

MARKET VIEW – DECEMBER 2020

Review of the year and the technology M&A market

This was the year most will want to forget and hope that the introduction of the new vaccines will allow a return to a more normal life for both business and us as individuals along with an improved economy. We also have the Chancellor's Spring statement to come and will learn whether CGT rates will be increased and Entrepreneurs relief change.

WTA has had a reasonably good Covid completing three transactions, all buy sides, as well as winning three new sell mandates and one buy side following the lockdown announcement of March 23rd. We closed a sell-slide transaction before then too. One buy-side client lost interest in a software company serving UK and international airports rightly believing its income would fall drastically. A sell side has been delayed to next quarter as the client was negatively impacted by the virus.

The first eight weeks or so following the announcement went dead as our clients, target companies we were dealing with on their behalf and our own prospects focussed all efforts on their immediate business needs. M&A activity took a necessary back seat as directors and owners prioritized reviewing their business and reorganising for home working and establishing a new way to carry on.

The market then picked up mainly led by buyers who were willing to pay well for suitable companies meaning those in a good niche or sector that were profitable and had high levels of recurring revenue. Behind much of this activity was the need for private equity houses to invest both on their own behalf and supporting their investee companies. Some, a small minority, decided to be passive, sit on the side-lines and see how the economy fares. Many houses are seeking to increase investment in the technology sector for the first time and others seek to raise theirs because they feel no longer able to invest in property, hospitality, airlines, retail and other impaired sectors. On December 20th, the Prime Minister announced a tougher "Tier 4" lockdown which will cause private equity to scrutinise investments more deeply and carefully, so perhaps, that should herald a cautionary note.

For those actively seeking to sell their businesses earlier in the year, the experience was very different. Some pulled their marketing activity because of the uncertainty and fear of being offered a low price. Some never went ahead because of short term Covid damage which required repairing. An example being companies not being able to recognise revenue even though they had orders but were not to commence work because they could not access customer sites. Other sellers felt they would not receive good offers for buyers might think they were weak or desperate to be selling

at such a time. A few were nervous of entering the market in case a second Covid wave occurred and activity would need to be cease.

The climate has changed again. Since the beginning of November we have seen a significant increase in actively and we are hearing the same from those we deal with such as corporate lawyers, private equity houses and accountancy firms. Sellers are rapidly returning including those aiming for completion by 3rd March hoping to beat any adverse CGT effects in the Spring statement. But it is not just those, more have decided to go ahead probably because they are seeing that good businesses are receiving decent valuations. At WTA we are extremely busy on both the Buy and Sell sides and our short term prospect book is the strongest we have seen. We expect a strong first half year performance in 2021.

Let us all look forward to the threat from Covid being controlled and the return to normal personal and business lives and growing prosperity for all.

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