Boom and gloom? European M&A Outlook 2023 | Dealmakers bullish despite challenging market conditions

Despite facing a far more difficult deal environment, 73% of dealmakers expect the level of European M&A activity over the next year to increase, up from 53% this time last year, according to the tenth edition of the European M&A Outlook, published by CMS in association with Mergermarket.

The report offers a comprehensive assessment of dealmaking sentiment in Europe's M&A market. It reflects the opinions of 330 corporates and private equity firms based in Europe, the Americas and Asia-Pacific about their expectations for the European M&A market in the year ahead.

The M&A markets in Europe maintained an impressive level of activity in the first half of 2022, despite being hit with rising geopolitical tensions and increased volatility. Total deal value ticked up by 1% compared to the same period the previous year, and even if the number of deals dropped by 8% year-on-year, dealmakers remain optimistic. The SEE region performed well with an increase of M&A activities both in terms of volume (+11%) and of value (+9%), compared to previous year same period.

Foreign Direct Investments rebounded in 2021 on the strength of the global economic recovery, reaching USD 1.58trn last year, back to pre-pandemic levels. However, this activity is unlikely to be sustained through 2022, with geopolitical risks and their consequent impact on food and fuel prices likely to dampen appetite for cross-border investment, particularly in exposed countries in the eastern part of the continent.

Horea Popescu, *Head of CEE Corporate M&A at CMS and Managing Partner of CMS Romania*, said: "Despite a far more difficult deal environment, in the first 6 months of 2022 the European M&A markets were able to achieve activity levels on par with the same period last year and remain above 2019 levels. Our SEE region, saw an increase of over 50% in M&A activity last year compared to the same period in 2020, and despite the general economic context and our proximity to the conflict zone, it performed well also this year, with a steady growth of approximately 10%. We remain confident this trend will continue by the end of the year, as the economies of the region seem to be more resilient than maybe expected. CMS continues to hold a privileged position in the region, being among the leaders in cross-border, multi-jurisdictional transactions."

While respondents' expectations may be high, seller/buyer valuation gaps are expected to be the biggest obstacle to M&A as sellers struggle to let go of previous all-time high valuations and buyers wish to acquire repriced assets. They are also keenly aware that borrowing will be more costly and less readily accessible. Not a single respondent believes that financing conditions will be easier than last year, with no less than 87% who expect financing market conditions to be tougher than last year, including 45% who expect them to be significantly more challenging. This will have its upsides however: just over a fifth (21%) of dealmakers cite undervalued targets as the biggest buy-side driver of activity, while 26% view distressed situations as the biggest driver on the sell-side.

The other key focus for respondents is the rise of environmental, social and governance (ESG) factors. As many as 90% of respondents anticipate ESG coming under closer focus in their dealmaking over the next three years, compared with 72% in last year's survey. The proportion of respondents expecting ESG scrutiny to significantly increase has nearly doubled to 48% from 26% 12 months ago. The trend could not be clearer.

In terms of sector-level activity, buyers are more upbeat on TMT than any other sector, which is justified given that it has consistently claimed the largest share of M&A value in Europe over the past decade, correlating with increasing rates of digitalisation and connectivity. A third (33%) of respondents expect it to see the highest growth over the next 12 months, a further 35% anticipating it to be the sector which delivers the second-highest growth.

Rodica Manea, *Corporate Partner at CMS Romania*, said: „Digitalisation, the future 5G-network implementation, the renewable energy developments, or the undergoing gas exploitation of the Black Sea resources will most likely make from the energy and TMT sectors the fuel of potential future business opportunities in Romania. Global repositioning and reorganisation, ESG and energy price will nevertheless further influence the M&A market in the region. Overall, in the European market, the highest growth is expected to be registerer in the next period in sectors such as financial services and TMT.