PRESS RELEASE

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Confidence building in European M&A market says CMS and Mergermarket study

M&A executives in Europe are becoming more optimistic about deal flow on the continent, according to research with 225 practitioners by global law firm CMS and Mergermarket.

Nearly half of the respondents (48%) expect that European M&A levels will increase in the next year; only 10% expect a decrease and the balance anticipate that deal-making figures will remain constant.

Respondents from the Nordics (68%) and Central and Eastern Europe (CEE), Russia and the Ukraine (64%) are the most positive, with those in Iberia being the least buoyant, although a quarter (24%) of respondents in the region still expect an increase in activity. German-speaking practitioners were the third most optimistic, with 52% expecting an increase and no respondents expecting a decline in M&A activity.

Nearly a third of respondents (29%) are considering acquisition, whereas more than half (55%) say they are not thinking about M&A.

M&A executives expect Northern Europe will be the most active for deals over the next year, with over a quarter (28%) of respondents pointing to German-speaking countries as the busiest. The Nordic countries and the UK and Ireland are anticipated to be the second and third busiest markets.

On the buy-side, deal-flow is expected to be driven by increased appetite from foreign acquirers (62%), followed by the availability of undervalued targets (57%) and cash-rich operators (52%). On the sell-side, practitioners anticipate the biggest catalysts to deals will be capital raising for expansion in fast-growing markets (69%) and distress sales (68%).

The top five sectors for M&A are expected to be: TMT (41% of respondents); Energy, Mining and Utilities (38%); Industrials and Chemicals (37%); Pharma, Medical and Biotech (35%); and Financial Services (34%).

Asia-Pacific is the number one regional target for European companies considering acquisitions outside of the continent (35% of respondents), followed by North America (31%).

Most respondents (82%) expect cross-border M&A will increase into Europe in the next year, with Asian-Pacific (45%) and North American (40%) companies being the most active.

Thomas Meyding, Head of CMS Corporate Group, said, “Our research makes clear that confidence is returning to the European M&A market and many of the fundamentals underpinning the market are stronger than they have been for some time.

The profile of buyers in Europe continues to change and we expect to see more evidence of this as M&A activity picks up. Strategic investors with strong balance sheets are active in the mid-market, particularly with bolt-on acquisitions. New investor groups from Asia-Pacific, particularly Chinese and Korean, are increasingly turning to Europe as part of their expansion plans. Russian and US investors are also more prevalent now than they have been over the last three years, especially in Western Europe."

Helen Rodwell, regional M&A specialist at CMS, said: "Whilst there is renewed buoyancy in the market and an expectation of increased deal flow, buyers, and the financing banks supporting them, are still risk-sensitive. Any troubling due diligence findings prior to signing a transaction can quickly kill a deal and the discrepancy between buyers' and sellers' price expectations also remains a fundamental obstacle to deal closure."

In terms of financing, the largest share of respondents (40%) expects the environment to remain the same over the next year. Nearly a third (32%) think obtaining funding will be slightly easier, with the most confident regions being the German speaking countries, CEE, including Russia and Ukraine (both 52%) and the Nordics (40%).

The sovereign debt crisis is the biggest threat to European business, according to respondents, followed by weak domestic demand.

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CMS is a leading firm for M&A based on the number of deals completed. In the third quarter of 2013 CMS was ranked: 1st in Europe (Thomson Reuters up to USD 500m): 1st in Germany (Mergermarket, and Thomson Reuters Worldwide); and 1st in Central and Eastern Europe (Bloomberg, Mergermarket and Thomson Reuters Worldwide).

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