

# European M&A Outlook 2026: Deals, Doubts and Divergences

A study of European M&A activity

September 2025

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## Methodology

In Q2 2025, Mergermarket surveyed senior executives from 182 corporates and 68 PE firms based in Europe, in the Americas and Asia-Pacific regions about their expectations for the European M&A market in the year ahead. Among the 250 executives interviewed, 70% are headquartered in Europe, while the remaining 30% are equally split between the Americas and the Asia-Pacific regions. All respondents have been involved in an M&A transaction over the past two years and 84% plan to undertake an M&A transaction in the coming year. All responses are anonymous, and results are presented in aggregate.

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# Foreword

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*Louise Wallace,  
Head of CMS  
Corporate/M&A*

## Welcome to the thirteenth edition of the CMS European M&A Outlook, published in partnership with Mergermarket.

What a difference a year makes. As we wrote the foreword for our previous edition of this report, we saw signs of a recovery and optimism about the prospects for European M&A in 2025. While these signals proved accurate through to the end of 2024, the first six months of 2025 have been more challenging than anticipated, with uncertainty again clouding dealmakers' plans.

Key among the causes of that uncertainty has been, of course, a lack of visibility on trade tariffs. A provisional agreement between the US and the European Union, announced on 28 July, has offered some clarity, but not necessarily stability.



*Malte Bruhns,  
Head of CMS  
Corporate/M&A*

Just as the price expectations gap between buyers and sellers was starting to narrow, the task of valuing a business has again become more complex. For many industries, the long-term implications of the latest trade agreement remain ambiguous, especially given the mercurial nature of the current US administration. Other barriers our survey highlights include regulatory changes and difficulties funding acquisitions in an environment where respondents expect financing conditions to worsen.

Yet our respondents are far from gloomy. While there is an increase in the proportion of corporates not expecting to be involved in M&A in the next 12 months compared with last year's responses, most are seeking acquisitions, some are looking to divest and private equity firms, of course, intend to be active on both sides of the ledger. Our survey also points to a broad range of reasons for buying, including transformational deals, technology acquisitions and turnaround opportunities. Many also see more interest in Europe from Middle Eastern buyers, building on similar findings from last year, with real estate, leisure and energy the leading sectors here.

We may be living in unpredictable times, but Europe's M&A scene remains healthy overall and we would expect to see more robust dealmaking by the time we come to pen this foreword next year.

### Key findings from our research include:



#### **Dealmakers remain cautiously optimistic about Europe's M&A prospects**

Half of respondents expect activity to increase in the next 12 months, while 29% anticipate declines. These figures represent a slight deterioration from last year, when 65% were expecting an increase and 24% a fall.



#### **Distressed and turnaround opportunities will drive both buyers and sellers**

While 42% of respondents predict that non-core divestments will drive sell-side activity (the top response), 38% say distress-driven M&A will dominate – a finding mirrored by respondents' expectations for buy-side drivers: undervalued targets and turnaround opportunities are both cited by 31%.



#### **Financing difficulties and valuation gaps are the main obstacles to M&A**

Over a third of respondents (34%) believes that difficulties in arranging deal financing will be a major obstacle to M&A in the coming year, followed by buyer-seller valuation gaps (30%). Predictably, trade wars are also weighing heavily on dealmakers' minds (26%, up from just 10% last year).

# Making peace with market uncertainty

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Aidan Cowhig, Europe Venture & Acquisition Lead in Accenture's corporate development department, introduces this year's M&A Outlook by examining how tech-enabled disruption is driving enterprise reinvention, and why dealmakers cannot afford to wait for market uncertainty to resolve itself



*Aidan Cowhig,  
Europe Venture &  
Acquisition Lead,  
Accenture*

After a prolonged period of market disruption, dealmakers in Europe are starting to adapt to the feeling of pronounced and continuous uncertainty. They realise that there is no way around this – it's not going anywhere, and they must continue to find their way through.

There are several positive indicators. We are starting to see more assets coming to market, particularly from private equity (PE) sponsors, who are bringing out high-quality offerings as pathfinders through this difficult landscape. Sellers are increasingly putting in the work to prepare assets carefully, reshaping businesses and sharpening their value propositions before going to market. This reflects the macroeconomic reality – valuations are moderating, the cost of capital remains elevated, and holding periods are lengthening.

Another significant factor in the current market is the backlog of transactions that dealmakers want to close. PE firms need to pursue timely exits to return capital to their investors. That need will drive some of the momentum behind new transactions. After a period of quite flat levels of activity, we have reached the point where businesses are learning to transact – when the

right assets are coming to market – despite the uncertainty, rather than waiting for it to resolve.

Geographically, we are currently seeing acquisition activity pick up across a broad range of markets. The UK, in particular, continues to benefit from its maturity and the availability of targets. Germany is also surprising on the upside. Despite the headlines focusing on challenges in the automotive sector, the wider economy remains robust. There is significant depth in the German economy, and the underlying assets remain attractive. That is always the key question when examining any market.

Elsewhere in Europe, it would be unwise to overlook France and Italy. These are talent-rich markets with strong workforces and skill bases that remain attractive, especially for organisations like ours that operate a talent-led business. We are looking foremost for assets that can bring us the right talent, and which also open the door to growing economies. That is not just in terms of geographies, but also expanding markets such as defence, in addition to scaling hot areas of our own core business around cybersecurity, data analytics and AI.

Lots of segments of the market are ripe for reinvention by new technologies. In TMT, we are currently seeing evolving business models and strategic consolidation. Companies with clear plans to navigate this new landscape will lead the way, especially on generative AI.

The companies who are putting in the effort to experiment with AI have a head start and can claim a clear competitive advantage. Those who hesitate risk falling behind and being unable to make up the lost ground. For investors, AI literacy will become a marker of quality in potential acquisition targets. It is not just about whether a company has adopted the technology, but whether it understands how to use it effectively to drive value.

That said, AI is not a cure-all. It is one tool among many, and it will challenge existing business models in ways we cannot yet fully predict. The rate of adoption may be faster than previous tech cycles, and dealmakers may need to adjust their strategies to account for this. Generative AI will become pervasive in the overall value story, not as a bolt-on, but as a fundamental part of how businesses operate and compete.

At Accenture, we have been an early mover on this. We want to be the lead partner for enterprise reinvention, which we think is going to come to define dealmaking in the near future. We believe that technology disruption is only going to accelerate, and it is with us for the short, medium and long term. Beyond this initial wave of excitement, business will have to address a general technology and skills deficit. It will vary by industry but overcoming that talent deficit will be essential for companies to really unlock productivity gains and reap the pervasive potential of new technologies.

At the same time, the other major macroeconomic trends – from the energy transition and sustainability obligations to competitive forces and defence obligations – are not going away. All dealmakers will have to get used to steering through a much broader range of possible outcomes. How they navigate those outcomes amid protracted market uncertainty will be the real test of skill over the next 12-18 months.



# Germany – Europe's sleeping giant

Patrick Lühr, Partner at CMS Germany, addresses the findings of our most recent M&A survey and reiterates the resilience and growth opportunities at the heart of Europe's largest economy



Patrick Lühr,  
CMS Germany

**Respondents to our survey were downbeat about the German deal market's prospects for 2025. What factors are giving rise to this gloomy attitude, and is this near-term pessimism deserved?**

**Patrick Lühr:** The cautious sentiment around Germany's M&A prospects reflects broader macroeconomic and structural challenges. Persistent geopolitical conflicts and recession fears are dampening corporate and investor confidence, slowing deal momentum. Valuation gaps, a drop in high-quality deal flow and subdued consumer sentiment are also weighing on the outlook.

However, this short-term pessimism may underestimate the resilience of the German market, which offers numerous investment opportunities. German companies are adapting their business models in response to ongoing trends in digitalisation, AI and sustainability. These strategic imperatives point towards long-term dynamism. In addition, considerable investment is needed in the areas of healthcare, housing, e-mobility and energy supply. Moreover, the dispute over tariffs with the US has been mitigated, monetary policy in the eurozone has recently been eased, and Germany's new federal government has set out plans for substantial investment in the country's defence capabilities and infrastructure and is working on stimulating economic growth. The German government is also working with its European partners to find solutions to the ongoing geopolitical conflicts. Finally, there is a substantial backlog of exits of private equity funds and deals in connection with succession planning. Against this backdrop, there are many reasons to feel cautiously optimistic that the German M&A market will soon gain more momentum.

**Two key obstacles to M&A seem to be weighing on dealmakers – Germany's perceived administrative and compliance burden, and its competitive bidding environment. How should dealmakers approach these hurdles, and how can valuation gaps in Germany be bridged?**

**PL:** These hurdles are not insurmountable – in fact, they can serve as filters that reward well-prepared investors. To navigate regulatory complexity, dealmakers should invest early in local expertise to streamline due diligence and regulatory processes. Being proactive on this front can differentiate bidders and accelerate deal timelines.

In terms of competitive bidding and valuation gaps – particularly within the Mittelstand – building trust and offering strategic, long-term value often outweighs price alone. Sellers in Germany, especially family-owned businesses, value continuity, cultural fit and growth vision. Dealmakers can bridge valuation gaps by structuring deals creatively, using earn-outs, minority investments or staged acquisitions to align expectations while reducing upfront risk.

Ultimately, those who approach the German market with patience, understanding and a solutions-oriented mindset will be best positioned to unlock high-quality opportunities.

**Dealmakers expect cash reserves to be a key source of capital to finance M&A in Europe in 2025. German dealmakers in particular suggest credit funds will play a larger role in M&A financing over the next 12 months. How significant is non-bank lending to German M&A? EU regulators have recently announced that**

**they are planning stress tests for non-banks. Is this something to be concerned about?**

**PL:** Non-bank lending, particularly from credit funds, is becoming increasingly significant in German M&A, especially as traditional financing channels remain constrained. With interest rates still elevated and banks taking a more conservative stance, dealmakers are turning to alternative lenders for greater flexibility, speed and tailored financing solutions. These trends are especially evident in Germany's mid-market and private equity-driven deals.

The growing role of credit funds is a positive development, offering buyers access to capital that might otherwise be difficult to secure. However, the planned EU regulatory stress tests for non-banks do reflect a broader concern about systemic stability.

That said, increased regulatory oversight should not be seen as a major deterrent. On the contrary, it signals that the non-bank sector is maturing and becoming more integrated into the financial system. For dealmakers, this may even enhance confidence in alternative lenders' long-term reliability. In short, while due diligence on financing partners remains essential, the rise of non-bank lending in Germany should be viewed as an enabler of M&A activity, not a risk.

**Germany maintains a strong reputation for generating high-calibre M&A in the industrials & chemicals space and in other asset-heavy industries. But which other sectors are likely to become bright spots for dealmaking over the next 12 months beyond these traditional fortes?**

**PL:** While Germany's industrials & chemicals sector remain a pillar of its M&A landscape, several other industries are emerging as bright spots for dealmaking.

Technology and digital infrastructure are gaining momentum, driven by Germany's push towards digital transformation, including AI solutions, and the overall modernisation of its Mittelstand. Cybersecurity, enterprise software and automation solutions are attracting increasing investor interest. Healthcare and life sciences also present strong potential, especially in areas such as medtech and biotech, where Germany's research ecosystem and ageing population create long-term growth drivers. Furthermore, the energy transition

is opening new avenues in renewables, energy storage, clean tech and e-mobility. Finally, Germany plans to increase its military spend as well as investments in its infrastructure, which may create further opportunities in these sectors as well. On multiple fronts, Germany's evolving economic priorities are creating fertile ground for M&A in future-focused sectors.

**According to Mergermarket, eight of the 20 largest deals announced in H1 2025 targeting German assets were led by bidders from North America. How will inbound M&A shape the German market through the rest of 2025? And for German dealmakers themselves, what role is outbound M&A playing in their deal strategies?**

**PL:** Inbound M&A will continue to play an important role in shaping the German market. Lower valuations compared to the US, high-quality assets, engineering excellence and a reputation for innovation make German companies attractive platforms for strategic international buyers seeking long-term value and access to the EU market.

At the same time, outbound M&A remains a key lever for German dealmakers who are increasingly looking abroad to diversify, scale and access innovation. Whether targeting growth markets in North America and Asia or acquiring emerging technologies, outbound strategies are helping German firms stay competitive in a rapidly evolving global landscape.

Increasing political conflict could lead to corporations deciding to strengthen or reduce their presence in certain markets for strategic reasons, in order to reduce their vulnerability. This could also impact inbound or outbound M&A activity in or from Germany.

Together, inbound and outbound deal flows reflect Germany's deep integration into global M&A trends. This dual dynamic enhances cross-border connectivity, fosters strategic partnerships, and positions Germany as both a prime destination and an active global player in the dealmaking arena.

# Spotlight on Poland – open for business

Ryszard Manteuffel, Mateusz Stępień and Sławomir Czerwiński, Partners at CMS Poland, discuss the upbeat mood among Polish dealmakers, how the market is transforming and why prospects for M&A in the country look strong



*Ryszard Manteuffel,  
CMS Poland*



*Mateusz Stępień,  
CMS Poland*



*Sławomir Czerwiński,  
CMS Poland*

Excluding the occasional, anomalous megadeal, the Polish M&A space has been quite subdued over the last few quarters. Nevertheless, the overall mood among dealmakers in the country is positive. Despite a dip in activity, this prevailing sentiment is driven primarily by the perception that today's market conditions are advantageous for buyers.

This has led to transaction processes taking significantly longer. Sellers are holding out for valuations reminiscent of the post-pandemic period, and buyers think valuations should better reflect the current economic landscape, characterised by higher interest rates, macroeconomic volatility and geopolitical unpredictability.

However, conditions are poised to improve over the coming months. Dealmakers can expect financing conditions to continue easing through the rest of 2025 and into early 2026. Inflation appears to be under control, and key economic indicators for Poland remain favourable. This environment should support improved access to capital and potentially more conducive terms for transactions.

## **In the family**

Family offices are emerging as increasingly influential players in Poland. While these entities are relatively novel in the Polish context, their presence in M&A financing is growing.

Poland has experienced a significant increase in private wealth over the past three

decades, leading to the professionalisation of wealth management among high-net-worth individuals and business families. The legal introduction of the Polish family foundation in mid-2023 further facilitated this shift, offering a more structured vehicle for long-term capital deployment, succession planning and asset protection.

Family offices often have greater investment flexibility, longer time horizons and a higher risk tolerance than traditional institutional investors. In the current environment, characterised by higher interest rates, tighter bank lending and selective private equity (PE) activity, family capital is stepping in to fill gaps, particularly in mid-market transactions and succession-driven deals.

This segment is expected to grow rapidly as more business owners look to diversify and reinvest wealth, and as the ecosystem around family wealth management continues to mature. We are already seeing increased collaboration between family offices and PE funds, as well as direct investments into promising Polish SMEs.

## **A financial services surge**

We have also seen a wave of activity in the country's financial services sector, with four of the seven biggest deals announced in H1 relating to assets in this area. The Polish financial sector has demonstrated remarkable resilience since the global financial crisis, and M&A in the industry has gone from strength to strength.



Higher interest rates have allowed Polish banks to generate substantial income from their lending activities, bolstering their financial performance. Moreover, the influx of people into Poland following 2022 has led to a housing market boom. This surge in demand has positively impacted banks, which have seen increased activity in mortgage lending and related services.

Polish banks have strategically focused on stable and predictable revenue streams. This approach has helped them maintain a steady financial performance and has contributed to the overall positive effects for M&A seen in the sector. By prioritising stability, banks have been able to navigate economic fluctuations more effectively.

### **Wealth of opportunity**

Beyond the financial sector, we see a number of areas with strong potential for dealmaking going forward. For instance, Poland, which has historically relied on coal heating assets, is seeing a significant shift towards alternative energy sources. This transition is driven by both environmental concerns and the need for sustainable energy solutions. Investments in renewable energy, such as wind, solar and biomass, are expected to increase, spurring M&A opportunities in this sector.

As in other parts of Europe, defence spending in Poland – already very high by regional standards – is also set to increase, driving the development of dual-purpose infrastructure that serves both civilian and military needs, such as transportation networks, communication systems and logistics hubs. This will create many opportunities for companies specialising in construction, engineering and technology integration. This sector is poised for consolidation and strategic partnerships.

Besides these emerging trends, Poland retains a strong industrial base, with a diverse range of manufacturing and production capabilities. The industrial sector is expected to see a wave of consolidation as companies seek to enhance efficiency, scale operations and expand their market reach. Digitalisation, too, is a

priority. The integration of advanced technologies, such as automation, AI and the Internet of Things, will further boost the industrial sector's growth. Companies that innovate and adopt these technologies will be well-positioned for success.

### **Open for business**

Poland's reputation as a destination for international investment is also evolving – six of the 10 biggest M&A deals announced in the country in H1 featured cross-border bidders.

Poland has long been recognised as a standout destination for international investment in Central & Eastern Europe, often referred to as a “green island” due to its relative economic stability and consistent growth, even during periods of regional or global uncertainty. Since the collapse of the Soviet Union, Poland has experienced steady economic development, underpinned by a robust legal framework, a skilled workforce and a strategic location within the European Union. These factors have contributed to Poland's reputation as a reliable and attractive market for foreign investors.

While US investment has played a significant role in Poland's economic rise, most foreign direct investment has historically come from Western European countries, particularly Germany, France and the UK. Nevertheless, US investors remain active and influential, especially in sectors such as finance, technology and manufacturing.

Looking ahead, there are strong indications that US investment in Poland will continue to grow. Recent examples include notable transactions in the banking sector, such as the acquisition of two Polish banks by Cerberus, a US-based PE fund. These deals underscore the ongoing interest of US investors in Polish assets and the country's openness to cross-border transactions.

Overall, the mood among Polish dealmakers remains upbeat. With financing conditions continuing to ease and a diverse group of sectors poised for consolidation, in addition to major tech-enabled growth, Poland remains a stable, attractive and willing hub for M&A.

# Fortress Europe – defence sector M&A

Władek Rzycki, Partner at CMS Poland, and Corrin Miller, Associate at CMS UK, examine the evolution of Europe's defence sector and the intricacies of conducting M&A in the sector



*Władek Rzycki,  
CMS Poland*



*Corrin Miller,  
CMS UK*

Europe's defence sector – spanning traditional industries such as aerospace, naval engineering, armoured vehicles and munitions, as well as emerging arenas like space defence, autonomous systems and AI – has long been characterised by its strategic importance and complex regulatory frameworks.

Shifting geopolitical alignments, driven by Russia's full-scale invasion of Ukraine in 2022 and widening Middle East tensions, have sharpened the focus on military preparedness, prompting Western governments to channel funds into advanced weaponry, cybersecurity and cross-border security co-operation.

At the 2025 NATO Summit in The Hague, allies committed to raise defence spending to 5% of GDP by 2035, with at least 3.5% for core military expenditure and up to 1.5% for broader defence-related investments such as infrastructure and cybersecurity. Germany is set to be a leading spender, with plans to boost its defence budget from around 2.4% of GDP in 2025 to 3.5% by 2029, its most ambitious rearmament effort since reunification.

Nine transactions targeting European defence-sector assets were announced in H1 2025, with disclosed values totalling around EUR 650m (transaction values were not disclosed for all deals). While this figure is broadly in line with the same period last year (11 deals, EUR 691m) and represents a marked increase from H2 2024 (EUR 257m across eight deals), the raw numbers show a disconnect between market hype and real transaction activity.

Despite the major political commitments to boost defence spending, M&A volumes

remain flat year-on-year. This reflects four main constraints in the European market.

First is the issue of procurement lag. Though defence budgets have increased since 2022, contractors are only now moving through multi-year procurement cycles, delaying acquisition demand. Related to this is the second matter of asset scarcity and, in turn, high valuations, particularly for prime targets tied to AI, precision systems and advanced materials. Regulatory hurdles are the third key constraint, with stricter FDI screening and fragmented export controls slowing cross-border M&A and extending approval times. Lastly is the question of integration risk, given how sensitive technology transfers, IP ring-fencing and classified work segregation can raise costs and complexity in dealmaking.

If procurement bottlenecks ease in H2 2025, deal volumes could rise modestly in 2026, led by targeted acquisitions in high-tech subsectors and regionally strategic industries. Any such increase, however, is likely to be gradual, constrained by regulatory complexity, asset scarcity and integration risks.

## **Geographic hotspots**

Of the defence M&A deals announced in Europe in H1 2025, a sizeable share involved Nordic targets. Specifically, three of the nine H1 deal targets were based in Finland, Sweden and Norway. We expect the Nordics to continue to be particularly active in defence dealmaking over the coming year. With Finland having joined NATO in 2023, closely followed by Sweden in 2024 (ending more than 200 years of military non-alignment), these countries are committed to increased defence spending

## Top five defence deals, H1 2025

Announced date	Target company	Subsector	Target country	Acquirer	Deal value EURm
11/02/2025	RENK Group AG (18.4% Stake)	Armoured vehicles, Automotive components, Industrial equipment and machinery	Germany	KNDS Deutschland GmbH & Co KG	413
29/01/2025	Summa Defence Oy (100% Stake)	Armoured vehicles	Finland	Meriaura Oy	188
19/05/2025	Polska Grupa Militarna SA	Aerospace, Missiles and missile guidance systems, Small arms manufacturing	Poland	Fidera Ltd	23
18/03/2025	Pangea Aerospace SL	Missiles and missile guidance systems	Spain	Centre For Technological Development & Innovation; Primo Capital SGR SpA; Hyperion Fund Inc; Andre-Hubert Roussel (Private Individual)	23
16/06/2025	AMMUNITY SIA (100% Stake)	Small arms manufacturing	Latvia	Scandinavian Astor Group AB	3

driven by heightened security concerns around the ongoing conflict in Ukraine.

Several other countries are also emerging as key players in European defence M&A. Poland has significantly ramped up its defence spending and is actively pursuing industrial partnerships. Germany also stands out with its ambitious rearmament programme and growing role in cross-border acquisitions and joint ventures. The UK, under its Strategic Defence Review and new UK-EU pact, is fostering innovation and cross-border dealmaking, particularly among SMEs. Ukraine, meanwhile, is rapidly becoming a strategic partner and innovation hub, with battlefield-driven technologies, growing integration into EU defence frameworks and a surge in domestic and outbound M&A activity.

### US engagement

Tensions between Washington and Brussels have intensified Europe's push for defence autonomy. The largest deal of H1 2025 involved Franco-German defence contractor KNDS exercising its option to acquire an additional 18.4% stake in Bavaria-based tank gearbox manufacturer RENK Group for EUR 413m. The remaining eight transactions also featured European bidders, underscoring the 'buy European' approach championed in the 2024 Draghi report. That report urged a reduction in reliance on non-EU suppliers, highlighting that the majority of EU defence spending still flows to external contractors, particularly in the US.

In response to this shift towards European consolidation and autonomy, US defence contractors keen to remain involved in EU defence projects are actively adapting their strategies to secure a share of the continent's expanding defence budget.

US companies like Honeywell and Anduril are investing in European subsidiaries and acquiring local firms to establish a credible, long-term presence in the region. Honeywell's acquisition of Italy's Civitanavi Systems, for instance, not only brought advanced navigation technology into its portfolio but also provided a manufacturing base within the EU – critical for meeting EU funding requirements around IP control and local production.

US defence firms are also forming joint ventures and subcontracting relationships with European primes and, increasingly, the growing ecosystem of start-ups and SMEs. Lockheed Martin's collaboration with Poland on the HOMAR-A system and its HIMARS sustainment centre in Romania, as well as its partnership with Rheinmetall to develop the GMARS launcher in Germany, demonstrate this strategic adaptation.

Partnerships are carefully structured to enable US firms to contribute advanced or non-sensitive technologies while ensuring that design authority, production control and access to classified capabilities remain within Europe – an essential condition for compliance with EU sovereignty protocols and eligibility for certain EU funding mechanisms.

Such collaborations are particularly active in AI, autonomous systems and cyber defence, where European initiatives like EDF and PESCO are driving innovation and industrial resilience.

Beyond regulatory compliance, US defence firms are increasingly prioritising co-development and cultural alignment with European partners. Executives stress the importance of ‘acting like an EU company’ – embedding engineering, R&D and manufacturing within Europe to build trust and long-term credibility. This approach is essential for aligning with EU frameworks such as the SAFE Regulation, which mandates that at least 65% of a defence product’s component cost must originate from entities in the EU, EEA-EFTA states or Ukraine. SAFE also requires local infrastructure, executive management and design autonomy, making cultural and operational integration a strategic necessity for accessing EU funding.

While direct access to EU defence funding programmes remains limited, US firms can leverage NATO procurement frameworks and bilateral agreements with individual EU member states to maintain market access. Ongoing transatlantic dialogues, such as the US-EU Security and Defence Dialogue, reflect growing interest in establishing a formal EU-US Security and Defence Partnership. If realised, such a framework could eventually pave the way for trusted partner status or tailored exemptions under EU procurement rules.

Looking ahead to 2026, we expect to see a continuation of defence consolidation within Europe, alongside a gradual reduction in direct US participation in EU-funded defence projects. Joint ventures will remain in vogue – primarily among European partners but also involving US firms that meet the necessary compliance and eligibility standards.

### **Role of private equity**

Rising defence budgets and Europe’s push for industrial consolidation are creating attractive opportunities for PE investors. PE firms are increasingly active in defence M&A, particularly in building competitive European groups through acquisitions in dual-use or less politically sensitive areas – such as aerospace components, electronics, logistics, and support services – while investments in core weapon systems and highly sensitive technologies remain limited. However, there is a growing trend towards incorporating security considerations into environmental, social & governance (ESG) criteria, driven by heightened geopolitical tensions and the strategic importance of defence investments.

We expect PE interest in defence tech start-ups and scale-ups to continue to grow in 2026, especially in AI, unmanned

systems and cyber defence. These areas combine agility, commercial viability and fewer procurement constraints, making them attractive to private capital. While Europe still trails the US in overall PE defence investment, momentum is building. Dedicated funds like Tikehau’s Défense et Sécurité and Weinberg’s Eiréné Fund are gaining traction, supported by EU initiatives such as Readiness 2030, which aims to mobilise private capital to strengthen Europe’s defence industrial base.

### **Defence intricacies**

M&A in Europe’s defence sector is shaped by a uniquely intricate landscape of regulatory, political and operational hurdles. Dealmakers must contend with fragmented export controls, with rules differing not only between EU member states but also in their interpretation and enforcement. These controls can restrict the transfer of sensitive technologies, delay approvals and complicate cross-border integration, particularly in deals involving dual-use assets or classified capabilities.

Relatedly, many European jurisdictions have strengthened their foreign direct investment (FDI) regimes in recent years, allowing governments to block or impose stringent conditions on acquisitions of defence-related assets, especially by non-EU investors. These reviews can significantly extend deal timelines, increase costs and introduce execution risk.

Deals involving classified contracts or sensitive technologies require rigorous safeguards. Buyers may need to establish “clean teams”, secure national security clearances and implement ring-fenced IT systems to protect confidential data and comply with defence ministry protocols. Cybersecurity risks are also increasingly material, with acquirers needing to assess target vulnerabilities and ensure post-deal resilience. Similarly, in the case of joint ventures or cross-border collaborations, it is critical that design authority and control over critical technology systems remain within compliant jurisdictions to ensure access to EU funding and uphold strategic autonomy.

Despite these hurdles, the defence sector remains attractive for well-prepared investors and acquirers. Success depends on proactive regulatory engagement, robust due diligence and strategic alignment with national and EU defence priorities. In an environment where security imperatives are reshaping industrial policy, M&A can serve as a powerful tool to accelerate innovation, enhance resilience and strengthen Europe’s collective defence capabilities.





# UK public company takeovers in 2025 and beyond

Gordon Anton, James Parkes and Kristy Duane, Partners at CMS UK, discuss the surging momentum in the UK's public company takeover space and the near-term implications for dealmaking in the UK



*Gordon Anton,  
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*James Parkes,  
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*Kristy Duane  
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The UK public M&A market has roared back to life in 2025, with activity levels not seen since the pre-pandemic era. With more than GBP 22bn in firm offers launched in the first half of the year, the market averaged seven firm offers per month, with 12 in June alone. This extraordinary pace is being driven by undervalued mid-cap shares, increased foreign interest and a more pragmatic regulatory environment, fuelling a wave of acquisitions.

Valuation gaps are putting the spurs to dealmaking. Many UK-listed companies' shares continue to trade at discounts to intrinsic value, creating fertile ground for opportunistic bids. By way of example, discounts to NAV per share for some listed real asset companies have been as wide as 40%.

Private equity bidders remain active, drawn by attractive pricing and management teams open to proposals for life away from the public markets. As cash offers are made at historically low valuations, listed strategic bidders – who can offer their own equity to target shareholders as an alternative to a pure cash exit from a private equity bidder – are providing competitive tension to takeover processes, showing that private equity cash is not always king.

In addition, listed strategics are benefiting from regulatory tailwinds, with reforms to the UK Listing Rules and Prospectus

Regulation Rules making it significantly easier to transact and compete for attractive targets.

## **Emerging deal dynamics**

Across the takeover space, the use of bidder shares as consideration is increasing, with 26% of firm offers in 2025 involving listed-paper consideration. This trend is satisfying institutional investors' desire to support 'UK PLC', roll their investments and capture the upside in future synergies.

As far as key sectors are concerned, real estate, along with TMT and financials, are drawing the most attention. These industries offer a combination of undervaluation, strategic fit and growth potential that is proving compelling to both financial and strategic bidders.

Of late, dealmakers have focused their efforts on UK mid-cap targets – nearly 74% of firm offers in H1 2025 were for companies valued under GBP 500m. Low share liquidity, limited analyst coverage and undervaluation are driving the focus on this segment of the market.

The dynamics around early-stage announcements are also evolving. A significant number of offer periods now begin with a possible offer announcement (or leak), evidencing a more strategic approach to engagement. Given the paramount importance of confidentiality, this development has not

escaped the attention of the Financial Conduct Authority (FCA), which is investigating this trend.

Cross-border interest in UK-listed companies has been another defining feature of the 2025 public M&A landscape, with foreign bidders accounting for more than 53% of firm offers announced in H1. North American bidders remain the most active – dealmakers from the US contributed 31% of foreign firm offers in H1, and their Canadian counterparts 9% – with strategic and financial acquirers targeting UK assets for scale and innovation. European bidders, while fewer in number (accounting for 9% of foreign firm offers), have focused on mid-cap targets with strategic alignment.

### **Regulatory reforms reshaping the landscape**

Regulatory developments are also reshaping the transaction landscape, most notably for listed strategics. The threshold for requiring a prospectus for secondary issuances contained in the Prospectus Regulation Rules will soon be raised from 20% to 75% of existing securities admitted to trading (and up to 100% for closed-ended investment companies). This change – effective 19 January 2026 – allows bidders who structure their offer as a scheme of arrangement to issue equity for acquisitions without a full prospectus if the issuance remains under the specified threshold.

Moreover, the most recent reforms to the UK Listing Rules – effective 29 July 2024 – abolished the requirement for shareholder approval of Class 1 transactions, which were previously triggered when a listed company undertook a deal representing 25% or more of its size under the FCA's class tests. This amendment allows bidders to pursue significant and transformational opportunities without needing to seek shareholder approval in a general meeting (save where a transaction would constitute a reverse takeover).

These changes mean that, in addition to reducing regulatory friction, listed strategics can execute larger deals faster, incur less costs and compete better with private equity-backed bidders.

### **What comes next?**

Looking to the future, we expect the UK public M&A market to remain active – but the nature of dealmaking is evolving. Several key themes will shape the next phase of activity.

The strong focus on sub-GBP 500m targets is likely to persist. These companies remain attractively priced, often under-researched and more agile (and willing) in responding to bidder approaches. Boards of mid-cap PLCs should be prepared for unsolicited interest and ensure their defence strategies are up to date. Inbound interest, particularly from North America, will also remain strong. The Competition and Markets Authority's move towards more proportionate, predictable and faster merger reviews is making the UK an increasingly attractive jurisdiction for cross-border public M&A.

As bidder confidence grows and valuations remain compressed, the market is likely to see more contested takeovers. Listed strategics are less likely to sit on the sidelines. Target boards should anticipate the possibility of multiple bidders or activist involvement, especially in sectors with strategic assets or underperforming governance.

Prospective bidders, for their part, should familiarise themselves with the regulatory landscape in which UK takeovers play out to ensure they can seize compelling opportunities swiftly when they arise. While the regulatory reforms mentioned above are streamlining some aspects of the UK regime, the broader regulatory landscape remains complex. Boards and advisers will need to navigate evolving disclosure obligations, foreign investment screening and shareholder activism with greater precision and speed.

With competition intensifying, bidders will continue to prioritise clean and de-risked execution. Expect to see more pre-bid stake building, an even greater focus on irrevocable undertakings to support bids and early engagement with key shareholders (often ahead of the target board being approached). For targets, this means being ready to respond quickly and credibly to approaches.

# The M&A environment and expectations for the year ahead

An unsettled start to the year made it more difficult for dealmakers to find their footing, while financing difficulties and a persistent mismatch of price expectations may constrain M&A in the coming months

## Top findings

### 50%

of respondents expect European M&A activity to increase in the next 12 months, while 29% anticipate a decline

### 34%

identify financing difficulties as one of the biggest obstacles to dealmaking, followed by 30% who identify buyer/seller valuation gaps as major barriers

### 31%

expect buyers to pursue undervalued targets and turnaround opportunities in the coming year, while non-core divestments and distress will drive sales

European dealmakers ended 2024 on an optimistic note, with M&A volumes and average deal values edging back upwards after a difficult two years. Yet the first half of 2025 reversed this trend, as political tensions between mainland Europe and the US re-emerged and the Trump administration's 'Liberation Day' tariff announcements took the wind out of dealmakers' sails.

While a provisional agreement has set a baseline tariff of 15% on European exports to the US, the path to that settlement was undeniably rocky. That volatility was clearly reflected in lower M&A figures for H1 2025: deal counts were down by 11% on the same period in 2024, to 8,195 transactions. Aggregate deal value, however, proved more robust, rising 3.6% year-on-year to EUR 465bn, according to Mergermarket.

The sharper reduction in deal volume than value suggests that European dealmakers have focused predominantly on larger deals – when committing resources to comprehensive due diligence reviews, dealmakers would prefer to dedicate those resources to bigger, more meaningful transactions. However, as the 10 largest deals by value of the first half of 2025 demonstrate, blockbuster megadeals have been rare as investors take a risk-off approach in volatile times.

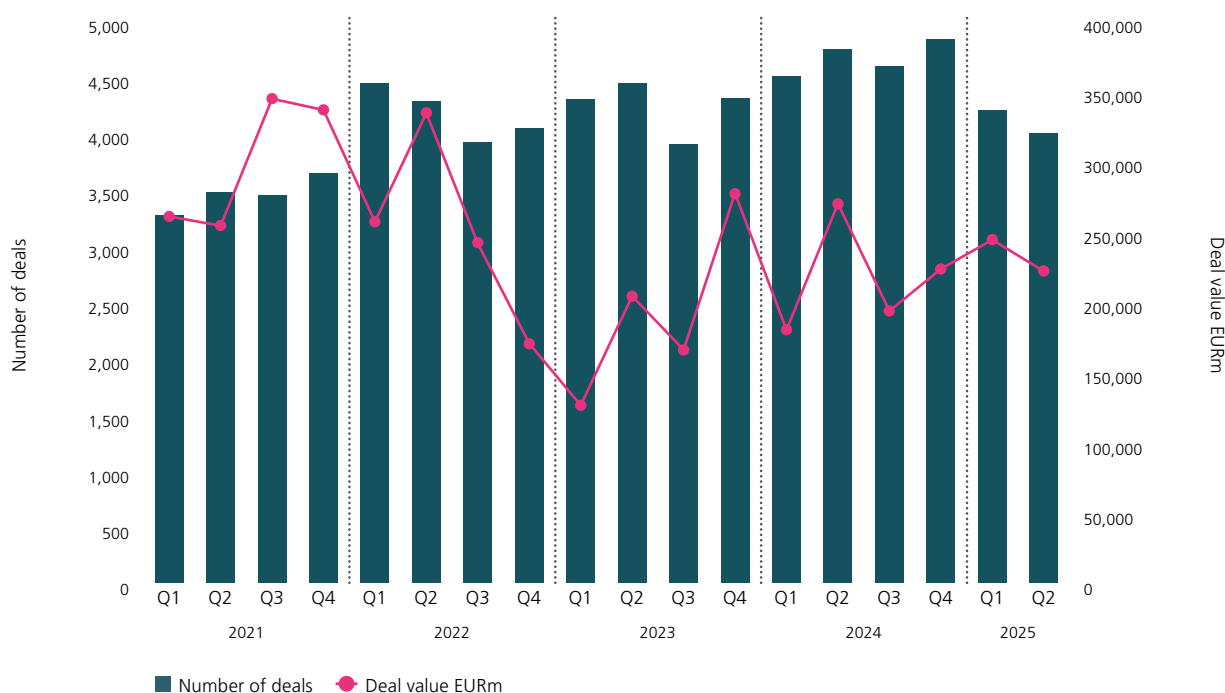
The largest deal announced in the first half of the year fell in the financial services sector, specifically Banca Monte dei Paschi di Siena's (MPS) EUR 15.4bn bid for Italian banking peer Mediobanca. The deal proved contentious – Mediobanca rejected the original unsolicited bid, but MPS was able to secure control by acquiring 62.3% of tendered shares in the bank from Mediobanca investors.

Unusually, the second largest transaction for the period concerned Russian assets, as the holding company for Moscow's Domodedovo Airport was acquired by the Federal Agency for State Property Management for EUR 11.1bn, a major nationalisation of one of Russia's busiest transport hubs.

## Financial services sector takes the lead by value

With financial services accounting for four of the five largest deals announced in H1, it is unsurprising that this sector tops the charts in value terms, contributing nearly EUR 92bn worth of transactions. This is up from EUR 67bn in the same period last year, in part because of high levels of activity among Italian institutions – MPS's Mediobanca bid was not the only major financial services transaction to emerge in Italy. For instance, Generali Investments acquired France-based

### European M&A trends 2021-Q2 2025



Natixis Investment Managers in a EUR 4.8bn deal, merging to create Europe's second largest asset manager with almost EUR 2tn in assets under management. Other major financial services deals in H1 include Swiss insurer Helvetia's EUR 9.4bn acquisition of long-time

rival Baloise, as well as a EUR 6.8bn bid by Austria's Erste Group to buy the Polish arm of Santander Bank.

This is the first time since 2018 that TMT has not been the sector with the highest aggregate deal value, though it missed the mark

by the thinnest of margins. The first half saw just over EUR 91bn of TMT deals (down from EUR 97bn in H1 2024). Only one TMT deal broke into the all-sectors top-10 – the restructuring of telecommunications business

Europe's financial services sector is riding a wave of consolidation, convergence, regulatory, macroeconomic and generational wealth shifts. Private capital growth is driving new investment structures and strategies. Fintechs and challengers are evolving and consolidating, while banks, insurers and asset managers are looking for opportunities to capture a greater share of pensions and savings and invest in long-term growth and investment asset classes and semi-liquid products.

*Dipesh Santilale, Partner, CMS UK*

## European M&amp;A top 20 deals, H1 2025

Announced date	Target company	Target sector	Target country	Bidder company	Bidder country	Deal value EURm
24/01/2025	Mediobanca- Banca di Credito Finanziario SpA (100% Stake)	Financial services	Italy	Banca Monte dei Paschi di Siena SpA	Italy	15,428
20/06/2025	DME Ltd (100% Stake)	Transportation	Russia	Federal Agency for Management of State Property - Rosimushchestvo	Russia	11,100
22/04/2025	Baloise Holding Ltd (100% Stake)	Financial services	Switzerland	Helvetia Holding AG	Switzerland	9,391
05/05/2025	Santander Bank Polska SA (49% Stake)	Financial services	Poland	Erste Group Bank AG	Austria	6,846
13/06/2025	Novo Banco SA (100% Stake)	Financial services	Portugal	BPCE Group	France	6,400
23/02/2025	Subsea 7 SA (100% Stake)	Construction	United Kingdom	Saipem SpA	Italy	6,054
26/02/2025	Altice France SA (45% Stake)	TMT	France	Creditors	France	5,772
01/05/2025	Cofinimmo SA/NV (100% Stake)	Real estate	Belgium	Aedifica SA/NV	Belgium	5,687
31/03/2025	CEVA Sante Animale SA	Pharma, medical & biotech	France	Mitsui & Co Ltd; Temasek Holdings (Pte) Ltd; EMZ Partners SAS; Sagard SAS; Public Sector Pension Investment Board; Bettencourt-Meyers Family; Continental Grain Co; Hopu Investment Management Co; ArchiMed SAS; Merieux Equity Partners SAS; Sofiproteol SA	Singapore	5,500
12/03/2025	Zealand Pharma A/S (petrelintide monotherapy development and commercial license) (100% Stake)	Pharma, medical & biotech	Denmark	Roche Holding AG	Switzerland	4,816
24/02/2025	Just Eat Takeaway com NV (100% Stake)	TMT	Netherlands	Prosus NV	Netherlands	4,770
21/01/2025	Natixis Investment Managers SA (Asset management operations) (100% Stake)	Financial services	France	Generali Investments Holding SpA	Italy	4,750
31/03/2025	Fortnox AB (81.05% Stake)	TMT	Sweden	EQT AB; First Kraft AB	Sweden	4,100
14/02/2025	Apleona Group GmbH (100% Stake)	Real estate	Germany	Bain Capital LP; Mubadala Investment Co PJSC	USA	4,000
06/02/2025	Banca Popolare di Sondrio SpA (81.34% Stake)	Financial services	Italy	BPER Banca SpA	Italy	3,869
05/02/2025	Metro AG (14.82% Stake)	Consumer	Germany	EP Global Commerce GmbH; EP Global Commerce as	Czech Republic	3,845
29/04/2025	Stack Infrastructure Inc (European colocation business) (100% Stake)	Business services	Sweden	Apollo Global Management Inc	USA	3,774
31/03/2025	Corral Petroleum Holdings AB (100% Stake)	Industrials & chemicals	Sweden	Varo Energy Marketing AG	Switzerland	3,644
12/05/2025	Daisy Group Ltd (100% Stake)	TMT	United Kingdom	VMED O2 UK Ltd	United Kingdom	3,559
03/02/2025	Verallia SA (49.47% Stake)	Industrials & chemicals	France	BW Gestao de Investimentos Ltda	Brazil	3,545



Altice France. However, the sector does take the gold medal for generating the highest number of deals, with 1,670. This is some way ahead of second-place business services, which saw 1,394.

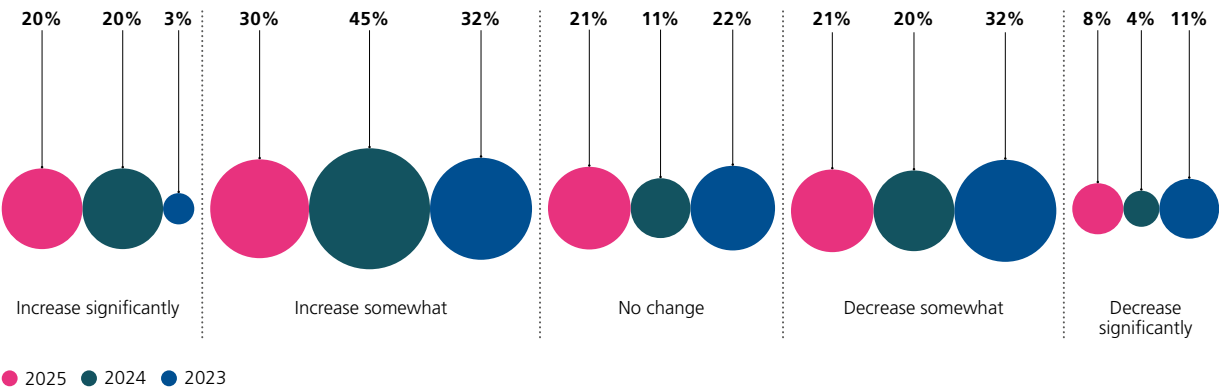
**More caution ahead**

After an improvement in confidence among our respondents in last year's survey, M&A activity in the next 12 months looks set to be more subdued. Half of respondents expect European M&A levels to rise over the coming year, down from the 65% who said the same in our study a year ago. While the proportion expecting a significant increase in dealmaking is the same as last year's survey (20%), well over a quarter (29%) now expect a more muted European M&A market in the next 12 months, including 8% who are anticipating a significant decrease.

This less confident outlook reflects the uncertainty that has descended on global economies since the beginning of the year. Though the US and European Union have agreed a provisional tariff deal, ambiguity lingers and the last few months had an unmistakable impact on Europe's economic prospects, with GDP growth forecasts having been revised downwards. Last autumn, the European Commission projected GDP growth rates in the EU for 2025 at 1.5% and for 2026 at 1.8%; this spring's forecast has just a 1.1% rate for 2025 and 1.5% for 2026.

Even as M&A volumes increased in H2 2024, corporates appear to have been a little more circumspect than they had anticipated. In last year's survey, 41% of corporates were expecting to complete three or more deals, but only 19% of this year's corporate respondents reached this threshold.

**What do you expect to happen to the level of European M&A activity over the next 12 months?**



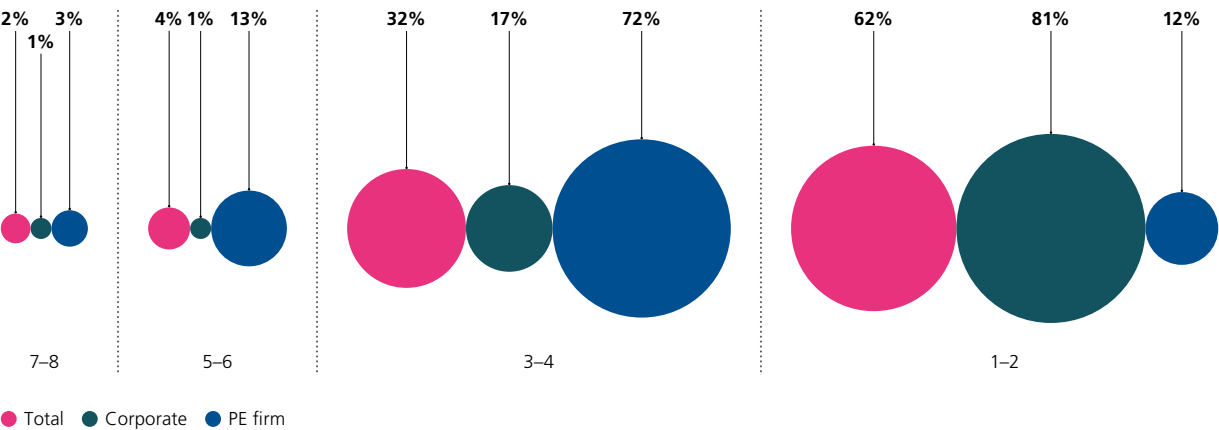
The picture for private equity firms is a little more mixed. Last year, 19% expected to strike one or two deals in the 12 months ahead, 45% anticipated three to four and 36% were bullish enough about M&A prospects to predict five or more. In the event, most (72%) were involved in three or four.

In line with our respondents' views on the prospects for European M&A in the year ahead, corporates intend to tread cautiously over the next 12 months. Almost a quarter (21%) expect to be involved in no deals at all (last year, just 8% said the same), while 55% anticipate launching one or two transactions and 21% three or four (36% said this last year).

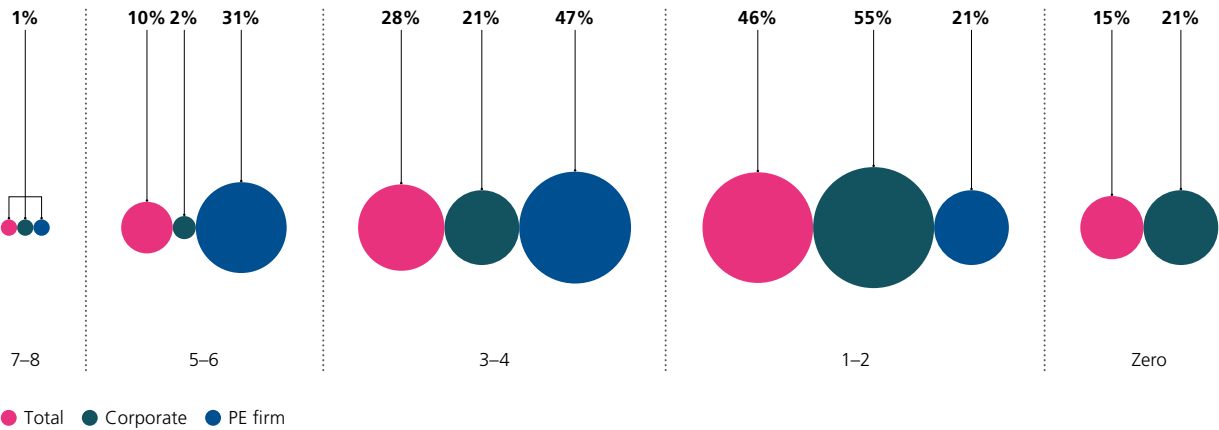
Private equity, meanwhile, remains under pressure both to deploy dry powder and to return capital to investors by exiting companies in ageing portfolios. Buyout firms globally hold USD 1.2tn of uninvested capital, of which 24% was at least four years' old at the end of 2024, according to Bain & Co analysis. At the same time, there are 29,000 unexited companies in the global buyout portfolio, valued at more than USD 3.5tn. The average holding period for exits increased from 5.3 years in 2018 to 6.1 years in 2024 as realisations failed to keep pace with the industry's growth. Confronted with a lack of liquidity, fund investors face challenges in committing to new funds, with an unavoidable impact on fundraising.

Private equity firms will therefore need to be active

Approximately how many M&A deals was your organisation involved in over the last 12 months in Europe?



Approximately how many M&A deals do you expect your organisation to be involved in over the next 12 months in Europe?



buyers and sellers even amid uncertain conditions, and our survey results reflect this reality. While 21% of private equity respondents expect to be involved in one or two M&A transactions, nearly half (47%) are anticipating three or four and 32% five or more.

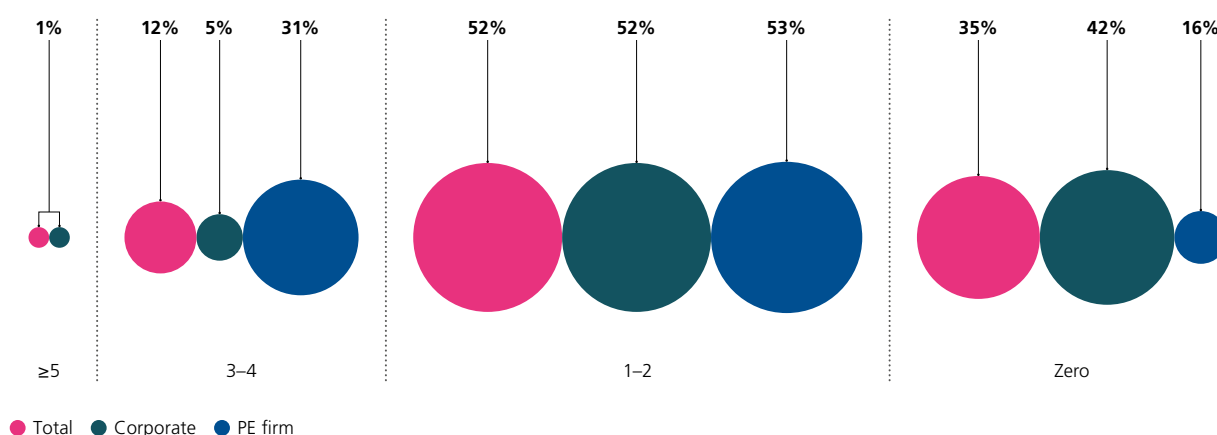
As far as international M&A is concerned, nearly a third of private equity respondents (31%) completed three or four cross-border deals, whereas corporates focused more on their domestic markets – more than two-fifths (42%) were involved in no deals with an overseas target or acquirer. This staid approach is likely to persist in the coming year. Over half of corporates (51%) expect to be involved in zero cross-border deals, while 31% of private equity respondents are expecting three or more such deals.

### Obstacles to dealmaking

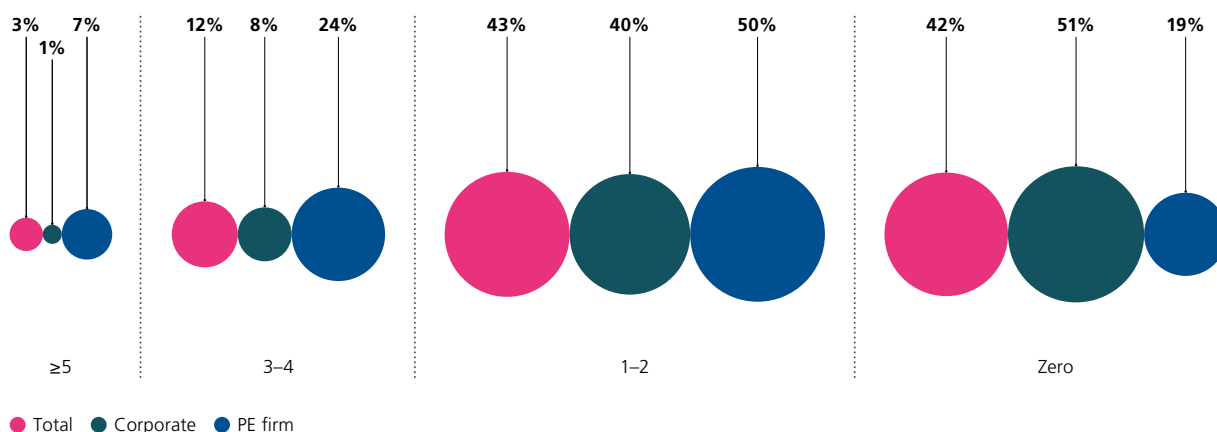
Financing difficulties are expected to be the primary barrier to doing deals in Europe over the coming year, with 34% of respondents placing this in their top-two obstacles. Although the European Central Bank and Bank of England have lowered interest rates in the past few months (to 2% and 4.25%, respectively, as of the time of writing), they remain higher than the decade before the full-scale invasion of Ukraine and the rapid rise of inflation in 2022.

The inevitable effect on financing costs and the uncertain environment are creating more constrained lending conditions, with the European Commission reporting a tightening of credit conditions among

### Approximately how many cross-border M&A deals was your organisation involved in over the last 12 months in Europe?



### Approximately how many cross-border M&A deals do you expect your organisation to be involved in over the next 12 months in Europe?



banks in the first quarter of the year. The CEO of a Poland-based corporate, for example, comments: “Financing difficulties will affect the way companies plan their investments. It will delay dealmaking, and companies may have to put aside their growth plans.”

Buyer and seller price expectations are projected to be the next greatest hurdle to dealmaking, with 30% of respondents ranking this in their top-two obstacles for the coming year, including the largest share of first-choice votes (22%). As we reported last year, the intractable valuation gap between buyers and sellers has persisted since the inflation shock of 2022 and is taking longer to work through than in the past. The head of corporate development at a Spanish company points to regional differences, saying: “There are valuation gaps in Europe, especially in Germany, where expectations are particularly high among Mittelstand company sellers, and in markets where the cost of living is high.”

Regulatory changes rank in third place for our respondents, with 29% citing these as an obstacle. This despite the European Commission embarking on a simplification drive in response to the Draghi report on EU competitiveness, which was published last year. The Commission has already announced the first of two omnibus packages that focus on sustainability reporting obligations for large companies and aims to “address overlapping, unnecessary or disproportionate rules that create barriers for EU companies.”

Unsurprisingly, trade wars have moved up the list of obstacles compared with last year, when they ranked bottom. This year, 26% cite trade wars as a top-two

barrier to M&A, putting them in fifth place. As the managing director of a US private equity firm explains: “Many of the delays in cross-border deals are caused by the trade wars. They have increased uncertainty in markets, and it’s making the selection of targets and regions tougher for dealmakers.”

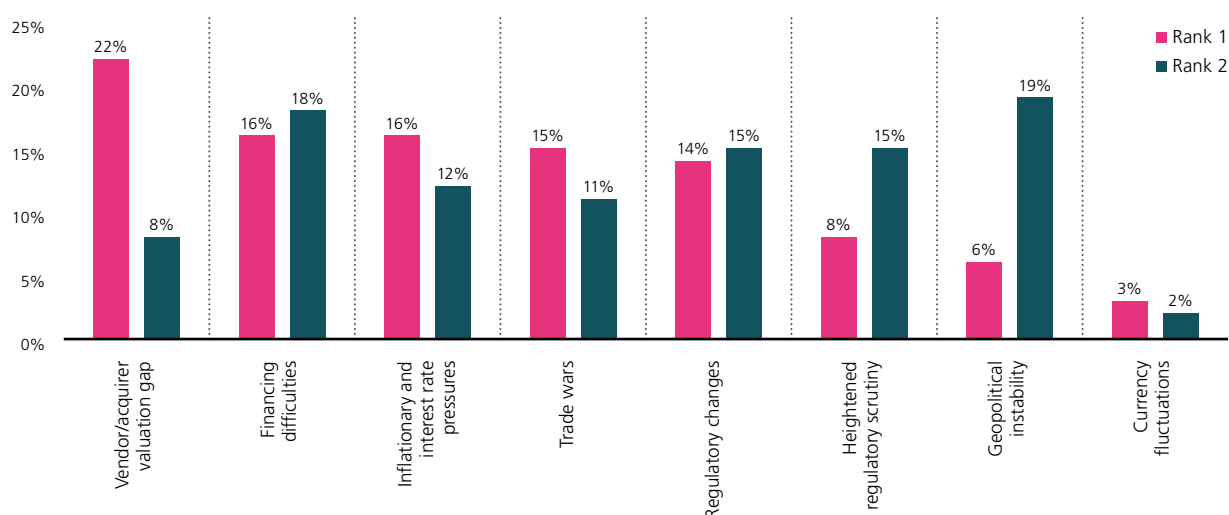
### Drivers of dealmaking

Undervalued targets and turnaround opportunities will be the main buy-side drivers for European M&A activity in the next 12 months, according to our respondents. Both garnered nearly a third (31%) of top-two responses, as dealmakers cast around for value during uncertain economic times. Highlighting the benefits of these kinds of deal, the head of M&A at a UK corporate says: “We’ve widened our range of services by investing in turnaround opportunities and they can prove to be very profitable. It’s all about reading the opportunities realistically.”

In a similar vein, respondents expect the biggest sell-side drivers to be non-core asset sales from large companies (42% place this in their top-two) and distress-driven M&A (38%). These beat private equity divestments, at 36%, despite the clear need for firms to exit investments.

The ongoing growth of the GP-led deal market – whereby firms tap secondary capital to roll portfolio companies into a new fund and offer existing investors a liquidity option – has perhaps dampened expectations of full private equity exits boosting M&A. According to Mergermarket data, USD 67.3bn worth of secondary buyouts targeting European assets were announced in 2024, up 55.5% from the USD 43.3bn recorded in 2023.

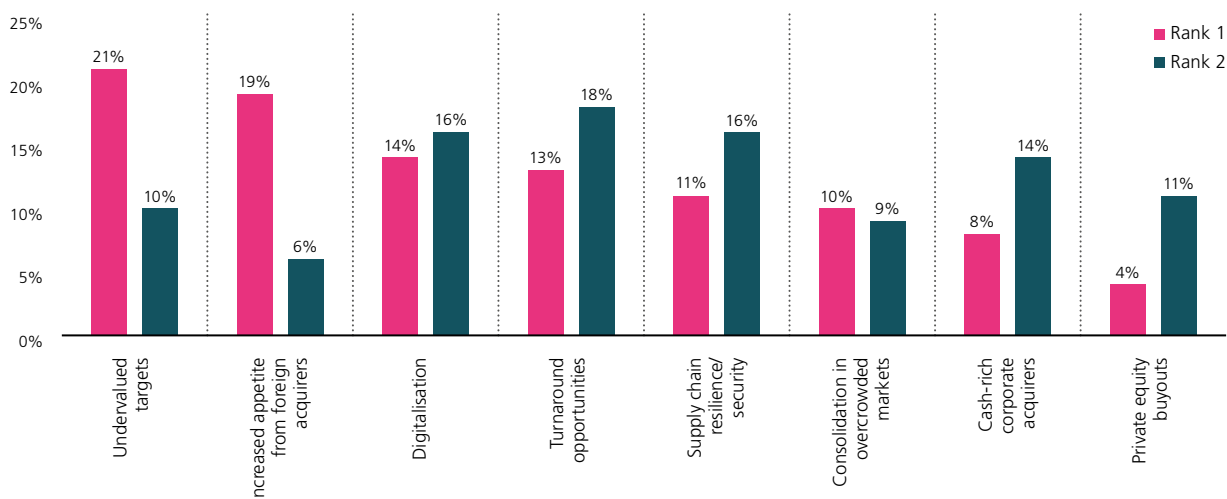
### What do you believe will be the principal obstacles to M&A activity in Europe over the next 12 months? (Rank the top two, 1 = biggest obstacle, 2 = second biggest obstacle)



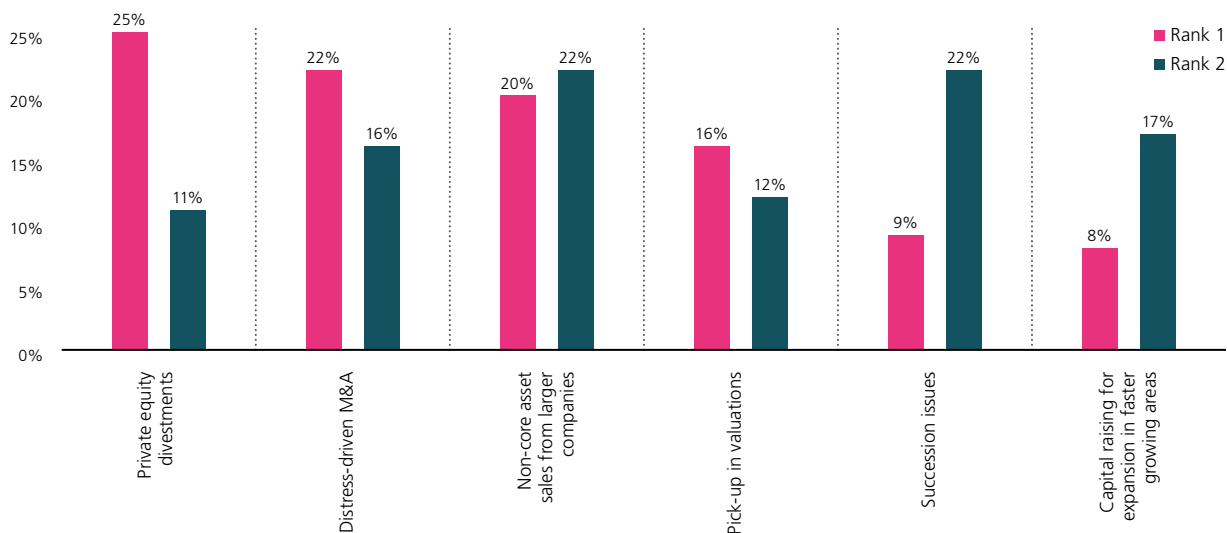
It is perhaps unsurprising that the regulations that respondents find most challenging when doing deals in Europe are environmental and ESG regulations. ESG continues to form a key feature of M&A strategy and due diligence but it is clear that the European Commission's recently announced streamlining proposals have yet to filter through to make navigating these ESG rules any easier. Financial regulations are also a top concern, perhaps reflecting the level of activity in the sector, as are labour & employment regulations which come with well-known challenges.

*Kristy Duane, Partner, CMS UK*

**What do you believe will be the greatest buy-side drivers of M&A activity in Europe over the next 12 months? (Rank the top two, 1 = greatest driver, 2 = second greatest driver)**



**What do you believe will be the greatest sell-side drivers of M&A activity in Europe over the next 12 months? (Rank the top two, 1 = greatest driver, 2 = second greatest driver)**





# Focus on regions and sectors

Benelux and TMT take the top spots for expected M&A growth by region and sector, with the UK & Ireland and industrials & chemicals securing second place

## Top findings

### 38%

of respondents expect the Benelux region to see the highest M&A growth in the next 12 months, placing it in top spot for the second year in a row

### 59%

anticipate that TMT will top the M&A growth tables, followed by industrials & chemicals with 42% of respondents

### 51%

expect increased appetite among Middle Eastern buyers targeting European assets, with real estate, leisure and energy the favoured sectors

The Benelux region is making quite a name for itself among dealmakers. It is the region expected to see highest growth in M&A activity over the next 12 months, with 38% of respondents ranking it in first or second place. This follows on from its joint top spot in last year's survey, when it tied with Germany. Many respondents pointed to strong sustainability credentials among Benelux-based companies as well as a solid set of financial institutions.

There are other attractions besides. A France-based CFO, for example, homes in on a willingness among targets to meet buyers' need to mitigate risk: "We find a supportive investment ecosystem in these countries, and this does help dealmakers concentrate on generating value from deals. Companies are also open to alternative deal structures." A private equity partner in Belgium also highlights the country's strong logistics base: "Belgium has a good infrastructure with connectivity to other key markets. For companies focused on strong distribution and supply-chain lines, they should consider investing in Belgium."

The UK & Ireland secured the second spot, with 29% of top-two votes. Among those opting for the region, key reasons included the market's scale and developed

financing markets as well as companies' growth ambitions. "Investment choices are greater in the UK because of the market size," says an Italy-based corporate CEO. "Companies in many sectors have strong globalisation potential." A US strategy officer also says: "Companies from the US have always found the UK to be stable for their investment intentions. There are feasible financing options, mainly when we think about larger investments."

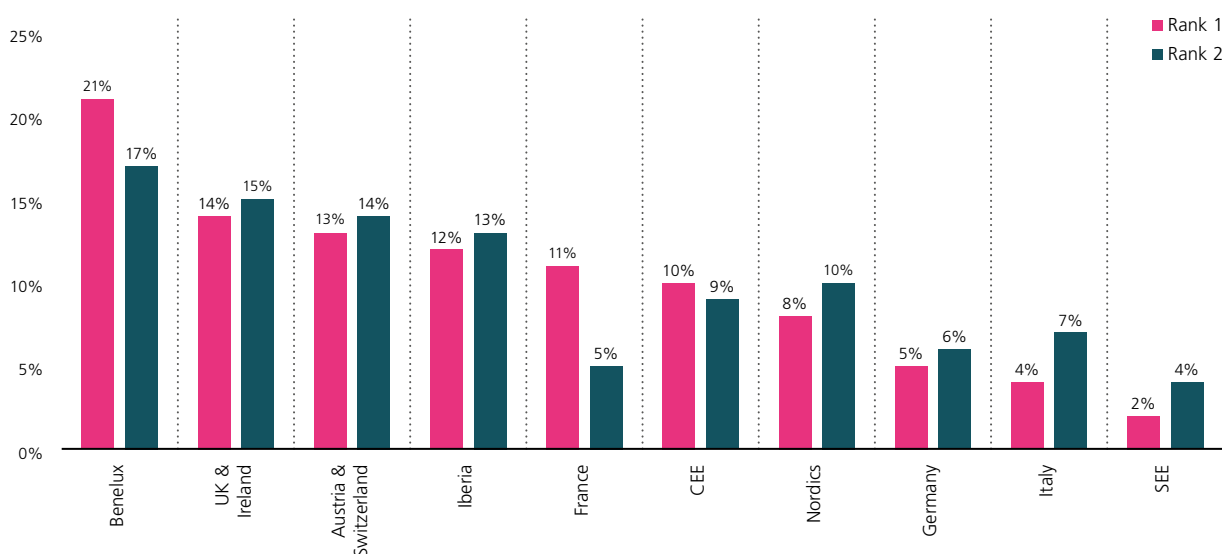
Austria & Switzerland, meanwhile, garnered 27% of responses, placing it third. Respondents cited a variety of reasons, including its strategic location for opening new opportunities in other parts of Europe, an international workforce and political and economic stability.

In fact, wherever they chose, many respondents appear to prize political stability particularly highly this year – this was a factor cited in qualitative comments far more than in previous editions of this survey. A Japanese corporate business development director, for example, says of the UK & Ireland: "In other regions, we see political instability affecting the value from deals negatively. This can be a challenge to overcome. By contrast, UK and Ireland are more stable for us."

Aside from Benelux, UK&I, Austria and Switzerland, we also expect Iberian M&A to stay strong in 2026. The cybersecurity and defence sectors are expected to be among the most active and, in our view, will be leading the market in terms of transaction volumes locally. Technology and strategic expansion will probably be important M&A drivers for M&A transactions, and ESG criteria are also expected to gain weight in negotiations.

*Irene Miró, Partner, CMS Spain*

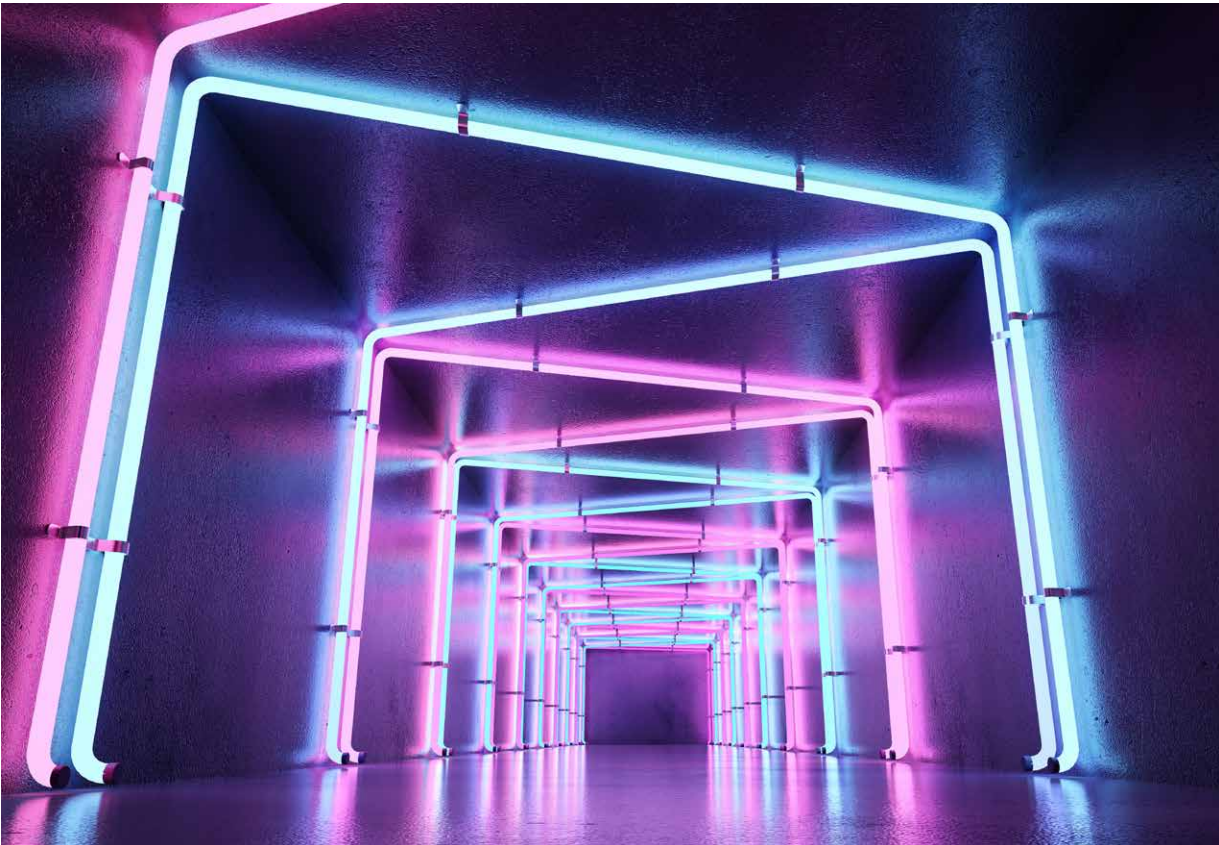
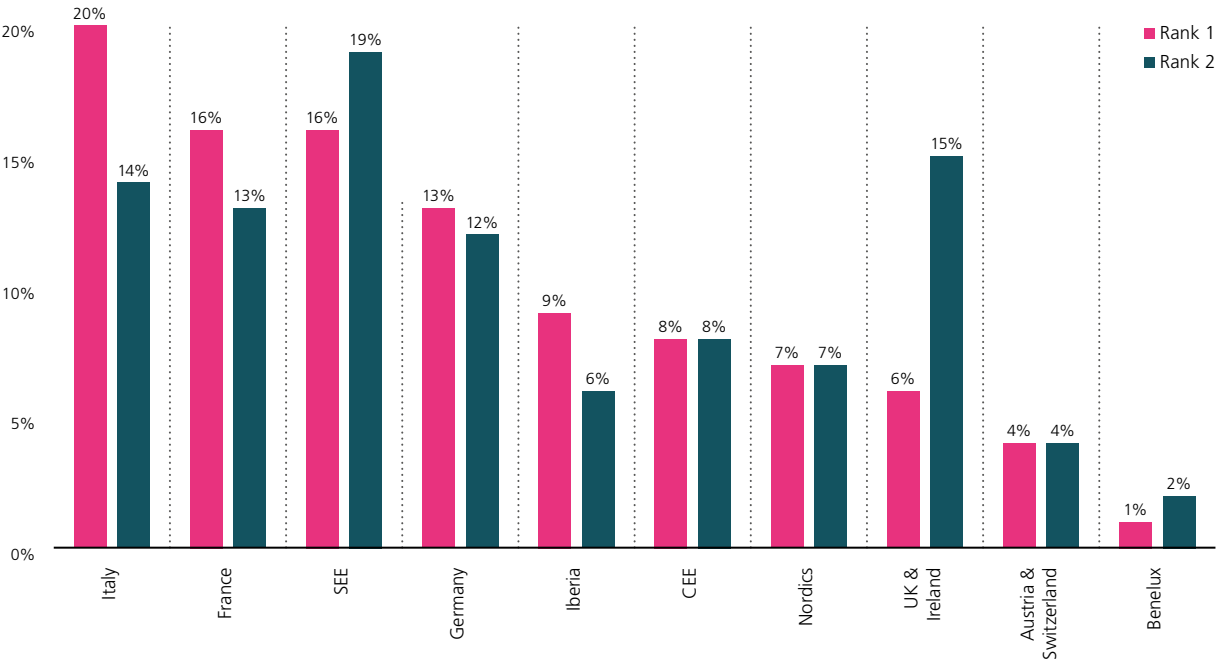
**Which countries/regions will see highest growth in the next 12 months? (Rank the top two, 1 = highest growth, 2 = second highest growth)**



Central and Eastern Europe is poised to surprise on the upside. With GDP growth in the region outpacing the eurozone average, and sectors like tech, defence, infrastructure and energy attracting strategic capital, CEE offers a compelling mix of resilience and opportunity for dealmakers. Improving financing conditions and strong domestic demand could result in CEE outperforming expectations in the next 12 months. It's a region where strategic investment is increasingly translating into tangible momentum and dealmaking confidence.

*Horea Popescu, Partner, CMS Romania*

Which countries/regions will see lowest growth in the next 12 months? (Rank the top two, 1 = highest growth, 2 = second highest growth)



### Sector dynamics

Echoing last year's study, TMT takes the pole position as the sector respondents expect to enjoy the strongest M&A growth over the next 12 months, with 25% ranking it first and 34% second, or 59% combined. Given continued developments in AI-related technologies in particular, this result is hardly surprising.

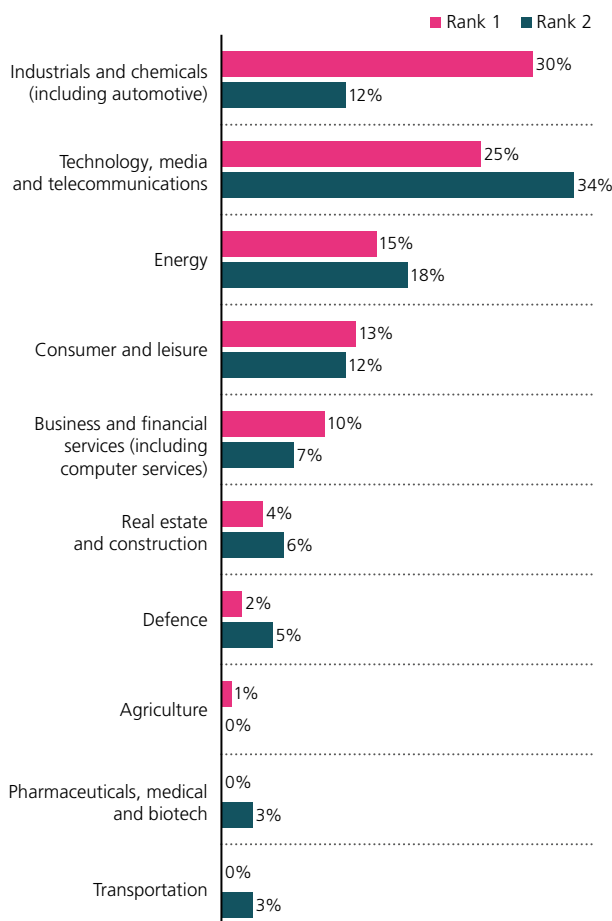
Industrials & chemicals is perhaps a less obvious choice. It secures the second overall spot with 42% of respondents predicting high M&A growth, but it is the leader by first-rank votes, with 30%. Dealmakers expect continued high energy costs in Europe and the prospect of elevated tariffs on some products to generate turnaround or distressed opportunities. Concerns about supply-chain resilience are also anticipated to spur investment in industrials & chemical businesses to supply local markets.

In a reversal from last year's survey, when respondents felt the pharmaceuticals, medical & biotech sector was

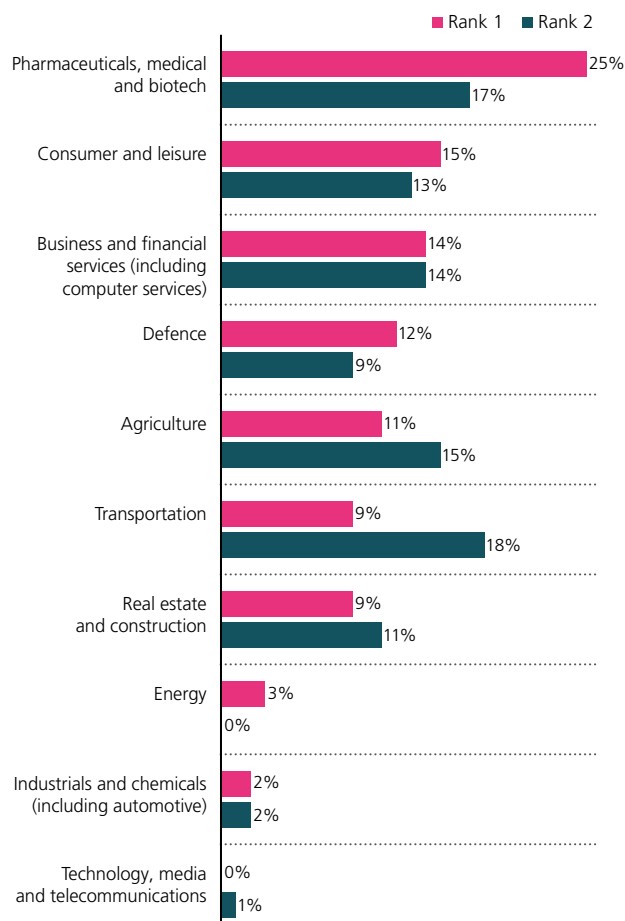
third most likely to see the highest growth in M&A, this year it comes in second to last. Accordingly, it is also the sector respondents expect will see the lowest M&A growth (42% say this). This reflects the range of challenges in the sector, including potential drug pricing and regulatory reforms in the US, one of the world's largest healthcare markets. Respondents also expect consumer & leisure to see low M&A growth (28% say this), reflecting the risk of softer discretionary spending. And, in contrast to the trends of the past year, dealmakers also expect a slowdown in business & financial services M&A (also 28%).

Respondents are also not anticipating a spike in defence M&A, though this may reflect the sector's specialised nature – most respondents operate in core industries and may have limited visibility to defence dealmaking. Just 7% believe it will see the highest growth, though this is an improvement on our previous study, when zero respondents cited it.

### Which sectors will see highest growth in the next 12 months? (Rank the top two, 1 = highest growth, 2 = second highest growth)



### Which sectors will see lowest growth in the next 12 months? (Rank the top two, 1 = highest growth, 2 = second highest growth)



Middle Eastern interest

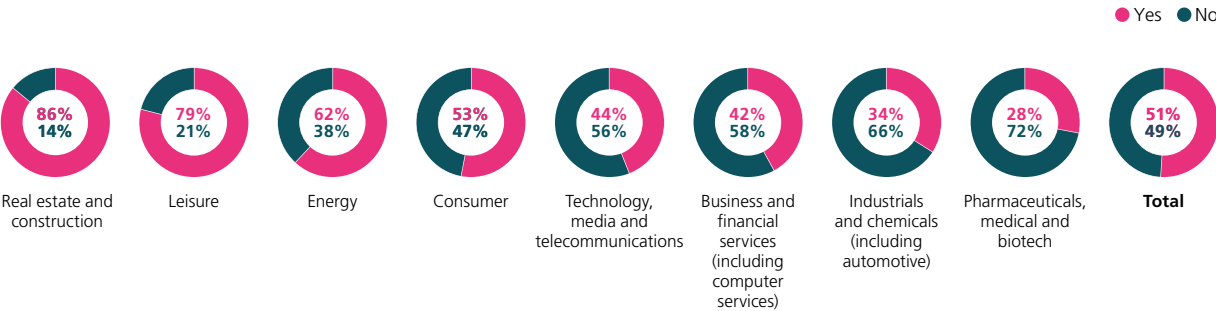
As Middle Eastern countries increasingly seek to diversify their economies away from hydrocarbons, their sovereign wealth funds (SWFs) and home-grown businesses are investing globally, with Europe a preferred destination. Middle Eastern and North African SWFs, for example, invested nearly USD 159bn outside their home region in 2024 – the highest total for five years, EY reports.

Accordingly, around half of our respondents (51%) note that Middle Eastern buyers were more present in the European M&A market over the past 12 months than previously. This was particularly true in the real estate and leisure sectors, where 86% and 79% of respondents, respectively, saw an increase in Middle Eastern acquirers.

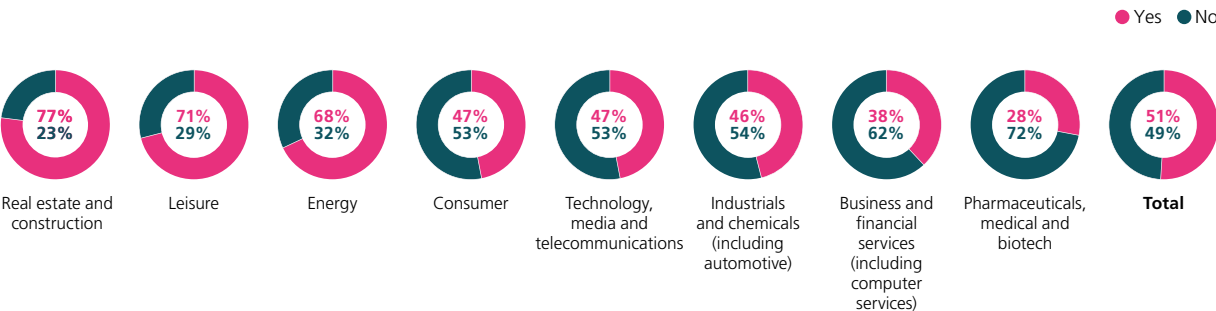
Over the coming year, again around half of respondents are anticipating an increase in activity led by Middle Eastern bidders, with the real estate and leisure sectors remaining in the top spots (77% and 71%, respectively).

Energy is a close third, with 68% of respondents from this sector predicting a rise, presumably as buyers from the region increasingly focus on energy transition and renewables assets. For instance, Abu Dhabi’s Masdar, a renewable energy business, has been on the acquisition trail in Europe. It recently acquired Greece’s Terna Energy and a significant minority stake in four Endesa solar assets in Spain after last year partnering with Endesa on a 2GW portfolio of solar assets and 0.5GW of battery storage.

Over the past 12 months have you seen more Middle Eastern buyers in the European M&A market?



Do you expect to see a greater level of interest from Middle Eastern investors in M&A in Europe over the next 12 months?



Middle Eastern acquirers are also increasingly targeting European sectors such as those related to food-security, technology (including AI and data centres), manufacturing, energy and healthcare, reflecting their domestic priorities and ambitions to diversify. Sovereign Wealth Funds and large conglomerates are leading this activity. Elevated oil prices and robust financial capacity continue to underpin this outward investment, even amid evolving geopolitical and macroeconomic dynamics.

Graham Conlon, Partner, CMS UAE





# Deal dynamics and motivations

Buyers are prioritising transformative deals, new technologies and distressed opportunities in their M&A strategies over the coming year, but a sizeable minority of corporates will remain on the sidelines

## Top findings

### 61%

of corporates are currently considering acquisitions, while 79% of private equity firms are looking at both acquisitions and divestments

### 38%



expect to pursue sizeable, transformational acquisitions, the top motivation and a big jump from last year, when this took sixth place

### 46%

say environmental regulations are among the top-two challenges to European dealmaking, while 40% cite financial regulations

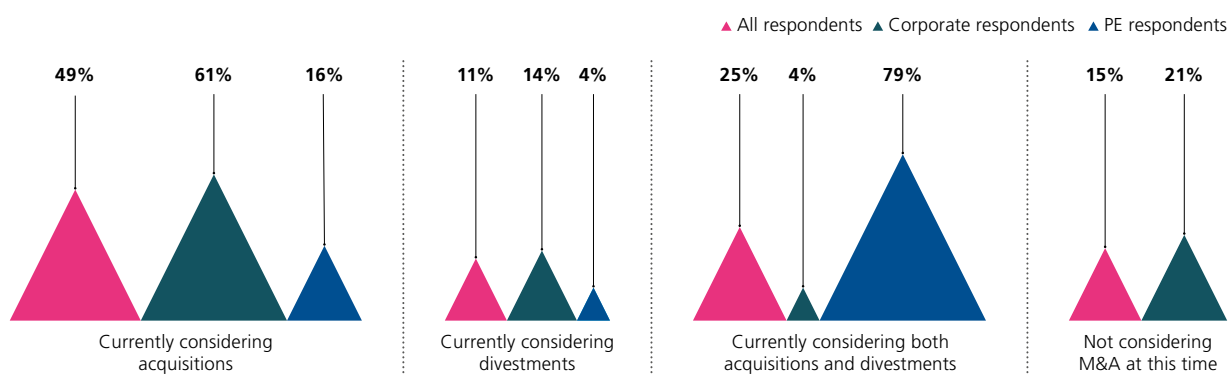
Among corporate respondents, nearly two-thirds (61%) are currently considering acquisitions as part of their M&A strategies. While encouraging, given the uncertainty clouding the macroeconomic landscape, this is a decline from last year, when 75% were debating acquisitions. This year also marks a shift in the proportion of corporates not considering M&A: 21% of corporates say this, up from just 8% last year. Meanwhile, echoing our finding that non-core asset disposals will be a major sell-side M&A driver, 14% are currently looking at making divestments and 4% are considering both acquisitions and divestments.

Unsurprisingly, given private equity's model of buying and selling companies, most of these respondents (79%) are currently considering both acquisitions and divestments, a marginal increase on the 76% who said the same last year. Just 16% are currently considering acquisitions only, down from 21% last year, a fall that perhaps reflects the growing pressure for fund managers to exit their companies fully and return capital to investors. In a recent Bain-ILPA poll, private equity limited partners overwhelmingly favoured conventional exits, even at below mark pricing (63% cited this as a preferred route) to any other form of exit. Dividend recapitalisations came in second (33%) followed by LP-led secondaries deals (20%).

 We currently see many businesses streamlining their portfolios and divesting non-core assets. Succession planning also remains an important driver; however, some of these transactions face significant challenges due to geopolitical uncertainty, which has a profound impact on the reliability of business plans. Industrial companies in particular have experienced a slowdown in activity due to ongoing tariff discussions making it extremely difficult to forecast with confidence. Furthermore, some companies are struggling to survive under these conditions, leading to an observable increase in distressed M&A. Ultimately, we believe the defining feature of dealmaking through the remainder of 2025 and into early 2026 will be this combination of portfolio optimisation and distressed opportunities. 

*Stefan Brunnschweiler, Partner, CMS Switzerland*

### Where does M&A currently fit into your corporate strategy? (Select one)



#### Deal rationale

The motivations for making acquisitions have also evolved year-on-year, when technology acquisition led the pack. This time, many respondents currently considering acquisitions have their sights set on transformational purchases, financed in many instances by divestments of non-core assets. This is the most popular response, with 38% identifying this as a top-two reason for deals. By contrast, transformational deals only featured in sixth place in last year's survey.

Growth in new geographies and customer bases is the second greatest driver, cited by a third of respondents, while acquisitions of new technologies/corporate VC

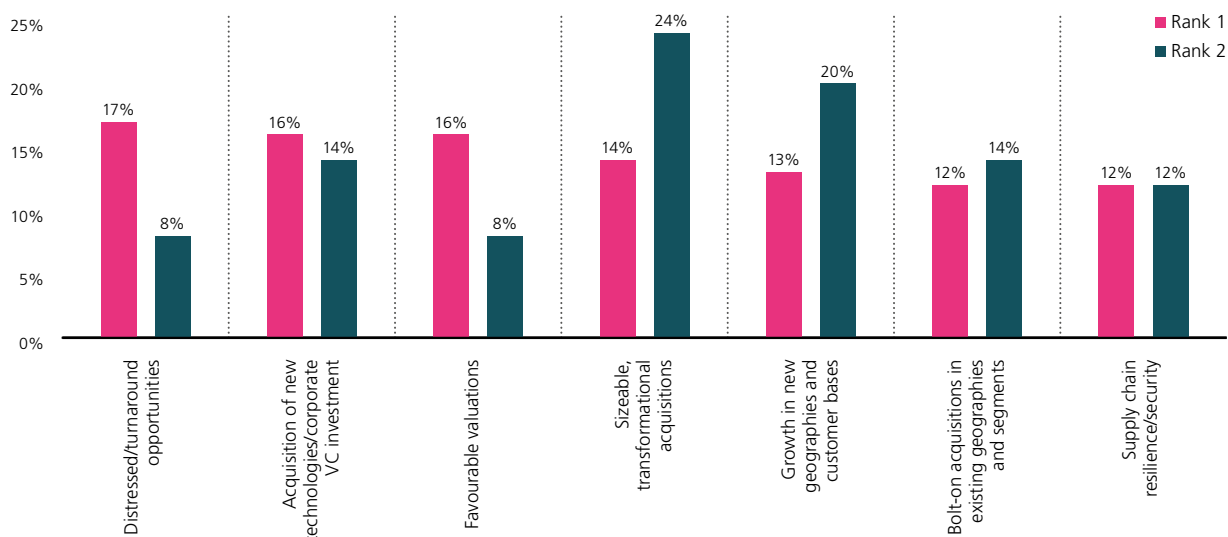
investment – an essential lever for accelerating growth prospects in general – comes third, with 30%.

Analysing first-choice responses only, distressed/turnaround opportunities take the top spot among our respondents. This is consistent with the sentiment outlined previously, that turnaround deals would be one of the biggest drivers of buy-side M&A in the coming year. As the CFO of an Italian company puts it, turnaround opportunities present “the most cost-effective way to grow the business and initiate strategies for long-term value creation”, with a finance director in the UK adding that they “reduce the financial pressure when we are acquiring. There are fewer parties

interested in the deal because of the higher risks, and we can capitalise on opportunities.”

Taken together, these responses suggest a varied set of reasons for pursuing M&A as opposed to a major trend in one direction. Clearly, the advance of technology – AI in particular – continues to drive M&A activity. But the large, transformational purchases hint at respondent organisations' ambitious and strategic future plans, while distressed and turnaround deals sit at the other end of the spectrum, as buyers seek more opportunistic ways of growing and boosting return on investment.

**If you are considering acquisitions in Europe, or considering both divestments and acquisitions, what is the motivation for this? (Rank the top two, 1 = most important, 2 = second most important)**



### Regulatory challenges

Even as the EU seeks to simplify and streamline some of its sustainability laws – including flagship initiatives such as the Corporate Sustainability Reporting Directive and the Corporate Sustainability Due Diligence Directive – there remains a patchwork of regulations intended to stimulate the circular economy, promote nature restoration and prevent biodiversity loss and environmental degradation, among other areas. There are also many environmental regulations set at the national level.

Given these are subject to frequent updates and revisions, companies and investors can often find it challenging to keep up to date. As the corporate finance director of a company based in Greece puts it, “With the heightened regulatory scrutiny, mainly when it comes to environmental regulations, acquirers have to be very careful with their ESG due diligence. It will increase dealmaking risks in the coming months.”

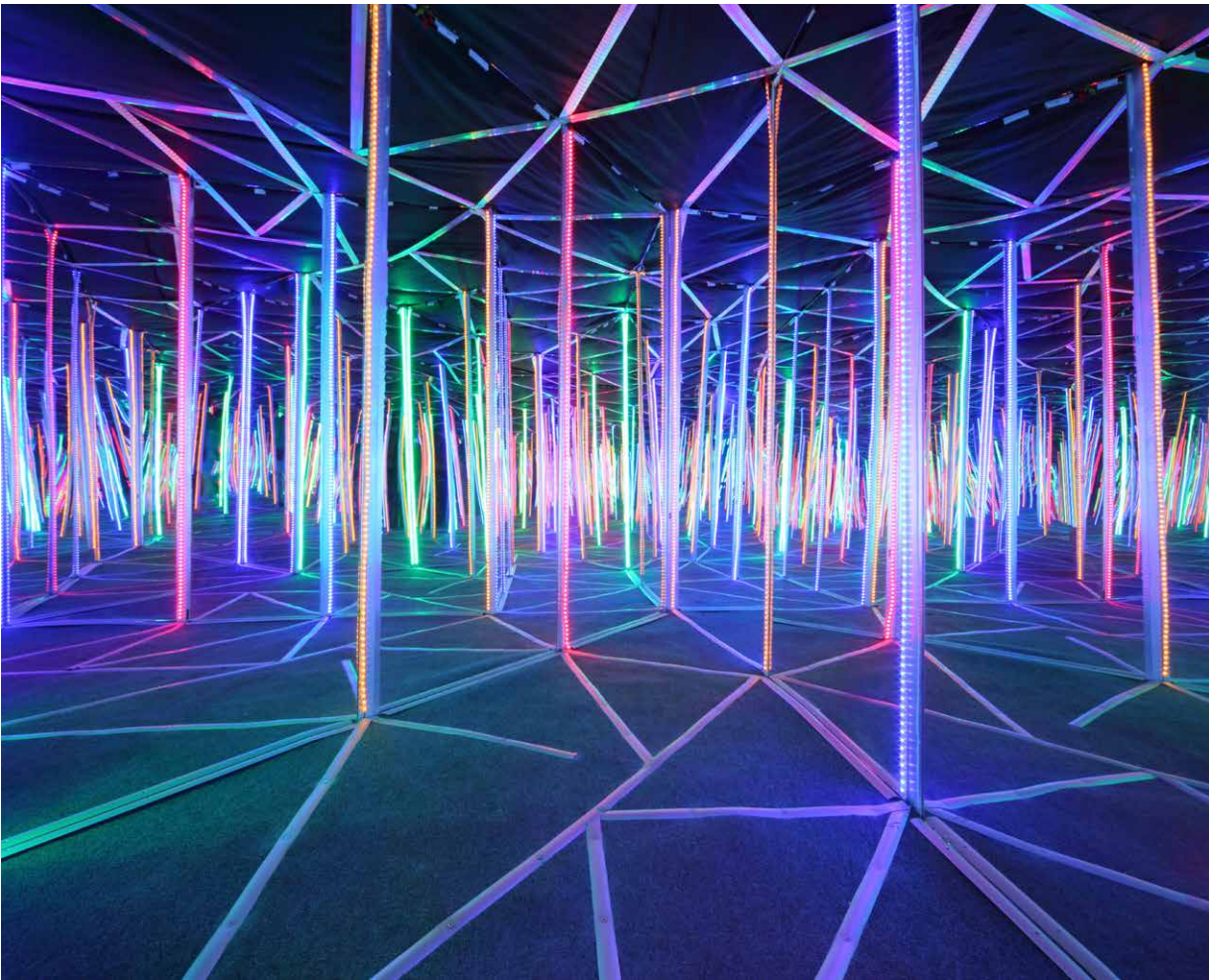
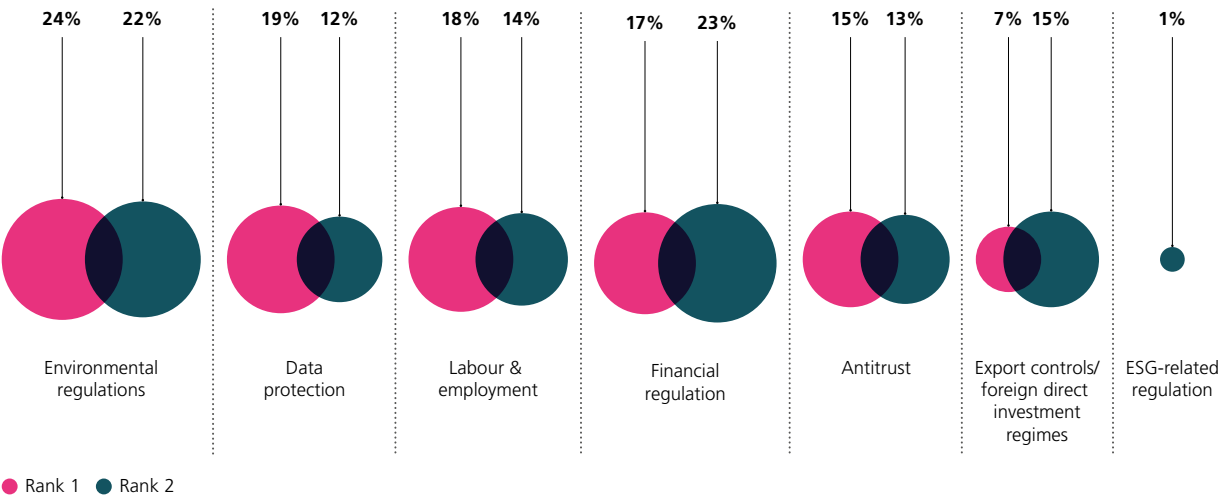
This is perhaps why respondents so frequently cite environmental regulations as the most challenging form of regulation to address. Nearly half say this (46%), followed by 40% who cite financial regulation as a top-two challenge. This is a shift from last year, when the top form of regulatory obstacle was labour & employment, which has now moved to third place (32%).

As climate-related economic pressures increase, regulators are introducing increasingly stringent environmental and ESG requirements, making compliance a key consideration in M&A activities. Although recent developments in Europe suggest that proposed regulations may be softening, the overall legal framework is tightening, particularly at the national level. ESG remains a critical issue in M&A, and companies can gain a strategic advantage by incorporating ESG into their corporate strategy and conducting ESG due diligence at an early stage in the deal process. Continued investment in ESG innovation and solutions will be essential across all sectors to mitigate risks, capture value and build long-term resilience.

*Döne Yalcin, Partner, CMS Turkey*



**Which form of regulation do you find most challenging when doing a deal in Europe?**  
(Rank the top two, 1 = most challenging, 2 = second most challenging)



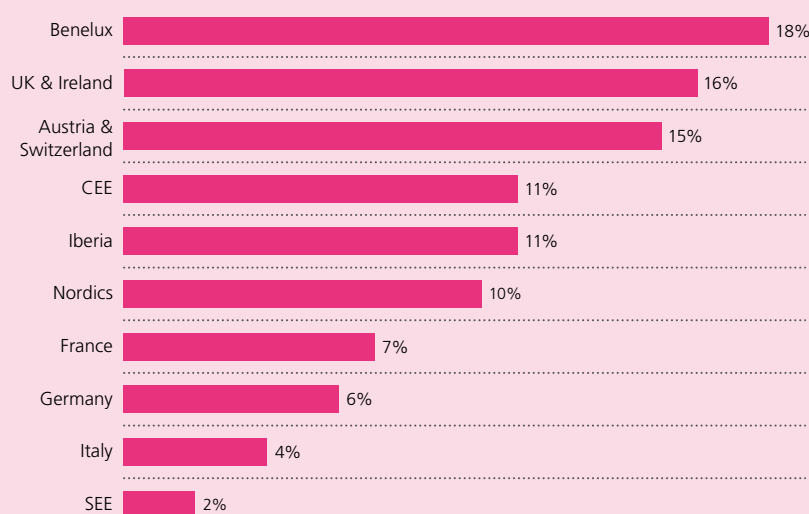
# Foreign direct investment environment

Europe has been struggling to attract foreign direct investment (FDI) for some time, and last year was no exception. A combination of muted economic growth, high energy prices and geopolitical tensions fed into the lowest number of FDI projects in Europe for nine years in 2024, according to EY. At 5,383, the number of projects fell by 5% on the previous year, with the number of jobs created by FDI declining by 16% over the same period. France, the UK and Germany signed the most FDI projects last year, but the report notes that these markets saw investment decline by 14%, 13% and 17%, respectively.

Part of the reason for these declines was an 11% fall in the number of projects coming from US investors, presumably as initiatives such as the Inflation Reduction Act kept more dollars at home. Another factor is the long-term erosion in manufacturing competitiveness, compared with markets such as China. This has hit countries such as Germany, with its historically strong industrial base, particularly hard.

Looking forward, our survey finds that the Benelux region and the UK & Ireland will be the leading investment destinations over the coming year, with 18% and 16% of respondents, respectively, citing these two markets. This tallies with the earlier result that respondents expect these two regions to see the most M&A growth in the next 12 months relative to other parts of Europe.

## Which country/region in Europe will be the leading investment destination? (Select one)



## Risk factors

When asked about the main risks for their chosen destination, a competitive bidding environment (23%), administrative burdens (15%) and challenging compliance management (also 15%) emerge as the top responses. Indeed, in both the Benelux and UK & Ireland, the competitive bidding environment is

the greatest risk, cited by 39% and 28% of respondents, respectively. Clearly, despite some of Europe's FDI woes, there is sufficient investment interest in the region for there to be competitive tension, particularly as this risk has jumped in the overall results to first place from 10th in last year's survey.

Germany remains the largest economy in the European Union and despite some political turbulence in 2025 it continues to be a significant target for foreign direct investments. Recent remarks by Heri Kravis, co-founder of KKR, underscore this ongoing importance. Nevertheless, Germany's administration must address its regulatory and tax environment in the short term to maximise the country's potential.

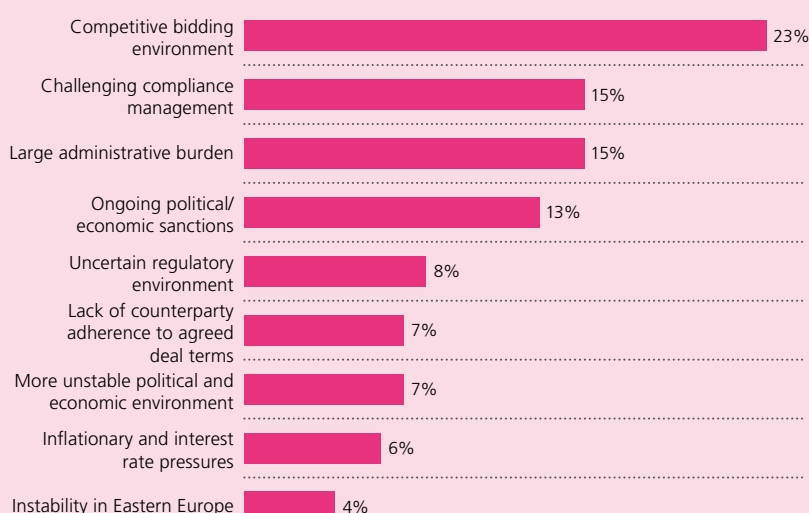
*Jacob Siebert, Partner, CMS Germany*

Italy still suffers from complex rules, slow permitting processes and regional disparities. Nevertheless it still has one of the largest markets in the EU, a diversified economy, a skilled workforce and is strategically located. Reforms are also taking place to target systemic inefficiencies and foster a more transparent, agile and supportive business environment.

*Daniela Murer, Partner, CMS Italy*

In our previous survey, respondents foregrounded their concerns about political and economic instability, reflecting the unusually high number of elections across the continent in 2024. With many of those resulting in at least reasonably decisive wins, this factor has slipped down the list overall to sixth place, with just 7% of respondents mentioning an unstable

#### What do you expect will be the biggest risk to investing in your country/region of choice?



political or economic environment as the single biggest risk for their chosen destination.

Some of Europe's major economies – France, Germany and Italy – languish at the bottom of respondents' destination choices. The reasons for this vary widely. In France, the principal risk cited by respondents is

an uncertain regulatory environment, with 29% saying this, although political and economic sanctions (24%) and an unstable political and economic environment (also 24%) likewise feature highly.

In Germany, which ranked second last year but eighth this year, the biggest factor by some margin is the

France needs to reignite confidence in its growth outlook – accelerating structural reforms that lift GDP expansion and signal long-term macro stability. At the same time, streamlining regulation, trimming administrative hurdles and delivering a clearer, investor friendly tax framework would directly address investors' top selection criteria and mitigate key perceived risks, positioning France far more competitively for foreign direct investment.

*Thomas Hains, Partner, CMS France*



administrative burden associated with investments: 40% of respondents say this. Meanwhile in Italy, there appears to be a high trust deficit. Nearly half of respondents (45%) cite a lack of counterparty adherence to agree deal terms as the biggest risk to investment in the country.

Investment types

In line with last year’s survey, distribution/warehouse projects and manufacturing/processing plants are the two most popular types of facility that respondents plan to build overseas, although their position has swapped. Leading the pack this year is distribution/warehouse facilities, which accrues 30% of first-choice votes and 35% of second-place votes, the largest such share in each case. This is followed by manufacturing/processing, with a combined 53% of top-two votes.

The nearshoring trend clearly continues apace in Europe, with several large companies recently announcing significant investment in the region, such as Swedish

“The compliance burden in Europe is real, especially in regulated sectors or where FDI regimes apply. Investors should involve local advisers early. Not just lawyers, but also tax and regulatory specialists, so that they are not firefighting when the deal is already moving. In competitive processes, price still matters, but being prepared, fast and credible can often tip the scales when bids are otherwise close.”

Sasa Sodja, Partner, CMS Slovenia

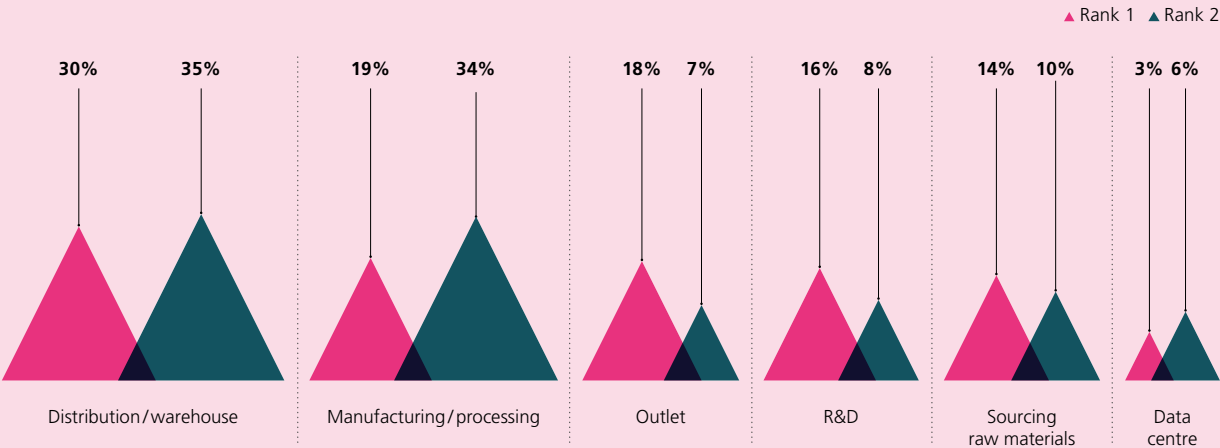
electric vehicle manufacturer Polestar opting to manufacture one of its new models, the Polestar 7, in Slovakia in what is a strategic shift away from Chinese production. Indeed, more than half (55%) of European respondents to a recent Capgemini study say they have invested in nearshoring.

When deciding where to invest outside their home country, respondents consider a range of factors. Around a fifth of survey

participants (18%) say the single most important factor is the level of economic growth in the country, though regulation that is favourable to investment is not far behind (16%). Favourable tax laws, cited by 14%, are similarly important.

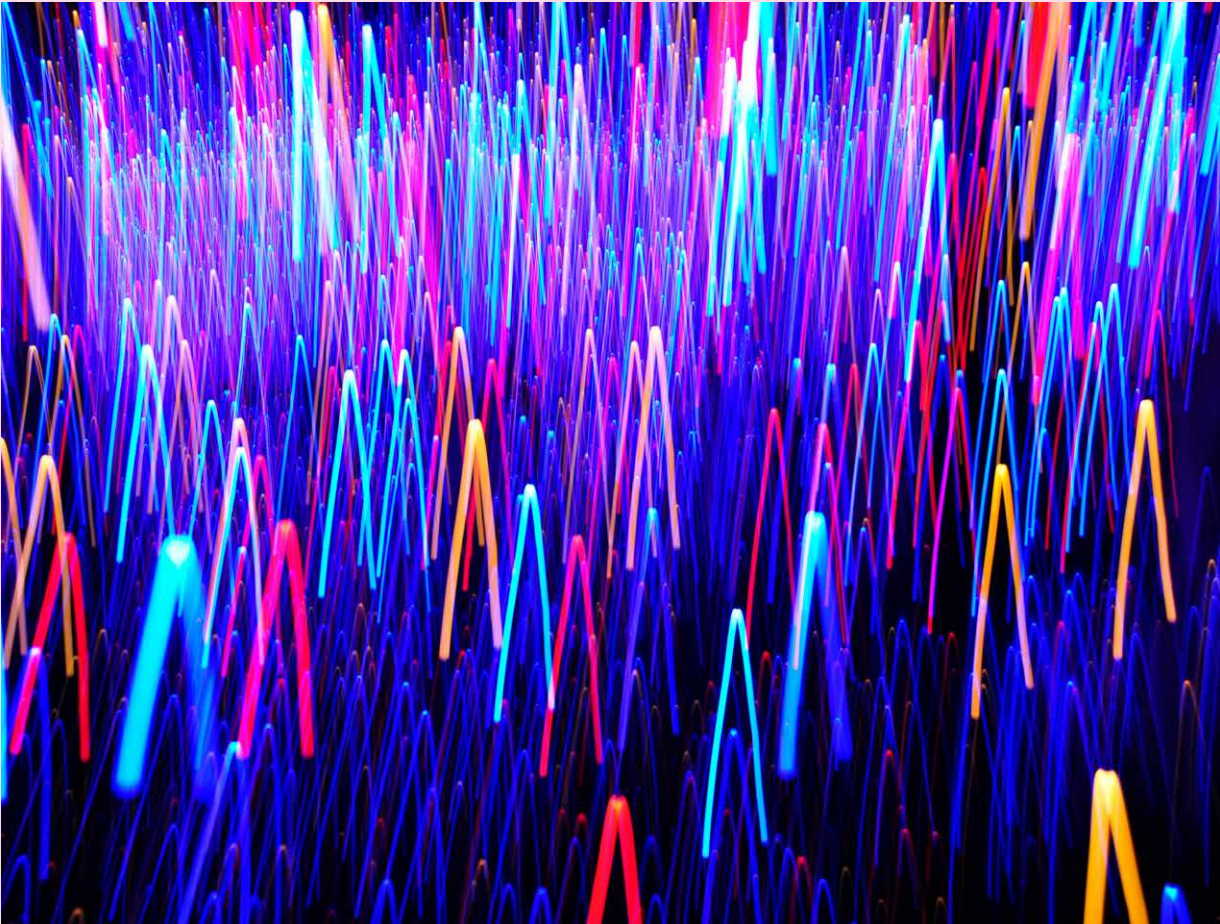
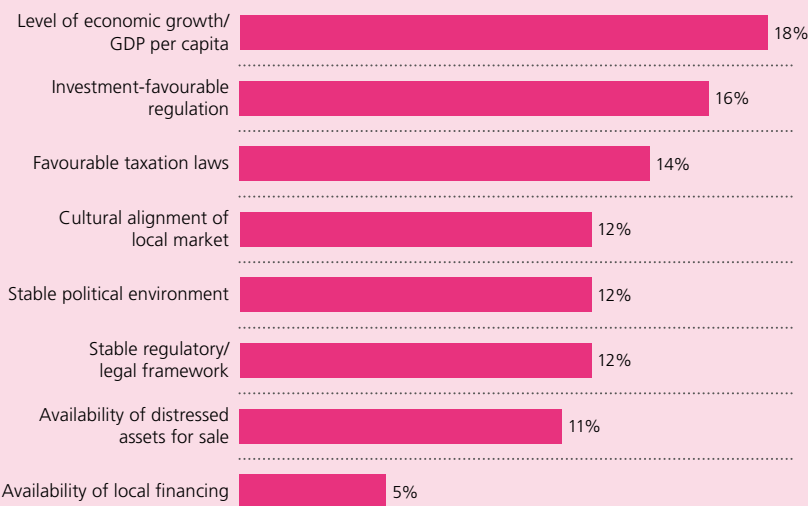
On GDP growth, a France-based partner of a private equity firm explains: “Economic growth does not happen over a short period of time. Government support, supportive policies and investor interest affect

What type of facility is your organisation planning to build overseas? (Rank the top two, 1 = most important, 2 = second most important)



the economic growth prospects, which is why it impacts our decisions.” Meanwhile, having a supportive regulatory environment for investment is particularly important to an Italy-based corporate CEO, who comments: “Investment-favourable regulations increase our confidence to proceed with deals, even if there are other risks. We clearly see the benefits of investing in these regions.”

**Which of the following factors does your organisation most take into account when deciding where to invest outside your home country?**



## Regional round-up

Across Europe, H1 2025 was characterised by a pronounced drop in deal volume, with 8,195 transactions announced – a decline of 11% year-on-year, reflecting tariff-related volatility and broader macroeconomic and geopolitical uncertainty. Considering these unsettled conditions, the M&A market performed well in aggregate value terms, with H1's EUR 465bn up 3.6% year-on-year.

The UK & Ireland remained Europe's busiest market, generating 1,992 deals in H1, followed by the Nordic nations with 1,630 announcements. However, the former saw a major downshift in deal value, with its EUR 111.4bn total representing a 25% year-on-year drop. The Nordics, meanwhile, saw aggregate deal value rise by a massive 87% over the same period, to EUR 69bn.

Other markets also enjoyed significant jumps in deal value. Hot on the Nordics' heels, Southeast Europe's M&A markets logged a 63% year-on-year increase, to EUR 13.1bn. Larger deal markets in Western Europe, including Benelux (up 49%) and France (27%) also recorded rising deal values, helping to offset the broad decline in M&A volume.


Benelux			
Volume	%	Value EUR bn	%
664	-20%	34.7	49%

Iberia			
Volume	%	Value EUR bn	%
641	-22%	32.9	-24%

UK & Ireland			
Volume	%	Value EUR bn	%
1,992	2%	111.4	-25%

France			
Volume	%	Value EUR bn	%
802	-17%	57.1	27%

Italy			
Volume	%	Value EUR bn	%
613	-12%	38.4	0%



A stylized map of Europe in a light beige tone serves as the background for the infographic. The map shows the outlines of the major landmasses of Europe, North Africa, and Asia, with some internal borders indicated by thin lines.

Nordics			
Volume	%	Value EUR bn	%
1,630	-3%	69.0	87%

Germany			
Volume	%	Value EUR bn	%
844	-14%	46.2	-15%

CEE			
Volume	%	Value EUR bn	%
465	-24%	19.1	7%

Austria & Switzerland			
Volume	%	Value EUR bn	%
261	-16%	23.2	41%

SEE			
Volume	%	Value EUR bn	%
174	-8%	13.1	63%

This infographic compares H1 2024 with H1 2025

# Financing conditions

With expectations of worsening financing conditions, Europe’s dealmakers will turn to cash reserves and alternative deal structures to get transactions across the line

### Top findings

**78%** of respondents expect financing conditions to worsen over the coming year, up from 60% in our previous study

**51%** believe that cash reserves will be the most available source of finance in the next 12 months, followed by debt capital markets (38%)

**67%** of respondents will consider using alternative deal structures as part of their M&A financing strategy in the year to come

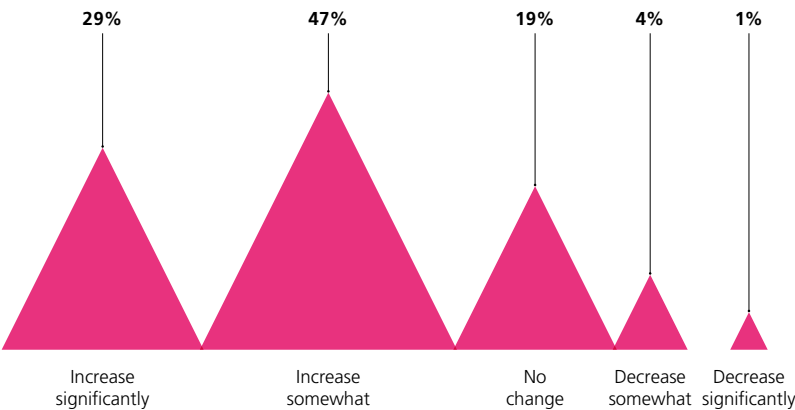
Europe’s banks are, by and large, in good health, with results in Q1 2025 exceeding expectations, according to an EY report. Despite heightened economic uncertainty in the period, lenders did not see deteriorating asset quality. However, as the European Central Bank noted in its May 2025 Financial Stability Review, global trade policy shifts could increase credit risk for banks and non-bank lenders.

Our respondents appear to be leaning more towards the risks ahead than positive news about bank and loan portfolio resilience. They may also be taking into account the new Basel IV framework, which came into effect at the start of 2025. This will require European banks in particular

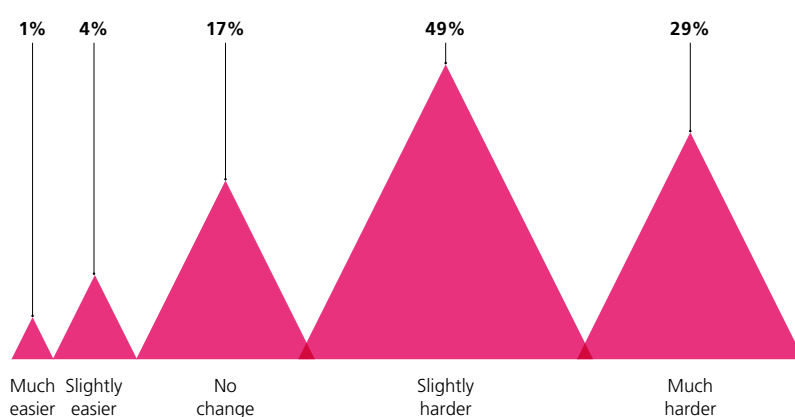
to find additional Tier 1 capital, which will affect their cost of capital. Indeed, more than three-quarters of respondents (76%) believe the cost of capital for Europe’s major banks will increase over the next 12 months, including 29% who foresee significant increases. This is up markedly from last year when just over half (56%) anticipated a rising cost of capital for banks.

As a result, it is unsurprising that 78% of respondents expect financing conditions to become more challenging in the year to come, including 29% anticipating them to be much more difficult. This is up from the 60% logged in last year’s survey, when just 13% believed conditions would worsen significantly.

To what extent do you expect the cost of capital for Europe’s major banks to change over the next 12 months? (Select one)



**How do you expect financing market conditions to be over the next 12 months compared to the preceding 12 months? (Select one)**



**Cash set to dominate**

This sentiment shows through clearly when respondents rank the sources of finance that will be most available in the next 12 months. Bank lending comes in fifth (just 22% of top-two votes), while cash reserves take the top spot by a considerable margin (51%, including 28% who rank it in first place.)

Corporates holding large amounts of cash is nothing new, but the uncertainty of recent times has made many cautious of investing. With many planning transformational acquisitions in the coming year, it looks as though some of these reserves will go towards deal financing. "A bulk of financing will come from cash reserves," says a China-based vice president of business development. "Companies are starting to create more substantial reserves, especially as a measure to protect against financial crisis situations."

In fact, some believe that rising cash piles could bolster dealmaking activity. "Cash reserves will be one of the drivers of M&A deals in the corporate world," says a business development director at a Swedish business. "It is a definite advantage and puts corporates in a good position to continue with their M&A deals."

Many respondents comment that cash reserves will help corporates in potentially competitive situations, with certainty of deal completion a big factor for vendors today. "Sellers should be willing to negotiate good valuations because cash reserves provide better certainty that the deal will be completed as promised," says the managing director of a Poland-based private equity firm. "Buyers will also initiate deals more confidently."

These responses perhaps explain why private equity, which ranked first last year, has slipped to third place, with 35% of top-two votes. Despite the ageing USD 1.2tn of uninvested capital on which global buyout firms are sitting, private equity remains circumspect about making new investments in volatile times. The value of new European private equity deals fell by 10% in Q2 2025 on the previous quarter, although it was up 3.1% by volume, according to PitchBook figures. Even so, some respondents were more positive about private equity as a funding source. An M&A director at an Italian corporate says: "When we see the recent growth in private equity, it is safe to assume that these firms will be good financing sources and will improve funding for various business activities."



Debt capital markets come in second overall, garnering 38% of top-two votes. Europe's broadly syndicated loan market reached record levels in 2024, with institutional loan issuance totalling EUR 207bn, a big jump on the previous high of EUR 158bn in 2017, according to DC Advisory figures. This year also started strongly, with EUR 99.8bn of issuance in Q1 2025 (versus EUR 53.4bn in Q1 2024), although M&A loan issuance fell to EUR 9.4bn from EUR 12.2bn in the previous quarter as tariff uncertainty delayed sale processes.

Many respondents feel confident that debt capital markets are a strong option in today's environment, with comments that again reflect our earlier finding that large, transformational deals will play a considerable part in shaping M&A strategies over the coming year. "In the next 12 months, debt capital markets will be the main source of funding for M&A deals," says the managing partner of a France-

based private equity firm. "Debt capital markets will be particularly important for deals where a large amount of financing is needed." The CFO of a Germany-based corporate echoes this sentiment: "For larger loan requirements, debt capital markets can provide the right amount of capital."

Just over a third of respondents (34%) believe non-bank lenders and credit funds will provide a high level of funding over the next 12 months. Private debt funds have raised significant amounts of capital in recent years, with direct lending leading the pack. Direct lending funds globally raised nearly USD 120bn in 2024, up 41% from the previous year, according to PitchBook.

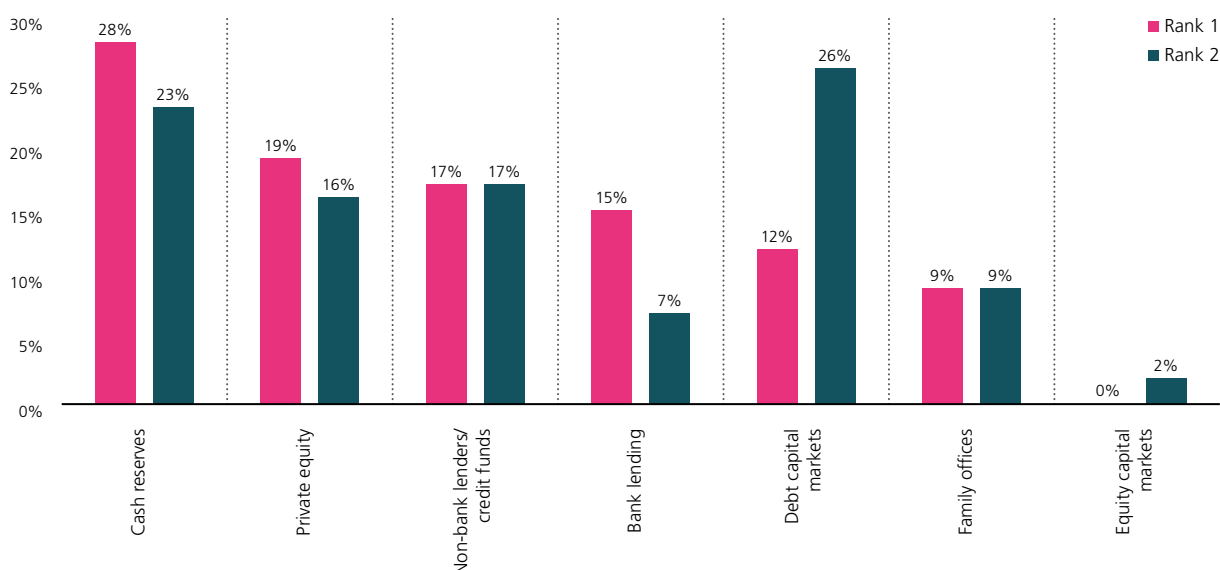
With direct lenders typically working alongside private equity firms to finance transactions, it is unsurprising that some respondents comment that both forms of financing will be readily available in the year to come.

"Over the next 12 months, the macro conditions will remain uncertain," says a US-based corporate finance director. "Financing from banks will slow down further, and this is where private equity and non-bank lenders will be more active."

### Alternative deal structures on the rise

Uncertain environments call for cautious or value-protective mechanisms as a means of getting deals across the line. This is perhaps why 67% of respondents say they are likely to use alternative deal structures – such as convertible instruments, joint ventures, earn-outs, club deals and minority investments – as part of their M&A strategy over the next 12 months. A director of finance in a Poland-based corporate, for example, says: "Non-traditional deal structures are effective and support our dealmaking intentions when conditions are uncertain."

### What sources of financing do you think will be most available over the next 12 months? (Rank the top two, 1 = most available, 2 = second most available)

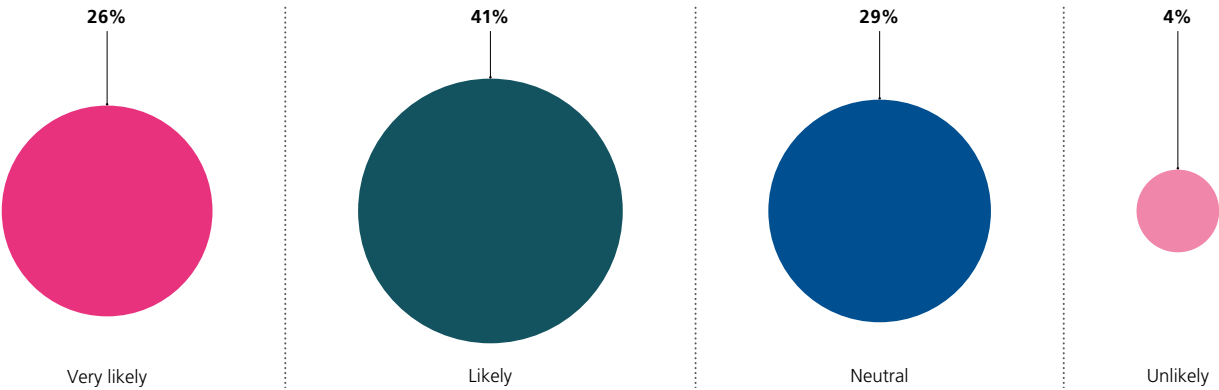


“Convertible instruments are important for additional flexibility,” adds a Sweden-based corporate CEO. “The same goes for earn-outs. When we are unprepared as acquirers to pay the full amount upfront, we can split it and set performance milestones that work for all parties.”

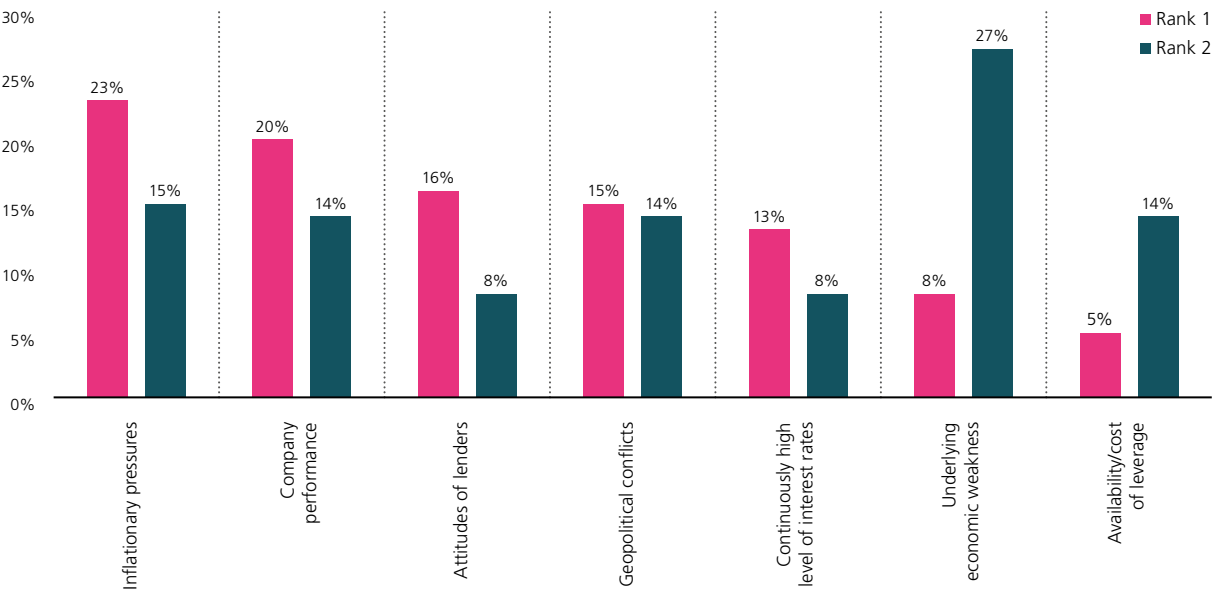
Inflationary pressures, underlying economic weakness and company performance are the three biggest challenges to arranging acquisition finance, according to our respondents. Nearly two-fifths (38%) say inflation will be a barrier, 35% say that the poor macroeconomic picture presents challenges, while

34% believe individual company issues will hamper financing efforts. Unlike last year, when 29% cited the cost and availability of leverage, this now seems less of an issue – it ranks in last place with 19% of responses.

**How likely is your organisation to consider using alternative/non-traditional deal structures over the next 12 months?**



**What do you view as the greatest challenge to financing acquisitions over the next 12 months? (Rank the top two, 1 = greatest challenge, 2 = second greatest challenge)**



# ESG factors in European M&A

Despite vocal anti-ESG sentiment in some market segments, consideration of these factors is now firmly entrenched in European M&A processes

## Top findings

**79%**

of respondents say ESG considerations are important to their M&A strategy and investment decision-making process, including 32% who say they are very important

**63%**

expect more ESG-related scrutiny in deals over the next three years

**99%**

of respondents carry out specific ESG due diligence reviews and reports on at least some of the opportunities they pursue, including 61% who do this on every potential deal

Environmental, social & governance (ESG) considerations have long been part of the M&A process, particularly when they have involved European targets or buyers. Part of this is the result of a rising tide of regulatory requirements in Europe, as well as investors' own environmental, climate and social commitments.

So, even as the EU embarks on a simplification of its ESG-related rules, more than three-quarters of respondents (79%) believe these considerations are important to their M&A strategy and their investment process, including 32% who say they are very important. The remainder say they are neutral on these considerations, leaving no respondents saying they are unimportant.

For many, identifying and managing ESG factors forms part of their long-term value protection and creation plans for the businesses they are acquiring. As a Hungary-based corporate CFO puts it: "ESG is an essential part of the long-term growth and development strategy."

Irrespective of potential anti-ESG sentiments or initiatives to recalibrate perceived overregulation, ESG considerations continue to be an important lever for dealmakers when assessing targets' growth potential and long-term prospects. While complying with the relevant mandatory standards is of course a must, being ahead of the curve could be a way of unlocking further economic upside.

*Alexander Rakosi, Partner, CMS Austria*

### View from across the pond

Interestingly, the results for US-based respondents to our survey follow a similar pattern to the overall proportions, with 84% ranking ESG factors as important, including 30% who say they are very important. This is set against the backdrop of considerable anti-ESG sentiment in some US circles. The Trump administration has rolled back a swathe of environmental protections and outlawed some diversity, equity & inclusion programmes, while the Securities and Exchange Commission recently dropped a set of climate disclosure rules. This result may reflect the need to comply with Europe's more stringent regulations, as one US-based private equity managing director comments: "It is vital that target companies have a reasonable ESG roadmap. This ensures that they are moving in the right direction and not ignoring the complications related to ESG non-compliance."

Yet US respondents do also point to wider reasons for focusing on ESG, including shifting societal expectations. "Promoting sustainable practices is critical now, and we are also facing more pressure from customers to do so," says an M&A vice-president at a US corporate. "This has also reduced the negative impact of our investments."

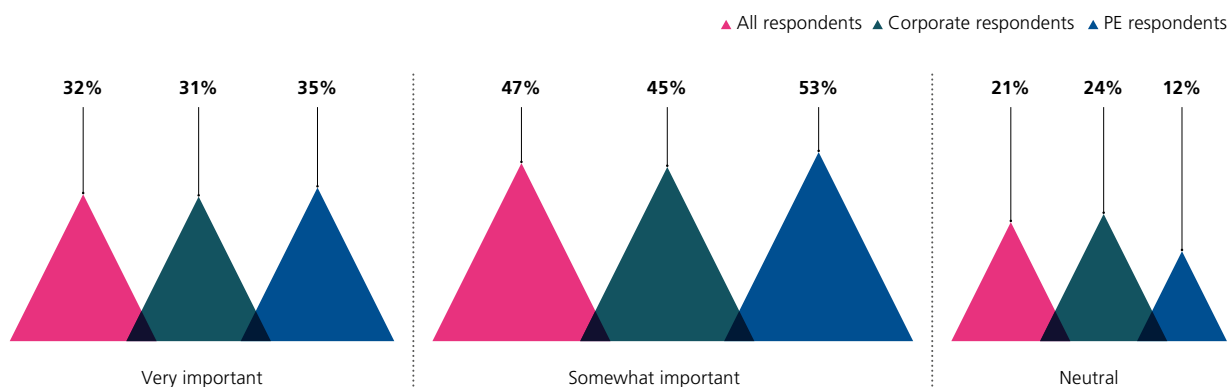
Given the importance most of our respondents ascribe to ESG factors, it is unsurprising that 71% scrutinise these extensively when acquiring a target, including 24% who say they do this very extensively. "The focus on ESG in decision-making has increased in the past five years," says an Australia-based private equity managing director. "When we review targets, we spend a lot of time identifying ESG weaknesses and preparing plans to deal with these issues."

This scrutiny overwhelmingly takes the form of specific ESG due diligence reviews of M&A targets. All but 1% of respondents conduct this on at least some of their investments, while 61% do so on every potential acquisition they pursue. "ESG due diligence is an integral part of our strategy," says a Belgium-based corporate CEO.

"We cannot just focus on financial assessments when deciding whether to invest. We have to consider social, environmental and governance risks closely if we want to succeed in the long term."

Private equity respondents are most likely to complete ESG due diligence on all their investments (74% say this), reflecting the need to meet their own investors' expectations as well as manage potential risks. The managing partner of a private equity firm in France explains: "ESG risks can destroy the reputation of

### How integral are ESG considerations to your corporate/M&A strategy and investment decision-making process?



companies. If we invest in companies without an acceptable ESG roadmap, then it will affect the trust of investors in our selection.”

Nearly all respondents (98%) expect the degree of ESG scrutiny in M&A transactions to at least remain the same in the coming three years, including 63% who believe it will increase. While the proportion saying it will increase has fallen from last year when 73% were expecting it to rise, the results above – on the importance of ESG factors, extent of scrutiny that currently exists and the level of due diligence undertaken – all point to these considerations already being entrenched in most dealmakers’ processes.

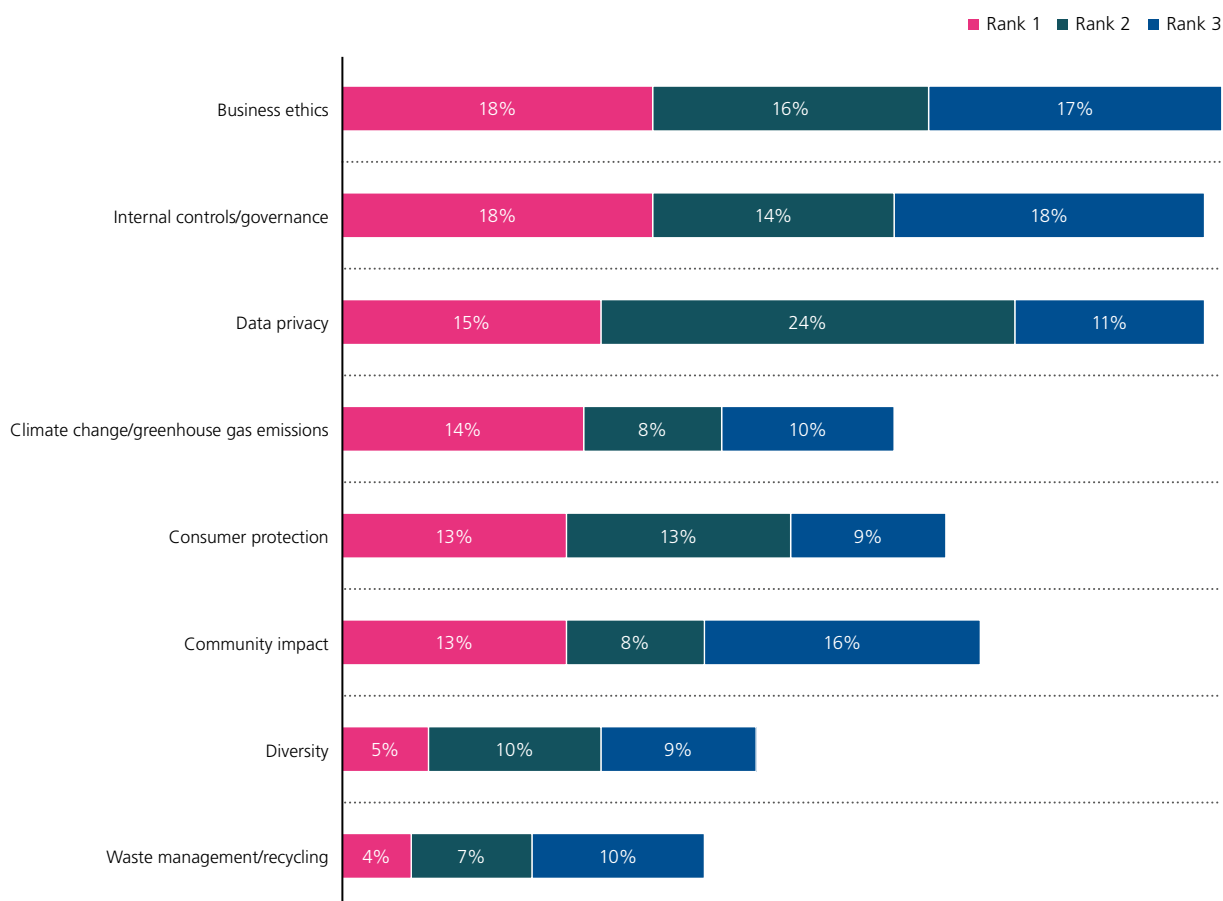
### Top issues

Regarding specific ESG issues, governance-related concerns rank highest in importance among respondents. Business ethics takes the top spot (51% of combined top-three votes), followed by internal controls/governance (50%, including 18% of first-choice votes) and data privacy (also 50%). This is to be expected, given that strong governance is necessary to manage environmental and social factors, and these three factors featured in the top four responses last year.

However, our survey this year highlights a slight shift away from climate change and greenhouse gas emissions as an ESG focus.

Last year, this came in first (44% of top-three votes), whereas this year it has fallen to sixth (32%). This, in all likelihood, is indicative more of organisations’ increasing emphasis in relative terms on data privacy – particularly as the AI boom and tech-enabled growth cement themselves as core tenets of business growth strategies – rather than a signifier of declining interest and attention to climate-related issues themselves.

### Which ESG issues are most important to your firm and your current investor base? (Rank from 1 to 3, 1 = most important)



# Conclusion

After a confident end to 2024, European M&A in the first six months of 2025 was rather more fragile. In light of lingering questions about US-Europe trade policy and the long-term impact on key segments of the region's economy, this slowdown is only natural as dealmakers wait for more clarity.

Nevertheless, the fact that buyers see opportunity in large, transformative deals, distressed and turnaround situations and digitalisation, while sellers are expected to divest non-core businesses, suggests there will remain plenty of life in European M&A in the period to come, even if headline totals for the next six to 12 months may be on the lower side.

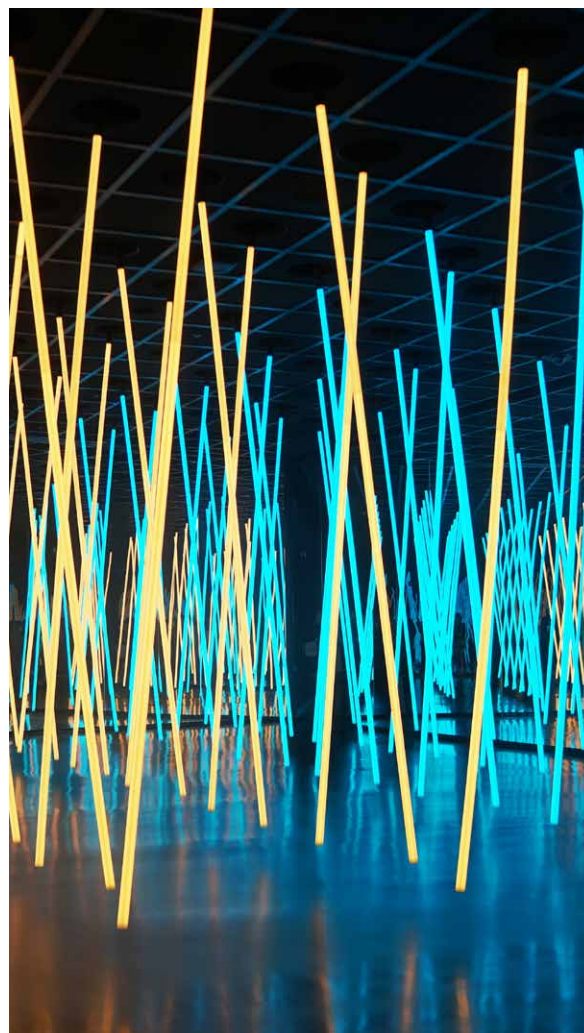
Besides, there are several positive tailwinds ahead that should help return confidence to the market. These include:

## **Efforts by the European Commission to improve the region's competitiveness**

Investors have largely welcomed the contents of the Draghi report, published in September 2024. Among the recommendations were faster decision-making, streamlined regulations and a more integrated capital market. The Commission is already starting on work to simplify environmental regulations – given these were the area considered most challenging by our respondents when doing deals in Europe, any rationalisation here may ease some tricky M&A pressure points.

## **Increased pressure to spend on infrastructure and defence**

Deglobalisation, uncertain trade policies and a need for rising defence budgets are leading European nations to announce major new investment plans. Germany is the most striking example, as it steps outside its debt brake policy, with a recent announcement of a EUR 500bn infrastructure fund to modernise energy, transport, digitalisation, science, education and hospitals. The fund is designed to open up private sector opportunities while the upgrades will provide a boost to the economy. Meanwhile, more than 60 companies recently launched a EUR 631bn 'Made for Germany' initiative to boost investor confidence in the country. With Germany languishing towards the bottom of respondents ranking for M&A growth and investment destinations, programmes such as these are a much-needed jumpstart for Europe's largest economy.



## **Rising interest from overseas investors**

Our survey points to continued interest from Middle Eastern buyers and investors, with Europe's strength in renewable energy a particular draw. Yet there are signs of other regions eyeing Europe with interest. Despite tensions between the EU and US administrations, US buyers see value opportunities in European companies, including publicly-listed businesses, partly because of their lower valuations relative to US counterparts. US private equity firms have been especially active in recent times, with 19% of European buyouts in H1 2025 involving a US investor, up from less than 17% in 2023.



# Our latest CMS Corporate/ M&A headline deals

## Phillips 66

CMS advised Phillips 66 on the EUR 1.5bn sale of a majority stake in its Germany and Austria retail marketing business to a consortium owned by subsidiaries of Energy Equation Partners and Stonepeak.

## Value Retail

CMS advised Value Retail, the owner and operator of luxury outlet villages across Europe, on the sale by Hammerson plc of its minority stake in Value Retail to LVMH-backed real estate investment fund L Catterton, for an enterprise value of GBP 1.5bn.

## Primary Health Properties

CMS advised FTSE 250 listed Primary Health Properties on its recommended GBP 1.79bn shares and cash offer for Assura plc, a leading diversified healthcare UK REIT. CMS also advised PHP on a GBP 1.225bn unsecured facilities agreement.

## Krone Group

CMS has advised the Krone Group on all legal aspects of its investment in Austria's Schwarzmüller Group, a major manufacturer of special-purpose commercial vehicles, in a transaction involving CMS teams throughout Europe.

## Neo Energy

CMS advised Norwegian private equity fund HitecVision on its UK subsidiary NEO Energy's corporate joint venture with Repsol. This partnership represents one of the largest energy deals in the UK North Sea in recent years.

## Eesti Gaas

CMS advised the largest private energy company in the Baltic-Finnish region, Eesti Gaas, on the strategic acquisition of 100% of the shares in EWE Polska sp. z o.o., a major player in the Polish gas and electricity market.

## NJJ Holding

CMS advised a consortium led by NJJ Holding on the landmark acquisition of Datagroup-Volia, Ukraine's leading fixed telecom and pay TV provider, and Lifecell, the country's third-largest and fastest-growing mobile operator. The deal won Ukraine Deal of the Year at the 2025 CEE Legal Matters Awards.

## AMETEK

CMS advised multinational conglomerate AMETEK on their USD 920m acquisition of imaging solutions company FARO Technologies, in a transaction involving a joint CMS team across Germany, UK, Austria, Belgium, China, France, Italy, Mexico, Netherlands, Poland, Portugal, Singapore, Spain, Sweden, Switzerland, Turkey and Brazil.

## Nuveen Real Estate

CMS advised Nuveen and Global Student Accommodation on the EUR 567m acquisition of Gecina's student residence platform, YouFirst Campus, at the end of a competitive sales process.

## easyJet

CMS advised the major listed airline easyJet on the acquisition of the SR Technics maintenance facility in Malta.

## Neoen

CMS advised the management of Neoen, France's leading renewable energy producer, on the acquisition by a consortium led by Brookfield of a majority stake in the company from Impala SAS, Cartusia SAS and other key shareholders. The price offered by Brookfield valued Neoen at EUR 6.1bn.

## EBRD

CMS advised EBRD on an equity co-investment in Poland's VeloBank SA in a deal that won Poland Deal of the Year at the 2025 CEE Legal Matters Awards.

## Equinor

CMS advised Equinor on its USD 5.3bn 50/50 corporate joint venture with Shell UK, marking one of the largest energy deals in the UK North Sea.

## Carlyle

CMS advised Carlyle on acquiring Baxter International's Kidney Care unit for USD 3.8bn.

## BBGI

CMS advised British Columbia Investment Management Corporation on the recommended takeover offer for BBGI Global Infrastructure SA. The offer valued BBGI at approximately GBP 1bn. The deal involved a joint CMS team across the UK, Germany, Netherlands and Norway.

## Holtzbrinck Publishing Group

CMS advised the Holtzbrinck Publishing Group on the successful IPO of Springer Nature on the Frankfurt Stock Exchange.

# CMS – Your Global Partner for Corporate & M&A

With 1,400+ corporate lawyers across 50 jurisdictions, CMS delivers seamless, commercially driven advice on complex M&A transactions worldwide. Our deep sector expertise, local market knowledge, and cross-border capabilities make us the trusted adviser for businesses navigating the ever-evolving deal landscape.

**Wherever you do business, we're there.**

## **Top ranked global practice**

(2024, deal volume and value, Bloomberg, Factset, LSEG, Mergermarket)

#1 Europe

#1 CEE, DACH, Germany and UK

#2 Switzerland

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We strive to develop long-term relationships with our clients, giving prompt, straightforward and commercial legal advice. We draw on renowned industry expertise in a number of sectors including Financial Institutions, Energy and Climate Change, TMC (Technology, Media and Communications), Life Sciences & Healthcare, Consumer Products, Construction and Development, Hotels & Leisure, and Infrastructure and Projects.

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# About Mergermarket

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Mergermarket blends market-leading human insights, advanced machine learning and 30+ years of Dealogic data to deliver the earliest possible signals of potential M&A opportunities, deals, threats and challenges.

Using Mergermarket, our clients gain a clear strategic vision, reduce risks and seize growth opportunities, ultimately to outpace their competitors. Additionally, our extensive network and community ecosystem foster insider connections and promote knowledge-sharing, helping users stay up to speed.

Our clients trust Mergermarket's proven track record in guiding them to success throughout their M&A journey.

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