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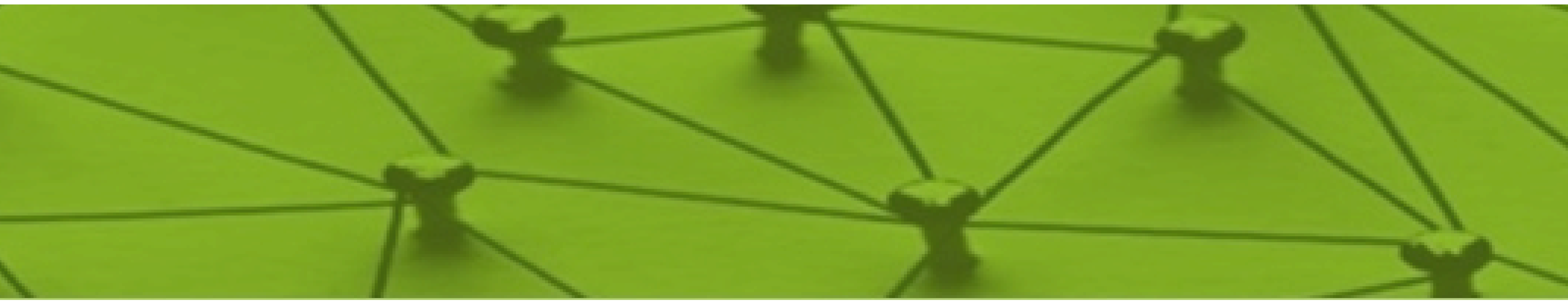

A Practical Guide to SME Acquisitions

About The Corporate Finance Network

The CFN was formed in 2007. We are the national brand leader in SME corporate finance in the UK.

Our member firms are recognised as the experts in lower-mid market company buy or sell transactions, typically for owner-managed business clients.

The member firms of The CFN assist SMEs to grow a well-capitalised business, organically or by acquisition.

They encourage business owners to plan for their eventual exit, so they are more sellable and more valuable when the time is right for them to sell their business.

Thanks to those firms which contributed to the findings which support this report.

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Introduction

Acquisitions are no longer the preserve of large corporates. For ambitious small and medium-sized enterprises (SMEs), they offer a fast-track route to growth, diversification, and long-term resilience.

This guide explains the key stages of the acquisition process, from strategy creation through to integration, with clear insights for business owners and directors.
It highlights the opportunities that exist in the current UK market, the potential risks, and the actions that SMEs can take to improve the success of their deals.

For many SMEs, the idea of acquiring another business can seem daunting. However, with careful planning, the right professional advice, and a disciplined approach, an acquisition can transform the scale, capability, and value of an organisation.

The Corporate Finance Network has produced this guide to help owner-managed businesses understand how acquisitions can fit into their strategic growth plans and ensure you can approach acquisitions with confidence, clarity, and control.

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Context and Market Landscape

The UK's SME M&A market remains resilient despite the challenges of inflation, high interest rates, and a cautious lending environment.

According to recent data from Experian MarketIQ, deal volumes in the lower mid-market have stabilised after a post-pandemic surge, with an increasing proportion of acquirers being privately-owned or family-run firms.

Certain sectors have proven particularly active, notably technology, professional services, healthcare and manufacturing.

In regional markets, acquirers are often motivated by the desire to strengthen supply chains, acquire specialist talent, or secure new geographies.

Funding options are broadening, with challenger banks and private debt providers offering more flexibility than traditional lenders. Meanwhile, private equity funds are increasingly open to minority investments in SMEs that demonstrate strong management and scalable business models.

Macroeconomic pressures have undoubtedly changed deal dynamics. Higher borrowing costs have prompted more structured transactions, with earn-outs, vendor loans or deferred consideration being commonplace.

Buyers are seeking value and stability rather than speculative growth. However, these conditions also present opportunities. Valuations are more realistic and motivated sellers are more open to negotiation.

For SMEs that are financially stable and strategically ambitious, the current environment offers a unique window to expand through acquisition.

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Common Challenges for SMEs

Although the rewards of an acquisition can be significant, SMEs often face distinct challenges compared to larger corporates.

Many business owners have never been involved in an M&A transaction before and may underestimate the level of preparation, due diligence, and project management required.

The following issues commonly arise:

- Limited management bandwidth – balancing deal work with daily operations can create strain and distraction.

- Lack of experience – owners may rely too heavily on informal advice or fail to involve specialists early enough.

- Funding constraints – lenders often require detailed forecasts, robust governance, and personal guarantees.

- Cultural mismatch – even if financial logic stacks up, people and values must align for the deal to succeed.

- Poor integration planning – a lack of early consideration for how the businesses will operate post-deal is one of the most common causes of failure.

Successful SMEs mitigate these issues through forward planning, realistic budgeting, and early engagement with professional advisers.

In particular, a corporate finance adviser can help shape your acquisition strategy, negotiate terms, and manage the complex process efficiently, leaving you free to focus on running your current business.

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Why a Business Should Consider an Acquisition

For many SMEs, growth through acquisition can deliver outcomes that organic expansion simply cannot achieve.

Besides achieving much faster growth, literally overnight, an acquisition can:

- Accelerate growth by accessing new customers, markets, or distribution channels.
- Secure key resources, such as specialist skills or technology.
- Achieve economies of scale, improving margins and competitiveness.
- Diversify revenue streams to reduce risk.
- Provide a pathway for succession or exit planning by professionalising and scaling the business which will increase your current business' value and attractiveness for sale.

Why size matters in business

Purchasers typically use a multiple of EBITDA (earnings before interest, taxes, depreciation, and amortisation) or a multiple of revenue to assess the value of a company.

The multiple varies depending upon several factors, such as the sector, growth prospects, market conditions and the potential purchaser's assessment of the risk.

So when you are looking to your eventual exit, one significant factor that can influence the valuation multiple of a business is its size. Larger businesses often command higher multiples in their valuations.

In a competitive market, acquisitions can also act as a defensive strategy—protecting against consolidation by larger players or ensuring control of a vital supplier or customer relationship.

Well-timed acquisitions can create significant long-term value, provided they are underpinned by a clear strategic rationale and a robust integration plan.

What Are the Risks and How Are They Mitigated

Every acquisition carries inherent risks. There are ways which these can be managed effectively.

• Financial risk – overpaying for a target or underestimating working capital requirements.

• Operational risk – disruption to service, loss of key staff, or poor systems integration.

• Legal and compliance risk – undisclosed liabilities, litigation, or regulatory issues.

• Cultural risk – incompatible leadership styles or corporate values leading to staff turnover.

• Strategic risk – pursuing acquisitions without a coherent long-term objective.

<u>Ways in which risks are mitigated include:</u>

1. Acquisition Strategy - if it's been well thought through, the parameters for a target are clear and the hypothesis for the deal is followed

2. Financial & commercial due diligence - this uncovers the detail and compares the real facts with the expectation you had at the outset, so you don't overpay

3. Deal structures can also mitigate risk - for instance, using earn-outs, deferred payments, or retention clauses to protect the buyer and limit the funding exposure

4. Financial projections - it's critical to understand how the deal will be funded on 'day 1' and also what the cash flows will be for the following months and years, so there are no shocks

5. Legal documents - including warranties, indemnities and the disclosure process all protect the buyer

6. Integration - ensures the smooth onboarding of an acquisition, including regular communication with staff, customers, and suppliers throughout the process reduces uncertainty and preserves goodwill.

How Do You Create Your Acquisition Strategy?

A sound acquisition strategy is the foundation of a successful deal. It should start with the question: 'What do we want this acquisition to achieve?'

Objectives might include expanding geographic reach, adding complementary products, acquiring intellectual property, increasing head count, specialist skills, databases or market share. Without this clarity, acquisitions risk becoming opportunistic rather than strategic.

Key steps in creating an effective acquisition strategy include:

1. Define your objectives and success metrics.
2. Identify target characteristics – sector, size, location, profitability, liquidity, cultural fit.
3. Review the market alongside your advisers to build a shortlist of potential targets.
4. Make the approach, respectfully and professionally
5. Start negotiations and review early stage data
6. If you reach 'Heads of Terms' then identify the priorities for Due Diligence
7. Consider the funding required
8. Plan for integration
9. Instruct lawyers
10. Completion then rollout

The best strategies are flexible but focused. They allow a business to respond to emerging opportunities while maintaining a disciplined evaluation process.

Member firms of The Corporate Finance Network can support SMEs in defining clear acquisition criteria and conducting early-stage assessments of potential targets.

The M&A process follows a structured sequence, typically lasting between six and twelve months for SME transactions and several stages can run concurrently.

Advisers play a central role in coordinating efforts between buyer, seller, funders and legal teams, ensuring that issues are resolved promptly and efficiently and momentum is maintained.

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How Are Deals Valued & Funded

Valuing an SME is as much about assessing future potential as it is about analysing past performance. The most common valuation metric is a multiple of EBITDA (Maintainable earnings before Interest, Tax, Depreciation & Amortisation) adjusted for the target's growth prospects, risk profile and the quality of its management team.

In some sectors, revenue multiples are more common but the profitability, cash flow and payback must still also stack up.

Asset-based or discounted cash flow valuations may also be used, particularly in capital-intensive or sectors with high levels of intellectual property.

Funding a Deal

Funding options for acquisitions are more varied than ever. Debt finance remains the core source, either from a tier 1 high street bank or increasingly from alternative funding sources such as challenger banks or fintechs.

Occasionally, if the deal is attractive enough, private debt funds, mezzanine finance, or equity investors will be possible.

Vendor financing, where part of the price is deferred and paid from future profits, can bridge funding gaps while aligning interests between buyer and seller.

These can include earnouts which are payable depending on meeting certain targets – either financial or non-financial – in the months & years post-completion.

An effective funding strategy blends affordability with flexibility. Early engagement with possible funders and clear financial modelling of the deal mechanics, and the post-deal covenant requirements, are vital to demonstrate the viability of the transaction and secure competitive terms.

What Is Due Diligence?

Due diligence is the process of verifying that the target business is accurately represented and free of hidden problems. It provides assurance to the buyer and forms the foundation for the legal documents.

It includes reviewing certain information which are pertinent to the success of the transaction – both financial data and non-financial data.

Experience shows that the outcome of due diligence investigation generally makes a substantial difference to the proposed deal.

Around 40% of the time the deal needs to be restructured, after finding certain realities in the company. Around 40% of the time the deal is no longer viable and the other party wishes to abandon it. Which leaves only around 20% where, following completion of due diligence, there is no change to the previously agreed 'Heads of Terms'.

Due diligence can reveal hidden liabilities, unreasonable projections, overvalued assets, or even a worrying potential HMRC or legal issue. It can also identify areas where warranties or indemnities will be required and this can inform the solicitors preparing the subsequent legal documentation.

It can also provide many areas of information which will be incredibly useful for integration planning, which can save huge amounts of time post-completion.

Good communication between accountants, solicitors, and management avoids duplication and keeps the process on track.

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How to Make Due Diligence Efficient & Effective

The process doesn't provide a report which says the figures are 'right', as this would take a substantial amount of time which would cost an inordinate amount in fees!

So instead, the team, together with the client, identify which are the biggest risks and where the investigation needs to be focused. There is no 'one size fits all' methodology and the scope is agreed on a case by case basis.

There are certain issues which are becoming more important in transactions. These may include:

- **ESG** reporting (Environmental, Social and Governance) may have particular significance for your sector
- **Cashflow** resilience is also key. For example, can the business tolerate any more supply chain shocks and have access to sufficient working capital? Does it have a good credit score and strong management controls to measure risk?
- **Disaster recovery** planning is becoming more important with weather extremes, technological advances and economic volatility – for example, does the company have reliance on a particular supplier or logistics partner and what if they couldn't operate, what protections are in place to prevent cyber attacks, how does the business protect itself from any flood risk of the premises or surrounding access roads etc?
- **Succession pl**anning may be relevant if there needs to be a stable management team for the foreseeable future – for example, with an ageing workforce, are there recruitment and training schemes in place for all key roles and key man insurance if necessary?
- **Tax and pensions** liabilities – could there be a risk of future liabilities in the future if government policies were to change?

Whilst some of these areas can only be investigated by professionals with experience in these specialisms, your main advisory team of due diligence experts can provide a sounding board for you to discuss potential risks and also signpost to any further experts, if required.

Efficiency is achieved through preparation and coordination. Sellers should anticipate buyer enquiries and assemble key documents in a virtual data room early. The buyer's advisers can encourage the seller to ensure they are ready, if necessary. Buyers should agree a clear scope with advisers, focusing on material issues rather than exhaustive reviews.

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Integration Planning Then Rollout

Integration is where value is either realised or lost. Planning should begin long before completion, identifying how systems, people, and processes will be combined.

A detailed 100-day integration plan helps maintain momentum and accountability.

Key elements of effective integration include:

• Clear leadership and governance structure.

• Transparent communication with employees, customers, and suppliers.

• Harmonisation of systems and reporting.

• Alignment of culture, values, and incentives.

• Ongoing monitoring of integration KPIs.

Businesses that plan integration early, resource it properly, and communicate clearly tend to retain staff, protect customer relationships, and achieve their strategic goals more quickly.

The best time to plan for integration is at the same time as your advisers have access to the company during the due diligence process. So the two investigations can run alongside each other.

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Future Outlook

The SME M&A landscape is evolving. Technology is enabling more efficient deal sourcing and due diligence.

ESG considerations will increasingly shape both investor appetite and acquisition strategy.

In the coming years, we can expect continued consolidation across professional services, healthcare, and engineering sectors. Plus other more traditional sectors will inevitably start to become more active in M&A as their business owners get older and require exits.

The increasing globalisation of businesses means there will be a continuing rise in cross-border interest for well-run UK SMEs.

While macroeconomic uncertainty remains, the fundamentals of SME growth are strong.

Those who prepare strategically, maintain financial discipline, and seek expert advice will be best placed to seize opportunities in this new era of consolidation and innovation.

An acquisition is one of the most powerful levers for growth available to an SME. With the right preparation, funding, and advisory support, it can unlock scale, capability, and long-term value. Owners considering this route should start with a clear strategy, robust financial planning, and a plan for successful integration.

The member firms of The Corporate Finance Network have access to databases and market intelligence which can identify potential targets.

They are experienced advisers and have the skills to assist you in creating a strategy and exploring opportunities and execute acquisitions successfully.