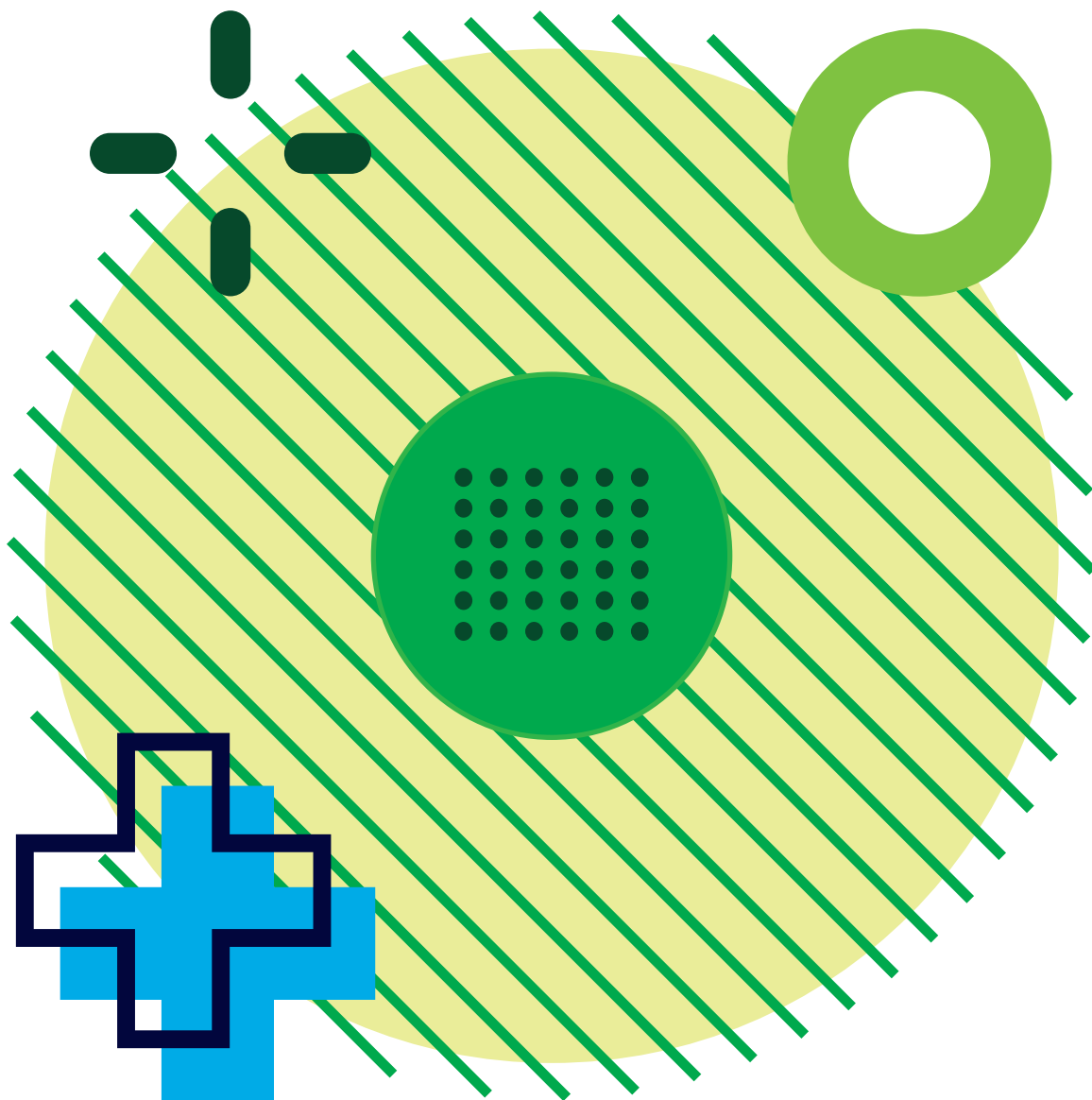


Deloitte.



Deloitte

M&A Index 2023

THE 2022 YEAR IN REVIEW

Uncertainty continued to dominate markets for the whole of 2022. Exogenous events – including the war in Ukraine, the looming recession, and the remnants of the COVID-19 pandemic – in the form of disrupted supply chains – continued to wreak havoc on the world markets. The S&P 500 logged its worst annual performance in 14 years in 2022, reducing its value by close to 20 %. Things weren't much different in Europe, with the STOXX 600 index closing at 424,89 on December 31st, down 12,4% for the year. Similarly, the M&A market experienced a substantial decline in the number of transactions, from 16 942 in 2021 to 15 249 in 2022, a decline of 10 %. The same is true for total Transaction value, which was down 46,9 % year on year.

Inflation, rising interest rates, low consumer confidence, and stagnating GDP growth formed severe headwinds to global dealmaking. These factors are attributable to exogenous events that collectively continue to weaken the economy and constrict global dealmaking.

FACTORS SHAPING THE ECONOMIC REALITY IN 2022

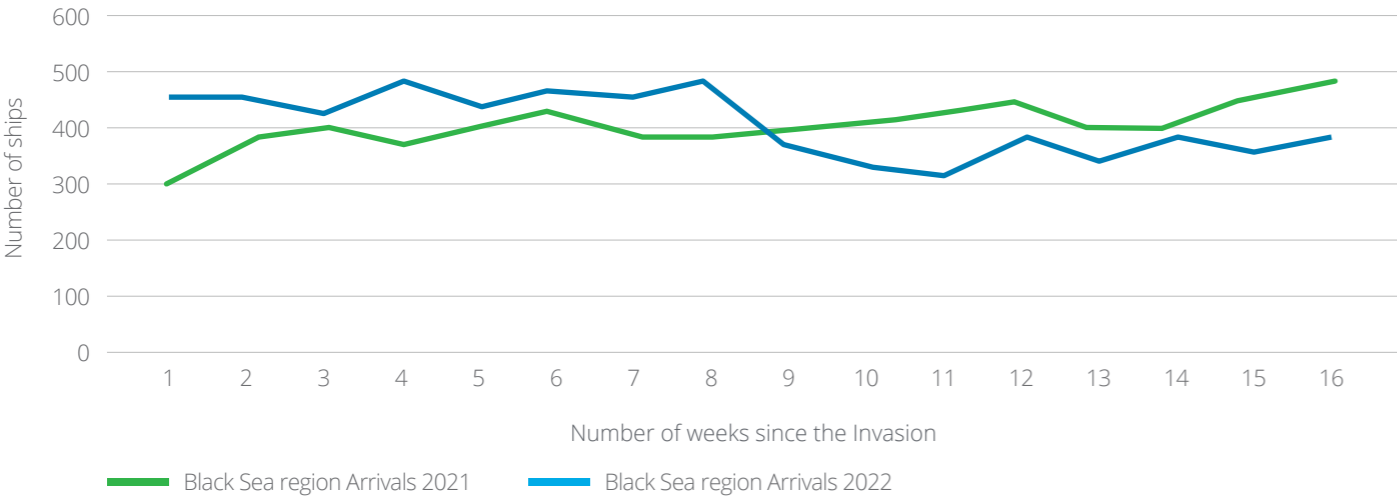


RUSSIAN AGGRESSION

Russia's conflict with Ukraine has caused severe disruptions to global markets and exposed vulnerabilities in the security of the supply of raw materials critical for industrial production and the green transition. These supply chain disruptions are a direct result of international trade restrictions on Russian exports, bilateral dependencies, a lack of transparency, and persistent market asymmetries. The scarcity of commodities such as oil, natural gas, corn, wheat, and certain key metals is potentially the biggest impact of the war. Although Russia and Ukraine account

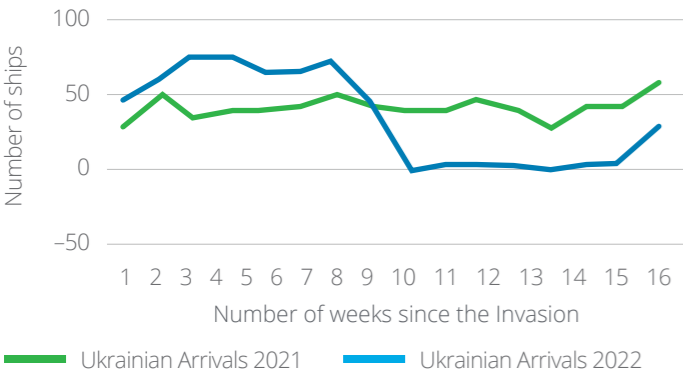
for only 1,9 % and 0,3 % of the global merchandise export value, respectively, these countries are among the world's largest exporters of commodities. For instance, Russia and Ukraine together account for 59 % of global sunflower oil exports, 36 % of global iron or non-alloy steel exports, and 26 % of global wheat exports.

BLACK SEA SHIPS ARRIVALS



Source: VesselFinder, 2022

UKRAINIAN SHIPS ARRIVALS IN THE BLACK SEA



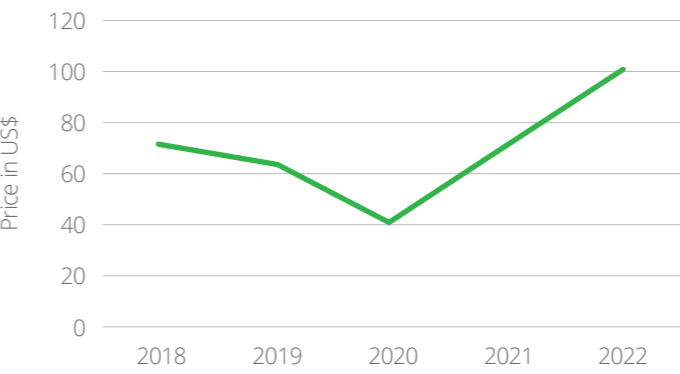
Source: VesselFinder, 2022

RUSSIAN SHIPS ARRIVALS IN THE BLACK SEA



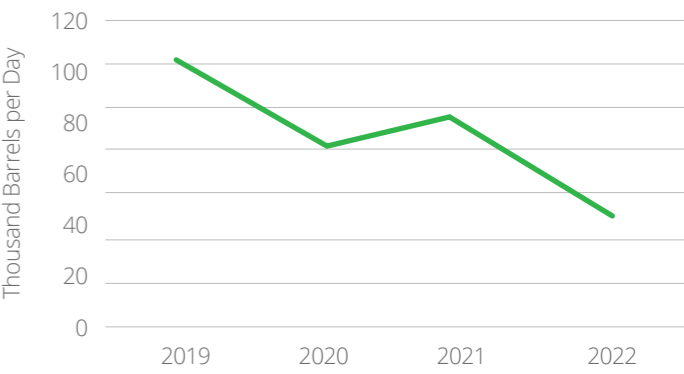
As a result of the Russian aggression, the oil price per barrel skyrocketed to more than US\$120, ending the year well above the long-time average of USD\$90 (Brent and WTI). Additionally, supported by a military blockade of Ukraine's Black Sea ports and war-induced disruptions of Ukraine's mining fields and warehouse facilities, the price of wheat and other significant agricultural commodities increased by 30 % in 2022.

AVERAGE OIL PRICES



Source: Eurostat, 2022

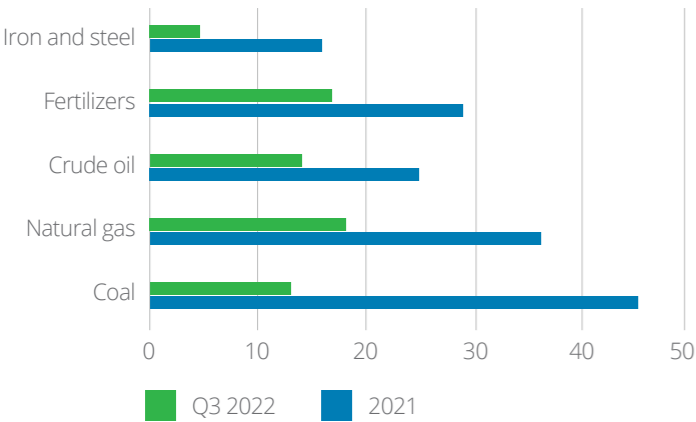
CRUDE OIL AND NGL PRODUCTION IN RUSSIA



These effects were then particularly pertinent to the European markets, where Russia is a major exporter and a supplier of oil and natural gas to Europe, accounting for 30 % of Europe's oil consumption and 40 % of its gas consumption in 2021. Russia and Ukraine together are also significant exporters of wheat and other agricultural commodities, accounting for 25-30 % of European imports. In Europe, natural gas futures (Dutch TTF) rose significantly from approximately 85 EUR/MWh just before the invasion to new intraday record of EUR 340 EUR/MWh in August,

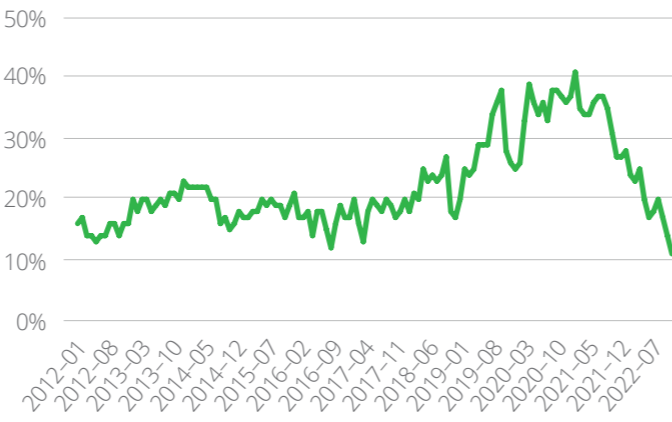
while coal prices rose by around 95-97 % during the same period. The prices of soybean, corn, and crude oil, of which Russia is a leading producer, have been increasing steadily since the start of the war. Additionally, Russia and Ukraine are major suppliers of fertilizer, and the war has resulted in the destruction of land and commercial constraints, causing major export concerns for fertilizers and food, and grains.

RUSSIAN COMMODITIES EXPORT SHARE TO EU IN %



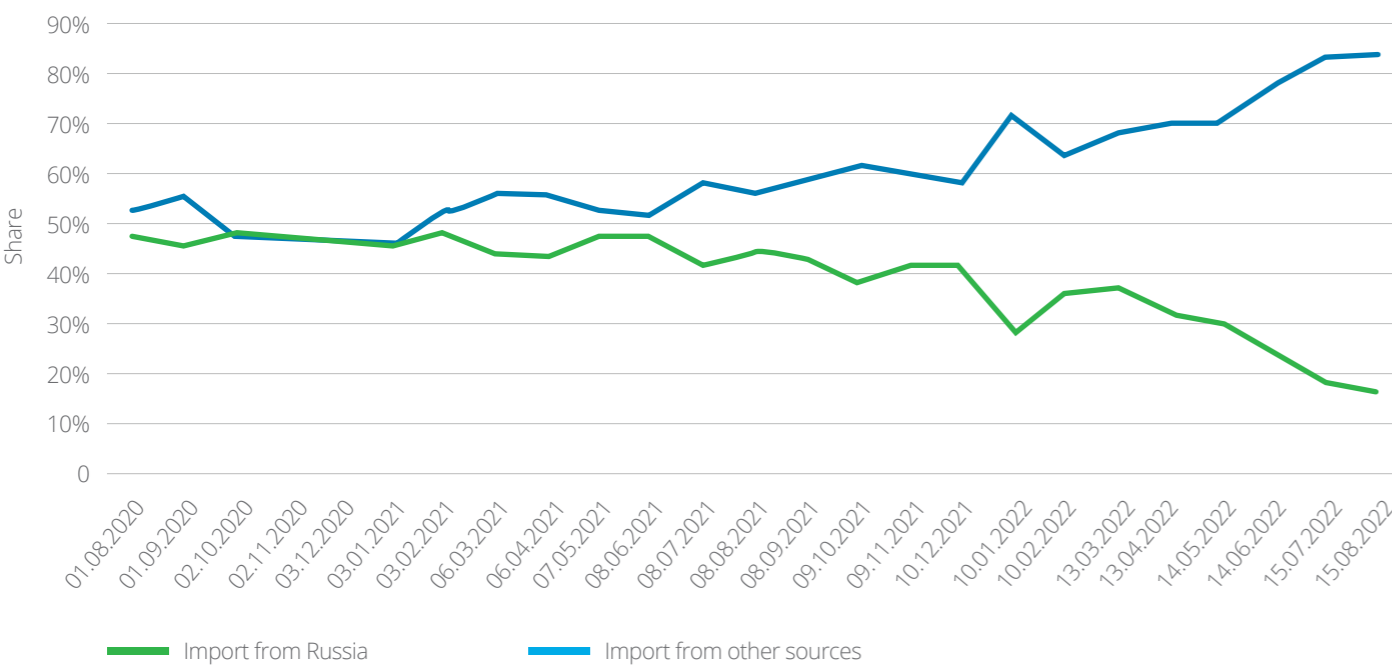
Source: Eurostat, 2022

RUSSIAN NGL EXPORT SHARE ON TOTAL NGL IMPORT TO EU



Source: Eurostat, 2022

SHARE OF NATURAL GAS SUPPLIERS TO THE EU FROM RU AND OTHERS



Source: Eurostat, 2022

NON-OIL COMMODITIES PRICE CHANGE



Source: EIU, 2023

The volatility in commodity markets caused by the ongoing conflict trickled down the economy and spanned across geographies. The rising costs of input prices caused shrinking margins for companies struggling to pass through the price increases onto the already cost-constrained households. These effects then

fundamentally exacerbated the existing inflationary pressures brought around by the supply-chain disruptions, remnants of the COVID-19 pandemic.

SUPPLY-CHAIN CONSTRAINTS

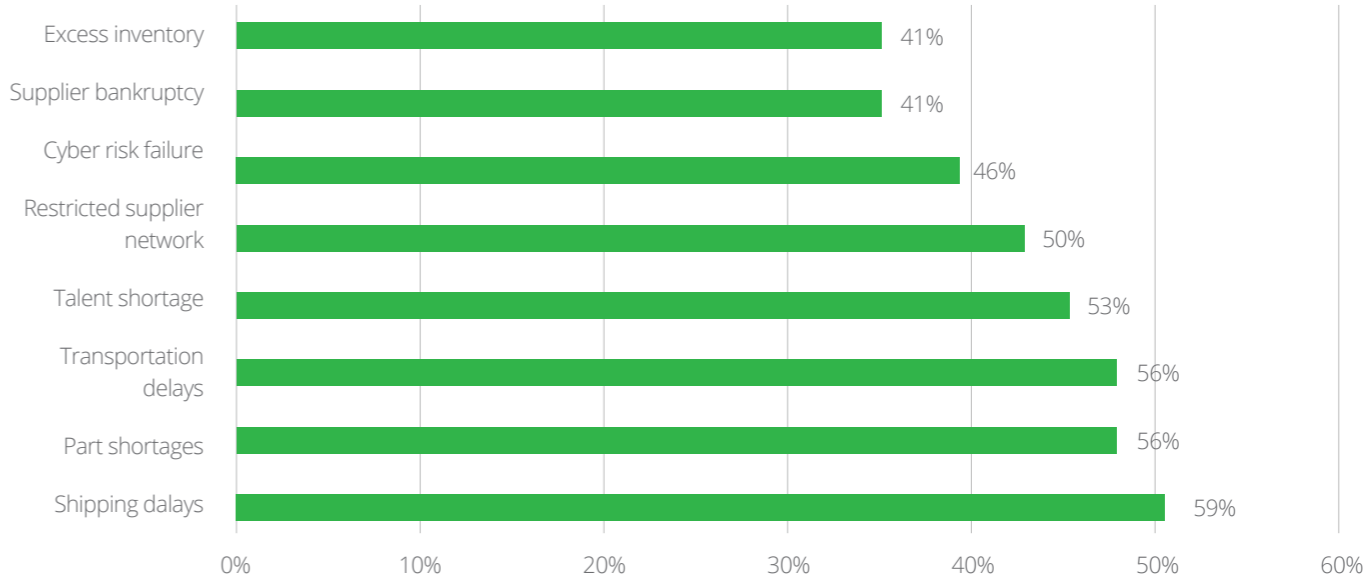
The global proliferation of lean manufacturing and just-in-time inventory practices — which rely on perfect matching between the material input and production output to minimize overhead costs – has made global production vulnerable to sudden changes in equilibrium quantities. The COVID-19 pandemic caused shutdowns in manufacturing facilities, leading to a cascade of disruptions fundamentally reducing the production output capacities in primary sectors. When demand for consumer goods and PPE spiked, manufacturers were unable to keep pace, resulting in production delays. The subsequent constraints in the production network have resulted in heightened competition among manufacturers for the limited supply of key inputs and logistical capacities, presenting vast limiting factors reducing the overall output. These bottlenecks continue to play a significant role in slowing down global supply chains and shipments, leading to worldwide shortages and changes in consumer behavior.

These disruptions are further exacerbated by the disruptions in global logistics, affecting both businesses and consumers as the flow of goods into key markets is hindered by the closure of major ports and airports, labor shortages, and delays caused by exogenous events – including armed conflicts, extreme weather, and growing trade barriers.

The strong post-pandemic demand put a strain on the logistics sector, and the rapid acceleration in e-commerce boosted demand for truck drivers and warehouse workers. The container shipping supply chain has also remained in a deep crisis with many of the world’s biggest ports operating above capacity for months while dealing with labor shortages. Even in normal conditions, employers would have to hire a lot more workers to meet demand, and with tight labor market conditions employers had to offer higher wages to attract and retain workers. which has further complicated the post-pandemic recovery for many sectors.

Shipping delays, parts shortages, and transportation delays due to truck driver shortages and congested ports had the greatest impact on manufacturing companies in the past 12–18 months, according to survey respondents.

Shipping delays had the biggest impact on manufactures’ supply chains in the last 12-18 months

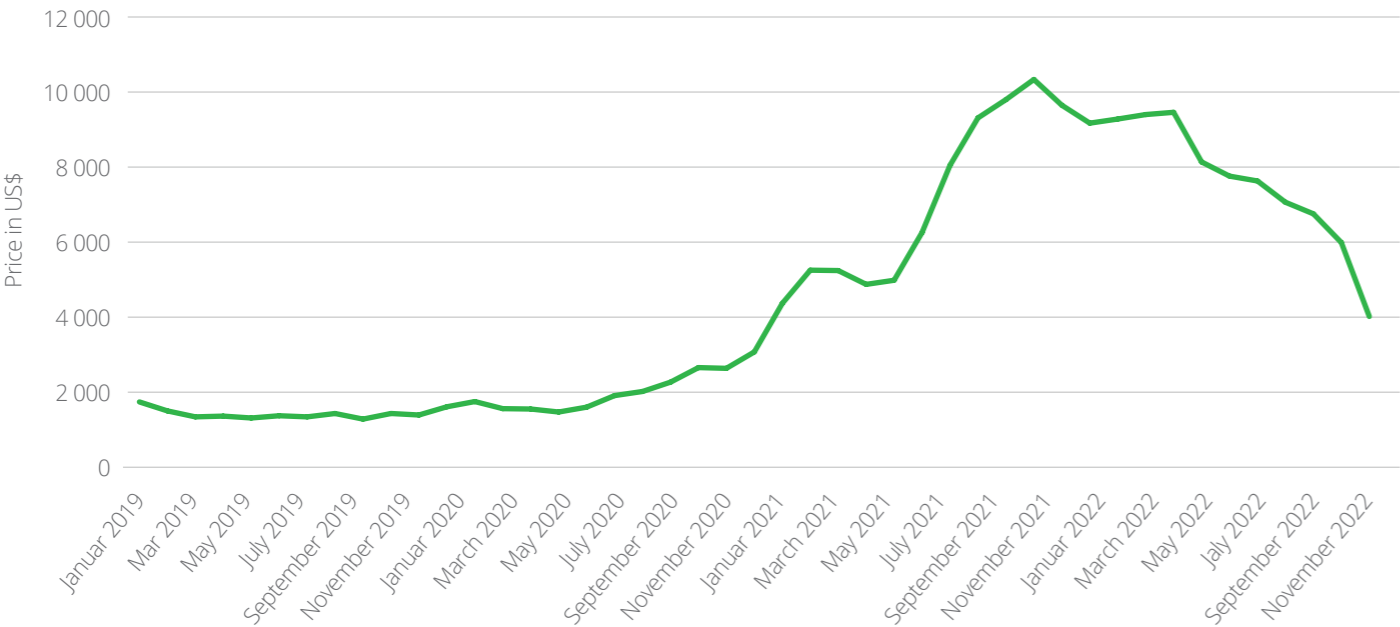


Source: Deloitte, Meeting the challenge of supply chain disruption, 2022

The already strained global supply chain was further impacted by external factors such as extreme weather events, route closures, and deteriorating relationships between world leaders. Climate change resulted in a range of weather extremes, from droughts in the EU to hurricanes in the US, causing disruptions to logistics, damaging infrastructure, and reducing crop yields. Hurricane Ian severely impacted the southwest region of Florida, causing a record-breaking storm surge, extensive flooding, and strong winds that resulted in significant damage and left over 2,54 million people without power, negatively affecting industries such as pharmaceuticals, medical devices, and electronics. These effects

were compounded by the closure of ports in the Black Sea and Azov Sea, train routes, and air corridors through Russia and Ukraine, causing rerouting and congestion of ships, planes, and trains, further exacerbating global supply chain conditions. The imposed sanctions and restrictions on Russia led to a shift from rail transport to ocean transport, causing further pressure and leading to a deeper container scarcity and a surge in container prices.

GLOBAL CONTAINER FREIGHT RATE INDEX FROM JANUARY 2019 TO NOVEMBER 2022



Source: Statista, Global container shipping rates, 2022

The major logistics disruptions created a ripple effect across global supply chains that restricted global trade flows and limited access for businesses to import products and refill their inventory reserves. The scarcity of essential commodities and logistical resources has resulted in fierce competition among manufacturers, resulting in empty store shelves and prolonged wait times for customers to purchase goods.

In addition to the logistical challenges, the implementation of China's zero-Covid policy had a profound impact on global supply chains. The unpredictable and stringent lockdowns severely impacted the production of leading global companies like Apple and Tesla, among others. This made the already complex processes of manufacturing, port logistics, and other routine aspects of global trade even more complicated. China's previously dependable supply chain operations were thrown into disarray,

struggling under increased pressure, and underperforming. Although the strict measures were gradually lifted across China, the aftermath of the production slowdown was felt throughout 2022.

As a result of these factors, companies are shifting away from a global supply chain model to one that is regionally based. This trend will continue in response to growing trade barriers and calls to bring manufacturing and supply bases back to the corporation's home countries. In a post-pandemic world, the most successful supply chains will have to find a balance between these three imperatives: agility, efficiency, and resilience.

GEOPOLITICAL DRIFTS/REGULATION

In addition to exogenous events constricting global supply chains, the markets has been further affected by the general shifting of the geopolitical tectonic plates. Marked by a general transition from cooperative modes of cooperation, the year 2022 brought a dramatic diversion from traditionally globalize supply chains towards more isolationist, local models. These transformations were a direct result of the introduction of hawkish trad policies aiming to strengthen local production and limit reliance on other countries.

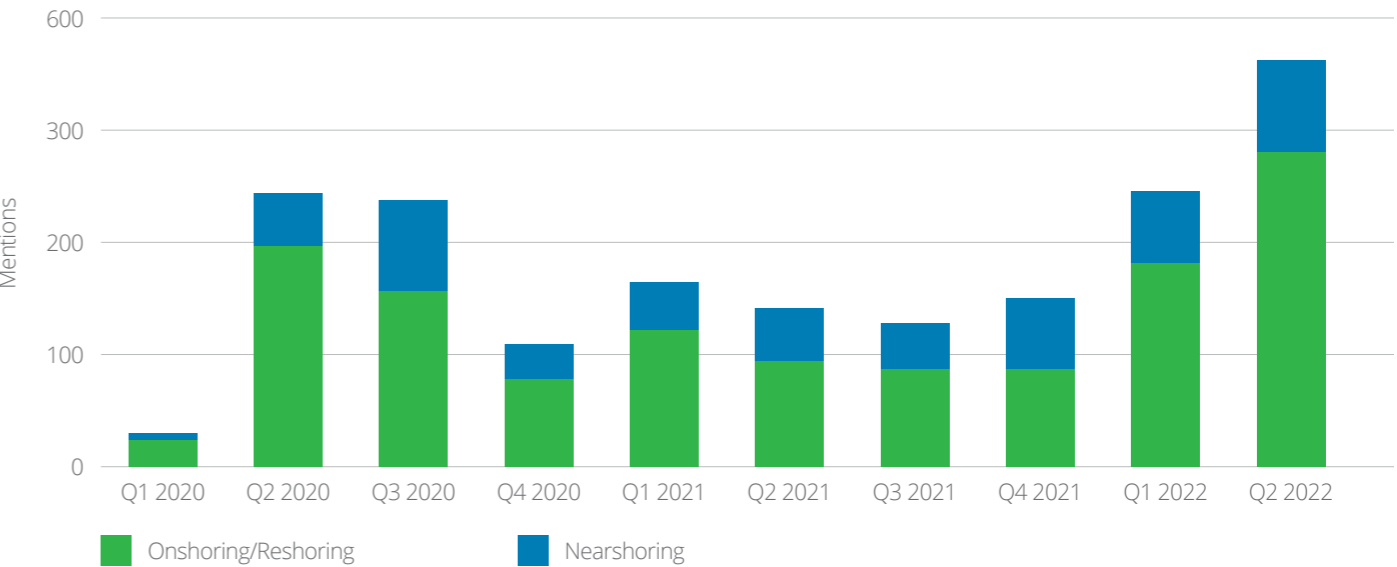
Perhaps the most pertinent of all was the US government's 280 billion USD CHIPS Act seeking to enhance competitiveness, innovation, and national security by stimulating domestic semiconductor manufacturing and promoting the development and commercialization of advanced technologies. While the measures aimed to strengthen local semiconductor capabilities and manufacturing reshoring, it effectively implemented export controls to hinder China's ability to produce or acquire advanced computer chips. The administration has been clear that Washington's campaign against Chinese development won't stop at chips and export controls. We can therefore expect more US-China policy changes in 2023.

Furthermore, the CHIPS Act is by far not the only isolationist policy from the pen of the Biden administration. The US Inflation Reduction Act – which allocates subsidies for clean technology and renewable energy but stipulates production must occur in the

US or neighboring countries – has been frequently criticized by the EU legislators and has strained the existing trade partnership between the two parties. These reforms fundamentally fragment the already constrained trade channels and further complicate the flow of goods and services between trading partners. The actions may also encourage other countries to take similar measures under the banner of protecting their competitiveness and innovation.

The shift towards localization and the decline of globalization in supply chains have significant implications for companies. One major impact is an increase in costs, as companies may be forced to source materials and components locally rather than relying on a global network of suppliers. This could result in higher expenses associated with logistics, transportation, and production. Additionally, this trend could lead to decreased flexibility for companies, as they will be limited in their ability to respond to changes in market demand and access a global pool of suppliers and materials. This could negatively affect their competitiveness and profitability. Furthermore, companies may not be able to achieve the same economies of scale as they did with a global supply chain, leading to higher production costs and lower profit margins. Finally, there are also quality and reliability concerns as companies may struggle to find reliable local suppliers and may encounter quality issues due to a lack of expertise and experience compared to their global counterparts.

SUPPLY-CHAIN SHIFTS GET MORE ATTENTION DURING US CORPORATE PRESENTATIONS AND EARNINGS CALLS



Source: Bloomberg, 2022

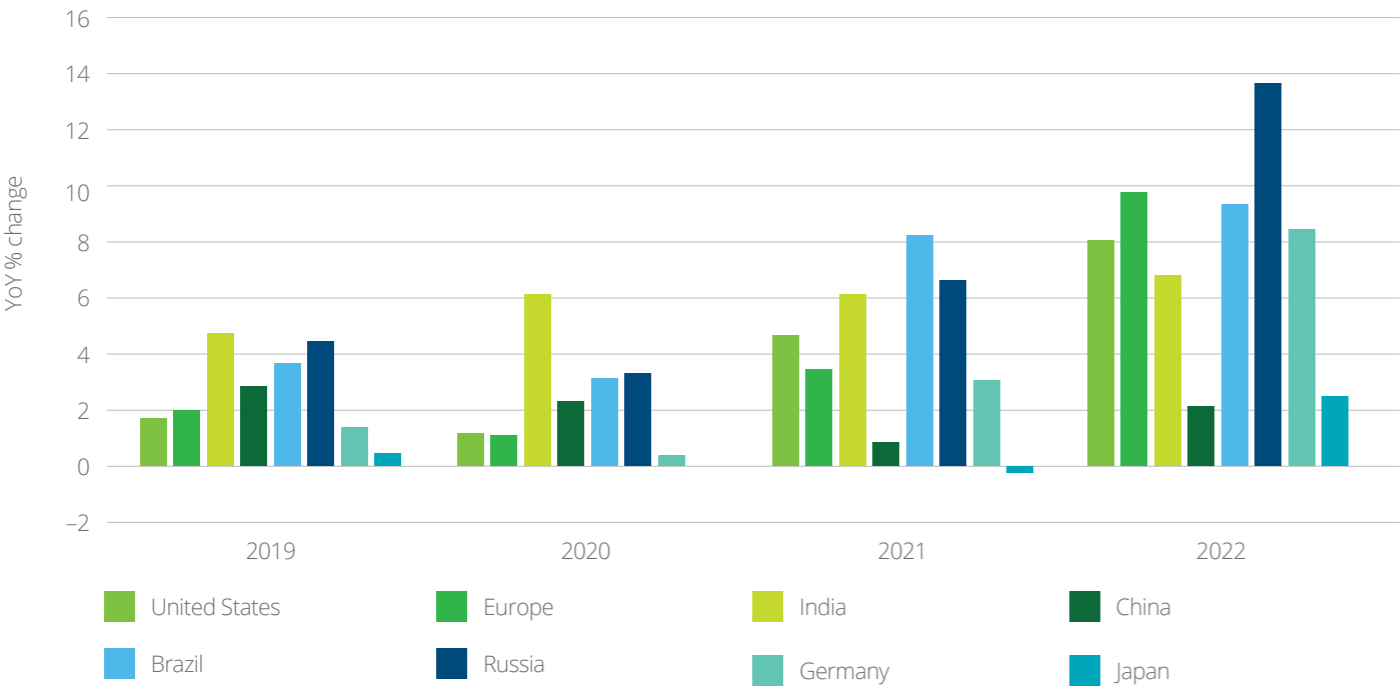
IMPACT ON THE WORLD ECONOMY



The supply chain disruptions, high energy prices, Russia's invasion of Ukraine, increased volatility in commodity markets, and transportation problems have all contributed to the acceleration of inflation, which began during the COVID-19 pandemic. According to the International Monetary Fund (IMF), the inflation rate based on average consumer prices reached a global YoY growth rate of 8,8 %. The highest inflation YoY growth rates were recorded in Central Asia and the Caucasus (52,1 %), Eastern Europe (14,1 %), and the Middle East (13.2%). On the other hand, the lowest

increase in inflation growth rates in 2022 occurred in East Asia (2,4 %) and Southeast Asia (5,1 %). In general, countries with greater energy dependency, particularly on natural gas exports from Russia, experienced higher inflationary effects.

GLOBAL INFLATION

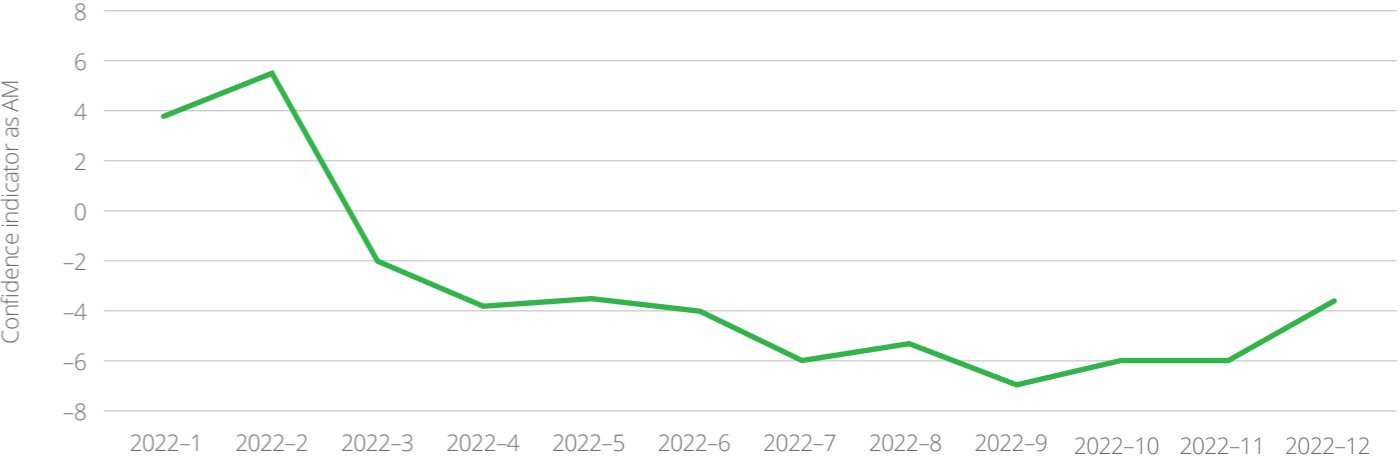


Source: International Monetary Fund, 2023

Inflation by itself has a significant impact on financial markets, as it affects the value of money and the real return on investments. When inflation rises, it erodes purchasing power, which leads to a decline in the value of fixed-income securities (i.e., bonds). This, in turn, leads to higher interest rates, as bond issuers demand a higher yield to compensate for the declining value of their investments. In addition, inflationary expectations can cause currency values to fluctuate, leading to shifts in investment patterns and capital flows. This can result in increased volatility

in the foreign exchange market and the price of commodities, such as metals and oil. Combined, these factors erode consumer confidence and lead to a decrease in overall economic activity, as households become more cautious and delay major purchases.

RETAIL CONFIDENCE INDICATOR IN EU



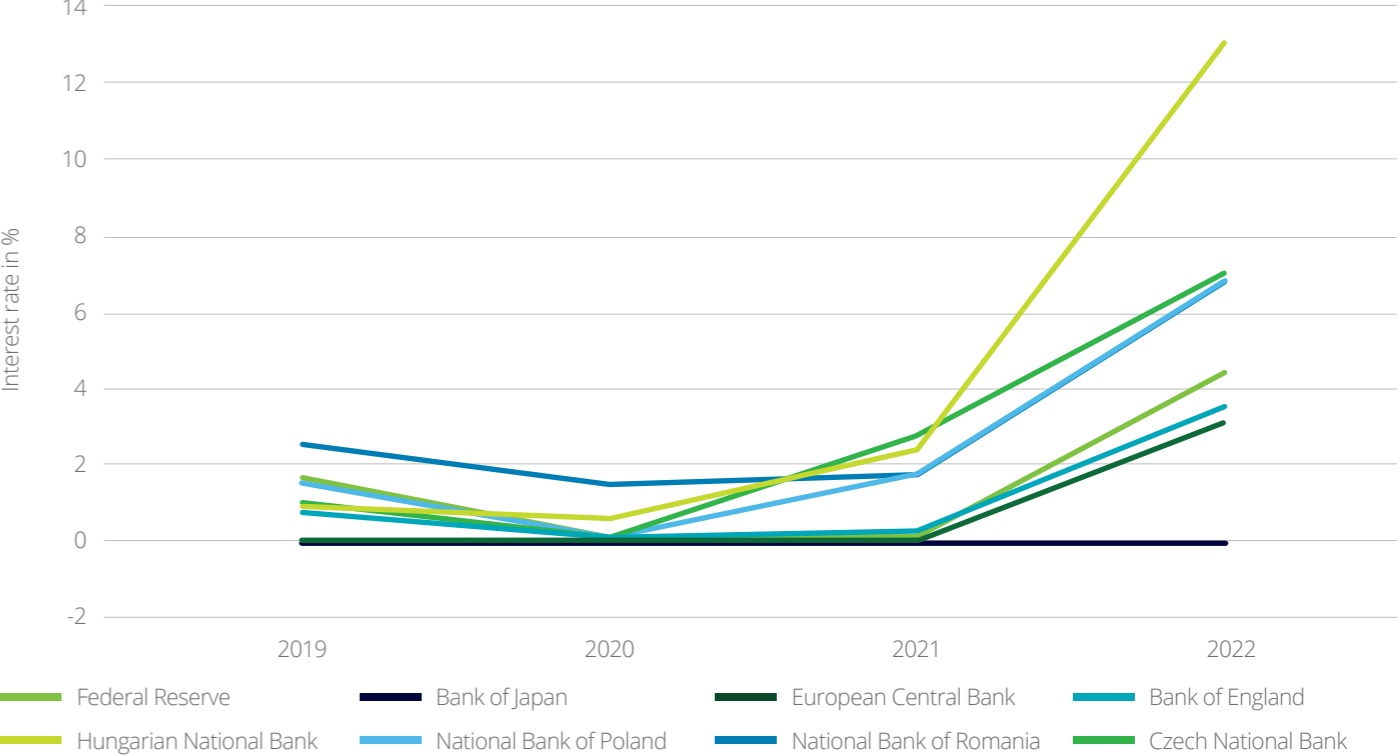
Source: Eurostat, 2023

Thus, inflation can create a vicious cycle, where declining consumer confidence further exacerbates the effects of inflation and weakens economic growth.

In response to the rapidly increasing inflation, central banks around the world have thus begun to raise interest rates to combat inflation. By the end of 2022, the US Federal Reserve (Fed)

had set the rate between 4,25 % and 4,5 %. The European Central Bank (ECB) ended the year with a main refinancing rate of 2,50 % and is expected to continue raising it in 2023. The Czech National Bank (ČNB) set its rate to 7 % in response to a 15,1 % inflation rate at the end of 2022.

INTEREST RATES



Source: EIU, 2022

The high-interest rates increase the cost of borrowing for individuals and businesses, leading to reduced spending and investment. This decrease in spending and investment dampens economic growth and leads to a slowdown in economic activity. Higher interest rates can also impact the stock market, as they increase the cost of borrowing and reduce consumer spending power. As such, policymakers must strike a delicate balance between controlling inflation and supporting growth, with interest rate decisions playing a crucial role in this balance.

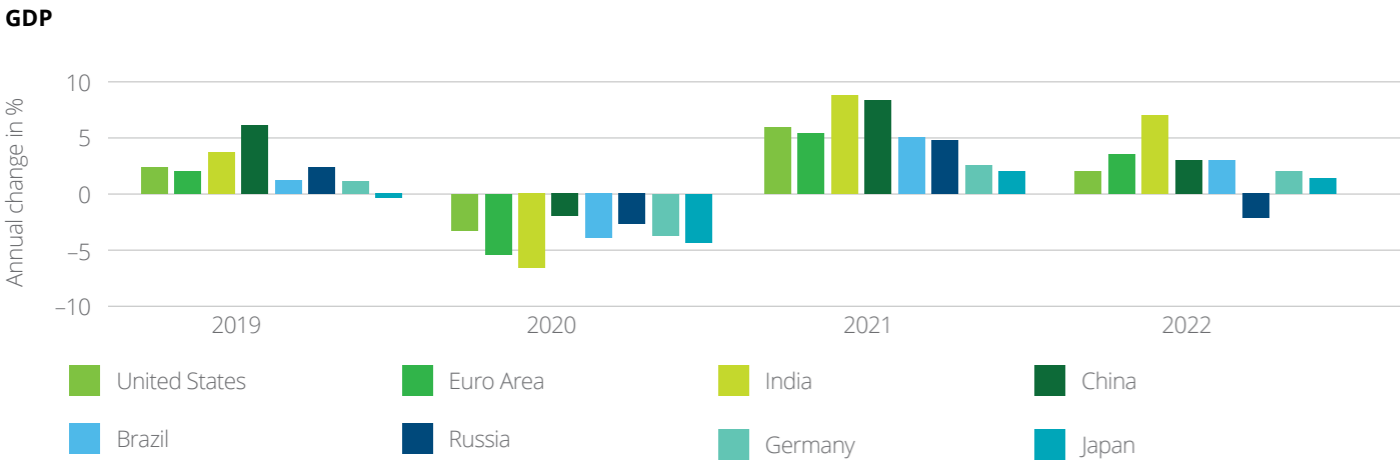
As central banks navigate the delicate balancing act of controlling inflation while supporting economic growth, the upcoming months will be crucial in determining the outcome of this challenge. The ability to achieve a “soft landing” for the world economy, without

causing it to slip into a recession, will be a defining moment for central banks and the monetary policy decisions they make. While the euro area annual inflation rate was 9,2 % in December 2022, down from 10,1 % in November, it remains above the long-term inflation targets set around 2 %.

Simultaneously, global markets continue to stagnate. According to the IMF, world GDP growth was 3,4 % in 2022, a decrease from the 6,2 % growth in 2021. The primary factor contributing to this slowdown is the global energy crisis, particularly in Europe. The energy crisis and supply chain disruptions caused the Euro Area economy to grow only by 3,5 % in 2022, compared to 5,3 % in 2021.

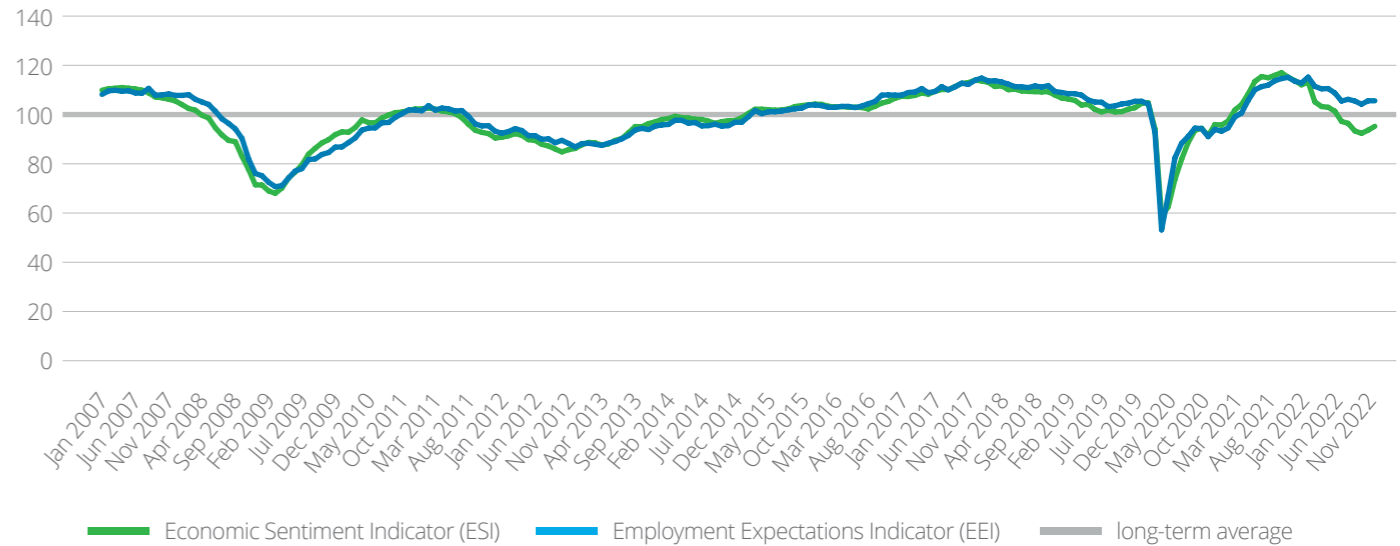
A negative growth outlook and rising inflation levels have a significant impact on consumer confidence, which further hampers economic stability. In 2022, consumer confidence decreased by 8 % (IPSOS). In 2022, the global index of consumer confidence decreased by 8 % (IPSOS) and the EU Economic sentiment index has also plummeted. As the economy stagnates and the costs of living increase, individuals become more cautious in their spending habits, leading to a reduction in consumer demand and economic activity. This, in turn, can exacerbate the

negative GDP growth, creating a vicious cycle. The decline in consumer confidence can also lead to decreased investment and hiring, further impacting the economy.



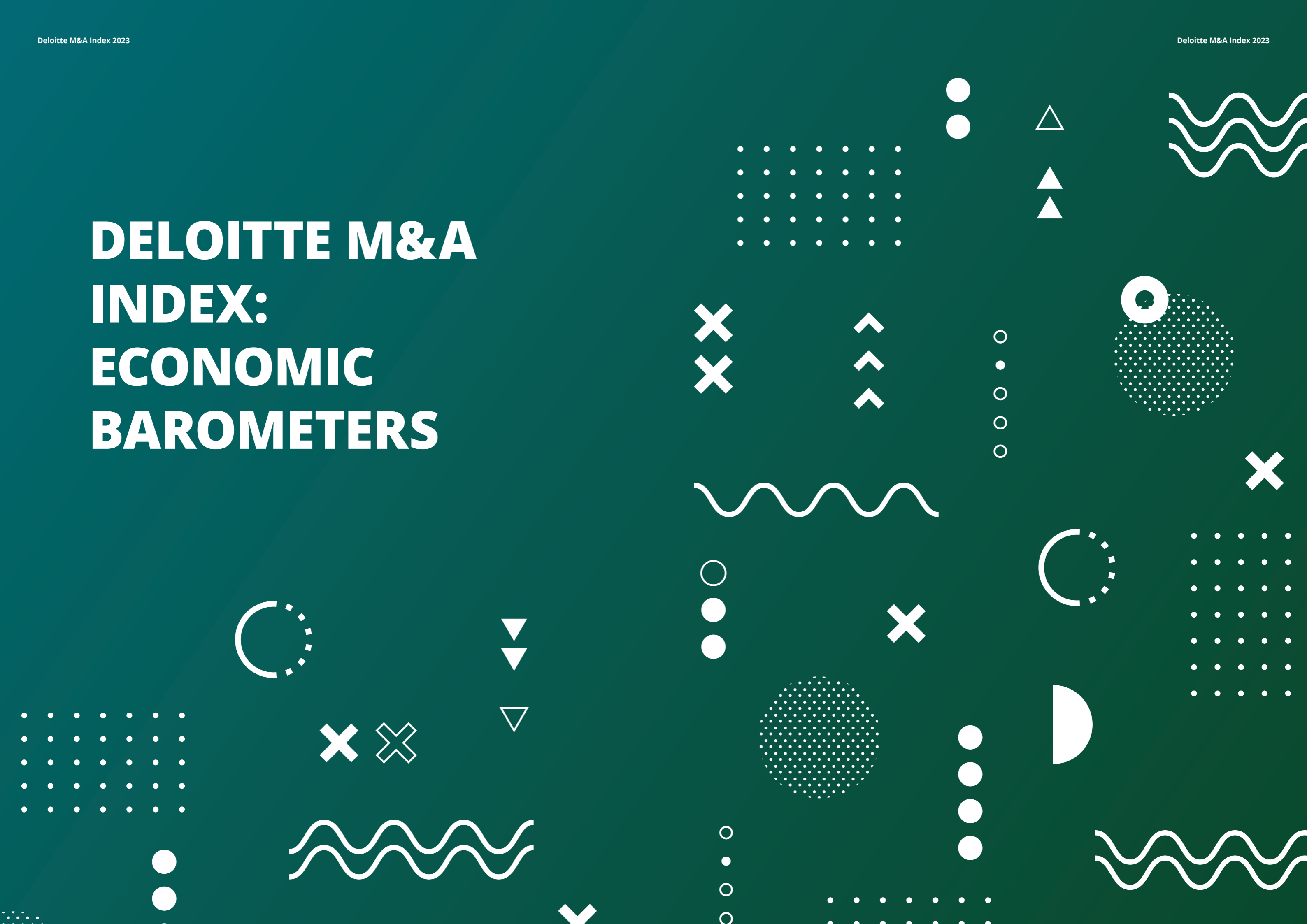
Source: IMF, 2023

EU ECONOMIC SENTIMENT & EMPLOYMENT EXPECTATIONS



Source: Europa, Latest business, and consumer surveys, 2023

DELOITTE M&A INDEX: ECONOMIC BAROMETERS



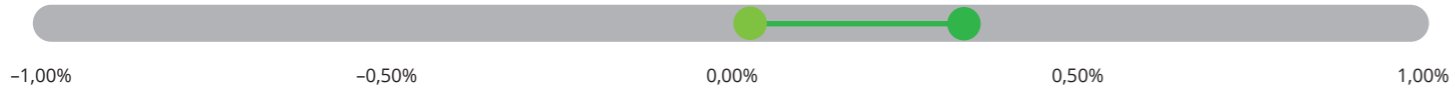
Deloitte M&A Barometers seek to present key insights into European markets in Mergers and Acquisitions in a consolidated, comprehensive form. The model portrays recent developments in key factors affecting dealmaking in Europe on a q/q basis, and further positions the results in the context of historical maxima. The model seeks to provide relevant information in a direct form

to investors and other market actors, in order to improve market efficiency and overall financial health.

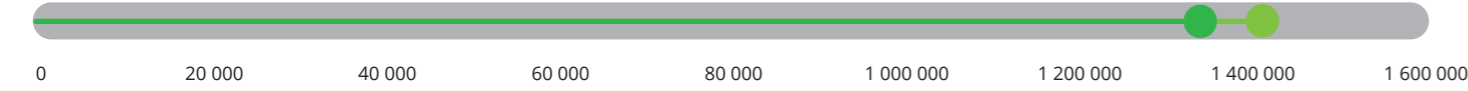
BOND PRIME YIELD (GERMANY)



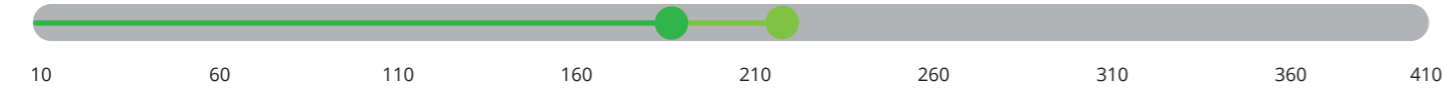
GDP



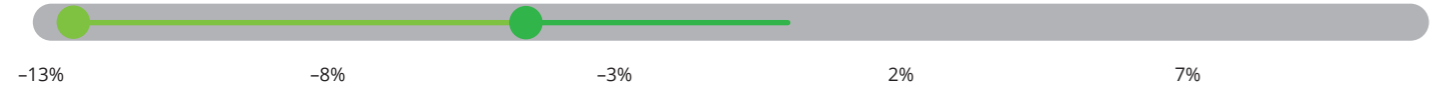
TRANSACTION VALUE (USD MM)



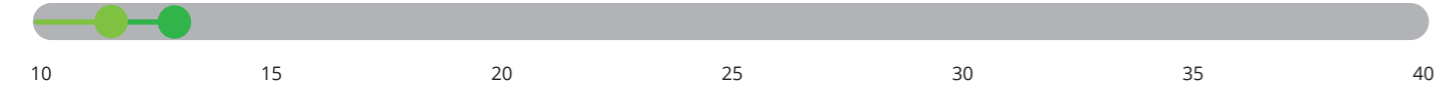
AVERAGE TRANSACTION SIZE (USD MM)



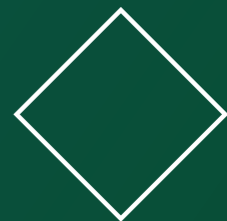
STOXX EUROPE 600 PERFORMANCE



IMPLIED TOTAL ENTERPRISE VALUE/ ADJ. EBITDA (MEAN)



STOCK MARKETS

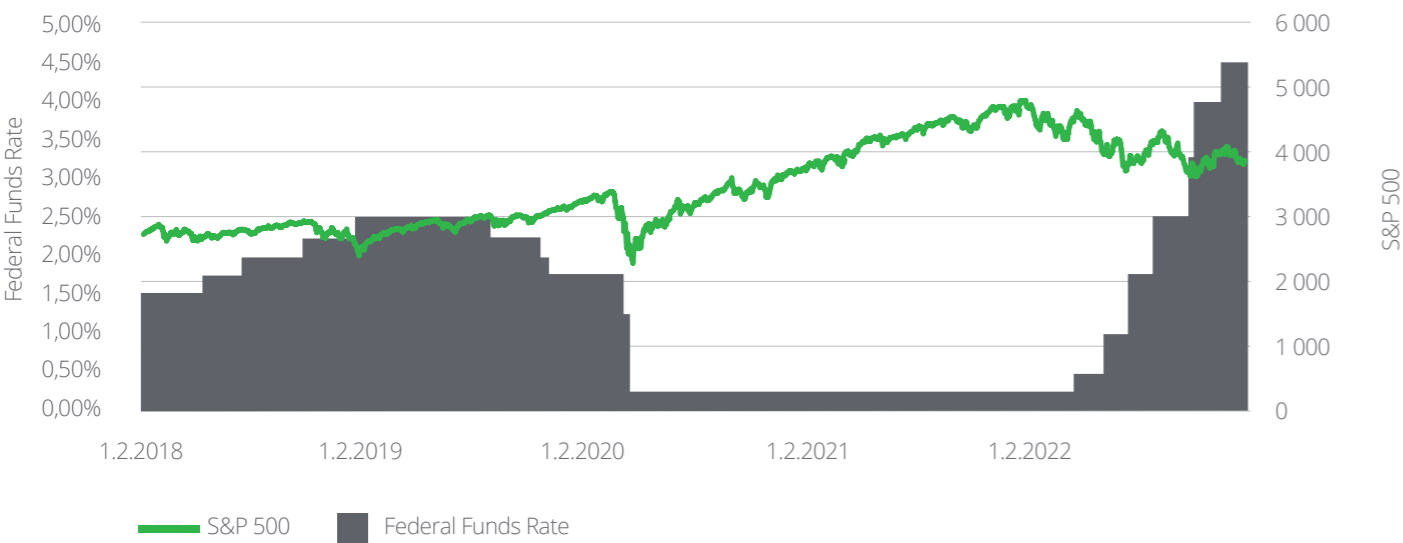


The severe economic headwinds – rising inflation coupled with growing fears of recession – worked to constrict trading activity for much of the year, leaving the markets volatile and unstable. Lackluster earnings announcements and rising interest rates also contributed to further dampening the market. In 2022, global stocks fell almost 20 % in the worst year since the 2008 financial crisis.

Central Banks’ aggressive approach to interest rates made borrowing more expensive, thus inherently slowing down economic growth. This led to a decrease in stock prices, as investors became more cautious and uncertain about the future

performance of the economy. The relationship between interest rates and the performance of the S&P 500 index has been a key determinant of market activity.

FEDERAL FUNDS RATE VS S&P 500



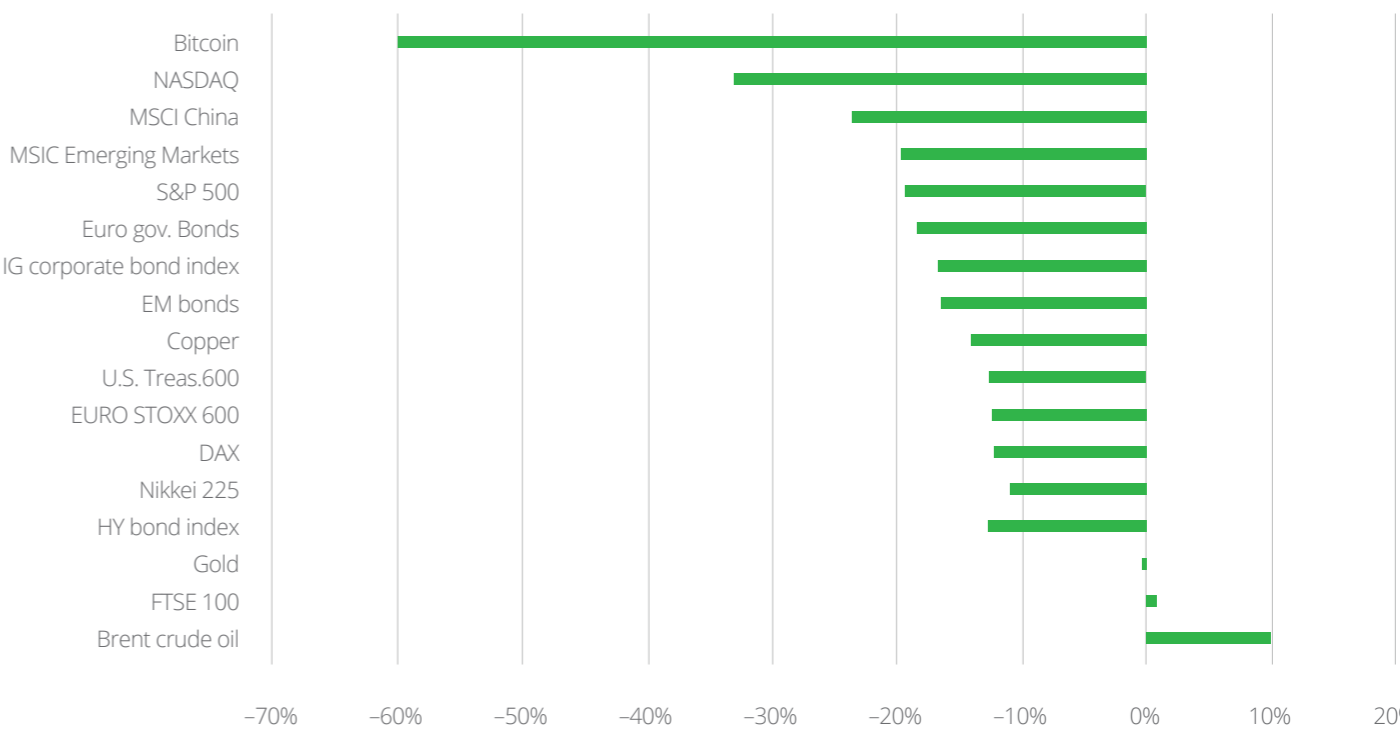
Source: Yahoo Finance; Federal Reserve, 2023

The escalation in borrowing expenses is implicitly associated with a deceleration of economic growth, a contraction of job opportunities, and a general slowdown in the economy. This translates to less spending and weaker corporate earnings. Coupled with significant fluctuations in commodity and FX exchange markets due to interest rate hikes and ongoing war, these factors worked to fundamentally worsen the state of the

economy. The bond market was also affected, with the rise in rates leading to a decline in bond values.

Last year was generally tough for investors as almost all financial assets finished the year in negative territory.

A DRAMATIC YEAR FOR GLOBAL MARKETS (ASSETS PERFORMANCE IN 2022)

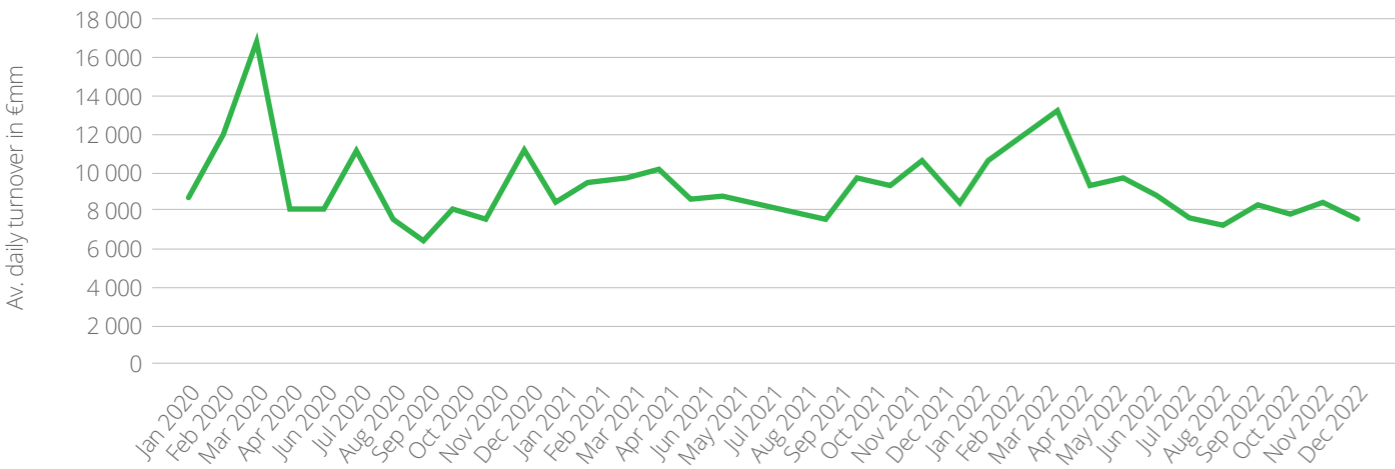


Source: Yahoo Finance, 2023

Europe’s STOXX 600 experienced a decline of close to 12 %, its worst performance since 2018. The dramatic decline is largely attributable to the ongoing energy crisis, high inflation, and monetary tightening by central banks. These factors impacted

investor confidence and reduced the overall liquidity in the markets, resulting in decreased investments.

AVERAGE DAILY TURNOVER OF EURONEXT



Source: Statista, 2023

Concurrently, the London Stock Exchange (LSE) has lost its status as Europe’s most valuable, with Euronext Paris now taking the lead. This marks a significant change, as LSE had been worth 1,4

trillion USD more than Euronext Paris in 2016. This is the first time that Paris has surpassed London since records began in 2003.

LEADING GLOBAL STOCK EXCHANGES, BY MARKET CAPITALIZATION



Source: Statista, 2023

The UK market has also been negatively affected by Liz Truss’s mini-Budget, which has resulted in a drop in the value of the pound to a record low (around 1,03 USD), affecting UK companies by making it more costly to import goods and raw materials and caused a dangerous selloff in government bonds. Additionally, the mini-Budget has led to an increase in UK borrowing costs, causing many British homeowners to experience a sharp rise in mortgage rates. Under the leadership of Rishi Sunak, the situation has seen some improvement, leading to a rise in the value of the sterling and a reduced cost of government borrowing; nonetheless, the turbulent market conditions stand in adversity to any short-term recovery.

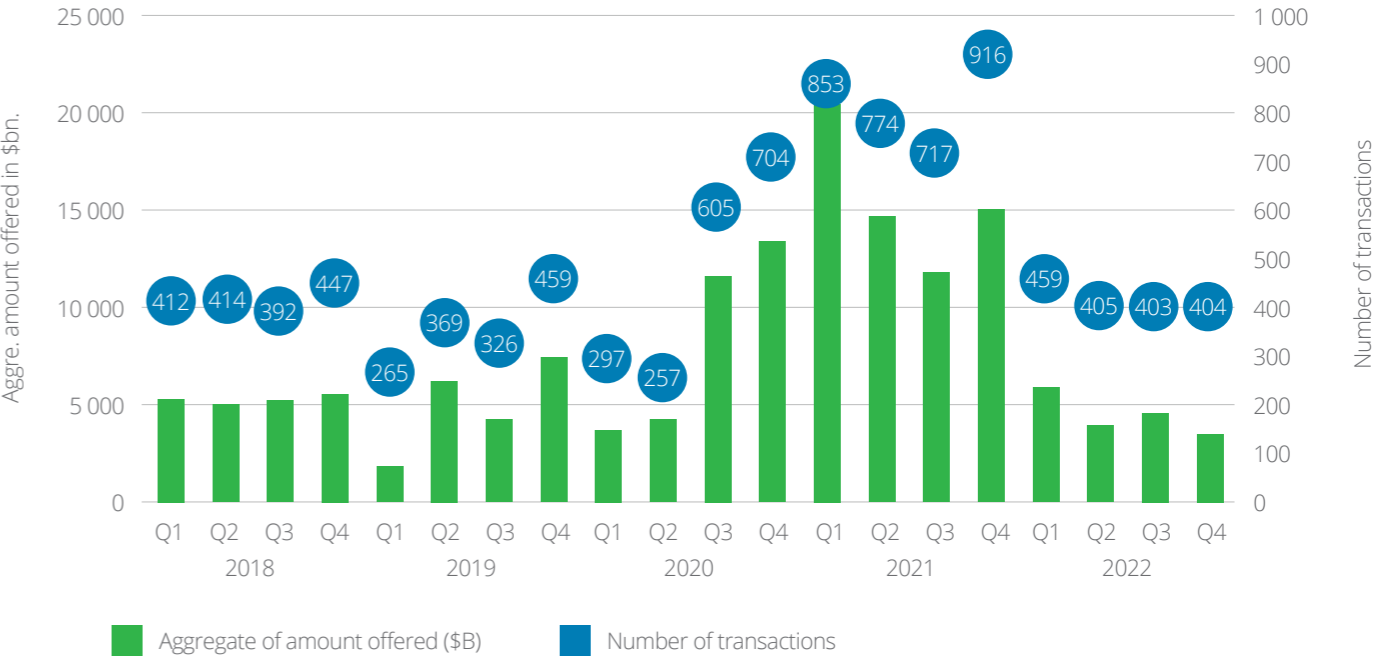
2022 was a historically bad year for European sovereign debt, which was hammered by interest rate rises by the European Central Bank and the US Federal Reserve. The interest rate, or yield, on German 10-year bonds, suffered its biggest selloff going back to the 1950s.

Simultaneously, the number of companies launching initial public offerings dropped by nearly 50 % in 2022 compared to the previous year. S&P Global Market Intelligence data shows that there were 1,671 IPOs worldwide in 2022, raising a total of \$179,73

billion, down from 3,260 IPOs raising \$626,56 billion in 2021. The public markets were hindered by bleak performance in equities, aggressive rate hikes from central banks, and fears of a looming global recession.

In Europe, IPOs raised only €14,2bn, an 80 % decrease from the €69bn raised in 2021. However, the IPO market would have been even worse if it weren’t for the listing of Porsche in Frankfurt in September, which raised €9,1bn, accounting for 64 % of the entire European IPO market in 2022.

GLOBAL IPO ACTIVITY SINCE 2018



Source: S&P Global Market Intelligence, 2023

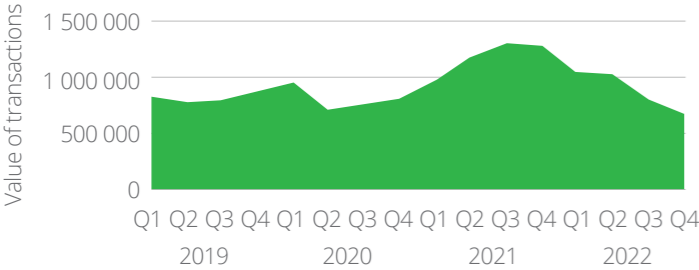
M&A MARKETS



In 2021, the M&A market has reached its historic peak, driven by bullish market conditions, fast-paced economic recovery, and historically low-interest rates. However, come 2022, the tides turned. 2022 saw a substantial decline in the number of transactions, from 16942 in 2021 to 15249 in 2022, a decline of 10 % (y/y). The LTM market value also took a hit, decreasing by 16.4% y/y.

Capital IQ’s published data shows that the number of transactions increased from 3573 in Q3 to 3680 in Q4, a growth

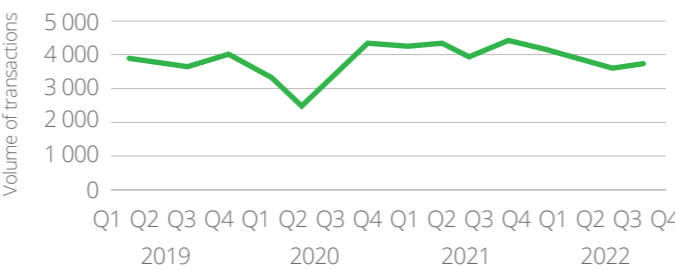
VALUE OF TRANSACTIONS (LTM USD MIL.)



While the market has seen a moderate dip in both transaction volumes and values in 2022 compared to 2021’s impressive first-half pace, the aggregate deal volumes are still at par with the pre-pandemic levels. The European M&A market in particular has shown resilience in the face of ongoing macroeconomic challenges. Despite declining moderately over the observed

of approximately 3 % during the period. The total value of transactions (measured as the sum of the value of transactions executed in the last twelve months) also decreased from \$809,9 billion to \$677,4 billion. The overall decline in market activity can be attributed to rising interest rates due to persistently high inflation, market volatility, high energy prices, and a generally negative economic outlook.

VOLUME OF TRANSACTIONS



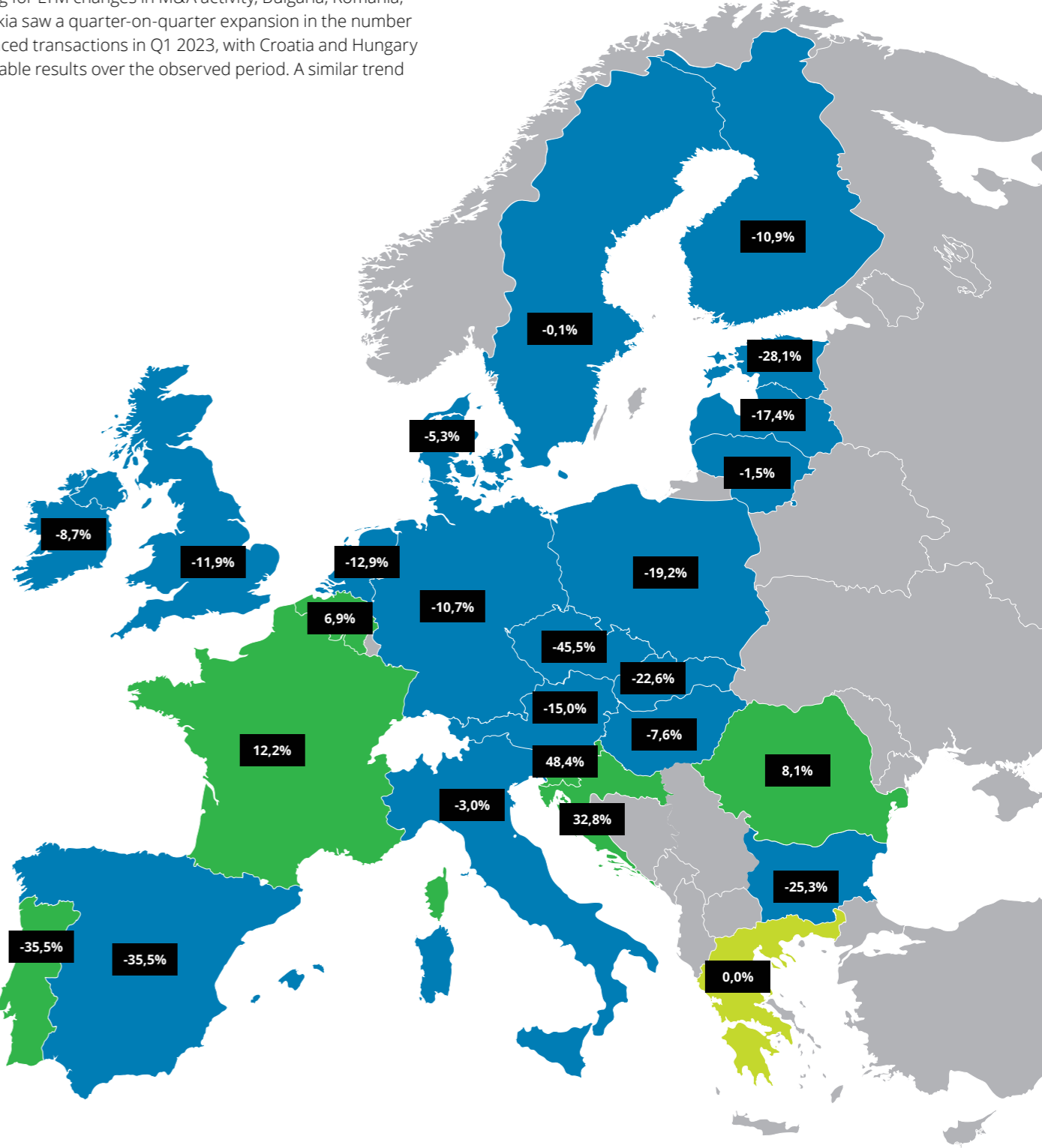
period, the European market outperformed both the US and the global market in transaction volumes – the EU 27+UK market saw a decrease of 10,4%, as compared to the global market dip of 13,9% and more visibly to the US market, which decreased by 15,5% over the same period.

	2022 Transaction Volume	2021 Transaction Volume	y/y change
World	49,923	57,997	-13,9%
US	18,250	21,602	-15,5%
Asia/Pacific	9,878	11,500	-14,1%
Africa/Middle East	1,424	1,534	-7,2%
Latin America	1,354	1,660	-18,4%
EU 27 + UK	15,249	17,017	-10,4%

Despite the economic turmoil, investors remain motivated to find opportunities for consolidation and scale of their activities. These trends are then particularly pertinent in Emerging markets of Southeast Europe, which appear to be particularly resilient to exogenous shocks.

Accounting for LTM changes in M&A activity, Bulgaria, Romania, and Slovakia saw a quarter-on-quarter expansion in the number of announced transactions in Q1 2023, with Croatia and Hungary posting stable results over the observed period. A similar trend

can be observed in the UK, Italy, Greece, Belgium, and the Netherlands, where the period declines remain moderate, and in Sweden and France, where transaction volumes experienced a moderate increase. Countries including Spain, Austria, and the Czech Republic declined by around 10 %.

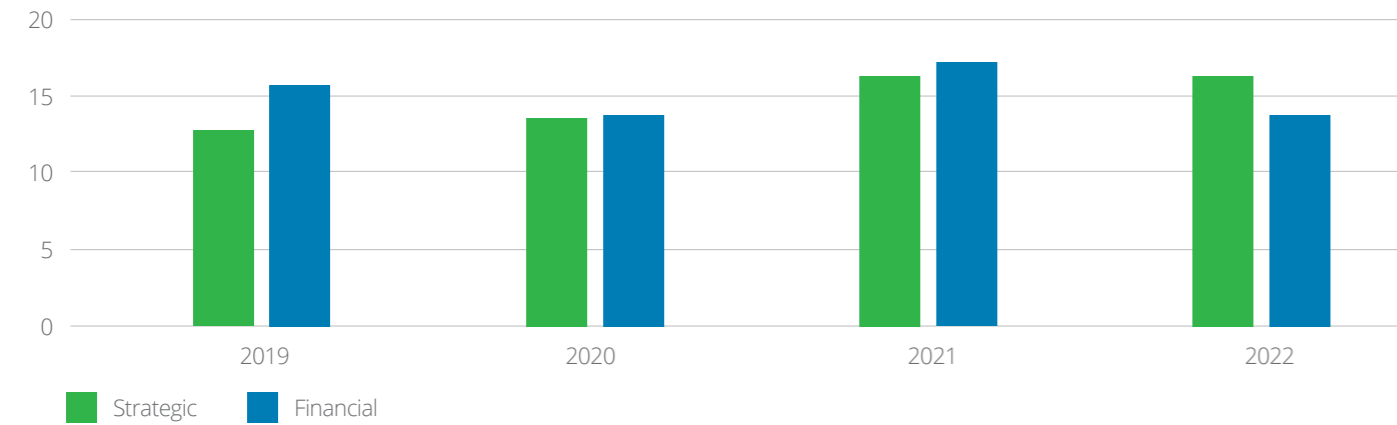


As a result of the economic turmoil, the European market in mergers and acquisitions has taken a substantial hit. Apart from outperforming developed markets (France, Belgium, and Sweden) and the consistently more dynamic emerging markets (Slovenia, Croatia, and Romania), all markets in the area have seen

a rapid decline in the number of transactions. The Balkans have overall shown particular resilience in the face of macroeconomic pressures. Among the most affected regions were Luxembourg (-30,7% y/y), Spain (-35,5% y/y), and the Czech Republic (-45,5% y/y).

VALUATION ANALYSIS

EV/EBITDA MARKET MULTIPLES OF EU TRANSACTIONS, ADJ. MEAN

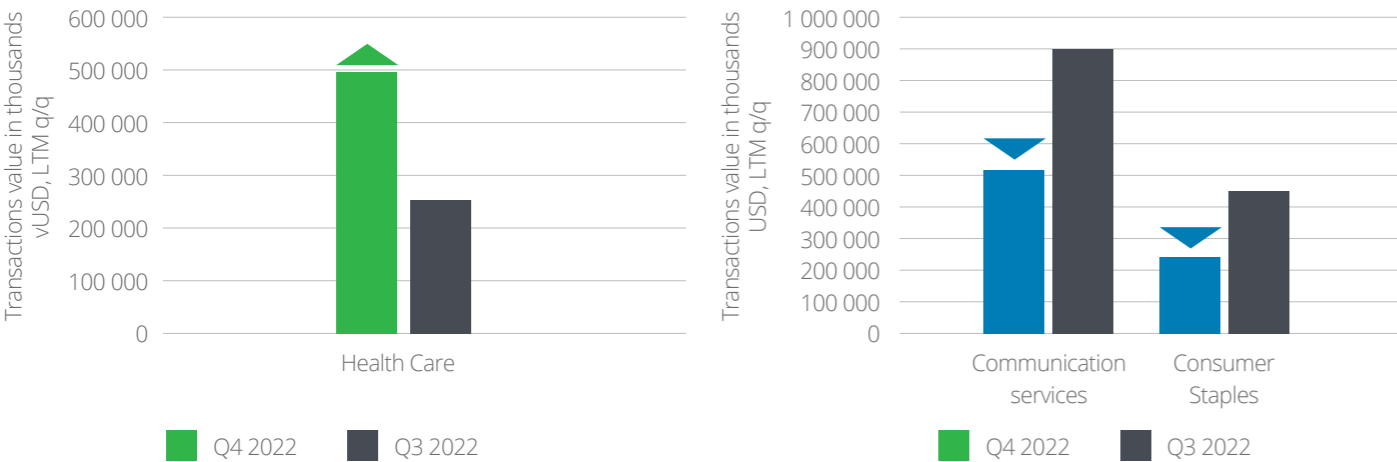


Although gradually departing from the historical maxima set in 2021, market multiples remain stable above historical averages. While Financial investor transaction valuations decreased -- as a result of political and economic stability, as well as growing borrowing costs and a decreasing leveraged finance appetite of the banking industry -- Strategic Investor valuations remain consistently strong, positioned well above their pre-pandemic levels. In this context, the acquisition activity of Strategic investors

is of the essence to further development of the European M&A market.

During Q4 2022, the healthcare sector was the only one that saw an increase in total deal value, with a 93 % surge. Conversely, all other sectors (except the “Other” category) experienced a decline, with consumer staples and communication services leading the way with drops of -46 % and -42 % (q/q) in Q4 respectively.

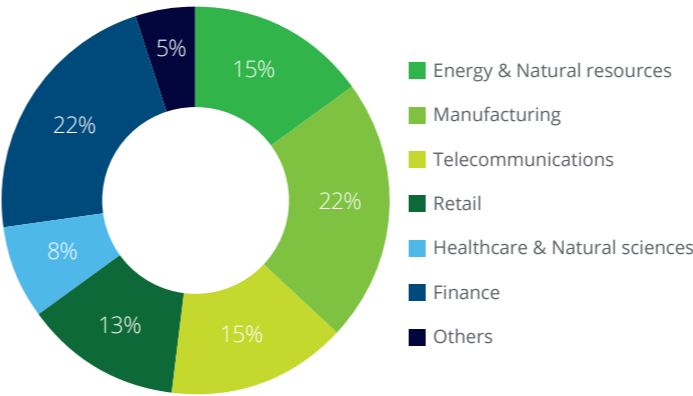
INDUSTRIES WITH WORST AND BEST-PERFORMING RESULTS



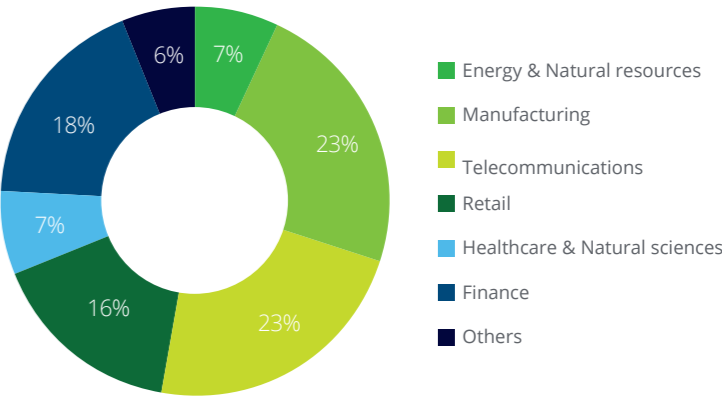
The manufacturing industry remains a dominant force in the M&A landscape, accounting for 22 % of both the total value and number of transactions. The Financial and TMT sectors follow closely behind. Although the TMT sector makes up a greater proportion of the total number of transactions (approximately 23 %), it only

contributes about 15 % of the total transaction value. In contrast, the financial sector, where larger deals occur more frequently, makes up 22 % of the total transaction value, despite accounting for only 18 % of the total transaction number.

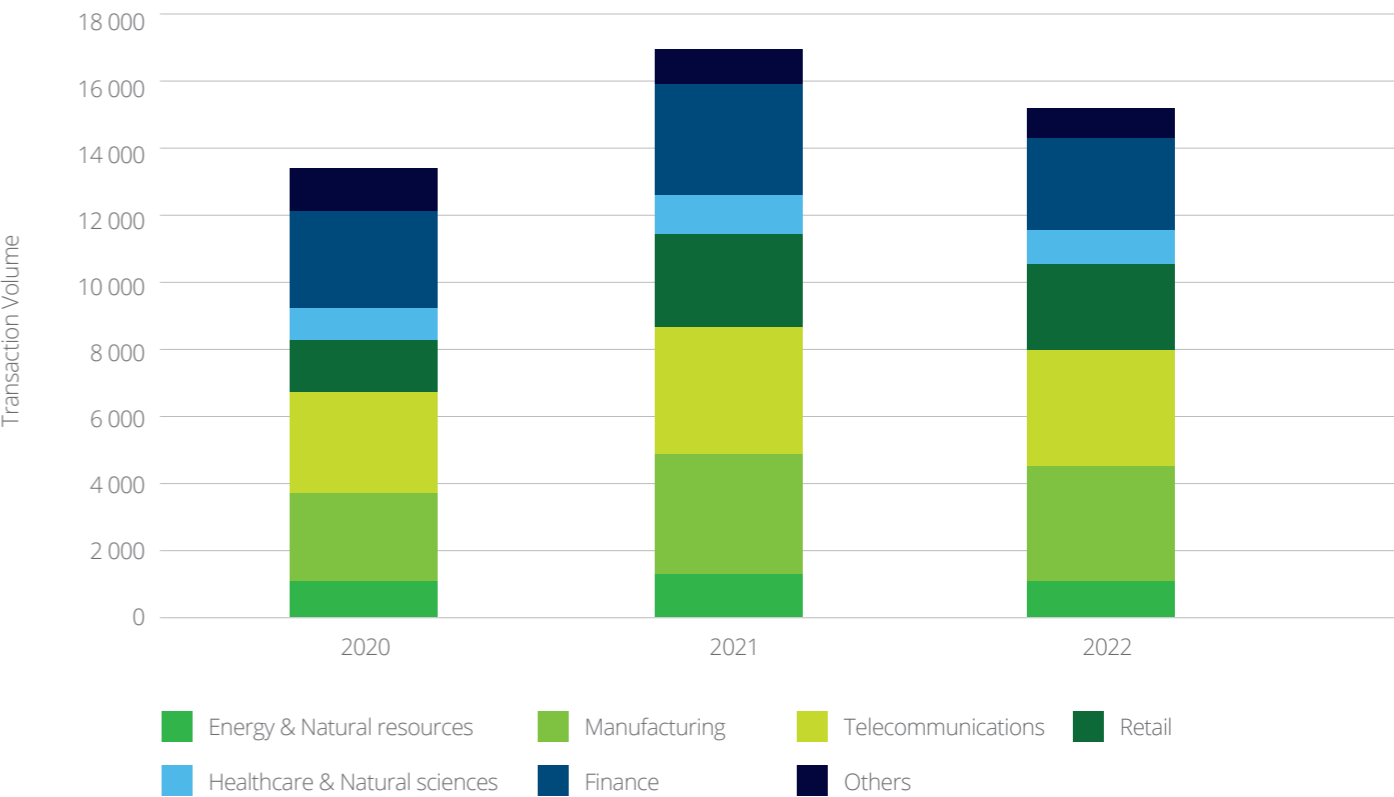
VALUE OF TRANSACTIONS BY THE INDUSTRY (2022)



NUMBER OF TRANSACTIONS BY THE INDUSTRY (2022)



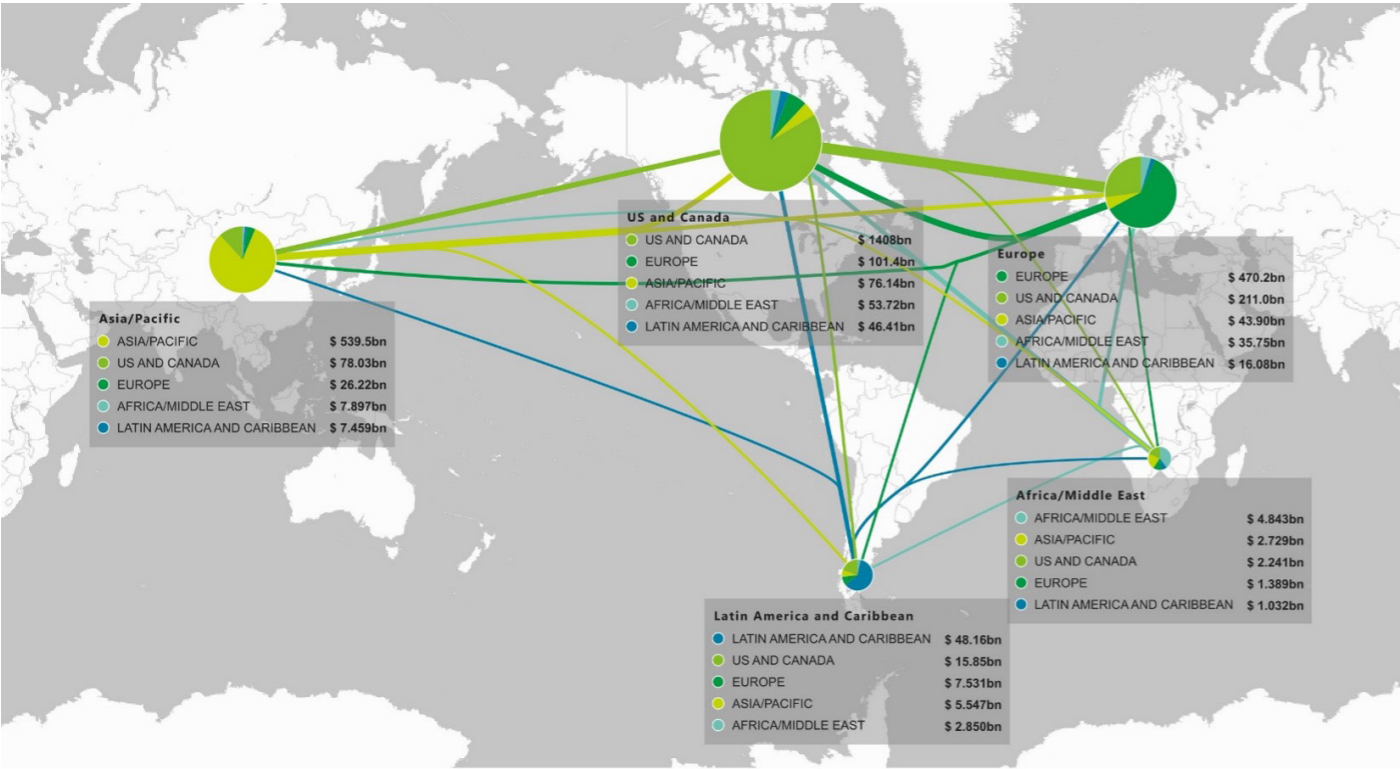
DEVELOPMENT OF NUMBER OF TRANSACTIONS BY THE INDUSTRY (2020 - 2022)



Mergers and acquisitions activity was negatively impacted in 2022 due to significantly higher interest rates and the uncertain outlook for the macroeconomic environment.

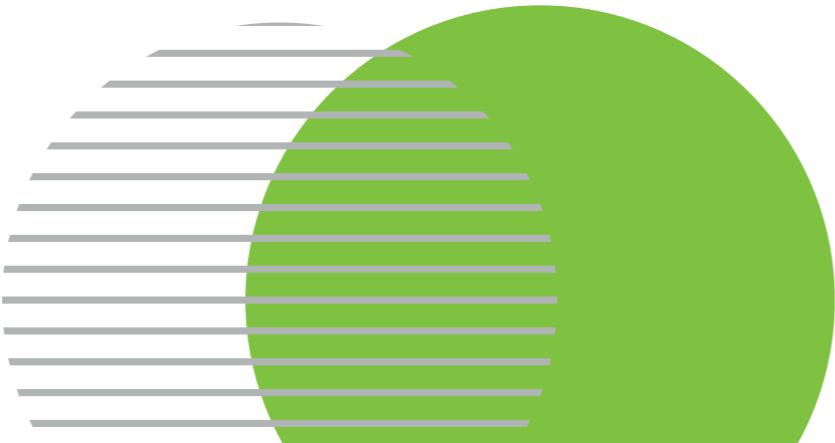
CAPITAL FLOWS WITHIN REGIONS (USD BN.)

The list classifies transaction in specific areas by the domicile country of the Investors partaking in the transactions

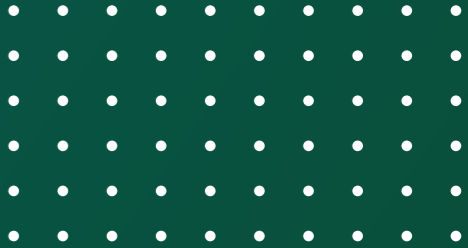


Despite the tightening of the global market, cross-border transactions remained a significant force in market activity, with Europe being a major player in 2022. Foreign capital invested in European acquisitions amounted to approximately \$306,7 billion,

which represents about 39,5% of the total deal volume. Likewise, European sponsors invested 149 billion in foreign markets for acquisitions. The continued growth of cross-border investments will be crucial for a swift recovery.



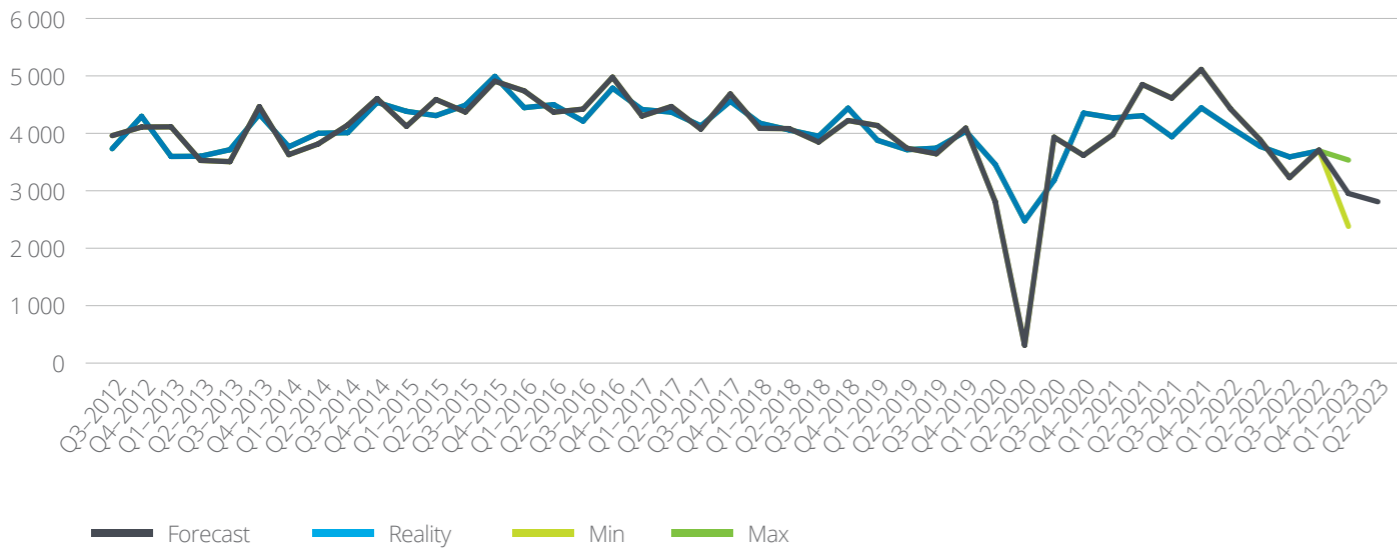
M&A INDEX 2023 PREDICTIONS



In line with the severe headwinds portrayed above, the Deloitte M&A Index predicts a significant decline in market activity in Q1 2023 and expects this trend to continue well into Q2 2023. The Index forecasts a decrease in the number of announced transactions for Q1 2023 to 2940, primarily due to market

uncertainty, increased cost of financing and lower earnings, all negatively affecting valuations and motivating sellers to postpone deals.

HISTORICAL PREDICTION AND SUBSEQUENT REAL STATE OF TRANSACTION VOLUMES + PREDICTION OF TRANSACTION VOLUME FOR Q3 2022



Source: Europa, Latest business, and consumer surveys, 2023

The current development on the market portrays the inherently adverse relationship between uncertainty and the M&A markets. In this context, the market activity – in terms of both values and volumes – can be characterized as a function of economic certainty, interest rates, and general macroeconomic environment. In this context, despite the sharp drop in transactions, the market activity still carries the potential for a speedy recovery, with health of the banking system, strong cash balances, and continued expansion in cross-border deals working to offset the severe headwinds on the market.

Despite the regressive tendencies, these strengthening influences continue to accompany market activity. M&A markets are still supported by cash balances on the side of corporations - at the beginning of the year, cash balances on the non-financial side amounted to a record \$3,5 trillion. The same applies to a large amount of unallocated private capital (“dry powder”) on the side of private equity funds, where at the beginning of the year, PE funds held a total of approximately \$1,96 trillion in dry powder. While financial sponsors are increasingly wary of pursuing acquisitions, the stagnation is in part motivated by consolidators and financial sponsors patiently waiting for further contraction in the valuation multiples. These pressures are especially apparent in Private Equity transactions, where the adjusted EV/EBITDA multiple dropped from 17,2x to 13,7x y/y. These sponsors will remain moderately active but are expected to intensify their acquisition efforts only when the current economic effects start to project onto valuation multiples, which currently remain still above pre-pandemic levels. Nonetheless, both financial and strategic

sponsors are expected to re-enter the market at accelerated pace by the end of the year and - supported by a surprisingly good condition of the banking sector - continue to seek investments in high-quality assets - firms with a strong market position, a long history, and a functional business strategy.

Local markets are also expected to continue to support cross-border transactions (especially in the North America-Europe corridor), which make up the key part of the European M&A market. In 2021, investments by North American entities accounted for transactions totaling \$211 billion, or about 27 % of the total transaction value in Europe. According to a Deloitte survey, more than 68 % of American companies consider international expansion to be a necessary part of further growth. These countervailing influences can significantly strengthen market activity and remain a necessary variable for further market development.

M&A MARKET HEADWINDS & TAILWINDS

For the following years, the M&A market is likely to see both tailwinds and headwinds that may affect the frequency and size of deals. The current landscape of M&A is shaped by a range of factors, including economic conditions, regulatory changes, technological advancements, and shifting consumer behaviors. The following section will explore the current tailwinds and headwinds in the M&A market, providing an insight into how these trends are impacting deal-making activity. By understanding the current state of the M&A market, companies can make more

informed decisions about their growth strategies and avoid potential pitfalls. Whether companies are seeking to acquire new technologies, expand their market share, or diversify their product offerings, a thorough understanding of the current tailwinds and headwinds in the M&A market is essential for success.

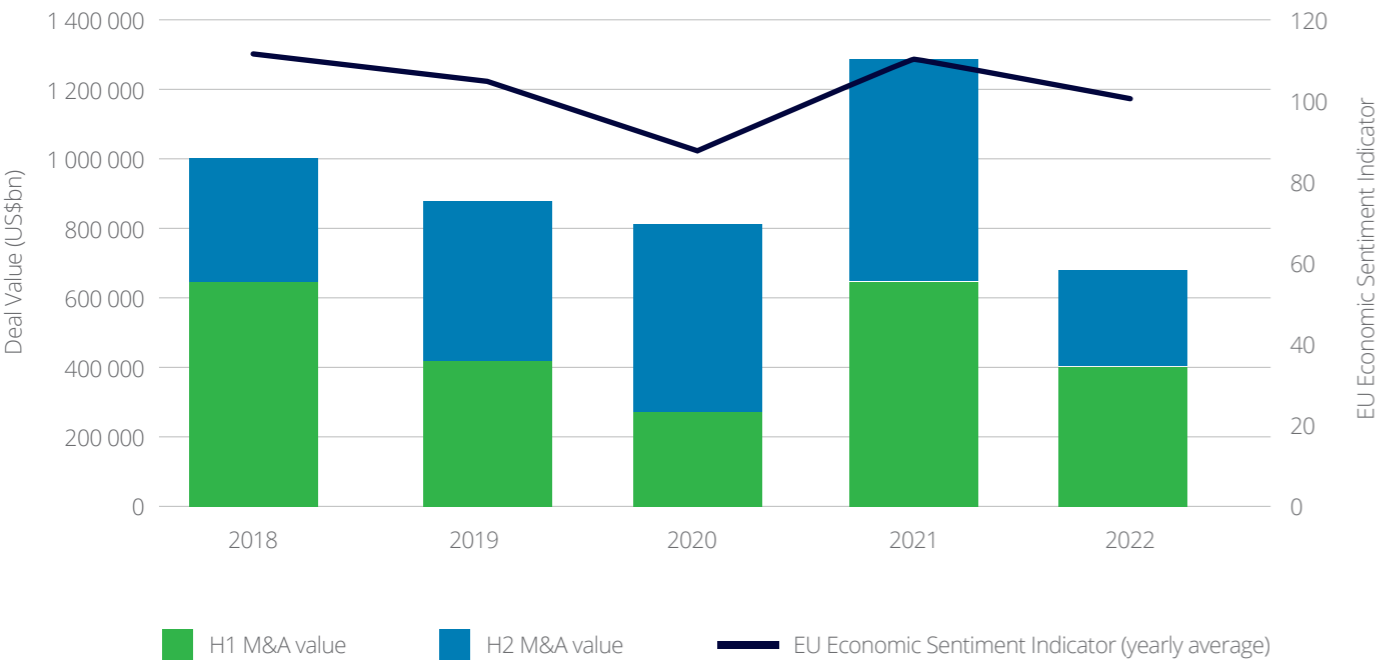
HEADWINDS

Economic Uncertainty

The M&A markets are highly responsive to economic uncertainty and are often driven by sentiment. Studies have shown that there is generally a lag correlation of 6-12 months between the economic policy uncertainty index and M&A activity. As we move into 2023, we are seeing higher levels of economic uncertainty, with tightening monetary policies, inflation, an economic slowdown, and renewed concerns over US-China trade wars and the domestic slowdown in China.

All these factors point towards a more cautious M&A market this year, with subdued stock markets, a decrease in deal P/E multiples, and a slowdown in mega-deals. However, economic downturns also typically see an increase in sector consolidation deals, and we expect to see more of these in the coming months. Given the current market conditions, non-core divestments should be expedited while markets and multiples are still relatively buoyant to ensure maximum returns.

M&A MARKETS REACT TO UNCERTAINTY



Source: Deloitte; Europa, Latest business, and consumer surveys, 2023

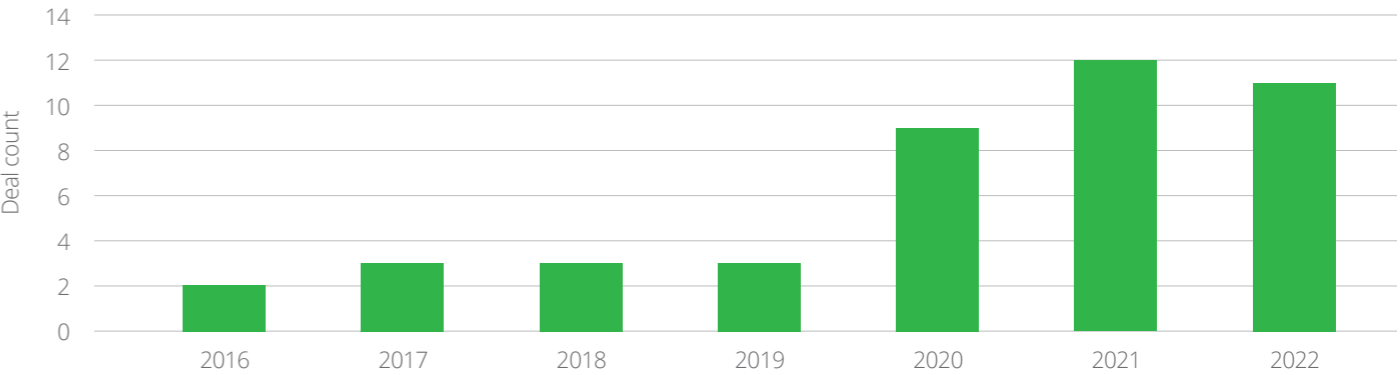
Regulatory pressures

The current business environment is marked by an increase in withdrawn deals due to greater regulatory scrutiny. This is particularly true for mega-deals where companies are required to obtain regulatory clearance from multiple countries before the deals can be finalized. Regulatory regimes across the world are tightening, with political pressures and protectionist tendencies exacerbating this trend, leading to a rise in withdrawn deals.

To reduce deal risks, companies must anticipate heightened scrutiny from regulators and politicians, and take measures such as conducting comprehensive regulatory risk impact reviews before initiating deals. By doing so, companies can mitigate potential risks and ensure the success of their deals in a rapidly changing business landscape.

In fact, between 2020 and 2022, 32 deals worth a total of \$520 billion were withdrawn due to political and regulatory pressures.

MEGA DEALS (>\$5BN) STALLED OR WITHDRAWN DUE TO POLITICAL & REGULATORY INTERVENTIONS



Source: Deloitte, Charting New Horizons 2023



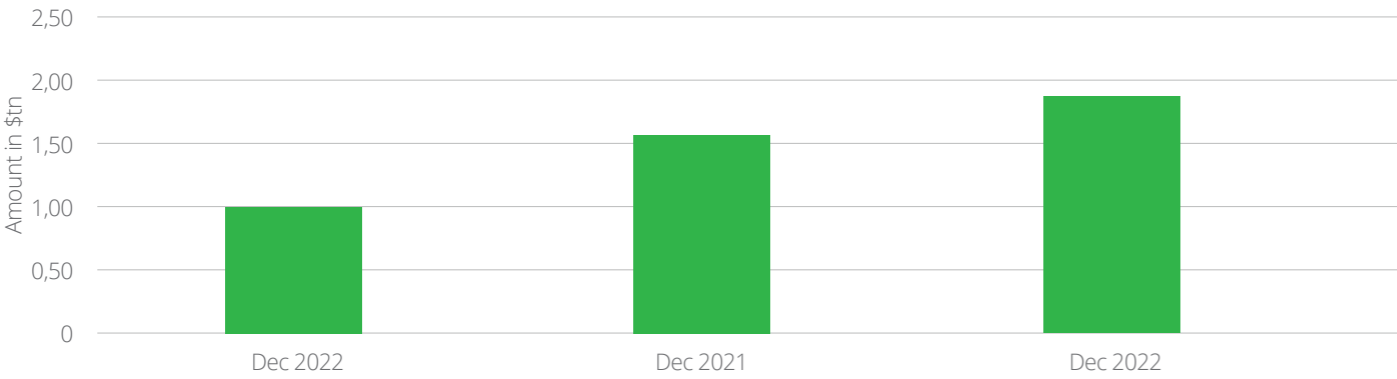
TAILWINDS

Private Equity

Private Equity is expected to maintain its position as a major force in the M&A market throughout 2023. According to reports, global private equity and venture capital dry powder reached a record \$1.96 trillion as of Dec. 15th, 2022. Private equity firms are increasingly taking on the role of industry consolidators by leveraging economies of scale and investing in new technologies to reduce costs, enhance efficiency, and generate value. The rise

in platform and add-on deals is a testament to this trend. For corporations looking to divest non-core assets, these firms that follow platform strategies present an attractive opportunity to raise capital for growth investments. With private equity expected to continue being a dominant player in the market, businesses must be prepared to navigate the unique dynamics of these transactions to ensure a successful outcome.

GLOBAL PRIVATE EQUITY AND VENTURE CAPITAL DRY POWDER



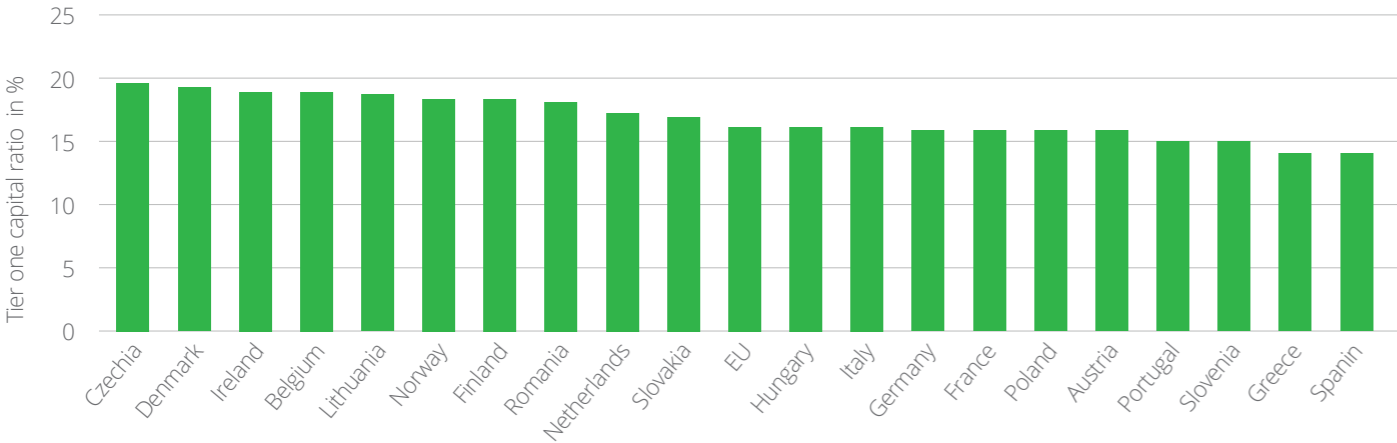
Source: S&P Global Market Intelligence, 2022

Healthy Financial Sector

As the banking sector prepares for a possible downturn in 2023, it remains in a strong financial position. Over the past decade, the industry has been diligent in building robust capital reserves. According to Statista, the Tier 1 capital ratio for EU banks currently

stands at 14 to 20 %, compared to 10 to 11 % in 2007. Additionally, the rise in interest rates is likely to result in an improvement in net interest margins as short-term lending products are repriced at a faster pace than liabilities (deposits). Banks are being cautious but remain in good shape and ready to finance leveraged transactions.

TIER ONE CAPITAL RATIO OF BANKS IN EUROPE Q3 2022, BY COUNTRY



Source: Statista, 2022

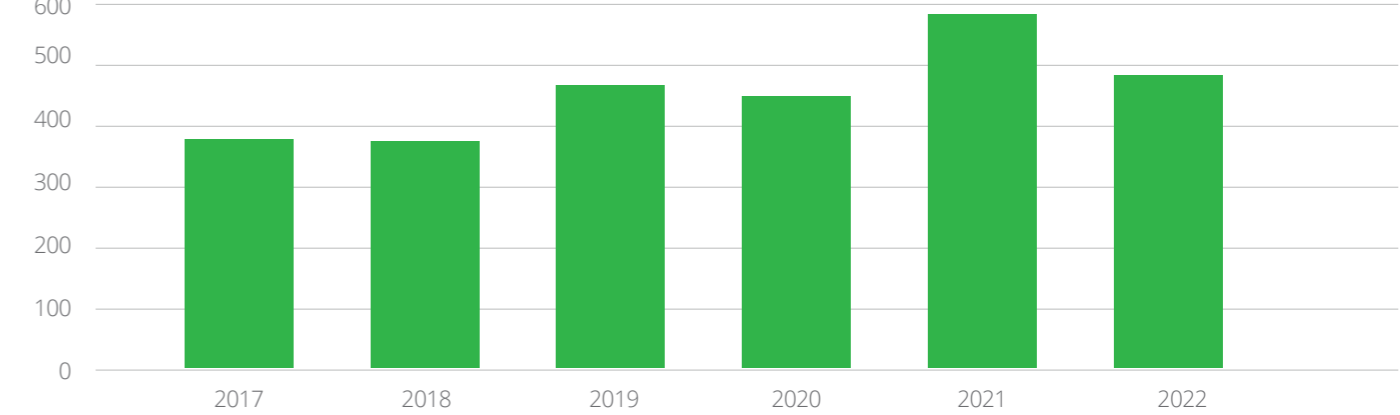
Emerging spaces

Numerous firms are employing M&A as a tactical approach to secure promising avenues for disruptive innovation growth. Notably, there has been a significant and sustained uptick in M&A transactions aimed at obtaining new capabilities or technologies in pivotal disruptive innovation domains, including but not limited to Fintech, AI, and Robotics.

While tech firms frequently spearhead this trend, a wide range of sectors, spanning from consumer goods to telecommunications, financial services, and service-related industries, have followed suit and are actively pursuing deals. As these emerging spaces

We advise that every stage of disruptive deals, from their origination in major innovation eco-system hubs to conducting diligence on emerging areas such as deep technology and cyber, and even post-deal value creation involving cultural assimilation of start-up companies, require a significant reconsideration due to their inherent complexity.

GLOBAL TECH INDUSTRY M&A TOTAL DEAL VALUE (IN USD BN.)



Source: Capital IQ, 2021

2023: A PATH FORWARD

“Despite the sharp decline in transactions, market activity may be supported by high cash balances of private equity investors. Private equity funds held approximately USD 1.96 trillion at year-end. These entities continue to seek investments in quality assets such as firms with strong market positions, long history and workable business strategies. In addition, the rising cost of capital is constraining market activity and creating downward pressure on valuations. This consequent correction in market multiples brings new consolidation opportunities, especially for strategic investors.”

Jan Brabec
Partner in Corporate Finance

“Macroeconomic conditions and market volatility have always been key factors driving M&A activity. In an environment characterized by high inflation, high interest rates and a slowing global economy, deal making is more challenging due to increased uncertainty, higher funding costs and a more cautious investment climate. However, unlike the 2008 financial crisis, there is ample equity capital available to support strategic and financial investors. Also, banks, while cautious, remain in good shape and are ready to finance leveraged transactions”

Miroslav Linhart
Partner in Charge, Financial Advisory

Merger and Acquisition (M&A) deals have always been a crucial aspect of the business landscape, with companies seeking to expand their reach, gain competitive advantage and increase shareholder value. However, the global business environment is becoming increasingly complex, with geopolitical and economic uncertainties, technological disruptions, and the ongoing pandemic creating an unprecedented level of volatility. This uncertainty has significant implications for M&A deals, with companies facing unprecedented challenges and risks that could impact their decision-making process.

Corporate confidence is often hindered by uncertain conditions, and our research indicates an inverse relationship between uncertainty (both economic and policy-based) and the number of M&A transactions. This pattern is not unexpected, as we observed a deceleration in M&A activity during periods of economic stagnation, as well as other during other exogenous events, including the Europe debt crisis, Brexit, and the 2016 US election. Nevertheless, M&A activity is notoriously sensitive to the effects of uncertainty. There is a compelling precedent to suggest that as uncertainties dissipate, M&A activity tends to rebound swiftly. The prevailing geopolitical and economic uncertainty is expected to continue influencing the market dynamics in 2023. Nonetheless, despite the anticipated reduction in M&A activity, there is still robust interest from both strategic and financial investors in landmark targets within Europe. In the upcoming year, we anticipate that investors will concentrate on seeking out potential investments in companies that offer significant value, not only in terms of their market position and financial performance but also through well-defined value propositions and robust, high-quality business plans. Investors are also anticipated to evaluate their business portfolios and divest non-core assets as part of the ongoing transformation. The trend towards consolidation is expected to continue, especially in unexplored territories of emerging markets in Europe and elsewhere, presenting numerous large-scale consolidation opportunities in the new economic reality.

The ongoing economic uncertainty can also create distress acquisition and buy-and-build opportunities for businesses looking to expand and grow. Companies that are overleveraged may be available for acquisition at a lower cost, allowing larger, more financially stable companies to acquire them and gain access to new markets or technologies.

Moreover, unlike the financial crisis of 2008, there is ample equity available to support both strategic and financial investors. Banks are being cautious but remain in good shape and ready to finance leveraged transactions. Unless the geopolitical situation deteriorates significantly over the next two quarters, it is likely that the M&A market will bounce back towards the end of next year.

The current uncertain environment will engender a sense of caution, but businesses are expected to adapt quickly, as M&A is inherently a long-term strategy. In times such as these, bold and decisive actions can potentially result in a particularly successful period of deal-making. Savvy dealmakers will strive to capitalize on the current uncertainties and turn them into unique opportunities.

After all, as J.A. Poulous famously declaimed “Uncertainty is the only certainty there is, and knowing how to live with insecurity is the only security.” Companies looking to engage in M&A transactions must be able to navigate these uncertainties and be prepared to adapt quickly to changes in the market. Those who can tolerate this insecurity and remain flexible in the face of uncertainty may ultimately find greater success in the M&A arena.



The world of M&A in one place!
www.mnaport.com

ABOUT M&A INDEX

Deloitte M&A index is a forward-looking indicator that forecasts future M&A deal volumes – the number of announced transactions over the observed period – and identifies the key factors influencing the dealmaking conditions on the European Market (characterized as 27 countries of the EU + the United Kingdom).

Compiling data from various global databases, including Capital IQ, Mergermarket, Pitchbook, Eurostat, and many more, the model utilizes a combination of statistical and algorithmic tools to provide a comprehensive review of the M&A market activity. The Index is created from a composite of market indicators – specifically pertaining to macroeconomic reality, liquidity, and general market dynamics. These variables are then tested for statistical and economic significance to M&A market volumes. The result is a dynamic, evolving, and up-to-date model allowing Deloitte professionals to accurately access and analyze factors influencing M&A market activity, as well as predict – with a high degree of certainty – the market activity in subsequent periods. The model – in its Beta version – retains high accuracy and is able to predict M&A market activity (in terms of number of announced transactions) with a mean absolute percentage error (MAPE) of

around 6,89%. In the previous period, the M&A Index forecasted an increase to 3700 deals in Q4 2022, only about 0,54% off from the actual results for the period. The results are well within the predicted range, and below the average deviation of the model, indicating that the model is stabilizing and readjusting gradually after the effects of exogenous events, including the COVID-19 pandemic and the war in Ukraine.

For the 2023 Year in Review report, additional model seeking to expand the prediction horizon to encompass Q2 2023 has been added. In its beta-version, the newly formulated model has been shown to be both economically and statistically significant, predicting market activity for the subsequent quarter with a MAPE of 8,4%.

CONTACT



Miroslav Linhart
Partner in Charge | Financial Advisory
Deloitte Advisory s.r.o.
mlinhart@deloittece.com



Jan Brabec
Partner | Financial Advisory
Deloitte Advisory s.r.o.
jbrabec@deloittece.com



Tomislav Procházka
Senior Associate | Financial Advisory
Deloitte Advisory s.r.o.
tprochazka@deloittece.com



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities. DTTL (also referred to as “Deloitte Global”) and each of its member firms are legally separate and independent entities. DTTL does not provide services to clients.

Please see www.deloitte.com/about to learn more.

In the Czech Republic, the services are provided by Deloitte Advisory s.r.o., Deloitte Audit s.r.o., Deloitte BPS a.s., Deloitte Legal s.r.o., advokátní kancelář and Deloitte Security s.r.o., Deloitte CZ Services s.r.o. (jointly referred to as “Deloitte Czech Republic”) which are affiliates of Deloitte Central Europe Holdings Limited. Deloitte Czech Republic is one of the leading professional services organizations in the country providing services in audit, consulting, legal, financial advisory, risk advisory, tax and related services through over 1,000 national and specialized expatriate professionals.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional advisor. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.