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# M&A SPOTLIGHT: CEE

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M&A SPOTLIGHT: CEE
M&A SPOTLIGHT: CEE
M&A SPOTLIGHT: CEE

WOLF THEISS

FY 2019

Corporate Monitor

# CONTENTS

## SURVEY FINDINGS



## COUNTRY VIEWS



## SECTOR SPOTLIGHTS

# FOREWORD

**Horst Ebhardt**
Wolf Theiss

Welcome to the newest edition of the Wolf Theiss Corporate Monitor's M&A Spotlight on CEE/SEE.

As in previous years, the Wolf Theiss Corporate Monitor provides an in-depth survey of the current and prospective M&A environment in Central, Eastern and South-Eastern Europe ("CEE/SEE").

Together with Mergermarket, we have examined the M&A environment in 2019 and the outlook among dealmakers for 2020, with a focus on seven key sectors. In order to shed more light on statistical trends and to correlate them with actual experiences in completing deals, we have interviewed dealmakers from a range of industries as well as private equity firms who are routinely involved in transactions in the region.

Although M&A value dropped again in 2019, the number of deals has held steady, and it is notable that the vast majority (89%) of respondents say their experience in investing in CEE/SEE has made them likely to invest again in the region.

This is perhaps unsurprising, given that the region's economic growth has consistently outpaced that of the rest of Europe over the past few years and is projected to continue to do so in the coming year. Moreover, compared to other fast-growing economies, the CEE/SEE region enjoys a greater level of political stability.

While respondents expect significant headwinds which are likely to result in a more challenging environment for dealmaking, this is due mainly to external factors. Moreover, the region's advantages, including its growth potential, relatively low costs, skilled workforce, and the membership of many of the region's countries in the EU, will continue to appeal to investors, especially as growth in Western Europe slows.

We hope you will enjoy reading the Wolf Theiss Corporate Monitor's M&A Spotlight on CEE/SEE and that it will provide you with practical guidance in evaluating the potential for completing deals in a dynamic and evolving region.

# INTRODUCTION

In spite of a substantial drop in M&A deal value in the CEE/SEE region in 2019, the mood among dealmakers remained buoyant. The vast majority of respondents to this year's survey – some 89% – say that their experience of M&A in the CEE/SEE region has made it more likely that they'll invest in the region again. Over two thirds of corporates surveyed (68%) and 78% of PEs surveyed say they expect to make an acquisition in the region in the next two years.

Deal volume in the region held steady at 481 deals, in contrast to Western Europe, which registered an 8% decline. And while deal value fell 17% in CEE/SEE, this was still less steep than the 23% drop in M&A value in Western Europe over the same period.

The region's strengths are manifold. Most CEE/SEE countries are members of the European Union, the world's largest economy, and those that aren't are on its doorstep, with preferential trade and investment terms in many areas. Moreover, the CEE/SEE region's economic growth has outstripped that of Western Europe for several years, and many markets remain under-penetrated and underdeveloped in sectors ranging from infrastructure to healthcare, from modern retail to tourism.

The region also boasts a remarkable pool of skilled labour in sectors ranging from automotive to software development, partly thanks to a long legacy of excellent technical education. Wages, rent, and overhead costs also tend to be below the EU average. However, rapid growth has led to wage convergence in some areas, and demographic change has led to a decrease in the size of the working age population in many countries.

In 2019, we marked the thirtieth anniversary of the end of communism in most of the region. The past three decades have seen wide-ranging reforms from privatisations to the liberalisation of labour markets, creating an environment that is increasingly business-friendly and open to investment.

Compared to many other emerging markets, most of the region also enjoys a remarkable level of political stability. While there have been snap elections and rapid changes of leadership, these have not led to radical change.

"There's still a higher risk perception than risk reality, which allows you to command a better rate of return on your investment," says Bryan Jardine, managing partner at Wolf Theiss Romania.

EU membership has also allowed CEE/SEE countries to tap large amounts of funding for development, mainly in real assets such as infrastructure, but also in the start-up ecosystem, where EU-backed VC and seed funds have played an important role.

Looking ahead, a small majority of respondents (51%) think that it will become more difficult to raise funds for dealmaking in CEE/SEE over the next 12 months, double the 24% who felt the same in last year's survey. Global economic headwinds may lead to a more 'risk-off' stance from financial institutions and investors, while shallow regional capital markets are an ongoing challenge.

The TMT and consumer and leisure sectors are once again seen as likely hotspots of dealmaking by respondents this year, and were the most popular choices when respondents were asked to select the most important sectors where they expect to make acquisitions in 2020.

Nearly three quarters of respondents (72%) expect increased distressed debt opportunities in CEE/SEE over the coming year, up from just 15% in last year's survey. Again, the impact of global headwinds is being felt by businesses, but policy changes and legal processes are also having an effect.

**METHODOLOGY**

In H2 2019, Mergermarket surveyed 150 senior-level executives about their experiences and outlook on M&A in the Central Eastern European region. Half of the respondents were based in the CEE region, while the other half were drawn from outside of the region. One third of respondents were from private equity firms, with the remainder comprised of corporate respondents.

All participants in the survey had made at least one acquisition in the CEE region over the past 12 months. The survey included a combination of qualitative and quantitative questions and all interviews were conducted over the telephone by appointment. Results were analysed and collated by Mergermarket and all responses are anonymised and presented in aggregate.

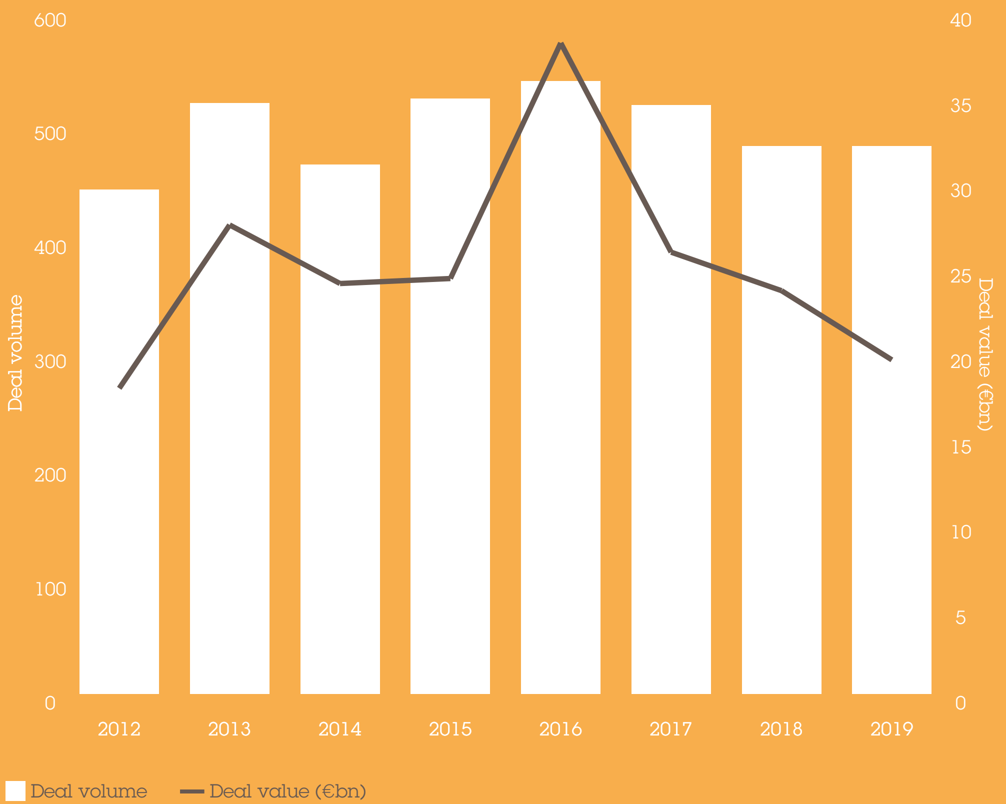
# REGIONAL OVERVIEW

Against global decline in M&A deal volume, the Central, Eastern and South-Eastern Europe region witnessed steady volume figures in 2019, even as value dropped. Nevertheless, an overwhelming majority of those surveyed say their experience of M&A in the region has made it more likely that they will invest again in the region. In 2019, the TMT sector overtook industrials and chemicals to come out on top as the best performing sector by value. Compliance and different working cultures were seen as the main challenges to completing deals in the region.

## M&A OVERVIEW

Merger and acquisition activity in the CEE/SEE region softened somewhat in 2019. A total of 481 deals were recorded, matching 2018's total volume, worth a total value of €19.6bn – a 17% decline from the value generated in 2018.

Overall M&A, 2012-2019



| Announced date | Target company | Sector | Target country | Bidder company | Bidder country | Deal value (€m) |
|---|---|---|---|---|---|---|
| 22/02/2019 | innogy Grid Holding, a.s. (50.04% stake) | Utilities (other) | Czech Republic | RWE AG | Germany | 1,850 |
| 29/04/2019 | innogy Grid Holding, a.s. (50.04% stake) | Utilities (other) | 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 | 1,548 |
| 19/03/2019 | DCT Gdansk S.A. | Transportation | Poland | PSA International Pte Ltd; IFM Investors; Polski Fundusz Rozwoju S.A. (PFR) | Singapore | 1,400 |
| 07/11/2019 | Bulgarian Telecommunications Company (Vivacom) | Telecommunications: Carriers | Bulgaria | United Group B.V. | Netherlands | 1,200 |
| 16/12/2019 | Orbis S.A. | Leisure | Poland | AccorInvest Group SA | Luxembourg | 1,188 |
| 25/11/2019 | VF Ukraine PJSC | Telecommunications: Carriers | Ukraine | NEQSOL Holding | Azerbaijan | 770 |
| 20/06/2019 | Abanka d.d. | Financial services | Slovenia | Nova Kreditna Banka Maribor d.d. | Slovenia | 511 |
| 05/11/2019 | Echo Investment S.A. (55.96% stake) | Real estate | Poland | Wing Zrt. | Hungary | 478 |
| 11/03/2019 | Capital Park S.A. | Real estate | Poland | Madison International Realty | USA | 455 |

This marks the third year in a row that value has fallen. One of the main reasons for this is simply that 2016 was a particularly strong year in the region. Moreover, the past few years were historic, record-breaking ones for global dealmaking. The M&A cycle has since crested and is now likely past its top.

Global and regional economic headwinds are another factor. While CEE/SEE experienced robust economic growth in 2019, trade tensions between the US and China, continued uncertainty concerning the timing and terms of the UK's departure from the European Union, and concerns over the eurozone's future are all clouding global sentiment. The cooling of the German economy, an important engine of growth in the region, is having an impact. Domestic politics can also be a drag, with multiple elections in countries including Poland and Romania, two of the largest in the region.

"There is a certain amount of uncertainty when it comes to the eurozone that has affected the level of dealmaking in the region," said the head of corporate M&A at a Swiss industrial company.

Nonetheless, most respondents and our partners remain upbeat about the medium- to long-term outlook, given the region's competitive advantages, and the brightening outlook in the second half of 2019. Trends to look out for include growing interest from private equity, including regional players; consolidation in the financial services and energy sectors; and the continued rise of innovative, tech-intensive companies in a variety of sectors.

Poland has overtaken Austria as the leading investment destination by deal value in 2019, with deals worth €11.6bn in total. Poland's rise to the top should come as little surprise: it is the most populous country and the largest economy in the region. Poland is also increasingly seen by survey respondents as the natural gateway to CEE/SEE, where once Austria ruled the roost.

"Most of our clients see Poland as a safe harbour in the event of a general slowdown," says Tomasz Stasiak, the co-managing partner of Wolf Theiss Poland. "We are perceived as a stable and developed economy."

Jacek Michalski, a partner at the Warsaw office, notes that Poland also benefits from its large skilled workforce (including at senior level where some countries have shortages), ever-improving infrastructure, and solid supply of office space.

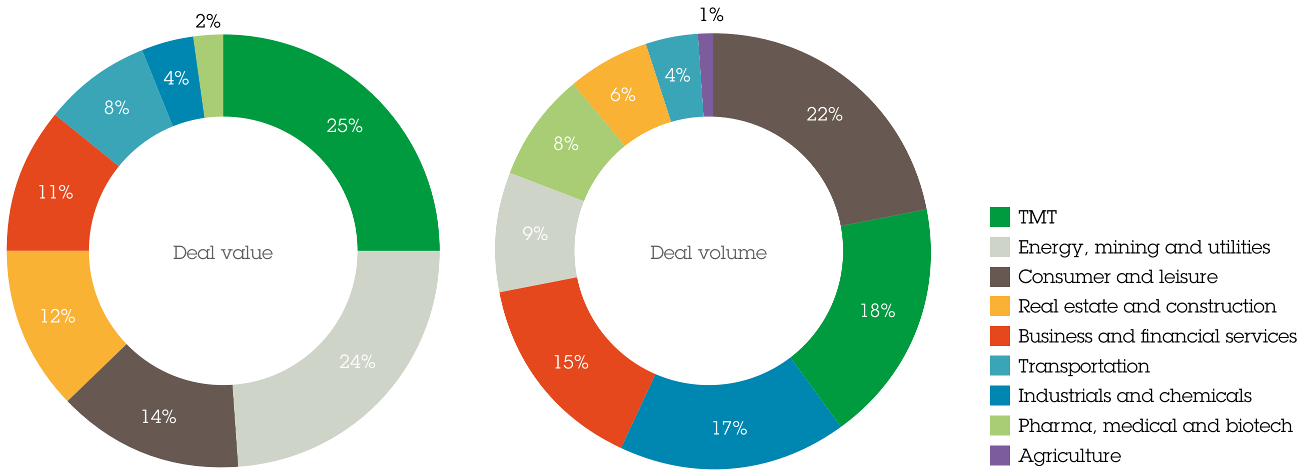
Nonetheless, Austria will remain a favoured gateway for many, partly as the most affluent market, with financial sector strength, and because of its excellent transport links across the region.

## SECTOR WATCH

The consumer and leisure sector saw the most activity in 2019 in terms of deal volume. The sector accounted for 22% of volume and 14% of value. Wage growth, the expansion of modern retail, and lively tourism all contribute to consumer and leisure activity.

Unusually, the largest and second largest transactions of 2019 involved the same target.

## CEE sectors by deal value and volume, 2019




## M&A by sector and target country 2018–2019 (€m)

| Country | TMT | Industrials and chemicals | Energy, mining and utilities | Business and financial services | Real estate and construc-tion | Consumer and leisure | Pharma, medical and biotech | Transportation | Agriculture | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Poland | 842 | 869 | 889 | 2964 | 1934 | 2492 | 99 | 1440 | 33 | 11,562 |
| Czech Republic | 1780 | 871 | 4062 | 595 | 144 | 323 | 1900 | | 8 | 9,683 |
| Austria | 347 | 5235 | 57 | 95 | 2699 | 158 | 210 | 59 | | 8,860 |
| Hungary | 2887 | 40 | 117 | 5 | | 45 | 18 | | 34 | 3,146 |
| Serbia | 180 | 143 | 515 | 155 | 25 | 461 | | 509 | 150 | 2,138 |
| Slovenia | | 210 | 16 | 903 | | 768 | 12 | 100 | | 2,009 |
| Ukraine | 785 | 405 | 11 | 67 | 15 | 34 | 187 | 77 | 288 | 1,869 |
| Bulgaria | 1410 | 46 | 8 | 83 | 8 | 23 | | | | 1,578 |
| Romania | 5 | | 145 | 347 | 131 | 253 | 58 | 150 | 290 | 1,379 |
| Croatia | 220 | 16 | 15 | | | 374 | | | | 625 |
| Albania | 50 | | 5 | 82 | | | 31 | | | 168 |
| Slovakia | 10 | 100 | 23 | | | 9 | | | | 142 |
| Bosnia-Herzegovina | | | | 12 | | | | | | 12 |
| Total | 8,516 | 7,935 | 5,863 | 5,308 | 4,956 | 4,940 | 2,515 | 2,335 | 803 | 43,171 |


In February, a 50.04% stake in Czech-based Innogy Grid Holding was sold to RWE as part of a larger set of asset swaps between RWE, E.ON and Innogy. In April, the consortium led by infra fund Macquarie which already owned the rest of the Czech gas network exercised pre-emptive rights to buy the asset outright.

The third largest deal was in the TMT sector, the best-performing sector by value. AT&T sold Czech-based TV operator CME to investment group PPF, which is Netherlands-based, but owned by Czech billionaire Petr Kellner.

Looking at the year ahead, energy and insurance look set to be busy sectors for M&A. Czech utility group CEZ and Italy-based Enel both kicked off sale processes for assets in Romania towards the end of 2019, while France-based insurance giant AXA has launched a sale of assets in Poland, Slovakia and the Czech Republic.

### HOTSPOTS

As our heatmap shows, the highly developed Austrian industrials and chemicals sector was the leading hotspot of activity, with deals worth €5.2bn over the past two years. It was followed by the energy, mining and utilities sector in the Czech Republic.

Austria's position as the wealthiest (and second-largest) economy in CEE, and home to regional financial institutions, accounts for its strengths, while Poland is the largest economy in the region, with a consumer base of 38 million.

# CAUTIOUSLY OPTIMISTIC

Investors' experience of M&A in CEE/SEE is overwhelmingly positive: some 89% of our survey respondents say that it has made them more likely to invest in the region again. This is down slightly from a remarkable 99% in 2018, but this largely reflects the stage in the economic cycle. The cooling global and European environment naturally has had an effect on the open and relatively small economies of the region. In this environment, investors will continue to seek targets in CEE/SEE, but take a more targeted, cautious approach.

"The last 24 months in Bulgaria have been extremely vibrant when it comes to M&A, but we certainly see softening in the market," says Richard Clegg, partner at Wolf Theiss Bulgaria. "I think that we're going to see slower transactions in the coming year. Sellers will be a bit more cautious when it comes to due diligence, and only the better prepared transactions will close."

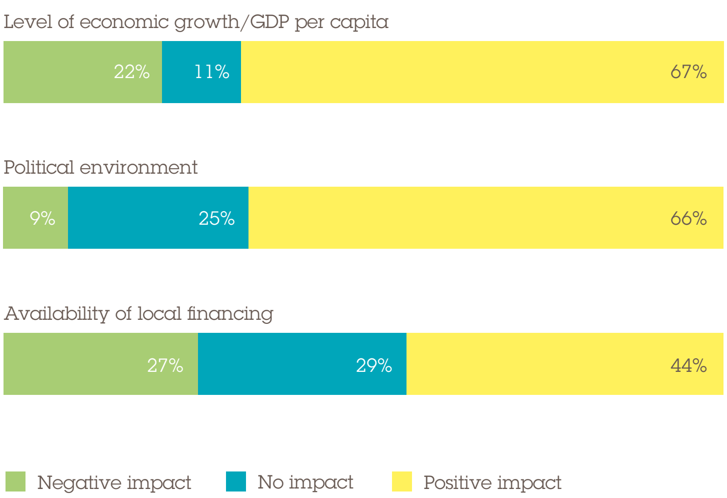
## GROWTH AND STABILITY

Over a fifth of respondents (22%) said the level of economic growth or GDP per capita had a negative impact on their last deal in CEE/SEE. On the other hand, two thirds (67%) said that it had had a positive effect, reflecting the fact that the region's economies tend to outstrip the growth of Western Europe, while being more affluent per capita than many emerging markets. Growth in Central Europe and the Baltic States will come in at 3.7% for 2019, with SEE growing by 3.3%, according to forecasts by the European Bank for Reconstruction and Development (EBRD) in November 2019. This will moderate to 3.2% and 3% in 2020, the bank forecasts – still a highly respectable performance, particularly in the European context.

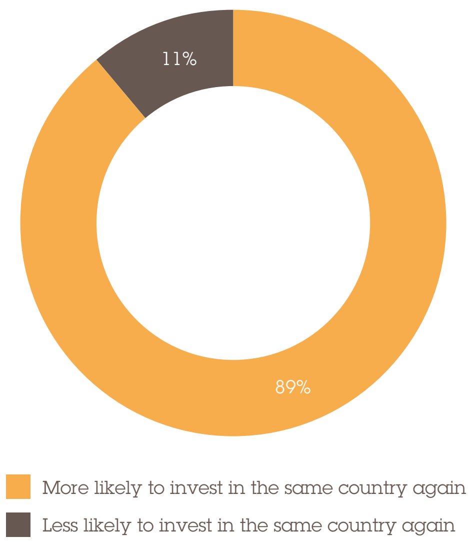
"The excellent level of economic growth creates a positive environment for investors," says János Tóth, partner at Wolf Theiss Hungary and head of the Corporate/M&A practice group there, adding that it has given the government fiscal space to make the tax system more business-friendly, while making a return to the sort of austerity measures seen in the wake of the 2008 crisis less likely.

Most of the countries in the region are now European Union members, with the others committed to membership or at least integration with the bloc. Combined with NATO

How did the following factors impact your most recent deal in the CEE/SEE region?




How has your overall M&A experience in the region impacted your CEE/SEE strategy?



membership, this has had a positive impact on political stability across CEE/SEE, and 66% of respondents said that the political environment had a positive impact on their last deal, a significant rise from 24% last year. Media coverage of political developments in the region often highlights challenges to the rule of law and democratic values, but on a day-to-day basis, investors generally have a positive experience of doing business in the region.

## SHALLOW POOLS

More problematic are the region's shallow capital markets. Combined with a cautious approach from banks and financial regulators following the 2008 global economic crisis, this has led to the availability of local financing being a challenge in some cases. Nonetheless, more respondents said this factor had had a positive impact (44%) than a negative one (27%). In 2018, only 16% said that it had had a positive effect.

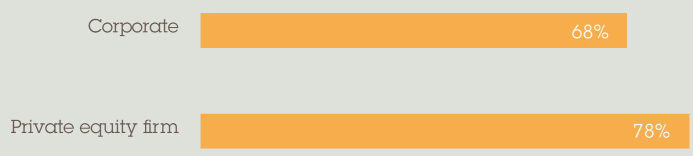
The perception that the region's capital pools persist despite the fact that locally based PE and VC firms attracted robust levels of fundraising in recent years – regional buyout funds raised €1.1bn and VC firms raised €500m in 2018, according to industry group Invest Europe.

"Local funding options are a huge part of attracting foreign investors," says the managing partner of a Polish PE firm. "This provides them with leverage and access to finances apart from the subsidies that are enjoyed. Unavailability in the SEE/CEE regions is one of the main obstacles for private equity firms."

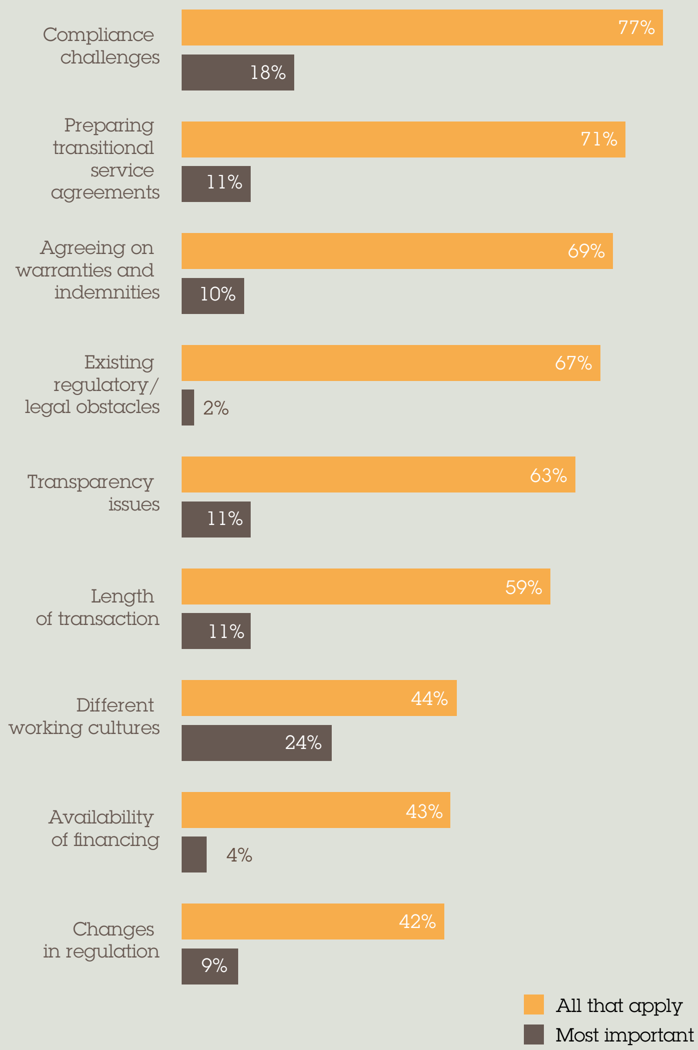
Nonetheless, the growth of private equity interest in the region has been a noticeable trend in recent years. Thirty years after the fall of communism, there are a growing number of targets of suitable size, and owners (of family businesses or fully-grown start-ups) are looking for exits. Funds operating out of London, a global capital markets centre, are not too distant, and there is growing maturity in regional PE funds as well.

With growth levels still lively, from the survey it seems likely that dealmaking momentum in the region will continue. Some 78% of PE firms and 68% of corporates expect to make an acquisition in CEE/SEE in the next two years.

Percentage of respondents that expect to make an acquisition in the CEE/SEE region over the next two years




What were the challenges in completing your most recent M&A deal in the CEE/SEE region?



# SECTOR AND PE PROFILE

The two sectors attracting the most attention in CEE/SEE as we enter 2020 are TMT and consumer and leisure. Both were cited by 38% of respondents as sectors in which they are likely to invest, closely followed by industrials and chemicals (34%) and PMB (33%).

## VALUATIONS RISE

Manufacturing in CEE leverages relatively low costs, an experienced industrial workforce and access to the huge EU market. Nonetheless, nearly half of all respondents who have invested in the industrials and chemicals sector say that the sector is overvalued.

Nearly two thirds of respondents that have invested in real estate and construction in the region say that assets in the sector are overvalued, more than any other sector, followed by energy, mining and utilities (48%).

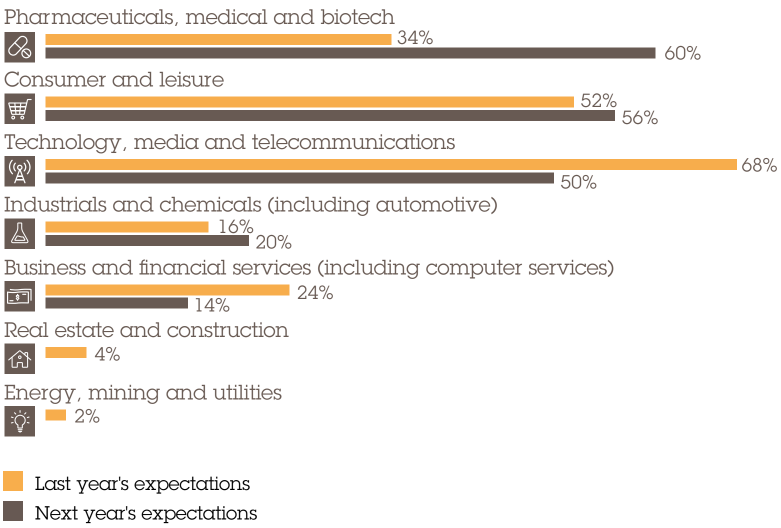
The valuation gap is regularly cited as a challenge for investors in the region, and can be particularly acute for PE players looking to buy family companies.

"Valuations are high right now," says Christian Mikosch, partner at Wolf Theiss Austria. "It's a reflection of sellers' high expectations of the potential and certainly has some justification, but it also makes business hard sometimes."

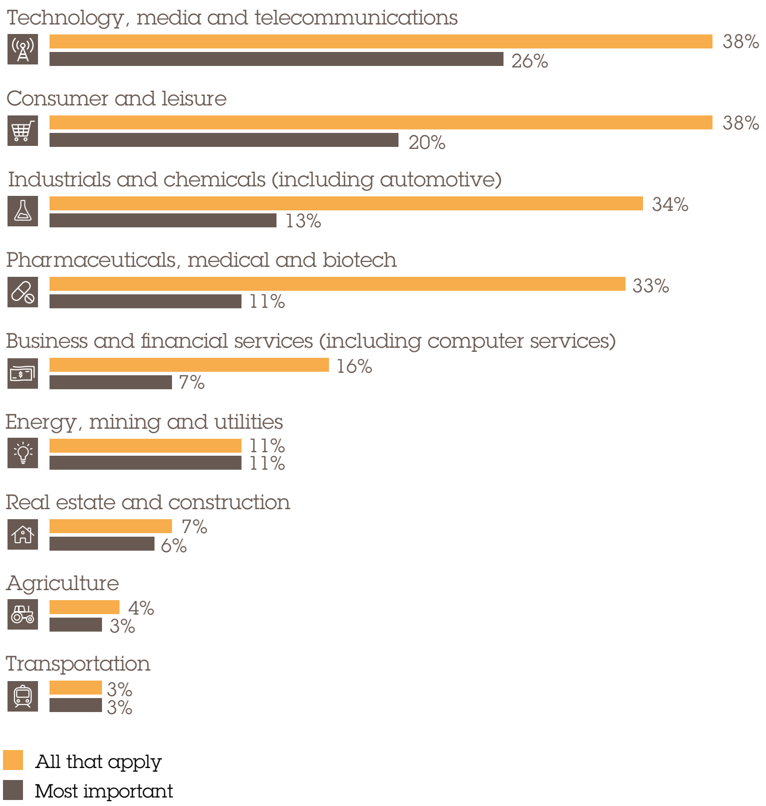
The TMT sector has long been a key driver of investment in the region. Targets range from big-ticket telcos (Bulgaria's Vivacom and Croatia's Tele2 were both acquired in 2019, for example) to a growing range of vibrant tech start-ups, to media houses that have seen a transition back to regional from international ownership. The region's long tradition of excellent technical education, relatively low costs, and generous EU funding have helped create lively tech ecosystems in many countries. This helps explain why 38% of respondents say they expect to make an acquisition in the sector over the next two years, with 26% choosing it as the most important sector.

The consumer and leisure segment, meanwhile, has been supported by rapid income growth in key markets such as Hungary and Romania, as well as the expansion of modern retail, which remains

(PE respondents only) Which sectors do you think will be the most attractive in the CEE/SEE region over the next 12 months? (Select the top two)




Please specify which sector(s), if any, you expect to make an M&A deal in the CEE/SEE region over the next two years.



under-penetrated in most markets. The region is also increasingly on the global tourism map: the sector accounts for up to 25% of Croatia's GDP, for example. Some 38% of respondents say they expect to complete a deal in consumer and leisure in the coming two years, the same proportion as those who expect to do so in TMT.

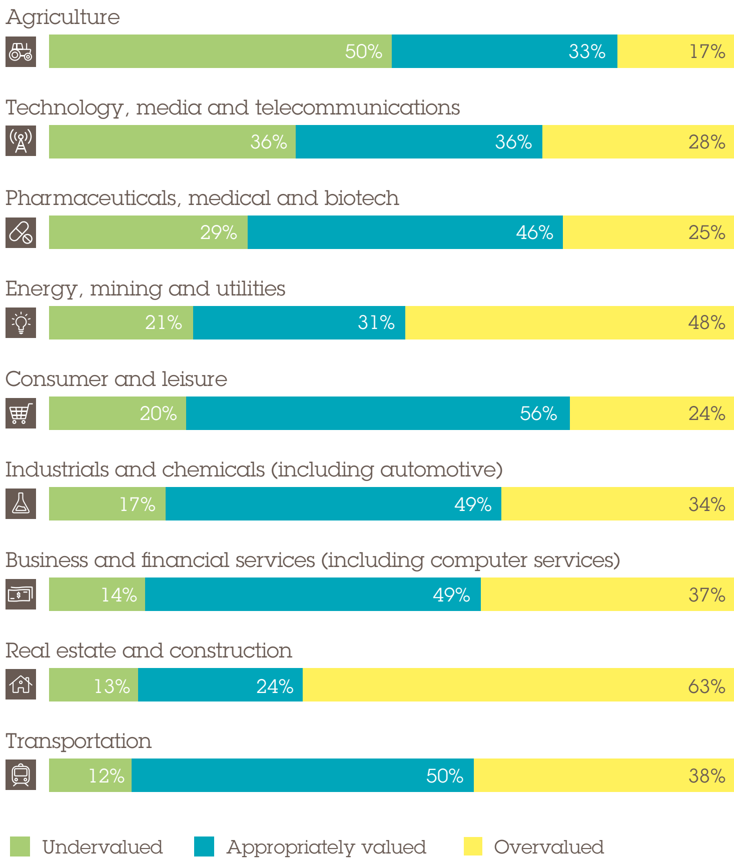
### PMB POTENTIAL

PMB's rise on the investment radar is particularly apparent for PE funds, 33% of whom say the sector is one of the most attractive in the region. The industry is supported on both the supply and the demand side. Traditional incumbent national pharma companies with decades of experience and solid market share are being joined by biotech counterparts, while aging populations, income growth, and health sector reform are supporting the regional PMB market. Access to the EU is particularly significant for medical producers, while countries including Croatia are starting to look at the potential of medical tourism.

A third of respondents expect to seal an M&A deal in the industrials and chemicals sector over the next two years. Countries including Poland and Hungary have had great success in establishing export-oriented industries selling to European markets, leveraging lower costs and a skilled workforce. But the sector faced a downturn in 2019 as Germany's economy in particular has slowed, which may explain why only 20% of PE respondents cite it among the top two most attractive over the next 12 months.

Attention could turn to agriculture, where development in some countries has been held up by fragmented land holdings and a lack of investment in technology and machinery. Nonetheless, the potential of farming in places like Serbia's northern Vojvodina province, and leading grain producers Romania and Ukraine, is substantial. Perhaps as a result, exactly half of all respondents who have invested in the sector consider agricultural targets in CEE/SEE to be undervalued.

On average, how would you describe the current valuations on targets in the CEE/SEE region in the following sectors?



## PE VALUE FALLS

A total of 53 PE deals were recorded in CEE/SEE in 2019 – a small increase from the 52 deals in 2018. Value, on the other hand, was down significantly from €7.4bn in 2018 to €2.3bn in 2019. However, this does not paint the full picture, as the 2018 figure was boosted by several €1bn+ deals. "There's quite an aggressive approach by private equity funds to do deals in the consumer sector," says Ileana Glodeanu, partner at Wolf Theiss Romania. "We've seen strategics exit, especially on the retail side, and private equity funds entering."

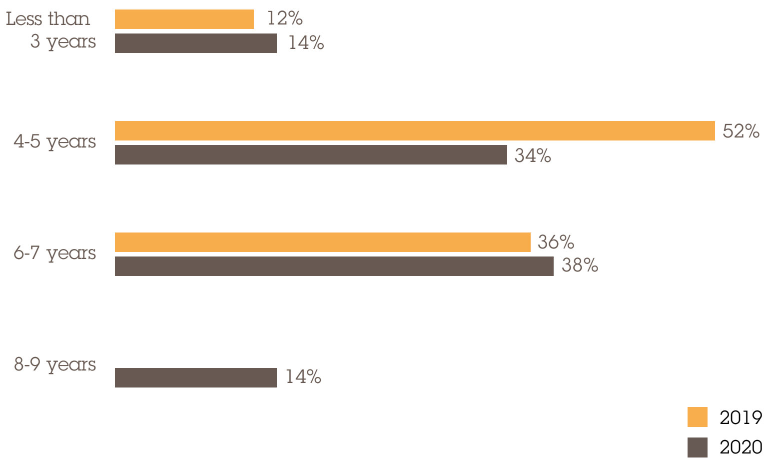
Overall, interest from PE and venture capital is rising.

"What we've seen with private equity is they're more willing to take a serious look at Romania," says Jardine. "For example, PE was involved in some of the bigger deals in real estate, and we've seen interest from PE in renewables."

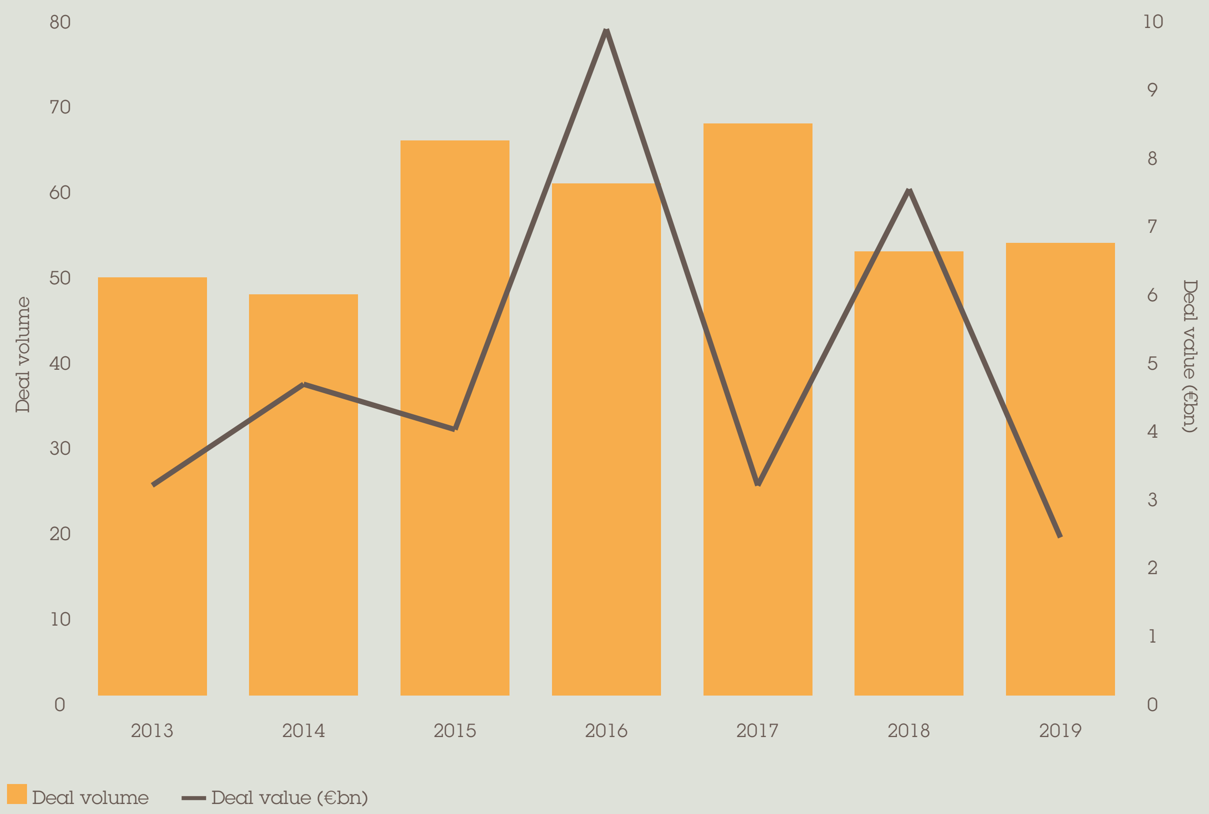
Those investors are also in for the longer haul. More than half all respondents (52%) in PE expected to hold on to their investments for at least six years, whereas last year the same proportion said that they would look to exit after four or five years.

Nonetheless, barriers to PE growth remain. Some 54% of respondents say that underdeveloped capital markets are major obstacles to PE in the region; not unrelated are the limited exit opportunities, cited by 34%.

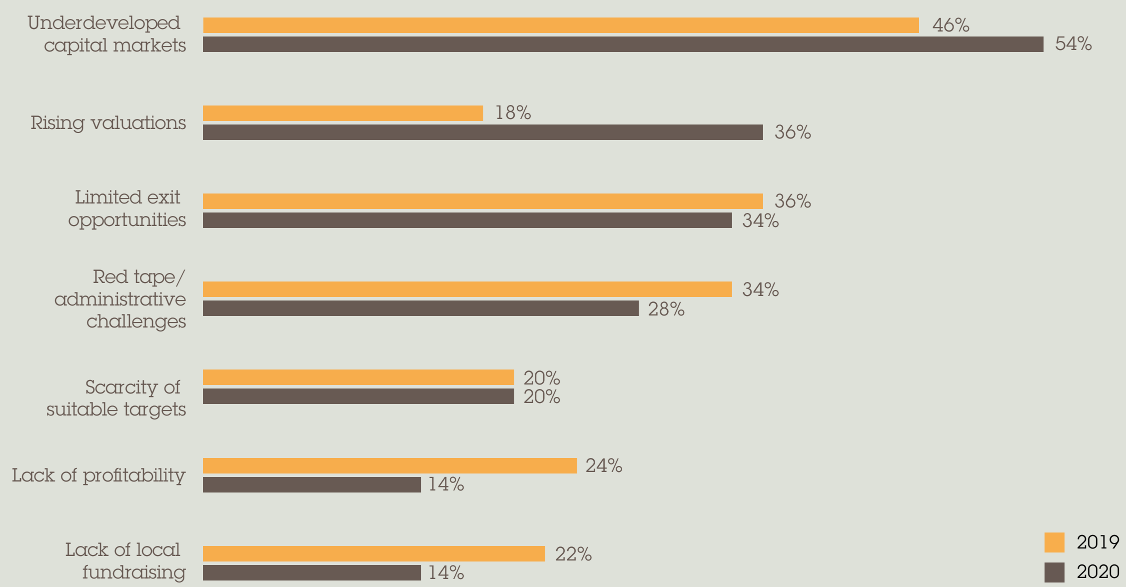
How long do you plan to hold your investment in this asset (from purchase to exit)?



CEE private equity buyouts, 2013-2019




(PE respondents only) What are the main obstacles for private equity firms in the CEE/SEE region? (Select the top two)



# REGIONAL CHALLENGES

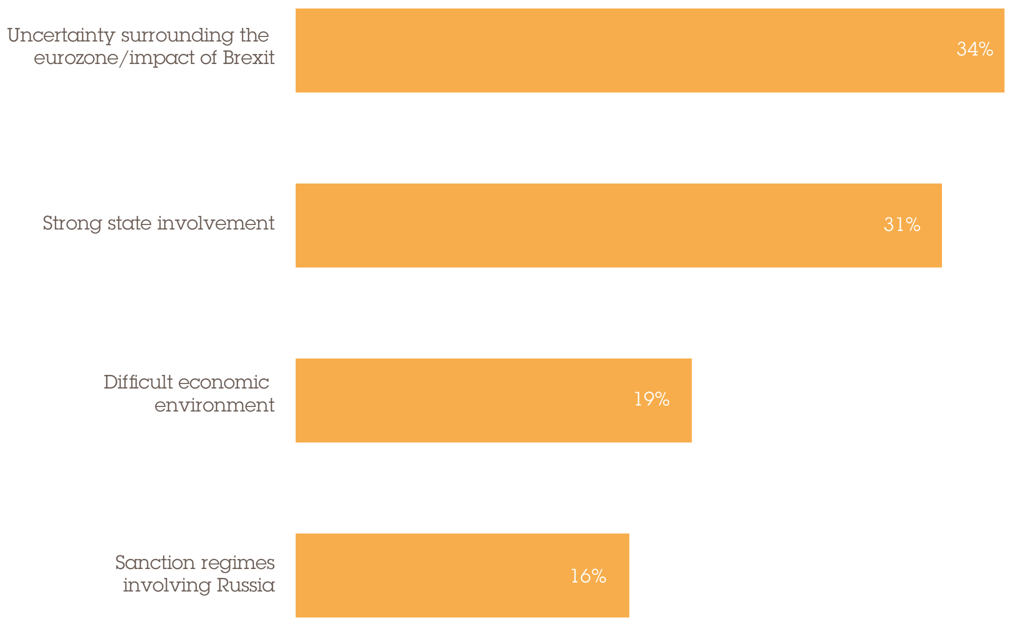
Doing business anywhere in the world is not without challenges, and in CEE/SEE, investors must contend with a range of issues. Some of these have become less problematic over the years thanks to reform processes, EU membership, and investments in supporting infrastructure.

Overall, compliance emerges as the biggest regional challenge, cited by 77% as among the key topics in their most recent deal in the region, and by 18% as the single most significant one. European Union regulations guaranteeing the single market are coupled with domestic legislation that in some cases retains elements of post-communist transition models that are not as conducive to business formation and growth as they could be. Some countries in the region have limited bureaucratic capacity to manage the permitting process, slowing dealmaking and business expansion. Many governments in the region have failed to pare back top-heavy public administration. Even some booming sectors, such as Croatia's tourism industry, are held back by slow and complex permitting procedures.

Globally, many legislatures have tightened anti-money laundering (AML) and foreign corrupt practices regulations in recent years, making due diligence all the more important. Sanctions on a range of Russian institutions and individuals have also had an impact on some countries in the region. The financial sector has been particularly affected by tighter legislation of this sort, as well as by prudential regulations.

"Depending on the jurisdiction where the institution is, there are compliance risks, and a need for due diligence. There has also been a real additional focus in the past years due to sanctions," says Markus Bruckmüller, managing partner at Wolf Theiss Slovenia. "Regulators have also become stricter, and there are regulations at European and national level. If you were to buy an

What is the biggest geopolitical challenge to implementing your current CEE/SEE strategy?



important bank in one of our jurisdictions, you would have to take into account lengthy regulatory proceedings lasting months."

Growing interest in highly regulated sectors such as PMB may also be a factor behind the rise in concerns about compliance, particularly when it comes to intellectual property.

"The regulatory process that was most challenging to manage was intellectual property law," says a partner in a French PE fund. "After the sourcing and due diligence process was completed effectively, we had to redo much of the work and conduct deeper research to prove some of the historic records. Moreover, the antitrust compliance and labour regulations were also tough challenges to overcome."

## CULTURE CLASH

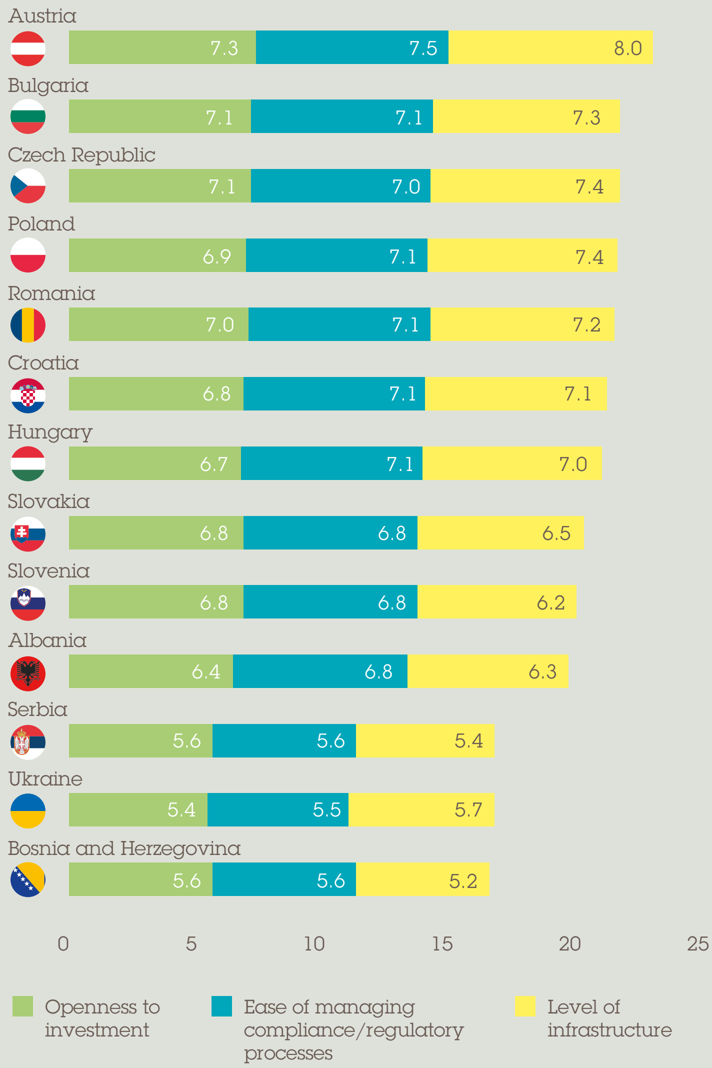
Some 24% of respondents cited different working cultures as the single biggest challenge to dealmaking, though only 44% considered it an important issue overall. This suggests that, while the majority of investors do not face serious impediments in this area, the minority that do encounter this issue see it as significant. Given that the region stretches from the Baltic to the Mediterranean, it is little surprise that cultures vary.

Overall, respondents also cited preparing transitional service agreements (71%) and agreeing on warranties and indemnities (69%) as challenges.

Respondents rated Austria as the market most open to investment, perhaps unsurprisingly – it was not part of the communist bloc and has a fairly efficient, well-funded public administration. Bulgaria ranks joint-second, partly thanks to pro-business reforms introduced in the 2000s. The Czech Republic also came in joint-second in terms of openness to investment.

"We find that our international clients find it straightforward to manage investment and legal issues in Bulgarian transactions," says Richard Clegg, partner at Wolf Theiss Bulgaria.

Rate the countries according to the following factors from 1 to 10 for (where 1=least favourable, 10= most favourable). (Averages shown)



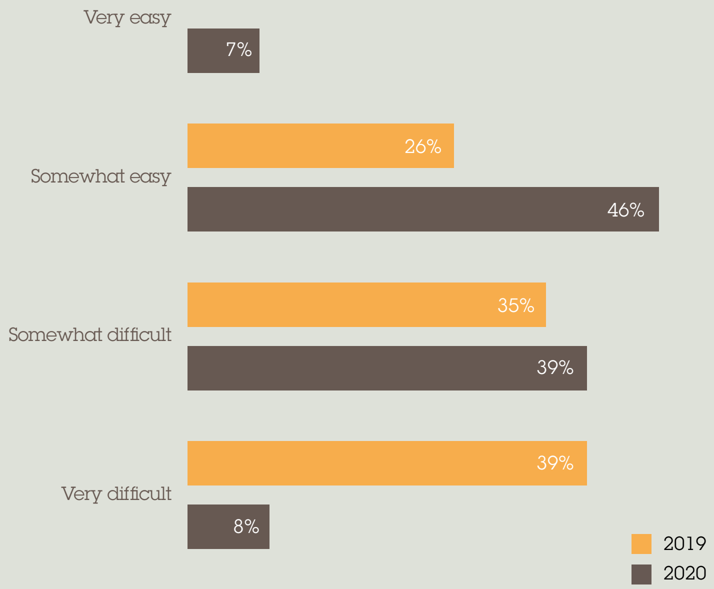
## OVERVALUED OR UNDERVALUED?

In terms of valuations, Slovenia topped the table among respondents for being perceived as having undervalued targets (38%), followed by Albania (35%), Slovakia (33%) and Bulgaria (32%). While it is a small market, Slovenia is one of the most affluent countries in the Adriatic region and has undertaken a well-planned privatisation and restructuring programme in recent years.

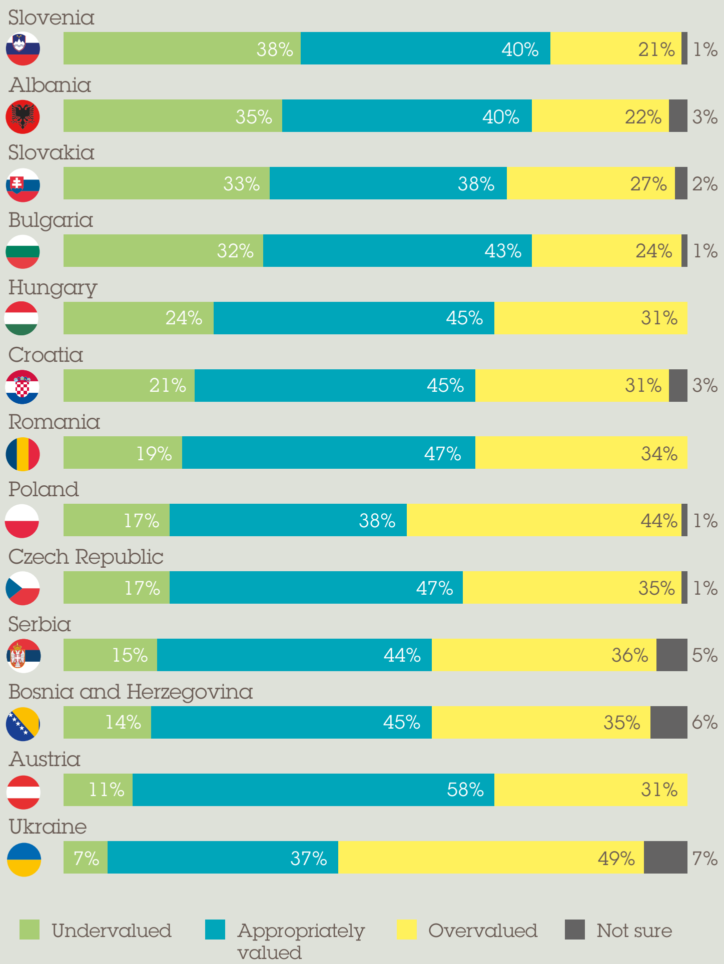
In regard to Ukraine, however, almost half of all respondents (49%) say that they feel targets are overvalued. Taras Dumych, managing partner at Wolf Theiss Ukraine, argues that this is largely a perception problem, due to the conflict in Ukraine's east, and Russia's seizure of Crimea. Despite these serious challenges, many businesses elsewhere in the country are flourishing, he says.

The robustness of the Ukrainian market was proven towards the end of the year, with the announcement of the largest PMB deal of the year across CEE/SEE, Germany-based Acino's €181m acquisition of a portfolio of assets based in the CIS, Middle East and Africa from Japan's Takeda Pharmaceuticals. Further, in December, German firm STADA acquired the prescription and consumer health business of Biopharma, another Ukrainian pharma business. According to STADA, the deal is one of the largest on record in Ukraine's PMB sector, although deal terms remain undisclosed.

How difficult is it to enforce contract claims in the country of your most recent deal in the CEE/SEE region?




How would you describe the current valuations of targets across all sectors in the following CEE/SEE countries?



# FUNDRAISING, DISTRESSED DEBT AND RESTRUCTURING

With interest rates in Europe generally at all-time lows, and the European Central Bank (ECB) preparing to step up its quantitative easing programme, the fundraising environment in CEE/SEE looks positive on paper.

Indeed, 61% of respondents say that the environment remained the same from 2018 to 2019. However, 38% say that the fundraising had become harder, and 51% expect it to become more difficult to raise funds in the coming 12 months.

Investors expect distressed debt opportunities to grow in 2020 – with 72% forecasting a rise, and 39% expecting a significant increase, up from just 15% last year.

## LOCAL AND GLOBAL CHALLENGES

The uncertain global economic and political outlook is one reason for this. Financial institutions are wary of growing risks from trade wars, Brexit, and slowing growth in emerging markets. The inversion of the US Treasury yield curve in mid-2019 was seen by some as a harbinger of a possible global recession; a reversal between long- and short-term Treasuries has often preceded recession. The impact of such factors on specific sectors, including manufacturing, are likely to be drivers of distress.

Perhaps more significantly, though, economic potential in CEE/SEE continues to be constrained by the shallowness of regional capital markets. Attempts to consolidate stock exchanges have generally made little progress, and access to private capital is a challenge, though one that EU funds have helped address to an extent.

“The lack of local fundraising is one of the huge obstacles when it comes to CEE/SEE markets,” said a partner in a Ukrainian private equity firm. “Private equity firms are very much reliant on these at times and unavailability can deter their presence from these markets. Constant efforts are being taken, but they are not enough at this point in time.”

How do you think the fundraising environment for dealmaking in the CEE/SEE region will change over the next 12 months?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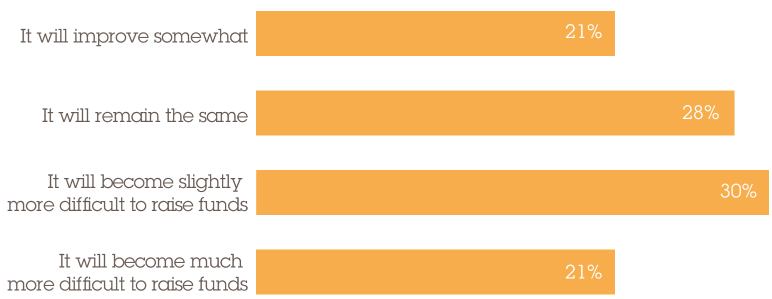
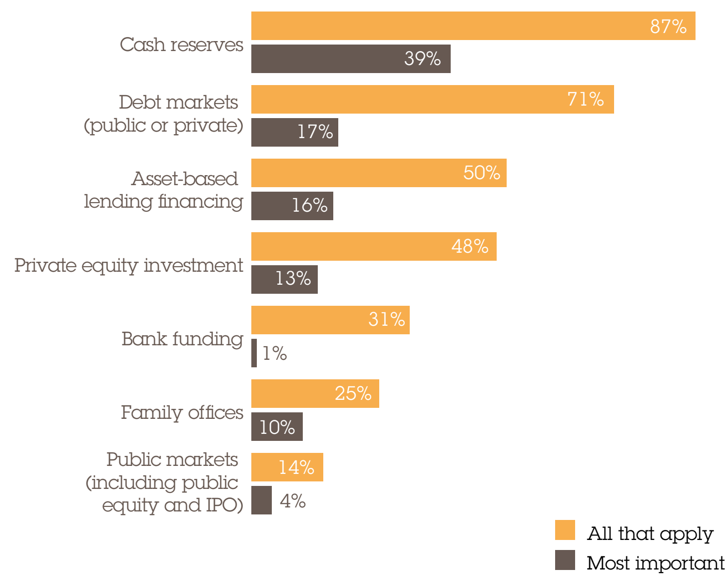



How are you planning to finance your next acquisition in the CEE/SEE region?



Despite these challenges, partners at Wolf Theiss see well-planned transactions moving forward as usual. Perception of an impending funding downturn has not yet materialised in dealmaking.

"I would say that considering the amount of money available from all sorts of investors whether private equity or banks, there are no difficulties for companies with good projects to raise money," says Taras Dumych, managing partner at Wolf Theiss Ukraine.

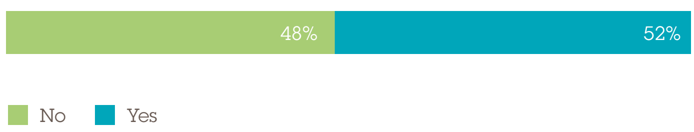
There is substantial dry powder in private equity, which has become increasingly active in business and financial services in particular, while banks are keen to finance acquisitions in some sectors, such as real estate and construction. Alternative sources of financing, such as subordinate debt instruments, are attracting interest in some jurisdictions.

## TURNAROUND OPPORTUNITIES

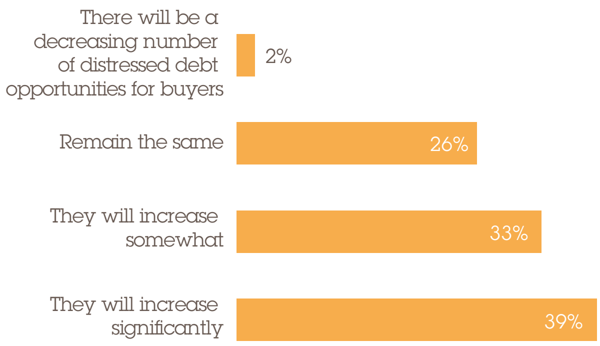
Hotspots for restructuring opportunities are expected to include Poland (cited by 45% of respondents) and Austria (41%). An October 2019 EU court ruling paving the way for holders of Swiss franc loans to challenge Polish banks over "abusive clauses" may not create distress per se – indeed it is intended to do the opposite – but may lead to further restructuring of foreign currency debt portfolios and significant losses by banks.

Respondents expect industrials and chemicals to be the sector which will see the most restructuring opportunities (59%). Due to slowing international demand, the industry has contracted in some countries. In second place, the energy, mining, and utilities (EMU) sector was cited by 46% of those surveyed. These two sectors tend to be particularly exposed to fluctuations in commodity prices, as well as regulatory tightening associated with global, EU, and national efforts to tackle climate change.

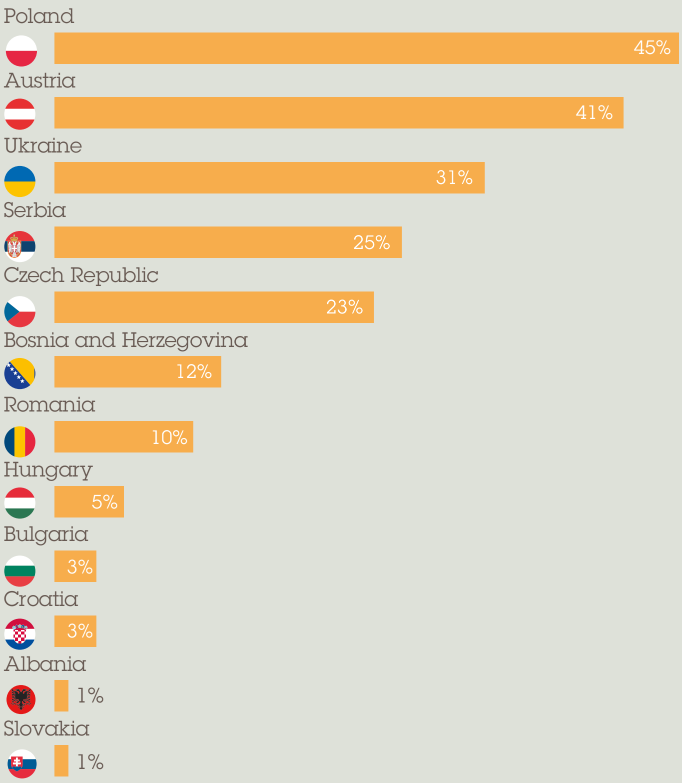
Was the seller in the transaction selling distressed assets?



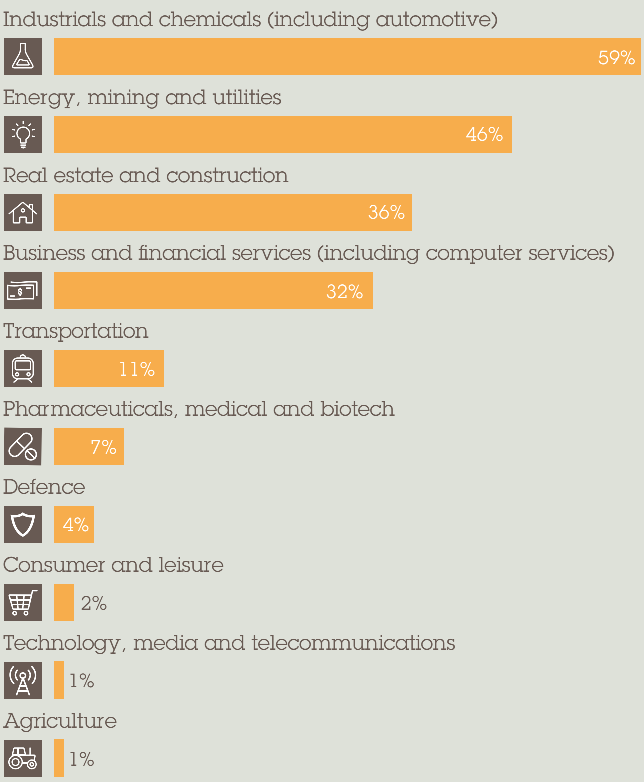

What do you think will happen to distressed debt opportunities in the CEE/SEE region in 2020?



In which country do you expect to find the most opportunities for restructuring over the next 12 months? (Select the top two)




In which sectors do you expect to find the most opportunities for restructuring over the next 12 months? (Select the top two)




Other opportunities are likely to include ongoing unwinding of non-performing loans in countries such as Slovenia, Bulgarian real estate projects requiring refinancing, and Romanian renewable energy investments that have become less viable thanks to changes in subsidies.

The growing cost of technology, macroprudential regulation, and competition are also likely to drive consolidation in the financial sectors of overbanked countries like Poland and Romania. Current sale processes in both countries support this thesis: in Poland, mBanka has been put up for sale by Germany's Commerzbank, while France-based Credit Agricole is in the midst of a sale process for its Romanian and Serbian assets.

## FOREIGN INVESTMENT SCREENING MECHANISM

In March 2019, the European Commission, the EU's executive body, announced the adoption of Regulation 2019/452, which introduced a new framework for screening foreign direct investments in the Union's member states in addition to the existing 14 national regimes.

This screening is designed to give EU countries greater ability to intervene in FDI in strategic assets, particularly if carried out by state-owned or state-financed companies from outside the bloc.

The framework entered into force in April 2019, but will only apply from 11 October 2020. It creates a cooperation mechanism whereby member states and the Commission can exchange information on specific investments and raise concerns where appropriate. The Commission can issue opinions on investments it deems to be a threat to the security or public order of more than one country, or when it could intervene with an EU-wide project.

The framework aims to enhance international cooperation among EU member states on foreign direct investment screening, including sharing information and best-practice models, and set requirements for member states which are looking to adopt screening mechanisms at national level. National governments will have the final say on specific investments in their jurisdiction, and the Commission says that the process will "take into account the need to operate under short business-friendly deadlines and strong confidentiality requirements". Only 14 EU countries had investment screening regimes prior to the introduction of the EU framework.

## SENSITIVE SECTORS

The new framework is partly a response by larger EU member states to address concerns about non-EU countries gaining control of advanced technology and strategically sensitive assets, particularly when many of those countries do not allow reciprocal access to their own markets.

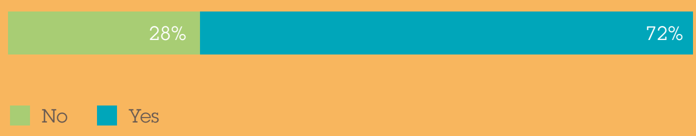
The regulation establishes a framework for the screening by member states of foreign direct investments into the Union likely to affect "security or public order". Hence, some 72% of our non-EU survey respondents said that their most recent CEE/SEE deal was subject to foreign investment screening, and 76% of those said that the deal's completion was delayed as a result. In some cases, the additional information on the deal was required by the national government in question.

Although it is not yet applicable, this framework has led to an increased awareness for foreign direct investment screening mechanisms already existing in many EU member states, thereby probably already having an impact on dealmaking.

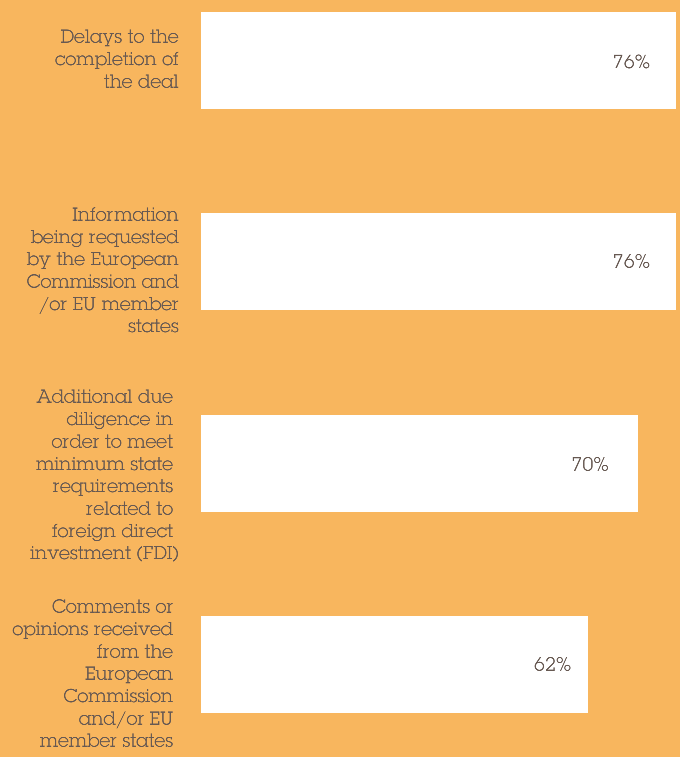
"Energy is a strategic sector and we have already seen the regulator blocking the transaction that would have seen [Czech energy company] CEŽ exit, based on concerns related to the purchaser," says Anna Rizova, managing partner of Wolf Theiss Bulgaria.

The framework does not oblige member states to establish their own screening regimes and is fairly light touch at this initial stage. But it does hand potentially powerful tools to the Commission and domestic regulators, and the incoming Commission has indicated that the framework will be strengthened over time.

(Non-EU respondents only) Was your most recent CEE/SEE M&A deal subject to foreign investment screening mechanisms?




(Non-EU respondents only) If you've ever been subject to screening mechanisms for making a deal, did they ever result in any of the following?



# CONCLUSION

Headline figures suggest a cooling in M&A activity in CEE/SEE in 2019, which is not surprising given the international headwinds that were particularly apparent in the middle of the year. And, indeed, export-oriented sectors such as manufacturing have seen a slowdown in some markets, while in others, investors are taking pause after a flurry of deals in recent years.

Other challenges including the paucity of regional capital markets can make fundraising and exits a challenge for some, particularly in PE. Compliance can be costly and time-consuming, with EU and local regulations to which to adhere, and global pressure to meet higher AML standards. Bureaucracy in some jurisdictions moves slowly. And the emergence of the EU FDI screening framework may add to the compliance burden.

Nonetheless, the fact that nine in ten investors in the region say their experience in the region has made it more likely that they would invest again, and more than two-thirds of corporates and three-quarters of PE funds are already lining up acquisitions for 2020-21, tells its own story. Political stability and growth outstripping the EU average are major advantages.

Indeed, our partners' experience with clients suggests that investment interest is as strong as ever. Several trends are emerging:

1) The rise of Poland as a gateway to the region. CEE's largest market has had its competitive advantages boosted by infrastructure investment and robust economic growth – unbroken even in 2009. Austria will remain a key entry point, however.

2) The PMB sector is growing in importance. The region's aging population and income growth are boosting demand, while established pharma and rising biotech companies exporting internationally make attractive targets. Traditional areas of strength such as TMT and industry should continue to see lively activity.

3) Private equity investors are showing increasing interest in the region, from banking through telecoms to consumer and leisure. There are more companies of size to attract PE than there were a decade ago, and more owners willing to sell; exits remain a challenge, however.

4) An increase in distressed asset sales is likely on the cards, as some companies are squeezed by slower growth, competition, and regulation.

# COUNTRY VIEWS

## POLAND

Poland is both the largest economy in CEE/SEE and its most populous country. It has also enjoyed unbroken economic growth for almost three decades and is expected to see continued robust growth in 2019 and 2020, of 3.9% and 3.5%, respectively, according to the EBRD. The country generated more deal value than any other in 2018-19, some €11.6bn.

Parliamentary elections in 2019 returned the conservative Law and Justice party with another majority, though the opposition now holds the upper house of parliament and will make a strong challenge in the 2020 presidential election. The party has boosted growth through generous social spending, though it has also increased state involvement in sectors such as banking.

A recent ruling by an EU court opening the door to legal challenges on billions of euros of Swiss franc loans could drive losses for some exposed banks, particularly mid-sized domestic players.

Other sectors attracting attention include energy – Poland operates a major LNG terminal – and infrastructure. Both would be boosted by progress with the Three Seas Initiative, a CEE/SEE development platform championed by Warsaw.

## AUSTRIA

Austria is by some margin the most affluent country in CEE/SEE, and one of the wealthiest per capita in Europe. This, combined with its location and first-class infrastructure and social services, have long made it a natural gateway to the region, and it remains arguably its financial centre. Many of the country's strong domestic companies have become regional champions. The flipside of the country's state of economic development is that growth is fairly slow, forecast at 1.5% for 2019 and 1.4% for 2020, according to the EC.

Political stability has not been undermined by the collapse in 2019 of a controversial conservative-populist coalition government, and a subsequent snap election.The new coalition government between the conservative People's Party and the Green Party, sworn in at the start of 2020, has a pro-EU and business-friendly agenda.

In 2018-19, Austria saw deals totalling €8.9bn, in third place after Poland and the Czech Republic. Its industrials and chemicals sector alone generated €5.2bn; it leverages high skills, a long tradition of manufacturing, and the country's location. Other sectors seeing lively activity include real estate and construction, which generated €2.7bn in M&A.

In the coming year, the financial sector is expected to see continued consolidation and the ongoing sale of bad assets.

## CZECH REPUBLIC

The Czech Republic has historically been one of CEE/SEE's most economically developed countries, with strong infrastructure to support a competitive business environment. Economic growth is expected to come in at a respectable 2.5% in 2019 and 2.2% in 2020, according to the EC.

The country ranked second in overall deal value in 2018-19, with €9.7bn of assets changing hands. Dealmaking was dominated by the traditionally strong EMU sector, where – unusually – a 50.04% stake in Innogy Grid Holding changed hands twice in the same year. The asset was sold by Innogy to RWE as part of a larger set of asset swaps between the two German firms, before it was taken over by a consortium led by Macquarie Infrastructure, already the minority shareholder, for €1.8bn

The PMB industry is another area of strength, which should stand the country in good stead as investors are increasingly seeking pharma and medical assets regionally. Consumer and leisure targets are also attracting attention, thanks to income growth and the strong tourism sector.

Anti-government protests have gained international attention on the thirtieth anniversary of the Velvet Revolution, but generally the country remains highly politically stable. Of greater concern to many businesses is the increasingly acute shortage of labour.

## ROMANIA

The second-most populous country in CEE/SEE, and the fourth largest in overall GDP, Romania has been something of a sleeping giant. But the past few years have seen stellar economic growth, reaching 7% in 2017. This will moderate to around 4% in 2019/20, still an impressively high rate. The fall of the left-leaning government in 2019 has led to the installation of a right-of-centre government that is expected to be more pro-business but may have limited space to implement new policies before new elections in 2020 or 2021. The re-election of President Klaus Iohannis in autumn 2019 should provide a thread of constancy and help continue the country's process of strengthening institutions and anticorruption efforts.

Romania ranked highly among respondents for its level of openness to investment and its level of infrastructure. Sectors of particular interest include PMB, where demand for hospitals is growing countrywide, and consolidation is ongoing in the pharmacy segment. Real estate is seeing "tremendous development across all asset classes", says Bryan Jardine, managing partner at Wolf Theiss Romania, though transport infrastructure continues to lag behind Western European standards; a frustration in a large country at the crossroads of CEE and SEE. Meanwhile, the fragmented banking sector is ripe for consolidation – a process that is edging forward.

## HUNGARY

Hungary's right-wing government may be controversial, but its parliamentary majority, renewed in 2018 elections, underpins political consistency. Opposition gains in 2019 local elections suggest possible changes over the longer term, though these are unlikely to lead to radical policy shifts. Investors benefit from a raft of tax breaks, and ongoing government efforts to streamlining licensing and e-services for businesses.

Economic growth has been strong in recent years, and the EU forecasts a rate of 4.6% in 2019, moderating to 2.8% in 2020, partly as EU funding under the current budget tapers down. FDI and EU funds are key economic drivers. The automotive industry in particular has flourished, though greenfield investments by manufacturers present in the country mean that this does not always register in M&A activity. The German economy's slowdown put a squeeze on the sector in 2019, but investments by some players including BMW are continuing with a view to the longer term, and the components subsector continues to flourish.

Other than slower overall growth and the related fall in EU funding, downside risks to the outlook include tight labour markets, and currency risk, as Hungary seems set on remaining outside the eurozone for the foreseeable future.

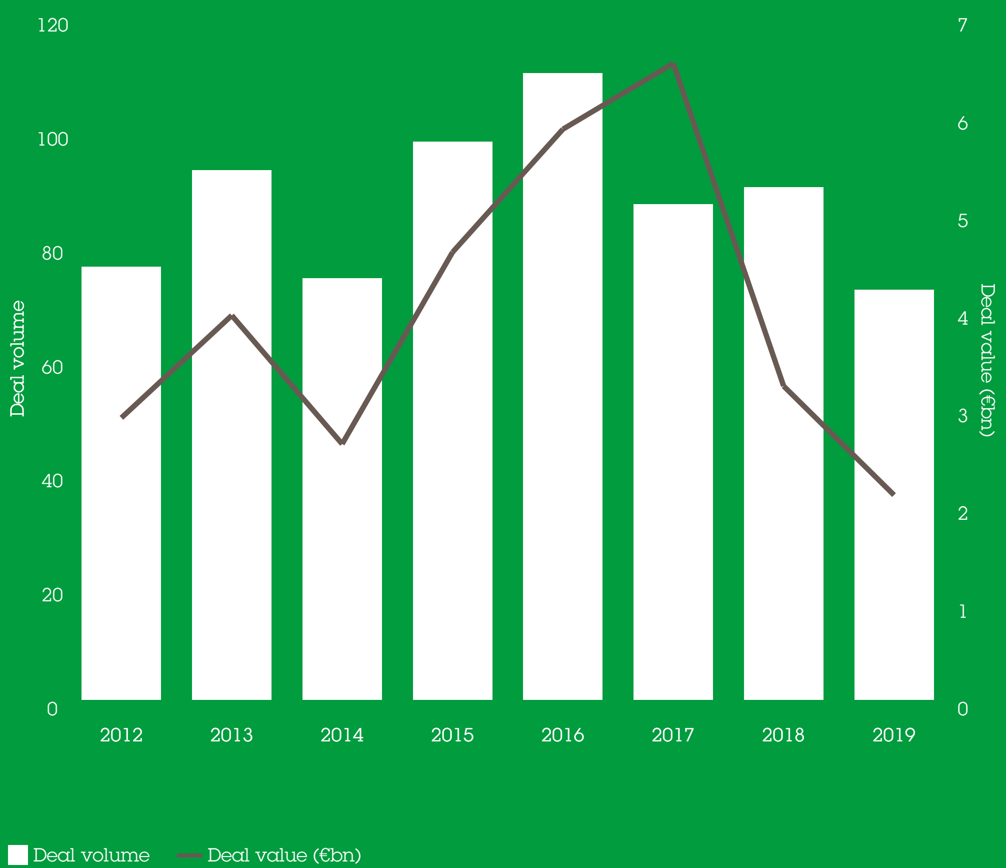
# SECTOR SPOTLIGHTS

We explore the dealmaking environment in seven key sectors in the CEE


## BUSINESS AND FINANCIAL SERVICES

Generating €2.1bn of M&A activity in 2019, the business and financial services ranked fifth by value, taking up 11% of total value across all sectors. The 72 deals in the sector accounted for 15% of deal volume in the region. The costs of investment in new technology, the demands of macroprudential regulation under international and domestic legislation, and government measures including asset taxes and the promotion of local ownership are all factors driving consolidation in the regional financial sector.

BUSINESS AND FINANCIAL SERVICES M&A, 2012-2019

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Several of the region's markets are regarded as overbanked, and mid-sized lenders in particular are feeling the squeeze between larger competitors with economies of scale and smaller niche institutions.

## TOP DEALS

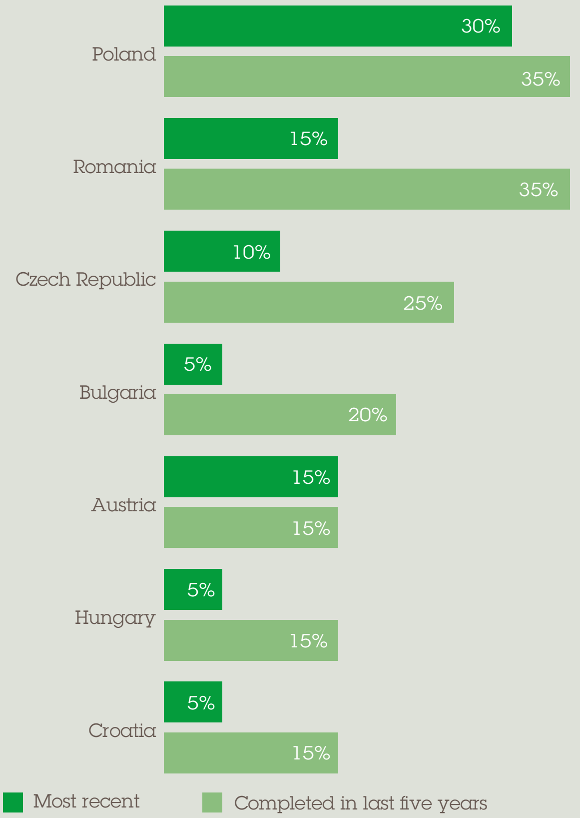
In June, Slovenia's second biggest bank by assets, NKBM, which is backed by US-based private equity firm Apollo, acquired the third largest, Abanka, from the state's Slovenian Sovereign Holding for €511m. The deal represents the latest move in the Slovenian government's wave of privatisations, and the ongoing consolidation and clear-up of the financial sector since the country's 2013 banking crisis, when it narrowly avoided an international bail-out. The newly merged bank will have around 22.5% of total system assets, according to Reuters.

Earlier in the year, PKO Leasing, Poland's largest leasing company and a division of the country's biggest bank PKO BP, acquired local peer Prime Car Management for €426m, in the second largest business and financial services deal of the year. PKO BP has been expanding and diversifying in recent years, including in the 2014 takeover of the insurance business of Nordic financial services company Nordea, and launching a CVC fund for investments in local fintech. The bank is also considering a bid for mBank, the Polish subsidiary of Germany's Commerzbank, which is sounding out buyers as it looks to exit the Polish market. The Polish government directly and indirectly owns just over 50% of PKO BP, and the bank appears to be central to its efforts to create a "national champion" financial institution that can expand regionally. This is likely to create further opportunities for M&A in the future.

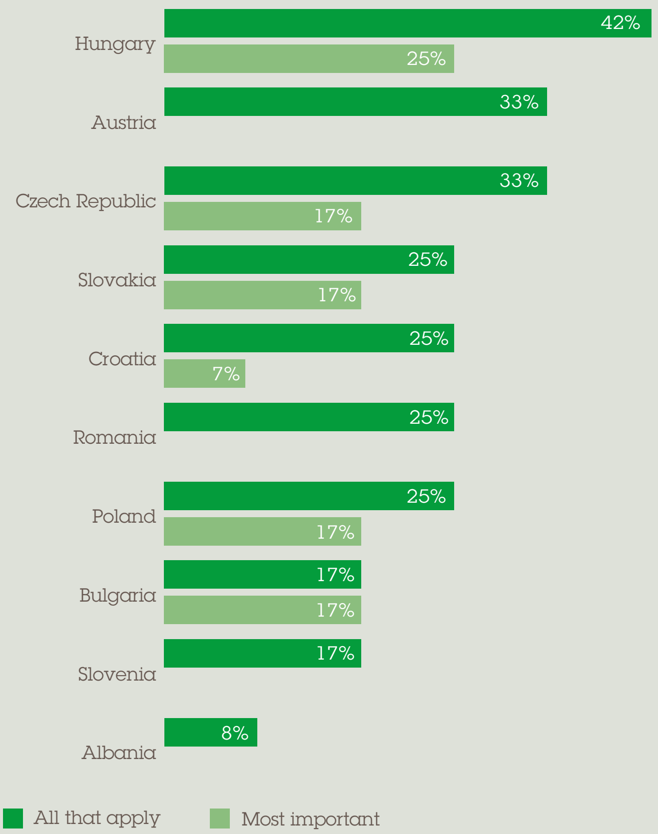
## OVERBANKED, UNDER-CONSOLIDATED

Romania is one of the markets ripest for consolidation; between 80-85% of the retail banking market share is in the hands of the five largest banks, with more than 30 others competing for the remainder, says Bryan Jardine, managing partner at Wolf Theiss Romania. The large Romanian market has also seen new entrants in recent times,

In which CEE/SEE countries have you completed an M&A deal in the last five years and most recently in business and financial services?




Where are you currently looking for new opportunities for your next M&A deal in business and financial services in the CEE/SEE region?



with US fund JC Flowers acquiring the local subsidiary of Greece's Piraeus Bank, and Polish investment fund Getin Holding taking over the small Romanian International Bank. Overall, 35% of our respondents who have completed M&A in the business and financial services sector in the past five years have been active in Romania, the same proportion as in Poland.

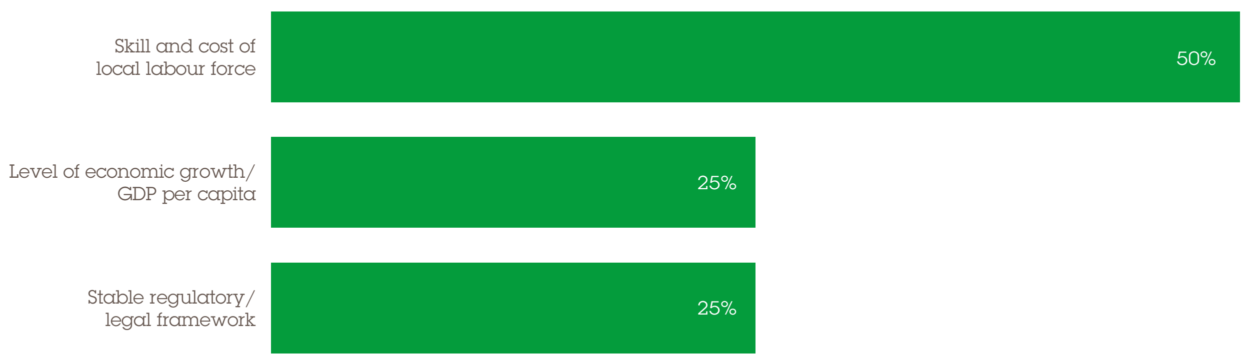
The third largest business and financial services transaction was a Romanian banking deal. State-owned corporate lender EximBank agreed to acquire Banca Romaneasca from the National Bank of Greece (NBG) for €314m. The deal, if approved, will see EximBank enter the retail banking market and become one of the country's top-ten lenders. NBG's sale of its Romanian subsidiary is part of the ongoing process of divestments of South-Eastern European business by Greek banks following Greece's financial crisis, which has created opportunities for domestic and international banks to increase their presence on the SEE market.

The year ended with the €180m acquisition of the Czech assets of German banking and insurance firm Wüstenrot & Württembergische by Czech Republic-based MONETA Money Bank, announced in December.

Additionally, there were two other notable transactions in the banking sector in 2019, but both were equity capital market transactions which did not count towards the year's M&A totals. US-based Advent International listed Addiko, one of its portfolio companies on the Vienna Stock Exchange in July. The IPO raised €172m and valued Addiko, an Austrian bank active in several CEE markets, at €312m. And in November, US-based distressed asset specialist Cerberus sold a 13.5% stake in listed Austrian bank BAWAG for €420m via an accelerated bookbuild.

A few banking deals were already underway at the end of 2019 and are expected to add to the 2020 totals, for example, France's Credit Agricole is in the midst of a sale process for its Romania assets.

What is the most important factor that will impact your choice of country for your next deal in business and financial services?



## DIGITAL DISRUPTION

Other markets attracting attention include Hungary, where 42% of survey respondents say that they are looking for a deal in business and financial services, as well as Austria and the Czech Republic (33%). The skill and cost of the local labour force will be the most important factor in determining the destination, cited by 50% of those surveyed.

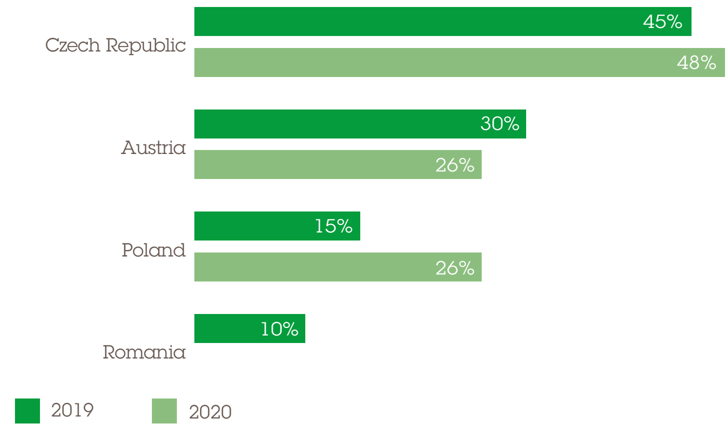
More than half all respondents (58%) say that IP or technology will be one of the two biggest factors in determining their next target – a sign of the growing importance of fintech in the sector.

"Fintech generally is one of the drivers of transactions," says Markus Bruckmüller, managing partner at Wolf Theiss Slovenia. "It's the key spot where banks will be investing, and we expect a lot of activity there."

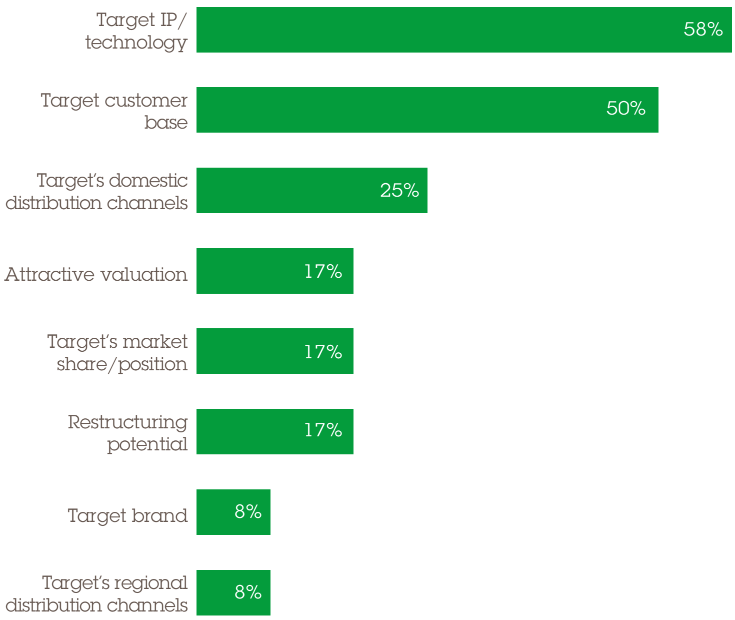
One such deal which is set to kick off next year is the sale of Polskie ePlatnosci (PeP), a Poland-based electronic payments company. Owners OPTeam and Innova Capita announced in December that they had appointed a financial adviser to handle the sale.

Looking forward, the insurance sub-sector is one that is likely to see increased deal activity in 2020, thanks to a few large transactions which are already in motion. French insurance giant AXA towards the end of 2019 launched a sale process for its assets in Poland, the Czech Republic and Slovakia, according to press reports.

Which country do you consider to be the best gateway for expansion in the CEE/SEE region?




What are/will be the main drivers for your next acquisition in this sector? (Select top two)

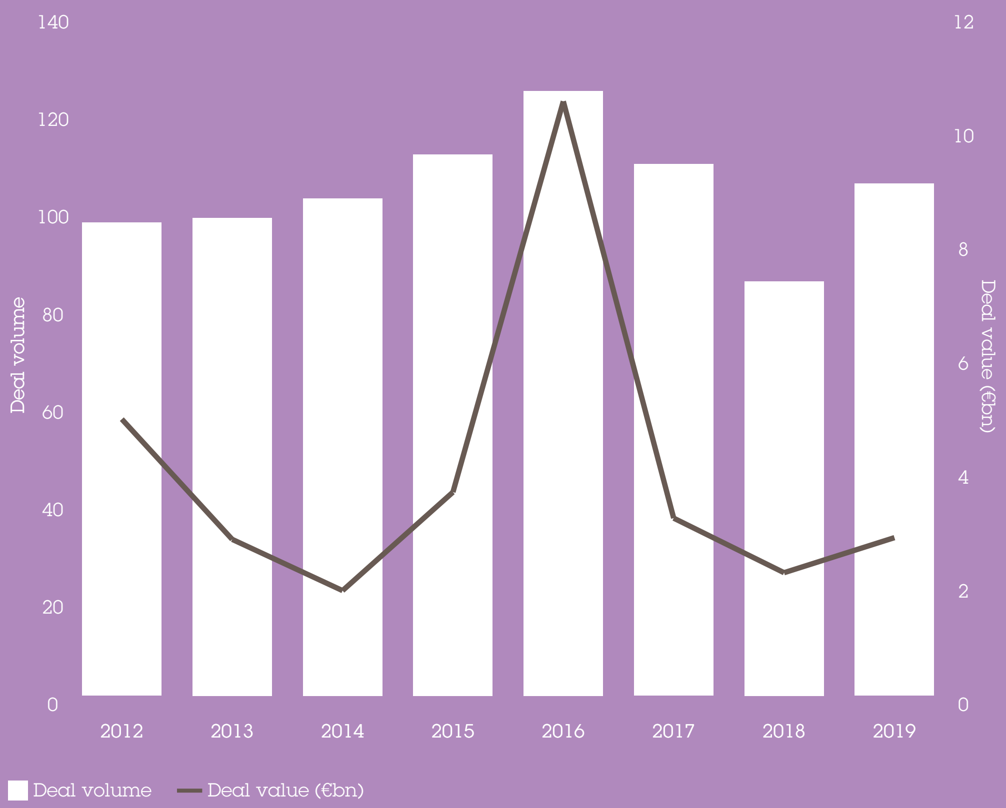


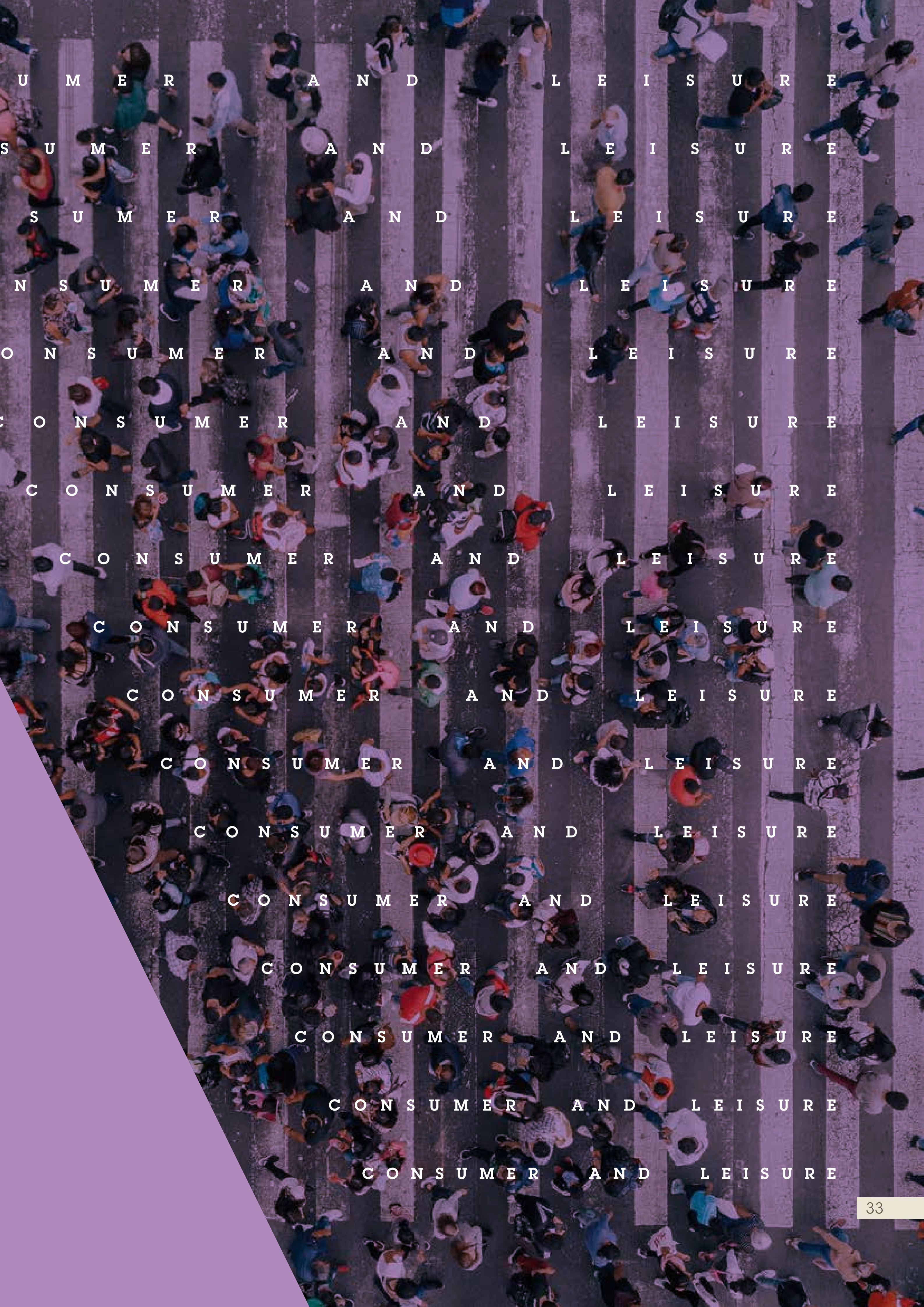
# CONSUMER AND LEISURE

The consumer and leisure sector saw more deals than any other in the region in 2019, with 105 deals accounting for 22% of deal volume. These were predominantly small and mid-sized transactions, with a total value of €2.8bn, 14% of the value in the region overall.

"We continue to see an increase in consumer and leisure sector deals in CEE/SEE," says Ileana Glodeanu, partner at Wolf Theiss Romania. "The trend started some years ago, and I think it will continue, as companies need to open new markets. CEE/SEE is quite a large consumer market."

CONSUMER AND LEISURE M&A, 2012-2019




CONSUMER AND LEISURE

The Czech Republic is seen as the most appealing country for survey respondents' next deal in the sector, with 69% saying they are looking at targets in the country, followed by Romania and Bulgaria (both 50%). Income growth in the relatively affluent Czech Republic and Romania's large market and rapid economic expansion are doubtless attracting attention, while Bulgaria has a sizeable tourism industry and is a low-tax, light-regulation base for business across SEE and beyond.

## DOMESTIC SPENDING POWER

While the tourism sector is growing rapidly in some countries in the region – Croatia being the prime example – the largest deals in the sector in 2019 demonstrated the appeal of the domestic consumer market in the region, thanks largely to high levels of employment and robust wage growth.

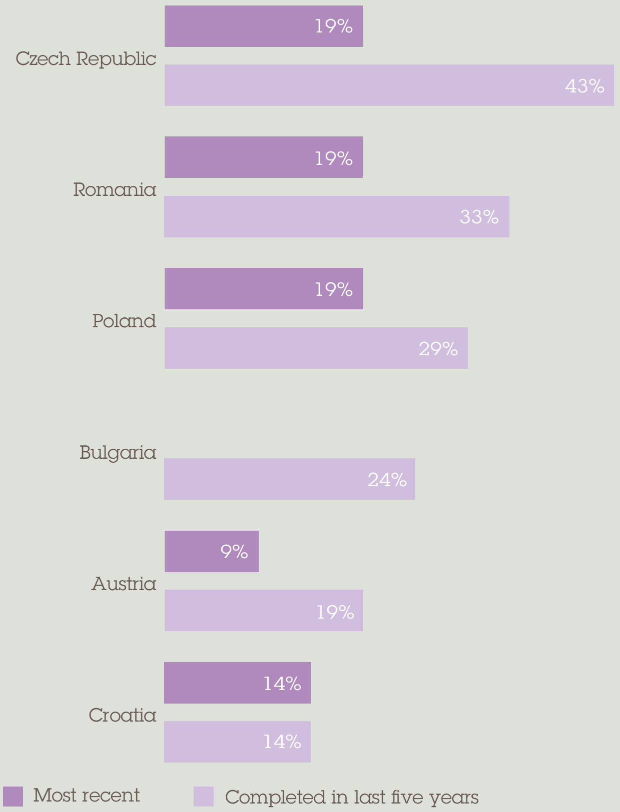
"In the Czech Republic the sector has become more attractive in the last few years as we have seen a significant increase in wages, meaning there is much bigger consumer buying power," says Robert Pelikán, counsel at Wolf Theiss's Prague office. "The retail market is among those attracting more attention."

The largest deal of the year in the sector was hotel group Accor's 1.2bn sale of an 85.8% stake in Polish hotel chain Orbis to AccorInvest, an investment group in which Accor is a minority shareholder.

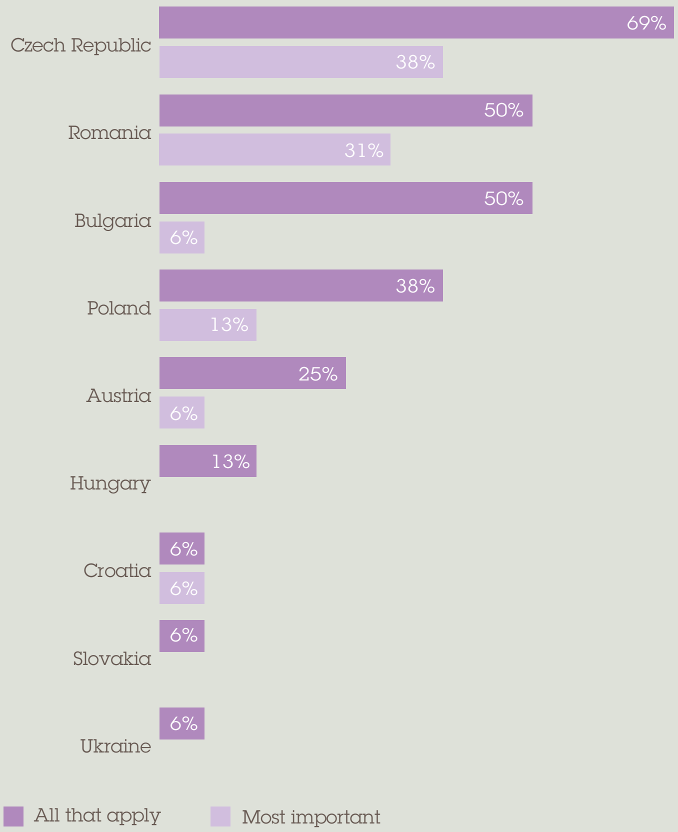
The second largest was another Polish deal, the sale of a 10.67% stake in Poland-based AmRest, the largest restaurant group in the region, for €310m to Mexican investment group Finaccess Servicios Corporativos from Luxembourg-based investment holding Gosha Holdings.

The two next largest deals of the year in the sector were both PE exits in Serbia by the same firm, regionally focused PE firm Mid Europa Partners. Mid Europa sold Serbian food company Bambi to Coca-Cola Hellenic Bottling

In which CEE/SEE countries have you completed an M&A deal in the last five years and most recently in consumer and leisure?




Where are you currently looking for new opportunities for your next M&A deal in consumer and leisure in the CEE/SEE region?



Company, one of the world's largest anchor bottlers, for €260m and iconic mineral water company Knjaz Milos to a joint venture of Czech counterpart KMV and PepsiCo for €210m.

Mid Europa's two exits to trade buyers in Serbia prove the investment potential in the consumer and leisure sector in CEE/SEE, where a range of regional companies have grown to the sort of ticket size that PE investors seek.

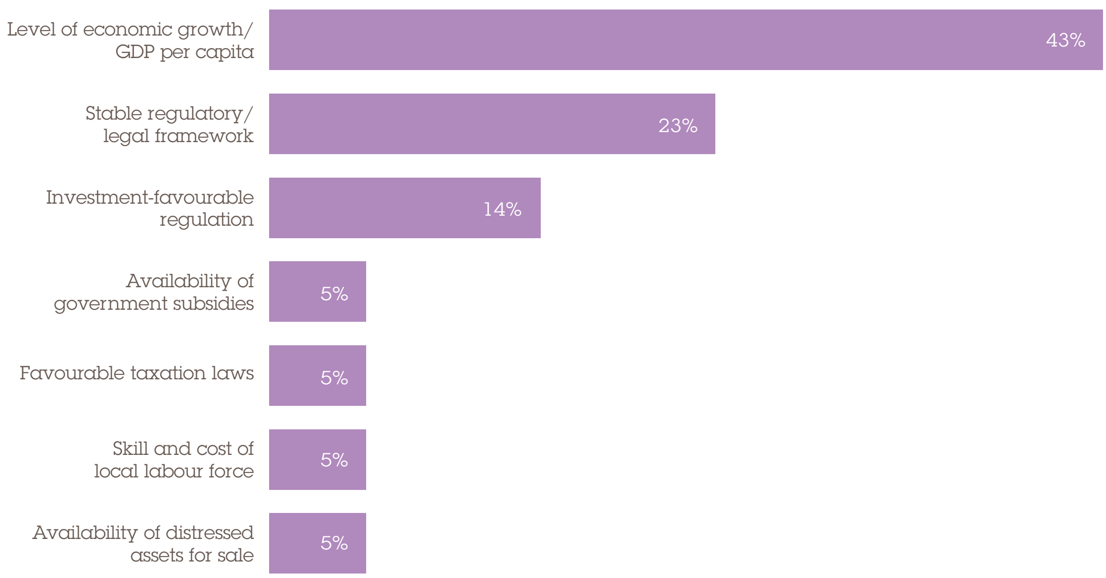
Perhaps unsurprisingly, target customer base is the most important driver for investors considering their next acquisition, cited by 69% of respondents as among the top two factors at play. Target brand (50%) was also important. Bambi is a case in point, with brands that are recognised across the former Yugoslavia.

For investors looking to tap into the region's consumer market, choosing the right gateway for regional expansion is key. More than half of sector respondents (52%) to this year's survey highlight Poland as the main gateway for regional expansion – up from 15% in 2018, a sign of the country's ascendency. As the largest market, with a population of 38 million, Poland is a natural entry point for consumer players.

## CHALLENGES AND OPPORTUNITIES AHEAD

Some 43% of respondents say that the level of economic growth or GDP per capita will be the most important factor in their choice of country for their next deal in consumer and leisure. Given the sector's close link to domestic spending power and consumer confidence, this may seem low, but many

What is the most important factor that will impact your choice of country for your next deal in consumer and leisure?



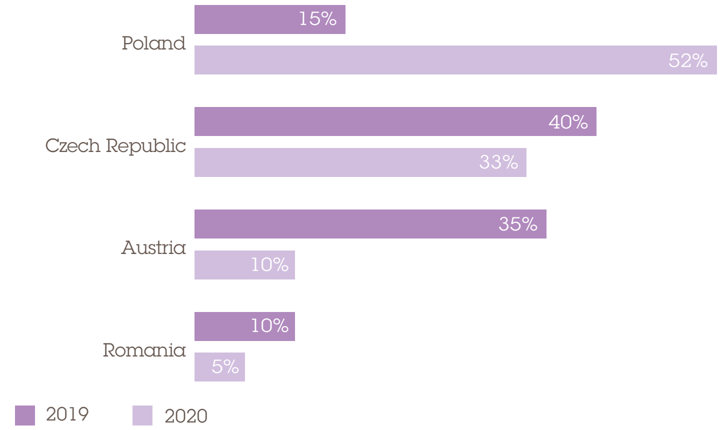
targets are fairly export-oriented, whether in goods (for example FMCGs) or services (tourism), and thus less dependent on the domestic economy of the country in question.

A stable regulatory and legal framework is regarded as the second most important factor in their choice of country for their next deal in the sector, cited by 23% of respondents. While the sector is not as heavily regulated as some (telecoms and energy come to mind), complex supply chains in particular require clear legal infrastructure, including over contract enforcement.

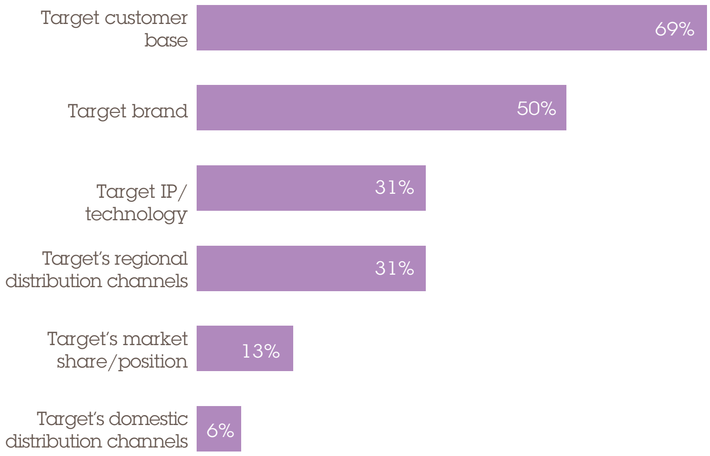
Investors will be keeping an eye on the uncertain international economic climate, as downturns can have a negative impact on incomes and consumer confidence. But Ileana Glodeanu, partner at Wolf Theiss Romania, argues that the sector is less likely to be affected by falling growth than others and cites patchy infrastructure and fragmented markets as bigger challenges in the medium term.

Still, the sector is continuing to attract international investment. US-based PE giant Blackstone, for instance, made an undisclosed investment in 2019 in Romania's Superbet, an online gambling operator.

Which country do you consider to be the best gateway for expansion in the CEE/SEE region?



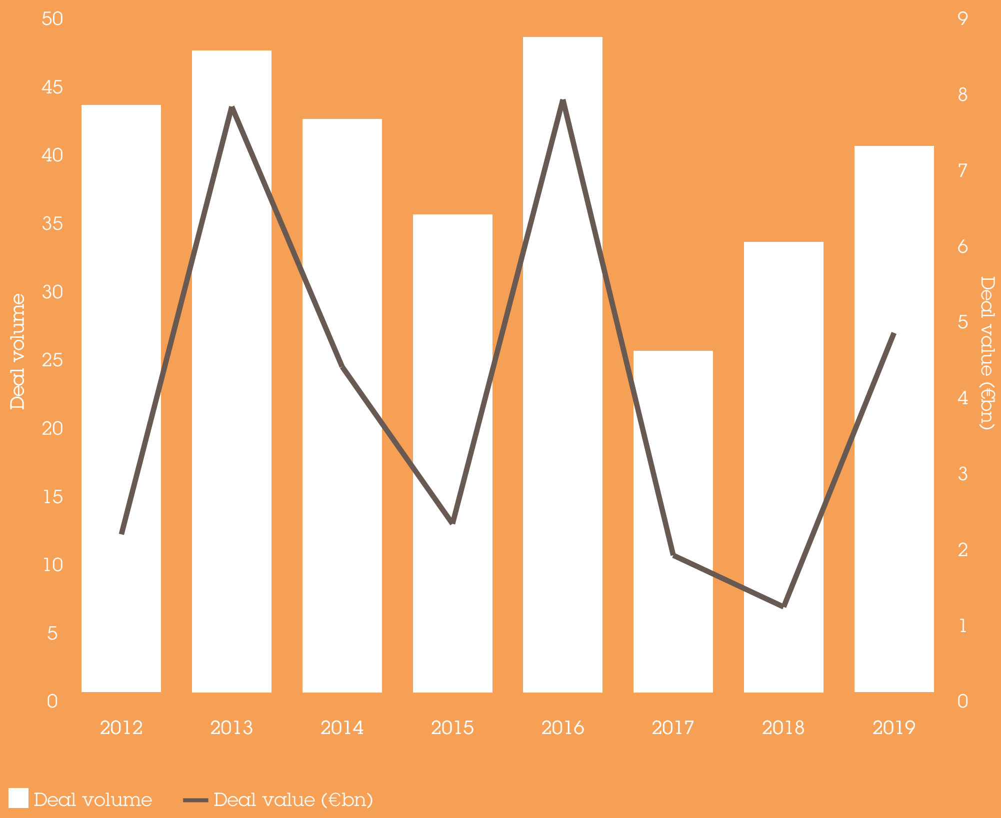

What are/will be the main drivers for your next acquisition in this sector? (Select top two)




# ENERGY, MINING AND UTILITIES

With resources ranging from coal to crude oil to lithium, and growing import and transit infrastructure linking regions as far afield as Russia, the US, and the Middle East, the energy, mining, and utilities (EMU) sector is one of the mainstays of the CEE/SEE economy. Indeed, in some jurisdictions, EMU investments dominate the dealmaking landscape.

ENERGY, MINING AND UTILITIES M&A, 2012-2019

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Given the size and importance of the assets in question, the sector tends to attract big-ticket deals, and in 2019 it accounted for almost a quarter (24%) of deal value regionwide – €4.7bn. By contrast, the 40 transactions clocked accounted for just 9% of total volume.

One of the few mining deals in 2019 also happened to be among the largest deals in EMU of the year. China-based metal ore miner Zijin Mining Group announced a €215m acquisition of Timok, a copper mine in Serbia, from US-based Freeport-McMoRan in early November.

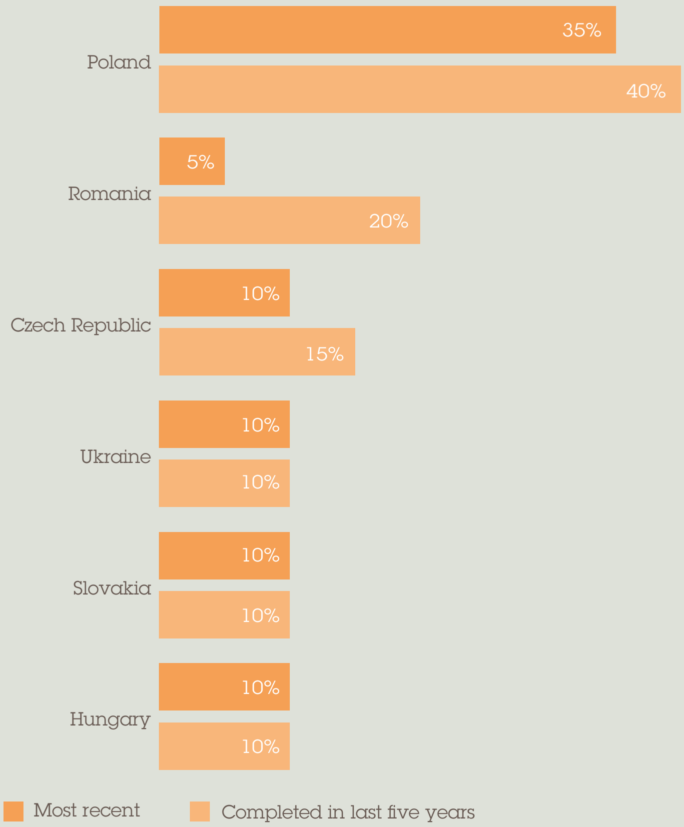
## CZECH DEALS LIGHT THE WAY

The two top deals in the region were both in the energy sector – unusually, they were for the same asset. In 2019, a 50.04% stake in Czech gas distribution firm Innogy Grid twice changed hands. First, it was taken over by German firm RWE as part of a larger set of asset swaps between RWE and domestic peer E.ON. Then, it was sold to a consortium led by Australia's Macquarie Infrastructure. The consortium was already a minority shareholder in the asset and exercised pre-emption rights to buy it outright, with a view to support the expansion of Innogy's GasNet gas distribution network with long-term institutional capital. Both transactions were worth around €1.8bn.

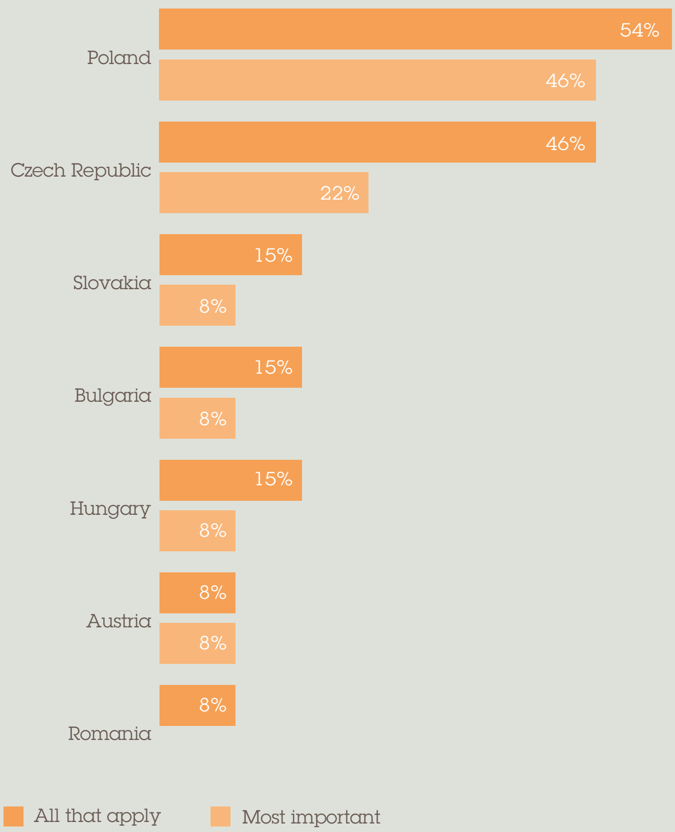
Another substantial Czech-focused transaction saw Liechtenstein-based Sev.en Energy AG acquire two coal-fired power plants in the country from French electric services company Alpiq for €280m.

Czech electricity company CEZ looked set to have secured the €335m sale of its Bulgarian assets to insurance and financial group Eurohold Bulgaria in June 2019, which would have been one of the top ten deals of the year regionwide. However, in October, Bulgaria's competition regulator blocked the acquisition on the grounds that it would hinder competition as Eurohold has substantial market share in insurance guarantees, which are required in the Bulgarian energy trading activities of the target companies.

In which CEE/SEE countries have you completed an M&A deal in the last five years and most recently in energy, mining and utilities?




Where are you currently looking for new opportunities for your next M&A deal in energy mining and utilities in the CEE/SEE region?



### SUBSIDIES SUBSIDE

Bulgaria's energy sector experienced a difficult few years in the middle of the decade, with retroactive cuts to renewable energy feed-in tariffs and the near-bankruptcy of the state energy holding company. But it has recovered strongly in recent years, with multiple transactions in renewable energy, says Richard Clegg, partner at Wolf Theiss Bulgaria. A deal with Azerbaijan's SOCAR to import 1 billion cubic metres of natural gas a year from the country's Shah Deniz II field, which will entail considerable investments in infrastructure, could add additional momentum, he says.

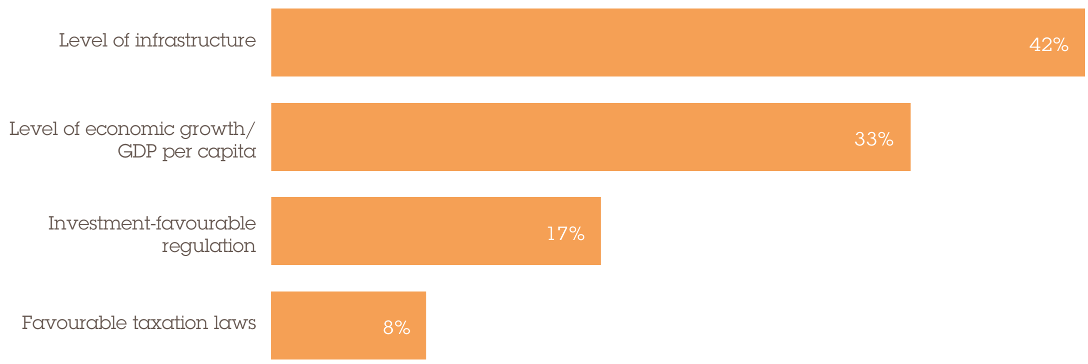
Romania also saw retroactive cuts to support for renewable energy projects, some of which are now coming to market as distressed assets.

2020 should also see CEZ and Italy's Enel complete the sale processes for their respective Romanian assets, both of which include renewables.

As many as 30 bidders were interested in CEZ's portfolio, says Jardine, who sees a "mini-renaissance" in the Romanian renewables sector, with solar assets also coming into the market. Following consultation, the government has also amended royalties legislation that threatened to hold back promising development of offshore oil and gas in the Black Sea.

Finally, the long-awaited IPO of state-owned hydro company Hidroelectrica may at last move forward in 2020, providing a boost both to the company and the Bucharest Stock Exchange.

What is the most important factor that will impact your choice of country for your next deal in energy mining and utilities?



## INFRASTRUCTURE PAYS DIVIDENDS

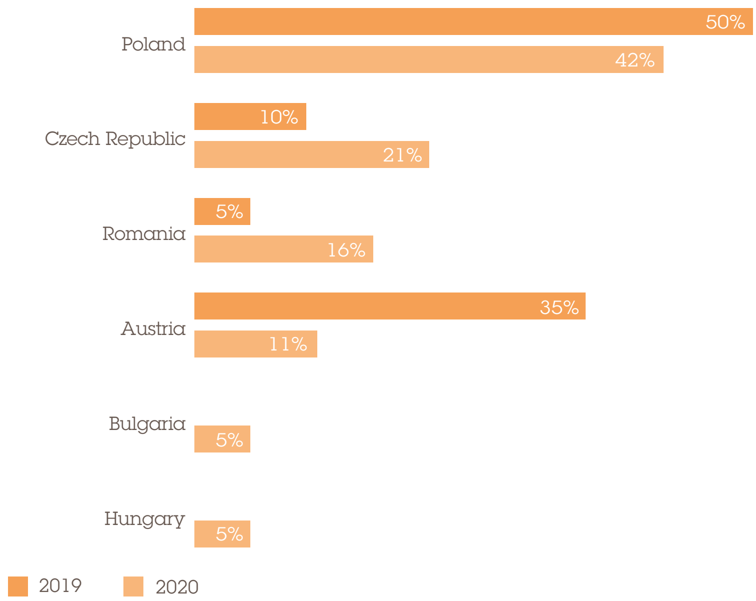
Looking forward, a majority (54%) of investors in EMU are looking at new opportunities in Poland, and 42% see it as a gateway to the region. The country has become a major regional player in LNG since the completion of the Swinoujscie terminal on the Baltic Sea in 2015. There are ongoing efforts to improve gas infrastructure connectivity across CEE/SEE. Investment in coal energy, which generates 80% of the country's electricity, has raised criticism from the EU but helped reduce dependence on imported sources.

Across the region, some 42% of sector respondents say that the level of infrastructure will be the single most important factor in determining their next target country for a deal in the EMU sector, and 69% said that a target's physical assets are the most important factor behind a specific acquisition.

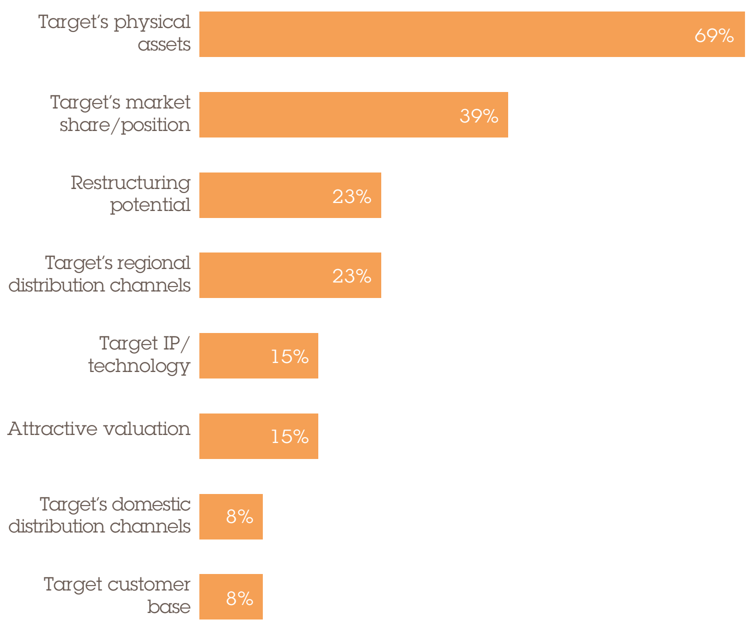
Ukraine is one of the countries making the biggest progress in these areas, and in liberalising its energy market – partly in response to the country's conflict with Russia.

"The gas transportation sector is developing at great speed," says Taras Dumych, managing partner at Wolf Theiss Ukraine. "Ukraine is unbundling its state-owned gas transport operator, and international investors are looking at co-managing gas transport system operators. Renewables are developing really quickly as well, with investors often using the transmission infrastructure of nearby nuclear power plants."

Which country do you consider to be the best gateway for expansion in the CEE/SEE region?



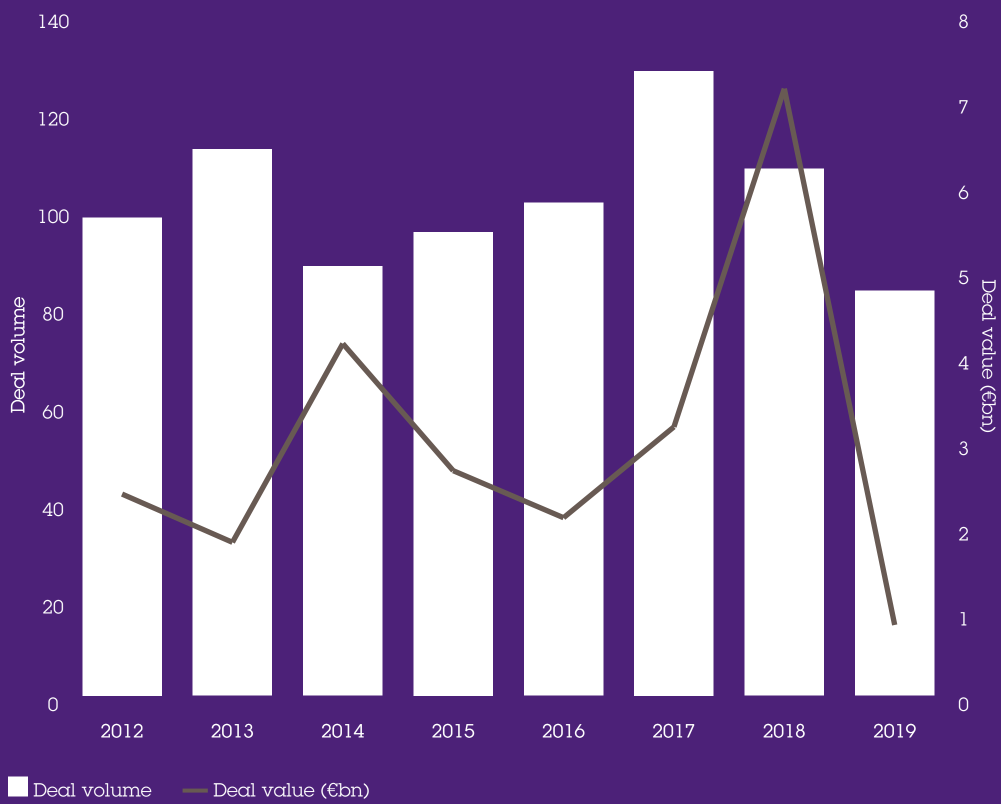

What are/will be the main drivers for your next acquisition in this sector? (Select top two)

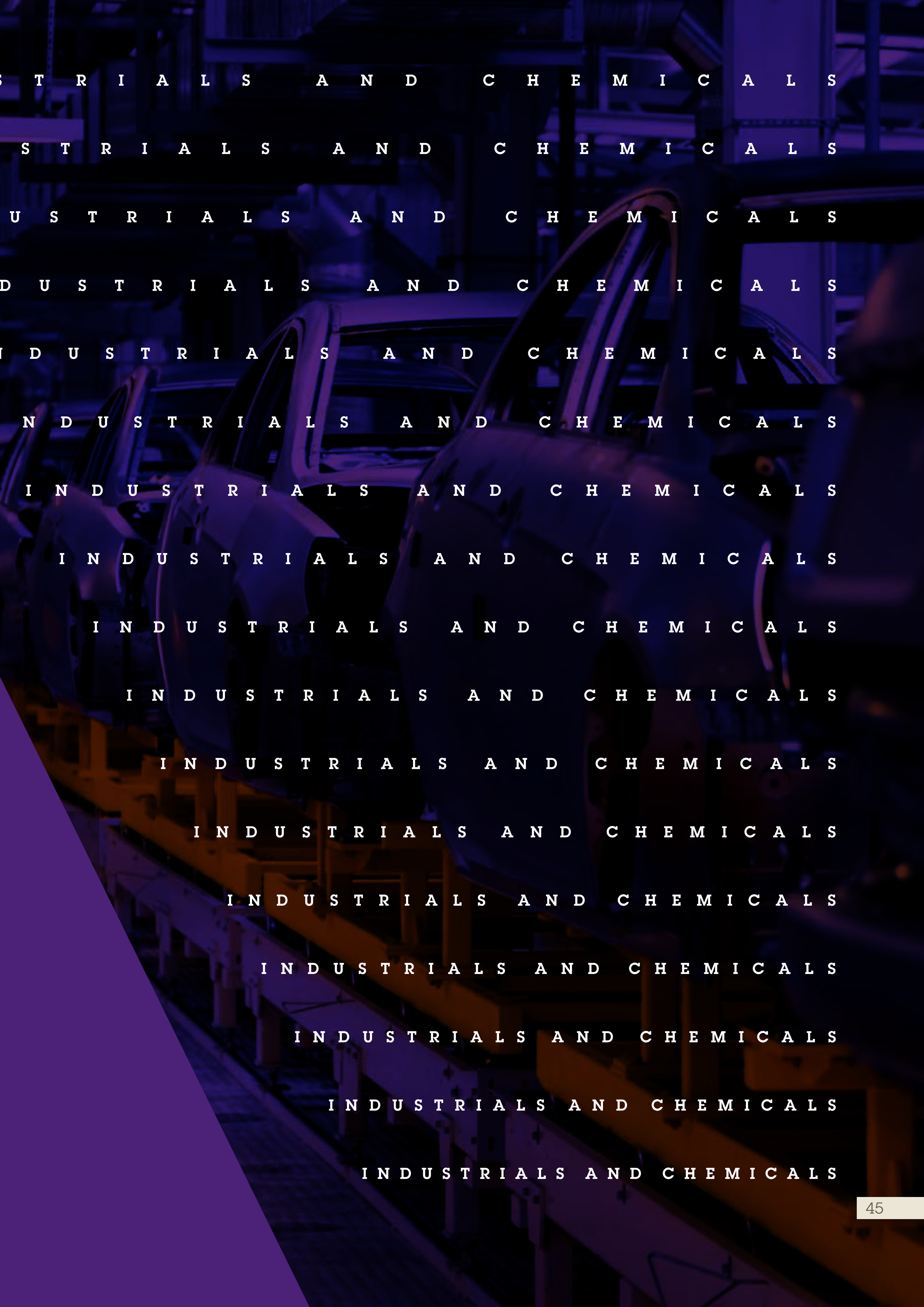



# INDUSTRIALS AND CHEMICALS

With access to the EU – the world's largest single market – a base of legacy industries built up over decades, and a growing range of innovative manufacturers, the industrials and chemicals sector has long been a mainstay of the CEE/SEE economy.

INDUSTRIALS AND CHEMICALS M&A, 2012-2019





# INDUSTRIALS AND CHEMICALS

The sector saw 83 transactions in 2019, accounting for 17% of overall deal volume. Total value, however, was a relatively modest €827m, 4% of the total, reflecting a large number of small- and medium-sized deals, but also a number of greenfield investments by those already present in the region.

The single biggest deal of 2019 only squeaked into the top 20 largest deals overall. The €218m deal saw Sweden-based Granges, a manufacturer of aluminium for the heat exchange industry, aquire Poland's Impexmetal.

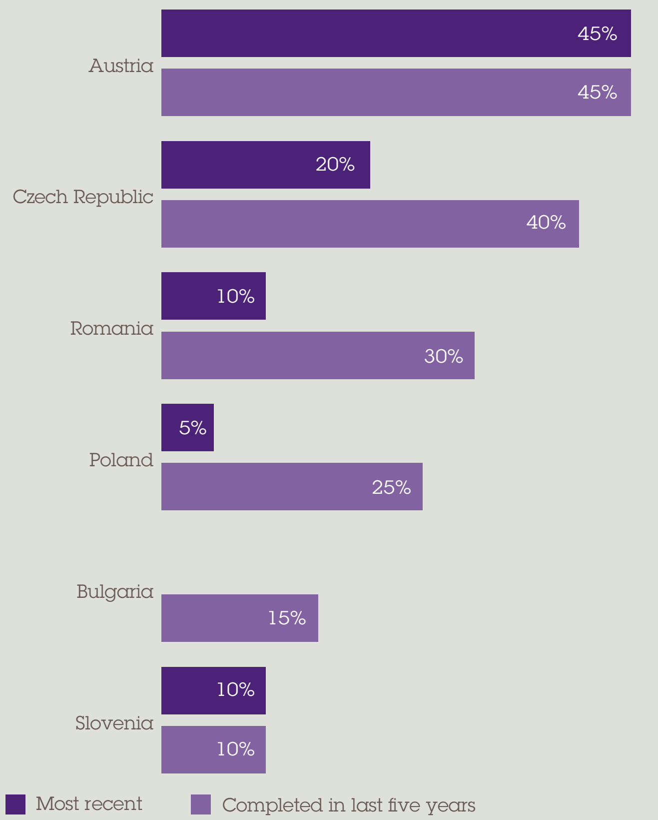
## BULGARIA AND CZECH REPUBLIC ATTRACT ATTENTION

Over the past year, the Czech Republic and Austria were the countries in which respondents had done deals most recently, and Austria is the preferred gateway for regional expansion for 40%, more than any other country. Austria has a well-established high-tech manufacturing sector, and the presence of the Baumgarten gas hub and large Schewechat refinery are advantages to be leveraged by downstream industries.

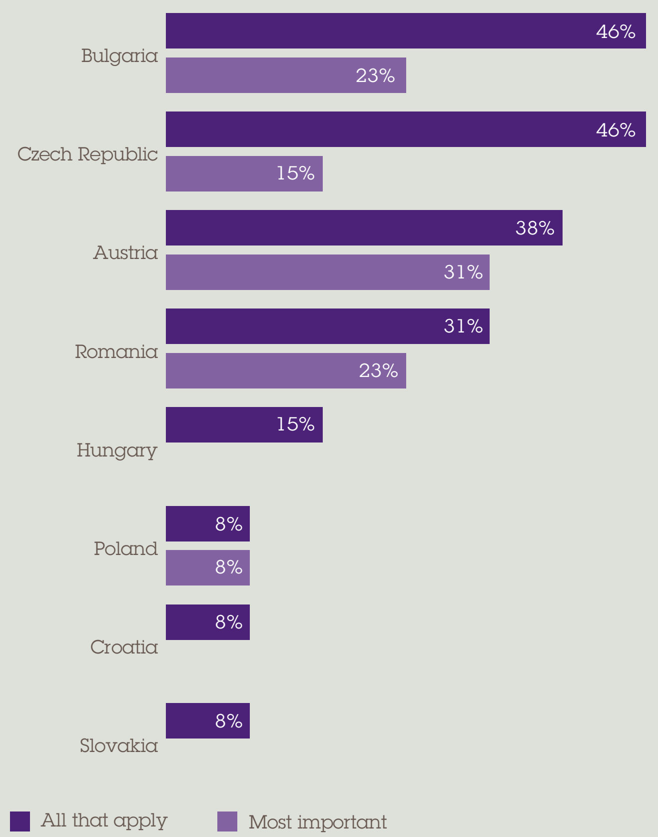
The Czech Republic is also likely to attract attention in the coming years, along with Bulgaria – 46% of respondents say they looking for opportunities in each country. The Czech Republic has a long history of manufacturing, boasting globally competitive companies such as automaker Skoda, and leverages its geographical position at the heart of Europe and excellent infrastructure. Bulgaria benefits from a low-tax regime and relatively low costs, as well as business-friendly legislation – though labour costs are now rising.

“Over the past few years there has been steady investment in the Bulgarian industrials and chemicals sector, which is a strong driver of the economy,” says Anna Rizova, managing partner at Wolf Theiss Bulgaria. “On the one hand you have big industrials, which have been investing in new facilities or expanding existing ones. At the same time, Bulgaria has strong engineering potential, and we have seen smaller Bulgarian enterprises open up production, offering new technological solutions and growing steadily.”

In which CEE/SEE countries have you completed an M&A deal in the last five years and most recently in industrials and chemicals (including automotive)?




Where are you currently looking for new opportunities for your next M&A deal in industrials and chemicals (including automotive) in the CEE/SEE region?



## HUNGARIAN GREENFIELD

Hungary also has a growing chemicals sector. In June, Hungarian energy and refining company MOL Group announced its largest-ever organic investment, a €1.2bn polyol complex at its Tiszaujvaros site. The project is backed by the Hungarian government, which has a minority stake in MOL. K&P Chem, which manufactures products for the cosmetic industry, is due to open a new €16.5m plant in Szolnok next year. While these greenfield projects do not feature in M&A data, they are indicative of investor appetite and asset development that should have a knock-on effect across the industry.

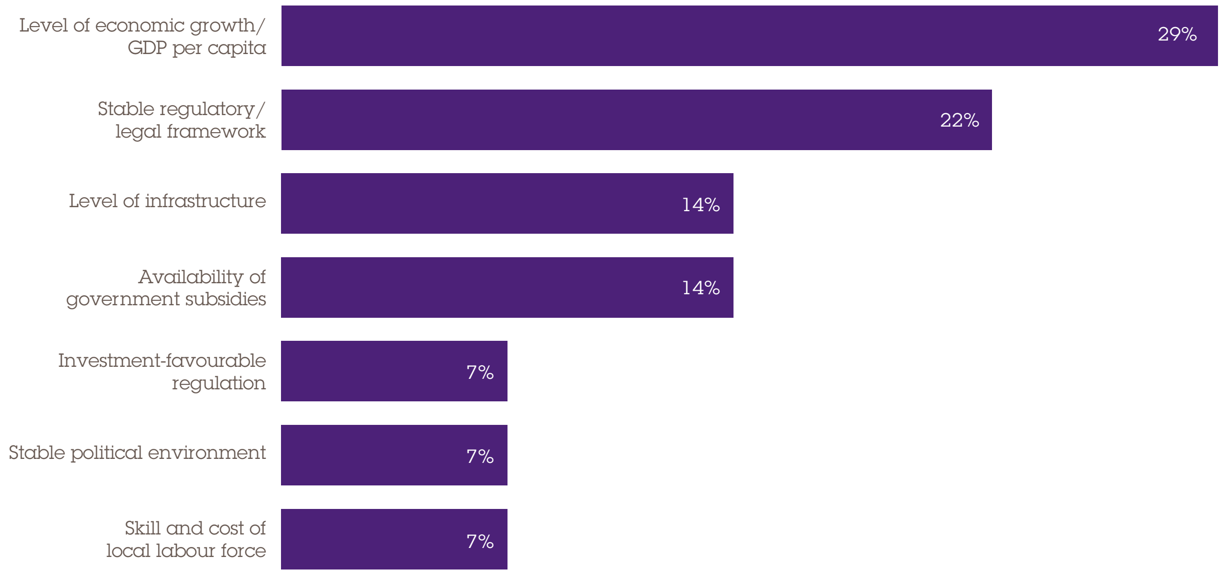
The automotive sector has been a major driver of Hungary's recent strong economic growth, with German carmakers in particular investing heavily. The German manufacturing slowdown in 2019 had some impact, with Daimler putting on hold an expansion programme, and Audi reducing headcount. However, a long-term greenfield investment in eastern Hungary by BMW is going ahead.

The Hungarian government has created a particularly favourable environment for manufacturing investment, deploying a range of tax incentives, and has pared back the administrative burden on businesses through e-government initiatives. The central bank's policy of remaining outside the eurozone does create some currency risk, however, with the forint weakening significantly in 2019.

## HOPES FOR 2020

Regionwide, a target's market share/position is the most important factor for the industrials

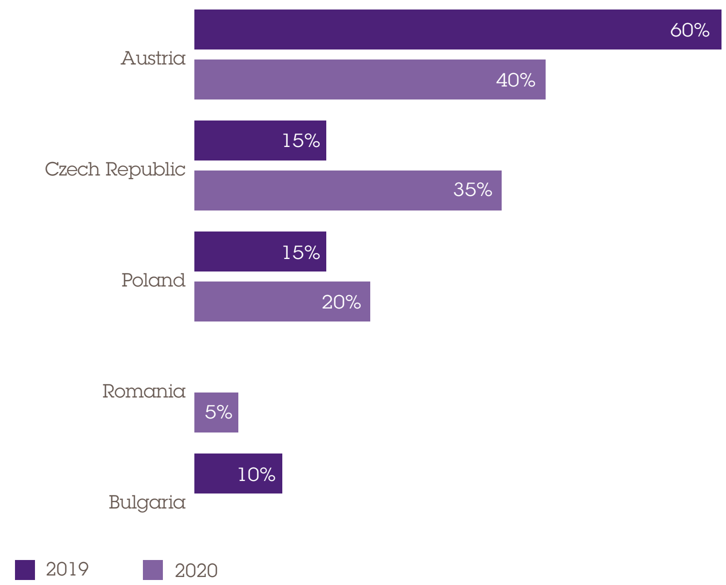
What is the most important factor that will impact your choice of country for your next deal in industrials and chemicals (including automotive)?



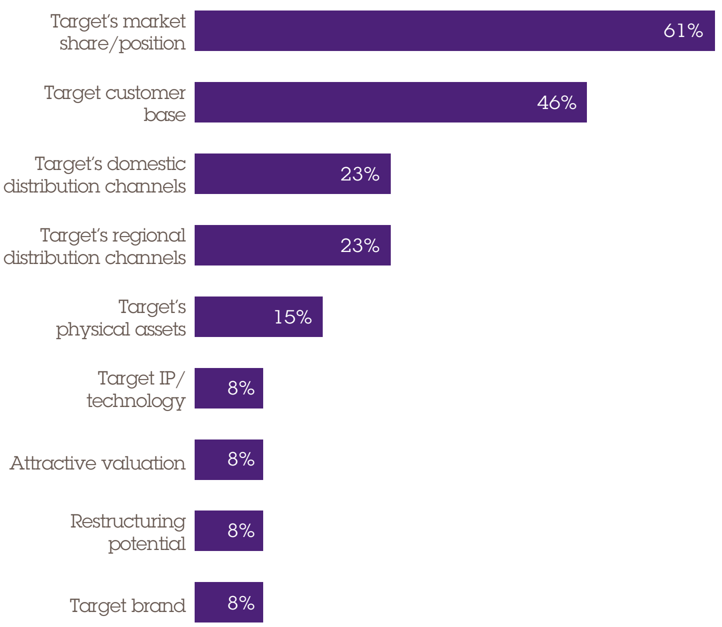
sector, cited by 61% of respondents. The sector tends to attract more strategic than financial investors, partly because of the often highly technical nature of the businesses. Nonetheless, PE firms are present in the sector, and may be increasingly active if the European manufacturing slowdown sees distressed assets in CEE/SEE come onto the market.

Looking at 2020, deal value could easily top 2019's. Already, a sale process is underway for Erber Group, an Austrian company active in the field of food and feed safety, focusing on natural feed additives. The transaction could fetch over €700m, according to press reports.

Which country do you consider to be the best gateway for expansion in the CEE/SEE region?



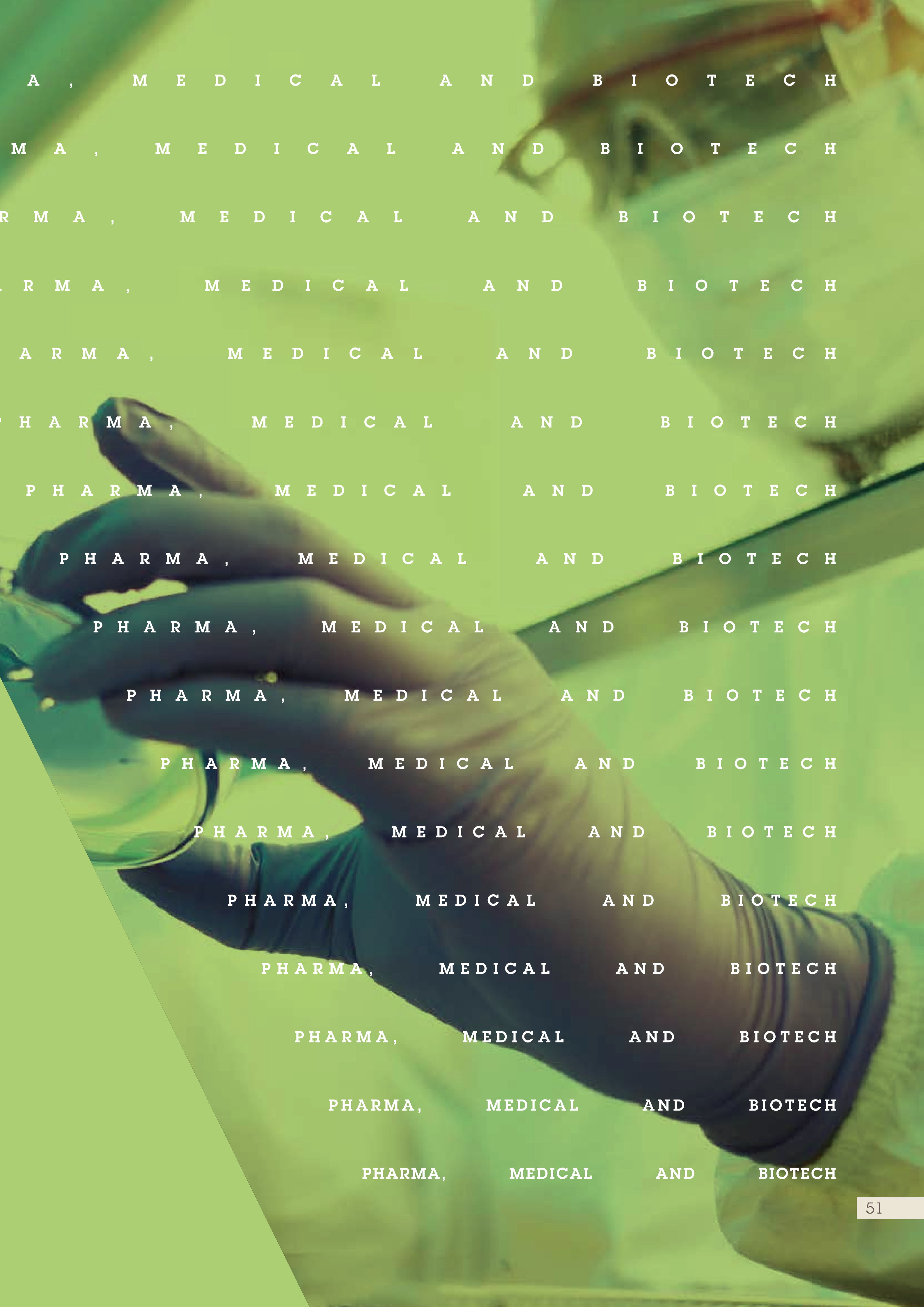

What are/will be the main drivers for your next acquisition in this sector? (Select top two)



# PHARMA, MEDICAL AND BIOTECH

The pharma, medical, and biotech (PMB) sector has become one of the region's quiet successes. Headline activity was fairly modest in 2019, with 39 deals worth €306m accounting for 2% of deal value and 8% of deal volume, yet there were a number of significant deals in the sector, and, volume-wise, 2019 was the highest year on record for the PMB sector in the region.

PHARMA, MEDICAL AND BIOTECH M&A, 2012-2019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The heavily regulated and highly technical nature of the sector means that investors tend to be specialised and barriers to entry high, so sector transaction values can fluctuate from year to year.

Demand is driven by demographic change and rising incomes, while access to EU markets and targets ranging from large legacy pharma companies to newer innovative companies are attracting attention on the production side.

The largest deal in 2019 saw Swiss pharmaceutical company Acino International acquire a portfolio of assets based in the CIS, Middle East and Africa from Japan's Takeda Pharmaceuticals for €181m. The deal sees Acino acquire the rights to a range of Takeda's drugs in Ukraine, and a manufacturing and supply agreement for Takeda to manufacture products on behalf of Acino.

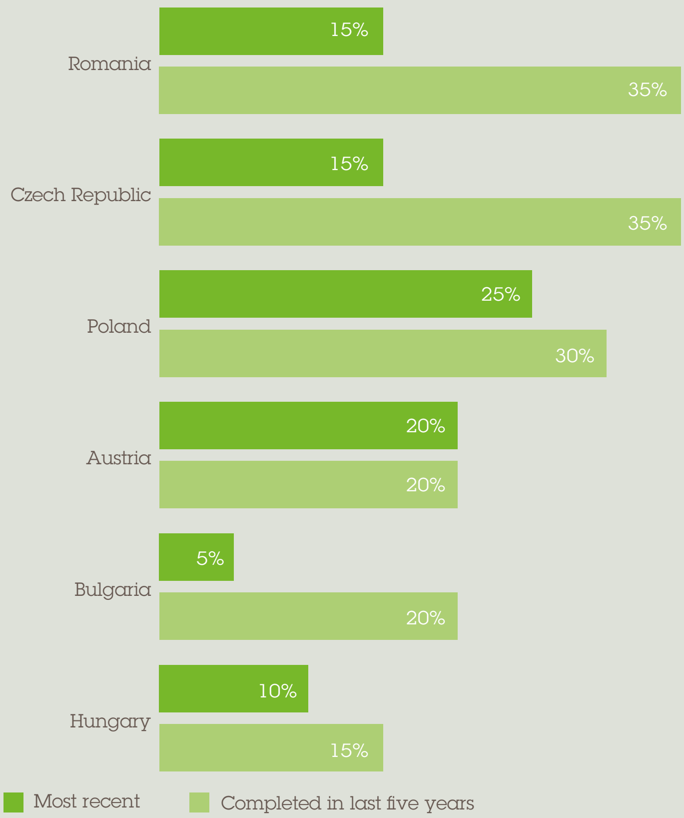
Just before year-end, Germany-based STADA made the acquisition of the prescription and consumer health business of Biopharma, another Ukrainian pharma business. While the deal's terms were not disclosed, it marks "one of the largest financial investments in the Ukrainian pharmaceutical sector to date", according to STADA. STADA has been active in the region – earlier in the year, it acquired Czech consumer health company Walmark for an undisclosed sum from regionally focused PE firm Mid Europa Partners.

## ROMANIA: A HUB FOR PMB

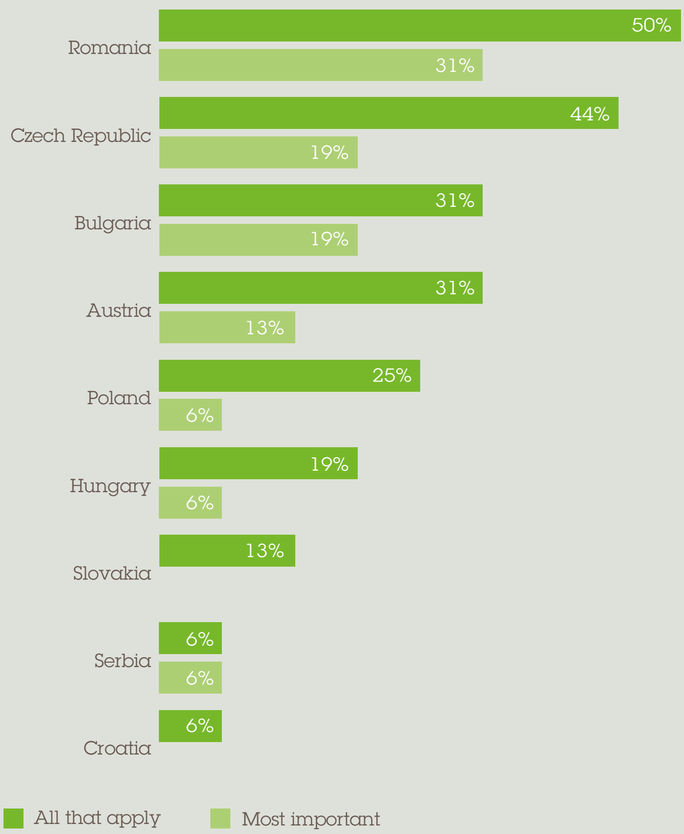
While there were no other deals with disclosed transaction value in 2019 of an equivalent size to the Acino deal, activity is still lively behind the scenes. In November, Romania's competition authorities approved the sale of hospital operator Materna Care to Regina Maria, Romania's largest integrated healthcare services operator. The terms of the deal were not disclosed. The buyer in that deal, Regina Maria, is itself undergoing a sale process.

Romanian biotech companies and medically focused tech companies which overlap between PMB and TMT, are also developing strongly, says Ileana Glodeanu, partner at Wolf Theiss Romania.

In which CEE/SEE countries have you completed an M&A deal in the last five years and most recently in pharmaceuticals, medical and biotech?




Where are you currently looking for new opportunities for your next M&A deal in pharmaceuticals, medical and biotech in the CEE/SEE region?



Half of PMB investors surveyed are now looking for new opportunities in Romania, more than any other country in the region, while 44% are looking into the Czech Republic.

"Romania's a large market, with an aging population that is underserved with medical services," adds Glodeanu. "There is a need for new hospitals, and the market is not as mature as in Poland or Austria. That provides plenty of opportunities. There is also a need for consolidation in the pharma sector, and we've seen major players that have taken part in large transactions looking to do that."

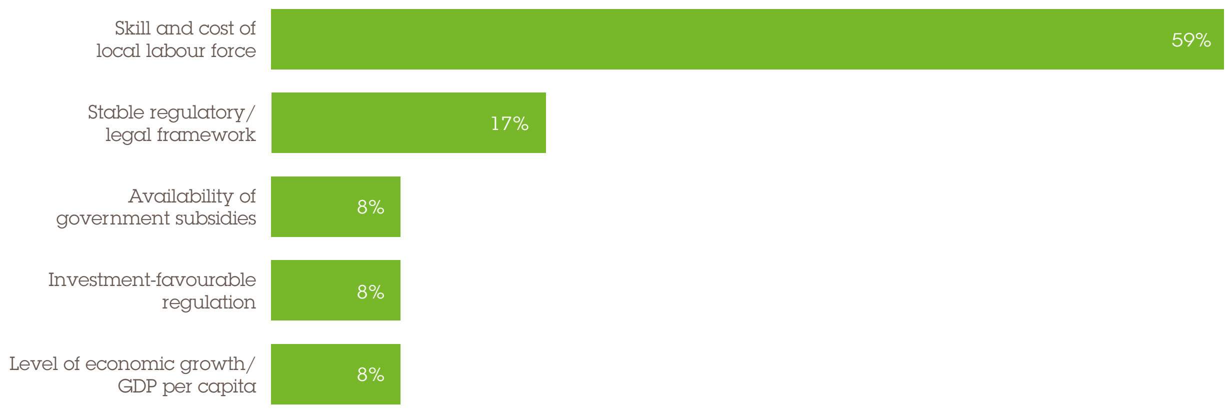
## DEAL DRIVERS

In this knowledge-intensive sector, skill and cost of the labour force is by a large margin as the most important factor affecting dealmakers' choice of the country where they will seek out their next deal, cited by 59% of respondents. A stable regulatory and legal framework is however also important (17%). Similarly, in choosing specific targets, dealmakers are seeking those with strong IP or technology (cited by 69%).

"It's really the research and hardcore scientific work that is very often the deal driver in my experience," says Florian Kusznier, partner at Wolf Theiss Austria office.

Poland and the Czech Republic vie for the position of favoured gateway to the region, each cited by 35% of respondents. Poland benefits from its position as the largest market, while the Czech Republic's relative affluence and location are advantages.

What is the most important factor that will impact your choice of country for your next deal in pharmaceuticals, medical and biotech?



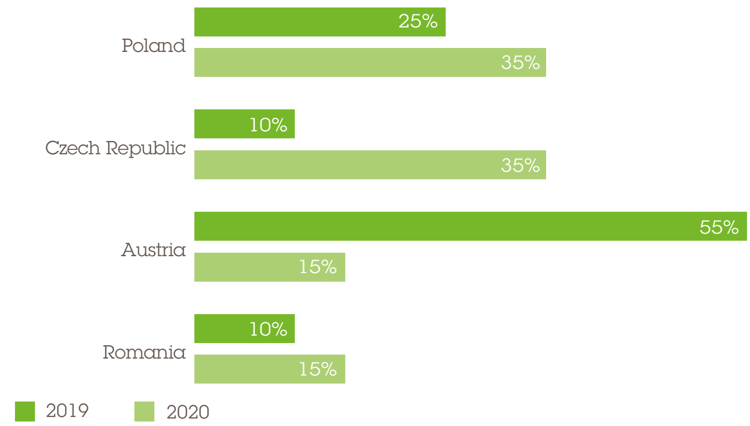
"In Poland, some of the large international pharma companies are undergoing internal restructuring," says Jacek Michalski, a partner at Wolf Theiss Poland. "A second interesting feature we see is a growing interest from both strategic and private equity investors into start-ups involved in medical or biotech activities."

## REGULATORY WORRIES

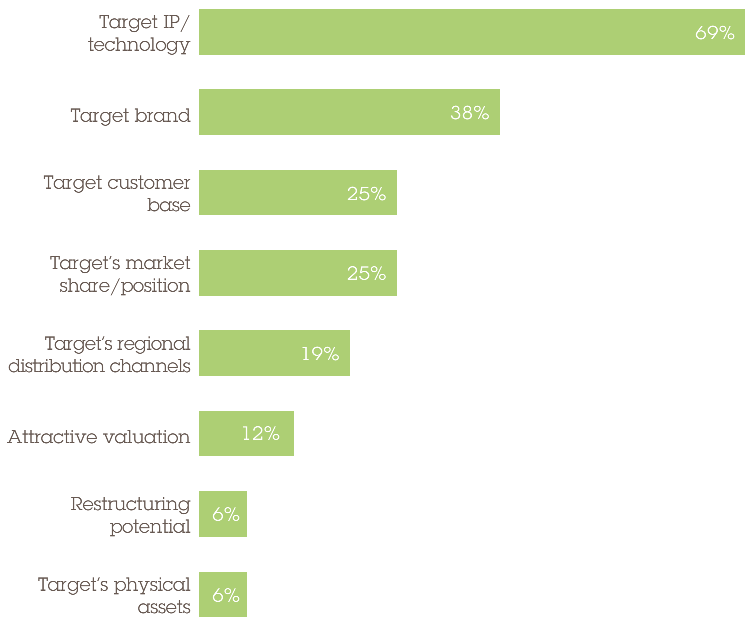
Particularly in fast developing areas such as biotech and medical technology, investors will need to keep track of evolving regulatory and compliance regimes. The EU Medical Device Regulation enters into force in May 2020 and will introduce new concepts, definitions, classification rules and procedural requirements for medical device software. In Romania, meanwhile, the competition authority has taken a hawkish stance towards pharma companies, handing out substantial fines in some places, while national and regional authorities all over the world are taking an increasingly watchful eye over multinational pharma companies and medical trials in particular.

"It's a regulated sector which requires significant expertise on the part of the investors," says Kusznier. "When it comes to payment and reimbursement of health services, cost is still quite a state-driven factor, which means that investors will need to understand how the business model works, and will need to familiarise themselves with the regulations first."

Which country do you consider to be the best gateway for expansion in the CEE/SEE region?



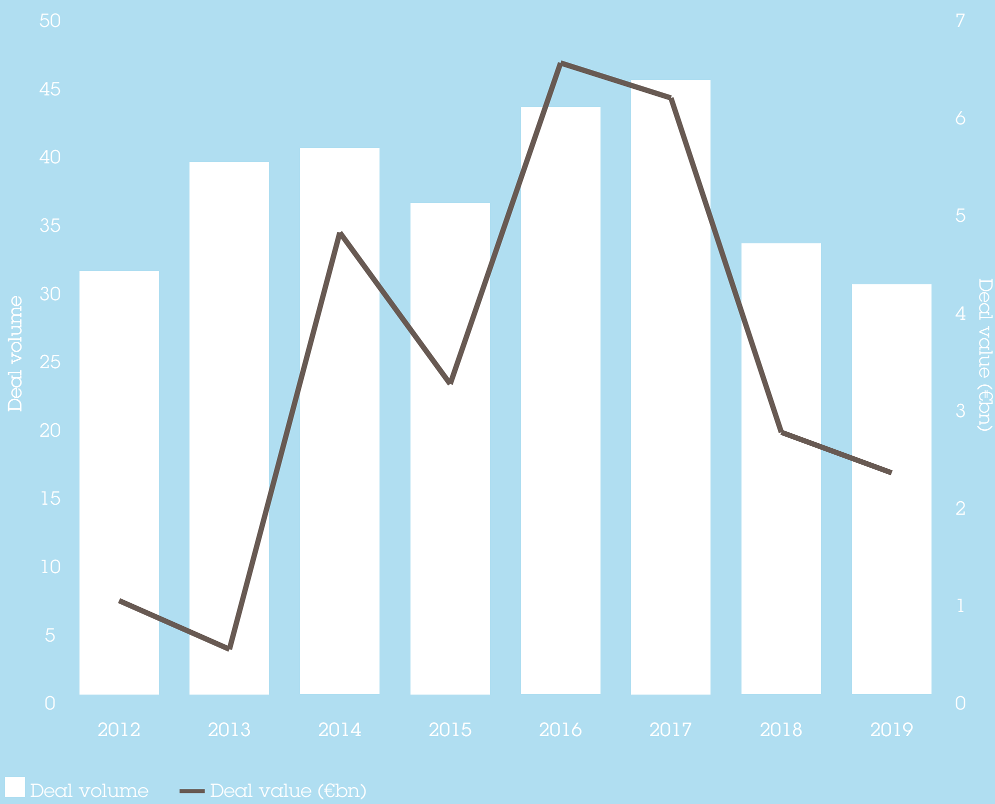

What are/will be the main drivers for your next acquisition in this sector? (Select top two)




# REAL ESTATE AND CONSTRUCTION

Following significant cooling in the wake of the global economic crisis a decade ago, the real estate and construction sector in CEE/SEE has undergone a renaissance in recent years. Income growth, a shortage of modern properties in all asset classes, relatively low interest rates, and EU funding for infrastructure have all played a role.

REAL ESTATE AND CONSTRUCTION M&A, 2012-2019

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The sector saw 30 M&A transactions worth a total of €2.3bn in 2019, accounting for 12% of overall value and 6% of volume, down slightly from 33 deals worth €2.7bn in 2018.

### RACE FOR POLISH ASSETS

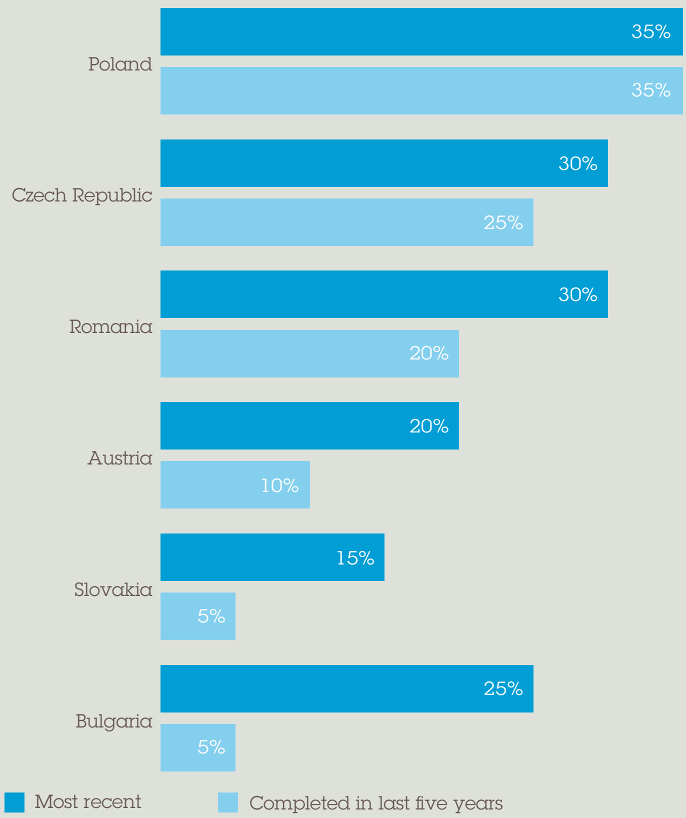
Among the largest deals of the year across all sectors was US-based Madison International Realty's acquisition of a controlling stake in Poland-based Capital Park for €455m. The seller, UK-based investor Patron Capital Partners, retains a minority stake in the business, along with pension and other investment funds also holding small stakes. The deal gives Madison exposure to Capital Park's 304,000sqm of lettable area with a value of around €580m.

Poland, the region's largest market, continues to see investor interest outstrip supply of investable projects. The country's emergence as the leading gateway to the region for many businesses is helping stoke demand.

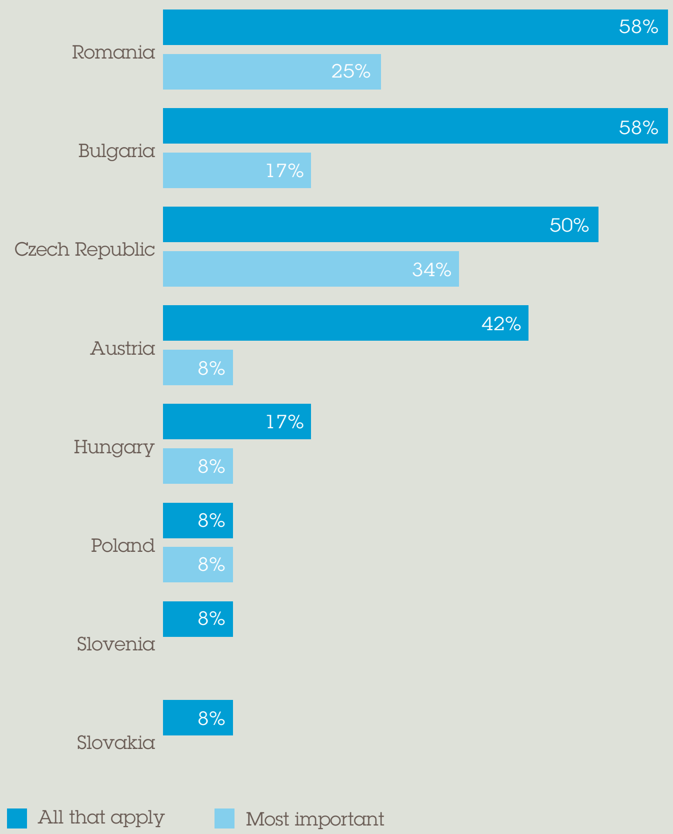
"We see a lot of equity on the Polish market, and projects fully funded by equity," says Grzegorz Skowroński, partner at Wolf Theiss Warsaw. "We also see yield compression, and a shift to investors who like to keep their assets for a longer period. There are more and more portfolio transactions, which show that investor appetite is huge."

Moreover, there is increased interest from East Asia-based investors looking at logistics and office buildings in Poland, Skowroński added. There is considerable scope for development in the modern retail sector, where penetration is still below Western European levels. The country has become something of a safe haven for regional investors in recent years, and Polish property has thereby become a natural asset for those seeking security.

In which CEE/SEE countries have you completed an M&A deal in the last five years and most recently in real estate and construction?




Where are you currently looking for new opportunities for your next M&A deal in real estate and construction in the CEE/SEE region?



## EMERGING REGIONAL HUBS

Looking forward, 50% of investors in real estate and construction regionwide say that the level of infrastructure will be the most important factor in determining their next deal destination. They are no longer looking to Austria as a gateway of expansion, with Poland being preferred by 45% of respondents.

Romania and Bulgaria are attracting the most attention as destinations for the next M&A deal for investors, both cited by 58% of respondents.

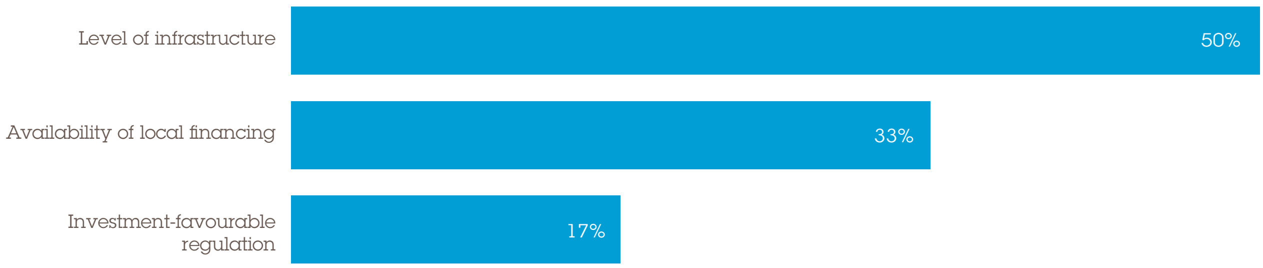
Romania's deep 2009 recession flipped what was a booming real estate sector into contraction, but rapid economic growth has restored momentum in this large and strategically located market.

"Institutional fund money that had not been seen in the Romanian real estate sector has started to enter the fray here," says Jardine. "We're starting to see tremendous development across all asset classes in Bucharest and secondary and tertiary cities."

Jardine adds that the shared services, BPO, and back office operations being established in Romania entail considerable office space demand.

On the construction side, Romania's transport infrastructure development has historically lagged behind that of the rest of Europe. This has arguably constrained broader economic development given the country's size and geographical location. Progress on important rail and road projects such as the

What is the most important factor that will impact your choice of country for your next deal in real estate and construction?

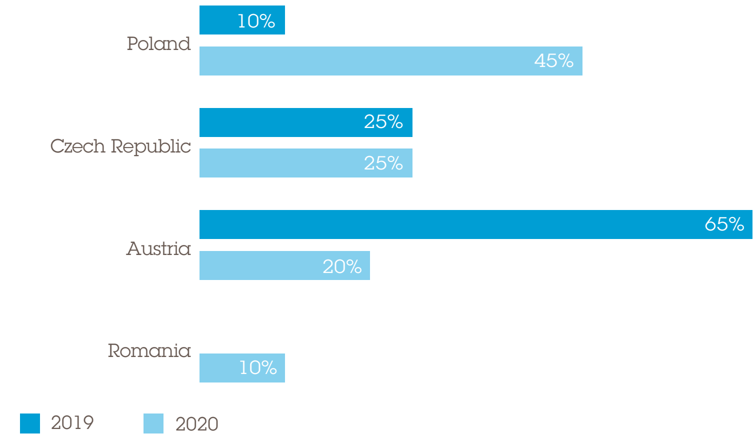


Autostrada Transilvania and Bucharest-Craiova motorway has been stop-start, and successive governments have struggled to develop and execute a clear transport infrastructure strategy.

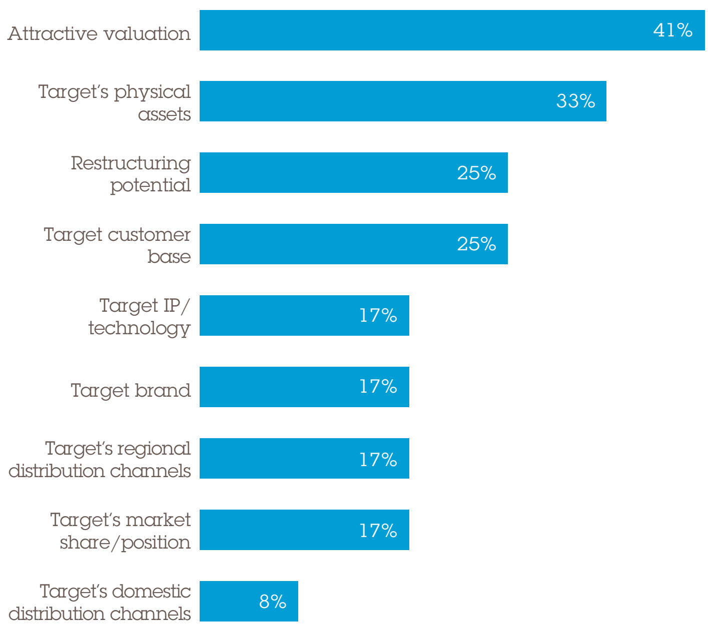
To the south, Bulgaria saw a property boom in the mid-2000s fuelled partly by speculation and retail investors, followed by a long slump, which continued as banks grappled with distressed real estate assets. Following several years of steady economic growth, the sector is now resurgent. Top-end office developments by developers including Raiffeisen Real Estate are addressing a long-term shortage in Sofia, though the middle of the market is still feeling a squeeze from tenants' preference for lower costs.

"We've been very busy with real estate work for international investors," says Richard Clegg, partner at Wolf Theiss Bulgaria. "The market is split – for operational properties we have investments from regional real estate groups from Central Europe. And on distressed assets, and assets that need refinancing, we have activity from hedge funds from the UK and US."

Which country do you consider to be the best gateway for expansion in the CEE/SEE region?




What are/will be the main drivers for your next acquisition in this sector? (Select top two)

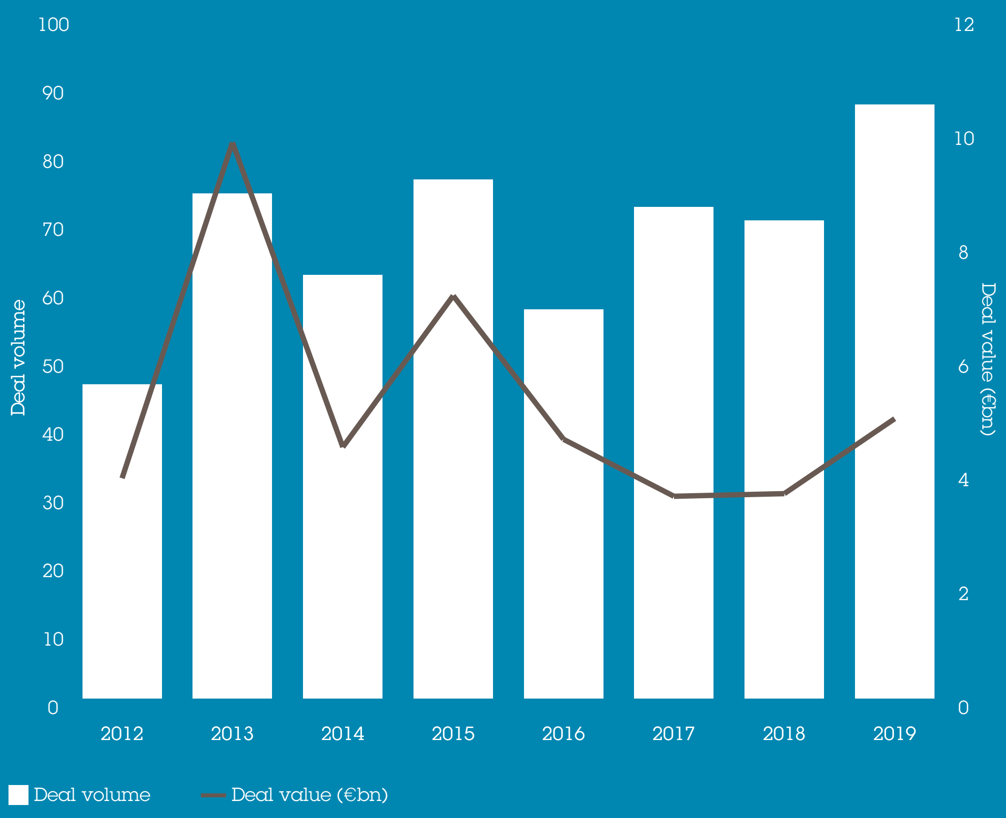


# TECH, MEDIA AND TELECOMS

The TMT sector had an exceptional year, registering the highest total annual value for the sector in the CEE/SEE region on record (since 1998).

A globally competitive tech sector, big-ticket deals on major telcos, and media consolidation are driving factors behind CEE/SEE's vibrant TMT investment landscape.

TECH, MEDIA, AND TELECOMS M&A, 2012-2019

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The sector has long been one of the leading focuses for dealmaking in the region and looks set to remain a magnet for M&A in the foreseeable future. Annual deal value rose to €4.9bn, up 37% above 2018's totals, due largely to two €1bn+ deals announced towards the end of the year.

Unsurprisingly, IP and technology will be the leading driver for respondents' next deals in TMT, cited by 94%. Target market share and position is also important, however, chosen by 44% of respondents.

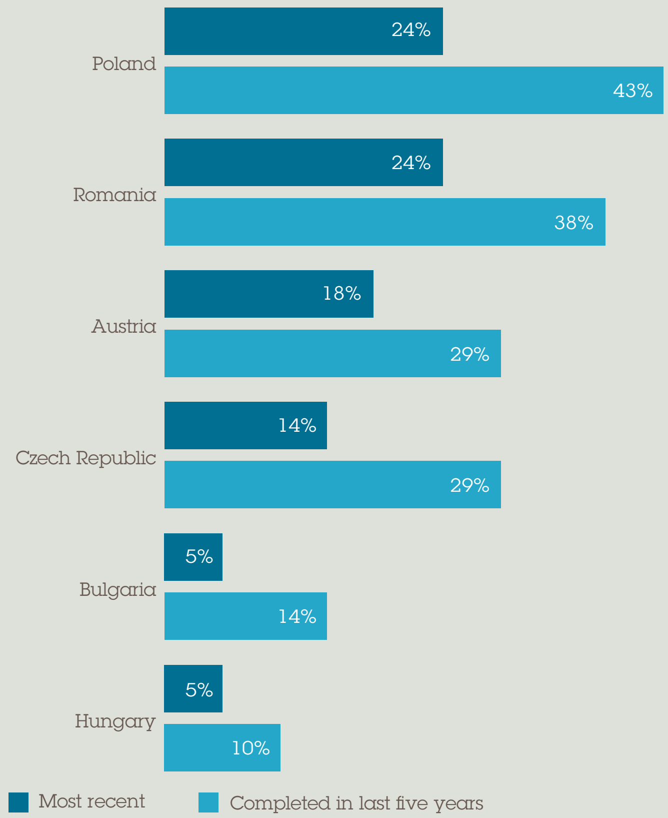
### CONVERGENCE AND CONSOLIDATION

Three of the largest deals of the year were in the TMT sector. The largest deal in the sector and the third largest overall was a local PE deal—in November Czech fund PPF announced the acquisition of Prague Stock Exchange-listed Central European Media Enterprises (CME) for €1.5 billion. CME operates television broadcasting in Bulgaria, Czech Republic, Romania, Slovakia and Slovenia and the deal, pending approval by regulator, is expected to complete in mid-2020.

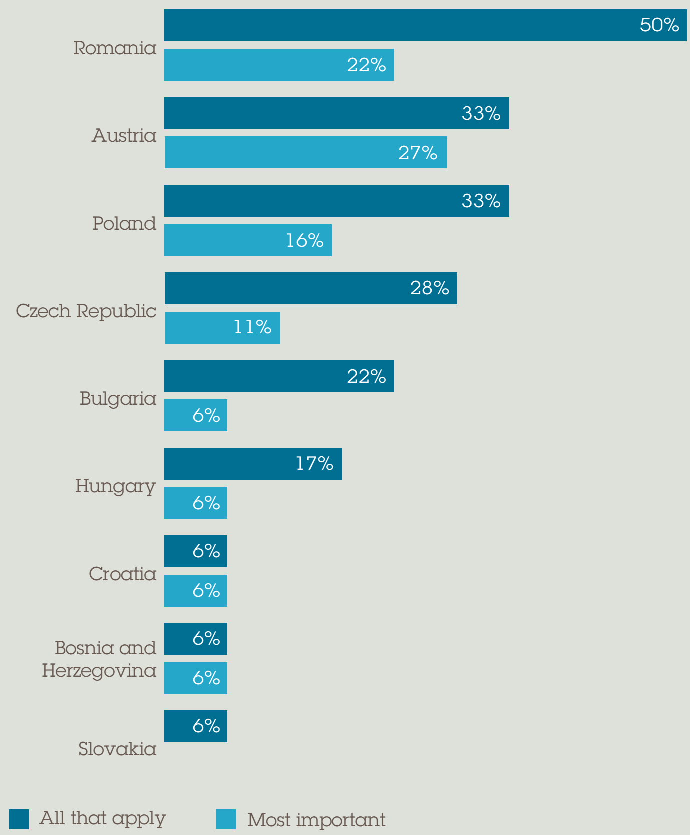
The second largest TMT deal announced in 2019 would see Netherlands-based pan-Balkan media and telecom company United Group acquire Bulgaria's Vivacom for €1.2 billion. The deal, subject to merger control review, is expected to close in Q2 2020.

United Group, which is backed by UK-based PE firm BC Partners, is expanding aggressively in the region, and is also awaiting the results of a phase 2 investigation by Croatia's competition authority into its €220m acquisition of the Croatian assets of Swedish mobile operator Tele2 and is reportedly interested in acquiring Telekom Romania.

In which CEE/SEE countries have you completed an M&A deal in the last five years and most recently in technology, media and telecommunications?




Where are you currently looking for new opportunities for your next M&A deal in technology, media and telecommunications in the CEE/SEE region?



## START-UP CENTRAL

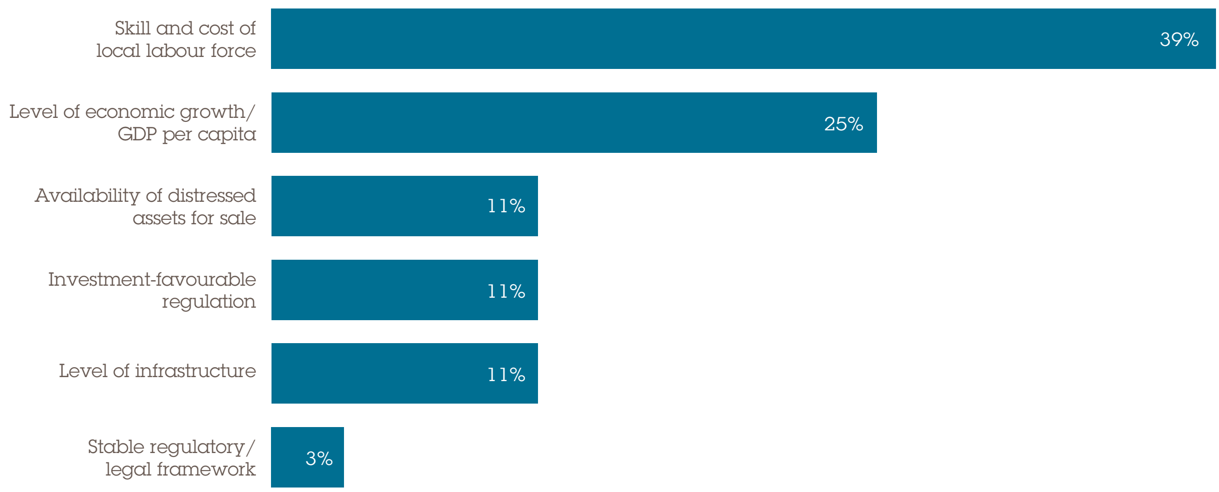
In spite of the healthy overall value figure, a considerable amount of deal activity is concentrated in smaller ticket-size deals for tech start-ups. Volume has held up very well, with 87 deals accounting for 18% of the total regionwide, making TMT the second busiest sector in terms of volume, behind only the consumer and leisure sector. The robust tech segment in CEE/SEE leverages a tradition of strong technical education, optimal location, a growing range of capital sources including EU-backed VC and seed finance, and labour costs that, despite rising rapidly in recent years, are still lower than relative to North America or Western Europe. These factors have long supported a flourishing BPO sector. This has developed into higher-value propositions in recent years, with several major multinational companies moving back-office functions to the region.

## INFRASTRUCTURE INNOVATION

Looking forward, the roll-out of 5G mobile technology is starting to take centre stage across the region, which is already reshaping business strategy, including consolidation on the infrastructure side.

"The big topic is 5G and spectrum. We're starting to see moves in a number of EU countries, such as Poland and Austria, around infrastructure sharing and spectrum-sharing, given the huge costs involved," says Richard Clegg, partner at Wolf Theiss Bulgaria. "We're seeing a lot more focus on the infrastructure of the telco business rather than the services side."

What is the most important factor that will impact your choice of country for your next deal in technology, media and telecommunications?

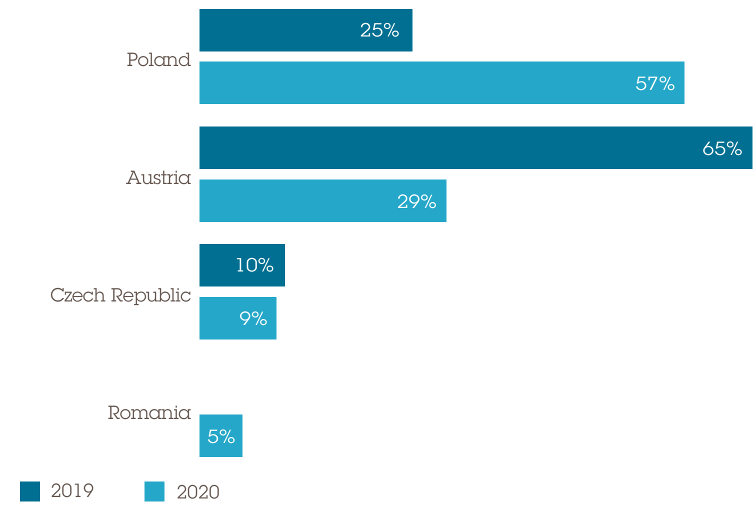


Other areas seeing growing activity include fintech companies, with banks looking for bolt-on acquisitions to enhance their tech offerings.

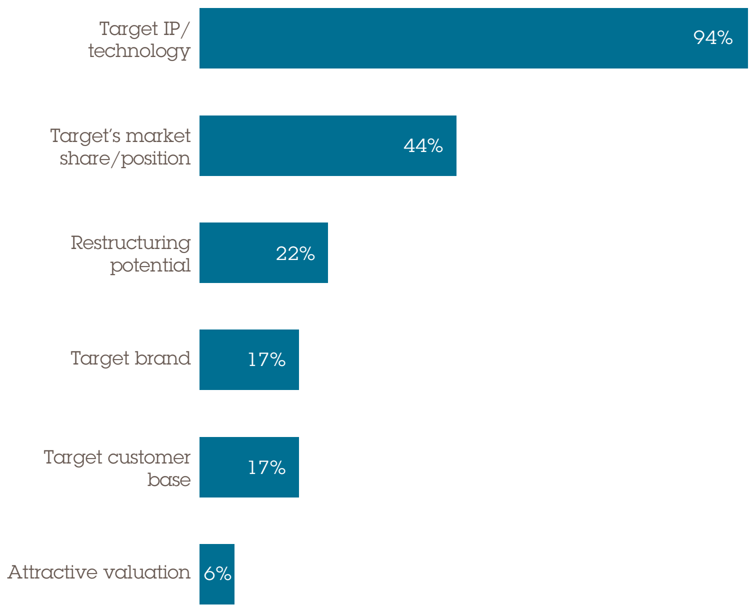
### ROMANIA ATTRACTS ATTENTION

Respondents increasingly see Poland (57%) rather than Austria (29%) as the best gateway to the region for TMT, a trend we see in several other sectors. But Romania is attracting the most attention for 2020, with 50% of investors surveyed looking for targets in the country. Several Romanian-founded tech companies have now achieved global prominence; in 2019, robotic process automation company UiPath raised $568m in series D financing. This valued the company at $7bn overall, making it one of the region's four privately held tech worth more than $2bn. UiPath is headquartered in New York, but its operations are predominantly in Romania.

Which country do you consider to be the best gateway for expansion in the CEE/SEE region?




What are/will be the main drivers for your next acquisition in this sector? (Select top two)



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Tel.: +43 1 515 10; Fax.: +43 1 515 10 25; email: wien@wolftheiss.com; homepage: www.wolftheiss.com
Commercial Registration Number: FN 403377 b; Commercial Registration Court: Commercial Court Vienna
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