

# PRESS RELEASE

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## European M&A Outlook 2019

### European M&A executives cautious over dealmaking prospects

Brussels, 5 September 2019. Weak economic indicators, uncertainty surrounding Brexit and growing protectionism in global trade have contributed to a shift in sentiment in the M&A community and the beginning of a downturn in dealmaking activity, according to the seventh edition of the European M&A Outlook, published by CMS in association with Mergermarket.

The report is a comprehensive assessment of dealmaking sentiment in the European M&A market. It has canvassed the opinions of 230 senior Europe-based executives, from corporate and private equity firms, about their expectations for M&A in the year ahead.

Over the last 12 months, European M&A value has dropped 22% year-on-year to EUR 652.2bn. The market witnessed several cancelled deals, including the mooted Deutsche Bank and Commerzbank tie-up in Germany, Asda and Sainsbury's in the UK, and French train manufacturer Alstom with the rail arm of German conglomerate Siemens.

"Like most of Europe, Benelux also saw a decrease both in deal volume – down 10% from last year – and in the value of deals, which dropped by 27% to EUR 16,9bn" says Vincent Dirckx, partner and Head of the Corporate/M&A practice at CMS in Belgium. "In general, we see caution from European dealmakers due to political volatility and worries about a potential weakening of the economy, but they are also facing challenges due to European regulation, notably on antitrust", he adds.

The slowdown in deal activity – together with wider economic and market concerns – have taken a heavy toll on dealmaker sentiment about the outlook. Executives fear the climate will worsen with nearly half (45%) of respondents not considering M&A at all, up from 28% last year. Furthermore, 73% of respondents expect the level of European M&A activity to decrease or remain the same over the next 12 months.

While the outlook for M&A is broadly negative, executives expect an upsurge in distressed M&A and restructurings arising from deteriorating economic conditions in the coming year. Respondents almost unanimously (95%) expect distressed M&A to rise, with 94% believing that restructurings will increase in number.

Stefan Brunnschweiler, Head of the Corporate/M&A Practice Group at CMS, comments: "Corporates and private equity firms are adopting a more prudent approach, meaning we're going to see fewer mega-deals. It will also take longer to complete deals, as buyers take more time over the due diligence process."

But notwithstanding the geopolitical and market uncertainty, there are still plenty of opportunities to do deals. Distressed M&A is set to increase, and emerging technologies and IP continue to present attractive investment opportunities.”

Although the market is subdued, there is still appetite to invest if the right deals come along. Virginia Garcia Martinez, Transactions Editor, EMEA at Mergermarket says: “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 ten largest deals in H1 2019, for example, two were in the resilient pharma, medical and biotech (PMB) sector, and three were in the hot technology, media and telecommunications (TMT) space, most notably Sunrise Communications’ EUR 5.5bn purchase of UPC Switzerland from Liberty Global.”

#### **Further key findings from the report include:**

- Financing conditions are expected to tighten in the coming year, with 72% of respondents predicting conditions will become more difficult, up from 24% in the previous year.
- 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 total value of such deals to increase (compared to 64%).
- It is expected that private equity will become an increasingly important source of capital during the year ahead. 53% of respondents also anticipate having to finance deals from their own balance sheets.

#### **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 and all responses are anonymous and results are presented in aggregate.

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