Turning the corner? CMS European M&A Outlook 2024 | Dealmaking expectations mixed amidst economic uncertainty, but private equity notably bullish

- **43% of dealmakers predict a decline in European M&A activity over the next 12 months, whilst 35% foresee an increase, with private equity dealmakers displaying heightened optimism. This time last year, 73% of dealmakers forecasted an increase in activity.**
- **Deal value in H1 2023 was €316 billion compared to €596billion in H1 2022, representing a 47% drop.**
- **Deal volume in H1 2023 was 7,608 compared to 8,635 deals in H1 2022, representing a 12% drop.**
- **Inflationary pressures (40%) and underlying economic weakness (38%) are identified as the primary obstacles to financing acquisitions in the coming year.**
- **85% expect ESG regulations to intensify scrutiny of M&A activities over the next three years.**
- **Undervalued targets (36%) and turnaround opportunities (35%) are expected to be the primary catalysts driving M&A over the coming year.**
- **TMT (37%) and energy (36%) sectors are anticipated to experience the biggest surge in dealmaking across Europe.**
- **Almost half of dealmakers (47%) expect the UK and Ireland to experience the highest growth in M&A activity over the next 12 months, followed by Iberia and the Benelux region (29%).**
- **CEE identified as the third leading investment destination in Europe after the UK & Ireland and Benelux.**

43% of dealmakers expect the level of European M&A activity to drop in the next 12 months, though a sizable minority (35%) are forecasting an increase, with those working in private equity notably more optimistic, according to global law firm CMS' **2024 European M&A Outlook** published today in association with financial data firm Mergermarket. This stands in stark contrast to last year's predictions when 73% forecasted an increase in M&A activity.

The landscape of European M&A activity in 2023 has been marked by a confluence of factors, including higher inflation, rising interest rates and an uncertain economic outlook. These challenges resulted in a 47% decrease in deal value in the first half of 2023 compared to the previous year (falling from €596billion to €316 billion), although transaction volumes experienced only moderate declines resulting in a 12% drop from 2022 (falling from 8,635 to 7,608 deals). Overall, the M&A environment for this year is characterised by a prevalence of smaller transactions – a departure from the trend observed in 2021 and 2022.

M&A EXPECTATIONS HAVE MODERATED AND DIVERGED

Against an increasingly challenging macroeconomic background, just 35% of dealmakers expect the level of

European M&A activity over the next year to rise, down from 73% this time last year, whilst 43% are anticipating a fall. A divergence has emerged, with private equity dealmakers notably more optimistic than their corporate counterparts. Just 24% of private equity respondents expect European M&A to fall, compared to 49% of corporates surveyed.

DECREASED RISK APPETITE

The report states that a key contributor to this shift is the decreased risk appetite amongst acquirers, which has been further exacerbated by heightened financing costs and cautious lending practices. The aftermath of bank collapses both in the United States and Europe in early 2023 has introduced an additional layer of apprehension amongst market players. In response to persistent inflation, interest rates have undergone multiple increases across Europe, the US and the UK. Most notably, 48% of dealmakers say that inflation and interest rate pressures will be the biggest obstacles to dealmaking over the next 12 months. However, a downward trend in inflation since the beginning of the year has alleviated concerns about a potential regional recession.

Horea Popescu, Head of the CMS CEE Corporate M&A practice and Managing Partner of CMS Romania: *"After a wave of transactional activity following the COVID-pandemic and the outbreak of the conflict in Ukraine, which caused M&A transactions to surge throughout Europe, and especially in the Central and Eastern European (CEE) region, increased interest rates and the overall unfavourable economic situation at continental and global levels was finally felt in the volume and especially the value of the M&A transactions registered in the first part of this year. However, investors continue to consider the region in the top 3 attractive European destinations for investment, after the UK & Ireland and Benelux. In the absence of future disruptions, and a normalisation in energy prices and supply-chain flow, we believe that we can talk again of a return of optimism in M&A in the medium and long term."*

Rodica Manea, CMS Romania Corporate M&A Partner*: "Despite a 25% decrease in M&A transactions in the CEE region (double than the European average contraction), their value remained above the European average, which recorded a decrease of 47% (vs. -40% for CEE, which reached EUR 9.5 billion in the first six months of the year). Digitalisation, the implementation of AI, the new regulations on ESG, and climate change initiatives will create new M&A investment opportunities in the near future, while private equity will remain among the main sources of financing for transactions. CMS Romania will continue to be a strong legal hub for the region, with local and trans-jurisdictional activity remaining important".*

Nevertheless, the European Commission's recent upgrade of the European Union's GDP projections, forecasting 1% growth for 2023 and 1.7% for 2024, provides a glimmer of optimism in an otherwise uncertain economic climate. Whilst projections for M&A activity over the next year remain mixed, with private equity firms showing more optimism than corporate counterparts, a significant proportion of industry professionals anticipate active participation in the M&A market. This suggests a healthy volume of activity in the near term. Notably, as valuations stabilise throughout 2023, the stage appears set for increased agreement between buyers and sellers in the medium term.

ESG SCRUTINY WILL CREATE NEW DEAL OPPORTUNITIES

64% of dealmakers believe that ESG and climate change-related regulation in Europe will create dealmaking opportunities, with 93% stating that ESG considerations constitute a significant element of their organisation's due diligence. Indeed, 85% expect greater ESG scrutiny in M&A deals over the next three years.

DEAL DRIVERS

Similar to findings from last year's survey, dealmakers continue to identify undervalued targets (36%) and turnaround opportunities (35%) as the primary catalysts driving M&A activity in Europe for the upcoming year. This trend is hardly unexpected, considering the decline in valuations of public companies over the past 18 months.

THRIVING SECTORS

More than a third of dealmakers predict the TMT sector (37%) and the energy sector (36%) will experience the most significant surge in dealmaking across Europe. In contrast, 42% believe that the pharmaceuticals, medical and biotech (PMB) sectors will exhibit the slowest growth. Whilst 68% of dealmakers favoured the TMT sector as one of their top two choices in the previous year, the recent decline might partially stem from the notable revaluation of technology stocks over the past 12 to 18 months. However, the enduring prominence of the TMT sector underscores investors' unwavering confidence in future expansion and companies' need to acquire technology as various industries continue to emphasise digital transformation. An illustrative instance of this trend emerged in the first half of 2023, with Deutsche Börse's €4 billion acquisition of Danish data provider SimCorp – a venture that highlights the exchange group's pursuit of reinforcing its data analytics prowess for the newly established investment management solutions arm.

REGIONAL DIFFERENCES

Expectations for M&A activity across various European regions have undergone significant shifts compared to the previous year. Looking ahead to the next 12 months, dealmakers project a noteworthy surge in dealmaking within the UK and Ireland, which now holds the foremost position on the list by a considerable margin, with nearly half (47%) of respondents placing it in their top two preferences. In contrast, the UK and Ireland occupied the sixth spot last year, amassing merely 19% of the top-two votes. Iberia and Benelux jointly claim the second spot, with 29% of decision-makers ranking them amongst the top two regions for projected M&A growth in the upcoming year. Conversely, the regions of Central and Eastern Europe (CEE) (38%) and Italy (30%) represent the areas where the largest subsets of dealmakers expect the slowest growth in M&A activity. CEE seems to divide opinion, as the region is also identified as the third leading investment destination in Europe, after the UK & Ireland and Benelux.

As the European M&A landscape continues to evolve, industry stakeholders remain vigilant in navigating these shifting dynamics, aiming to seize opportunities whilst effectively managing challenges. The path forward necessitates a delicate balance between economic conditions, regulatory developments and evolving market sentiments.