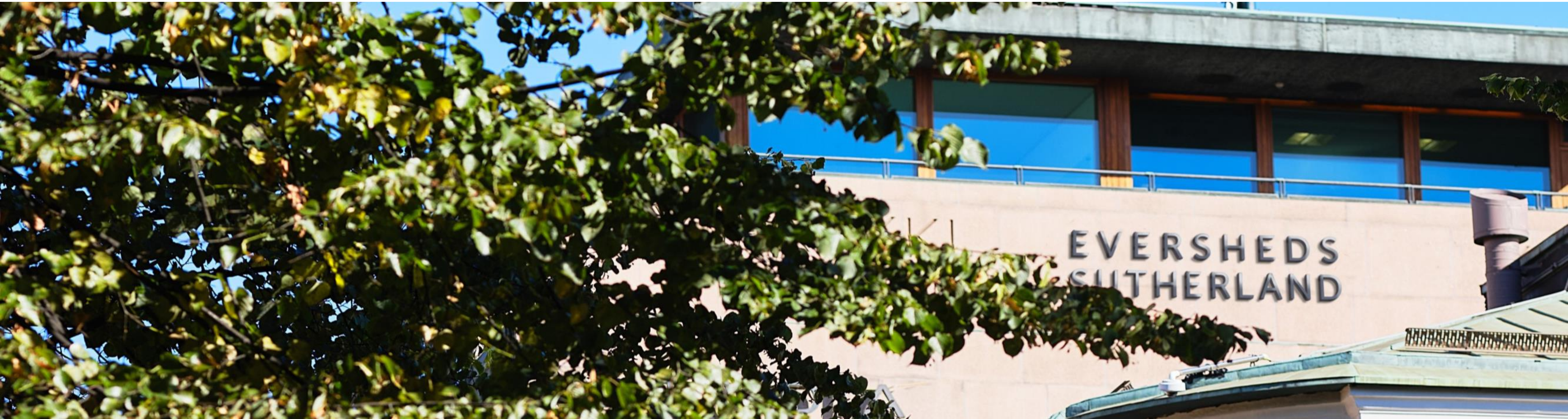
Eversheds Sutherland

M&A Survey 2024

April 2024



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Summary

Greetings from the team

The year 2023 proved to be challenging in many ways for the global mergers and acquisitions market. Key drivers in the volatile market environment were rapid changes in the interest rates and related market expectations, high inflation and challenging visibility to the overall economic development. As the year drew to a close, there was a noticeable revival in market activity, prompting a generally optimistic outlook among investors for 2024.

Throughout recent years, M&A activities reflected broader economic uncertainties. However, the pronounced resurgence witnessed in late 2023, particularly in the Nordic region, marked a notable shift from a buyer-centric dynamic to a more balanced landscape. Investors have started to anticipate rising valuation levels, signalling growing confidence in the market's future and validating earlier views on the positive impact of interest rate trends.

Despite the persisting valuation gaps, optimism and improved valuation outlooks have facilitated a move towards a more balanced environment. Investors have become more cautious, demanding thorough due diligence on potential acquisitions, which has led to longer deal-making timelines. Nonetheless, this has not weakened their positive market view, with a significant number planning active acquisitions over the next 12 months.

Previously, environmental, social, and governance (ESG) factors were at the forefront of investors' minds, but focus has increasingly shifted towards artificial intelligence (AI). AI has emerged as a major area of interest in M&A, although its high costs and associated risks are perceived as challenging.

As we enter 2024, there is a sense of optimism in the air, with markets adapting to new economic realities. The recovery of the M&A market and growing investor confidence are creating opportunities for new investments and innovations, particularly in AI. This study examines these dynamic trends and their impacts on the Nordic markets, providing a comprehensive analysis and forecasts for the future of M&A.

Many thanks to everyone who participated in the survey and have a great summer 2024!

Antti Liimatainen

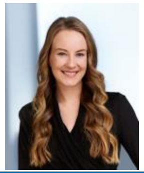
Chief Operating Officer

Max Tarkkala

Manager, M&A

Santeri Vaattovaara

Manager, M&A



Alexiina Ahonkivi

Senior Associate, M&A

Roope Grönholm

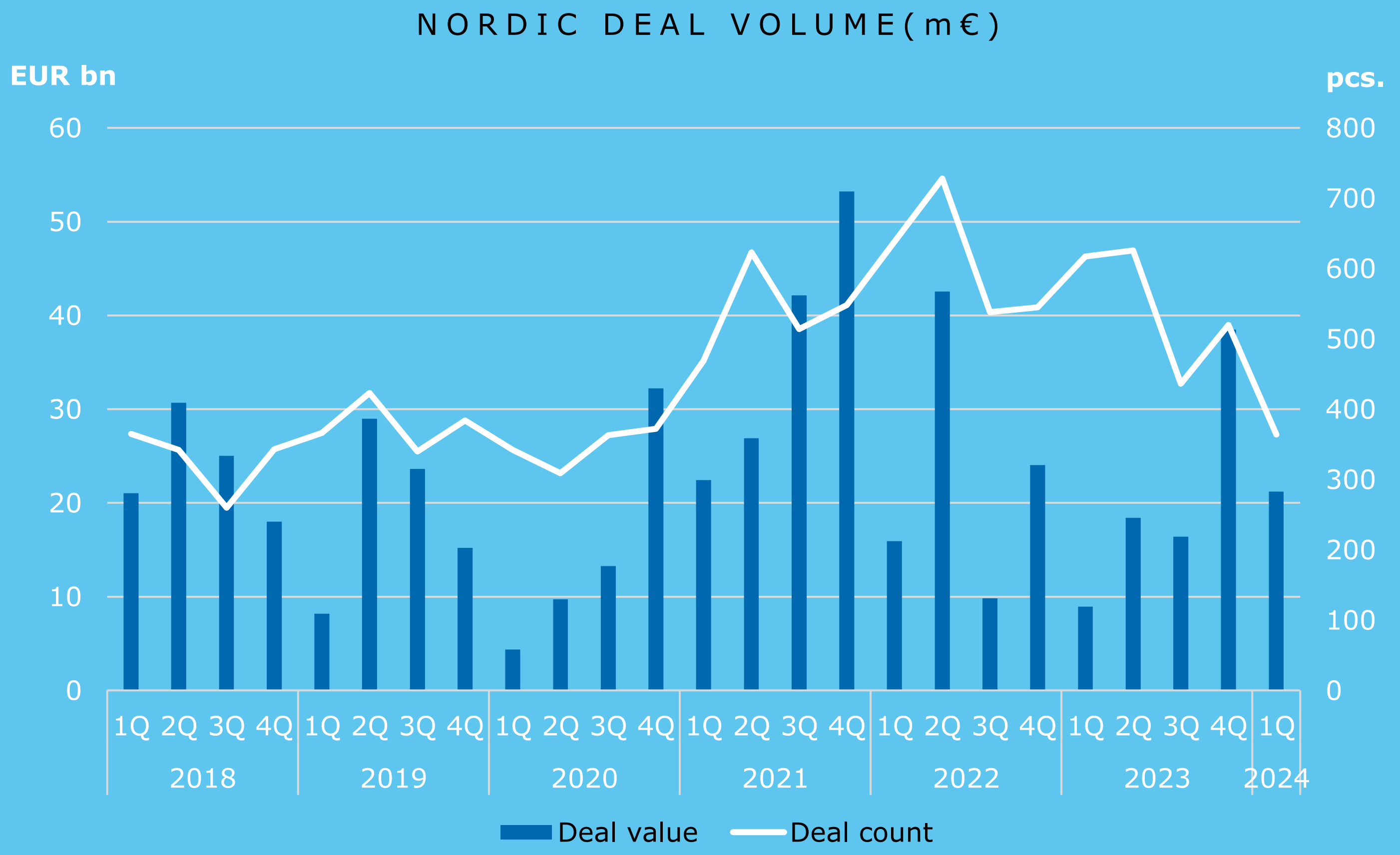
Analyst, M&A

Overview of the M&A market

The M&A sector has started 2024 with a positive outlook due to increasing economic prospects and market expectations of rate cuts.

These key drivers are expected to stimulate M&A activity in the coming years.

- The deal value in the Nordics declined during the first three quarters of 2023 compared to 2022, but activity increased during Q4/2023 with a good start for the year 2024. Currently, professional buyers are increasingly optimistic about 2024.
- The data indicates a notable uptick in deal preparation activity within the M&A market over the past three months. Furthermore, it is anticipated that a significant volume of deals will be concluded during the first three quarters of 2024.
- Stabilizing the inflationary environment with declining interest rate growth is expected to boost M&A activity. The market is currently expecting potential rate cuts during Q3-Q4/2024.
- Investors still hold substantial amounts of dry powder with pressure from LPs to make profitable investments.

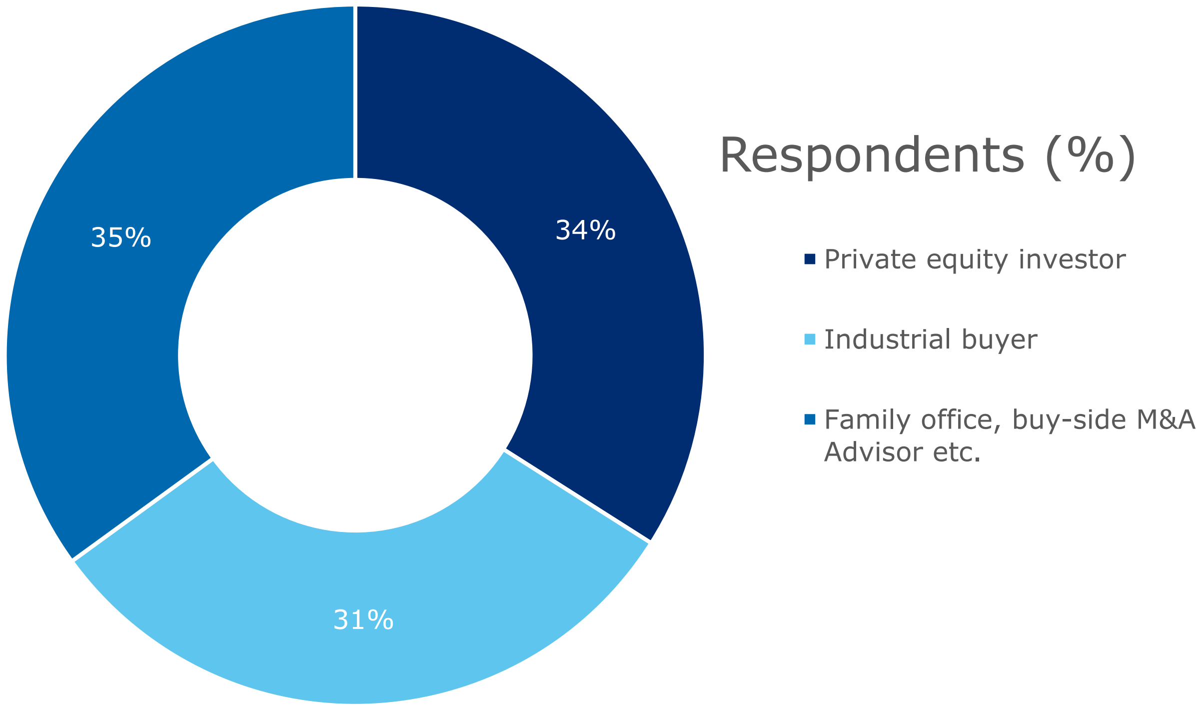


Source: Mergermarket / ION Analytics

Respondents

Over 100 respondents from Northern Europe

- Our survey targeted a diverse array of professionals actively engaged in the M&A market.
- A total of 101 responses were received from a diverse range of participants, including industrial buyers, private equity investors, bankers, investment bankers, M&A consultants, family offices, credit institutions and startups.
- The survey focused primarily on the Nordic countries, but some responses were also received from the Baltic countries.
- The majority of the responses, accounting for over 75%, originated from Finland, the remainder representing various other countries in Northern Europe.



M&A market – The buyer’s perspective

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

Despite the turbulence during 2023, the market shows strong signs of recovery for 2024.

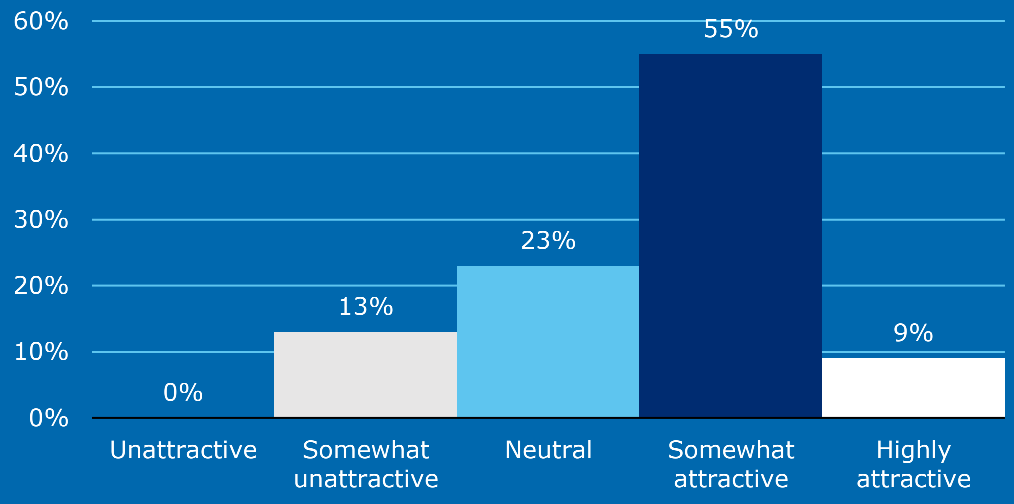
Following a period of decline during 2023, the M&A market is currently showing signs of recovery with an upward trend in the deal volume.

The market is encountering some pressure due to factors such as the valuation gap, uncertainty surrounding the economic situation and elevated interest rates. Nevertheless, these factors have had little negative effect on the interest of professional buyers to engage in M&A transactions.

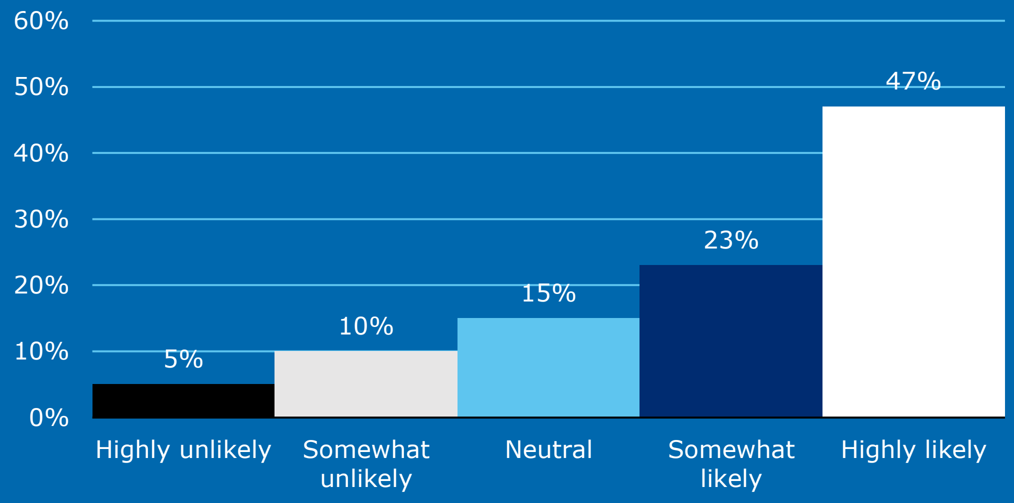
There is robust interest in transactions, with a substantial number of market participants expressing eagerness to proceed with deals. With declining valuation levels, new opportunities are emerging in the market. However, the ongoing valuation gap could present challenges, potentially complicating deal negotiations and decision-making processes.

The IPO market remains challenging, yet there are indications that some IPOs are being planned for the next 12 months. However, caution prevails, suggesting that challenges in the IPO market are expected to persist, 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 transaction complexity

Overall, buyers have noticed a rise in the complexity of M&A transactions over the past year, surpassing levels seen in the previous year. Transactions now encompass more intricate deals, including divestments or turnaround cases, requiring more time and effort.

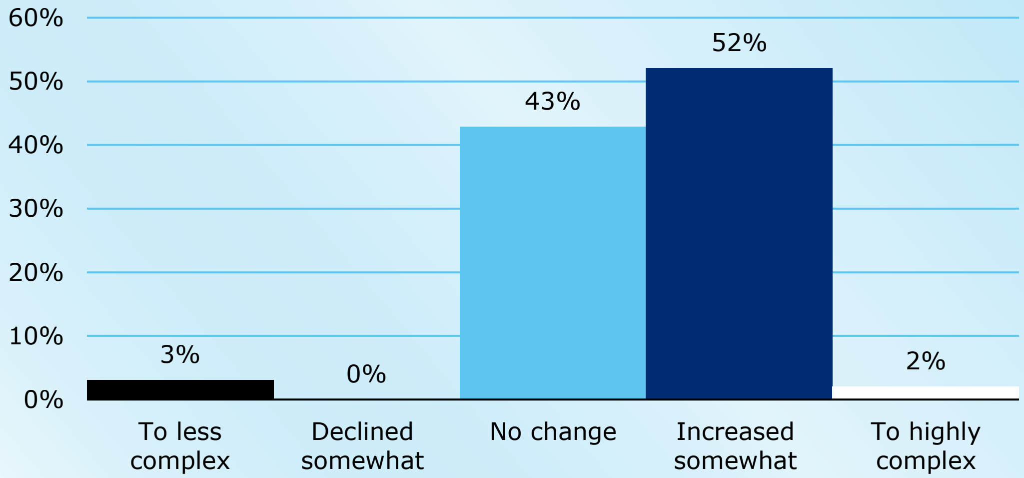
The challenge of high valuation expectations on the sell-side adds complexity to M&A transactions, requiring careful consideration of financial implications and risks.

The somewhat challenging market visibility and the impact of high interest rates were also still noted as key obstacles by respondents.

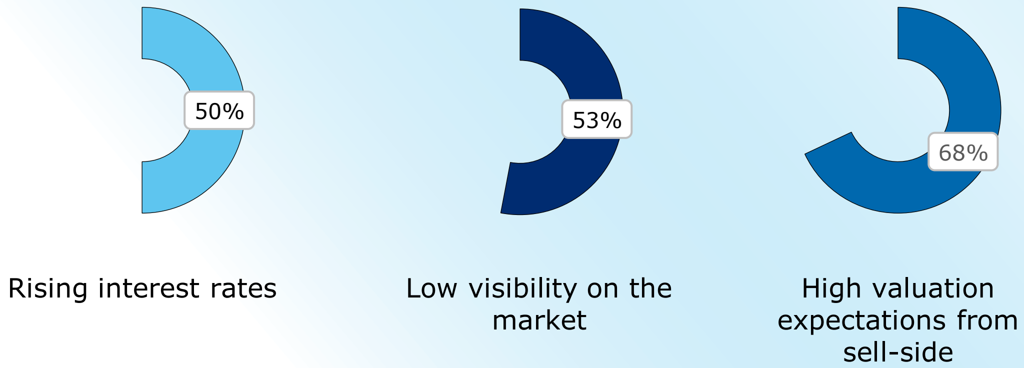
"The lead times of deals have increased, and projects have recently ended up in prolonged one-to-one discussions."

– Henrik Sandholm, Partner, Head of Transaction Services

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



WHAT ARE THE KEY OBSTACLES TO TRANSACTION ACTIVITY?(%)



The frequency of survey respondents who mentioned specific obstacles (%)

Most interesting industries at the moment

Technology, services and energy are emphasized in the responses

Technology/IT

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

Service industries

- Consulting services, B2B essential services, engineering and specialized services

Energy

- Green energy, renewable energy, solar & wind power

"As of last year, technology and professional services have remained the most interesting market, but this year AI and green transition solutions in particular were highlighted."

- Santeri Vaattovaara, Manager, M&A

49%

Technology

AI, SaaS-based, high-tech, data & analytics, software, green tech, automation

20%

Service Industries

Consulting, B2B, engineering, low level of capital

16%

Energy

Green energy, renewable energy, solar & wind power, energy storage

32%

Other / No opinion

The frequency of survey respondents who mentioned a specific industry (%)

Emerging technology

Increasing interest in emerging technology

Respondents are increasingly acknowledging the importance of technology as a vital tool in facilitating and streamlining transaction-related activities. This recognition extends to the potential of technology, especially AI, to revolutionize transaction processes by enhancing efficiency, enabling more sophisticated data analysis, and improving decision-making capabilities.

Even if investors see AI as increasingly interesting, it is often seen as overpriced.

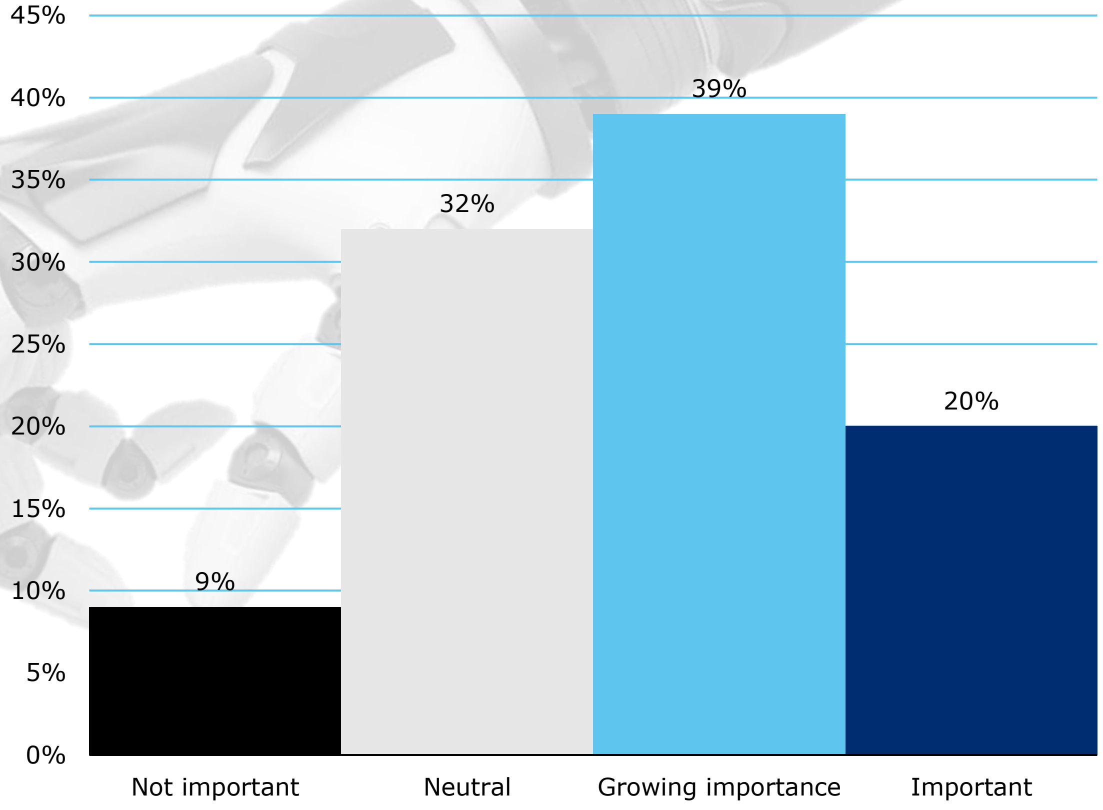
"Tech increases the efficiency of analyzing loads of company data and will increase it further in the future."

"Of great importance."

"AI will additionally gain more and more foothold in the world of M&A."

"Very vital and gets more essential every day."

What significance does technology currently have for you as a transaction tool? What about in the future (e.g. AI)? (%)



Least interesting industries at the moment

There is currently 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

New technology

- AI-hype, expectations of high valuation

"As in the previous year, construction and real estate remain the least attractive sectors, but based by comments from buyers, some are starting to consider moving back into these sectors, assuming we are at the bottom of the valuation cycle."

- Roope Grönholm, Analyst, M&A

38%

Construction & real estate

Foggy horizon, high capex, turnaround will take time

16%

Consumer products

Capital-intensive, FMCG, cyclical

6%

New technology

AI-hype, a lot of overcapacity, high valuation expectations

48%

Other / No opinion

The frequency of survey respondents who mentioned a specific industry (%)

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Competition for targets in the Nordics

Quality above all else

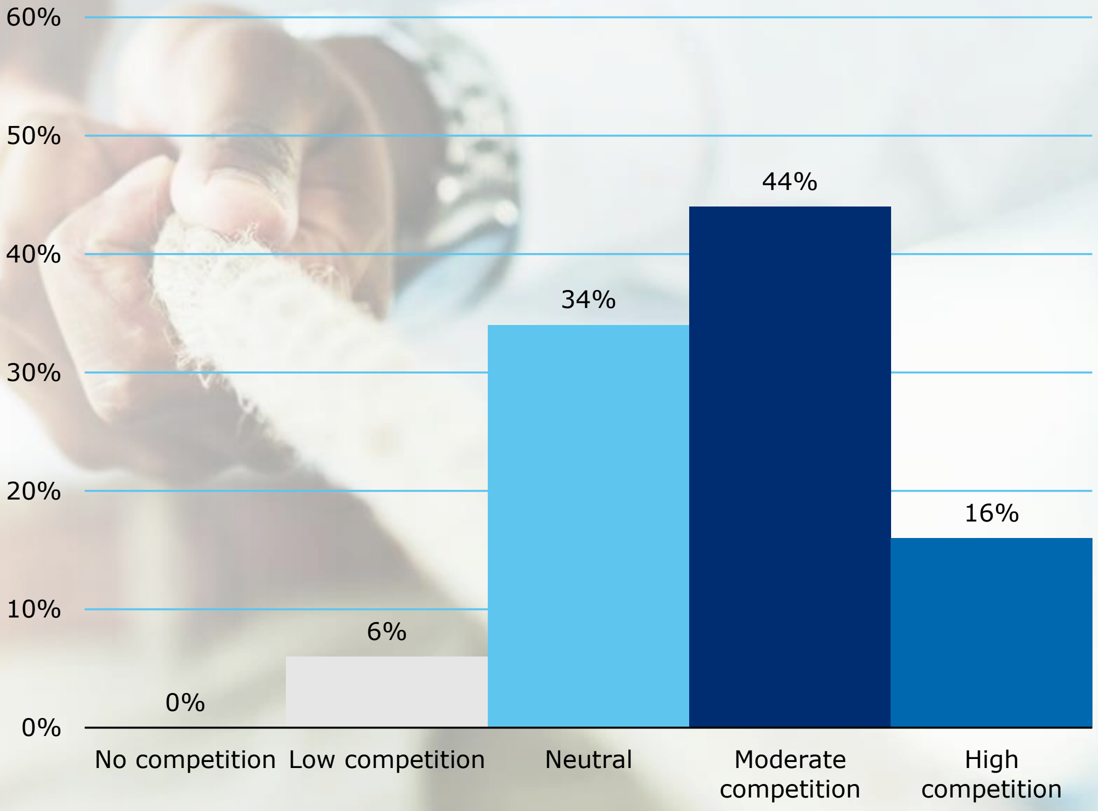
Although the economic uncertainty may pose challenges, the limited number of quality targets drives valuation levels.

Around 60% of participants perceive competition for desirable targets to be either moderate or high, indicating a prevailing intensity on the market.

"Our perception is that, regardless of the market condition that has changed rapidly over the past few years, competition in the Nordic mid-market M&A segment remains high for quality targets"

- Antti Liimatainen, Chief Operating Officer

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



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Availability of financing in the M&A market

Securing funding is becoming slightly easier in the M&A market

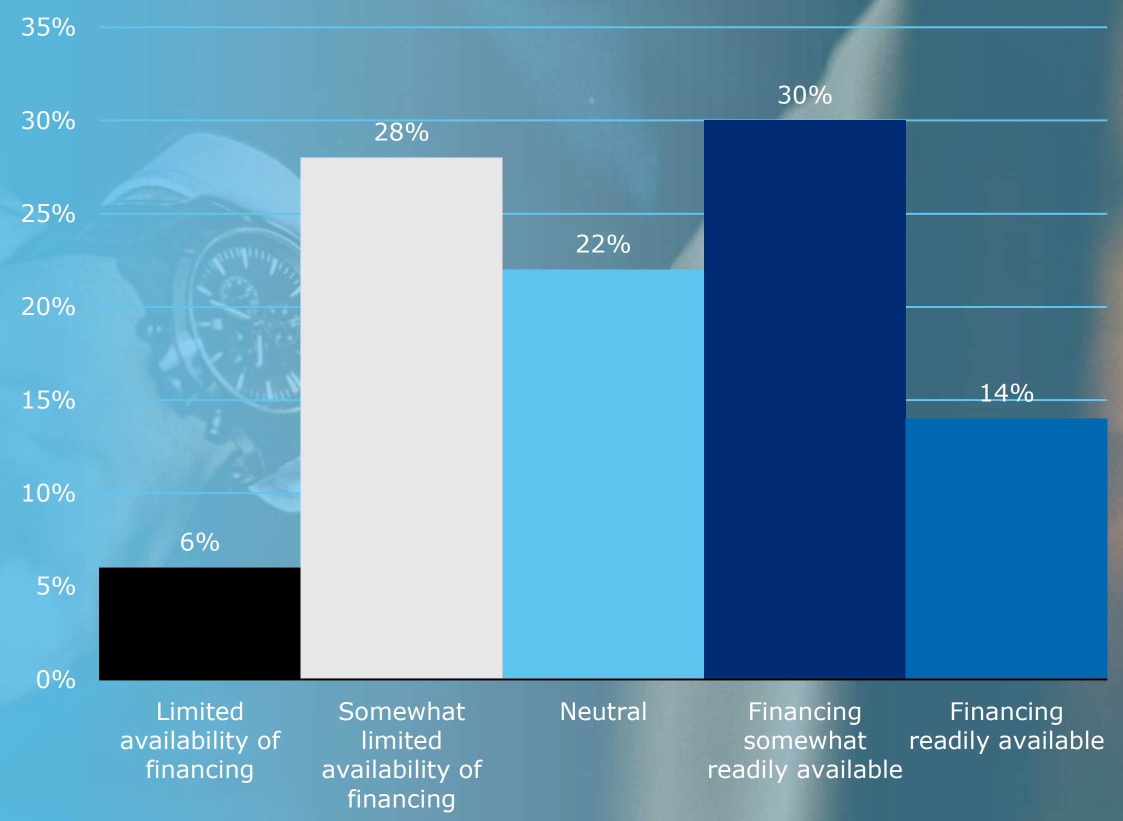
The survey responses highlight some challenges linked to the availability of financing due to the increase in interest rates.

While a notable portion of the respondents still find the availability of financing to be somewhat limited or neutral, the majority reported an improvement compared to last year.

"Investment cases now require more equity than our findings from a year ago indicated. However, based on our experience, debt financing remains readily available for solid cases"

- Alexiina Ahonkivi, Senior Associate, M&A

AVAILABILITY OF FINANCING FOR M&A (%)



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The most common deal types during the next 12 months

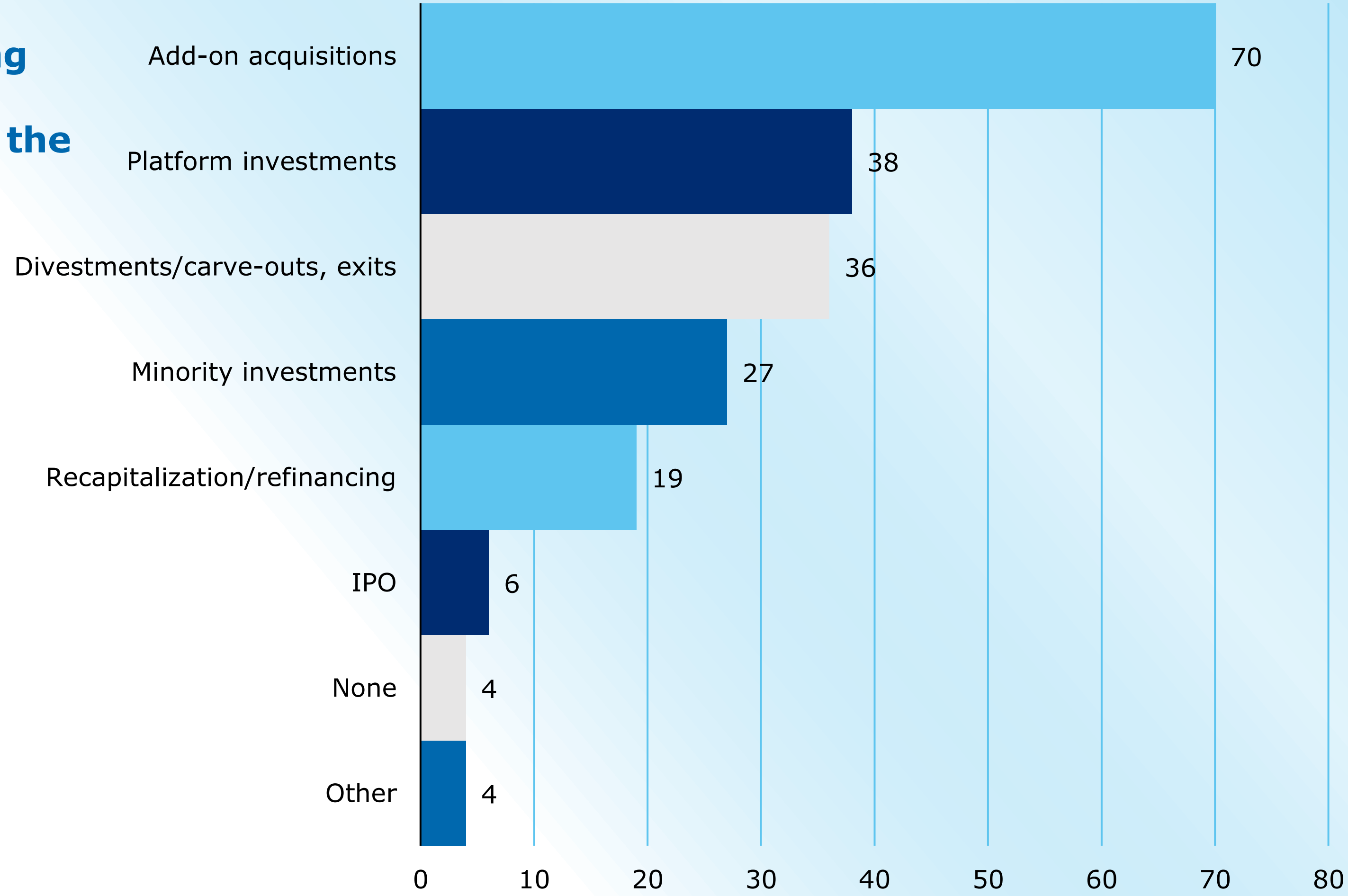
In 2023, the focus was on strengthening current positions, with some caution regarding new platform investments in the volatile market environment

The majority of respondents expressed a keen interest in add-on acquisitions, highlighting their strategic focus on expanding existing business portfolios.

Additionally, notable interest was directed towards platform investments and divestments/carve-outs, showcasing a diversified approach to portfolio management and strategic investments.

Despite the current stagnation in the IPO market, a small number of respondents are still planning IPOs in the upcoming 12 months.

IN WHICH KINDS OF DEALS ARE YOU GOING TO BE INVOLVED WITHIN THE NEXT 12 MONTHS?(pcs)



The underlying motivation for transactions

Growth opportunities emerged as the primary rationale

Nearly all respondents identified growth opportunities as the primary driver, showcasing a strong emphasis on business expansion and leveraging potential market growth for success.

A broader service/product portfolio emerged as the second most important factor, reflecting a strategic emphasis on diversification and expanding offerings to meet evolving market demands.

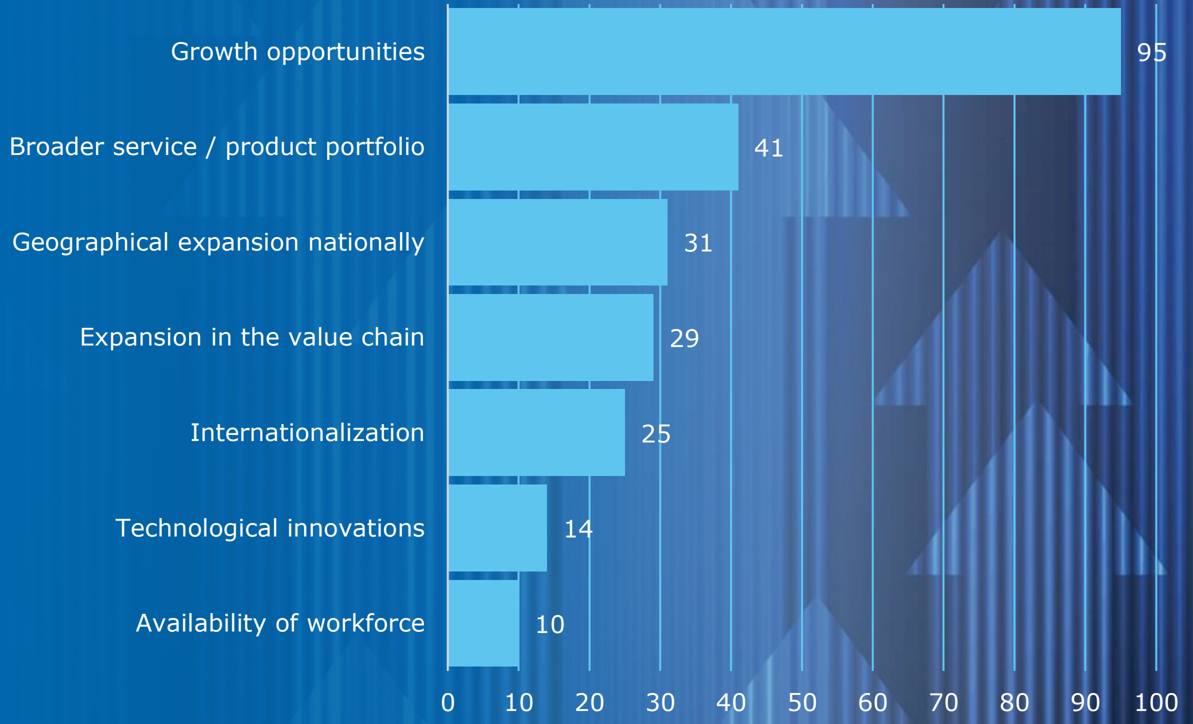
Even though technology is regarded as the most intriguing industry, technological innovations were not as frequently mentioned, indicating that respondents are emphasizing various other important factors or strategies.

The availability of workforce emerges as a less pivotal factor, signalling a surplus of talent.

"As the availability of skilled professionals eases, buyers are increasingly not just buying a pair of hands, but other factors such as geographical expansion or broadening of the range of services need to be considered as a rationale."

- Max Tarkkala, Manager, M&A

WHAT IS THE RATIONALE BEHIND THE TRANSACTIONS?(pcs)



Valuation levels

The development of valuation levels over the past 12 months in the Nordics

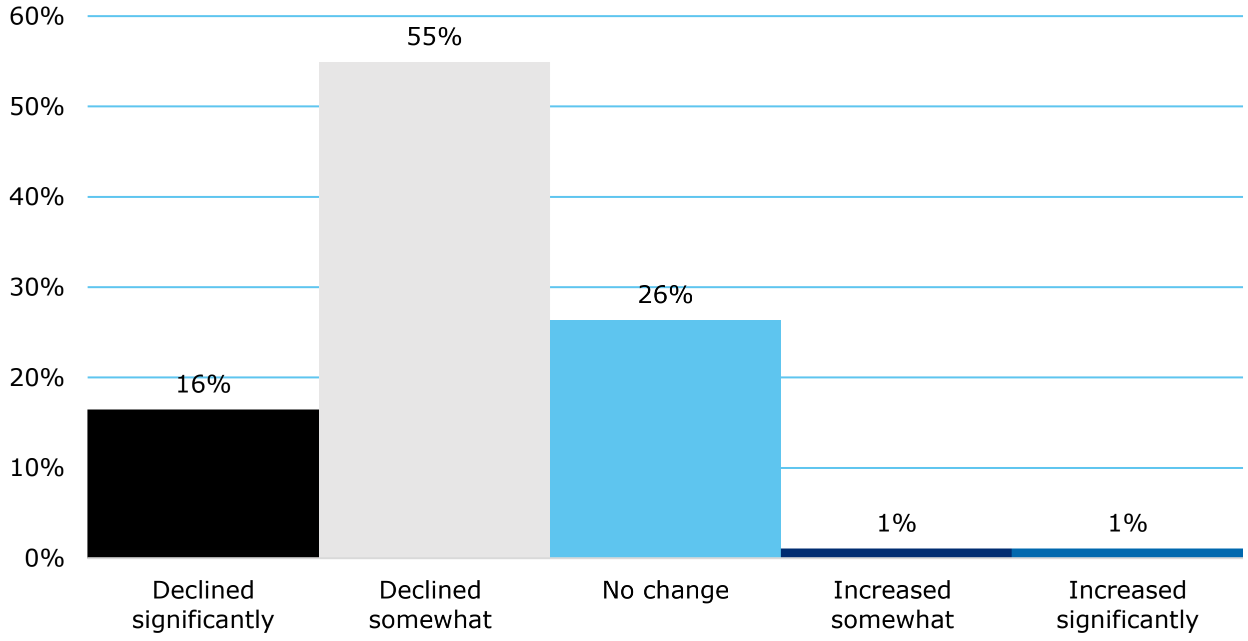
Valuation levels have seen a moderate decrease in the past 12 months, but expectations are trending upwards

According to the survey, there has been a noticeable decline in valuation levels over the past 12 months, with 65% of respondents indicating some degree of decrease.

This trend, as expected, is in line with the general market sentiment in 2023 and is influenced by factors such as increasing interest rates and inflation.

The valuation gap has grown somewhat during 2023, complicating deal negotiation. The increased valuation outlook is expected to boost sell-side mandates.

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)

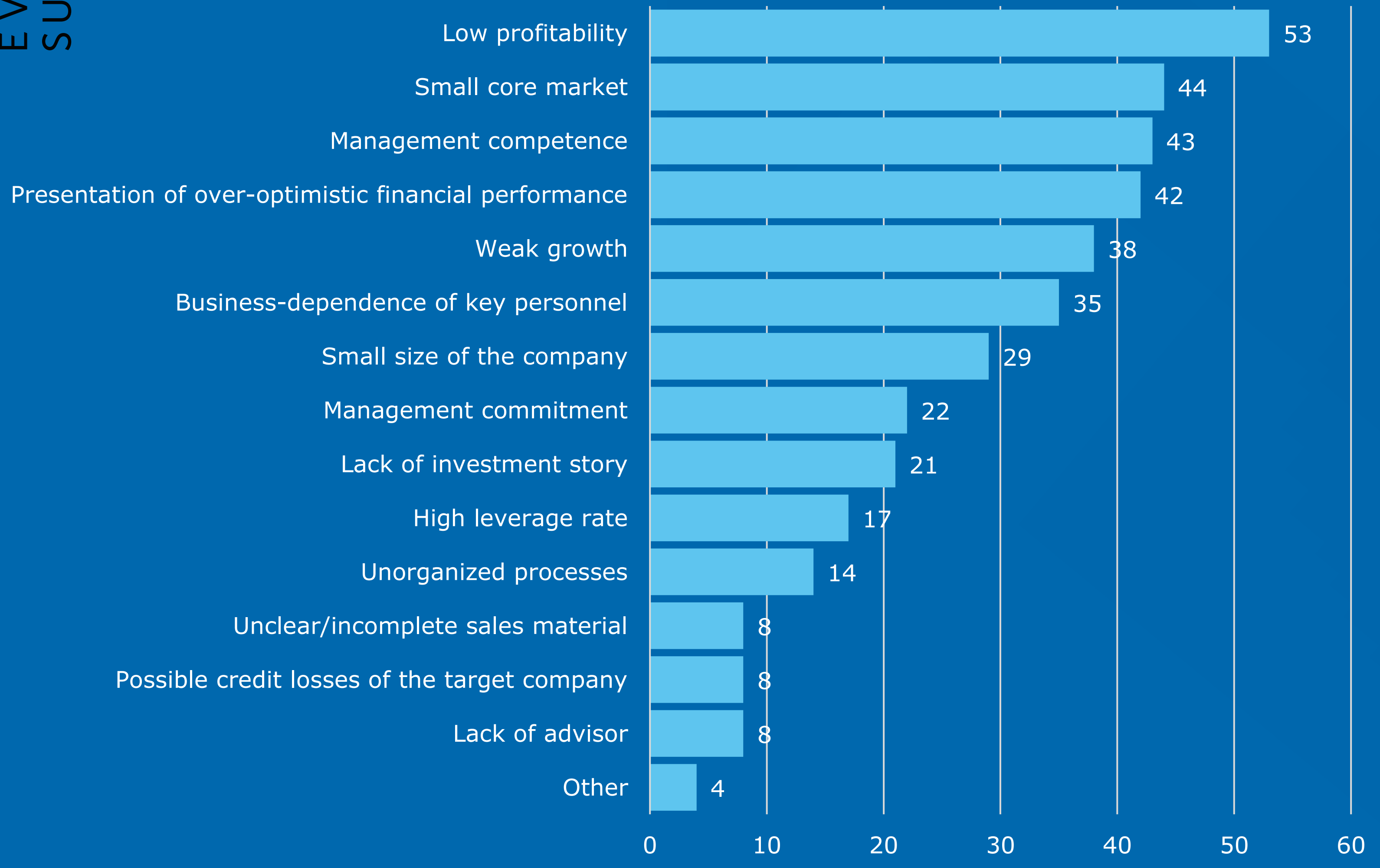
Factors influencing the valuation of a target company

Committed management, growth and profitability may impact valuation both positively and negatively

Increasing factors

- Growth plan
- Committed management team
- Profitability
- Interesting market drivers

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



Decreasing factors

- Low profitability and a limited core market were identified as the primary factors contributing to decreased value.
- Additionally, shortcomings in management competence and the presentation of overly optimistic financial projections, often referred to as a "hockey stick" scenario, were noted.

The development of valuation levels over the next 12 months

Valuation levels are expected increase during 2024

The survey findings indicate a generally cautious sentiment, with a slight increase in valuation levels observed overall.

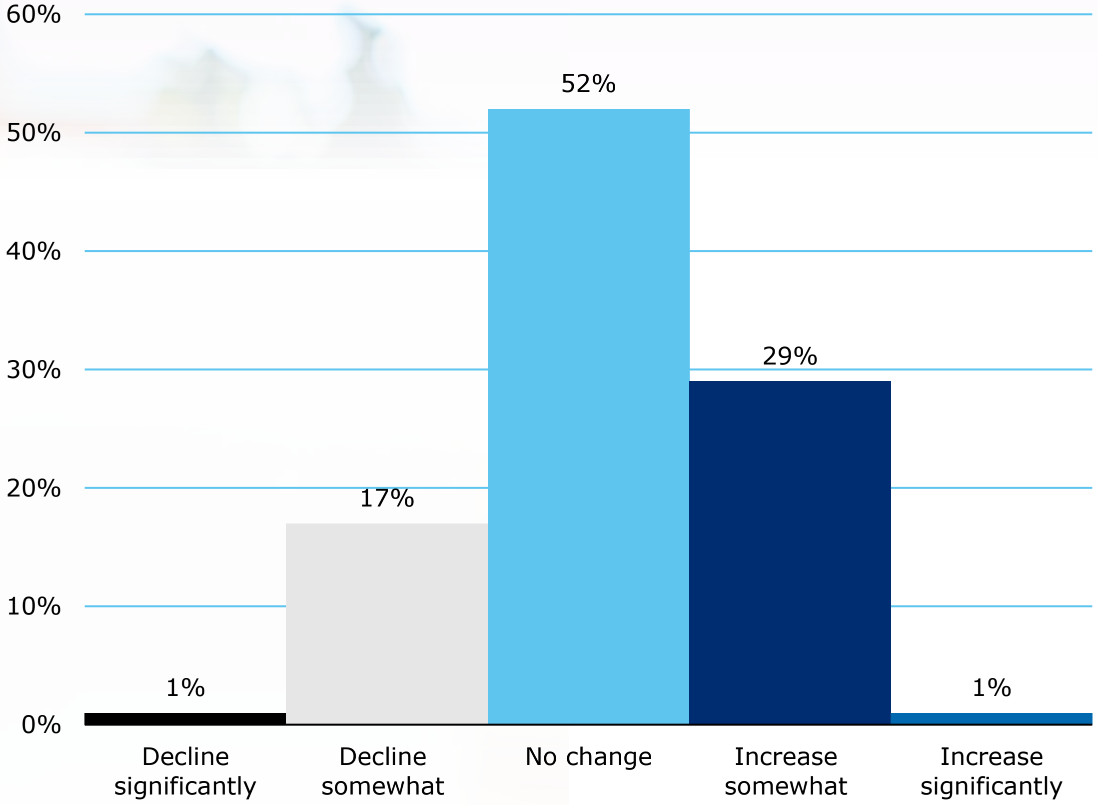
This cautious outlook is influenced by factors such as rising interest rates, inflation and market uncertainty.

In contrast to last year's responses, where most respondents anticipated that valuation levels would decline somewhat, the current survey reveals a shift in sentiment, with respondents now expecting a slight increase in valuation levels over the next 12 months.

"In discussions with investors, we have noticed a clear shift towards a more optimistic view of the development of valuation levels during the last months of 2023 and the beginning of 2024"

- Santeri Vaattovaara, Manager, 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 demonstrate the effect of prioritizing profitability and sustainability

- Rising interest rates are reshaping valuations, financing and market expectations.
- Emphasis on profitability and cash flow is growing, influencing investor preferences.
- Sellers are aligning their expectations with new realities, such as higher interest rates, for more realistic valuations.
- Stagnant markets and rising costs, especially financing, are affecting valuations.
- The valuation gap may present challenges, potentially complicating deal negotiations and decision-making processes.
- ESG factors are shaping valuations, focusing on sustainability and cost-cutting.
- The market is adopting a more cautious and realistic approach, emphasizing tangible factors over speculation.

"ESG was not highlighted in this year's survey as strongly as last year. However, we strongly believe that there will be steadily increasing interest in ESG over the long-term. ESG is increasingly seen as a regular value-creation component like other areas of business development"

– Kirsi Karvonen, Partner

Deal structure and due diligence

Trends that will affect M&A processes

Regulations and cooperation with banks emerged as prominent factors

Tighter financing

There is a consensus on tighter financing conditions, with banks showing a lower appetite for risk financing, which is seen as increased requirements for equity in the transactions.

Cooperation with banks

Collaboration with banks is highlighted as crucial, indicating a need for strong financial partnerships in deal processes.

Legal issues and tightening regulations

Concerns about regulatory scrutiny and legal issues are prevalent, affecting deal complexity and uncertainty.

ESG readiness

The increasing trend towards ESG considerations is noted, affecting due diligence processes and deal timelines.

Extended process durations

Expectations for longer preparation and negotiation periods are common, indicating a perceived slowdown in deal processes.

"The valuation gap is still there, but we are seeing signs of it narrowing down, thus opening up a pipeline for purchase targets. We anticipate active competition for quality targets in an environment where not least the increased regulation will play a key role in planning the whole transaction process."

– Johan Wesander, Managing Partner

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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

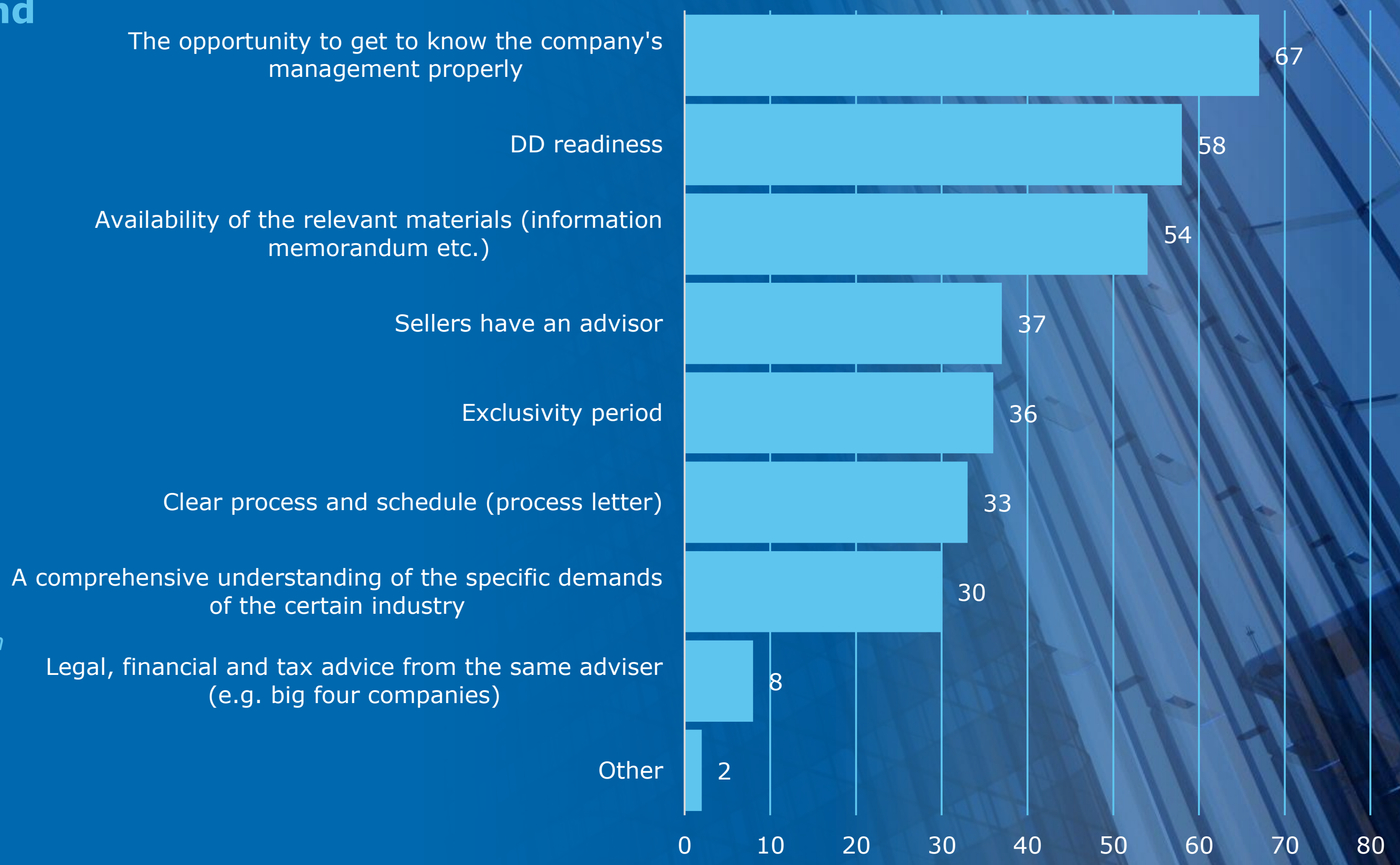
Respondents highlighted the significance of establishing relationships and understanding the leadership team as the essential elements for facilitating a smooth M&A process.

Moreover, respondents stressed the critical nature of due diligence (DD) preparedness and the accessibility of all relevant materials in guaranteeing a seamless M&A process.

"A well-prepared management that is up-to-date with owners' wishes, together with DD-ready documentation at an early stage of the transaction, are the best tools for providing the owners with an optimal background for a transaction, allowing the owners to keep their focus on the commercial negotiations of the M&A process."

– Antti Husa, Partner

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



The key areas to prioritize during due diligence in addition to legal, financial and tax aspects

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

The importance of commercial due diligence was evident, underlining the necessity to evaluate market dynamics, competitive positioning and growth potential.

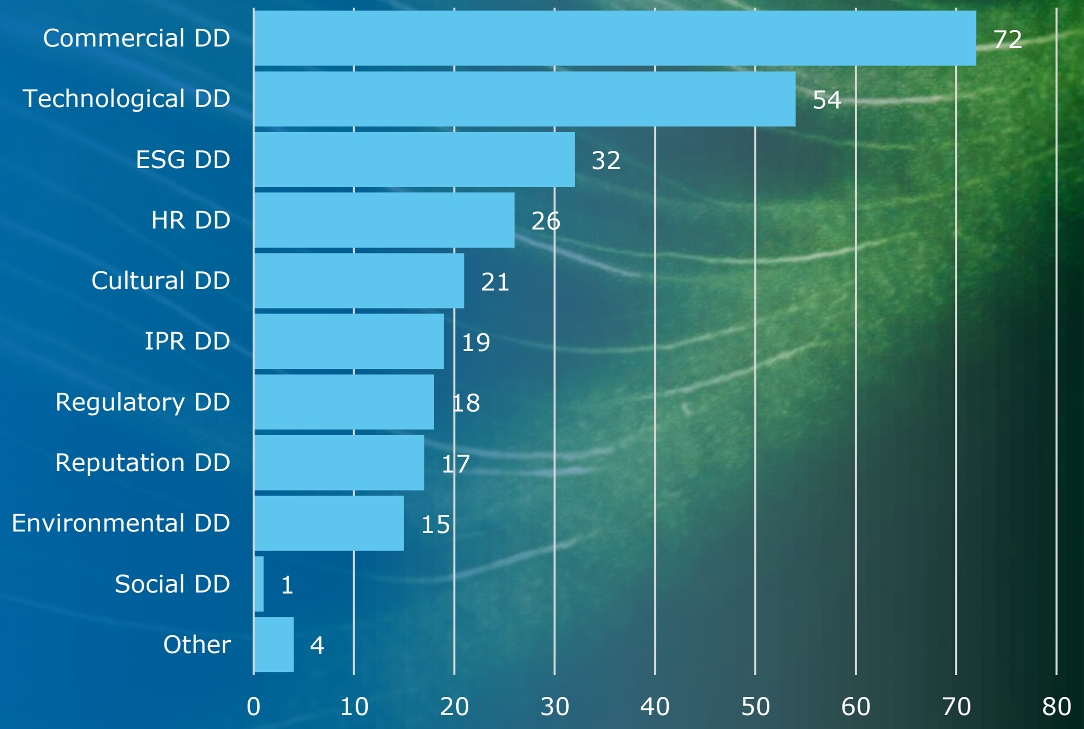
Technological due diligence was also recognized as a key area by 54 respondents.

Additionally, ESG due diligence received notable attention, emphasizing the need to assess environmental, social, and governance factors. This underscores the growing relevance of sustainability and responsible business practices in M&A activities.

"The scrutiny over potential target companies has become ever more thorough, with buyers looking for a proven track record in key factors and resilience in the challenging market environment."

– Henrik Sandholm, Partner

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



Outlook of the M&A market

The outlook for the market in the upcoming 12 months

Buyers share risks with sellers through increasing earn-outs and reinvestments

Earn-outs

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

W&I insurance

According to the respondents, transactional insurance is expected to remain relatively stable over the next 12 months, providing parties with added protection and risk mitigation during M&A transactions.

Asset deals

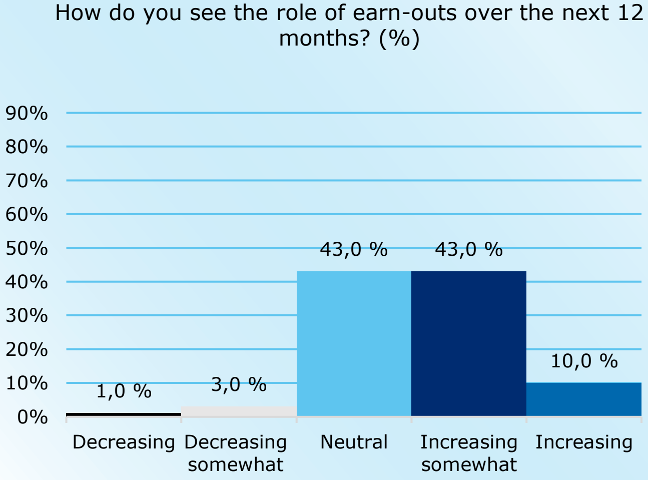
Most respondents expressed a neutral perspective, indicating a relatively balanced expectation regarding the use of asset deals and share deals in M&A transactions.

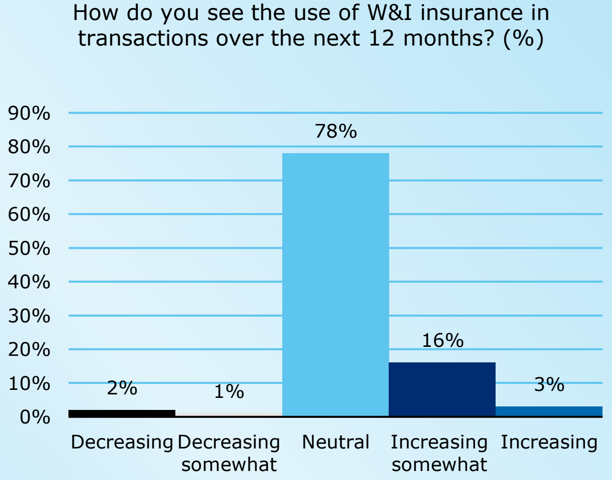
Reinvestments

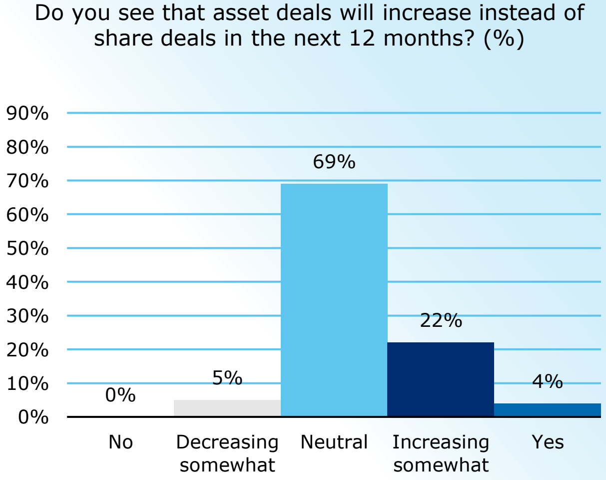
According to the survey results, there is a notable sentiment towards reinvestments becoming somewhat more common as a part of transactions in the next 12 months.

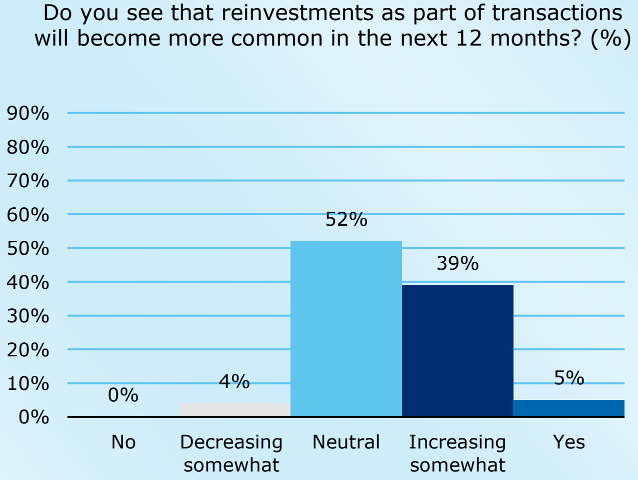
"Earn-out in some form has become a tool favoured by both buyers and sellers. It simultaneously mitigates the integration risks by keeping the sellers committed post-closing, and at the same time provides the sellers with an opportunity to prove the capabilities of the business post-closing and thus further raise the purchase price through deferred purchase price elements."

- Antti Husa, Partner









The outlook for the market in the upcoming 12 months

Obligation to work

Respondents generally hold a neutral outlook on the seller's obligation to work in the upcoming 12 months. However, a considerable portion expressed a belief in a somewhat increasing trend.

Seller financing

While most respondents maintained a neutral stance, a significant portion suggested a potential slight increase in seller financing over the next 12 months.

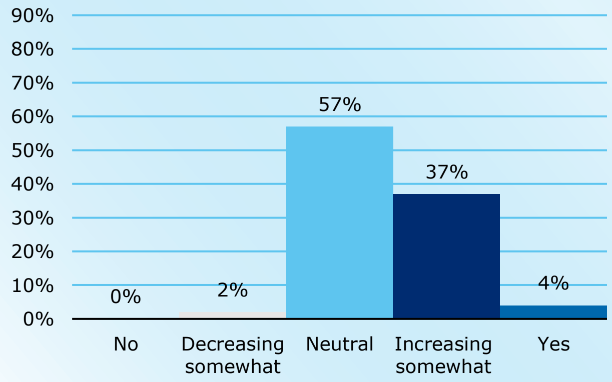
Shares as a payment

The majority of respondents took a neutral stance, but a noteworthy segment anticipated a slight rise in the use of shares as a payment method.

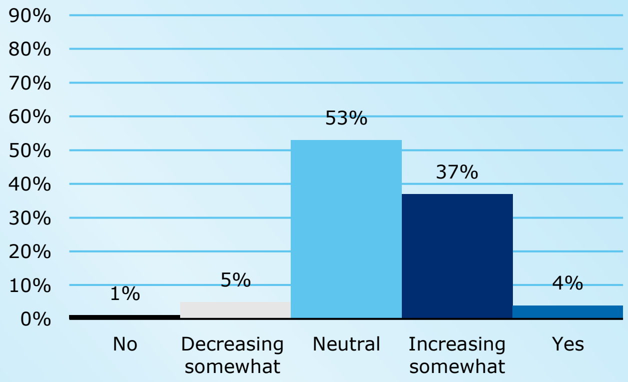
Put/call options

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

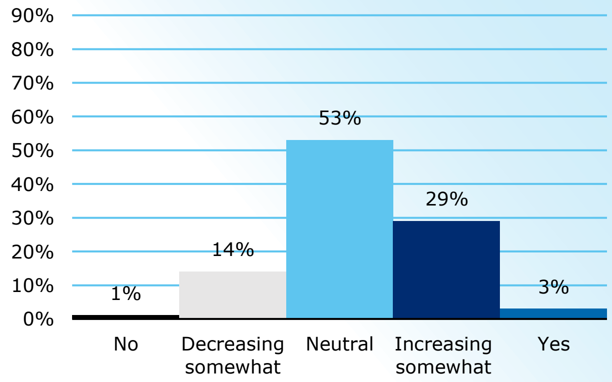
Do you see that the seller's management obligation to work will increase in the 12 months? (%)



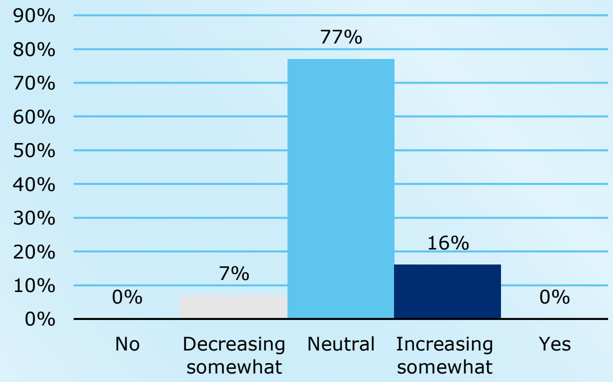
Do you see seller financing becoming more common in the next 12 months? (%)



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



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



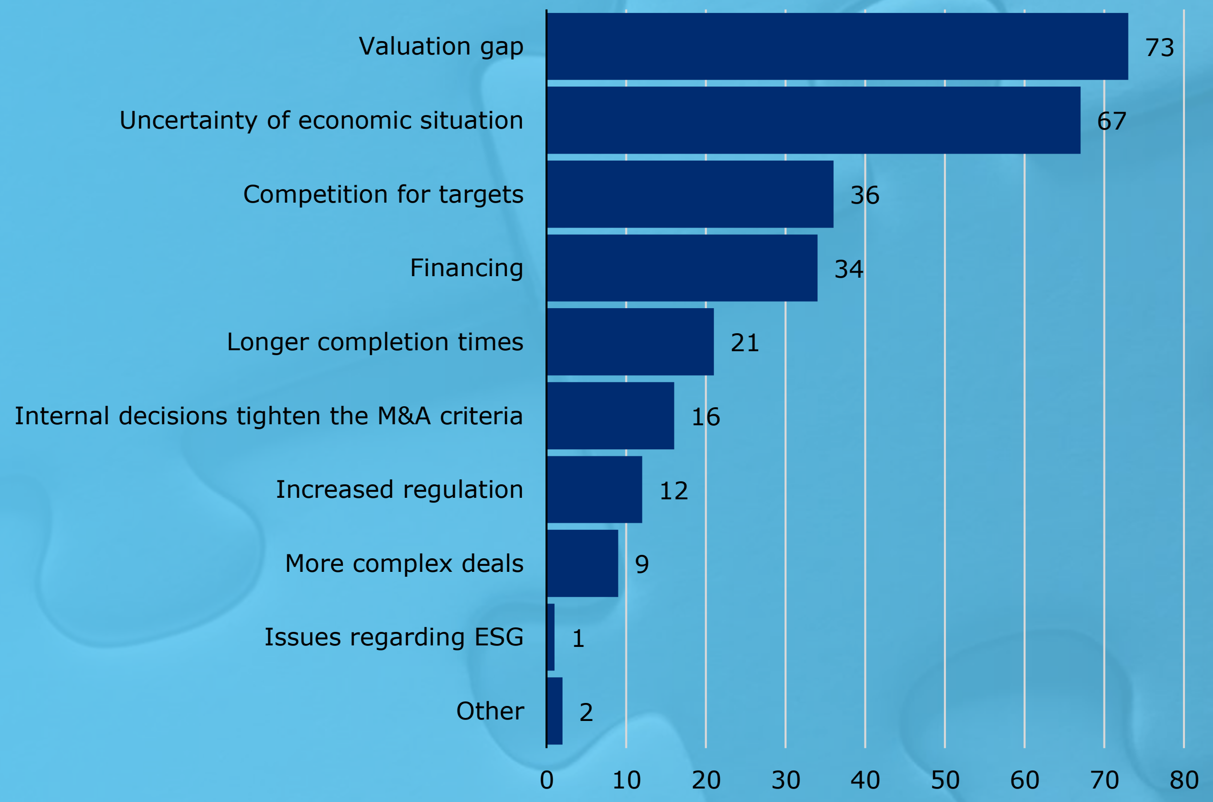
Biggest challenges in the M&A market

The valuation gap and uncertainty are highlighted as significant challenges

Survey respondents highlighted the valuation gap as the primary obstacle in the M&A market. The gap may present challenges, potentially complicating deal negotiations and decision-making processes.

Additionally, the respondents expressed concerns especially about economic uncertainty, competition and financing.

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



” The main obstacles in the M&A market have been related to the valuation gap and market uncertainty. An expected decrease in interest rates could solve both problems at once and boost the M&A market in the coming years.”

- Antti Liimatainen, Chief Operating Officer

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