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CAPITAL CURRENTS

Momentum in European M&A

Top ten deal themes for 2026

Capital Currents is a cross-industry series focused on distilling the key trends in M&A and identifying how management teams can capture value.

Despite the turmoil and economic uncertainty, dealmaking returned in force in 2025, and we expect the momentum to continue into 2026.

Global M&A was up more than 30% last year, while Europe also saw strong growth, up 12% in deal value to about $820 billion, as investors rotated asset allocation to Europe. The last 12 months heralded a new-found conviction that Europe must go faster to consolidate and build sovereign scale, in many sectors including in defense, banking and technology.

While volatility seems likely to remain elevated in 2026, with geopolitics, rates and tariffs remaining uncertain, what is certain is that the case for consolidation for many European sectors remains strong.

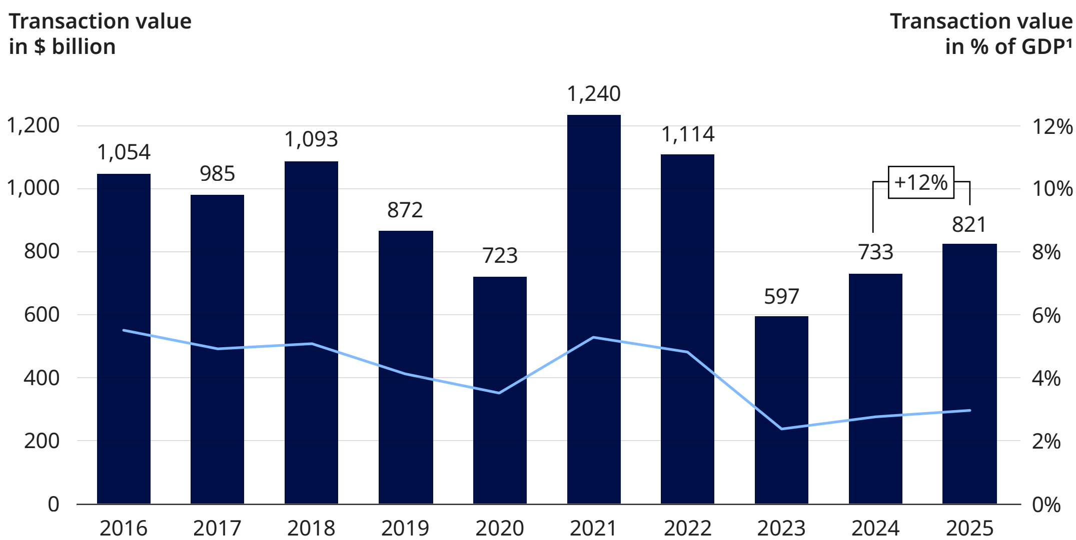
Corporate profitability continues to be robust across sectors, up 50% from pre-2008 levels, yet European companies remain sub-scale and European industries more fragmented than the US. The case for acquiring critical capabilities remains and with elevated valuations — the Eurostoxx 600 was up 15% year-on-year during 2025 — many European corporates have the acquisition currency to act boldly.

The strong pipeline of announced but not yet completed deals, combined with global capital availability and easing regulatory dynamics, suggests sustained M&A activity in 2026.

This edition of Capital Currents distills the top 10 themes expected to shape European M&A in 2026. It outlines our conviction and the views of industry experts we interviewed, the conditions for success, and how management teams can create value out of opportunity.

Exhibit 1: European M&A volumes continue to recover, yet remain close to historical lows relative to GDP

Total completed transaction value in $ billion and % of GDP, European target and/or acquirer



1. GDP of all European companies (incl. non-EU), 2025 GDP calculated at 1.4% growth rate.
Source: Dealogic — European target and/or acquirer; exclusions: deals <$1million, ≤50% stake, joint ventures, share placements, funding rounds, growth investments. World Bank.

Top 10 themes for the year ahead

Exhibit 2: European M&A transaction volumes by acquisition's target sector

Total completed transaction value in $ billion, European target and/or acquirer

	2024	2025	Deal pipeline[1]	% YoY	2026 Outlook
Technology, media, and telecommunications	171	156	77	-9%	↑
Healthcare	103	123	77	+20%	↑
Energy	90	63	43	-31%	→
Materials	83	74	95	-11%	↑
Industrials	60	53	33	-13%	↑
Retail and consumer	54	104	68	+94%	↑
Real estate	56	45	18	-19%	→
Financial services	50	111	73	+124%	↑
Transportation and logistics	43	46	9	+6%	→
Business services	24	47	8	+94%	↑
Total	733	821	483		

1. Deals announced in 2025 but not yet completed

Source: Dealogic — European target and/or acquirer; exclusions: deals <$1million, ≤50% stake, joint ventures, share placements, funding rounds, growth investments.

1. Banking consolidation accelerates as capital and returns align

European banking M&A has closed out the largest M&A year in over a decade, with deal volumes doubling since 2020. Deals have been fueled by restored profitability, an imperative for diversification, and increasing regulatory support for consolidation. Banks also increasingly have acquisition currency; they are expected to generate over $500 billion excess capital above regulatory minima over the next three years, and are increasingly deploying this on M&A. With many of the acquisitions announced generating returns of 15-20%, in excess of buybacks, it is not hard to see why management are opting for inorganic growth.

We expect this trend to accelerate in 2026, as banks seek to acquire fee-income generating capabilities — such as wealth management — as the rate cycle turns, and to capitalize on in-market consolidation. 2025 saw the emergence of the first wave of cross-border banking M&A — with notable transactions like Erste Bank buying Santander Poland, Santander buying TSB, and BPCE buying Novo Banco. Significant, scaled cross-border M&A would likely require meaningful policymaker commitment to the Savings & Investment Union, and a common European deposit insurance framework.

Successful transactions will be those with clear strategic merit — adding scale or capability that accelerates strategy — and that deliver superior returns to alternative uses of capital such as buybacks.

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Find out more: [Capital Currents: European Banking M&A is back]

2. Asset managers race for relevance as margins shrink and scale matters

The asset and wealth management sector faces a consolidation imperative amid profit margin pressure and client consolidation. In 2025, several major European transactions underscored this trend, including Generali's planned joint venture with Natixis and BNP's acquisition of AXA Investment Managers. By 2030, we predict, there will be 20% fewer asset managers as mid-sized players struggle to maintain scale and invest in technology and artificial intelligence (AI), while market leaders capitalize on scale benefits to capture highly concentrated growth pockets.

M&A activity is intensifying, with 100 to 200 transactions expected every year in Europe alone, driven by:

- Capabilities, particularly in private markets
- Capital, in the form of patient insurance balance sheets
- Clients, by securing proprietary distribution
- Cost savings, to fuel investments

As insurers and wealth managers reassess their ownership of asset managers, inter-sector opportunities emerge with carve-outs, alliances and investments in proprietary distribution.

M&A activity is intensifying, with 100 to 200 transactions expected every year in Europe alone

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Find out more: [Thinning the Herd: The Race for Relevance Fueling M&A in Asset and Wealth Management]

3. Telcos M&A shifts from land-grab to economic repair

Europe's telecom markets are mature, with low growth in core mobile and fixed connectivity, limiting the impact of traditional "land grab" strategies and raising the bar for value-accretive deals. In this environment, M&A becomes essential. High investment needs for nationwide 5G and fiber are colliding with a fragmented industry structure that makes scale harder to achieve than in the US. The average EU operator has about 5 million subscribers compared with about 107 million in the US. Sovereignty and resilience agendas reinforce the case for nationally anchored digital infrastructure. Regulators are also taking a more pragmatic stance on consolidation, increasingly favoring remedies over outright blocks.

Against this backdrop, several deal archetypes shape activity:

- The largest and most immediate value pools lie in in-market consolidation.
- In parallel, growth-engine acquisitions near the core, especially in B2B digital overlay services, are revenue-led, driven by cross sell and new segment penetration.
- Telco data center joint ventures and partnerships with tech players are increasing (e.g., Deutsche Telekom x NVIDIA)
- Private equity emerges as a key route to accelerate sovereign compute capacity.

Other types of transactions we expect to see more of include digital infrastructure carve-outs and consolidation in fiber and towers.

High investment needs for nationwide 5G and fiber are colliding with a fragmented industry structure that makes scale harder to achieve than in the US.

Find out more: Capital Currents: Europe's Telecom Industry Should Prepare for a Big M&A Shake-Up

4. Defense M&A pivots to capacity, control and sovereignty

European defense enters 2026 with a structurally supportive demand backdrop. Military spending is set to grow at roughly 9% a year through 2030. This is lifting budgets to more than €700 billion, around 56% higher than in 2025, as governments prioritize readiness, stockpile replenishment and capability build-up.

For primes and their suppliers, this is translating into swollen order books and production lines running flat out. Over the next decade, European demand is estimated at roughly 20 times current annual production capacity.

In 2026 we expect M&A to shift from portfolio restructuring to the strategic quest for production capabilities. Rheinmetall, Europe's top ammunition maker, exemplifies this trend, repurposing two German automotive plants for defense manufacturing to capitalize on the expected surge in military spending.

Meanwhile, acquirers are using deals to modernize technical advantages, particularly in software-heavy capabilities, where competitiveness is increasingly determined. Deal feasibility and structure are expected to become more tightly bound by sovereignty considerations while program-eligibility rules are likely to push structures towards joint ventures, minority stakes, carve-outs and increasingly intricate ring-fencing and governance remedies to clear approvals.

Private capital is typically most active in supplier platforms, carve-outs, and less-sensitive adjacencies. We also expect continued growth in mid-market deal flow as privately-held defense companies seek outside capital to accelerate investment, expand capacity and capitalize on sustained demand growth.

5. Scale and tech drive the next wave of logistics

As e-commerce continues its rapid trajectory of growth and traditional mail networks experience contraction, the imperative for consolidation becomes increasingly evident. Buyers are now prioritizing transformative M&A strategies that focus not only on technological advancements but also on seizing distressed opportunities.

In Europe, M&A is increasingly shifting toward a concentration of fewer, higher-value deals — such as DSV acquiring DB Schenker and DHL partnering with Evri — driven by persistent pressure on margins and productivity, which is pushing industry players towards synergies achieved through scale, optimized networks, and enhanced automation.

In this evolving landscape, shippers' expectations have risen sharply, demanding broader end-to-end solutions that guarantee reliable service levels. Consequently, network density and footprint are emerging as decisive competitive advantages, which are often more expediently secured through acquisition than through organic growth.

In parallel, acquirers are shifting their mix toward stickier revenue pools such as contract logistics, warehousing, and specialized value-added services, while technology capabilities in visibility, analytics, and automation are increasingly treated as core to the deal thesis and post-merger value capture.

In Europe, M&A is increasingly shifting toward a concentration of fewer, higher-value deals

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6. Pharma dealmaking sharpens as capital concentrates on fewer bets

Pharma dealmaking is moving from opportunistic to increasingly essential as the sector exits the 2023-24 slowdown into a more constructive, but still highly selective, M&A environment. Financing conditions and confidence have improved, yet valuation discipline remains tight, and quality assets command a premium.

Strategic urgency remains the main driver, with large pharma's looming patent expirations and persistent pipeline gaps intensifying the need to secure future growth through external innovation, making M&A and partnering a core lever. Assets are increasingly screened through explicit portfolio and commercial lenses, spanning both high-value rare diseases (e.g. Novartis acquisition of Avidity Biosciences) and larger, well-established indications (e.g. Sanofi acquiring Blueprint Medicines), as well as next-generation modalities such as cell therapies (e.g. AstraZeneca's acquisition of Belgian cell-therapy developer EsoBiotec), bispecifics and antibody-drug conjugates.

At the same time, corporates are pruning non-core assets (e.g. Sanofi's sale of its consumer business, Opella) and pursuing divest-to-invest agendas to redeploy capital into priority disease areas and scalable scientific and technology platforms, including AI-enabled drug discovery and gene-editing capabilities that can be leveraged across multiple indications.

Transaction activity into 2026 is expected to be dominated by:

- Selective, de-risked IP- and pipeline-driven bolt-ons and mid-sized deals
- Capability-led platform and modality acquisitions
- Increased use of structured deals such as options, staged acquisitions and milestone-heavy economics to manage valuation and scientific risk
- Continued carve-outs and single-asset divestitures that sharpen strategic focus and recycle capital

7. Chemical players reshape portfolios to build resilience

The chemical industry continues to leverage M&A as a way to re-focus their portfolios on specialties, secure their positioning and bolster cashflow. The challenges that have been driving M&A activity continue into 2026 and include:

- Global overcapacities in commodity chemicals, expected to reach about 226 million tons in 2025, representing a 100% increase over the past 10 years and driven particularly by aggressive capacity expansion in China
- Prolonged soft demand in critical customer industries
- Structurally higher energy and feedstock costs in Europe
- Tighter regulatory and sustainability mandates

In light of low asset utilization rates, more commodity assets will be scrutinized on economic viability and considered for divestments or even shutdowns, as seen in carve-outs such as BASF's coatings business.

Smaller and medium-sized acquisitions are expected in more margin-resilient specialty segments such as electronics/semiconductors, and regions exhibiting the highest growth such as Asia, supporting the current theme of local-for-local approaches and customer proximity.

Larger transactions reflect a clear consolidation and scale agenda as companies seek to build stronger global platforms, secure advantaged feedstock access, and accelerate moves into downstream value-added and circular chemistries, mirroring prior pure-play scale moves such as the combination of Axalta and AkzoNobel in all-stock merger of equals. This trend is reinforced by diversification strategies among Middle Eastern players expanding beyond oil and gas, as illustrated by ADNOC's acquisition of Covestro.

While slowed down in pace and capital intensive, the sustainability transformation presents another ongoing deal rationale for companies to future-proof their portfolio and strengthen their positioning in the value chain, especially for bio-based materials and recycling assets & technologies.

Find out more: Chemical Industry Outlook For 2026 And Beyond

8. Insurance consolidation deepens across carriers, brokers and MGAs

M&A has been fueled by PE-driven broker and service provider consolidation which accounts for about 90% of transactions by volume in recent years.

We expect this strong momentum will continue across European markets with:

- Remaining runway for consolidation
- The next stage of "consolidation of consolidators"
- A growing appetite for managing general agents (MGAs), both from insurers seeking growth in a softening market and brokers pursuing vertical integration to protect margins and to differentiate their propositions (e.g., Atrium's acquisition by CRC Group, Ryan Specialty's acquisition of Castel)

Transactions on the carrier side, such as the Helvetia-Baloise merger in Switzerland and the BarmeniaGothaer fusion in Germany demonstrate the remaining consolidation potential on the continent, driven by increasing competitive importance of scale with regards to market relevance and ability to invest in technology. In life insurance, structural challenges in many European markets generate an ongoing pipeline of run-off deals and PE continues to be drawn to life insurers as a source of funds (e.g. the Athora PIC transaction).

Finally, 2026 is likely to see accelerating acquisitions of specialty underwriting franchises by strategic buyers looking to acquire new capabilities (e.g., Aviva purchasing Probitas in part to access Lloyd's) and by private equity looking to long tail specialty lines as an alternative source of funds to life, alongside greater engagement from alternative capital enabled by structured solutions.

2026 is likely to see accelerating acquisitions of specialty underwriting franchises by strategic buyers looking to acquire new capabilities

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9. Corporate dry powder can unlock Europe's PE exit backlog

Exhibit 3: European Financial-Sponsor-backed assets likely to exit[1] in 2026

	Number of companies	Enterprise value[2] in $ billion	Average holding period in years
Total	**1,535**	**760**	5.8
Technology	453	178	5.3
Industrials	255	114	6.3
Business services	220	86	6.1
Healthcare	191	116	5.2
Consumer and retail	179	106	6.3
Financial institutions	73	40	5.1
Energy and natural resources	69	59	5.4
Transportation	57	35	6.4
Comms, media entertainment	38	28	5.4

1. Based on MergerMarket database, defined as European Financial-Sponsor-backed companies with a MergerMarket "Likely to Exit (LTE)" score >50. 2. Based on asset entry enterprise value.

Source: MergerMarket

European corporates are currently sitting on roughly €2.6 trillion of cash as of 2025 while private equity is grappling with aging portfolios, stretched holding periods of more than six years, and limited IPO or secondary exit routes, creating a structural opening for trade buyers of PE-backed assets.

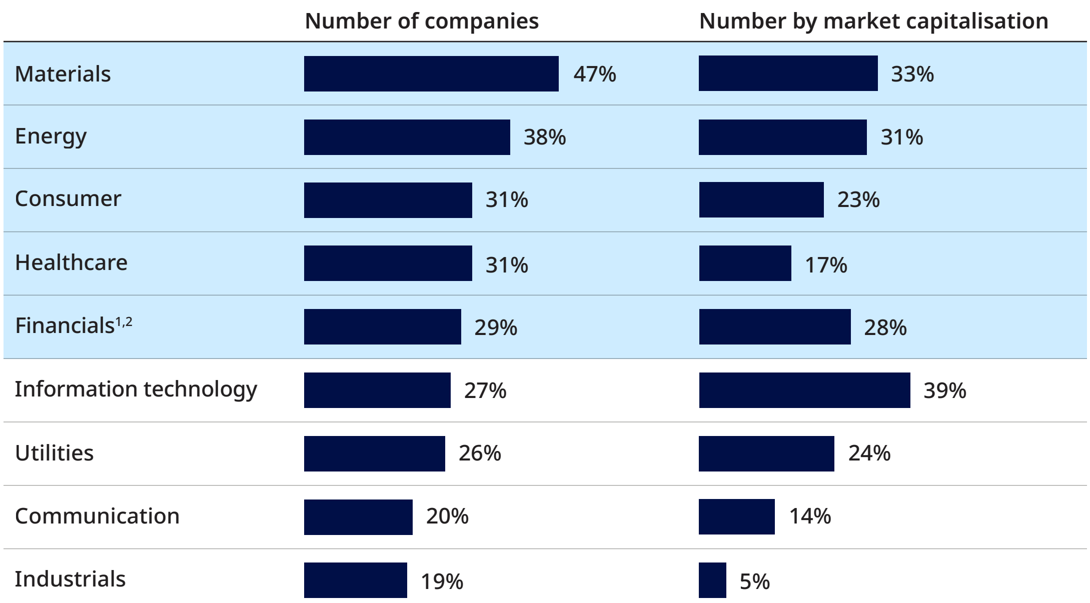
Many of the large deals done in the 2019-2022 boom years now need an exit, building a sizeable backlog that will increasingly have to be cleared via corporate M&A. In 2026 alone, more than 1,500 European PE-backed assets, representing $760 billion enterprise value, could potentially come to market compared with historically 700-800 per year. Technology, industrials and business services will likely be the most active sectors, representing around 60% of exits.

Among the flagship assets that may be in play are TK Elevator (elevators), IVC Evidensia (veterinary services), and Odido (Dutch mobile operator), underlining the strategic scale and sector relevance of this pipeline. Corporates can capitalize on this by becoming "PE-ready," by sharpening their M&A theses, systematically mapping PE ownership in their priority value pools, and engaging sponsors early and bilaterally rather than waiting for broad auctions. To turn the PE exit overhang into a repeatable growth engine, they will also need faster governance, comfort with complex carve-outs and creative structures, and industrialized M&A capabilities from screening through integration.

Find out more: Capital Currents: Can the dry powder sitting with European Corporates help unblock PE exits?

10. Strategic focus on portfolio rebalancing returns to the forefront

Exhibit 4: STOXX 600 Europe companies with Return on Capital[1] lower than Cost of Capital[2]



1. ROE for financials, ROIC for other sectors. 2. Cost of Equity for financials, WACC for the other sectors.
Note: Analysis excludes real estate companies.

Source: LSEG Workspace

Portfolio rebalancing is becoming a core theme in European M&A as corporates respond to persistent economic headwinds and a higher cost of capital. Corporate divestitures and carve-outs have broadly tracked overall deal activity, falling sharply in 2022 and 2023 before stabilizing and recovering thereafter. By deal value, divestments in 2025 were most visible in healthcare, consumer, and transportation & logistics, where larger carve-outs and asset sales dominated.

One third of European corporates deliver returns below their cost of capital, suggesting, in part, a misallocation of capital. For many, disposals of non-core or underperforming assets will be a key unlock, with freed-up capital returns to shareholders or deployed in further M&A to gain scale in core activities. Materials, energy, consumer, healthcare and financials are all sectors with significant misallocated capital, suggesting portfolio strategy may be in order. Conglomerates also continue to spin off assets in a quest to realize inherent value.

Early signals are already visible: Société Générale continues to divest non-core assets in Africa, and HSBC continues to exiting non-core activities across Europe and smaller markets, while doubling down on Hong Kong. Similar dynamics are playing out across other sectors, with BASF carving out businesses such as Coatings and Agricultural Solutions, Unilever separating its ice cream unit (e.g., Magnum and Ben & Jerry's) and pruning smaller brands while investing behind growth platforms like beauty and wellbeing, Nestlé exploring options for parts of its water business, and Thyssenkrupp progressing its break-up logic. Activist pressure continues to be a factor spurring management to divest. We expect further refocusing in 2026.

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