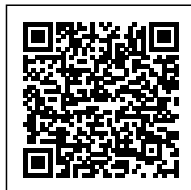


THE M&A MARKET IN THE EUROZONE IN 2021: KEY FACTORS

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Despite the Covid-19 crisis, the market for Mergers and Acquisitions (M&As) in Spain has held steady in recent months. Although it has recorded a year-on-year downturn of 26%, the aggregate value of the operations arranged has increased 14% over 2019. Against this backdrop, Manuel Urrutia, a Corporate lawyer and CEO of the Confianz consulting firm, responds to Iberian Lawyer by detailing the factors of greatest concern in the eurozone's future transactional market.



Brexit has now been in place since January this year. What does this new framework mean following the UK's departure from the European Union regarding those M&A operations that were already underway? And those yet to come? In your opinion, what will they have in common?

The UK's decision to leave the EU has prompted many companies to reconsider their strategy on M&As. Within a context informed by uncertainty, in which the effective timeframes for this departure are still not clear, companies (especially those operating in the financial sector) need to decide whether or not it is expedient for them to continue operating in the UK.

One aspect to be taken into account when making this decision involves the future plans set out by the UK's Competition and Markets Authority (CMA) for fully controlling all the transactional operations with a bearing on the UK.

Nevertheless, and despite Brexit, the UK still needs to be taken into account as the largest market for M&A operations. The country traditionally accounts for 25% and 30%, respectively, of all European operations, and this is unlikely to experience any substantial change. In fact, there might still be an adjustment in UK asset prices, suggesting that there could even be an increase in operations precisely due to the UK's departure from Europe.

In turn, the new consideration of any UK investor as non-domestic clearly poses a drawback for funds and other institutional investors whose acquisitions will be governed by legislation on foreign investments. This may become a crucial factor in European asset auctions when they bid against investors that do not require such authorisation.

Nonetheless, some major fund managers may consider moving to Europe to overcome this disadvantage. This process could somewhat complicate European operations for those management consultancy firms headquartered in the UK.

The digital transformation has necessarily been speeded up by the pandemic. What impact has this process had on the M&A market?

According to a study conducted by Accenture Strategy, over 50% of the acquisitions made last year were designed to obtain digital capabilities. Large European corporations are now subscribing to more M&As in order to improve or extend their digital capabilities. The field of M&As is therefore

being significantly impacted by those operations of a technological nature designed to provide a competitive advantage at a strategic level.

Such is the case of Mediaset, for example, which announced the takeover of Be a Lion (dedicated to projects involving audiovisual content) for the purpose of strengthening its presence in the advertising market, combining linear and digital ecosystems. Then there is the acquisition of Human to Human (experts in the marketing of influencers) by Atresmedia, designed to reinforce its positioning in the digital environment.

Yet this interest in digitisation does not apply solely to the sphere of large corporations. There are numerous families and medium-sized businesses that are leaders in their niche markets and now faced with the appearance of new competitors with cutting-edge technologies they have been forced into a process of digital transformation that will enable them to maintain their market positioning.

Whereas ten years ago companies could adopt a more leisurely approach to organically adapting their business model based on market trends, the current pandemic calls for more alliances that optimise business management. Businesses have sought to increase their innovation capacity in an inorganic way in order to compete within this new scenario. In other words, M&As now require a clearer view of the future.

What impact has the pandemic had on the taxation of companies in 2020, how might this "disrupted taxation" impair a company's value when accessing the international market, and how can this be avoided, if at all possible?

A key aspect to be considered for the future of the M&A market is the estimated book value of the companies involved in these operations during the 2020 tax year. In other words, if a company recorded a major loss of income during the pandemic, the use of an EBITDA multiple based on this year's accounts could significantly undervalue it. It would therefore be more appropriate to use an adjusted EBITDA, or financial statements for periods prior to the crisis, to accurately value the target business. This renders it essential to consider a normalised EBITDA.

The valuator, therefore, faces two major challenges in these turbulent times. Firstly, how to estimate the expected cash flows over the past year, in which the figures may have been distorted by the pandemic. Secondly, what should the conversion rate be for the cash flows expected at the present time, as an issue with a considerable impact on the value of the business to be acquired.

Instead of an acquisition, a way of guaranteeing a company's viability may be to restructure it, which may not necessarily involve layoffs or redundancies. A company may adapt through other means (early retirements, reassigning employees to increase process performance, remove obsolete job positions, etc.). The aim will be to make the company stronger and more resilient.

Over this past year we have witnessed major M&A operations that have therefore involved the coordinated work of one or several legal firms in different jurisdictions. There are currently several markets that are undertaking changes to their foreign policy. What in your view, therefore, will be the global repercussions of tariff negotiations? Will they further slow a market that now more than ever needs to be dynamic and flexible?

M&A operations will remain steadfast at a global level. Nevertheless, two of the main markets are changing their foreign policy. Specifically, the US is threatening to impose tariffs on European goods, and it has already done so with countries such as China. Indeed, the current trade tensions with China and the levying of higher tariffs have meant that those operations in the country involving US corporations are facing ever-greater obstacles.

Protectionism was on the US agenda even before Donald Trump became president, and it will

continue following Biden's arrival in office. The negotiations with the new US president are focusing on the suspension of the tariffs that affect the exports of Spanish products such as olive oil, wine, and table olives. At the same time, a request has been made for the repeal of the Helms-Burton Act, which harms Spanish trade and investment in Cuba, especially in matters of tourism.

In short, we are referring to the following four priorities that will be the focus of the new trade relations between Europe and the US: improving bilateral cooperation, resolving trade disputes, overseeing the reform of the multilateral trade system, and systemising responses to avoid commercial distortions.

The post-COVID 19 world has been battered in many ways, yet it has also led to, or rather forced, other kinds of possibilities such as the internationalisation of companies that had no short-term plans to do so. It seems reasonable to expect that the M&A market will also end up "benefitting" from this thirst for "internationalisation". What is your opinion?

Internationalisation proved to be a life-saver for companies affected by the 2008 crisis. Nevertheless, at that time, they did not have to deal with the restrictions on mobility that we are now experiencing. These restrictions are having a severe impact on the detection of commercial opportunities, the negotiation of new contracts, the undertaking and monitoring of new projects, and the submission of new proposals or tenders on products and services.

Needless to say, once the health crisis has been overcome, the way in which we live, work and consume will never be the same again. The economy's recovery will not be the same across all sectors and will drive cooperation between industries from different sectors seeking to come out of recession. This convergence will also have repercussions for the world of transactions, providing an opportunity for achieving a competitive advantage.

Along these lines, and according to the 2020 report on the outlook for M&As drafted by the KPMG financial services firm, over the past year 54% of Spain's top management have already considered using corporate operations as tools for expanding their businesses abroad.

Therefore, despite the initial caution shown last year, M&A operations will continue their activity with greater strength in 2021. As we wait to see what the future holds given the current crisis, everything suggests that the M&A market's main factors will be large private investment funds and certain strategic moves carried out by Spanish companies beyond our frontiers.

From your perspective, are legal firms in Spain and Portugal ready to deal with the workload and complexity of transactions that are in the pipeline?

We do indeed expect a significant increase in these types of operations within the ambit of Spain's medium-sized businesses as a result of the new needs for financing that have emerged in numerous sectors due to the stoppage in business in 2020 caused by the pandemic.

On this occasion, Spain's medium-sized businesses are not going to resort solely to bank loans as their only resource. There are other financing options, such as investment funds and venture capital firms. As a legal firm that can cater for such requirements, we need to have a strong capacity for understanding companies' requirements and their possible solutions. Our aim will be to propose and provide legal advice on the best possible investment structure for both parties, thereby responding to the corporate and fiscal issues these kinds of operations entail.

At Confianz, we are in a very strong position to understand the economic and financial needs of Spain's medium-sized businesses, based on our expertise accumulated over a trajectory that dates back 26 years in very close contact with these kinds of companies.

By Desiré Vidal

To read the interview in full please download issue [N.102](#) here.

