# M&A

PREDICTOR **BELGIUM**

Rise in deal appetite and availability of funds confirms confidence in M&A markets

Despite a small decrease between July and December 2014, analysts are expecting Belgian companies to show an increasing appetite for deals, with predicted forward P/E multiples (our measure for appetite) 6% higher than 12 months ago. Especially for smaller companies, appetite increased significantly over the last 12 months. The decrease between July and December for large and mid-sized companies could partly be explained by the current stage of the business cycle. Previous high P/E estimates were mainly driven by increases in stock prices in anticipation of economic recovery. As economic conditions have improved recently, earning estimates are starting to resemble this growth.

Despite fluctuations between sizes of companies, the debt levels of Belgian companies confirm a capacity for doing deals.

+6%
APPETITE
(Forward P/E ratios)

Since December 2013

+1%
CAPACITY
(Net debt/EBITDA)

By December 2015
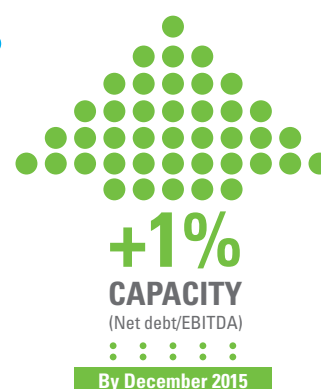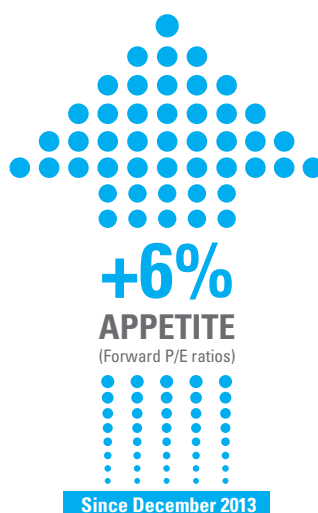
M&A Predictor for Belgian quoted companies

	P/E			% change			Net debt / EBITDA		% change
	31-Dec-13 31-Dec-14	30-Jun-14 30-Jun-15	31-Dec-14 31-Dec-15				31-Dec-13 31-Dec-14	31-Dec-14 31-Dec-15	
	A	B	C	C vs A	B vs A	C vs B			
Top 20 companies	17,5x	19,2x	18,7x	7,2%	9,8%	(2,4%)	1,7x	1,7x	(0,6%)
Mid 20 companies	13,8x	14,3x	12,7x	(8,0%)	3,7%	(11,3%)	1,3x	0,9x	(28,7%)
Smaller companies	11,4x	13,7x	14,7x	28,3%	20,3%	6,6%	1,4x	1,7x	22,3%
All companies	17,3x	18,9x	18,4x	6,3%	9,3%	(2,7%)	1,7x	1,6x	(1,4%)
Europe	13,4x	13,4x	13,9x	3,7%	-	3,7%	1,2x	1,1x	(8,3%)

Source: CapitalIQ, KPMG analysis
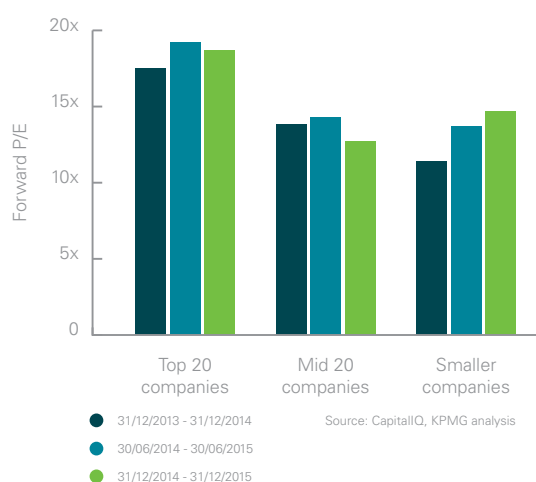
WHAT IS KPMG'S M&A PREDICTOR?

KPMG's M&A Predictor is a forward-looking tool that helps member firm clients to forecast trends in mergers and acquisitions. It looks at the appetite and capacity for M&A deals by tracking and projecting important indicators 12 months forward. The rise or fall of forward P/E (price/earnings) ratios offers a good guide to the overall market confidence, while net debt to EBITDA (earnings before interest, tax, depreciation and amortization) ratios helps gauge the capacity of companies to fund future acquisitions. The Predictor covers the ratios for Belgian stock quoted companies. Companies for which earnings estimates are not available are excluded from the data set, in addition to outliers. Companies are divided in 3 groups (Top 20, Mid 20 and Smaller) based on their market cap as at 31 December 2014.
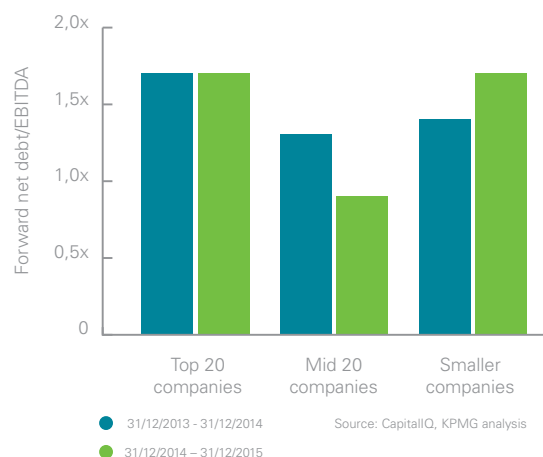
"The results from the M&A Predictor are confirmed by the deal activity our deal advisors see in the last months. We do expect to see more deals closed in the next quarter."

M&A appetite of Belgian companies

- 31/12/2013 - 31/12/2014
- 30/06/2014 - 30/06/2015
- 31/12/2014 - 31/12/2015

Source: CapitalIQ, KPMG analysis

There was a correction of the forward P/E multiples for top and mid 20 companies in the second half year of 2014 after they continued to increase between June 2013 and June 2014. The smaller companies showed a continued increase in their P/E multiples.

M&A capacity of Belgian companies

- 31/12/2013 - 31/12/2014
- 31/12/2014 – 31/12/2015

Source: CapitalIQ, KPMG analysis

Overall capacity to transact, as measured by forecast net debt to EBITDA, is expected to improve over the next year, particularly in mid-sized companies. This confirms the availability of funds for doing deals.

Strong appetite in Belgian M&A market is not yet translating into more deal completions

The graph below shows trailing statistics for worldwide completed deals involving Belgian bidders

- Number of deals
- Median deal value (EURm)

Source: MergerMarket, KPMG analysis
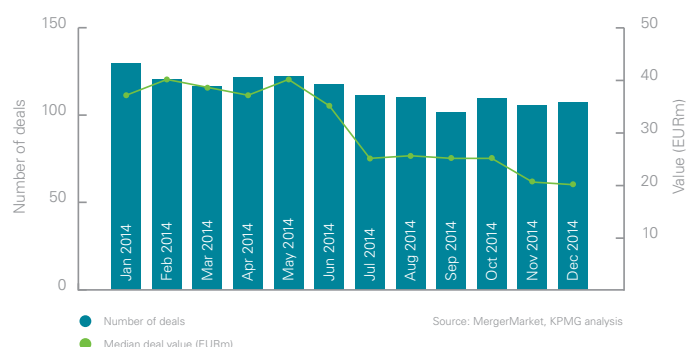
Despite improving economic conditions and well performing stock markets, we noted a rather constant level of deal activity over the last 12 months.

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