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Who dares wins: European M&A Outlook 2020

A study of European M&A activity

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Presenting to you today



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About the research

In the second and third quarters of 2020, 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.

Key findings



M&A appetite weakens.

74% of respondents say the pandemic has caused their dealmaking appetite to lessen. 65% of respondents are not considering M&A, against 45% in last year's survey.



Financing conditions to tighten.

79% of respondents expect financing conditions to become more trying in the coming year. Leveraged loan issuance is down year-on-year and, although corporates have been able to tap high-yield bond markets, lenders are focused on nursing current portfolios through COVID-19 disruption rather than funding new transactions.



Distressed M&A, restructuring and corporate defaults to rise.

All respondents anticipate an increase in distressed M&A, 90% say there will be an increase in restructuring activity, and 82% expect an increase in corporate defaults.



“Beneath a veneer of negativity, deal activity in Europe has a strong foundation going into the closing months of 2020.”

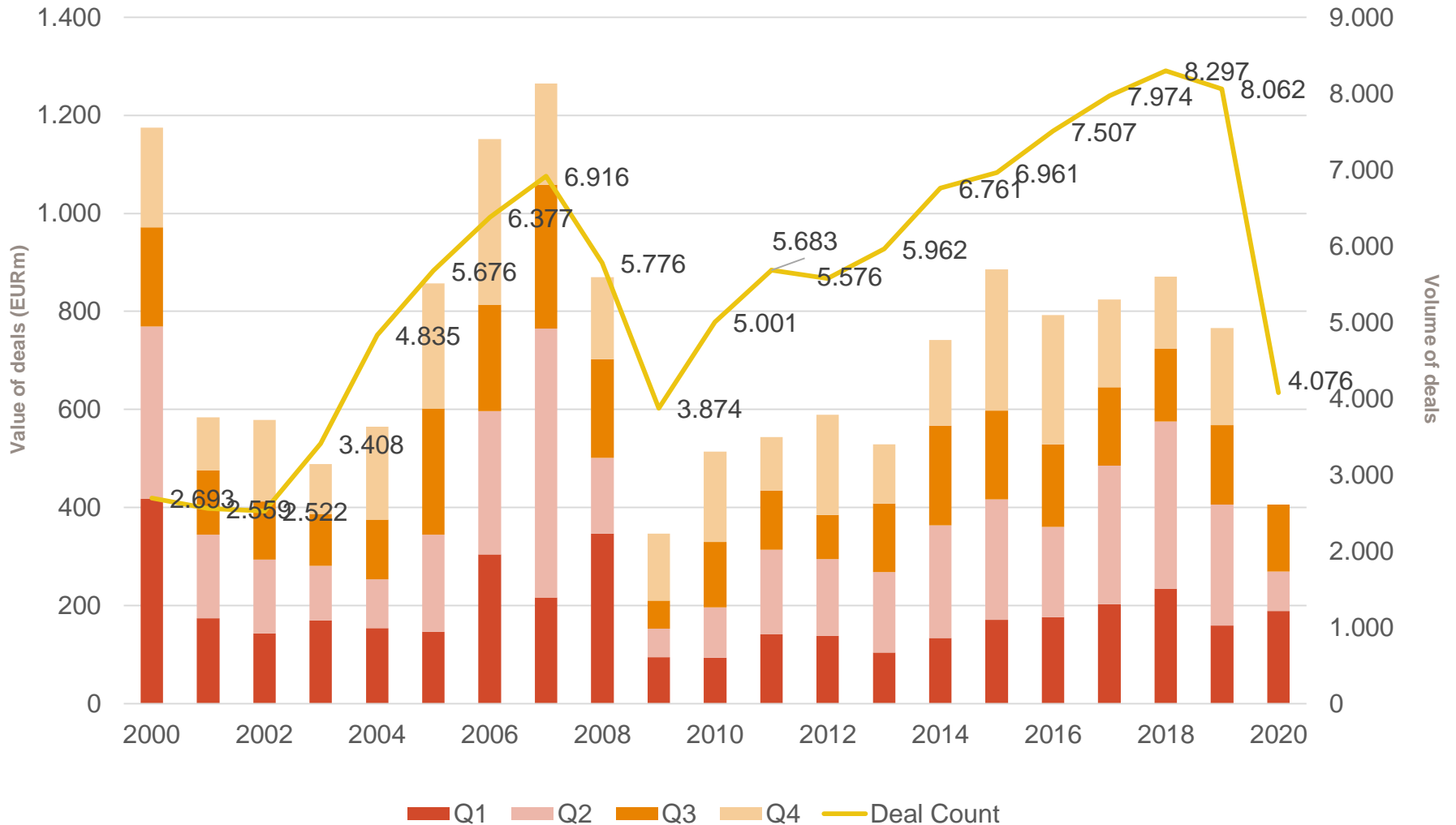
Scott Moeller, Professor and Director, M&A Research Centre of The Business School, City, University of London

Chapter one: The M&A environment and expectations for the year ahead

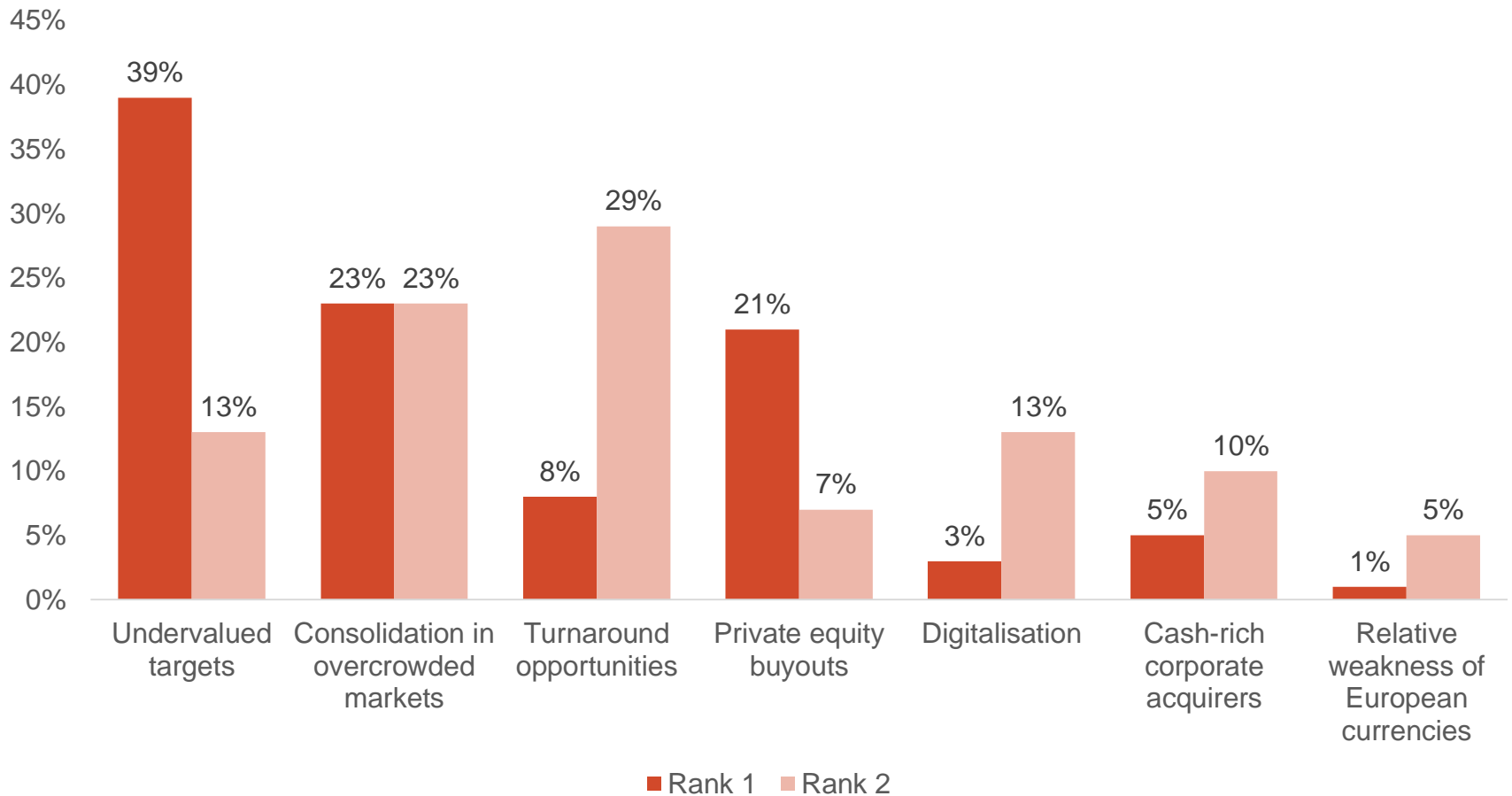
The COVID-19 outbreak has disrupted European stock markets and forced economies across the continent into retreat

European M&A Market Development 2000 – 28 Sep. 2020

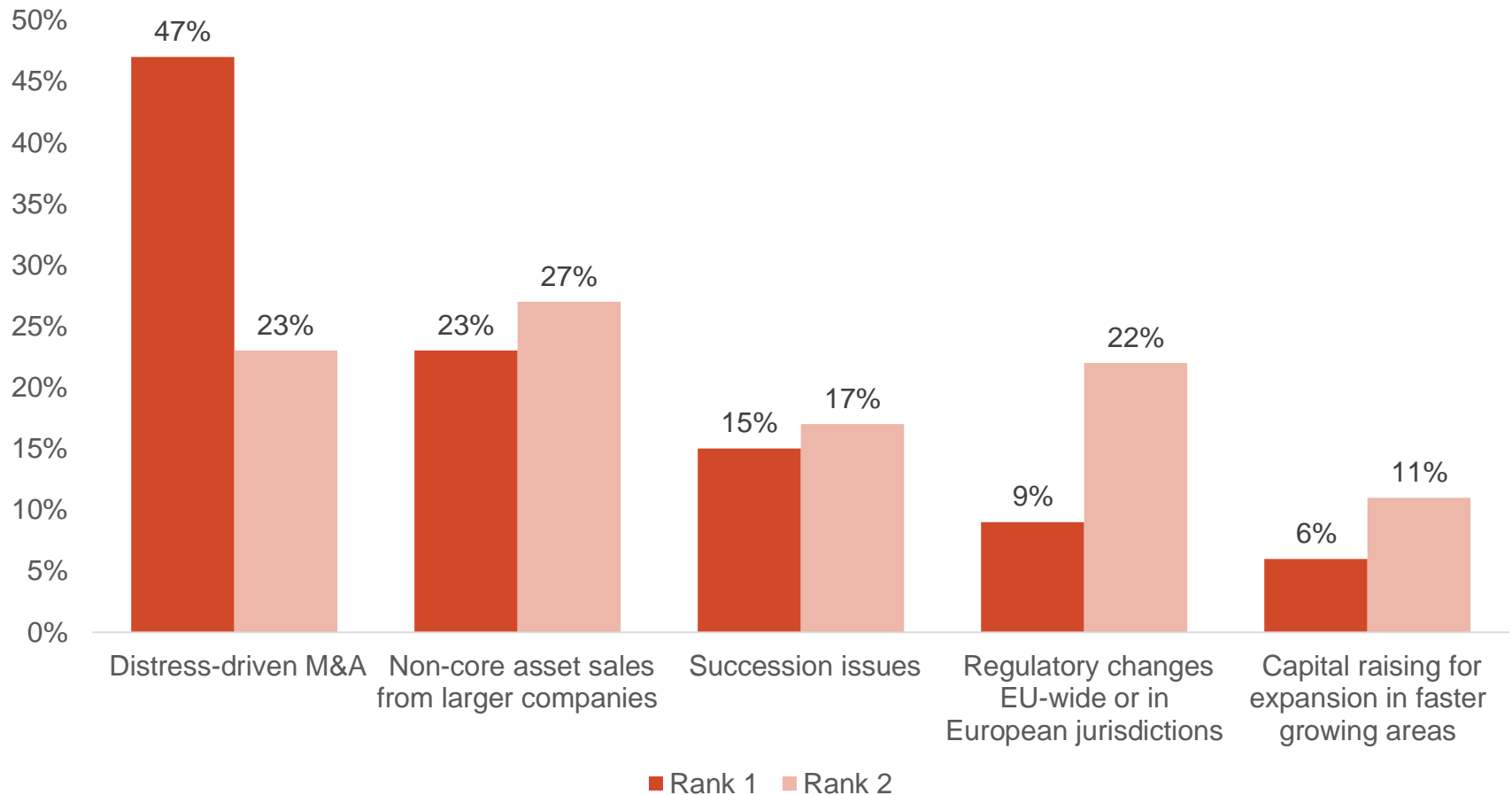
(source: Mergermarket)



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



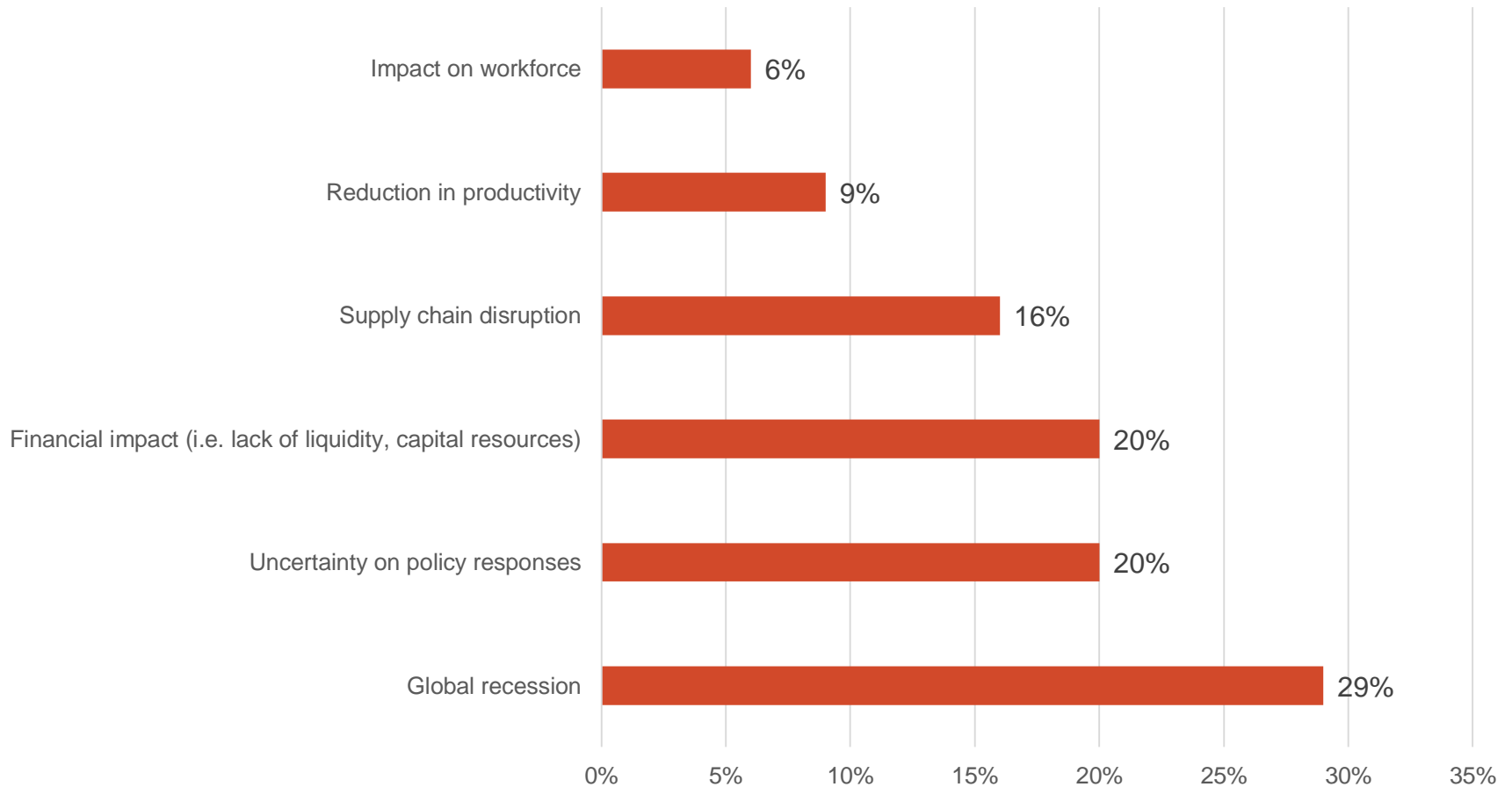
What do you believe will be the greatest sell-side drivers of M&A activity in Europe over the next 12 months? (Please select up to two)



The impact of COVID-19

Pandemic-induced lockdowns and slumping stock markets put the clamps on new deal activity in late Q1 and early Q2

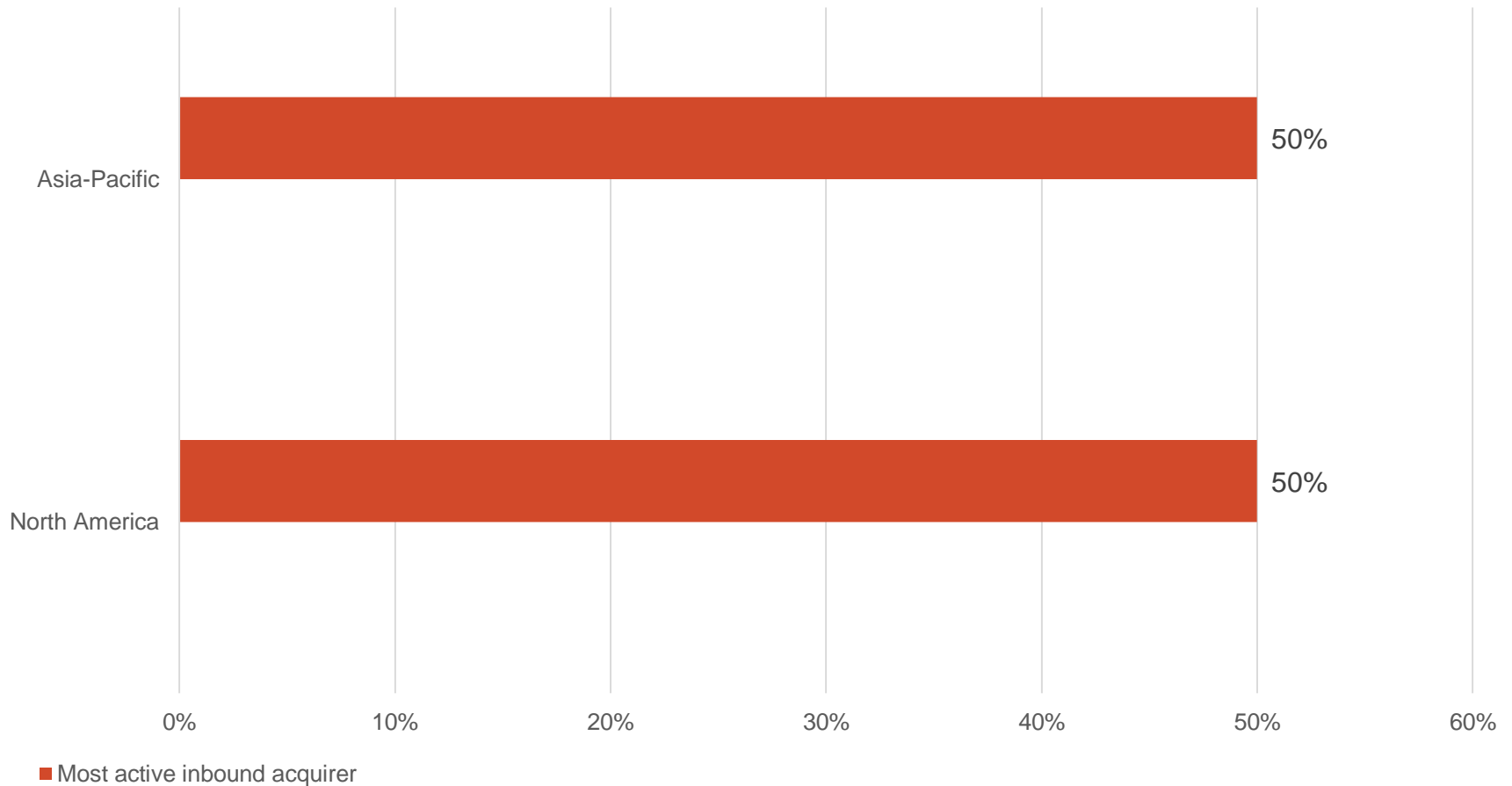
What is your company's main concern with regards to COVID-19? (Please select only one)



European outbound outlook

Lockdown restrictions and border closures have made outbound deal activity especially difficult for European dealmakers to pursue

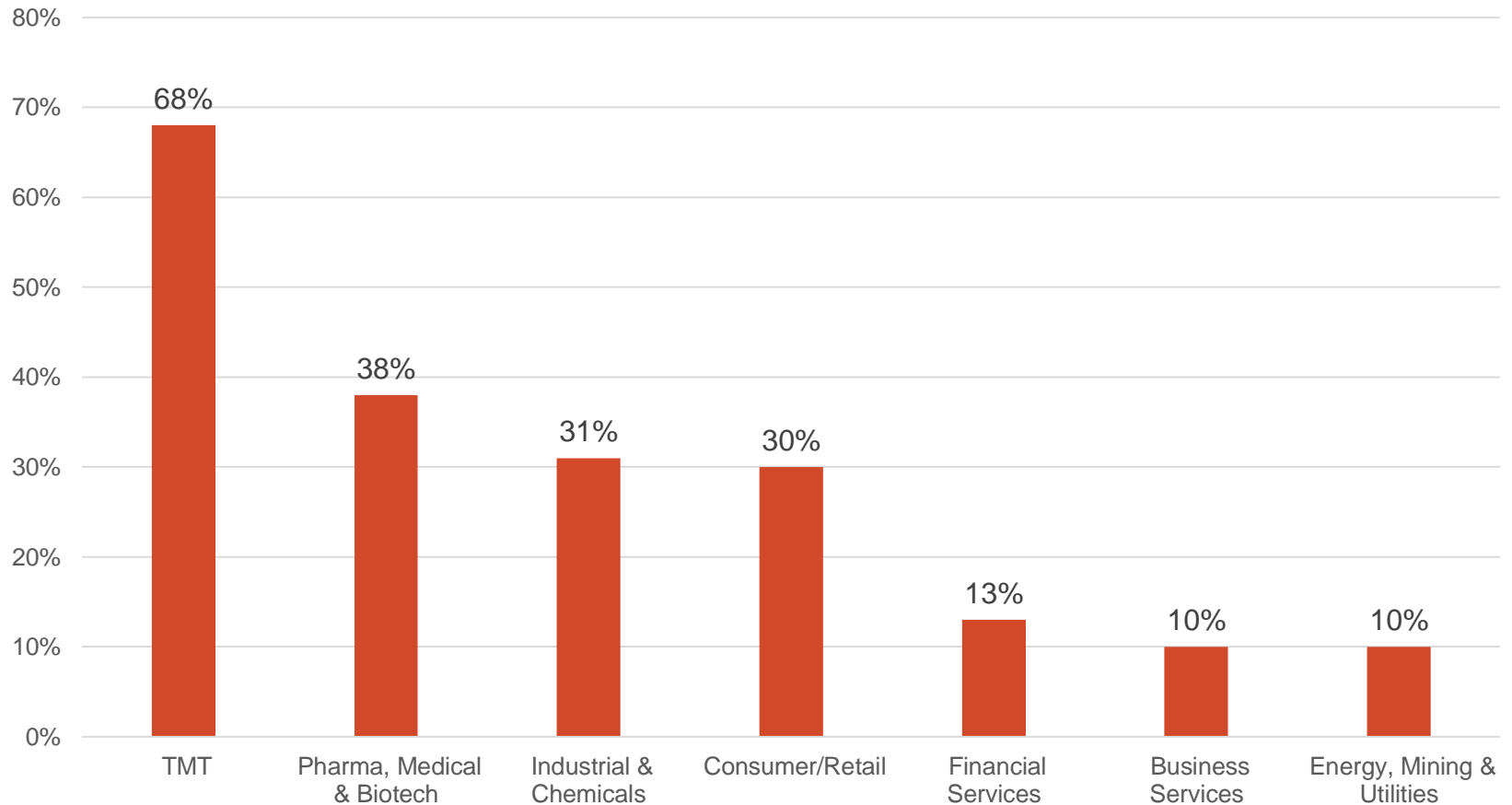
Which region do you expect to be the most active inbound acquirer into Europe? (Please select one)



Sector watch

Changing consumer behaviour points investors towards bullish TMT and PMB sectors: Remote working accelerates uptake of digital services, while health crisis turns all eyes to pharmaceuticals space

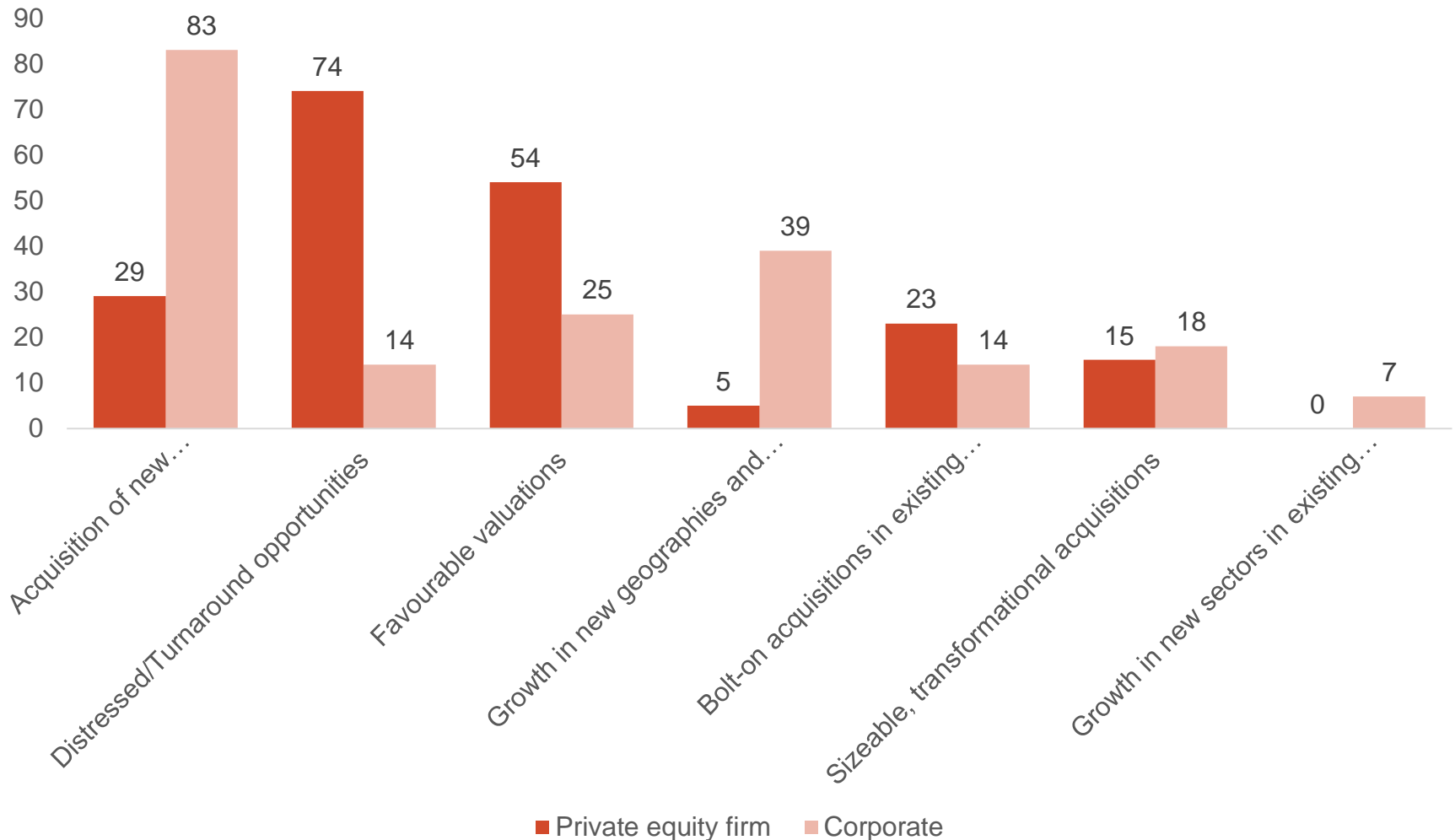
Which sector(s) do you believe will witness the most M&A activity in Europe over the next 12 months? (Please select up to two)



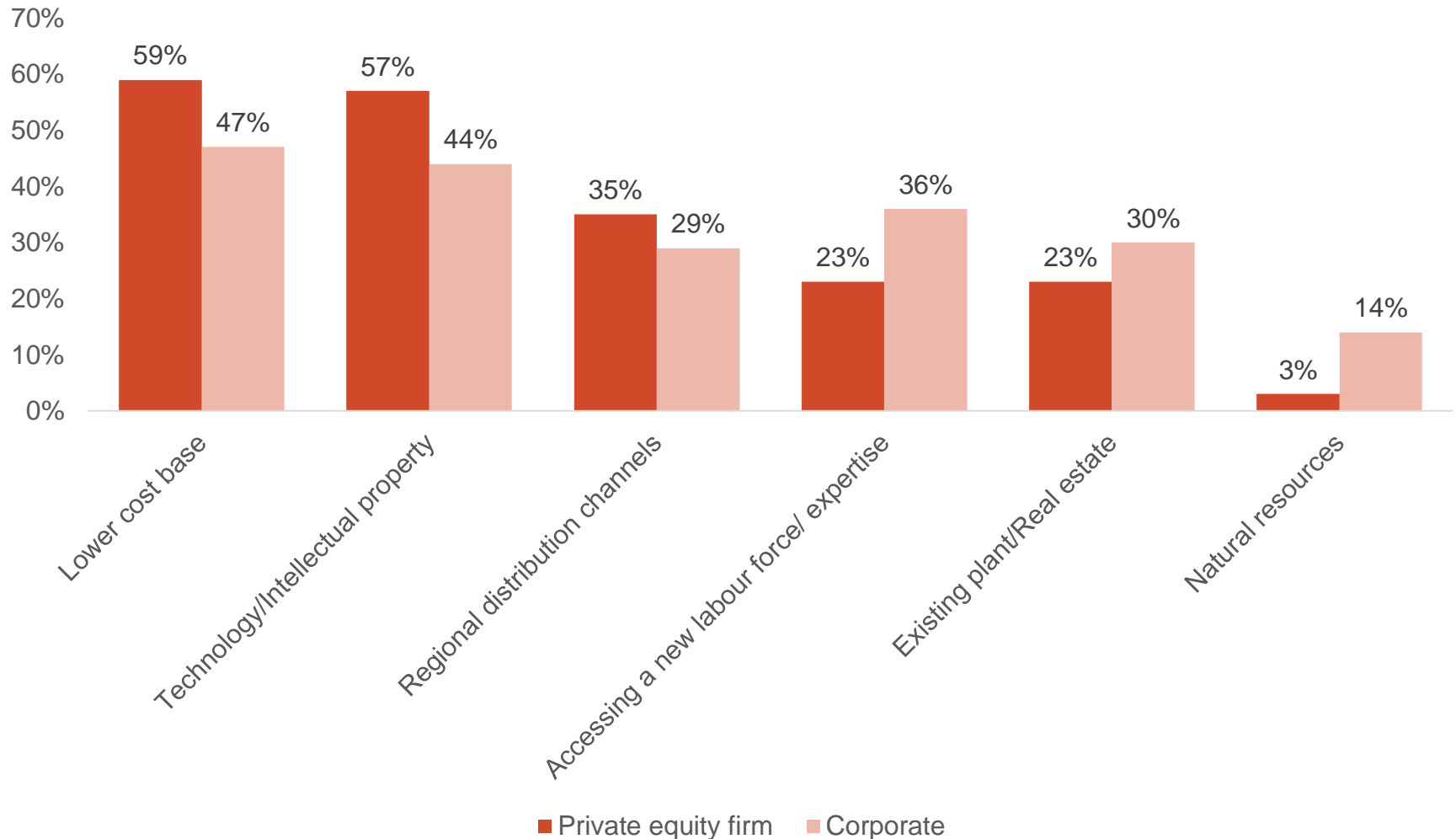
Chapter two: Deal dynamics

The fall in European deal activity this year has meant that, in instances where deals have gone ahead, buyers and sellers have only transacted when there are clear strategic rationales or vendors have to sell to raise capital.

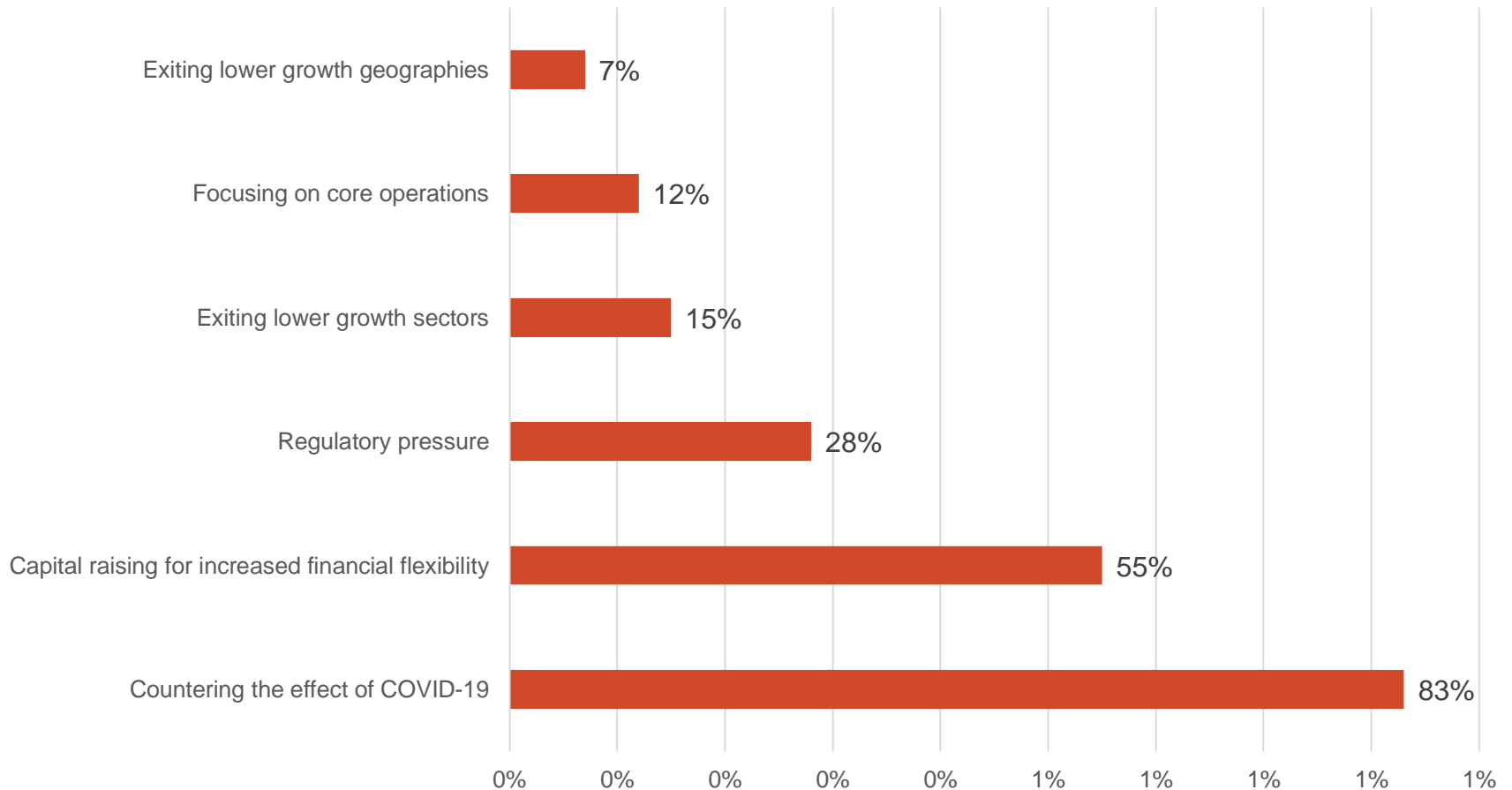
If you are considering acquisitions in Europe, what is the motivation for this? (Please select the two most important)



Considering the COVID-19 crisis, what will be the most important objective for your next European M&A target? (Please select the top two)



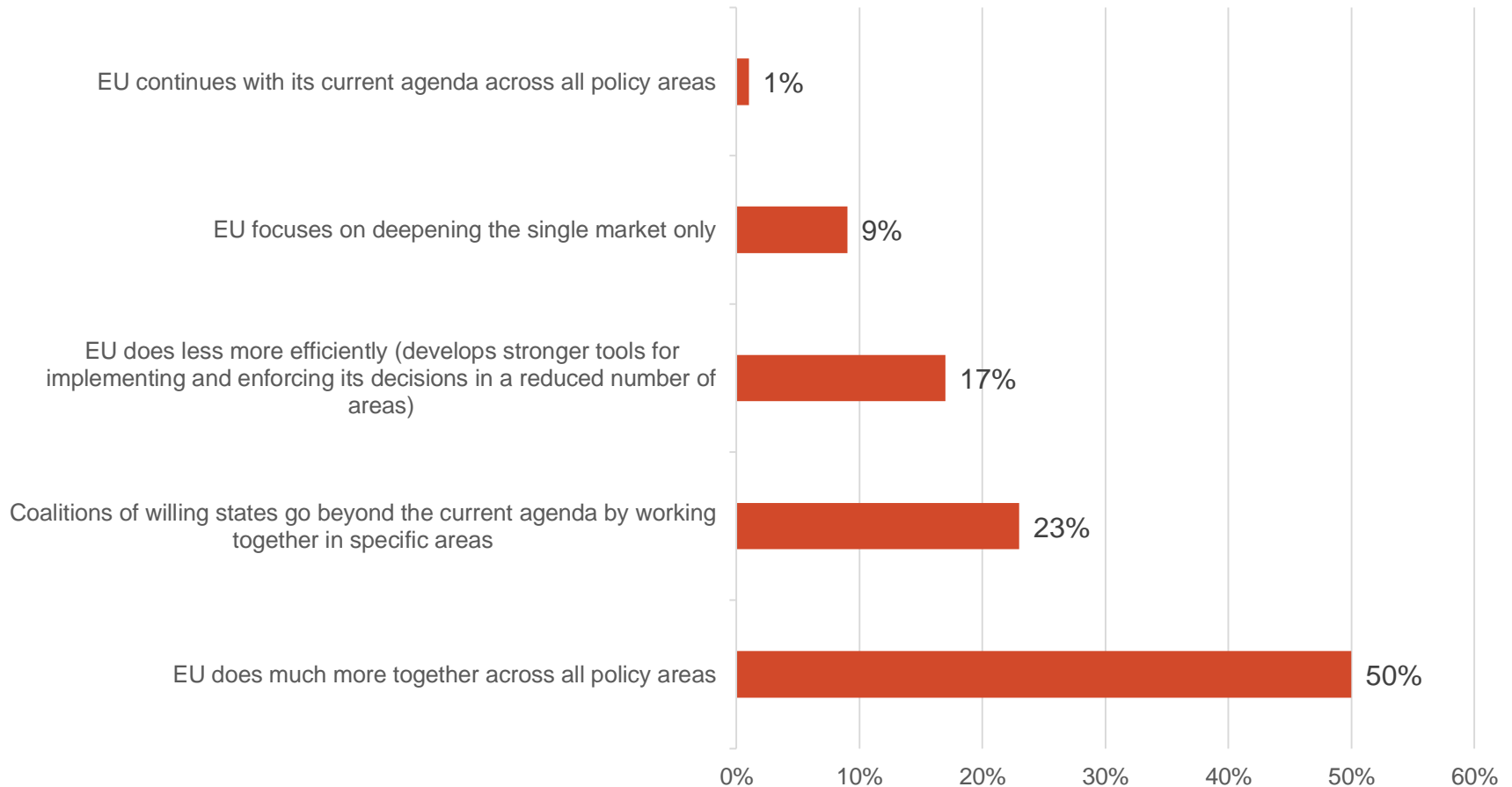
If you are considering divestments, what is the motivation for this? (Please select the top two)



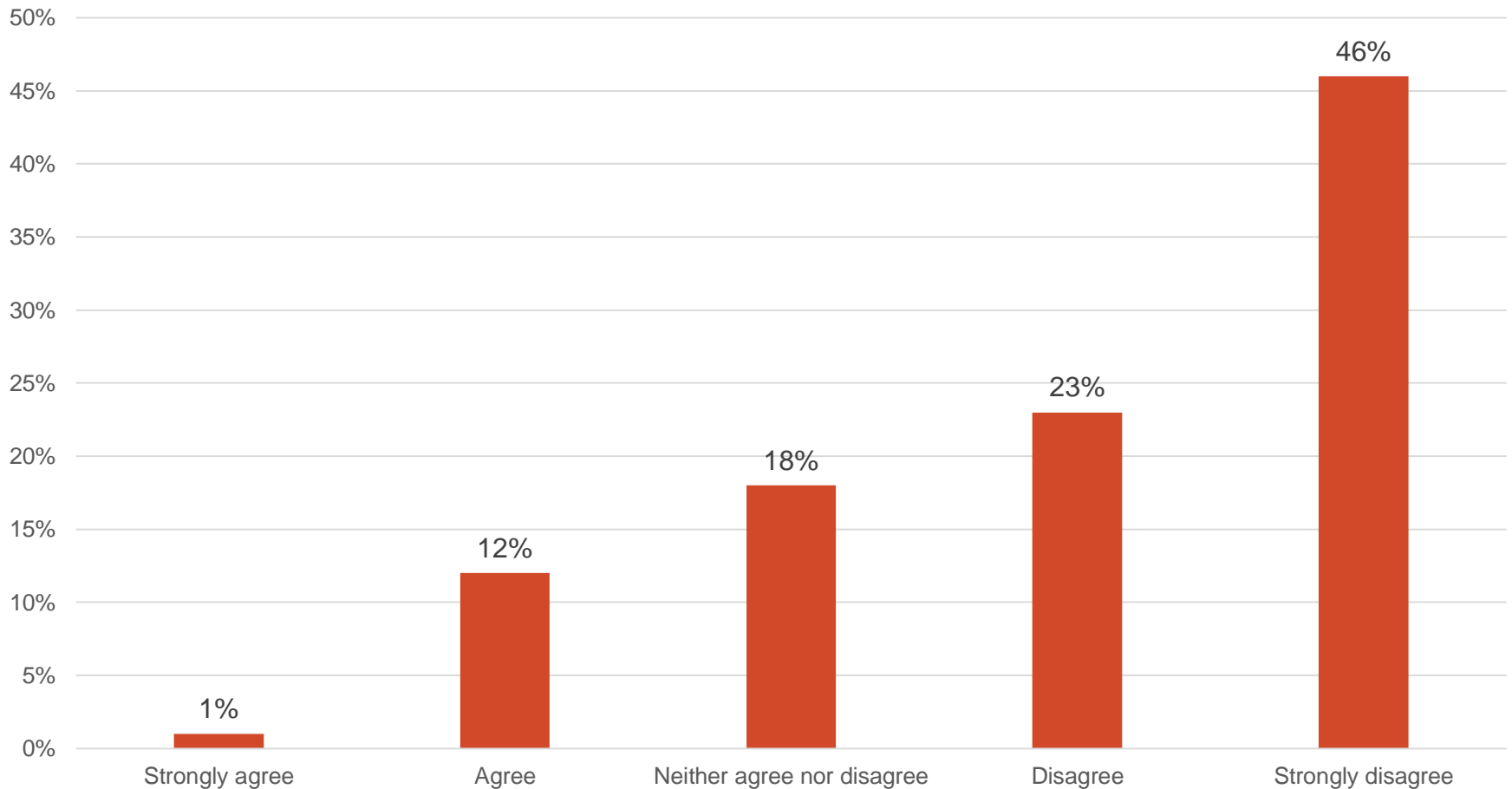
Chapter three: Regional environment and the future of European M&A

Across Europe, governments and central banks have taken extraordinary steps to support companies through the steepest and most sudden economic decline since the Great Depression of the 1930s

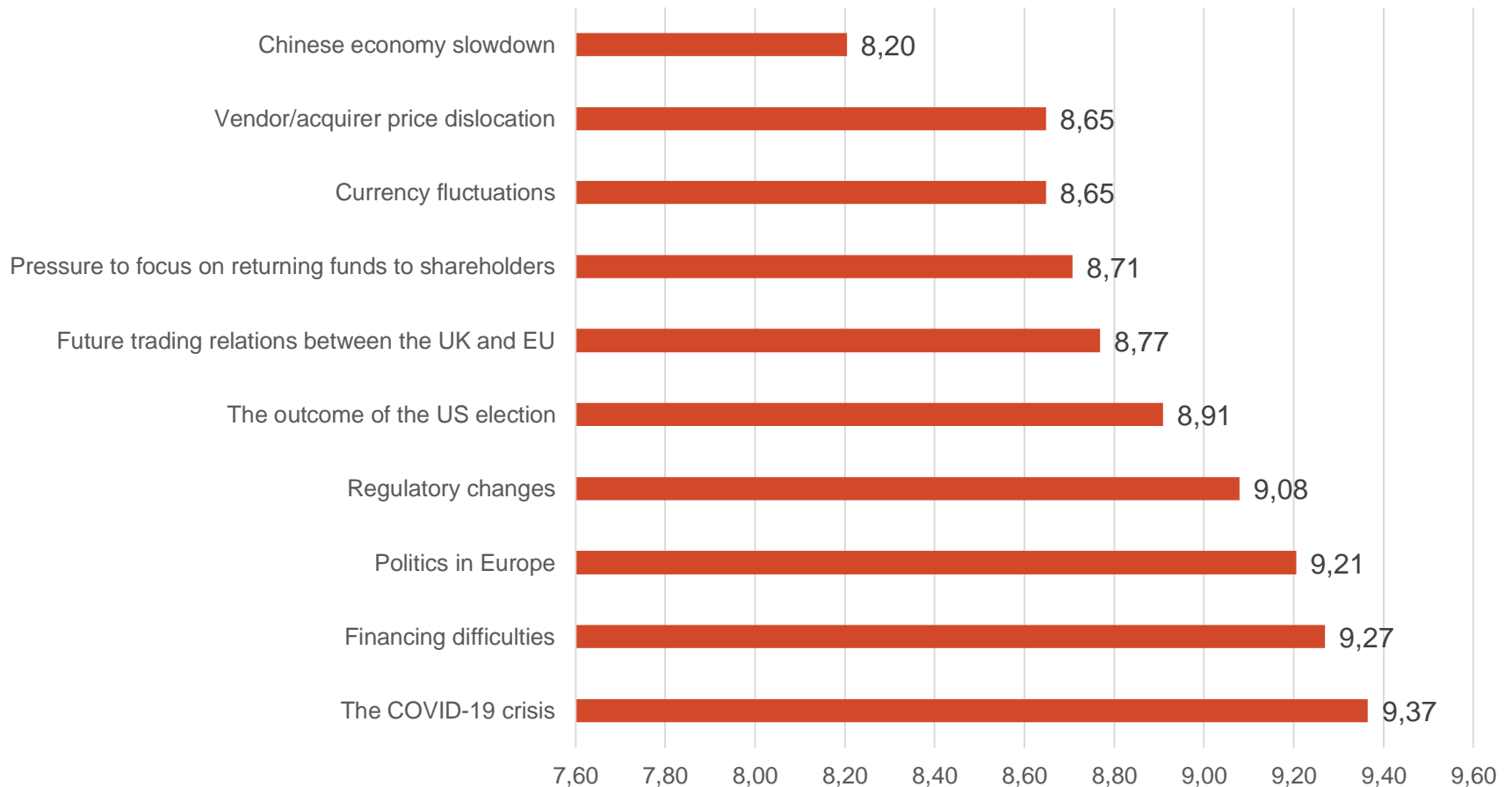
Looking at the future direction of the EU, which of the following scenarios would most increase your appetite for M&A in Europe over the next three years? (Please select one)



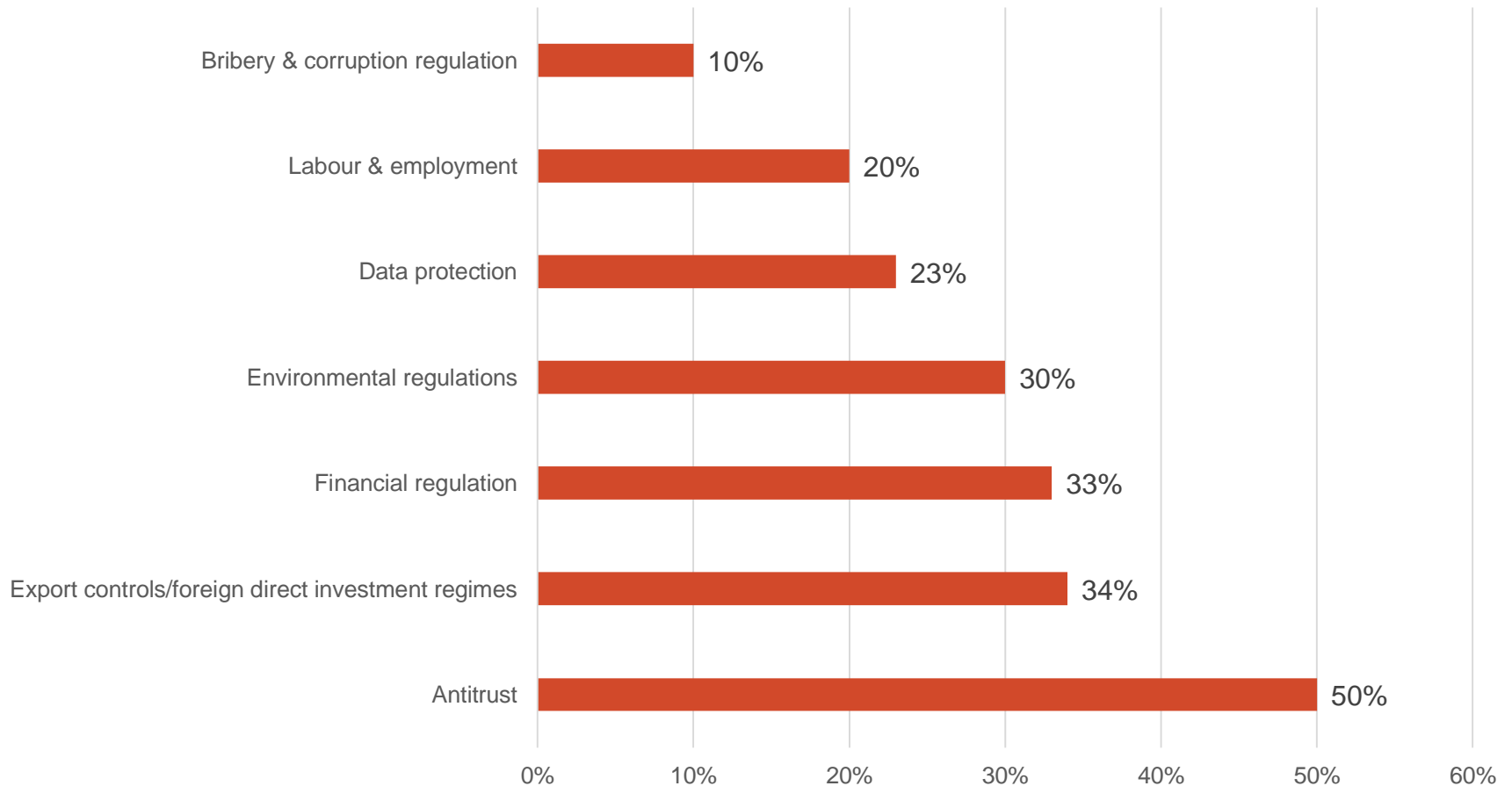
To what extent do you agree with the introduction of a mechanism for European screening of foreign direct investments into the EU?



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



Which form of regulation do you find most challenging when doing a deal in Europe? (Please select the top two)



Conclusion

Prepare for the recovery. A rebound in deal activity may still be some way off, but dealmakers that prepare now will be the best-placed to benefit from the recovery.

Divestment drivers. COVID-19 has forced corporates across the board to assess their portfolios, focus their efforts on core business and strengthen balance sheets. Buyers with the skills to execute carve-outs, and with a vision for a future for these assets, will benefit from steady deal flow opportunities in the coming months.

Going digital. Technology has been an essential tool for businesses, employees and consumers through lockdown periods. Companies have seen how effective homeworking and digital engagement with customers can be. Tech-enabled companies, meanwhile, have shown their ability to continue trading well through downturns. There is no going back and companies that are not up to speed digitally will be eager to find M&A targets that can move them up the curve.



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