Labour's First 100 Days – Implications for the Human Capital Sector and the M&A Market

Against a backdrop of increasing M&A deal values and volumes in the sector, an upcoming Budget, recently announced changes to workers' rights and a lack of transparency over the new Government's plans for the UK economy has presented both opportunities and challenges for UK Human Capital companies.

We consider below key announcements and developments during the first 100 days of the new Labour Government and how Human Capital companies can benefit and prosper by demonstrating agility in responding to these opportunities whilst mitigating potential threats.

01 Upcoming Budget

- The upcoming Budget to be delivered on 30th October represents one of the key sources of uncertainty for the Human Capital Sector and the wider economy, with much of this centered around two key policies.
- Changes to Capital Gains Tax rates are front and centre of the Budget predictions, with Human Capital business owners looking to consider their exit options and seeking to capitalise on the current more favourable regime as UK assets remain the spotlight for acquirors.
- Human Capital business owners are concerned over the impact on hiring appetite as a result of increases in employers' NIC, particularly those servicing sub sectors suffering from inflationary pressures and operating cost increases, such as hospitality.

£22bn

'Black hole' in public finances, which is predicted to be filled in part by an increase in CGT rates

£8.9bn

Additional tax revenue from a 1% increase in Employers' National Insurance Contributions

02 Workers' Rights

c.1m

UK workers employed under a zero hours contract, a 38.5% increase in the last 10 years

64%

Of managers believe ending zero hours contracts would have a positive impact on their business

- The recent announcement of the UK Government's employment reform legislation provides insight into the key priorities of the new Government, although the effects of the policies are yet to be fully understood.
- Despite uncertainty over the impact of the new reforms, many believe that the policies may encourage growth and efficiency enhancements through improvements in employee satisfaction.
- The 28 employment reform policies which include the ending of zero hours contracts and fire and rehire practices are predicted to hit small businesses the hardest, particularly those operating within the retail and hospitality sectors. Human Capital companies servicing these sectors that can remain adaptable to changing hiring practices will continue to attract appetite from acquirors.

03 Economic Landscape

- Although the UK Government's strategy for the UK economy remains relatively opaque, its Industrial Strategy provides insight into the key areas of focus and the sectors that could see a wave of investment and growth throughout 2024 and beyond.
- The Industrial Strategy outlines establishing a standing industrial strategy council to support growth across eight key sectors, all of which are likely to see a drive in investment and hiring practices, enhancing the performance of Human Capital companies servicing these sectors, increasing attractiveness and acquiror appetite.
- Investment and development of AI is another key area of focus for the UK Government, with Human Capital companies already beginning to adopt new technologies continuing to increase productivity and secure premium valuations in the M&A market.

30%

Less spending on research & development when compared to the OECD average

10.6%

Estimated increase in UK GDP by 2030 as a result of artificial intelligence

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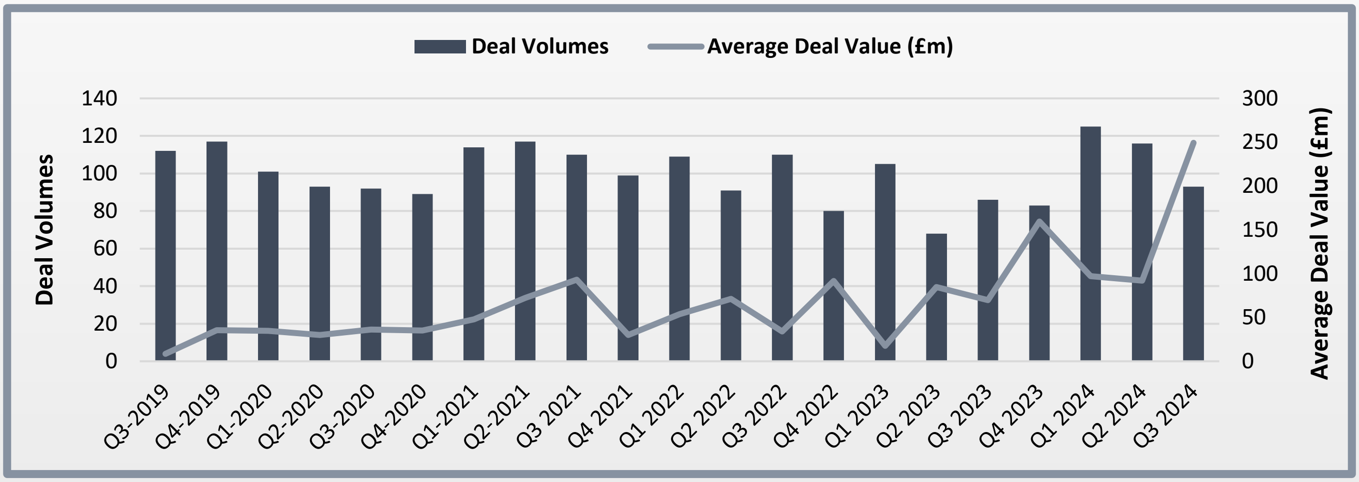

Human Capital M&A Market Overview

- Despite a lack of transparency over the Government's plans for the UK economy and potential changes to the Capital Gains Tax regime, Human Capital deal values in H124 increased by 44.4% and 178.3%, respectively, relative to H223.
- The UK economy continues to demonstrate its strong resilience to wider macroeconomic shocks and remains a hotbed of activity for strategic Human Capital acquirors to achieve their geographic expansion, sub-sector diversification and value enhancement objectives, a trend that is expected to persist as wider macroeconomic conditions continue to improve.
- The substantial increase in deal volumes and average deal values in H124 augurs well for sustained growth in the Human Capital M&A market throughout the remainder of 2024 and 2025, assisted by the recent reduction in the Bank of England Base rate, with further reductions expected to continue into H225.
- Human Capital business owners should focus on optimising their KPIs and driving increased profitability and performance. Those that are able to demonstrate agility and capitalise on the opportunities will continue to attract interest from both strategic and financial acquirors and be the beneficiaries of the next wave of consolidation in the sector going into 2025 and beyond.

Gambit is an independent corporate finance advisory firm specialising in advising private and public companies on mid-market transactions in the UK and overseas. With offices in London and Cardiff, Gambit is widely recognised as a market leader in the provision of corporate finance advice to the Human Capital sector, having built up detailed industry knowledge and an enviable track record in deal origination and execution.

Gambit's dedicated Human Capital team has deep relationships with investors, vendors and acquirers and we understand the key issues and trends that drive M&A activity in the sector and how our clients' businesses are affected.

If you would like to arrange a call to discuss the current M&A market and opportunities facing the Human Capital sector and how these relate to your business, please contact a member of our team.

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