



Deal Momentum in the Benelux

The Preferred Gateway to Europe

Cross-Border M&A Activity in Europe

For companies whose capacity for growth exceeds their ability to add market share organically, mergers and acquisitions (M&A) represent an opportunity to achieve greater scale in a single step. Of course, that step is complex and should never be taken lightly, doubly so when it involves the acquisition of an overseas business.

Around the world, M&A activity slowed dramatically in 2020, largely due to the uncertainties of a global market deeply affected by the COVID-19 pandemic. As economies find their footing in 2021, M&A activity has heated up as well. This is particularly true of cross-border M&A, which have adapted to the added complications represented by subsiding pandemic-related restrictions imposed by different jurisdictions.

European cross-border M&A continue to rise with inbound M&A recording sizeable increases compared to the first six months of 2020. In Europe, 6 of the largest 10 M&A transactions involved a foreign buyer, driving the total European inbound number to 747 deals in the first half of 2021 vs. 645 during the same period in the preceding year¹.

The Benelux (Belgium, the Netherlands, and Luxemburg) has established itself as a compelling point of entry into Europe's economic landscape, offering a favorable investment climate, particularly for foreign companies without a local presence seeking to expand to the rest of the continent.

With cross-border M&A now back on the table as an option for ambitious businesses looking to expand to Europe, let's take a look at what these entail and how they affect the prospects of the companies involved.



¹Source: Mergermarket.

What Are Cross-Border M&A?

Structurally, cross-border M&A resemble domestic M&A, with an added layer of complexity. In most jurisdictions, a foreign company may not directly acquire a domestic firm. Rather, it must establish a legal entity in the acquired company's country and process the transaction through that entity.

Complicated though it may be, this is not a simple matter of bureaucratic meddling. Establishing a legal entity clarifies the lines of fiscal and regulatory responsibilities and can greatly facilitate the deal's consummation and success in the period thereafter.

The structure of any given deal is subject to a wide range of factors, most of them to do with the jurisdictions in which each party operates and the pursued strategic goals.

From a strategic point of view, cross-border M&A are the boldest form of internationalization. Companies considering overseas acquisitions typically benefit from evaluating other options as well, including contracted relationships, joint ventures or other strategic partnerships to extend operations internationally.

The acquired company typically realizes strategic advantages as well, including access to new sources of capital, in addition to more diverse market and client exposure.



Where Are Successful Cross-Border M&A Opportunities to be Found ?

As a business proposition, compelling cross-border M&A opportunities exist around the world. For example, Red Bull, the world's best-selling energy drink, was devised in Thailand as Krating Daeng, a refreshment for working-class laborers. An Austrian entrepreneur took notice and in 1984 created Red Bull GmbH, a legal entity, in Thailand as part of a joint venture to adapt the drink to Western tastes. Red Bull is now headquartered in Salzburg and generated 2020 revenues of over €6 billion, or \$7 billion, while Krating Daeng continues to operate throughout Southeast Asia, with heirs of the drink's creator owning majority stakes in both companies.

Red Bull is something of a unicorn, and few cross-border transactions are as globally successful. But it does illustrate some important elements supporting any fruitful cross-border M&A effort. Krating Daeng had a winning idea, a mature business model, an insightful approach to marketing, and a proven operational infrastructure that allowed it to grow without exceeding its grasp. Both sides brought foresight, discipline, and good faith to the table, and each profited remarkably well. Crucially, the Red Bull deal was struck during a time of political stability and economic growth in Thailand.

While cross-border M&A opportunities remain widespread, they are facilitated by countries with a continued tradition of economic liberality. For that reason, Europe has emerged as a compelling ground for cross-border M&A.



The impact of the Pandemic and Brexit on Inbound M&A Activity in Benelux

As companies embark on the path to recovery, preparing for a transformed world with reshaped economies and societies, the need for alternative M&A and financing strategies is greater than ever.

In the wake of Brexit, companies have started looking elsewhere to set up their operations for expansion into Europe. The Benelux provides vast opportunities for growth with a dynamic and forward-looking market that has showed resilience even in the midst of the COVID-19 pandemic.

The numbers bear this out. In the first half of 2021, non-European, non-UK acquirers targeted 42% more Benelux companies in M&A transactions than in the preceding years. The year-over-year increase for UK-based M&A targets in similar transactions was just 29%, slightly behind global M&A transactions into all European countries, which increased 30%. Excluding private equity transactions, the disparity is even more dramatic: a 49% increase in transactions targeting Benelux companies, a mere 7% increase in activity targeting UK companies, and a 20% increase in global M&A transactions targeting European businesses².

We expect similar M&A trends will continue. The full aftermath of Brexit is still unfolding, and within Europe the Benelux remains a distinctly inviting foothold for global companies seeking to expand into the continent.

As a recent example, Cargill, a global food corporation and one of the largest privately held companies in the US, acquired Lemman Decoration Group as part of its strategy to expand its presence and product line in the gourmet space.

Lemman Decoration Group serves customers in 55 countries. Its portfolio consists of cake decorations, chocolate printings, sugar-based decorations and wafers. Cargill sought to expand into the cake decorations segment, building upon its existing chocolate-manufacturing expertise. This acquisition fits Cargill's broader strategic vision of becoming a "bean-to-decorations" provider in the industry.

Through combined resources, knowledge and expertise, Cargill expects to benefit from synergies that will enable both companies to better serve the changing needs of their customers. Cargill aims to become a one-stop-shop for its customers, and explicitly stated when the Lemman acquisition was announced that its recent acquisitions will open up avenues for long-term growth and profitability in Europe.

Since the beginning of the pandemic, Cargill has announced seven acquisitions. Three of those involved European targets, two of them in Belgium and the Netherlands.

²Source: Pitchbook.

Why the Benelux is an Ideal Stepping Stone into European Markets

Strategically located, the Benelux serves as a gateway to other countries in the European Union (EU) with a potential to reach over 500 million consumers. The region offers some of the world's best airports, road networks, (containers) ports, and rail connections to the rest of the continent, making it an appealing option for overseas entities seeking to gain a foothold in the EU.

The Benelux' political environment is very business-friendly, fostering entrepreneurship and enabling innovation to thrive. Supported by reputable universities, the regional, English-speaking workforce is one of the most skilled in the world.

The region offers favorable tax regulations to non-EU members, even those who do not establish themselves through M&A, including VAT payment deferral for imported goods. The Benelux further entrenches its business-friendly, cross-board policies through tax treaties with numerous countries as well as individual tax rulings.

The Benelux' flexible company law and its neutral jurisdiction make it an attractive location for foreign investors. The process of setting up a legal entity is very straightforward. In the Netherlands, for example, a BV (*Besloten Vennootschap*), the equivalent of a private limited company in the UK or an LLC in the US, is a paper entity executed and authorized by a notary with limited costs and efforts.

The Benelux has a long and proud history of fruitful economic ties across international borders, and prides itself on its promotion of foreign investment. Due to the region's relatively small size, 3-5 out of 10 M&A transactions are by default cross-border.



Cap Expand Partners: Financial Experts with Cross-Border M&A Experience

Taking your company international will involve long-term operational and organizational adaptations, but the transaction itself is essentially an economic one. Cap Expand Partners have the experience and professional network to guide you through the entire process, from pre-transaction planning through to execution of each stage of the M&A process, as well as post-merger integration.

We begin by listening to you and gaining a thorough understanding of your overall growth strategy and the benefits you expect to gain from expanding overseas. The next step focuses on the market you wish to enter. We prepare a strategy assessment that clearly defines your objectives and measures them against the legal, regulatory, and economic realities of your chosen market. Besides classical M&A transactions, this may include various market entry scenarios such as contracted relationships, joint ventures or other strategic partnerships. Let's assume you decide to proceed via M&A. We then prepare a list of companies that potentially meet your needs, and continually revise the list until we agree on suitable opportunities.

Once you have selected target companies, we approach them on your behalf, equipped with a comprehensive plan to execute the transaction.



Cap Expand Partners: Financial Experts with Cross-Border M&A Experience (continued)

As the transaction reaches its final stages, we work with your executives and upper management to establish the infrastructure necessary to complete the deal. Throughout negotiations with the target company, we provide the technical and qualitative research that helps you strike the best deal both for your own company and for the long-term prospects of its international presence.

The months that follow any M&A deal are crucial to its success. To help our clients realize the full value of their transactions, we stand by them during this critical time, providing a detailed integration roadmap, addressing due diligence issues, and helping them harmonize both their operations and strategic planning. We also work with our client's integration manager to ensure that everything from the integration framework to the specific policies governing the transition support a smooth and profitable union.

Once every party to the M&A is satisfied with the integration, we perform a retrospective analysis of the entire transaction, from its first speculative steps to its demonstrated success. This analysis helps inform our own practice, and can be an indispensable guide to your company's future as an international enterprise.

Companies with the vision, resources, and ambition to pursue cross-border M&A in Europe can set themselves apart from the competition and uncover new business opportunities before others notice them. The process inevitably represents a step into the unknown, but Cap Expand Partners offer the experience, expertise, and resources necessary to take that step with confidence.



About Cap Expand Partners

Cap Expand Partners specialize in supporting cross-border M&A initiatives with innovative financing solutions. First established in the 1970s, the family business was founded on the belief that mid-sized companies play a vital role in tackling some of the world's most pressing social and environmental challenges. Under the leadership of Sergio van Luijk, Cap Expand Partners assist companies and independent sponsors through a network of associate partners with cross-border expertise, using modern methodologies more evolved than traditionally used in the industry.

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