

M&A Barometer H1 2014

Central and Southeast Europe



EY's M&A Barometer is a summary and analysis of publicly disclosed information accumulated from reputable databases.

M&A activity and data includes private to private transactions and excludes:

- ▶ Acquisitions of minority stakes below 15%
- ▶ Majority shareholder's further acquisition of a minority interest
- ▶ Real estate transactions (except when the target or buyer is a real estate company or real estate fund)
- ▶ Capital market transactions (except for transactions that result in a change of control)
- ▶ Acquisitions of licenses
- ▶ Joint venture agreements
- ▶ Greenfield investments
- ▶ IPOs
- ▶ Privatizations
- ▶ Multi-country deals (the value of these deals was ignored in each country, but the number was counted in)
- ▶ Internal reorganizations

Introduction

In our M&A Barometer, we analyze the prevailing trend in 11 Central and Southeast European (CSE) countries (Bulgaria, Croatia, the Czech Republic, Greece, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia and Turkey). In H1 2014, most of the countries experienced an increased M&A activity in terms of volume; the total number of transactions was 629. Additionally, a significant 35.9% increase in estimated M&A market value can be observed compared with H1 2013, mainly due to a megadeal that occurred in the Czech M&A market in H1 2014.

More specifically, we observed a majority of domestic transactions – in the case of 51% of all deals, the buyer and the target originated from the same country. Also noteworthy is the fact that transactions were dominated by strategic investors, and the most active target industry was IT, while in terms of value, the largest transactions occurred in the chemicals, real estate and entertainment sectors.

Highlights – H1 2014

- ▶ Top three countries by number of transactions: Turkey, Poland and the Czech Republic
- ▶ Number of closed transactions: 629
- ▶ Estimated market size: US\$18.5b
- ▶ Top three most active industries in CSE (by volume):
 1. IT (103 deals)
 2. Manufacturing (79 deals)
 3. Services (64 deals)
- ▶ Top three most active industries in CSE (by average deal value):
 1. Chemicals (US\$193m)
 2. Real estate (US\$180m)
 3. Entertainment (US\$100m)
- ▶ Average deal size of deals over US\$100m: US\$359m
- ▶ Average deal size of deals below US\$100m: US\$11.3m
- ▶ Number of deals over US\$100m, as percentage of total deal volume: 4.1%
- ▶ Disclosure rate of transaction value or deal size: 41.8%*

*Applying this disclosure rate, we estimated the total transaction value of the M&A market for each country.



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Number of M&A transactions in CSE

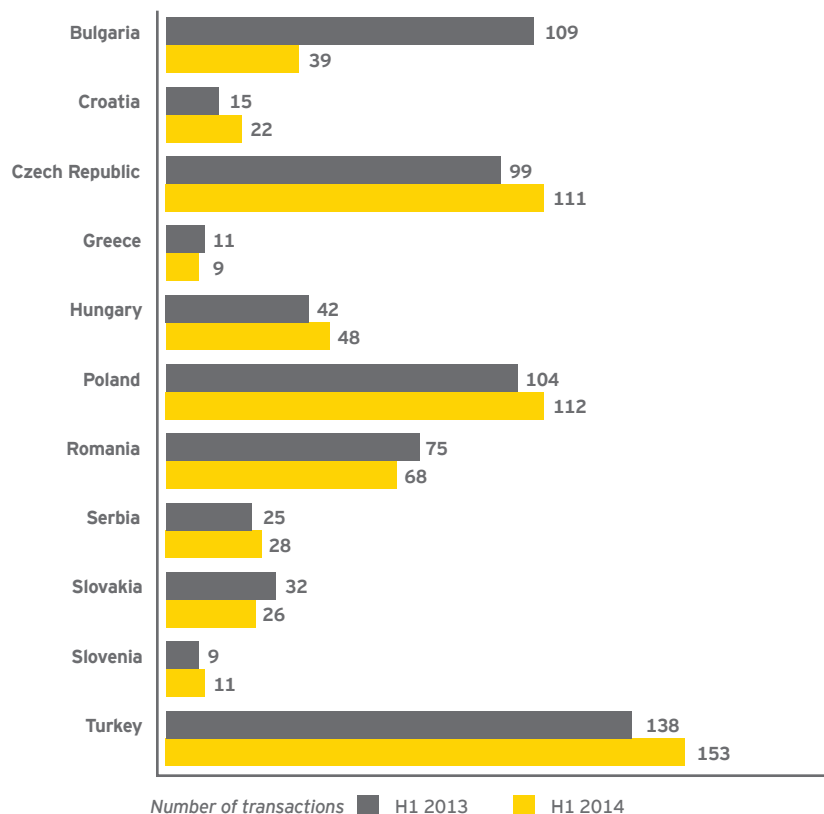
Turkey was the most active country in terms of deal volume in H1 2014, closing 153 transactions during the respective period.

It was followed by Poland and the Czech Republic, closing 112 and 111 deals respectively.

Seven of the countries experienced increased M&A activity in terms of the number of transactions in H1 2014, although the overall transaction volume decreased in comparison with H1 2013.

The total number of transactions was 629 in the region in H1 2014, representing a slight 4.6% decline compared with H1 2013.

The main reason for the decreased overall activity is the significant drop in the volume of deals in Bulgaria, where 39 deals were closed in H1 2014, representing a 64.2% decrease compared with H1 2013.

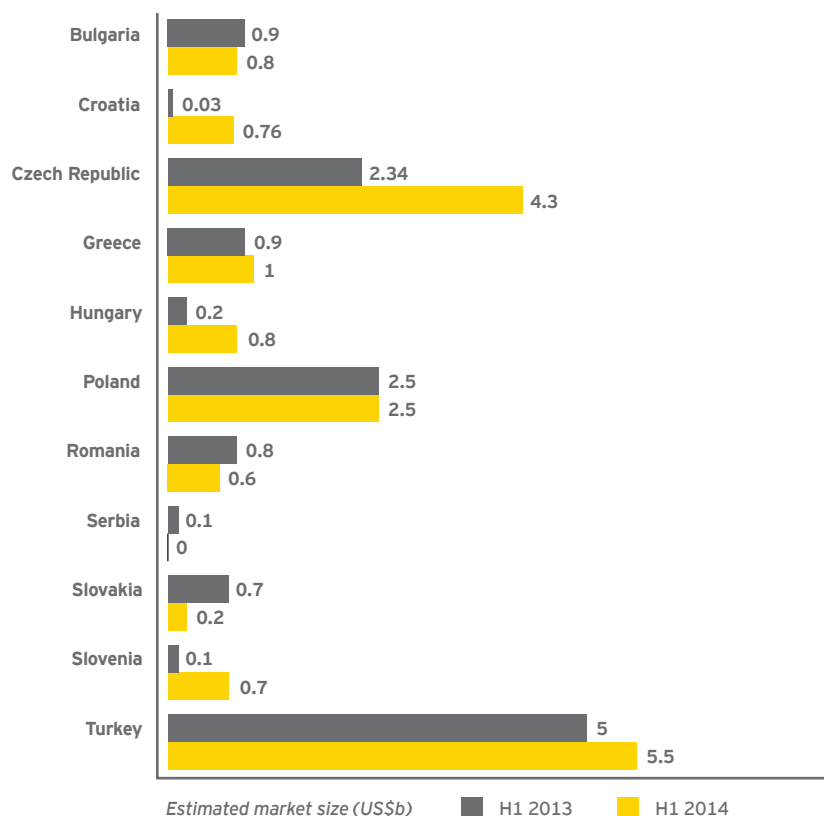


Estimated transactions value of the CSE market

The total H1 2014 estimated transaction value in the CSE market was US\$18.5b, up 35.9% from the previous year. This growth can mainly be attributed to a US\$1.9b increase in the Czech Republic's estimated market size as a result of one megatransaction that exceeded US\$1.6b. Turkey ranked first with an estimated value of US\$5.5b, followed by the Czech Republic (US\$4.3b) and Poland (US\$2.5b).

Croatia experienced the highest growth in H1 2014, where the market increased to US\$0.76b in H1 2014 from US\$0.03b in H1 2013.

The estimated market size also increased significantly in Slovenia and Hungary, but it decreased in Serbia, Slovakia, Romania and Bulgaria.

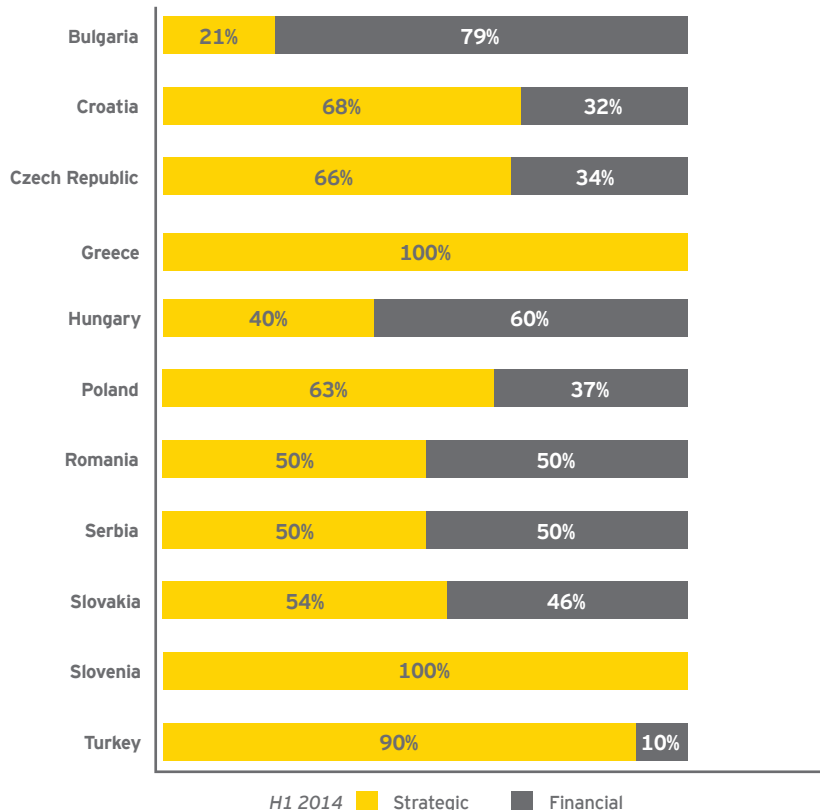


Investor population – strategic and financial

The vast majority of deals were closed by strategic investors in all countries, except for Bulgaria and Hungary, resulting in an overall proportion of 65% in the region.

The share of financial investors was the highest in Bulgaria and Hungary, where financial deals were responsible for more than 60% of the market, followed by Romania, Serbia and Slovakia.

The share of financial investors in Bulgaria was high due to the significant increase in the number of transactions executed by private individuals in H1 2014. On the other hand, in Hungary, the reason for financial deals dominating the market is the enhanced activity of the JEREMIE (Joint European Resources for Micro to Medium Enterprises) venture funds that have to commit their resources by the end of 2015.



Direction of transactions

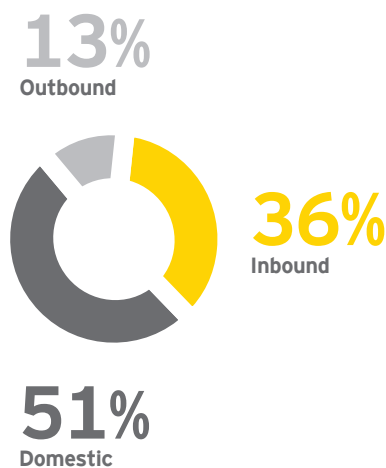
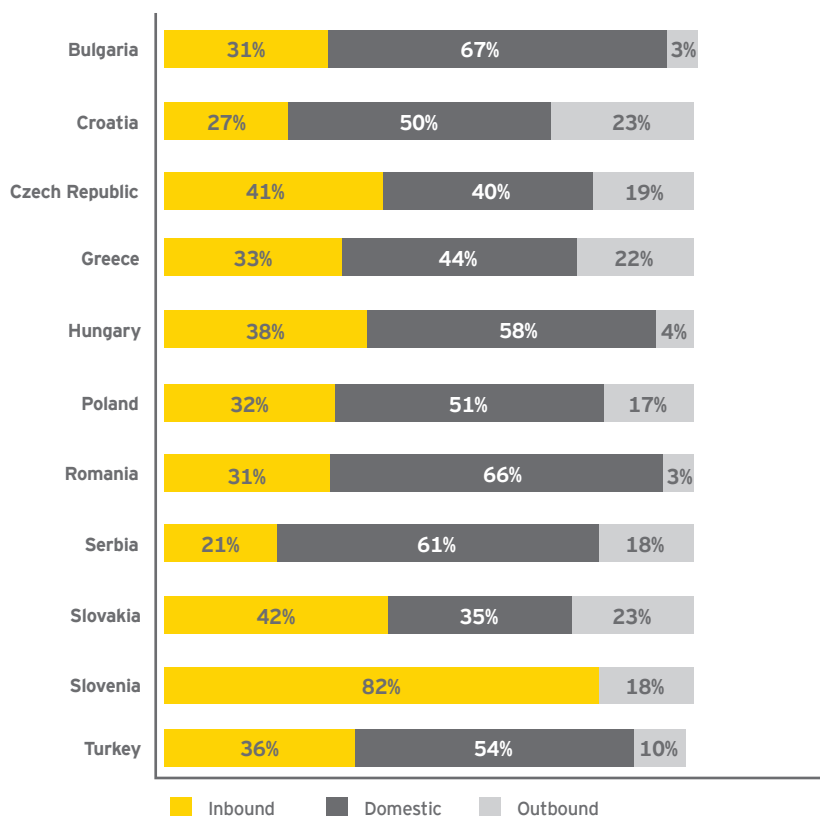
Domestic transactions were in majority in the CSE transaction market in H1 2014, as in 51% of the total number of deals, the buyer and the target originated from the same country. However, this represents an 8% decrease compared with H1 2013. Outbound transactions were more popular than in the previous year, as their share increased by 5% to 13%.

Domestic transactions were most popular in Bulgaria (67%), Romania (66%) and Serbia (61%).

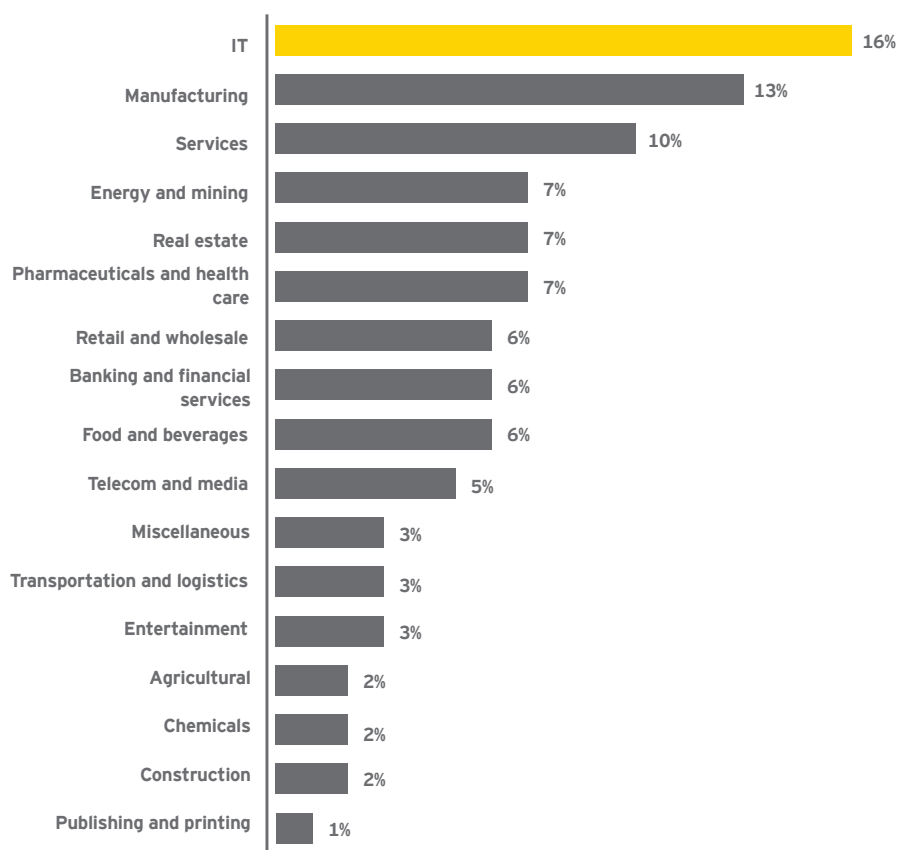
The Czech Republic had the highest number of outbound transactions (21 deals), followed by Poland (19) and Turkey (16).

The proportional share of outbound transactions was the highest in Croatia (23%), Slovakia (23%) and Greece (22%).

The proportional share of inbound transactions was the highest in Slovenia (82%), followed by Slovakia (42%), the Czech Republic (41%) and Hungary (38%).



Sector analysis



Target country	Industry
Bulgaria	Real estate
Croatia	Banking and financial services
Czech Republic	Real estate and services
Greece	Real estate
Hungary	IT
Poland	IT
Romania	IT
Serbia	Manufacturing
Slovakia	Other
Slovenia	Manufacturing
Turkey	Manufacturing

IT and technology

The IT sector was the most active target industry (by number of transactions), accounting for 103 deals and 16% of all transactions in H1 2014. The largest transaction in this sector was the acquisition of the Polish internet portal operator Wirtualna Polska by O2 sp, z o.o. for US\$125m. The average value of deals with a disclosed deal value in this sector was US\$11m in H1 2014.

Manufacturing

The IT sector was followed by manufacturing with 79 closed deals in H1 2014. The largest deals in this sector included the Evraz Vitkovice Steel, a.s. acquisition by the UK-based Martinley Holdings Ltd for US\$287m and Bulgartabac Holding's acquisition by Livero Establishments for US\$178m. The average deal value in this sector was US\$22m.

Services

The third most active sector was services, closing 64 transactions in H1 2014. Some of the largest transactions included Marmara Depoculuk Hizmetleri's acquisition by Shell & Turcas Petrol for US\$46m and DGM Minerals Corporation's acquisition of City Self-Storage s.r.o. for US\$19m. The average deal value of disclosed deals in this sector was US\$8m.

Energy and mining

Forty-seven deals were closed in energy and mining, the fourth most active sector in H1 2014. The largest transactions in this sector included the Polish PKN Orlen acquisition of the Canadian Birchill Exploration Limited Partnership for US\$236m, Turkish Petroleum Corporation's acquisition of BaiTex LLC for US\$175m and Rafineri Holding's acquisition of Socar Turkey for US\$59m.

Real estate

The real estate sector was the fifth most active in H1 2014 with 45 closed transactions. The largest transactions in this sector included some of the largest transactions in the whole region, such as Materali a.s. (Radovan Vitek)'s acquisition of GSG Group for US\$1.7b, Invel Real Estate & York Capital Management Global Advisors LLC's acquisition of NBG Pangaea Real Estate Investment Company for US\$899m and Deutsche Asset & Wealth Management's acquisition of the Rondo 1 Office Building in Warsaw for US\$411m.

In terms of value, the largest transactions occurred in the chemicals, real estate and entertainment sectors.

Each country had its own favored industry; however, IT and manufacturing ranked first in most countries, while real estate was also an active sector.

Foreign interest

Although there were fewer foreign inbound deals compared with domestic deals, in terms of the origin of foreign capital invested in CSE by M&A transactions, Western European and non-European investors continued to lead against investors from CSE countries in H1 2014.

The United States was the most active in H1 2014, closing 38 deals in the region, followed by the UK (19), Germany (18) and Austria (12).

Germany (6), USA (5), Sweden (2)
France (2), Greece (2)

UK (7), Austria (5)

Germany (5), Netherlands (4)

Czech Republic (4), US (2)

USA (4), UK (3), France (2)

Croatia (1), Austria (1)

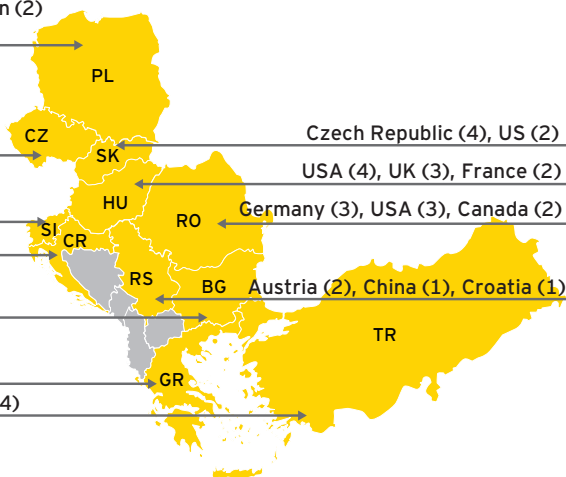
Turkey (2), Austria (1)

Germany (3), USA (3), Canada (2)

USA (4), UK (3), Italy (1)

Israel (1), UK (1)

USA (12), Japan (5), France (4)



Ten largest transactions in CSE in H1 2014 (US\$m)

Target	Country of target	Buyer	Country of buyer	Value
GSG Group	Germany	Materali a.s. (Radovan Vitek)	Czech Republic	1695
NBG Pangaea Real Estate Investment Company	Greece	Invel Real Estate & York Capital Management Global Advisors LLC	Israel	899
GTS Central Europe	Poland, Czech Republic, Hungary, Romania	Deutsche Telekom AG	Germany	743
Cinema City International N.V.	Poland, Czech Republic, Hungary, Bulgaria, Slovakia, Israel	Cineworld Group plc	United Kingdom	562
Rondo 1 Office Building	Poland	Deutsche Asset & Wealth Management	Germany	411
Helios, Tovarna barv, lakov in umetnih smol Količevo, d.o.o.	Slovenia	Ring International Holding AG	Austria	338
Tekstilbank A. Ş	Turkey	Industrial & Commercial Bank of China Limited	China	316
Evraz Vitkovice Steel, a.s.	Czech Republic	Martinley Holdings Ltd.	United Kingdom	287
SPAR Ceska obchodni spolecnost, s.r.o.	Czech Republic	Koninklijke Ahold N.V.	Netherlands	266
Birchill Exploration Limited Partnership	Canada	PKN Orlen	Poland	236

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EYG no. DE0571
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