

Turning the Corner? European M&A Outlook 2024

A study of European M&A activity

September 2023

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Methodology

In Q2 2023, Mergermarket surveyed senior executives from 240 corporates and 90 private equity firms based in Europe, the Americas and the Asia-Pacific (APAC) regions about their expectations for the European M&A market in the year ahead. Among the 330 executives interviewed, 70% are headquartered in Europe, while the remaining 30% are split equally between the Americas and the APAC regions. 85% of all respondents have been involved in an M&A transaction over the past two years and 81% plan to undertake an M&A transaction in the coming year. All responses are anonymous, and results are presented in aggregate.

Foreword



*Louise Wallace,
Head of CMS
Corporate/M&A*

Welcome to the eleventh edition of the CMS European M&A Outlook, published in partnership with Mergermarket.

M&A activity in Europe this year has been entangled in higher inflation, rising interest rates and an uncertain economic outlook. Deal values have fallen markedly, yet volumes are down only marginally. In contrast to 2021 and 2022, today's environment is one where smaller transactions predominate.

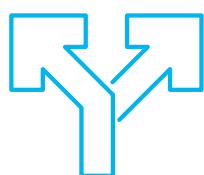
While this may be due partly to the lower risk appetite among acquirers generally, increased financing costs and more caution among lenders are also contributing to this decline in bigger-ticket dealmaking, in particular following a spate of bank collapses in early 2023. Interest rates have risen several times this year across Europe, the US and UK, as inflation has proved more stubborn than expected. Yet, while inflation is still well above the European Central Bank's (ECB) 2% target, it has trended downwards since the start of 2023 and the threat of recession in the region appears to be receding. The European Commission recently upgraded the European Union's (EU) GDP projections to 1% for 2023 and 1.7% for 2024.



*Malte Bruhns,
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Projections for M&A activity over the coming year are mixed, with private equity firms notably more bullish than their corporate counterparts. Yet the vast majority of respondents to our survey anticipate being involved in the M&A market over the coming period, suggesting a healthy volume of activity in the near term. And, as valuations appear to have stabilised over the course of 2023, the stage looks set for a meeting of minds between buyers and sellers over the medium term – at which point M&A may well start truly turning a corner.

Key findings from our research include:



M&A expectations have moderated and diverged

Though the bulk of respondents (43%) expect the level of European M&A activity to drop in the next 12 months a very sizeable minority (35%) are forecasting an increase. A divergence has emerged, with private equity dealmakers notably more optimistic than their corporate counterparts.



Macro backdrop weighs on dealmakers

When asked to identify the greatest challenges to financing acquisitions over the next 12 months, respondents were quick to cite inflationary pressures (40% of their top two choices) and underlying economic weakness (38%).



ESG scrutiny will create new deal opportunities

Although the vast majority of respondents (85%) expect M&A activity to come under more scrutiny relating to environmental, social & governance (ESG) regulations over the next three years, almost two-thirds (64%) also believe ESG regulation will ultimately provide a boost to dealmaking in Europe.

Window of opportunity

Pablo von Siebenthal, Global Head of M&A at Swissport International, the world's largest aviation services group, introduces this year's M&A Outlook by reflecting on the current buyer's market in Europe and how dealmakers might best capitalise on opportunities around the region



Pablo von Siebenthal, Global Head of M&A, Swissport International

People seem to have very short memories these days. Hardly a year and a half has passed since Russia began its full-scale invasion of Ukraine, and already this ongoing, existential conflict not too far from our doorsteps seems to have almost fallen out of Europe's daily news discourse. Most of us dealmakers, and us humans more broadly, tend to be optimistic and have a habit of neglecting structural issues that hang in the background. As an example, the colder months are almost upon us, and it seems as though we in Europe have already forgotten last year's crisis around energy supplies, an issue that countries will soon have to contend with again.

The volatile economic and political environment has made this a very interesting time for dealmaking. In my own experience and in speaking with other M&A practitioners, advisers and investment bankers, there was a noticeable gap last year between the global dealmaking environment and dealmaking in Continental Europe. The M&A market in Germany, for example, was very stable for most of 2022 and only began to slow down a bit in early 2023 and impact small and mid-sized deals as well.

Nominally at least, comparisons between recent M&A activity and

pre-pandemic dealmaking are actually quite favourable, except for the very large deals. But there have been key structural changes to the market over the last few years. We've transitioned quickly from a strong seller's market to a distinct buyer's market, one in which creative deal structures and financing solutions are coming to the fore for corporates as well as private equity (PE) firms.

In the recent past, when EBITDA multiples were rising every year and the financing environment was more robust, investors could comfortably look two or three years ahead and already achieve a lot of value through multiple expansion until exit. With still elevated multiple levels at 12x EBITDA globally, and the rather uncertain economic outlook in the near term, one cannot rely on valuation multiples continuing to rise. Today, investors must focus more on operational improvements.

For large corporates like Swissport International, this is actually a great environment from an M&A perspective. We are able to engage in more narrow sale processes. You hardly see wider auctions where sellers reach out to 50 parties and all the strategic buyers are put under tremendous pressure to be super-fast and super-aggressive.

Now we can focus on doing a thorough review of the asset, including a detailed commercial and operational assessment, which is invaluable for strategic acquirers. And we can be even more selective about the situations in which we choose to engage.

There is a wealth of markets and industries in Europe that could present valuable opportunities to prudent dealmakers. Iberia is mentioned frequently by the dealmakers who participated in the survey that underpins this report as the region in Europe that will see especially high M&A growth over the next 12 months. The UK is the most popular response, though I suspect a pick-up in activity in that more-volatile market will depend mostly on financing conditions improving.

When it comes to markets in Western and Southern Europe, we are seeing these countries benefit greatly from very strong tourist demand, which of course is a big driver in our business. This is directly related to our business, but I feel it benefits these economies overall tremendously. Relatedly, survey respondents believe the consumer & leisure space will see high M&A growth and are even more bullish on the energy and technology sectors.

Central & Eastern Europe (CEE) seems to divide opinion. Over a third of the survey respondents in this study said they expect the region to see the lowest growth in M&A activity over the next 12 months, which surprised me. It might be related to a sentiment that the wider region will continue to be impacted by the war in the Ukraine. But CEE is also identified as the third leading investment destination in Europe after the UK & Ireland and Benelux. A popular subject of conversation in the world of transportation and logistics over the last couple of years has been the “nearshoring” or “friendshoring” of manufacturing and distribution networks. Eastern Europe features plenty of good and relatively safe locations for nearshoring. Poland, the Czech Republic and Hungary stand out as having very good connectivity to Asia, and I believe these countries will benefit a lot. Globalisation is here to stay and international supply chains will not suddenly evaporate as business drivers.

Another important lesson from the last years is that businesses must not put all their eggs into one basket. Supply chain issues at ports, in key sea routes and at airports have made diversification increasingly important. With that in mind, nearshoring will definitely continue

to benefit CEE markets, and perhaps countries like Portugal and Spain, which also benefit from lower cost facilities and experienced workforces in key European industries.

Suffice to say, there are reasons to be optimistic as a dealmaker in Europe, even more from strongly capitalised corporates. But it is important that we do not overplay our cards. There is a buyer’s market, but as buyers we must not overestimate our relative leverage position compared to the seller – after all, sellers can still decide not to do a deal, or to wait for a better offer while focusing on further growing their businesses themselves.

The financing markets and overall dealmaking environment can change very quickly. All of a sudden, corporates may find themselves in a position where PE players return to the arena and compete with you again on price and on deal speed. Right now there is a window of opportunity for large corporates with strong balance sheets, synergies and operational capabilities. However, this window may not stay open for very long.

Spotlight on CEE

Marija Tešić, Partner at CMS Serbia, and Błażej Zagórski, Partner at CMS Poland, react to the findings of our latest study and share their thoughts on the outlook for CEE



Marija Tešić,
CMS Serbia

How have M&A markets throughout CEE evolved as a result of developments in the region, particularly with respect to the ongoing war in Ukraine and sanctions against Russia?

Marija Tešić: 2022 started with various challenges – geopolitical tensions following the outbreak of war in Ukraine, followed by inflation, escalating interest rates, and problems with energy distribution. Nonetheless, M&A markets throughout CEE proved to be resilient. Market players were cautious, but transactions were still moving forward, adapting to the new, unfortunate, circumstances.

It became increasingly apparent that the war would not end as quickly as some initially expected. The year ended with predictions that 2023 would be the hardest period for the regional economy so far, although this is yet to be seen. Sectors such as telecoms and IT, as well as energy & utilities, remained strong within the CEE's M&A landscape, together with the industrial and real estate sectors.

In light of the geostrategic conditions in CEE since Russia's full-scale invasion of Ukraine began, in addition to macroeconomic issues, how has the region's M&A space performed this year?

Błażej Zagórski: The macroeconomic challenges have been decisive here; these factors play a critical role in M&A and the sentiment of market participants. Geostrategic and political aspects are also considered, but as a secondary issue.

The level of M&A activity in H1 2023 was rather moderate. Also, when compared with

H1 2022, a material decline can be seen. However, the general perception is that the market performed better than expected, with several headline deals being announced and an increase in activity compared to Q4 2022 and in each of the first two quarters of 2023. There is evidence that more targets are coming or are about to come to the market.

To what extent, if any, have some countries been able to capitalise on the consequences of the Russia-Ukraine conflict?

MT: Shortly after the geopolitical tensions between Russia and Ukraine started, a surge in dealmaking occurred. Global investors were aiming to cut their connections with Russia and offload their jointly-held subsidiaries with Russian firms or move investments to other countries. CEE nations have been seen as an alternative for these relocations.

The situation is more specific in Serbia, which has not imposed sanctions on Russia. Hence, the country has been of interest for foreign investors pulling out of Russia, but also for Russian entrepreneurs seeking to relocate their businesses and to distance themselves, their families and economic interests from Russian aggression. These factors contributed to increased deal activity in Serbia. However, the region as a whole has, of course, faced serious difficulties as a direct or indirect consequence of the Russian aggression.

BZ: The Russia-Ukraine conflict exacerbated macroeconomic challenges and added geostrategic complexity in the region. The end of the war and the launch of the reconstruction process would be a major

boost for the region, particularly for countries directly neighbouring Ukraine. Such a boost could open new possibilities for M&A.

What have been the main drivers of M&A in CEE through the first six months of this year?

MT: What is specific for CEE countries is a rather favourable treatment of foreign investors, relatively low taxation and lower labour costs, and less strict state-aid and FDI regimes (especially in non-EU countries). This has made the region a preferred destination for companies looking to establish their foothold in Europe or expand their existing operations.

BZ: Investors can benefit from solid foundations in the CEE market, such as space for market consolidation in many sectors, a significant pool of talent and lower labour costs, as well as technological innovation. As in the last few years, we observe that the energy transition and digitalisation are driving activity. Both sectors have benefitted from their resilience to macroeconomic pressures. Strategic investors are also actively seeking to increase their market position. In turn, as in other regions, PE funds are more cautious and rather focused on managing and growing portfolio companies.

Leaving the Russia-Ukraine war to one side, how is the near-term macroeconomic outlook for CEE shaping up? Which countries seem best placed to rebound strongly in 2024?

MT: While the remainder of 2023 and 2024 are expected to be challenging, the region's strong businesses, innovative dealmaking, and the ongoing support of the EU's Resilience and Recovery Facility will offset the macroeconomic challenges. Poland has so far been a clear winner regarding deal flow volume. Countries like Estonia, Lithuania and Latvia, have attracted substantial foreign direct investments in recent years, but this positive trend has been jeopardised by the ongoing conflict in Ukraine and its impact on neighbouring economies.

Looking at Balkan countries, Slovenia remains an attractive market with numerous small and medium-sized export-oriented companies. Croatia's appeal has also grown, especially following its entry into the eurozone and Schengen area, bolstering confidence in regional stability. North Macedonia has investment potential, contingent upon improvements in political stability and regulatory enhancements that ensure security for foreign investors.

Which sectors will record a meaningful uptick in deal activity over the next 12-18 months?

BZ: Technology and energy will be among the most active sectors, reflecting long-term trends and the availability of high-quality targets. I would also expect an uptick in the manufacturing sector, in connection with supply-chain diversification and a more positive economic outlook, as well as in healthcare, where we already see increased deal activity. If the region's geostrategic situation improves, this could be a driver for activity in other sectors, such as infrastructure and transportation. Still, a key challenge will likely be to overcome valuation gaps, but finding common ground could become easier in more favourable economic conditions.

MT: As we approach the end of 2023, it is clear that market uncertainty – about inflation, interest rates and energy sources – will continue to influence decision-making in the year to come. Of course, conditions are never perfect, and rarely, if ever, entirely calm. But after all, as the writer Vivian Greene once said, "Life isn't about waiting for the storm to pass, but about learning how to dance in the rain."

Core market maturation augurs well for GCC

Between their natural resource wealth and ambitious development programmes, Gulf countries are in a strong position to grow into an increasingly important player on the global M&A stage



Graham Conlon,
CMS UAE



John O'Connor,
CMS UAE



Patrick Daintry,
CMS UAE

M&A activity decelerated in H1 2023 across the Gulf Co-operation Council (GCC) – namely the United Arab Emirates (UAE), Kingdom of Saudi Arabia (KSA), Bahrain, Kuwait, Qatar and Oman – with a 20% decrease in volume and a 51% decrease in value from H2 2022. However, that is more a reflection of the worldwide dip in M&A activity than activity in the Middle East.

The decreased appetite for M&A on a global scale has meant that GCC assets were targeted in 104 transactions worth EUR 10.2bn in H1 2023, compared to 147 transactions worth EUR 23bn in H1 2022. The UAE appears to have weathered the slowdown better than other GCC states, recording a generous 65 deals worth EUR 7.5bn in H1.

Outbound investment remains a key theme for the GCC. In H1 2023, a total of 74 deals involving sovereign wealth fund (SWF) acquirers were announced globally. Of those 74 deals, 23 (31%) were GCC SWFs, worth a combined USD 6.6bn. The M&A activity generated from GCC SWFs in H1 2023 is robust by historical comparisons – GCC SWF bidders were on average involved in just over 30 deals annually between 2018-2021.

Investments by SWFs account for most of the deals originating from the GCC, with many funds investing in regions with high growth potential, such as

Central & Eastern Europe, as well as in emerging industries such as medtech, artificial intelligence and other advanced technologies. They are also investing in new verticals to consolidate local markets in strategic industries, including sectors driven by regional national security policies.

The KSA's Public Investment Fund (PIF), for example, recently acquired stakes in four local construction companies worth USD 1.3bn to improve local supply chains for current and upcoming projects in the Kingdom, while UAE SWFs have continued exploring (among various other sectors) agriculture and water technology assets.

Strategic importance

Foreign direct investment into the KSA and UAE reached a record level of EUR 41.6bn in 2022 and is expected to further grow in 2023. The KSA's 'Vision 2030' aims to privatise certain public-owned industries (including education and healthcare) and to invest in infrastructure to support its increasing renewable energy initiatives, high-tech mega cities and giga projects such as NEOM, ROSHN, AIUla and the Red Sea Project, which together will cost at least USD 650bn.

Similarly, the UAE's Mohammed Bin Rashid Al Maktoum Solar Park and Etihad Rail's UAE railway (expected to link the UAE with all of the GCC states) are

testament to the UAE's renewable energy and infrastructure initiatives. Both the KSA and UAE are and will remain attractive target economies in the GCC, particularly as they continue to adapt their laws to facilitate foreign ownership of local companies or assets.

Technology, media & telecoms (TMT) contributed more GCC deals in H1 2023 than any other sector, with TMT assets being targeted in 28 deals worth EUR 3.6bn. The next best industry after TMT in terms of deal volume was professional services, which logged 22 deals worth a combined EUR 1.9bn in H1. We expect meaningful growth in these best performing sectors, in addition to the transport and manufacturing industries, which are key target sectors for most of the GCC states, as well as the tourism and hospitality spaces in the UAE, KSA and Oman.

Global appeal

North America and Europe remain the main areas of inbound investment into the GCC. The highest bidders in value terms in H1 2023, however, were Canadian, contributing EUR 2.7bn

from two deals – most of that value was generated from Canadian-owned Brookfield Asset Management's acquisition of Network International Holdings (NIH), a payments provider in Dubai.

We are increasingly seeing interest from Chinese and Indian investors in the GCC region and expect this to grow in the coming years, especially as the KSA market matures. The GCC is expected to be sufficiently resilient to global headwinds in light of its energy self-sufficiency (and anticipated steady oil prices), national growth plans and upcoming mega and giga projects. The GCC is already in a strong position so long as its traditional manufacturing, construction, industrial and energy sectors continue to show a steady flow of M&A activity.

Despite the political and economic obstacles faced by its European counterparts, the GCC has not been dissuaded from investing into Europe, as evidenced by the acquisition by UAE telecoms group e& of a majority stake in PPF Telecom Group's assets, consisting of CETIN and O2 assets across Bulgaria, Hungary, Serbia

and Slovakia, for EUR 2.15bn in August 2023. Challenging conditions in Europe have generated opportunities for well-capitalised GCC states and local businesses to pursue outbound investment strategies, where we anticipate that TMT and manufacturing, as well as traditional real estate, hospitality and logistics, will be sectors of interest.

M&A environment and expectations for the year ahead

After heady post-pandemic activity, European M&A has started to feel the effects of a changed macroeconomic environment

Top findings

35%

expect European M&A activity to increase in the next 12 months, while 43% are anticipating a fall

48%

say inflation and interest rate rises will be the biggest obstacles to dealmaking

36%

say undervalued targets will drive buy-side activity

It seems that European M&A does not defy gravity, after all. In 2021 and even in 2022, as Russia's full-scale invasion of Ukraine last year pushed inflation to levels not seen in decades, deal volumes broke records and aggregate value figures remained higher than before the pandemic.

However, H1 2023 was more subdued as M&A activity started to reflect a more challenging macroeconomic backdrop. At EUR 316bn, deal value in H1 2023 fell 47% versus the EUR 596bn recorded in the same period in 2022, while deal volume dropped 12%, to 7,608 (against 8,635 deals in H1 2022).

Factors weighing on deal activity included predictions of weak economic growth and the threat of

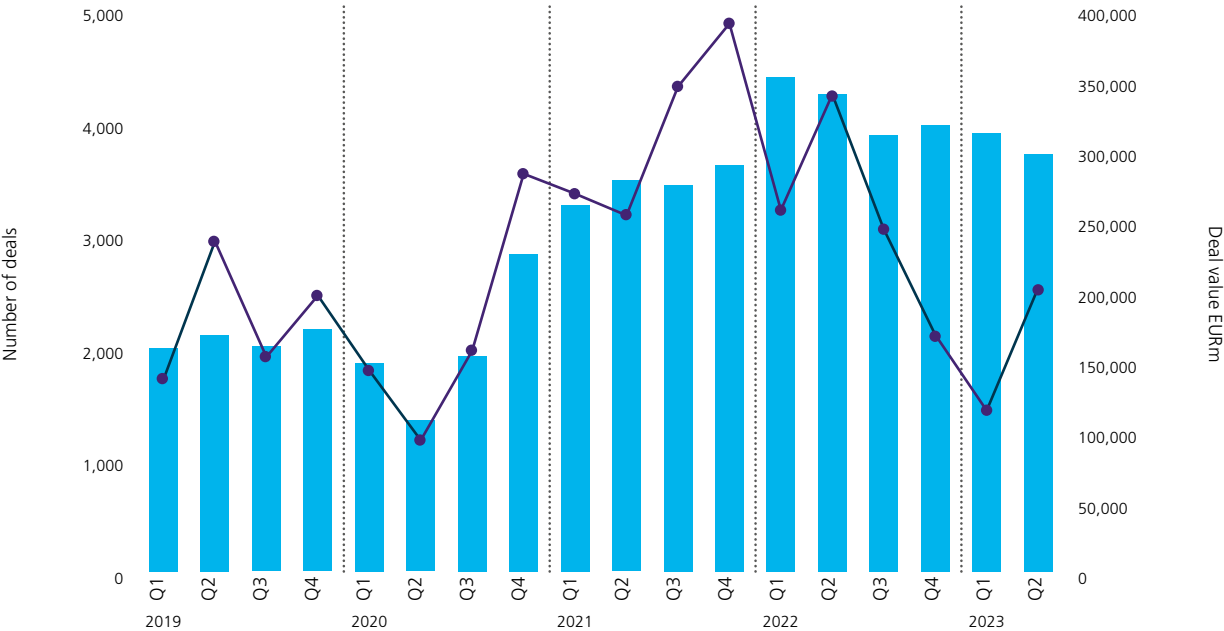
recession in some markets – in April, the International Monetary Fund was forecasting contraction for the UK and Germany, among others, for 2023. Interest rates rising to levels not seen in more than 15 years as a response to stubbornly high inflation also stifled M&A activity. These headwinds are evident in the sharper decline in deal value than by volume: there is a clear preference among dealmakers for smaller transactions as acquisition finance has become costlier and more difficult to arrange, and many buyers are avoiding larger, potentially riskier deals to focus on infill purchases.

As a result, the largest transaction in H1 2023 was markedly smaller than the highest value deal in

“ The technology, energy and healthcare sectors have exhibited notable resilience amidst the European M&A downturn due to their essential nature in an era of international crisis and vulnerability. The accelerated digital transformation and increased focus on energy transformation have contributed significantly to their relative strength over the past 12 months. **”**

Richard Mitterhuber, CMS Germany

European M&A trends 2019-Q2 2023



H1 2022. Last year, the top spot for the first half went to Blackstone Group and Edizione’s EUR 42.7bn acquisition of Italian infrastructure company Atlantia; this year, the biggest deal of the first six months, worth EUR 16bn, was the merger of agricultural trading companies Bunge, from the US, and Netherlands-headquartered Viterra. It is a sizeable deal for the sector, reflecting the rise in profits made by grain traders as the Ukraine war has created cereal shortages and volatility in agricultural markets.

The second largest deal – US-headquartered Carrier Group’s purchase of German heat-pump manufacturer Viessmann Climate Solutions for EUR 12bn – is a play on the energy transition and sustainability mega-trends as Carrier seeks to reposition itself towards low-carbon technologies and away from areas such as fire, security and refrigeration.

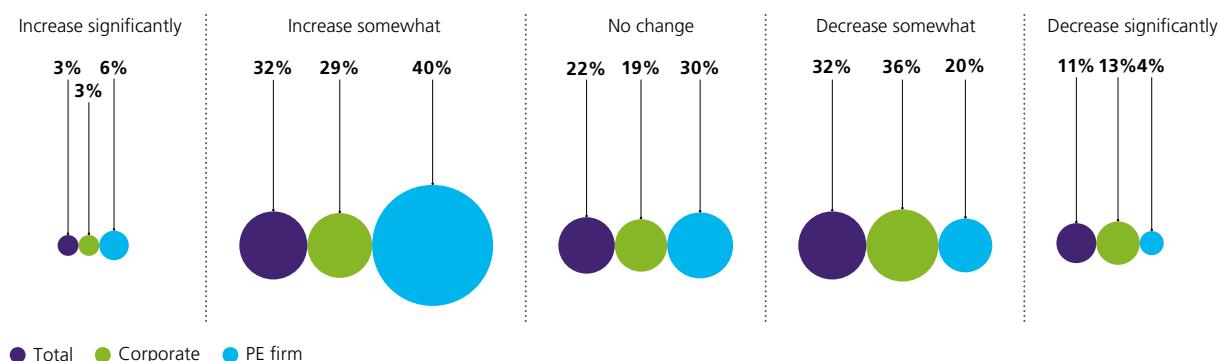
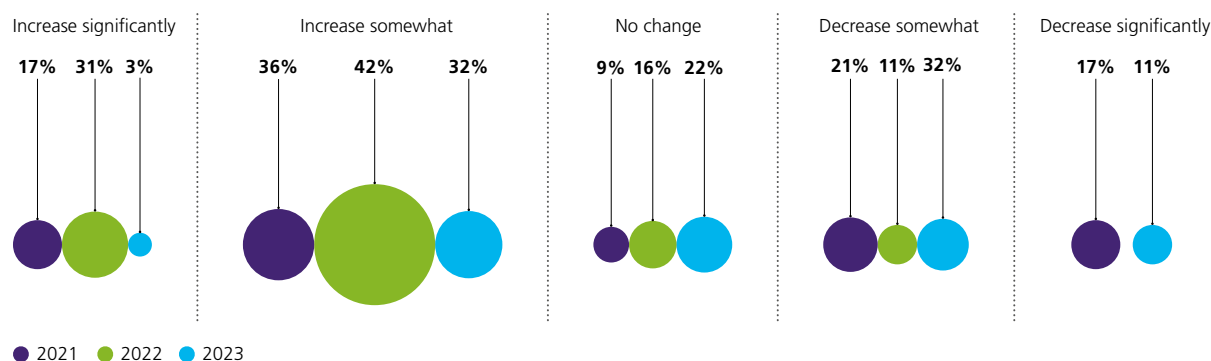
As has been the case for several years now, the technology, media & telecoms (TMT) industry recorded the highest deal value by sector

for H1 2023, with EUR 55.3bn of transactions. Notable deals included the EUR 6.9bn merger of UK mobile telecommunications companies Vodafone and Three, announced in June. Yet this total is down considerably from the same period in 2022, when EUR 110bn of TMT deals were announced. This decline is partly a result of lower deal values overall, but also of the great revaluation of technology businesses last year, particularly among publicly-listed companies. The NASDAQ, for example, fell by more than 33% through 2022.

European M&A top 20 deals, H1 2023

Announced date	Target company	Target sector	Target country	Bidder company	Bidder country	Deal value EUR(m)
13/06/2023	Viterra Ltd (100% stake)	Business services	Netherlands	Bunge Ltd	USA	15,967
25/04/2023	Viessmann Climate Solutions SE (100% stake)	Industrials & chemicals	Germany	Carrier Global Corporation	USA	12,000
22/05/2023	NatWest Group plc (4.95% stake)	Financial services	United Kingdom	NatWest Group plc	United Kingdom	8,856
14/06/2023	Hutchison 3G UK Ltd (100% stake)	TMT	United Kingdom	Vodafone UK Ltd	United Kingdom	6,944
13/04/2023	Dechra Pharmaceuticals Plc (100% stake)	Pharma, medical & biotech	United Kingdom	Luxinva S.A.; EQT Fund Management Sarl; EQT AB	Sweden	5,549
01/02/2023	Orpea S.A. (50.2% stake)	Pharma, medical & biotech	France	Caisse des Depots et Consignations – CDC; CNP Assurances S.A.; MAIF; Mutuelle d'Assurances du Corps de Sante Francais	France	5,048
18/04/2023	Bollere Logistics S.A.S. (100% stake)	Transportation	France	CMA CGM S.A.; Merit Corp Sal	France	5,000
29/03/2023	Webhelp S.A.S. (100% stake)	Business services	France	Concentrix Corporation	USA	4,477
27/04/2023	SimCorp A/S (100% stake)	TMT	Denmark	Deutsche Borse AG	Germany	4,003
26/06/2023	Orange Square Co Ltd (100% stake)	Consumer	United Kingdom	Kering S.A.	France	3,500
11/04/2023	DATA4 Group (100% stake)	Business services	France	Brookfield Infrastructure Partners L.P.	France	3,500
13/03/2023	Icade Sante S.A.S. (64% stake)	Real estate	France	Allianz France; Primonial Real Estate Investment Management	France	3,455
19/03/2023	Credit Suisse Group AG (100% stake)	Financial services	Switzerland	UBS AG	Switzerland	3,256
15/06/2023	SoftwareONE Holding AG (100% stake)	TMT	Switzerland	Bain Capital L.P.	USA	3,166
26/04/2023	Majorel Group Luxembourg S.A. (100% stake)	Business services	Luxembourg	Teleperformance SE	France	3,035
13/03/2023	Synlab AG (57% stake)	Pharma, medical & biotech	Germany	Cinven Ltd	United Kingdom	2,655
09/06/2023	Network International Holdings plc	Financial services	United Kingdom	Brookfield Asset Management Inc.	Canada	2,613
02/05/2023	euNetworks Group Ltd	TMT	United Kingdom	Investment Management Corporation of Ontario; APG Asset Management N.V.	Netherlands	2,613
21/04/2023	Software AG (100% stake)	TMT	Germany	Silver Lake Group LLC	USA	2,605
31/03/2023	Polyplus Transfection S.A. (100% stake)	Pharma, medical & biotech	France	Sartorius Stedim Biotech S.A.	France	2,400

What do you expect to happen to the level of European M&A activity over the next 12 months?



Outlook mixed for European M&A – corporates and PE diverge

Respondents are somewhat more hesitant about the prospects for European M&A over the next 12 months than they were at this point last year, when 73% forecast an increase in activity. While more than a third (35%) say they expect the level of European M&A to rise over the coming 12 months, 43% of respondents predict a drop in activity, including 11% who say it will decrease significantly.

However, the breakdown according to respondent type shows a divergence of expectations. Corporate respondents are considerably less optimistic about the outlook, with 49% expecting the level of European M&A to drop. Meanwhile, just 24% of private equity respondents say this, with 46% anticipating a higher level of activity. The difference of opinion is likely down

to the sharp fall in buyout activity in Western Europe in 2022 (this declined from EUR 361.6bn in 2021 to EUR 277.4bn in 2022, a 23% drop). Buyout activity has since fallen further in H1 2023, with new deals totalling EUR 61.4bn in Western Europe – this may be leading many private equity executives to believe that the market is already at, or close to, its nadir.

Furthermore, despite a fall in fundraising figures for 2022, global dry powder among private capital firms (which includes private equity, private debt as well as areas such as private infrastructure funds) continued to rise, from around USD 3.2tn in 2021 to USD 3.7tn in 2022, of which 29% resides with buyout houses. Private equity firms continue to have considerable firepower to acquire businesses in what looks set to be a lower valuation environment. Additionally, the search for suitable add-on acquisitions remains a relevant notion.

Barriers to dealmaking – inflation, financing costs and valuation gaps

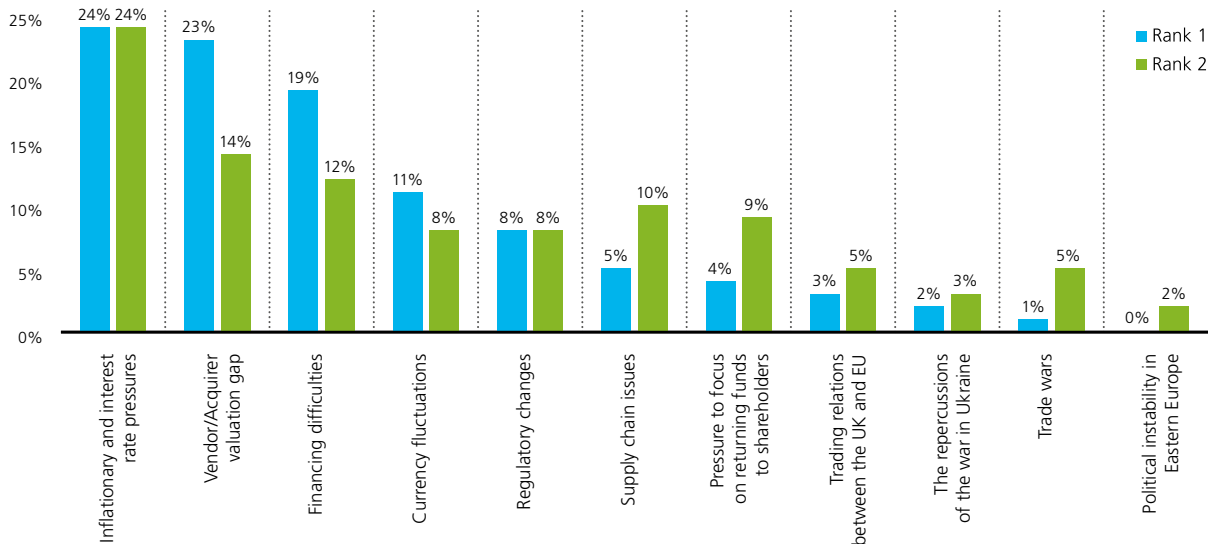
Inflationary and interest rate pressures top the list of hurdles to European M&A activity in the coming year – nearly half of respondents (48%) rank this as one of their two greatest obstacles. Compounding the uncertainty inflation is causing about the economic outlook are increased financing costs for acquisitions as interest rates have risen – financing difficulties come in as the third biggest barrier, with 31% putting this in the top two in their list of concerns.

Reflecting this, a France-based TMT CFO comments: “Considering deals in an inflationary climate can be somewhat risky as it may not be possible to generate anticipated returns within reasonable timeframes. With interest rates also high, there are fewer deal financing options.”

Market-related issues also need to work through the system. Following last year’s stock market declines, and reflecting a combination of elevated inflation, higher financing costs and a more uncertain economic outlook, buyers are more circumspect about the price they are prepared to pay for businesses, while sellers have yet to adjust their expectations. Over a third of respondents (37%) expect valuation gaps to put the brakes on M&A activity, making it the second biggest barrier to dealmaking.

A Canadian director of operations and strategy at an energy company, for example, says: “Valuation gaps will be the principal obstacle to completing deals on time. Mainly in Europe, businesses are confident that the value of their assets will increase as the economy grows. The buyer may not have the same opinion.”

What do you believe will be the principal obstacles to M&A activity in Europe over the next 12 months? (Please select top two, 1 = biggest obstacle, 2 = second biggest obstacle)



U The collapse of the Silicon Valley Bank in the US has sparked concerns about potential contagion spreading to European banks. The sector is still nervous, but the swift rescue of Credit Suisse by UBS and the application of Basel 3 prudential rules to all European banks (rather than just systemic banks, as in the US) offers reassurance regarding the stability of the European banking system. **U**

Marc-Etienne Sebire, CMS France

Higher for longer

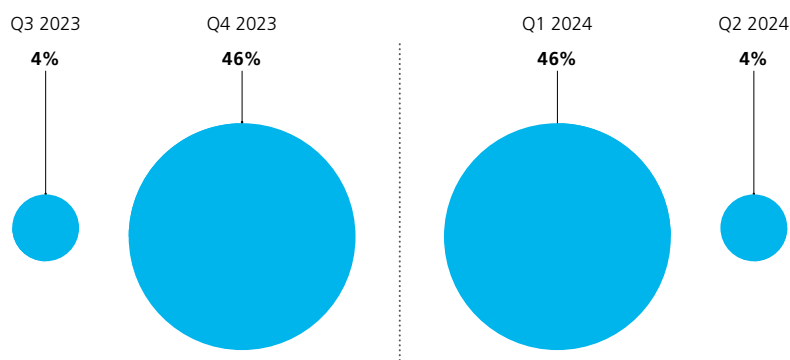
While inflation has waned somewhat in recent months – the UK's consumer prices index fell from an 8.7% rise annualised in May 2023 to 7.9% in June while eurozone price rises registered at 5.5% in June, down from 6.1% in May – the issue has been more persistent than many had expected around 18 months ago, when the talk was of transitory inflation.

The ECB increased its main rate by a quarter point in July to 3.75% despite recent falls in inflation, having previously said it is “projected to remain too high for too long”, while the Bank of England raised the UK base rate to 5.25% in early August. Likewise the Federal Reserve increased its rate by 0.25% in July to a target range of 5.25%-5.5%, the highest in 22 years, with the committee saying it remained “highly attentive to inflation risks”.

Our survey respondents, meanwhile, are more optimistic about the prospects over the medium term. Nearly half (46%) expect the ECB and other central banks to lower interest rates in Q4 2023, while another 46% say they expect interest rates to come down in Q1 2024, with many respondents citing the need to spur growth as a factor in reducing rates.

A Swedish private equity firm partner, for example, says: “I expect them to lower interest rates by the last quarter of 2023 – by then, there will be a need to stimulate economic growth and provide more flexibility on debt products. It would offer better dealmaking opportunities, too.”

When do you expect the European Central Bank and other systemically important monetary authorities in Europe to begin lowering interest rates? (Please select only one)



Due to rising interest rate levels, acquisition finance became more expensive and there were often very different expectations on valuations of businesses between seller and purchaser. For that reason one should not underestimate the positive effect which ECB interest rate cuts will have on dealmakers. It will definitely be good news for the M&A market.

Maximilian Grub, CMS Germany

Deal drivers – undervalued targets and turnaround opportunities to spur activity

As was the case in last year’s survey, respondents see undervalued targets (36%) and turnaround opportunities (35%) as the greatest buy-side drivers for M&A activity in Europe over the coming year. This is unsurprising, given the fall in public company valuations over the past 18 months. Despite some recovery this year, the STOXX Europe Total Market Index, for example, was down around 7% from its all-time high at the start of January 2022 to the end of H1 2023.

In a shift from last year’s report, however, cash-rich corporates and private equity buyouts are further down the list of buy-side drivers. Last year, these came in second and third place, respectively; this year, corporates with cash occupies fourth place, while private equity is way down in seventh place. This contrasts with previously mentioned responses on deal activity expectations for the next year among private equity firms

– with valuations trending lower and buyout houses benefiting from a cushion of dry powder, buyouts may be a stronger force over the coming 12 months than many respondents anticipate, even amid higher financing costs.

The challenging economic backdrop is also expected to feed into sell-side M&A drivers over the next 12 months, with distress-driven deals at the top of the list (38% rank this in their top two). With insolvencies already on the rise through 2022, Allianz at the start of 2023 predicted a sharp rise of 21% for the year ahead as low

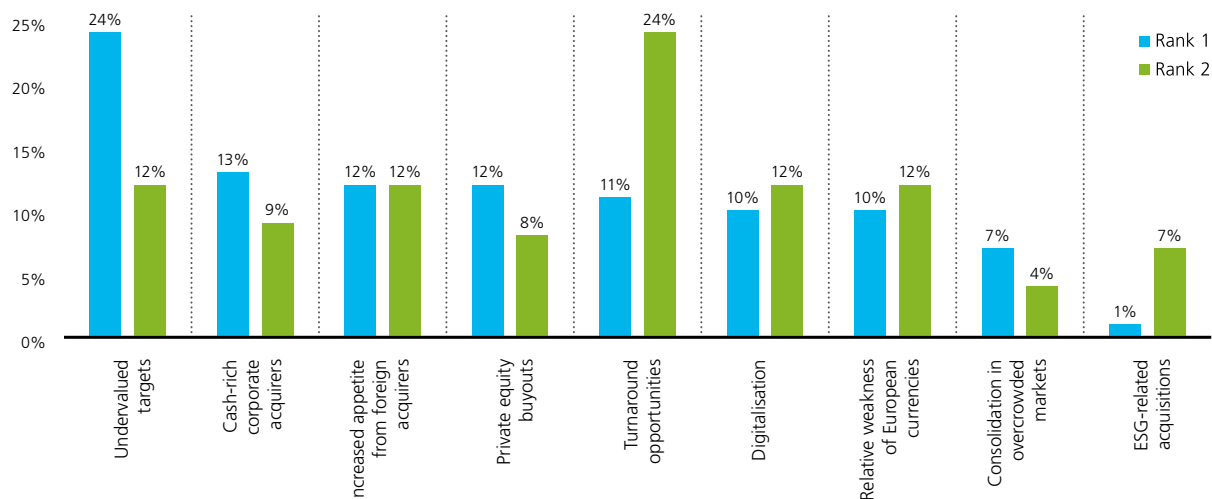
GDP growth and inflationary pressures hit company profitability.

Meanwhile, succession issues come in second overall (31%), followed by capital raising for expansion in faster-growing areas (30%), the latter reflecting the more challenging and expensive debt finance picture as companies seek to raise finance for investment without adding to their leverage. Sales of non-core assets appear lower down the list than last year, in fourth place (versus second in 2022), as large corporates may well decide to wait for better market conditions before selling for portfolio management reasons.

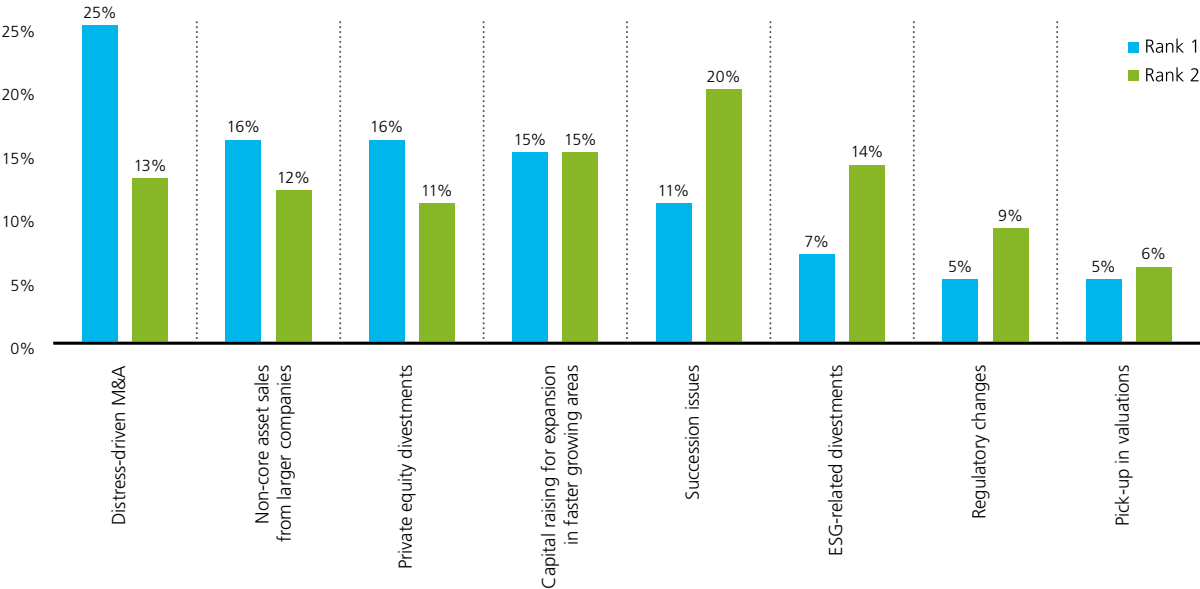
Many companies are currently struggling with the effects of various crises such as increased raw material and energy prices, higher interest rates, regulatory requirements leading to changes in business models, a shortage of skilled workers, uncertain customer demand and many more. Many industries are affected and we are expecting a strong increase in distressed cases in the real estate, retail, automotive, consumer goods and financial services sectors.

Alexandra Schluck-Amend, CMS Germany

What do you believe will be the greatest buy-side drivers of M&A activity in Europe over the next 12 months? (Please select top two, 1 = greatest driver, 2 = second greatest driver)



What do you believe will be the greatest sell-side drivers of M&A activity in Europe over the next 12 months? (Please select top two, 1 = greatest driver, 2 = second greatest driver)



Focus on regions and sectors

Opportunities for M&A growth are expected to be concentrated in Western Europe and the UK, with core industries remaining in the forefront

Top findings

47%

expect the UK & Ireland to enjoy the highest growth in M&A activity over the next 12 months

38% & 30%

expect CEE and Italy respectively to see the lowest growth in M&A

37% & 36%

believe the TMT and energy sectors respectively will see the highest growth in dealmaking in Europe

Expectations for M&A across the different regions of Europe have shifted considerably from last year. Over the next 12 months, respondents anticipate dealmaking activity in the UK & Ireland to increase the most – the region sits at the top of the table by some margin, with nearly half (47%) citing it in their top two. Last year, the UK & Ireland was in sixth place, garnering just 19% of top two votes.

The stabilisation of the UK's political situation, relatively speaking, since the autumn of 2022 will have played some part in reversing the region's expected M&A fortunes, but there are other, structural factors at play as well.

When asked about their investment intentions in the UK & Ireland, many respondents pointed to the region's strong technology base and expertise. One UK-based private equity firm partner's response is typical: "We want to focus on markets with a good technology infrastructure. The UK is therefore the most appropriate market for us to invest in as it has strong talent capabilities. People are trained well to deal with the latest and upcoming technology disruptions."

With the UK and Ireland providing a home to such a large number of international private and listed businesses, and both markets having a longstanding reputation of being a relatively easy place to transact, we would expect assets in the UK and Ireland to provide a reliable and familiar re-entry point for M&A stakeholders around the world as M&A conditions improve globally.

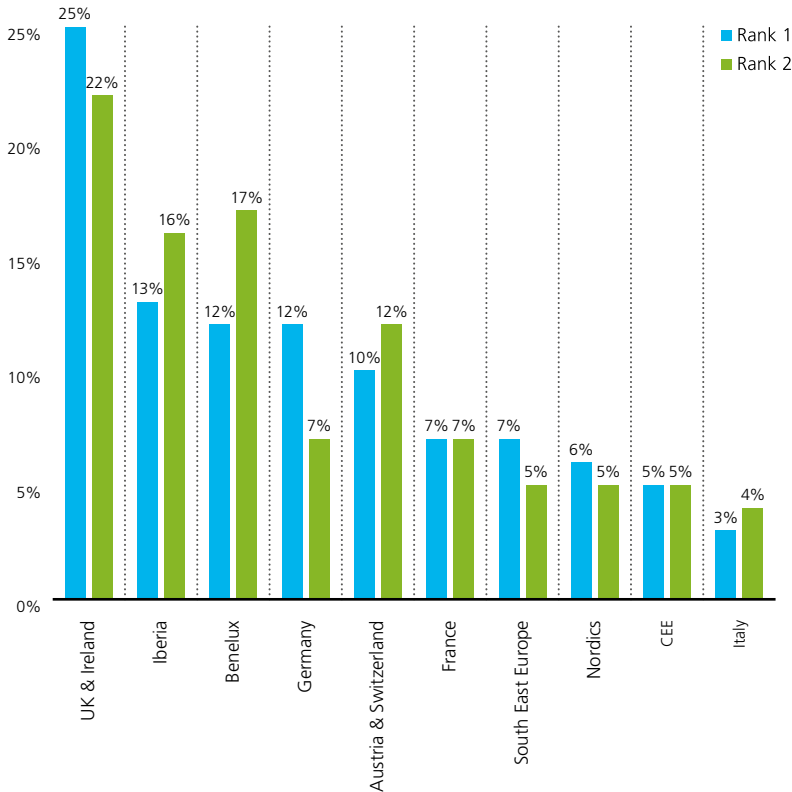
Rob Willis, CMS UK

Other attributes drawing investors to the UK & Ireland include a robust and deep financial sector and deal finance market, prospects of economic recovery and more welcoming regulations around foreign investment than some other markets. “The economic environment will be more stable in the region over the next three years,” comments the finance director of a UK consumer company. “The UK has always been able to bounce back from financial challenges. The financial sector will also become stronger over time, offering financing solutions that are reasonable for investors.”

The managing director at a Chinese private equity house adds: “I feel that there will be good dealmaking choices in the UK & Ireland. The economy is strong, even if there were struggles for a while after the pandemic. The regulations are not tough for foreign investors. Instead of looking for opportunities in North America where the regulations are stricter, we can invest in the UK & Ireland.”

In joint second place are Iberia and Benelux, with 29% of respondents ranking them in the top two for M&A growth in the next year, though the former garners marginally more first-place selections. Having moved from second-to-last in our previous study (with just 4% of votes), Iberia’s jump up to second place represents quite a turnaround. One of the key reasons for this appears to be attractive valuations relative to other European countries,

Which regions will see highest growth in the next 12 months? (Please select the two most affected, 1 = highest growth, 2 = second highest growth)



although respondents also frequently refer to the market’s size. For example, a France-based strategy director at a consumer company comments: “The Spanish and Portuguese markets are the leading destinations because of their cost competitiveness for sourcing and completing deals. At present, we are greatly concerned

about cost factors, as inflation and interest rate pressures have changed our deal plans.” Some of the opportunities in Iberia may well stem from a change to insolvency regulations in Spain, which the European Commission says is behind the spike in bankruptcy rates seen last year in the EU. Echoing this, a Spain-based

M&A director in the energy industry says: “We already have projects running in the region and we have noticed there are distressed assets available in Spain and Portugal. If we can get expensive assets at a lower price, we can conduct developments cost-effectively. We can consider investments without increasing the strain on our finances.”

For Benelux, the main attractions are its stable and varied economy, combined with ease-of-doing-business factors cited by several respondents. “This is a diverse market and it’s easy to establish a business in the region,” says the head of M&A for a business and financial services company.

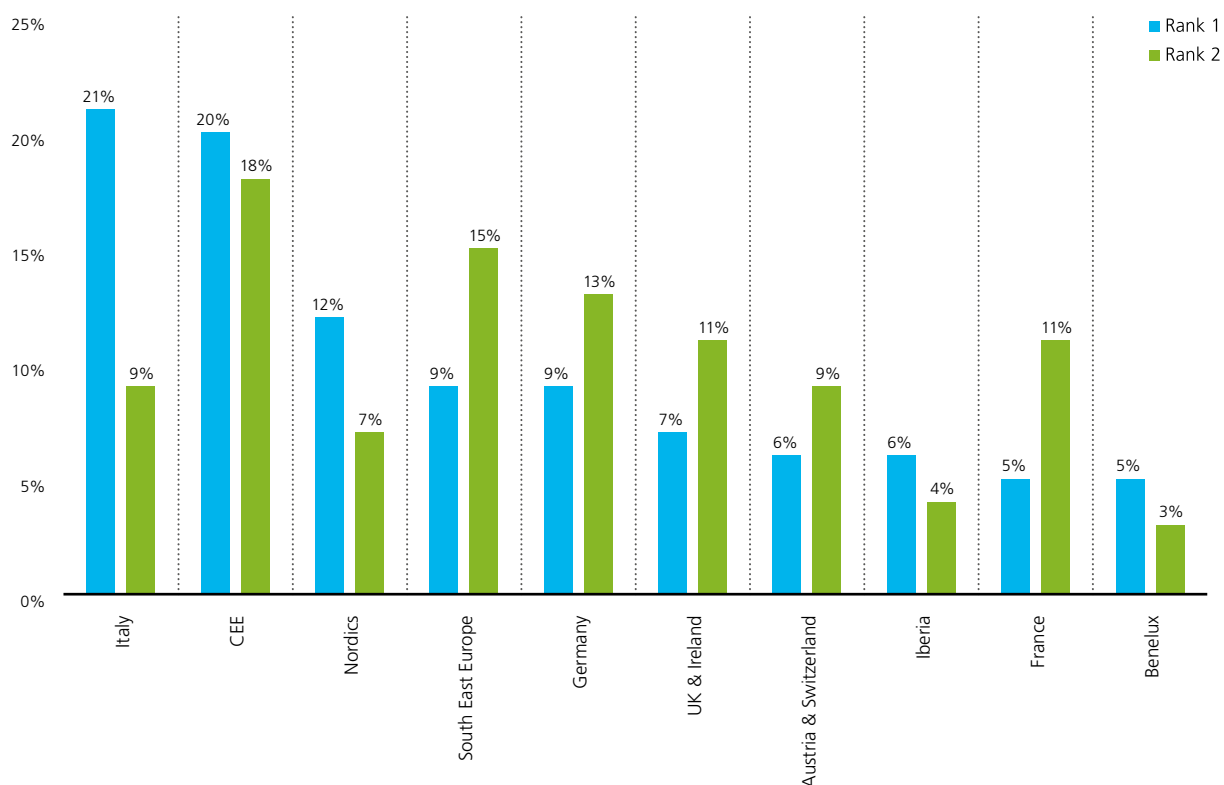
“Investing in Belgium, the Netherlands and Luxembourg is streamlined, and dealmaking approvals are completed systematically.”

At the other end of the spectrum, the regions expected to see the lowest growth in M&A activity are CEE (38%) and Italy (30%). In last year’s study our respondents were split on their outlook for CEE, with the region having been identified as the part of Europe that would see both the most growth and least growth in M&A activity by the largest shares of survey participants. This year, given that economic indicators such as GDP growth for CEE have tracked the eurozone

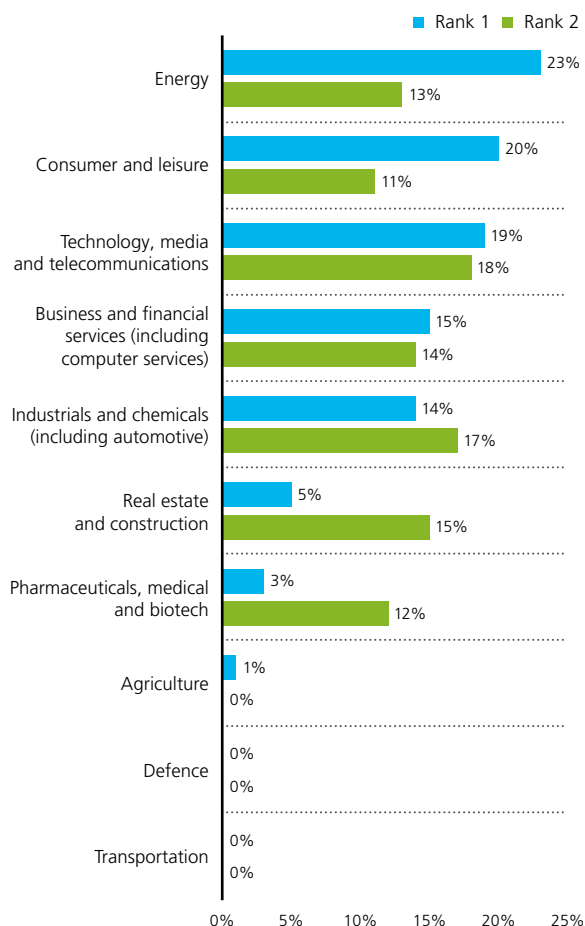
(4% for Central Europe and the Baltics in 2022 and 3.5% for the eurozone), the biggest drag on M&A over the coming 12 months is likely to be potential overspill from, and continued uncertainty around, the war in Ukraine.

Meanwhile in Italy, M&A may ultimately trend higher than respondents anticipate. The country is currently implementing a national recovery and resilience plan that will see investment incentives and reforms in a bid to prepare the economy for the green and digital transitions. The European Commission predicts that these measures will lift Italy’s GDP by 1.5% to 2.5% by 2026.

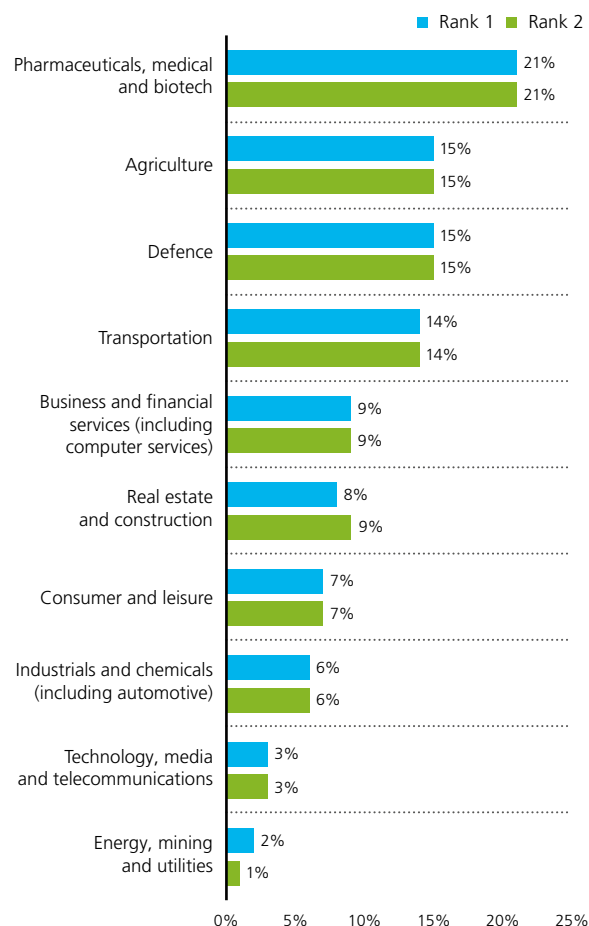
Which regions will see lowest growth in the next 12 months? (Please select the two most affected, 1 = lowest growth, 2 = second lowest growth)



Which sectors will see highest growth in the next 12 months? (Please select the two most affected, 1 = highest growth, 2 = second highest growth)



Which sectors will see lowest growth in the next 12 months? (Please select the two most affected, 1 = lowest growth, 2 = second lowest growth)



TMT down, but far from out

By sector, TMT continues its winning streak, although by a lower margin than in our previous study. In 2023, 37% of respondents rank TMT among their top two choices (versus 68% last year). Some of the decline may reflect the sharp revaluation of technology stocks over the last 12-18 months, yet TMT’s continued predominance clearly reflects investors’ confidence in future growth and companies’ need to acquire technology as industries continue to prioritise digital transformation. The ninth largest European M&A transaction in H1 2023 – Deutsche Börse’s EUR 4bn acquisition of Danish data provider SimCorp – demonstrates this trend as the exchange group seeks to bolster its data analytics capability for its newly created investment management solutions arm.

The energy sector may challenge TMT’s position as the number one for M&A activity. There is still huge investment required in Europe to meet energy transition targets and governmental stimulus packages are being put in place across Europe, in part to match those under the Inflation Reduction Act in the US. However, we have seen pressure on returns in certain core energy assets with interest rates increasing.

Charles Currier, CMS UK

The recent acceleration in the development of AI capabilities, in particular around generative AI, is also likely to boost TMT M&A as companies seek to incorporate increasingly sophisticated technology into their products and services and to streamline processes. Last year for example, Amazon acquired Estonia-based Snackable AI, an audio content discovery engine, while German biotechnology company BioNTech, which shot to fame for co-developing a COVID-19 vaccine, recently acquired UK-based decision-making AI business InstaDeep for a total consideration of GBP 562m.

Energy is a close second, being placed in the top two by 36% of respondents and in fact garnering more first-place selections (23%) than TMT (19%). To a certain extent, this reflects the volatility of energy markets and focus on energy security seen since Russia’s full-scale invasion of Ukraine, but it is also the result of commitments to the energy transition.

The European Commission has long sought to take a lead on decarbonisation, with the latest initiative proposed in March 2023 – the Net-Zero Industry Act, which sets out priority technologies that will be needed to decarbonise industrial energy consumption.

Respondents expect PMB to see the lowest growth in M&A (42% rank this in their top two). This perhaps reflects lower M&A activity in the sector in 2022, when EUR 70.5bn worth of deals for Western European PMB assets was announced, a 45% decline from the post-pandemic surge

in 2021, when EUR 130bn of transactions were recorded. Yet there are signs that dealmaking may pick up over the coming period, with Bain & Company predicting an upturn and European pharmaceutical giants Novartis, Roche and GSK indicating in calls with analysts and journalists earlier this year that they were continuing to pursue M&A opportunities.

Defence and agriculture, both typically smaller sectors for dealmaking, are also expected to see lower M&A growth over the coming 12 months. These are both mentioned in the top two by 30% of respondents.

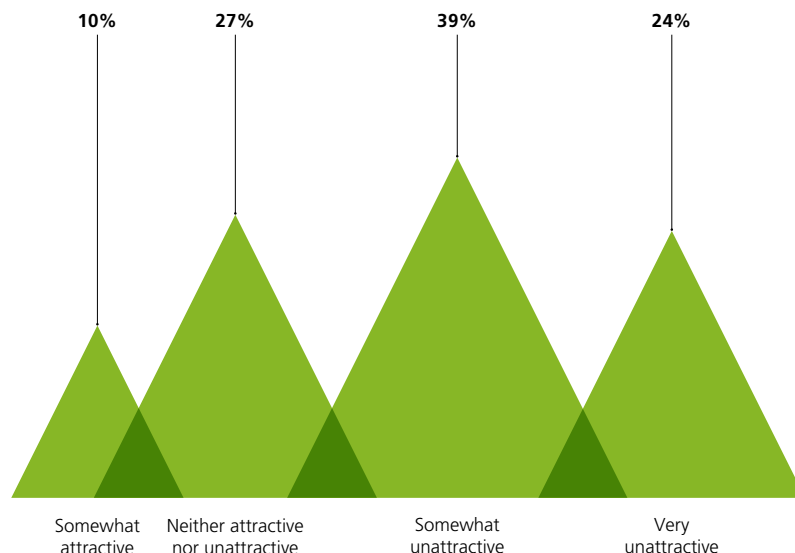
M&A in Ukraine

On the eve of a London-based conference in June on rebuilding Ukraine, Werner Hoyer, the head of the European Investment Bank (EIB), urged EU governments to step up guarantees to help it raise finance for infrastructure projects in the country.

However, most respondents to our survey (63%) see M&A there as unattractive. Of the remainder, 27% are neutral, seeing Ukraine as neither attractive nor unattractive for M&A. Just 10% say it is at most somewhat attractive.

As hostilities continue and the cost of rebuilding Ukraine mounts – at last count, the World Bank, United

To what extent do you believe Ukraine will be an attractive destination for inbound cross-border M&A over the next 12-24 months? (Please select only one)



Nations and European Commission estimated that it would take USD 411bn (EUR 383bn) to help the country recover – the EU has launched a EUR 50bn grant and loan facility to cover the 2024-27 period.

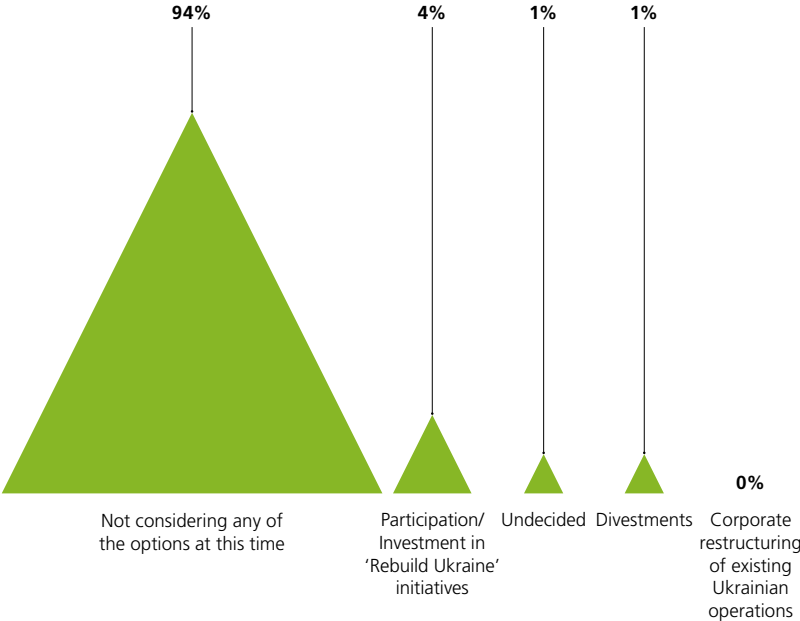
The facility is intended to support Ukraine’s short-term needs and its recovery and modernisation over the medium term. Furthermore, the European Commission, EIB, European Bank for Reconstruction & Development and International Finance Corporation have signed agreements worth more than EUR 800m to help mobilise the private sector to be involved in Ukraine’s recovery and reconstruction.

Nonetheless, it seems that most investors are adopting a wait-and-see approach to Ukraine. The vast majority of respondents (94%) say they are not considering any corporate restructuring of existing Ukrainian operations, divestments or participation in “Rebuild Ukraine” initiatives in the next two years. However, some respondents noted that Ukraine will offer investment opportunities over the medium to long term, in particular as assistance funds and sovereign guarantees are deployed over time.

“The attractiveness of Ukraine cannot be gauged at present,” comments a Luxembourg-based

private equity executive. “Banks will provide funds to grow the economy and the World Bank funds will be critical for pursuing developments. The number of energy projects in the region will increase and improve the quality of investments in the region.”

In the next two years, are you considering any of the following in Ukraine as part of your corporate strategy? (Please select all that apply)



M&A in a global context

Much like European M&A, global dealmaking experienced a decline in H1 2023 compared to the same period in 2022. Globally, values fell by 36%, from EUR 2.2tn in H1 2022 to EUR 1.4tn in H1 2023, against a 47% drop in Europe. Volumes declined more moderately, from 23,954 to 20,225 deals, a 16% decrease, versus 12% in Europe.

The biggest deal of the period was US pharmaceutical giant Pfizer's EUR 42.6bn acquisition of biotechnology company Seagen, which focuses on cancer medications. However, of the five largest deals globally by value, three fell in the energy, mining & utilities (EMU) space, making it the second-largest sector by deal value in H1.

At EUR 29.5bn, Switzerland-based Glencore's acquisition of Canada's Teck Resources is the period's second largest transaction. The fourth largest was US-based gold mining company Newmont's purchase of Australian rival Newcrest Mining for EUR 19.5bn, while the fifth spot went to a EUR 17.3bn transaction that would see US midstream gas business ONEOK acquire US-based petroleum transport and storage company Magellan Midstream Partners.

Decarbonisation, digitalisation and a renewed focus on energy and resource security are all propelling EMU industry M&A. Hydrocarbon-focused businesses are seeking to diversify their offerings as policies promoting the energy

I expect the complex geopolitical environment to continue. Accordingly, tightening foreign investment regimes around the world will make it more difficult to complete large multi-jurisdictional transactions. I therefore do not expect Europe to keep the momentum when it comes to large cap deals.

Stefan Brunnschweiler, CMS Switzerland

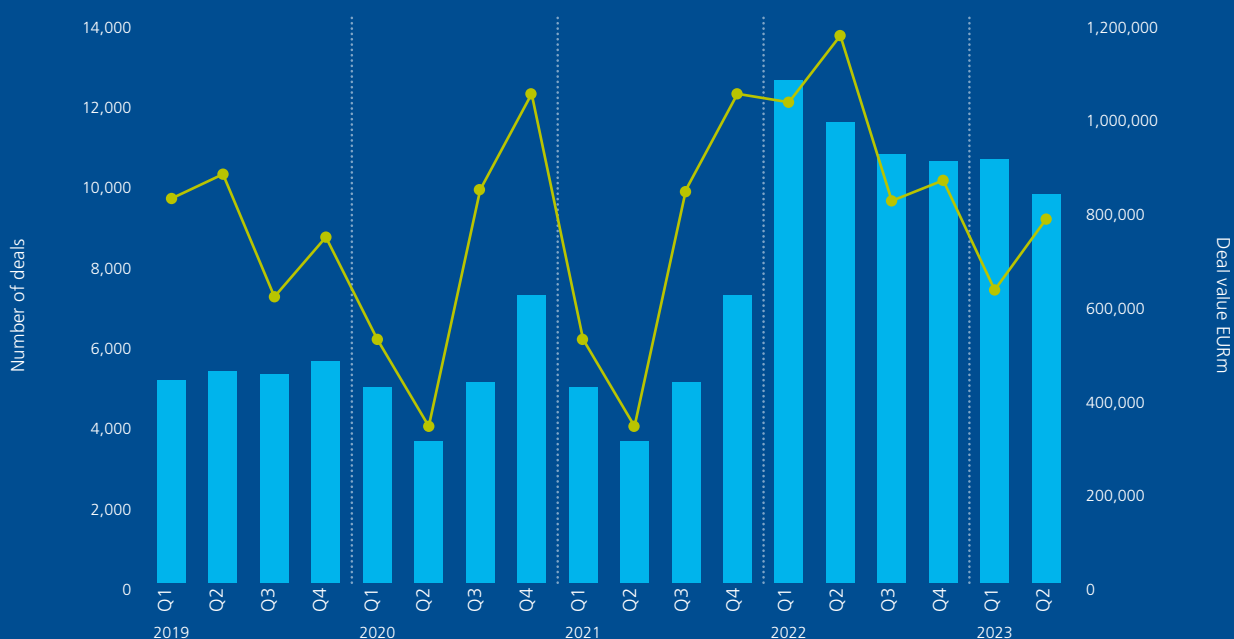
transition, such as the Inflation Reduction Act in the US and the EU's Green Deal, begin to bite, while digitalisation and the rapid deployment of renewable energy assets are creating a competitive landscape for critical minerals in areas such as energy storage.

Decarbonisation is also the driver for the third largest deal of H1 2023 – the EUR 21.2bn acquisition by Hong Kong-based special acquisition company Black Spade of VinFast, a Vietnamese electric vehicle manufacturer, which is seeking to expand its US presence and enter the European market.

In contrast to recent periods, the largest TMT deal was some way down the list – Japan Industrial Partners' EUR 14.8bn deal to take over and delist Toshiba came in as the seventh largest deal globally of H1 2023. The deal, Japan's largest ever take-private, illustrates the increasing participation of private equity firms in the country's M&A scene.

Japanese private equity deal volume in 2022 reached a new annual high of 932, according to Mergermarket data, while deal value, at USD 31.4bn, was the country's second highest on record, behind only the USD 37.2bn logged in 2017. Moreover, 432 private equity deals targeting Japanese assets were announced in H1, with these already worth a combined USD 33.1bn, suggesting the market is more than ready to continue setting new records.

Global M&A trends 2019-Q2 2023



“ The first half of 2023 was characterised by caution. Expectations pointed to lower M&A activity, albeit with somewhat more optimism in the mid-market. However, as the slowdown of the economy has not triggered a general recession, optimism levels have also increased in relation to big-ticket transactions. So, a moderate upturn of this type of transaction can be expected going forward. ”

Luis Miguel de Dios, CMS Spain

Deal dynamics and motivations

Opportunities to buy assets at attractive valuations and to turn around challenged businesses are motivating dealmakers as they seek to expand into new markets and grow existing offerings

Top findings

87%

expect to be involved in an M&A transaction in the next 12 months

50%

of those considering acquiring over the coming year are being drawn to M&A by favourable valuations

41%

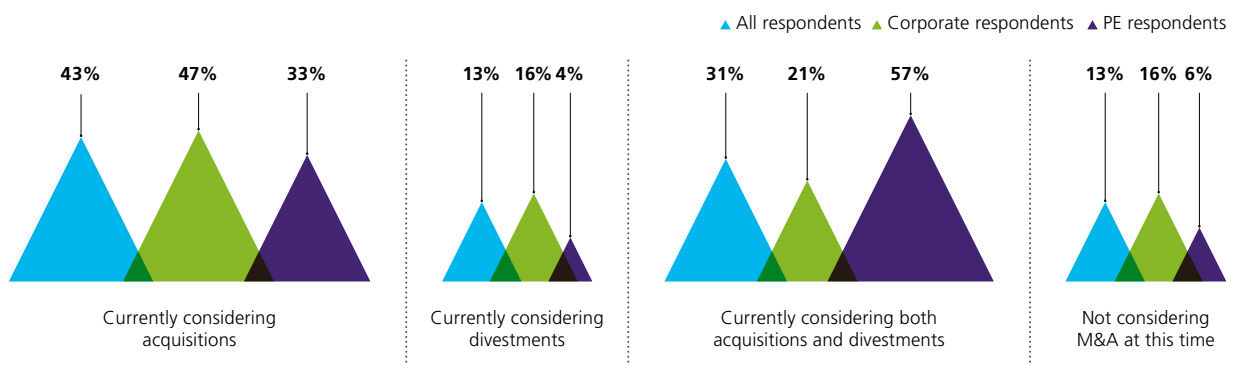
say labour and employment rules are the most challenging category of regulation in European M&A

Many corporates may be predicting lower M&A activity over the next 12 months, but a sizeable share are still pencilling dealmaking into their corporate strategy. Just 16% of corporates say they are not considering M&A currently, while 47% are considering acquisitions, 21% both acquisitions and divestments, and 16% just divestments.

Given that the private equity model is predicated on buying and selling businesses, it is unsurprising that the majority of these respondents (57%) are considering both acquisitions and divestments. However, that 33% are considering only acquisitions is indicative of a changed environment for exits.

With valuations today lower than when many businesses were acquired, private equity executives will be looking to add further value to portfolio companies to make up for lower exit multiples and, perhaps, to hold on to assets until there are signs of a more sustained recovery in pricing. The development of GP-led secondary deals, in which private equity houses roll portfolio companies into a new vehicle while offering existing investors the chance to sell, is helping buyout houses to hold for longer. The industry completed USD 52bn of these deals in 2022, double the value recorded in 2019, according to Jefferies.

Where does M&A currently fit into your corporate strategy? (Please select only one)



Buying lower and smaller

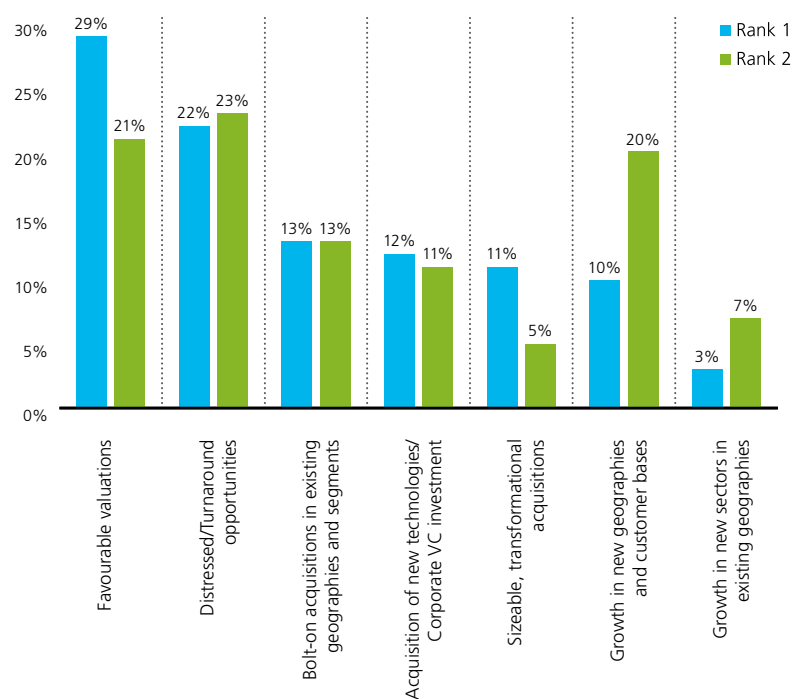
The dip in valuations, however, represents an important buying opportunity. Half of respondents considering acquisitions either alone or alongside divestments identified favourable valuations as one their top two motivations for buying.

There may be some bargains out there for those willing to hold their nerve. EV/EBITDA multiples in almost every industry finished 2022 lower than in December 2021, according to a Q4 2022 valuations analysis by Kroll.

Buyers are also eyeing distressed and/or turnaround opportunities, with 45% of acquisitive respondents citing this among their top two motivations. With expectations in some quarters that economic growth will stagnate towards the end of 2023 and the prospect of perhaps a couple more interest rate rises, there may well be increasing opportunities to buy stressed companies. S&P is predicting a rise in European speculative-grade corporate default rates from 2.8% in March 2023 to 3.6% in March 2024.

Growth is firmly on buyers' agenda. Nearly a third of respondents (30%) say they are acquiring to grow in new geographic markets and customer bases, while just over a quarter (26%) say they are seeking out bolt-on acquisitions to grow in existing markets. Transformational acquisitions, meanwhile, are largely off the table: just 16% say they will be pursuing sizeable transactions.

If you are considering acquisitions in Europe, what is the motivation for this? (Please select the two most important, 1 = most important, 2 = second most important)



‘Favourable valuations’ shouldn’t be interpreted as a meaningful narrowing in the valuation gap generally. An increase in distressed M&A (noticeably, the second motivating factor) may be giving the appearance of it, but those transactions are often about much more than valuation negotiations.

Tom Jameson, CMS UK

Regulatory headaches – labour and environmental rules challenge dealmakers

When it comes to regulations governing European dealmaking, the most challenging area for respondents is labour and employment rules, with 41% placing this aspect among the top two that they find most difficult to navigate. This is on a par with last year's results, and it may reflect an increased focus among European competition regulators on employee protection. For example, the EU's commissioner for competition, Margrethe Vestager, highlighted in a 2021 speech her concerns around collusion to fix wages and no-poach agreements as a way of suppressing wages, while the UK's Competition and Markets Authority has also issued guidance to employers that includes preventing anti-competitive behaviour in labour markets.

Respondents point to the involvement of employee representatives in deals and the need to transfer staff on existing terms as potential barriers to

M&A in Europe. "The labour and employment regulations can affect flexibility when doing deals," says a Germany-based CEO of a technology business. "Employees opting to transfer under the same employment terms can significantly affect integration processes."

A Croatia-based private equity firm partner adds: "Labour and employment regulations in Europe are different from other regions and are an obstacle for many dealmakers. Buyers fear the pressure they face from employee representatives, and this may limit the pool of buyers for good assets."

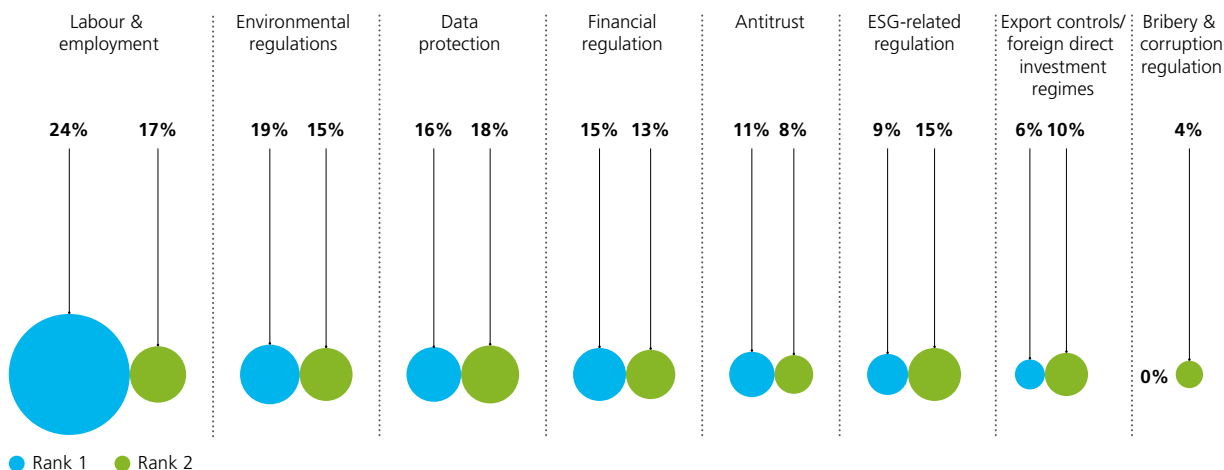
Europe's lead in implementing environment-related regulations is also clearly reflected in our survey. Just over a third of respondents (34%) cite these as the top two most challenging areas of regulation to navigate when trying to complete transactions in the region. Dealmakers are particularly concerned about the potential for businesses they acquire to be found wanting in environmental compliance.

"Environmental regulations do have an impact on dealmaking decisions," says a Luxembourg-based CFO of a real estate and construction company. "We have to anticipate and review all the risk factors proactively. We could be taking on risks by investing in companies that aren't complying with the expected standards."

More stringent environmental regulations appear to be affecting which targets buyers will pursue, as a North American director of corporate business development at a pharmaceutical company outlines: "Some companies are just beginning to focus on environmental aspects. That means stricter laws and enforcements deter us from selecting companies that otherwise have good prospects overall."

Other ESG-related regulation is also seen as a challenge, with 24% of respondents citing this, although data protection (34%) and financial regulation (28%) are seen as other difficult areas to navigate.

Which form of regulation do you find most challenging when doing a deal in Europe? (Please select the two most challenging, 1 = most challenging, 2 = second most challenging)



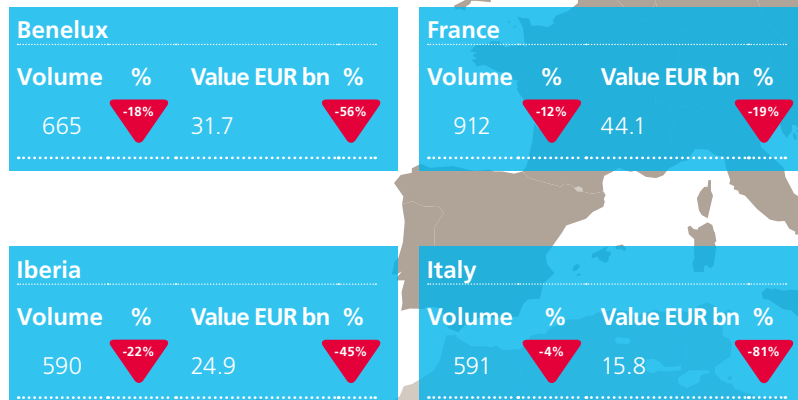


Regional round-up

M&A activity in Europe in H1 2023 was down considerably compared to the same period in 2022: deal volume declined by 12% year-on-year, and aggregate deal value by 47%.

The UK & Ireland remained Europe's busiest market, recording 1,672 deal announcements in H1, more than a quarter of the regional total. Those transactions were worth a combined EUR 81.3bn, 26% of total deal value in Europe.

The Nordics was the next biggest market in volume terms, with 1,302 transactions announced in H1, though the region was outpaced in aggregate value terms by France (EUR 44.1bn, 14% of the regional total) and Germany (EUR 39bn, 12%).



Nordics

Volume	%	Value EUR bn	%
1,302	-12%	32.2	-54%

Germany

Volume	%	Value EUR bn	%
809	-13%	39.0	-18%

CEE

Volume	%	Value EUR bn	%
435	-25%	9.5	-40%

Austria & Switzerland

Volume	%	Value EUR bn	%
280	-9%	20.5	-30%

SEE

Volume	%	Value EUR bn	%
142	-24%	8.6	-21%

This infographic compares H1 2022 with H1 2023

Foreign direct investment environment

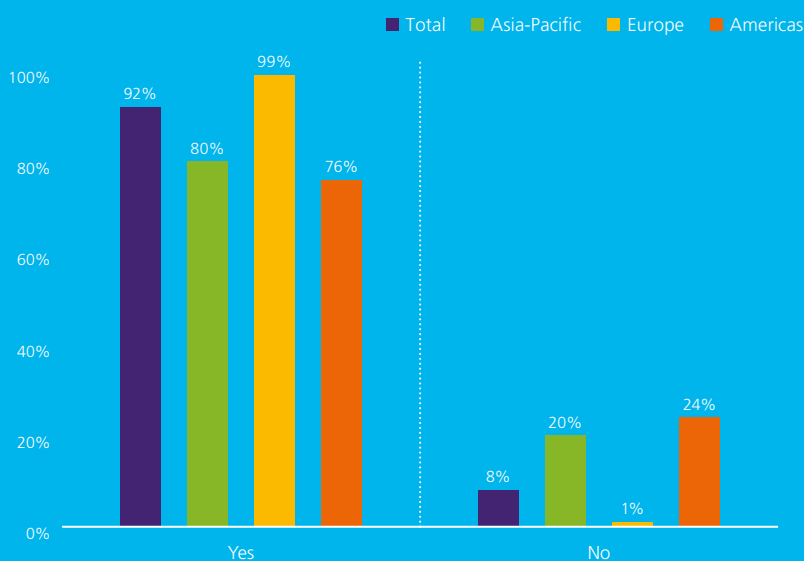
Foreign direct investment waned globally in 2022, falling by 12% from the year before to USD 1.3tn, according to figures from the United Nations Conference on Trade and Development, with Europe seeing a net outflow for the year of USD 107bn. The war in Ukraine, rising food and energy prices and increasing public debt all contributed to the decline.

However, the prospects for the coming 12-24 months are somewhat brighter. The latest 'Europe Attractiveness Survey' from accountants EY found that 67% of business leaders expect to establish or expand European operations over the next year. Our results are consistent with this more optimistic outlook: the vast majority of respondents (92%) are planning to invest in Europe in the next three years. That includes 99% of European respondents surveyed, as well as 80% of APAC-based respondents and 76% of their peers in the Americas who say they expect to expand in Europe.

Topping the charts of investment destinations are the UK & Ireland (20% say this will be the leading market) and Benelux (15%), consistent with the regions respondents felt would see the most M&A growth over the coming year, as discussed in the *Focus on regions and sectors* section.

Respondents are also looking to CEE as an investment destination. This came in third place, with 13% citing this, a result that contrasts with respondents' expectations

Are you planning to invest in Europe in the next three years? (Select one)



Despite the war in Ukraine that is taking place in our backyard, the CEE market has remained incredibly resilient. The Polish market, in particular, has achieved sustained economic growth and a strong pipeline of investment activity across all sectors for more than 10 years now. We expect this to continue. The Romanian market continues to grow year-on-year. We also see growing interest in opportunities in Ukraine and a positive commitment to rebuilding that market in anticipation of the war ending.

Helen Rodwell, CMS Czech Republic

around M&A in the region, where it topped the list for lowest growth.

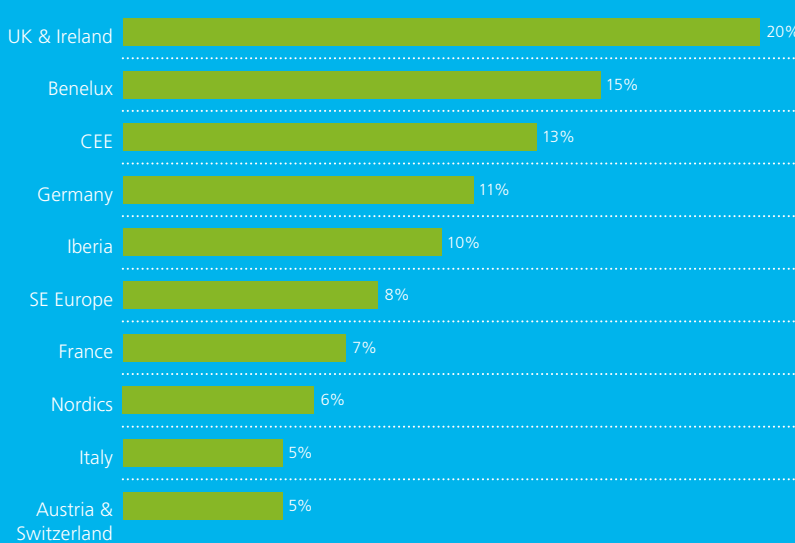
Most respondents placing CEE as top for investment are based in the region, and the rationales many

offer are government incentives and the low level of competition for deals and investment – many investors are steering clear of the region because of the perceived risks stemming from the war in Ukraine.

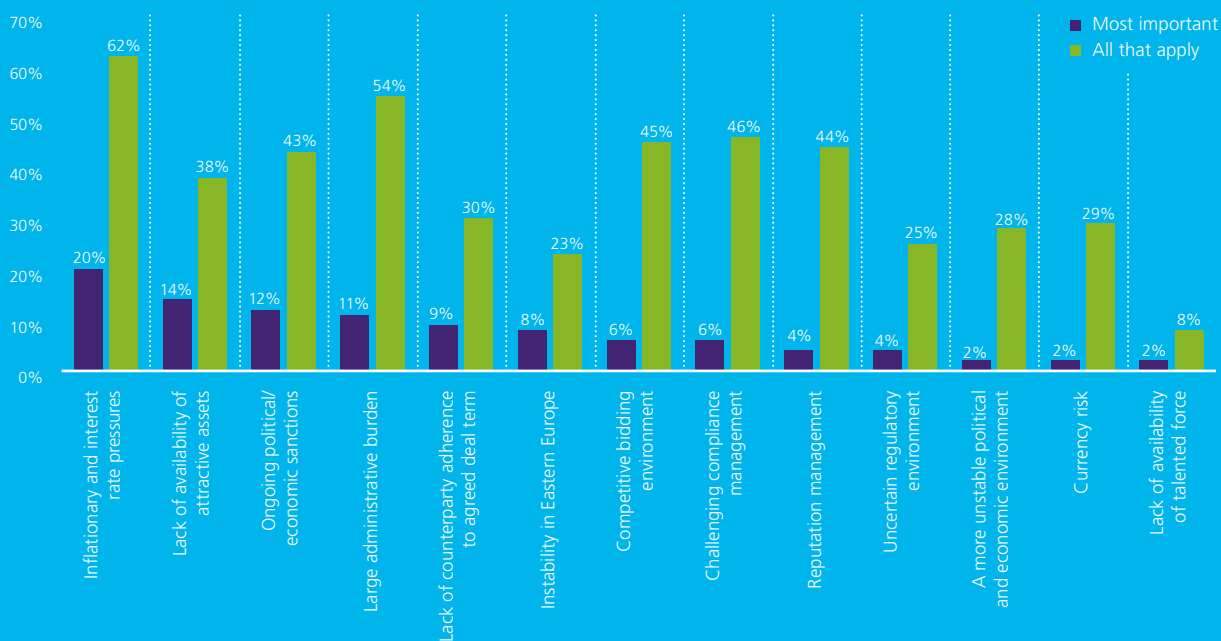
Those on the ground appear to have a better sense of the actual risks involved in their neighbouring countries. “There are low-cost investment opportunities in CEE,” says a Lithuania-based CFO of an energy company. “When we venture towards Eastern Europe, the geopolitical threats are stopping other investors to some extent. We can review long-term investment quality and proceed with investments, taking some calculated risks.”

While our survey places the UK & Ireland as the leading investment destination, respondents hardly believe the market to be risk free. Perhaps unsurprisingly, given the UK’s higher inflation rate compared

Which countries/regions in Europe will be the leading investment destination? (Select one)



What do you expect will be the biggest risks to investing in your country of choice?

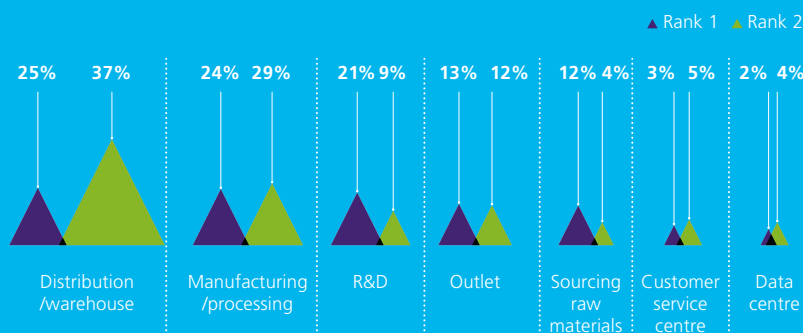


to other European markets over the past year (the UK's CPI peaked at 11.1% in October 2022, while the highest rate in Europe was 10.6% in the same month), inflationary and interest rate pressures are seen as the biggest risk of investing in the UK & Ireland, with 33% stating this. Among those who favour Benelux, just 23% say the same.

At the same time, 21% of respondents looking at the UK & Ireland as destinations point to a large administrative burden as a risk; just 6% say this about Benelux, where a lack of available attractive assets ranked rather higher (19% say this of Benelux, versus just 7% of the UK & Ireland).

Recent supply-chain issues, rising geopolitical tensions and the subsequent uptake of nearshoring are playing into respondents' decisions about where and how to invest overseas. Nearly two-thirds (62%) are planning to build distribution and/or warehouse facilities in their destinations of choice, and 53% are looking at manufacturing and processing

What type of facility is your organisation planning to build overseas? (Please select the two most important, 1 = most important, 2 = second most important)

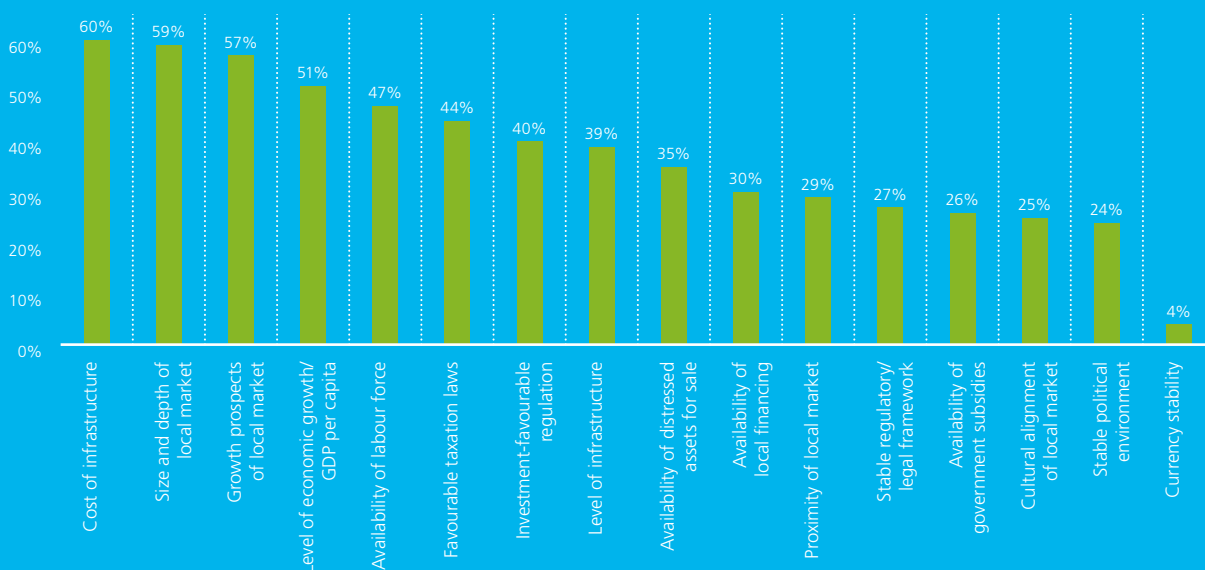


plants. A recent Cushman & Wakefield report found that the amount of European industrial space businesses acquired or leased in 2022 rose by 29% compared with the year prior as they sought to reduce reliance on China and other locations further afield. This may partially account for CEE's stronger showing as an investment destination than for M&A, given the region's lower labour and land costs than other parts of Europe. Mercedes-Benz, for example,

recently announced it was to build a new factory in Poland to manufacture its electric vans.

When considering where to invest, respondents take into account the cost of infrastructure (60%), the depth of the local market (59%) and its growth prospects (57%). This stands in contrast to last year's survey, in which favourable taxation and regulations and a stable political environment were the top three considerations for respondents.

What are the factors that will most impact your choice of investment(s) outside your home country? (Please select all that apply)



ESG factors in European M&A

Dealmakers are increasingly honing in on ESG factors in M&A transactions not only to mitigate risk, but also to capitalise on new opportunities and generate value

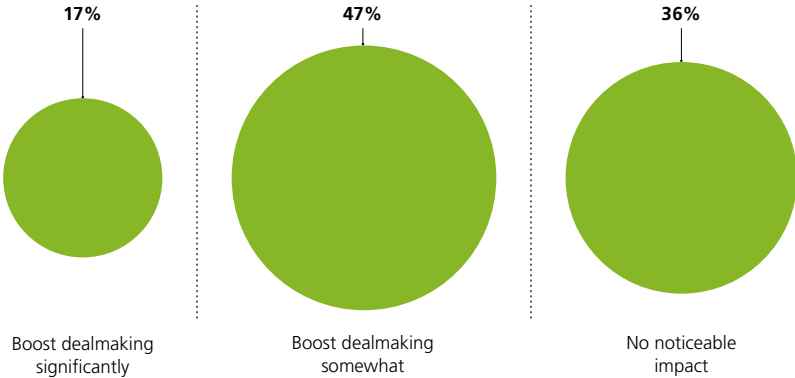
- Top findings**
- 64%** believe ESG and climate change-related regulation in Europe will create dealmaking opportunities
- 93%** say ESG considerations are a significant element of their organisation’s due diligence
- 57%** cite climate change and greenhouse gases as a top three priority, while 43% say the same of workplace diversity
- 85%** expect greater ESG scrutiny in M&A deals

European regulations and requirements governing ESG reporting and practice, combined with the region’s drive to halt and mitigate climate change through energy transition, will create new dealmaking opportunities, according to our respondents. Nearly two-thirds (64%) believe that development in these areas will provide a boost to M&A activity, including 17% who say it will do so significantly. None says it will impede dealmaking in the region.

As the EU seeks to reduce net greenhouse gas emissions by at least

55% by 2030 (from 1990 levels) and to become the world’s first climate neutral continent, the European Commission has ambitions to lead what it calls the “third industrial revolution”. The seismic nature of these changes – ranging from increasing renewable energy capacity and developing alternative fuels to renovating buildings to make them more efficient and revising carbon pricing models to push for industrial decarbonisation – will create markets for new technologies and products and require investment to help companies adapt and comply.

To what extent do you believe ESG and climate change-related regulation in Europe will provide a spur to M&A activity or otherwise impede dealmaking in the region? (Please select only one)



At the same time, companies face pressure from investors, many of whom are adopting net-zero approaches to portfolio selection and management. The Institutional Investors Group on Climate Change, for example, now has more than 400 members, representing EUR 65tn in assets.

“Climate change is one of the most important topics discussed in business circles and in general social circles,” says a Hungary-based CFO of an energy company. “The population has been impacted negatively by these climate changes, and it’s making investors think about their part in the net-zero transition.”

As a result, capital is readily flowing towards businesses and projects that can clearly demonstrate environmental and social benefit. A recent ‘ESG in M&A pulse survey’ by Deloitte targeting C-suite executives and senior and mid-level leaders at large companies demonstrates this in an M&A context: 32% of respondents had made an acquisition to improve their ESG profile.

In addition, investors now recognise that strong ESG credentials can also bring financial rewards, as a UK-based partner at a private equity firm reflects: “Recent climate changes are having an impact on our target selections. We want to invest responsibly and we’ve upgraded our due diligence format accordingly. It adds more value to assets at exit when we review ESG factors critically right from the start.”

Managing target risk

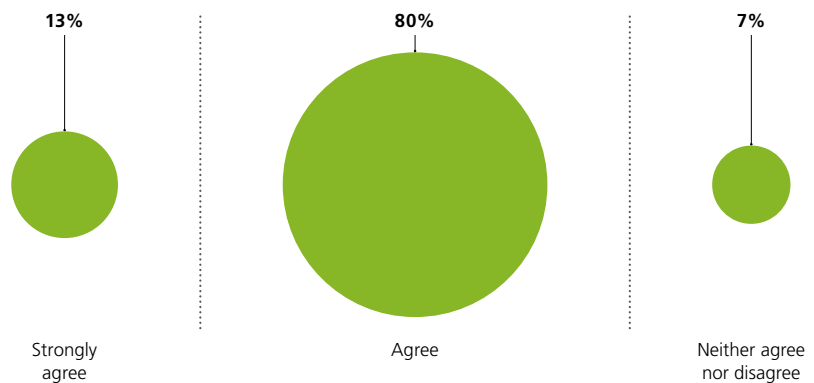
ESG has become an ever-more important part of the due diligence process for the vast majority of respondents: 93% say that ESG considerations are a significant element of their organisation’s due diligence practices.

With increased reporting requirements on companies

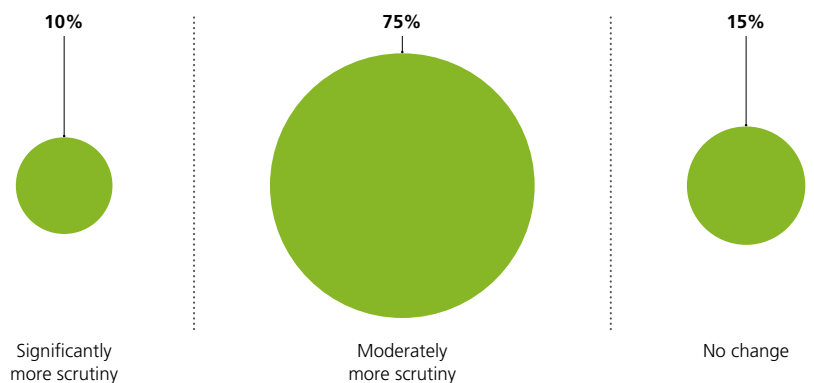
Despite the obvious challenges and complexities in the ever-evolving ESG landscape, Europe’s policy environment on ESG regulations is relatively speaking (e.g. compared to the US) more unified and includes a broader buy-in from various stakeholders such as regulators, political forces, corporates and the investment industry, leading to smoother policy evolution and, consequently, more predictability for M&A market participants.

Alex Rakosi, CMS Austria

ESG considerations are a significant element of our organisation’s due diligence practices... (Select one)



How do you expect the degree of ESG scrutiny in M&A deals in Europe to change over the next three years? (Please select only one)



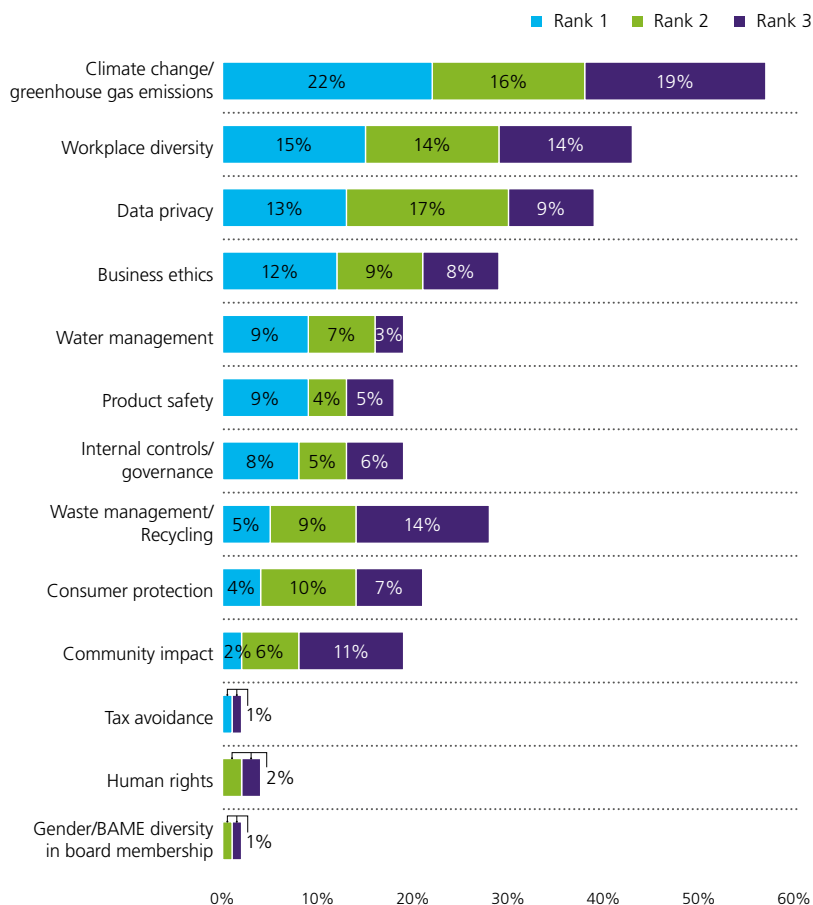
operating in Europe – including the EU’s Corporate Sustainability Reporting Directive, which came into force in January 2023, and the proposed Corporate Sustainability Due Diligence Directive, which requires companies to identify and prevent human rights and environmental issues within their direct business partners – acquirers cannot afford to take the risk that any business they acquire is engaged in, or associated with, unsustainable practices or greenwashing.

As a Sweden-based industrials & chemicals company CEO comments: “Finding high-quality targets that have made sufficient efforts to reduce their emissions is difficult. There are also green claims, which we have to test. We can’t take them for granted.”

In line with the directives mentioned above that demonstrate a clear regulatory focus on ESG matters across all areas of business, including supply chains, the vast majority of respondents (85%) are anticipating greater scrutiny around ESG issues in the next three years. And while respondents clearly believe ESG considerations will drive M&A activity, they are also likely to stall some processes, in part because of concerns around scrutiny. The Deloitte survey found, for example, that 49% of its respondents had decided not to proceed with an acquisition because of concerns about the target’s ESG performance.

When it comes to specific aspects of ESG, climate change and greenhouse gas emissions are the most important elements cited by a majority of respondent organisations (57% rank this among their top three choices). This reflects the urgency with which some respondents feel this issue must be tackled. “Greenhouse gas emissions have to be reduced more quickly,” says a Portugal-based head of M&A

Which ESG issues are most important to your firm and your current investor base? (Please rank from 1 to 3, where 1 = most important)



at an energy company. “The climate change issues seem to be increasing even as corporates take effective action to reduce scope 1 and 2 emissions.”

Meanwhile, a substantial minority (43%) of respondents consider workplace diversity to be key. At a time of tight labour markets in particular, efforts to attract employees from a broader pool of candidates and then to create inclusive workplaces that retain them are likely to generate better results. As a Poland-based private equity firm managing partner says: “We can access talent when we emphasise diversity, equity & inclusion (DEI)

practices. As a part of our ESG due diligence, we review the DEI policies of target companies. We want to know if companies are working with a future-ready mindset.”

Financing conditions

Inflation, economic weakness and tighter lending standards are among the biggest challenges to M&A deal activity

Top findings

61%

are concerned about possible systemic risk to the banking system in Europe

91%

say financing conditions are set to worsen over the coming year

43%

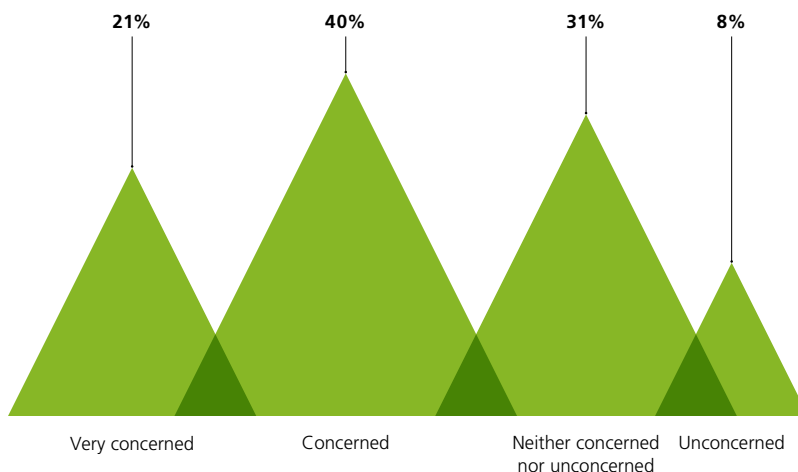
expect private equity to be among the top two sources of financing, and 35% say the same of non-bank lenders

The collapse of three US banks – Silicon Valley Bank, Signature Bank and First Republic – and of Europe’s Credit Suisse earlier this year sent shockwaves through the global financial system. The reasons for each failure may differ, but the environment of higher interest rates played its part across all three, leading to a contagion of mass deposit withdrawals at the merest hint of trouble.

This is the backdrop against which nearly two-thirds (61%) of respondents say they are concerned about possible systemic risk to the banking system in Europe, including 21% who are very concerned.

While it seems that the central banks of Europe and the UK are largely satisfied that financial institutions in the region remain relatively robust, they do share some of our respondents’ concerns about risk. The Bank of England said in its July 2023 Financial Stability

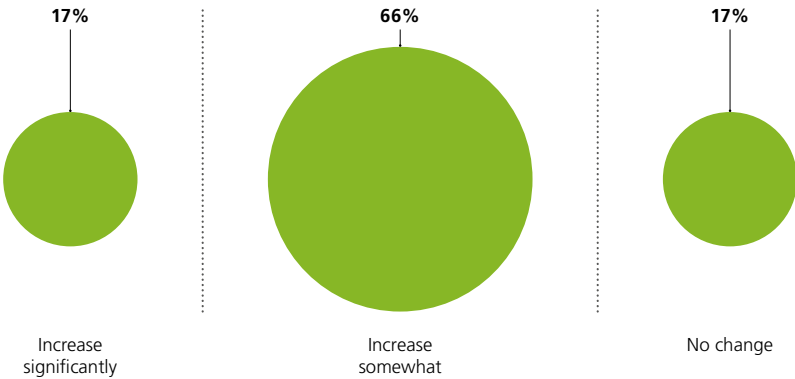
In light of the near-collapse of Credit Suisse, how concerned is your organisation about possible systemic risk or ‘bank run’ contagion in Europe’s financial sector? (Please select only one)



Report: "The UK banking system is well capitalised and maintains large liquidity buffers... However, the overall risk environment is challenging." The ECB, meanwhile, commented in May 2023 that, despite the fact that "prompt regulatory intervention has contained spillovers from other economies," the bank failures "could lead to a reassessment of the profitability and liquidity outlooks for euro area banks."

These assessments are, to an extent, reassuring, although it is clear that banks are preparing themselves for higher defaults and loan losses as interest rate rises filter through the economy. In its Q2 2023 update, Deutsche Bank, for example, reported higher profits than expected, but also increased its loan loss provisions above its previously communicated range to EUR 772m for the first six months of the year (at 32 basis points of average loans), citing the "uncertain macroeconomic environment".

To what extent do you expect the cost of capital for Europe's major banks to change over the next 12 months? (Please select only one)



Reflecting concerns about the risks of higher interest rates and loan losses, a large majority of respondents (83%) expect the cost of capital for Europe's banks to increase in the next 12 months, including 17% who believe it will increase significantly.

The macroeconomic environment is clearly having an impact on banks' appetite for lending. "Lender attitudes are more conservative now than before," comments the CFO of a German TMT company. "Since banks themselves are struggling to manage their financial state,

Even when traditional financing options become more available again, it is likely that alternative financing will continue to be an essential part of dealmaking strategies. This is because they provide unique advantages, such as quicker access to capital, less stringent regulatory requirements in many jurisdictions, and greater flexibility in deal structures. Nevertheless, dealmakers will likely maintain a diversified approach, incorporating both sources of financing to optimise their strategies.

Jacob Siebert, CMS Germany

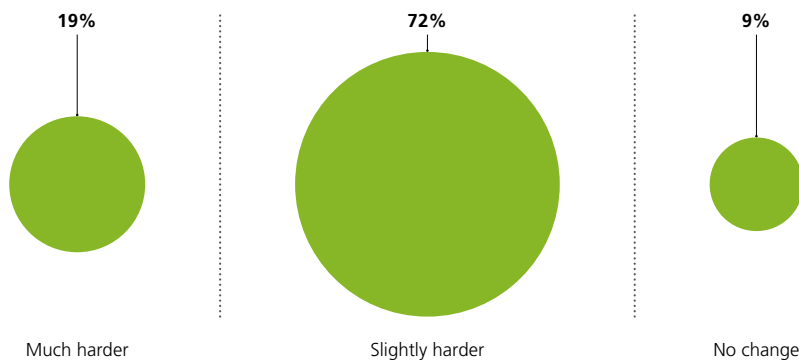
we can expect further challenges to financing acquisitions. Lenders will not be willing to sanction debt unless they are completely satisfied with the creditworthiness of parties.”

Respondents do not expect this to change in the near future. Nearly three-quarters of respondents (72%) say financing market conditions will be slightly harder over the coming year, and a further 19% say they will be much harder. As outlined in *M&A environment and expectations for the year ahead*, financing conditions have already affected acquirers’ appetite for dealmaking, with larger deals in decline. Buyers look set to continue focusing on smaller transactions and are expecting much greater scrutiny of targets from lenders alongside higher financing costs to reflect elevated interest rates.

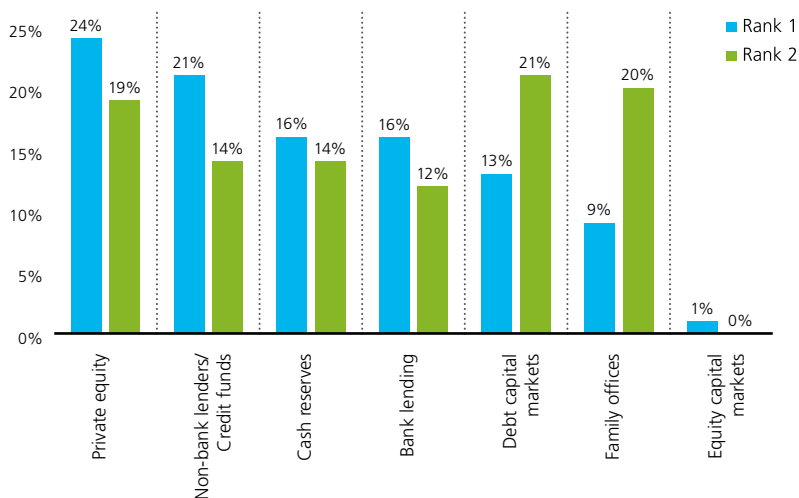
“Lender attitudes will have a negative impact overall,” says an Italian private equity partner. “It will be easier to complete smaller deals because we will face fewer challenges in getting loan approvals for these.” A Japanese global director of strategy at an industrials & chemicals company adds: “Previously, lenders were more accommodating about minor challenges related to operations or supply chains. Now, they are far stricter when reviewing company performance. Even small cash flow issues are highlighted as poor financial performance.”

As banks take a cautious stance on managing liquidity and adopt a largely risk-off approach to lending, respondents are expecting private equity to be the most readily available source of financing (43% put this in the top two). Non-bank lenders and credit funds come in second place (with 35% placing this in the top two).

How do you expect financing market conditions to be over the next 12 months compared to the preceding 12 months? (Please select only one)



What sources of financing do you think will be most available over the next 12 months? (Please select top two, 1 = most available, 2 = second most available)



With USD 3.7tn of unspent capital globally at its disposal at the end of 2022, private capital firms could help fill the financing gap that many companies face. Having raised capital from investors, private funds must invest within a specified timeframe. Private debt funds also have a history of stepping into gaps left by banks – in Europe, they grew from the fallout of the 2008

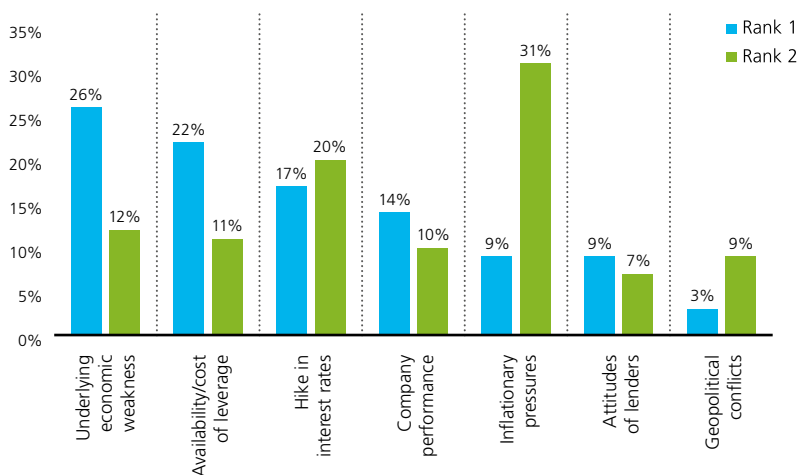
financial crisis – and of providing debt packages tailored to individual companies’ circumstances. Private debt assets under management worldwide are projected to grow from around USD 1.2tn in 2021 to USD 2.3tn in 2027. Europe’s private debt market, which is second in size only to that of the US, is set to see a substantial portion of that growth.

Yet private equity investors, much like other dealmakers, are subject to higher costs and more restrictive lending. “The cost of leverage is a concern,” says an Australian private equity partner. “We can’t achieve value-add from acquired companies immediately, and there could be challenges affecting the asset values. All these factors can make financing acquisitions difficult in the next 12 months.”

Firms will clearly continue to invest, but the quality bar is likely to be higher in the current environment as they will need to put more equity into deals. Recent analysis by Schroders Capital showed that, for a private equity investor to make the same return on an investment with 65% leverage, entry prices need to fall by 18.6% if the debt can only be raised at 40% of the purchase price. As a French private equity firm managing partner puts it: “There is more pressure on us because we have to change the debt-equity percentage during deals.”

Inflationary pressures, underlying economic weakness and interest rate hikes are the three greatest challenges to financing acquisitions, according to our respondents. Among the 40%

What do you view as the greatest challenge to financing acquisitions over the next 12 months? (Please select top two, 1 = greatest challenge, 2 = second greatest challenge)



who put inflationary pressures in the top two is a UK-based private equity firm partner, who says: “Capital-intensive businesses are more difficult to finance today. Rising inflation has changed our investment plans and we will miss opportunities because of financing challenges. With inflation so high, it will be tough to determine optimum valuations and get loans on the actual value of assets.”

Economic weakness was cited by 38%, and interest rate hikes by 37%. “Unless economic conditions improve, it will be very difficult to find the right financing options for deals,” says a Portugal-based private equity partner. “Dealmakers have to go in prepared with cash reserves or with some other asset to sell and even there, sellers won’t get good value for the asset because of the weak economy.”



Conclusion

The heady days of rising European M&A activity, fuelled by accommodative monetary policy interventions, are plainly over. Deal values and – to a lesser extent – volumes have fallen over the past few months, and they may yet fall a little further as we move through the rest of 2023. Higher interest rates have yet to fully work through the economic and financial systems, and there will likely be some pain down the road in the form of higher company stress and distress levels. Inflation also continues to cause concern among central banks and dealmakers alike. However, absent further shocks, the signs are that interest rate hikes, moderated energy prices and a steady normalisation of supply-chain flows are starting to bring price rises down.

Against this backdrop, dealmakers are in a reflective mode. The blockbuster transactions seen in 2021 and 2022 are fewer and farther between in 2023 as financing has become more expensive and harder to secure, but smaller deals are still getting across the line. As valuations have fallen and higher interest rates start biting, respondents see acquisition opportunities on the horizon. Over time, the gap will close between buyer-seller price expectations, which will remove one of the market's current roadblocks.

The macroeconomic outlook may be uncertain, and it is clear that interest rates will not soon be falling back to 2020 levels, but there are plenty of reasons to be optimistic about the prospects for European M&A over the medium and long term. Here are three of the main ones:

TMT and sustainability will drive dealmaking

The productivity and efficiency benefits of digitalisation across the economy and the adoption of AI tools will underpin continued appetite for TMT deals, both among companies in the sector and those in other industries that are looking to develop new technology-led products, services and processes. As our respondents noted, ESG and climate-related regulations and incentives will create new deal opportunities as the world's energy landscape and way of doing business reshape to more sustainable models.



Inbound investment looks set to be strong

Europe continues to attract attention among investors even as the war in Ukraine rages on. With the vast majority of respondents expecting to invest in the region over the next two years, Europe can expect strong capital flows as companies seek to create more resilient supply chains that are closer to end markets and in support of strong technology bases in markets such as the UK & Ireland.

The growth of private capital in Europe will keep deals moving

On the whole, European banks have proved to be more resilient than some of their US counterparts, although they are more reluctant to finance new deals today than they were just two years ago. Many private equity houses, even if currently less active than in 2021 and 2022, are still expecting deal activity to rise meaningfully over the coming year. Their activity, and that of their corporate peers, will increasingly be supported by the region's growing private debt market as these lenders continue to take market share from more cautious and hamstrung banks.

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German Ministry for Economic Affairs

CMS advised the German Ministry for Economic Affairs & Climate Action (BMWK) on the EUR 33bn stabilisation measures for Germany's largest gas importer Uniper, including the acquisition of a majority stake in Uniper.

4iG

CMS advised the major Hungarian telecommunications company on its EUR 1.7bn acquisition of Vodafone Hungary, the country's second-largest telecommunications company, in one of the most significant CEE telco deals in recent years.

InstaDeep

CMS advised global AI company InstaDeep on its sale to BioNTech for GBP 562m across eight jurisdictions (UK, Germany, France, UAE, USA, Nigeria, Tunisia, South Africa).

Octopus Energy Group

CMS advised the UK energy group on its takeover of Bulb Energy's 1.5 million customers following an almost year-long tender process run by Bulb's administrators. The ground-breaking transaction was structured using an Energy Transfer Scheme for the first ever time in the UK.

Deutsche Telekom

CMS advised Deutsche Telekom on Austrian law aspects of the sale of their Tower portfolio in Germany and Austria for an aggregate value of EUR 17.5bn.

Siemens Gamesa

CMS advised the listed renewable energy multinational on the EUR 600m sale of a major portfolio of wind farms located across Spain, France, Italy and Greece.

J Sainsbury plc

CMS advised the UK FTSE 100 supermarket on the buy-out of the balance of its GBP 1.1bn reversion portfolio from, among others, Supermarket Income REIT plc.

EBRD

CMS advised the European Bank for Reconstruction and Development on its acquisition of 35% of the shares in the Lviv M10 industrial park project in Western Ukraine.

Equinor

CMS advised Norwegian energy business Equinor on the acquisition of the entire issued share capital of Suncor Energy UK for USD 850m.

Volkswagen

CMS advised Volkswagen on a joint venture with Belgian materials technology group Umicore to produce cathode material for battery cells. The total investment is around EUR 3bn.

Accenture

CMS advised Accenture on the acquisition of UK-based Objectivity, a digital engineering firm with operations across the UK, Poland, Germany and Mauritius.

Brookfield

CMS has advised Brookfield on the acquisition of a 100% stake in Spanish renewable energy firm X-Elio from KKR.

B2 Holding AS

CMS advised the Norwegian-listed financial services group on an international restructuring across 11 countries, one of Europe's most complex financial services/restructuring projects of the year.

Royal Unibrew

CMS advised the multinational beverage company on its acquisition of Vrumona, the second largest soft drinks player in the Dutch market, from Heineken, for a consideration of EUR 300m.

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