



Europe West Buy and Integrate Barometer

Version 2.0

Main takeaways

September 2024



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Agenda

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- 2 M&A approach and post-deal relevance
- 3 Integration ideal timing and associated costs
- 4 Impact of ESG and AI

01

Executive summary

About Europe West Buy and Integrate Barometer

The EY Europe West B&I Barometer is an annual survey of senior executives from large corporates in the central European region, conducted by the EY Strategy and Transactions team to understand their decision-making processes for navigating M&A strategies to accelerate growth, along with the challenges they face and measures they adopt to realize deal value

The respondent community comprises of executives, EY clients and contacts, including leaders of the world's biggest and fastest growing companies. This survey provides a glimpse of firm's emphasis on post-M&A activities during the past years vs. adapting to the new market challenges (e.g., AI, ESG topics, etc.)

Author



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Participants profile:

The respondent cohort encompasses around 100 members whose survey was collected during the period spanning May to June 2024

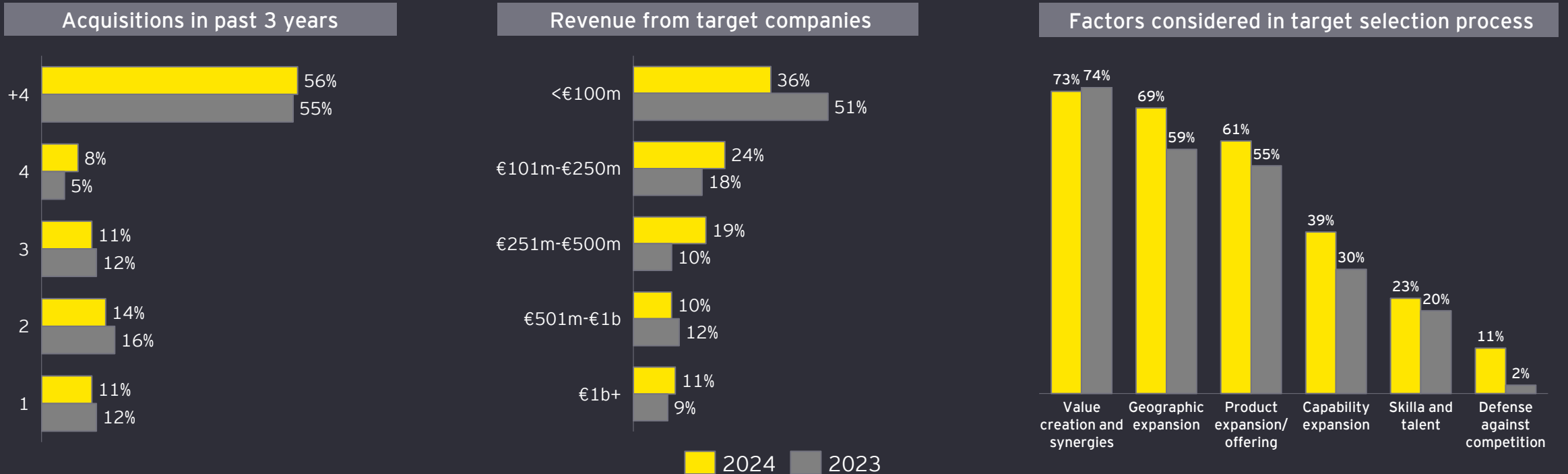
Countries covered Austria, Belgium, France, Germany, Italy, Netherlands, Portugal, Spain and Switzerland

Focus area:

With an objective to annually map the changes in priorities and sentiment of the market executives, the survey is focused on understanding the following:

- ▶ Deal rationale and challenges faced in synergy realization
- ▶ Due diligence and integration approach and challenges faced
- ▶ Impact of integration cost on target's EBITDA
- ▶ ESG & AI initiatives undertaken by the firms

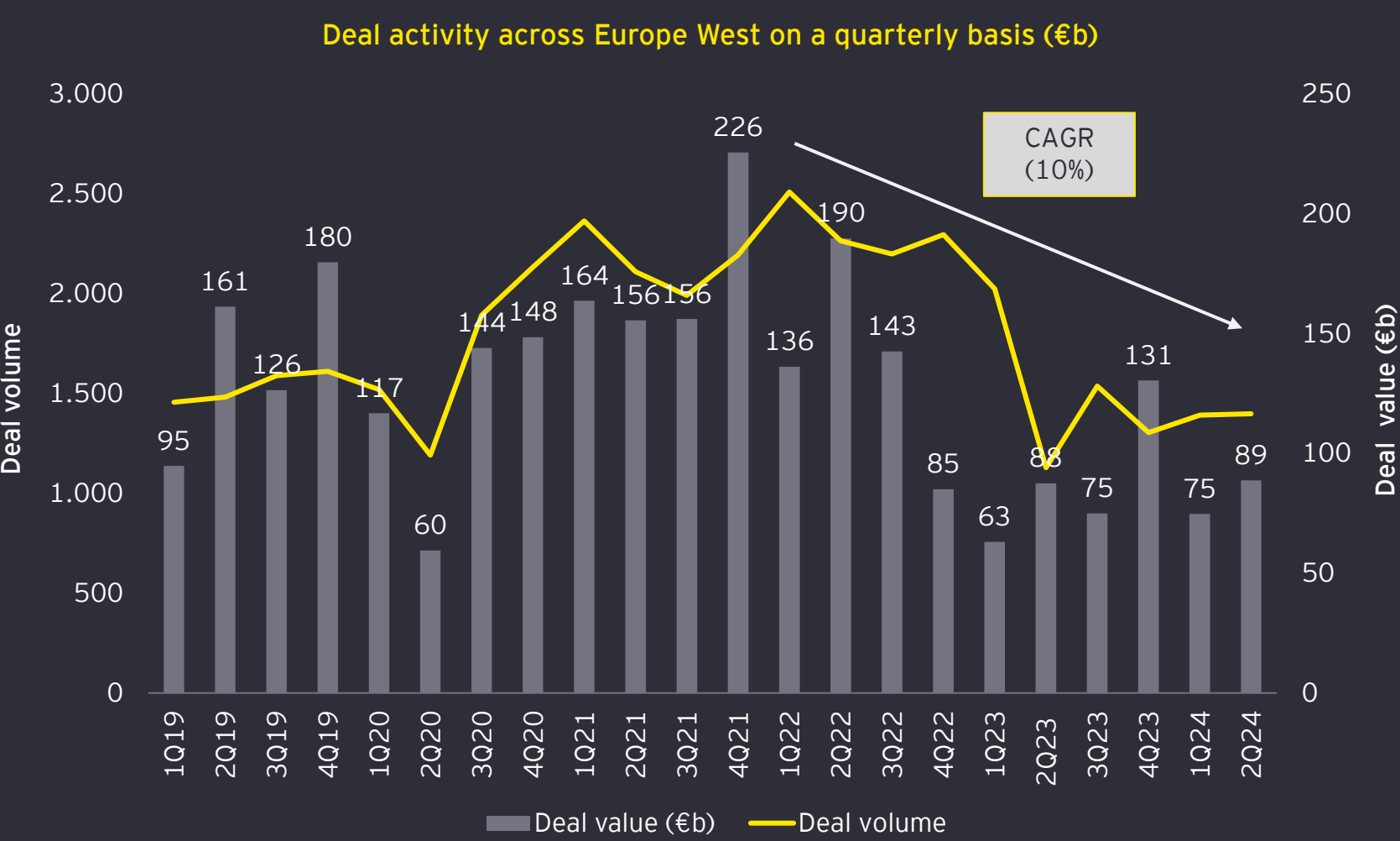
EY Europe West Buy and Integrate Barometer, captures a view of the M&A priorities and factors for choosing targets in last 3 years



Key takeaways

- ▶ In 2024, ~36% of respondents reported that the target company's total post-acquisition revenue contribution did not exceed €100m (vs. 51% in 2023), however more target companies have been contributing between a range of €100m and €500m
- ▶ ~69% of the respondents has considered geographic expansion as a key factor in the process of selecting targets for 2024 (vs. 59% in 2023)
- ▶ There's a rise in respondents' preferences in 2024 while considering 'Defence against competition' as a factor while choosing targets
- ▶ All the mentioned elements (e.g., increase of the average deal size, higher relevance of the geographical expansions, etc.) imply a higher post-deal complexity that the companies need to face to unlock the deal value

Uncertain geopolitical environment led to a sluggish growth of deal value in the last few quarters ...



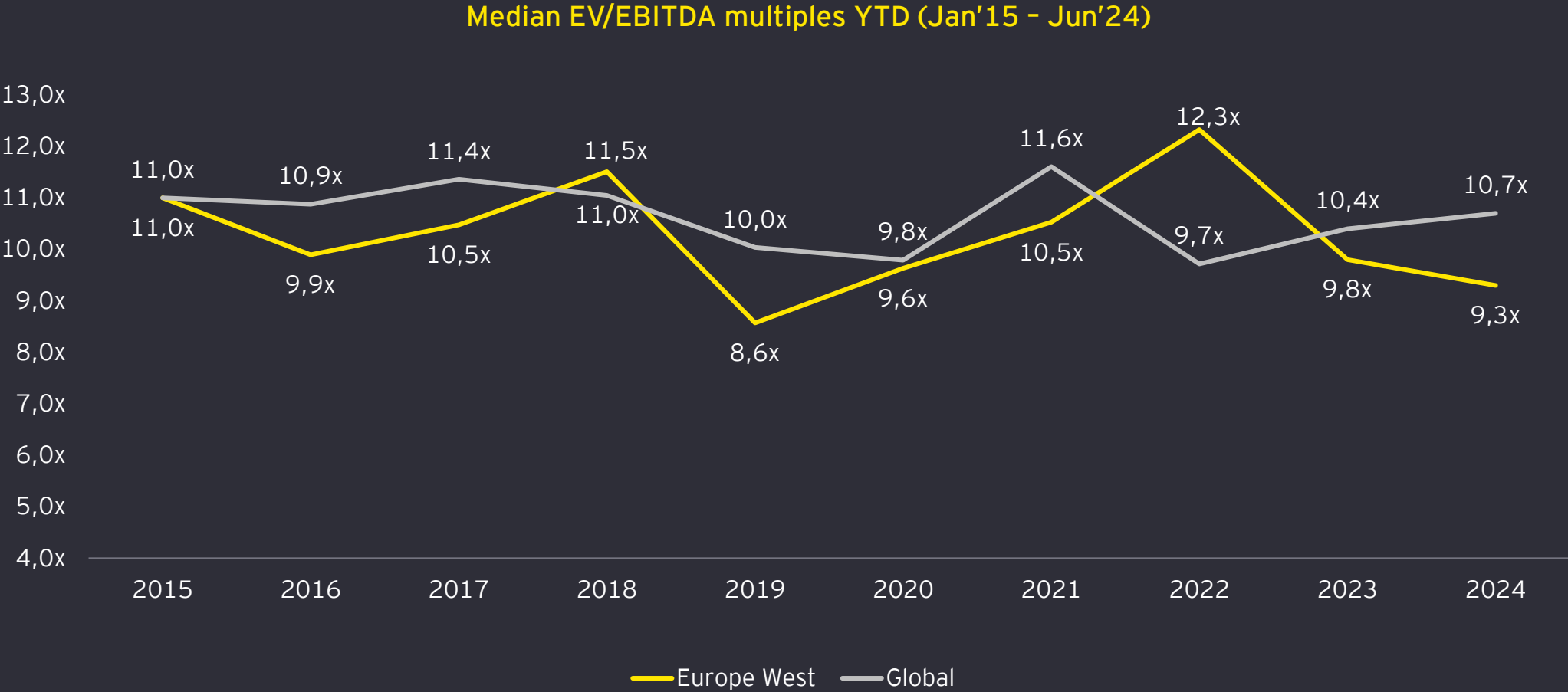


Key Insights

- ▶ In 2023, the macroeconomic environment in Europe West was marked by persistent high interest rates and inflation, and continuous geopolitical risks posed challenges to firms and affected deal activities
- ▶ As a result, companies in 2024 have started focusing on strengthening their core operations rather than aggressive expansion through deals
- ▶ Deal activity in the EW region is anticipated to rise in the latter half of 2024 driven majorly by the expected interest rate cuts and availability of dry powder held by PE firms
- ▶ Moreover, US elections and FED interest rate decisions can induce market volatility, currency fluctuations, alter borrowing costs, shifts in investor sentiment, and regulatory changes, collectively influencing strategy of M&A activities in the EW region.

Note: The original deal value was sourced in US Dollar and converted to EURO by applying quarterly average exchange rate
Source: Dealogic, EY Analysis

... and high interest rates resulted in lower deal multiples in across sectors, recognize potential to adopt a strategic approach for M&A to capitalize on emerging opportunities



Note: EV/EBITDA value is capped at 30x
Source: Dealogic, EY Analysis



An early and strategic M&A planning is considered the driver to (i) maximize the deal success and (ii) ensure a seamless integration process

~73% (-1 pp.) of the respondents in 2024 identified **value creation and synergies** as the **most critical factor** in the target selection process, compared to 74% in 2023



~75% (+3 pp.) of the respondents in 2024, reported that they usually **start integration planning in the pre-deal phase** which is the most appropriate action to increase the chances of achieving deal synergies. This % is increasing YoY (+3.0p.p.), suggesting that Managers value the benefit of a structured M&A planning phase



~75% (+13 pp.) of the respondents prioritized **'synergy identification'** and **'functional integration'** as **prime integration activities in 2024**, as these quantifies value, facilitates strategic decision-making, and sets the path to unlock the deal's full potential. The increasing incidence of this data (+13p.p.) reconfirm the synergy centrality within the recent investment thesis

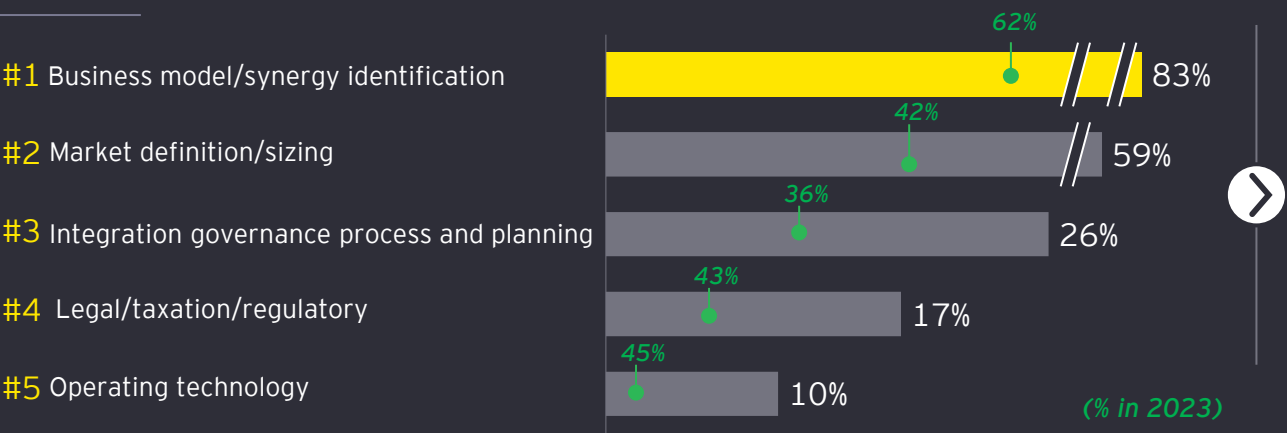


~85% (+31 pp.) of the companies in 2024 sought **assistance from major accounting and professional services firms** at some stage to address the complexities associated with M&A transactions. This data is rapidly growing (**54% last year**) and proves the perceived benefits of involving technical experts to support through complex processes



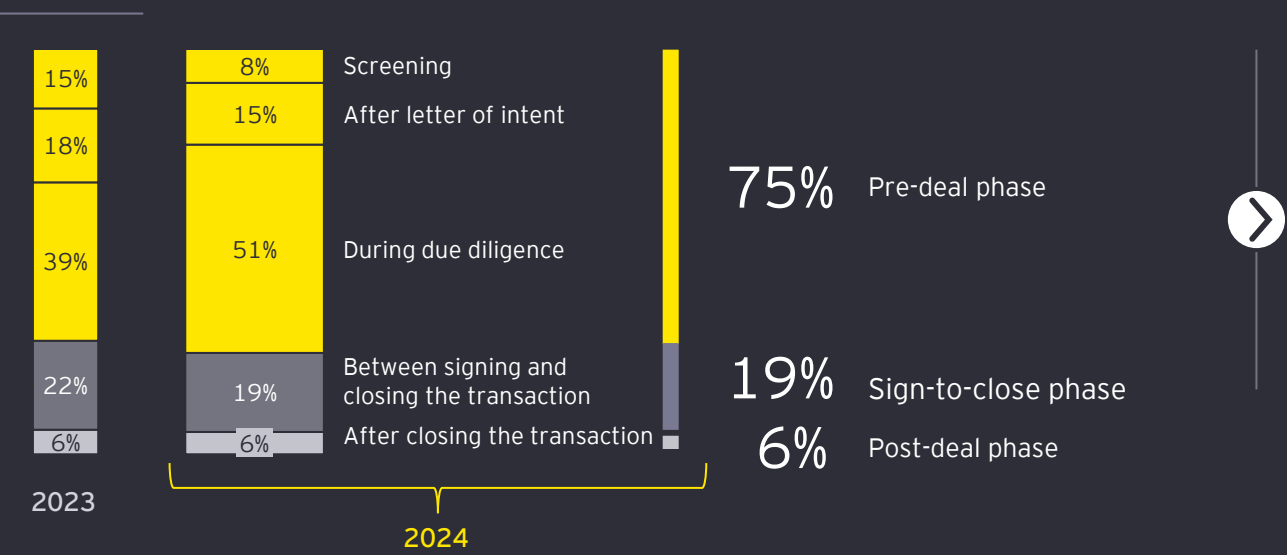
Synergies and post-merger integration are considered crucial for the success of a transaction; to reduce risks clients should include them in pre-deal evaluation

Important aspects of diligence process in achieving the deal value



- ▶ In 2024, the strategic and operational aspects of the due diligence (i.e., **identification of business models & synergies**, together with the **market definition and sizing**) increased relevance perceived to achieve the deal value. This confirms the Managers attention to (i) corroborate the commercial rationale of the investment thesis, and (ii) effectively plan the integration & post-deal activities
- ▶ One the other hand, the operating technology incidence dropped from 45% in 2023 to 10% in 2024, suggesting a general improvement of Targets' technology environment

At what stage did you start planning the integration?

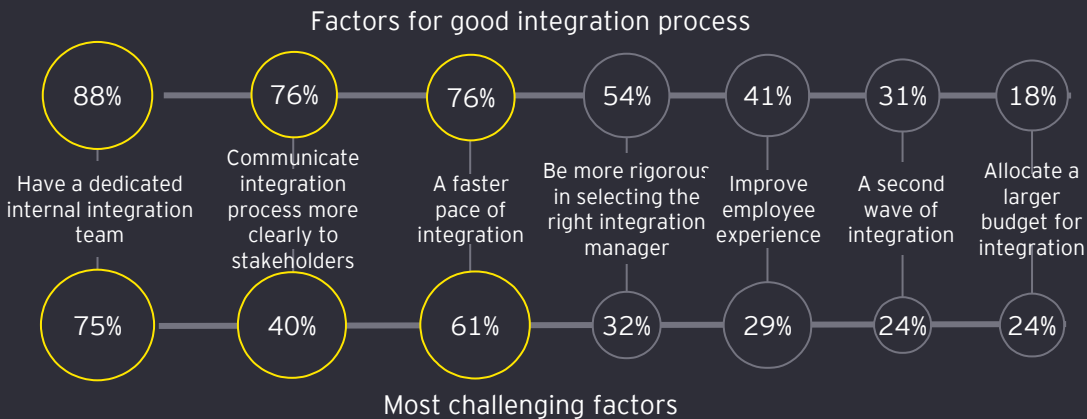


- ▶ *Integration planning during due diligence has increased to 51% of clients (vs. 39% in 2023) as it provides critical insights into the target company's operations, financials, and potential synergies for informed strategies*
- ▶ *This data should be read in conjunction with eh the sign-to-close planning drop (-3.0p.p.), showing the Managers need to run a detailed integration preparation before a commitment is taken*

Key takeaways

Management considers communication, end-to-end involvement of skilled resources, and the cruising speed of integration to be the most critical aspects of integration

Must-have capabilities for successful integration process



The most relevant factors for the integration process are also perceived by clients as the most challenging.

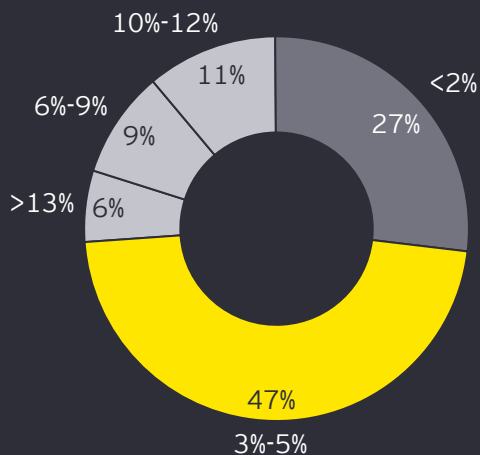
In particular, clients considered the following as the most critical:

- Communication with stakeholders
- Availability of skilled resources
- Integration cruising speed

Whilst these 3 elements were flagged by Managers also in 2023 as the main challenging and critical to successfully achieve the post-deal integration, in 2024 the participants stressed more (i) the relevance and complexity to obtain a satisfactory integration pace and (ii) the difficulty of having a dedicated team for the post-deal activities

Key takeaways

Impact of the integration costs on the target's EBITDA in %



► The participants consider the cost associated with the integration phase is minimal compared to the target's EBITDA, despite being a critical element for realizing the value of a deal

► Additionally, we note a higher budget dedicated to the integration activities in 2024 vs. PY; in particular:

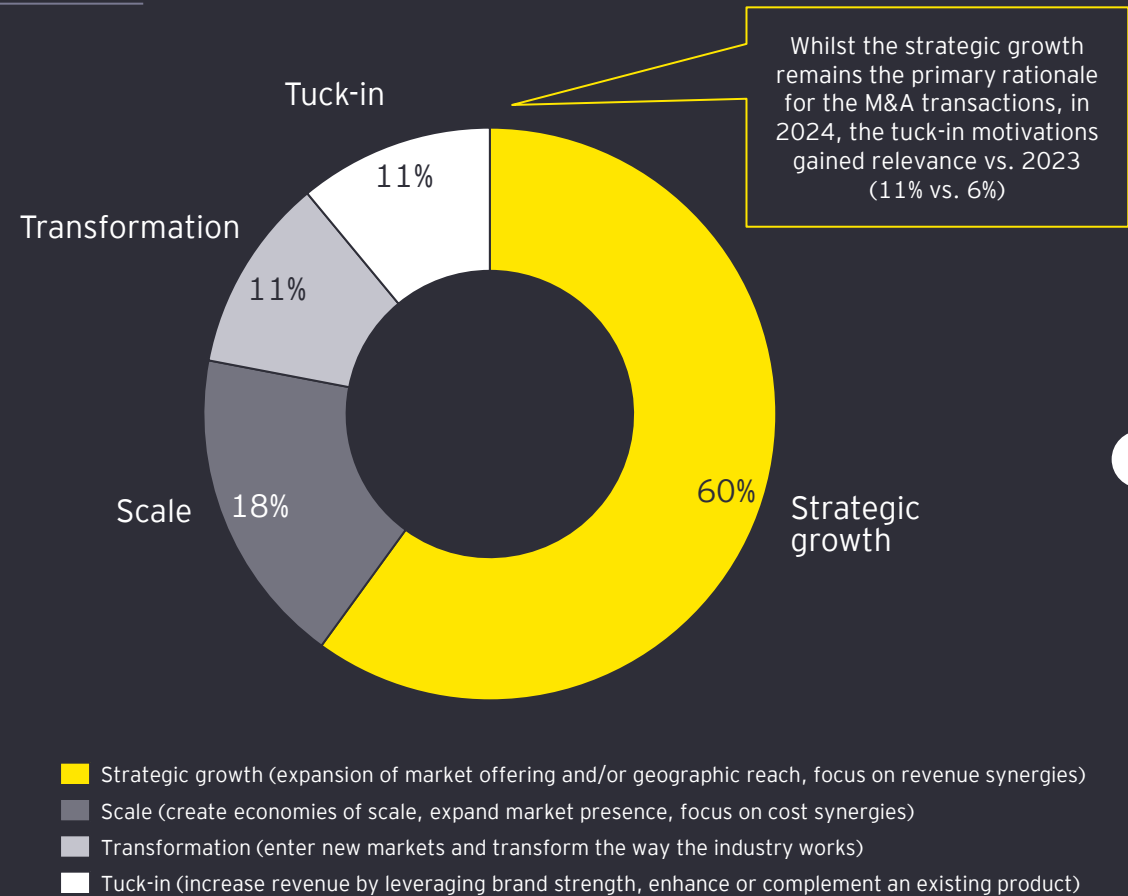
- 47% of respondents sit their experiences within the 3-5% of EBITDA cluster (vs. 37% in 2023), and
- The light-approach cases experienced a severe decrease (i.e., costs below 2% of EBITDA decrease from 40% in 2023 to 27% in 2024)

02

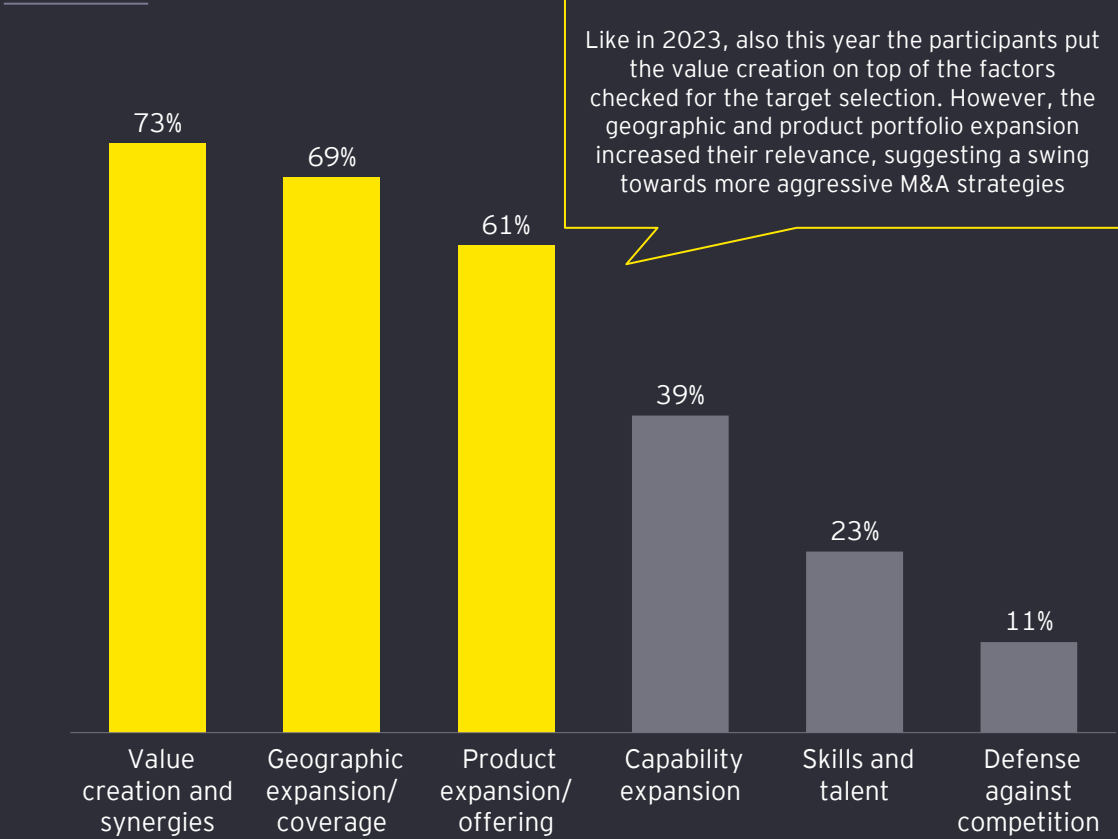
M&A approach and post-deal relevance

Buyers focus on strategic growth in terms of rationale and on synergic value-creation drivers and geographical/offering expansions to pursue inorganic strategic growth ...

What was the primary strategic rationale for the significant M&A transaction completed by your company?

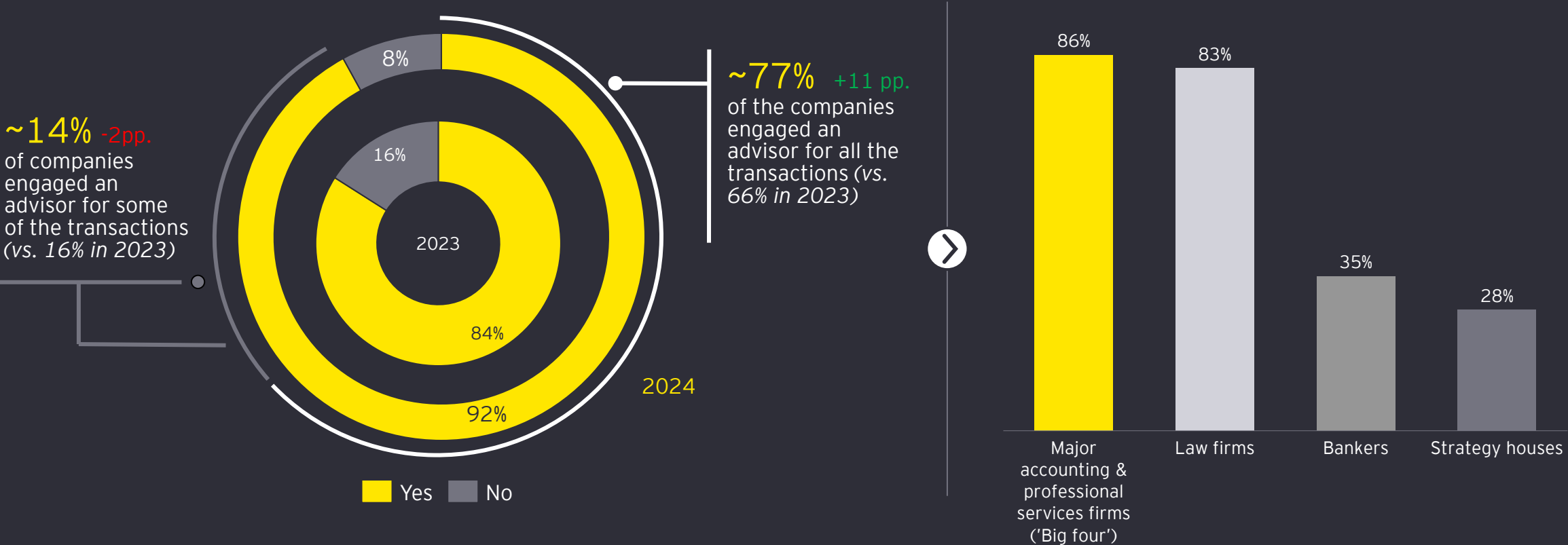


What were the factors considered in the target selection process?



... and continue to engage “Big four” and law firms for transaction-related services

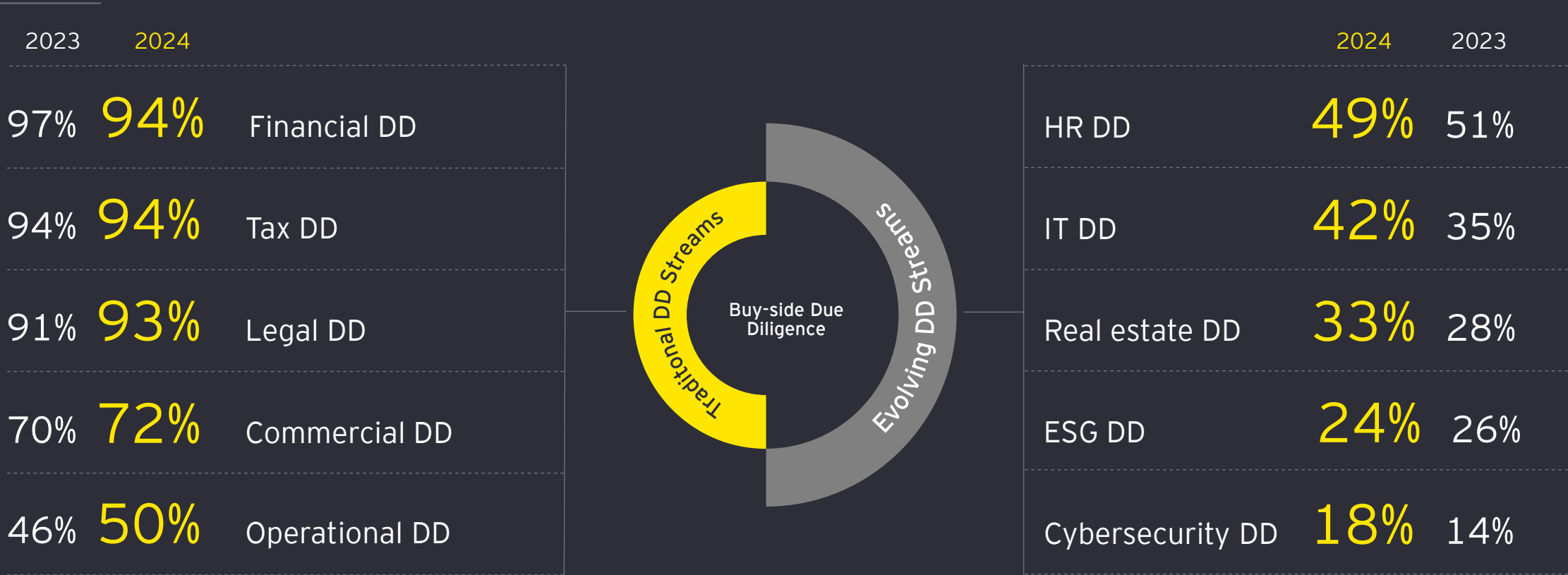
In the acquisitions you made, did you engage an advisor? If yes, what advisor did you engage in the past for Buy and Integrate services?



Big Four firms continue to be the preferred partners for M&A services. Leveraging its remarked and robust reputation across Europe, EY teams are in a favorable position to support the clients end-to-end through a holistic and structured approach

Whilst the executives are more and more integrating the traditional due diligence with the several innovative streams ...

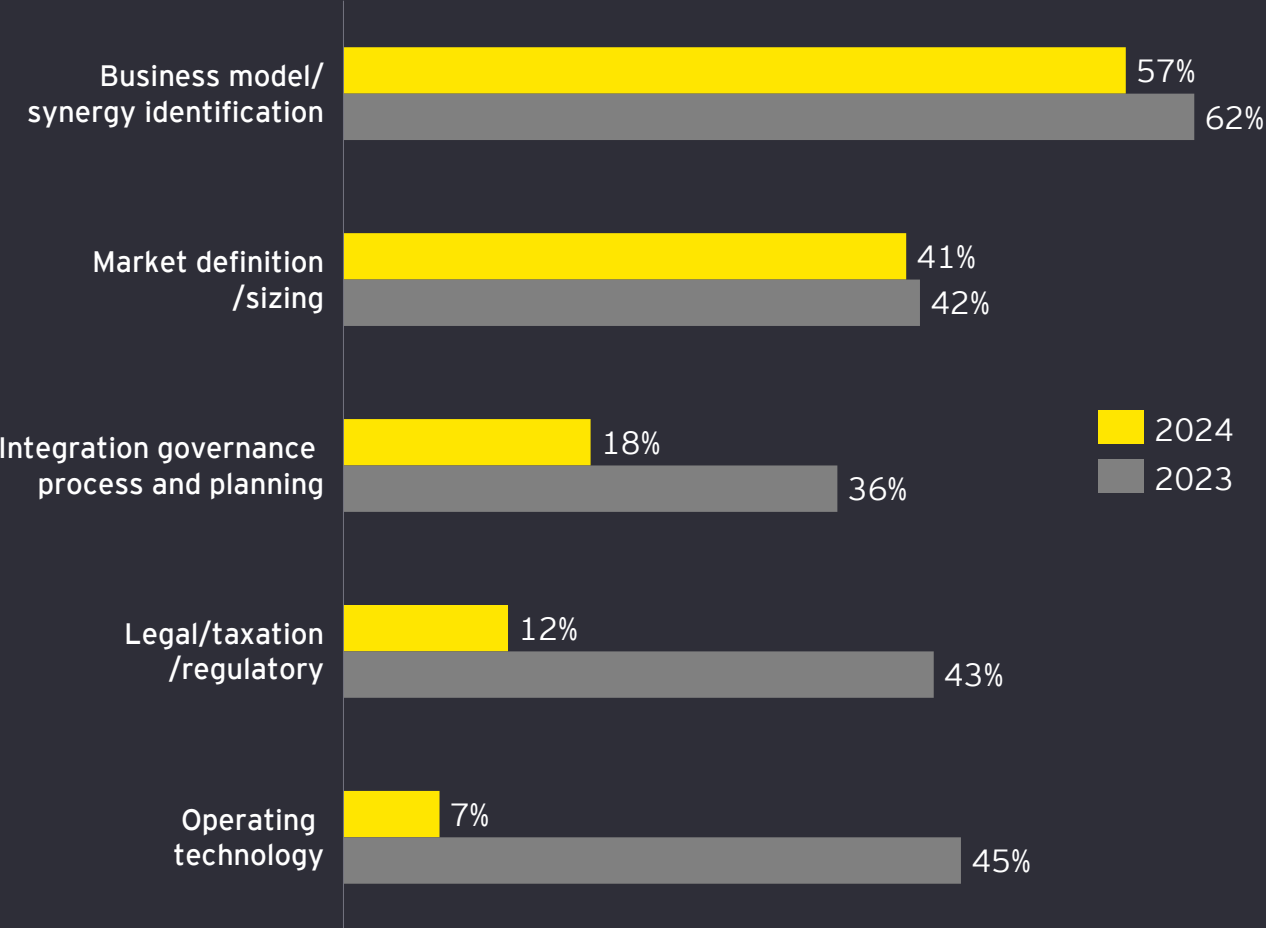
For the acquisition process, what type of due diligence (DD) have you dealt with?



Whilst the innovative due diligence streams are more and more part of the pre-deal activities run by the investors, we note that only the IT-related and Real Estate streams increased their incidence in 2024 vs. 2023

... the identification of synergies is considered a crucial aspect as it quantifies value, supports strategic decision-making, and outlines the pathway to realizing deal value

Considering the below aspects of the diligence process, please rank their importance to achieving deal value

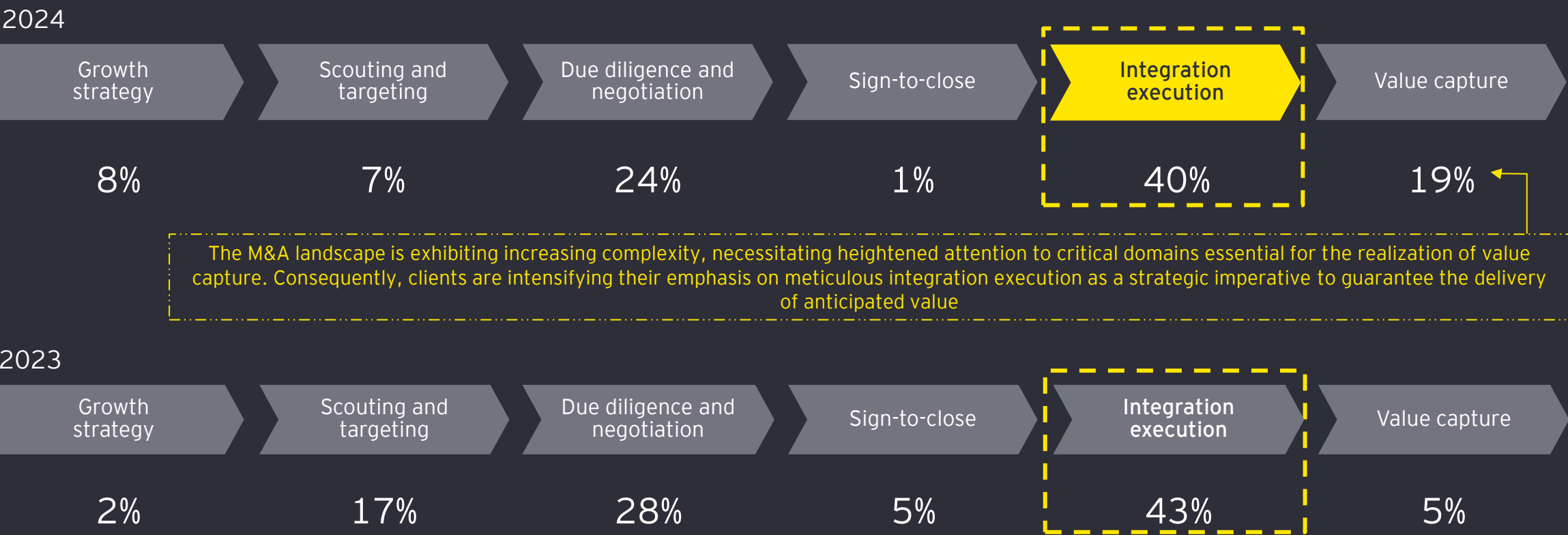


- ▶ In line with 2023, also in 2024 clients consider business model and synergy identification as the most relevant aspects in achieving the deal value
- ▶ M&A frequently fail to achieve their intended objectives or sustain value, primarily due to the delayed recognition of synergies, insufficient due diligence, and inadequate considerations for post-closure and integration
- ▶ Respondents continue to consider market sizing in the diligence process as a crucial aspect for assessing the potential growth opportunities, and competitive landscape of the target company within its industry
- ▶ However, the significance of 'Integration governance process and planning' has dropped to ~18% in 2024 (vs. 36% in 2023)

Key takeaways

Integration execution is identified as the primary challenge by buyers throughout the entire transaction process

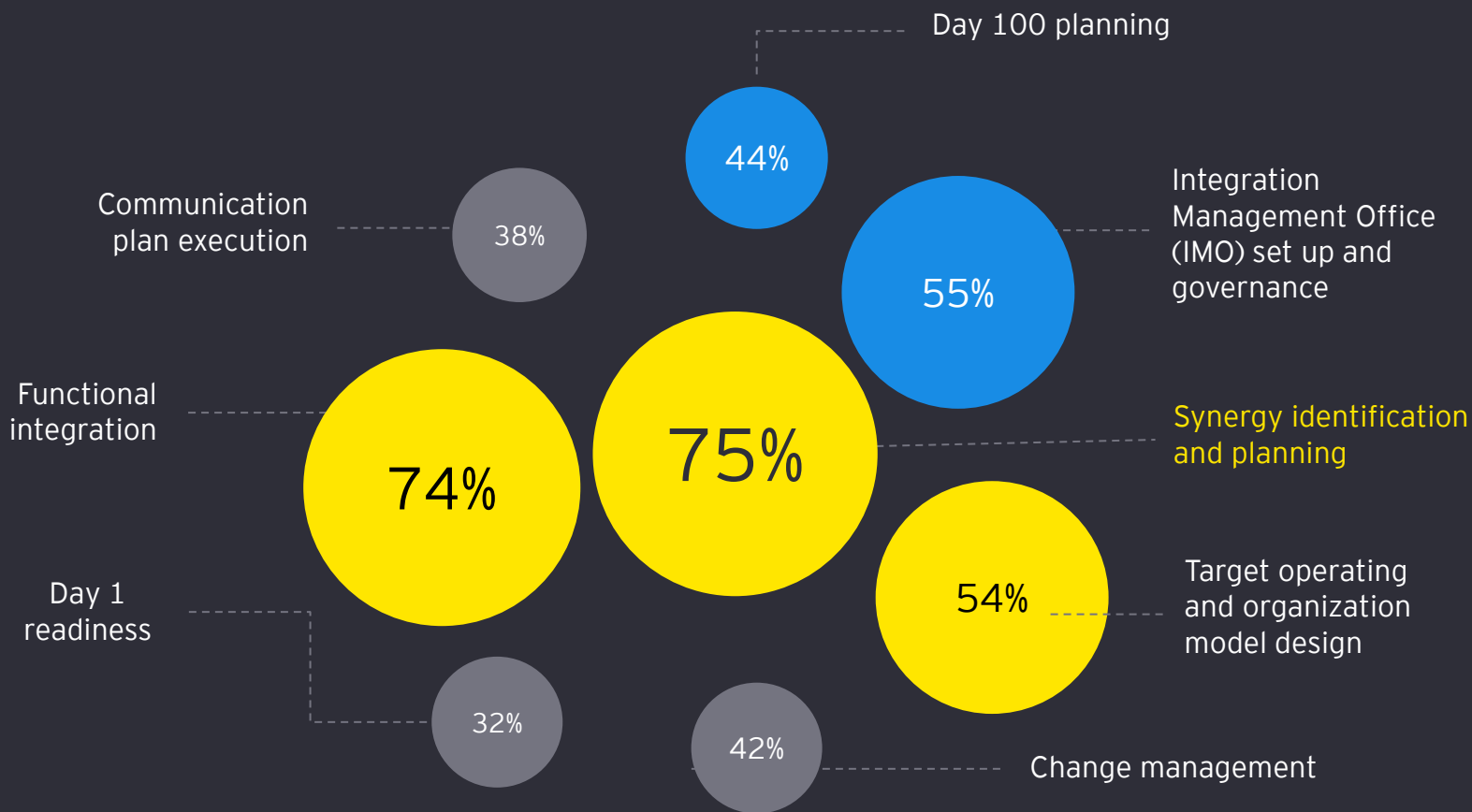
What is the most challenging phase of the entire transaction process?



Overall, buyers highlighted the post-deal phase as most challenging aspect of M&A. We can facilitate the integration activities by collaborating with the DD teams to identify the main integration drivers and complexities early in the process

... and the most popular integration activities considered are synergy identification and planning and functional integration

What kind of integration activities did you carry out?

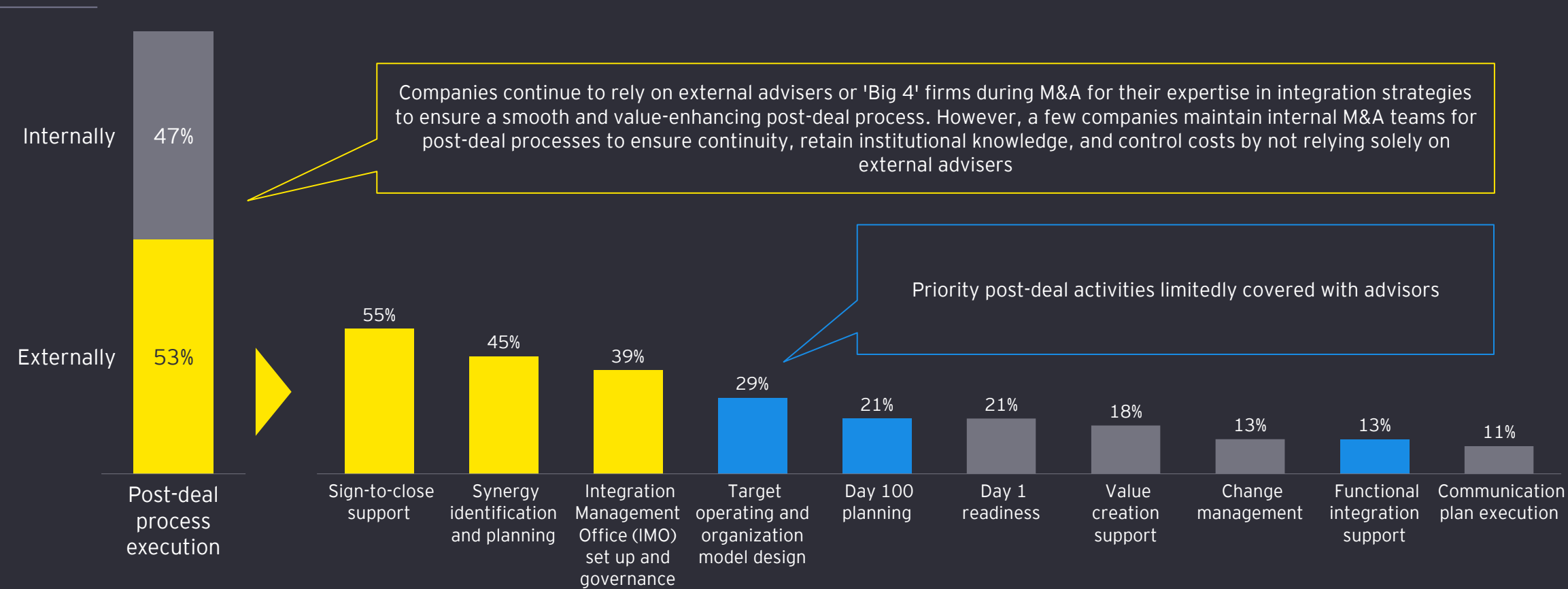


Key takeaways

- ▶ The focus on synergy identification has strengthened, rising from 67% in 2023 to 75% in 2024, highlighting the growing importance placed on synergies within integration activities
- ▶ Functional integration has notably gained emphasis, with a substantial 17% rise in its prioritization compared to 2023, highlighting a trend towards thorough, systematic business functional integration. This is also supported by the relevance of the affine activity "operating model design"
- ▶ The survey shows that on top of the more transformational post-deal activities, the respondent focused the attention on more practical processes as the Day 100 planning and IMO

Post-deal excellence hinges on expert support for sign-to-close transition, synergy planning, and Integration Management Office (IMO) establishment

For the post-deal process, what kind of support did you get from the engaged advisor (PMI)?

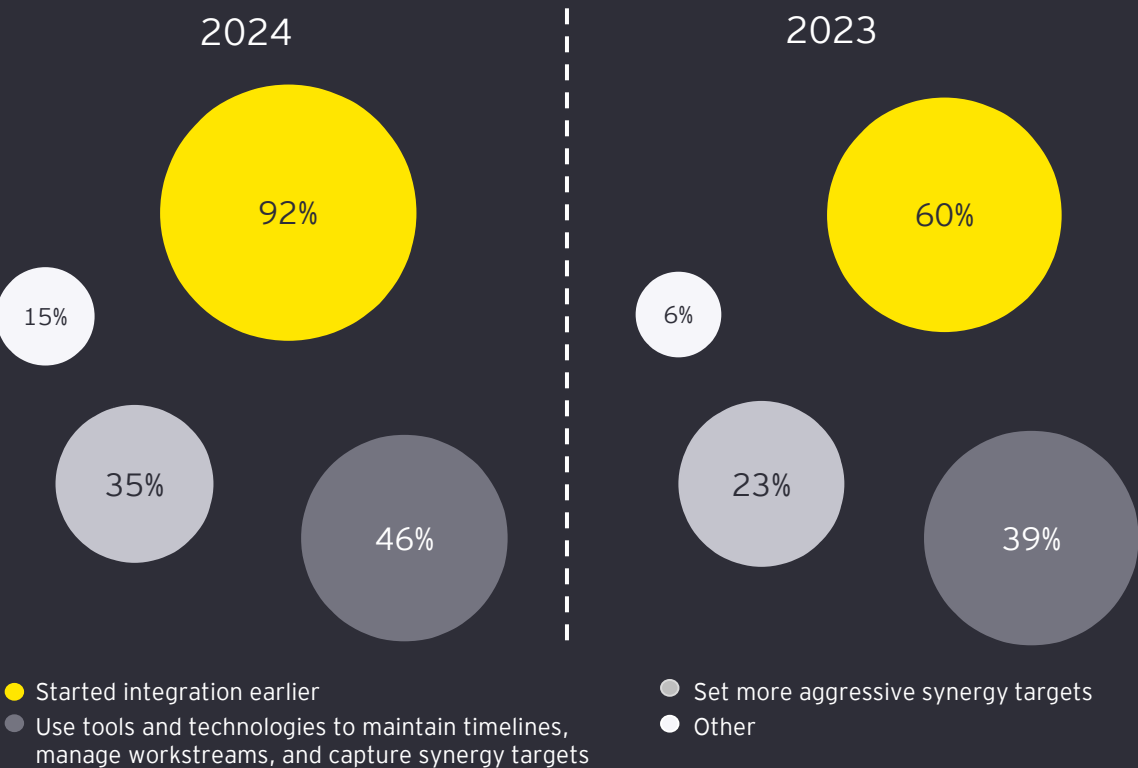


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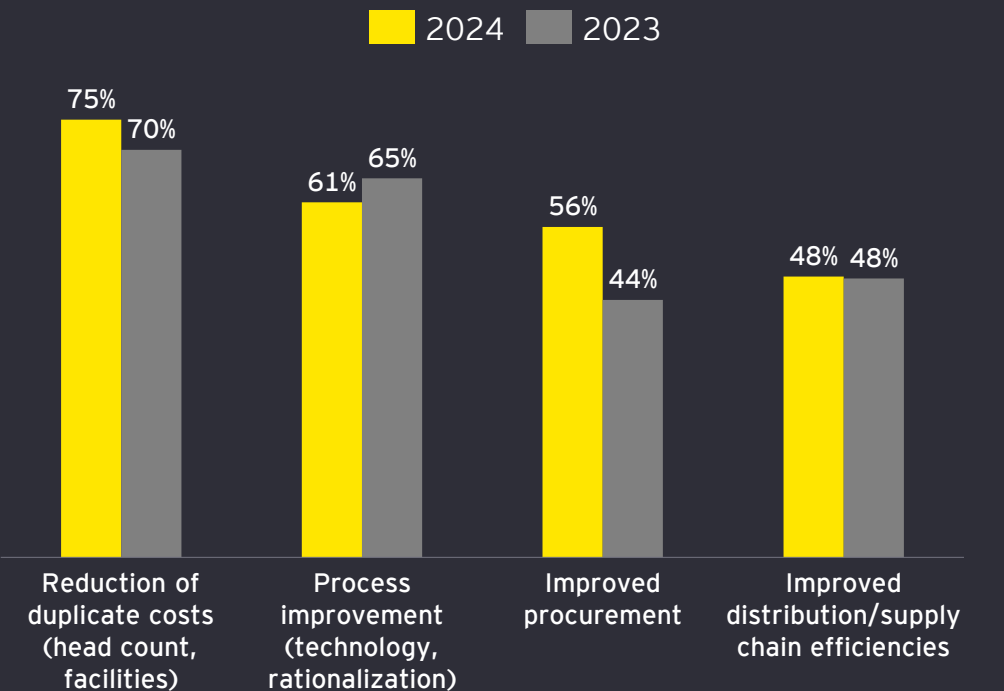
Integration ideal timing and associated costs

Initiating integration early expedites the realization of deal synergies and post-deal improvements

What actions did you take to increase your chances of achieving deal synergies?



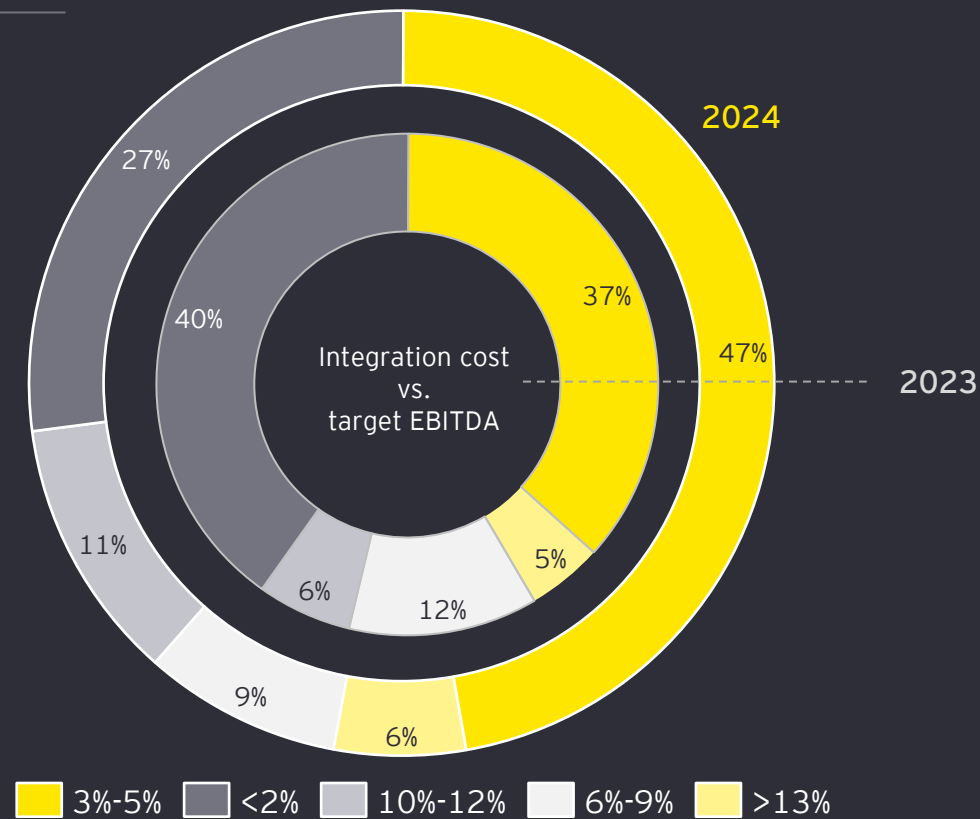
Which of the following were the main drivers to select the cost savings/synergy initiatives?



Starting integration early leads to smoother transitions, aligning strategies, processes, streamline operations, reduce risks and leverage combined strengths to accelerate chances of achieving deal synergies

The integration cost usually remains < 5% of the target company's EBITDA, with supply chain & procurement and sales & marketing functions experiencing the greatest impact

What was the impact of the integration costs on the target's EBITDA in percentage?



Which were the most impacted business areas by the integration costs?

Functions	Highest		Moderate		Least	
	2024	2023	2024	2023	2024	2023
Supply chain and procurement	74%	41%	24%	44%	2%	15%
Sales and marketing	74%	35%	23%	50%	3%	15%
IT and systems	61%	60%	37%	25%	2%	15%
Severance and retention	24%	24%	32%	56%	44%	20%
Real estate and facilities	23%	28%	48%	45%	29%	27%
Research and development	21%	23%	58%	48%	21%	29%
Legal and regulatory	18%	25%	58%	55%	24%	20%
Pension and benefits	5%	22%	19%	49%	76%	29%

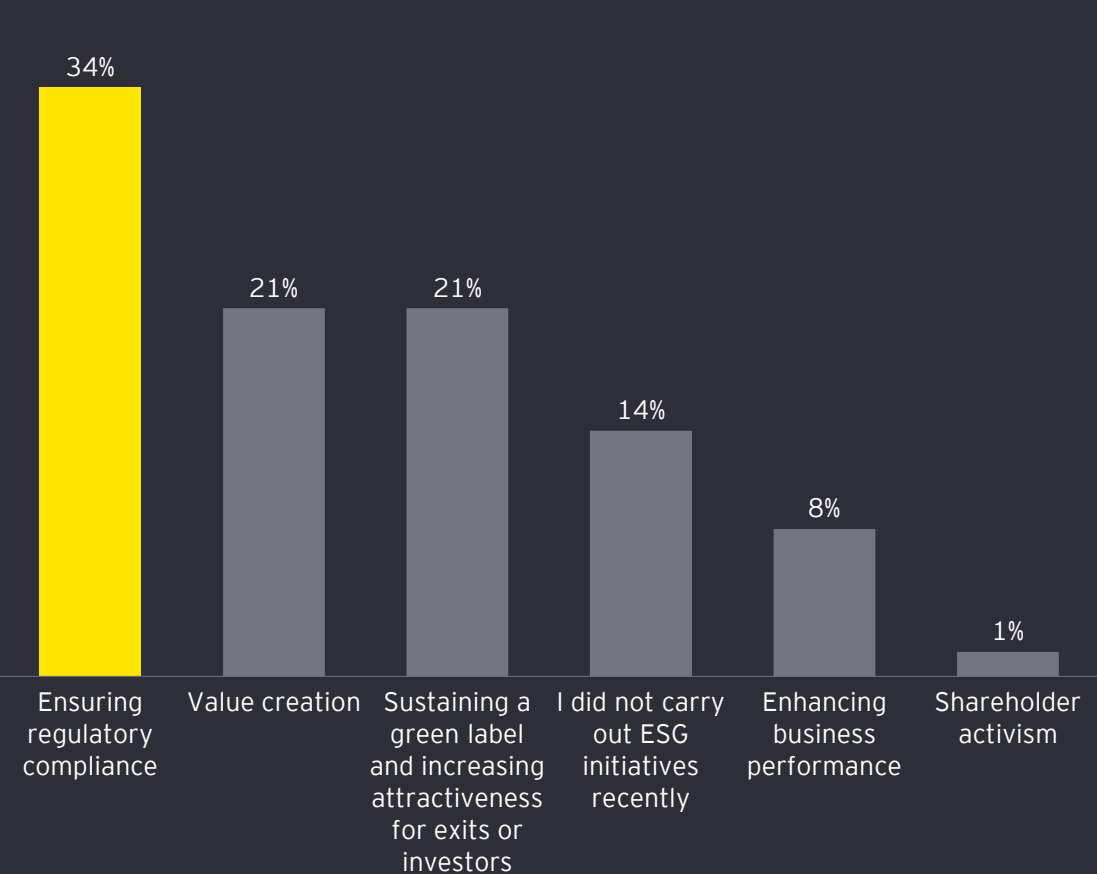
Although integration phase is considered a key to unlock deal value, the associated cost is usually residual vs. the target's EBITDA. An efficient approach to the integration is crucial to achieving deal value without burdening the target's EBITDA with dyssynergies

04

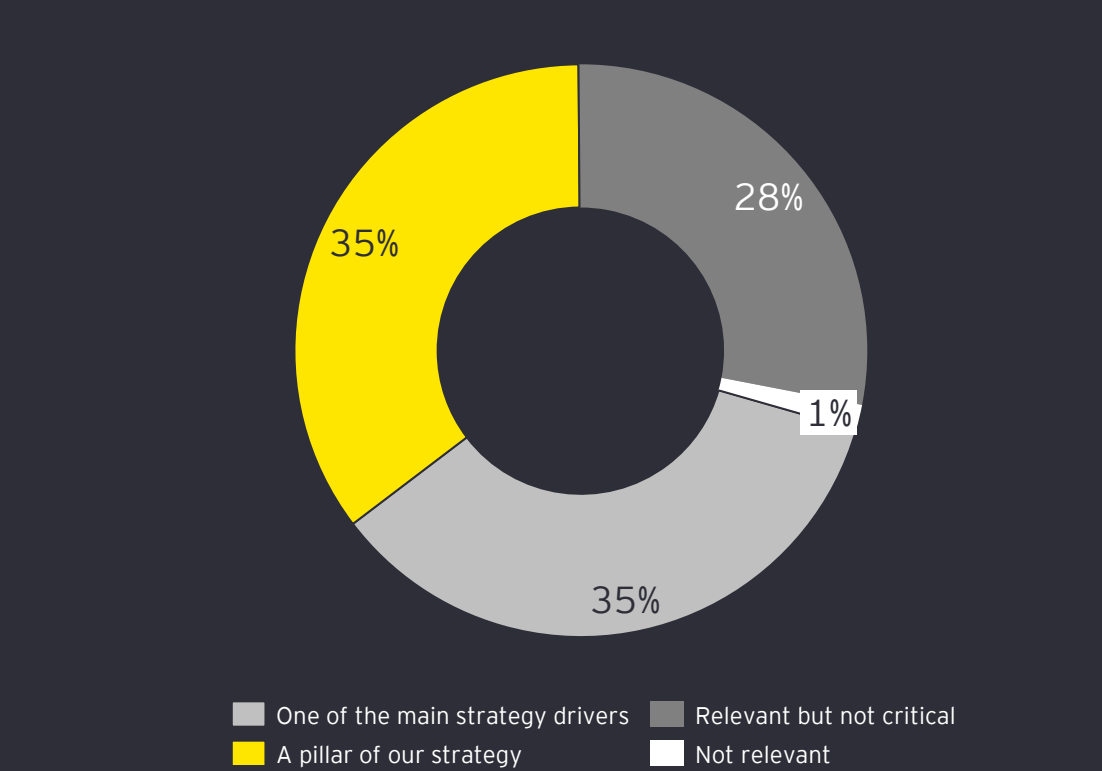
Impact of ESG and AI

Whilst the ESG initiatives are perceived critical by the respondents, these are still mainly perceived as regulatory aspects instead of strategic items that might add value

What are the primary objectives of ESG Initiatives you ran over the last 3 years?

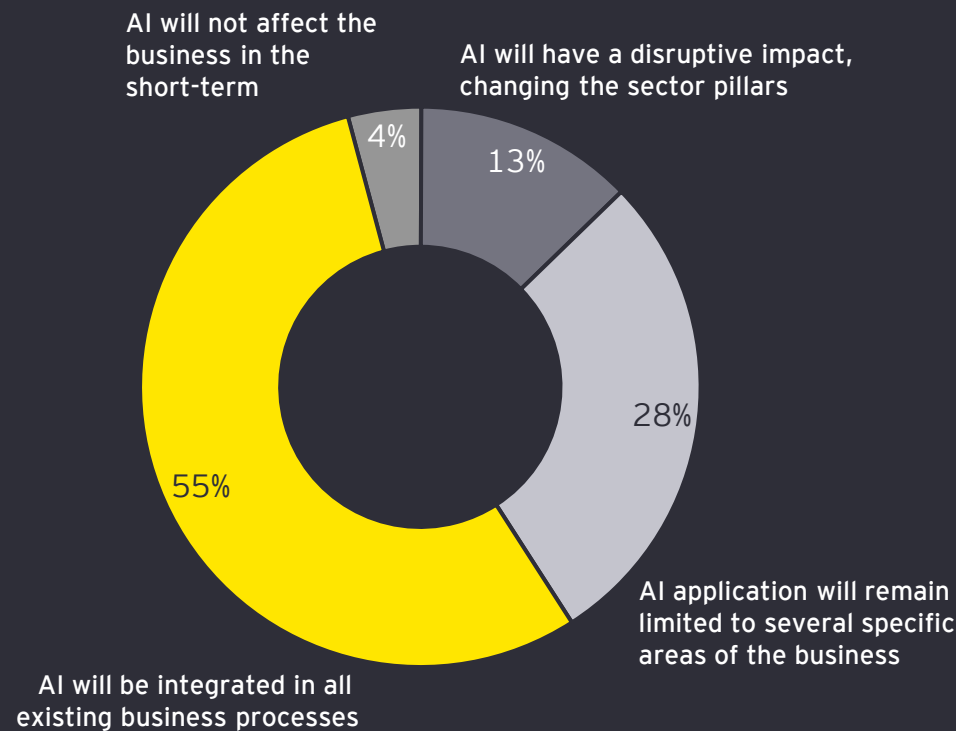


How would you rank the priority of ESG Initiatives for your Company?

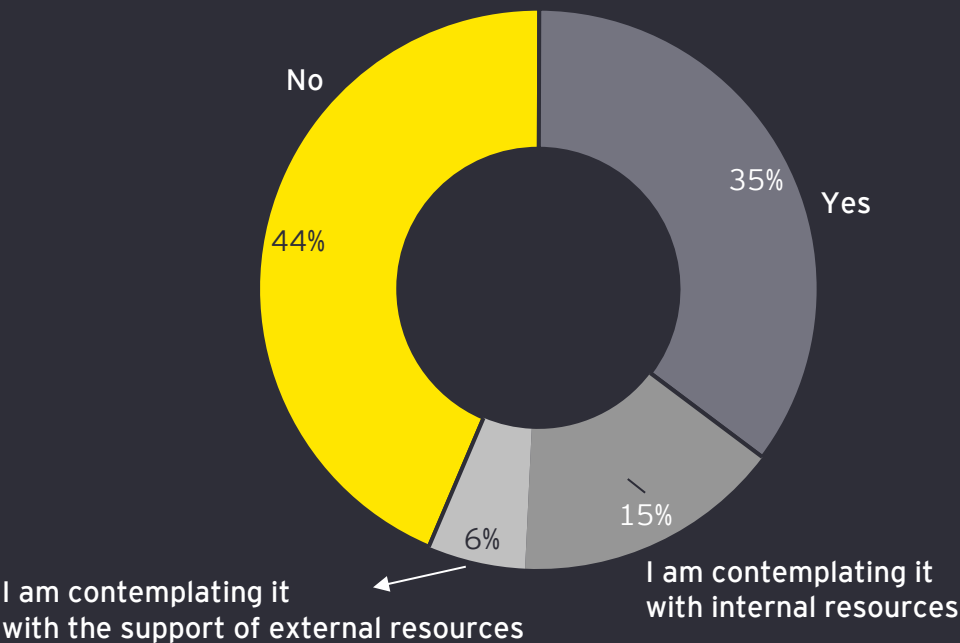


Most of the participants do not expect that AI will have disruptive impacts on their business, and only 35% has already invested in AI

How do you believe AI will impact your business in the future?



Have you already undertaken any investment toward AI?



Under a transactional lens, the AI is expected to support the pre-deal deck analyses, with focus on market screening and preliminary analyses on the historical data

What are the main activities that AI will impact more under a “Buy & Integrate” lens?



- ▶ AI is expected to support the pre-deal phase, with focus on some basic activities such as market screening and historical data analyses
- ▶ More sophisticated uses (e.g., valuation support, scenario analyses, etc.) still remain less representative in the view of our respondents

EUW Buy and Integrate community – Key contacts

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