MERGERS AND ACQUISITIONS ARE ESSENTIAL FOR SMALL BUSINESS GROWTH

Mergers and acquisitions (M&A) are essential for the growth and sustainability of small businesses. While it is appropriate to review mergers of large companies with dominant market share, we have ongoing concerns regarding the recent regulatory actions investigating and delaying even smaller acquisitions and mergers. While it is important to provide appropriate oversight, it's essential that it does not discourage pro-competitive deals that empower small businesses to thrive. Ultimately, a system that is bogged down in red tape, as the Draghi report finds, could severely jeopardize vital M&A avenues for small and medium-sized enterprises (SMEs). This limits the ability for European companies to raise initial funding.

IMPORTANCE OF M&A FOR SMALL APP COMPANIES

M&A are critical pathways for SMEs to scale, attract investment, and bring innovative products to market. These transactions are often the most viable exit strategy for entrepreneurs. Joining forces with larger and more established companies allows innovators to scale up, improve their offerings, and better compete in the market.

Smaller companies and startups should be able to merge with each other or with larger companies without long delays or investigations that create uncertainty or may even block the deal. The prospect of a merger or acquisition provides SMEs and startups essential elements that are key to their growth and development:

- **Expanded Resources and Expertise.** Mergers can bring small businesses the necessary resources and expertise to thrive, which is not only beneficial for the businesses themselves but also for the economy and consumers by driving innovation and job creation. This is especially true for founders who specialize in the product they developed but are not necessarily able to create some of the complementary aspects of businesses like marketing or compliance, which can be supplied by a merger with a larger company.

- **Alternative Financing.**
  SMEs developing apps and software are less able to obtain traditional bank loans because their products and services are not physical. Traditional business loans typically require physical collateral to secure the debt. As a result, alternative financing sources—like angel investing, venture capital, and mergers—are relatively more important for small, software-centered companies.

- **Increasing Enterprise Value.**
  Even companies that do not pursue an acquisition will need funding at various stages of their growth, at which point the valuation of the company is key. Removing the option to reward investors through a merger or acquisition can severely impact a founder's ability to secure funding and significantly reduce enterprise value. Without adequate funding, these companies may never reach the stage where an acquisition is possible.

THE IMPACT OF RECENT REGULATORY ACTIONS

We encourage policymakers in Europe to move carefully in interpreting, applying, or updating existing M&A rules. We urge that any alteration to existing guidelines be made in the direction of reducing red tape and increasing opportunities for supporting SMEs either through valuation or M&A. Any modifications should maintain deference to a thorough economic analysis as a foundation of any merger review or enforcement and avoid making policy-level decisions based on edge cases or hypotheticals that do not reflect the common reality of the business environment. Policymakers must avoid changes that will likely have significant long-term, negative effects on our ability to do business, innovate, and successfully compete.