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European M&A report: Trends and growth drivers

Current landscape and 2024 outlook – Published May 2024

Contents

Foreword

Lee Castledine

A partner at RSM UK and member of RSM's Global Due Diligence Leadership Team

"Moving from 2023 into Q1 2024, we are seeing a continuation of the trends we have witnessed in the mergers and acquisitions (M&A) market with activity in the European mid-market continuing to contend with economic headwinds and geopolitical uncertainty.

Deal-making volumes across the continent have remained resilient in the mid-market segment, our main area of focus, supported by underlying appetite for private equity investment in Europe albeit with a "flight to quality" and more considered due diligence processes compared to the accelerated exercises we were seeing in 2022, fuelled by competition to do deals as we emerged from the Covid pandemic.

2023 saw challenges around the impact of ongoing conflicts in Ukraine and in the Middle East. There were associated impacts in numerous areas including supply chains, energy costs and inflation, including wages and salary costs. Interest rates rises added to the challenge for investors.

The mid-market segment has proved to be more resilient to these challenges relative to the larger end market. Mid-market investors have shown agility in adapting to the challenges with an undoubted focus on quality but able to identify attractive targets in niche segments. Deals continue to exist and emerge following the dislocation after the Covid pandemic and how that has changed how we live.

In the mid-market, RSM has found that M&A activity in Europe continued to exceed pre-pandemic levels in 2023 even despite the challenges. We have however been delighted to see our deal completion statistics continue to rise in 2023 even compared to the results we posted in 2022, itself a year of exceptional M&A activity generally.

Deal advisory support delivered by RSM's came on an unprecedented scale. Across the continent, we saw more than 700 transactions completed and overseen by RSM in Europe in 2023. This is the highest volume of completed European deals overseen by the organisation during a calendar year breaking 700 for the first time.

2024 has begun in a similar vein albeit with the prospect of reduced inflation and, in turn, reductions in interest rates potentially leading investors to have increased confidence as we move through the year.

Key sectors are proving to be deal-making growth drivers for RSM.

Engineering and Manufacturing transactions propelled RSM's strong performance in Europe, with 141 deals, more than in any other sector. Positive sentiment in Technology, Media and Telecoms (TMT), is being driven in part to the global drive for digital transformation and resulted in 138 transactions being completed and overseen by RSM in Europe. This is a very strong sector for RSM and will continue to be so.

Within the Business Services sector, another strong sector for us, we are seeing a theme of private equity firms targeting dynamic family-owned businesses seeking to crystalise their value. Healthcare's technology adoption and niche advantages make it increasingly attractive to investors despite challenges, providing grounds for optimism as we progress in 2024.

Early indications suggest there is and will be an ongoing, sharpened focus on micro-segments and portfolio building as 2024 unfolds. With a significant volume of dry powder across private equity seeking acquisition opportunities, investors are likely to continue to actively seek opportunities across multiple sectors, often on a cross-border basis.

RSM's European M&A Report 2024 provides in-depth insights from its global experts, delving into the key trends we will see for the year ahead. This includes analysis on sector trends within engineering and manufacturing, healthcare, business services, consumer products and technology, media and telecommunications. RSM's insights additionally include the impacts of cyber security and future transition technologies; such as the drive of bolt-on deals, a strategy we have seen continue to build through 2023."

2023 In Summary

Transitioning from 2023 into Q1 2024, RSM saw its deal volumes in Europe continuing to remain buoyant, with high levels of capital available. The appetite from both private equity investors and corporates remains strong generally with the prospect of lower inflation and interest rates as we go further into 2024 given potential to increase confidence to undertake M&A activity. We have been delighted with our deal completion statistics across 2023 with record levels despite the more challenging environment.

Across Europe we saw extraordinary volumes of deal completion activity in 2023 with 733 transactions supported by RSM.

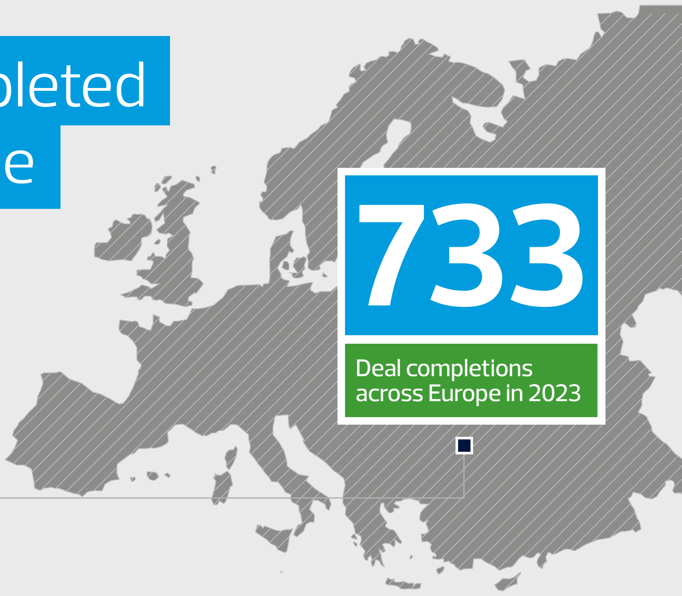
European dealmaking trends by sector

Number of deals

2022 ranking		2023 ranking	
1	Technology media and telecoms	1	Engineering and Manufacturing
2	Engineering and Manufacturing	2	Technology media and telecoms
3	Real estate and construction	2	Business Services
4	Business Services	4	Healthcare
5	Consumer Markets	5	Real estate and construction
6	Healthcare	6	Transport and Logistics
7	Financial Services	7	Financial Services
8	Transport and Logistics	8	Consumer Markets
9	Leisure and Hospitality	9	Leisure and Hospitality
10	Education and training	10	Education and training

Deal completions 2023

RSM advised on **733** completed transactions across Europe throughout 2023



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Sector Analysis

Engineering and manufacturing trends

Introduction

The forward-facing nature of the engineering and manufacturing sector has driven positive investor sentiment within the industry, enabling it to successfully adapt to external economic headwinds.

Despite the M&A market being affected by macroeconomic factors such as inflation, interest and valuation gaps, the mid-market was able to navigate these challenges in 2023. Across Europe, RSM advised on 141 completed transactions in the engineering and manufacturing sector, more than in any other sector for completed transactions in 2023.

Whilst the sector's deal making performance in the first half of the year was consistent with reduced numbers reported across other sectors, the second half of the year proved decisive, with engineering and manufacturing transactions picking up significantly in the second half of 2023.

The industry's resilience was driven by strong performances in key sub-sectors and comes as businesses adapt to global disruptors and the evolving Environmental, Social and Governance (ESG) landscape in which they operate.

Investment strategies in engineering and manufacturing

ESG as a guiding light

M&A activity within engineering and manufacturing has proved instrumental. It will continue to be pivotal in supporting businesses to progress on their sustainability journeys. To define and develop their investment strategies, businesses are conducting rigorous analysis of their value chains to spot compliance gaps and how these can be addressed by investing.

The increasing scale of regulatory compliance required is driving c-suite decision making for businesses to accomplish sustainability and broader ESG initiatives. This is particularly prevalent within engineering and manufacturing specifically, where transactions across Europe are increasingly guided by ESG.

Phil Parkes, Partner at RSM UK, says,

"On their sustainability journeys, businesses are faced with increasing regulatory compliance requirements, along with a drive to accelerate adherence as a result of pressure applied by consumers and competitors too. M&A is therefore proving a key route for businesses to accelerate their innovation and decarbonise their value chains."

As businesses scope their future dealmaking, ESG maturity is proving to be a decisive factor in defining a business' deal-making attractiveness. Should a transaction not correspond with ESG requirements, then the increased scrutiny means it is less likely to be pursued. This is indicative of ESG being an integral due diligence component, one that is here to stay within the engineering and manufacturing sector.

Businesses dealing with disruptors

Adding security and minimising supply chain risks

Global disruptors faced in 2023 will continue to be felt in 2024. Engineering and manufacturing's reliance on carbon makes it particularly susceptible to hikes in energy prices. The sector additionally faces mounting staff costs arising from pay adjustments made by companies to offset cost-of-living pressures. The effects of these challenges can disincentivise deal making in the eyes of investors.

Supply chain disruption has been an ongoing issue since the Covid pandemic, during which the vulnerability of global supply chains was exposed. This led to instability globally, supply chain delays and subsequently increased prices.

Across a number of transactions, RSM has seen the impact of increased supply costs on businesses, their ability to meet demand and the impact it can have on margins. Many businesses have sought to add more security to their supply. However, this can have unintended impacts, such as locking up cash in working capital.

Global supply is also severely impacted by pinch points, such as those witnessed in the Red Sea region recently following the escalation of regional conflicts. Many container ships are now diverted on longer routes, which in turn severely impacts lead times. In addition to this, chip shortages have also had an impact on technological advancements in the sector, adding to development timelines which ultimately impact the achievement of strategic goals around efficiency and automation.

Freek van der Linden, Director at RSM Netherlands, says,

"In response to disruptors, the levers engineering and manufacturing businesses can pull are limited. RSM is seeing businesses across the industry, and a wide variety of other sectors, seeking to derisk and shorten their supply chains to minimise global shocks, which may have significant impact on cost of sales and working capital requirements."

Subsectors shaping the future

The rate of technological advancement is proving a driver of investment, which has propelled certain subsectors within engineering and manufacturing. In this regard, transactions within healthcare and energy transition across continental Europe have provided positive outlooks and have significantly contributed to the sector's buoyancy.

Deal making within electronic products, food and drink and automotive have also delivered growth in 2023, all of which are trends RSM expects to continue in 2024. Central to future growth is investment in technologies such as AI (Artificial Intelligence), machine learning and robotics. They are all key focus areas in engineering and manufacturing to achieve efficiency savings and productivity gains to counter the disruptors and pressures being felt by the mid-market.

The acquisition of innovative technologies or capabilities enables businesses to remain competitive and expand their market presence. Businesses with unique innovative offerings and strong R&D (Research & Development) teams will be prime targets for transactions as businesses and investors seek to accelerate their own efforts, shorten lead times to market and stay ahead of competitors.

Dr Nils Mengen, Partner at RSM Ebner Stolz, says,

"Engineering and Manufacturing's robust performance has been sub-sector driven, with production technology being the key and common factor driving the industry's collective progress. However, merely having the machinery is not enough, businesses need the software and digital solutions to maximise their technology's full potential."

Outlook for M&A

Current market sentiment indications show that deal activity across the engineering and manufacturing sector will pick up during 2024 and continue into 2025. This projection is supported by private equity's growing interest in investing in the sector, at a time where investors have cash to deploy and assets in their portfolios which need to be realised.

Crucially, the cooling of macroeconomic challenges will provide a clearer sense of certainty for investors. Business-led investment is seeing leaders re-evaluate their operations and businesses' non-core assets, which are likely to be divested to free up resources to go and invest in more profitable, growth areas.

Consolidation, particularly within the mid-market will continue to occur, particularly where businesses have been negatively affected by the economic conditions and "good value" opportunities are identified. Factoring this into the increasing ESG and regulatory requirements which businesses in this sector are trying to tackle, the outlook for activity through to the 2025 is a positive one.

Technology, media and telecoms trends

Introduction

Technology, media and telecoms (TMT) has shown continued strength and remains a buoyant sector for M&A activity. RSM advised on 138 completed TMT transactions across the continent, second only to the manufacturing and engineering industry.

Strong dynamics of the TMT industry allow it to remain attractive as an area of investment focus and to stand out from other sectors in a broad range of market conditions.

Whilst high interest rates and energy costs, along with a general cost-of-living crisis, have dampened activity in some sectors. TMT businesses have shown resilience.

The general positive sentiment towards TMT assets is in part to the global drive for digital transformation. Markets and Markets predicts the market will surpass US$3 trillion by 2030, with TMT companies benefitting from this growth.

Specifically, there are also key advantages for investors in this area. ***"Software and IT services businesses often have subscription-based revenue models, which provide good security of revenue, often with contract visibility beyond six to 12 months,"*** says Armand von Alberti, Transaction Advisory Partner at RSM in Germany.

Investment strategies in the technology industry

Strategic growth: Buy and build

Buy and build is an investment strategy well-suited to the technology industry. Companies can build their portfolio of technologies by adding another niche or software product to what they have and then seek to exploit that.

Lee Castledine, Partner at RSM UK and member of the RSM Global Financial Due Diligence Leadership Team, says,

"It may be a small piece of technology, but when you have a large customer base, the cross-sell opportunity can be a very valuable way for acquirers to grow profits, and in turn create business value, quickly and significantly."

There can also be cost reduction opportunities as the integration of a product to a portfolio might mean a limited need for incremental overheads resulting in a significant synergy gain from a business combination through those savings.

An alternative strategy can be for acquirers to purchase businesses that have developed niche technology products but with a historical focus on technical product development rather than commercialisation and expansion of the customer base. The introduction of a focused and dedicated sales force to aggressively market the technology has the potential to accelerate both revenue and profitability to drive business valuation on an upward trajectory.

The complexity of valuing technology businesses

Valuing tech assets: A deep dive into revenue dynamics

Technology assets can be challenging to value, especially in the start-up or hypergrowth phase. The business may be unprofitable at the time of sale and yet have significant potential for future revenue.

Focus is often directed towards revenue visibility and annual recurring revenues (ARR). Due diligence can be key to testing the robustness of underlying assumptions in this area:

- Subscription services provide a high-quality and consistent revenue stream, but the precise definition of what constitutes "recurring" revenue is often a focus. Sellers can sometimes argue revenues that are not contractual but have a repeating nature might legitimately be refined as ARR.
- Technology businesses can have multiple revenue streams and sellers in areas such as managed services will want to highlight that an inherent feature of the relationships and customer base will mean additional ad-hoc work will be obtained by virtue of their position within the customers' business. This work may be less secure than subscription income but can still provide a degree of revenue visibility.
- *"Cybersecurity companies that are embedded with their customers can be viewed as a direct extension of their customers' cyber support team and with this being such a business-critical area, with a high potential cost of switching provider can lead to higher valuations for such businesses as a result."* says **Alex Pike, Corporate Finance Partner at RSM UK**.
- The dynamics of customer churn are inevitably a key focus – how stable is the customer base and what is required to be replaced each year just so a business can stand still. This leads to a focus on the cost of onboarding new customers and this data can be more challenging to assess fully and transparently.
- A further focus might be on headcount and retention. Who holds the critical business relationships and who are key from a technical software product perspective. Due diligence forms a vital part of assessing the underlying dynamics and resilience of the business model in the technology sector.

Oliver Smyth, M&A Transaction Services Partner in RSM and Nordics FDD lead says,

"Snowball analysis is critical for breaking down revenue movements like, upsell, down sell, won customers, lost customers, etc. Revenues may be the same year-on-year but that does not provide any deep insight into the underlying activities contributing to that revenue."

Due diligence processes can need high-power analysis tools and detailed data analytics work to dig deeply into the underlying business drivers.

Bridging the valuation gap

Earn-Outs in tech M&A

With challenges in pricing, earn-out provisions can become a neat way of bridging the difference between what sellers want and what buyers are prepared to pay. These structure payments are contingent on the future performance of the business and may extend out two or three years linked to a particular performance model, be it revenue, ARR or some form of profitability. Inevitably such structures then require owners to stay with a business for that period to enable them to realise that value.

The TMT sector is continuing to experience strong levels of M&A activity and is likely to remain an attractive sector. Income visibility and the global drive towards digital transformation are key features that buyers like. Assessing technology businesses can be complex, making an effective due diligence process vital for successful deals.

Consumer markets trends

Introduction

Despite encountering challenges, the consumer markets sector is renowned for its adaptability. The industry, however, has been affected by the cost-of-living crisis, primarily due to high energy costs, interest rate fluctuations, and the onset of inflation, all of which have impacted consumer purchasing power. Across Europe, RSM oversaw the completion of 26 deals in 2023 reflective of these challenges albeit with a number of ongoing projects in the sector.

Frank Dunne, Consulting Partner at RSM in Ireland, says,

"We have been navigating the effects of interest rates on consumer purchasing power. Some homeowners have benefited from the protection offered by fixed-term mortgages, cushioning them from the immediate impact of rising interest rates. While this safeguard for consumers will eventually diminish, the consumer products sector continues to demonstrate its ability to adjust and evolve in the face of economic fluctuations."

The cost-of-living crisis impact on consumer behaviour

The global cost-of-living crisis has prompted shifts in consumer behaviour, particularly within the consumer products sector. As a general trend, there is a definite shift in spending away from midrange products as consumers opt for either budget or luxury items. Some subsectors are facing a slowdown across the board, as consumers are choosing to delay their expenditures and extend the lifespan of items, such as household furniture and electronics. Self-care cosmetics, including products like deodorant, have shown greater resilience, as they fall under the category of essential items.

In the food subsector, consumer demand has shifted significantly away from premium and organic foods towards traditional food items. For example, a large cheese company in Ireland supplying a major global chain recently found that many of their premium product ranges were being cancelled as consumers opted for cheaper pizzas. Ironically, the cheese company was able to shift its products into the frozen pizza market as other consumers opted to make premium pizzas at home rather than order in.

The convenience of online shopping that accelerated e-commerce activity during Covid has remained a consistent feature of the market post-Covid. Some well-known high street brands are under severe pressure and even folding as consumers place their orders online for home delivery of a wide variety of products, from wine to consumer electronic products.

Lee Castledine, Partner at RSM UK and member of the RSM Global Financial Due Diligence Leadership Team, says,

"The decline in the high street is a feature of the current market – in part because people are no longer travelling into work every day and the ease of buying products online, delivered by two or three clicks."

Other shifts in behaviour are not directly related to the cost-of-living crisis. Post-Covid, consumers value experiences over products, leading to improvements in the hospitality subsector.

Eric Fougedoire, partner at RSM France, says,

"Consumers are choosing to spend their disposable income on things they could not enjoy during Covid. This shift reflects a growing preference for creating memories and enjoying activities, such as travel, dining out, and entertainment, rather than acquiring physical possessions."

A shift in focus from growth to profitability

The landscape of valuations and investment strategies has been significantly reshaped by unforeseeable events, notably the impacts of Covid and the unexpected disruptions caused by the war in Ukraine's impact on supply chains and the cost of living. Some investors are undergoing necessary restructuring, aiming to steer these businesses towards improvements in profitability and cash flows to allow them to grow and develop.

Debt financing is more difficult to raise in a subdued economy as lenders are necessarily more cautious. In this situation, the market becomes less competitive, and buyers can afford to take more time in their due diligence and in particular keeping a close eye on current trading performance.

We are also seeing PE firms adapting their approach in this dynamic market.

Mike Graziano, Director of Transaction Advisory at RSM , says,

"In the current market, PE firms in particular continue to pursue roll-up strategies, especially with consumer services businesses that can be consolidated into a larger entity and gain operational leverage by reducing back-office support. This provides financial flexibility by acquiring several assets at potentially lower multiples and positioning the business for a higher return once sold."

Prominent deal features

Similar to other sectors, many deals in the consumer products sector are taking longer to complete than previously. There are fewer competitors in the market, and buyers can afford to take their time and be more selective. Current due diligence processes have enhanced focus on current trading performance. Buyers can be willing to wait another quarter to compare the actual performance with projections before closing the deal.

With valuation differences between buyers and sellers earnouts are becoming a prominent feature in negotiations. These tie a portion of the purchase price to the target company's future profitability, bridging the valuation gap between parties. This approach, while commercially sound, requires careful consideration and definition of earnout terms to ensure alignment of focus post deal.

Despite the general challenges in the consumer markets sector, there are bright spots of resilience, particularly in luxury and budget brands.

Business services trends

Introduction

Activity has remained robust in the midmarket bracket, where RSM corporate finance teams advised on 138 completed transactions across Europe in the last 12 months, including 75 in the final six months of 2023. Notably, completed business services deals increased by 20% last year compared to the previous year, highlighting the sector's ongoing strength.

Lee Castledine, Partner at RSM UK and member of the RSM Global Financial Due Diligence Leadership Team, says,

"The global economy continued to face a range of economic headwinds in 2023. General economic uncertainty, higher interest rates and energy price inflation has put pressure on the cost of living and creating challenging business conditions.

"Nevertheless, whilst some sectors have seen pressure on Merger and Acquisition (M&A) deal volumes, others have shown strong resilience, such as the business services sector."

Business services subsectors proving attractive

Within business services, several subsectors remain attractive for M&A despite the broader economic challenges:

- **Human capital businesses** (such as consulting and staffing businesses) have remained attractive with features that include repeat customer bases, visibility of income and internationalisation. Those with a focus on specific niches, particularly within technology or healthcare, are favoured and often viewed as having high growth potential.
- **Facilities management** companies, like security and cleaning companies, provide services which will always be in demand. Cleaning businesses witnessed some competing challenges through the COVID pandemic with an increasing focus on workplace cleanliness offset by the increase in remote working. Companies in this subsector often look to expand using a buy-and-build strategy.
- **Professional services** have seen an interesting trend in recent years, with accounting firms, in particular, gaining an increase in private equity investment. These firms are being viewed as low-risk, high-growth investment targets as the industry goes through a transformation with an increasing amount of service offerings, as well as regulatory and compliance requirements, supporting valuations.

Considered approach to deal making

Economic headwinds are causing buyers to focus on the resilience of potential targets. Sellers are more frequently being required to produce more data justifying projections, and buyers are more willing to wait for another quarter to pass to ensure they have an accurate assessment of current trading.

Marcel Vlaar, Financial Due Diligence Partner at RSM Netherlands says,

"There is a really strong focus on current trading with a far higher weight given to the shorter, more recent period than historical data affected by trading conditions during the COVID pandemic."

Buyers are seeking resilience, and subsectors like facilities management, cleaning, and security are attractive investments due to both their stability and potential for bolt-on acquisitions. The market need for these services remains regardless of the economic climate. At the same time, sellers are also often seeking to move up the value chain before engaging in M&A. Consulting-led businesses can do this by acquiring more technology services so that they can access a subscription income base in addition to their consulting fees.

According to **Jonathan Wade, Corporate Finance Partner at RSM UK**

"What we've seen in the staffing sector is applicable to business services as a whole. Sellers can increase their value by developing a deep niche, building their recurring contract income base or expanding into an international market, which offers buyers better growth prospects and diversifies their risk."

In this climate, it is critical to be prepared for longer due diligence processes and more data requirements before deals are closed.

According to **Daniel Kroes, Transactions Partner at RSM Belgium**

"A step-by-step approach can be more appropriate. Start with financial due diligence on key value areas before moving into tax and other areas which may be more confirmatory to avoid a large investment in due diligence costs only to end with an aborted deal."

The role of Private Equity in the current market

Private equity (PE) remains a strong area of activity in the current market, either through direct investment in businesses or through supporting the delivery of strategic buy and build plans.

A feature of the current M&A market is the number of family-owned businesses seeking to crystalise some of their value, which is a prime target for PE firms. One of the impacts of the COVID pandemic has been to increase focus on the appropriate work / life balance and PE can present an attractive solution where sellers are looking for a partial, if not immediate, exit. There is usually a management team able to take on the business being sold, particularly where supplemented by a period of transition as customer relationships are transferred.

Subsectors attracting the interest of PE firms include accounting firms, as previously mentioned, and legal practices. Escalating compliance requirements across Europe means these businesses can have a strong growth trajectory. They operate in a sector where skills are scarce. European regulation changes have allowed higher levels of investment in both these subsectors, and PE firms are taking advantage by investing at scale.

The rise of data analytics

Market resilience continues to mean sellers remain confident of exits and therefore supportive of making investment in structured sell-side work to inform potential buyers on M&A opportunities.

Vendor-commissioned due diligence work continues to be a key market feature with a more traditional vendor due diligence product offering being supplemented by Financial Factbooks (FFBs). FFB's present financials in a descriptive, factual manner but with a scope that is generally accepted as being more flexible whilst still reducing the risk of price chips in subsequent buyer due diligence.

Data analytics has rapidly become a standard tool within due diligence generally but with the use of more powerful tools and the production of dynamic dashboards, processes are able to develop more rapidly. These dashboards are allowing bidders to perform their buy-side work more quickly with reduced need for extensive Q&A processes to interrogate business drivers.

Conclusion

Despite global economic headwinds, M&A activity in the business services sector is showing strong resilience, especially in the mid-market segment. Nevertheless, buyers are looking to test the resilience of target businesses. Sellers, on the other hand, are looking to push themselves up the value chain by growing into income streams that can be perceived as more valuable, such as technology services and subscription income.

Healthcare trends

Introduction

With almost $2.5 trillion available dry powder as at the middle of 2023, the healthcare sector remains an attractive destination for investment.

Notwithstanding the adverse economic conditions which have created challenge to M&A activity and lowered deal volumes, it is growing adoption of technology that makes healthcare remain a fertile ground for investors with an understanding of its niches and differences from other sectors.

RSM corporate finance teams advised on 107 completed transactions across Europe in the last 12 months, including 73 in the final six months of 2023 where completed healthcare deals increased by more than 50% compared with the same time period in 2022. This highlights the optimism surrounding the sector and its strength in the eyes of investors even in more difficult broader market conditions.

Healthcare is benefitting from being a niche industry

Niche markets tend to have higher margins, and healthcare is no exception. This can often be attributed to high barriers to entry, which makes the environment more difficult to access for all investors.

For generalist investors, the higher valuations can also represent a challenge as they are invariably trying to compete with others who have a deeper understanding of a particular healthcare niche.

Private Equity (PE) houses that operate in this sector usually develop a reputation in particular areas that positions them well to access opportunities and close deals. Track records in specialist areas can be crucial to provide investors with credibility and that is often seen in healthcare.

The drivers for growth in the healthcare sector

Whilst labour shortages in healthcare are a significant obstacle for the sector, they can also present opportunities for it to grow and innovate. Consequently, businesses are actively exploring technologies that lower their reliance on human resources. Robotics is one such example, through developing mobile lifts that help patients get into and out of beds. Technology using robotics provides a marketable solution, without compromising on quality of service. Artificial Intelligence (AI) is another growth area as healthcare providers seek to find alternatives to combat the shortage of skilled practitioners.

Healthcare M&A deals are often strategic in nature. There may be a specific cross-border growth path that a company wants or needs to pursue, or a buy-and-build acquisition that complements its portfolio of products and services.

Scott Powers, Director, Transaction Advisory Services at RSM US LLP, states

"There may be limitations to a buy-and-build strategy as regulators in the U.S. have increased their focus on the prevention of monopolisation of local markets. A recent court case between the Federal Trade Commission (FTC) and a PE-backed healthcare operator stands as a case in point."

Some subsectors in the healthcare industry are experiencing higher deal volumes than others, including:

- Clinical trials and clinical research organisations.
- Dental care.
- Behavioural health, particularly in the U.S.
- Equipment leasing is experiencing growth in Europe with cross-border interest from the UK.
- Hospice care is also attracting high deal volumes.

Challenges and opportunities in healthcare

Moving from a human capital to a technology capital model in the healthcare sector may well require substantial investment. The impact of higher interest rates has made access to finance more challenging, but the sector generally is viewed as resilient as healthcare needs are seen as non-discretionary.

With changes in business models through investments in technology, forecasting future revenue can be more challenging and this can make valuations more difficult to agree between buyers and sellers.

Marcel Vlaar, Financial Due Diligence Partner at RSM Netherlands notes,

"Remote care is a subsector of healthcare, offering significant opportunities. Healthcare costs are rising, and with ageing populations, curtailing these costs is essential. Remote models using digitalisation allow businesses to consolidate their physical assets but still provide excellent services outside of the major urban centres."

Regulatory impacts on healthcare

The healthcare sector is highly regulated, especially in regard to the high-stakes development of new medicines. Their pathway to deployment hangs on medicines having completed trials, thereby receiving regulatory approval. Divergence in regulation can bring opportunity, notably between adjoining countries which can lead to cross-border collaboration.

The adoption of AI has also attracted the attention of government regulators. A recent AI Safety Summit in Bletchley Park, UK produced a declaration signed by 29 countries aimed at fostering co-operation and deepening our understanding of the potential safety risks. Future developments in AI regulation may impact the use of AI in healthcare.

Prominent deal features

As M&A markets become less heated and competition to complete transactions achieves a better balance, healthcare acquisitions, along with other industries, can see more considered due diligence processes.

Oliver Smyth, M&A Transaction Services Partner in RSM Norway and Nordics FDD lead says,

"Our due diligence invariably needs to include an analysis of the Covid impact on historical trading. There may have been extraordinary sales volumes that need to be highlighted within historical data and when considering the basis of projected revenue. Reflective of the economic environment, investors and banks are also scrutinising forecasts at a more detailed level than before to assess the robustness of projected earnings and cash flows. Banks are particularly focused on the ability to service interest costs and capital repayments."

Cross-border acquisitions are common in the healthcare sector. Even smaller businesses are exploring cross-border opportunities as a growth strategy, with some deals as low as €5 million having cross-border elements.

Assets where existing owners are staying on board with incentives to grow the business may be more attractive to buyers compared to assets where owners are exiting the business. This allows these businesses to benefit from that owner knowledge and to continue to build and develop stakeholder relationships.

The healthcare sector is a specialised environment often with high barriers to entry. Ageing populations, a scarcity of skilled resources and rising costs are all contributing to a drive towards developing new technologies for the sector. As a result, M&A activity in the healthcare sector shows strong resilience to adverse economic conditions, with cross-border deals a common feature.

Cyber security trends in M&A

Increasingly connected world requires gold standard implementation

Caution is said to be the parent of security – good advice for a global M&A landscape facing new and daunting threats from foes familiar and unknown, which are operating invisibly and striking within the blink of an eye.

But there is also opportunity: the cybersecurity market is widely expected to reach at least $500 billion by the end of the decade, driven by a rise in cloud solutions, the increased reach of the internet of things, and continued growth in smart devices.

Across the M&A landscape, the impact is likely to be two-fold: an ongoing activity buzz in investments across the cybersecurity sector, despite whatever downturn may come elsewhere, and a higher profile for all aspects of digital and IT security within and around the deals themselves.

In the spotlight

Marcel Vlaar, Financial Due Diligence Director at RSM Netherlands explained that experts in advisory firms know the importance of the global cybersecurity market better than most, given the amount of information they hold, and the significant investments made in their own systems. This familiarity provides them with a sector overview, a particularly important trend to track given the speed at which cybersecurity is growing.

"It is a market that is developing rapidly and players in countries, including the Netherlands, have seen significant growth over the last couple of years due to increased volumes. I'm certain cybersecurity will remain important as long as people share information."

Protect and serve

The ripples of cybersecurity extend outwards, according to **Eric Fougedoire, Partner at RSM France:** *"This goes well beyond securing data to maintain confidentiality through the dealmaking process; it is also about data protection in terms of GDPR and related developments that are gaining momentum worldwide."*

Fougedoire also pointed out that working to stay ahead of the cybersecurity curve provides its own knock-on benefits.

"In a market sense, best practice internally creates opportunities, because we are all experiencing a revolution. Everybody needs to have the right tools in place to provide cybersecurity, we all need to know how best to meet those needs."

"Trust will fuel confidence and interest in those companies which have proven experience doing this type of work, along with the engineers and experts who have what is a very specific skillset."

Which is why people – in addition to performance and platform – are seen as an increasingly important driver for M&A activity in this area.

"Acquisition in the cybersecurity space can be profitable, of course, but it can also often be about securing a workforce and its proven expertise,' said Fougedoire.

New normal

The United States is often seen as leading the charge on cybersecurity but – given the crossover of activity between the US and UK, between the UK and Europe, and between Europe and the US – the bar for effective cybersecurity systems is becoming increasingly high for the entire M&A sector.

Increasing awareness of the risks involved in an ever-more-connected world, the cross-border factors that feature in more and more deals, and the heightened scrutiny that often accompanies a tighter economic landscape – all will contribute to the ongoing importance and expanding role of the sector.

"Cybersecurity is an area of both growth and opportunity," **said Lee Castledine, Partner at RSM UK and member of the RSM Global Financial Due Diligence Leadership Team.** *"As we enter an era of increased uncertainty, I certainly can't see that changing."*

Report Contributors

Lee Castledine
Partner
UK

Lee is a partner in RSM UK's transaction services team in London with over 25 years of due diligence experience.

Lee joined the Firm in 2007 to establish and build a dedicated London based transaction services team.

Lee has substantial cross border experience and heads RSM's Global Due Diligence Leadership Team working closely with other Member Firms of the RSM International Network and is a founding partner of RSM's European Transaction Advisory Services Leadership Team.

His chief responsibilities are leading project teams in complex transaction services engagements principally in the private equity and leveraged arena.

Frank Dunne
Consulting Partner
Ireland

Frank joined RSM as a Partner in early 2022 and leads the firm's Corporate Finance department.

RSM Corporate Finance is an established, full suite provider of deal advisory services across the Irish SME and mid-market.

These include M&A, equity fundraising, debt advisory, due diligence, valuations and general strategic advice.

Frank works closely with entrepreneurs, management teams and boards to fully understand their objectives, and to assist them develop and efficiently execute value enhancing strategies. He has over 15 years' experience, largely focusing on mid-market clients, advising on a wide range of domestic and international transactions across multiple sectors.

Eric Fougedoire
Partner
France

Eric is the Managing Partner leading RSM France's transaction services team based in Paris joining in 2019. He has 25 years of experience in Transaction Advisory.

Eric has had a dedicated focus on the midcap transactions market since 2001.

Eric has experience working on over 400 cross-border transactions (buy-side & sell-side) and national transactions for both strategic and financial buyers.

Eric also has expertise in deal mechanisms and SPA advisory. In addition, Eric also has seven years' experience in restructuring services (national and international assignments) and has experience as an interim CFO.

Mike Graziano
Consumer Products Senior Analyst, Director
US

Mike Graziano is director of transaction advisory at RSM US LLP, helping buyers and sellers navigate transactions.

In 2021, Mike was selected to participate in RSM's prestigious industry eminence program as a consumer products senior analyst to help clients understand broader industry trends in the context of business success.

Mike performs financial due diligence as a buy- and sell-side advisor, analysing the quality and sustainability of earnings, working capital considerations, and purchase agreements.

He joined RSM in 2011 in the assurance practice and moved to transaction advisory in 2016.
He is based in RSM's Metropark, New Jersey, office.

Daniel Kroes
Partner
Belgium

Daniel has a multidisciplinary expertise in transactions, valuations, due diligence, audit, business plan models, risk analysis, financial reporting, SWOT, data analytics, digital, governance and business transformation.

Daniel has more than 35 years of experience in audit, (vendor) due diligence, transaction services, company valuation, business modelling and risk analysis.

Daniel is "solution oriented", able to manage crisis situations, pragmatic and energetic. Daniel has a master's in finance.

Dr Nils Mengen
Partner
Germany

Nils is a partner at RSM Ebner Stolz in Germany with 25 years of professional experience with a focus on financial due diligence and any other kind of transaction advisory services.

He advises medium and large industry clients and as well private equity firms in buy-side and sell-side projects and covers a wide bandwidth of sectors, i.e., machinery engineering, software/IT, construction, retail and food.

His clients appreciate his broad expertise in any kind of financial and commercial aspects of a transaction.

He has a strong experience in multinational cross-boarder transactions and works with international teams on a regular basis.

Phil Parkes
Partner
UK

Phil is an experienced corporate finance partner with a focus on due diligence engagements for corporates, private equity, banks and public sector organisations. He also works closely with private or family-owned businesses in preparing the sale of the business through vendor assist services.

Phil has extensive experience on cross-border engagements, advising clients on deals in North America, Europe and Australia. Phil has completed deals in various sectors, particularly in manufacturing, consumer markets and the healthcare sector where he has supported both NHS Trusts/Commissioning groups and Private Healthcare providers.

He also has a niche expertise in the sports industry, working on buy-side engagements for investors acquiring football clubs, with in excess of 10 engagements undertaken over the past 3 years as well as supporting on wider sports industry transactions.

Alex Pike
Partner
UK

Alex is a highly experienced transactions-focused partner with more than 15 years in corporate finance and senior finance roles.

He's worked both in practice and in large corporations, including Oxford Instruments plc and Pets at Home Group plc. Alex focuses on mid-market transactions in the £5m to £100m EV range, where he provides robust and thorough due diligence advice to corporates, private equity investors and funders.

Having worked outside of professional practice, including two years in the US, Alex has a breadth of experience and knowledge of businesses that is highly valued by his clients during a deal process.

Scott Powers
Director, Transaction Advisory Services
US

Scott leads RSM US's Healthcare and Life Sciences Financial Due Diligence team in the Northeast U.S. with more than 13 years' experience advising clients on mergers and acquisitions, finance, accounting, and business processes.

Scott partners with private equity firms, private equity-backed portfolio companies and corporate clients on transactions ranging between $20 million and $1 billion, from both a buy- and sell-side perspective. He has vast experience with transactions completed in the U.S. and cross borders, working closely with RSM colleagues across the globe.

Oliver Smyth
Partner
Norway

Oliver is a partner in RSM Norway's transaction services team in Oslo, with over 14 years of due diligence experience.

He assists Private Equity and strategic clients with a wide range of Transaction Advisory Services, primarily focusing on buy-side and sell-side financial due diligence, as well as IPO financial due diligence.

In his role as Nordic FDD Lead in RSM, Oliver has led RSM support on numerous transactions across the Nordic region (Norway, Sweden, Denmark, Finland), serving clients across a wide variety of sectors.

Freek van der Linden
Director
Netherlands

Freek is a director in RSM Netherlands' transaction services team in Amsterdam with over 20 years of due diligence and financial management experience.

Freek joined the Firm in 2023 to support and lead the growth of the Dutch transaction services team. Freek has substantial (cross-border) due diligence experience in the mid-market sector. Freek has seen both sides of the M&A table: as a due diligence advisor and as a finance director and CFO for a number of private equity portfolio companies. His chief responsibilities are leading project teams in transaction services engagements, principally for private equity clients.

Marcel Vlaar
Partner
Netherlands

Marcel Vlaar is a partner in RSM NL's transaction services team in Amsterdam.

Marcel joined the Firm in 2018 to establish and build a dedicated Amsterdam based transaction services team. Marcel has substantial cross border experience and is a member RSM's Global Due Diligence Leadership Team working closely with other Member Firms of the RSM International. Marcel has significant experience servicing mid-market private equity and corporate clients. Marcel holds an Executive Master in Business Valuation and is a Certified Management Accountant.

Armand von Alberti
Partner
Germany

Armand joined RSM Ebner Stolz in 2010 and has become partner in 2015. Since then he has built and grown the transaction advisory service practice and heads the team located in Frankfurt, Stuttgart and Munich.

Armand focuses on mid-market transactions working especially for private equity clients but also for corporates, both on the buy- and the sell-side.

As member of RSM's Global Financial Due Diligence Leadership Team he is responsible for the cross-border deal activities of RSM Ebner Stolz and the further development of RSM' transaction advisory services.

Jonathan Wade
Partner, Transaction Services
UK

Jonathan is a partner in RSM UK's deal services team in London with over 20 years of due diligence experience. Jonathan moved to London in 2007 to help establish and build a dedicated transaction services team.

Jonathan has extensive experience in mid market transactions and in particular in human capital / business services (he is RSM UK's corporate finance sector lead for the staffing sector) as well as financial services.

Trusted key client relationships nurtured over many years means Jonathan is active on cross-border transactions for his clients as they seek to build value.

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