Viewpoints

M&A in Europe — Lessons from the past, and for the future

By Gabe Langerak and Jana Mercereau

Today everyone, including business leaders, has an understandable focus on the current global efforts to contain COVID-19 and deal with the very real human and business issues surrounding it. Ultimately, however, we remain optimistic that shorter term crisis handling will abate, and business will return to longer term strategic focus, including M&A. Notwithstanding the clear immediate business priority, we therefore took the opportunity to look back over the pre-COVID-19 past and highlight some recent trends and key issues for deal makers in Europe.

Gabe Langerak
Western Europe M&A Leader

Jana Mercereau
Great Britain M&A Leader

Looking back to the global M&A landscape over 2019 – and indeed forward to a post-COVID19 world – we can see that, while European deals had a bit of **a bump in Q3,** such "blips" are not uncommon and are usually followed by a stable resurgence.

While deal volumes across the globe were down and returns poor over 2019, acquirers in Europe continued to perform above the index[1], according to the Quarterly Deal Performance Monitor, research Willis Towers Watson produces with Cass Business School. Indeed, while the upside may be lower than 2018, it's still positive and at the end of 2019, was back in the plus!

What drove the slowdown?

One element that we believe is partly to blame for the drop in the number of deals over 2019 is stronger competition commissions – not only globally, but also specifically in Europe, along with a strong nationalistic focus by governments.

The European Commission's department for competition in Brussels, as well as national governments, are becoming ever more active in analysing (and disallowing) deals. They cite a variety of reasons, including the possibility of deals resulting in inflation or reducing competition; but also the possible reduction of jobs and taxes or factories leaving the country.

We believe this reduction in volume is a temporary setback; the fact that so many companies are still actively pursuing deals (and advertising the fact!), suggests that there is a good economic rationale for them to do so. As such, we expect that such deals may still occur, but in a slightly different form – for example, competitors buying or selling specific entities rather than the entire company; whereas previously two entire companies may have merged to subsequently spin-off some non-essential parts, such restructuring may now need to be done pre-deal to get approval from competition authorities. Similarly, companies may start to negotiate with national governments to ensure their concerns are met – either jobs are guaranteed for a period of time, or location closures deferred till a later date.

1 Our research uses the MSCI World Index as default

Old and new problems

Overall, companies buying or selling in Europe continue to have the same historic issues they have always had, related to complex defined benefit structures in retirement plans, and differing legislative and economic situations across the continent.

However, old world Europe is also keeping with the times and we see more cultural analysis and leadership assessment being done during due diligence phases.

In a nutshell, issues faced by companies looking to do deals in Europe include:

1 Pension issues

Pensions seem to be as old as the continent and are not going anywhere anytime soon. The complexity and plethora of pensions within one country or entity can often be a challenge even for the seasoned, and to the uninitiated to say it can be confusing is to understate it considerably.

While some of the more modern companies being acquired are likely not to have any defined benefit pension plans, older industries may have an active, as well as several legacy plans, all of which could create a significant discussion during the sale and purchase agreement!

When acquiring across countries, it becomes even more confusing – for instance, when a Belgian or Swiss defined contribution plan actually turns out to be a defined benefit plan in another country!

2 Diverse compensation schemes

Europe isn't one country – this seems obvious but is something our friends in other continents seem to forget! This becomes even more evident when looking at executive compensation across different countries, where each executive's salary and bonus has usually been set in such a way as to maximise the local tax benefits.

This makes it complicated to compare benefit packages for executives across the region, without some significant knowledge of each country's fiscal legislation. As such, management compensation requires an individualised comparison and a more personal communication approach to the individual beneficiary, being clear how they compare to other executives in similar levels across the company.

3 Culture

Cultural due diligence is still something many companies are not clear on – what does it mean, how do we do this, and perhaps most importantly... so what; what do we do with the outcomes?

The means of doing a cultural due diligence can vary depending on the level of access you have during the due diligence process, but could include the use of artificial intelligence tools to scrape social media about the company (and its leadership), using publicly available data. Other methods include: communication reviews (using documents available in the dataroom), and what this says about the way the company communicates to its stakeholders, including its employees; and an assessment of the management sessions through a review of the way in which management interacts and communicates to a prospective buyer.

Depending on the **required cultural analysis**, an analysis of your own organisation (as a base-line) may also be useful.

Some other topics which we often see in Europe include the methods of **benefits financing**, and how this could be coordinated through global benefits management, insurance pools or captives (which are still common here); and the **impact of GDPR**, primarily how this is being used in some situations as a means to limit the information being provided by sellers!

Despite the changes we have seen in the types of deals in the recent past, we continue to see many traditional challenges plus a number of new ones. Either way, these challenges if not managed in a timely manner will continue to affect deal value significantly. The involvement of HR at the due diligence phase can ensure final agreements deal with these people-related issues in a suitable manner – and so that HR isn't blamed during integration for additional synergy costs due to uninformed decisions during earlier phases!

For those that believe that the COVID-19 crisis will ultimately recede and those looking to conduct European deals in the future, understanding the obstacles and where others have struggled will allow for better preparation and more successful execution of transactions.

For more information

Gabe Langerak
Western Europe M&A Leader
gabe.langerak@willistowerswatson.com

Jana Mercereau
Great Britain M&A Leader
jana.mercereau@willistowerswatson.com

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