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Where deals are made

The New State of M&A

An **EMEA** Perspective

2020-2025

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Executive Summary
An EMEA Perspective

For all the advances that have been made, just how digitally mature and technologically sophisticated is the M&A, due diligence and asset marketing process for practitioners across Europe, the Middle East and Africa (EMEA)?

What does the process look like for them today and in the future, and how much of it can and should be automated and in what areas?

These are some of the key questions we asked 860 EMEA-based M&A practitioners from corporates, private equity firms, investments banks, law and professional services firms for their views on the subject.

The EMEA responses, which formed part of a global survey of 2,235 practitioners, reveal many similar perspectives with other regions, as well some interesting differences, too.

860 EMEA-based M&A practitioners surveyed

Regional differences in digital maturity and technological sophistication

While most practitioners in EMEA, the Americas and APAC expect the digital maturity and technological sophistication of the M&A process at their company and industry-wide to rise to a high level in five years' time from a medium level today, some regions are already more advanced than others. Notably fewer practitioners in EMEA, for example, currently assess a high level of maturity and sophistication compared to their peers, perhaps indicating that EMEA processes industry-wide lag the other two regions.

What's holding EMEA back? There are several factors, but for most EMEA practitioners the top three main barriers to adopting new M&A process-related digital technologies are: financial or investment constraints; data security and privacy issues; and integration challenges with existing systems and tools.

However, the view varies across EMEA, where, for example, company culture seems to be a bigger barrier to practitioners at companies in the UK, France, and central and eastern Europe than elsewhere.

Transformation through technology and digitization

Differences in view are to be expected, but one key area EMEA practitioners agree on is that due diligence is the most time-consuming stage and could be enhanced most by new technologies and digitization.

New technologies will not only help accelerate due diligence over the next five years, they are also expected to enhance the security around end-to-end process, data management, and communications, improve analytics and reporting, and help practitioners run multiple scenario analyses or financial modelling.

To help them, EMEA practitioners are placing greatest hope in AI and machine learning technologies, especially as part of virtual data rooms, to deliver this process enhancement and digital upgrade.

In recent years, significant technological advances in the M&A and due diligence process have occurred. Yet in the next five years and beyond, new technologies, perhaps built into the next generation of virtual data rooms, could potentially see the M&A and due diligence process transformed.

EMEA practitioners are placing greatest hope in AI and machine learning technologies

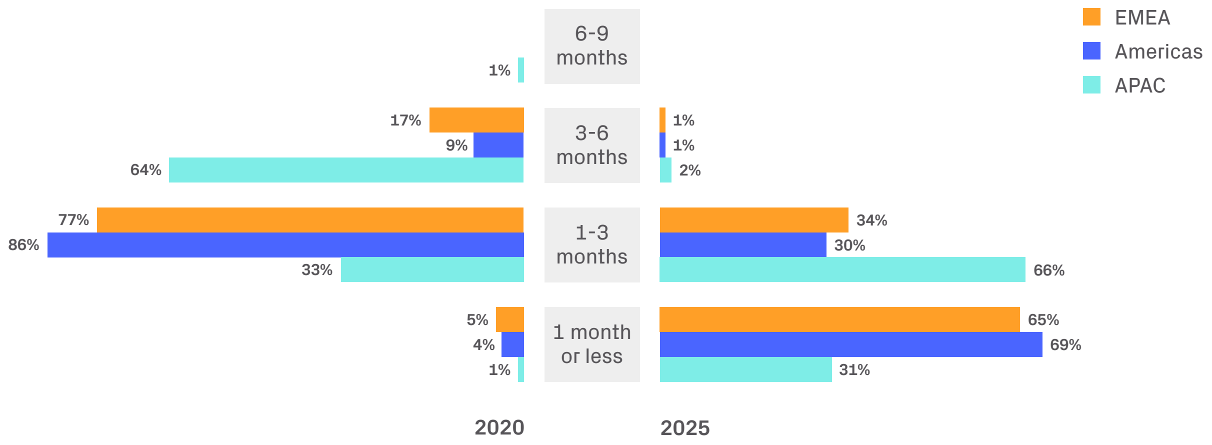
Analysis:
EMEA vs The Americas and APAC

As might be expected, the views of EMEA practitioners are different to their Americas and APAC peers in certain areas.

The need for speed

On the speed of due diligence, most EMEA practitioners assess the process as taking less than three months, which is similar to the speed in the Americas but notably quicker than in APAC. EMEA and Americas practitioners similarly anticipate due diligence to accelerate to one month or less by 2025. By comparison, most APAC practitioners expect the process to only accelerate to one to three months in five years' time.

From sourcing a deal to deal completion, how much time on average does due diligence take on a single successful M&A transaction?

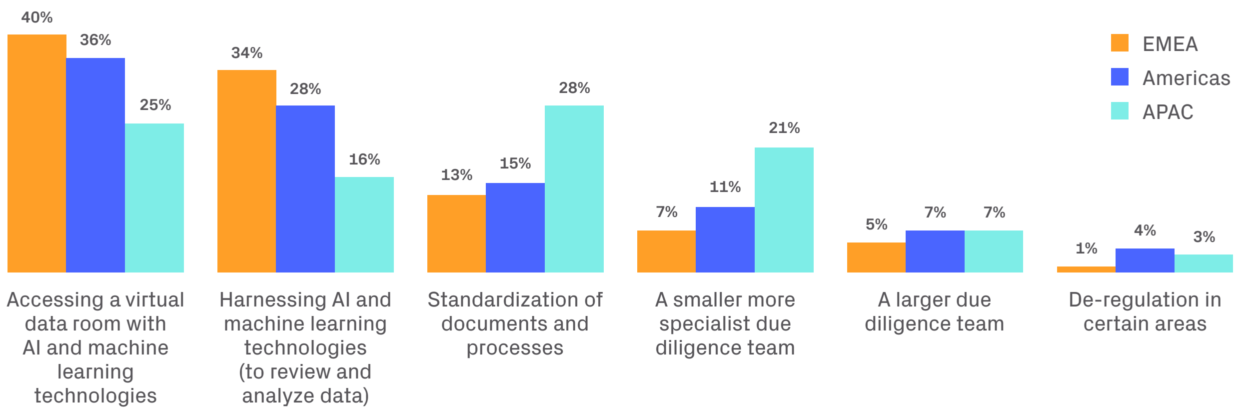


Access and analysis

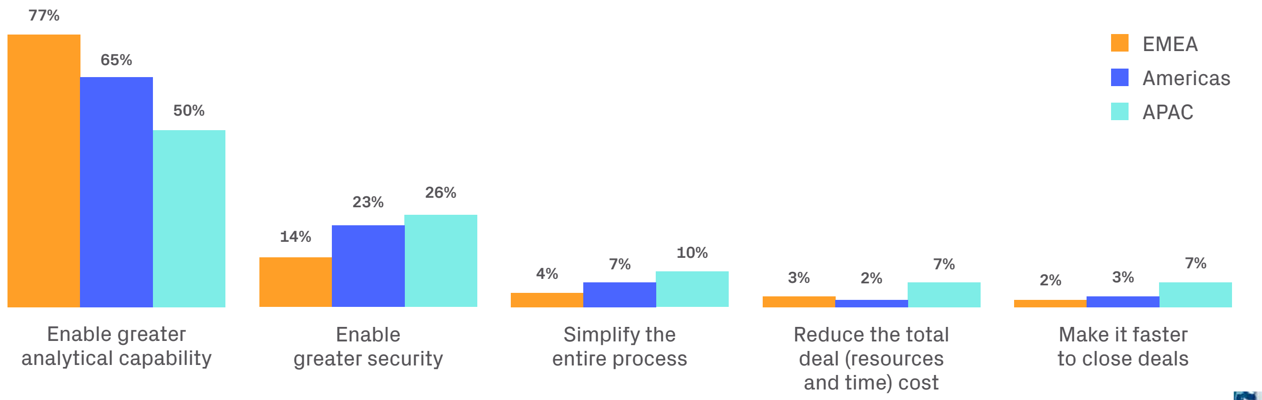
In terms of what will help accelerate due diligence, most practitioners in EMEA believe the ability to access and use a virtual data room with AI and machine learning technologies could help speed up the process the most. Most Americas practitioners say the same, but APAC practitioners take a different view, believing standardizing documents and processes could be the primary catalyst.

What's more, notably more EMEA practitioners than their peers believe new technologies should enable greater analytical capability in the due diligence process in five years' time. However, notably more practitioners in the Americas and APAC than EMEA believe technology should, in five years' time, enable greater security and simplify the entire M&A process.

Which of the following would help accelerate the due diligence process the most?

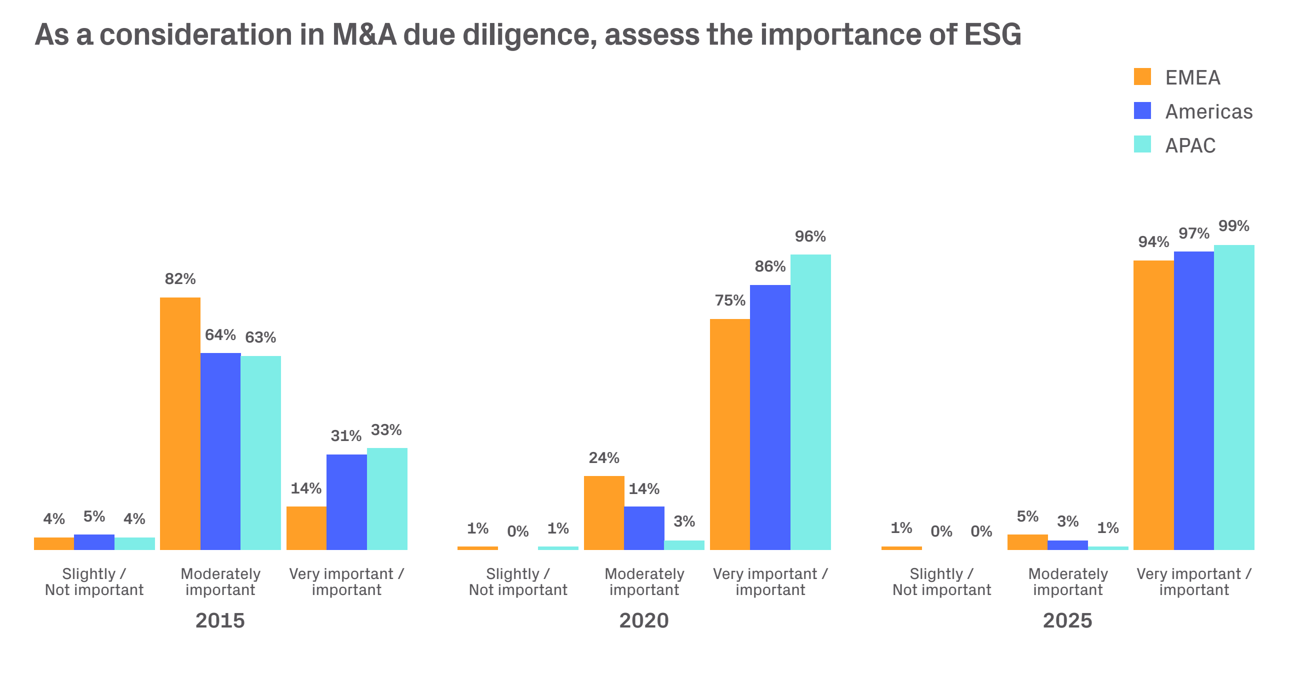


In the context of a M&A transaction, how do you expect technology to change the due diligence process over the next five years (to 2025)? New technologies should...



Environmental, social and governance (ESG) importance

One other interesting difference between EMEA and the other regions is on the importance of ESG as a consideration in M&A due diligence. While most practitioners in all three regions say ESG is an important and very important consideration, notably fewer EMEA practitioners currently say this compared to their peers in the Americas and APAC.



2020 The Current State of M&A in EMEA

Technological sophistication

89%

of EMEA practitioners say the M&A process at their company and industry-wide has a medium level of digital maturity and technological sophistication.

Barriers to digitization

83%

of EMEA practitioners say financial or investment constraints is one of the main barriers to adopting M&A process-related digital technologies.

Diligence speed

77%

of EMEA practitioners say due diligence takes on average 1-3 months to complete on a successful deal; 54% of practitioners in the Middle East say it takes on average 3-6 months.

Cyber security risk

54%

of practitioners in the UK say data or cyber security concerns is the most common issue uncovered in due diligence that causes the withdrawal from a deal – the highest percentage across EMEA.

ESG in focus

81%

of EMEA practitioners say they have worked on M&A transactions that have not progressed due to concerns about a target company's ESG credentials.

2020 The Current State of M&A in EMEA

Prime for transformation

26%

of practitioners in the Nordics say strategy is the area in M&A that could be enhanced most by new technologies and digitization – the highest percentage across EMEA.

Data privacy in focus

41%

of practitioners in CEE say they have worked on M&A transactions that have not progressed because of concerns about a target company's compliance with data privacy regulations – the highest percentage across EMEA.

Information deficit

39%

of EMEA practitioners say incomplete or inaccurate deal documents and information is the factor that slows due diligence the most.

Poor visibility

47%

of EMEA practitioners say a lack of insights on buyer behavior across mandates is the most challenging aspect of marketing an asset for sale.

Load speed

93%

of EMEA practitioners say the ability to load large volumes of data quickly is most useful in restructuring situations.

2025 The Future State of M&A in EMEA

Technological sophistication

67%

of EMEA practitioners say the M&A process at their company will have a high level of digital maturity and technological sophistication by 2025; 60% say the same of the M&A process industry-wide – the lowest percentage of the three main economic regions.

Transformational tech

37%

of practitioners in DACH countries expect AI and machine learning technologies to have the most transformational impact on the M&A process over the next five years – the highest percentage across Europe.

AI-enabled VDRs

48%

of practitioners in France and Turkey say accessing a virtual data room with AI and machine learning technologies would help accelerate due diligence the most – the highest percentage across EMEA.

AI for info review

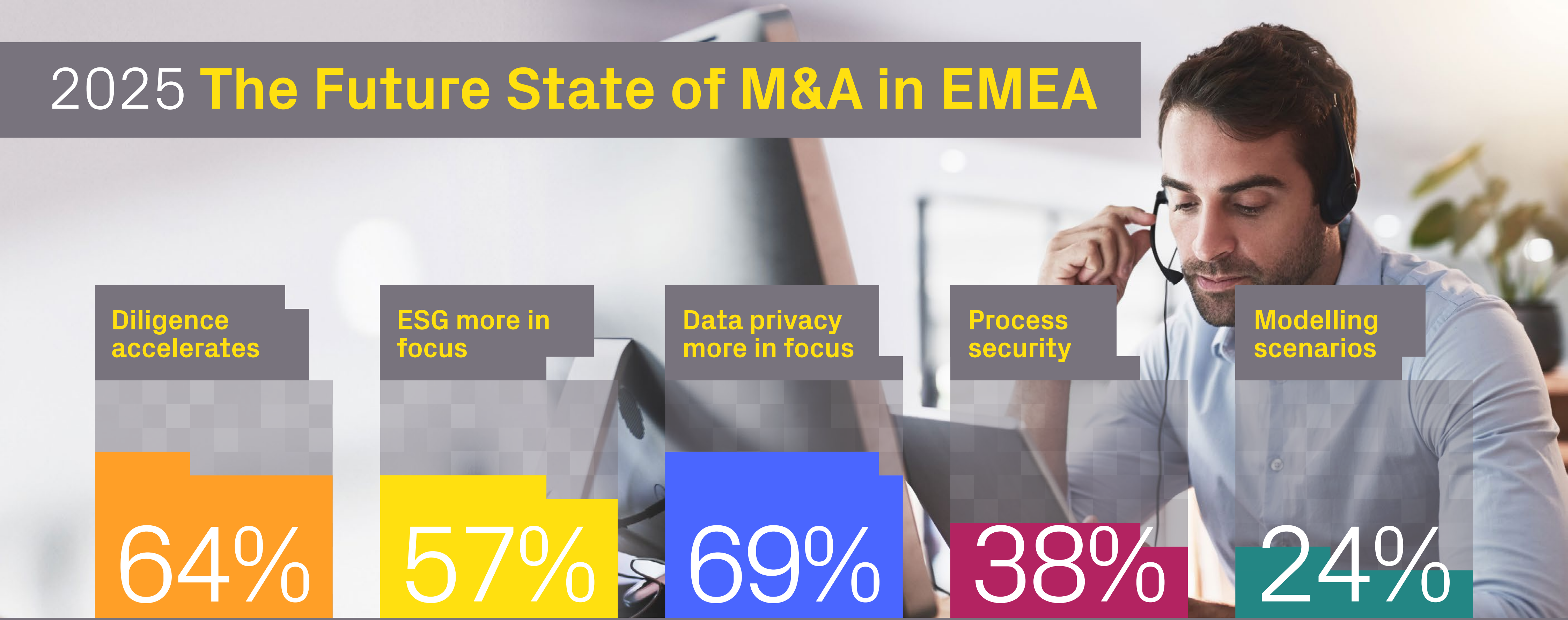
49%

of practitioners in Africa believe harnessing AI and machine learning technologies to review and analyze data would help accelerate due diligence the most.

Advanced analytics

77%

of EMEA practitioners believe new technologies should enable greater analytical capability in the due diligence process in five years' time.



2025 The Future State of M&A in EMEA

Diligence accelerates

64%

of EMEA practitioners believe due diligence will take on average less than one month on a successful deal in five years' time.

ESG more in focus

57%

of EMEA practitioners believe ESG factors will be a very important consideration in M&A due diligence in the five years' time – up from 4% of practitioners today.

Data privacy more in focus

69%

of EMEA practitioners say data privacy regulation (e.g. EU's GDPR) will be a very important consideration in M&A due diligence in five years' time – up from 16% today.

Process security

38%

of EMEA practitioners believe technology will help improve secure end-to-end process, data management, and communications the most.

Modelling scenarios

24%

of practitioners in France and the Nordics believe technology will help improve running multiple scenario analyses or financial modelling in the future – the highest percentage across EMEA.

Case Study:
Clifford Chance

AI is beginning to transform M&A due diligence

When reviewing documents in a data room during a sale or purchase process, legal advisors traditionally conduct a limited sweep of a sample of documents. In a typical M&A deal, they are constrained by the amount of documentation, which is time-consuming and adds costs in terms of lawyers' time to the process.

The concept of using a limited sample of data in a due diligence process is well-established, but it is also fraught with risk in case a crucial element is missed that the acquiring company may come to regret.

Machine learning technology is now being used to read large amounts of documents and recognize certain legal concepts.

Nigel Wellings, co-head of the corporate practice at Clifford Chance in London, says it can save valuable time and costs. "Machine learning tools assist hugely in preparing or reviewing first drafts; but currently they are limited to the more standard documentation. One example is helping to automate the mark-up of a standard confidentiality agreement letter that meets the requirements of the British Venture Capital Association."

Clifford Chance is one of the world's pre-eminent law firms. Based in London, it is one of the ten largest law firms in the world both by number of lawyers and revenue.

Nigel Wellings
Joint Head of Corporate
London

CLIFFORD
CHANCE

Using tech for best delivery

The use of AI can save valuable time in the due diligence process particularly at a time when deals take longer to close due to regulatory reviews. It also frees up senior M&A advisors to work on the more complex aspects of the deal.

AI is useful when reviewing a large number of contracts that are similar and can reduce transaction costs, but it is no substitute for human intervention as the deal process advances, according to Mark Dean, a senior legal technology advisor at Clifford Chance: “AI won’t do the job for you. M&A deals have a degree of standardization, but each deal also has its own complexities and challenges.”

Those complexities increase on big cross-border deals. There, the emphasis is on using technology to improve workflow and deal management. “The focus of our technology effort in M&A is on ‘best delivery’ because on big cross-border deals it’s important to work as seamlessly as possible,” says Dean. “Using tailored workflow systems is more efficient than email, which we try to avoid on M&A deals because it creates bottlenecks and information overload.”

Becoming embedded in due diligence

Law firms are increasingly adopting machine learning to increase the speed and depth of the due diligence they can conduct on deals. This reduces the burden at all levels of the organization, with hard-pressed junior associates freed up from repetitive manual tasks such as document review and data entry. There is also a cost benefit in terms of reducing lawyer time.

AI is still in its infancy and is best suited to high-volume standardized tasks, but it is becoming embedded in the due diligence process, in the same way that virtual data rooms did a decade ago.

“There’s a lot of scope for technology to improve the M&A process in other ways,” says Wellings. “For example, completion and signing meetings that are run remotely still rely largely on email, rather than deal room technology, as parties are more comfortable with that method of reviewing final form documents. That’s something that could be refined in the coming years.”

Case Study:
White & Case

The importance of asking the right data privacy questions in M&A due diligence

The fintech industry has exploded over the last decade. Start-ups such as Worldline and Worldpay have grown into industry leaders and become involved in multi-billion dollar deals, driving M&A activity in the sector globally and in Europe.

In February this year, for example, payments company Worldline announced a bid for Ingenico, a point-of-sale terminal provider that controls 37% of the market globally, in a deal worth $8.6bn.

While this increase in M&A activity in the fintech and payments sector has been striking, it has also been notable for highlighting the issue of data privacy protection in dealmaking. “In the payments sector due diligence can sometimes necessitate the review of merchant or end-user contracts,” says Hyder Jumabhoy, partner in the corporate M&A group at White & Case in London. “Where this is the case, data privacy concerns must be carefully assessed and navigated.”

White & Case is an international law firm based in New York City. Founded in 1901, it serves companies, governments, and financial institutions from 44 offices around the world.

Tim Hickman
Partner
London

WHITE & CASE

Digitization a new dimension

The EU's General Data Protection Regulation (GDPR) brought this issue to the fore in 2018, resulting in a significant change in how companies store and use personal data.

While GDPR was not intended to impact M&A, it has, and continues to, says Tim Hickman, partner at White & Case. "Ten years ago, a company looking to acquire a high street retailer didn't need to know much about the retailer's data. But now, when buying a retailer, a major part of the value of the business is the relationship with (and data about) the customers. A key question that any bidder should ask is 'can I use the data lawfully'?"

Any M&A professional involved in a deal process will need to call on data privacy expertise. Virtual data rooms have been a mainstay of European M&A activity for the last decade, but the increasing digitization of the corporate world had added an important new dimension to the due diligence process.

Machine learning's learnings

The introduction of GDPR means that from the start of any M&A process, the selling company must understand what it can lawfully disclose before placing documents in the virtual data room. "Some physical data rooms may attract lower compliance obligations, but everything digital is potentially in scope," says Hickman. "The seller must implement appropriate data protection rules to ensure nothing is being unlawfully disclosed."

For example, in order to understand the scale of pension liabilities, an acquirer may need to access to information about the target company's employees. To comply with GDPR, the individual names may need to be redacted or aggregated. "There is a cost associated with that review, but it is less costly than dealing with claims from disgruntled employees, and possible regulatory investigations," says Hickman.

Interestingly, he adds that GDPR also has implications for the automation of the M&A process, particularly where law firms have adopted machine learning technology to speed up the due diligence process.

"Where a buyer uses AI tools in a due diligence process it's important to remember that these tools are often not designed with compliance or GDPR in mind," says Hickman.

Case Study: Rothschild & Co

Technology is redefining the relationship between client and M&A advisor

While investment banks have in the past used their global network of offices and bankers as a selling point in scouring the globe for M&A opportunities, technology is transforming the speed and scope of that process.

Warner Mandel, global co-head of the technology, media and telecoms practice at Rothschild, which is Europe's leading advisor by number of deals, says that a good example is investment banks' use of big data, which he says essentially makes it possible for advisors to identify targets worldwide "from a desktop".

As banks have access to the same or very similar data sets, Mandel says this has commoditized the target identification process. Acquirers, however, stand to benefit, not least because through this they are presented with opportunities from deep dive data analysis which they may never have seen otherwise.

Rothschild & Co is one of the world's leading and largest independent financial advisory groups. A family-controlled group, it provides M&A, strategy and financing advice, as well as investment and wealth management solutions.

Rothschild & Co

Doing more, digging deeper

In the same way, once formal due diligence begins, acquirers can access an unprecedented level of detail about the target and the industry it operates in, pooling a wide range of comparative industry data in order to help price negotiations. What's more, the use of data analytics on the advisor side frees up junior staff from repetitive, low value tasks to focus on more analytical, high-value work such as modelling and valuation.

"Technology allows you to do more in the same amount of time," says Mandel. "The increased use of technology in M&A has distilled the client relationship. Now corporate clients can expect in-depth data analysis as a matter of course and are not willing to pay for it."

While the advance of technology is benefiting acquirers, there can be downsides too. The proliferation of data analysis in the due diligence process can, for instance, create information overload and protract the sales process. "In the past bankers would make a call with imperfect information," says Mandel. "Now there is a tendency to continue the research, to dig deeper and that can lead to paralysis by analysis."

Quality and experience prevail

Delays can be costly. So can bad advice, which is why corporate clients are willing to pay more for the best. "With improved analytics now the norm," says Mandel, "clients pay for more value-added services like judgement and trusted advice."

The true mark of quality advice is in advising a client not to do a deal that does not make strategic sense. "M&A is a people business and no amount of due diligence will dissuade a CEO from doing a bad deal," says Mandel. "That's where experience and strong, trusted personal relationships come in."

Case Study:
UBS

Harnessing technology to prepare and plan a defense

Investor activism has gone from the fringes of M&A activity to becoming one of the central drivers of deals in recent years as activists increasingly pressure company boards to make change and generate greater value.

In the past, activists have been perceived as hostile agitators. Now, many are perceived, whether rightly or wrongly, as more constructive agents that work with the support of leading shareholders.

“Activists are deep value investors who create their own catalyst for change,” says Darren Novak, global head of activist defense at UBS investment bank. “Large institutional shareholders have now become comfortable with activists and are open to what they have to say. There is a greater level of ongoing engagement.”

Activism has reached record levels in both the US and Europe and is here to stay. It’s one of the biggest challenges facing company CEOs. It’s also a big opportunity for investment banks because if they can identify the next target of activists, they can become a trusted boardroom advisor.

UBS is a leading global investment banking, wealth and asset management group. Headquartered in Switzerland, it is present in all major financial centers and is the largest Swiss financial institution in the world.

Darren Novak
Global Head of Activist Defense
London

UBS

A pivotal role in the process

Technology that uses AI and algorithms has a pivotal role to play in identifying companies that may come under attack from activist shareholders. That can then help boards to plan and prepare. This could prove to be a catalyst for a strategic review that could lead to companies selling off assets or repositioning themselves.

“Big data can be used to find patterns that you would not otherwise find. It adds a different layer of objectivity,” says Novak.

Big data can support bankers as they look to provide activist defense advice. The problem is that it can be difficult for close advisors to deliver unflattering views to CEOs, which is where technology comes in. By using empirical data, UBS can offer objective analysis to a company CEO, based on data and research, rather than through the personal judgement of an individual banker about a client’s strategy.

A balancing act

Banks have a long tradition of treating non-public information they obtain from their clients confidentially, and it is this level of trust that underpins advisory relationships.

“Banks now have unparalleled information about clients and this means M&A bankers have the scope to cover more clients with deeper data,” says Ronald Jansen, managing director and head of data and analytics at UBS.

This can enable private equity firms and acquirers to identify potential targets more quickly and with a greater understanding of valuation. But increased data can lead to information overload and it is important that technology is tailored to boost productivity.

“M&A is a very complex process and hard to automate. Unlike other areas like sales and trading, M&A remains a people business,” says Jansen.

With environmental, social and governance (ESG) factors at the top of board agendas, there has never been a more important time to understand what shareholders are thinking. ESG factors are a big part of the M&A process when it comes to identifying targets and also in the due diligence process.

Recommendations: Three Ways to Digitize your M&A

The M&A Lifecycle

Strategy | Sourcing | Deal marketing | Deal prep | Due diligence | Negotiation | Closing | PMI | Value capture

Datasite

1 Streamline key activity in the early stages of the M&A process, starting with your asset marketing process. Use technology to:

Fully Automate Buyer Tracking allowing you to review your project status all in one place - from initial contact to negotiating NDAs, sending CIMs and receiving IOIs

Bulk Watermark Documents & Bulk Create E-mails while still owning the communication from your own Outlook

Gain real-time insight with instant reporting for senior management and/or clients

2 Revolutionize the deal preparation and due diligence phase with powerful AI and machine learning capabilities to:

Automatically categorize thousands of documents in minutes

Allocate and index documents into appropriate folders

Bulk redact sensitive information and data in seconds to ensure GDPR/CCPA compliance

3 Manage the most complex and time-consuming stage of the M&A process, due diligence, by using technology to:

Create Customized Analytics allowing you to stay on top of your deal with interactive dashboards that track meaningful buyer activities

Apply advanced Q&A Tool for efficient and secure collaboration and communication of all the parties involved in the due diligence process

Research Methodology
An EMEA Perspective

The analysis in this report is based on the survey responses from 860 M&A practitioners across countries of Europe, the Middle East and Africa. The responses form part of a global survey of 2,235 M&A practitioners.

Responses were split between the following countries, sub-regions and continents: UK (12%); France (12%); DACH (12%); Benelux (12%); Southern Europe (12%); Nordics (12%); Central & Eastern Europe (12%); Middle East (5%); Turkey (5%); Africa (6%).

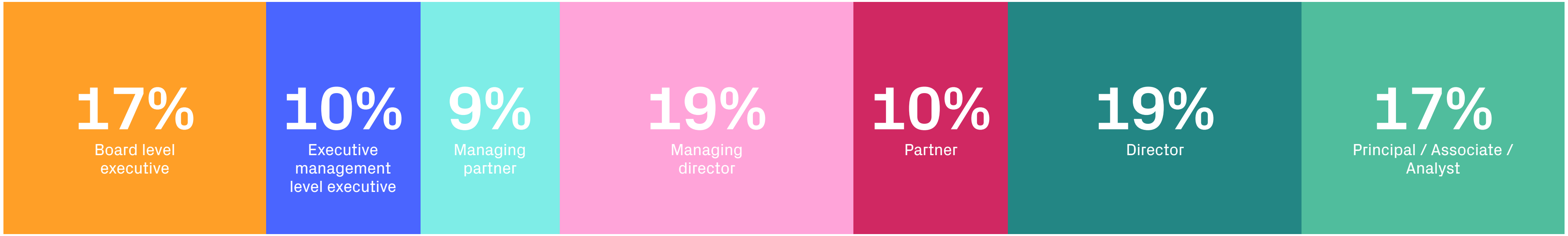
By institution type, respondents were evenly split between companies and private equity firms (50%), representing M&A clients; and investment banks, professional services and law firms (50%), representing M&A advisors.

By seniority, board and executive management level executives comprised 26% of respondents, with managing partner, managing director and partner level executives comprising 38%. Director, principal, associate level executives comprised 35%.

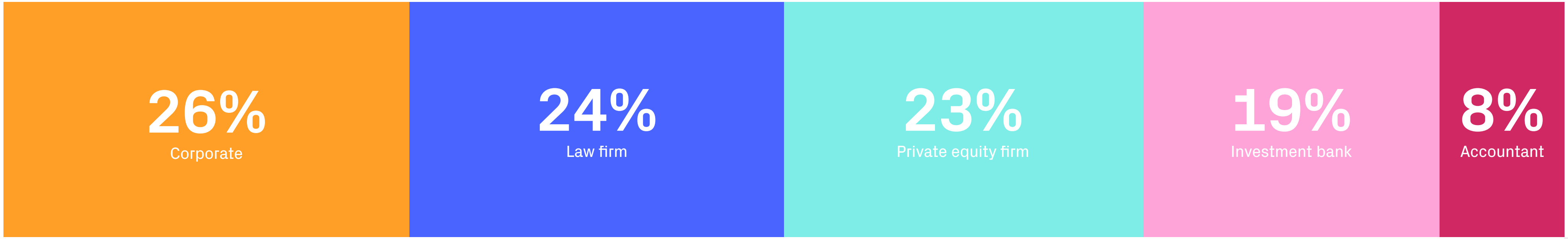
The survey was conducted by Euromoney Thought Leadership Consulting between February and April, 2020.

Research Demographics
An EMEA Perspective

Which of the following best describes your position?



Company type

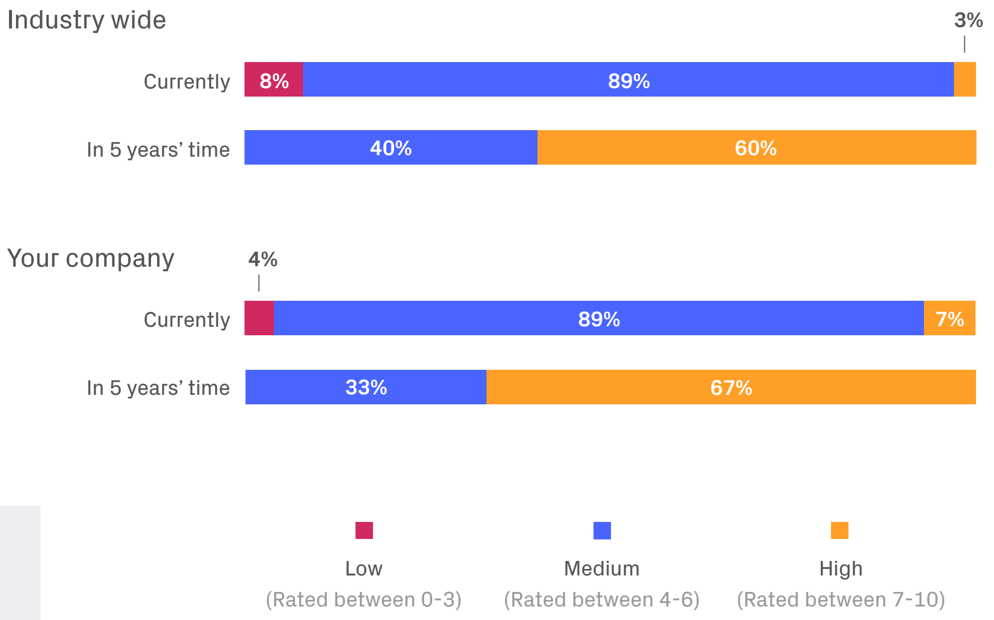


Results
An EMEA Perspective

Questions 1+2

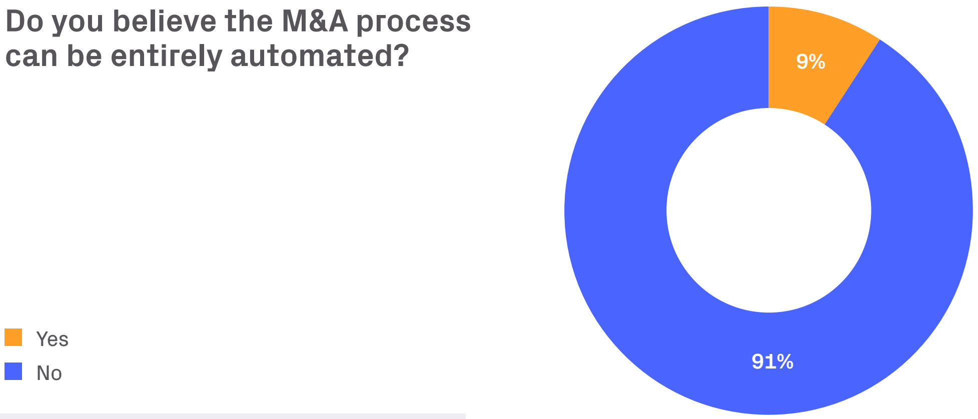
What level of digital maturity and technological sophistication would you assign to the M&A process?

On a rating between 0 (Low Level) to 10 (High Level)



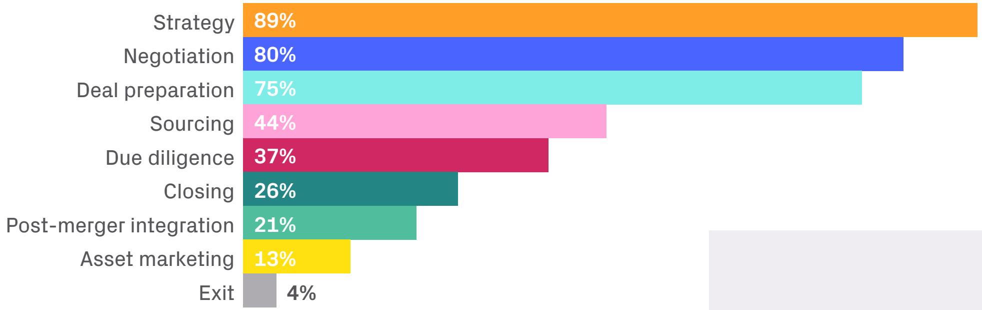
Question 3A

Do you believe the M&A process can be entirely automated?



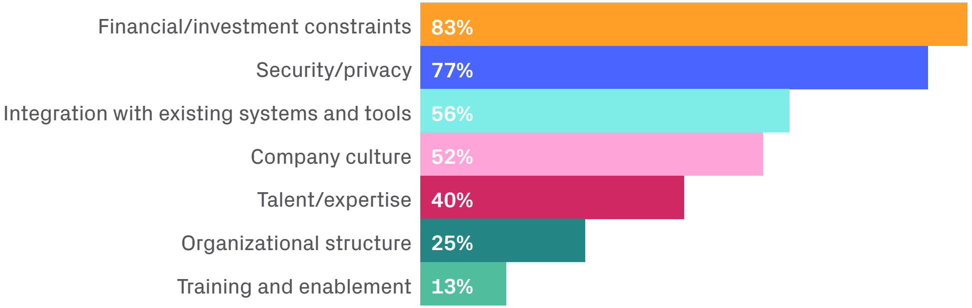
Question 3B

Which area(s) of M&A do you think cannot be automated?



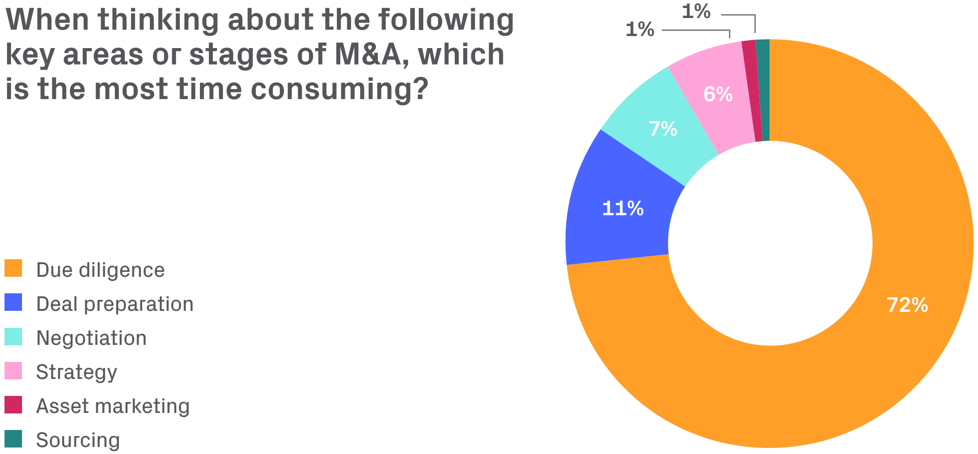
Question 4

Generally, what have been/are the main barriers to adopting new M&A process related digital technologies in your company?



Question 5

When thinking about the following key areas or stages of M&A, which is the most time consuming?



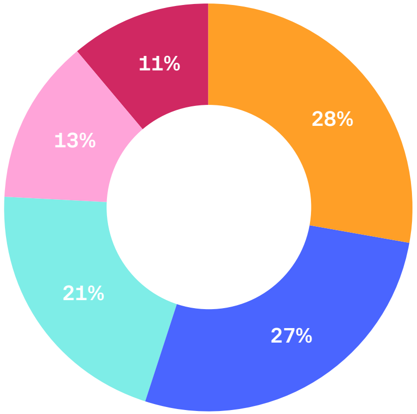
Question 6

Of these key areas or stages, which do you believe could be enhanced most by new technologies and digitization?

53% Due diligence
20% Strategy
8% Asset marketing
7% Sourcing
6% Deal preparation
5% Negotiation
1% Closing
1% Post-merger integration
0% Exit

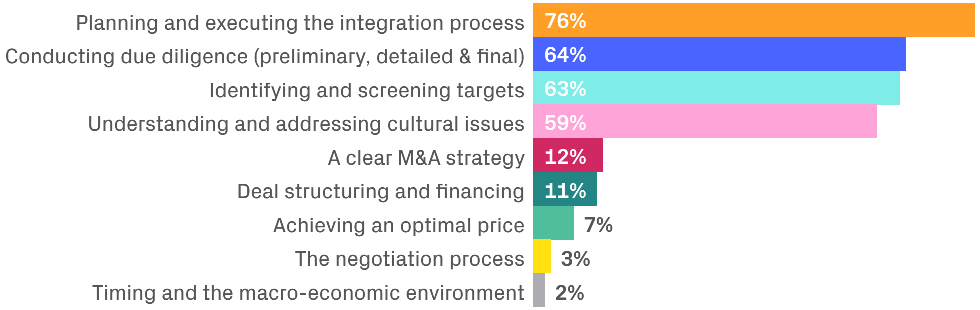
Question 7

Which of the following technologies do you think will have the most transformational impact on the M&A process in the next five years?



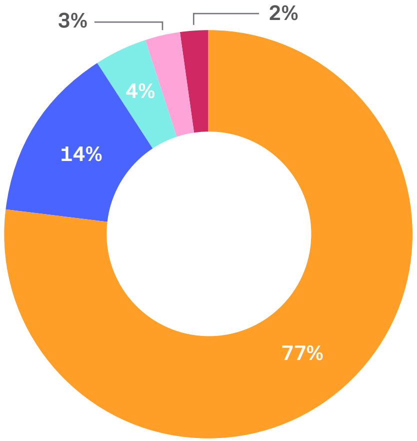
Question 8

What are the most important success factors in M&A?



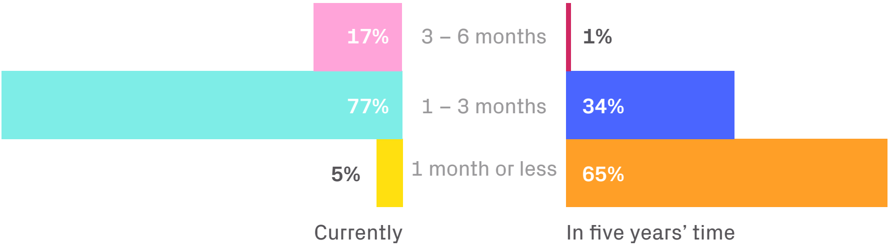
Question 9

In the context of a M&A transaction, how do you expect technology to change the due diligence process over the next five years (to 2025)?



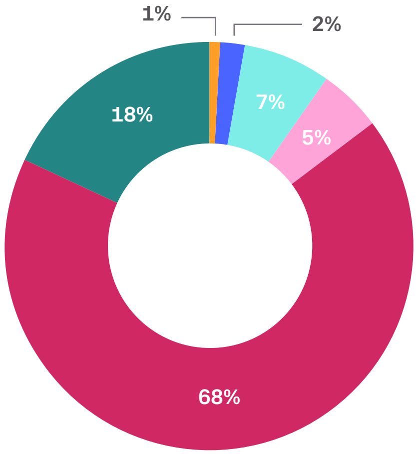
Question 10

From sourcing a deal to deal completion, how much time on average does due diligence take on a single successful M&A transaction?



Question 11

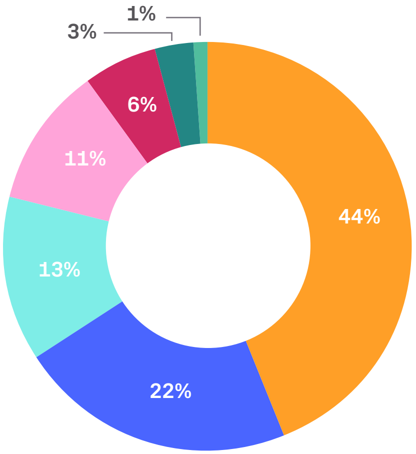
Approximately, what ratio of your deals do not progress because of an issue uncovered in due diligence compared to deals that do progress?



- 1 (does not progress) in 2 (that do)
- 1 in 3
- 1 in 4
- 1 in 5
- 1 in 10
- 1 in 20

Question 12

What is the most common issue uncovered in due diligence that causes the withdrawal from a deal?

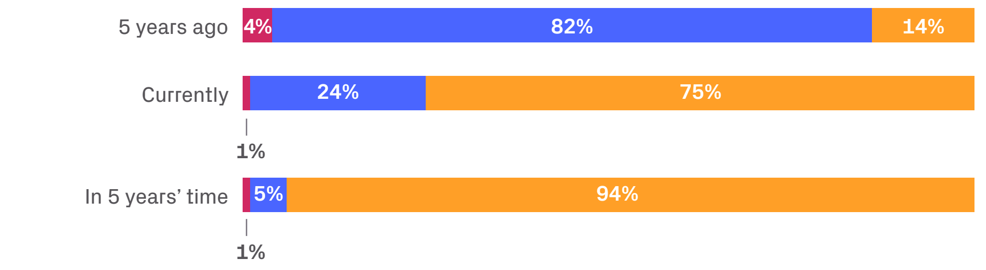


- Data or cyber security concerns
- Financial weakness or fragility
- Financial irregularities
- Leadership concerns
- Excessive valuation
- Regulatory non-compliance
- Staff concerns

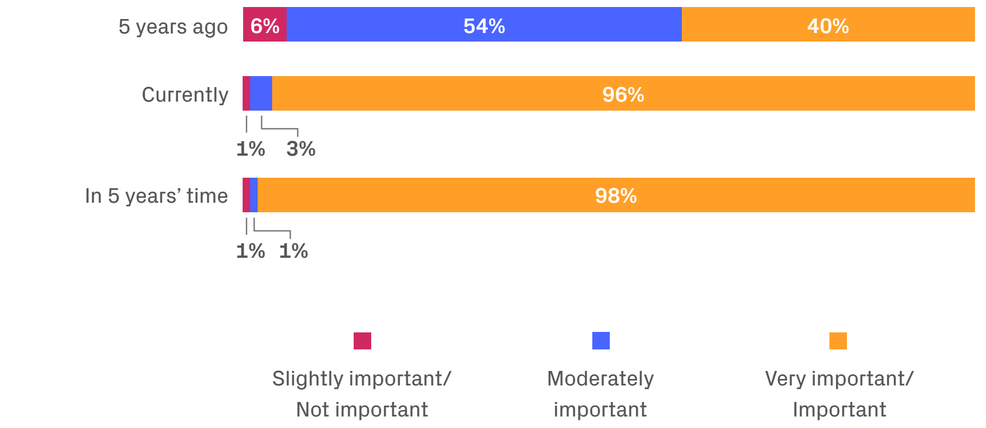
Question 13

As a consideration in M&A due diligence, assess the importance of the following issues:

Environmental, social and governance (ESG)

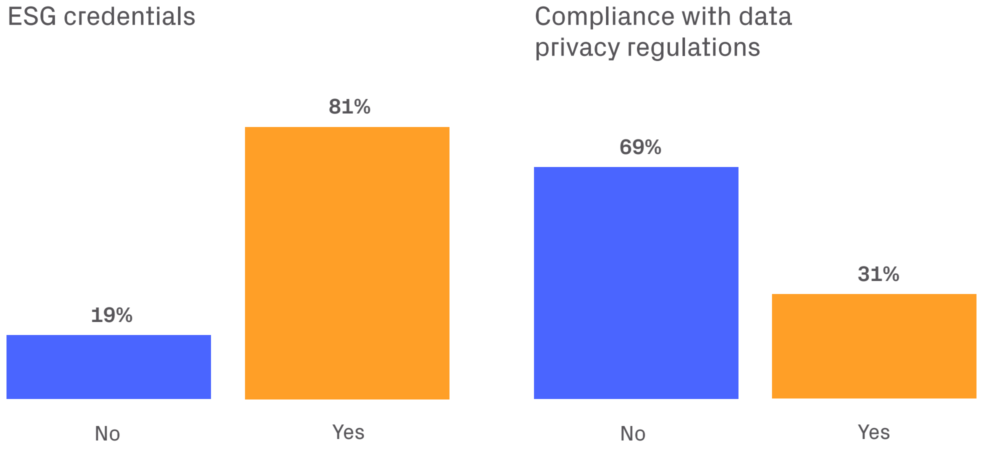


Data privacy regulation (e.g.: EU's General Data Protection Regulation)



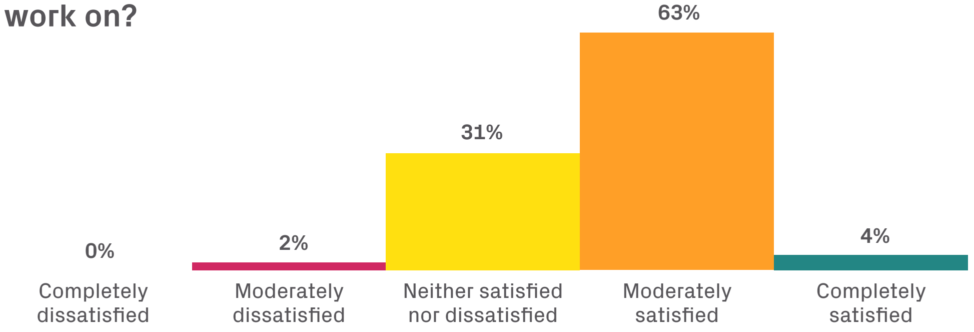
Question 14

Have you worked on M&A transactions that have not progressed because of concerns about a target company's:



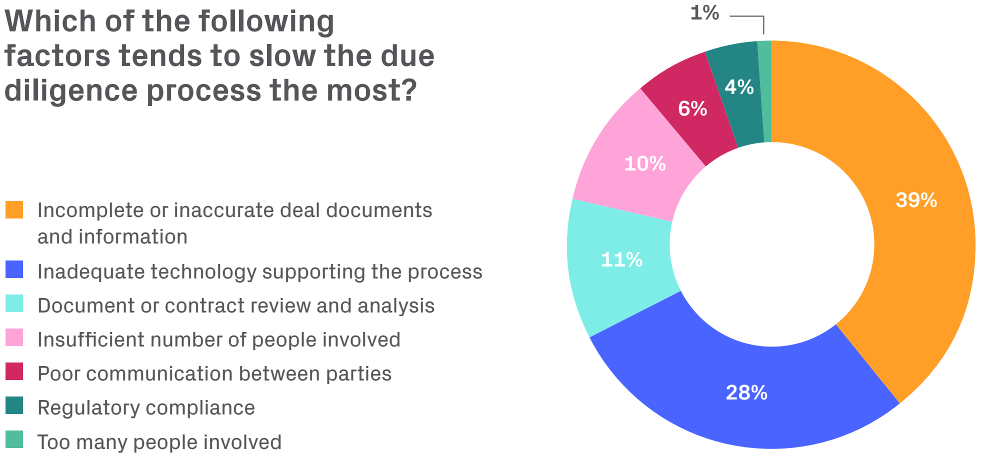
Question 15

Generally, how satisfied are you with the speed of due diligence on the M&A transactions you advise/ work on?



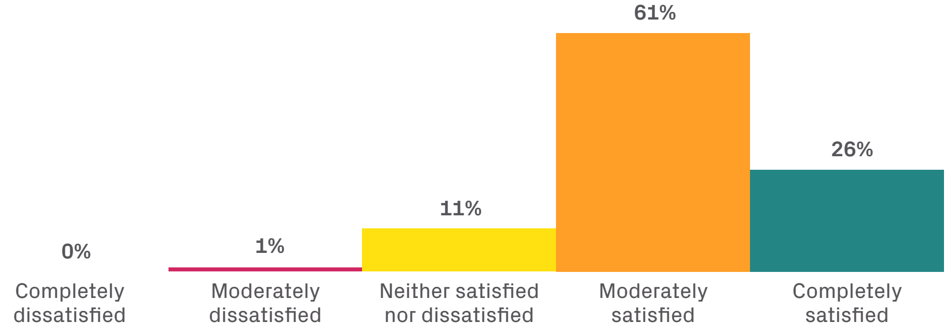
Question 17

Which of the following factors tends to slow the due diligence process the most?



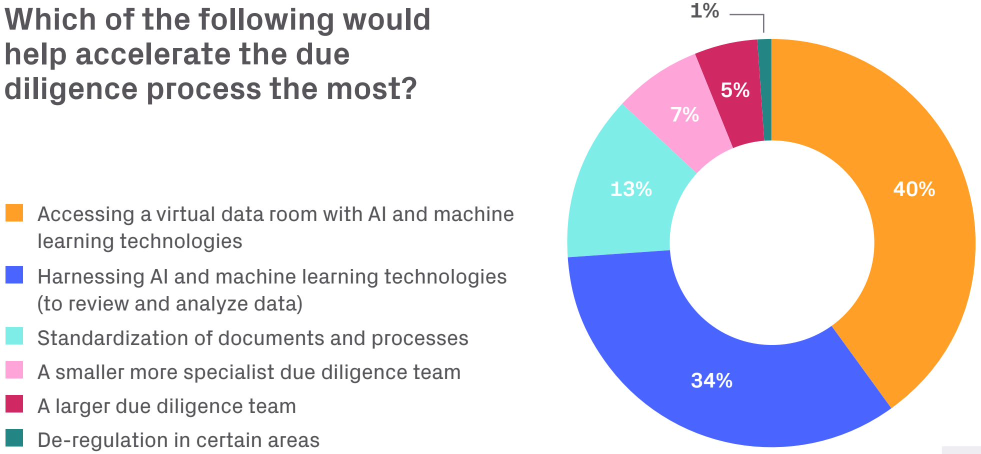
Question 16

Generally, how satisfied are you with the technology you use to conduct due diligence?



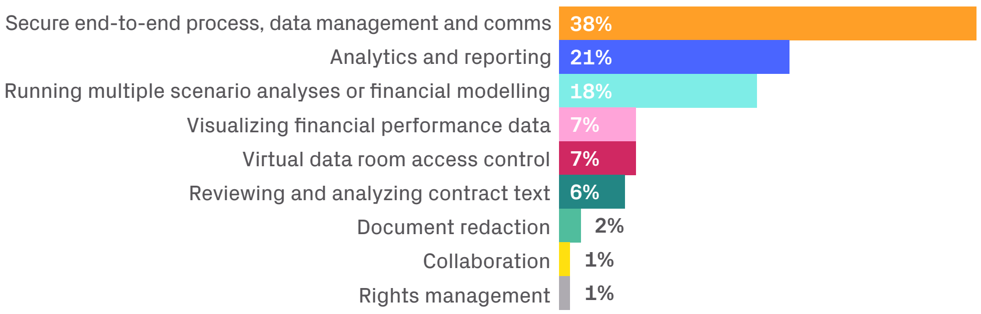
Question 18

Which of the following would help accelerate the due diligence process the most?



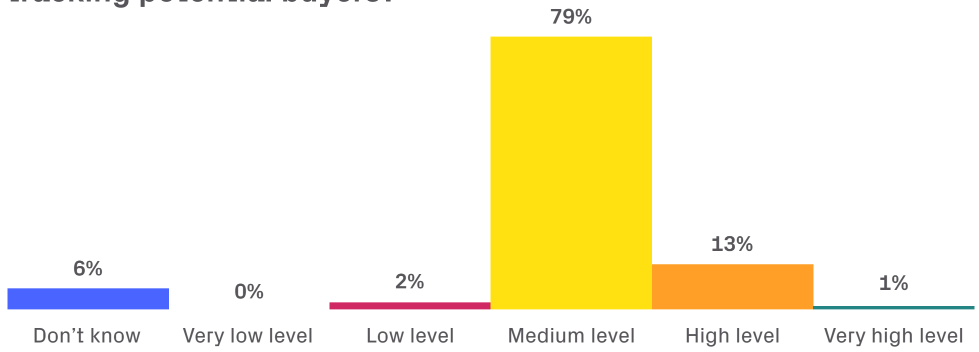
Question 19

Which of the following do you believe technology could help improve the most?



Question 20

When marketing an asset for sale, how efficient and effective is your company's current process of identifying, marketing to and tracking potential buyers?



Question 21

When marketing an asset for sale, what is most challenging?

47% Lack of insights on buyer behavior across mandates

27% Poor visibility on activity around specific projects

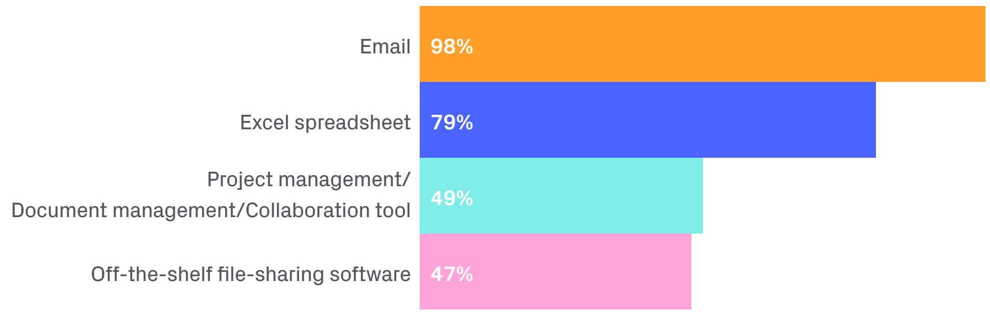
12% Provision of client information on project status

8% The inefficiency and manual nature of the process

4% Watermarking and emailing teasers, NDAs etc

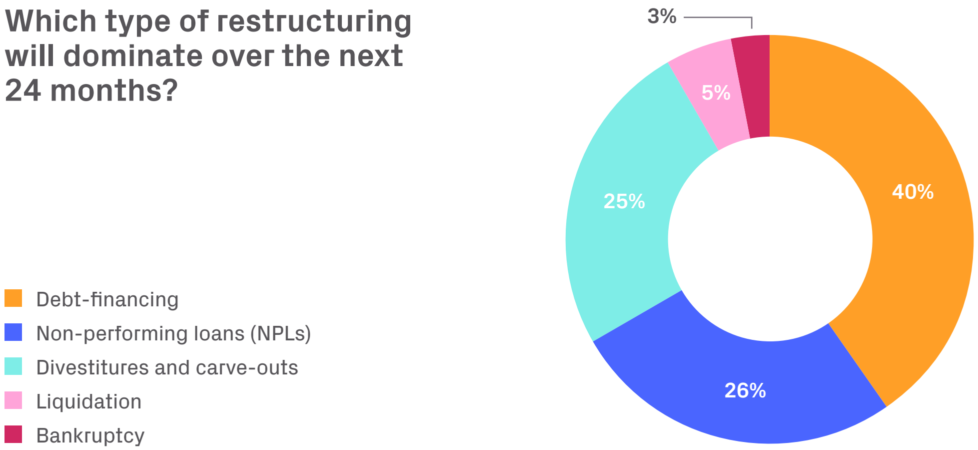
Question 22

What tools do you use today to execute the workflow of the due diligence process on a potential acquisition target?



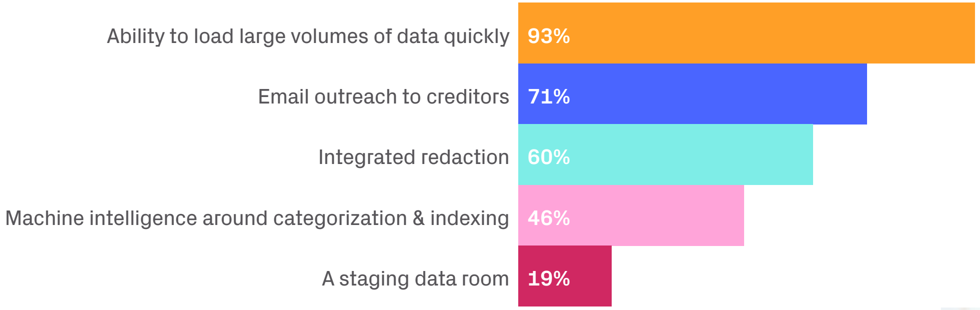
Question 23

Which type of restructuring will dominate over the next 24 months?



Question 24

What tools are most useful for restructuring?



About this report

The survey was conducted by Euromoney Thought Leadership Consulting between February and April 2020.

Thought Leadership Consulting specialises in creating original, authoritative and impactful thematic research and content for global business and finance leaders.

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