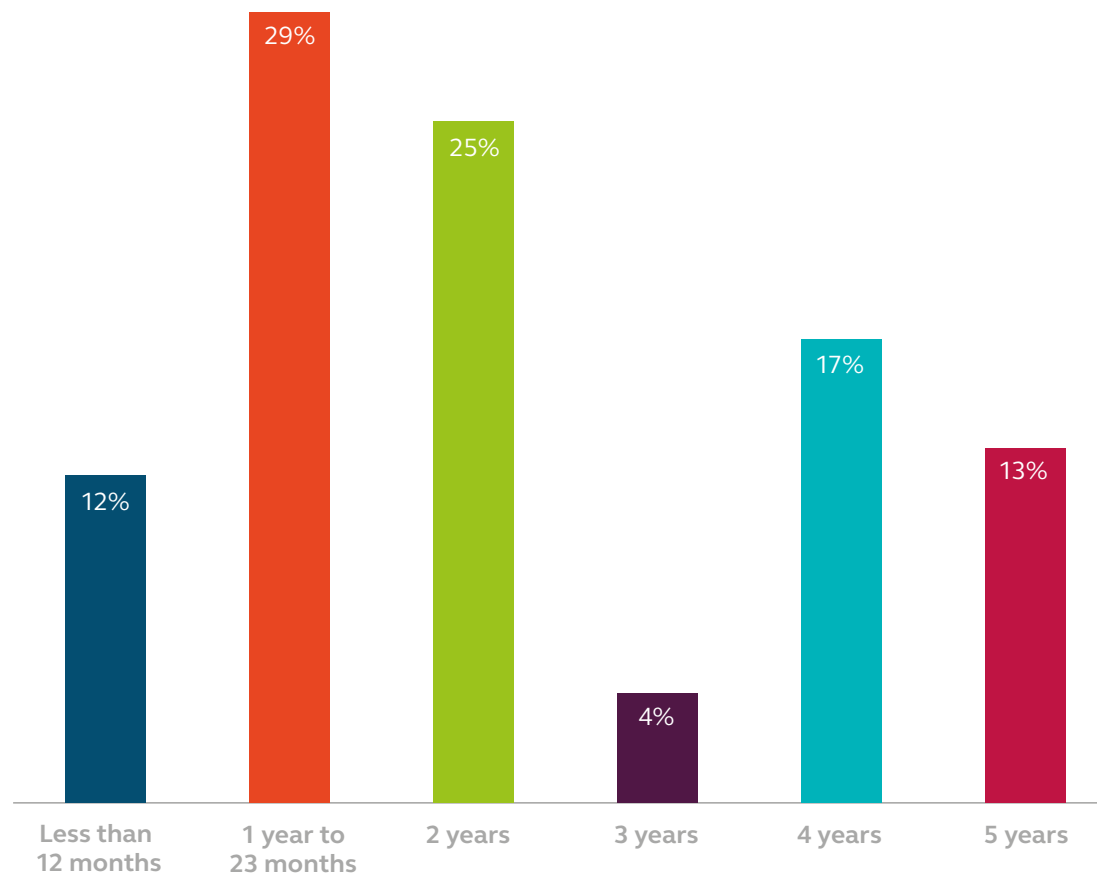
Earn-out – what did it test?

- EBITDA or another measure of profit is currently the most commonly used metric for earn-out calculations. This trend continues from our previous report, where 75% of all earn-outs were measured by EBITDA or profit.
- The increase in earn-outs based on turnover seen in our 2023 report has declined. However, there has been a rise in earn-outs based on revenue from specific products and/or services, suggesting that a particular product or service is essential to the buyer's rationale for the acquisition. As a result, additional payments are made only if that product or service continues to perform well and/or integrates successfully with the buyer's existing business.
- There were no earn-outs based on other KPI targets, indicating that these can be challenging to measure and test, providing less certainty to the parties involved.



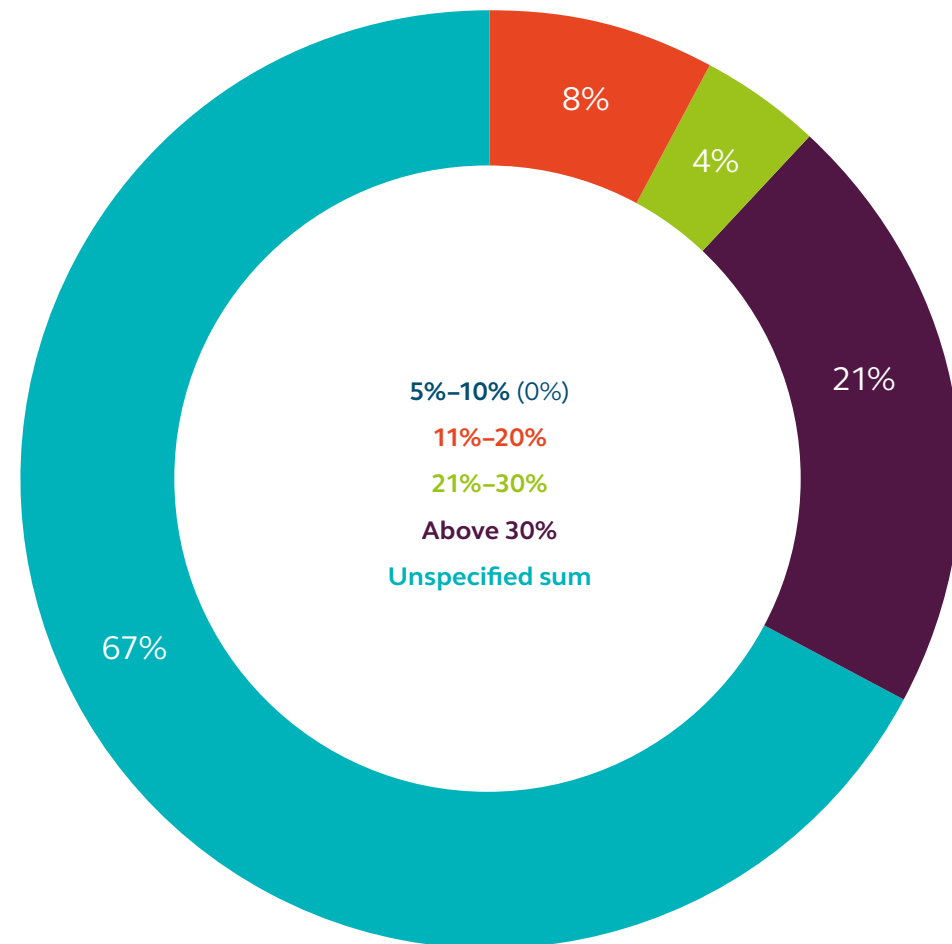
Earn-out – time period

- Earn-out periods have slightly extended over the last 24 months. From our deal sample, 66% of earn-out periods were for two years or less, down from 71% in the 2023 report. Notably, there has been a rise in the number of five year earn-out periods, with none reported in the 2023 sample and 13% recorded in this current period.
- Despite cautious optimism about the economic outlook over the last 12 months, pricing challenges persisted, requiring parties to find ways to bridge valuation gaps and facilitate transactions.
- Where we saw earn-outs last for five years, this was due to the longer term integration plans of buyers and sellers and circumstances where a longer earn-out period was provided to enable sellers to maximise their return.
- Longer earn-out periods can present challenges due to the tension between a seller's desire to maintain control and influence during that period and a buyer's need to be unrestricted in its future activity, including synergising the target's activities with its own and not being required to keep track of the earnings/profits/revenue attributable to the target business post merger. Managing these competing interests requires careful negotiation and agreement as part of the transaction.



Earn-out – size relative to price

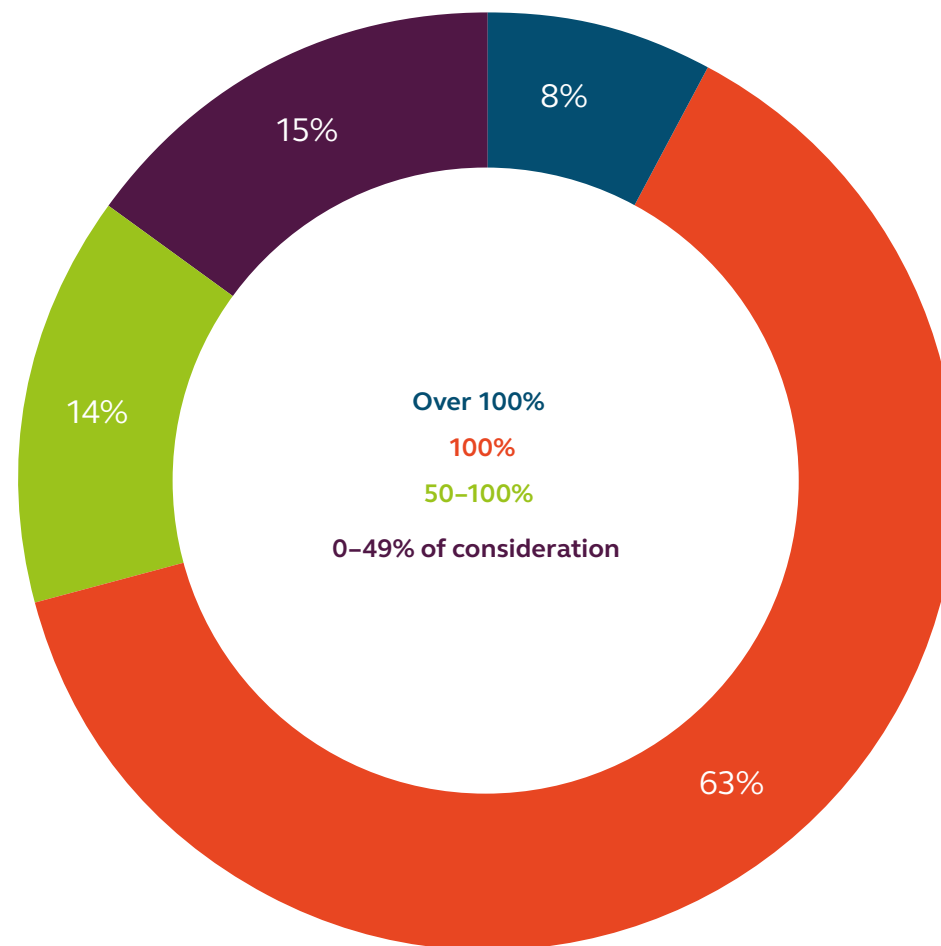
- The proportion of earn-outs with unspecified values has remained fairly stable, appearing in 67% of all deals sampled.
- An earn-out with an unspecified value refers to situations where no specific amount or cap was contractually defined. This creates uncertainty for both the seller and buyer, but the parties may deem this risk acceptable to ensure that the business's value is ultimately determined by future performance metrics.
- There has been a significant increase in the number of earn-outs representing more than 20% of deal value. This figure has surged from just 6% of all earn-outs in our 2023 report to 25% in this period.
- Typically, earn-outs are expected to range from 10-20% of the deal value. This increase suggests that sellers are increasingly tracking and impacted by the future performance of the sold business, which they may not always control.



Seller limitations on liability

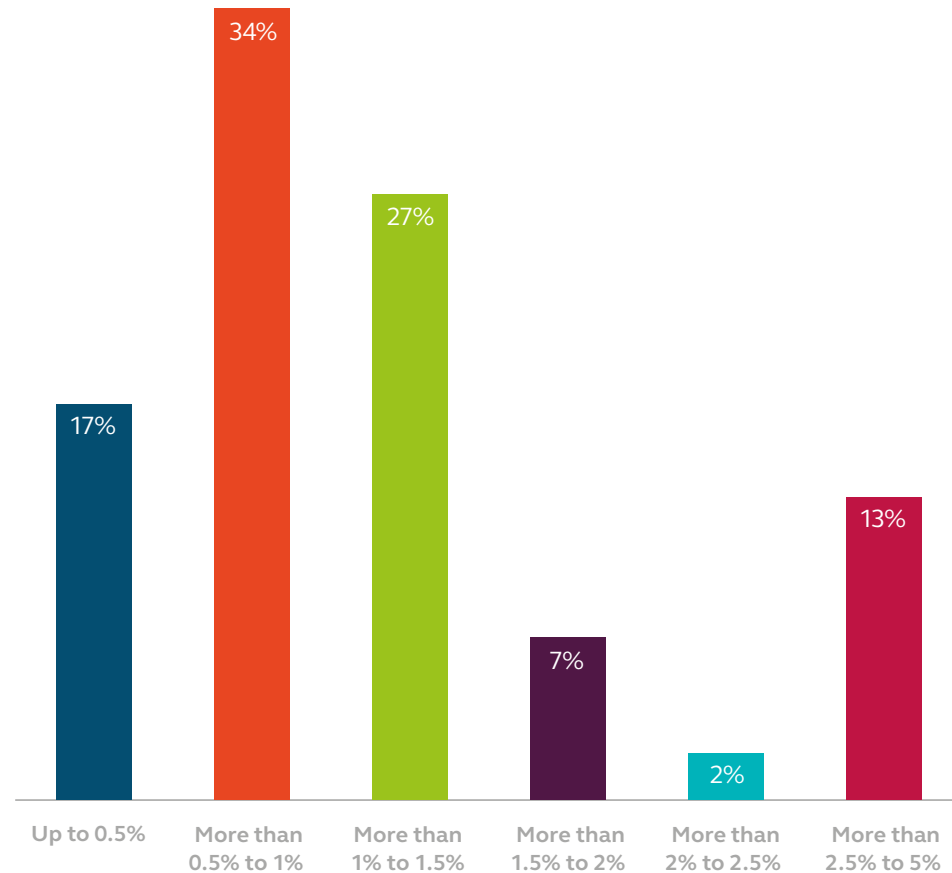
Liability – cap as percentage of purchase price

- A cap of 100% of the total purchase price (including any upwards adjustment, deferred payment or earn-out consideration received from time to time) is the most frequently used liability cap.
- In instances where significantly lower caps on liability are used, these typically reflect specific deal circumstances or coincide with the use of warranty and indemnity insurance. The buyer usually only seeks the seller's liability for matters not covered by the insurance policy.
- Transactions with a "greater than 100%" cap are unusual and typically reflect very bespoke terms (often linking through to other related transactions).



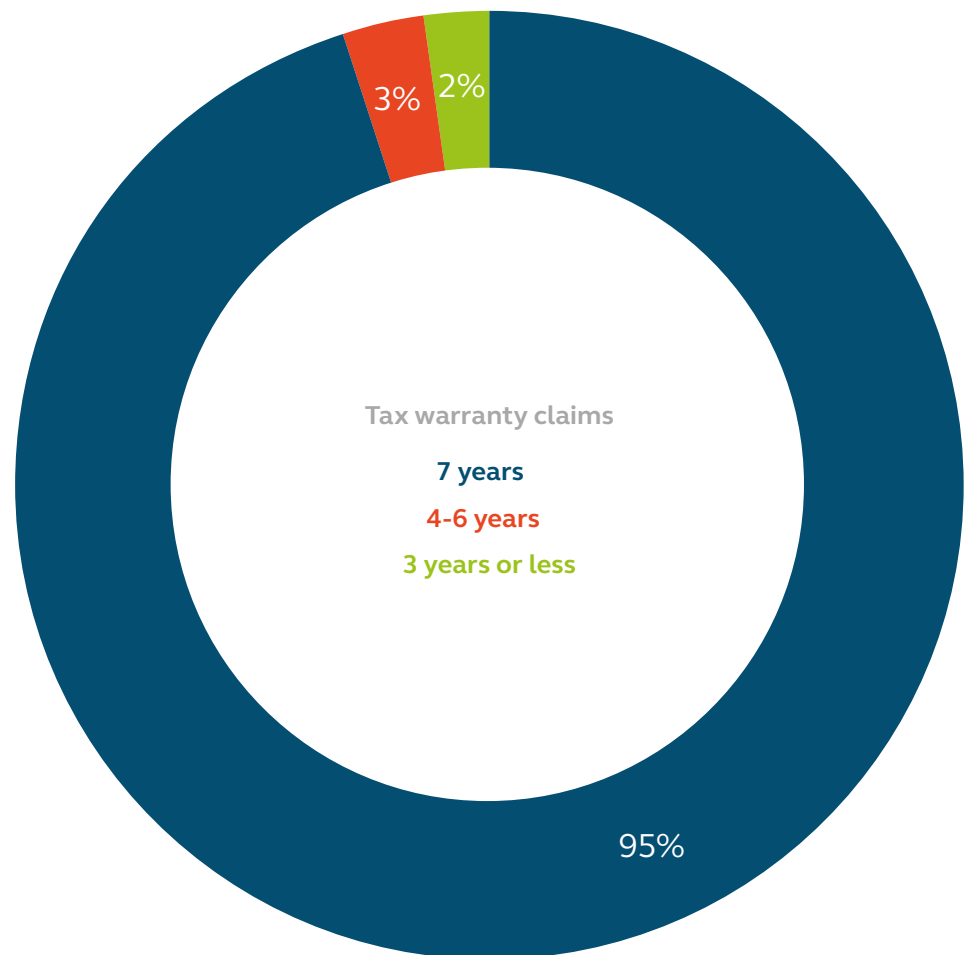
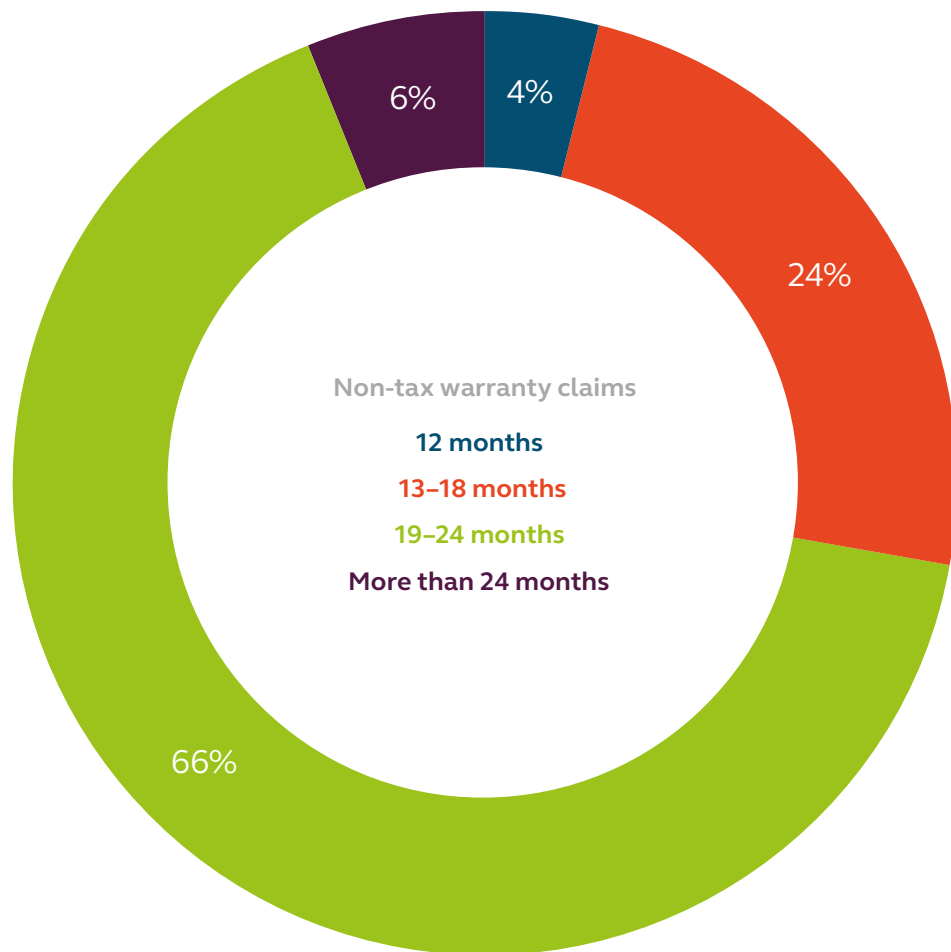
Liability – aggregate claims threshold/basket (% of deal value)

- Most "baskets" continue to be agreed upon at approximately 1–2% of deal value, consistent with levels observed since 2014.
- Transactions with thresholds below 0.5% typically involve warranty and indemnity insurance or are conducted under bespoke terms. This includes deals where only fundamental warranties (related to title and share ownership) are provided, resulting in uncapped liability.



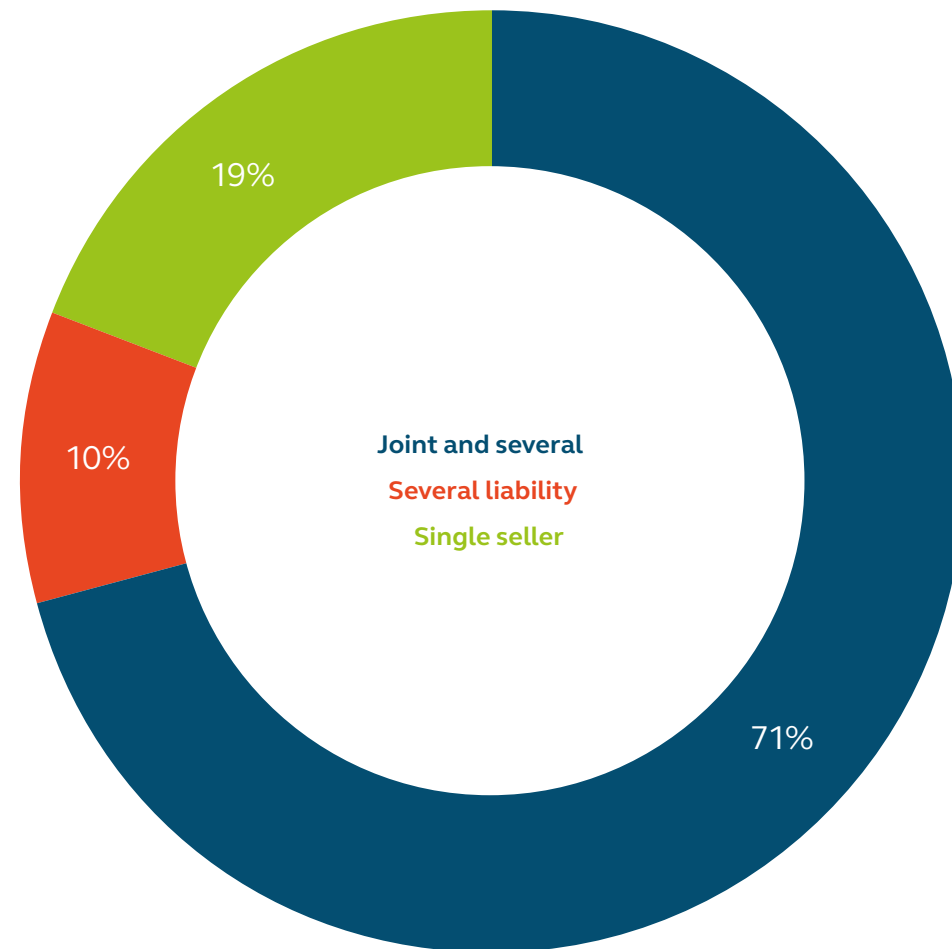
Liability – limitation periods for warranty claims

- The vast majority of deals sampled had non-tax warranty claim periods of no more than two years which aligns with our analysis in previous years.
- Buyers generally prefer to have at least one full year's accounts prepared post completion before any non-tax warranties expire.
- Seven years remains the most common limitation period for tax claims, increasing from 88% in our 2023 report.



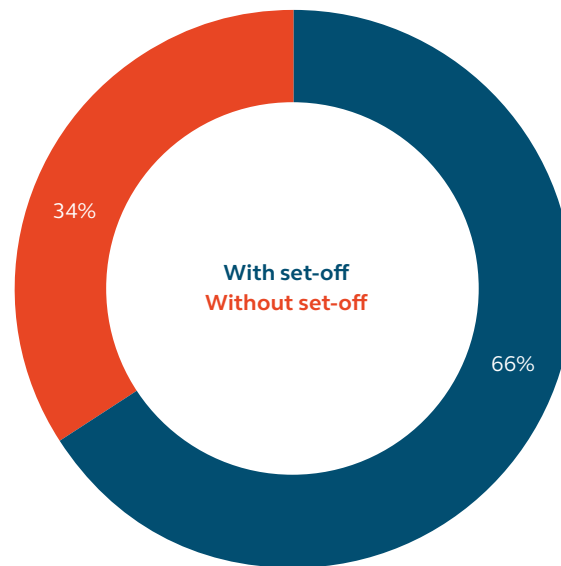
Liability – joint and several or several liability

- In transactions involving multiple sellers, joint and several liability is predominantly used. Buyers are generally reluctant to accept credit risk on individual sellers that might affect their ability to seek recovery.
- When several liability is agreed, it is usually due to a seller's limited exposure in the transaction, for example warranty and indemnity insurance is being provided, or a retention has been agreed.
- Historically we saw sellers having liability on a "several and proportionate" basis. However, this has not been seen in our deal samples since 2021.

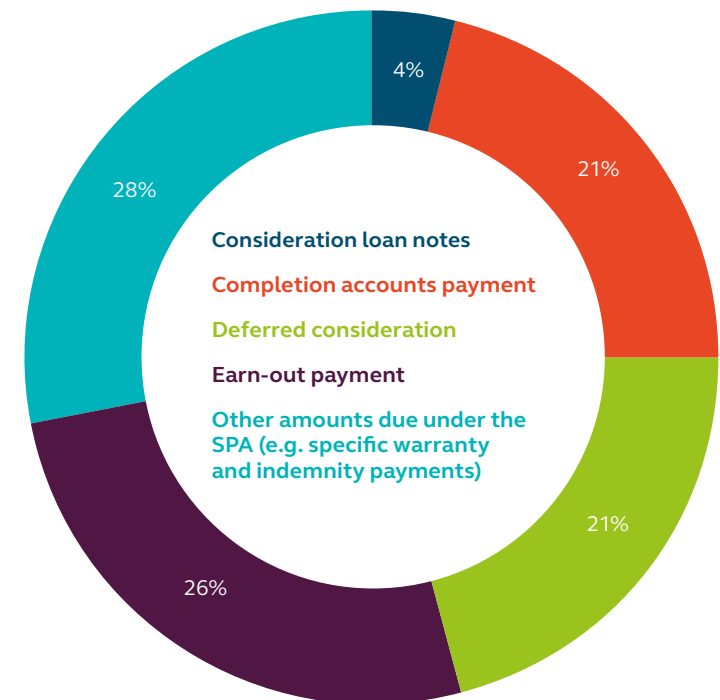


Liability – contractual right of set-off

- We have seen an increased use of contractual rights of set-off, approaching levels observed in our post pandemic sample (75% post-pandemic compared to 59% in 2023).
- This is likely attributable, at least in part, to the increased use of earn-outs and the buyer's ability to set off claims against any deferred or "future performance" consideration.
- We have see an increase in set-off being used for other amounts due under the SPA (28% in this sample compared to 17% in 2023). This often occurs when set-off is being used for a completion accounts adjustment, earn-out payment or deferred consideration and the provision is expanded to capture other specific payments.
- A contractual right of set-off allows for any amounts due to a buyer to be set-off against any owed by a buyer. For example, if the buyer is due to pay some deferred consideration but has an agreed warranty claim against the sellers, the amount of consideration payable by the buyer can be reduced by the amount of the warranty claim.



Reason for set-off?



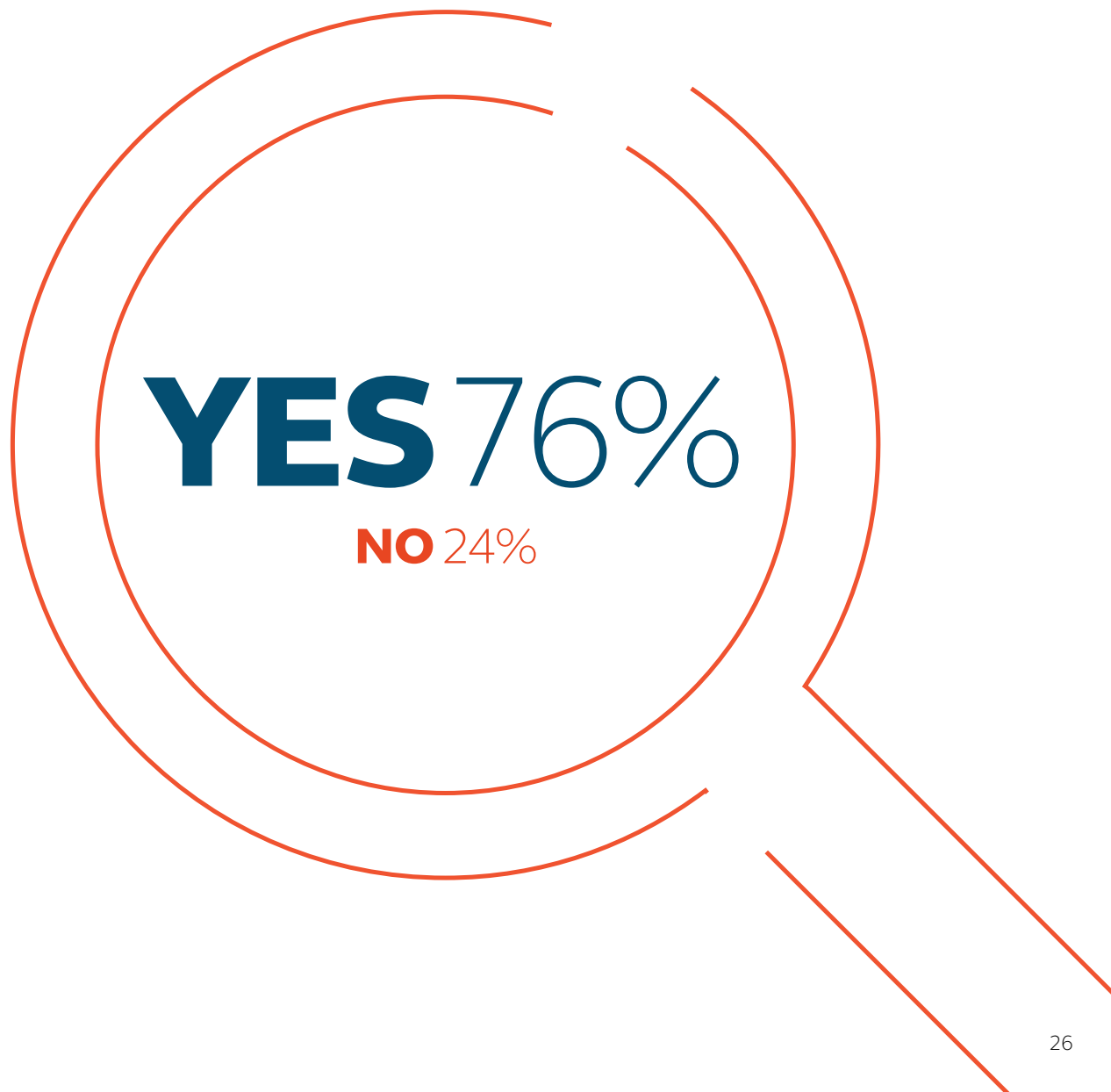
Liability – W&I insurance used?

- Warranty and indemnity insurance was used in 17% of our deal sample, consistent with our 2023 results (19%). It clearly remains an important aspect of many transactions.
- W&I insurance offers sellers certainty of a "clean exit", while providing buyers with comfort that they won't have to seek recompense from individual sellers where they have the benefit of a buy-side policy. It also creates an opportunity for private equity sellers to underwrite contractual claims, particularly when fund rules prevent them from providing anything other than fundamental warranties as to title and capacity.
- W&I insurance can also be beneficial where sellers remain with the business, possibly alongside earn-out provisions, as it prevents the buyer from having to claim against a current employee or consultant which could lead to a conflicted working relationship.
- W&I insurance does not eliminate or reduce the need for thorough due diligence. Underwriters still require a comprehensive due diligence exercise as the insurance serves as a protection against unknown risks not identified during a standard due diligence process.
- All but one of the W&I policies obtained on our transactions were buy-side policies. The one sell-side policy we saw was put in place due to the cost and timing benefits for the transaction.



Liability – due diligence documents generally disclosed?

- The majority of our M&A deals include general disclosure of the data room / due diligence documents. In our 2023 sample, general disclosure was present in 75% of transactions compared to 76% now.
- Extensive due diligence is still a key part of M&A, with a strong emphasis on regulatory matters, AI plans and governance and ESG matters. The use of technology, such as online data rooms with tracking and auditing capabilities and AI solutions for document review support buyers with their analysis and becoming comfortable with general disclosure.
- Tax due diligence on M&A transactions is becoming increasingly complex (and taking longer to complete) as taxpayers grapple with the growing body of tax legislation (including the UK's implementation of the OECD Pillar 2 rules introducing a global minimum 15% rate of corporation tax). We have also seen an increasing number of transactions involving the exercise of employee Enterprise Management Incentive share options giving rise to a variety of due diligence issues - failure to retain grant documentation and comply with the statutory requirements being two areas of particular concern.
- Given the continuing market uncertainty and difficulty in agreeing valuations there remains a sustained focus on due diligence. Sellers and their advisors should recognise the time and resource required for this stage of the transaction. Conducting an internal audit before starting the sale process can pre-emptively address potential issues, helping to avoid negative impacts on pricing or transaction timelines.

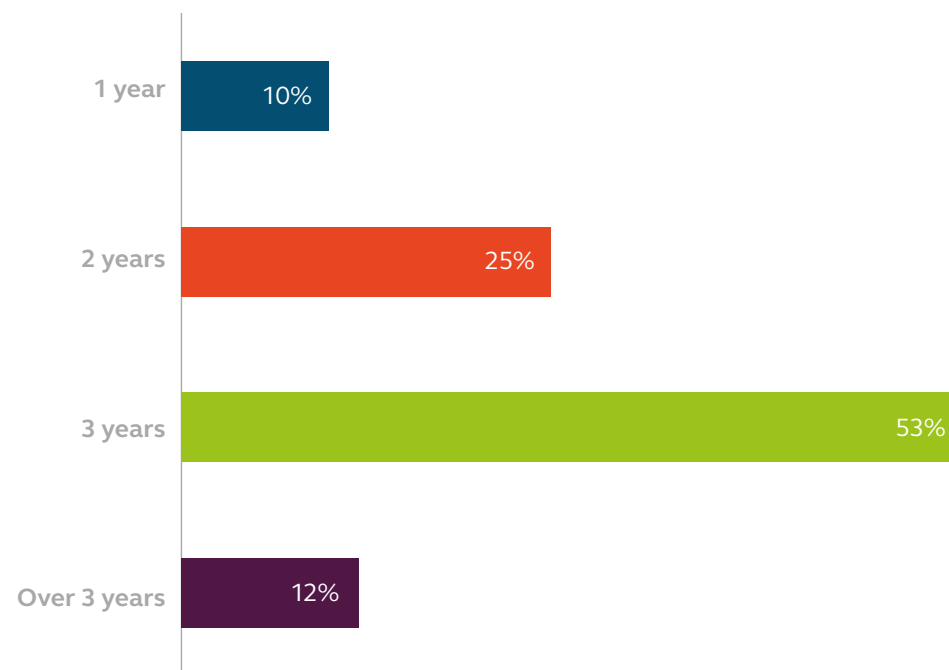


Restrictive covenants

Restrictive covenants

- Restrictive covenants are crucial in negotiations and primarily address restrictions related to competition, branding, and interacting with the target company's employees, suppliers and customers.
- Only two deals in our sample did not include restrictive covenants, due to the target companies being special purpose vehicles.

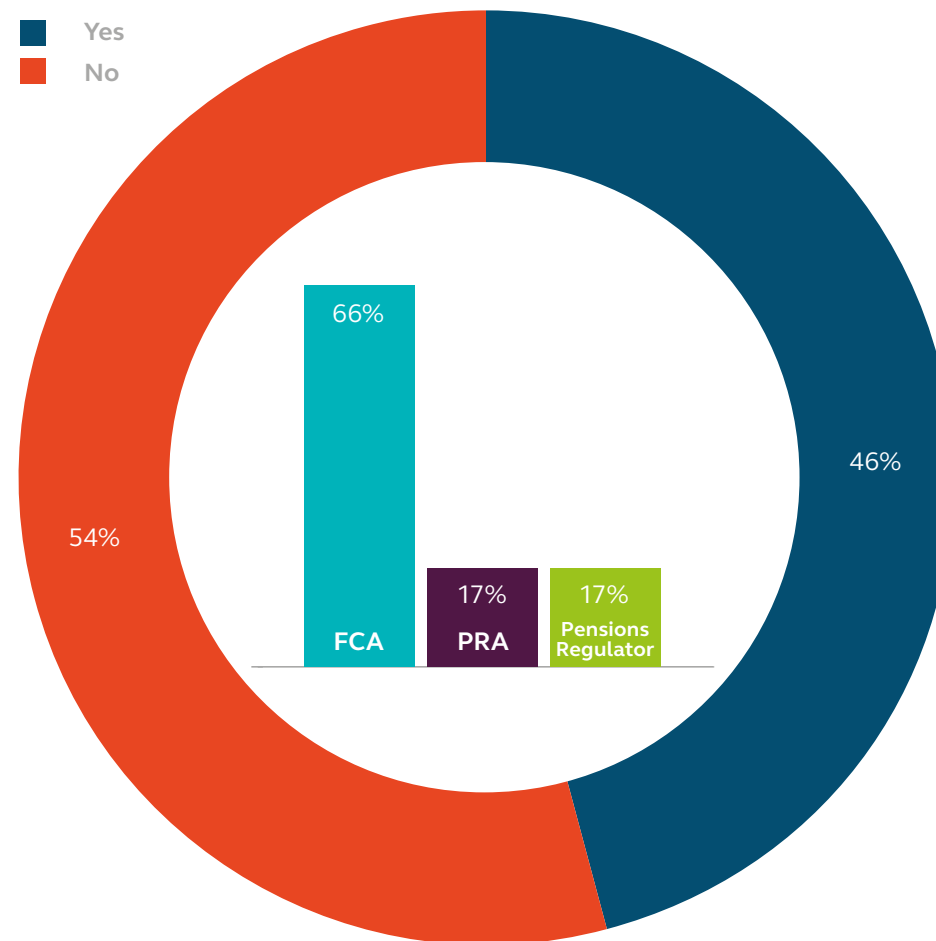
- Restrictive covenants typically last for two to three years.
- We have seen a slight increase in the number of deals with restrictions lasting over three years (12% now, up from 4% in 2023) which corresponds with the rise in earn-outs, and in particular, those lasting more than three years.
- It is important to consider restrictive covenants within their context to ensure they are proportionate, defensible, and not perceived as anti-competitive. Demonstrating the commercial rationale to support a restriction should always be considered.



Financial Services

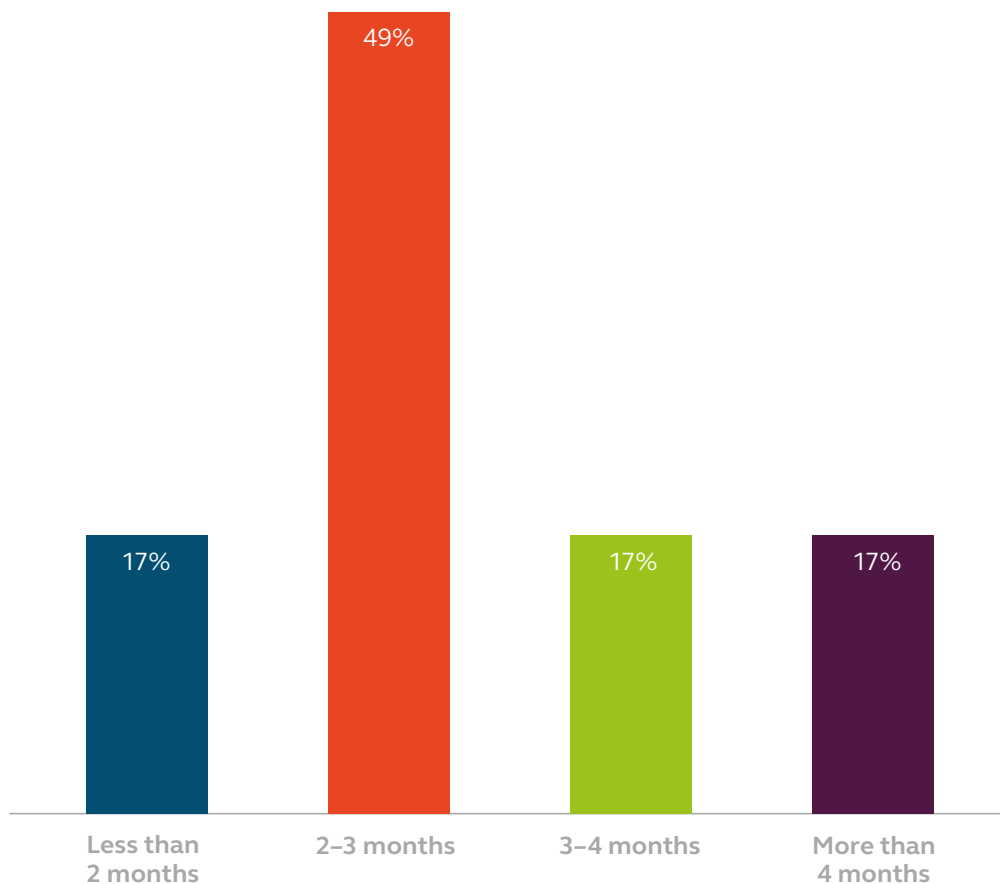
Financial Services – was regulatory approval required?

- Almost half of all deals we analysed in the Financial Services sector required some form of regulatory approval. Identifying these requirements as early as possible in the transaction process is crucial to ensure appropriate due diligence and address potential implications for the proposed timetable.
- Most approvals (66%) were required from the FCA but we also worked on transactions needing consent from the PRA and the Pensions Regulator. Each regulator has distinct requirements which it is important to be aware of.



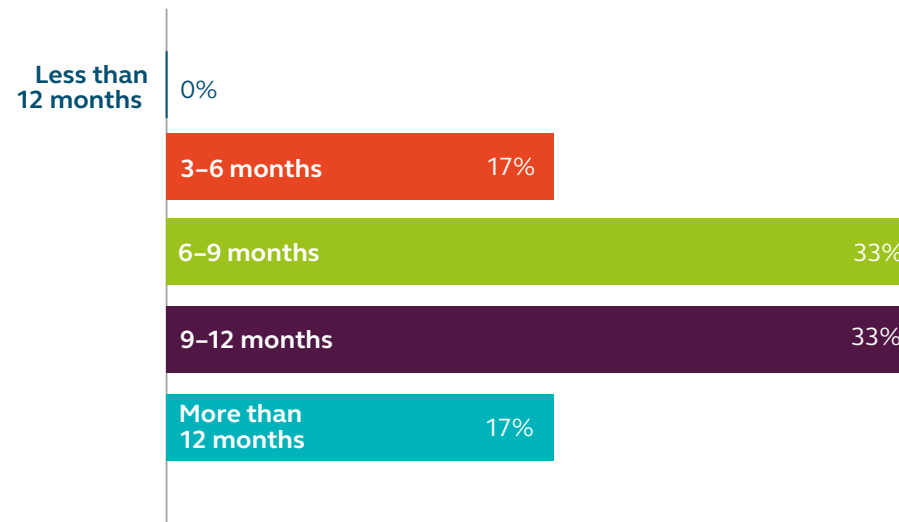
Financial Services – what was the timeline for regulatory approval?

- All of our transactions requiring a financial services regulatory approval, received that approval within 6 months from the date of submission of the relevant application.
- While the timing of approval will always depend upon the specific circumstances of the deal and the regulator themselves, it is helpful to note that in 66% of deals approvals were provided within 3 months.



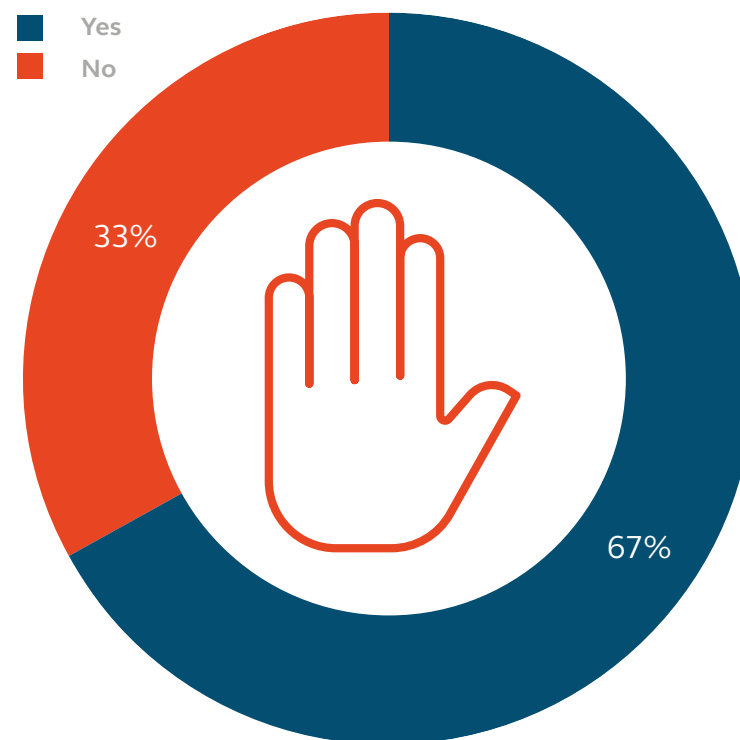
Financial Services – was there a longstop date and how long was it?

- All deals within the Financial Services sector requiring regulatory approval incorporated a split exchange and completion, to allow sufficient time for the necessary approvals.
- All deals also included a "Longstop Date", a predetermined date by which, if the conditions for completion are not met, the agreement may be terminated. This provision offers certainty for the parties involved, although they usually have the option to extend this date by mutual consent.
- The duration of the Longstop Date varied according to specific deal requirements, ranging from four months to 13 months, with six months being the most common.



Financial Services – warranty repetition and termination rights

- All deals requiring regulatory approval included warranties provided both at the time of exchange and again at completion. This ensures that the seller bears the risk of any breach of warranty occurring during that interim period.
- Each transaction also included commitments from the seller(s) to the buyer regarding the conduct of the target business between exchange and completion. As management and control of the target remain with the seller(s) during this period, the buyer will seek contractual safeguards to ensure that the business operates in the ordinary course and that no significant decisions are made without their approval.
- 67% of the transactions we advised on allowed the buyer to terminate the agreement prior to completion if certain pre-agreed situations occurred.
- The most common reasons for termination included material breaches of either the warranties or the interim provisions². Other reasons included termination for a material adverse change (seen in 75% of the termination rights) and breach of the tax covenant (seen in 25% of the termination rights).



Alice Gardner

“Transactional activity in the financial services sector continues to be very strong driven by themes around market consolidation, the regulatory environment and new market entrants investing in technology. The trends in our report highlight that on all FS deals where regulatory approval was required there was a gap between exchange and completion. One of the key areas of negotiation will be around the buyer’s termination rights following exchange to deal with the allocation of risk between the parties in this period.”

² The majority of these related to breaches of all warranties, but in one instance, it was breach of the fundamental warranties only (those warranties which concern title, capacity, and solvency).

Future Energy

TLT has a national reputation as a leading advisor in the future energy sector. Our Corporate Future Energy practice is led by Kay Hobbs, who has been recognised in The Lawyer as one of Europe's Elite future energy lawyers. Our team is consistently ranked in the top three firms globally for future energy M&A deals by Clean Energy Pipeline.

The last year has been extremely active for our Corporate Future Energy team with transactions successfully completing across a number of technologies including wind, solar (including rooftop solar), energy storage, biomass/AD, and hydro.

Several key factors drive the legal issues in future energy transactions and can impact the value mechanism, buyer risk appetite and seller limitations:

- Project stage: Whether it is greenfield, ready to build or operational
- Subsidies: Whether the project attracts subsidies like ROCs, FiTs, RHI or is subsidy free
- Portfolio transactions: Whether the transaction involves a portfolio of projects where risk can be spread
- Warranty and indemnity insurance: An increasing trend in the future energy sector
- Seller and buyer types: Investment funds have a very different approach and set of requirements than others in the market.

We report on the trends in future energy M&A transactions in our separate Future Energy M&A Market Monitor, the next edition of which will be published in Spring 2025.

Our team is always available to discuss current market trends, however, and to explain the key features of transactions at different stages.

TLT's future energy clients include many key funders, investors and developers such as Santander, Triodos, Enso/Cero, SSE, RWE, Lightsource, BlackRock, Uniper, Field Energy, Bluefield Partners, Dalmore Capital, Low Carbon, Thrive Renewables, Eku Energy, AGR, Ampyr Solar, TagEnergy, Innova, Trina Solar, Guinness Asset Management, Ecotricity, Downing, Chint, Swen IFT, Enfinity, BOOM Power, Votalia etc. We have advised on some of the world's largest future energy projects and the UK's first-of-a-kind projects.

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Employee Ownership Trusts

With Employee Ownership Trusts (EOTs) gaining increased recognition as a mainstream business structure, we have provided guidance to over 40 companies on their transition to employee ownership.

Notable examples include advising Scottish civil engineering firm T & N Gilmartin on its transition to employee ownership in its 68th year and assisting Manchester-based manufacturer UK Electronics Limited in creating an EOT and transferring the company into employee ownership.

Due to the distinct nature of EOT transactions and their ability to distort the results without more detailed review, we exclude them from this report.

Over the past 24 months, we have observed significant activity with various businesses exploring the EOT route for their succession planning. One advantage of the EOT model is that owners can gradually step back rather than making an abrupt exit, allowing management teams the time and support needed to take over daily operations. Additionally, EOTs can be an excellent option for founders seeking to preserve the ethos and values of their business while keeping the business in the same geographical area and rewarding those who have contributed to its success. This approach can enhance brand reputation among customers, suppliers, and the general public.

The Autumn 2024 Budget introduced a series of reforms to the taxation of EOTs as part of the proposed Finance Bill 2024–25. These changes are generally positive, but advisors will need to consider several key points when structuring a transition to an EOT model. These include ensuring trustee independence and market valuation of shares, extending the clawback period to the end of the fourth tax year following the tax year in which the deal completed, and the new relief from income tax distribution treatment for contributions to the EOT.

EOTs have been established for over a decade and their popularity continues to grow. Our extensive experience in the employee ownership space enables us to effectively advise and support businesses choosing this route.



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ESG

ESG continues to be a significant focus in M&A transactions – for all parties involved.

Many buyers, investors and funders use ESG criteria to assess and select potential targets, recognising that companies which have identified their key ESG risks and developed an ESG strategy can increase returns through long term strategic and sustainable growth and value creation.

On the flip side, sellers also carefully consider the ESG credentials of any potential buyer, investor or funder. Particularly where a target company's mission and branding are rooted in strong ESG values, and its people closely identify with those ESG principles.

We have acted on a variety of M&A transactions where ESG has been a key focus – whether because the target's business sits specifically in the ESG space, or having strong ESG credentials ensures enhanced resource efficiency, a sustainable brand and reputation and the engagement and loyalty of its employees, customers and suppliers. Buyers are also looking to acquire ESG credentials, buying in that expertise for their wider business through a merger.

Historically there has been greatest emphasis on the “E” in ESG, but businesses are now adopting a more holistic approach to evaluating their ESG impact. While transitions towards net-zero offer excellent opportunities to showcase ESG credentials, other factors such as diversity, equality, inclusion, and the environmental and social impact of supply chains have gained prominence.

We expect ESG to continue to play a key role in M&A activity moving forwards. At TLT we support clients across all sectors with their ESG journey; addressing the advantages set by evolving regulatory requirement and changing expectations from investors, consumers and employees. We can support with ESG compliance and corporate governance, enabling businesses to understand their impact, mitigate risks, and explore opportunities.

Our **ESG** Hub has a wealth of information, including our **ESG in the Boardroom** series.



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Key themes and looking to the future

Key themes and looking to the future

As ever, much depends on the circumstances, but emerging themes include:

Economic and political landscape

Confidence in the economy and market stability drive M&A activity levels. Optimism is growing for 2025 and beyond, with expectations of more stable interest rates and inflation boosting M&A activity, investments, and bank funding.

We predict that business valuations will remain difficult and anticipate continued use of contingent pricing and adjustment mechanisms to balance buyer and seller pricing expectations.

Autumn Budget

Increased M&A activity preceded the UK's Autumn Budget in October 2024, as sellers tried to benefit from existing capital gains tax rates before the predicted, and ultimately confirmed, rises. We expect a similar, if smaller, flurry of activity ahead of April 2025 when the first reduction in Business Asset Disposal Relief comes into force as well as broader changes to workforce resourcing.

The Autumn Budget introduced several measures which may affect businesses more broadly, including an increase in Class 1 employer national insurance contributions to 15% and increases in both the national minimum wage and national living wage. These additional costs will likely influence financial forecasts and should be carefully evaluated by sellers, as they may impact both the pricing and timing of proposed transactions.

Employee Ownership Trusts (EOTs)

The EOT model continues to gain recognition as an alternative business ownership structure and valuation exit, with several of our clients transitioning to the employee ownership model over the past 18 months. This trend is driven by tax savings (with the right structuring) and the wider benefits of employee ownership. We expect this trend to continue over the next 12 months, including EOTs looking to exit after the expiry of tax favourable holding periods.

Timing

Buyers and their funders carrying out extensive due diligence to verify pricing and key risks is extending deal timelines. ESG credentials, regulatory compliance, residual COVID-19 obligations, supply chain costs and Autumn Budget impacts are universally important. We recommend that sellers undertake their own due diligence ahead of a sale process to identify and resolve issues before pricing discussions begin. Providing buyers with information, explanations and solutions at an early stage builds confidence in the transaction and ensures a smooth process.

Merger clearance controls in the UK (with the National Security and Investment Act framework) and overseas are also increasingly prevalent, on top of the existing FCA and CMA requirements. This needs to be taken into account at an early stage when planning deal timing, especially as M&A activity is strong in sectors which are most impacted, such as in Financial Services, Digital and Infrastructure.

Sector focus

We expect businesses focused on Financial Services, AI, Technology, ESG and Healthcare to remain popular for M&A, offering significant strategic growth benefits for the right buyer. Future Energy and EOT transactions will also continue to be busy. For other sectors like Retail and Leisure, there may continue to be a period of cautious assessment regarding the impact of national insurance, payroll, business rates and other financial increases on their businesses before considering M&A opportunities, although the divergence between strong and struggling businesses in these sectors will mean opportunistic transactions will also be seen.



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