

PRESS RELEASE

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Date	15 September 2023
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Turning the corner? CMS European M&A Outlook 2024: Dealmaking expectations mixed amidst economic uncertainty, but private equity notably bullish

43% of dealmakers expect the level of European M&A activity to drop in the next 12 months, though a sizable minority (36%) are forecasting an increase, with those working in private equity notably more optimistic, according to global law firm [CMS](#)' 2024 European M&A Outlook published today in association with financial data firm [Mergermarket](#). This stands in stark contrast to last year's predictions when 73% forecasted an increase in M&A activity.

The landscape of European M&A activity in 2023 has been marked by a confluence of factors, including higher inflation, rising interest rates and an uncertain economic outlook. These challenges resulted in a 52% decrease in deal value in the first half of 2023 compared to the previous year (falling from €570 billion to €276 billion), although transaction volumes experienced only moderate declines resulting in a 16% drop from 2022 (falling from 7,335 to 6,130 deals). Overall, the M&A environment for this year is characterised by a prevalence of smaller transactions – a departure from the trend observed in 2021 and 2022.

M&A EXPECTATIONS HAVE MODERATED AND DIVERGED

Against an increasingly challenging macroeconomic background, just 36% of dealmakers expect the level of European M&A activity over the next year to rise, down from 73% this time last year, whilst 43% are anticipating a fall. A divergence has emerged, with private equity dealmakers notably more optimistic than their corporate counterparts. Just 24% of private equity respondents expect European M&A to fall, compared to 49% of corporates surveyed.

DECREASED RISK APPETITE

The report states that a key contributor to this shift is the decreased risk appetite amongst acquirers, which has been further exacerbated by heightened financing costs and cautious lending practices. The aftermath of bank collapses both in the United States and Europe in early 2023 has introduced an additional layer of apprehension amongst market players. In response to persistent inflation, interest rates have undergone multiple increases across Europe, the US and the UK. Most notably, 48% of dealmakers say that inflation and interest rate pressures will be the biggest obstacles to dealmaking over the next 12 months. However, a downward trend in inflation since the beginning of the year has alleviated concerns about a potential regional recession.

Louise Wallace, Global Head of the CMS Corporate/M&A Group, said: *"After heady post-pandemic activity, European M&A has started to feel the effects of a changed macroeconomic environment. In 2021 and even in 2022, as Russia's full-scale invasion of Ukraine last year pushed inflation to levels not seen in decades, deal volumes still broke records and aggregate value figures remained higher than before the pandemic. However, we are now seeing M&A activity across Europe starting to reflect the more challenging macroeconomic backdrop."*

Nevertheless, the European Commission's recent upgrade of the European Union's GDP projections, forecasting 1% growth for 2023 and 1.7% for 2024, provides a glimmer of optimism in an otherwise uncertain economic climate. Whilst projections for M&A activity over the next year remain mixed, with private equity firms showing more optimism than corporate counterparts, a significant proportion of industry professionals anticipate active participation in the M&A market. This suggests a healthy volume of activity in the near term. Notably, as valuations stabilise throughout 2023, the stage appears set for increased agreement between buyers and sellers in the medium term.

ESG SCRUTINY WILL CREATE NEW DEAL OPPORTUNITIES

64% of dealmakers believe that ESG and climate change-related regulation in Europe will create dealmaking opportunities, with 93% stating that ESG considerations constitute a significant element of their organisation's due diligence. Indeed, 85% expect greater ESG scrutiny in M&A deals over the next three years.

Alexander Rakosi, Partner and attorney-at-law in the practice areas of corporate law, M&A and private equity at CMS Austria: "Europe's policy environment on ESG regulations is relatively speaking (e.g. compared to the US) more unified, leading to a smoother policy evolution and, consequently, more predictability for M&A market participants."

DEAL DRIVERS

Similar to findings from last year's survey, dealmakers continue to identify undervalued targets (36%) and turnaround opportunities (35%) as the primary catalysts driving M&A activity in Europe for the upcoming year. This trend is hardly unexpected, considering the decline in valuations of public companies over the past 18 months.

THRIVING SECTORS

More than a third of dealmakers predict the TMT sector (37%) and the energy sector (36%) will experience the most significant surge in dealmaking across Europe. In contrast, 42% believe that the pharmaceuticals, medical and biotech (PMB) sectors will exhibit the slowest growth. Whilst 68% of dealmakers favoured the TMT sector as one of their top two choices in the previous year, the recent decline might partially stem from the notable revaluation of technology stocks over the past 12 to 18 months. However, the enduring prominence of the TMT sector underscores investors' unwavering confidence in future expansion and companies' need to acquire technology as various industries continue to emphasise digital transformation. An illustrative instance of this trend emerged in the first half of 2023, with Deutsche Börse's €4 billion acquisition of Danish data provider SimCorp – a venture that highlights the exchange group's pursuit of reinforcing its data analytics prowess for the newly established investment management solutions arm.

REGIONAL DIFFERENCES

Expectations for M&A activity across various European regions have undergone significant shifts compared to the previous year. Looking ahead to the next 12 months, dealmakers project a noteworthy surge in dealmaking within the UK and Ireland, which now holds the foremost position on the list by a considerable margin, with nearly half (47%) of respondents placing it in their top two preferences. In contrast, the UK and Ireland occupied the sixth spot last year, amassing merely 19% of the top-two votes. Iberia and Benelux jointly claim the second spot, with 29% of decision-makers ranking them amongst the top two regions for projected M&A growth in the upcoming year. Conversely, the regions of Central and Eastern Europe (CEE) (38%) and Italy (30%) represent the areas where the largest subsets of dealmakers expect the slowest growth in M&A activity. As the European M&A landscape continues to evolve, industry stakeholders remain vigilant in navigating these shifting dynamics, aiming to seize opportunities whilst effectively managing challenges. The path forward necessitates a delicate balance between economic conditions, regulatory developments and evolving market sentiments.

Malte Bruhns, Global Head of the CMS Corporate/M&A Group, added: *"Higher inflation costs and a more uncertain economic outlook have made buyers more prudent about the price that they are prepared to pay for businesses, whilst sellers have yet to adjust their expectations. That being said, there are plenty of reasons to be optimistic about the prospects for European M&A over the medium*

and long term, including a continued appetite for TMT deals, strong inbound investment and the growth of private capital in Europe, which will keep deals moving along.”

Key findings:

- 43% of dealmakers predict a decline in European M&A activity over the next 12 months, whilst 36% foresee an increase, with private equity dealmakers displaying heightened optimism. This time last year, 73% of dealmakers forecasted an increase in activity.
- Deal value in H1 2023 was €276 billion compared to €570 billion in H1 2022, representing a 52% drop.
- Deal volume in H1 2023 was 6,130 compared to 7,335 deals in H1 2022, representing a 16% drop.
- Inflationary pressures (40%) and underlying economic weakness (38%) are identified as the primary obstacles to financing acquisitions in the coming year.
- 85% expect ESG regulations to intensify scrutiny of M&A activities over the next three years.
- Undervalued targets (36%) and turnaround opportunities (35%) are expected to be the primary catalysts driving M&A over the coming year.
- TMT (37%) and energy (36%) sectors are anticipated to experience the biggest surge in dealmaking across Europe.
- Almost half of dealmakers (47%) expect the UK and Ireland to experience the highest growth in M&A activity over the next 12 months, followed by Iberia and the Benelux region (29%).

Read the full **CMS European M&A Outlook 2024** here: [LINK](#)

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Methodology

In Q2 2023, Mergermarket surveyed senior executives from 240 corporates and 90 private equity firms based in Europe, the Americas and the Asia-Pacific (APAC) regions about their expectations for the European M&A market in the year ahead. Among the 330 executives interviewed, 70% are headquartered in Europe, while the remaining 30% are split equally between the Americas and the APAC regions. 85% of all respondents have been involved in an M&A transaction over the past two years and 81% plan to undertake an M&A transaction in the coming year. All responses are anonymous, and results are presented in aggregate.

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