MOORE

M&A DEMAND SET TO SURGE

Ambitious mid-sized companies focused on cross-border deals

Cross-border mergers and acquisitions among mid-sized businesses are proving resilient in the face of strong economic headwinds, with a surge in new deals anticipated as companies rebuild balance sheets and seize growth opportunities.

Banks and private equity, two of the main sources of funding, pulled back in the face of rising interest rates and tightening debt markets but well-structured propositions that demonstrate a strategic fit with buyers' existing operations remain attractive to backers.

Mid-sized companies with revenues of €10 million to €1 billion dominate much of the business landscape. The role they play in wider M&A activity is often misunderstood but their importance is underlined in the latest Compass report produced for Moore Global Corporate Finance by Vlerick Business School in Belgium.

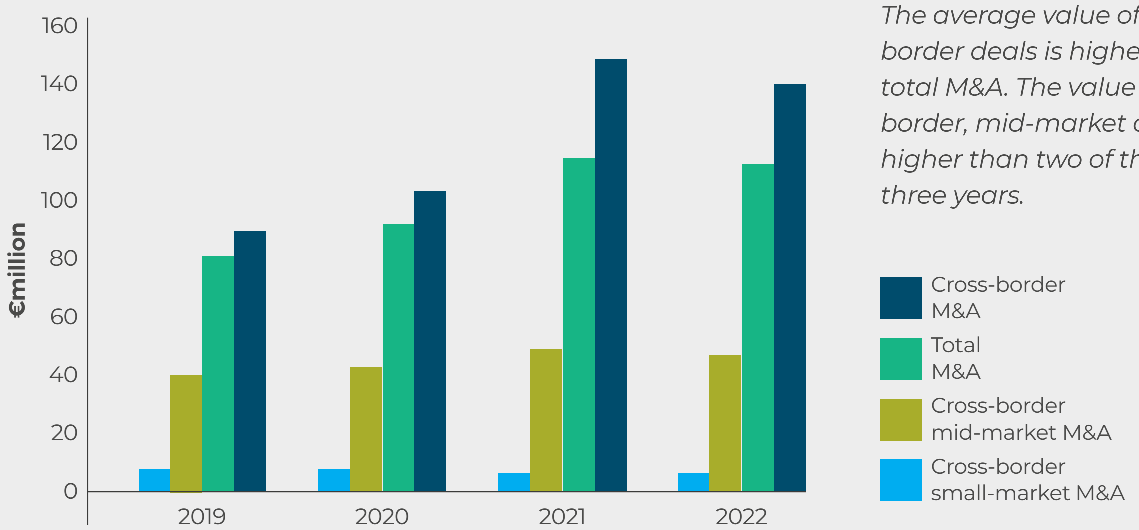
Vlerick has tracked M&A activity for the past four years and these studies offer a unique insight into how businesses fared in a period of unprecedented turmoil – with strong growth in 2019 halted by Covid lockdowns in 2020, followed by a post-pandemic recovery overshadowed by war and macroeconomic instability.

While these factors have impacted on the number of cross-border deals and value of transactions in the mid-market, the new Compass report reveals:

- There were 4,263 deals completed in the cross-border mid-market in 2022 worth a total of €200 billion.
- Average deal value in cross-border M&A in the mid-market is now €46.9 million, which is 17% higher than 2019 before the emergence of the Covid pandemic.
- North American companies remain the main acquirers in Europe and across the world, accounting for 47% of the total volume and 49% of deal value.
- The majority of deals (40%) are focused on the IT sector but healthcare remains popular. The retail and wholesale sector, which did not feature throughout Covid, is highly active again.

Source: Moore/ Vlerick Compass Report, 2022

AVERAGE DEAL VALUES



The average value of cross-border deals is higher than total M&A. The value of cross-border, mid-market deals is higher than two of the last three years.

Firms within Moore Global Corporate Finance (GCF) are reporting high levels of pent-up demand from potential acquirers eager to make strategic acquisitions and position themselves for an anticipated upturn.

Targets include businesses that operate in the same sector, or those that offer avenues into related products and services and have potential to generate additional revenue streams.

Meanwhile, there are hundreds of smaller owner-managed companies that find their financial resources depleted after Covid. They are experiencing a working capital crunch exacerbated by ongoing supply chain disruption and soaring energy costs linked to the conflict in Ukraine.

For start-ups, the problem is often one of scale: many are still too small to be sustainable without venture capital or growth capital backing.

Philippe Craninx, chairman of Moore GCF and managing partner of corporate finance at Moore Belgium, says the particular dynamics of mid-market M&A explain the surge in interest.

"Small company M&A transactions are predominantly driven by microeconomic reasons – owners have a succession problem, an issue within the family or a local problem that needs to be solved. That inevitably leads to a discussion about buying or selling.

"It is equally clear that the large transactions are motivated by macroeconomic events. Trading blocs are becoming more important, businesses producing more in their home markets is an emerging trend and incentives to develop sustainable new industries all have an impact on M&A.

"There are opportunities for mid-sized players to acquire good companies that have simply become victims of circumstances."

Philippe Craninx, Moore GCF chairman

"What happens at the macroeconomic level can reach down to small companies at the micro level. That opens up opportunities for mid-sized companies to move in and acquire good companies that have simply become victims of circumstances and need to operate in that slightly bigger environment."

One example Craninx cites is an 82-year-old entrepreneur who had to shelve a carefully formulated succession plan because the business was hit by falling consumer sales during Covid. The reduced revenue meant the numbers calculated to facilitate the change of ownership in the original financial package no longer added up.

In another situation, a green energy firm has seen demand increase dramatically as customers rush to find alternatives to Russian oil and gas. This positions the company well for future growth but, in the short-term, put a tremendous strain on its working capital base.

Moore was able to cut through the problems caused by economic turmoil and help both companies find quick, practical solutions.

Contrary to reports that funding has dried up and it is difficult to raise finance in the mid-market, the Compass report shows that cross-border dealmakers are tapping into a wider variety of funding sources – and finding many willing backers for the right opportunities.

40%

of cross-border mid-market M&A deals in IT

Moore GCF: the dealmaker for every situation

Mid-sized companies often rely on a single finance director, or even the owner, to handle the many complexities of a M&A transaction. It is an onerous responsibility.

Moore Global Corporate Finance (GCF) brings together the power of its international network of experienced dealmakers to create bespoke solutions that fit the many varied requirements of clients.

Moore works with owner-managed businesses focused on growth, mid-sized quoted companies and large private corporates across a wide variety of industry sectors.

The team offers support on the full range of corporate finance services, from M&A advisory, transaction and valuation services, to debt and equity funding. GCF can assist at any stage of the process, from pre-deal evaluation and vendor due diligence through to the completion of a transaction and post-deal integration or separation.

The UK is the main target of interest for North American acquirers, while Britain also leads Europe in M&A activity. However, the Compass report reveals that the value of UK companies sold is greater than those acquired.

“We have had a period of instability and Brexit has made people wonder about Britain as a place to invest – which, in turn, has led to a drop in valuations for UK companies,” says John Cowie, partner in corporate finance at Moore Kingston Smith in London. “It has been one-way traffic for the past year or so but I think the tide may be about to turn.”

“It seems that we are getting through the worst of the problems. If we have a few months of stability in markets and on interest rates I think we will start to see activity picking up across Europe and valuations returning to normal.”

While valuations may be off, demand is still strong. Moore Kingston Smith’s latest growth capital update revealed that 1,364 UK business raised a total of £6.46 billion in 2022 – the second best year within the last five.

“Once we have that stability, people can forecast the next three, six or nine months and base their budgeting decisions and financial systems on a more predictable environment,” says Cowie. “There is significant pent-up demand from businesses that want to do deals and banks and investors who want to fund them – they just need to feel things are normalising and then they will push forward.”

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John Cowie, Moore Kingston Smith

The UK's long-standing cultural links to the US may explain why much European cross-border M&A activity is channelled through London. In Paris, the Franco-German president of GCF member Coffra group, Christoph Schlotthauer, highlights another cultural driver of deals in Europe's two largest economies.

"Mid-market companies in France and Germany always tend to look across borders to find deals, traditionally focusing on each other," he says. "However, we often find they don't know how to make the approach or how to move things forward after a first meeting."

Moore GCF operates in 13 countries spanning Europe, Asia, Latin America, the Middle East and Africa, which gives the network an understanding of many different business cultures. Also, the personal aspirations of owner-managers feature higher in the motivation behind mid-market deals, while family dynamics often require delicate handling.

"Large corporates have whole departments to look for M&A opportunities but most of our clients are much smaller and often do not know where to start," says Schlotthauer.

He recalls a situation where commercial logic suggested a €1 billion construction company should acquire a much smaller supplier but neither of the owners knew how to approach the negotiations.

Coffra was able to help with the introduction, conduct due diligence, structure the deal and direct negotiations, including handling the many sensitive documents that had to be shared to keep the transaction on track. "We had to ensure we maintained the confidence of both sides because they need to work together after the transaction is complete."

As economic headwinds ease, Moore GCF is addressing a specific need – and one that is growing – to help the owners of mid-size companies meet their business objectives, look after their employees, their customers and their families.

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Christoph Schlotthauer, Coffra group

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