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# Changing tides: European M&A Outlook 2017

A study of European M&A activity

September 2017

In cooperation with:

 **Mergermarket**  
An Acuris company

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# Contents

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Foreword	3
Market commentary	4
CMS Q&A on the automation of automotives and regulation	6
Methodology	9
Market research	
1. Europe's rising tide	10
2. Deal dynamics	18
3. The future of the EU	24
4. The lending landscape	32
Conclusion	36

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# Foreword

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**Stefan  
Brunnschweiler**  
Head of the  
CMS Corporate/  
M&A Group

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

What a difference a year makes. When we conducted our 2016 survey, respondents were still in shock following the UK's vote to leave the European Union (EU) and the impending US presidential election was weighing on their minds. Most were very uncertain about the future prospects for Europe and its economies and had mostly placed their M&A plans on hold.

The mood among dealmakers is markedly different in 2017. While acknowledging some of the challenges they face, respondents are largely optimistic about dealmaking prospects for the coming year, with many suggesting they are ready to take advantage of opportunities stemming from dislocations that result from Brexit and from a return to economic growth in the eurozone.

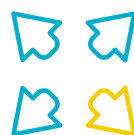
Our survey provides key insights into how both corporate and private equity (PE) firms are adapting their M&A strategies to a new European landscape, and how they are looking beyond the continent to tap into new geographic, product and customer markets.

### Key findings from our research include:



#### **M&A set to rise.**

Over two-thirds of respondents are expecting M&A in Europe to increase over the coming year, with the overwhelming majority (90%) suggesting that non-European buyers will be active acquirers across the continent. Deals will be driven by the need to diversify away from existing markets to manage volatility, take advantage of Europe's relatively lower valuations and access the EU's large market.



#### **Transformational deals on the cards.**

In line with the rise of larger, €1bn+, deals seen in the first half of 2017, two-fifths of corporates and nearly half of PE firms are seeking out large, transformational deals over the next year. This is partly in response to rapid technological change, with the vast majority of respondents saying that technology and IP are among the top two aspects under consideration when acquiring.



#### **Favourable financing conditions.**

European companies now benefit from a range of financing options for their deals, from newly-emerging private credit funds that can provide an alternative or addition to bank finance, to more traditional private equity. Respondents are highly positive about the prospects for raising capital over the coming year, with 88% expecting similar or more favourable financing conditions.

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# Market commentary

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## European M&A activity marches on

**Despite negative predictions for European M&A in the wake of the Brexit vote, dealmaking is on the up and confidence is high. Chris Giles, economics editor for the Financial Times, reveals why there is room for genuine optimism among Europe's dealmakers**



**Chris Giles**  
Economics Editor,  
Financial Times

If Brexit has proved anything so far, it is that the process defies the most confident of predictions. Leaving the EU was necessary because the UK was “shackled to a corpse”, Brexiter asserted, yet the strength of the continental European economy has proved to be the surprise of 2017. Brexit would lead to an immediate recession at home, George Osborne, Chancellor of the Exchequer prior to the EU referendum claimed. He has since had to eat those words after British growth continued unaffected after the EU referendum in 2016 and only slowed this year.

Business predictions that a vote to leave the EU would hit European M&A activity have similarly proved wide of the mark. Whatever the outlook for the Brexit negotiations or the UK and eurozone economies, evidence suggests there is little reason to think opportunities for corporate M&A should take a big hit.

“No deal” will increase the need for corporate restructuring across Europe. A further sharp fall in sterling will create opportunities to find value in UK assets.

A cooperative resolution of the negotiations will improve the growth outlook across Europe, boosting business confidence and the appetite to seek growth through acquisitions. If there are two sectors which are insulated from Brexit fallout, they are M&A and news business. No wonder executives in the M&A sector are feeling so confident.

Greater confidence is also borne out of experience. In the first half of 2017, the value of European M&A activity was 33% higher than in the same period a year earlier, even with a lower volume of transactions, with Britain and Ireland taking the largest share of the market. At the tail end of 2016, deal statistics continued to show the UK as an attractive location in the world for inward foreign direct investment, largely as a result of the completion of the US\$100bn Anheuser-Busch InBev bid for SABMiller which originated before the EU Referendum.

Looking ahead, there are few reasons to think the outlook for European M&A will dim. The Brexit



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process is riddled with uncertainties. The UK has only just engaged in the formal process of publishing position papers on complex issues such as dispute resolution and data protection, and is more interested in resolving internal disagreements on the desired outcome of Brexit than on negotiating with the rest of the EU27. The two sides remain far apart even on the supposedly simple issues of the divorce settlement before the much more complicated process of sketching out a new relationship is discussed. This is a process that will take years and will only fuel business uncertainty.

#### **Uncertainty can spur deals**

Heightened uncertainty is bad for corporate investment but M&A can thrive in this environment. When fog clouds the outlook, some will run for cover, but the more people's views on the future differ, the greater are the opportunities for trade. The risk-averse owner of an asset will be willing to sell to someone more daring and willing to see the outcome as bright. A price that satisfies both sides can be easier to find.

With no one able to rule out the prospect of the UK and the EU failing to come to an agreement by 29 March 2019, the date the UK must leave the EU under Article 50

of the Treaty of Lisbon, there will be a need for companies that trade extensively across the EU to have a legal presence both in the UK and the EU27. M&A is already a popular route some companies are taking to insulate themselves from the risk that negotiations break down.

Although the economics of Brexit are not fully known, it is becoming ever clearer that the process will not resemble a well-oiled gearbox. At the moment, the parts move seamlessly, but a big bucket of sand sits next to the casing and politicians are contemplating how much sand to pour in. No one knows how much grit will clog up the cogs of European commerce when the UK's departure from the EU is complete, but planning must start soon and it is easier to buy assets on either side of the channel rather than invest in physical business infrastructure. M&A professionals should expect to be busy.

#### **EU revival sparks growth**

But Brexit is far from the sole driver of European commerce in 2017. Outside the UK, it is the opportunities of a reinvigorated eurozone that are centre stage. Nowhere in the single currency area have the populist movements that won elections in the UK, US and Eastern Europe gained a foothold.

Victories for the political centre ground in Austria, the Netherlands and France have added to the sense that the European economy is finally securing a self-sustainable economic recovery which will rapidly reduce unemployment and improve living standards. Growth has been highest in some of the most troubled parts of the European economies including Spain, Portugal and Ireland. While not yet as strong, Italy has also surprised with its economic vigour.

Larry Summers, Barack Obama's former economic adviser, often counselled the president that "business confidence is the cheapest form of stimulus" and so it is proving in continental Europe. For cash-rich corporate acquirers, this creates some urgency to buy now ahead of better times to come. For those outside the eurozone, the desire to buy is heightened by the recent strength of the single currency. As the EU's economic recovery progresses and international pressure is applied to Europe to limit its trade surplus, this has the potential to rise further.

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# Driving into an autonomous future

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Laurence Kalman, from CMS London's technology team, and Peter Baisch, head of the excellence cluster M&A automotive from CMS' Stuttgart office, discuss how autonomous driving is bringing these two sectors together and where this new industry goes from here



**Dr Peter Baisch**  
Corporate/  
M&A Partner,  
CMS Germany



**Laurence Kalman**  
Technology  
& Media Of  
Counsel,  
CMS UK

## How will autonomous driving change people's lives?

**Peter:** Autonomous driving will dramatically change daily life. Traffic jams will be a thing of the past and only pedestrians will need traffic lights. Once cars communicate with one another, traffic will flow smoothly. Vehicles will simply drive themselves to out-of-town depots or go to their next customer and transport them to where they want to go. Cars will rarely be owned by private individuals: it will be more practical and economical to use car-sharing services. The number of accidents will be greatly reduced as most are attributable to human error.

**Laurence:** I think there's a good case for saying that it's likely to have a very beneficial effect on the lives of a lot of people. It's estimated that 95% of vehicle accidents are caused by driver error. With increasing autonomy and sophistication of technology, the goal is to eliminate that driver error as far as possible. So one of the biggest impacts will be an increase in safety, and fewer accidents, and death and injuries on the roads.

## There has been talk about autonomous driving for a number of years. How close are we really to achieving this?

**Laurence:** We have a degree of autonomy in cars today already, with assisted braking systems and lane control, along with speed control and various other systems that operate within the car under the control of the driver. And I suspect that the move towards full autonomy will occur in small stages of partial autonomy over the next few years.

Some industry commentators anticipate driverless cars on the road within the next five to ten years. I think fully autonomous cars may take a little while longer than that. There will clearly be a sort of incremental process as we work towards this end goal.

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### Has there been a notable change in the number and types of M&A transactions as a result of this new industry?

**Peter:** In our view, autonomous driving will ignite the M&A market in the long term. According to the annual *CMS European M&A Study*, the number of transactions in the automotive sector increased by 74% in 2016 compared with 2015. On the one hand, this increase is based on the fact that traditional car manufacturers and suppliers are purchasing digital know-how and, on the other, that traditional business divisions are being sold off as the automotive market goes digital.

**Laurence:** One such example is Intel's acquisition of Mobileye, announced in March. This saw an established technology company picking up a relatively new player with a strong focus on automotive technology to establish itself in a dominant position going forward.

### What roadblocks need to be overcome before autonomous transport becomes the most common form of transport in the EU?

**Peter:** Politicians will need to react. Providing a sustainable infrastructure and creating the statutory framework is absolutely essential for the development of autonomous vehicles. This will determine in which countries the technological leadership of the future is located. In this context, road traffic law, insurance law and the law governing data protection and liability must be taken into consideration. Domestic efforts will not suffice in this context: there should be a move towards international, or at least uniform, European regulations to facilitate the use of autonomous vehicles across borders.

### What is your view from a UK/German perspective on where the industry goes from here?

**Laurence:** The UK has a thriving tech sector, and automotive is one of the areas where we can take great strides forward. There is a lot of supportive sentiment from the government and a willingness to make the UK a leading economy in these technologies over the coming years.

**Peter:** An amendment to the German Road Traffic Act came into effect in June this year allowing fully automated vehicles to operate on German roads. The operator of the vehicle may divert their attention away from traffic and steering the vehicle, however he/she must stay alert to take control of the vehicle again.

### How have car manufacturers and technology companies reacted to this growing new industry?

**Peter:** These profound structural changes mean leading car manufacturers need to fundamentally shift their business focus. Cars will no longer be sold based on driving features but due to their compatibility with other devices (i.e. Internet of Things), their functionality and amenities. Companies will need to make significant investments not only in vehicle automation but also to develop new business models to ensure their vehicles have distinguishing features.

**Laurence:** From my standpoint, it has been the integration with technology which has been the biggest shift in the market. Although there has always been technology in vehicles, they are increasingly becoming high-tech instruments in themselves. What this means for manufacturers and technology companies is that the line between them is becoming a lot less clear than in the past. Manufacturers are responding either by producing new technologies and giving them a competitive advantage, or by partnering or acquiring technology companies so that they can incorporate their expertise into their business.









## Methodology

In the second quarter of 2017, 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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# Chapter one

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## Europe's rising tide

**Our survey results show that European M&A sentiment has seen a swift turnaround following the shock of last year's Brexit vote**

### Top findings

**67%**

of respondents expect M&A in Europe to increase

**53%**

are more positive about European M&A than last year

**54%**

believe that cash-rich corporates will drive buy-side M&A

**90%**

expect an increase in non-European acquisitions of European companies

**64%**

say that North American companies will be the most active inbound acquirers in Europe

After a year of turbulence in 2016, the first half of 2017 marked a more settled period for the global economy. In June 2017, the OECD forecast a modest pick-up in global GDP growth of 3.5% in 2017, and 3.6% in 2018 after what it called "many years of weak recovery".

China's economy grew faster than expected, notching up nearly 7% GDP growth in Q2 2017. Meanwhile election results in Austria, France and the Netherlands in H1 2017 provided some stability to the European economy. And while uncertainty prevails over the eventual shape of Brexit and what a Trump presidency means for the global economy, businesses and markets have at least had some time to come to terms with these results and adjust their strategies accordingly.

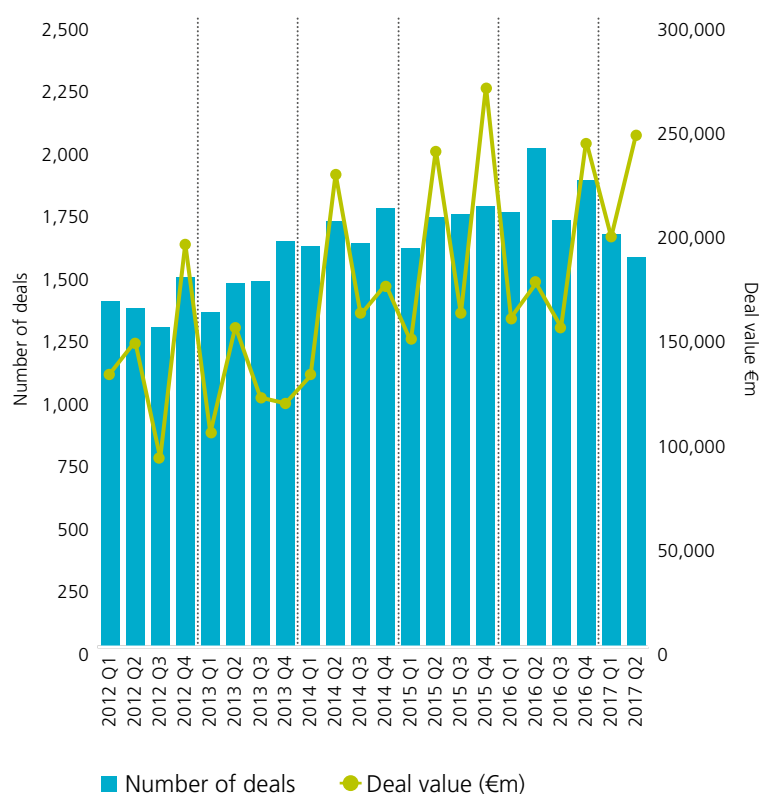
In line with this tentative growth, overall M&A in Europe shows some signs of stabilisation. According to Mergermarket data, M&A in H1 2017 saw a sharp increase in value over the same period a year earlier, rising a third (33%) to €443bn. Indeed, the €246bn total value recorded in Q2 2017 was up 25% on the previous quarter and was higher than any quarter in 2016, suggesting positive signs of recovery. Nevertheless, reflecting the trend of fewer yet larger deals taking place, the first half experienced a 14% drop in volume compared with H1 2016, to 3,207 deals.

### Optimism prevails

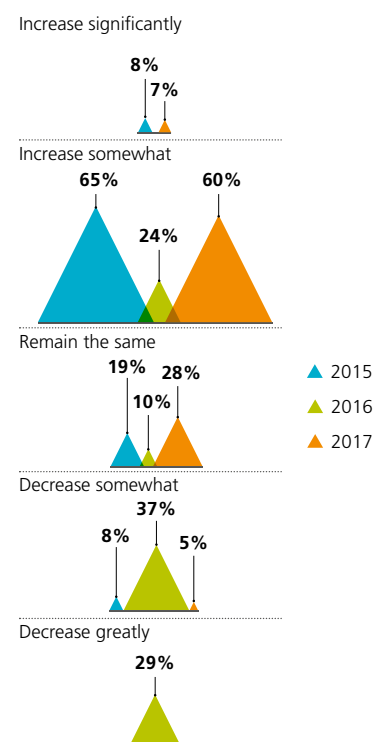
Across Europe, the initial shock of the Brexit vote has given way to a more optimistic tone among respondents in this year's survey. Perhaps buoyed by positive economic data emanating from the eurozone – such as unemployment falling to an eight-year low in June 2017 and GDP growth in Q1 2017 rising 2.1% on the first quarter of 2016 – many are now far more confident that Europe's M&A prospects look bright.

While last year's survey, conducted in the immediate aftermath of the Brexit vote, saw dealmakers express an unprecedentedly gloomy view

## European M&A trends 2012–H1 2017



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



of European M&A activity, with 66% expecting activity to decrease over the forthcoming year and just 24% anticipating an increase, this year's respondents highlight a more positive outlook. A clear majority (67%) expect European M&A activity levels to increase while just 5% of respondents anticipate a slowdown. This is closer to the 73% of respondents who expected to see an increase in deal activity in our 2015 survey. "Political and economic conditions were very bleak last year, but things have slowly turned around, making

One very interesting deal driver is the trend of "acqui-hiring". Almost all well-established corporates are faced with the question of what digitalisation means for them and their business model. Rather than creating a start-up culture in their own corporate culture they acquire teams of digital natives helping them to respond to the challenges of digitalisation.



Thomas Meyding,  
Corporate/M&A  
Partner, CMS  
Germany



## Top 10 European M&A deals by value, 2017 H1

Announced Date	Target Company	Target Sector	Target Country	Bidder Company	Bidder Country	Deal Value €(m)
01/06/2017	Linde AG	Industrials & Chemicals	Germany	Praxair, Inc.	USA	40,535
15/05/2017	Abertis Infraestructuras, S.A.	Construction	Spain	Atlantia SpA	Italy	30,295
26/01/2017	Actelion Pharmaceuticals Ltd	Pharma, Medical & Biotech	Switzerland	Johnson & Johnson	USA	27,591
16/01/2017	Luxottica Group S.p.A.	Consumer	Italy	Essilor International SA	France	23,965
23/02/2017	Essity Aktiebolag (publ)	Consumer	Sweden	Svenska Cellulosa Aktiebolaget SCA (Shareholders)	Sweden	18,283
02/06/2017	LogiCor Europe Limited	Transportation	United Kingdom	China Investment Corporation	China	12,250
25/04/2017	Christian Dior SA (25.9% Stake)	Consumer	France	Bernard Arnault (Private Investor)	France	12,111
19/01/2017	Zodiac Aerospace SA	Defence	France	Safran SA	France	8,316
21/03/2017	AREVA SA (Fuel Cycle Business) (50% Stake)	Energy, Mining & Utilities	France	Government of France	France	6,939
24/04/2017	AWAS Aviation Capital Limited	Financial Services	Ireland (Republic)	Dubai Aerospace Enterprise	United Arab Emirates	6,908

Europe a very important market for acquirers to do business in – there is a lot more stability in the region,” says a Hungarian CFO.

This optimism is reflected in respondents’ increased positivity about the level of European M&A compared with 2016 results. This year, 53% say they are more positive than last year, a significant turnaround from our previous, post-Brexit survey, when 90% said they were less positive.

This suggests that the Brexit effect had been factored into the projections of respondents by the time this year’s survey was conducted. In addition, by this time the EU agenda had received a significant boost as anti-EU populist parties had suffered

“The positive outlook for the European M&A market is mainly fuelled by the ongoing modest global GDP growth which makes it necessary for companies to accelerate expansion through acquisitions, combined with the low cost of funding. The reduction of the significant political uncertainties experienced over the past year may also generate more confidence in the political and economic landscape.



*Jean-Robert Bousquet, Partner, Co-Head of Corporate M&A, CMS France*

significant defeats in elections earlier in the year, most notably in the Netherlands and France. With Angela Merkel widely expected to remain in power following Germany's upcoming election at the time the survey was conducted, it seems that many respondents are looking ahead to more stable times. As one Portugal-based finance director comments: "The recent French elections results helped maintain EU unity. It has brought stability and increased confidence in the minds of investors and business, making Europe an ideal market in which to complete acquisitions."

#### Dealmakers cash in

In another contrast to last year's results, respondents are confident that positive factors will drive M&A on both the buy and sell sides. This year, 54% believe that cash-rich corporates will be behind acquisitions on the buy side, followed by consolidation plays, cited by 51%, while just 12% believe M&A will be driven by the relative weakness of European currencies. This paints a very different picture from last year, when 54% of respondents believed the top driver of M&A would be undervalued targets.

For sellers, growth is at the top of the agenda. Over half (51%) say that capital raising for expansion in faster growing areas is set to be the greatest driver of sell-side M&A activity, an increase from just 37% in 2016. This is supported by the second biggest driver identified by respondents, non-core sales of larger companies

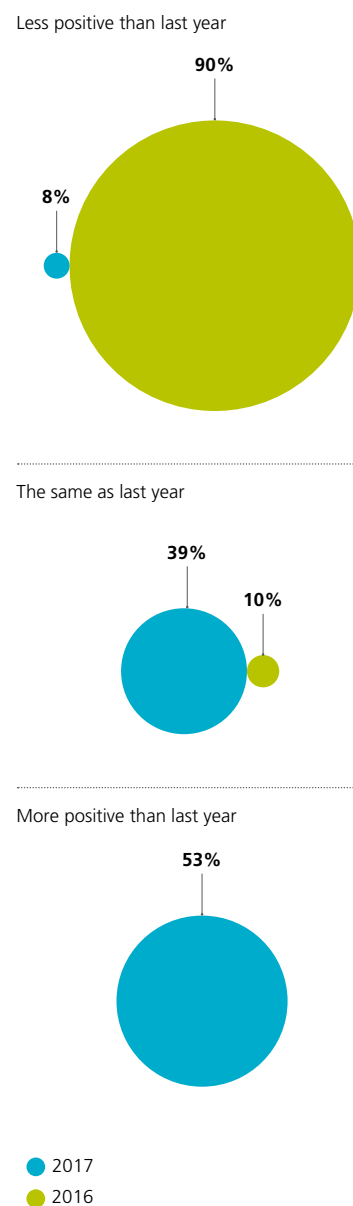
(45%), as businesses increase their focus on more profitable and higher growth areas.

The top choice last year – distress-driven M&A – has fallen from a high in last year's survey of 65% to just 39%, reflecting the more positive mood surrounding Europe's economic prospects. Regulatory change has also fallen from 33% in 2016 to 12% this year. A number of survey respondents commented that changes to EU regulations are set to have a positive impact on the European business environment, including one UK-based PE partner: "As the EU grows we expect regulation to become more pro-business. This will help bolster growth in different sectors, encouraging companies to make acquisitions or merge with existing companies to position their portfolio for growth."

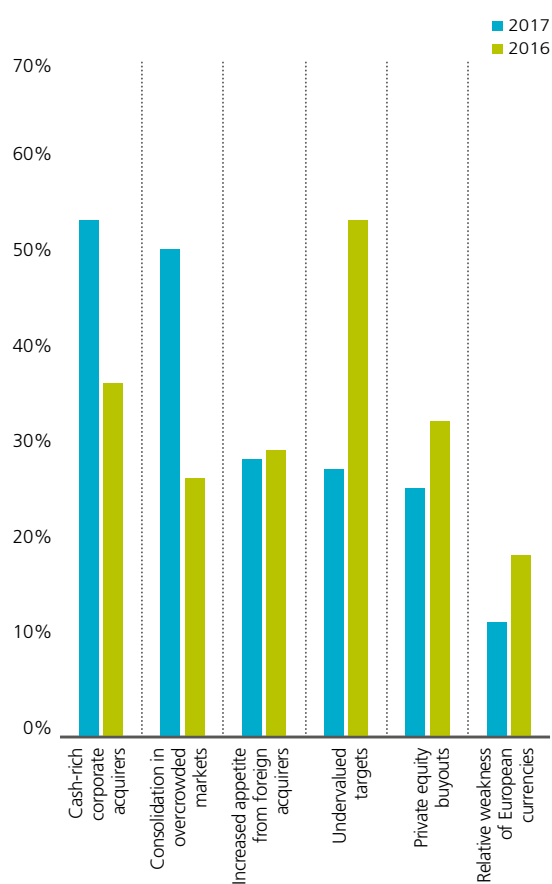
#### Overseas and over here

Overseas buyers have been eyeing the European market with interest, with four of the top ten European deals in H1 2017 led by bidders located outside the EU. Two of these deals – China Investment Corporation's €12.25bn acquisition of logistics company LogiCor Europe and Dubai Aerospace Enterprise's €6.9bn deal to acquire AWAS Aviation Capital – targeted the UK and Ireland. This region saw the highest proportion of deal activity in H1 2017, representing 22% of total volume and 21% of total value. Germany was also a highly active M&A market overall, accounting for 12% of total volume and 15%

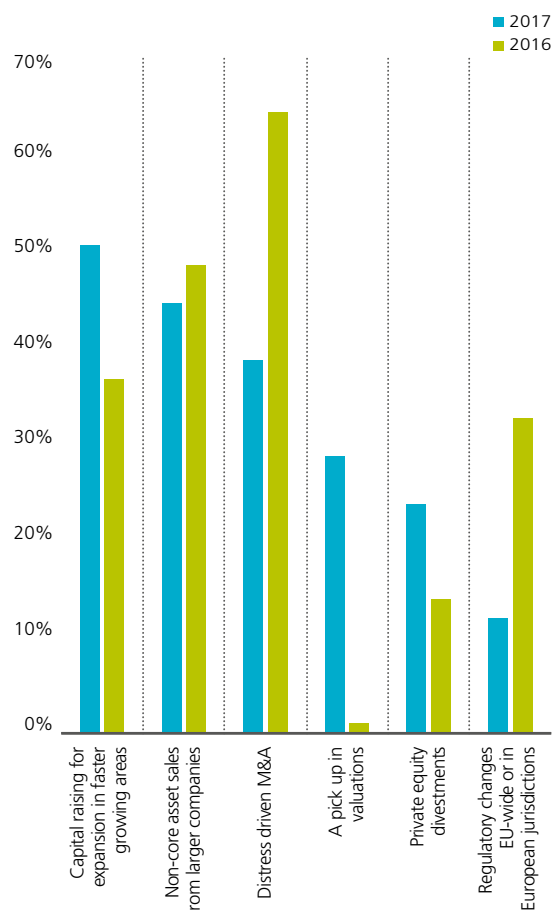
Are you more positive about the level of European M&A activity than last year?



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)



of total value, closely followed by France, which accounted for 12% of volume and 14% of value.

Respondents expect this trend to continue, with 90% saying they expect an increase in the number of European M&A deals involving non-European buyers and 60% anticipating an increase in value over the next 12 months.

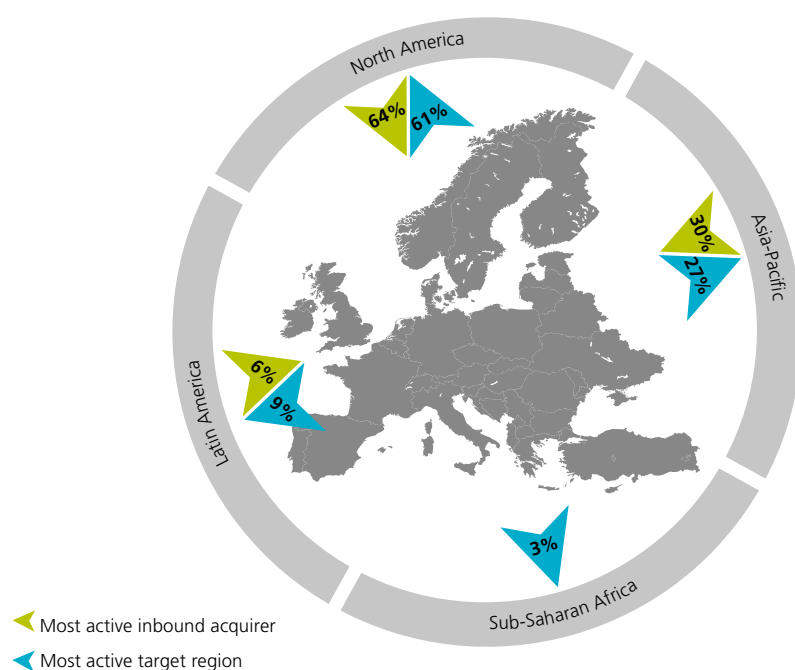
This is partly down to the lower valuations seen in Europe compared with some other markets worldwide, most notably the US. "Buyers from different markets based in the APAC and North America will continue acquiring companies in Europe because prices are low and the opportunities to gain market and technology are high,"

says the managing partner of a PE firm based in Norway.

Another factor driving activity is a desire for companies to gain access to growth in the European market. "Cash-rich companies are turning to markets in Europe to reduce the risks faced in their existing markets," comments a France-based head of M&A.



Which region do you expect to be the most active inbound acquirer into Europe and the most active target region for European acquirers over the next 12 months?

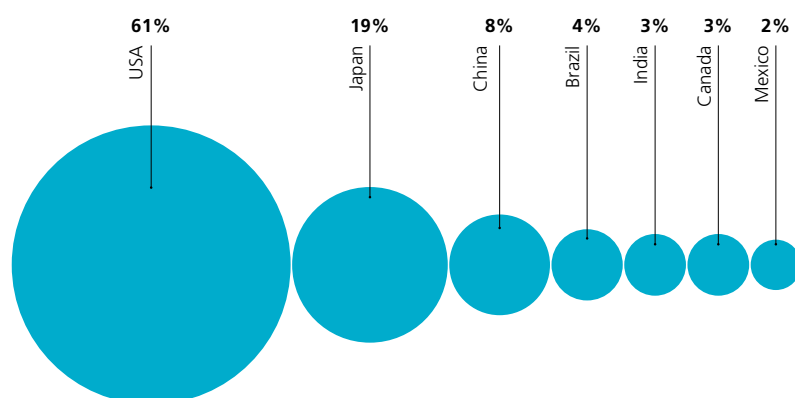


The weaker pound coupled with strong infrastructure assets have encouraged investment into UK real estate and infrastructure, while a supply of revenue-generating real estate targets elsewhere across Western, Central and Eastern Europe offers an attractive market for Asian investors.

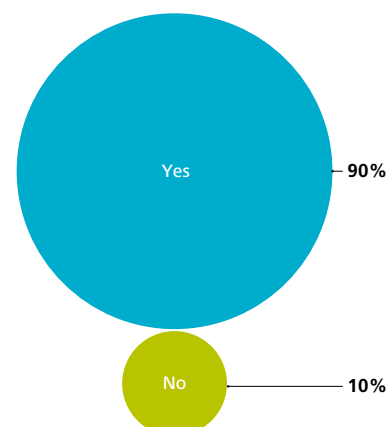
Ulrike Glueck,  
Managing  
Partner, CMS  
Shanghai Office



Within the selected bidder region, which country will be the most active acquirer into Europe? (Please select only one country as acquirer and one as target)



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



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# Sector spotlight

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## Digital innovation drives M&A

**We explore those sectors that executives expect to top the dealmaking charts in the coming 12 months**

For the year ahead, respondents believe technology, media and telecommunications (TMT) will be the most active sector for M&A (37%), followed by consumer (19%) and energy, mining and utilities (16%). If last year's results are representative, our survey offers a high success rate for predicting activity levels by sector – industrials and chemicals was correctly forecast in 2016 as the most active sector, followed by TMT and consumer.

### **Spotlight on TMT**

In the first half of 2017, there were 511 European TMT M&A deals worth €34.3bn, according to Mergermarket data. While this is marginally down on H1 2016 figures and markedly on H1 2015's total value of €70.5bn, the totals belie upward trends in some of the industry's key subsectors.

E-commerce is the leader of the TMT pack, with deal value rising from €2.4bn in H1 2016 to €3.4bn in the same period for 2017. European e-commerce revenues increased by 15% to

€530bn in 2016, according to the EU's 2017 European E-commerce report, with growth expected to remain at similar levels for 2017. The fragmented nature of the European e-commerce space and the uneven penetration of internet-based purchases across the region make the sector ripe for consolidation and future growth.

Many overseas acquirers are looking to Europe to gain a foothold in new markets, as illustrated by recent deals such as US-based Priceline's €514m deal for UK travel comparison site Momondo Group; South African media company Naspers' purchase of German online food ordering business Delivery Hero for €387m; and China-based JD.com's €356m acquisition of luxury fashion platform Farfetch UK.

### **Spotlight on automotive**

According to Mergermarket data, the top sector by both value and volume in H1 2017 was industrials and chemicals, with 667 deals worth €76.6bn.

The automotive industry has emerged as the subsector to watch. There were 82 European deals in H1 2017, up 17% on the previous year, while a deal value of €7.4bn was a 10% increase on H1 2016. One of the largest deals – Peugeot-Citroen's acquisition of Opel and Vauxhall Motors from US giant GM for €1.1bn – is part of a consolidation trend being seen in the sector that is aimed at reducing costs and gaining scale to develop and harness new technologies.

The prospect of driverless cars and the shift towards alternative drivetrains away from petrol and diesel looks set to transform the automotive sector. VW, for example, announced it wants to be the world leader in electric vehicles by 2025, following the emissions scandal that hit the carmaker in 2015. Meanwhile, carmakers and technology companies are becoming increasingly intertwined – demonstrated by Uber and Daimler's self-driving car partnership, announced in January 2017.

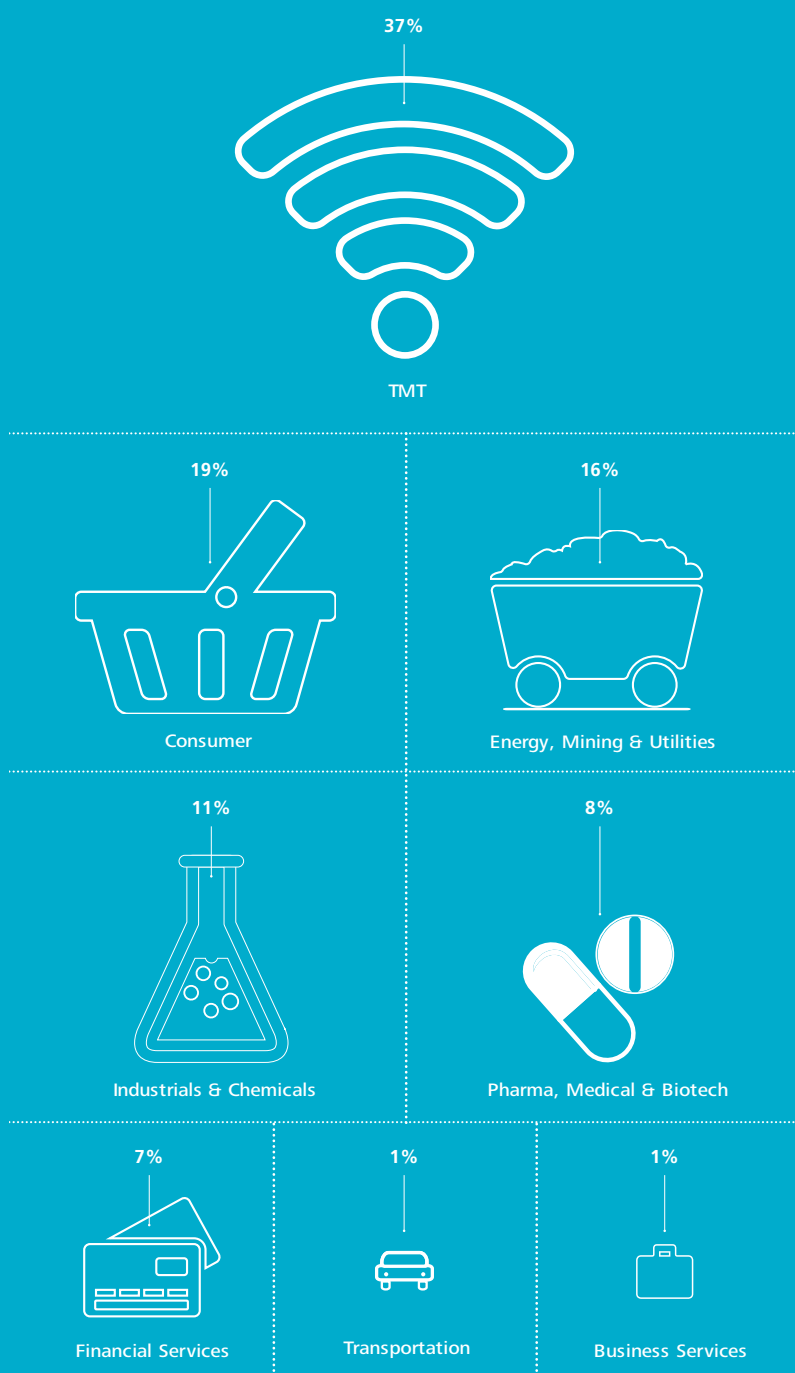
These trends are likely to drive further M&A in the sector, with automotive companies increasingly looking to acquire start-ups with promising technologies. Brexit will also feature in the sector's M&A plans, as the UK's car and car components manufacturing faces a future outside the single market and the customs union.

#### Spotlight on consumer

With an estimated 500 million consumers across Europe, the region is a vibrant market for the sector. The continent boasts some of the world's leading brands, making it an attractive M&A destination for international acquirers. With eurozone growth picking up, the consumer sector looks set for continued high levels of deal activity, particularly as large consumer goods companies seek to adapt to, and predict, changing consumer tastes.

The sector was the second largest by value for European M&A activity in the first half of 2017, according to Mergermarket data, notching up a total deal value of €75.3bn. The most notable transactions display the demand for luxury items, such as lensmaker Essilor International's €24bn acquisition of luxury eyewear business Luxottica and the €12.1bn purchase of high-end fashion house Christian Dior by private investor Bernard Arnault.

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)





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# Chapter two

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## Deal dynamics

**M&A has risen back up the dealmaker agenda after Brexit knocked market confidence last year. For both corporate and PE firms alike, large, transformational deals look set to continue to drive activity, while the need to access innovation through new technologies is also a major consideration**

### Top findings

**66%**

of respondents are currently considering M&A – either acquisitions, divestments or both

**68%**

of corporates cite the need to grow in new geographies and customer bases as their key driver for acquisitions

**40%** of corporates and **48%** of PE firms are seeking large, transformational deals

**73%**

of corporates consider technology/IP among their top two considerations

Renewed dealmaking confidence on the continent looks set to translate into activity, with 66% of respondents this year expecting to engage in M&A, including acquisitions, divestments or both over the coming 12 months, up from 46% last year. Where last year, acquisitions were put on hold following the Brexit vote, with just 19% of corporate respondents expecting to acquire, 37% are now considering acquisitions.

“We plan on acquiring a few companies to expand our products and get access to new innovations,” says a France-based CFO. “We are looking for acquisitions that will help us achieve economies of scale and improve our position in the market.”

### Searching for scale

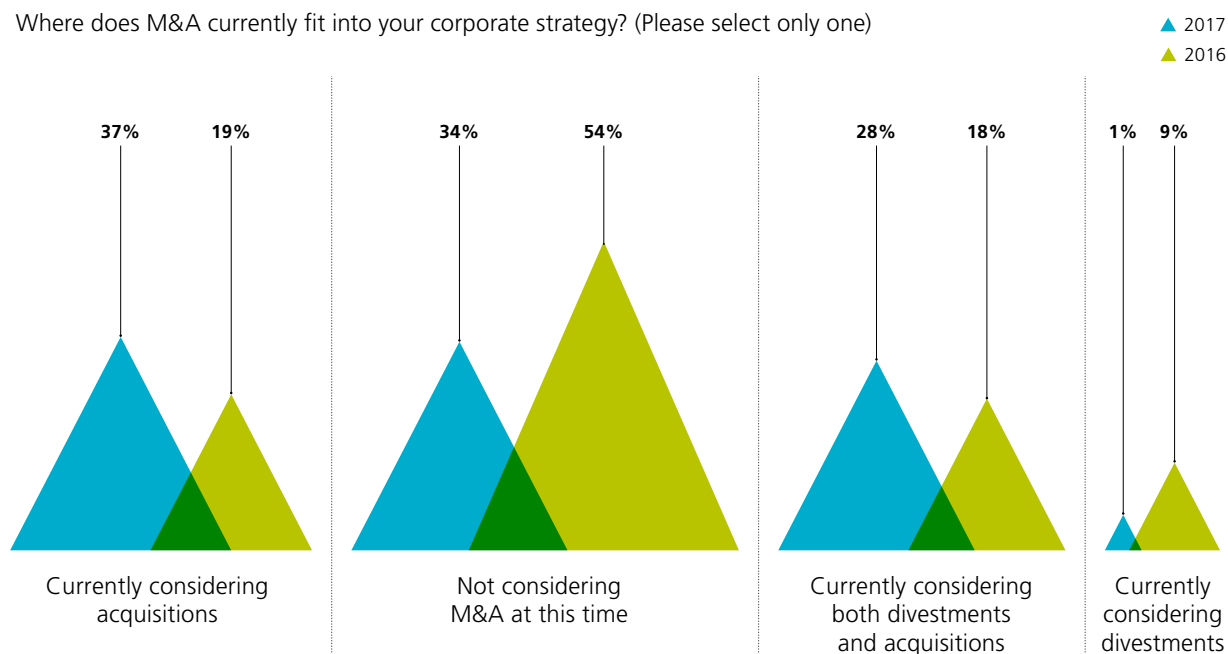
For corporates, the key driver for acquisitions is to grow into new geographies and customer bases, with 68% citing this as their main

motivation. This is illustrated by a comment from a Spain-based financial director, who says: “We want to expand in the US, where growth forecasts are strong, and we also want to improve the quality of our products. Through acquisitions, we want to increase the size of our company, acquire a new customer base and bring economies of scale to compete more aggressively.”

This is in contrast to last year, when favourable valuations were the biggest attraction for the few that were seeking to acquire, with nearly 90% of both corporates and PE firms naming this as their main motivation for deals. However, this does remain an important factor a year on, mentioned by 44% of corporate and 46% of PE respondents, reflecting the fact that European valuations remain low compared to the peak of 2015.

Recent economic volatility also appears to have convinced many buyers that diversification and increased efficiency through significant scale is an important strategic goal. Such transformational deals are boosting deal values across Europe. In H1 2017, there were 66 deals worth €1bn or more, compared to 54 in the same period last year, representing a 22% value increase. This is reflected in

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



our survey results, with 40% of corporates and 48% of PE firms naming sizeable, transformational acquisitions as one of their top two drivers, an indication that the trend seen in H1 2017 for high value deals may be set to continue.

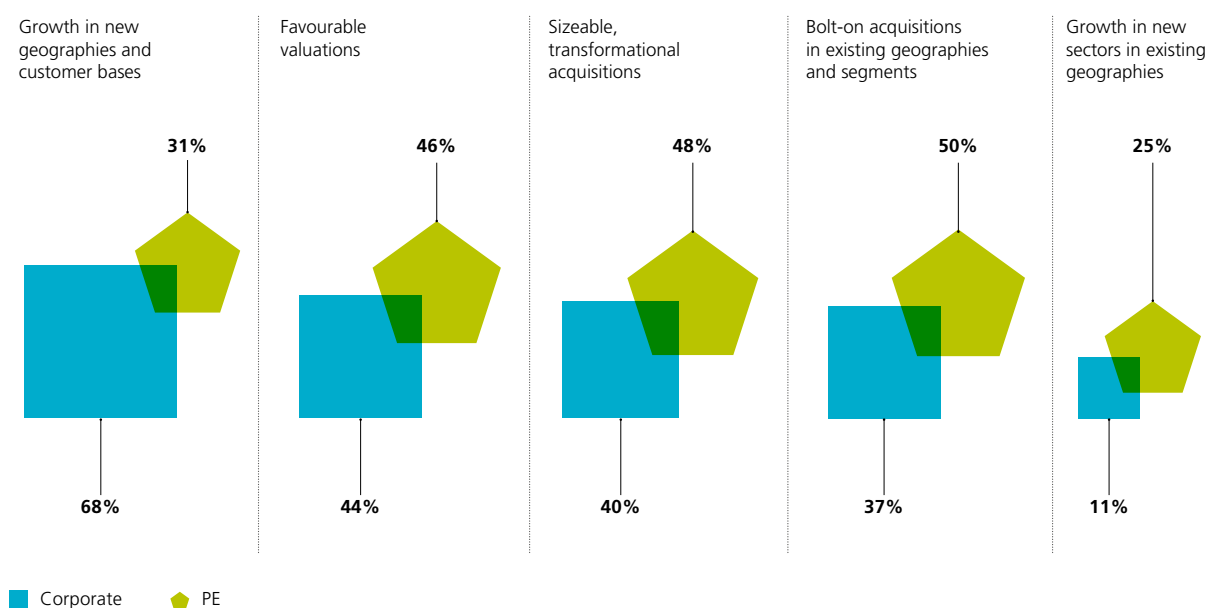
#### Digital drive

Rapid technological advancements over recent years have had a considerable impact across all sectors. This trend is set to continue with rising automation of tasks and digitisation reducing the cost

of many business and production processes. According to 86% of PE firms and 73% of corporates, technology and IP acquisition is one of the two most important aspects for buyers when looking at targets.

Many respondents comment that they are acquiring to gain access to technology and innovation. According to a Spain-based financial director: "If we make a European acquisition, it will be to get new technologies. We need technologies, automation and

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



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



other analytical tools to improve the way we carry out regular operations while developing a strong and effective business."

Distribution channels are another key priority for buyers – over half of corporate (57%) and PE firms (59%) point to this as a prime target for acquisitions – while existing plant and real estate assets are not far behind, cited by 58% of corporates and 48% of PE firms. "We need to develop sales channels and expand into different markets," says a Russia-based CFO. "Real estate is also a requirement because we want capital that will help us grow and supplement slow returns from our business."



## PE perspective

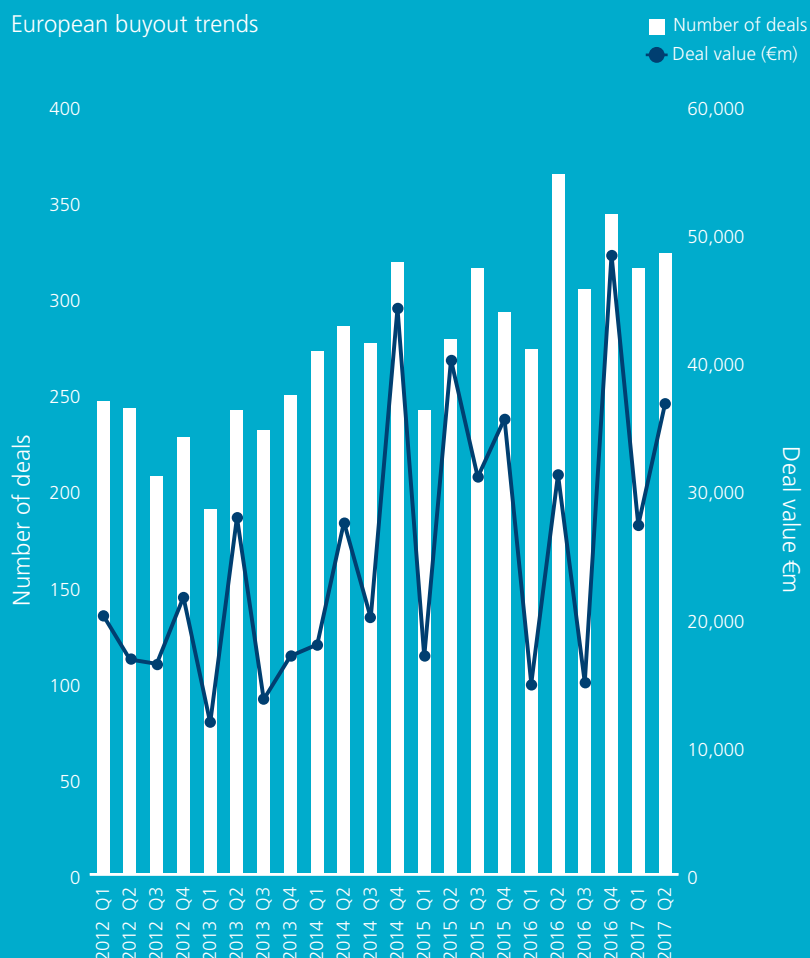
**With plenty of capital to deploy, PE firms continue to seek opportunities across Europe, and are increasingly looking to co-invest in order to achieve their goals**

Recent years have seen PE firms garner significant amounts of capital as institutional investors have sought to generate yield in a low interest rate environment. This total contributed to the dry powder held by firms globally, which stands at a record US\$918bn, according to research firm Preqin.

Buyouts across the region held steady in terms of volume in H1 2017 compared with the same period in 2016, while value increased substantially – by 39% to €63.9bn. PE exit figures reflect the overall trend towards larger deals in the M&A market. While volumes were down by 7% in H1 2017, value increased substantially – by 44% to €85.9bn – compared to the same period in 2016. This represents the highest half-year total since 2012.

Given the size of the PE market in the UK, it is unsurprising that the UK and Ireland retained the top spot for deals, accounting for

European buyout trends



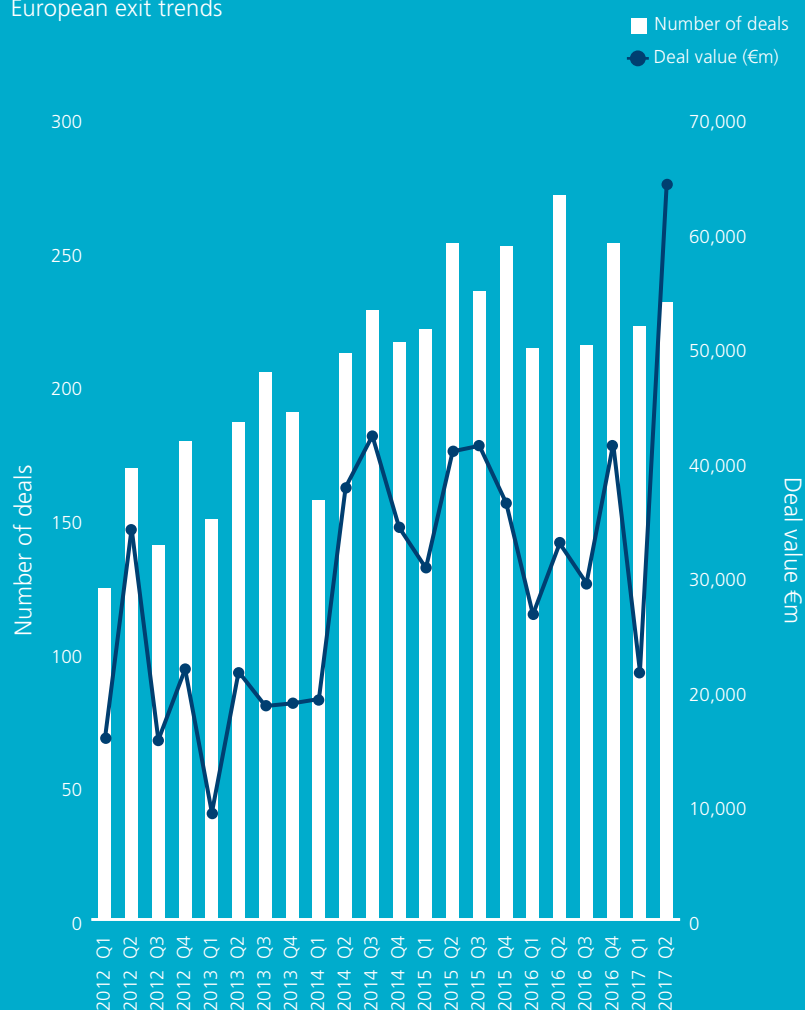
37% of total PE value. Benelux and France took joint second position, with 15% apiece.

### Co-invest for success

Despite record levels of dry powder, PE funds are increasingly doing deals alongside other PE houses. In our survey, 60% of respondents have completed at least one deal alongside another PE firm in the last year, and a larger proportion (67%) expect to do so over the coming 12 months. This reflects the trend towards larger deal sizes, as PE firms club together to avoid concentration risk in their portfolio – most have restrictions on the percentage of the fund that can be invested in a single asset.

Our survey results also highlight that the role of family offices has become increasingly prominent in the European PE scene. Over half (51%) of respondents have undertaken an equity co-investment with a family office over the past 12 months, and 44% expect to do so over the coming year. According to a managing director of an Irish PE firm: “Family offices hold a lot of capital which they invest in companies to diversify their sources of returns and to hedge against future risks, as other sources of investment get harder to tap into companies will turn to family offices and banks.”

### European exit trends

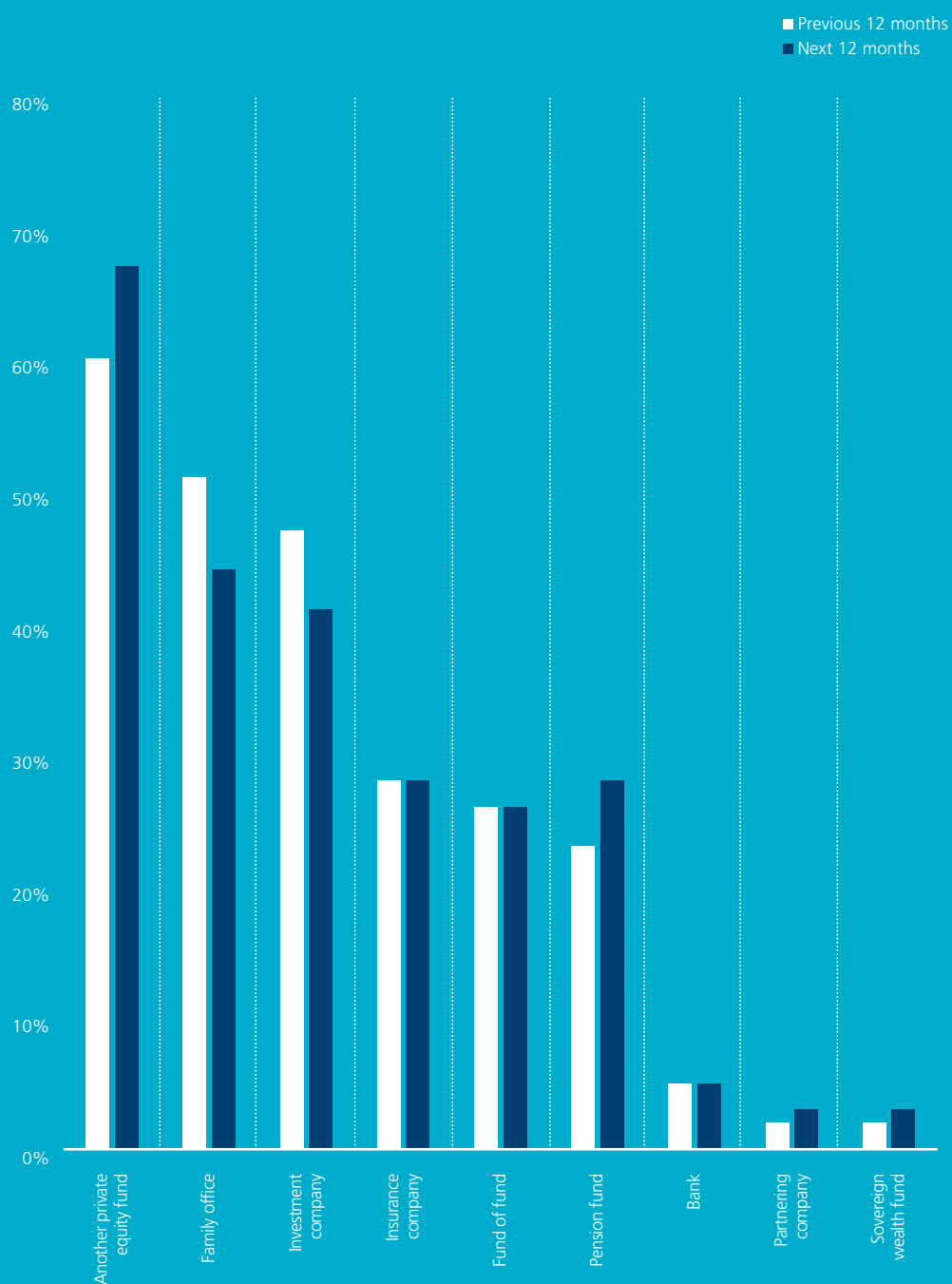


“Co-investing is becoming increasingly popular. PE funds can share the risk on the larger transactions, and family offices, sovereign wealth funds etc. gain direct exposure to good-quality investment opportunities without having to pay fund management charges and carried interest. The only problem is that there are not enough co-investment opportunities to satisfy demand.



Graham Conlon,  
Partner, Co-Head  
of International  
Private Equity

Which of the following have you undertaken equity co-investments with over the previous 12 months? Which of the following do you expect to undertake equity co-investments with over the next 12 months? (Please select all that apply)



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# Chapter three

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## The future of the EU

**Despite market optimism, continued uncertainty surrounding the long-term effects of Brexit, as well as increased regulation, are key obstacles for European dealmakers**

### Top findings

#### Political instability

in Europe is the principal obstacle to M&A

.....  
**49%**

say that Brexit will have no impact on their dealmaking  
.....

#### Volatility

in global capital markets will have the greatest negative impact on the performance of European businesses over the coming year  
.....

**43%**

believe that antitrust is the most challenging aspect of regulation when doing a deal in Europe  
.....

Following the UK's vote for Brexit, the EU published its White Paper on the Future of Europe in March 2017. The document acknowledges some of the challenges the region faces, from persistent rates of high unemployment and an ageing population to security threats and a lack of trust for European institutions among many citizens. It also offers five potential scenarios for the future of the EU: carrying on as it has done; focusing simply on the single market; building coalitions of member states seeking to develop further integration in key policy areas; doing less more efficiently; and finally, doing much more as a bloc across all policy areas.

#### Appetite for integration

When asked which of these scenarios would increase their appetite for further M&A, respondents had a clear preference for the EU doing much more

together across all policy areas, with 44% saying this should be the EU's future direction. This, say many respondents, would help create a more integrated single market with more unified policy and regulation, in turn creating a more favourable M&A market.

"The EU must improve its policies," says a Greece-based PE firm managing partner. "The lack of comprehensive regulation across some of the region's key sectors creates problems for companies. If these regulations were improved, M&A activities and operations would be easier to manage and carry out."

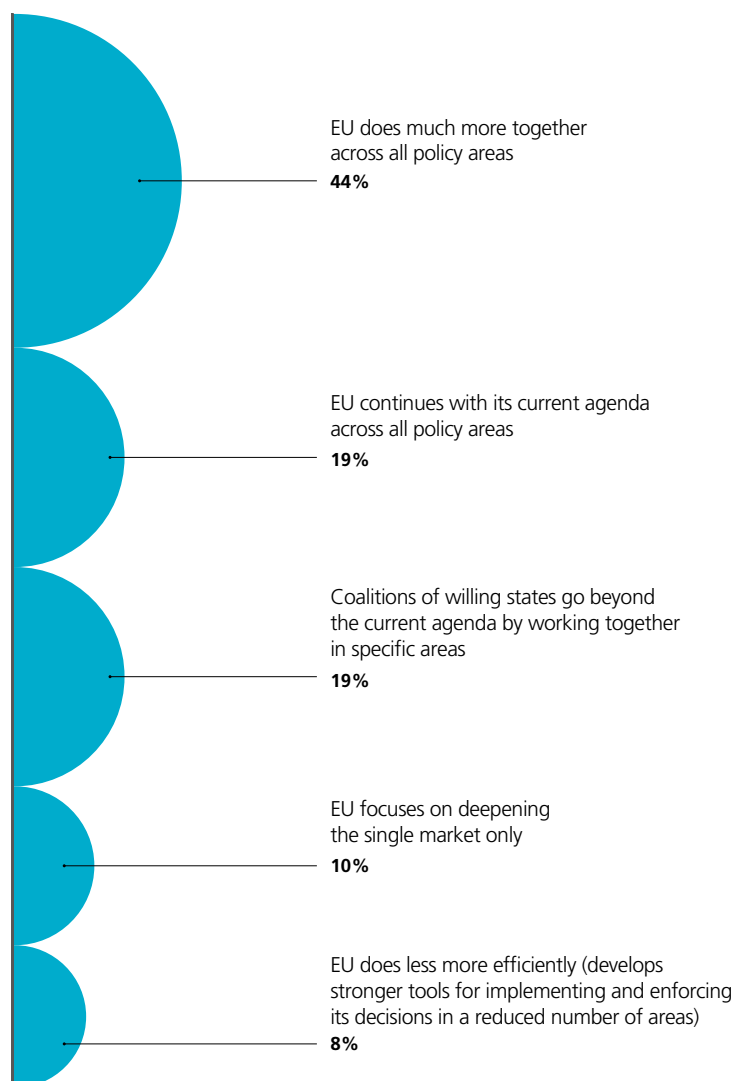
If, as is widely expected, Angela Merkel remains in power following the upcoming German elections, it seems likely that this option will gain some traction, especially in combination with the victory of strongly pro-EU candidate Emmanuel Macron in the French elections held in May. "The single market has faced a lot of criticism and has come under threat from Brexit," comments a Spain-based CFO. "Yet while there is still a lot that needs to be done to make the market more uniform, the recent elections in France have stabilised the market."



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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)



“Brexit has not yet had any material impact on UK M&A as the associated weakness of sterling has made UK assets more appealing to overseas buyers, and stock markets remain stable and finance available on attractive terms. The impact may be more marked if progress is not made as the two-year deadline approaches.

*Iain Newman,  
Partner,  
Co-Head of  
Corporate,  
CMS UK*



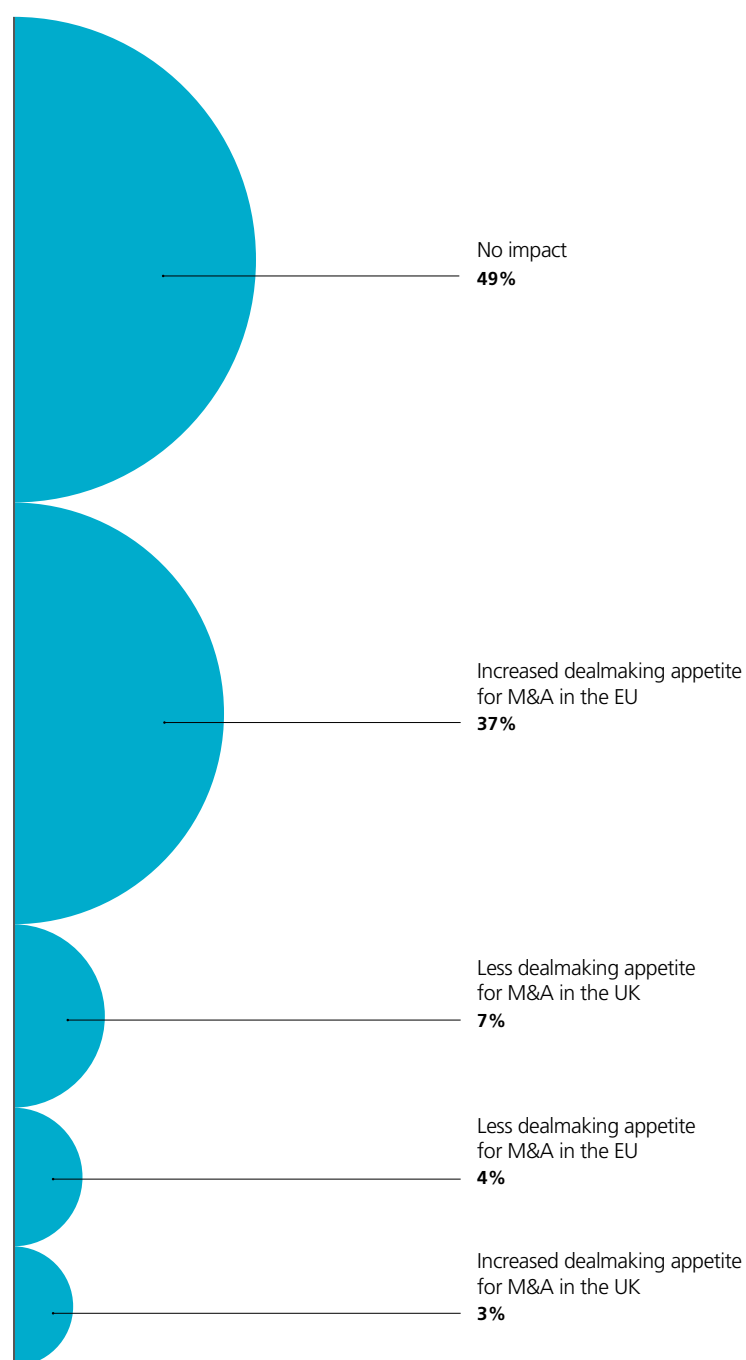
### The Brexit effect

Some respondents suggest that Brexit has, in many ways, made M&A more of a challenge. This is largely because of the market uncertainty it has caused. "The difficulty of trying to compete under these circumstances and the market volatility it has brought about means that we plan on carrying out fewer deals in Europe," says a Spain-based financial director. "Instead, we will focus on completing our deals in the US and expanding further into the US market."

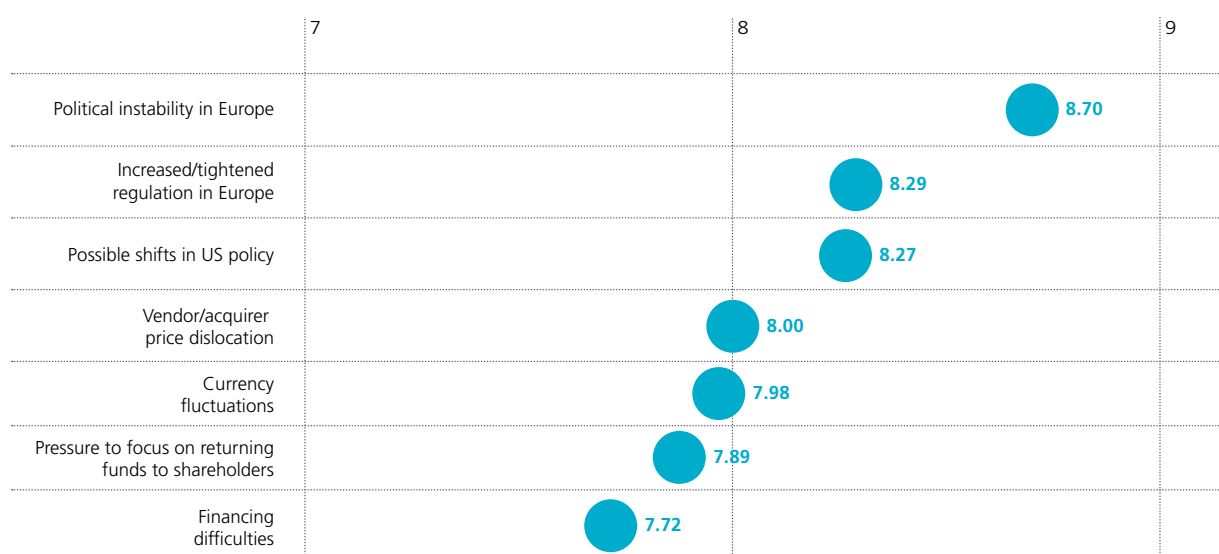
However, these respondents seem to be in the minority. A large proportion (37%) say that Brexit has increased their appetite for deals in the EU, with some even suggesting that the ultimate outcome of Brexit will be a stronger Europe. "We want to increase our EU acquisitions," says a Poland-based private equity managing partner. "In reaction to Brexit, the EU will take measures to strengthen the existing union and improve the single market."

Surprisingly, nearly half of respondents (49%) say that Brexit will have no impact on their dealmaking, with just 7% of respondents saying Brexit has reduced their appetite for deals. "Our investment activity focuses on our growth strategies and our sales," explains a German CFO. "We conduct M&A only if we are certain it will help us grow and generate stronger returns in the future. Brexit will not impact us and we will continue

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



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)



carrying out business activities without any problems.”

#### M&A barriers

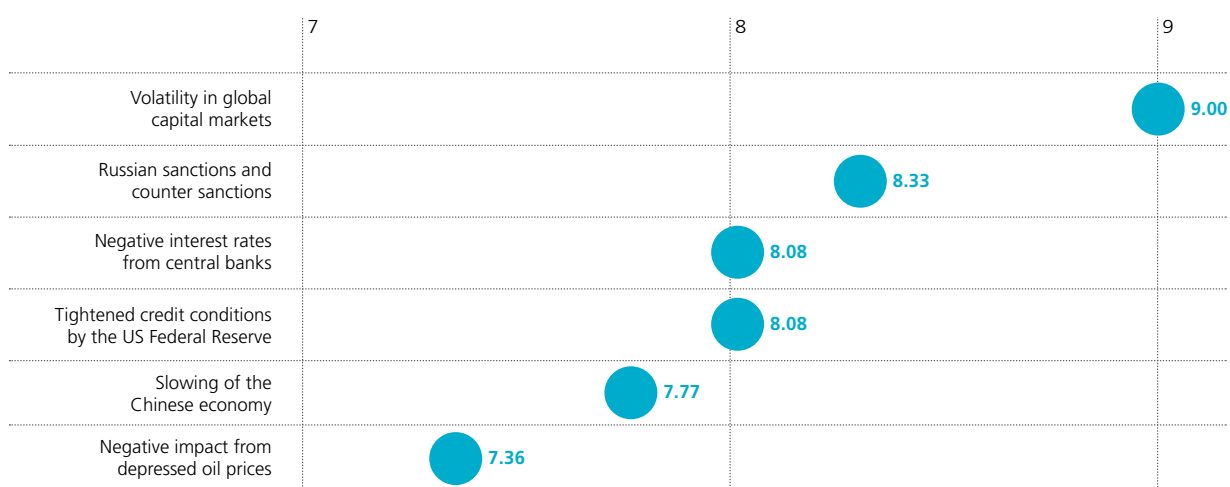
While respondents are confident about M&A opportunities, political instability is still weighing on many dealmakers’ minds. This is cited as the top obstacle to dealmaking, having been given a mean score of 8.7 on a scale of one to 10. This suggests that, while respondents have come to terms with the idea of Brexit, they continue to see ongoing negotiations as a potentially destabilising process. “The uncertainty surrounding the UK leaving the EU will create tension in the EU market, hindering existing business activities and deterring

“We live in times of political upheaval, geopolitical risk and policy uncertainty. Legal advisors helping clients negotiate a cross-border transaction should have a clear understanding of such geopolitical risks and policy uncertainties. The risk of changing legislation and uncertain policies can be mitigated by clearly addressing these issues during negotiations and in the transaction documentation, for instance by including clear risk allocation provisions.

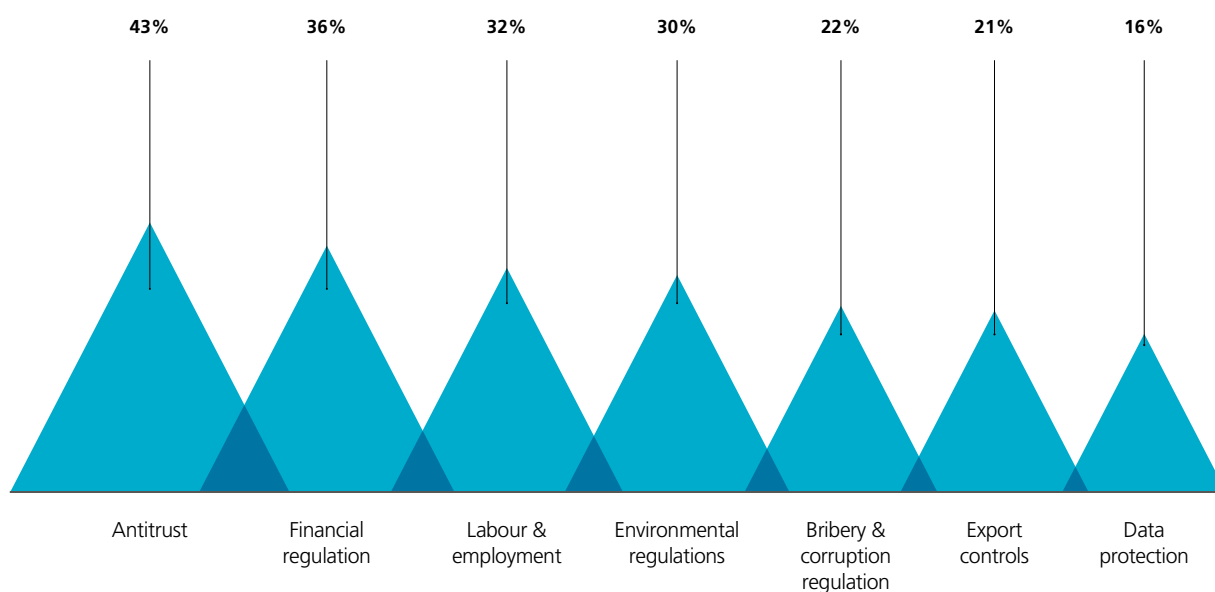


*Martika Jonk,  
Corporate/M&A  
Partner, CMS  
Netherlands*

Which external factors are most likely to impact negatively on the performance of European businesses 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 up to two)





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M&A activity,” says the managing director of a France-based PE firm.

Other key obstacles include increased regulation in Europe and possible shifts in US policy as the Trump administration runs its course. “Companies are facing a lot of obstacles,” says an Italy-based PE managing partner. “Regulators in domestic markets are trying to reduce the outflow of capital by putting up hurdles for companies.”

When it comes to the performance of European businesses, respondents say that global capital market volatility will have the most negative impact, with a mean score of 9. This is ranked in the same spot as last year. Russian sanctions also occupy the same place as in 2016 – coming in at second – but its score has increased markedly, from 6.6 last year to 8.3.

Many respondents say the loss of expansion opportunities in a large neighbouring market as a result of counter sanctions is a significant brake on their growth, while others point to strained relations as an issue. “Sanctions on Russia and their counter sanctions are creating tensions between the EU and a large and important market,” says a Spain-based CFO. “They are affecting operations and sales of different companies.”

#### **Antitrust tops regulatory headache list**

With over half of respondents (51%) saying market consolidation is one of the biggest buy-side

motivations in European M&A, it is unsurprising that antitrust comes out as the most challenging area of regulation, with 43% of respondents naming it as their prominent concern.

This is followed by financial services regulation (36%), most likely a partial reflection of the increased reporting requirements under the Alternative Investment Managers Directive for PE firms, which have been implemented over the last few years. “Financial regulations are stringent and increase legal and compliance costs, while individual country data protection laws are not sufficiently developed, which means that information relating to our fund and our portfolio companies is readily available to buyers – that puts us at a disadvantage,” says a UK-based PE managing partner.



Antitrust can indeed be challenging. It is advisable to make antitrust an integral part of the transaction’s legal assessment early on. Even in less complex matters, the notification process can be burdensome and should not be taken lightly. We see an increase in investigations into alleged provision of incomplete or incorrect information. This may result in heavy fines.



*Robert Bosman,  
Competition  
Partner, CMS  
Belgium*

## Regional round-up

### Despite concerns surrounding Brexit, the UK & Ireland continue to lead European M&A activity in terms of value and volume

According to Mergermarket data, the UK & Ireland maintained their pole position from last year, topping the table in terms of deal volume and value.

However, survey respondents believe Germany will be the busiest M&A market over the next 12 months, with 50% expecting an increase in volume, and 72% expecting it to lead in terms of value. According to a Hungary-based CFO: "Most deals will be carried out in markets that are stable and promise acquirers strong revenues. The German market is one such market that is not only growing well but is attracting a lot of buyers and capital."

Confidence in the UK and Ireland market has grown since last year. The region ranked third in terms of value and fourth in terms of volume. This is a marked increase from last year, where the region ranked seventh for volume and fifth for value.

#### Nordics

Volume	%	Value €bn	%
525	-2	45.779	28

The Nordics achieved the second-highest deal volume in the region. According to a managing partner of a Polish PE firm, regional governments have "brought about regulatory changes that will positively affect businesses."

#### UK & Ireland

Volume	%	Value €bn	%
721	-12	94.472	51

While the long-term effect of Brexit on the UK M&A market is still under debate, Ireland looks set to benefit. According to a Russian finance director, dealmakers will increasingly use Ireland as a base from which to gain access to the European market.

#### Germany

Volume	%	Value €bn	%
399	-12	66.05	47

German M&A has almost doubled in value compared to last year, powered by activity within the industrials and chemicals sector. According to a France-based PE partner, within the German market "not only are returns strong but demand is growing."

#### Italy

Volume	%	Value €bn	%
244	-12	38.142	21

### Benelux

Volume	%	Value €bn	%
257	▼19	22.671	▲10

### Austria & Switzerland

Volume	%	Value €bn	%
128	▼20	39.127	▼29

### Russia & Ukraine

Volume	%	Value €bn	%
86	▲3	7.385	▲68



### Iberia

Volume	%	Value €bn	%
219	▼9	52.945	▲76

### SEE

Volume	%	Value €bn	%
58	▲15	7.612	▲104

### CEE

Volume	%	Value €bn	%
172	▼34	5.684	▼6

Percentage changes compare figures for H1 2017 with the same period of the previous year.

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# Chapter four

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## The lending landscape

**Continued low interest rates in Europe, combined with high levels of dry powder in private debt and equity funds, are providing healthy financing conditions**

### Top findings

**88%**

are expecting similar or more favourable financing conditions over the coming year

**30%**

say company performance is the biggest challenge to raising finance

**57%**

anticipate PE financing to be the most available form of capital

**89%**

predict that restructurings will increase

The European financing environment is proving highly conducive for M&A deal activity, with an increasingly diversified source of options available to companies. While banks remain a strong force in the European corporate lending scene, a persistently low interest rate environment has driven investors to seek yield by committing to Europe's growing numbers of direct lending funds and other forms of private fund strategies.

In May 2017, the amount of dry powder among Europe's private debt funds stood at US\$57bn, up considerably from around US\$22bn in December 2012, according to Preqin. PE funds are also adding to the mix, with record amounts of dry powder to deploy – US\$918bn globally, the research firm estimates.

These conditions are reflected in our survey. The vast majority (88%)

of respondents say they expect financing conditions to remain the same or become easier over the coming year, with nearly half of these saying they will improve. Just 12% expect finance to become harder to access. This is in stark contrast to 2016's survey results, where 86% felt that financing market conditions were harder than the previous year.

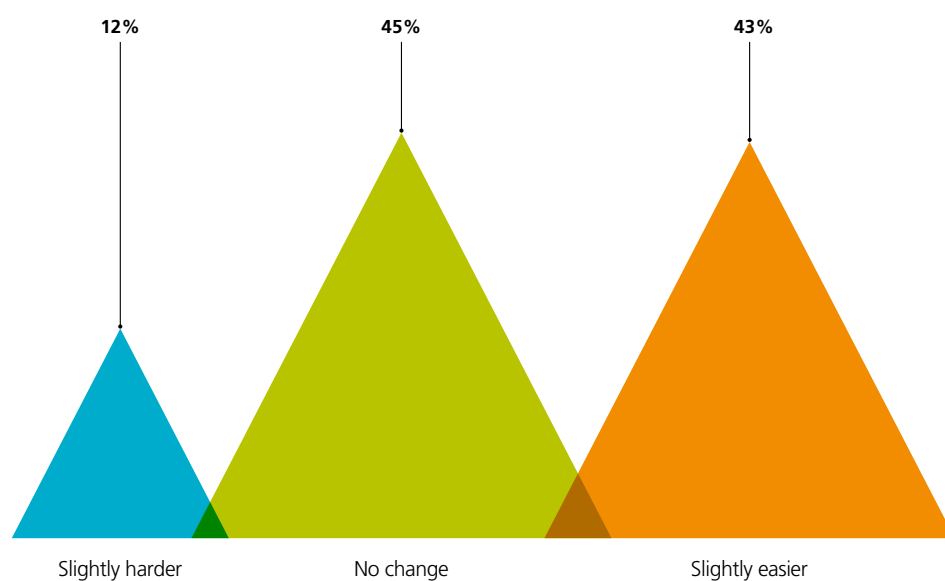
"Getting capital will not be difficult," says a UK-based director of M&A. "There are many financing options and I expect every company will be able to take one of these options. Interest rates are low and the number of lenders high, making it easy to access capital."

Despite this optimism, there remain barriers to overcome. The biggest challenge to financing acquisitions is expected to be company performance, mentioned by 30% of respondents, closely followed by underlying economic weakness (29%) and attitudes of lenders (28%). "Economic conditions are still unstable, even though business activities have been strong," comments a UK partner in a PE firm. "There are still uncertainties in a few major markets, growth rates are slow and some sectors are already bearing the brunt of changes in economic



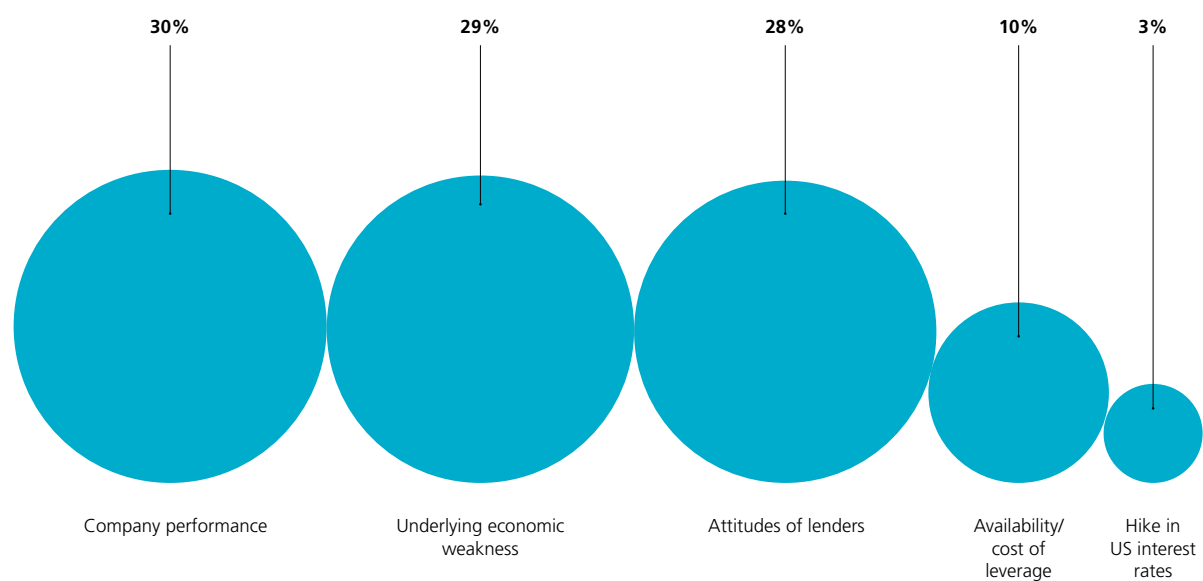
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How do you expect financing market conditions to be in 2017 compared to 2016?

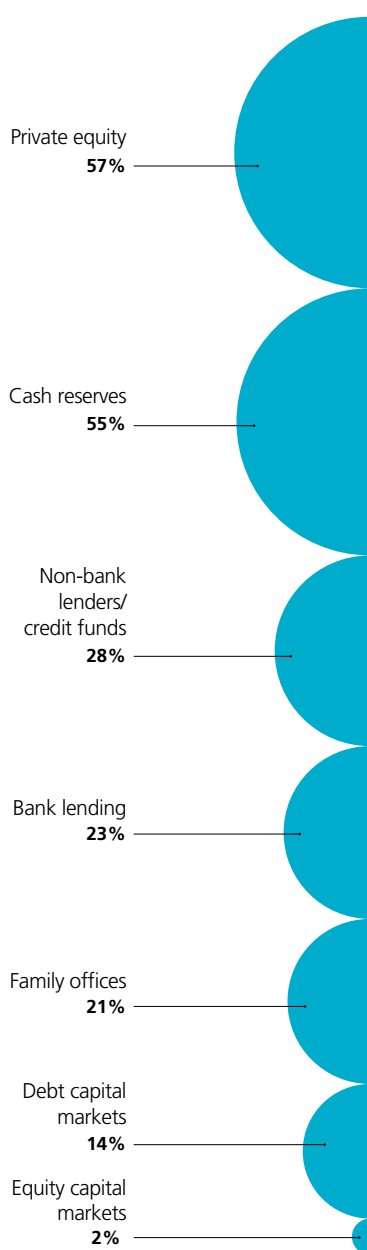


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What do you view as the greatest challenge to financing acquisitions over the next 12 months?



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



conditions. Stock markets are still very volatile and companies are taking time paying off debts."

With a healthy dose of competition apparent in the debt finance markets stemming from banks, the bond markets and alternative lenders, it is unsurprising that just 10% of respondents believe the cost of leverage is a major challenge.

With an abundance of capital at their disposal, it is unsurprising that PE firms are expected to be the most active source of capital over the next 12 months (stated by 57% of respondents). This is followed by cash reserves, mentioned by 55% of respondents. Alternative forms of debt finance, such as credit funds came in third place, with over a quarter (28%) saying this will provide the most available form of funding, ahead of bank lending (23%). This reflects the change the European debt landscape has witnessed since the crisis as private debt funds have captured an increased market share.

**“The European M&A related debt markets remain strong, particularly with the increased activity of credit funds, and terms are generally becoming more favourable to borrowers. The positive outlook for European M&A should lead to an increase in event-driven financings. We are also seeing significant growth in PE funds taking advantage of improved conditions to access the debt markets by refinancing.**

"Companies have been performing well and they have the capital they need to make acquisitions," says an Italy-based PE fund managing partner. "Non-bank lending activity will also increase as corporates turn to different avenues to raise large capital amounts."

#### Restructurings on top

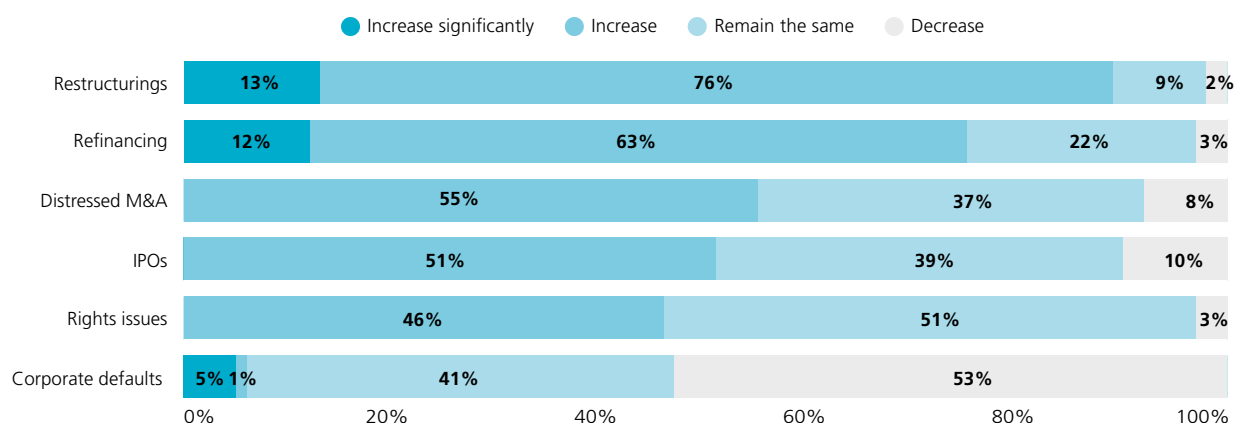
In line with last year's results, respondents expect restructuring to feature heavily among transaction types over the coming year, with 89% predicting that restructuring deals will increase over the next 12 months.

Refinancings also feature high on the dealmaker agenda: 75% expect the number of deals to increase or remain the same. According to S&P Global fixed income research, €3.7tn of rated companies' debt is scheduled to mature between mid-2017 and the end of 2022, which is set to cause a flurry of refinancing activity. "Refinancing activity will remain very high," says a Sweden-based CFO. "Repaying debts is difficult for companies in current conditions."

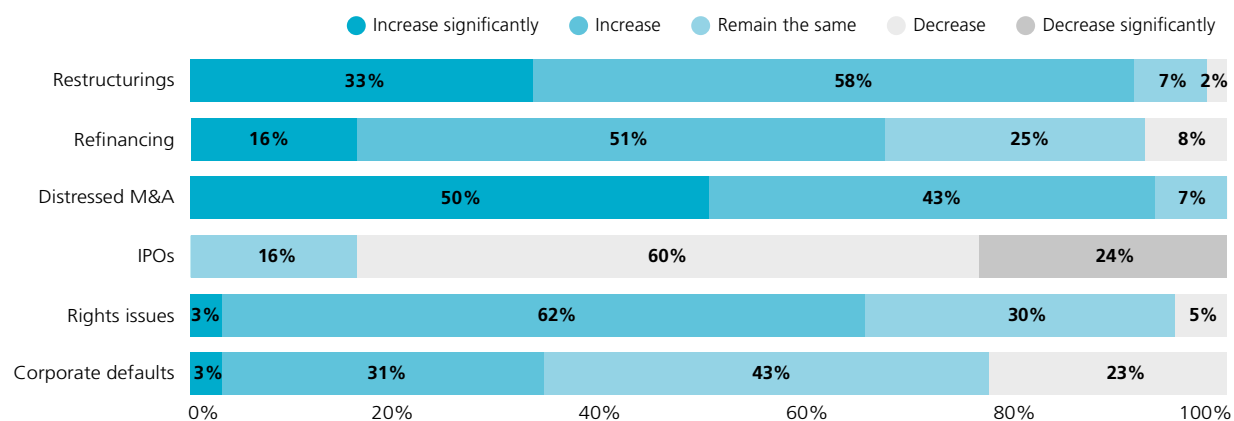


*Paul Stallebrass,  
Acquisition  
Finance Partner,  
CMS Czech  
Republic*

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



For each of the following transaction types, please rate your expectations for activity over the next 12 months.  
(2016 survey)



Yet in contrast to last year's survey, when 93% expected an increase in distressed M&A (including 50%, who expected a significant increase), this year, respondents are more optimistic about the level of distress. The number

of respondents anticipating an increase in this type of M&A dropped to 55%, with none expecting the increase to be significant. This is likely due to the array of financing options currently available to dealmakers.

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# Conclusion

## European M&A looks set for a strong year as both buyers and sellers are optimistic about the outlook for the region's dealmaking

Our survey reveals a growing sense of optimism among respondents – one that is rooted in a more stable political and dealmaking environment in most European countries. Key elections in Austria, the Netherlands and France have brought with them a break from political volatility, while confident economic indicators emerging from many eurozone economies supply a healthy backdrop for dealmaking.

Nevertheless, as our survey demonstrates, both corporate and PE firms are highly cognisant of some of the risks they face in M&A, from regulatory issues such as antitrust – particularly in the larger deals – through to geopolitical risk.

If European dealmakers are to translate their optimism into successful M&A strategies, there are three key points to consider:

**Look for disruption.** There are a number of disruptive forces at play, from global economic and market volatility and technological development to the eventual effects of Brexit across a number of sectors. Some of the most successful M&A deals are completed at points in the cycle when uncertainty and change deters others from acquiring or selling. Take a leaf out of the PE playbook and seek out opportunities in markets that are perhaps undervalued or are undergoing rapid transformation, and target businesses that are set to benefit from the changes.

**Focus on core growth areas.** These disruptive forces are driving buyers to diversify their exposure to manage volatility. For sellers, this means that their non-core business units may well be highly valued by acquirers that can gain synergies or economies of scale or are willing to

invest in unloved assets to develop and improve them. Divesting can free up capital to invest in areas of greater strategic value for sellers.

**Take advantage of financing conditions.** There is strong competitive tension between the rising numbers of financing options available to European companies. Debt funds and banks are vying to provide credit in many sectors and PE firms have record amounts of dry powder to invest, increasingly seeking buy and build opportunities to achieve businesses of scale. These factors underpin a strong financing environment for Europe's companies that can help them achieve their M&A ambitions and support their refinancing or restructuring plans.







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# About CMS

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Founded in 1999, with 71 offices in 40 countries, CMS is ranked third most global firm in the AmLaw 2016 Global Top 100. More than 4,500 legal professionals across the world work in sector-based teams and are trained in project management. CMS offers specialist, business-focused advice in law and tax matters to clients operating in complex business and constantly changing regulatory environments. CMS lawyers focus on their clients and on providing the best possible service.

From major multinationals and mid-caps to enterprising start-ups, CMS provides the technical rigour, strategic excellence and long-term partnership to keep each client ahead whatever its chosen markets.

For more information, please visit **[cms.law](https://cms.law)**.

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# Our latest CMS Corporate/M&A headline deals

The image shows a close-up of several green and yellow network cables plugged into a rack of ports.

## ABB

Advised ABB on the acquisition of Keymile's Communication Network Business.

The image shows a close-up of many glass bottles, likely for beverages, arranged in rows.

## Cott Corporation

Advised Cott Corporation on the sale of its bottling activities for non-alcoholic beverages to Re-fresco Holding N.V. for a purchase price of USD 1.25bn.

The image shows a close-up of a large metal gear with a bolt in the center.

## Deutsche Beteiligungs AG

Advised Deutsche Beteiligungs AG on sale of its shares in ProXES Group.

The image shows industrial equipment, possibly a pump or valve, with a green overlay.

## EXPLORER II – Fundo de Capital de Risco

Advised EXPLORER II – Fundo de Capital de Risco on the sale of Gascan, S.A. (and its subsidiaries), a company acting in the business supply of piped LPG.

The image shows a long aisle in a bookstore or library with shelves of books.

## Group Lagardère

Advised Group Lagardère on the sale to B-post of its Belgian distribution and retail division, and in particular its brands Press Shop and Relay.

The image shows laboratory equipment, specifically several test tubes in a rack.

## SYNLAB

Advised lab service provider SYNLAB on its acquisition of ALcontrol.

The image shows a close-up of a circuit board with many components.

## Mid Europa Partners

Advised Mid Europa Partners, the leading private equity investor in CEE, on the sale of Aesku-Lab and Alpha Medical businesses in the Czech Republic and Slovakia to Unilabs – the largest healthcare transaction in central Europe for a decade.

The image shows large industrial storage tanks, likely for gas.

## National Grid

Advised the successful consortium, including Macquarie, Allianz and Hermes, on its £3.6bn acquisition of a majority stake in National Grid's UK gas distribution business.

The image shows a small house model and a key, symbolizing real estate.

## Oaktree Capital Management

Advised Oaktree Capital Management on its investment in Kadans, a property investor and developer.

# About Mergermarket



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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## CMS tops M&A rankings again

2016 was another outstanding year for CMS' Corporate/M&A group, with excellent M&A rankings across Europe by deal count. With over 300 deals CMS advised on more transactions than any other law firm in Europe.

**#1** in Europe  
in CEE  
in France  
in Germany\*  
in UK

source: Bloomberg, \*Bloomberg, Mergermarket and Thomson Reuters

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# Sharing Knowledge

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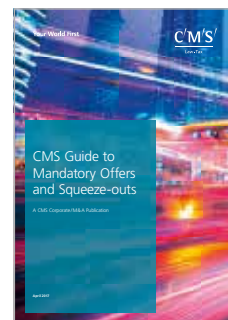
## Cash Pooling

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. *(June 2017)*



## Shareholder Activism: A European Perspective

In recent years, there has been significant growth in shareholder activism. Each European jurisdiction has its own characteristics and, to some extent, its own laws. The publication aims to explain the landscape across Europe's main markets, and to highlight the key differences in each of those markets. *(June 2017)*



## Guide to Mandatory Offers and Squeeze-Out

This Guide provides an overview of the current legal framework and practice governing public takeovers and squeeze-outs in a total of 26 jurisdictions (18 EU Member States, Albania, Bosnia-Herzegovina, Russia, Serbia, Switzerland, Turkey and Ukraine as well as China) and provides contact details of experienced legal advisors active in this field. *(April 2017)*



## European M&A Study 2017

This year's edition covers over 3,200 deals and we focus on the 443 CMS deals in 2016 and the 2,045 CMS deals in the period 2010–2015 by way of comparison. Once more the Study provides insight into the legal provisions of M&A agreements, makes comparisons across Europe and with the US and identifies market trends. A team of CMS lawyers analysed private M&A agreements relating to both non-listed public and private companies in Europe. *(March 2017)*



## Emerging Europe M&A Report 2016/17

The 2016/17 edition of the report pulls together data and lists of the biggest M&A transactions across the CEE/SEE region, provides commentary on what happened in 2016, and makes some predictions on where to expect deals in 2017. *(January 2017)*

To receive copies of the shown publications please contact our CMS Corporate/M&A team at:

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