MERGERS AND ACQUISITIONS ARE ESSENTIAL FOR TECH SME BUSINESS GROWTH

Mergers and acquisitions (M&A) are essential for the growth and sustainability of tech SMEs. While it is appropriate to review the mergers of large companies with dominant market share, we have ongoing concerns with the recent regulatory actions investigating and delaying smaller acquisitions and mergers. While appropriate oversight is important, it's essential that this does not discourage pro-competitive deals that empower tech SMEs to thrive. As the Draghi report found in the EU, a system bogged down in red tape could severely jeopardise vital M&A avenues for SMEs. This limits the ability for UK companies to raise initial funding, innovate, and generate growth.

IMPORTANCE OF M&A FOR SMALL TECH COMPANIES

M&A are critical pathways for tech SMEs to scale, attract investment, and bring innovative products to market. These transactions are often the most viable exit strategy for entrepreneurs. Joining forces with larger and more established companies allows innovators to scale up, improve their offerings, and better compete in the market.

Smaller companies and startups should be able to merge with each other or with larger companies without long delays or investigations that create uncertainty and could block deals. The prospect of a merger or acquisition provides SMEs and startups with essential elements that are key to their growth and development including:

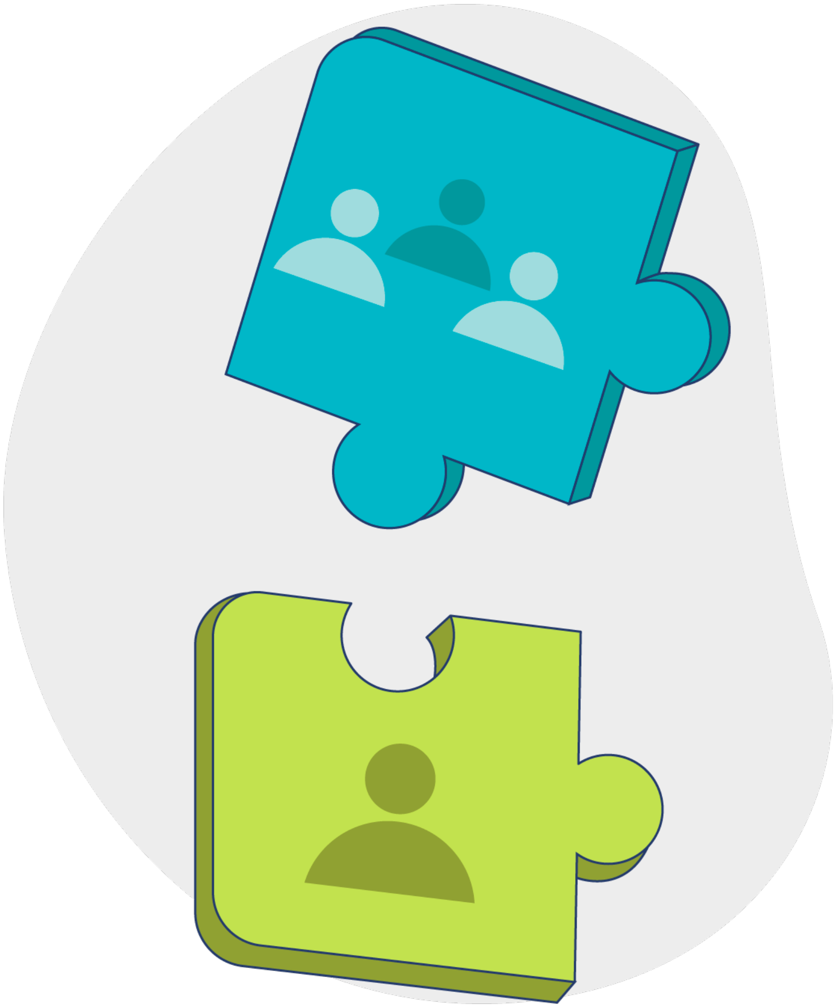
- **Expanded Resources and Expertise**
  Mergers can bring SMEs the necessary resources and expertise to thrive, benefitting not just the business but also the wider economy and consumers helping to drive innovation and create jobs. This is especially true for founders who specialise in the product they developed but are not necessarily able to create some of the complementary aspects of businesses like marketing or compliance, which can be supplied by a merger with a larger company.

- **Alternative Financing**
  SMEs developing apps and software are less able to obtain traditional bank loans because their products and services are not physical. Traditional business loans typically require physical collateral to secure the debt. As a result, alternative financing sources—like angel investing, venture capital, and mergers—are even more important for software-centred SME companies.

- **Increasing Enterprise Value**
  Even companies that do not pursue an acquisition will need funding at various stages of their growth, at which point the valuation of the company is key. Removing the option to reward investors through a merger or acquisition can reduce enterprise value and severely impact a founder's ability to secure funding. Without adequate funding, these companies may never reach the stage where an acquisition is possible.

THE IMPACT OF RECENT REGULATORY ACTIONS

On 13 February 2025, the CMA announced new merger control reforms focused on the 'four Ps': Pace, Predictability, Proportionality, and Process. These measures aim to promote growth, investment, and business confidence through clearer guidance, streamlined reviews, and a new Mergers Charter. While these proposals include positive elements, any changes must be grounded in robust economic analysis, not isolated cases or hypotheticals.



The App Association encourages UK policymakers to exercise caution when interpreting or updating M&A rules. It is critical that policymakers prioritise reducing red tape and introducing greater support for SMEs through valuation and M&A opportunities.