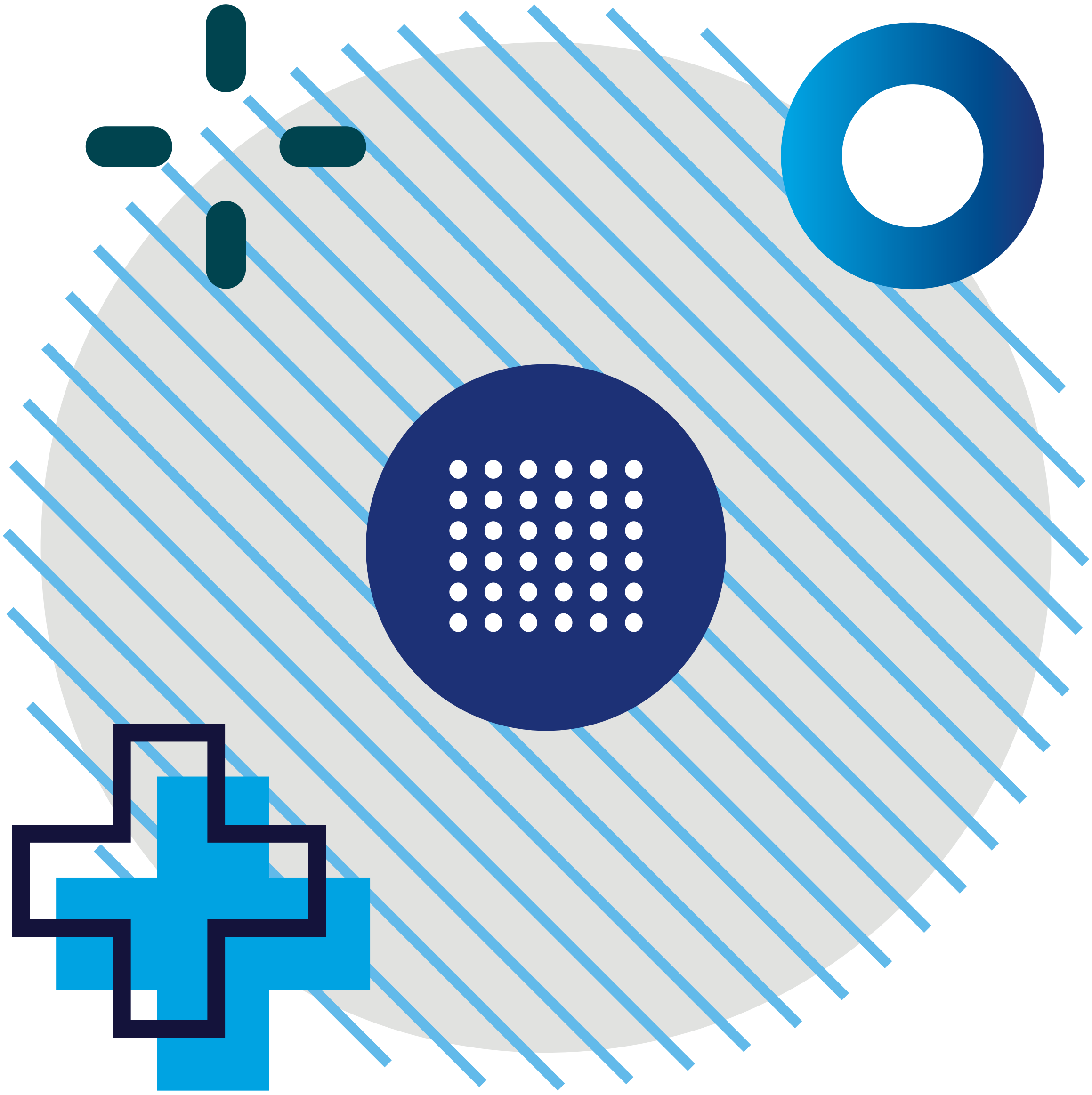
Deloitte.



M&A Index Q1 2024:
In Pursuit of Value

THE ECONOMIC REALITY IN 2023: A YEAR IN REVIEW

Global politics continues to stifle the markets. The conflict between Ukraine and Russia remains unresolved and could potentially reach a deadlock. China maintains ambitions to invade Taiwan, and tensions in the Middle East have heightened following the conflict between Israel and Hamas. While the impact of these geopolitical developments on the financial markets, supply chains, oil prices, and other commodity prices remains murky, the world economy is certainly becoming more fragmented.

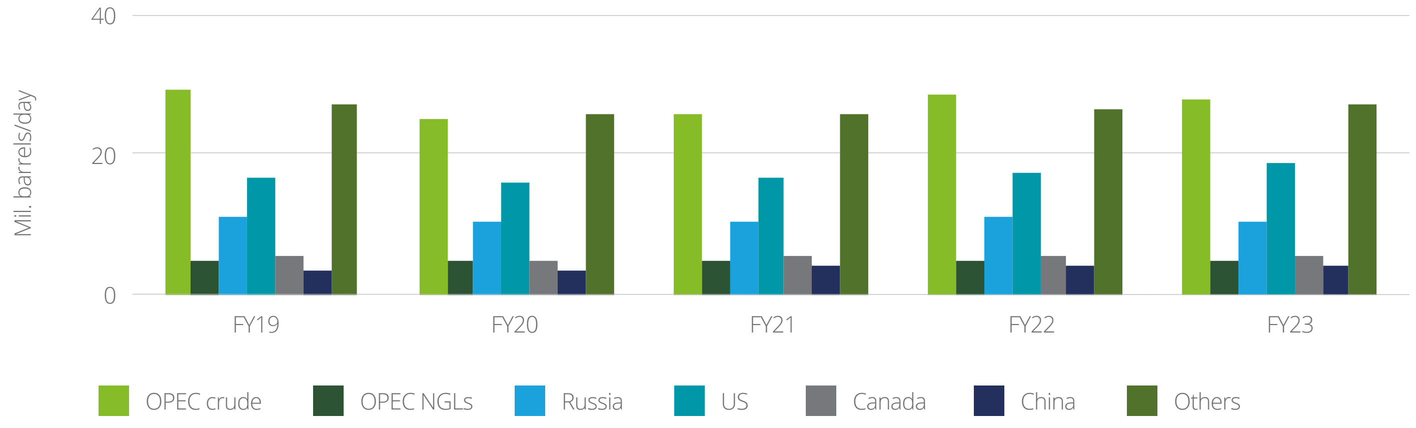
The recent geopolitical upheaval in the Middle East has injected significant volatility into commodity markets, which were already grappling with the repercussions of preceding exogenous shocks. Prior to the conflict, OPEC+ producers had proactively curtailed oil supply in response to declining oil prices. However, the robust output of non-OPEC countries, notably propelled by record oil production and exports from the United States, mitigated the supply shortage and contributed to a decrease in oil prices amid a global slowdown in oil demand growth.

The burgeoning non-OPEC supply landscape poses a formidable challenge for OPEC+ members who are intent on pushing prices above the $80 threshold. In the longer term, additional impediments to sustained oil price growth may emerge from the ongoing green transformation, which is progressively diminishing the global demand for oil. However, the potential decline in prices is expected to be tempered by the escalating oil consumption in the developing world.

FACTORS SHAPING THE ECONOMIC REALITY IN 2023

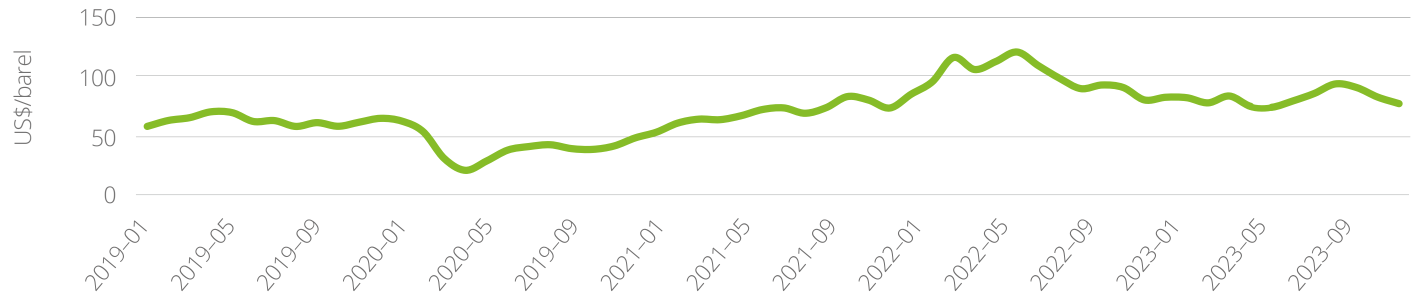
M&A Index Q1 2024: In Pursuit of Value

THE OPEC+ OIL SUPPLY SHORTAGE OFFSETTED BY THE US



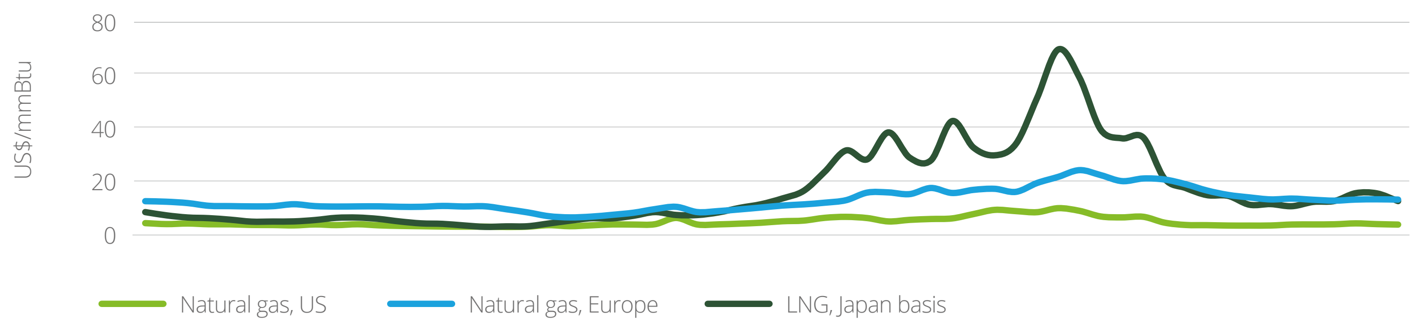
Source: IEA, EIU, 2024

STILL ELEVATED BUT LEVELED-OFF OIL PRICE (BRENT)



Source: World Bank, 2024

THE EASING OF EUROPEAN ENERGY CRISIS

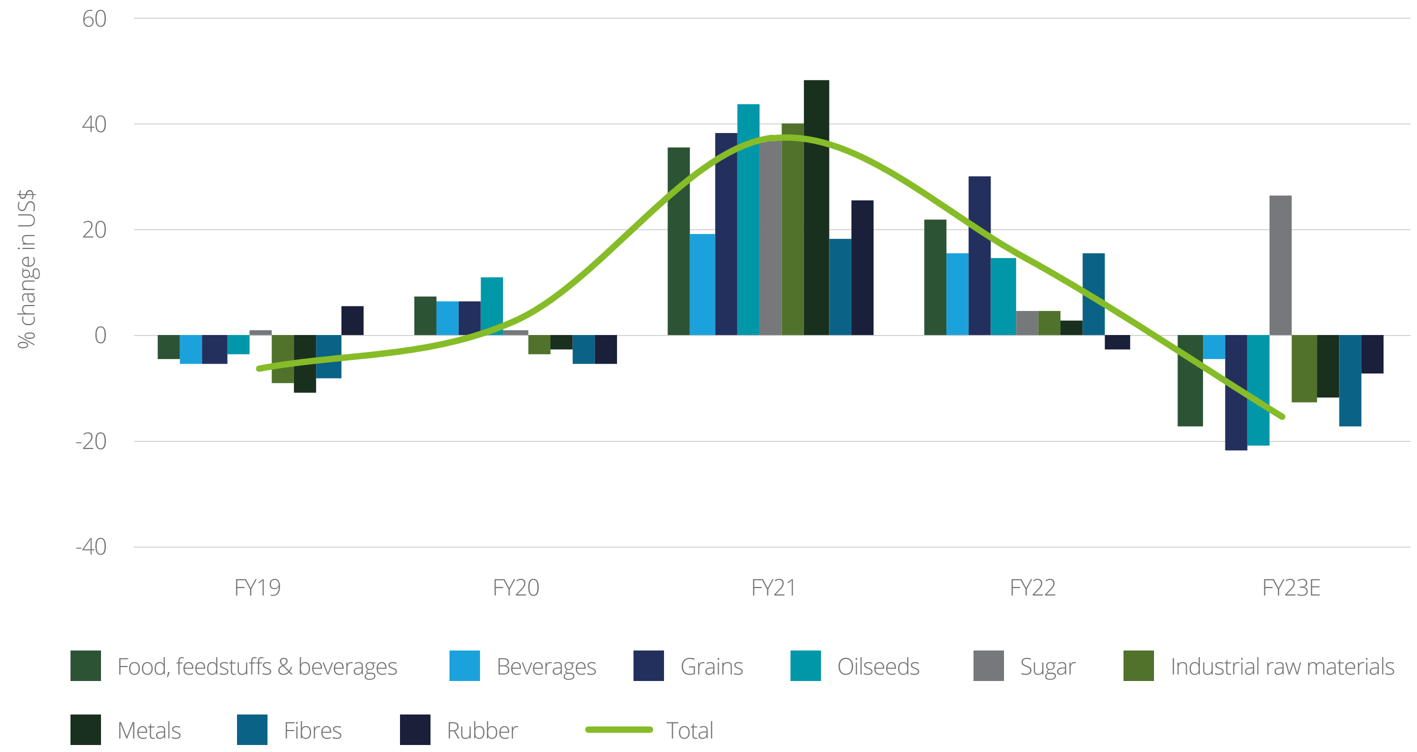


Source: World Bank, 2024

European natural gas prices remain intricately entwined with geopolitical factors, notably the Russia-Ukraine conflict, which precipitated a surge in prices across Europe in 2022. Furthermore, the essential LNG exports addressing the shortfall in Europe are impacted by analogous geopolitical factors and elevated crude oil prices.

Diverging from the trends observed in 2022, the downturn in most commodities in the current environment can be ascribed to reduced energy prices and a marginally improved macroeconomic landscape. However, sugar stands out as an exception, experiencing a surge to 12-year highs due to concerns over supply bottlenecks, particularly emanating from India. Despite the general downtrend, prices persist above pre-pandemic levels, and the recovery of the Chinese economy, coupled with the impetus of the green transition, may propel metal prices—such as aluminum, nickel, and copper—upward.

THE FALL OF GLOBAL COMMODITY PRICES



Source: EIU, 2024

In the face of an increasing number of global conflicts and political tensions, coupled with a stringent monetary policy, the year 2023 unfolded as a period of consolidation, effectively averting an impending economic recession. The relatively stable commodity prices and the rise of capital costs played pivotal roles in fostering disinflationary trends throughout the year. However, households and numerous businesses, particularly in Germany and the Central and Eastern European (CEE) region, grappled with persistent challenges, constraining household consumption—the principal driver of economic growth.

This challenge is accentuated by enduring low consumer confidence, although there was an improvement from the preceding year, 2022. The confluence of factors, including lingering inflationary pressures and a cautious growth outlook, continued to cast a pall over the economic landscape.

CONSUMER CONFIDENCE INDICATOR (EURO AREA)

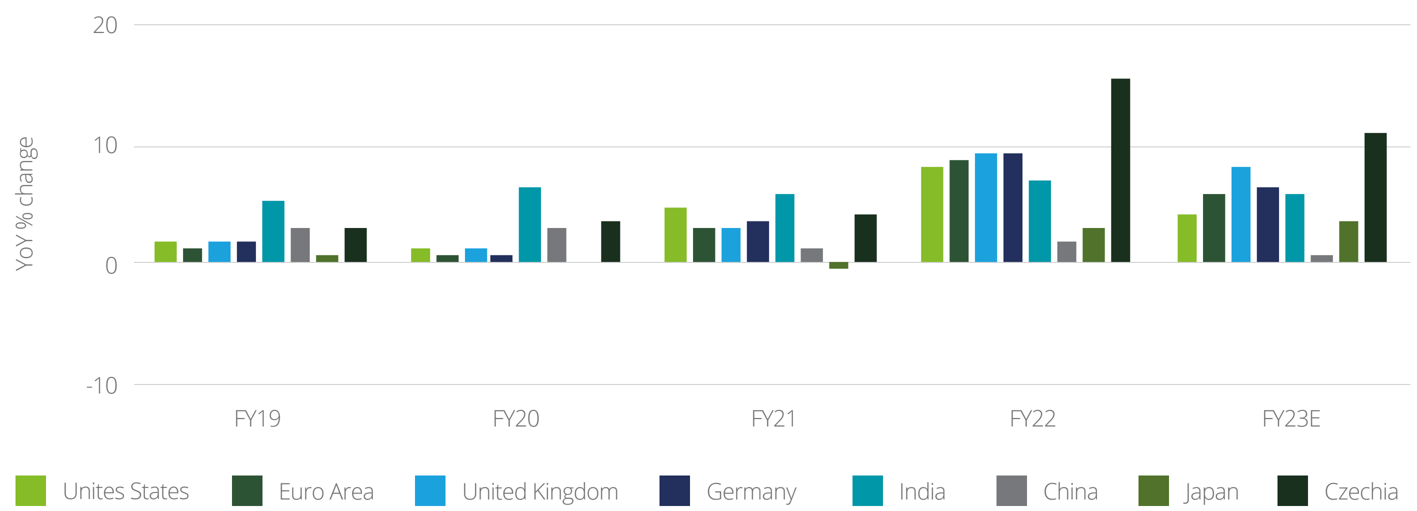
Source: Eurostat, 2024
Note: The survey data are published as balances, i.e. the differences between positive and negative answers (arithmetic average of balances)

Inflation has receded from its 2022 peaks, with the gradual easing of the energy crisis and marginal progress in addressing supply-chain issues (though naval supply-chains continue to experience the effects of the uneasy geopolitical environment – particularly in the Red Sea). Despite these positive trends, inflationary pressures remain high, with rates continuously hovering above the targeted 2% goals. Regions in Europe, grappling with exposure to geopolitical tensions and energy security risks, must persevere in substantial efforts to effectively curb inflation rates.

The inflationary effect on financial markets hence remains substantial, influencing the value of money and the real return on investments. As inflation rises, it erodes purchasing power, leading to a depreciation in the value of fixed-income securities. Consequently, this triggers an increase in interest rates, as bond issuers seek a higher yield to offset the diminishing value of their investments.

Moreover, inflationary expectations can instigate fluctuations in currency values, prompting shifts in investment patterns and capital flows. This, in turn, results in heightened volatility in the foreign exchange market and the prices of commodities, including metals and oil. Collectively, these factors contribute to a decline in consumer confidence, fostering a cautious approach among households, and causing delays in significant purchases. In this manner, inflation establishes a detrimental cycle, where diminishing consumer confidence exacerbates the repercussions of inflation, thereby weakening overall economic growth.

AVERAGE CONSUMER PRICE INDEX

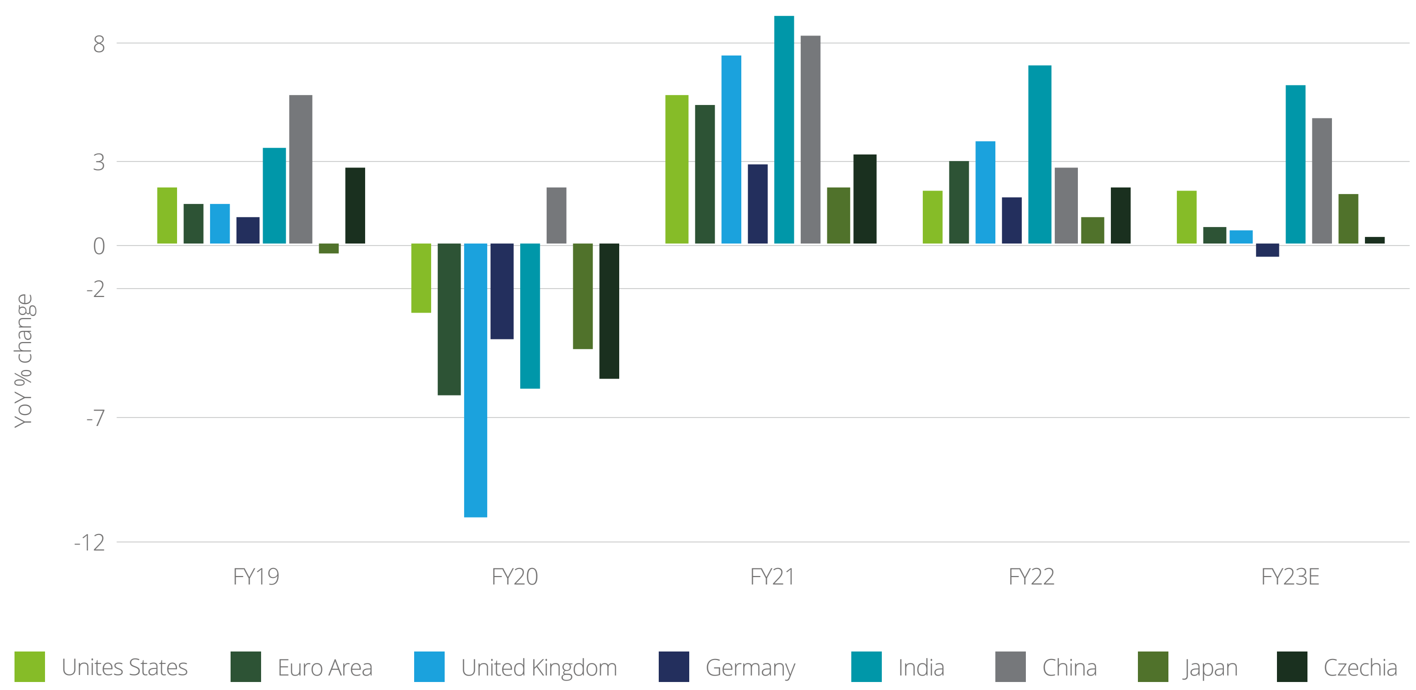


Source: IMF, 2023

While there may be a perception that monetary policy could shift towards a more dovish stance, central bankers continue to grapple with the challenge of achieving complete control over inflation. In navigating this complex terrain, they must strike a delicate balance, avoiding measures that might inadvertently stifle economic growth and precipitate a recession. This predicament is notably pronounced in Europe, specifically in Germany and the CEE region, where sluggish economic growth persists due to the enduring impacts of the energy crisis, particularly affecting the energy-intensive industries.

The United Kingdom has recorded the lowest real Gross Domestic Product (GDP) Year-over-Year growth at +0.5%, with the Euro Area not far behind at +0.7%. Notably, the German economy, grappling with stagflation, recorded a contraction of -0.5%. These figures underscore the directly oppositional and conflicting balance between offsetting inflation and promoting economic growth.

STAGNATING EUROPEAN GDP GROWTH



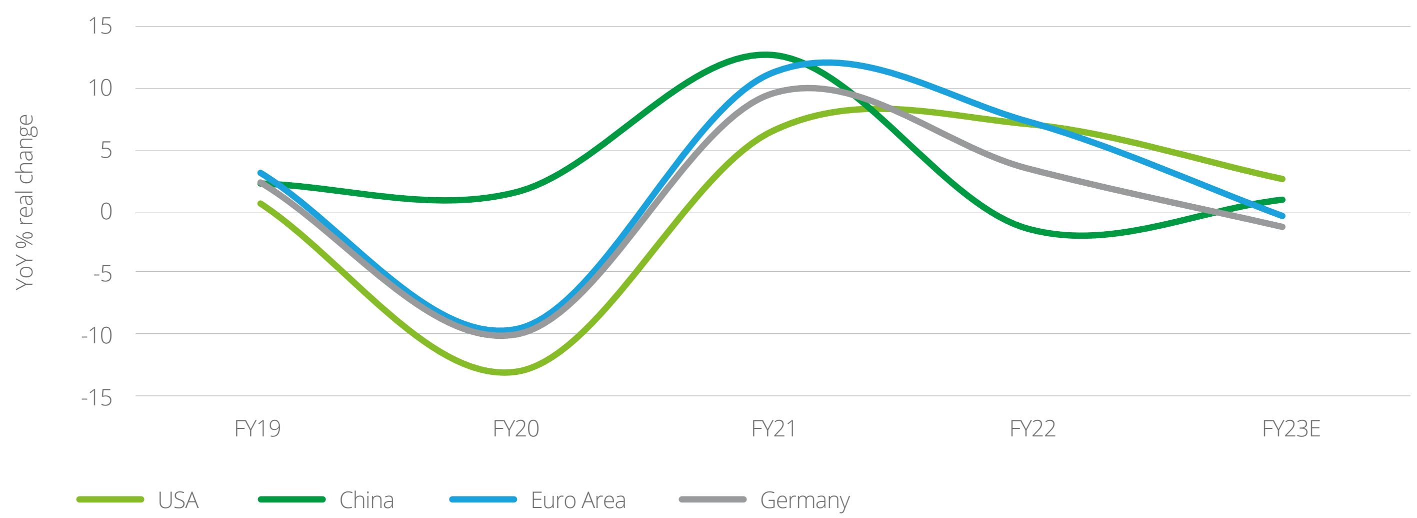
Source: IMF, 2023

The German economy, intricately linked with the economic dynamics of the CEE region, finds itself mired in a phase of stagnation, primarily attributed to the factors outlined above. This situation is further complicated by the absence of nuclear energy power sources and a subdued appetite in foreign markets. Export-oriented sectors, particularly in the face of diminished demand from China and other key markets, grapple with heightened competition in the automotive sector, a sector undergoing a transformative shift toward electrification.

Moreover, Germany contends with the challenges posed by its rapidly aging population, amplifying pressures on social systems and labor markets. The nation also confronts the complexities of sustaining energy-intensive industries amidst global shifts toward sustainable practices. The economic landscape is additionally marked by capital outflows, a consequence of elevated corporate taxes and ongoing disputes between the European Union and China, among other pertinent issues.

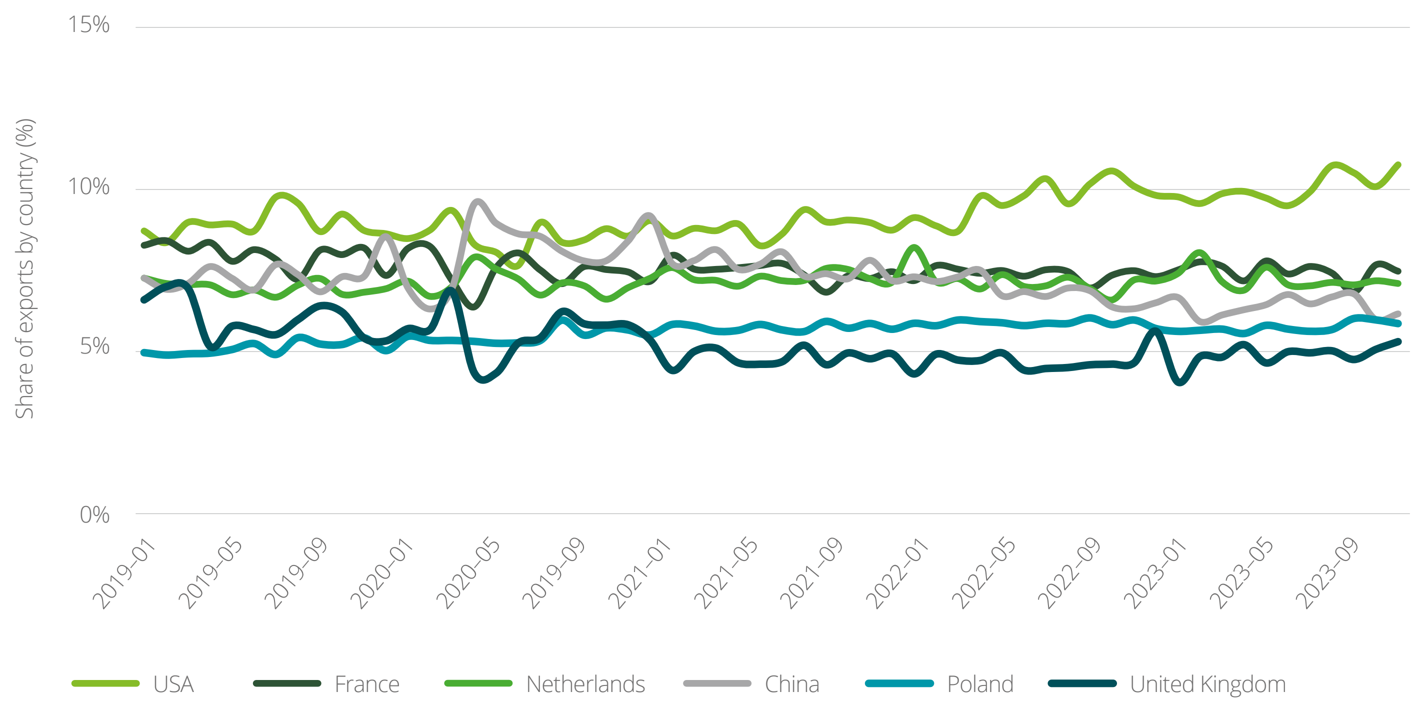
This intricate web of challenges underscores the imperative for Germany to adopt a comprehensive and adaptive economic strategy. The interconnectedness of these factors necessitates a nuanced approach, addressing both immediate concerns and the long-term structural adjustments required for sustained economic resilience and growth.

GOODS & SERVICES EXPORTS



Source: EIU, 2024

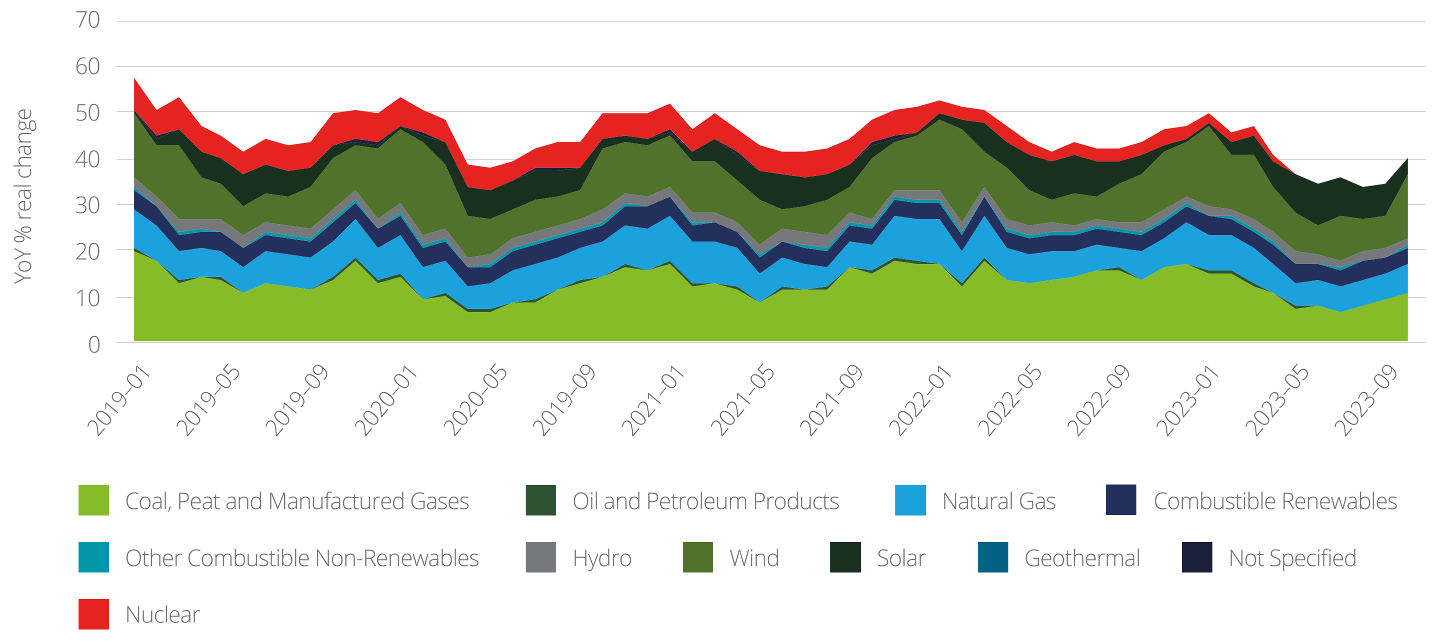
GERMAN TRADE PARTNERS - CHINESE LOWER DEMAND



Source: Federal Statistical Office, 2024

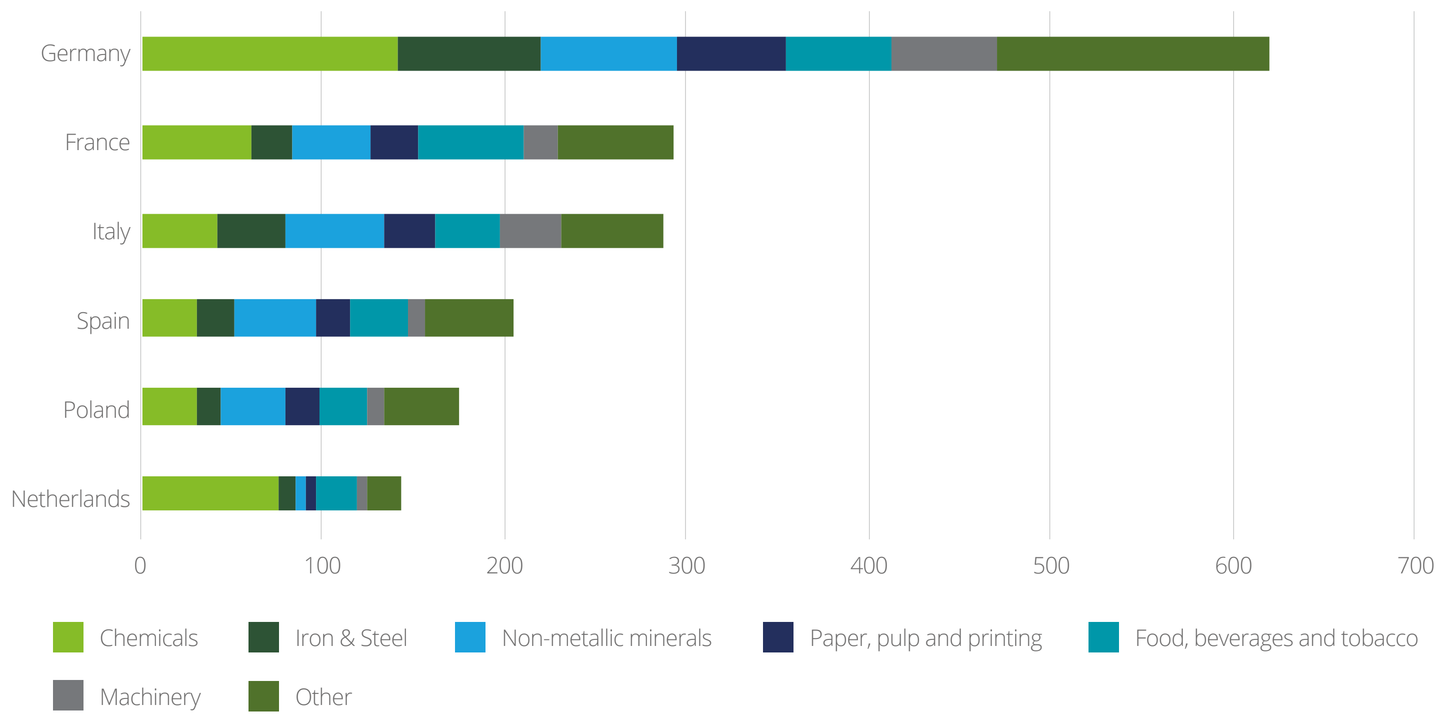
M&A Index Q1 2024: In Pursuit of Value

GERMAN ENERGY MIX



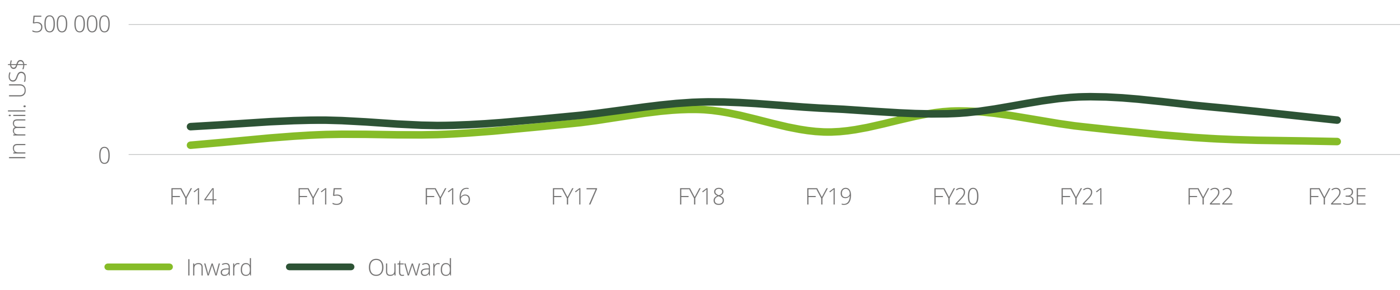
Source: IEA, 2024

GERMAN INDUSTRY IS PARTICULARLY ENERGY-INTENSIVE (IN TWH, 2022)



Source: Eurostat, 2023

CAPITAL OUTFLOW IN GERMANY



Source: EIU, 2024

The current economic landscape, marked by global uncertainties and specific challenges in regions like Europe and Germany, is expected to exert a significant influence on the dynamics of global mergers and acquisitions (M&A) activity. Several key inferences can be drawn from the complex interplay of geopolitical tensions, economic uncertainties, and sector-specific challenges.

Firstly, industries facing transformative shifts, such as the energy transition and the electrification of the automotive sector, are likely to witness increased M&A activity. Companies may strategically realign through mergers or divest non-core assets to navigate these industry changes effectively, aiming to gain a competitive advantage.

Secondly, the ongoing geopolitical tensions and economic uncertainties could drive M&A as a risk mitigation strategy. Companies may seek diversification through acquisitions to mitigate risks associated with geopolitical fluctuations and economic uncertainties, thereby enhancing resilience.

Furthermore, the disruptions in global supply chains and geopolitical challenges may prompt companies to reassess and optimize their global supply chain structures. M&A activities could be motivated by a desire to secure alternative sources, strengthen regional presence, or improve overall supply chain efficiency in response to these challenges.

Moreover, the imperative for technological adaptation and innovation, especially in response to economic stagnation and industry shifts, may fuel M&A activities. Companies seeking to bolster their technological capabilities or access innovations may engage in acquisitions to remain competitive in a rapidly evolving business environment.

The increasing emphasis on sustainability and green initiatives, accentuated by challenges in energy-intensive industries, is anticipated to contribute to a rise in M&A activities. Companies aiming to align with environmental goals may pursue acquisitions of sustainable businesses or technologies to position themselves favorably in the evolving market.

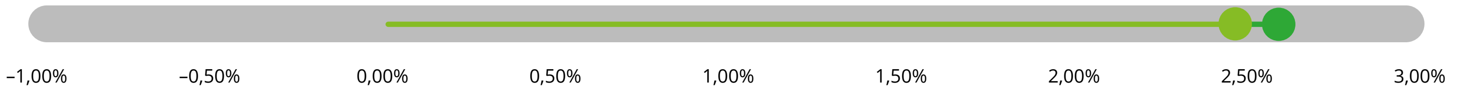
Lastly, government interventions and economic stimulus measures designed to address economic challenges may influence M&A activity. Companies could strategically leverage available financial support to facilitate mergers or acquisitions, taking advantage of economic incentives to strengthen their market positions.

In conclusion, the intricate nexus of economic challenges, industry-specific transformations, and geopolitical uncertainties is poised to shape global M&A activity. The strategic realignments, risk-mitigation efforts, supply chain adjustments, technological adaptations, and sustainability considerations emerging from these challenges are likely to influence dealmaking trends on a global scale.

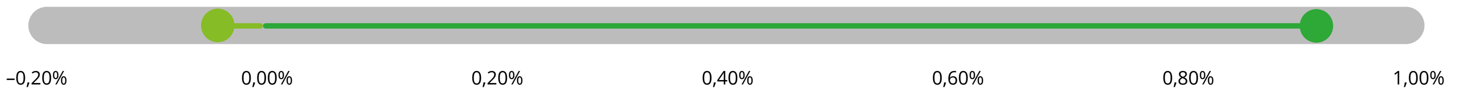
Deloitte M&A Barometers seeks to present key insights into European markets in Mergers and Acquisitions in a consolidated, comprehensive form. The model portrays recent developments in key factors affecting dealmaking in Europe on a q/q basis, and further positions the results in the context of historical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

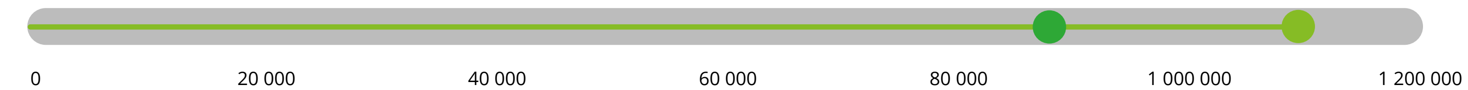
BOND PRIME YIELD (GERMANY)



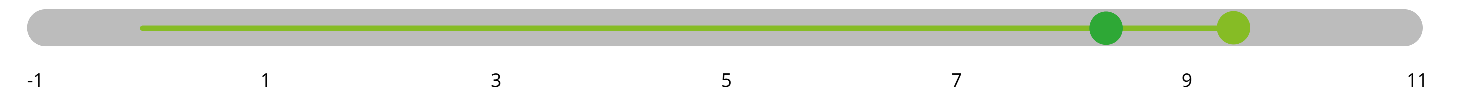
GDP



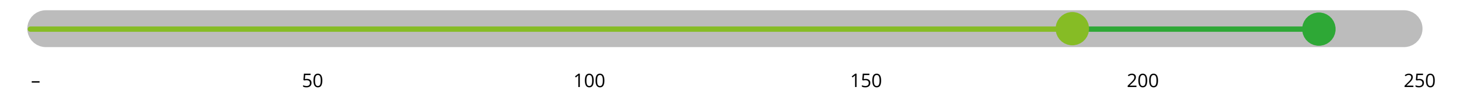
TRANSACTION VALUE (USD MM)



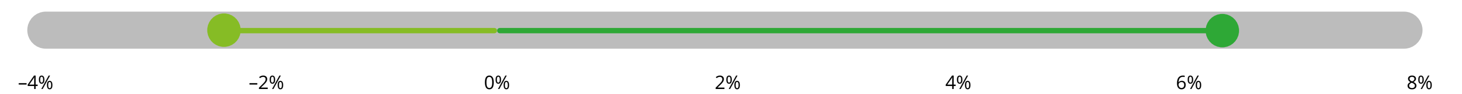
IMPLIED TEV/ ADJ. EBITDA (MEAN)



AVERAGE TRANSACTION SIZE (USD MM)



STOXX EUROPE 600 PERFORMANCE



MARKET IN LOANABLE FUNDS: COMPLEX REVIEW

In the current economic climate characterized by local and international market contractions, financial institutions are demonstrating a robust and open stance toward providing acquisition financing at favorable rates. Despite the prevailing challenges, a resilient banking sector is evident, showcasing a sustained appetite for supporting M&A activities.

The ongoing downward trend in market multiples, coupled with a slightly subdued market environment, creates a conducive backdrop for M&A endeavors. Nevertheless, financial institutions, both local and international, are actively seeking opportunities to finance deals involving high-quality firms with well-structured business plans. Leveraging analytical insights, the industry is well-positioned to capitalize on this environment, offering comprehensive financing packages tailored to be the linchpin for clients' M&A pursuits.

A strategic blended financing approach, combining domestic confidence with international expansiveness, emerges as a powerful funding strategy. This approach minimizes risks while optimizing returns. By capitalizing on extensive cross-border networks and a deep understanding of local financing markets, the industry aims to craft robust funding strategies that resonate both domestically and across European markets.

Competitive funding processes are emphasized, enabling clients to tap into local and international funding perks. This approach aims to secure favorable terms, and optimal pricing and ensures clients are not confined by the limitations of a singular market. The objective is to create a dynamic financing landscape responsive to both local and European dynamics.

In the context of local European banks, the potential to secure sufficient acquisition capital is significant, offering an attractive senior debt capacity of around 3.5x-4.0x EBITDA. High-quality local assets benefit from a more favorable risk assessment, resulting in decreased pressure on collateralization and financial covenants. This provides advantageous rates and flexibility on both the Mezzanine and Senior levels. Particularly Mezzanine financing emerges as a renewed source of reliable financing at around 1.5x-2.0x EBITDA. The ability to structure deals under various legal frameworks and streamline approval processes positions local European banks as nimble and efficient partners in the acquisition financing landscape.

Shifting the focus to the international market, global banks offer competitive leverage scopes on senior and mezzanine debt. Despite challenges, foreign banks present unparalleled access to major global currencies. Risk perception, influenced by the geography of the acquirer and industry peers, plays a pivotal role in determining credit risk, impacting margins and available covenants.

Drawing lessons from the past, particularly the 2008 financial crisis, the resilience displayed by today's banks showcases a more liquid and prepared market. Unlike the constraints faced during the 2008 crisis, banks today exhibit a robust financial position, demonstrating eagerness to foster deal-making activities in challenging times. This underscores the adaptability and preparedness of financial institutions, providing a backdrop of confidence for prospective acquirers.

In conclusion, despite the prevailing market downturn, the M&A landscape is poised for dynamic growth. The motivation of local and European banks to sponsor robust deal-making activity at favorable rates, especially for high-quality local assets, is a testament to the adaptability and resilience of the European financial ecosystem. The industry, leveraging its analytical insights and strategic approach, stands as a reliable partner in navigating the complexities of acquisition financing, fostering a landscape ripe for strategic mergers and acquisitions in Europe.

Private Credit: Transformative Financing for Businesses in an Evolving Landscape

Private credit, a diverse category of lending not issued or traded in an open market, encompasses debt financing by non-bank institutions such as investment funds, private equity, and asset managers. This financing is directed towards unlisted companies spanning various sizes and risk spectrums, often lacking official credit ratings. Primarily serving small to mid-cap businesses, private credit facilitates funding for buyouts, with an average loan duration of approximately 5-7 years, frequently repaid within 3-4 years as private equity owners navigate company sales or debt refinancing.

Analysis of Private Credit Dynamics:

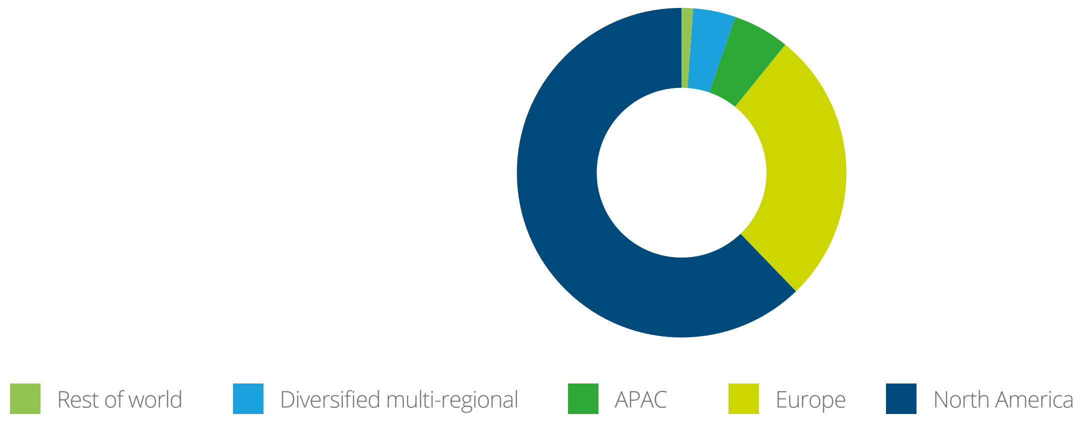
The sharp rise in private credit lending can be attributed to several intersecting factors: corporate demand trends, banks' evolving risk appetite, investor pursuit of yield, and the impact of rising interest rates. Many companies find themselves outside the parameters of 'traditional' financing markets due to their size, complexity, or lack of credit rating. This void creates an opportunity for private credit, offering bespoke and flexible debt structuring through specialist lenders, enabling quick financing decisions, and sidestepping prevailing market sentiments.

Banks' retreat from 'riskier' corporate lending, driven by more stringent capital rules following the 2007-2008 global financial crisis, has further fueled the ascent of private credit. Recently proposed capital rules in the US may intensify this trend, with both mainstream and alternative asset managers stepping in to fill the gap. Private credit, in this context, provides a welcomed diversification of private equity's business model, especially in challenging environments for deal-making and corporate listings. Notably, there are synergies between private credit and private equity, as the focus on assessing a firm's viability and weaknesses aligns, and due diligence efforts can often be reused.

GLOBAL PRIVATE DEBT ASSETS UNDER MANAGEMENT

Source: Preqin pro, * To March 2023

PRIVATE DEBT ASSETS UNDER MANAGEMENT BY PRIMARY REGION (USD BN.)



Source: Preqin, 2023

Implications for Borrowers:

From the perspective of credit-receiving parties, private credit emerges as a transformative and tailored financing solution. The ability to secure funding from non-bank institutions with a focus on flexibility and quick decision-making becomes especially valuable for companies that may not align with conventional financing markets. The bespoke debt structuring allows borrowers to navigate complex business models or maintain confidentiality regarding sensitive information. Additionally, the collaboration with a select club of specialist lenders offers a unique advantage, providing borrowers with tailored financial solutions that may not be achievable in more traditional lending environments.

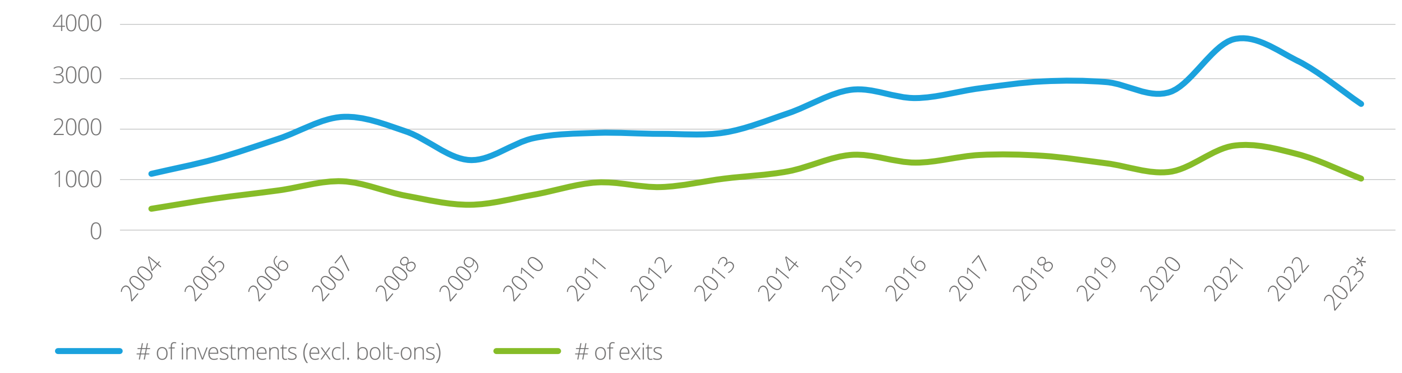
In conclusion, private credit represents more than a financial instrument; it is a strategic lifeline for businesses navigating the challenges of contemporary financial landscapes. Its bespoke nature, flexibility, and alignment with the needs of diverse borrowers underscore its transformative role in reshaping the dynamics of corporate financing. As banks retreat, private credit emerges as a dynamic and indispensable force, providing businesses with the means to thrive in an ever-changing economic environment.

PRIVATE EQUITY: THE TALE OF TWO FUNDS

M&A Index Q1 2024: In Pursuit of Value

After a period of record-breaking years for the private equity industry, it appears that this era came to a halt in 2023. The past year in private equity can be characterized by three key features: increased difficulty in obtaining loan capital at elevated costs, diminished exit valuations resulting in lower returns for investors, and a reduced number of PE transactions along with their overall volume.

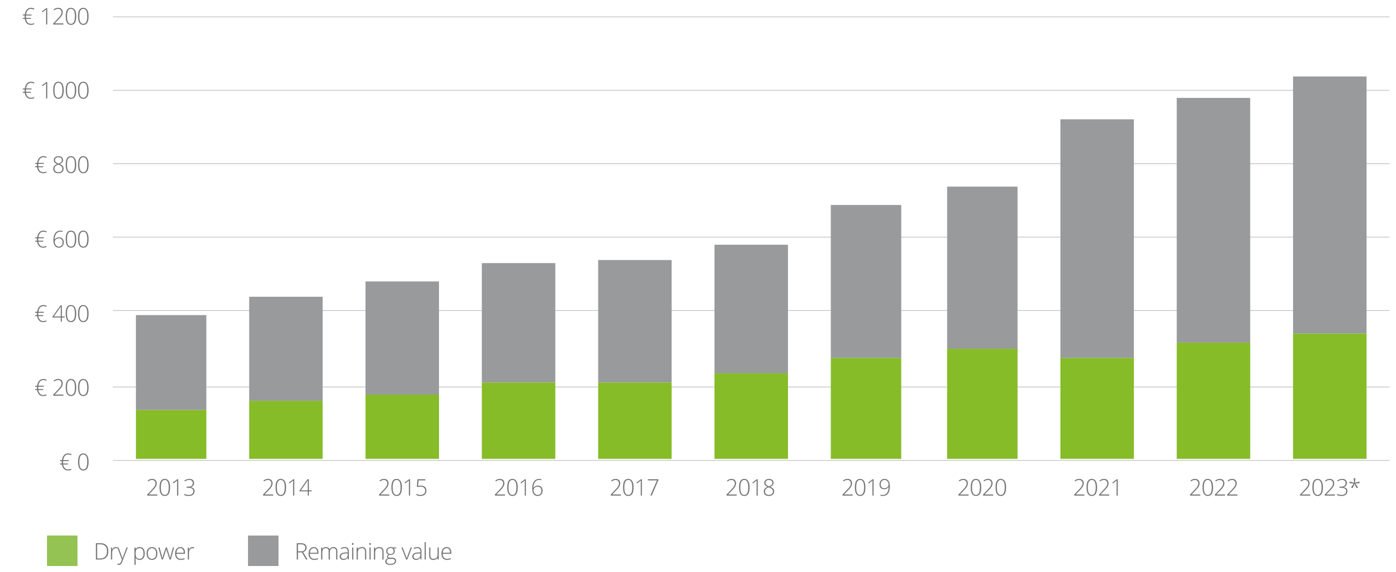
NUMBER OF INVESTMENTS AND EXITS IN EUROPE 2023



Source: Pitchbook 2024, Note: 2023* as of 30/11/2023v

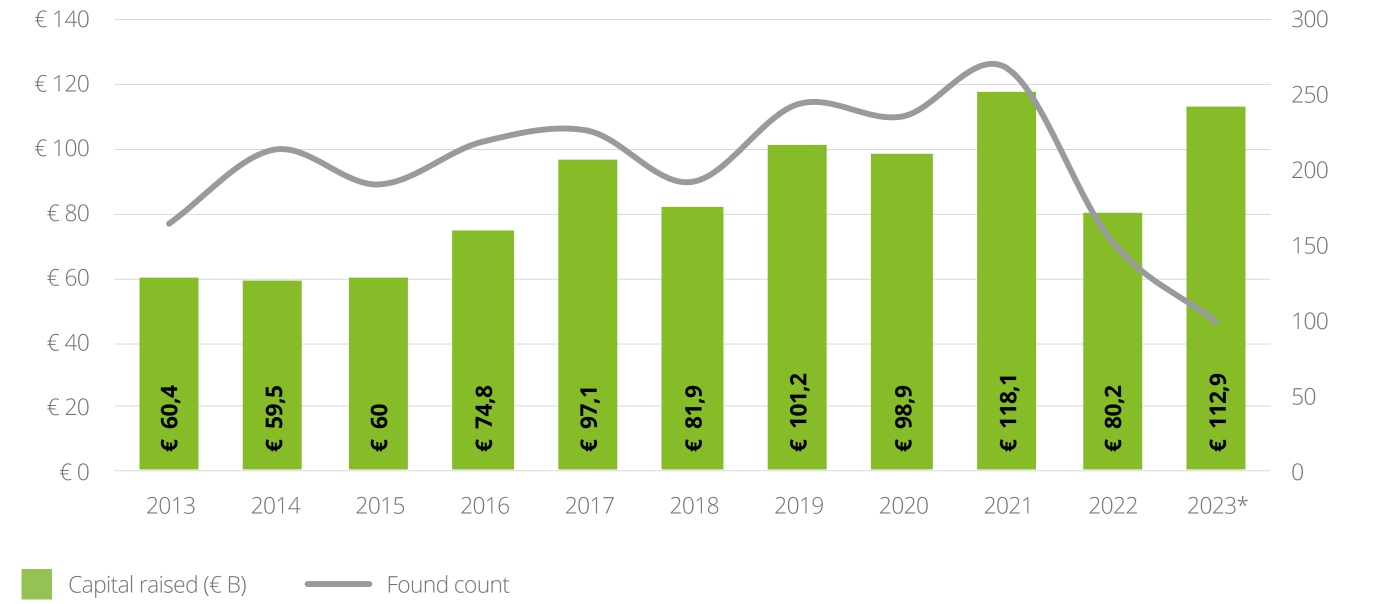
Comparing the entirety of 2023 with the corresponding period in 2022, a significant decline is evident in both the quantity of investments and exits across Europe. The total number of deals witnessed a decrease of 27.5% from 2022 to 2023. Despite this large decrease in total deals in 2023, it is worth noting that years 2021 and 2022 were unprecedented when it comes to deal activity, thus 2023 can be thought of as a year of correction rather than a year of collapse.

AUM OF EUROPEAN PE FUNDS 2023



Source: Pitchbook 2024, Note: 2023* as of 31/3/2023

AMOUNT OF CAPITAL AND NUMBER OF FUNDS RAISED IN EUROPE 2023



Source: Pitchbook 2024, Note: 2023* as of 30/11/2023

The total assets under management demonstrated an upward trajectory in 2023, surpassing 1 trillion euros. While the overall capital raised in 2023 exceeded that of 2022, the number of funds raised was comparatively lower. Notably, three of Europe's largest funds accounted for 44% of the total capital raised, introducing a significant skew in the statistics. The continuous growth of dry powder held by private equity funds is attributed to a successful year in fundraising. Nevertheless, the anticipated impact of elevated interest rates and challenges in securing debt financing suggests a potential decrease in the relative amount of dry powder, as funds are expected to deploy more of their own capital for investments. With a reduced number of exits and capital distribution, fundraising is projected to decline in 2024, reflecting limited partner constraints in committing capital to new funds
.

The current circumstances, albeit challenging, give rise to opportunities for the approaching year. As the disparity in valuations between sellers and buyers diminishes, it opens up avenues for funds to acquire companies at appealing valuations. Additional opportunities may emerge as major corporations consider divesting non-core assets in response to a demanding economic climate, thereby expanding the pool of potential targets for PE funds. Furthermore, the existing situation creates favorable conditions for funds concentrating on distressed investing, given the increasing prevalence of corporate reorganizations or restructurings compared to previous years. The following realities are likely to shape the future of Private Equity deals:

1. Valuation Realism Amidst Economic Uncertainties:
The private equity sector's acknowledgment of lower valuations indicates a paradigm shift towards realism. Economic uncertainties, driven by factors such as rising interest rates, have compelled firms to reassess their expectations. This newfound pragmatism sets the stage for M&A activities with a focus on genuine, sustainable value.

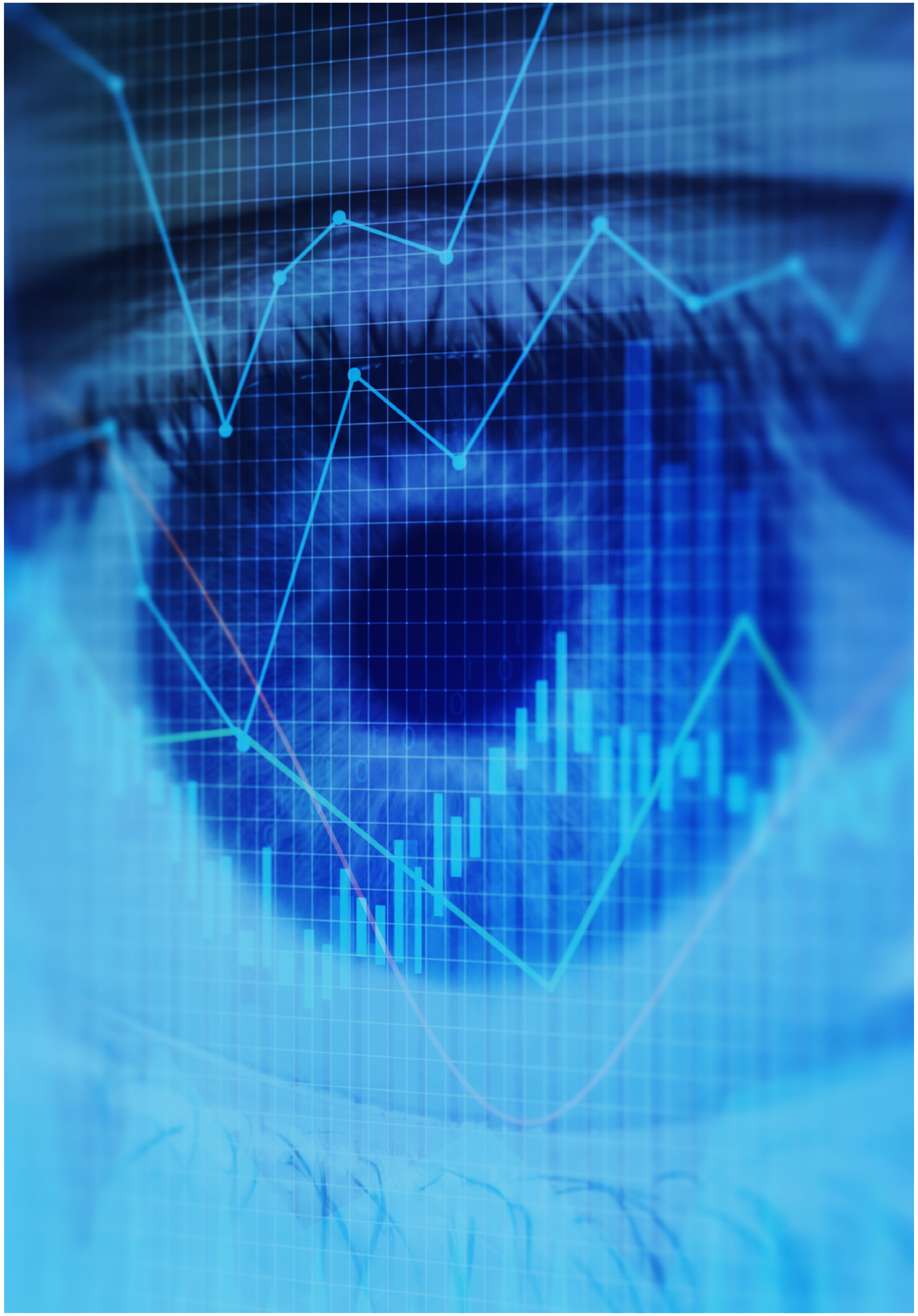
2. Capital Pools: A Divergence in Strategies:
While fundraising data indicates a recent decline in capital flowing into the private equity industry, a closer look reveals a divergence in strategies. Some firms are sitting on substantial cash reserves, presenting a unique opportunity for strategic investments. The ability to deploy capital judiciously in a market characterized by reduced competition could differentiate successful players.

3. Resurgence of "Sponsor-to-Sponsor" Deals:
The anticipated rebound in "sponsor-to-sponsor" deals introduces a compelling narrative in M&A. This trend, which saw a decline in the past year, could signal a strategic shift in portfolio optimization. Private equity firms in robust financial positions may emerge as opportunistic buyers, acquiring assets from portfolios facing challenges, thereby reshaping industry dynamics.

4. Balancing Risk and Return:
As the industry braces for increased M&A activity, it becomes imperative for investment analysts to emphasize the delicate balance between risk and return. Assessing potential targets with a keen eye on the economic uncertainties and evolving market conditions will be crucial in determining the success of M&A strategies.

5. Technology and Healthcare Sectors as Hotbeds for Activity:
The evidence suggests a potential increase in M&A activities within the technology and healthcare sectors, with deals such as the one involving Veritas Capital and Carlyle. This trend aligns with broader market shifts, emphasizing the importance of these sectors in the post-pandemic era and offering significant opportunities for strategic acquisitions.

In conclusion, the future of M&A promises a landscape characterized by realism in valuations, divergent capital strategies, a resurgence of specific deal types, and a nuanced approach to balancing risk and return. By navigating these trends with a forward-looking perspective, investment analysts can uncover unique opportunities and contribute to informed decision-making in this ever-evolving environment.

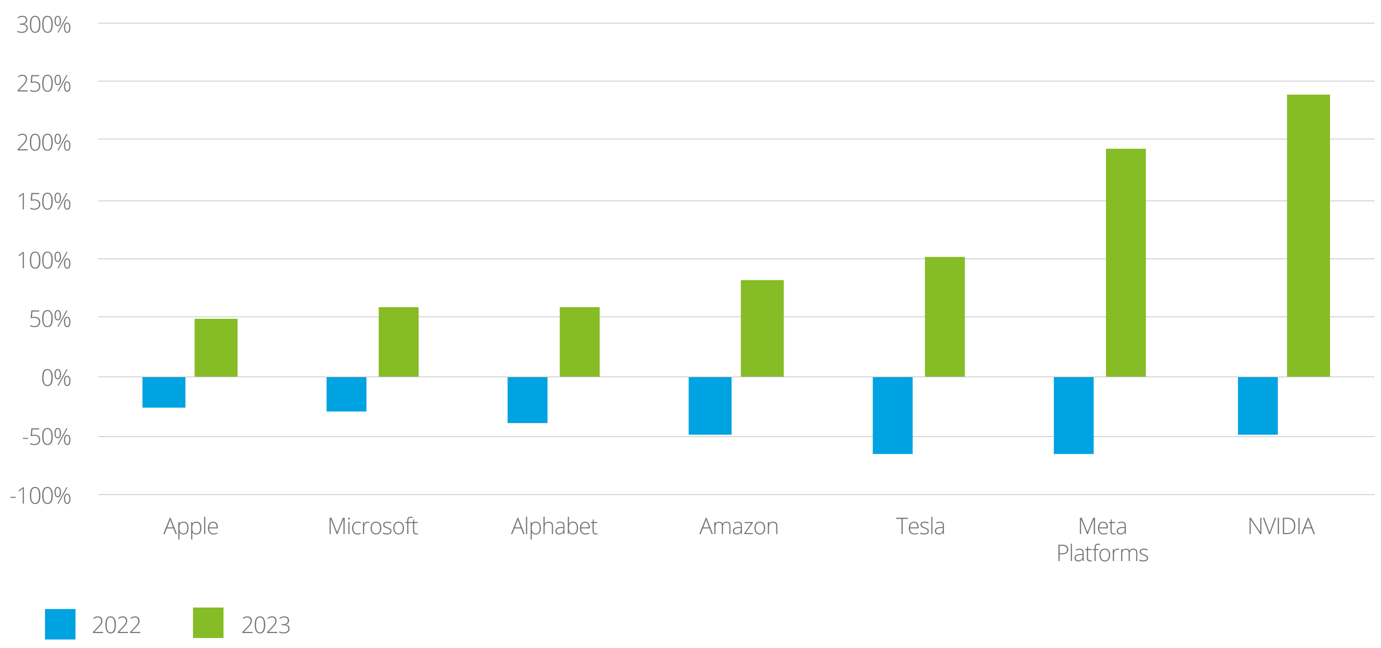


STOCK MARKETS: OF BULLS AND BEARS

M&A Index Q1 2024: In Pursuit of Value

The S&P 500 Index saw significant influence from the standout performers known as the "Magnificent Seven": Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms, and Tesla. These companies individually experienced remarkable surges ranging from around 50% to nearly 240% throughout 2023, solidifying their positions as some of the market's most lucrative investments. Due to their substantial weightings within the S&P 500, these seven entities contributed to nearly two-thirds of the benchmark index's 24.2% gain last year. In comparison, the equal-weight S&P 500 index recorded only 11.5% gain. The exceptional growth of the Magnificent Seven is often attributed to the heightened interest in AI, a drop in the US inflation rate, and more recent indications from the Federal Reserve signaling potential rate cuts in the upcoming year.

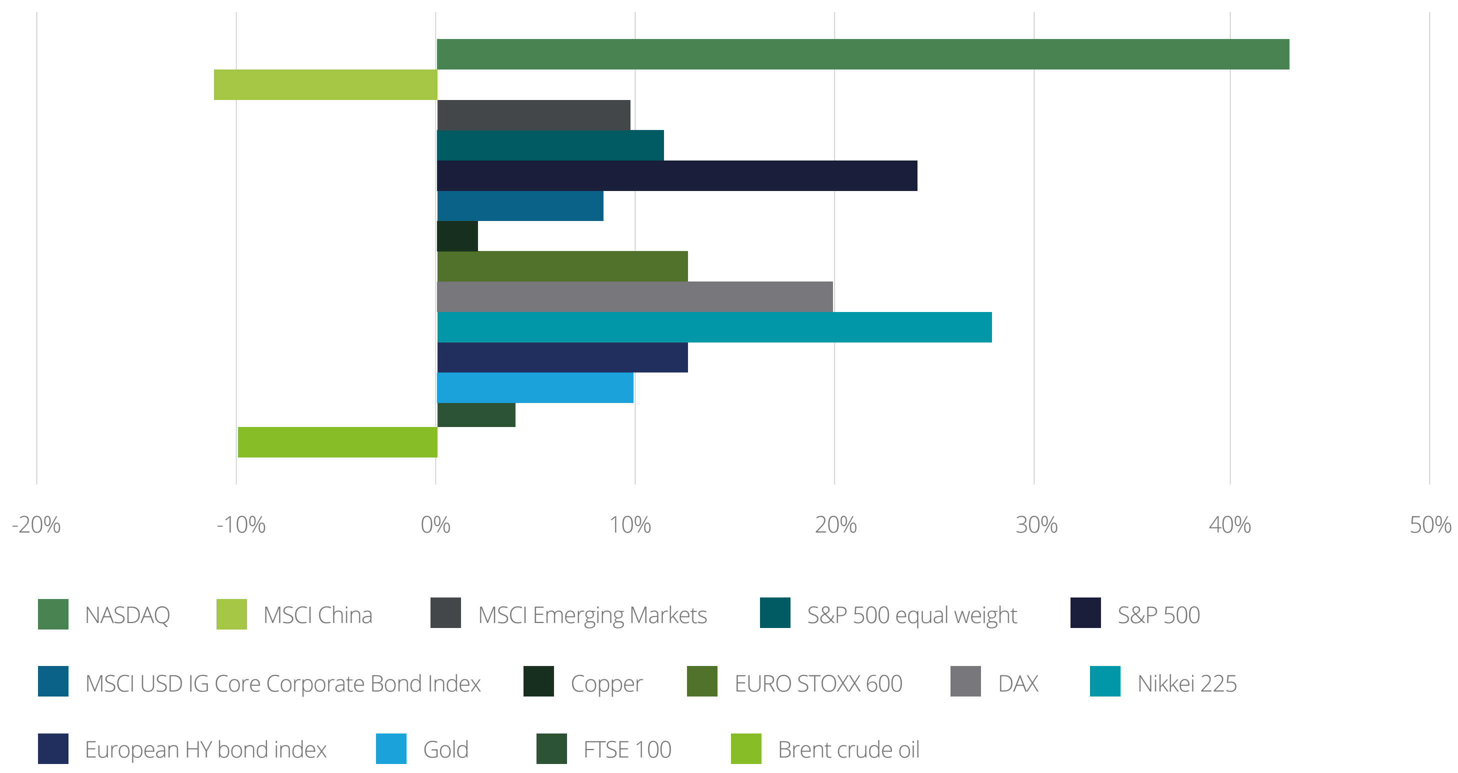
MAGNIFICENT SEVEN 2022 VS 2023 PERFORMANCE



Source: Yahoo Finance, 2024

The stock market surge in the US showcased impressive growth but revealed significant disparities. Approximately 70% of S&P 500 stocks performed below the index in 2023, with around one-third experiencing declines. European markets also witnessed robust gains, rebounding from a challenging 2022. Germany's Dax surged by 20% despite a lackluster performance from Europe's largest economy. However, Britain's primary share index trailed behind its counterparts, registering only about a 4% gain in 2023.

FROM THE ECONOMY AVOIDING A RECESSION TO THE MASSIVE STOCK MARKET RALLY



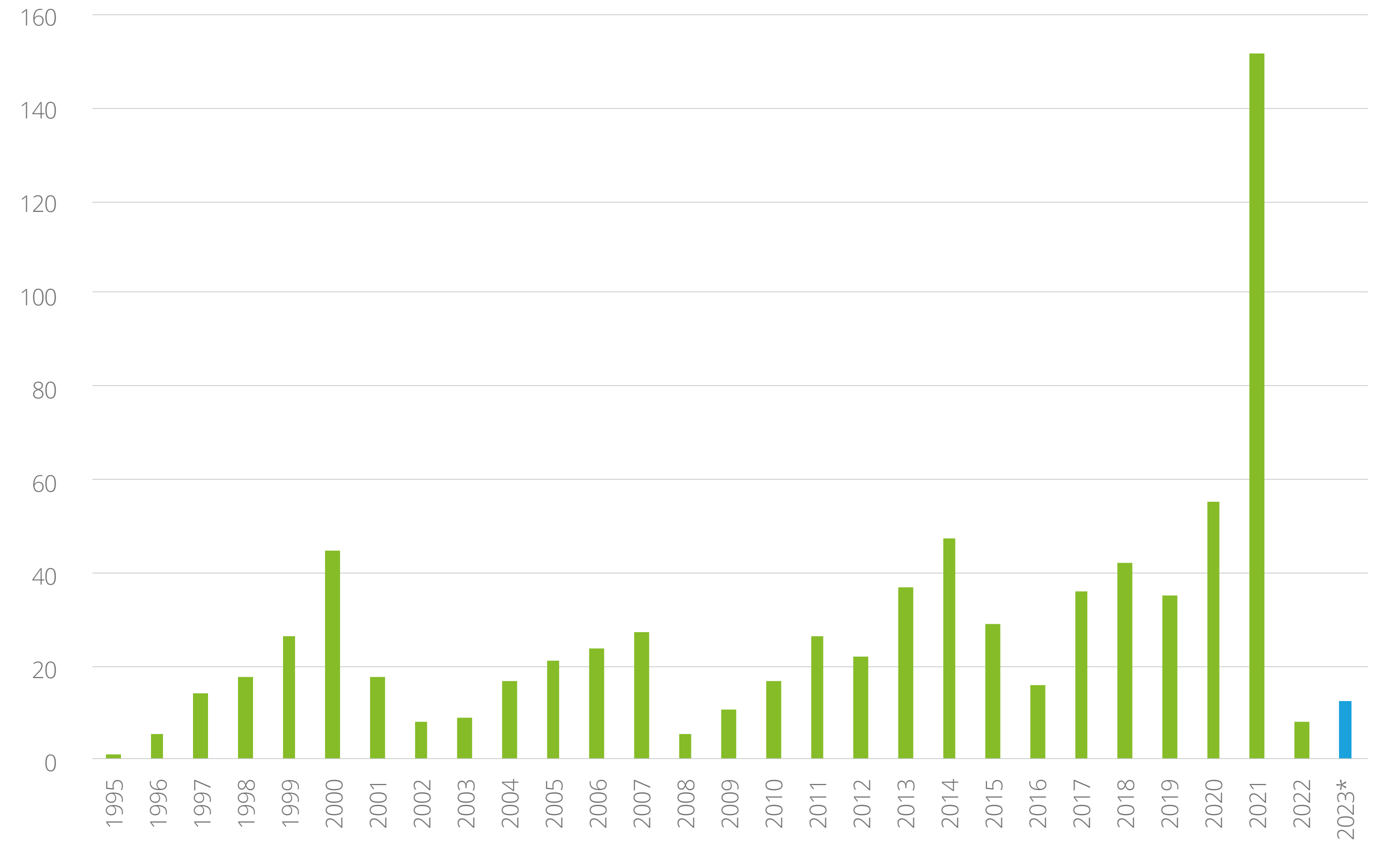
Source: Yahoo Finance, 2024

M&A Index Q1 2024: In Pursuit of Value

Source: Yahoo Finance, 2024

Last year, the overall performance of IPOs was lackluster, primarily influenced by hawkish monetary policies impacting stock market sentiment and performance. The limited number of large listings in 2023 displayed underwhelming performance, often trading at or below their initial offering prices. This trend reflected the persistent mismatch in valuation expectations between issuers and investors. Some of these underperforming IPOs included Arm Holdings, a semiconductor firm, Johnson & Johnson's consumer health subsidiary spinoff Kenvue, and footwear manufacturer Birkenstock, among several others. However, the recent upturn in the stock market suggests that certain companies discouraged from going public in 2022 and 2023 might be reconsidering their IPO plans this year.

NUMBER OF US IPOS PRICED ABOVE $1BN



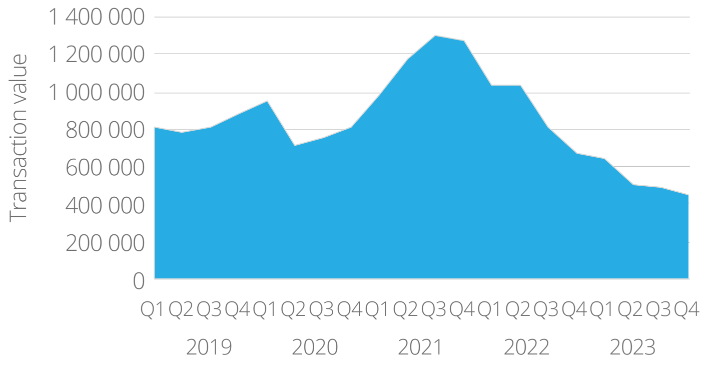
Source: Trivariate Research,2024, Note: 2023 *as of September

M&A MARKETS

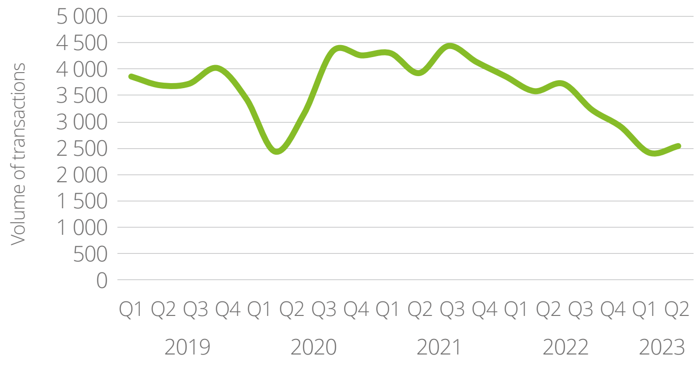
In 2023, there was a continued decrease in the number of transactions, falling from 15,249 in 2022 to 11,629 in 2023, marking a decline of 23.7% (y/y) and the aggregate deal volumes are near pandemic levels. Moreover, the overall transaction value also experienced a significant decline of 34% (y/y) during this period.

Capital IQ's published data shows that the number of transactions increased from 2522 in Q3 to 2551 in Q4, a growth 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) decreased from $486,6 billion to $442,4 billion. The overall decline in market activity can be attributed to higher interest rates, continued geopolitical tensions, and a generally negative economic outlook in Europe.

TRANSACTION VALUE (LTM USD MIL.)



NUMBER OF TRANSACTIONS

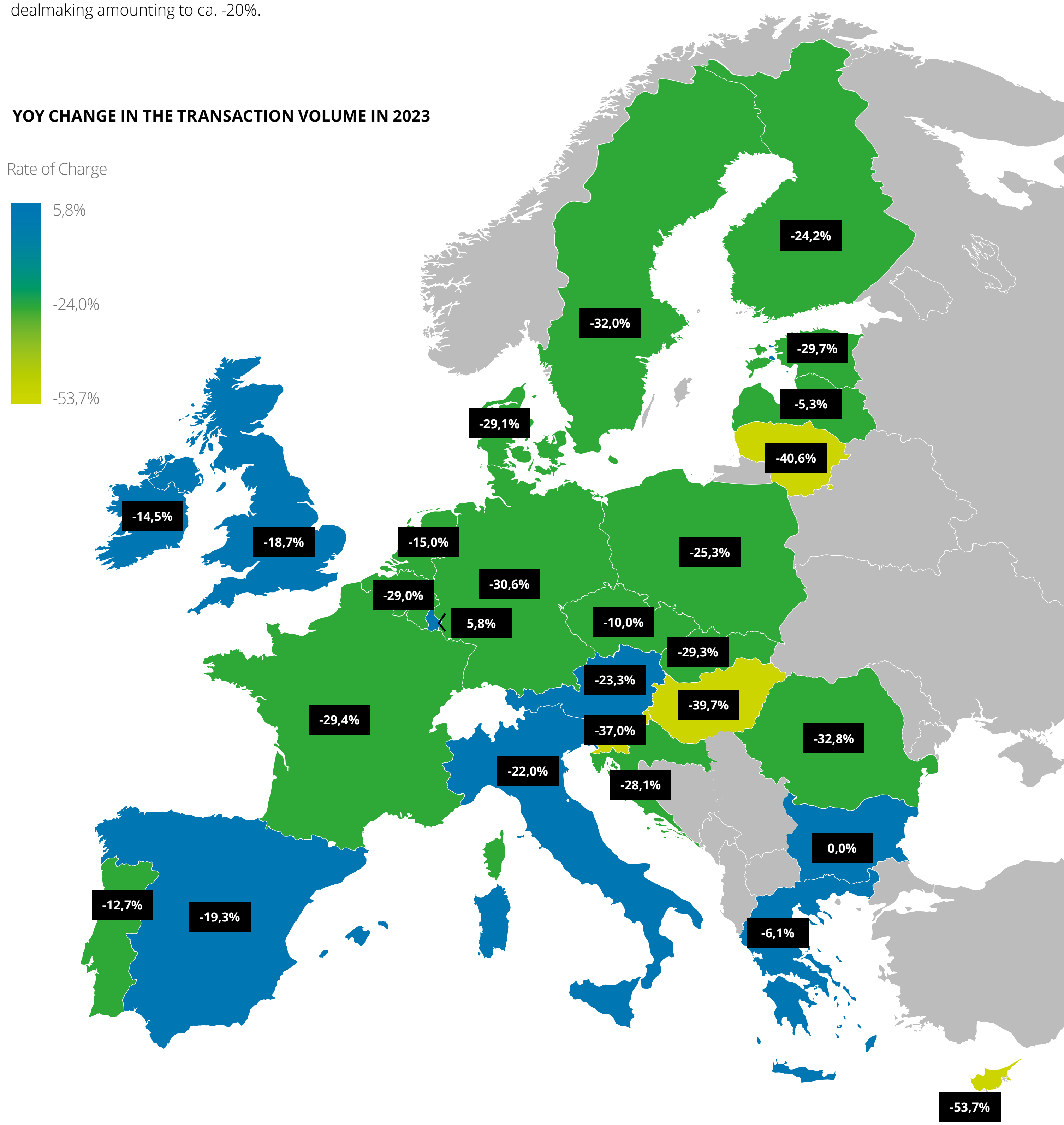


The European market underperformed both the US and the global market in transaction volumes – the EU 27+UK market saw a decrease of 23,7%, as compared to the global market dip of 20% and more visibly to the US market, which decreased by 13,5% over the same period.

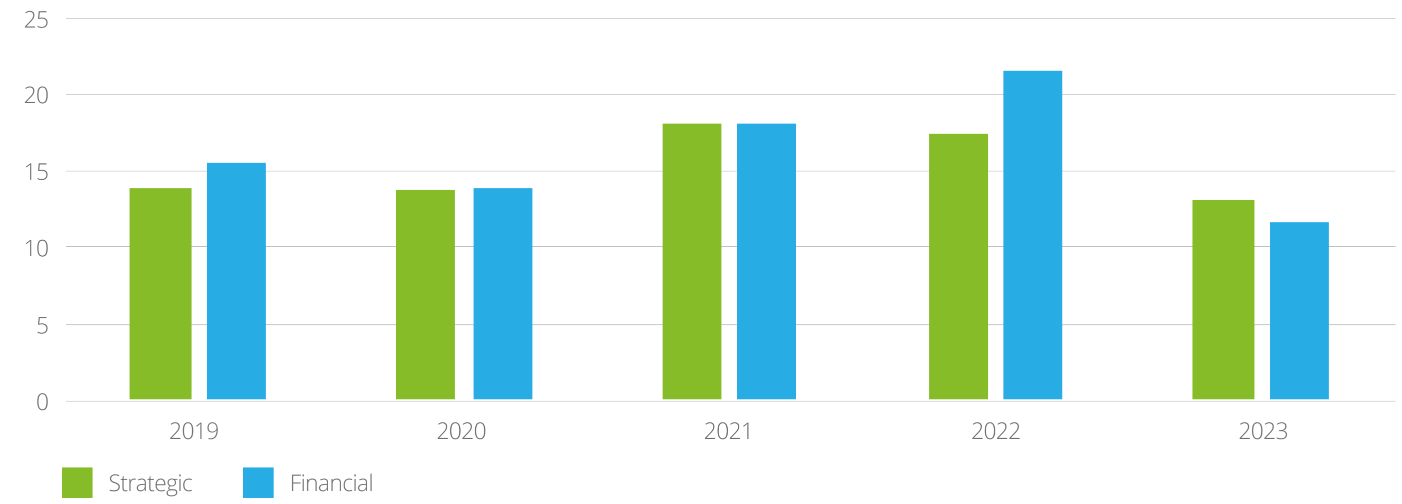
Region	2021	2022	2023	y/y
World	57997	49923	39959	-20,0%
US	21602	18250	15778	-13,5%
Asia/Pacific	11500	9878	9277	-6,1%
Africa/Middle East	1534	1424	1107	-22,3%
Latin America	1660	1354	1056	-22,0%
EU 27 + UK	17017	15249	11629	-23,7%

Apart from Bulgaria and Luxembourg, all markets in the area have seen a rapid decline in the number of transactions. Among the most affected regions were Cyprus (-53,7% y/y), Malta (-46,2% y/y), and Lithuania (-40,6% y/y). Germany and France both experienced a drop in transaction volume of around -30%, other major EU markets (the UK, Italy, and Spain) were not far off, with drops in dealmaking amounting to ca. -20%.

YOY CHANGE IN THE TRANSACTION VOLUME IN 2023



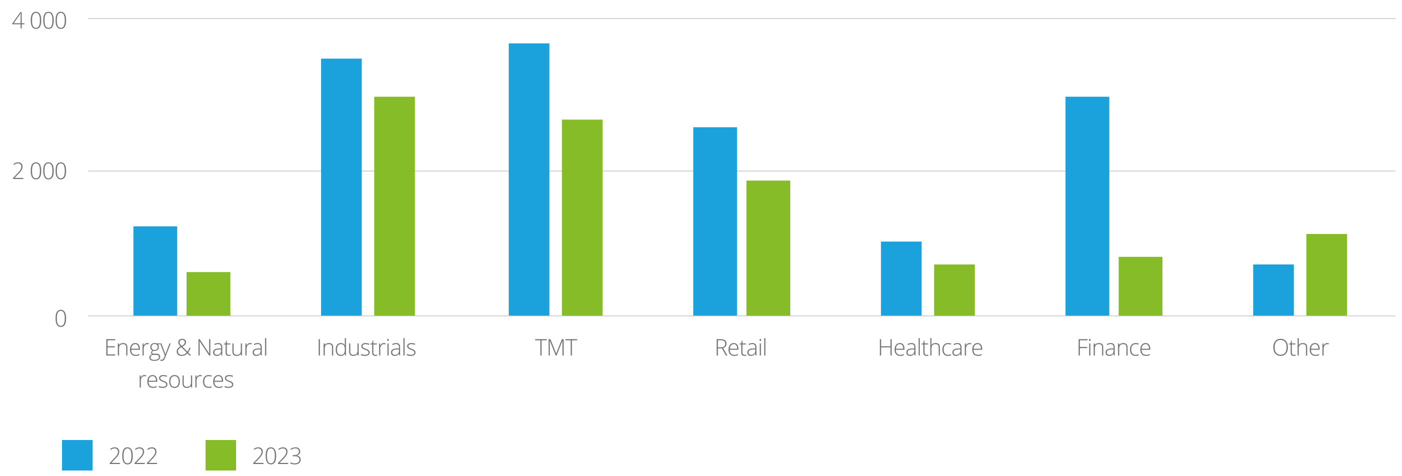
VALUATION ANALYSIS
EV/EBITDA MARKET MULTIPLES OF EU TRANSACTIONS, ADJ. MEAN



Source: Deloitte Analysis, Mergermarket, Capital IQ, 2024
* Adjusted Mean was calculated as the average of published global transactions excluding the top and bottom 2.5%

Given the volatile market situation, there are compelling reasons why strategic investors should consider acquisitions. A clear indicator of this opportunity is the downward trajectory of market EV/EBITDA multiples, particularly for strategic investors. The record high of 18.2 in 2021 has fallen to 17.5 in 2022 and further to 11.5 in 2023. In contrast, while market multiples for Private Equity investments have also seen fluctuations - moving from 18.2 in 2021 to 21.6 in 2022 - the decline to 14 this year underscores the general shift towards financial transactions. For companies and investors who are able to decode these trends, the picture is clear. The market downturn is an opportunity for M&A activity, as companies can take advantage of current developments to consolidate, diversify, and expand their portfolios, all while optimizing costs.

NUMBER OF TRANSACTIONS BY INDUSTRY

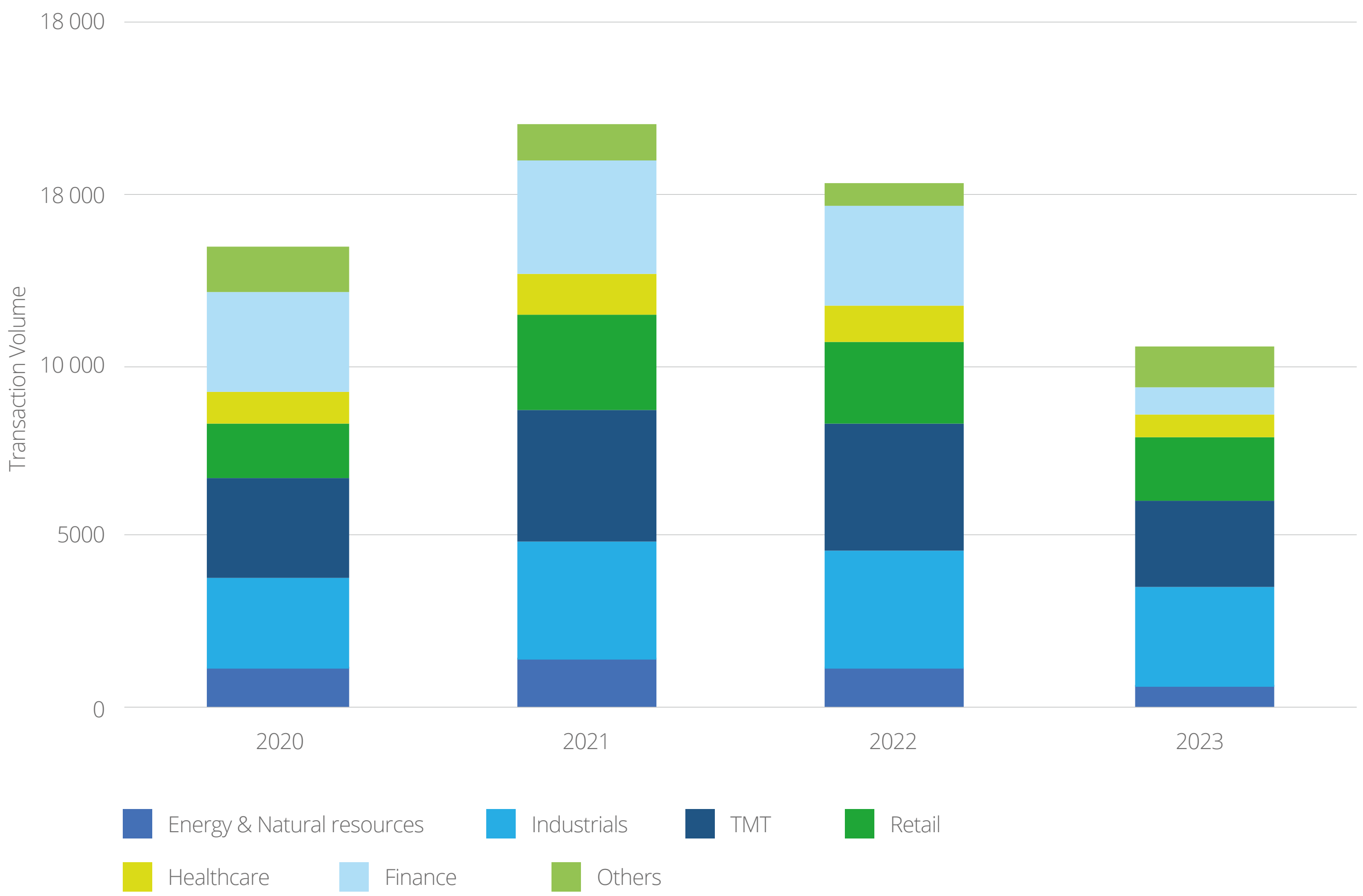


M&A Index Q1 2024: In Pursuit of Value

The manufacturing industry remained a dominant force in the M&A landscape, accounting for 28% of the total number of transactions last year. The TMT sector followed closely behind with 25% and the retail sector moved to third place with 17%.

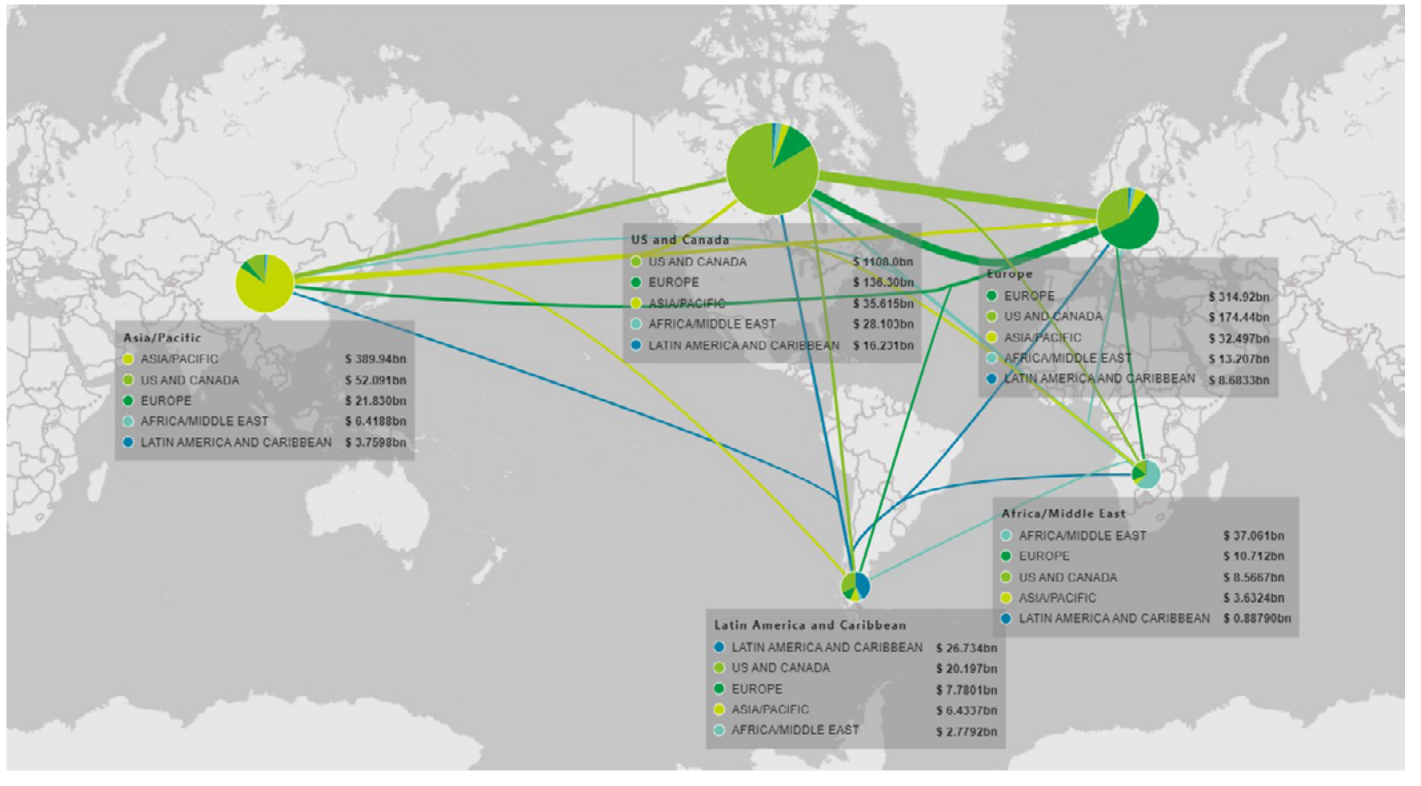
In contrast, the financial sector experienced the biggest drop in several transactions between 2022 and 2023 from 19% to 8% respectively.

DEVELOPMENT OF NUMBER OF TRANSACTIONS BY THE INDUSTRY (2020 - 2023)



Mergers and acquisitions activity was negatively impacted in 2023 due to significantly higher interest rates, geopolitical tensions, 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. Foreign capital invested in European acquisitions amounted to approximately $228,8 billion. Likewise, European sponsors invested 176 billion in foreign markets for acquisitions.

IMPACT OF LEGAL REGULATIONS ON M&A MARKET

In 2023, the M&A market experienced a significant year-on-year slowdown. This trend can be attributed to various factors, including economic uncertainties and political changes. Sellers and buyers often hold different expectations regarding asset valuations, while many companies grapple with uncertainty regarding business results and future developments. Legislation plays a substantial role in influencing transactions, particularly in determining the length of the transaction process.

There are several legal aspects to be considered in the case of M&A as transactions may be subjected to review and approval by public authorities. In particular, aspects of protection of competition as well as oversight of foreign investments in strategic sectors may come into play in transaction planning as they represent key areas of regulation related to dealmaking.

Protection of competition

Business mergers (in the EU legal terminology "concentrations") are commonplace in the economic landscape. Larger entities often acquire smaller ones to secure a more influential market position. Such mergers may pose a substantial adverse impact on fair competition within the relevant market, in particular, by strengthening the dominant position of a competitor and thereby potentially enabling him to distort competition, ultimately, resulting in unfavourable outcome for consumers.

In order to protect competition, certain transactions within the EU are subject to notification to antimonopoly authorities. Antimonopoly authorities assess primarily the need to protect and develop effective competition, the structure of all markets affected by the concentration, the economic and financial strength of the competitors, etc. If there is a potential for competition distortion following a proposed concentration, its participants may be requested to make appropriate commitments (i.e., remedies). In such case, only upon satisfying these conditions may the concentration be implemented. In exceptional cases, a proposed concentration may be prohibited entirely.

The obligation to notify a transaction to the relevant antimonopoly authority under merger control rules depends on the turnover criteria - either at the level of the individual EU member state or the European Commission. If the turnover of participating undertakings on a concentration exceeds the threshold specified by national law, the concentration is, in general, subject to notification to the national antimonopoly authority. Similarly, if the turnover exceeds the threshold specified by European law, the concentration is subject to notification to the European Commission.

In case a concentration exceeds the relevant turnover thresholds, antimonopoly authorities may in general (a) approve the transaction without further conditions, (b) approve the transaction subject to certain remedies (e.g., sale of part of the subject matter of the transaction to a third party), or (c) in exceptional cases, prohibit the transaction completely.

Protection of competition in the Czech Republic

Under Czech law, a concentration is subject to the approval of the Czech Office for the Protection of Competition ("Czech Office") if the following turnover thresholds are exceeded:

1. Under the first alternative:

a. The combined net annual turnover of all undertakings involved and achieved within the Czech Republic is higher than CZK 1.5 billion, and at the same time

b. the net annual turnover of each of at least two undertakings involved and achieved within the Czech Republic is higher than CZK 250 million.

2. Under the second alternative:

a. In case one or several entrepreneurs, or one or several persons who are not entrepreneurs but control at least one undertaking, acquire(s) the possibility to control, either directly or indirectly, another undertaking or its part that achieved a net annual turnover within the Czech Republic that is higher than CZK 1.5 billion, and at the same time

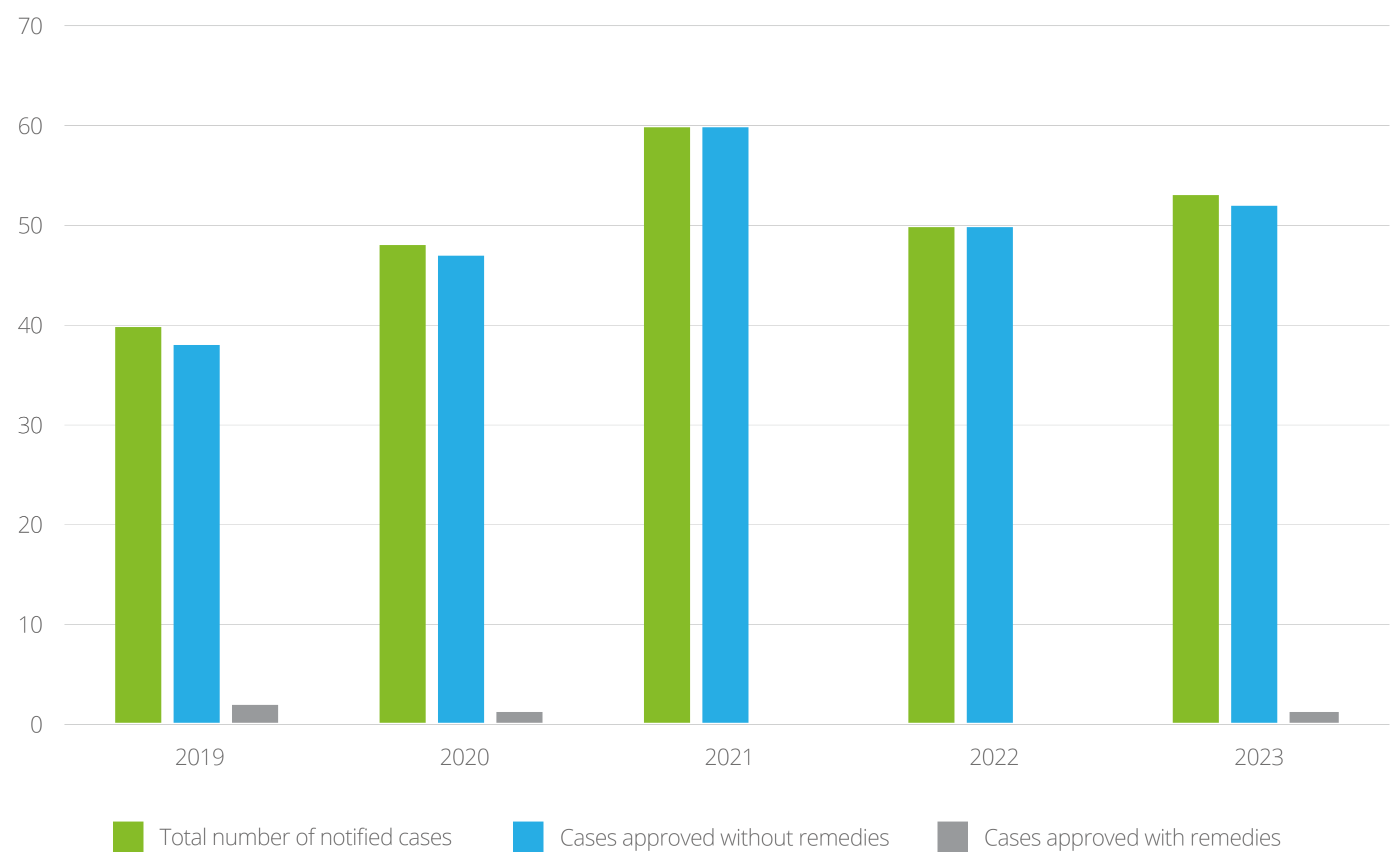
b. The worldwide net turnover achieved in the last accounting period by another concentrating undertaking exceeds CZK 1.5 billion.

OVERVIEW OF CASES NOTIFIED TO THE CZECH OFFICE

	2019	2020	2021	2022	2023
Total number of notified cases	40	48	60	50	53
Cases approved without remedies	38	47	60	50	52
Cases approved with remedies	2	1	0	0	1

Source: Czech Office for the Protection of Competition, please see: uohs.gov.cz/cs/hospodarska-soutez/statistiky.html

OVERVIEW OF CASES NOTIFIED TO THE CZECH OFFICE



Protection of competition on the EU level

If a merger has an EU dimension and if it exceeds certain turnover thresholds, it has to be notified to the European Commission.

Two alternative methods exist to determine turnover thresholds for the EU dimension. Under both scenarios, an EU dimension is not met if each concentrating undertaking generates more than two-thirds of its EU-wide turnover within a single EU member state.

1. The first alternative requires:

a. The combined aggregate worldwide turnover of all undertakings involved is over EUR 5 billion and at the same time

b. The aggregate EU-wide turnover of each of at least two undertakings involved is over EUR 250 million.

2. The second alternative requires:

a. The combined aggregate worldwide turnover of all undertakings involved is over EUR 2.5 billion,

b. The combined aggregate turnover of all undertakings involved is over EUR 100 million in each of at least three EU member states,

c. The aggregate turnover of each of at least two undertakings involved in each of the three EU member states under (b) is over EUR 25 million, and at the same time

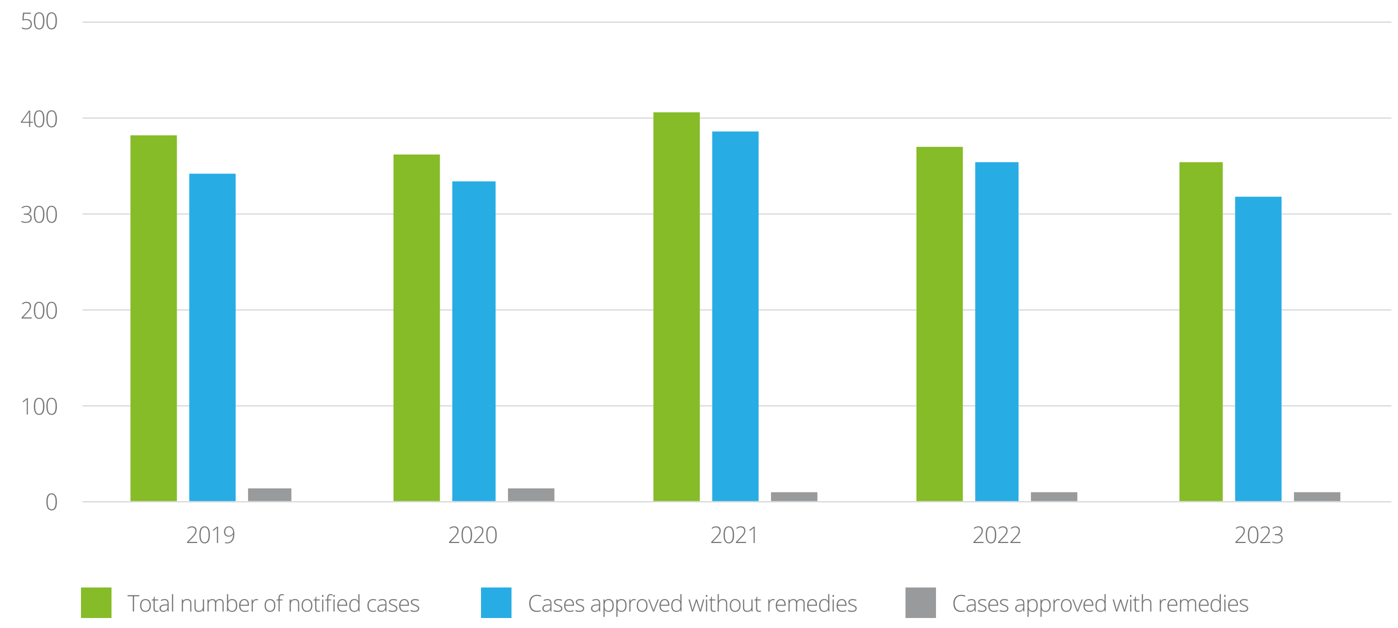
d. The aggregate EU-wide turnover of each of at least two undertakings is more than EUR 100 million.

OVERVIEW OF CASES NOTIFIED TO THE EUROPEAN COMMISSION

	2019	2020	2021	2022	2023
Number of notified cases	382	361	405	371	356
Cases approved without remedies	343	334	384	354	320
Cases approved with remedies	16	16	12	12	9
Proceedings initiated but deal abandoned	0	2	3	4	1
Transactions Prohibited	3	0	0	2	1

Source: European Commission, please see: competition-policy.ec.europa.eu/mergers/statistics_en

OVERVIEW OF CASES NOTIFIED TO THE EUROPEAN COMMISSION

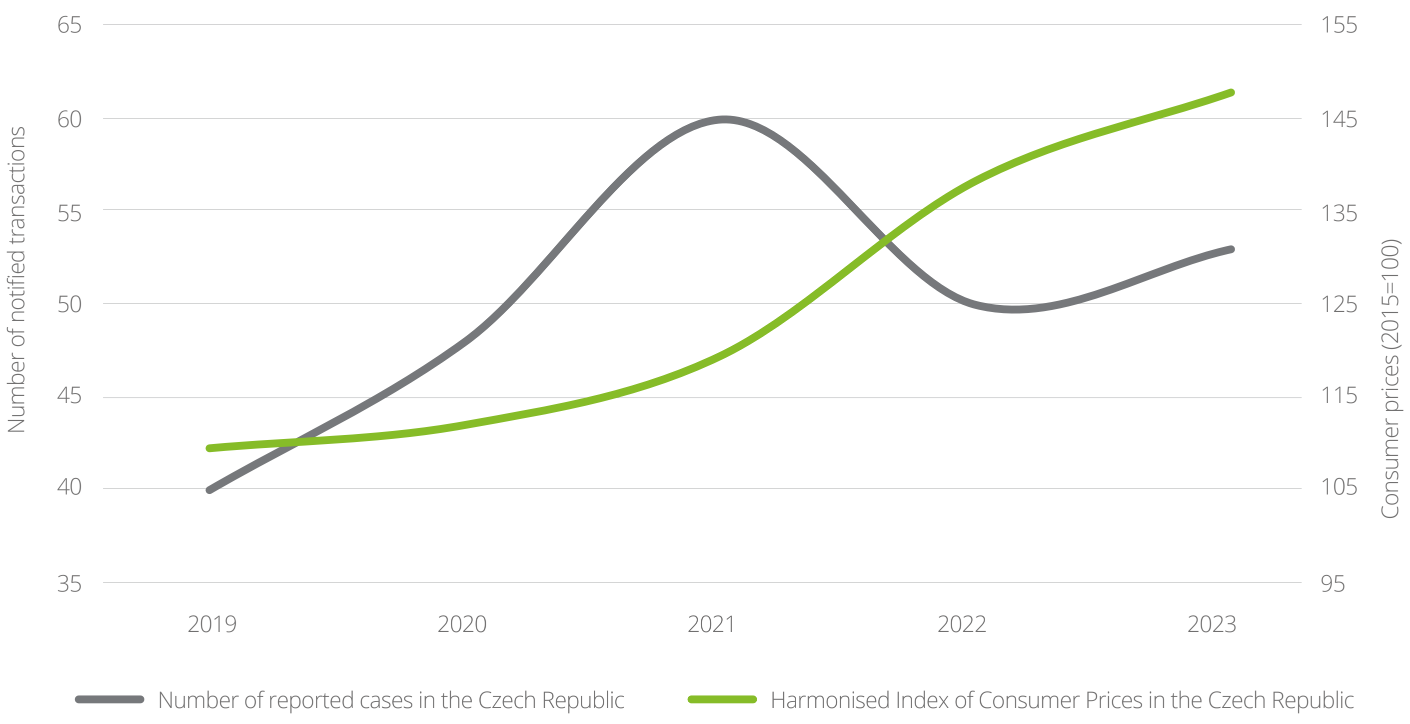


Decline in notified transactions despite surge in inflation

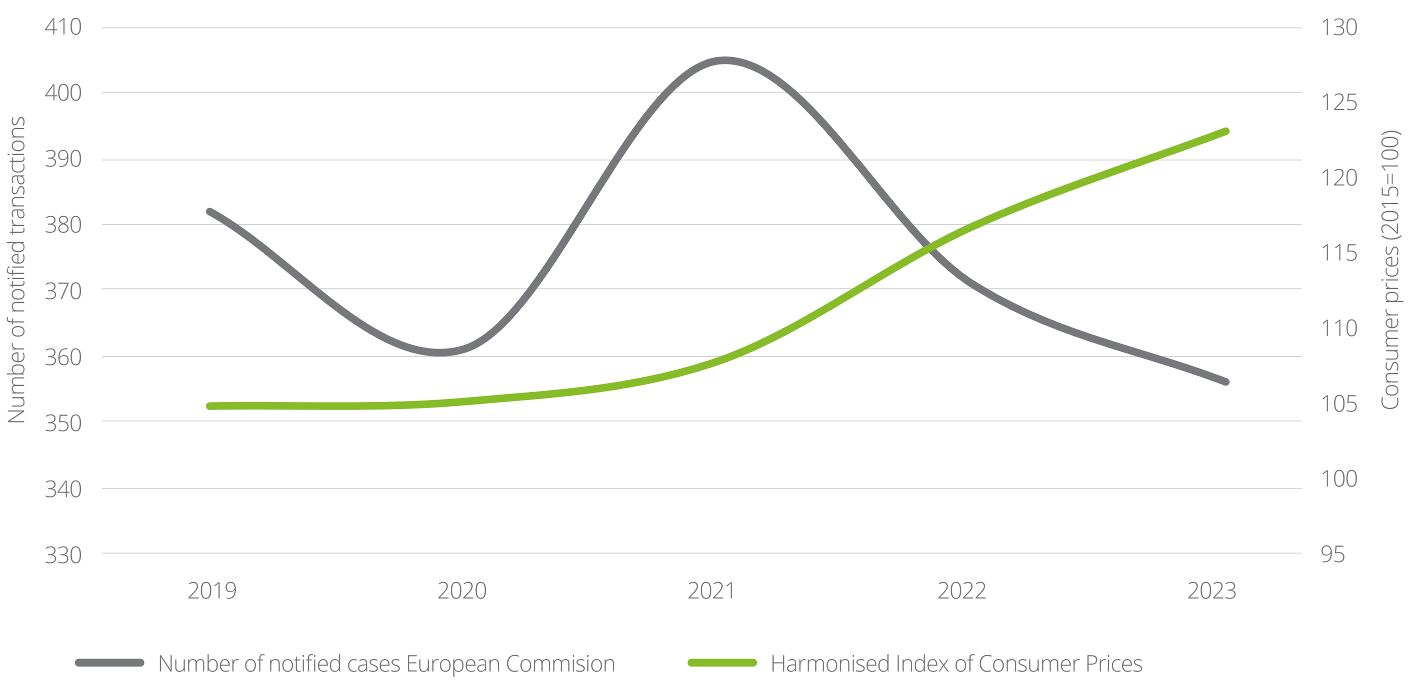
The obligation to notify concentrations (i.e., deals) that exceed the predefined turnover thresholds allows for the observation of market trends and development. While this data only encompasses mid-to-high value transactions and does not cover whole scope of the M&A market, it can still offer indication of the prevailing deal-making sentiment.

Comparison of notified cases in years 2022 and 2023 with corresponding inflation levels illustrates an overall slowdown in the M&A activity. While both, the EU and Czech turnover thresholds have remained constant, the inflation levels in both Czech Republic and Eurozone between years 2019 and 2023 increased dramatically and translated into higher turnover of businesses. Consequently, we might expect an increase in the number of transactions requiring notification as inflation drives sales, however, the European M&A market has seen a gradual decline in notified transactions, as illustrated below.

CONSUMER PRICES IN THE CZECH REPUBLIC VS NUMBER OF NOTIFIED TRANSACTIONS



EUROZONE CONSUMER PRICES VS NUMBER OF NOTIFIED TRANSACTIONS



M&A Index Q1 2024: In Pursuit of Value

Regulation of foreign direct investments

In recent years, the Czech Republic has emerged as a substantial recipient of foreign investments in Central and Eastern Europe, given its strategic geographic location, developed infrastructure, and highly skilled workforce. The EU actively promotes foreign investments by fostering an open, predictable, and equitable investment environment.

However, both the Czech Republic and the EU face the challenge of managing risks associated with foreign investments, such as potential threats to national security and competitiveness issues. This challenge has prompted the implementation of screening mechanisms for foreign investments that could impact security and public order. EU has established a comprehensive policy framework, including the Regulation (EU) 2019/452 of the European Parliament and of the Council of 19 March 2019 establishing a framework for the screening of foreign direct investments into the Union ("**FDI Screening Regulation**"). EU member states take various approaches to the implementation of the FDI Screening Regulation. In certain EU member states, every transaction involving non-EU investors must be notified, while in others, transactions need to be notified only if certain specified conditions are met.

Although there is no standalone foreign investment screening procedure at the EU level, the EU consistently supports a coordinated approach among EU member states regarding foreign investment screening into the EU.

As foreign investment screening stays under the control of individual EU member states, investors may be faced with different national notifications for transactions involving targets with a multi-jurisdictional presence in the EU. According to the statistic published by the European Commission, in 2022 multi-jurisdiction FDI transactions constituted 20% of all FDI transaction within the EU, falling from 29% share in 2021.

Foreign direct investments in the Czech Republic

In the Czech Republic, foreign investments are assessed under the Act on Foreign Investment Screening ("**FDI Act**"), which came into force on 1 May 2021.

Under the FDI Act, foreign investors are defined as investors from non-EU countries or persons controlled by such investors, including investors from Switzerland, Liechtenstein, or Norway.

The main purpose of the FDI Act is to require foreign investors investing in strategic sectors of the Czech economy (such as operation of an element of critical infrastructure, military material, administration of information or communication system of critical information infrastructure, development or manufacture of dual-use items etc.) to obtain a prior approval from the Czech Ministry of Industry and Trade ("**Ministry**"). The Ministry may (a) approve the foreign investment, (b) approve the foreign investment subject to certain conditions, or (c) prohibit the foreign investment.

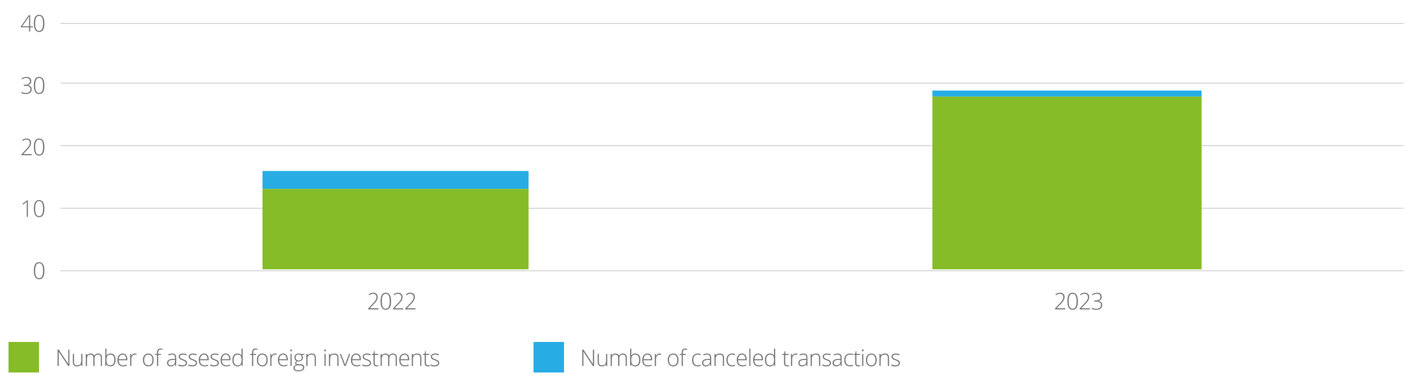
Failure to submit a required notification for investment approval, initiate consultations, or comply with the conditions stipulated places the foreign investor at risk. The Ministry may review the investment in the future, imposing additional conditions on its duration, prohibiting it, and restricting the investor's ownership or voting rights. In severe cases, the Ministry may even require a reverse divestment of the target company.

Foreign investments in the Czech Republic in 2022 and 2023

Number of foreign investments in the sense of the FDI Act (i.e. investments into strategic sectors) tends to be less corelated to the performance of the economy than number of deals subject to notification obligation based on the turnover thresholds. Still, the FDI regulation must be accounted for and complied with.

In the Czech Republic, the Ministry assessed 13 cases of foreign direct investments in 2022 and 28 cases in 2023, with the most common investor being based in the US. While the Ministry has, so far, approved all of the notified transactions, in 2022 the investors eventually withdrew from the transaction in 3 cases, while in 2023 the deal was aborted in 1 case.

FDI IN THE CZECH REPUBLIC



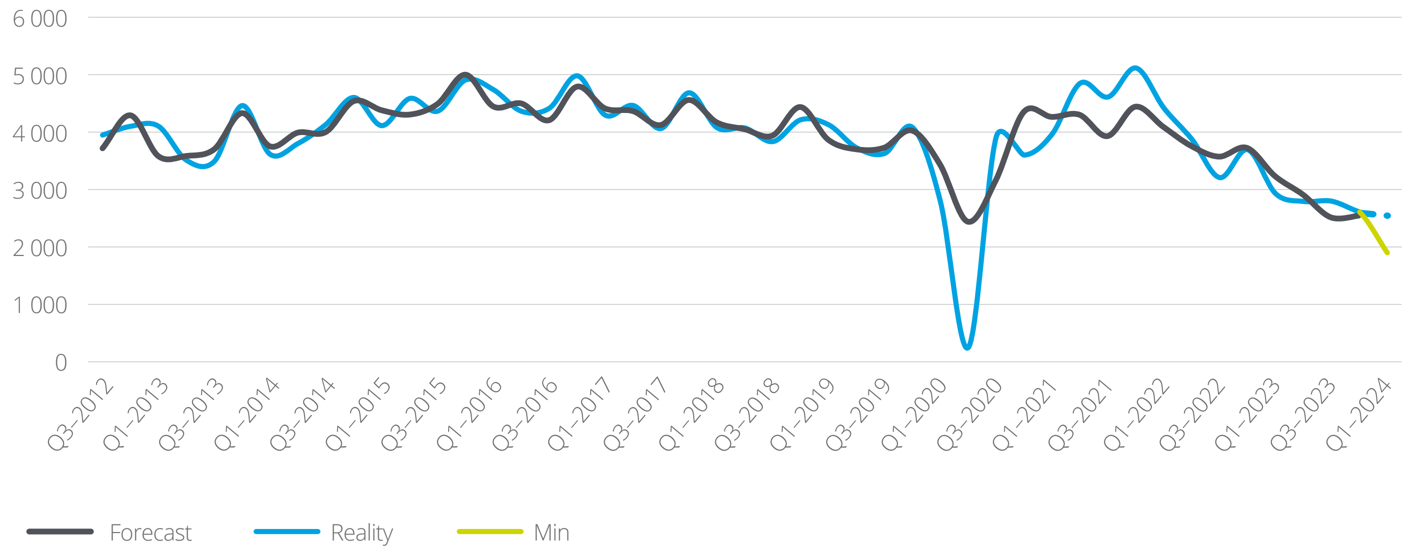
Source: Czech Ministry of Industry and Trade

M&A INDEX 2024
PREDICTIONS

Given the relatively stable preceding quarters and a somewhat improving economic environment, our model projects a moderate decline in transaction volume for the current quarter. The forecast expects 2,506 transactions, a number consistent with the development in the previous quarter, with a pessimistic projection forecasted at 1,905 transactions.

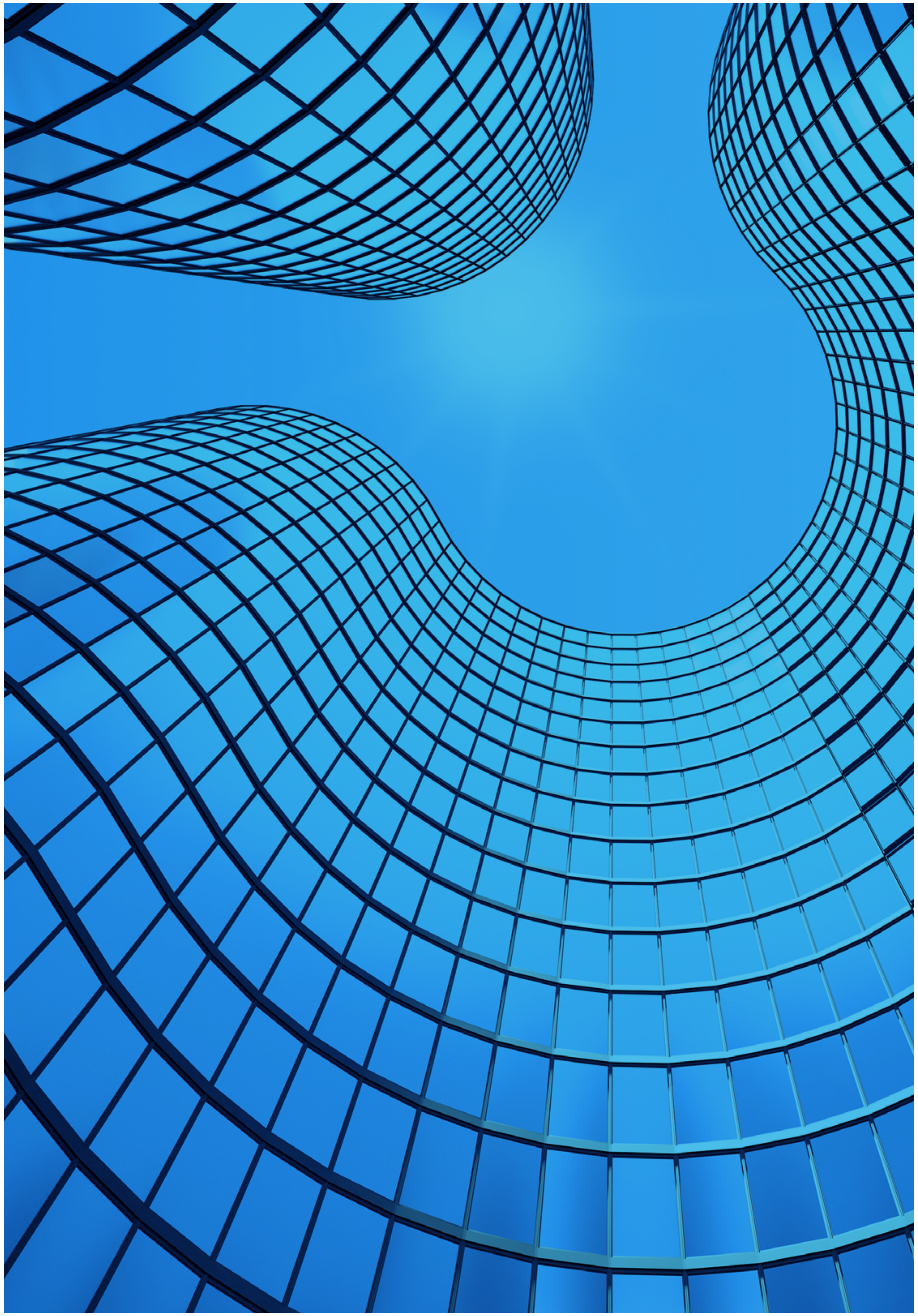
The latter is linked to the palpable turbulence on the market, with both Germany and the UK slipping into recession and with the uncertainty surrounding the pathway to lowering interest rates. These conditions work adversely to speedy recovery and, assuming immediate absorption of these conditions by the market, could potentially bring about a more pronounced market drop. Nevertheless, notwithstanding these effects, there is still a basis for optimism as the expectation of lower interest rates, coupled with a continued economic recovery, should lead to a rebound in transaction volumes later in the year.

HISTORICAL PREDICTION AND SUBSEQUENT REAL STATE OF TRANSACTION VOLUMES + PREDICTION OF TRANSACTION VOLUME FOR Q1 2024



In the current volatile market, active portfolio management remains key to improving corporate strategies and optimizing business models. Strategic acquisitions, partnerships, and, above all, divestments and carve-outs remain an essential part of risk management. Investors must continue to carefully evaluate their corporate portfolios and consider divesting non-core assets as part of ongoing transformation strategies. Such steps allow companies to adapt and thrive in an ever-changing environment. Therefore, in the period ahead, we can expect to see a primary increase in transactions in the mid and small-cap market - driven primarily by the active implementation of strategic growth programs. These transactions will form a solid foundation for future positive market developments.

M&A markets are still supported by cash balances of unallocated private capital ("dry powder") on the side of private equity funds, where at the end of last year, PE funds held a total of approximately $2,49 trillion in dry powder. Both financial and strategic sponsors are expected to re-enter the market at an accelerated pace this 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.



Deloitte M&A Index 2023

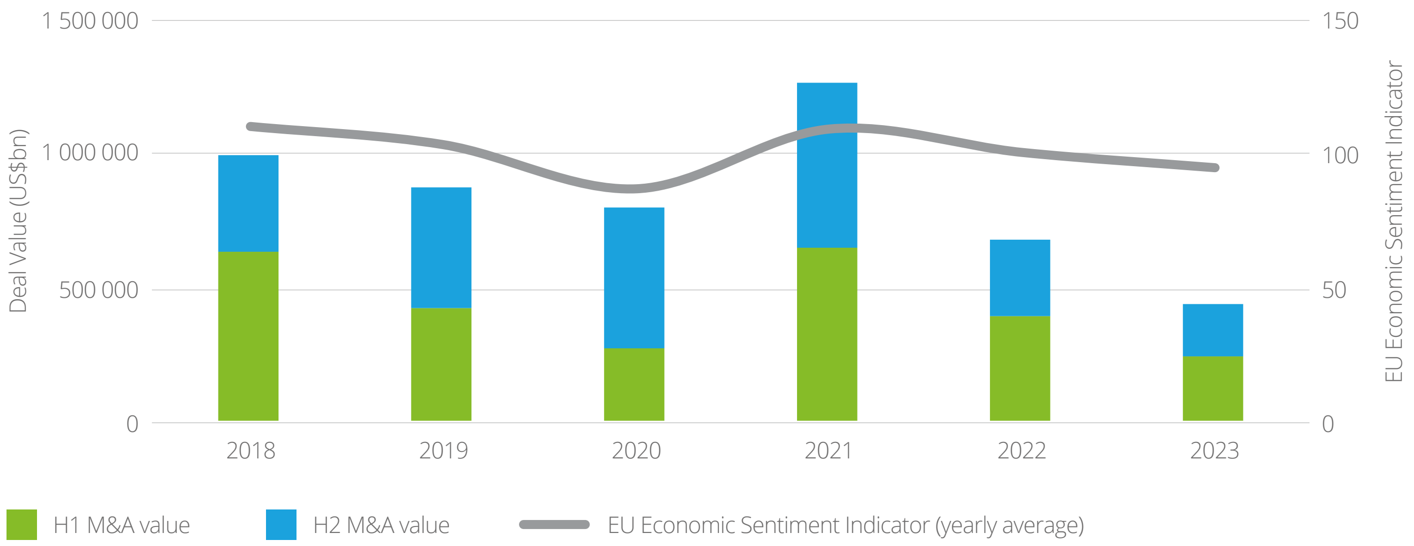
HEADWINDS AND TAILWINDS

M&A Index Q1 2024: In Pursuit of Value

HEADWINDS

- Persistent low consumer confidence directly impacts company valuations by constraining consumer spending. Reduced consumer trust in economic stability or personal finances leads to restrained expenditure, affecting businesses' revenue streams and resulting in lower sales figures.
- The increased cost of capital prompts companies to rigorously scrutinize large or transformative deals, ensuring they align with strategic goals and yield significant returns. Extensive due diligence for sizable transactions considers market conditions, synergies, and financial implications, recognizing their profound impact on a company's trajectory.
- In 2023, conflict between Russia and Ukraine persisted, while a new conflict arose between Israel and Hamas. Additionally, the geopolitical competition between China and the U.S. continued to develop. Both sides engaged in assertive yet measured actions and counteractions. These sustained geopolitical tensions, coupled with increasingly stringent regulatory measures, add additional layers of scrutiny, compelling companies to reassess their M&A strategies.

M&A MARKETS REACT TO UNCERTAINTY

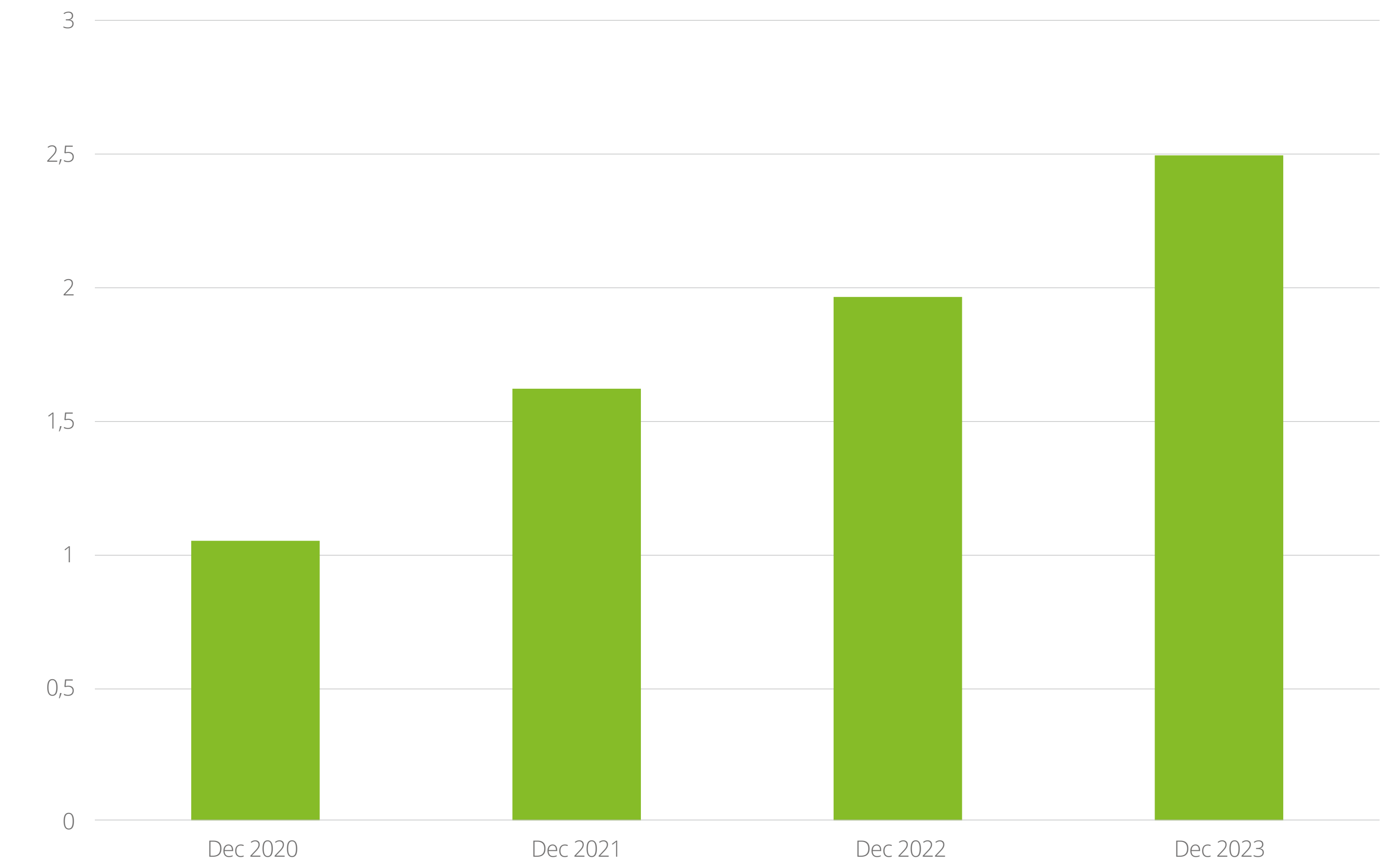


Source: Deloitte; Europa, Latest business, and consumer surveys, 2024

TAILWINDS

- M&A activity will continue to be boosted by cash balances; unallocated private equity dry powder balances stood at approximately USD 2.49 trillion at mid-year. Investors, currently holding record amounts of capital, are expected to use these funds to make strategic acquisitions.
- Differences in pricing expectations between sellers and buyers have hindered dealmaking in the previous year. Nevertheless, several factors impacting prices, including inflation levels, financing costs, and uncertainties, are showing signs of stabilization. As sellers adapt to this evolving landscape in the coming months, it is anticipated that the divergence between sellers' and buyers' expectations will gradually diminish.
- According to the latest data, inflation in the euro area has fallen to a two-year low, the European Central Bank has raised rates to their highest level since 2008 and is expected to start cutting interest rates in the second quarter of 2024. Europe, for the most part, managed to reduce its dependence on Russian gas without facing severe economic calamity and the outlook continues to be a soft landing with inflation declining gradually according to the IMF. Global inflation has decreased without significant spikes in unemployment, partly due to labor markets primarily cooling down by eliminating job vacancies rather than actual jobs.

GLOBAL PRIVATE EQUITY AND VENTURE CAPITAL DRY POWDER ($TN)



Source: S&P Global Market Intelligence, 2024

M&A Index Q1 2024: In Pursuit of Value

PATH FORWARD: NAVIGATING THE FUTURE LANDSCAPE OF MERGERS AND ACQUISITIONS

”Despite the possible decline in transaction volume for the current quarter, there’s still optimism fueled by expectations of lower interest rates and ongoing economic recovery. Active portfolio management, including strategic acquisitions and divestments, remains crucial for companies navigating the volatile market landscape.”

Miroslav Linhart
Partner in Charge, Financial Advisory

“Cash reserves and unallocated private equity capital continue to bolster M&A markets, with investors poised to capitalize on strategic acquisitions. As economic uncertainties persist, a nuanced approach to valuation and strategic deployment of capital emerges as a cornerstone for navigating the evolving landscape of mergers and acquisitions.”

Jan Brabec
Partner in Corporate Finance

The year 2024 unfolds against a backdrop of sustained geopolitical and economic uncertainty, poised to shape market dynamics. Anticipating a reduction in M&A activity, both strategic and financial investors display strong interest in high-quality targets. The focus shifts towards investments in companies offering substantial value, extending beyond market position and financial performance to include well-defined value propositions and robust business plans. Consolidation trends persist, particularly in emerging markets, offering large-scale opportunities in the evolving economic reality.

New innovative sectors will play an increasingly important role. Heightened M&A activities are anticipated in the technology and healthcare sectors. Investors should position themselves strategically to capitalize on the transformative potential of these innovative industries, aligning their portfolios with market shifts post-pandemic. As new technologies emerge, so do new acquisition strategies and ventures.

The ongoing economic uncertainty further unveils new distress acquisition and buy-and-build prospects. Overleveraged companies become acquisition targets at a lower cost, enabling financially stable entities to access new markets or technologies.

The M&A landscape in 2024 beckons investors to adapt to substantially different conditions and expectations. Navigating uncertainties, assessing financing options, and considering restructuring nuances are imperative. Investors should adopt a forward-looking perspective, embracing calculated risks, and developing M&A strategies that align with growth and transformation objectives.

Valuation pragmatism amid uncertainties should lay at the forefront of any M&A rationale. Investors need to recalibrate their expectations, recognizing opportunities in transactions grounded in genuine, sustainable value. The path forward involves a nuanced approach to assessing valuation metrics, aligning with the evolving economic landscape.

Amidst reports of a decline in overall capital inflow, a closer examination reveals a divergence in strategies among firms. Successful players are strategically holding substantial cash reserves, positioning themselves for strategic investments. Navigating the market with a focus on deploying capital judiciously emerges as a differentiator, particularly in a landscape marked by reduced competition.

Furthermore, banks, while cautious, remain well-positioned to finance leveraged transactions, signaling potential market rebound. Recognizing private credit as a transformative financing solution emerges as a key theme. Investors are encouraged to embrace the bespoke nature and flexibility of private credit, integrating it strategically into their financing approach. The alignment of private credit with diverse borrower needs positions it as a dynamic force, reshaping corporate financing dynamics. As we navigate these uncertainties, businesses must adeptly embrace flexibility in the face of ambiguity, recognizing that adaptability is the cornerstone of strategic triumph in the dynamic arena of M&A.

In conclusion, the way forward in M&A demands a nuanced understanding of evolving market dynamics. It invites investors to tread with adaptability, blending realism in valuations, strategic capital deployment, vigilance for emerging deal types, and a sector-focused investment approach. As the economic landscape evolves, those embracing adaptability will find themselves well-positioned to navigate the complex terrain of M&A, unlocking unique opportunities for growth and value creation.

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.

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
Manager | Financial Advisory
Deloitte Advisory s.r.o.
tprochazka@deloittece.com

Petr Suchý
Partner | Deloitte Legal
Deloitte Advisory s.r.o.
psuchy@deloittece.com

Lukáš Kádě
Senior Associate | Deloitte Legal
Deloitte Advisory s.r.o.
lkade@deloittece.com

Deloitte.