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ADDRESSING INVESTMENT SENTIMENT

A KEY UK CORPORATE CHALLENGE

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JULY 2026

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As we approach the second half of 2026, the economic outlook remains challenging, coupled with political uncertainty. However, there are signs that the investment community is developing an increasing degree of interest in assessing potential transactional opportunities because valuations are becoming attractive and companies want (or need) to participate. Indeed, many professional participants in the UK financial world are describing life today as “incredibly busy". While this might not be reflected in their current earnings, it is encouraging that the environment has improved from, say, a year ago when matters seemed to lack much urgency.

However, this change might not be obvious to many outside observers, judging by, for example, the absence of new UK IPOs and the share performance of many quoted companies. Nevertheless, it appears that the funding is available, should opportunities arise. It is also important to appreciate that the UK’s private company world is gaining more attention from a broader audience, but it lacks the visibility of public markets. The focus now must be on ensuring that viable transactions are completed, rather than just being considered. For our economy to recover and grow, these issues need addressing.

Markets have always displayed cyclical elements, with investor confidence (or lack of it) being a key factor, resulting from time-to-time in a dramatic change in share price performance and market sentiment. Today, some highly experienced commentators believe that UK investor sentiment can only get better; there are a variety of high-quality companies in key sectors, and many valuations are now at levels where they believe the risk/reward is potentially compelling. In summary, those on the buy-side are essentially well-placed but often will commit only once they have been reassured by the reaction of others.

As an example, let’s look at recent US market activity: is the current focus on new IPOs a sign of growth in investor confidence or is this an “AI Bubble”? We will probably find out soon; but, in the near-term, it results in rising ongoing awareness among investors to consider a changing risk/reward environment and timescale.

However, it is also true that, for investors to be able to evaluate new opportunities, clearly, they need to be connected to appropriate news flow and to receive adequate information to assess the risk/reward for their specific circumstances.

But, before we provide some thoughts on practical solutions, let us take a step back:

As already mentioned, recently, many UK shareholders and potential new investors have felt little sense of urgency to support UK companies in their growth objectives. Essentially, they have been in ‘RISK ON’ mode but happy for others to go ahead and provide capital. That said, recent data on overall new EIS and SEIS investments in the last tax year provide a degree of comfort.

UK private company sector from a commercial perspective

For the remainder of this article, we focus on the UK private company sector from a commercial viewpoint, and begin with two basic elements:

1. The UK's impressive entrepreneurial talent typically requires external funding, on a timely and appropriate basis, to maximise opportunities. If we fail to provide such support, our companies will disappear or the intellectual property will not remain UK-owned.

2. There has been a growing trend for experienced owners to consider exiting their businesses, as their medium-term outlooks appear challenging. However, to achieve this goal, their valuation expectations need to be realistic and the sale process needs to be effective.

Many UK businesses, therefore, may need to reassess their investor communications, while remaining in compliance with regulations. Feedback from UK corporate presentations suggests that many investors are becoming much better informed about the businesses and increasingly impressed with managements but are not yet able to decide if they wish invest.

So, for investors to turn on the 'RISK OFF' switch, what needs to be done? First, any new investors need to be reassured that they are "on the same page" as management.

From a practical viewpoint, management teams need to be clear about how investors perceive them, bearing in mind a range of objectives:

- Summarise the business's state of play today.
- Produce clear, consistent and realistic business plans and budgets.
- Maintain the trust of their existing shareholders.
- Meet investors face-to-face, wherever possible, to build up a rapport.
- Explore how to identify and connect with a broader audience of potential investors.

The focus, then, must be on understanding clearly what investors need to know to help them make an appropriate investment decision, bearing in mind a range of different objectives. Of course, investors need to assess a range of other factors before coming to their conclusion, but unless they are comfortable with the company, they will not proceed.

Let us conclude by referring to two specific matters, as examples of key factors that any board should be aware of:

1. **Financial resilience:** Many companies are highly articulate when describing their businesses in greater and greater detail. However, once investors comprehend the basic specifics, their attention may turn to understanding the financial resilience to any unforeseen pressures today before evaluating the longer-term opportunities. In a bull market, this question rarely arises; the assumption, typically, that a company will achieve management's objectives in the medium and short term and additional financial resources will be available as required – and at a higher valuation. Today, we are not yet at the point where investors' focal length extends beyond the near term.

2. **Valuation:** This is a topic about which, in many cases, management has a specific figure in mind but which might not be reflecting current investor sentiment. While valuations are only confirmed once an appropriate transaction has taken place, it is important for all parties to appreciate a realistic valuation range before commencing on any project, whether it be for fundraising or M&A purposes. Referral to widely accepted approaches such as the International Private Equity & Venture Capital Valuation Guidelines ("IPEV") is strongly recommended to provide a framework.

Conclusion

In conclusion, there is no doubt we are living in interesting times! Predicting the future is never easy, but the UK has already absorbed a lot of commercial pressure while retaining a significant amount of entrepreneurial ambition that needs financial support to achieve goals. Let's hope that, in the second half of 2026, we will begin to see evidence of an increase in investor sentiment and a boost in the UK's economic growth over the medium term.

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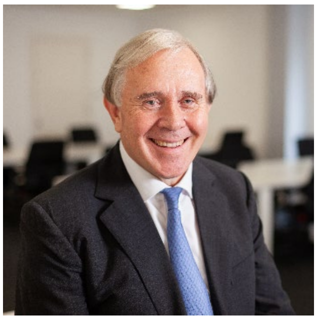

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He has more than 30 years of City experience. His primary area of focus has been US equity capital markets, and he has been involved predominantly in the development of growth companies. Richard has experience on both the buy and sell sides. Having worked for M&G as a fund manager, Richard then worked for US investment banks Alex Brown & Sons and Furman Selz. Latterly, Richard was Managing Director and Head of Institutional Sales for Europe at FBR & Co. Besides being involved in many public flotations, Richard's experience includes pre-IPO capital raises.

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