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Belgian M&A Survey 2021

September 2021

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Dear Sir, Dear Madam,

One year after COVID-19 kicked-in, we were curious about how the M&A market in Belgium is shaping up and what the impact of the health crisis has been.

What we noticed is that certain sectors have been hit hard by the crisis (think of tourism, airlines, etc.) and for a lot of them the months to come will be even more difficult, now that governments are starting to reduce covid measures.

In many sectors however, the M&A market is bullish, with high multiples and a very strong sellers market. Taking this into account, creating value post-deal is more important than ever before. This in combination with the increased attention to ESG as a value driver rather than simply a risk factor, creates an environment where dealmakers, who want to be successful, need to reinvent themselves and go much further than the traditional 100-day plan.

As you will read in the introduction to the survey which follows, the expectations for the coming months remain very positive. Nevertheless, it will be key to keep a close eye on inflation and interest rates, as well as potential regulatory changes and important changes in tax law, which could lead to a future cooling-off of the market.

I wish you an interesting read.

Best regards,

Nancy

1 Introduction

When we published the M&A Survey 2020, we promised we would provide you with an update of the results one year later, to analyse with the benefit of hindsight how the pandemic affected the M&A market and deal value.

And what a year it has been! As we emerged from the crisis, the M&A activity rose to unprecedented heights, leading to very high prices. There was a lot of demand for each target that came to the market, which in turn led to an already very lively and interesting year.

With increasing prices, it is clear that realising the deal value becomes more important than ever.

As we have described in our M&A Survey report 2020, realising the synergies post-deal remains very difficult for a lot of buyers. Several reasons are mentioned that cause value loss, such as unanticipated IT costs, underestimation of cultural differences, misjudgement of target's management skills, and so on.

Compared to last year, we see that more attention is given to (some of) these topics already in an early phase of the deal. However, the analysis is often based on a few conversations between buyer and target (in order to identify any burning issues), but in most cases there is no structured approach in place, nor benchmarking of the information obtained to enable more objectivity.

In this year's booklet, we put considerable focus on each of these topics as each one of them is critical to realising value.

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As we emerged from the crisis, the M&A activity rose to unprecedented heights, leading to very high prices.

Furthermore, as ESG is one of the hot topics in today's economy, a special chapter will be dedicated to ESG in a deal context. Specifically, the focus will be on how ESG can bring additional value to the deal in today's world where value creation is so important.

In the near future it is expected that the market will remain very active (you can read more about this in the Outlook Chapter). However, it remains to be seen what will happen when interest rates rise. Indeed as mentioned in June 2021 by The Economist 'Investors can no longer take low interest rates for granted'[1].

At the Federal Reserve's meeting in June 2021 policymakers signalled that they may raise interest rates in 2023 (sooner than they previously thought) and upgraded their inflation forecasts for this year.

According to the ECB, inflation will remain low in Europe and no interest rate increases are planned in the near future.

Curious to see how, and at what pace, this will evolve as interest rate fluctuations and insecurity are the key influences on M&A activity.

For now we can only be positive and look forward to a booming M&A market for another six months at least.

Nancy De Beule
Lead Partner Mergers and Acquisitions

[1] *The Economist* 26 June 2021 edition

2

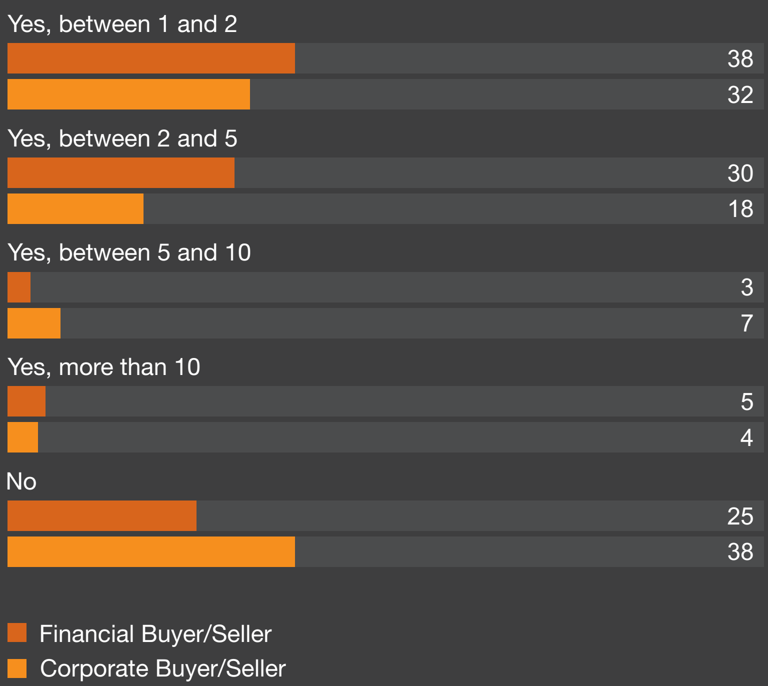
Outlook on the Belgian M&A Market for 2021

The past year

As mentioned in the M&A Survey 2020 booklet, 2020 was a seller's market. Indeed 75% of the financial buyers respondents mentioned that they acquired 1-10 targets in the past year. Also at the corporate buyer side, 2020 was a busy year with 62% of the respondents acquiring 1-10 targets the past year. Those same respondents were less active on the sell side: 52% of the financial players interviewed sold 1-10 targets during the past year, whereas only 35% of the corporates interviewed sold an asset in the past year.

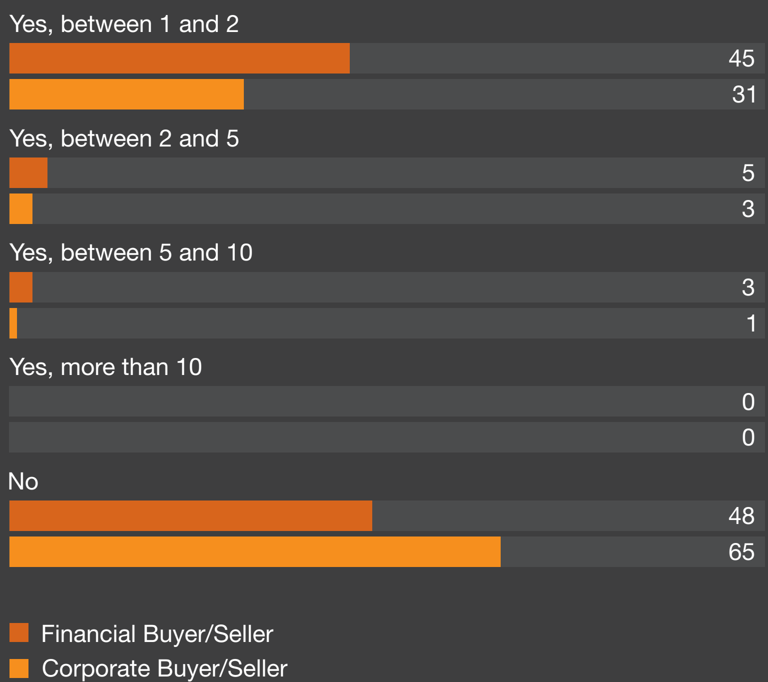
Did you perform any acquisitions during the past year?

(all figures in %)



Did you sell/exit any assets during the past year?

(all figures in %)



Expected deal volume

From our survey it became clear that the pandemic period was used by both financial and corporate buyers to change their M&A strategy. Indeed, 75% of the financial players respondents replied that they changed their strategy, while at the corporate side a change in M&A strategy occurred for 63% of the corporate respondents, as a consequence of a change in the overall strategy.

When analysing the appetite to do acquisitions in 2021, we remain very much in a seller's market, as the appetite to buy is very big, for both corporate and financial buyers.

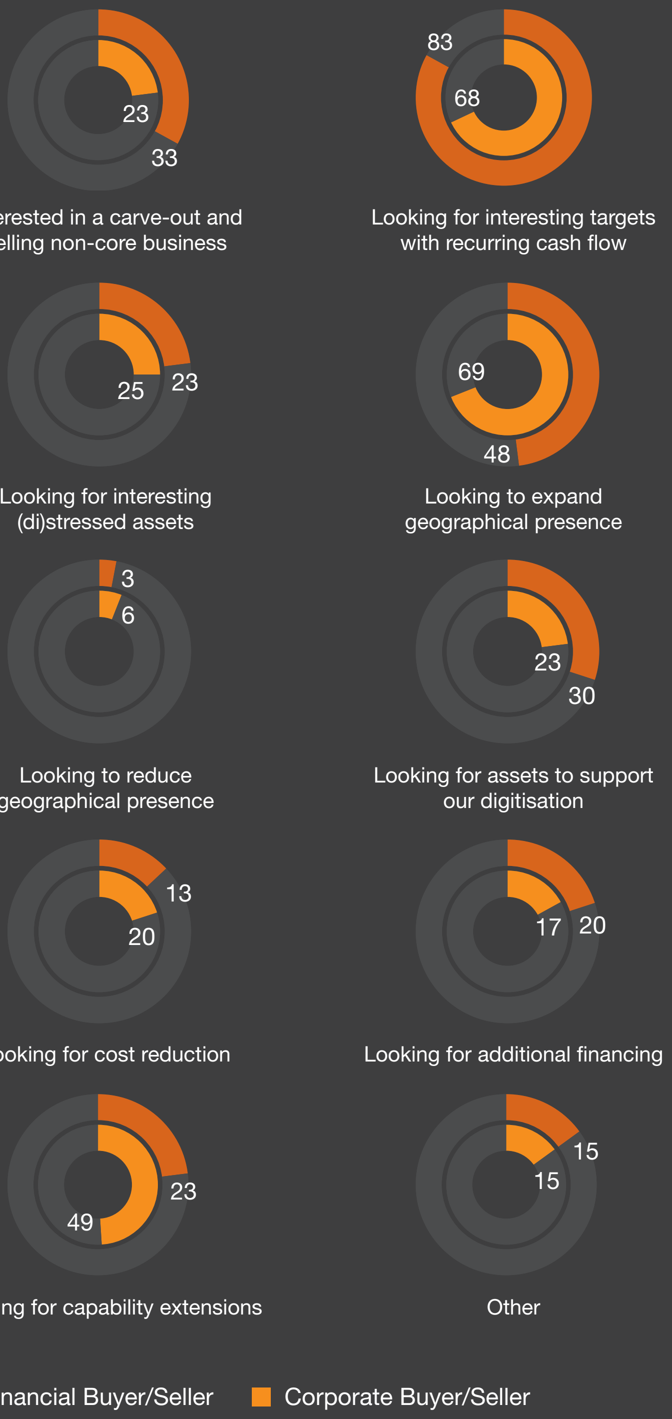
Financial buyers are mainly interested in targets with recurring cash-flows (83%). Furthermore, they want to expand their geographical presence (48%) often in light of a buy & build strategy, and they are looking for assets to expand digitisation (30%) as well as for capability extensions (23%).

The corporate respondents' input showed that (apart from the obvious interest in targets with recurring cash-flows [68%]) they are mainly looking at expanding geographical presence (69%) and are looking for capability extensions (49%).

While 23% of the corporates are also thinking of performing a carve-out in order to sell off part of their business, the financial buyers respondents are interested in buying carved-out business (33% of the respondents showed interest here).

Which of the following statements fit(s) your strategy for the coming year?

(all figures in %)

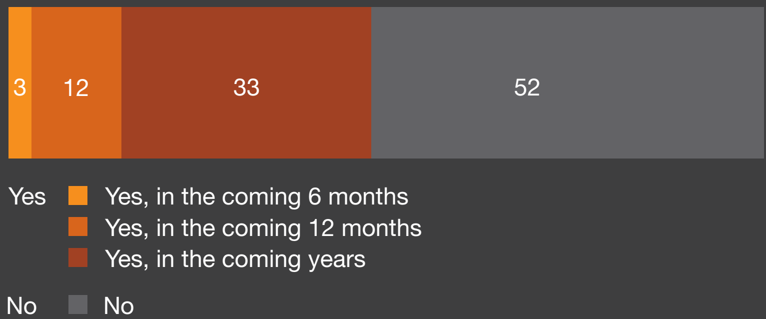


Is there a downturn in the making?

Both corporates as well as financial buyers expect a bright future ahead. Where during our M&A Survey 2020 65% of the survey participants expected a downturn within one year or so, now only 33% think we will go towards a declining economy in the coming years.

Do you expect a downturn in the coming months?

(all figures in %)

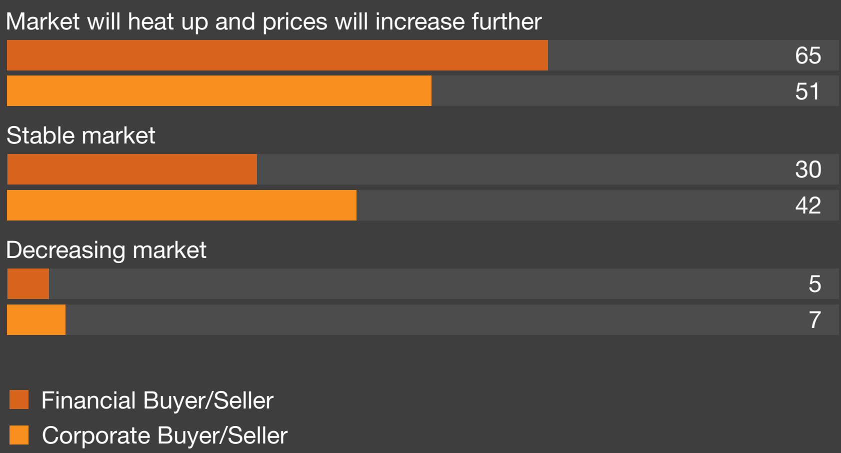


65% of the financial investors/respondents expect that the M&A market will further heat up and that consequently prices will further rise, where only half of the corporate respondents are of the same opinion and the other half rather tends towards a more stable market, where multiples remain at the current level.

Only 6% of all respondents expect a decline in the M&A market.

What do you expect for the coming year in the M&A market?

(all figures in %)



It is true that contrary to what was expected, an overall downturn did not follow. This was in fact already predicted in our M&A Survey 2021 when looking at the downturn predictions.

The expectation now is that M&A activity will indeed continue to remain strong. Although valuations are high (depending on the sector of course), there is still a lot of cash in the market and a high demand for targets. This combined with the willingness of some owners to sell now (whereas a few years ago they were not willing to sell) will lead to a lot of activity in the market. However, the increased acquisitions prices will increase the pressure to capture the value in deals.

3

The post-pandemic Belgian deal process

Did the changed economic outlook and the changes to the M&A landscape impact the way Belgian acquirers cope with their deal process?

Before the pandemic, PwC's "Creating value beyond the deal" section in the M&A Survey report 2020 stated that amid the macro-shifts in the deals environment, creating value in deals has never been more important. To create value, it is crucial that organisations approach deals as part of a clear strategic vision and long-term objective. The pandemic has shown that review and adaptation of a company's overall strategy (and especially its M&A strategy) is key to survival. Indeed, resilience becomes even more important in the post-pandemic world.

"

The pandemic has shown that review and adaptation of a company's overall strategy is key to survival.

M&A strategy and the growing importance of capability deals

One of the trends of recent years is an increased deal activity focusing on acquiring new capabilities, people, technology, etc. to realise the company's objectives. The pandemic has accelerated this trend. Acquiring new capabilities to fill in the gaps in the new world turned out to be key for strategy and value-building. This is true especially for capabilities in the fast-evolving world of increased digitisation, remote working, online services in many industries and turning assets into rendering services.

These deals are also often characterised by an alternative deal model, such as joint ventures, alliances, minority stakes, and more.

Notwithstanding this evolution, buy-and-build strategies, realising economies of scale that fit with the strategy as well as kicking the competition out of the game are still important M&A drivers for both private equity and corporate buyers.

69%

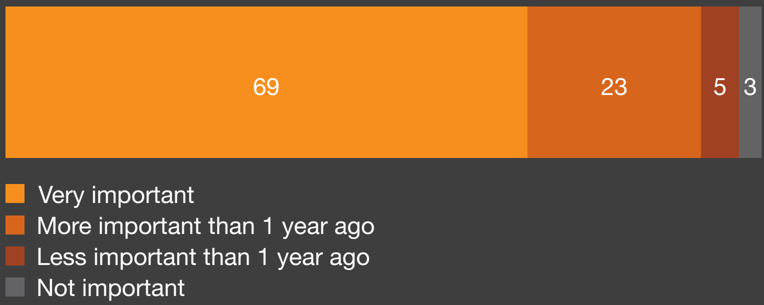
of our Belgian respondents (both corporates and financial buyers) consider strategy development as very important in the deal process and an additional

23%

consider it to be more important than it was last year.

How important is strategy development during the transaction process?

(all figures in %)



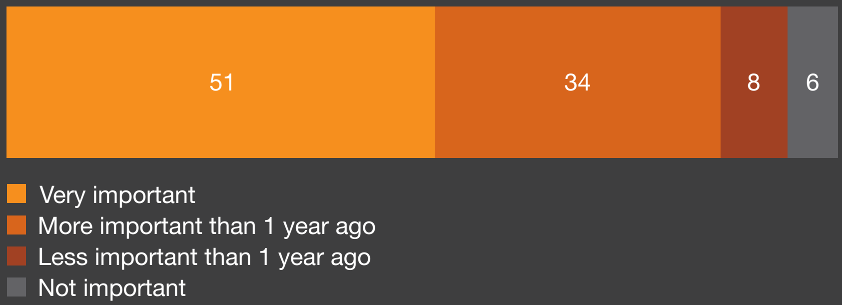
A strong M&A team in a continuous screening modus

With M&A focusing on bringing in capabilities and new technologies combined with the fact that solid targets with recurring cash flows are scarce and expensive, a continuous screening of targets and building relationships by a specialised M&A team becomes more and more important. This is true also for corporate buyers.

In line with global trends in the M&A spectrum, the Belgian market players acknowledge the importance of the screening phase before the deal. One third of the respondents consider it to be more important than one year ago.

How important is identifying targets during the transaction process?

(all figures in %)



...with a focus on the transaction phase...

Our respondents find qualitative due diligence to be very important. The more deals evolve to acquire new capabilities, the more it will be important to diversify the scope of the due diligence and bring in external experts to assess the value and the risks of the target and its assets.

Where scale is the driver, and for acquisitions focusing on acquiring new technologies, talent, and capabilities, it is essential to test the pre-deal assumptions and the quality of the target's business and management. Further, the synergy potential should be challenged in the due diligence phase.

In line with this evolution, we see that our interviewees also increasingly value commercial due diligence and synergy assessments.

46% of the respondents (both financial buyers and corporates) consider this to be very important in the deal process, with another

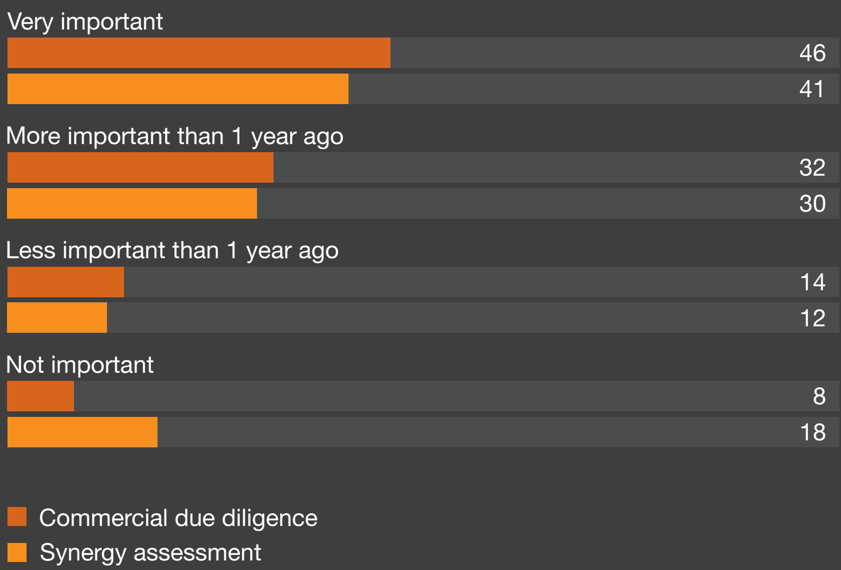
32%

to consider this more important than one year ago.

Not surprisingly we notice similar answers when it comes to the importance of HR due diligence (quality of management, cultural differences, etc.)

How important is commercial due diligence and synergy assessment during the transaction process?

(all figures in %)



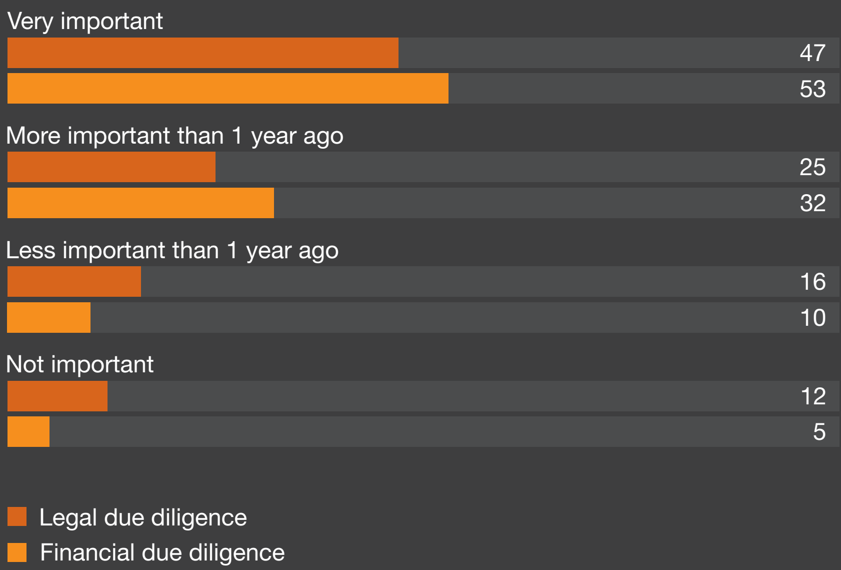
...with some renewed emphasis on the scope of due diligence.

Our Belgian M&A players maintain focused on traditional due diligence areas (financial, tax and legal due diligence).

As a result of the pandemic disruption however, we notice that financial due diligence and legal due diligence are gaining in importance (32% and 25% respectively of respondents say this is more important than one year ago). Tax due diligence is ranking behind with only 12% of the respondents saying that it is more important than one year ago and 23% of the financial buyers stating that it is equally or less important than one year ago. This is also what we notice in practice in the deal process, where tax due diligence is only started in a second round nowadays, following a commercial and/or financial due diligence phase with a positive outcome. On the other hand, we noticed that the tax structuring of the acquisition and of the financing starts much earlier in the process.

How important are financial and legal due diligence during the transaction process?

(all figures in %)



Financial buyers consider the post-merger integration phase to be very important with 25% considering it more important than one year ago and 30% ranking it as very important. Corporates however still lead on this value creation topic with 55% considering it as very important and an additional 31% as more important than one year ago. One explanation is that the synergy of an acquisition for a corporate is often linked into a successful integration, whereas for private equity, other factors also play a role. Nevertheless, in the current environment, where a lot of financial players look for a buy-and-build strategy to increase value, a successful integration can also be an important asset to that value creation.

And what about Brexit?

The pandemic could almost make us forget that other disrupting factor troubling Europe's M&A landscape: Brexit!

In the pre-pandemic era, Brexit and the associated uncertainties made many companies rethink or adapt their strategy.

The consequences of Brexit such as potential business interruptions, problems with supply and distribution chains, impact on commercial contracts for the target group as well as for the integration of the businesses were considered to be big challenges for the M&A market. On top, more lengthy processes both for due diligence and contract negotiation and a more complex merger control (competition regulations) process were expected and of course a huge impact on valuations and purchase price.

The truth is however that Brexit had far less impact on deals than initially expected. Our Belgian respondents confirmed that Brexit did not play a huge role in the M&A process over the past months.

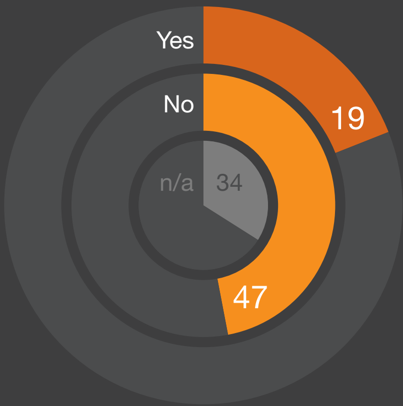
Only 19% of the interviewees focused on potential issues arising from Brexit in the due diligence phase.

47% mentioned that they did not focus on Brexit at all.

34% considered it to be not applicable.

During the acquisition process did you focus on potential issues arising from Brexit in the due diligence phase?

(all figures in %)



About one-fifth of the people who focused on potential Brexit issues indicated that the pandemic has delayed the Brexit preparations, and 38% indicated that although they were impacted by Brexit, the pandemic had no impact on the post-Brexit deal preparation.

So less impact than anticipated on the deals side; however the impact of Brexit on integration and reorganisation processes may not be underestimated. European regulations allow for cross-border mergers, and for these to be carried out in a tax-neutral way. Furthermore, the regulations allow for dividends and interest to be paid without tax. Post-Brexit, these regulations no longer apply to the UK, a situation which may lead to significant tax leakages.

Value creation beyond the deal – the end of the traditional 100-day plan?

4

Strategy

In the global report "Creating value beyond the deal[2]", PwC pointed out that amid the macro-shifts in the deals environment, creating value in deals has never been more important. To create effective value, it is crucial for organisations to approach deals as part of a clear strategic vision and with a long-term objective. Although the report was issued before the pandemic, the message turns out to be key in the (post)-covid era.

Increased disruption, industry convergence, technological change, changing customer behaviour and the need to shift to new business models to stay competitive means that value creation in deals has never been more important, coming out of the pandemic.

To reinvent the future, we believe these strategic value creation perspectives are key to successful M&A:

- *drawing an M&A roadmap which builds on "resilient growth"*
- *refocusing on capabilities*
- *thinking about alliances and partnerships*
- *capturing new value drivers, including societal value … especially ESG*

2 https://www.pwc.com/gx/en/services/deals/deals-report.html

Timing

Along with the strategic lens, timing is also of essence in the value creation process. Buyers should focus on value creation from the very start of the deal process, building on an integration plan that is ready to be executed as soon as a deal has been signed and preferably even earlier, so that any assumptions made about value creating opportunities can be tested during the due diligence phase. This means that integration can start right away.

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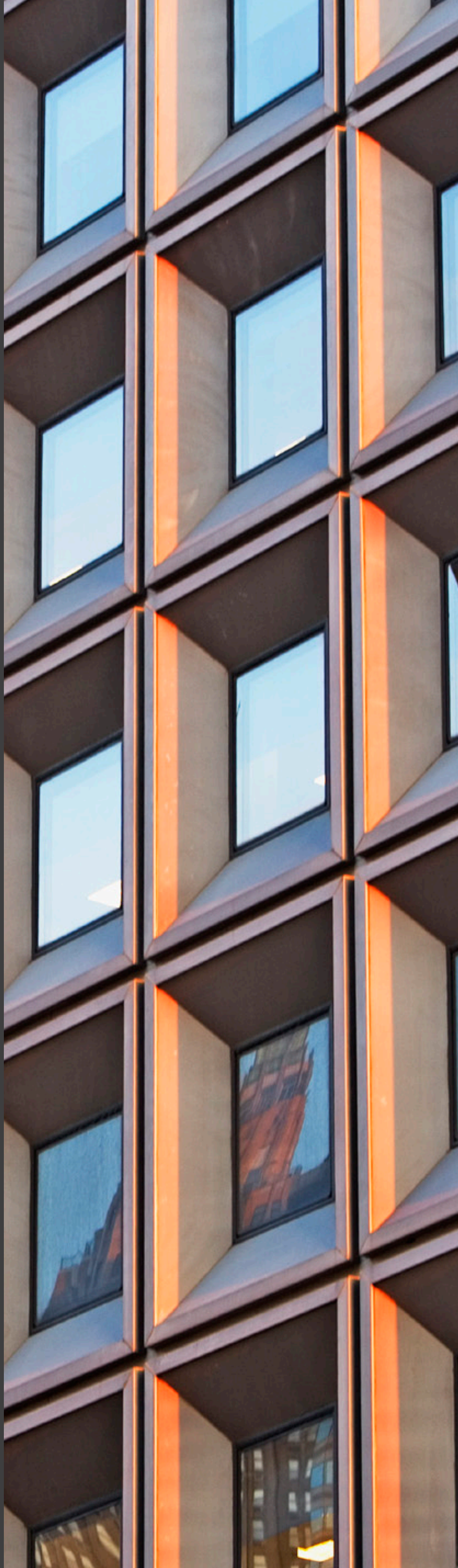
Traditional 100-day planning is no longer enough.



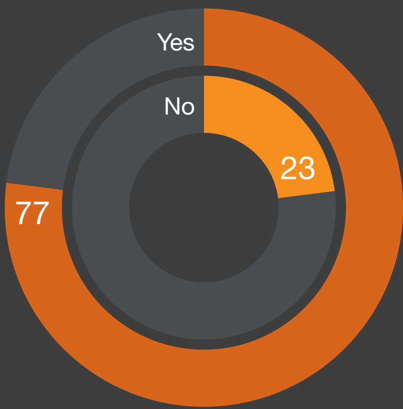
More than finance

In many cases, the value of a deal is measured on the basis of financial and operational elements. But a deal including the integration phase may also serve as a cradle to simplify the legal structure of the group and it may be an excellent opportunity to revisit the group's tax model and/or strategy.

In our survey, 77% of the respondents (both corporates and financial buyers) confirm they would consider simplifying their group structure and changing the business model when integrating an acquired business.

Do you consider simplifying your group structure and changing your business model when integrating an acquired business?

(all figures in %)



These elements should be addressed during the deal process so that any potential pitfalls are uncovered, or preferably already resolved, before completion of the deal.

People at the heart

And let's not forget the importance of the people element in bringing in the value! Creating value in a deal means bringing together the best of both worlds, of both cultures. This is a working plan to be executed from the screening phase, continuing into the due diligence phase and should finally be made concrete in the integration phase. Identifying key talents and developing a plan to retain and support them in the post deal phase is one of the most important value drivers in contemporary deals.

We refer to the People section for more results on this point.

Due diligence remains key and should be extended

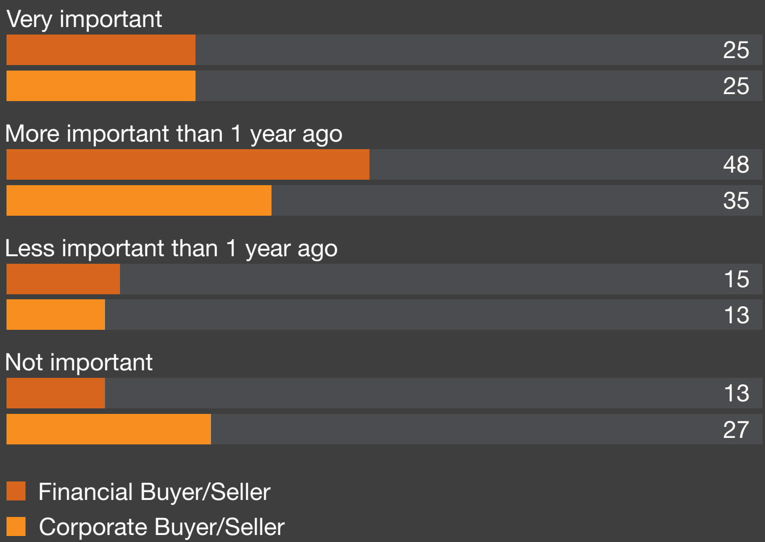
Qualitative due diligence is very important in terms of testing all the deal and integration thesis' elements. The more deals evolve and acquire new capabilities, the more it will be important to expand due diligence. Due diligence is also becoming more sophisticated and thus requires external experts to assess a target's value, its assets and risks, as well as to test targeted synergies and value creation opportunities.

More attention needed for IT and cyber

One of the areas that may need more attention is cyber and technology. In our survey last year, some respondents confirmed that IT and cyber due diligence is not really on their radar, but at the same time they admit that it should be. Nowadays having an overview of the system security level, the cost of integrating systems and upgrading IT to an acceptable security level is crucial both in the transaction phase and in the post-deal integration phase. We refer to the cyber security section for more information on this point.

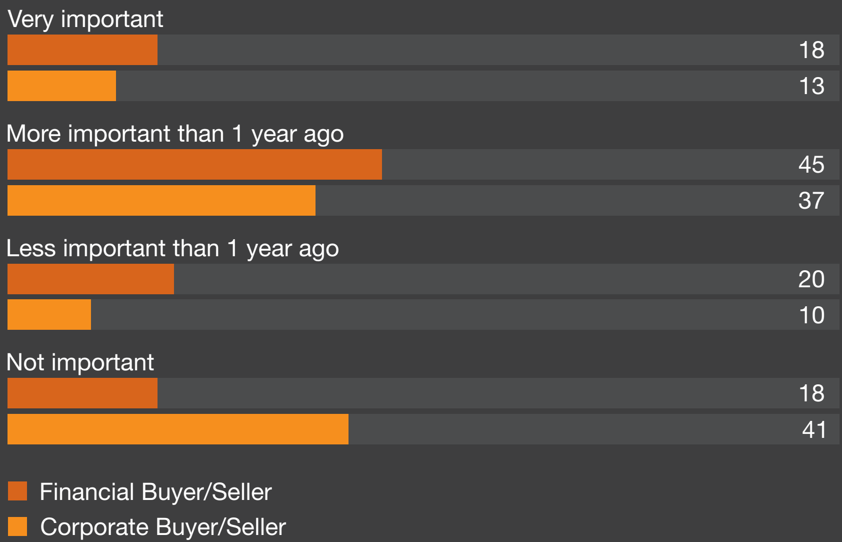
How important is IT due diligence during the transaction process?

(all figures in %)



How important is cyber due diligence during the transaction process?

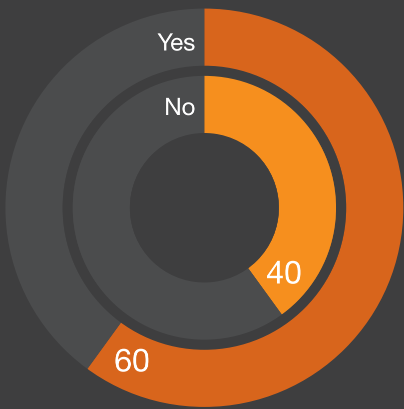
(all figures in %)



Today 40% of all respondents confirmed that IT and cyber due diligence is more important than one year ago, but at the same time 41% of the corporate respondents believe that cyber due diligence is not important. This is especially worrying given the concept of the value creation strategy, and knowing that 60% of our Belgian respondents confirmed that they consider cyber security when integrating businesses.

Do you consider cyber security risks when integrating businesses?

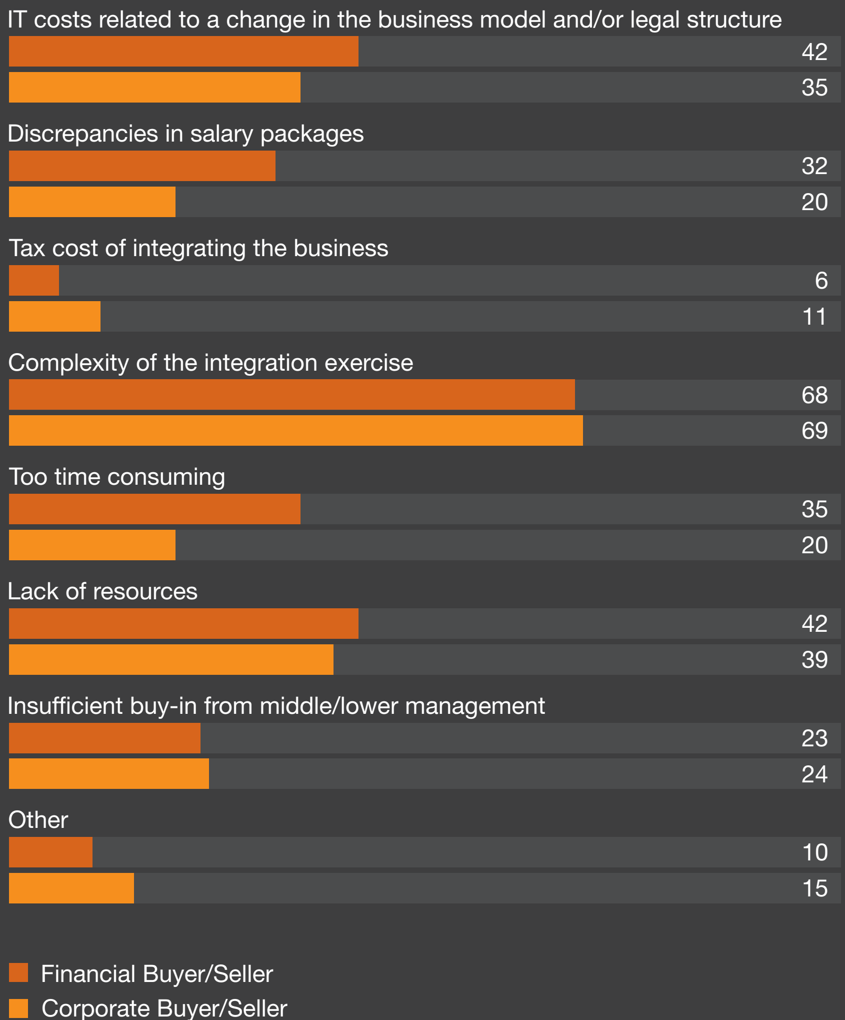
(all figures in %)



When asked which factors typically make integrating a change in business model more complicated, the overall complexity is rated number one, but IT costs are rated high together with the lack of resources. These results are similar for both financial buyers and corporates but it is clear from the survey that IT costs are rated more highly by financial buyers compared to corporates. This may be explained by the fact that corporates often rely on a roll out of their existing systems.

Which factors often complicate
an integration of a change in business model?

(all figures in %)

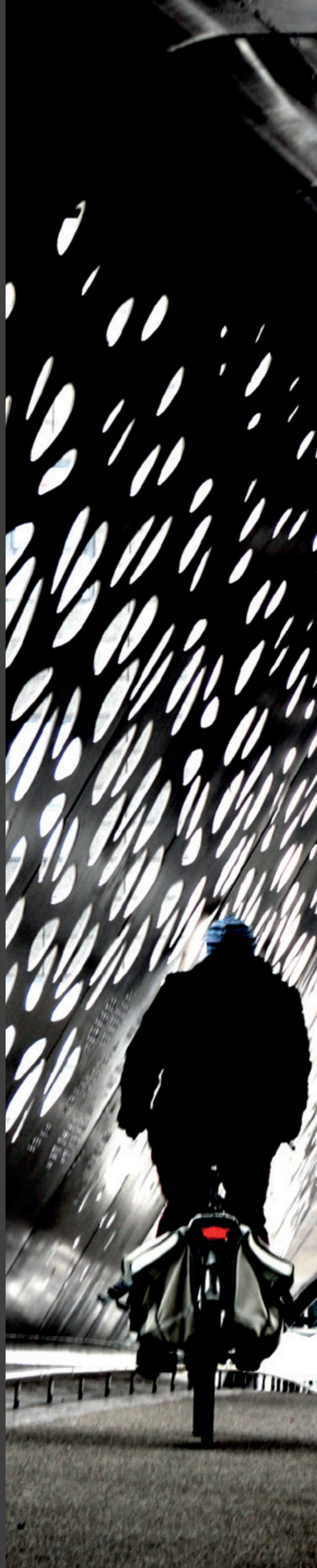


Value creation challenges in scope deals

The post-covid deals market brings a focus to scope deals. These deals involve buying capabilities that are missing from a business and help to make a business future proof. Scope deals often focus on technology, people and the capabilities needed to realise a company's objectives. In most cases, multiples paid for these deals are high and hence creating value beyond the deal becomes even more challenging.

Although it may be less problematic to articulate why or how these deals would bring value to the buyer, the sourcing for these deals may be more complex than the more traditional industry type of deals. Companies may need a broader network and more direct contacts with young tech enterprises (e.g. through corporate venture programs) to foster their needs.

Simultaneously, there is a far higher risk of destroying value in the integration phase with respect to these deals. Over-integration can kill the innovative and entrepreneurial culture of the target. An integration plan should therefore consider these points and consider calling on specific expertise to tackle any cultural challenges. Although initially you may not want to integrate these tech ventures (known for their 'light structure' and corporate structure flexibility), you still want to build solid governance to ensure that there is sufficient flexibility to integrate them in the future, while guiding them to create value for the overall corporate group.



5 People aspects in a deal context: how to create value in the deal?

In our M&A survey 2020, differences in corporate cultures were cited as the main reason for M&A failure. For financial buyers, management attitude was identified as the biggest driver in value-destruction during the post-deal phase. This did not come as a surprise. In recent years, research showed that cultural challenges or cultural mismatches are consistently listed as top reasons for failed M&A deals.

At the same time, we noticed in our M&A survey 2020 that not that much attention was given to the people or staff aspects in the deal phase. Everyone invested time and effort in topics such as a social security tax due diligence and in an employment law due diligence; and also pensions received quite some attention in the due diligence phase. However, on cultural differences and the quality of management, far less time and attention was spent.

So it was time to dig deeper into this topic during our 2021 M&A survey and to see if the pandemic had any impact on these aspects.

“

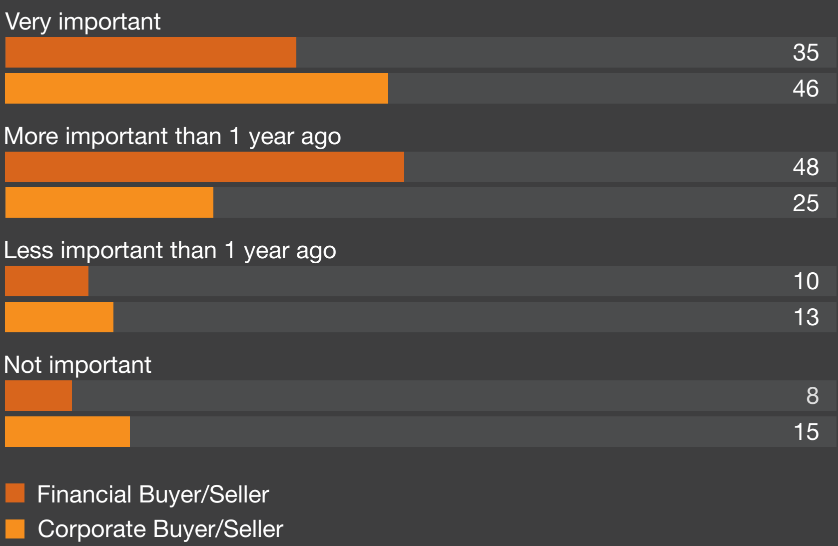
The so-called soft issues remain hard to do.

Most of the respondents find that the HR due diligence during the transaction process is important.

One out of three respondents believes it is more important than last year; and among the financial buyers/sellers, almost one in two believes it is more important than last year.

How important is HR due diligence during the transaction process?

(all figures in %)



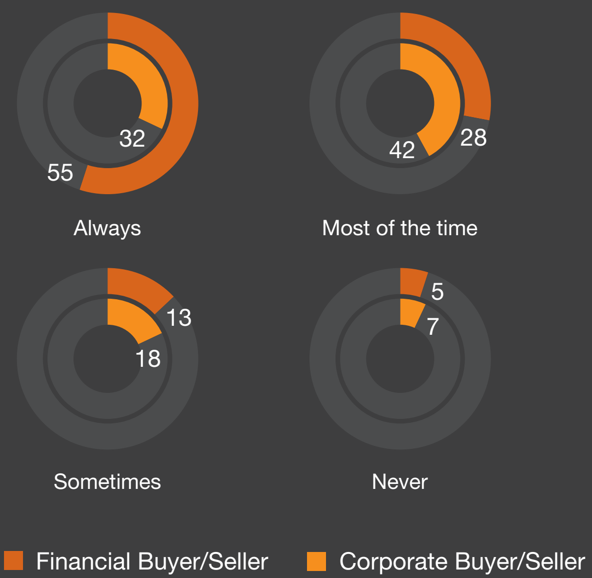
So, do respondents pay sufficient attention to these critical factors?

Only 32% of corporate buyers/sellers always make a thorough analysis of the organisational cultures of both companies. However, well over half (55%) of all financial buyers/sellers make a thorough analysis of the cultures of both companies. If we add the respondents that selected ‘most of the time’, we see that a majority (almost 80%) do a thorough analysis of the organisational cultures. This indicates that the awareness of the importance of culture has increased significantly over the last couple of years and that buyers of all sorts prepare themselves better. Many of them have conversations with the management of the targeted organisation to get a feel for the culture of the organisation and what values are important to the current management and the organisation. However, these conversations might be somewhat biased, whereas third party assessment might provide a more objective view on the culture, the cultural fit as well as the inherent values of the targeted organisation.

It is to a certain extent a paradox that only 20% of participants have a plan in place to overcome cultural differences and develop a new culture for the new combined company. In addition another 34% has a plan 'most of the time'. This means that just over half of respondents have a plan in place for most of the transactions. There is no significant difference between corporate or financial respondents.

I make a thorough analysis
of the organisational cultures of both companies

(all figures in %)



Will this be enough to improve the overall success rate of future transactions? Two questions can be raised. The first one is about the quality of these plans. Are they solid and detailed enough? The second question is about the execution of these plans. Was there attention to detail and rigour in the execution of the plan? Organisations might be tempted to rush over this process phase in their eagerness to move forward with the integration and realise the projected synergies. Failing to invest enough time in these critical steps will only result in bigger challenges further down the road.

One of the other important factors for a successful transaction is the strength of the leadership team. Is the leadership capable of concluding the transactions successfully? Are the right leaders for the future company available?

Almost **60%** of both financial and corporate buyers/sellers always assess the leadership of both companies and another **24%** does it most of the time.

So, a large majority of respondents pays significant attention to the quality of the leadership of the companies.

In practice, we see that this assessment is very often carried out by the people who are directly involved in the deal on the buy side and that the assessment is based purely on the conversations they have had with the target management. The question is, is this the best approach to achieve a qualitative and objective assessment, or is a third-party assessor better placed to come to an objective assessment regarding the quality of the leadership. A third-party assessor will use interviews as well as dedicated assessment tools and benchmarks, which can provide a better and more objective view.

So, our conclusion is in line with last year's recommendation. Put culture at the heart of the deal. Recognise key skills, ensure clear communication and incentivise core talent to stay engaged. Our analysis confirms the importance of seasoned, experienced people to generate maximum value from a deal. You need the right leadership team to capture the value of the transaction. Buying a brand but losing the people can destroy the value of a deal. A solid plan to identify and retain the key people is essential for the success of the transaction and capturing the value.

Why ESG matters in deals

In the deals environment, ESG, short for Environmental, Social and Governance, is the new kid on the block. ESG encompasses a broad area of topics ranging from carbon footprint, and environmental pollution to human rights issues in the supply chain, bribery and corruption and business ethics. Looking at how corporates (as well as financial dealmakers) consider ESG provides an overview of the level of ESG integration in deals.

From the buyer's perspective, the main objective of assessing ESG in a deal is to identify if there are material risks. Evaluation also considers whether all or part of the target company's revenues derive from controversial industries and activities (e.g. armaments, tobacco, gambling).

PwC's approach towards ESG:
seven main ESG themes encompassing a set of ESG sub-issues

In the case of financial actors, those initial screening criteria are usually written out in their ESG or Responsible Investment (RI) policy or framework. For corporate buyers, such criteria are often less formalised and more implied through the company's current sector of activities or values and culture.

For corporate or financial investors, it is more about demonstrating that the company has adequately identified its main ESG risks, deployed an approach to manage the issues, stated clear policies, assigned clear responsibilities for the topic (e.g. ESG-responsible at the executive committee level), and set out clear objectives and targets to monitor progress. In the case of ESG opportunities, actors need to outline how their products and or services will contribute to addressing a societal need or challenge (climate change, single-use packaging, social inequalities, etc.).

General Themes	Specific ESG Themes	
Social Relations	• Social Licence to Operate • Local economic and social impact	• Thought leadership • Philanthropy
Value Chain	• Supply chain management • Human rights • Scarcity of sourced materials • Environmental & social impact of supply chain • Selling practices & product labelling	• Access & affordability • Customer Health & Safety • Innovation & product CSR alignment • Content and Information management
Environment	• GHG emissions & climate transition • Exposure to physical climate change risks • Operational eco-efficiency • Environmental pollution	• Environmental compliance • Circular economy • Biodiversity & land use
Human Resources	• Occupational Health & Safety • Diversity, inclusion & equal treatment • Talent attraction, retention & development	• Employee engagement • Work-life balance • Labour relations
Business Ethics	• Prevention of bribery & corruption • Competition • Relations with public authorities	• Personal data protection • Behavioural ethics
Vision & Governance	• Corporate governance • Values & corporate culture • Business model resilience	• Risk management • Compliance

68%

of respondents periodically perform ESG due diligence.

Performing ESG Due Diligence (DD) is a common practice in Belgium, with more than two-thirds of respondents carrying out at least one review. Yet, only 27% systematically conduct an ESG DD during a transaction. In addition, there is a significant behavioural gap between corporate and financial dealmakers. Indeed, while more than 41% of financial dealmakers systematically perform ESG Due Diligence, only 19% of corporate report doing so.

The survey also indicates that there is no clear common approach or methodology adopted in transactions. While many rely on their own ESG standards to perform an ESG DD, others tend to use standard ESG frameworks. The most widely known and used are SASB and GRI to identify material ESG issues, but there are also specific tools and guidance such as Invest Europe's ESG DDQ, IFC's toolkit or the CDC's comprehensive toolkit.

In all cases, the assessment and review of ESG risks and opportunities can be summarised in the following three steps:

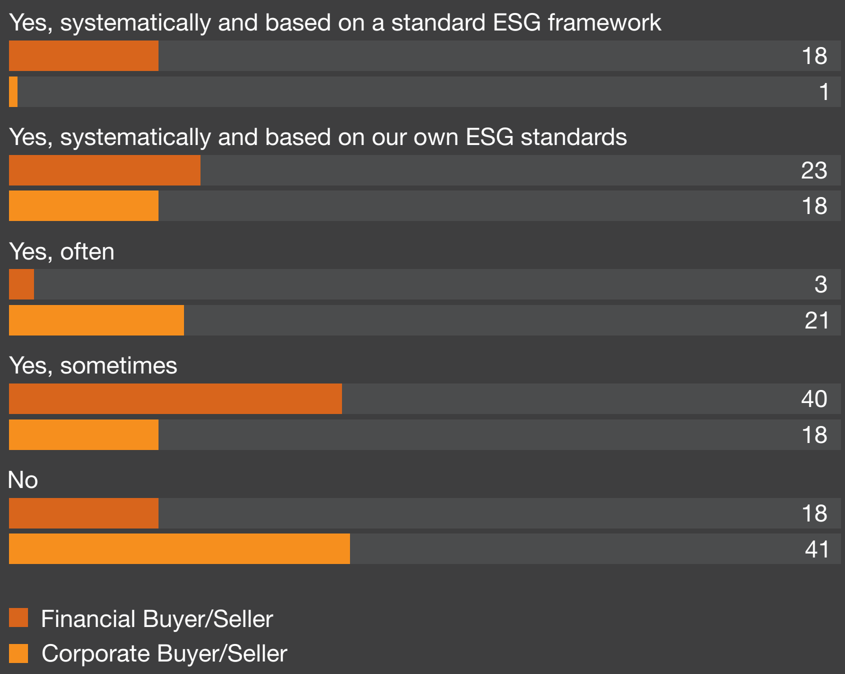
1 Identifying the material ESG issues for the target company, based on sector, activities, size, and geographic footprint.

2 Reviewing the ESG data: the information-gathering process will be highly dependent on the time constraint and the level of access (e.g. in-person or remote interviews, ESG questionnaire, information available in the data room, etc.).

3 Integrating the key findings in the information memorandum or investment note.

Do you perform ESG due diligence?

(all figures in %)



In our private equity responsible investment survey released May 2021 we noted that worldwide 72% of private equity firms systematically screen target companies for ESG risks and opportunities at the pre-acquisition stage; this practice is taken up by just 35% of Belgian private equity firms and (as already noted) only 19% of corporates in Belgium. The gap between corporates (19%), private equity firms (35%) and financial dealmakers (41%) is clearly present in Belgium but especially big in the case of private equity firms globally (72%).

Today stakeholders expect companies to understand the impact they have on society, and to make a contribution to it, on the basis of a clear roadmap and action plan. ESG Due Diligence is the first step in understanding the impact a target has on society. We do expect pre-investment screening and ESG Due Diligence to rise along with a willingness to walk away from a deal on ESG grounds. Moreover, ESG Due Diligence forms the basis for identifying key ESG domains which have an impact on the business model. These key ESG domains can potentially destroy or create value, and in turn this forms the basis of a clear ESG roadmap and action plan post-deal.

49%

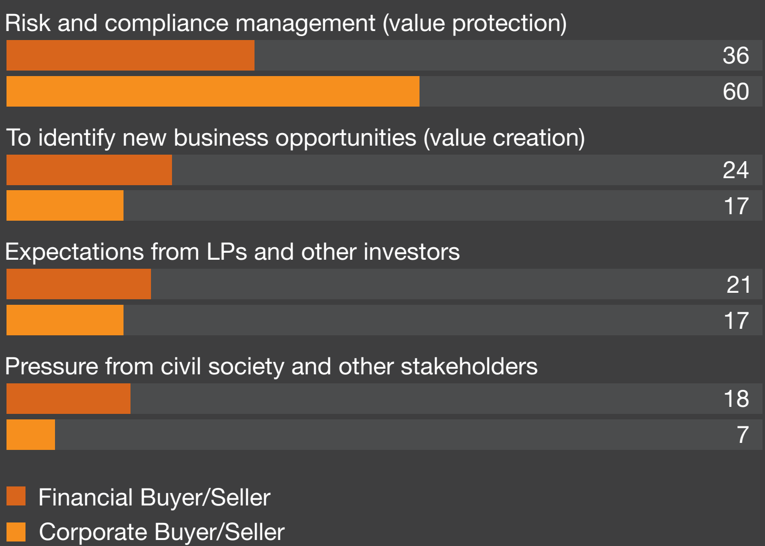
of respondents indicate that risk management is the main driver for integrating ESG considerations in the Due Diligence process.

PwC’s latest M&A survey shows that the motivations for doing an ESG Due Diligence vary greatly among respondents. The majority of corporate buyers and sellers do so to manage potential risk and protect value. For financial actors, integrating ESG is also seen as an opportunity to identify value creation levers. For both categories of respondents, expectations from limited partners and other investors are also an important driver.

The drivers for integrating ESG will greatly define the approach that will be adopted to identify, analyse and assess a company’s management of ESG issues. This ranges from a targeted approach ensuring there is no major ESG mismanagement, to broader ESG reviews (including benchmarking performance and management practices to a panel of peers).

What is your main reason for integrating ESG in due diligence processes?

(all figures in %)



In our private equity responsible investment survey we noted that value creation is the main driver for integrating ESG considerations in the due diligence process, while this survey which focuses also on corporate M&A has value protection as clear output. Belgian private equity firms are set to reinforce ESG / responsible investment approaches. If we look at the results of both surveys one can only conclude however that the Belgian market is less mature than the global market, certainly with respect to corporate buyers where the focus is still more on value protection and less on value creation.

Globally we're seeing that in the boardroom, the focus on ESG is shifting from compliance to value creation. Companies are clearly starting to acknowledge that major ESG risks at a target company can be a reason to walk away from the acquisition, or can lead to a significant mark-down of the valuation.

92%

of respondents integrate ESG actions
or recommendations as part of their 100-day action plan.

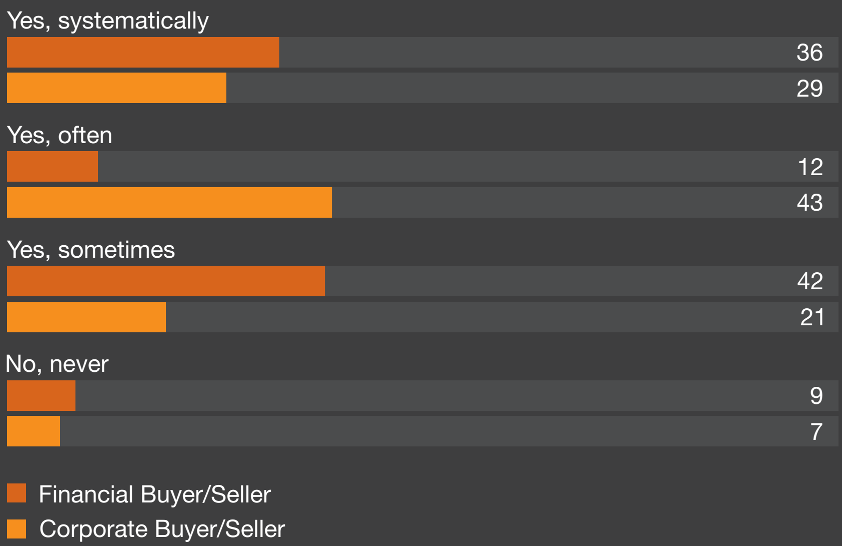
Performing an ESG DD is the first step to being able to monitor ESG performance, it sets the baseline for monitoring and improving the management of ESG risks and capturing ESG opportunities. The next step is leveraging the review work performed to identify, where relevant, ESG actions to be taken as part of the 100-day action plan. These immediate actions often fall within two categories:

- Actions to comply with regulatory requirements.
- Easily implemented actions, with immediate visible benefit on key ESG issues.

As methodologies become more sophisticated, ESG issues are increasingly taken up in action plans post-deal. This helps to protect and create value and demonstrates the importance of embedding ESG into the company and its strategy, such that it becomes purpose-driven and enhances value at exit.

Is ESG an integral part of your action plan (100-day action plan) and/or recommendations?

(all figures in %)



Cyber security risk

7

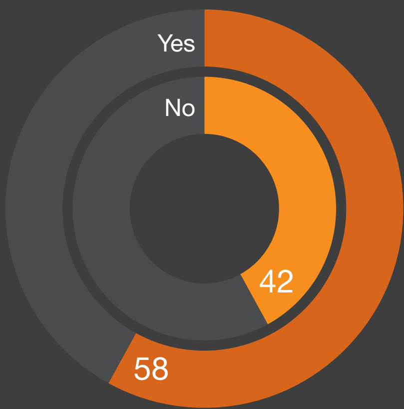
This year, PwC's Global CEO Survey showed that, in Belgium, 62% of CEO's expressed extreme concern regarding cyber threats. This is up from 29% the year before. Cyber security is now their top concern.

This heightened concern is understandable. The stakes are so much higher than a year ago. Businesses have become more aware of their reliance on technology for survival. The number and scale of cyber security attacks has continued to rise, thus the increased threat has become more apparent to CEOs.

And yet, only 58% of both financial and corporate buyers/sellers indicate that they consider cyber risk when integrating businesses IT and cyber due diligence remain low on the list of factors considered important in the transaction process. In fact, only tax modelling scores less, all other factors are deemed more important.

Do you consider cyber security risks when integrating businesses?

(all figures in %)



However, whereas tax modelling is probably considered as something that will be dealt with later in the process, we believe that the survey results show that cyber risk is still considered closely linked to IT – and that the potential impact of IT and cyber risk is underestimated.

Cyber security is indeed strongly linked with IT. It is also a business risk. This risk can take many forms: from network intrusions and ransomware attacks, to business email compromise and social engineering, to business disruption.

This risk can by no means be addressed by IT alone. Other factors include the convergence of IT and operational technology, and the increasing compliance requirements: the second European Network and Information Security (NIS) Directive is on its way and is expected to entail a significant scope increase. Many organisations still have a long way to go with regard to GDPR compliance. This is why the more mature players have been making cyber security a priority in their deals and at board level.

In practice, we have seen that some parties rely on the general representations and warranties negotiated and included in the share purchase agreement.

However, this can be unpleasant especially if you are forced to renegotiate terms after a cyber incident, or are confronted with fines regarding a recently acquired entity based on previously conducted unsafe practices, which were not (fully) covered by the contract's representations and warranties. It would be preferable to carry out a quick scan of cyber maturity aspects (business, organisational and technical) as part of the due diligence process as this can reveal a lot. A scan like this makes it easier to cover cyber security risk properly in an agreement or to look for insurance to cover the risk.

We know from experience that cyber security issues are prevalent and can put a deal at risk. An undisclosed data breach is considered an immediate deal breaker by many. Regrets are commonplace where deals have been made without considering cyber security issues.

A cyber security due diligence assessment helps to uncover any security risks and liabilities, as well as the costs for remediation. These inputs are crucial to supporting any negotiation and will help you to evaluate whether an acquisition will deliver on your deal thesis. By putting an ongoing focus on cyber security throughout the deal lifecycle you will be protecting your investment, optimising security spend and focusing on value creation.

From a Seller's perspective, a proactive examination of the cyber security challenges during the pre-deal carve-out or separation, can also add a great deal of value. By building and preparing (or executing) a robust and cost-effective plan, you'll be supporting your wider strategic objectives. In fact, a clear, consistent message on cyber security, that stands up to buyer scrutiny, will help you achieve maximum value and avoid potential delays in the sale process.

8

Did the pandemic influence buyers' financing strategy?

Anticipating a credit crunch…

When we first issued the results of our previous M&A survey at the start of 2020, interest rates were at a historic low, covenant-light loans were becoming increasingly common and we experienced the entry of shadow lenders such as credit funds and private equity mezzanine funds.

A few weeks later, the ECB introduced several monetary policy measures, including extended Asset Purchasing Programmes, (Pandemic Emergency) Longer-Term Refinancing Operations and Pandemic Emergency Purchase Programmes to cope with the impact of the threatening pandemic. The ECB was confronted with the difficult choice between supporting the debt of the countries in trouble or exposing the euro area to a crisis that might lead to its implosion[3].

The ECB further relaxed bank capital requirements and the rules on non-performing loans in order to increase the commercial banks' lending capacity and to expand the reach of its measures[4].

To outpace a possible credit crunch, about half of the businesses that took part in our 2021 M&A survey drew upon existing credit facilities. Apparently, the 2008 financial crisis was still too fresh in the minds of CFOs and treasurers to take a passive stance. Almost 30% of our respondents increased their debt ratio to anticipate future funding (21%) or because they were in imminent need for funding (7%). Another 10% of our respondents reached out to their finance providers to discuss a forthcoming breach of bank covenants.

Other reasons for reaching out were mainly in light of ongoing the relationship and providing transparency.

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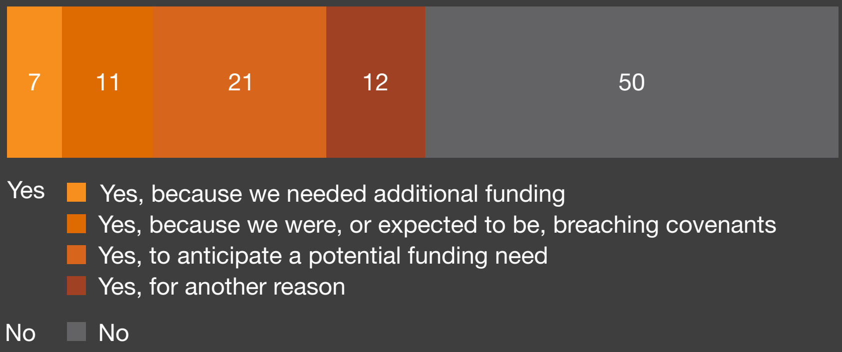
[3] Bonatti, L., Fracasso, A. and Tamborini, R., COVID-19 and the Future of Quantitative Easing in the Euro Area: Three Scenarios with a Trilemma, Study for the Committee on Economic and Monetary Affairs, Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, Luxembourg, 2020, p. 20.

[4] Bonatti, L., Fracasso, A. and Tamborini, R., COVID-19 and the Future of Quantitative Easing in the Euro Area: Three Scenarios with a Trilemma, Study for the Committee on Economic and Monetary Affairs, Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, Luxembourg, 2020, p. 17.

In the past year, did you engage proactively with your lenders to counter the adverse effects of the COVID-19 crisis?

(all figures in %)

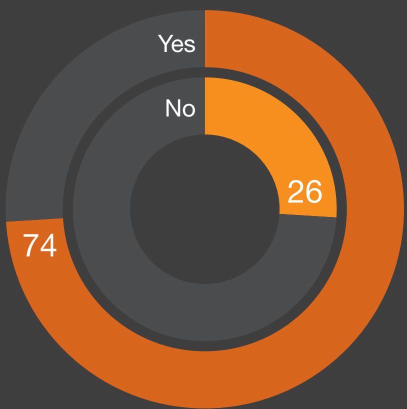


...but no more

For most companies, this surge in funding seemed to be more symptomatic of a looming anxiety on the financial markets than anything else. Indeed, another finding of our 2021 M&A Survey is that the pandemic did not significantly change the perspective of our respondent group on the refinancing of existing debt. 74% of all respondents indicate not to have performed a refinancing of their existing debt, whereas 68% indicated so in our previous survey.

Did you perform a refinancing of your existing debt in the past year?

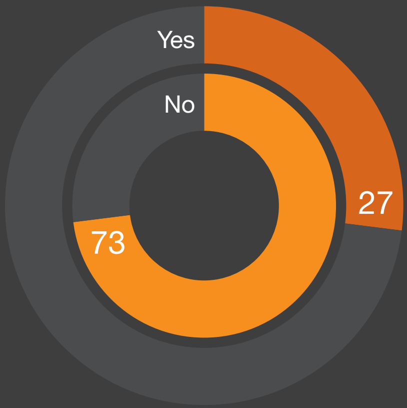
(all figures in %)



In terms of future refinancing, we may even expect fewer refinancing activities in the year to come. Only 27% announced to ponder refinancing existing debt in the near future, which represents a double-digit decline compared to last time. As we have been living at historic low-interest levels for several years now, most businesses probably believe their current interest rates to be at par.

Do you expect to perform a refinancing of your existing debt in the coming year?

(all figures in %)

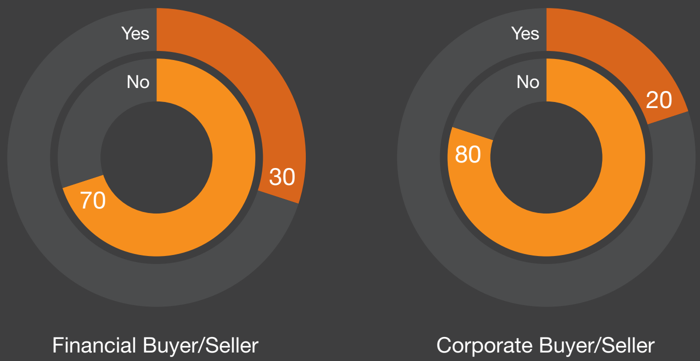


Traditional financing will survive the crisis

More than 75% of our respondents indicate that they will continue to call upon their traditional finance providers. Less than one out of four expects that the pandemic and the resulting changes in traditional financing will direct them to alternative financing solutions, with a similar distribution between strategic buyers and financial buyers. This is without any doubt induced by the easy monetary policy of central banks and the resulting low interest rates in the financial system today.

Do you expect the current pandemic and the resulting changes in traditional financing to push you – sooner or later – into looking for alternative financing?

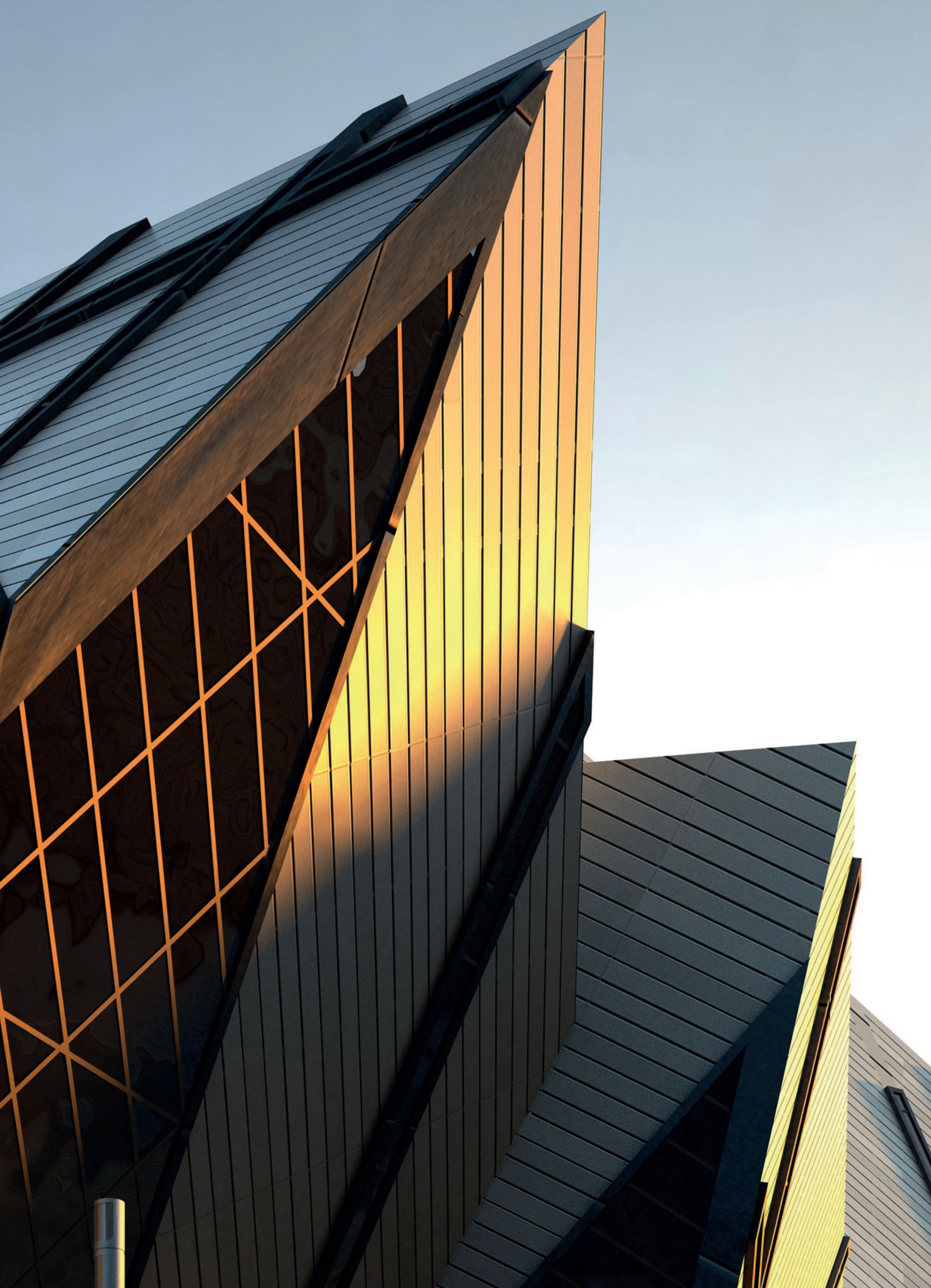
(all figures in %)



In June 2021, the Federal Reserve brought forward its window for raising interest rates from current rock-bottom levels as early as 2023. It also abruptly stepped up its current year inflation projections to 3.4%. Closer to home, the European Central Bank has set a new 2% inflation target and said it could tolerate temporary moves beyond that point, in a shift that gives policymakers flexibility to keep interest rates at historic lows for longer[5].

Whilst both central banks acknowledge inflation levels to be on the rise, it is still undecided at this stage to what extent this will effectively impact interest rates. However, if interest rates go higher, it will not go unnoticed for a lot of companies, especially those whose business has already been suffering for months. And so the pandemic may yet write another chapter in our corporate history books.

[5] https://www.ft.com/content/ab3b8c36-2199-4230-b9b3-b9e12c09d44b



Navigating the complexities of distressed M&A

9

The maze of in-court and out-of-court transactions

Acquiring a business that is on the edge of, or deep in, financial distress is rightfully perceived as something different from the everyday M&A transaction. It is vital to structurally change the business to gain control and realise the much-needed turnaround, and therefore requires an integrated approach. This is an approach dealing with the complex interplay between liquidity, operations, financial performance and regulatory issues.

Other leading issues are the legal challenges of insolvency / bankruptcy proceedings and out-of-court transactions. There is an important distinction between in-court transactions (i.e. insolvency and bankruptcy proceedings) and out-of-court transactions. For in-court transactions, the negotiations must be conducted with the mandatory of justice / bankruptcy trustee and the final offer is submitted to the court for approval. For out-of-court transactions, the sellers are still in the driving seat of the negotiations.

In terms of process, liquidity, or the lack thereof, generally drives the process timeline (which is often shortened to preserve value). This leaves little room for back-and-forth negotiations. In addition, consideration will need to be given to transaction-specific risks such as transaction structure (share deal versus asset deal), bad assets identification and ring-fencing, possible creditor and competitor claims, successor liabilities, third party consent, the lack of warranty cover, subsequent bankruptcy filing by the remaining company (if applicable), and so on.

Reshaping a troubled target also necessitates specific managerial skills. It is not just about business-as-usual and process optimisation to gain a few notches in financial performance. It is about fundamental change management, defining clear strategies and measurable KPIs, implementing rigorous cash forecasting and preparing sensitivity analyses.

Post-acquisition, a distressed target is likely to require hypercare by the buyer's management. And yet, the risk of having to inject additional funds is much higher than in a standard acquisition process. If all this doesn't sound rewarding, why would one even consider acquiring a distressed target?

More appealing to strategic buyers

Looking at our survey results, on average 60% of our respondents consider acquiring a distressed target despite the complexities.

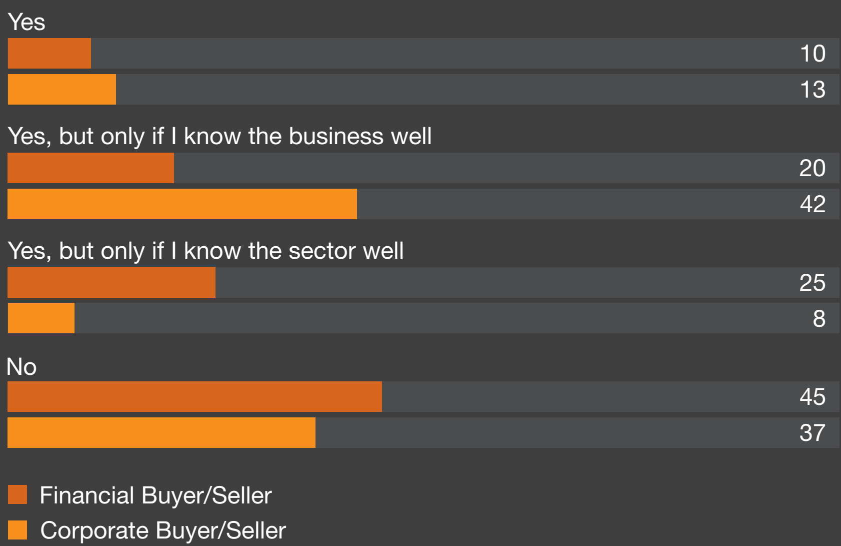
With

63%

in favour of such transactions, strategic buyers demonstrate a higher (risk) appetite for structurally underperforming assets than financial buyers (55%).

Would you consider acquiring distressed targets in the next year?

(all figures in %)

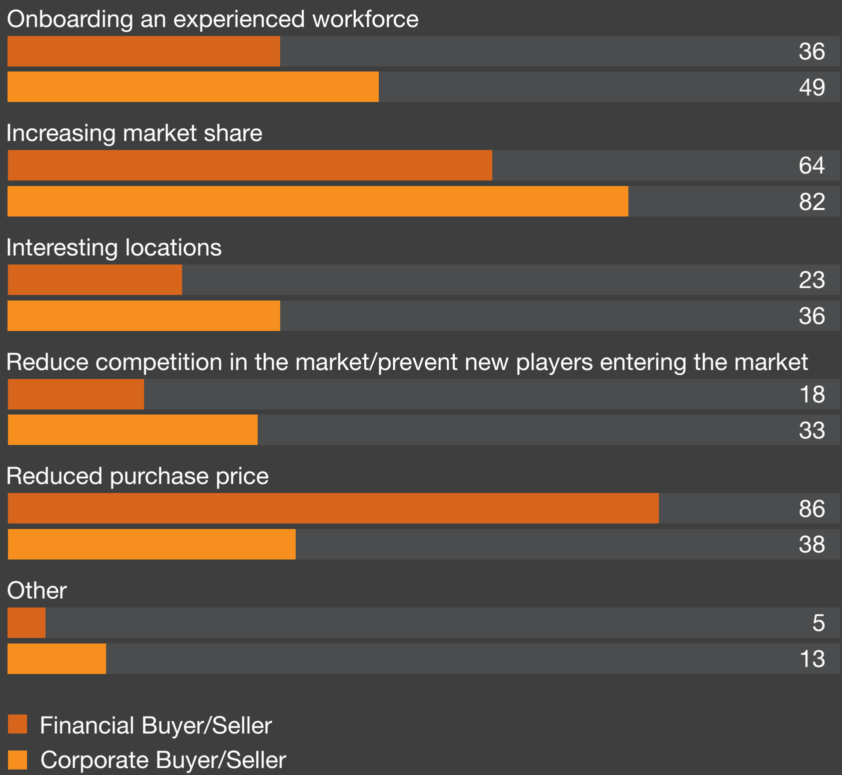


It also shows from our survey results that the investment opportunity is different for both types of buyers. Strategic buyers mainly seize opportunities to increase market share (82%) and bring on board an experienced workforce (49%). Pricing (38%), geographical expansion (36%) and eliminating competition (33%) complete the list of motivations.

Financial buyers are mostly interested in a discount on the purchase price (86%). Increasing market share comes in second place with 64%, followed by onboarding of an experienced workforce (36%), geographical opportunities (23%) and annexing competition (18%).

What is the main reason for acquiring distressed targets?

(all figures in %)



Untapped potential short-winged by a myth

Considering that only one out of three of our respondents - 38% to be precise – already acquired a distressed company in the past, there may still be untapped potential in the distressed deal space. However, almost half of our buyer population is reserved vis à vis such transactions because they are unfamiliar with the process of acquiring distressed assets, with a clear distinction between strategic buyers (38%) and financial buyers (61%).

Another recurring reason for being reluctant to acquire distressed businesses is assuming the risks and liabilities. Our survey results underpin this position with 23% of our strategic buyers considering these debts and liabilities as a major concern. However, we would like to bust the myth that in a distressed deal, a buyer is obliged to assume all debts and liabilities from the company in distress. Indeed, there are several options to circumvent this issue, but it requires a thorough understanding of the business and a clear picture of the debts and liabilities of the company in distress (which may be difficult to draw if there is a lack of information).

What are your biggest concerns in acquiring a distressed target?

(all figures in %)

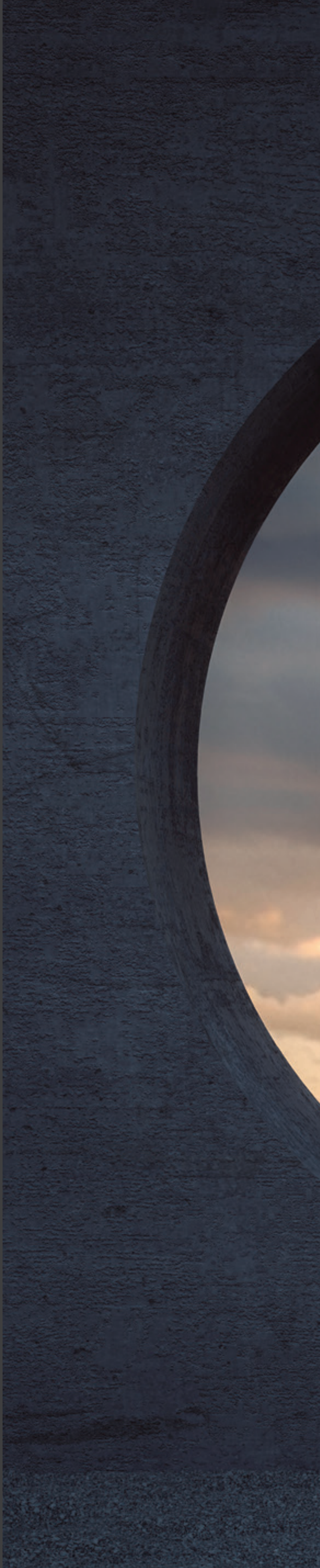
Outlook

Aside from the sectors most directly impacted by the pandemic (e.g. retail, travel, events etc.), businesses have generally proven to be resilient through this crisis, and debt and equity markets have recovered.

Key risks during the recovery phase include the withdrawal of government support, supply chain disruption, need for working capital, stretched balance sheets, inflation risk and potential interest rate impact. With the low interest environment fueling a very active transactions market, a sudden increase in interest rates would clearly lead to material acceleration in restructuring and insolvencies.

> In the absence of significant interest rate increases however, restructuring and distressed M&A opportunities will continue to be sector-driven, with certain sectors being more acutely impacted than others, and at different points in time.

As it is currently still unclear how long governmental support will last, it is difficult to predict if the phase-out will result in a steep increase in distressed M&A opportunities in the near future.



Price expectations during and post-pandemic

10

In the first half of 2020, international statistics showed a decline in M&A activity of around 50% due to heightened business uncertainty, liquidity-preserving strategies and restrictions on mobility. Our clients have seen many transactions put on hold, especially in the small-size segment which suffered from liquidity discounts despite financial support from governments.

Now most of the containment measures have been relaxed and vaccination campaigns are being rolled out globally, the M&A market is recovering strongly, taking the form of a "V-shape" and reaching unprecedented levels. Indeed, in Q1 2021, the number of M&A deals closed rose, hitting 4.181 in Europe which represents a YoY increase of 57.2%[6]. This can be explained by the return of business confidence and the accumulation of dry powder in private equity funds ($3.1 trillion in February 2021[7]) reaching unparalleled levels during the crisis and being currently used to initiate new deals. Additionally, previously postponed exit strategies were executed.

In terms of valuation multiples, the conclusions vary across the industries. Comparing data[8] from Q4 2019 to Q4 2020, we observed a significant increase in valuation multiples in the following industries: automotive (EBITDA from 5,9x to 9,9x), industrial products (EBITDA from 10,8x to 13,8x) and transportation and logistics (EBITDA from 10,9x to 16,9x). The following sectors have also seen their valuation multiple increasing during the pandemic: banks, materials, media, retail and consumer goods, software, and technology. On the other hand, a few sectors have experienced a decrease or stagnation of their EBIT(DA) multiples, namely telecommunications, utilities, and finally insurance. The revival of M&A activity could even push valuation multiples at higher levels. However, many experts believe that this rebound will be mainly driven by sectors that were unaffected by the pandemic.

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[6] Mercer, March 2021, https://files.pitchbook.com/website/files/pdf/PitchBook_Q1_2021_Global_MA_Report.pdf

[7] Mercer, March 2021, https://www.mercer.com/content/dam/mercer/attachments/global/investments/gl-2021-dry-powder-in-private-markets.pdf

[8] PwC eValuation platform

Our clients expect overall that the multiples will remain similar (for 50% of the respondents) and that the pandemic will not impact the access to financing (for 77 % of the respondents). This last view may however change in light of the increase of inflation expected to last until mid-2022. The economic recovery and deal flow may however be boosted by the relaxation of insolvency rules, and the ECB's €1.35 trillion recovery plan and quantitative easing programme.

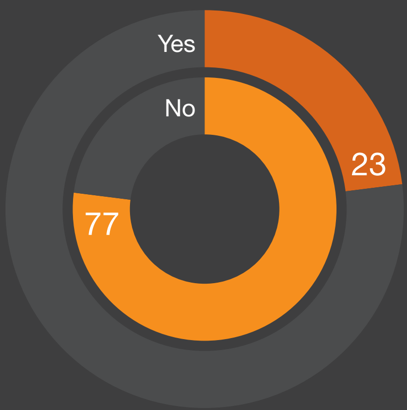
We refer to the Finance section for more results on this point.

What are your expectations
with respect to the paying of multiples in the future?

(all figures in %)

Do you expect the current pandemic and the resulting changes in traditional financing to push you – sooner or later – into looking for alternative financing?

(all figures in %)



A similar phenomenon can be seen on the stock markets, where the value of stock indexes (Russell 2000, Nasdaq, S&P500, Eurostoxx 600), after having initially plummeted in March 2020, have now recovered and even outperformed their pre-crisis level. As a matter of fact, although the earnings of companies either decreased or remained constant on average, the aggregated P/E ratios of those indexes have reached record levels.

Investors' expectations also seem to be positive. This might be partially explained by the earnings of Q1 2021, which exceeded analysts' expectations for several companies of the Eurostoxx 600[9], suggesting a faster recovery than initially planned. It is important to note that the recovery of the economic activity will, among other factors, be linked to the vaccination campaigns and may therefore differ by country and sector.

Encouraged by the (record) low level of interest rates, higher levels of debt were met during the pandemic. The result being that, globally speaking, companies are more leveraged than before the crisis. This higher leverage poses a greater risk of insolvency, according to the European Banking Authority, €318 billion of loans were subject to moratoria by the end of 2020[10]. However, this number was reduced by 50% between Q3 and Q4 2020. The non-performing loans ratio also decreased by 20 bps to 2.6%, which is a positive sign.

[9] Refinitiv, 8 June 2021, https://lipperalpha.refinitiv.com/wp-content/uploads/2021/05/TRPR_83201_397.pdf

[10] EBA, Q4 2020, https://www.eba.europa.eu/sites/default/documents/files/document_library/Risk%20Analysis%20and%20Data/Risk%20dashboard/Q4%202020/972092/EBA%20Dashboard%20-%20Q4%202020.pdf

Outlook 2021

We expect multiples to remain high in 2021, especially for the mid-sized and large transactions. This could be explained by the greater involvement of private equity, eager to perform buy-and-build strategies and driven by growth. However, despite a bright future for the M&A market, it is essential to analyse the external influences.

We have recently seen the return of inflation, notably in the US. Indeed, according to the US Bureau of Labor statistics, the consumer prices index increased at an annual rate of 5% in May 2021, driven, among other factors, by the massive investment plans launched by the US government. A similar trend can be expected in Europe. If inflation stays and continues to grow, central banks could decide to set higher interest rates. This would impact the financing costs of companies and therefore their valuation (through higher discount rates). Again, the impact will be different between sectors, for example, firms that will need to borrow or already have a lower credit rating, will undoubtedly suffer more, and their borrowing capacity could be limited. “Growth” firms, in comparison to “value” companies, will also be penalised. This difference in valuations between the two categories is already reflected by the performance gap since the beginning of the year between the Nasdaq (+10.9% YTD) and the S&P 500 (+14.2% YTD), reflecting the expectations of investors regarding inflation. Indeed, the Nasdaq is mainly composed of tech and “growth” companies, highly leveraged and with a high cash-flow duration, for which a change in the debt financing costs has a high impact on valuation. Additionally, companies that do not need to borrow money anymore and that finance themselves through fixed-rate loans could benefit from inflation, because their debt will be easier to repay if their pre-tax revenue increases proportionally to inflation.

Recent developments on management incentive plans

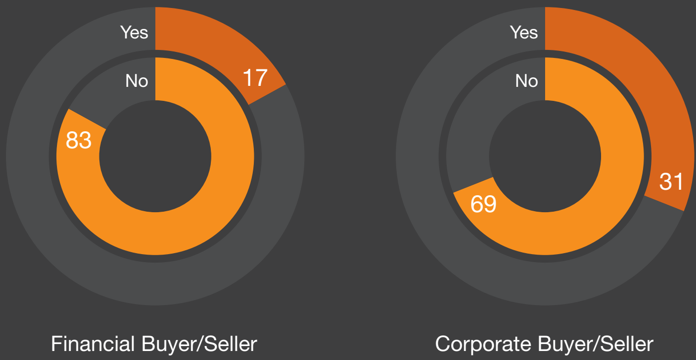
11

The pandemic had a swift and volatile impact on business operations and the financial markets. The question is whether this in turn has had an impact on incentive setting and bonus schemes for employees.

When asking whether a change was made the past year on the management incentives, 83% of the financial buyers answered 'no'. 31% of the corporates answered positively. When analysing further, the change at corporate level mainly related to a change in the bonus programme and not so much in the equity plans.

Did you change anything with regards to incentivising management in the past year?

(all figures in %)



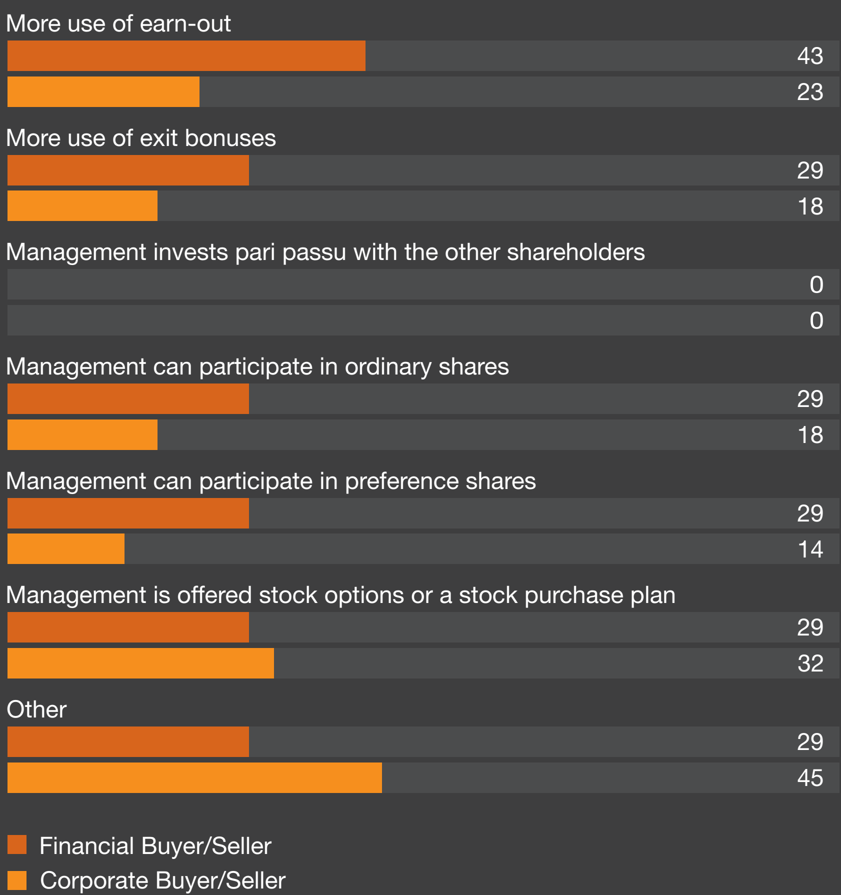
Impact on bonus programmes

When analysing the correspondents' replies with respect to bonus programmes, it became clear that bonus programmes were reduced (in certain cases even frozen) and often also socialised as part of an overall cost reduction effort launched by most corporates when the pandemic kicked in. Another trend was linking bonus programmes to team goals more than to individual goals was a strategy to boost teamwork in challenging times.

Another interesting point is that 29% of the financial buyers/respondents to the survey increasingly use exit bonuses. You see the same phenomenon at the corporate side, although more limited: 18% of them confirmed they make use of exit bonuses when selling off (part of) their business.

Changes to management incentives

(all figures in %)



Impact on the equity grants

Though at the beginning of the pandemic one might have expected a huge trend of management incentive plans (MIPs) going underwater, it seems that only a few MIPs required a reset. Instead, the most striking change on MIPs in Belgium has actually been at the level of individual taxation.

Belgium is generally identified as a country where capital gains on shares are treated as not taxable. This is actually true provided that the investment falls in the scope of the normal management of the manager's private estate. There is no explicit definition of "normal management" but this is meant to reflect that such investment should be at a risk level that is acceptable for a prudent person.

Should an investment in shares be considered to be above such an acceptable risk level, the capital gain will be taxable at 33% (+ local taxes, c. 35.31%, if a 7% local tax rate applies).

The Tax Ruling Service had confirmed on several occasions that capital gains on shares in which fund managers and executives of fund portfolio companies had invested were not taxable on the basis that such investment was common practice in the private equity industry, was not short-term driven and provided it did not show an excessive risk level.

The Tax Ruling Service has changed its position and decided to not anymore confirm the absence of taxation of "carried interests" and "ratchets" embedded in shares on the basis that these are synthetic equity leveraged instruments with a risk profile that the Tax Ruling Service consider to be incompatible with a normal management of the private estate. In short, capital gain on such synthetic equity leveraged instruments are expected to suffer CGT at 33% + local taxes, hence, an alignment with a dividend taxation at 30%.

As there is an increased focus of the Tax Authorities on MIPs, it is more than ever strongly recommended that a contemporary valuation (preferably backed by an audit report) confirms that managers have invested at fair market value if one wants to mitigate the risk of reclassification into employment income of the capital gain or dividend arising from a MIP.

None of the financial buyers surveyed apply such pari passu investment. A pari passu investment between the financial buyer and the management is however one of the crucial points in the debate with tax authorities on the taxation. It is clear that this topic needs to be analysed and implemented with sufficient care, where being able to demonstrate that the transaction took place at arm's length is one of the key items.

Impact on earn-out

One of the expected results of the pandemic-related uncertainty was an increased use of an earn-out clause.

23% of the corporates that replied confirm they make use of earn-out clauses to cover the future uncertainty. Financial buyers make use even more from earn-out clauses. Indeed,

43% of them confirmed they make use of earn-out clauses, where feasible.

It is clear that this is mainly used when there is uncertainty on future EBITDA. To the extent the buyer has flexibility here, as we are clearly in a sellers' market in many industries, with a high number of auctions, where the process is structured in a very strict way and the running time is very short.

Privately held companies teaming up with financial investors and other corporates

12

Privately held companies demonstrated high financial resilience during the pandemic...

The pandemic year, 2020, was an impactful year in a lot of sectors and for most types of organisations, including privately held companies. In Q4 of FY20 approximately 46% of the family businesses predicted a drop in FY20 sales due to the pandemic, whereas only 28% predicted growth.

Nevertheless, financial resilience during the pandemic was high: 79% of family businesses did not need to attract additional capital and only a minority had to cut dividends (34%) or family members' salaries (31%).[11]

... and have ambitious plans and priorities for future growth

Despite the solid reputation of family businesses, continuous change and innovation are important to maintain trust, future growth and legacy. The five most selected top priorities for the next two years in the PwC 2021 Family Business Survey are:

- Expanding into new markets/client segments;
- Improving digital capabilities;
- Introducing new products/services;
- Increasing use of new technologies;
- Rethinking/changing/adapting the business model.

[11] PwC Family Business Survey (PwC – 2021)

Creating value and protecting legacy by teaming up with private equity, a family office or another financial investor

For many years, family businesses were rather reluctant to engage with private equity or other external investors. Over the last decade awareness has increased of the added value a financial investor can bring to a family business (and vice versa). Whereas ten years ago most of the private owners could not imagine that a financial investor would participate in their family business, currently the clear majority can imagine a potential cooperation at a certain moment in time.[12]

Indeed, over the years, the role of financial investors has evolved. It became clear to the market that the role of financial investors nowadays goes far beyond providing financing alternatives. A successful acquisition/investment starts at closing: most financial investors are prepared to act as an active shareholder and bring know-how, their network, expertise and other advantages to the board table. By means of an active value creation role, they contribute to the priorities of the business (such as digitalisation, expanding into new markets organically or via ‘buy-and-build’ acquisitions etc.) and want to distinguish themselves from other (more passive) investors.

Another commonly heard reason in family-owned groups – besides attracting financing and expertise - is the desire for a partial ownership buy-out in order to generate cash for private financing needs and to enable the family to rollover the proceeds into other assets and investments. In that way, alongside the shareholding in the family enterprise, other investments can also contribute to the protection and growth of the family’s wealth and the level of risk diversification within the family’s overall estate increases.

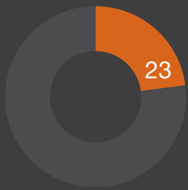
[12] See also: Private Equity in Familienunternehmen - Der Beginn einer wunderbaren Freundschaft (PwC – 2017)

This diversification also gives some more flexibility towards the transfer to the next generation where not everyone will be as interested to actively step into the business.

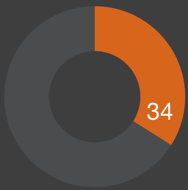
This trend of an increasing openness towards financial investors and cooperation has been reconfirmed by our 2021 M&A survey. Indeed, a majority of the family businesses who participated indicated that they would be open for a cooperation with a financial investor[13]:

Of the respondents, 68% considers it possible to attract at any future point funds from a financial investor, in which case most would allow entry into the equity of the company/group.

(all figures in %)



would consider both majority and minority investments



would only consider non-controlling investments

would consider such investment only to the extent that it concerns non-equity instruments

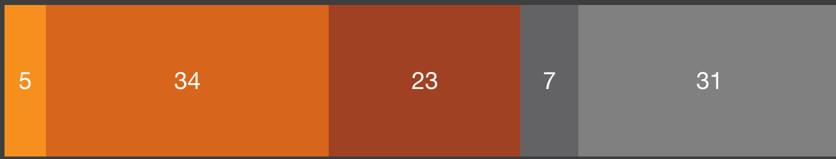
indicates that only a full exit (sale) towards a private equity is a potential realistic scenario

Only 31 % of the participants indicated that they would not consider any kind of cooperation with private equity.

[13] Percentages are based on the entries of the corporate participants who indicated they are part of a family business.

Is it for you as a privately/family owned business imaginable to consider at any future point attracting investments from a private equity investor?

(all figures in %)



Yes
- But only via non-equity instruments
- But only non-controlling minority investments
- Both minority and majority investments can be considered

No
- Only a full exit (sale) might be considered
- No

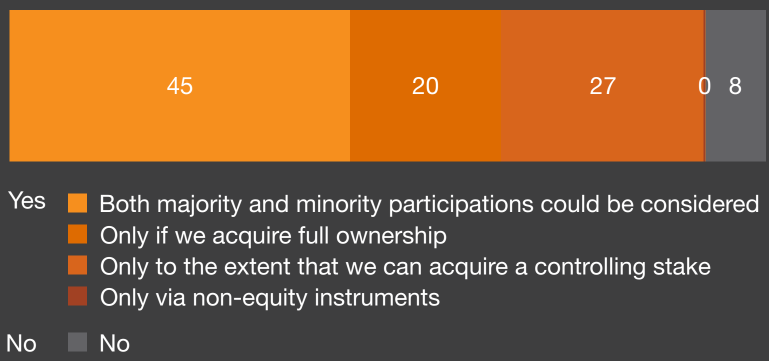
Family businesses are attractive for both corporates and financial investors and there is flexibility regarding the investment structure

An even higher appetite for cooperation can be seen on the buy side. The vast majority of the participants (92%) responded that they would be considering investing in privately held business:

- 45% are flexible in terms of co-investment: both majority and minority shareholdings would be considered, although quite a lot only with the flexibility to increase towards a controlling stake at a later point in time. With this approach, the current shareholders/family could remain the controlling reference shareholder for a certain period of time - still an important factor for a lot of families and private shareholders;
- 27% would only invest in controlling stakes;
- 20% require full ownership (or almost full ownership if management stays on board via traditional management incentive plans);
- None of the participants would limit themselves to only non-equity instruments.

Would you consider investing in a privately held business (or co-investing together with the private owners)?

(all figures in %)



When analysing the results for financial investors only, we see a slightly higher interest (93%) and a remarkable flexibility to discuss different kind of cooperation:

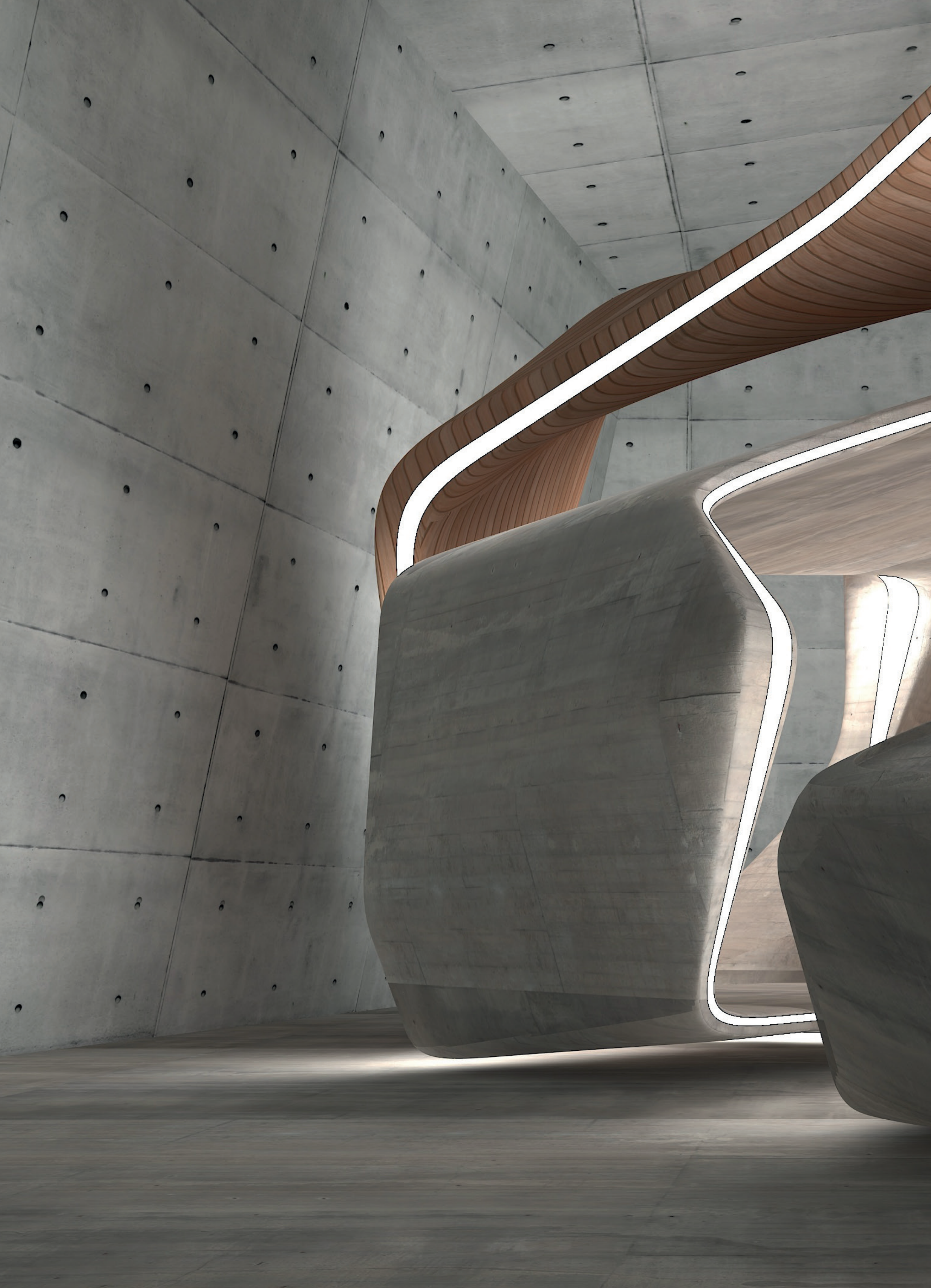
- 68% of the financial participants are willing to consider both majority and minority shareholdings;
- Only 23% would only consider controlling stakes; and
- Only 3% would require (almost full ownership).

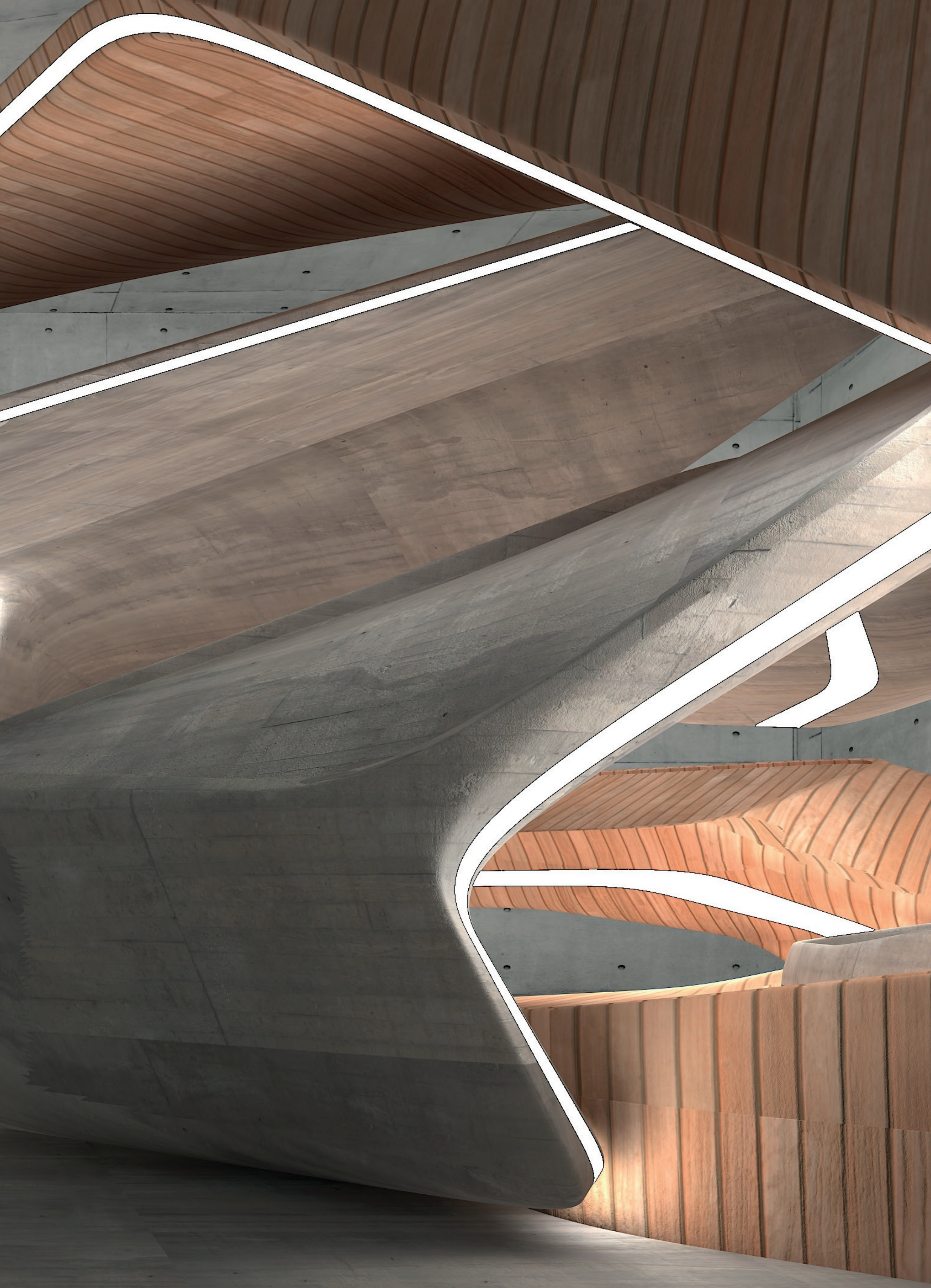
Conclusion

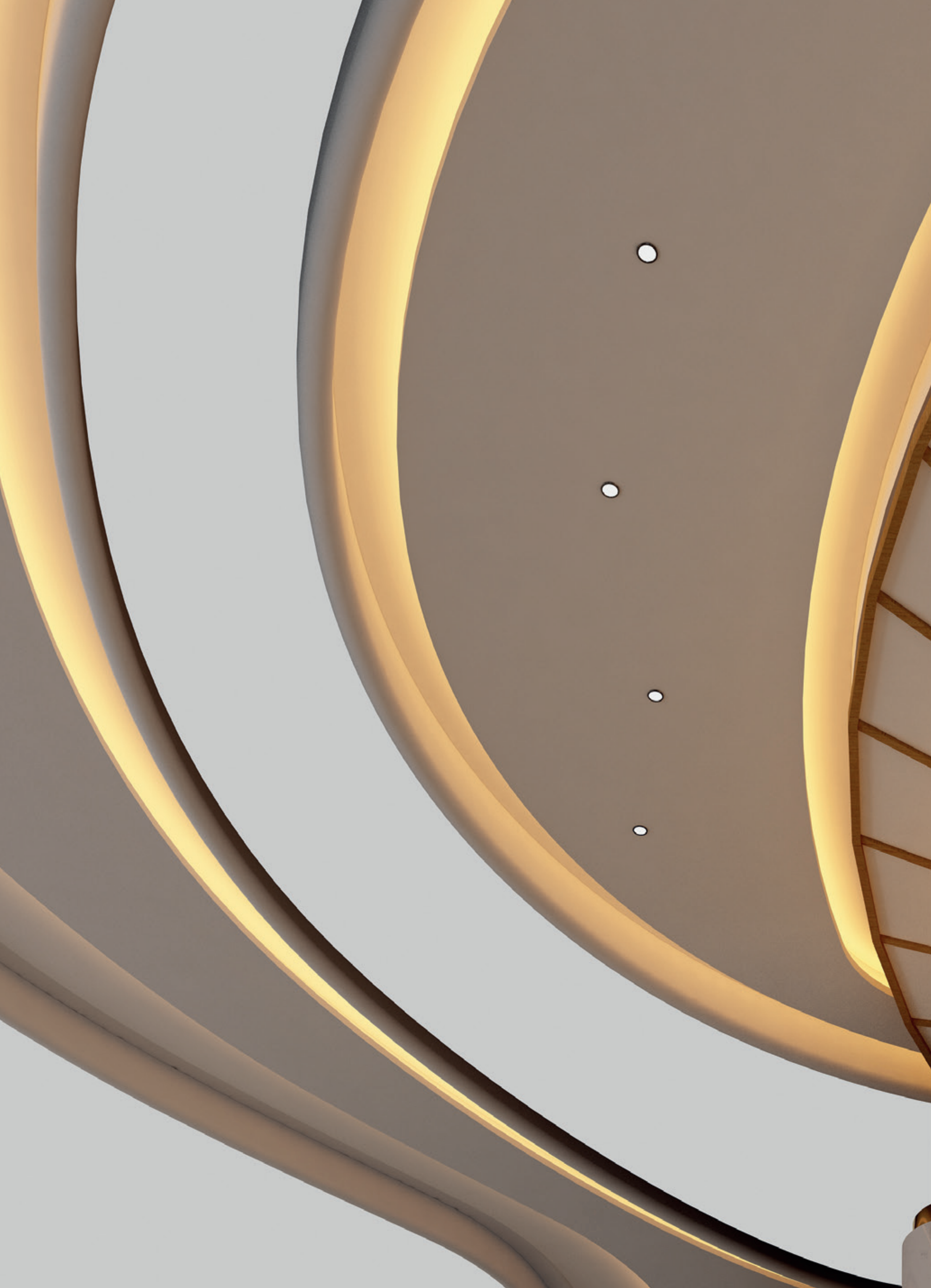
There is increasing appetite among privately held companies to team up with financial investors. Approximately half of the interested participants prefer to remain in control of the business and the other half would also consider other alternatives.

On the buy side, participants (definitely financial buyers) indicate a high degree of flexibility in different types of cooperation (including besides traditional full/controlling ownership also minority participations – preferably combined with an option to increase their stake at a later moment in time – allowing the current shareholders remain in control).

For family businesses that are interested in attracting private equity investments, it is key to start preparing early in the process. For some this means an increased attention to documentation and policies, for others, it could be the preparation of a timely carve-out of certain assets and/other actions to be taken to maximise the value towards a potential interested buyer. Hence, a timely preparation is key to an efficient and constructive deal process and to preserve and create maximum value.







A word of thanks

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