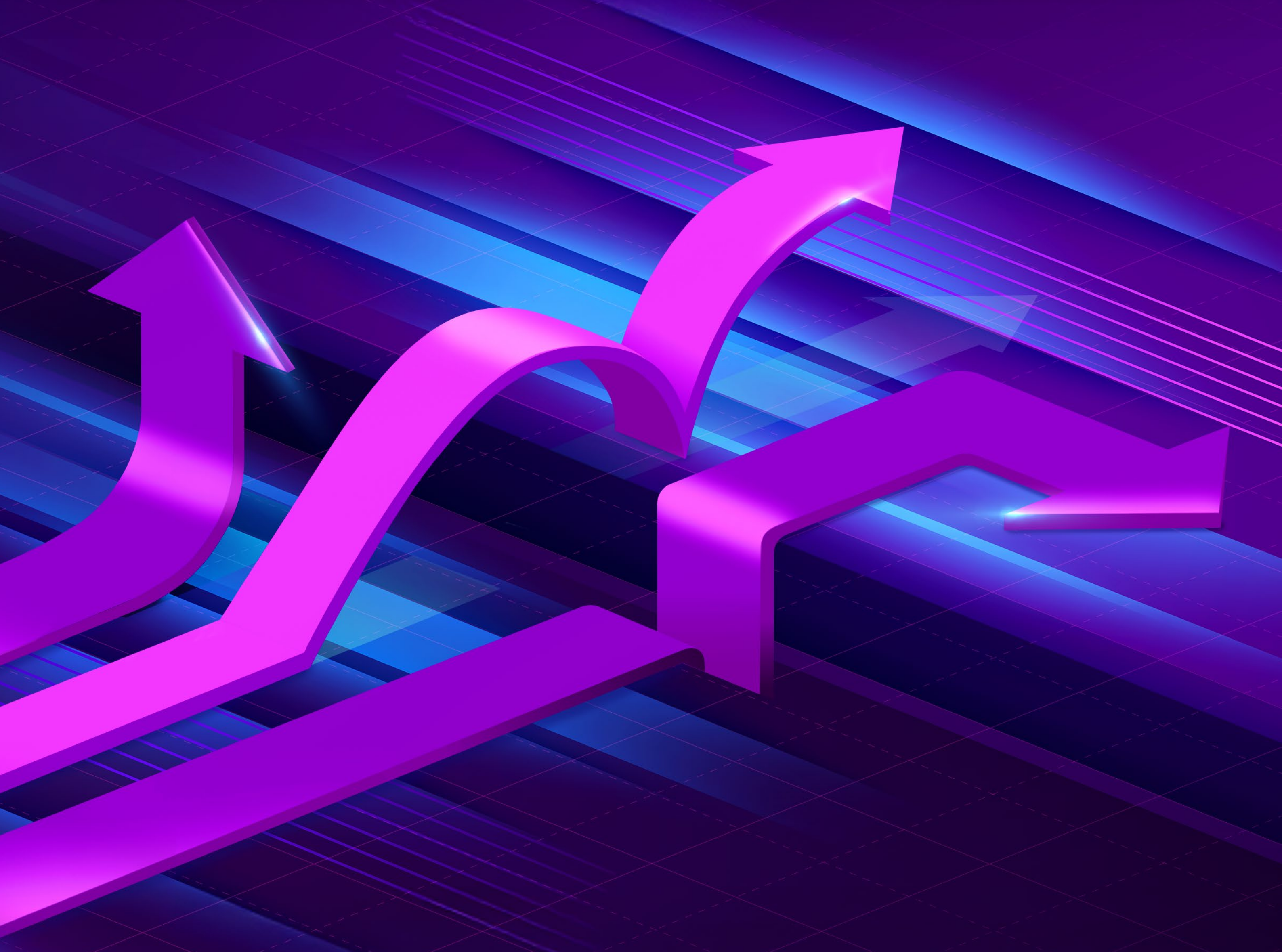
M&A and PE Market Trends Report

2025



A PURPOSE-LED PROFESSIONAL SERVICES BUSINESS
WITH LAW AT THE CORE

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Executive summary

This is the ninth year we've published a report on UK M&A and private equity deal markets. The key objective for our report has been to identify specific trends within our transaction data that indicate whether market conditions are more favourable to buyers or sellers, and is often largely governed by the prevailing economic sentiment and market demand. Last year, however, we found the market to be somewhat akin to the British weather: changeable and unpredictable. Though given that over the last decade we've had Brexit, a pandemic, an energy crisis, war in eastern Europe, inflation, and higher interest rates, perhaps it is unsurprising to see the market struggle to coalesce around what may be 'normal' or even the 'new normal'. Transaction volumes ebbed and flowed from quarter to quarter and while the UK election and the change of Government spurred sellers into action ahead of the Autumn Budget and with fears of a sizeable increase in the effective rate of Capital Gains Tax, the final quarter slowed a little, perhaps as a consequence of the economic levers pulled by the Chancellor to generate elusive growth.

We saw a slight drop in the number of private equity deals executed, and an increase in trade/strategic transactions, though the trade figures naturally include bolt-on acquisitions by private equity-strategic buyers which, for a while now, have been very much part of the M&A landscape. For future reports we are considering the value of segmenting these kinds of transactions to understand what's market for buyouts, for strategic trade to trade transactions and for PE backed bolt-on M&A. Our sense is the latter type of transaction blends elements of both traditional PE and standard trade M&A deal terms resulting in something of a hybrid between the two and can lead to results that may be difficult to explain by looking at historic data trends. For example, while private equity clearly favours locked box transactions on buyouts, there is a tendency, once they become a strategic buyer (via their portfolio companies) to use more buyer friendly completion accounts and deferred consideration mechanisms like the larger strategic corporates often prefer to do. Equally, we are seeing a trend of lower liability caps for warranty claims as more strategic buyers are getting comfortable with warranty and indemnity insurance products for their transactions – could this be the increasing influence of trade backed private equity owners perhaps?

Both confirmed by the data and anecdotally, deals took slightly longer to close, we saw longer deferred consideration periods, longer non-competes for restrictive covenants and an increased use of MAC clauses, all arguably reflective of the uncertainties seen across the market. These uncertainties resulted in some friction or at least a greater appetite for 'arm wrestling' between buyers and sellers and would, on the face of it, indicate a buyers' market. However, there was a reduction in the number of deals where exclusivity was granted, indicating an environment more favourable to sellers, but could also be due to buyers sensing they might be the only interested party, bidding just enough to keep sellers interested in pursuing negotiations and therefore both parties, perhaps reluctantly, 'playing the game' to see if a deal can be done. To cloud matters further, as was seen during Covid-era M&A, some transactions were executed without exclusivity being granted where conviction bidders are prepared to incur adviser fees early and pre-empt highly competitive auction processes for certain types of assets, usually in sectors that are perhaps more sheltered from wider economic uncertainty. These instances were of course fewer in number compared to the heady days of late 2020 and 2021.

For buyers, continued market uncertainty meant deals were taking longer to close with buyers pushing for increased due diligence, capitalising on those opportunities where there may be reduced bidder appetite. We have seen potential buyers triaging early and deciding whether or not to proceed based on their competitive angle (or lack of it). With these buyers prepared to walk away earlier this sometimes meant the competitive dynamics changed as the process went on and to some extent favoured bidders with the most staying power and, at times, leaving sellers with fewer options than they thought or hoped they might have at the outset.

On the W&I side we're seeing increased uptake as a consequence of both the market maturing and the increasing number of specialists offering cover. There has also been a clear trend for cover offered at higher insurance limits.

No report on deal trends can be complete without mention of artificial intelligence, and while AI was not a primary driver of demand for investors last year, the use of AI is gathering pace across the machinery of deal making from assisting with efficiencies in the legal due diligence process (for example, contract reviews) to gaining underwriting insights in W&I markets. While investors are alive to the possibilities, the pace of change and clarity as to the return on investment for AI assets are, if anything, further complicating the due diligence process.

Emerging downside risk considerations are inevitable around the potential impact of tariffs and trade wars with some evidence that terms of W&I cover are already being considered to address this. However, with almost weekly changes in US tariff policy, it remains to be seen whether tariff concerns become a prominent feature of the market.

We are also seeing an increase in public to private transactions in the first two months of 2025 where listed assets are taken private either by private equity backed newcos or strategic buyers. This was expected given the relative political stability following the completion of 2024's significant election cycle, greater predictability of interest rates and the broad and deep trend of continuing month-on-month outflows from public market funds (a trend which is exacerbated by take privates). It is unclear at the time of writing what impact (if any) US tariff policy will have.

In terms of exits, despite some green shoots in European equity capital markets, it would seem IPO exits are not a top priority for mid-cap companies, though still a consideration for larger cap companies. We note the relative paucity of IPO exits has acted to reduce some liquidity and transactional activity at the top end of the market. Looking forward it may be a pivotal year for European equity capital markets, and the UK market in particular, given the high number of companies exiting via acquisition or change of investment exchange. As we write, European equity markets are on a strong run – so we live in hope!

Survey methodology

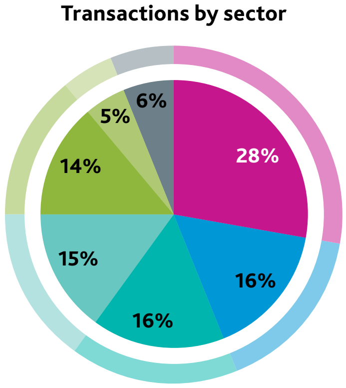
This report represents our analysis of the pooled transaction data of Pinsent Masons and Arrowpoint Advisory in 2024. We reviewed the data for a total of 116 transactions completed during the year by Pinsent Masons and Arrowpoint, which was up 14% on the previous year. The combined value of these transactions was £8.7bn (up 53%). And excluding one outlying deal the average transaction size was £55m.

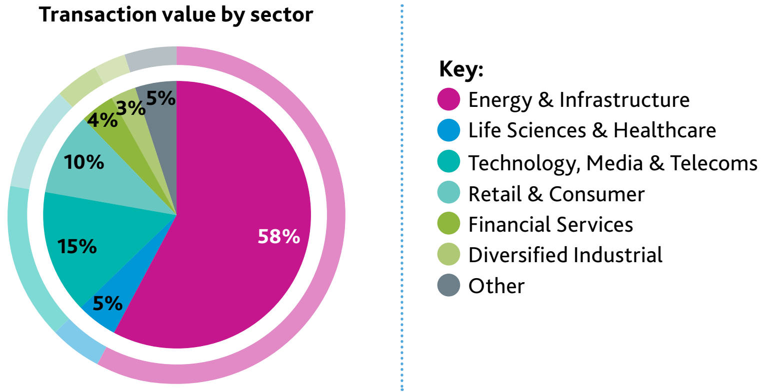
In 2024 we saw an increase in Energy and Infrastructure related transactions, up from 20% of transactions by volume in 2023 to 28% in 2024 reflecting demand for assets across the spectrum of the energy transition. We also saw an increase in Financial Services and Life Sciences transactions. Retail and Consumer deals continued to make up 15% of our total deal volume.

There was a decrease in transactions in Diversified Industrials, and perhaps surprisingly in TMT – though the latter may be a reflection of the volatility we saw in technology markets over the course of the year.

In value terms Energy and Infrastructure transactions accounted for 58% of the total deal value though the data here was skewed by a single £2.5bn transaction. TMT transactions accounted for 15% of the total transaction value and Retail and Consumer 10%.

In our Warranty and Indemnity insurance section we welcome our new contributor WIISPA who have provided data for almost 400 transactions completed during the year with a combined value in excess of £1bn.





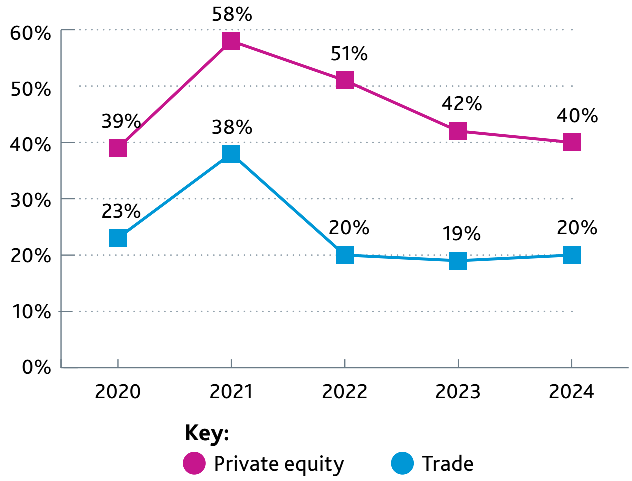
Deal process trends

Transactions via an auction process

As has been the case for at least the last 5 years, auction sales have been more popular on private equity deals though in 2024 we saw a slight decrease in the number of private equity auctions and a slight increase in auctions for trade transactions. The fall in auctions for private equity deals continued for the fourth consecutive year following the high in 2021 where auctions featured in 58% of those deals (marking perhaps the specific dynamics of Covid period M&A).

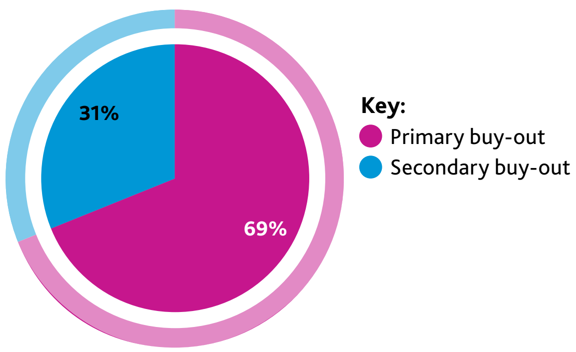
However, the data for 2024 brings it in line with the pre Covid-era, where auction sales occurred on private equity deals in 39% of transactions, 1ppt lower than for 2024 (40%).

Auctions continue to generate proportionally higher transaction values. The 26% of transactions executed via an auction process generated just over 50% of the total value of all transactions in our survey (down from 60%).



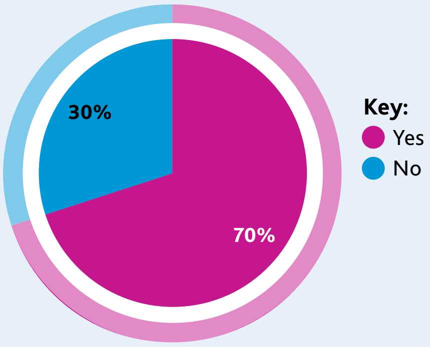
Was the deal a primary or secondary buyout?

Secondary transactions continued to increase in popularity in 2024 with a significant leap after the data for 2023 suggested the market for secondaries was beginning to level off with the increase being only marginal on 2022. There was, however, a 10ppt leap from 21% in 2023 to 31% in 2024 suggesting that the market for secondary deals may be more buoyant in 2025 than perhaps expected, market and wider economic conditions permitting.



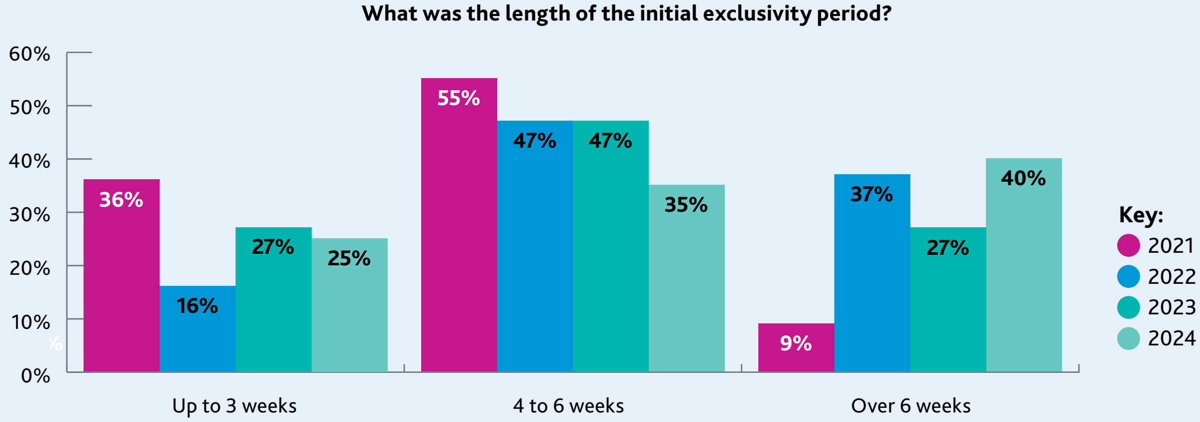
Was a period of exclusivity granted?

We noted previously a decline in the number of deals where sellers granted exclusivity. This was seen in 83% of deals in 2022, dropping to 75% in 2023 with the decreasing trend continuing into 2024 where exclusivity was granted in only 70% of transactions. In auction processes where there is a strong level of interest some sellers will resist granting exclusivity and in some circumstances bidders with conviction are still prepared to run hard, incur adviser fees and undertake diligence (or top-up diligence) without the protection of exclusivity. We have also noted in previous reports instances where there is less competitive tension and bidders make offers they know will not be acceptable to sellers but are nevertheless enough to progress negotiations without exclusivity being granted. We suggest both dynamics described above are contributing to the decreasing use of exclusivity though as the data shows exclusivity still plays a key role in sale processes.



Length of initial exclusivity period

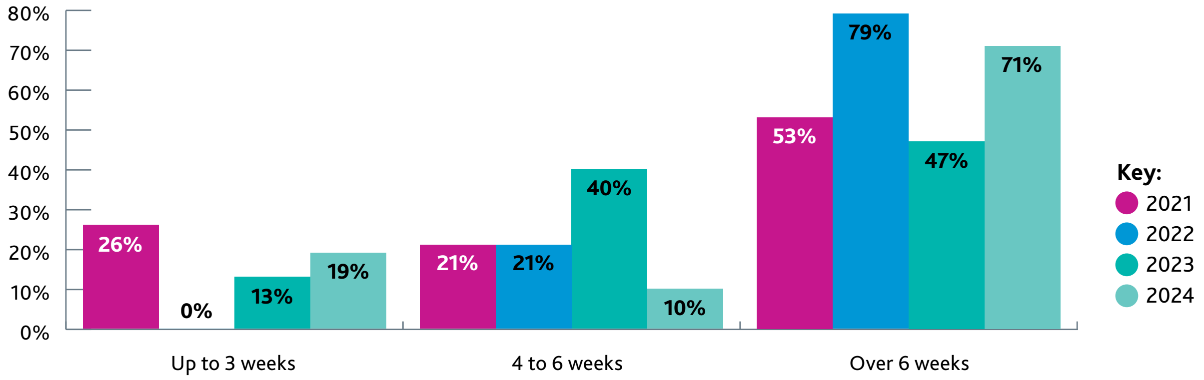
Historic data saw an initial period of 4 to 6 weeks as being the norm for the initial exclusivity period but in 2024 we saw the preferred initial period lengthening, with over 6 weeks being the dominant period, occurring in 40% of deals. This represented a rise from 27% in 2023 and continues to be the most popular period, having been agreed on the greatest number deals over the last 4 years. The correction we saw last year in the occurrence of shorter periods (up to 3 weeks) continued in 2024, though there was a marginal drop to 25% of transactions. Notwithstanding this, the lengthening of exclusivity periods suggests that buyers still require longer initial exclusivity periods in which to confirm price through diligence and more in line with the periods we saw pre-Covid. It would seem buyers remain cautious and will push for as long a period they can where possible.



Length of time from the grant of exclusivity to exchange and completion

In previous surveys we have seen a steady increase in the length of time from the grant of exclusivity to exchange and completion and were of the view this trend was likely to continue. However, last year's data undermined this after a decrease in periods of over 6 weeks from 79% in 2022 to 47% in 2023. We considered this to be a blip as, in our experience, deals were generally taking longer to close with buyers wanting to maximise the time available to "kick the tyres", particularly where market conditions are less certain. This blip was confirmed in 2024 with periods of over 6 weeks rising significantly to 71% of deals, close to the 2022 high.

How many weeks were there between granting exclusivity and ultimate exchange and completion?



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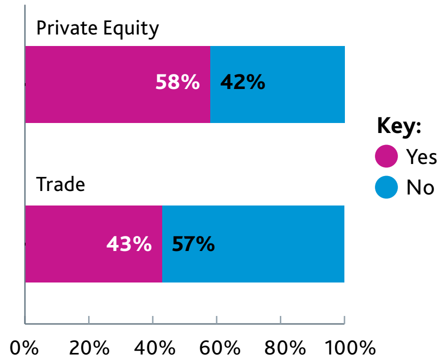
Split between exchange and completion

Instances of a split between exchange and completion rose in both private equity deals (58% in 2024 from 33% in 2023) and trade transactions (43% from 32%) which seem to be a reversion back to the (higher) levels seen in previous years. We had historically seen a higher figure in private equity deals than trade deals and this was the case in 2024, so again, a return to the longer-term trend we have previously seen. One of the reasons for this could be the need, usually for a short period of time, for private equity investors to draw down funds from their LPs which they tend not to do unless they have the contractual certainty exchange of contracts provides. It may also be that trade buyers, with perhaps a deeper understanding of their markets, are more comfortable with certain sector related or operational risks and so are commercially prepared to close transactions where private equity (and their investment committees) may not be. For example, waiving third party approvals or dealing with them post-closing if it can be managed.

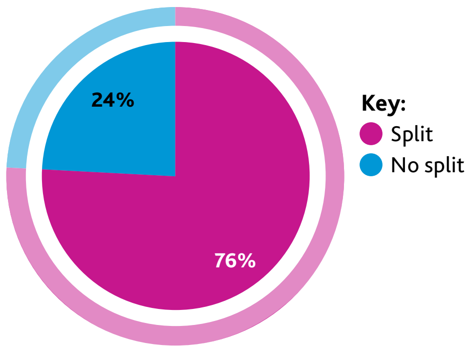
Was there a split between exchange & completion?



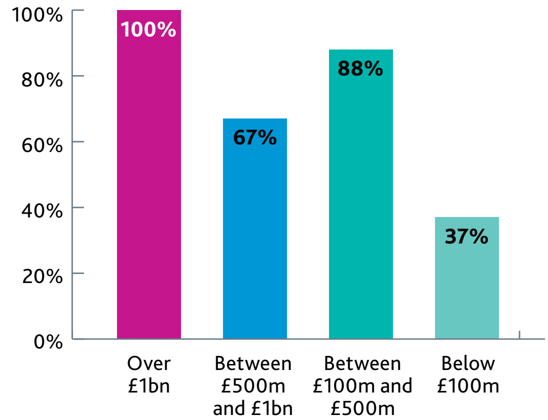
Transactions involving a split

The results here were exactly the same as in 2023, though as with last year the data is slightly skewed by an outlying large transaction, without which the value split would be closer to 50:50. This goes to underline the conclusion we noted last year that the higher the value of deal the more likely there is to be a split. As was the case last year, this is further confirmed by the data below, though we note a split occurred more often on deals in the £100m to £500m category (88%) than in the over £500m to £1bn category. This may be a quirk of the data given relatively few transactions in the £500m to £1bn bracket. On average over the last five years 92% of all transactions valued at £1bn or more were subject to a split, with the proportion falling in each value bracket (81% between £500m and £1bn, 62% between £100m and £500m and 34% below £100m) which is to be expected for the reasons stated above.

Transactions involving a split (by transaction value)

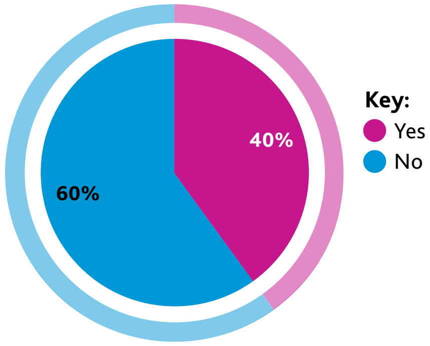


Transactions subject to a split (by value)



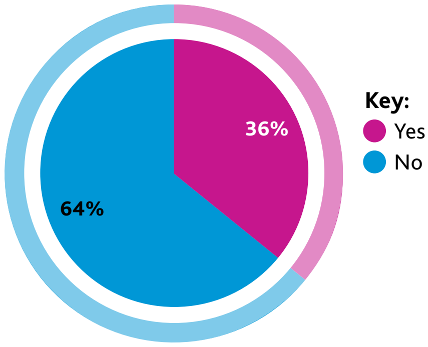
Were warranties repeated at completion?

The data for 2024 shows a reversal in the position seen in 2023. Warranties were repeated in 40% of deals in 2024 as against 61% in the previous year. It is not clear why this is the case as the historic trend seems to settle in the 50% to 60% range.



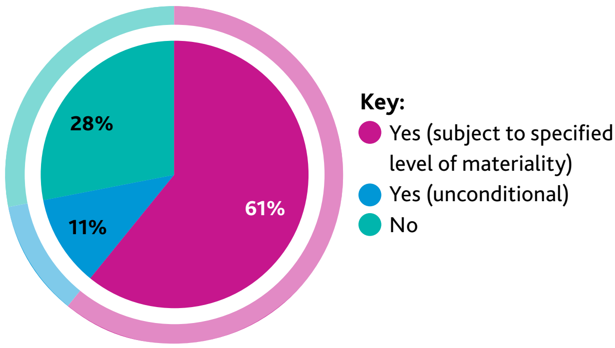
Was a second round of disclosure allowed?

There was significant upward movement in the data in 2023 where a second round of disclosure was required for warranties repeated at completion, occurring in nearly two-thirds of transactions, up from the previous year where a second round of disclosure was permitted in a third of deals. We speculated this may be due to a reduction in auction processes where often only fundamental warranties are repeated against which the general principle is applied that no disclosure is permitted against these kinds of warranties. The data for 2024 suggests the position is returning close to that seen in 2022 where a second round of disclosure was permitted in around a third of cases (31%).



Was the buyer contractually permitted to terminate for breach of warranty / interim covenants during the gap between exchange and completion?

The data was consistent with 2023.



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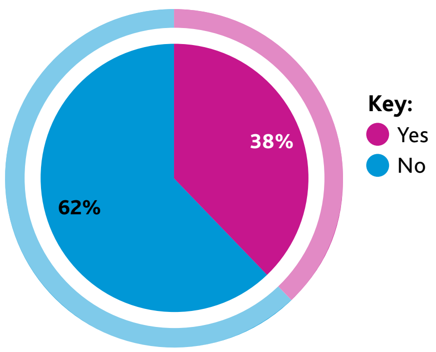
MAC clause

We are seeing a steady increase in the use of MAC clauses following a period where they declined significantly, largely due to the frenetic deal activity during Covid where we saw a furious sellers' market push back strongly against this form of buyer termination right. After seeing them used in just 7% of deals in 2022, the return of MACs predicted on the back of that year's results, due largely to the economic and market volatility, saw them appear in a quarter of all deals in 2023. This return continued and increased in 2024, where they were seen in 38% of transactions, further reflecting that market conditions remained unsettled.

Was there a MAC clause?



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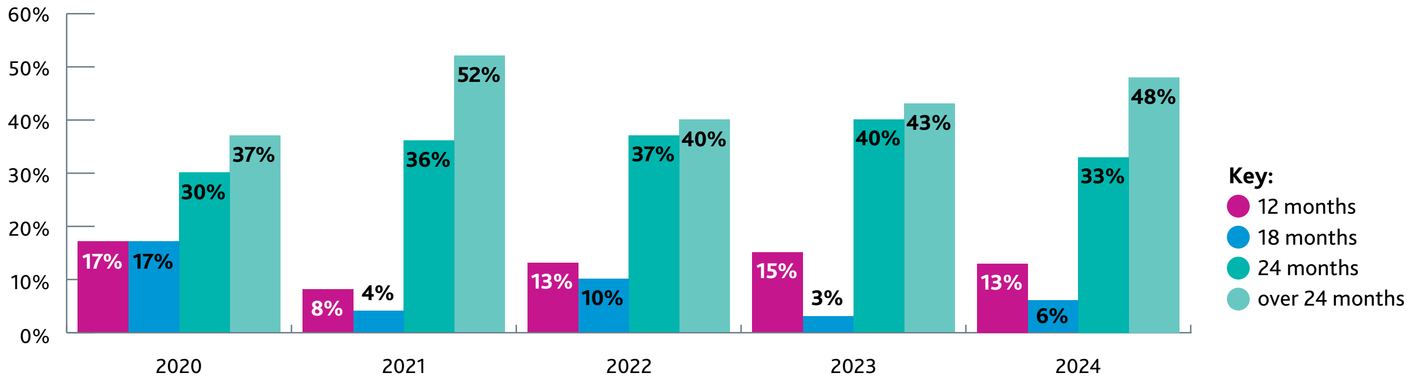
Restrictive covenants – non-compete

We noted in last year's report that the data for non-compete periods has broadly remained consistent over the years and this continues to be the case – there are certainly no surprises or notable results to report here. A non-compete covenant was secured in 63% of transactions and when secured its usually for a non-compete period of 24 months or more. The period of over 24 months saw a return in 2024 close to the five year high seen in 2022, occurring in 48% of transactions. As a general trend we have seen a lengthening of non-compete periods since the sellers' market of 2022.

Non-compete periods

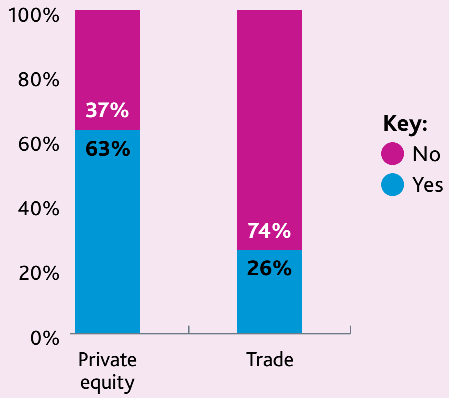


A non-compete covenant was secured in 63% of transactions and when secured its usually for a non-compete period of 24 months or more to be specified. The period of over 24 months saw a return in 2024 close to the five year high seen in 2022, occurring in 48% of transactions. As a general trend we have seen a lengthening of non-compete periods since the sellers' market of 2022.

Locked box, completion accounts and deferred consideration

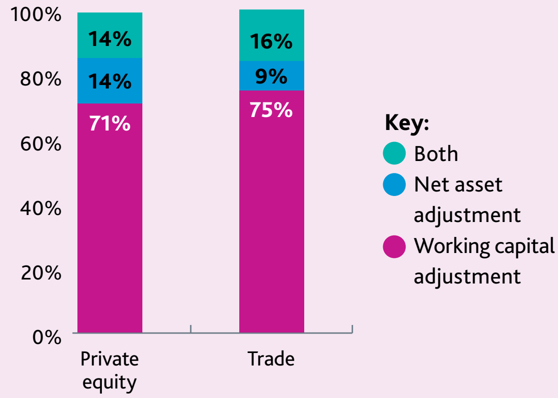
Proportion of transactions using a locked box mechanism

The data for this chart is generally consistent with previous years with a clear preference of private equity for locked-box mechanisms and the "clean edge" it provides for investors and their management teams.



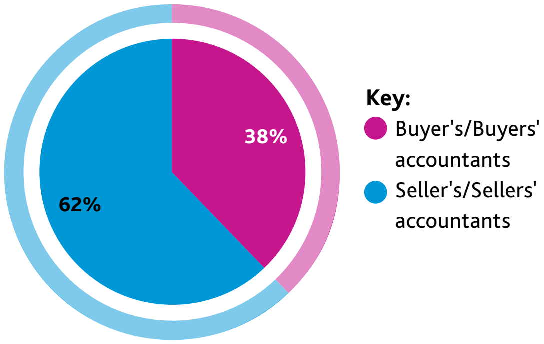
Type of post-completion adjustment clause specified in SPA

In the deals where a post-completion adjustment mechanism involved a private equity deal, we saw a marked increase in working capital adjustment as the favoured mechanism, up from 57% in 2023 to 71% in 2024. While the relevant mechanism will largely depend on the target asset, there seems to be a marked focus on targets' operational liquidity which a working capital mechanism tests, which may be reflective, in part, of continued market and economic uncertainty.



Who will prepare the first draft of the completion accounts?

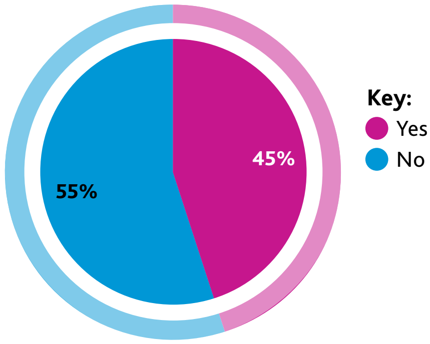
In 2023 the data showed an equal split between sellers' accountants and buyers' accountants on the preparation of completion accounts at 50% each when historically we have seen the sellers' accountants preparing the accounts in a varying majority of cases. We speculated last year that this may be due to a reduction in auction processes where sellers are better prepared with VDD. However, as stated above, since 2021 we have seen a continuing reduction in auction sales yet the data for 2024 shows a notable increase to 62% in sellers' accountants preparing the first draft. It may be that, save for last year's result which could be put down to a blip perhaps due to a smaller data set, sellers are these days generally better prepared when going to market in terms of VDD (whether via an auction process or bilateral deal) and so it generally still makes sense for sellers to prepare the first draft.



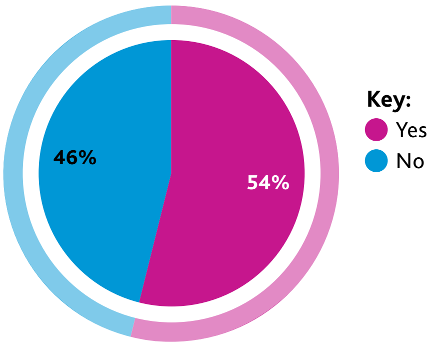
Deferred consideration

The data for 2024 was consistent with previous years and we note, as we did last year, that in slower or uncertain markets, deferred consideration remains a popular method of bridging the gap in value expectations. We have seen recently negotiations becoming challenging between parties where a private equity buyer is behind the acquisition and sellers' advisers are pushing for comfort or protections on the ability of the investor's platform to make the deferred payments, with sellers pushing for different forms of non-payment protections. Whether or not such negotiations are justified this is an arm-wrestle we will continue to see where buyers and sellers are apart on value. The figures in this section are consistent with 2023.

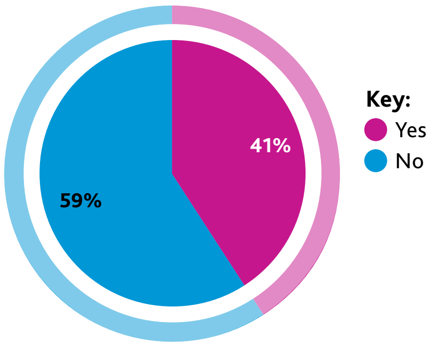
Was payment of the consideration structured to include some or all by deferred payment?



Did transaction include an element of deferred consideration? (private equity)

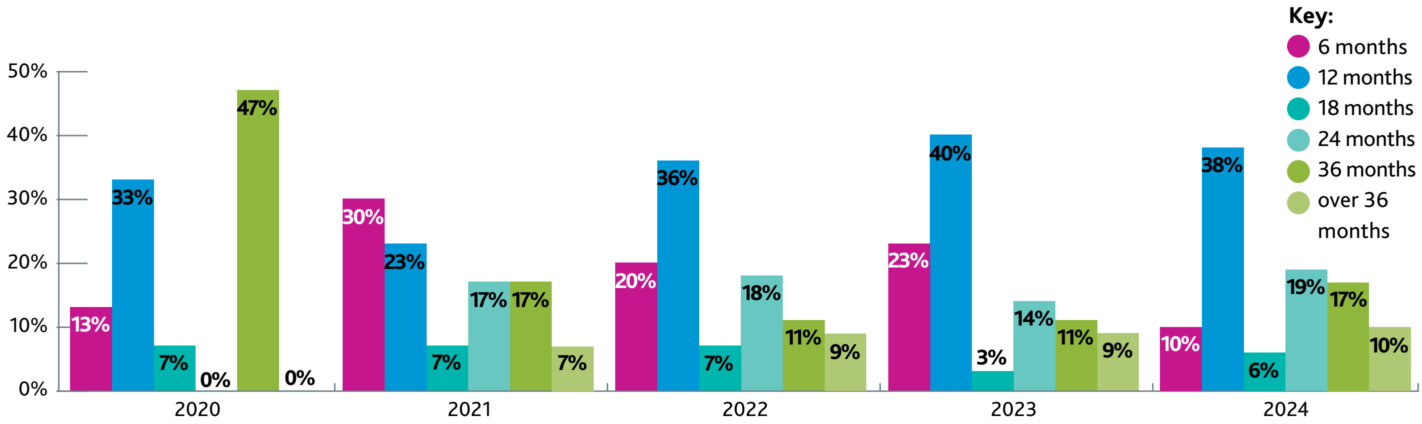


Did transaction include an element of deferred consideration? (trade)



Deferred consideration periods

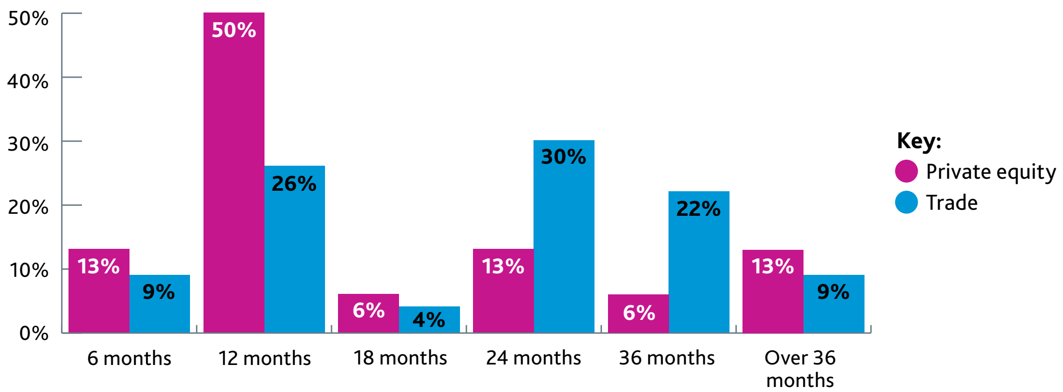
The results for 2024 are largely consistent with 2023 and previous years.



Our data shows a lengthening of deferred consideration periods for trade transactions. In 2023, the favoured periods were of 6 and 12 months,shown in 63% of relevant deals. However, there was a correction seen in periods exceeding 12 months, with all relevant categories increasing at the expense of 6 months and 12 months which both decreased. For private equity deals, we noted in last year's report that deferred consideration periods of 12 months or less were in line with market norms occurring in 72% of relevant deals. In 2024 this number reduced to 63% and while a period of 12 months for private equity deals increased from 45% in 2023 to 50%, the number of deals with a deferred consideration period of less than 12 months declined sharply. This pushing out of deferred consideration periods may be symptomatic of the uncertain market conditions we continued to see in 2024 and the need to be creative to bridge any buyer/seller valuation gap.

In trade transactions, deferred consideration periods set at either 24 or 36 months occurred in 52% of the transactions, compared to 30% in 2024, while for private equity deals such lengthy periods were more uncommon. The contrast between trade and private equity transactions can perhaps be explained in part by private equity hold periods, with shorter deferred consideration periods (particularly where the deferred is contingent) allowing the investor and their management teams to be fully aligned to focus on growth rather than spending too much time looking backwards potentially disputing the extent of, or if any, deferred payable.

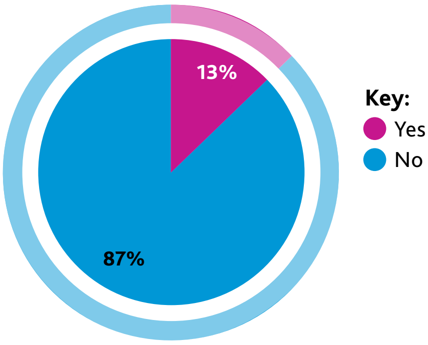
Deferred consideration periods – private equity vs trade



Warranties

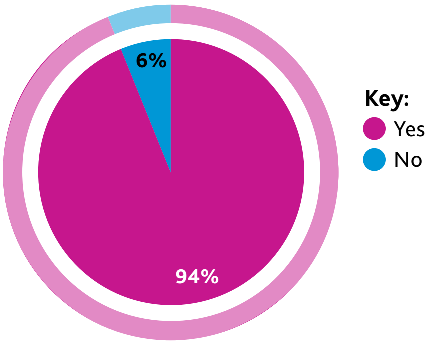
Was the buyer entitled to recover for breach of warranty on an indemnity basis?

In last year's report we noted a slight move towards US-style warranty terms where buyers were entitled to recover for breach of warranty on an indemnity basis in 16% of transactions compared to just 6% in 2022. In 2024 we saw a fall from last year's level to 13% of deals. While this suggests that the trend may be receding back towards historic norms, a reduction to the stated level does not quite suggest last year's result was a blip. It will be interesting to see how this metric fares over the course of 2025 and to see whether warranties on an indemnity basis decline back to 2022 levels.



Was there a cap on the seller's liability under the warranties?

The data for 2024 is the same as for 2023.



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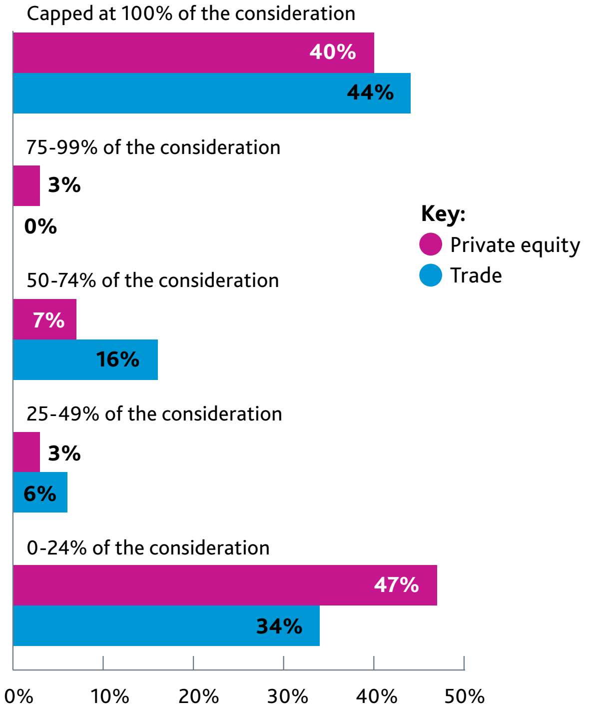
What was the amount of the cap on the seller's liability under the warranties?

In 2023 we noted a sharp increase in the number of trade transactions where there was a warranty cap exposure of 100% of the consideration and while the instincts of trade buyers may be to push for higher liability caps than private equity, the increase in 2023 to 61% of transactions proved difficult to explain. This is even more so after a decrease in 2024 back to levels broadly seen prior to 2023, with a 100% liability cap occurring in 36% of transactions in 2022 and 44% in 2024. Conversely, more transactions were capped at the lower range of liability (0-24% of consideration) at 34%, up from 13% in 2023. This would suggest trade buyers are perhaps catching up with private equity and getting more comfortable with lower caps and, specifically, getting more comfortable with the lower caps available where recourse is via a warranty and indemnity insurance policy, where liability for warrantors is now often capped at £1.

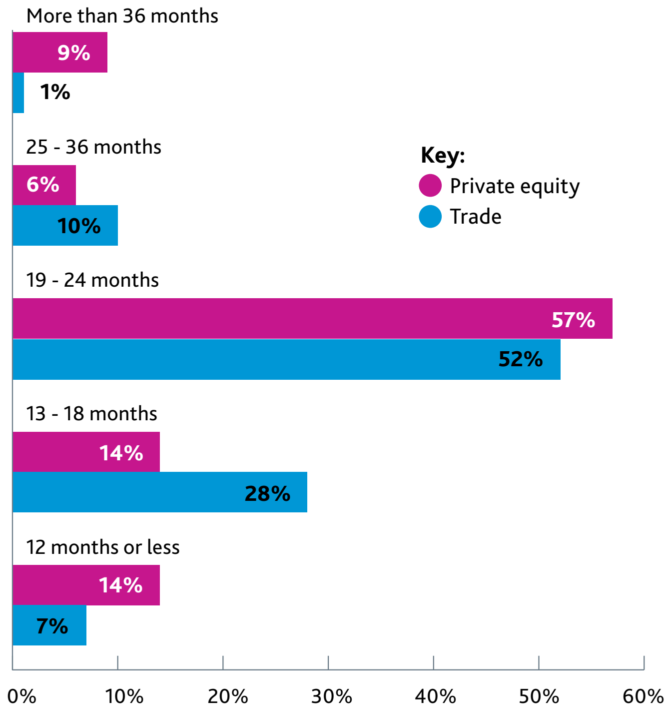
The data for private equity transactions in 2024 remained consistent with the results for 2023.



Limitation periods for warranty claims

The dominant limitation period for private equity transactions (19-24 months) remained consistent although for trade deals we saw a rise of 10ppts from that seen in 2023, to 52%. There was a consequential fall in the 13-18 month period so it would seem trade buyers are hardening their position and pushing for a longer claim period. Notably, we saw a claim period of more than 36 months in 9% of private equity transactions after not registering at all in 2023.

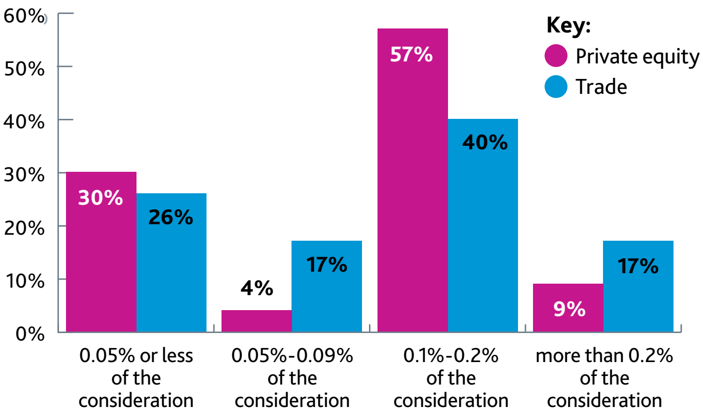
> **This would suggest trade buyers are perhaps catching up with private equity and getting more comfortable with lower caps and, specifically, getting more comfortable with the lower caps available where recourse is via a warranty and indemnity insurance policy, where liability for warrantors is now often capped at £1.**



Throwaway de minimis for warranty claims

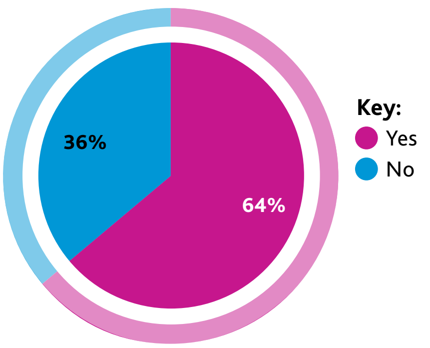
We have seen movement in de minimis for warranty claims on private equity deals in the 0.1%-0.2% range up from 46% in 2023 to 57%. This could be due to private equity buyers agreeing to increase the de minimis in line with the de minimis set in the W&I policy as the metric has stayed largely static over previous years. Interestingly, in the same range for trade deals we saw a drop from 57% in 2023 to 40%, which is more in line with the result seen in 2022 at 43% of transactions. We suspect that, for trade deals, last year's results were perhaps a blip?

Throwaway de minimis for warranty claims as a % of consideration



Did the transaction use a basket / threshold for claims?

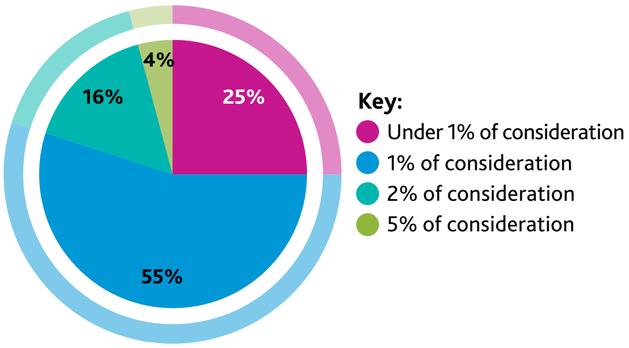
There was a notable fall in the use of baskets for claims in 2024. In 2023 the data was consistent with previous years at 78% of transactions. In 2024 we saw this reduce to 64% for reasons not altogether clear as the inclusion of baskets in three quarters of deals is well established.



Transaction basket

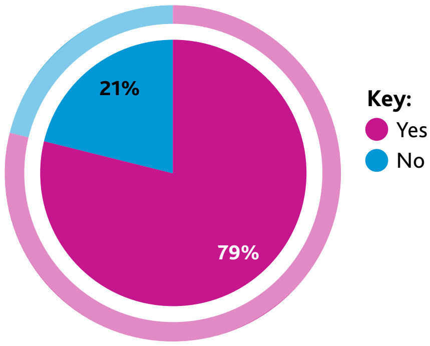
While we have seen a gradual increase in the consideration level for the transaction basket in previous years, we saw an increase in the 1% of consideration range at the expense of the 2% bracket and would expect the 1% range to continue to dominate in future years.

Transaction basket amount as a % of the consideration



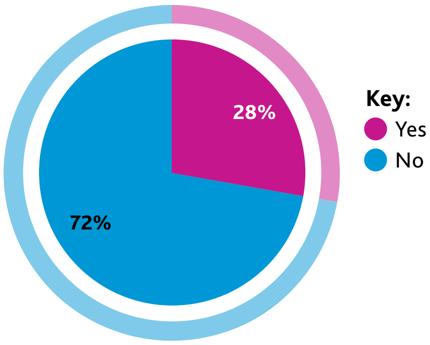
Did the buyer agree to general disclosure of the data room?

We have seen buyers over the years becoming more comfortable with general disclosure of the data room usually on the basis that they expect to do a thorough diligence review, there are no late disclosures of large amounts of information and data rooms are structured in an orderly fashion. The data has therefore been largely settled and consistent. That said, general disclosure occurred in 79% of transactions, up from 75% in 2023.



Did the buyer give a reverse warranty?

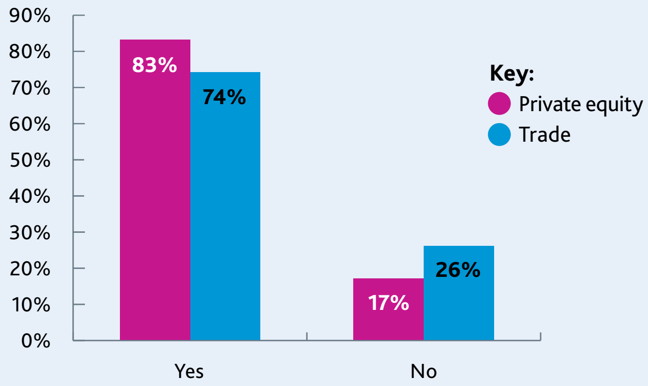
We saw buyer reverse warranties drop by a third to 28% of transactions in 2023, which is a notable reduction from 42% in the previous year. This may be due to sellers agreeing to other contractual protections which get the parties to the same place but stops short of a reverse warranty. We are seeing parties settling on a position where buyers agree to be prohibited from bringing a claim for breach of warranty where the buyer has actual knowledge of a claim. This knowledge is often limited to specified members of the buyer deal team and to knowledge obtained from reading an agreed suite of diligence reports, most commonly legal and financial reports. The giving of warranties by buyers, particularly private equity buyers (via their bidcos), will always likely be emotive and so the evolution of a contractual prohibition in bringing a claim where there is actual knowledge may, long term, be the accepted compromise position and may result in the slow demise of the reverse warranty.



Tax

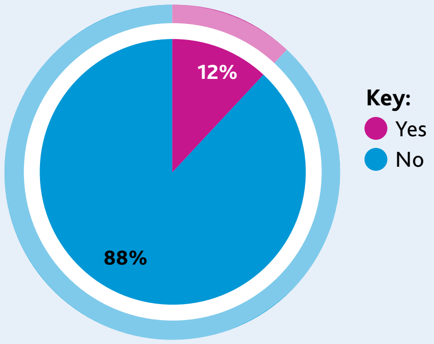
We have seen an increase in the use of tax covenants on private equity transactions from 74% last year to 83% this year. No single reason for this increase was evident during the year. It was likely reflective of (i) a continued general nervousness around increased scrutiny of tax matters and (ii) the frenzy of activity in the build up to Budget 2024 meaning that due diligence processes were shortened and indemnity protection was required where risks could not be eliminated. The increase in availability of tax insurance products in respect of indemnified risks may also have been a contributory factor.

Was a tax covenant used?



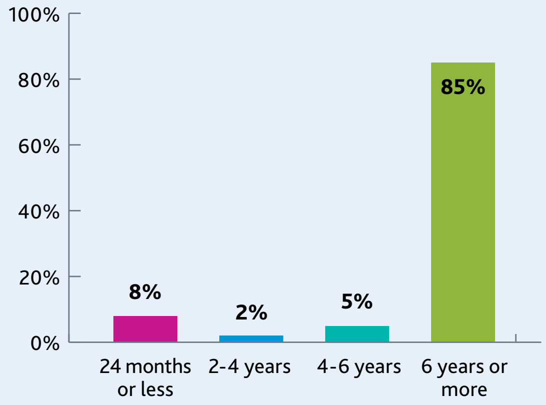
As ever, the number of transactions where a separate liability cap on tax matters was obtained remained relatively low at just 12%, which is broadly in line with past years.

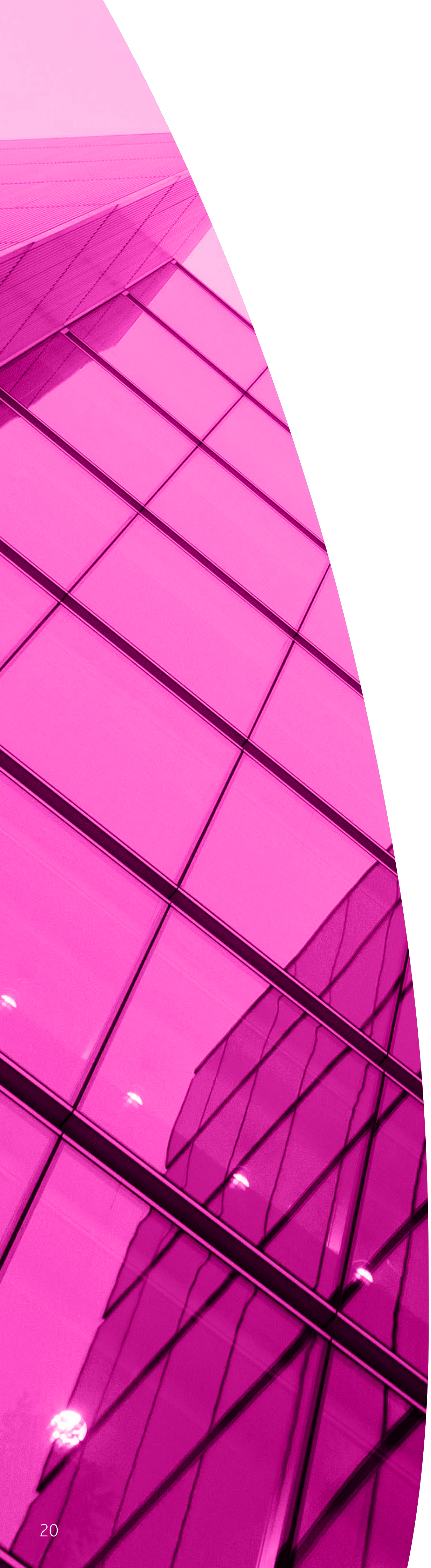
Was there a separate cap on liability under the tax covenant/deed?



The time period for tax claims remained 6 years or more in the majority of cases. There was a small reduction in transactions where a shorter period of 4 years was accepted, most likely reflective of there being a little less competitive tension on terms.

Limitation period for tax warranty claims





W&I Insurance

Introduction

Wiispa are a specialist M&A insurance broker with a primary focus on UK and European private equity transactions and their team have provided the following insights on the Warranty & Indemnity (W&I) insurance market more broadly.

Looking Back – past 12 months

Deal Volume & Market Competition

As was widely reported, 2024 deal volumes were significantly down but with a tailwind towards the end of 2024 volumes started to increase. There were fewer M&A deals than in previous years and so insurers faced increased competition to underwrite transactions that did come to market. Positively, this heightened competition and led to more favourable terms and conditions for buyers and sellers as insurers sought to attract clients and maintain their market share. As insurers strived to differentiate themselves in a challenging environment, the W&I market saw a push towards lower pricing, broader coverage options, and quicker underwriting processes.

Coverage Competition

In response to increased competition and the pressure to gain market share, insurers are now more willing to provide coverage for perceived high-risk areas – areas that insurers traditionally had little appetite to insure.

Positions such as 'nil retention for some operations deals', 'condition of assets' coverage and the 'full underwriting of stock' which used to encounter blanket rejection from insurers, are now being offered up regularly as part of terms on competitive deals. These positions will still be deal-dependent (and always subject to review of due diligence) but prior to 2022/2023 these positions would have been almost impossible to obtain.

We've also seen the standard position on thresholds change as well. The cost of a general knowledge qualifier (KQ) scrape has reduced and, sometimes, is even waived, while on occasion insurers will cover 3 years for general warranties with no additional premium required. Retentions on operational deals are now offered as standard (and taken) at 0.25% of the enterprise value (EV) tipping to nil for mid-market deals.

This shift not only enhances the appeal of W&I insurance for buyers and sellers but also reflects the dynamic nature of the market as insurers adapt to meet the evolving needs of their clients.

With all that said, it's still worth noting (as we do to clients on every deal!) due diligence scope is the foundation of a strong W&I policy, so while coverage is definitely improving, the need for good quality, well-scoped and well-presented DD is paramount.

Insured Limits

Another notable trend in the W&I market is the increasing amount of insurance coverage that insured parties are purchasing. Historically, the insured limit was typically around 10-15% of EV of a deal. However, recent patterns indicate a shift up, with insured limits now generally between 20-30% of EV, particularly for transactions valued between £50-250 million.

This increase reflects a growing recognition of the importance of comprehensive risk mitigation in M&A transactions. Companies are opting for higher coverage to better safeguard against potential breaches of representations and warranties, ensuring greater financial protection and peace of mind in increasingly complex deal environments. This is, in part, driven by the greater volume of claims data (both general and specific) that is being shared publicly from insurers and brokers. These stories highlight the successful application of W&I insurance and have confirmed to the market that the policies are 'doing their job'.

Claims

Claims activity in W&I insurance saw notable trends last year. The notification rate stood at approximately 15%, with some insurers advising that around 5% of policies resulted in a successful payout.

Notably, about half of all closed notifications led to a successful claim. Around half of claims seen stem from third-party claims, fraud, or non-disclosure, underscoring the role of insurance in mitigating unforeseen risks. Warranty-wise, financial statements, tax, and material contract breaches accounted for a third each of paid claims, with financial statement issues and regulatory compliance.

Horizon Gazing – next 12 months

Capacity Contraction & Possible Pricing Increase

In the last 5 or 6 years, the W&I market generally has been through what 'insurance folk' call a 'soft cycle'. This is where claim rations / payouts are low, which has driven new insurers into the W&I market, and, in-turn, has driven pricing down. Coupled with the downturn in global M&A activity through 2023 and beyond and there has been even more pressure on insurers to drop pricing in order to win deals.

But is that set to change? Insurers are starting to feel the bite of soft pricing and broad coverage with 2018 and 2021 bound deals experiencing the highest claims notification rates[1] with global claim notifications rates currently sitting in the region of c.16% of bound policies[2].

More recently Liberty Mutual, who provides global Transactional Risk insurances, announced their withdrawal from contingent policies following the US$1.6bn IBM judgment in the US. Insurers (lead by Liberty) underwrote the judgment for BMC Software which was reversed by the appeals court. While this may not directly impact the UK W&I market on a micro level, it will likely have a knock-on effect on pricing with carriers giving more scrutiny to policy premiums going forward.

Market sentiment is that pricing has been at an all-time low with some operational deals attracting insured rate figures as low as 0.4% of the sum insured (which is often reserved for static real estate assets only). With the increase in claims activity, a possible contraction in capacity and the recent uptick in M&A activity, it is likely to see pricing normalise around the c.1%+ figure we saw prior to 2022.

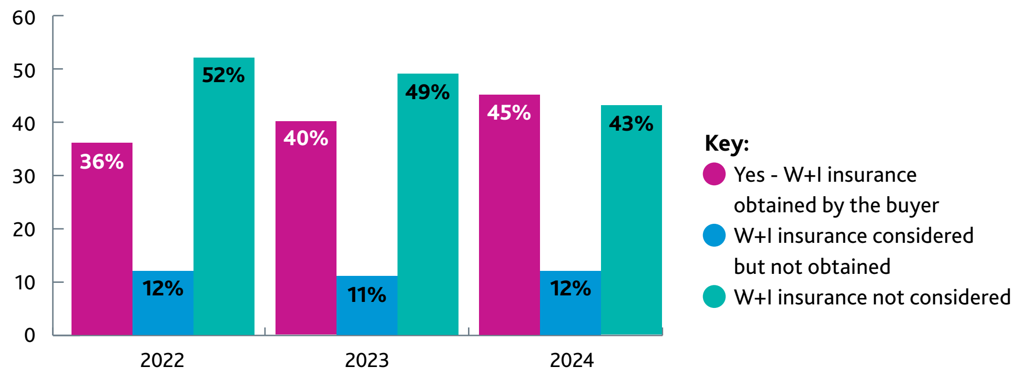
US vs EU – hybrid approach

W&I insurance and Representations & Warranties (R&W) insurance essentially refer to the same type of coverage, though the terminology varies by region. W&I insurance is commonly used in Europe, Asia, and Australia, while R&W insurance is the term typically used in North America. Both policies provide protection against breaches of representations and warranties made during M&A transactions, however this is where the similarities more-or-less end.

Market sentiment states that R&W policies are perceived to be a more insured-friendly product and this is reflected in significantly higher premiums that factor in diminished disclosure elements and a greater risk of litigation in the US. With the growing volume of US in-bound activity into the European M&A market there has been a trend to try and utilise the R&W coverage on EU style deals – hence we are seeing some parties request a 'US-style policy', which mirrors the R&W position while being governed by English law.

Generally, the cost of a hybrid policy is slightly less expensive than a full US process but it still comes with pricing closer to 1.5 - 3% of the sum insured.

Use of warranty and indemnity insurance



The above graph shows the percentage of Pinsent Masons deals where warranty and indemnity insurance was utilised (and does not include Wiispa data). This confirms our anecdotal experience that more deals include a warranty and indemnity insurance product, with fewer deals where these policies are not considered.

[1] Please note that all statistics relate to the period up to the end of 2023 and provided by Ryan Transaction Risk a leading MGA.

[2] Ryan Transactional Risk global blended claims notification rates.

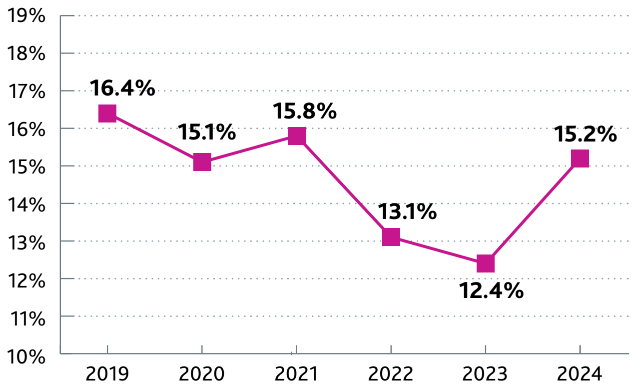
Private Equity

Sweet equity allocation

In recent years we have considered in detail the trends around sweet equity allocation as this area remains (understandably) an area of key focus for management teams and is undoubtedly the cornerstone of incentivisation for management within a PE investment structure. We have seen a decline over the last 5 years in the average percentage of sweet equity being made available to management and regarded the 12.4% average seen in 2023 as quite low when compared to historic norms. We speculated whether this was perhaps a reflection on the uncertain deal environment seen in 2022 and 2023. An increase in the number of deals seen in 2024, whether coincidental or otherwise, has brought with it an increase in the average percentage of sweet equity being made available to management teams, at 15.2%. This may be due to management and their advisers over the last 12 months successfully arguing that the higher cost of senior and shareholder debt has meant that equity proceeds are likely to be squeezed more and as a result incentives need to be a bit higher to lock in and reward management.

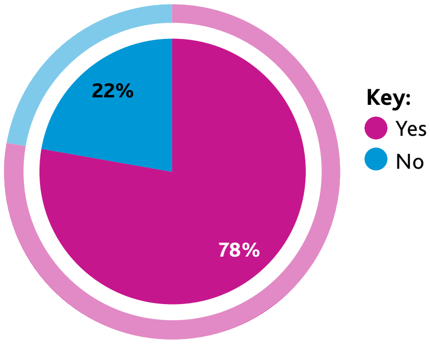
We have previously speculated whether there may be a correlation between the percentage of sweet equity being made available and the existence of ratchets, and whether a higher percentage of sweet usually means a reduction in the use of ratchets. Based on the 2024 data, an increase in the average percentage of sweet equity available to management has not seen with it a decrease in the use of ratchets – see below.

Average proportion of equity available as sweet equity



Did the sweet equity pot include the Chair / NEDs?

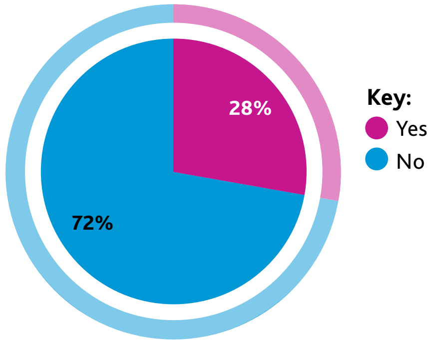
As the graph shows, and consistent with previous years, it now seems customary that management bear the dilution from their sweet equity pot for shares allocated to Chairs or other NEDs appointees, even (as is generally the case) where any such appointment is usually at the direction or discretion of the investor. In 2023, dilution from the management pot occurred in 75% of relevant transactions (up from 56% in 2022), with this number rising to 78% in 2024. We don't expect this trend to move significantly in favour of management in the coming years.



Ratchets

As the percentage average sweet equity available for management teams declined over the 5 year average, we saw (at least in the data for last year's report) an increase in the use of ratchets. We considered whether this may be due to investors using ratchets as a mechanism to plug the gap in the decrease in sweet equity percentage, rather than by awarding them a higher "day 1" sweet equity allocation. But as the average allocation has started to increase again, we might have expected the use of ratchets to decrease accordingly. However, the occurrence of ratchets in surveyed transactions is slightly up this year at 28% (from 25%). This suggests management and their advisers had some success in 2024 negotiating an increase in the scope and range of incentivisation available to them. The analysis of ratchets is a reasonably new metric for our trends report and it may be that, over time, ratchets occurring in around 25% of relevant deals becomes a settled trend. One trend to keep an eye on.

Was there a ratchet?



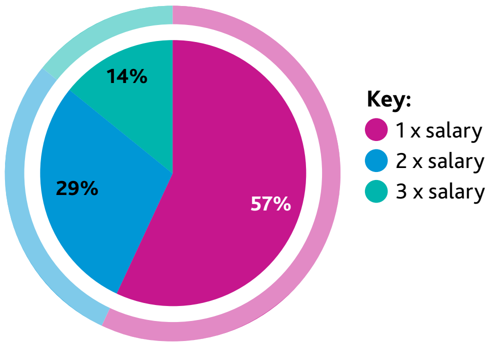
Warranty caps

We noted last year that a liability cap of 1x salary occurring in 79% of survey transactions, up from 70% in 2022, was in keeping with historic trends and was perhaps reflective of a more pragmatic approach being taken by investors towards management warrantors and their recourse in the event of breach. It seems that investors are increasingly comfortable with a liability cap of 1x salary for management and regard this level of cap as sufficient "skin in the game" for warrantors. In addition, all sides of the negotiating table tend to appreciate there is little merit in investors bringing claims against their management teams, with the potential impact on the investment and investor reputation resulting from such action.

This being the case, we were a little surprised to see the re-emergence of a liability cap of 3x salary in the 2024 data suggesting the approach taken by some investors may have hardened – occurring in 14% of relevant transactions. For the first time in a number of years we have seen this level of liability cap appear where we had previously thought the market had moved on, though it is not clear why. It may well be that investors considered a liability cap of 1x or 2x salary in some cases as not being appropriate for managers who have taken significant proceeds off the table.

As we have seen in the commentary on claims data elsewhere in this report, an increase in the claims covered under W&I policies suggests that investors may be favouring the pulling of other potential levers for recourse where it is available, and where a possible claim may exist under a W&I policy, this may likely be the course most favoured when warrantors' liability is capped at £1 (which it often can be). In parallel where management sellers have been able to secure relatively attractive insurance cover for the SPA this has also focused attention on the level of potential exposure under investment warranties which (although different) can look out of sync.

What was the warranty liability cap for managers taking sweet equity?

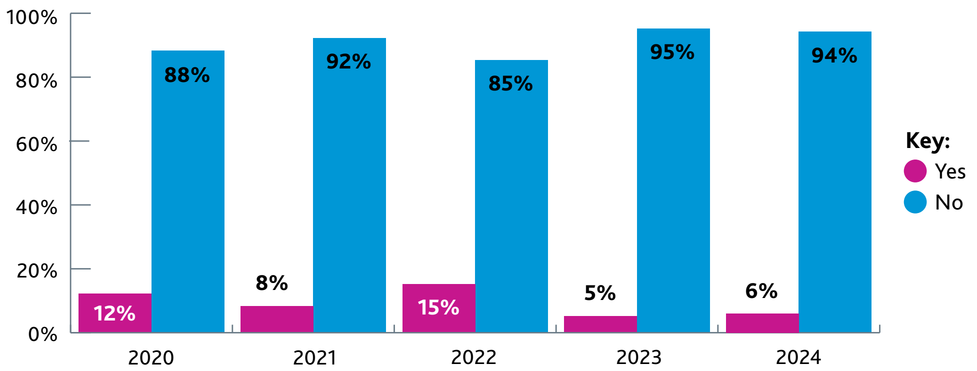


It seems that investors are increasingly comfortable with a liability cap of 1x salary for management and regard this level of cap as sufficient "skin in the game" for warrantors.

Did warranty liability cap vary for rollover investor?

In terms of liability caps for investment agreement warranties, no distinction now seems to be made between those managers who roll over value and those who receive sweet equity only. The circumstances where managers are liable for a higher cap occurred in only 5% and 6% of surveyed deals in 2023 and 2024 respectively, and over the last 5 years has never occurred in more than 15% of surveyed deals.

As stated in previous years, there seems now to be a recognition of limited benefit, both commercially and reputationally, in investors suing their teams for breach of investment agreement warranties, with instances of this extremely rare and irrespective of the level of proceeds received from the relevant transaction. This would likely not apply in the event of fraud of course.

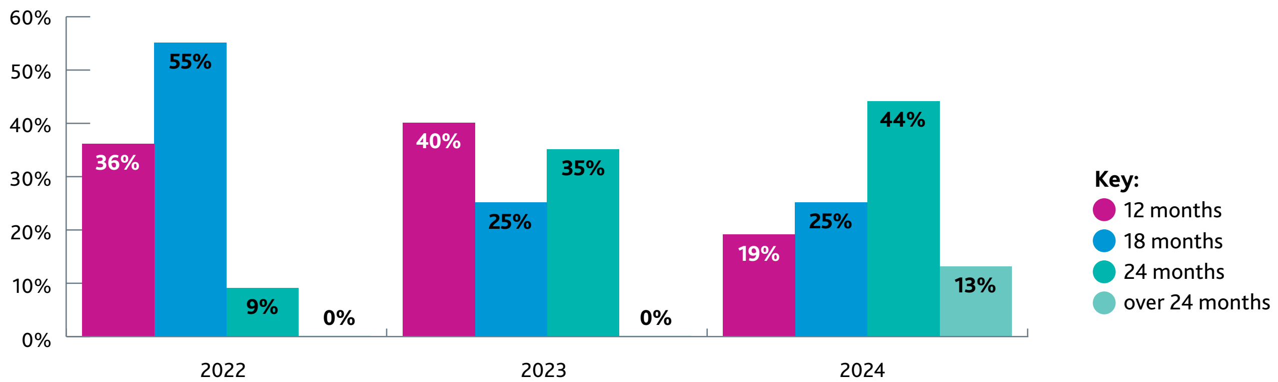


Restrictive covenant periods

For investment agreement restrictive covenants, the long-term dominant trend of two-year restricted periods was confirmed from the 2024 deal data with this period occurring in 44% of surveyed deals, up from 35% in 2023. There was, however, an increase in restricted periods in excess of two years, occurring in 13% of deals in 2024 having not registered an occurrence in the deal data for 2022 or 2023. We note also the increase in one year restricted periods (seen in 2023) has been pegged back, with this more generous concession on the part of investors being seen in 19% of relevant deals, falling from 40% in 2023 and 36% in 2022. The correction can perhaps be seen in the increase in deals with two year and three year restricted periods, with investors seemingly pushing for more traditional periods of restriction.

That said, we do consider investors to be increasingly comfortable in agreeing separate restricted periods for different categories of manager, with shorter periods for junior managers and longer periods for those more senior. In some isolated cases, where individuals are absolutely key to the investment case in specific sectors, we have seen investors pushing for periods which exceed the historic upper limit of 3 years. In these rare circumstances, this has been done with the investor fully aware of the risks around enforceability but nonetheless confident it can make a strong case should the relevant manager(s) seek to compete in the future in breach of covenants.

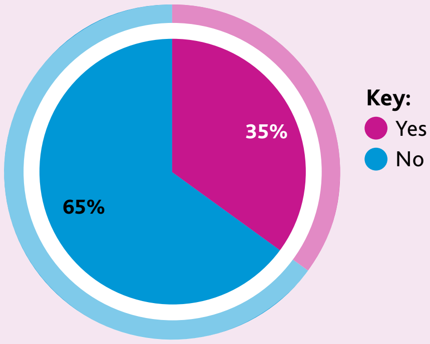
What was the length of restrictive covenant period in the investment agreement for managers?



Fees

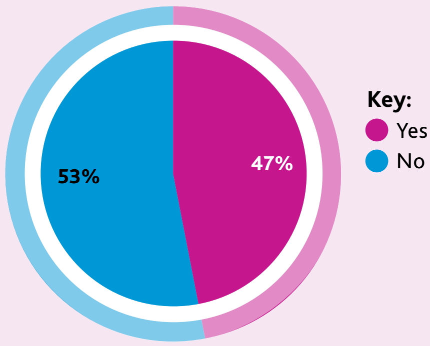
The percentage of deals where investors have sought to charge arrangement fees has fluctuated, though in recent years this has remained at levels higher than the long term average – 57% in 2022 and 47% in 2023. The data for 2024 saw a material fall to 35%, bringing the percentage down to more historic norms. We have noted previously the conclusion that investor arrangement fees tend to increase where the environment for deals is perhaps more uncertain and fewer deals are being done, with investors seeking these fees where there may be more risk attached to investment outcomes. As mentioned elsewhere in this report, as the deal environment may have been more favourable to sellers and management teams in 2024, management and their advisers may have been putting more pressure on investors to forgo arrangements fees to ensure their offers are as attractive as possible. We wonder whether the presence or otherwise of arrangement fees as a feature on deals could be considered a "bell-weather" for the wider deal environment…?

Was there an arrangement fee?



Conversely, we saw an increase in the use of monitoring fees on top of a directors' fee where the use of arrangement fees were declining – up 10ppts from 37% in 2023 to 47% in 2024. This seems to make sense as a monitoring fee has, at least in the eyes of management teams, a more objective justification than an arrangement fee charged by investors for making its funds available.

Is there a monitoring fee on top of director's fee?



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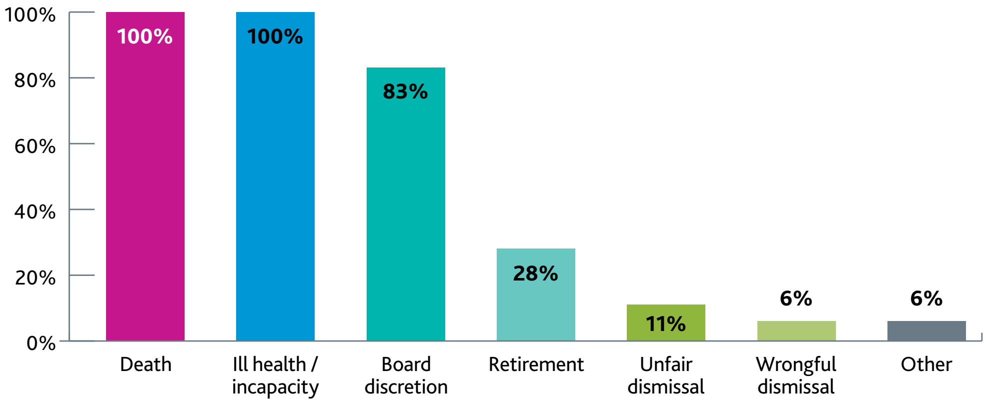
Leavers

Good leaver circumstances

After the anomalous result for good leavers in the data for 2023, which we were minded to discount, it is comforting to confirm the data for 2024 reflects the long accepted position of death, ill health / incapacity and upgrade to good leaver with board discretion as good leaver circumstances which occurred in all cases (or almost all in respect of board discretion).

All the other categories, after a buoyant 2023, seem to again track where they were in the years before 2023. This further confirms the decline in the use of unfair dismissal as a good leaver event, which has surely been well and truly usurped now by the full integration of intermediate leaver into the accepted range of leaver categories.



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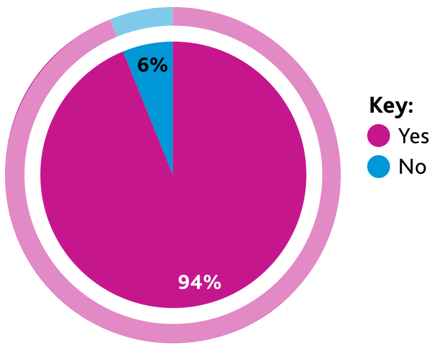
Intermediate leaver

As confirmed above, the increased use of intermediate leaver continues, with the concept occurring in 94% of surveyed deals, up from 76% in 2023. We have commented previously that this is to be expected given its use is now fairly standard across the UK PE landscape and is effectively used to award departing management with a growing element of value for their shares to reflect their contribution to growth based on their period of service where they are not a good leaver or any element of bad leaver. A 4 or 5 year 'vesting' period is typical for intermediate leaver pricing, with a 1 year cliff edge before vesting commences being common, increasing to 80-100% vesting at the end of the 4 or 5 year period (to align with investor hold period). Its continued use at the levels now seen strongly suggests to us that intermediate leaver is now almost as commonplace as good leaver and bad leaver and perhaps only where there is a clear imbalance in bargaining power in favour of an investor will the investor resist what is widely considered to be a fair middle ground to deal with value contributed by leavers where managers depart without cause and their shares come up for sale or share value is capped.

Is intermediate leaver concept included?

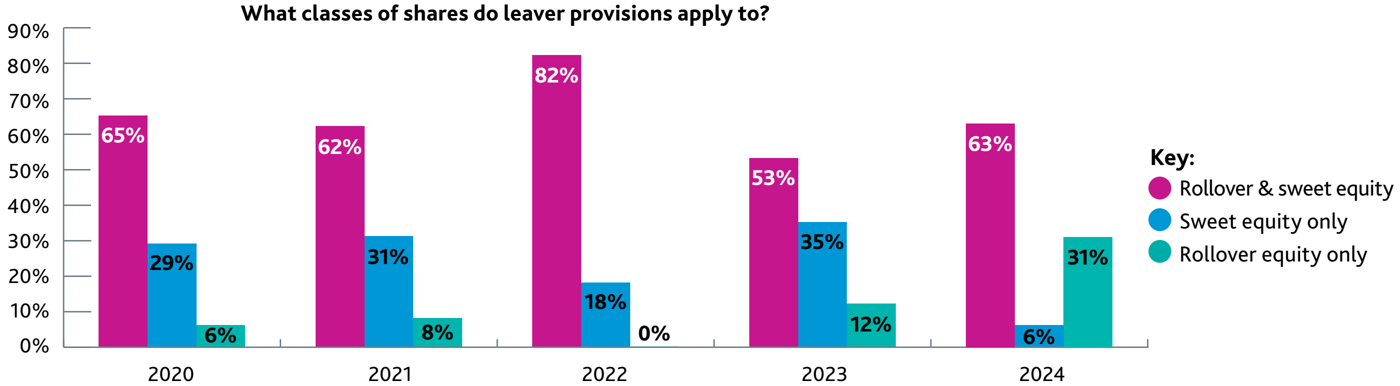


Leaver provisions – application to rollover equity

It is becoming increasingly common for rollover equity to be subject to leaver provisions, albeit only in the more serious bad leaver / very bad leaver instances. There was a time when management's advisers were continually and successfully able to argue that rollover equity should be treated on a par with the investors' strip – effectively untouchable. However, over the last 5 years or so we have seen leaver provisions applying to rollover equity in a majority of surveyed deals, ranging from 53% in 2023 (which we noted at the time was quite low in terms of percentage of deals – a somewhat quirky result) to 82% in 2022.

We wondered whether last year's result reflected more of a buyers' / investors' market where management were being required to roll over higher percentages, with management therefore taking a harder line on how their rollover was to be treated. As the deal data for 2024 suggests, sentiment has perhaps swung back a little towards a market more favourable to management and, with management not rolling over quite as much in percentage terms as the last few years, investors seem to be hardening their stance again on the treatment of rolled equity.

What classes of shares do leaver provisions apply to?



Which leaver provisions apply to rollover equity

Linked to the commentary above, we can see that fraud, breach of restrictive covenants and gross misconduct, together with other bad leaver circumstances (e.g. voluntary resignation) continue to feature year on year in a high percentage of relevant deals. Noting that often the consequences for a manager who has been dismissed for these reasons is to lose their rolled equity for the lower of market value and issue price, or in some cases for £1 in aggregate (including in certain circumstances, loan notes or preference shares) it is no surprise that these limited, yet serious, circumstances feature regularly in the suite of investor protections. A breach of investor covenants being treated as a bad leaver event applied to rolled equity in 30% of surveyed deals, though this feels low given the serious potential consequences for the investor in the event of a breach. We suspect this is because this kind of breach will already be captured under the limb 'Unremedied breach of investment documents' rather than as a standalone protection.

> **Linked to the commentary above, we can see that fraud, breach of restrictive covenants and gross misconduct, together with other bad leaver circumstances (e.g. voluntary resignation) continue to feature year on year in a high percentage of relevant deals.**

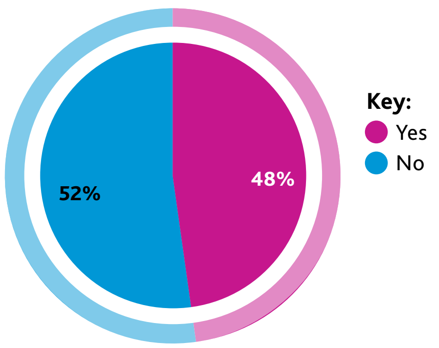
Loan notes

The picture on interest rate or coupon on loan notes and preference shares was mixed during 2024. After the increase in Bank Base Rates in 2022 we expected rates to edge up and this was confirmed by the deal data in 2023 after a settled period before 2022 where interest rates on loan notes remained largely static for a sustained period at 10% per annum. In 2023 the dominant rate was 12% following the Bank Base Rate rises but as rates dropped during 2024 so did the number of deals where an interest rate of 12% prevailed. So, in 2024, loan note interest/preference share coupon rates of 10% re-emerged as the dominant rate occurring in 44% of surveyed deals, with a rate of 12% dropping back to 33% of deals after featuring in 55% of deals in 2023. Interestingly, though this may have been deal specific or due to a quirk of the data, we saw an interest rate of 15% or over occurring in 11% of relevant transactions.

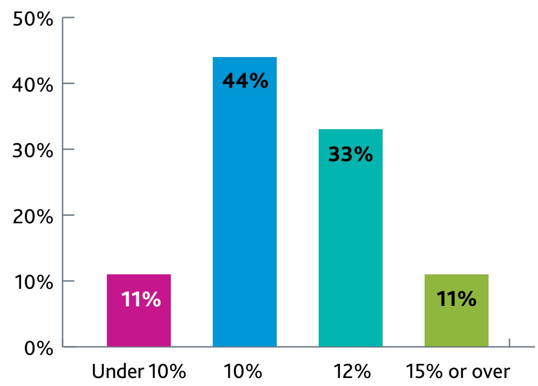
We are minded to discount this as it seems to run counter to the direction in which rates are heading and so, assuming rates do not start to spike up again (though this should not be discounted completely in the current uncertain geo-political landscape), we would anticipate the 10% rate to prevail for the foreseeable future.

The use of preference shares as part of the institutional strip fell in 2024 from a majority of deals in 2023 (52%) to 43%, although the instances where coupons of 10% and 12% featured were the same, each occurring in 33% of transactions. Interestingly, the use of a coupon of 14% or more occurred in 11% of transactions, though as with loan notes, this may be due to deal specific matters rather than reflecting a developing trend of higher coupon rates for preference shares.

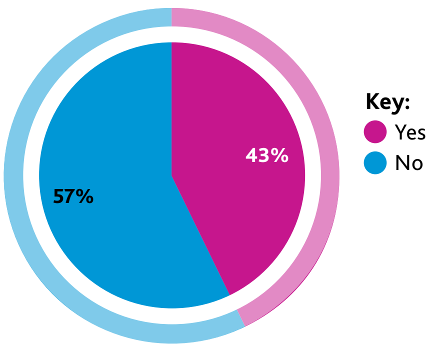
Were investor loan notes issued?



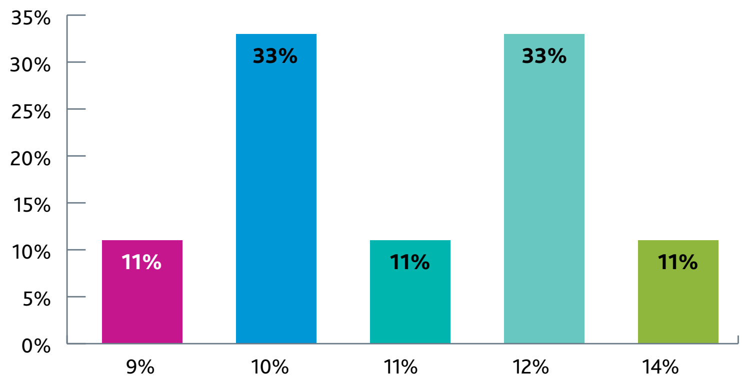
What was the interest rate on investor loan notes?



Were preference shares issued?



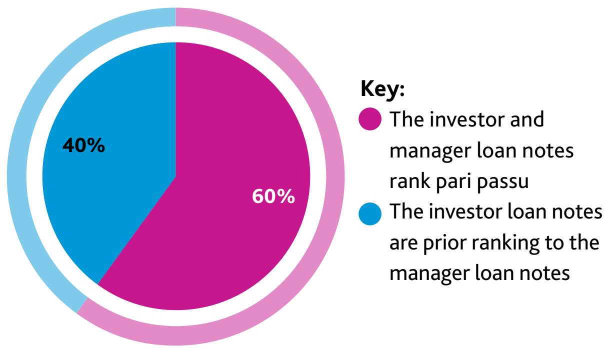
What was the coupon on the preference shares?



Ranking of loan notes

We noted in last year's report that investors were becoming increasingly comfortable with equal ranking between investor and management loan notes. We discussed the various and increasingly common protections available to investors to ensure that, where there is equal ranking, the loan notes across the investor and management class can be controlled, with restrictions on enforcement on an event of default and proportionate write-down provisions commonly seen. Investors understanding what controls are available to them has allowed advisers to cut through what are otherwise emotive negotiations on ranking. Nevertheless, and notwithstanding the prevailing view across this report that the deal data suggested a deal market that was more competitive than the year before, we saw a material decrease in equal ranking, appearing in 60% of deals, down from 78% in 2023 (and from a high of 81% in 2021). It is difficult to discern the reason(s) for this reduction. Perhaps investors have not found equal ranking to be palatable when presented with the reality of a downside scenario where the value in their loan notes is written down proportionately with management's. It is all very well agreeing equal ranking when investors are seeking to gain an edge in competitive, pre-deal negotiations, but may be difficult for investors to swallow in practice where management have already received significant sale proceeds at the time of the original investment.

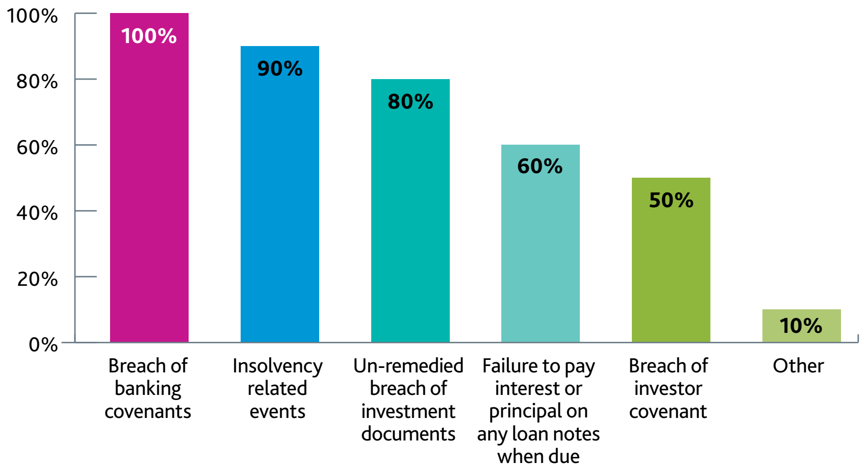
How do the investor and manager loan notes sit for ranking purposes?



Swamping rights

Swamping rights are one of the areas of investment trends where there is little expectation of change year on year, and where the data suggests a change, one should tread with caution. We noted last year a change to the deal data with a reduction (though slight) in the use of a banking covenants as a swamping event. We were surprised by this as we usually see breach of banking covenants as a swamping event in all cases. The reduction in 2023 to 92% of relevant deals was unusual and should be treated as such. We fully expected the historic trend to return to normal and so breach of banking covenants occurring in 100% of relevant deals in 2024 confirmed the long-standing position. In 2024 we saw a material increase in the use of insolvency related events as a swamping trigger after noting a reduction in its inclusion over recent years. We put this down to investors' advisers getting comfortable that insolvency risks would already be covered under the banking covenants swamping triggers, with specific insolvency related swamping protections adding little to the suite of existing protections. It is therefore notable that we have seen an increase in its use from 75% in 2023 to 90% in 2024. We also note an increase in the use of a breach of investor covenants as a swamping event from 33% in 2023 to 50% in 2024.

If the investment agreement contains "swamping rights", in what circumstances can investors invoke these rights



European perspectives

Ireland

Ireland's M&A market in 2024 was a tale of two halves, with a sluggish beginning to the year but finishing strongly, which bodes well for 2025. Overall, Ireland outperformed expectations and achieved a higher increase in volume and size of deals from 2023 to 2024, as compared with the UK and other European markets.

Despite positive sentiment amongst the M&A community and an appetite from private equity investors and large international corporates to transact in Ireland, there are still some macroeconomic and geopolitical factors which will influence the volume and size of deals in 2025, not least being US trade policy and the availability of financing. In relation to the latter, there seems to be consensus among the financial markets that interest rates within the Eurozone will fall in 2025 as inflation continues to stabilise.

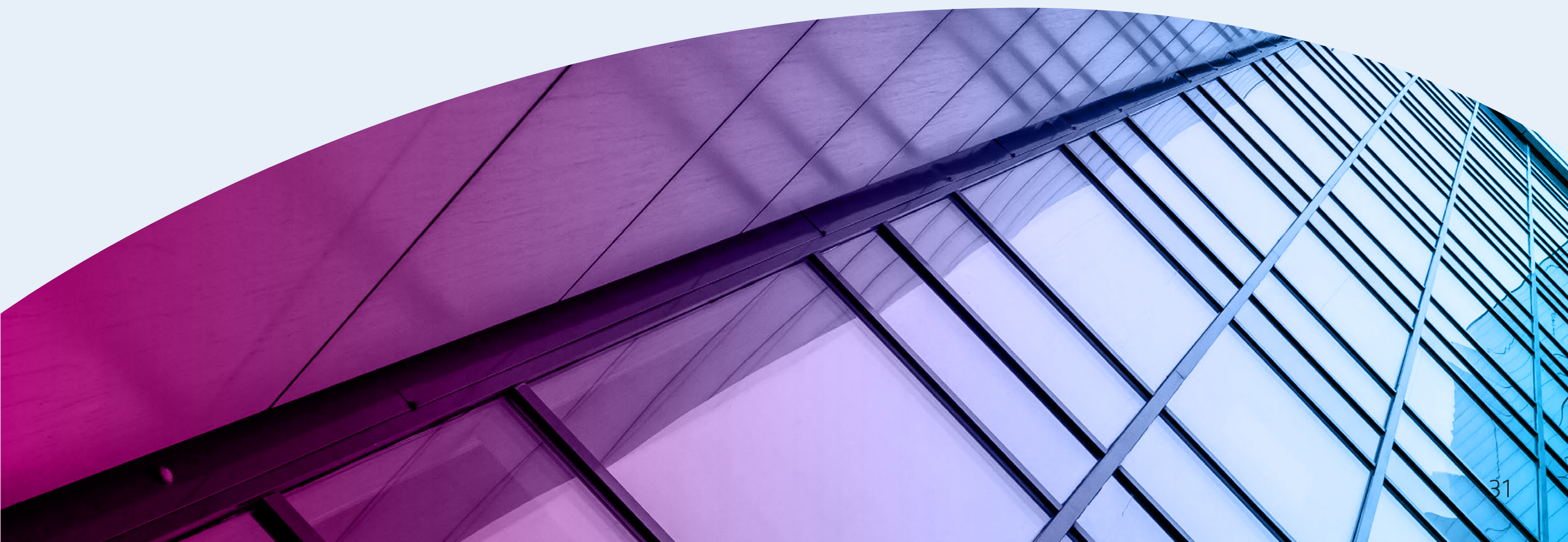
TMT was the dominant sector in terms of deal volume in 2024. Three of the five largest M&A deals in Ireland in 2024 were in this sector. Financial services and energy transition continued to be attractive segments for PE and other investors in Ireland. Within financial services, we have continued to see further consolidation amongst insurance brokers, with accountancy and wealth management consolidation gaining traction. We anticipate that this trend will continue in 2025 with further activity (as we have seen in the UK in the last 5 years) as well as increasing activity in the broader professional services space, including law firms.

There are a number of PE backed businesses who, given potential hold periods for such investors, are likely to be considering or preparing for an exit within the next 12 months. Secondary buyouts have not been a common feature in the Irish market up until this point. It is only in the last three to four years that we have seen a significant uptick in mid-market private equity deals in Ireland with a greater number of funds investing significant amounts of time sourcing new deals.

We have continued to see strong competition for good assets in the Irish PE market. Despite a number of high profile sales to trade, PE remains a very attractive option for sellers. We have seen new global entrants to the market and other promising trends promoting increased activity. Apollo, Starwood and Blackstone all completed cross border transactions in Ireland in 2024. These overseas funds are investing in Ireland as businesses continue to demonstrate good investment return potential with a highly skilled workforce, business-friendly regulatory environment and favourable taxation regime.

Throughout 2024, and continuing into this year, processes are often being run more tentatively with potential challenges to deals in mind. For instance, businesses are sometimes avoiding an official sale process despite preparing for potential sale behind closed doors. This "off market sale" trend may seem unconventional, but offers some protection as businesses, investors or fund managers aim to avoid a failed sale process. A public, failed sale can be damaging down the line and instead a lot more prep work is being done on businesses to "future proof" them ahead of an official "on market" sale process being launched and to anticipate the comprehensive due diligence that buyers are continuing to undertake in the current market. This can also offer some reputational protection within the business, such as with employees or customers, meaning the benefits can be two-fold, allowing for confidentiality and continued confidence across the business.

Ireland's M&A market in 2024 was a tale of two halves, with a sluggish beginning to the year but finishing strongly, which bodes well for 2025. Overall, Ireland outperformed expectations and achieved a higher increase in volume and size of deals from 2023 to 2024, as compared with the UK and other European markets.



Germany

The business climate in the German private equity market reflects the wider economic sentiment in Germany, with deal activity subdued in 2024. Deal value and average deal size have continued to decline since 2022, though the number of deals is increasing again.

The European Central Bank's interest rate cuts in October and December 2024 had only a limited impact on deal activity in the private equity market, as investors' assessment of interest rates and acquisition financing terms had already been factored into market sentiment. Future interest rate developments remain uncertain in the current economic climate given potential escalating tariff disputes between the US and EU.

The private equity market is also affected by the continuing lack of deal flow and exits. The current economic situation is weighing heavily on medium-sized companies in Germany. As a result, there is currently a lack of qualified and attractive investment targets as well as buyers on the exit side.

Despite this, the industry remains resilient. Fund managers are adapting by broadening their strategies and exploring new asset classes such as private credit and infrastructure. They are also focusing on operational improvements within portfolio companies, particularly in relation to environmental, social and governance (ESG) criteria, which are increasingly seen as key to long-term value creation.

In addition, the private equity market is showing increasing interest in sustainable investments and innovative technologies.

Private equity funds are also increasingly turning to artificial intelligence to improve efficiency and address margin pressure.

Looking ahead, while uncertainties remain, the industry's adaptability suggests that it will continue to find opportunities even in challenging conditions.

Therefore, investment activity is expected to remain stable in Q1 and Q2 of 2025.

Luxembourg

Overall, 2024 was the year of many rounds of elections across Europe and the world. The potential swings in governing parties in multiple countries created uncertainties for businesses in terms of assessing which business-friendly economic policies would be in place going into 2025. The aftermath of those elections impacted the deal activity which fluctuated between highs and lows.

PE activity in Luxembourg in 2024 was impacted by the elections in the USA. The level of activity in PE was low during the summer of 2024 given the uncertainty around which party would come out on top and once the result was announced, activity increased again. While the volume and aggregate value of transactions in November and December returned to more typical levels of activity, heightened activity in the two last months could not make up the deficit due to subdued activity in the first 10 months of the year.

The situation in Ukraine, the persistent price inflation for secondary deals and high interest rates were the main reasons for lower levels of private equity activity when compared with a couple of years ago. Buyers remain wary of acquiring companies with high valuations given the uncertainties and higher financing costs. As a result, buyers are taking more time on due diligence of opportunities, with a longer span between declarations of intent and final acquisitions, with a tension between buyers and sellers, who are trying to hold out for offers that match their expectations of asking price.

In 2024 we saw a continued interest in restructuring, both for operational and financial efficiencies. This year PE investors and investees also reacted to the enactment of ESG laws, with expectations being driven from the funds and their limited partners into the portfolio entities. We saw some PE funds admitting that they were not comfortable with their previously assumed SFDR categories and formally renouncing to the more stringent labelling, despite their possible loss of interest in investment for some more green focussed LPs. The new ESG scope resulting from the omnibus review of the CSRD is now eagerly anticipated for late adopters in Luxembourg.

Beyond those uncertainties felt worldwide, as a bastion of economic and political stability, Luxembourg remained in 2024 a central hub for European investment. Overall we saw a lower number of transactions (when compared to previous years), though transactions in particular sectors and geography remained resilient and high value investments structured through Luxembourg special acquisition vehicles. Throughout the year we saw European sovereign investment funds diversifying their investments into new regions which were previously not an area of focus, namely Africa and South America. Although they faced issues to execute deals towards the end of the year, we still saw a number of private equity firms investing through Luxembourg in projects in Germany, United Kingdom, Portugal and Spain principally in the real estate, pharmaceutical, technology, hospitality, leisure, retail and logistics sectors.

The political and economic uncertainties that dampened PE activity in 2024 seem to be continuing into 2025. A significant number of transactions are taking longer to execute or are being put on hold to wait for more favourable conditions. This is particularly the case with highly leveraged deals. Exits by PE to the public markets are increasingly rare, although there is still an appetite for debt placement through international financial markets.

Considering its investor-friendly political, legal and tax regime, Luxembourg remains attractive as a jurisdiction of choice in terms of PE activity. At the beginning of this year the government promoted changes to the taxes applicable to corporate entities which resulted in some tweaks which are favourable for the PE toolbox, including a general lowering of effective tax burden (namely through adjustments in corporate income tax and net wealth tax).

Netherlands

The Netherlands is a strong market for private equity with many national and international players. In 2024, the mid-market landscape remained robust, demonstrated by a comeback of competitive auction processes, indicating that it was easier to attract multiple buyers willing to compete in a competitive auction. Investors focused on seeking established businesses with steady cash flows as well as targets in emerging markets. The increased interest from investors led to more competitive terms, such as a decrease in the use of deferred consideration. Investors continued to be open to flexible arrangements around leaver provisions on roll-over equity. More relaxed restrictive covenants for junior management also remained common.

Looking ahead to 2025, the prospect of a potential recession has receded and we have already seen an increase in deals in the first quarter of 2025, particularly in the technology sector. However, the ongoing geopolitical environment looms large and is never far from investors' minds, resulting in ongoing caution in relation to executing deals. As a result, there will be an increased focus on established businesses and sectors that are less exposed to these geopolitical risks. The largest risks that are currently facing the Dutch economy and financial stability seem to be geopolitical tensions outside of the Netherlands and primarily include strategic dependencies. The De Nederlandsche Bank (DNB) highlighted in its supervisory strategy for 2025-2028 that international tensions could impact financial institutions. Geopolitical developments, together with the digitalisation of the financial sector, are creating a more dynamic landscape that requires additional emphasis on cyber resilience.

Sectors that are generally less exposed to geopolitical risks include technology, science and industry, energy and healthcare. These sectors are considered more resilient to geopolitical risks due to their strategic importance, continuous demand and regulatory support. Energy, and energy transition in particular, is expected to continue to be an attractive sector for investment.

Despite geopolitical risks, M&A remains an important driver for growth and value creation. Especially in the mid-market the role of private equity remains significant, transforming and growing businesses. In the Netherlands, private equity represents a significant part of the deals compared to the worldwide average. Exits which were put on hold in 2023 and 2024 may come back to life in 2025, further contributing to the market's dynamism.

In terms of market developments, despite the geopolitical tensions, investor confidence remains high and the economy is stabilizing. The Dutch economy grew slightly faster compared to the Eurozone average in 2024 and is expected to continue this trend in 2025. Inflation remains relatively high (3.9% in December 2024) but is expected to ease.

Overall, the private equity landscape in the Netherlands is poised for growth in 2025, with promising trends and opportunities for both investors and founders.

Spain

After several difficult years, there seems to be a consensus that 2025 will be positive from an investment point of view. Interest rates are coming down, confidence in the future performance of companies is improving and valuation expectations are narrowing the gap between announced and closed deals.

Spain is positioned as a very interesting investment destination within the European context, due to its competitive multiples (especially in the middle market) compared to other European countries. International funds have set their sights on Spain, with pan-European fund managers opening offices in Spain and increasing their local teams. In addition, many local PEs have significant investment plans, which has helped the market to start to recover. In addition, they are also under pressure to divest, because LPs are asking for distributions.

In previous years, many middle market companies in the technology and life science sectors have gained scale and grown internationally. We have also seen that many funds have focused on growing their portfolios, improving the professionalism of their teams and scaling up their portfolio businesses through add-ons.

In this context, we are likely to see an increase in continuation funds as a way to maximise the return from their investment by extending investment periods.

In terms of legal trends in PE transactions, roll-over transactions, W&I insurance, earn-outs and locked-box mechanism will continue to be the rule for majority shareholding acquisitions in 2025.

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