DELIVERING STRATEGIC TRANSACTIONS IN SURREAL TIMES

1 year on update

If you would like a more comprehensive view of what we're seeing in the current environment, and what steps you should take to maximise your chances of success, please get in touch.

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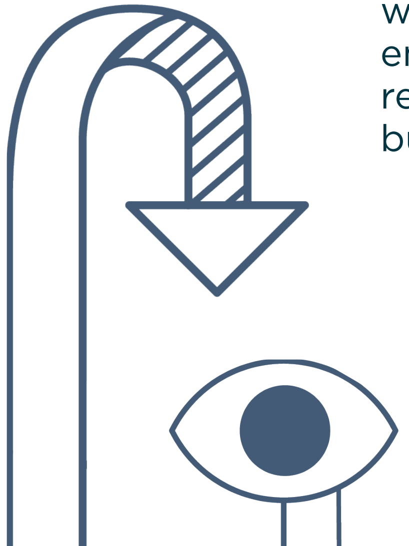
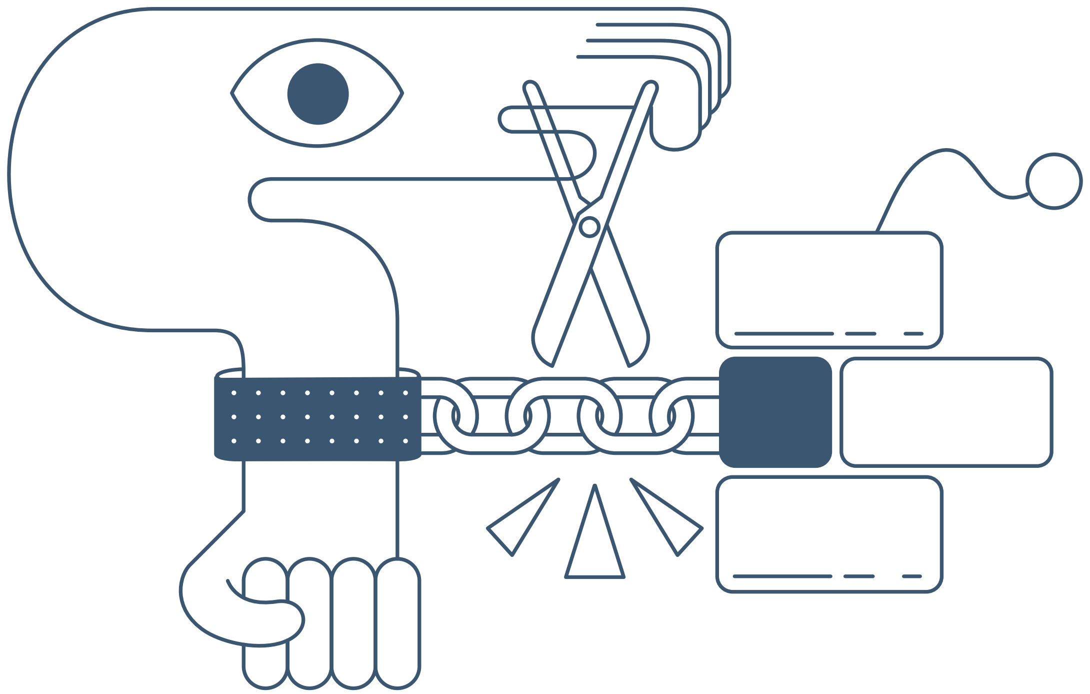


M&A IN SURREAL TIMES

- In many respects our predictions for the Covid world were accurate. We saw significant nervousness from buyers leading to more Due Diligence and an increased use of post-completion purchase price adjustment structures to allay valuation concerns. The UK Government also accelerated the enactment of the National Security Bill in order to ward off foreign raiders and we will be getting to terms with this legislation in the months ahead;

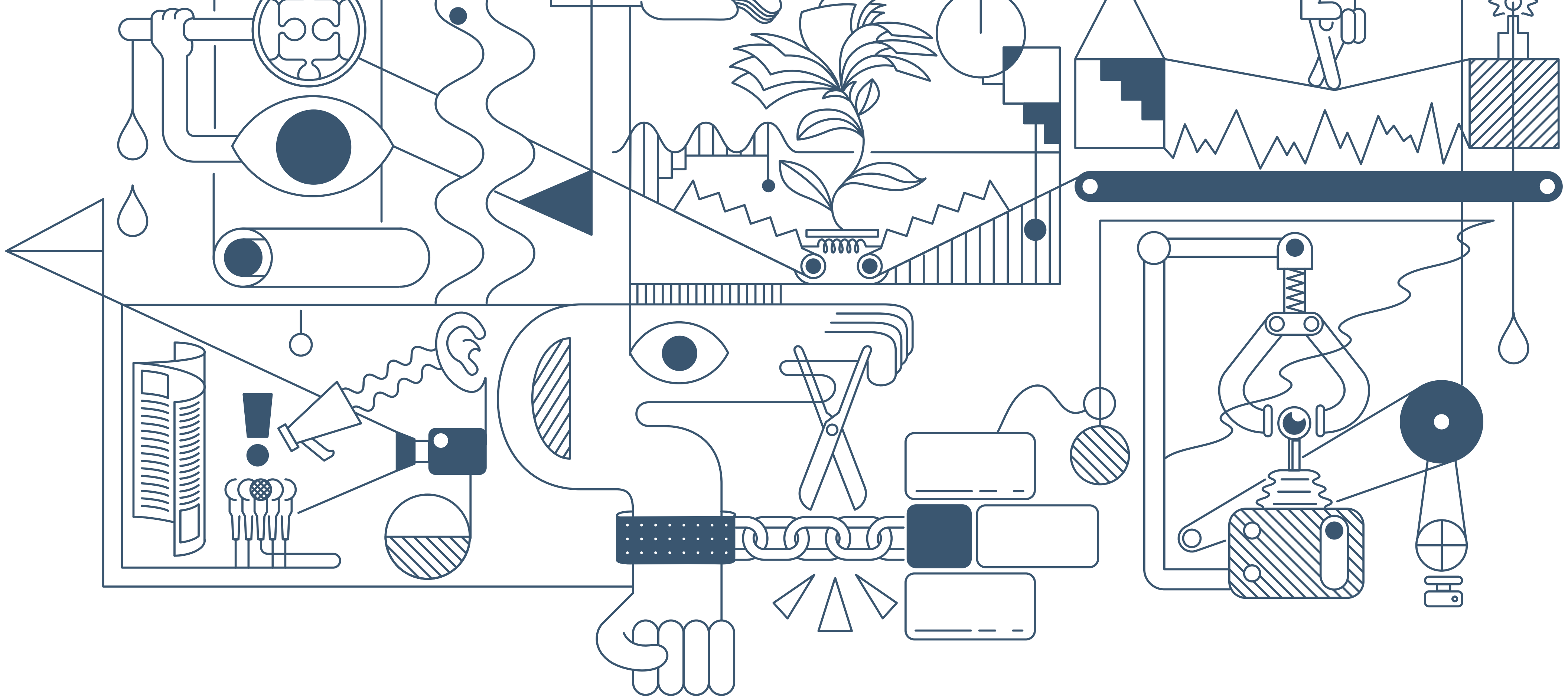
- The most striking aspect of the UK M&A market which we didn't predict was the speed and vigour with which transactional activity returned after the initial lock-down. Deal volumes quickly recovered and have remained consistently high. Whilst we were initially concerned about seller reputation in an uncertain market if they sold at the wrong price (and the prospect of anti-embarrassment clauses) this was quickly replaced by reputational issues for cash-rich buyers if they weren't investing in the frenzy;

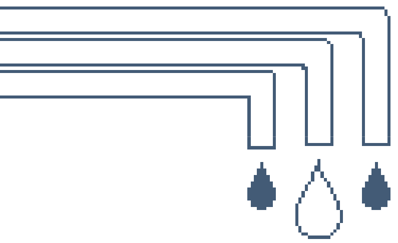


- Two themes which are undoubtedly here to stay are Warranty and Indemnity (W&I) and ESG. The W&I market continues to grow and is no longer the purvey of Private Equity investors only – strategic investors are becoming increasingly comfortable with the concept. It will be interesting to see whether this continues or whether pricing pressure will start to make W&I more expensive. Likewise, the march of ESG in M&A is set to accelerate as businesses look to buy green in the race to net zero and carefully measure the performance of their acquisitions against pre-determined ESG metrics. Expect a continuing interest in green assets which command sky high multiples to match

ACCELERATING M&A IN SURREAL TIMES

1 year on update





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Graham Cross, Partner, Tax & Structuring
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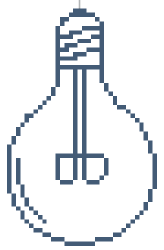
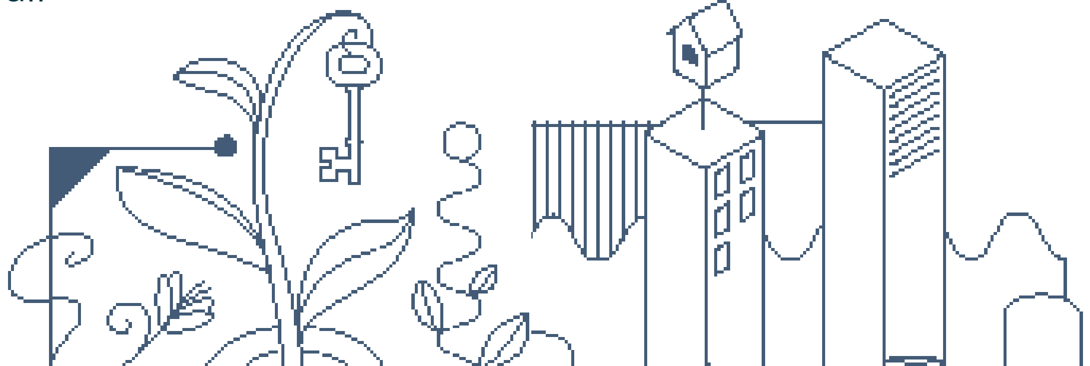
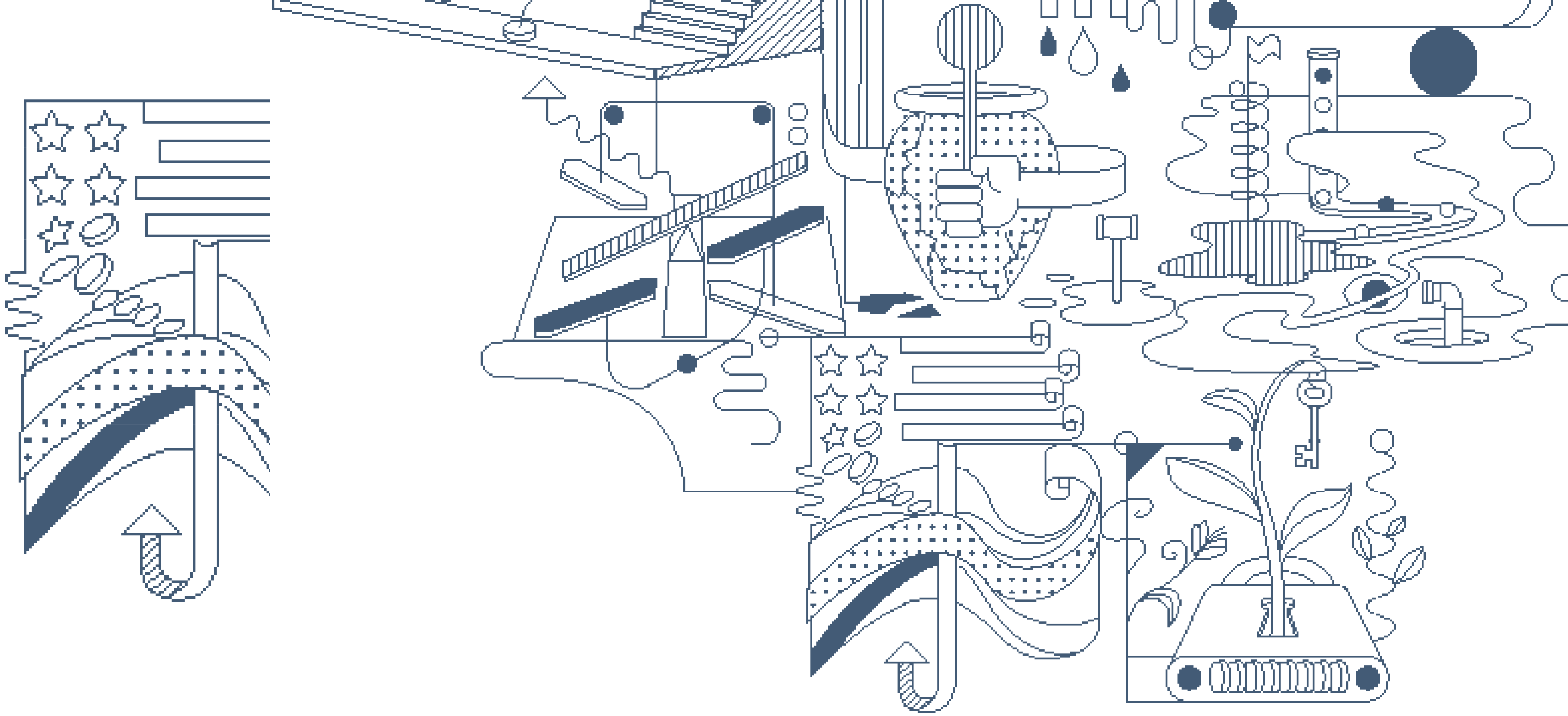


- In summer 2020 the UK insolvency industry was braced for a wave of business failures as a result of the longer term financial impacts of the pandemic. However, in large part this hasn't materialised.
- The reasons for this are varied but Government support schemes such as furlough, the removal of wrongful trading risk for directors, introduction of recovery loan schemes (CBILS etc), tenancy protection from landlord forfeiture and deferral tax payment obligations, have all played a significant part.
- In addition, affected businesses have often favoured other routes, such as a formal compromise with creditors in the form of Company Voluntary Arrangements (CVA), or in some cases under the new Restructuring Plan regime.
- As a consequence, distress-led acquisition opportunities have been limited but will nonetheless remain an important aspect of the insolvency landscape in years to come.



PUBLIC M&A IN **SURREAL TIMES**

1 year on update



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Simon Wood, Partner, Corporate Finance
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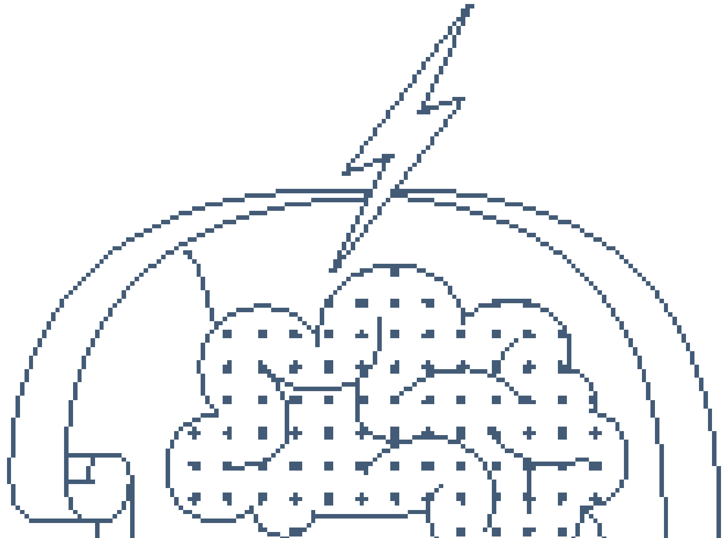
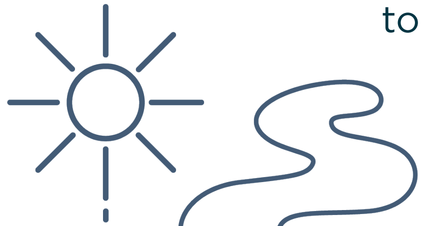
- Private Equity interest has been the story of the last year in public M&A – Addleshaw Goddard's research at the start of the pandemic predicted this surge of interest and highlighted the three key drivers behind it - which have been amplified by the effects of the pandemic

- The increase in financially distressed companies putting themselves up for sale which we expected has not materialised – due to the support provided by the governmental assistance through the pandemic to date. As/when such support is removed, we would expect levels of distress, and consequently formal auction processes to increase

- The uncertainty caused by Foreign Direct Investment regulations is gradually settling down as the structure of the regime becomes clearer – but in the longer term, it will be interesting to see the extent to which "national security" legislation can be used to protect wider, politically sensitive "national interests".





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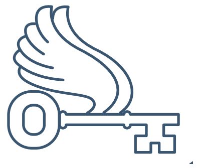
TAX CONSIDERATIONS FOR M&A IN SURREAL TIMES

1 year on update



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Paul Concannon, Partner, Tax & Structuring
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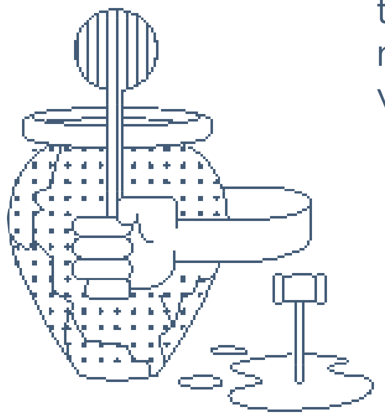
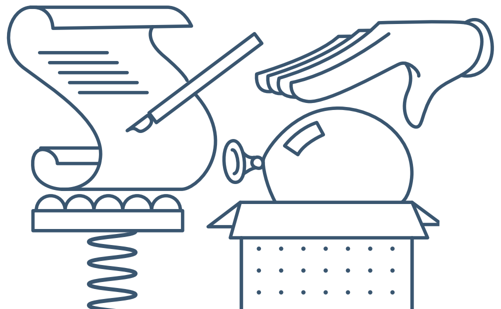
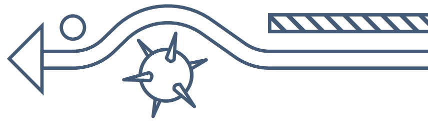
- The 8 points we picked out last year have come up repeatedly on transactions since then, to varying degrees. Although distressed deals with debt restructurings haven't featured as much as we perhaps anticipated, where these have taken place the tax treatment has invariably needed to be worked through properly in advance. Other common issues have included the tax treatment of both new and historic management equity packages, and what value (if any) to give for tax losses.
- One issue that didn't feature in our list was the affect that rumoured capital gains tax rate increases would have on the sheer volume of M&A deals trying to get done before Budget day this year, almost always at the behest of founders/management selling to trade/financial investors. Those rate increases didn't in fact take place. We are seeing some signs of a repeat of that rush in the run up to a potential Budget later this year, which is the next likely time tax rates could be increased – assuming an increase is in fact coming, which isn't certain.







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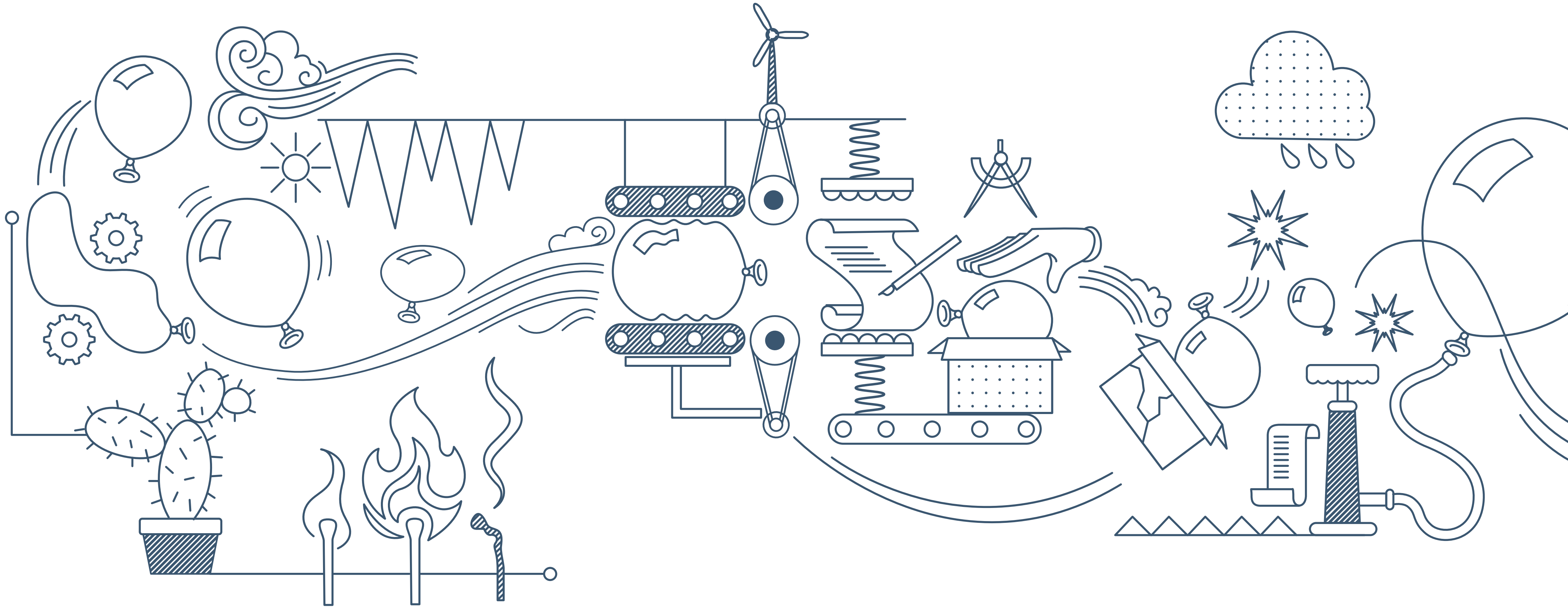
STRATEGIC CONTRACTING IN SURREAL TIMES

1 year on update



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Fiona Ghosh, Commercial Partner
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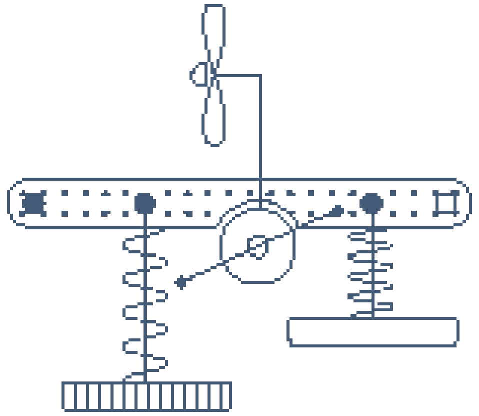
- Our prediction relating to the increasing importance of sustainability and resilience is absolutely borne out both in relation to the ongoing examination by clients in all sectors specifically examining both topics. We expect this to continue apace post COP26 as well as specific regulatory scrutiny in some sectors, most notably financial services

- The pandemic has lasted longer than most businesses predicted. Whilst we had predicted that there would be short term "holds" before clients moved to change their contractual position to handle the new normal, we continue to see those short term measures being extended or continued well into 2022.

- Companies both large and small continue to raise with us the threat of accelerated disruption. The pandemic has fuelled even more innovation, often spurred by regulatory support to do so. This appears to be a trend particularly in the UK post Brexit and also in the Far East with Governments keen to make up ground in areas such as automation and Fintech. The pandemic has not dampened the appetite for disruption; as predicted, if
e innovation fire.



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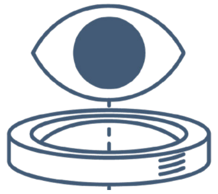
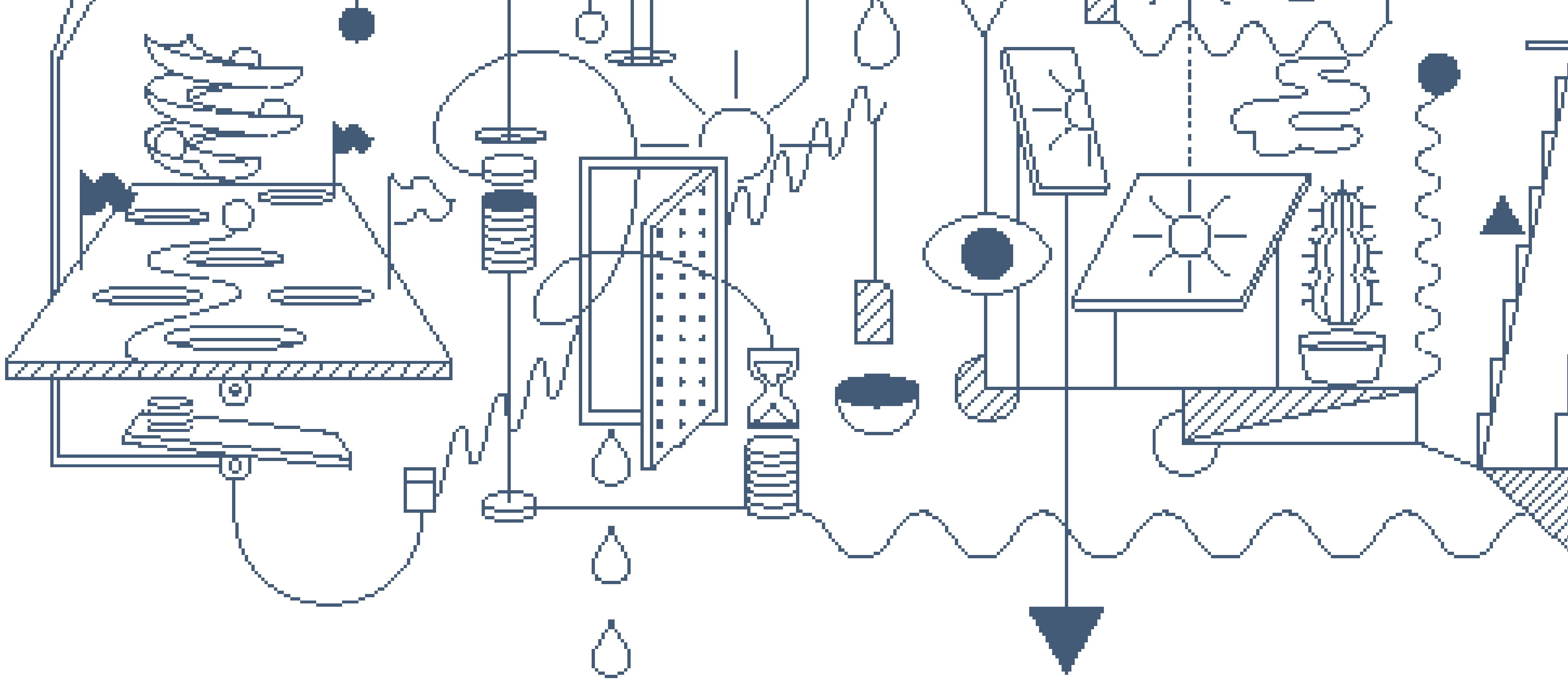


BANK RESCUES IN SURREAL TIMES

1 year on update



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Hugh Lauritsen, Corporate Partner
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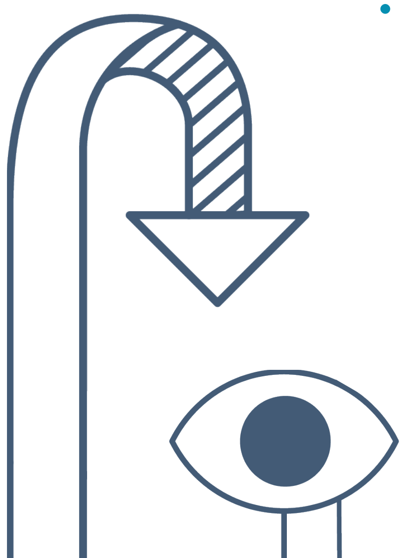
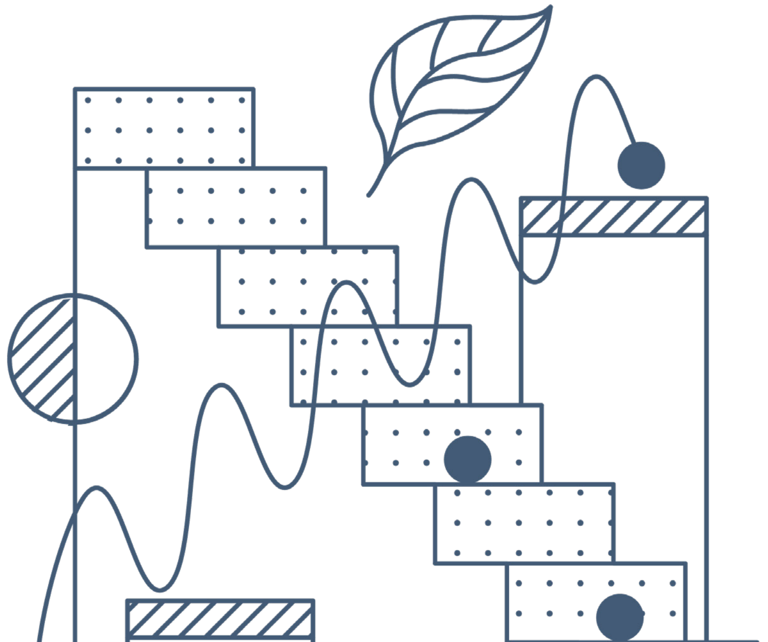
- We suspect that due to the unprecedented levels of government support to the wider economy (through government-backed loans, furlough support schemes, etc), some of the feared stress that smaller/mid-sized banks expected to be under haven't come to fruition as of yet.
- Once the external government support has been removed, there's potential for some of these institutions to come under stress, meaning that we might see increased activity in the market.
- Is it too early to tell? Yes, however, we predict that once the central government support tapers off or is removed that may lead to more borrower defaults and may put some financial institutions under stress.





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