

## Growing uncertainty: observations within the M&A market

**Warsaw, 7 November 2023 – Is the M&A market facing a further slowdown due to the macroeconomic situation? Or, following the recent parliamentary elections in Poland, will the market quickly rebound after a brief pause and continue to experience the best economic period in modern history? Can we expect more records to be broken? The truth may lie somewhere in the middle, as there is no shortage of challenges lying in wait for the economy. Izabela Zielińska-Barłózek, Krzysztof Libiszewski and Anna Dąbrowska – partners with over 20 years of transactional experience, and the heads of Wolf Theiss' Corporate M&A team in Poland since July of this year – share their insights into the current and anticipated situation in the Polish M&A market.**

The M&A market is constantly changing and, although a number of transactions are still taking place, they are smaller in terms of value than in previous years. Apart from previously planned transactions, investors tend to take advantage of opportunities and temporary lower valuations.

According to industry reports and Wolf Theiss experts' observations, 2022 was a record-setting year for the Polish M&A market. Despite the lingering impact of the Covid-19 pandemic and the ongoing war in Ukraine on the economy, the value and volume of deals surpassed those recorded in 2021.

Izabela Zielińska-Barłózek points out that both sector investors and private equity funds, both Polish and foreign, remained active in the market during 2022. Wolf Theiss experts' observations show that, as in previous years, sector players and funds often competed in auction processes to acquire the same entities (targets). Moreover, there was unabated interest in transactions in the TMT, new technology, healthcare and biotechnology, manufacturing and energy sectors.

This trend, albeit on a significantly reduced scale, is also evident in 2023. This can be attributed to the economic slowdown in Poland in the first half of the year, coupled with the market's anticipation of positive economic signals.

Market analyses also show that in global terms, both the volume and value of transactions have decreased in 2023.

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According to Anna Dąbrowska, it can be assumed that global statistics generally correspond to trends in Poland. M&A market participants seem to agree that the continued high level of inflation and issues with supply chains are significantly affecting the market. At the same time, there are reports of some targets being withdrawn from sales processes in the face of increasingly unfavourable valuations. On the other hand, as Anna Dąbrowska notes, there is still a shared belief that in the short term, the market will once again become highly dynamic. In view of the significant funds raised by private equity funds in previous years, it is estimated that these funds will remain active and seek new transaction opportunities.

Although the global trend indeed influences the evaluation of Poland's situation, it is quite evident that despite the overall decrease in the global transaction value, numerous transactions are still being finalised, as highlighted by Krzysztof Libiszewski. This may be an effect of diversification and capital's search for attractive valuations. Certain assets have been overvalued due to ongoing macro and geopolitical challenges, including the repercussions of the so-called Polish Deal (a new tax setup introduced in Poland in 2022), with the latter factor only applicable to a group of smaller companies. Krzysztof Libiszewski also notes that in the face of uncertainty, funds and strategic investors are also reducing their risk by focusing on smaller assets. As a result, many transactions can still be expected, although we will not necessarily witness any new records in terms of the M&A market's value in Poland. In his opinion, an additional factor that clearly has a cooling effect on the Polish market is the tightening of banks' credit policy and the still relatively high interest rates.

ESG has been one of the important trends in this market for some time. Investments in green energy, 'ethical business' companies and the transition away from fossil fuels are simply inevitable at this point. Market participants already see a number of positive aspects associated with the sustainability trend. Indeed, ESG investments for example, have high reputational as well as purely financial benefits in terms of expected returns. Changes in this respect can also be observed in the consultancy sector as consultants have started to offer services involving ESG-oriented research of potential targets. Although Izabela Zielińska-Barłózek hopes that the trend of searching for and carrying out socially and environmentally beneficial transactions will become a permanent feature of the global and Polish economy, in her opinion, at this point it does not seem that this type of research will become a permanent feature of all transactions nor an indispensable element of the Polish market in the near future.

Another aspect to consider when assessing the M&A market is national policy. However, according to experts at Wolf Theiss, this does not seem to be a factor that significantly affects the M&A sector in Poland. Despite occasional high political tensions in Poland's history, in their opinion, investors have generally maintained a level of detachment, indicating that these political disputes have not significantly influenced their business decisions. The formation of a new government and the possible unblocking of funds from the National Recovery Plan (part of EU Recovery Plan) will have a stimulating effect on the M&A market and the economy itself.

In the unanimous opinion of the experts at Wolf Theiss, the still unsettled geopolitical situation and the radically increased level of economic interventionism by governments is a global phenomenon and not an exclusively Polish trend. In this context, in their view, investors do not treat the aforementioned factors as specific only to the Polish market and do not consider it immune to negative external stimuli. A response to the multidimensional uncertainty of the situation and the complicated circumstances of the judiciary in Poland may be the widespread phenomenon of submitting potential disputes, resulting from M&A transactions, to arbitration tribunals. "From our observations, both in 2022 and in the current year, arbitration provisions have enjoyed unabated popularity. Undoubtedly, a much more substantial threat impacting the M&A market is the elevated inflation rate and the central bank's interest rate policy, which adversely affect financing conditions in particular."

## About Wolf Theiss

Founded in 1957, Wolf Theiss is one of the leading law firms in Central, Eastern and South-Eastern Europe (CEE/SEE). We have built our reputation on unrivalled local knowledge which is supported by strong international capabilities. With 390 lawyers in 13 countries, over 80% of the firm's work involves cross-border representation of international clients.

Albania, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine, Wolf Theiss represents local and international industrial, trade and service companies, as well as banks and insurance companies. Combining law and business, Wolf Theiss develops comprehensive and constructive solutions on the basis of legal, fiscal and business know-how.

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