

## Brexit vote dampens dealmaking expectations, according to survey by CMS and Mergermarket



- 79% of respondents state that cross-border deals into Europe from non-European acquirers will increase
- 54% believe undervalued targets will be the main driver of buy-side M&A
- 66% feel M&A in Europe will decline

Dealmaking appetite in Europe has been overshadowed by the UK's decision to leave the European Union, according to the fourth edition of the European M&A Outlook, published by **CMS** in association with Mergermarket.

The report canvassed the opinions of 230 Europe-based executives, from corporates and private equity firms, both before and after the UK's referendum on 23 June.

In the aftermath of the Brexit vote, 66% of respondents believed European M&A will be more muted over the next 12 months, compared to just 18% pre-referendum. Moreover, while only 23% of those surveyed before 23 June felt less positive about levels of European M&A activity than they did in the previous year, after the vote 90% said they were less positive about the European deal outlook.

Despite the volatility and uncertainty, there is room for cautious optimism. Political instability in Europe, as well as an increase of regulations – labour laws in particular – have led to a more challenging European M&A market. There is, however, still hope for better days, as lower asset prices are seen as a key motivator from the buyers' perspective by 90% of corporates and private equity firms considering acquisitions. The study also shows a positive outlook from international buyers, with more cross-border M&A in Europe planned for next year. The industrial and chemical sector (44%), followed by the TMT (43%) and consumer goods sectors (29%) are most likely to be the top sectors active in M&A over the coming year.

Indeed, Mergermarket data for the third quarter of 2016 shows only a mild slowdown in UK and European M&A.

A potential upside of the Brexit vote for buyers is its effect on the price of assets. Post-Brexit, 54% of respondents say that undervalued targets will be one of the greatest buy-side drivers, compared with 39% before the vote.

Executives surveyed also feel that cross-border deals into Europe will increase in terms of both

volume and value over the next 12 months. Almost four-fifths anticipate more cross-border M&A into Europe next year, while 61% think the value of these deals will increase. Buyers from North America and China in particular will look to snap up assets to fuel overseas growth.

Meanwhile, technology could prove the catalyst that sparks the M&A market in a post-Brexit Europe – the vast majority of respondents (80%) say that technology or intellectual property would be the most important aspect of their next European M&A target.

## **Methodology**

In the second quarter of 2016, Mergermarket surveyed senior executives from 170 corporates and 60 private equity firms based in Europe about their expectations for the European M&A market the year ahead. We then resurveyed the same participants in the wake of the Brexit vote in July and August. All respondents had been involved in an M&A transaction over the past two years.