Dutch M&A Predictions 2022

December 2021

Contents

Introduction

Ahead of our predictions and commentary by sector, investor type and theme, we offer a quick overview of the Dutch M&A market as we see it now, setting the scene for more detailed observations.

Overall, the market is booming, having bounced back from a short-lived dip in activity caused by COVID-19. The current wave of transactions spans all sectors, with notably high valuations fuelled by the low cost of available finance and the sheer volume of cash looking for a home. There's approximately €3 billion of unused capital earmarked for Dutch mid-market investments, around 15 new private equity parties with more than €100 million funds each, and no shortage of available bank finance. In terms of transfer of ownership, the conditions are right for the boomer generation to exit the businesses they've nurtured, and this will bring opportunities for further growth in transaction volumes.

Sustainability is increasingly important, and indeed is a prerequisite for some funds when considering an acquisition. The hottest sectors include healthcare, energy and, of course, technology, which underpins all sectors. Other topical themes include digital transformation and innovation; the impact of higher energy costs; the worldwide scarcity of talent and raw materials; challenges to the supply of goods; and logistical constraints and other supply chain inhibitors. Among all this, M&A activity continues to be at a record high.

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> … the conditions are right for the boomer generation to exit the businesses they've nurtured

Private Equity

Low interest rates, in tandem with lower return expectations from limited partners in alternative assets, will continue to steer cash towards private equity activity. This is fuelling transactions across all sectors – particularly those at the heart of post-pandemic recovery. The majority of sectors will feel yet more benefits from accelerated innovation and the forced shift to online. In the search for yield, we expect to see Private Equity looking ever further afield, either by moving up the market by increasing fund size, or by considering smaller targets – and in doing so narrowing the gap to VC-held territory.

The challenge for 2022 is not to find funds, but to find opportunities with appropriate yields before investors go cold. Online and digital transformation projects are attractive targets for this funding, but themes such as energy transition, the environment, sustainability and social responsibility will have more and more influence over the direction of investments. Deals will increasingly hang on satisfying ESG requirements.

If the landscape changes at a macroeconomic level – particularly through interest rate rises or an end to the pandemic-related stimulus packages – the general buoyancy in PE activity trends could be knocked, but we don't foresee much evidence of those dangers for at least the first half of 2022.

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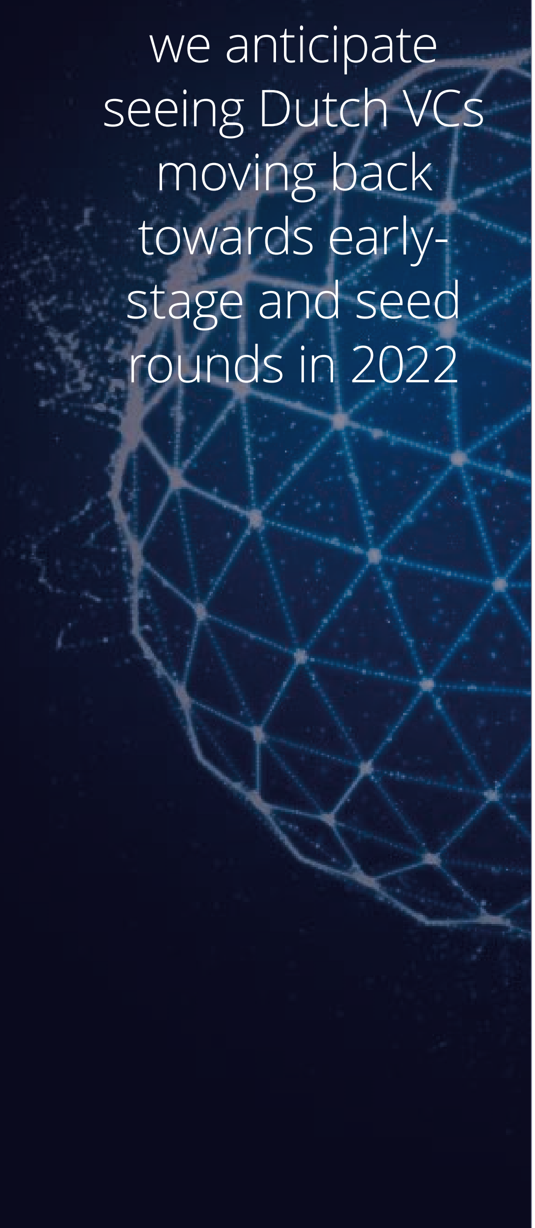

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Venture Capital

The accessibility and low cost of capital will continue to fuel VC activity in the domestic market – particularly in startup tech segments addressing energy transition, the Future of Mobility, and SaaS. So far, so predictable – but beneath this veneer of 'business as usual' lie some interesting developments.

The first is a rising tide of VC money from across the Atlantic targeting earlier-stage funding rounds. The US, already happy to invest in our Series B/C+ rounds, is now bringing its financial muscle and higher valuations to Series A – typically with better deal terms than Dutch VCs. The median deal size of a Series A round in the Netherlands has almost doubled, from €3.5 million in 2018 to €6.1 million in 2021. When Dutch companies raise Series A funding involving a US VC, the round size is some 60 percent higher.

The second is a clear move towards VC-funded startups and scale-ups adopting a buy-and-build strategy to accelerate growth – a play typically associated with private equity. This trend presents some interesting value-creation opportunities for Dutch VCs, but is countered to a degree by increased competition from PE and growth capital funds investing in (organic growth for) startups, VCs doing buy-and-build, and PEs investing in ventures.

So, the competition is not only coming from overseas, but also from growth capital funds. Add to this the higher Series A valuations, and we anticipate seeing Dutch VCs moving back towards early-stage and seed rounds in 2022, to get access to the most attractive deals as early as possible, as part of a multi-stage investment philosophy.

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Corporates

In the balance between trends and cycles, the continuing trend of corporate investment in technology businesses to pivot their business models is tempered by a degree of private equity cashing out while valuations remain high.

Technology acquisitions by corporates are helped, significantly, by the current low cost of borrowing, but identifying which tech businesses to buy is a trickier matter. As we head into 2022, decisions will be increasingly influenced by issues such as sustainability, energy transition and consumer preferences towards digital solutions.

In the choice between build or buy, most corporates will still favour acquiring an established operation with proven capability to enhance their business, as the cost of doing so is still preferable to the risk and expense of internal R&D-led solutions.

The potential pitfall in 2022 is whether corporates are buying so as not to 'miss out', rather than for strategic reasons – and at a point in the cycle when errors are more costly because of record-high multiples.

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Consumer

The past 20 months or so have seen a fundamental shift in consumer buying behaviour. Through the pandemic and the imposition of social restrictions, most populations have increasingly turned to online retail – both for essentials and to spice up an otherwise locked down world.

The explosion in online retailing has broadened and deepened the digital consumer base. This phenomenon has accelerated the existing trend away from physical stores to online, but brought with it some new dilemmas – particularly for investors seeking to divine the ultimate winners and losers in this market. The companies to aim for include those with a differentiated offering, proprietary technology, high customer loyalty and complex logistics infrastructure.

Some companies – particularly wholesalers – are looking to bypass intermediaries and sell directly to end-consumers. Not all are successful, as this requires the creation of brand value and the ability to fend off competition from existing players pushing through their own technological improvements. As this story unfolds, it’s clear that having clearly defined market and category leadership and a flawless customer experience are key to sustained success. Size alone is no guarantee of repeat business; online shoppers are a fickle bunch.

As we look to 2022, those businesses that have secured a clear position and customer loyalty will be targets for investment, and should command premium valuations and acquisition interest – including from existing (online) retailers looking to succeed in adjacent markets, from wholesalers wanting to move forward in the value chain, and from private equity firms picking the future winners and fuelling them with vast amounts of growth capital.

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Industrials

The challenges facing all industrial players as we head into 2022 are the size, shape and location of their production footprint relative to environmental impact; raw material and parts supply; energy pricing and supply; and regulation. To protect against logistic disruptions, companies must balance their desire for international coverage with regional production or sourcing capability. Important too, is how far production inputs can travel, from both an economic and environmental perspective. Securing supply chain positions and reducing carbon footprint will become a key driver for M&A activity in 2022.

Another key driver is the shortage of skilled labour, causing a push for technology and increased pace of investments to overcome the problem. With in-house R&D slow, and possibly expensive and ineffective, more and more companies will actively hunt for technology acquisitions in 2022, targeting companies that either have the right people or the technology required to industrialise the production process – or both.

Data is being used more and more, not only to measure and optimise production processes, but also to optimise the performance of the output products and solutions. We expect the general trend of convergence between the worlds of manufacturing and IT – specifically, data analytics – to continue in 2022 and further drive the M&A agendas of industrial companies.

Those industrial businesses that have already invested in digital transformation and leaner, cleaner processes are now reaping the competitive reward, and have made themselves attractive targets for acquisition. With continued record-high stock valuations and huge amounts of dry powder at private equity firms, both strategic and financial investors will remain highly active throughout 2022, driving industrial M&A for the year to come.

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Life Sciences & Health Care

We have seen a strong growth in transaction activity, and interest in the market as a whole. The key growth areas in the health and life sciences markets are digital healthcare providers, product supplies & distribution, healthcare IT, medical devices, and pharmaceutical services. In life sciences, everything related to vaccines and testing services has stood out – especially in terms of interest and valuation.

There are significant fund values – from strategics that built up cash during the pandemic, as well as from PE sources – invested in these areas, resulting in healthy valuations across the market. Whereas previously these segments would only attract money from strategic buyers and specialist investors, the field is opening up to those with broader portfolios seeking secure and growing returns, and to diversify their portfolio.

Interestingly, the challenges facing the sector are also likely to cause a surge in investment in 2022. For example, the need to digitise healthcare delivery to combat labour shortages will simplify international expansion, which, in turn, is likely to attract (international) investment. Overall, we foresee opportunities in 2022 being driven by technology, medical advancement, optimisation/ consolidation and internationalisation.

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Public Sector

The challenges for 2022 and beyond centre on energy use, sustainability and carbon emissions. Environmental targets have been set, and now the race is on to achieve those targets by whatever means possible. Among these, perhaps the most significant challenge – or opportunity – is the eight million Dutch buildings that must convert from gas heating to renewable energy by 2050.

Utility companies must invest in both infrastructure and technology, to harness residual heat from industrial processes, capture geothermal heat and make increased use of hydrogen as a fuel.
For investors, we see this resulting in consolidations for scale, and the acquisition of early-stage climate tech businesses. These transactions may satisfy the conditions for climate change funding.

Private sector investors are not in short supply, but the returns on these sorts of energy transition projects might struggle to satisfy their profitability expectations, whereas public sector funding has broader, societal benefits in mind.

Structuring and combining private and public sector funding in an optimal way will be a key driver for successfully accelerating the energy transition in 2022 and beyond.

Indeed, the sheer volume and value of public sector activity will increasingly attract specialist climate tech and related private sector players, to target investment to where it's needed to speed up change and where high returns are increasingly likely.

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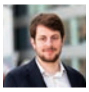
Financial Services

The financial services industry continues to evolve rapidly. We're seeing a strong wave of consolidation among the established players, combined with market entrants with smart technology disrupting the incumbents. Deals are being performed either to build strength and scale, or to acquire these disruptive technologies. We foresee the latter becoming the primary driver of M&A in 2022 and beyond.

In the insurance market, risk carriers are reclaiming control of distribution channels to capture value that hides in customer data, which can be used to create new and better products. Meanwhile, many of the larger FS players, including major banks, are still tackling the challenges presented by their outdated IT systems and offerings, and their highly manual processes. Competitive pressure is building, not least from emerging disruptors in the Dutch market that are forcing these larger players to accelerate IT development and innovate. These challengers will increasingly become attractive acquisition targets.

The spoils for the winners are huge, given the size of the market and the high profit margins. Success requires astute investment now in technology such as RPA, as well as in data analytics and new product development. Mainly the challengers seem to be getting this right; it's time for the bigger players to catch up and we expect this to be a highlight of M&A in 2022.



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Business Services

Competition is fierce across all business services segments, with plenty of demand for specialist advisory firms, professional services providers and engineering companies. Businesses in the technology space delivering digital transformation solutions, and engineering businesses focused on energy transition and mobility challenges, are the current magnets for investment – most likely through PE. To succeed requires scale, expertise and reputation, with the smart money buying up the talent and business of others, given the scarcity of skilled labour across Europe.

The drivers of success in this sector are the state of the economy overall and having sufficiently deep pockets to hire and acquire. For those businesses that can demonstrate a strong post-pandemic recovery and fit the criteria for accelerated growth, attracting investment will be straightforward and the future is bright – as long as the overall economic conditions remain buoyant and confidence stays high through this investment cycle.

So for 2022, specialist firms with deep knowledge and networks and committed and purposeful talent in the key areas of energy, digital and mobility will be the prime targets for M&A, enjoying premium valuations.

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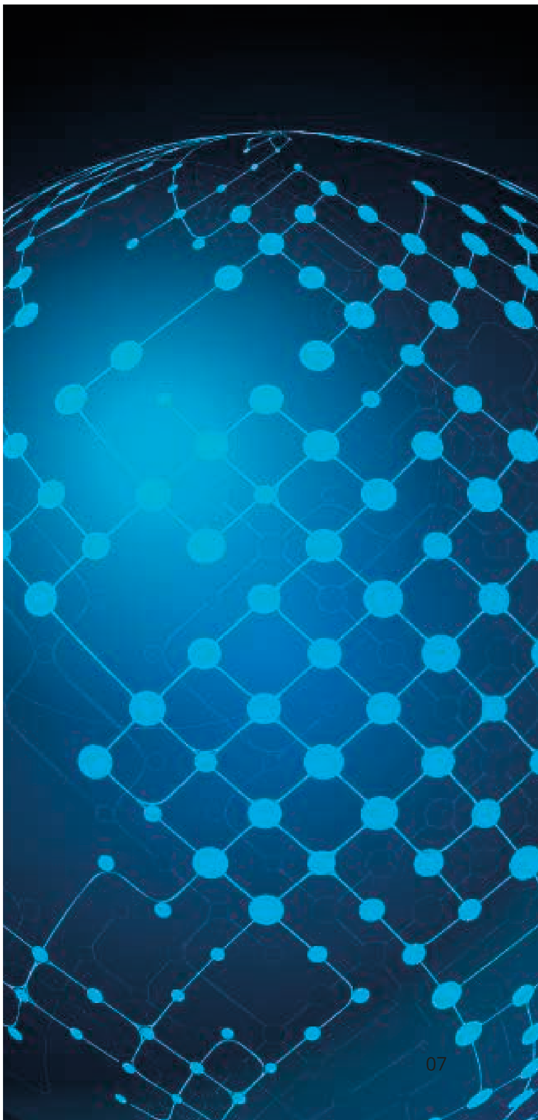

Technology

One of the recurring threads of our M&A Predictions is the extent to which investment is increasingly directed towards digital and technological innovation as a disruptor within established markets, to create new market segments, and as a means to achieve sustainability and business model improvements.

The cycle of investment in technology itself is particularly key, and the last cycle started just under six years ago when our mid-market PE firms focused their investment on Dutch tech companies. Those investments are maturing in PE terms and leading to exits, with the fast-growing companies securing next-level international investments to grow into category leaders through further buy-and-build, rather than sell out to existing players in that consolidated segment.

The cycle will continue through 2022, with PE managers seeking out the next tech investments, comfortable as they now are with the record-high tech valuation multiples previously only reaching these heights in the USA.

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Future of Food

In common with many industries, food sector investment is increasingly driven by shifting consumer demand and emerging technology or technological improvements. That demand is centred on a desire for greater convenience, balanced with the moral imperative for improved environmental sustainability, lower energy use, and known provenance.

In 2022, we believe consumers will value lifestyle benefits the most when it comes to buying food, but will be conscious nonetheless of the overall ecosystem of food production, processing and distribution, and prefer products that factor in both human health and animal welfare along the way.

The technologies and techniques attracting finance will be those focused on lower carbon emissions, less reliance on nitrogen, greener packaging, and more local sourcing. Hot topics include vertical soilless farming, multi-species cropping and other regenerative approaches, the use of fungal and insect-derived proteins in foodstuffs, and low-carbon-footprint delivery to the consumer – for example by bicycle or EV.

Innovative players and focused start ups that successfully adopt or adapt those methods should reap the rewards by attracting higher multiples on investments and acquisitions – provided theirs isn't a hyped market fad. Existing investors with interests in decreasingly popular food segments, such as meat, sugar, highly processed, high-fat, and older factory-style farming, may get caught out by the speed of transition from old to new investment – particularly as new regulation and sustainability metrics increasingly favour green energy, and less water and chemical use. In this respect, M&A can help them in driving the necessary transformation. New investors, too, are increasingly leaning the green way.

So, in 2022, the smart money will continue to move towards green investments and convenient distribution models coupled with local, fresh, eco-conscious, plant-based farming activities with lower carbon footprints.

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Future of Energy

The energy sector is undergoing the most radical transformation of any market at any time in history. Knowing where the best targets for investment lie is a complex issue, but also a vital one to address one of the major contributors to adverse climate change – the use of fossil fuels, and the imperative to decarbonise energy usage.

The solution to that issue will rely on joined-up thinking and cooperation, with collaborative action by states, investors, energy producers, technologists, industries and consumers. If alignment is right, the necessary investments in infrastructure, technology and new business models will provide social, economic and environmental returns that appeal to all.

The full life-cycle of energy production, distribution, storage and consumption is attracting technological change and smart investment under the 'Future of Energy' banner, and the pace of change and investment is accelerating to meet much-publicised climate-crisis-aversion targets.

At the heart of energy transformation is developing and ensuring sufficient electric grid capacity, despite the anticipated huge increases in supply and demand of (renewable) energy – not to mention volatility. This will require massive investment in infrastructure; tens of billions of euros in every developed country on the planet to address the demands arising from changes to heating, cooling, fuelling vehicles, and sourcing energy from solar and other alternative means, including hydrogen.

As we look to 2022, businesses that either contribute to grid stability (by increasing capacity or efficiency), or provide flexible (supply-driven) offtake solutions are likely to be the winners. We anticipate a substantial inflow of investment capital from both corporates and ESG funds looking at Future of Energy players, and with more capital available than opportunities, we expect valuations to be amplified.

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Future of Mobility

Current trends in mobility have been largely fuelled by COVID-19. Globally, governments have accelerated thinking around future-proofing the transportation landscape, and European trends such as superblocks, the '15-minute city' and car-free zones are nudging consumers and couriers away from owning gas-powered automobiles and toward greener alternatives.

Alternative mobility options such as bikes and scooters are capital-intensive but entail low switching costs for the end user, so the key to controlling the market will continue to be scale – particularly in micromobility and food/grocery delivery. This in turn will require deep pockets to deter new entrants and endure the potentially long period to optimal returns.

One mechanism connecting public policy and private investment is the awarding of micromobility licences to a limited number of operators within a municipality. Expect this to ramp up in the Netherlands – and globally – well into 2022. These licences limit the threat of vehicle oversupply, and help operators avoid even more intense price wars and market share dissolution.

Success in winning licence tenders will be another factor defining the winners that will expand and drive market consolidation.

Another particularly hot topic is the development of Edge AI. From route navigation to safety and risk calculations, this machine learning capability offers great potential for investors in autonomous vehicle technology – both in software and hardware manufacture. Partnerships between OEMs and technology players, many of which are based in the Netherlands, should be particularly attractive to mobility investors in 2022.

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Summary

In our Introduction, we anticipated that a detailed look at the M&A market by sector, investor type and by theme would help us to identify the prevailing trends, spot untapped areas of potential value, and highlight where investor risks and issues might lie. Our findings have very much confirmed that funding is plentiful and cheap right now, resulting in a lot of 'dry powder' in the market.

Valuations are high, not least because great opportunities are in short supply and are being chased by more than one party. Key candidates for investment include most technologies, but particularly those that are green enablers in energy and other industries needing to overcome various shortages, decarbonise and achieve sustainability targets. This trend is echoed by consumer demand pushing for simpler, more local and more convenient supplies of goods and consumables, plus sustainable and healthier options across the board. Those drivers are also leading to the establishment of designated funds to oil the wheels of change, and enable restructuring from old to new asset configurations.

PE firms and VCs are competing more for segments of each other's markets that would not have happened previously, with PE money finding its way to earlier investments and VC money fuelling scale-ups. This competition is exacerbated by international finance finding its way into the Dutch market with increasing frequency, potentially creating an unsubstantiated bubble of optimism that could burst at any time.

Equally, the challenges to such investments – beyond the universal shortages of people, resources and transport – are largely monetary: rising inflation and interest rates. But, despite these obstacles, investors will have little choice, as old industries geared towards high energy use, unhealthy food and farming practices, and generally unsustainable business practices will present ever less attractive yields. The old rule holds true throughout this cycle – investors need to check that their money is truly adding value to the creation of a new group or business activity, and not simply pushing money around. In 2022, the conditions may be ideal for sellers to reap great rewards, but buyers should always beware that a transaction makes sense in the longer run. No value creation plan? No deal.

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In 2022, the conditions may be ideal for sellers to reap great rewards, but buyers should always beware that a transaction makes sense in the longer run.

In 2021 we made M&A history in the Dutch market with our clients. We closed 22 deals worth just over €2 billion.

PLANON AIM FOR THE OPTIMUM
in the acquisition of
REASULT REAL ESTATE IN CONTROL

KEENSIGHT CAPITAL
in the acquisition of
ram infotechnology

metri
in the sale to
IDC Analyze the Future

PLANON AIM FOR THE OPTIMUM
in the acquisition of
AXONIZE

FOREMAN CAPITAL
in the sale of
INTO. to
YIELDER GROUP

INKA INVESTMENTS
in the acquisition of a minority share in
IKANO BANK

N+P
in the sale of a minority stake to
MERCURIA

AEGON
in the sale of
TRANSAMERICA to montana capital partners

heinenoord (assuradeuren)
in the sale to
nationale nederlanden

prosus
in the sale of
aasaanjobs to betterplace

aeb amsterdam
in the sale of
Westpoort Warmte to Gemeente Amsterdam

HOLLAND HYPOTHEEK GROEP in the sale of
Van Bruggen ADVIESGROEP to
VELDSINK GROEP

EXPORTSLACHTERIJ CLAZING
in the sale of a minority share to
de heus

HAPPY ITALY THE FAST ITALIAN
in the sale to
RESTAURANT COMPANY EUROPE

BATAVIA biosciences
in the sale to
CJ CHEILJEDANG

Remia
in the acquisition of the oils and fats business of
WOUTERS CREATIVE WITH OILS & FATS

in the sale of a majority stake to
SPAR Ten Berge Zutphen • Zwolle • Deventer

Red je Pakketje
in the sale to
instabox

edel group
in the sale to
VICTORIA PLC

allpa marine equipment
in partnering up with
bencis capital partners

Acted as financial advisor to

an undisclosed Dutch family office in the sale of a minority stake in a leading technical service provider

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in the sale to
EDCO

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