Q4 2025 ANALYSIS

Gap between buyouts and bolt-ons in UK widens as sponsors' focus continues on quality and resiliency

ACTUM GROUP

Relentless market uncertainty has continued to hold UK private equity investment back this year as sponsors focus on building resilient portfolios. Jonathan Klonowski speaks with market experts and analyses Actum data to establish what is driving these investment trends.

UK private equity activity this year continued to focus on the portfolio, rather than platform deals, as sponsors look to guard against growing uncertainty. As a consequence, the gap between the number buyouts and bolt-ons taking place continues to widen.

The market remains plagued by macroeconomic uncertainty and the year has been characterised by nervousness, both from investors and entrepreneurs, John Farrugia, CEO of Cavendish Corporate Finance says.

The number of buyouts targeting UK-based businesses has fallen 13.1% compared to last year, according to Actum data. A total of 312 deals have been recorded this year, down from 359 a year ago, as seen in Figure 1.

Rebecca Sinclair, Investment Director at WestBridge, says that it has been a slower year in terms of platform deals, with very few clean, polished processes. The challenging environment has resulted in longer hold periods as many sponsors deal with the fallout of slowing growth rates.

Private equity activity in the UK slowed in Q2 as a response to geopolitical uncertainty, Tom Hartwright, Partner at Travers Smith explains. A number of processes were paused, restructured, or even pulled as a result of the US administration's tariff policies, Hartwright says, as firms took time to evaluate the impact.

Despite narrowing over the last 12 months, the valuation gap continues to have a significant impact on private equity activity, Hartwright explains. The political uncertainty and continued higher cost of leverage leaves firms unwilling to pay previously high multiples, he says, adding that sponsors are holding onto assets for longer in the hope of showcasing a robust growth story.

With fewer transactions taking place and many sponsors behind on deployment, private equity firms must maintain strict pricing discipline, Sinclair adds.

While there is a human pressure on dealmakers to source investments, investment committees are generally staying disciplined Hartwright says.

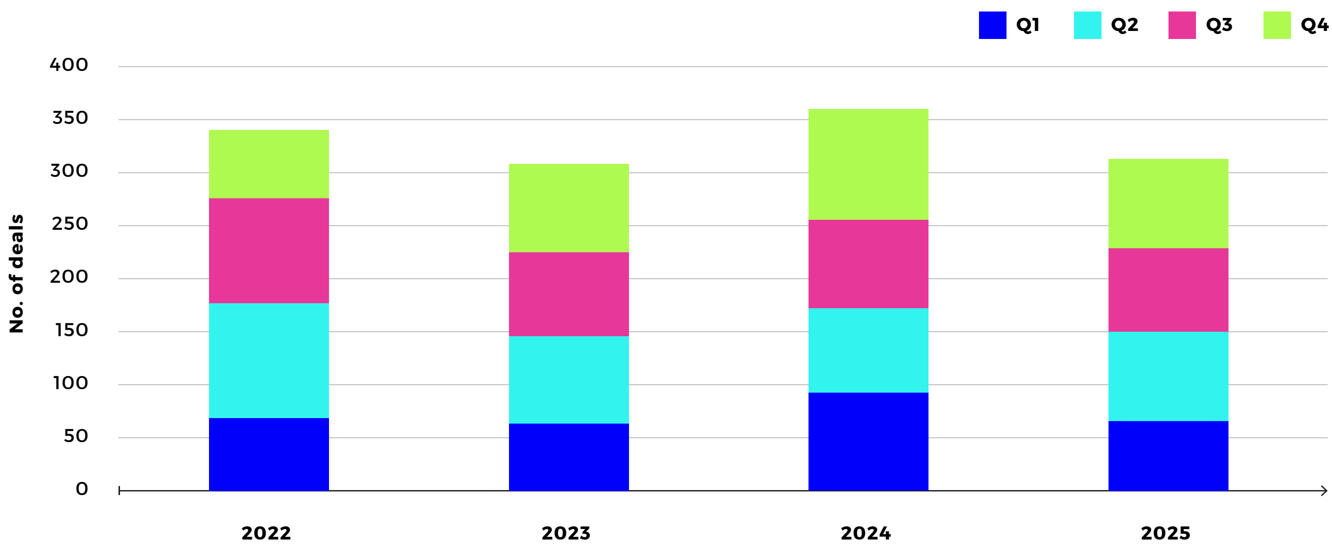

Figure 1: Buyout activity targeting UK-based firms (Source: Actum data)

There is an understanding among LPs that the environment has been challenging, Sinclair says, adding that elongating the hold period and focusing on value creation can help achieve the best result.

Flight to quality

The nature of the market has therefore left private equity firms directing their attention at assets capable of producing results in spite of the conditions. Investors have continued to prioritise a flight to quality and safety.

Given the high cost of capital, sponsors remain focused on assets with stable cash flows, Farrugia says, adding that investors are all looking for similar deals at present, driving up the valuations for high quality assets.

Hartwright agrees saying that at present there is a trend of investors looking at businesses with more stable revenue streams in order to protect against any downturns in the market.

In particular, Hartwright notes fragmented professional services sectors, which provide sponsors with a strong consolidation play, alongside stable earnings. Meanwhile, areas such as edtech, compliance, and verticals within tech such as data analytics continue to be a key focus.

However, Farrugia notes that until recently accountancy firms could be acquired at 8x-9x EBITDA multiples. Multiples have since spiked due to the increased interest in the sector meaning value creation plans for acquired assets will need to be well considered in order to be sold at an optimum price, Farrugia says.

Farrugia believes there will be a move back towards traditional sectors such as industrials, which may be capital intensive, but provide more favourable valuations.

Buying and building resiliency

This dearth of dealmaking has meant sponsors remain hyper-focused on their portfolio companies.

The priority in this macroeconomic period has been building resilience in the portfolio, Sinclair explains. This includes issues such as ensuring firms are not overleveraged, and safeguarding against cybersecurity threats before pursuing longer-term strategic projects.

Low levels of organic growth also mean that the role value creation is becoming ever more important.

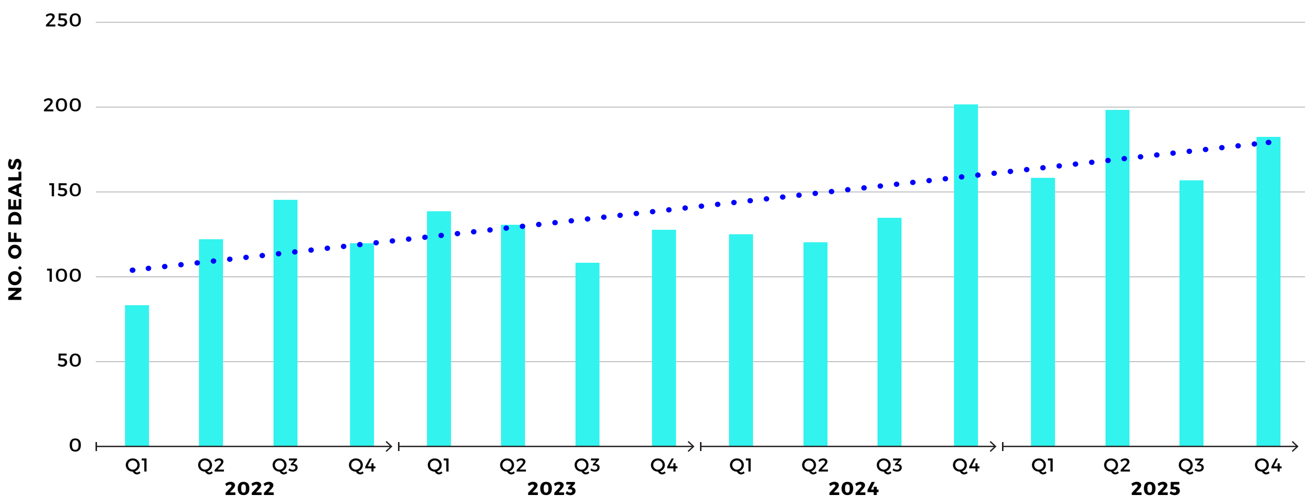

Figure 2: Bolt-ons by UK-based portfolio companies (Source: Actum data)

Sinclair says that private equity firms must think about value creation from day one, understanding which levers to pull and the time scales involved in order to maximise returns over the life of the investment.

M&A remains one of the key levers. Bolt-on activity has continued to grow in 2025, in contrast to the sluggish activity around platform deals. The number of bolt-ons by UK-based portfolio companies has jumped 20.1% in 2025 to 694 deals, compared to 578 bolt-ons last year, as seen in Figure 2.

Given interest rate levels, sponsors continue to focus on the buy and build route, searching for complimentary assets and finding synergies in order to build value, Farrugia says.

Buy and build has helped accelerate growth at a time when it is more challenging to grow organically, Sinclair says. Proving this organic growth, however, is key to a successful exit, she adds.

Quiet optimism?

Despite the low levels of activity this year, experts are quietly confident of a busier 2026. Firstly, there is a growing need for sponsors to transact after a lengthy quiet period of dealmaking. Equally, market participants note the work being executed by private equity firms to prepare portfolio companies for sale.

"This has been a strange, soft year," Farrugia says, expecting the coming year to be much busier. With PE houses needing to exit long-held portfolio companies, Farrugia notes that many have been prepared for exit in 2025 with a view to a sale in the coming year.

Hartwright also believes the coming year will welcome more activity, with long-held assets coming to market. The valuation gap will continue to narrow as firms accept that the market is unlikely to dramatically improve, and they face growing pressure for short-term DPI, and move forward.

Sinclair expects an uptick in private equity activity in the coming year, with funds having doubled down on their focus on the portfolio in 2025 as they ready portfolio companies for exit.

After another difficult year, dealmakers remain hopeful for a period of market stability. The growing need for both buyouts and exits will likely result in an uptick, while value creation remains key to either the success or failure of private equity firms in today's market.

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