# Investing in CEE

Inbound M&A report
2020/2021

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# Contents

# Foreword

## In a year dominated by the Covid-19 pandemic, the M&A market in Central and Eastern Europe (CEE) remained robust. Although the number of deals fell in 2020, total disclosed value was up

Against the context of the global Covid-19 pandemic, the performance of M&A in the CEE region was remarkable. Even as volume dropped by 16%, total disclosed deal value rose by 11% to nearly €50bn, despite the deepest global recession for 90 years and disruption caused by restrictions on travel and meetings.

Excluding Russia, the region's largest market, value rose by a remarkable 28%. CEE outperformed all other major emerging market regions by this measure, demonstrating the confidence that major investors have built up.

On a global level, the CEE picture is one of stability. The region continues to attract a strong and steady flow of inbound investment from around the world, particularly Western Europe and North America; €23.9bn flowed in from outside of the region across 2020, despite the worldwide recession. International businesses are drawn by the promise of higher returns than in most developed markets, but a greater degree of political, economic and judicial security than many emerging ones. A skilled, multilingual workforce that still offers lower (if rising) wage costs than the rest of Europe, combined with access to the huge EU market and a growing middle-class, are strong selling points.

The region's economies are diversified: with the exception of Russia, few are hugely resource-rich, but opportunities abound from Poland's financial services sector through leisure in the Adriatic region to infrastructure projects in Bulgaria. The region's tech industry has been a particularly strong point over the past two decades, offering everything from high value business process outsourcing (BPO) services to cutting-edge app developers. The manufacturing industry, mostly revamped in the post-communist era, now includes a world-leading automotive sector and a range of high-tech businesses that compete globally and may benefit from post-Covid-19 nearshoring. The latest wave of EU funding, including recovery funds, is expected to catalyse investment in growing segments including renewables, electric vehicles, electricity storage, and hydrogen technology.

Having attracted first the more adventurous Western European corporates, then multinationals, CEE is now in the midst of a surge in private equity and venture capital investments. Major international financial investors are making their presence felt in sectors from banking to telecoms, while there is a growing crop of regional and local PE and VC, some backed by EU funding.

The region, and the world, entered 2021 with hopes for a more stable outlook, and a year of recovery. The expected retreat of Covid-19 as vaccines are rolled out, the inauguration of Joe Biden as US president, and the UK's exit from the EU should all diminish uncertainty and bolster investor confidence. However, risks from new waves of the virus, international disputes, and unexpected economic shocks are ever-present. Within CEE, challenges of burdensome bureaucracy, stalled EU enlargement, and political deadlock continue to weigh on the outlook. Nonetheless, having weathered 2020 so well, and with its competitive advantages coming ever more to the fore, CEE is well-placed to be one of the global centres for M&A.

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## Methodology

The findings of this report are based on historical 2015-2020 data. Annual deal figures are based on announcement date.

Mergermarket deal data includes transactions with a deal value greater than or equal to US$5m, except for some minority stake acquisitions where a higher threshold applies. If the consideration is undisclosed, deals are included on the basis of a reported or estimated deal value greater than or equal to US$5m.

In the case of minority stake deals, transactions are included where the stake acquired is greater than or equal to 30% of the entire share capital, and the deal value is at least US$5m. Where the stake acquired is less than 30%, the deal will only be included if the deal value is at least US$100m, provided there is also evidence of an advisory mandate; or at least US$500m in the absence of evidence of an advisory mandate.

Mergermarket data includes property transactions where a property company, with the exception of a property holding company, is acquired or merged with another entity. It does not include property and real estate transactions restricted to land, buildings, portfolios or sale and leaseback agreements.

## In the face of considerable headwinds caused by the Covid-19 pandemic and related lockdowns, dealmaking in the CEE region stayed remarkably robust

Across the region, as the Covid-19 pandemic reached Europe and lockdowns started in March and April, dealmaking activity slowed to a near-halt. However, momentum was soon restored as governments stepped in with economic support measures, and some restrictions were eased. Markets regained confidence, and professionals working on M&A – buyers, sellers, accountants, lawyers, and compliance experts – rapidly adjusted to the new situation.

The number of M&A deals in the CEE region dropped 16% in 2020, to a total of 648 transactions, down from 768 in 2019. However, the total value of deals with disclosed value rose by 11% to €49.2bn, indicating the enduring appeal of the region for major investors making big-ticket deals.

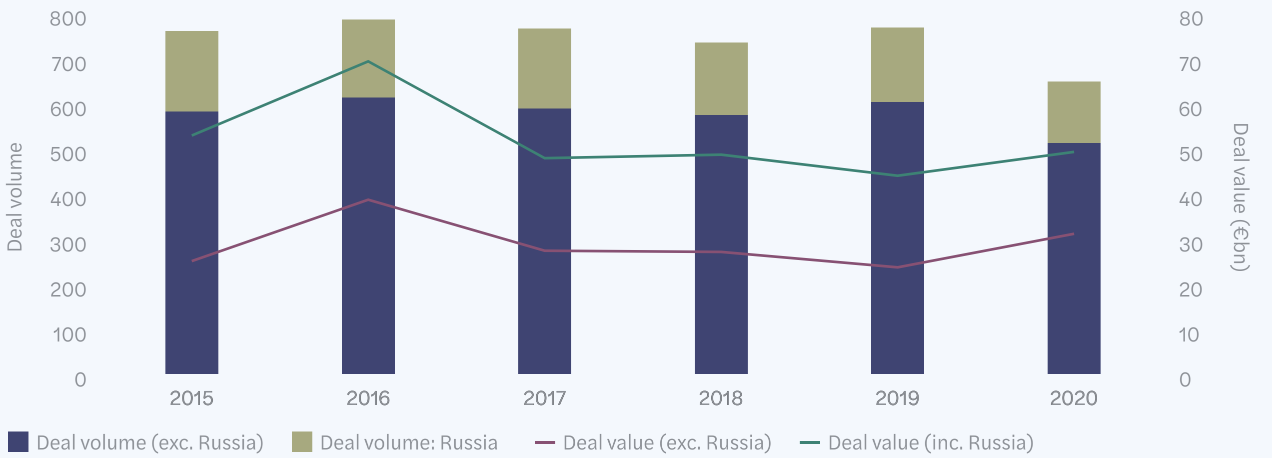
By global standards, the region performed well – worldwide, total deal value dropped by 6%, while volumes fell by 11%. The region's political stability, access to the EU market (the world's biggest), and skilled labour pool have all supported continued investment, while returns are often still higher than in Western Europe or North America. As such, international buyers have continued to be active in the region in 2020 – accounting for 49% of total deal value, a similar level as the previous year. Even excluding Russia – the region's largest market by a substantial margin – the region still fared strongly. Total disclosed deal value rose a striking 28% to €31.1bn, though volume fell 15% to 512 deals. This partly reflects the dynamics of the impact that the Covid-19 crisis and economic downturn have had across businesses.

"During this recession, big transactions were favoured," says Thanos Petropoulos, Managing Director and Partner at Mazars in Bulgaria. "Strong players had the finances and the muscle to make acquisitions and do the business they wanted to do. However, Covid-19 has hit smaller business in Bulgaria and elsewhere in the medium term making it difficult to have appetite for transactions."

Excluding Russia, inbound deals from buyers outside the region accounted for 47% of overall volume, up from 45% in 2019, though inbound buyers' share of value dropped from 71% to 51%. Interestingly, cross-border transactions within the region grew to account for 13% of overall value, up from 6% in 2019, and the highest level in the past five years.

Russia's position as the region's biggest market meant that it once again leads the table in the number of top ten deals, with four of the year's largest transactions, including the second largest of the year. The deal saw Netherlands-based energy company Trafigura Beheer acquire a 10% stake in Vostok Oil for €5.7bn. The investment gives Trafigura access to major onshore oil assets in Siberia, and

### Total CEE M&A market

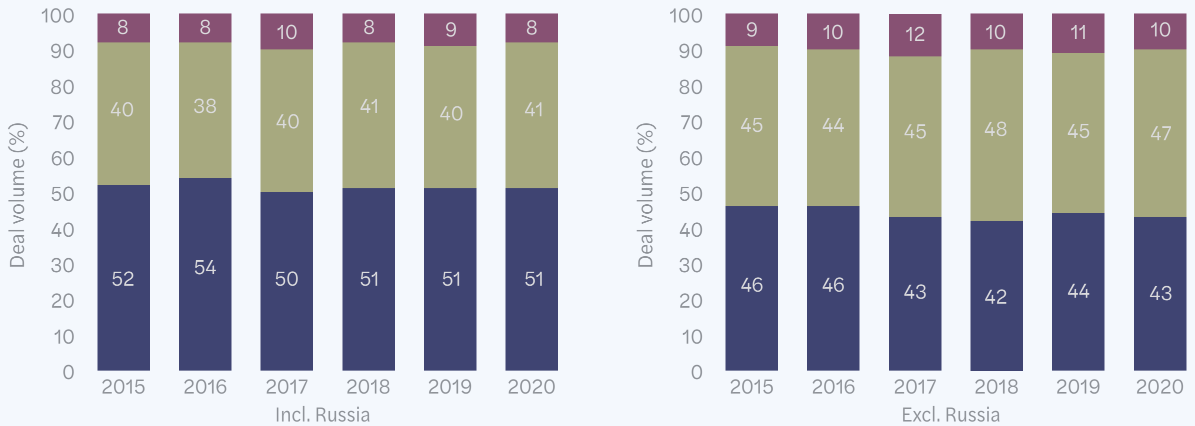


deepens its relationship with Russia's Rosneft, the buyer of Vostok's production.

Poland, the region's largest economy after Russia, saw two of the region's top ten deals. This reflects not only the strength of the Polish market, but the country's growing position as a base and gateway for investors in CEE, with several regional M&A deals involving Poland-based businesses.

The largest Polish deal of the year saw French telecoms company Iliad take over PLAY Communications, Poland's leading mobile operator, from investors including Icelandic-owned, UK-based fund Novator, in a transaction worth €3.7bn. PLAY also inked a deal to sell off a 60% stake in its portfolio of tower assets to Spain's Cellnex for €800m – a part of a trend among telcos to sell off physical infrastructure. Cellnex also acquired the

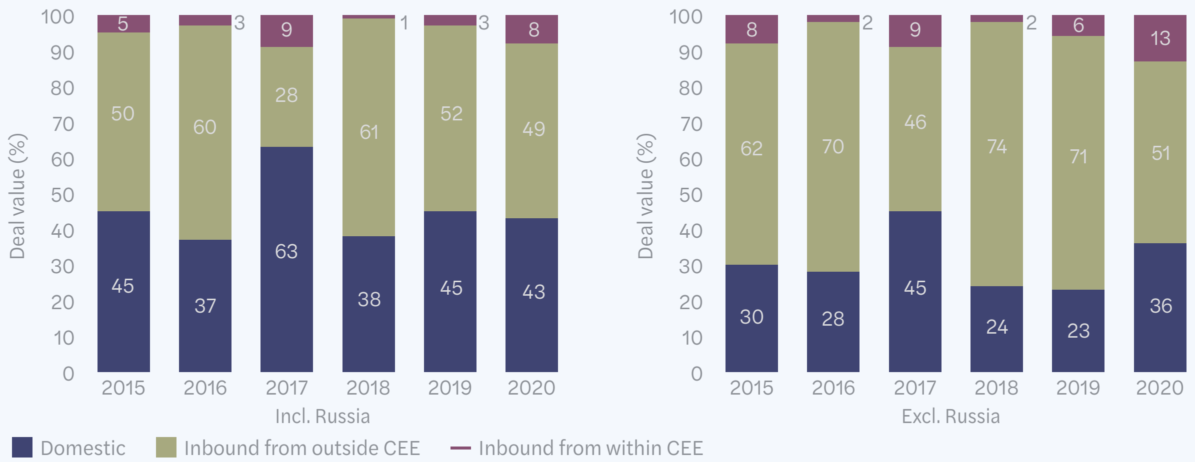
## CEE M&A volume – inbound vs. domestic (Including Russia vs. excluding Russia)




| Incl. Russia | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| Domestic | 52 | 54 | 50 | 51 | 51 | 51 |
| Inbound from outside CEE | 40 | 38 | 40 | 41 | 40 | 41 |
| Inbound from within CEE | 8 | 8 | 10 | 8 | 9 | 8 |

| Excl. Russia | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| Domestic | 46 | 46 | 43 | 42 | 44 | 43 |
| Inbound from outside CEE | 45 | 44 | 45 | 48 | 45 | 47 |
| Inbound from within CEE | 9 | 10 | 12 | 10 | 11 | 10 |

## CEE M&A value – inbound vs. domestic (Including Russia vs. excluding Russia)




| Incl. Russia | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| Domestic | 45 | 37 | 63 | 38 | 45 | 43 |
| Inbound from outside CEE | 50 | 60 | 28 | 61 | 52 | 49 |
| Inbound from within CEE | 5 | 3 | 9 | 1 | 3 | 8 |

| Excl. Russia | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| Domestic | 30 | 28 | 45 | 24 | 23 | 36 |
| Inbound from outside CEE | 62 | 70 | 46 | 74 | 71 | 51 |
| Inbound from within CEE | 8 | 2 | 9 | 2 | 6 | 13 |

# The dealmaking landscape

## Top 10 M&A deals in CEE in 2020 (including Russia)*

| Announced date | Target company | Sector | Target country | Bidder company | Bidder country | Deal value (€m) |
|---|---|---|---|---|---|---|
| 12/03/2020 | Borealis AG (39% Stake) | Industrials | Austria | OMV AG | Austria | 5,712 |
| 30/12/2020 | Vostok Oil (10% Stake) | Energy & utilities | Russia | Trafigura Beheer BV | Netherlands | 5,699 |
| 21/09/2020 | PLAY Communications S.A. | Telecommunications | Poland | Iliad SA | France | 3,687 |
| 30/10/2020 | Budapest Bank Zrt. | Financial services | Hungary | Magyar Takarekszovetkezeti Bank Zrt. | Hungary | 2,000 |
| 12/02/2020 | Tele2 Russia Telecom (55% Stake) | Telecommunications | Russia | Rostelecom PJSC | Russia | 1,903 |
| 06/02/2020 | En+ Group plc (21.37% Stake) | Industrials | Russia | En+ Group plc | Russia | 1,437 |
| 06/04/2020 | Globe Trade Centre S.A. (61.49% Stake) | Real estate | Poland | Optima Investments Limited | Hungary | 1,429 |
| 31/07/2020 | Highland Gold Mining Ltd | Energy & utilities | Russia | Fortiana Holdings Limited | Cyprus | 1,415 |
| 09/01/2020 | Residomo SRO | Real estate | Czech Republic | Heimstaden Bostad AB | Sweden | 1,300 |
| 12/11/2020 | Hutchison Drei Austria GmbH | Telecommunications | Austria | Cellnex Telecom, SA | Spain | 1,100 |

*Based on deals with disclosed values

Austrian infrastructure business of Hong Kong's Hutchison Telecommunications for €1.1bn, in the year's tenth biggest deal.

Iliad's plan to delist PLAY comes as telecoms firms around the world have experienced poor share performance despite the uptake in demand as a result of the Covid-19 pandemic. Selling off towers assets has been one strategy adopted by firms around the world to unlock value, as have take-privates. Both could continue to be trends in the sector in 2021.

The biggest deal of the year took place in Austria, the region's most affluent market. Austrian oil company OMV increased its stake in petrochemicals company Borealis from 36% to 75% for €5.7bn. OMV acquired the stake from its partner Mubadala, an Abu Dhabi government investment fund, which will retain a 25% stake in Borealis.

The acquisition strengthens OMV's vertical integration and will allow it to tap further into the growing global market for monomers and polymers, as well as Borealis's recycling business – and away from fuels. As the energy transition moves ahead, more companies in the energy industry could employ M&A to restructure and move towards less carbon-intensive assets.

The banking sector has been a major driver of M&A in CEE in recent years, as cost pressures, regulation, and intense competition have catalysed consolidation. There has also been an ownership reshuffle in many countries as some banks (including several Greek institutions following the Greek crisis) pulled out of non-core markets, and others stepped in to capitalise on regional growth. In some cases, such as Poland, Hungary and Bulgaria, governments have played an active role. The year's fourth biggest

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| 12/11/2020 | Hutchison Drei Austria GmbH | Telecommunications | Austria | Cellnex Telecom, SA | Spain | 1,100 |
| 07/02/2020 | AXA SA (Poland, Czech Republic and Slovakia operations) | Financial services | Poland | UNIQA Insurance Group AG | Austria | 1,002 |
| 23/10/2020 | CEZ, a. s. (Romania Assets) | Energy & utilities | Romania | Macquarie Infrastructure and Real Assets | Australia | 1,000 |
| 13/03/2020 | Goodman Group (Central and Eastern Europe Logistics Portfolio) | Real estate | Poland | GLP Pte. Ltd | Singapore | 1,000 |
| 12/06/2020 | ERBER AG | Healthcare & pharmaceuticals | Austria | Royal DSM N.V. | Netherlands | 980 |

*Based on deals with disclosed values

deal saw a merger between two Hungarian state-owned banks, MTB and Budapest Bank, a transaction valued at €2bn.

Two other deals in the top twenty were in the financial services sector: the Polish, Czech, and Slovak operations of France's AXA were acquired by Austrian insurer UNIQA, for €1bn, in the latest consolidation play in the region's growing insurance sector. Similarly, another Austrian company, Vienna Insurance Group, acquired the CEE operations of Aegon for €830m.

As Covid-19 and government measures to contain the pandemic swept through the globe, the normal course of business for many industries, M&A included, were disrupted. But dealmakers reacted quickly, and as the CEE region's economies gradually transition to a new normal, some of these changes may be here to stay.

"I think that the majority of players actually reacted quickly to remote work and the digital age," says Andrija Garofulić, Partner at Mazars in Croatia and coordinator of the Adriatic region. "Deal completions are still happening here, although physical contact, travel, site visits, and management meetings were postponed. I think that part of this will remain because it's much easier to do the basics at the beginning of a deal via the internet rather than travelling a couple of times before you even know if the deal is going in the proper direction."

# Around the CEE region

## The CEE region is a vast, diverse landscape, spanning from the Baltic Sea to the Russian Far East – we explore the major deals and trends in eight of the most significant markets

The top four countries in deal value terms remained the same as in 2019 – Russia, Poland, the Czech Republic, and Austria. The four countries all rank in the top five economies in CEE in pure GDP terms (the other being Romania). Russia is by some margin the most populous country and the biggest economy in the region, while Poland ranks second in GDP and third in population (behind Ukraine). Austria and the Czech Republic are less populous but have historically been the most affluent countries in CEE in GDP in terms of purchasing power parity.

### Poland

Poland ranked second regionally in both deal volume and aggregate value terms. Total disclosed deal value rose 41% year-on-year to €11.2bn, an impressive performance given the impact of Covid-19, though volume fell to 124 deals, from 154 in 2019.

Two Polish deals ranked in the top ten deals of the region including Russia, and four come into the top ten when excluding Russia.

Poland's biggest deal of the year saw French telecoms operator Iliad acquire Polish telco PLAY, the mobile market leader in subscription terms, for €3.7bn. Iliad acquired PLAY from its reference shareholders, London-based, Icelandic-owned fund Novator, and Greece's Olympia Development. Novator had been an original investor in PLAY, which launched in 2007 as the country's fourth mobile operator and achieved rapid expansion with low prices and striking marketing. The company's investor had been reducing their ownership via an IPO in 2017. Iliad followed the acquisition with a deal to sell a 60% stake in its network infrastructure to Spain's Cellnex for around €800m.

The second biggest Polish deal saw Hungary's Optima Investments acquire a 61.49% stake in the Polish-based real estate developer Global Trade Centre (GTC). GTC owns commercial (office and retail) developments across CEE, and thus has some exposure to the pandemic. Another major real estate deal saw Singaporean logistics-focused investment fund GLP acquire the CEE logistics business of Goodman Group. The deal doubles GLP's European footprint and allows it to tap into the rapid growth of e-commerce across the region.

Looking forward, Poland is set to remain a leading market for M&A in CEE. Sectors attracting interest range from niches such as dental surgery and IP trading through ICT to manufacturing, food & beverage and the renewable energy industry, which has become a priority for the Polish government.

"The shift towards renewables has been mobilised by European regulations and Polish politicians accepting the shift from coal. This was followed quickly by large Polish energy companies which have all published new strategies to move away from coal and into renewables," says Jacek Byrt, Partner at Mazars in Poland. "We've seen huge interest among strategic investors and also financial institutions to back new projects. We expect a lot of capital to move into these new sectors – this is just the beginning."

### Austria

The most affluent country in CEE by a considerable margin, Austria ranked third in the region in both volume and value. Volume declined only slightly, with 79 recorded deals, down from 81 in 2019. Total disclosed deal value reached €9.7bn, boosted by the €5.7bn acquisition of an additional 39% stake in petrochemicals company Borealis by Austrian energy giant OMV.

OMV now has a 75% stake in Borealis, having acquired the additional share from Abu Dhabi's government investment fund Mubadala, which will retain a 25% stake. Borealis is one of Europe's largest petrochemicals companies, and the deal makes OMV the largest ethylene and propylene producer in Europe and one of the top ten polymer producers worldwide. The acquisition strengthens OMV's vertical integration, and the company said that it would lower its susceptibility to volatility in the oil market, while supporting its "repositioning in a low-carbon world".

Another top-twenty deal involving Austrian energy players saw utility company Wiener Stadtwerke take a 28.25% stake in Austrian energy group EVN, in a deal worth €801m. The seller, Germany's EnBW, divested in order to focus on the development of its renewables business. Wiener Stadtwerke is wholly owned by the city of Vienna, and becomes the second biggest shareholder in EnBW after the state of Lower Austria – indicative of the leading role that government bodies are having on economic development and indeed M&A, especially when it comes to the energy transition.

Austrian companies have also been active in outbound M&A across CEE since the fall of communism in the region and remain so – three of the year's top ten deals (excluding Russia) involved Austrian buyers.

## Czech Republic

The Czech Republic ranked fourth in the region by deal volume, though the number of deals fell 15% year-on-year to 75. In aggregate value terms, it ranked fifth, with the total dropping 63% to €2.3bn – this reflects a strong year for big-ticket deals in 2019, including the €1.5bn takeover of Central European Media Enterprises by the investment group PPF, which was announced in 2019 and closed in 2020.

The second most-affluent country in the region after Austria in terms of income per head, the Czech Republic benefits from its strategic location at the heart of Europe, next to the large and wealthy German market and the substantial and growing market of Poland. Historically one of the most economically developed countries in the region, it benefits from good infrastructure and a strong manufacturing base.

"The technical capabilities in industry that can be inter alia demonstrated by an outstanding Czech production base for the aerospace sector are very well-regarded by investors," says Lukáš Hruboň, Head of the Transaction Advisory Department at Mazars in the Czech Republic. "This comes from a long tradition in this part of the economy."

The largest transaction announced in 2020 was the €1.3bn acquisition of the Residomo residential real estate portfolio by Heimstaden Bostad, a leading Nordic property company. Residomo, focused on the Moravia-Silesia region, has 42,000 residential units, the largest such portfolio in the country. The sellers were Round Hill Capital and Blackstone.

Hruboň says that while dealmaking slowed in the first half of the year, no deals in pipeline were cancelled, and the second half was remarkably busy. The economy has been powered by the twin tech hubs of Prague and the second biggest city, Brno, which are gaining a growing reputation for excellence in the tech sector to add to the country's traditional strengths. While the large automotive sector has seen both demand slip and also temporary availability of staff challenges due to the pandemic, "generally industrial production in the Czech Republic can still be considered a safe haven," Hruboň says.

## Hungary

Hungary's dealmaking market maintained momentum in 2020, with 31 deals, the same number as 2019. Deal value totalled €3bn, up from just €378m in 2019, boosted by the €2bn merger of two state-owned lenders, Budapest Bank and MTB. The government and central bank have been significant drivers of M&A in the Hungarian banking sector, encouraging greater Hungarian ownership; the government took a 15% stake in the local subsidiary of Austria's Erste Bank in 2016.

Consolidation is also taking place in the Hungarian insurance industry, as it is across the region. One of the year's top twenty deals regionally saw Vienna Insurance Group acquire the CEE business of Aegon for €830m via its Hungary-based business.

Hungary's growing financial sector has seen local players take up some of the slack from inbound investors in 2020.

"We have a really active domestic sector, in mid-cap and up," says Zoltán Benedek, Partner at Mazars in Hungary. "There are several vehicles established by the government, and all kinds of private equity available for acquisitions."

Dealmakers adapted quickly to the new situation after a slowdown in the spring of 2020, helped by a comprehensive moratorium on loan and leases – a programme that will be maintained until at least the end of June.

Particularly lively sectors include IT, healthcare, and renewables, where Hungary has more supportive policies than many CEE countries, encouraging investment in solar energy in particular.

Benedek expects turnaround funds to become more active in the following period, not least as the effects of the crisis are played out. "We see a good outlook for M&A," he says. "We believe that more distressed investment opportunities will emerge, certainly in sectors like retail and tourism. Logistics and transport are also attracting interest."

# Around the CEE region

## Romania

Romania is one of the most populous countries in CEE, with a diversified economy, reserves of natural resources, and a strategic location between Central Europe, the Balkans, the Black Sea, and the former Soviet Union. While it has had a difficult transition from a particularly harsh communist regime, the country has been one of the fastest-growing EU economies in recent years.

Romania saw 40 deals in 2020, down 27% on 2019, while total disclosed deal value came to €1.7bn, more than double the previous year. Much of this total was due to the largest deal of the year in the country, Macquarie's acquisition of the Romanian assets of Czech energy company CEZ for €1bn.

The energy industry could continue to prove attractive to inbound investors. While policy hurdles and price volatility have slowed development, substantial reserves exist and could play a role in regional energy diversification. The long-awaited IPO of state hydropower firm Hidroelectrica, which has been delayed until late-2021, should also provide a boost to the industry, as well as to the Bucharest Stock Exchange, which was promoted to emerging market status by index provider FTSE Russell recently, allowing it access to a wider pool of investors.

"The M&A market saw an increase in deal activity in H2 in sectors such as construction, ICT and real estate which recorded positive dynamics. Local PE funds started also to be very active and contribute to the further development of the M&A in Romania." says Răzvan Butucaru, Partner and Advisory Leader at Mazars in Romania.

The second largest deal of the year in the country was the sale of a 54% stake in Telekom Romania to France's Orange, the leading mobile provider in Romania, for €268.7m. The tech sector is another area of interest and has been particularly lively in recent years, capitalising on the country's pool of technically skilled and multilingual ICT professionals, relatively low costs, and growing clusters of excellence in cities including Bucharest, Cluj, Arad, and Iasi. Notable deals in the sector include the sale of the Romanian business of UK-based payment solution provider PayPoint to Polish PE firm Innova for €51.8bn.

## Adriatic

The Adriatic region saw a significant drop in dealmaking in 2020, partly because the region was hit particularly hard by Covid-19 and in some cases saw tighter restrictions. The region also had a complex year politically, with elections in Croatia, Bosnia and Montenegro; protests in Serbia and Albania; and Kosovo's government falling, while Slovenia's coalition administration came under pressure. The region's vital tourism industry also had a difficult year, due to travel restrictions.

The region saw a total of 40 deals in 2020, down 25%, while total declared value dropped 45% to €1.2bn. However, some big transactions still went forward, with three deals over €100m. The long-awaited privatisation of Serbia's Komercijalna Banka (KB) was finalised – Slovenia's NLB acquired an 83.23% stake in the business for €387m.

"Judging by the level of foreign direct investments, the Serbian investment market was as strong as prior to the Covid-19 pandemic," says Kristijan Cinotti, Managing Partner at Mazars in Serbia, "Aside from the Komercijalna deal, a number of smaller size acquisitions in the financial sector, FMCG sector and general manufacturing also took place. In addition, a significant portion of overall FDI (40%) was in greenfield investments."

Significant deals took place in Croatia as well, mainly in the TMT sector. "Croatia saw a huge interest for its ICT businesses, with US-based One Equity Partners investing €200m in Infobip and Sweden's Stillfront Group acquiring gaming developer Nanobit for €84.7m," says Andrija Garofulić, Partner at Mazars in Croatia and coordinator of the Adriatic region. "More start-ups and scale-ups can be seen on the horizon, leading to a sustainable pipeline of foreign investments in years to come," he adds.

Elsewhere in the region, Albanian diversified holding company Kastrati Group acquired the operator of Tirana Airport from a Chinese investor for €71m.

Investors will be keeping an eye on growing integration between the small Albanian and Kosovan markets and the long-anticipated start of Albania's EU membership talks.

"EU negotiations starting will be a good sign for investors and may lead them to look more attentively at the Albania and Kosovo markets for potential enlargement on CEE," says Teit Gjini, Managing Partner at Mazars in Albania.

## Ukraine

After a tumultuous few years, Ukraine had achieved a degree of stability, with economic growth recovering and relations with international partners strengthening. In January 2020, the government sold €1.3bn of debt at record-low rates, reflecting rising investor confidence after five years of strengthening macroeconomic stability.

But dealmaking activity dropped significantly in 2020 due to the Covid-19 pandemic, with 22 transactions announced throughout the year, down 21% on 2019. Meanwhile, total disclosed deal value dropped 89% to just €132m. A government shake-up in March 2020 caused short-term uncertainty, with a new prime minister, finance minister, and chief prosecutor installed; a few months later, the central bank governor was also replaced.

Yevgeniya Kopystyanska, Partner at Mazars in Ukraine, expects foreign investors to take a cautious approach in 2021, with local businesses likely to lead dealmaking activity. Leading high-net-worth Ukrainian business figures have played a central role in M&A in recent years, making transactions in sectors from banking to manufacturing and energy.

In June 2020, the IMF agreed an 18-month US$5bn standby loan agreement with Ukraine to guide it through the Covid-19 crisis. With significant sovereign debt payments due in 2021, meeting the IMF's goals to continue disbursements under the programme will be crucial.

"We're hoping for an agreement in the first half of the year, followed by further improvements to boost the investment market," says Kopystyanska. "The mood is quite dependent on the IMF deal."

Longer term, investors hope for a deepening of Ukraine's shallow capital markets, and a stronger judicial system.

With GDP growth forecast to return to an impressive 5%, opportunities for M&A should re-emerge; Kopystyanska expects international interest in Ukraine to pick up strongly again by 2022. Sectors attracting interest include agriculture, where liberalisation is slowly opening the country's vast swathes of fertile land to investment, as well as pharmaceuticals, and the growing ICT sector. Ukrainian tech players benefit from a large pool of skilled labour and relatively low costs by CEE standards.

## Slovakia

Following a difficult transition in the 1990s, Slovakia has become a real success story in CEE. Leveraging its location, skilled workforce, and relatively low costs, it has become an automotive industry centre, producing more cars per capita than any other country in the world. It has also nurtured a growing ICT sector, with particular strengths in fintech and e-commerce. Unlike many of its neighbours, Slovakia is in the eurozone, providing monetary and exchange rate stability favourable to investors from elsewhere in the single currency area, or seeking access to it.

Headline figures show a slower year for Slovakia in 2020, with just 12 deals, down 43% on 2019, and just one transaction with a disclosed value of €6m. But this does not paint the whole picture, notes Mickaël Compagnon, Managing Partner at Mazars in Slovakia. While the global automotive sector was hit by the pandemic, Slovakia's weathered the storm better, partly because of international manufacturers continuing production in the country while cutting output in more expensive locations. Compagnon expects dealmaking to pick up in 2021, with transactions postponed in 2020 moving forward, and opportunities in segments including tech, distressed real estate assets, manufacturing, and logistics.

In ICT, the acquisition of Slovak analytics and marketing automation start-up Exponea in early 2021 by US-based software developer Bloomreach is a vote of confidence in the quality of Slovakian engineers and developers.

EU and Slovak government support for the energy transition should also boost carmakers' efforts to develop electric vehicle technology – and local moves to build up the EV charging infrastructure.

## Private equity in CEE

# Private equity remained exceptionally active in 2020, even in the face of headwinds caused by the Covid-19 pandemic, with both buyout and exit value up year-on-year

Private equity firms have proliferated in recent years in cities like Warsaw, Prague, Vienna, Moscow, Budapest, Bucharest or Zagreb and the industry had a remarkably strong year in terms of deal activity in 2020 – especially against the context of the Covid-19 pandemic. Ample amounts of dry powder allowed PE to power through the crisis, and dealmakers adapted quickly to restrictions on travel, meetings, and site visits.

Total disclosed buyout value jumped up by 40% year-on-year to €3.9bn – although it is worth bearing in mind that many PE deals do not disclose values and actual total value could be even higher. Volume was robust at 68 transactions, compared to 71 in 2019. Private equity exits fared even better, with total disclosed value coming to €8.1bn, a 11% rise on 2019 – although volumes dropped 10% to 55 deals. The top PE deal of the year saw Hungary-based Optima Investments acquire Polish real estate company Globe Trade Centre for €1.4bn.

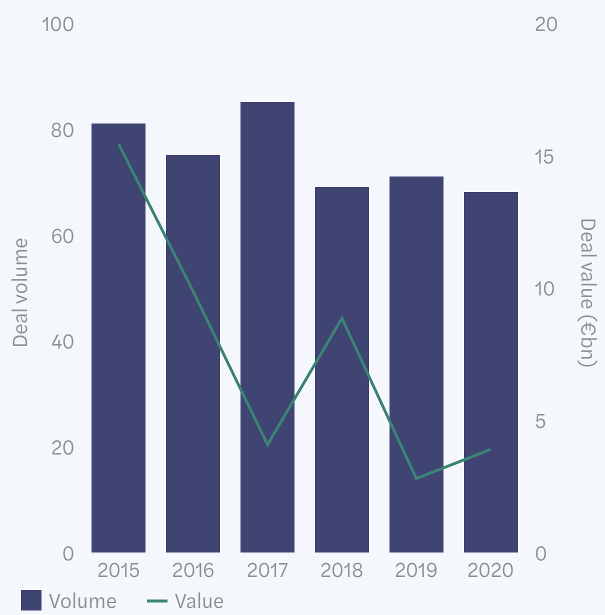
While the pandemic has slowed fundraising, globally the PE industry still has nearly US$1.5bn in uncommitted capital to invest, according to Invest Europe. CEE-based PEs have been particularly active raising US$2.6 billion and US$1.4 billion for investments in 2018 and 2019 respectively.

“Covid-19 is actually creating more opportunities for private equity and financial investors, because they generally have sufficient liquidity and HR resources to carry out acquisitions,” says Lukáš Hruboň, Head of the Transaction Advisory Department at Mazars in the Czech Republic.

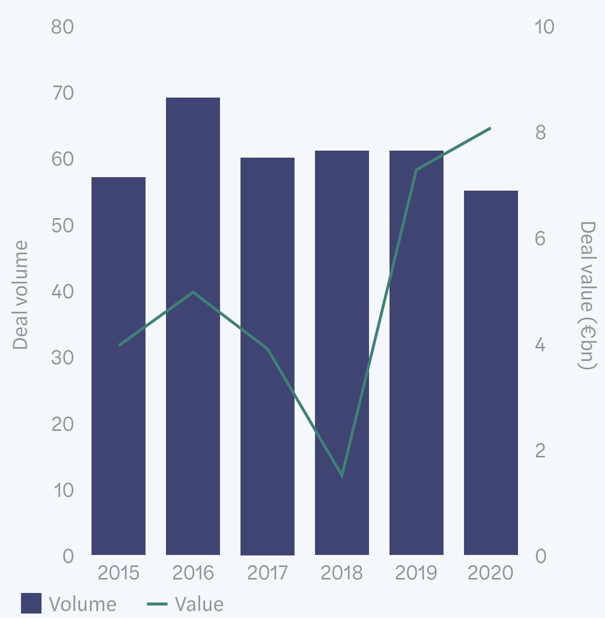
International funds such as Apollo, Cinven, and Advent are all active in the region. US-based Apollo was responsible for the second largest PE transaction in the region, the acquisition of Czech lottery operator SAZKA for €500m.

But one of the defining features of the past few years has been the growth of local funds in countries like Poland, Czech Republic, Romania or the Adriatic region. Just in the past year, a number of firms in the area have launched or closed new funds. Enern Capital, which focuses on CEE and DACH, launched a €200m fund in early 2020, with the aim to close in 2021, while Czech-based Genesis Capital launched a new €150m fund in June, and Slovakia-based

CEE private equity M&A buyouts




CEE private equity M&A exits



### Top five PE firms investing in CEE by number of M&A deals, 2019-20

| PE firm | Deal volume |
|---|---|
| Innova Capital Sp z o.o. | 9 |
| Cinven Partners LLP | 7 |
| Mid Europa Partners LLP | 6 |
| BaltCap | 5 |
| Abris Capital Partners | 5 |
| Value4Capital | 5 |

### Top five PE firms investing in CEE by total value of M&A deals, 2019-20

| PE firm | Deal value (€m) |
|---|---|
| Allianz Capital Partners GmbH | 1,800 |
| BC Partners Limited | 1,720 |
| Optima Investments Limited | 1,429 |
| Kohlberg Kravis Roberts & Co. L.P. | 1,420 |
| Apollo Global Management, LLC | 1,011 |

Note:
The private equity activity tables reflect the activity of buyout firms, venture capitalists, investment firms, financial institutions and all parties whose activities wholly involve, or include, making private equity investments.
Please note that the values in the 'Value' column do NOT reflect the equity contribution of the investors but represent the total values of deals they were involved in.

Sandberg Capital closed a €109m fund in January 2021, according to data from Unquote.

As the markets in parts of CEE remain fragmented, PEs could play a crucial role as cross-border consolidators in the different industries in the years to come. This could especially be relevant for sectors such as healthcare, specialised retail and TMT.

The region's strong start-up ecosystem also makes it an attractive market for venture capital. Prior to the pandemic, 2019 was a record-breaking year for VC investment in CEE, with a total of US$1.8bn invested, according to Dealroom.

Examples of significant recent funding rounds include the €65.3m Series D round in Polish tech firm Brainly, led by US-based Learn Capital. General Catalyst Partners, Prosus Ventures, Runa Capital and MantaRay all also participated in the round. Estonia-based Bolt also raised a €150m round led by D1 Capital Partners in 2020.

"Covid-19 is actually creating more opportunities for private equity and financial investors, because they generally have sufficient liquidity"

**Lukáš Hruboň**
Head of Transaction Advisory,
Mazars in the Czech Republic

# Succession planning in CEE

## Thirty years after the end of the Communist era in CEE, many of the businesses founded in the initial wave of economic liberalisation are now ideal opportunities for M&A – especially for PE buyers

In Poland, for example, it is estimated that 78% of the SMEs belong to the first generation of owners, versus 28% in Western Europe.

"The majority of businesses in the region are a maximum of 30 years old," says Teit Gjini, Managing Partner at Mazars in Albania. "The generation who built up these businesses are now coming up to 55 to 65 years of age and their natural exit time is coming over the next decade, which should increase M&A over the next decade."

Although some of these transactions are motivated by leadership succession planning, there are a variety of deal structures, some allowing founders and their families to retain stakes and active roles in the management of the business. Younger founders in particular are more likely to want to remain involved.

"What is more and more acknowledged is that if you sell to private equity and retain a stake you receive the first payment immediately under a smaller multiple. But after five years your remaining stake can be much greater than if you'd sold 100% to a strategic partner," says Andrija Garofulić, Partner at Mazars in Croatia and coordinator of the Adriatic region. "Finding a good partner to match the founder's exit strategy and executing the exit at the proper time is key in the succession planning process."

Moreover, entrepreneurs in the region are growing more sophisticated and have come to think beyond quick initial growth, according to Răzvan Butucaru, Partner, Advisory Leader at Mazars in Romania. "Founders are now seeking a sound, longer-term growth strategy for their business. Owners think of having their businesses taken to the next level – in terms of efficiency, technology and markets – and they start to look for potential investors who could accommodate this," he says.

Examples of recent succession-driven M&A include Poland-based Enterprise Investor (EI)'s investments in Anwim, the country's largest independent operator of petrol stations, founded in 1992. EI first invested in Anwim in 2018 and increased its stake in November 2020. Although EI is now the majority owner, founder Witold Butkiewicz maintains a significant shareholder and remains the chairman of the supervisory board.

Another example is the November 2019 sale of a majority stake in Poland's Masterchem, a manufacturer of rigid plastic packaging solutions, to Carlyle-backed Portugal-based Logoplaste. Masterchem's founding family will retain a significant minority stake.

> "Finding a good partner to match the founder's exit strategy and executing the exit at the proper time is key in the succession planning process"
>
> **Andrija Garofulić**
> Partner, Mazars in Croatia

> "Owners think of having their businesses taken to the next level – in terms of efficiency, technology and markets"
>
> **Răzvan Butucaru**
> Partner, Advisory Leader, Mazars in Romania

## M&A faced serious challenges due to the Covid-19 pandemic all over the globe, but some regions fared better than others

Dealmaking in all emerging market regions dropped year-on-year in 2020, as investors pulled back and in some cases focused on lower-risk assets. Deal volume was down 37% in Africa and down 19% in Latin America. CEE deal volume dropped 15% compared to 2019, roughly in line with South East Asia and India, which recorded rates of decline of 15% and 14%, respectively. The Middle East fared the best among all emerging market regions, seeing volume fall by just 14%.

By value, the CEE region fared significantly better than other emerging market regions, with a 12% year-on-year increase in 2020. In contrast, Africa saw total disclosed M&A value plummet by 56% compared to 2019, while Latin America had a 34% fall, and the Middle East and South East Asia saw declines of 29% and 25%, respectively.

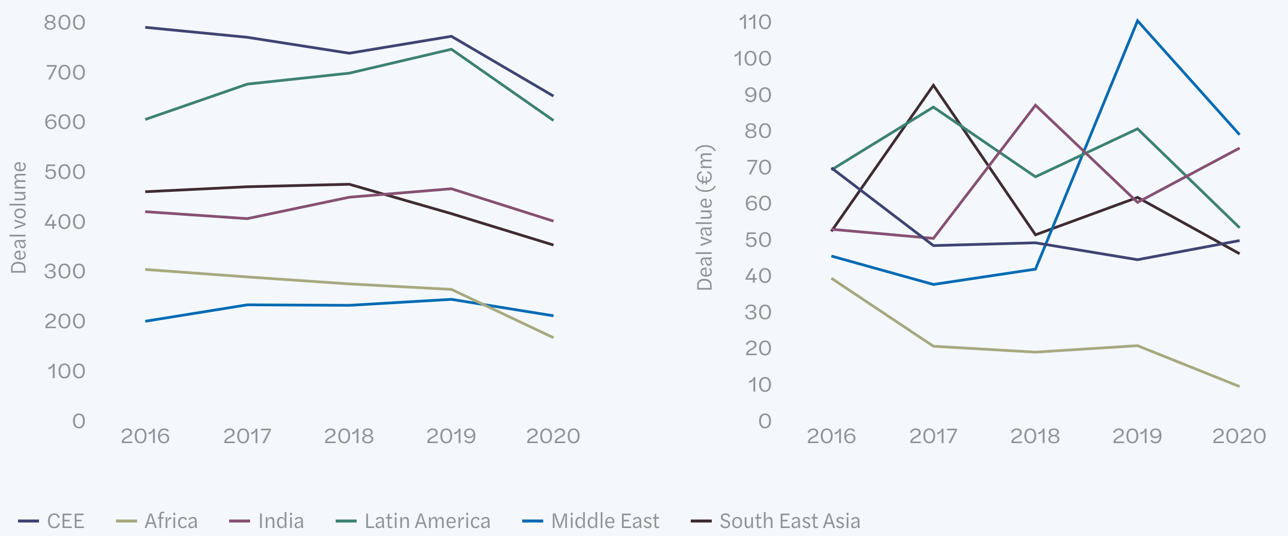
The region has several advantages over other emerging markets. Most countries are either members of the EU – the world's largest market – or have favourable access to it. EU membership and accession processes have also supported important judicial and economic reforms that have improved the business environment – though some countries have made more progress than others. Generally, CEE states are politically stable, with peaceful democratic transitions of power. A legacy of strong scientific and mathematical education has equipped the region with a pool of skilled labour that has supported vibrant tech and manufacturing industries.

"Every European country is a one to three-hour flight away," says Teit Gjini, Managing Partner at Mazars in Albania. "Transport costs are low, the quality of life is good, and culturally it's similar to other European countries. Regulation is less burdensome, and costs and economic development mean that there is scope for the development of a wide range of projects."

Over the coming years, the EU will provide a further advantage to CEE. Member states in the region will be able to tap into €1.8tn in Brussels' funding from the 2021-27 Union budget and its new post-Covid-19 recovery fund. Infrastructure, renewable energy, and circular economy initiatives are among those set to benefit, and the huge sums allotted should have a knock-on effect to EU neighbours in CEE.

Total M&A market deal volume by region

Total M&A market deal value by region



# The inbound picture

## Although the number of inbound deals into the region dropped year-on-year, total disclosed deal value held steady – a clear sign of the CEE region's attractiveness as an M&A market

The resilient strength of CEE as a destination for international investors is borne out by the momentum maintained in total inbound declared deal value in 2020 – €23.9bn, a slight increase on 2019's total of €22.8bn. Inbound volume dropped by 11% to 269 deals – a smaller drop than the overall fall in deal volume regionally and internationally. Over the previous five years, there was an average of just over 300 inbound deals annually, with aggregate value peaking at €41.3bn in 2016.

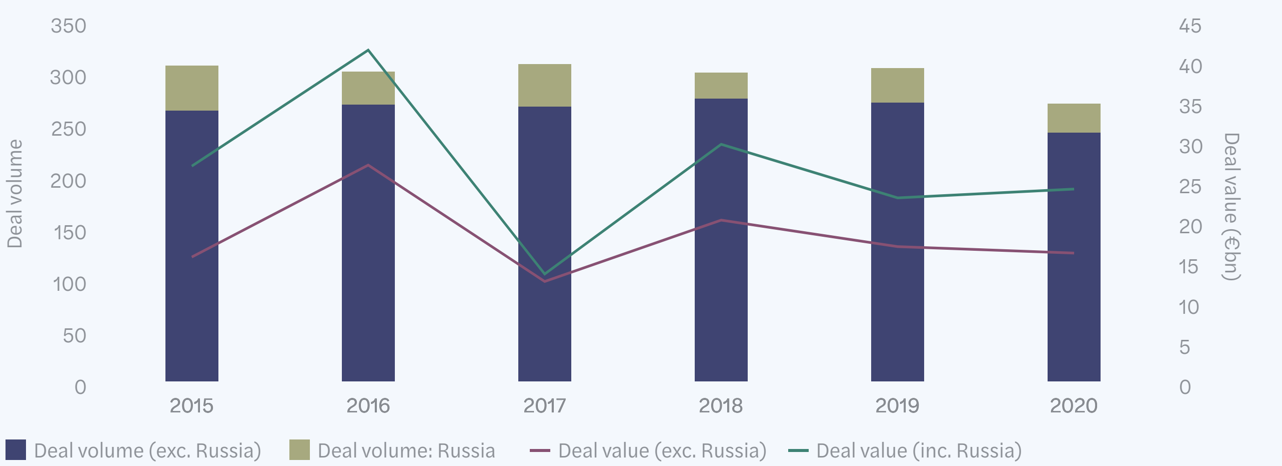
Excluding Russia, the picture is slightly different: there were 241 deals worth a total of €16bn in 2020, down from 270 worth €16.8bn in 2019, and 274 deals worth €20.1bn in 2018.

As the largest economy in the region, Russia saw two of the ten largest inbound deals. The single biggest inbound transaction from outside of the region was the acquisition a 10% stake in Russia's Vostok Oil project by the Netherlands-based subsidiary of global commodity trading company Trafigura, for €5.7bn. The deal creates Trafigura's biggest upstream interest, giving it long-term access to oil supplied from a major basin in northern Russia. Vostok's majority owner is Russian state-controlled company Rosneft, which created Vostok to consolidate oil projects across north Russia. The deal is an indication of Trafigura's confidence in the prospects of the Russian oil sector, despite pressures to reduce fossil fuel exploration, as well as sanctions on entities in the industry, including Rosneft.

The year's third biggest inbound deal was also in the Russian natural resources sector. Cyprus-based Fortiana Holdings acquired Highland Gold Mining for €1.4bn from shareholders including Chelsea Football Club owner, Roman Abramovich. Highland Gold operates mines and exploration areas across the Russian Far East, as well as in Kazakhstan, producing metals including zinc and lead as well as gold. Fortiana's owner is Russian businessman Vladislav Sviblov, now Highland's chairman.

The second biggest inbound deal of the year targeted Poland, which is increasingly viewed as a gateway to CEE by international investors. France's Iliad acquired Poland's leading mobile

### M&A inbound deals to CEE



## Top 10 M&A deals inbound to CEE in 2020 (including Russia)*

| Announced date | Target company | Sector | Target country | Bidder company | Bidder country | Deal value (€m) |
|---|---|---|---|---|---|---|
| 30/12/2020 | Vostok Oil (10% Stake) | Energy & utilities | Russia | Trafigura Beheer BV | Netherlands | 5,699 |
| 21/09/2020 | PLAY Communications S.A. | Telecommunications | Poland | Iliad SA | France | 3,687 |
| 31/07/2020 | Highland Gold Mining Ltd | Energy & utilities | Russia | Fortiana Holdings Limited | Cyprus | 1,415 |
| 09/01/2020 | Residomo SRO | Real estate | Czech Republic | Heimstaden Bostad AB | Sweden | 1,300 |
| 12/11/2020 | Hutchison Drei Austria GmbH | Telecommunications | Austria | Cellnex Telecom, SA | Spain | 1,100 |
| 13/03/2020 | Goodman Group (Central and Eastern Europe Logistics Portfolio) | Real estate | Poland | GLP Pte. Ltd | Singapore | 1,000 |
| 23/10/2020 | CEZ, a. s. (Romania Assets) | Energy & utilities | Romania | Macquarie Infrastructure and Real Assets | Australia | 1,000 |
| 12/06/2020 | ERBER AG | Healthcare & pharmaceuticals | Austria | Royal DSM N.V. | Netherlands | 980 |
| 23/10/2020 | PLAY Communications S.A. (Polish towers Portfolio) (60% Stake) | Technology | Poland | Cellnex Telecom, SA | Spain | 800 |
| 10/11/2020 | Sazka Group, a.s. | Hospitality & leisure | Czech Republic | Apollo Global Management, LLC | USA | 500 |

*Based on deals with disclosed values

operator, PLAY, for €3.7bn. The move makes Iliad one of Europe's largest telecoms operators, with 41m subscribers, and comes at a time when telcos worldwide are seeing revenues squeezed. PLAY entered the Polish market as the fourth largest mobile operator in 2007 and became known for its competitive pricing and strong marketing, which makes it a natural fit for Iliad, the low-cost no-frills telco owned by billionaire Xavier Niel. PLAY delivered profit margins of 32% from €1.6bn in revenues in the 12 months up to the acquisition. Having agreed the deal with PLAY's two largest shareholders, Iliad tendered an offer for the majority of the company.

Soon after the Iliad takeover, PLAY was involved in the eighth largest inbound deal of the year, as Spain's Cellnex acquired a 60% stake in its telecoms towers portfolio for €800m. Iliad, via PLAY, will retain the remaining 40% share. The deal gives Cellnex majority ownership of Play's 7,000 sites around Poland, increasing its portfolio by more than 10%. A Cellnex statement cited Poland's population of nearly 40m and strong GDP growth as rationales behind the deal. Meanwhile, the sale will allow Iliad to focus on PLAY's core business and reduce capex.

## Top bidders

The US, Germany, and France led the way in inbound investment in CEE in 2020 in volume terms. The US accounted for 40 deals, followed by 37 for Germany, and 25 for France.

Although the US ranked first in deal volume, it was the fifth largest contributor to overall inbound deal value, with transactions worth €1.7bn. While European investors overall dominate the inbound landscape, US investors are active in sectors including financial services, FMCGs and the automotive industry – while both PEs and VCs are active in the region's tech scene. US-based private equity funds have also long had a presence in the region, and in 2020 the largest US-led inbound deal saw Apollo Global Management acquire Czech lottery and betting operator SAZKA for €500m.

"We've seen US financiers recognising that there are tech hubs here, and that the tech community is literally full of ideas and development capabilities," says Lukáš Hruboň, Head of the Transaction Advisory Department at Mazars in the Czech Republic. "They are expanding in CEE."

Germany, the second largest bidder by volume, ranked ninth in terms of value, with aggregate value of €451m. Europe's largest economy, the country borders several CEE countries and its leading companies have invested in the region since before the fall of communism. Countries including Poland, the Czech Republic and Slovakia have become well-integrated into German and broader European supply chains. This may be further strengthened if nearshoring accelerates in the wake of the Covid-19 crisis, as many analysts expect. The pandemic and related disruptions have encouraged European companies to consider moving their supply chains closer, and trade and geopolitical tensions with China may further catalyse this process.

"Slovakia has a clear logistics advantage because from the Bratislava region it's really easy to access Germany, the Czech Republic, Poland, Austria, and so on," says Mickaël Compagnon, Managing Partner at Mazars in Slovakia. "If I were a German entrepreneur, I would invest here particularly as proximity becomes more important thanks to Covid-19. We've seen that long supply chains are complex. I'm convinced that increasing numbers of companies will set up factories in CEE, or buy their competitor's plants here."

France ranked second in total deal value in 2020, with transactions totalling €4.5bn. While the figure was substantially boosted by Iliad's acquisition of Poland's PLAY, France's third rank in inbound deal volume is indicative of strong French interest in the region.

In Romania, Iliad's sectorial competitor Orange invested €269m to acquire a 54% stake in Telekom Romania from Greek counterpart OTE. The deal boost's Orange's bid to develop convergent services in Romania, building in Telekom Romania's fixed line and fibre optic networks and its large customer base.

Another significant deal saw a consortium led by France's Meridiam win the €281m concession to run and develop Sofia Airport. The 35-year concession is expected to see the operators roll out new environmental standards and develop new routes, supporting the growth of Bulgaria's tourism

## Top inbound bidders in 2020 by volume

| Country | Deal volume |
|---|---|
| USA | 40 |
| Germany | 37 |
| France | 25 |
| Sweden | 21 |
| Netherlands | 21 |
| United Kingdom | 17 |
| Switzerland | 15 |
| Denmark | 11 |
| Spain | 9 |
| Finland | 8 |

## Top inbound bidders in 2020 by value

| Country | Deal value (€m) |
|---|---|
| Netherlands | 7,193 |
| France | 4,454 |
| Spain | 2,127 |
| Sweden | 1,654 |
| USA | 1,654 |
| Cyprus | 1,432 |
| Singapore | 1,000 |
| Australia | 1,000 |
| Germany | 451 |

# Cross-border M&A in Central and Eastern Europe
## The inbound picture

### M&A volume inbound to CEE by country, 2019 vs. 2020 (from outside CEE)

| Country | 2019 | 2020 |
|---|---|---|
| Poland | 67 | 62 |
| Austria | 47 | 46 |
| Russia | 33 | 28 |
| Czech Republic | 41 | 26 |
| Romania | 25 | 21 |
| Hungary | 9 | 14 |
| Estonia | 8 | 14 |
| Lithuania | 13 | 10 |
| Ukraine | 14 | 9 |
| Bulgaria | 9 | 8 |
| Croatia | 4 | 8 |
| Slovenia | 8 | 6 |
| Slovakia | 8 | 5 |
| Latvia | 3 | 5 |
| Serbia | 10 | 5 |
| Moldova | 1 | 2 |
| Belarus | 1 | 0 |
| Albania | 1 | 0 |
| Montenegro | 1 | 0 |

### M&A value (€m) inbound to CEE by country, 2019 vs. 2020 (from outside CEE)

| Country | 2019 | 2020 |
|---|---|---|
| Russia | 6,073 | 7,975 |
| Poland | 4,652 | 7,396 |
| Austria | 1,361 | 2,688 |
| Czech Republic | 5,973 | 2,159 |
| Romania | 468 | 1,628 |
| Bulgaria | 1,238 | 628 |
| Estonia | 5 | 518 |
| Slovenia | 246 | 373 |
| Croatia | 220 | 290 |
| Hungary | 18 | 137 |
| Latvia | 340 | 98 |
| Moldova | 0 | 29 |
| Ukraine | 1,092 | 13 |
| Lithuania | 434 | 9 |
| Albania | 0 | 0 |
| Montenegro | 7 | 0 |
| Serbia | 694 | 0 |
| Slovakia | 25 | 0 |
| Belarus | 0 | 0 |

industry, which contributes more than 10% of GDP by some measures.

The Netherlands topped the table of the leading inbound bidders by total deal value in 2020, with transactions worth €7.2bn. This was largely due to two high-value deals involving Dutch bidders – the Trafigura investment in Vostok Oil, and the acquisition of Austrian animal nutrition and health company Erber by Royal DSM. The latter transaction, worth €980m, will help Royal DSM add to its higher-value portfolio.

### Top destinations

Russia unsurprisingly tops the table for inbound deal value in 2020, with total disclosed deal value coming to €8bn, up from €6.1bn the previous year. But by volume of inbound deals, Poland easily topped Russia – there were 62 deals targeting Polish companies from bidders outside of CEE, compared to 28 for Russian targets.

This reflects Poland's growing position as an entry point to the wider region, and its remarkable growth story – 2020 was the first year since the fall of

Communism that the Polish GDP experienced a contraction, of 2.8%. The country recorded declared inbound deals worth €7.4bn in 2020, up from €4.7bn in 2019, making it one of the few countries to record a rise in inbound value.

Austria came in second in terms of volume, with 46 transactions, down from 47 last year. Overall value more than doubled to €2.7bn from €1.4bn the year before.

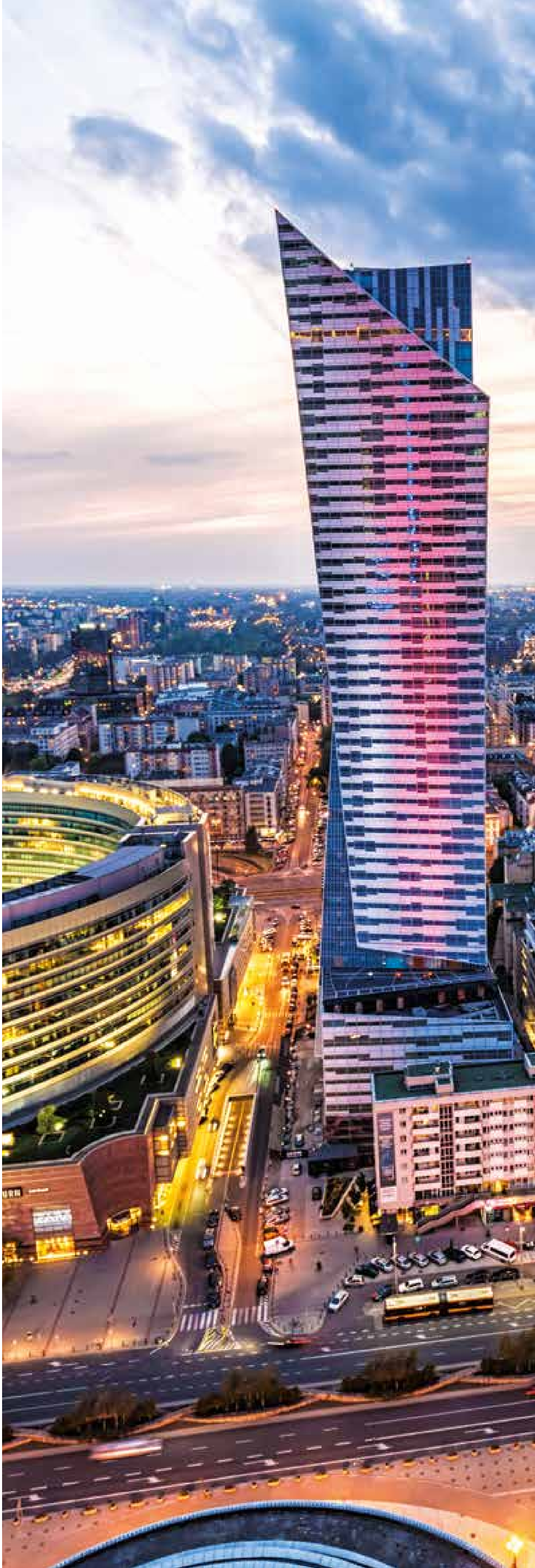
The Czech Republic came in fourth place by volume, with 26 inbound deals, down from 41 last year, with total value dropping from €6bn in 2019 to €2.2bn in 2020.

The Adriatic region as a whole saw inbound transactions decline, down to 19 from 24 in 2019. However, Croatia was a bright spot, with eight inbound deals, up from four in 2019.

"The second half of the year was quite aggressive in terms of deal flow and timetables for transactions," says Andrija Garofulić, Partner at Mazars in Croatia and coordinator of the Adriatic region. "People wanted to push on with deals paused in the first half, and there was a lot more activity."

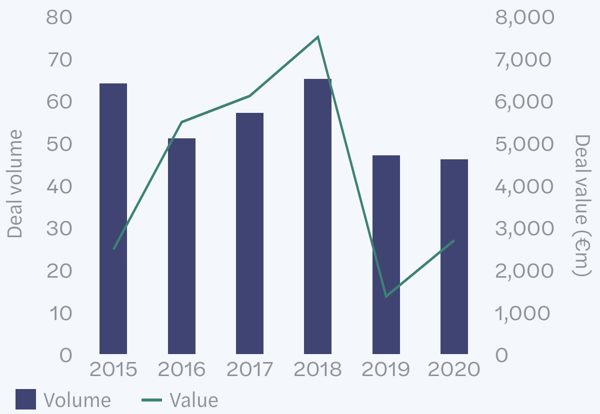
"The second half of the year was quite aggressive in terms of deal flow and timetables for transactions"

**Andrija Garofulić**
Partner, Mazars in Croatia

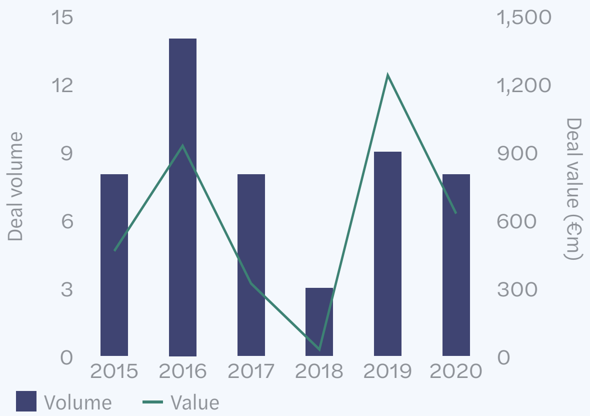


# Cross-border M&A in Central and Eastern Europe
## **The inbound picture**

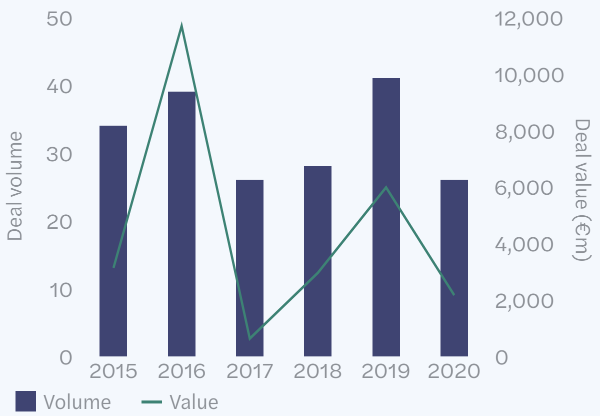
### Austria M&A inbound deals involving non-CEE buyers



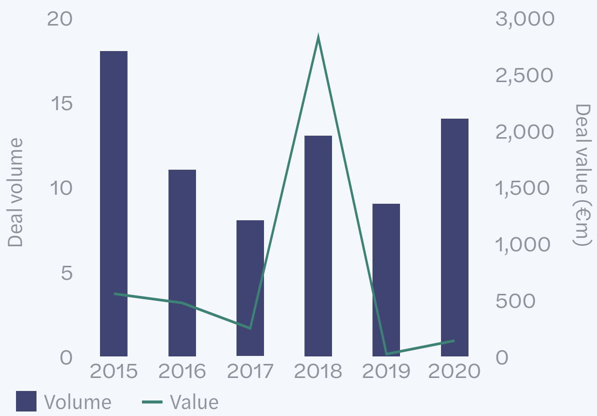

### Bulgaria M&A inbound deals involving non-CEE buyers



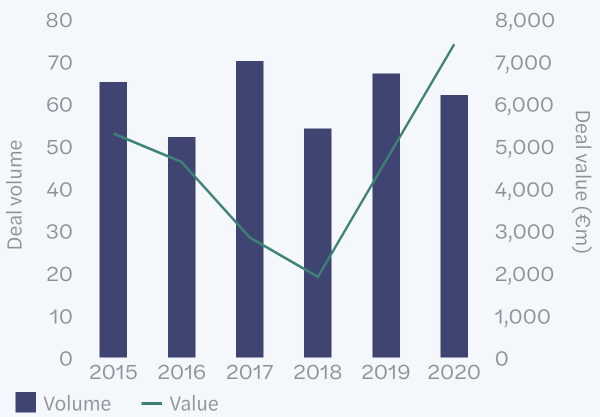

### Czech Republic M&A inbound deals involving non-CEE buyers



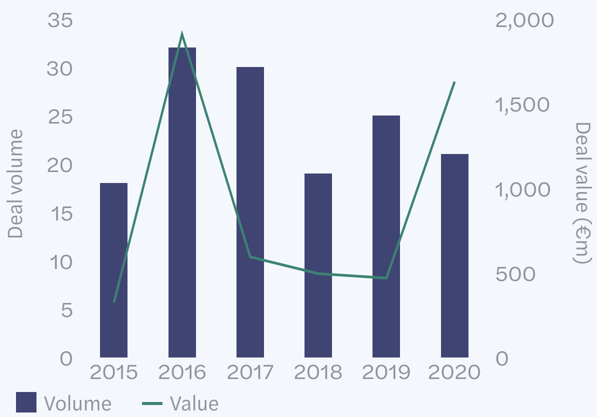

### Hungary M&A inbound deals involving non-CEE buyers



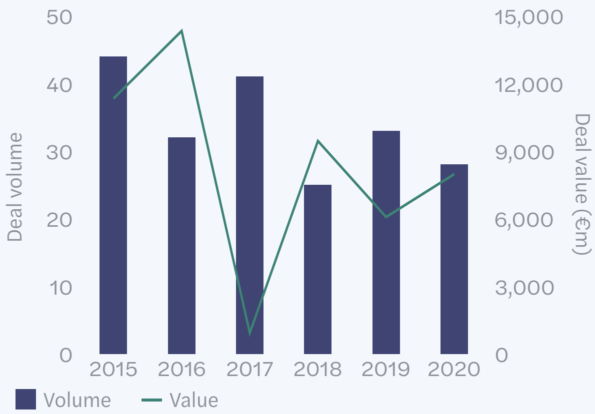

### Poland M&A inbound deals involving non-CEE buyers



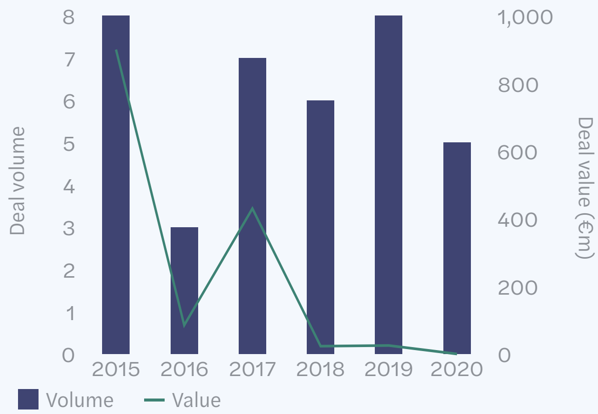

### Romania M&A inbound deals involving non-CEE buyers



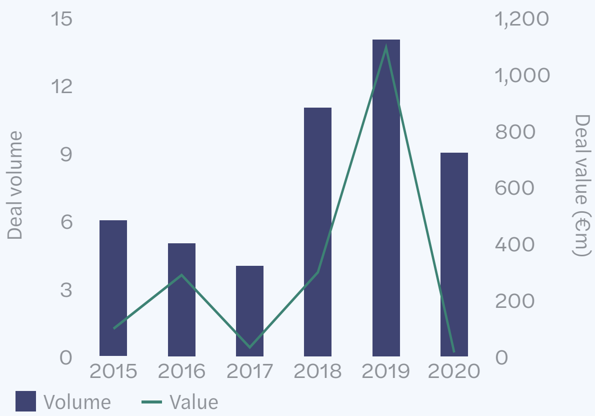
## Russia M&A inbound deals involving non-CEE buyers



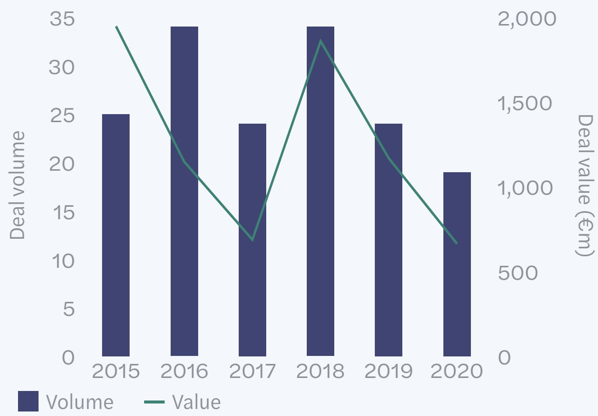

## Slovakia M&A inbound deals involving non-CEE buyers




## Ukraine M&A inbound deals involving non-CEE buyers




## Adriatic region M&A inbound deals involving non-CEE buyers




## Adriatic region M&A inbound deal volume involving non-CEE buyers (by country)

| Year | Albania | Bosnia & Herzegovina | Croatia | Montenegro | Republic of North Macedonia | Serbia | Slovenia |
|---|---|---|---|---|---|---|---|
| 2015 | | | 8 | 2 | 1 | 5 | 9 |
| 2016 | 2 | 1 | 13 | 2 | | 4 | 12 |
| 2017 | | 2 | 5 | | 2 | 9 | 6 |
| 2018 | 1 | 3 | 8 | 1 | 3 | 8 | 10 |
| 2019 | 1 | | 4 | 1 | | 10 | 8 |
| 2020 | | | 8 | | | 5 | 6 |

# Sector focus

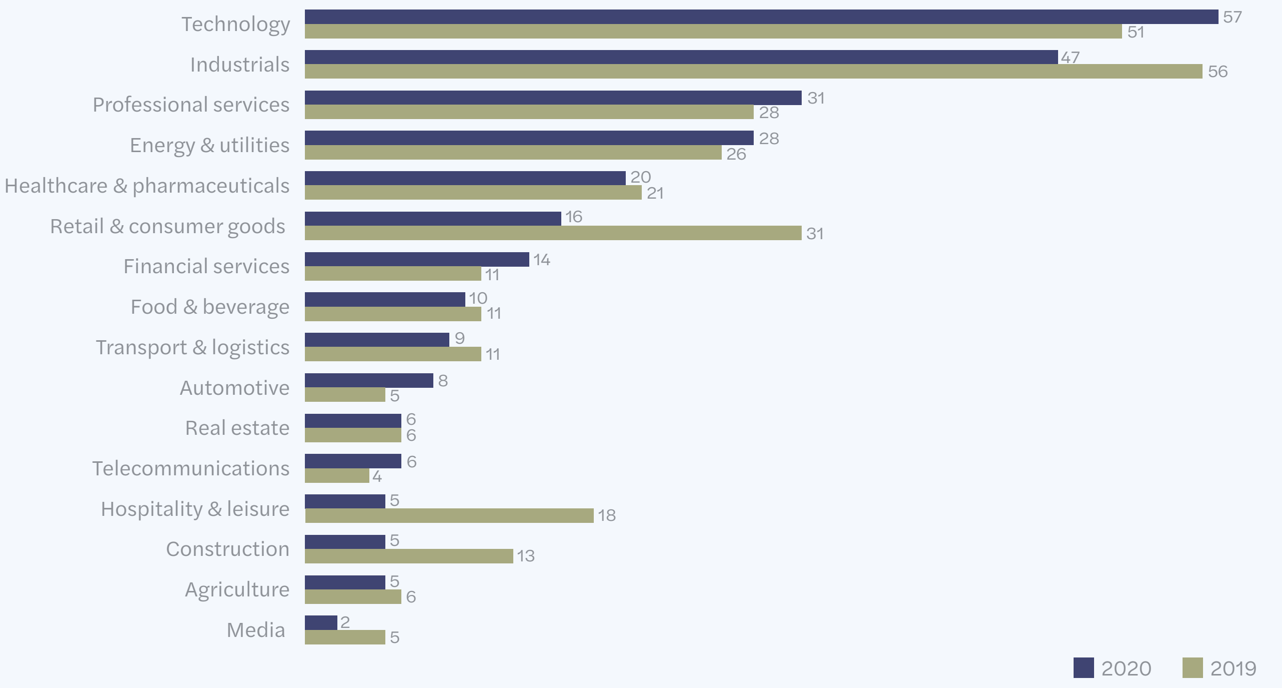
## Amidst stay-at-home orders, technology M&A shot up, but CEE has a diverse economy, and other sectors, from energy and utilities to healthcare and pharmaceuticals, also saw strong levels of deal flow

The technology sector had the highest number of inbound deals to the CEE region in 2020, hitting a total of 57 – up from 51 the year before. The industry has been one of the liveliest regionwide over the past decade, with businesses from start-ups to major outsourcing companies and global software developers changing hands.

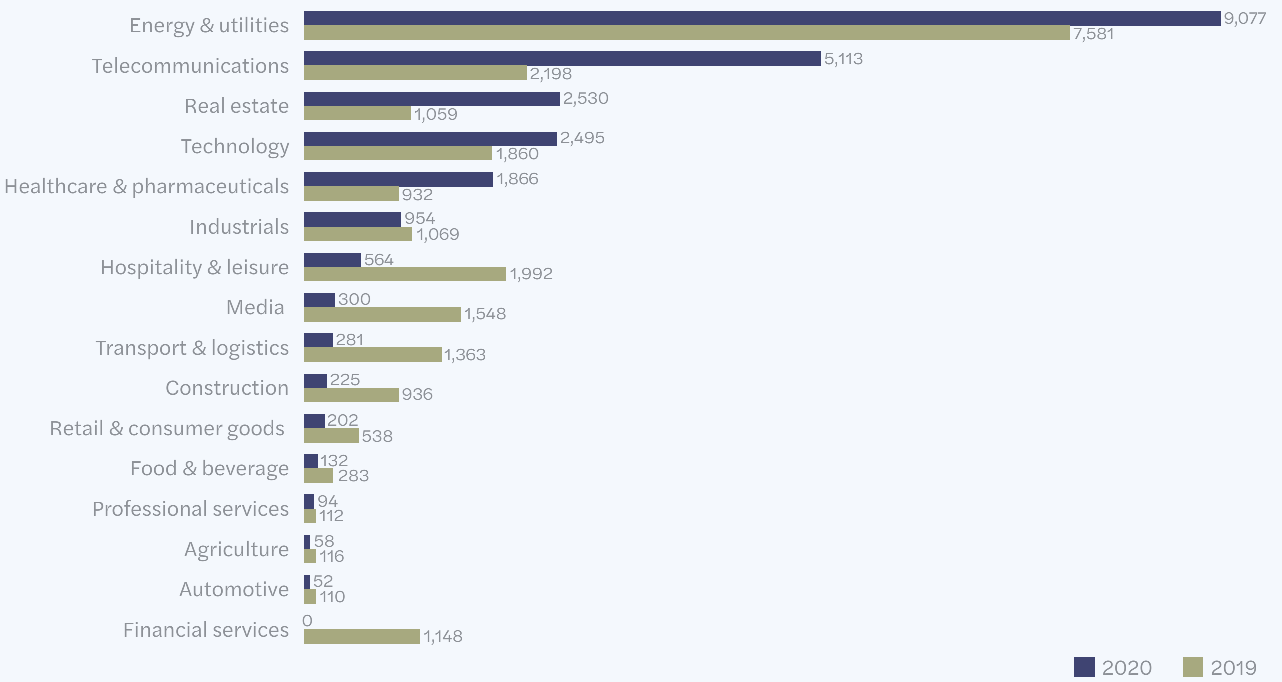
In terms of total value of deals inbound to CEE, energy and utilities continued to be the top sector, having seen a total deal value of €9.1bn – a 20% rise year-on-year.

Although the food and beverage industry and the retail and consumer goods sector saw decreases in volume and value, activity is expected to pick up in 2021, as can be seen from the Companies for Sale chart (see M&A outlook for 2021 and Conclusion). Retailers and manufacturers of essential goods have seen strong demand during the pandemic, as have retailers with strong online capabilities. These trends could drive deal activity in the sector in coming months – especially as the industry invests in online channels and delivery models. Meanwhile, companies that have struggled in the crisis may increase the pool of distressed assets on the market.

## M&A inbound deals to CEE volume by sector, 2019 vs. 2020




## M&A inbound deals to CEE value by sector, 2019 vs. 2020 (€m)



# Cross-border M&A in Central and Eastern Europe
## Healthcare & pharmaceuticals

The Covid-19 pandemic has strongly increased interest in the healthcare and pharmaceuticals sector, with companies worldwide rushing to invest in vaccinations and treatments. The industry was already seeing lively activity in CEE, thanks to ageing populations with increasing longevity, and rising incomes.

The total value of inbound deals with disclosed value to CEE in the healthcare and pharmaceuticals industry increased significantly year-on-year, doubling from €932m in 2019 to €1.9bn in 2020. Volumes dropped slightly, with 20 inbound deals compared to 21 in 2019, but 2020 was still the second-best year since 2015 in absolute terms.

The boost to value can largely be attributed to the €980m acquisition of Erber, an Austrian animal nutrition and health company, by Netherlands-based health and nutrition company Royal DSM. Erber's modern research and manufacturing facilities around the world will add high-value products and technical capabilities to Royal DSM's business, and typify the sort of knowledge-intensive industry that Austria has developed.

The second biggest inbound deal in the sector saw German life science player Sartorius acquire Slovenia's BIA Separations. BIA develops and manufactures products for purification and analysis of large biomolecules, including viruses, which are used in cell and gene therapies. Sartorius said in a statement that the acquisition would help it develop manufacturing of gene therapies and other advanced therapies. Slovenia's spending on R&D as a proportion of GDP outstrips the EU average, and it builds on a long pharmaceutical industry tradition, with strong local players including Lek and Krka which have an international footprint.

### Top inbound heathcare & pharmaceuticals deals*

| Announced date | Target company | Target country | Bidder company | Bidder country | Deal value (€m) |
|---|---|---|---|---|---|
| 12/06/2020 | ERBER AG | Austria | Royal DSM N.V. | Netherlands | 980 |
| 02/10/2020 | BIA Separations d.o.o. | Slovenia | Sartorius AG | Germany | 360 |
| 26/05/2020 | Themis Bioscience GmbH | Austria | Merck & Co., Inc. | USA | 334 |
| 27/05/2020 | Praha Vaccines a.s. | Czech Republic | Novavax AB | USA | 152 |
| 27/03/2020 | NBT CJSC (51% Stake) | Russia | THELMA Therapeutics Co., Ltd. | South Korea | 25 |
| 18/06/2020 | MGC Nutraceuticals d.o.o | Slovenia | Onassis Holdings Corp. | USA | 5 |
| 22/10/2020 | Novartis AG (Drug manufacturing facility in Austria) | Austria | Fareva SA | Luxembourg | 5 |
| 21/12/2020 | Panoptes Pharma GmbH | Austria | EyeGate Pharma | USA | 5 |
| 24/06/2020 | Aether Biomedical Sp. z o.o | Poland | Chiratae Ventures; Joyance Partners; Sunfish Partners | India | Undisclosed |
| 12/05/2020 | Optimapharm d.d. | Croatia | The Rohatyn Group | USA | Undisclosed |

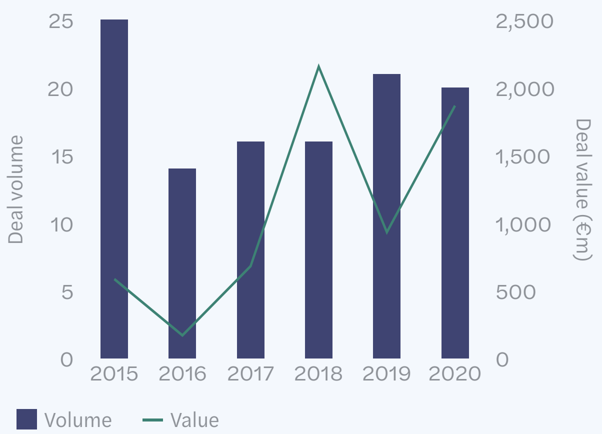
*Based on deals with disclosed values

One of the most significant deals of the year from a public health as well as a business perspective was announced in May 2020, when US-based vaccine development company Novavax acquired Czech manufacturer Praha Vaccines for €152m. The acquisition is being used to expand the production of Novavax's Covid-19 vaccine in Europe, and as such is an important vote of confidence in the Czech Republic as a base for international pharmaceutical production.

Even without Covid-19, the region's demographic and economic trends point towards activity in the sector. In the medical segment, private players are growing in presence across the region, as are specialist clinics. Consolidation of somewhat fragmented private healthcare providers has been moving forward across the region and will remain strong in the years to come. Romanian PE firm Morphosis Capital's acquisitions of diagnosis clinic Medima Health and dental firm Implant Expert, both announced in 2020, are prime examples of this trend. As the population ages and incomes rise, investors will continue to see a clear upside in consolidating the industry to cut cost and gain scale.

The market seems to be booming due to the fact that people are getting older, income is increasing leading to more available private healthcare and, on the other side, at the moment supply is very fragmented. Professional investors and market leaders see a clear upside in consolidation leading to decreased cost / increased margin and better reach to final customer.

Healthcare & pharmaceuticals M&A inbound outside CEE to CEE




# Cross-border M&A in Central and Eastern Europe
## Technology

Technology has been one of the sectors which has broadly benefitted from the Covid-19 pandemic, as remote working and online retailing became widespread globally. It is also one of the sectors in which CEE has developed its strongest competitive advantages. Tech companies located in the region benefit from a substantial and growing cohort of technically skilled workers, and an expanding pool of financing, some of it backed by EU and government funds.

A long history of technical and scientific education has given CEE countries a solid base on which to build, and governments have broadly been supportive of these dynamic, export-oriented businesses, which are generally regulated with a light touch.

In this context, the CEE tech sector saw deal activity rise in 2020, against the trend. Total deal volume rose 12% year-on-year, with 57 transactions completed, while aggregate disclosed deal value rose 34% to €2.5bn.

The biggest inbound deal of the year saw Polish telco PLAY, under its new ownership, sell a 60% stake in its 7,000 tower sites to Spain's Cellnex. The deal gives Cellnex a substantial foothold in the Polish telecoms infrastructure market on the eve of the roll-out of 5G. It is part of a global trend towards infrastructure divestment by mobile operators, as they look to reduce capex and infra funds look for stable revenue generators.

The second biggest inbound deal also involved a Polish target, Polskie ePłatności (PeP), a payment systems company, which was acquired by Danish counterpart Nets, for €405m. The deal increases Nets' presence on the fast-growing Polish payments market, and specifically in the SME segment in which PeP operates. Poland has become a regional centre

### Top inbound technology deals*

| Announced date | Target company | Target country | Bidder company | Bidder country | Deal value (€m) |
|---|---|---|---|---|---|
| 23/10/2020 | PLAY Communications S.A. (Polish towers Portfolio) (60% Stake) | Poland | Cellnex Telecom, SA | Spain | 800 |
| 11/03/2020 | Centrum Rozliczen Elektronicznych Polskie ePlatnosci S.A. | Poland | Nets A/S | Denmark | 405 |
| 30/07/2020 | Infobip Limited | Croatia | One Equity Partners LLC | USA | 200 |
| 16/12/2020 | Bolt Technology OU | Estonia | D1 Capital Partners L.P.; Darsana Capital Partners LP | USA | 150 |
| 16/11/2020 | Vincent Group Plc | Estonia | GAN Limited | United Kingdom | 149 |
| 18/11/2020 | Flying Wild Hog Sp. z o.o. | Poland | Embracer Group AB | Sweden | 116 |
| 26/05/2020 | Bolt Technology OU | Estonia | Naya Capital Management UK Limited | United Kingdom | 100 |
| 14/10/2020 | Integromat by Celonis | Czech Republic | Celonis SE | Germany | 85 |
| 17/09/2020 | Nanobit d.o.o. (78% Stake) | Croatia | Stillfront Group AB | Sweden | 85 |
| 09/12/2020 | Sage Sp. z o.o. | Poland | Mid Europa Partners LLP | United Kingdom | 73 |

*Based on deals with disclosed values

for fintech partly thanks to the rapid technological development of its banks after 1989.

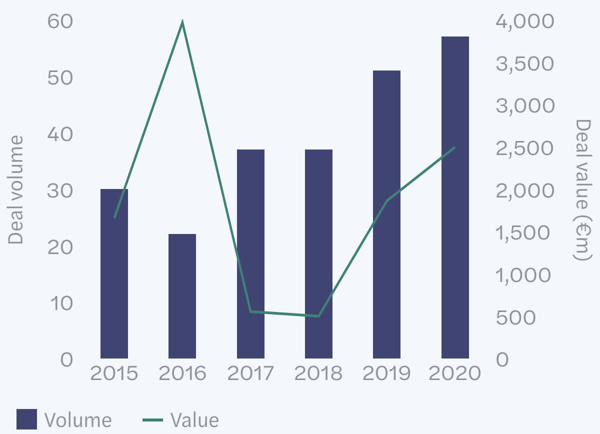
One of the great tech success stories of the Adriatic region, Croatia's Infobip, was the target of the third biggest inbound transaction in the sector, being acquired by the US's One Equity Partners for €200m. South-Eastern Europe has a range of vibrant tech centres, with international companies drawn to cities including Cluj and Nis, as well as the region's capitals.

But international firms were not only interested in major telcos and IT giants – the region has an exciting start-up scene and has attracted venture capital from near and far.

"We have a lot of VCs benefitting from EU funds, which catalyse innovation and benefit the ICT ecosystem," says Jacek Byrt, Partner at Mazars in Poland. "We have a pool of qualified engineers, while still being less expensive than Western Europe. IT is a very global market, so having a Polish team working on IT assignments for American clients is not unusual and makes absolute sense."

Examples in 2020 of the vibrant VC market in CEE include the €150m investment in Estonia-based ride-hailing business Bolt, which was led by New York-based by D1 Capital Partners, and the €63.5m Series D investment round in Poland-based education technology firm Brainly, led by Learn Capital. Other investors in the round included General Catalyst Partners, Prosus Ventures, Runa Capital and MantaRay – all internationally based VCs.

Technology M&A inbound from outside CEE to CEE






# Cross-border M&A in Central and Eastern Europe
## Industrials

The CEE region has a strong industrial backbone thanks to investments made over many decades. While some legacy industries have declined, CEE countries' access to EU markets has bolstered growth elsewhere.

Growing integration with European and global supply chains has provided a boost, and a possible trend towards nearshoring in the wake of Covid-19 and international trade tensions would also benefit the region.

"Having a manufacturing site close to Western Europe is an attractive alternative to Asia," says Adam Zohry, Executive Manager based in Warsaw and coordinating the Financial Advisory Services of Mazars in Central & Eastern Europe. "Poland, Czech Republic or Romania can be good options to consider for international investors, and make such CEE countries interesting for dealmaking in the industrial sector."

The sector saw 47 inbound deals in 2020, down from 56 in 2019, while the total value of inbound deals with disclosed value dropped 11% year-on-year to €954m. A slowdown in key sectors such as automobiles had an impact, and restrictions on site visits made dealmaking trickier.

This is reflected in the sizes of deals at the top end of the market. Whereas in 2019 there were three deals worth €200m or more, in 2020 the biggest deal was worth €150m, as Austria-based Gantner Electronic – a manufacturer of access control equipment – was acquired by Spain-based counterpart Salto Systems. Salto said that the acquisition was driven by Gantner's commitment to R&D, as well as synergies between the two businesses.

### Top inbound industrials deals*

| Announced date | Target company | Target country | Bidder company | Bidder country | Deal value (€m) |
|---|---|---|---|---|---|
| 15/10/2020 | GANTNER Electronic GmbH | Austria | Salto Systems S.L. | Spain | 150 |
| 31/05/2020 | Grupa Azoty Polyolefins S.A. (35.07% Stake) | Poland | Grupa LOTOS S.A.; Hyundai Engineering & Construction Co., Ltd.; Korea Overseas Infrastructure & Urban Development Corporation (KIND) | South Korea | 138 |
| 06/11/2020 | MAG Group Management LLC | Russia | Veolia Environnement S.A. | France | 134 |
| 12/10/2020 | Sonoco Poland Packaging Services Sp. z o.o. | Poland | Prairie Industries, Inc. | USA | 102 |
| 28/10/2020 | Valmieras Stikla Skiedra AS (83.14% Stake) | Latvia | Warwick Capital Partners LLP | United Kingdom | 98 |
| 11/09/2020 | PMP Group | Poland | Valmet Oyj | Finland | 64 |
| 04/09/2020 | Fabryki Mebli Forte S.A. (33.56% Stake) | Poland | Maform Holding Luxembourg SARL | Luxembourg | 55 |
| 03/11/2020 | Skeleton Technologies OU | Estonia | AS Harju Elekter; FirstFloor Capital Sdn Bhd; MM Grupp OU; KIC Innoenergy SE | Netherlands | 41 |
| 23/01/2020 | BSC Drukarnia Opakowan S.A. (39.18% Stake) | Poland | A&R Carton AB; Colorpack Verpackungen mit System GmbH | Sweden | 41 |
| 03/11/2020 | scan Messtechnik Gesellschaft m.b.H. | Austria | Badger Meter, Inc | USA | 27 |

*Based on deals with disclosed values

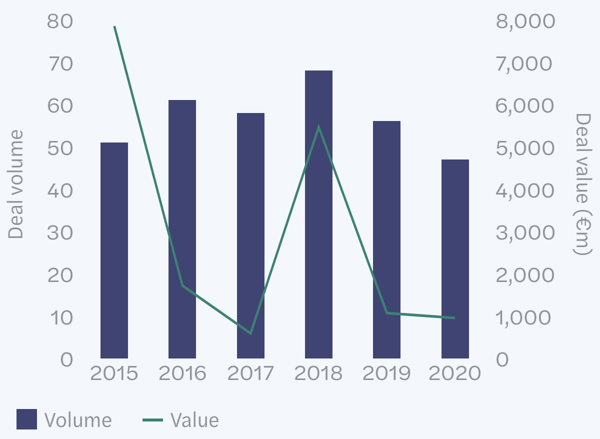
The second biggest inbound deal saw Hyundai Engineering and the Korean Overseas Infrastructure & Urban Development Corporation, together with Poland's state-owned oil company Grupa Lotos, invest €138m in Polish petrochemical company Grupa Azoty Polyolefins. The investment focuses on the Polimery Police project, the largest investment in Grupa Azoty's history, and one of the biggest chemical projects in Poland in recent years. The project will help diversify Azoty's products into non-fertiliser sectors, producing propylene and polypropylene.

Ranking third was a deal in Russia – the acquisition of MAG Group Management, a waste management firm, by French utility firm Veolia for €134m.

Some manufacturing sectors face considerable headwinds. Steel manufacturers face tough international competition and growing environmental and labour costs, and the textile sector has also lost competitiveness.

But value-added sectors which are less sensitive to rising costs and keep track of technological changes are well-placed to grow. The region benefits from expertise in areas like automotive, which have flourished in the past thirty years. Slovakia is the world's leading car manufacturer per capita, while Romania's Dacia has become a global brand over the past two decades in partnership with owner Renault.

Industrials M&A inbound from outside CEE to CEE




## Although the valuation gap between CEE and the rest of Europe is narrowing, companies in CEE are still trading at significantly lower multiples. Meanwhile, Covid-19 related disruptions are throwing a wrench into the valuation process

Median valuations in CEE remain lower than in the rest of Europe, although the gap is lessening. In 2020, the media EV/EBITDA multiple in CEE was 9.00x, according to Mergermarket data, compared to 10.20x in the rest of Europe. In contrast, the median valuation in 2019 in CEE was 7.20x, and in the rest of Europe it was 10.75x. In 2016, the gap was even wider, with CEE seeing a median valuation of 8.30x, and Western Europe 10.50x.

Across Europe, the healthcare and pharmaceuticals sector had the highest median valuation in 2019-20, standing at 15.34x, followed by real estate at 14.39x, and technology at 13.98x. At the lower end of the valuation scale was energy and utilities, with an EV/EBITDA multiple of just 6.85x, followed by 7.69x for both construction and transport and logistics.

Finding a valuation acceptable to both buyer and seller is often a challenge in dealmaking, and has become a particular issue in CEE, where there is growing investor appetite and ample liquidity and dry PE powder, but still a limited number of targets. The valuation gap has been exacerbated by the Covid-19 pandemic, which has created unprecedented disruption and uncertainty about short- and medium-term revenues.

"For businesses that have been negatively impacted by the pandemic, for example, sellers value the business on the pre-Covid-19 EBITDA figures, while buyers certainly want to apply the 2020 EBITDA multiples," says Zoltán Benedek, Partner at Mazars in Hungary. "There's volatility – should we focus on current value, or future prospects?"

However, dealmakers have found ways to overcome these differences. "In many situations, it is in practice difficult to reach an agreement about the business's value, this specially being relevant in the midst of the pandemic," says Andrija Garofulić, Partner at Mazars in Croatia. "We see an increasing trend of focusing on 2019 company financial results, as well as using earn-out as a method to bridge the valuation gap and delay part of the payment until the moment the business plan has been achieved. However, it should be noted that earn-out should be used carefully."

| Year | CEE median EBITDA multiple year 1 | Rest of Europe* median EBITDA multiple year 1 |
|---|---|---|
| 2016 | 8.27x | 10.45x |
| 2017 | 9.84x | 10.91x |
| 2018 | 6.74x | 11.54x |
| 2019 | 7.17x | 10.75x |
| 2020 | 9.00x | 10.20x |

Rest of Europe includes: Andorra, Belgium, Channel Islands, Cyprus, Denmark, Faroe Islands, Finland, France, Germany, Gibraltar, Greece, Iceland, Ireland, Isle of Man, Italy, Liechtenstein, Luxembourg, Malta, Monaco, Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, United Kingdom

| Sector | European 2019-2020 median EBITDA multiple year 1 | European 2018-2019 median EBITDA multiple year 1 |
|---|---|---|
| Healthcare & pharmaceuticals | 15.34x | 16.70x |
| Real estate | 14.39x | 14.91x |
| Technology | 13.98x | 13.86x |
| Professional services | 12.25x | 12.96x |
| Hospitality & leisure | 11.91x | 12.26x |
| Media | 10.75x | 10.85x |
| Food & beverage | 10.55x | 10.74x |
| Telecommunications | 9.87x | 11.03x |
| Industrials | 8.38x | 9.28x |
| Retail & consumer goods | 8.15x | 9.23x |
| Transport & logistics | 7.96x | 8.25x |
| Construction | 7.69x | 8.65x |
| Energy & utilities | 6.85x | 9.07x |

NB: Sector list excludes automotive, agriculture, aerospace & defence and real estate due to insufficient data. Financial services is excluded due to industry-specific valuation metrics within the financial services sector.
NB: Median EBITDA multiples only given for sectors with 25 or more reported EBITDA multiples in 2019 and 2020.
European countries included: Albania, Andorra, Austria, Belarus, Belgium, Bosnia & Herzegovina, Bulgaria, Channel Islands, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Faroe Islands, Finland, France, Germany, Gibraltar, Greece, Hungary, Iceland, Ireland, Isle of Man, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova, Monaco, Montenegro, Netherlands, Norway, Poland, Portugal, Republic of North Macedonia, Romania, Russia, San Marino, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Ukraine, United Kingdom



# M&A outlook for 2021 and conclusion

Appetite for M&A in CEE continued remarkably strongly given the unprecedented public health crisis and deepest global recession since the Second World War. After a hiatus in the spring, dealmaking accelerated in the second half of the year, and that momentum looks set to continue into 2021. Postponed deals are set to be pushed through, and new opportunities will emerge – including potentially distressed asset sales in sectors such as leisure and high street retail that were hit harder by the crisis.

At the time of research in early 2021, there were 597 'company for sale' stories being tracked by Mergermarket in CEE. The top sector by a large margin was technology, with 125 stories about potential sales published in the last six months of 2020. The tech industry's position as a major driver of M&A in the region has only been strengthened over the past year, thanks to global shifts in working and consumption. Although Covid-19 has been a challenge for the region, the longer-term trends it has precipitated could bring continued upsides to CEE's tech players.

The second liveliest sector for potential future sales was industrials, with 72 stories tracked. The CEE manufacturing sector may benefit from the effects of the pandemic, if it catalyses nearshoring and shorter supply chains in Europe. High-tech manufacturing that leverages the region's skilled labour and R&D investments has continued to draw inbound investment through 2020.

The retail and consumer goods industry ranks third in Mergermarket's "company for sale" stories table. This is likely due to a combination of segments that have performed strongly (such as e-commerce) and thus are attracting attention, and potential sales of assets that have come under pressure as a result of lockdown measures.

"We expect distressed deals in retail and in tourism," says Zoltán Benedek, Partner at Mazars in Hungary. "Meanwhile manufacturing will benefit from nearshoring, and IT is performing strongly. Digitalisation of banks is also accelerating."

The outlook is for a strong rebound in 2021, supported by the roll-out of vaccines and continued government support for economies. In its October 2020 update, the IMF forecasts that the GDP of Eastern Europe will grow at a rate of 3.7% in 2021, after contracting by 4.6% in 2020. This is in line with projected GDP growth of 3.8% for the G7.

Moreover, some of the region's economies are expected to grow at higher rates – the Czech Republic is expected to grow at a rate of 5.1%, while Poland is projected to see growth of 4.6%.

| Sector | Number of 'company for sale' stories* |
|---|---|
| Technology | 125 |
| Industrials | 72 |
| Retail & consumer goods | 65 |
| Professional services | 53 |
| Energy & utilities | 49 |
| Financial services | 44 |
| Food & beverage | 33 |
| Healthcare & pharmaceuticals | 32 |
| Agriculture | 26 |
| Construction | 25 |
| Transport & logistics | 18 |
| Hospitality & leisure | 17 |
| Real estate | 15 |
| Automotive | 8 |
| Media | 8 |
| Telecommunications | 6 |
| Other | 1 |
| **Total** | **597** |

*Based on Mergermarket data for 'company for sale' stories published between 01/08/2020 and 23/02/2021

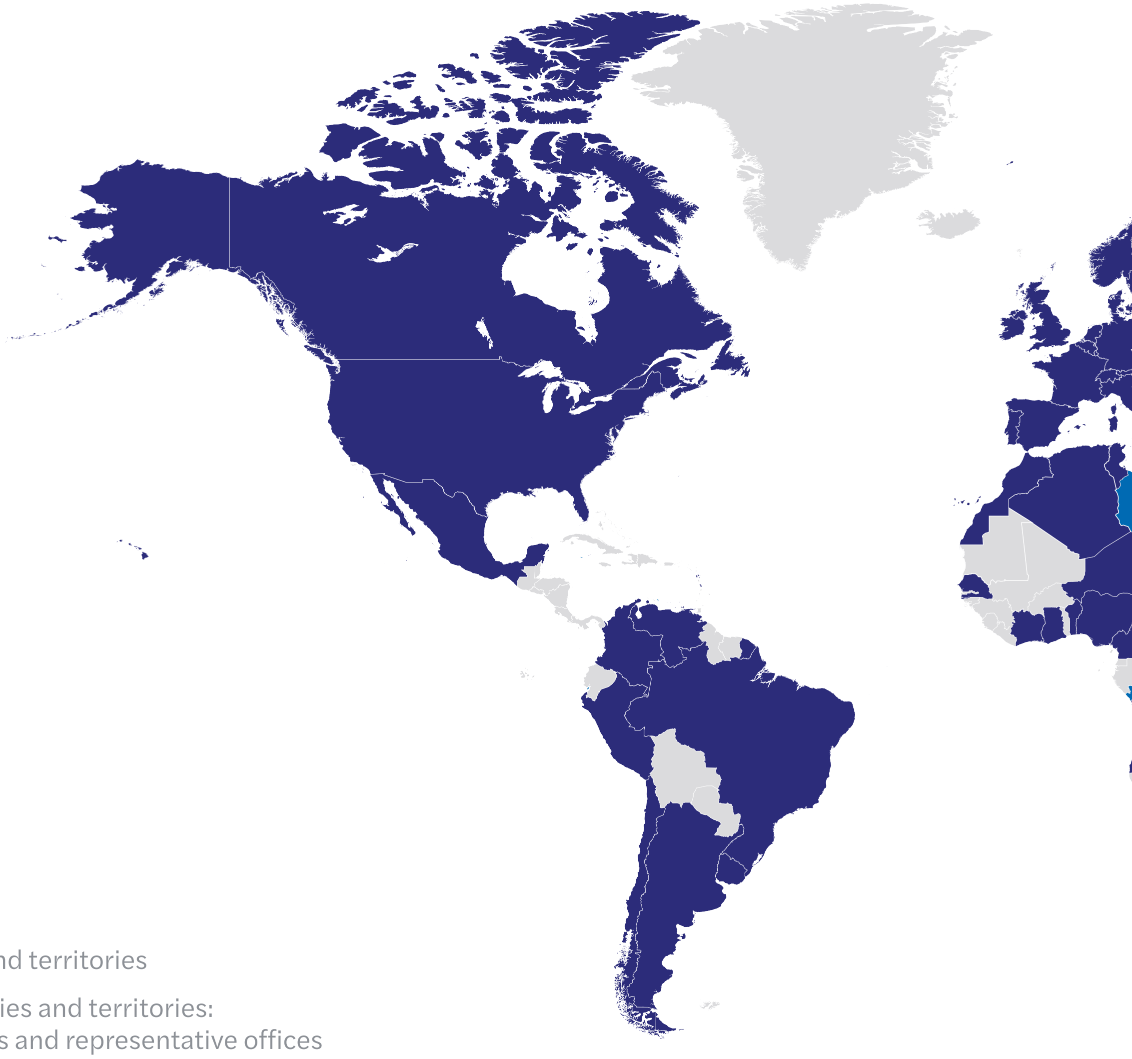
Downside risks remain: the complexity of the vaccination programme roll-out and the outbreak of new variants of Covid-19 have already caused concerns in early 2021. Relations and trade tensions between the US, EU, China, and Russia remain concerns. And locally, investors continue to find some CEE countries less friendly to do business with than they might be, thanks to burdensome bureaucracy and slow judicial procedures. Nonetheless, the region has entered the decade with justified confidence.

"We are positive on the outlook," says Benedek. "We take the view that as vaccination comes and life returns to normal, if financing is affordable, it's natural that M&A will grow and progressively return. And that positivity is based on a boom we've seen in early 2021."

"We are positive on the outlook"

**Zoltán Benedek**
Partner, Mazars in Hungary

# Mazars' global coverage



Valid as of 1 January 2021

- Integrated countries and territories
- Non-integrated countries and territories: Mazars correspondents and representative offices

## North America

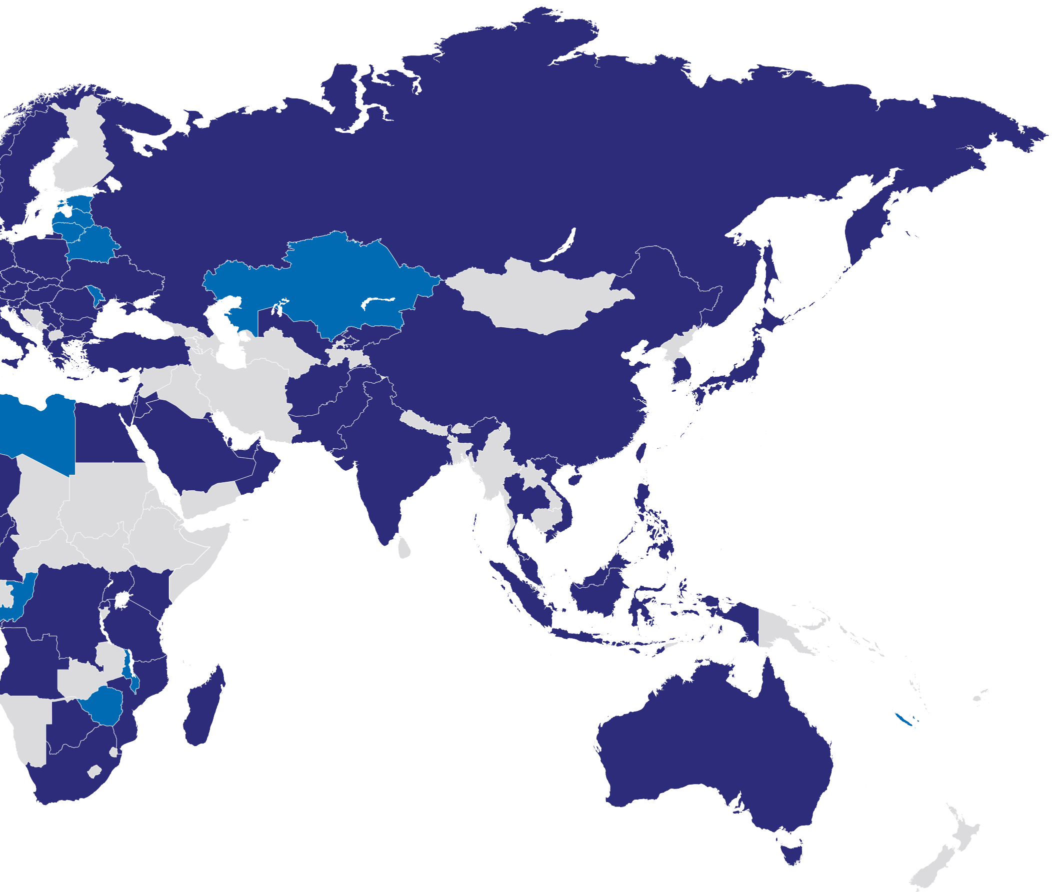
- Bermuda
- Canada
- United States

## Latin America & the Caribbean

- Argentina
- Brazil
- Cayman Islands
- Chile
- Colombia
- Dutch West Indies
- Mexico
- Peru
- Uruguay
- Venezuela

## Africa & Middle East

- Algeria
- Angola
- Bahrain
- Benin
- Botswana
- Cameroon
- Congo (Brazzaville)
- Congo (Kinshasa)
- Egypt
- Ghana
- Israel
- Ivory Coast
- Jordan
- Kenya
- Kuwait
- Lebanon
- Libya
- Madagascar
- Malawi
- Mauritius
- Morocco
- Mozambique
- Niger
- Nigeria
- Oman
- Palestine
- Qatar
- Rwanda
- Saudi Arabia
- Senegal
- South Africa
- Tanzania
- Tunisia
- Uganda
- United Arab Emirates
- Zimbabwe



## Europe

- Albania
- Austria
- Belgium
- Belarus
- Bulgaria
- Croatia
- Cyprus
- Czech Republic
- Denmark
- Estonia
- France
- Germany
- Greece
- Hungary
- Ireland
- Italy
- Kosovo
- Latvia
- Lithuania
- Luxembourg
- Malta
- Moldova
- Netherlands
- Norway
- Poland
- Portugal
- Romania
- Russia
- Serbia
- Slovakia
- Slovenia
- Spain
- Sweden
- Switzerland
- Turkey
- Ukraine
- United Kingdom

## Asia-Pacific

- Afghanistan
- Australia
- China
- Hong Kong (SAR)
- India
- Indonesia
- Japan
- Kazakhstan
- Korea
- Kyrgyzstan
- Malaysia
- New Caledonia
- Pakistan
- Philippines
- Singapore
- Taiwan
- Thailand
- Uzbekistan
- Vietnam

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# About Mazars

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of more than 42,000 professionals – 26,000+ in Mazars' integrated partnership and 16,000+ via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*Where permitted under applicable country laws

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# About Mergermarket and Acuris Studios

Mergermarket
An Acuris company

Acuris Studios

Mergermarket is an unparalleled, independent mergers & acquisitions (M&A) proprietary intelligence tool. Unlike any other service of its kind, Mergermarket provides a complete overview of the M&A market by offering both a forward-looking intelligence database and a historical deals database, achieving real revenues for Mergermarket clients.

Acuris Studios, the events and publications arm of Acuris, offers a range of publishing, research and events services that enable clients to enhance their brand profile, and to develop new business opportunities with their target audience.

To find out more, please visit www.acuris.com/publications

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