Your World First

C/M/S/ Law . Tax

Scanning the horizon: European M&A Outlook 2018

A study of European M&A activity

In cooperation with:

Mergermarket
An Acuris company

September 2018

Contents

Methodology

In the second quarter of 2018, Mergermarket surveyed senior executives from 170 corporates and 60 private equity (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.

Foreword

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

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

In 2017, economic growth in most European markets returned strongly to positive territory and respondents to the 2017 survey were in a highly optimistic mood.

This year's survey results reveal a slightly more nuanced picture. Many still see significant opportunity for M&A over the coming 12 months, driven by cash-rich domestic and international acquirers, the need for consolidation and an appetite for large, transformational deals. Some, however, appear to have their doubts: there is an increase in those expecting M&A in Europe to slow and more are expecting financing conditions to worsen over the next year, perhaps reflecting more moderate GDP growth forecasts, increased geopolitical risk and greater stock market volatility than was seen in 2017.

Yet such disruption can often provide ample opportunity for those able to identify and capitalise on it. As our survey will show, there is significant appetite for M&A with European companies increasingly turning to deals to achieve their strategic goals and private equity (PE) houses scouting the region for high quality assets as they seek to deploy record amounts of dry powder.

Key findings from our research include:

M&A confidence rising
With nearly three-quarters of respondents considering a deal in the next 12 months and nearly a quarter expecting European M&A activity to increase significantly over the coming year (both up from last year's survey), it is clear that confidence in the market has improved.

Appetite high among overseas buyers
Respondents are predicting that overseas buyers will increasingly eye the European market with interest, with the overwhelming majority (92%) expecting an increase in the number of inbound transactions and nearly two-thirds anticipating an increase in aggregate inbound M&A value in the next 12 months.

Financing conditions remain buoyant
Europe is now home to a variety of financing options: as bank lending credit standards and terms and conditions have continued to ease, debt capital markets have become more liquid and private debt and PE funds continue to draw in more capital.

Market commentary

European M&A shines in volatile times

While European economic growth is solid rather than spectacular, volatility has proven a catalyst for M&A activity. Chris Giles, economics editor for the *Financial Times*, reveals the key themes at play.

Chris Giles,
Economics Editor,
Financial Times

Europe has become interesting again. Dealmakers can be satisfied that little feels stable any longer and while most people in business fear the Chinese curse of "living in interesting times", the M&A business thrives on change. And whether the subject is economics, business, domestic politics or international relations, volatility is the watchword of 2018 and with that comes opportunity.

If 2017 was the year that Europe surprised everyone with victories for centre-ground politics and a surge in economic activity, this year has brought the need to take political risk seriously and dig out models on the effects of protectionism. Unthinkable a few years ago, but the question of the summer in Britain was whether it will soon put its economy on a war-footing with stockpiles of food and medicines ready for the possibility of a 'no deal' Brexit.

The year started with equity markets reaching all-time highs in January, only to be punctured by Donald Trump and the US administration announcing that it was bringing US troops to the ramparts, fighting a trade war on many fronts. In his customary style, the president tweeted "trade wars are good, and easy to win".

By June, it was clear that whether they were good or not, trade wars are certainly messy. The G7 summit in Canada broke up in acrimony with the leading Western economies of the world unable even to agree that there were benefits in following "a rules-based international trading system".

While the US economy grew strongly in the first half of the year, Europe's slowed, burdened with the uncertainty of trade conflicts and its own deep political faultlines. After being becalmed through much of 2017, populism was again on the march across the continent, with the traditional parties being kicked out of government in Italy, Germany struggling to hold its centrist coalition together and anti-immigrant sentiment spreading far and wide.

But the volatility in the business environment has proved to be a spur to M&A activity. The value of European deals in the first half of the year was up 16% on the same period in 2017 to EUR 509bn, according to Mergermarket data, with momentum growing in the market as the year progressed. Mega mergers have been in fashion this year, epitomised by the EUR 67bn acquisition of Shire by Takeda Pharmaceutical.

The attitudes of professionals in the merger business reflected the uncertain times, with agreement that there were many different reasons companies would seek to engage in M&A.

Cash-rich businesses will seek to take advantage of full valuations of their equity and top-of-the-cycle conditions in the US to expand elsewhere, where the economic cycle has further to run. There is the ever-present desire to consolidate markets where competition regulators will permit mergers of big players. And there is an increased desire from foreign players to gain a foothold in the European market through acquisition rather than the more difficult option of organic growth.

The uncertainty of the corporate environment at a time of still reasonable economic expansion generates big variations in corporate strategies and the emergence of significant numbers of buyers and sellers. So long as price can be agreed, this combination is ideal for trade. Those seeking a foothold in Europe will want to purchase from other companies seeking to specialise in some of their areas of expertise.

The European economic outlook continues to be solid rather than spectacular. Mario Draghi, European Central Bank president, says that activity is “proceeding along a solid and broad-based growth path”. In Britain, the slide towards stagnation in the cold early months of the year reversed with the weather to leave the outlook stable for the rest of 2018.

Trade is never far from the top of the agenda, whether it is Trump’s threats of ever more draconian tariffs and a slide into a damaging trade war, or his sudden U-turns and enthusiasm for new trade deals with the EU. The prospect of severe disruption of EU-US trading relations has receded for now, but companies would be wise to ensure that their supply chains are resilient to another sudden shift. This might well involve acquisitions or disposals to insure against political risk.

Brexit negotiations will intensify in the Autumn, with the likelihood of brinkmanship in tense summits in September, October and December. There is no guarantee of a deal given the complication of solving the Irish border issue and the incompatibility both of the EU and UK positions. Disagreements within the British government and opposition complicate matters even further, ensuring that if a deal is struck between the UK and EU, there is no guarantee it will be acceptable to Parliament.

Even with a Brexit deal, inward investment into the UK is likely to become more difficult in sensitive areas, with the government indicating it will scrutinise foreign takeovers more carefully in future to ensure they do not harm national security.

The interesting times will therefore continue. Most likely they will be market-friendly for M&A, not leading to crisis, but generating the need for restructuring. But at the back of everyone’s minds should be the worry that living in interesting times is considered a curse and, in politics and economics, big accidents sometimes do happen.

CMS interview:
Compliance & regulation

Dr. Hilke Herchen, head of the corporate/M&A group at CMS Germany, and Omar Qureshi, head of corporate crime from CMS' London office, discuss the key trends affecting the European compliance and regulatory environment

Dr. Hilke Herchen, Co-Head of the Corporate/ M&A Group, CMS Germany

Omar Qureshi, Head of Corporate Crime, CMS UK

What have been the key emerging trends you have seen in the European regulation and compliance space over the past year?

Omar: There has been a growing and accelerated trend, not just in Europe, but more widely, towards more focused laws and regulations aimed at tackling corporate and financial crime, with stiffer penalties. We are also seeing closer cooperation between regulators and law enforcement both within individual countries and between countries (both in Europe and beyond). While Brexit may have an impact in the short-term, the UK and EU are likely to quickly recognise the need to maintain open channels for law enforcement.

Some of these changes are a response to the accelerated pace of technological advances and globalisation, which are leading to new ways to commit or expose crime and new risks for individuals and society that current laws and regulations (at national or supra-national levels) are struggling to keep up with. For example, the GDPR is in some ways a response to the new ways that data about individuals can be used, shared and monetised. MLD4 can be seen as a response to how the global financial system can be manipulated by fraudsters to launder and transfer illicit funds. Part of that response involves making those who are best placed to spot the issues at the time responsible for any wrongdoing that ensues.

As that pace of change shows no signs of slowing down, we can expect to see continuing and possibly more radical regulatory changes in the coming years.

Hilke: Currently, of course, compliance with sanctions is a very hot topic which becomes more difficult to handle every day. Another issue that comes increasingly into focus not only for authorities but also investors, is corporate social responsibility (CSR). Under the CSR regulation, additional reporting requirements have been imposed on the companies. Yet more importantly the investors regard CSR compliance as a factor driving the value of the target respectively avoiding a negative impact from reputational risks.

What are the major compliance issues dealmakers need to address when conducting an M&A transaction in Europe?

Omar: The risk of exposure of historical wrongdoing and the potential cost of resolving such matters are greater than ever before. It is therefore essential that buyers look more carefully at the culture of the target business (and that of the seller) when assessing the risks associated with a deal and the potential difficulties/issues that may arise post-acquisition. That requires careful, targeted and sometimes quite detailed due diligence on the target's compliance controls, including how they have evolved over time, how effective they have been and how the target has responded to issues that have arisen. Sellers are often nervous about providing detailed information on these issues, but knowing the risks (and deciding if they are worth taking) is likely to be more valuable than negotiating warranties to protect against future loss of value, given the reputational, financial and regulatory impact of an investigation.

Hilke: There is a growing trend of holding companies liable for any breaches of compliance rules that have been committed by a group company, e.g. for violation of the rules under the GDPR or in case of breach of competition and anti-trust law, where we have lately seen very high fines. This is something which is producing much concern, even more so as the fines are nowadays often calculated on the basis of group turnover. That means that a compliance issue at the level of one (minor) subsidiary may trigger extensive fines at the top level. This makes thorough compliance due diligence even more important. In the transaction, next to discussions on potential indemnities it is very important for both the sellers´ and the buyers' sides to agree on an efficient mechanism of cooperation in case of investigations or claims made after closing.

What, in your opinion, is the piece of regulation or compliance legislation passed over the last 12 months that will have the greatest effect on European M&A?

Hilke: This is probably the GDPR and now the revived US sanctions against Iran.

In addition, we will have to closely monitor the developments in the relationship between China and the US and the potential consequences of a "hard Brexit".

Omar: In the longer term we expect that the legislator may introduce new regulation in order to respond to other challenges such as climate change and the changing geopolitical landscape, potentially at the expense of democracy and privacy.

Chapter one

European M&A gathers momentum

Our survey reveals that M&A activity looks set to be buoyant, even in the face of increased global volatility, driven by consolidation and appetite from overseas acquirers.

Top findings

22%
expect European M&A activity to increase significantly over the next 12 months, up from just 7% last year.

53%
say consolidation in an over-crowded market will be a major driver for M&A.

49%
expect capital raising for expansion to be one of the main factors in sell-side M&A.

92%
expect the number of cross-border deals to increase in the coming 12 months, while **64%** expect cross-border deal value to increase.

The first half of 2018 was marked by increased volatility on a global scale. Trade protectionism – and the prospect of a trade war between major economies – intensified in H1 2018 as the US and China both increased tariffs on trade. Meanwhile, geopolitical tensions and global growth helped push average crude oil spot prices to their highest levels since 2014.

And while the OECD is forecasting global GDP growth of close to 4% for 2018 and 2019, up from 3.7% last year, it is expecting slower growth for the eurozone, from 2.5% in 2017, trending down to 2.2% and 2.1% for 2018 and 2019, respectively.

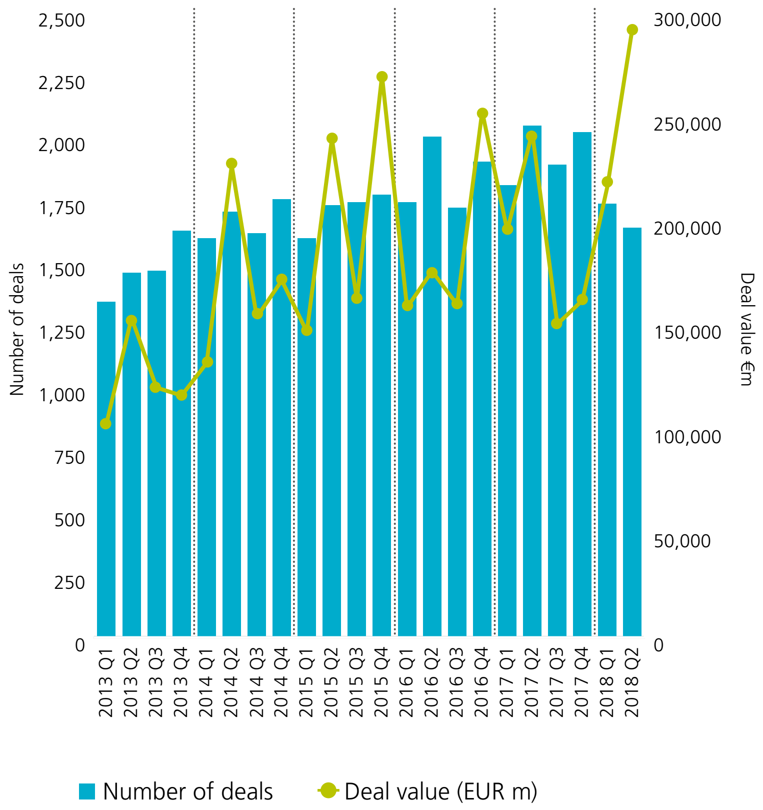
Against this backdrop, the trend for fewer but larger deals, observed in last year's report, continued into the first half of 2018. European M&A volumes fell in the first half of the year in contrast to H1 2017, by 12% to 3,374, with Q2 seeing the lowest number of deals since Q1 2015. Yet the value of European M&A increased by 16% year-on-year to reach a total of EUR 509bn during H1 2018, with a large spike in Q2, when deals valued at EUR 292.5bn were announced.

Indeed, H1 2018 saw 79 deals valued at EUR 1bn or more, up from 68 such deals in the same period last year – a 6% increase. Deal activity was mostly concentrated in the UK, which accounted for 25% of total value for the first half of 2018, followed by Germany (15% of value) and the Republic of Ireland (14%). Three of the largest ten deals in the first six months of the year involved UK targets.

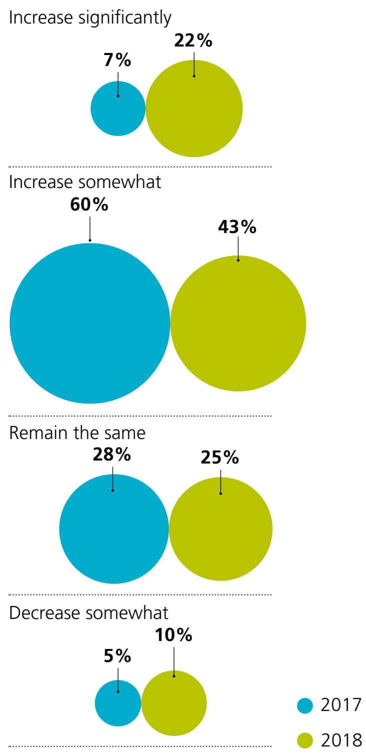
Highs and lows

Despite the prospect of more moderate growth across the eurozone economies, many respondents are optimistic that deal activity is set to rise over the next 12 months. Nearly a quarter (22%) expect M&A activity to increase significantly in the coming year, up from the 7% who said the same in last year's survey.

European M&A trends 2013-H1 2018



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



Some of this optimism stems from a belief that European companies are recovering well after a number of difficult post-crisis years and expectations of a stronger euro. "M&A will increase because European targets have become more reliable," says a partner at a Swedish private equity (PE) firm. "The surge of activity will come from overseas buyers and we see a rebound in the euro as a result of better policy-making. Valuations will increase, encouraging more sales."

This sentiment is echoed by a Russian finance director, who says: "We expect a significant increase in European M&A. Europe is restructuring itself and the difficult phase has passed. Companies in Europe are looking for a fresh start and they will be met by enthusiastic investors."

However, more respondents this year expect deal activity to slow over the next 12 months compared with last year's totals, perhaps reflecting some of the headwinds outlined above.

> Tax reforms in the US, continued low interest rates and large pools of capital available for acquisitions for both strategic buyers and private equity investors contributed to the boom that we are still seeing today.
>
> *Roman Tarlavski, Partner, CMS Netherlands*

Top 10 European M&A deals by value, H1 2018

Announced Date	Target Company	Target Sector	Target Country	Bidder Company	Bidder Country	Deal Value EUR (m)
08/05/2018	Shire Plc	Pharma, Medical & Biotech	Ireland (Republic)	Takeda Pharmaceutical Company Limited	Japan	67,097
12/03/2018	innogy SE	Energy, Mining & Utilities	Germany	E.ON SE	Germany	37,859
25/04/2018	Sky Plc	TMT	United Kingdom	Comcast Corporation	USA	33,389
23/03/2018	Abertis Infraestructuras, S.A.	Construction	Spain	Consortium formed by ACS S.A., Atlantia SpA and Hochtief AG	Italy	32,103
11/05/2018	Energias de Portugal S.A. (76.73% Stake)	Energy, Mining & Utilities	Portugal	China Three Gorges Corporation	China	22,947
09/05/2018	UPC Hungary; UPC Romania; Unity-media GmbH; UPC Czech Republic	TMT	Germany	Vodafone Group Plc	United Kingdom	18,400
27/03/2018	GlaxoSmithKline Consumer Health-care (36.5% Stake)	Pharma, Medical & Biotech	United Kingdom	GlaxoSmithKline Plc	United Kingdom	10,499
27/03/2018	Akzo Nobel N.V. (Specialty chemi-cals business)	Industrials & Chemicals	Netherlands	The Carlyle Group; GIC Private Limited	USA	10,100
17/01/2018	GKN Plc	Industrials & Chemicals	United Kingdom	Melrose Plc	United Kingdom	9,890
12/02/2018	TDC A/S	TMT	Denmark	DK Telekommunikation A/S	Denmark	8,551

A tenth expect lower activity this year, compared with just 5% who expected a fall last year.

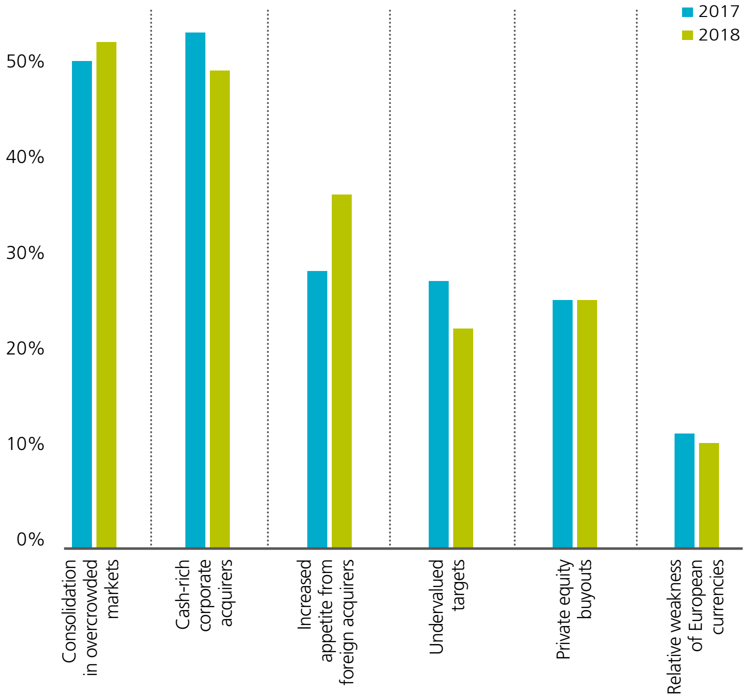
As one Nordic senior director of corporate M&A comments: “There is a sceptical mood about M&A performance this year. Volatility in Europe is creeping up again, interest rates remain unpredictable across different countries and undervalued currencies are all reasons to be less positive.”

Consolidation on the cards
When it comes to buy-side deals, respondents expect consolidation in overcrowded markets to be the main driver, with 53% saying this, up marginally from 51% last year. “Europe is a crowded market,” says one Italian corporate CFO.

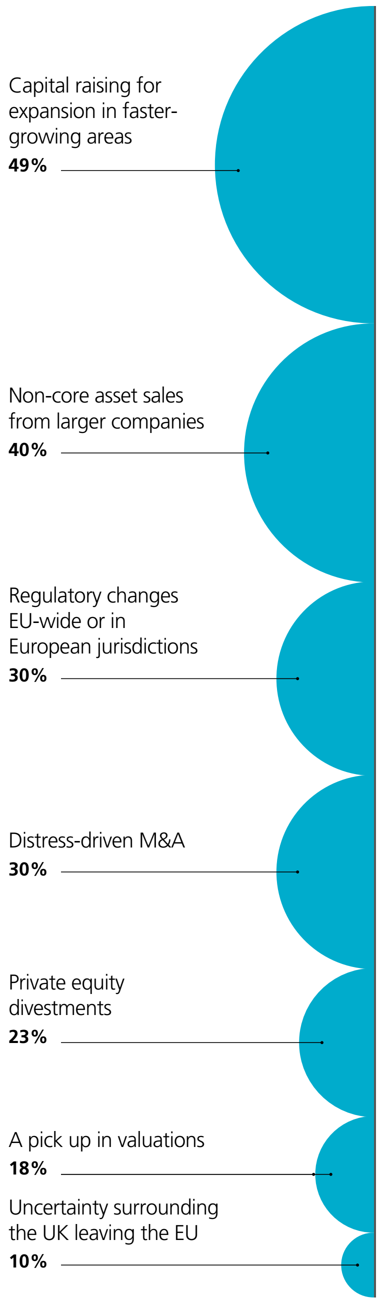
> The UK witnessed unprecedented levels of M&A activity in H1 2018, which looks set to continue. With weaker equity markets, UK targets appear attractively valued for overseas bidders, including selective investors who are also benefitting from low cost acquisition finance, while many industry sectors are seeing significant consolidation.

Mark Bertram, Corporate Partner, CMS UK

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)

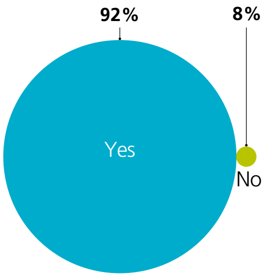


"Companies are looking to strengthen their position in the market and will buy smaller operational units that offer additional revenue-generating opportunities or more resources for their core business."

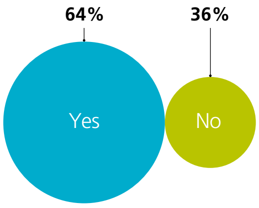
In a similar vein to last year, 50% of respondents anticipate cash-rich corporate acquirers to be a significant source of buy-side M&A. Possibly linked to this is the expectation that there will be increased appetite from foreign acquirers: 37% say this will drive buy-side M&A, up from just 29% last year, with many respondents also suggesting that valuations in Europe, relative to other markets, make it an attractive place to acquire. "Businesses around the world are currently eager to invest in Europe as business valuations are below par, making it easier for foreign, cash-rich acquirers to buy in Europe," comments a UK & Ireland-based group finance director.

On the sell-side, nearly half (49%) of respondents expect activity to be the result of companies seeking capital for re-investment in faster-growing areas, followed

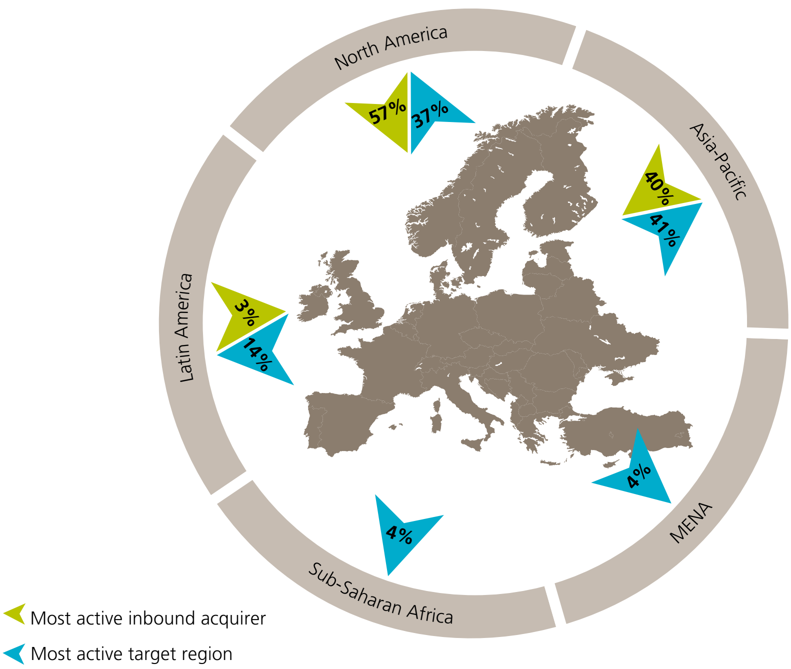
Do you expect the number of cross-border M&A into Europe (non-European acquirers) to increase over the next 12 months?



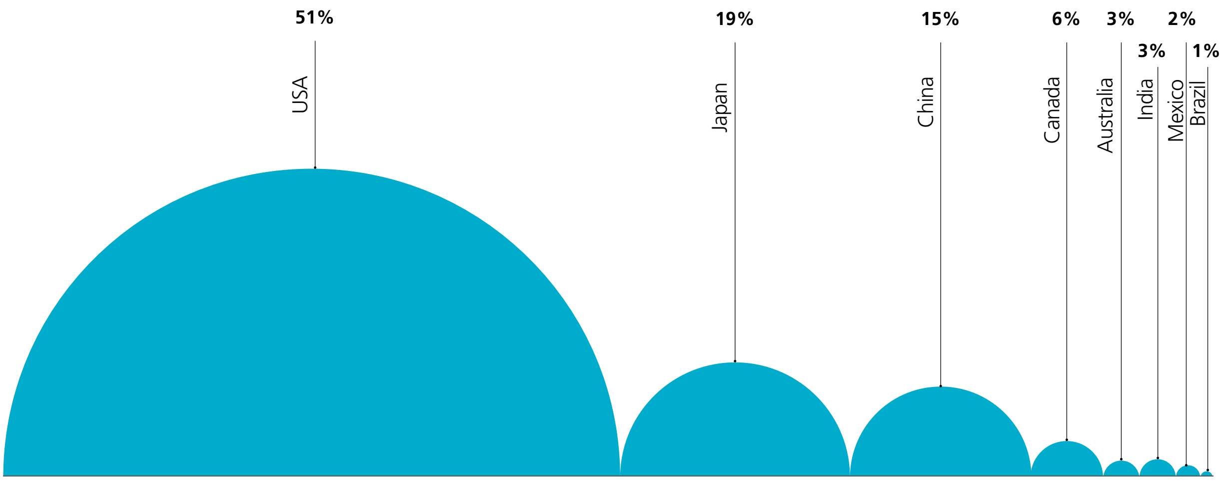
Do you expect the aggregate value of cross-border M&A into Europe (non-European acquirers) to increase over the next 12 months?



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?



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)



by non-core asset sales from larger companies (40%). These results show that Europe's companies are continuing to evaluate their product and service portfolios and geographic footprint. Encouragingly, the last two years have seen expectations of distress-driven M&A decline markedly as a source of sell-side M&A. In our 2016 survey, 65% anticipated distress to drive sales, falling to 37% last year and 30% this year.

Just 10% are expecting sell-side M&A to emanate from uncertainty around Brexit. This suggests that most companies are either waiting to see the eventual outcome before reaching decisions on potential sales or take the view that any impact of Brexit on their business will be limited over the long term.

Overseas buyers move in
Reflecting responses to buy-side drivers, the vast majority of respondents (92%) are anticipating an increase in the number of acquisitions of European companies by non-European buyers over the coming year. Nearly two-thirds (64%) are also expecting overseas aggregate acquisition value to increase in the next 12 months.

North America is expected to be the most active region for inbound European M&A over the next 12 months, as supported by 57% of respondents. The Asia-Pacific region comes in second (mentioned by 40%), with Japan expected to look most to Europe, followed by China. This is in line with last year's results and reflects the economic

> Overseas buyers are attracted to the European M&A market for a variety of reasons. But overall, Europe's digital and innovation potential is seen as a key driver of growth in a resilient market of consumers and companies. Investors concerned about economic and geopolitical risks see Europe as a place of stability, where risks are greater elsewhere, thus encouraging M&A in Europe to acquire innovative assets and customers.

Alexandra Rohmert, Partner, CMS France

reforms Japan has undertaken over the last several years, which have resulted in increasing appetite among companies in the country to expand through M&A. Indeed, the largest European deal in H1 2018 was Takeda's EUR 67.1bn acquisition of Shire. "Japan is one of the most technically advanced nations, with ever-increasing hunger to capture new markets," says a Norwegian corporate CFO. "Japanese companies want a global footprint and the valuations in the EU are helping them achieve this."

Outbound European M&A is expected to focus on the Asia-Pacific region, as dealmakers seek access to fast-growing markets, with 41% expecting this area to receive most attention from European companies, followed by North America (37%). Other regions, such as Latin America, are expected by far fewer respondents to be home to outbound M&A targets.

Sector spotlight

Financial Services & E-commerce set to drive dealmaking into 2019

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

Spotlight on: Financial services
In a partial reversal of the sector-wide M&A figures in Europe, financial services M&A volume remained constant in the first half of 2018, compared with the same period last year, with 210 deals announced (versus 207); yet value dropped by 36% to EUR 29.9bn.

Unsurprisingly, given the size of the sector in the UK, it was the top target country by both volume and value, accounting for 60 deals worth EUR 14.5bn. UK targets also attracted four of the top five largest M&A deals of the period. The largest deal in H1 this year was the acquisition by US-based futures and options trading business, CME Group, of UK-based wholesale interdealer broker, Nex Group, for EUR 4.6bn.

This activity is being driven by a number of factors, including a quest for growth in the UK banking sector against a backdrop of low interest rates and high levels of competition. This was behind CYBG's EUR 1.9bn acquisition of Virgin Money, as the group said in its announcement that it seeks to create a challenger that competes on a national level.

Access to new technologies and innovation to stay ahead of digital disruption is another major driver of M&A activity for European financial services businesses more generally, but particularly in the UK, given London's strength in the Fintech space. Over half of the Fintech 50, a list of the Fintech start-ups to watch, are based in the UK capital.

And, of course, Brexit is the other major driver for M&A activity in the UK's financial services space. As the sector that looks set to be most affected by the UK's exit from the EU, fears of potential disruption and the need to relocate certain services may be tipping some towards selling, while others – often PE firms that are increasingly targeting the financial services space – are spotting a buying opportunity.

Italy was the second-most active market for financial services M&A by value in H1 2018, recording EUR 2.9bn-worth of deals. Much of this activity was driven by a restructuring effort by the banking sector as it seeks to deal with non-performing loans (NPLs). The period includes the EUR 1.8bn merger of Intesa Sanpaolo's NPL recovery operations and the Italian operations of Intrum Justitia to create an NPL servicer of scale in the Italian market.

By volume, France and Germany were in second and third place, with 24 and 16 deals, respectively. The largest French deal was the EUR 213m acquisition of a 70% stake in PE firm, Idinvest Partners, by rival Eurazeo; while in Germany, the top spot went to the purchase of a 94.9% stake in HSH Nordbank for EUR 1bn by a group of investors.

Spotlight on: E-commerce

European e-commerce turnover increased by 15% from 2015 to 2016, reaching EUR 530bn, with further strong growth forecast for the years ahead according to a recent EU report. As consumers and businesses continue to shift more of their purchases online, e-commerce sector M&A remains active. H1 2018 saw 120 deals in the space, similar to the same period last year, but the total value increased by 97% to EUR 6.2bn, almost as high a value as the EUR 6.4bn recorded in the sector for the whole of 2017.

> Long-standing stalwarts of the high street know they have a fight on their hands if they are to continue to stay relevant in this dynamic market. Boardrooms are aggressively chasing targets that offer them the opportunity to diversify their product line, capturing fast-growing markets such as health and wellness, and allow them to quickly enter new geographies.

Tony Waller, Partner, CMS UK

While the rise of e-commerce is resulting in partnerships between supermarket giants and tech companies (such as Carrefour and Google's alliance in France, announced in June), other, more specialist consumer goods and retail businesses are acquiring e-commerce specialists to enhance their online distribution channels. One example is the finalisation of the acquisition of Italian online fashion retailer, YOOX Net-A-Porter, by Swiss luxury brand owner, Compagnie Financière Richemont, for EUR 2.6bn, the largest e-commerce deal announced in H1 2018.

The sharp rise in e-commerce deal value may partly be explained by the increasing maturity of some e-commerce players, yet it is largely due to increased competition for successful online businesses, with Asian buyers among those willing to pay richly for this type of asset. "Disruptors and e-commerce are taking over the consumer sector," says a Finland-based PE firm partner. "We will see more deals here as Asian acquirers increase their participation in Europe."

"Europe has the most developed consumer market," adds a French CEO. "Asian consumer companies are seeking technological upgrades and will target European companies in this sector."

Chapter two

Deal dynamics

M&A remains a core part of European companies' strategy as a means of expanding into new areas, staying on top of technology trends and responding to tighter regulation.

Top findings

72%
of respondents are considering M&A – acquisitions, divestments or both.

65%
of corporates are seeking growth in new geographies and customer bases, while **56%** of PE firms expect to undertake bolt-on acquisitions in existing geographies and segments.

69% of PE firms say technology and IP are the most important aspects when choosing suitable targets, while just **52%** of corporates say the same.

50%
cite regulatory pressure as one of the biggest motivations for divestment.

European companies are increasingly seeing M&A as a key means of achieving their strategic goals. Nearly three-quarters (72%) expect to engage in some form of M&A over the next 12 months, with 36% looking at acquisitions only, 7% at divestments only and 29% considering both. The proportion of respondents looking to M&A has increased over the last year, when 66% said they would complete a deal over the coming year.

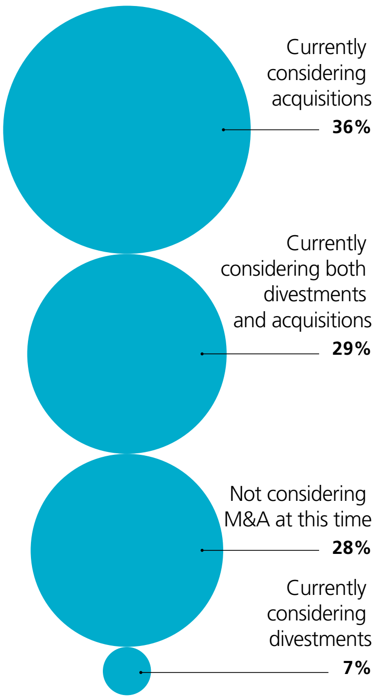
For some, M&A is a means of addressing digital disruption in their markets. As a head of M&A in Spain says: "There is a lot of competition from companies such as Amazon and so we are working on strengthening our position in the market. That's helped by the fact that there are currently some good prospective companies open to deals."

For others, M&A is seen as a more continuous process that is used to shape and optimise their business. "The diverse nature of our business means we are always looking for M&A opportunities," says a Switzerland-based finance director. "We are constantly on the lookout for investments and divestments that can help us progress the business to the next level while reducing lower-performing assets and substituting them for better ones."

Fortune favours the bold?
Growth and transformation are driving many of the acquisitions respondents are considering, although, as is to be expected, there is some divergence between corporate and private equity (PE) motivations.

For corporates, growth in new geographies and customer bases is the most popular rationale for acquisitions, selected by 65%, followed by bolt-on acquisitions in existing geographies and segments (50%). However, nearly half (46%) are looking at sizeable, transformational deals, up from 40% last year, suggesting that companies are becoming bolder in their M&A strategy.

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



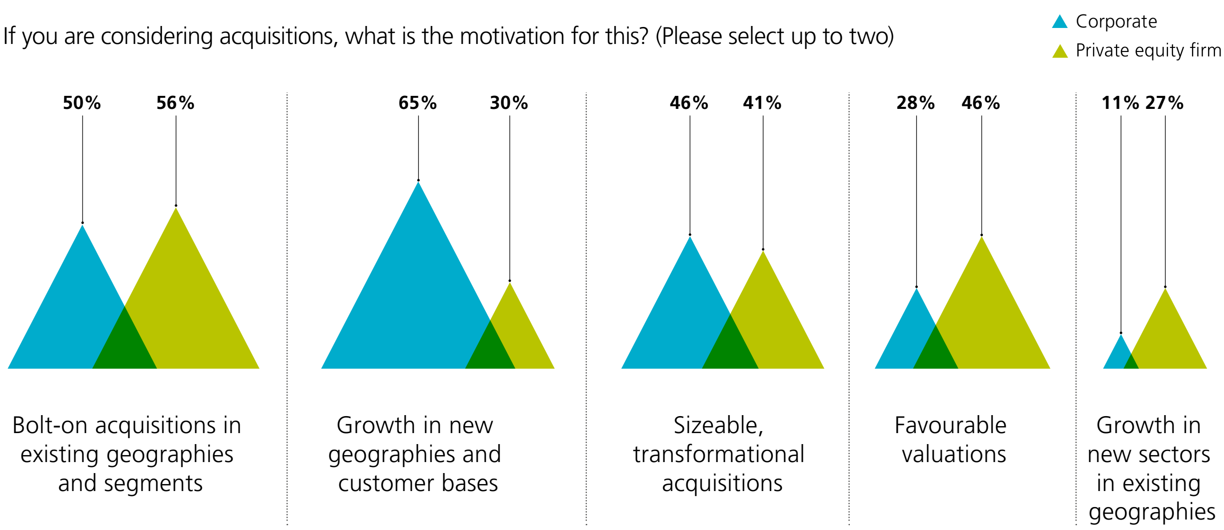
For PE, the focus is more on bolt-ons for portfolio companies (56% cite this as a key motivation) and favourable valuations in Europe (46%). However, 41% of PE respondents are also looking at transformational deals, with one even looking at consolidating the PE space itself. "Our first priority is to acquire another PE firm with a decent amount of invested capital – this will transform our business," says a PE firm managing partner in the Netherlands.

When assessing acquisitions for the next European M&A target, accessing technology and intellectual property is the most important aspect to consider for both corporates and PE firms. However, this is considerably more important for PE, with over two-thirds of PE firms (69%) considering it as vital, compared to just 52% of corporates. Also important for corporates are the targets' ability to lower their cost base (41%) and accessing a new labour force/ expertise (37%). Meanwhile for PE, access to regional distribution channels is more important (44%).

Regulation and focus drive divestments

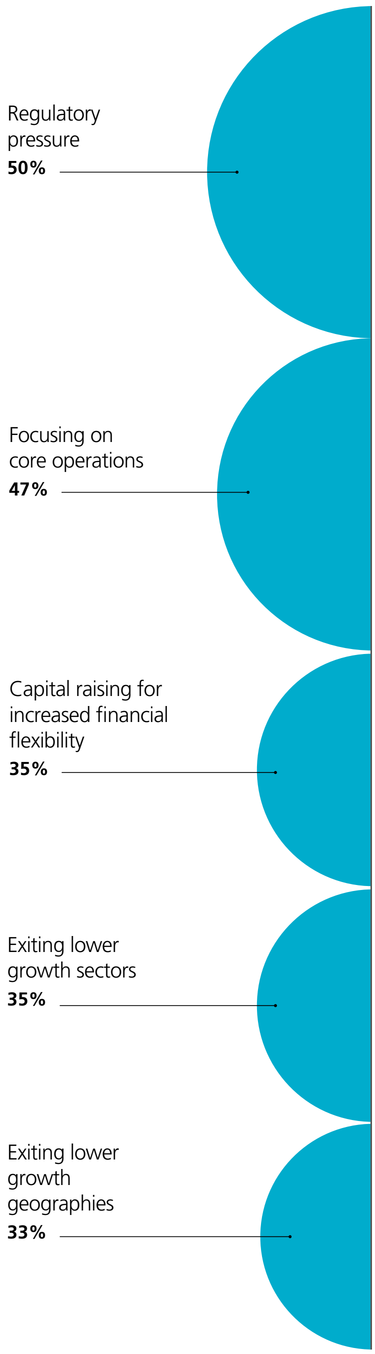
For those looking at divestments, regulatory pressure is the top driver, with half of respondents saying this is one of their motivations. Not far behind, mentioned by 47%, is a need for companies to focus on core operations, with some also looking to raise capital for reinvestment in the business. "We are concentrating on our core business," says a Belgian CFO. "This means we may make some divestments if required. These will also be fuelled by a need for financial flexibility in future operations."

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)

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



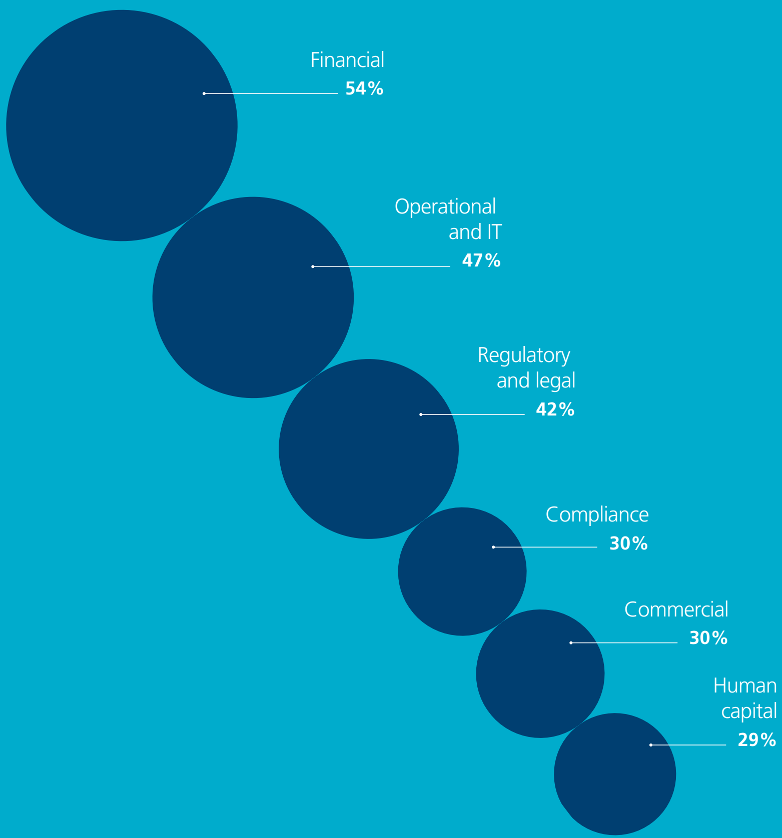
Mitigating risk in M&A

We take a look at the key risks facing European dealmaking, as well as the most popular strategies for mitigating them.

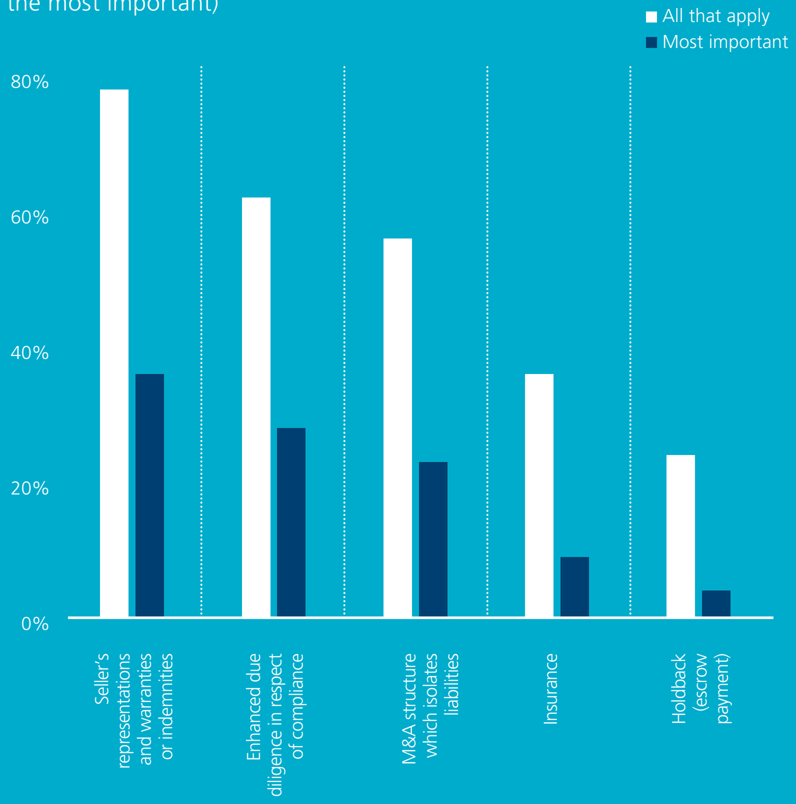
While M&A can boost growth plans, it clearly entails an element of risk – and one of the biggest sources of this relates to the historic functioning of the target business, as our survey demonstrates. Over half of respondents (54%) have discovered significant financial risk in a target company in the last 12 months, 47% have discovered operational and IT risk, and 42% have discovered regulatory and legal risk in a target.

While in some cases these kinds of discovery can be deal-breakers, they do not always have to be if acquirers take advantage of the most appropriate risk-mitigation technique. Among our respondents, the most used was sellers' warranties and indemnities, with 78% relying on these to get their deal over the line. This is also highlighted as the most important risk-mitigation technique, with over a third saying this. "We use representations and warranties in the sales agreement," says a

In which of the following areas have you discovered significant risk in a target company over the past year? (Select all that apply)



In which of the following areas have you discovered significant risk in a target company over the past year? (Select all that apply and the most important)



Sweden-based director of M&A. "If we identify bigger risks that could affect the value of the business, we include this as a special mention in the agreement."

The second-most used means of mitigating risk is enhanced due diligence to enable the buyer to understand better the extent and nature of the risk. This was used by 62% of respondents and is considered the most important by 28%. "Due diligence is the best defence we have in any M&A deal," says a France-based director of M&A. "It's the final report card of the target and helps us identify the right set of policies, strategies and goals for once the deal has completed."

Over half of buyers (56%) have also used an M&A structure that isolates liabilities to protect their position. This is also considered key, with 23% of respondents saying this is the most important way of mitigating historic risk. "Using an M&A structure to isolate liabilities is the safest choice of all," says an Ireland-based group head of finance. "We typically don't have to buy the liabilities of a selling organisation and we can avoid taking over any litigation – we just buy the assets. Such a structure does often require intense documentation, however."

Due diligence remains a key component on any transaction for a buyer to understand what is being acquired and may be supported by warranties and possibly W&I insurance. What is key is that the use of W&I insurance is not a substitute for due diligence and insurers expect there to have been a proper due diligence exercise carried out.

Sandra Rafferty, Partner, CMS UK

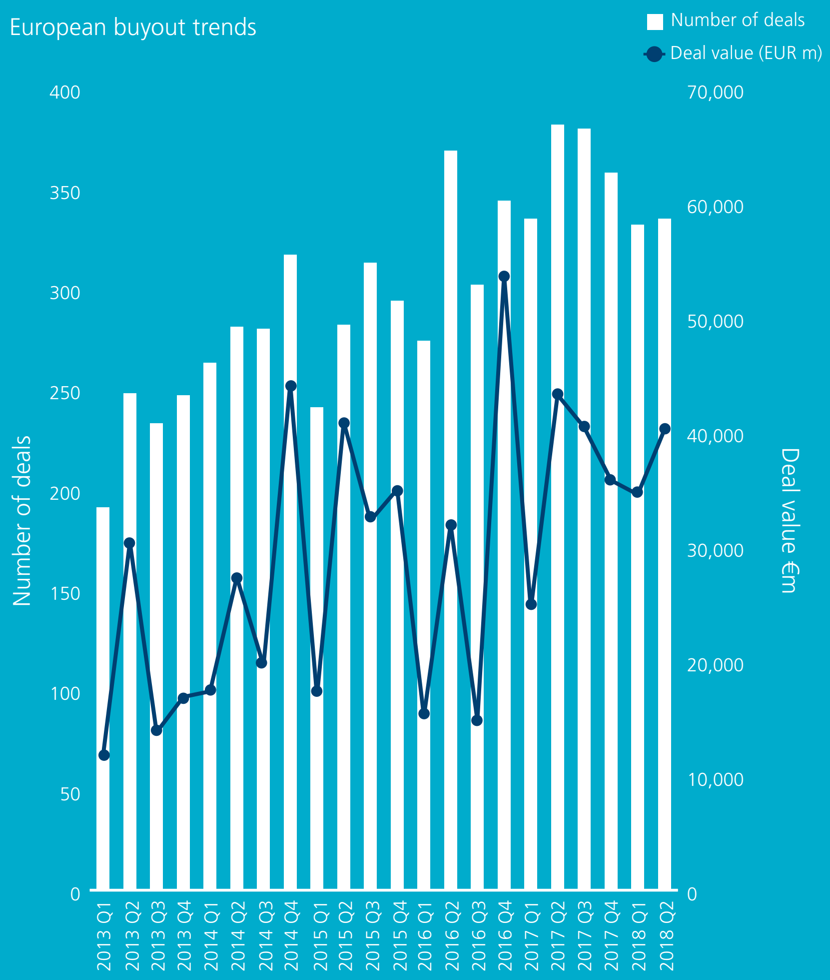
PE flush with cash

Private equity continues to deliver impressive returns for investors, with dry powder sitting at a record high.

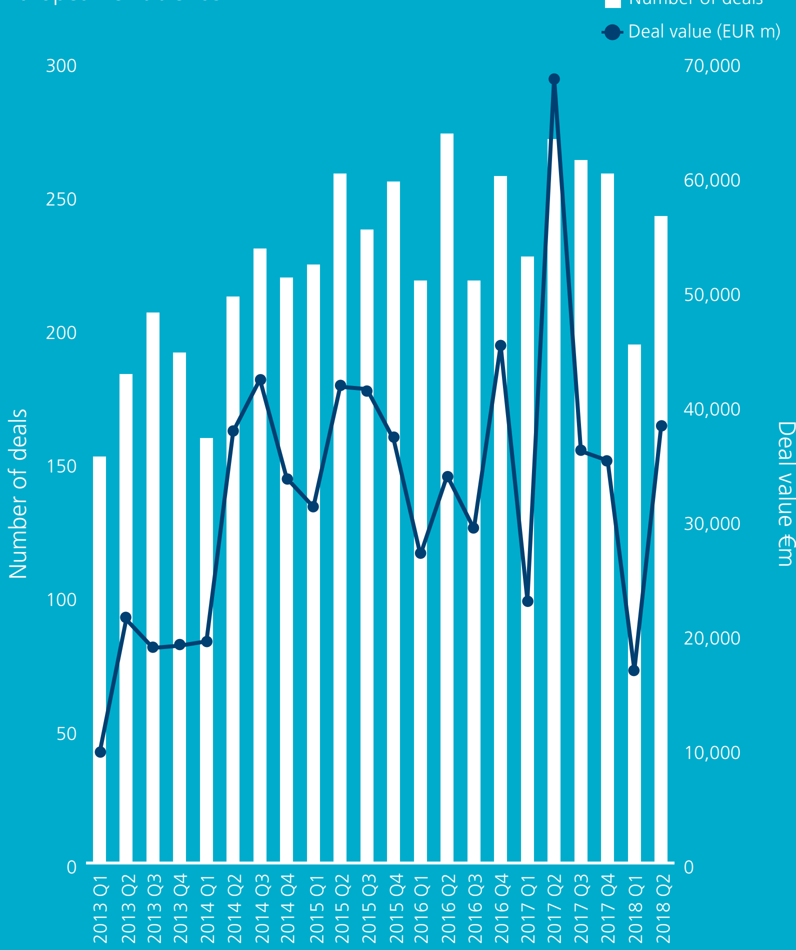
Private equity (PE) has been one of the main beneficiaries of the quest among institutional investors for yield. So much so that total dry powder among PE firms globally stood at a record USD 1.1 trillion at the beginning of 2018, according to research firm Preqin – an increase of 24% in the past year.

There is clearly pressure to deploy this capital in what has become a highly competitive market. European PE buyout deal volume in H1 2018 – 667 – remained on a par with H1 2017, although values rose by 10% to EUR 74.8bn, one of the strongest half-year totals on record. Part of this surge in value is due to the prevalence of large, EUR 1bn+ deals announced during the first half of the year, topped by the EUR 10bn acquisition of Netherlands-based industrials and chemicals business, Akzo Nobel, by The Carlyle Group and the PE arm of sovereign wealth fund, GIC.

European buyout trends



European exit trends



The UK and Ireland accounted for the largest share of buyout deals by value (17%), followed by Italy (16%) and Benelux with 15% of the total value.

In contrast to other respondents, many PE firms are less bullish about acquisition activity among European corporates within the EU. One France-based partner, for example, predicts more selling activity than buying among corporates in the region. "From where we see the European economy, there will be no change in M&A activity. While it might provide an attractive route to instant growth, European companies are still focused on selling to raise capital for investments outside Europe."

"Corporate participants in Europe will be on the slower side," adds a Russia-based senior partner.

> Healthcare offers a compelling investment case for private equity, largely because of the fundamentals at play: ageing populations, globally expanding health consumerism, increasing prevalence of chronic disease etc. The businesses are often downturn resilient but also offer significant value enhancement opportunities, through consolidation and operational improvements in a fragmented and sometimes inefficient sector. Those qualities are attractive to PE, despite pretty high valuations.

James Grimwood, Head of the CMS Private Equity Group, CMS UK

Top 10 European PE deals by value, H1 2018

Announced Date	Target Company	Target Sector	Target Country	Bidder Company	Bidder Country	Deal Value EUR (m)
27/03/2018	Akzo Nobel N.V. (Specialty chemicals business)	Industrials & Chemicals	Netherlands	The Carlyle Group; GIC Private Limited	USA	10,100
29/06/2018	Recordati SpA	Pharma, Medical & Biotech	Italy	CVC Capital Partners Limited; Public Sector Pension Investment Board; StepStone Group LLC	United Kingdom	6,340
25/05/2018	Techem GmbH	Industrials & Chemicals	Germany	Caisse de Depot et Placement du Quebec; Ontario Teachers' Pension Plan; Partners Group Holding AG	Switzerland	4,600
22/02/2018	Naturgy (20.07% Stake)	Energy, Mining & Utilities	Spain	CVC Capital Partners Limited; Corporacion Financiera Alba SA	United Kingdom	3,816
16/04/2018	Bayer AG (3.61% Stake)	Pharma, Medical & Biotech	Germany	Temasek Holdings Pte. Ltd.	Singapore	3,058
11/05/2018	ZPG Plc	Business Services	United Kingdom	Silver Lake Partners	USA	2,884
18/04/2018	AccorInvest (57.8% Stake)	Leisure	France	GIC Private Limited; Public Investment Fund; Amundi SA; Credit Agricole Assurances SA; Colony NorthStar, Inc.	Singapore	2,850
26/03/2018	Scandlines Aps	Transportation	Denmark	First State Investments ; Hermes Investment Management	United Kingdom	2,562
11/02/2018	Nuovo Trasporto Viaggiatori SpA	Transportation	Italy	Global Infrastructure Partners	USA	2,383
28/06/2018	Zentiva Group a.s.	Pharma, Medical & Biotech	Czech Republic	Advent International Corporation	USA	1,900

Meanwhile, after several years of buoyant exits, H1 2018 saw PE realisations slow down. They declined in number, by 12% in volume and by 40% in value, making the period the slowest for exits since H2 2013.

Pharma, medical and biotech on the rise

With increasing competition for assets, many Europe-focused buyout firms have built sector specialist teams to increase their chances of identifying high quality companies and improve their value creation capability. One sector that has received a high level of PE interest is the pharma, medical and biotech (PMB) area. As a French partner comments: "The pharmaceutical business is highly developed in Europe. We are expecting a good number of transactions in this sector due to its global demand."

First half figures reflect this trend. The PMB sector accounted for 20% of the total value of European buyouts, at EUR 14.8bn, up from just 10% in H1 2017. Indeed, the H1 value for PMB sector buyouts is the highest half year total since 2013. Three of the top ten buyouts feature companies in this space, including the EUR 6.3bn acquisition of Italian pharma business Recordati by CVC Capital and others, Temasek's EUR 3bn purchase of a 3.61% stake in pharma giant Bayer, and Advent International's EUR 1.9bn deal to buy Zentiva, also a pharma company, based in the Czech Republic but registered in the Netherlands.

The lure of pharma assets, in particular, is outlined by a Switzerland-based managing partner: "European pharma companies have strong profit and revenue performance and have ambitions to grow. Investors will be targeting this sector a lot over the next 12 months."

Chapter three

The rise of protectionist measures and the future of European M&A

With proposals to increase scrutiny of inbound M&A across Europe and the UK's imminent exit from the EU, protectionism is on the rise. Our survey assesses its effects on M&A in the continent.

Top findings

Politics in Europe is the biggest obstacle to M&A activity in Europe, followed by possible shifts in US policy.

48% disagree with European Commission proposals for greater scrutiny of foreign direct investment in the EU, while **25%** agree.

46% say Brexit will have no impact on their dealmaking appetite, while just **3%** say it will reduce their appetite for UK M&A.

47% say antitrust rules are the most challenging type of regulation when doing a deal in Europe.

The last 12-24 months have seen an increasing, global trend towards protectionism. The imposition of tariffs on certain Chinese and EU imports by the US, together with counter-impositions of tariffs by the Chinese and EU authorities, are just part of the story. At both member state level and EU level, there are moves towards greater scrutiny of foreign investment in strategic assets or critical infrastructure.

Earlier this year, for example, the UK updated its merger and takeover rules to give the government stronger powers of veto over foreign takeovers of certain types of technology business. At EU level, there are proposals to increase scrutiny of foreign direct investment (FDI) and create a cooperation mechanism between member states in cases where investment is considered a potential threat to security.

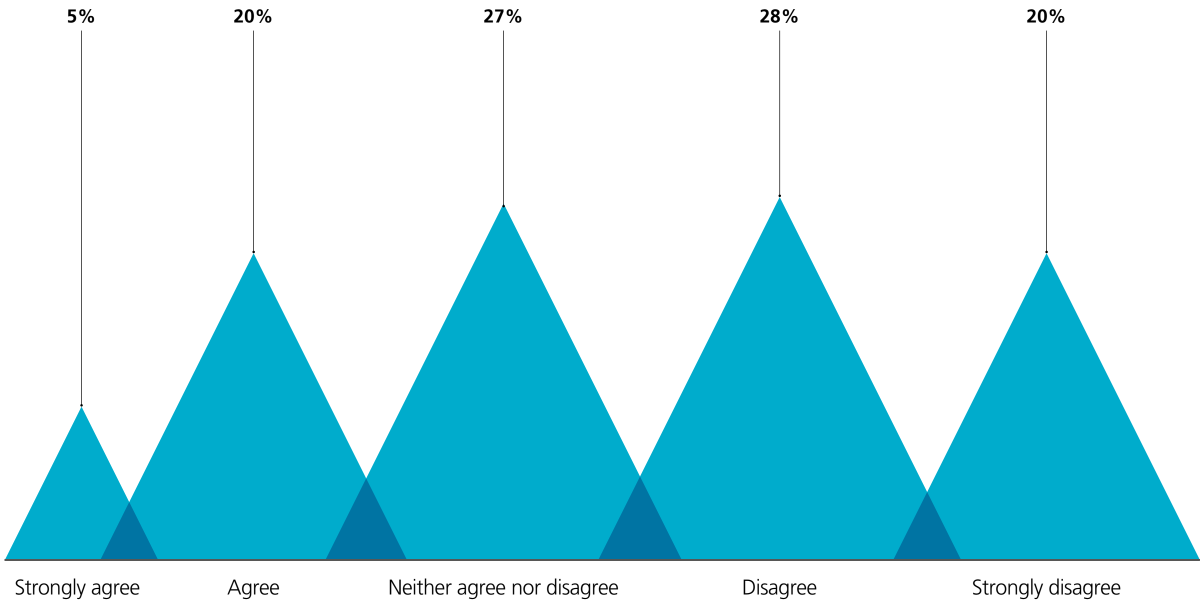
There has already been some M&A fallout as a result of increased wariness of foreign takeovers in some sectors. In July, the German government blocked the sale of machine tool company Leifield to a Chinese firm Yantai Taihai on the grounds of national security.

Mixed opinions on FDI

When asked about the European Commission proposals on FDI, nearly half of respondents (48%) disagree with them, including 20% who strongly disagree. Most of those disagreeing believe that this will discourage overseas investment in the EU, which would be detrimental to the region's economic prospects. "There is no basic need for this move to be implemented," says a France-based PE firm managing director. "The only factor that can bring back stability to the EU is foreign investments. Bringing in regulations to control it wouldn't be a favourable move at all."

This sentiment is echoed by a UK-based M&A director, who says: "The European Commission needs to be thoughtful of the action it takes. Trying to protect the economy intensely could close the door on a lot of potential deals that would benefit the region's economy."

Do you agree with European Commission proposals for greater scrutiny of foreign direct investment into the EU?



While 27% neither agree nor disagree, a quarter of respondents are in favour of such proposals. This is perhaps a larger proportion than may be expected among business and investment executives. Improved economic stability is the key rationale for many supporters of tighter FDI rules. "There should be thorough scrutiny of foreign direct investment in the EU as there are many external forces that have a negative impact on the EU's economic situation," says a group head of finance in France. "These changes to investment policy are necessary for the EU to mitigate any possible risk that can be caused by outside economy."

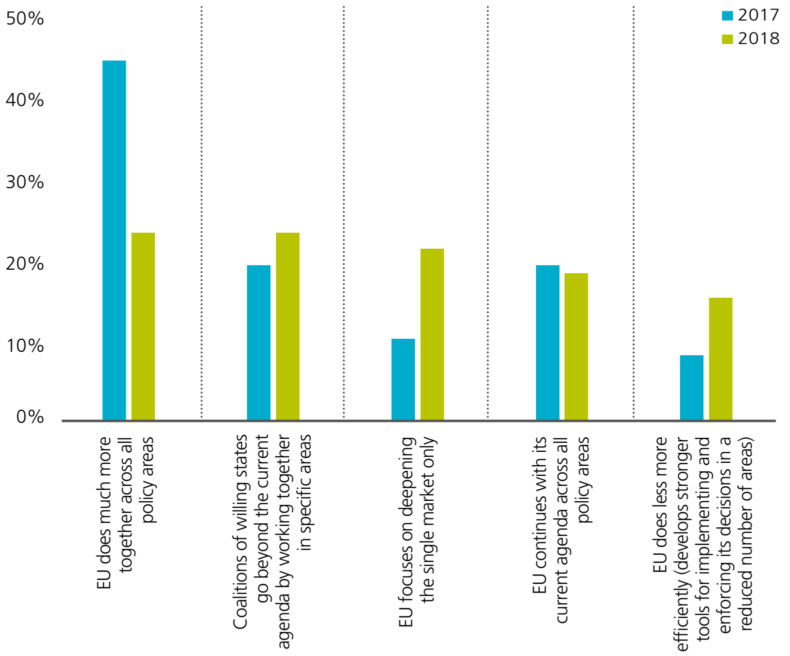
An Italian PE firm managing director and partner agrees, adding that European companies are more likely to step up to the investment plate if the proposals are implemented: "There are greater opportunities within Europe if given the right exposure. The EU needs to protect its economic environment and improve stability by limiting foreign investments and fostering domestic development."

The future direction of the EU

In response to the Brexit vote, the EU published a white paper on its future direction in 2017, outlining five potential future scenarios for the region, including: carrying on as before; focusing on the single market; creating coalitions of member states that wish to integrate further in specific areas; doing less more efficiently; and doing much more as a bloc across all areas.

Where last year nearly half (44%) of respondents said the EU doing much more together across all policy areas would increase their European M&A appetite over the next three years – a clear frontrunner – opinion appears to have shifted over the last 12 months. The results are far more mixed this year, with the EU doing

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)



Buyers and sellers in European M&A deals are well advised to consider early on whether the target asset and potential buyer may attract political interest. Against growing political pressure to tighten up both the criteria and the oversight, some transactions are failing in the absence of regulatory opposition. Despite the importance of inward investment to European economies, it seems one person's dollar is not always as welcome as another's.

John Hammond, Partner, CMS Germany

much more and coalitions of states working together in specific areas just about coming in top place, with 23% saying each of these, closely followed by the EU focusing on the single market only, the preferred option of 21% of respondents, up from just 10% in 2017.

The divergence of opinion is reflected in many of the respondents' comments. "The EU needs policies that are stronger in every way," says a Spanish head of corporate development. "There have been a few compromising regulations brought in recently to support defaulting countries, but it needs to get stronger to prevent defaults happening in the future."

Another respondent, who suggests that coalitions of states should work together, says: "Certain areas of investment and economics need attention and action. If certain states work together to develop, they should do this as soon as possible, so that results can be seen within three years."

Meanwhile, an Italian PE partner, who would like to see the EU do more with less, says: "The EU doesn't need to do much other than improve efficiency in their execution."

Brexit and M&A

So far, Brexit appears to have had little impact on M&A figures, both in the UK and across Europe. Indeed, the UK & Ireland remain the most active markets in the region, accounting for 20% of volume and 25% of total value of

European M&A in H1 2018. This trend appears set to continue, with just 3% saying that Brexit will decrease their dealmaking appetite in the UK, down from 7% a year ago. Indeed, the largest proportion of respondents (46%) say that Brexit has had no impact on their M&A appetite.

However, 39% see the UK's impending exit of the EU as an opportunity, saying that Brexit will increase their M&A appetite in the EU. "Brexit will make it easy to participate in deals in Europe," says a Russian director of M&A. "Powerful investors and companies from the UK will have less momentum to make deals in Europe, making it easier for companies like us to increase our M&A activity."

Deal barriers

With unrest in parts of Spain, a less-than-orderly transition to a new government in Italy and the four-month political deadlock following the German elections, it is perhaps unsurprising that EU politics is seen as the biggest barrier to European M&A among respondents, scoring 8.4 out of 10. Many see a direct link between political uncertainty and investor confidence. "Europe remains in the shadow of a political turmoil," says an Austrian CFO. "In modern business, political conditions have a great effect. Knowing that some countries are under tremendous political pressure, investors will look past those regions for their M&A targets."

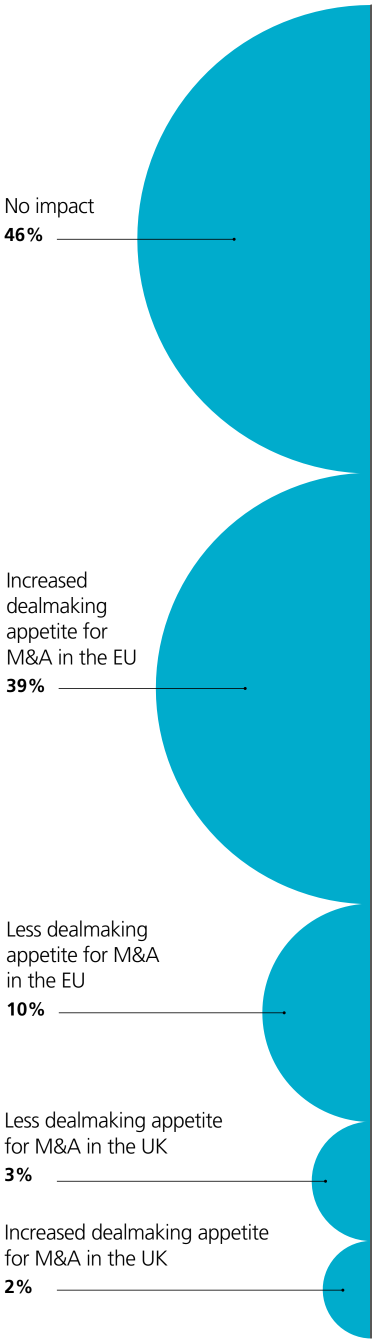
> The new-born protectionism driven by recent US measures and consequent countermeasures from China and the EU are far worse on paper than in practice. The trade tariffs remain constrained to specific industries – particularly globally traded commodities.

Helen Rodwell, Managing Partner, CMS Prague & Head of CEE Corporate practice group

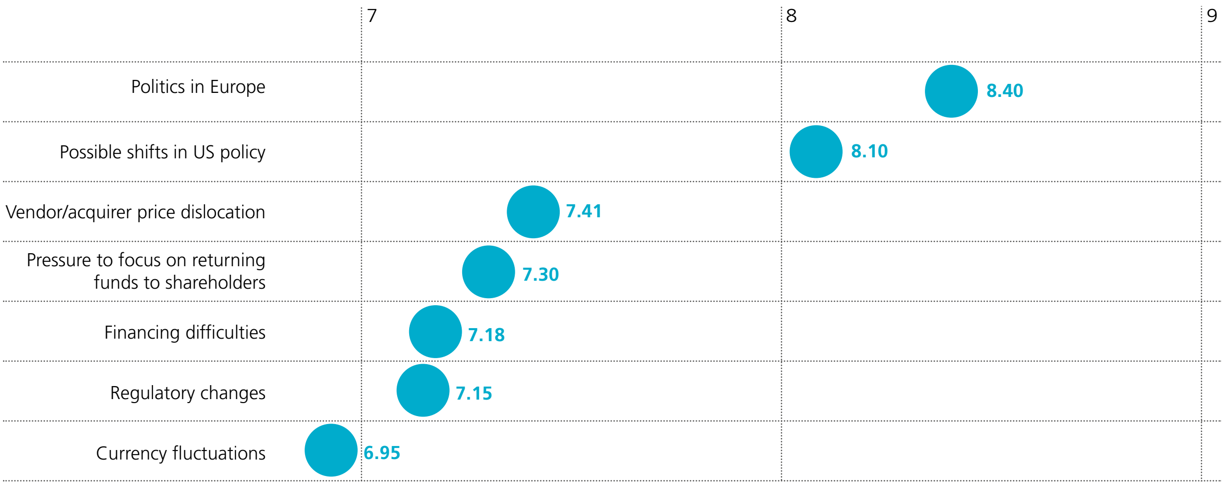
US policy is also causing some concern – this is ranked as the second biggest obstacle to M&A, scoring 8.1 out of 10. While the prospect of an all-out trade war with the US has diminished (at the time of writing), recent tariffs imposed on both sides of the Atlantic remain in place and US tax reforms may make overseas investment less attractive for US-based buyers.

When asked about external factors, capital markets volatility is seen by respondents as having the most negative impact on European company performance, scoring 8.19 out of 10, closely followed by Russian sanctions and counter-sanctions (8.16).

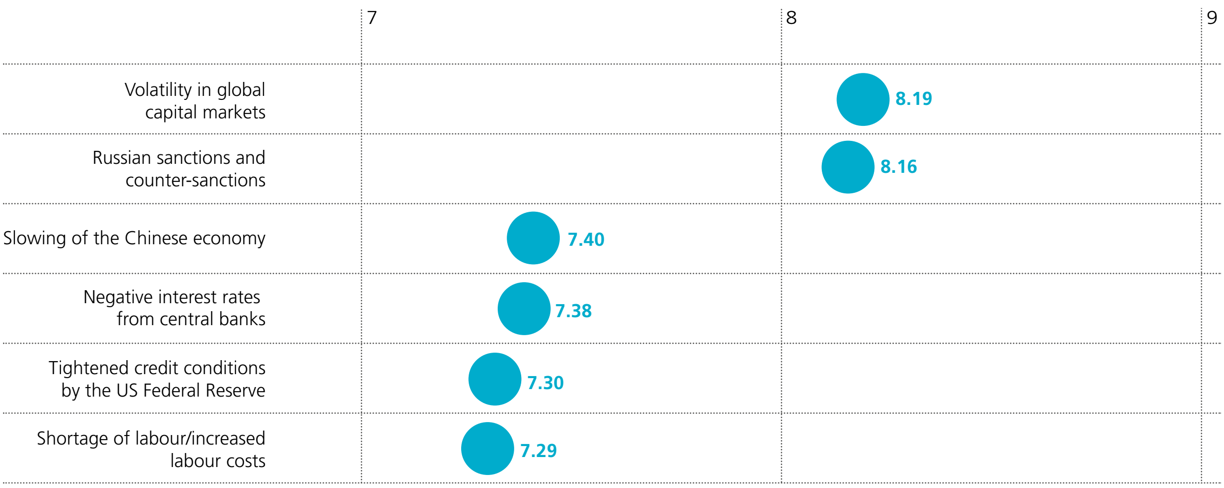
What impact will Brexit have on your dealmaking appetite? (Please select only one)



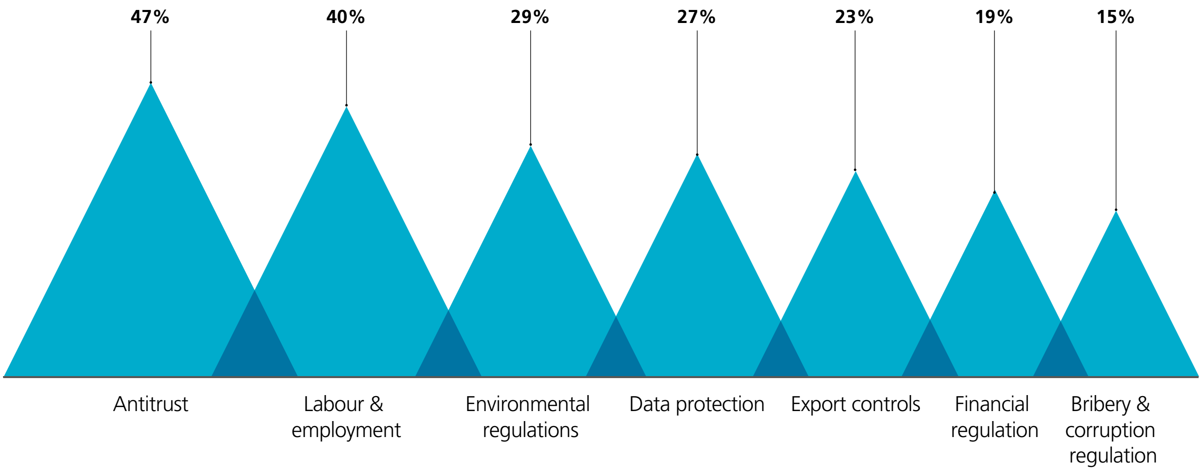
What do you believe will be the principal obstacles to M&A activity in Europe over the next 12 months? (Please rate the following on a scale of 1-10, where 10= most significant)



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)



"Russian sanctions and counter-sanctions have played a major role in disrupting the progress of European businesses," says a Belgium-based director of strategy. "Russian relations were crucial to market harmony in Europe as there were heavy bilateral trades, which positively impacted both the economies. All this has led to global market volatility."

Other factors, including a slowing of the Chinese economy and negative interest rates, are considered to have a less negative impact than last year, presumably as China's GDP growth remained relatively stable at 6.9% for 2017. And the European Central Bank has signalled the likelihood of some monetary policy tightening later this year, as it plans to halve and then end monthly bond purchases.

Regulatory blocks

When asked about the most challenging type of regulation when doing a deal in Europe, antitrust is one of the top two for 47% of respondents, up slightly from last year's 43%. Labour and employment laws are also highlighted as sticking points by 40% (also up from 32% last year). Meanwhile, financial regulation has fallen from second place for most challenging last year, with 36%, to second place for least challenging, mentioned by 19% of respondents. Perhaps surprisingly, given the introduction of GDPR this May, data protection ranks fourth, with 27% mentioning this as a challenge.

With increasing consolidation in many sectors, and with antitrust authorities across the world becoming more sophisticated in the application of merger control regimes, antitrust issues are now commonly at the forefront of many deals. It is imperative that analysis is carried out early in the deal timetable to allow likely hurdles to be identified in good time.

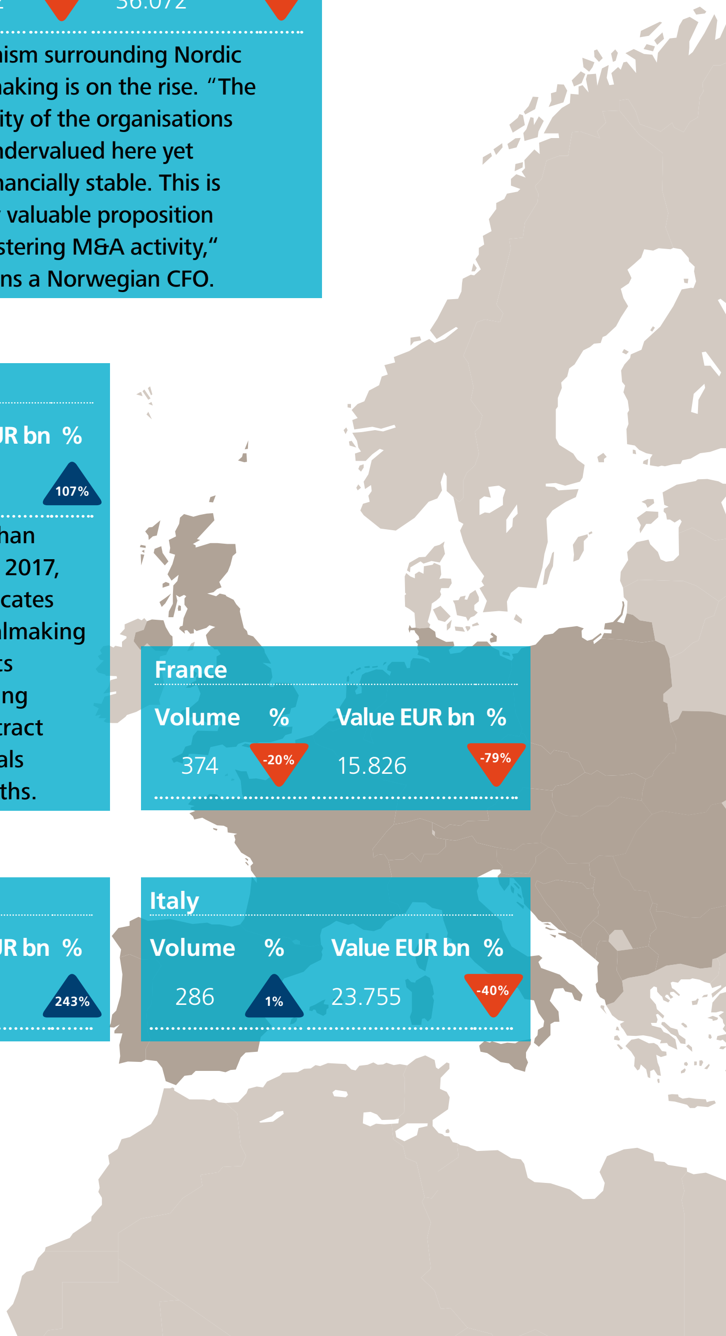
Caroline Hobson, Partner, CMS UK

Regional round-up

The UK and Ireland region continues to lead the pack in terms of European M&A. A total of EUR 196bn spent across 744 deals doubled H1 2017's value, while volume dipped by 15%.

Yet, despite the dominance of the UK & Ireland within the region, Germany is seen by survey respondents as a bright spot for M&A over the next year, with 35% of respondents believing the country will witness the highest number of deals over the next 12 months. According to a CFO based in Poland: "Germany will experience higher M&A activity. Better technological capabilities and favourable growth opportunities give the country an upper hand."

Britain's upcoming exit from the European Union appears to have affected dealmaking sentiment within the region. The UK & Ireland ranked sixth in terms of survey optimism, behind Germany, Benelux, CEE, the Nordics and France.



Nordics

Volume	%	Value EUR bn	%
542	-16%	36.072	-35%

Optimism surrounding Nordic dealmaking is on the rise. "The majority of the organisations are undervalued here yet are financially stable. This is a very valuable proposition for fostering M&A activity," explains a Norwegian CFO.

UK & Ireland

Volume	%	Value EUR bn	%
744	-15%	195.97	107%

Despite deal value more than doubling compared to H1 2017, a slide in deal volume indicates some hesitancy in the dealmaking market. Our survey reflects this, with the region ranking the sixth most likely to attract the highest number of deals over the next twelve months.

France

Volume	%	Value EUR bn	%
374	-20%	15.826	-79%

Iberia

Volume	%	Value EUR bn	%
244	-11%	86.595	243%

Italy

Volume	%	Value EUR bn	%
286	1%	23.755	-40%

Benelux

Volume	%	Value EUR bn	%
327	0%	22.602	-3%

Russia & Ukraine

Volume	%	Value EUR bn	%
77	-16%	14.265	118%

SEE

Volume	%	Value EUR bn	%
50	-25%	6.875	15%

Germany

Volume	%	Value EURbn	%
422	-9%	78.855	18%

German M&A saw a solid increase in value compared to H1 2017, with optimism at a high. Germany’s political stability, sound economic fundamentals and supportive governmental policies are reasons cited for increasing optimism.

CEE

Volume	%	Value EUR bn	%
172	-18%	9.318	57%

Austria & Switzerland

Volume	%	Value EUR bn	%
127	-15%	17.059	-56%

Chapter four

Financing conditions

European financing markets currently remain buoyant as interest rates remain low, bank lending standards ease across the eurozone and PE and debt funds continue to raise substantial amounts of capital. But are we set for a change in conditions?

Top findings

47%
of respondents expect financing conditions to improve over the next 12 months.

58%
say attitudes of lenders will be the greatest challenge to raising acquisition finance.

52%
believe cash reserves will be the most available source of funding, while **48%** believe it will be PE.

84% expect restructurings to increase in the next 12 months and **78%** are expecting a rise in the number of re-financings.

Prolonged low interest rates and increased competition for deals among lenders and equity houses have created a buoyant financing market in Europe over the last few years, with companies able to choose from a wider variety of funding sources than was available pre-crisis.

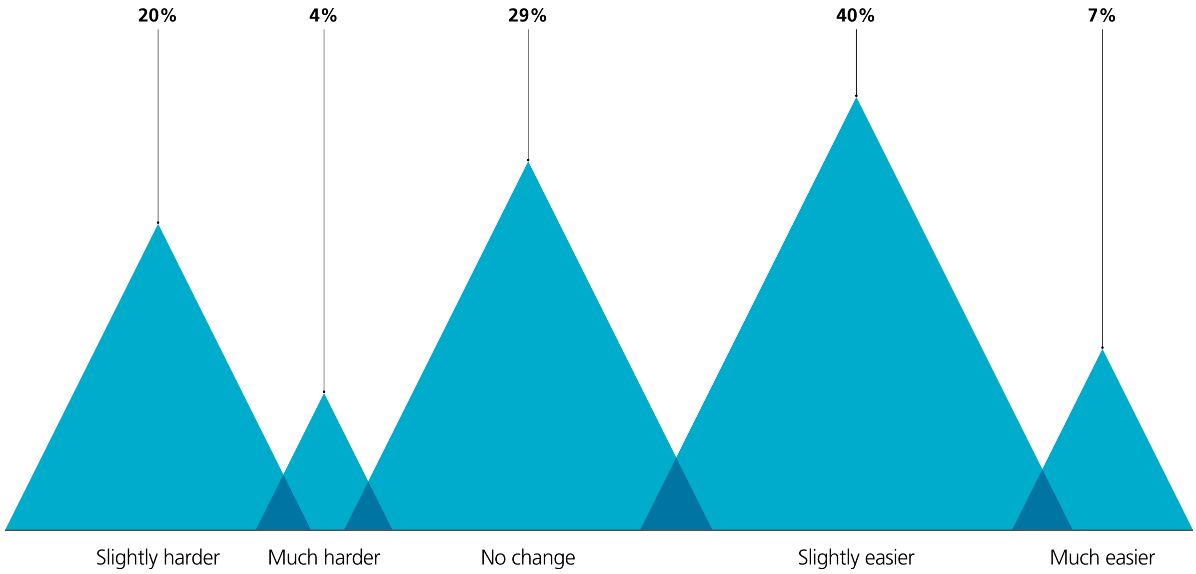
Institutional investors, seeking yield in a low interest environment, have continued to commit to the growing number of private debt funds targeting Europe. In June 2018, the amount of dry powder held by Europe-focused private debt funds was a record USD 74.8bn, up considerably from just a year ago (USD 57bn), according to Preqin. PE funds have also been significant beneficiaries of investors' quest for yield, with global dry powder among these funds surpassing the USD 1 trillion mark for the first time in December 2017.

Faced with this competition, banks have also been easing their credit standards in corporate and small and medium-sized enterprise (SME) lending, in a bid to retain market share. Indeed, the ECB's measure of credit standards (or loan approval criteria) in the eurozone fell by 2% for SMEs and 3% for loans to large firms in Q2 2018 in contrast to the previous quarter, while lending terms and conditions from banks continued to move in borrowers' favour.

Cautious optimism?
This favourable environment is reflected in our survey. Around three-quarters (76%) of respondents expect financing conditions to at least remain the same over the coming 12 months, including 47% who believe conditions will improve. "Finance providers are in good health and have greater confidence in Europe than a couple of years ago," says a Russian director of M&A.

A Finland-based PE partner is equally optimistic about the financing outlook: "Financing conditions will be easier over the next 12 months as cash raised will be used for deals. Banks will also back big business decisions as they expect brighter profits from companies than over the last year."

How do you expect financing market conditions to be in 2018 compared to 2017?



> The 2018 European debt market is still driven by a wall of liquidity, with pricing at all-time lows and strong competition between financing markets. However, increased market regulation, struggling sectors, volatile capital markets and a challenging macro-backdrop feature more prominently compared to last year.

Mark Moseling, Partner, CMS UK

However, the survey also suggests there could be difficulty ahead for companies seeking finance. Almost a quarter (24%) of respondents expect financing conditions to worsen over the next year, double the proportion who said this last year. One respondent points to PE caution as a reason for this: "We should expect a slightly harder financing situation in Europe," says a UK-based finance director. "Private equity dry powder will be used conservatively."

Others believe that a poor performance outlook for European companies will subdue the flow of finance. "The pre-crisis lending spree is still hampering banks and causing them to over-think new lending," says a Spanish CFO. "It will be harder for banks and other institutional lenders to provide finance as company revenue projections remain low."

Financing challenges

Reflecting some of the comments above, the greatest challenge to financing acquisitions is the attitudes of lenders according to 58% of respondents, up considerably from 28% in last year's survey. This is followed by company performance and underlying economic weakness – last year's top two challenges.

Perhaps unexpectedly, given the continued low interest rates and the easing of bank credit standards and terms, the availability and cost of leverage is seen as a challenge

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

by a third of respondents this year, compared with just a tenth last year. This may reflect a more forward-looking sentiment as some respondents believe we are edging towards a turning of the credit cycle. “The cost of leverage will increase over the next 12 months and lenders will be in a more conservative mood when providing M&A capital,” says a Czech Republic-based PE partner.

Companies turn to cash reserves
With more respondents predicting a decline in acquisition finance activity than last year, it is unsurprising that cash reserves come out top as the source of funding likely to be most readily available, with 52% saying this. PE has slipped from first place last year to second, with 48% expecting availability to be high.

Meanwhile, just under a third of respondents (31%) believe that bank lending and debt capital markets funding will be among the two most available sources of funding, both up significantly from last year. Despite their increasing dry powder, non-bank lenders and credit funds have slipped to fifth place from third last year.

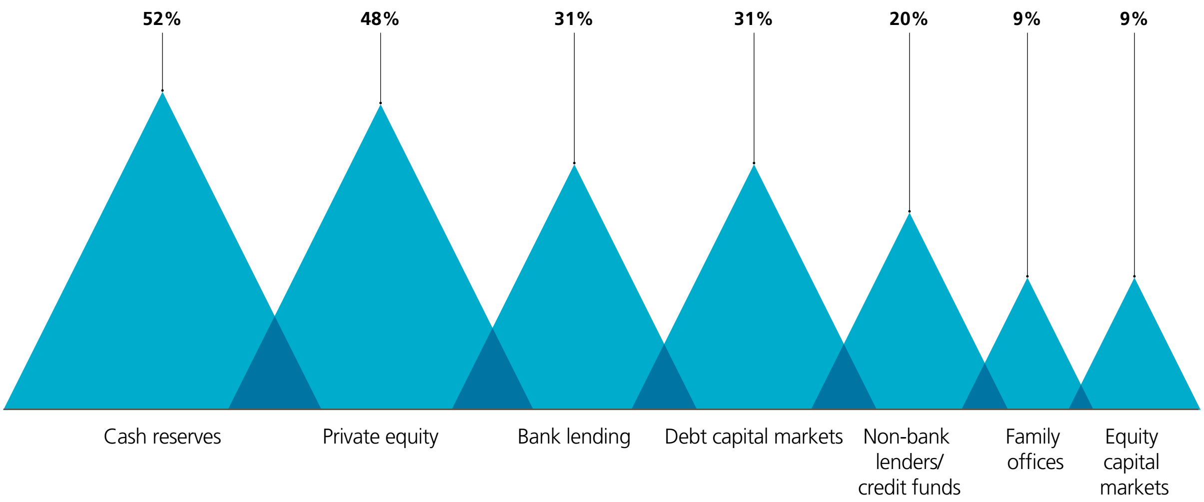
Restructurings and refinancings on the rise?
Respondents expect restructurings to increase over the next 12 months, as supported by 84%, closely followed by refinancings, with 78%. This is broadly in line with last year’s survey and reflects the trend for companies to refinance in order to take advantage of the lower borrowing costs available in today’s market, as well as the level of refinancing that will be necessary over the coming years. As much as EUR 611bn of EU debt is scheduled to mature over the course of 2018, with a total of EUR 3.3tn maturing by 2022, according to S&P.

“There are a large number of companies that have been waiting for the markets to open up and investment to flow again. This will create a huge increase in the demand for refinancing

> The challenge in the current market is no longer getting financing but that “speed is of the essence”. This applies in particular in an auction process. Vendors prefer bidders which have their financing in place at the time of signing the SPA and which have, at that time, already gone through the CP process with the financing providers (including extensive KYC checks).

Dr. Marc Seibold, Head of Banking & Finance Group, CMS Germany

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

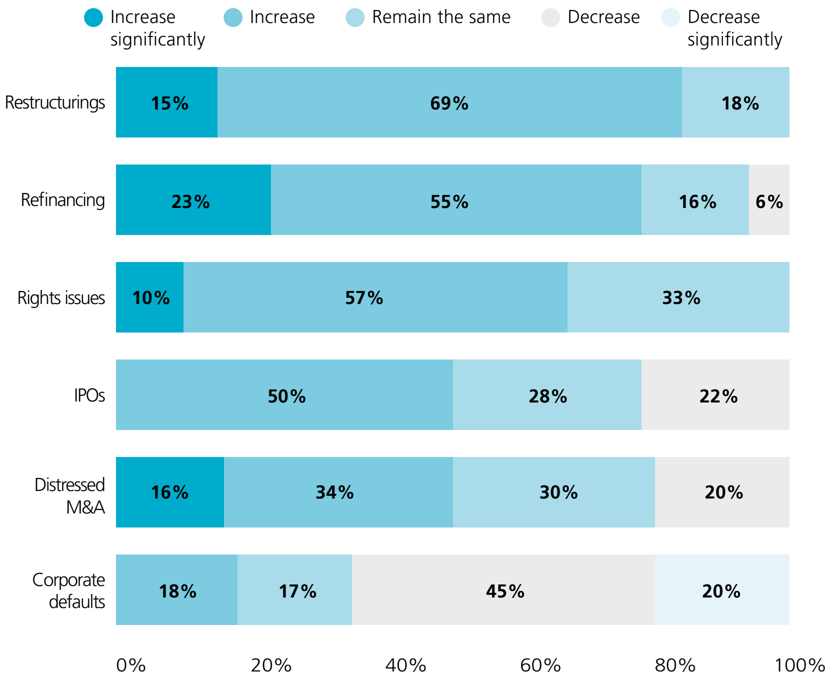


transactions in Europe," says a Spain-based director of finance.

Respondents also predict that rights issues are on the up, with 67% expecting these to increase in the next year (versus just 46% last year). This may be the result of some brisk activity last year – the first four months of 2017 saw the value of European company rights issues, at EUR 28.7bn, surpass the EUR 21bn total for the whole of 2016.

Corporate defaults, however, are expected to decline, with 65% of respondents anticipating a decrease over the next 12 months. "Corporate defaults will decrease significantly as businesses are generating good sales and revenue is being generated," says a Finland-based PE partner. "This will improve business performance and reduce the number of defaults across the continent."

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



Conclusion

The outlook for European M&A looks strong for the coming year, with confidence among buyers and sellers generally high – yet a small but growing minority see cause for concern.

The overall results of this year's survey paint a positive picture for European M&A. Most respondents are expecting an increase in activity, the vast majority are expecting inbound investment to rise and a substantial majority are expecting to complete a deal over the coming months. They also believe that overseas buyers will be more acquisitive than in the past, notwithstanding recent and potential moves by member states and the EU to increase scrutiny of foreign takeovers. Those who do sell will be seeking to focus on their core businesses and recycle their capital into higher growth or new areas.

Nevertheless, this year's survey does show an uptick in those who are a little more sanguine about the region's prospects, with predictions of a less favourable financing environment and a slowdown in M&A activity rising over last year's results. The potential for a trade war between the US and China, concerns around political stability in some European markets and global capital market volatility are certainly weighing on many dealmakers' minds.

As uncertainty about some of these issues creeps back into the market following relative calm in 2017, those seeking to complete M&A deals in the near- to medium-term will need a little more nerve than may have been the case last year. The signs are that many may well be bold, given that transformative deals are still on the cards for many respondents. That is perhaps because of – rather than instead of – higher volatility, with many seeing opportunity in disruptive forces.

In light of this year's findings, we pinpoint three key considerations for potential dealmakers:

1. Beware of hidden risks. With around half of respondents discovering significant financial risk in their target company over the past 12 months, a similar proportion saying the same about operational and IT risk and over two-thirds uncovering regulatory and legal risk, it is clearly vital to conduct thorough due diligence on any potential acquisition. Yet even with such risks present, there are increasingly sophisticated ways of mitigating them to enable completion and achieve strategic goals. Warranties and indemnities, enhanced due diligence and utilising an M&A structure that isolates liabilities are all commonly-used techniques.

2. Consider the wider financing market. Cash reserves may often seem like the best option to fund deals, particularly if acquirers expect some turbulence ahead. However, Europe has increasing acquisition financing options, many of them with greater firepower than ever before, such as PE and alternative lenders. Banks have loosened their terms over the last few years and family offices are increasingly looking to invest directly in businesses as they seek yield in an environment of persistently low interest rates. This is continuing to make the financing market highly competitive.

3. Cast the net widely when selling. While consolidation of Europe's crowded and fragmented markets is anticipated to be the biggest driver for buy-side M&A activity, implying that bidders are most likely to be within the region, appetite for European assets among international acquirers is strong, given low valuations relative to some other markets and a desire by businesses, particularly in the US and Asia, to gain a foothold in the region. With four of the top ten largest European deals in the first half of 2018 struck by overseas buyers, it is clear that for many sellers, an internationally-focused sales process can reap rewards.

About CMS

CMS is a full service top global law firm with more than 4,500 lawyers in 74 offices providing clients with specialist business focused advice. With more than 1,000 corporate lawyers, CMS advises on all aspects of M&A, corporate finance and private equity transactions and is regularly ranked amongst the top M&A advisers in Europe and beyond. CMS features among the league table leaders both for Europe as a whole and for many of the individual European countries. We are service-driven and relationship focused, priding ourselves on our responsiveness and "can do" attitude.

We strive to develop long-term relationships with our clients, giving prompt, straightforward and commercial legal advice. We draw on renowned industry expertise in a number of sectors including Financial Institutions and Services, Energy and Utilities, Technology, Media and Communications (TMC), Life Sciences, Consumer Products, Construction and Development, Hotels, Leisure and Sport, Infrastructure and Project Finance.

For more information, visit **www.cms.law**

Contact us:

CMS Austria
Peter Huber
T +43 1 40443 1650
E peter.huber@cms-rrh.com

CMS Belgium
Vincent Dirckx
T +32 2 74369 85
E vincent.dirckx@cms-db.com

CMS CEE
CMS Czech Republic
Helen Rodwell
T +420 2 96798 818
E helen.rodwell@cms-cmno.com

CMS Serbia
Radivoje Petrikić
T +38 1 3208 900
E radivoje.petrikic@cms-rrh.com

CMS France
Jean-Robert Bousquet
T +33 1 47 38 55 00
E jean-robert.bousquet@cms-fl.com

CMS Germany
Thomas Meyding
T +49 711 9764 388
E thomas.meyding@cms-hs.com

John Hammond
T +49 711 9764 382
E john.hammond@cms-hs.com

CMS Italy
Pietro Cavasola
T +39 06 4781 51
E pietro.cavasola@cms-aacs.com

CMS Netherlands
Roman Tarlavski
T +31 20 3016 312
E roman.tarlavski@cms-dsb.com

CMS Portugal
Francisco Xavier de Almeida
T +351 21 09581 00
E francisco.almeida@cms-rpa.com

CMS Russia
Natalia Kozyrenko
T +7 495 786 4000
E natalia.kozyrenko@cmslegal.ru

Vladimir Zenin
T +7 495 786 4000
E vladimir.zenin@cmslegal.ru

CMS Spain
Carlos Peña Boada
T +34 91 4519 290
E carlos.pena@cms-asl.com

CMS Switzerland
Stefan Brunnschweiler
T +41 44 285 11 11
E stefan.brunnschweiler@cms-vep.com

CMS United Kingdom
Mark Bertram
T +44 20 7067 3464
E mark.bertram@cms-cmno.com

Our latest CMS Corporate/M&A headline deals

Accor
Advised Accor on the English and Scottish aspects of the EUR 4.4 billion demerger of 55% of the AccorInvest division of Accor Hotels, which includes the properties and business of nearly 900 of Accor's owned and leased hotels.

MoneyGram
Assisted and coordinated the establishment of a new company in Belgium and the opening of branches in ten countries including Italy, France, Germany, Greece, Portugal, Romania, Spain, Sweden, the Netherlands and the UK as a result of company reorganisation in preparing for Brexit.

Bruker Corporation
Advised Bruker Corporation, a US provider of scientific instruments and analytical solutions, on the acquisition of Hamburg-based Sierra Sensors GmbH.

CCC Group
Advised the Polish CCC Group on the acquisition of 70% of the shares in Karl Vögele AG, a major Swiss shoe retailer.

Givaudan
Advised Givaudan on the acquisition of Naturex.

Freixenet
Advised Freixenet on the sale of the 50.67% controlling stake in the company to Henkell & Co, a Germany-based producer of champagne, wine and spirits.

Liberty Global
Advised Liberty Global, the world's largest international cable business, on the Czech, Hungarian and Romanian aspects of Vodafone's acquisition of Liberty Global's European assets.

Goldiport
Advised on the sale of Goldiport to Smart Ennergy, a promoter of a photovoltaic plant with a capacity of 48.9 MWp, and advised on the sale of Goldenalco to Galp, a promoter of four photovoltaic plants with an aggregate capacity of 154 MWp.

IVG
Advised on the sale of TRIUVA, with assets under management of around EUR 9.8bn, to PATRIZIA.

Cinven
Advised major global private equity house Cinven on its acquisition of Partner in Pet Food (PPF), a leading European pet food manufacturer, from Pamplona Capital Management.

Advance Publications
Advised US entertainment group Advance Publications on acquisition of musical group Stage Entertainment from CVC Capital Partners and Stage founder Joop van den Ende.

Total Marketing Services SA
Advised Total Marketing Services S.A. and ERG S.p.A on the sale of TotalERG S.p.A. to API S.p.A. (anonima petroli italiana S.p.A).

Oaktree Capital
Advised Oaktree Capital on the sale of Dental Clinics to Nordic Capital.

Mainstream Renewable Power
Advised on the GBP 2bn disposal of the 450MW Neart na Gaoithe ("NGN") offshore wind farm project to the EDF Group, via EDF Renewables in the United Kingdom, a joint subsidiary of EDF Energy and EDF Energies Nouvelles.

Standard Life
Advised on the sale of Standard Life Aberdeen's insurance business for around GBP 3.2bn, comprising GBP 2.3bn in cash and a 19.9% stake in Phoenix.

TATA Steel
Advised on the multi-jurisdictional sale of Kalzip Group to Mutares.

About Mergermarket

Mergermarket

An Acuris company

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.

Acuris Studios

Acuris Studios, the events and publications arm of Acuris, offers a range of publishing, research and events services that enable clients to enhance their own profile, and to develop new business opportunities with their target audience.

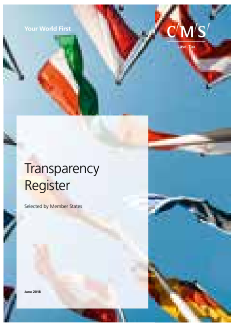
To find out more, please visit
www.acuris.com/publications

For more information, please contact:

Karina Ross
Head of Sales EMEA, Acuris Studios
Acuris

T +44 20 3741 1058
E karina.ross@acuris.com

Sharing Knowledge

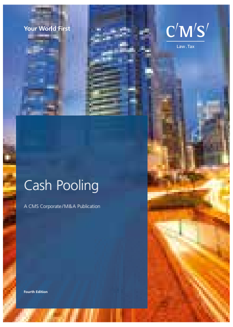


Transparency Register – Overview of Foreign Reporting Requirements
Among other measures designed to combat money laundering and terrorist financing, the 4th Money Laundering Directive requires the EU member states to set up registers of the ultimate beneficial owners of legal entities. It was left up to the individual member states how to implement the directive, and in doing so, member states have taken different approaches.

In order to give an initial overview, CMS has summarised the regulations in selected member states. Of particular relevance to shareholders are those countries in which direct and indirect shareholders have an active obligation to make any necessary notification. *(June 2018)*

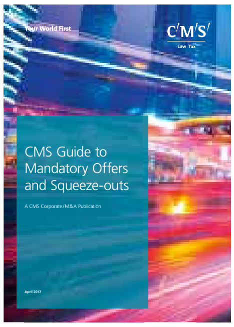
European M&A Study 2018
This year's Study is the tenth edition and represents a significant body of work which is unique both for its longevity and large deal sample. In this edition, we take the opportunity to look back at how risk allocation in M&A deals has changed in the 2007–2017 period and the reasons for change. Of the 3,651 CMS transactions we have analyzed, 438 relate to 2017 and 2,488 relate to the period 2010–2016. We analyze the 2017 market reporting on current market standards on risk allocation in M&A deals comparing 2017 against 2016 and the previous seven year average in 2010–2016. *(March 2018)*

Emerging Europe M&A Report 2017 / 18
Our latest report analyses trends in 15 emerging CEE/SEE countries based on EMIS M&A data for 2012–2017, and through a series of articles based on interviews with CMS partners takes a deeper dive into the hot topics and issues impacting M&A activity in the region. *(January 2018)*



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)*

To receive copies of the publications shown, please contact our CMS Corporate / M&A team at: corporate@cmslegal.com

www.acuris.com

10 Queen Street Place
London
EC4R 1BE
United Kingdom

T +44 20 3741 1000
sales@acuris.com

330 Hudson St.
FL 4
New York, NY 10013
USA

T +1 212 686 5606
sales.us@acuris.com

16/F Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

T +852 2158 9790
sales.asia@acuris.com


C/M/S/
Law . Tax
High rankings for CMS Corporate/M&A
Supporting more than 400 deals across the globe, 2017 was another successful year for our CMS Corporate/M&A team. Top rankings by Bloomberg, Mergermarket and Thomson Reuters confirm the position of CMS as a leading law firm for M&A in Europe and beyond.
#1 Europe, CEE, DACH, Germany, Switzerland, Poland
#2 Benelux, UK, France
#7 Global
Sources: Mergermarket, Thomson Reuters, Bloomberg; by deal count.
Your World First
cms.law