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TRANSLINK
CORPORATE FINANCE

MEGATRENDS
REPORT

INTRODUCTION

As a trusted global leader in the mid-market with five decades of successful cross-border dealmaking, Translink Corporate Finance is well positioned to forecast key megatrends impacting dealmaking in 2024 and beyond.

We leaned on our preeminent experts to identify six top trends we see shaping the M&A landscape next year and beyond. The most significant of which is almost universally agreed on: the middle-market will be the engine room of M&A activity.

Amid a sluggish M&A market and tough macroeconomic conditions in 2023, the middle-market has continued to display stable dealmaking, with myriad opportunities arising across sectors.

With generational succession challenges prompting more entrepreneurs to sell, a proliferation of targets is expected to come onto the market. Add to this the consolidation and divestiture cycle and a robust middle-market deal pipeline emerges. This bodes well for dealmaking, which will be further buoyed as global interest rates and inflation stabilise and markets rebound.

Our featured experts have 161 collective years of M&A experience, coupled with deep industry experience. They are eminently qualified to share their insights on the six seismic trends expected to shape M&A over the coming year and beyond.

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METHODOLOGY

We leaned on our experts around the world to share their opinions on what megatrends will shape the M&A landscape in 2024 and beyond. This gave us a wealth of diverse opinions from experts across different jurisdictions and sectors.

Their opinions are backed by our in-house research desk and the industry conversations they are seeing worldwide.

Combined, our contributing partners have
161 YEARS
OF EXPERIENCE



Andreas Hüchting,
Partner at Translink Corporate Finance Germany:
20 years' experience



Kevin Davies,
Partner at Translink Corporate Finance UK:
15 years' experience



Marc Irisson,
Partner at Translink Corporate Finance France:
15 years' experience



Tanguy du Chesnay,
Partner at Translink Corporate Finance France:
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Fredrik Ullberg,
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7 years' experience



Ruben Moring,
Partner at Translink Corporate Finance Finland:
6 years' experience



Lina Ismail,
Partner at Translink Corporate Finance Belgium:
31 years' experience



Oscar Llaudet,
Managing Partner at Translink Corporate Finance Spain:
22 years' experience



John Blake,
Partner at Translink Corporate Finance South Africa:
22 years' experience

FOREWORD

We are anticipating a stronger year of dealmaking in 2024 as inflation and interest rates stabilise and the global market rebounds.

There is consistent consensus that most M&A activity will take place in the middle-market for a multitude of reasons we explore in this report.

As a global leader with 50 years of operational experience in middle-market M&A, it is our privilege to lean on our deep sector experience and local market insights to share our expectations for the year ahead.

We anticipate six megatrends will shape the M&A landscape.

1/ The **Middle-Market** Megatrend:

The stability and promise of middle-market companies makes them attractive targets for professional acquirers seeking a 'string of pearls' through a buy-and-build strategy. Presently, generational succession challenges in this market segment are catalysing a wealth of targets across sectors and jurisdictions, creating a promising pipeline for 2024.

2 / The **Cross-Border** Megatrend:

Post the pandemic, companies are more conscious than ever of the need to leverage their risk through strong diversification strategies such as expanding across multiple global jurisdictions. We are likely to see cross-border ambitions driving dealmaking as companies look to mitigate risk, integrate technology proficiencies and capitalise on economies of scale.

3 / The **Tech** Megatrend:

The integration of AI as a co-pilot to streamline operational efficiencies and enhance productivity is shaping business strategies and dealmaking, as companies consider what crucial gaps they need to fill, now and for the future. In a tough environment, tech unicorns that failed to live up to their profitability promise are stepping aside to make way for new players that can prove they will perform.

4 / The **Sustainability** Megatrend:

ESG will be a strategic and moral imperative, significantly influencing purpose-led business strategies. It will shape M&A in formative ways as targets with strong ESG credentials gain an edge in attractiveness and valuation.

5 / The **Industry Hybridisation** Megatrend:

Driven primarily by the desire for data and technology integration, the lines between industries are blurring and we anticipate increasing cross-over in 2024. Tesla is a prime example, arguably having become a data company positioned as a leader in electric vehicles.

6 / The **Equity** Megatrend:

The escalating cost of debt has prompted an increased reliance on equity; a shift that has had a transformative impact on deal structures and valuations. Our expectation is that the cost of debt may have peaked and will be more affordable in 2024 – but is unlikely to ever return to the levels we saw just a year ago.



“ **We see these six megatrends shaping the M&A industry in material ways in 2024.** With our team of global experts, Translink is perfectly positioned to assist our clients to navigate a complex landscape to get the deal done. Our five-decade-long history of dealmaking has proven our ability to steward deals across myriad sectors and markets, in times of prosperity and downturns. We are committed to achieving the best possible outcomes for our clients through our deep sector knowledge, covering over 35 countries on six continents, which empowers us to specialise in cross-border opportunities. ”

- **Tero Nummenpää**, Chairman at Translink International and Partner at Translink Corporate Finance Finland

A deep dive into

M&A MEGATRENDS ANALYSIS



MEGATREND
01

THE MIDDLE-MARKET MEGATREND: THE BIG DRIVER OF 2024 DEALMAKING

WITH INSIGHTS FROM

Andreas Hüchting, Partner, Translink Corporate Finance Germany and
Kevin Davies, Partner at Translink Corporate Finance UK



ANDREAS HÜCHTING

Translink Corporate Finance Germany



KEVIN DAVIES

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United Kingdom

“Translink has advised on a number of cross-border deals that demonstrate these opportunities. For example the acquisition of Corrugated Case by Japanese-listed Rengo.”

MEGATREND 01

The Middle-Market Megatrend: The Big Driver Of 2024 Dealmaking

The middle-market - for Translink this encompasses companies valued from EUR20 to EUR200 million - is grappling with a pressing issue: succession. Successful entrepreneurs are already starting to think about handing over their businesses in their 50s, when their children are likely to be in their 20s, which creates a gap where it may be too early for family succession. Additionally, a rising trend among young adults to bypass entrepreneurship further complicates generational succession. This global phenomenon poses significant implications for M&A strategies. Especially as the middle-market is set to be a key driver for dealmaking in 2024.

Why the middle-market is set to be the ‘engine’ of 2024 dealmaking activity

Many middle-market companies are attractive targets having reached critical mass and turnover, often with an established client-base, supply chain, brand, internal systems, and board and leadership teams. However, they can be at a point where they need both a ‘step change’ strategically and a solution to succession, which a larger player can provide. This environment presents a prime opportunity for such acquirers to gain access to growth opportunities (perhaps new technologies, markets or products) with the platform of a well-established, middle-market business.

Drivers for middle-market deal activity, from an acquirer’s perspective:

Stability and growth potential: Mid-market companies tend to be stable but agile, without the risks often associated with a start-up or small-cap. As such, these companies represent a stable segment of the overall company structure in a country. Instead of closing one mega-deal, acquirers can leverage their risk by acquiring several of these firms, possibly located across multiple jurisdictions and all fully adapted to the regional markets they serve. This enables the acquirer to create a more diverse offering worldwide. While there may be more integration work to be done with multiple acquisitions, this strategy can reduce the risks that come with a single mega-deal.

This is essentially the ‘buy and build’ strategy many private equity investors employ, typically over a six-to-eight-year period. They acquire smaller companies at lower multiples, combining them to create immediate value through increased critical mass. Corporate acquirers are increasingly following this path, and statistics suggest that acquiring a ‘string of pearls’ is often a more stable, and ultimately successful strategy, than transformational change through a single, large transaction.

Keeping up with the competition: Middle-market companies demonstrate agility in strategic investments, swiftly enhancing infrastructure and talent to ensure competitiveness against larger counterparts. In the UK ride-hailing sector, for example, Translink has advised on a number of deals where consolidators like Veezu elevate tech capabilities by acquiring regional players.

Valuations are coming down: The succession challenges, coupled with recent macroeconomic uncertainties, have increased entrepreneurs' willingness to divest what is often their single largest family investment, creating favourable conditions for acquisition activities. Now is an opportune moment for strategic investors with equity or cash reserves to explore a wider array of middle-market targets, allowing them to select the most strategically suitable options.

Niche expertise: Larger companies seeking new growth avenues may acquire smaller companies to access their specialist capabilities and the niche markets they serve. Central to this integration is the need for acquirers to handle both the transaction process and post-deal integration strategy delicately and with careful planning, ensuring that the commercial rationale and financial synergies of the acquisition are delivered while retaining and developing the target company's core capabilities and DNA.

The private equity (PE) battlefield: Generational shifts fuel the rising appeal of 'buy and build' strategies, intensifying competition among private equity firms. Initial consolidation sparks interest, creating room for multiple players in various European niches. For instance, in Germany, a large number of PE-backed groups are investing in technology infrastructure, indicating a growing trend of consolidation sponsored by private equity.

Digital transformation: In the middle-market, firms fall into two categories: digitally transformed and those yet to adapt. The former are premium but costly targets, while the latter offer strong prospects for experienced acquirers. Evaluating the digital transformation cost, or 'tech debt,' early in the acquisition process is crucial. For instance, if a company needs EUR1 million for machinery updates, this expense needs to be factored into the purchase price.

Industries poised for success in the middle-market in 2024

- **Healthcare technology** Dealmaking remains appealing yet costly due to high demand in this sector. Collaborating with an advisor for proactive, personalised discussions with potential sellers is invaluable. This approach increases the likelihood of engaging with targets not yet in the sales process, offering the opportunity for exclusive negotiations and the potential to secure a more affordable deal.
- **Ecommerce and logistics** Post the pandemic, the ecommerce hype has died down, prompting challenges in the sector. Additionally, the logistics sector has been impacted heavily by global supply chain disruptions. This could create opportunities for savvy acquirers to invest in more affordable targets that may be dealing with commercial, strategic, and generational issues. The dynamics of deals will hinge on the seller's stress levels and the acquirer's robustness.
- **Renewable energy and sustainability** Strong demand means high valuations for this broad sector. The European-wide strategy of energy transition away from fossil fuels and towards more sustainable energy sources is driving significant dealmaking activity in the renewables sector. The push towards "net zero" targets will only intensify this activity through 2024 and beyond. Translink has recently advised on a number of deals in this space, one of which was the acquisition of the UK's All Seasons Energy, a heat pump installer, by Swedish clean energy-tech company Aire. We are likely to see many more of these deals in 2024.

- **Technology services** Consolidation is widespread, leading to the proliferation of small to medium-sized companies across Germany and Europe. This trend presents strategic acquirers with favourable opportunities for expansion.
- **Packaging and labelling** The surge in the home delivery market during COVID-19, coupled with the influence of the 'Amazon effect' of next-day delivery, and the technologies supporting this, continues to drive the demand for companies servicing this trend. Translink has advised on a number of cross-border deals that demonstrate these opportunities, for example the acquisition of Corrugated Case by Japanese-listed Rengo.



Importantly, investors should consider working with a **skilled advisor, with experience in the middle-market segment**, to support them in developing a clearly defined acquisition strategy, with a strong vision and goals at the outset.

What we are most likely to see in 2024

1 Generational change:

The acceleration of generational change is anticipated to shift the disposition of family businesses as the younger generation shows a growing openness to divest familial enterprises and consider strategic transactions. These present significant opportunities for a growing cohort of affluent buyers, encompassing both corporate entities and high-net-worth individuals, who may elevate deal sizes and reshape valuation models in the coming year.

2 Consolidation:

The macroeconomic shocks of the pandemic and the war in Ukraine have disrupted supply chains, brought inflationary and cost pressures, and reshaped consumer spending patterns, all of which have magnified the opportunities for consolidation in the middle-market in 2024. Taking sectors such as renewables as an example, fragmentation exists in R&D, manufacturing, installation, repairs, and service for domestic green energy provision, providing opportunities for larger players aiming to consolidate amid the global push for net zero.

The key takeout for CEOs

- > The middle-market will continue to be the engine room of the M&A economy as succession challenges and macroeconomic conditions convince entrepreneurs to sell, creating an environment for a robust pipeline of potential targets.
- > If acquisitive growth forms part of an overall strategic plan, now might just be the time to start to identify the ideal investment opportunities and buy-and-build a 'string of pearls'.



THE CROSS-BORDER MEGATREND: M&A'S NEW FRONTIER

WITH INSIGHTS FROM

Oscar Llaudet, Managing Partner at Translink Corporate Finance Spain



OSCAR LLAUDET
Translink Corporate Finance Spain

MEGATREND 02

The Cross-Border Megatrend: M&A's New Frontier

Cross-border deals are likely to be the first to 'recover' once inflation stabilises and the M&A market rebounds. In an increasingly uncertain world, these deals offer diversification—mitigating risks, bolstering resilience and broadening opportunities.

Forecasts answering key questions about the trend

1 Why will cross-border deals recover first?

In a year where several factors – from geopolitical instability and unrest to rising inflation and interest rates – have stalled dealmaking, cross-border deals have decreased less than domestic ones. In fact, the perfect storm of factors has generated more interest in these kinds of deals as players seek to grow and amplify their tech capabilities, diversify and capitalise on economies of scale. This means cross-border dealmaking will likely be the first to recover when inflation improves, and the M&A market rebounds.

2 What will drive the dealmaking?

COVID-19 had a significant impact on cross-border dealmaking. Firstly, it convinced owners to consider selling in the small-to-medium market. This created an opportunity for larger companies to acquire targets that previously weren't for sale.

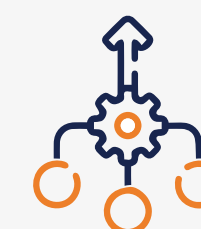
The pandemic served as a catalyst for many companies, urging them to explore cross-border strategies to establish diversified market presences. The

disparate responses of nations to COVID-19 highlighted the importance of such diversification. In the face of potential future extraordinary and unexpected situations, a diversified presence enhances resilience and strengthens one's position. Effective risk mitigation is the cornerstone of this approach. Each nation possesses its unique set of forces and challenges, and geopolitical diversification emerges as a strategic imperative, offering a robust means to surmount these obstacles.

In addition, deals will be done to:



Enable tech and data integration: Collaborating with international counterparts facilitates the exchange of technological know-how, innovation, and best practices, allowing companies to stay competitive in a rapidly evolving landscape.



Capitalise on economies of scope: By enhancing client and supplier portfolios, companies can increase revenues and incomes, and reduce costs.

3 Which markets will be the ones to watch?

Will India outpace China as the global manufacturing hub? India, while still vital, faces stiff competition. With its skilled workforce and emphasis on technology,

“Activity will likely ramp up across all sectors, from technology and healthcare to renewables and consumer goods. In the mid-market, we expect to see strong activity in the industrials sector.”

telecommunications, and services, India enjoys a competitive advantage. Despite challenges hindering smooth mergers and acquisitions, it wields considerable influence in these sectors. We are likely to see the country's inbound and outbound acquisitions increase exponentially as regulatory conditions improve.

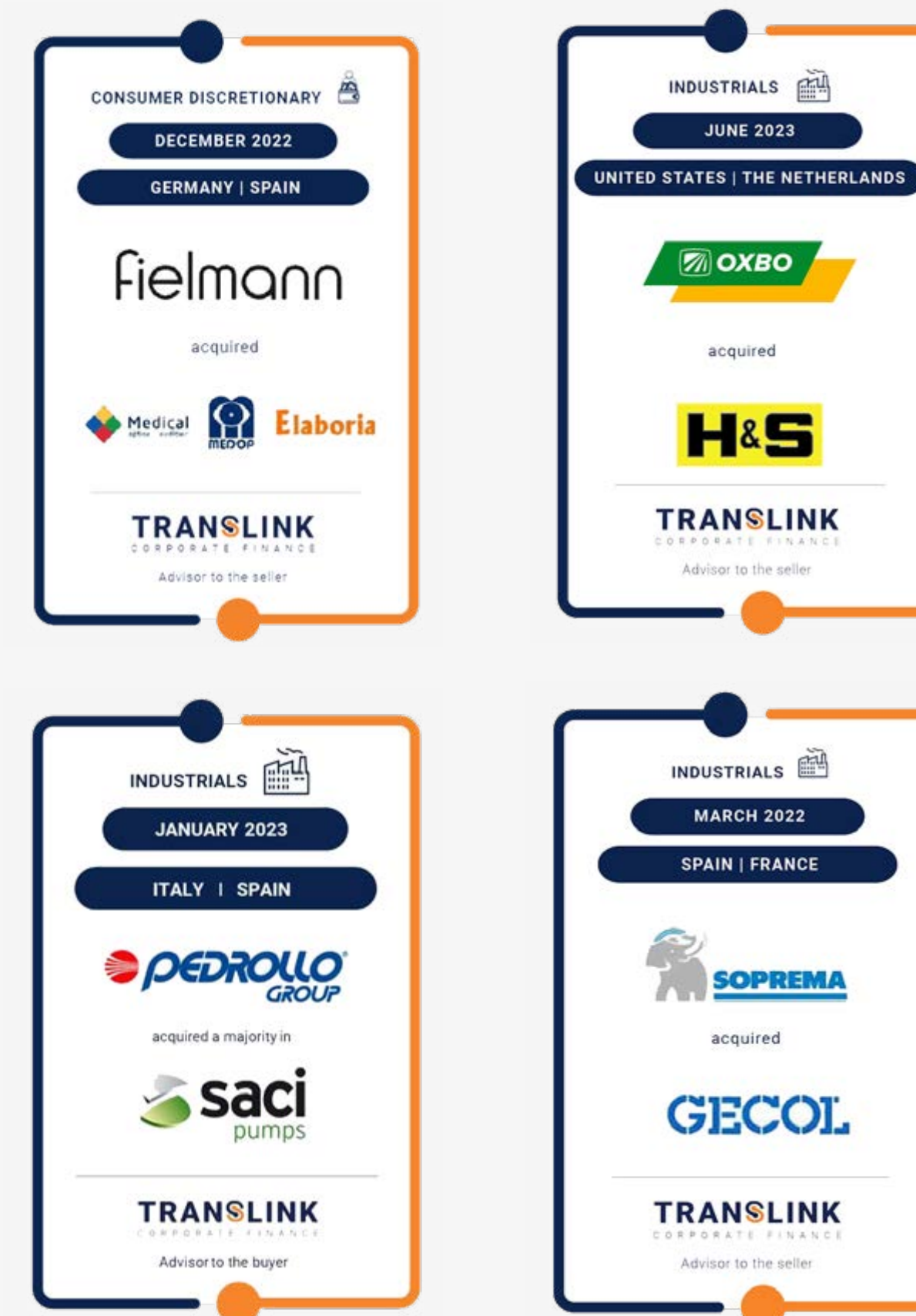
Morocco also stands out as a noteworthy contender to watch, given the country's state of industrialisation, safety standards, and overall development. These regions are poised for growth, positioning themselves as pivotal industrial hubs in the foreseeable future.

4 Which geopolitical 'alliances' are we likely to see?

Translink is likely to continue to do most of its cross-border dealmaking in Europe. Globally, a surge in deals between the EU and the US is anticipated. Furthermore, the EU and UK are likely to engage in increased dealmaking, driven by Brexit, prompting UK companies to establish a presence in European countries. Additionally, a rise in deals is expected between:

- **Latin America and North America:** Proximity and shared trade interests are likely to foster increased M&A activity between North American and Latin American companies, especially in the agriculture, mining, telecommunications, and energy sectors, among others.
- **Asia-Pacific:** Cross-border M&A activity within the Asia-Pacific region is expected to intensify, with China and India serving as focal points for investment across industries, potentially including e-commerce, healthcare, and manufacturing.
- **China-Africa:** China has been taking relevant positions in African companies mainly related to natural resources and they will continue to do so.

Four of Translink's largest deals of the last 12 months indicate these trends:



5 What cross-border considerations should CEOs be cognisant of?

We are seeing some strategic government protection of specific sectors such as energy, pharma, and telecoms. For example, the Spanish government limited Saudi Arabia’s stake in the nation’s biggest telecommunication company to 10%. Natural and mineral resources are another area of strategic protection worldwide. Smaller, developing nations tend to have less control, which bigger countries may capitalise on.

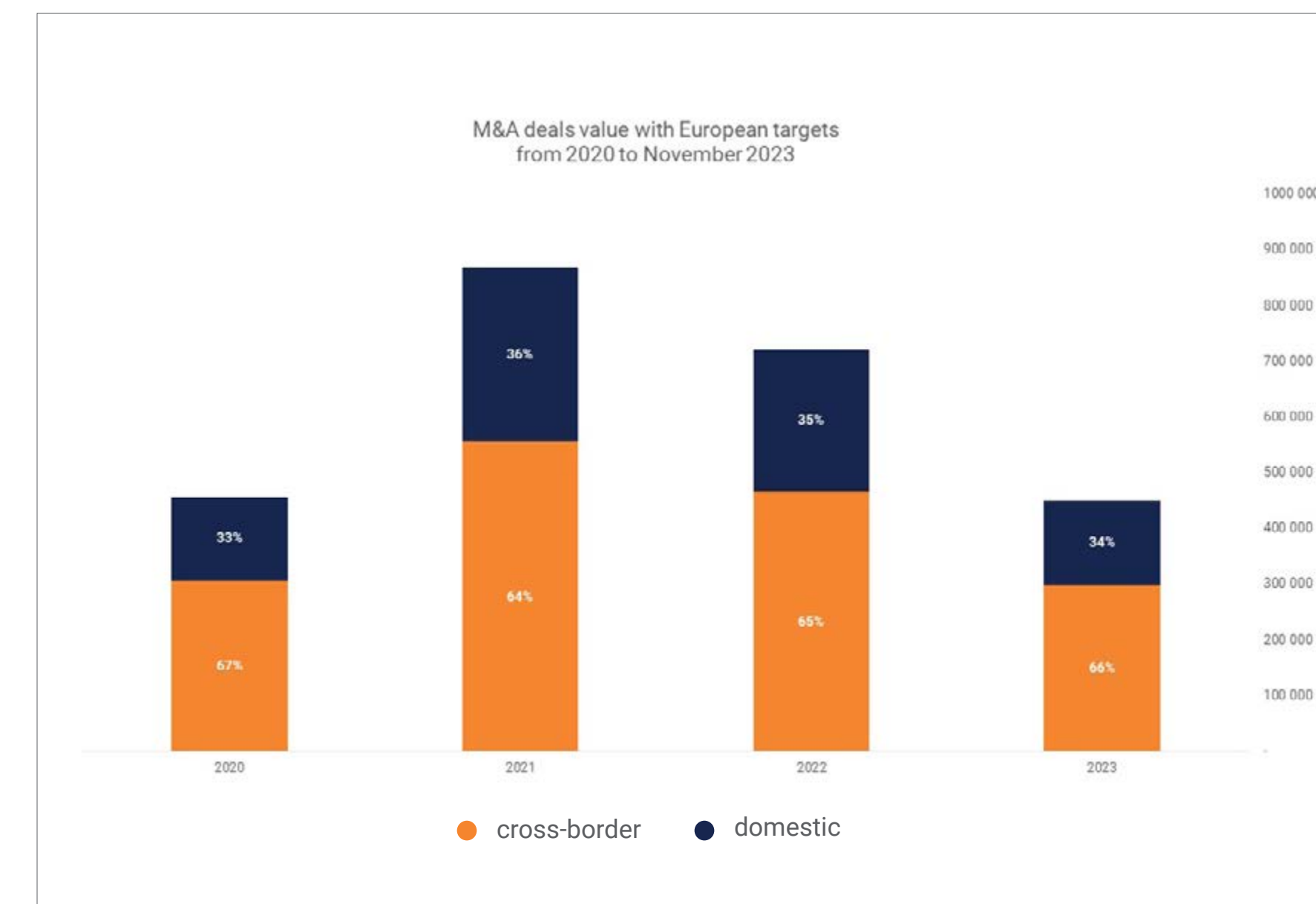
6 Which sectors will see the most cross-border deals?

Activity will likely ramp up across all sectors, from technology and healthcare to renewables and consumer goods. In the mid-market, we expect to see strong activity in the industrials sector.

For Translink, the majority of its cross-border deals have been finalised within the industrial sector, characterised by a diverse array of companies with varying sizes and activities. There is a notable uptick in demand for specialised small companies offering niche services, catering to the requirements of larger industry players.

Next steps for CEOs

➤ As the global chessboard evolves, CEOs that embrace cross-border opportunities stand to gain a competitive edge in the ever-expanding global marketplace.



According to Mergermarket, cross-border transactions in Europe contributed more to the total number of transactions and the total valuation between 2020 and 2023. In Germany, the UK and Spain, the share of cross-border transactions increased slightly in the last couple of years.



MEGATREND
03

THE TECH MEGATREND: RISE OF THE REINVENTED UNICORNS

WITH INSIGHTS FROM

Marc Irisson, Partner at Translink Corporate Finance France and
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MARC IRISSON

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MEGATREND 03

The Tech Megatrend: Rise of the Reinvented Unicorns

In the upcoming year, corporates are poised to intensify their focus on artificial intelligence (AI) and technological integration, deeming them indispensable for achieving success. The question remains: is the AI hype justified, or is it overstated? Within this dynamic landscape, tech unicorns that have fallen short of their profitability commitments may step aside, creating opportunities for emerging players. One thing is for certain: tech is driving dealmaking as sectors adapt and hybridise to get the requisite solutions to transform.

What we are most likely to see in 2024

1 **AI and technology will continue to reshape corporate strategies and M&A:**

Steady investment: During the early stage of the pandemic, despite layoffs and macroeconomic uncertainty, corporations continued to make substantial investments in IT. This trend persisted throughout the pandemic and remains unchanged during the current downturn.



According to Gartner, Inc.'s latest forecast, worldwide IT spending is anticipated to reach **\$4.7 trillion** in 2023, representing a **4.3% increase from 2022**.

“The next wave of AI-powered applications will significantly reshape the nature of work, liberating employees from mundane and repetitive tasks and empowering them to focus on more impactful and profound endeavours.”

AI will stay the co-pilot (for now): In a competitive talent landscape, some companies are turning to tech and AI to enhance efficiency and achieve growth with a leaner workforce. In an extreme example, the France-based office of Onclusive, an international media monitoring group, recently announced its decision to replace 217 of its employees with AI by June 2024.

These ‘strong moves’ tend to hide the truth that AI currently performs more of a supplementary role, much like a co-pilot. For example, it can help improve the quality and efficiency of a developer’s code, but it won’t replace the developer (yet). In the M&A universe, AI also plays an ‘assistant role’ in simplifying systems, synthesising information, and automating mundane tasks. For example, AI apps can give initial thoughts on market trends, scan the competitive landscape and spot potential opportunities. However, AI’s advancement will not overshadow the irreplaceable qualities of advisors, such as their emotional intelligence, in-depth expertise, and big-picture understanding. Instead, AI will serve as a valuable co-pilot, augmenting advisors’ capabilities by accelerating time-to-market and mitigating human errors.

The commercialisation of AI technology: This trend is set to accelerate significantly. For example, software developers are shifting from code generation to supervisory roles as AI co-pilots become increasingly autonomous. This transformation not only enables some companies to operate with fewer human resources but also accelerates product development and scalability. Many companies are investigating AI internally, but few have developed any proprietary AI technology, mostly due to the exorbitant investment required. Those that have are the companies that investors and strategic buyers are particularly drawn to.

The influence on M&A: The influence of technology and AI is poised to have a profound impact on the M&A agenda of most companies affected by these innovations — virtually every company in today's landscape. While companies will still acquire other companies to obtain specific assets, talent pools, client-bases, get a foothold in new geographical markets or expand their offerings, the technology component will play an increasingly vital role in dealmaking as digital integration into products and services continues to expand.

2 The talent challenge for CEOs:

Employees unable to 'tame' the potential of AI risk being left behind. To remain competitive in the job market, individuals must elevate their skills and master the art of leveraging AI to enhance their professional value. This presents a formidable challenge for CEOs. The right talent will be indispensable in the near term. Building a robust talent pipeline becomes paramount. In the past, companies took a reactive approach to filling positions as the need arose. Leading-edge corporations have already transitioned from this reactive stance to an active, long-term perspective on human capital management and recruitment. They make forward-looking predictions, set goals, and develop roadmaps for talent acquisition and development, including upskilling and reskilling. This approach is expected to extend progressively to smaller and mid-sized organisations.

3 The rise of the reinvented unicorns:

In the late 2010s and early 2020s, a plethora of tech companies achieved unicorn status, benefiting from a flood of easily accessible cheap capital. The global adoption of cloud solutions, expedited by the pandemic, led to substantial revenue growth. In conjunction with a low-interest rate environment, this facilitated fundraising and IPOs for growth-focused firms, propelling valuations to unprecedented levels. While it was an exhilarating period, the distinction between successful and unsuccessful companies became evident as the music stopped.

The tide shifted with escalating inflation and interest rates, demanding that start-ups exhibit viable, profit-generating models to secure support. As underperforming tech unicorns step back, opportunities emerge for new players boasting targeted models and mission-critical, value-generating applications, reshaping the industry landscape. Their products or services should also be resilient to obsolescence by emerging technologies. Examples are exemplary companies like Deel and ChatGPT, which are generating substantial value for professional users and rapidly expanding their user base and revenue.

Catching a unicorn

Companies must identify potential winners early to secure access to these firms.



ChatGPT

OpenAI's ChatGPT **reached 100 million monthly active users within two months of its launch**, while

Deel **achieved \$100 million in Annual Recurring Revenue** in under two years.

deel.

Such stories are becoming increasingly common. Not every company is in search of the next ChatGPT or Deel to acquire, but players should place greater emphasis on mapping emerging tech companies within their industry or vertical and closely monitoring them. Change can transpire swiftly, and it is prudent to seize opportunities early when they present themselves.

4 The sectors that will see significant disruption in 2024:

The manufacturing industry is poised for ongoing disruption. While many major global players have already transitioned to cutting-edge production facilities and automation, numerous small and mid-sized participants within various production value chains have yet to follow suit. An acceleration in the adoption of accessible technologies, such as low-code platforms and specialised software solutions, is expected to bridge the gap between smaller niche producers and the larger industrial-scale players.

The construction industry is also on the verge of a significant transformation in the years to come, with integrated Building Information Modeling (BIM) and model-based practices serving as driving factors. Western European nations are steadily moving toward more stringent BIM mandates, largely due to legislative requirements. Another substantial leap in technology adoption within the Architecture, Engineering, and Construction (AEC) sector will be driven by upcoming regulations concerning environmental footprint disclosure, mandated by the European Union. As part of the global energy transition to combat climate change, the focus on critical raw materials and rechargeable batteries is at the forefront of the EU's agenda. Environmental footprint disclosure depends on technology for measurement and calculation, and we anticipate substantial growth within the technology ecosystem of the AEC industry.

5 AI to speed up due diligence:

AI is primarily a productivity tool that can provide an initial analysis of data; it can (almost) draft reports, but it cannot be part of the negotiation phase that follows. It can certainly help accelerate the process by crawling documents, indexing, and finding red flags. But ultimately, a human must take responsibility for the accuracy of the report. Relying solely on AI, driven by uniform algorithms and data, yields standardised outputs. The essence of the human touch and the subtleties in discussions are compromised without human involvement.

6 AI to accelerate dealmaking:

Several companies and private equity firms are using AI to find and screen prospective opportunities by testing metrics against their proprietary data from previous deals. This widens the scope of targets as AI spots opportunities that usually wouldn't be considered. However, no company is relying on AI 100%. AI can assist with sourcing, screening, drafting documents and due diligence. However, the final decision-making authority still rests with a human, emphasising the irreplaceable significance of human relationships, judgment, and expertise.

Next steps for CEOs

Looking to strike the right balance between short-term technology fixes and long-term strategic planning:

To succeed in harnessing novel technologies like generative AI, companies must possess a deep understanding of the technology. They need the right resources and competencies to assess and leverage emerging opportunities. This entails knowing when to develop tailored solutions, purchase existing ones, or seek them through M&A. It necessitates long-term vision and planning, as well as a genuine comprehension of the technology to evaluate which processes AI will enrich and when AI is a waste of time and resources.

The challenge at hand is twofold and could benefit from a dual approach.

The short-term:

- > Short-term technological solutions may primarily address intra-organisational facets, aimed at optimising, expediting, and reinforcing internal business processes and decision-making. This encompasses implementing data-driven decision-making, involving the creation of infrastructure for gleaning insights from both within and outside the organisation.
- > It also means optimising operational efficiencies through advanced solutions for tasks like demand forecasting, process optimisation, and supply chain enhancement. Simultaneously, these solutions offer decision-makers an enhanced vantage point over operations.
- > The next wave of AI-powered applications will significantly reshape the nature of work, liberating employees from mundane and repetitive tasks and empowering them to focus on more impactful and profound endeavours.

The long-term:

- > The more complex inquiries revolve around long-term strategic planning. Every CEO must introspect: how will our relevance endure in a decade, two decades, or half a century? It is already apparent that certain roles will become obsolete.
- > Navigating the transition for companies entrenched in fading industries necessitates a holistic transformation, a shift of focus toward emerging sectors, and the acquisition of requisite competencies to maintain competitiveness.
- > This transformation is not an overnight mission; it demands astute leadership, well defined objectives, and a comprehensive understanding of the key trends and technologies that shape the future.

Those who disregard the shifting landscape risk falling behind, especially given the pace at which change currently unfolds.



MEGATREND
04

THE SUSTAINABILITY MEGATREND: THE ESG IMPERATIVE

WITH INSIGHTS FROM

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“CEOs should anticipate heightened scrutiny from investors, employees, and customers regarding their ESG commitments. To secure investor confidence and maintain market relevance, companies will need to align their M&A strategies with ESG goals.”

MEGATREND 04

The Sustainability Megatrend: The ESG Imperative

In 2024, the influence of environmental, social and governance (ESG) factors is poised to shape the M&A landscape considerably. ESG will increasingly play a pivotal role in determining the attractiveness and value of targets, especially as regulations such as European CSRD (Corporate Sustainability Reporting Directive) ramp up and the global ‘carbon credit currency’ gains momentum.

A strong sustainability agenda is no longer a nice-to-have; it is a sector-wide strategic imperative.

What we are most likely to see in 2024

1 Funds will flow from greener pastures:

2023 in France saw some private equity firms reallocating funds from a variety of sectors, including technology, towards energy and the environment. Chasing better returns and promising trends has meant moving capital towards ESG-rated businesses in innovative emerging segments such as ClimateTech. This capital reallocation is likely to continue next year.

2 Eyes will be on the greener prize:

ESG will continue to impact target companies’ valuation and attractiveness. In M&A, the right fit is crucial for the buyer. ESG considerations are examined in stage two of the deal. Integral to this evaluation is whether the target conforms to established regulations and possesses a sustainable ‘carbon balance.’

This scrutiny extends to the target’s strategic initiatives, including plans for transitioning to best-in-class sustainability practices. If a company needs to make strategic shifts

to meet ESG best practices, the requisite investment may be seen as an ‘ESG debt’ that will be incorporated into the price of the target. For example, transitioning a vehicle fleet to be electric.

In the realm of M&A transactions, companies that establish industry benchmarks attract valuation premiums, as a recent transaction Translink CF advised on has shown. For instance, a company boasting a workforce composed of 1/3rd disabled individuals stands out due to its rarity, enabling it to command a strategic premium from potential buyers. In this landscape, ESG becomes a central factor to the deal, particularly for companies aiming to enhance their ESG standing through acquisitions.

Firms falling behind risk losing out to targets with superior ESG positioning. Hence, it is imperative to meticulously evaluate one’s ESG standing against established benchmarks and strategically plan to outperform the market.

3 Regulation will be a key transformation driver:

Regulation is driving the sustainability megatrend as governments, citizen, consumers and business counterparts globally clamp down. A few examples include:

- **In the French construction** industry as well as those in numerous other European countries, all new buildings are measured in terms of tonnes of carbon emitted in the building phase, plus how energy-positive they are. There is now a ‘carbon balance’ threshold that one cannot exceed. This is pushing construction groups to seek less carbon-intensive solutions and innovative materials.
- **Apartments in France** will also soon be scored based on energy intensity.

Landlords that fail to meet the standard won't be permitted to continue to rent out their houses. This could contribute to a housing crisis as hundreds of homes are taken out of the rental market.

- **The carbon credit currency** is kicking off globally, creating a 'subsidised' system of energy providers, a voluntary 'trade' market. In this young but developing market, the lack of global coordination and bullet-proof methodologies is still an issue, as the degree of accuracy in the levels of these credits is now and then challenged.
- **The Corporate Sustainability Reporting Directive** in Europe directs companies to report on the impact of their activities on the environment and society. It will be a game-changing regulation for corporates across the board.



For CEOs, it is imperative to stay ahead of these regulatory shifts, as non-compliance can lead to significant legal and reputational consequences. Globally, there needs to be more accuracy in diagnosing and measuring ESG and carbon credits and overall initiatives, driven by data and science.

4 **Activism and stakeholders influence will accelerate transformative corporate decisions:**

An ongoing tension is evident between 'end of the month' and 'end of the planet' considerations. Are people really willing to pay an inflated price for a planet-friendly product?

The escalating global activism is evident as individuals demand purpose-driven initiatives from governments and corporations. 2023 has seen a record number of weather and climate disasters with losses exceeding \$1 billion to date. NASA's and IPCC's recent reports underscore the gravity of the situation, declaring 2023 as having experienced the hottest summer on record. Ignoring these realities has become untenable, and there is a growing consensus that inaction is no longer acceptable in the corporate landscape.

CEOs should anticipate heightened scrutiny from investors, employees, and customers regarding their ESG commitments. To secure investor confidence and maintain market relevance, companies will need to align their M&A strategies with ESG goals.

Next steps for CEOs

- Benchmark ESG competitor efforts in your industry
- Appoint an ESG champion and task force for ownership
- Create a strong, practical ESG framework based on global best practice, that aligns with your business purpose
- Integrate ESG targets into managers' key performance metrics



MEGATREND
05

THE INDUSTRY HYBRIDISATION MEGATREND: THE RACE FOR DATA

WITH INSIGHTS FROM

John Blake, Partner at Translink Corporate Finance South Africa



JOHN BLAKE

Translink Corporate Finance
South Africa

“The cross-sector hybridisation trend in M&A, driven by technology and data, signifies a fundamental shift in how companies view growth and innovation. As industries become increasingly intertwined through digital transformation, the barriers separating sectors are breaking down.”

MEGATREND 05

The Industry Hybridisation Megatrend: The Race for Data

Is Tesla an electric vehicle company or a data ‘company’? In the evolving landscape, industry boundaries are blurring due to cross-hybridisation, predominantly fuelled by the growing demand for data and technology. Anticipated in 2024, this trend is expected to intensify, leading to increased convergence as companies vie to possess ‘the new oil’ – data, an exceptionally valuable currency in the contemporary business paradigm.

What we are most likely to see in 2024

1 Technology as the catalyst:

Technology has been a game-changer in the M&A landscape. The digital revolution has redefined the rules of competition and introduced new dimensions to traditional industries. As a result, companies are now seeking opportunities to harness emerging technologies and innovative solutions. By acquiring targets in other sectors, they can access the expertise and capabilities they need to remain competitive and relevant.

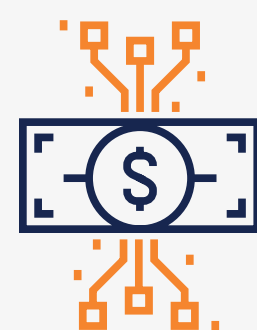
Most cross-sector hybridisation is being driven by technology and data as these become integral parts of many other established industries. Returning to the Tesla analogy – this is a data company. There is a black box in every Tesla measuring driver behaviour, which is incredibly valuable data for insurance, marketing and retail companies alike. In the realm of wearables, the traditional concept of a watch has transformed significantly. Devices like a Garmin watch function as health monitoring tools, providing real-time updates on vital health metrics to healthcare professionals.

This evolution has spurred medical insurance companies to actively seek collaborations with watch manufacturers, recognising the potential of these devices in enhancing healthcare monitoring and management. As technology and data become intertwined and integral, they offer an entirely new dimension, which makes them attractive to non-traditional buyers.

Innovation and diversification: Cross-sector acquisitions provide companies with fresh perspectives and innovative solutions. For instance, a traditional manufacturing firm may acquire a technology startup to stay ahead in the game, tapping into expertise that is not readily available within its sector. This leads to product diversification and the ability to offer customers new and exciting solutions.

Access to intellectual property: Intellectual property is often a driving force behind cross-sector hybridisation. Technology companies may seek to acquire entities in the pharmaceutical sector to access valuable patents or research, while pharmaceutical giants may acquire technology startups with cutting-edge software or data analysis tools. The transfer of intellectual property can greatly benefit both parties.

Customer experience enhancement: Technology has transformed customer expectations. E-commerce giants, for example, might acquire traditional retail brands to enhance the in-store and online shopping experience, blending digital innovation with brick-and-mortar expertise to create a unique and competitive edge.



Data as the enabler: Data has become the lifeblood of modern business, and the ability to harness and analyse data is a crucial driver of M&A activity. Cross-sector acquisitions provide companies with access to new data sources, analytical capabilities, and insights that they might not have otherwise obtained.

Data monetisation: Companies have realised the value of data monetisation. Cross-sector deals allow them to tap into new sources of data and analytics expertise, enabling them to refine their operations, improve decision-making, and create new revenue streams.

Enhanced personalisation: Data-driven insights from cross-sector acquisitions empower companies to deliver highly personalised experiences to their customers. For instance, a financial institution acquiring a healthcare data analytics firm can leverage patient information to offer tailored insurance and investment products.

Market expansion: Data analytics is key to understanding markets and customer behaviour. Companies acquiring businesses in different sectors can utilise data

to explore and expand into untapped markets, leveraging insights and strategies that might not have been possible within their original sector.

Shifting regulation: A proliferation of data about you is being harvested all the time. There remains a significant gap in understanding data ownership and usage rights, leading to intense competition among companies seeking access to this valuable information. However, on a global scale, there is a growing focus on data privacy, marked by stringent regulations. Individuals are now required to provide explicit consent to entities using their data, underlining the increasing emphasis on safeguarding data privacy. The question arises: if it's your data, shouldn't you be financially compensated for it? Changing data ownership laws will inevitably impact deals going forward.

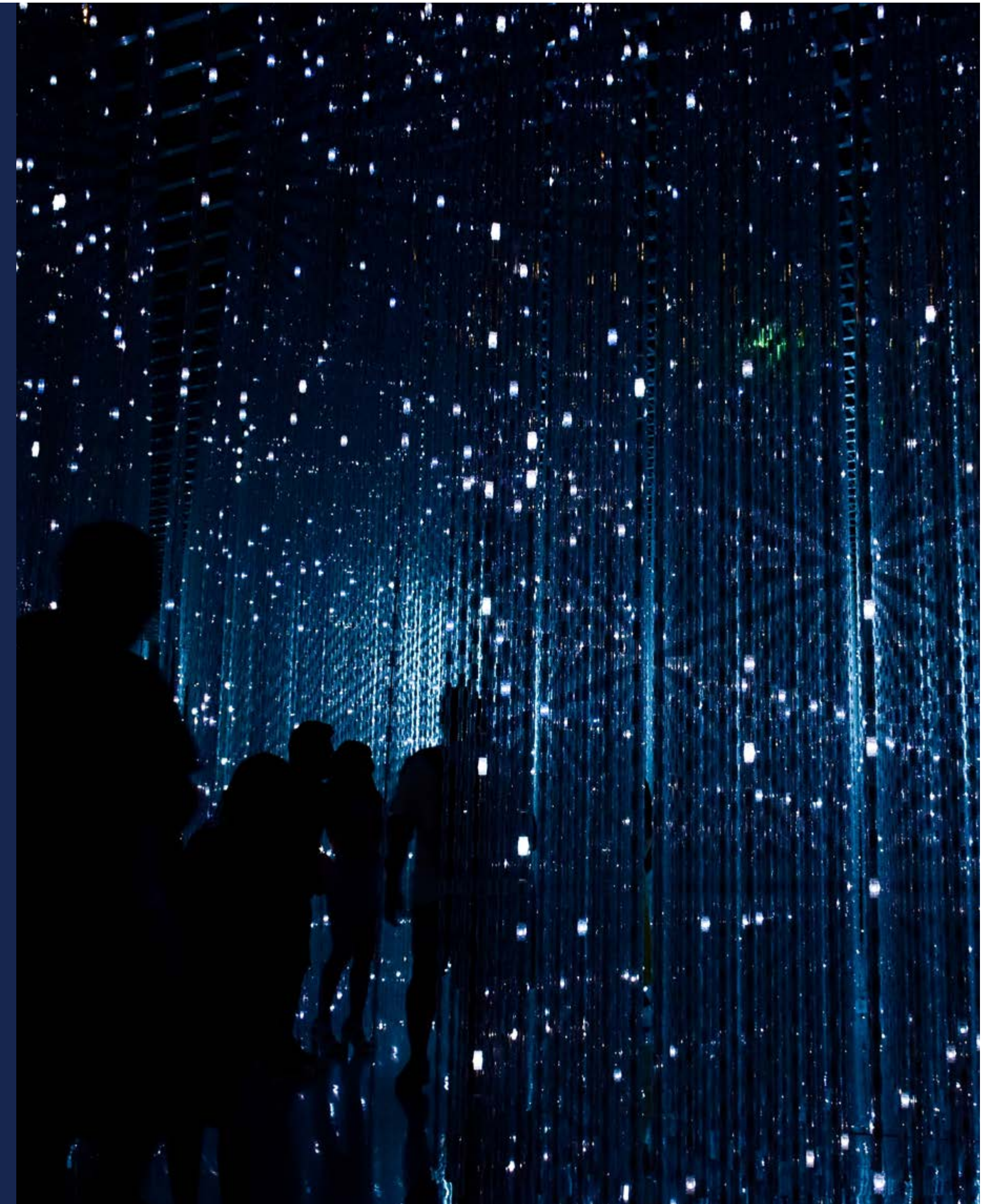
The cross-sector hybridisation trend in M&A, driven by technology and data, signifies a fundamental shift in how companies view growth and innovation. As industries become increasingly intertwined through digital transformation, the barriers separating sectors are breaking down. Companies that recognise and embrace the potential of cross-sector acquisitions are better positioned to thrive in this dynamic and interconnected business landscape. The future of M&A will undoubtedly be shaped by those who can leverage technology and data to their advantage, forging new paths and creating innovative solutions that span a multitude of industries.

Next steps for CEOs

Challenges and considerations:

While the cross-sector hybridisation trend offers promising opportunities, it is not without its challenges. Integrating vastly different businesses with diverse cultures, processes, and regulatory requirements can be complex.

- When acquiring a target outside of one's customary experience and sector, it is imperative to possess a thorough comprehension of the acquisition's nature and purpose before conducting due diligence. Clarity on what is being acquired and the underlying rationale behind the purchase is essential. This understanding lays the foundation for effective post-acquisition value capture strategies.
- An imperative is the need for a meticulously defined vision regarding the value proposition of the target company and a well-thought-out strategy for its seamless integration. Ensuring the target aligns with strategic objectives is paramount before committing significant financial resources. Subsequent due diligence serves to validate the initial intent behind the purchase, refining integration plans and meticulously auditing the value capture strategy in alignment with the target company's profile.
- Translink works with our clients to define their acquisition strategies precisely, to ensure these align with the company's corporate and growth goals. An exact understanding of these is required to identify the right targets.



MEGATREND

06

THE CASH MEGATREND: EQUITY RULES

WITH INSIGHTS FROM

Fredrik Ullberg, Partner, Translink Corporate Finance Sweden



FREDRIK ULLBERG

Translink Corporate Finance Sweden

“In this complex and volatile environment, cross-border transactions assume a pivotal role in providing a key strategic advantage. Translink, with its extensive global footprint of country offices equipped with deep local knowledge, proves invaluable to find buyers and sellers across different jurisdictions.”

MEGATREND 06

The Cash Megatrend: Equity Rules

In the ever-evolving landscape of M&A, a significant trend is emerging — one driven by the escalating cost of debt. Companies are increasingly looking to bolster their equity positions as a strategic response to the burden of high debt costs. This shift signifies a potential transformation in deal structures and valuations, as businesses seek to minimise their reliance on debt financing and its associated risks.

Drivers of the equity trend

1 Escalating debt costs:

In the current landscape of dealmaking processes, financing has emerged as a formidable challenge. Merely a year ago, funding was abundantly available, almost effortlessly acquired without raising any questions, as money seemed virtually ‘free’. However, the scenario has dramatically transformed. Financial advisors now find themselves compelled to collaborate in a much more intimate capacity with buyers, often actively participating in bank meetings to secure optimal financing solutions for their clients. This paradigm shift starkly contrasts the experiences of the past year.

As interest rates continue to rise and the cost of borrowing capital climbs,



Previously, securing approximately **50% of the equity value was the norm**; however, this figure has dwindled to a mere **25% in the current market environment**.

companies are re-evaluating their financing strategies. CEOs are acutely aware of the implications of high debt costs, which can erode profitability and strain cash flows. In this environment, a fundamental shift is underway, with businesses seeking alternatives to mitigate the financial burden.

2 Minimising debt reliance:

CEOs are recognising the benefits of minimising their reliance on debt financing. A pivot towards bolstering equity positions provides companies with a more stable financial foundation. This approach reduces vulnerability to interest rate fluctuations and financial market uncertainties, enhancing long-term resilience.

3 Impact on deal structures:

The shift towards equity is reshaping deal structures. Expect to see an increase in transactions structured with a greater emphasis on equity components. Equity-funded deals can provide more flexibility and reduce the financial strain associated with servicing high levels of debt. This may lead to creative deal structures, such as stock-for-stock mergers and strategic alliances.

A discernible trend is emerging within private equity firms. Many are opting to reduce their debt, shifting their reliance towards equity, even in technology and Software as a Service (SaaS) sectors. Notably, Sweden, once boasting high valuations for ecommerce companies, has witnessed a significant decline. It becomes a daunting task to explain to CEOs of ecommerce enterprises that their

former valuations, which once stood at a substantial 15 to 20%, have plummeted to below 10%.

In this complex and volatile environment, cross-border transactions assume a pivotal role in providing a key strategic advantage. Translink, with its extensive global footprint of country offices equipped with deep local knowledge, proves invaluable to buyers and sellers across different jurisdictions.

Presently, an opportune moment has emerged for prospective investors eyeing Sweden, driven by the Swedish krona's unprecedented depreciation against the dollar. This is compelling buyers seeking entry into the Nordic region to engage in heightened inbound M&A activities. The favourable exchange rate positions Sweden as an attractive market, encouraging strategic investments and fostering increased merger and acquisition endeavours.

4 Valuation considerations:

A decisive shift has occurred in the valuation landscape, marked by a significant decline in general valuations. Sellers are gradually adapting to this new reality, acknowledging the adjusted valuation figures. These changes underscore a transformative period in the market, indicating a departure from established norms that may persist throughout our lifetimes.

For younger companies, the paradigm has shifted. Earnouts, once attainable through conventional means, now necessitate enhanced performance. Collaboration with older, established firms still provides avenues for success, albeit contingent upon rigorous demonstration of capabilities. This evolving dynamic necessitates a higher level of proof of worth from emerging companies, requiring them to showcase their value proposition and competence more convincingly than before.

Companies looking to bolster their equity positions may place greater emphasis on long-term strategic synergies and growth potential rather than immediate financial returns. This shift may lead to nuanced valuation methodologies and a re-evaluation of traditional metrics.

5 Some sectors hit more than others:

In an environment where economic uncertainties persist, minimising debt exposure becomes a key risk management strategy. For example, in Sweden, the luxury goods sector is currently facing challenges, and so too is the construction sector due to expenses, rent-control, and the pandemic-prompted remote work phenomenon causing extensive empty office space. New construction has slowed, but opportunities exist in home repairs and renovations. Despite economic uncertainties, companies with robust equity positions are better poised for growth. Translink is facilitating significant deals, highlighting the potential of strategic targets even amidst challenges.

6 Bigger players are doing the deals:

Presently, transactions are predominantly driven by established investors and buyers. In the Nordics, particularly in Sweden, a substantial number of compounders rely on various types of bonds for financing. However, these bonds have become prohibitively expensive, with interest rates ranging from 11 to 14%. Consequently, smaller players find it challenging to compete in the bidding process due to the complexity of these calculations, putting them at a disadvantage in the current market environment.



7 Strategies for growth:

Companies, even when capable of securing financing at 2.5 times EBITDA, often opt for a more conservative approach, aiming for a ratio of 1 to 1.5. This strategic choice allows them to pursue aggressive expansion plans in the future. Many companies are leveraging their existing sellers to reinvest additional equity into the new venture. Additionally, they are exploring financing options from banks. These businesses are proactively engaging with financing right from the outset, ensuring they have the necessary capital to fuel growth, pursue acquisitions, and enter new markets successfully. This proactive financial planning is becoming integral to their strategies for building and expanding their enterprises.

In a notable transaction advised by Translink recently, the acquiring company opted for a debt-free approach to ensure unrestricted funds for expansion, eliminating any obligations to banks. This strategic move reflects a trend among private equity firms focused on robust expansion initiatives. Many such companies are opting for a 100% equity-driven approach, entirely in cash, with sellers contributing additional equity to facilitate the deal. This trend underscores a growing preference for flexibility and financial independence in pursuit of ambitious expansion endeavours.

What we are most likely to see in 2024

The current financial landscape suggests we might be approaching the peak of debt costs. At Translink, we anticipate that debt will likely be more affordable next year, albeit in a different manner than in recent years.

The strategic shift towards strengthening equity positions in response to rising debt costs signifies a significant change in the financial landscape. CEOs and

dealmakers must prepare to navigate this transition as it could substantially impact M&A deal structures and valuations. While debt financing remains attractive, diversifying financing strategies becomes crucial for ensuring long-term financial stability and resilience. In the dynamic realm of M&A, adaptability and a sharp focus on mitigating financial risks are paramount for achieving success.

Translink boasts a dynamic debt service offering poised to assist clients in navigating this evolving landscape. Our expertise is tailored to guide businesses through this journey, ensuring informed and strategic financial decisions.

Next steps for CEOs

- > In the current market, outstanding companies with unique offerings continue to command strong valuations, especially in Sweden and similar markets where financial buyers are eager to invest. These top-tier companies generate significant interest. However, businesses lacking key attributes face challenges in securing deals.
- > For urgent sales, a targeted approach involving a select group of four to five potential buyers can yield favourable results. Translink's extensive global footprint plays a crucial role in identifying suitable partners across borders. Alternatively, if time allows, waiting for about six months might lead to more favourable market conditions for sellers. Patience can enable a more strategic decision-making process.

CONCLUSION

Our six megatrends of ESG, an emphasis on equity, the strength of the middle-market, a drive for AI and technology integration, and the amplification of cross-border and cross-industry deal-making will shape the M&A landscape profoundly in 2024 and beyond.

The middle-market will be the engine room of the deal economy driven primarily by a proliferation of targets arising from generational succession challenges. As the global inflation rate stabilises, the M&A market will rebound as the 'wait and see' mentality lifts and 'dry powder' catalyses robust dealmaking.

Translink Corporate Finance's global team of experts is perfectly positioned to help our clients navigate complex market conditions to secure optimal outcomes. Our business is differentiated by our years of experience, expansive global footprint, deep sector knowledge and on-the-ground expertise. With 50 years in mid-market M&A, we are the partner you need to get the deal done.





ABOUT

Translink Corporate Finance

Translink is a trusted global corporate finance group with deep, local, sector-specific expertise. Founded in 1972, we have +300 experts covering 35 countries on six continents. We've closed deals in almost every sector imaginable. Our powerful partnerships around the world set us apart. In some industries, we have pooled our global expertise to form Industry Groups focused on serving our clients with deeper insights into global developments and knowledge on targets and bidders in the respective markets.

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We get the deal done.

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