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Where deals are made

Deal Drivers:
EMEA 2023 Outlook

Mergermarket

Outlook for 2023

M&A cooled in 2022 after a record-breaking period and it is expected that activity will normalize at a lower baseline in 2023.

However, even with economic headwinds building across the region, there is a large volume of potential deals in the pipeline. Areas to watch include the perennially active TMT sector, as well as consumer and industrials & chemicals (I&C). The UK & Ireland, along with the DACH market, are set to see high levels of M&A in 2023, as is the eastward region of EMEA. Companies that perform amid slowing growth and high prices will draw strong interest from a more cautious acquirer base.

	UK & Ireland	DACH	France	Nordics	Italy	Iberia	Benelux	Turkey, ME & Africa*	CEE & SEE	Grand total
TMT	157	126	66	65	36	86	40	104	123	803
Industrials & Chemicals	71	70	31	43	61	28	23	59	70	456
Consumer	62	33	16	22	78	39	16	52	68	386
Pharma/Med/Biotech	44	74	14	42	23	22	15	27	26	287
Business Services	48	22	20	20	22	34	17	43	36	262
Financial Services	57	19	16	10	21	18	7	56	38	242
Energy/Mining/Utilities	29	8	11	19	19	25	6	34	40	191
Leisure	35	5	6	6	13	18	1	11	18	113
Transportation	9	10	4	5	10	8	7	31	22	106
Construction	5	6	4	5	4	8	4	17	22	75
Real Estate	5	3		3	1	14		12	11	49
Agriculture	1	2	1	5	1	4	2	14	7	37
Defence	9			1	2	1			2	15
Total	532	378	189	246	291	305	138	460	483	3022

Note: The Intelligence Heat Charts are based on 'companies for sale' tracked by Mergermarket in the respective regions between June 1, 2022 to November 25, 2022. Opportunities are captured according to the dominant geography and sector of the potential target company.
* incl. Israel and sub-Saharan Africa

1 Staying connected

Technology, media, and telecommunications (TMT) has shown unwavering dominance and is expected to continue its reign. Between the start of June and late November 2022, there were 803 stories about companies coming to market, representing 27% of all such stories across industries (see chart, p1). Almost all geographies boasted high levels of coverage, although 157 of these stories involved companies in the UK & Ireland, more than any other sub-region within EMEA.

Financial sponsors have been eagerly acquiring towercos, as evidenced by Brookfield targeting a 51% stake in Deutsche Telekom's tower assets, the largest TMT transaction of Q3 2022. The unstoppable digitalization and connectivity trends should ensure that technology and telecommunications assets remain in high demand.

Tech on trend: TMT deals and assets are expected to remain on top in 2023

Energizing activity: UK&I, CEE & SEE, and DACH look ripe for more I&C deals

2 Heavy industry

The industrials & chemicals (I&C) sector is responsible for 456 EMEA deal reports, putting it in a distant second position to TMT, but with the UK & Ireland out in front. This market had 71 stories related to the sector to its name. The CEE & SEE, as well as the DACH market, were not far behind, with 70 stories each.

Among the largest transactions in EMEA in the first three quarters of the year was Swiss-based ABB's sale of a 20% stake in Hitachi Energy, its joint venture with Japan's Hitachi to its Japanese partner. Hitachi Energy produces components and offers services used in renewable energy regeneration. Throughout the winter, issues around energy security amidst the war in Ukraine and sanctions against Russia could drive further interest in these types of deals.

3 Brand awareness

Consumer is on course to be the third-most active sector, with 456 potential deals in the making. Activity is likely to skew towards strong, differentiated brands, and especially those with ESG and health and wellness angles. Undifferentiated retail businesses on the other hand are showing signs of struggling and those with high fixed costs could become turnaround targets in a slowing macro environment.

Italy is showing the strongest pipeline of possible M&As. The 78 consumer deal reported in this market suggest a steady stream of deals within this sector will be announced throughout the year. In some cases, these deals dovetail with the TMT sector, such as Farfetch buying online luxury fashion ecommerce platform Yoox Net-a-Porter, one of Italy's largest M&A deals of Q3.

Eastward promise: Healthy deal activity is expected to persist in CEE & SEE

4 CEE and SEE maintain attractiveness

Despite the instability caused by the war in Ukraine and sanctions against Russia, the CEE and SEE regions maintained a healthy level of activity, especially when compared to any other year except 2021. There were 653 deals worth €53.1bn in Q1-Q3 2022 – already more than in 2019 or 2020.

Going into 2023, despite the ongoing conflict, the pipeline of deals remains robust. There were 483 stories published regarding companies coming to the market in the region – this was the second-highest of any region in EMEA, after the UK & Ireland. The technology sector, with 123 stories published, is set the see the highest level of deal activity.

Trends for 2023

The downshift in momentum witnessed in recent months has set the tone for what to expect from 2023.

Deal value in EMEA came to €844.9bn during the first three quarters, down 16% on the same period in 2021, and volumes fell by 14% to 8,279. Following the biggest monetary expansion in history, which took deal markets to heights that have never previously been seen, 2021 was always going to be a tough act to follow.

Looking ahead, macroeconomic growth is expected to slow in Europe. The war in Ukraine exacerbated existing inflation and efforts to tame rising prices are expected to tamp down demand and increase unemployment through 2023. A silver lining to this is that entry prices on deals are now far more palatable and buyers with the wherewithal to transact will be able to capitalize on this buying opportunity. Add to that region-specific dynamics such as ongoing telecoms restructuring, a robust Middle East deal market, and ESG being a higher priority in Europe than anywhere else in the world and there is every reason to expect high-quality M&A to persist.

1. The valuation reset
2. Towerco opportunities
3. A buoyant Middle East
4. ESG still in play
5. Cost of financing and low equity prices

1 The valuation reset

The reset in valuations over 2022 will be one of the biggest drivers of M&A across markets over the next 12 months. Public markets pre-empted the coming economic slowdown that is expected to define 2023. But private markets inherently lag their public counterparts and valuations are due to be marked down further at the beginning of 2023.

Not all sectors have been equally impacted. Growth companies saw their market capitalizations and EV/EBITDA ratios inflated in response to historic monetary stimulus and experienced the sharpest drawback more recently. Investors have tilted towards energy companies amid the surge in electricity prices and financial services as interest rates have increased; defensive, inflation-resistant assets, such as in infrastructure and healthcare, have also been attractive. In 2023, cash-rich corporates and well-funded PE firms will continue to benefit from a compelling buy opportunity now that EBITDA multiples have compressed.

Buy low: Markdowns will create opportunities for cash-rich corporates and PEs

Infrastructure investment: Capital efficiency from sharing infrastructure means more towerco stakes for sale

2 Towerco opportunities

The sale of passive tower assets by telecoms companies has been spurring TMT deals in Europe and this trend still has plenty of gas in the tank. The market share of independent towercos in the region remains low compared with other territories despite recent divestment activity by major mobile operators such as Deutsche Telekom. These companies hold around 35% of the market, according to the European Wireless Infrastructure Association, compared with 95% in the US.

The need to invest vast sums to roll out next-generation 5G networks and expand existing coverage and the capital efficiency that comes from sharing this infrastructure means that more towerco stakes are almost certain to come up for sale to infrastructure and private equity funds over the next 12 months. Add connectivity and digitalization to the mix and technology deals will continue to flow, ensuring that TMT remains a hot sector for EMEA M&A.

3 A buoyant Middle East

The Middle Eastern M&A market has been active in 2022 and this is expected to remain the case over the forthcoming months. The region has benefitted from an elevated crude oil price, which has put revenues in the pockets of state-linked organizations eager to diversify their asset exposure. They have been ready and willing participants in the M&A market to achieve this long-term goal.

Some of the biggest sector targets have been technology, renewable energies, and agritech, which is indicative of these major buyers' focus on the future. One impediment to this trend is if the price of oil begins to roll over on concerns of a global recession and weakened demand. There has been some evidence of this being the case in the latter months of 2022. However, sovereign wealth funds remain heavily capitalized and will likely continue being reliable buy-side participants in the Middle East and further afield.

Focus on the future:
Technology, renewables, and agritech are attractive in the Middle East

Sustainable activity: ESG has limitless potential to spur deal activity in Europe

4 ESG still in play

Europe has been the torchbearer for ESG and there is limitless potential for this to spur deal activity for years to come. Companies that are lagging in this area are singling out businesses that have strong ESG credentials as a means to improve their records. Corporates in Europe recognize that they need to allocate more resources to this area to maintain their social license with their customers and other stakeholders, M&A being a fast-track method for ensuring their futures.

At the same time, PE funds have identified ESG as a way to create value, by picking up companies that have not yet reached their true potential and guiding them on their journey to becoming more sustainable and socially responsible. This theme will also continue to spur divestment and take-private activity as corporates reposition themselves.

5 Cost of financing and low equity prices

A major trend that is likely to characterize deal markets in EMEA and other parts of the world in 2023 is the more constricted availability of funding. On the debt side, high-yield bond and syndicated loan markets have been far quieter and more selective in the deals they are willing to back. Financial sponsors are having to tap a much broader range of providers to pull together lending consortiums and the cost of financing has inevitably been rising in lockstep with higher interest rates.

On the equity side, stock markets are in bear territory and this means there is less incentive for listed companies to issue stock at lower prices to fund deals. This won't prevent M&A from happening. Many corporates have cash to spare and those with solid balance sheets and top credit ratings can still access debt. The global PE industry also has an estimated US$1.68 trillion in dry powder still at its disposal, according to Preqin.

Cashing out: Despite more constricted availability of funding, PE still has US$1.68trn to spare

About this report

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