

# Eversheds Sutherland

## **Nordic M&A Survey**

June 2023



# Table of contents



- 03** Summary
- 07** M&A market – Buyer's perspective
- 17** Valuation levels
- 23** Deal structure and due diligence
- 27** Outlook of the M&A market





# Summary

# Greetings from the team

The M&A market saw a significant drop in volume after the second half of 2022 and 2023 Q1 as deal value in Europe faced the largest annual decline since 2001. Factors such as declining consumer and business confidence, challenges in the banking sector, high inflation rates, increasing interest rates, the war in Ukraine, and decelerating GDP growth compared to 2022 exert pressure on the market.

Despite the current economic uncertainty and previous decline in the M&A activity, buyers in the Nordics are currently building optimism regarding the next 12 months as approximately 70 % of respondents are expressing a strong inclination to proceed with deals. Additionally, the market interest may also be boosted by the fact that valuation levels have somewhat fallen, but the expected valuation gap between the buyers and sellers has so far not become too wide for transactions to happen.

Positive signals seem to be piling up in the Nordics and it is expected that the buyer's interest in deal making will grow notably during the second half of 2023. Especially stable and profitable companies are expected to attract major interest from buyers whereas loss-making companies face challenges.

There are some signs that the inflationary pressure is beginning to ease, not least due to decreasing energy prices. The Central Banks' cycle of interest rate is expected to level out towards the end of the year. Still, due to the above target core inflation, there might be pressure to keep the interest rates at the current level for longer than previously expected in the near term depending on the development of the global economy.

Private equity investors are expected to remain active in the market and continue making new acquisitions and grow their current platform companies. EV/EBITDA remains a key indicator whereas EV/SALES related growth-focused investments still face challenges. ESG is a notable trend in the M&A environment with constantly increasing regulation and pressure from shareholders. This opens interesting opportunities for both ESG ready companies and buyers that can utilize the current market momentum. Additionally, the ESG related themes are increasingly important in the due diligence processes as the ESG risks are increasingly worrying investors. They currently see the ESG related issues as more of a valuation discount rather than a premium.

IPO windows in the Nordics remain currently closed, but there are some IPOs at least on planning in the next 12 months based on the answers received. IPO challenges are expected to remain until the uncertainty of interest rates will fade and stabilize.

Key drivers in the global M&A market are focused on ESG, energy-related transition and digitalization. Transactions are becoming more complex, and they consume more time than previously has been seen from the sellers, buyers and advisors. Using an outside advisor is a valuable option to ensure a smooth and secure deal process.

Many thanks to everyone who participated in the survey and have a great summer 2023!



**Antti  
Liimatainen**

Chief Operating  
Officer



**Max  
Tarkkala**

Manager, M&A



**Santeri  
Vaattovaara**

Analyst, M&A



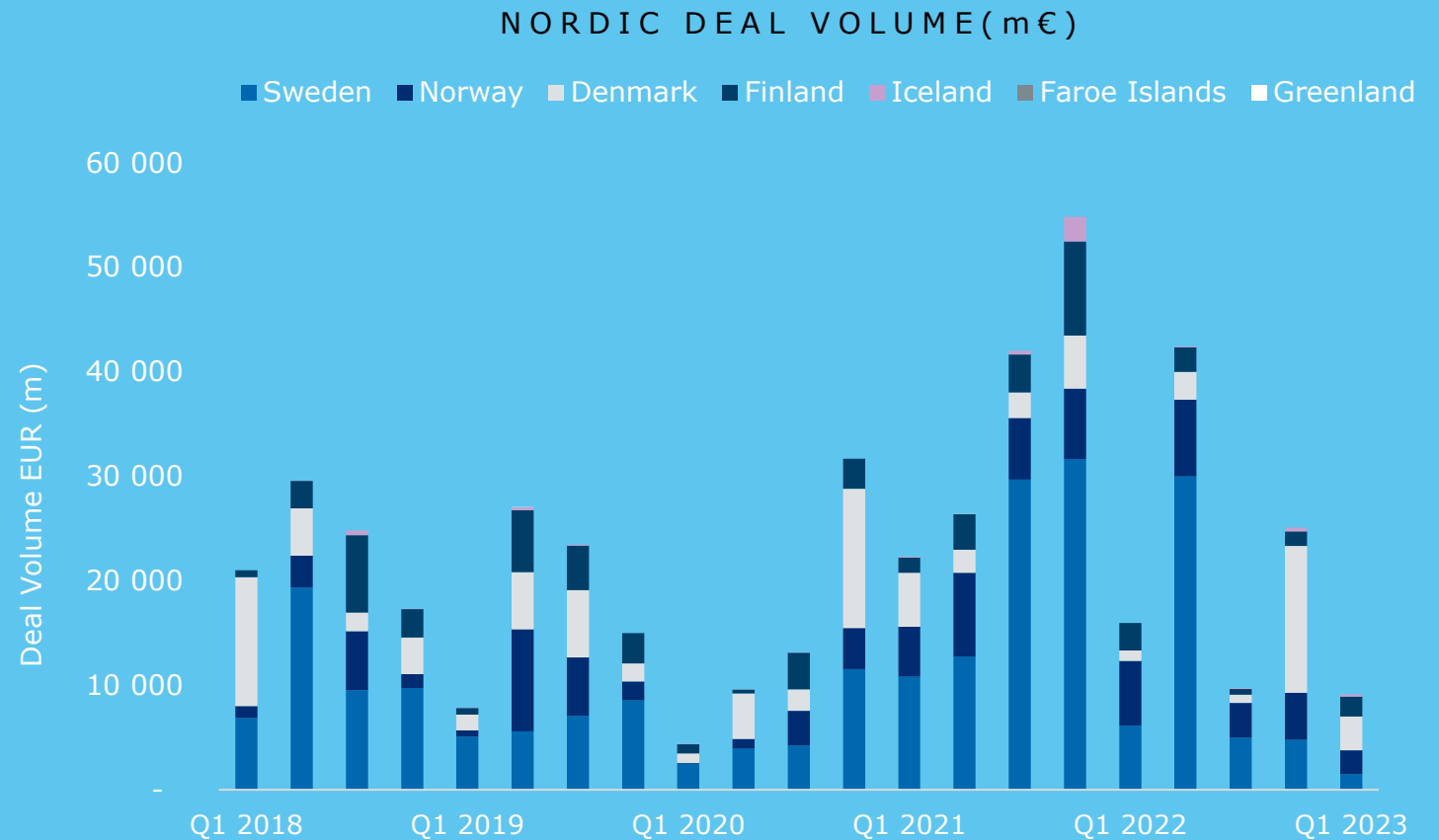
**Alexiina  
Ahonkivi**

Senior Associate, M&A

# Overview of the M&A market

**The M&A market is still active, especially in the midmarket segment despite market uncertainty, such as rising interest rates, inflation and ongoing geopolitical tensions**

- During the second half of 2022 and 2023Q1, the number of transactions and deal values have declined. However, despite the market uncertainties, professional buyers remain optimistic based on the questionnaire. Buyers are currently actively seeking opportunities to engage in transactions within the upcoming 12 months.
- A small decline in valuations has been observed, although the decline has not been as substantial as priorly anticipated. The valuation cap between the sellers and buyers was not emphasized as a significant barrier for transaction execution.
- At the moment, buyers see technology, IT and professional services-related sectors particularly interesting. ESG-related industries stood out in the survey and ESG was highlighted by investors throughout the M&A process from valuation to due diligence.
- Strongly consumer-related industries, construction and real estate were seen as the least interesting industries based on the survey.
- The conducted survey included the views of more than 100 Nordic professional buyers from publicly listed companies' CEO's and M&A directors to private equity partners and other active market participants. They were asked to provide their insight on the current state and outlook of the M&A market, including market trends, valuation levels and industries of interest.

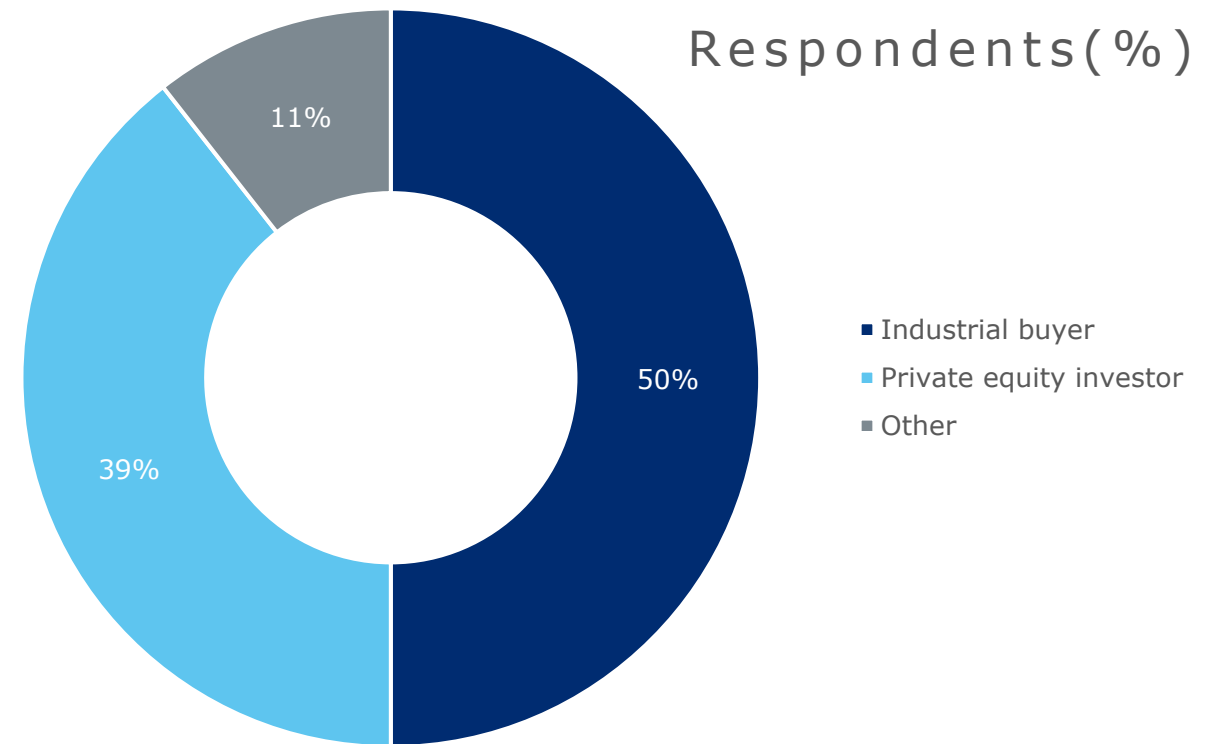


Source: Mergermarket / ION Analytics

# Respondents

## 104 respondents from the Nordics

- The respondents of the survey include a diverse group of professional buyers, including both private equity investors and industrial buyers.
- Respondents formed a comprehensive group of top professionals. We conducted a survey with buyers from publicly listed companies CEOs and M&A directors to private equity partners and other active market participants.
- The survey primarily focused on the Nordic countries.
- A total of 104 responses were received, of which 52 were from industrial buyers and 41 from private equity investors.
- 11% of the respondents were from Sweden, 88% from Finland and 1% from other countries.







# M&A market – Buyer's perspective

## The current state of the M&A market in the Nordics

### The market remains attractive despite prevailing challenges

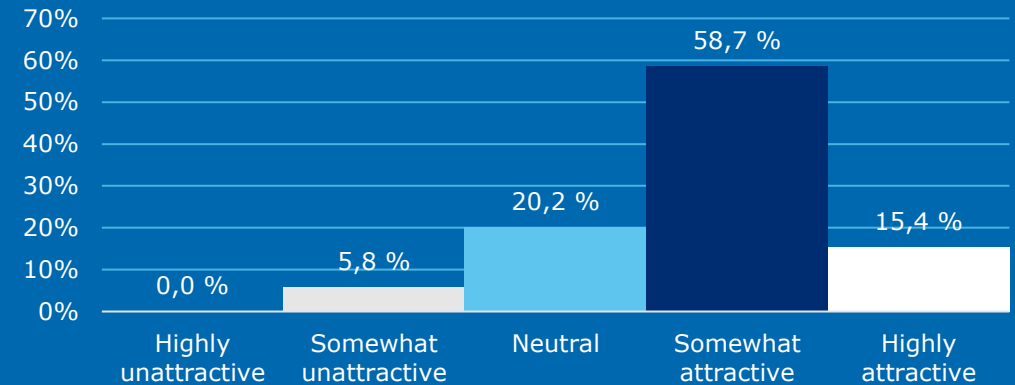
Factors such as the declining consumer and business confidence, challenges in the banking sector, increasing interest rates, the war in Ukraine, and the decelerating GDP growth compared to 2022 exert pressure on the market.

However, these factors have not significantly impacted the willingness of professional buyers to pursue M&A transactions, as approximately 70 % of the respondents expressed a strong inclination to proceed with the deals.

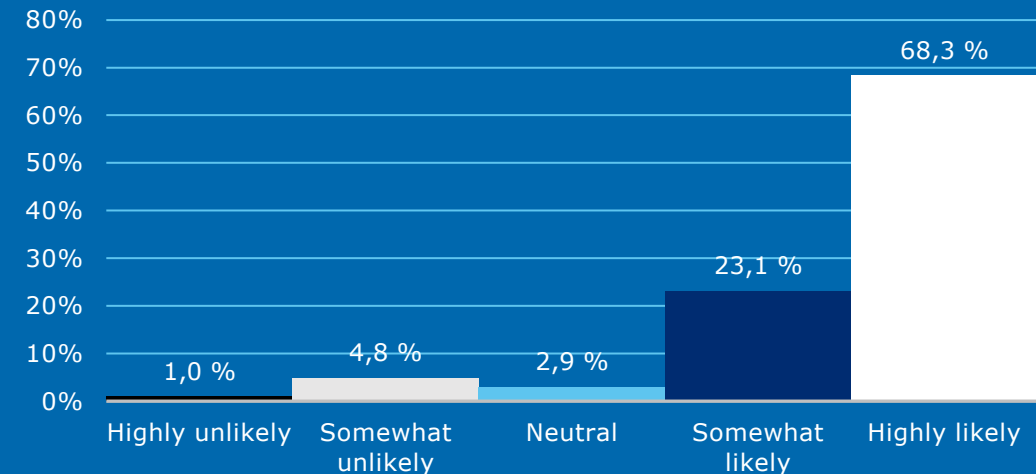
The market interest may also be boosted by the fact that valuation levels have somewhat fallen. This increases the number of interesting opportunities regarding acquisitions. However, the decline in valuation levels has not so far reached a point where there is a shortage of willing sellers in the market.

The IPO window remains closed at the moment. However, there are indications that at least some IPOs are in the planning stage for the next 12 months, as per the received answers. We see that the challenges in the IPO market will remain, at least in the near term.

### HOW ATTRACTIVE DO YOU CURRENTLY FIND THE M&A MARKET FROM A BUYER'S POINT OF VIEW? (%)



### HOW LIKELY ARE YOU TO MAKE TRANSACTIONS IN THE FOLLOWING 12 MONTHS? (%)





## Key obstacles and the development of transaction complexity

### Uncertainty, financial considerations, and geopolitical factors in the spotlight

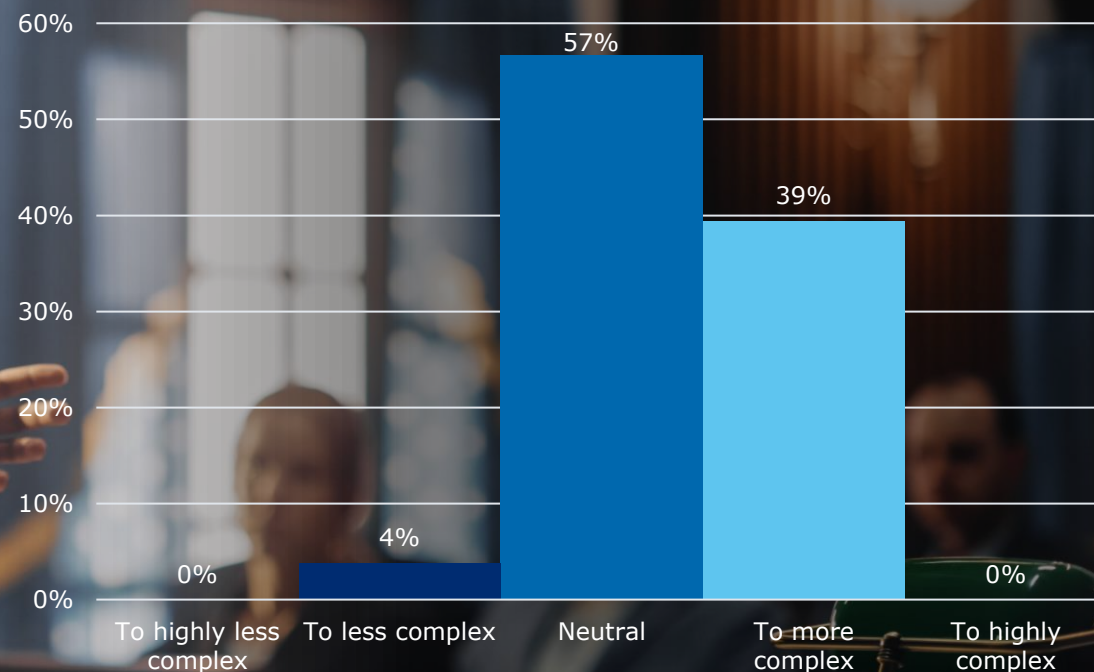
In general, the buyers have observed an increase in the complexity of M&A transactions over the past 12 months. Transactions now involve more complicated deals, such as divestments or turnaround cases, which require more time and effort.



*"In more complex transactions, the role of advisors is growing to ensure that the specifics of the transaction are taken into account and that the process is completed in a decent timeline."*

– Antti Liimatainen, Chief Operating Officer

IN YOUR OPINION, HOW HAS THE COMPLEXITY OF TRANSACTIONS CHANGED DURING THE PAST 12 MONTHS (DIVESTMENTS, TURNAROUND CASES ETC.)?(%)



## Key obstacles and the development of transaction complexity

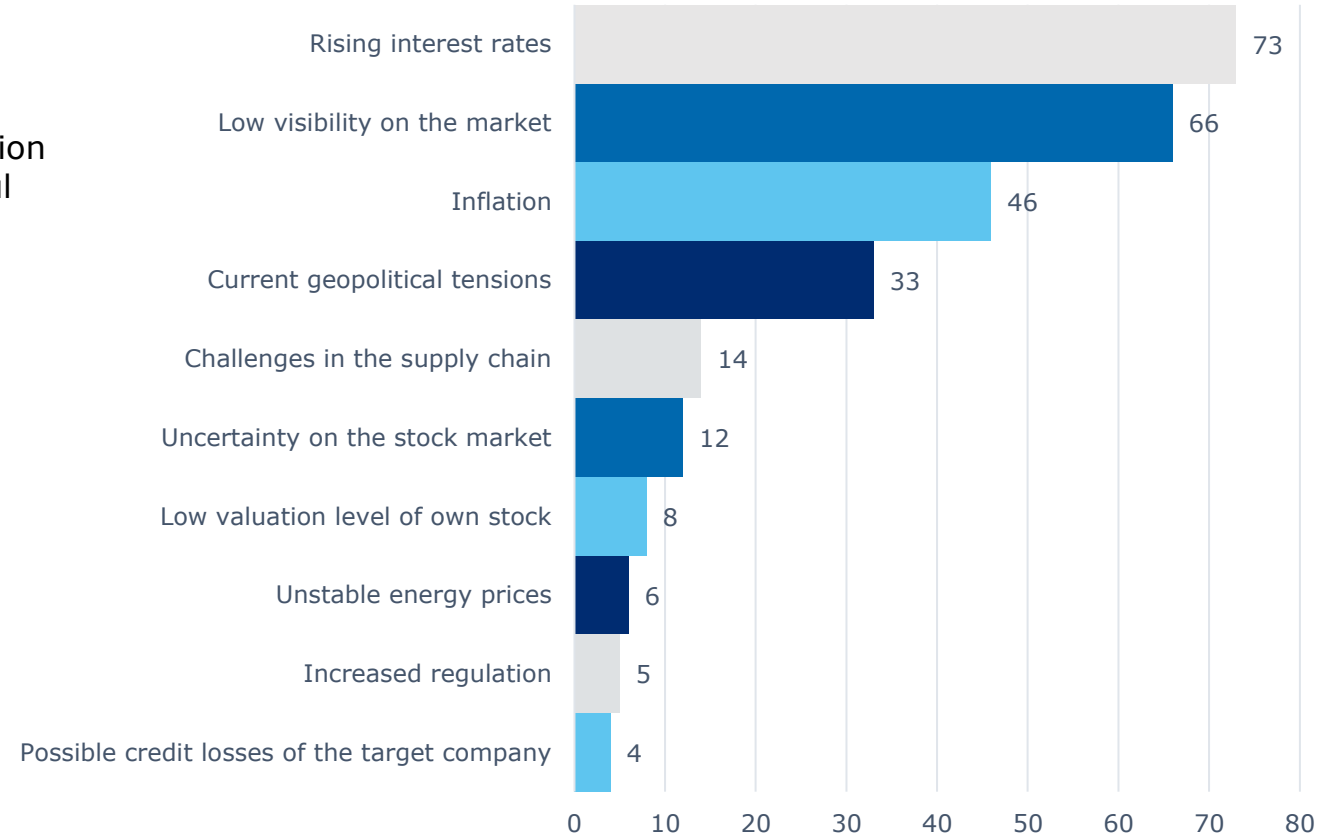
- The impact of increasing interest rates driven by inflation further complicates M&A transactions, requiring careful evaluation of financial implications and risks.
- Geopolitical tensions serve as additional obstacles, introducing uncertainty and potential disruptions to negotiations and decision-making processes.



*"Connections to Russia and China are seen as a red flag in the market and are immediate deal breakers."*

*– Harri Tolppanen, Partner, COB*

### WHAT ARE THE KEY OBSTACLES TO TRANSACTION ACTIVITY?(pcs.)



# Most interesting industries at the moment

Technology, green transition and sustainability are emphasized in the responses

## Technology/IT

- AI-driven companies, IT services, software and technology-enabled services

## Sustainability (ESG)

- Sustainability, renewable energy, circular economy and green energy

## Service industries

- Consulting services, B2B essential services, specialized services and social care

## Healthcare

- Healthcare services and healthcare technologies



*"In our view, the technology & professional services mandates are attracting wide interest in the market, despite the market uncertainty. In general, industries with low requirements for capital expenditure and strong cash flows are seen as attractive features in the current market environment."*

- Santeri Vaattovaara, Analyst, M&A

46,2%

Technology

IT service, vertical SaaS, Cloud services, Analytics, the major digitalization trends remain strong growth drivers

28,9%

Service Industries

Consulting services, B2B essential services, specialized services and social care

23,1%

Other

8,6%

Healthcare

Healthcare: Aging population & scarcity of labour

17,3%

Energy

Energy related, focus especially on green transition

19,2%

Sustainability

Green transition as there is a huge shift away from the fossil raw materials



## Least interesting industries at the moment

Currently there are significantly less interest in construction, real estate, and consumer products

### Construction & real estate

- Market conditions, volatility, overvaluation, economic downturn, decreased consumer confidence and interest rate fluctuations
- Capital-intensive industries by nature

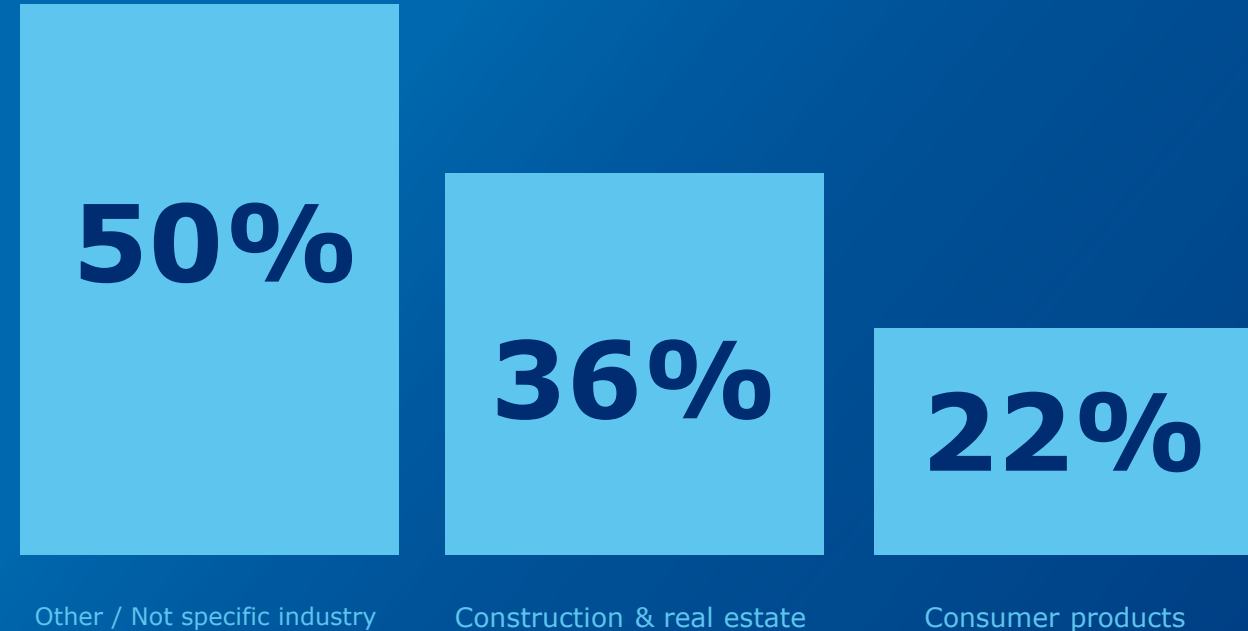
### Consumer products

- Market uncertainties, decreased consumer purchasing power, highly competitive nature of the industry, macroeconomic climate, overconsumption and inefficiency in value chains



*"Especially in the Nordic countries, where majority of households have floating interest rates, an increase in interest rates has an immediate effect on private consumption"*

- Max Tarkkala, Manager, M&A



### Real estate, construction and consumer brands

For real-estate and construction there is likely a downward spiral ongoing for the next few years. Consumer spending is likely to continue to decrease as the economy slows down and interest rates remain high.

### Construction and real estate

Valuations inflated and value creation capabilities of these sectors remain mostly weak.

# The competition for targets in the Nordics

## Promising targets are facing significant competition

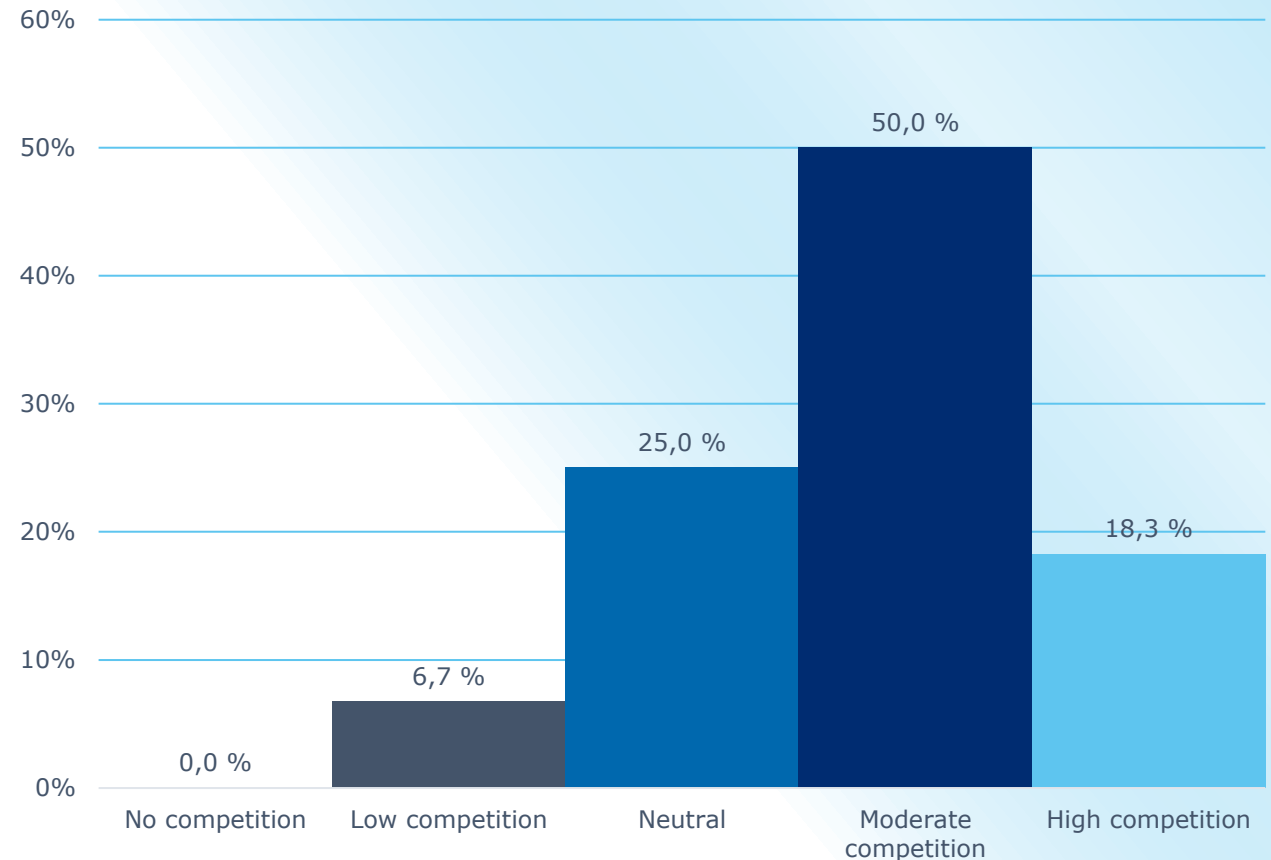
Even if uncertainty grows, the competition for quality targets is not significantly affected. Even if the level of competition may slightly ease in specific industries, a significant 50 % of the respondents consider the competition to remain intense.



*"It seems, that despite the current turbulent environment, competition for quality targets remains intense. Nordic mid-market segments seems to remain surprisingly resilient against uncertainty as buyers continue to invest in the market"*

- Santeri Vaattovaara, Analyst, M&A

COMPETITION ON THE MARKET FOR GOOD M&A TARGETS (%)



# Availability of financing in the M&A market

## Securing funding in the M&A market is becoming more challenging

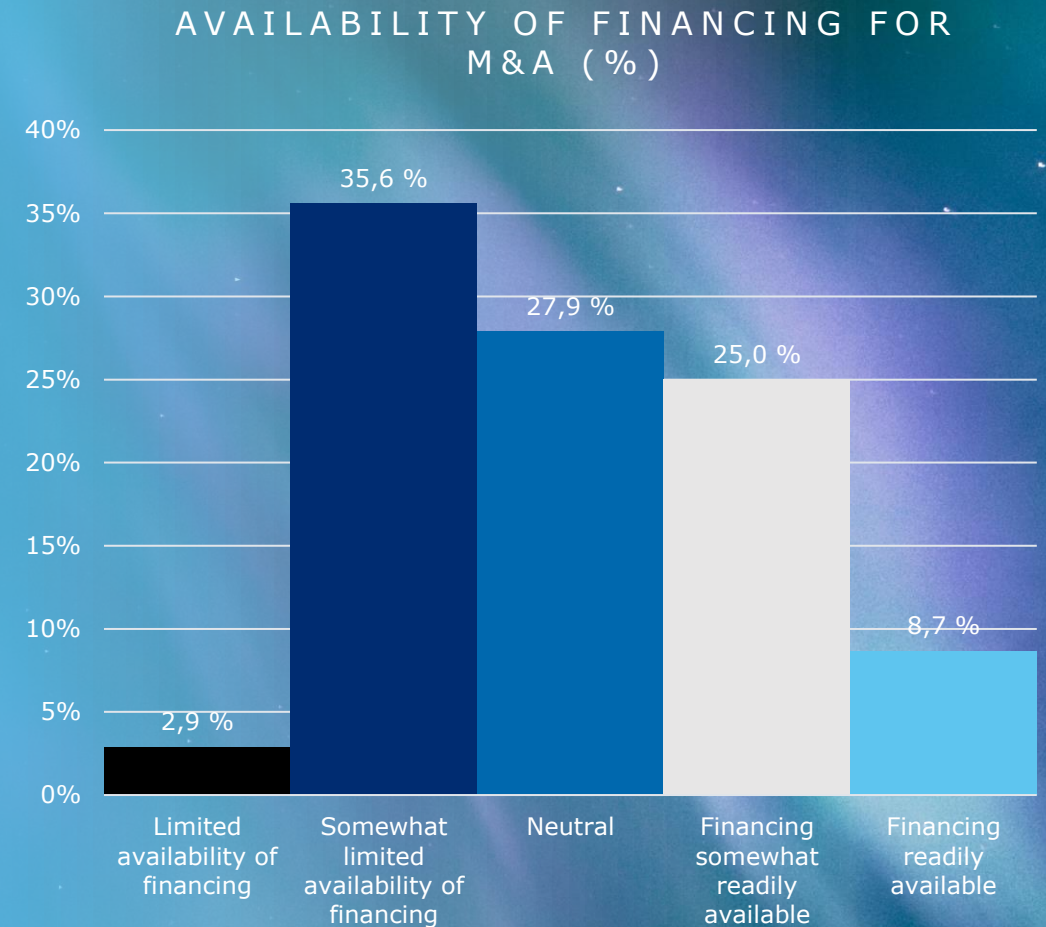
The survey responses reflect the impact of challenges brought about by the availability of financing and the rise in interest rates.

Nearly 40 % of the respondents report facing difficulties in obtaining financing for M&A transactions.



*"The general sentiment at the Nordic market in 2023 has been that funding is still readily available for mid-market deals."*

*- Alexiina Ahonkivi, Senior Associate, M&A*





## The most common deal types during the next 12 months

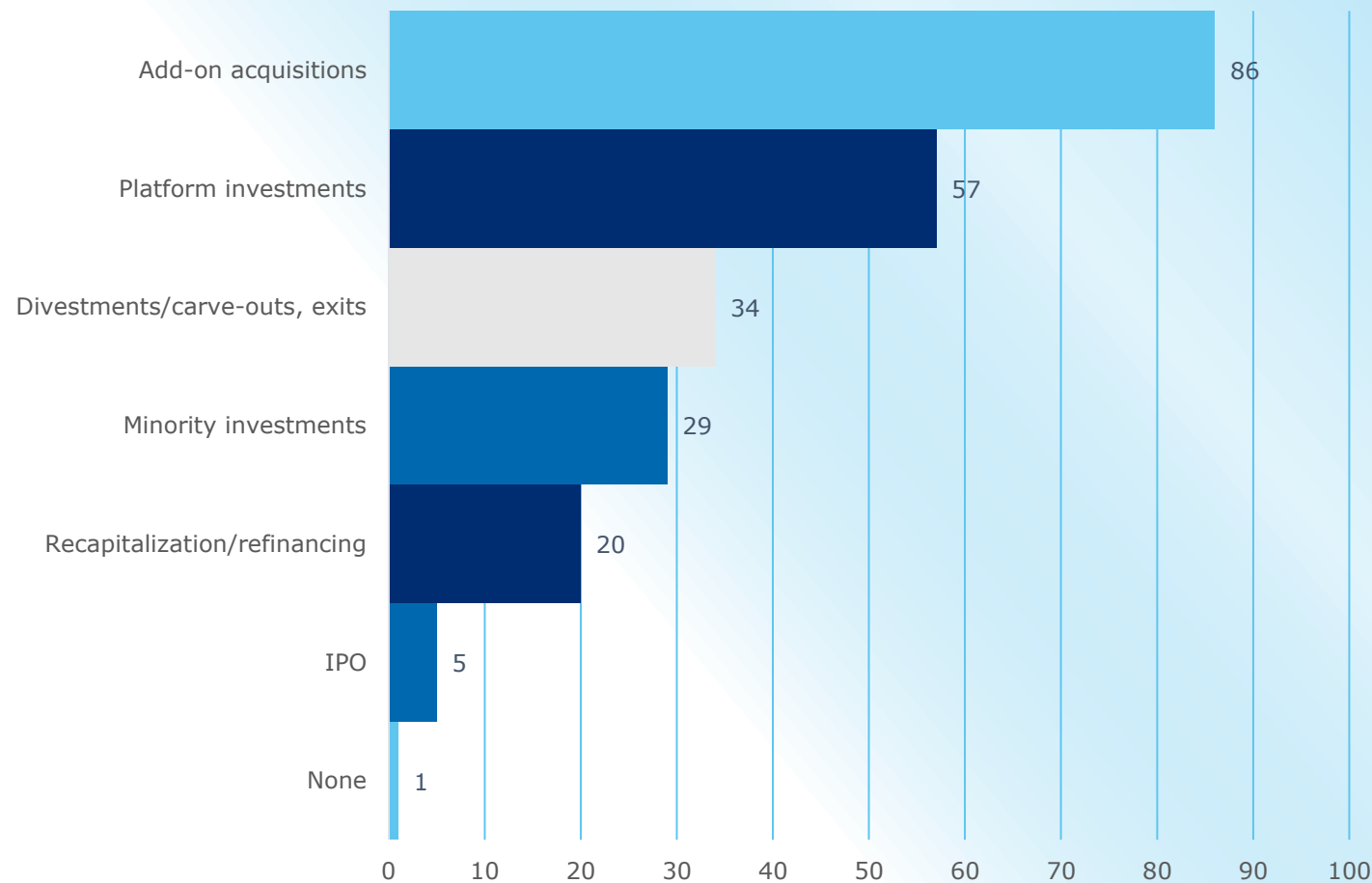
**Add-on acquisitions emerged as the most prevalent type of deals, along with platform investments**

Add-on acquisitions emerged as the most prevalent deal type, indicating a strong focus on expanding existing business portfolios through strategic acquisitions.

Platform investments also garnered significant interest, with 57 respondents considering investments in platforms. This reflects a strategic approach to capitalize on potential growth opportunities offered by established platforms in various industries.

The IPO market is frozen, but clearly a few IPOs are at least planned for the next 12 months.

WHICH KINDS OF DEALS ARE YOU GOING TO BE INVOLVED WITHIN THE NEXT 12 MONTHS?(p.c.s.)



# The underlying motivations for transactions

## Growth opportunities emerged as the primary rationale

Growth opportunities emerged as the primary driver, with 97 respondents identifying it as a key rationale. This indicates a strong focus on expanding businesses and tapping into potential market growth to drive success.

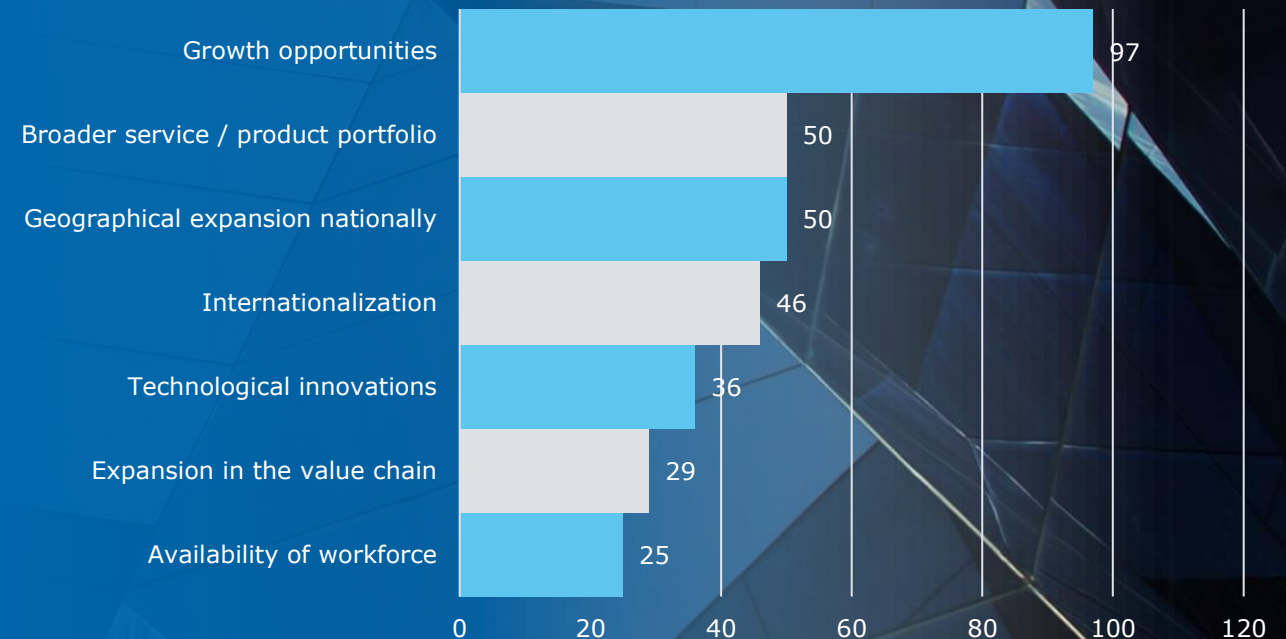
Geographical expansion nationally and broader service/product portfolios were equally important factors. This suggests a strategic interest in expanding market presence and diversifying offerings to cater to a wider customer base. Internationalization was also a key motivation, indicating a strategic interest in expanding into global markets.



*"In our experience, the availability of the workforce has been one of the key drivers, especially in the IT sector, but it did not raise its head in the survey. Typically, there is a strong correlation between growth and headcount, especially in specialist-driven industries."*

- Max Tarkkala, Manager, M&A

## WHAT IS THE RATIONALE BEHIND THE TRANSACTIONS?(pcs.)





# Valuation levels



## The development of valuation levels over the last 12 months in the Nordics

### Valuation levels have witnessed a moderate decline

According to the survey, there has been a slight decrease in valuation levels over the last 12 months. The decline has remained modest compared to the previous expectations given the general market sentiment.

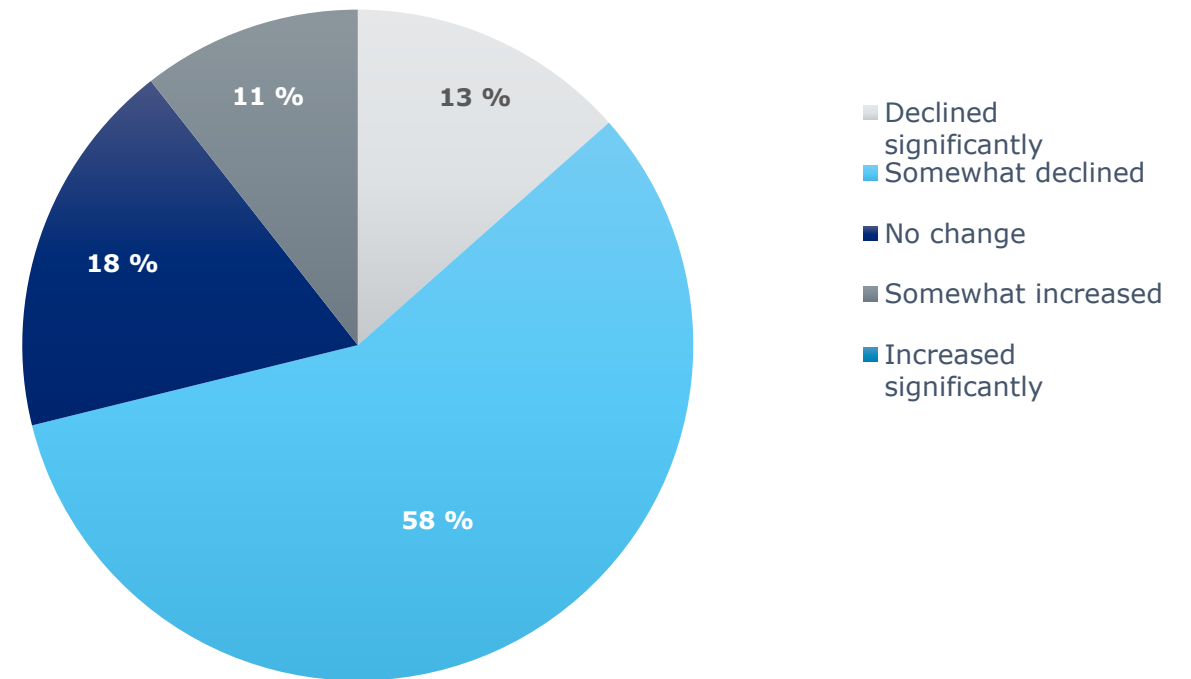
Nearly 60 % of the respondents indicated that valuations have somewhat declined. This trend can be attributed to various factors, including the impact of rising interest rates and inflation.



*"In our assignments, we have not seen a significant decline in valuation levels and the valuation gap has not been a barrier to transactions. Nordic mid-market remains relatively stable despite the changes in the market environment from the valuation perspective."*

*– Antti Liimatainen, Chief Operating Officer*

IN YOUR OPINION, HOW HAVE THE VALUATION LEVELS DEVELOPED DURING THE PAST 12 MONTHS? ( % )



## WHAT ARE THE MOST IMPORTANT FACTORS WHEN EVALUATING THE VALUE OF A POTENTIAL TARGET COMPANY? (pcs.)



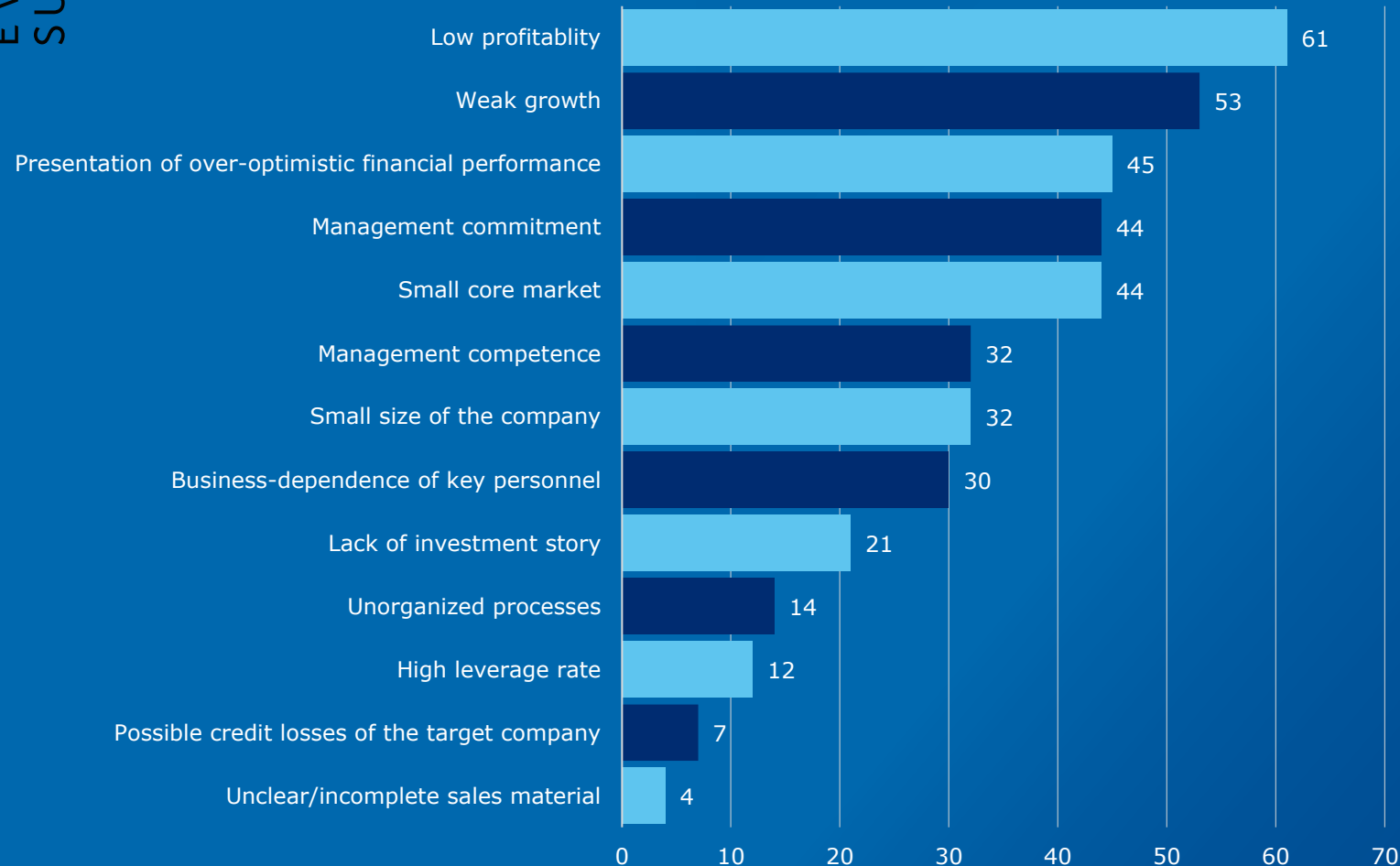
## Factors influencing the valuation of a target company

**Committed management, growth, and profitability can impact the valuation both positively and negatively**

### Increasing

- Committed management team
- Growth plan
- Profitability
- Cash flow generating capabilities

## WHICH FACTORS MAY DECREASE THE VALUE OF THE TARGET COMPANY?(pcs.)



### Decreasing

- Most value decreasing factors are weak growth and profitability.
- In addition, small core market and presentation of over-optimistic financial performance ("hockey stick").



*"In our view, high leverage and the risk it entails has been seen as a threat in the market, but the survey did not identify high leverage as a downside factor."*

- Alexiina Ahonkivi, Senior Associate, M&A



# The development of valuation levels over the next 12 months

## Valuation levels are expected to decrease further

The survey indicates a general outlook of a somewhat decline in valuation levels. While there were variations in individual responses, the overall sentiment leans towards a cautious approach.

None of the respondents anticipate a significant increase in valuation levels over the next 12 months.

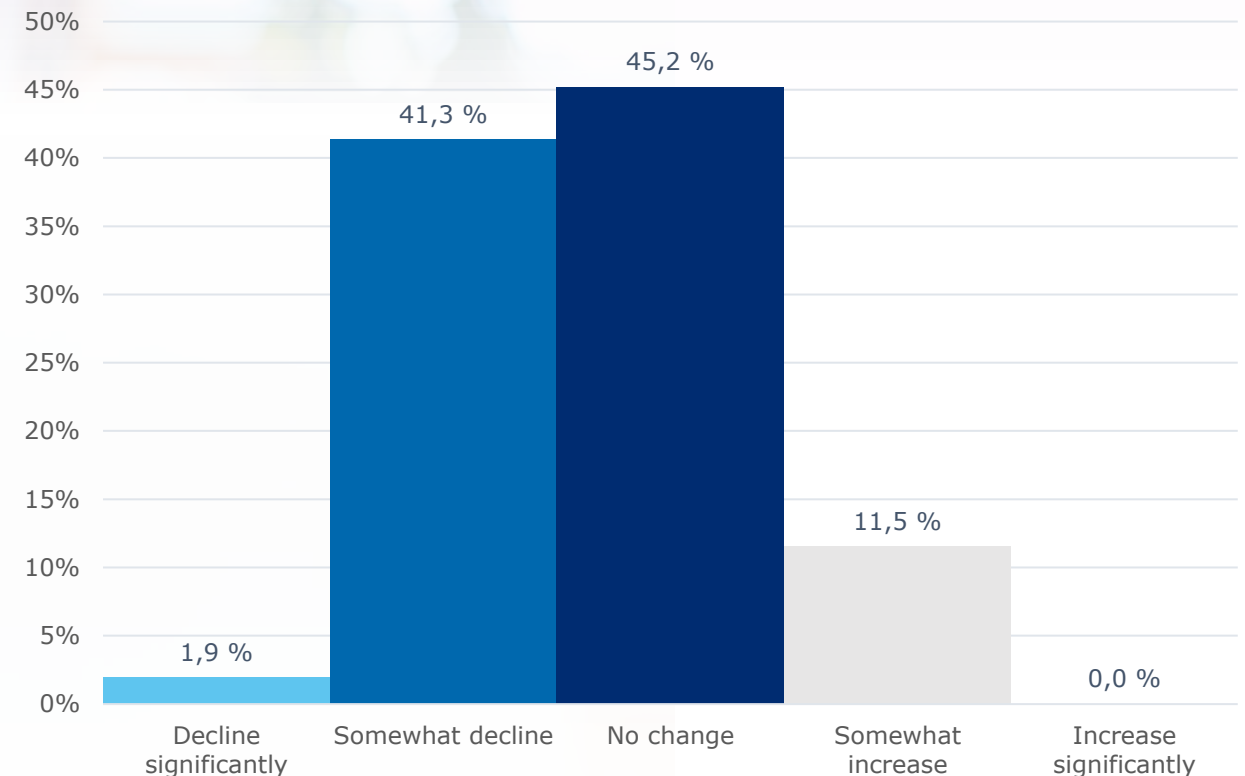
This cautious sentiment can be attributed to several factors, including the impact of rising interest rates, inflation, and market uncertainty.



*"If interest rates continue to rise, or there are severe shocks in the global economy, we may see a further decline in current valuation levels, but in general, the market seems to be cautiously optimistic."*

- Santeri Vaattovaara, Analyst, M&A

## HOW DO YOU EXPECT THE VALUATION LEVELS TO DEVELOP OVER THE NEXT 12 MONTHS? ( % )



# Factors contributing to changes in valuation levels

## The responses reflect the impact of macroeconomic changes and sustainability

- The ability to create positive cash flow has gained importance, surpassing pure growth as a determining factor in valuation assessments.
- The cost of capital, influenced by interest rate levels, has become a crucial element in determining valuation levels.
- The macroeconomic environment, including factors such as inflation, interest rates, and growth estimations of the world economy, has introduced uncertainties that impact valuation calculations.
- Emphasis has shifted from high expectations and hype to more realistic and modest growth plans. From revenue-based valuation to profitability-focused analysis.
- The valuation gap between sellers and buyers persists, although recent trends indicate some convergence and a narrowing of this gap.
- ESG factors have gained greater significance in valuations, particularly with the focus now shifting toward carbon neutrality, biodiversity, and other related aspects.



*"ESG is increasingly seen as a regular value creation component, as other areas of business development."*

*– Antti Liimatainen, Chief Operating Officer*



# Deal structure and due diligence

# Trends that will affect M&A processes

---

For example, financing options and ESG considerations emerged as prominent factors

## Co-operation with banks

Respondents emphasized the significance of collaborating with banks for expertise, funding, and support during M&A processes.

## Availability of financing

The availability and structure of financing options were identified as important factors influencing M&A processes.

## Legal issues and tightening regulations

Legal considerations, including contracts, compliance with regulatory frameworks, and navigating the complexities of tightening regulations.

## ESG

The growing importance of ESG factors, such as sustainability and corporate responsibility, were highlighted as a trend affecting M&A processes.

## Availability of good targets

The survey highlights the importance of availability of good targets in M&A processes. Identifying and securing attractive targets plays a critical role in driving growth and strategic alignment for organizations.



*"The amount of transactions that need to be notified to the Finnish Competition and Consumer Authority (FCCA) is on the rise as the requirements and thresholds have been renewed as of 1 January 2023 (revenue in Finland exceeding 10 million euros for both parties and the combined revenue in Finland exceeding 100 million euros). This will increase transaction costs and somewhat extend the transaction process."*

*– Johan Wesander, Partner*



# Trends that will affect M&A processes

**Familiarity with company management, conducting thorough due diligence, and having access to necessary materials contribute to a smoother process**

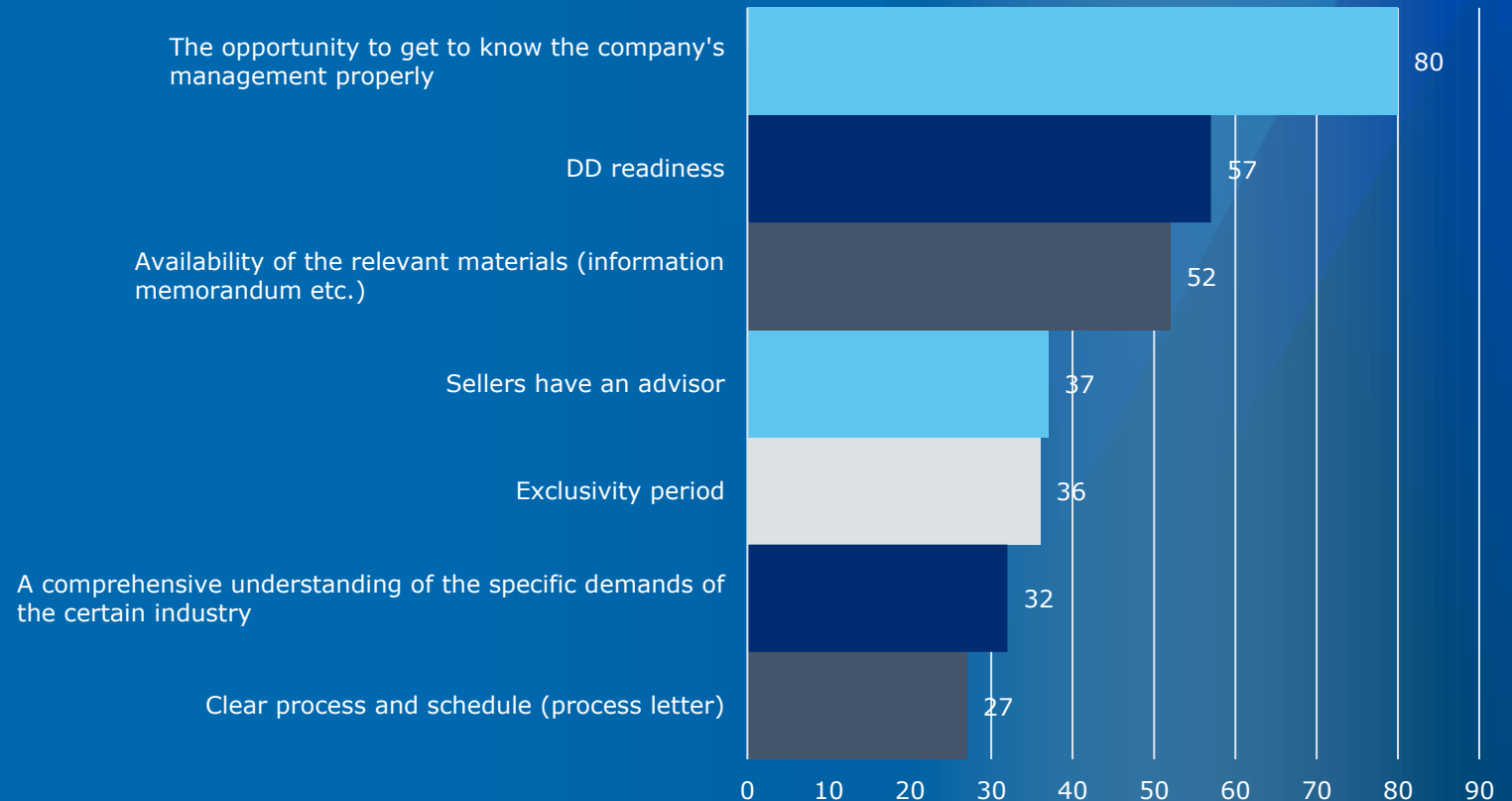
According to the respondents, the opportunity to get to know the company's management properly emerged as the most important factor, emphasizing the importance of building relationships and understanding the leadership team.

The second most important factor in ensuring a smooth M&A process is the DD readiness, indicating the significance of a thorough due diligence to assess risks and opportunities.



*"Structured and professionally managed M&A process increases the deal certainty and enables a smooth transaction between the parties. Transactions are getting increasingly more complex and there is increasing requirement for using outside advisors for lower end deals as well."*

## WHAT ARE THE MOST SIGNIFICANT FACTORS IN TERMS OF A SMOOTH M&A PROCESS? (pcs.)



## Apart from legal, financial, and tax aspects, the key areas to prioritize during due diligence

**Commercial, technological, and ESG due diligence were highlighted in the responses.**

Commercial due diligence emerged as a critical factor, reflecting the need to assess market dynamics, competitive positioning, and growth opportunities.

Technological due diligence was also recognized as a key area by 53 respondents.

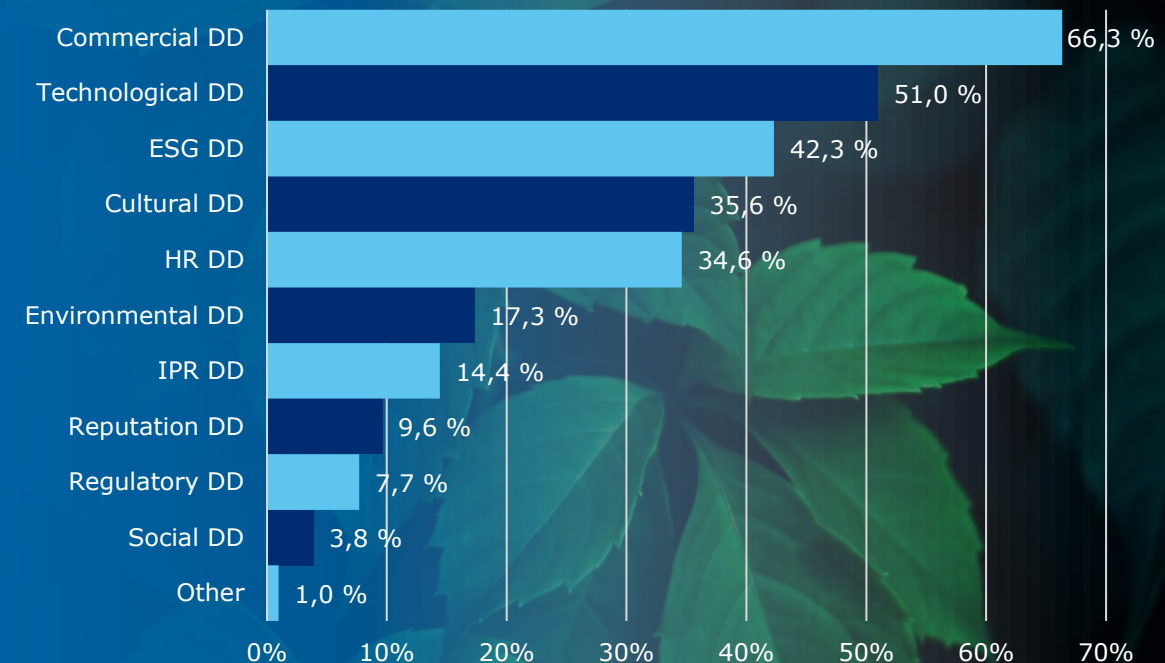
Furthermore, ESG due diligence received significant attention, emphasizing the need to assess environmental, social, and governance factors. This reflects the increasing importance of sustainability and responsible business practices in M&A transactions.



*"Due diligence process is expanding beyond traditional legal, financial and tax related focus. Cultural, HR and ESG related due diligence are seen as increasingly interesting areas. E.g., ESG related risks are increasingly seen as a threat to the valuation and investors more see it as a discount rather than a premium related to valuation levels."*

– Henrik Sandholm, Partner

IN ADDITION TO LEGAL, FINANCIAL AND TAX DUE DILIGENCE, WHAT AREAS DO YOU FIND MOST IMPORTANT? (%)





# Outlook of the M&A market

# The outlook for the market in the upcoming 12 months

**The market is anticipated to evolve at its current pace with minor shifts in investment types**

## Earn-outs

The role of earn-outs is expected to somewhat increase over the next 12 months, as indicated by 45 respondents. This suggests a growing recognition of earn-outs as a mechanism to bridge valuation gaps and align the interests of buyers and sellers.

## Transactional insurance

According to respondents, transactional insurance is expected to remain relatively stable over the next 12 months. This suggests that the use of transactional insurance is likely to continue at similar levels, providing parties with added protection and risk mitigation during M&A transactions.

## Asset deals

Most respondents expressed a neutral perspective, indicating a relatively balanced expectation regarding the use of asset deals and share deals in M&A transactions.

## Reinvestments

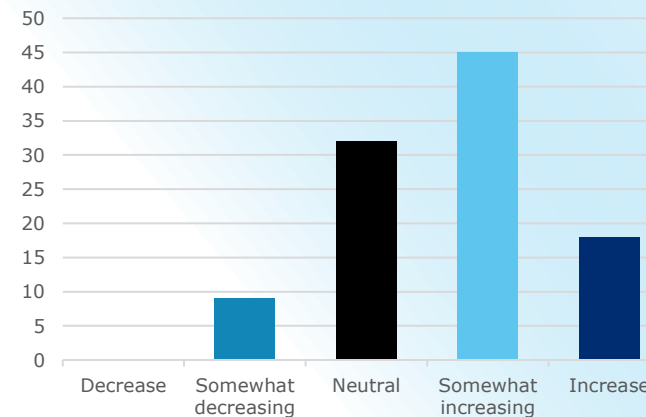
According to the survey results, there is a notable sentiment towards reinvestments becoming somewhat more common as a part of transactions in the next 12 months.



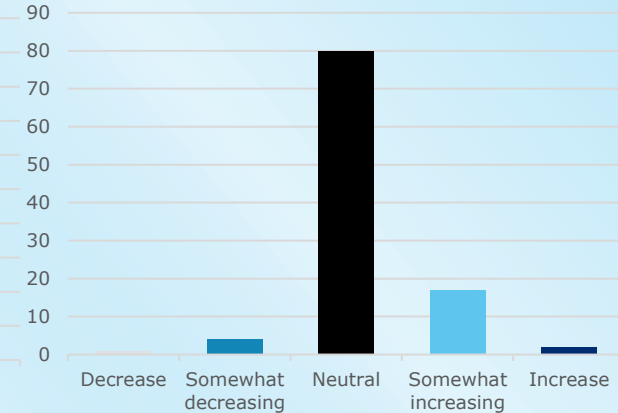
*"The uncertainty and challenging visibility for the market outlook has increased the buyers need to share the transactional risk between the parties. The use of earn-outs and transaction insurance have seen a clear increase in the market."*

- Antti Husa, Partner

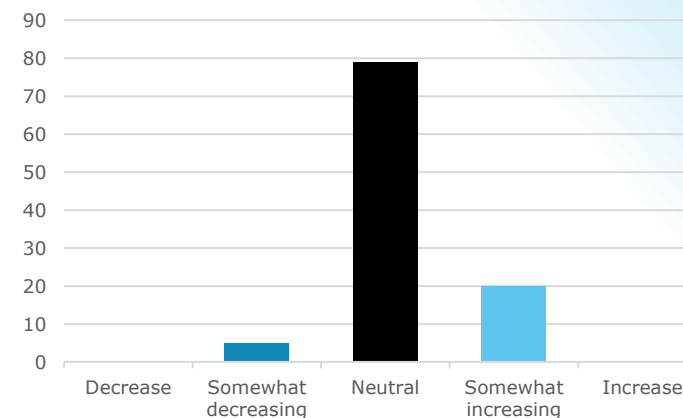
How do you see the role of earn-outs over the next 12 months? (pcs.)



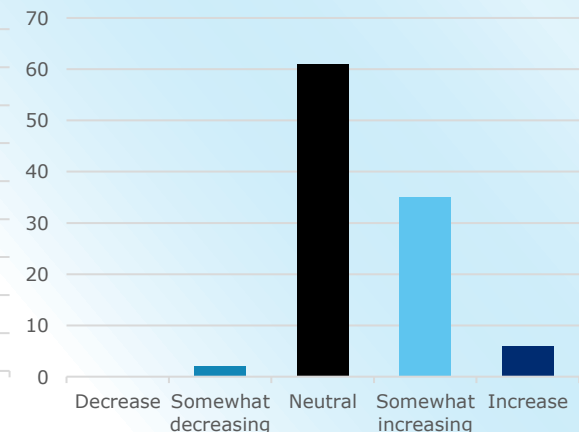
How do you see that transactional insurance will change over the next 12 months? (pcs.)



Do you see that asset deals will increase instead of share deals in the next 12 months? (pcs.)



Do you see that reinvestments as part of transactions will become more common in the next 12 months? (pcs.)





# The outlook for the market in the upcoming 12 months

## Obligation to work

According to the survey, respondents generally perceive a neutral outlook regarding the seller's obligation to work in the next 12 months. However, a significant portion indicated a belief in a somewhat increasing trend.

## Seller financing

While most respondents expressed a neutral stance, a significant portion believed that seller financing may somewhat increase in the next 12 months.

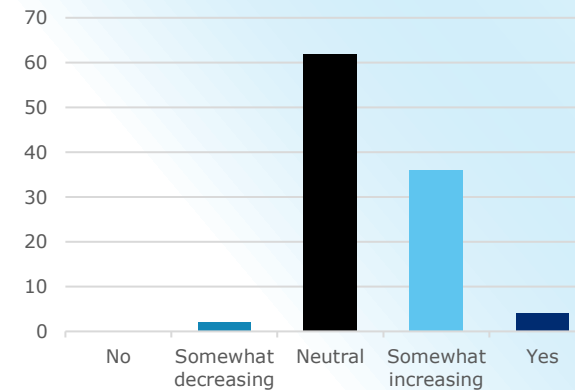
## Shares as a payment

The majority of respondents perceived a neutral stance, but a notable portion anticipated a slight increase in the use of shares as a form of payment.

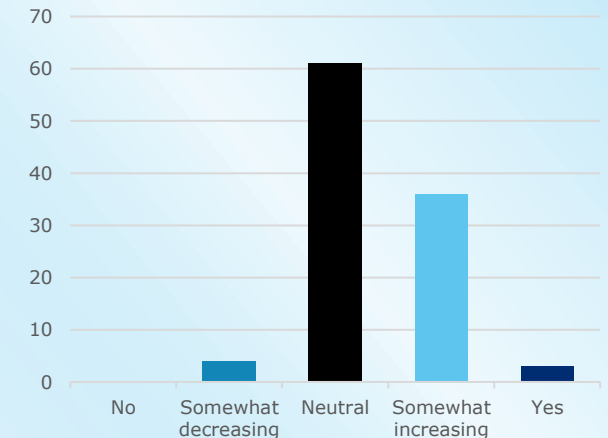
## Put/call options

The survey results indicate a prevailing neutral sentiment regarding the expected increase of put/call options in M&A transactions over the next 12 months.

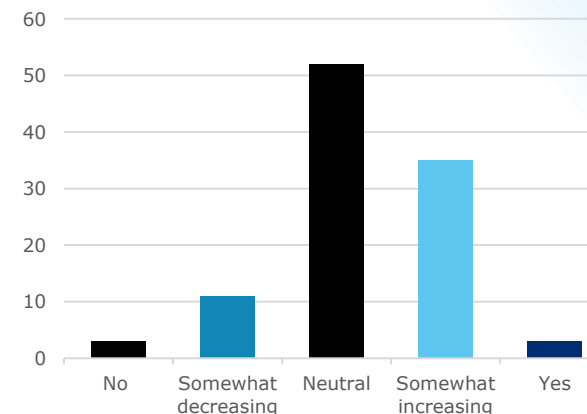
Do you see that the seller's obligation to work will increase in the next 12 months? (pcs.)



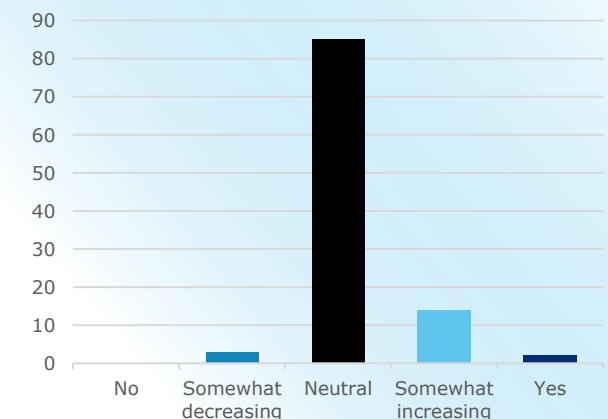
Do you see seller financing becoming more common in the next 12 months? (pcs.)



Do you see shares being used more as a means of payment than cash in the next 12 months? (pcs.)



Do you see that put/call options will increase over the next 12 months? (pcs.)



# Biggest challenges in the M&A market

## Uncertainty and valuation gap are highlighted as significant challenges

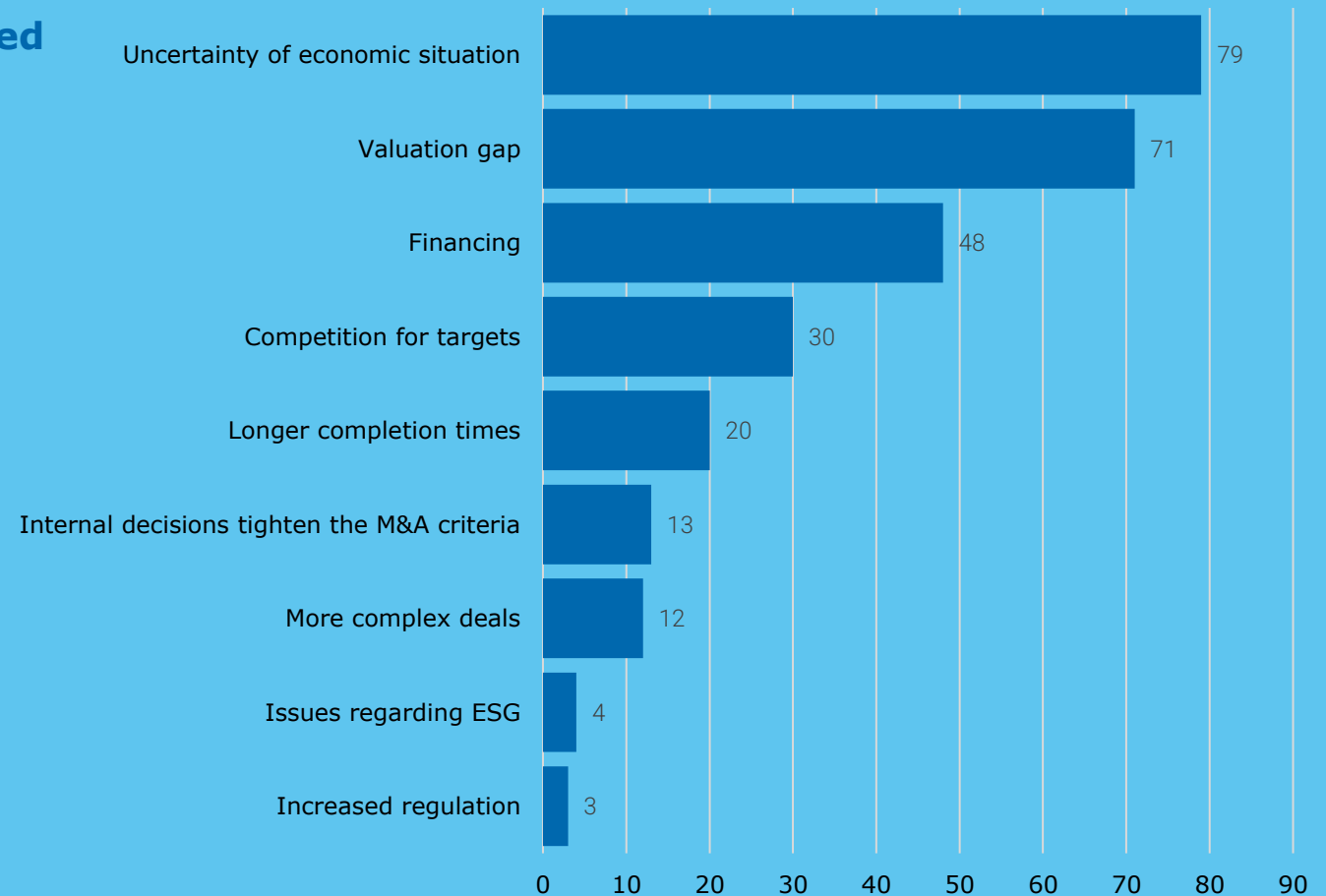
- Uncertainty of the economic situation emerged as a top challenge, reflecting the apprehension surrounding market conditions and the potential impact of factors such as interest rates, inflation, and overall economic stability.
- The valuation gap between buyers and sellers was also identified as a critical challenge.
- As mentioned earlier in this presentation, a significant number of respondents (nearly 40 %) have already reported facing challenges in securing financing for M&A transactions. This indicates the existing difficulties in obtaining funding for deals. Looking ahead to the next 12 months, it is notable that almost 50 respondents foresee financing to remain one of the most prominent challenges in the M&A market.



*"Key driver for decreasing transaction volume have been the raising interest rates driven by the challenging inflationary environment. Typically, sellers are quicker to adapt to a changing market environment compared to buyers and this can be seen by increasing valuation gap between sellers and buyers in the short term."*

- Santeri Vaattovaara, Analyst, M&A

## WHAT DO YOU SEE AS THE BIGGEST CHALLENGES IN THE M&A MARKET IN THE NEXT 12 MONTHS?(pcs.)





## More information

**Antti Liimatainen**

**Chief Operating Officer**

[antti.liimatainen@eversheds.fi](mailto:antti.liimatainen@eversheds.fi)

+358 50 365 1197

**Max Tarkkala**

**Manager, M&A**

[max.tarkkala@eversheds.fi](mailto:max.tarkkala@eversheds.fi)

+358 40 590 6563

**Santeri Vaattovaara**

**Analyst, M&A**

[santeri.vaattovaara@eversheds.fi](mailto:santeri.vaattovaara@eversheds.fi)

+358 50 563 6961

**Alexiina Ahonkivi**

**Senior Associate, M&A**

[alexiina.ahonkivi@eversheds.fi](mailto:alexiina.ahonkivi@eversheds.fi)

+358 40 963 0752