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Storms brewing: European M&A Outlook 2019

A study of European M&A activity

In cooperation with:

September 2019

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Methodology

In the second quarter of 2019, Mergermarket surveyed senior executives from 170 corporates and 60 PE firms based in Europe about their expectations for the European M&A market in the year ahead.

All respondents have been involved in an M&A transaction over the past two years. All responses are anonymous and results are presented in aggregate.

Foreword

Stefan Brunnschweiler, Partner, Global Head of the CMS Corporate/ M&A Group

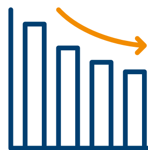
Welcome to the seventh edition of the CMS European M&A Outlook, published in association with Mergermarket.

As GDP growth in Europe moderated from 2.5% in 2017 to 2.2% in 2018, and from 2.4% to 1.8% over the same period in the Eurozone, respondents to our survey have taken a more cautious stance on the prospects for M&A growth.

Weak economic indicators, geopolitical headwinds, uncertainty surrounding Brexit and growing protectionism in global trade have contributed to a shift in sentiment in the M&A community and have taken a toll on deal activity. European M&A value over the last 12 months (Q3 2018 to Q2 2019) is down 22% year-on-year to EUR 652.2bn.

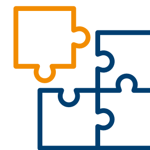
Unsurprisingly, this has contributed to a less optimistic mood among survey respondents than was the case a year ago.

Key findings from our research include:



M&A appetite weakens
45% of respondents are not considering M&A, compared to only 28% last year. Only 27% of respondents to this year's survey expect the level of M&A activity in Europe to increase over the next 12 months, and just 1% expect it to increase significantly. Even those that are open to deals have adopted a more defensive mindset, with a slant towards divestments and bolt-ons rather than transformative deals.

Financing conditions to tighten
72% of respondents expect financing conditions to become more difficult in the coming year, even though, at the moment, interest rates are low and finance is readily available. This contrasts sharply with last year's survey, in which 47% predicted financing conditions would get easier in the coming year. Most respondents (53%) expect that they will have to finance deals from their own balance sheets. Private equity is also expected to become an increasingly important source of capital during the year ahead.



Distressed M&A and restructuring to rise
95% of respondents said they expected distressed M&A to rise, including 64% who said they expected it to rise significantly. 94% of respondents said they thought restructurings would increase in number. The consumer sector has already seen an increase in distressed deal flow, which could spill over into other sectors if growth continues to stall and trade spats escalate.

Market commentary

Headwinds may blow hard but European deals will still sail through

Scott Moeller, professor and director at the M&A Research Centre of Cass Business School, analyses the key trends in European dealmaking.

Scott Moeller, Professor and Director, M&A Research Centre Cass Business School

When asked by a reporter in 1897 about his demise, Mark Twain famously quipped, "The report of my death was an exaggeration." The same must be said about the M&A market in the past 12 to 18 months, where amid a relatively strong market a year or so ago, many were forecasting a significant decline "in the next six to nine months".

Mark Twain lived for another dozen years. Although we shouldn't expect the current merger wave that started in 2013 to last that long, at the moment, M&A activity just doesn't seem to die – although admittedly, with the start to 2019 being the slowest in six years, it may not be as robust as it once was.

Conventional wisdom says that a rising market climbs a wall of worry. Indeed, that wall of worry may be helping the markets now by fuelling increased activity in the near term as companies see this time as perhaps a final opportunity to do a deal or two before the recession that must and ultimately will come.

For now, a company waiting for a better price and time to do a deal will find that the desired targets are continually snapped up by competitors, or by one of the many private equity firms with dry powder. Both corporates and those private equity firms have built up huge resources over the past decade during the longest post-war period without a recession. In the case of private capital, the *Financial Times* reported in late June 2019 that almost USD 2.5 trillion of dry powder is available to be used in deals. Corporate balance sheets are similarly strong, suggesting that there are solid platforms for deals to be done.

In spite of these benign conditions, M&A is slowing. In last year's CMS European M&A Outlook, 72% of respondents said that they were considering M&A, divestments or both, whereas this year, the figure is 55%. Not as strong, but notably still a majority of companies surveyed.

Opportunities to do deals exist. As this report shows, 67% of private equity firms believe they will find favourable valuations this year – driven, perhaps, by their expectation of a slowdown in the economy. Certainly, this is reflected in the expectation by 64% of the survey respondents that distressed

M&A will increase significantly compared to only 15% who said the same last year. None said it would decrease. Indeed, almost half of respondents said that distressed-driven M&A and non-core asset sales would be the greatest sell-side drivers of M&A activity in Europe in the next 12 months.

Conversely, the biggest deal drivers on the buy-side are those that support companies' need to stay ahead of competition – specifically, as can be seen later in this report, in acquiring new technologies and other intellectual property.

The wall of worry is certainly getting higher, however. Although corporate earnings remain strong, the overall economic, political and social environment has been challenging.

One of the main challenges is predictability. Over the past three years, politics has seemingly overwhelmed the major economies that drive much of the global M&A volumes: the tacking to the right in Western democracies, the uncertainty of unprecedented events such as Brexit, and trade wars – both active and looming. That being said, this wave of unpredictability is now likely factored into the decision-making of many business leaders and may no longer be as disruptive or challenging as it was in the past several years.

These factors do have a direct impact on M&A activity, with M&A value in H1 2019 falling 32% to EUR 358bn and volume down 14% to 3,488 deals compared to H1 2018.

The concerns go beyond the overall worries about the economy. At a company and sector level, the rise in protectionism is increasing, with a more assertive competition regime in the EU expected to continue under the new commissioner. Discussions across Europe over whether the EU should adopt stricter rules on foreign investment on the grounds of security, along with the US's recently expanded mandate for CFIUS (the Committee on Foreign Investment in the United States), are further concerns.

Supporting the argument for a continuing robust level of M&A activity in Europe are other non-macroeconomic drivers. One example is the increase in shareholder activism. Long seen as a uniquely American phenomenon, more and more activist investors are targeting UK and European companies who are often ill-prepared for their onslaught. These activist campaigns frequently include demands for M&A and could therefore spur deal activity.

Societal pressures on companies will also continue to grow and the past year has seen evidence of this as well. With climate change and other environmental issues expanding into the corporate consciousness (such as the need to reduce plastic waste, moves away from meat and dairy products, and demand for alternative energy and battery technology), many companies will respond by making acquisitions to quickly fix their legacy problems, or simply to hedge their future risks.

And finally, the changes resulting from big data, artificial intelligence, robotics and other technological developments have seen many companies conducting M&A to remain relevant or ahead of the competition. Just look at how many banks now have larger IT budgets than big technology companies, with much of their growth in technology coming by way of acquisition.

M&A is still often the quickest way to achieve that growth and success. The wall of worry will remain but that only will drive the need for more M&A, not its premature death.

CMS article: European tech M&A has a strong future ahead

Following a stellar performance in recent years, the M&A market for TMT in Europe has a lot to live up to in 2019 but regionally the sector has significant strengths with long-term prospects.

Anthony Waller, TMT Partner, Corporate/ M&A Group, CMS London

Last year (2018) marked a banner year for TMT M&A in Europe. The aggregate deal value for 2018 increased by 177% when compared to 2017, ultimately reaching EUR 169.1bn. This figure far outstripped the EUR 61bn achieved in 2017 and exceeded the all-time record by EUR 36bn. Last year may, however, be an outlier year for the sector, buoyed by a series of megadeals, including Comcast's EUR 42.2bn acquisition of Sky.

Perhaps inevitably, results for the first quarter of this year indicate a reduction in aggregate M&A deal values when compared to the same period in 2018. Whether this marks a trend for the year is too early to tell. Commentators are quick to point out that uncertainty in the region may be reducing confidence as investors and strategic acquirers seek to navigate macroeconomic challenges, including most obviously the ever-increasing confusion arising out of Brexit.

Notwithstanding, there are good reasons to remain optimistic about the prospects for TMT M&A within Europe. In an age when we find ourselves in the early stages of a 'Fourth Industrial Revolution', acquiring technology, IP and talent remains key to the long-term strategy of both incumbent players in the market and new entrants. To remain relevant and competitive within a rapidly developing market, business leaders cannot ignore how technology is continuously disrupting traditional business models and methods. It is a common trope in this day and age that, to varying degrees, all businesses, whether traditional or modern, have a need to become software businesses. M&A is the obvious way to achieve this transformation in short order.

Europe's highly successful start-up scene offers attractive prospects for M&A. A total of 68 'Unicorns' (businesses valued at more than USD 1bn) have been established in Europe since 2013. Fourteen of those reached Unicorn status in 2018 and a further seven have achieved the same in 2019 so far. Entrepreneurship and innovation in Europe is thriving.

From a talent perspective, Europe has a strong story to tell. A recent report identified that there are some 5.7 million professional developers based in Europe, compared to only 4.4 million currently residing in the US. Government programmes across Europe have focused on growing this talent pool and the number of new developers entering the market is increasing year-on-year as a result.

TMT businesses in Europe are supported by well-established and highly regarded

intellectual property regimes, enabling businesses to build value based on strong, defensible IP. Given that the acquisition of IP is a strong driver for M&A, acquiring a business in a region where buyers can have confidence in the underlying IP assets of the business is critical.

Europe is also home to a wealth of businesses in technology verticals that are globally attracting significant attention. Europe's strength in fintech, artificial intelligence (AI) and mobility is well recognised and European companies in these fields are attracting material investment. The consolidation of these markets has already begun, with a number of landmark deals already announced over the last few years. From a global perspective, European nations are some of the most digitally advanced. This has led to a strong demand for digital infrastructure assets, including fibre, cloud architecture and data centres.

Europe's strength in these key verticals has not escaped the attention of Facebook, Apple, Amazon, Microsoft and Google (FAAMG), the US West Coast 'super-acquirers'. Many of these US large-scale acquirers continue to retain large pools of capital in Europe that have been deployed against European transactions over the last decade. The repatriation of cash that was expected after a change of policy by the Trump administration has not yet transpired to anything like the degree expected. Acquirers, it seems, see there is a use for their cash within the European market and most expect that to be used for M&A.

Setting aside the obvious uncertainty posed by Brexit and the macroeconomic environment, there are some other headwinds in the market. There has been a marked shift towards protectionism by the majority of the G20 nations, including many across Europe, with an increased focus on foreign company control legislation. Further, when compared to the US, there remains a significant lack of investors in Europe prepared to put capital at risk in the early stages of a start-up's development. It is thought that this funding gap has held European business back from achieving the same rate of growth when compared to competitors based in the US and China. As noted above, there are fears that the TMT M&A market will be quieter in 2019 than in 2018.

If you treat 2018 as a successful anomaly, however, the fundamentals of the TMT market in Europe remain extremely strong. The ongoing need for boards to harness the power of technology, when combined with the opportunities in the region, is likely to fuel a continued run of TMT M&A in Europe for the foreseeable future.

Chapter one

The M&A environment and expectations for the year ahead

Dealmaker optimism for the prospects of European M&A has ebbed away over the first six months of 2019, as a combination of slowing economic growth, political uncertainty, escalating trade tensions and volatile stock markets have put the brakes on deal activity.

Top findings

27%
of respondents expect the level of M&A activity in Europe to increase over the next 12 months – compared to 65% in last year's survey.

49%
cite cash-rich corporate acquirers as one of the top two buy-side drivers of M&A activity.

47%
identify distress-driven M&A and non-core asset sales from larger companies as key sell-side drivers.

57%
expect the number of cross-border deals to increase over the next 12 months.

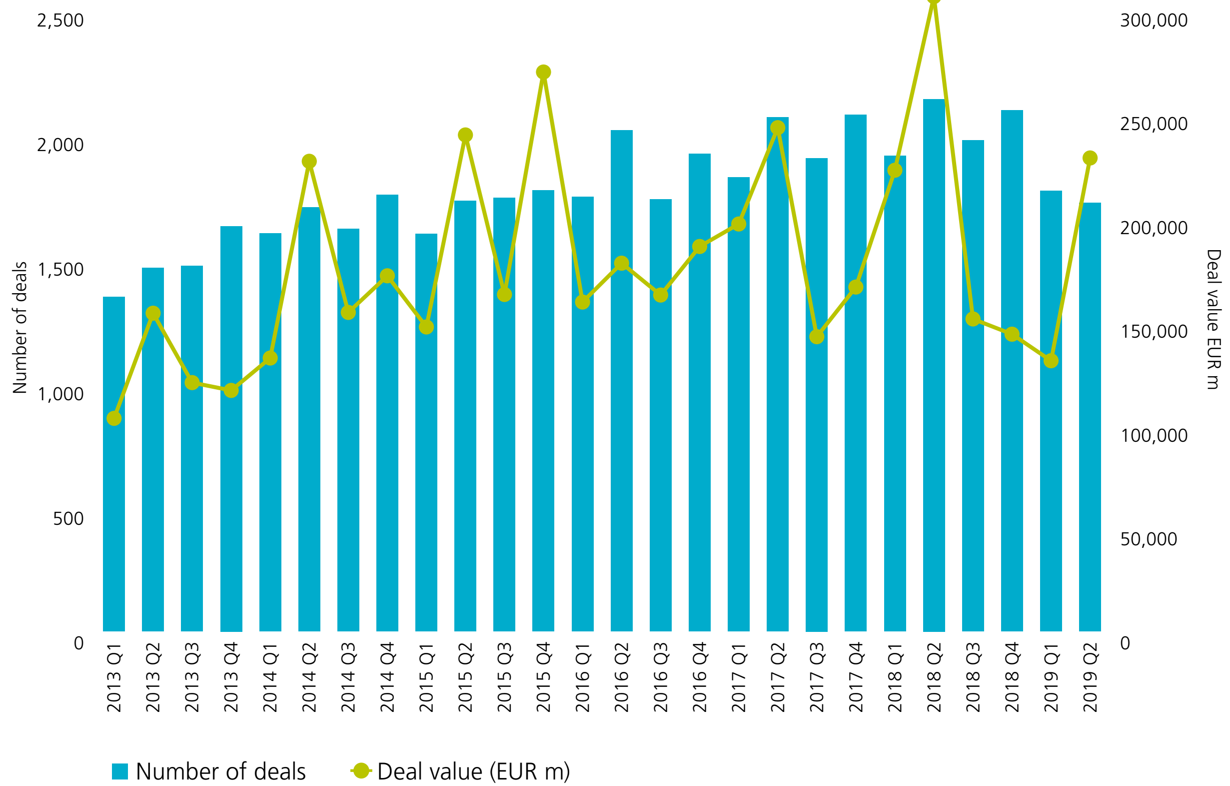
Mergermarket data shows that, in H1 2019, European M&A deal volume dropped 14% to 3,488 deals, with value down by 32% to EUR 358bn when compared to the same period last year.

The drop-off comes despite high expectations a year ago, when almost two-thirds of survey respondents (65%) said they expected M&A activity in Europe to rise, and close to a quarter (22%) predicted a significant rise during the year ahead. High expectations for cross-border M&A have also failed to materialise. Acquisitions of European targets by non-European bidders fell 17% by volume and 32% by value over H1 2019, even though 92% of respondents to last year's survey anticipated an increase in inbound and outbound deals.

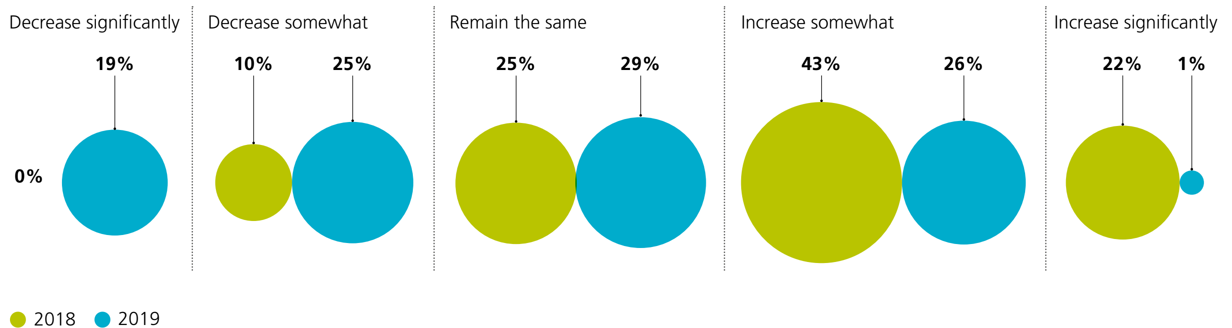
Political uncertainty and rising populism across the continent have been major contributors to the deal drop-off. The UK's exit from the EU has been delayed and, although its departure is set for the end of October, the final outcome of Brexit and the UK's future trading relationship with Europe remains unclear. European Parliament elections in May also saw deals put on hold as investors waited on the outcome, while in Italy the populist 5 Star Movement and far right Lega Nord have formed an anti-European coalition that has pursued aggressive spending plans, despite Italy's high levels of public debt.

Escalating trade tensions between the US and some of its major trading partners, including China, Mexico and the EU, have exacerbated uncertainty, prompting the world's largest asset manager, BlackRock, to rank protectionism as the primary risk to global economic growth, given the disruption to supply chains and productivity. The effects have already been felt in Europe, with real GDP growth moderating from 2.5% in 2017 to 2.2% in 2018. In the Eurozone, growth has slowed from 2.4% to 1.8%.

European M&A trends 2013-H1 2019



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



European M&A top deals, H1 2019

Announced date	Target company	Target sector	Target country	Bidder company	Bidder country	Deal value EUR (m)
25/06/2019	Allergan plc	Pharma, medical & biotech	Ireland (Republic)	AbbVie Inc.	USA	75,768
28/02/2019	Alcon Inc.	Pharma, medical & biotech	Switzerland	Novartis AG (Shareholders)	Switzerland	23,672
16/05/2019	Nestle Skin Health S.A.	Pharma, medical & biotech	Switzerland	A consortium led by EQT Partners AB and Abu Dhabi Investment Authority	Sweden	9,029
21/06/2019	Metro AG (89.09% stake)	Consumer	Germany	EP Global Commerce, a.s.	Czech Republic	8,759
28/03/2019	WABCO	Industrials & chemicals	Switzerland	ZF Friedrichshafen AG	Germany	6,445
27/02/2019	UPC Switzerland LLC	TMT	Switzerland	Sunrise Communications AG	Switzerland	5,537
08/03/2019	RPC Group Plc	Industrials & chemicals	United Kingdom	Berry Plastics Group, Inc.	USA	5,215
28/06/2019	Merlin Entertainments Plc (71.08% stake)	Leisure	United Kingdom	Kirkbi - Blackstone - CPPIB consortium	Denmark	5,108
12/06/2019	Axel Springer SE (54.6% stake)	TMT	Germany	Kohlberg Kravis Roberts & Co. L.P.	USA	4,952
24/06/2019	Altran Technologies S.A.	Business Services	France	Capgemini SA	France	4,908

Slowing growth is being accompanied by greater volatility in the stock market. In the last few months of 2018, stock markets around the world, including in Europe, saw dramatic falls before mostly recovering since. But as share prices move up and down so significantly, assessing value and agreeing on price has become more difficult for dealmakers.

Regulatory intervention has also spooked dealmakers and led to the lapse or cancellation of deals. Deutsche Bank and Commerzbank called off their tie-up, citing execution risks. UK supermarket chains Asda and Sainsbury's canned their EUR 8.3bn merger following the intervention of the UK's Competition and Markets Authority (CMA), while the European Commission blocked a deal

Rising protectionism and slowing economic growth make dealmakers more cautious than in past years where confidence levels peaked. On the other hand, such a period of uncertainty, combined with the large number of cash-rich companies, may provide unique opportunities for bold investors. The number of transactions may decrease slightly but we do not anticipate a drastic drop.

Alain Raemy, Partner, CMS Switzerland

between French train manufacturer Alstom and the rail arm of German conglomerate Siemens. More recently, the then-UK culture and media secretary Jeremy Wright ordered the CMA to investigate the EUR 4.9bn (inclusive of debt) takeover of satellite operator Inmarsat by a consortium, including Apax Partners, Warburg Pincus and the Canada Pension Plan Investment Board, on national security grounds.

This has had a particularly chilling effect on megadeals, where confidence is crucial for dealmakers writing large cheques. H1 2019 saw 59 deals worth EUR 1bn or more, compared to 89 such deals in the same period last year.

The slowdown in deal activity has taken its toll on dealmaker sentiment about future M&A prospects. Only 27% of respondents to this year's survey expect the level of M&A activity in Europe to increase over the next 12 months, and just 1% expect it to increase significantly.

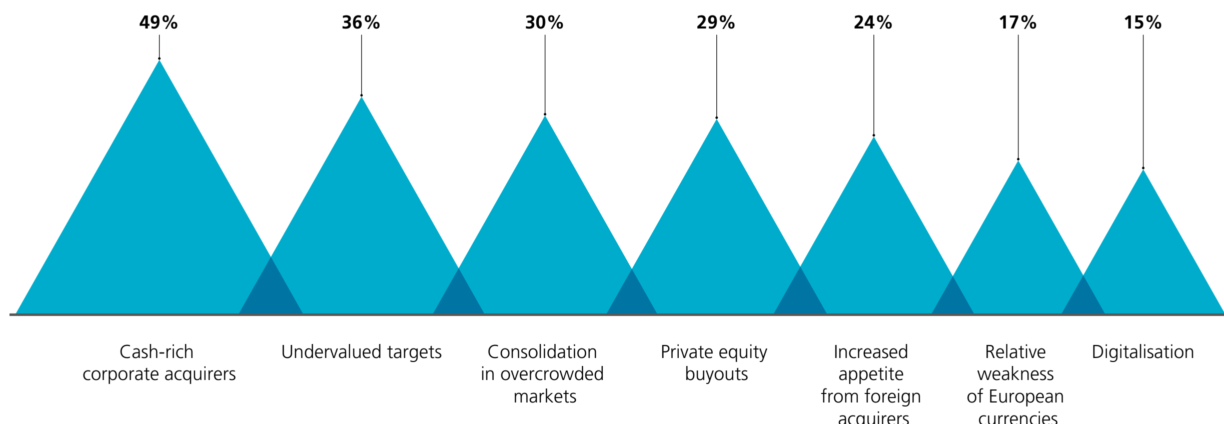
Although the market is subdued, there is still appetite to invest if the right deals come up. Buyers are becoming more particular about the transactions they will do, favouring deals in fast growing sectors that have upside potential but also some cushion against downside risks. Of the 10 largest deals in H1 2019, for example, three were in the resilient pharma, medical and biotech (PMB) sector, and two were in the hot technology, media and telecommunications (TMT) space, most notably Sunrise Communications' EUR 5.5bn purchase of UPC Switzerland from Liberty Global.

Cash-rich corporate acquirers are expected to be the main

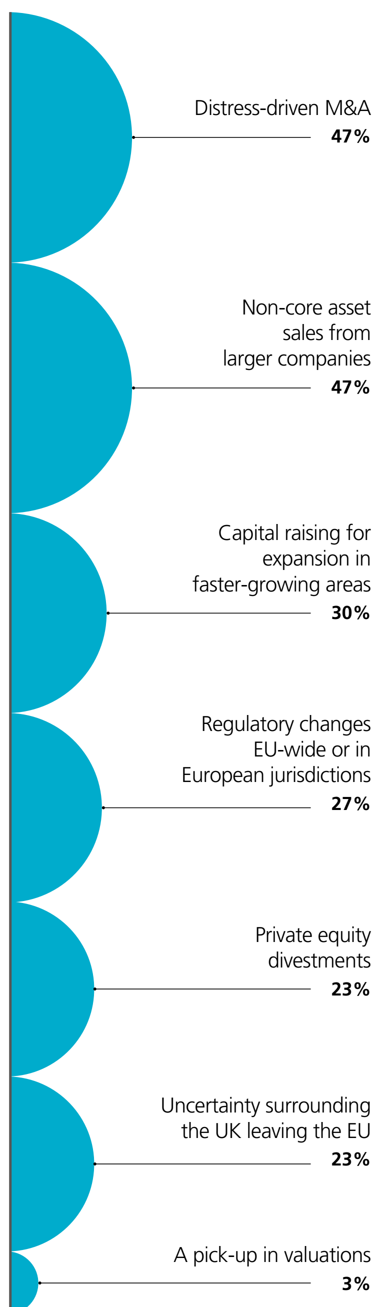
Coping with the challenges of digitalisation and transformation will be one of the main drivers for upcoming M&A deals. While corporate strategy will focus on establishing a competitive advantage through acquiring know-how (e.g. acquihire), the typical strategic objective postulating that size matters – where growth and geographical expansion are essential – will be preserved.

Tobias Grau, Partner, CMS Germany

What do you believe will be the greatest buy-side drivers of M&A activity in Europe over the next 12 months? (Select up to two)



What do you believe will be the greatest sell-side drivers of M&A activity in Europe over the next 12 months? (Select up to two)



The Asia-Pacific region will likely be the favourite of European investors in the coming 12 months. In spite of the slowdown in the Chinese economy and the Sino-US trade war, China continues to be open to foreign investors. With the continuing growth of countries in the Asia-Pacific region, there will be ample opportunities for investment.

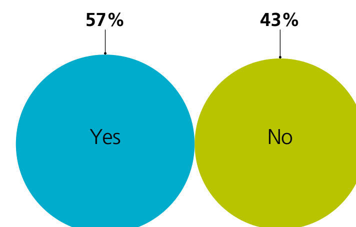
Shirley Lau, Partner, CMS Hong Kong

drivers of M&A activity (49% of respondents rank this among their top two drivers). Research from French private equity firm Argos Wityu shows that corporates are currently paying 10.1x Ebitda for European mid-market assets on average, almost a turn more than private equity firms.

On the sell-side, distress-driven M&A and non-core asset sales from larger companies are each identified by 47% of respondents as key. Swiss consumer group Nestlé, for example, agreed to sell Nestlé Skin Health to a consortium led by buyout firm EQT for EUR 9bn, in order to focus its portfolio on its fastest-growing divisions and deflect criticism from activist investors agitating for an overhaul of the multinational.

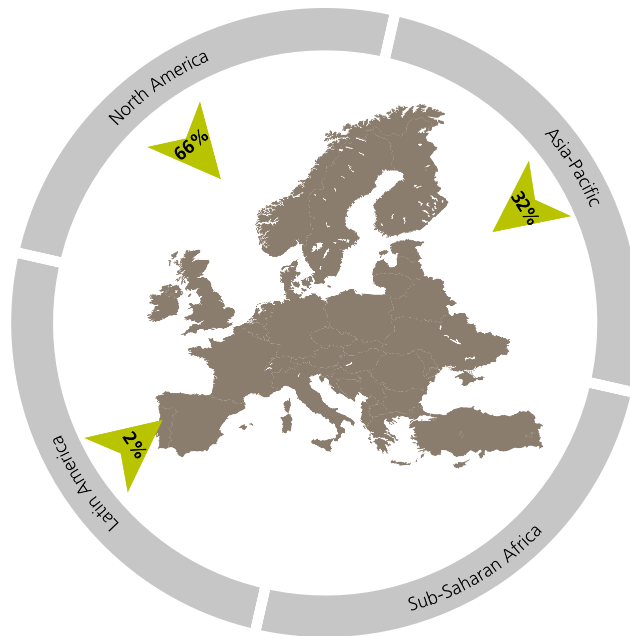
Although down on last year, more than half of respondents (57%) still expect the number of cross-border deals to increase over the next 12 months (vs 92% in 2018), although only 20% expect the

Do you expect the number of cross-border M&A into Europe (non-European acquirers) to increase over the next 12 months?



total value of such deals to increase (compared to 64%). Foreign bidders have typically moved for assets that fit key strategic objectives or present opportunities to buy at attractive valuations because of underperformance or currency fluctuations. Japan's Mitsubishi UFJ Financial Group (MUFG), for example, acquired the aviation finance division of Germany's DVB Bank in a EUR 5.6bn deal as aviation finance has been identified as one of its key growth areas and supports

Which region will be the most active inbound acquirer into Europe over the next 12 months? (Select only one each)

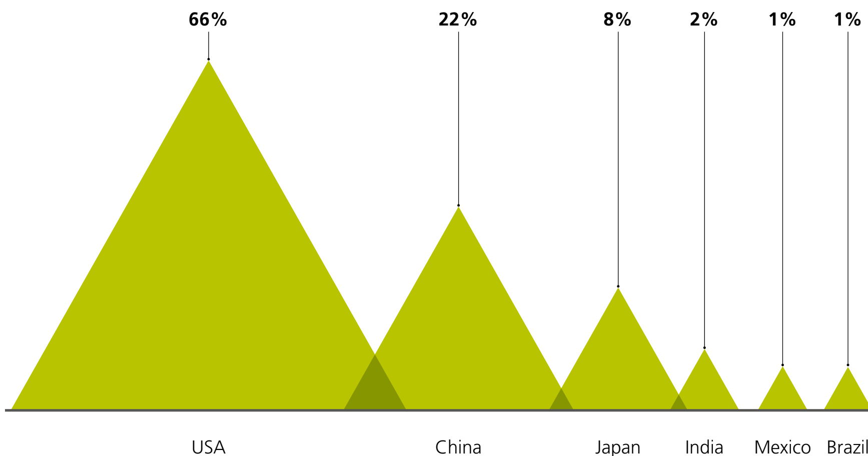


its strategy of offering clients bespoke financing products. The US's Berry Global paid EUR 5.2bn for UK plastics business RPC Group, which had seen its share price in the lead-up to the deal fluctuate in the face of tighter regulation of plastic products and stock market concerns around cash generation.

North America is expected to be the most active acquirer for inbound cross-border deals, according to 66% of respondents, and 52% say it will be the most active target region for outbound deals (37% said this last year).

Links to Asia-Pacific are expected to remain strong, with 32% of respondents predicting that it will be the most active inbound acquirer and 37% saying it will be the most active target region. Small minorities point to Latin America as the key region.

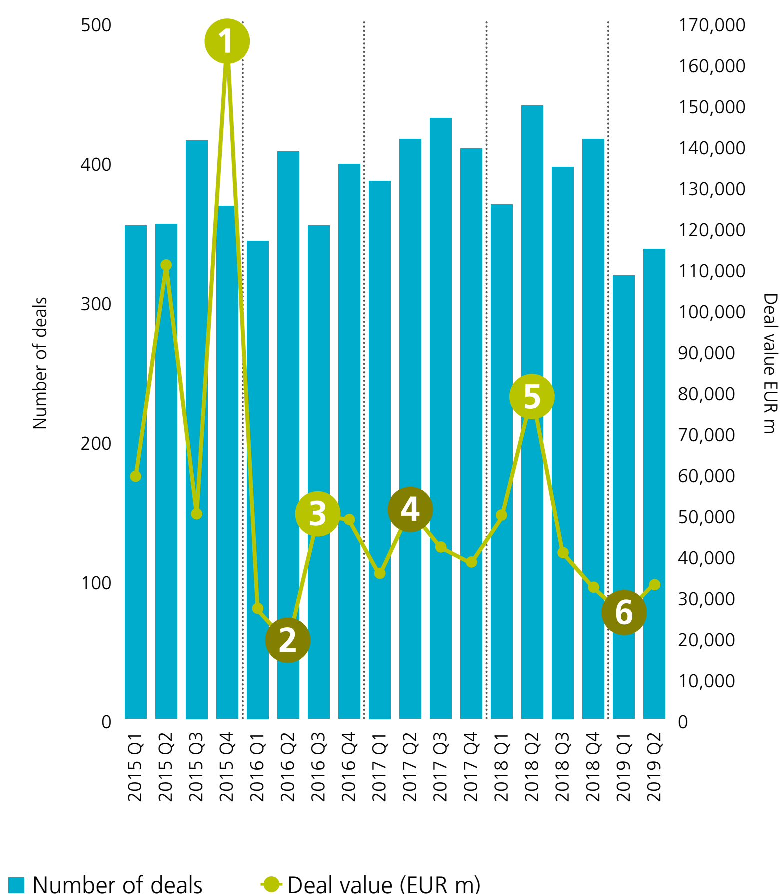
Within the selected bidder region, which country will be the most active acquirer into Europe?



Brexit and UK M&A activity

Since the UK announced its intention to have a referendum on EU membership in 2015, subsequently voting to leave in 2016, the value of deals has been on a rollercoaster ride. We explore six key moments in the Brexit saga and the effect on M&A.

UK M&A trends 2015-H1 2019



1. UK M&A value rises to EUR 165.5bn – the highest on Mergermarket record (since 2006).

2. The majority votes to leave the EU in a narrow vote on 24 June 2016. UK M&A value slumps to its lowest quarterly total since 2009.

3. UK M&A value rises to EUR 50bn in Q3 2016, up 63% compared to Q2 2016, possibly in response to a sharp fall in the value of the pound.

4. Article 50 triggered. Snap UK election in June 2017.

5. In Q2 2018, UK M&A value reached its highest levels since 2015 (EUR 79bn). However, it has slumped since that date.

6. The EU agrees to extend Article 50 for Brexit until 31 October 2019. On the back of this, UK M&A activity rises marginally in Q2 2019.

European outbound outlook

In the face of political uncertainty, protectionism and regulatory intervention, European dealmakers may be looking outwards for opportunities.

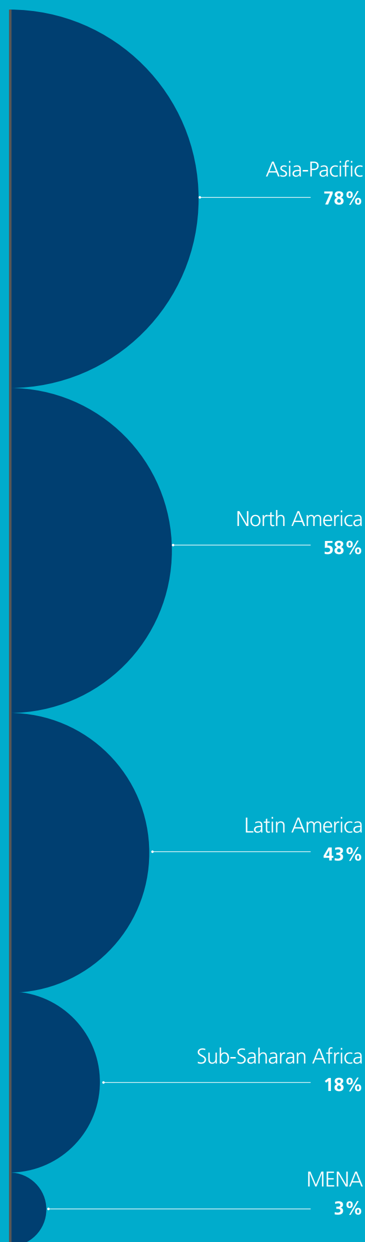
Outbound M&A value from Europe totalled EUR 312bn over the first half of 2019, a 19% drop on the comparative period in 2018, according to data from Mergermarket. But although headline value was down over the first six months of the year, outbound activity spiked sharply in Q2 to reach EUR 175bn.

The uplift in outbound activity in Q2 could be viewed as a reaction to the political uncertainty, protectionism and regulatory intervention that has weighed on dealmaking within Europe. The block on the Siemens and Alstom deal and the failure of the Sainsbury's/Asda and FIAT Chrysler/Renault deals to close has seen European investors turn elsewhere to get transactions done and find growth.

North America has been the primary target for investment by European firms, accounting for 70.4% of outbound European deal value during the last three months. Deals like Germany's Infineon Technologies, which

Which region will be the most active non-European target region for European acquirers over the next 12 months? (Select only one)

Which region outside Europe do you believe will witness the highest aggregate value of M&A transactions over the next 12 months in deals with European bidders? (Select top two)



paid EUR 8.3bn for Cypress Semiconductor, and the EUR 5.1bn merger between France's Dassault Systèmes and Medidata Solutions, were among the standout European investments into the US.

The popularity of North America as a jurisdiction for European outbound deals was reflected in the survey results. More than half (52%) of respondents say they expect North America to be the top target region for European bidders. The US market has remained attractive despite the Trump administration's imposition of trade tariffs and "America first" policies.

Asia-Pacific was the next most attractive region for outbound deals, according to the survey, with 37% choosing it as a key target region and 78% saying they expect Asia-Pacific to be among the top two target regions which will see the highest aggregate value of dealmaking from European acquirers in the next 12 months.

Three-quarters of respondents say expansion in new geographies and customer bases is key. In the case of Infineon's Cypress purchase, Infineon said the investment opened up new growth opportunities in the automotive, industrials and Internet of Things sectors. The deal is still

> Innovation and the need for growth, combined with low cost of debt and weak local GDP growth expectation, is probably a strong mix that drives European companies to look for investments overseas. We see Latin America increasingly becoming a more attractive target to fulfil such appetite, both economically and culturally, while geopolitical uncertainty has had limited effect on M&A activity.
>
> *Jorge Allende D., Partner, CMS Chile*

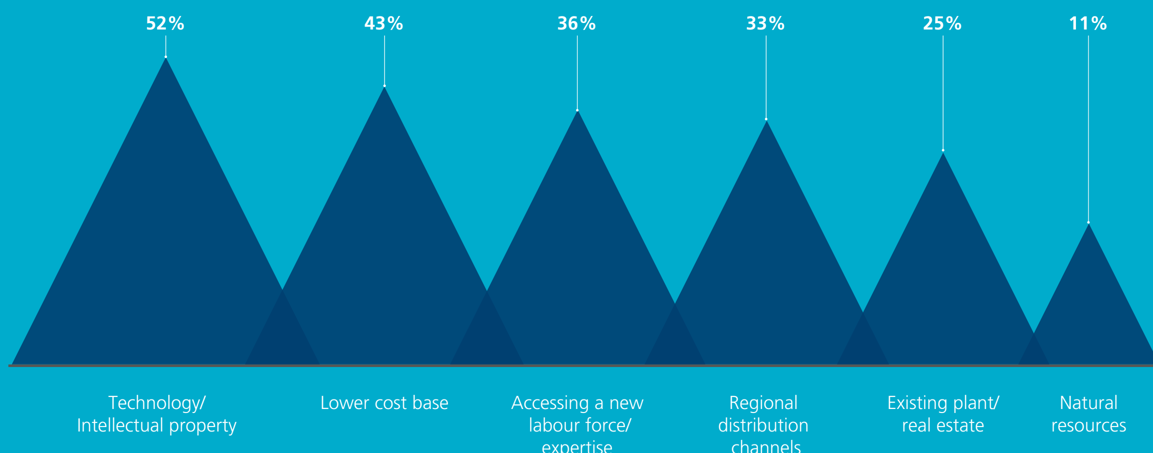
If you are considering acquisitions outside European markets, what is the motivation for this? (Select top two)

subject to review from CFIUS on national security grounds.

A strong IPO market in the US, with Uber and Lyft raising USD 8.1bn (EUR 7.2bn) and USD 2.3bn (EUR 2.1bn) respectively, provides further evidence of a buoyant US market that European dealmakers are eager to gain exposure to.

When asked about the top two objectives of cross-border deals, 52% say the acquisition of tech/IP is key, while 43% cite lowering their cost base. Dassault, for example, acquired clinical trials group Medidata to gain IP that would strengthen its position in the life sciences industry. The French firm has executed various deals in order to diversify its technology and software offering.

What will be the most important objectives of your next M&A target outside Europe? (Select top two)



Sector watch

TMT, consumer and PMB tipped to drive dealmaking into 2020

We explore the sectors that executives expect to top the M&A activity in the coming 12 months.

The TMT, consumer and PMB sectors are expected to deliver the most deal activity during the next 12 months, according to the survey respondents, with 44% choosing TMT, 35% opting for consumer and 28% selecting PMB.

The PMB sector did deliver the largest overall deal value in Europe in H1 2019, but figures were skewed by the anomalous EUR 75.8bn mega acquisition by US-based AbbVie of Allergan, which operates mainly in the US despite being domiciled in Ireland for tax purposes. The deal accounted for 64% of PMB value.

The TMT and consumer sectors provide a clearer barometer of M&A trends and appetite across the continent.

Spotlight on: TMT

TMT was the second-largest sector for M&A in Europe by both volume and value, registering 666 deals worth EUR 57.7bn.

The sector remained one of the most active in Europe, despite a 50% fall in value on H1 2018 levels.

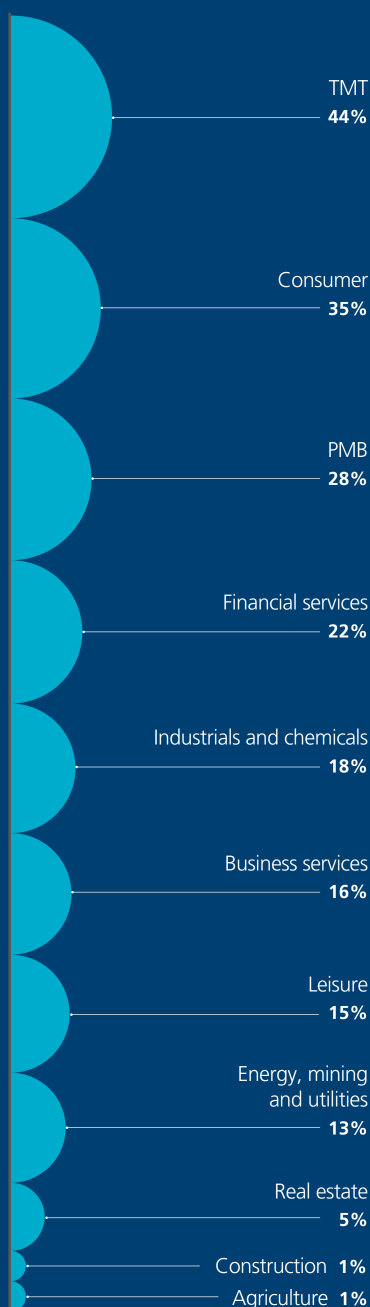
The largest deal in the space during H1 2019 was the sale of Swiss telecoms firm UPC Switzerland by Liberty Global to Sunrise Communications for EUR 5.5bn. The deal is still pending and subject to regulatory clearance, with the Swiss competition authority reviewing the transaction.

The deal shows that there is still room for consolidation in Europe's telecommunications market, as smaller service providers join forces to challenge dominant market incumbents. A tie-up between Sunrise and UPC, for example, will create a business with the scale to compete directly with state-controlled telecoms group Swisscom. Swisscom has 6.6m customers, while Sunrise only has 3.4m. UPC has 1.1m pay TV customers. By acquiring UPC, Sunrise will be able to enhance

The fundamentals of the TMT market in Europe remain extremely strong. The continued need for boards to harness the power of technology, when combined with the opportunities in the region, is likely to to fuel a continued run of TMT M&A in Europe for the foreseeable future.

Anthony Waller, Partner, CMS UK

Which sectors do you believe will witness the most M&A activity in Europe over the next 12 months? (Select up to two)



its "triple play" broadband, TV and mobile offering and expand its customer base for mobile and broadband services.

Private equity firms, meanwhile, have also shown strong interest in TMT assets, especially for take-private transactions.

KKR's pending EUR 5bn take-private bid for a 54.6% stake in German news media group Axel Springer was the second-largest TMT deal of the year so far, while the third-largest deal in the sector was the EUR 4.9bn bid for UK-based satellite group Inmarsat by a consortium comprising Apax Partners, Warburg Pincus and Canadian pension funds CPPIB and OTPP. The deal will require security clearance before it can proceed.

Hellman & Friedman and Blackstone, meanwhile, attempted a EUR 5.7bn take-private of German online classifieds business Scout24 before the offer lapsed when it failed to reach the minimum acceptance threshold with shareholders.

Private equity firms have seen value in listed companies and an opportunity to secure deals at attractive valuations. KKR, for example, offered a 40% premium to acquire Axel Springer, while the consortium bidding for Inmarsat offered a 24% premium to the company's close share price the day before the bid. Axel Springer was open to private equity investment as the typical five-year buyout hold period would give it space and time to build out its online classified business, which delivers around 80% of its profits, and to hand-pick acquisitions. For Inmarsat, which has received private equity backing previously, buyout backing brings in capital without the antitrust risks that come when joining up with a rival. In an industry like satellites, long-term private equity capital can also help to fund large, capital intensive projects and satellite launches.

While trends driving growth in TMT are global in nature, the UK saw the most TMT deals in Europe, as well as the largest proportion of deal value. There were 135 TMT deals in H1 2019, worth EUR 14.6bn in the UK. The EUR 4.9bn bid for Inmarsat was the largest deal in the UK in the sector. Switzerland recorded the second-largest deal value – EUR 5.5bn – with the Sunrise/UPC deal primarily driving the numbers.

Germany and France came in second and third respectively by volume (95 and 80 deals), with the Axel Springer takeover topping the German TMT deal rankings. In France the largest TMT deal was the EUR 1.4bn acquisition of a 70% stake in telco Iliad's towers holding company, Iliad TowerCo, by Spanish telecoms infrastructure firm Cellnex.

Spotlight on: Consumer

The consumer sector was the fifth-largest by value, with a total of EUR 28.3bn in M&A in H1 2019, a 41% rise on H1 2018. Volume, however, fell by 10% to 426 deals.

Germany saw the largest portion of deal value in the consumer sector of all European countries, with EUR 10bn in total value. The UK ranked second by value (EUR 4.3bn), with France topping the volume ranking with 79 deals, representing just under a fifth of all consumer deals in Europe (19%). For volume, France was followed by the UK (60 consumer deals) and Italy (44 consumer deals).

Germany's high-ranking deal value was predominantly due to the pending EUR 10bn acquisition of an 89% stake in supermarket chain Metro by EP Global Commerce, a Czech acquisition vehicle set up by Daniel Křetínský and Slovak partner Patrik Tkáč. The transaction was the largest consumer deal announced in H1 across Europe.

The food retail segment saw several other high profile deals this year: Russian investment vehicle Servergroup acquired Russian supermarket Lenta for EUR 2.6bn, while the third-largest retail deal in Europe was the EUR 1.7bn acquisition of a 71% stake in Spain-based supermarket group DIA by L1 Retail, a retail-focused investment group controlled by Russian billionaire Mikhail Fridman.

Large deals like these saw the value of retail M&A in the region rise 105% on H1 2018 levels to EUR 16.9bn, with volume up a marginal 3%. Investment in large retailers has largely been driven by soft trading and the need for new capital and strategic direction. DIA, for example, has suffered weak trading, accounting issues and staff layoffs; Lenta's exiting shareholder TPG has been invested in the business for a decade and was looking to sell out; and Metro has been through a period of restructuring that has seen it offload its department store business Galeria Kaufhof and spin off its consumer electronics business Ceconomy to focus on its cash-and-carry offer.

With bricks-and-mortar retailers facing similar strategic pressures as customers move online, distress and restructurings are likely to continue driving M&A activity in the sector.

Food M&A also saw a significant rise in deal value, climbing 180% on figures for H1 2018 to EUR 6.5bn. Volume was down 12%.

The largest food transaction in H1 2019 was Canada-based Saputo's EUR 1.4bn acquisition of UK dairy group Dairy Crest, followed by the EUR 928m sale of Dutch organic food business Royal Wessanen to a PE consortium led by PAI Partners.

PAI's investment in Wessanen was driven by shifts in consumer habits toward healthier, organic foods and producers using sustainable food production methods. Saputo, meanwhile, has grown through acquisition (closing 30 deals since 1997) and using M&A to enter new markets and leverage synergies. The Canadian dairy, one of the ten largest in the world, did not have a presence in the UK and saw Dairy Crest as an attractive platform to expand into the UK market.

In context: Global M&A

While European deal activity slipped in the past year, overall global dealmaking grew thanks to the dominance of the US market.

Global deal value over the year from the start of Q3 2018 through to the end of Q2 2019 climbed 42% year-on-year to EUR 3 trillion, on volumes that dropped 10%. Over the same period, European M&A was down by 32% to EUR 358bn. European deal volumes dropped by 14%.

The figures reflect the dominance of the US over M&A markets, with the country accounting for more than half (51%) of deal value in 2019, its largest share of the global deal market on record, according to Mergermarket.

This has been at the expense of European dealmaking, as many US buyers retrenched to domestic deals in response to growing trade tensions between the US and its partners. Many bidders who may have pursued European deals in different circumstances opted to stay local. This trend has manifested in other markets, with cross-border deals sliding across the board as investors retrench to more familiar markets.

According to Mergermarket, domestic deals accounted for two-thirds of all deals in H1 2019. This compares to a yearly average of 61.3% recorded since 2010. Chinese inbound investment into Europe, a significant contributor to European M&A numbers in recent years, tailed off to lows not seen for 10 years as protectionist and national security concerns knocked confidence.

As a result, Europe's share of total global M&A value slid from 32% in H1 2018 to only 22% in H1 2019. Over the same period, North American targets rose from making up 44% of total deal value to 55%. European dealmakers, however, will take some comfort from the fact that, although their proportion of global value has dropped off, their percentage of volume levels have grown slightly, from 39% of global dealmaking in H1 2018 to 40% in H1 2019. The difference in value between the US and Europe has been driven by the higher number of megadeals in the States, including the USD 88.9bn (EUR 78.5bn) merger between aerospace companies United Technologies and Raytheon. Indeed, all but two of the top ten deals in H1 2019 were domestic US deals, compared to only five in H1 2018.

The confidence among dealmakers in the US to continue pursuing blockbuster deals, underpinned by readily available financing and cash-rich balance sheets, stands in contrast to Europe, where political uncertainty (such as from Brexit) and cooling economic growth have prompted a more cautious approach to dealmaking, especially when multiples are still relatively high.

Chapter two

Deal dynamics

The drop in European M&A during H1 2019 is reflective of the heightened geopolitical and macroeconomic risks dealmakers have had to factor into assessments of potential transactions.

Top findings

45%
of respondents say that M&A does not currently fit into their corporate strategy – up from 28% last year.

For firms that are considering M&A, **11%** will focus exclusively on divestments, while **19%** will only consider acquisitions.

60%
of respondents that are considering divestments say they want to focus on core operations. **42%** say the main driver is capital raising for increased financial flexibility.

Rising protectionism and escalating tariff spats between the major economies of Europe, the US and China have taken cross-border deals off the table for many, while a growing number of broken deals have also made senior management hyper alert for fear of repeating the failed transactions of colleagues and rivals. High-profile European deals that have failed to close this year include FIAT Chrysler/Renault, Sainsbury's/Asda, Alstom/Siemens' rail business and Deutsche Bank/ Commerzbank. A private equity (PE) bid for satellite business Inmarsat is now also subject to scrutiny from regulators.

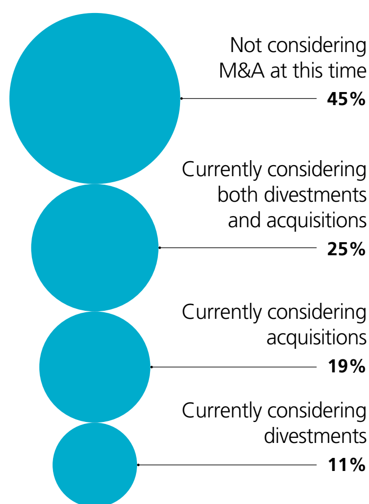
Given the lengthening list of failed deals and reduced appetite for cross-border investment, it is unsurprising that 45% of respondents to the survey say they are not considering M&A. This is up from 28% last year.

Even for those firms that are still considering M&A, the types of deals on the table do have a more defensive colour, with divestments as important as acquisitions for 25% of respondents. Just over one in ten respondents (11%) will focus exclusively on divestments, and less than a fifth (19%) will only consider acquisitions.

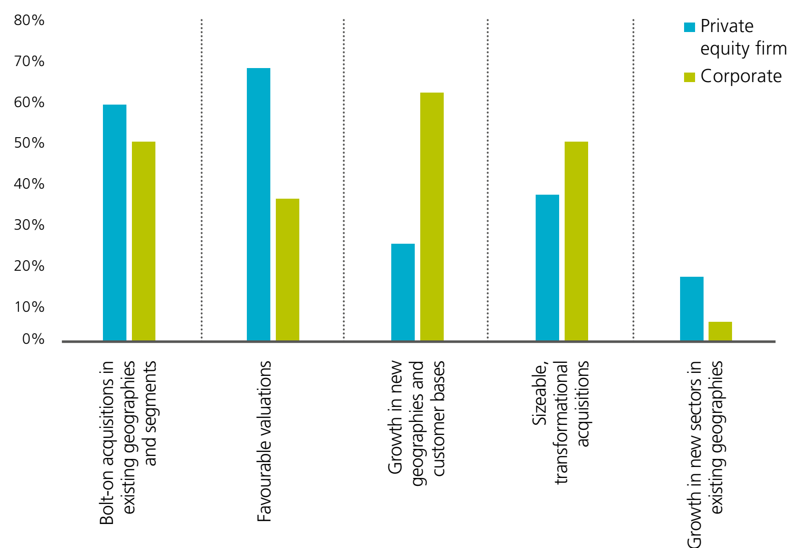
The higher priority given to divestments suggests that corporates are using M&A not just as a tool for expansion but as a way to streamline operations, focus on profitable core divisions, consolidate control of their home markets and make sure they are lean and "recession-ready" at a time of macroeconomic instability. Indeed, among those considering divestments, 60% say they want to focus on core operations, while 42% say the main driver is capital raising for increased financial flexibility, followed by 32% who cite regulatory pressure.

Pressure from activist investors, which was one of the drivers behind Nestlé's move to carve out its skincare business, has also prompted companies to look at divesting, as has growing appetite among private equity firms for carve-outs. As growth in Europe slows, corporates are also turning to divestments

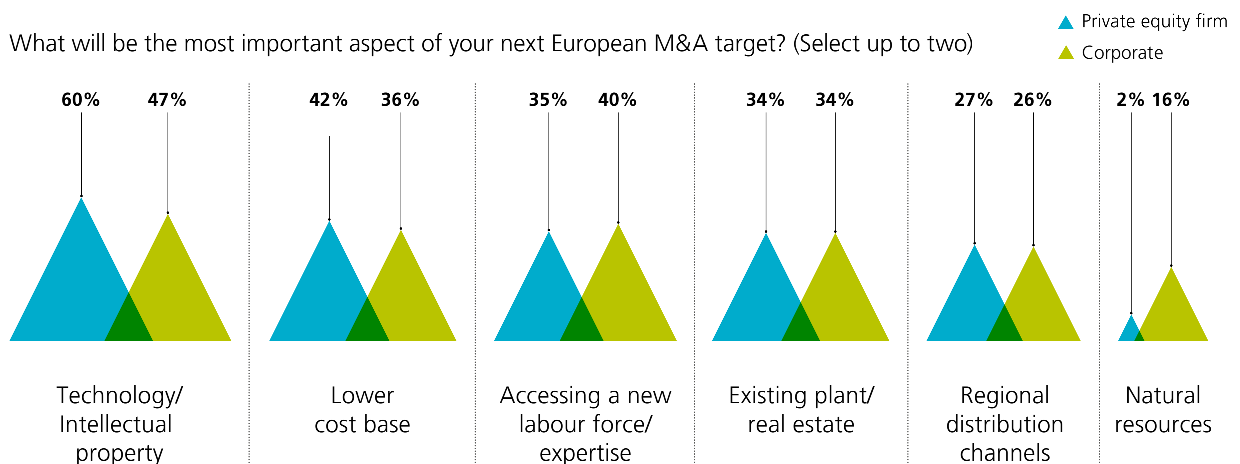
Where does M&A currently fit into your corporate strategy? (Select only one)



If you are considering acquisitions, what is the motivation for this? (Select up to two)



What will be the most important aspect of your next European M&A target? (Select up to two)



> Underperforming businesses and geopolitical shifts remain a driver for divestments and result in corporates being able to focus on their core operations and to mitigate risks. We also see an increasing number of companies strategically managing their portfolio and considering divestments to raise capital in order to give them financial flexibility in unstable financial times.

Daniela Murer,
Partner,
CMS Italy

to drive financial performance. Research from consultancy firm Bain & Company, for example, found that companies with a focused divestment programme outperform those without one by 15% over a 10-year period.

For the dealmakers that are looking to pursue M&A for growth, most are focused on smaller bolt-on acquisitions in existing markets (58% of private equity respondents and 49% of corporate respondents), again reflecting the inward-looking character of more recent deals.

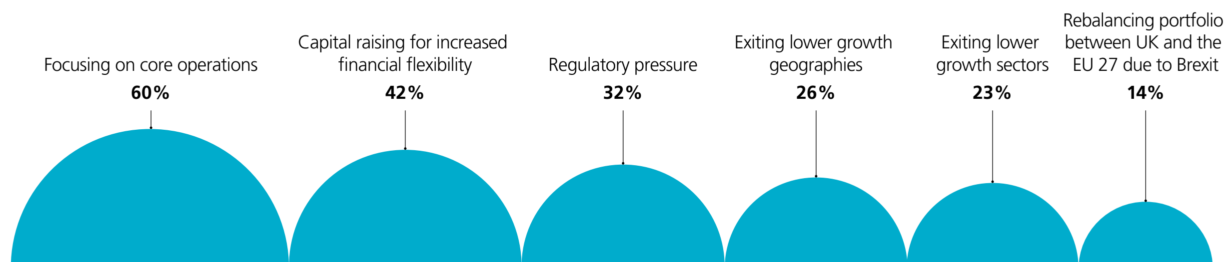
Favourable valuations are another driver, with 67% of private equity and 35% of corporate respondents citing this as a reason to transact. This could be one explanation for the rise in public-to-private deals – with valuations in private markets so high, public company valuations are beginning to look more and more affordable to PEs, even factoring in a premium to share prices. There have been 18 public-to-private deals this year, valued at a combined EUR 23bn, the highest year-to-date volume and value since the financial crisis.

Expansion in new geographies and customer bases were selected by a smaller number of survey participants (61% of corporate respondents and 24% of PE respondents).

For firms that have chosen to pursue headline deals, 60% of PE firms and 47% of corporates say technology/IP is among their top two most important aspects. Infineon's EUR 8.3bn acquisition of semiconductor group Cypress in the US, for example, was driven by Infineon's plan to acquire IP enabling it to service a broader range of industries. The continued performance of tech sector M&A, which accounted for 19% of all deal volume during H1 2019, is also indicative of the priority dealmakers are placing on technology and IP.

After technology and IP, 42% of corporates and 36% of PE firms point to a lower cost base and 40% of corporates and 35% of PE firms point to the ability to access a new labour force/expertise as reasons for pursuing deals.

If you are considering divestments, what is the motivation for this? (Select up to two)



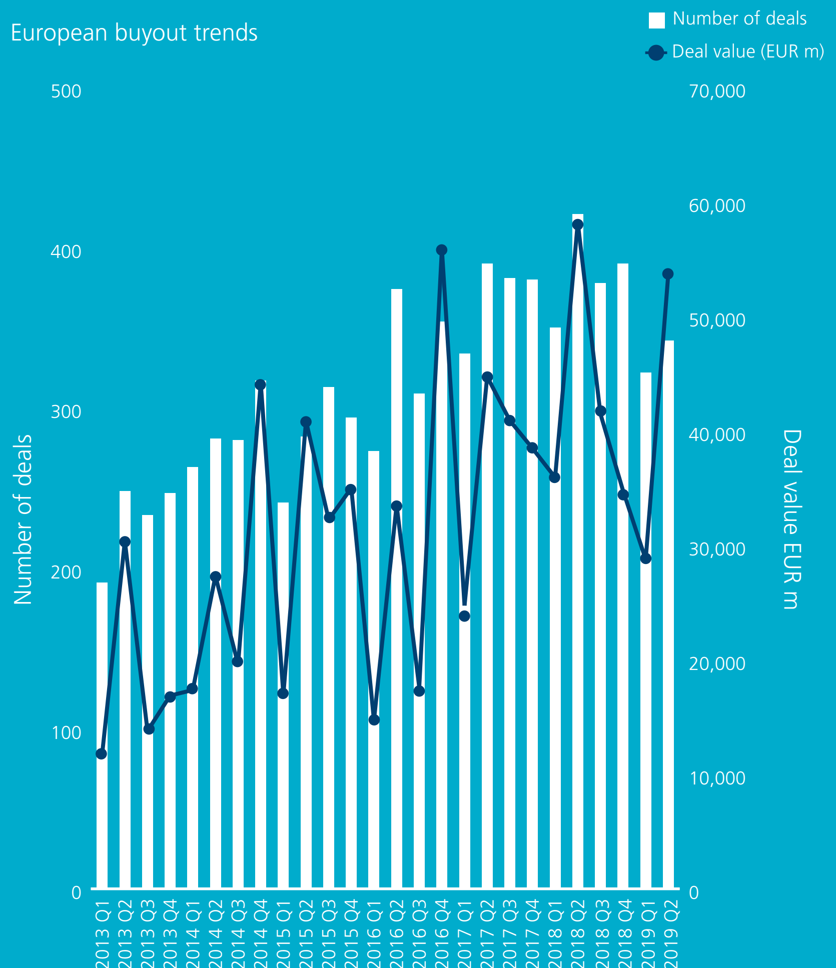
In context: private equity

Despite sitting on unprecedented amounts of capital, European private equity firms are being cautious about buyouts.

Even though private capital dry powder is sitting at a record high of USD 2.1 trillion, according to research from Preqin, with European-focused capital accounting for around a quarter of that total, buyout and exit activity has fallen across Europe over the first six months of 2019.

European buyout volume saw a decrease of 14% to 664 deals in H1 2019, with value down 12% on the same period in 2018 to EUR 82.5bn. This is the second-largest buyout value on record for any half year period going back to 2013. Exit volume was 10% down over the first six months of 2018, with value falling 9% to EUR 61bn compared to H1 2018. H1 2019 has the third-lowest exit total of any half year period since H1 2013.

Even though high levels of dry powder usually predict high deal volume and value, the same macroeconomic and geopolitical uncertainties that have weighed on the wider European M&A



European private equity top 10 deals, H1 2019

Announced date	Target company	Target sector	Target country	Bidder company	Bidder country	Deal value EUR (m)
16/05/2019	Nestle Skin Health S.A.	Pharma, medical & biotech	Switzerland	A consortium led by EQT Partners AB and Abu Dhabi Investment Authority	Sweden	9,029
28/06/2019	Merlin Entertainments Plc (71.08% stake)	Leisure	United Kingdom	Kirkbi - Blackstone - CPPIB consortium	Denmark	5,108
12/06/2019	Axel Springer SE (54.6% stake)	TMT	Germany	Kohlberg Kravis Roberts & Co. L.P.	USA	4,952
24/06/2019	Altran Technologies S.A.	Business services	France	Capgemini SA	France	4,908
25/03/2019	Inmarsat Plc	TMT	United Kingdom	Apax - Warburg Pincus - CPPIB and OTPP consortium	Canada	4,896
04/03/2019	Evonik Industries AG (Methacrylates Verbund)	Industrials & chemicals	Germany	Advent International Corporation	USA	3,000
01/04/2019	OOO Lenta (92.57% stake)	Consumer	Russia	Severgroup OOO	Russia	2,637
29/03/2019	gategroup Holding AG	Business services	Switzerland	RRJ Capital	Hong Kong	2,494
26/06/2019	BCA Marketplace Plc	Business services	United Kingdom	TDR Capital LLP	United Kingdom	2,386
08/04/2019	Compania Espanola de Petroleos, S.A.U. (30% stake)	Energy, mining & utilities	Spain	The Carlyle Group	USA	2,275

Exits drove a lot of 2018 activity with real urgency. Following that, there was always likely to be some lull while funds look to spend the dry powder, particularly given the structural challenges facing them – ever increasing competition and high prices.

James Grimwood, Partner, CMS UK

market have seen buyout houses adopt a cautious approach to new investments, especially when multiples continue to push high levels. According to France-based private equity firm Argos Wityu, which publishes a quarterly index tracking the multiples paid for mid-market privately-owned European companies (valued in the EUR 15m to EUR 500m range), assets are trading at a record average of 10.1x Ebitda. Private equity firms, however, are paying only 9.3x Ebitda on average versus the 11x Ebitda average for strategic buyers. This suggests that buyout firms are less aggressive than cash-rich corporates and are being trumped by corporates that are comfortable paying fuller prices.

Private equity houses are also seeking to avoid aggressive auction processes and secondary buyouts, by focusing on primary deals and more complex transactions such as public-to-privates and carve-outs in order to find more proprietary deals and better entry multiples. Data from the Centre for Management Buy-Out Research (CMBOR) at Imperial College recorded 76 secondary buyouts worth EUR 14.9bn over H1 2019, representing 38% of European buyout value. This is down from 45% in H1 2018. The proportion of public-to-privates, meanwhile, has seen a climb in share from 16% to 21%.

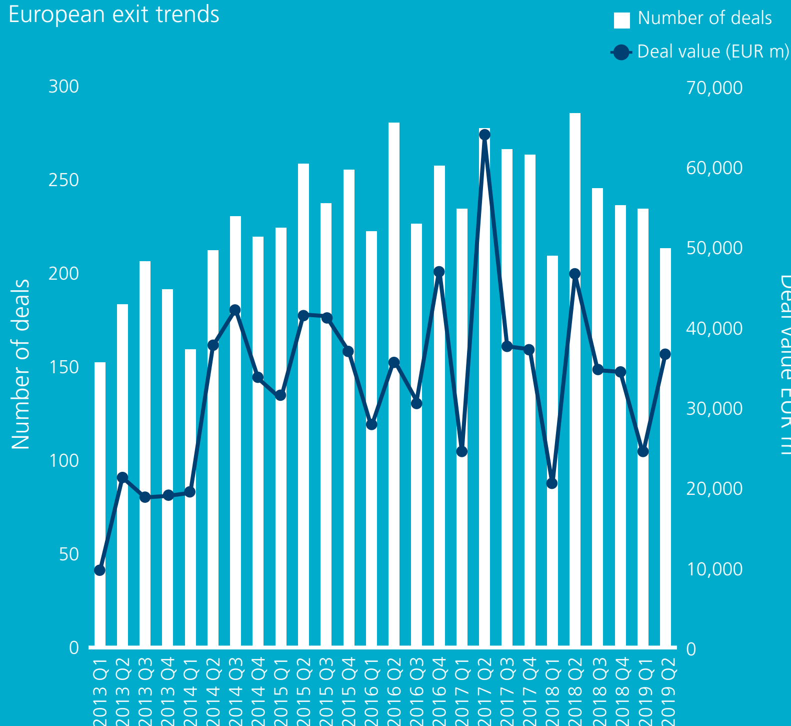
Many European PE firms tackle the pressure to deploy their capital by following a diversified approach. They invest resources to identify proprietary deals, co-invest alongside other PE firms or even strategic investors, identify add-ons for their portfolio companies, and participate in auction processes.

Tobias Schneider, Partner, CMS Germany

High-profile public-to-private deals include: a consortium led by Blackstone agreeing to delist Merlin Entertainments for EUR 5.1bn, eight years after listing the theme park operator; and KKR's bid to take publisher Axel Springer private in a deal valuing the German-based group at EUR 4.9bn.

Notable carve-out deals include the largest private equity buyout in H1 2019, which saw a consortium led by EQT Partners and ADIA agree to acquire Nestlé Skin Health business from Nestlé in a deal valuing the unit at EUR 9bn. This was the second-largest PE deal in Europe since the financial crisis.

European exit trends



Brexit has had a cooling effect on private equity activity. The UK and Ireland, Europe's largest private equity market, still accounted for 29% of total European buyout value over H1 2019, ahead of Switzerland (15%) and Germany (14%), but Brexit uncertainty has seen firms adopt a "wait and see" approach and sit on deals until the market picture is clearer.

This caution has also coloured the sectors buyout firms have targeted over the last six months, with TMT and healthcare the most popular spaces targeted by PE investors.

TMT accounted for 25% of the total value of buyouts in Europe in H1 2019 (EUR 20.8bn), up from 12% in H1 2018 (EUR 10.8bn). The sector has attracted interest because of attractive growth drivers, such as the move to the cloud, software-as-a-service and digitisation across all industries; and the growing value of data and analytics. TMT businesses have also demonstrated resilience and customer stickiness, providing dealmakers with downside protection should the economic cycle move into a downswing as many anticipate.

PMB deals, meanwhile, offer similar downside protection characteristics. Anything healthcare-related is generally buffeted by the long-term demographic trend of an ageing population, personalised medicine and appetite from big pharma to outsource functions like new drug testing, medical trials and regulatory compliance.

Chapter three

Regional environment: The future of European M&A

Worries about a potential weakening of the economy and of the impact of trade wars are two of the biggest challenges to M&A in Europe, according to our survey respondents.

Top findings

34%
of respondents say that Brexit will increase their dealmaking appetite in the EU, while **19%** say it will decrease their dealmaking appetite in the UK.

53%
cite antitrust as one of the two most challenging forms of regulation that they face in Europe.

40%
say that "the EU doing much more together across all policy areas" would increase their appetite for M&A over the next three years (up from 23% last year).

In its Spring 2019 economic forecast, the European Commission (EC) has revised its projection for growth in the EU to 1.2% in 2019 from 1.9% in its Autumn 2018 forecast. This was seen as the principle obstacle to M&A in Europe by the survey respondents, who said slowing European economic growth was the most significant factor impacting on M&A, scoring a 9.11 out of 10.

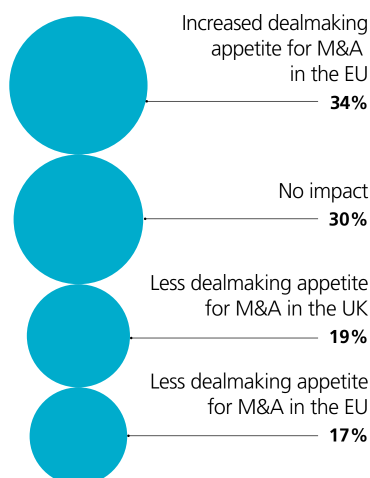
Political uncertainty has hit confidence. With less than 100 days to go before the UK is scheduled to leave the EU, the future trading relationship between the UK and Europe is still to be finalised, and with Boris Johnson as prime minister, a no-deal Brexit is now a possibility. Survey respondents were split on how Brexit will impact their dealmaking. More than a third (34%) of the survey respondents say Brexit will increase their dealmaking appetite in the EU and 19% say it will decrease their dealmaking appetite in the UK (up from 3% in last year's survey). Less than a third (30%) say Brexit will have no impact on their dealmaking appetite.

The UK is not the only major European country in political flux. Spain's politicians have failed to form a government after weeks of negotiations and Italy is governed by a fragile coalition of the populist 5 Star Movement and right-wing Lega Nord. The European elections earlier this year would have seen dealmakers sit on their hands in the lead-up to the poll. Brexit uncertainty (8.83 out of 10) and politics in Europe (8.90 out of 10) were high up the list of obstacles to deals cited by survey participants

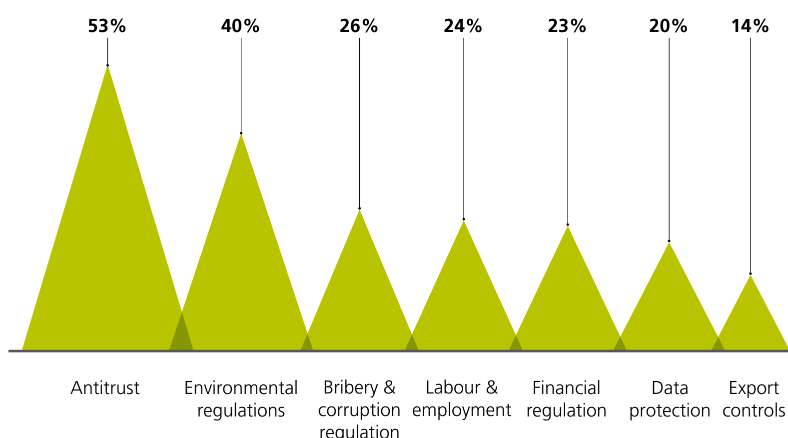
Political volatility has been a major contributor to the fall in European deals in 2019. Surviving a challenging political environment has become standard for corporates and PE houses, many of whom are taking a "wait and see" approach to political machinations before committing to deals again.

Antitrust concerns are also on dealmaker radars. According to the survey, antitrust is the form of regulation which dealmakers find among their most challenging in Europe (53% say it is one

What impact will Brexit have on your dealmaking appetite? (Select only one)



Which form of regulation do you find most challenging when doing a deal in Europe? (Select up to two)



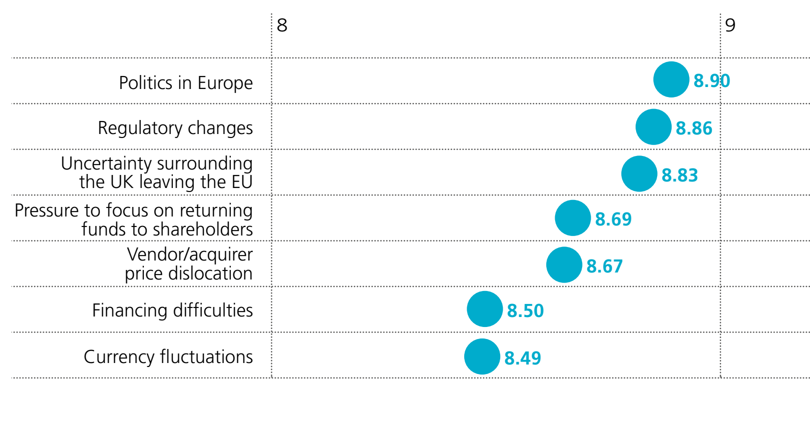
of the top two), followed by environmental regulation (40%) and bribery and corruption (26%).

Various dealmakers have butted heads with competition authorities in recent months, with the Sainsbury's/Asda, FIAT Chrysler/Renault and Alstom/Siemens Rail deals all coming unstuck after regulatory pressure. Dealmakers are eager to avoid investing time and resource into deals where there is risk of regulators stepping in, which has had a chilling effect on new investment.

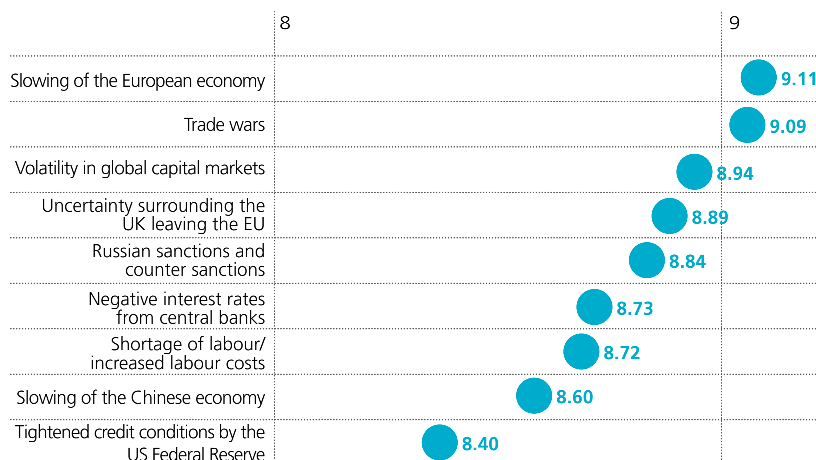
Cross-border M&A into Europe (including the UK) has suffered a big hit in H1 2019 and is down by about 37% against H1 2018. Domestic markets remain strong but the political uncertainty created by Brexit and US trade policy is impacting investor confidence materially. Post-Brexit, however, expect an uptick in EU bound deals as businesses scramble to secure single market access.

John Hammond, Partner, CMS Germany

What do you believe will be the principal obstacles to M&A activity in Europe over the next 12 months? (Rate the following on a scale of 1-10, where 10 = most significant)



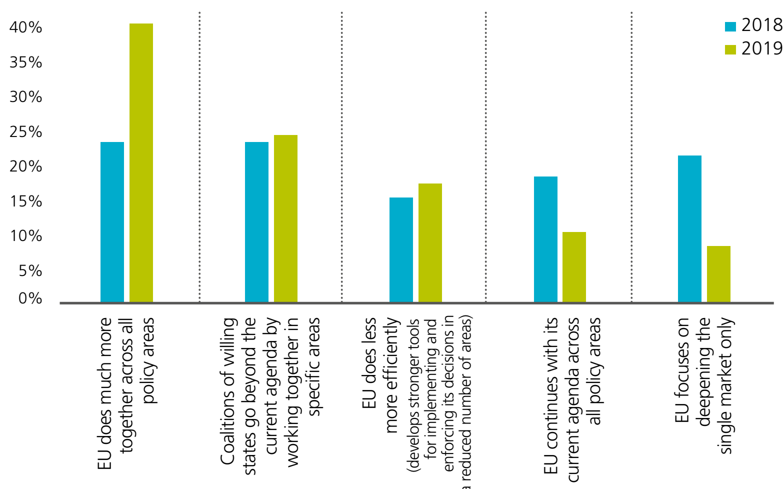
Which external factors are most likely to impact negatively on the performance of European businesses over the next 12 months? (Rate the following on a scale of 1-10, where 10 = most significant)



Protectionism is clearly a global trend spanning across Europe, not leaving developing jurisdictions untouched. For example, Russia increasingly reviews foreign investments from a national security, rather than economic, perspective. Still, as the largest economy in the CIS region, Russia enjoyed the top number of deals in 2018. It remains a destination of choice for the most active cross-border investors from China and the Middle East.

Vladimir Zenin,
Partner,
CMS Russia

Looking at the future direction of the EU, which of the following scenarios would most increase your appetite for M&A in Europe over the next three years? (Select one)



The impact of trade tensions between the US and China on European M&A should not be underestimated either. Respondents ranked trade wars second among the external factors most likely to negatively impact on the performance of European businesses over the coming 12 months, after the slowing of the European economy. Volatility in global capital markets came in third.

With the Trump administration recently putting plans to pursue an aggressive protectionist trade policy with other countries, including Mexico and India, on the table, trade spats show no sign of abating. This has already had an impact on global economic growth and prompted central banks to adopt a dovish stance on interest rates if needed to cushion economies, according to BlackRock. The asset manager predicts impacts on global supply chains and productivity as a result of protectionism. This could be one explanation for the drop in inbound activity into Europe. If it had not been for the outlying AbbVie/Allergan megadeal, quarterly inbound value would have fallen below EUR 50bn for the first time since the final quarter of 2013.

Dealmakers believe Europe is in a position to reignite deal activity if it addresses the abovementioned concerns. When asked about the future direction of the EU, 40% of respondents say that "the EU doing much more together across all policy areas" would increase appetite for M&A the most (up from 23% last year). Meanwhile, 8% favour the EU focusing on deepening the single market only, compared to 21% who said this last year.

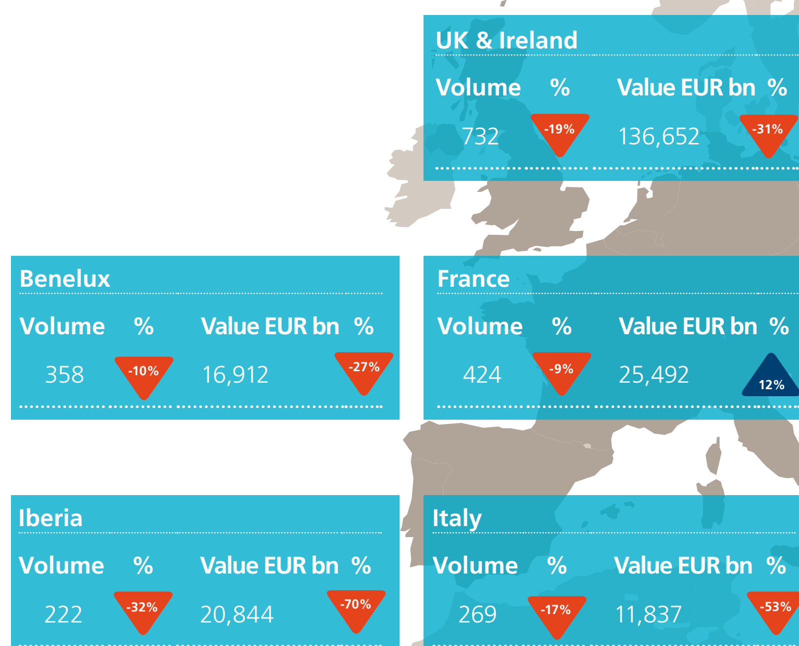
> The trade war between the US and China has already had an impact on cross-border M&A between these two countries. Chinese outbound investors are more cautious investing in the US, because of concerns that they may not be welcome. An impact on Chinese outbound investments into Europe can also be seen to have arisen, because Chinese investors are generally more cautious in the face of decreasing economic growth in most parts of the world.

Ulrike Gluck,
Partner,
CMS China

Regional round-up

Compared to H1 2018, M&A activity fell across Europe in the first half of 2019. Only France and Austria & Switzerland saw an increase in overall deal value (up 12% and 195%, respectively). The UK & Ireland region continues to lead the pack in terms of both volume (732 deals) and value (EUR 136.7bn), although this still represents a drop against the same period in 2018.

The UK & Ireland ranked seventh in terms of survey optimism, behind Germany, Benelux, Austria & Switzerland, CEE, the Nordics and France.



Nordics

Volume	%	Value EUR bn	%
584	-6%	33,215	-34%

Russia & Ukraine

Volume	%	Value EUR bn	%
81	-15%	11,230	-32%

Germany

Volume	%	Value EUR bn	%
429	-11%	29,722	-63%

CEE

Volume	%	Value EUR bn	%
174	-12%	9,755	-5%

Austria & Switzerland

Volume	%	Value EUR bn	%
138	-9%	58,935	195%

SEE

Volume	%	Value EUR bn	%
68	-4%	3,327	-61%

Chapter four

Financing conditions

Despite slowing economic growth and a concern that the credit cycle may be at its peak, financing conditions have remained relatively benign this year. Debt for deals has remained plentiful and available on attractive terms and pricing.

Top findings

72%
of respondents expect financing conditions to get harder in 2019 compared to 2018.

64%
say that weaker underlying economic conditions will be the greatest challenge to raising acquisition finance.

53%
believe cash reserves and/or private equity will be the most available source of funding.

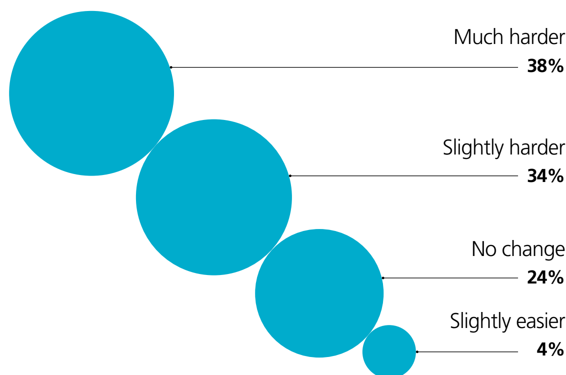
Interest rates remain low, keeping financing costs down, and both the Federal Reserve in the US and the European Central Bank (ECB) have signalled that they are willing to cut or keep rates low to cushion the economy against any slowdown caused by escalating global trade tensions. The ECB has kept options open for lower rates and has even restarted quantitative easing.

This has given acquisition finance markets a boost, with Debtwire data showing an uptick in leverage loan issuance in June after a slow start to the year. Some EUR 23.7bn of leverage loans were issued in June to bring Q2 issuance up to EUR 50bn for Q2 2019, a rise on the EUR 35bn posted in Q1 this year. The growth of the private debt market, meanwhile, further boosted the supply of finance and competition in the market, to the advantage of borrowers. According to Preqin, there is USD 269bn worth of dry powder sitting in private debt funds, ready for deployment in deals.

Yet, after a strong run, private debt funding in Europe slumped in Q2, according to Preqin, with only seven funds raising USD 3.6bn between them. This was down on the 12 funds that secured USD 14bn in Q1. In the European leverage loan market, meanwhile, H1 2019 issuance is down on levels seen in H1 2018, despite the strong month in June. M&A related issuance is 43% lower year-on-year and leveraged issuance is 26% down over the period.

Against this mixed backdrop, those polled are feeling cautious regarding lending conditions. The majority expect financing conditions to tighten, with 72% of respondents to this year's survey saying market conditions will get harder in 2019 compared to 2018, while 24% expect no change. This contrasts sharply with last year's survey, in which 47% predicted financing conditions would get easier in the coming year.

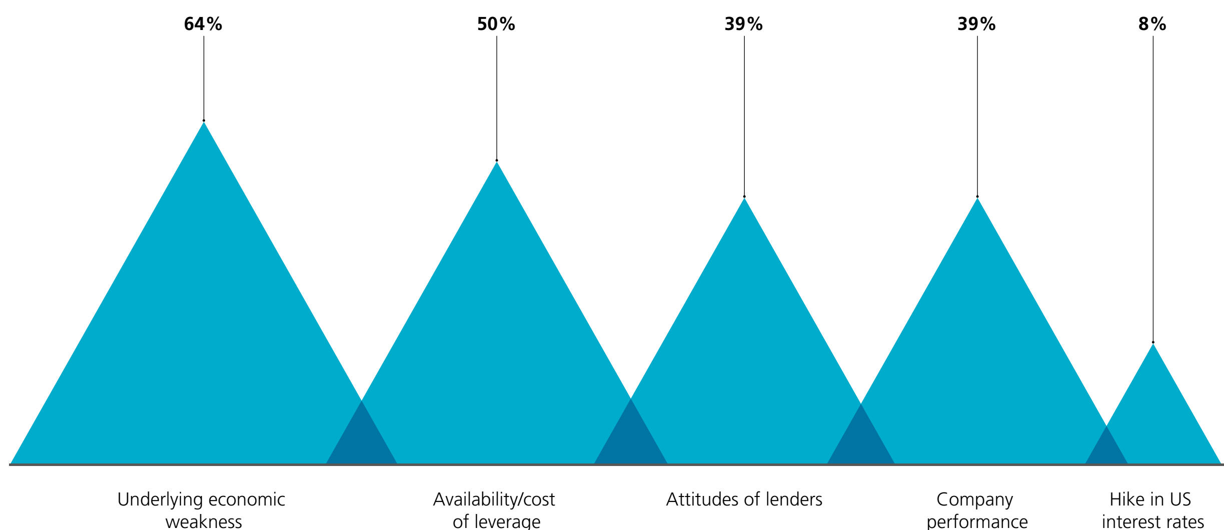
How do you expect financing market conditions to be in 2019 compared to 2018?



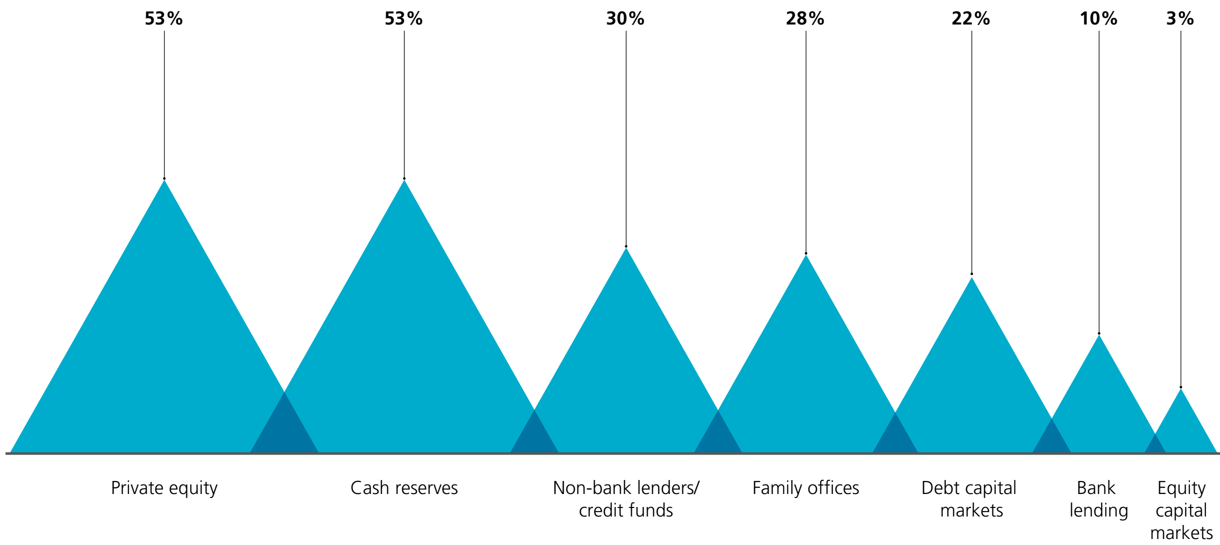
The key factor remains the underlying quality of the asset. Conditions from lenders may tighten but this is coming from a fairly borrower-friendly threshold over the last 12 months, so it should not cause significant issues.

Paul Stallebrass, Partner, CMS Czech Republic

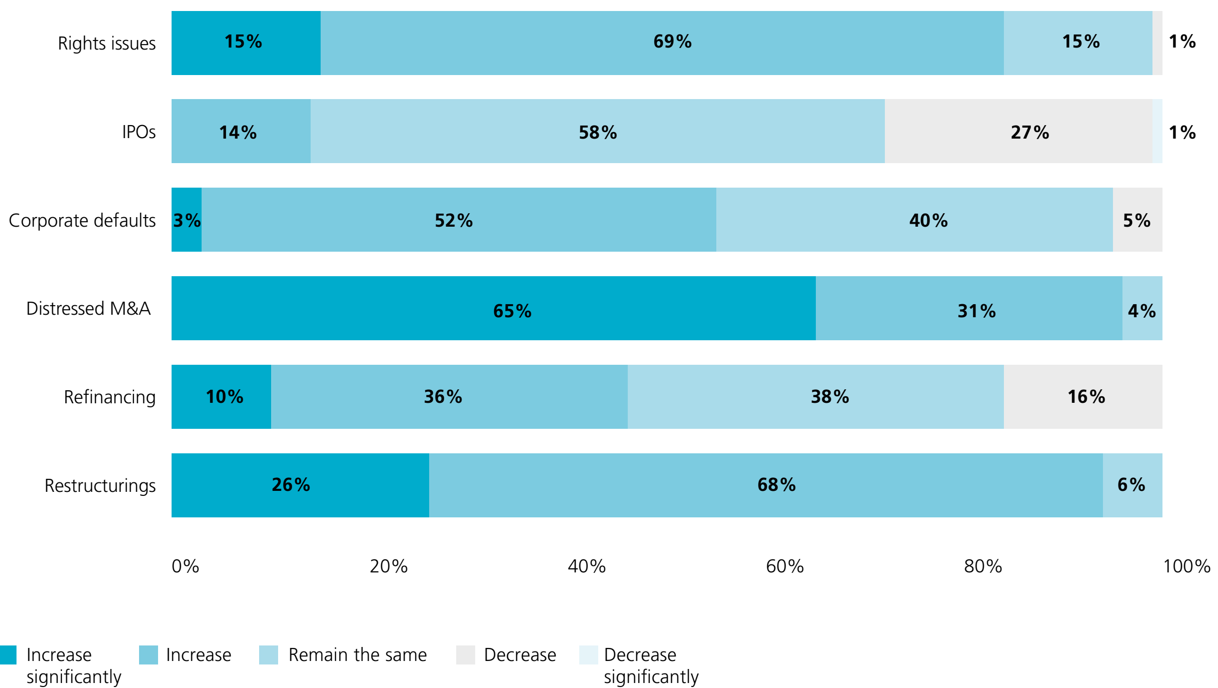
What do you view as the greatest challenge to financing acquisitions over the next 12 months? (Select top two)



What sources of financing do you think will be most available over the next 12 months? (Select top two)



For each of the following transaction types, rate your expectations for activity over the next 12 months.



Respondents indicated that weaker underlying economic conditions (64%) and the availability/cost of leverage (50%) would be the biggest challenges to financing M&A over the coming months. As a result, more than half of respondents (53%) cite cash reserves as one of the top two primary sources of financing over the next five months. The same number of respondents chose private equity as the primary source of funding for M&A.

Indeed, deal figures suggest companies will turn to private equity in increasing numbers to finance deals when they do not have sufficient cash reserves on their own balance sheets. Global private equity deal activity has increased over each of the three last quarters, and in a low-interest rate environment PE funds are continuing to enjoy strong support from investors when fundraising.

With cash at its disposal, private equity is well-positioned to account for an increasingly large share of deals over the coming months. This trend has already been observed in countries like Italy, where pressure on the balance sheets of domestic banks has obliged corporates to look elsewhere for capital, to the benefit of private equity investors. Against a weaker economic backdrop, distressed M&A and restructurings are also expected to feature heavily over the next 12 months.

During the next 12 months, the bar for receiving finance will move higher. Funders, whether they are private equity firms, debt funds or banks, will become more selective of the companies they will finance. According to Debtwire, leverage loan lenders have been eager to finance high quality credits during H1 2019, but more comfortable about pushing back on pricing they see as too aggressive for the quality of the underlying asset. First-lien loans have priced at between 420bps and 430bps on average over the last six months, noticeably higher than the 352bps and 401bps range observed in H1 2018.

Somewhat contrary to what the markets expected only a few months ago, interest rates have again dropped to unexpected lows in the summer of 2019, which has made some properly-timed transactions even more attractive.

Günther Hanslik, Partner, CMS Austria

Conclusion

European M&A has performed strongly over recent years, but a drop in activity in 2019 and a volatile geopolitical and macroeconomic backdrop has prompted buyers and sellers to take a more cautious stance when considering transactions.

This year's survey shows that respondents are less positive about the prospects for M&A over the next 12 months, with the number of participants not expecting to do a deal significantly up on a year ago. Even those who are considering deals have adopted a more defensive mindset, with their focus on divestments and smaller bolt-on acquisitions rather than the blockbuster transformative deals that have characterised the market in recent years. Respondents are streamlining their organisations – focusing on core business and local markets – and only buying when the target holds strategic tech or IP, or presents an opportunity to invest at good value.

As protectionism and weaker economic growth take their toll on confidence, dealmakers are setting the bar high and only moving for the highest quality assets that fulfil key strategic objectives.

Against this backdrop, here are three points for potential dealmakers to consider:

There is value in complexity
Although M&A volume and value has dropped in 2019, valuations remain high and competition for assets is intense. For mainstream deals, it can be easy to be sucked into competitive sales processes and pay full prices at the top of the cycle. Complex transactions do take more time and thought, but offer an alternative to aggressive auction processes and an opportunity to buy assets at more promising entry valuations. Public-to-private and carve-out deal activity is already on the up, rewarding buyers who are willing to move off the beaten track.

Focus on the core
Research from Bain & Company shows that businesses with active divestment programmes outperform companies that do not regularly monitor divestment opportunities. As the credit cycle nears a peak, trade tariffs start to hit economic growth and political uncertainty sparks volatility, this is an opportune time for companies to form a clear view of their most profitable divisions and core markets. With eager buyers in the market, particularly cash-rich private equity houses, this is a good opportunity to offload non-core or underperforming businesses and streamline operations.

Run hard at assets you want
Although headwinds are building, this is still a good time to do deals, with low interest rates and plentiful financing. As long as the quality threshold is set high and a target fits in with an acquirer's long-term strategic plan, dealmakers should feel confident about running hard at assets they want.

Our latest CMS Corporate/M&A headline deals

Advance Publications
Advised US entertainment group Advance Publications on the acquisition of musical productions group Stage Entertainment from CVC Capital Partners and Stage founder Joop van den Ende.

Advent International
Advised Advent International on the acquisition of the European generics business of Zentiva from global biopharmaceutical company Sanofi.

Blackstone
Advised Blackstone on the acquisition of a stake in US investment fund FRS Capital.

Bruker
Advised Bruker on its acquisition of PMOD Technologies LLC, a highly respected provider of research-use-only software for preclinical and molecular imaging, with a focus on molecular quantification and pharmacokinetic modelling.

Colgate-Palmolive
Advised Colgate-Palmolive on its EUR 1.5bn acquisition of Laboratoires Filorga Cosmétiques.

Ei Group
Advising FTSE-listed client Ei Group on its GBP 1.3bn recommended all cash offer from Stonegate Pub Company Ltd. to effect a combination of two of the UK's industry-leading pub companies.

EnBW
Acquisition of Plusnet from IT service provider QSC, for strengthening its position in the Germany-wide telecoms market and developing its role as an established infrastructure provider.

Gamesys
Advising Gamesys and its majority shareholders on the entry into an agreement to sell Gamesys, excluding its sports betting and games content business, to JPJ Group plc.

Kiwi.com
Advised the shareholders of Kiwi.com on the sale of a majority stake in the company to General Atlantic.

Krones AG
Advised Krones AG, a German packaging and bottling machine manufacturer, on the acquisition of Shanghai Xiantong Equipment Installation, a Chinese manufacturer of power equipment.

Pioneer & Onkyo Europe
Sale of the business activities of hi-fi and home cinema brands Pioneer, Onkyo, Integra, TEAC and Esoteric to Aqipa.

SMA Solar Technology AG
Advised SMA Solar Technology AG, a leading global specialist in photovoltaic system technology, on the sale of 100% of its shares in its two China subsidiaries.

Sun Dreams
Advised Sun Dreams on the merger with Marina del Sol, creating the largest gaming and hospitality group in the region with an enterprise value above USD 1.2bn.

Western Siberian Commercial Bank (WSCB)
Advised shareholders of Western Siberian Commercial Bank (WSCB) on the sale of their shares, representing a total of 71.8% of the bank's share capital to VTB Bank.

XING SE
Advised XING on its acquisition of Honeypot, one of the largest tech-focused job platforms in the German-speaking countries and the Netherlands.

About CMS

CMS is a full service top global law firm with more than 4,800 lawyers in 72 offices providing clients with specialist business focused advice. With more than 1,000 corporate lawyers, CMS advises on all aspects of M&A, corporate finance and private equity transactions and is regularly ranked amongst the top M&A advisers in Europe and beyond. CMS features among the league table leaders both for Europe as a whole and for many of the individual European countries. We are service-driven and relationship focused, priding ourselves on our responsiveness and "can do" attitude.

We strive to develop long-term relationships with our clients, giving prompt, straightforward and commercial legal advice. We draw on renowned industry expertise in a number of sectors including Financial Institutions and Services, Energy and Utilities, Technology, Media and Communications (TMC), Life Sciences, Consumer Products, Construction and Development, Hotels, Leisure and Sport, Infrastructure and Project Finance.

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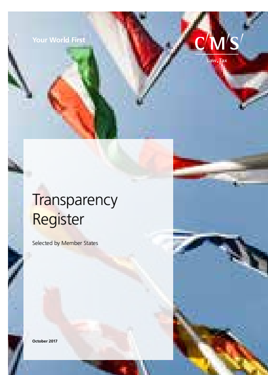
Sharing knowledge

CMS European M&A Study 2019
This year's Study reflects data from 458 deals in 2018 on which CMS advised. This is the largest number of deals ever covered by the Study, which is reflective of CMS's gain in market share and corresponding rise up the M&A league tables.

In analysing the 2018 market, we report on current market standards on risk allocation in M&A deals, comparing 2018 against 2017 and the previous eight-year average for 2010–2017.

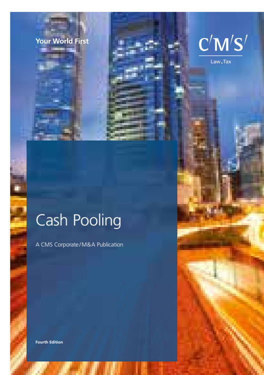
The study is still the most comprehensive of its kind and is based on a proprietary database comprising more than 4,000 deals over a 12-year period.

Emerging Europe M&A Report 2018 / 19
Our latest report analyses trends in 15 emerging CEE/SEE countries based on EMIS M&A data for 2012–2018, and through a series of articles based on interviews with CMS partners takes a deeper dive into the hot topics and issues impacting M&A activity in the region.



Transparency Register – Overview of Foreign Reporting Requirements
Among other measures designed to combat money laundering and terrorist financing, the 4th Money Laundering Directive requires the EU member states to set up registers of the ultimate beneficial owners of legal entities. It was left up to the individual member states how to implement the directive, and in doing so, member states have taken different approaches.

In order to give an initial overview, CMS has summarised the regulations in selected member states. Of particular relevance to shareholders are those countries in which direct and indirect shareholders have an active obligation to make any necessary notification.



Cash Pooling
Cash pooling enables corporate groups to minimise expenditure incurred in connection with banking facilities through economies of scale. Cash pooling agreements must be carefully structured in order to minimise the risks of civil or criminal liability of the participating group companies and their officers, also considering tax issues. In this context, this brochure provides an overview of the risks of civil/criminal liability associated with cash pooling in 27 jurisdictions in which CMS is represented and discusses the various means by which such liability may be avoided.

To receive copies of the publications shown, please contact our CMS Corporate / M&A team at: corporate@cmslegal.com

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Mergermarket is an unparalleled, independent mergers & acquisitions (M&A) proprietary intelligence tool. Unlike any other service of its kind, Mergermarket provides a complete overview of the M&A market by offering both a forward-looking intelligence database and a historical deals database, achieving real revenues for Mergermarket clients.

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#1 Europe, UK, Germany, DACH, CEE, Poland

#7 Global

Sources: Bloomberg, Mergermarket and Thomson Reuters, by deal count

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