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2023 M&A MONITOR

SHEDDING LIGHT ON M&A IN BELGIUM

Created by the Centre for Mergers, Acquisitions and Buyouts

Bank·Banque VanBreda | BDO | Van Olmen & Wynant | WE Wallonie Entreprendre Cession & Acquisition

ACKNOWLEDGMENTS

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PREFACE

We are pleased to present the **10th edition** of our annual Belgian M&A Monitor. This anniversary edition provides an excellent opportunity to look back at how the M&A market has evolved over the past years, while also identifying some key trends that are likely to shape its future. With great satisfaction, we notice that the surveyed experts overwhelmingly recognise that the Belgian M&A market has become much more professional over the past decade, and we do hope that our Monitor has contributed to some extent to that professionalisation.

A shift has been observed in the way companies benefit from corporate combinations. While this used to be focused on realising cost efficiencies, in more recent transactions acquiring companies have increasingly focused on revenue enhancement through cross-selling or obtaining valuable technological resources or talent. The enhanced revenue potential should also compensate for the higher takeover multiples. While the enterprise value amounted to only 5 times EBITDA on average in 2013, the seller's market pushed it up towards 6.7 times EBITDA last year.

When analyzing global M&A activity in 2022, we notice a solid first half of the year, continuing the deal heat of 2021. However, in June, the market experienced a sudden turning point when central banks rapidly started raising benchmark interest rates. In Belgium, the decline in M&A activity was mainly visible for large acquisitions and buyouts executed by private equity firms. Not surprisingly, these are the types of transactions that are structured primarily with debt financing. In line with these findings, postponed payment structures remain at high levels, with 39% of all M&A including a vendor loan, and 36% containing an earnout provision. The average ratio of net financial debt to EBITDA dropped towards 3.0 in 2022 (from 3.7 in 2020), and the surveyed participants massively anticipate an enlarged use of equity in financing 2023 M&A transactions.

Looking forward to the next 5 years, the respondents in our survey expect proactive deal-making to be the key trend in Belgian M&A. One way to realise this is by actively relying on data analytics and advanced AI techniques. Another essential trend in M&A is the impact of environmental, social, and governance (ESG) factors in identifying relevant target companies, supported by the European green deal. The surveyed experts expect environmental considerations to affect M&A decisions, rather than social and governance aspects.

The remaining sections of this document contain a comprehensive and detailed discussion of various M&A trends and deal characteristics. We wish you an informative and enjoyable reading experience!

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METHOD

The insights presented in this report are based on the online survey responses of 155 Belgian M&A experts collected between 31 January and 13 March 2023. This sample of M&A professionals was gathered through Vlerick Business School's professional network and that of the sponsors of the Centre for Mergers, Acquisitions, and Buyouts, supplemented by online searches.

We first present the respondents' insights into the evolution of the Belgian M&A market. The subsequent results relate specifically to the transactions that the respondents have been involved in during 2022.

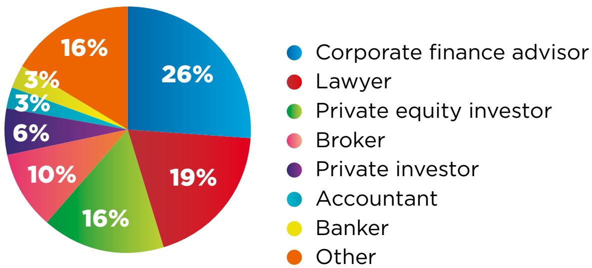
We distinguish between different size categories, ranging from deals with a transaction value of less than €1 million to deals with a transaction value greater than €100 million. Before the survey was sent out, it was tested extensively and verified by practitioners and academics. This report provides the aggregated results from our survey. In some cases, extreme outliers were removed from the sample.

ABOUT THE RESPONDENTS

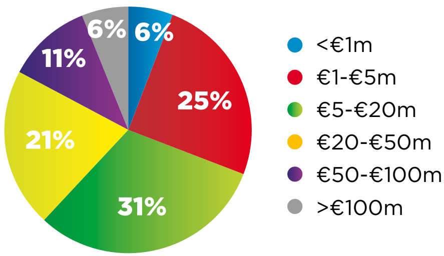
Representing a comprehensive view of the entire Belgian M&A market, the surveyed experts:

- cover a wide variety of professional roles – with corporate finance advisors (26%), lawyers (19%), private equity investors (16%), and brokers (10%) as the most prominent groups;
- embody various deal segments: 52% of the respondents are primarily active in M&A with a total deal value between €5 to €50 million, 17% work on deals with a value greater than €50 million, and 31% work on small transactions (< €5 million);
- cover a wide range of industries, with the strongest presence in business services (53%), technology (38%), and industrial products (36%);
- have an average of 14 years of professional M&A experience, with a minimum of 1 year and a maximum of 40 years of experience;
- have worked on an average of 9 deals over the 12 months preceding this survey;
- are active in the 3 central regions of Belgium (126 in Flanders, 91 in Wallonia, and 101 in Brussels), as well as outside Belgium's borders (70 in Europe, 31 in other regions).

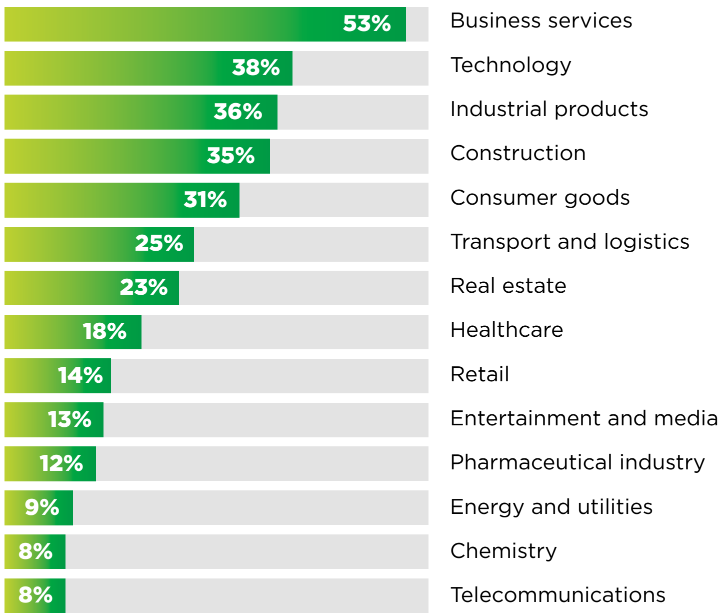
% RESPONDENTS PER PROFESSIONAL ROLE



PRIMARY MARKET SEGMENT OF RESPONDENTS - TRANSACTION VALUES



% RESPONDENTS INVOLVED IN M&A IN A GIVEN SECTOR OVER THE PRECEDING YEAR

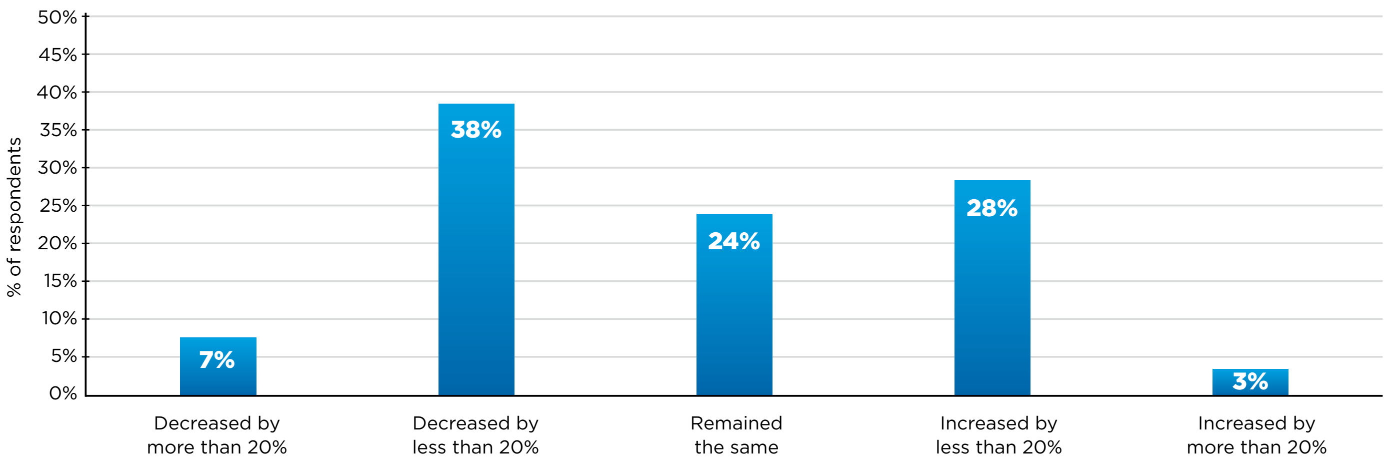


THE EVOLUTION OF THE BELGIAN M&A MARKET

DEALING WITH UNCERTAINTY

2022 can be considered a dual year in terms of *global* M&A volume. While deal activity remained strong in the first half of 2022, a turning point was reached by the start of the summer due to interest rate hikes and prolonged macro-economic and geopolitical uncertainty. Similarly, our survey results regarding the evolution of Belgian deal activity provide a multifaceted picture. While 45% of the respondents saw a significant decline in 2022, approximately one-quarter experienced no significant change at all. According to 31% of our respondents, M&A activity has increased since 2021.

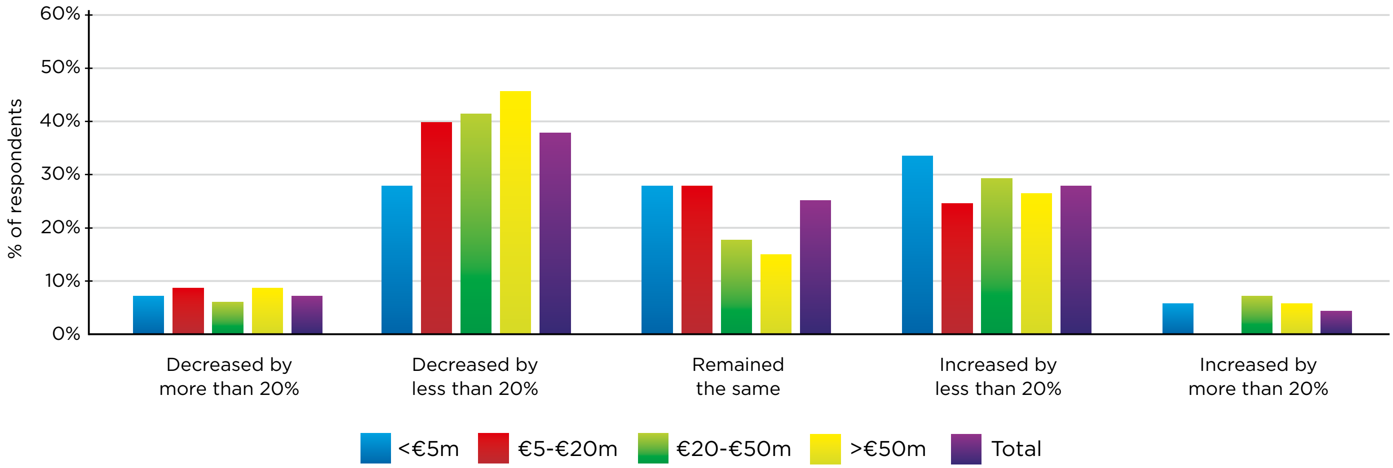
2022 EVOLUTION OF NUMBER OF M&A TRANSACTIONS



When we examine the evolutions by size category, we discover that the market has been more resilient for the smallest deal segment. For transactions worth less than €5 million, 2 out of 3 respondents report that deal activity has remained stable, or even increased, since 2021. However, in the mid-sized segments (€5 to €50 million), almost 1 in every 2 respondents reported decreased activity.

This fraction even increases to 54% for deals exceeding €50 million. Overall, this finding is consistent with last year's Monitor, which predicted that the global economic downturn would primarily affect the larger deal segments.

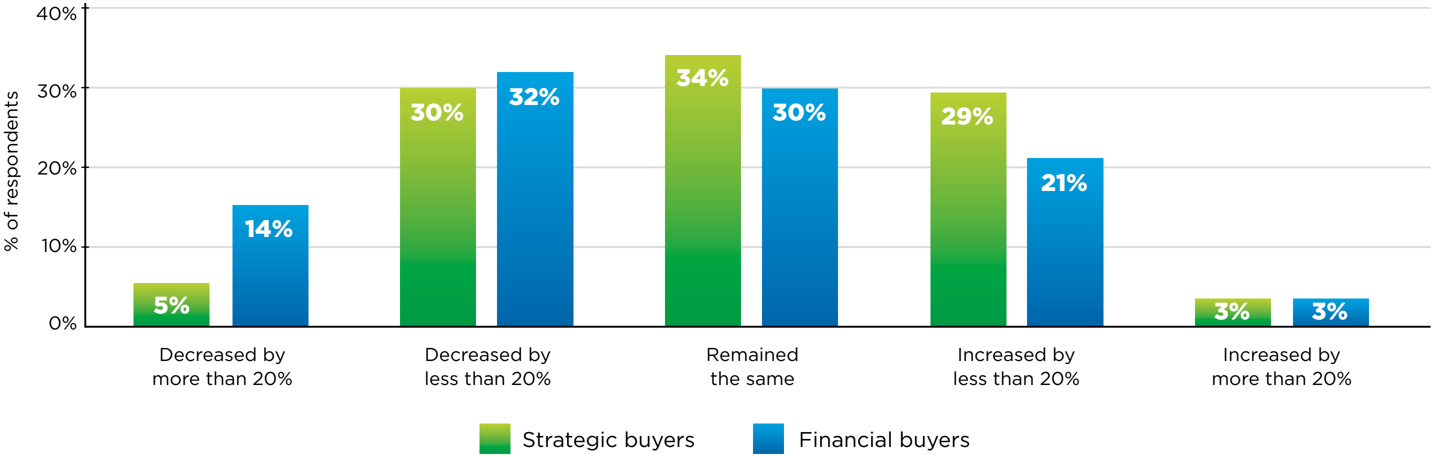
2022 EVOLUTION OF NUMBER OF M&A TRANSACTIONS PER SIZE CATEGORY



Comparing strategic and financial buyers, we see slightly different trends in M&A activity in 2022. 46% of financial (i.e., private equity) players reported a decrease in deal activity, compared to 35% of strategic buyers. Likewise, 32% of strategic buyers experienced increasing acquisition activity, which amounts to only 24% for financial buyers.

Our results confirm academic research, which shows that financial buyers tend to lose market share in periods of high interest rates, as they rely more heavily on debt to finance transactions[1].

2022 EVOLUTION OF NUMBER OF M&A TRANSACTIONS PER BUYER CATEGORY

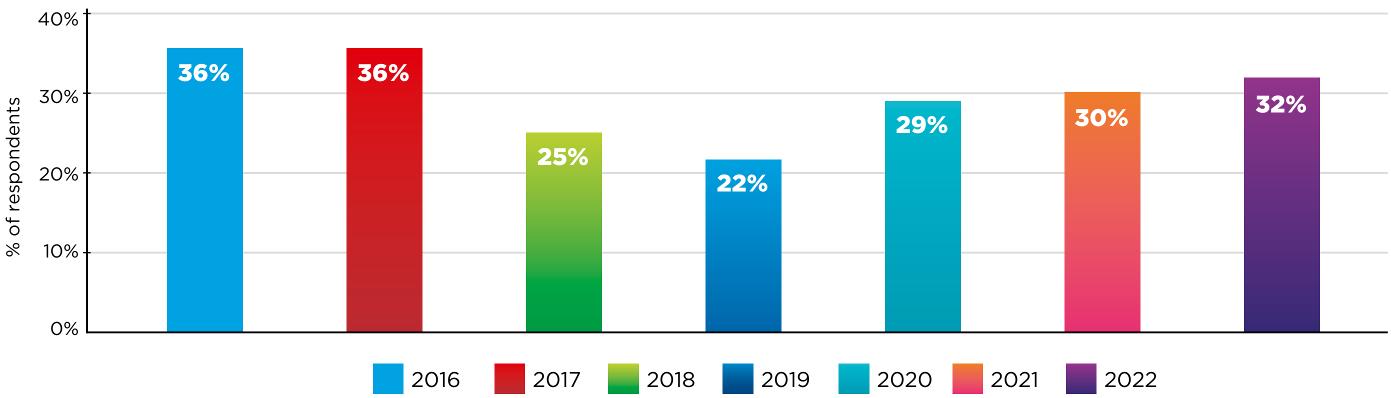


1 *Martos-Vila, M., Rhodes-Kropf, M., & Harford, J. (2019). Financial versus Strategic Buyers. Journal of Financial and Quantitative Analysis, 54(6), 2635-2661. doi:10.1017/S0022109019000139*

Finally, based on the percentage of cross-border acquisitions by Belgian acquirers, we conclude that outbound deals are once again on the upswing. In 2016, 36% of all transactions featured a foreign target, but due to Brexit and trade concerns with the US in 2019, this figure plummeted to 22%.

Despite the COVID pandemic, cross-border transactions have grown in popularity since then, as about 1 in 3 deals are cross-border transactions.

% CROSS-BORDER BY BELGIAN ACQUIRERS

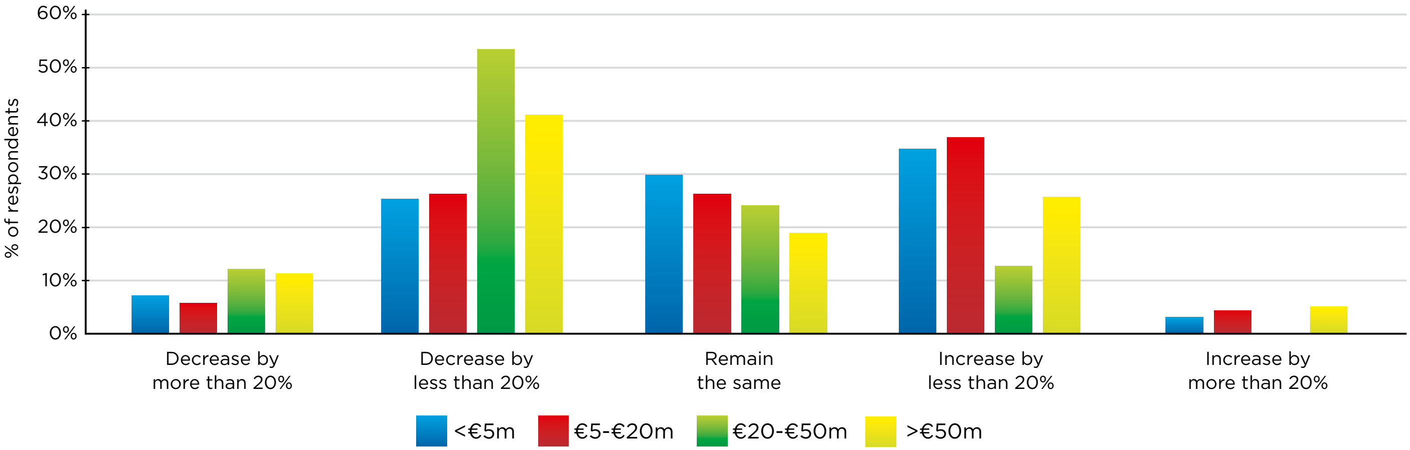


CONTINUING ON THE SAME PATH

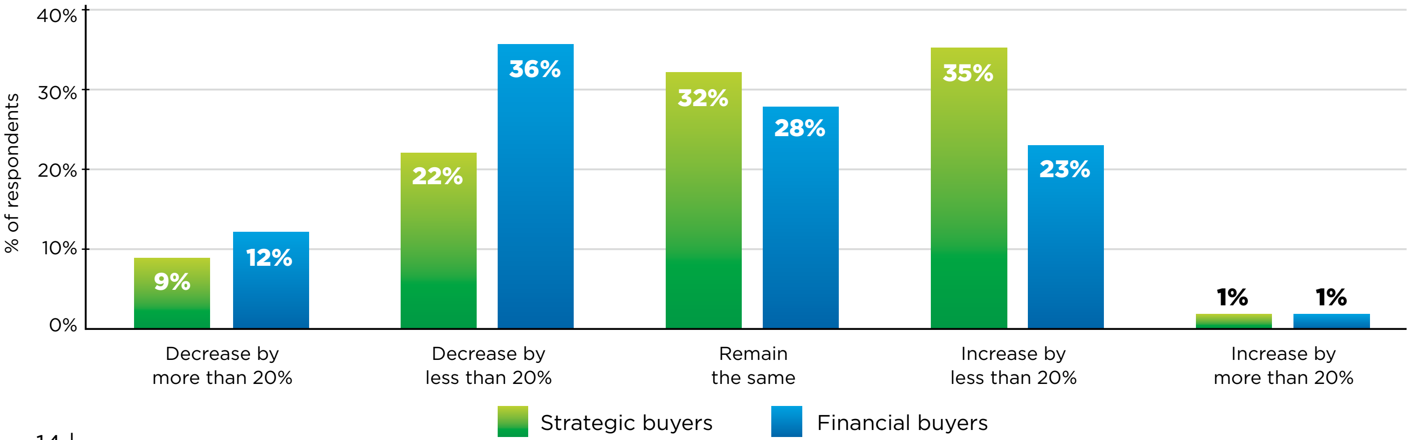
Looking ahead, we see that buyer type and transaction size heavily influence forecasts. M&A experts again predict a brighter future for smaller deals next year, due to lower reliance on external financing. More than half of the respondents foresee M&A activity declining in 2023 in the 2 segments above the €20 million threshold, whereas only one-third expect a drop in the smaller segments.

Interestingly, our results also reveal a slightly more positive outlook for strategic buyers for 2023. Whereas 36% of the respondents anticipate a significant increase in future M&A activity for strategic buyers, only 24% do so for financial buyers. Overall, these results align with the expectation that interest rates are unlikely to drop in the near term, thus putting continuing pressure on highly leveraged financial transactions.

EXPECTED EVOLUTION OF M&A TRANSACTIONS FOR 2023 PER SIZE CATEGORY



EXPECTED EVOLUTION OF M&A TRANSACTIONS FOR 2023 PER BUYER CATEGORY



> M&A activity has shown strong resilience throughout economically turbulent markets. Given record amounts of dry powder, strategic buyers used to be at a competitive disadvantage compared to buyout firms. Nowadays, the tables are likely to turn due to the increased cost of debt financing.

Respondent A

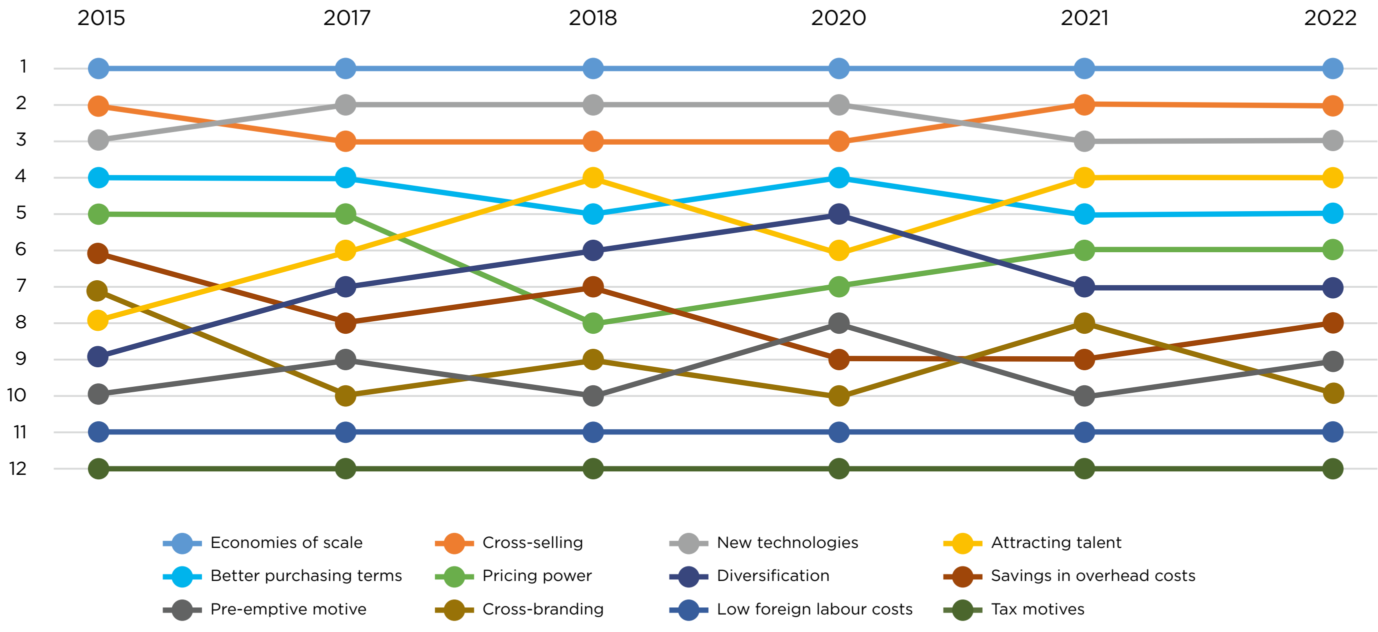
MOTIVES

We asked the experts to assess the relevance of different strategic M&A drivers on a 5-point scale, ranging from 1 (not important) to 5 (very important). Based on these scores, we rank each of the motives and provide a historical overview based on prior editions of the Monitor.

The overall ranking of the top 3 motivations has stayed quite consistent over the years. From 2015 to 2022, realising economies of scale has continuously been the No. 1 motivator for pursuing acquisitions. Similarly, cross-selling and obtaining new technologies consistently rank as the next 2 reasons to acquire other companies.

The most notable shift can be found in attracting new talent as a rationale for M&A, so called acqui-hiring. While this motive was only listed as the 8th most important one in 2015, it is now ranked as the 4th most essential rationale. Diversification also became a more vital driver of corporate combinations over the past few years. Large cash reserves held by corporates, and the demand for deals exceeding the supply, caused acquirers to search for alternative opportunities outside their main industries. The most significant decline in ranking is observed for cross-branding.

EVOLUTION OF MOTIVES FOR STRATEGIC BUYERS (RANKINGS)

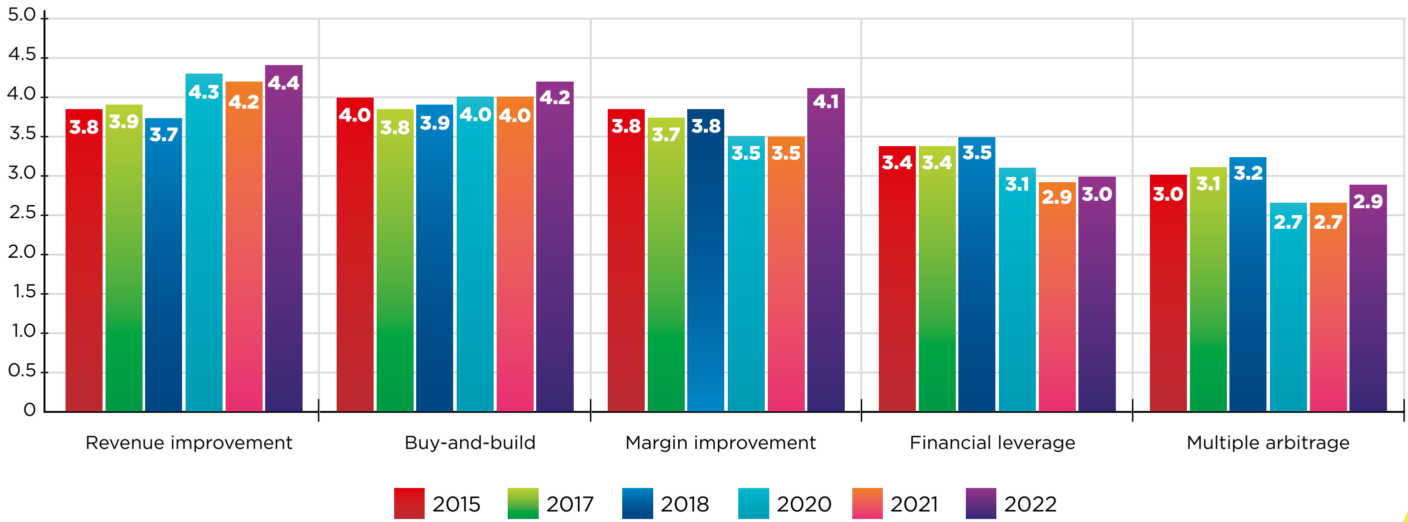


Similarly, we asked the experts to assess the relevance of various motives for financial buyers on a 5-point scale, ranging from 1 (not important) to 5 (very important). Given that we consider only 5 potential deal rationales for this buyer category, we base our historical analysis on the absolute scores rather than the relative rankings.

Although the relative importance of the various motives has remained relatively stable from 2015 to 2022, we identify 2 remarkable evolutions.

First, we observe that revenue enhancement has increased in importance – with a score of 4.4 in 2022, compared to 3.8 in 2015. Top-line growth has thus become a more crucial motive for financial investors. Second, when we compare the last 2 years, we see a significant increase in the margin improvement score, illustrating a more pronounced focus on efficiency gains in economically turbulent times.

EVOLUTION OF M&A MOTIVES FOR FINANCIAL BUYERS



The past decade was characterised by the ongoing growth of available capital to finance deals, which led to record multiples even up to today. However, the question remains: how will 'the end of free money' affect future activity and pricing?

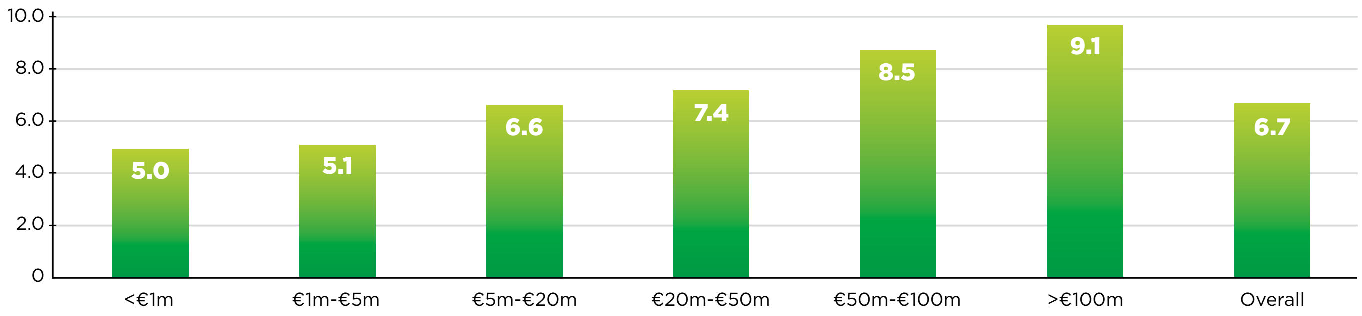
Respondent B

VALUATION

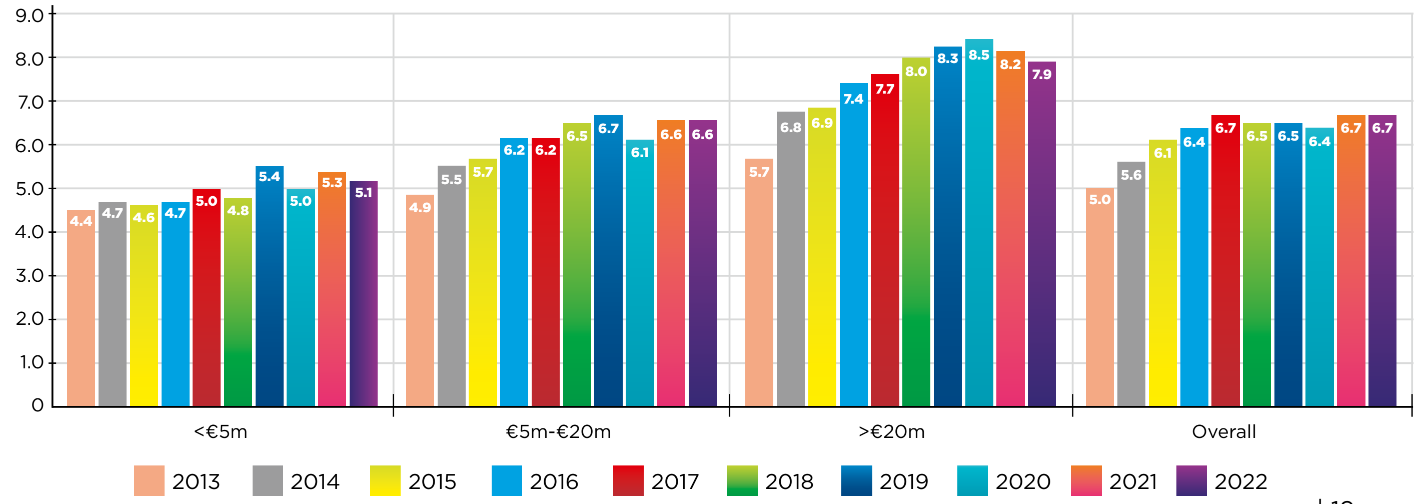
We asked the surveyed experts to provide the average EV/EBITDA multiple of the deals they were involved in during 2022. The average multiple ranges from 5.0 for the smallest deal segment (<€1 million) to 9.1 for the largest deal segment (>€100 million). Despite bleak economic conditions, the average multiple across all industries remained stable at 6.7 in 2022 – an all-time high compared to the start of our measurements in 2013.

The steady valuations primarily apply to the smaller transactions (<€20 million). We see a slight correction in multiples for the largest size segment, consistent with the fact that such deals require larger amounts of external debt financing. Moreover, such transactions often involve multinational organisations, which are more susceptible to geopolitical tensions and macro-economic factors such as inflation and exchange rates.

AVERAGE ENTERPRISE VALUE (EV)/EBITDA



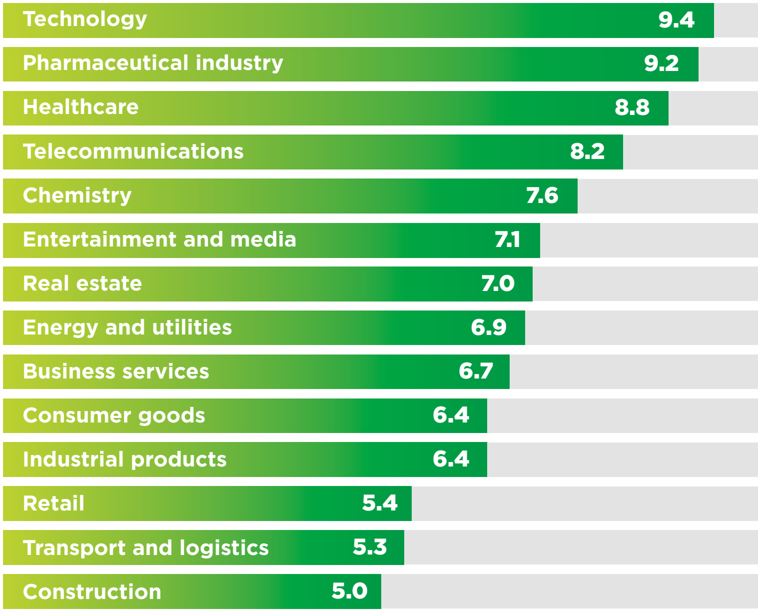
MULTIPLES HISTORICAL EVOLUTION



Next, we invited the respondents to provide input into the multiples observed per industry. Despite significant stock-market corrections for large tech companies over the past year, the technology sector takes the lead, with a multiple of 9.4. In addition, M&A in industries with significant entry barriers, high margins, and good growth prospects – such as pharma (9.2), healthcare (8.8), telecom (8.2), and chemistry (7.6) – exhibit elevated multiples.

Entertainment and media (7.1), real estate (7.0), business services (6.7), industrial products (6.4), and consumer goods (6.4) all center around the average. More capital-intensive and/or low-growth sectors – like retail (5.4), transport and logistics (5.2), and construction (5.0) – traditionally rank at the bottom of the list.

MULTIPLES PER INDUSTRY



The table below also reports differences across size segments within these industries. We require at least 5 responses inside every cell to obtain representative findings. The relative ordering of multiples within each size category is similar to the overall averages.

MULTIPLES	<€5 million	€5 - €20 million	>€20 million
Technology	7.0	9.3	10.1
Pharmaceutical industry	NA	9.0	9.4
Healthcare	NA	7.7	10.5
Telecommunications	NA	NA	9.3
Chemistry	NA	NA	8.4
Entertainment and media	4.9	NA	8.6
Real estate	4.3	7.8	10.0
Energy and utilities	NA	NA	7.7
Business services	5.0	5.7	8.6
Consumer goods	5.7	6.0	7.5
Industrial products	4.9	6.6	7.0
Retail	4.6	5.8	NA
Transport and logistics	4.2	5.7	6.2
Construction	4.2	5.1	6.4

> With the increased presence of professionals, the adoption of structural procedures, and the use of more detailed due diligence, the Belgian M&A market – including the smaller transaction segments – has experienced a surge in professionalisation.

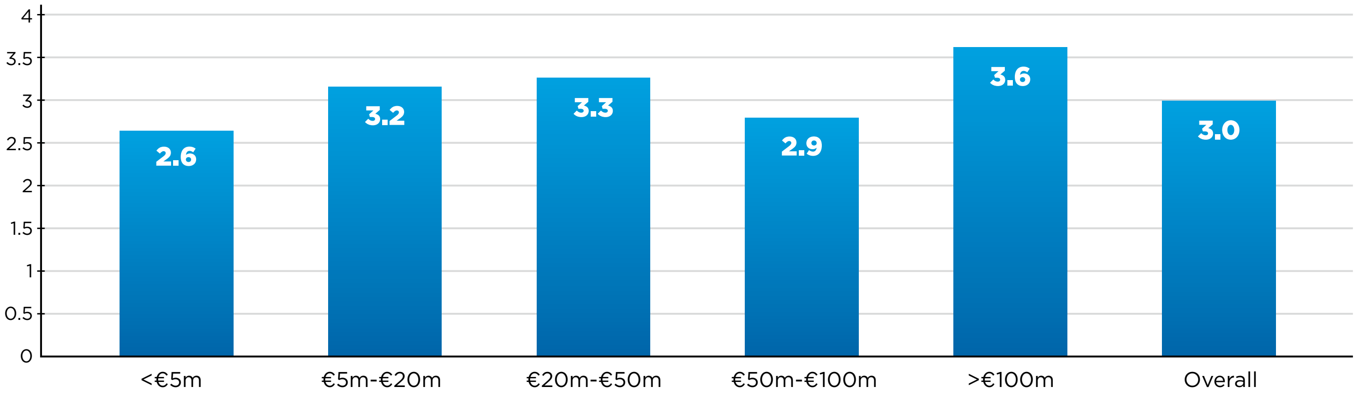
Respondent C

DEAL STRUCTURING

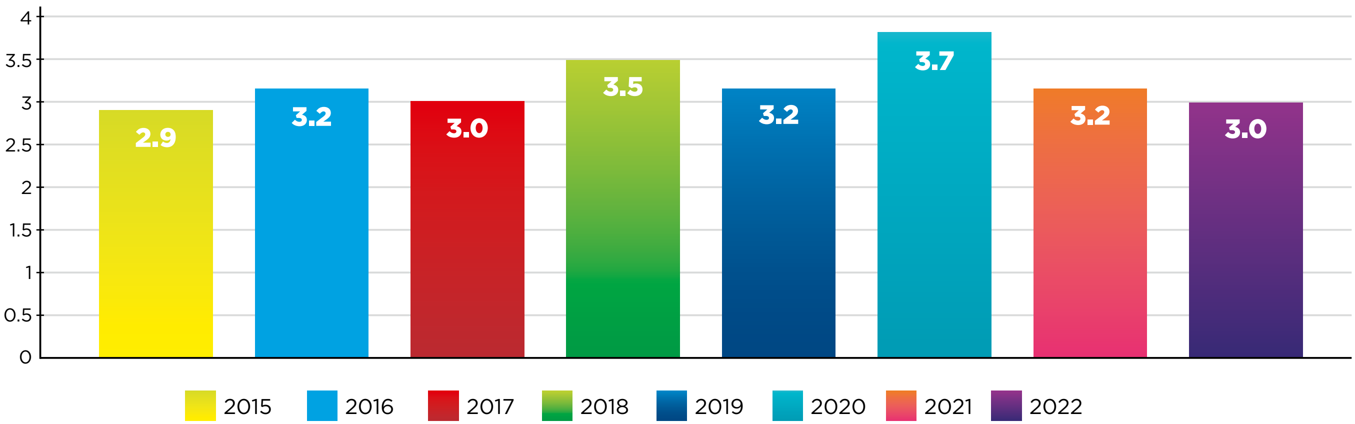
This section zooms in on the sources of funds used to finance M&A transactions. We examine the typical extent of debt financing in M&A by asking our respondents about the average ratio of net financial debt (NFD) to EBITDA. In addition, we also included questions on the use of delayed payments that are fixed (vendor loans) or that depend on post-M&A performance (earnouts).

The average ratio of net financial debt compared to EBITDA amounts to 3.0. Across size segments, the average ranges from 2.6 for the smallest category to 3.6 for the largest segment. From a historical standpoint, the average NFD/EBITDA ratio is close to the level at the start of our measurements in 2015, yet 0.7 times EBITDA lower compared to the record level of 2020 (3.7). This trend supports our claim that banks have become more conservative in granting M&A financing.

NFD/EBITDA FOR 2022 PER SIZE SEGMENT



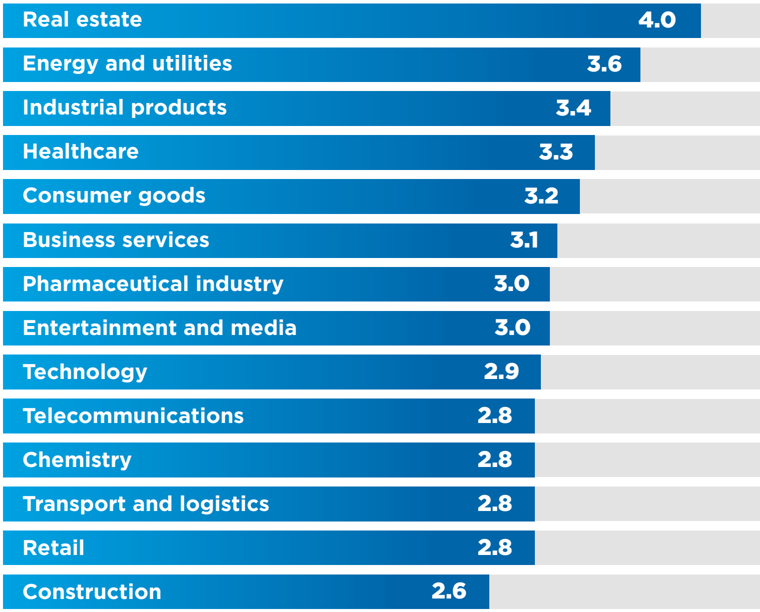
EVOLUTION OF THE OVERALL NFD/EBITDA



We also polled our experts on the average sector NFD/EBITDA ratios used to finance M&A transactions. Although the NFD/EBITDA ratio correlated strongly with their multiples for most transactions, there are a few significant outliers.

Not surprisingly, real estate firms (4.0) are the most levered, despite their EV/EBITDA ratios being near the sample mean. Despite high valuation multiples, both pharma (3.0) and technology (2.9) businesses score around the overall average in terms of debt financing due to inherent risks.

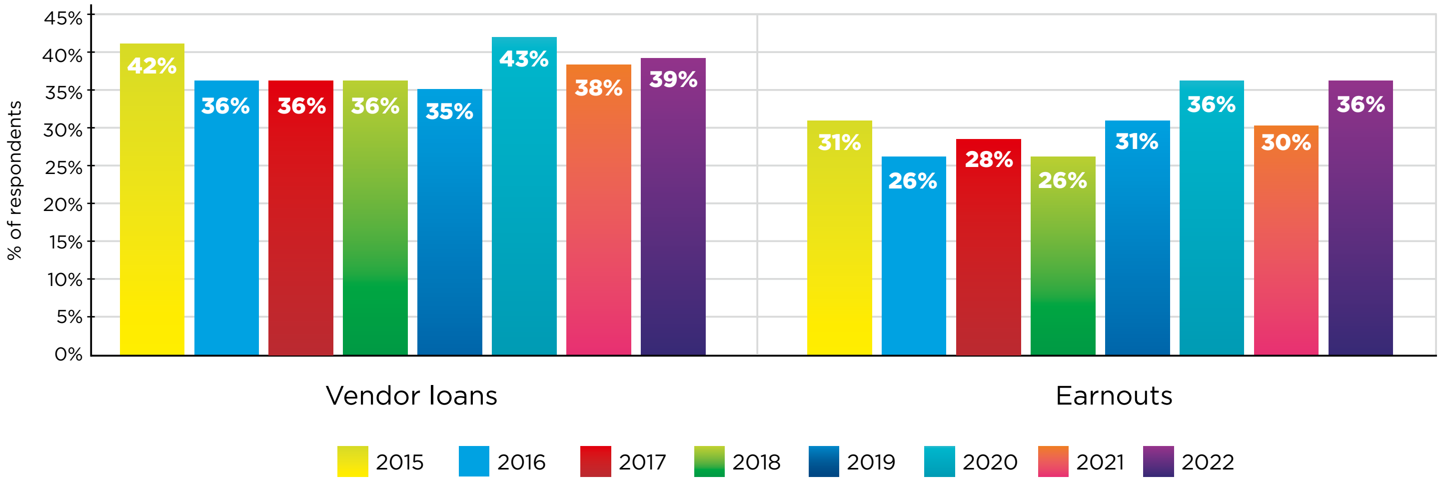
NFD/EBITDA FOR 2022 PER INDUSTRY



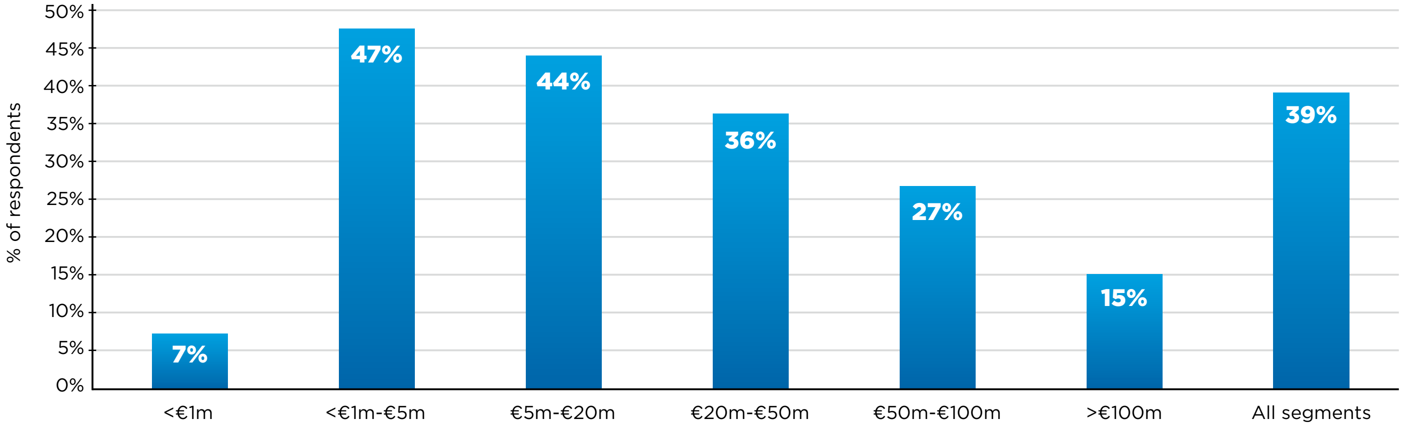
In line with the more conservative use of bank financing, the use of earnouts has risen back to its level during the COVID pandemic. M&A agreements included an earnout clause in 36% of the cases in 2022, up from 30% in 2021. Earnouts typically account for 21% of the average deal value.

Vendor loans occurred in 39% of the transactions, which is still slightly below the record of 43% in 2020 but significantly higher compared to the pre-pandemic year. The average vendor loan in 2022 comprised an interest rate of 5.1% and represented 18% of the transaction value.

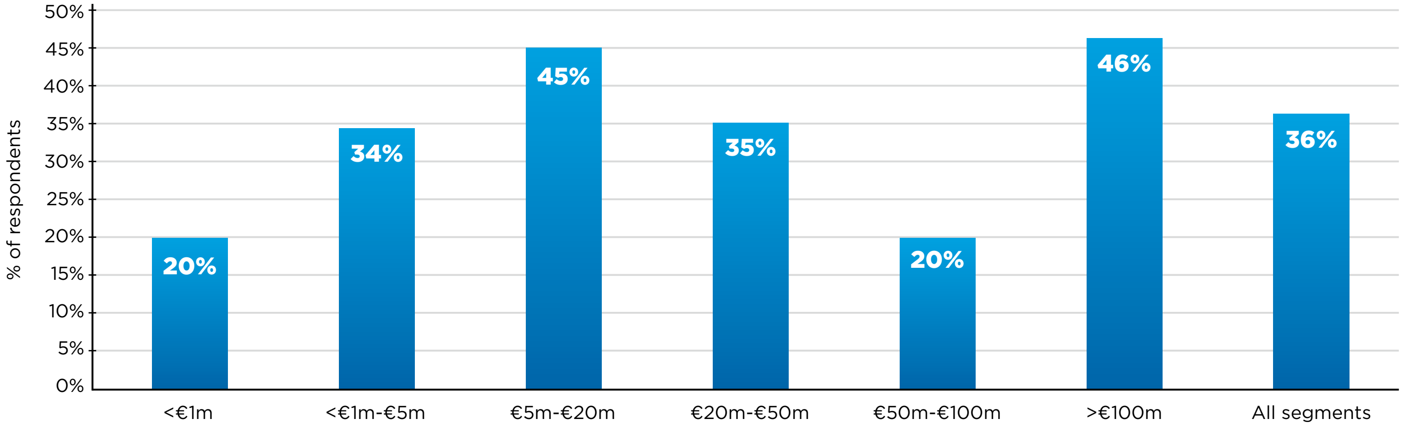
HISTORICAL EVOLUTION OF THE USE OF VENDOR LOANS AND EARNOUTS



FRACTION OF M&A TRANSACTION WITH A VENDOR LOAN IN 2022

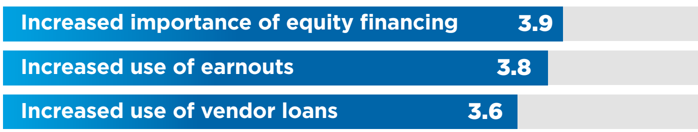


FRACTION OF M&A TRANSACTION WITH AN EARNOUT IN 2022



Given the current macro-economic uncertainty, we also asked our experts to assess how deal structuring will evolve in 2023 on a 5-point scale, ranging from 1 (strongly disagree) to 5 (strongly agree). As lenders become more risk-averse, our experts predict that use of equity financing will increase. Moreover, they also forecast more deferred payments in the form of earnouts and vendor loans.

EXPECTED TRENDS IN DEAL STRUCTURING IN 2023



DEAL PROCESS

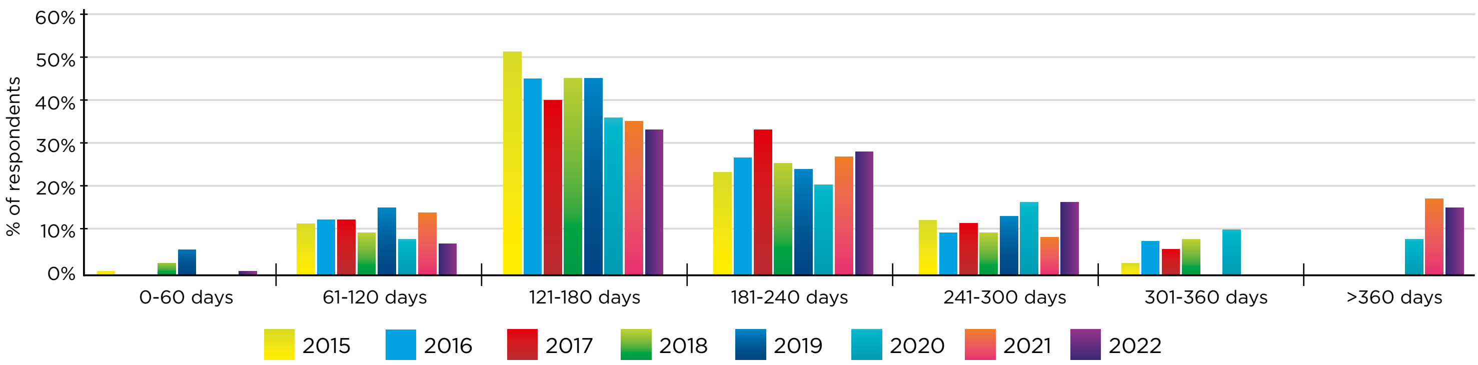
This section highlights 2 critical aspects of the M&A deal process. First, we assess how the length of the process, from initiation to completion, has evolved over recent years. Second, we investigate the typical number of bidders that make an indicative offer for a target company.

Notably, we find that it is taking increasingly longer to complete M&A deals. In 2015, for example, more than 60% of all transactions were completed in 6 months or less. In 2022, this was true for only roughly 4 out of every 10 transactions.

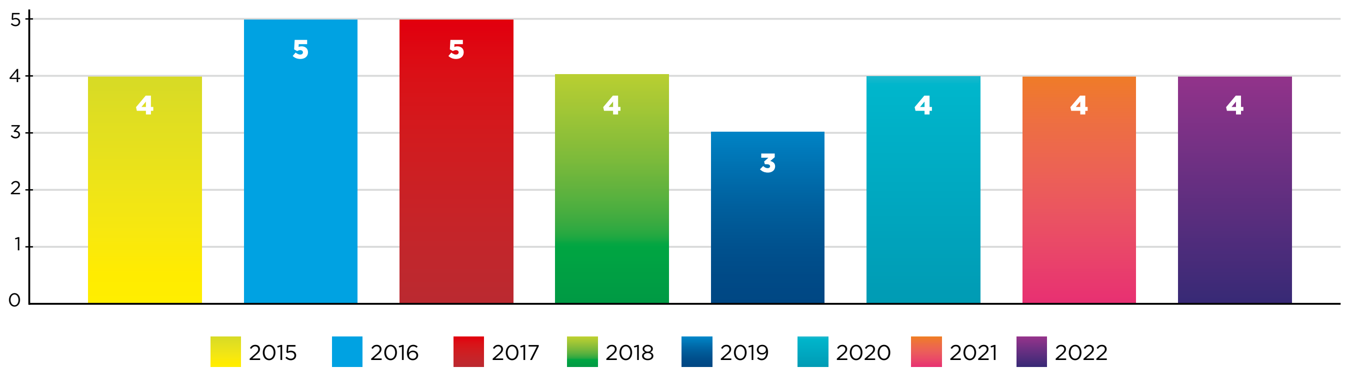
This trend can likely be explained by heightened business uncertainty caused by the epidemic and recent economic instability complicating due diligence and negotiations. Moreover, given the increased risk aversion of financiers, it may take longer to negotiate the financing of deals.

Over the past 3 years, the average number of bidders making an indicative offer per transaction remained at 4. Historically, this has fluctuated between 3 to 5 bidders.

HISTORICAL EVOLUTION OF LENGTH OF DEAL PROCESS



HISTORICAL EVOLUTION OF THE NUMBER OF BIDDERS



SPOTLIGHT ON LONG-TERM TRENDS

LOOKING BACK

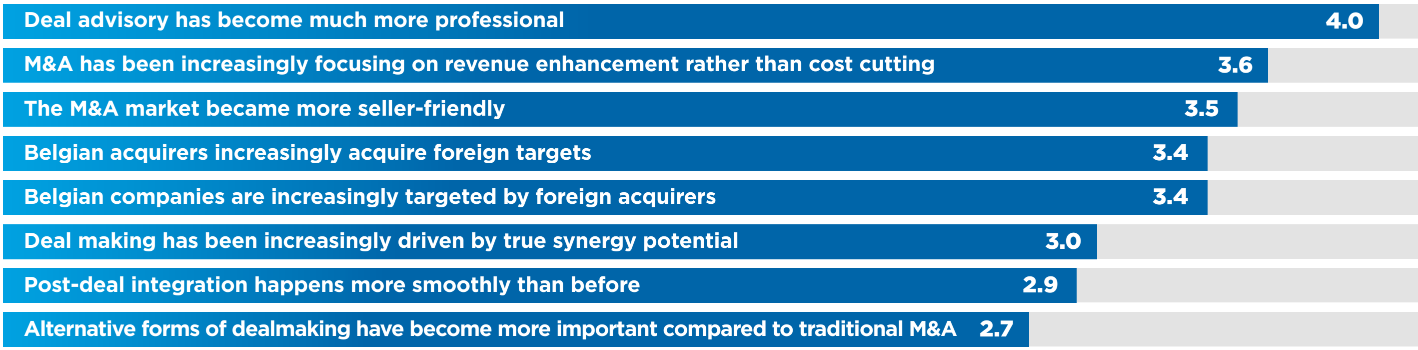
As this marks the 10th edition of our annual M&A monitor, we devote a separate section to how M&A in Belgium has evolved **over the last decade**. We asked our respondents to rate several assertions about changes in the M&A market on a 5-point scale, ranging from 1 (strongly disagree) to 5 (strongly agree).

Most significantly, there is widespread consensus that deal advising has become far more professional in recent years (4.0). A second significant development is that acquirers increasingly seek companies that can help them achieve long-term revenue growth rather than cost-cutting efficiencies (3.6). Part of this can be explained by the favourable economic conditions, which caused an increase in deal demand, thus making the market more seller-friendly (3.5).

Accordingly, multiples have known a steep increase over the past decade, and many acquirers need to look beyond sheer cost-cutting to justify their deals. However, while true value creation needs to be realised after the transaction phase, no overall improvement in post-merger integration was observed (2.9).

Next, the Belgian M&A market has become increasingly international, with most of our respondents indicating that both outbound (3.4) and inbound (3.4) deal activity has increased. Surprisingly, the surveyed experts did not notice a significant shift towards alternative forms of deal-making (2.7), such as joint ventures and strategic alliances, which contrasts with trends reported for the global market.

PAST 10 YEARS



LOOKING FORWARD

We also asked the experts to rate the importance of certain anticipated M&A trends over the **next 5 years**, again on a 5-point scale, ranging from 1 (not important) to 5 (extremely significant).

Proactive deal-making (4.0) is projected to be the most important trend, in line with the fact that M&A has increasingly focused on revenue development. Our respondents anticipate that M&A will become even more an integral part of a company's growth strategy, rather than an opportunistic phenomenon. In line with this expectation, the second most crucial forecast is that future acquirers will increasingly rely on data analytics (3.7) to identify and close potential transactions. Equally important, Belgian acquirers will search more actively beyond borders for potential deals (3.7), and environmental issues will be a crucial decision element in future M&A negotiations (3.7). Governance (3.4) and social aspects (3.3) are relatively less important, though still relevant, on the ESG spectrum. Many of our respondents also believe that having easily available capital earmarked to engage in M&A (3.5) will become more vital to respond promptly to future M&A opportunities. Interestingly, virtual deal-making (2.8) is expected to be the least important trend. So, despite being a valuable tool that enabled deal-makers to continue to do business during travel restrictions and social distancing, in-person meetings and site visits are likely to remain an inherent part of the deal process.

NEXT 5 YEARS

Buyers will adopt a buy-and-build strategy more frequently and be less motivated by opportunistic acquisition behaviour, while also looking more across borders.

Respondent D

The inclusion of smaller transactions as part of more pro-active buy-and-build strategies will cause a significant shift in the sweet spot range.

Respondent E

CONCLUDING THOUGHTS

As 2022 came to a close, the Belgian mergers and acquisitions (M&A) market buzzed with activity in the smaller and mid-size deal segments. Inflation, interest rates, and geopolitical tension, however, negatively impacted M&A activity, predominantly in the large-cap market segment. Despite lingering uncertainties, the Belgian M&A landscape witnessed several key trends.

One notable trend was the rise of sustainable and socially responsible M&A practices. As sustainability and ESG (Environmental, Social, and Governance) considerations gained further prominence, Belgian companies were under increased scrutiny to align their operations with these principles. This led to a surge in M&A deals that focused on companies with strong ESG credentials. This trend entailed a surge in provisions relating to ESG commitments in the companies' governance documentation, such as shareholders' agreements.

In addition, the Belgian M&A market saw an uptick in activity within the small and medium-sized enterprises (SMEs) segment. SMEs, which form the backbone of Belgium's economy, were increasingly viewed as attractive targets for acquisitions due to their innovation potential and ability to adapt to changing market dynamics.

However, the M&A landscape also faced challenges in 2022. Uncertainties around geopolitical and trade issues, as well as regulatory changes, created headwinds for some deals, leading to delays and re-evaluations.

Yet, despite facing various obstacles, the M&A market in Belgium showed resilience in 2022 and is expected to maintain a strong deal flow in the near future. Nevertheless, the proposed tax reforms by the Belgian Ministry of Finance have the potential to raise the tax burden on specific Venture Capital (VC) and Private Equity (PE) funds. While there is no certainty at this point regarding the implementation of these reforms, if they do come into effect, they could have a detrimental impact on VC and PE funds, as well as on the overall VC and PE deal activity within Belgium.

Van Olmen & Wynant

Luc Wynant
Van Olmen & Wynant
Partner

As a niche bank for entrepreneurs with a unique focus on the Belgian SME market, we have admired the fact that our clients continued to apply their creativity, resilience, and entrepreneurial spirit in a very challenging context in 2022. War, declining globalisation, inflation, energy crisis, rising interest rates, and a difficult labour market are just some of the factors that have once again changed the context.

The era of abundant cash, combined with extremely low interest rates, created a huge boom in the M&A market in recent years. Today, PE investors are a bit more cautious, but those who see opportunities for operational improvement remain very active. Family succession is also less of an obvious choice. All of this ensures that the M&A flywheel in the SME market will continue to turn well.

We see a difference in the timing of deals. The negotiation process may take longer. Due to uncertain parameters (energy prices, labour costs, logistical issues), it is more difficult to forecast future cash flows in concrete terms. As a result, it takes more time to make a correct valuation and more negotiation on price and payment terms. Fortunately, there are good mechanisms for this, such as earnouts.

There is also the growing importance of ESG. Buyers are increasingly emphasising this, which means that due diligence and closing can take a little longer.

A final trend is a slight decrease in multiples due to higher interest rates. The company's financial viability to be acquired is, and will remain, an important parameter affecting valuation. In any case, multiples and interest rates are correlated.

In summary, our entrepreneurs' spirit, creativity, and resilience remain more than present. SMEs have addressed macro-economic uncertainties, and the M&A market has continued to perform well.

Bank · Banque VanBreda

Dominic Dhaene
Bank Van Breda
M&A Expert

Just like 2021, 2022 was a year of very high M&A activity, and we noticed a strong increase in M&A activity by industrial buyers. This trend is continuing in 2023. A major reason for this is that private equity players are suffering more than industrial buyers from the increased interest rates. This is often due to a lower IRR expectation and lower debt ratio among industrial buyers.

In 2022, private equity players remained very active; and, as in 2021, more and more foreign PEs are approaching the Belgian market. With the ongoing consolidation in various sectors, PEs are looking more often at classic family businesses with strong client portfolios and growth potential. Within this group, there are still quite a few companies that have not fully realised their growth potential for several reasons.

In 2023 as well, multiples are being paid at 2022 levels for companies with growth potential that are active in the right sectors. Corporates and PEs are actively soliciting consultants to advise them in ESG topics during the due diligence stage as well as for their existing portfolio. Right now, the M&A market is still very active in small and mid-cap deals – and, fortunately, the feared impact of the strong inflation in 2022 is currently not happening.

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