Economic **summary** from **experts** for business

CEE Expert Report

1Q2021

FORDATA®

Edition #3. Spotting a new start.

The implementation of the COVID-19 vaccine was a breakout in the fight against coronavirus. It has also reinforced the sense of stability in the markets on their way to normalization. But even before the vaccine, the M&A sector had shown signs of growth now observed throughout the CEE region. Along the investment needs created by the pandemic, there are solid factors for development at place, which seem separate from the still ongoing covid crisis. But what exactly shaped the growing mergers & acquisitions market in the beginning of 2021?

The third edition of FORDATA CEE Expert Report tries to slightly stray away from the pandemic discourse - to a reasonable extent, of course - to allow us to search for certainties in the region. As the pandemic still plays a great role in consumer behavior and it propels digitization of practically all sectors including many brick and mortar industries, not all market-shaping forces are dominated by it, and they gain in importance.

The new year, the noticeable market growth, and the beginning of the pandemic's end - could they be the markers of another chapter in this story? We cannot be quite sure yet, hence the addressing of some sort of searching in this report's title. As we are trying to spot **a new start** of the CEE economies - the umbrella topic of the FORDATA CEE Expert Report's third edition - let us ask some key questions.

What shapes the market and the way deals are made right now? Did pandemic change anything for good? Which sectors are most and least prospective? In what ways 2021 will be different from 2020? We will try to look for the answers together - in the report and in the follow-up webinar.

Thank you to all of this edition's experts and their team members. In this busy period, you found time to write up the latest news and comments from your industries, and joined the publication once again.

You, the Reader, can share your experiences too under the **#ceeexpertreport** tag.
We will be more than happy to get involved in discussion!

Aleksandra Prusator

Member of Board,
Sales & Marketing Director at FORDATA

Summary

Pandemic is still in the minds of market-makers but it does not cause the same level of uncertainty as one year ago. A significant increase in the number of deals in the CEE region is expected in 2021, as its first quarter already showed signs of rebound. This growth is supported by a better understanding of how to navigate the dealmaking process remotely, how well-organized companies themselves are, the extent to which they were struck by the pandemic, the efforts made to alleviate the effects of lockdowns by governments, and by the overall economic condition of particular countries.

TMT sector is expected to be one of, if not the top industry to grow in 2021 in CEE due to the demand for digitization throughout all sectors, little vulnerability and scalability. By acquiring tech enterprises, companies can realize their strategic goals of diversification, strengthening supply chains, online expansion, innovation and efficiency.

Among hot targets, there are also healthcare, financial services and renewables. Depending on the scale of the coronavirus threat further in 2021, industries such as hospitality and travel can see a rebound as well.

As distressed assets still add to the growth of M&A market, investors with better access to capital - be them enterprises or PE/VC funds - will look more to assets that promise future development and they are now more likely to take calculated risks. There is an enormous amount of dry powder ready to be used, which makes these investments all the more possible.

As CEE economies continue their development, M&A is becoming a more and more attractive way to scale up, diversify, expand or re-strategize business to the extent seen in the mature Western-European markets.

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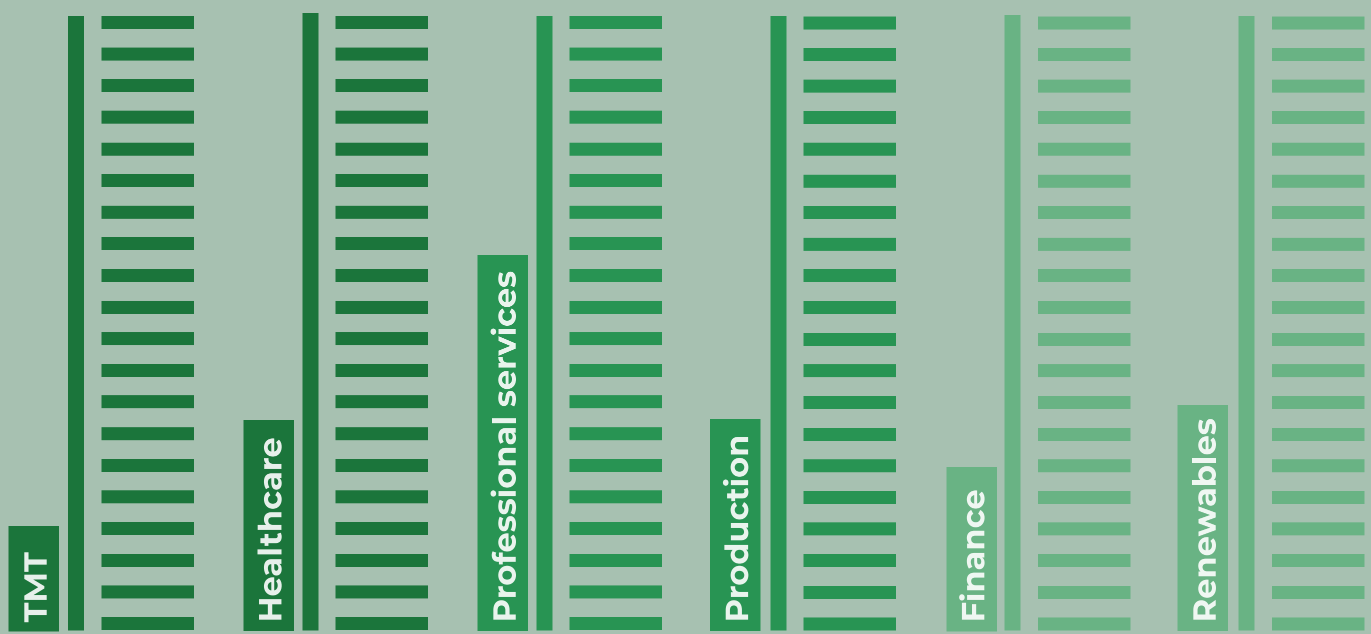
- As technology drives growth, efficiency, innovation and digitization of the economy across industries, tech companies will continue to be cross-industry M&A targets this year.
- Private equity firms will again be a driver of M&A activity in 2021. The market conditions offer interesting opportunities for primary transactions as well as for sponsor-backed transactions.
- As far as exits are concerned, IPOs seem like a more likely option for companies versus trade sales as valuations remain volatile in the European market, and will take some more time to normalize.
- M&A market is indicated as one of the factors that may affect the development of the Polish economy in medium-term forecasts, mainly due to demographic changes that force companies to find new ways of generating revenue.
- Based on the market data, first quarter of 2021 shows y/y increase of number of deals closed not only in CEE, but in all major markets, despite overall significant limitations.
- There is a high number of investors with a lot of cash to spend. The interest rates are still low and there will be distressed sales at place.
- Polish companies have stepped up consolidation that will allow them to expand their product offer, centralize services and shorten supply chains, while focusing on online growth at the same time.

The most attractive acquisition targets in CEE right now*



* shown by color intensity

Torsten Adam

Founder & Managing Partner at ARTEMIS Group

Adam has more than 25 years of work experience in Mergers & Acquisitions, Corporate Finance and Advisory Services. His core competencies are in M&A transaction management, cross-border projects, structured and project finance as well as advisory services. He has been involved in numerous projects in the sectors such as automation & industrial engineering, renewable energies, agriculture, food & beverages and financial services. Mr. Adam was responsible for various cross-border M&A transactions with involvement from Asia, Africa, Americas and Europe, including CEE.

M&A is all about confidence. The Covid-19 pandemic destroyed all confidence in the first half of2020. Global M&A activities dropped significantly – especially in the western hemisphere. At thesame time as the market participants were gaining back confidence in overcoming the pandemic in the long run, the recovery of the global M&A started, too.

The M&A market in 2021 couldn't be more different than last year. With all elements for an active M&A market, most market participants assume that the market recovery that already began in the second half of 2020 will accelerate in 2021. Looking ahead, the M&A market in 2021 is going to be characterized by the following trends:

Rebound of COVID-19 effected sectors

The 2020 M&A activities diverged across industries. Sectors least affected by Covid-19 have shown the most activities in 2020, especially tech and healthcare. Meanwhile, deals were more rare in sectors which have been directly affected or had a tremendous increase in organizational challenges. Especially mid-market companies have been more focused on a day-by-day management than evaluating strategic options. But in 2021, industries with greater visibility and predictability for balance sheets, revenues and earnings will begin to recover first. In sectors with significant uncertainty about the short- or medium-term outlook will start the rebound later.

Market position and Investing in technology

The turbulent business environment over the past year has proven three things: scale (of course to a certain extent), diversified footprint and technology matters. Operational scale, diversified product, international market access and better access to capital markets has been a big benefit for well-established mid-market companies across the board.

During the resilience process in 2020, companies will continue to focus on accessing capital and strengthening their positions. In 2021, consolidation and expansion of global footprint can continue in various sectors including technology, healthcare and financial services. As technology drives growth, efficiency, innovation and digitization of the economy across industries, technologies companies will continue to be cross-industry M&A targets this year – also in collaboration with venture capital activities of companies.

The M&A market in 2021 couldn't be more different than last year

Recovery in cross-border M&A

Cross-border M&A activity collapsed in 2020, after a decline in the second half of 2019. Covid-19 was the final addition to pre-existing uncertainties due to global geopolitical tensions, Brexit, the US presidential election and continued regulatory scrutiny in certain sectors. With significant restrictions on global travel, corporates were reluctant to conduct virtual due diligence in foreign jurisdictions. However, due to the ongoing change in the global economy, the international goals will come back into focus. Corporates are still looking to increase global footprint and strengthen their supply chains. This will lead to a recovery in cross-border deal-making, despite regulatory scrutiny in certain sectors.

Access to capital and low capital costs

Based on a global economic rebound the current financial market conditions still provide many corporates access to low-cost capital and provide tailwinds for the M&A market in the next month. Especially market leaders and companies with future/digitally oriented business models will benefit from these conditions. At the same time, corporates with difficult business models or already in a distressed situation will lack necessary capital resources. The pressure to sell or divest will continue to increase and accelerate the market.

Capital from private equity

Private equity firms will again be a driver of M&A activity in 2021. The market conditions offer interesting opportunities for primary transactions as well as for sponsor-backed transactions. According to different market research institutions, by the end of 2020, financial sponsors have a record dry powder of US $ 2.9 trillion. This sheer amount of dry private-equity powder could enable sizeable leveraged buyouts on the one hand, and significant numbers of midsize transactions on the other. Due to this trend, company valuations can also remain at a stable level.

Overall, more and more corporates feel comfortable taking calculated risks and driving their M&A agenda forward to shape the future of the company. Mid-market companies are now more comfortable with the pandemic than they used to be. M&A targets, on the other hand, will come from a growing pool of sellers — businesses struggling during the recession, private investors always thinking about holding periods and exits, and companies rethinking theirs strategy and not going to separate non-core business assets.

M&A remains one of the most compelling ways to meet buyer and seller goals, making 2021 another potentially busy year.

Michal Tesař

Partner & Co-owner
of NEWTON Business Development

Michal has been active in the CEE M&A activity for about 20 years. He is the Partner & Co-owner of NEWTON Business Development, a Prague based investment boutique, part of Pandion Partners which is an M&A-focused international advisory Group with 20 members around the globe. Michal is not only leading the M&A practice, but also the Public Infrastructure Advisory segment at NEWTON. Besides, he is a Director at Pandion Partners responsible for expansion, where he has doubled the Group in the span of 3 years.

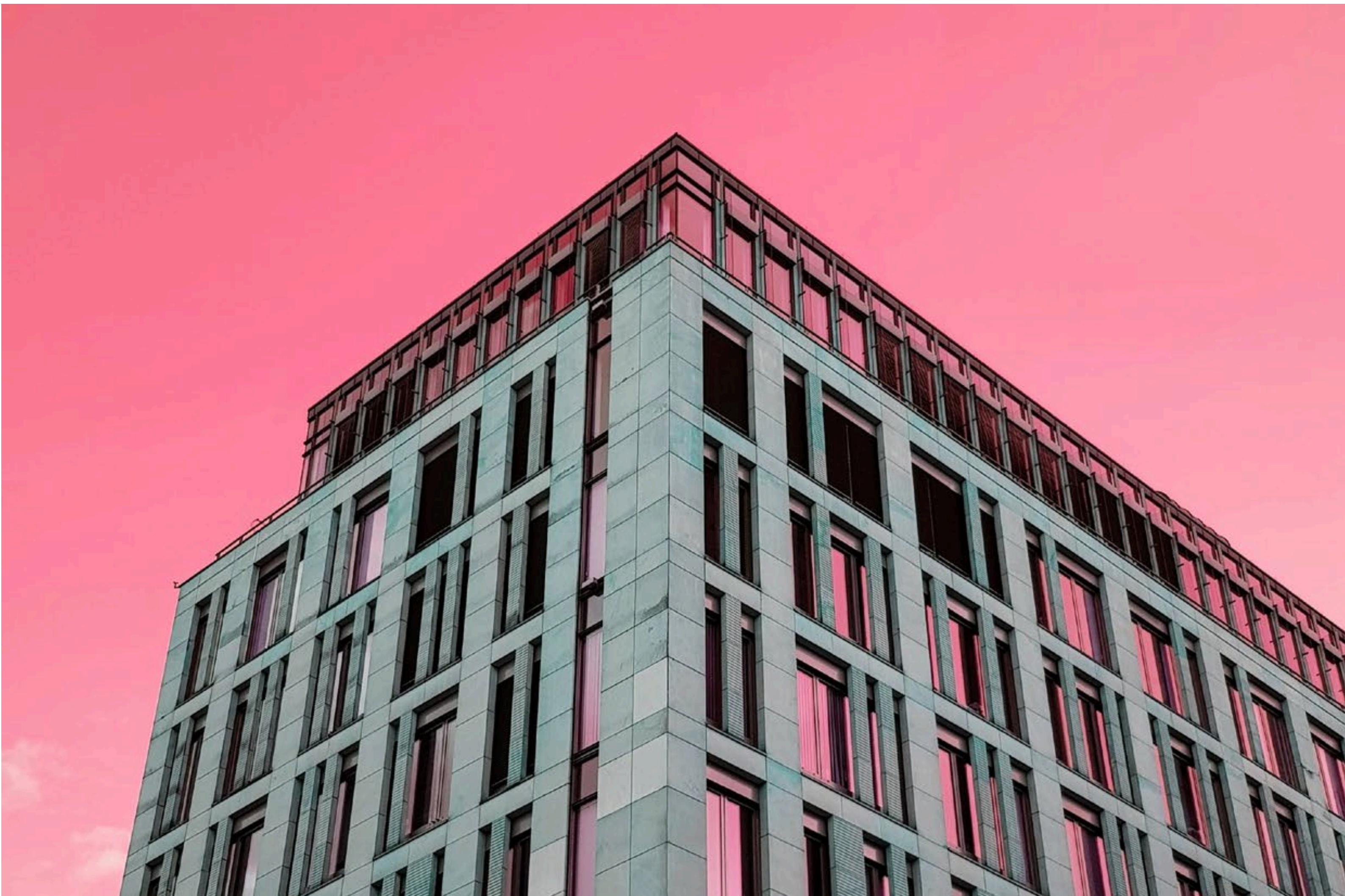
Q1 proves positive 2021 outlook

Based on the market data, first quarter of 2021 shows y/y increase of number of deals closed not only in Central and Eastern Europe, but in all major markets. That is happening despite significant limitations in the overall economy and society. The market activity is driven by the sectors, which have not been hardly hit by the COVID-19 crisis. Sellers and buyers were firstly cautious last year as the uncertainty was extremely high. Once the central banks and governments started to provide huge financial support, the frozen market has been opening up. That was followed by a learning curves how to make a transaction without physical meetings and inspections. It is resulting in strong deal flow now and very positive outlook for the whole 2021.

Naturally, there are more transaction favourable segments thanks to the current situation. Namely Information Technology is one of the hot ones. A deal that we are working on at Pandion can be shown as an example. It is the acquisition of a Czech based IT company Servodata by expanding Romanian-based Bittnet Group that we advise with. Bittnet is traded at Bucharest Stock Exchange and utilises good investors mood for the segment. That allows to raise funds for international expansion.

Besides IT, we are working on several other deals in hot sectors like e-commerce and renewables, but also in a very traditional district heating. Even if I still expect the coming-out of cumulated negative COVID-19 effects once less governmental and central banks support will become reality, the general outlook for M&A transactions remains positive in 2021.

The general outlook for M&A transactions remains positive in 2021



Jan Slabý

Parnter at ECOVIS Corporate Finance

Jan has gained experience in investment banking in the Czech Republic and Slovakia since 1996. Before he joined ECF, Jan had spent more than five years with WOOD & Company, where he worked in the Corporate Finance department. He obtained a lot of experience with M&A transactions. He was involved in significant transactions in various sectors in the Czech and Slovak economy. Jan also worked in China for a year as the head of the analytical department and a project manager for PPF Investments.

Global data show that the M&A market has shaken off most of uncertainties and fear of the COVID situation. Based on Mergermarket report, overall value of M&A transaction more than doubled in 1Q21 compared to the same period of 2020, reaching as much as USD 1.2 trillion. This was a record first quarter since 2006. This was, however, primarily caused by a number of large deals. The statistics present that there were 47 transactions with a size of USD 6 billion or above. Due to this fact volume of M&A deals was up in a year-on-year comparison by only 6%.

Though small, this still is growth and a good sign showing that confidence has returned to the M&A market. We also see the increased activity in the mid-sized segment. Some deals may have been delayed by COVID restrictions and their closing postponed. But there is an inflow of new opportunities. We still expect higher failure rate compared to the pre-COVID era as a number of target companies have been hit by the previous months. Sometimes, it is difficult to evaluate the impact - was it really a one-off drop caused by the unexpected event or has it uncovered any structural failure in the respective business?

There are unfortunately some negative effects seen on the market. Interest rates are on rise, so are prices of raw materials and commodities. These factors push the inflation up. In addition, some industries face a lack of supplies to meet the demand. Delivery times prolonged. Banks are very cautious when financing any small- to mid-sized transaction.

On the other hand, even such factors bring new challenges and opportunities. For instance, we can see the increased M&A activity in low margin sectors, such as facility management. This activity has been driven by a consolidation story which creates some cost synergies, hence improved profitability of the business.

E-commerce and related businesses recorded extraordinary jump

Some industries, such as telecommunications or IT (including cloud, IoT and similar solutions), proved to be resistant or even fuelled by recent months' troubles in the overall economy. E-commerce and related businesses, such as parcel delivery, recorded extraordinary jump. As a result, such companies may seek exit opportunities or new capital to cope with such a growth.

We hope and believe the worst is behind us. And we expect 1Q21 positive figures to be confirmed by following months throughout the whole 2021.

Andrew Thompson

Capital Investments Director at Colliers

Andrew joined Colliers International in 2015 as Director for Capital Markets for the Czech Republic and Slovakia, having worked for 15 years in senior real estate roles where he successfully led various award-winning departments and businesses. Andy focuses on structuring and executing real estate sales and providing due diligence services.
He differentiates his service through long term exposure to the Czech/Slovak markets and exceptional client care and attention to detail.
Andy is an active member of the Member Royal Institution of Chartered Surveyors (MRICS).

Covid 19 has encouraged people to make life changes. One such change is to get back in touch with their health. Orders of sporting goods such as home gym equipment have ballooned. Mental health issues are widely discussed and debated. This is all great but what does this have to do with real estate?

For the last two decades in CEE, developers have increasingly sought to minimise the impact of their buildings on the environment. The most progressive developers have embraced BREEAM and LEED type certifications in the pursuit of such a goal. Some of these approaches have helped improve energy efficiencies and reduce operating costs. But does it all really shift the needle? Is it time for a new start?

Can an employee's performance be maximised in a way that benefits both the employee and the bottom line? New research goes to the very heart of what it means for humans to operate in buildings and science is finally catching up with real estate. It's time for new ways to differentiate office buildings – well beyond the traditional selling features of location, floorplates, specifications and rent.

The future will be as much about the quality of the environment as the impact on the environment. Buildings will need to be better. The quality of the air, including anti-viral technology, is one such quality - but it's by no means the only one. It's time for a new start. A healthy start.

It's time for new ways to differentiate office buildings

Alicja Kukla-Kowalska

Head of Sales EMEA at FORDATA

Alicja is a graduate of the Gdańsk University of Technology, the University of Economics and the WSB University in Poznań, she is responsible for managing key clients and sales development in the international M&A markets. Alicja has many years of managerial and sales experience in the IT and Data Security market in the EMEA region, now helping companies realize various processes with the use of the Virtual Data Room software. She is the author of quarterly commentaries in the M&A Index Poland Report, published by FORDATA in cooperation with Navigator Capital, where she summarizes the activity and trends on the local M&A market.

The situation on the Polish M&A market is currently very dynamic. In the first quarter of this year, we recorded a record number of 76 transactions, many of which are stimulated by the ongoing pandemic. This is especially true of the e-commerce sector and TMT services, where we could see the overlap between long-term investment strategies of development and short-term strategies of supporting supply chains and sales in the context of pandemic restrictions. IT companies practically do not leave the top of the podium of the most willingly acquired entities and this should not change in the nearest future. However, the online market is growing despite lockdowns as consumer preferences are changing and they are more and more willing to choose this purchasing channel. At the same time, the trend of digitization in virtually every branch of the economy is developing, which gives IT companies a significant advantage.

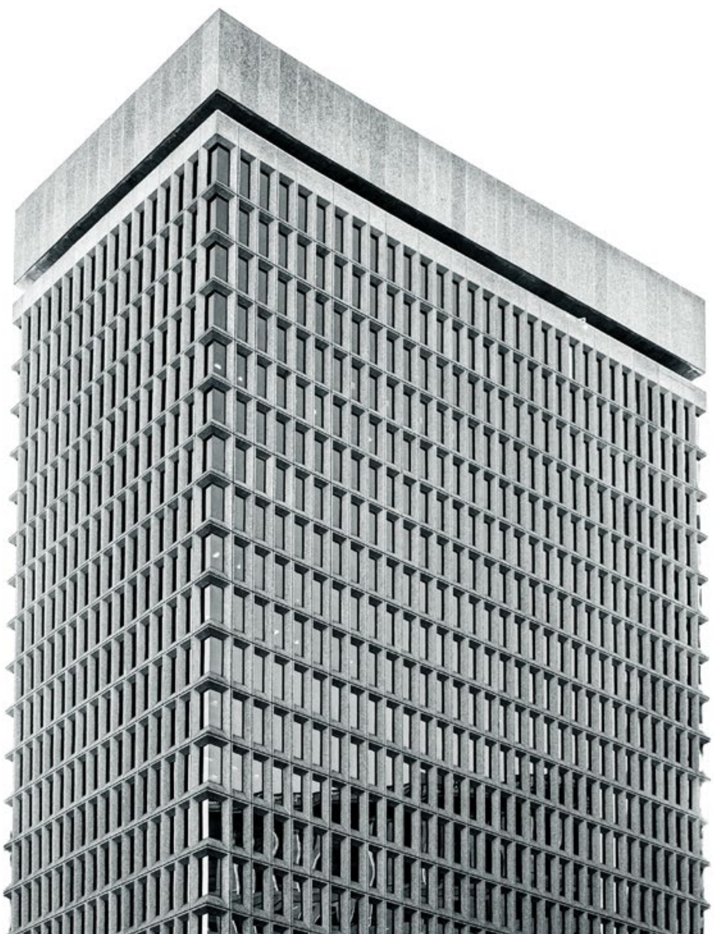
In addition to the TMT sector, investors are now keen on life science and services, which accounted for 13% and 12% of acquisition targets in the first quarter, respectively. The past quarter was unique in terms of pinpointing investor sentiment as a similar scenario has emerged in nearly every industry: companies have stepped up consolidation that will allow them to expand their product offer, centralize services and shorten their supply chain, while focusing on online growth at the same time.

Regrouping is now taking place, which clearly translates into activity on the mergers and acquisitions market and positive forecasts for its further growth. In 2021, we can also expect a large share of the manufacturing industry in the transaction structure, which is constantly targeted by foreign investors.

The past quarter was unique in terms of pinpointing investor sentiment

As for the PE / VC funds, which woke up in late 2020, they are still looking for their investment opportunities, despite higher company valuations and uncertainty remaining in the most sensitive sectors of the economy. Their share on the buyers' side should therefore be significant in the coming periods.

As the digitization process continues, we are also noticing an increased use of the VDR tool outside the M&A sector. SMEs and law offices now utilize it more often in projects that involve only one addressee of confidential documents, such as the tax office or development fund.



Daniel Janecek

Senior Manager at PwC Czech Republic

Daniel has been within the M&A industry for almost 12 years. He started his career in the in-house M&A of CEZ Group, a Czech utility company. Since 2013, Daniel has been with the M&A team of PwC Czech Republic.

2020 was a very special year from transactions' perspective. Although the activity was for most of the year quite high, the total number of deals closed was significantly lower than in 2019 – there was about year-on-year 20% decrease in the Czech Republic.

In 2021, we expect to see a growth in the number of transactions. Although many reports from across the globe predict the pre-COVID levels will be reached or exceeded this year, for our market, we are not sure whether the activity will be so strong. On the one hand, there is a high number of investors with a lot of cash to spend, the interest rates are still low, there will be distressed sales etc. Also, some transactions were put on-hold or delayed because of the pandemic and these may restart in 2021. On the other hand, the uncertainty remains and is perceived not only by the buyers and sellers but by the financing banks as well.

From industry perspective, we expect that transaction activity concerning industries which were most affected by COVID, like hospitality or passenger transportation, will show a strong rebound once the pandemic is under control. In any case, we can be sure 2021 will again be a very special year.

There is a high number of investors with a lot of cash to spend

Harmeet Dhiman

Senior Private Equity Analyst at Rocsearch Limited

Harmeet currently works as a Senior Private Equity Analyst at Rocsearch Limited, a boutique research and consulting firm based out of the United Kingdom. He has over two years of experience across M&A, private equity consulting, deal advisory and investment research and is a keen follower of the alternative investment industry.

Another wave of the coronavirus has diminished the positive outlook of the business recovery across Europe. However, M&A activity, especially private equity investment is expected to stay on the upward trajectory as dealmakers have adjusted and adapted to the deal process remotely. There is an increased focus on environmental services and compliance solutions' companies as these industries have risen to much more prominence and importance over the last one year or so. There have been a lot of investments and ever-rising interest in infrastructure assets and brick and mortar retail assets as well by PE firms. Not only has there been interest in assets and businesses, that are under restructuring or performing weakly but strong positive cashflow assets have been on the radar for many investors.

KPMG UK has reported its best ever quarter, during the months of Jan-Mar in 2021 in terms of the deals that they have advised on. Other investment banks, consulting firms and M&A advisors have also seen M&A activity spur up since the beginning of 2021, across all sectors and industries. The global economy is expected to face a similar, restricted 2021 similar to that of 2020 but the investment appetite of private equity firms will remain at large. Access to more capital and existing dry powder will be key drivers to drive investment up in Europe. As far as exits are concerned, IPOs seem like a more likely options for companies versus trade sales as valuations remain volatile in this market, and will take some more time to normalize.

Investment appetite of private equity firms will remain at large

Piotr Kucharczyk

M&A Director at JP Weber

Piotr has over 10 years of experience in implementing international and domestic projects in the field of mergers and acquisitions and corporate finance for companies from the manufacturing, IT, service and pharmaceutical sectors. He was responsible for the development and management of the Warsaw office of one of the leading consulting companies. He has been holding the international CFA title since 2015. He is the co-author of the JP Weber report “Barometer of the Private Equity and Venture Capital Industry” prepared under the patronage of the Polish Private Equity and Venture Capital Association (PSIK) in 2020.

Mergers and acquisitions - a driving force behind the development of the Polish economy in the coming years

Everything indicates that the recession, both for Poland and the entire European Union, will end with 2020. The latest forecasts of the International Monetary Fund indicate a more than 3% increase in the value of Poland’s GDP this year. Is the upcoming economic prosperity also an opportunity for faster development of the M&A market in Poland, as well as in the entire Central Eastern Europe region? It is, although it is influenced by more factors than the economic situation itself.

Poland as an M&A centre in the CEE region?

According to data collected by Pekao economists, in 2019 every third M&A transaction in the CEE region was carried out in Poland. Will the fact that Poland is the largest economy with the largest population in the region automatically make us a leader in the M&A market in Central and Eastern Europe?

The correlation between the size of a given market and the number of mergers and acquisitions carried out seems quite obvious, but by analysing the data we can discover that this is an illusory relationship. An example of this may be the comparison of M&A market activity in Poland, the Netherlands, and Denmark. These markets differ greatly in terms of population - Denmark has 5.8 million inhabitants, Netherlands has 17.2 million, and Poles number almost 38 million.

The analysed data collected by Mergermarket on M&A transactions on individual markets shows that Poland may set itself the goal of catching up with both countries. While in Poland in 2020 there were 173 transactions, in Denmark and the Netherlands it was 431 and 879 respectively.

Poland is still young and immature capitalist economy

Interestingly, the above analysis also shows that the economic situation in a given country is not directly proportionate to the number of transactions. Comparing the GDP growth rate in Poland, Denmark, and the Netherlands, it can be seen that the Polish economy has consistently achieved the highest value since 2018. Also nominal GDP is not the clue, because this value for Poland is higher than in Denmark and lower than in the Netherlands.

So what determines the high level of activity in the M&A industry? An analysis of GDP per capita, the lowest of which is in Poland among the analysed countries, can lead us to the correct answer. This also shows that Poland is still young and immature capitalist economy. Polish entrepreneurs are not used to merger and acquisitions activities as a part of their business development, however, the changes that are taking place in Polish economy, soon will lead them to consider M&A as profitable scenarios.

Is prosperity the key to more M&A activity?

It is the mergers and acquisitions market that is indicated as one of the factors that may affect the development of the Polish economy in medium-term forecasts.

This is mainly due to demographic changes that force companies operating in Poland to find new ways of generating revenue. The current pattern of enterprise development was based on increasing employment which, in the coming years, due to the decreasing number of Poles of working age, will be significantly more difficult to implement.

These are the challenges that countries from so-called Old Europe have been facing for years, including the Netherlands and Denmark. The ways to build revenue growth and increase the efficiency of companies operating in these markets are geographical expansion and industry consolidation.

Mergers and acquisitions are crucial for both of the above strategies and this is the reason why we expect the industry to grow in the coming years both in Poland and the entire CEE region. Currently, the Polish IT sector is showing the greatest transactional activity but there is no doubt that in the coming years other industries looking for a further development path will lean towards M&A.

CEE Market Barometer in 1Q2021

1. The level of uncertainty is reduced
2. A visible growth in deal numbers is seen in Q1
3. Dry powder should further boost investments
4. TMT, healthcare and services are the top industries
5. Businesses strengthen supply chains and online presence
6. Cross-border dealmaking is bound to recover
7. Good business condition influences M&A activity
8. Adaptation to remote dealmaking is stronger
9. Digitization propels domination of tech sector in M&A

Thank you for reading the third edition of the FORDATA CEE Expert Report. We wish your business success in the coming months and years, as the pandemic ceases to shape investors' mindset. Economic environment has become more tangible and less unpredictable, and we hope it will prove advantageous.

We hope that you will share this report with professionals from your circle. Our goal is to connect experts in different fields and from different countries, and create a lively platform for discussion on the CEE economy. Please follow FORDATA LinkedIn page and the **#ceeexpertreport** tag to join us.
FORDATA is a Virtual Data Room software provider since 2009. We help companies and experts securely share confidential documents and information in various processes. Our aim is to promote best business practices, bring closer the topic of online security and make data sharing in the B2B sector faster, secure and more convenient.

FORDATA has prepared detailed quarterly reports on Polish M&A market since 2013. Together with invited experts, we published The Code of Best Transactional Practices and The Code of Best Restructuring Practices as part of our For Better Data Flow campaign in 2015 and 2016.

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