
# EUROPEAN M&A REPORT: GLOBAL TRENDS AND GROWTH DRIVERS

## CURRENT LANDSCAPE AND 2022 OUTLOOK

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

## LEE CASTLEDINE

### A partner at RSM UK and a member of RSM's Global Financial Due Diligence Leadership Team

*Transitioning from 2021 into Q1 2022, we saw deal volumes continuing to remain buoyant with high levels of capital available. The appetite from both private equity investors and corporates has remained strong and currently shows no signs of slowing down as we progress into 2022.*

*The appalling humanitarian crisis in Ukraine continues to escalate, and as a result the full scale of its impact is unpredictable. It looms large as a potential drag on the broader economic outlook and on deal activity generally.*

*Deal activity across 2021 was exceptional across the market with advisory support delivered by RSM at unprecedented levels. Across Europe we saw an extraordinary volume of deal activity with over 600 transactions completed by RSM Firms. Of those, Technology, Media and Telecoms (TMT) transactions were the dominant driving force, with RSM completing 152 deals in the sector last year. This was followed by 90 deals completed in the engineering and manufacturing sector.*

*TMT is likely to remain one of the strongest sectors for buyers throughout 2022. This is due to attractive characteristics such as the resilient business model and visibility of future revenues together with the continued shift towards cloud-based service provision. In addition the sector has benefited from the "work from home" way of operating which we are all seeing continuing at a varying degree post COVID-19.*

*As for manufacturing, we are entering a new age where technology, such as automation, is accelerating change. This has been reflected in investor behaviours. Supply chain woes have also seen many companies make efficiencies when it comes to production and logistics, which has positively impacted deal activity.*

*In 2021, we also saw very strong IPO activity on the London Stock Exchange and notable activity in the Nordics market. This is continuing into 2022 with more global companies having plans to list later in the year.*

*Furthermore, an ongoing trend is apparent whereby business owners and entrepreneurs are opting for early retirement across the middle market as the pressures of COVID-19 come to bear, and the prospect of a record-high valuation becomes increasingly appealing.*

*We also saw investors begin to consider the theme of ESG. We expect to see this trend develop as private equity firms analyse the impact of this on future exits including on investments that they haven't yet made.*

*At present, the positive demand drivers and the availability of capital are more than offsetting issues that serve to soften demand, although the crisis situation in Ukraine is unpredictable.*

*Unless the conflict escalates even further in Eastern Europe, the current war between Russia and Ukraine might not affect Western Europe through direct trade, but the impact will be seen through increased commodity and energy prices, as well as confidence in the broader economic outlook generally. Such increases and general volatility will impact manufacturers as well as consumer confidence where price growth continues to add pressure on the cost of living. The situation is dynamic but it is already very clear that there will be a significant impact on energy prices. The human impact is of course huge both from the tragic loss of life and those fleeing the war. The impact of mass migration will add financial pressure to neighbouring countries as well as further across Europe and indeed globally.*

*We are seeing interest rate increases to combat inflation with energy costs a strong underlying feature. Whilst these interest rates are still at historically low levels, they could serve to reduce the debt capacity of transactions in the leveraged buyout arena. Supply chains around the world remain under great pressure amid persistent challenges created by the pandemic, and issues such as the chip shortage that threatens trading performance in many industries from software to automotive. The invasion of Ukraine will add to those challenges particularly where Russia is a key part of the supply chain for commodities and raw materials.*

*2021 and Q1 2022 deal levels have remained very high. Whilst the level of available capital creates the potential for such levels to continue into 2022, the risk and uncertainty to the wider economy from the war in Ukraine will be causing decision makers to pause before they sign investment agreements.*

# European M&A Report 2022:

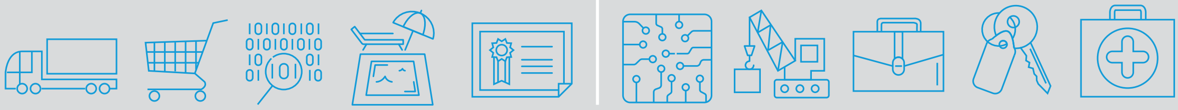
*Global trends and growth drivers*

RSM

*March 2022*

## Q1 insights and 2022 outlook

Transitioning from 2021 into Q1 2022, we saw deal volumes continuing to remain buoyant with high levels of capital available. The appetite from both private equity investors and corporates also remains strong, and currently shows no signs of slowing down as we progress through the first half of 2022. Deal activity across 2021 was exceptional across the market with our activity at unprecedented levels. Across Europe we saw extraordinary volumes of deal activity in 2021 with over 600 transactions completed by RSM Network Firms.



## The total number of European completed deals RSM advised on in 2021

**Deals by sector**
**614** total

- *Tech, media and telecoms* **152**
- *Engineering and manufacturing* **90**
- *Real estate and construction* **71**
- *Consumer markets* **65**
- *Business services* **58**
- *Healthcare* **43**
- *Financial services* **40**
- *Transport and logistics* **36**
- *Education and training* **22**
- *Leisure and hospitality* **13**
- *Other* **24**

# 2021 IN SUMMARY

## European insights

### Dry powder and historic highs

**David Copley**, Partner at RSM UK, said, ***"Dry powder fuelled a dealmaking frenzy across Europe in 2021.*** *It is a hot market which has led to aggressive fast-moving auction processes in which there is participation by both private equity and strategic acquirers. The high multiples being achieved by these processes is attracting more and more opportunities to the market."*

At its simplest, M&A will always happen when there are willing sellers and willing buyers. And sellers are always willing if prices are high.

Partner and Head of Private Equity Coverage at RSM UK, **Charlie Jolly**, said, *"At the moment we've got this perfect storm. Corporates have got cash; those in sectors that have been fairly insulated from COVID-19 have got cash; and the fund management industry is sitting on cash, so there are a lot of keen buyers. At the same time,* ***owning and running a company through periods of lockdown and COVID-19 has been hard for many and perhaps as a result there are also lots of willing sellers of shares at the moment.***

**Tom Pugh** added, *"Much of this is driven by massive quantities of cheap, easy money."*

In North America, it has been suggested that the high deal volumes in 2021 can be explained by deals that were due to happen in 2020 but were delayed to 2021, as well as some deals being pulled forward from 2022. These were accelerated because of concerns over the potential tax and regulation agenda of the Biden administration (although as of March 2022, these concerns have not yet materialised).

***"Across North America, it is a similar story to Europe whereby deal volumes have been off the charts.*** *Globally, the demand for deals outweighs the available companies. This, coupled with how many PE funds with dry powder are out there, has resulted in some of the highest valuations we have seen.* ***A trend that is here to stay at least in the short-term is that companies are deciding to come to market earlier than ever before.*** *Historically, companies would come to market within five to seven years, but we are seeing companies shorten this period to two to three years in order to take advantage of the current multiples,"* added **Bobby Rooney**, Partner specialising in Transaction Advisory Services at RSM US.

According to a recent report by Real Deals, many General Partners (GPs) believe the peak of PE deal activity has already been reached and moving so investment activity should begin to normalise at a higher level. In response, RSM advisers felt that the deal activity has peaked but still remains at historically high volumes and values. It remains to be seen whether this level of activity becomes the new normal but at present the private markets have the capital to sustain it.

Partner at RSM Norway, **Oliver Smyth**, commented, *"There has been a high level of transactions across Europe and the Nordics, particularly in Sweden, and last year it was primarily by PE firms.* ***Around 10 years ago international investors would focus their attention on France, Germany, or the UK. The Nordics was more of its own neighbourhood for Nordic investors, but that has shifted today.***

*"This is creating extra competition for Nordic investors who are more established in the region. Interestingly, the Nordic PE firms are facing more competition from international firms than ever before. We see it time and time again where a Nordic firm may have had an advantage, but they're increasingly competing with US players as firms face off for the best prize.*

*"The driver behind this is not complex; it is simply that there is cash looking for quality. These US investors are particularly interested in tech and software, and much less interested in traditional sectors like manufacturing and retail.*

**Oliver Smyth** believes the middle market in the Nordics has become more sophisticated and professional in recent years. Historically middle market companies did less M&A but now they are increasingly seeking more complex advice that was previously only the preserve of larger companies.

He said, *"I feel that middle market companies are effectively now doing what big companies do, which is good for us because it means a more dynamic middle market space. And that is also partly why these foreign funds are taking notice – the Nordic middle market is more visible now.* ***You could even credit the middle market with putting the Nordics on the map."***

*"****In the Netherlands, the recognition that the PE firms and their investments can really add value to a company has grown in the last year.*** *The high volume of PE deals in 2020 and 2021 raised awareness of this, and it has been like a snowball effect ever since,"* said **Marcel Vlaar**, Financial Due Diligence Director at RSM Netherlands.

## A private assets rush

**Tom Pugh**, economist at RSM UK, said, *"The difference between Europe and the US is that in the US you've seen that asset spike come through the stock market, when in many ways you haven't seen that in the UK and Europe. That's probably another reason that has been driving the PE sector on the hunt for yield. In Europe you're not getting much of a return if you invest in equities, so if you're a pension fund you're trying to access the higher returns that PE can typically give you."*

It also creates attractions on the sell-side.

*"**If you're a firm looking to either IPO or sell, given the lower valuations compared to the US then suddenly selling to a PE firm rather than listing on the stock market becomes a much more attractive option,**" concluded **Tom Pugh**.*

## Landmark IPOs

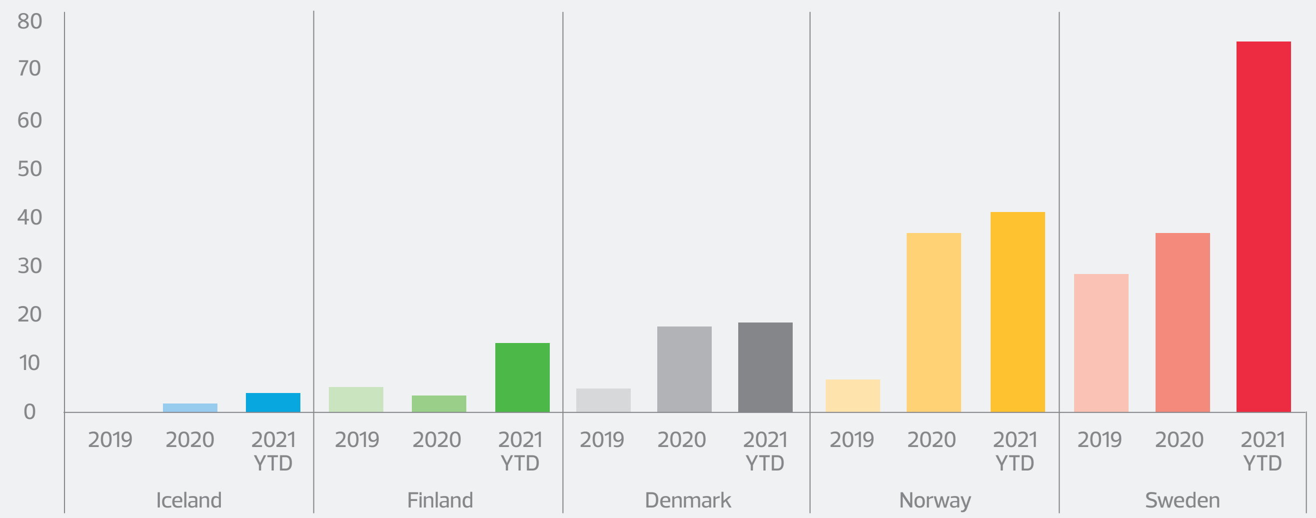
*"We have also seen a high number of IPOs in Norway in the last 12 months. **The volume of IPOs in Norway was unheard of as a relatively small country compared to some of its European counterparts,**"* commented **Oliver Smyth**.

According to S&P Global Platts, the Nordic IPO frenzy seen in 2021 is set to continue throughout this year with larger deals, more main market listings and international investment banks increasingly seeking opportunities in the region.

The IPO market in the Nordic region has flourished in recent years due to a thriving start-up scene, less cumbersome regulation and a deep pool of institutional and retail investors. This makes it possible for smaller companies to seek capital through a stock market flotation.

The COVID-19 pandemic appears to have accelerated the trend. The total number of IPOs in Sweden, Norway, Denmark, Finland and Iceland grew by more than 110% in 2020 and has risen almost 260% year over year so far in 2021, according to S&P Global Market Intelligence data as of Sept. 27 2021. More than 40% of European IPOs in 2020 and 2021 have taken place in the Nordic countries[1].

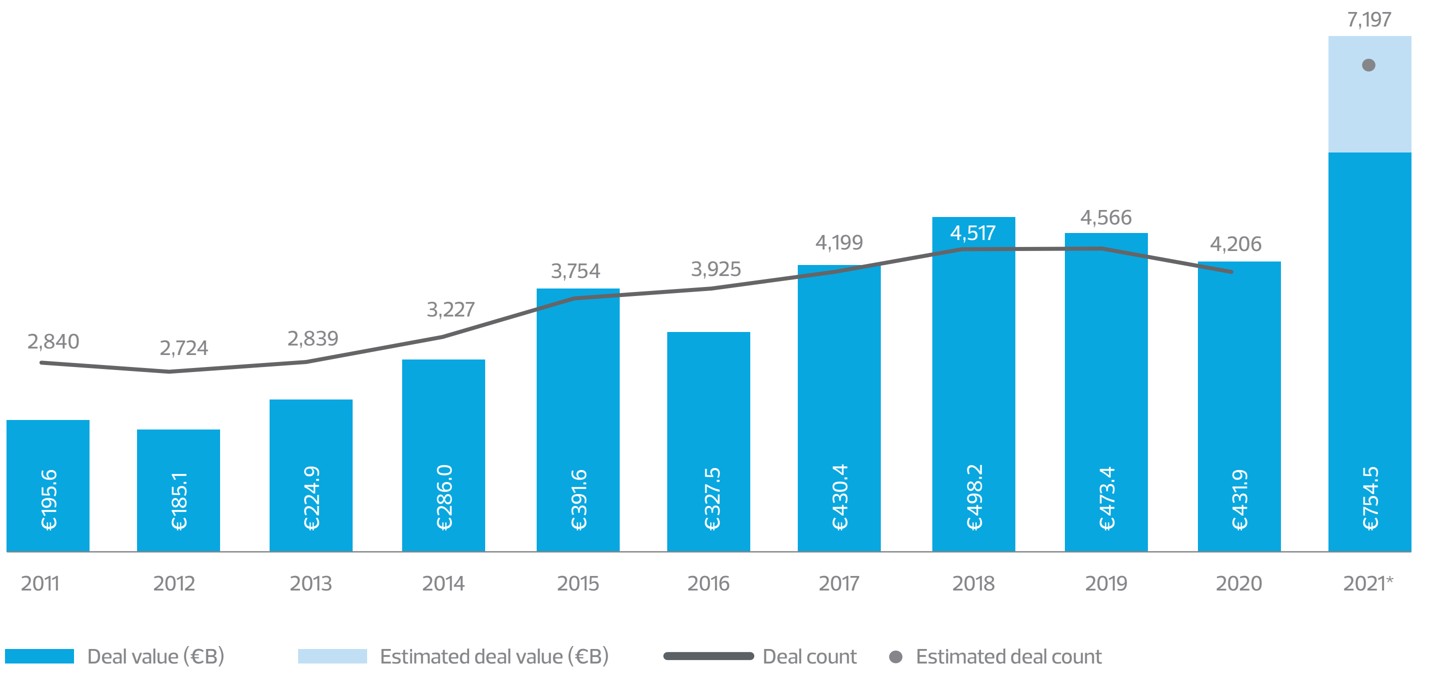
### Number of completed IPOs in the Nordics




Data as of Sept. 28, 2021
**Source:** S&P Global Market Intelligence

[1] https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/nordic-ipo-boom-to-continue-into-2022-as-investment-banks-fight-for-market-share-66767801]

## The deal volumes that PE firms have made has more than doubled globally in the last five years




**Source:** Pitchbook | **Geography:** Europe
*As of December 31, 2021

## A global perspective on 2021–2022 deal activity

Discussing another key driver of global deal activity, **Bobby Rooney**, said, *"**As we got deeper into 2021, in the US it became increasingly clear that potential tax changes were less imminent than we once feared.** However, deal activity still spiked as businesses had already decided to sell instead of waiting and risking any tax rate increases. All in all, we are seeing a far greater volume of cross-border deals in the US including an increased appetite for European businesses."*

Providing his views on deal activity in Latin America, **Thomas F Alvarado**, Managing Partner RSM Costa Rica, said, *"Unlike Europe, deal activity across Latin America had a slower recovery in 2021 as the fourth wave of the pandemic hit the region later. However, from Q2 2022 onwards, we expect the same upturn that we have seen across Europe.*

*"**The 2021 activity in Latin America varied between countries, with Brazil (60% of the deal volume) and Mexico by far the biggest drivers.** To a great extent, activity on the continent is influenced by political stability and the COVID-19 response of governments.*

*"About 45% of the deals in Latin America are inbound and the US is the biggest outside investor into the region. This is even higher in Mexico and Central America. **The key sectors driving these deals were technology (including fintech), consumer goods, communications, and healthcare. Going forward, sectors such as energy (particularly renewable energy technologies), consumer and healthcare, are set to see growth as our economies urbanise and the middle class grows.**"*

> *As we got deeper into 2021, in the US it became increasingly clear that potential tax changes were less imminent than we once feared.*

## Entrepreneurs and founders take advantage of a market high

**Charlie Jolly**, Head of Private Equity Coverage at RSM UK said, *"For many business owners, running their companies through lockdown and COVID-19 has been extremely challenging. Most have had to navigate volatile markets, government support schemes and a transition to remote working for the first time. This is in addition to other more familiar business challenges.* ***Some owners have understandably brought their retirement and exit plans forward to take advantage of the current 'sellers' market***'.

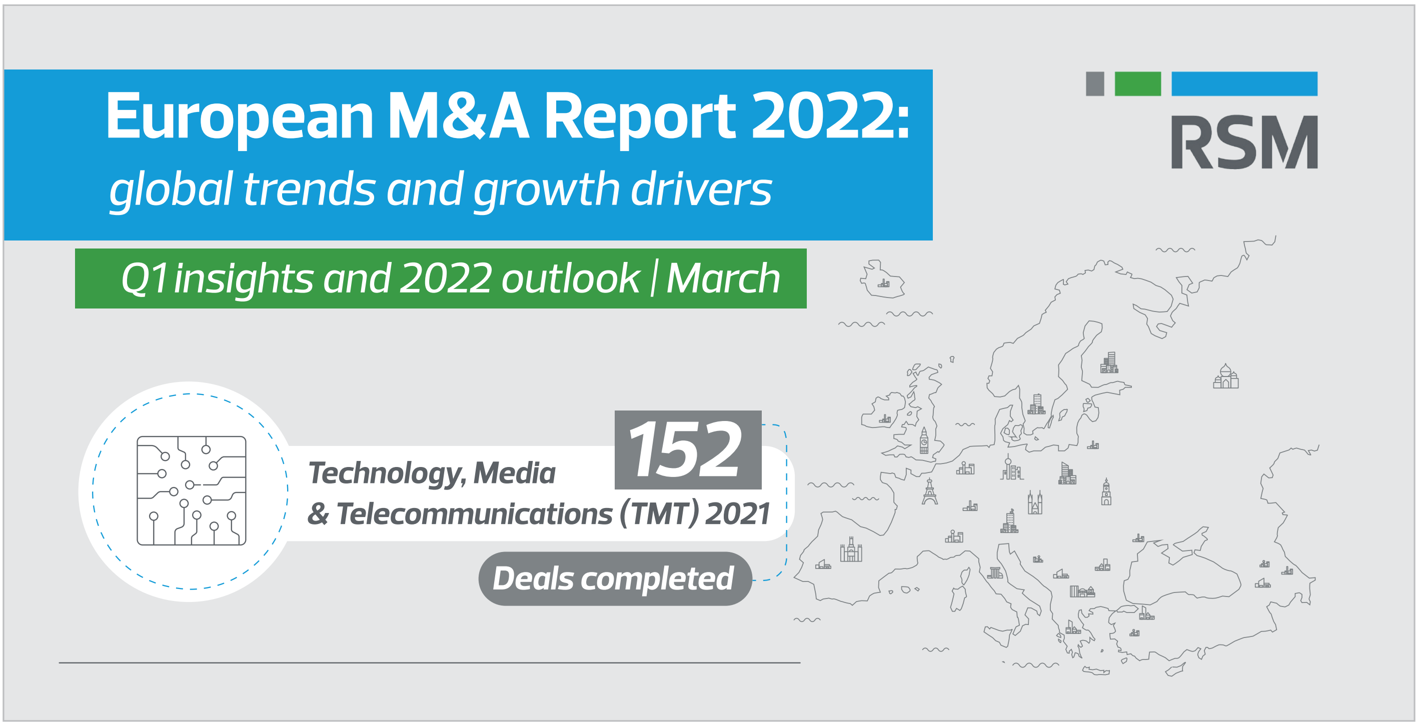
*"**Just as some owner-managers are looking to exit, others with longer-term time horizons have sought to take advantage of the number of businesses for sale.** These management teams, often with PE backing, are consolidating fragmented industries to build large businesses in a short space of time. Both of these trends have accelerated deal making in the middle market."*

**Eric Fougedoire**, Partner at RSM France, commented, *"**This is a trend we are also seeing in France whereby business owners, including family-run entities, have been put under immense stress due to COVID-19. They are doubting whether they can face the next crisis down the line and therefore earlier retirement is being considered more and more frequently.***

*"There are two influencing factors driving these behaviours – the impact of COVID-19 and the significantly high multiples. To put this into context, we are seeing instances where a relatively small business recording revenues of around 15 million Euros may be sold for a multiple of 10 or 11 today, and then valued at over 100 million."*

## Tech, media and telecoms deals boom

The global technology sector has not only remained resilient throughout COVID-19, but it has grown. The TMT sector has been the focus of much M&A activity and is the biggest of RSM's sectors by deal count.




The total technology sector cross border M&A deals in Q4 2021 alone were worth[2] $47.7bn globally. The value marked an increase of 1.2% over the previous quarter of $47.15bn.

This trend is likely to continue. According to Mergermarket[3] technology M&A deal volume and values in the first half of 2022 are likely to break records.

**Charlie Jolly** commented, *"**One of the key factors that saw deals in the TMT sector rise in 2021 was the shift in all of our lives to becoming more digital**, something which we have gradually seen increase over many years but was accelerated by the pandemic.*

*"We had no other option than to embrace remote working and increase our reliance on technology to socialise and keep in touch with family during the restrictive periods of lockdown. **We have seen investors take a particular interest in the tech companies that develop the products that support remote working, video communication, or home entertainment such as streaming services.**"*

[2] According to GlobalData's deals database, reported Verdict.
[3] https://www.mergermarket.com/info/2022-global-private-equity-outlook

> "We are seeing consolidation in the technology and software space. We are seeing companies take an aggressive approach to building a market offering of substance. This means making the necessary investment to grow their business through a buy-and-build strategy because software development expenses are often capital intensive."

*"**For investors, it is an attractive sector as TMT ticks so many boxes.** It runs across almost every horizontal and vertical these days from retail to hospitality, and from health to manufacturing,"* added **David Copley**.

He continued, *"This has led to predictable recurring revenues which is what the investors are looking for. In particular, we are seeing a B2B tech boom which includes enterprise software, SaaS and cloud technologies. **There is a low risk of investors losing money on tech as enterprise software usually gets embedded into many businesses, particularly if it is a group structure, and therefore it becomes a core part of their infrastructure.***

*"**Established software companies are being snapped up by conventional companies and groups because they recognise the need to digitise**, but developing these technologies in-house from the bottom up can be extremely costly and labour intensive. We have seen some challenges in this space, however, with some new investors unclear on pricing and management models. This has led to a market driving the number of deals upwards for exceptionally high valuations.*

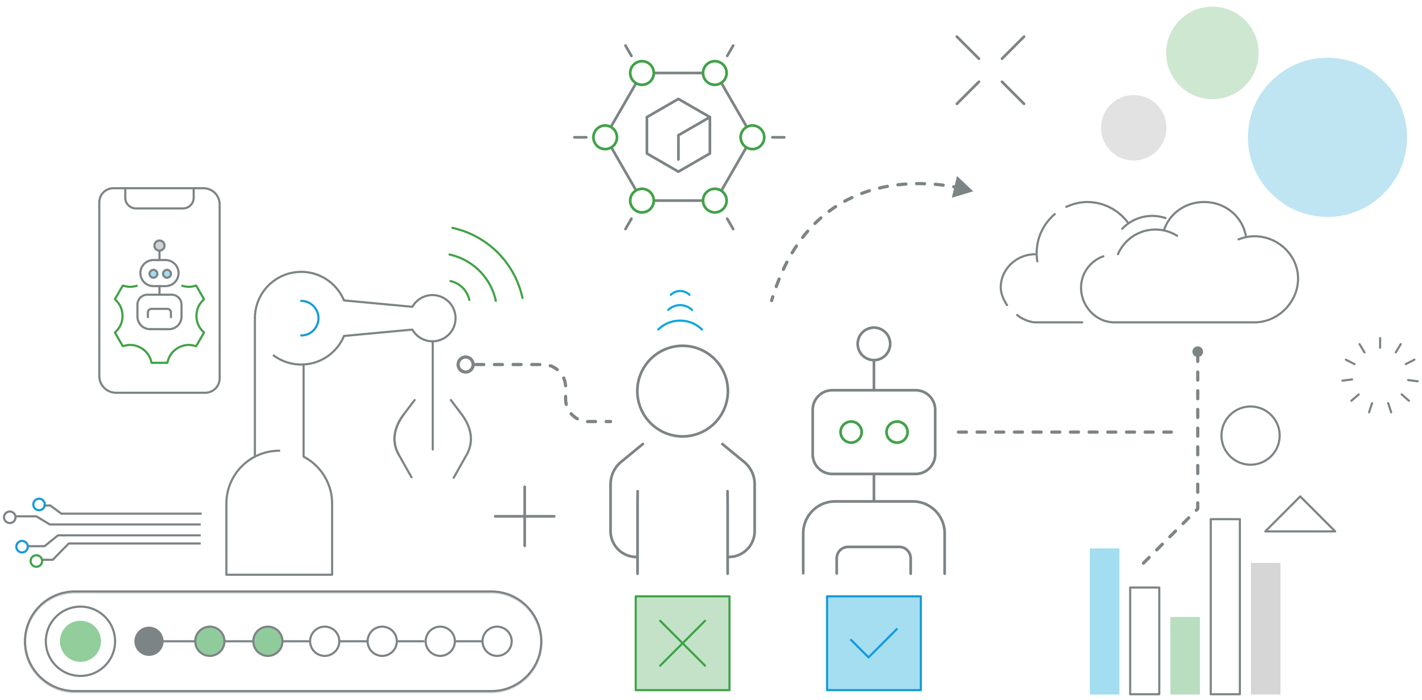
*"It's not surprising really. For investors a software business can be very attractive as they are typically no longer tied to one location and therefore have a relatively small physical footprint. **The pandemic has heralded a more flexible and agile way of working, and the tech companies recognise that their staff can perform their role from any location, so this has reduced overheads and taken away any concerns about global mobility if staff were to be based in different jurisdictions. In addition, their small footprint means they have more efficient supply chains and less environmental impact.**"*

**Marcel Vlaar** commented, *"We are seeing consolidation in the technology and software space. **We are seeing companies take an aggressive approach to building a market offering of substance. This means making the necessary investment to grow their business through a buy-and-build strategy because software development expenses are often capital intensive.**"*

Tax Partner at RSM Germany, **Chris Knipp**, said, *"We often see smaller software businesses fitting neatly into larger groups, and that is what drives the investment decision. Their software may fit in well with the larger group's existing suite of products and create synergies where they can combine products to bring a differentiated offering to the market and target their existing customer base. Often it is because this strategy allows for faster growth rather than relying on organic growth, however **occasionally we also see larger companies snapping up smaller technology companies because they fear that they may become a future competitor.**"*

**David Copley**, commented, *"Looking ahead into 2022 and beyond, data analytics solutions now run parallel with the regular enterprise software offerings. Gone are the days that a company relied on manual data input and an Excel workbook for critical projects. **Businesses are opting to embrace tools that are underpinned by analytics and AI in order to complete tasks more quickly, to have more accurate insightful data available and to free up their headcount to focus on value-adding work. Investors have recognised this and are willing to pay for it.***

*"In the middle market, there are many tech entrepreneurs who still own and run their business but need a transaction to move that business to the next level. For acquirers and investors, the attraction is that the tech has already been developed and will only require incremental improvement going forward. **The nature of the software market in particular means that an acquirer or investor-funded roll-out into new industries or geographies is relatively painless, with rapid payback generally achievable.**"*



## Global supply chains buckle

Despite record-setting M&A activity across Europe in 2021 and into 2022, supply chain issues remain a top concern. A survey of deal makers in December 2021 found that supply chain issues were cited as the top reason that M&A deals fell apart in 2021[4]. The impact of sanctions against Russia will only serve to increase the challenges.

**Eric Fougedoire**, commented, *"The continued logistics and supply chain issues are having a knock-on effect on deal activity.* ***The slowdown in the movement of goods and manufacturing supplies, whether it be from China to the US or China to Europe, has seen some companies relocate their manufacturing operations from another country to bring it into their own where there is easier access to their customer base.*** *For example, we have worked with companies manufacturing products in Asia to sell to Europe, but due to the lengthy supply chain delays, the manufacturing facility was relocated to France."*

Our experts also voiced concern over the global shortage of semiconductors and critical minerals that are essential for many technologies. According to a recent report[5] published by GlobalData, the chip shortage that has plagued several industries over the last two years is not yet behind us. As a result of new variants of COVID-19, we can expect the shortage to impact technologies such as 5G and batteries, and hit sectors such as pharmaceuticals and automotive the hardest.

**Mike Thornton**, Partner and Head of Manufacturing at RSM UK, commented on the wider impact that the Ukraine-Russia crisis will have on global supply chains. He said, *"The conflict could squeeze input pricing on certain products. Russia is a major exporter of natural resources including palladium, platinum, gold, oil, gas and aluminium which could put further tension on supply chains.* ***The recent shortages of components, such as microchips, could continue and expand into other areas as sanctions and export restrictions limit supply that feed into the wider supply chain.***

*"**Russia and Ukraine are dominant exporters of wheat and corn so food manufacturers could be acutely hit if the conflict continues. Supply could be disrupted which would push prices up further as capacity is reduced.**"*

## Streaming services surge

The pandemic spawned numerous lockdowns around the globe that led to a subscription market boom as the world stayed indoors. This resulted in unparalleled highs in On-Demand video steaming services. Netflix for example added 37 million subscribers in 2020 alone, which marked a single-year record. The newest streaming service on the block, Disney+, brought in 100 million in just 16 months. This was music to the ears of investors around the world and sent market values soaring.

## A case study – RSM, Roald Dahl and Netflix secure 'giant peach' of a deal

In 2021, RSM advised Roald Dahl Story Company (RDSC) on its landmark sale to Netflix. The deal joined together Netflix and RDSC to bring some of the most well-known and beloved stories to new and existing fans around the world, and presents an exciting future for the Roald Dahl brand, globally.

The transaction will allow Netflix, the world's leading subscription service and over-the-top (OTT) media service company, to build on the existing partnership with RDSC in delivering more premium content to its 200-plus million subscribers.

With over 300 million books sold, and characters known and loved around the world, Roald Dahl is acknowledged as one of the greatest British novelists and storytellers of all time. RDSC owns the intellectual property to all the novelist's works and, having previously agreed a fixed term rights deal with Netflix in 2018. The acquisition marks a natural next step for both businesses.

The transaction was led by a team from RSM UK. **Helen Brocklebank**, Corporate Finance Partner, comments, *"This landmark deal delivers exceptional value for the shareholders of RDSC, and for Netflix secures one of its most significant content purchases to date and its largest corporate acquisition by far."*

---

[4] https://www.datasite.com/us/en/company/news/press-releases/global-dealmakers-on-the-hunt-for-growth-in-2022--datasite-surve.html

[5] https://store.globaldata.com/report/tech-media-and-telecom-predictions-market-analysis/

## Industry 4.0 — the tech driving change

At RSM, our experts have seen a great deal of activity in the industrial services space. In 2021, RSM completed 90 deals in the engineering and manufacturing sector in Europe, with many of these at the high tech end of the spectrum.

For example, RSM recently advised on a deal which focused on the installation and maintenance of fibre optic cable, driven by the need for increased connectivity. This is a fragmented market where there are many small to mid-sized players, and fewer large businesses dominating the market as in many other sectors. Despite the technology being installed, it is considered a highly skilled industrial business, and those skills are very attractive to future investors.

In 2021, RSM also advised leading fire detection and security technology specialist Protec Fire and Security Group Ltd on its sale to Bosch Building Technologies.

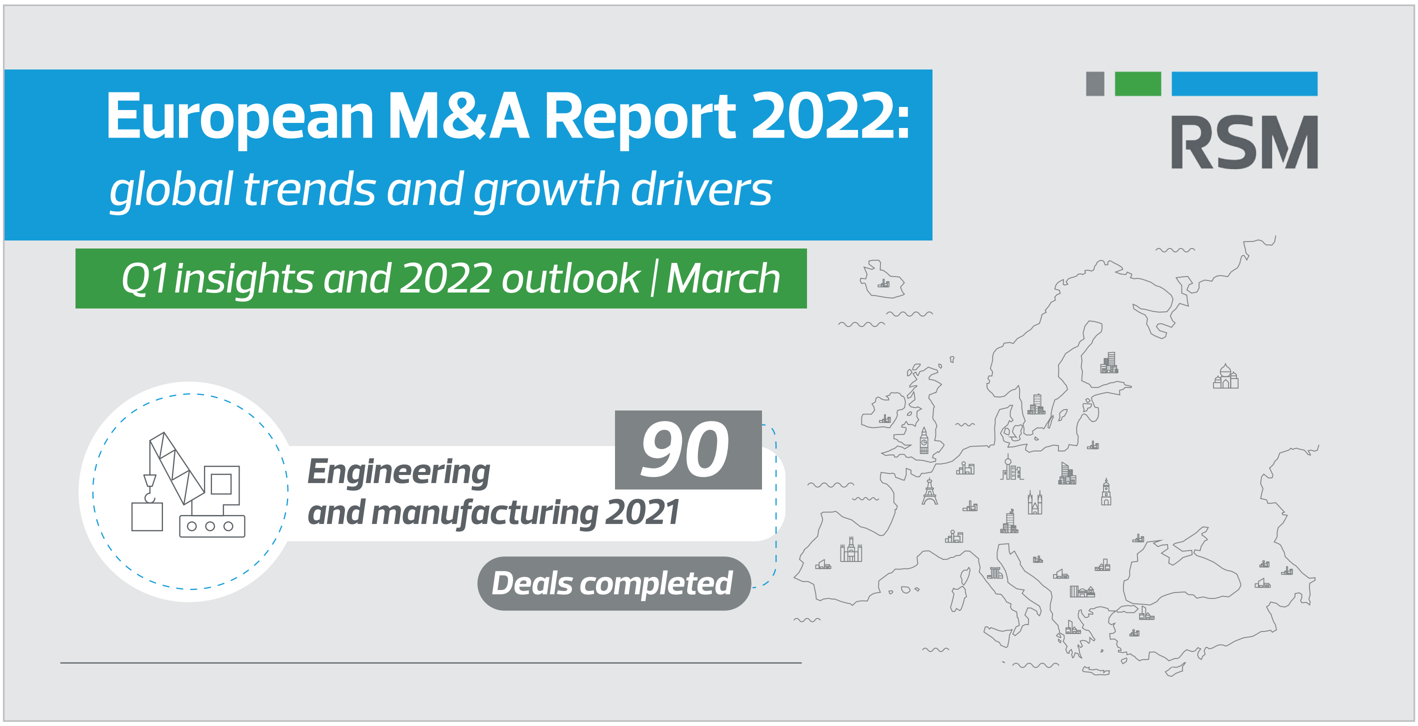
Protec is one of the leading system integrators for security and fire detection technology in the UK,and employs around 1,100 employees at its nine sites across the UK and the Netherlands with a turnover of £125m.

Bosch Building Technologies currently has the focus of its European system integrator business in Germany and the Netherlands; and is also active as a system integrator in the USA and Asia.

The transaction combined two complementary businesses and offered both companies the opportunity to expand into different markets and strengthen their presence within the global fire safety and security sector.

The deal represented a growing trend as construction and manufacturing meets innovation. By 2025, the projected revenue of the smart city market worldwide will be $185bn, over half of which will be from smart infrastructure and the smart city building market[6].

*"We have seen a huge shift across Europe in the way that large buildings are designed and managed - from prisons to hospitals, and even train stations.* ***Intelligent systems within these modern buildings help create efficient cities of the future. With the ESG agenda here to stay, investors are interested in how industrial businesses are using advanced technologies, which includes automation and IoT, in order to make life more sustainable,"*** said **Charlie Jolly**.




[6] https://www.rsmuk.com/ideas-and-insights/constructing-smart-cities

## ESG factors influencing deals – if not now, when?

According to a survey[7] conducted by RSM UK in October 2021 which included the views of over 400 senior executives from UK middle market businesses, ESG is a growing consideration.

It found that over half (56%) of middle market businesses surveyed were familiar with the concept of ESG criteria to evaluate an organisation's performance. Whilst 74% of those that were familiar with ESG, said that they have a formal plan or strategy outlining their commitments to ESG initiatives. Furthermore, 84% said that their ESG policy will contribute to the future sustainability of their business.

The growing importance placed on ESG by business leaders would suggest that this is influencing dealmaking behaviour, but not so fast. According to a UK survey of top dealmakers from January 2022, only 9% said that ESG issues will be made a priority for boards in 2022. So, is it a case of, 'if not now, then when?'

**Charlie Jolly** commented, *"**A business with a clear ESG strategy, the ability to monitor and communicate how that business interacts with the environment and society, and robust governance, is clearly a more attractive investment than the equivalent business that doesn't have one.** If you can clearly articulate your impact as a business and how you use it to improve your performance, you will attract more investor appetite and a higher valuation."*

All of our experts working across Europe, the US and Latin America voiced concern over the vast array of ESG frameworks and the lack of consistency.

Commenting from a US perspective, **Bobby Rooney**, shared, *"In 2021 ESG factors are still evolving in the US deal market. For many investors it created too narrow a lens and led to a barrier to getting deals done. However **there is a proportion of the market where companies are beginning to realise that if they bolster their ESG credentials, it will help them to stand out to buyers who are interested in this.** We are seeing more global investors embrace ESG as a key differentiator.*

*"**One of the biggest challenges with respect to ESG is the vast array of frameworks and how companies determine which to follow and how to measure success so that they can communicate this to their current or prospective investors.** For example, there are different frameworks coming from the US and others coming from Europe, but how will a multi-national company respond? We are seeing the larger corporations take a lead here, and many small to mid-sized companies are waiting patiently to take their cue."*

It is clear, increased standardisation is needed for investors to make sense of companies' ESG performance and cut through the confusion created by the current proliferation of frameworks.

**Marcel Vlaar** commented, *"In the Netherlands we really need to develop so that from a due diligence perspective everybody understands the report and knows what to expect. **When it comes to financial due diligence, there are standard processes but ESG reporting is far more irregular.**"*

**Oliver Smyth** concluded, *"At RSM in Norway, we are seeing more businesses who want to do the right thing, and recognise the benefits not only to the communities and people they employ but also to future business growth by enhancing their ESG credentials. However, **many simply do not understand the reporting mechanisms or factors at play, and require specialist advice to start their ESG journeys.**"*

## Will ESG factors drive deal making behaviours?

This is not just a trend in Europe. **Thomas Alvarado** explained, *"**Latin American countries are beginning to realise that strong ESG credentials can be a real asset.** We're beginning to see sustainable bond issuances on the capital markets become more popular as the appetite for this type of paper increases, so there is definitely a growing awareness of the value these credentials bring to the table.*

*"For some intra-regional investors in Latin America, it may not be that critical yet, however, it's beginning to come to the forefront. **Seasoned investors are beginning to consider the impact of ESG on value as part of their exit strategies, as future buyers are likely to care more and more about ESG.**"*

[7] https://www.rsmuk.com/-/media/files/real-economy/the-real-economy-esg-research-report.pdf

## ESG and the changing shape of PE

**Oliver Smyth**, said, *"**When it comes to M&A, we often hear from the PE firms that they are starting to realise that if they buy a company today with poor ESG credentials, five years down the line they will face challenges in selling it to make a good return.** That said, there are PE firms out there that are willing to roll up their sleeves and put in the work to turn a non-ESG focused business into one that has much stronger credentials."*

**Charlie Jolly**, commented, *"**Private equity firms can be powerful agents of change in middle market businesses.** The vast majority of PE investments give the PE firm control or significant influence of the company. Because **PE firms generally invest capital from pension funds and other institutions, the governance and financial rigour that comes with that investment is significant. So, PE firms are very experienced in implementing change in their portfolio companies.***

*"They can bring ESG metrics and measurement frameworks to businesses that otherwise would have limited capability in this area. **Some PE firms have become a catalyst for transformation and purpose-driven activities within a company's overall growth strategy.***

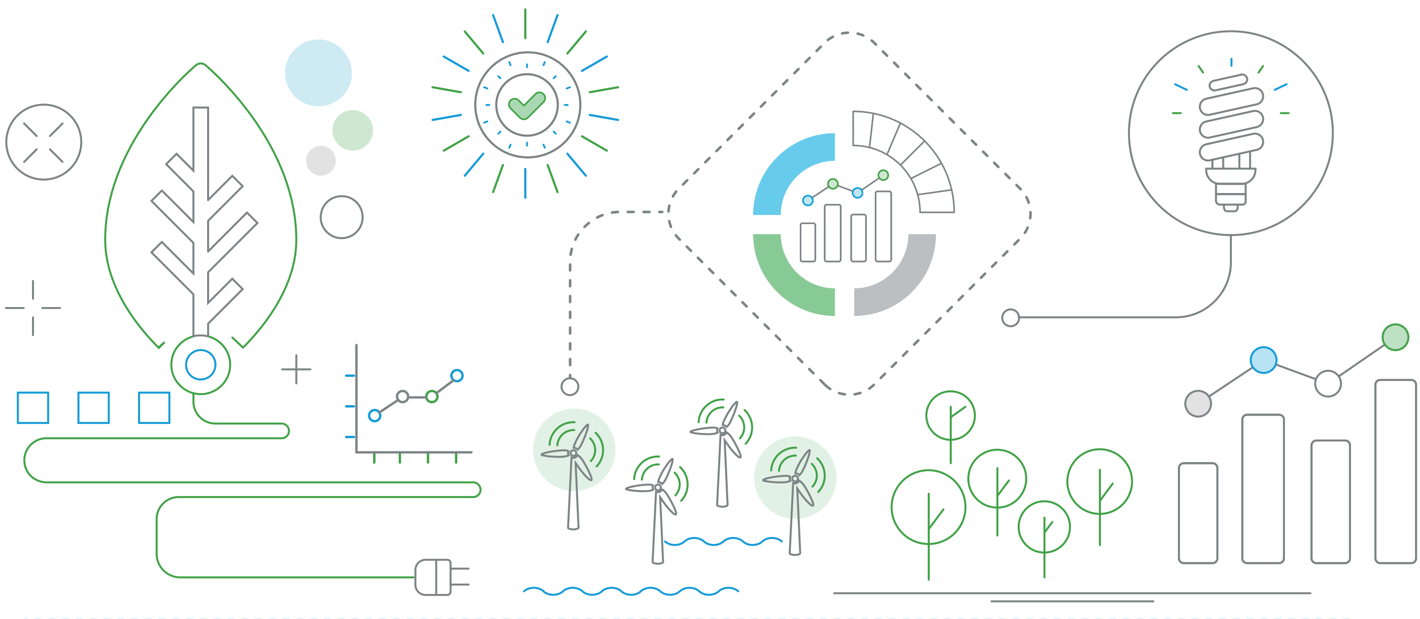
*"For the PE firms, driving sustainable change is in their best interests. By putting robust ESG frameworks in place that drive measurable change in company activity, that change will be recognised and valued by the future buyer of the company. There are some PE firms that have consistently implemented successful ESG strategies and as a result, they have been able to raise dedicated impact funds.*

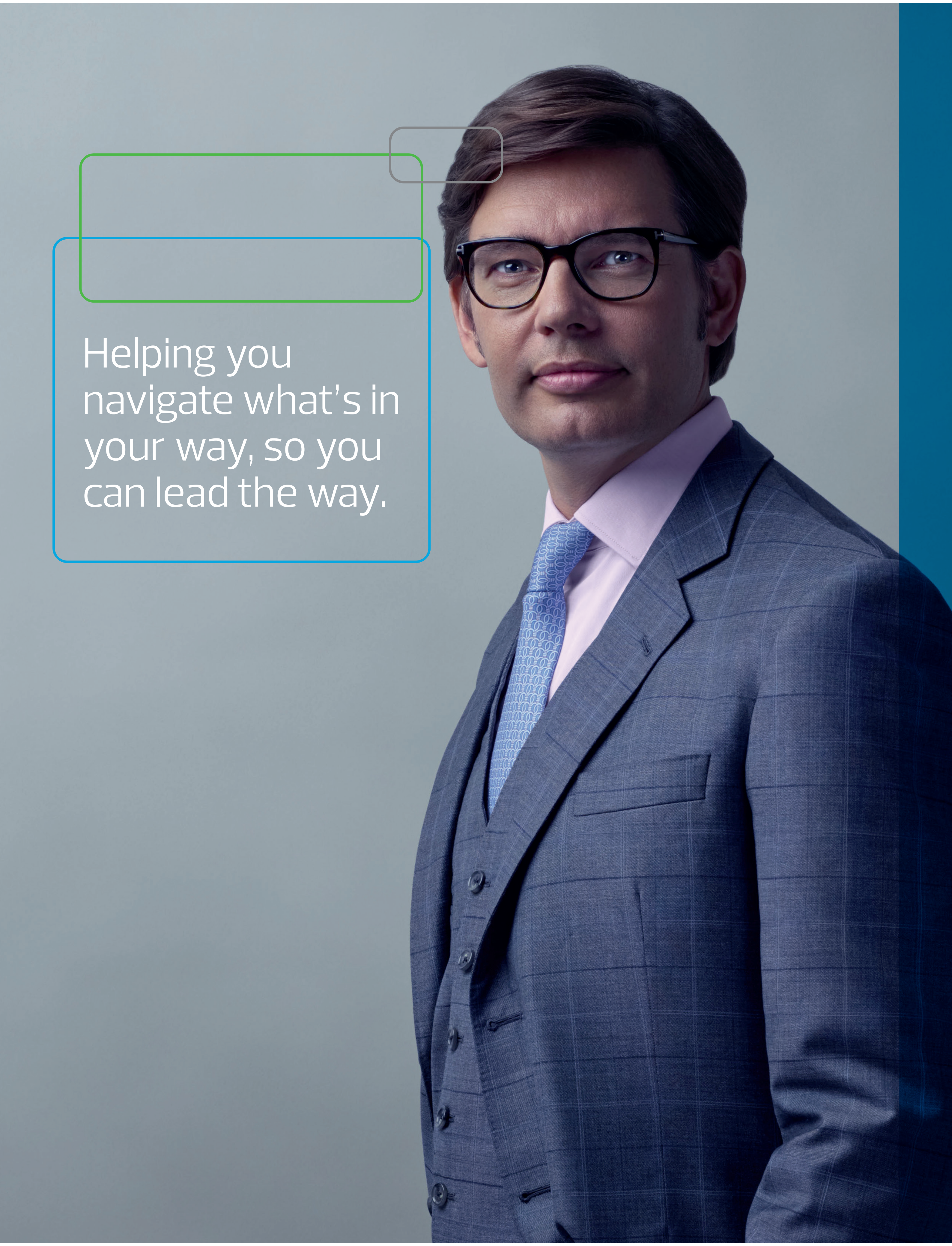
**Charlie Jolly** continued, *"Almost all PE firms have ESG policies and procedures, however their approaches to ESG vary widely across the industry. **The industry faces a real challenge in standardising the measurement of ESG activities so investors in PE funds can assess the differences in approach and performance between firms.***

*"In response to the challenge, PE firms have been recruiting ESG and sustainability experts to their teams to ensure their policies are appropriate, monitored and successfully implemented. This expansion in the skills sets that PE firms have in-house is in keeping with a broader trend. 10 years ago a PE firm would have an investment team and a finance team. Today, although investment teams still tend to be central, many are supported by dedicated investor relations, portfolio, ESG, talent, as well as IT and digital teams to help drive value creation in portfolio companies. **Recent growth in the industry has initiated a hiring spree of late, and the Head of ESG or Head of Sustainability role is not as rare as it once was. We can expect this broader trend to persist through 2022."***

## 2022 outlook

Looking forward into 2022, there is still more money than ever to be deployed; the question is whether it will continue at the same rate.




Helping you navigate what's in your way, so you can lead the way.

## Potential headwinds from geopolitics and carried interest tax reform

**David Copley** explains more, *"**It was the available dry powder and high pricing, combined with a rising concern from private equity that a year or more of their investment cycle could be missed as a result of the pandemic, that has driven this M&A boom**. In the first quarter of 2022, we have seen no signs of this slowing down. The transactions are coming thick and fast.*

*"However, a number of geopolitical and fiscal issues could see the remainder of 2022 become choppy. **Inflation, war, ongoing pandemic risk and changes to the taxation of carried interests in the key UK private equity market could all be challenges within Europe.**"*

***Charlie Jolly**, adds, "I'm sure many businesses will be keeping a close eye on the interest rate policy. So far, the increases have not been significant enough to affect a company's ability to borrow and the greater concern will be inflation, which looks set to remain high by historical standards. **The costs of raw materials and labour are increasing and although businesses can often pass those increases through to customers it is not always possible.**"*

## Activity levels likely to remain high in 2022

**Charlie Jolly** commented, *"**We are seeing inflation leading to price rises across the board, in energy, raw materials, labour and transport. All of these could become problematic because businesses can pass on those price rises to an extent, but at some stage the customer ends up balking.** This could take the form of reducing the amount they buy or looking for a cheaper supplier. The market can absorb a certain amount of inflation but we need it to stabilise for it to remain as buoyant as it has been."*

From a UK perspective, **Mike Thornton**, Partner and Head of Manufacturing at RSM UK, said, *"As the Russia-Ukraine conflict unfolds, the primary concern of course is a humanitarian one, but it is also important to note that UK manufacturers should brace for some additional headwinds.*

*The surge in energy prices is the most obvious for heavy industry. The pressure is already being felt with unleaded petrol prices reaching record highs as oil prices surged as fears over supply increase."*

Russia is the world's second largest producer of both oil and natural gas. This crisis also comes at a time when the world's energy market is already struggling to keep up with demand. JPMorgan has warned that any disruption to Russia's oil flows would "easily" send oil to $120 a barrel.

*"**Although concern has not yet disappeared, we are seeing optimism from firms feeling that they have gone through the worst of COVID-19, and now need to take some cash off the table as all of their value is wrapped up in the company**,"* commented **Eric Fougedoire**.

**Oliver Smyth** concluded, *"We're working on a number of deals in the first quarter of 2022 across Europe in many different sectors. **In the Nordics this has centred on the real estate and digital media sectors, and we expect these to remain hot sectors to watch.**"*

**Bobby Rooney** said, *"Some of the factors will remain in place, certainly the dry powder and the appetite to sell, although we may see fewer companies go to market earlier due to concerns over the economic uncertainty. These factors however will definitely keep driving activity levels in North America."*

*"I believe we will see more of the same in 2022. **The economy is still strong but not everyone will survive the COVID-19 crisis. We can expect to see an uptick of divestments, the exposing of core businesses or acquiring insolvency cases. Overall, the deal market remains strong but with a continued level of uncertainty.**"* **Chris Knipp** concluded.

Most recently the Omicron outbreak created setbacks, and it is impossible to predict what is around the corner as the conflict in Ukraine continues to escalate. It is difficult to assess with certainty but as current trends indicate deal activity remains strong. This could still mean 2022 will be another blockbuster year for M&A in Europe, and globally.

# REPORT CONTRIBUTORS

**Lee Castledine**
**Partner**
RSM UK

Lee is a partner in our transaction services team in London with over 25 years of due diligence experience. Lee joined the Firm in 2007 to establish and build a dedicated London based transaction services team.

Lee has substantial cross border experience and heads RSM's Global Financial Due Diligence Leadership Team working closely with other Member Firms of the RSM International Network and is a founding partner of RSM's European Transaction Advisory Services Leadership Team. His chief responsibilities are leading project teams in complex transaction services engagements principally in the private equity and leveraged arena.

**Charlie Jolly**
**Partner**
RSM UK

Charlie is Head of Private Equity Coverage at RSM UK and has over 20 years' experience in the private equity market, having worked with a broad range of private equity, venture capital and special situations funds in Europe.

He leads the growth of RSM's Private Equity (PE) business, building and co-ordinating teams that focus on a PE fund's finance function (running the money), its transactions (buying and selling companies) and its portfolio (helping make those companies more valuable).

**David Copley**
**Partner**
RSM UK

David is a corporate finance partner at RSM UK and has built a reputation for delivering due diligence across the UK and mainland Europe working on cross-border deals.

Equally confident working with corporates, banks and private equity, his specialist areas include software and healthcare.

David's work within corporate finance was recognised by the Institute of Chartered Accountants which awarded him its specialist 'Corporate Finance' designation in 2005.

**Tom Pugh**
**Economist**
RSM UK

Tom is RSM UK's economist. He provides economic insights from a middle market perspective, to both RSM and its clients. Tom works closely with RSM partners across the UK, and globally.

**Mike Thornton**
**Partner**
RSM UK

Mike is RSM's Partner for the Firm's Leeds office. As National Head of Manufacturing, Mike leads a network of multi-disciplinary partners dedicated to helping manufacturing businesses achieve success by providing proactive solutions to their compliance and business advisory needs. Mike's own background in manufacturing enables him to have meaningful conversations with clients and appreciate their challenges and opportunities.

**Chris Knipp**
**Partner**
RSM Germany

Chris has been with RSM Germany since 2012 and has over 15 years of professional experience in tax consulting for national and international companies.

His practice focuses on international tax law, M&A, corporate taxation and tax structuring (including private equity) as well as value added tax law.

Chris mainly advises domestic and foreign companies in the areas of financial services, software and IT and healthcare.

**Bobby Rooney**
**Partner**
RSM US

Bobby is a Partner in RSM's Chicago Transaction Advisory Services practice, providing buy-side and sell-side financial due diligence services to private equity investors, corporate acquirers, and lenders. He has worked in transaction services for fifteen years and has completed over 250 deals. Bobby has deep experience in business and professional services, manufacturing and wholesale distribution, transportation and logistics, food and beverage, and franchisors. Bobby is the cross-border transaction leader for RSM US and sits on RSM's Global Financial Due Diligence Leadership Team. He has led over 40 cross-border deals.

**Thomas F. Alvarado Acosta**
**Managing Partner**
RSM Costa Rica
Chairperson of the RSM International Association

Thomas leads the corporate finance and tax advice services teams in Costa Rica. He has more than 35 years of experience in corporate finance, technology, human resources and accounting and 23 years of corporate experience.

Thomas is the President of the Chamber of Public Issuers of Costa Rica, is on the board of one of the major conservancy NGOs in the country, is an executive coach, and a member of the International Coach Federation (ICF).

**Oliver Smyth**
**Partner**
RSM Norway

Oliver is a partner at RSM Norway. He is a UK qualified chartered accountant (ICAEW) with 17 years of professional experience and is part of the M&A Transaction Services team in Oslo. He has extensive experience supporting a wide range of clients, both industrial and private equity, during their M&A processes.

Oliver assists clients, both Norwegian and international, with financial due diligence services, both buy and sell side, including financial vendor assistance and cross border assignments.

**Marcel Vlaar**
**Director**
RSM Netherlands

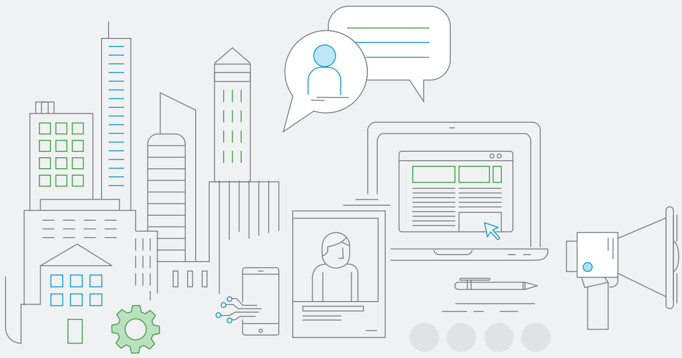
Marcel is a director at RSM Netherlands. His chief responsibility is in leading project teams in complex transaction services engagements, both in the Netherlands and internationally, for a broad range of private equity houses across a range of sectors and geographies. Marcel has assisted multiple private equity clients with their buy-and-build strategy and in carve out deals. Marcel has been involved in multiple (vendor) due diligence engagements and has assisted private equity and strategic buyers acquiring businesses. Marcel sits on RSM's Global Financial Due Diligence Leadership Team.

**Eric Fougedoire**
**Partner**
RSM France

Eric is a Managing Partner with RSM France's transaction services team based in Paris joining in 2019. He has 25 years of experience in Transaction Advisory Services. Eric has had a dedicated focus on the midcap transactions market since 2001.

Eric has experience working on over 400 cross-border transactions (buy-side & sell-side) and national transactions for both strategic and financial buyers. Eric also has expertise in deal mechanisms and SPA advisory.

In addition, Eric has seven years' experience in restructuring services (national and international assignments) and has experience as an interim CFO.



> We are seeing inflation leading to price rises across the board, in energy, raw materials, labour and transport. All of these could become problematic because businesses can pass on those price rises to an extent, but at some stage the customer ends up balking. This could take the form of reducing the amount they buy or looking for a cheaper supplier. The market can absorb a certain amount of inflation but we need it to stabilise for it to remain as buoyant as it has been.

Experience the power of being understood.

Experience RSM.

To find out more about your local RSM firm visit **rsm.global**

Alternatively, contact the Global Executive Office at our London Headquarters for an immediate response.

We will put you in touch with the partner in one of our international offices who is best equipped to help with your enquiry.

**RSM Global Executive Office**
T: +44 (0) 20 7601 1080
E: rsmcommunications@rsm.global

**RSM Global Executive Office**

50 Cannon Street
London
EC4N 6JJ
United Kingdom

T: +44 (0) 20 7601 1080
E: rsmcommunications@rsm.global

**rsm.global**



THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM