Theta Global Advisors: Are the Roaring 20s Coming for the Deals Market?

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The Covid-19 pandemic has put many facets of "normal" life on hold, affecting the financial services industry as much as any other. 2020 was a rough year for the UK deals market, with mergers and acquisitions slowing due to the uncertainty the year brought.

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Here he shares his thoughts on what the future holds for the UK deals market.

The majority of 2020 was a slow year for the UK's deals market, with Mergers and Acquisitions depressed by the Coronavirus pandemic and its subsequent lockdown restrictions. The uncertainty brought about by an ever-changing set of rules and demands on businesses and workers meant that very few firms were willing to take the risk on an acquisition, even in sectors that thrived.

Chris Biggs, Partner at Theta Global Advisors

This trend, however, now seems to be in reverse, an example of which came in the latter part of 2020 when **AstraZeneca** agreed to the $39 billion buyout of **Alexion** despite still working on a global vaccine rollout. This indicates that risk appetite even among the giants of the FTSE 100 is increasing, a sure-fire indicator of things to come. There are also a number of big deals on the horizon, including **MGM's** £8 billion bid for the UK's **Entain** and takeover battles ongoing for **Signature Aviation, G4S** and **Codemasters Group** – according to the Wall Street Journal.

This rapid pickup could very well result in a flurry of deals to come especially in the financial and fintech space, as more firms can have confidence that things are getting back to normal – but not too quickly.

That seems to be a crucial point, markets hate uncertainty, but they hate change even more than that. So a slow-moving return to more normal, more 'precedented' times could create an environment of confidence to go ahead with plans previously put on hold.

The pandemic has also created buying opportunities that will not last once restrictions are fully lifted. A number of firms, especially those based in the UK, have been widely reported as being undervalued, and assuming they can recover at pace post-pandemic, they will provide attractive opportunities to rivals and their shareholders.

In the world of accountancy, it seems that this trend is picking up speed, and comes as welcome news for a sector that has been quiet over the last year. The preparatory work of accounting and consulting on these deals often happens months in advance and so serves as an indicator of future activity.

At Theta, we have been instructed on a number of deals in the past few weeks and expect several more in the near future. We are working with contractors and consultants in the space to accommodate this uptick in demand and due to the way in which our firm is structured, we are in a position to grow because of it.

The end of the Big Four's near-monopoly could also open the door for smaller, more nimble firms to capitalise, and the increasing demand for consultancy around deals means that those looking for a more tailored service will in many cases look for small providers. We have seen in recent weeks that reform is coming for the Big Four, whether that be in the audit space or in non-audit services, there is no longer as much of a knee-jerk reaction to instruct one of the four household names to perform the Due Diligence on a deal.

Even without reform and regulation of the big players, the pandemic has, to a certain extent, exposed the expense of city-centred offices and all the glamour that comes with them in normal times. We allow, and always have allowed, employees to work flexibly and from home where needed and we are able to pass this comparative lack of overheads in terms of office space onto clients.

This trend looks set to carry on for the foreseeable, something that will be a boost to firms and especially those below the Big Four, and will allow startups and SMEs from sectors such as fintech, for example, to employ the best talent in accounting and consulting without breaking the bank to get the big guys in.

For these reasons, this year has really allowed smaller firms to compete in a way that has been difficult in the past. There are no more advantages to a massive office in Canary Wharf when everyone is working from home and there seems to be a growing theme that you no longer need to instruct the Big Four just because they are household names. Investors realise they are not infallible, as recent headlines suggest, and so why not go for a smaller service provider who will do as good a job, if not better, for a lower fee.

As businesses look to avoid actual or perceived conflicts of interest, I can see a big shift towards smaller firms. It is easy to get lost in a sea of big clients if your firm is not a key account, but when working with smaller accountancy practices your needs are prioritised no matter how big you are. This has come into increased focus throughout the pandemic and will continue long beyond it.

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