M&A COMMUNITY

Iberia, 2022.
Dealmaking in turbulent times

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Introduction

For Iberian dealmakers, 2021 and 2022 were a great and welcomed improvement on the trials and tribulations faced in 2020.

Hard-hit by COVID-19, Spain rapidly bounced back in 2021, and though Portugal deals' activity was slower to recover, transaction volume in Iberia was over 30% higher and worth over half as much in value than in 2020. The domestic activity in the region was up by more than 50%, with the biggest home-grown deal being the merger of two of Spain's biggest telecom companies.

Followed by an outstanding year, 2022 defied the initial optimistic deal volume predictions. Geopolitical instability, particularly the war in Ukraine, led to a global rise in fuel prices and shifting patterns of energy supply, keeping pressure on dealmakers and European economies, which were still convalescing from the COVID-19 hit.

During these exceptionally challenging times, restructuring and NPL/REO outperformed the alternatives sustaining overall activity. As expected, energy, especially the booming renewables, real estate, and technology, were extremely popular sectors, with mining and utilities also seeing a sizeable share of the dealmaking activity.

To get an internal view of how M&A professionals are responding to past years' challenges, we surveyed more than three hundred professionals in Europe and South America, presenting the results per market region.

58%

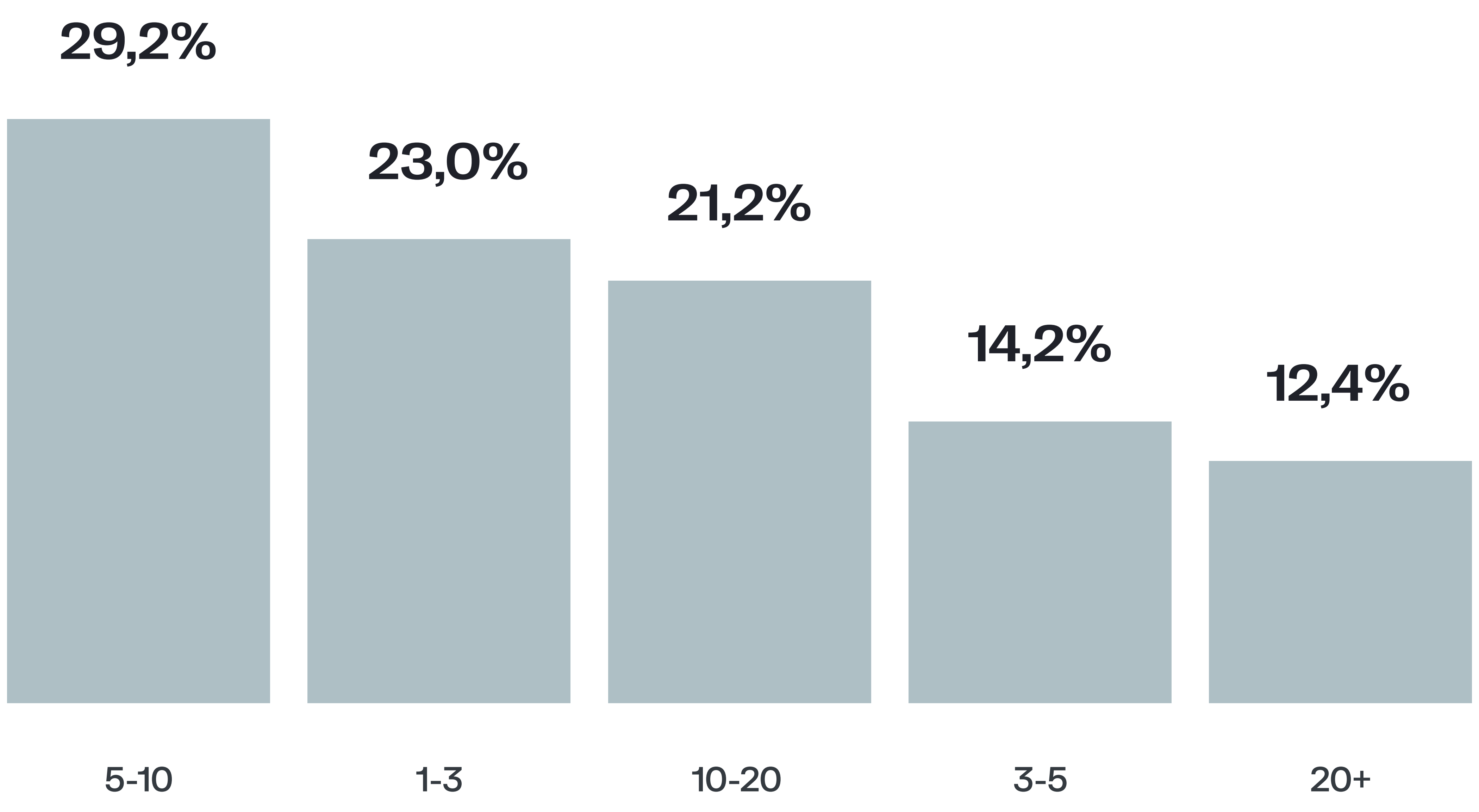
Of the respondents identify themselves as corporate finance advisors.

About the Iberian survey

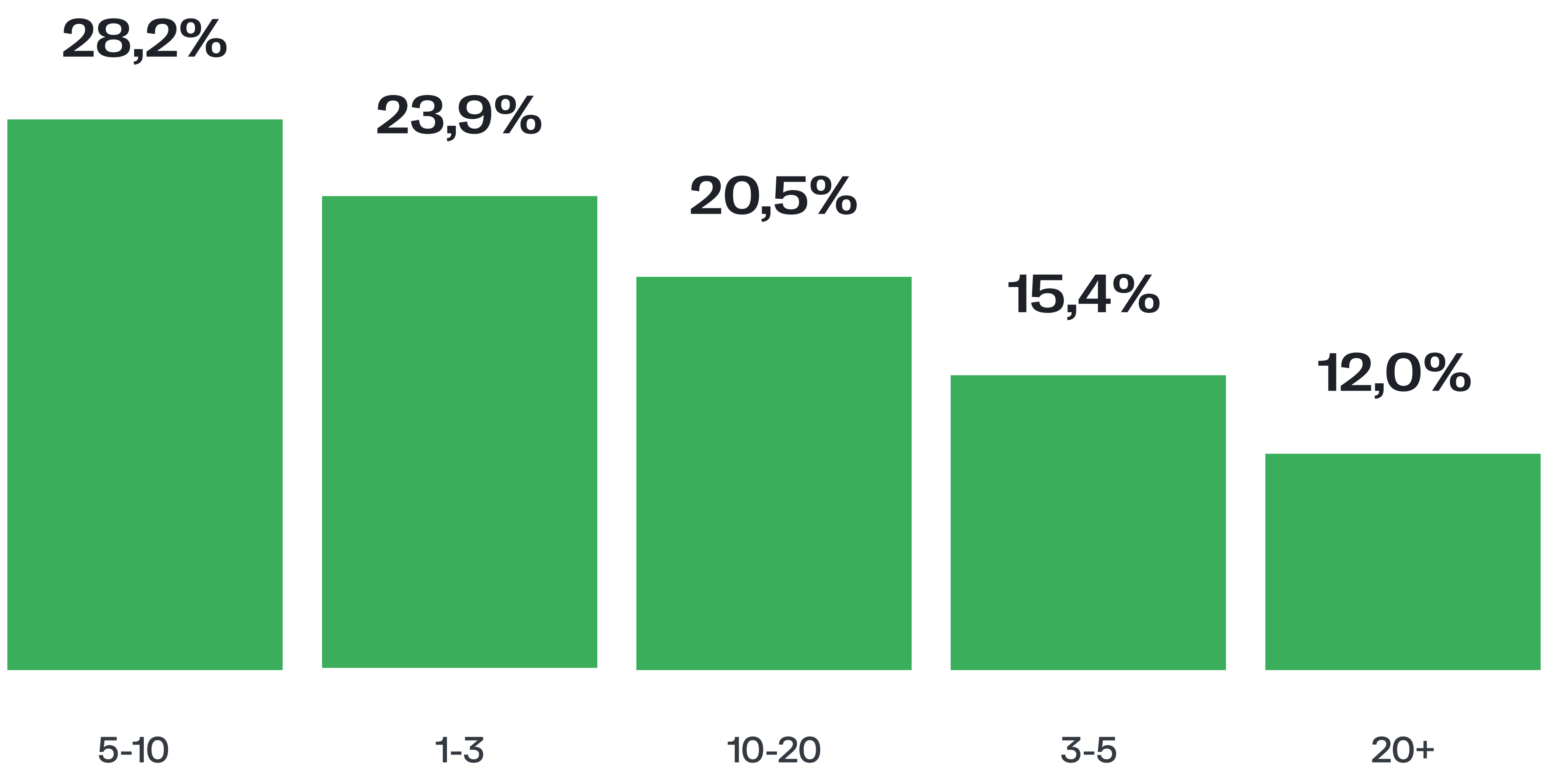
The M&A Community and iDeals surveyed 133 M&A professionals in Iberia, considering the most relevant shifts in European economics and focusing on how they and their firms reacted to the impacts of 2020, 2021, and mid-year 2022.

Over half the responses came from corporate financial advisors, with other respondents being corporate development professionals (15.04%), CFOs, lawyers, legal and strategic advisers, and business and corporate development professionals.

Years of experience



Number of employees working in the respondents' department



Our surveyed professionals are evenly spread in terms of their M&A experience and the size of their clients' turnover. We believe that the sample is of sufficient size and breadth to provide a reliable assessment of the past years, and exceptional insights into current M&A trends in Iberia.

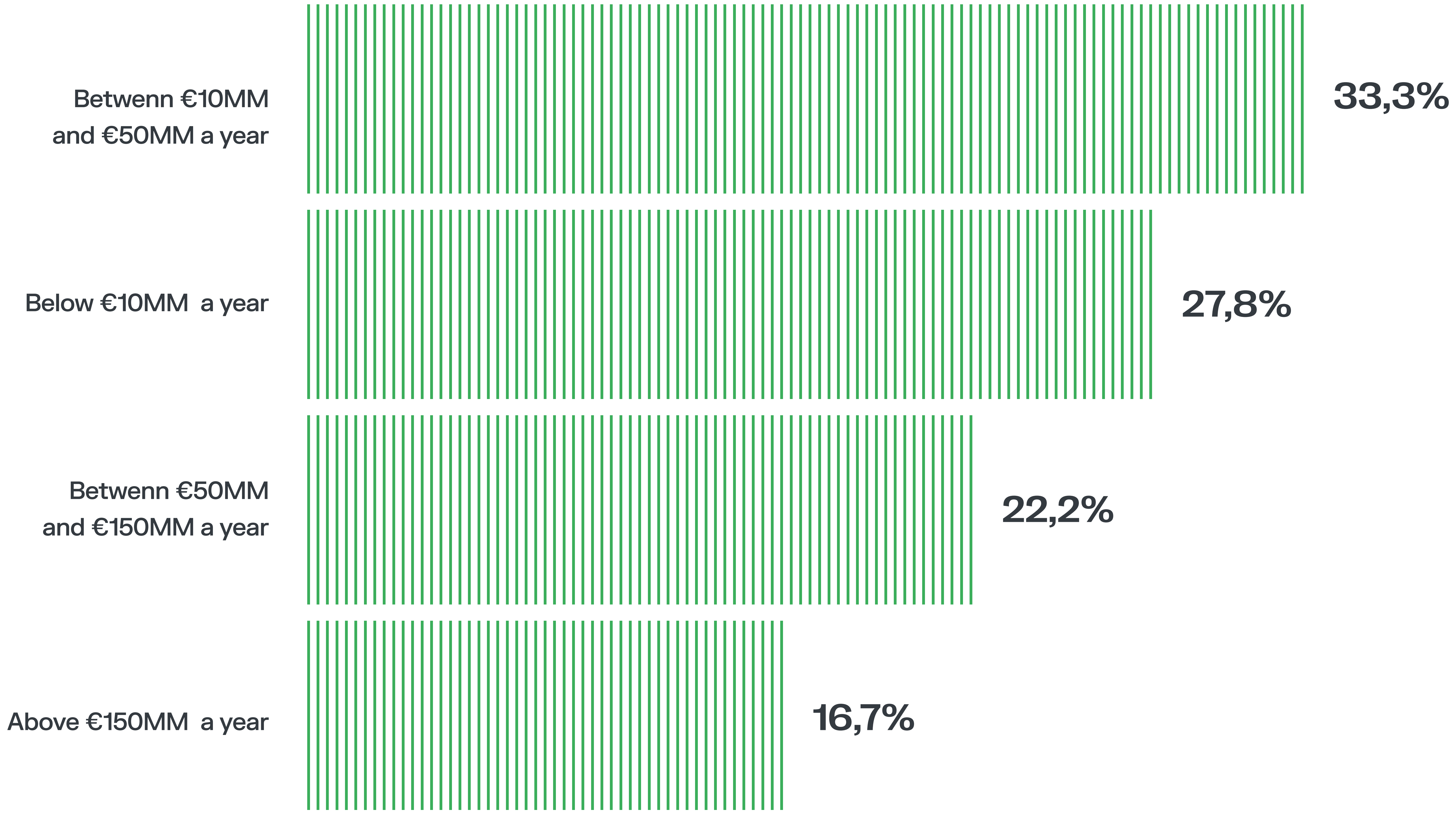
42%

Was the percentage of respondents expecting their firms to take on 2 or 5 additional deals from August until the end of 2022.

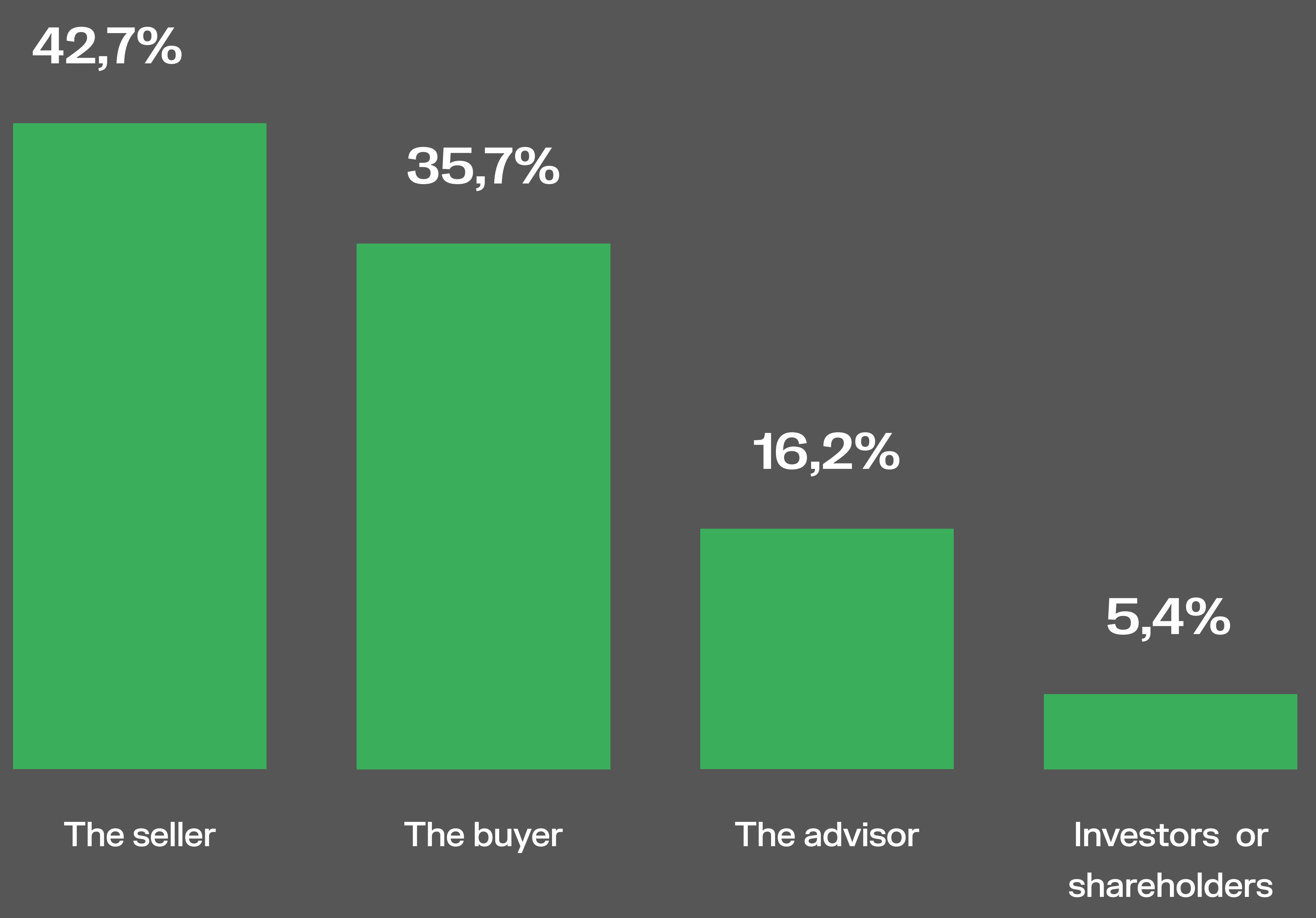
47%

Respondents affirmed that their marketing efforts for the rest of 2022 will be within the industry and current firm's specialization.

What is the turnover range of most of your clients?



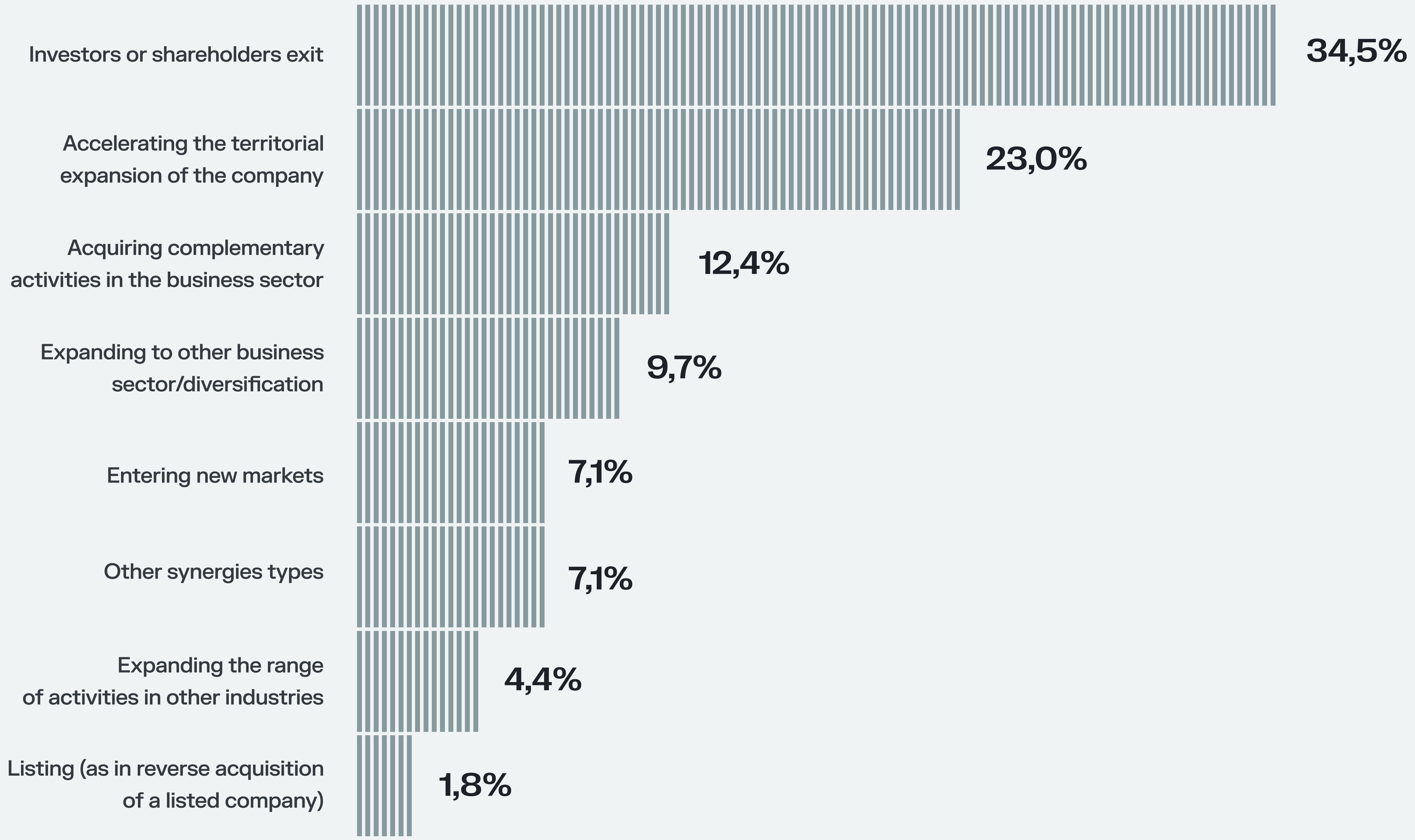
Who normally initiates the merger or acquisition among your firm's clients?



Key highlights

- Shareholders exiting the business prompted more M&A transactions than anything else.
- Almost all surveyed professionals found setting up the VDR to be one of the easiest aspects of any deal.
- In 2021, when facing unprecedented circumstances, two-thirds of the firms did not adjust their fees or set a minimum transaction value during the whole year.
- Remote work impacted 100% of respondents. Half of them affirmed that working from home made their work more complicated.

The main reason for M&A in the last year



The picture for 2021

All records were broken in Iberia 2021, both deal volume and values being considerably higher than in 2020.

It should come as no surprise that most respondents affirmed being involved in more deals in comparison to 2020, without any reporting fewer.

Companies carefully examining their assets and needing to increase cash immediately impacted the answers and overall respondents' sentiment. In connection with this driver, the most common reason to embark on a merger or acquisition was to allow investors and shareholders to leave the business. But they were rarely the instigators – with advisers responsible for triggering roughly a sixth of all transactions.

Other companies just wanted to enter new markets or expand their range of activities. The reverse acquisition of a listed company accounted for just under 2% of transactions.

When discussing cases of clients not going through with a deal, Iberian dealmakers mostly blamed the complexity of the process.

We also observed bitterness toward the number of high-priced advisers being used as well as the fees in general. And, more than a tenth of respondents said that the clients' feedback was that dealing with M&A took too much time away from everyday management.

89%

Of respondents were involved in more deals in comparison with 2020. And 11,11% worked on similar volumes for both years.

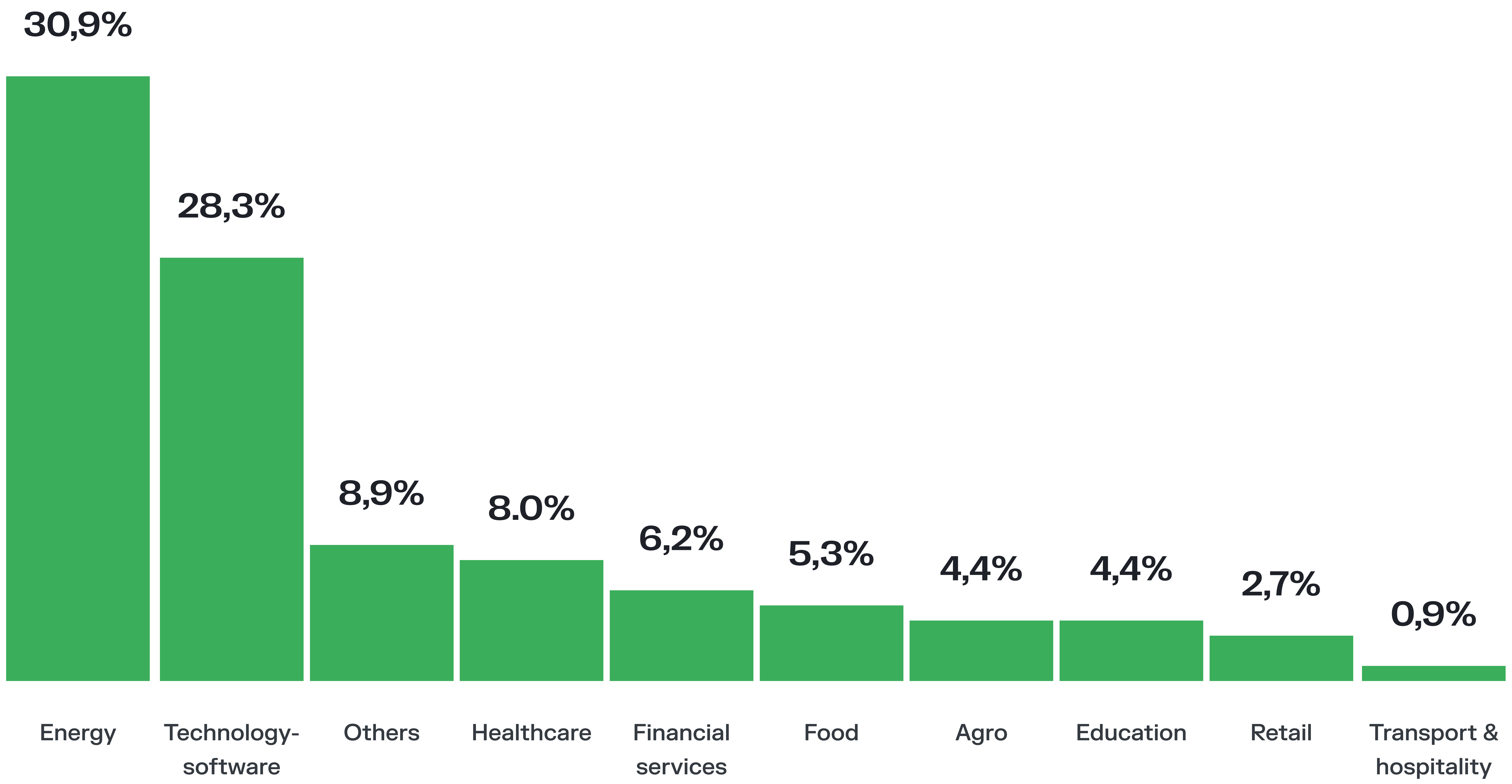
Most common clients' explanation for not going through with a deal after the initial exploratory meetings

Sector distribution 2021 vs 2022

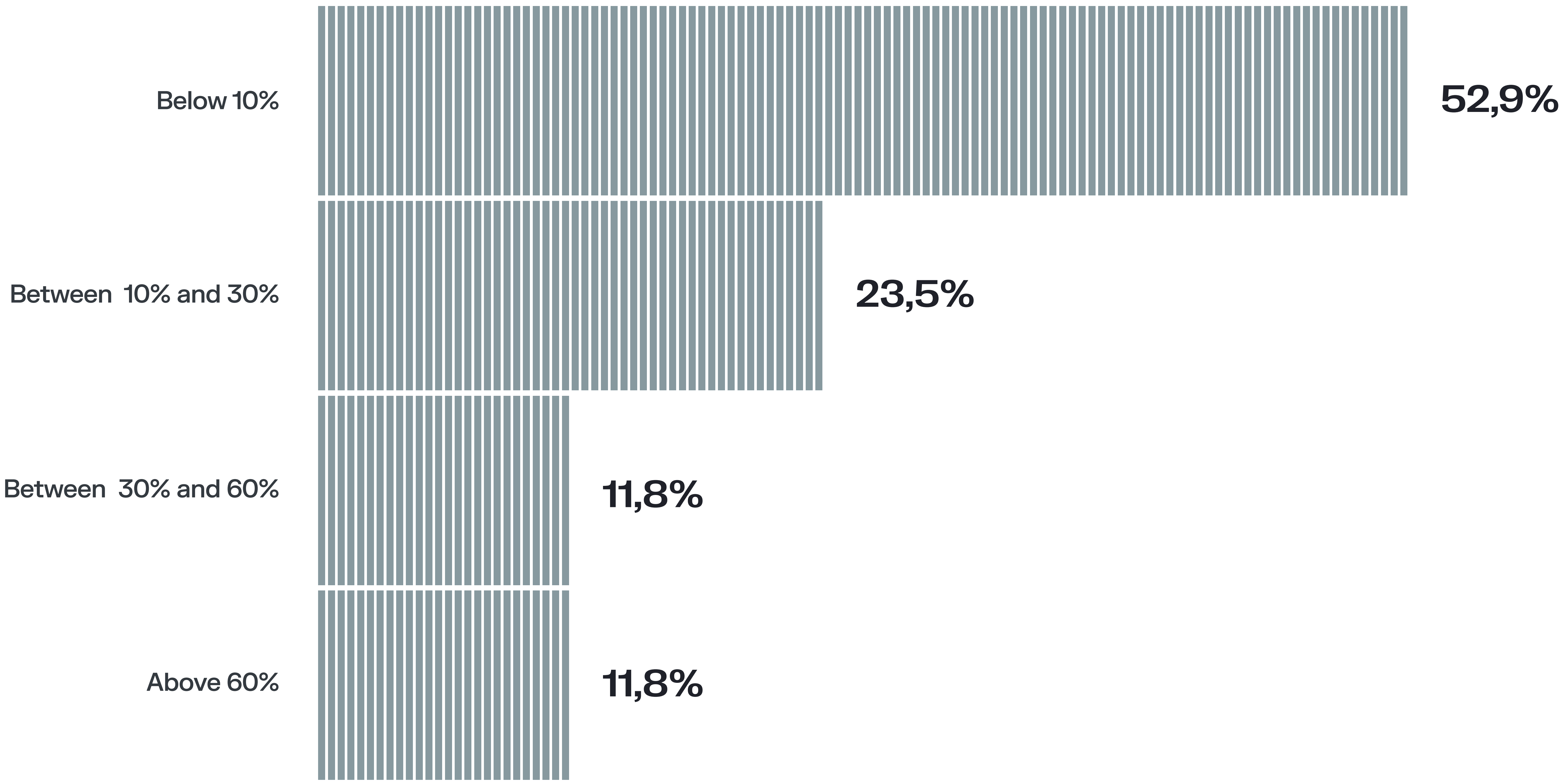
The two most active business sectors for 2021 were energy and technology (software but not hardware) with healthcare and financial services, some way behind, followed by food, agribusiness, education, and retail, and a small volume in transport and hospitality.

In the 2022 landscape, different assets were highly available. With solid balance sheets and the urge to innovate, some firms focused on entirely different sectors. In contrast, others were keen to expand their client base and move into a different industry where their experience would stand them in good stead. Software technology is seen as even more attractive this year, as is finance and real estate.

The most active industry from your experience



The percentage of cross-border deals in your turnover



Cross-border deals

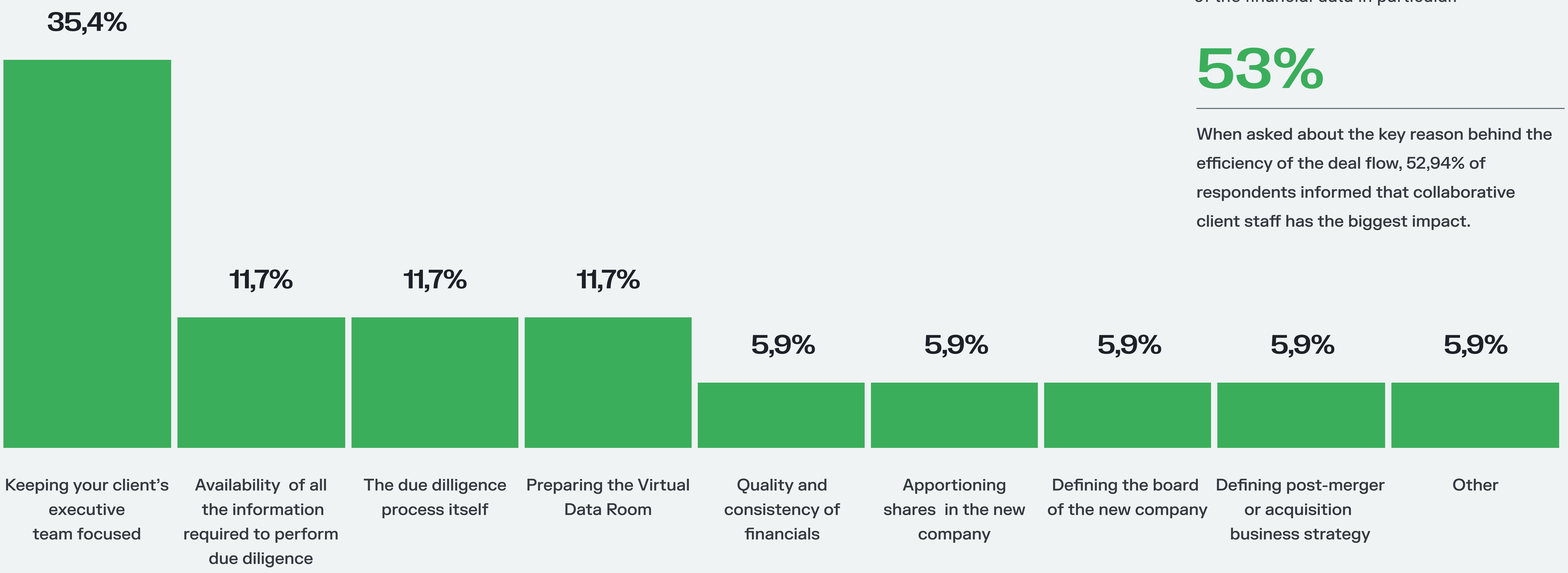
Roughly a quarter of 2021 deals involved cross-border trade though this varied from firm to firm, and over half of the respondents said that it accounted for less than 10% of their deals.

Spain was by far the biggest international market for half of the companies, with LatAm having a 40% share, and Portugal less than 6%.

50%

Of the respondents affirmed that in H2 of 2022, Spain will be their dealmaking focus. 38,89% will focus on Latam, 5,56% in Portugal, and the remaining 5,56% in other countries.

What has been the most straightforward part of the deal



Setting up the deal

The most challenging aspect of any deal is dealing with the poor quality and consistency of the financial data in particular.

53%

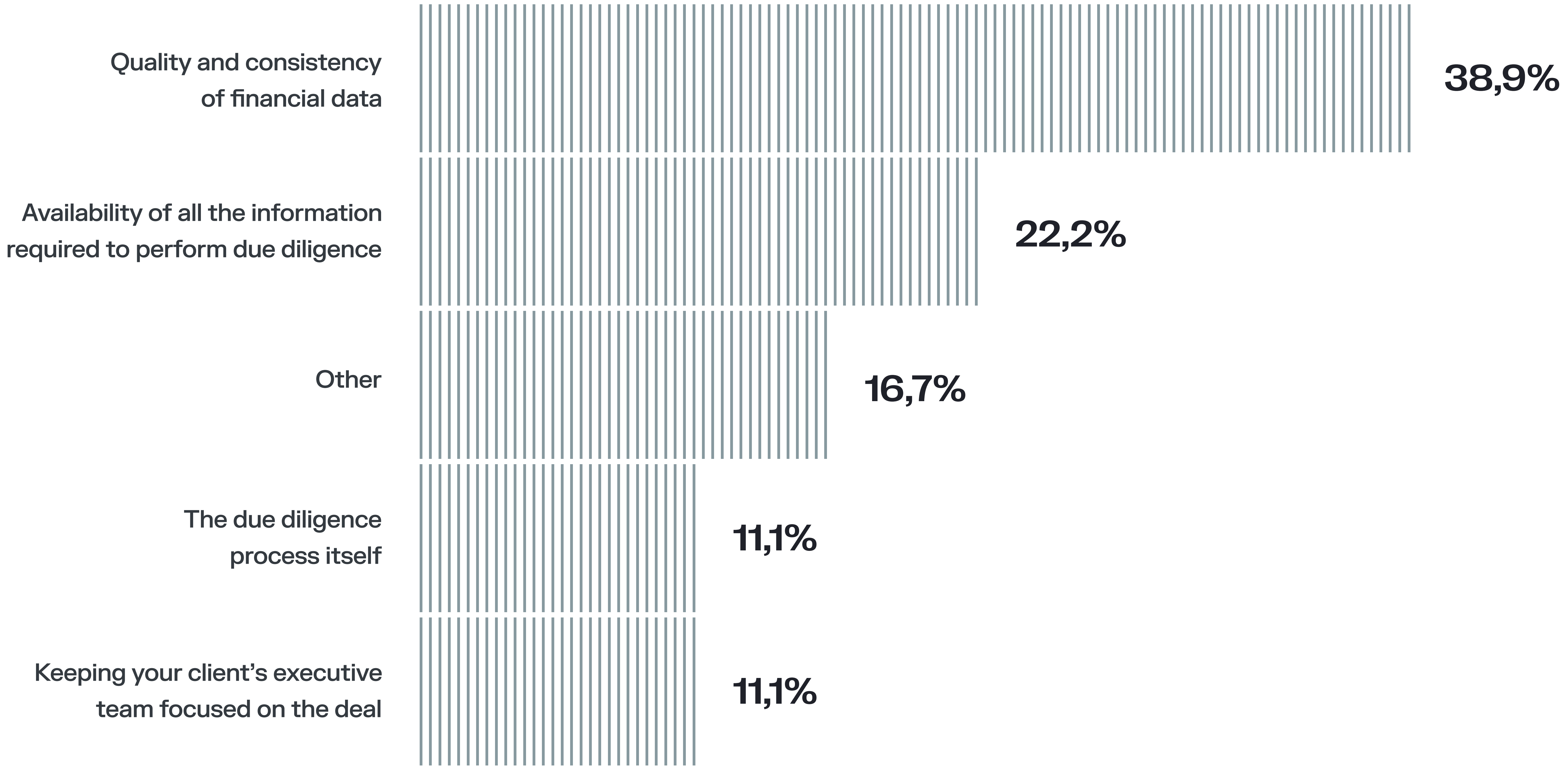
When asked about the key reason behind the efficiency of the deal flow, 52,94% of respondents informed that collaborative client staff has the biggest impact.

Overall, the lack of adequate information made the deal very difficult for over 22% of the respondents. And the general hassle of the whole due diligence process ranks about the same as keeping the client's executive team focused on the deal. An intriguing finding is that keeping the team focused for a third of respondents was the easiest part of dealmaking.

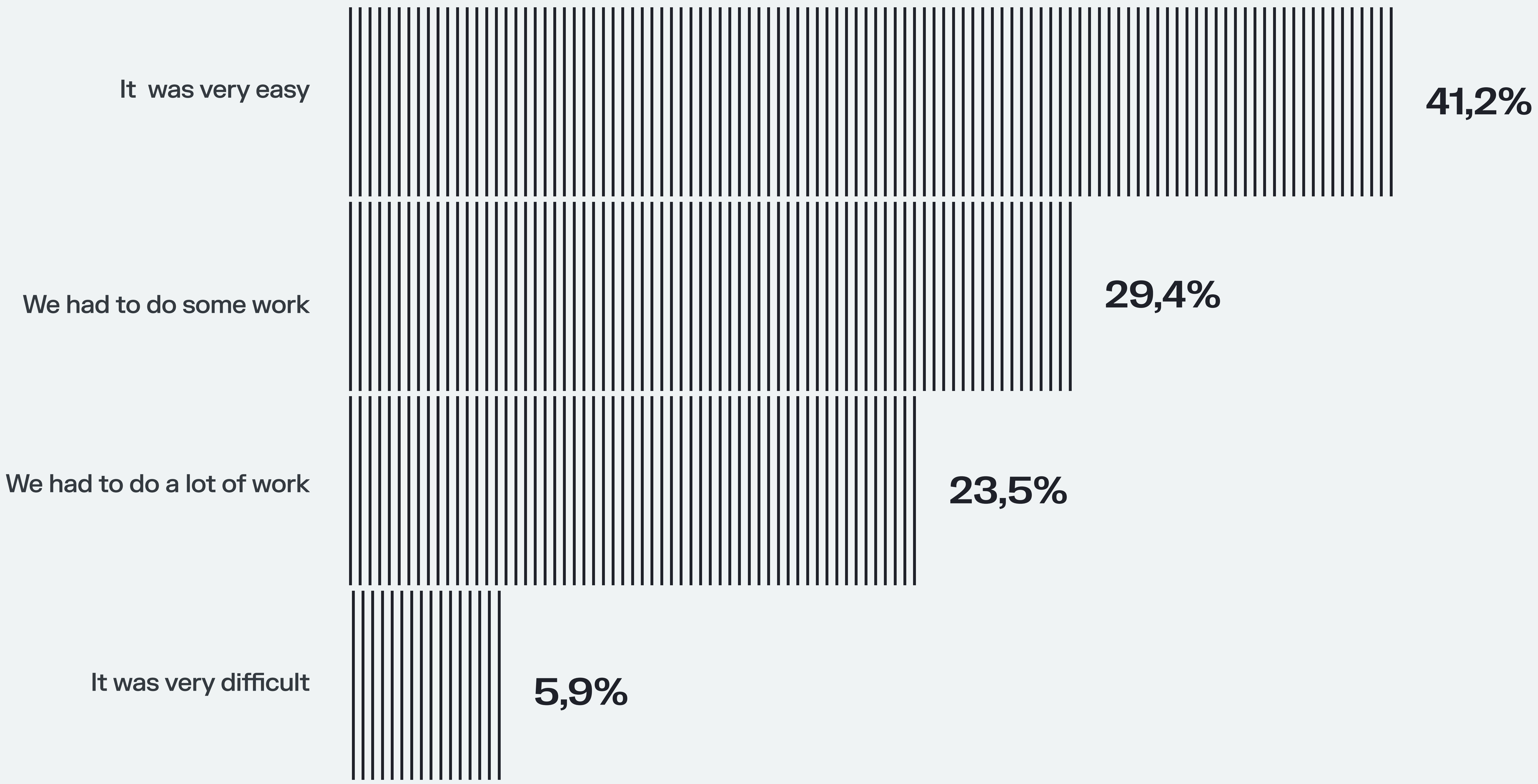
39%

More than one-third of respondents referred to poor data quality as the biggest complicator of deal flow.

What was the most complicated part of the dea



Based on most of your transactions, how much work did you have to do to build a comprehensive data room?



All the other aspects of setting up a deal, including preparing the VDR, were seen as a walk in the park. But over a quarter of companies had had problems with either the client or their staff being uncooperative and, in some cases, disagreements over a future corporate strategy were a big hindrance. Missing or misleading data was generally not a problem and was hardly ever a reason why a deal fell through, even though 6% of firms said it was almost always an issue for them.

Looked at from the other direction, the things that make a deal more straightforward are collaborating easily with client staff (mentioned in over half of cases) and having good quality documentation readily available. And over 10% of deals were made easier by the merging companies having a common strategic vision.

Almost two-thirds of the firms in our survey carry out due diligence, with roughly twice as many choosing to use a third party rather than their own team, and approximately 6% preferring to mix contractors and in-house staff.

The same companies also vetted other aspects of the deal. A fifth of them assessed the sales team's culture and values, with a similar number looking at the seller's market image to gauge how the deal might affect their future reputation with their clients or consumers.

More companies looked at other aspects, including evaluating the technology used by each party to identify synergies, risks, and integration costs.

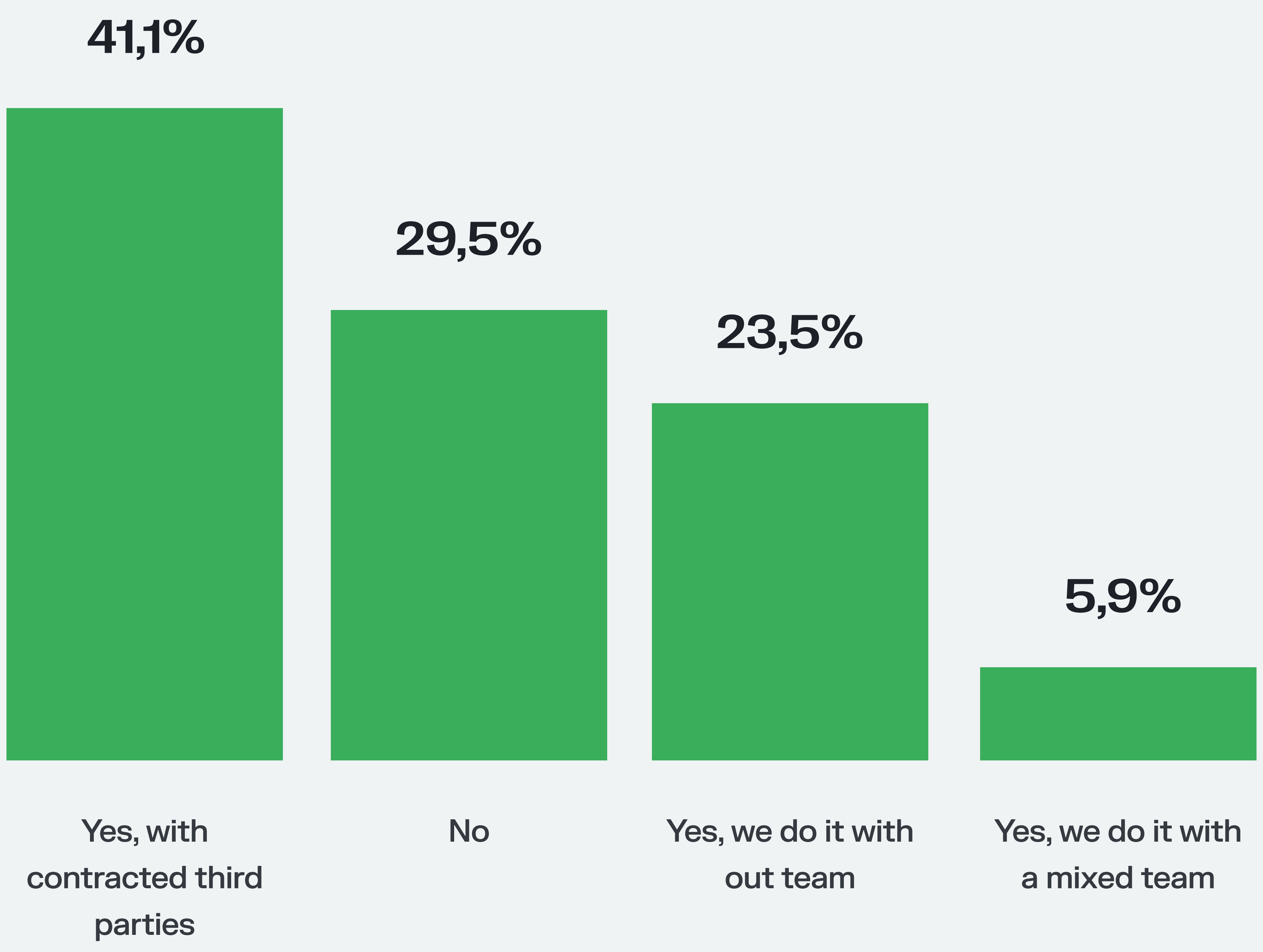
When asked about their post integration follow-up, it seems that only half of companies actually do this and, they mostly use the KPIs in the business plan, though some have specific KPIs set out in a post-integration
plan.

At the valuation stage only a minority did not engage at all, and over half led the activity with others, either participating at certain key stages or just providing data and analysis but leaving the actual process to others.

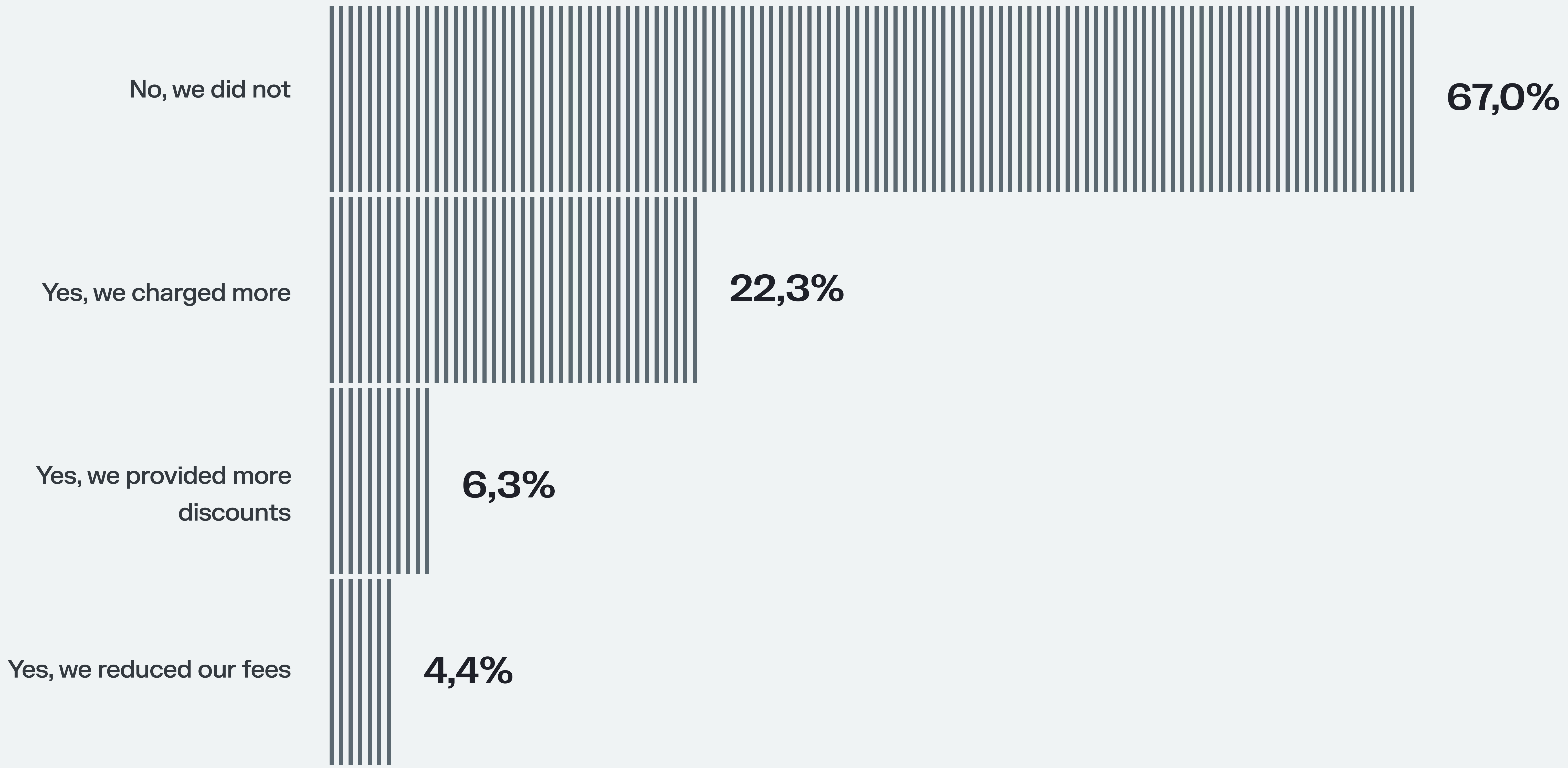
59%

Of the respondents, carry out the entire valuation for clients. 17,65% participate partially, and the remaining do not participate or solely provide data.

Does your company perform Due Diligence?



In 2021, did you change your fees?



Fees

Two-thirds of companies had not adjusted their fees at all in 2021. Roughly 25% of firms had raised theirs, with a 5% of increase being the norm. Only a quarter of firms had raised fees by more than 10%.

Regarding the remaining answers, only three companies reduced their fees by 5%, with the other two reducing it by 5-10% and 10-15%, respectively. Seven companies said they had offered 15% or higher discounts.

50%

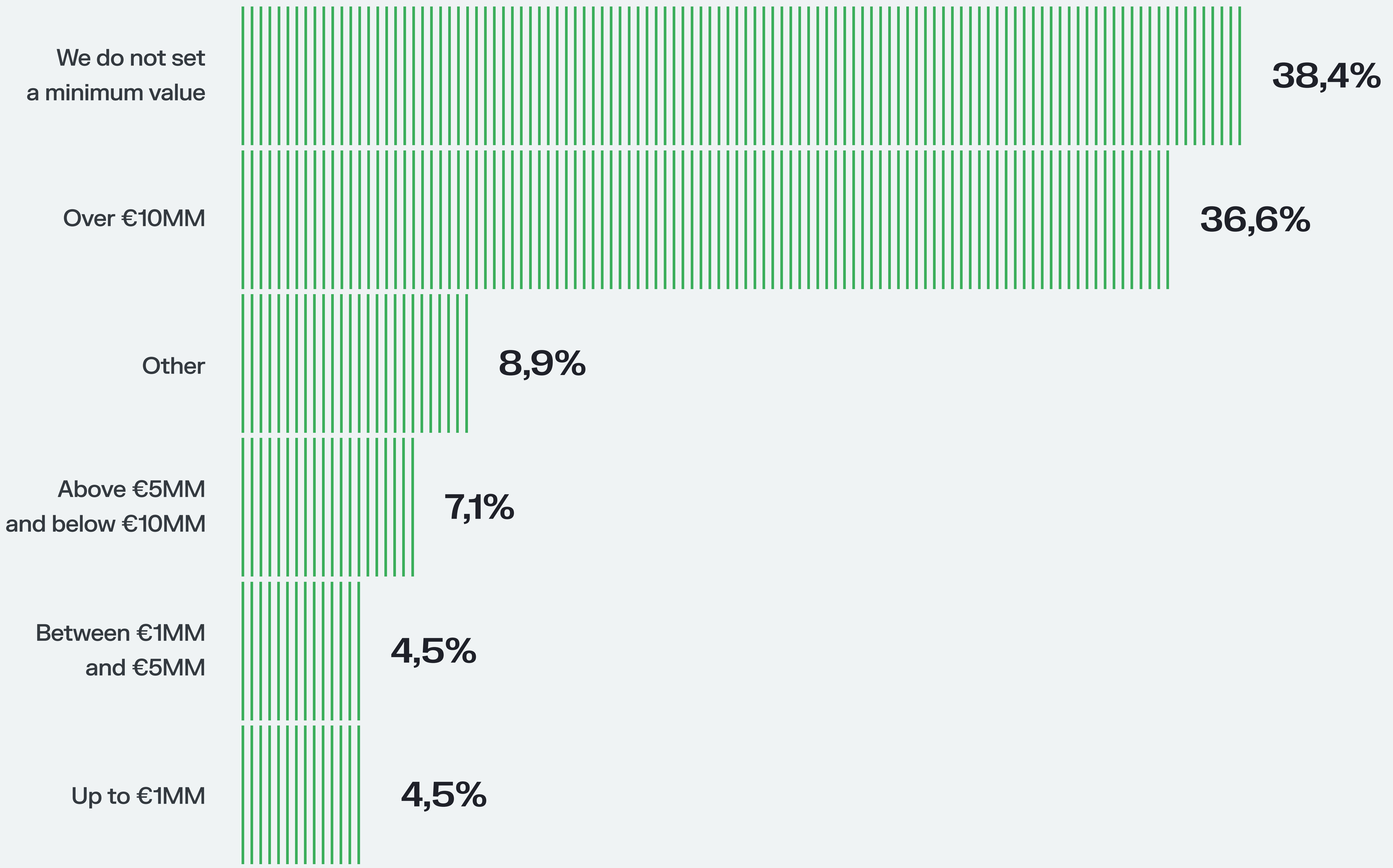
From the respondents that affirmed increasing their fees in 2021. 50% commented it was less than 5%.

Almost 43% of companies did not set a minimum transaction value, but a similar percentage went for over €10mm. When it comes to success fees, nearly 80% of firms continue to charge a success fee, with just over 15% of these charging a set fee and over half varying their success fee based on the deal size.

60%

From the 10,71% respondents that affirmed decreasing their fees in 2021. 60% commented it was less than 5%.

Minimum transaction value



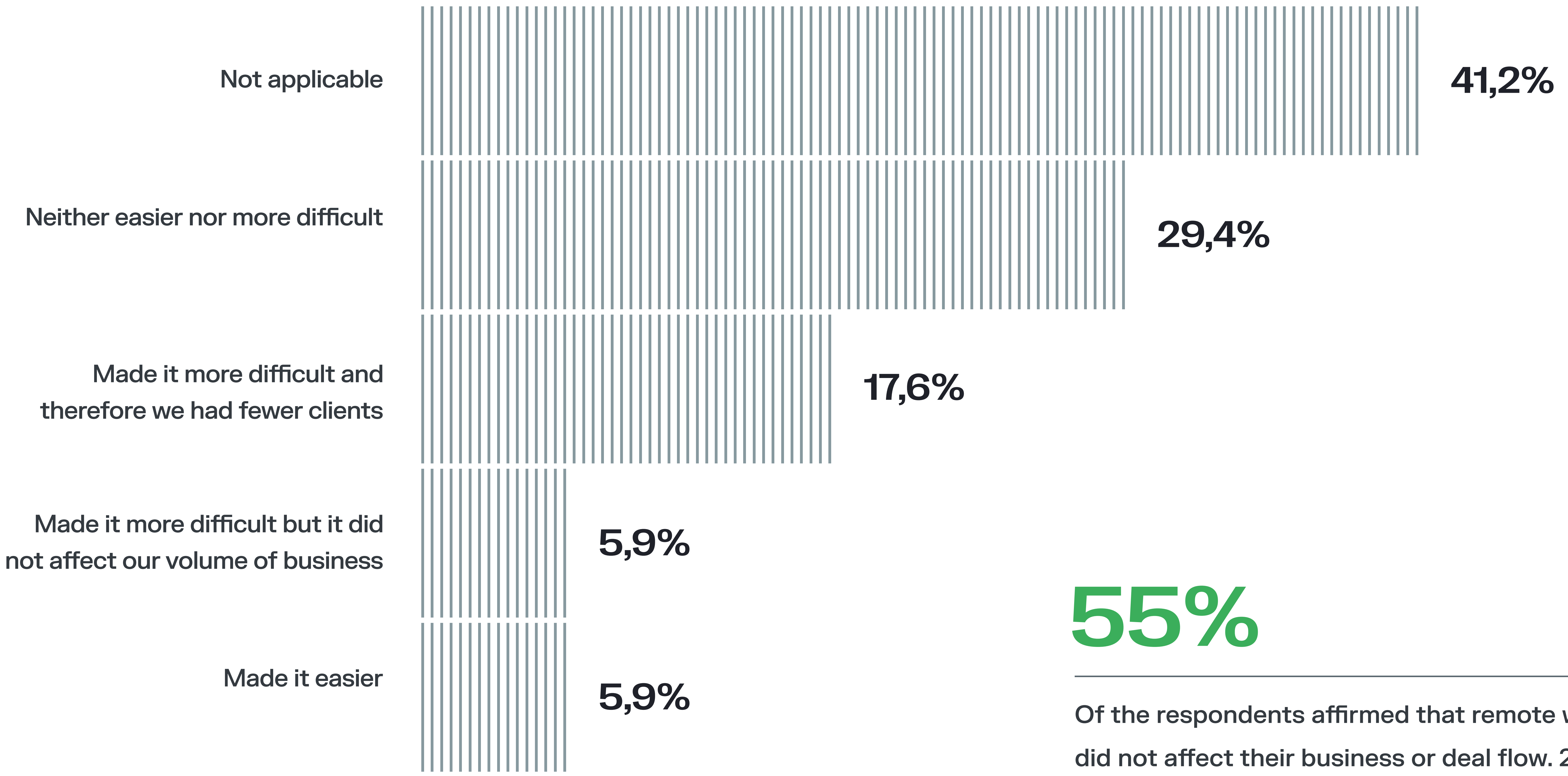
COVID-19

The pandemic required M&A professionals' resiliency and creativity to ensure business continuity and value generation.

Considering the impact of the shift to home-working on dealmaking, over half of the respondents claimed it had made very little difference. Those who disagreed were split almost 50/50 on thinking it made dealmaking more or less difficult.

The picture was mixed for companies handling cross-border deals: some had seen fewer cross-border clients while others had not noticed much difference. Over 41% of respondents did not work directly in cross-border deals during these past three years.

How did COVID affect your cross-border business?



55%

Of the respondents affirmed that remote work did not affect their business or deal flow. 23,01% affirmed it made things easier, and 22,12% that it was more complicated.

Conclusion

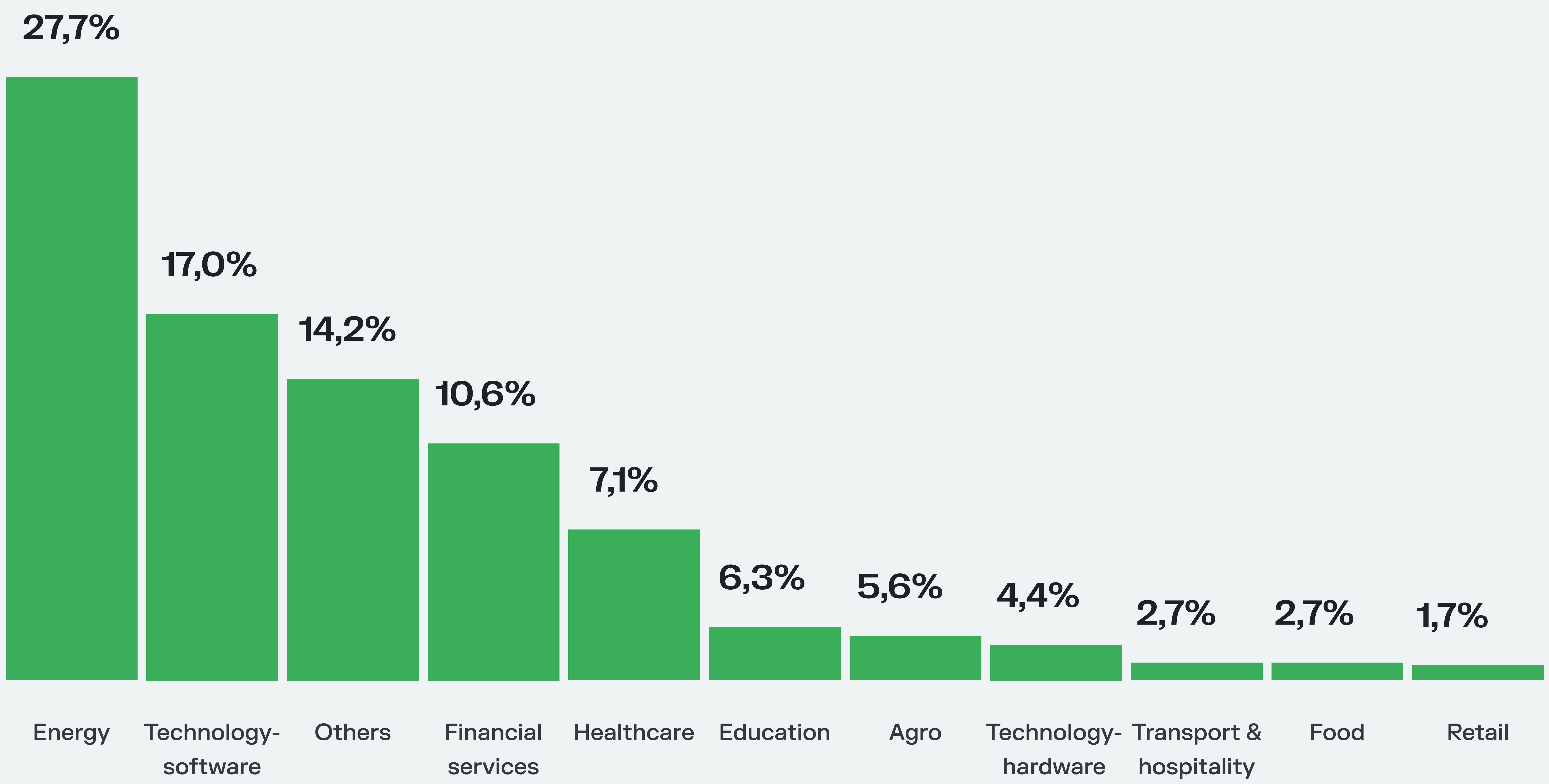
The prospects for 2023 are looking good, despite Europe's economic challenges

Affected by geopolitical instability, greater regulatory pressure, and rising inflation, the number of deals will probably stay constant, but pent-up demand could mean much higher value.

Restructuring and NPL/REO deals are expected to increase dramatically. And despite delays in the preparation stages caused by cost instability, real estate and renewable deals are likely to continue to be the main focus of dealmaking activity for the rest of this year.

Having survived COVID-19 and flourished in 2021, it seems that Iberian dealmakers can handle whatever 2023 throws at them.

The focus of your firm's marketing in the 2H of 2022



"The whole process of working with iDeals VDR went very smoothly. It's pretty intuitive to work with the framework provided, the team is great, ready to help fast.

David Strycek,
Senior Consultant, EY

Rated **4,7**/5 based on 181 reviews,
G2 Market leader 2022