HSA

UK MID-MARKET M&A

# OUTLOOK 2025

*A Cautiously Positive Start*


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# Key **Highlights**

- **Mid-Market M&A to Dominate** – 60% of UK M&A in 2025 is expected to come from mid-market deals
- **PE Firms Holding £200bn in Europe** – Dry powder, fuelling buyouts in healthcare, software, and infrastructure
- **Corporate Carve-Outs Rising** – 40% of UK firms plan to divest non-core assets, especially in finance and consumer sectors
- **UK GDP Growth Slower, M&A Stays Strong** – 0.7% UK GDP growth lags the Eurozone (1.3%), but strategic deals remain resilient
- **AI Transforming M&A** – 60% of dealmakers use AI for faster screening and due diligence, cutting deal timelines by 15-20%
- **Private Credit Surging** – 70% of UK LBOs now financed by private credit, overtaking banks
- **Geopolitical Risks Weigh on Valuations** – Trump tariffs, and supply chain issues create deal uncertainty

# Economic Stability & Political Clarity

## A Catalyst for Mid-Market M&A

**The UK economy is stabilizing negating the fears of stagflation, driven by falling inflation, relatively lower borrowing costs, and improving business sentiment. This is boosting mid-market M&A confidence as firms pursue strategic consolidation.**

### Political Clarity and FDI Growth

- Brexit-related uncertainty has eased, leading to a 35% increase in cross-border M&A as investors regain confidence.
- Government-backed AI incentives are attracting foreign buyers, particularly in infrastructure, industrials, and automation sectors.
- UK trade policy alignment with EU standards is boosting FDI flows.

### Macroeconomic Stability

- Inflation fell to 2.9% in early 2025, improving business planning and financial projections.
- GDP growth is projected at 0.7%, with stronger performance in technology and services sectors.
- Consumer and business sentiment have improved, supporting appetite.

### Impact on Mid-Market M&A

- 62% of UK M&A transactions in 2024 were mid-market deals, reflecting a structural shift toward scalable, high-growth acquisitions.
- Debt financing for mid-market transactions is increasingly flexible, with private credit funding 70% of UK LBOs.
- Sector consolidation is accelerating, with fintech, automation, and others.

### What's Next?

- Mid-market transactions are expected to account for the majority of UK M&A volume, with investors prioritizing resilient, high-growth sectors.
- Interest rate stability expected to sustain deal momentum, making leveraged transactions more feasible for PE firms.
- Foreign investment is set to increase, particularly in technology and industrial automation.
- Ongoing economic stability expected tp drive continued confidence, supporting strategic acquisitions and corporate divestitures.

**The combination of macroeconomic stability, political clarity, and improving financing conditions positions 2025 as a strong year for mid-market M&A activity.**

# Private Equity Trends

## Mid-Market Buyouts Drive Capital Deployment

### Record PE Capital Deployment in Mid-Market Deals

Private equity remains the dominant driver of UK mid-market M&A, accounting for over 50% of total deal volume. With £200 billion in European dry powder, buyouts are surging, particularly in technology, healthcare, and industrial automation.

Take-private transactions rose 84% YoY, as PE firms target undervalued mid-market tech and automation companies. Technology-focused deals accounted for 32% of UK PE activity in 2024, underscoring a shift towards AI, automation, and cybersecurity acquisitions.

As market shifts continue, PE investors focus on high-growth, tech-driven sectors, fuelling mid-market M&A momentum in 2025.

### Sector-Specific PE Investment Strategies

PE firms are focusing on high-growth verticals, such as:

- **Healthcare & Biotech**: Digital health, AI-driven diagnostics, and pharmaceutical outsourcing.
- **Fintech**: Embedded finance, digital lending, and blockchain applications.

### What's Next?

- Continuation vehicles expected to grow 30% YoY, extending holding periods for high-performing assets.
- At the same time, hybrid exit strategies—combining partial stake sales, structured equity, and dividend recapitalizations, are expected to gain traction to manage liquidity.

*"Private equity will be the driving force behind mid-market M&A in 2025, with take-private deals and secondary markets playing a key role. As valuation gaps persist, we expect more structured transactions, club deals, and earnout mechanisms to bridge pricing mismatches. Investors remain highly selective, but AI-driven businesses continue to attract strong interest despite broader capital market hesitancy."*

**Himanshu Singh,**
***Founder & CEO, HSA Advisory***
**(Excerpt from the Ansarada UKI M&A Outlook Report 2025)**

# Financing & Deal Structuring Innovations

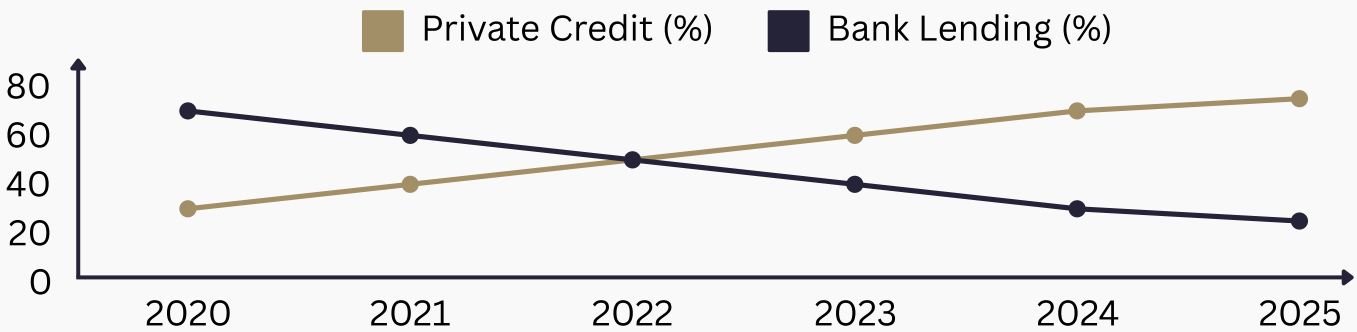
## Alternative Models & Creative Valuations

### Private Credit's Dominance in Mid-Market Transactions

With banks pulling back on leveraged lending, private credit now dominates UK mid-market financing, offering greater flexibility, higher leverage, and faster execution.

70% of UK mid-market LBOs now rely on private credit, as falling lending rates below 8% make debt-financed acquisitions more accessible.

PE firms are adopting unitranche facilities, structured equity, and delayed draw loans, enhancing deal flexibility and downside protection for lenders and borrowers.




### Alternative Valuation Strategies & Structuring Innovations

Valuation uncertainty, driven by economic volatility and shifting investor sentiment, has led to the increased use of alternative structuring mechanisms to bridge pricing gaps and de-risk acquisitions. Earnouts, vendor financing, and minority stake transactions are now standard features in mid-market deal structuring.

- 40% of UK mid-market deals now incorporate structured earnouts or deferred payments, up from 28% in 2023, reflecting a growing preference for performance-based valuations.
- Strategic carve-outs and divestitures are accelerating, particularly in the industrial, financial services, and energy sectors, as companies focus on core operations and unlock trapped value.

Additionally, minority stake sales and structured equity investments are gaining traction, allowing sellers to retain partial upside while providing acquirers with greater downside protection amid market uncertainty. Hybrid financing solutions, including preferred equity injections and convertible instruments, are also being used to incentivize long-term growth while mitigating immediate valuation risks.

### What's Next?

- Hybrid financing, minority stake investments, and equity-linked instruments will shape 2025 deal structuring, offering sellers flexibility and acquirers pricing protection.
- Private credit lenders expected to expand their role, introducing PIK toggles and subordinated debt for complex transactions.

# Geopolitical Impact

## Trade Uncertainty & Supply Chain Reshoring

### Geopolitical Headwinds Impacting Mid-Market M&A

Global geopolitical tensions, including trade policy shifts, and potential US tariff escalations, are introducing uncertainty into cross-border mid-market M&A. Trade tensions with key partners such as the US and China could lead to supply chain disruptions, requiring businesses to reconsider global acquisition strategies and shift toward domestic or nearshored M&A deals.
Geo-political uncertainty is impacting valuation models for cross-border M&A, with companies building risk-adjusted pricing into deal structures to hedge against future regulatory shifts.

### Nearshoring & Localized Supply Chains

As geopolitical risks intensify, UK mid-market companies are shifting toward nearshoring and localizing supply chains to reduce dependency on external markets and mitigate geopolitical risk exposure.

- The manufacturing, automotive, and pharmaceutical sectors are moving toward regional production hubs, reducing reliance on foreign supply chains.
- Private equity firms are investing in domestic infrastructure, logistics, and transport networks to enhance supply chain resilience and reduce geopolitical exposure.

This trend is creating new investment opportunities in UK-based logistics providers, industrial automation firms, and domestic manufacturing assets, where demand for strategic acquisitions is rising.

### What's Next?

- Expect an uptick in M&A activity within UK-based infrastructure and supply chain businesses, as mid-market firms reposition their operations for a more localized economic environment.
- The trend of acquiring UK assets to minimize international risk exposure is likely to continue through 2025.

# Impact of AI

## Transforming M&A Execution & Competitive Advantage

### AI's Role in Mid-Market Deal Execution

AI is reshaping UK mid-market M&A, improving efficiency, risk assessment, and execution speed. 60% of UK dealmakers now use AI for target screening, valuation modelling, and post-merger integration. Due diligence timelines have dropped by 15-20%, accelerating deal execution through AI-driven automation.

AI enhances decision-making, identifying undervalued assets, predicting market trends, and automating risk analysis. AI-powered data analytics optimize target selection by assessing risk profiles, growth trajectories, and synergies.

### AI-Focused M&A on the Rise

Investment in AI-driven businesses is a growing mid-market M&A driver, boosting operational efficiencies.

AI-focused M&A rose 30% YoY, with major activity in fintech, cybersecurity, and automation. Private equity is leading AI acquisitions, targeting AI startups and SaaS providers.

### What's Next?

- AI-driven acquisitions to increase, particularly in financial services, healthcare, cybersecurity, and industrial automation.
- AI-powered due diligence and deal structuring will continue to reshape M&A processes, reducing transaction costs and improving deal efficiency across the mid-market landscape.

**60%**

**Dealmakers use AI for target screening and valuations**

**32%**

**Tech-focused PE deals are AI-driven acquisitions**

**25%**

**Reduction in costs and enhanced integration - AI driven synergies**

## About HSA Advisory

Launched in November 2023, HSA Advisory is an independent investment banking boutique.

The firm is sector agnostic, particularly with extensive experience in Financial Services, Technology, Fintech and Real Estate

## Services

Based in London, the firm focuses on -

**Corporate Finance:**

- Identification of potential strategic and financial buyers
- Strategic analysis of M&A options on buy-side and sell-side transactions including but not limited to
- Disposals, carve-outs acquisitions, MBO's/MBI's, majority or minority sales to Private Equity for growth funding and general succession planning
- Managing auctions, bidding tactics and process

**Capital Raising**

- Extensive understanding of institutional debt and equity capital markets
- Analysis of capital markets options
- Preparatory work including capital structure, anchor investor marketing and selection
- Project management, ensuring cooperative process for benefit of client
- Acquisition finance and growth finance

**Strategic Advisory**

- Independent review of business strategy
- Financial and valuation analysis
- Board/ directors' strategic options
- Developing and implementing strategy plans from a corporate finance and capital markets perspective
- Advice on optimal timing for M&A and where appropriate, support M&A adviser selection

# Contact Us

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