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LAW FIRM

‘Darkening skies’ or a healthy outlook?

Duncan Reid, partner and head of the corporate team at Watson Burton, looks at what 2019 has in store for corporate transactional activity.

At the beginning of 2019, we’re still looking at an uncertain economic picture as the Brexit drama plays out.

But while the financial headlines may have been largely dominated by Brexit, businesses are braced for the impact of the US/China trade war - and a potential slowdown in the global economy. China reported its weakest trading data since 2016 this month and The World Bank’s annual assessment of global prospects, released in January, warned of ‘darkening skies’ for the world economy.

The World Bank has stated that 2.5% of global trade is affected by the tariffs imposed last year and with the USA and China accounting for 20% of global trade and 40% of global GDP, it’s not surprising that fears over the effects of the trade war are causing global market uncertainty.

While many UK businesses will be shielded from the immediate impact of the trade war, a more uncertain global market outlook and stock market disruption may result in a decrease in corporate activity, as companies put their expansion plans on hold.

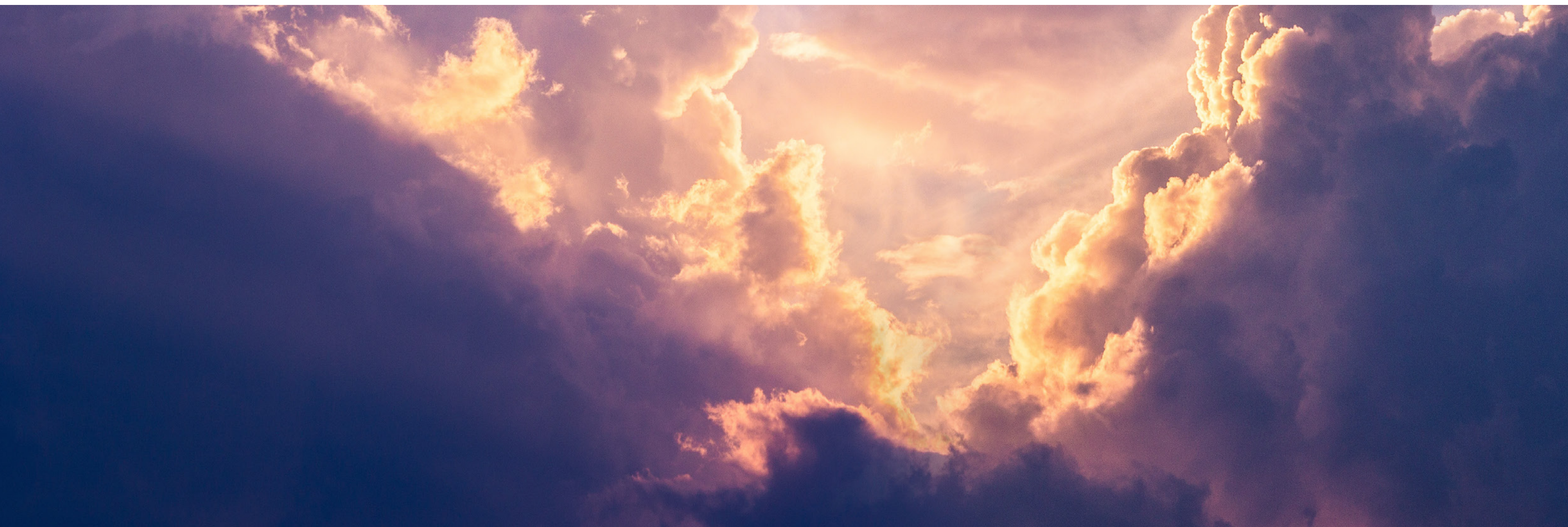
However, we do not think 2019 will be doom and gloom.

The private equity market was very strong in 2018 and we predict that it will remain so in 2019, as investors, with funds to invest, continue to seek out new opportunities. Whilst interest rates are likely to remain low in 2019, private equity returns look better than holding cash.

Watson Burton played a key part in a swathe of private equity investments in 2018, with investors homing in on exciting tech-led businesses and emerging players in the life sciences sector. Indeed, the number of deals advised on by Watson Burton’s corporate team rose by nearly 60 per cent from 2017 to 2018, with our support being instrumental in the completion of 110 deals last year - including major private equity deals. Investment in technology business will continue in 2019.

In North East England, SMEs are now able to tap into new funding: The North East Fund, a £120 million investment fund supported by the European Regional Development Fund, has been designed to help businesses accelerate their growth, support innovation and fulfil their potential. This joins the already established £20 million Finance Durham Fund, which can invest up to £70,000 in County Durham-based businesses. Ironically, access to European funds will cushion the region from some of the global and Brexit-based headwinds in 2019.

In the IFA and wealth management market, we’re likely to see another year of consolidation, as advisors



continue to be attracted to the administrative and technological strengths of larger financial services providers, especially in light of increased regulation. The UK Senior Managers and Certification Regime (SM&CR), for instance, will be extended to encompass the whole UK financial services industry in December 2019, after a major extension last year. Implementing SM&CR – which focuses on good corporate governance – is likely to put an additional administrative burden on long-serving advisors who may be already considering their next moves and therefore could drive many towards the acquisition process.

SM&CR follows the introduction of the Market in Financial Instruments Directive (MiFID) II – a framework of European Union legislation – last year, which is applied to IFAs and wealth management firms who undertake MiFID business anywhere in the European Economic Area. MiFID II has affected many aspects of a business's operations, including trading, transaction reporting and client services, IT systems and HR management. Again, this has increased the administrative burden on IFAs and wealth managers.

The increased prevalence of FinTech will also, we predict, drive the IFA and wealth management market towards further consolidation, as larger providers are more likely to have the infrastructure in place to implement this quickly and effectively.

We also expect consolidation to continue in the education sector, where competition and financial pressure on FE institutions is likely to drive further mergers between colleges. According to the Association of Colleges, 12 college mergers (including one with a university) are already planned for 2019, joining the 11 college mergers which took place last year.

In addition, school mergers and the creation on multi-academy trusts are likely to be a continuing feature of the education sector this year as continuing funding pressures force schools to collaborate.

2019 will be a more challenging year for business than 2018. However, certain sectors will drive transactional activity and quality businesses will continue to attract the interest of acquirers and funders.

For more information on Watson Burton, visit www.watsonburton.com

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