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Back in Gear: European M&A Outlook 2025

A study of European M&A activity

September 2024

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Methodology

In Q2 2024, Mergermarket surveyed senior executives from 240 corporates and 90 PE firms based in Europe, in the Americas and in Asia-Pacific 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 Asia-Pacific. 92% of all respondents have been involved in an M&A transaction over the past two years and 95% 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

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

After a challenging couple of years for European M&A activity, we are starting to see signs of a recovery. With deal values up in H1 2024, and a focus among dealmakers on larger transactions, our survey paints a picture of more optimism about the prospects for 2025.

With interest rates and inflation coming down from their peaks, plus more visibility on how companies have performed against a difficult backdrop, the uncertainty that plagued the market is beginning to dissipate. The European Commission upgraded its growth forecast for European Union (EU) economies earlier this year to 1% for 2024 and 1.6% in 2025. The UK is also faring better than most anticipated, with forecasts for 2024 raised from 0.4% to 0.9%. These figures suggest that the worst may be behind us, in particular as inflation trends towards the 2% target espoused by the European Central Bank (ECB) and Bank of England.

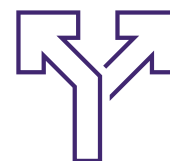
However, our survey does point to some obstacles. Difficulties raising finance as banks rein in their lending, recent dips in company performance and a stubborn gap between buyer and seller price expectations are some of the key challenges that dealmakers report. Scrutiny of environmental, social and governance (ESG) factors is also projected to mount. Diversity, equity and inclusion (DEI) initiatives are likewise coming to the fore, with nearly a third of respondents saying that a target company's diversity factor is a crucial element to consider in the M&A decision-making process.

Nonetheless, nearly two-thirds of respondents expect an increase in European M&A over the next 12 months. Dealmakers in the region are also forecasting an increase in activity led by overseas acquirers, especially from bidders based in the Middle East. It looks as though Europe's M&A engines are getting back in gear.

Key findings from our research include:

Respondents are optimistic about M&A activity
Nearly two-thirds expect European M&A to increase over the next 12 months, either somewhat (45%) or significantly (20%), a major reversal from last year's study when only 3% forecast a significant increase.

The UK & Ireland ranks as both highest and lowest region for M&A growth expectations
Respondents are split about the UK & Ireland's M&A prospects for the year ahead, with 32% placing it in top spot for anticipated M&A growth, putting it in first place, but 31% saying it will see lowest growth.



Valuations gaps are a persistent issue for dealmakers
Price expectations between buyers and sellers continue to diverge, with 34% ranking this among their top two major obstacles to European M&A activity over the next 12 months.

Balancing market optimism and M&A discipline

Gunvor Ellingsen, Head of Corporate M&A at Shell, introduces this year's M&A Outlook by examining the more disciplined approach to dealmaking that the current high-risk environment demands of companies as they pursue sustainable growth avenues and cost synergies

Gunvor Ellingsen, Head of Corporate M&A and Central Business Development, Shell

For dealmakers, maintaining an optimistic, resilient and persistent mindset is crucial for navigating the complexities of M&A transactions, especially in light of the various market setbacks and challenges that they are seeing today. In 2024, the market environment is characterised by elevated interest rates, weak growth, persistent inflation, the ramifications of major elections and heightened geopolitical risks. The duration of these conditions remains uncertain, creating a volatile landscape for dealmakers. Companies are having to be more disciplined in M&A, pursuing deals that deliver both cost synergies and growth.

Despite these various obstacles, there is a notable sense of optimism. Inflation has trended down and the interest rate outlook has stabilised, with further rate cuts expected in Europe in the near term. However, the recovery is unlikely to be straightforward, as evidenced by recent fluctuations in other markets around the world.

In this high-risk environment, companies of course prefer to avoid expensive debt financing. This has led many dealmakers, particularly in the oil & gas sector, to pursue all-stock deals on the back of high public market valuations. Consolidation, too, is driving M&A, with companies merging to create stronger, more resilient entities capable of withstanding market volatility.

Technological advancements continue to play a pivotal role in propelling M&A activity across various sectors. In my industry, innovations in renewable energy, energy storage, digitalisation and smart grid technologies are transforming how energy is produced, distributed and consumed. These advancements are driving the transition towards more sustainable and efficient energy systems.

On the M&A front, dealmaking is facilitating the scaling of renewable energy assets such as wind and solar parks, diversifying energy portfolios and fostering strategic partnerships to pool resources and expertise. These collaborations are essential for developing integrated solutions that enhance efficiency and sustainability. Indeed, the role of M&A in the energy sector cannot be overstated. It enables large, asset-heavy companies to stay abreast of innovation, access new technologies and accelerate growth. The same factors hold true for businesses in other industries.

Private equity (PE) players are starting to deploy funds and raise new ones targeting the energy transition. Despite challenges such as high borrowing costs, a slow pace of exits and fundraising difficulties, PE firms persist in consolidating fragmented industries and pursuing bolt-on acquisitions. However, there is a pressing need for more exits of PE funds to create liquidity and allow for new investments. The market is still waiting for the return of larger exits, which may not occur until interest rates fall further and valuation gaps narrow. But the cautious optimism among PE firms indicates that they are preparing for these exits once the market conditions become more favourable.

In this complex environment, due diligence has become more critical than ever. Thorough reviews are essential to identify potential risks and uncover hidden liabilities. In particular, emphasising environmental, social & governance (ESG) factors in due diligence is increasingly important. Assessing a company's environmental impact, sustainability practices and carbon footprint can significantly influence deal valuations and decision-making. Moreover, those companies who are able to integrate ESG into their M&A strategies and make strong sustainability commitments will have better access to capital.

Transparency around ESG performance and stakeholder engagement is vital, including with investors, communities and regulators. This engagement is particularly important when dealing with cross-border transactions, in which cultural differences and regulatory environments can add layers of complexity.

Geopolitical risks continue to influence the M&A landscape. Although concerns about the conflicts in Ukraine and the Middle East, as well as supply chain issues, may seem diminished, these risks have not disappeared. Companies have adopted strategies to mitigate these risks, but they remain a critical consideration in strategic planning. Moreover, in some cases these risks have simply been overshadowed by other issues, such as the numerous elections being held in 2024, which could lead to policy changes affecting global trade and investment.

In the face of these challenges, the ability to effectively target both growth synergies in cost deals and cost synergies in growth deals will be crucial. Companies that can identify and leverage these synergies will be better positioned to thrive in the evolving M&A market.

Several key trends will shape European M&A over the next 12–18 months. The energy and natural resources sectors will continue to be active, driven by ongoing consolidation and the pursuit of new growth opportunities. In the advanced manufacturing space, too, deals focusing on scale and cost synergies will arise, while Europe's healthcare and life sciences industries will catalyse a lot of strategic M&A, as companies look to optimise their portfolios around therapeutic areas and technologies. And on technology more broadly, digitalisation will, of course, remain a major deal driver that touches all sectors.

In conclusion, the M&A market in 2024 is marked by cautious optimism, the need for strategic adaptability and an increased focus on sustainability. Companies that can navigate this complex risk landscape, leveraging technology and strategic partnerships, are well-positioned to thrive.

The views reflected in this article are the author's own and do not necessarily reflect those of Shell.

Spotlight on the Nordics

Louise Rodebjer and Fredrik Råsberg, Partners at CMS Wistrand in Sweden, and Johan Svedberg, Partner at CMS Kluge in Norway, react to our latest M&A survey and discuss the outlook for dealmaking in the Nordics

Louise Rodebjer, CMS Sweden

Fredrik Råsberg, CMS Sweden

Johan Svedberg, CMS Norway

The Nordic M&A market has performed somewhat stronger than the broader European market. What factors contribute to Nordic countries being more robust relative to their peers elsewhere in Europe?

Louise Rodebjer: That aggregate deal value has gone up, whereas the number of transactions has seen a decline, is driven by various larger deals being announced in the Nordics in recent quarters. This also indicates that larger, more stable businesses are being favoured over smaller ones. In H1 2024, a driving force has been stabilised interest rates and inflation. Despite global uncertainties, the local market is characterised by a sense of relief at the positive outcome of inflation and interest rate stabilisation.

Given 2023's financial climate uncertainties, there is also a large amount of capital waiting to be deployed by PE funds. Hopefully that will be put to work throughout H2 2024, and we will start to see an increase in exits as investors demand return on capital. We have also started seeing more buy-outs of public companies – we recently completed one of these when the Danish software company EG bought Sweden-based proptech specialist Mestro AB, and within CMS we are currently advising on several public cross-border buy-outs.

Sweden was the Nordics' busiest market in H1 2024. Denmark, however, took the top spot in aggregate value terms, and contributed four of the five largest deals. Should we expect Denmark to be the main driver of deal activity in the Nordics? And which other market is best positioned to generate big-ticket M&A through the rest of 2024?

Johan Svedberg: In Denmark, there have been some significant deals in H1 2024, such as the split of the tugboat company Svitzer from AP Møller – Maersk, approved by shareholders in April 2024, which led to the independent listing of Svitzer at the beginning of May 2024. Compared to other countries in the Nordics, we have seen financial players being slightly more active in Denmark compared to Sweden and Norway. Going forward, however, we believe that Sweden, Norway and Denmark will play equally important roles in the Nordic M&A market. No one market is better positioned than the others in terms of driving large deal volumes or big-ticket M&A.

LR: Finland continues to have a slower M&A market – only one of the top 20 deals in H1 in the region targeted a Finnish asset. The sentiment appears to be that Finland is slightly behind the other Nordic countries in its cycle and that the M&A market there will pick up towards the end of the year and into 2025.

The pharma, medical & biotech (PMB) sector generated just under EUR 13bn worth of deals in H1 in the Nordics, a more than fourfold increase from the same period last year. Is this performance sustainable?

LR: Generally, healthcare is a focus in the Nordic region thanks to the strength in innovation in both the bigger companies such as Novo Nordisk, Lundbeck and Astra Zeneca,

but also in the smaller companies such as Calliditas and Bioarctic, which both recently delivered significant R&D results. This is something that triggers interest from international buyers and investors in the sector and the region as a whole. That interest is expected to continue throughout the year; however, the overall performance for 2024 will likely stabilise at a lower level compared to the fourfold year-on-year increase that the sector enjoyed in H1.

Among key sectors, only real estate avoided a year-on-year decline in deal volume in the Nordics. What forces are propelling dealmaking? Are transactions in particular subsectors, such as logistics, buoying the industry?

Fredrik Råsberg: The high transaction volume in the real estate industry is mainly driven by lower interest rates, stable inflation and better opportunities for financing. It should be noted that the yield levels have increased radically and are now at 2015 levels. Property values have fallen as a result, which makes sellers more likely to accept prices offered by the buyers in the market as they align with the values to a greater extent, and the buyers' needs for higher dividend yield levels can be met.

It should be noted that foreign capital, which accounted for 25% of deal volume in 2023, has decreased to only 10%. No foreign investor is among the five biggest deals of the year, but two are on the sell-side. American investors have a completely different concern regarding their domestic office market post-pandemic, with home working and high vacancies. Hence, that investor category is cautious with investments in the office segment, in particular. In general, the investors are also cautious with investments in the residential segment, while community properties and logistics properties are more attractive.

Of the 20 largest deals announced in the Nordics in H1, half involved bidders from outside the region. What makes the region especially appealing to cross-border acquirers? What factors should overseas bidders most bear in mind when pursuing M&A in the Nordics?

LR: The Nordic region is appealing for cross-border M&A due to several factors. First, the region has a very efficient and transparent regulatory environment with well-functioning legal systems. Each Nordic country does, however, apply its own regulatory framework, meaning that local advice in each jurisdiction is necessary. Second, the Nordics continue to be a hub for entrepreneurship and innovation across several industries, from life sciences to heavy engineering and cutting-edge technologies within renewable energy. At the moment, a weak Swedish krona means an attractive relative valuation of these businesses. Third, ESG is high on the agenda in society as a whole and prioritised by companies. There are therefore lots of compelling investment opportunities driven or characterised by ESG, which bidders with an ESG-focus in their M&A strategy will find beneficial. Finally, from a practical perspective, the Nordics is highly digitalised, and English predominates as the business language across the region, which makes it easier to conduct cross-border deals.

One factor to bear in mind, however, is that in December 2023 the EU foreign direct investment regulations were implemented in Sweden, which adds a layer of complexity already present for investments in Europe in general. It has an impact on the acquisition process for foreign investors in Sweden. The notification process, as in other European countries, must be taken into account when planning an acquisition and will be another reason for transactions to have a deal mechanism with a separate signing date and closing date.

Smart acquisitions: AI in M&A

New EU legislation mandates stricter due diligence and liability assessments in M&A, particularly for AI systems. Compliance is likely to heavily influence transaction structuring, valuations and demand for insurance coverage

Elmer Veenman, CMS Netherlands

Over the past couple of years we have seen the role of artificial intelligence (AI) becoming increasingly significant in M&A transactions. The primary objectives in traditional M&A include achieving economies of scale, synergising operations and diversifying products or services. Technology, media & telecoms (TMT) M&A transactions add an additional layer: the acquisition of specific intangible assets such as intellectual property, data and innovative technologies, including AI.

In addition to the increase in the number of acquisitions of AI companies, AI has also become increasingly important as a tool in M&A transactions. Many players within the M&A world experiment with or use AI tools, including generative AI (GenAI), to enhance the efficiency and accuracy of due diligence or provide assistance during the review and negotiation of transaction documents.

The increasing significance of AI is further underlined by the entry into force of the European Union's AI Act in August 2024 and its gradual applicability from February 2025. This establishes a regulatory framework for providers (including product manufacturers), users, distributors and importers of AI systems and is expected to boost investor confidence.

Reflections and projections

Recent examples of AI-driven deals in the TMT sector in 2023 include BioNTech's acquisition of InstaDeep, a UK-based AI company, for GBP 562m and Amazon's acquisition of Estonia-based Snackable AI, an audio content discovery engine. Another transaction that underscores the vitality of the TMT sector is Microsoft's strategic move to invest USD 16m in Mistral AI. These acquisitions and investments illustrate the development of AI capabilities and the ongoing interest and confidence in AI technologies.

TMT is expected to remain one of the leading sectors for deal activity in Europe, despite a decline in aggregate deal value in 2023 due to lower valuations and higher financing costs. Its resilience reflects the continued demand for technology solutions and innovation across industries, as well as the expansion in digital markets. Subsectors such as software-as-a-service, cybersecurity, AI and cloud computing will offer high-growth potential and recurring revenue streams for PE investors. In addition, AI tools are likely to boost TMT transactions in the coming years, as companies seek to acquire or develop AI capabilities to enhance their products, services and processes and to gain a competitive edge in the evolving digital landscape.

Targets applying AI

As the AI Act entered into force on 1 August 2024, assessing the risk level of AI systems and their compliance with the AI Act is – and will increasingly become – an essential part of due diligence in TMT M&A transactions. In addition, depending on the role of the target company

(e.g. as a provider or deployer of AI), it will be crucial to assess information on the ownership of AI-generated content, compliance with data protection regulations and liability for AI decision-making.

The AI-related risks identified in the due diligence phase should then be addressed in the transaction documents through appropriate warranties and indemnities (W&I) or completion conditions. Evidently, the seller should provide more specific and comprehensive representations and warranties regarding compliance with the AI Act, especially if high-risk AI systems are being used. In addition, the parties may need to include more tailored completion conditions relating to the target company's AI systems, such as obtaining or maintaining any necessary authorisations, registrations, certifications or notifications under the AI Act to comply with any ongoing or reporting requirements. These findings may also affect the valuation, negotiation and structuring of the M&A transaction.

Furthermore, in the event of W&I-insured transactions, the parties and their insurers should adapt the scope of their due diligence, disclosure and underwriting processes to account for AI risks and to ensure that the W&I insurance provides adequate coverage. As there are many uncertainties about the application in practice of the AI Act, we expect W&I insurances to be in demand by buyers in AI-heavy TMT transactions.

Liability

Liability with respect to AI is a complex and evolving issue that raises various legal questions. One of the main challenges is determining who is responsible and liable when an AI system produces errors or causes damages. Depending on the nature and function of the system, different parties may be involved, such as the developer, the provider or the deployer.

The AI Act does not introduce a specific liability regime for AI, but rather refers to the existing EU and national liability rules, which may not be well-suited to address the complexity and unpredictability of AI. Hence, directors should be aware of the potential liability risks associated with the use of AI in their business operations and act appropriately to mitigate such risks. This includes conducting due diligence, implementing risk management and control systems, effectively ensuring compliance with the EU AI Act and other relevant laws and obtaining adequate insurance coverage.

In so doing, directors can not only protect the company and themselves from liability claims, but also enhance the reputation of their companies, a prerequisite for successful M&A.

Support of GenAI in M&A transactions

The possibilities of GenAI are changing the way players within the M&A world conduct transactions. GenAI applications – such as Harvey for legal and Microsoft Copilot for general corporate use – are able to support and improve certain processes within a transaction by their ability to quickly analyse vast data sets, identify risks and provide actionable insights. The embrace of AI reflects a commitment to innovation and will improve the quality and the efficiency of M&A transactions.

It is clear that AI and AI-powered companies have an increasing role to play in M&A. With new AI developments emerging, new applications will follow and, with new applications, new regulations will emerge. CMS is monitoring the developments closely and we look forward to the next chapters of AI in M&A.

Family finance

As the deal market picks up, family offices will be seeking a bigger piece of the action

Dr. Hilke Herchen, CMS Germany

Milena Grayde, JPMorgan

Helen Rodwell, CMS CEE

Family offices have come a long way. They were traditionally passive investors in equities and real estate, and sometimes limited partners in PE funds. But the sector has grown enormously, and the ambitions and activities of family offices are now more diverse than ever before.

Most family offices keep a low profile, making data difficult to gather. Estimates for the size of the sector range from around 7,000 offices to over 20,000, with a global value of anything from USD 6tn to USD 10tn.

Some things, however, are clear. The number of family offices has more than doubled since the millennium. The largest manage portfolios worth many billions of dollars. And while the majority still represent single families, the sector now includes many multi-family offices, some even owned and run by third parties.

Milena Grayde, JP Morgan's Global co-Head of Family Investment Firms, says, "Watching family offices evolve has been really exciting. They are much more active as direct investors then they used to be. And as direct investments come in various shapes and sizes, that leads to more activity and diversity."

CMS partner Hilke Herchen agrees. "Not only are they now more sophisticated, often with greater access to their own research and analysis, but they are more inclined to leverage the industry expertise of the family and – sometimes as the baton is passed to the next generation – to be more involved in investment choices."

Taking the long view

There is a lot of variety among family offices. As Grayde explains, "Evolving in their mandates they take different journeys. They may resemble anything from a very traditional family-owned investment firm to a private entity that attracts third party capital or is even publicly listed."

But despite that variety, family offices tend to have certain characteristics. They often have lean decision-making structures. They are typically long-view investors, with large amounts of patient capital. However, many also want to take an active role in the businesses where they invest. They may be patient investors, but they are increasingly unlikely to be passive ones.

Although some family offices have always had a strong risk appetite, many have historically been conservative about where they invest, preferring the core of their portfolios to be lower-risk – frequently more cash-generative – investments. There have been indications that more are inclined to adopt growth strategies. But the market downturn saw a general reversion to a balanced approach.

Chemistry lessons

Is there any truth in the idea that family offices prefer to invest in other businesses that are family-run? There are certainly cases where founders who want to sell up or seek co-investment will opt to do a deal with a family office because of a shared perspective.

Says Grayde, "The chemistry factor can be a big plus. Sometimes it's not there, but whenever it's there, it's there in a big way." In this respect, Hilke Herchen comments, "If the investment is very close to the own business of the family, investors need to bear in mind competition law and issues such as the exchange of information through clean teams. The next generation may wish to pursue their own business ideas, based on their own values and ambition, via direct investments, and often with future facing and sustainable goals."

There are also deals that see family offices co-invest. As Grayde observes: "Many of them already know each other, often through work." They often think the same way and have similar goals.

More broadly, data shows that while ten years ago only about 20% of family office direct investments and M&A were club deals, today the number is more like 60%. This is a major change, and while it possibly reflects the large number of newer family offices – many of which may lack the heft to be sole investors – it also represents a major evolution in attitude. Family offices are now much more likely to join forces with PE firms or other investors in order to spread their risk.

Family offices sometimes also engage in M&A through or with their portfolio businesses. For example, the Saadé family office, Merit France, is the majority owner of shipping giant CMA CGM. In July, Merit acquired 20% of Altice Media, the third-largest private media group in France, with CMA CGM buying the other 80%.

An evolving deal landscape
Levels of family office M&A have dipped significantly from their 2021 heights. If anything, family offices may have reacted more strongly to the investment downturn than other investors. Analysis from PwC suggests that, globally, the family office market share of direct investments/M&A by value fell from 6% in 2H21 to 3% in 1H23.

But there is also evidence that many have been seeking out new opportunities – doing a greater proportion of small deals, for example, with an increasing emphasis on areas like tech and AI. According to Grayde, healthcare, business services and industrial technology are 'hot' areas too.

It is also clear that many are looking for more opportunities in infrastructure investment, e.g. in the (renewable) energy sector. To Hilke Herchen at CMS this is no surprise. "The long-term investment horizons involved make infrastructure a perfect fit for many family offices, just as real estate has traditionally been. 'Green tech' investments are also attractive in this sector. The sector's role in net zero transition makes it very appealing for the growing number with ESG concerns."

European distressed M&A: Activity ahead

Europe's debt maturity wall and challenging macro conditions are likely to continue to drive distressed M&A, with deals from the sale of non-core assets and consolidation in oversaturated markets coming to the fore

Alexandra Schluck-Amend, CMS Germany

Lorna Hotton, CMS UK

In macroeconomic terms, we have seen a mixed picture in Europe. Some countries are technically in recession, but many are not. Experience has shown that economically uncertain times result in an increase in insolvencies, which leads to an increased number of distressed M&A transactions.

It is unsurprising, therefore, that the effects of the ongoing polycrisis – including, to name a few factors, increased raw material and energy prices, regulatory requirements leading to changes in business models, a shortage of skilled workers and uncertain customer demand – are leading to an increase in insolvencies. This has also been evidenced by Eurostat, which registered an upward trend from Q2 2022 until the end of 2023, reaching a new peak in Q4 2023 for insolvencies filed in the EU. Although the number of insolvency declarations decreased slightly in Q1 2024, the figures remained above pre-pandemic levels. As such, the vast amount of European maturing debt will be forced over the next 12 months to refinance against very different financial metrics compared to when the deals were first written.

This has been generating some stressed and distressed M&A, and we expect it to drive more activity in H2 2024 and 2025, fuelled by increasing confidence in the M&A market more generally. This aligns with the findings of this year's survey, in which more than a third of respondents expect non-core asset sales from larger companies to be the biggest sell-side driver of European M&A activity over the next 12 months.

Corporate restructuring trends

The impact of a challenged European macroeconomic situation should not be overstated, however. EU policy has led to a plethora of new debtor-friendly restructuring tools that facilitate restructuring of debt, therefore taking a bit of pressure off reshaping the corporate structure and asset sales. The main new European tools are the UK Restructuring Plan, the Dutch WHOA and the German StaRUG. In the UK, there are also other CIGA reforms, such as the Part A1 moratorium, which is providing some utility to debtors needing some breathing space.

Current corporate restructuring activity is focused on right-sizing balance sheets, improving liquidity and preparing for upcoming debt maturity/refinancing. We are seeing this implemented by debtors due to their own volition, but also stemming from pressure by lender groups. While legislation and policy have provided some new debtor-friendly tools, another key measure to remedy concerns and achieve such targets is the sale of non-core assets.

Increased enforcement activity is forcing some asset sales, and it is not only coming from lenders. Several government agencies are collecting deferred taxes – in the UK, for instance, we are seeing record levels of HMRC winding-up petitions, with similar trends evident in other countries.

Such focus is leading to more accelerated M&A in a distressed and stressed context. Furthermore, multinational corporations are retreating to key geographies, therefore leading to sales and wind-downs, albeit not necessarily in a distressed context.

What is driving current deal activity

The sectors that are most affected by the stressed and distressed M&A trends noted above are construction, real estate, infrastructure projects, retail, hospitality and technology businesses.

In addition, we are seeing and have first-hand experience of advising clients on transactions involved in consolidation in several sectors, including the financial services space, such as Nationwide's acquisition of Virgin Money, Barclays' acquisition of Tesco's bank, NatWest's acquisition of Sainsbury's Bank and BBVA's proposed takeover of Sabadell. In some cases, this has been driven by stressed or distressed scenarios. Macroeconomic conditions have also led larger companies to look to sell-off non-core assets, with differing objectives driving these transactions, as in the case of Sainsbury's Bank, R&Q and HSBC's continued exit of non-core businesses.

Looking at the industrials space, the Covestro and DS Smith deals were both examples of supply-chain consolidation. That industry is also seeing activity from sponsor funds, which can deploy their fresh capital investment and hands-on operational support to help unlock opportunities.

Outlook: Sectors and doing deals

Over the coming year we expect to see distressed M&A activity in the construction and real estate sectors as challenges continue. We also expect activity in consumer-facing businesses, reflecting the decline in discretionary spending and shifts in consumer preferences, as well as in the energy sector, due to the uptake of zero-carbon initiatives. Similar trends may be observed in the automotive sector, given ongoing transition from combustibles to electric vehicles. In addition, the new tools such as the Restructuring Plan, WHOA and StaRUG show massive potential for distressed M&A situations.

Dealmakers identify two major obstacles to European M&A activity that will prevail across the distressed assets market over the next 12 months: vendor/acquirer valuation gaps, and persistent inflationary/interest rate pressures. Conversely, three buy-side drivers of European M&A activity are front-of-mind for dealmakers – digitalisation, turnaround opportunities and increased appetite from foreign acquirers.

As previously mentioned, on the sell-side, the sale of non-core assets by larger companies are likely to be a key driver of European M&A. We expect a lot of PE divestment activity also driven by distress-driven M&A and ESG-related divestments to enhance goodwill by increasing ESG compliance.

The M&A environment and expectations for the year ahead

A return to larger deals may signal improved confidence among dealmakers, although higher-for-longer interest rates and persistent buyer-seller valuations gaps could stifle some European M&A activity in the year to come

Top findings

65%
of respondents expect European M&A activity to increase in 2025, including 20% who say it will rise significantly

24%
identify buyer-seller valuation gaps as the single biggest obstacle to European dealmaking, followed by inflation and interest rates with 18%

36%
say non-core divestments will be among the top two sell-side drivers of M&A, while distress-driven sales is cited by 29%

There is no doubt that Europe's dealmakers have faced a testing environment over the past two years. Those wishful thinkers who, at the end of 2023, forecast a slew of interest rate cuts through 2024 have had their hopes dashed. The ECB's rate cut in June, from a historic high of 4% down to 3.75%, and the Bank of England's 0.25 basis point cut to 5% in August, were welcomed but fell far short of what many had anticipated earlier in the year.

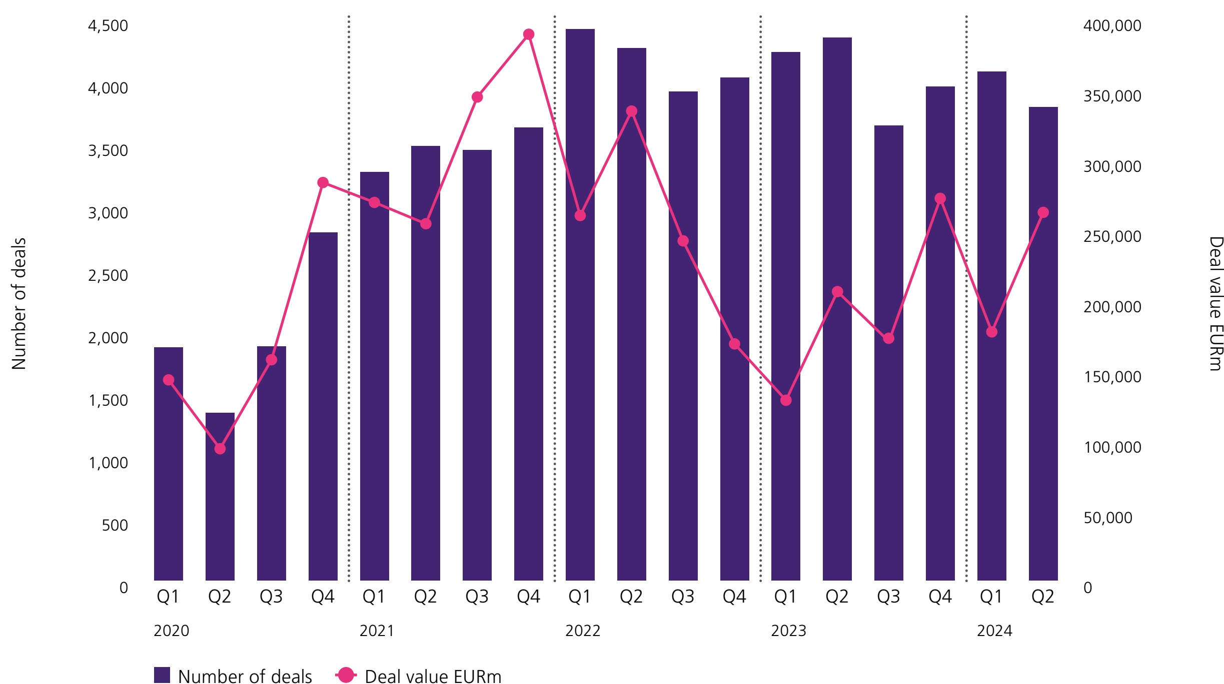
Despite this frustration, dealmakers have been active in Europe. Aggregate M&A deal values in the region in H1 2024 rose by 31% year-on-year to EUR 439bn, according to Mergermarket figures. However, transactions volumes were down over the same period, falling by 8% compared to H1 2023's 7,868 deal announcements. It is a similar story in the US, where, despite a 13% year-on-year decline in volume to 6,107 transactions in H1 2024, aggregate deal value rose by 40% to USD 866.4bn over the same period.

After shifting to smaller deals as a response to the initial shock of higher interest rates and costlier financing in late 2022 and early 2023, dealmakers appear to have reverted in 2024 to more concentrated activity in larger transactions – a sign of confidence returning gradually to the market. Indeed, viewed in a historical context, deal activity remains relatively strong – announced deal values and volumes through 2024 have broadly outperformed figures posted pre-pandemic.

> We expect that TMT will continue leading M&A activity in the next 12 months in Europe, not only via pure TMT transactions but also in sectors driven by technology, digitalisation and AI. We also expect high levels of activity in renewable energy and transactions driven by energy transition, including the automotive sector. Finally, we expect an increase in M&A in the pharmaceutical, medical & biotech sectors, and industrial & chemicals.

Elena Aguilar, CMS Spain

European M&A trends 2020-Q2 2024



Yet even with a move back towards larger deals, 2024 has so far lacked blockbuster transactions. The largest deal announced in H1 was Abu Dhabi National Oil Company's EUR 14.4bn acquisition of German chemicals group Covestro, following talks that have lasted for more than a year so far. The second largest deal announced was a Spanish banking consolidation play, which saw Banco Bilbao Vizcaya Agentrario offer EUR 11.4bn for Banco Sabadell. This was followed by a EUR 10.2bn acquisition by Wegovy developer Novo Nordisk of three fill-finish sites around Europe connected to Novo Holdings' purchase of US contract manufacturer Catalent.

TMT still in the lead

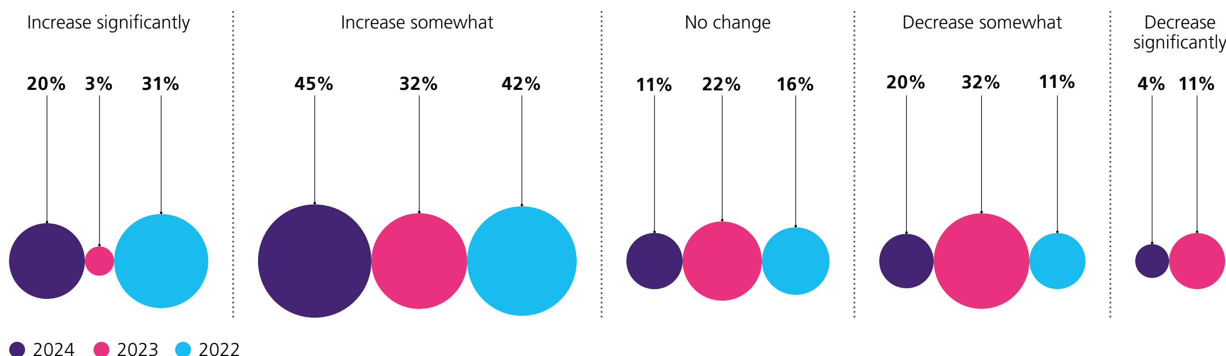
Since 2018, TMT has been the sector with the highest aggregate deal value in Europe, according to Mergermarket data. H1 2024 was no exception, with EUR 102bn of TMT deals announced during the six-month period. A year-on-year increase of 77% from the EUR 58bn recorded in the same period in 2023, the sector's M&A rebound mirrors that of the Nasdaq Composite index, propelled by digital transformation initiatives and the development of AI applications.

TMT accounted for three of the eight largest deals announced in Europe in H1 2024. The largest of these was Apollo Global Management's move to acquire a 49% stake in an Intel chip-making facility joint venture in the Republic of Ireland for EUR 10.1bn. The next largest was announced by Atlas Investissement, which moved to acquire Luxembourg-based telecoms group Millicom International Cellular for EUR 8.4bn.

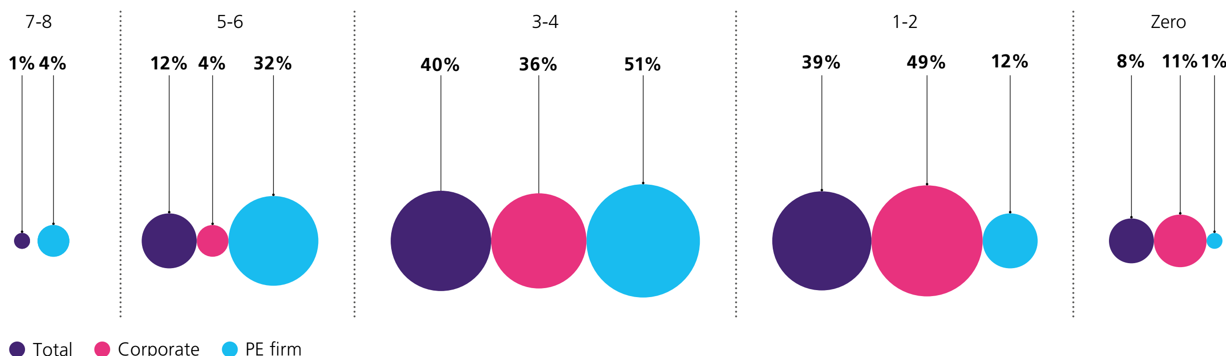
European M&A top 20 deals, H1 2024

Announced date	Target company	Target sector	Target country	Bidder company	Bidder country	Deal value EURm
24/06/2024	Covestro AG (100% stake)	Industrials & chemicals	Germany	Abu Dhabi National Oil Co	United Arab Emirates	14,412
01/05/2024	Banco de Sabadell SA (99.82% stake)	Financial services	Spain	Banco Bilbao Vizcaya Argentaria SA	Spain	11,440
05/02/2024	Novo Holdings AS (3 fill-finish sites of Catalent Inc) (100% stake)	Pharma, medical & biotech	Denmark	Novo Nordisk AS	Denmark	10,227
04/06/2024	Intel Corp (Joint Venture entity related to Fab 34) (49% stake)	TMT	Ireland (Republic)	Apollo Global Management Inc	USA	10,140
30/05/2024	Neoen SA (100% stake)	Energy, mining & utilities	France	Temasek Holdings (Pte) Ltd; Brookfield Corp; Brookfield Renewable Power Inc	Canada	9,198
26/03/2024	DS Smith plc (100% stake)	Industrials & chemicals	United Kingdom	International Paper Co	USA	9,028
23/05/2024	Millicom International Cellular SA (70.97% stake)	TMT	Luxembourg	Atlas Investissement SASU	France	8,423
28/02/2024	Vodafone Italia SpA (100% stake)	TMT	Italy	Swisscom AG	Switzerland	8,000
28/05/2024	Atlantica Sustainable Infrastructure plc (100% stake)	Energy, mining & utilities	United Kingdom	Energy Capital Partners LLC	USA	7,107
22/05/2024	Hargreaves Lansdown plc (100% stake)	Financial services	United Kingdom	CVC Advisers Ltd; Nordic Capital Svenska AB; Abu Dhabi Investment Authority Ltd – ADIA	United Kingdom	6,188
05/02/2024	Yandex NV (Russia-based Businesses) (100% stake)	TMT	Russia	LUKoil OAO; Existing Management; Alexander Ryazanov (Private Individual); Aleksander Chachava (Private Investor); Pavel Prass (Private Individual)	Russia	5,465
26/04/2024	Darktrace plc (100% stake)	TMT	United Kingdom	Thoma Bravo LP	USA	4,961
17/04/2024	International Distributions Services plc (72.5% stake)	Transportation	United Kingdom	EP Corporate Group AS	Czech Republic	4,798
21/06/2024	Britvic plc (100% stake)	Consumer	United Kingdom	Carlsberg	Denmark	4,751
01/02/2024	Pluxee NV (100% stake)	Business services	Netherlands	Existing Shareholders	Netherlands	4,402
06/06/2024	Budapest Airport Zrt (100% stake)	Transportation	Hungary	VINCI SA; Corvinus Nemzetkozi Befektetesi Zrt; Hungarian Development Bank Zrt; Vinci Concessions SAS	Hungary	4,300
14/03/2024	Encavis AG (100% stake)	Energy, mining & utilities	Germany	KKR & Co Inc; Viessmann Group GmbH & Co KG	USA	4,222
24/06/2024	Aareon AG (100% stake)	TMT	Germany	TPG Capital LP; Caisse de Depot et Placement du Quebec	USA	3,900
01/04/2024	Dorna Sports SL (86% stake)	Leisure	Spain	Liberty Media Corp	USA	3,710
07/03/2024	Virgin Money UK plc (100% stake)	Financial services	United Kingdom	Nationwide Building Society	United Kingdom	3,691

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



Approximately how many M&A deals was your organisation involved in over the last 12 months in Europe?



More active times ahead

In a sign of increased optimism among dealmakers, 65% of respondents to our survey said they were expecting an increase in European M&A activity over the next 12 months, including 20% who anticipate a significant uptick. While these are clearly predictions for activity picking up from a lower base than in 2023, this is a major reversal from last year's study, when 35% were expecting an increase, including just 3% anticipating a large rise.

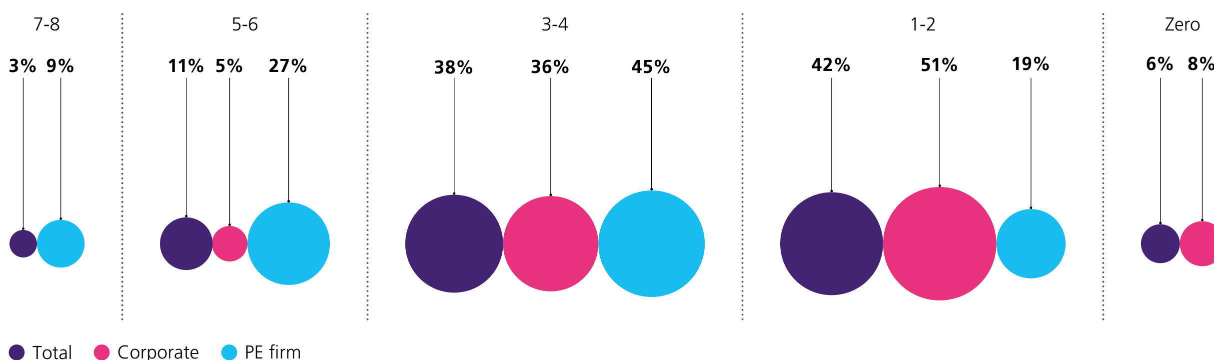
However, nearly a quarter of respondents (24%) believe that dealmaking will slow over the coming year, perhaps reflecting continued economic uncertainty and the prospect of a much more gradual fall in interest rates than many had previously in early 2024.

Respondents' expectations for M&A activity in the next 12 months reflect their own plans for the coming year, which present a mixed picture. Looking back first, however, over the last 12 months, 8% of respondents say they were involved in no deals, while 39% were involved in just one or two, including nearly half (49%) of corporates. Unsurprisingly, PE respondents were more active, with 51% of these dealmakers involved in three or four transactions and 32% in five or six over the last 12 months.

For the coming year, fewer anticipate being involved in no deals (just 6% overall), while marginally more corporates than last year are expecting to be involved in one or two deals, with 51% forecasting this. Yet the responses from PE firms show a marked divergence. At 19%, the proportion of these dealmakers expecting to be involved in just one or two transactions is high, given that M&A is integral to the PE model. At the other end of the spectrum, however, nearly a tenth (9%) of PE respondents expect to be involved in seven to eight deals.

This reflects some of the trends seen in the PE market recently. As firms have struggled to return capital to their investors in what has been a challenging exit environment, the value of global PE and venture capital fundraising fell to USD 804bn in 2023, an 11.5% drop from 2022 totals and its lowest level for six years, according to Preqin. Simultaneously, the number of funds successfully raising has fallen further – by 47% – with capital concentrating among the largest funds. CVC Capital Partners, for example, raised the largest ever buyout fund in 2023, with EUR 26bn in commitments. This is creating a bifurcated market, where some firms have significant capital to deploy, while others may be seeking to preserve capital in the face of more difficult fundraising conditions.

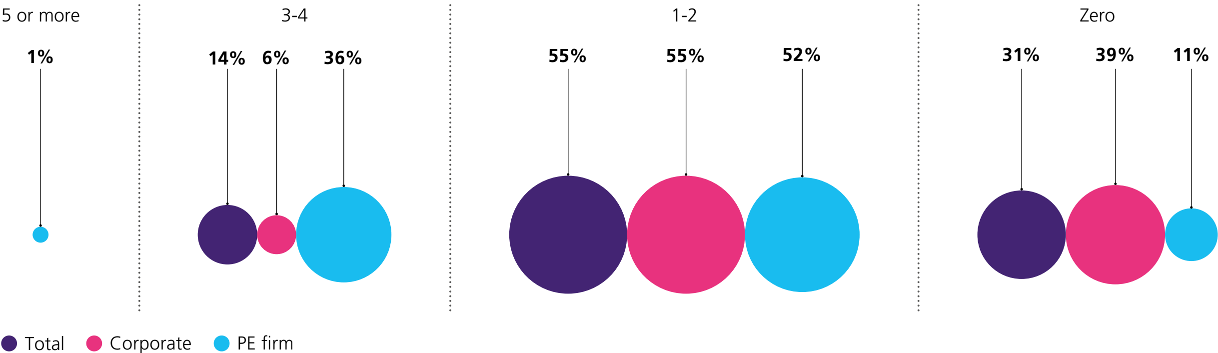
Approximately how many M&A deals do you expect your organisation to be involved in over the next 12 months in Europe?



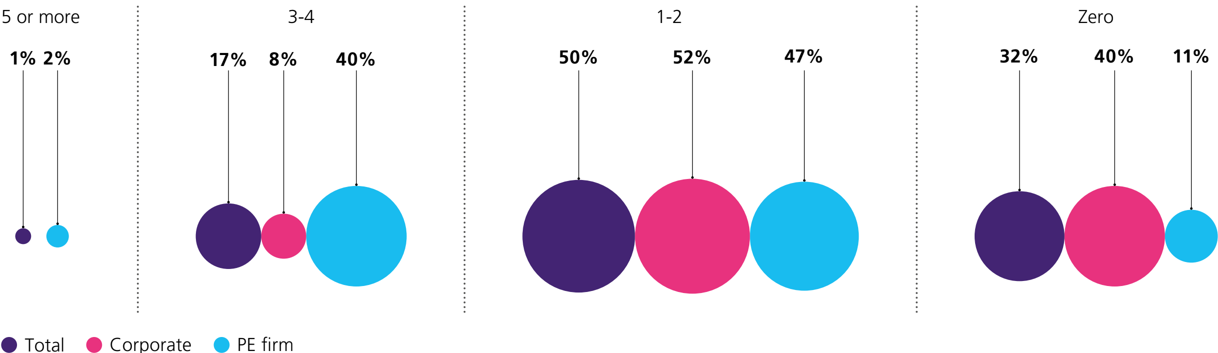
> Distressed opportunities continue to be a major catalyst for M&A activity in Europe, with sectors such as real estate, retail, hospitality, automotive, startups and manufacturing being particularly vulnerable. Economic uncertainties, political instability, weak cash flow management, supply chain disruptions and regulatory changes are likely to expose unprepared companies, making them attractive targets for acquisition by cash-rich competitors and investors.
>
> *David Kohl, CMS Austria*

Cross-border deals
Among our respondents, 55% say they participated in one or two cross-border deals in Europe over the past 12 months that involved either a target or buyer based outside of their home territory. A large minority of PE respondents (36%) undertook three or four cross-border deals, while many of their corporate peers remained closer to home – nearly two-fifths (39%) of these respondents were involved in no cross-border deals in Europe in the past year. Looking ahead to the next 12 months, PE and corporate respondents expect to engage in similar volumes of cross-border deals as over the past year.

Approximately how many cross-border M&A deals (i.e., those involving a target or buyer based in a country/ region outside your home territory) was your organisation involved in over the last 12 months in Europe?



Approximately how many cross-border M&A deals do you expect your organisation to be involved in over the next 12 months in Europe?



Obstacles to dealmaking
Continuing the trend observed in the previous edition of this research, respondents expect inflationary and interest rate pressures, vendor and acquirer valuations gaps, and financing difficulties to be the biggest obstacles to M&A over the coming 12 months.

Yet unlike last year, buyer and seller price expectations have emerged more clearly as the single biggest obstacle, with 24% identifying this as the primary hurdle to dealmaking. While it is normal for valuations gaps to emerge following market corrections or shocks, this sticking point appears to be taking longer to work through than in the past, as price discovery continues to be far from straightforward. With public market indices up over the past year (MSCI World, for example, was up by more than 20% in the year to the end of June 2024), company valuations have remained high despite higher financing costs in what remains an uncertain economic environment.

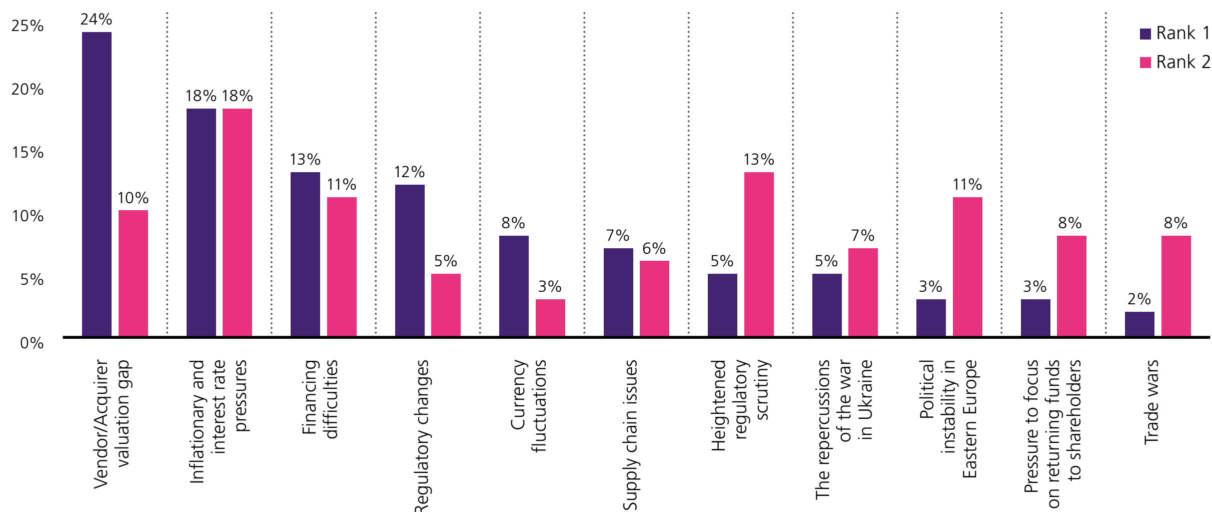
Many respondents noted that inflation may be playing a role here, too. As the head of M&A at a Hungarian energy company comments: “The main challenge will be dealing with the inflationary pressures. These have gone beyond expectations. The cost of materials and services are increasing. The valuation of companies remains uncertain because of this.”
The CEO of a UK-based leisure company also highlights the role of inflation in buyers and sellers struggling to reach purchase price agreements in the coming period: “The vendor/acquisition gap is affecting European markets. The region’s assets are already highly priced and further increases during this inflationary period will be an additional burden going forward.”

However, unlike two years ago when conflict broke out on the continent, fewer respondents identify the war in Ukraine (12%) or political instability in Eastern Europe (14%) as major obstacles to M&A, suggesting that these risks have been accepted as part of the “new normal” of dealmaking in Europe.

Drivers of dealmaking
Digitalisation, distressed and turnaround opportunities, and increased appetite from foreign acquirers are the top three buy-side drivers of M&A activity in Europe, according to our respondents: all three accrued around a third of combined primary and secondary votes. However, our respondent pool also cites a variety of buy-side drivers beyond these, with only marginal percentage point differences between them. Buyers seem to be seeking deals for a diverse set of reasons today, indicating a healthy market that contrasts conspicuously with the recent past, when the pandemic induced a primarily digitalisation-driven dash for M&A.

Non-core asset sales from larger companies will be the biggest sell-side driver of European M&A activity in the next 12 months, according to more than a third of our respondents (36%). This garnered by far the largest share of first choice votes, with 22%, closely followed by PE divestments with 18%. Indeed, after what

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

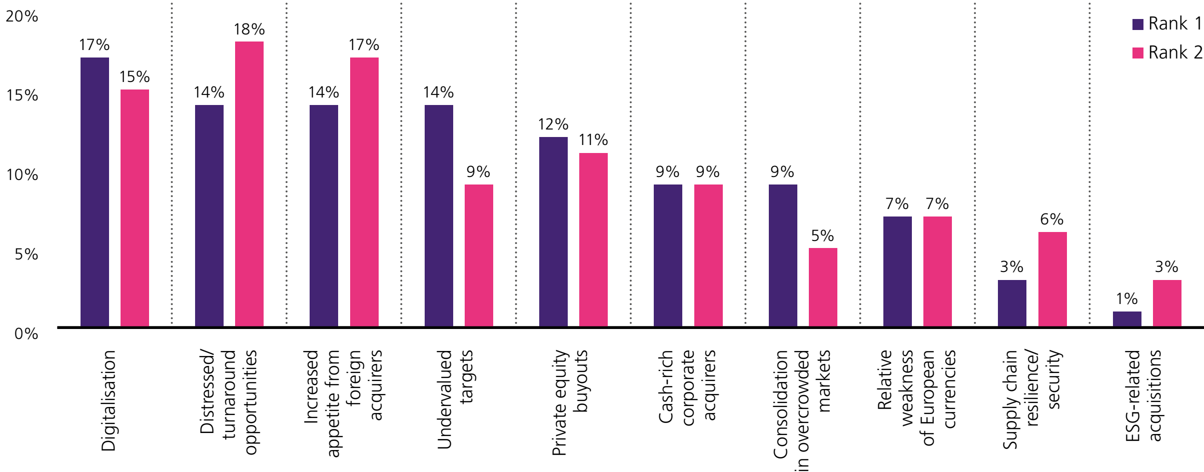


has effectively been a two-year hiatus in PE exit activity – the median holding period for global buyout exits reached a record 6.1 years in 2023, according to Bain & Co analysis – PE firms are under increasing pressure to return capital to investors. Whether this will result in significantly more deal opportunities for buyers over the coming year remains to be seen. PE firms are increasingly holding off selling valuable assets in a difficult market by tapping secondaries capital in GP-led deals – in the past two years, these accounted for USD 52bn of secondary deals globally, up from just USD 14bn in 2017, Jefferies figures show.

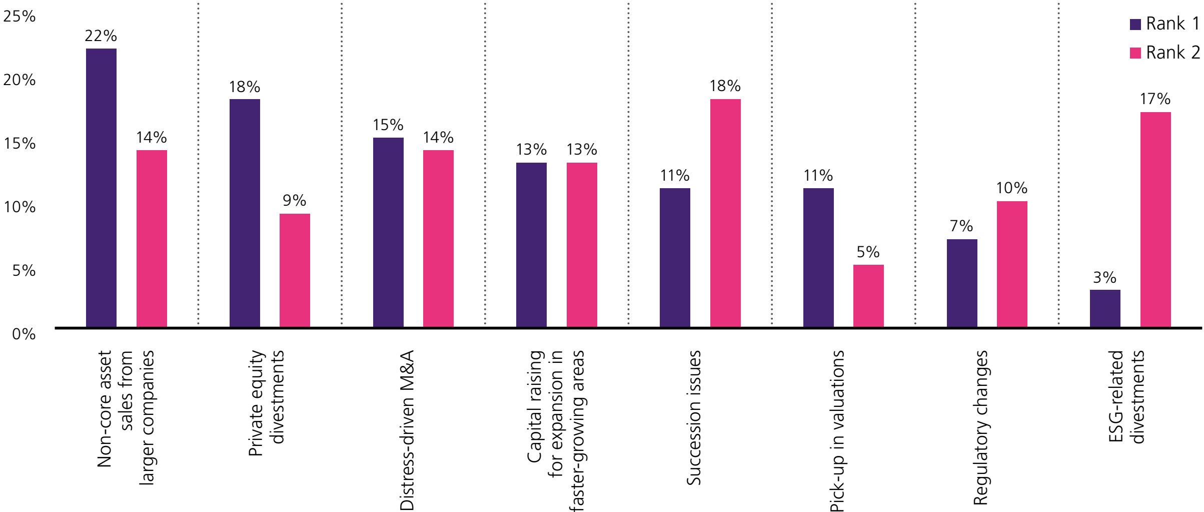
In an uncertain economic environment with high financing costs, it is unsurprising that distress-driven M&A also emerges as a top sell-side rationale, with 29% of first and second-choice votes combined.

In addition, succession issues rank highly, cited by 29% in first and second place. Among those who mentioned succession as the top driver, respondents were primarily from France and the UK & Ireland, with 22% and 17%, respectively, ranking this first. Just 9% of DACH respondents were in this group, and none came from the Nordic region.

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



Focus on regions and sectors

Germany and the Benelux region look set for a boost to M&A activity, while opinions are remarkably divided on the UK & Ireland's prospects

Top findings

32%
of respondents rank the UK & Ireland first or second as the region with the highest growth in M&A activity in the next year, while 31% say it will have the lowest growth

50%
believe ever-strong TMT will be the sector to see the highest growth in European M&A activity in over the next 12 months

55%
expect to see increased appetite among Middle Eastern buyers for European assets

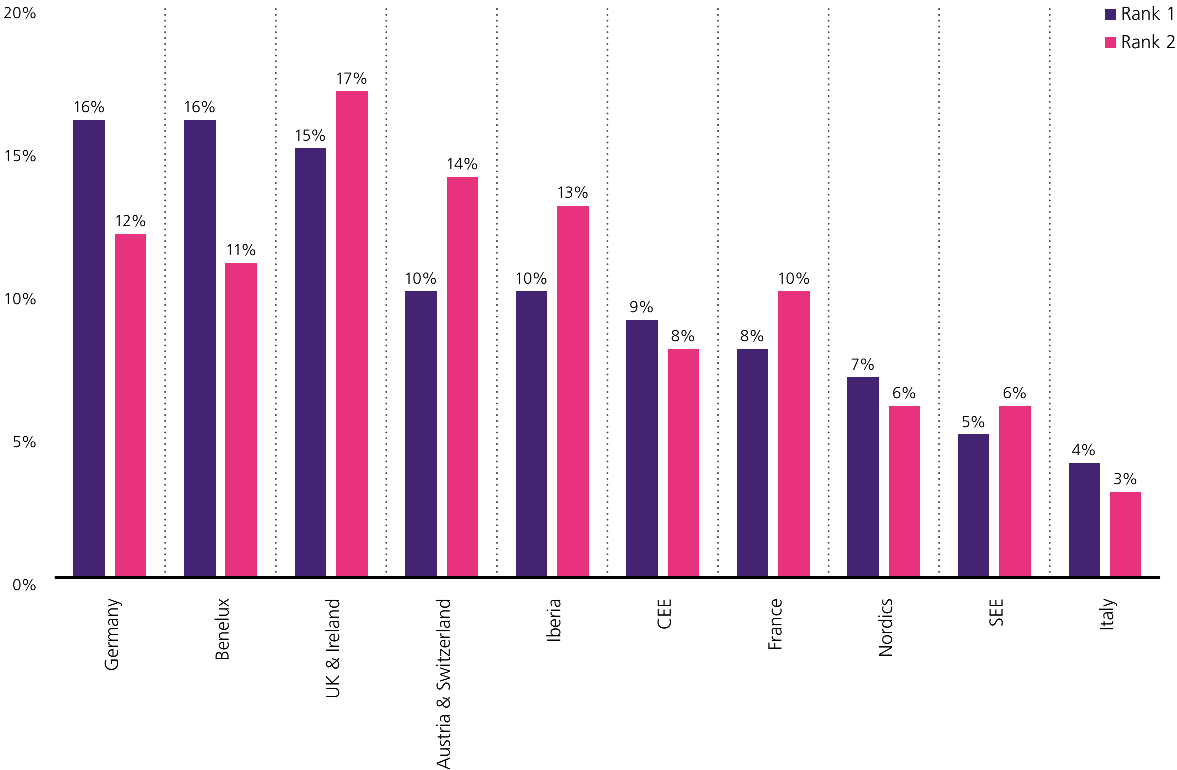
Germany and Benelux are the European regions that our respondents expect to see the most growth in M&A activity over the coming year, each attracting 16% of first rank votes. When asked about investment in these regions, respondents frequently mentioned stability and favourable regulatory regimes. In addition, the CEO of a German industrials business comments: "Germany is booming right now with the government prioritising multi-billion-dollar investments. This will boost businesses across the nation." Meanwhile, a head of corporate strategy at a Japanese PMB company says of the Benelux region: "There is a lot going for the region – favourable valuations, stable economy, favourable regulatory reforms and sufficient financing available."

Unlike the previous edition of this research, when the UK & Ireland emerged as Europe's clear bright spot for M&A growth, responses this year are more dispersed across countries and regions. Taking into account the top two ranked responses, Austria & Switzerland with 24% and Iberia with 23% are not that far behind Germany (28%) and Benelux (27%).

> We are seeing a material increase over recent months in new M&A instructions and interest, both in terms of inbound investment and in UK firms looking at strategic UK opportunities as well as international targets. After a period of caution and stop/start processes in part due to interest rates or political, regulatory and financing uncertainty, we see our clients in a number of our key sectors more confident now to push ahead on strategic opportunities.

Dipesh Santilale, CMS UK

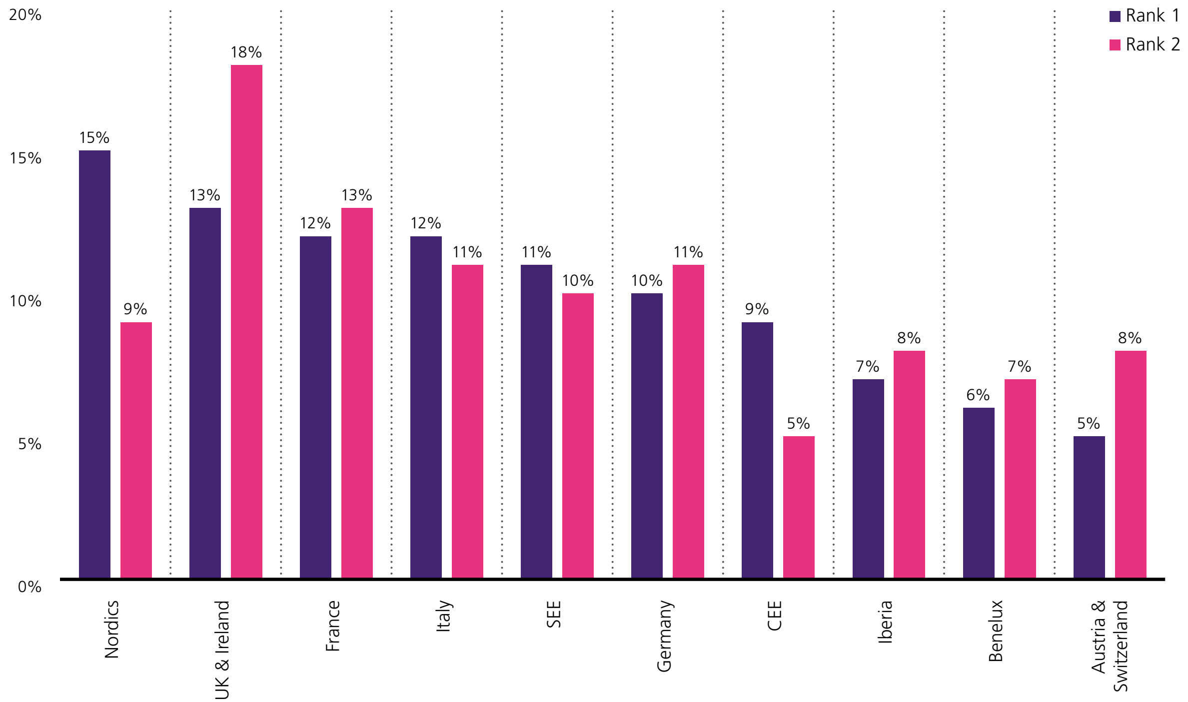
**Which countries/regions will see highest growth in the next 12 months?
(Rank the top two, 1 = highest growth, 2 = second highest growth)**



Opinions are clearly more divided this year about M&A growth prospects – and that is especially true for the UK & Ireland. The region comes out on top by first and second choice votes, at 32% combined; yet it also emerges as the region that many respondents believe will see lowest M&A growth, with 31% identifying it as their first or second choice in that regard.

The UK's growth forecasts may be playing into this, with the OECD and IMF predicting national GDP growth of 0.7% and 0.4%, respectively, in 2024 – below these organisations' expectations for the Eurozone (0.9% and 0.7%, respectively.) Yet that is unlikely to be the full story, since Germany lags the UK by some margin – both the OECD and IMF are forecasting 0.2% GDP growth in Germany in 2024. Respondents may also have been factoring in the UK's 2024 election and the extent to which a new government may, on the one hand, improve visibility on investment priorities (which would tend to bolster M&A activity) and, on the other, increase taxation on capital gains and carried interest (which would tend to curtail M&A activity in the medium term). Indeed, 80% of respondents – interviewed before the general election on 4 July was held – were predicting a decrease in UK M&A in the event of a Labour party victory.

Which countries/regions will see lowest growth in the next 12 months? (Rank the top 2, 1 = lowest growth, 2 = second lowest growth)



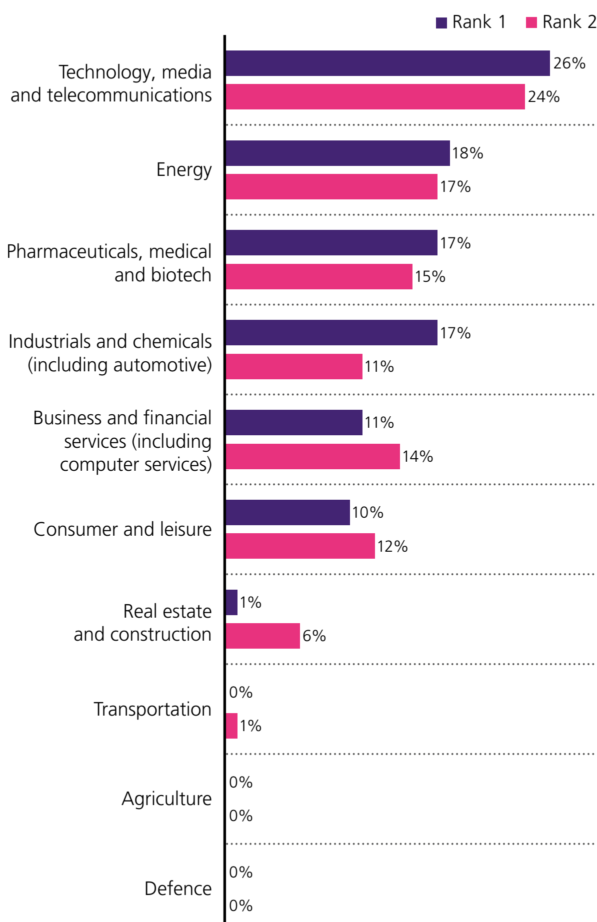
Sector dynamics

By sector, there is a clear winner: 26% of respondents rank TMT as their top choice for growth in M&A activity in Europe over the next 12 months and 24% identify it as their second rank choice, for a total of 50%. This is hardly surprising, given TMT's top spot for activity over the past several years and the acceleration of technology development and adoption, in particular in advanced technologies such as AI.

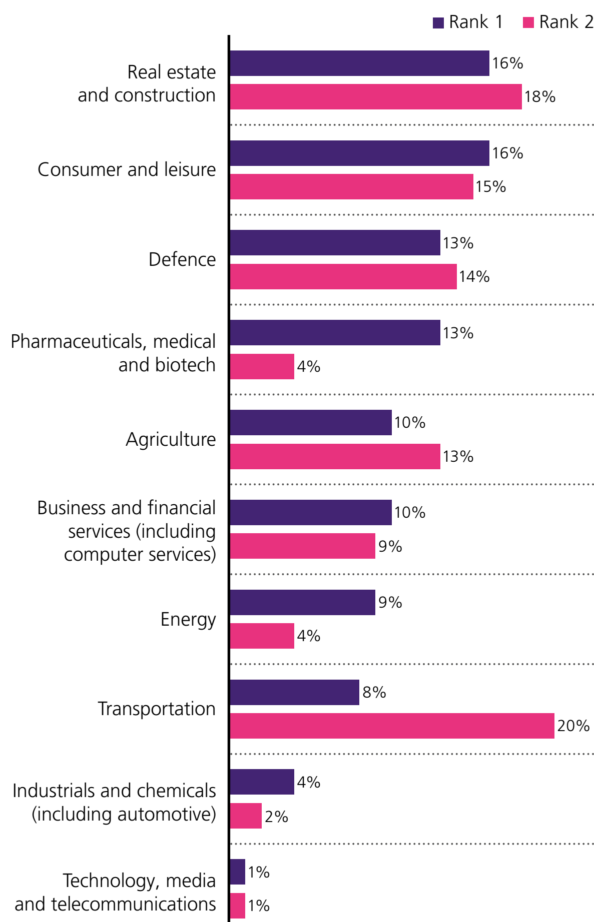
A distant second is energy, with 35% of combined top and second rank responses, as the ongoing opportunity in energy transition-related investments gathers steam and as Europe continues to focus on energy security. In a turnaround from last year, when respondents expected PMB M&A activity to see by far the lowest growth, that sector comes in third place this year, with 32% of combined first and second rank responses. This may reflect strong M&A activity during 2023, when healthcare was Europe's second most active sector by deal value, plus the successful public offering of EQT-backed Galderma on the SIX Swiss Exchange in March 2024.

Sectors predicted to do less well over the next year are real estate & construction, which 34% of respondents expect to see either the lowest or second lowest M&A growth in Europe over the next 12 months, followed by consumer & leisure (31%). Both sectors have been affected by rising interest rates and the increasing cost of living. The defence industry scores poorly, accruing 27% of combined first and second rank votes, despite rising geopolitical risks.

Which sectors will see highest growth in the next 12 months? (Rank the top two, 1 = highest growth, 2 = second highest growth)



Which sectors will see lowest growth in the next 12 months? (Rank the top two, 1 = highest growth, 2 = second highest growth)



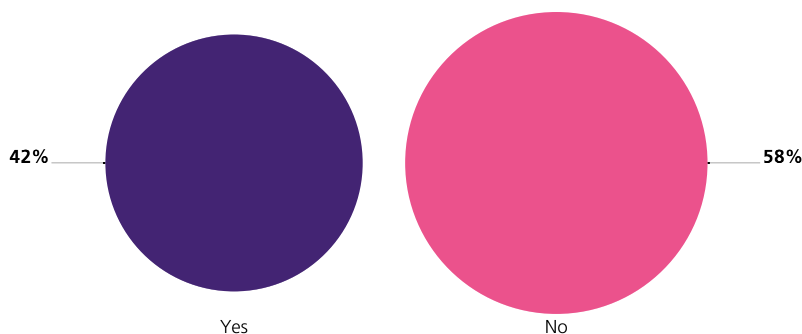
Middle Eastern interest
Buoyed by sustained high oil prices, Middle Eastern investors have been looking to Europe for deal opportunities. Between 2016-21, the average aggregate value of deals led by Middle Eastern bidders targeting assets in Western Europe was just under USD 6bn annually, according to Mergermarket data. In 2022, that figure rose sharply to USD 24.8bn, before a correction the following year to USD 10.6bn – but in H1 2024 alone, Middle Eastern acquirers announced deals in Western Europe totalling almost USD 23.3bn, despite deal volume trending down over the past two years.

At that rate, 2024 is likely to be a record-breaking year for Middle Eastern M&A in the region – the highest single-year total on Mergermarket record was posted in 2008, when Middle Eastern bidders were involved in deals targeting Western European assets worth USD 37bn combined.

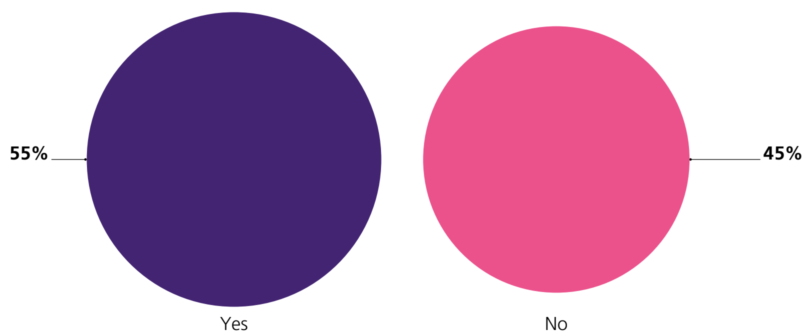
Recent announcements include the Abu Dhabi Investment Authority teaming up with CVC Capital Partners and Nordic Capital to buy UK stock trading platform Hargreaves Landsdown for USD 5.4bn, while Mubadala Capital recently acquired Netherlands-based baby buggy business Bugaboo for a reported 'several hundred million'.

This trend has not escaped our respondents' notice – 42% say they have seen more Middle Eastern buyers in Europe's M&A markets over the past year. Among European respondents, those based in Spain and Portugal are most likely to have noticed an increase in Middle Eastern interest, with 57% saying this. And our survey suggests that Europe will attract more Middle Eastern interest over the coming year. More than half of our respondents (55%) expect to see a greater level of interest from Middle Eastern investors in the next 12 months, with respondents in Spain and Portugal again most likely to say this (70%), followed by their peers in the UK & Ireland (65%).

Over the past 12 months, have you seen more Middle Eastern buyers in the European market?



Do you expect to see a greater level of interest from Middle Eastern investors in M&A in Europe over the next 12 months?



"Other European markets that appeal to Middle Eastern buyers are those such as Germany, France, the UK and the Nordic countries. These markets have strong industries such as technology, healthcare, automotive and renewable energy that align with these buyers' strategic objectives and vision to be less dependent on the petrodollar (subject to volatility and geographic risk) and more dependent on markets that provide long-term and stable returns."

Patrick Daintry, CMS UAE

US-Europe cross-border M&A

US buyers have long looked to Europe for investment opportunities, drawn by the region's political stability, predictable regulatory environment and high-quality assets relative to many other markets globally. Between 2019-20, the number of deals involving a US bidder targeting a Western European asset remained relatively steady, at between 700-800 transactions per year, Mergermarket figures show.

Post-pandemic, however, US buyers have become far more active in European M&A. In 2021, US acquirers accounted for 1,616 M&A deals in Europe, 2022 saw 1,729 such deals and 2023 generated 1482, US appetite continues to be high. Through H1 2024, US acquirers announced 726 deals in the region.

The steep rise in deal numbers from 2021 coincided with particularly favourable dollar-euro and dollar-sterling exchange rates, which peaked at 1.03 in October 2022 and 0.92 in September 2022, respectively, suggesting that US buyers were attracted, at least in part, by the relative value of European targets.

However, even as the dollar's value has fallen from its peaks against the euro and sterling, deal volumes continue to trend higher than historic levels, indicating that US buyers see intrinsic value in European companies. Seven of the 20 largest European deals involved US acquirers, including Apollo's EUR 10.1bn joint venture in an Intel chip-making facility in Ireland, International Paper's EUR 9bn acquisition of UK packaging business DS Smith, and Thoma Bravo's EUR 5bn deal for UK-based cybersecurity company Darktrace.

> The data shows a perception that a Trump victory would impact cross-border M&A, although high levels of uncertainty mirror how the election process has developed to date. Trump's campaign is focused inward on the US and dealmakers have (some) benefit of hindsight on his foreign policies. The Harris campaign is largely following Biden's line. Whatever the outcome, uncertainty is detrimental to markets and clear policies should help bolster activity.
>
> *Kate Darracott, CMS Scotland*

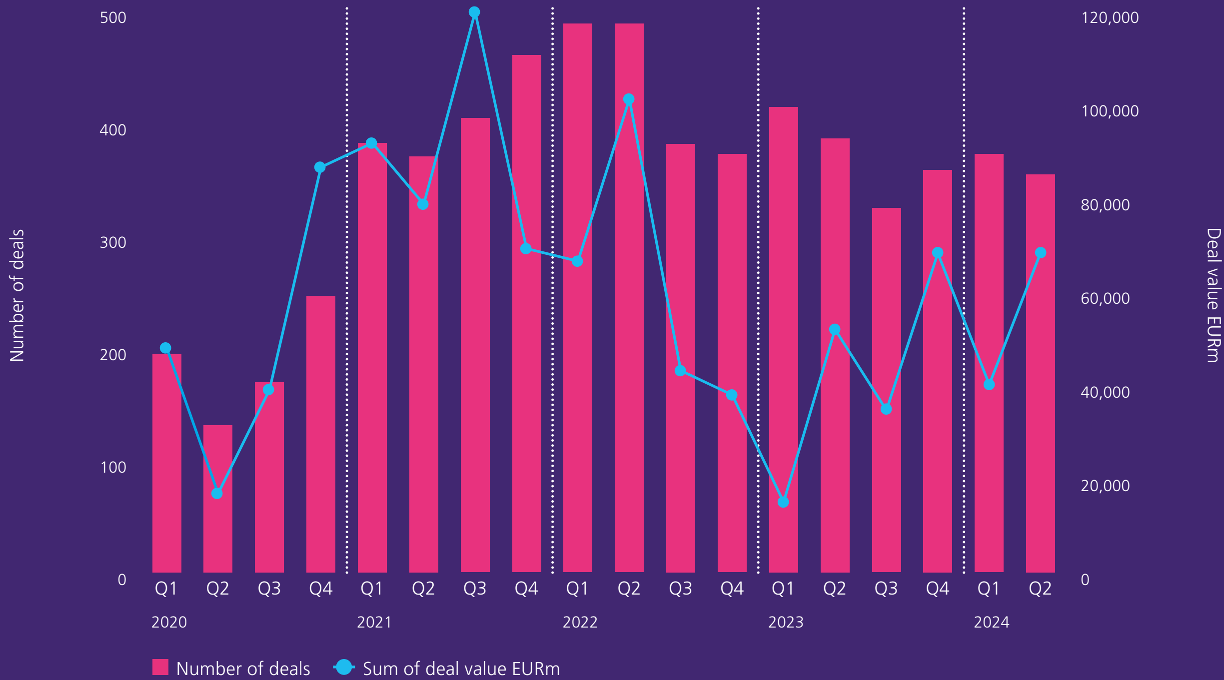
The UK has always been by far the biggest European market for US inbound M&A and 2024 has been no exception: H1 saw 266 deals in the UK involving a US acquirer, far more than Europe's second largest market for transatlantic deals, Germany, which generated 107 over the same period.

Some of this is down to language and cultural familiarity, with one US respondent, a PE managing partner, commenting on the UK's "good investment opportunities. Plus, our cultures are aligned, which makes it easier to do business." Indeed, nearly a third of US buyers who ranked the UK & Ireland as the top investment destination mentioned cultural alignment as a key factor in deciding where to invest internationally.

Among our US respondents who ranked Germany highly as an investment destination, the country's consistently strong economy and a favourable foreign investment regime were cited as key reasons why. The director of business development of a US company in the leisure sector adds: "There is a great level of innovation in Germany and foreign investors are warmly welcomed with attractive investment opportunities."

In line with historical trends, TMT was the most active sector for US buyers in Europe in H1 2024, with 278 such deals announced. Industrials & chemicals came in second, with 102 followed by business services with 98 deals. A US PE investor, who ranked the

US to Europe 2020–Q2 2024 (all European regions)



UK & Ireland as their top investment destination in Europe, commented on the subregion's strong technology base, saying: "They are aiming at becoming a tech superpower by investing in research and development and existing intellectual property rights. I believe investors will see great returns from the businesses that succeed."

Yet whether this momentum will continue into 2025 and beyond is uncertain as the US heads to the polls in November. Regarding the presidential election, over half of our respondents (59%) believed if Donald Trump were to win the White House that US M&A targeting European deals would decrease. This reflects the more isolationist approach that the former president champions, including a pledge made earlier this year to impose a 10% tariff on all overseas imports to the US.

Deal dynamics and motivations

With digitalisation and expansion strategies topping investor priorities, dealmakers are planning an active year ahead

Top findings

75%
of corporates are currently considering acquisitions only, while 17% are looking at divestments only or expect to be on both the buy and sell-side

35%
of those considering acquisitions in Europe are seeking access to technology, followed by 31% who are pursuing growth in new markets

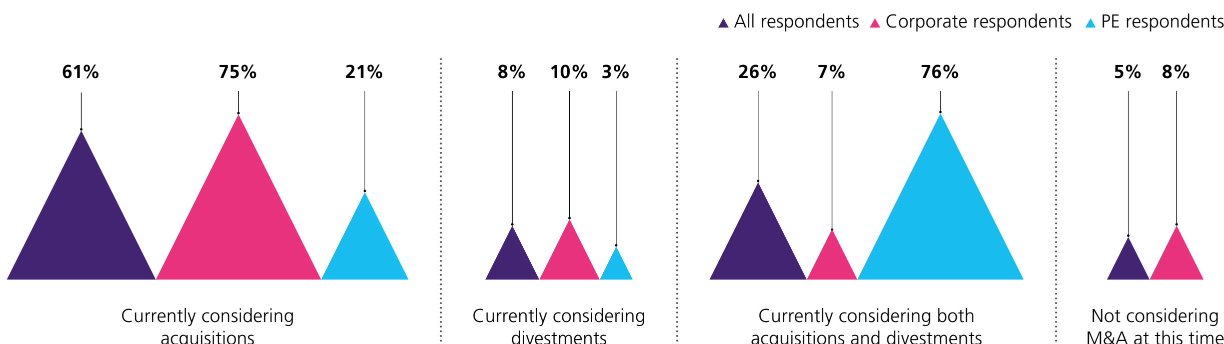
40%
say labour and employment laws are the most challenging area of regulation when doing a deal in Europe

In what is perhaps a sign of increased confidence, three-quarters of corporate respondents say their M&A strategies currently involved targeting acquisitions only, with 7% considering both acquisitions and divestments, and 10% looking at divestments only.

This is a step change from the previous edition of this research, when just 47% of corporates said they would target acquisitions only, 21% were expecting to be on both the buy and sell-side, and 16% were considering divestments. It is also noteworthy that the proportion of corporates not considering M&A has halved, from 16% last year to just 8% this time, a finding that bodes well for near-term dealmaking activity.

PE activity also looks set to shift up a gear. More than three-quarters of PE firms surveyed (76%) have both acquisitions and disposals in their sights, up from 57% in the last edition of this report. Meanwhile, a further 21% are currently considering acquisitions only (versus 33% last year) and 3% divestments only (against 4% last year). There are no PE firms eschewing dealmaking entirely, unlike in last year's report, when 6% said they were not considering M&A at that point – an unusual finding for an industry whose rationale is buying and selling companies.

Where does M&A currently fit into your corporate strategy? (Select one)



These results indicate that PE is inching towards a more normalised level of activity. With interest rates believed to have peaked and more visibility as time passes on how potential and existing portfolio companies have performed during an inflationary period, firms are likely to find underwriting new deals and managing investments to exit somewhat less challenging than was the case in the last couple of years.

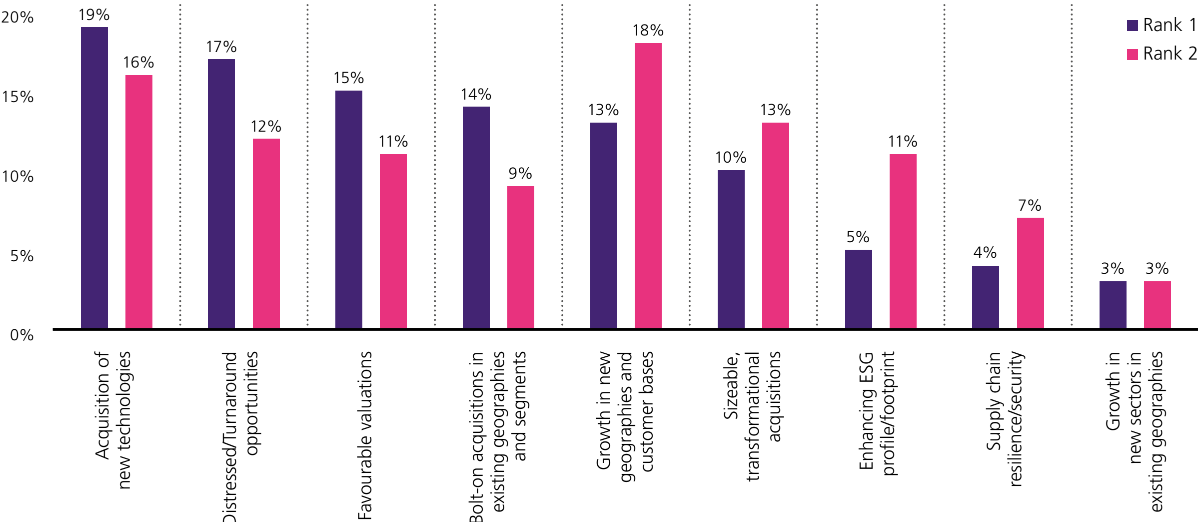
There is also pressure on firms with capital to deploy their dry powder – in 2023, global PE houses were sitting on USD 1.2tn of uninvested capital, of which 26% was raised four or more years previously, according to Bain & Co analysis. With global buyout-backed exits down 44% in 2023 from the previous year, and an ever-increasing backlog of companies sitting in PE portfolios – worth a combined USD 3.2tn in 2023 – realisations will have to start picking up if the industry is to return money to investors and unclog the capital gridlock.

Keeping pace with digital advances

In a finding that mirrors the significance of digitalisation as a buy-side deal driver in this year's report, the top motivation among our respondents for acquisitions in Europe is procuring new technologies, cited by 19% of respondents as their top choice and a further 16% as the second most important deal driver.

> M&A bankers seem to be deploying AI tools gradually and only in deal execution, like due diligence and PMI. So we've not yet seen the core function of M&A bankers – broking deals – be materially impacted by AI technologies, acquired or proprietary.
>
> *Louis Glass, CMS UK & Israel*

If you are considering acquisitions in Europe, or considering both divestments and acquisitions, what is the motivation for this? (Rank the top two, 1 = most important, 2 = second most important)



The pace of technological change over recent times, plus the potential for productivity enhancements and cost reductions that the implementation of AI tools could bring, are clearly playing into dealmakers' strategies. Generative AI alone could result in productivity improvements that add between USD 2.6tn–USD 4.4tn in value to the world's economy, according to McKinsey & Company.

Buyers in Europe are also seeking growth in new geographies and customer bases, which attracts nearly a third (31%) of combined first and second choice responses, an indication that expansion is back on dealmakers' agendas.

The results this year contrast sharply with those from our previous study, when respondents were expecting to pick up acquisitions at attractive prices – last year, exactly half ranked favourable valuations as a key motivation for buying businesses in Europe (versus 26% this year). Yet, contrary to these expectations, company valuations have not fallen far – the average EBITDA purchase price multiple in LBO transactions in Europe, for example, was 10.1x in 2023, not much lower than in the US (where it was 10.8x), and much higher than longer-term averages of well below 10x.

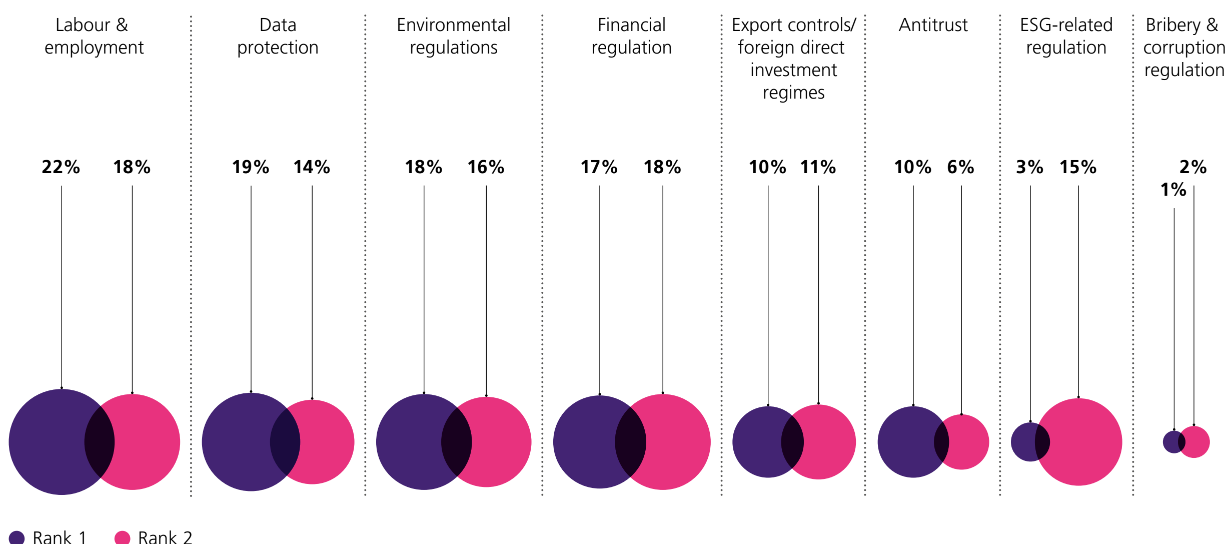
Distressed and turnaround opportunities, meanwhile, remain high on the list for this year's respondents, coming in third place, with a combined 29% (versus 45% last year), although the lower percentage may well reflect expectations of fewer deals of this kind than anticipated last year. This would be in line with the base case for European speculative-grade corporate defaults over the coming nine months, as set out by ratings agency S&P. Under this scenario, the 12-month default rate would be 3.75% by March 2025, below the 4.1% for the 12 months ended April 2024 and significantly lower than the near 10% seen in the period immediately after the 2008 global financial crisis.

Labour and data protection pose top regulatory challenges

At the top of the list of most challenging types of regulation when doing deals in Europe is labour and employment, which garners 22% of first-choice votes, as well as 18% of secondary ballots. Several respondents raised collective bargaining and union involvement as a particular obstacle, while others pointed to new EU rules, which include a requirement for more predictable and transparent working conditions for employees, a directive on work-life balance and regulations on the employment status of platform workers.

As a China-based CEO of a PMB company comments: "Labour and employment regulations pose challenges during due diligence and integration. Even if we are focused on protecting the interests of stakeholders, these regulations are tough to deal with."

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



The next most frequent response is data protection, which 19% of survey participants say is the primary regulatory hurdle to doing deals in Europe, while environmental regulations come in a close third with 18%. The EU continues to take a lead on environmental and climate-related regulation, with new initiatives coming into force through 2024 and beyond. These include the Carbon Border Adjustment Mechanism, which will impose a carbon price on some goods imported from outside the EU, and the Corporate Sustainability Due Diligence Directive, which will require large companies to identify and cease activities that harm the environment or infringe human rights.

However, financial regulations are of concern to more dealmakers when taking both first and second rank answers into account, with 35% of combined responses. Several respondents commented on this type of regulation, including the CEO of an Italian leisure company, who says: “Financial regulations are challenging because of the changes. We may need to adjust the level of contribution and deal structures to fulfil the financial regulations and complete deals as planned.”

“The financial contributions from non-EU regions have a certain threshold,” adds the head of corporate strategy at a PMB company in Japan. “This may inhibit the values we expect from deals. There are considerable obstacles when it comes to dealing with the financial regulations.”

At the other end of the spectrum, bribery and corruption regulation barely registers with respondents as a challenge, with just 1% of primary and 2% of secondary votes.

> As a heavily regulated matter, employment has always been a sensitive topic for foreign investors in Europe. But in a more difficult context, overseas dealmakers need to pay particular attention and anticipate the risk of responsibilities vis-à-vis employees that may arise, in case the target faces post-completion financial difficulties.
>
> *Arnaud Hugot, CMS France*

Foreign direct investment environment

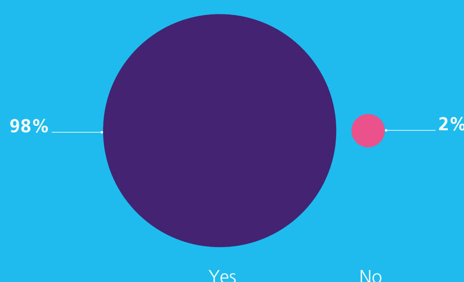
From a foreign direct investment (FDI) perspective, 2023 was a difficult time for Europe. The number of FDI projects announced in the year was down by 4% from 2022, according to EY, and remained 11% below 2019's pre-pandemic level. Europe's geographic proximity to the war in Ukraine, as well as its lower growth and higher energy prices than the US, seem to have weighed on the region's appeal to foreign investors. Meanwhile, the US Inflation Reduction Act may also be draining investment away from Europe and into the US – the number of projects in Europe announced by US companies declined by 15% in 2023, again per EY reporting.

The UK did, however, buck that trend, with announced FDI projects rising by 6% in 2023 to 985, just over a third of which originated in Greater London, which enjoyed a 20% year-on-year increase. This put the UK in second place in Europe, behind France, which ranked first for the fifth consecutive year.

Our survey paints a more positive picture of Europe overall, with the vast majority of respondents (98%) saying they plan to invest in Europe in the next three years.

Mirroring our earlier findings on regions in which respondents expect to see the most growth in M&A activity over the next 12 months, the UK & Ireland emerges as the leading investment destination, with 18% of votes, followed by Germany and Benelux, with 15% apiece.

Are you planning to invest in Europe in the next three years?



Survey participants find these regions appealing for several reasons. Concerning the UK & Ireland, many respondents pointed to favourable corporate tax regimes, a multicultural society, a stable legal environment and a strong skills base. One CEO of an energy company based in Lithuania, for example, comments: "The talent pool for finance and technology talent is massive, and that is really important."

Meanwhile, a Canada-based senior vice president of finance says: "The stability of the UK & Ireland market is improving. This is attractive to investors in a highly uncertain economic environment." Several respondents also noted that there may be some opportunities to buy distressed companies and that valuations in the subregion may fall to more attractive levels.

Regarding Germany, respondents note its "robust governance and regulatory policies", the country's "well-educated workers" and

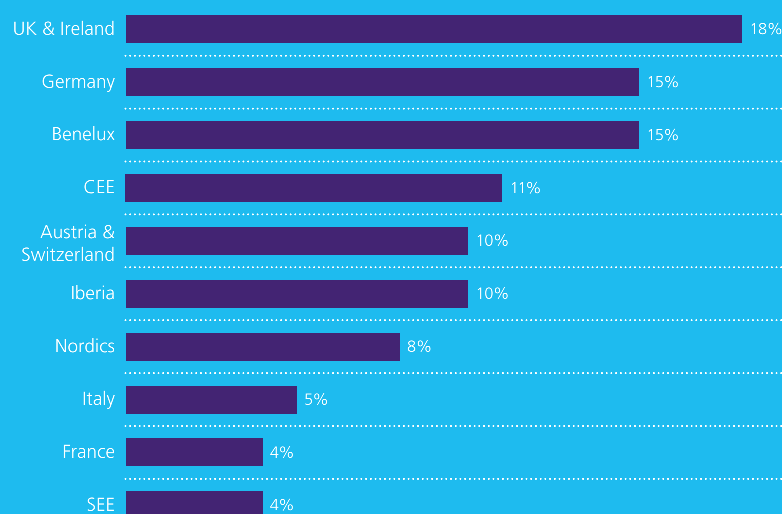
> Thanks to its innovative industries and reliable regulatory environment, Germany's M&A market remains resilient even in challenging times. Germany has just emerged from a recession and although its political landscape may seem less predictable than before, the political and economic situation remains among the most stable in Europe. The recent increase in deal activity underscores Germany's continued appeal to investors.
>
> *Jessica Mohaupt-Schneider, CMS Germany*

"innovative mindset", as well as its "high level of advancement in technology and sustainability initiatives". Benelux's attributes are broadly similar, with respondents underscoring its "favourable valuations, stable economy, favourable regulatory reforms and sufficient availability of financing", its "highly skilled and talented workforce" and "commitment to innovation and technology that can boost operational and financial performance of businesses".

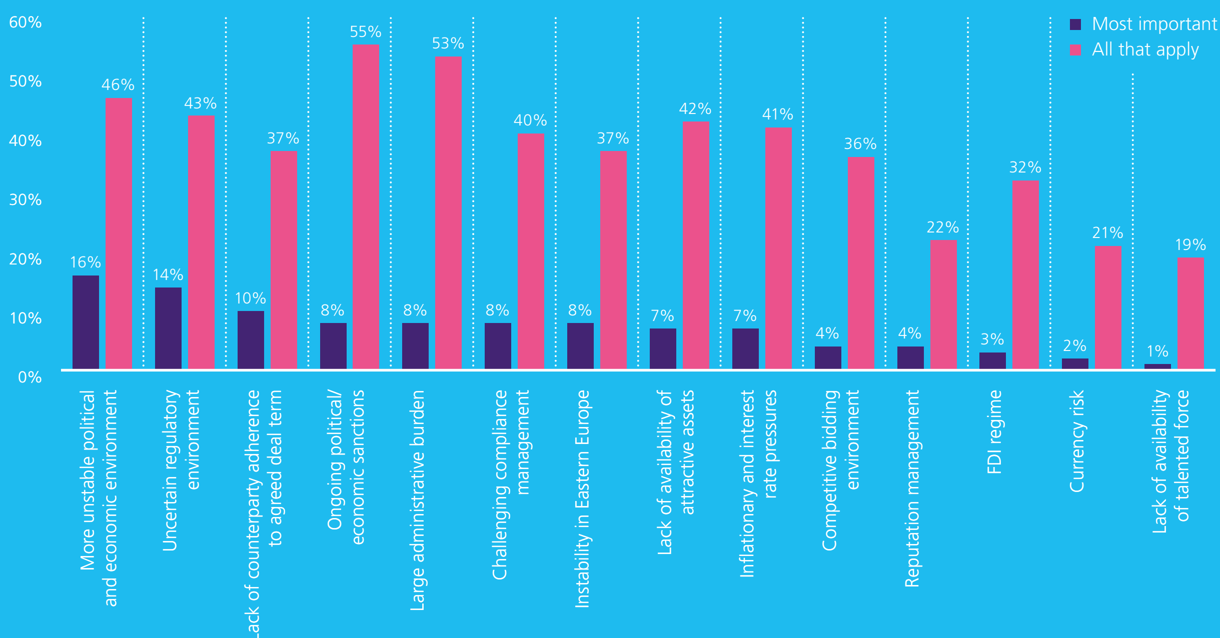
Risk factors

According to our respondents, the single biggest risk to investing in Europe is the region's more unstable political and economic environment,

Which country/region in Europe will be the leading investment destination? (Select one)



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



with 16% saying this, followed by an uncertain regulatory environment (14%). This is in stark contrast to the previous edition of this report, when inflationary and interest rate pressures were top of mind for respondents, 20% of whom ranked those as their single biggest concern, while political and economic instability was identified at the time by just 2% as a key concern.

With inflation moderating over the last several months, dealmakers appear more confident on this score. This year's results may instead reflect apprehension around the outcomes of an unusually high number of elections across Europe through 2024. By the end of the year, there will have been 16 elections in European states, in addition to the European Parliament election.

However, there are major differences in risk assessment when looking at specific countries or regions. For instance, among those who say the UK & Ireland will be Europe's leading investment destination, the greatest risk to investing there is believed to be counterparties not adhering to agreed deal terms, which garners 17% of votes from respondent subset. For those who cite Germany, an unstable political and economic environment emerges as the single biggest risk by far, with 29% saying this. The risk factors are more diverse for Benelux, where the most frequent response concerns large administrative burdens (17%), followed closely by challenging compliance management and, still, inflationary and interest rate pressures (both 15%).

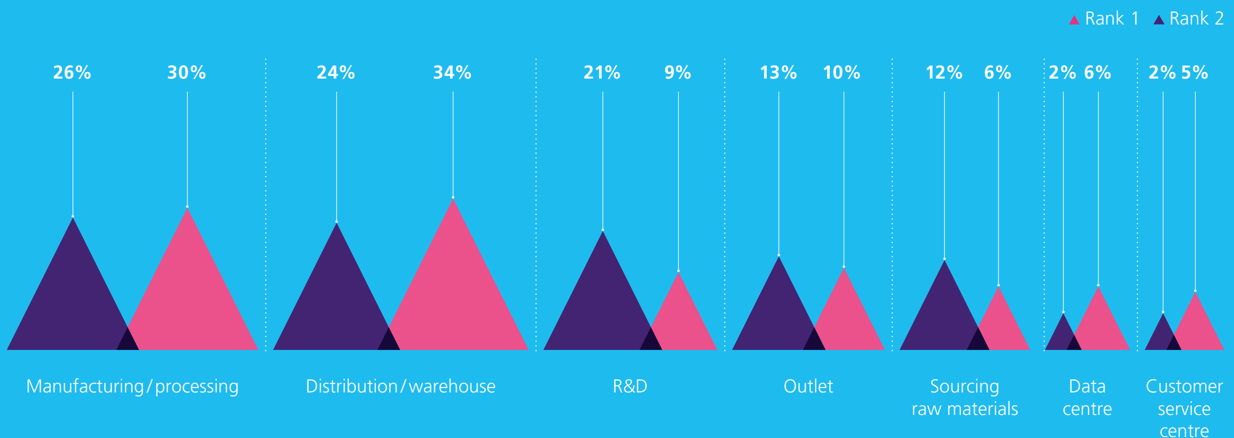
Reshoring trends

In line with the previous edition of this study, manufacturing/processing and distribution/warehouse facilities stand out plainly atop the list of projects that respondents expect to build in Europe. More than a quarter (26%) rank manufacturing/processing first, with a further 30% ranking it second, while 24% identify distribution/warehouse facilities as their primary choice and a further 34% as their second choice.

Businesses are clearly investing to create more resilient supply chains by reshoring and nearshoring their production in response to global disruption, geopolitical risks and sustainability-related concerns. FDI in European logistics has exceeded USD 30bn every year since 2021, according to fDi Markets data, while recent Capgemini research suggests that European and US organisations plan to invest USD 3.4tn in reindustrialisation over the next three years.

> The UK has one of the most respected legal systems in the world. Globally, counterparties enter transactions governed by English Law assured that their agreements are supported by a robust legal framework and stringent enforcement mechanisms.
>
> *Anthony Waller, CMS UK*

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



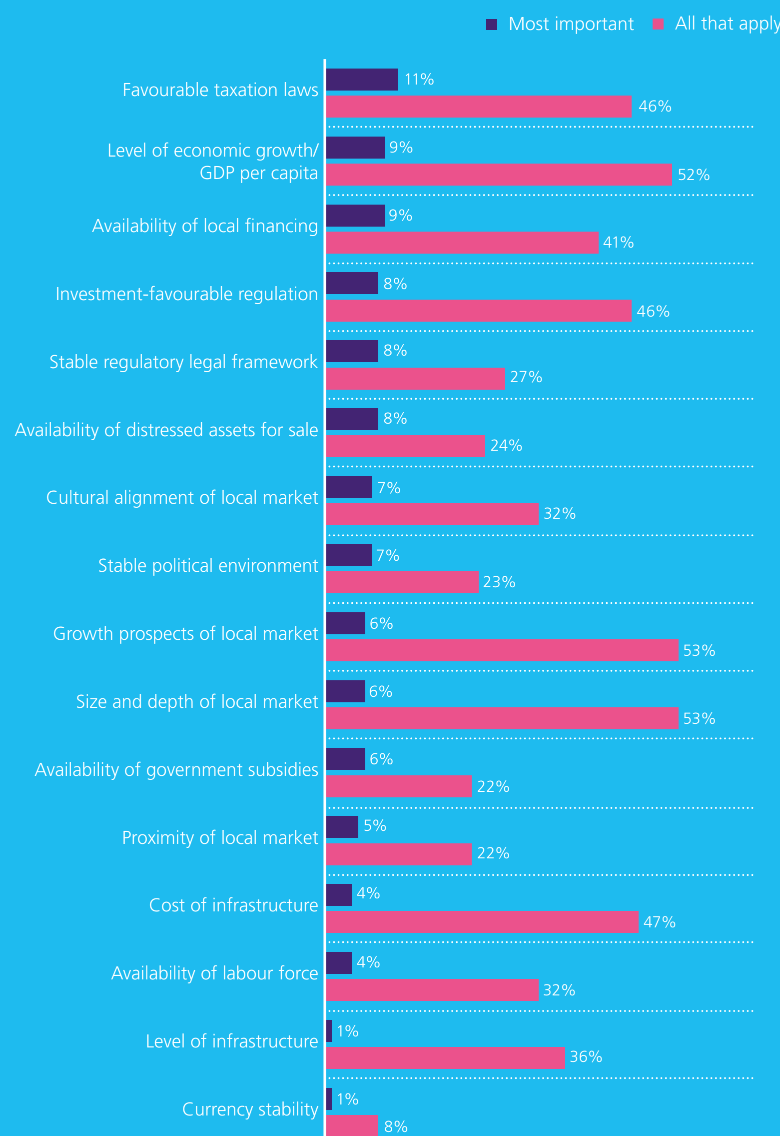
Overseas attractions

Respondents take several factors into account when deciding where to invest outside their domestic market. Key among these are favourable tax laws, which were identified as the single most important consideration by 11% of survey participants. One CEO of a UK-based leisure company comments that Ireland's tax rates were attractive and explains: "Our priority is to keep the cost of operations and allied activities as low as possible. We review the cost of infrastructure, taxation and financing options. This knowledge helps us gauge risks comprehensively."

Several other factors rank closely behind taxation, each accruing just under a tenth of most important votes, including availability of local finance (9%). However, our survey results show that economic scale and growth feature significantly in dealmakers' decisions of where to invest. GDP per capita, for example, is mentioned as most important by 9% of respondents, and the only factors that garner over 50% of 'select all that apply' responses are GDP per capita (52%), local market growth prospects and its size and depth (both 53%).

A PE partner from North America elaborates: "Before investing, it's crucial to consider the size and depth of markets, as we need scope to increase the customer base over time. If it's a small market, that scope could be limited, which would impact returns and exit options." The CEO of an energy business based in Japan makes a similar point: "The size and depth of local markets are key to implementing future growth and expansion plans successfully in the future. We take the growth prospects in the market into account as well. It's vital to work proactively to understand these factors."

Which of the following factors does your organisation take into account when deciding where to invest outside your home country?



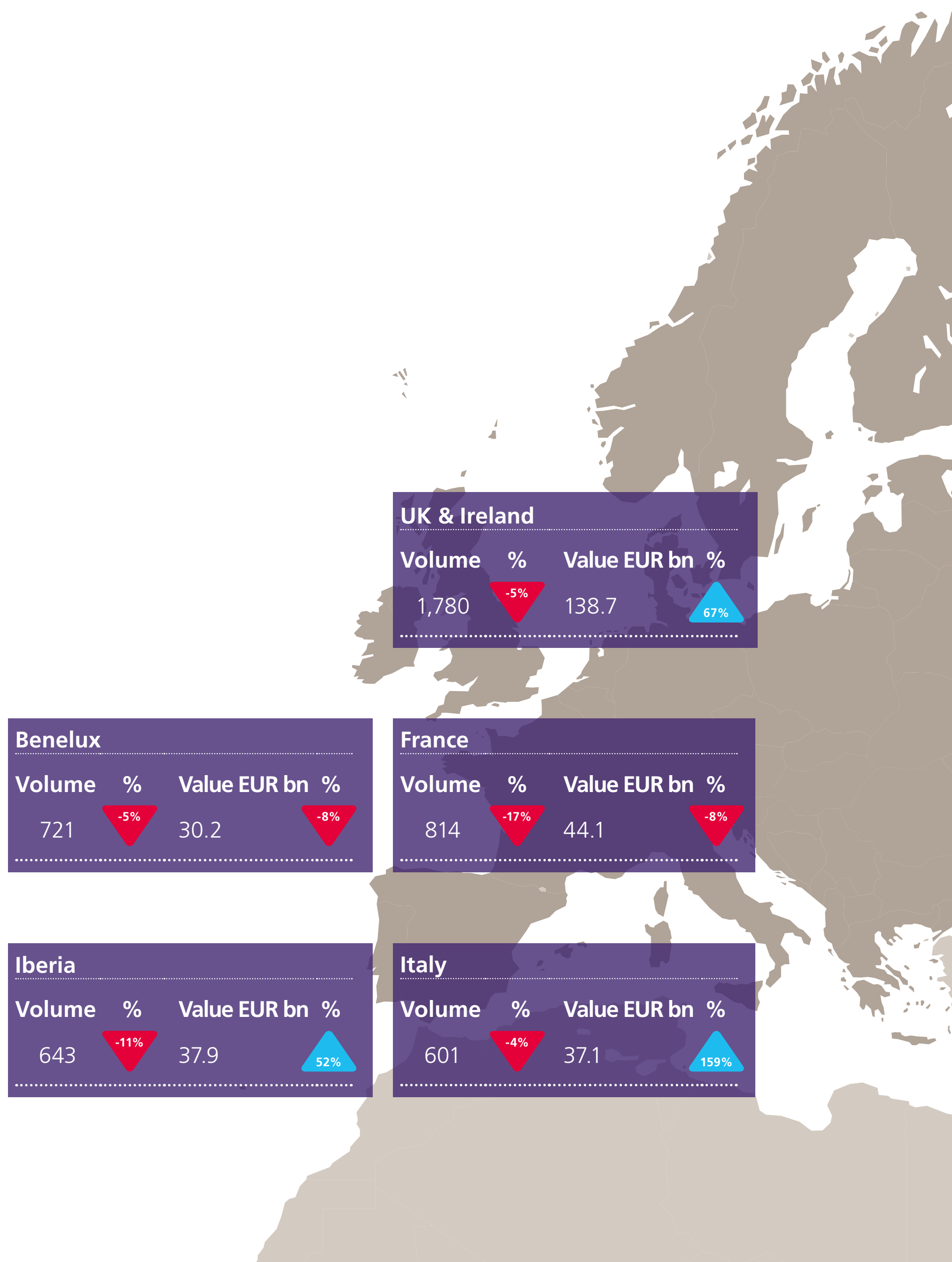
> Consistency and sustainability are likely to be two cornerstone expectations of investors of any tax system. Consistency will be crucial for modelling; a frequently changing tax environment, even if designed to appease investors, will be unable to attract investment. An attractive tax system will power sustainable growth and build trust for investors.
>
> *Anna Burchner, CMS UK*

Regional round-up

Although deal volumes across Europe have declined considerably year-on-year, H1 2024 did see a massive increase in aggregate deal value terms, rising by 31% compared to the same period in 2023. As market uncertainty has gradually dissipated, with dealmakers now enjoying a firmer interest rate outlook, larger transactions are being announced more frequently again.

Despite generating conflicting opinions among our survey respondents in terms of its near-term M&A prospects, the UK & Ireland remained Europe's busiest deal market in H1, generating 1,780 transaction announcements. Those were worth a combined EUR 138.7bn, by far the largest total in Europe and representing a 67% year-on-year increase for the subregion.

It was Italy, however, which enjoyed the greatest year-on-year jump in total deal value, rising by 159% to EUR 37.1bn. Moreover, transaction volume in Italy fell by just 4% year-on-year, compared to double-digit declines in markets such as Iberia, France, the Nordics and Austria & Switzerland.



Nordics

Volume	%	Value EUR bn	%
1,356	-10%	45.1	39%

Germany

Volume	%	Value EUR bn	%
865	-5%	53.3	2%

CEE

Volume	%	Value EUR bn	%
476	-7%	14.4	47%

Austria & Switzerland

Volume	%	Value EUR bn	%
274	-11%	15.7	-13%

SEE

Volume	%	Value EUR bn	%
163	-1%	7.6	-10%

This infographic compares H1 2023 with H1 2024

ESG factors in European M&A

As European regulators continue to lead on ESG, many respondents are homing in on these areas both before and after M&A deals, although there are significant regional variations

Top findings

91%
of respondents expect scrutiny of ESG factors in M&A deals to increase over the next three years

90%
say that an investment target's diversity factor is important when making deal decisions

97%
say a target's environmental footprint is an important consideration in decision-making, including 52% who say it is crucially important

As the EU pushes ahead with its European Green Deal and Action Plan for Financing Sustainable Growth, new rules governing company disclosure and responsible behaviour are coming into force. Among these is the Corporate Sustainability Due Diligence Directive, which places a duty on companies to identify and act on potential and actual human rights and environmental issues in their own operations and those of subsidiaries, and sometimes even business partners. Another key development is the Corporate Sustainability Reporting Directive, which requires larger companies to disclose annual environmental, social & governance (ESG) performance reports.

Corporates are increasingly looking to future-proof their businesses as ESG-related regulation becomes more stringent, the risk of being left with stranded assets increases and as sustainability issues become a more important factor in their supply chain. ESG is also becoming an increasingly make-or-break factor in the M&A process.

A recent Deloitte survey found, for example, that 72% of corporate and PE respondents worldwide had walked away from an acquisition because of ESG concerns at the target, up from 49% in 2022. The results were similar for sell-side respondents, 66% of whom had had to abandon at least one deal for reasons related to ESG, versus 33% who said the same in 2022.

> There is a potential risk of a backlash against ESG regulation in Europe – as has been seen in the US – fuelled by economic concerns, political populism and regional energy security considerations. However, I would argue that such a risk may slow down, but not stop, efforts to create a sustainable regulatory framework. After all, the economic impact of the climate crisis, which is costing billions, can no longer be ignored. In other words, the ESG express train can be slowed down but not stopped.

Döne Yalcin, CMS Turkey

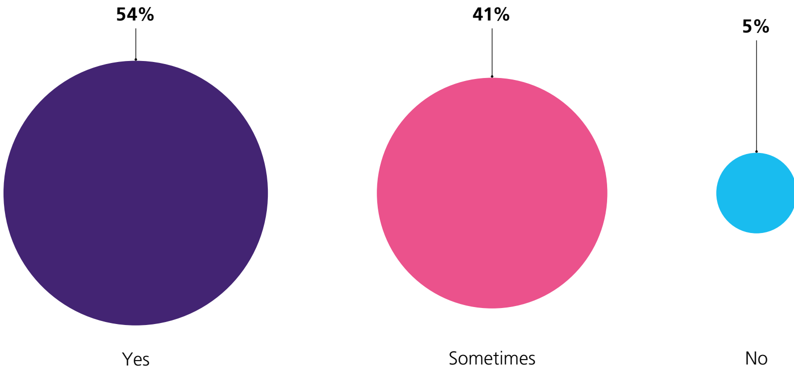
Respondents to our survey echo these trends. When commenting on environmental factors in M&A, a UK-based CEO of a leisure company, for example, says: "It is crucially important to consider these factors. They change the entire perception and valuation of the target organisation. If the target has not given sustainability actions adequate importance, that can be a deal-breaker." Against this backdrop, it is unsurprising that over half of respondents (54%) undertake specific ESG due diligence for every M&A opportunity they pursue, and a further 41% say they do so sometimes.

There is, however, considerable variation across regions. In the Nordics, a region largely considered to be advanced in ESG practice, 91% conduct ESG due diligence on all M&A targets. In the DACH region, 78% of dealmakers do so. Conversely, only 26% of CEE respondents and 22% of their peers in Italy say they always carry out ESG due diligence.

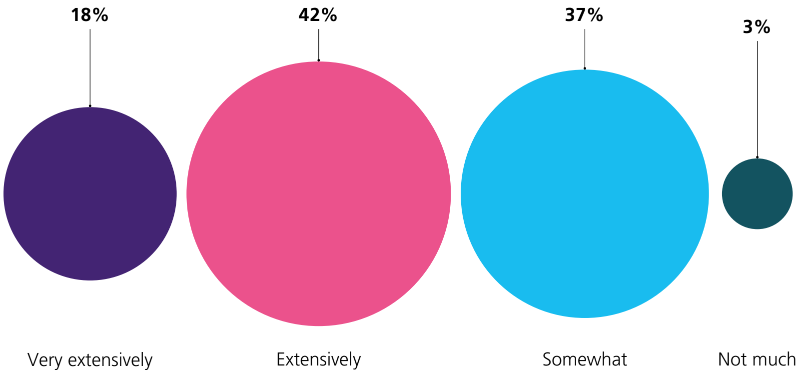
Overall, nearly two-fifths of respondents (18%) say they scrutinise ESG very extensively and 42% say they do so extensively. Many respondents commented that a strong ESG track record makes targets more attractive. For example, the CEO of a UK leisure company explains: "We measure the ESG performance of companies before investing. Knowing that leadership teams are spreading awareness and implementing good strategies increases the appeal of target companies."

Again, thoroughness of ESG examination is subject to regional variation, with dealmakers in the Nordics most likely to prioritise this – nearly half (48%) say they scrutinise ESG very extensively. Meanwhile, only 2% of CEE respondents say this.

Do you undertake a specific ESG due diligence review and report for each M&A opportunity that you pursue?



How extensively do you scrutinise ESG factors when acquiring a target?



With regulatory change accelerating, respondents are anticipating more ESG scrutiny in European M&A deals over the next three years. Most (64%) believe this will increase moderately, while 9% expect it to change significantly. The remaining 27% are expecting no change, which in all likelihood reflects these respondents' perception that ESG scrutiny is already very strict and unlikely to become noticeably stricter in the near term.

For instance, regions that are already proactive on ESG matters in deals are less likely to anticipate large changes, with just 4% of Nordics respondents expecting a significant increase in ESG scrutiny. Conversely, those markets that less focused on this currently are more likely to forecast a significant increase. Among CEE respondents, for example, 20% are anticipating significantly more ESG scrutiny moving forward.

Regulation readiness

Divergence by region is also apparent in the readiness among respondents for current and emerging ESG and climate change regulations in Europe. Overall, 53% say they are somewhat prepared, and 12% extremely prepared. Yet reflecting the current dearth of ESG scrutiny in CEE, respondents here are most likely to describe themselves as either not very prepared or not prepared at all (65% combined).

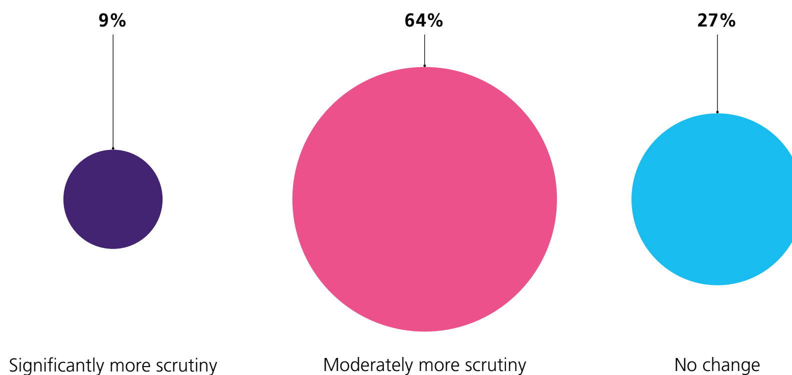
Southern Europeans are also trailing their peers in other parts of the region. In Italy, 65% of respondents say they are not very prepared or not prepared at all for current and emerging ESG and climate change regulations, a perspective shared by more than half of survey participants in Iberia (57%) and South East Europe (56%).

At the top of the list of crucial ESG factors for respondents' organisations and their investor bases is business ethics – 23% say this is the single most important factor. Climate change/Greenhouse gases comes in second, with 18% of first-choice votes, but is the most important factor overall when respondents' top three answers are taken into account (44% combined, versus 42% combined for business ethics factors).

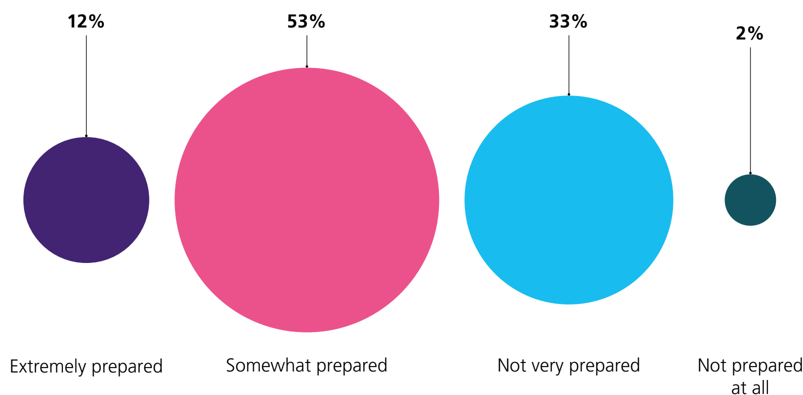
This perhaps reflects the growing momentum of investor-led initiatives on climate. One of these is Climate Action 100+, which has around 700 investor members that between them manage USD 68tn in assets and which engages companies on improving climate change governance and reporting and on reducing emissions.

Other important factors include data privacy (15% of top choice votes) and internal controls and governance (14%), with a marked drop-off for other considerations.

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



To what extent do you feel prepared for current and emerging ESG and climate change regulations in Europe (e.g. CSRD, CSDDD) and their implications for dealmaking?



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

ESG issue	Rank 1	Rank 2	Rank 3
Business ethics	23%	10%	9%
Climate change/greenhouse gas emissions	18%	14%	12%
Data privacy	15%	15%	6%
Internal controls/governance	14%	12%	10%
Consumer protection	7%	8%	6%
Product safety	6%	5%	1%
Water management	4%	6%	3%
Waste management/recycling	4%	5%	16%
Workplace diversity	3%	9%	8%
Human rights	3%	3%	6%
Community impact	2%	10%	18%
Tax avoidance	1%	2%	4%
Gender/BAME diversity in board membership		1%	1%

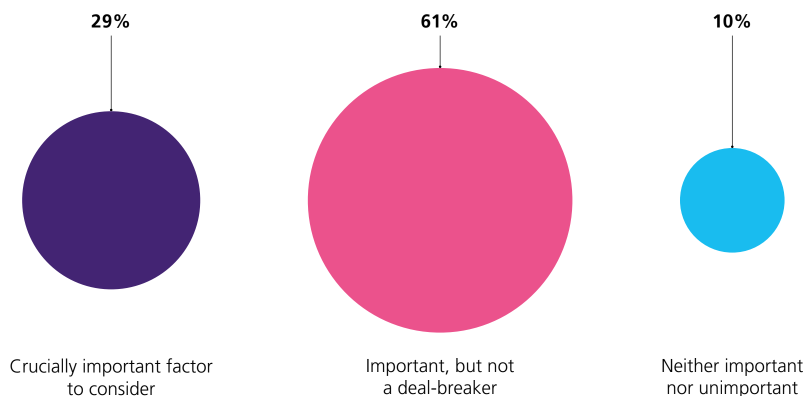
Diversity matters

Although respondents rank workplace diversity and gender/ BAME diversity in board membership relatively low in the list of ESG priorities for their own organisations and investor bases, with 20% and 2% of top three votes combined, these factors do clearly come into focus for dealmakers when acquiring a target.

Nearly all respondents (90%) describe a target company's diversity factor as an important consideration, including 29% who said it was crucial. Among them was a US-based CFO at a real estate and construction business, who says: "We need to assess the diversity and inclusion policies comprehensively. Cultural differences at the workplace after integration can be challenging to deal with, so it's a crucial factor for us."

Another US respondent, a PE managing director, adds: "Diversity is one of the most important parameters for us. As a company, we have our own commitment to build a diverse team and an inclusive culture. We want these commitments to reflect well in our actions."

When considering a new investment/acquisition target, to what extent does the target organisation's diversity factor into your decision-making? (Select one)



Once again, respondents in the Nordic and DACH subregions place a high emphasis on this ESG-adjacent issue, with 48% saying diversity is a crucially important factor. Meanwhile, only 13% of SEE and 9% of CEE dealmakers surveyed share this view.

Among those respondents who say diversity is important but not a deal-breaker, many commented that they are prepared to work with targets to improve their performance post-deal and that, provided there was a willingness to engage on the topic, a current lack of diversity would not be viewed too negatively.

A PE partner in Sweden, for example, says: "Where companies have addressed diversity issues, we've noticed better employee satisfaction levels. Employees are more comfortable in these workplaces, and this has had a positive impact on their productivity. However, these initiatives can be implemented after the deal as well, which is why it's not a deal-breaker."

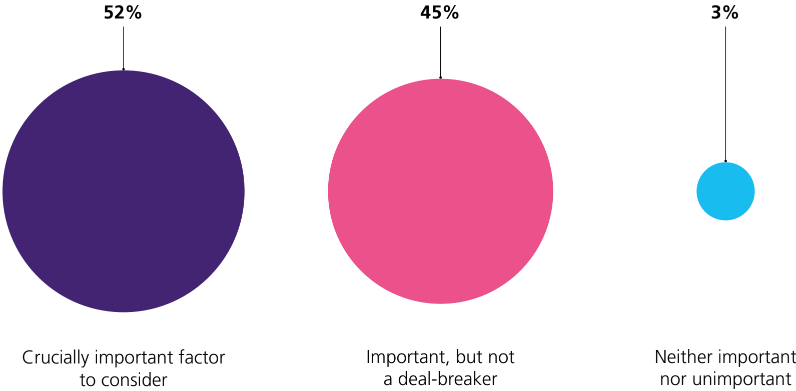
> It is clear that diversity, equity and inclusion (DEI) metrics are becoming increasingly central to businesses and certainly play a part in cultural fit with, as well as the overall assessment of, M&A targets. From a legal workstream perspective, however, DEI seems relegated with "compliance" DD and I have not noticed any increased emphasis on those metrics in the last year.
>
> *Valentina Santambrogio, CMS UK*

Environmental commitments
Virtually all respondents (97%) say a target's environmental footprint is important when considering whether to invest, including 52% who say this is crucial. This is likely to reflect the increasingly strict regulatory environment in Europe on climate change and environmental issues, but also societal pressures.

Many respondents, for instance, cited reputational risk when elaborating on why environmental footprint was crucial for them. "Evaluating environmental compliance is essential so we understand our liabilities," says the CEO of a Japanese consumer business. "We do not want to take any risks, as this could damage our reputation and impact our image among stakeholders."

In a similar vein, a PE partner in the Nordics remarks: "Climate risks will only increase in the future if companies and individuals do not take adequate measures. There are physical and reputational risks to consider when making the decision to invest."

When considering a new investment/acquisition target, to what extent does the target organisation's environmental footprint factor into your decision-making? (Select one)



Mirroring the responses to other ESG-related questions in this study, Nordic dealmakers are most likely to say a target's environmental footprint is crucial (83%) when considering an investment or acquisition.

Investors and acquirers are prepared to do the hard work to improve targets' environmental impact, as many were on the diversity front. "Businesses may require additional support to reduce their environmental footprint," concedes a Luxembourg-based PE firm managing director. "They can improve once we've completed the acquisition, and we can bring in experts to guide them through the process."

Financing conditions

While somewhat brighter than a year ago, the outlook for deal finance remains cloudy, although sustainable finance adoption is on the rise

Top findings

60%
of respondents expect financing conditions to be more challenging over the next 12 months, including 13% who say they will be much harder

35%
say company performance will be among the top two challenges to M&A financing

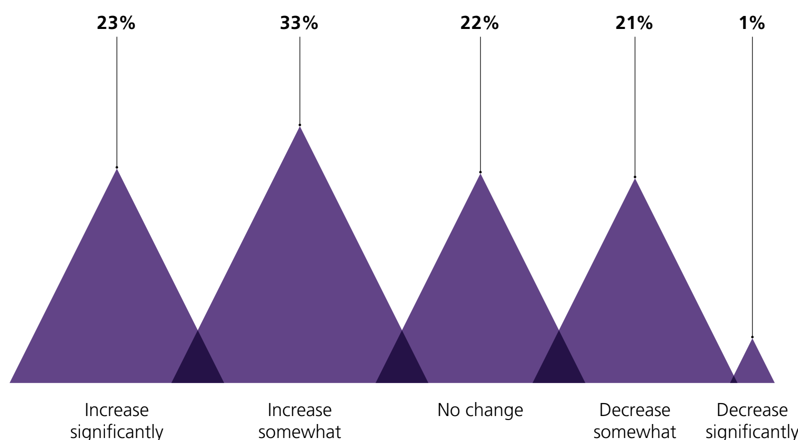
88%
anticipate deploying some form of sustainable finance for their M&A activity

Higher-for-longer interest rates, fears of rising defaults and regulatory changes are all weighing on dealmakers as they try to secure financing from Europe's financial institutions. More than half (56%) expect the cost of capital for the continent's major banks to increase over the next 12 months, including 23% who believe it will increase significantly.

These figures mark a slight improvement from the previous edition of this research, when 83% expected a rise in the cost of capital, but still indicate a feeling of pessimism about banks' appetite for lending in deals. A PE partner in Sweden sums this up: "It will become slightly harder because of the reduced capacity of banks. The next 12 months may be more of a recovery phase for the financial services players who have faced challenges in the past three years."

Updates to regulatory capital rules for banks under what is now being called Basel IV have been anticipated for years – and frequently delayed – but will start coming into force from 2025. The changes will see a 14.6% increase in minimum capital requirements for Europe's largest banks, according to S&P, as regulators phase in changes to banks' assessment of risk weightings for different types of assets. The new rules will make

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



it more expensive for banks to hold certain assets on their balance sheets, including unrated corporate loans, a reform that could see banks retreat further from the acquisition finance market.

This, combined with the recent difficult economic backdrop, has caused banks to buttress their lending criteria over the past few years. The ECB's quarterly Euro Area Bank Lending Survey has reported tightening lending standards for enterprises every quarter since Q3 2021.

This trend is reflected in many of our respondents' comments. A UK-based PE partner, for instance, says: "M&A dealmakers will encounter more challenges when it comes to arranging financing. Banks are not considering financing without strong collateral. Dealmakers will have to look for alternative solutions to fund acquisitions."

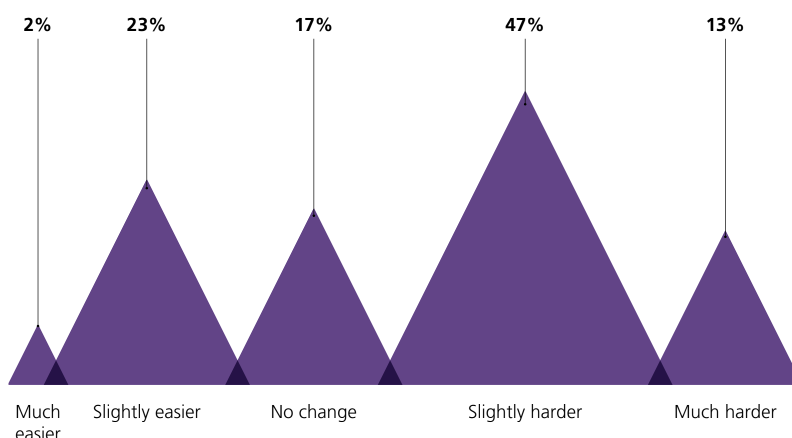
Survey participants are clearly feeling the pressure, with most expecting financing conditions to become either slightly harder (47%) or much harder (13%) over the coming year compared with the past 12 months. Several respondents pointed to challenging economic conditions, increasing insolvencies, a more conservative approach by traditional lenders and the rising cost of finance.

Yet these results are an improvement from the previous edition of this report, when 91% of respondents expected financing conditions to worsen. Moreover, this year 25% of respondents believe that conditions will alleviate in the next 12 months, whereas none felt this way in last year's research.

Many of these respondents pointed to alternative sources of finance, such as private debt funds, as a reason for optimism. Global private debt funds' assets under management projected to grow from just over USD 1.5tn in 2023 to more than USD 2.5tn by 2028.

"Financing market conditions will be much easier," believes the head of M&A at an Italian energy company. "There are newer financing structures that are emerging. In private debt markets, there are many new players, and this will enhance the available financing options."

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



> Recently, investors have preferred refinancing and using incremental facilities capacities and portability features in support of their transactions. However, there are signs of a dealmaking revival, and banks and direct lenders are approached to offer terms for new transactions. With lower interest rates and investors keen to deploy their funds (including to direct lending funds) we see cautious optimism that financing conditions will improve.

Ana Radnev, CMS Romania

Given PE's significant cash pile – global buyout dry powder stood at USD 1.2tn in 2023 – there is good reason for respondents to believe that this type of financing will be the most available over the next 12 months. PE garners 25% of first-choice votes, with a further 11% of secondary ballots.

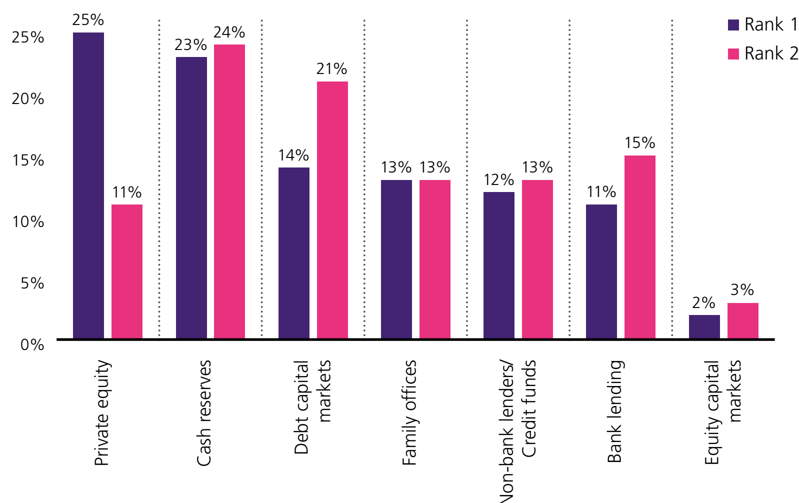
Meanwhile, cash reserves accrues 23% of first-choice votes, plus a further 24% of second rank responses, making this the most popular answer option overall by a considerable margin. This is higher than the previous edition of this survey, when just 30% of respondents said cash reserves would be the most available and prevalent source of financing over the proceeding 12 months.

While this increase may reflect some optimism about the future direction of the European economy – few businesses would eat into their cash reserves if they felt they might be needed to shore up the company in leaner times – it may also indicate a reluctance to take on further borrowing at a time of still-elevated interest rates.

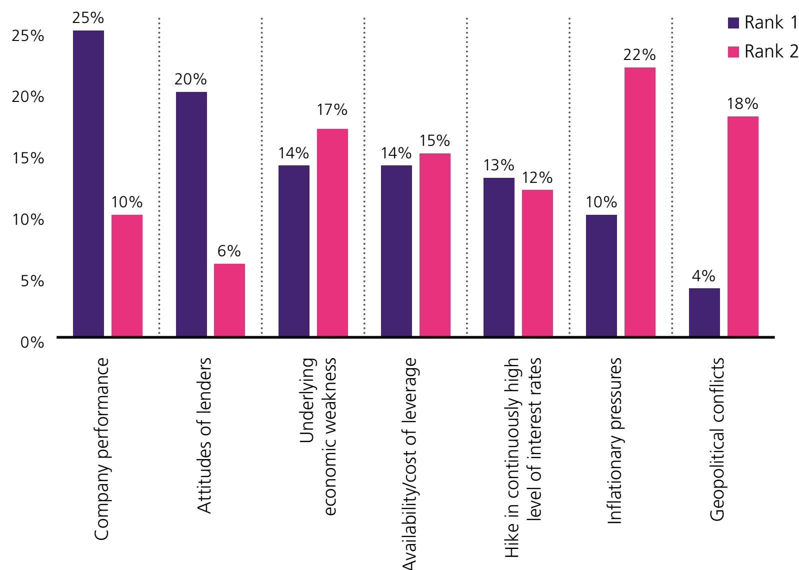
Several respondents suggest that companies may sell divisions to raise capital to invest in new deals. As the CEO of a France-based leisure company comments: "As the conditions become slightly harder, companies will look for divestiture options. Non-core business units are an option for them if they want to avoid financing market complexities."

Company performance is expected to be the biggest challenge to financing acquisitions over the next 12 months. A quarter of respondents say this would be the single greatest hurdle, and a further 10% identify it as a key secondary challenge. Inflationary pressures are also expected to continue weighing

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



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



heavily on dealmaking, accruing the second largest share of combined votes, at 32%.

A Luxembourg-based CFO of an energy company elaborates on these issues, saying: "Inflation is having a significant effect on operations in many industries, and this will impact financing available for companies. It will be much harder to arrange financing unless previous financial reports show promise."

Others also point to the risk of default. "The number of insolvencies in the market will deter financial institutions to some extent," according to the head of corporate strategy of a PMB company. "They may not trust companies to pay back the principal and interest on time."

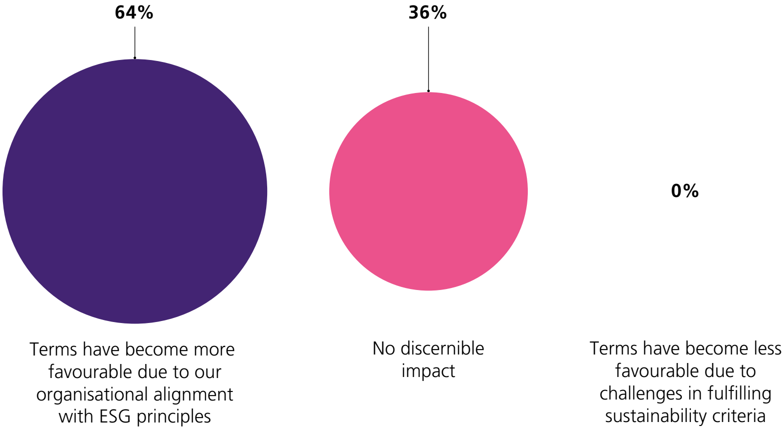
Attitudes of lenders garners the second largest share of first-place votes, at 20% – far higher than the 9% who identified this as the primary challenge to financing acquisitions in the previous edition of this research. Echoing respondents' expectations regarding the higher cost of capital and stricter regulatory requirements, this perhaps reflects the increasingly conservative approach to financing that banks have adopted over the last couple of years.

Sustainable finance trends

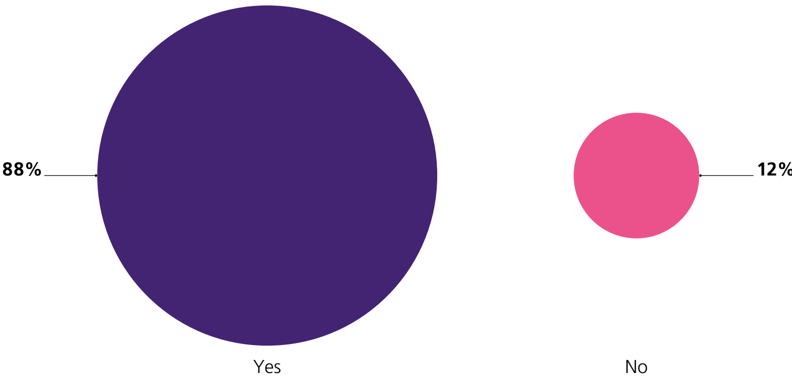
Sustainable finance has gone from strength to strength, with the value of sustainable investment products, such as bonds and funds, surpassing USD 7tn in 2023, a 20% year-on-year increase according to UN Trade and Development. Many of these products provide more favourable terms, such as lower interest rates for sustainability-linked loans, for companies that achieve pre-agreed ESG targets or that are financing projects that meet sustainability criteria.

As many European dealmakers are prioritising ESG factors in M&A decisions, it follows that most respondents are seeking deal financing in line with their sustainability objectives. Nearly two-thirds (64%) say that M&A financing terms have become more favourable because of their pursuit of ESG principles. Nordic respondents are most likely to say this (91%), with those in the UK & Ireland close behind (83%).

How, if at all, has sustainable financing affected the terms on which your organisation finances M&A? (Select one)



Do you anticipate using sustainable financing (e.g. green loans, sustainability-linked loans) to achieve more favourable terms for your M&A financing?



The vast majority of our respondents are ready to take advantage of the more favourable terms available in sustainable finance in their M&A financing arrangements, with 88% expecting to do so. All dealmakers in the Nordics say this, as do 96% of respondents in the UK & Ireland and 91% of their peers in both DACH and France.

Conclusion

After a period of reflection in 2023, as European dealmakers absorbed the shocks of rapidly rising inflation and elevated interest rates, the signs for 2024 so far are that M&A activity across the region is shifting back into a higher gear.

Transaction volumes may be down, but with aggregate value up by a robust 31%, there are signals that confidence is returning to the market as investors pursue larger, transformative deals. And while interest rates remain high relative to expectations, there is a consensus that inflation is now mostly under control and that systemically important central banks in Europe will opt for at least one or two more rate cuts before 2024 closes. Should this happen, one of the major impediments to M&A that has prevailed longer than many had expected – namely, buyer and seller valuations gaps – may begin to abate. Even absent significant cuts, the sense that interest rates have peaked provides more certainty to dealmakers when underwriting transactions.

As the cogs begin to turn once more on European M&A activity, we see plenty of reasons for optimism. Here are four key factors that will drive M&A, and that dealmakers ought to bear in mind over the coming 12 months:

Digitalisation will continue to propel M&A
For many years, TMT has been the most prominent sector in Europe's M&A arena, but the story is only beginning – rapid developments in AI are opening new opportunities for businesses, promising significant productivity gains. M&A will continue apace among TMT companies themselves, but those in other sectors will also be on the hunt for transformative technologies, lest they get left behind by their competition.

PE dealmaking will accelerate
Most of our PE respondents were in more optimistic spirits in this survey compared to our previous study, and those with capital to deploy are under pressure to invest. While high debt financing costs may put the brakes on some dealmaking, PE funds are adept at finding opportunities in more challenging times and are likely to seek out deals where they see relative value or the potential to turnaround a business.

Reshoring will attract further investment
European efforts to reindustrialise and reshore production will require significant investment, spurring M&A over the long term. The pressure is on companies to source and make products closer to end markets as the supply chain shocks of 2020 and 2021 remain fresh in executives' minds, and as European regulations push them to build sustainability through the entire product lifecycle.

Influx of Middle Eastern bidders
Acquirers from the Middle East are already active in the European M&A arena and are anticipated to throw their weight around even more in the near term. This is expected to be the case throughout Europe, from the UK and the Nordics to Spain and Portugal, with the region increasingly open to deep-pocketed Middle Eastern investors, especially those with valuable expertise in big infrastructure projects.

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CMS advised the German energy producer on a EUR 2.8bn voluntary public takeover offer by KKR.

LondonMetric Property plc
CMS advised FTSE 250 listed REIT, LondonMetric Property plc, on its recommended GBP 1.9bn all-share acquisition by way of a scheme of arrangement of LXi REIT plc.

Ahold Delhaize
CMS advised Dutch-Belgian multinational retailer Ahold Delhaize on its EUR 1.3bn agreement to acquire leading Romanian grocery retailer Profi Rom Food S.R.L. from private equity fund MidEuropa.

Bruker
CMS advised Bruker Corporation, a US technology company listed on NASDAQ, on the EUR 870m acquisition of ELITech Group in a transaction spanning nine countries across Europe.

Carl Zeiss Meditech AG
CMS advised the German medical technology company on the acquisition of Dutch Ophthalmic Research Centre (DORC) from Eurazeo SE for EUR 1bn.

Groupe SII
CMS advised the family group of Bernard Huvé and managers of French multinational digital services company Groupe SII on the EUR 1.3bn simplified public tender offer for the shares of Groupe SII for its delisting from Euronext.

Telefónica Deutschland
CMS advised the management board of Telefónica Deutschland Holding AG on a EUR 1.3bn voluntary public takeover offer from Spain's Telefónica Group.

Jiliti
CMS advised Jiliti on the acquisition of StorTrec AG, a major provider of IT infrastructure, in a cross-border deal involving Germany, UK, The Netherlands, Spain, France, Austria, Poland, Switzerland and the US.

Corvinus
CMS advised Hungarian state-owned Corvinus, together with French VINCI Airports SAS as minority shareholder, on the EUR 3.1bn acquisition of the group of companies operating Budapest Airport.

Royal Unibrew
CMS advised Royal Unibrew on its acquisition of Dutch soft drinks leader Vrumona from Heineken for EUR 300m.

Equinor
CMS advised Equinor, one of the world's largest offshore wind developers, on its USD 1.1bn swap transaction with bp in the US, which sees Equinor take full ownership of the Empire Wind lease and projects and bp take full ownership of the Beacon Wind lease and projects.

Packeta
CMS advised Czech group Packeta on the sale of 100% of the ownership interest in the Packeta Group in an auction process to CVC Capital Partners and Emma Capital.

CTS Eventim
CMS advised CTS Eventim on its proposed acquisition of See Tickets and the live events business of Vivendi in a deal spanning France, UK, Spain, Portugal, Switzerland and The Netherlands.

BBC Studios
CMS advised BBC Studios on its acquisition of ITV's 50% joint venture interest in international streaming platform, BritBox International, for GBP 255m.

Accenture
CMS advised Accenture on the acquisition of Objectivity, a digital engineering company with offices across the UK, Germany, Poland and Mauritius.

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