2023 EMEA M&A Dealmakers Sentiment Report

Produced in association with Mergermarket

Contents

This Europe, the Middle East and Africa (EMEA) regional M&A report is part of the *2023 Global M&A Dealmakers Sentiment Report*.

To gain insight into the M&A market in the coming 12 months, we surveyed 300 M&A dealmakers globally to get a picture of their current sentiment, where they see the market heading and the challenges and opportunities they expect along the way.

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Key Findings

56% of EMEA dealmakers expect M&A activity to increase in the next 12 months

52% of EMEA dealmakers see the need to capture synergies as a likely driver of their M&A activity over the next 12 months

81% of EMEA dealmakers expect to spend more time over the next three years scrutinizing ESG factors during due diligence

About this research

In the second quarter of 2022, Mergermarket surveyed 300 mergers and acquisitions (M&A) dealmakers from 225 corporate and 75 private equity (PE) firms. These included 100 respondents headquartered in North America, 75 in Europe, the Middle East and Africa, 75 in Asia Pacific and 50 in Latin America. Overall, 21 percent of corporates describe their main sector of focus as Technology, Media and Telecom, with 18 percent in each of Industrials and Chemicals, Energy, Mining and Chemicals, and Financial Services. Among these corporates, 46 percent have an annual turnover greater than USD three billion. Among PE respondents, 53 percent have assets under management of less than USD 10 billion.

All charts show overall figures, except when figures based on region or corporate/PE are statistically significant.

Background

The pace of dealmaking has slowed, but appetite for M&A in the EMEA region remains strong

After a record-breaking year in 2021 for mergers and acquisitions (M&A) activity in the Europe, the Middle East and Africa (EMEA) region, it was always likely that 2022 would see something of a slowdown — particularly given the deteriorating political and economic environment. The conflict in Ukraine, rising inflation and slowing economic growth gave dealmakers plenty of pause for thought.

> "Deal volumes were roughly 14 percent down in the first three quarters of 2021, with a particular slowdown at the top end of the market, where deal values were down by almost 25 percent.

However, it would be wrong to characterize 2022 as a slow year for M&A. Deal activity remained strong by historical standards, comparing well to pre-pandemic norms. The region saw 8,286 deals over the first three quarters of the year and these transactions were collectively valued at USD 1.2 trillion, according to Mergermarket data.

Nevertheless, those figures did mark a sharp slowdown compared to the previous year. Deal volumes were roughly 14 percent down in the first three quarters of 2021, with a particular slowdown at the top end of the market, where deal values were down by almost 25 percent.

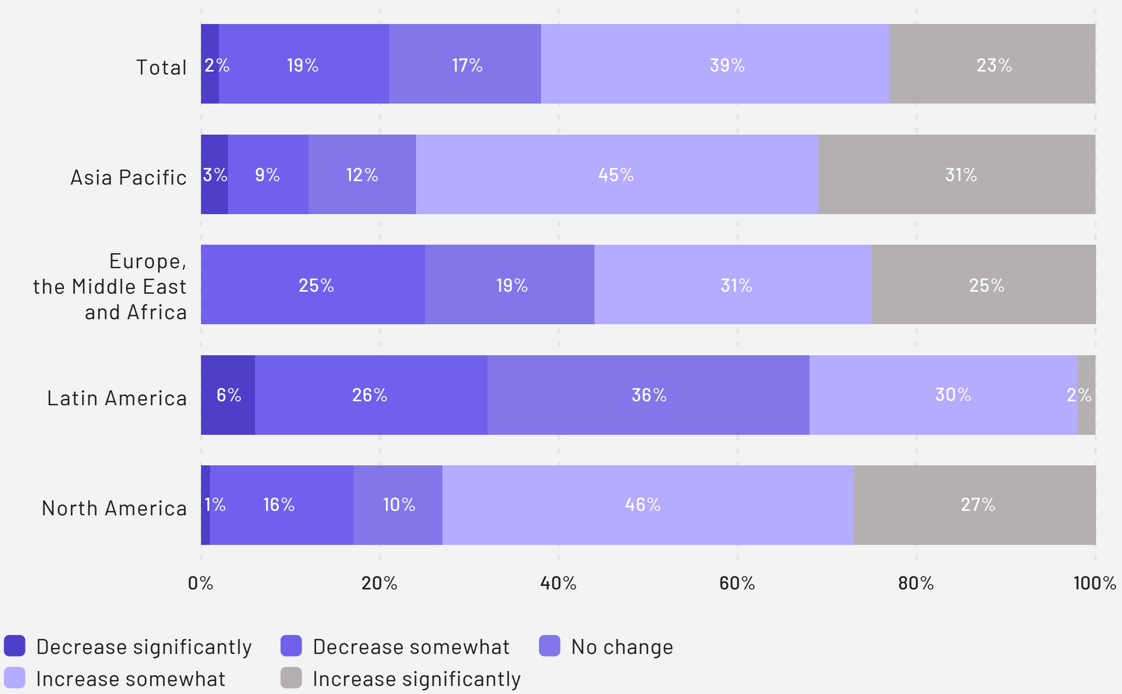
This is not to suggest there were no megadeals in 2022. The deal between Orange and Grupo MásMovil in the telecoms sector and the merger of Royal DSM with Firmenich in the chemicals industry were both valued at around USD 21 billion. Still, these blockbuster transactions were rarer than in the past.

Against this backdrop, what are the prospects now for M&A in EMEA in 2023? Despite the stiffening economic headwinds — the International Monetary Fund predicts much of EMEA will see lower growth in 2023 — many dealmakers in the region are cautiously optimistic.

In our survey of 300 dealmakers around the world, more than half of the respondents based in EMEA (56 percent) expect to see levels of M&A activity increase over the next 12 months, including 25 percent who expect to see a significant increase.

It's fair to say that EMEA-based dealmakers are less bullish than their counterparts in other parts of the world — respondents in both North America and APAC are more likely to expect increased M&A in the year to come. Still, a third of the 75 respondents in EMEA (33 percent) expect to complete four or more M&A transactions in 2023.

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



Drivers and Challenges

Search for synergies and restructuring opportunities will continue to fuel transactions around EMEA

Businesses around the world are grappling with competing priorities. On the one hand, they are keen to pursue new growth opportunities — focusing on digital transformation, for example, as well as expansion into new markets or new product and service areas. On the other hand, they are conscious of elevated levels of risk as macroeconomic and geopolitical volatility continues; this requires focus on basic fundamentals such as cash preservation and cost control.

The imperatives driving the dealmaking ambitions of businesses across the EMEA region reflect these pressures. Certainly, many are focused on growth — 37 percent cite digital transformation as a key driver of their M&A activity over the next 12 months; 32 percent see deals to support their expansion into new geographies. Worsening macroeconomic headwinds, however, may mean dealmakers will have to undertake defensive M&A — that is, deals aimed at hedging against a downturn.

For example, as costs rise and growth slows, 52 percent of EMEA dealmakers think the search for synergies will be a key deal driver over the next year.

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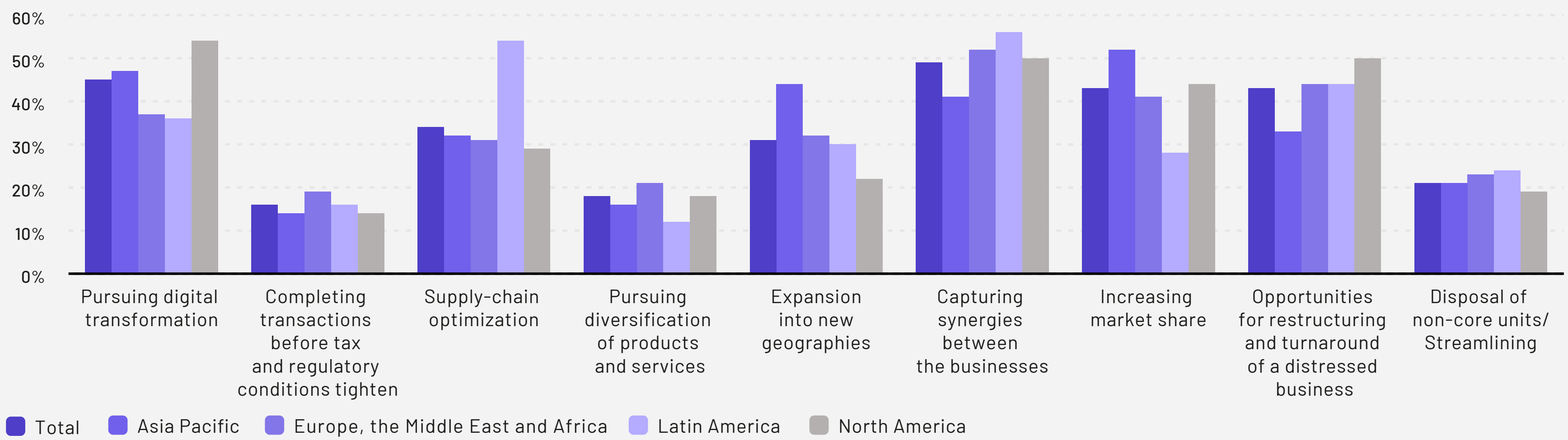
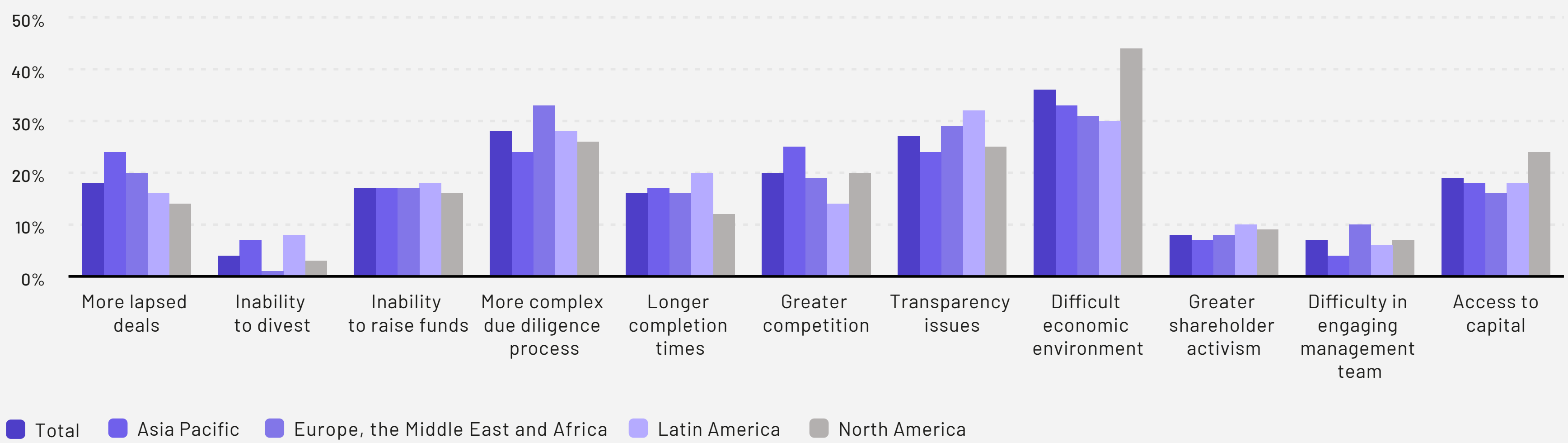
What will be the key drivers of your M&A activity over the next 12 months? (Select top three.)



What challenges do you expect to see in M&A in the coming 12 months? (Select top two.)



Many respondents also expect the difficult economic environment to drive M&A activity. For example, 44 percent think there will be opportunities to pick up businesses in need of restructuring and turnaround; 23 percent plan to dispose of non-core businesses of their own.

Equally, the changing market backdrop will add to the challenges of successfully executing M&A deals. A third of EMEA dealmakers (33 percent) expect to see due diligence processes become lengthier and more complex. Almost as many (31 percent) simply point out that the difficult economic environment presents a challenge to dealmaking in and of itself.

Inevitably, not every deal that is announced will make it through to completion. A fifth of EMEA dealmakers (20 percent) expect the number of lapsed deals to increase over the next 12 months; only APAC dealmakers are more likely to share this view (24 percent). And for those transactions that do make it over the finish line, they will take longer — 16 percent of EMEA dealmakers see completion times extending.

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One impact of these challenges may be that many dealmakers are more modest in their ambitions for the year ahead. Just as there were fewer megadeals in 2022 than in 2021, dealmakers may shy away from the biggest transactions yet again over the next 12 months.

Indeed, in this research, three-quarters of EMEA respondents (75 percent) expect to undertake a mid-market transaction worth less than USD two billion over the next 12 months. By contrast, only 53 percent think it is likely they will do a large deal (worth between USD two billion and USD 10 billion) and only nine percent are contemplating a transformational megadeal worth more than USD 10 billion.

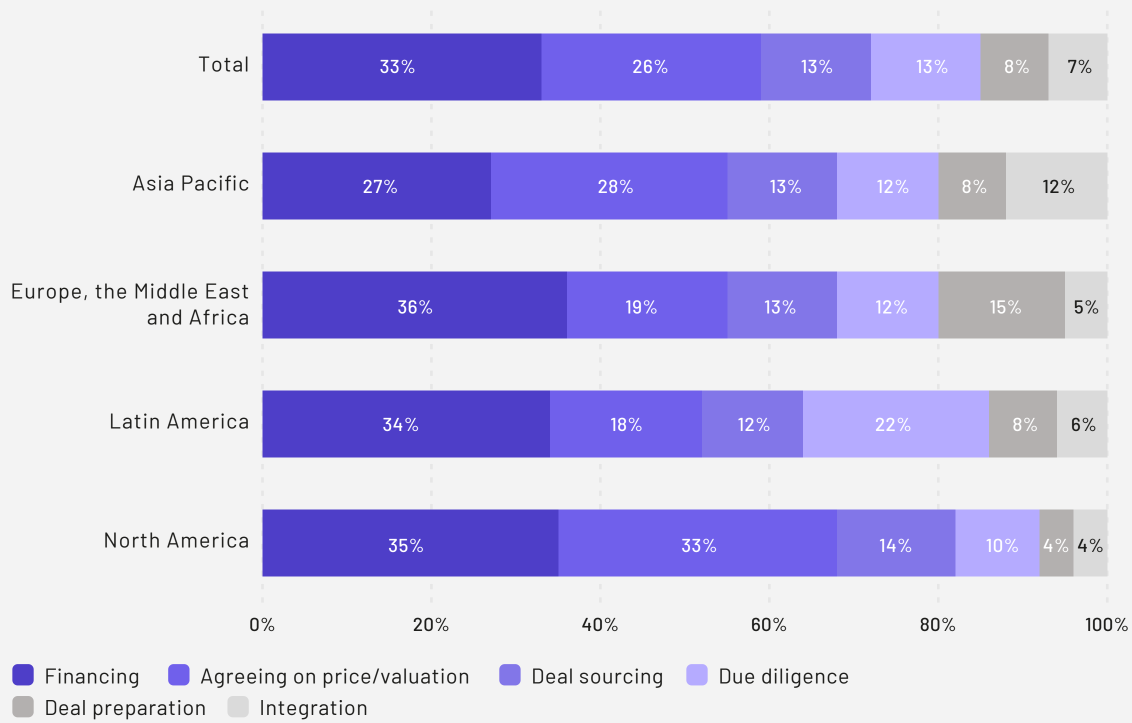
Process in Focus

In light of worsening deal conditions, EMEA-based dealmakers expect financing to be the most difficult aspect of M&A in the next 12 months

As policymakers continue to tighten monetary policies, financing for deals looks set to become more stressed in EMEA. More than a third of dealmakers in the region (36 percent) see financing as likely to be the most difficult part of the M&A process over the next 12 months — a similar proportion as their colleagues in North America and Latin America.

Dealmakers in EMEA were more likely than their counterparts elsewhere to feel that deal preparation will be the most difficult aspect in the next 12 months — 15 percent of respondents say they expect this to be the biggest challenge, compared to eight percent of respondents globally.

Which part of the M&A process will be the most difficult in the next 12 months? (Select one.)

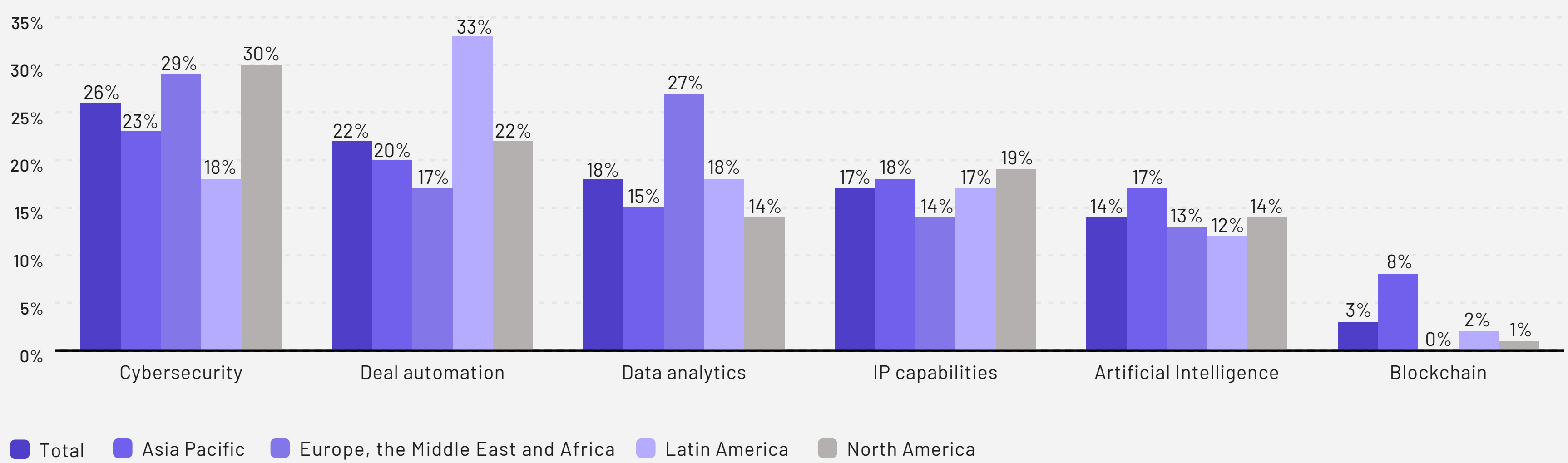


By contrast, EMEA dealmakers are more at ease than their counterparts elsewhere about other aspects of the process. While sellers may take some time to adjust to the increased conservatism of buyers in a high-risk environment, only 19 percent of EMEA dealmakers see the discussion around price and valuation as the biggest M&A challenge they are likely to face over the year ahead, compared to 33 percent of those based in North America.

Meanwhile, dealmakers continue to exploit new tools and technologies that will increase their ability to pursue M&A quickly and efficiently. While 29 percent of EMEA dealmakers cite the need to focus on cybersecurity tools during M&A processes, 27 percent are excited about the prospects for more use of data analytics and a further 17 percent point to an increased role for deal automation technologies.

Using these tools, it may be possible to overcome some of the issues around due diligence complexity and extended deal completion times that might otherwise slow or jeopardize M&A transactions.

What disruptive trends will most affect M&A processes in the next 12 months? (Most important only.)



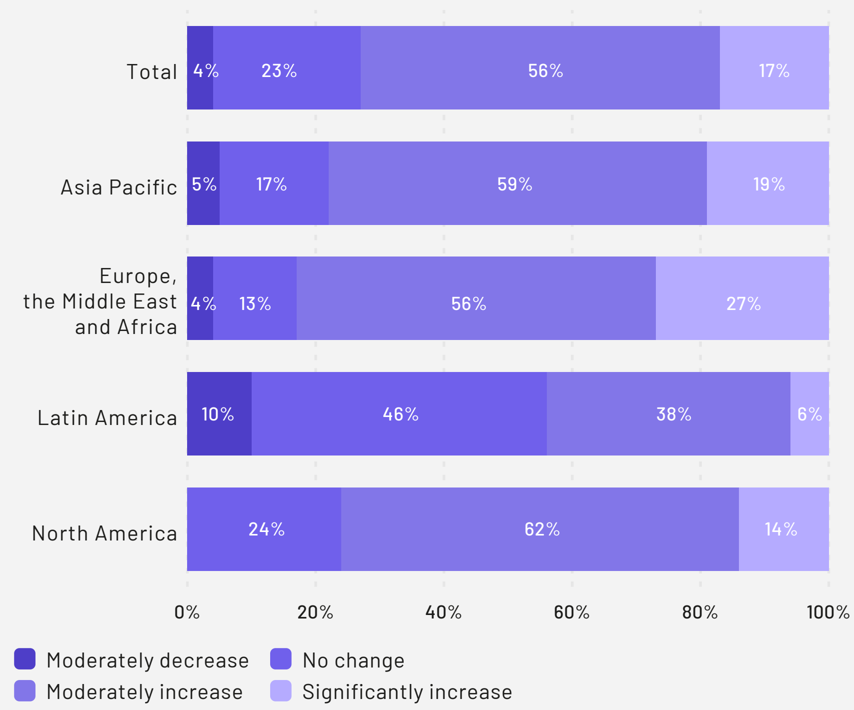
The Rise and Rise of ESG

EMEA-based dealmakers continue to lead the charge on ESG

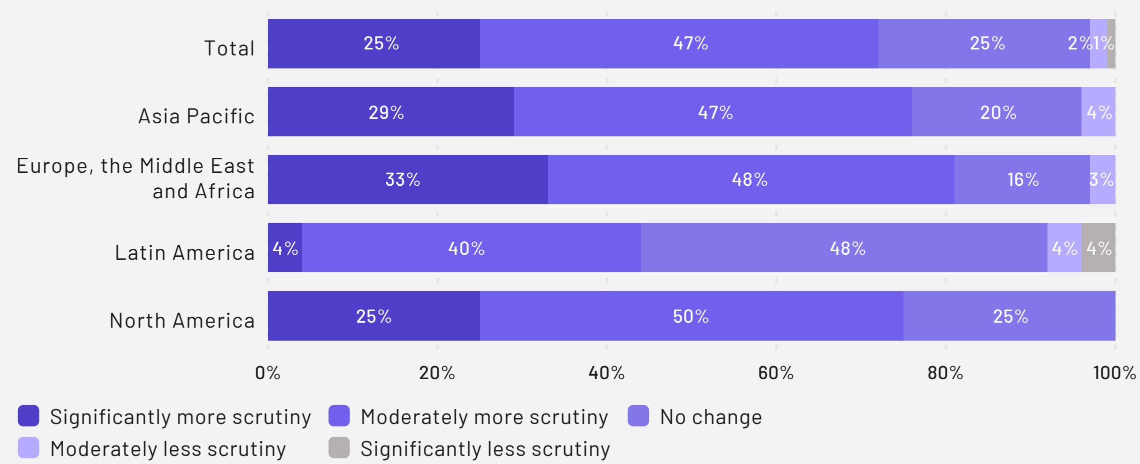
Environmental, social and corporate governance (ESG) issues will continue to play an increasing role in M&A activity. As the battle against climate change intensifies and a broad range of stakeholders become increasingly focused on social, political and economic matters, every business will see ESG rise up its agenda.

Often, businesses will have no choice but to do more — policymakers and regulators will simply order them to do so. Indeed, the EMEA region has already seen a panoply of ESG regulations introduced in recent years, including the European Union's Climate Benchmarks Regulation, Sustainable Finance Disclosure Regulation and Taxonomy Regulation — but more is to come. The EU is close to agreeing on the Corporate Sustainability Reporting Directive and the Corporate Sustainability Due Diligence Directive, for example. The U.K. is also expanding its Taskforce on Climate-Related Financial Disclosure regulation.

How do you expect the level of ESG regulation in M&A to change over the next three years?



How do you expect due diligence to change in terms of ESG factors in transactions in the next three years?



Dealmakers in this region recognize the increasing burden. More than three-quarters of EMEA respondents to this poll (83 percent) expect ESG regulation related to M&A to increase over the next three years. That includes 27 percent who expect to see a significant increase — a higher proportion than in any other region.

Naturally, dealmakers are already incorporating more consideration of ESG issues into their pursuit of M&A processes. They may be keen to pursue transactions with the potential to help them improve their ESG credentials, while they will certainly be anxious to avoid deals that expose them to any potential ESG issue — particularly an unforeseen one.

For this reason, 81 percent of EMEA dealmakers expect to spend more time over the next three years scrutinizing ESG factors during the due diligence phase of transactions. This includes 33 percent who expect to spend significantly more time on such work. Again, EMEA dealmakers are more likely to be focused on ESG in this regard than their counterparts in any other region.

It's also important to stress that the environment and sustainability are not the only issues at stake here. For example, almost two-thirds of EMEA respondents (64 percent) say the diversity balance within the organization is an important consideration when they evaluate a new target.

Conclusion

Dealmakers in EMEA hoping to take a breath following their busiest year on record during 2021 have been somewhat disappointed. The pace of M&A may have eased slightly during 2022, but activity remained strong — and dealmakers have had to cope with a string of emerging challenges. The COVID-19 crisis may finally be moving from pandemic to endemic, but the conflict in Ukraine and economic pressures represent tough new difficulties.

Nevertheless, optimism persists. While dealmakers are adjusting their plans to reflect the changing environment, particularly when it comes to due diligence and financing, they are pressing ahead with their ambitions to successfully complete transactions.

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