Your corporate finance

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ALLIANCE OF INTERNATIONAL CORPORATE ADVISORS

*Foreword*

The smooth sailing for risk assets in the first half of the year was unlikely to continue indefinitely in the face of a **slowing global economy**. Despite the resilience witnessed in economic activity year to date, **recession risks** remain **elevated** and not all parts of the market appear appropriately priced for such a scenario.

Having said that, the move higher in equities this year has come almost entirely from **valuations** rather than **earnings growth** and has been concentrated in **AI-related stocks**. With the S&P 500 trading at around **20x earnings**, markets anticipate higher earnings growth. If that disappoints, perhaps due to recession, we could expect a **significant sell off**.

As with the global stock market, **bigger-ticket M&A** activity proved to be vulnerable against **lower risk appetite** among acquirers, increased **financing costs** and the more **cautious mindset** among lenders.

As mentioned in our last edition, as of September 19th, Laurent Linkens (VDP) together with Delphine Noré (KPMG Belgium), will teach a series of **five interactive multidisciplinary workshop**, which will cover hands-on **best practices** on **financial**, **tax** and legal topics within M&A. You may find the invitation link in this newsletter's cover email.

Happy reading

Yours sincerely,

*The VDP team*

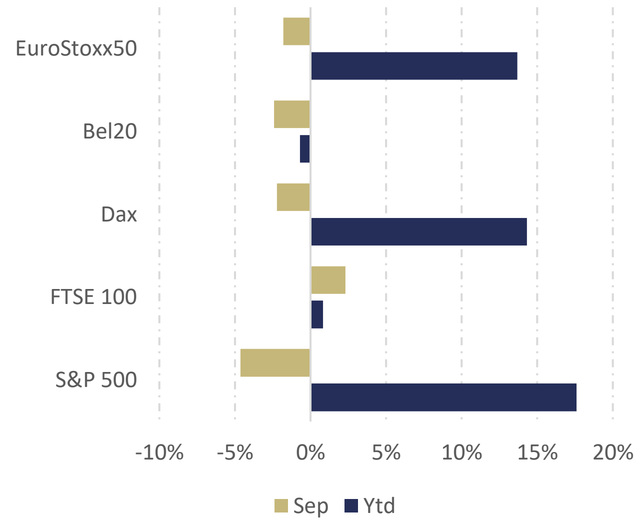
## SECTIONS

- Overview macroeconomic situation
- European M&A activity
- Overview of recent VDP transactions

## *Overview Macroeconomic situation*

Following a robust **rally for stocks** in the first half of 2023, the third quarter offered something of a **reality check**. Developed market equities fell by **-3.4%** over the quarter, taking year-to-date returns down to a still strong **11.6%**. **Value stocks** proved relatively resilient vs. their more expensive **growth counterparts**, returning **-1.7%** over the quarter in comparison to **-4.9%** for growth stocks. The gap between the two styles remains wide year to date, however, with growth stocks having outperformed by **more than 18%** so far in 2023.

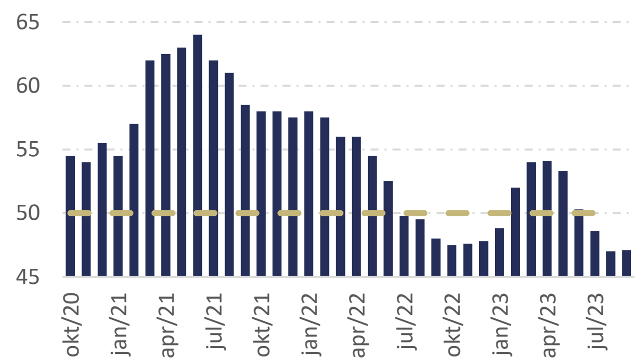
Chart 1: Performance main indices




While the simultaneous **fall in stocks and bonds** (aggregate bond benchmark down 3.6% in the third quarter) will remind many investors of 2022, there were some important differences in the drivers behind these moves. **Economic data** over the quarter pointed to a **deterioration in the growth outlook**, with services activity starting to show signs of "catching down" to the already weak manufacturing sector. Coupled with a continued **moderation in inflationary**

**pressures**, investors are increasingly confident that we are **approaching a peak** in the global **hiking cycle**.

Chart 2: European composite PMI index




*Source: MergerMarket*

**In sum,** global short-term interest rates rose to their highest levels in more than a decade. Most investors expect the **pace of rate hikes to slow** and eventually stop during 2023, but the impact of the **abrupt departure** from the ultra-low rates era may **weigh on financial conditions** in the months to come.

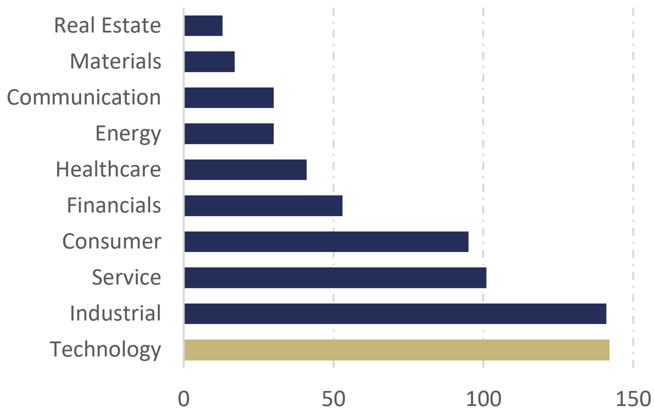
## *European M&A activity*

In parallel with the stock market, M&A activity in Europe has been entangled in higher inflation, rising interest rates and an **uncertain economic outlook**. As a result we have seen **deal values** to fall markedly across Europe, yet **volumes are down only marginally**. In contrast to 2021 and 2022, today's environment is one where **smaller transactions** predominate.

Indeed, **bigger-ticket dealmaking** are more vulnerable to the **lower risk appetite** among acquirers, **increased financing costs** and the more **cautious mindset** among lenders – especially following a spate of bank collapses in early 2023.

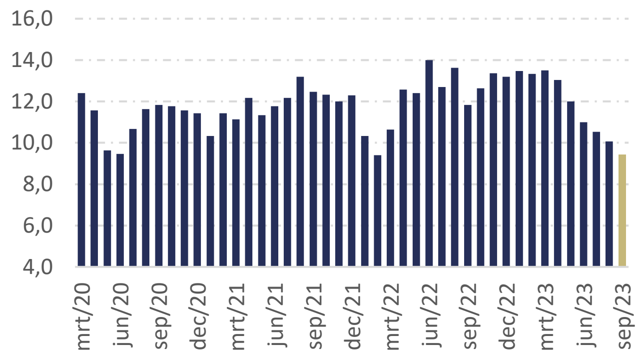
Going forward, projections for M&A activity over the coming months are **mixed**, with private equity firms notably **more bullish** than their corporate counterparts. Yet the vast majority of respondents of a recent MergerMarket survey, **anticipate being involved** in the M&A market over the coming period, suggesting a **healthy volume** of activity in the near term. And, as **valuations** appear to have **stabilized** over the course of 2023, the stage looks set for a **meeting of minds** between buyers and sellers over the medium term – at which point M&A may well start **truly turning a corner**.

Chart 3: # of EU transactions per sector (Sept.)




*Source: MergerMarket*

Chart 4: Multiple (EV/EBITDA) EU M&A (3m moving avg)



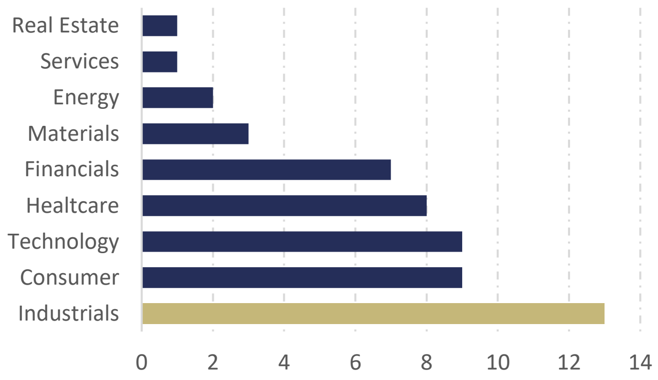

*Source: MergerMarket*

## *Belgian M&A review*

Over the past quarter, we have observed a modest decline in M&A activity within the Belgian market, marked by **53 announced deals**. Notably, **private equity firms** have maintained their robust presence, participating in 21 of these transactions, constituting 40% of the total. Moreover, the majority of these deals have been driven by **cross-border investors**, accounting for 62% of the total deal flow.

In contrast to the broader European landscape, we have witnessed heightened activity within the **industrial sectors**, while the **consumer sector** remains a key driver, representing 17% of all Belgian transactions. Noteworthy is the **technology sector**, which, despite experiencing relative moderation, displays **resilience and is poised to sustain a consistent flow** of transactions in the foreseeable future.

Chart 5: # of transactions in Belgium per sector (L3M)




*Source: MergerMarket*

## *Selection of recent VDP transactions*

| | | | |
|---|---|---|---|
| Waterland Private Equity Investments | acquires | Ecotechnics zonne-energie | VDP advised the **seller** 2023 |
| Fedrus International | acquires | Plastivan | VDP advised the seller 2023 |
| Vela | Partnership with | Gescova Outdoor Furniture | VDP advised the seller 2023 |
| Indufin people + impact | Partnership with | Pierre / BNP Paribas Fortis | VDP advised the seller 2023 |
| Continents Insolites | acquires | Atlas Reizen | VDP advised the seller 2023 |
| Schelstraete Delacourt Associates | Invests in | minds & more | VDP advised the seller 2023 |
| Management buy-in at | | Lalemant | VDP advised the buyer 2023 |
| Fain | acquires | DeLift | VDP advised the buyer 2023 |
| Riou. glass | acquires | Euroglas de landtsheer | VDP advised the seller 2022 |
| Mail to pay | acquires | pom | VDP advised the seller 2022 |
| springbok | acquires | make sense | VDP advised the seller 2022 |
| Emeria | acquires | VMRE | VDP advised the seller 2022 |
| coelembier | acquires | De Tender | VDP advised the seller 2022 |
| Bike Republic | acquires | Cyclom | VDP advised the seller 2022 |
| Smart Toys and Games | acquires | The Happy Puzzle Company | VDP advised the buyer 2022 |
| azelis | acquires | P | VDP advised the seller 2022 |
| EurasiaCorp | acquires | Matcoplastics | VDP advised the seller 2022 |
| 3d_investors | acquires | Jati & Kebon Furniture | VDP advised the seller 2022 |