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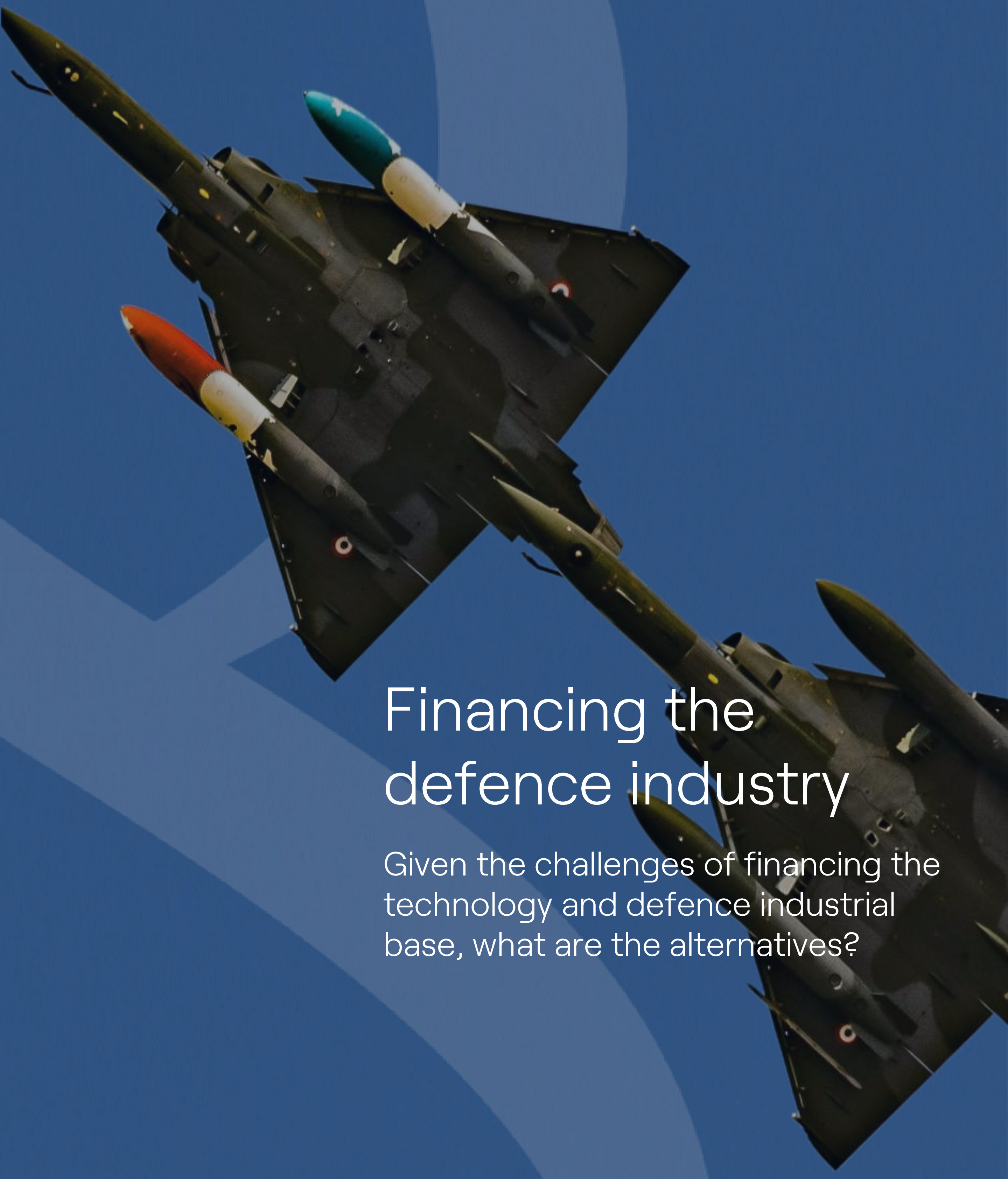

# Financing the defence industry

## Given the challenges of financing the technology and defence industrial base, what are the alternatives?

April 2025

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# Foreword

In February 2024, we proposed a summary analysis of the European Defence Technological and Industrial Base's financing difficulties and presented the strengthening of the private equity chain as a solution for reinforcing the equity capital of defence industrialists (and mainly the SMEs/ETIs that make up the EDTIB). The appointment of the new US administration, with the pressure it exerts on Europe and NATO member countries, has totally changed the terms of the issue.

It only took a few weeks, and now hardly a day goes by without some government, administration or financial institution announcing that it is revisiting - often drastically - its assessment of defence policies: an opportunity for us to take stock of current developments.

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# Sommaire

# Introduction

**Following years of budgetary constraints and the resulting downsizing of Europe's armed forces, the defence sector is experiencing an upturn. Since 2014 and the first Ukrainian crisis, the governments of the five major European powers (France, Germany, the UK, Italy and Spain) have all proposed increased defence budgets. The invasion of Ukraine in 2022 has also served as a trigger for a historic increase in the military equipment budgets of NATO member countries – with Germany and Poland leading the way.**

Of course, the challenges posed by government budgetary constraints, inflation, recruitment difficulties and the need to adapt logistics chains to the increased pace of business paint a more mixed picture of the dynamics sweeping through the defence industry. But there is one constant that few can ignore, and that is causing concern among European governments and parliaments: in spite of robust order books, access to financing remains problematic, not only due to the influence of regulatory constraints, but most of all because of the reputational risk that the banking sector is often reluctant to assume.

Large-scale contractors, whose activities are generally dual-purpose, are mostly unaffected by bank financing difficulties. However, the situation is very different for the SMEs and mid-tier companies of the European Defence Technological and Industrial Base (EDTIB). The origins of these difficulties are manifold: inflation of standards within the European Union, credit risk, regulatory constraints, government and NGO influence and pressure, but above all, reputational risks. This network of small and mid-tier companies plays a crucial role in the value chain, and financing difficulties are hampering their growth and that of the sector as a whole. It should be noted that these difficulties are Europe-wide: all the defence industry bodies report the same difficulties, from the French GICAT (Group of French Industries for Land and Air-land Defence and Security) to the BDSV, (Association of German Security and Defence Industries).

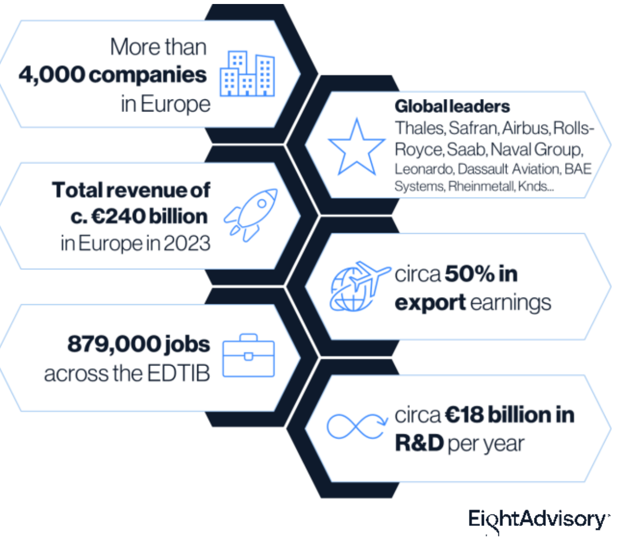
Can private equity funds help finance the defence industry? Although they are not very active in this sector in Europe, they may not be the only answer, but they could be part of the solution.

Indeed, the sector's specific features – an illiquid market with few potential buyers, heavy government involvement and unusual cooperation arrangements between manufacturers (consortia, shared industrial programmes, etc.) - make it difficult for private equity funds to get involved. Nevertheless, the sector has a number of key selling points: visibility and recurring cash flow, an attractive technological dimension, and high entry barriers.

Despite the slowdown in the M&A market over the past few quarters, there is still a lot of activity among the SMEs and mid-tier companies in the sector, driven mainly by two underlying factors: i) securing supplies, and ii) acquiring technological building blocks. These transactions are mainly aimed at preserving margins, developing new skills in niche markets, and strengthening the supply chain. The combination of these external growth strategies results in the emergence of more robust players with more diversified revenues. Because, beyond financing, private equity funds bring their expertise in the structuring and optimisation of operational and economic performance to the EDTIB.

**Key characteristics of the aerospace, security and defence sector, including the United Kingdom**

Source : Eight Advisory



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# Positive momentum across the EDTIB

## A buoyant macro-economic and geopolitical environment

Over the past twelve months, European countries' defence budgets have undergone a profound change as the geopolitical environment has continued to deteriorate. Historically perceived as an unattainable ceiling for many member states, the goal of spending 2% of GDP on defence is now seen as a minimal, even inadequate, threshold in the face of growing threats and the accelerating American pivot under the Trump administration.

Germany's new coalition agreement calls for massive investments in defence, reinforcing the impetus initiated by the previous government (a special €100 billion Bundeswehr modernisation fund announced in 2022). Meanwhile, France has accelerated the implementation of its military scheduling law, redirecting part of the funds to replenishing the armed forces and discussing the acquisition of new capabilities (1st class frigates, accelerated deliveries of Rafales, etc.). Poland, a key player in European security, now spends more than 4% of its GDP on military expenditure, pursuing a policy of large-scale procurement, using a mix of American, South Korean and European equipment.

In parallel, the European Commission, under pressure from Member States, has had to adjust its position in favour of more active support for the defence industry, voluntarism and the EDIRPA programme and the European Defence Fund, whilst facilitating access to financing for strategic industries. There has also been a gradual shift in military doctrines, with a return in force to stock logic and an increase in the mass of armed forces to the detriment of the flow model which has prevailed since the end of the Cold War.

In this respect, the European Commission is showing a certain voluntarism and is multiplying its announcements and support programmes. It's also worth noting that part of the Commission's efforts in this area are aimed at improving the European security environment - which may involve the purchase of off-the-shelf equipment from suppliers with strong industrial capabilities (primarily the USA and South Korea). As a result, dependence on weapon systems supplied by non-European countries has increased in recent years.

**2021**

**April 2021: European Defence Fund (EDF)**
The EDF, with a budget of 8 billion euros (+1.5 billion euros in 2023) for the period 2021-2027, supports R&D and the industrial development of defence capabilities in Europe, combining grants and co-financing to encourage cooperation between member states and European industry.

**2022**

**July 2022: Act in Support of Ammunition Production (ASAP)**
The 500 million euro ASAP aims to rapidly increase ammunition and missile production in response to the war in Ukraine. The programme is based on direct emergency grants within the specific framework of the Ukrainian war effort.

**October 2022: European Defence Industry**
Reinforcement through Common Procurement Act (EDIRPA)
EDIRPA, with a budget of 300 million euros, supports joint purchases of military equipment between member states, in order to pool costs and strengthen Europe's strategic autonomy.

**2023**

**2024**

**January 2024: The European Investment Bank (EIB)** develops an equity facility (envelope of 175 million euros) to support funds investing in defence. The aim is to create a knock-on effect and mobilise around 500 million euros in support of EDTIB SMEs.

**March 2024: European Defence Industry Programme (EDIP)**
Still at the proposal stage, this regulation provides for an additional 1.5 billion euros for emergency programmes (ASAP, EDIRPA), as well as the creation of the FAST fund, designed to facilitate debt and/or equity financing for SMEs. It also includes legal tools to facilitate cooperation between member states and facilitate equipment purchases.

**2025**

**March 2025: ReArm Europe**
The "ReArm Europe" plan is expected to mobilise almost 800 billion euros to strengthen the EU's defence, by relaxing public deficit constraints (650 billion euros) and granting loans (150 billion euros) to member states. The proposed measures include extending the EIB's mandate. The 2025-2029 defence effort would thus rise from 2.0% to 3.9% of GDP.

**2026**

**Source:** European Commission. Eight Advisory analysis

# The strength of the major European defence groups

## Budget trajectories revised upwards

European NATO members have long been spending less than the Alliance's 2014 target of 2% of GDP. Between 2014 and 2024, the average level of defence spending was only 1.6% of GDP. Rising geopolitical tensions are prompting the European states to rethink their military budget trajectories, with European spending set to average 2.2% of GDP by the end of 2024. It is the Baltic states that have made the most significant commitment. Estonia and Latvia have announced their intention to allocate 5.0% of GDP to defence, while neighbouring Poland intends to increase spending to 4.7% of GDP by 2025.

## The two faces of the defence industrial base

In this generally favourable environment for the sector, listed market investors have tended to gravitate towards large dual-activity (civil and military) industrial groups, which have little difficulty in raising debt, and achieve relatively low spreads. These large groups have only been affected to a limited extent by financing difficulties. They are, however, the exception in the EDTIB, where less than 5% of companies are listed on the stock market. The vitality of the sector in Europe owes much to its network of SMEs and mid-tier companies, whose access to credit is not as easy as that of the large groups with diversified revenues.

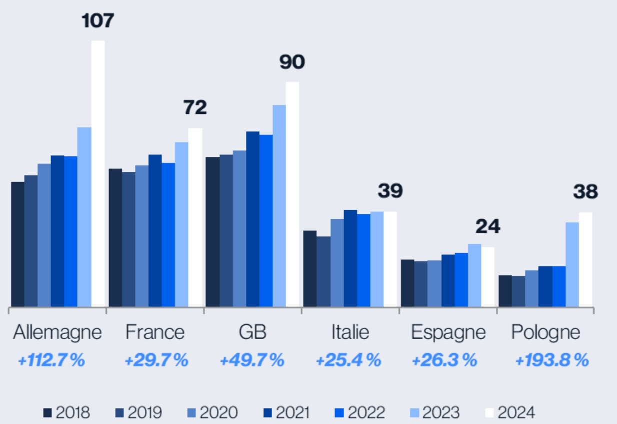
As for the EDTIB's main customers, they are companies with diversified revenues and dual activities (with military and civilian branches); the credit floodgates are not closed to these major industrialists. Credit institutions and financial markets favour the stability and diversity of their revenues, the strength of their balance sheets and their status as net contributors to foreign trade.

## Different financing issues

While the financing of listed companies inevitably attracts more public attention, due to reports by associations and specialised media, it appears that the main financing issue for the large principals, is not so much access to bank credit, which is generally facilitated by the soundness, relative transparency and quality of reporting of large groups. Rather, the challenge lies with bond issuance, where the investor base tends to be more restricted. This can lead to less favourable financing conditions, and a widening of interest rate spreads, sometimes disproportionate to the level of risk taken by the bank. This situation is exacerbated by the specific nature of the defence industry, where national security issues, strict regulations and, above all, reputational risks can limit investor appetite and complicate financing structures. On the other hand, large groups with diversified revenues (civil and defence) often benefit from more favourable terms, as their public/private clientele enables them to optimise working capital (payment terms are often long in government contracts) and reduce the risks associated with the long industrial cycles required by defence programmes.

**Defense spending in Europe (in billion €)**

**Sources:** World Bank & SIPRI, French Ministry of Defence, Statista, Eight Advisory Analyses.
**Note:** Defence budgets in European countries have increased significantly, including in 2024. However, there are differences between countries, with Germany and Poland leading the way in spending increases (in relative terms). Most of the budget hikes will be spent on equipment purchases.

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# The strength of the major European defence groups

**Sales breakdown of Europe's leading defence manufacturers**

| | | 2023 Revenue | |
|---|---|---|---|
| | **Company** | **Civil** | **Defence** |
| 1 | BAE Systems | 2% | 98% |
| 2 | Rolls-Royce | 67% | 33% |
| 3 | Safran | 82% | 18% |
| 4 | Airbus | 82% | 18% |
| 5 | Dassault Aviation Group | 38% | 62% |
| 6 | Thales | 48% | 52% |
| 7 | Leonardo | 25% | 75% |
| 8 | KNDS | 5% | 95% |
| 9 | MBDA | 1% | 99% |
| 10 | Naval Group | 1% | 99% |
| 11 | SAAB | 10% | 90% |
| 12 | Rheinmetall | 29% | 71% |

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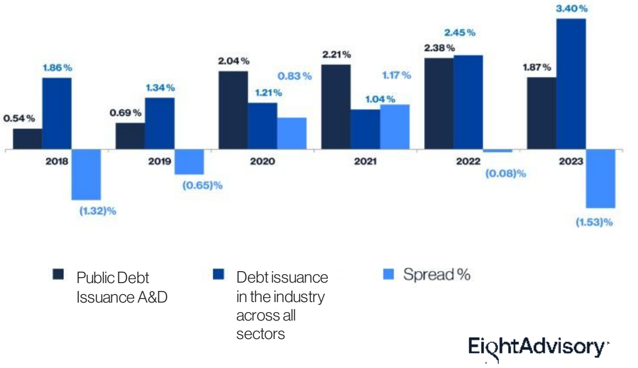
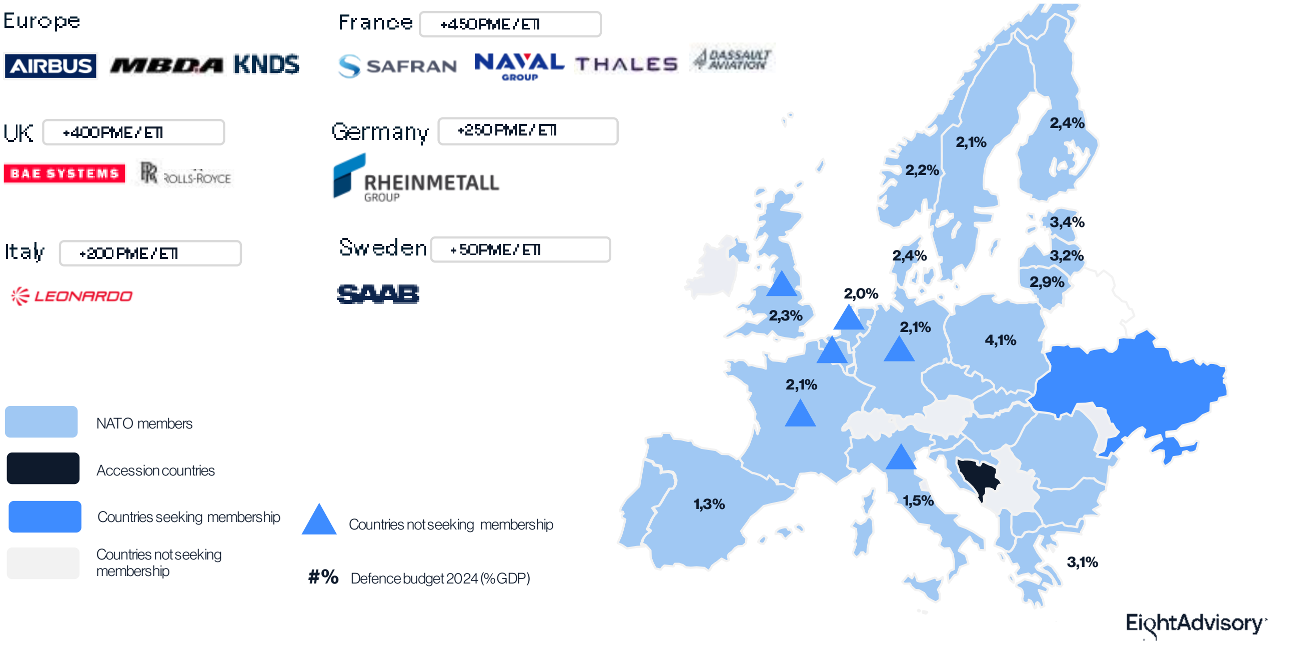
**Source:** The SIPRI Top 100 arms-producing and military services companies in the world, December 2024

**Improving credit spread for the A&D sector**




**Source:** capital IQ. Coupon on publicly-issued debt of the twenty largest European Aerospace & Defence companies vs. industrial debt, all sectors combined, with the same rating.
**Note:** After a period in which the spread between defence companies and manufacturers in general was unfavourable to the A&D sector (2020-21), the spread reverses to 1.53% in 2023. One of the reasons for this reversal is the decline in the sector's leverage ratios since the end of the COVID-19 epidemic. However, this spread only concerns large listed groups, and the majority of the sector is made up of unlisted companies, which have greater difficulty in finding bank financing.



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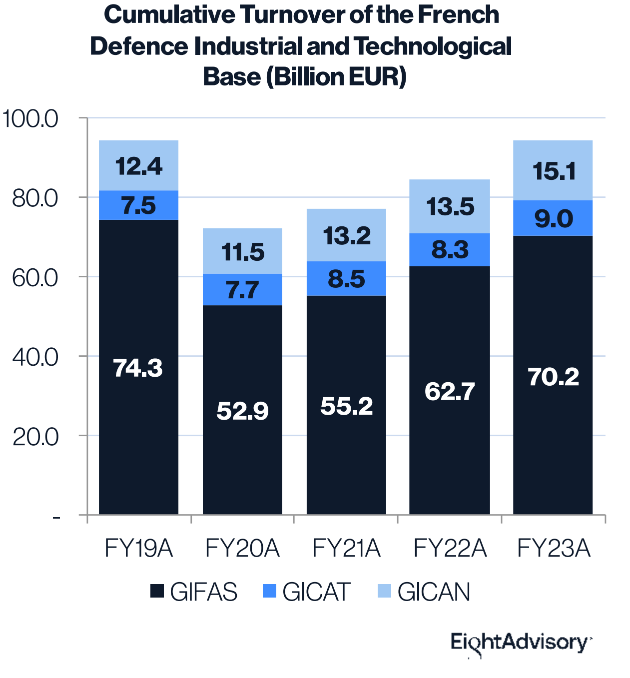
# Bank financing difficulties: the situation of SME and mid-tier companies

## A structurally and cyclically fragile supplier base

The aviation, land and naval sectors are characterised by a highly fragmented supplier base. Although rationalisation efforts have in the past, been led by the large OEMs, they have so far remained limited. This business base, often family-owned, has historically suffered from weak equity capitalisation.
Inefficiencies affecting the profitability and financial structure of these players arise from the limited production runs of many programmes. The financing of working capital requirements is a particularly important issue, as OEMs do not systematically return prepayments.
As a result, production (re) ramps are highly capital intensive. In the specific case of aeronautical suppliers, they must also compensate for the losses incurred by their civil business as a result of the Covid crisis.




## Challenges concentrated on mid-tier companies

On the specific issue of access to financing, the economic reality looks very different for the major contractors and the rest of the EDTIB. SMEs, which form the backbone of Europe's industrial skills base, face considerable financing constraints. This is due to their limited access to bond financing, the small number of listed groups capable of raising capital, and above all, the banks' reluctance to lend, which has become more pronounced in recent years. While the reality of the phenomenon is often downplayed by the banks, it is mainly the financial criteria that are cited. As far as the manufacturers are concerned, the main issue brought to the fore is reputational risk which banks are eager to avoid.

## Reputational risks

Securing bank financing for the supply of equipment to certain countries can prove to be a challenge. Sometimes, the political circumstances mean that the equipment funded could find its way into war zones or even be used against civilians, something that European banks want to avoid. In recent years, a number of associations have sprung up with the aim of analysing the behaviour of major groups and, if necessary, denouncing them (name & shame). The BankTrack network, for example, identifies the "defence" exposure of European banks and draws public attention to their practices. However, reputational risks are not always backed up by documents, facts or quantifiable performance indicators. Nevertheless, these risks are perceived as being both significant and difficult to manage.



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# Bank financing difficulties: the situation of SMEs and mid-tier companies

## Compliance risk

In May 2020, the European Commission launched an action plan to combat money laundering, the implementation of which in Member States' legislation has considerably tightened the granting of credit to companies in the defence sector. This stricter legal framework may lead to the non-compliance of certain transactions, especially for the smaller players in the EDTIB, who are well less equipped than large groups to comply with transparency requirements.

A study published in November 2021 by the NGO, Transparency International, estimated that 62% of the world's countries are highly exposed to corruption risk in the defence and security sector, and that only 12% of defence companies have implemented robust and convincing measures to combat corruption. Considering the significance of compliance risk for banks, this lack of clarity is bound to have a detrimental effect on the EDTIB industry.

## Lack of qualified contacts

One of the reasons for the financing difficulties experienced by EDTIB players is the lack of specialised contacts in the banking world. The major banks do not always have dedicated teams to cover the sector or if they do, they often only focus on export/trade finance. EDTIB subcontractors are generally handled by regional business hubs, which in most banks are considered generalists. Typically, the "defence culture" has little presence in civil society, which often leads to misunderstandings.

## Banking sector policies

EDTIB's banking difficulties mainly concern the financing of working capital requirements, as well as innovation and export financing. Access to such financing is restricted by the sectoral policies of the major European banks, which more or less explicitly limit the financing of defence industries. It should be noted that these sectoral policies are not devoid of ambiguity: banks willingly use broad terms, without strict definitions, such as prohibiting the financing of "controversial arms", in order to retain some leeway in their decisions to finance certain operations.

This situation could evolve favourably, as French banks have always maintained an open attitude towards the defence industry. Elsewhere in Europe, a number of banks that had previously been very cautious have now adjusted their positions. NordLB, Hamburg Commercial Bank, Deutsche Bank and Commerzbank are all on record as being in favour of a relaxation of their policies. The best example of a real change comes from the Landesbank Baden Württemberg. This regional bank has abandoned its previous policy and announced that it will extend its scope to include the financing of all arms for which a delivery permit has been issued by the relevant German federal office. The EIB has also adjusted its stance. For a long time, it restricted lending to companies in the security and defence sector by requiring a minimum threshold of revenue from civilian use before granting a loan. This threshold was abolished in 2014.

> *Without stability and security, there can be no prosperity, inclusiveness and sustainable development.*
>
> Patrice Caine, Thales CEO

# Bank financing difficulties: the impact of extra-financial criteria

## 01. European taxonomy

However, it is probably the extra-financial criteria that lie at the heart of the problem of access to bank financing. The main reason is the growing importance of ESG requirements. The regulatory framework developed by the European Union to promote sustainable finance complicates the financing of the EDTIB. The European Commission's proposal to exclude the defence industry from the Ecolabel in 2021, once it reaches the 5% turnover threshold for conventional weapons, is a direct threat to the financing of defence companies. This lack of confidence in the defence industry is also reflected by the exclusion of Safran, Thales and Airbus from Euronext's CAC40 ESG index, planned for March 2025.

## 02. Less effective government support

In France, the export licence issued by the Interministerial Commission for the Study of War Material Exports (CIEEMG) is an essential but inadequate prerequisite for obtaining bank financing. Each bank conducts its own risk analysis, and the CIEEMG's decision is not binding. Furthermore, in some European countries - Italy, Belgium and the UK - the legality of granting an export licence has been challenged in the lower courts. The situation is diametrically opposite to the one faced by the American defence industry, where some states have a completely different perception of security issues: in 2022, Texas passed a law to exclude banks from certain bond issues if they refuse to finance the defence industry. Admittedly, the defence industry is particularly important in Texas, as it is in Florida, Washington and California.

## 03. Normative compliance

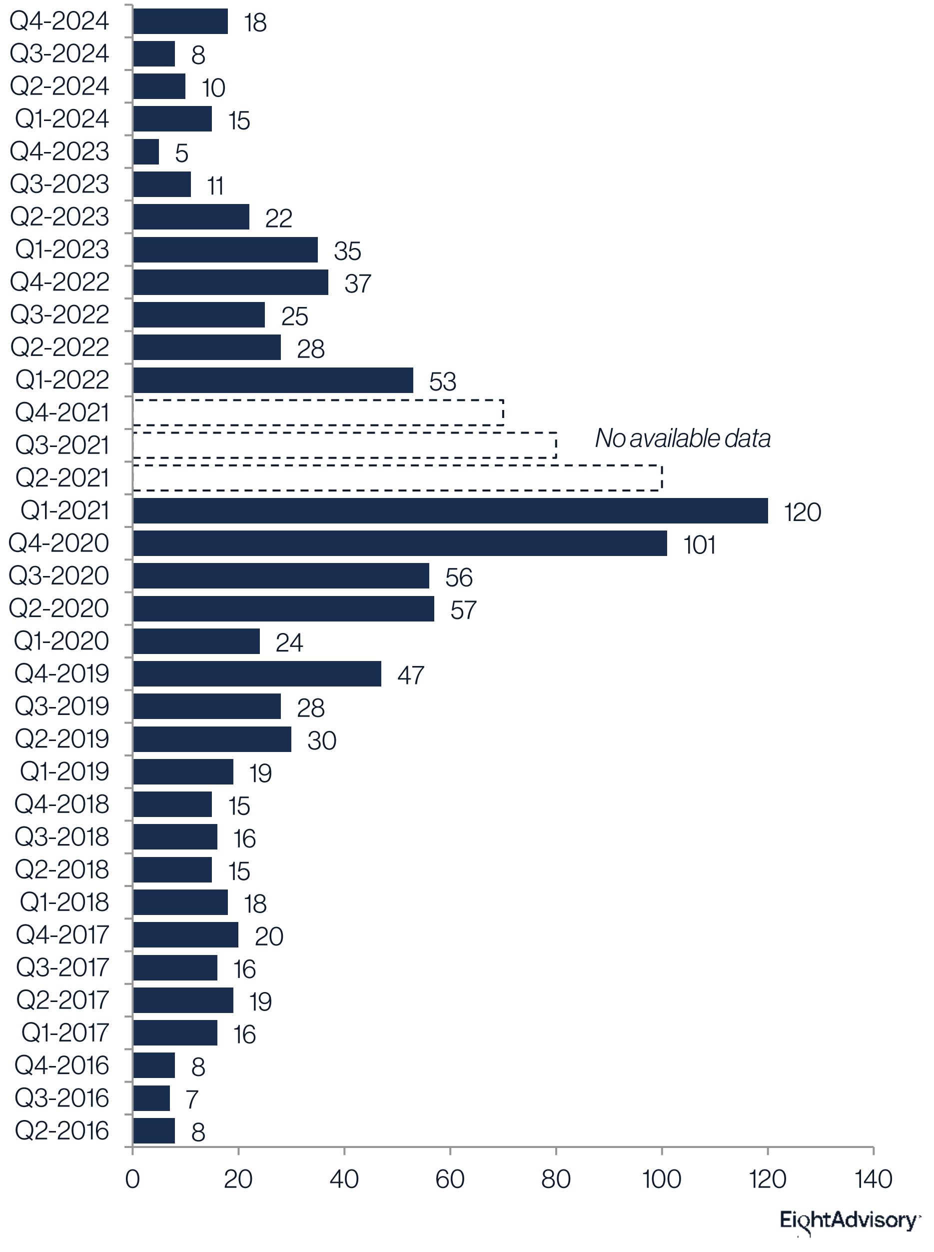
The norms and rules governing business law and international relations are not based solely on objective texts. A game of pressure and influence is played out in the grey areas of international law. The United States has strengthened its arsenal of coercive measures, using the extra-territoriality of its legal systems to block access to sensitive material and dollar denominated transactions. This is a real obstacle for investors and financial institutions, who are confronted with a major compliance risk. Moreover, a number of European banks have already suffered from the Office of Foreign Assets Control's (OFAC) reversal of jurisprudence and have been forced to pay heavy fines, reinforcing their perception of risk. In the past four years, OFAC has imposed approximately $2 billion in fines on about 30 banks.

## 04. Redirecting investments

With the European Sustainable Finance Disclosure Regulation (SFDR) coming into force in March 2021, many asset managers have placed a large proportion of their products in the most demanding categories of "green" funds (Article 6 and above). By 2024, more than 80% of Article 8 funds and over 90% of Article 9 funds will have no exposure to the defence sector. Given this momentum, it is difficult to access funding sources without meeting ESG investment funds' rules. Even though these criteria are open to interpretation, the application of quantitative filters on ESG rules often means the exclusion of defence related matters.

# Bank financing difficulties: the impact of extra-financial criteria

## Quarterly Flows of European Sustainable Funds (in billion EUR)




**Source:** Morning Direct, Manager Research, no available data for Q2-4 2021
**Note:** An increasing number of institutional investors are moving towards ESG-certified funds. This is why the classification of defence activities is a major issue.

# Private equity, a low profile player within the EDTIB

## Les fonds d'investissement sont déjà présents dans la BITDE

There are already a number of different players present in the EDTIB. Leading asset managers are already key shareholders of major defence groups: Vanguard, Blackrock, Amundi and others are investing in listed companies in the sector through mutual funds. In the USA, institutional investors are already the major shareholders of Lockheed Martin, Raytheon, Boeing, Northrop Grumman, General Dynamics... However, asset managers are generally passive shareholders who, with a few exceptions, have no role in influencing the companies' strategic choices.

For their part, private equity funds mainly target the SME and mid-tier caps. Venture capital investment remains modest, although there are signs of growing interest from early stage funds in young companies developing dual technologies. The main players in the sector are predominately anglo-saxon LBO funds: the European ecosystem is less developed (although a few names stand out, such as Tikehau Ace Capital, HLD, Weinberg Capital Partners and Expansion, when it comes to private European players). Private equity funds, and, in particular, LBO specialists are key players in the growth and consolidation of the industry, particularly among aeronautical subcontractors. More broadly, the specialisation of private equity funds allows them to bring their expertise to companies (management support, connections and familiarity with prime contractors, etc.). National public-sector players are also involved, in particular Bpifrance through its Definvest fund, as well as the European Investment Bank (EIB). Last but not least, manufacturers also have their own vehicles (Airbus Ventures, Safran Corporate Ventures, SAAB Ventures, etc.).

However, the contribution of funds remains constrained by the limited number of players willing to invest in this area. Many generalist funds still have restrictions on investing in the sector. Potential liquidity constraints on divestments are also a significant risk (Photonis and Exxelia are two such examples).

## Selected private equity (France, Germany, Netherlands) and IPO transactions

| Name | Country | Date |
|---|---|---|
| Robin Radar | 🇳🇱 | 2025 |
| KMWE | 🇳🇱 | 2024 |
| Comand AI | 🇫🇷 | 2024 |
| Group Protec | 🇫🇷 | 2024 |
| INTEC Industrie- Technik | 🇩🇪 | 2024 |
| Visco | 🇫🇷 | 2024 |
| Helsing | 🇩🇪 | 2024 |
| ARX Robotics | 🇩🇪 | 2024 |
| Scassi | 🇫🇷 | 2024 |
| Dark | 🇫🇷 | 2024 |

| Name | Country | Date |
|---|---|---|
| Quantum-System | 🇩🇪 | 2025 |
| Exosens | 🇫🇷 | 2024 |
| ODYSSEE TECHNOLOGIES | 🇫🇷 | 2024 |
| M-PLUS Group | 🇫🇷 | 2024 |
| JVGroup | 🇫🇷 | 2024 |
| Groupe JOGAM | 🇫🇷 | 2024 |
| Comand AI | 🇫🇷 | 2024 |
| Wichard (Deck Développement) | 🇫🇷 | 2024 |
| SECAN | 🇫🇷 | 2024 |
| Atssas | 🇫🇷 | 2024 |



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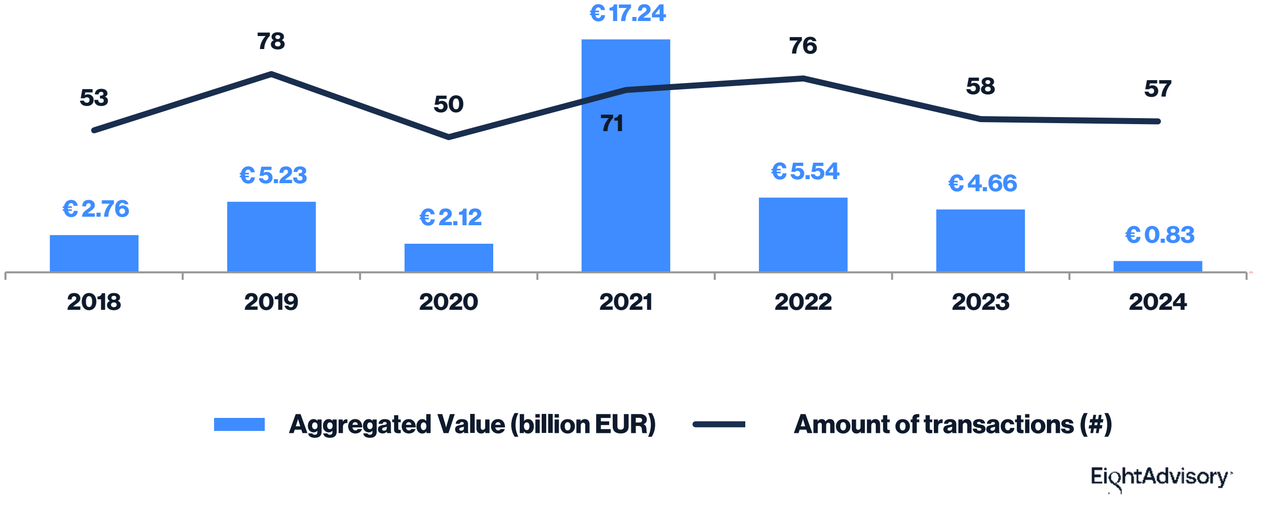
# Private equity, a low profile player within the EDTIB

**M&A in aerospace and defence in developed Europe**




**Source:** IQ Capital. Eight Advisory analysis.
**Note:** M&A transactions in the A&D sector have been falling slightly since 2022, to around 60 transactions in 2023 and 2024.

# Investment funds' contribution

## A range of financing tools at your disposal

When it comes to financing, private equity funds have a number of instruments at their disposal, such as equity contributions or shareholder loans. Numerous debt instruments can also be mobilised, such as convertible bonds or a full array of debt, from plain vanilla to more complex products, including subordinated debt.

## Transformation plan

*Private equity* funds support the management team in defining and implementing new development strategies:

- Innovation and a shift in positioning around high value-added products;
- New commercial goals (such as participation in large-scale programmes);
- Geographical diversification: funds sometimes have in-depth knowledge of certain external growths, with the aim of de-risking the business portfolio by seeking a balance between civil and defence activities, a greater variety of customers and diversification of the product and service offering.
- Modernisation of production tools, in particular to meet the challenges of the major industrial transformations currently underway (AI, digitisation, etc.).

## Critical size

The relatively small size of the players involved explains some of the difficulties faced by small and mid-tier companies in the EDTIB. It is therefore in the interest of large OEMs to participate in the sector's consolidation, in order to i) gain greater visibility with banking institutions and OEMs, and above all, ii) diversify their sources of revenue and iii) dilute their fixed costs and increase their margins. This is the case of the Rafaut Group, whose external growth strategy was financed by its majority shareholder.

## Mobility and capital allocation

A funds' presence in companies brings a fresh and sometimes less rigid perspective to capital allocation decisions. This facilitates investment decisions and, where appropriate, asset disposals, resulting in a better use of resources. EDTIB companies with private equity fund backing benefit from dynamic growth and a more attractive margin profile.

## Sector expertise

Private equity funds typically participate in the governance of the companies in which they invest. Their sector-specific expertise and knowledge of the ecosystem in which they operate enable them to play a supporting role to management. This is particularly true in the aeronautical sector, where specialised investment funds have taken the time to gain an in-depth understanding challenges and issues facing the sector, sometimes by recruiting former industrialists.

## Start-up financing

Start ups in the defence ecosystem attract a specific category of private equity funds, specialising in early-stage development or venture capital. These funds generally take minority stakes, possibly alongside individuals (founders, business angels, etc.). Corporate venture funds are also present in the capital of certain start-ups, such as Safran Corporate Ventures, which invested in Cailabs and Electric Power Systems.

# Private equity, a relatively low-key player in the EDTIB

## Moving towards innovative financing solutions?

Faced with the difficulties of collaborative programmes between manufacturers, the industry is looking at ways in which the EDTIB can be strengthened. Developing Europe's private equity is part of the solution, but it does not prevent the industry from considering alternative financing solutions to ensure EDTIB robustness and innovation capacity. NATO, for example, has considered using its status as a supranational organisation to support member states' EDTIBs, by raising debt and making the resulting room for manoeuvre available to the defence industry in the form of loans. Diverting part of household savings to finance the defence industry through a special savings account would be an easier project to implement. In France, a number of scenarios are being explored, ranging from a "sovereignty savings account" initially proposed by the French Assembly's Foreign Affairs Committee, in which deposits made to Livret A savings accounts were earmarked to finance the EDTIB. The Swedish bank SEB recently reversed its decision to exclude weapons from its investment universe. It now considers that investing in the defence industry is important "to defend democracy, freedom, stability and human rights".

## Europe at the helm

The European Union has created a framework for several initiatives, such as the Permanent Structured Cooperation (PESCO) and the European Defence Fund, both of which serve as platforms for collaborative action and funding for European defence, industrial and operational programmes.
In addition, there are other projects in the pipeline based on agreements between French, German and Italian manufacturers, such as the SCAF (next generation combat aircraft), the MGCS (new generation tank) and the Euromale RPAS (UAV). The most common form of cooperation is for certain manufacturers to contribute technological building blocks in exchange for partial financing of development costs. These cooperative ventures are an alternative to off-the-shelf equipment purchases, for countries lacking the time or technological know-how needed to develop their own programmes.

# **Eight Advisory** is a European consultancy that supports the actors of the DITB

1

### Acquisition Due Diligence

Financial due diligence provides potential buyers with greater visibility and confidence in the target company's financial performance. In particular, it ensures the reliability of the financial aggregates used to determine the target's price and focuses on the risks and opportunities associated with the acquisition..

2

### Tax Due Diligence

Similarly, tax due diligence identifies the tax opportunities and risks associated with external growth activities. It also describes the appropriate acquisition structure (debt allocation and financial burdens, and tax treatment of acquisition costs).

3

### Strategic Transformation

To reinforce the profitability analysis carried out by Transaction Services teams, we identify and quantify potential synergies across the entire value chain (sales, production, procurement, overheads). In the run-up to deal completion, we define the new integration strategy and design the target operating model, and provide management with support and action plans.

4

### Valuation & Financial Modelling

Based on the business plan developed with the Transaction Services teams, our valuation consultants model the target's free cash flows, and determine the valuation parameters. Our analysis is based primarily on the discounted cash flow (DCF) valuation method. These results are corroborated by multiples observed for comparable listed companies and unlisted peers. The analyses are conducted to help understand the value of companies based on several key parameters.

5

### Purchase Price Allocation

Depending on the company size and jurisdiction, a purchase price allocation (PPA) may be required, particularly to comply with IFRS 3. As part of a PPA exercise, intangible assets may be reported to the balance sheet if they meet three criteria (identifiable, capable of generating future economic benefits, and effectively controlled by the acquirer).



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