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Deal Drivers:
EMEA 2024 Outlook

Mergermarket

Outlook for 2024

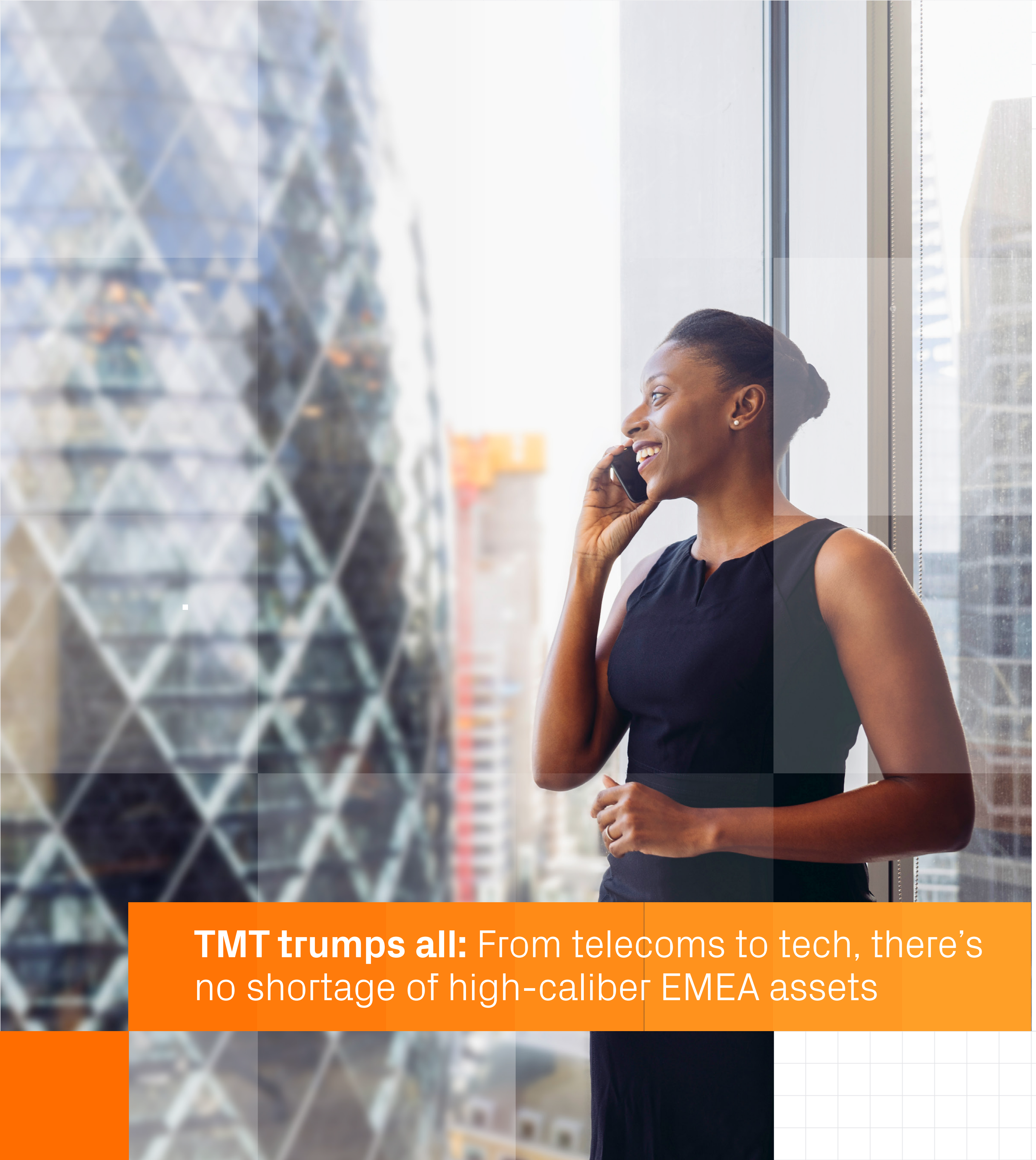
EMEA deal markets ready to bear fruit following tempestuous period of tight monetary policy.

Mirroring the Americas, M&A in the EMEA region seemed to have bottomed out in Q1 2023. H2 slowed after a bustling Q2, but the outlook remains relatively optimistic, considering the circumstances. This year has seen multiple interest rate hikes, and the European Central Bank's (ECB) efforts are bearing results. Inflation has been on a downward trend since early 2023 and the risk of recession in the region seems to be diminishing. The European Commission also revised its 2023 GDP growth projections for the region up from 0.8% to 1.0%, and from 1.6% to 1.7% for 2024.

The World Bank forecasts that growth in the Middle East and North Africa (MENA) subregion will see a marked deceleration to 1.9% in 2023, having expanded by 6% in 2022 as Gulf Co-operation Council economies earned a windfall from surging oil prices. Even so, foreign investors are showing growing interest in this part of the world, while local sovereign wealth funds (SWFs) here have immense stores of investable capital and are willingly backing companies at home. As evidence of this, Turkey, the Middle East & Africa (including Israel and sub-Saharan Africa) is shaping up to be the most active market across EMEA in early 2024.

	UK & Ireland	DACH	France	Nordics	Italy	Iberia	Benelux	Turkey, Middle East & Africa (incl Israel and sub-Saharan Africa)	CEE & SEE	TOTAL
TMT	95	60	35	57	12	30	9	87	73	458
Industrials and Chemicals	31	77	21	29	51	14	12	40	46	321
Consumer	41	31	12	16	49	21	19	35	50	274
Business Services	53	20	35	19	19	26	16	31	19	238
Pharma/Med/Biotech	34	40	20	36	6	13	7	19	11	186
Financial Services	25	19	21	6	15	11	23	30	26	176
Energy/Mining/Utilities	19	6	5	11	14	19	2	39	27	142
Leisure	25	2	4	3	16	13	4	14	12	93
Construction	6	12	1	5	7	5	4	22	4	66
Transportation	3	2	4	4	11	3	1	17	12	57
Real estate	3	4	2	3	1	7	4	7	4	35
Agriculture	3		3	3	3	2		3	2	19
Defence		2	2							4
TOTAL	338	275	165	192	204	164	101	344	286	2,069

Note: The Intelligence Heat Charts are based on 'companies for sale' tracked by Mergermarket in the respective regions between July 1, 2023 to November 21, 2023. Opportunities are captured according to the dominant geography and sector of the potential target company.



TMT trumps all: From telecoms to tech, there's no shortage of high-caliber EMEA assets

1 Networks and software

For the past couple of years, telecoms deals have been a major driver of M&A activity in Europe's wider technology, media, and telecoms (TMT) sector, and this was the case as recently as November 2023 – KKR's US$23.3bn acquisition of Telecom Italia's FiberCop fixed network business was the biggest EMEA acquisition of the year. Networks are in need of upgrades as the continent transitions to 5G and data demands on fiber grids continues to rise. Telecoms operators are also freeing up cash by selling their tower assets to financial sponsors. That should take nothing away from the tech space, though, as there have been weighty software deals too, such as Blackstone's US$15.4bn purchase of Adevinta from eBay, also in November.

TMT has a wide lead on any other sector for forthcoming activity. No less than 458 'company for sale' stories related to targets in the sector were reported over the period, which translates to 22% of all coverage. Hotspots include the UK & Ireland (95), Turkey, the Middle East & Africa (97), and Central and Eastern Europe & Southeastern Europe (73).

2 Industrial divestitures at the ready

The industrial and chemicals (I&C) sector is another to watch closely. The 321 stories related to I&C assets represent just under 16% of all deal reportage across EMEA, although these targets are more sporadically distributed. The DACH region and Italy are where most of the action is expected; these markets account for 77 and 51 such deals in the offing, respectively, making this the most promising sector in these markets.

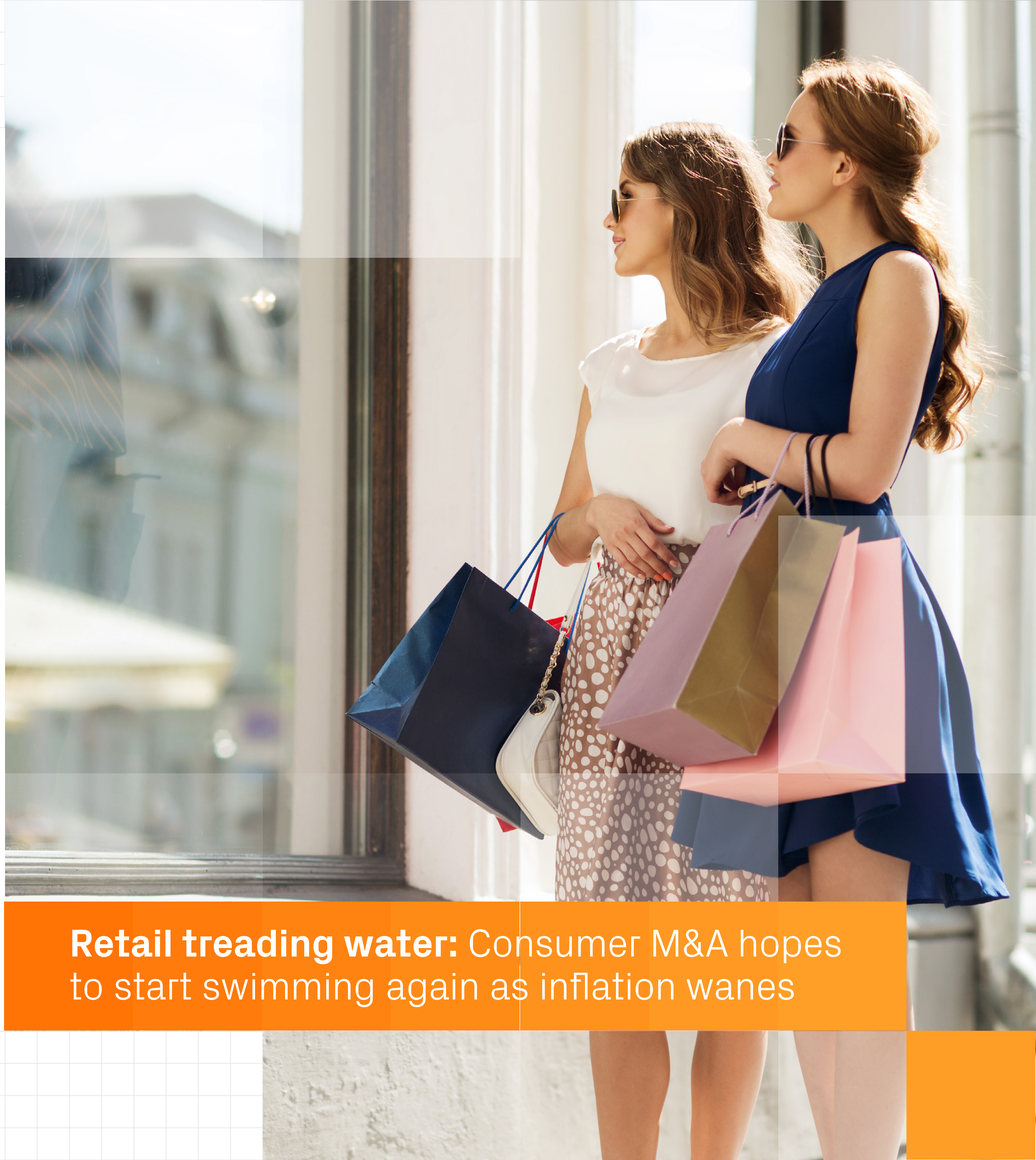
Germany is the undisputed industrial center of Europe, followed by Italy, so it stands to reason that both are expected to see a spate of I&C activity. It's also true that the two economies have been languishing of late. Germany is expected to endure a recession in 2023 as its real GDP contracts by 0.5%, according to the International Monetary Fund. This could motivate divestitures as corporates hone their strategies and operations, as seen when Allendorf-based heating and refrigeration systems manufacturer Viessmann Group sold its climate solutions business to Carrier Global Corporation for US$13.2bn in April.

Industrial reshuffle: Economic hardship in DACH and Italy signal strategic shifts

3 Staple and luxury goods to shine

Companies in the consumer sector have been performing a delicate dance since inflation took hold. They have raised their prices to raise revenues, while being careful not to impact sales volumes as higher interest rates on mortgages and consumer loans have pinched disposable incomes. Undifferentiated low to mid-price consumer segments have seen some downtrading, while luxury goods are proving to be hardier, supported by a rebound in Chinese demand.

In 2023, megadeals in the sector were nowhere to be seen, the largest being a US$4.8bn rescue package for French retail group Casino Guichard-Perrachon. Looking ahead to 2024, there is ample volume waiting in the wings. There were 274 deal stories involving consumer targets: CEE & SEE and Italy almost tied with 50 and 49 of these, respectively, followed in third place by the UK & Ireland with 41 consumer deal reports.



New SWF frontiers: Oil-rich funds spur boom in Middle East-led M&A

4 East by Middle East

The UK & Ireland routinely leads EMEA as the region's most active M&A market and typically claims a bigger deal pipeline. Looking ahead to early 2024, however, it can step aside – no subregion has more deal reports than Turkey, the Middle East & Africa, with a total of 344 to the UK & Ireland's 338.

TMT leads with 87, but the territory has a relatively even spread of M&A stories across the I&C, consumer, business services, financial services, and energy, mining & utilities sectors. The Middle East can't be mentioned without discussing the Public Investment Fund (PIF), Saudi Arabia's US$700bn sovereign wealth fund (SWF). PIF was indirectly behind two of EMEA's top-20 deals in 2023 – Ireland's Pembroke Aircraft Leasing and DSV, a Danish logistic business – via operating companies it controls. Although not a single transaction in the subregion made it into this top table, the many oil-rich SWFs here are highly acquisitive and are investing heavily into transportation and energy transition assets. They are by no means limited to these sectors though. Above all, they want to diversify their asset exposure so anything from consumer to tech and all in-between are viable targets.

Trends for 2024

Dealmakers continue to exercise caution, but EMEA M&A is set to hold firm.

M&A value in EMEA has stayed above the three-year quarterly low of US$142bn set in Q1 2023. And despite tracking down through the latter half of the year, volume in H1 exceeded that of H1 2021. There's no argument that we are in a very different environment today; mean deal size is around half of what it was two years ago, when megadeals flourished. That is unlikely to change meaningfully in the immediate future, but if the ECB begins to loosen monetary policy soon, deal sizes should begin to edge up.

Financial sponsors should maintain their deployment in all areas of the middle market, the outlook for corporate activity in certain sectors looks bright, and SWFs remain highly motivated buyers. One word of caution, though – competition reviews are becoming stricter and this will no doubt disfavor large strategic tie-ups, requiring corporate buyers to proactively engage with authorities.

Watch the watchers: Dealmakers praying for interest rate cuts sooner rather than later

1 ECB takes foot off the brake

Expectations are mounting for the ECB to initiate interest rate cuts earlier than previously anticipated. This shift in market sentiment is driven by recent lower-than-expected inflation data from key euro area economies. By late November, markets were pricing in a quarter-point reduction in the ECB's deposit rate by April, with a 45% probability of a cut as early as March.

A significant drop in German inflation to 2.3% in November, beating expectations, was echoed by a similar fall in Spanish inflation. With disinflationary forces appearing to build across the eurozone, there is some concern that the ECB, like other central banks, will underestimate this momentum, just as it miscalculated inflation two years ago. This pivot can't come soon enough for private equity, which has been especially sensitive to decades-high financing costs.

2 Europe’s mid-market sponsors get to work

By the last count, European dry powder across private equity and venture capital was sitting at an all-time high of €348bn, per industry association Invest Europe. Tougher financing conditions have made large-scale leveraged buyouts hard to complete, which could change if ECB monetary policy changes course. For some time now, firms have been focusing their efforts on portfolio work and tempering their capital deployment.

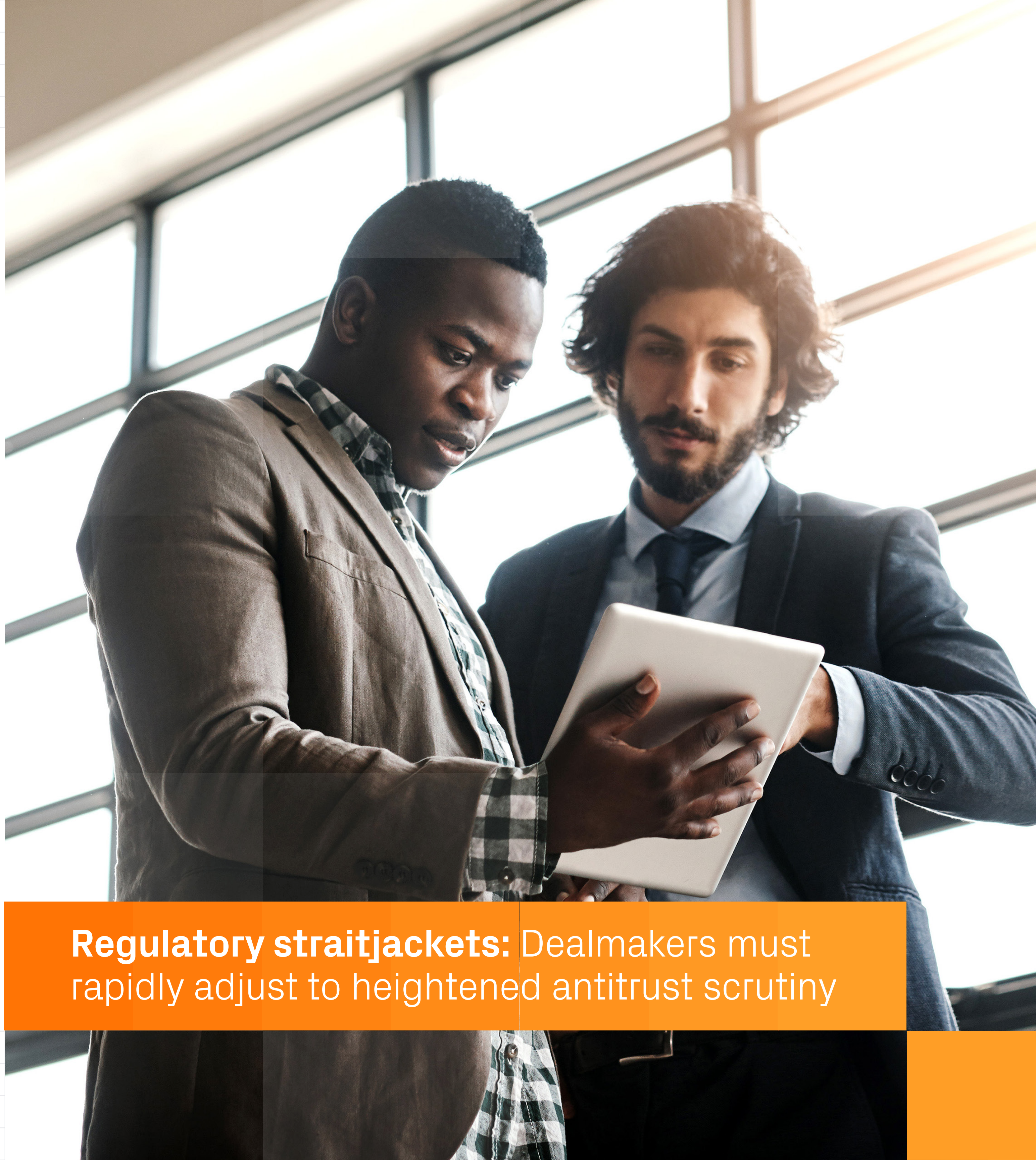
But the fact remains that funds have a lot of committed capital idling. This should keep Europe’s mid-market active going into 2024, supported by active bolt-on strategies to achieve portfolio revenue growth. If interest rates stay where they are for longer, equity contributions in these deals will continue to be on the higher side. And with the MSCI Europe Small Cap Index lagging larger-cap benchmarks, sponsors still have an opportunity to source deal flow in the region’s stock markets.

Capital conundrum: Sponsors can’t afford to let investor capital sit idle for too long

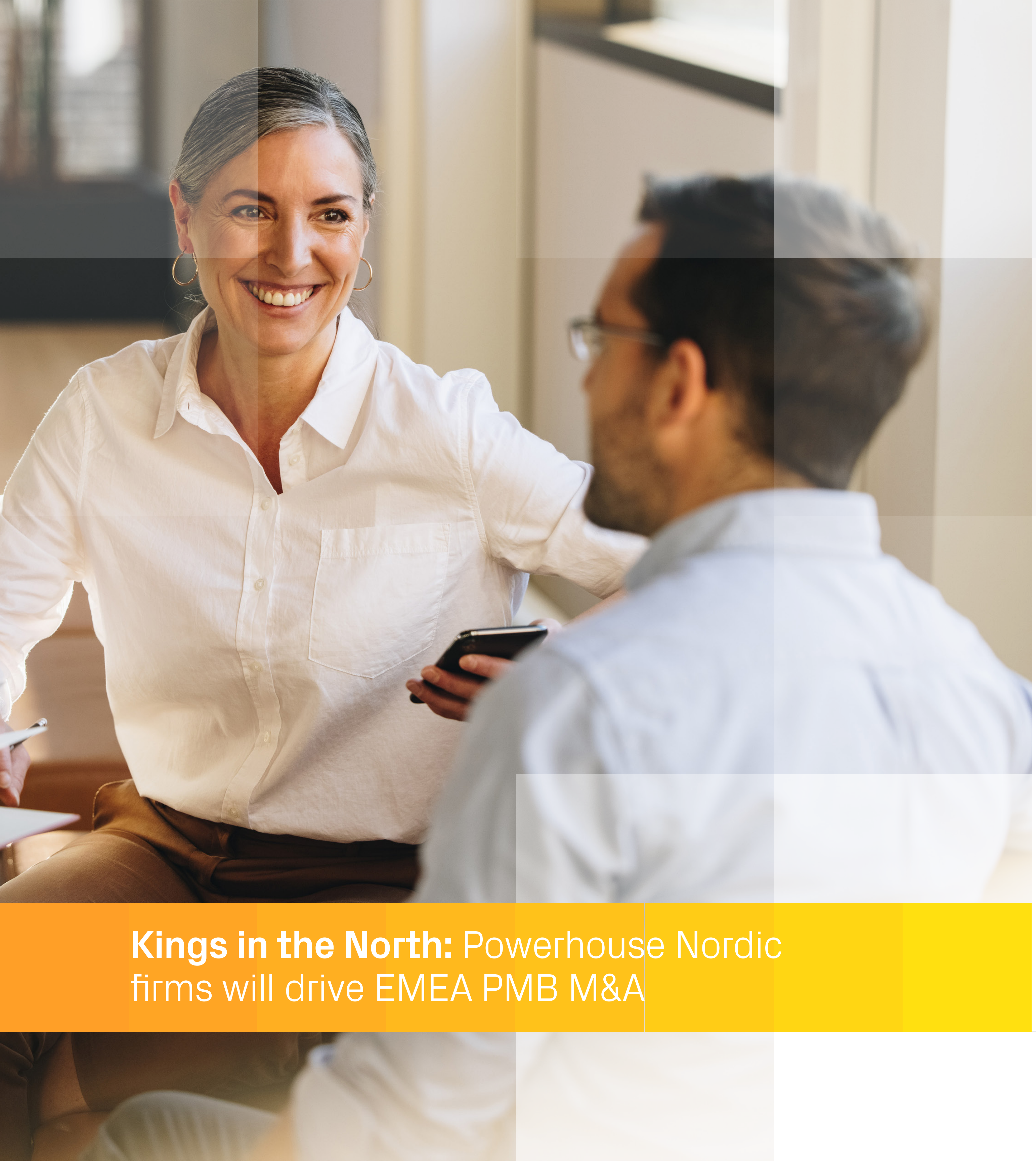
3 Antitrust regulators bear their teeth

As in the US, Europe is trending towards more rigorous antitrust enforcement. Merger control authorities are finding new ways to assert jurisdiction over transactions that fall below traditional notification thresholds and are increasingly focusing on innovation, dynamic competition, vertical concerns, and national security sensitivities when assessing transactions. They are also paying more attention to parties' internal documents during reviews, signaling a more thorough and comprehensive approach to competition investigations.

This will continue to make life difficult for big-ticket acquirers in 2024 and has the potential to shape activity. This more vigilant regulatory environment will encourage smaller plays and see strategics look beyond traditional industry lines for opportunities, which aligns with the ongoing sector convergence that is playing out.



Regulatory straitjackets: Dealmakers must rapidly adjust to heightened antitrust scrutiny



Kings in the North: Powerhouse Nordic firms will drive EMEA PMB M&A

4 On the Nordic pharma acquisition trail

Denmark's Novo Nordisk earned the venerable distinction of becoming Europe's highest valued company in 2023, thanks to the success of its obesity drug Wegovy. The pharma group has made it clear it's in the market for deals and is in a strong financial position to make this happen. Cash totaled US$6.74bn in its latest financial report, while free cash flow in the first three quarters of 2023 came to more than US$11bn, up 21% year on year.

As recently as October, Nordisk acquired compatriot Embark Biotech, expanding its obesity and cardiometabolic therapeutic portfolio. Next year should see more of the same, though naturally not all of this will accrue to the Nordics or even EMEA's M&A market. In November, the company bought a treatment from Singapore's KBP Biosciences. Smaller players are also on the acquisition trail. Norwegian pharma company Navamedic's CEO Kathrine Gamborg Andreassen has said it is sourcing and evaluating M&A opportunities to establish itself as a leading Northern European pharmaceutical group. To that end, it purchased Swedish firm Sensidose in April. Expect Nordic strategic buyers in the sector to flash their checkbooks in 2024.

5 Middle East SWFs flex their muscles

SWFs are making a name for themselves. A record 38.9% of assets among the world's 100 largest asset owners are now held by this unique class of investors, which have been performing exceptionally well over the past year. The Middle East, especially, is not short of these heavyweights. Half of the top-10 sovereign funds by AUM globally include the Abu Dhabi Investment Authority, Kuwait Investment Authority, PIF, Qatar Investment Authority, and Investment Corporation of Dubai.

For the most part, SWFs are active overseas, though this is not true of all of them. The PIF and Abu Dhabi's ADQ have respective exposures of 79% and 89% to their home markets. Given that these grandiose pools of capital owe their beginnings to oil revenues, there is also a concerted effort among these government-sponsored funds to diversify their investments and support the development of underweight areas in their economy. This means virtually no deals are off limits and there is little doubt the Middle East's SWFs will be major contributors to M&A activity in EMEA in 2024.

Sovereign strength: Cash-rich funds will underwrite the Middle East's economic diversification

About this report

Produced in partnership with Mergermarket

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For a full version of the Mergermarket M&A deal database inclusion and league table criteria, go to: www.mergermarket.com/pdf/deal_criteria.pdf

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