2021 M&A MONITOR

SHEDDING LIGHT ON M&A IN BELGIUM

Created by the Centre for Mergers, Acquisitions and Buyouts

ACKNOWLEDGMENTS

This report was prepared by Mathieu Luypaert, Professor of Corporate Finance and M&A at Vlerick Business School, and Gianni Spolverato, Doctoral Researcher at Vlerick Business School.

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PREFACE

When the dust finally settles…

At the moment of writing last year's M&A Monitor, the world suddenly looked different. The outbreak of the COVID-19 pandemic triggered severe worldwide lockdowns with strong economic implications, resulting in unprecedented government support packages. The heightened business uncertainty, combined with liquidity-preserving strategies and restrictions on physical travel, brought the M&A market to a standstill. Not surprisingly, the large majority of surveyed experts at that time anticipated a decline in 2020 M&A activity of more than 30%.

Looking back, international statistics on global M&A activity actually show a decline of around 50% in the first half of the year. However, **as of the summer**, when most of the containment measures were relaxed, **the M&A market was recovering strongly**, moderating the drop over the full year 2020. A similar pattern seems to be characterising the Belgian M&A market, as only 31% of the experts noticed a decrease exceeding 20%. Interestingly, the average **EV/EBITDA multiple** remained (quasi) constant compared to last year at **6.4 (6.5 in 2019)**. Notably, the smaller deal segments seemed to be hit harder by the pandemic, with a more considerable drop in multiples and more experts reporting a sharp decline. For deals with a transaction value below €1 million, even 47% of our respondents saw a decrease of more than 20%. The increased uncertainty about the acquired firm's value also caused an **upswing in the use of earnouts** from 26% of all transactions in 2018 to 36% in 2020, with a typical duration of around two years. Also, the typical **length of the deal process significantly increased** in 2020, with more than half of the respondents highlighting an average time to completion of more than half a year.

According to the surveyed experts, **the near future of Belgian M&A activity looks bright**. The outlook is most favourable for private equity transactions, with 71% of all experts anticipating increased deal activity in 2021. These buyouts are primarily driven by growth motives, either internally or externally, through so-called buy-and-build strategies. Multiples are expected to remain high in 2021, especially for the segment of mid-sized and large transactions.

Next to assessing drivers of the buy-side in M&A, we have also, for the first time, investigated the **motives behind the decision to sell a company**. We focused on those companies for which the selling shareholder was also managing the company. The top 3 reasons for selling a business are: the retirement of the owner-manager, more perceived potential under new ownership, and a consolidation trend in the industry. We also find that 55% of the selling owner-managers remain operationally active in the company after the sale.

These observations – and many other typical deal, financing, and process characteristics – are presented and discussed in detail in the rest of this document. We wish you a pleasant and, especially, insightful read!

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METHOD

The insights presented in this document are based on the online survey responses of 173 Belgian M&A experts, collected between 25 January and 5 March 2021. This sample of M&A professionals was gathered through Vlerick's professional network and that of the sponsors of the Centre for Mergers, Acquisitions, and Buyouts, supplemented by online searches.

We first present the respondents' insights into the evolution of the Belgian M&A market. The subsequent results relate specifically to the transactions that the respondents have been involved in during 2020.

We distinguish between different size categories, ranging from deals with a transaction value of less than €1 million to deals with a transaction value greater than €100 million. Before the survey was sent out, it was tested extensively and verified by practitioners and academics.

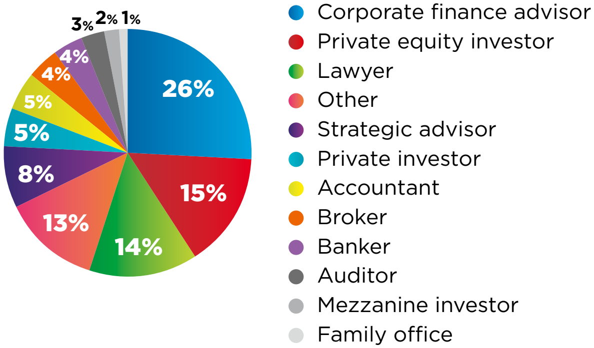
This report provides the aggregated results from our survey. In some cases, extreme outliers were removed from the sample.

ABOUT THE RESPONDENTS

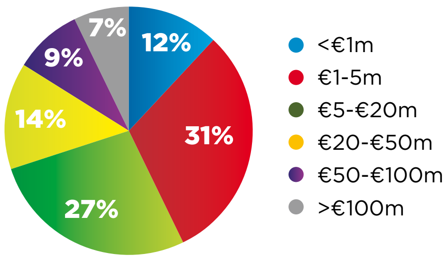
Representing a comprehensive view of the entire Belgian M&A market, the surveyed experts:

- cover a wide variety of professional roles, with corporate finance advisors (26%), private equity investors (15%), lawyers (14%), and strategic advisors (8%) as the most prominent groups;
- represent various deal segments: 41% of the respondents are primarily active in M&A with a total deal value between €5 - €50 million, 16% work on deals with a value greater than €50 million, and 43% work on small transactions (< €5 million);
- cover a wide range of industries, with the strongest presence in Business services (44%), Industrial products (30%), Construction (30%), and Technology (28%);
- have an average of 13 years of professional M&A experience, with a minimum of 1 year and a maximum of 33 years of experience;
- have worked on an average of 6 deals over the 12-month period preceding this survey;
- are active in the 3 main regions of Belgium (128 in Flanders, 115 in Wallonia, and 100 in Brussels), as well as outside Belgium's borders (66 in Europe, 31 in other regions).

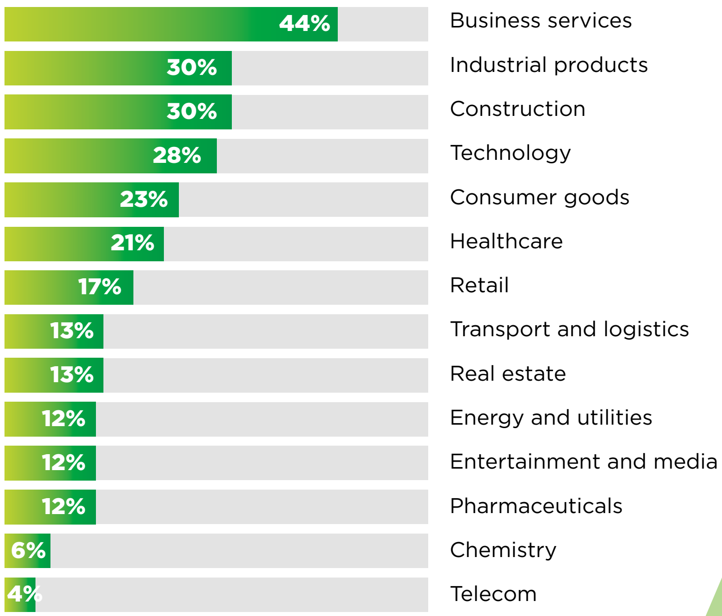
% RESPONDENTS PER PROFESSIONAL ROLE



PRIMARY MARKET SEGMENT OF RESPONDENTS - TRANSACTION VALUES



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



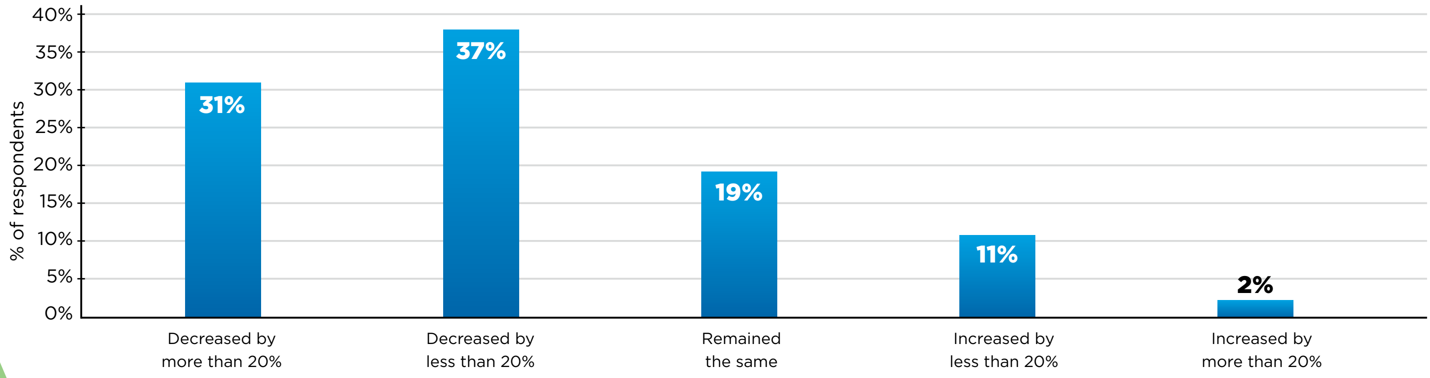
THE EVOLUTION OF THE BELGIAN M&A MARKET

THE PANDEMIC CAUSED A MODERATE DECLINE IN BELGIAN M&A ACTIVITY

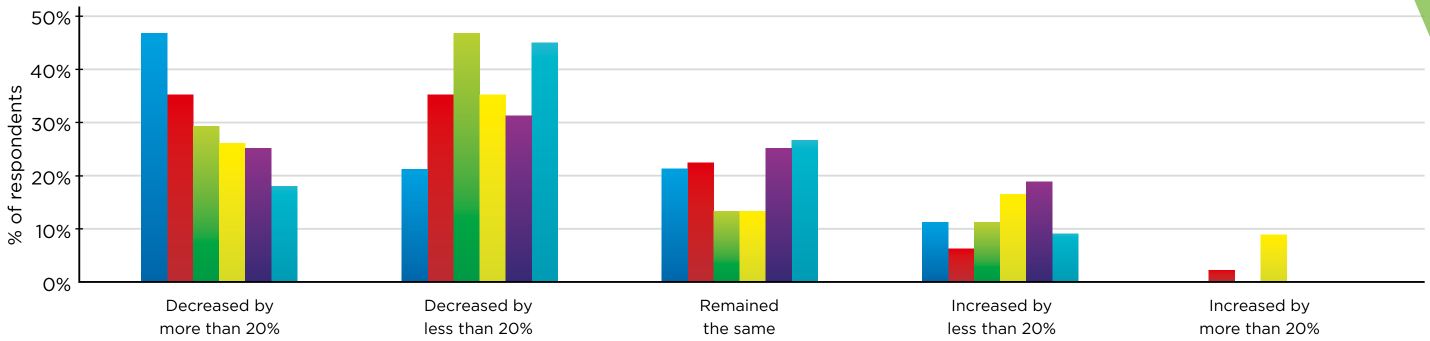
In last year's survey, about 80% of the respondents expected M&A activity in 2020 to decrease by more than 20%. Although COVID-19 did indeed harm total deal activity, restored confidence as of the summer eventually resulted in a less severe decrease than anticipated. Accordingly, 68% of all surveyed experts reported a decline in Belgian M&A activity. 31% even observed a drop exceeding 20%. Only 13% experienced an increase in deal volume (which was minor).

Yet still, the trend was not uniform across all size segments. We find a clear negative correlation between deal size and the extent of the downswing. The most significant reduction was noticed in the smallest deal segment (below €1 million), where 47% of all respondents observed a decrease of more than 20%, compared with only 18% for the largest deal segment (above €100 million).

2020 EVOLUTION OF NUMBER OF M&A TRANSACTIONS



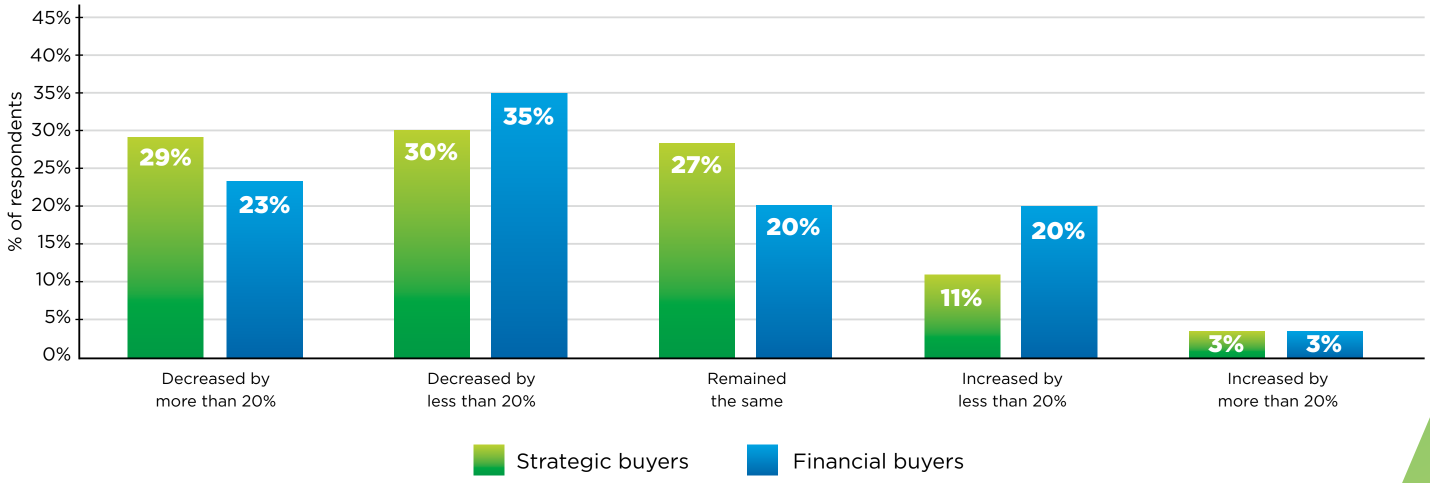
2020 EVOLUTION OF NUMBER OF M&A TRANSACTIONS PER SIZE CATEGORY



The size categories relate to the transaction values of the deals.

While the majority of the experts report a decline in deal activity for both strategic and financial buyers (i.e., private equity), the image is somewhat more favourable for the latter. Within the segment of financial buyers, a slightly lower fraction of respondents referred to a substantial decrease, and a slightly higher fraction pointed towards a rise in deal activity.

2020 EVOLUTION OF NUMBER OF M&A TRANSACTIONS PER BUYER CATEGORY



The M&A market was temporarily put on hold, but the recovery was quick and sharp. At this moment, we are again working at full speed.
Respondent A

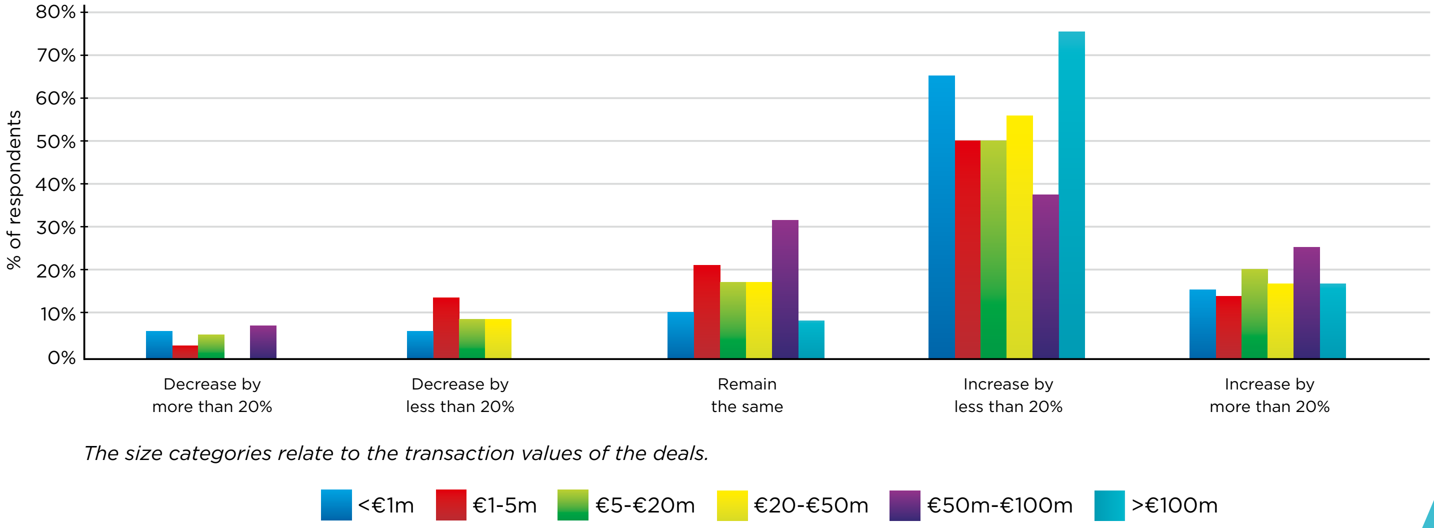
I believe the M&A market will grow, as the owners of smaller Belgian companies, in particular, are afraid of the taxation on the surplus valuation of shares, which could be agreed upon by the Belgian government in the future. They are trying to sell to avoid this risk.
Respondent B

2021 FORECAST LOOKS BRIGHT

Depending on the size segment, 60% to 90% of the respondents believe that M&A activity will significantly increase compared to 2020. As business confidence is starting to return and private equity dry powder is still abundant, the surveyed experts largely expect that the Belgian M&A market will turn again towards pre-COVID volumes or higher. However, many believe that this rebound will be mainly driven by sectors that were not hit by the virus.

As one of our respondents noted: "*COVID-19 is likely to cause an even larger scarcity of high-quality targets with a clear split between winners and losers. On the one hand, I foresee attractive deals with 10+ potential buyers, while, on the other hand, there will be cases of COVID-hit companies that are up for sale with no buyers at all.*"

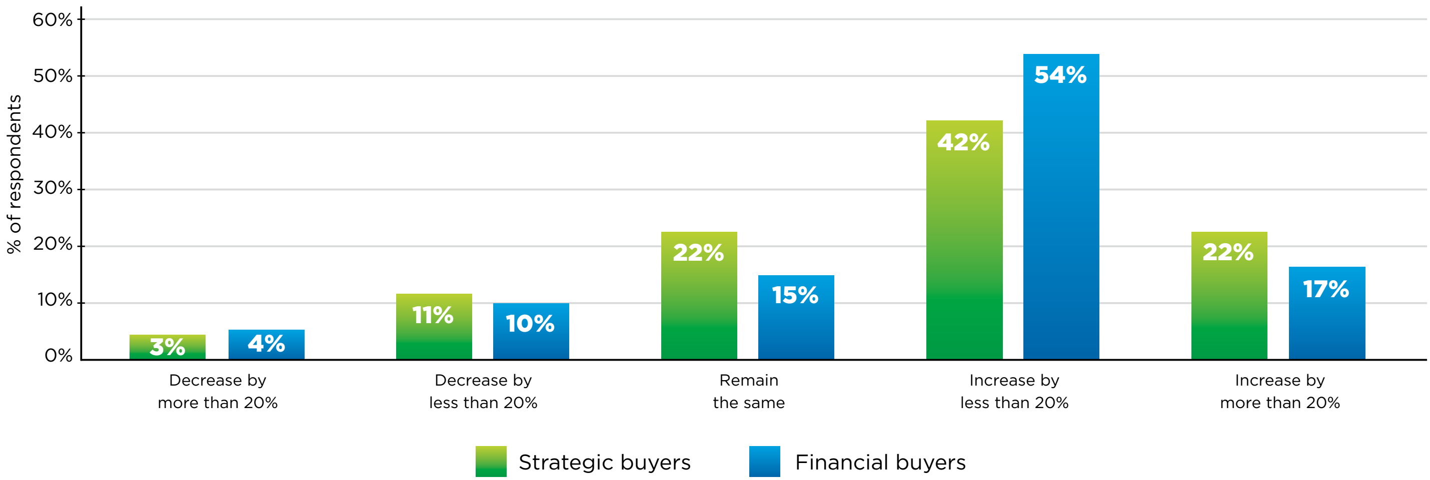
EXPECTED EVOLUTION OF M&A TRANSACTIONS FOR 2021 PER SIZE CATEGORY



The size categories relate to the transaction values of the deals.

Balancing the outlook for strategic and financial buyers, our respondents are again more optimistic regarding the latter. 71% expect a notable increase in the number of financial transactions, compared to 64% for strategic M&A. Still, the prospects are pretty favourable for both segments, and only a small minority of the respondents within each group expect a continued decrease in deal activity.

EXPECTED EVOLUTION OF M&A TRANSACTIONS FOR 2021 PER BUYER CATEGORY



MOTIVES

We asked the experts to assess the relevance of different strategic M&A drivers on a 5-point scale, ranging from 1 (not important) to 5 (very important). Based on these scores, we have ranked each of these motives and compared these rankings with the results from 2015 and 2018.

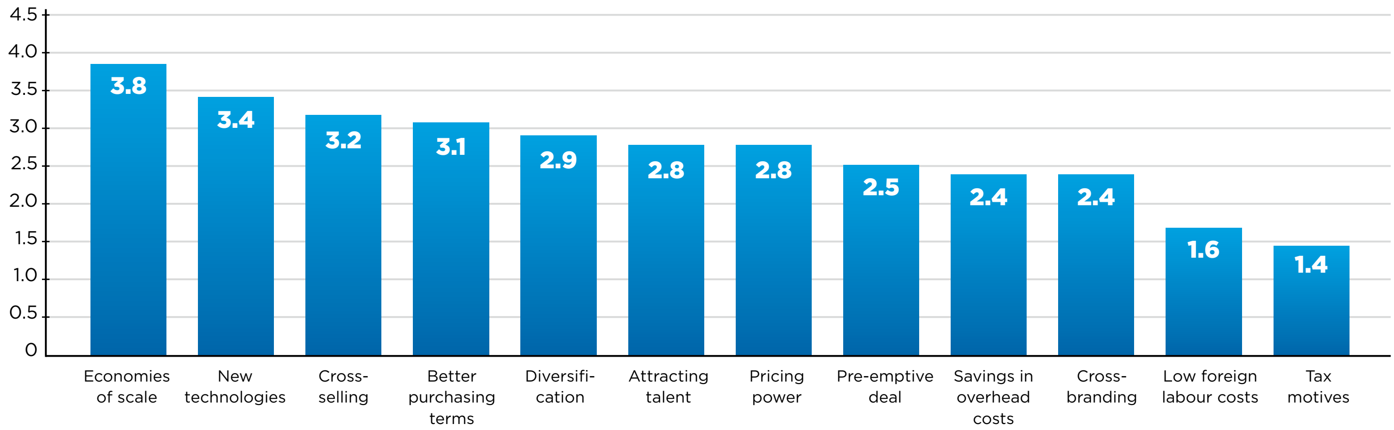
Over the past 5 years, economies of scale ranked persistently as the most important reason to engage in M&A.

As technological disruption is present in any industry, the attraction of new technologies and skilled talent through M&A has seen a significant upswing since 2015. In 2015, these motives were ranked third and eighth, respectively. They are now considered to be the second and sixth most essential reasons for strategic acquisitions.

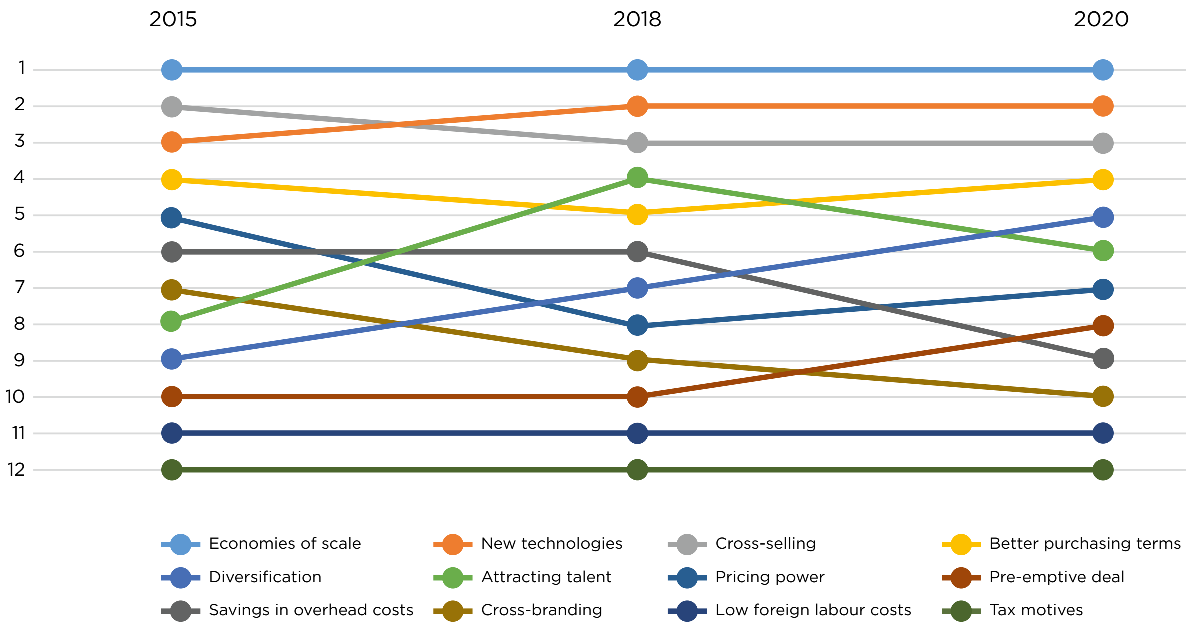
Compared to 2018, however, attracting talent decreased slightly – but this is likely to be a side-effect of the pandemic, which temporarily put a halt to the war for talent. Also, the potential of cross-selling and obtaining more purchasing power consistently ranked in the top 5 of M&A motives in Belgium.

Another significant trend is the surge in the use of M&A to diversify business portfolios. A potential explanation for this trend might be that cash-rich firms are looking for opportunities outside their core industries, as it is becoming harder and harder to find qualitative targets within their own industry. In addition, the uncertainty as a result of the pandemic might push some firms towards risk reduction through diversification.

MOTIVES FOR STRATEGIC BUYERS (5-POINT SCALE)



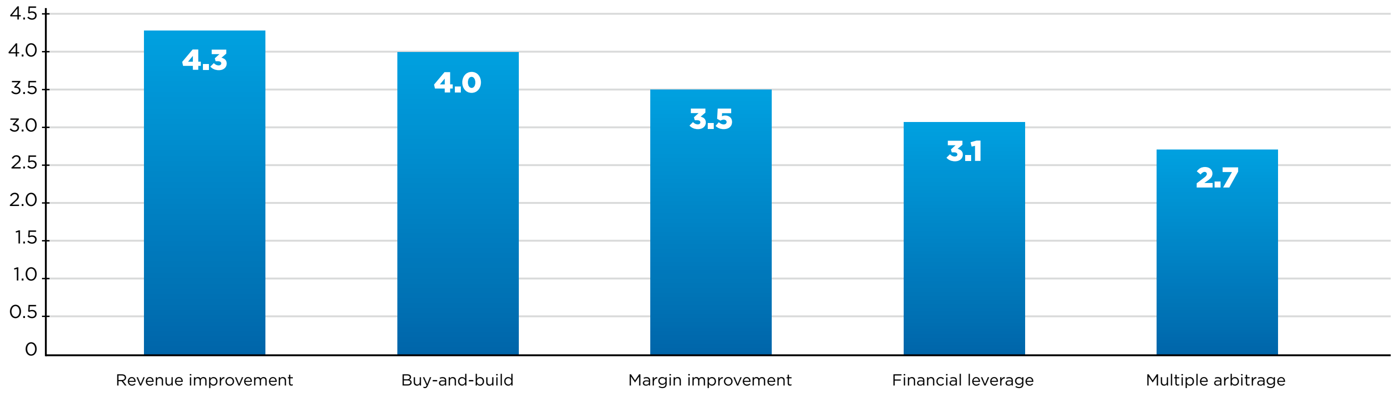
MOTIVES FOR STRATEGIC BUYERS (RANKINGS)



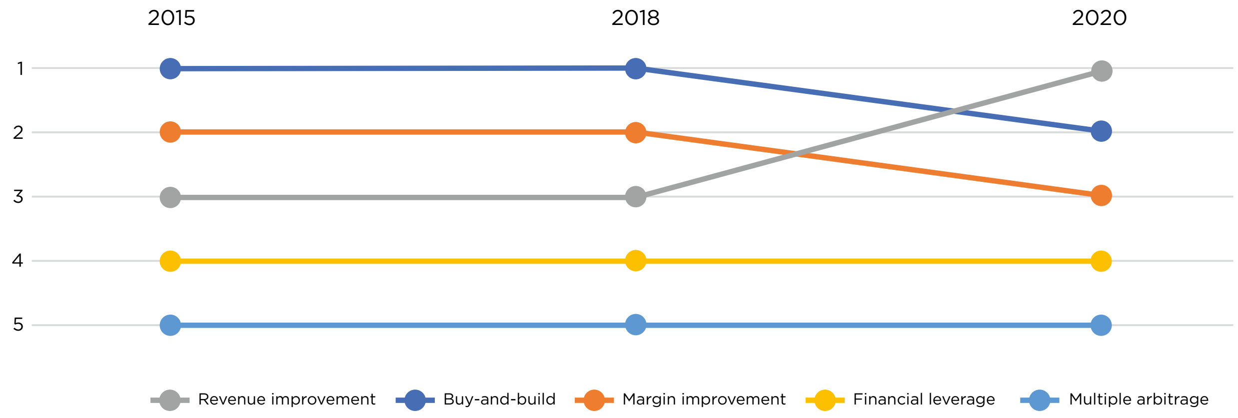
PRIVATE EQUITY AIMS FOR GROWTH

Private equity investors clearly indicate that growth motives are driving their investment decisions. Revenue improvement (i.e., internal growth) is considered the most crucial motive, with an average score of 4.3/5. Buy-and-build (i.e., external growth) ranked as #1 before, but, in line with an overall decline in M&A activity in 2020, it dropped to second place (scoring 4/5). Both types of growth outweigh margin improvement as a motive in 2020 private equity transactions. Remarkably, the pandemic does not seem to create interesting opportunities to 'buy cheap' and realize multiple arbitrage.

MOTIVES FOR FINANCIAL BUYERS (5-POINT SCALE)



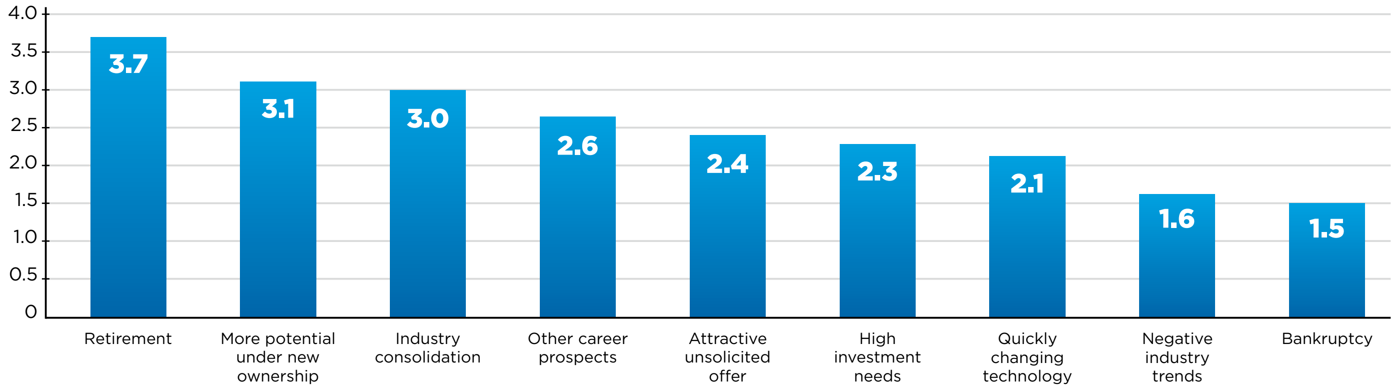
MOTIVES FOR FINANCIAL BUYERS (RANKINGS)



SPOTLIGHT ON THE SELL SIDE

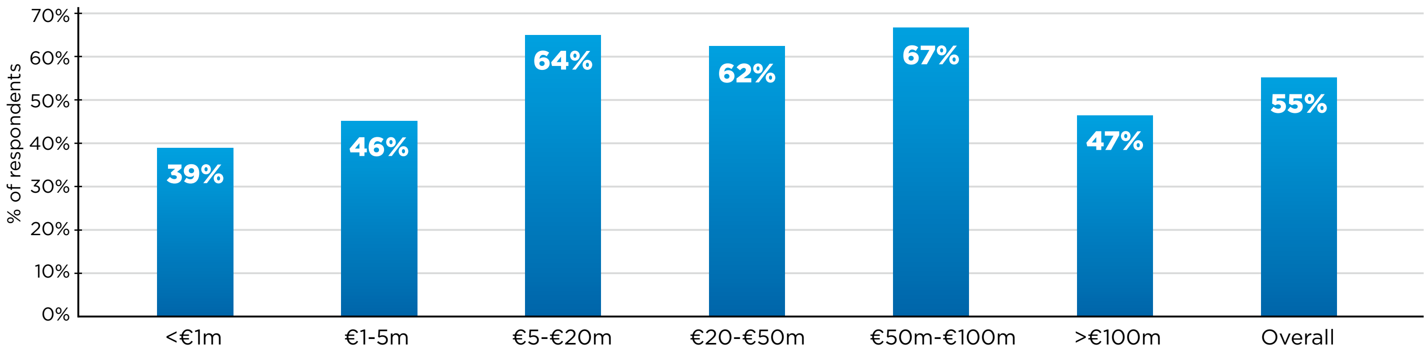
For the first time, we also surveyed the motives of the sellers in transactions where the vendor was also managing the company. Given our SME-driven economy, the owner-manager's retirement (3.7) is by far the most important reason a business is being sold. The second most important reason is that the former owner felt that the company had more potential under the new owner (3.1), followed by industry consolidation (3.0). Other career prospects (2.6), unsolicited offers (2.4), heavy investment needs (2.3), and quickly changing technologies (2.1) are less prominent factors. Fortunately, negative industry trends (1.6) and bankruptcy (1.5) are rarely the reason to sell a company.

MOTIVES FOR SELLING OWNER-MANAGERS (5-POINT SCALE)



We also asked our respondents about the fraction of deals in which a selling owner-manager remained active in the company after the deal. Interestingly, this happens in more than half of the cases. Managers are most likely to stay active after deals with a transaction value between €5 and €100 million, in which over 60% of the sellers keep an operational position within the firm.

% PERCENTAGE OF DEALS WHERE SELLING OWNER-MANAGER REMAINED



The size categories relate to the transaction values of the deals.

The impact of COVID-19 was clearly different from sector to sector. While certain sectors were hit hard (e.g., event, entertainment, tourism), others were boosted (e.g., IT, life sciences). Cash management was (and is) key, leading clients to postpone projects in Q2 of 2020, but things normalized rather quickly in Q3 in most sectors.

Respondent C

Investors are more careful about venturing into industries that they have no affinity with. On the reverse side, businesses backed with financial investors were more likely to consider buy-and-build deals in their industries when they were confident about the long-term potential of the target companies. Overall, I have felt little to no impact on the ability to finance acquisitions with bank debt.

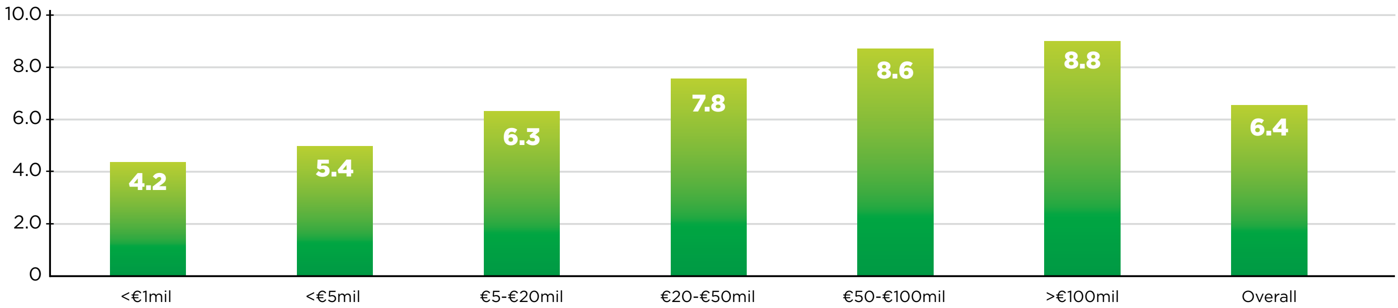
Respondent D

VALUATION

Despite last year's negative outlook, no significant change in multiples was observed in 2020. The average target was sold at an EV/EBITDA multiple of 6.4 in 2020 (compared to 6.5 in 2019). Yet, we do notice a different evolution depending upon the deal size segment. Multiples for deals of less than €5 million dropped from 5.4 in 2019 to 5.0 in 2020.

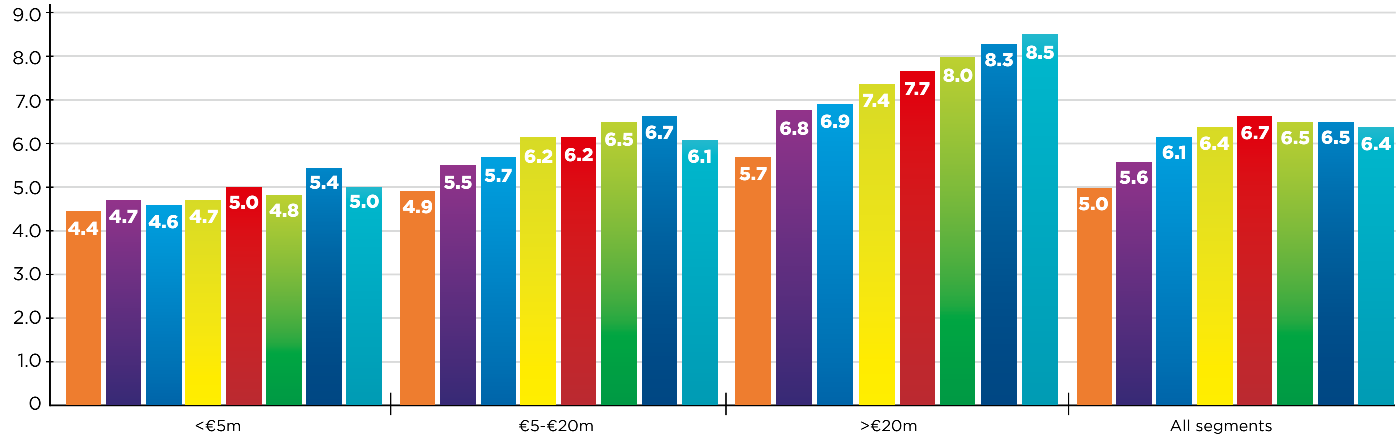
For the micro-deals (<€1 million), multiples decreased to 4.2. Also, for companies that were sold for between €5 and €20 million, buyers paid a multiple that was on average 0.6 lower than in 2019. However, multiples increased slightly, from 8.3 to 8.5, for transactions exceeding €20 million.

AVERAGE ENTERPRISE VALUE (EV)/EBITDA



The size categories relate to the transaction values of the deals.

EVOLUTION EV/EBITDA

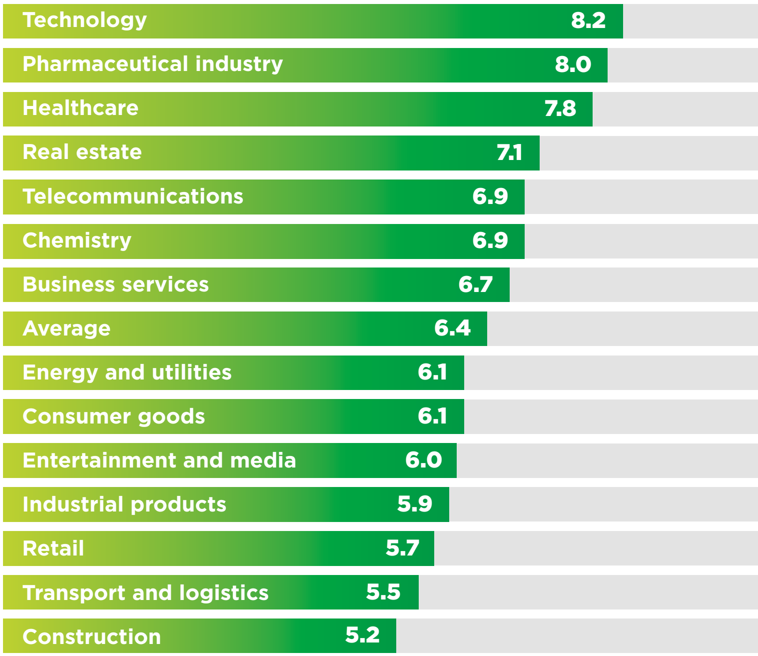


The size categories relate to the transaction values of the deals.

TECHNOLOGY AND PHARMA EXHIBIT HIGHEST MULTIPLES

Significant differences across sectors are observed. The two sectors with the highest reported multiples are technology (8.2) and pharmaceutics (8.0). These knowledge-intensive industries thrived during the pandemic. Also, the healthcare sector's growth expectations are reflected in the price, ranking third with a multiple of 7.8. Driven by its low-risk profile, real estate (7.1) exceeds the overall average of 6.4. Similar to prior years, companies within telecom (6.9), chemistry (6.9), and business services (6.7) are also sold above the midpoint. Energy and utilities (6.1), consumer goods (6.1), and entertainment and media (6.0) sell at a slight discount to the average. More capital-intensive industries – such as industrial products (5.9), retail (5.7), transport and logistics (5.5), and construction (5.2) – are ranked at the bottom of this list. In general, the relative ranking of each sector aligns closely with last year's monitor.

EV/EBITDA PER INDUSTRY



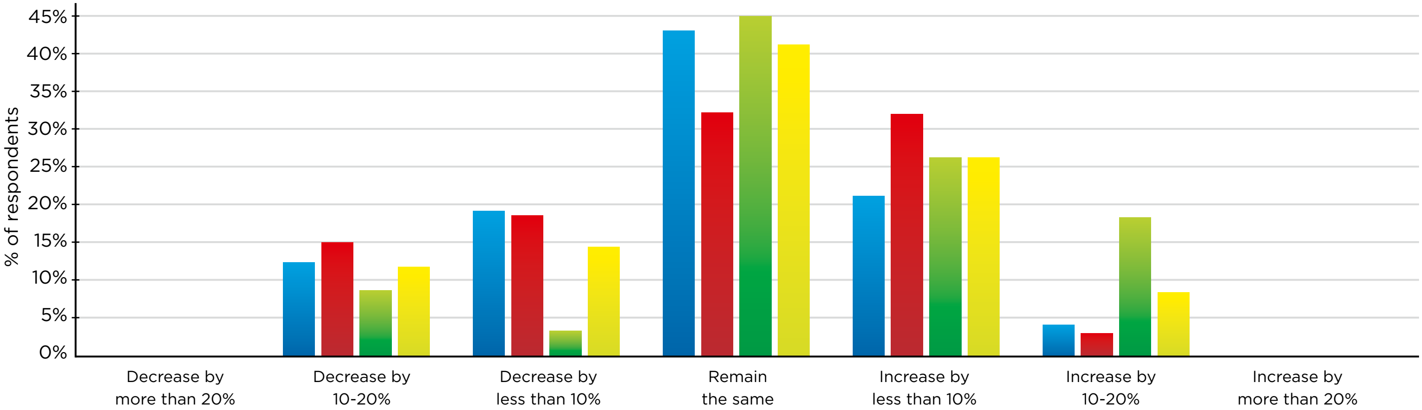
For the first time, we also report differences across size segments within these industries. To get representative results, we require a minimum set of at least 20 respondents who carried out at least one deal within each respective industry. As a result, we presented the size-specific multiples for technology, healthcare, business services, consumer goods, industrial products, and construction. In general, the relative ordering of multiples within each size category is very similar to those of the overall averages.

	<€5 million	€5 - €20 million	>€20 million	Overall average
Technology	5.4	7.7	9.4	8.2
Healthcare	5.7	8.0	8.7	7.8
Business services	5.5	6.3	8.0	6.7
Consumer goods	4.8	6.5	7.2	6.1
Industrial products	5.0	5.5	7.1	5.9
Construction	4.6	6.0	6.0	5.2

EV/EBITDA multiple per deal size category and per sector

While vaccination campaigns are being rolled out globally, the question remains how multiples will evolve in the post-COVID era. Therefore, we also asked M&A experts about their projections for the multiples in 2021. Opinions seem to be divided and are more positive for larger deals. Only 25% expect an increase in multiples for deals valued at less than €5 million, while 43% expect no change at all. About one out of three respondents even expect prices to further decrease due to the structural impact of COVID-19. Also, for deals between €5 and €20 million, 2 out of 3 respondents expect multiples to remain unaffected or decrease. On the bright side, 42% of the respondents within the largest size categories believe multiples will increase in 2021, while only 11% expect a decline.

EV/EBITDA EXPECTATIONS FOR 2021



The size categories relate to the transaction values of the deals.

<€5m €5-€20m >€20m Overall

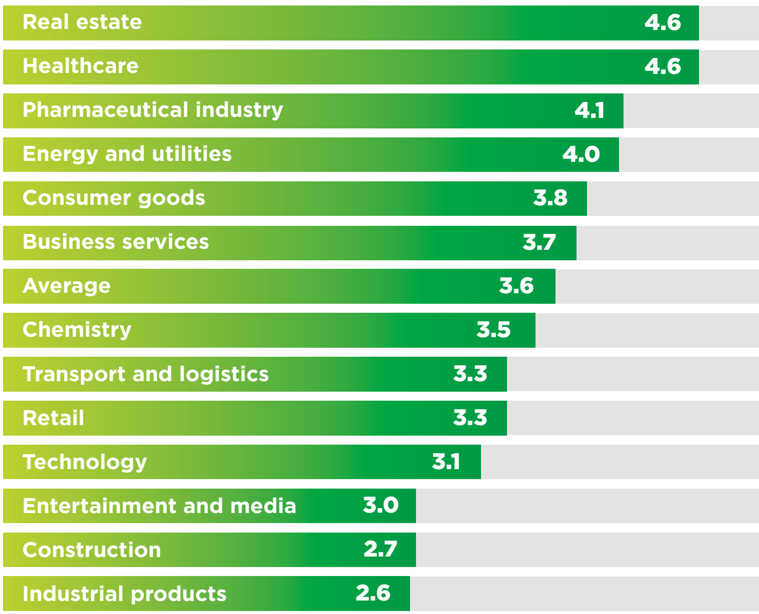
DEAL STRUCTURING & FINANCING

This section zooms in on the sources of funds used to finance M&A transactions. We examine the typical extent of debt financing in M&A and the required (semi-) equity in MBO/MBI transactions. In addition to upfront financial needs, the deal structure might include delayed payments that are fixed (vendor loans) or depend on post-M&A-performance (earnouts).

We investigate the extent of debt financing by asking respondents about the average sector ratio of net financial debt (NFD) compared to EBITDA to finance M&A transactions. Given the conservative risk profile, real estate deals top the list in debt financing (4.6). We find higher valued targets, such as pharmaceutical (4.1) and healthcare (4.6) companies, to be the most leveraged relative to their EBITDA figure. Although companies active in consumer goods (3.9) and energy and utilities (4.1) sell at significantly lower multiples than pharmaceutical companies, they seem to use similar amounts of debt financing relative to their EBITDA. The NFD ratios for deals in chemistry (3.5) and business services (3.8) are close to the overall average of 3.6.

Targets in lower-priced industries – such as transport and logistics (3.3), retail (3.3), entertainment and media (3.1), construction (2.7), and industrial products (2.7) – seem to be financed with relatively less debt. Despite ranking first in terms of valuation multiples, the debt ratio for technology companies (3.2) lies significantly below the overall average of 3.6, illustrating the banks' caution towards this sector.

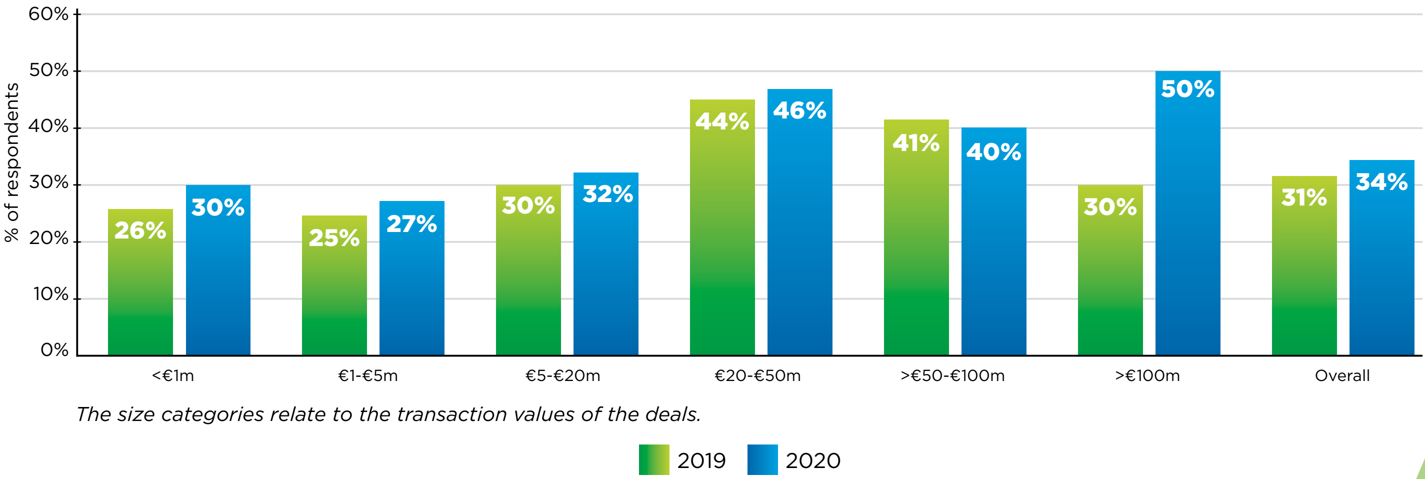
EV/EBITDA PER INDUSTRY



Next, we consider the equity and semi-equity contributions in the acquisition value in MBOs and MBIs. Semi-equity relates to mezzanine financing, such as preference shares and subordinated debt.

The average acquirer in a buyout transaction provided 34% of the transaction value in the form of (semi-)equity. More sizeable deals include a higher equity fraction. The percentage-wise contribution ranges from around 30% of the deal value for smaller deals to 50% for the largest transactions. This increased slightly compared to 2019 in every size segment (except for the segment from €50 to €100 million). The overall average increased by 3 percentage points. This trend suggests that banks might have been a bit more cautious in 2020 when financing highly leveraged deals.

% (SEMI-) EQUITY NEEDED TO FINANCE MBO/MBI

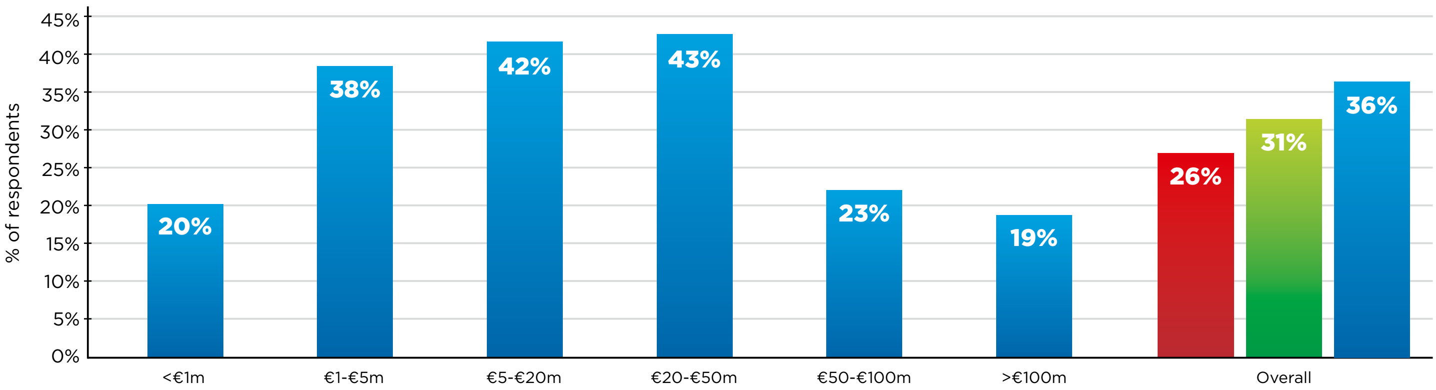


The size categories relate to the transaction values of the deals.

SURGE IN THE USE OF EARNOUTS AND VENDOR LOANS

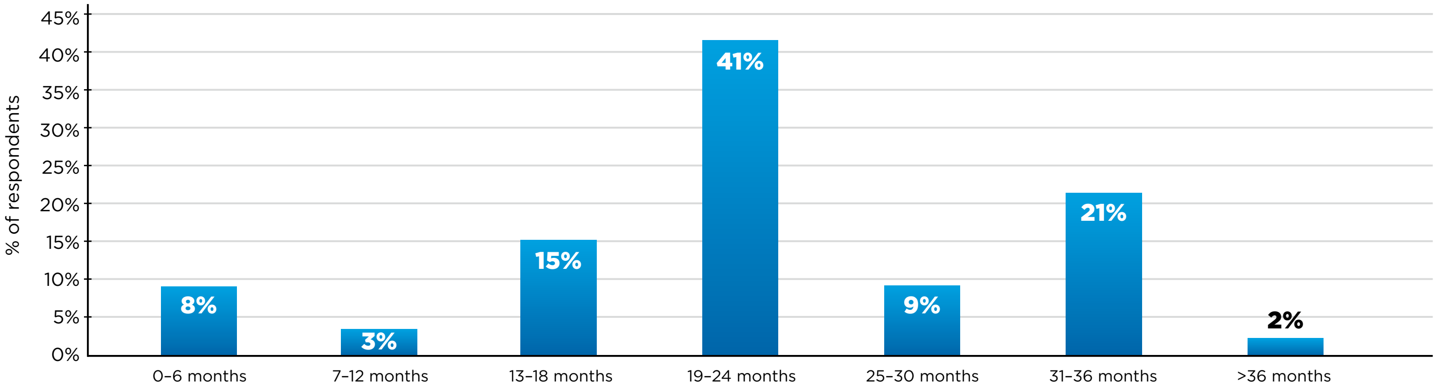
For many firms, COVID-19 resulted in increased uncertainty about the actual profit potential or value of target firms. Differing views between buyers and sellers about the representative EBITDA result in a negotiation gap that has increasingly been bridged through the inclusion of earnout clauses. Compared to 2018, the percentage of deals including earnouts increased from 26% to 36%. The deferred payments under an earnout contract typically amount to 19% of the total transaction value while covering a period of 1.5 to 2 years. However, in about one out of three cases, this can last more than two years.

% OF DEALS INCLUDING EARNOUTS



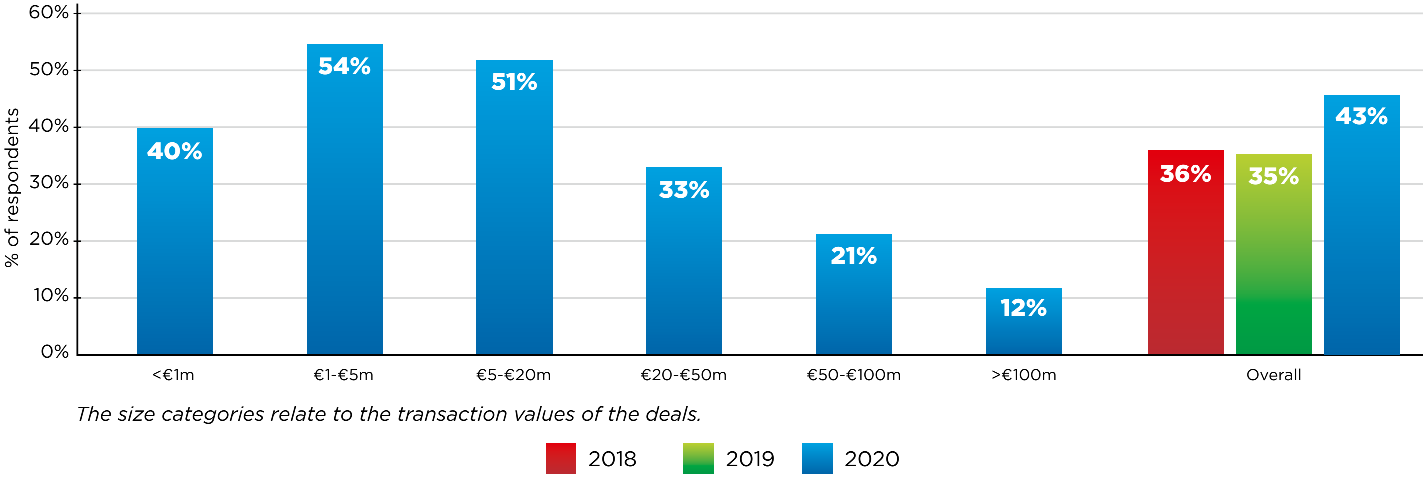
The size categories relate to the transaction values of the deals.

LENGTH OF THE EARNOUT PERIOD



In a related trend, deferred payments via vendor loans also increased in popularity. In 2018, 36% of the deals included an earnout, whereas last year 43% of the sellers approved a vendor loan. On average, these vendor loans cover 16.6% of the transaction value and carry an interest rate of 4.5%.

% OF DEALS INCLUDING VENDOR LOANS



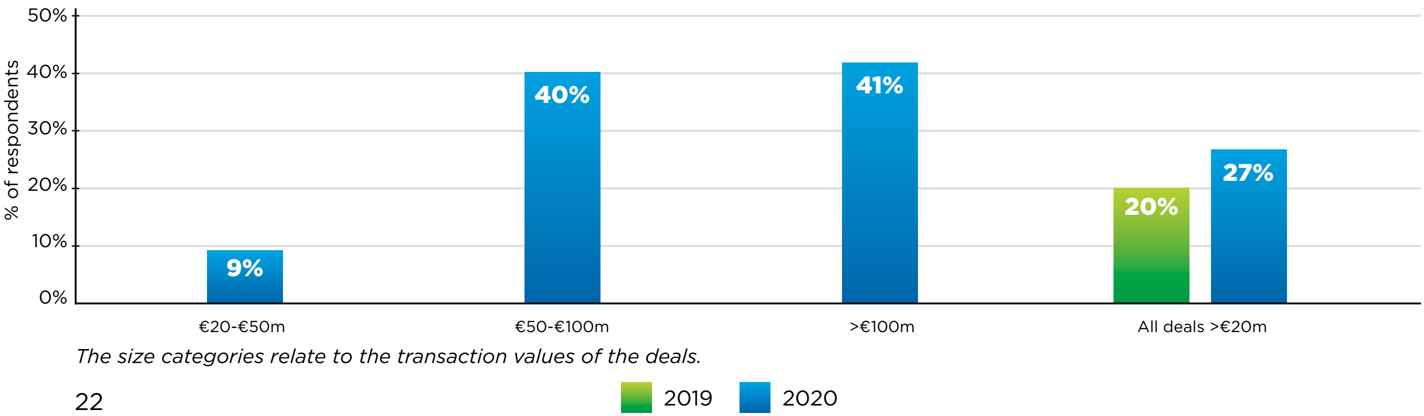
The size categories relate to the transaction values of the deals.

PANDEMIC BOOSTS DEMAND FOR W&I INSURANCE

We asked our respondents about the use of W&I (Warranty and Indemnity) insurance for the transactions they were involved in in 2020. W&I insurance provides cover for losses arising from a breach of the representations and warranties. Our results reveal that these contracts are rarely used in mid-sized transactions, while they are more common in the two largest size segments. Since this insurance contract tends to be used only for the more sizeable transactions, we only report the transactions above €20 million.

Also notable is that, compared to 2019, W&I insurance has increased in popularity, from 20% to 27% of all transactions above € 20 million.

% OF DEALS INCLUDING W&I INSURANCE



The size categories relate to the transaction values of the deals.

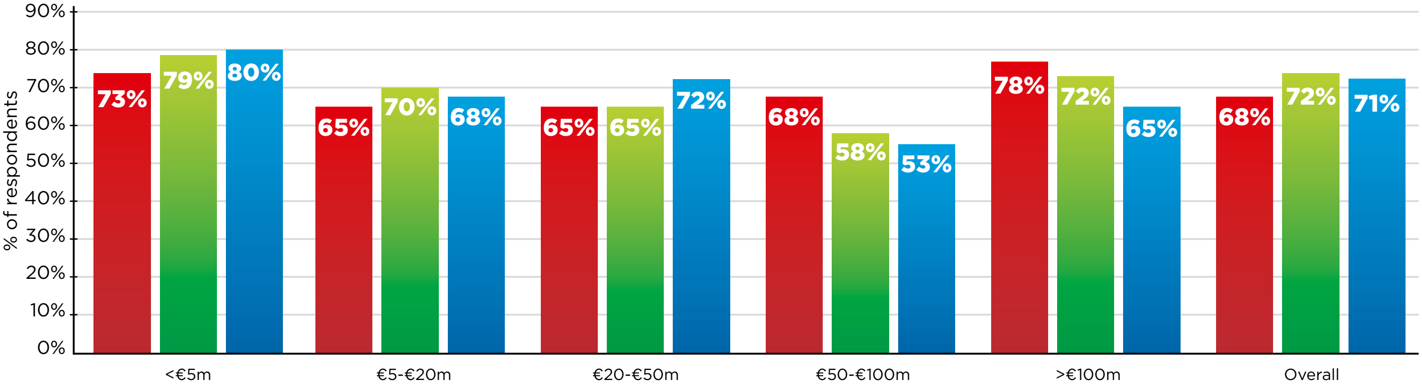
Uncertainty about the viability, agility and going concern has led to buyers being more cautious in their valuation exercises. In the concluded deals, this was mainly reflected in the higher number of earnouts (which were more readily accepted by the seller than in previous years). At the start of the first lockdown, multiples offered decreased somewhat, but this quickly returned to normal levels. There was only a small COVID-correction in the multiples.

Respondent E

DEAL PROCESS

Seller-initiated transactions represented 71% of all 2020 transactions. Notwithstanding some observed changes in specific size segments, the overall average is comparable to previous years (68% in 2018 and 72% in 2019).

% SELLER-INITIATED TRANSACTIONS



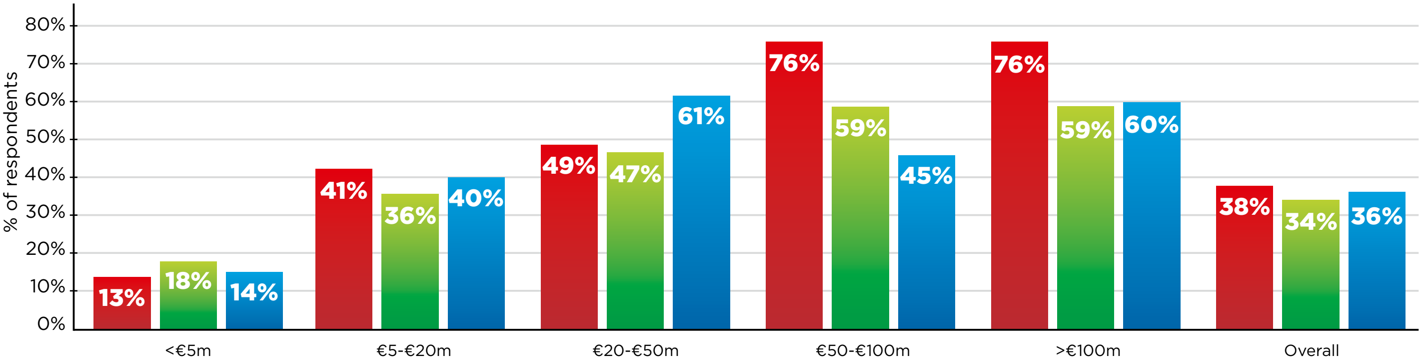
The size categories relate to the transaction values of the deals.

2018 2019 2020

There were also no material changes in the use of auctions compared to 2019. In sum, there is still a positive correlation between the size of the deal and the occurrence of an auction process.

Overall, the use of vendor due diligence remained relatively stable over the last three years. However, we see some notable shifts amongst the various size categories. Vendor due diligence utilization rose for the smallest segment, while it fell for deals above €50 million.

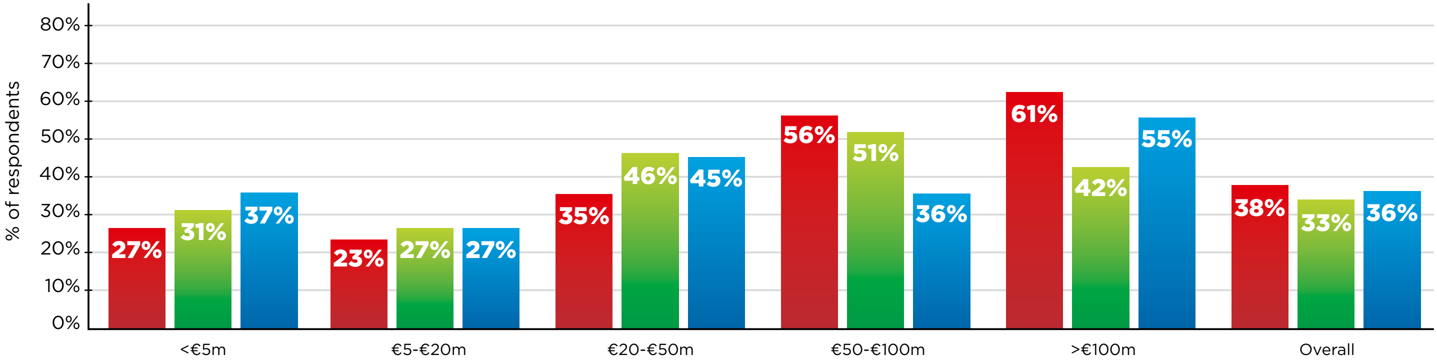
% AUCTIONS



The size categories relate to the transaction values of the deals.

2018 2019 2020

% TRANSACTIONS SUPPORTED BY VENDOR DUE DILIGENCE

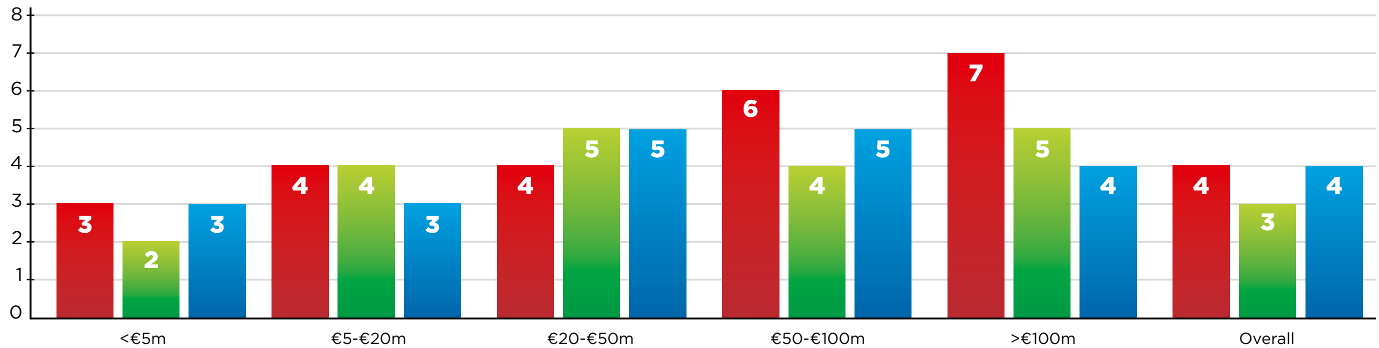


The size categories relate to the transaction values of the deals.

The average number of bidders making an indicative offer increased from 3 bidders in 2019 to 4 bidders in 2020. This shows that, despite a significant decrease in overall M&A activity, there were still a sufficient number of bidders for quality deals.

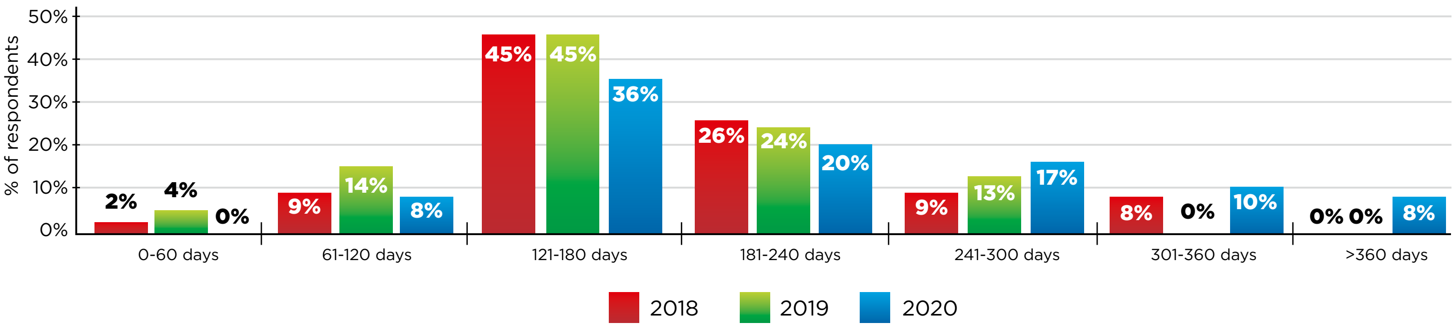
The average deal process was longer in 2020. More than half of our experts (55%) pointed towards an average length of the deal process surpassing 6 months (compared to only 37% in 2019). About one in five respondents said their deals took up to a year or longer from initial contact until the signing of the SPA. In 2019, such lengthy deal processes rarely occurred. While a longer duration of the M&A processes might reflect disputes regarding valuations or difficulties in obtaining the necessary financial resources, the mere fact that buyers and sellers could not meet physically during a large part of the year also slowed down the deal process substantially.

AVERAGE NUMBER OF BUYERS MAKING AN INDICATIVE OFFER



The size categories relate to the transaction values of the deals.

LENGTH OF THE DEAL PROCESS



CONCLUDING THOUGHTS

Looking back confirms that the M&A market managed to pass through the pandemic in a V curve: the drop was rapid(or: precipitous), but recovery was even faster. This said, the pandemic will still impact the deal market for a while. In particular, assessing the COVID impact on the normalised EBITDA and NWC remains a challenge for due diligence and valuation. In addition, we observe that, although private capital mastered the COVID-19 learning curve relatively quickly, the pandemic has altered the criteria for funds in evaluating deals for the foreseeable future: increased focus is being given to digital capabilities, robust risk management and higher long-term valuations. The latter is even more important, as the multiples recovered quickly and are as high as pre-COVID, partially driven by the Dry Powder that was not altered by the pandemic.

The question remains: which external factors might shake the booming M&A market? Higher inflation and interest rates, as well as taxation of capital gains, could represent triggering factors. But, of course, the next crisis will never come from where we believe it will come.

Veerle Catry
BDO
Partner

As a niche bank for entrepreneurs with a unique focus on the Belgian SME landscape, we have seen that 2020 was a difficult year for many businesses. The resilience and creativity that our entrepreneurs showed during this particularly difficult period deserves our respect and admiration. The way they adjusted or refined their business and strategy with sustained passion gives us extra confidence for the future.

Our changed spending pattern during the lockdown created COVID-19 winners. They will be even more sought after in the M&A market. It is quite likely an acquirer may come knocking. Other entrepreneurs were able to keep their EBITDA constant despite a drop in sales due to cost-savings and government support. This also gives confidence to potential buyers. However, some sectors were hit particularly hard and will need to look for additional capital. All three (COVID-19 winners, COVID-19 survivors, and COVID-19 victims) can provide growth in the M&A market, although the importance of earnouts and vendor loans will remain high.

There are now two big differences with the period following the banking and financial crisis. First of all, there is still plenty of liquidity in the market. The private equity community comfortably weathered the storm in 2020 and, after a short period, portfolio companies quickly shifted focus back to new investment. Secondly, the growth forecasts are good, and COVID-19 winners will want to further strengthen their position quickly with strategic acquisitions to fully benefit from the growth. Strong companies are already thinking about their post-COVID-19 strategy.

A growing M&A market will support our entrepreneurs in 2021: to honour their life's work, to support their growth, or to attract additional capital.

Dominic Dhaene
Bank J.Van Breda & C°
M&A Expert

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