Portugal M&A

Moving Forward After COVID-19

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This report looks at the future of our country after a major downturn in many different sectors due to COVID-19. What are the market´s trends? Which sectors were most affected? What are the strengths of the Portuguese market?

01 Introduction

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COVID-19 profound shift.

It is now important to take a step back and analyze the M&A market's reaction on the effects of the pandemic.

The world is only now fully understanding the profound shift that COVID-19 triggered, changing societies and economies on all 5 continents.

Not unlike other countries, the lockdown caused shock waves in Portugal which short term financial measures tried to mitigate. In line with other EU economies, the Portuguese Government imposed a moratorium to the private sector on principal and interest payments on loans, allowed access to subsidized credit and State guarantees and deferred tax and social contributions.

Although effective when fulfilling its goal of safeguarding the companies´ financial sustainability, the measures did not prevent the accentuated decline on all economic activity.

It is now important to take a step back and analyze the M&A market´s reaction to the effects of the pandemic and how it changed behaviors.

This report, produced in partnership with TTR, looks at the challenging and increasingly complex environment for M&A in Portugal. The analysis presented is based on the first 12 months of COVID-19 (April 2020 – March 2021), considering the number of operations and their value, throughout different industries and sectors of the Portuguese economy.

The data behind the report tracks the response of the strongest sectors of the Portuguese economy throughout the first year with COVID-19 and has revealed new operational shifts aimed at meeting the markets fast changing needs, on sectors such as Energy, Real Estate, Financial and Insurance and Technology.

Another conclusion to be drawn from the data released is that many of the transactions point to the dynamism of the private equity segment.

On the brink of ripping the benefits of the EU fueled Resilience and Recovery Plan, Portugal should be able to get back on its path to growth. Intended to contribute to a fast recovery of the economic activity, the "Bazooka" will be the source of a massive injection of funds into the economy that should lead to greater public investments, such as in services, equipment and innovative tools required for notably the increase of digital qualification, energy and climate transition, de-carbonization of the economy, strengthening of the health system, among others.

It is expected that those investments will then naturally lead to increased opportunities for the private economy in such areas.

However, as the gradual easing of containment measures moves forward, it is still undeniable that the uncertain environment, namely around the epidemic and health measures, has continued to hold back M&A transactions.

Portugal will soon be provided with a financial lifeline and companies have here an opportunity to innovate, grow, and expand. Facing positive perspectives, the Portuguese economy needs to keep the momentum and ride the wave of the increasing activity by private capital.

This report, produced in partnership with TTR, looks at the challenging and increasingly complex environment for M&A in Portugal.

Ana Sofia Batista
Partner

José Maria Corrêa de Sampaio
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aicep Portugal Global

Investing & Innovating in Portugal

Portugal, today, is widely recognized as a competitive, innovative, and attractive destination for business and investment, throughout many different economic sectors. During the past years, Portugal showcased to the world its capabilities not only in the areas of Industry, Trade and Tourism, but also in the Services Industry, with increasing exports in volume and value and attracting systematically further high value-added investment.

Despite the pandemic effects on the world economy, over the last years Portugal has had the capability to position itself as a preferred destination for Foreign Direct investment projects, due to our unique and valuable set of competitive factors, namely and above all due to our Talent pool. We have witnessed that Foreign Direct investment in Portugal has risen not only in number of projects but in value. By October 2021, the historical record of investment contracted by AICEP (in 2019) had already been surpassed, reaching € 1.233 million.

Furthermore, Portugal is showing a strong business case as a leading innovation hub. The Portuguese Academia and the Knowledge developed by all the Research and Development Centres must be mentioned as an important source of talent and for developing products for a highly competitive and demanding market. The Digital transition that the country is experiencing, out of the pandemic, with more and more services and products being developed to allow for a more secure usage on our daily life, also shows the local capability to adjust and create knowledge with a global footprint. Also, it is worth mentioning the role of the "Start-up" ecosystem, as some of these star companies have been receiving significant investment from international investors and as a key source for partnerships. With more than 2.000 Start-ups created in 2020, they represent an increasing tool for the development of local innovation with a global impact.

Portugal has a highly skilled talent pool, a multilingual and cosmopolitan working environment, strong training and knowledge networks and a very stable business and lifestyle environment. Our strategic location and transport infrastructures make Portugal a gateway for Europe and ensure full and easy integration in the European market for companies from other geographies, such as the United States or Canada. On top of that, and due to our historical and cultural connections with other Portuguese speaking countries such as Angola, Mozambique, Brazil, or Macao we are also a gateway to Africa, America, and Asia.

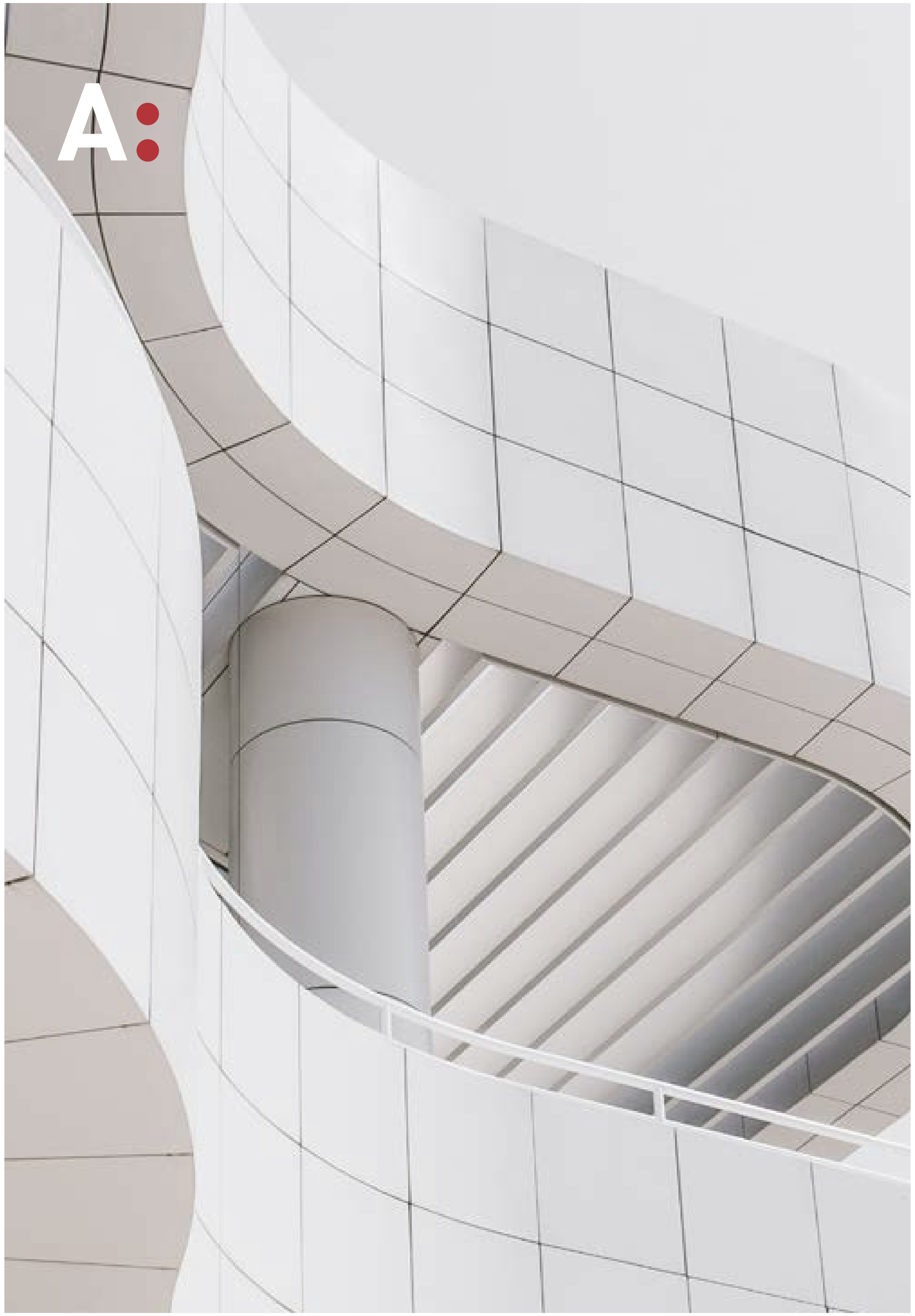
Portugal has the 3rd highest rate of Engineering graduates in the EU, ranks 7th in the English Proficiency Index 2020 and has one of the highest levels of peace and stability – 4th in Global Peace Index 2021. Investors recognize the importance of these factors, namely the very low risk presented by our country in different areas such as Governance or socio-economic vulnerability. The absence of these risks is increasingly gaining importance in the companies' decision-making process as the trend for secure locations is becoming the norm.

AICEP, as the Portuguese Trade and Investment Agency, plays an important role for investors looking for a new location or, if already based in Portugal, seeking to expand their operations. We work as a single point of contact in all phases of the investment, providing key market information and liaising with all relevant local stakeholders, with a tailored support in the setup phase and after the kick-off of operations.

During this year, and always taking into consideration the difficult times that our country and the world are going through – it is with great pleasure that we welcomed to Portugal newcomers from different nationalities, with a common feature to them all, all being high added value projects. We are happy these investors chose Portugal ahead of other world destinations and I am honoured to say that Portugal, nowadays, is increasingly recognized as an important destination for the establishment of innovative projects.

We are aware of the challenges that lay ahead, but believe Portugal and the Portuguese people are showing their unique talent and capacity to overcome them, presenting a competitive location for some of the most innovative and challenging projects that these great companies are developing.

Luís Castro Henriques
Chairman & CEO of AICEP -
Portuguese Trade & Investment Agency



The aggregate value of M&A deals in Portugal rose 15% between April 2020 and March 2021, which speaks volumes on the Portuguese road to recovery.

02 Portugal M&A

2.1. PORTUGAL M&A I SNAPSHOT

The coronavirus pandemic had a severe impact on the Portuguese and global economy, as predicted.

Deal volume in M&A markets in Portugal fell 21% between April 2020 and March 2021.

The coronavirus pandemic had a severe impact on the Portuguese and global economy, as predicted. M&A markets went through various stages: transactions that were immediately canceled, others that were suspended and resumed several months later, and others that simply dragged on. All of this led to the deal volume in Portugal falling 21% between April 2020 and March 2021 (ONE YEAR with COVID-19), comparatively to 2019, when deal volume increased 26% over 2018.

Notwithstanding the accentuated decline in deal volume, the aggregate value of M&A deals in Portugal rose 15% between April 2020 and March 2021, in comparison to full-year 2019, which speaks volumes on the Portuguese road to recovery.

State aids aimed at companies are essential for a steady recovery of the Portuguese economy. The levels of indebtedness have grown significantly and many companies have benefited from formal or informal moratoria, as well as from the tolerance of many creditors (particularly banks) that are now finally starting to get paid or that cannot wait much longer to be paid. Even so, moratoria are likely to be maintained for a considerable time period and be gradually reduced. Two interests must be taken into account: support those benefiting from moratoria, but also their creditors.

How ONE YEAR with COVID-19 impacted the overall deal flow in Portugal by aggregate value (€m)

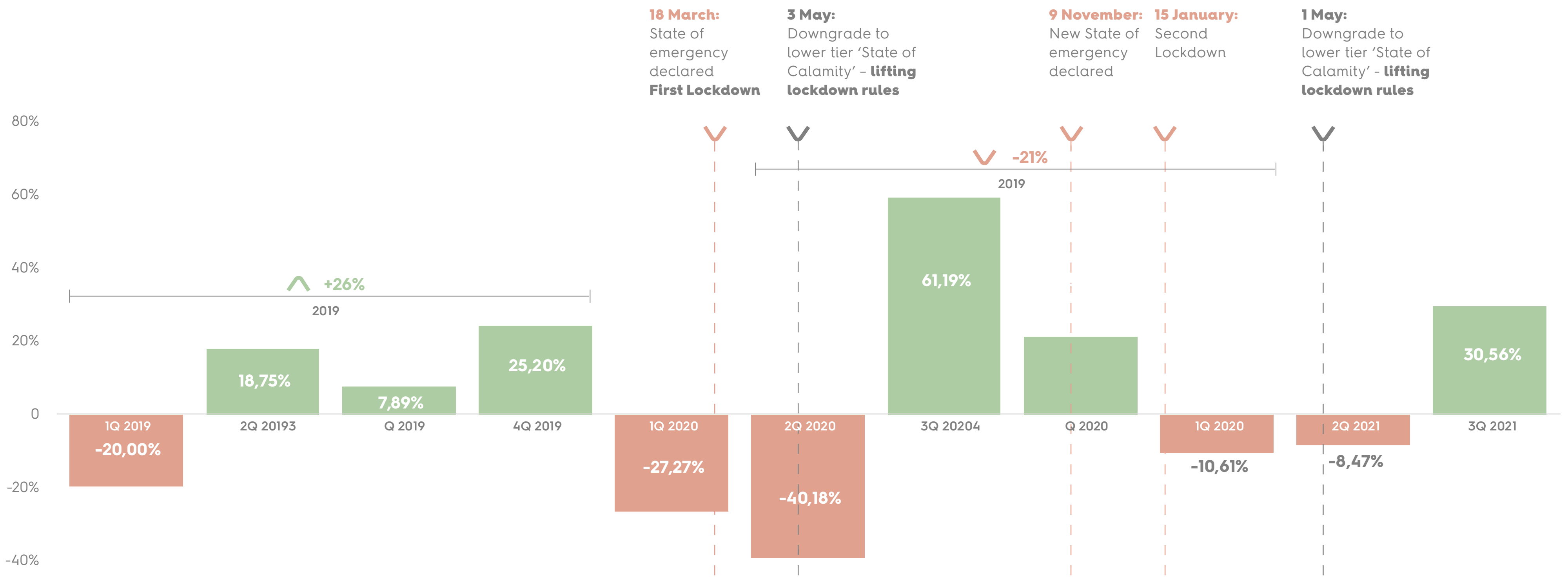
+15%

Increase in aggregate value of M&A deals in Portugal

Aggregate value of M&A deals

Notwithstanding the marked decline in deal volume (total number of M&A deals), the aggregate value of M&A deals in Portugal rose 15% between 1 April 2020 and 31 March 2021 (ONE YEAR with COVID-19), in comparison to full-year 2019.

The impact of ONE YEAR with COVID-19 on the Quarterly M&A Growth rate by deal volume



In addition to what´s happening throughout EU member states, Portugal will benefit from an economic boost with the Recovery and Resilience Plan. For Portugal, nearly €14 billion of the budget has been earmarked to be executed until 2026, plus €2,7 billion in grants, with the possibility for the country to borrow more if it so wishes. This lifeline has already started flowing and companiesmust move fast when matching the requirements imposed by the access of these strategic funds. Portuguese companies are now facing the unique chance to reposition their business operations and grow.

But, even so, the massive injection of funds into the economy should lead to greater public investments, such as in services, equipment and innovative tools required for the increase of digital qualification, energy and climate transition, de-carbonization of the economy, strengthening of the health system, etc. Those investments will then naturally lead to increased opportunities for the private economy in such areas.

From a private perspective, companies must adjust themselves to the "new normal" imposed by the coronavirus. Even though the pandemic swept away many of the artificial barriers to live and transact online, the fact is that companies still have to invest in high tech and qualification of their personnel and continue this new normal of virtually meeting, discussing, negotiating and closing transactions.

This will certainly create interesting opportunities for businesses already having the required know-how on how to deal with this new normality of processes. Governments must keep in mind that private companies are the entities generating wealth, employment, economic growth and paying taxes and that they should let them normalize their activities and grow.

From a private perspective, companies must adjust themselves to the "new normal" imposed by the coronavirus.

-21%

Deal volume in M&A markets in Portugal

Deal volume

Total number of M&A deals in Portugal fell 21% between 1 April 2020 and 31 March 2021 (ONE YEAR with COVID-19) relative to full-year 2019, when deal volume increased 26%.

2.2. ATTRACTING FOREIGN INVESTMENT

The Portuguese M&A reality is aligned the global trend.

Portugal is increasingly positioned on the international business stage.

Dealmaking across the globe continues to break records, as investors take advantage of positive market conditions to deploy capital at an accelerating pace.

The Portuguese M&A reality is aligned with global trend and, although there are still doubts about the sustainability of the value growth, Portugal is increasingly positioned on the international business stage. In a year of pandemic crisis, Portugal entered the top 10 of the most attractive countries for Foreign Direct Investment (FDI).

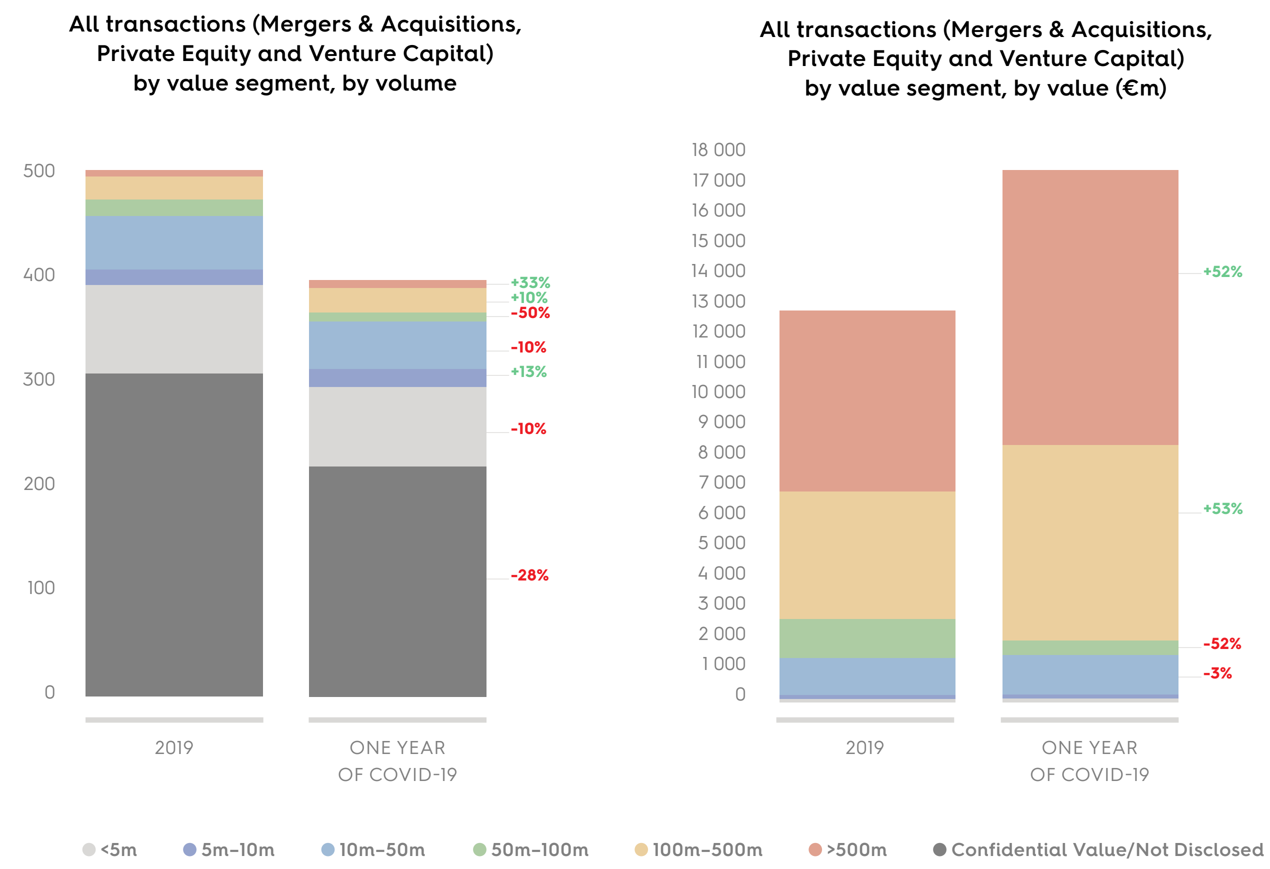
The turmoil and uncertainties caused by the pandemic in 2020 caused the attractiveness of FDI in European countries fell by 13% compared to the previous year. Nevertheless, in Portugal, 154 FDI projects were announced, which represents a slight decrease of 3% compared to the 158 registered in the previous year, according to AICEP (Portugal´s Trade & Investment Agency).

Large transactions took a higher share of overall deal volume and a much larger share of aggregate deal value in Portugal between April 2020 and March 2021. In comparison with a full-year 2019, with deals valued between €100 million and €500 million growing by 53% as a share of aggregate value and deals valued over €500 million growing by 52%.

We all know that Spain, the US and the UK have led inbound M&A in Portugal by deal volume since 2016. However, while still leading inbound deal volume between April 2020 and March 2021, transactions originating from Spain and the US fell by 27% and 54%, respectively, over a full-year 2019, with a similar decline in inbound deals originating in Germany and Luxembourg of 53% and 50%, respectively.

Nevertheless, inbound deal volume led by buyers based in the UK, France, the Netherlands and Switzerland increased by 10%, 63%, 33% and 25%, respectively.

Relative share of overall deal volume and aggregate value by transaction size (ONE YEAR with COVID-19 versus 2019)



+52%

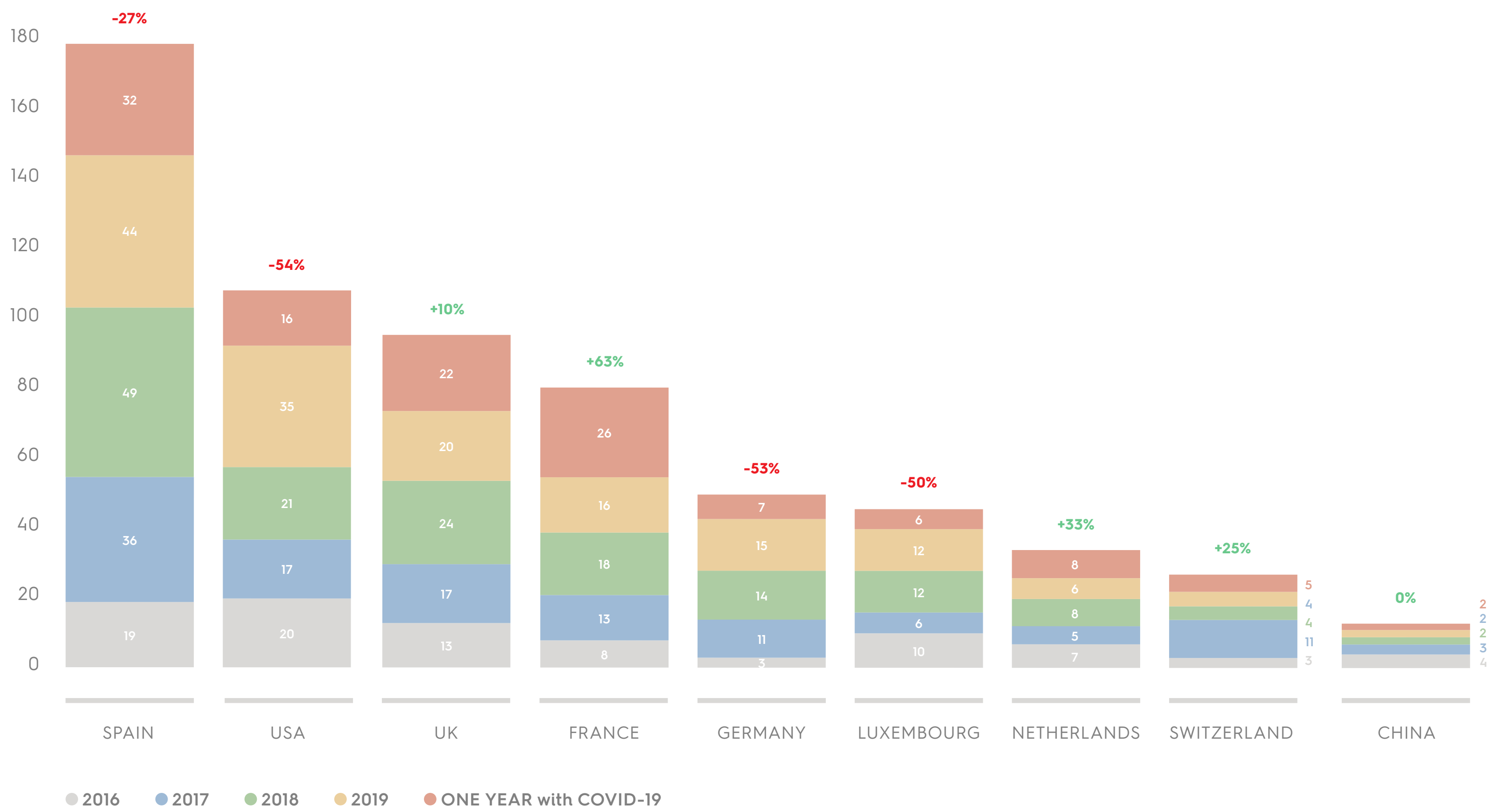
Share of aggregate deal value growth of deals valued over € 500 million

Large transactions in Portugal

Large transactions took a larger share of overall deal volume and a much larger share of aggregate deal value in Portugal between 1 April 2020 and 31 March 2021 (ONE YEAR with COVID-19) relative to full-year 2019, with deals valued between € 100 million and € 500 million growing by 53% as a share of aggregate value and deals valued over € 500 million growing by 52% as a share of aggregate deal value.

Leading source markets for inbound M&A deals in Portugal by deal volume (2016-2019 and ONE YEAR with COVID-19 (1 April 2020-31 March 2021))

Most Active Foreign Investors by country of origin, by volume of acquisitions



By the end of 2020, the European Union was the main source of Foreign Direct Investment (FDI) in Portugal in accumulated terms, especially at the intra-community level, namely: Netherlands (20,8%), Spain (20,6%), Luxemburg (18,2%), France (7,9%), United Kingdom (6,2%), Germany (3,5%), Switzerland (2,0%). Among extra-community countries, China (1,8%), Angola (1,4%) and Brazil (1,4%) stand out.

After a significant drop in 2020, foreign investment is expected to recover faster than in previous cycles, although in 2022 it is expected to remain below levels recorded in 2019. Gross fixed capital formation (GFCF) fell by 8,4% in 2020, reflecting the sharp fall in the business component, and should grow 4,4% in 2021 and 5,2% in 2022, according to AICEP.

It's difficult to anticipate how the Portuguese M&A sector will react in 2022, taking into account the breadth of risks and opportunities. The first semester of 2021 shows a positive evolution when compared with 2020, with an increase of the value of M&A transactions, however, the third quarter of 2021 shows a slowdown in value, although not in volume.

The Portuguese economy is under enormous pressure to grow, particularly in certain sectors, and this will certainly create very attractive M&A opportunities for players wishing to enter or reinforce their position in the market.

Players wishing to implement M&A transactions need to be prepared and organized to deal with a volatile and digital market, surround themselves with legal, technical and financial consultants, become familiar with the new normality of processes and adjust their expectations to this "new normal".

+63%

Inbound M&A from France between 1 April 2020 and 31 March 2021

Inbound M&A in Portugal

Spain and the US have led inbound M&A in Portugal by deal volume (total number of M&A deals) since 2016. While still leading inbound deal volume between 1 April 2020 and 31 March 2021 (ONE YEAR with COVID-19), transactions originating from these two countries fell by 27% and 54%, respectively, over full-year 2019, with a similar decline in inbound deals originating in Germany and Luxembourg of 53% and 50%, respectively. Inbound deal volume led by buyers based in France increased by 63%, meanwhile, while inbound deal volume from the Netherlands increased by 33% and from the UK by 10% over full-year 2019.

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2.3. IMPACT ON TOP SECTORS

Healthcare and Technology proved the most resilient sectors.

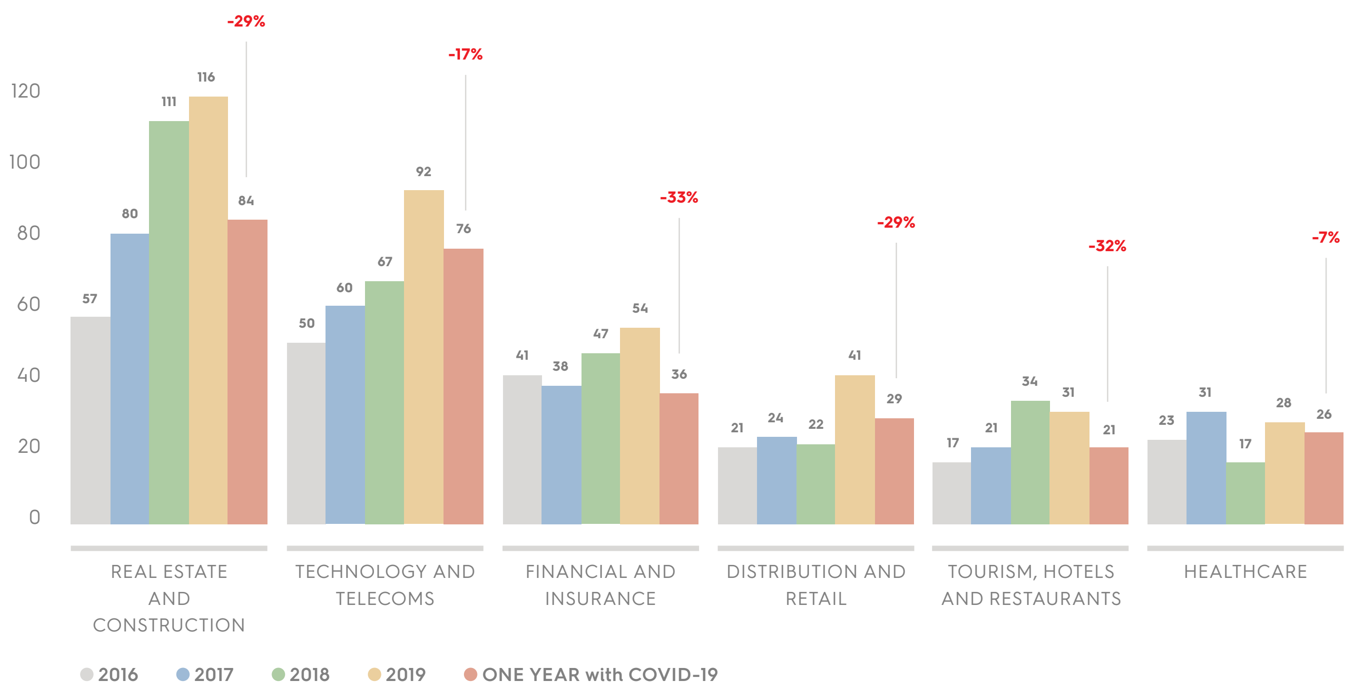
The deal volume fell only 7% and 17%, respectively, over a full-year 2019.

-30%

Decline in transactional activity between April 2020 and March 2021

How ONE YEAR with COVID-19 impacted M&A volume in the Six Most Active Sectors in Portugal

Most Active Sectors in M&A, by volume



Throughout the year with COVID-19, the most active sectors in M&A, by volume, were Real Estate, Technology and Telecommunications, Financial Services and Insurance, Distribution and Retail, Tourism Hotels and Restaurants and Healthcare, even though they registered a decline in transactional activity between April 2020 and March 2021, most in the order of 30%.

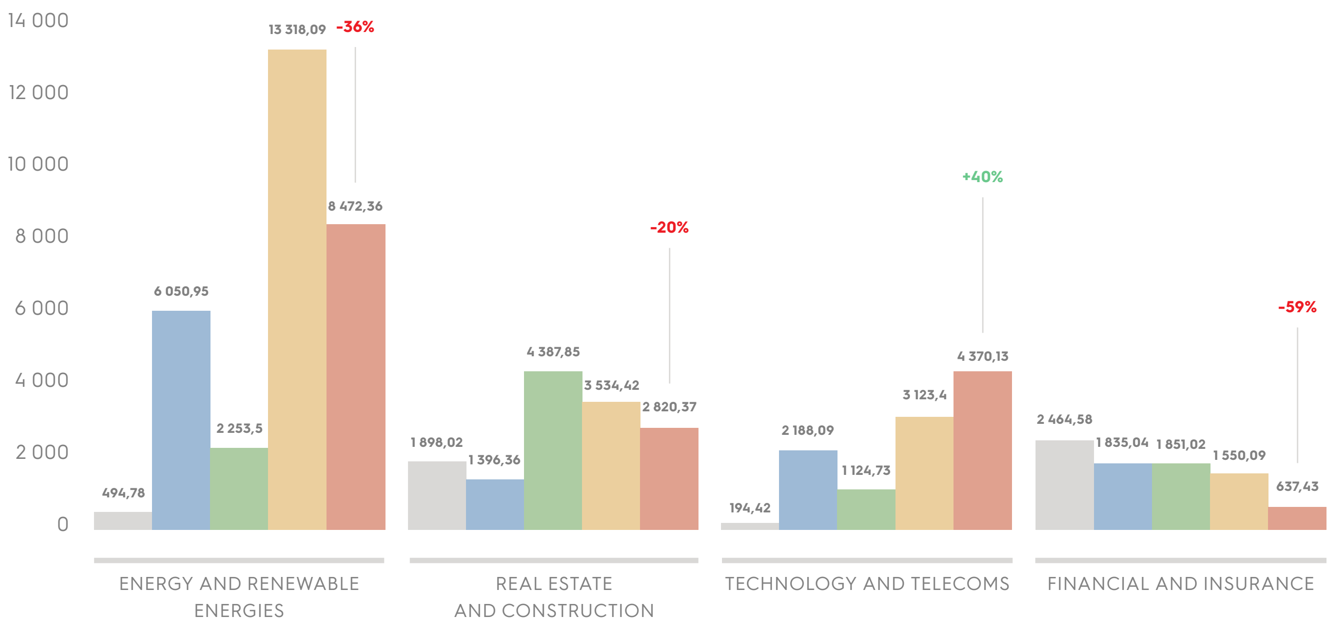
Healthcare and Technology proved the most resilient, however, with deal volume falling only 7% and 17%, respectively, over a full-year 2019.

Sectors such as tourism, Tourism, Hotel and Restaurant were decisive in the growth of Portuguese economy and the recovery of the crisis of 2011-2014, and later followed by real estate. Companies in the agribusiness, logistics, transport, services, finance, construction, among others, also benefited from such growth, reason why the M&A activity in such sectors faced a very significant increase in the last few years in the country.

Sectors such as tourism, hotel and restaurant sectors were decisive in the growt of Portuguese economy and the recovery of the crisis of 2011-2014.

How ONE YEAR with COVID-19 impacted in the Six Most Active Sectors in Portugal (€m)

Most Active Sectors in M&A, by value



Recent years, however, show a slightly different picture, with energy, and more and more renewable energies, and technological companies taking the lead, with private equity playing a key role on seeking the advantages of size and scale to companies in various sectors, always considering ESG risks and, naturally, opportunities.

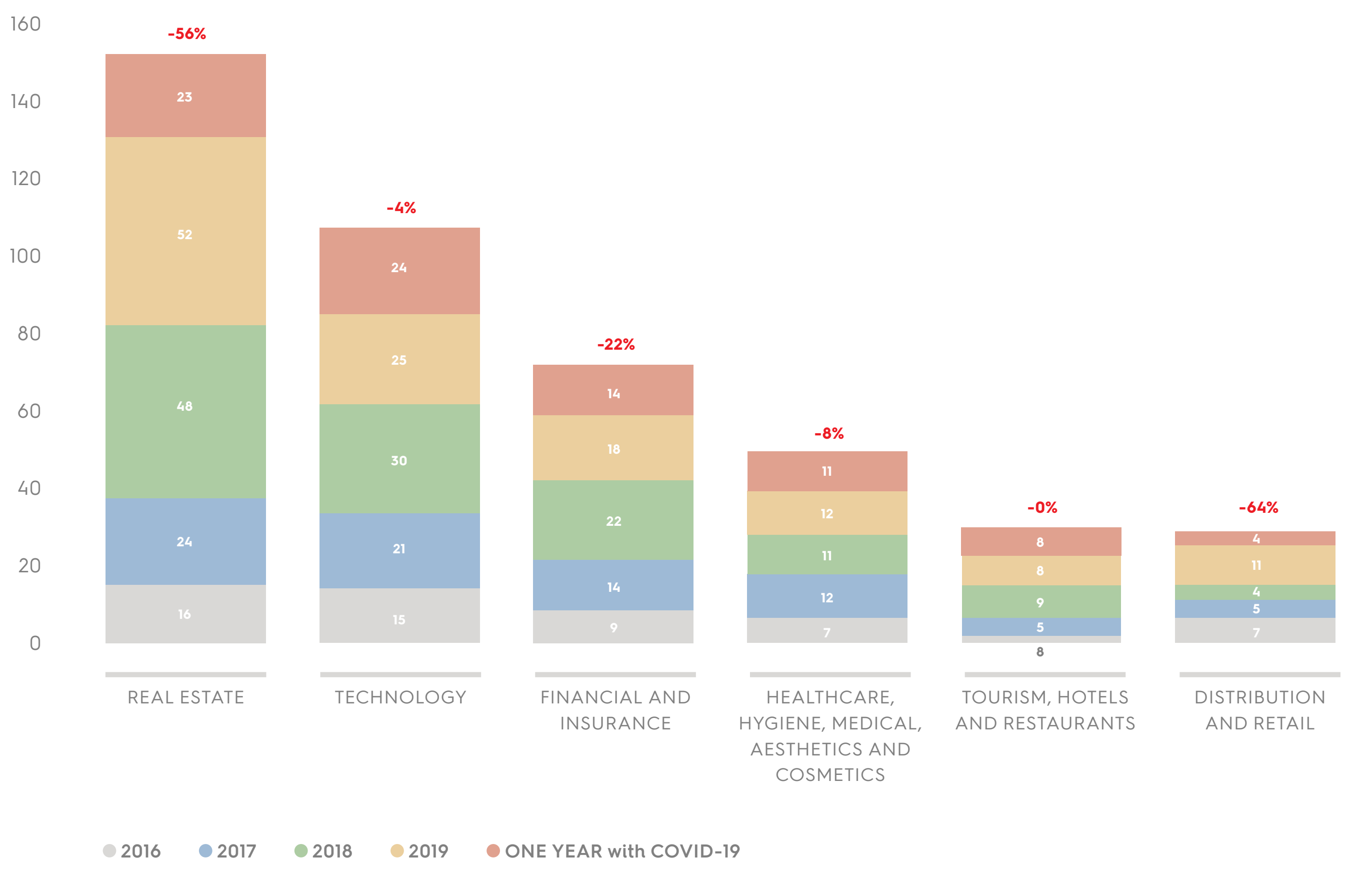
Despite a drop of 36% in deal value in ONE YEAR with COVID-19 over a full-year 2019, the energy sector is, without a doubt, the sector with the best performace in the past years in M&A transactions. In the technology sector, the only sector in the top 4 of deal by value with an increase (+40%), it is clear the dynamism of an increasingly digital economy, but also of the Portuguese startup ecosystem.

+40%

In the Technology sector

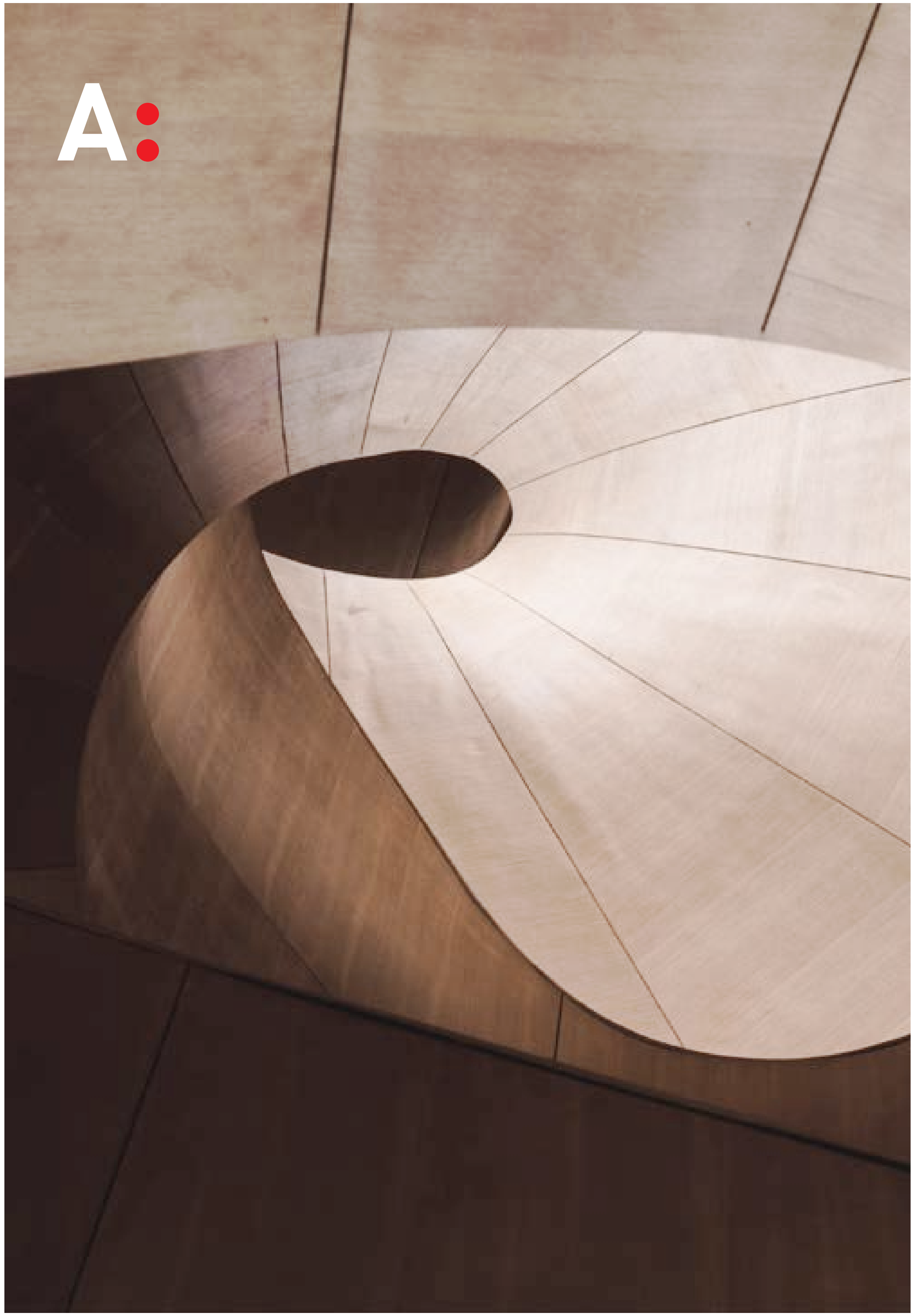
How ONE YEAR with COVID-19 impacted the deal volume in the Six Most Active Sectors in Portugal

Most Active Sectors for foreign investment, by deal volume



Most Attractive Sectors for Foreign Investment, by countries – TOP 3

Real Estate			
2019		**Apr 2020/Mar 2021**	
Country	**No. deals**	**Country**	**No. deals**
United States	13	United Kingdom	6
Spain	12	France	6
United Kingdom	5	Spain	3
Technology			
United States	8	United States	7
United Kingdom	5	United Kingdom	6
Germany	3	Switzerland	3
Financial and Insurance			
United States	5	United States	5
Luxembourg	3	Luxembourg	3
Spain	3	Spain	3
Healthcare, Hygiene, Medical Aesthetics and Cosmetics			
Spain	4	Spain	4
United States	3	United Kingdom	2
Luxembourg	2	United States	2
Tourism, Hotels and Restaurants			
Spain	2	United Kingdom	2
Germany	2	France	2
United States	2	Spain	1
Distribution and Retail			
Spain	5	United Kingdom	1
Canada	2	Netherlands	1
United Kingdom	2	France	1



The four Sectors that stood out positively during the COVID-19 period. All showed resilience during difficult times and a futuristic outlook.

03 Top Sectors in Detail

3.1. ENERGY

The world commits to a global de-carbonization of the economy.

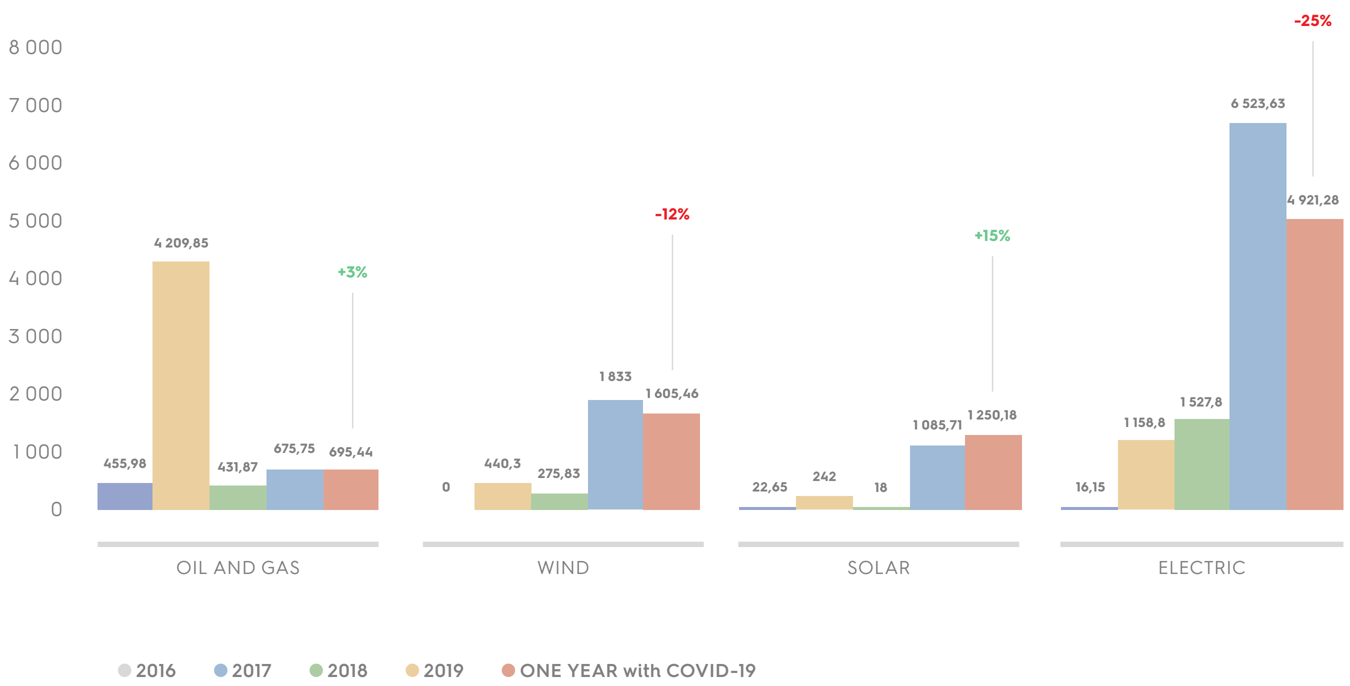
Portugal continues to have a favorable position in terms of business opportunities in the renewable energy sector.

65,2%

Of the electricity generated in Portugal came from renewable sourcesdriving Portugal to the forefront of the energy self-sufficiency race

How ONE YEAR with COVID-19 impacted the aggregate value of M&A deals in Portugal's Energy Sector (€m)

Most Active Subsectors for M&A in the Energy Sector, by value (€m)



Global M&A transactions market continues to experience unexpected growth across regions and sectors. Investors are still cash-rich and debt financing at affordable rates remains readily available. Special purpose acquisition companies (SPACs) are driving up deal multiples, competing against strategic buyers and private equity (PE) groups for technology-centric energy-transition assets. A wide range of sustainability matters are now clearly impacting or being considered in the way some investors assess potential M&A deals and share capital as a result of the fast-evolving ESG agenda.

As the world commits to a global de-carbonization of the economy, Portugal continues to position its business opportunities aiming at renewable energy, including solar, onshore and offshore wind, and soon hydrogen, besides the strong already installed hydropower capacity. Due to the country's geographical location, weather and a reasonable taxation stability, Portugal remains attractive for foreign investment.

Between October 2020 and September 2021, the top 3 largest M&A deals in Portugal include the Onex Renewables investment on a wind power portfolio in a deal worth over €500 million. In total, the Top 6 deals moved over €1 billion in renewable energy M&A transaction. These numbers mirror the renewable energy production scenario in Portugal, which is very fragmented and includes producers of different scale.

Portugal was among the first countries in the world to set 2050 carbon neutrality goals. Its ambitious National Energy & Climate Plan for 2021-2030, also known as PNEC 2030, is aiming for renewable energy to deliver 47% of gross final energy consumption. According to APREN (the Portuguese Renewable Energy Association), from January to August 2021, 38.418 GWh of electricity were generated in Continental Portugal, from which 65,2% came from renewable sources, driving Portugal to the forefront of the energy self-sufficiency race.

Today´s politically charged ESG agenda has also been a driving force in calling for businesses to take a much deeper approach to assessing assets and deciding where to allocate capital. Naturally, the "Bazooka" (Recovery and Resilience Plan) places great effort in the decarbonization of the Portuguese economy, focusing in particular on renewable energy. Under the Climate Transition chapter, over €3,5 billion should be allocated to the Sea, decarbonization of Industry, Sustainable Bio-economy, Building Energy Efficiency, Hydrogen and Renewables and Sustainable Mobility, which will certainly deliver large scale M&A deals.

Simultaneously, Portuguese companies have a unique opportunity to grow outside its borders, either by joining forces with others to access other Member State bazookas or by building up their presence in such markets. This encouraging context, coupled with plentiful capital and an economy emerging from the pandemic will continue to drive strong M&A activity in 2022.

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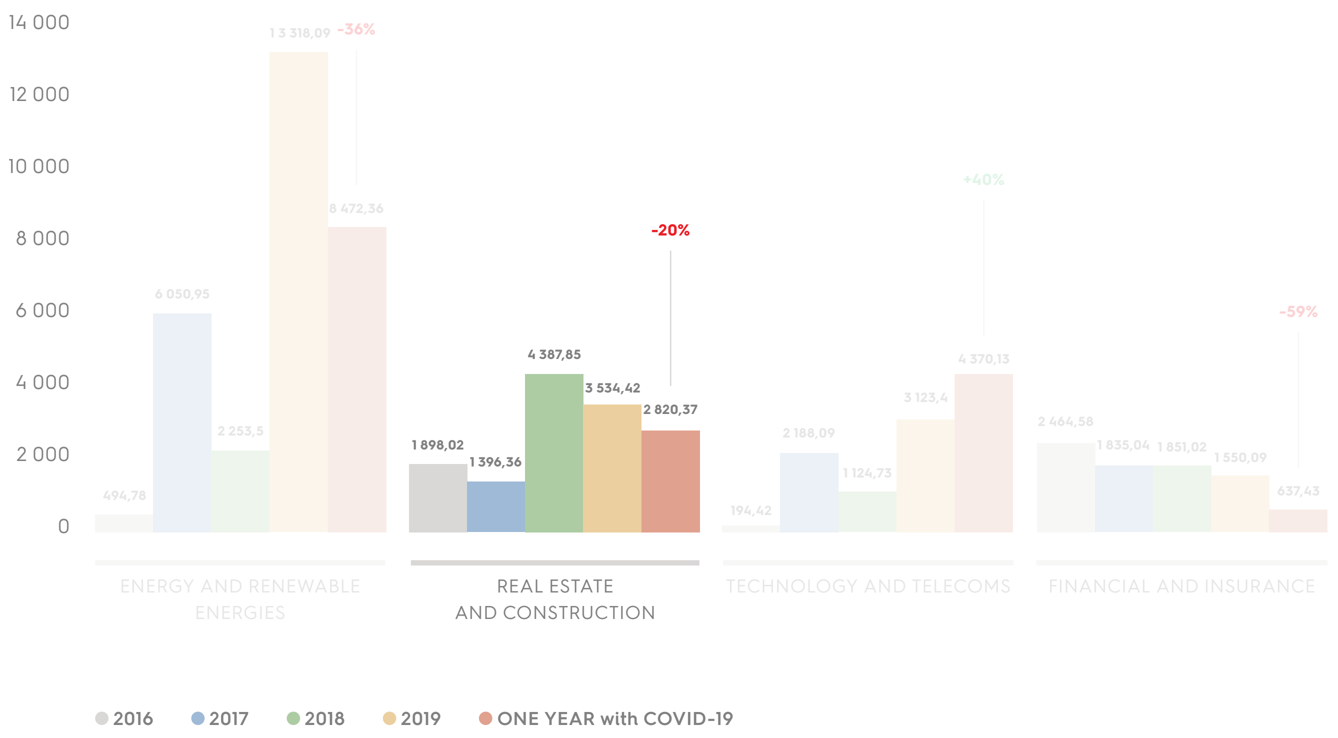
3.2. REAL ESTATE AND CONSTRUCTION

COVID-19 changed priorities for the real estate sector.

It is critical to continue to redesign and restructure future spaces in light of the adversities that COVID-19 has brought along.

How ONE YEAR with COVID-19 impacted the aggregate value of M&A deals in Portugal's Real Estate and Construction Sector

Most Active Sectors in M&A, by value (€m)



The uncertainty registered in M&A, undoubtedly shifted priorities for the real estate sector. During April 2020 and March 2021, inbound M&A in Portugal's Real Estate sector fell 56% – from 52 operations in 2019 the period here in consideration only registered 23 –, only behind the steepest decline registered by the Distribution and Retail sector, where inbound deal volume fell 64% – 11 operations in 2019 to 4 during ONE YEAR with COVID-19. Nevertheless, investment funds were the key factor in the sector´s recovery with players such as Tikehau, Memoryzoom and Insight Partners closing a combined €1 billion in deals, in various sectors such as residential and commercial.

Undeniably, the pandemic has forced millions to work from home, closed retail stores and accelerated structural changes impacting three mainstay sectors of the real estate world – office, retail and hospitality.

As companies adapted to a new reality, office spaces required a reevaluation. Remote working is now a reality, leaving companies with empty space and, simultaneously, the need to create networking and team building common areas in order to promote staff engagement. The traditional office space is now offering less desk space and is reinventing itself aiming at the companies of the future.

Commercial real estate properties have also had to (re)shift their offer following consumers turning to e-commerce, leaving shopping centers empty.

With online retailers booming drastically during the pandemic, brands and traditional retailers were forced to rethink its consumer experience. Whilst families fled from closed spaces, retailers started seeking properties in urban areas in order to provide the required safe shopping experience and, consequently, started rescaling its retail space planning.

In spite of struggling to adapt to the new post-COVID-19 consumer era and way of doing business within the Retail sector, there is a silver lining: it is fundamental to keep redesigning and restructuring future retail activities, including the expansion or reconversion of commercial areas into new warehouses – which are benefitting from relatively stable demand.

Tikehau, Memoryzoom and Insight Partners closed a combined billion in real estate deals.

At the same time, with the explosion of data being generated and processed due to the increase of remote connectivity platforms, Portugal has taken its first steps in creating infrastructures to allow the biggest players in data transmission to invest in Portugal, such as Ellalink. The Sines Tech – Innovation & Data Center Hub – €150 million project - created the largest renewable data center campus in Europe and promises to attract similar investments in the next 5 years.

In the tourism and hospitality sector and nearly 24 months after the first safety regulations and restrictions were put in place, worldwide travelers are now packing their bags once again. Although restrictions have delivered a hammer blow to global tourism, the hotel industry has proven to be resilient and is on track to a full rebound. Investments in the hotel industry are expected to keep rising in Portugal with international hotel chains scheduling new hotel openings in Portugal until 2023.

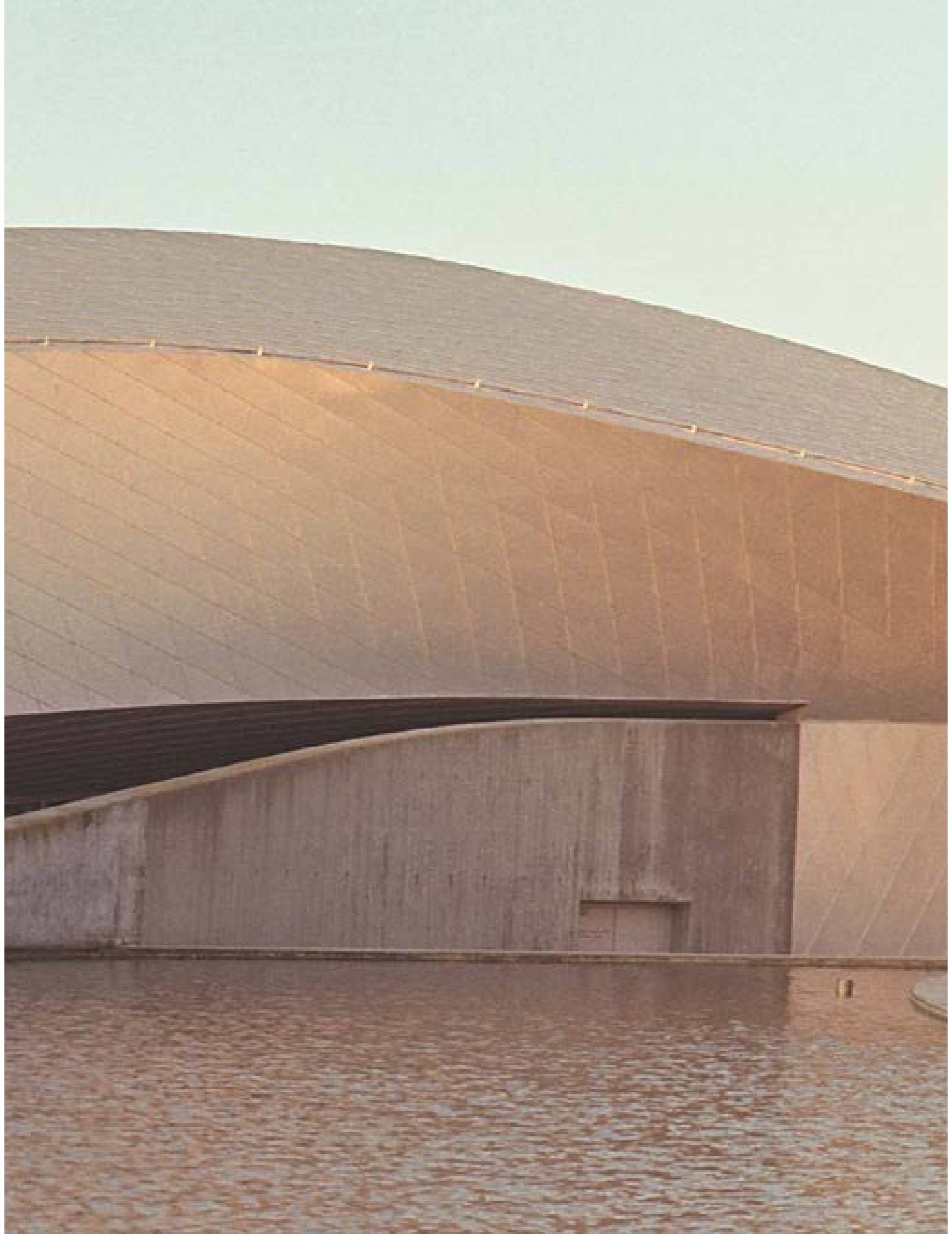
According to CBRE's most recent EMEA Investor Intentions Survey 2021, Lisbon has been ranked as the 10th most attractive European city for real estate investment in 2021.

In 2022, residency permits to live and work in Portugal such as the Golden Visa and Non-Habitual Resident schemes will be changing its criteria in order to focus on the real estate development of interior regions. With Portugal expected to continue registering one of the highest rise in property prices in European countries, the Portuguese real estate market will remain a safe long term investment bet to foreign investors.

Shared by all sectors is a clear shift that redirected many investors operations and their strategy towards a green energy and sustainable reality. Businesses in need of adapting their business models due to decreased usage of space have forced the creation of innovative legal and contractual schemes to allow, for example, the installation of sustainable energy production schemes over buildings. The real estate sector understood that cross areas assistance is essential in order to maintain its status as one of the most attractive sectors.

Forced by the pandemic and soon part of the real estate general panorama are new contractual dynamics such as "operational leases" and REaaS (Real Estate as a service), which represent a more customer-focused approach and bring flexibility to a sector that has managed to present itself as a strong investment bet. In this scenario, we expect 2022 to accelerate key trends already in play, namely banks and clients seeking for financing of construction and operation of real estate projects and investors expecting some level of distress and are on the lookout for bargains.

Lisbon has been ranked as the 10th most attractive European city for real estate investment in 2021. With Portugal expected to continue registering one of the highest rise in property prices on European countries, the Portuguese real estate market will remain a safe long term investment bet to foreign investors.



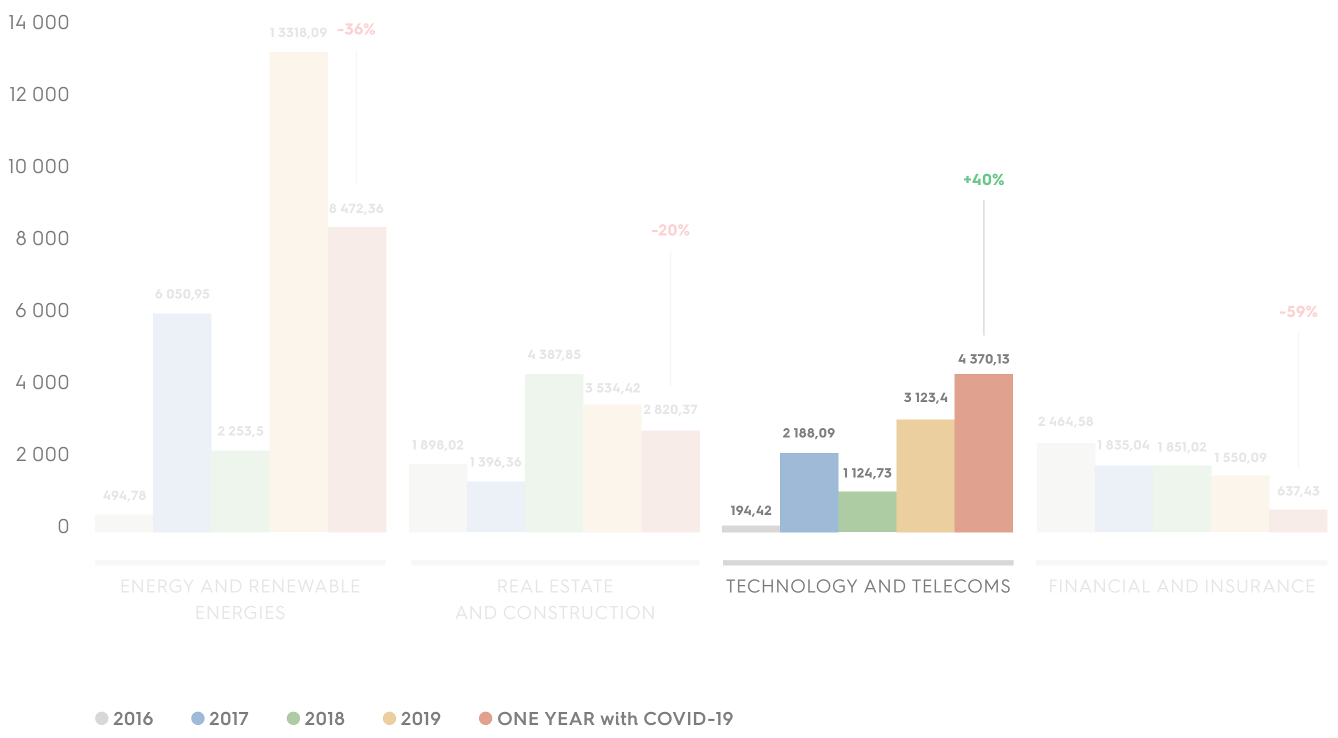
3.3. TECHNOLOGY AND TELECOMMUNICATIONS

Technology sector proved to be resilient.

TMT activity has consisted mainly of it being a driving force in the digital revolution in the work place and e-commerce.

How ONE YEAR with COVID-19 impacted the aggregate value of M&A deals in Portugal's Technology and Telecommunications Sector

Most Active Sectors in M&A, by value (€m)



The Portuguese M&A market, between April 2020 and March 2021 (ONE YEAR with COVID-19), shows that Telecoms, Media and Technology deals (TMT) continue to outperform the market, with the value of deals up by 40%. In fact, the Technology sector proved resilient, with 24 inbound deals, only one deal less than in full-year 2019.

TMT activity has consisted mainly of it being a driving force in the digital revolution in the work place, e-commerce growth and media conglomerates expanding to streaming platforms. U.S. companies have been the main investors. Many of the deals registered, are focused on software or software-enabled technologies, often powered by the latest advances in AI, analytics and deep tech. We've also witnessed a shift to cloud/ as-a-service models and the increased use of automation.

In bringing these new solutions to market, companies have three basic options: (i) build the technology (ii) buy it through M&A deals or otherwise license it from others (iii) collaborate with others through joint ventures or alliances.

Furthermore, in Europe, the EU's General Data Protection Regulation (GDPR) has driven the agenda on inventing new ways to legally monetize the use of data and to improve the user's experience.

Big data transfers will continue to raise concern given the uncertainty surrounding the legal framework. Economically, it would make sense to store data in one central server farm. Nonetheless, the legal issues around international transfers of data and the increase in data localization requirements may have big cost implications and creates significant complexity for those designing data governance processes and systems architecture.

Whilst responding to the market´s needs of urgent digitalization, the Portuguese TMT sector recently saw its sixth unicorn Sword Health raise €143 million and cemented the country´s position as a Europe´s Silicon Valley. Attracting both companies and talent, the recently announced Europe Startup Nations Alliance – a Portuguese initiative – will support 26 EU countries and Iceland in creating domestic conditions for the flourishing of startups, increasing access to capital.

Since June 2021, Talkdesk, Feedzai, OutSystems have moved over €500 million in private equity investments. This is not only reflection of Portugal´s ability to create a positive environment aimed at talent retention, but also reflects the ongoing digitalization of the Portuguese economy.

Technology-focused transactions have proven far more resilient than those in other sectors, thanks in part to the way the pandemic has accelerated the adoption of technology right across society – from online shopping, to banking, telemedicine and tools to facilitate remote working. In the aftermath of the pandemic, connectivity is a particular focus, as players seek to bring increasingly powerful services to market, such as workplace collaboration tools.

In particular, we will see technology and SaaS transforming banking and financial services, shaping the future of financial institutions and services, weather in payments, services or enabling institutions to globally expand. Buyouts of companies developing software that will force innovation; transforming traditional business models and processes will likely be in the horizon for the near future.

Noteworthy, the 5G Technology, despite its delays blamed on successive postponements of frequency auctions due to the pandemic, will most likely raise interest by foreign investors on its roll out, in similar operators such as Nowo and Dixarobil.

It is undisputable that the digital transformation should positively influence the deal activity in Portugal in the short and long run. However, we may see more collaborations rather than buy-outs aimed at expanding businesses or operations.

3.4. FINANCIAL AND INSURANCE

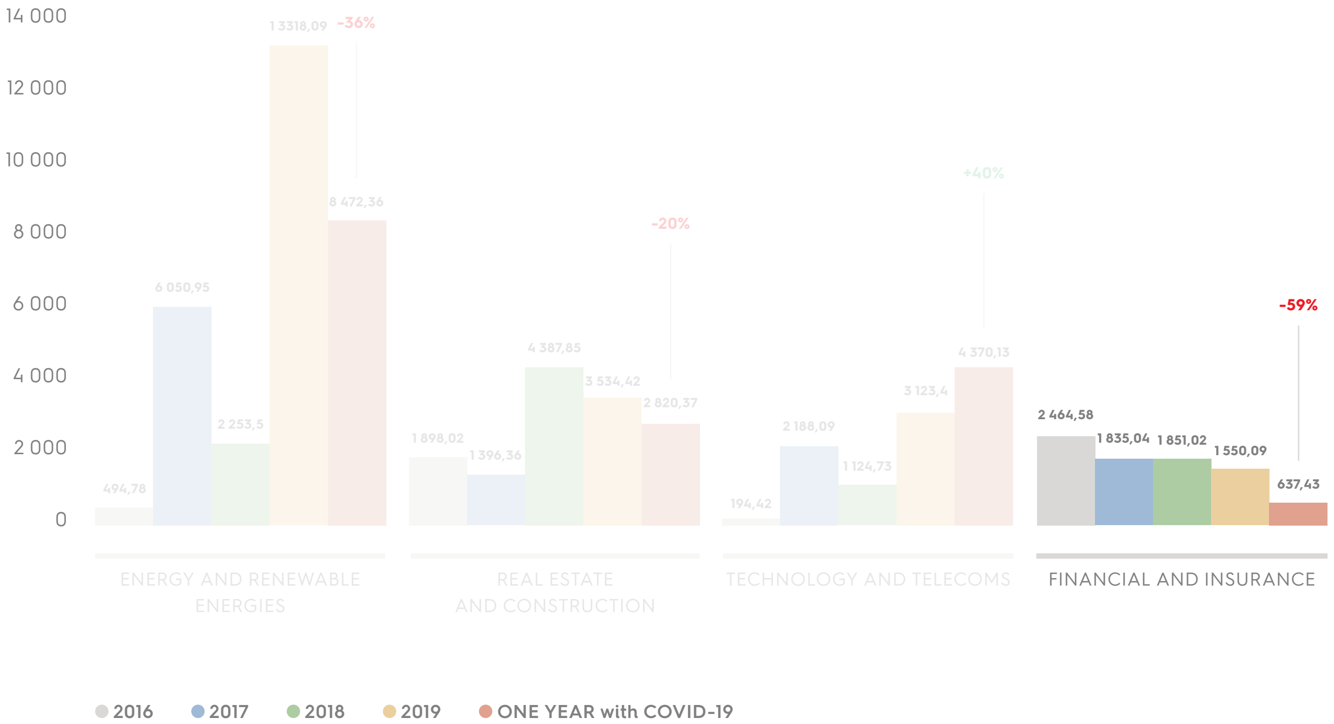
Financial sector uncovers strategic opportunities amidst a global pandemic.

-59% Deal volume downfall in M&A operations, between April 2020 and March 2021

COVID-19 has powered the digitalization of the economy showing no sign of slowing down across several sectors.

How ONE YEAR with COVID-19 impacted the aggregate value of M&A deals in Portugal's Financial and Insurance Sector

Most Active Sectors in M&A, by value (€m)



The Financial Services segment has registered a 33% deal volume downfall in M&A operations, between April 2020 and March 2021, corresponding to a downfall of 59% in deal value. As COVID-19 related state funded aid programs end, acquisitions and divestitures start gaining momentum. Banks, insurance companies and asset managers seek to optimize cost structures, grow top-line growth, and increase efficiency and margins.

It is clear that the competition for strategic market advantage will continue to fuel M&A across financial services sectors, with activity in the first half of 2021 led by deals for technology and innovation. COVID-19 has powered the digitalization of the economy showing no sign of slowing down across several sectors of the industry, as consumer expectations and operations complexity grows.

Propelled by the migration of customers to digital channels during the pandemic, many FinTechs benefitted from the increase in demand. As e-commerce and online financial services exponentially grow, Technological solutions will open up new opportunities for external investors, such as private equity funds and the big tech players.

FinTech investors, whether corporate, private equity, venture capital funds, or special-purpose acquisition companies (SPACs), continue to be interested in acquiring FinTech companies in payments, deposit and lending platforms. Their interest in acquiring InsurTech, RegTech, financial services IT and digital assets, such as cryptocurrencies and tokenization has never been more apparent. Although in its early stages, Portugal has also been developing vertically-focused software businesses with deep expertise in specific domains that are poised to become the next titans of the "payments industry".

Even though Portugal is far from adopting a satisfactory legal framework, Fintech has already disrupted traditional business models and will continue to be seen as a short to mid-term investment in the horizon for companies aiming digitalization to become part of its asset portfolio.

The Portuguese regulator has made some relevant efforts when interacting with startups, leaving space for innovation, which ultimately benefits the FinTech ecosystem and promotes growth. However, the Portuguese regulatory framework is not lacking in areas to improve. It is urgent to adapt the Portuguese Commercial Company Act to reflect the Regulation on European Crowdfunding Service Providers (ECSP) in order to help the financial industry make use of the rapid advances in technology such as blockchain. This will not only benefit consumers, but also investors, banks and new market players and promote a more competitive and innovative European financial sector.

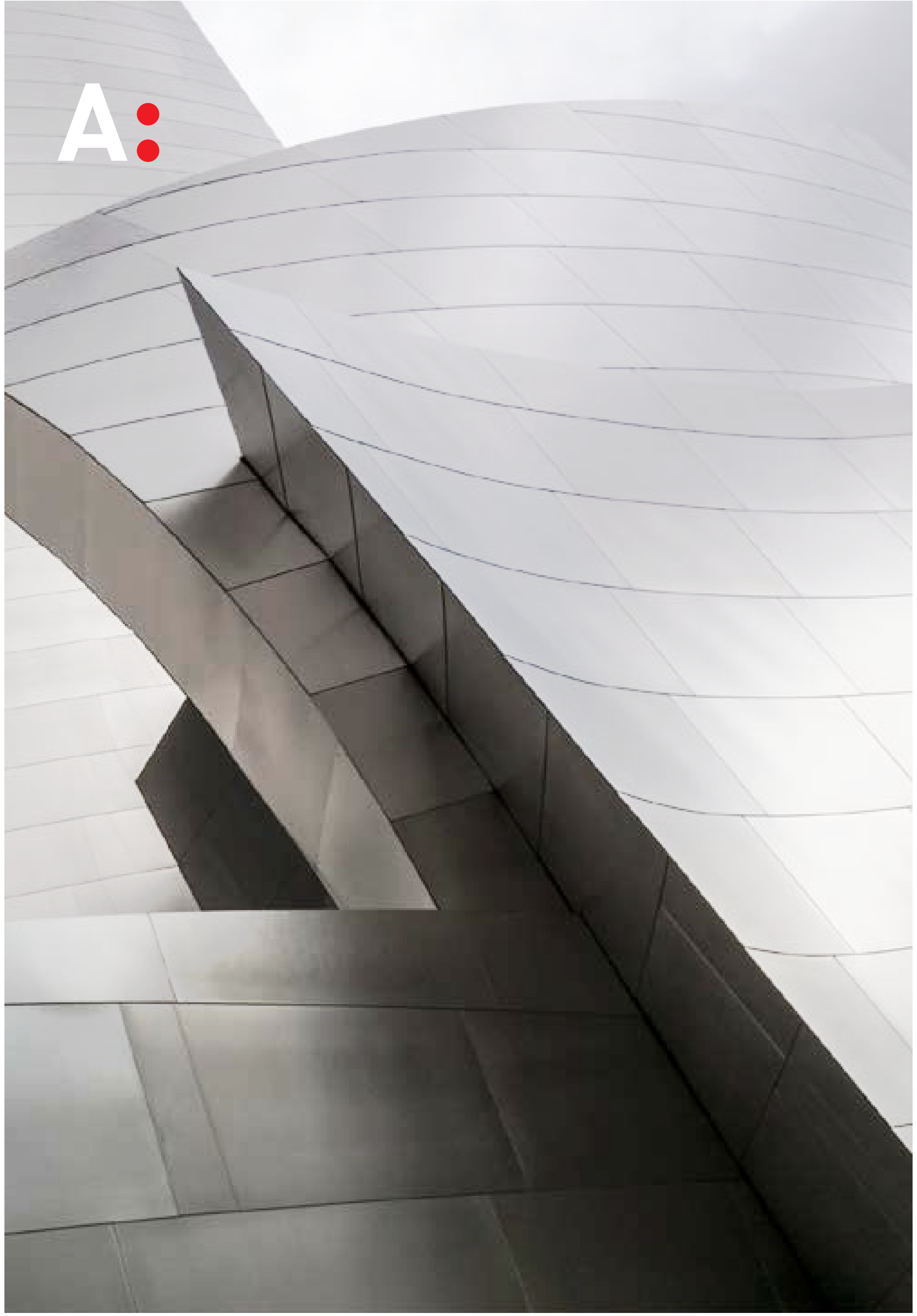
Inevitable will also be the tokenization of financial assets as they promote automation, disintermediation and increased transparency. However, the Regulator is not being negligent as it is simply considering two different – and maybe conflicting – paths: keeping up with the growing and much needed digitalization of the banking system and, simultaneously, designing a legal framework that will prevent systemic financial risks. In spite of this, the digitalization of the banking system is already underway and its adaptation to new realities is a key to survival.

On this note, concerning the Portuguese banking panorama and according to what the banking system has been flagging up, action towards concentration in banking should take place. Although in much need, to reduce the cost of its regulation and the need for scale, this shouldn't be a reality in the near future. Waiting the green light from the regulator, is one of the largest M&A operations of 2020: the sale of 47,5% of Eurobic by Tamraz, which offered € 143 million, based on the bank's own capital (yet to be confirmed by the regulator - CMVM).

As 2022 approaches, we may well see distressed M&A activity pick up as customers/investments in the real economy face liquidity challenges. In banking, it's safe to anticipate M&A opportunities related to asset quality and NPLs, as they begin to emerge in certain sub-sectors. However, no Jumbo deals should be expected, as NPL operations´ volume should be lower than the one resulting from a tsunami of deals predicted for a post COVID-19 reality – yet to be registered.

Noteworthy as one the most significant trends in this sector for 2022 is the ESG commitment, that has already influenced the corporate business environment. We believe that every deal will soon be scrutinized on ESG parameters. Private equity funds and corporations will need to embed ESG values across all transactions in order to avoid operational impacts from climate change or even predict consumers rapidly changing habits.

Propelled by the migration of customers to digital channels during the pandemic, many FinTechs benefitted from the increase in demand.



As the EU green lit Portugal´s €16,6 billion Recovery and Resilience Plan, strategic sectors started being considered as a driving force in combating the effects of the COVID-19 pandemic crisis.

04 COVID-19 | Emerging Sectors

4.1. INFRAESTRUCTURE

Connecting to the world.

The infrastructures will be strengthened, creating connections within Portuguese territory and between Portugal and other European countries.

€700M

Aimed at strengthening the resilience and territorial cohesion.

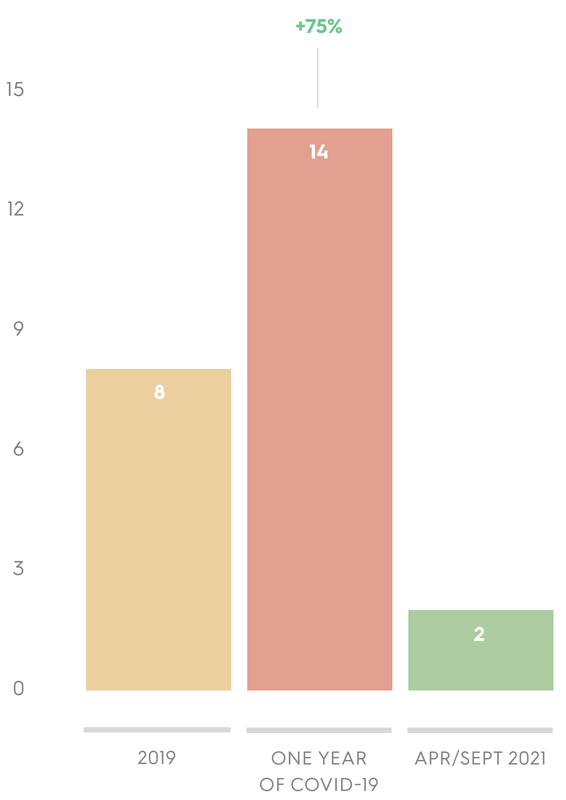
+75%

increase in the Infrastructure segment

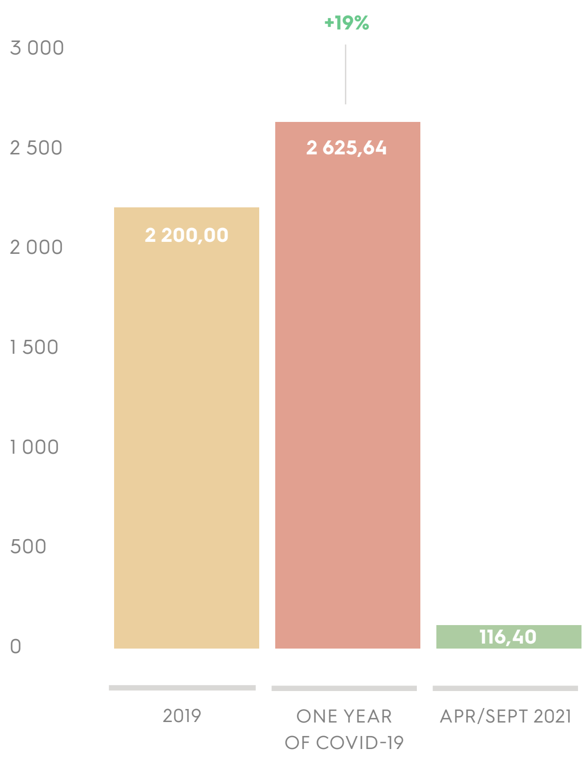
M&A deal volume
(number of M&A deals) increased by 75% in the Infrastructure segment between 1 April 2020 and 31 March 2021 (ONE YEAR with COVID-19), while increasing 19% by aggregate value relative to full-year 2019.

Infrastructure

By total volume of transactions



By total value of transactions (€m)



2022 will certainly bring to light the relevance of three particular sectors that will find their way to the top of most attractive sectors in M&A, such as Infrastructures, Agriculture and Healthcare. The public and private transport system is one of the most sensitive sectors in the Portuguese economy, having been allocated nearly €700 million aimed at strengthening the resilience and territorial cohesion, increasing the competitiveness of the productive fabric and contribute to reducing context costs.

Specific interventions in infrastructure that will contribute to cross-border territorial cohesion and to boost mobility in low-density territories, providing proximity connections to high-capacity corridors, enhancing the socioeconomic dynamics of territories located close to the border and creating conditions for common usufruct of existing or projected services or infrastructure. When looking into M&A deal volume between April 2020 and March 2021, the increase reached 75% in the Infrastructure segment, while increasing 19% by aggregate value relative to full-year 2019.

What will 2022 bring? Portugal is currently awaiting for the announced national railway plan, as an alternative to short-distance air transport and road transport, which will allow the strengthening of connections within the territory and between Portugal and other European countries. Such consolidation will of course reinforce mobility and facilitate cargo transportation logistics (goods, equipment) and their export (and obviously import) and is essential for the de-carbonization of the transport sector and for the Portuguese economy to be ensured.

4.2. AGRICULTURE, AGRIBUSINESS, FARMING AND FISHING

Agriculture sector continues to increase.

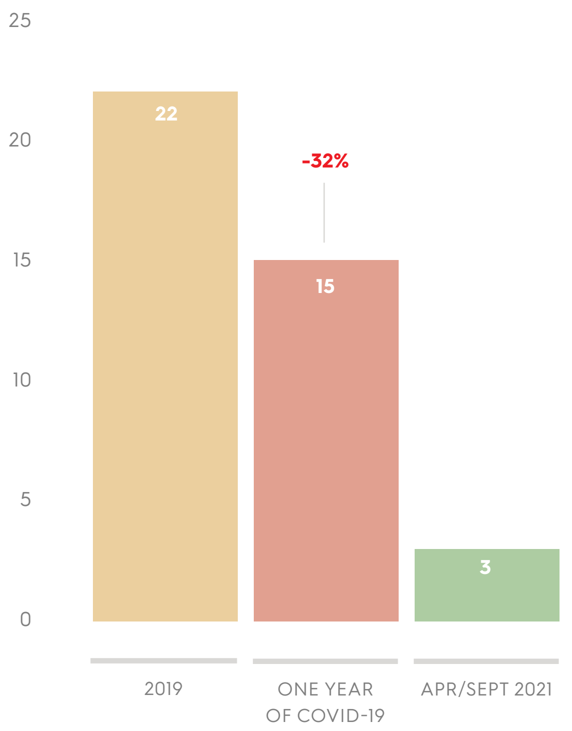
There will be room for an increase in artisanal food production.

€93m
For the Innovation Agenda for Agriculture 2030

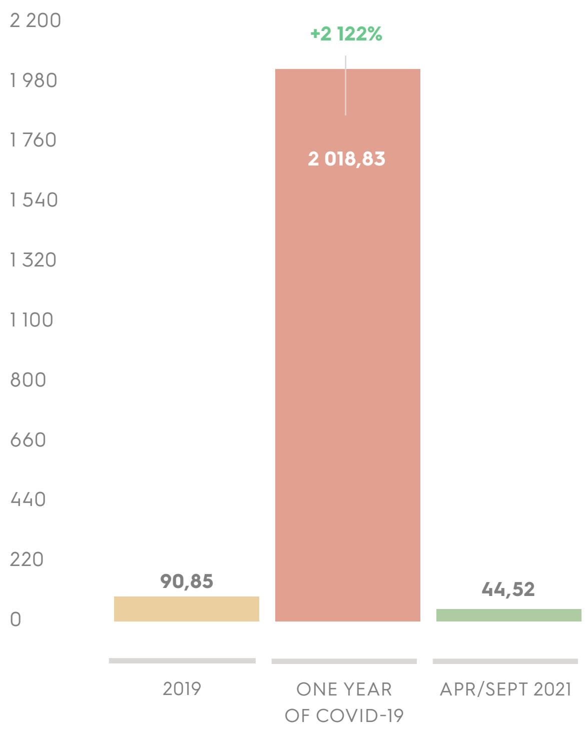
M&A deal volume
(number of M&A deals) fell by 32% in the Agriculture, Agribusiness Farming and Fishing segment between 1 April 2020 and 31 March 2021 (ONE YEAR with COVID-19), while increasing 2 122% by aggregate value in comparison to a full-year 2019.

Agriculture, Agribusiness, Farming and Fishing

By total volume of transactions



By total value of transactions (€m)



When looking into the agriculture sector, Portugal has already taken the first steps in developing sustainable agricultural practices such as integrated crop and pest management, agroforestry, targeted fertilization, agroecology, organic farming and precision farming techniques are topics that are attracting increasing interest. In spite of this, the M&A deal volume fell by 32% in the Agriculture, Agribusiness Farming and Fishing segment between April 2020 and March 2021 (ONE YEAR with COVID-19), while increasing 2 122% by aggregate value in comparison to a full-year 2019.

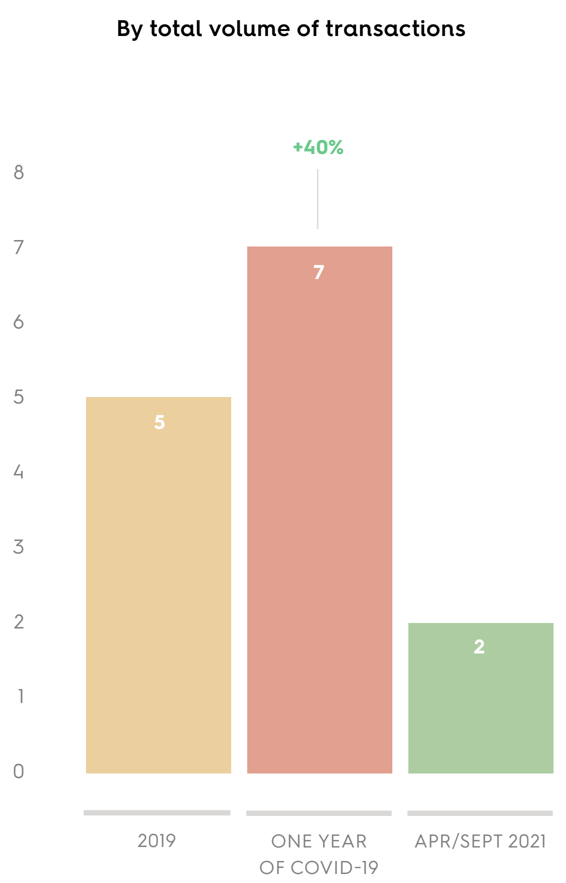
There will be room for an increase in artisanal food production – such as products with protected geographical indications or protected designations of origin – and for the promotion of short supply chains and for the integration of this artisanal production in other services provided in rural areas, such as tourism or the gastronomy. According to the Recovery and Resilience Plan, research and development and the necessary sustainability of agriculture is also a priority. At the same time, the Innovation Agenda for Agriculture 2030 (€93 million), defines as one of its main drivers contributing to a more inclusive, equitable and integrated agriculture, which enhances the participation of women in agriculture and, to that end, it undertakes to observe the gender balance of initiatives involving the training and hiring of human resources.

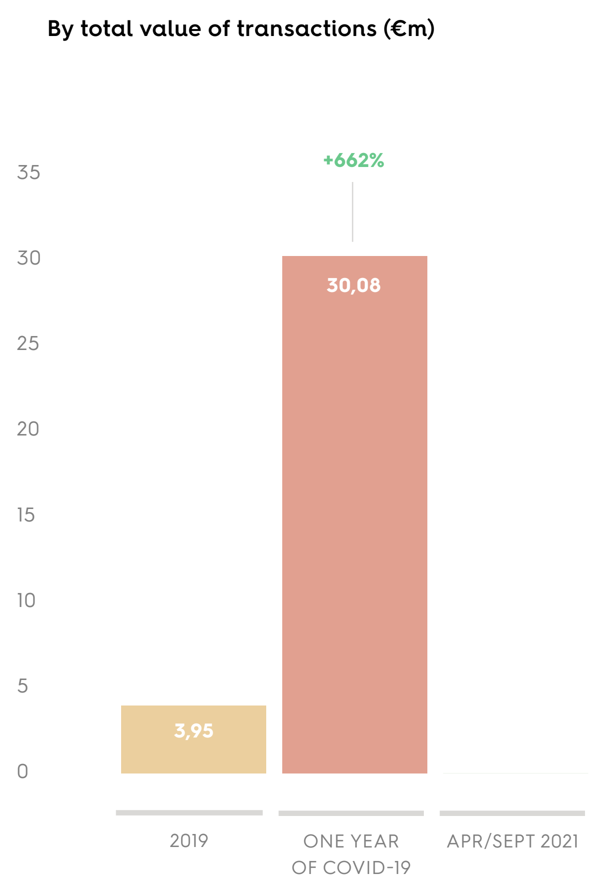
4.3. PHARMACEUTICAL, PARAPHARMACEUTICAL AND COSMETICS

The Healthcare sector adapted to the adversities of the pandemic.

Hospitals and Healthcare providers suddenly accelerated the adoption of virtual technologies.

Pharmaceutical, Parapharmaceutical and Cosmetics





€463m

Dedicated to the reform of primary healthcare, through the reinforcement of access and quality, the expansion of health center cluster services and the upgrading of facilities and of the equipment.

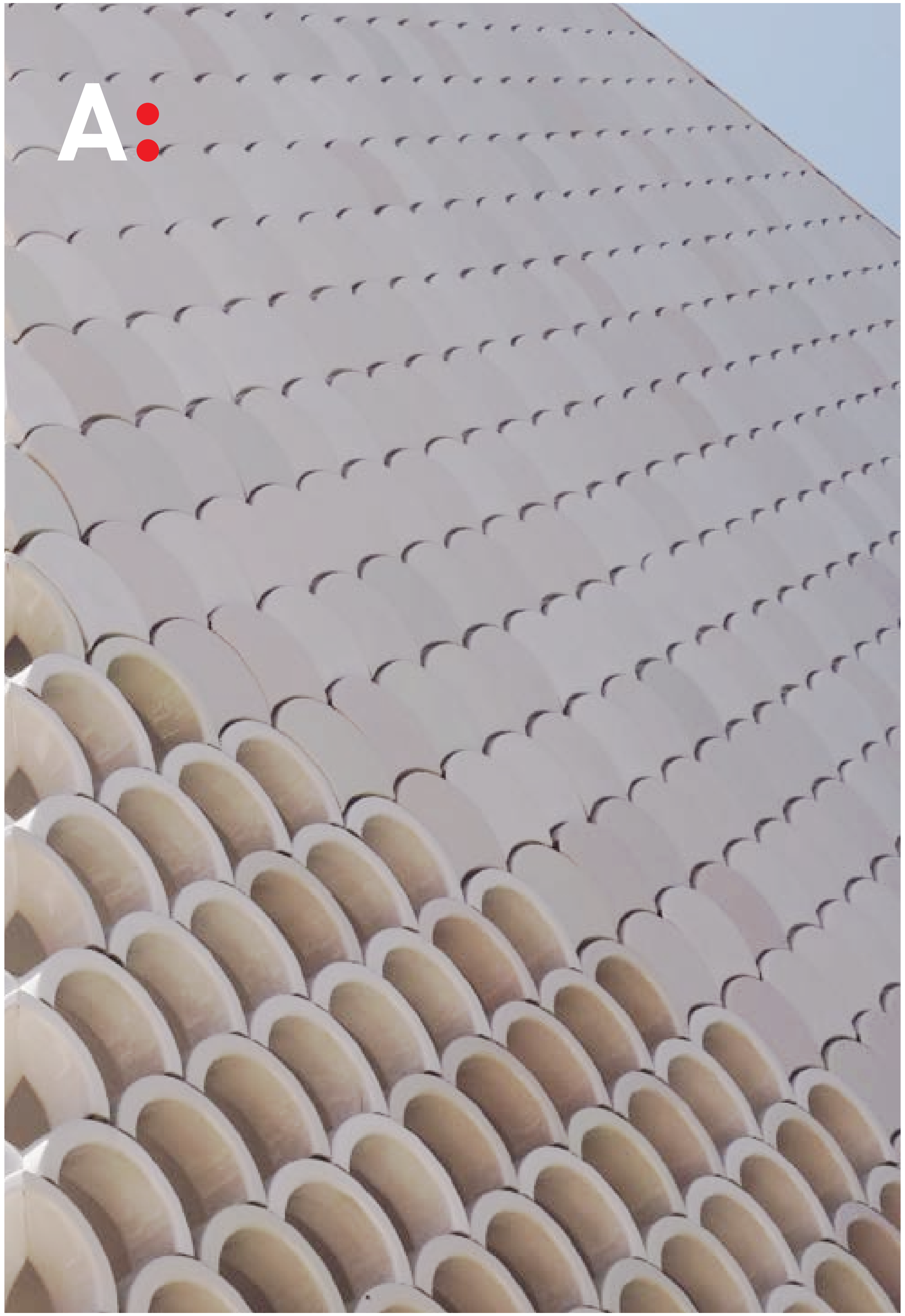
M&A deal volume
increased by 40% in the Pharmaceutical, Parapharmaceutical and Cosmetics segment between 1 April 2020 and 31 March 2021 (ONE YEAR with COVID-19), while increasing 662% by aggregate value in comparison to a full-year 2019.

The pandemic drove healthcare companies to accelerate strategic and portfolio reviews, aiming at digital transformation. Hospitals and healthcare providers suddenly accelerated the adoption of virtual technologies — such as telehealth, m-health, AI and analytics in order to reach patients and deliver health services more efficiently.

The Recovery and Resilience Plan has also kept this in mind, as it has intended to strengthen the capacity of the National Health System to respond to the demographic and epidemiological changes in the country, to therapeutic and technological innovation, to the trend of rising health costs and to the expectations of a more informed and demanding society.

In terms of investments, the most significant amount, with a total of €463 million, is dedicated to the reform of primary healthcare, through the reinforcement of access and quality, the expansion of health center cluster services and the upgrading of facilities and of the equipment. In the near future, it is expected that M&A activity should rebound based on continued macro and healthcare sector-specific growth trends.

Unsurprisingly forced by the COVID-19 context, merger and acquisition activity in 2021 in healthcare has been more robust than anticipated; with M&A deal volume increasing by 40% in the Pharmaceutical, Parapharmaceutical and Cosmetics segment between April 2020 and March 2021, while increasing 662% by aggregate value in comparison to a full-year 2019.



According to OECD Economic Forecast Update, published on, GDP is projected to increase by 5.8% in 2022.

05
Highlights | M&A 2022

Portugal has followed the trend of recovery

in mergers and acquisitions after the fall in 2020.

The year 2021 has been marked by cautious optimism from investors, largely due to expectations of recovery with the widespread adoption of vaccines, which has allowed the M&A and financial advisory market to continue to experience a positive moment, especially in the sectors least affected or positively affected by the pandemic, which should continue to perform within the expected.

As the current context of low interest rates and available liquidity generates several opportunities in terms of M&A operations, opportunities in the development of mergers and acquisitions processes should occur through the implementation of postponed investment decisions, mergers and capitalization operations with a view to establishing more sustainable and competitive companies to face new shocks and also through restructuring processes.

As Portugal will soon start harvesting the benefits of implementing the RRP (Recovery and Resilience Plan), a key instrument in the recovery of the Portuguese economy, opportunities should arise for companies in up and coming sectors, such as Infrastructures, Agriculture and Pharmaceutical.

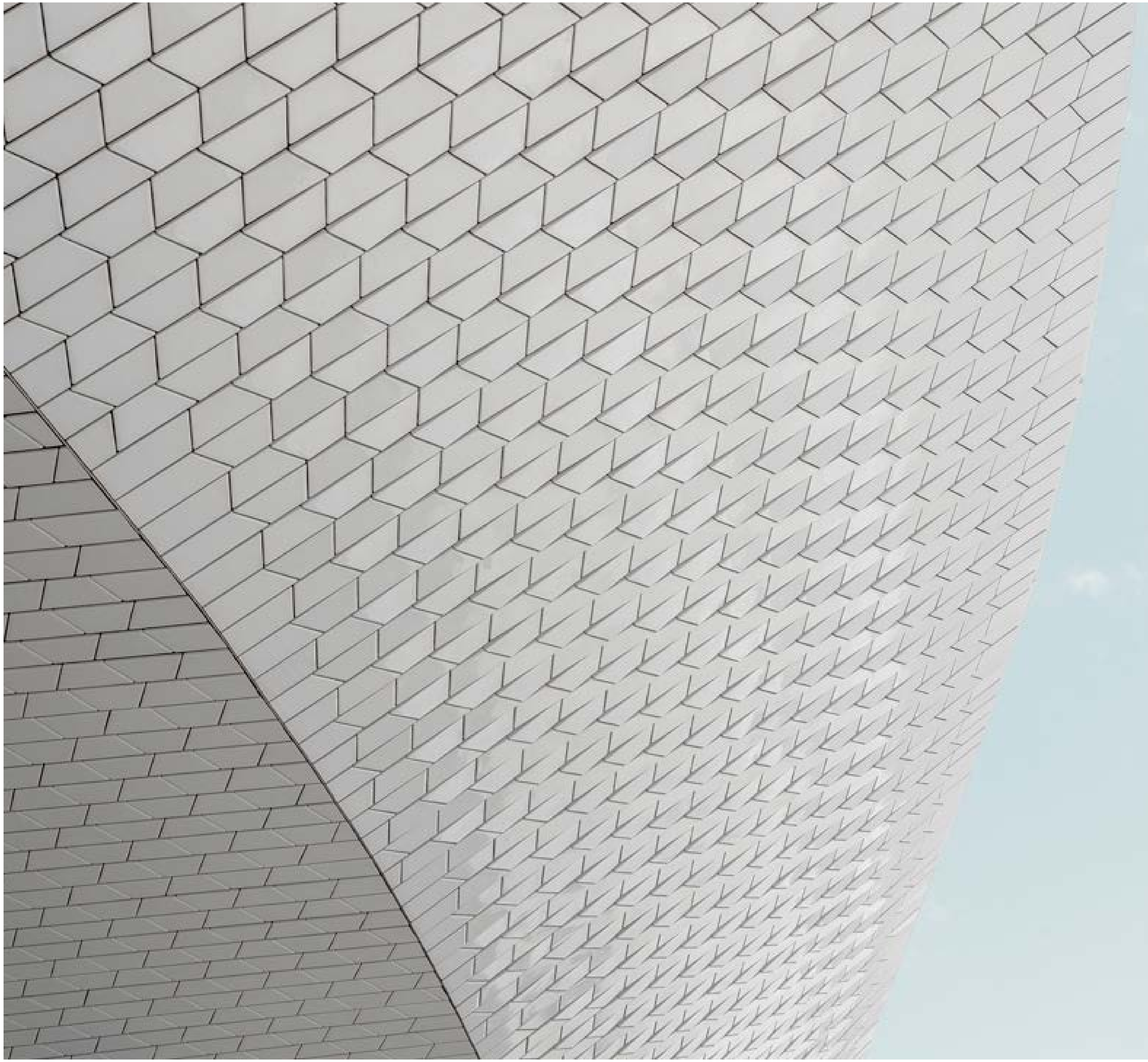
Endowed with around €14 billion in non-repayable funds to recover from the pandemic crisis, the Portuguese plan is based on three plans: resilience – which includes the reinforcement of the NHS, housing programs and capitalization of companies – environmental and digital transition.

Even with the declared optimism, there are risks that are considered, not only due to possible setbacks in the management of the pandemic, but also due to changes in the macroeconomic framework. However, Portugal has not only shown positive signs of recovery, but also the ability to embrace opportunities whilst maintain a strategic vision for the economy. According to OECD Economic Forecast Update, the GDP is projected to increase by 5.8% in 2022.

Accelerating M&A in 2022:

- Optimistic venture capital investments.
- Pending and postponed operations that will soon take place.
- Stressed assets, which will generate business opportunities.
- Specific sectors will benefit from the capital injection via the RRP, such as Technology and Telecommunications and Infrastructure.
- Structural reforms should lead to an increase in Direct Foreign Investment.

TTR Empowers Dealmakers



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Corporate and M&A

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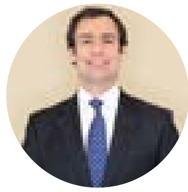

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