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Technology-driven investigations.

Mergermarket

Risky business

US and Asian investment attitudes amid shifting geopolitics

Contents

Foreword

Amid rising geopolitical tensions globally, Europe has come to the fore as an appealing and secure destination for cross-border M&A.

Marianna Vintiadis
CEO, 36Brains

Following the success of the first edition of this study, we are delighted to be back with a new report. While last year's survey focused on the dealmaking attitudes of a wide range of respondents across Europe and the US, this year we decided to focus on US and Asian attitudes on European deals.

Why make this change? We feel that there are important shifts taking place within the global deal landscape, with geopolitical dynamics such as the war in Ukraine and still strained US-China relations elevating Europe's status as a desirable investment destination. Indeed, most of our survey respondents believe these tensions will in fact make Europe a more attractive M&A destination over the coming months.

Our report begins by contextualising the European M&A landscape. Part 1 delves into investors' expected volume of deal activity, along with their motivations for pursuing M&A at this time.

Part 2 looks more closely at our respondents' perceptions of Europe and the region's most appealing M&A markets, including which countries Asian and US dealmakers consider the most and least risky.

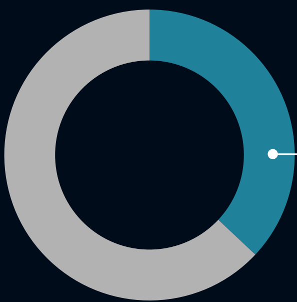
The final section examines due diligence, including areas dealmakers prefer to outsource and the qualities they look for in third-party advisers. We take a closer look at environmental, social & governance (ESG) scrutiny, which is set to intensify even further over the coming months.

Methodology
In Q2 2023, Mergermarket surveyed 60 senior executives to gain insights into investment risk and cross-border due diligence in Europe. Respondents were drawn equally from Asia and the US. The 60 respondents included 20 from corporates, 20 from hedge funds and 20 from private equity (PE) firms. All responses are anonymous and results are presented in aggregate.

Key findings

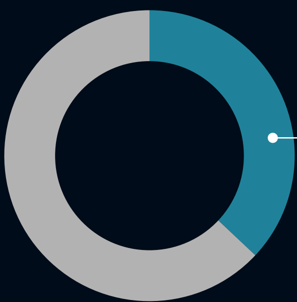
Geopolitical unrest is making Europe more attractive

Europe will become more attractive as a destination for global M&A over the next 12 months because of:



37% of US dealmakers focus on business synergies

Regarding the strategies that will guide their M&A plans over the next 12 months, US respondents will prioritise the creation of synergies across business, with 37% describing this as their most important point of emphasis. Asian dealmakers will focus their efforts restructuring/distressed opportunities.

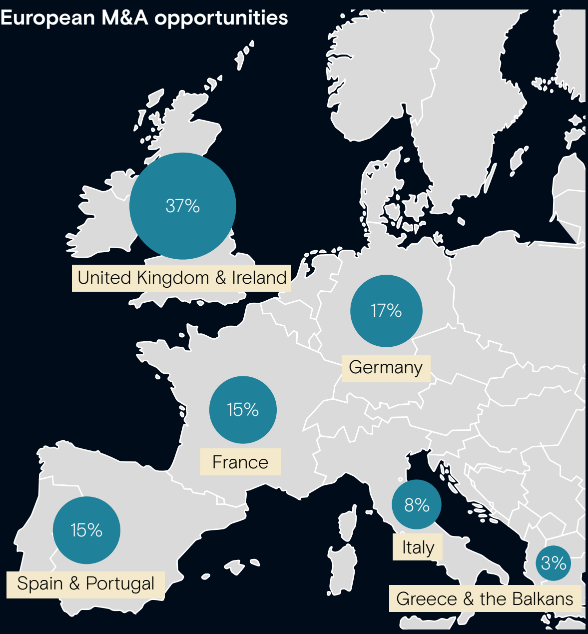


37% of Asian dealmakers focus on restructuring/distressed opportunities

Scrutiny of ESG issues is increasing

More than half of respondents (60%) say that due diligence relating to sustainability/ESG issues saw the greatest increase in scrutiny over the past 12 months when conducting deals in Europe. A fifth of respondents admit to having abandoned a deal due to poor appraisals of a target company's environmental practices.

European M&A opportunities



UK is thought to offer best opportunities for M&A by over a third of respondents

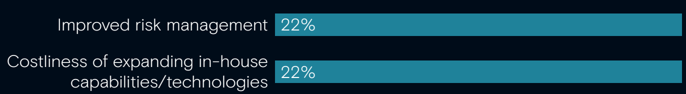
More than a third of respondents (37%) say the UK & Ireland will offer the best M&A opportunities in Europe over the next 12 months.

When asked about the most and least risky countries in which to pursue M&A transactions as a cross-border dealmaker, 42% of respondents, the largest share, identify France as the least risky European market, while 33% say the same of both Italy and Spain & Portugal. Half of all respondents cite the Nordics as the riskiest market.

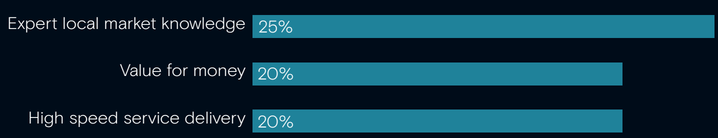
Advisers are valued for risk management and in-house capabilities

The most important factors driving international dealmakers' engagement with third-party advisers in Europe are improved risk management and the costliness of expanding in-house capabilities/technologies. As far as specific attributes are concerned, European advisers must possess expert local market knowledge, and be able to deliver services at high speed while offering good value for money.

Most important factors driving international dealmakers' engagement with third-party advisers in Europe



Most important attributes when looking for European advisers



Part 1: M&A forecast

The outlook for dealmaking in Europe is improving, with the technology and energy industries offering ample opportunities for growth.

So, what are the expectations today for the potential volume of cross-border deal activity in Europe, and what are the main motivations driving this?

Of the 60 dealmakers that we surveyed across Asia and the US, 58% carried out between 1-3 deals in Europe over the past 12 months. Unsurprisingly, given the nature of their business, PE firms specifically were the most active – 65% undertook between 4-6 deals.

According to Marianna Vintiadis, CEO of 36Brains, the balance of power is shifting. "Recent crises have altered the international balance, accentuating shifts in the global investment landscape," she says. "Europe has developed greater autonomy on the world stage, and we are seeing a large number of transactions and new investments as a result."

US dealmakers have been more active acquirers in Europe compared to their Asian peers. Almost half of the US dealmakers we surveyed undertook at least four deals in Europe over the past 12 months, while 33% of Asian respondents said this was the case.

Mergermarket data show that US acquirers targeted European assets in 1,720 deals in 2022, 7% more than the 1,612 transactions announced in 2021, itself a remarkably busy year. Deals for European targets led by Asian bidders have been more consistent over that time period, with 502 transactions announced in 2022, up from the 403 recorded the year prior.

Expectations and priorities

A brightening economic outlook across Europe appears to be lifting dealmakers' spirits. The region experienced positive economic growth in Q1 2023, with regional GDP growth forecasts for the European Union revised upwards to 1% for 2023 as a whole and 1.7% for 2024, according to data published by the European Commission. These positive indicators will continue to encourage dealmaking during the latter half of the year and into 2024.

Deal expectations remain largely in line with the past year – 85% of corporate and 70% of hedge fund respondents expect to carry out 1-3 deals in Europe over the next 12 months. PE firms remain bullish – 55% expect to undertake between 4-6 deals.

In line with current trends, US respondents expect to be more active than their Asian counterparts over the year ahead: 37% expect to undertake at least four deals in Europe, versus 23% of the latter who say the same.

With this in mind, what types of deals should we expect to see? Our survey highlights that auctions are set to be a popular option among PE firms and hedge funds. Of the vast majority of PE firms that expect to undertake a deal over the next 12 months, 48% believe that most of their deals will involve an auction. Conversely, just 22% of corporates expect this to be the case.

While respondents expect the auction process to become more competitive compared to last year (21%, up from 13%), the lion's share (46%) still believe auctions will be hardly competitive – a sentiment that remains in line with last year's survey.

Deal drivers

What factors will most motivate dealmakers in the near term? Our survey finds that we should expect opportunities for restructuring/turnaround of a

> Recent crises have altered the international balance, accentuating shifts in the global investment landscape.
>
> Marianna Vintiadis, CEO, 36Brains

How many M&A deals did your organisation undertake/will it undertake in Europe? (Select one)

distressed business to attract the greatest attention over the next 12 months, chosen by 83% of respondents overall and 27% who say it is the most important strategy to emphasise. This marks a large shift from last year's survey, when just 12% said the same.

Russia's full-scale invasion of Ukraine is one factor driving an increase in distressed M&A activity, says Andrejs Klisans, Country Manager at 36Brains. "We have seen, and will continue to see, foreign companies divest from Russia. This will present interesting opportunities for investors looking for turnaround opportunities," he explains.

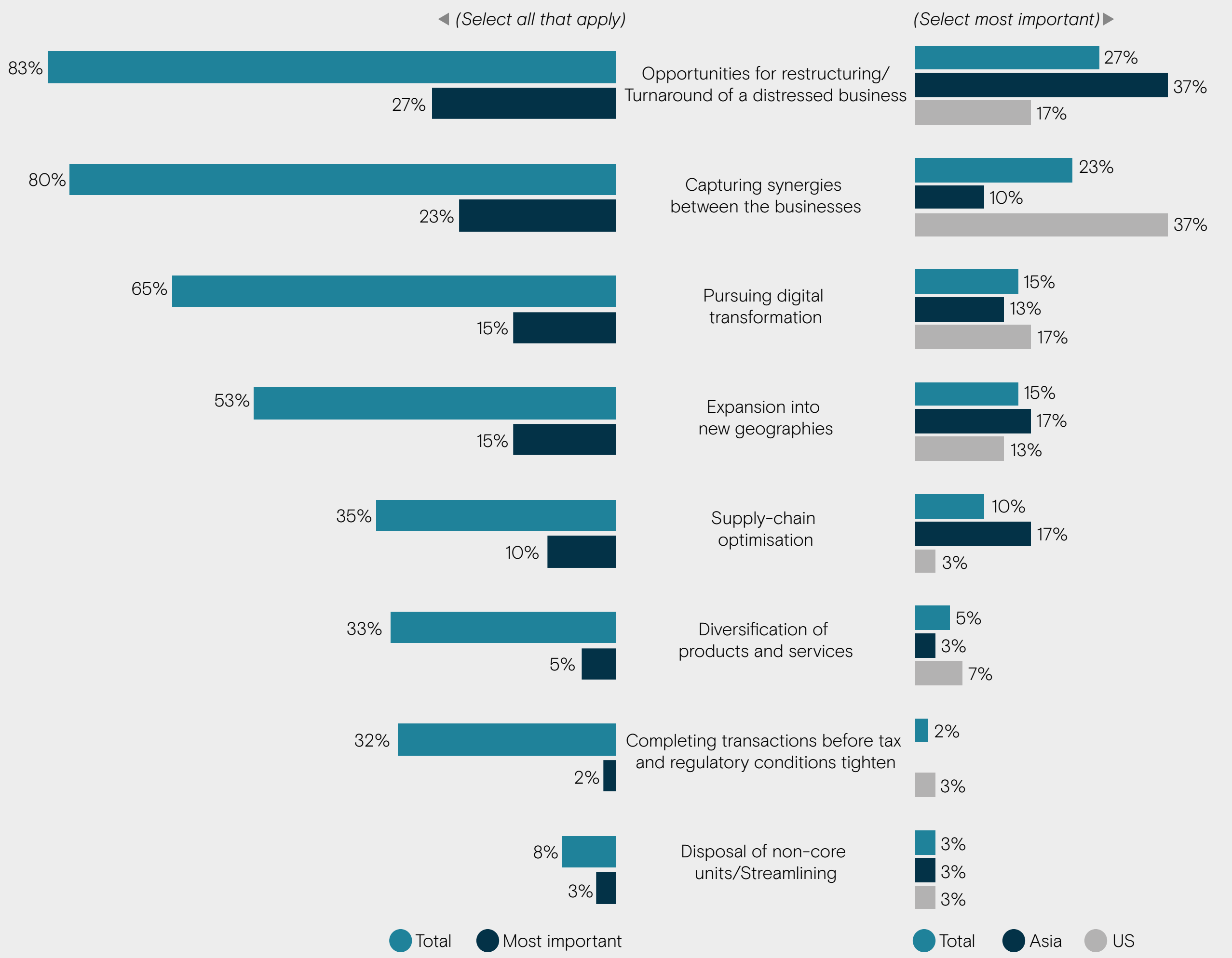
While not one of the top motivations for deals, optimising supply chains has risen up the agenda. Overall, 10% of respondents choose this as their main point of emphasis over the next year, after having received no such votes last year. This trend is being driven by Asian respondents, with 17% saying they will emphasise supply-chain optimisation.

Perspectives vary significantly among our regional respondent groups on a few issues. US respondents tend to prioritise the creation of synergies across businesses, with 37% describing this as their most important point of emphasis, versus 10% of Asian respondents who say the same. Instead, Asian dealmakers are choosing to focus their efforts on restructuring/distressed opportunities, with 37% putting this at the top of their agenda, versus 17% of US respondents.

Sector specifics

The TMT sector, historically a major spur to dealmaking across Europe, is set for rapid growth according to our survey respondents. Just under a third (32%) expect the industry to experience the most growth in M&A activity in Europe over the next 12 months, the

Over the next 12 months, what will be the main points of emphasis for your organisation in its M&A strategy?



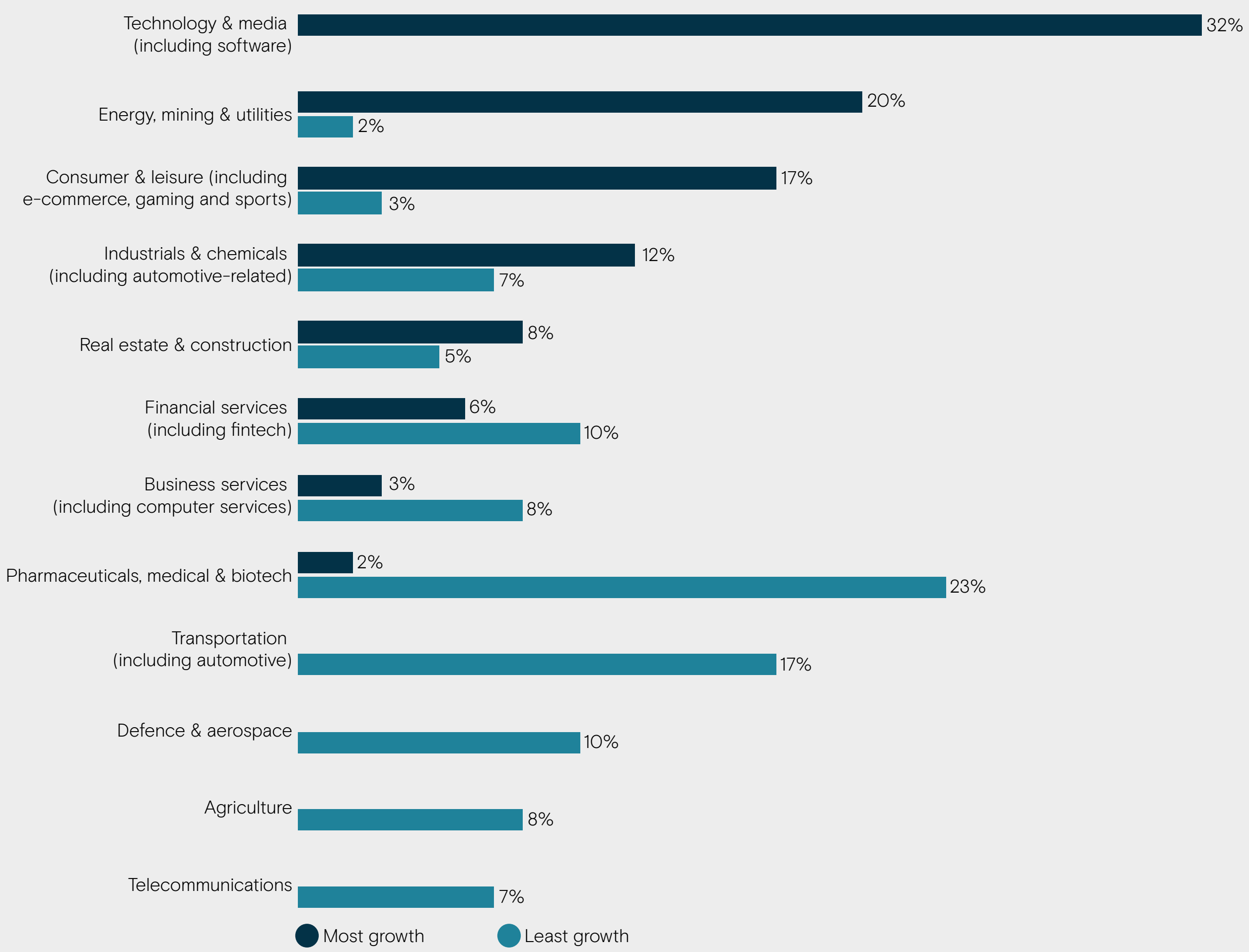
largest figure by far across all sectors. "Technology and digitalisation are defining factors driving M&A strategies in the region," says Klisans. "More than ever before, companies need to be digital businesses."

Energy is another major growth industry, with 20% of respondents expecting dealmaking in the sector to experience the most growth over the next year. "The recent energy crisis has shown that we need to become more diversified, resulting in a boom of investment in the sector. The energy transition, meanwhile, requires large-scale investment and is driving a high level of M&A," adds Klisans.

At the other end of the spectrum, just under a quarter of all respondents (23%) believe that the pharmaceuticals, medical & biotech sector will see the least growth, followed by transportation (including automotive) with 17%.

> The energy crisis has shown that we need to become more diversified, resulting in a boom of investment in the sector. The energy transition requires large-scale investment and is driving a high level of M&A.
>
> Andrejs Klisans, Country Manager at 36Brains

Over the next 12 months, which sectors do you believe will see the most and least growth in M&A activity in Europe? (Select one sector for 'Most growth' and one for 'Least growth')



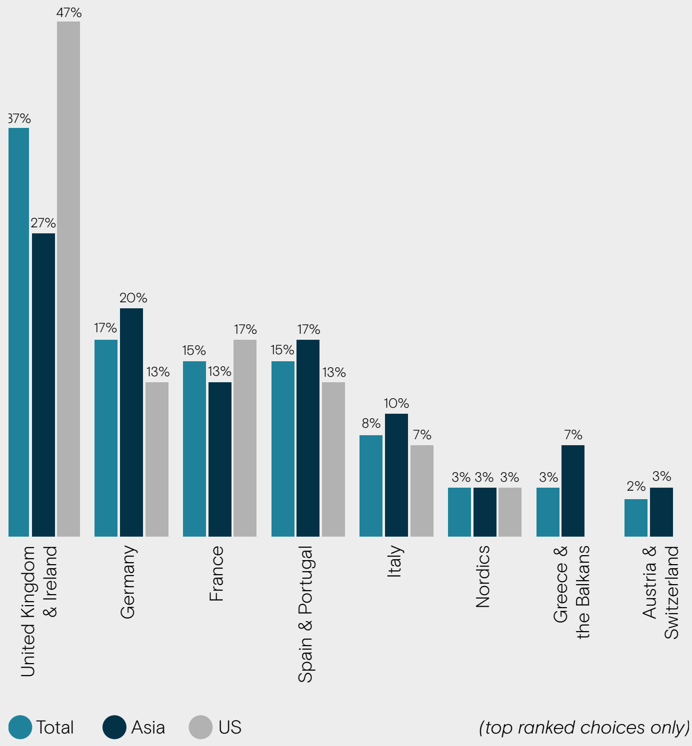
Part 2: Cross-border dealmaking

The Nordic region is seen as the riskiest location for deals, while Southern European countries hold increasing appeal.

When drilling down into specific geographies that are attracting dealmakers' attention, the UK & Ireland is seen as the safest bet for acquisitions. More than a third of our survey respondents, 37%, easily the largest share, believe it offers the best opportunities for M&A over the next 12 months. Western European countries are the most sought-after deal destinations, with Germany, France and Spain & Portugal also receiving a high number of votes.

Again, exploring answers by respondent location raises interesting variations. Survey participants from the US are broadly more positive regarding France (besides the UK), while, while those from Asia are more likely to invest in Germany, Spain and Portugal, and Italy.

Over the next 12 months, which parts of Europe do you believe will offer the best opportunities for M&A? (Select top two and rank)



(top ranked choices only)

Risk and reward

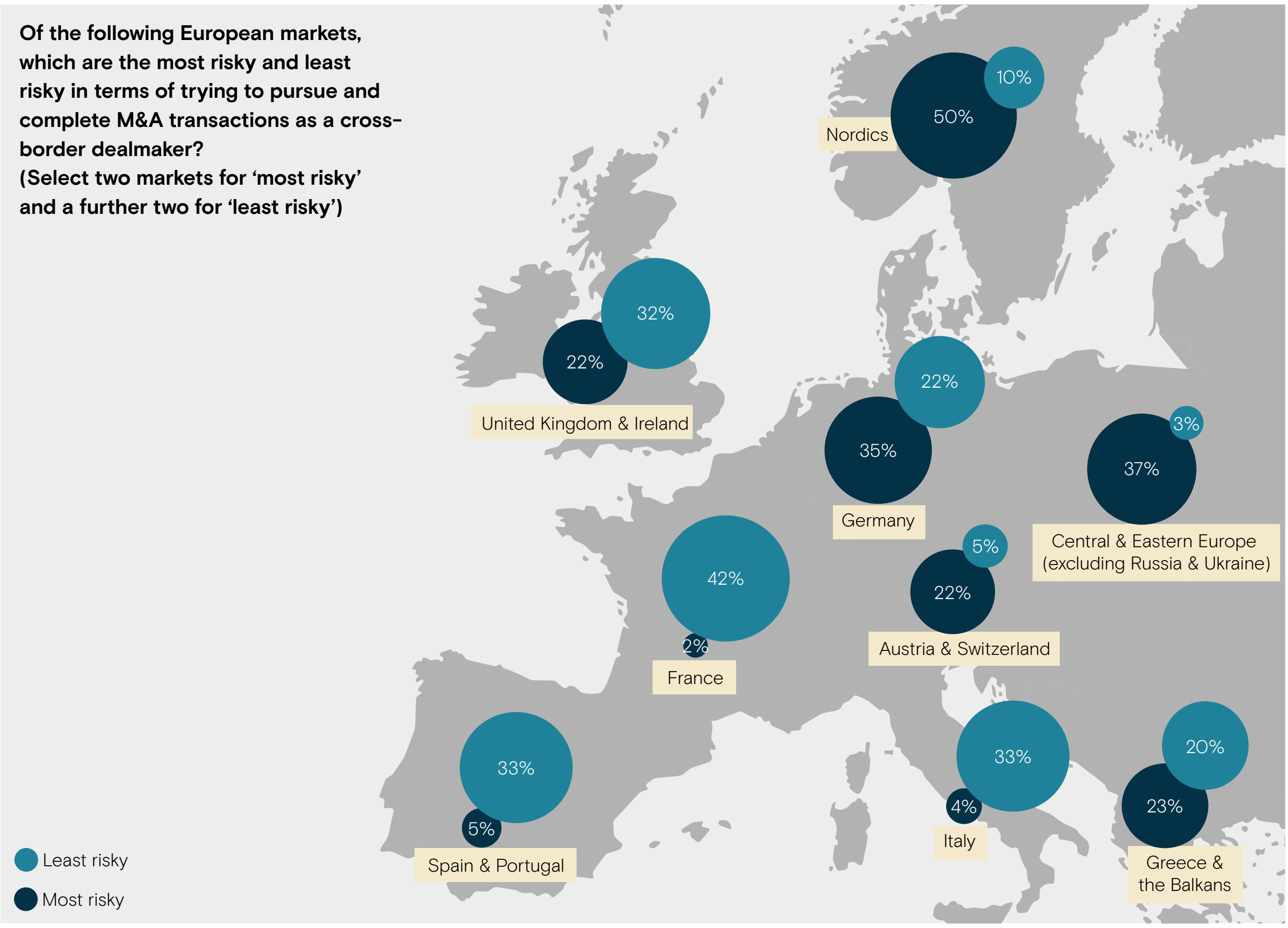
Perhaps surprisingly, given the high-quality assets in the region, half of all respondents cite the Nordics as the riskiest European market when carrying out a cross-border deal.

According to Klisans, the strict regulatory environment could be influencing the level of risk perceived by dealmakers looking north: "It really comes down to how dealmakers define 'risk'. Nordic countries, particularly Sweden and Finland, have a stringent regulatory framework in place, making acquisitions more complex and time consuming. I think this could be influencing dealmaker perception of risk in the region."

A lack of financing options is one factor influencing this outlook, says the managing partner at a US PE firm: "Even non-traditional financing institutions are limited, and there haven't been any developments in the lending space." The chief financial officer of an Asian PE firm adds: "The cultural differences and corporate practices in the Nordics are different to other markets. The market is riskier unless one has prior experience conducting deals in the region." Despite its broadly positive reputation, companies and M&A-related policymakers in the Nordics evidently can't afford to rest on their laurels.

Conversely, France is seen as the least risky place to carry out cross-border deals. "There are fewer regulatory challenges when investing in France," says the senior vice president of strategy & corporate development at a US corporate. "We can plan our dealmaking activities in advance, and there are a good number of quality opportunities to select from." The head of corporate development at a company in Asia adds: "The availability of synergetic targets in France and Italy is good. Investing in targets in these regions, we notice fewer integration challenges. Potential synergies can be identified properly."

Of the following European markets, which are the most risky and least risky in terms of trying to pursue and complete M&A transactions as a cross-border dealmaker?
(Select two markets for 'most risky' and a further two for 'least risky')



Italy and Spain & Portugal also rank low in terms of perceived risk. These are countries working hard to attract foreign investment following the financial crisis, explains Klisans: "Naturally, considering the heavy impact of the financial crisis, these jurisdictions have developed an image of economic instability. Since then, however, we have seen countries like Greece and Spain implement reforms to improve economic conditions. We are now seeing investment across a wide range of sectors, and the region is positioned for substantive growth."

As the chief financial officer of a US corporate puts it: "Spain, Portugal and Italy are markets that are more inviting for foreign investors. There are few challenges during the due diligence and negotiations. We can complete deals within the estimated timelines."

Regional variations
To get a sense of the unique dealmaking environment in Europe, we asked our survey respondents to identify the biggest differences between conducting M&A in Europe compared with their own home market.

The widest gap is viewed in relation to labour and employment regulation, with 30% of respondents voting this as their first choice, followed at some distance by Europe's approach to data protection/cybersecurity (20%) and transparency of financial information (17%).

Citing recent developments in legislation, the managing principal of a US hedge fund says "the labour, employment and data protection regulations

> Spain, Portugal and Italy are markets that are more inviting for foreign investors.
>
> Chief financial officer, US corporate

are different. The implementation of the General Data Protection Regulation (GDPR) has had a significant impact on European markets in the past few years."

While US and Asian dealmakers are largely in agreement, they disagree in respect to cultural differences post-completion. While 10% of Asian respondents see this as the biggest difference when conducting M&A in Europe versus domestically, no US respondents think the same.

As the investment director of an Asian corporate that is getting to grips with striking deals across Europe explains: "We are looking at a large region here, with countries that have diverse cultures. I feel that this is reflected in the different negotiating styles and practices. In some regions, it takes longer to negotiate because we have to follow protocols of waiting for them to come back with an offer."

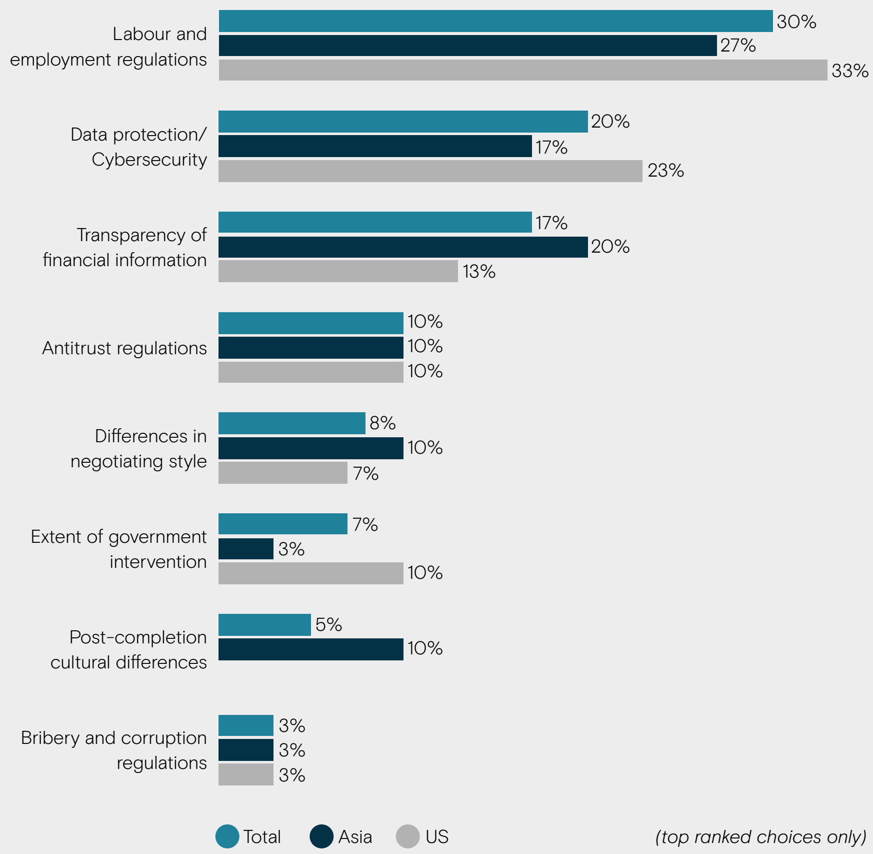
Risk priorities

When quizzed on the most important considerations for cross-border deals, the need to understand employment law comes out on top, chosen by 22% of our survey respondents, echoing their point that labour and employment regulations in Europe are often very different from those they have to deal with in their home markets.

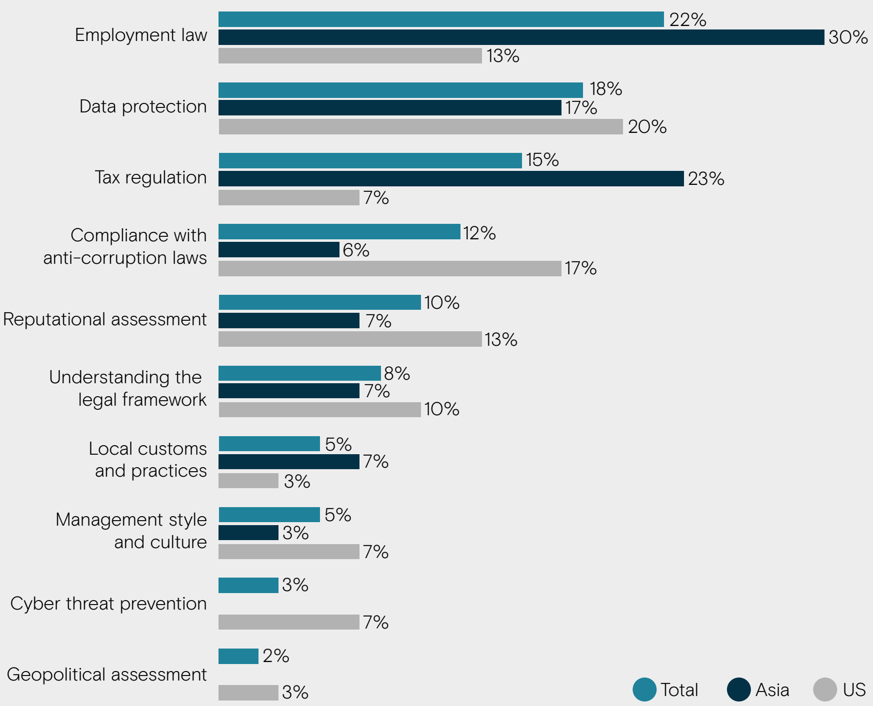
Data protection is another popular response, cited by 18%, although, interestingly, cyber threat prevention garners only 3% of most important votes. Conducting a geopolitical assessment received the fewest votes, with just 2% of our respondents picking this as the single most important consideration when doing a deal in Europe.

Again, some interesting differences come to light when comparing and contrasting views from the US and Asia. Our US respondents are more likely to cite compliance with anti-corruption laws as the most important element when carrying out risk assessment in a cross-border deal – 17% say this is the case, compared to 6% of their Asian peers. The latter, meanwhile,

In which of the following parts of the M&A process do you notice the biggest differences between dealmaking in Europe versus dealmaking in your home market? (Select top two and rank)



What are the most important elements when carrying out risk assessments in a cross-border M&A deal? (Select most important)



are more preoccupied with tax regulation (23%, versus 7% of US respondents) and employment law (30% and 13%, respectively).

Corruption and other deterrents
While strict geopolitical assessments appear to be of limited interest to our respondents from a pure risk perspective, most respondents (70%) say that poor corruption metrics are a major deterrent when selecting targets. This is up substantially from 57% who said the same last year.

"Poor corruption metrics can be a big risk when it comes to dealmaking," says the strategy director of an Asian corporate. "If we go through the deal halfway, and then realise that the target company was involved in corruption, it may be too late to back out. It's better to avoid sourcing in these countries."

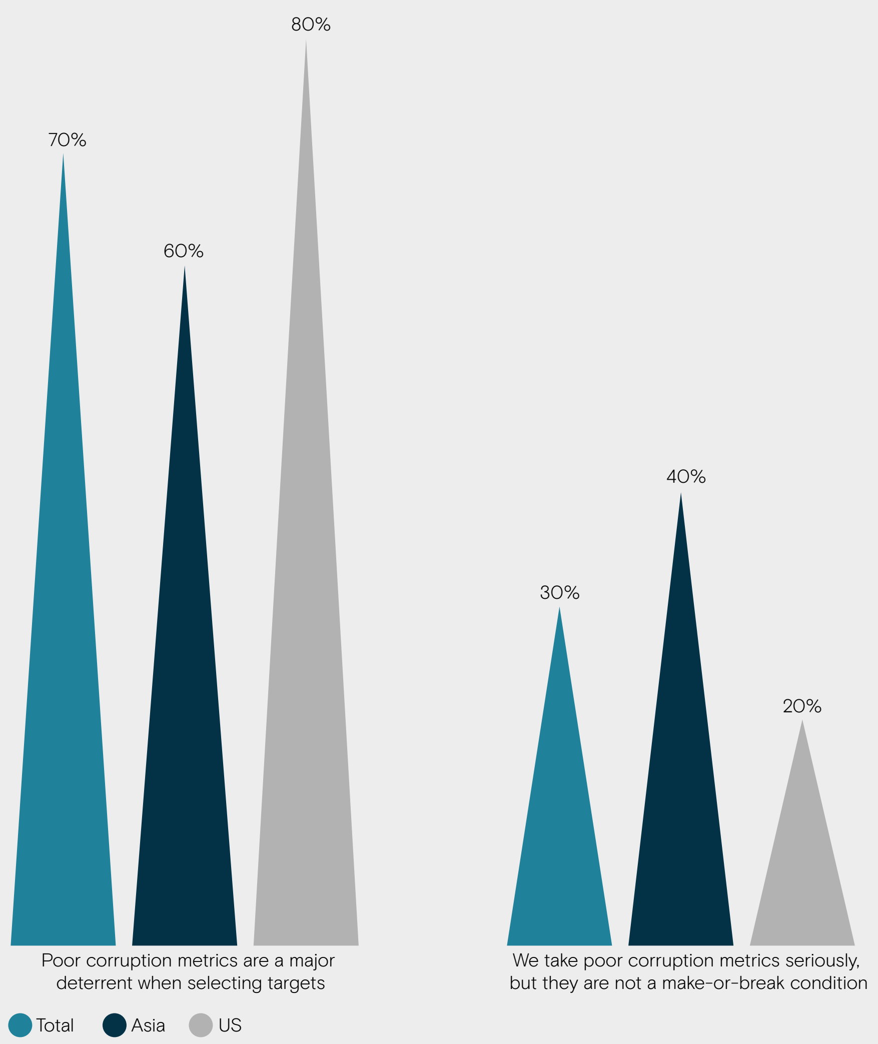
For the remaining 30% of respondents, although they do take poor corruption metrics seriously, these aren't a make-or-break factor when deciding whether or not to pursue a deal. None of our respondents says they don't normally take corruption metrics into account. As the managing director of a US PE firm puts it: "We cannot invest in regions that have these risks, because it could affect sentiments of our investor base. They trust us to evaluate these parameters before investing."

When looking further into the data, US respondents are slightly more likely to describe poor corruption metrics as a major deterrent than their Asian counterparts – 80% compared to 60%.

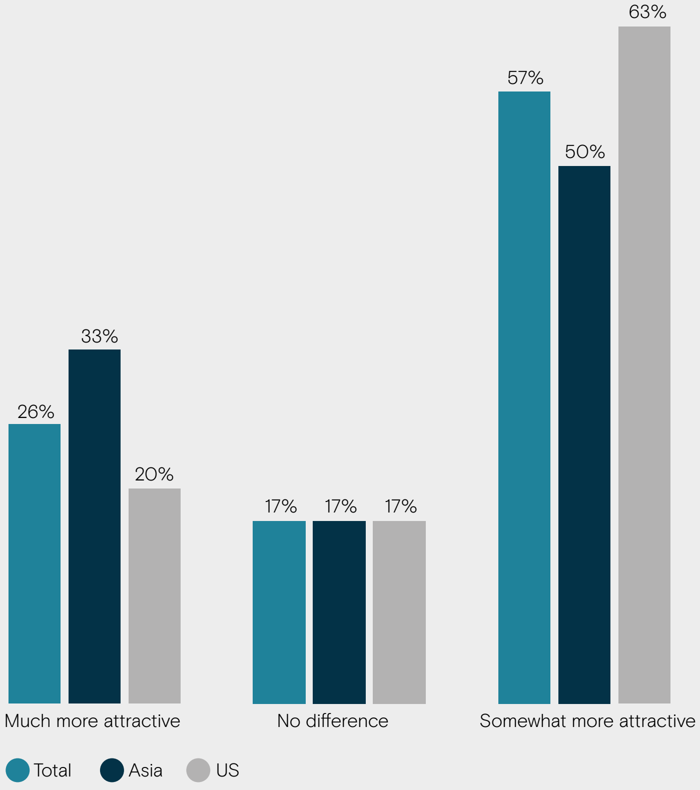
According to Vintiadis, the regulatory framework in the US means investors are particularly nervous about the impact of corruption on their desired target. "Under the Foreign Corrupt Practices Act they are directly liable for the actions of a subsidiary company based in Europe. That obviously will make them very nervous and more likely to seek out the potential impact of corruption before buying an entity."

> In light of the ongoing geopolitical unrest, Europe will be the more sought-after destination for investments. Acquisitions can be completed more systematically in the region, and for US investors the cultural challenges are also less prominent.
>
> Managing principal of US hedge fund

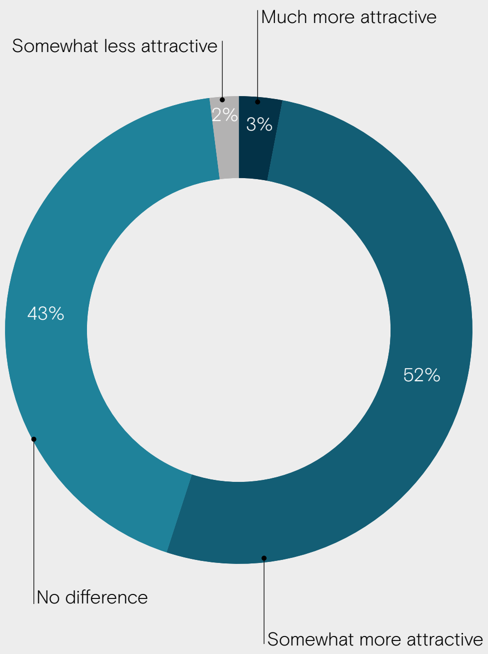
To what extent does a country's reputation for corruption, such as poor performance in Transparency International's Corruption Perceptions Index, impact your decision on whether to do an M&A deal in that country? (Select one)



To what extent do you believe Europe will become more or less attractive as a destination for global, cross-border M&A over the next 12 months in the light of ongoing geopolitical unrest between the US and China? (Select one)



To what extent do you believe Europe will become more or less attractive as a destination for global, cross-border M&A over the next 12 months in the light of the ongoing war between Russia and Ukraine? (Select one)



Global tensions and M&A

Ongoing political tensions and geopolitical unrest are sure to make any M&A executive wary. Yet while clearly a common deterrent of deals, certain circumstances can encourage dealmakers to rethink their strategies and search for safer ground. Indeed, the tension between the US and China has meant the relative stability of certain European markets has newfound appeal.

This sentiment is reflected in our survey. Overall, 83% of respondents say the region will be more appealing in light of ongoing Sino-US unrest, including 26% who say it will become much more attractive. As the managing principal of a US hedge fund puts it: “In light of the ongoing geopolitical unrest, Europe will be the more sought-after destination for investments. Acquisitions can be completed more systematically in the region, and for US investors the cultural challenges are also less prominent.”

Respondents from Asia are even more convinced of Europe’s magnetism, with a third saying the region will become much more attractive, versus 20% of their US peers. “Compared to investments in the US, investing in Europe will be more favourable for investors from China. As support for Chinese investment has decreased in US markets, Europe would be far more attractive,” says a partner at an Asian hedge fund.

Meanwhile, most respondents (55%) believe the ongoing war between Russia and Ukraine will make Europe a more attractive destination for cross-border M&A. Just 2% say the conflict will make the region a less appealing destination over the next 12 months.

The conflict is pushing overseas investors towards more stable areas in the continent, with an emphasis on Western Europe, that have managed to adapt, says the chief investment officer at an Asian hedge fund: “Due to the war, countries in Europe, including Germany, Italy, Spain, are becoming more attractive for investors. The targets remain undisturbed and they are adapting to market changes well.”

“Dealmakers planning new entry into European markets might be sceptical,” concedes the managing director of a US hedge fund, “But overall, there will be no difference in the attractiveness of the region.”

Part 3: Due diligence & third-party advisers

ESG knowledge is top of the agenda when choosing an adviser in Europe, with local knowledge critical to ensure a smooth deal process.

When it comes to due diligence, dealmakers are much more likely to seek third-party support when conducting an M&A transaction in Europe compared with their home market. Our survey highlights that a wide array of due diligence support is being sought. In particular, almost all respondents are choosing to outsource sustainability/ESG, HR/workforce and anti-corruption/reputational due diligence.

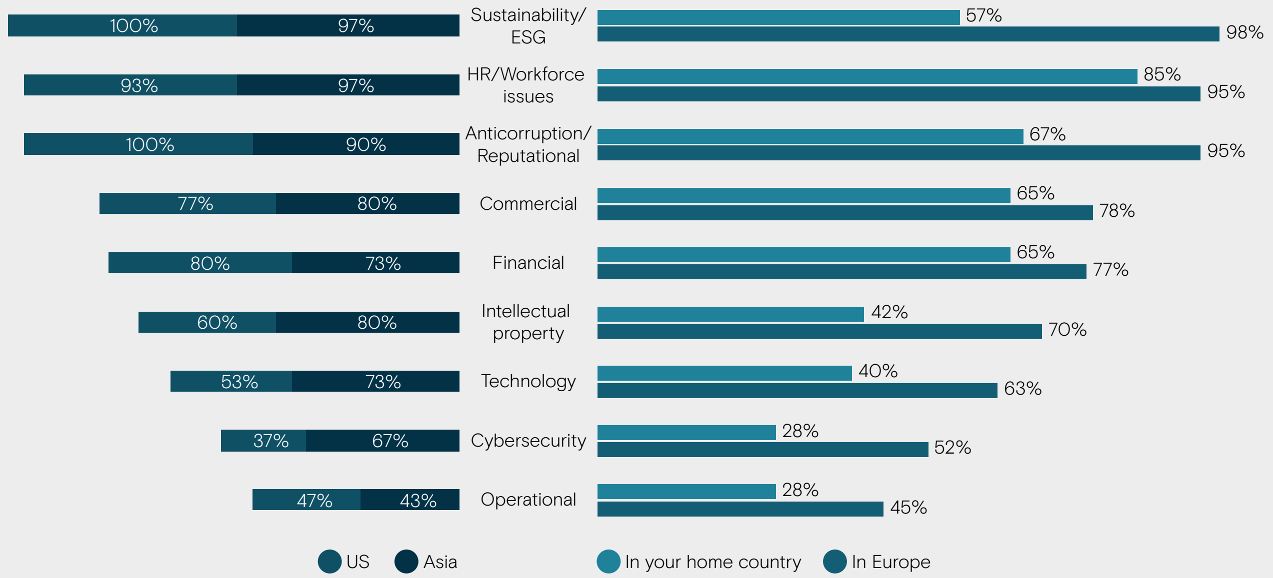
It should be of no surprise that ESG is top of the list when looking to do deals in Europe, says Klisans, as the evolving regulation in the space keeps dealmakers on their toes: "They need to keep an eye on respective supply-chain due diligence legislation – this is going to be absolutely pivotal as they will have certain obligations to fulfil to ensure compliance."

The least popular elements in terms of outsourcing are operational and cybersecurity due diligence, with 45% and 52% saying they subcontract these when doing deals in Europe. Still, those figures are considerably higher than the equivalent when doing deals in their home countries, with only 28% in both cases saying they outsource operational and cybersecurity due diligence for domestic M&A transactions.

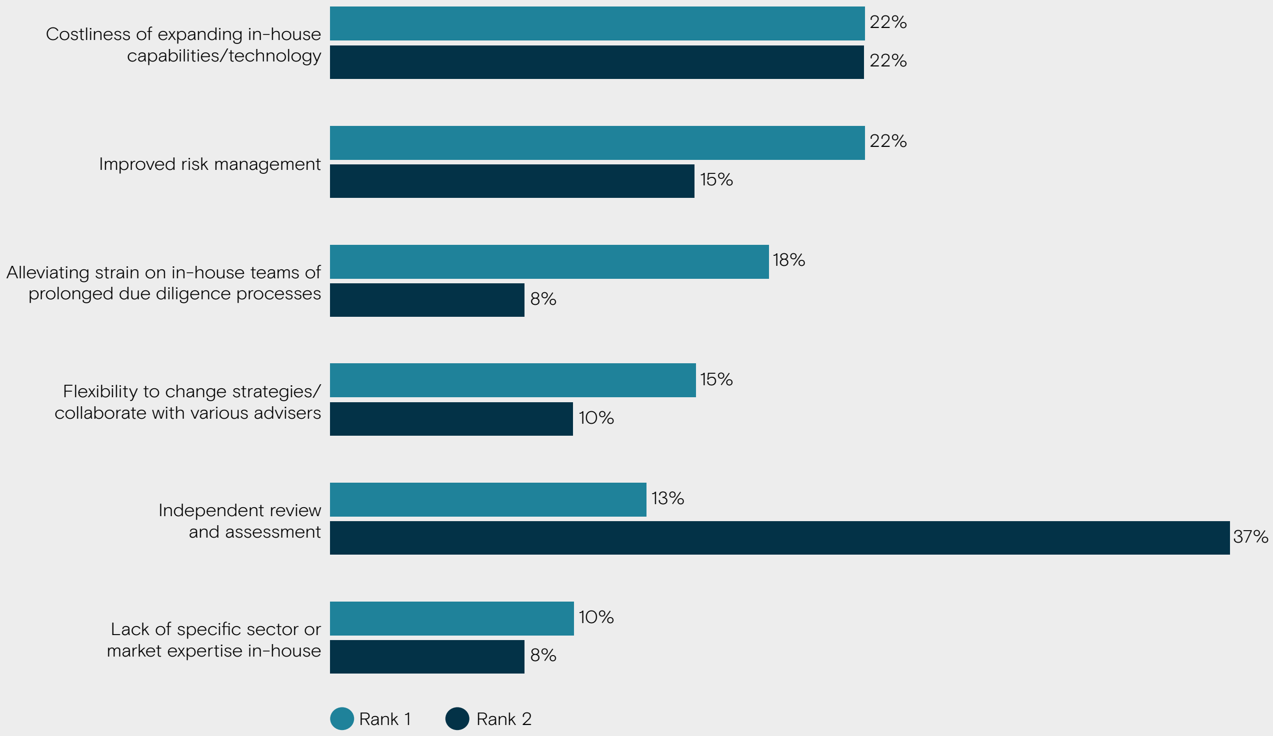
Considering regional differences, our Asian respondents are more likely to outsource cybersecurity due diligence when carrying out a deal in Europe compared to their US counterparts (67% versus 37%). They are also noticeably more likely to outsource technology and intellectual property due diligence.

What types of M&A due diligence do you typically outsource when conducting deals in Europe? (Select all that apply)

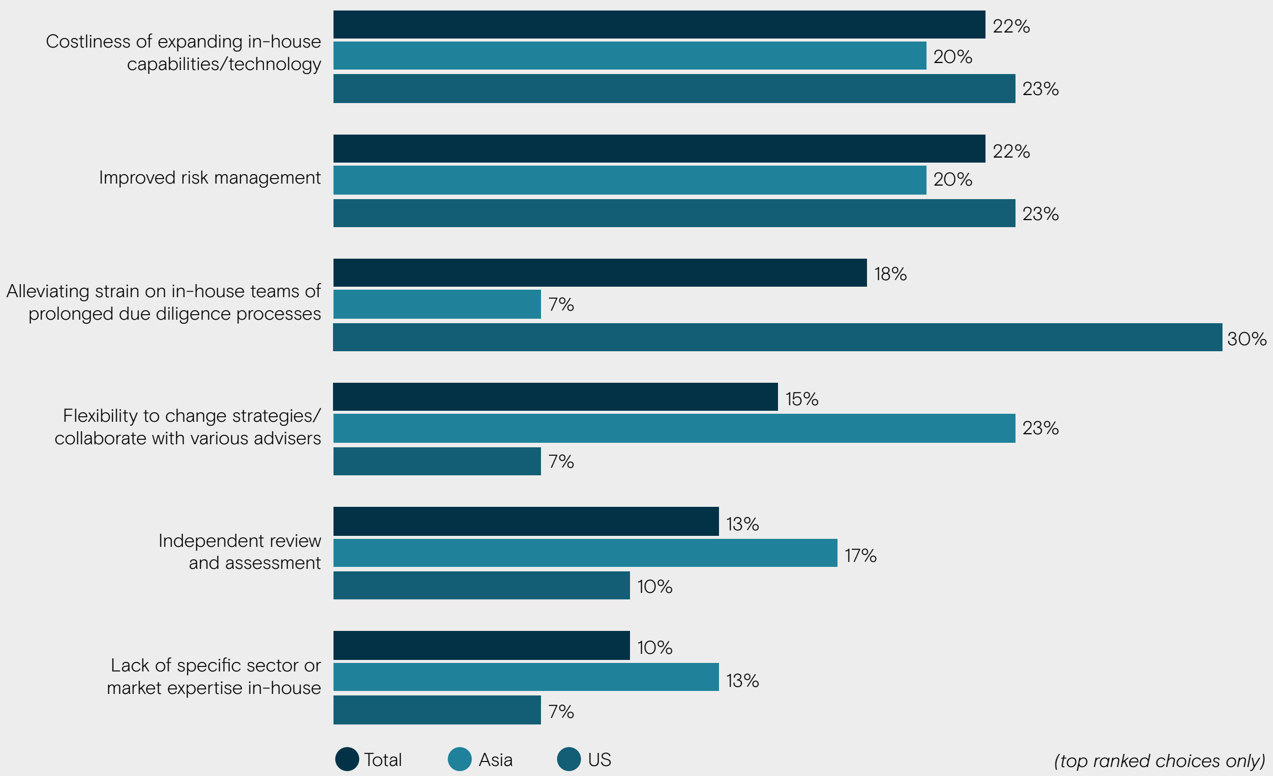
What types of M&A due diligence do you typically outsource (a) in your home territory and (b) when conducting deals in Europe? (Select all that apply for both (a) and (b))



What are the most important factors driving your engagement with third-party advisers in Europe? (Select top two and rank 1-2, where 1=most important factor)



What are the most important factors driving your engagement with third-party advisers when conducting deals in Europe? (Select top two and rank)



(top ranked choices only)

Key drivers when engaging third parties
Let's take a closer look at what is motivating dealmakers to engage with third-party M&A and due diligence advisers.

In their home country, dealmakers are very much being driven by the desire to improve risk management, which receives 30% of first-place votes. Flexibility to change strategies, collaborating with different advisers and gaining sector or market expertise in-house also rank highly.

When working with European advisers specifically, improving risk management remains the main motivating factor – 22% rank this as their first choice. Of equal importance is the expense related to expanding in-house capabilities/technologies, followed closely by alleviating the strain on in-house teams (18%).

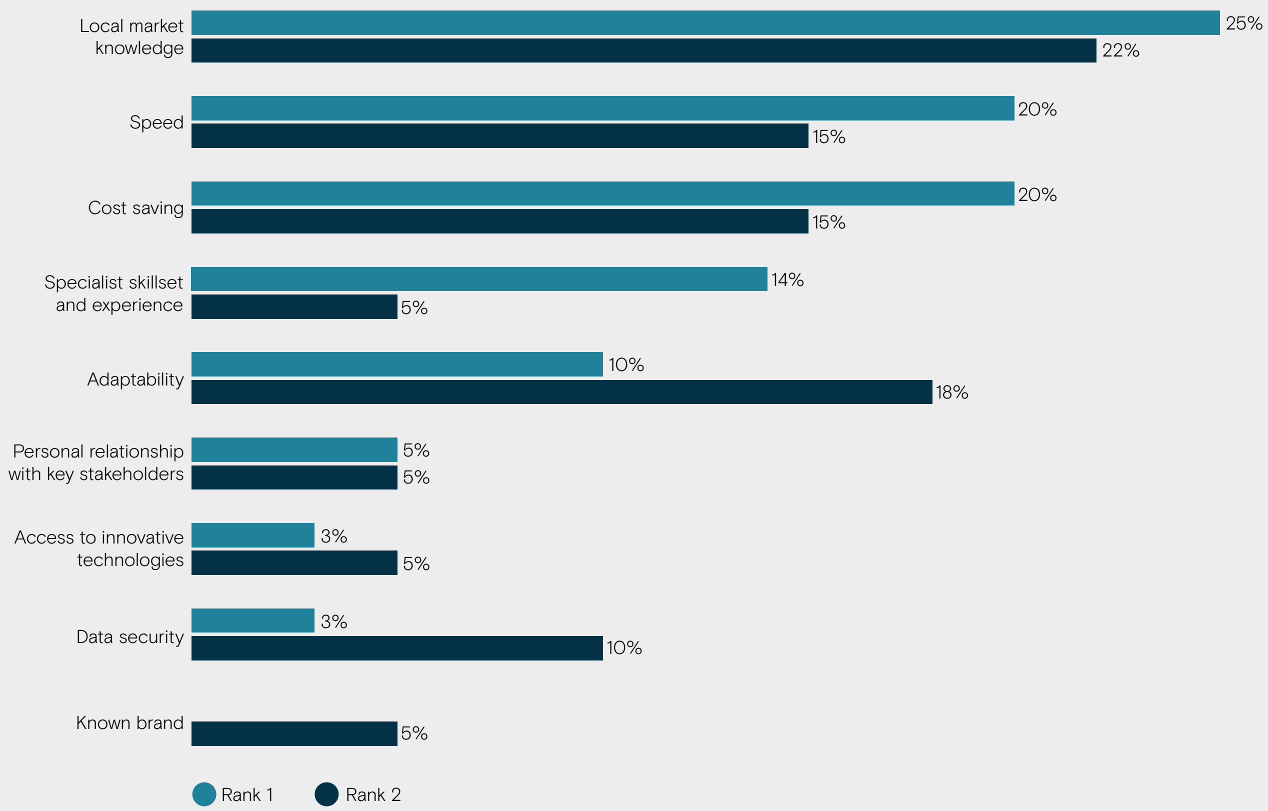
When analysing across regional lines, US respondents are more likely to turn to advisers in order to alleviate pressure on in-house teams. This driver received 30% of first-place votes from US respondents, compared to just 7% from Asia.

Asian dealmakers, on the other hand, are much more focused on ensuring flexibility to change

> We look for advisers that have local market knowledge, as they provide the most relevant advice on deals. They are clear about the policies, procedures and prerequisites to complete deals on time.

Head of corporate development, Asian company

What are the most important factors to consider when choosing a third-party adviser when conducting deals in Europe? (Select top two and rank 1–2, where 1=most important factor)



strategies/collaborate with various advisers – 23% identified this as their top choice, compared with just 7% of their US peers.

Qualities sought in third-party advisers
In light of these key drivers, what attributes are the most compelling when picking a third-party adviser?

When sourcing a third party in their home markets, the most desirable factors are adaptability and specialist skillset and experience, both chosen by 20% of our respondents. Local market knowledge and having a personal relationship with key stakeholders are also valued, receiving 25% and 17% of second-place votes, respectively.

The focus shifts when choosing an adviser to facilitate cross-border dealmaking in Europe. Acquiring local market knowledge is instead seen as the most valuable attribute, receiving a quarter of first-place votes as well as 22% of second-place votes, both the largest such shares.

"We look for advisers that have local market knowledge, as they provide the most relevant advice on deals. They are clear about the policies, procedures and prerequisites to complete deals on time," says the head of corporate development at an Asian company.

The ability to speed up processes, along with saving on costs, are also valued highly, receiving 20% of first-place votes. "We usually hire third-party advisers when we are unable to complete the tasks ourselves," says the principal at a US hedge fund. "We do not want to overburden our internal teams. In these circumstances, speed is an important factor."

According to Vintiadis, deep local expertise must be paired with an international outlook to ensure deal success: "It is important that advisers immersed in a particular jurisdiction are able to make judgements based on local knowledge. Yet the adviser must also view decisions through an international lens – they mustn't become so immersed in the local that they lose sight of the international. A balance must be struck, otherwise wider opportunities risk being lost."

Spotlight on ESG

Scrutiny on ESG due diligence is intensifying, with upcoming legislation set to test dealmakers even further.

Rising scrutiny of ESG issues in the M&A process is being felt acutely by dealmakers.

When we asked our survey respondents what types of M&A due diligence are set to face the greatest increase in scrutiny over the coming 12 months, by far the largest share identify sustainability/ESG issues. More than half (60%) cast their first-place votes in its favour, and a further 33% assign it their second-place vote. This issue is unmistakeably front-of-mind for practically all dealmakers.

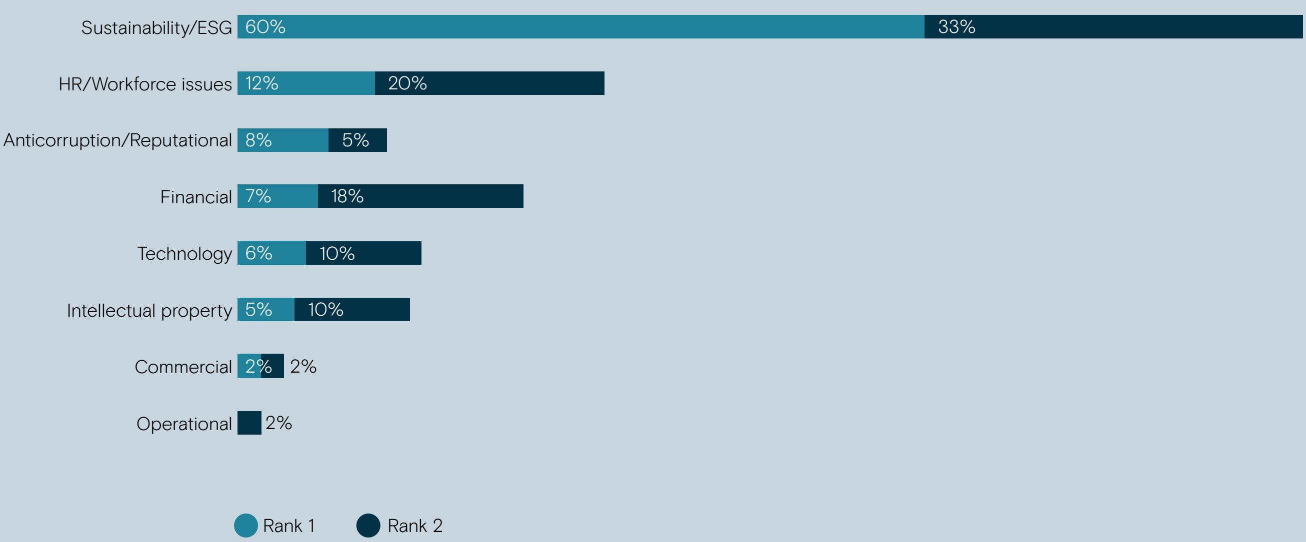
Coming a distant second, but still related to the 'governance' portion of ESG, are HR/workforce issues, receiving 12% of first-place and 20% of second-place votes.

Make-or-break factors

It's an important component to get right, with the potential consequences of inadequate ESG due diligence being very far reaching. Indeed, a fifth of respondents say they have abandoned a deal due to

> They need to keep an eye on respective supply-chain due diligence legislation – this is going to be absolutely pivotal as they will have certain obligations to fulfil to ensure compliance.
>
> Andrejs Klisans, Country Manager at 36Brains

Over the past 12 months, which types of M&A due diligence have seen the greatest increase in scrutiny when conducting deals in Europe? (Select top two and rank 1-2, where 1=seen the greatest increase in scrutiny)



the poor appraisal of a target company's environmental practices, such as sustainability practices and high carbon emissions.

"It was a tough decision," says the partner at an Asian hedge fund. "The dealmaking opportunity was good, but we abandoned the deal due to insufficient data on environmental aspects. There was the threat of reputational damage had we completed the deal." Even when a potential target has ESG data to hand, low levels of transparency regarding that data or failing to maturely incorporate environmental factors into corporate strategies are also red flags for our respondents.

Inadequate appraisal of social practices, such as labour factors and human rights issues, is likewise a make-or-break factor for some dealmakers. Over a quarter of respondents (27%) say they have abandoned a deal due to their requirements not being met, fearing association with dishonest companies and potential damage to their reputation.

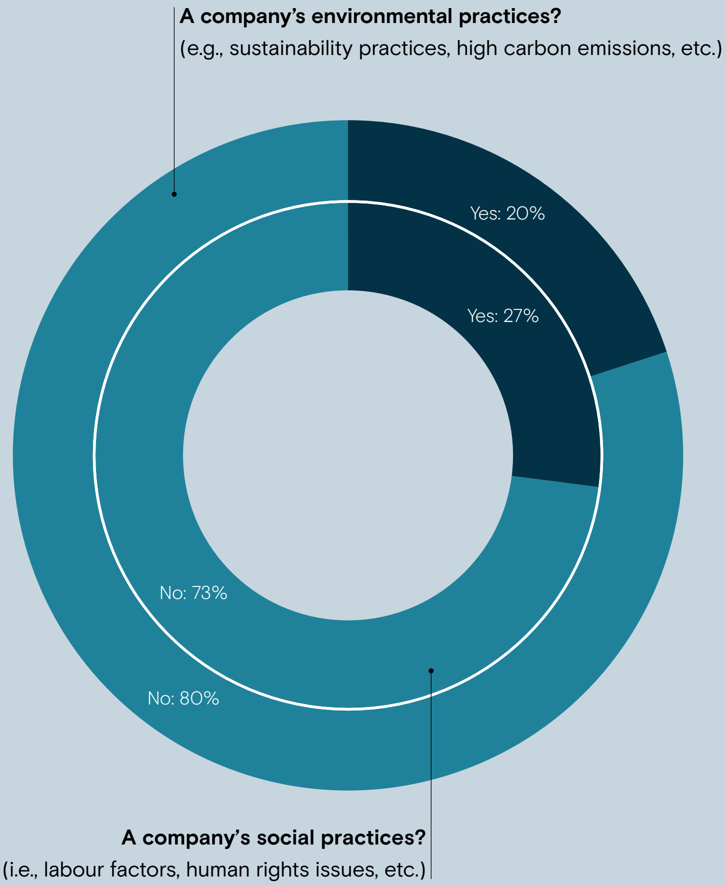
"Issues with health and safety standards made us abandon the deal," says the investment director at an Asian PE firm. "The employees were not provided with the safety equipment prescribed, and as a result we didn't want to be associated with this company." A chief operating director of another Asian PE firm, speaking to the breadth of issues that must be taken into account, added: "Product safety standards were not good. The company was not engaged in fair marketing and advertising practices. Greenwashing was another problem that caught our attention."

ESG takes centre stage

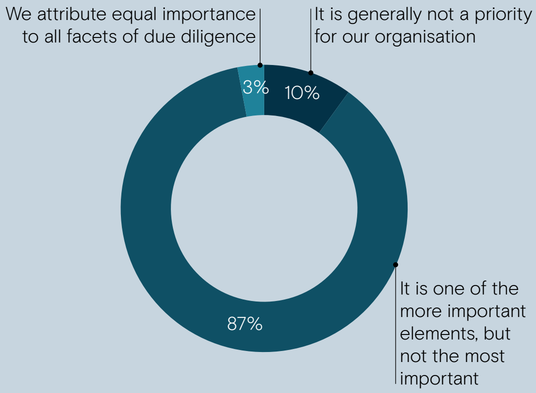
Are dealmakers paying ESG due diligence the attention it so clearly deserves? According to our survey, the vast majority of respondents (87% overall) describe ESG due diligence as one of the more important elements, but not the most important, of their M&A strategy.

The consensus is that more focus will be needed in the future. Two-thirds of respondents expect to place more emphasis on ESG due diligence in their deals over the next 12 months, including 15% who expect to place a lot more emphasis.

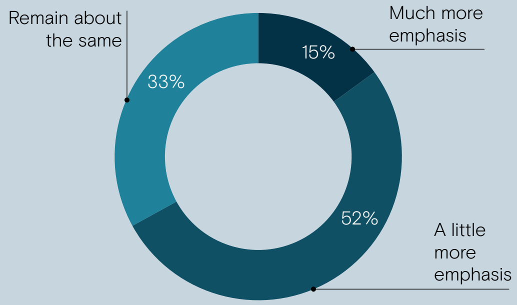
Have you ever abandoned a deal due to ... ? (Select one)



How important is ESG due diligence to your organisation's M&A strategy compared to other types of due diligence? (Select one)



Broadly speaking, how much more or less emphasis do you expect to place on ESG due diligence in your deals over the next 12 months compared to the past 12 months? (Select one)



Outlook

Third-party advisers are an ever more essential element of cross-border M&A as risk factors in Europe continue to evolve and reshape the market.

When it comes to cross-border dealmaking in Europe, our survey highlights that common perceptions of risk are being turned on their head. While regulatory hurdles in the typically perceived 'safe' Nordics region are putting off some investors, traditionally 'risky' markets within Southern Europe are no longer viewed as such. These countries have worked hard to improve economic conditions following the 2008 financial crisis, and as such are experiencing growth across a diverse range of sectors.

Restructuring and turnaround deals look set to present the greatest deal opportunities over the next year, with a large number of undervalued deal targets coming to market, particularly in the technology and energy sectors. The need to build supply-chain resilience also looks set to be a major driver of distressed M&A, as companies seek to rebuild post-pandemic.

Far from putting off cross-border deals, the war in Ukraine as well as tension between the US and China are actually causing dealmakers to pay more attention to certain European countries. Western European nations such as the UK & Ireland, France and Germany are currently being viewed as the safest territories.

Yet scrutiny on deals is rising, particularly in relation to sustainability and ESG factors, with legislation surrounding these issues constantly evolving. Hiring advisers with a deep understanding of not only local regulations, but also cultural nuances related to business practices, will be essential to ensure long-term deal success.

About 36Brains

36Brains provides corporate intelligence, investigations and forensic services. Based in Milan and Berlin we focus on Europe where we offer an unparalleled standard of work. We assist investors in their decision-making. Our methodology disrupts the current intelligence model by integrating traditional investigative strategies and human intelligence with cutting-edge technology. We produce client-centric reports which tell the story. Our tech factor is key to our effectiveness and efficiency while our highly qualified *Brains* interpret the digital and human swarm of information. We think things through.

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About Mergermarket

Mergermarket blends market-leading human insights, advanced machine learning and 30+ years of Dealogic data to deliver the earliest possible signals of potential M&A opportunities, deals, threats and challenges.

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