Investing in CEE

Inbound M&A report 2019/2020

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Foreword

Central and Eastern Europe (CEE)'s economy continued to move forward at a healthy pace in 2019, despite global economic headwinds such as the trade war between the US and China, an inversion in the US bond yield curve, and a slowdown in Germany's economy.

Mergers and acquisitions momentum continued, with 726 deals clocked – the same number as in 2018.

A drop in total value of publicly disclosed transactions may indicate fewer big-ticket deals, but this does not include two undisclosed investments in Russian LNG — among others examples – which are likely to have been large.

While sanctions continue to weigh on Russia, the region's largest economy, its recovery from recession continues steadily, with three consecutive years of growth. Investments in Russian energy, technology, and retail number among the top ten deals this year, along with transactions from the Polish leisure sector to telecommunications in Bulgaria.

These are indicative of the region's economic diversification, one of its main strengths. Location is a clear competitive advantage, with the more developed economies of Western Europe on one side, and the fast-growing markets of Asia and the Middle East on the other.

For many investors, the region brings some of the benefits of both. Growth is higher than in Western Europe – and valuations more attractive – and unlike many emerging markets, investment is supported by a general political and economic stability and a relatively pro-business outlook. Perceptions of an elevated risk profile are fading at last. In areas from financial services to modern retail, there is still scope for considerable growth. Income levels are rising fast, but labour costs on the whole remain below those of Western Europe. Median business valuations in CEE remain consistently below those of its Western European neighbours – though they trended upwards in 2019.

This mix is attracting a wide range of international investors, from corporates long present in the region to an increasing number of private equity funds hunting yield and growing numbers of suitable M&A targets. After three decades of free markets following the communist period, many regional companies have reached maturity. Some are seeking international expansion, including within CEE, where sectors including financial services, healthcare and pharmaceuticals, and retail and consumer goods are undergoing consolidation. Meanwhile, young entrepreneurs are capitalising on a strong tradition of technical and scientific education and an expanded pool of funding to create a dynamic tech start-up scene.

Investments from Asia have also become a feature of the business landscape in CEE, and projects associated with China's Belt and Road Initiative (BRI) are taking shape from the Baltics to the Balkans.

Investors cannot overlook the challenges the region faces as well as the potential consequences of global shocks (the continuing spread of Covid-19, the slowdown in the Eurozone, and the trade war between the US-China, among them). Nonetheless, the attractions of CEE are myriad and the region will no doubt continue to attract investment once the situation stabilises.

Fabrice Demarigny
Mazars Global Head of
Financial Advisory Services

Michel Kiviatkowski
Mazars CEE Leader of
Financial Advisory Services

Methodology

The findings of this report are based on historical 2015-2019 data.

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.

M&A markets in the CEE region withstood significant headwinds in 2019 to achieve the same number of deals as the year before despite a global drop in dealmaking

The CEE region saw 726 M&A deals in 2019, exactly the same number as in 2018, as momentum continued despite global headwinds. Total public deal value fell 12% to €42.3 billion. However, this figure only includes deals with disclosed values, which means that the total deal value is in practice higher.

Investors continue to be attracted to the region thanks to its unique combination of competitive advantages: strategic location, a strong skills pool, relatively low costs compared to more developed markets, and high levels of economic growth in many markets. Many CEE countries offer investors emerging market levels of growth, combined with infrastructure and business legislation that is converging towards developed market norms. Several countries in the region – including Russia, CEE's largest market – have ample natural resources. Proximity to Western European markets and membership of the European Union for many countries in the region are additional reasons the region is attractive.

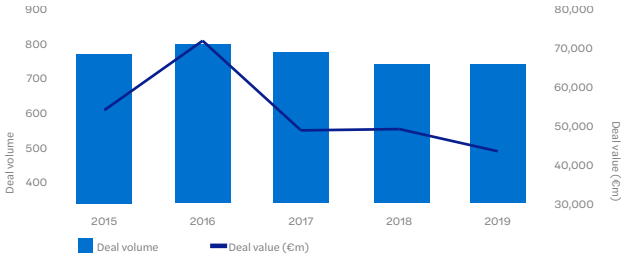
Any decline in overall dealmaking can largely be attributed to external factors, most notably trade tensions between the US and China, but also uncertainty over the UK's departure from the EU, and cooling in leading emerging markets, including China. Meanwhile, international sanctions against Russia continue to have a chilling effect on investments in the country.

"The CEE market has remained very attractive, so the number of transactions in 2019 stayed the same as previous years," says Oleksii Larionov, Head of Financial Advisory Services at Mazars Ukraine. "But total value decreased because the overall approach of investors became more risk averse, they were keen to hold cash and make fewer big transactions, given the global context."

Domestic deals accounted for 51% of overall volume, down slightly from 52% in 2018, and on a par with the past four years. The share of inbound deals from outside of the CEE region remained steady at 40%, again on a par with the 2015-18 period.

By value, domestic deals took up a larger proportion of the overall deal landscape than the previous year (46% vs 38% in 2018). Some 51% of value was inbound from outside of the CEE region, down from 61% in 2018, while the proportion of value generated by cross-border deals within CEE rose from 1% to 3%.

Total CEE M&A market



"The CEE market has remained very attractive, so the number of transactions in 2019 stayed the same as previous years, but total value decreased because the overall approach of investors became more risk averse, they were keen to hold cash and make fewer big transactions, given the global context."

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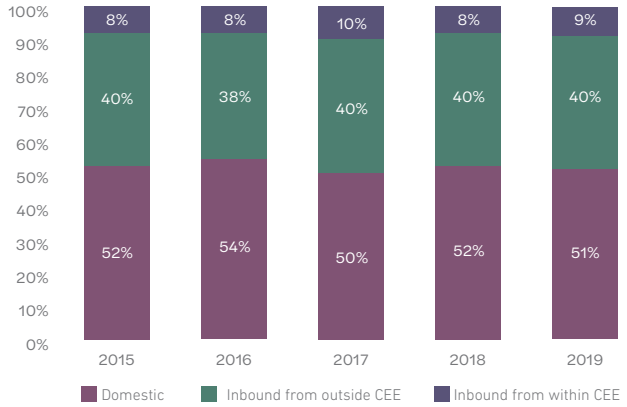
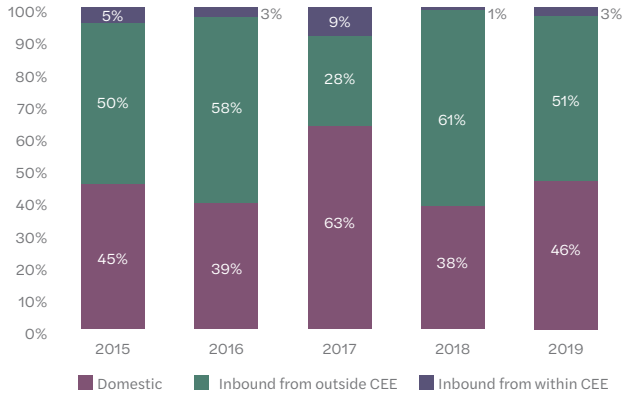
Head of Financial Advisory Services
Mazars in Ukraine

CEE M&A market volume – domestic vs. inbound deals



CEE M&A market value – domestic vs. inbound deals



Meanwhile, median EV/EBITDA multiples rose from 6.74x in 2018 to 7.81x in 2019 – though they remained below the 9.89x median seen in 2017, one of the strongest recent years for dealmaking in CEE.

The steady momentum of inbound deals underlines the region's resilient appeal to international investors. Economic growth in CEE has outstripped that of Western Europe, and in 2019 several countries topped the global average of 3%, according to the IMF, including Hungary (4.6%), Poland (4%), and Romania (4%).

While Russia has had a difficult few years due to sanctions and lower commodity prices, the economy returned to growth in 2017 and has continued to move forward, if slowly, since. It is by some margin the biggest market in the region, with a population of 145 million, and is one of the top ten economies in the world by GDP at purchasing power parity – though its GDP per capita remains below that of most Central European countries.

The country thus has a leading role in the region's dealmaking landscape. Four of the top ten deals in 2019 and three of the top five took place in Russia, including the year's largest transaction, which saw Japan Arctic LNG take a 10% stake in liquefied natural gas project Arctic LNG 2 for €2.6 billion. Japan Arctic is a joint venture of Japanese companies Mitsui and Japan Oil, Gas and Metals National Corporation (JOGMEC), and the project, led by Russia's Novatek, aims to supply markets in Asia and Europe with LNG from around 2023.

The year's second-biggest deal also involved a Russian target, in a domestic transaction that saw Alexey Mordashov's private investment company Severgroup take a 78.36% stake in Lenta, Russia's largest hypermarket chain and third-largest retailer, for €2.4 billion.

The Czech Republic saw two of the top five deals of the year. Both involved the same asset, the Czech gas distribution assets of German energy company innogy. Germany's energy giant RWE acquired a 50.04% stake in innogy Grid Holding (IGH) for the equivalent of €1.9 billion as part of a €43 billion asset swap with domestic counterpart E.ON. This triggered a first-refusal clause by IGH's minority shareholder, a consortium led by Australia's Macquarie Infrastructure and Real Assets, to acquire that same stake for €1.8 billion, taking its ownership to 100%. The deal is indicative of how broader international transactions can have an impact on M&A in CEE, as regional and national subsidiaries change hands.

The dealmaking landscape

Total CEE M&A market

Announced date	Target company	Sector	Target country	Bidder company	Bidder country	Deal value (€m)
29/06/2019	OOO Arctic LNG 2 (10% Stake)	Energy & utilities	Russia	Japan Arctic LNG B.V	Japan	2,639
01/04/2019	OOO Lenta (78.36% Stake)	Retail & consumer goods	Russia	Severgroup OOO	Russia	2,415
22/02/2019	innogy Grid Holding, a.s. (50.04% Stake)	Energy & utilities	Czech Republic	RWE AG	Germany	1,850
29/04/2019	innogy Grid Holding, a.s. (50.04% Stake)	Energy & utilities	Czech Republic	A Consortium led by Macquarie Infrastructure and Real Assets	Australia	1,800
12/03/2019	Tele2 Russia Telecom (55% Stake)	Telecommunications	Russia	Rostelecom PJSC	Russia	1,772
27/10/2019	Central European Media Enterprises Ltd.	Media	Czech Republic	PPF Group N.V.	Netherlands/ Czech Republic	1,548
19/03/2019	DCT Gdansk S.A.	Transport & logistics	Poland	PSA International Pte Ltd; IFM Investors; Polski Fundusz Rozwoju S.A. (PFR)	Singapore/ Australia/ Poland	1,400
07/11/2019	Bulgarian Telecommunications Company (Vivacom)	Telecommunications	Bulgaria	United Group B.V.	Netherlands	1,200
16/12/2019	Orbis S.A.	Hospitality & leisure	Poland	AccorInvest Group SA	Luxembourg	1,188
07/11/2019	Stroygazmontazh LLC	Construction	Russia	JSC Gazstroyprom	Russia	1,065

Poland, the region's second biggest economy and its third most populous country, saw two of the top ten transactions. Baltic container port terminal operator DCT Gdansk was acquired by a consortium which included Singaporean container port operator PSA International and the state-owned Polski Fundusz Rozwoju (Polish Development Fund) for €1.4 billion. Meanwhile, Luxembourg-based AccorInvest Group acquired Polish hotel company Orbis for €1.2 billion.

International and regional private equity players are attracted to the region in their hunt for value at a time of slow growth and low yields in many developed countries, but also because of a growing range of suitable targets as domestic businesses reach maturity or consolidate. While these are mostly small and somewhat fragmented markets, regional consolidation in some sectors (such as financial services) is changing the picture.

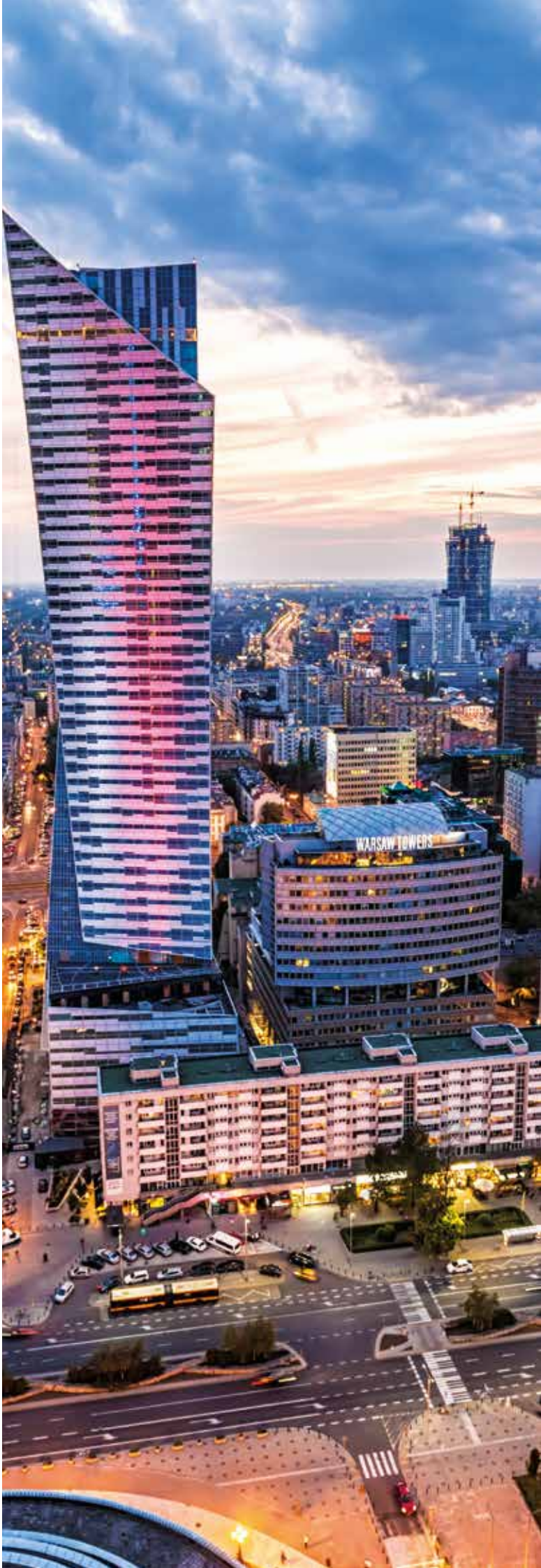
A perception of political risk in the region is belatedly fading. Though populist governments continue to raise concerns over the rule of law, leading to clashes with EU institutions, these have had limited concrete impact on the investment environment.

Challenges that investors do face in many CEE markets include excessive bureaucracy and slow official processes and patchy infrastructure, though EU funding is helping address the latter. A shortage of skilled labour in the region's tight labour markets has become a growing concern, however, and demographic shrinkage is a long-term issue in many countries.

In a region of open economies that are either members of the EU or closely tied to the bloc through trade and investment, the biggest risks to the dealmaking outlook come mainly from global shocks, such as the ongoing Covid-19 outbreak.

"CEE has an advantage compared to other emerging markets in that its economy is diversified. We see transactions in agriculture, chemicals, IT services, retail, and so on."

Zoltán Benedek
Partner, Mazars in Hungary



In spite of a fall in total dealmaking value in 2019, M&A in CEE continues to perform well compared to other emerging market regions

Largely anchored to the EU, the world's largest economy, but still offering higher returns than most developed markets, CEE continues to top the tables for emerging market investment. In 2019, as in the previous four years, the region attracted higher deal volume than any other emerging region, with 726 transactions.

It was also less affected by global headwinds, with volumes on a par with 2018, whereas others saw drops. Dealmaking dropped significantly in South East Asia and Africa, with volumes down 17% and 11% respectively, though activity in India and Latin America held up better (down 2% and 1% respectively).

Even as their markets mature, CEE countries remain very attractive markets for investors from Western Europe in particular, with natural advantages over other emerging markets.

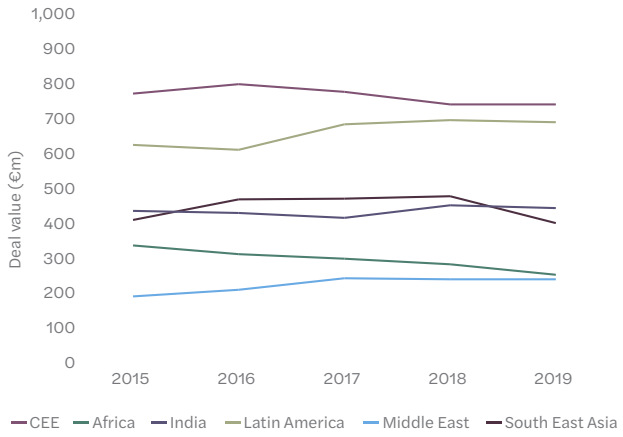
"Geographical proximity, time zone, and cultural similarities are all factors driving Western European interest in CEE," says Larionov. "There's little language barrier, and the way of doing business is similar, so it's easier to negotiate deals and understand the business models than in many emerging markets."

Russia is one of the most natural resources-rich countries in the world, and several other CEE countries also have historically had strong mining sectors. But unlike many emerging markets, most countries in the CEE region are not heavily dependent on commodity exports and associated foreign direct investments.

"CEE has an advantage compared to other emerging markets in that its economy is diversified," says Zoltán Benedek, Partner at Mazars Hungary. "We see transactions in agriculture, chemicals, IT services, retail, and so on. There is a good risk profile compared to other emerging markets."

With the exception of Russia, most CEE countries are moderately sized, and all covered in this report only became free market economies 30 years ago – two of the main reasons that the region has few companies of truly global scale. Nonetheless, the region achieved respectable overall deal value in 2018 – above that of both Africa and the Middle East and on a par with South East Asia. In 2019, however, while the Middle East saw a surge in value, and Latin America and South East Asia had considerable upticks, CEE and India saw a decline.

Total M&A market deal volume by region



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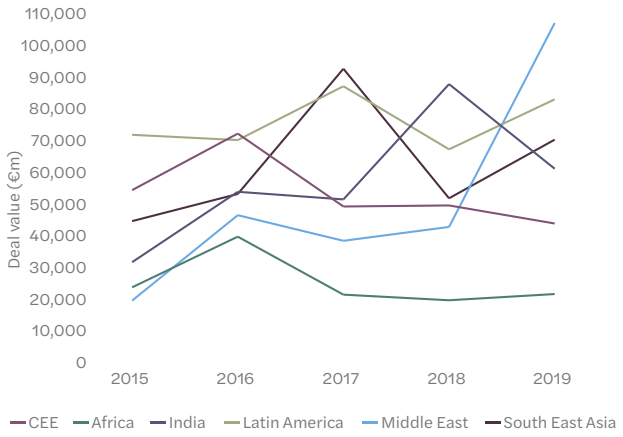
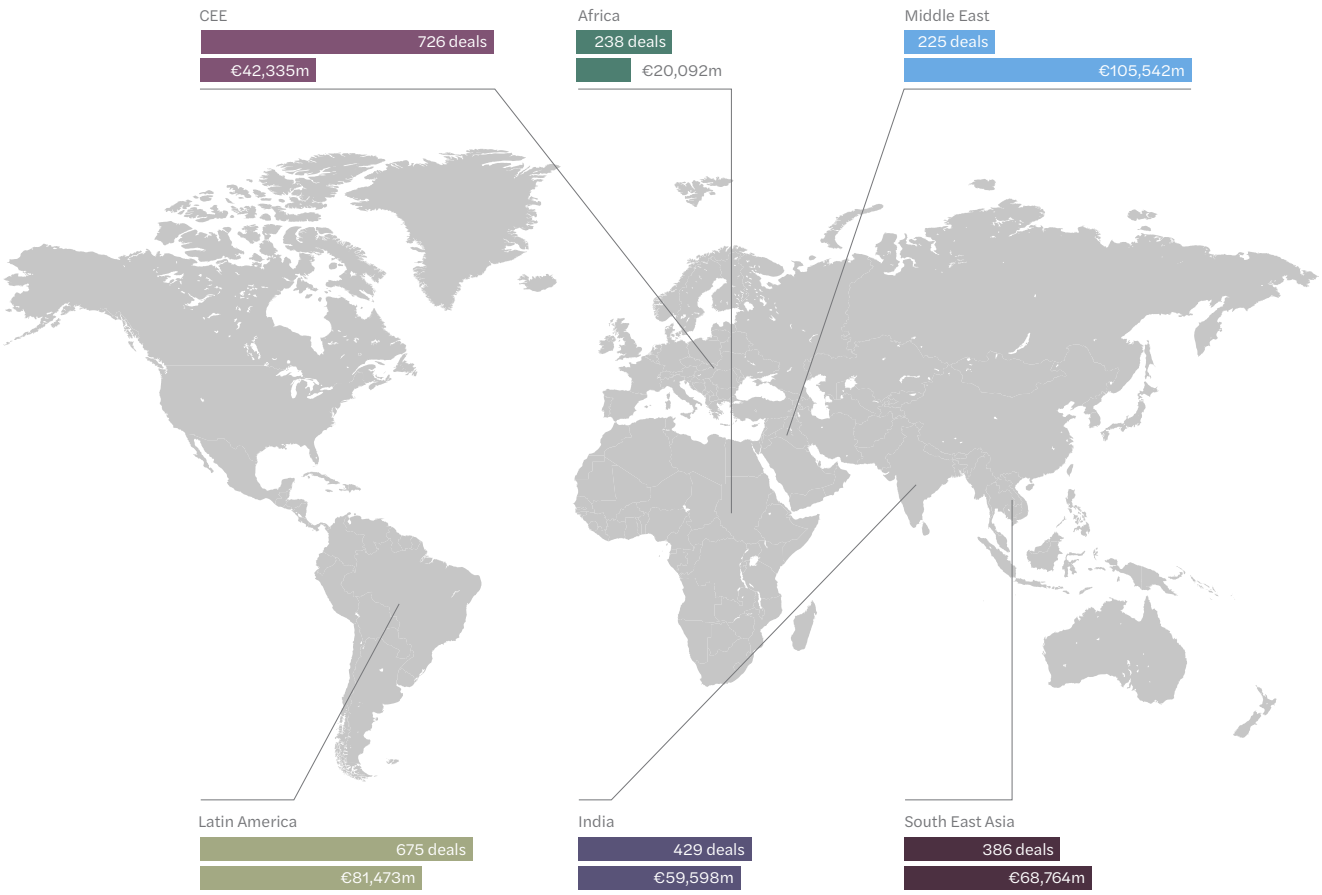


Regional comparison of M&A activity in 2019



Spanning from Ljubljana to Vladivostok, through Warsaw and Bucharest, CEE is an economically and politically diverse region – we explore the major deals and trends in six of the larger markets

The top four countries by M&A volume in 2018 topped the table again in 2019, with Russia in first place, followed by Poland, and the Czech Republic leapfrogging Austria to third place.

Russia

The most populous market and the largest economy in CEE by a large margin, it is little surprise that Russia again leads the way for regional dealmaking – even with sanctions in place. The country saw 167 transactions, up from 159 in 2018, while value remained steady at €21.5 billion. Three of the top five deals in 2019 took place in Russia, including the year's largest – Japan Arctic LNG's €2.6 billion acquisition of a 10% stake in Arctic LNG 2. Deals with Asian countries have come to the fore in recent years, with Chinese investors also participating in the project.

"We had some dramatic changes in the economic situation in Russia in the past five years," says Luc Chambon, Partner and Head of Financial Advisory Services for Mazars in Moscow. "While we have had positive developments in the past few years in terms of growth, inflation, and exchange rates, this still depends a lot on external factors, such as the oil price and the international situation."

Around 60% of Russia's exports are linked to oil and gas, Chambon says, making the sector a key driver of M&A activity. This has also historically made Russia's economy, and thus its M&A market, more sensitive to fluctuations in oil prices. This vulnerability was tested in March 2020, when negotiations between Russia and OPEC countries – led by Saudi Arabia – fell apart, resulting in a price war which saw the oil price fall to a four-year low.

Poland

Poland's total M&A value rose 46% year on year to €6.8 billion, while volume increased 16% to 146 in 2019. Two Polish deals were in the top 10 of the year for the region. The largest was the sale of container port terminal DCT Gdansk to an investor group which included Singaporean container port operator PSA International and Polski Fundusz Rozwoju (Polish Development Fund), for €1.4 billion. The sale of hotel group Orbis for €1.2 billion to AccorInvest also made it into the top 10.

In spite of these two €1 billion-plus transactions, the Polish M&A landscape remains primarily driven by the mid-market, similar to what is observed in most other CEE countries.

As well as being a sizeable market of 38 million people, Poland has now had nearly three decades of uninterrupted economic growth. It has become a key part of European and global supply chains, and Warsaw is on the rise as a CEE financial centre to rival Vienna. The country has recently become the first in the CEE region to be officially ranked as a 'developed market' on the FTSE Russell Index, joining the likes of the 25 most advanced global economies – the first time in nearly a decade that a country has been reclassified this way.

Much like other countries in the region, Poland is starting to see succession-related exits as owners sell companies founded in the 1990s that have benefitted from the years of growth since the end of the communist era. Sectors to watch include banking, where there have been large transactions in recent years involving both foreign lenders and state-backed funds. A recent ruling by the EU's top court on Swiss franc-linked mortgages may put a squeeze on the country's mid-sized lenders, leading to potential further consolidation. In the energy industry, state-owned PGNiG is making substantial investments in gas infrastructure and the successful Świnoujście LNG terminal is set to expand, but the coal sector is under EU pressure to downsize. Tech is also flourishing around the country, with a range of lively start-ups joining success stories like Future Processing, an export-oriented AI company based in southern Poland.

Czech Republic

The Czech Republic ranks third in CEE by both volume and value. The total figure of €6.3 billion was boosted greatly by the two largest deals of the year, which (unusually) were for the same target, a 50.04% stake in gas grid company innogy Grid Holding (IGH). IGH changed hands twice in 2019 as a broader deal between two German energy companies triggered a takeover by a consortium led by Australia's Macquarie Infrastructure and Real Assets.

The Czech Republic has the highest GDP per capita (PPP based) in the CEE region after Austria and has

CEE M&A deal volume by country 2018 vs 2019

Country	2018	2019
Russia	159	167
Poland	126	146
Czech Republic	73	82
Austria	100	79
Romania	31	50
Estonia	32	27
Hungary	26	27
Lithuania	25	26
Ukraine	33	22
Slovakia	16	16
Serbia	13	16
Slovenia	23	15
Bulgaria	8	15
Latvia	19	12
Croatia	23	8
Moldova	3	5
Albania	5	3
Bosnia-Herzegovina	4	3
Belarus	3	3
Montenegro	1	3
Republic of North Macedonia	3	1

CEE M&A deal value by country 2018 vs 2019

Country	2018	2019
Russia	21,537	21,538
Poland	4,673	6,801
Czech Republic	3,389	6,294
Bulgaria	117	1,461
Ukraine	742	1,127
Slovenia	1,119	890
Serbia	1,289	849
Romania	564	815
Austria	8,269	591
Estonia	2,282	415
Croatia	307	354
Latvia	426	345
Lithuania	43	278
Hungary	2,893	253
Moldova	85	147
Albania	118	50
Republic of North Macedonia	5	49
Montenegro	0	47
Bosnia-Herzegovina	0	12
Slovakia	132	10
Belarus	34	9

historically been better integrated into Western Europe's supply chains and infrastructure networks than many of its neighbours. Its high standard of higher education has also supported one of the most educated and skilled workforces in CEE, with knock-on effects in engineering and tech-intensive businesses.

"The Czech Republic is perceived as rather less risky and more mature than other parts of the region," says Lukáš Hruboň, Head of Transaction Advisory Services Department within Mazars in the Czech Republic. "The macro picture is good. And underlying this is the good quality of many of the companies, which are attractive for both strategic and financial investors."

Hruboň highlights real estate, healthcare and pharmaceuticals, and energy and utilities as three of the most active sectors, as well as the traditionally strong mechanical engineering industry. As an affluent country with a sizeable pool of capital, the Czech Republic is also home to some of CEE's most successful PE and VC funds. These include Dutch/Czech PPF Group, headed by Petr Kellner and responsible for some of the region's biggest transactions in recent years, and Daniel Křetínský's EPH, which is competing in strategic tenders across Europe.

Romania

Romanian M&A volume rose 61% in 2019 to 50 deals, from 31 deals in 2018. Value also increased, by 45% to €815 million. After a difficult transition to a free market economy, in recent years the country has become one of the region's success stories, with buoyant growth and a prominent campaign against corruption. A market of around 20 million people,

natural resources including oil and offshore gas, and a strategic location are all competitive advantages.

The largest deal of the year was National Bank of Greece's €314 million sale of a 99.28% stake in Banca Românească to Export-Import Bank of Romania – part of a wave of exits by Greek bank exits from CEE markets, and an example of the ongoing consolidation in the overbanked Romanian market.

"Dealmaking performance was better than expected at the start of 2019," says Răzvan Butucaru, Partner and Financial Advisory Services Leader for Mazars in Romania. "The economy performed well – the European slowdown was felt, but not to such a great extent, with domestic consumption being still one of the main drivers."

Construction, real estate, and healthcare and pharmaceuticals saw lively activity in 2019, with medium-sized clinic operators consolidating and fiscal incentives for the construction sector. Infrastructure, which the new government has pledged to make a top priority in 2020, is a sector with much potential, particularly as Romania has lagged behind other CEE countries in deploying EU funding, according to Butucaru.

Romania's budget deficit, at around 5% of GDP, is a concern, and looming parliamentary elections cloud the political picture. Also, the extent of the impact of the ongoing outbreak of coronavirus are difficult to estimate. However, Romanian businesses are more mature and diversified than in the past and are better prepared to face the challenges ahead.

Ukraine

Deals in Ukraine with disclosed value totalled €1.1 billion, up 52% year on year, while volume dropped by one third to 22 deals over the same period. This increase in value was boosted by the country's largest deal of the year, the €770 million sale of telco VF Ukraine PJSC to Azerbaijan-based diversified holding group NEQSOL Holding, which allowed seller Mobile TeleSystems, a Russian mobile operator, to exit.

Presidential elections in 2019 had a strong positive impact on the M&A climate and general perceptions of Ukraine, says Larionov. While the incumbent was defeated, President Volodymyr Zelensky's peaceful election victory underlines political stability and the country's pro-EU and US alignment.

Pro-business reforms are underway, including the listing of around 300 SOEs for privatisation, and a law lifting the ban on sale of private agricultural land. Removing this restriction after nearly 20 years is likely to help unlock the huge potential of agricultural investment in Ukraine, one of Europe's breadbaskets.

Other sectors worth watching are tech, renewable energy, and infrastructure. New tariff regulations for renewables are expected in 2020, while the country needs upwards of €3 billion in infrastructure investments, says Larionov.

While there is still the perception of greater risk in Ukraine due to conflict in the east of the country, long-term investors familiar with the market have priced in and learned how to manage that risk, Larionov says. While newer investors have been put off by the conflict, the reality is that most of the country is operating normally – and there is growing hope of a political solution.

Hungary

There were 27 deals for Hungary-based targets in 2019, totalling disclosed value of €253 million. While this represents a considerable fall in disclosed value from the total of €2.9 billion in 2018, by volume, it was a 4% year-on-year rise. The largest Hungarian deal with a disclosed value was a domestic transaction, the €117 million sale of Magyar Gaz Tranzit to gas distribution firm FGSZ.

The drop in total deal value in 2019 can largely be attributed to two transactions in 2018 that boosted that year's aggregate value substantially. Furthermore, there were a number of significant transactions in 2019 where the value was not publicly reported, and thus are not included in Mergermarket's totals.

> "Dealmaking performance was better than expected at the start of 2019."
>
> **Răzvan Butucaru**
> Partner and Financial Advisory Services Leader at Mazars in Romania

"Hungary had a really excellent year for M&A in 2019," says Benedek. "In the first quarter, uncertainty over Brexit and the US/China trade war had a slowing effect, but from the second quarter dealmaking took off."

Hungary is home to some major regional M&A players, including OTP Bank, which has been undertaking an aggressive expansion programme in recent years, and energy company MOL, in which the government has a minority stake. State-owned companies have also played a significant role in dealmaking in recent years, as the government has looked to reassert domestic ownership in industries including banking and utilities.

Adriatic

There was a total of 49 deals in the Adriatic region in 2019, worth €2.3 billion (for deals with disclosed value). Although this represents a substantial drop of 32% by volume and 21% by value compared to 2018, a look behind the headline figures reveals strong activity: there were eight €100m-plus deals in the region, the largest of which was a domestic merger between two Slovenian banks. The €511 million deal between Nova Kreditna Banka Maribor and Abanka was the 20th largest deal with disclosed value of the year across CEE.

"The business environment in general is developing well," says Teit Gjini, Managing Partner of Mazars in Albania. "Trends we have been witnessing in the past couple of years include consolidation in the retail and telecoms sectors. Fragmented businesses are starting to get concentrated – and reach the critical size to be able to compete. We are also seeing increased private equity and venture capital activity."

Pension funds are also becoming more active in the region as they seek higher returns than those available from government and corporate bonds. Transport, telecommunications, retailing, and manufacturing are all sectors attracting attention, as well as mining in Bosnia and renewable energy in Croatia. Hungary's OTP Bank has expanded strongly in the Adriatic region over the past year with the acquisition of local subsidiaries of Société Générale, and it and other banks may seek further deals as consolidation pressures rise. The next two years should also see the sale of assets belonging to Fortanova Group, formerly the Croatian food and retail giant Agrokor, which was saved from bankruptcy by government intervention in 2017. Activity in Croatia's booming tourism sector is expected to continue, including privatisations of state-owned hotels.

Challenges for investors include legislative uncertainty. Croatia, for example, has had several changes in VAT rules over the past several years, with the country's many tourism and leisure businesses facing significant changes to their cashflow models as a result. The relatively small and fragmented markets in the Adriatic region also lead to a paucity of sizeable targets, though a growing wave of succession exits of businesses established in the 1990s is creating new opportunities for small and mid-sized transactions.

Slovakia

There were 16 deals targeting Slovakian assets in 2019 – the same number as the year before – but only one transaction in 2019 had a disclosed value, of €10m.

"In respect of the M&A landscape, I don't think we have experienced any significant changes," says Juraj Zelko, Financial Advisory Services Manager at Mazars in Slovakia. "Deals may be smaller, but they are still going ahead."

Slovakian assets are often part of broader regional M&A, with the transactions registered as taking place in the Czech Republic, and sometimes Poland, Zelko says.

While Slovakia's era of big-ticket privatisations is largely over, there is growing potential over the coming decade in sectors including infrastructure, healthcare, and education, which are currently dominated by the state but are set to be liberalised, according to Zelko. The country has also developed a lively start-up scene, with local and regional venture capital a growing presence.

Slovakia has had the world's highest car production per capita for more than a decade. However, the automotive industry is likely to come under pressure both from lower-cost competitors as wages have risen, and from the need to keep up with technological change.

Private equity in CEE

Without any particularly large transactions, PE value in CEE dropped substantially in 2019, though volume levels were healthy thanks to a lively local scene.

Private equity activity in CEE continues to grow, with a total of 69 buyouts in 2019, two more than in the previous year. The total value of PE buyout deals with disclosed transaction values, however, dipped to a low of €2.9 billion – 68% below the year before.

PE exit volume meanwhile dropped slightly, from 61 in 2018 to 59 in 2019, though total disclosed transaction values grew significantly to €6.5 billion. This was driven by a number of large-ticket sales, including Vostok New Ventures' exit from its stake in Avito, which it sold to OLX Group for just over €1 billion.

It is worth noting that total PE figures do not include buy-and-build transactions such as the €1.2 billion sale of Bulgarian telco Vivacom to United Group, a Netherlands-based company owned by UK-based PE firm BC Partners. United Group is expanding aggressively in the region, acquiring the Croatian assets of Sweden's Tele2 for €220 million in the same year.

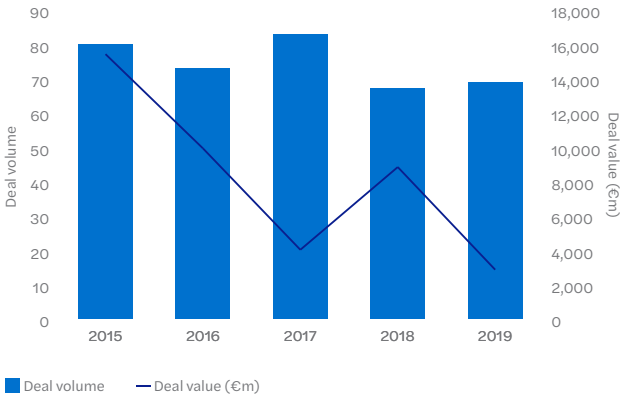
Romania saw the region's second largest PE deal, a €175 million investment in online gambling company Superbet by Blackstone. The US-based firm took a minority stake in Superbet through its Tactical Opportunities business, with a view to expanding internationally.

Private equity players are showing increasing interest regionwide, including in areas where they have not previously had a strong presence, such as the Adriatic. Other than funds' own appetite for yield in new spaces, one driver of activity is succession, as owners look to exit companies that have grown to suitable size and as older founders plan to retire. But funds are also hunting for start-ups that have reached scalable size, and opportunities to participate in consolidation plays in sectors such as banking.

"PE funds have gained an appetite for playing an active role in consolidation," says Jan Fido, Director of Financial Advisory Services at Mazars in Poland. "Fund managers are under pressure to deploy the funds that they have raised, and this is a good destination."

Large international players such as Advent and Cinven are also being joined by local PE firms which tend to focus on small and mid-sized transactions, such as and Innova Capital and BaltCap.

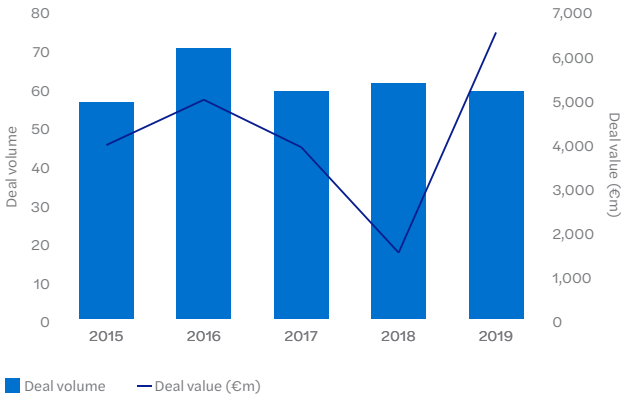
CEE private equity M&A buyouts



"PE funds have gained an appetite for playing an active role in consolidation. Fund managers are under pressure to deploy the funds that they have raised, and this is a good destination."

Jan Fido
Director of Financial Advisory Services at Mazars in Poland

CEE private equity M&A buyouts



"One question for the coming years is how the regional PE industry will respond to the EU tapering down JEREMIE funding that has supported venture capital and private equity in the region for some years."

Tamas Orosz
Manager of Financial Advisory Services at Mazars in Hungary

Top 5 private equity firms investing in CEE by number of M&A deals, 2017-2019

PE firm	Deal volume
Mid Europa Partners LLP	8
Innova Capital Sp z o.o.	8
Tar Heel Capital	7
Penta Investments, s. r. o.	7
Genesis Capital s.r.o.	7
BaltCap	7

Top 5 PE firms investing in CEE by total value of M&A deals, 2017-2019

PE firm	Deal value (€m)
Advent International Corporation	4,902
Starwood Capital Group	2,198
Allianz Capital Partners GmbH	1,800
Kohlberg Kravis Roberts & Co. L.P.	1,420
BC Partners Limited	1,420

Attractive valuations and strong economic growth have attracted substantial investment to CEE from outside the region in recent years – which is likely to continue as we enter a new decade.

Competitive advantages in skills, location, stability, and pricing meant inbound cross-border dealmaking momentum was maintained in 2019, despite international headwinds. These included the US-China trade spat, uncertainty over Brexit, slowing growth in leading emerging markets, and lingering concerns about the future of the eurozone.

The volume of inbound M&A deals to the region from outside CEE largely held steady, dropping just 2% year on year to 289 deals.

Total inbound disclosed deal value came to €21.6 billion. This represents a 27% drop from 2018, but it should be stressed that this headline figure is not truly indicative. Firstly, the region sees many deals with undisclosed value, which do not count towards the total. Secondly, the region's M&A market tends to be characterised by a vibrant mid-market. Thus a few big-ticket deals can have a disproportionate impact on value totals for a given year.

Sustained M&A volume in 2019, tells a clearer story, as does the positive feedback from investors already present in the region. Fundamentals of robust growth, access to the EU market (and in some cases major emerging markets), and political and economic stability are underpinning investment. For many investors, the region offers a highly advantageous mix of the benefits of both emerging and developed markets.

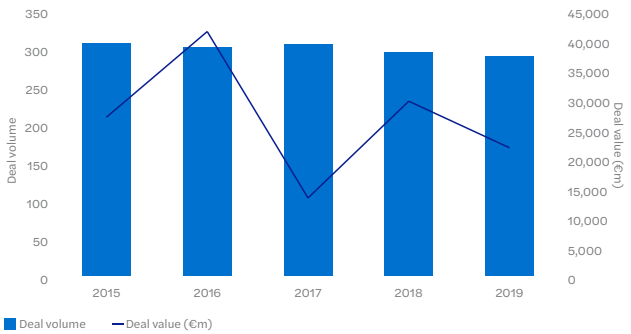
"CEE markets remain attractive for international investors. A lot of companies are undervalued," says Larionov. Although the ongoing outbreak of coronavirus in Europe and elsewhere is bound to negatively impact the macroeconomic picture, the CEE is well-positioned to recover once the crisis is over and will likely remain attractive to outside investors. "Most CEE countries are still emerging markets, so investor return multiples are very high compared to developed markets."

The current virus outbreak has brought attention to the global supply chain and its vulnerabilities. Once the dust settles, this could eventually lead to reassessments of global supply systems and the CEE's strengths in near-shoring could become more attractive.

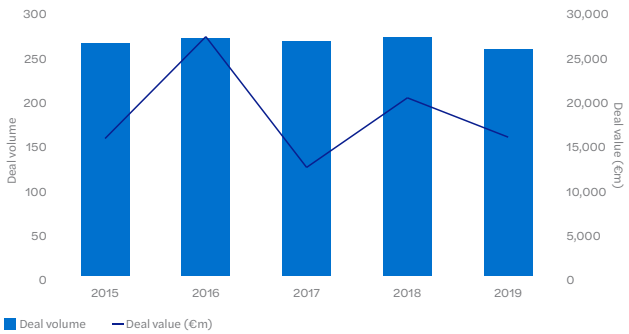
Top bidders

The Netherlands was the largest source of inbound M&A to the region by value, with M&A worth €4.1 billion targeting CEE. Three of the CEE region's top ten inbound deals in 2019 involved Netherlands-based buyers. However, all three have roots or owners elsewhere, reflecting the Netherlands' favourable company formation practices and business environment. PPF Group, which acquired Central European Media Enterprises (CME) for €1.5 billion, is a Czech/Dutch company. United Group, a Balkans-focused media holding company which acquired Bulgarian mobile operator Vivacom for €1.2 billion,

M&A inbound deals to CEE (including Russia)



M&A inbound deals to CEE (excluding Russia)



Top 10 M&A deals inbound to CEE in 2019

Announced date	Target company	Sector	Target country	Bidder company	Bidder country	Deal value (€m)
29/06/2019	OOO Arctic LNG 2 (10% Stake)	Energy & utilities	Russia	Japan Arctic LNG B.V	Japan	2,639
22/02/2019	innogy Grid Holding, a.s. (50.04% Stake)	Energy & utilities	Czech Republic	RWE AG	Germany	1,850
29/04/2019	innogy Grid Holding, a.s. (50.04% Stake)	Energy & utilities	Czech Republic	A Consortium led by Macquarie Infrastructure and Real Assets	Australia	1,800
27/10/2019	Central European Media Enterprises Ltd.	Media	Czech Republic	PPF Group N.V.	Netherlands/ Czech Republic	1,548
19/03/2019	DCT Gdansk S.A.	Transport & logistics	Poland	PSA International Pte Ltd; IFM Investors; Polski Fundusz Rozwoju S.A. (PFR)	Singapore/ Australia/ Poland	1,400
07/11/2019	Bulgarian Telecommunications Company (Vivacom)	Telecommunications	Bulgaria	United Group B.V.	Netherlands	1,200
16/12/2019	Orbis S.A.	Hospitality & leisure	Poland	AccorInvest Group SA	Luxembourg	1,188
25/01/2019	Avito Holding AB (29.1% Stake)	Technology	Russia	OLX Group	Netherlands	1,021
25/11/2019	VF Ukraine PJSC	Telecommunications	Ukraine	NEQSOL Holding	Azerbaijan	770
05/11/2019	Takeda Pharmaceutical (prescription and over-the-counter drug operations in Russia, Georgia, Armenia, Azerbaijan, Belarus, Kazakhstan and Uzbekistan)	Healthcare & pharmaceuticals	Russia	STADA Arzneimittel AG	Germany	594

is owned by UK PE fund BC Partners. And OLX Group, which took an additional 29.1% stake in Russian online classifieds group Avito, is owned by South Africa's Naspers. Thus, these three transactions, all seemingly originating from one country, reflect the increasingly global interest in CEE.

Germany ranked second among bidder countries, with €3.3 billion in acquisitions, though this included RWE's €1.85bn takeover of a majority stake in the Czech Republic's innogy Grid Holding, which it rapidly sold on to an Australian-led consortium.

In terms of volume, the top four countries outside the region for inbound bids to CEE were Germany, the USA, the UK, and France. Germany-based investors launched 47 bids for CEE assets, reflecting the country's position as the powerhouse of the European economy, and for decades one of those most engaged in the region. US-based investors were responsible for 40 transactions, and France-based companies and funds made 30 bids.

Perhaps most notable is that UK interest remained robust even with the country gripped by uncertainty over Brexit, which is likely to affect its trading and investment relationship with much of CEE. UK-based bidders acquired 29 targets in the region. "Central and Eastern Europe is viewed as a promising investment geographical area by UK firms and PE funds, looking for relatively stable markets with high GDP growth, up-and-coming M&A targets and interesting return on investments" says Greg Hall, Head of Transaction Services at Mazars in the UK. "The CEE has been growing at above EU28 average rates for a couple of years, driven by domestic demand, wage growth and inflows of EU funds. Such market players as Mid Europa Partners, Cinven Partners and Aberdeen Standard Investments are quite acquisitive in the region."

Asian interest

Two of the top ten largest inbound deals with disclosed value in 2019 were from bidders based in Asia, including the largest, which saw Russian natural gas producer Novatek sell a 10% stake in liquefied natural gas (LNG) project Arctic LNG 2 for €2.6 billion to Japan Arctic LNG, a JV between Mitsui and JOGMEC, a Japanese state-owned entity.

Novatek is seeking a growing market share in the global LNG market, which is expected to double over the next 15 years, as the relatively energy-poor countries of East Asia look to secure steady supplies of the cleanest of the fossil fuels.

Japan is the world's largest LNG importer, and Japanese companies have now invested in three Russian LNG projects, but China's demand for LNG is rising rapidly and could overtake that of Japan soon. As a result, China National Petroleum Corporation (CNPC) and China National Offshore Oil Corporation (CNOOC) both also made investments into the Arctic LNG 2 project in 2019. While the terms for these transactions were undisclosed, they were for the same size equity stake as Japan Arctic LNG's investment – 10% each. Chinese companies are also eyeing energy service companies that have synergies with upstream investments.

"Investments in Russian LNG projects are a good example of Chinese investments in the region in recent years," says Tim Wei Yu, Financial Advisory Services Partner at Mazars China. "It's a typical strategic move."

But LNG is by no means the only thing attracting Asian bidders to the region. Singapore-based port terminal operator PSA was the lead investor in a consortium that acquired Polish DCT Gdansk port operator for €1.4 billion, another one of the year's top deals. Notably, the consortium includes the state-owned Polski Fundusz Rozwoju (Polish Development Fund), which was founded in 2016 to support companies and broader economic development in Poland. The fund's involvement reflects both CEE governments' continued desire to retain
a stake in strategically important assets, and foreign investors' willingness to form such partnerships to secure domestic buy-in.

Aside from the two investments in Novatek's LNG project, there were few other significant examples of China's investment in the region in 2019. This was due in part to a domestic economic slowdown and trade tensions with the US. Nonetheless, the CEE remains an important component of China's Belt and Road Initiative (BRI). This is a global development

Top inbound bidders in 2019 by volume

Country	Deal volume
Germany	47
USA	40
France	30
United Kingdom	29
Switzerland	15
Netherlands	15
Belgium	10
Sweden	9
Denmark	8
Italy	8

Top inbound bidders in 2019 by volume

Country	Deal volume (€bn)
Netherlands	4.1
Germany	3.3
Japan	2.7
USA	1.9
Australia	1.8
Singapore	1.5
Luxembourg	1.2
Azerbaijan	08
Switzerland	0.6
Cyprus	0.5

The inbound picture

M&A volume inbound to CEE by country, 2018 vs 2019

Country	2018	2019
Poland	51	65
Austria	65	47
Czech Republic	27	38
Russia	25	34
Romania	18	22
Lithuania	11	13
Ukraine	11	12
Serbia	8	10
Bulgaria	3	10
Estonia	15	8
Hungary	13	8
Slovenia	10	6
Slovakia	6	5
Croatia	8	4
Latvia	13	3
Belarus	2	1
Albania	1	1
Montenegro	1	1
Moldova	0	1
Bosnia-Herzegovina	3	0
Republic of North Macedonia	3	0

M&A value inbound to CEE by country, 2018 vs 2019

Country	2018	2019
Russia	9,445	5,999
Czech Republic	2,951	5,966
Poland	1,893	4,649
Bulgaria	29	1,254
Ukraine	297	998
Serbia	1,084	694
Romania	490	467
Austria	7,498	430
Latvia	426	340
Lithuania	6	278
Croatia	23	256
Slovenia	717	246
Hungary	2,820	18
Montenegro	0	7
Estonia	1,744	5
Belarus	28	0
Slovakia	23	0
Albania	5	0
Republic of North Macedonia	5	0
Bosnia-Herzegovina	0	0
Moldova	0	0

strategy focusing on infrastructure and investments that seeks to strengthen China's connectivity and economic ties with the rest of the world – particularly Eurasia and Africa. Projects associated with the BRI in CEE include the Belgrade-Budapest high-speed railway, rail links between China and Poland and Slovakia, and the Peljesac Bridge in Croatia.

China's economy took a massive hit in the first quarter of 2020 as much of the country shut down in the face of the outbreak of a novel coronavirus and whether its economy can rapidly rebound from what is likely to be the worst quarter for the Chinese economy in many decades remains to be seen, and will depend in part on the impact of the virus on its largest trading partners.

"CEE is becoming a more mature market. Though there are still some perceived risks like politics and corruption, investors are very happy with the levels of return they can achieve."

Andrija Garofulić
Financial Advisory Services Partner
at Mazars in Croatia

Longer term, however, CEE's attraction to Chinese investors is obvious. "For Chinese bidders, CEE's solid industrial base, skilled labour force, and relatively low costs, are particularly attractive," says Yu. Growing ties between China and the region are mutually beneficial and reinforcing. Chinese companies are keen to expand beyond China's borders into growing markets, while CEE countries are keen to kindle stronger growth and development through foreign direct investment.

"Chinese outbound investment will primarily be driven by the Belt and Road Initiative," says Yu. "CEE is an important region in the BRI, with around 20 countries on the belt and road, thanks to its location. It is a good region for Chinese businesses to tap into Western markets, and historically China has had a strong relationship with CEE."

"Government support is very important to attracting Chinese investment, and state-owned enterprises (SOEs) will be the main Chinese outbound buyers going forward," says Yu. This is especially reassuring in light of the health crisis, as the Chinese government is likely to support SOEs as part of its plan to restart its economy.

However the economic recovery proceeds post-oubtreak, one challenge will likely remain for Chinese bidders considering CEE markets: increased protectionism. Recent years have seen increasing scrutiny of Chinese companies involved in sensitive high-profile deals, according to Yu. Compliance burdens may rise with the introduction of the EU foreign investment screening mechanism, though the framework is currently fairly loose.

Top destinations

Poland rose to first place in 2019 as a destination for inbound volume, with 65 bids, up from 51 the previous year. Austria, long regarded as the leading gateway to CEE and the top destination for deals in 2018, saw the number of inbound bids drop from 65 in 2018 to 47. Poland's total inbound deal value also increased more than twofold, from €1.9 billion to €4.6 billion. The size of Poland's market and the economy's remarkably robust growth over the past quarter of a century mark it out – it was the only EU member state not to go into recession in 2009. Its position between Western Europe and Asia, and as a northern gateway to CEE, also give it strategic advantages.

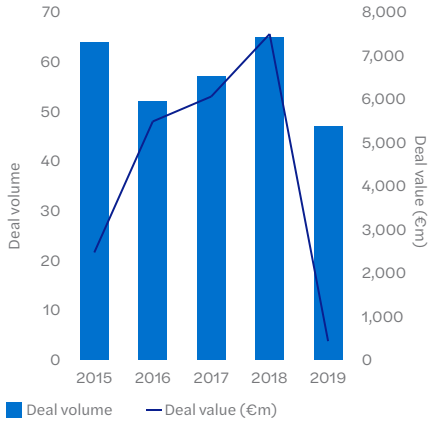
"Poland is positioned as an entry point to the EU," says Fido. "The DCT transaction shows that Gdansk is set to play an even more important role in logistics operations with Asia and create new opportunities for entire industries."

The Czech Republic ranks third by volume for deals inbound to CEE, with 38 bids, up from 27 in 2018. Despite a recent cooling of relations between the country and China, the country remains an attractive location for international investors more broadly, given its location at the heart of Europe, excellent infrastructure, and strong industrial base.

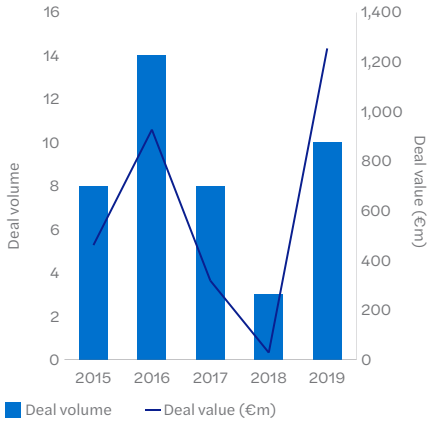
"CEE is becoming a more mature market," says Andrija GarWofulić, Mazars Financial Advisory Services Partner in Croatia covering the Adriatic region. "Though there are still some perceived risks like politics and corruption, investors are very happy with the levels of return they can achieve."

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

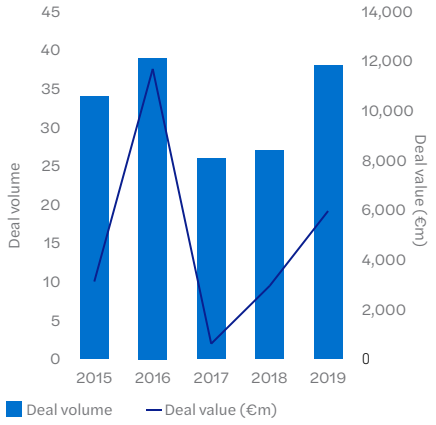
Austria M&A
Inbound deals involving non-CEE buyers



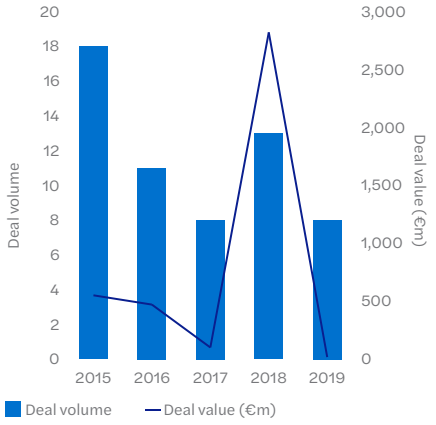
Bulgaria M&A
Inbound deals involving non-CEE buyers



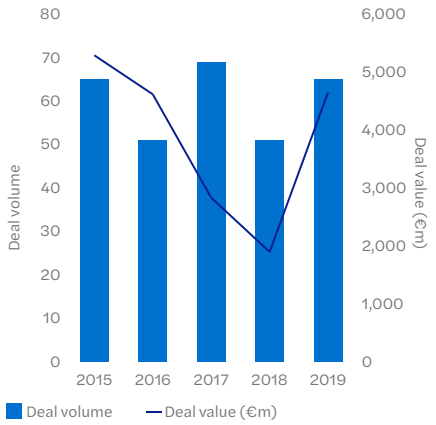
Czech Republic M&A
Inbound deals involving non-CEE buyers



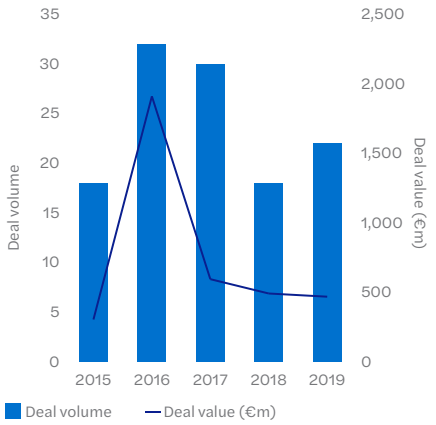
Hungary M&A
Inbound deals involving non-CEE buyers



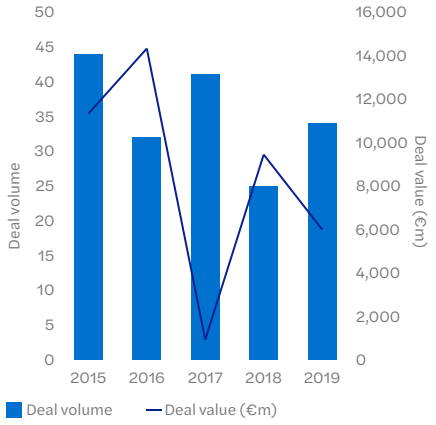
Poland M&A
Inbound deals involving non-CEE buyers



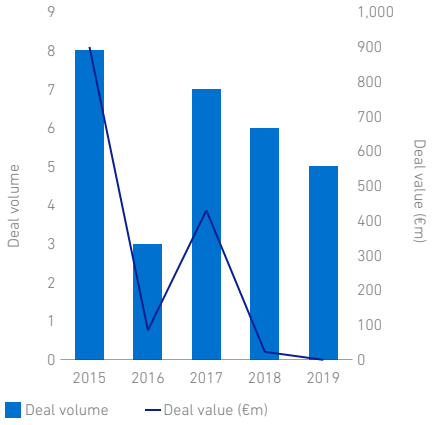
Romania M&A
Inbound deals involving non-CEE buyers



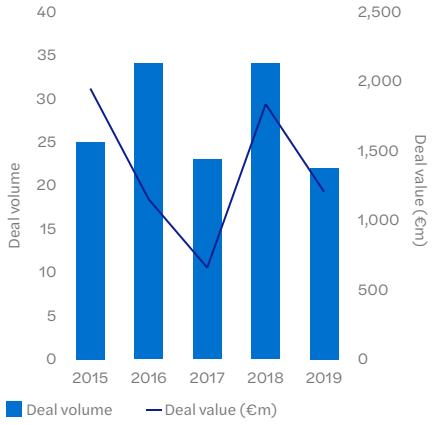
Russia M&A
Inbound deals involving non-CEE buyers



Slovakia M&A
Inbound deals involving non-CEE buyers

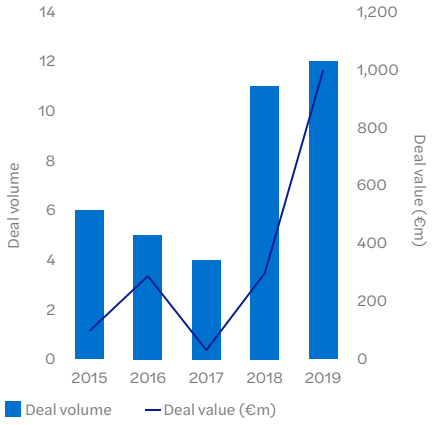


Adriatic region M&A
Inbound deals involving non-CEE buyers



*Countries represented include: Albania, Bosnia-Herzegovina, Croatia, Montenegro, Republic of North Macedonia, Serbia and Slovenia.

Ukraine M&A
Inbound deals involving non-CEE buyers



While the industrials and energy and utilities sectors stand out, the region has a diversified economy and has generated deals across a range of industries.

The CEE's history and geographical position has led to the development of a strong industrials sector, and in 2019 industrials again attracted the most deals inbound to CEE – 56, down from 65 in 2018. These were mostly small and mid-sized transactions, with a total value of €1.1 billion, down from €5.5 billion in 2018, when Austria in particular saw some unusually large deals.

Technology ranked second, with 47 inbound deals, up from 36 the previous year, reflecting the continued success of CEE tech companies. A highly educated workforce, connectivity to Western European and even North American markets, and relatively low costs have helped tech bloom in the region, and EU funding has helped support seed and VC investment.

The retail and consumer goods sector also had lively activity, with 30 deals, overtaking professional services in third place. Investors have been attracted by rising incomes, and domestic consumption and consumer confidence that have remained robust even in the face of a global economic slowdown.

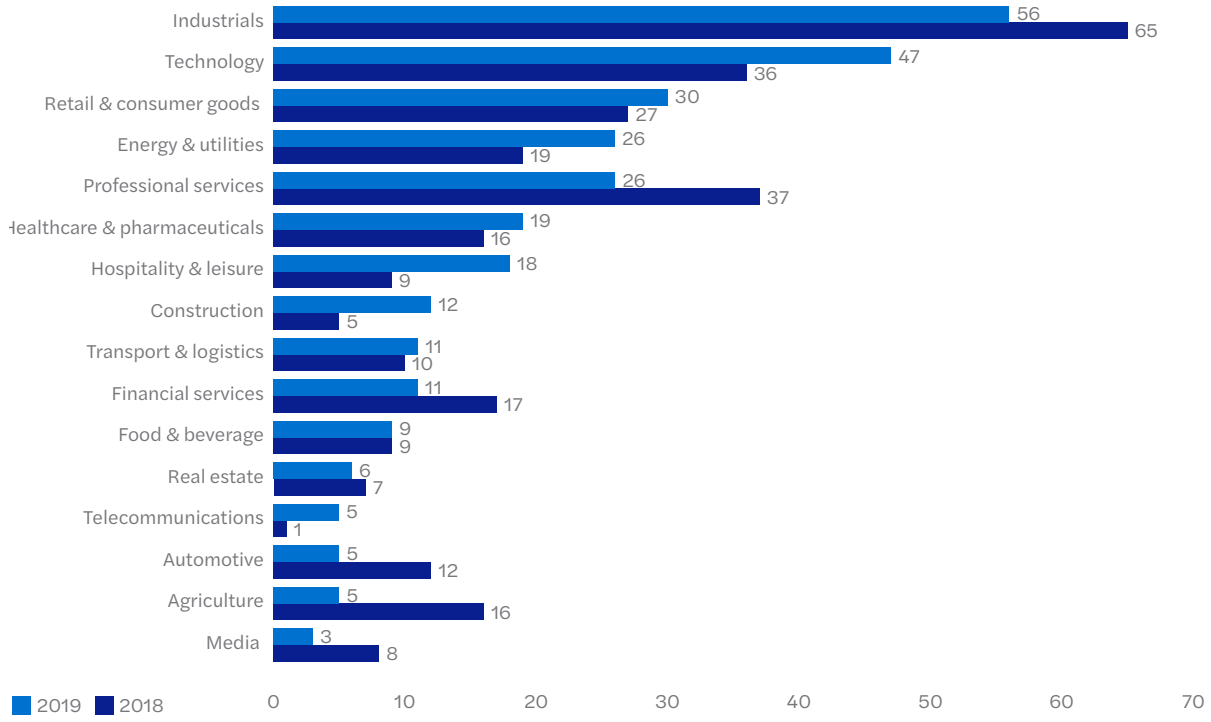
In value terms, energy and utilities remained the top sector, with total inbound deal value of just under €7.6 billion, up from €7.4 billion in 2018. This reflects both the large ticket size of major transactions in the sector, as well as Russia's position as one of the world's leading oil and gas exporters.

The telecommunications sector ranked second by value, with inbound deals worth €2.2 billion, buoyed by large transactions including the acquisition of Bulgarian mobile operator Vivacom by rising regional telecoms and media investor United Group.

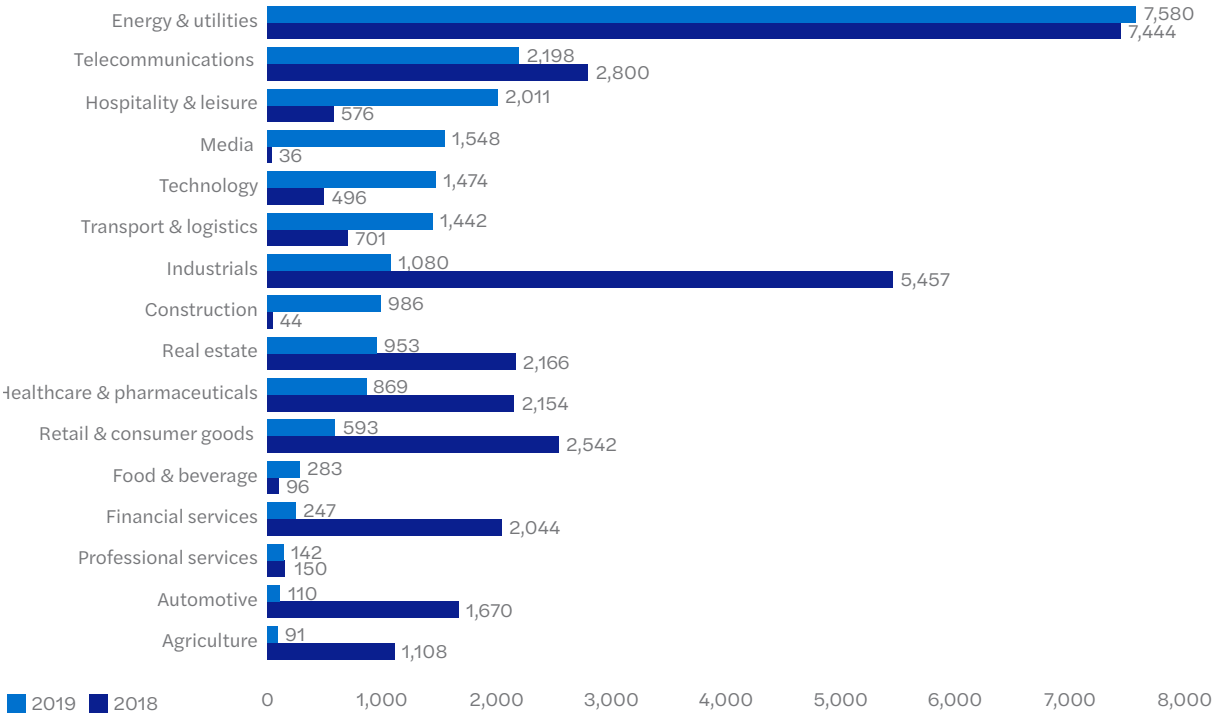
"There is a huge potential for deals in technology, where we see more and more interest. We have a lot of skilled people, and investors are taking note."

Jan Fido
Director of Financial Advisory Services
at Mazars in Poland

M&A inbound deals to CEE - volume by sector, 2018 vs. 2019



M&A inbound deals to CEE - value by sector, 2018 vs. 2019 (€m)



Cross-border M&A in Central and Eastern Europe
Sector focus - Financial services

Inbound M&A activity in the financial services sector was relatively subdued in 2019, with 11 deals, down from 17 in 2018. There were just two deals with publicly disclosed value, totalling €247 million.

In April, CSOB, the Czech division of Belgium's KBC Group, agreed to acquire a 45% stake in Czech savings bank Ceskomoravska stavebni sporitelna (CMSS) from German lender BSH for €240 million. The deal takes KBC's ownership of CMSS to 100% and represented a 1.54 multiple of CMSS's standalone net book value. KBC aims to use the buyout to strengthen its position in the Czech mortgage market and support its existing Czech clients' housing loan needs.

The only other publicly disclosed inbound transaction saw US-based Adriatic Capital Partners acquire Montenegro's Nova Banka AD Podgorica for €7m. The bank was established in 2016 by Azmont Investments, a Montenegro-based company backed by Azerbaijan Global Investments, itself an investment vehicle of privately owned Azerbaijan-based investment funds.

Countries that are likely to see further activity in the sector in coming years include two of the largest markets in the region – Romania and Poland.

Romania has long been considered an 'overbanked' economy, with 34 banks at the end of 2018, according to the European Banking Federation, but with the largest banks having the lion's share of a fragmented market. Consolidation has been ongoing, driven in part by domestically owned market leader Banca Transilvania, which has overtaken Erste Group's BCR as the country's largest lender. But inbound players are also present: in 2018 US private equity fund JC Flowers bought Piraeus Bank Romania. Piraeus Bank's sale was part of an ongoing withdrawal from the CEE market by Greek banks following Greece's financial crisis. This has led to a number of transactions including KBC's acquisition of National Bank of Greece's Bulgarian subsidiary. JC Flowers is now understood to be mulling further acquisitions in Romania as pressure to consolidate grows.

"There are other banks that are likely to be for sale, including small and mid-sized banks but also top-ten players," says Răzvan Butucaru.

Costs on banks regionwide are rising thanks to tighter capital requirements and the need to invest in technology, while competition from alternative finance is intensifying. But while Romania may be 'overbanked' in terms of the number of institutions, it is under-penetrated in many banking services.

"There is still a lot of room for growth," says Butucaru. "But smart investment in the medium to long-term has to be considered to promote new services and attract new clients."

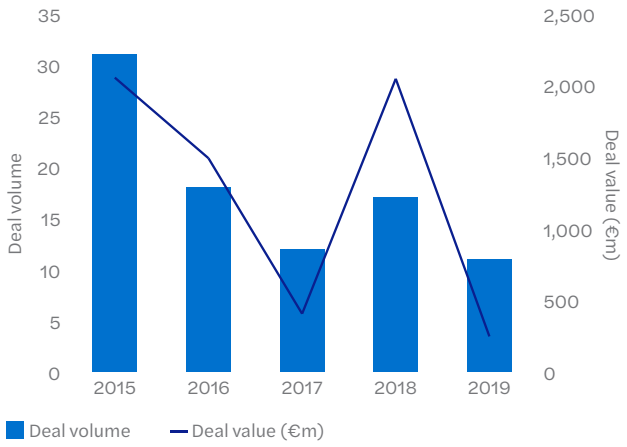
Meanwhile, Polish banks may suffer cumulative losses of over €20 billion in a worst-case scenario following an EU court ruling in 2019 on Swiss franc mortgages. While such huge losses are unlikely, the fallout may put further pressure on mid-sized banks most exposed to CHF loans, some of which are already struggling to keep up with the country's larger lenders.

Top financial services deals inbound to CEE in 2019*

Announced date	Target company	Target country	Bidder company	Bidder country	Deal value (€m)
15/04/2019	Ceskomoravska stavebni sporitelna, a.s. (45% Stake)	Czech Republic	Ceskoslovenska Obchodni Banka AS	Belgium	240
17/07/2019	Nova Banka AD Podgorica	Montenegro	Adriatic Capital Partners, LLC	USA	7

*Based on deals with disclosed values

Financial services M&A inbound deals to CEE



"The consolidation process within the Polish banking sector has been observed for a few years now and will most probably continue during the near future," say Małgorzata Pek-Kocik and Joanna Włoch, respectively Partner and Director in charge of Financial Services clients within Mazars in Poland. "This is the consequence of increasing costs of running banking activities in the country (Banking Tax Act and additional capital requirements reducing Return on Equity). The increasing share of the Polish State Treasury in the overall sector is also a key factor influencing the M&A market."

Other potential deals in the region could involve Hungary's OTP Bank, which has been expanding aggressively in Southeast Europe, but is looking to sell its Slovakian subsidiary. The latter may interest Prima Bank, another player which has been hunting acquisitions, and is owned by Slovakia-based PE fund Penta.

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

The technology sector has been one of the liveliest for dealmaking in CEE over the past decade or more. A competitive outsourcing industry has been joined by a growing range of start-ups, some of which have gone on to grow and compete at a global level. Tech unicorns (worth more than US$1 billion) originating from or based in CEE include Estonia's Skype, Transferwise, and Bolt (formerly Taxify); Poland's Allegro; UiPath and eMag (Romania); Grammarly (Ukraine); and Hungary's LogMeIn.

"There is a huge potential for deals in technology, where we see more and more interest," says Fido. "We have a lot of skilled people involved in innovation and start-ups, and investors are taking note."

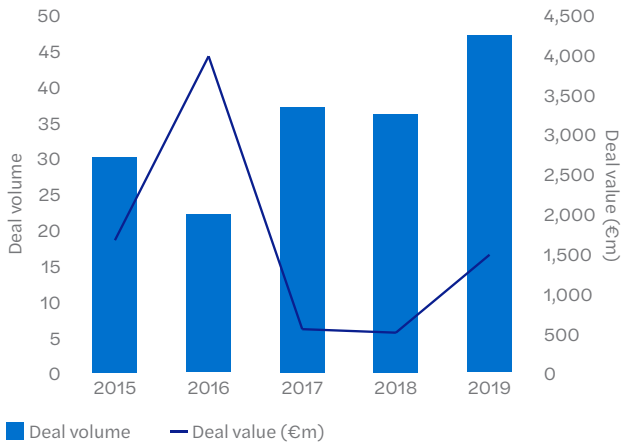
The total value of publicly disclosed inbound deals to CEE tech companies tripled in 2019 to €1.5 billion, from just under €500 million in 2018, while volumes hit a record, with 47 bids.

One of the top ten deals of the year saw Netherlands-based OLX Group, owned by South African media giant Naspers, increase its stake in Russia's Avito Holding by 29.1% in a transaction worth €1 billion. OLX now has a 99.9% holding in Avito, which operates Russia's most popular classified advertising website.

The second largest disclosed transaction also involved online classified advertising, as UK-based Apax Partners acquired Baltic Classifieds Group, a Lithuania-based company operating a portfolio of platforms across the Baltic states. The €150 million deal is Apax's first deal in the Baltics.

The Czech Republic is home to one of the region's most vibrant tech scenes, supported by a growing range of domestic VC firms. In 2019, Brno-based travel tech start-up Kiwi.com came of age as US private equity firm General Atlantic invested €116 million, buying out existing equity investors. General Atlantic has previously invested in Airbnb and Uber, giving it a strong track record in travel tech, and indicating a vote of confidence in the target.

Technology M&A inbound deals to CEE



Top technology deals inbound to CEE in 2019*

Announced date	Target company	Target country	Bidder company	Bidder country	Deal value (€m)
25/01/2019	Avito Holding AB (29.1% Stake)	Russia	OLX Group	Netherlands	1,021
09/05/2019	Baltic Classifields Group OU	Lithuania	Apax Partners LLP	United Kingdom	150
03/06/2019	Kiwi.com s.r.o (51% Stake)	Czech Republic	General Atlantic Service Company, L.P.	USA	116

*Based on deals with disclosed values

Cross-border M&A in Central and Eastern Europe
Sector focus - Energy and utilities

As well as being one of the world's largest oil and gas producers, Russia's population of more than 140 million and large industrial base mean that the energy and utilities sector is a major driver of investment. But it is not the only country in CEE which has witnessed strong M&A activity in energy and utilities over the past 30 years as mines, upstream concessions, and power infrastructure have been privatised. More recently, attractive feed-in-tariffs have drawn investment to renewables, and LNG and pipelines have injected new competition into the regional gas market.

Both volume and total value of inbound deals in the sector increased in 2019, with 26 transactions worth a total of €7.6 billion, up from 19 in 2018 and 15 in 2017.

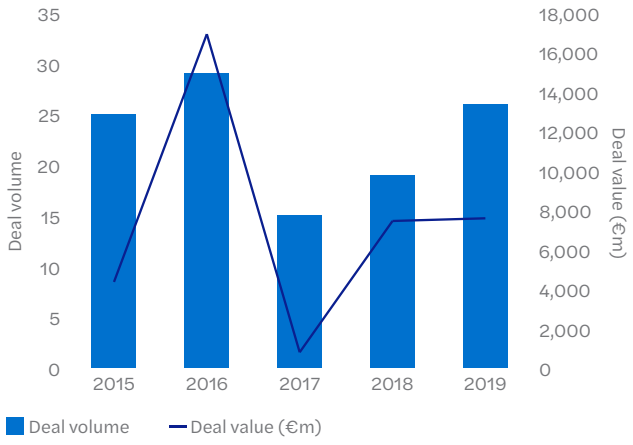
The largest deal of the year by any metric – Japan Arctic LNG's €2.6 billion investment into Russia's Arctic LNG 2 project – was an energy one. The deal was for a 10% stake in the LNG project, the same size equity stake as those acquired by Chinese firms CNPC and CNOOC earlier in the year, though terms for those two transactions were not made public.

Unusually, two of the largest transactions in the sector in 2019 were for the same asset – a 50.04% stake in Czech Republic-based innogy Grid which changed hands twice in the same year. In February, Germany's RWE acquired the asset for €1.9 billion as part of a larger, complex asset swap between RWE and domestic peer E.ON, which will see RWE consolidate power generation and E.ON double down on energy networks and retail. This triggered a clause allowing a consortium led by Australia's Macquarie Infrastructure, which owned the rest of the Czech asset, to acquire it outright.

Looking forward, investors will see opportunities from Ukraine's reworked feed-in-tariffs (once the world's most generous), LNG projects in Poland and Croatia, and gas infrastructure across the region. Poland's gradual move to phase out coal may further boost demand for both gas and renewables.

"Renewable energy is really a trend, and it will continue in 2020, along with consolidation," says Benedek.

Technology M&A inbound deals to CEE



Top energy and utilities deals inbound to CEE in 2019*

Announced date	Target company	Target country	Bidder company	Bidder country	Deal value (€m)
29/06/2019	OOO Arctic LNG 2 (10% Stake)	Russia	Japan Arctic LNG B.V	Japan	2,639
22/02/2019	innogy Grid Holding, a.s.	Czech Republic	RWE AG	Germany	1,850
29/04/2019	innogy Grid Holding, a.s.	Czech Republic	A Consortium led by Macquarie Infrastructure	Australia	1,800

*Based on deals with disclosed values

Despite the valuation gap between targets in the CEE region and those in Western Europe narrowing somewhat in the last five years, pricing in CEE remains attractive compared to its neighbours to the west.

Median valuations in CEE remain consistently lower than in Western Europe. In 2019, the median EV/EBITDA multiple in CEE was 7.81x, according to Mergermarket data, compared to 10.91x in Western Europe. This is in spite of the fact that, the median multiple in CEE rose that year, from 6.74x in 2018, while in Western Europe it fell from 11.55x over the same period. Generally, this suggests that CEE companies remain undervalued, particularly compared to their Western European peers.

"The indicative valuation gap should not be a surprise. As with pricing for most services and products, you pay more in Western Europe than in CEE," says Butucaru. "There's still a big gap in wages, prices and size of domestic markets and this is reflected in the values of companies."

Lower valuation multiples in CEE are affected by a number of factors, including the maturity of targets, and risk perception, according to Butucaru.

"It's a good thing as it allows investors who buy assets in CEE to have more money to invest after the acquisition, which is what CEE economies need to close the valuation gap," he says. "The CEE market needs to catch up and it is doing so fast."

More than thirty years after the end of communism, CEE companies are becoming more mature, developing their products, increasing quality and gaining more efficiencies through better corporate governance. "This trend is being observed in SMEs as well as larger corporates, resulting in owners becoming better at achieving higher valuations," says Adam Zohry, Senior Associate coordinating the Financial Advisory Services activities of Mazars in Central & Eastern Europe.

"The CEE region was considered tougher, lower maturity, and higher risk than more developed markets in the past," says Fido. "But we all feel the situation is changing. We expect the transaction pricings in Poland to progressively reduce the gap with the ones observed in Western Europe."

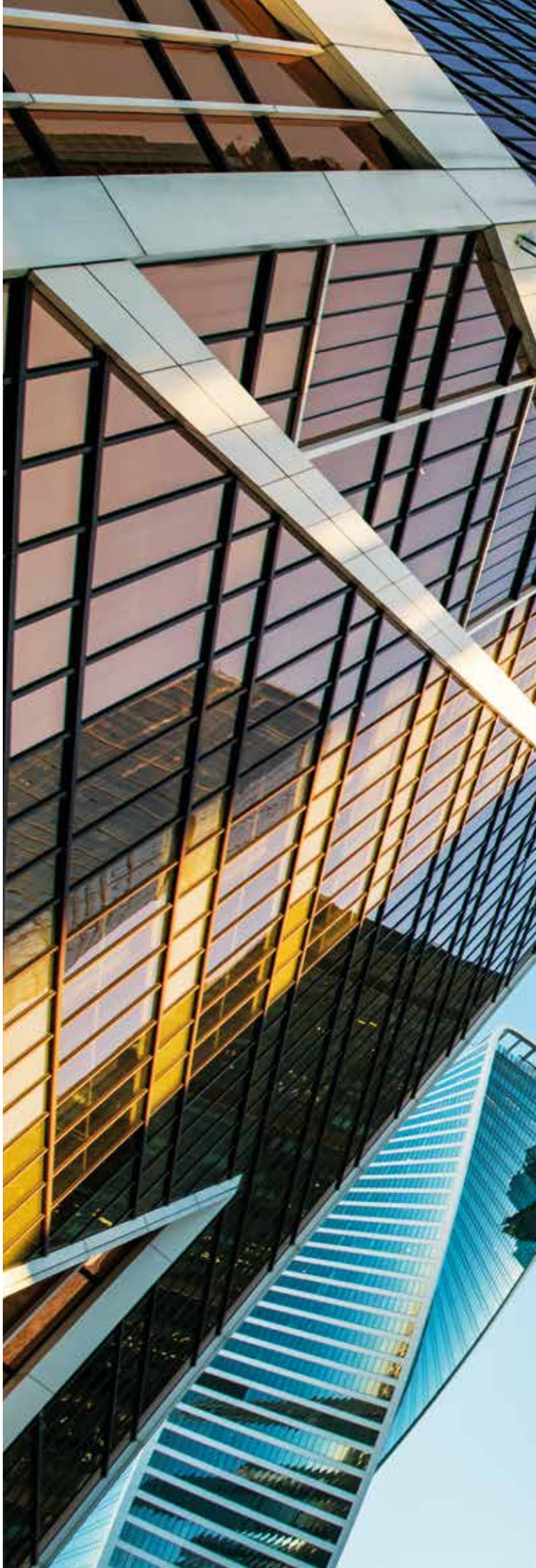
Europe-wide, the healthcare and pharmaceuticals sector had the highest median multiple between 2018 and 2019, at 16.7x, followed by real estate (14.91x) and technology (13.86x). Transport and logistics (8.25x), construction (8.65x), and energy and utilities (9.07x) have the lowest multiples.

Year	CEE median EBITDA multiple year 1	Western Europe* median EBITDA multiple year 1
2015	8.87	10.80
2016	8.27	10.44
2017	9.89	10.91
2018	6.74	11.55
2019	7.81	10.91

*For this analysis, Western Europe includes Andorra, Belgium, Channel Islands, Cyprus, Denmark, Faroe Islands, Finland, France, Germany, Gibraltar, Greece, Iceland, Ireland (Republic), Isle of Man, Italy, Liechtenstein, Luxembourg, Malta, Monaco, Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland and United Kingdom.

Sector	European 2018-2019 median EBITDA multiple year 1
Healthcare & pharmaceuticals	16.70
Real estate	14.91
Technology	13.86
Professional services	12.96
Hospitality & leisure	12.26
Telecommunications	11.03
Media	10.85
Food & beverage	10.74
Industrials	9.28
Retail & consumer goods	9.23
Energy & utilities	9.07
Construction	8.65
Transport & logistics	8.25

Disclaimer: Indicative valuation figures are exclusively based on Mergermarket database figures and are for informational purposes only. They should not replace a formal valuation done by an independent adviser. An industry must have a minimum of 25 reported deals in Europe to be calculated. All the above EBITDA multiples figures are derived from taking the median from the transaction samples. Medians are used rather than mean averages as the latter tends to be distorted by outliers.



M&A outlook for 2020 and conclusion

The external shock of the ongoing Covid-19 outbreak is highly likely to have a substantial impact on CEE's economies and its M&A market in 2020, as it will across the world. An economic slowdown was already expected in Europe, even before the current crisis exacerbated the matter.

Nonetheless, the M&A market in the CEE is well-positioned to weather the crisis, in comparison to other emerging market regions. In the second half of 2019, Mergermarket was tracking 621 CEE 'company for sale' stories, up from 536 the year before.

As in 2019, the industrials sector – the region's backbone – leads the way for deals in the pipeline, with 106 being tracked, followed by technology, with 94. Tech has become a leading driver of dealmaking with firms from business process outsourcing to app developers on the market. The industry looks set to continue to play a central role in the region's investment picture for the foreseeable future.

Financial services ranks third with 72 'for sale' stories. The process of banking consolidation has been slower than expected but has picked up pace in the past two years as mid-sized banks in particular have felt the squeeze of rising costs, and larger players have revived their expansion plans, emboldened by sustained growth.

While that growth is now likely to slow substantially, not least because of the spread of Covid-19 to Europe, the attractions of CEE – its location, lower costs and highly educated population – remain strong. Although a sharp slowdown in the Eurozone and the global economy could lead to an increase in defaults and bankruptcies, those strong fundamentals could ensure that troubled business in CEE are snapped up by opportunistic acquirers.

One of the CEE region's biggest strengths, its close connections with developed economies, also makes it susceptible to fluctuations in global economic markets. As most of the region is in the EU, or very closely tied to it by trade and investment, its fortunes are particularly closely intertwined with those of the bloc. As the coronavirus continues to spread in Europe and beyond, the economies of the CEE will likely be substantially affected.

Nevertheless, there is reason to expect that the CEE's growth will again outstrip that of Western Europe, once the crisis is over. In 2019 the region weathered a European downturn and a slowing global economy remarkably well, with domestic demand in the driving seat.

For some time, businesses in CEE have been bracing for a global recession, which now could be likely. "The rapid spread of the novel coronavirus across Europe, the US and around the world has strong implications for the global economy", says Michael Kupka, CEE-USA Desk Leader within the New York office of Mazars USA. "Moreover, the full impact of Brexit trade negotiations and the US presidential election may influence the levels of US investments in CEE in 2020. Therefore, investors may have to more heavily rely on trusted advisers to identify and execute potential M&A opportunities in this region."

"Once a semblance of normalcy returns, the CEE region is expected to remain attractive to many US investors. It has a growing middle-class, is close to Western European markets and has a skilled and educated workforce", Kupka said. "With median valuation most likely remaining consistently lower than in Western Europe in the future, the CEE region will continue to offer strategic investment opportunities."

Within the region, the challenges of bureaucracy continue to hamper business in many countries. Sanctions on Russia and conflict in Ukraine continue to weigh on two of the largest economies. Regional governments have had limited success in addressing labour shortages that are putting a squeeze on an increasing number of businesses.

Nonetheless, CEE retains its unique combination of location, stability, skills, and costs that have made it one of the world's most attractive regions for investors.

While external factors, such as the continuing spread of Covid-19 in Europe and elsewhere in the world, are expected to impact the region, the CEE will maintain its attractiveness to investors thanks to its competitive advantages. "Places like Hungary which have bee overperforming EU average growth are particularly appealing. Incomes are increasing," says Benedek. "Regional M&A activity is mainly influenced by global trends and the CEE will remain a good place to invest."

Sector	Number of 'company for sale' stories*
Industrials	106
Technology	94
Financial services	72
Retail & consumer goods	56
Energy & utilities	46
Professional services	46
Healthcare & pharmaceuticals	34
Transport & logistics	30
Hospitality & leisure	27
Food & beverage	25
Agriculture	22
Construction	21
Real estate	13
Telecommunications	10
Media	10
Automotive	6
Aerospace & defence	3
TOTAL	621

“Once a semblance of normalcy returns, the CEE region is expected to remain attractive to many US investors. It has a growing middle-class, is close to Western European markets and has a skilled and educated workforce.”

Michael Kupka
CEE-USA desk leader at Mazars USA

*Company for sale stories tracked by Mergermarket between 10/07/2019 - 09/01/2020

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Operating in 91 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in the Mazars integrated partnership and 16,000 via the Mazars North America Alliance.

Valid as of 1 January 2020
*FTE at 31 August 2019

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- Senegal
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- Tanzania
- Tunisia
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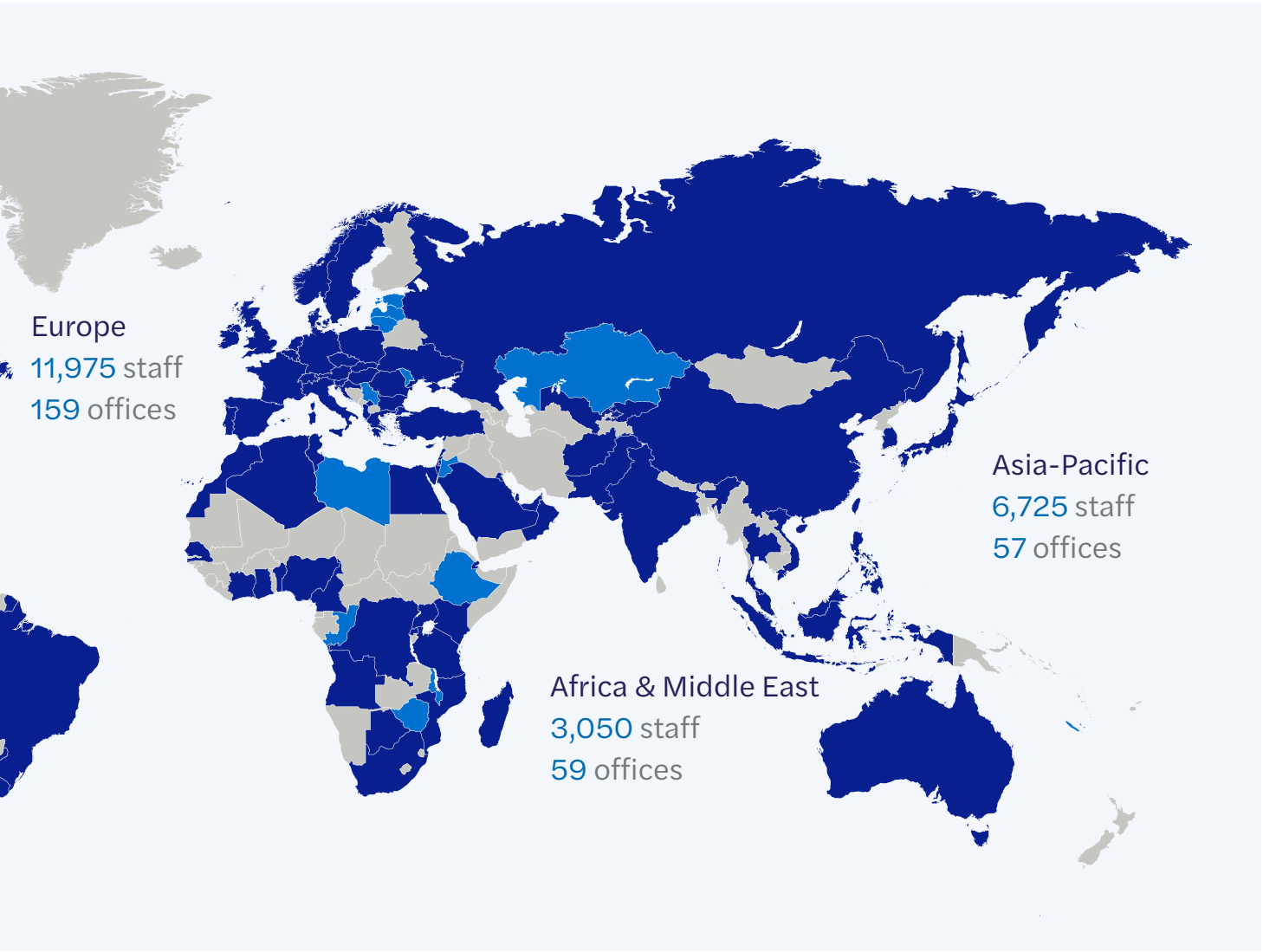
- United Arab Emirates
- Zimbabwe



Europe

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- Latvia
- Lithuania
- Luxembourg
- Malta
- Moldova
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- Turkey
- Ukraine
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- Korea
- Kyrgyzstan
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- Singapore
- Taiwan
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