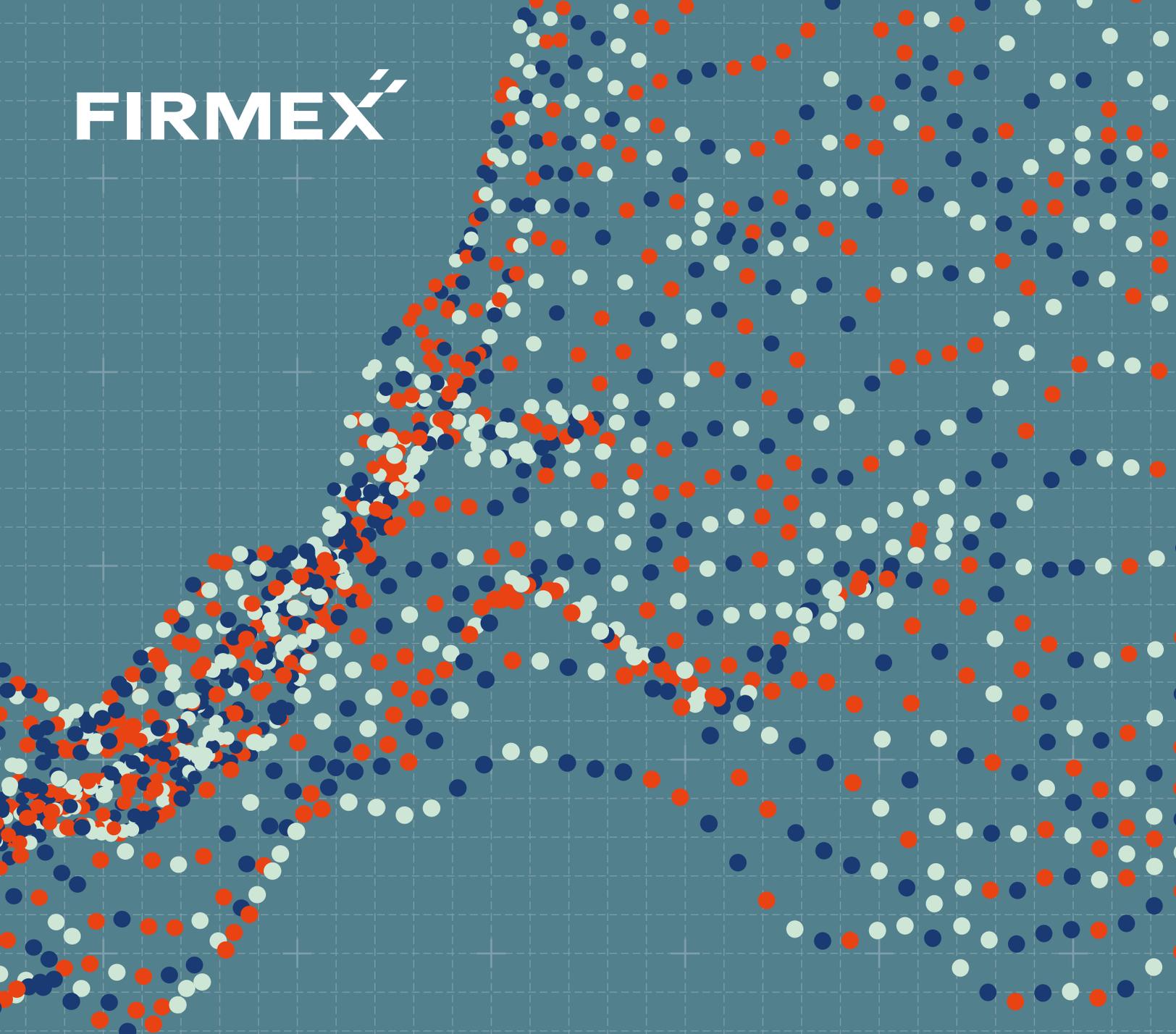


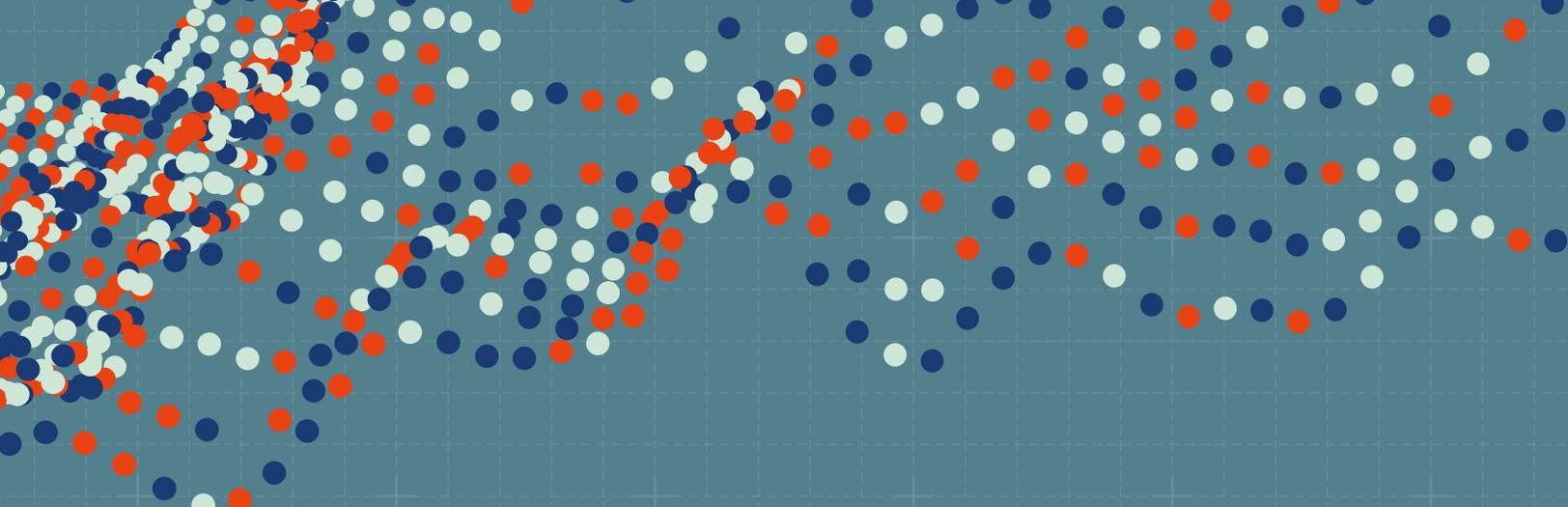
The logo for FIRMEX, featuring the word "FIRMEX" in a bold, white, sans-serif font with a small accent mark over the 'X'.

FIRMEX

A decorative graphic consisting of a dense field of small dots in red, white, and dark blue. The dots are arranged in a pattern that resembles a wave or a series of overlapping, slightly curved lines, creating a sense of movement and depth. The background is a light blue grid.

Deal Flow Bulletin

Q3 2021 EMEA Edition



Bulletin Highlights

- In tracking new Q2 data room activity, **Firmex forecasts a strong Q3 with a 23% increase in deal announcements over Q3 2020.**
- **Globally, most respondents are feeling positive (51%) or very positive (22%) about the M&A market in Q3.** Negative sentiment has seen a dramatic drop quarter-over-quarter from 11% in Q2 to 1% in Q3.
- M&A Advisors in the EMEA region are split on whether **COVID-19 has had a neutral (39%) or positive effect (39%).** The remaining 22% see it as negative.
- **A majority of those surveyed (58%) expect Strategic Acquisitions to increase in Q3,** with 15% also anticipating an increase in Financial Acquisitions, 12% expecting Divestitures / Carve-outs / Spin-offs to increase, and 8% anticipating an increase in distressed investing.
- **61% of EMEA respondents say capital is flowing inbound cross-border and 35% are involved in domestic deals.** Only 4% say capital is flowing outwards cross-border.
- **Strategy and Synergy is the top challenge (39%) M&A advisors expect to face in Q3 when it comes to creating value post-transaction,** followed by Sustainable Growth (27%), and People and Culture (15%).

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Overview

Firmex's position as the most widely used virtual data room for deals – more than 15,000 rooms are opened on the platform per year – generates unique insight into data room creation and its relation to deal volumes. This insight is shared in ***The Firmex EMEA Deal Flow Bulletin***, which uses the rate of virtual data room openings to forecast future deal announcements. This bulletin brings together Firmex's unique quantitative insights on deal flow with current market sentiment among dealmakers.

The COVID-19 pandemic has had a pervasive effect on dealmaking over the past year, disorienting valuations and hindering sustainable growth. Across the globe, sectors like commercial aerospace, real estate and retail still face an uphill battle on the way to recovery, while other industries like technology, healthcare and financial services have benefited from an increased focus on dealmaking activity. In Europe, vaccine roll-outs, the low cost of borrowing and dry capital, combined with the completion of Brexit and formalization of a new trade agreement, have helped create fertile dealmaking territory.

The data for Q3's Deal Flow Bulletin and sentiment amongst M&A advisors in Europe, Middle East, and Africa paints an optimistic picture. In tracking data room openings, Firmex forecasts a strong Q3. With Q3 predicted deal volumes similar to those in Q2, and a 23% growth over Q3 2020. In addition, Q3's Deal Flow Bulletin shows rising optimism amongst M&A advisors, with 73% of respondents feeling positive or very positive about Q3 2021.

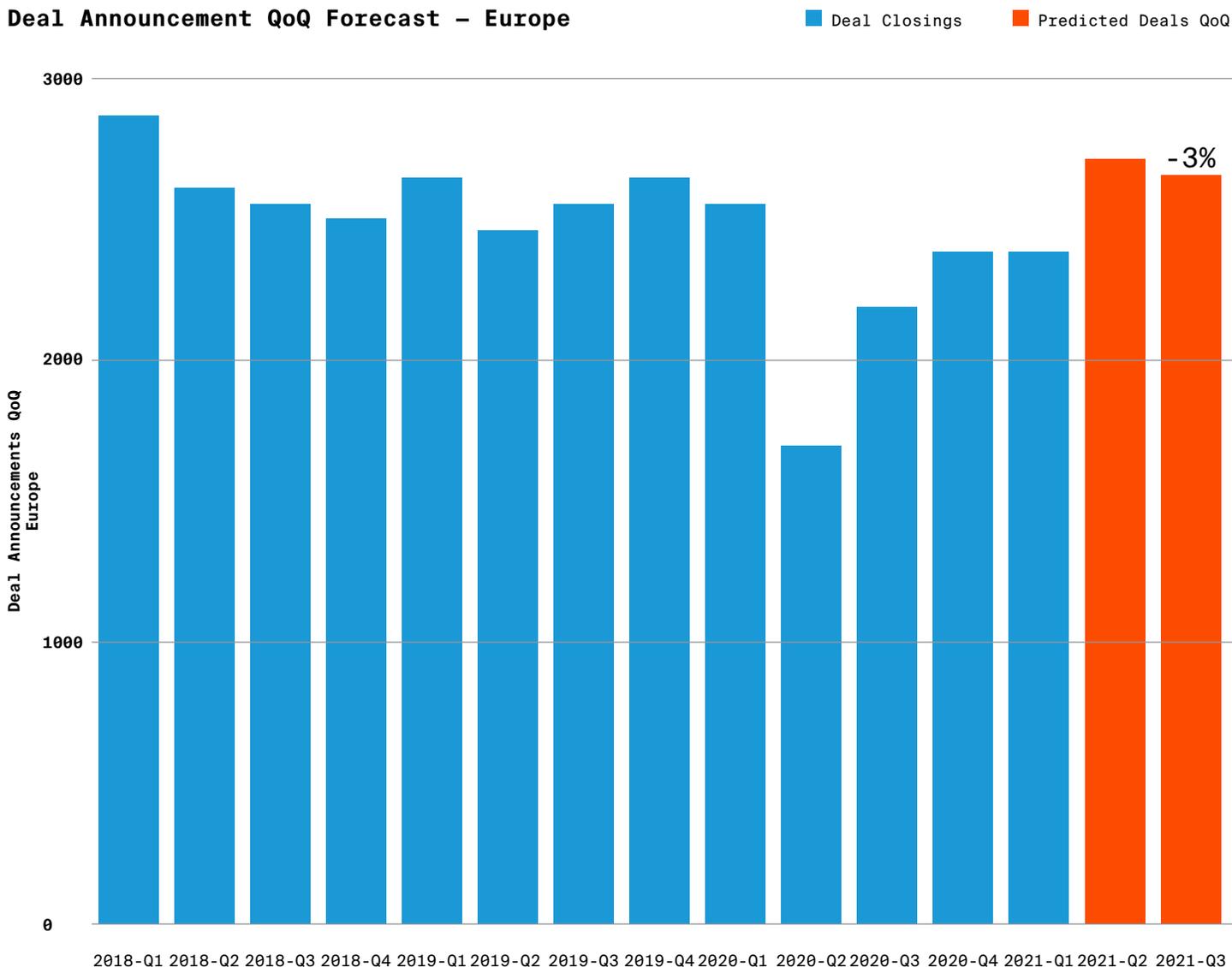
About the Survey

The Firmex Deal Flow Survey received responses from M&A experts worldwide. The survey ran from May to June 2021, with a total of 124 respondents. Of the total number of respondents, 60% identified as either investment bankers or M&A advisors, with the remaining 40% of respondents identifying with M&A-related roles. We believe the current survey sample size is of sufficient size and breadth to capture the sentiment among M&A advisors regarding deal volumes globally.

The Firmex Deal Flow Forecast

As the most widely used virtual data room provider for deals, with over 15,000 new data rooms opened per year, Firmex has unique insight into data room creation as it relates to deal volume trends, seasonal patterns, and for projecting deal activity into the future. In tracking new Q2 data room activity, Firmex forecasts a similar number of deal announcements (-3%) over the next 90 days compared to the previous quarter¹, and a 23% growth over Q3 2020.

Deal Announcement QoQ Forecast – Europe



Source: White & Case M&A Explorer, Institute for Mergers, Acquisitions and Alliances (IMAA) Analysis and Firmex Model Analysis

Reaction



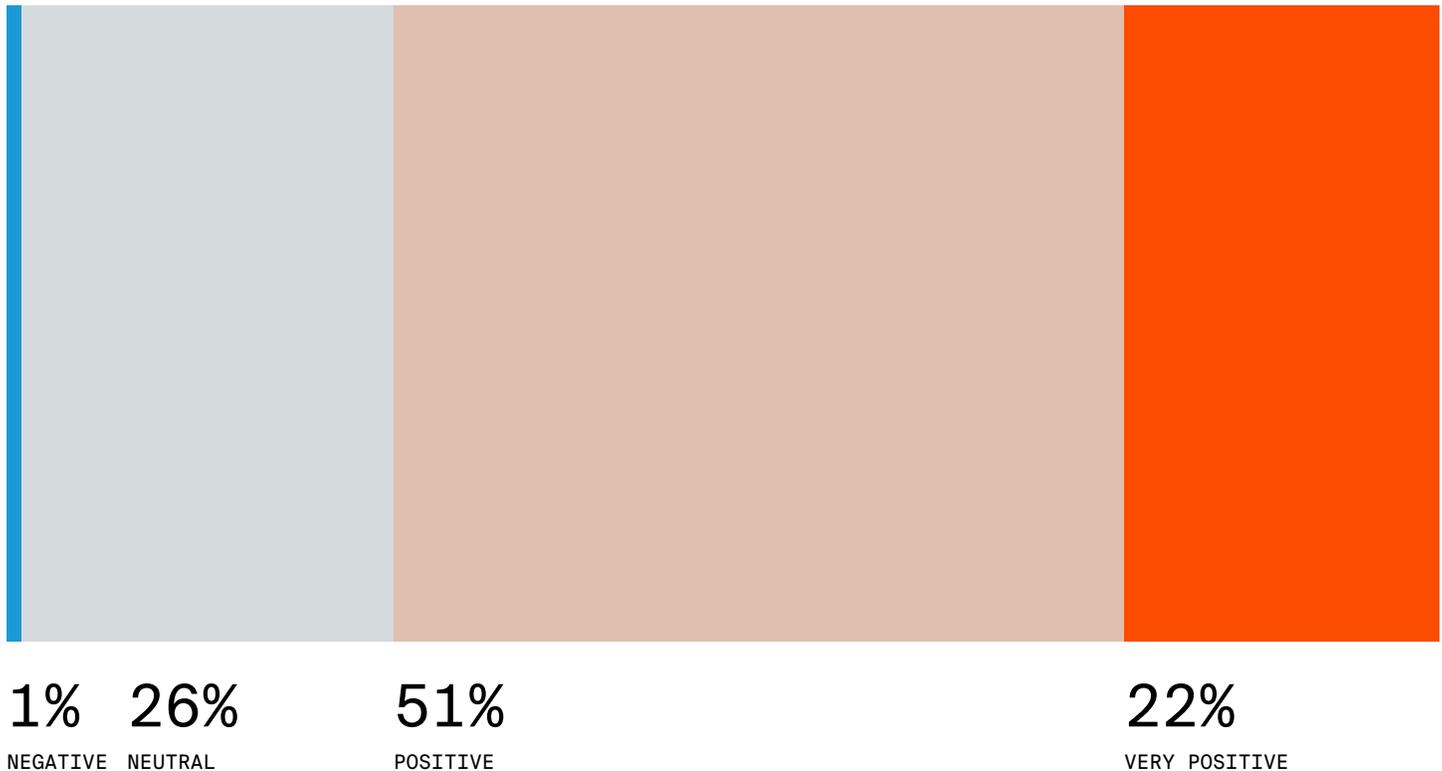
Maybe it's a question of seasonality? There is still much dry powder in the market, so I could not envisage a slowdown in the mid-term. – *Jūratė Majauskienė, SUMMA Advisers*

¹ This Q3 forecast is based on an estimate of Q2 2021 by Firmex, using historical data as reported by IMAA.

M&A Market Sentiment

Market sentiment saw a notable increase in positivity in Q3 compared to Q2. When asked about their outlook on the M&A market as a whole over the next three months, half of the respondents (51%) reported feeling positive while one-in-five (22%) said they feel very positive. Negative sentiment has seen a dramatic drop quarter-over-quarter from 11% in Q2 to 1% in Q3. The remaining 23% see it as negative.

As a whole, how are you feeling about the M&A market over the next 3 months?



Regional Differences and Deal-Drivers

When split regionally, EMEA M&A advisors held a slightly higher level of optimism than their North American counterparts. 77% of EMEA respondents say they feel positive or very positive about the M&A market over the next three months, versus 72% of North American respondents.

In Europe, the Brexit saga came to a formal conclusion as the European Parliament gave final approval to the EU-UK Trade and Cooperation Agreement at the end of April, with the agreement coming into force on May 1, 2021. The Brexit formalization gives a note of stability to a persistent five years of uncertainty created for cross-border M&A by the United Kingdom's decision to leave the European Union. Further to that, the combination of low interest rates and an excess of dry powder is helping to drive both domestic and cross-border dealmaking. Buyer and seller expectations surrounding valuations continue to differ, but for quality assets competition continues to be fierce as companies target strategic growth over organic.

In the Middle East, strategic consolidation will continue to be a key deal driver, as will digital diversification as firms adapt to remote work. Despite COVID-19 crippling M&A growth in Africa, the implementation of the African Continental Free Trade Area (AfCFTA) agreement in Q1 and a growing amount of tech companies attracting investors, a new breed of Africa-focused private equity investors, and the potential opening up of state-owned enterprises to private capital is setting the stage for what could be a healthy dealmaking sphere in the future.

Reactions



“ Lots of dry powder is still available. COVID has made private owners of businesses evaluate their positions. Some markets are changing substantially and this leads to opportunity, threats and therefore M&A activity. – **James Pugh, CapEQ**



“ Businesses' financial reserves were severely impacted by the pandemic. Now, on the recovery, supply chain problems and working capital needs are creating even more pressure in the cash situation. Some businesses are considering exit strategies for part of the business or even monetizing the business as a whole. Several opportunities will arise, not only from succession planning but because I think there will be lots of investors trying to take advantage of the COVID valuations. – **Francisco Teixeira, UP Consulting**



“ Buyers are looking for growth quickly via acquisitions as organic is more difficult to achieve. – **Colin Marson, Lisergy Consulting**



“ There will be a lot of merging and collaborations as entities are impacted by COVID and attempt to rationalise cost. – **Vuyo Klaas, Central Energy Fund**



“ Three months is a too short period to make things change. It will take from 6 to 12 months to change people's minds and approach a return to some sort of normality. – **Riccardo Giannelli Viscardi, Pandion Partners**



“ Smaller deals (our focus) remain more complex [than] larger. We see more willing sellers and an increased acceptance of earn-out mechanisms. – **Guidalberto Gagliardi, Equity Factory**

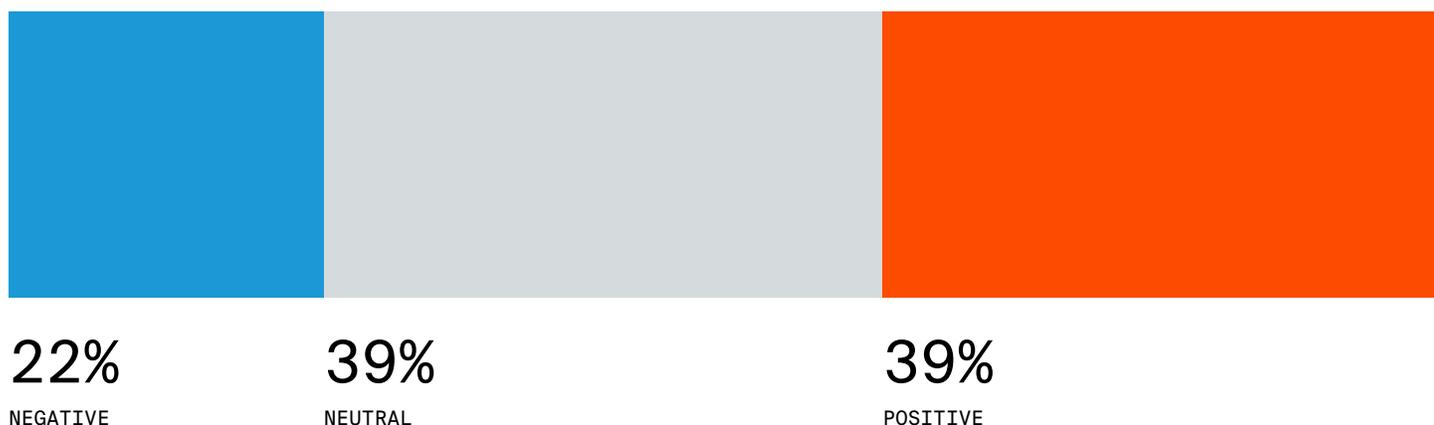
“ Post-pandemic increases distressed opportunities. It's a once in a century type of significant shift/transfer of wealth across geographies, asset classes, generations, etc... – **Alexander Bello, ADB Capital**

COVID-19's Overall Impact on M&A Practices

As countries across the EMEA region emerge from lockdowns, firms are looking to re-organize and adapt to a post-COVID-19 world as quickly as possible. M&A across the region has bounced back strongly. That's not to say the financial markets haven't retained that element of pandemic-led uncertainty, but when asked about COVID-19's overall impact on M&A practices globally, those surveyed are more optimistic this quarter with 43% stating they feel COVID-19 has impacted their outlook positively, up from 17% in Q2. Further to that, 37% agreed the impact is neutral. The number of advisors who see the pandemic having a negative impact decreased from 48% in Q2 to 20% in Q3.

In the EMEA region, that confidence dips slightly, with 39% saying COVID-19 has had a neutral effect and the same amount saying it's had a positive effect. Of EMEA respondents, 22% see it as negative, a contrast to 13% in North America.

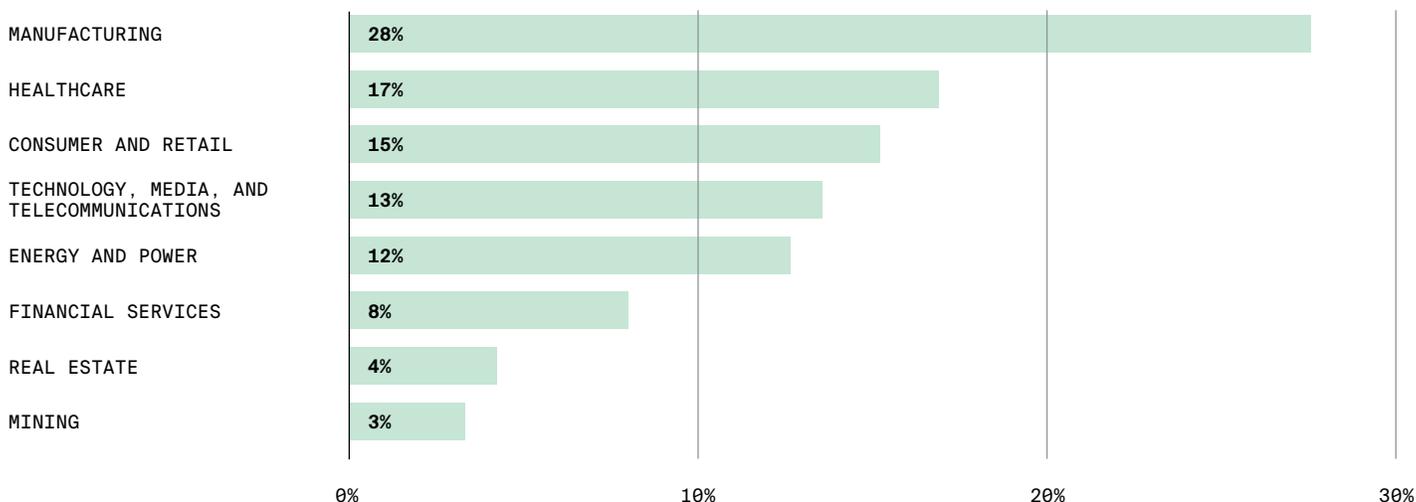
Overall, what impact has COVID-19 had on your M&A outlook?



Active Industries for Dealmaking

Globally, certain industries are more fertile than others for an increase in deal flow. M&A advisors that are bullish on dealmaking expect Manufacturing (28%) and Healthcare (17%) to be the most active, followed by Consumer and Retail (15%), Technology, Media and Telecommunications (13%), and Energy and Power (12%).

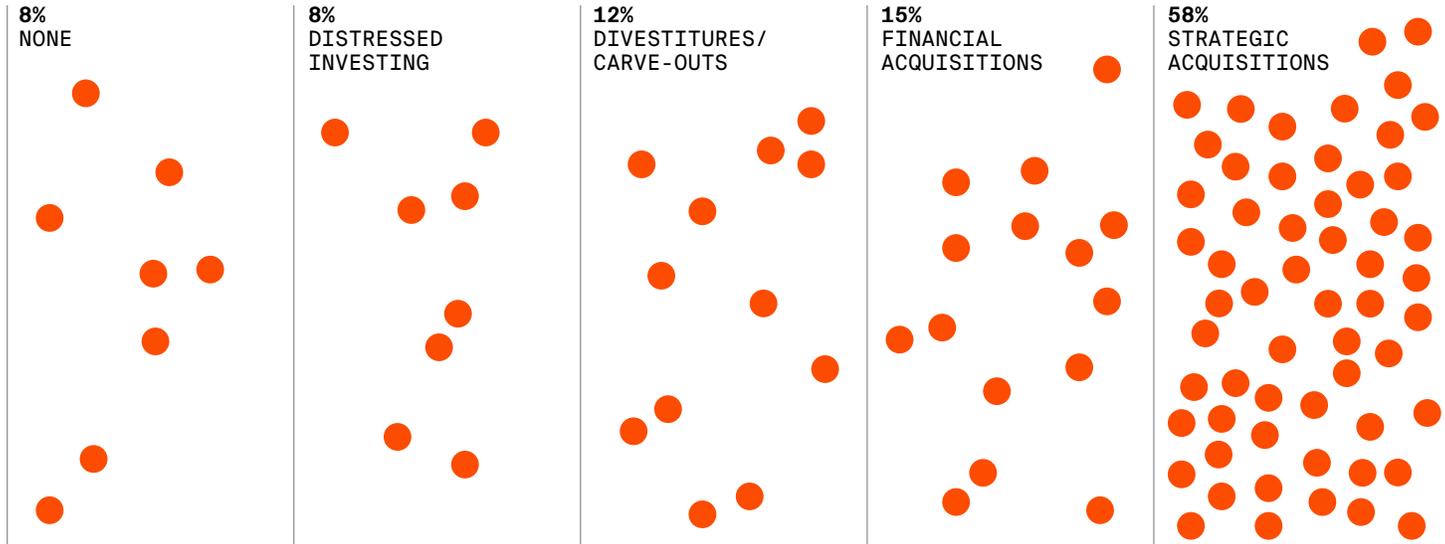
What industries do you expect to see activity in?



Types of Acquisitions

Looking forward, M&A advisors from the EMEA region (which accounts for a fifth of total respondents) suspect the dealmaking environment will be driven by Strategic Acquisitions. A majority of those surveyed (58%) expect Strategic Acquisitions to increase in Q3, with 15% also anticipating an increase in Financial Acquisitions, 12% expecting Divestitures / Carve-outs / Spin-offs to increase, and 8% anticipating an increase in Distressed Investing.

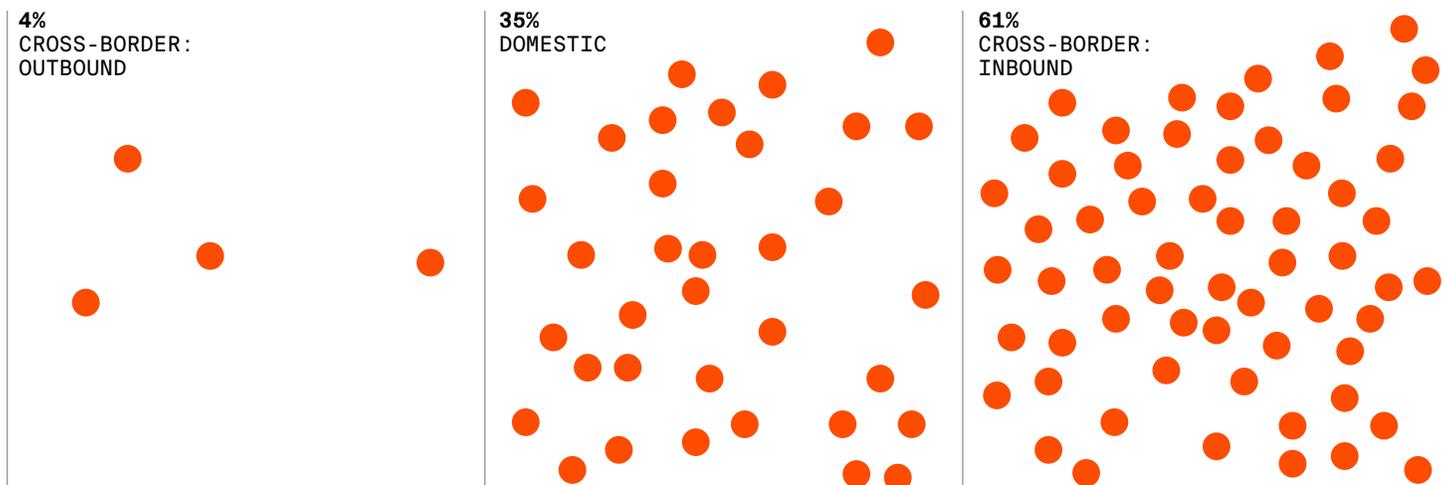
What transaction types do you expect to increase in the next 3 months?



Capitol Flow: Domestic or Cross-Border

In spite of regulatory setbacks like the French government blocking the proposed 16.2 billion euro takeover of European retailer Carrefour SA by Canada's Alimentation Couche-Tard in January and the U.K.'s Competition and Markets Authority investigation into National Grid's 7.8 billion pound acquisition of Western Power Distribution, cross-border M&A advisors still see cross-border as the most active area for dealmaking. Of EMEA respondents, 61% say capital is flowing inbound cross-border and 35% are involved in domestic deals. Only 4% say capital is flowing outwards cross-border.

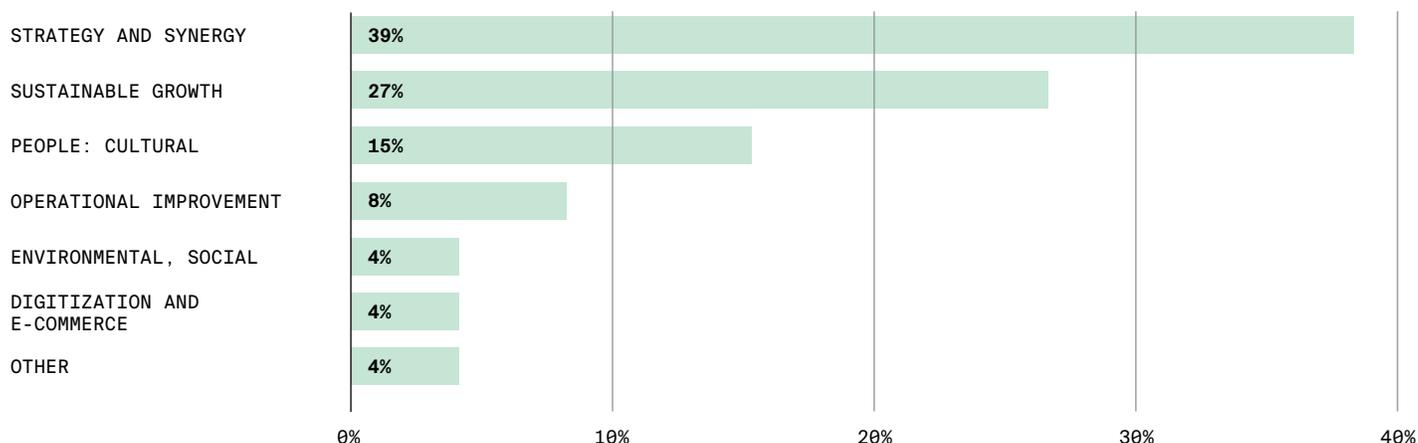
In terms of capital flow, have the majority of deals you have been involved in been:



Creating Value Post-Transaction

Those that have managed to close deals within the uncertainty of a COVID-19 world have no doubt displayed a level of grit. But in the months ahead, dealmakers will continue to face some challenges when it comes to creating value post-transaction. According to respondents across the globe, the hurdles at the forefront will be Strategy and Synergy (39%), Sustainable Growth (27%), and People and Culture (15%).

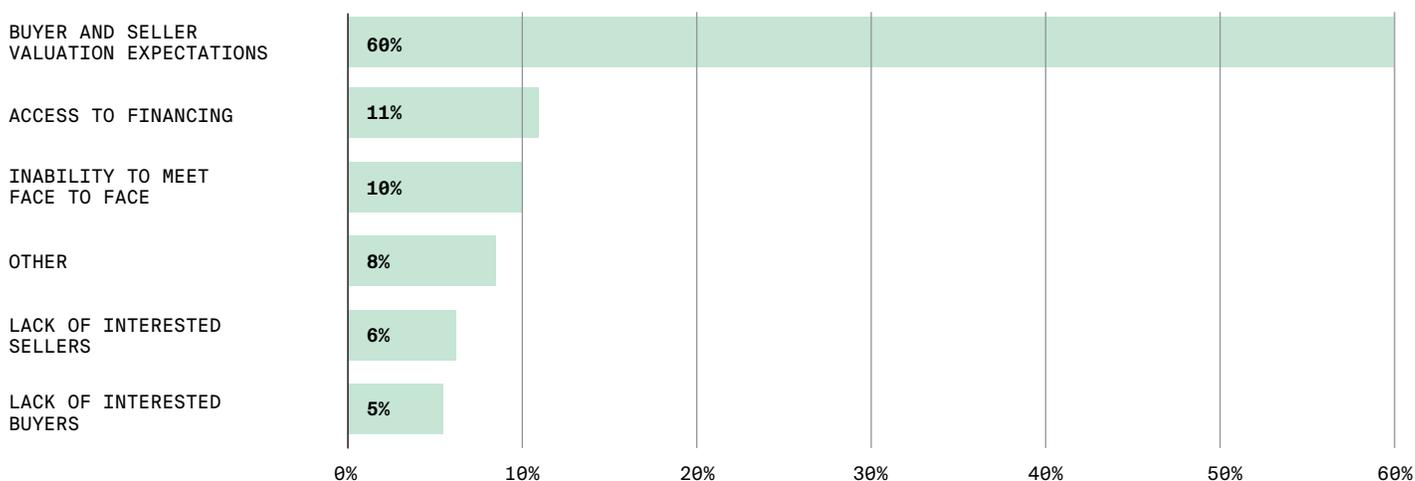
In your view what is the primary challenge dealmakers will face in the next 3 months in terms of deal value creation post transaction?



Challenges to Closing the Deal

A year in, remote meetings and virtual data rooms have helped companies adjust to remote work and social distancing, removing a lot of the uncertainty experienced in the early months of COVID-19. Instead, it's valuation expectations that continue to foment uncertainty with the pandemic making it difficult to know if a success or failure in a business is real or temporary. M&A advisors again pointed to buyer and seller valuation expectations as the primary challenge (60%) to closing deals. It's an increase from the previous quarter's Deal Flow Bulletin which saw 49% point to expectations as the biggest challenge. For Q3, 11% of respondents indicated access to financing, while 10% cited an inability to meet face to face. Lack of interested sellers and a lack of interested buyers followed as challenges.

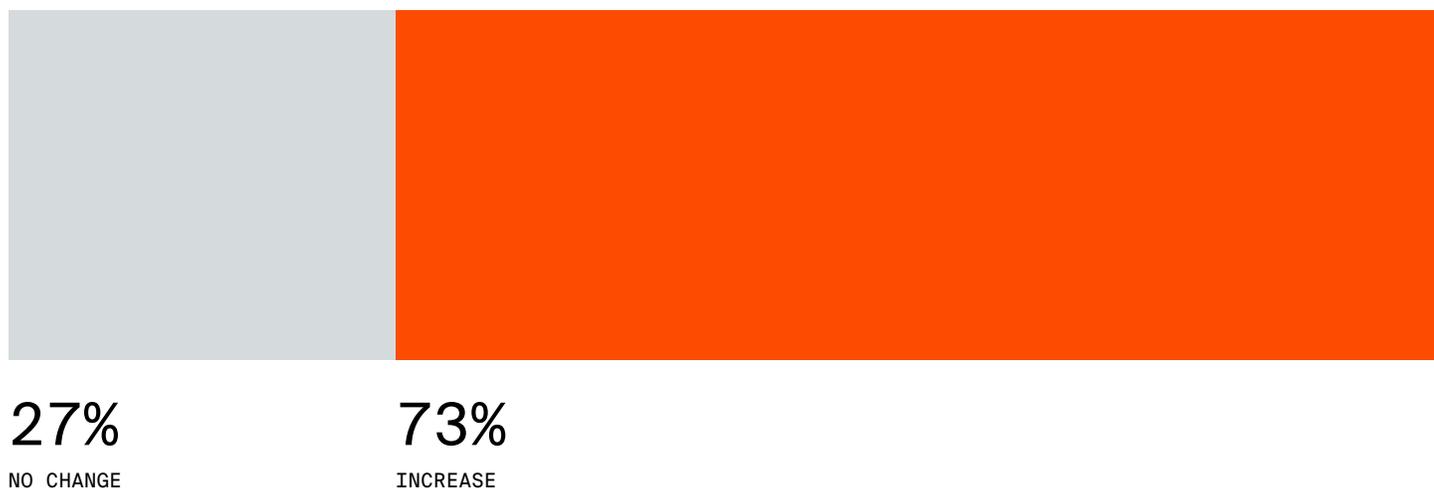
What do you see as the biggest challenge for completing deals in the next 3 months?



Active Number of Sellers

In line with an overall sentiment of optimism, M&A advisors expect a growing number of active sellers in the months ahead. Three-quarters (77%) of respondents say they expect to see the number of sellers increase in Q3. This is the second quarter of increases (70% in Q2). Of those surveyed, 19% expect no change while only 5% expect a decrease. Isolating results from the EMEA region, 73% say they expect an increase, while 27% expect no change.

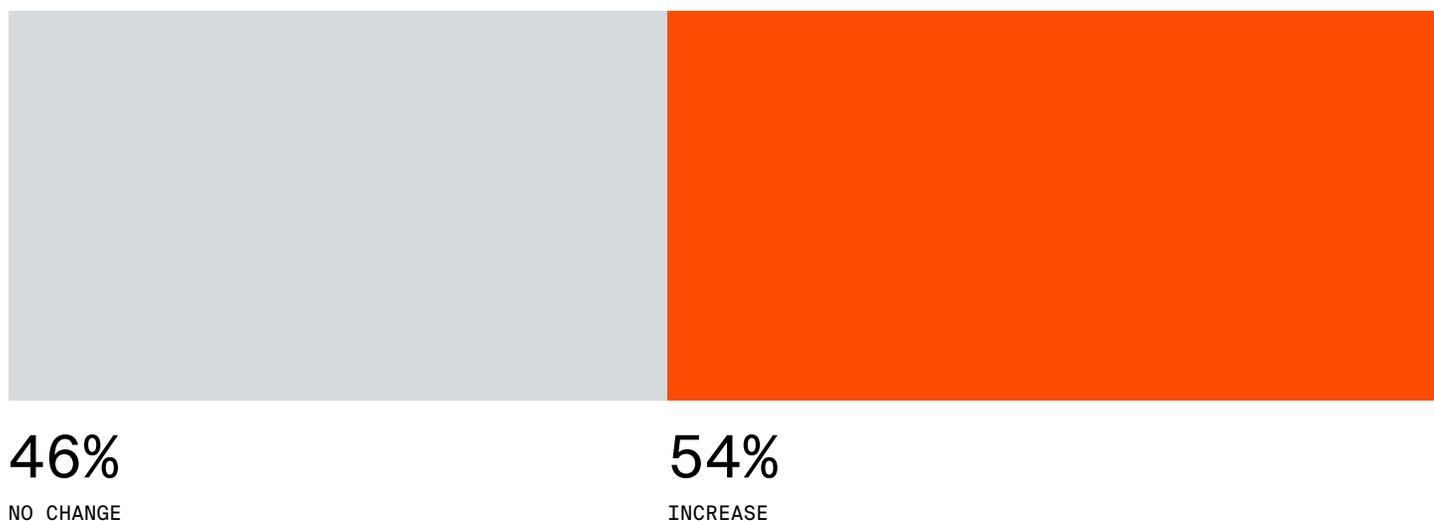
Do you expect to see the number of active sellers on the market increase or decrease over the next 3 months?

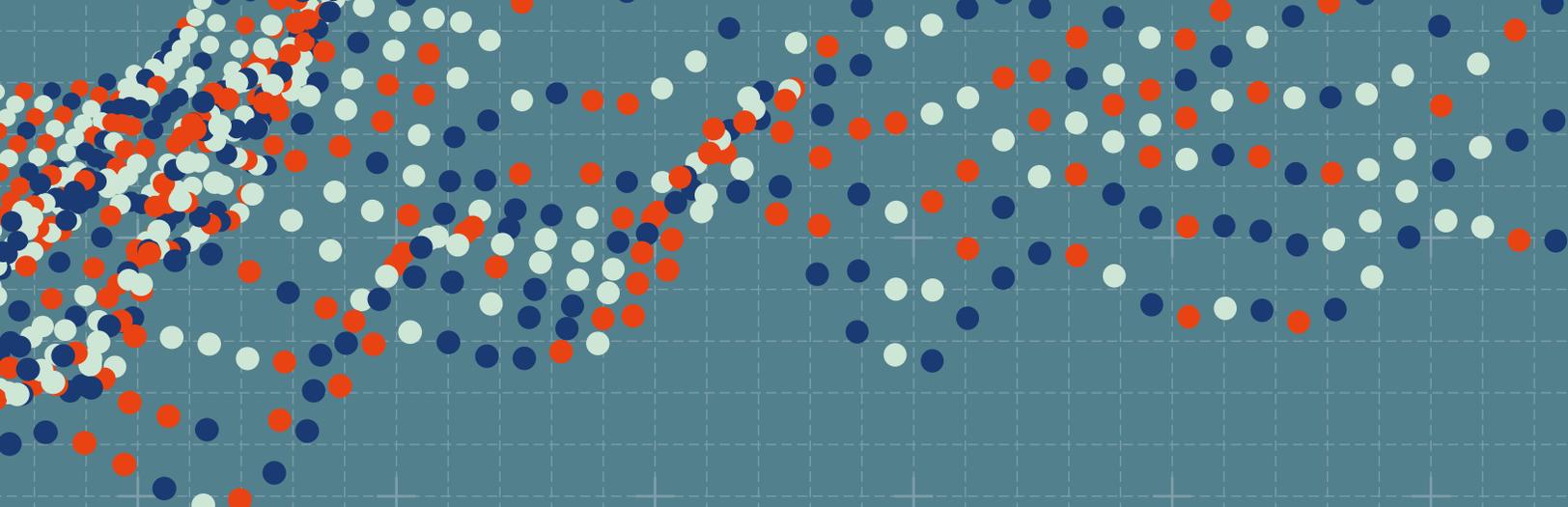


Average Number of Closed Deals

In both North America and the EMEA region, M&A advisors have a rosy outlook on closing deals in Q3. Of respondents, 57% expect the average number of deals their company closes to increase, while 39% expect no change. Only 4% expect to see a decrease. However, sentiments differed slightly when broken down regionally. In North America, 60% expect an increase, while 36% expect no change. In EMEA, 54% expect an increase, while 46% expect no change.

Do you expect the average number of deals that your company closes to increase or decrease over the next 3 months?





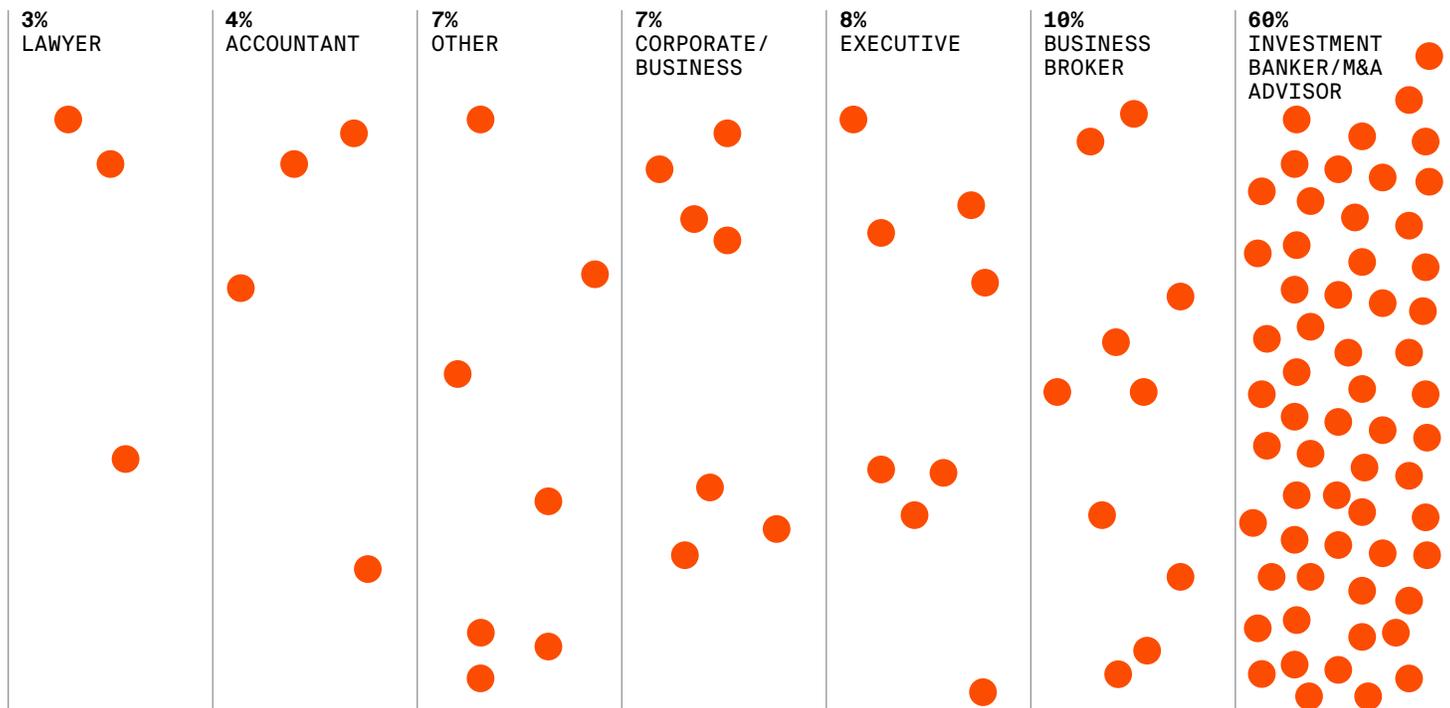
Conclusion

Even with lingering uncertainty surrounding COVID-19, the results from *The Firmex EMEA Deal Flow Bulletin* show an energetic dealmaking environment – one that holds even more promise over the second half of the year. In line with Firmex's forecast of a strong Q3 – an increase of 23% over Q3 2020 – an overwhelming majority of M&A advisors in the EMEA region feel positive about the dealmaking environment. Those that lean towards the negative make up a mere fraction (1%) of overall sentiment. Anecdotally, buyers are seeking quality businesses and sellers are capitalizing on high valuations especially in red-hot markets like the U.K. The Middle East and Africa show their own level of promise as vaccine roll-outs and restructuring efforts start to mix with the growing appetite for digital diversification.

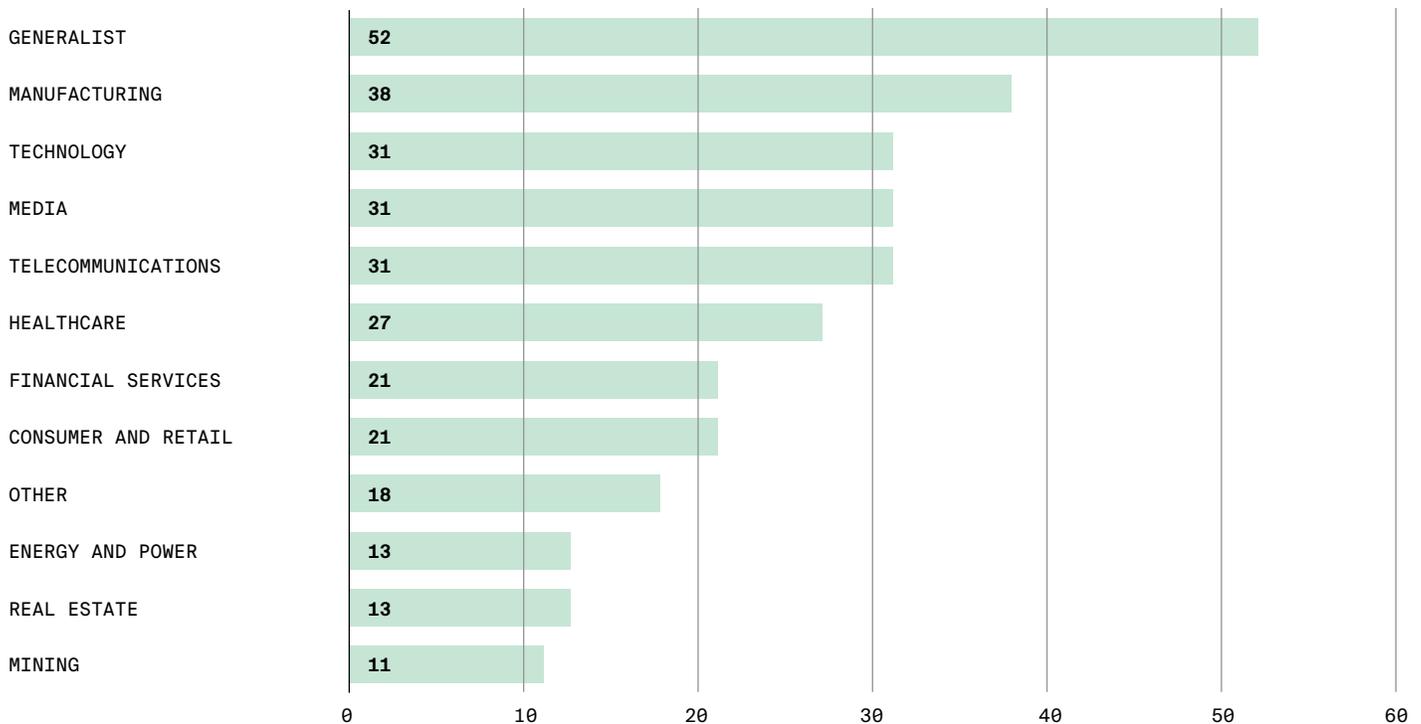
So what does Q3 hold? Our respondents anticipate a market driven by strategic acquisitions but awash with challenges surrounding buyer and seller valuation expectations. An increase in sellers with more deals closed but an uphill struggle against strategy and synergy. It's not business as usual. Not yet, at least. However, the pandemic's effects feel muted at this point and deals that go through may wind up with a certain resilience that wouldn't have been required in a pre-pandemic world. In spite of challenges, the respondents to this quarter's EMEA Deal Flow Bulletin have made it clear: M&A is bouncing back stronger than before. In fact, it already has.

Appendix: Survey Demographics

Which of the following best describes your current occupation?

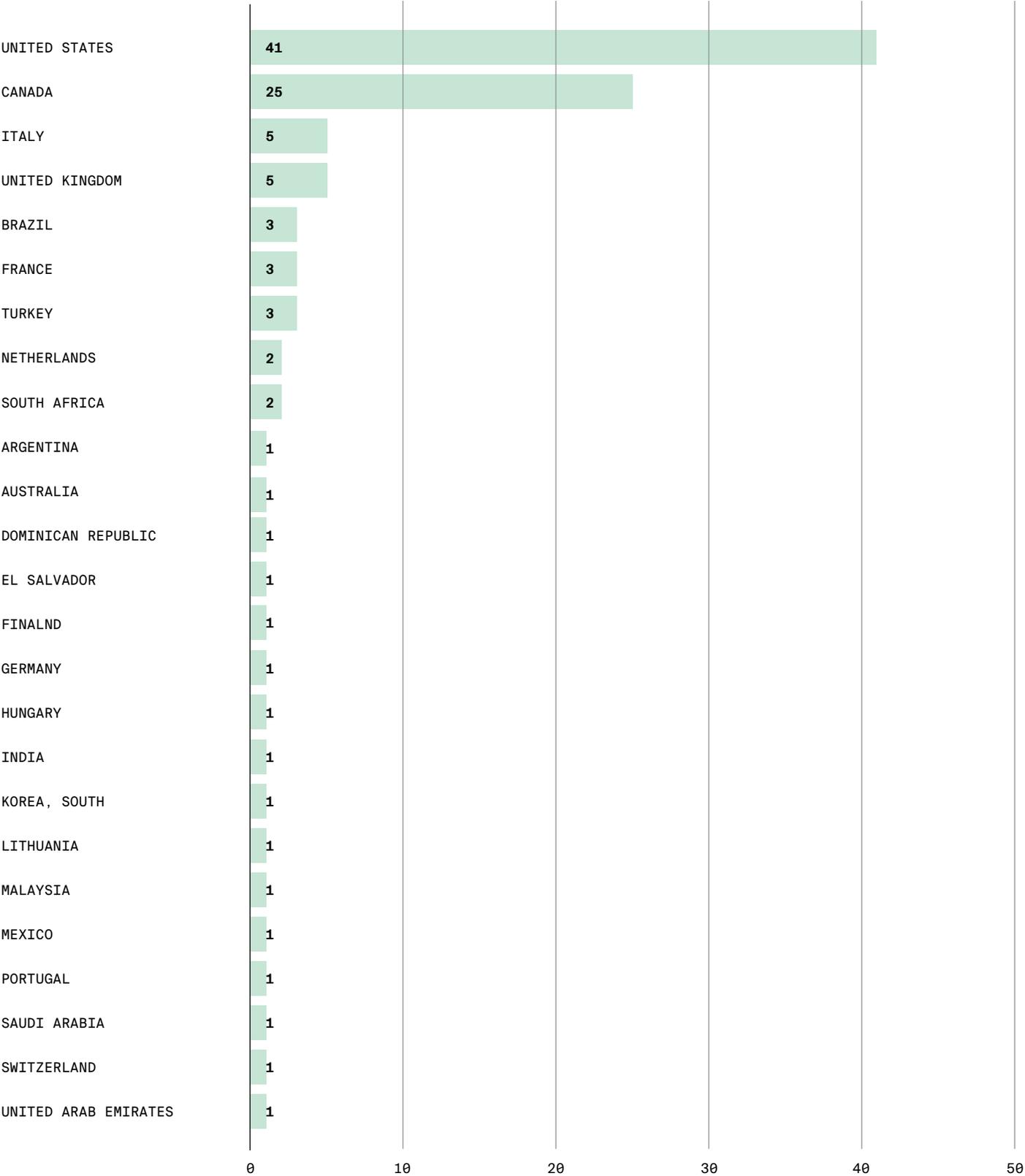


Do you specialize in any of the following industries? Select all that apply.



Appendix: Survey Demographics

What country do you primarily work in?



About Firmex

Firmex is a global provider of virtual data rooms where more deals, diligence, and compliance get done. As one of the world's most widely used virtual data rooms, Firmex supports complex processes for organizations of all sizes, including diligence, compliance, and litigation. Whenever professionals need to share sensitive documents beyond the firewall, Firmex is their trusted partner.

A Firmex subscription provides simple, safe, and stress-free document sharing without hidden costs or complexity. Since 2006, Firmex has helped over 140,000 companies worldwide take control of their confidential documents.

For more information, please visit firmex.com.

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