



European M&A activity

Deal activity dipped in 2016 amidst political uncertainty and upheaval, but fresh opportunities are emerging

Merger and acquisition (M&A) activity has slowed in 2016 following the record high in 2015. Overall, transaction confidence and the resulting level of cross-border M&A have been tempered by economic and political instability. Yet, as we explore in this report, the picture in specific markets is more varied. In contrast to falls in Western Europe, for example, deal activity increased in Central and Eastern Europe, with Poland and the Czech Republic leading the way.

The uncertainty has also created deal opportunities, including the 'bargains' opened up in the UK by the drop in the value of the Pound. And all the time, the need for competitive reinvention in the face of rapid technological change continues to drive a search for the right deals.

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Quarterly European M&A activity

Uncertainty surrounding the UK's referendum on membership of the EU and the subsequent presidential elections in the US caused a slowdown in M&A activity.

The economic recovery and resulting increase in market confidence had led to a surge in cross-border M&A activity, which reached its peak in 2015.

Deal volumes and values have dipped in 2016, largely due to the considerable political upheaval experienced during the year.

Particular uncertainty has centred on the UK's vote to leave the EU ('Brexit') in June and the implications for Europe of the result of November's US presidential election.

Activity has far from fallen away, however, with some markets seeing a continued upturn (e.g. Spain).

TRANSACTION VOLUME DOWN BY 8%

FIGURE 1: Quarterly European M&A activity



Source: BvD zephyr (data up 31 October 2016); Note: Our analysis includes minority stakes

European M&A activity by sector

TMT dominates deal activity.

The first ten months of 2016 have been a busy time in the deal market, albeit not as much of a rush as 2015.

The technology, media & telecommunications (TMT) sector has led the way (21% of total deal volume), reflecting the need for constant competitive reinvention in a market being transformed by technology and rapidly changing customer demands. TMT companies have looked to M&A to acquire new technologies, strengthen expertise and capitalise on opportunities for expansion. Extending market reach

and bringing in fresh talent through M&A will continue to be critical to survival in the TMT market and beyond.

Several mega-deals in the consumer and retail sector contributed to its strong position in the deal rankings, both in terms of volume (12%) and value (16%).

The impetus for both consolidation and acquisition of innovative start-ups is likely to be especially strong within the food and beverage industry as companies seek to reposition their businesses and restructure their cost base.

The manufacturing sector also accounts for a sizeable proportion of activity (11% of deal volume). While

deal values are down as a result of market uncertainty, companies remain focused on expanding their portfolios in high growth areas.

They are also seeking out opportunities to dispose non-core businesses, especially in the mid-market.

Innovations such as the Internet of Things and advancing robotics are beginning to change how manufacturing plants are set up and how factories operate.

As a result, the pace of M&A is likely to accelerate as manufacturers strive to keep up with the changes in production techniques and marketplace demands.

FIGURE 2: Deal value and volume by sector

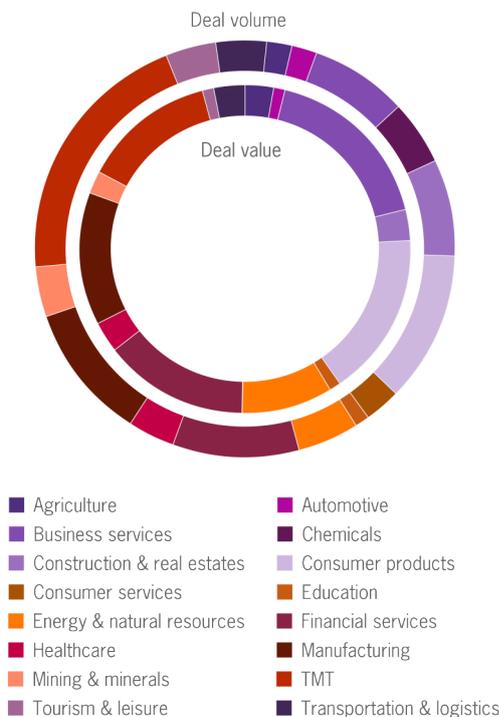
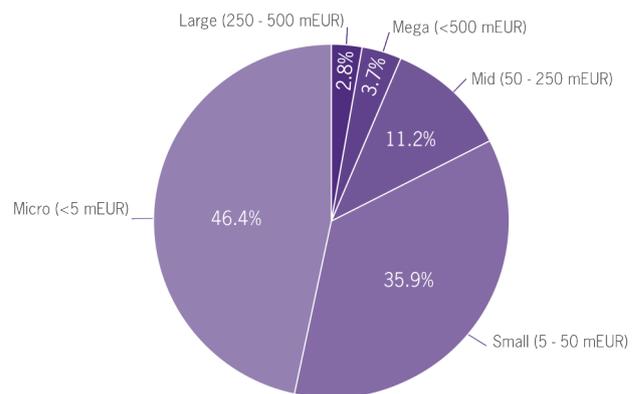


FIGURE 3: Transaction volume split by deal size



Source: BvD zephyr (data up 31 October 2016); Note: Our analysis includes minority stakes and disregards transactions with undisclosed deal values.

Source: BvD zephyr (data up 31 October 2016); Note: Our analysis includes minority stakes

Legislative reform and economic recovery have encouraged Spanish M&A

Spain sees surge in M&A activity.

Spanish M&A activity has increased significantly following legislative changes in 2015, which aimed at facilitating the capitalisation of debt and the acquisition of business units from insolvent companies.

Furthermore, measures tackling budgetary austerity and labour market performance appear to have paid off as the economy is expected to grow by 3%. With a government in place, Spain is well prepared for further growth in an European environment where access to cheap financing is available.

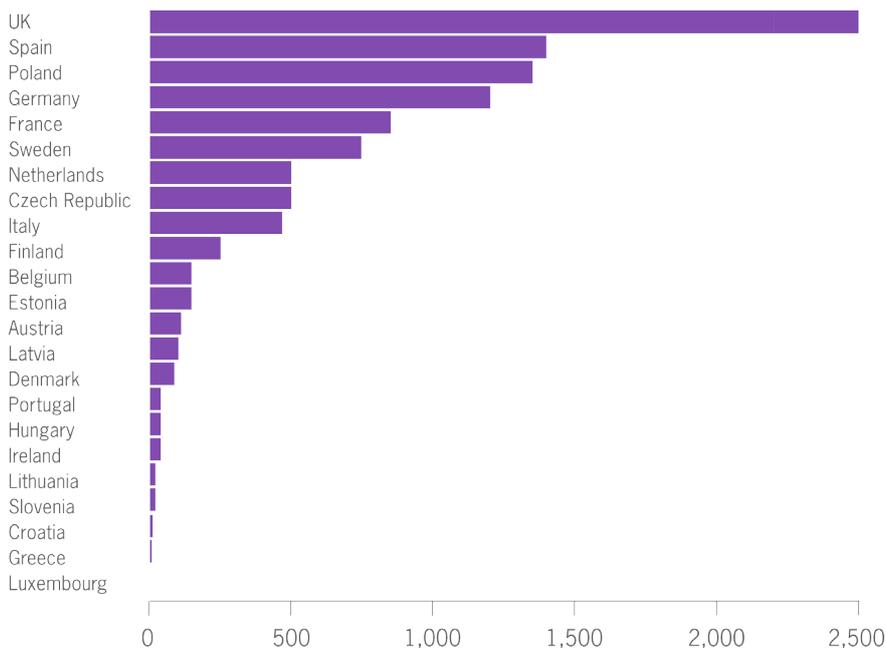
Spain's most targeted sectors for M&A are construction & real estate, consumer and technology and media and telecommunications.



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"The Spanish M&A market is booming... After a year without a government, the issue is finally solved. The economy is growing and investors are trying to take advantage of the last 'bargains' of the crisis period. The outlook for 2017 is brilliant."

FIGURE 4: Domestic deal volume in Europe



Source: BvD zephyr (data up 31 October 2016) Note: Our analysis includes minority stakes



Central and Eastern European deal-makers look to their home markets

While M&A activity in Western Europe has slowed, deal-making has accelerated in Central and Eastern Europe (CEE), with Poland and the Czech Republic leading the way.

Investors consider CEE as a homogeneous market, emphasising selected markets such as Poland, Slovakia or the Czech Republic.

M&A activity has risen significantly since the beginning of 2016, particularly in Poland (transaction volume up by 40%) and Czech Republic (transaction volume up by 135%).

TMT is the most targeted sector, but we are also seeing strong buyer interest in business services, consumer products and services, and construction & real estate.

Deal volumes in the business services segment almost doubled in Poland and Czech Republic, compared to the previous year.

M&A activity is most prominent in the mid-market, as many business owners facing succession issues opt to cash out.

In Poland, the majority of mid-market transactions take place in unregulated sectors, which are less impacted by the regulatory and tax incursions of the current government.

With domestic transactions predominating in CEE, there are considerable untapped opportunities for cross-border deals.



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“The Polish M&A market is booming with transaction volumes reaching their peak. However, with a large proportion of domestic transactions as a characteristic of the Polish M&A market, we leverage our network to create cross-border opportunities and ultimately optimise the shareholder value for our clients.”



European cross-border deal activity – Focus on UK

Political uncertainty has led to reduced cross-border activity across Europe. Despite this, European targets continue to attract strong interest from overseas buyers, particularly from North America and Asia. The UK is a key target.

Domestic deal activity in the UK has clearly been affected by the uncertainty surrounding June's referendum. However, the number of cross-border transactions has gradually increased in the UK since the beginning of 2016, bucking the trend in many other parts of Europe.

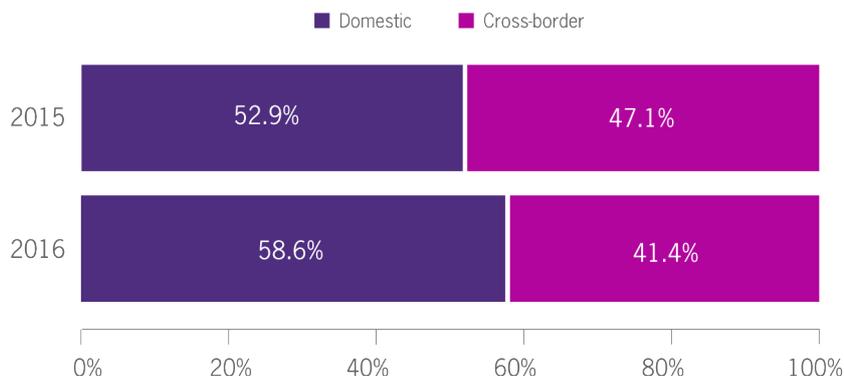
Inbound M&A in the UK reached its peak in the third quarter, just after the vote. The increase has been bolstered by the fall in the value of the Pound following the referendum, which has created bargains for overseas acquirers.

While continental companies appear reluctant to acquire UK targets at present, British businesses are attracting strong interest from buyers based in North America and Asia.

Besides their interest in UK-based targets, North American acquirers have shown strong interest in Spanish, Italian, Dutch and, especially, German targets. German manufacturing companies are at the top of the list of targets for North American buyers.

UK buyers remain the most active acquirers in continental Europe, with strong interest in German, French, Italian and Spanish targets.

FIGURE 5: Domestic versus cross-border activity



Source: BvD zephyr (data up 31 October 2016)



European cross-border deal activity – Focus on Germany

Germany's economic strength and capabilities have continued to make it a key focus for inbound M&A.

Despite slowing economic growth, Germany remains one of the busiest M&A markets in Europe.

The German M&A market is characterised by both large transaction volumes and sizes.

Transaction activity has increased by 28% in 2016 compared to 2015, with TMT and manufacturing being the most targeted industries. Buyers' interest in these sectors reflects Germany's expertise in the Internet of Things and strong capabilities in technical engineering.

Further interest stems from Germany's macro-economic and industrial strength, positioning the country as an attractive industry location.

While inbound transactions dominated the German M&A market, German acquirers were mainly active in the European market, including acquisitions in the UK, France, the Netherlands and Scandinavia.



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“The outlook for German M&A activity for 2017 is positive, driven by the sound development and structure of the German economy and supported by the favourable financial environment.”



European cross-border deal activity – Bilateral overview

FIGURE 6: Bilateral cross-border deal count in Europe

Acquirer	Target																													
	Austria	Baltic countries	Belgium	Croatia	Czech Republic	France	Germany	Greece	Hungary	Ireland	Italy	Luxembourg	Malta	Netherlands	Nordic countries	Poland	Portugal	Slovakia	Slovenia	Spain	Switzerland	Turkey	United Kingdom	Balkans	CIS	Middle East Africa	South America	North America	Asia Pacific	
Austria		3	1		3	1	23	1	2		3	1		3	5	2				5	3	1	6	9	3	3	1	7	5	
Belgium	2			1	1	12	13	2		1	5	2		3	6	1				4	3	2	8				4	2	14	11
Baltic countries		15	1			1						1			5	2								1	3				2	2
Croatia				1											1				1					3						2
Cyprus	1	3		3	11		18	1			2	2		2	4	39		2	1				1	6	1			4	3	
Czech Republic	2			2			3		1							13		7	1				1	2				2		
France	4	1	25	2	3		85			1	47	1	1	44	13	3	9	1		45	22	2	62	5	5	42	15	87	33	
Germany	36	3	9		2	24		2	3	1	14	4		33	36	6	3	1	3	24	33	5	52	8	3	17	1	72	43	
Greece					2															1			1							
Hungary					1	2					1					3			1		1			1	1	1			2	1
Ireland			1		1	5	9				11	6		7	2	1	2			3			39		1	5	2	27	5	
Italy			4	1	1	9	13	1	1	1		3		2	10	4	1		3	8	9	1	1		3	4	1	9	9	
Luxembourg	1	3	1			17	23	4			31			12	8	13	5		1	15	5	2	17	3	5	4	7	16	11	
Malta						2		1						1	3	4	1	1					5	2					1	1
Netherlands	1		23	1	4	19	32	2	3	3	13	2		19	15	4	3	1	11	4	2	39	12	17	15	6	87	29		
Nordic countries	4	12	14		6	7	66		1	1	44		3	54	190	5			1	17	10	99	4	2	5	3	56	24		
Poland		2		1	8		2		1		2			4	1				3	2	1	1	4	3	5	1	1	2	2	
Portugal			1			2								1						5			1						2	
Slovakia				1	8									1	1	5													1	
Slovenia			1	2																		1								
Spain	3					1	8			5	12	1		11	3	3	14				2	1	7			6	16	17	7	
Switzerland	1	1	3		1	11	62		3		22	3		2	6	2				9			25	2				5		
Turkey					1		1							3		2	1						2	2						
United Kingdom	1	6	43		11	349	427	1	2	3	173	34	3	172	51	2	5	1	1	164	25	5		6	18	74	17	189	134	
Balkans					4				1									2	4	1										
CIS		2		4	1	1			1	1	1	1		24		1			1	1	1		4							
Middle East Africa	3	1	2			6	4		1	2	4	4	1	8	2	1		1		6		1	43							
South America			9		2	4	13			3	13			16	7		3			16			32							
North America	7	8	42	1	5	45	512	4	3	41	214	34	2	39	66	25	4	2	3	134	1	555								
Asia Pacific	6		6	1	7	52	89	2	2	5	19	14	1	27	26	6	5	1		32		152								

Source: BvD zephyr (data up to 31 October 2016); Note: Our analysis includes minority stakes

European cross-border deal activity – Focus on Italy

Legislative reform is helping to attract foreign investment into Italy.

Italy recorded an increase in inbound M&A, which is mainly attributable to the Investment Compact Act implemented in early 2015.

The legislation's main aim of encouraging investment has been well received by foreign investors, many of whom had previously been deterred by the complex legal system and rigid labour regulations.

In light of the act, the government approved a bill under which Italy's mid-sized 'popolari' banks would be transformed into joint stock companies, with the ultimate aim of increasing access to credit for small business owners.

As a result, several large financial services companies have been either purchased by or have merged with foreign counterparts, which has boosted M&A activity in the sector.

The reform is expected to provide new investment opportunities and will push further market participants to consider mergers.

Key drivers include the need to strengthen the capital base, improve market position and competitiveness and, ultimately, be prepared to address new banking regulations.



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“The Italian M&A market had its strongest performance since 2008 during the first half of 2016. The forecasts for this year are to be reviewed in the light of Brexit's impact on financial markets and the climate of high uncertainty linked to the UK's exit from the EU. All M&A activities concerning listed companies that typically provide 'stock for stock' exchanges are likely to be frozen.”



European cross-border deal activity – Focus on Netherlands

Cross-border transactions make up more than 60% of deal activity in the Netherlands.

The Netherlands is the most active cross-border deal market, with these deals making up 64.6% of overall activity.

While the transaction volume in the Netherlands is up 5.3% compared to 2015, the TMT sector has seen an even bigger rise (16.7%) and is the main contributor to the overall increase.

Most buyers come from sectors outside TMT, reflecting their need to acquire TMT capabilities to develop their businesses.

In a fast paced environment that is shaped by digitisation, companies are looking to improve their competitiveness through the right mix of technologies and skills. They see TMT as a key target for this.



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“As a result of further globalisation and our open, knowledge based economy, we are seeing strong interest from foreign buyers in Dutch companies. We are used to conducting a lot of cross-border transactions, however currently cross-border transactions are our main focus. Grant Thornton’s international network enables us to act on a global level and to realise the optimal deal.”



Grant Thornton: international reach and capability

Strategic growth decision making

Globalisation and company growth ambitions are driving an increase in M&A activity worldwide as businesses look to establish a footprint in countries beyond their own. Even within their own regions, many businesses feel the pressure to acquire in order to establish a strategic presence in new markets, such as those being created by rapid technological innovation.

We work with dynamic organisations to help them understand the true commercial potential of the business they plan to acquire and how the purchase might serve their strategic goals.

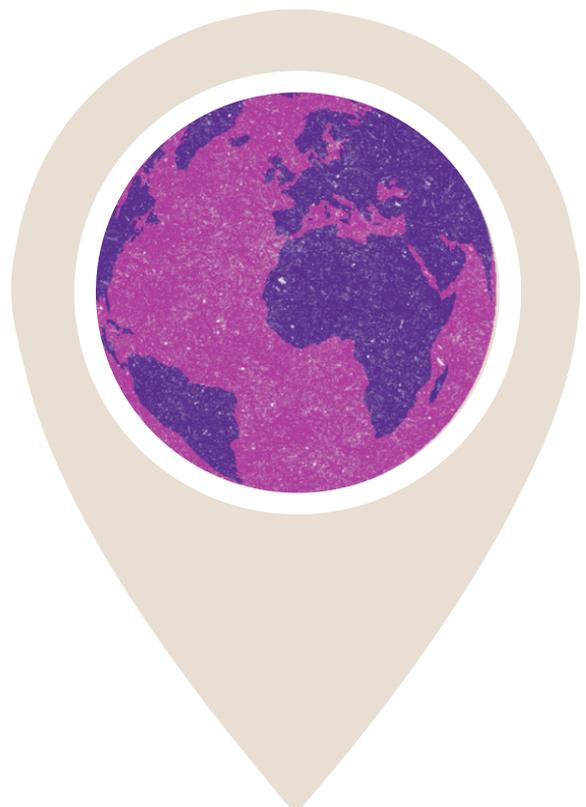
From exploring the strategic options from the perspective of the business or its shareholders, to advising on and project managing the chosen solution, we provide a truly integrated corporate finance offering.



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To find out more about how the team can help you with your next merger or acquisition, please contact Kai Bartels.



Grant Thornton: international reach and capability

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