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Introduction

This report updates data presented in Scottish Enterprise's previous research into Mergers and Acquisitions (M&A) in Scotland. As a result, this analysis spans the period of 2003 to 31 June 2017, a period of over thirteen years.

The previous research was intended to provide evidence on which to build a wider debate around the role of acquisitions in the Scottish economy.

It is believed that in this regard, the prior research succeeded; by dispelling many of the assumptions and the continued demarcation of acquisition into either 'good' or 'bad'.

Scottish Enterprise built on the previous acquisitions study by investigating one of the principal questions emerging; that of [recycling of entrepreneurial talent](#), not just as a consequence of M&A activity, but more broadly. One of the principal points running through the original report was that acquisitions did not occur within a vacuum and should not be seen as a zero-sum game. Individuals and companies learn from experience, move on and apply that learning. We now know more about how and when this occurs than before.

This is the starting position for this update.

This report seeks to take the initial research to a further stage and as such is not simply a repeat of the methodology previously undertaken.

Continuing to build our evidence base of the M&A market in Scotland over a longer timeframe enables policy-makers and analysts to more accurately understand the nature of the market over time, and develop support according to the long, rather than the short-term. It should also help contribute to a more evidence-based approach to policy in Scotland.

The report begins by presenting the updated data from 2003 through the first half of 2017, incorporating new analysis not ran previously. The report then begins to tease out questions for policy-makers and operational colleagues across Scotland's business, entrepreneurial and financial landscape.

Any views expressed reflect the views of the author and not of Scottish Enterprise.

The data presented in this report is also available in a series of interactive infographics available online:

[M&A results within Scotland](#)

[Inward acquisition comparison](#)

[Outward acquisition comparison](#)

[Intra-acquisition comparison](#)

[Scotland and UK regional comparison](#)

[Scotland's relationship in M&A with London](#)

Executive Summary

This report updates the previous research into the acquisitions market in Scotland, extending the period of data analysis to 2017. The report therefore covers the period of 2003 through the first six months of 2017. Data which spans this period reaffirms many of the key findings in the prior research.

Scotland's performance in a UK and international setting is broadly comparable to elsewhere. The main difference is Scotland sees fewer acquisitions by its companies compared to other regions and other nations.

- Scotland is like other regions of the UK, having a higher number of inward (non-UK) acquisitions than outward (non-UK) acquisitions.
- Scotland has (alongside three other regions) the largest 'gap' between their inward and outward activity. But of these four regions, Scotland has the lowest rate of acquiring – both outward and intra-acquisition.
- London forms a central component in Scotland's acquisitions activity.
- 19% of inward acquisitions of Scottish companies originate from London, and 23% of outward acquisitions by Scottish companies were of companies based in London.
- Scottish companies are acquired internationally and domestically at a lower rate than several similarly sized economies.
- Scottish companies are also less acquisitive than comparable nations, both internationally and domestically.
- Over 90% of acquisitions made by Scottish companies are of firms within the UK, a higher rate of reliance on one market than any other nation.
- Acquisition activity occurs earlier in the life span of companies in Scotland than elsewhere by a considerable distance. This suggests that in Scotland, acquisition is a tool often used by faster growth companies.
- Median deal sizes (from available data) are broadly comparable suggesting Scottish companies are not smaller despite being younger, and that acquisition active companies may have grown faster.
- Scotland has the highest post-deal active rates of all nations for inward acquisitions.
- Scotland has a significantly higher post-deal active rate in outward acquisitions (as do all nations), but ranks in the lower half across the comparator nations.

The research highlights that the main area of focus should not be on foreign companies buying Scottish firms, but the lack of acquisition activity (of all types) by the Scottish business base. If we accept acquisition is one potential avenue to achieve growth then it is one companies are either not aware of, not able to undertake, or not willing to.

This has consequences in the wider economy with a lack of recycling of talent, knowledge and funding. A lack of acquisition deals means these assets are not released back into the economy to stimulate other companies to grow, to learn and to benefit from unlocked experience, knowledge and investment; and potentially creates a cycle which perpetuates a lack of acquisitions.

Scotland performs better in international comparisons for companies' post-deal active status when acquired than when acquiring. It suggests policy-makers could be more confident in existing measures which are successful at embedding companies in Scotland. This also suggests support and advice could be beneficial, not just for those considering acquisition as a route to growth, but also for companies undertaking it.

Methodological approach

As with the previous report, the bedrock of the analysis was developed using the ZEPHYR database. Part of the Bureau van Dijk network of business information, it is regarded as the leading database for Mergers and Acquisition activity globally and is updated hourly.

The database uses publicly available information and therefore, many deals are lacking in financial information such as deal value and this varies from nation to nation and deal type to deal types. For example, within Scotland over the period of 2003-17, only 35% of inward acquisitions, 54% of outward acquisitions and 21% of intra-acquisitions had deal data available.

This lack of data availability is only an issue in deal financials. The remaining elements of note and interest to this research project have rich and substantially complete data with minimal gaps that do not impact on the robustness of the research and the rigour of the analysis.

The analysis has not only brought the content available for analysis up-to-date through filling the years 2013 – June 2017, but has added additional deals to the previous years (2003-12) making these figures more robust.

For clarification purposes, the reason the analysis begins at 2003 is simply because that is the earliest available data through ZEPHYR.

Results and totals vary slightly across the different types of analysis. This is because the data does not contain every detail about every company (acquirer and acquired) across every deal.

Scotland's M&A market 2003-17

From 2003 through the first half of 2017, ZEPHYR recorded the following number of deals involving Scottish companies:

- 928 inward acquisitions, where a non-Scottish company acquired a Scottish company
- 647 outward acquisitions, where a Scottish company acquired a non-Scottish company
- 427 intra-acquisitions, the acquisition of a Scottish company by another Scottish company

The additional data from ZEPHYR reinforces the previous report which found both inward and outward acquisitions markets for Scottish companies being highly comparable to export markets.

The extensive literature review undertaken last time highlighted the critical importance of cultural alignment in achieving success through acquisition, which would be increased through the prevalence of the English language. Geographical proximity also appears to be a strong determinant with only Australia and India requiring long-haul travel.

Figure 1: Location of companies acquired by Scottish companies and acquiring Scottish companies (2003-17) and Scotland's top export markets (2015)

Location of companies acquired by Scottish firms (outward acquisitions)		Location of firms acquiring Scottish companies (inward acquisitions)		Top 20 Scottish export trading partners (2015)	
Rest of the UK	41.2%	Rest of the UK	40.5%	USA	15.9%
Scotland	39.8%	Scotland	30.5%	Netherlands	8%
United States	5.6%	USA	9.2%	France	6.3%
Australia	1.8%	Norway	2.4%	Germany	6.1%
Ireland	1.2%	France	1.9%	Norway	4.6%
Netherlands	1.1%	Canada	1.4%	Denmark	3.8%
India	1%	Netherlands	1.1%	Ireland	3.5%
Norway	1%	Ireland	1%	Spain	2.9%
Canada	0.8%	Australia	0.9%	Switzerland	2.7%
France	0.6%	Germany	0.9%	Brazil	2.6%
Italy	0.6%	Sweden	0.9%	UAE	2.6%
Germany	0.5%	Spain	0.6%	Belgium	2.5%
Hong Kong	0.4%	Denmark	0.6%	Italy	2.2%
Brazil	0.3%	Japan	0.6%	China	2.1%
Russia	0.3%	Switzerland	0.5%	Australia	1.9%
Spain	0.3%	Luxembourg	0.3%	Singapore	1.8%
Belgium	0.2%	UAE	0.3%	Sweden	1.8%
Sweden	0.2%	Austria	0.2%	Canada	1.6%
Denmark	0.2%	Belgium	0.2%	Japan	1.5%
UAE	0.2%	Finland	0.2%	Other Africa	1.1%

Source: ZEPHYR and The Scottish Government, *Export Statistics Scotland* (2017¹)

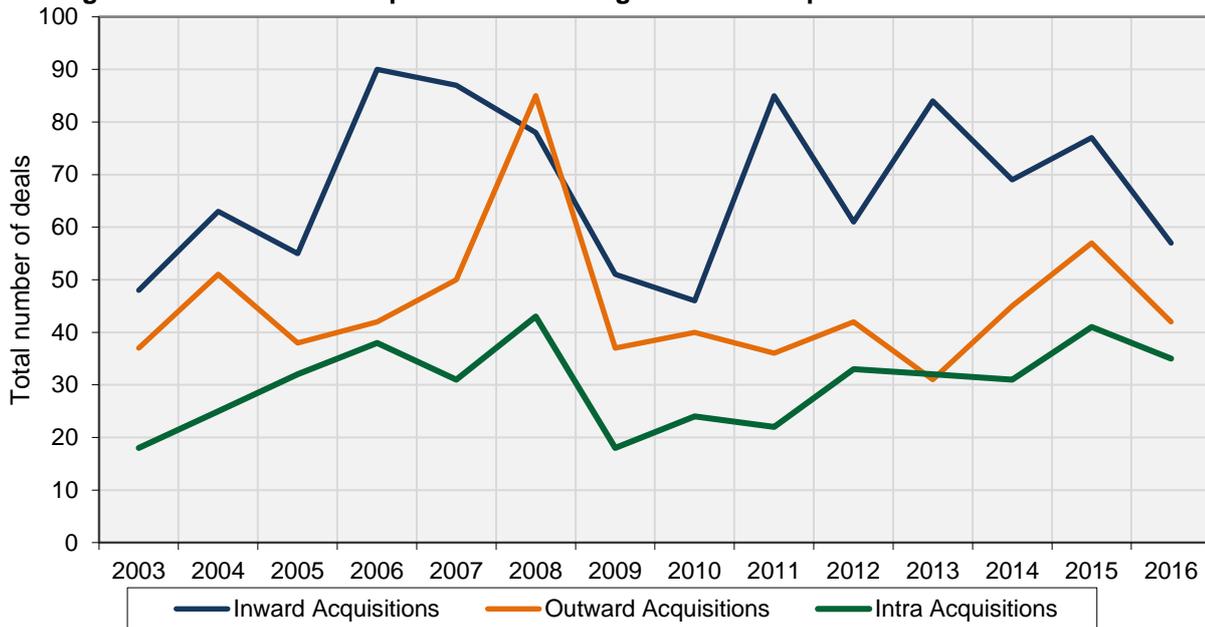
Scotland was included in the above table as both an acquirer and target to highlight one of the key findings of this research; the concentration of activity within the UK for Scottish companies, which the previous report noted was the highest of any comparable nation². This issue will be addressed again further into this report.

¹ Data available from <http://www.gov.scot/Topics/Statistics/Browse/Economy/Exports/ESSPublication/ESSEExcel>

² Hopkins, P.M. (2014) *The Role of Acquisitions in Company Growth*

Volume and size of activity

Figure 2: Time series - acquisitions involving Scottish companies 2003-16



Source: ZEPHYR. Note, Jan-June 2017 excluded to present data only for full years.

It was noted in the previous report the recession led to an immediate spike in outward activity. Further analysis has now identified this was predominantly activity involving companies within Financial & Business Services³ in London, meaning 2008 is a significant outlier. This activity impacts analysis presented further on, looking specifically at the engagement in M&A between London and Scotland.

Post-2012, inward acquisition activity appears to go through a cycle of peaks and troughs, with activity spiking in 2011, 2013 and 2015 before falling in 2012, 2014 and 2016. This would be worth monitoring into the future to identify if this was simply a reflection of activity or is a consistent pattern.

2013-15 saw a significant jump in outward activity by Scottish firms; with 2015 having the highest number of acquisitions made outside Scotland (excluding 2008). It should be noted the decline in acquisitions made by Scottish firms in 2016 came on the back of a spike in 2015, and the 'lower' figures seen in 2016 were above the total number of deals seen in previous years. This suggests that overall – albeit slowly – Scottish companies are starting to increase their acquisition activity.

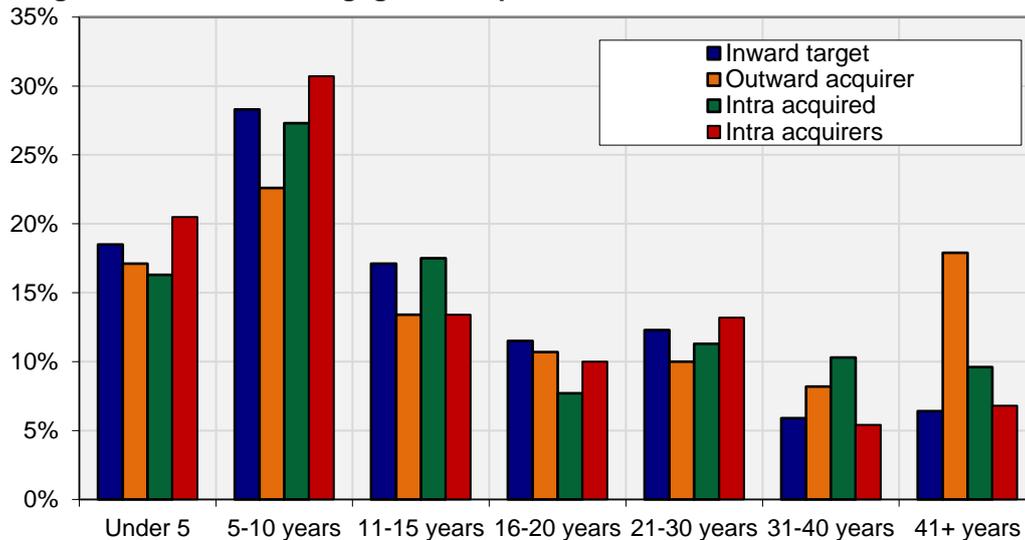
Company age

The previous report highlighted that Scottish companies were active at an early age, both in sales and acquisitions within Scotland and elsewhere.

This pattern becomes more evident through the updated data. 47% of companies acquired from outside Scotland were aged under 10, whilst 38% of companies bought from within Scotland were also aged under 10. However, 39% of Scottish companies acquiring outside Scotland did so when aged under 10, alongside 51% of those acquiring other Scottish companies.

³ Using SIC sector classifications.

Figure 3: Age of Scottish firms engaged in acquisitions 2003-17

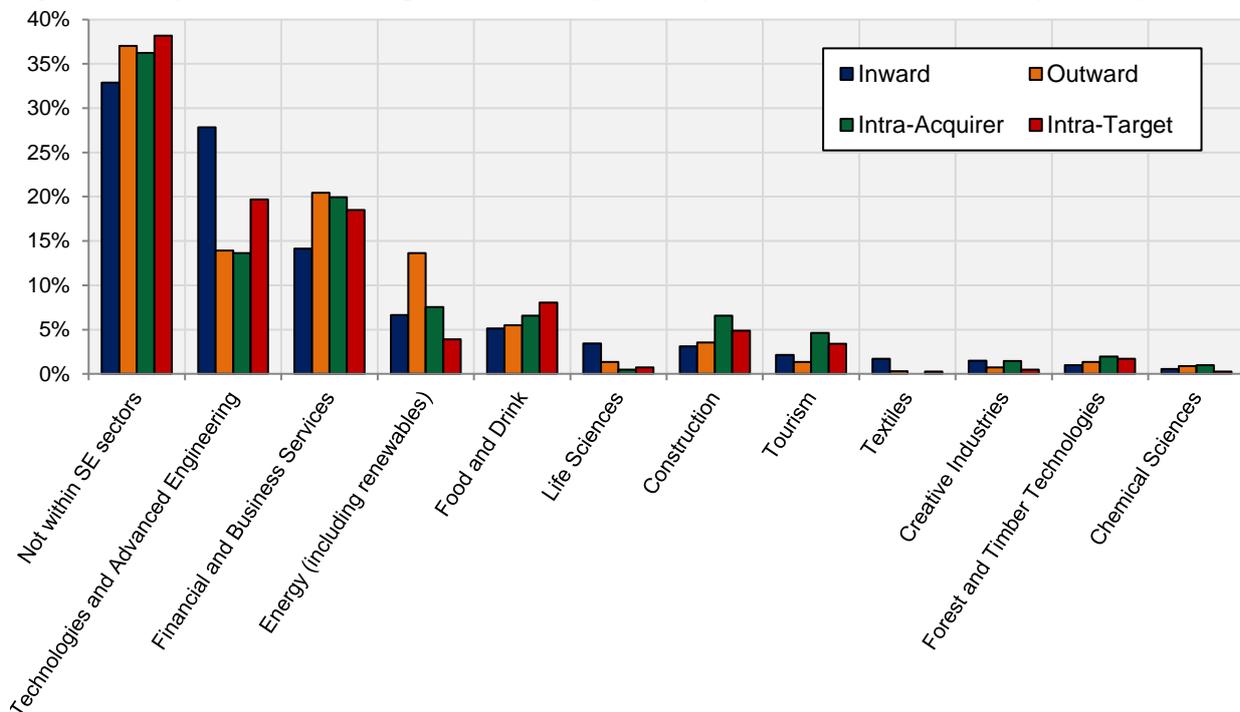


Source: ZEPHYR. Companies involved in multiple deals are included for each deal, at the age they were at the time. Excludes those deals where the date of incorporation of the Scottish company is not available/known.

Sector dimensions

We have used a composition of SIC classifications constructed by Scottish Enterprise (SE) which groups together many SIC codes into the key sectors in the Scottish economy⁴. The results for each type of acquisition are set out below.

Figure 4: Acquisitions involving Scottish companies by SE sector classification (2003-17)



Source: ZEPHYR.

This reinforces the trends in the previous report, with the largest share of all types of activity taking place outside those which SE would normally support.

⁴ A description of this is available at Appendix 1

Technology & Engineering (TAE) and Financial & Business Services are the sectors with the greatest share of remaining activity across each of the acquisition types⁵.

Life Sciences joins TAE as seeing a noticeable higher share of activity involving non-Scottish companies acquiring Scottish companies. Arguably this would be expected, given the nature of the sectors. The previous research highlighted the link between international activity and acquisition (either buying or selling) across borders, and the results would suggest this is the case in these two sectors.

Also within TAE, there is a noticeably larger share of companies acquired from within Scotland. A focus on these companies indicates that 77% of TAE companies acquired by other Scottish companies were by companies in the same sector⁶.

For several sectors including Food & Drink, Construction and Tourism there is more intra-acquisition activity, perhaps reflecting the nature of the sector and the challenges in translating their goods and services into those that could potentially benefit from international acquisition activity.

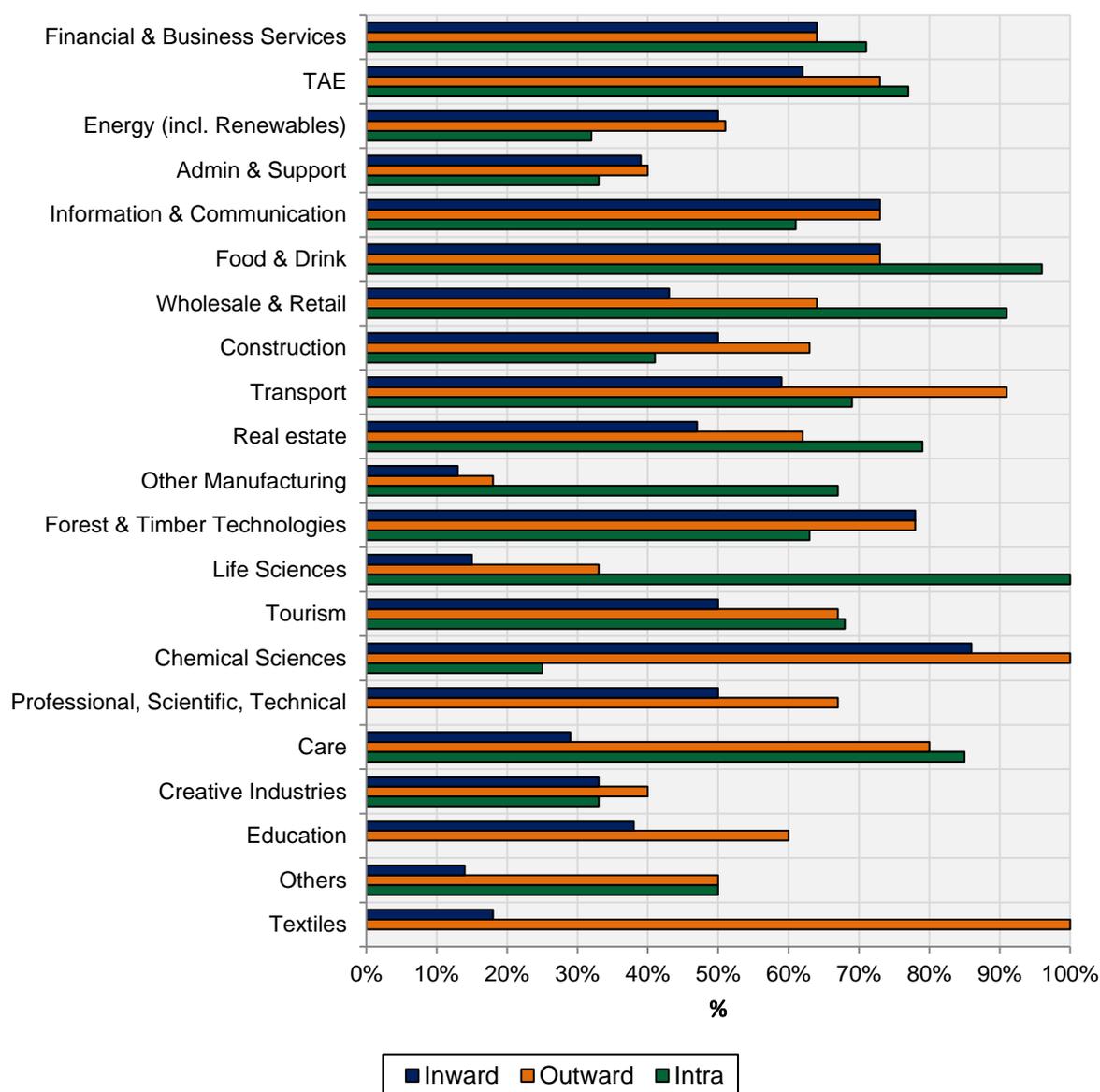
Patterns in and across sectors

Figure 5 breaks down how much activity occurs within the same sector (across each type of deal). Perhaps unsurprisingly most acquisitions occur within rather than across sector boundaries (whilst acknowledging that SIC demarcations may be greater than the reality of sector boundaries).

⁵ This now includes the sector breakdown of both the intra-acquirers and the intra-acquired companies (which was not included in the prior research).

⁶ Full details on the sector dimensions of acquisition activity follow further on in this chapter.

Figure 5: Level of acquisition activity involving Scottish companies within own sector (2003-17)



Source: ZEPHYR. Sectors ranked top to bottom by deal base size.

The higher degree of concentration in intra-acquisitions could indicate activity is aiming to either shore up domestic market share (particularly if these are undertaken by companies who only undertook the one deal between 2003-17 or who only acquired within Scotland); or equally it could be part of a growth strategy and eventual internationalisation or international growth. Indicators of this could be a company who have made an intra-acquisition moving on to either be acquired from or acquire, outside Scotland.

Deal size

From available data, over £62bn was invested in acquiring Scottish companies between 2003 and the first half of 2017 from outside Scotland (based on 35% of deals with data available). This is more than the double the £23bn of investment flowing out from Scotland (from 54% with available data).

The level of data available puts question marks over the reliability of any observations involving total amounts and deal sizes, but indications suggest significantly more capital has

flowed into Scotland from acquisition than has left Scotland. This also begins to indicate the scale of challenge in ‘following the money’ to identify the full impact acquisitions have on Scotland’s economy.

Figure 6: Total value of acquisitions involving Scottish companies (2003-17)

Completed Year	Inward Acquisitions	Outward Acquisitions	Intra Acquisitions
2003	£4.57bn	£3.73bn	£42.59m
2004	£1.03bn	£5.1bn	£133.5m
2005	£3.09bn	£1.33bn	£773.9m
2006	£2.23bn	£1.13bn	£4.63bn
2007	£19.68bn	£3.85bn	£405.1m
2008	£3.10bn	£2.45bn	£152.2m
2009	£15.01bn	£721.9m	£41.4m
2010	£1.41bn	£905.5m	£31m
2011	£2.51bn	£1.25bn	£672.2m
2012	£1.25bn	£1.93bn	£197.5m
2013	£628.8m	£177.8m	£4.15m
2014	£3.09bn	£387.4m	£943.46m
2015	£2.81bn	£112.7m	£14.62m
2016	£1.24bn	£200.7m	£2.4m
2017	£660m	£51.8m	£0m
Total	£62.26bn	£23.32bn	£8bn

Source: ZEPHYR. Figures reflect deals completed as of 31 June 2017

Unfortunately, due to the number of deals without any deal value available the data is not sufficient to enable us to observe a meaningful time-series trend for the SME market. The patchiness of financial data also means there are significant variances in the median and average deal sizes, with perhaps the median proving a more reliable indicator of the size of companies engaged in activity.

Median deal sizes suggest the bulk of transactions are at the SME level. The previous report had both inward and outward at around £11m, suggesting no major difference in the size of companies targeted from outside Scotland and by Scottish companies acquiring elsewhere. This picture has changed. The median inward acquisition deal over £3m larger than the outward. The intra-acquisition median has also fallen from £3.7m to £3.4m.

There is a strong presence of ‘mega deals’ in both inward and outward acquisitions. The average inward sale of over £170m shows a huge amount of capital has flowed into Scotland from large inward acquirers such as Scottish Power, British Energy Group, the Whyte and MacKay Group and House of Fraser.

The average of nearly £96m for outward acquisitions is also inflated through major acquisitions made by the Royal Bank of Scotland, Scottish and Southern Energy, FirstGroup plc, Scottish and Newcastle as well as The Weir Group.

Figure 7: Average and media deal sizes of acquisitions involving Scottish companies (2003-17)

	Total number of deals	Average deal size	Median deal size	% of deals with data
Inward acquisition	928	£94.8m	£12.2m	35%
Outward acquisition	647	£64.7m	£8.9m	54%
Intra acquisition	427	£45.7m	£3.4m	21%

Source: ZEPHYR.

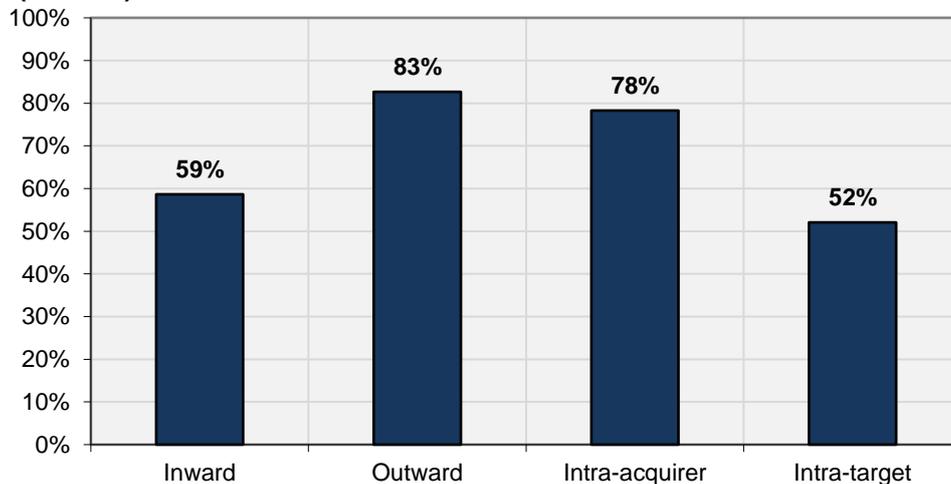
Trading status

It is unsurprising the rate of companies remaining active post-acquisition is higher when the company has made the acquisition. This was a pattern observable in the previous research and is reaffirmed here.

The results have moved in a positive direction with the refreshing of the data. In perhaps the most contentious measure in this research given the discourse around acquisition, 59% of Scottish companies acquired from outside Scotland remain active. For those Scottish companies making acquisitions outside of Scotland 83% remain active over the extended timeframe.

Intra-acquirers have now been included and over three-quarters (78%) of these remain active. Companies acquired from within Scotland (intra-targets) have a higher active-rate of 52%.

Figure 8: Current Active Trading Status of Acquired Scottish Companies and Scottish Acquirers (2003-17)



Source: ZEPHYR. Figures reflect trading status as of 31 June 2017

One flaw in using this measure (in isolation) to assess the merits of the M&A market in Scotland, is it assumes that the status of the company has a direct link to acquisition activity. Clearly this cannot automatically be assumed. When data extends back to 2003 there could be a myriad of factors which contribute to firms no longer being in business by 2017. It reaffirms however, that acquisition needs to be seen in a wider context.

Companies engaged in multiple deals

Analysis was also undertaken to map the activity of companies who engaged in multiple acquisitions. Looking at the activity within Scotland by company begins to highlight that not only is acquisition activity low compared to elsewhere⁷, but the extent to which acquisition takes place in Scotland is even smaller than initially thought.

751 of the 2046 recorded acquisitions involving one or more Scottish companies were down to just 231 companies. 36.7% of all deals were done by those involved in more than one deal. 8.8% of all deals (across all types) were undertaken by the ten most active companies.

Figure 9 below breaks down Scotland's acquisition activity and highlights:

⁷ See pages 32-33 in previous report

- Outward acquisition has the highest degree of companies were involved in multiple deals;
- 10 companies made approximately one-quarter of all outward acquisitions by Scottish companies.
- Over two-thirds of outward acquisitions are done by companies who were involved in more than one deal (of any kind).

Figure 9: Breakdown of Scotland's acquisition activity (2003-17)

	Total deals by multi dealers (1+)	Total deals	% done by multi-dealers	% of companies involved in one deal only	% done by 10 most active (by type)
Inward	102	928	10.5%	89.5%	2.2%
Outward	435	647	67.2%	32.8%	24.6%
Intra-Acquirer	174	427	40.7%	59.3%	6.8%
Intra-Target	40	427	9.4%	90.6%	4.4%
Overall	751	2046	36.7%	88.1%	NA

Source: ZEPHYR.

This highlights how concentrated outward acquisition is.

In contrast, the ten most active companies represent just 2.2% of all inward activity. This is perhaps unsurprising given what we know regarding the likely motivations behind an inward acquisition, and perhaps indicates that the move is driven by one of two main intentions; either integration of the Scottish (and UK) base into a parent company to run as an asset; or to acquire strengths, products/services or markets for the benefit of the parent at the expense of the Scottish operation.

It therefore shows that whilst neither type of acquisition could be considered widespread amongst Scotland's business base, inward acquisition is something which considerably more companies in Scotland experience.

The research breaks down the active rates for the two cross-border types of acquisition (inward and outward). For inward acquisitions, the active rates by patterns of activity are set out below:

Figure 10: Scottish companies involved in inward acquisition. Active rate by overall activity 2003-17

	Companies	Active rate
All inward acquisitions	928	58.7%
Scottish company acquired from outside Scotland just once	851	56.8%
Scottish company acquired from outside Scotland who then went onto be part of a further deal(s)	25	88.0%
Scottish company acquired from outside Scotland after a deal of another type (outward, intra-acquirer or intra-acquired)	52	76.9%

Source: ZEPHYR. Covers deals taking place between 2003 and 31 June 2017 only.

For companies for whom the inward acquisition was only activity, the post-deal active rate was much lower. For companies who had already been part of another deal (of any type) or who went onto (at least one) more, the active rate was considerably higher.

Whilst nearly 90% of all inward acquisition activity was the only activity the individual Scottish companies were involved in, the activities of outward acquiring companies was more diverse.

Figure 11: Scottish companies involved in outward acquisition. Active rate by overall activity 2003-17

	Number of companies	Active rate
All outward acquisitions	647	82.7%
Scottish company acquiring outside Scotland just once	212	84.4%
Scottish company acquiring outside Scotland who then went onto be part of a further deal(s)	128	86.7%
Scottish company acquiring outside Scotland after a deal of another type (inward, intra-acquirer or intra-acquired)	307	79.8%

Source: ZEPHYR. Covers deals taking place between 2003 and 31 June 2017 only.

Whilst some general trends emerge from this analysis, it mainly serves to reaffirm that each acquisition reflects the meeting of individual circumstances of the company, its ownership, investors and management, overlain with market conditions, as well as global and national economic factors⁸.

Summary of main findings

- Scottish acquisition flows have close links with export activity. The Rest of the UK, the United States and Western Europe remain the key markets for both.
- Most activity occurs within the first ten years of the company's lifespan.
- 59% of all Scottish companies acquired from outside Scotland remain active post-acquisition.
- A higher percentage of Scottish companies (and overall total) acquired remain active after being acquired from outside Scotland than when acquired from within Scotland.
- Most companies acquired from outside Scotland are only acquired once.
- Ten companies are responsible for 25% of all of Scotland's outward acquisitions recorded between 2003 and June 2017, suggesting activity is even more concentrated than overall figures suggest.
- 59% of companies making intra-acquisitions were involved in only one deal, but 41% engaged in multiple deals. This suggests intra-acquisition is used by some companies as a growth strategy, which can lead to eventual acquisition or further acquisitions.
- Based on available data the median inward deal size is around £12m and £9m for outward acquisitions.
- One-third of all deals were outside SE priority sectors.
- Of the remaining activity, it is concentrated in 6 priority SE sectors: Technologies and Advanced Engineering, Financial and Business Services, Creative Industries, Energy (including renewables), Construction and Food and Drink.

⁸ p.63, Hopkins (2014)

Scotland's M&A market compared to UK regions

This report not only updates the international comparisons from the 2014 work, but also provides for the first time a UK-wide comparison.

It is important to note that the data in this analysis is different to the rest of the report. This is because unlike in all other results, Scotland's figures are part of the UK as a whole, rather than separately.

The results are split into two, comparing the regions in the UK in terms of their intra-activity within the UK and the international dimension (outside the UK).

The below table summarises Scotland's performance in this regard:

Figure 12: Breakdown of Scotland's acquisition activity (2003-17)

	Total	How calculated from other figures
Inward	406	927 total inward minus 521 rUK inward counted amongst other regions intra-acquired totals
Outward	204	647 minus 443 rUK outward which are counted in other regions intra-acquired
Intra	870	427 plus 443 rUK from above

Source: ZEPHYR. In these results Scotland is part of the UK. In all others, Scotland is treat as separate.

When comparing activity outside of the UK, except for London and the North East of England (for what are likely to be diverse reasons), all regions see more inward than outward acquisition. In that regard, Scotland has broadly the same structure in its acquisitions activity to elsewhere.

The main difference is the gap between the inward and outward activity. Scotland's deficit is marginally higher than similar regions (the North West, West Midlands and Yorkshire). Scotland's inward rate is comparable to those regions but the deficit arises due to the lack of outward acquisition. This is the area in which Scotland differs.

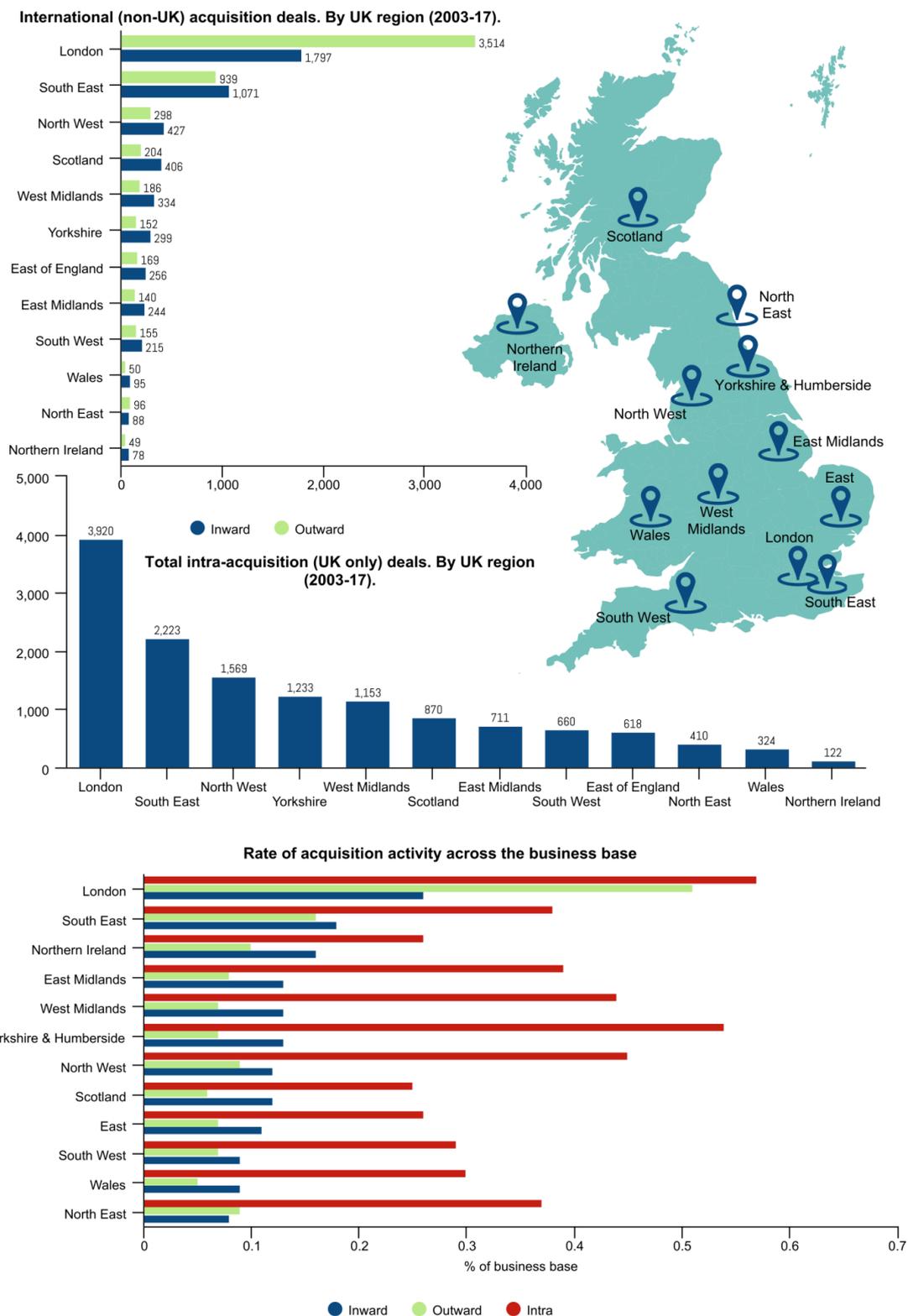
Figure 13: UK regional comparison of acquisition rates & gap between acquisitions (2003-17)

UK region	Inward acquisition	Outward acquisition	Intra-acquisition	Total acquisition gap (outward - inward)	Acquisition gap (% of business base)
London	0.26%	0.51%	0.57%	+1717	+0.25%
North East	0.08%	0.09%	0.37%	+8	+0.01%
South East	0.18%	0.16%	0.38%	-132	-0.02%
South West	0.09%	0.07%	0.29%	-60	-0.02%
North West	0.12%	0.09%	0.45%	-129	-0.03%
East of England	0.11%	0.07%	0.26%	-87	-0.04%
Wales	0.09%	0.05%	0.30%	-45	-0.04%
East Midlands	0.13%	0.08%	0.39%	-104	-0.05%
Northern Ireland	0.16%	0.10%	0.26%	-29	-0.06%
West Midlands	0.13%	0.07%	0.44%	-148	-0.06%
Yorkshire & Humberside	0.13%	0.07%	0.54%	-147	-0.06%
Scotland	0.12%	0.06%	0.25%	-202	-0.06%

Source: ZEPHYR.

The intra-acquisition (within UK) evidence confirms Scottish companies to be the least acquisitive in the UK. As a percentage of the business base, Scotland has the lowest proportion engaged in intra-acquisition.

Figure 14: Scotland vs UK regions comparisons (2003-17)

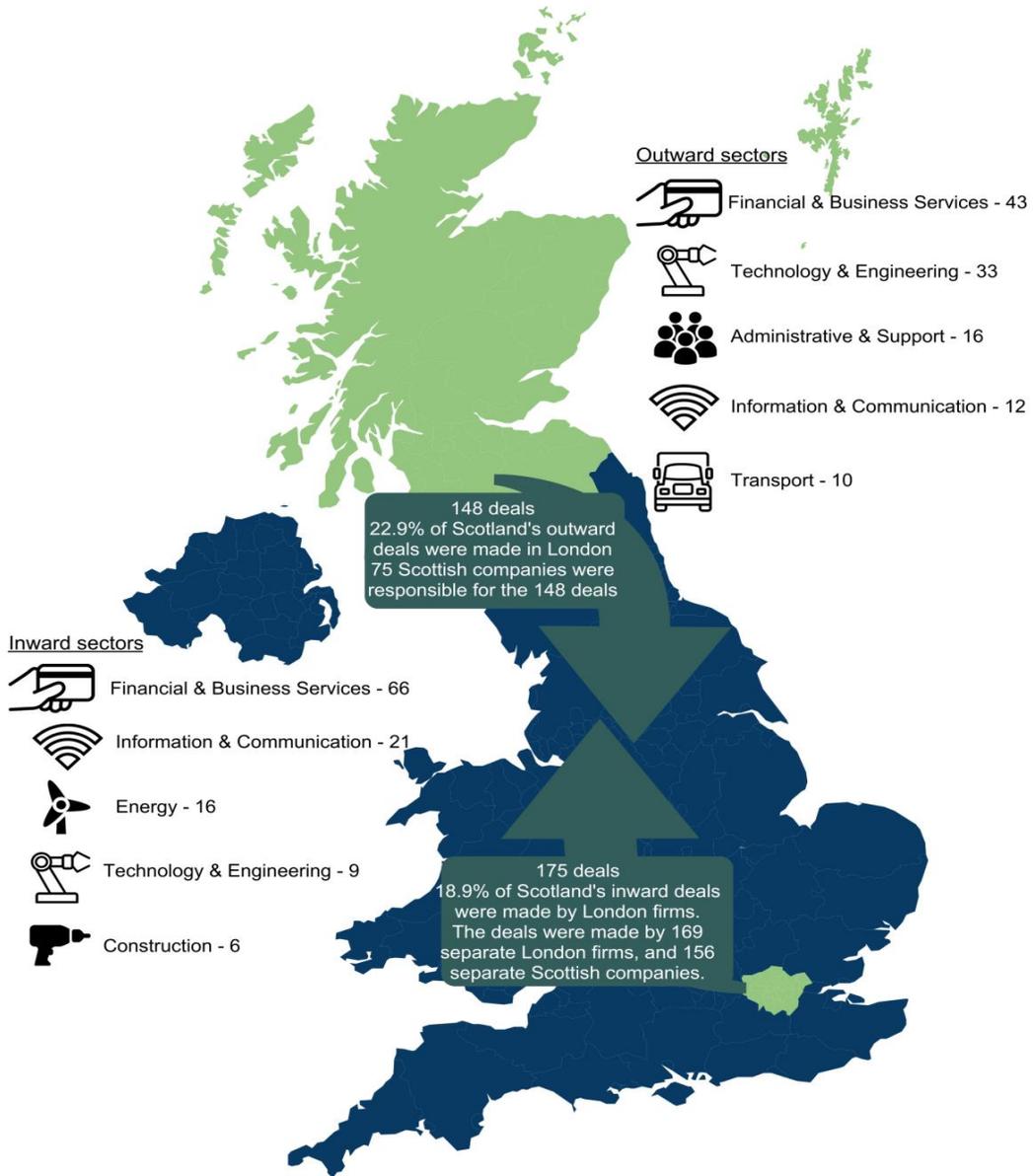


Source: ZEPHYR. Figures exclude those records where relevant information is missing or incomplete. This will not match other results because in these results Scotland is part of the UK. In all others, Scotland is treat as separate.

The UK-level analysis identifies that rather than ‘foreign’ companies taking over Scottish companies as is often assumed, it is the relationship with London and the rest of the UK to which Scotland has its deepest ties. The data shows nearly one in five of all inward acquisitions of Scottish companies came from London. Whilst this is a significant total, it is

important to highlight for narratives sake, that the relationship is reciprocal. Nearly one quarter (22.9%) of outward acquisitions made by Scottish companies were of companies in London.

Figure 15: Scotland's M&A activity with London (2003-17)



Source: ZEPHYR.

Summary of main findings

- Scotland is like other regions, with a higher number of inward (non-UK) acquisitions than outward (non-UK) acquisitions.
- Scotland has (alongside three other regions – Northern Ireland, West Midlands, Yorkshire & Humberside) the largest 'gap' between their inward and outward activity.
- Of these regions, Scotland has the lowest rate of.
- Scotland has the lowest rate of intra-acquisition across the UK.
- Where Scotland differs from other regions is through the lack of acquisitions made by domestic companies.
- Perhaps unsurprisingly given the clear ties between activity and cultural ties and geographical proximity, London forms a central component in Scotland's acquisitions activity.
- 19% of all inward acquisitions of Scottish companies originate from London, in addition to 23% of all outward acquisitions made by Scottish companies, being of companies based in London.

Scotland's M&A market compared internationally

One of the biggest strengths of the previous report lay in the ability to put Scotland's activity alongside a range of other nations.

This analysis demonstrated how many of the prevailing views about acquisition in Scotland equally applies elsewhere, and in some cases, is occurring within other nations to a greater or lesser extent than Scotland. It punctures the impression that may be given listening to some commentators, of something different or unique happening only in Scotland.

The overriding conclusions from the previous report was:

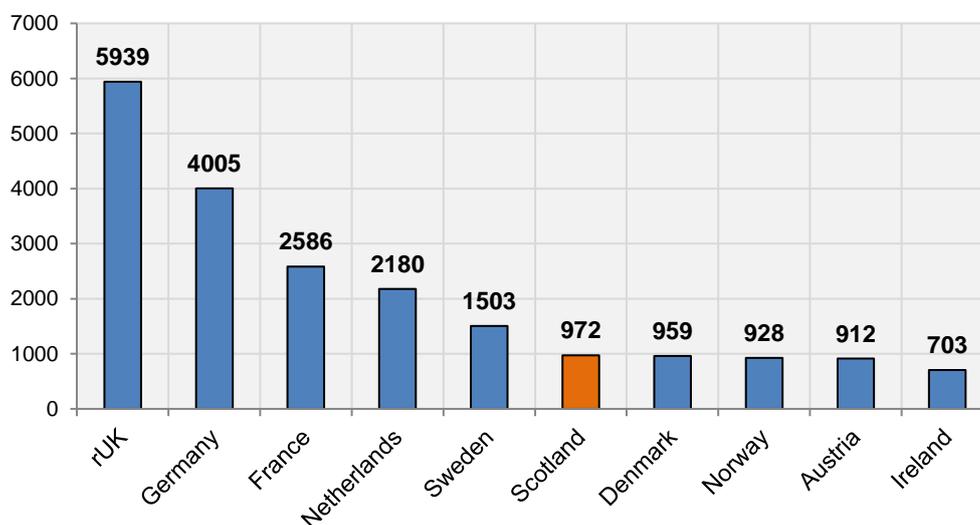
- Activity involving Scottish companies was not specific to Scotland.
- Scottish companies are acquired both internationally and domestically at a lower rate than several similarly sized economies.
- Scottish companies are also less acquisitive than comparable nations, both internationally and domestically.
- Over 4 in 5 acquisitions made by Scottish companies are of firms within the UK, a higher rate of reliance on its own market than any other nation.
- Across Europe, geographical proximity and cultural similarities shape each nation's acquisition and sales activity.
- Activity in sales and acquisitions takes place earlier in the life span of companies in Scotland than elsewhere.
- But Scotland's median deal size for cross-border sales and acquisitions is broadly like comparable nations.
- In contrast, Scotland's intra-deals have the lowest median deal size across Europe.
- Across each type of transaction, in the post-deal period, Scottish companies have amongst the highest post-deal active rates.

The remainder of this chapter refreshes this analysis.

The extent of acquisition across the business base

The data shows when compared internationally, Scotland has not experienced as many foreign acquisitions as elsewhere. Scotland's total inward acquired figure is around 60% of the total seen in Sweden and at a comparable level to nations like Denmark and Norway, to which Scotland often looks to for policy ideas and an economic model to emulate.

Figure 16: Inward acquisitions by nation (2003-2017)

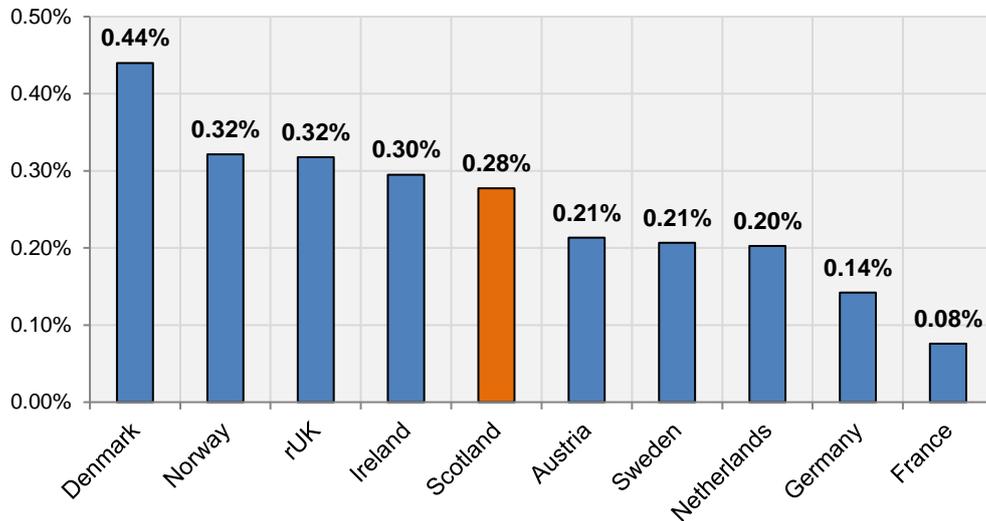


Source: ZEPHYR.

As a percentage of the overall business base, whilst Sweden moves below Scotland, again Norway and Denmark prove Scotland is not an outlier. Both see a higher percentage of their business base acquired from outside their own nation than Scotland does.

Furthermore, as was highlighted in the prior report and is worthwhile repeating once again, the overall percentage of the business base being acquired from outside their nation is very low – less than half of one percent in each case.

Figure 17: Inward acquisitions by nation as percentage of business base (2003-2017)

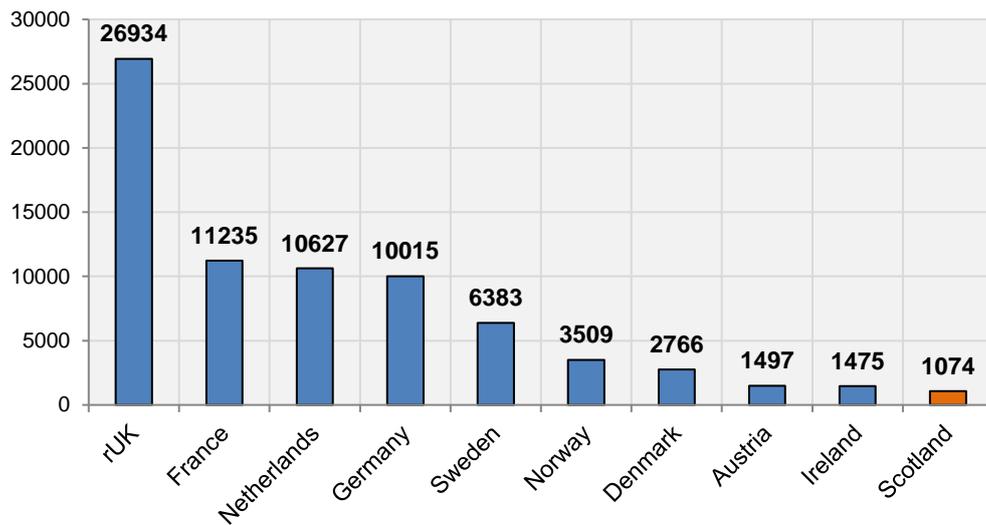


Source: ZEPHYR, Eurostat (2014) and for rUK FAME - also a BvD database, Businesses in Scotland 2016 for Scotland)

Figures 18 and 19 shows in striking terms the point noted in the previous chapter – that Scottish companies are the least acquisition active, not just in the UK but across all the comparator nations. They make the fewest overall acquisitions, but also have the lowest percentage of the business base making acquisitions. So, whilst we know acquisition can be one avenue to growth, it is considerably under-utilised in Scotland – and reasons for this may be worthy of specific, separate consideration.

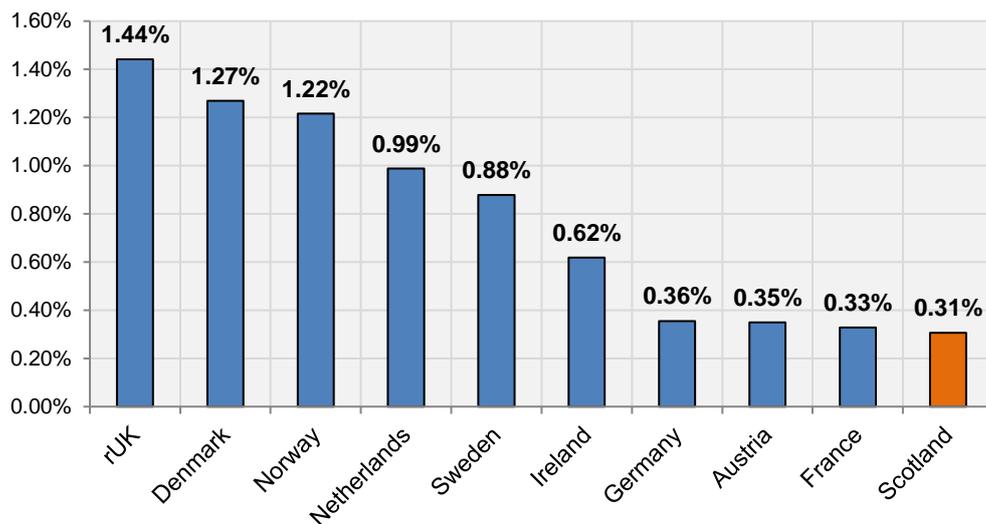
In addition, the concentration of activity (approximately 25% of all outward deals were undertaken by 10 companies), shows acquisition is significantly under-utilised by Scottish companies when considering avenues for expansion, growth and internationalisation.

Figure 18: Total acquisitions (outward plus intra) by nation (2003-2017)



Source: ZEPHYR

Figure 19: Total acquisitions (outward plus intra) made as a percentage of business base, by nation (2003-2017)

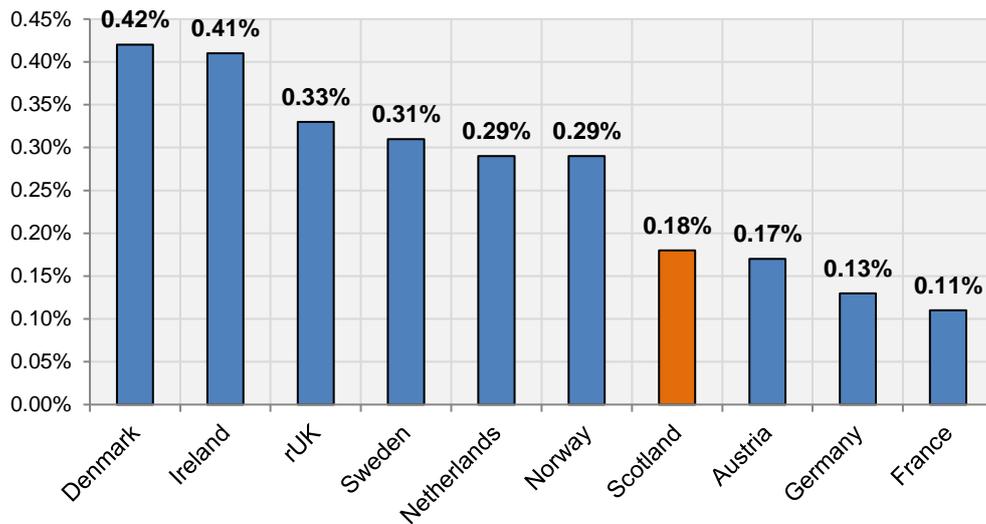


Source: ZEPHYR, Eurostat (2014) and for rUK FAME - also a BvD database, Businesses in Scotland 2016 for Scotland)

The picture regarding outward acquisition (Figure 20) is a little more positive. However, this should factor in the high degree of activity by a small number of companies, and the degree of activity that is within the UK (and London).

If the activity of these companies were removed from Scotland's figures, it would see the lowest level of deals as a percentage of the business base. Whilst ahead of Austria and the larger economies of France and Germany, Scotland is again behind Sweden and Norway; and Scottish companies are less than half as active outside their own nation as their counterparts in Denmark and Ireland.

Figure 20: Outward acquisitions by nation as a percentage of business base (2003-2017)

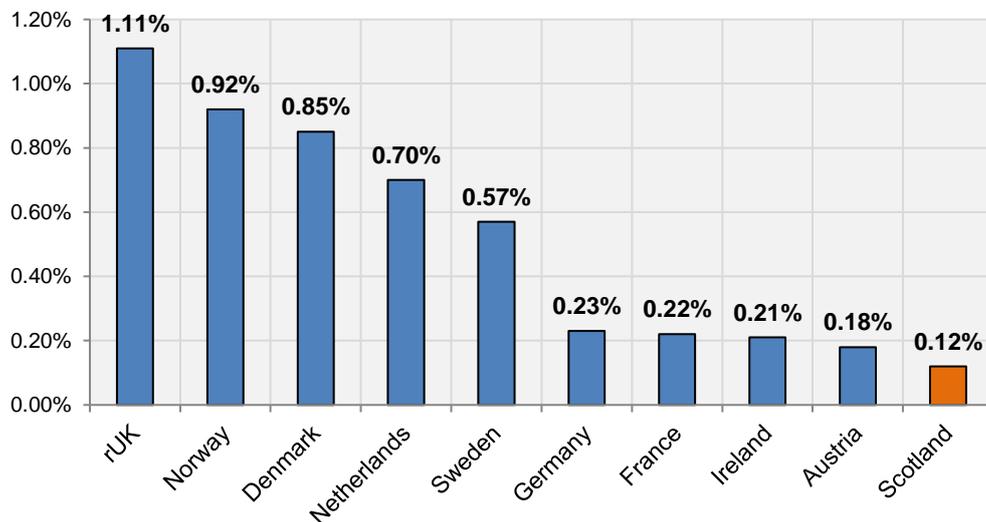


Source: ZEPHYR, Eurostat (2014) and for rUK FAME - also a BvD database, Businesses in Scotland 2016 for Scotland)

Intra-acquisition data reaffirms the same message. Despite activity being less concentrated than inward or outward acquisitions, Scotland continues to have a much lower rate of activity than other nations. This low level of activity may indicate an unfulfilled opportunity for some companies.

That 41% of intra-acquirers (since 2003) were involved in another deal or went on to be part of another deal, suggests they are using the acquisition as an avenue towards achieving growth.

Figure 21: Intra acquisitions by nation as a percentage of business base (2003-2017)



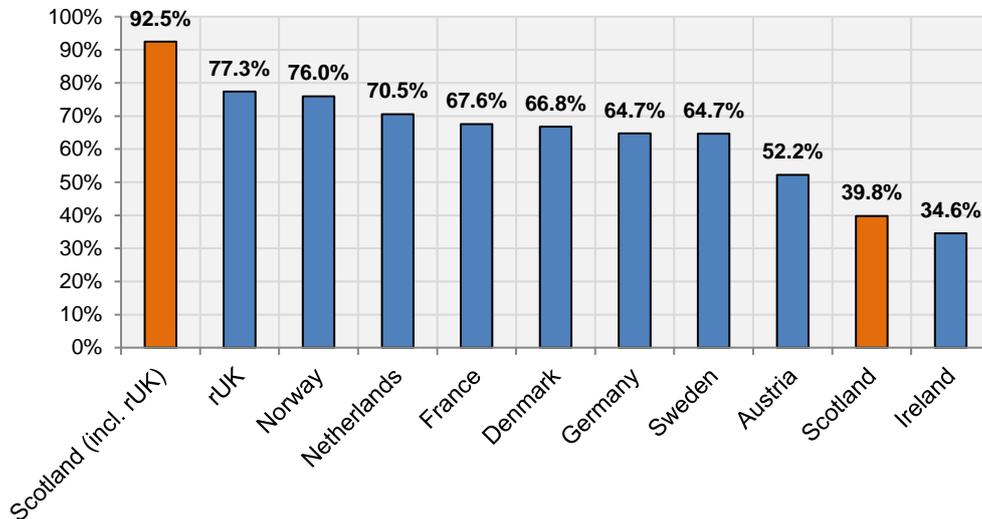
Source: ZEPHYR, Eurostat (2014) and for rUK FAME - also a BvD database, Businesses in Scotland 2016 for Scotland)

Concentration of activity

The previous chapter indicated the extent to which the activities of Scottish companies are concentrated in the UK, and given the overall low level of activity amongst Scottish companies, rUK and London is clearly vital in generating returns for investors, as well as avenues to growth for entrepreneurs and companies.

Figure 22 highlights this. When Scotland is analysed separately from the UK, only Ireland is more “international” in its activity (although it also has strong links with the rUK). But when the rUK and Scotland are combined, only 7.5% of acquisitions made by Scottish companies are made outside the UK.

Figure 22: Percentage of acquisitions made within own nation (2003-2017)



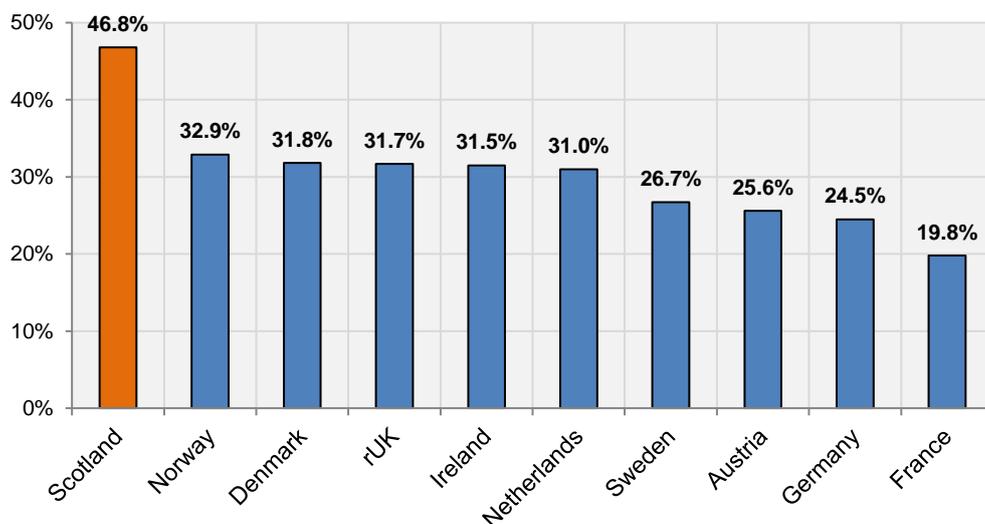
Source: ZEPHYR, Eurostat (2014) and for rUK FAME - also a BvD database, Businesses in Scotland 2016 for Scotland)

The same pattern exists for rUK, which serves to indicate the extent to which London not only drives the bulk of activity for UK firms, but perhaps limits the ability, willingness and appetite for acquisition overseas. This ‘dependence’ on London may be holding companies back from activity further afield; or may be a strength given its global role and high level of competitiveness. What the role of London is and how it assists and hinders companies may be a question worth focusing on in further research, perhaps looking more widely at its role, encompassing other growth avenues beyond acquisition, such as value and supply chains, particularly in a post-Brexit environment.

Age of companies

Figures 23-26 highlights that Scottish companies are considerably younger in every type of acquisition activity. It has been questioned whether this is an issue with the data. This has been probed and challenged within SE and with Bureau van Dijk who operate the FAME database, and there are no obvious reasons for there to be a discrepancy in the data, either in Scotland or in other nations. Therefore, the data should be treated as accurate and reliable.

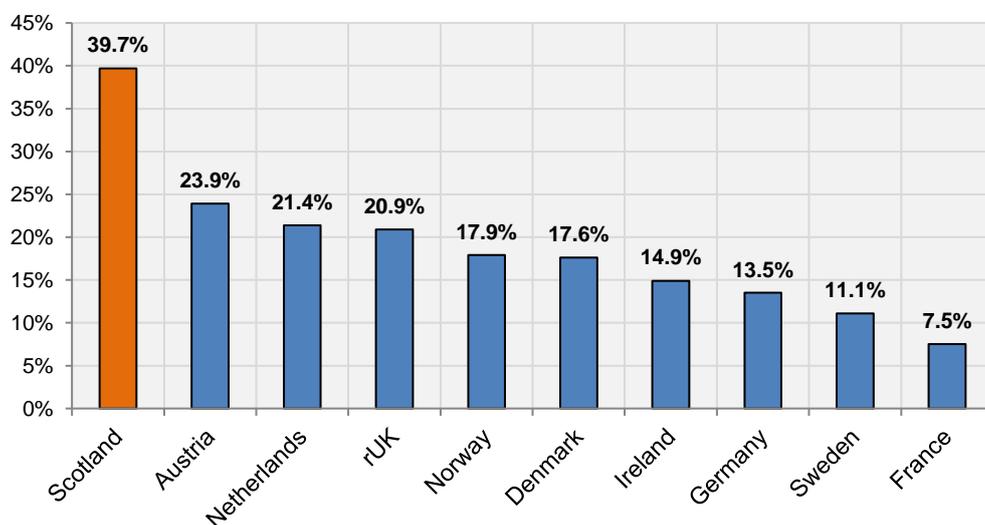
Figure 23: Percentage of inward acquired companies aged under 10 years when acquired, by nation (2003-2017)



Source: ZEPHYR.

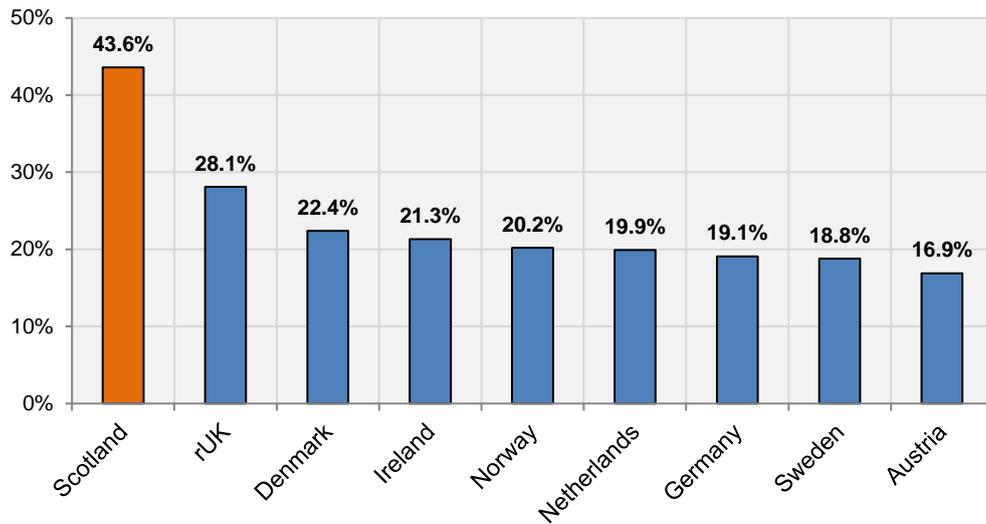
All nations have a higher percentage of inward acquired companies aged under 10 years. This can reassure those within Scotland that this is a pattern that exists across all nations, and occurs in higher numbers elsewhere. Whilst the percentage of Scottish companies may be higher, the totals are lower than elsewhere.

Figure 24: Percentage of outward acquirers aged under 10 years when acquired, by nation (2003-2017)



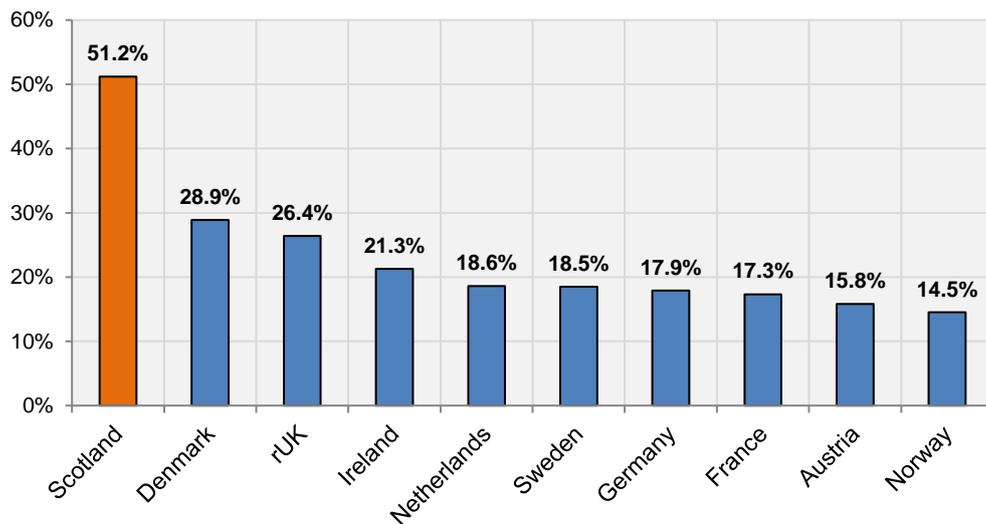
Source: ZEPHYR

Figure 25: Percentage of intra acquirers aged under 10 years when acquired, by nation (2003-2017)



Source: ZEPHYR

Figure 26: Percentage of intra acquired companies aged under 10 years when acquired, by nation (2003-2017)



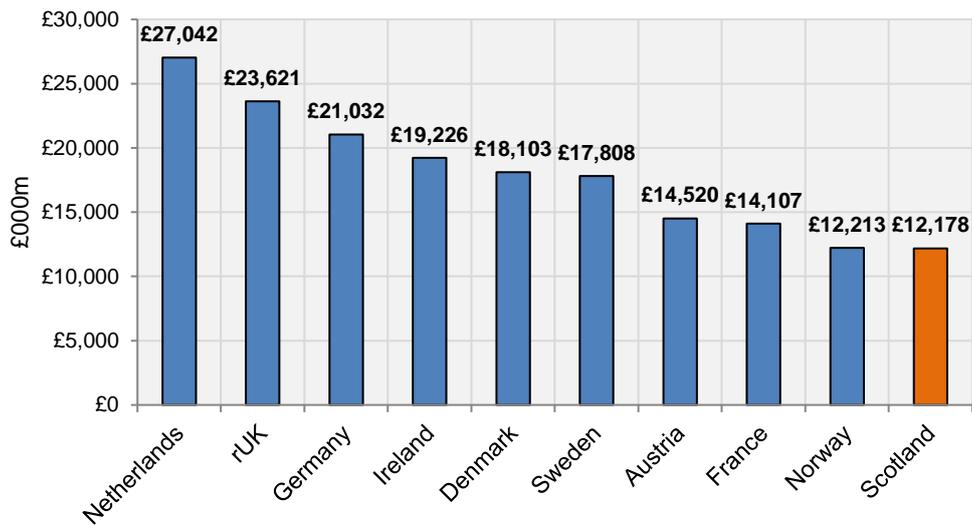
Source: ZEPHYR

Deal size

Deal size can serve as a useful proxy for company size. However, across nations the level of available data varies considerably, and therefore whilst the data is useful care should be taken in making significant assumptions.

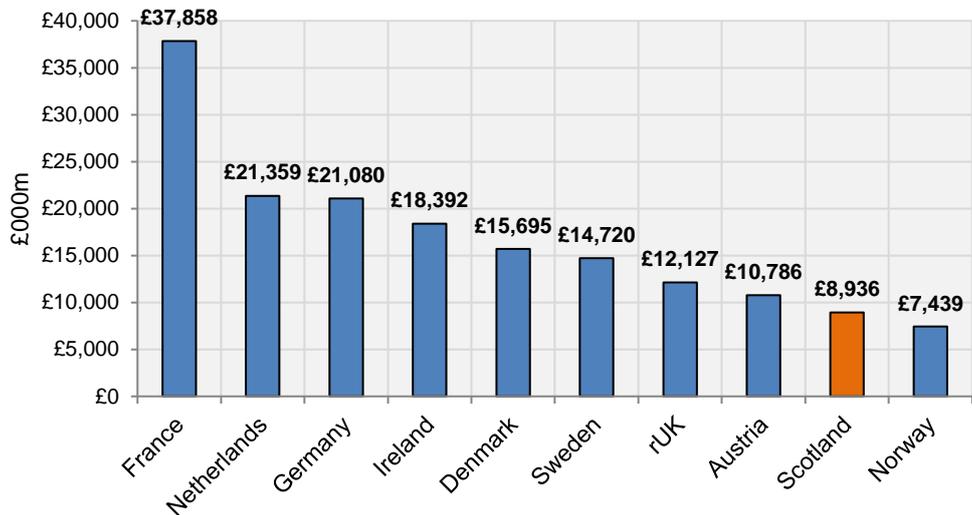
From available data Scotland has the lowest deal size when comparing inward acquisitions made from outside the nation.

Figure 27: Inward acquisitions median deal size by nation (£s) (2003-2017)



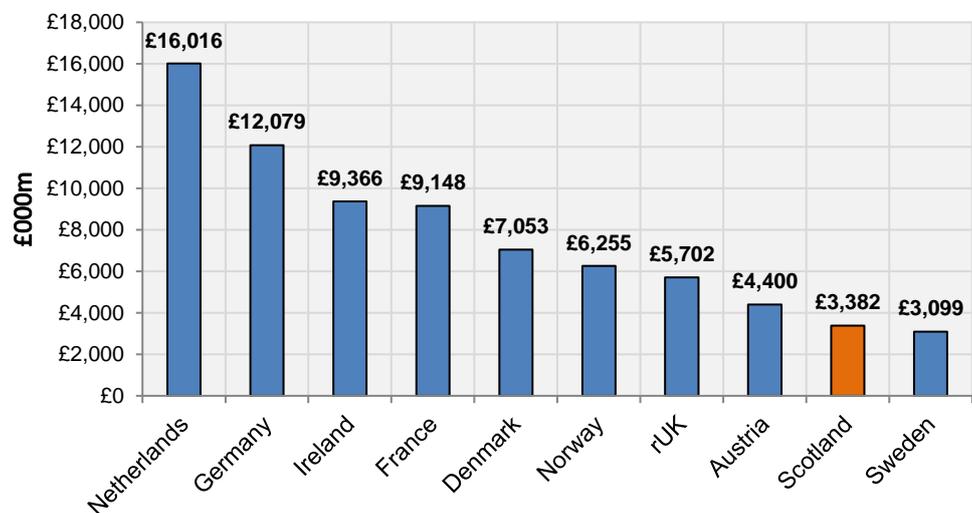
Source: ZEPHYR. Based on 34% of all data. Range across nations – 25% (Austria) to 39% (France, Ireland).

Figure 28: Outward acquisitions median deal size by nation (£s) (2003-2017)



Source: ZEPHYR. Based on 36% of all data. Range across nations – 24% (Denmark, Germany) to 54% (Scotland).

Figure 29: Intra acquisitions median deal size by nation (£s) (2003-2017)



Source: ZEPHYR. Based on 23% of all data. Range across nations – 6% (Netherlands) to 43% (Ireland).

The combination of the age profile and deal size data – with its recognised limitations – could be suggesting that Scottish companies involved in either inward or outward acquisitions have grown faster than international counterparts. If this is indeed the case, the question about what happens to these companies becomes increasingly important.

At this point we know Scottish companies are much less likely to acquire, more likely to be active domestically (when including the UK) and therefore least likely to be active internationally. They are also considerably more likely to be younger, but compared to elsewhere how likely are they to continue to be active?

Inward active status

The post-deal status of a company can give some indication of the motivations behind, and the consequences of each acquisition. Dissolution and inactivity suggests an objective (or at least a consideration) may have been to acquire a company to ultimately eliminate it; either after extracting the valuable aspects or simply eliminating it as a competitor⁹. In contrast, a company remaining active when it has been acquired, can be a strong signifier of intent and suggest a different set of motivations were behind the deal. Or there could simply be no link at all.

A company active post-acquisition when acquired from outside Scotland suggests the company has been targeted because it is profitable (or has the potential to be profitable) and has significant value (or potential to be valuable) to the acquirer in its current location, with its current market and customer base. It suggests the strategy behind the acquisition recognised the potential of achieving synergies from bringing together the two firms, which literature shows provides the greatest chance of success¹⁰.

Previous data looking at 2003-12 data found Scotland's inward acquired companies had an active rate of 54%. Incorporating data through the first half of 2017 boosts the post-deal active rates for inward acquisition to 59%.

This means Scotland has the highest post-deal active rate across all comparison nations.

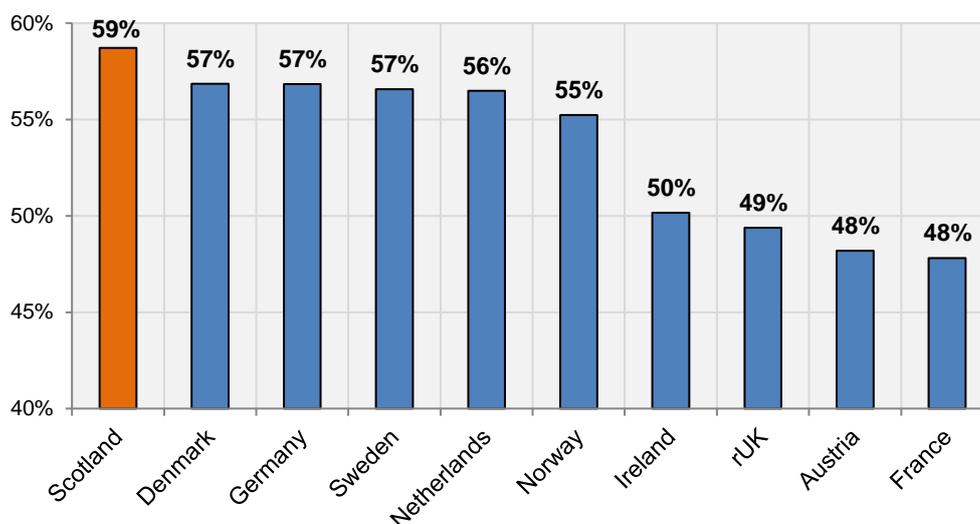
The previous research suggested that it is whilst it is inevitable that companies may close post-acquisition, this was not something specific in Scotland. The evidence suggested it was more of a fear than reality and a legacy of historic activity rather than something which continued to happen. The updated figures reaffirm this.

Very often one bad experience was cited as the norm; and hopefully the two research reports into this area give those of this mindset food for thought, at least to not see acquisition in a vacuum, recognise this is not a static zero-sum game and that each acquisition is unique and driven by a myriad of multi-layered factors at any moment in time. Activity in Scotland is not unique to Scotland and is broadly similar to other nations.

⁹ It should be noted that the company being dissolved or liquidated post-acquisition does not automatically mean its activity ceased. It can signify the acquired firm being brought within its acquirer's umbrella in a different legal form, but one that has no material impact on the activities of the company within its nation. Unfortunately, ZEPHYR does not provide the means to distinguish these firms from those who see activity cease.

¹⁰ pp.9-19, Hopkins (2014)

Figure 30: Inward acquisition post-deal active status, by nation (2003-2017)



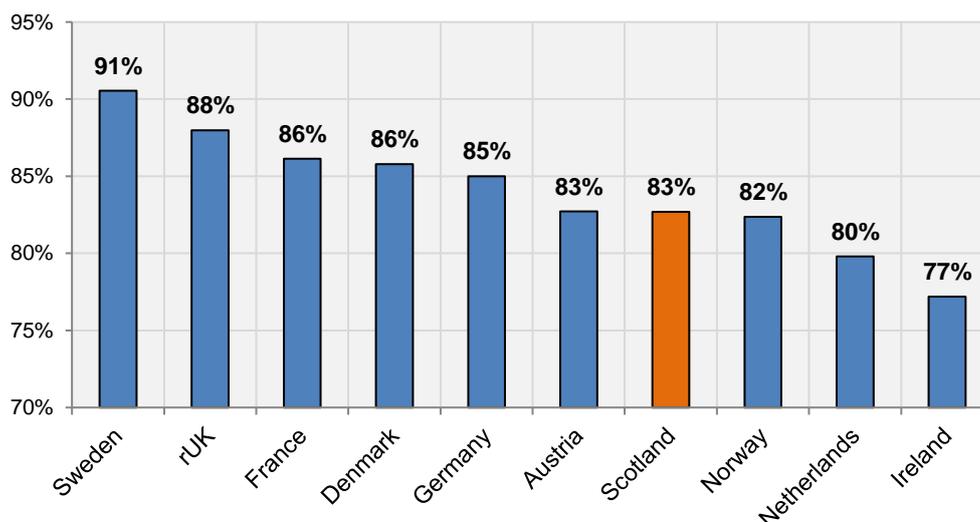
Source: ZEPHYR

Outward active status

The status of outward acquirers is arguably less positive. It should be noted at this point it is not impacted by the 10 most active companies. If anything, their presence raises Scotland’s overall performance.

Whilst 83% remaining active represents a strong performance overall (and +24 percentage points higher than the inward active rate), Scotland is one of the poorer performers in this measure and suggests there is scope for improvement. It serves as a timely reminder that whilst it is easy to hypothesise international acquisitions is an avenue for more Scottish companies to consider and pursue, it remains a fact that acquisition is extremely challenging and resource intensive for companies.

Figure 31: Outward acquisition post-deal active status, by nation (2003-2017)

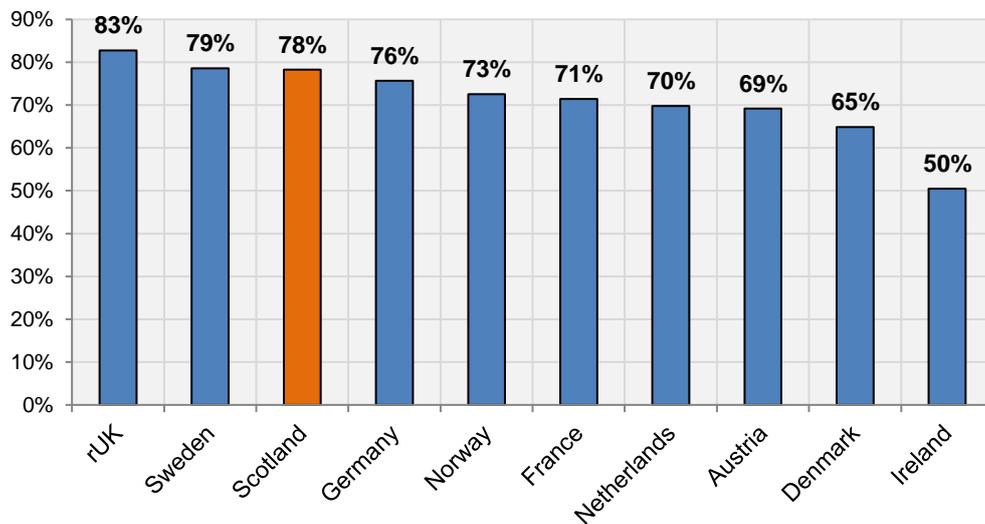


Source: ZEPHYR

Intra-acquisition active status

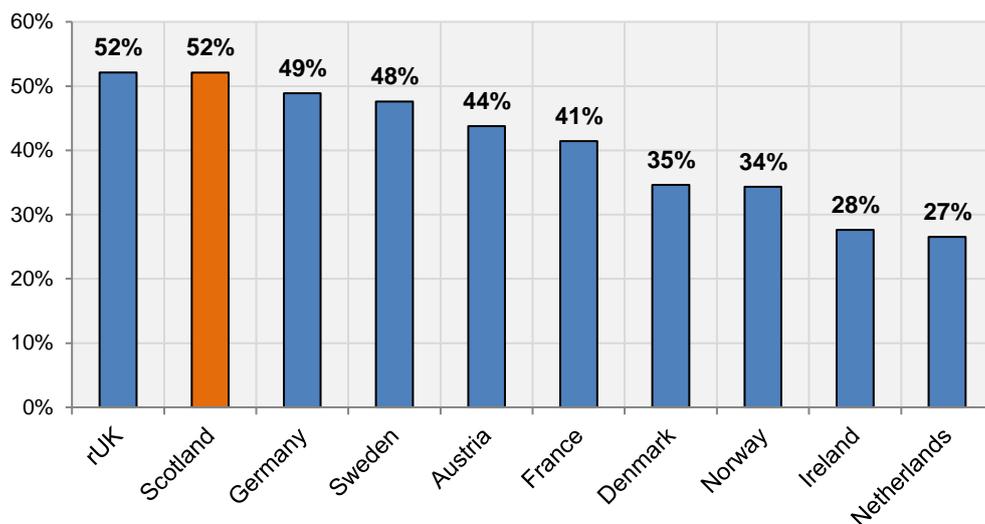
Amongst the intra-acquisitions, Scotland has amongst the highest percentage of post-deal active rates for both the acquirer and the acquired companies.

Figure 32: Intra acquirer post-deal active status, by nation (2003-2017)



Source: ZEPHYR

Figure 33: Intra acquired post-deal active status, by nation (2003-2017)



Source: ZEPHYR

Summary of main findings

- Scottish companies are acquired both internationally and domestically at a lower rate than elsewhere.
- Scottish companies are also less acquisitive than comparable nations, both internationally and within Scotland.
- Over 90% of acquisitions made by Scottish companies are of firms within the UK, a higher rate of reliance on one market than any other nation.
- Scotland (when excluding rUK) and Ireland are the most 'international' in their acquisition activity.
- The data also shows the extent to which the UK and overwhelmingly London is the centre of activity in Europe for M&A, and it appears Scotland (and Ireland to a lesser extent) are within its 'gravitational pull' because of strong cultural and geographical ties they hold.

- Scottish companies engaging in all forms of acquisitions are much younger than elsewhere.
- Median deal sizes in Scotland and elsewhere are broadly comparable (from available data). This suggests that Scottish companies are not significantly smaller despite being significantly younger.
- This suggests those acquisition active companies in Scotland may have grown faster.
- For inward acquisitions, Scottish companies have the highest post-deal active rates of all nations in the analysis.
- Scotland has a significantly higher post-deal active rate for outward acquisitions than inward acquisition (as do all nations). However, Scotland's overall performance is in the lower half across the comparator nations.
- For intra-acquisitions, Scotland has the third highest post-deal active rate for acquirers and shares the joint highest active rates for intra-acquired companies.

Reflections on the findings

This research has provided a comprehensive overview of Scotland's acquisitions market covering a period of over fourteen years. It has put the activity involving Scottish companies into both a UK and an international context, to provide at the very minimum, parameters for considering the impact as well as the pros and cons of acquisition to the Scottish economy.

Why are few Scottish company's active in acquisition?

Perhaps the most important question arising is that – given it is clear acquisition is one avenue to achieve growth – why do so few Scottish companies engage in it?

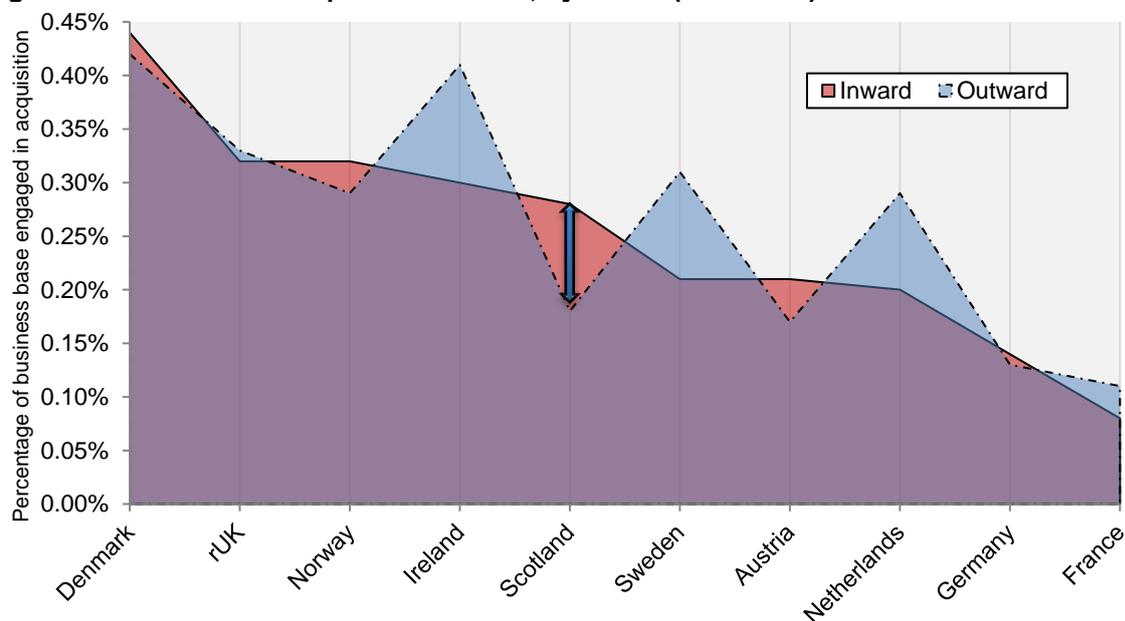
It could be argued the lack of activity flowing out of Scotland is what has brought the role, extent and nature around inward acquisitions into focus for policy-makers. After all, it is easier to focus on what is happening rather than what is not. This has, in the author's view, took the focus away from promoting growth via acquisition.

To further emphasise this point, Figure 34 shows the level of inward and outward acquisition plotted against each other; and Figure 35 overlays the overall acquisition of Scottish companies against overall acquisition activity by Scottish companies.

The evidence is clear. Figure 34 shows Scotland is at the middle for the percentage of the business base being acquired from outside, and the lowest for acquisitions going in the other direction.

Scotland's 'deficit' is the largest of all nations, and is due to the lack of outward acquisitions bringing greater balance to activity, as is seen in Denmark, rUK and Germany.

Figure 34: International acquisition 'deficit', by nation (2003-2017)

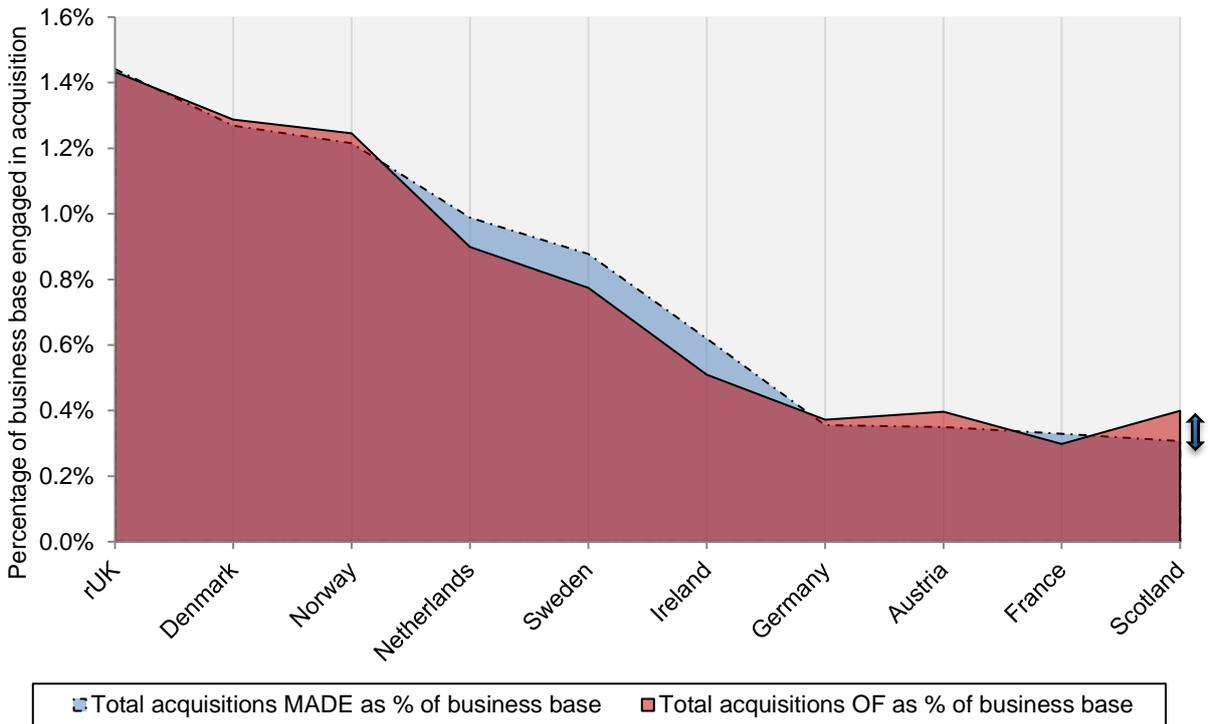


Source: ZEPHYR

When intra-acquisitions are added in order to plot all acquiring against all being acquired in Figure 35, the picture is the same.

Scotland has the lowest percentage of its business base engaging in any type of acquisition, and has the largest 'deficit' between the acquiring and the acquired.

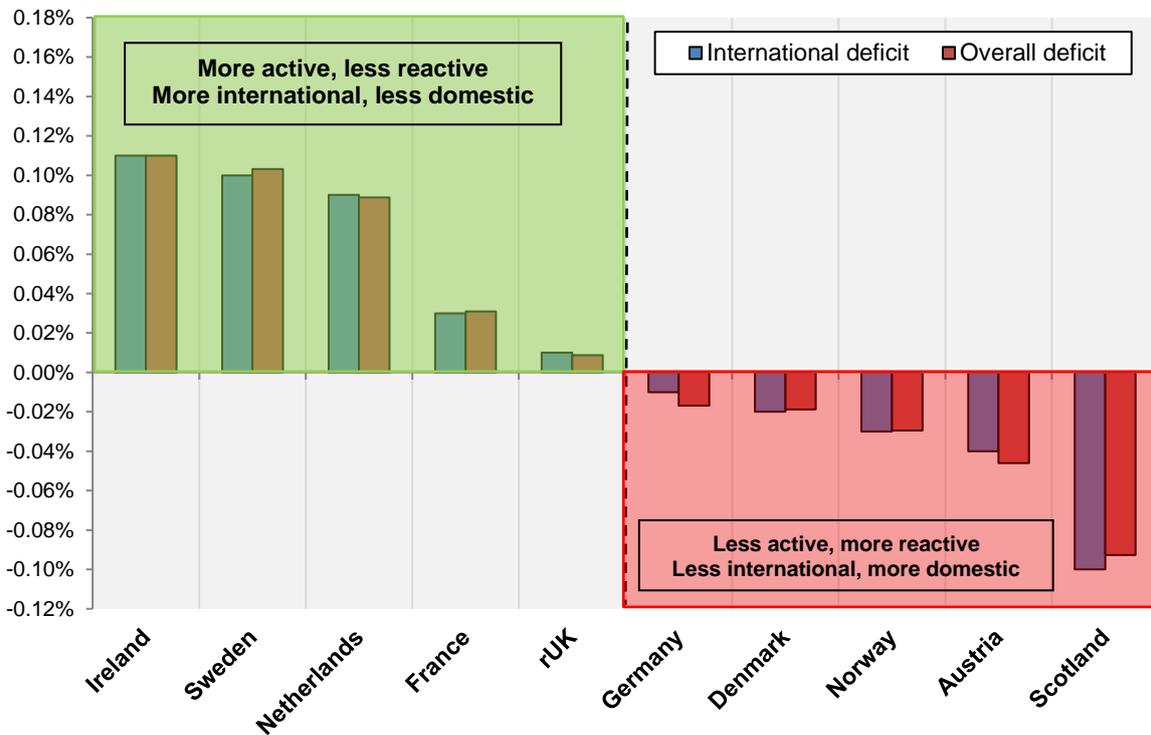
Figure 35: Overall acquisition 'deficit', by nation (2003-2017)



Source: ZEPHYR

Figure 36 shows the real challenge from an economic development standpoint for Scotland lies in becoming more active in making acquisitions, and to seek – where possible and appropriate – to extend activity internationally beyond the British Isles.

Figure 36: Acquisition 'deficits', by nation (2003-2017)



Source: ZEPHYR

Why does Scotland perform better in international comparisons for companies' post-deal active status when acquired than when acquiring?

The evidence shows in terms of inward acquisition, Scotland is no different to elsewhere and in many instances, performs better than other nations – particularly in the key indicator of post-deal active rates. This suggests Scotland is better at embedding companies in the economy and should provide some comfort to those concerned about inward acquisitions.

Whilst our understanding of this figure has changed somewhat given what we now know about the concentration of activity from rUK/London, this is good news. Scotland has a higher rate of remaining active following a takeover from outside than companies in the German Mittelstand.

This reaffirms what company interviews in the previous report emphasised. That the support provided to companies, the strong supply chains and wider benefits from Scotland's location has successfully embedded companies in their local economy, so benefits can emerge from acquisitions.

When discussing motivations in the previous interviews, it became apparent the network of public and private sector agency support, available workforce skills and expertise, and infrastructure, access to the Scottish and UK markets were attractive – and in many cases, essential requirements of the deal. These aspects lent themselves to an outcome which retained the company in Scotland post-sale, along with wider benefits to the company and economy.

These interviews and the updated data suggests that current policies designed to support, nurture and ultimately embed companies within Scotland are proving successful in yielding benefits for companies and the wider economy.

It provides a strong indication of the type of approach that is effective. It also leads to a wider policy question of whether Scotland could (and should) encourage further inward investment via acquisition, confident in its offer and ability to maximise the benefits whilst ensuring as many of the wider benefits remain in the economy?¹¹

A more open approach (and attitude) towards acquisition could – based on the data in this report and the qualitative findings of the prior research of 2014, have potentially significant economic benefits. The main issue that could be of concern would likely be around any subsequent leakage of profits.

The assumption is an inward acquisition leads to repatriation of profits, and that supposition tends to assume all profits leave. It is logical to assume that being acquired from outside Scotland invariably leads to some profits made in Scotland not remaining. However, other evidence demonstrates why this is potentially a false assumption.

The experience of the companies included as case studies in the previous report was that acquired companies in other nations require significant investment and attention from their new management, resulting in a lack of focus and investment in the headquarters back in Scotland. The experiences of Scottish companies going through acquisition significantly weakens the view that profits simply return to home nations with little or no direct or indirect impact in the location of the activity.

It was emphasised in interviews previously that without the sale taking place, the company would not be experiencing the growth in jobs, in the supply chain and have secured the investment it has subsequently. They would also not have the access to international

¹¹ ONS (2017) ['Foreign direct investment and labour productivity, a micro-data perspective 2012 to 2015'](#).

networks, larger contracts and greater expertise. In the minds of management some degree of profits not remaining within Scotland was an acceptable trade-off to secure benefits for the company and for the wider economy. They were clear that these elements would have not happened without an acquisition.

Whilst the post-deal active status for Scottish acquirers is much higher than for inward acquisitions (as it is for all nations), it is lower than several nations. This highlights that compared to the same nations Scotland outperforms in inward acquisition, it underperforms in outward.

The comparisons suggest there is scope for improvement. However, they also and remind us that whilst it is easy to hypothesise that making more international acquisitions is an avenue for more Scottish companies to consider and pursue, acquisition is extremely challenging and resource intensive for companies. This is a rather obvious statement. Making acquisitions and fusing two companies and all that entails, into one structure/organisation is a highly demanding task. Cross-border acquisitions are time-consuming and resource intensive and can draw away the benefits assumed to flow back to Scotland, such as profits.

The low level of activity by Scottish companies and the slightly weaker post-deal active rate for outward acquisition poses a policy question; of whether there could be an opportunity for awareness raising and subsequently, developing support for companies considering (or even those unaware of its potential) acquisition?

Why are faster growth companies engaging in acquisitions?

In addition to the post-deal status indicators, the most striking finding from the research is the age of Scottish companies participating in all types of acquisition. They are significantly younger (aged under 10) across the board, and the reasons for this would be worthy of specific future focus.

However, whilst they are considerably younger, it does not appear they are significantly smaller based on available data. Median deal sizes are amongst the lowest, but not considerably so.

This suggests acquisition active companies in Scotland are growing quicker than in other nations, and these faster growing companies are using acquisition to (presumably) facilitate and support their growth.

It is not surprising companies going through more frequent and intense growth phases are more active in acquisitions. Those who are being acquired are likely to be more visible, including internationally, and may also have grown to a point where initial and early investors are seeking a return, whilst the company is looking for the next phase of investment.

Evidence also shows that companies in Scotland seeking over £2m investment continue to face challenges in doing so¹². An acquisition presents an avenue to secure investment in addition to other benefits identified in the previous report around access to expertise and markets.

Many of the reasons outlined for being acquired could equally apply to those acquiring Scottish companies who have shown strong or fast-growth, and who may also be looking for a quick 'in' to a new market, to increase their capacity and acquire available resources to continue growth, or take it in a new direction.

¹² ['The Market for SME Finance'](#), 2015, Scottish Government.

But is acquisition the best route for growth for these Scottish companies?

The best post-deal active rate across all nations for inward acquisition suggests many are achieving their ambitions when being acquired. This is corroborated by the experiences of several companies interviewed previously, who saw acquisition to continue and accelerate their growth.

Equally there were companies interviewed for whom, the acquisition had worked out – but this (admittedly) was more a result of luck than strong planning or judgement¹³. It was highlighted on reflection that they would have welcomed some independent advice or support in considering the various options open to them¹⁴.

That each company interviewed had put varying degrees of time and focus into considering the various options available to them, and the relatively weaker post-deal active rate for Scottish acquirers suggests this could be an area of focus. Perhaps as part of a wider package highlighting the potential growth benefits of acquisition alongside a realistic outline of the resource challenges it can bring, support could be offered to help those companies who identify an acquisition route to growth?

Such an approach could serve a dual purpose of supporting companies to consider acquisition (where applicable) but also widening understanding of its benefits to more companies in the economy, so the proportion is less skewed towards those aged under 10 years.

Is the concentration of existing activity in the UK and London beneficial?

One of the observations from the updated data is the role of the rest of the UK and London in Scotland's acquisitions market. As London is Europe's centre for M&A activity, geographically close, part of the same market and with the cultural links, this is not surprising.

The bigger question is whether most of the activity taking place in the British Isles – a far greater concentration in one geographical area than any other nation matters, given London's global status?

The answer, like so many questions in this area, likely lies somewhere inbetween positive and negative. For those companies using acquisition in London (both inward and outward) there are likely to be a range of benefits as set out elsewhere in this and the previous report, with many amplified because of London's global standing. However, similarly the challenges are likely to be as great as anywhere.

Given London's central role in Scottish activity, with 18.9% (175 deals) of all inward acquisitions into Scotland emanating from London, and 22.9% (148 deals) of all outward acquisitions going into London, it may be worth looking in more depth at the dynamics around London and Scotland. Not just acquisition, but investment flows, value chains, talent exchange and how this strengthens but also hinders, Scotland's international business ambitions.

Given the role of acquisitions in unlocking capital for angels, private investors and other lenders, the role of London cannot be understated. Indeed, it could be argued that the close geographical relationship with a global financial centre given the evidence around cultural familiarity and geographical proximity) is one Scotland should maximise.

¹³ p.44, Hopkins (2014)

¹⁴ p.54, Hopkins (2014)

Part of this could be increasing Scottish participation in key value chains operating in and controlled via London. Given what evidence was uncovered previously about relationships often driving opportunities for acquisition, working with existing value chains and securing key roles within global value chains could provide rich opportunities for Scottish firms to expand and grow via acquisition – both inward and outward deals – reaping benefits back to the Scottish economy.

The lack of international acquisition activity – does this matter given the London ‘effect’?

Understanding more about the role of London regarding Scotland’s economy will unlock another emerging issue – does the lack of internationalised acquisitions matter?

As noted previously, the opportunities and challenges presented by acquiring within or being acquired from London are greater and success here arguably renders the perceived lack of internationalisation irrelevant. The argument being if you can succeed in one of the world’s truly global cities then you can succeed anywhere.

Given we know networks are often a source of acquisition leads and eventual activity; and that companies in London have greater, faster access as well as more opportunities to make deals across Europe, that they are making acquisitions of Scottish companies should be seen as endorsement of the quality of the businesses in Scotland.

Whilst it will undoubtedly be important to not become too focused on London, the question remains if Scotland’s fortune in having ease of access to one of the world’s major global business centres renders the issue around a lack of international activity, as a moot point?

Are there any consequences of a lack of activity amongst Scottish companies?

The inescapable fact remains that, if we accept that acquisition can be one avenue to growth, too few Scottish companies are engaged in any form of activity.

As noted previously, it is much easier to respond and comment on what happens rather than doesn’t happen, which may be why inward acquisition gets such focus.

One of the main points reiterated continuously is that acquisitions do not occur in a bubble. They are the centre point of a range of issues flowing in, at a specific time, and then flowing out in even more directions.

We know acquisitions lead to a recycling of talent, knowledge and funds. A lack of deals means there is less of these elements being unlocked. Previous work looking specifically at the first two¹⁵ has highlighted the way in which an acquisition (as well as other triggers in a growth journey or stage in a company’s journey) can act as a catalyst to disperse these elements across a wider group of people, companies and activities than would be the case if it had not occurred.

One of the main findings of the recycling research was that as careers developed, there is often a proliferation of non-executive, Board-level positions with few individuals settling into one role. As well as other experiences in business, an acquisition is an opportunity to learn and to develop knowledge of what works and doesn’t work. With too few Scottish companies being part of acquisitions, there is a concentration of knowledge and experience in too few people, which is not likely to be visible or shared widely.

¹⁵ Hopkins & Bassett, (2015)

In turn this lack of expertise, awareness and experience of acquisition *may* be a contributing factor to the rate of acquisition by Scottish companies remaining so low – because so few companies have an individual(s), or know someone who has the experience of being part of an acquisition.

Then there are the financial returns. A sale generates returns for individuals which the research into entrepreneurial recycling often is spread much wider than one company¹⁶. It also generates returns for investors who can then re-invest this into other companies.

The lack of available talent to provide advice, support and become more proactively involved in acquisition leads, as the recycling research, highlighting to existing relationships becoming even more greatly important.

It went further than relationships. Skills were critically important and individuals often did not know where they would find someone else with the requisite skills, and so maintained their network of key individuals they could draw on when they needed it. This was of benefit to those who had someone in their network, but for those without – they were often left unable to fill roles or call on specific knowledge. If there is a lack of individuals with knowledge and experience of how to navigate or even approach an acquisition, companies may be deterred or not able to fully consider it.

The above combines almost into a self-perpetuating cycle. A lack of acquisitions leads to a lack of recycling, which means:

- less knowledge being shared,
- less new investment for existing and new companies,
- less opportunities and availability for those who have exited following a sale to share these elements with multiple ‘new’ ventures (as evidence shows they do),
- less investment from angels and lenders for new companies (thus introducing the potential growth ‘losses’ from missed opportunities).

which ultimately leads to fewer acquisitions continuing.

It again speaks to one of the key lessons learnt throughout the entire body of research into acquisitions. None of this happens within a vacuum, and what might be a “loss” can and does turn into a “positive” at a future point, and vice versa.

Any attempt to address the findings of this research needs to factor in this element. Capturing those with knowledge, expertise and ideas (not to mention potential investment) in acquisition can help companies make more informed decisions about this one potential avenue to growth and lead to greater economic benefit in the short-term.

It can also lead to longer term benefits through shared learning. For example, if one person with experience can share it with four other companies, and they in turn follow suit, very soon the ripple effect becomes significant, and leads to an increase in the depth and range of the overall knowledge base across the economy.

¹⁶ Hopkins & Bassett, (2015)

Concluding thoughts

The aim of this investigation was two-fold.

Firstly, to provide comprehensive and thorough data on Scotland's acquisition market, to help ensure policy is made based on robust evidence. There are undoubtedly challenges for companies and the economy arising from acquisition. But the evidence shows acquisitions are an inevitable and unavoidable part of a modern open economy. They generate spillovers into the economy through investment, growth in jobs, international market access, and other serendipitous consequences nobody can predict. And compared to other nations, Scotland's position can fairly and justifiably be described as healthy.

Secondly and looking forward, the research intended to look at acquisition as a tool for economic growth. The data and experience of those who have been part of acquisition tells us it is being used for growth – and used successfully, by some Scottish companies.

But perhaps not enough. In every possible comparison Scotland differs because too few companies are making acquisition, not because too many are being bought from elsewhere.

Raising ambition levels, becoming more international, investing and innovating are not new concepts for those seeking to grow Scotland's economy and acquisition aligns with these ambitions. If we accept that being acquired or acquiring is one avenue for growth, then it is acceptable to say that the lack of activity by Scottish companies is limiting their potential opportunities to grow.

The question should now be why. Why is there a lack of activity by Scottish companies? Does the lack of sales create a cycle of less recycling and fewer acquisitions? Is access to finance a barrier for companies seeking to acquire (and is this affected by a lack of recycling)? Is it simply a lack of awareness of its potential? Has the negativity around the issue put people off or do they view it as simply too hard? Why are younger companies in Scotland more acquisition active and have they (as the available deal data suggests) grown faster than their international counterparts?

Further research could focus on the performance of company's post-acquisition. Whilst we know their post-deal status, we are largely blind to their post-deal financial performance. However, this could be held back by the lack of available data for firms.

The evidence has shown Scotland succeeds in embedding its companies better than elsewhere, even ahead of the Mittelstand and so confidence should be taken from this to consider a more open approach to acquisition – both of and by Scottish companies.

One element in this which may need consideration is the support, advice and assistance for companies. Are companies aware of the support? Is the lack of deals impacting on the availability of advice? Acquisition is a challenging avenue to pursue and as indicated in several interviews back in 2014, companies may welcome independent advice when considering whether it is a suitable avenue for them.

The aim of this research when it began in 2013 was to understand the nature of acquisition in Scotland and how companies were using it as an avenue to growth. The research has addressed this and many other aspects comprehensively.

To that end, it is hoped the focus in regards to acquisition is where it should be; between Scottish companies making them, and Scottish companies being acquired, with focus on integrating acquisitions as an avenue to growth and internationalisation for Scottish companies, and wider benefits into the economy.

Appendices

Appendix 1

SE Sector Definitions

Energy (including renewables):

SIC 05: Mining of coal and lignite
SIC 06: Extraction of crude petroleum and natural gas
SIC 09: Mining support service activities
SIC 19: Manufacture of coke and refined petroleum products
SIC 20.14: Manufacture of other organic based chemicals
SIC 35: Electricity, gas, steam and air conditioning supply
SIC 36: Water collection, treatment and supply
SIC 38.22: Treatment and disposal of hazardous waste
SIC 71.12/2 Engineering related scientific and technical consulting activities
SIC 74.90/1 Environmental consulting activities

Financial and Business Services:

SIC 64.1: Monetary intermediation
SIC 64.3: Trusts, funds and similar financial entities
SIC 64.9: Other financial service activities, except insurance and pension funding
SIC 65: Insurance, reinsurance and pension funding, except compulsory social security
SIC 66: Activities auxiliary to financial services and insurance activities
SIC 69.1: Legal activities
SIC 69.2: Accounting, bookkeeping and auditing activities; tax consultancy
SIC 70.2: Management consultancy activities
SIC 71.129: Other engineering activities (not including engineering design for industrial process and production or engineering related scientific and technical consulting activities)
SIC 73.2: Market research and public opinion polling
SIC 74.3: Translation and interpretation activities
SIC 78.109: Activities of employment placement agencies (other than motion picture, television and other theatrical casting) n.e.c.
SIC 78.3: Other human resources provision
SIC 82.1: Office administrative and support activities
SIC 82.2: Activities of call centres
SIC 82.3: Organisation of conventions and trade shows
SIC 82.91: Activities of collection agencies and credit bureaus
SIC 82.99: Other business support service activities n.e.c.

Food and Drink:

SIC 01: Crop and Animal Production, Hunting and Related Service Activities
SIC 03: Fishing and Aquaculture
SIC 10: Manufacture of Food Products
SIC 11: Manufacture of Beverages

Life Sciences:

SIC 21: Manufacture of basic pharmaceutical products and pharmaceutical preparations
SIC 26.6: Manufacture of irradiation, electromedical and electrotherapeutic equipment
SIC 32.5: Manufacture of medical and dental instruments and supplies
SIC 72.11: Research and experimental development on biotechnology
SIC 72.19: Other research and experimental development on natural sciences and engineering

Textiles

- SIC 13: Manufacture of textiles
- SIC 14: Manufacture of wearing apparel
- SIC 15: Manufacture of leather and related products

Sustainable Tourism (Tourism related Industries)

- SIC 55.1: Hotels and similar accommodation
- SIC 55.2: Holiday and other short-stay accommodation
- SIC 55.3: Camping grounds, recreational vehicle parks and trailer parks
- SIC 56.1: Restaurants and mobile food service activities
- SIC 56.3: Beverage serving activities
- SIC 79.12: Tour operator activities
- SIC 79.9: Other reservation service and related activities
- SIC 91.02: Museum activities
- SIC 91.03: Operation of historical sites and buildings and similar visitor attractions
- SIC 91.04: Botanical and zoological gardens and nature reserve activities
- SIC 93.11: Operation of sports facilities
- SIC 93.199: Other sports activities (not including activities of racehorse owners) nec
- SIC 93.21: Activities of amusement parks and theme parks
- SIC 93.29: Other amusement and recreation activities

Technologies and Advanced Engineering

- SIC 24: Manufacture of Basic Metals
- SIC 25: Manufacture of Fabricated and Metal Products, except mach/equip
- SIC 26: Manufacture of Computer, Electronic and Optical Products
- SIC 27: Manufacture of Electrical Equipment
- SIC 28: Manufacture of Machinery and Equipment (not elsewhere classified)
- SIC 29: Manufacture of Motor Vehicles, Trailers and Semi-Trailers
- SIC 30: Manufacture of Other Transport Equipment
- SIC 33: Repair and Installation of Machinery and Equipment
- SIC 62: Computer Programming, Consultancy and Related Activities
- SIC 71: Architectural and Engineering Activities; Technical Testing and Analysis

Aerospace, Defence, Marine

- SIC 13.940: Manufacture of cordage, rope, twine and netting (NB Not exclusively 'marine')
- SIC 25.400: Manufacture of weapons and ammunition
- SIC 26.110: Manufacture of electronic
- SIC 26.701: Manufacture of optical precision instruments
- SIC 28.110: Manufacture of engines and turbines, except aircraft, vehicle and cycle engines
- SIC 30.110: Building of ships and floating structures
- SIC 30.120: Building of pleasure and sporting boats
- SIC 30.300: Manufacture of air and spacecraft and related machinery
- SIC 30.400: Manufacture of military fighting vehicles
- SIC 33.150: Repair and maintenance of ships and boats
- SIC 33.160: Repair and maintenance of aircraft and spacecraft
- SIC 38.310: Dismantling of wrecks
- SIC 84.220: Defence activities

Chemical Sciences

- SIC 19: Manufacture of coke and refined petroleum products
- SIC 20: Manufacture of chemicals and chemical products
- SIC 21: Manufacture of basic pharmaceutical products and pharmaceutical preparations

Construction

- SIC 41: Construction of buildings
- SIC 42: Civil engineering
- SIC 43: Specialised construction activities

Forest & Timber Technologies

SIC 02: Forestry and logging

SIC 16: Manufacture of wood and of products of wood and cork, except furniture;
manufacture of articles of straw and plaiting materials

SIC 17: Manufacture of paper and paper products

Creative Industries

SIC	Description	Proportion of SIC (%)
73.11	Advertising agencies	100
73.12	Media representation	100
71.11	Architectural activities	100
47.78/1	Retail sale in commercial art galleries	100
31.09	Manufacture of other furniture	100
32.12	Manufacture of jewellery and related products	100
32.13	Manufacture of imitation jewellery and related articles	100
47.79/1	Retail sale of antiques and antique books	100
95.24	Repair of furniture and home furnishings	100
71.12/1	Engineering design activities for industrial process and production	100
90.01	Performing arts	100
90.02	Support activities to performing arts	100
90.04	Operation of arts facilities	100
78.10/1	Motion picture, television and other theatrical casting	100
59.2	Sound recording and music publishing activities	100
18.20/1	Reproduction of sound recording	100
32.2	Manufacture of musical instruments	100
74.20/1	Portrait photographic activities	100
74.20/2	Other specialist photography (not including portrait photography)	100
74.20/9	Other photographic activities (not including portrait and other specialist photography and film processing) n.e.c.	100
18.20/2	Reproduction of video recording	100
59.11/1	Motion picture production activities	100
59.11/2	Video production activities	100
59.13/1	Motion picture distribution activities	100
59.13/2	Video distribution activities	100
59.14	Motion picture projection activities	100
58.21	Publishing of computer games	100
62.01/1	Ready-made interactive leisure and entertainment software development	100
59.11/3	Television programme production activities	100
59.13/3	Television programme distribution activities	100
60.1	Radio broadcasting	100
60.2	Television programming and broadcasting activities	100
58.11	Book publishing	100
58.13	Publishing of newspapers	100
58.14	Publishing of journals and periodicals	100
58.19	Other publishing activities	100
18.11	Printing of newspapers	100
18.129	Other printing (not labels)	100
18.13	Pre press and media services	100
63.91	News agency activities	100
91.01	Libraries and archive activities	100
58.29	Other software publishing	100

SIC	Description	Proportion of SIC (%)
62.01/2	Business and domestic software development	100
62.02	Computer consultancy activities	100
85.52	Cultural Education	100
90.03	Artistic creation	70
16.29	Manufacture of other wood products	30
23.41	Manufacture of ceramic household and ornamental articles	35
23.49	Manufacture of other ceramic products	35
23.13	Manufacture of hollow glass	15
23.19	Manufacture of other glass	15
13	Manufacture of textiles	25
14	Manufacture of wearing apparel	20
15	Manufacture of leather and related products	20
74.1	Specialised design activities	25
74.1	Specialised design activities	75
59.12	Motion picture, video and television programme post-production activities	25
59.12	Motion picture, video and television programme post-production activities	75
90.03	Artistic creation	30

SIC 59.12 is partly under Film & Video (25%) and Radio & TV (75%)

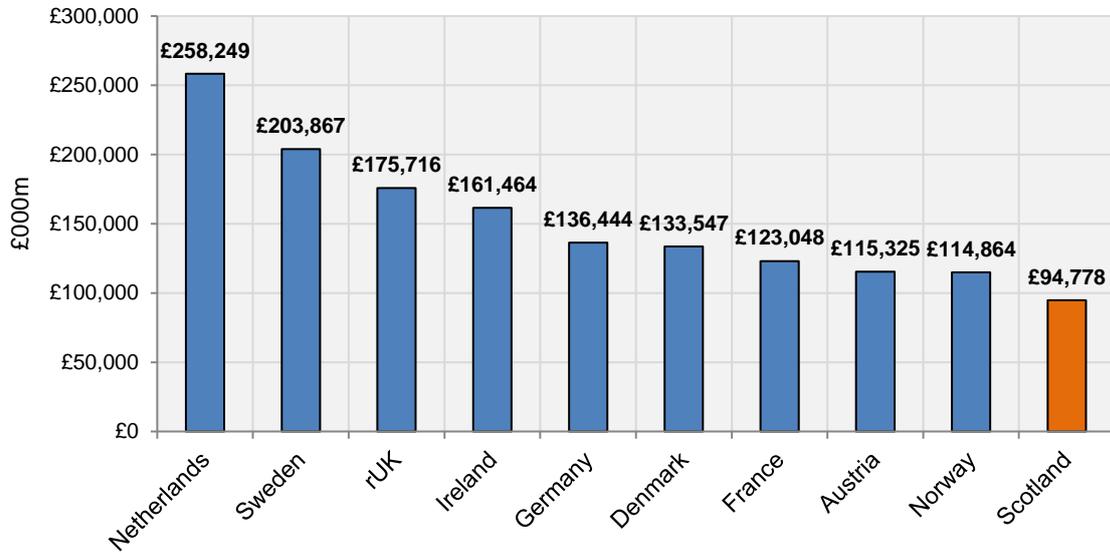
SIC 74.1 is partly under Fashion & Textiles (25%) and Design (75%)

SIC 90.03 is partly under Visual Art (70%) and Writing and Publishing (30%)

Appendix 2

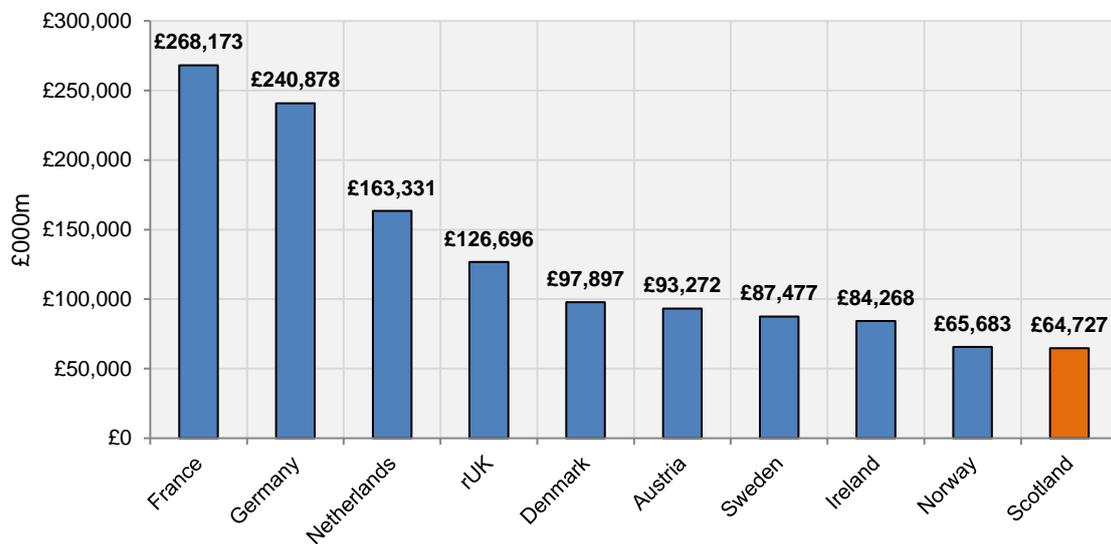
Acquisitions average deal size comparisons – by nation (2003-17).

Inward acquisitions average deal size by nation (£s) (2003-2017)



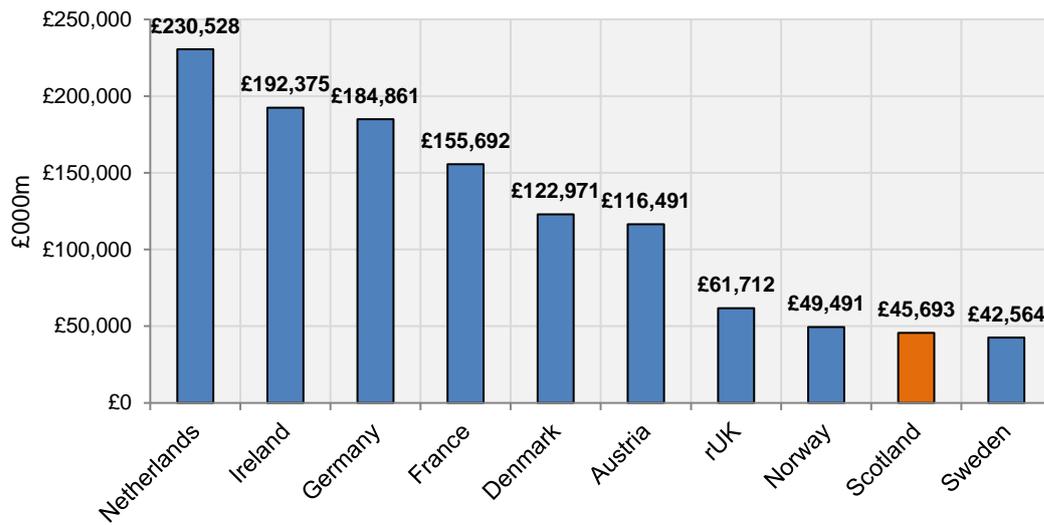
Source: ZEPHYR. Based on 34% of all data.

Outward acquisitions average deal size by nation (£s) (2003-2017)



Source: ZEPHYR. Based on 36% of all data.

Intra acquisitions average deal size by nation (£s) (2003-2017)

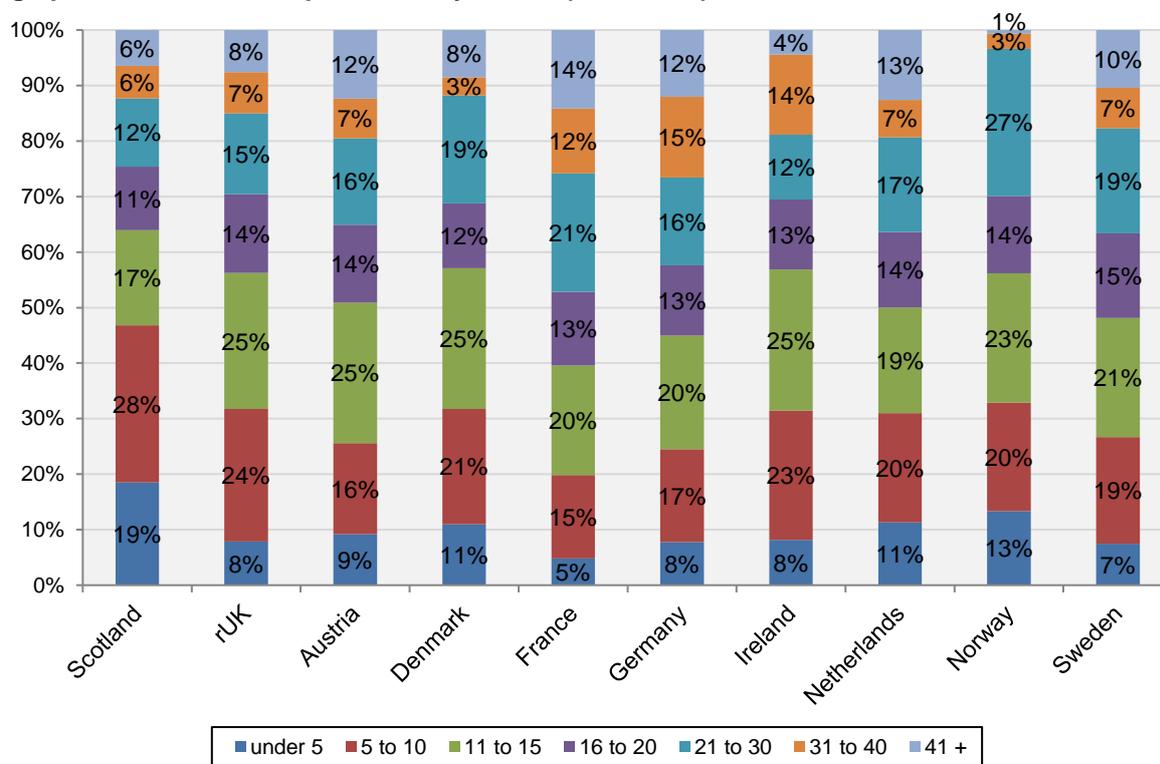


Source: ZEPHYR. Based on 23% of all data.

Appendix 3

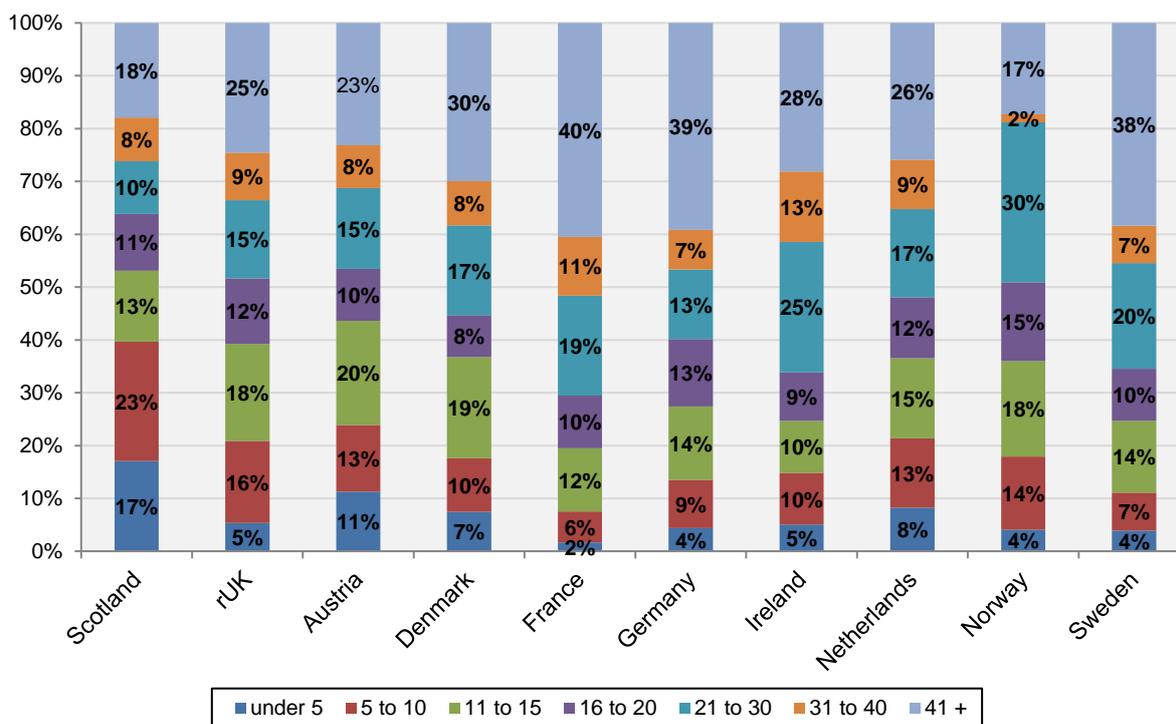
Age profile by type of acquisition 2003-17. By nation.

Age profile of inward acquisitions, by nation (2003-2017)



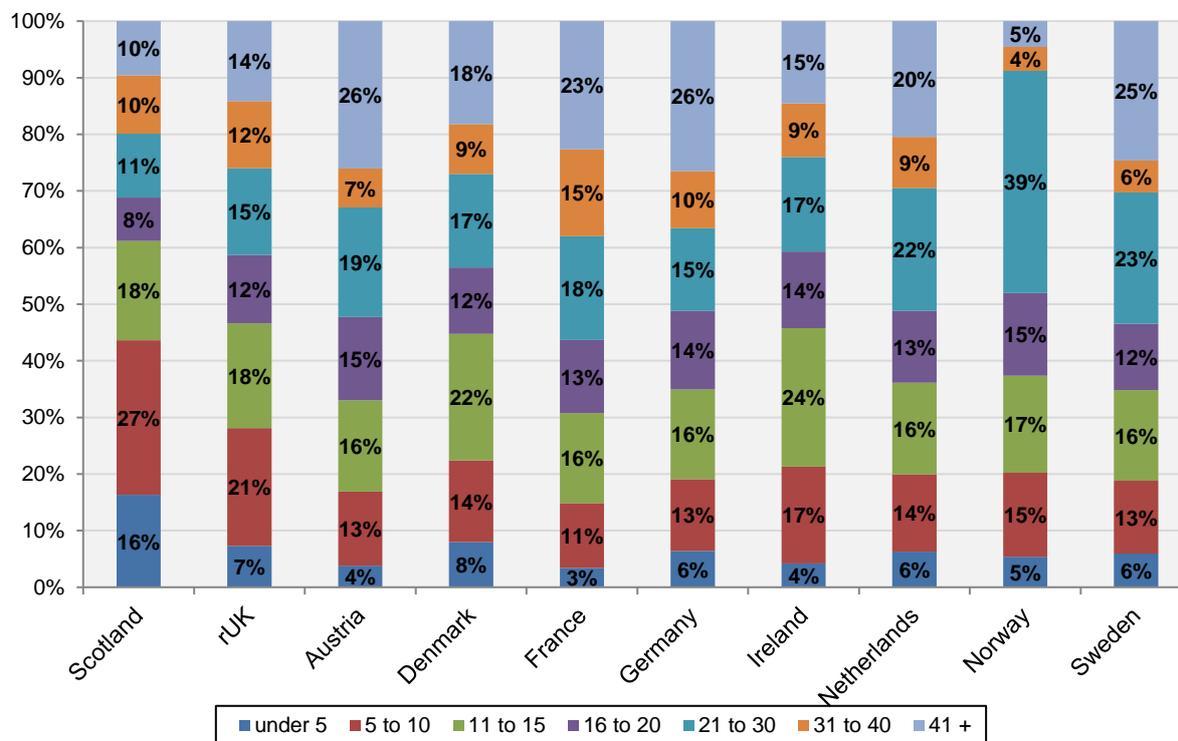
Source: ZEPHYR. Excludes deals with no age available.

Age profile of outward acquisitions, by nation (2003-2017)



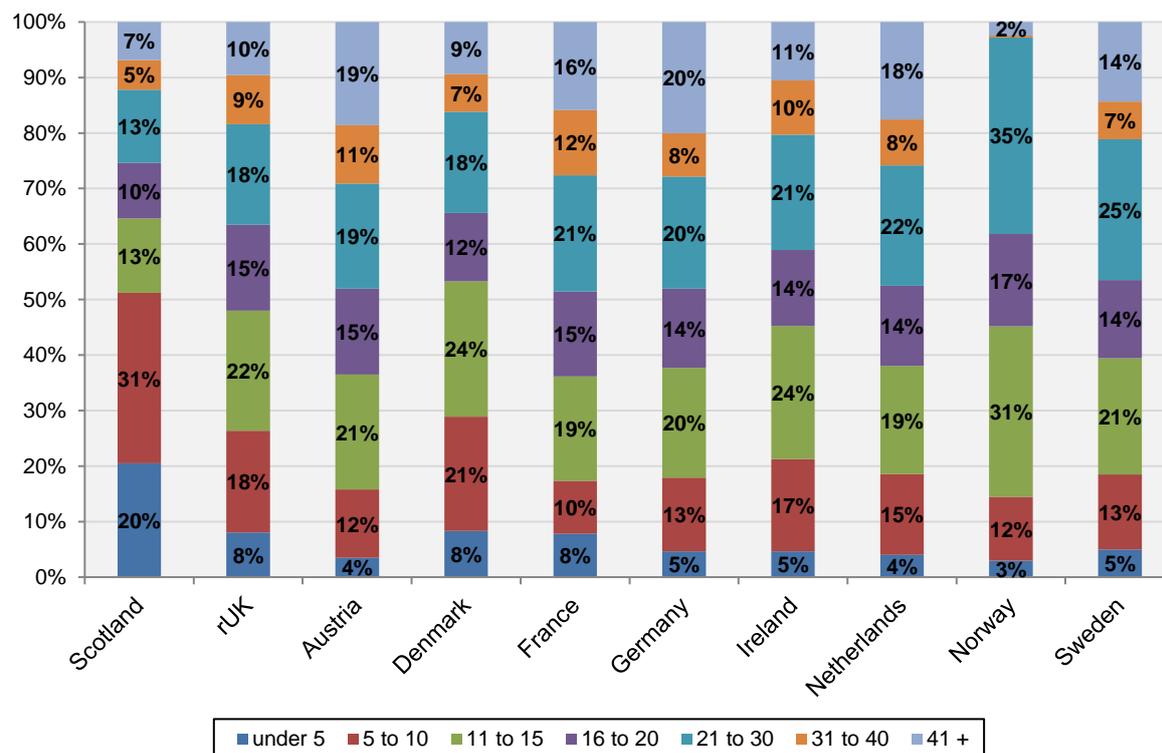
Source: ZEPHYR

Age profile of intra acquirers, by nation (2003-2017)



Source: ZEPHYR

Age profile of intra acquired companies, by nation (2003-2017)



Source: ZEPHYR

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