Economic summary from experts for business

CEE Expert Report 2021

FORDATA®

Edition #4. Thoughts on continuity

The year 2021 was one of the most successful for the CEE markets if we consider the local M&A activity. As the high number of deals was significantly propelled by the inflow of transactions frozen in 2020 and then revived, there was no doubt about the overall good condition of this sector. But how good was it, really?

At the beginning of the year we tried to search for marks of the “new start”. Alleviated with the release of the C-19 vaccines, market uncertainty backed away to an extent that allowed a more optimistic prognosis of what was about to come. And it turned out to be, generally, true. Throughout the entire year we observed several recurring factors interlace pending M&A projects. These were, among other, company owners’ inclination toward selling due to lack of succession, forced restructuring, boom of e-commerce and the need for TMT services shaping the market landscape. All that happening against the backdrop of CEE economies’ maturing and the necessity of proper regulation.

How can this year of solidifying be described? In the fourth edition of the CEE Expert Report we decided to focus on continuity. In our minds, it is a term that perfectly reflects the state we are in: reaching both to the past and the future, not without a fine dose of hope.

For the fourth time, we say thank you to all the returning and new experts who chose to take part in the creation of this report. We wish you a very great year ahead.

To all of you who would like to join the discussion, please share your thoughts under the #ceeexpertreport tag.

Aleksandra Prusator

Member of Board,
Sales & Marketing Director at FORDATA

Summary

The C-19 pandemic has introduced an array of specific challenges to the M&A market in the CEE region, yet not entirely different from those faced globally. These are, among others, a more detailed approach to risk assessment regarding companies' supply chains, economic and political environments, and regulations; or the ways in which due diligence and audit processes are conducted online.

Unsurprisingly, the most attractive sectors in the M&A market were TMT, healthcare and energy. The biggest deal in the CEE region in 2021 was the acquisition of the Czech cybersecurity company Avast by Norton LifeLock.

In 2021, the implications of ESG policy on business operations also became more vocal. The obligation to disclose certain aspects of companies' and their suppliers/subcontractors' activities and how they affect climate is bound to remodel the way assessments regarding investment are made in the European Union in the coming years. In that context, cybersecurity will become even more important.

The maturing CEE region proved resilient in the changing circumstances and in the recent year continued its surge regarding the M&A activity. The Emerging Europe region saw 2015 deals, 18% more compared to 2020, with the total value of transactions exceeding EUR 94 billion, according to CMS CEE. As champion businesses are looking for opportunities to grow by acquisitions, they are likely to consider not only domestic, but also – more and more boldly - foreign companies.

There are, however, several obstacles to overcome in 2022. The growing energy costs, raising inflation, more expensive loans and changing company valuations are restraining business and, consequently, also M&A activity. Uncertainty is still present, especially in brick & mortar sectors of the economy, which will require an even more individual approach to dealmaking.

- In the years 2019 – 2021, top directions of Polish M&A investments abroad were Germany, Romania, Italy, Hungary, USA and Lithuania.
- We witnessed a new phenomenon in Romania: entrepreneurs stay as managers even after 100% buyouts, and not only for a determined handover period, but for the long term.
- The crisis caused by COVID-19 has popularized restructuring proceedings in Poland, as indicated by an over 200% increase in proceedings in 2021 y-o-y.
- Eastern Europe economies have developed enough for their leading companies to join the elite club of global players
- 2021 was one of the best years for M&A business in the CEE region. Projects postponed from 2020 were realised thanks to strong positions of buyers backed by favourable financing conditions.
- In the near term, attractive acquisition targets will be real estate and entities from the TMT (Technology, Media, and Telecom) and renewable energy sectors.
- The unquestionable obstacle in implementing blockchain technology on a large scale in the financial market is the still existing regulatory uncertainty in this area.

CEE Market Barometer in 2021

01. Vaccinations reduced the capacity of lockdowns

02. M&A market has more potential for outbound deals

03. TMT, healthcare, RES sectors are most prospective

04. E-commerce and remote operation are booming

05. ESG compliance to grow in importance in Due Diligence

06. DeFi space is becoming part of traditional finance

07. Record investments and buy-outs in PE/VC

08. CEE region’s M&A amounted for 12,5% of all European deals

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.

2021 – another record year for M&A. While the Covid-19 pandemic caused a slowdown in deal activity in 2020, 2021 led to a strong rebound and blew past previous records. The rebound covered all sectors, sizes, transaction types and geographies. From a geographic perspective Europe and North America contributed a significant part to 2021's record-breaking year. The main drivers behind this rebound have been the return of business confidence upon the c-level decision makers, high purchasing power of the global PE funds and the necessary adaptations to a changing (business) world.

The financial services, healthcare and technology industries were the most active sectors in 2021. To keep pace with aggressive technology adoptions, financial services firms acquired digital and fintech assets. The healthcare sector was driven by a strong growth in health spending (including significant impacts from the Covid-19 pandemic itself), new market participants and introduction of new technology. Third, technology accounted again for a growing proportion of M&A activity. The sectors energy and materials & resources did not recover at the same pace as the other industries and did not reach the pre Covid-19 levels. In 2021 there was again a growing proportion of sponsor-backed acquirers. But still the most transactions are led by corporate M&A. Deal sizes over $500m have been counted for approx. 60% of all deals.

2021 marked the best European M&A market ever. Following different estimations over 16.000 deals were closed collectively worth over $1,8 trillion. Dealmakers had adapted themselves to the pandemic challenges and identified tremendous market opportunities by investing capital in different areas and gaining strategic advantages through these engagements. Main drivers for this record year have been strong capital markets, increasing vaccinations, release of pandemic restrictions and a still friendly political environment.

Even if the outlook for 2022 looks very bright, there are some clouds on the horizon. Companies across all sectors will continue using M&A to navigate through a changing business world and still accelerating technology change. In addition, C-level decision makers will have to look at reshaping their business for low-carbon future and ESG relevant topics. Unprecedented PE fundraising, especially by the largest funds, lays the foundation for even stronger forthcoming M&A activities, too. But dealmakers will keep an eye on interest rate hikes (causing higher financing costs), growing antitrust hawkishness and political turbulence between the US, China and Russia.

Regions in Europe including DACH and the UK & Ireland are expected to see the biggest rises in M&A activity in 2022. Digitization, changes in global supply chains and commitments to contribute to a greener future will promote even more M&A activities in 2022.

2021 marked the best European M&A market ever. Following different estimations, over 16.000 deals were closed.

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.

Recent positive development will not fully continue in 2022

The deal expectations for 2021 foreseen by me to be positive at the beginning of the year quite fulfilled. 2021 was one of the best years for M&A business in the CEE region. Projects postponed from 2020 were realised thanks to strong positions of buyers backed by favourable financing conditions. Though COVID-19 waves were repeatedly rising and have not finished yet, the market players have already become used to the situation.

In 2021, we successfully advised transactions in renewables and IT employment business. Each of these segments has different drivers. Renewables are strongly supported by the EU Green Deal. IT employment has been fuelled by COVID-19 demand for IT experts, both in direct placement and in temporary staffing. We had utilised this momentum for a sale of the rising star on the Czech IT body shopping market - Bridgewater company - to the hands of the Slovak leader Titans Freelancers backed by PE fund Sandberg Capital.

Though there is still a very strong M&A activity on the market, I am starting to be cautious about such positive development to continue. There are several significant reasons that would slow down the success rate of closed deals.

A significant change of the situation started with broken supply chains that destroyed the common flow of business and resulted in higher prices because of missing supply capacities. When energy prices skyrocketed in the second half of 2021, it started to be clear that we are facing a much broader issue affecting all parts of the economy. Together with strong liquidity support caused by the COVID-19 pandemic, it is fuelling inflation to levels not seen for many years not only in CEE, but around the whole globe. Naturally, it triggers new actions from central banks to fight inflation. In concrete terms, the Czech National Bank had shot interest rates from about half a percent in summer to almost 4% at the year's end. This fact creates huge pressure on the overall business that depends on loans as a source of funding. In fact, it means much higher capital costs that shall be reflected in lowered companies' valuations. However, I don't see such reflections on the market yet. I guess the consequences will come true later in 2022.

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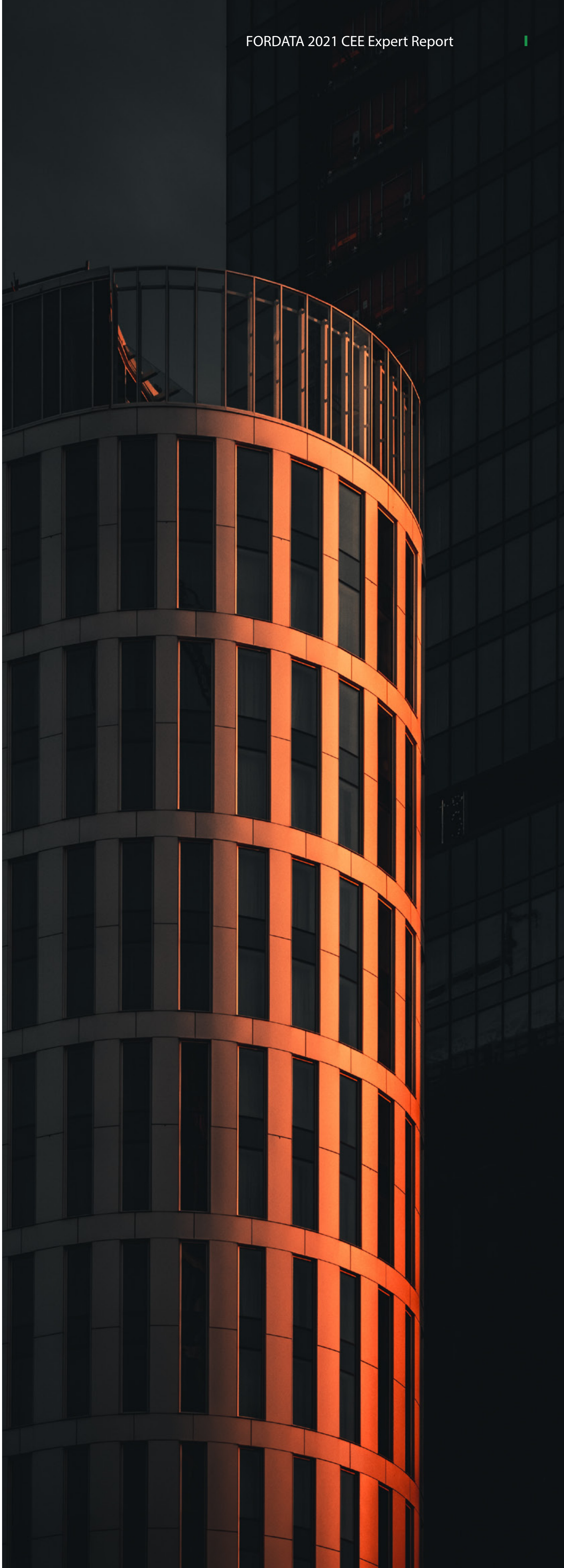

Zbigniew Głuchowski

Transaction Advisory Services Director at JP Weber

Zbigniew Głuchowski is a practitioner of foreign direct investment and M&A with 20 years' experience from more than 60 projects in 15 countries with Polish and Danish development finance institutions. He built and managed PFR TFI's Polish International Development Fund and now advises in cross-border M&A transactions and in raising finance for business development at JP Weber advisory firm. Zbigniew studied engineering in Warsaw and Copenhagen, and is an MBA graduate of the University of Minnesota.

Global trends and Polish perspective of outward FDI

Global outward foreign direct investment (OFDI) flows are changing and an important milestone was passed in 2020, when for the first time poorer countries invested more than the rich ones.

I've seen how the world has been changing over the last 50 years, and I've come to regard half-a-century as a good time measure for some megatrends. If we look at the data published by UNCTADstat, in 1970 global OFDI flows reached USD 14.1 billion. The latest published figure for 2020 is USD 739.9 billion, or 52 times more. Of course, back in 1970 money was still gold, so it would probably be more appropriate to look at OFDI flows as a percentage of global GDP - over those 50 years they doubled from 0.4% to 0.9%. A funny thing, counted in ounces of gold, global OFDI flows are almost exactly the same as 50 years ago – just over 400m ounces. 1970 was way before the term "developing countries" became politically incorrect. The world was still clearly divided between the rich and the poor, and foreign direct investment was beyond any doubt the domain of the rich countries. The G7 group of the USA, Canada, Japan, the UK, West Germany, France and Italy accounted for 86% of global OFDI flows, and the USA alone for a whopping 54%. That time is now gone.

The outward foreign direct investment from developing countries and transition economies started picking up around the turn of century and its share of the global flows has been growing fast from the time when the big crisis of the developed world erupted in 2007. In 2020, for the first time in recorded history, the total outward investments of the poorer countries exceeded those of the rich countries. This phenomenon has been noted and analyzed. In 2021, the World Economic Forum published a report on all the various OFDI support measures applied by national governments and on the benefits derived by poorer countries from take-overs of companies in more developed countries. Among the 11 analyzed positive home-country effects from the obvious ones, such as financial earnings, growth of exports, economies of scale and increased productivity, to less tangible benefits like acquisition of know-how and technology, improved standards and best practices.

To be honest, the long march of the People's Republic of China explains a large portion of OFDI's statistical shift. China, including Hong Kong, accounts for 61% of OFDI flows from all the developing countries and transition economies, and all the world's 50 Least Developed Countries (LDCs) together account for barely 0.7%. China's OFDI in 2020 was USD 235.7 billion, and since 2018 Chinese OFDI has kept above that of the USA.

However, the phenomenon is broader than that. It's a whole collection of countries in South-East Asia, North Africa, the Middle-East and Eastern Europe whose economies have developed enough for their leading companies to join the elite club of global players.

The 12 Central and East European Countries that joined the European Union between 2004 and 2007 rank much better in terms of GDP than in those of OFDI. In 2020, their combined outward foreign direct investment flows amounted to USD 10.9 billion (1.5% of global OFDI). The leading investors among CEE countries are Hungary, Czech Republic and Poland, in that order.

In 2004, the year Poland joined the EU, Polish OFDI flow was just USD 166 million. In 2020, it reached USD 1.8 billion, with Polish accumulated OFDI stock at USD 26.6 billion. This figure looks less impressive if we express it as GDP's percentage. At only 5% it was the second lowest among all OECD countries, lower than the EU average of 86% of GDP, lower than Hungary's 24% or Czech Republic's 23% of GDP.

It's hard to say why Polish companies think so little of investments across borders. The reasons are likely manifold. For one, Poland is the largest economy in the CEE region with a long track record of strong growth uninterrupted from 1992 until the C-19 pandemic year of 2020. Polish companies have more low-hanging fruit to pick domestically, without taking additional risks and challenges of foreign markets and regulations. Poland's tremendous success in attracting foreign

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capital also means that many of the larger Polish companies are in the hands of multinational holdings that seldom use them as hubs for further capital expansion. Domestic accumulation of capital began only 30 years ago and it hasn't been until relatively recently that more family-owned Polish companies reached the size justifying cross-border ventures. It will take time for them to develop the necessary managerial resources, experience and corporate culture to expand globally en masse, I would say up to another half-a-century.

In the meantime, we start seeing some positive developments in the patterns of Polish foreign investment. Poland's top trading partners like Germany, the United Kingdom, Czech Republic, Hungary and Romania feature ever more prominently in the top ranks of important investment destinations, alongside the traditional favourites of Luxembourg and Cyprus.

Polish OFDI seems to fall well within the global trends described by WEF. Poland is still very much a manufacturing economy, but of the ca. 50 international acquisitions made by Polish companies over the last 3 years, 12 were in the modern growth sectors of IT, gaming and fintech, and 5 in pharma and medical research.

At JP Weber, we are positively excited working with ever more Polish companies making foreign acquisitions not only to access the other markets, but also to share technologies and know-how.

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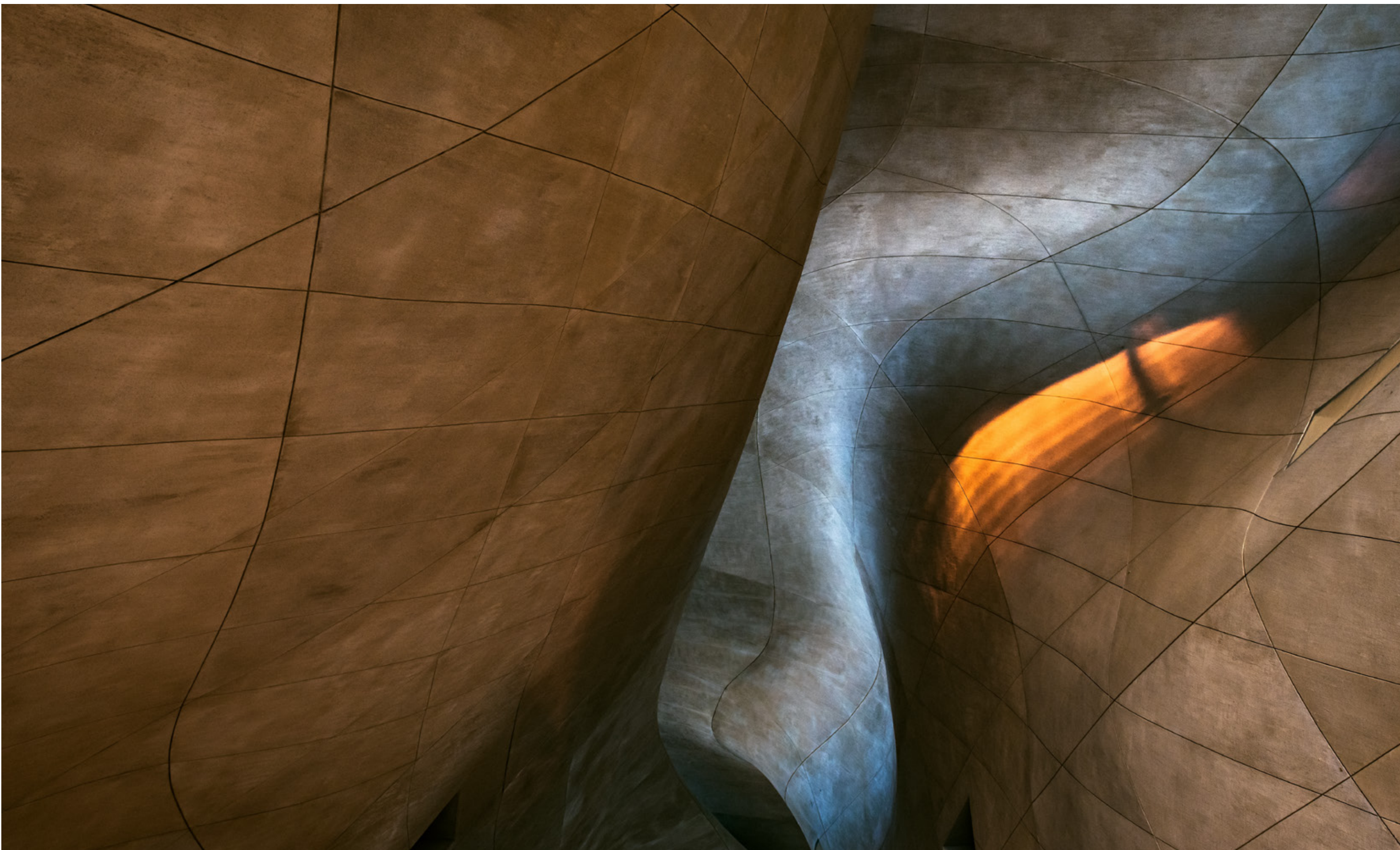

Aleksandra Kopeć

Lawyer, founder of FinLegalTech.pl

Aleksandra Kopeć is a lawyer specializing in capital market and new technology law. The scope of her expertise includes legal aspects of blockchain/DLT and crypto-assets and alternative methods of raising capital. Aleksandra's professional practice area also focuses on counteracting money laundering and terrorist financing (AML/CFT). She advises both start-ups and traditional capital market entities. Aleksandra is also a researcher and doctoral student at the Doctoral School of the University of Silesia. In 2018, she became the laureate of the prof. Walerian Pańko Award for outstanding achievements in science and in 2020 a finalist of the competition "Rising Stars - lawyers, leaders of tomorrow."

Will alternative finance still be "alternative" in 2022?

There is no doubt that 2021 was a groundbreaking year for the FinTech industry. The recent 12 months have shown that the alternative finance market is slowly becoming mainstream. It is not without reason that the editorial board of the famous Collins dictionary recognized the abbreviation NFT (non-fungible token) as the word of the year 2021. The phenomena like crowdfunding, crypto-assets, or DeFi are no longer objects of interest to new technology geeks only. Obviously, such business activity is still of a niche nature; however, a significant increase in interest in this area has recently been observed. For instance, according to Chainalysis data, the global adoption of crypto assets in 2021 increased by 880% compared to 2020. Similarly, DeFi market capitalization increased from $ 3 billion in July 2020 to over $ 200 billion in October 2021.

Such immense numbers open up the question whether the expression "alternative finance" will still be adequate in 2022.

There is no dispute that crypto-assets emerged in opposition to the traditional financial market. However, the distinction between these two spheres is becoming more and more indistinguishable. Analysis shows that regulated financial institutions are increasingly interested in implementing distributed ledger solutions. The vast majority of them use the so-called "wait and see" method consisting in the initial research of technology and observation of the development of the situation. The unquestionable obstacle in implementing blockchain technology on a large scale in the financial market is the still existing regulatory uncertainty in this area. This may change soon as crypto-assets attract the attention not only of entrepreneurs but also regulators around the world.

Analysis shows that regulated financial institutions are **increasingly interested** in implementing distributed ledger solutions.

Creating a legal framework that enables more extensive use of distributed ledger technology in financial services and the tokenization of traditional financial assets is a matter of great importance for many legislators in different jurisdictions. Thus, I believe that nowadays, crypto-assets should not be considered an alternative to the financial market but rather its modern part.

Tomasz Sadurski

Partner, Attorney at law, Restructuring Advisor at JP Weber

Expert in bankruptcy and restructuring law as well as M&A transaction advisory services. He has many years of experience in carrying out Polish and international projects. In his professional career, he has conducted over 20 M&A transactions and many bankruptcy and restructuring projects in sectors including the automotive, agriculture, road maintenance, construction, and fuel sectors. At JP Weber, he manages projects as regards bankruptcy and restructuring, corporate structurization, legal aspects of M&A processes, and legal due diligence.

Restructuring trends in 2022

The crisis caused by COVID-19 has popularized restructuring proceedings in Poland, as indicated by an over 200% increase in proceedings in 2021 (January-November) compared with the same period in 2020. Such a large number of restructuring proceedings may be due to the laws introduced to counteract the economic crisis caused by the coronavirus called as simplified restructuring, but it is also due to the statutory limitation of the consideration of bankruptcy applications until the end of the epidemiological emergency. Also restriction of bankruptcy removed the obligation of boards of directors to file a bankruptcy petition under pain of liability to creditors within 30 days from the date of insolvency. It is also worth emphasizing that we need to know the number of bankruptcies that cannot be filed by management in the current legal form in order to determine what the actual growth of restructuring proceedings is.

The future of restructuring proceedings in Poland is difficult to predict. In November, the possibility to enter the simplified restructuring process ended. Simultaneously, the situation of Polish companies is still not perfect. Inflation, supply chain crisis and new tax law since the beginning of 2022 can have a big impact on business climate. Additionally, as of 1.01.2022, the "Polish New Deal" has hit countless people with higher taxes, among them entrepreneurs, whose taxes increased by 4.9%. Another point is the continuously increasing minimal remuneration and social securities. A number of entrepreneurs will be forced to close their businesses, some of them will be forced to restructure, and some will go bankrupt. Those entrepreneurs who used financial shields from the government will be facing difficulties to repay their loans to the State Treasury, due to Polish New Deal changes coming into effect this year. This might be a reason for restructuring, which might offer them respite, but the open question is how many of those entrepreneurs will have to rethink their way of conducting business?

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The provisions applying to financial shields from 2020 regarding the limitation on bankruptcy are still in force, therefore if a bankruptcy is caused by COVID, such a motion will not be processed until the state of epidemiological threat in Poland is suspended. The potential civil liability of CEOs is therefore secured, at least for some time. Criminal liability, however, remains an open matter since there are no financial shields in that respect.

As is always the case, difficulties in some sectors of the market will create potential opportunities regarding the acquisition of interesting businesses. Acquisitions can be made with the application of either restructuring or bankruptcy and the result will be free from sale encumbrance.

At JP Weber, we are excited to work with companies which, on the one hand, look for help and, on the other, look for business opportunities. The most important factor of a successful restructuring is always the capital. Our role is not only to help the patient to survive, but also to find a cure for him.

Piotr Kucharczyk

CFA, M&A Partner at JP Weber

Expert in mergers and acquisitions as well as advisory projects in terms of corporate finance. Member of the Transaction Advisory team specialising in advisory services on mergers and acquisitions, including projects related to the alienation and acquisition processes of business entities, business valuation, and obtaining capital support. He gained his 14-years of professional experience while conducting international and domestic projects on mergers and acquisitions as well as corporate finance for businesses in the manufacturing, IT, services, and pharmaceutical sectors. He is a member of Smart Tech – an interdisciplinary team which provides solutions to the IT sector as well as international IT and Logistics & Transportation Groups operating as part of M&A Worldwide – JP Weber partner in cross-border M&A projects.

Is the maturity of Polish businessmen growing in terms of international M&A activities?

2021 was the first full year after the C-19 pandemic had shocked financial markets and challenged all businesses throughout the world. The situation impacted every aspect of how businesses are managed, not omitting strategic decisions considering M&A activities. Not surprisingly, the pandemic stifled the M&A activity in 2020 as all the long-term plans were put temporarily on hold during at least part of 2020, however, as expected, we witnessed a great rebound of takeover appetite in 2021.

In 2021, there were 172 transactions made in which Polish entities were engaged. Among them there were 27 acquisitions abroad performed by businesses controlled by Polish capital and the number has been at the stable level in the several past years, omitting the 2019-2020 years.

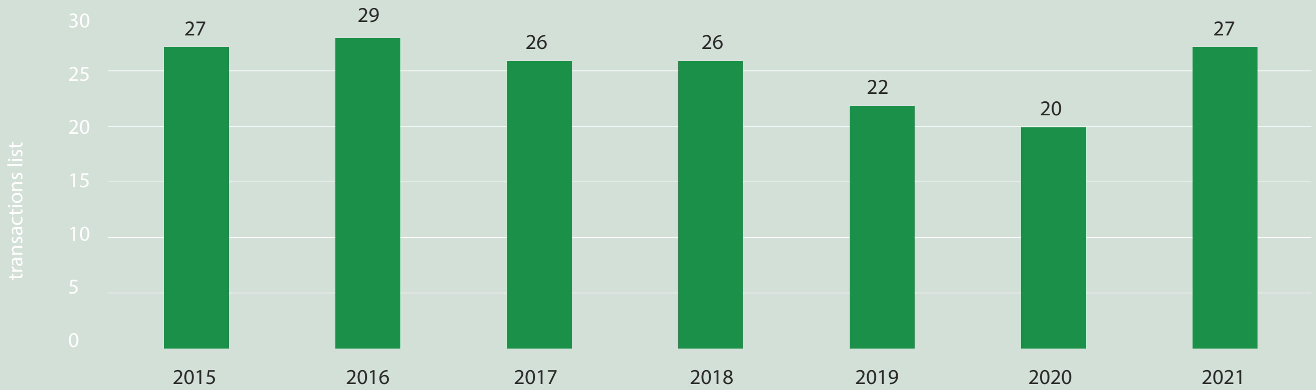
Interestingly, nowadays we hear in the media and in press releases more often that national entrepreneurs consider M&A as an important aspect in their growth, not limiting their hunts to Poland's borders. May we call it an uprising trend or just a fad?

In my opinion, it is definitely a direction Polish companies will follow and outbound M&A counter should be growing in the following years. The reasons may vary, but it is worth to mention that:

- Great number of businesses operate on the international arena or are planning to do so.

  There is an observation I tend to hear from such entrepreneurs - it is more time and cost efficient to acquire a company in a foreign country than to start there from scratch. What is more, one gets a brand and relationships the company has created. Last but

The number of foreign acquisitions by Polish entities in the years 2015-2021



Source: MergerMarket

not least, it is not an omittable aspect that end customers may prefer solutions from a domestic market, therefore acquiring a business abroad may enable satisfying this preference.

- Globalisation, especially seen in some industries, tends to erase borders. Let's look at the IT industry. Everyone works in English, often fully remotely, offering services to international clients written in borderless programming languages. For an IT company, a decision to grow by acquisitions may be easily connected with acquiring someone abroad as such a move can generate greater synergies than local takeover and still the new team may feel like a local one.

- Growth by following the customers, meaning that some M&A activities are fuelled by an opportunity to retain current customer from the local market in another location as the client is developing operations abroad. It may be an option to acquire one of the subcontractors from foreign market in a situation where there is already an established clientele and retain the margin which, effectively, in a few years' time may earn the price paid. Such incentive being translated into lower entry risk makes the decision to acquire abroad easier to justify.

It is a morale-building fact that Polish entrepreneurs look for acquisitions abroad as a means of building value of their business.

- Younger generation of entrepreneurs is more open-minded and risk-tolerant to go and conquer foreign markets. It may also be an observation from more mature economies that changing ownership is a natural stage in entrepreneurs' business life and becomes a natural way of growing the scale.

- There are successful acquisitions made abroad and promoted by media that show others it is a way worth going, i.e. Inpost acquisition of Mondial Relay in France.

It is a morale-building fact that Polish entrepreneurs look for acquisitions abroad as a means of building value of their businesses. There is often an underlying calculation made with the outcome saying that acquiring a company abroad is the best option to follow, despite the higher risk seen in it, than talking with a businessman from another Polish city. The direction of investment is often concerned with some values added the particular market offers. In the years 2019 – 2021, top directions of investments were Germany (7), Romania (6), Italy (5), Hungary (5), USA (4) and Lithuania (4). The conclusion of expanding internationally step by step has a confirmation in these numbers, as most of the countries are in the CEE region or close proximity to Poland, except the US.

More than several years ago it was more obvious that Western Capitalists buy out gems from the Polish rising economy. Nowadays, the situation is moving into a more balanced situation in which capital flows are seen in both ways. It may be definitely a thesis I would like to make that it is not only the Polish phenomenon. The reasons lying behind the acquisitions abroad should also apply to other economies in which local champions have the appetite to grow internationally.

Maja Jabłońska

Counsel, Legal Advisor, Leader of the Legal Due Diligence Team at Grant Thornton

Maja Jabłońska has over ten years of experience in providing legal advice to entrepreneurs, in particular in the field of commercial companies law and civil law. She specializes in conducting due diligence research and succession processes. Maja manages comprehensive legal audit projects for enterprises, pointing to legal risks related to their activities and methods of their mitigation. Legal Counsel. Leader of the legal due diligence team. The author of publications on commercial law issues in the professional press.

We can predict that 2022 will be the next step of business continuity in the times of COVID-19. The successive waves of the global pandemic are increasing and passing away, but the M&A market has adopted its own "Business Continuity Plan", which allows for the implementation of further transactions despite changing circumstances. The transactions themselves are conducted remotely to a greater extent than before the pandemic. As part of due diligence, new areas have been included, related to the risks that may arise in the pandemic and to areas that have gained importance, such as digitization, diversification of the supply chain, or investment agreements that adequately protect the interests of the parties.

Last year, we saw a significant increase in the number of transactions and everything indicates that this trend will continue. Entities that have successfully passed the exam in quickly adapting business models to the current conditions are particularly attractive, especially if they have the tools and technological competences. In the near term, attractive acquisition targets will be real estate and entities from the TMT (Technology, Media, and Telecom) and renewable energy sectors.

In the long term, ESG-related obligations will play an increasingly important role in the company's strategy - related to environmental protection, social issues and corporate governance, which will challenge companies around the world to adapt to new rules and accurately assess the company's impact on its environment along with the determination of measurable goals leading to the sustainable and responsible development of the organization. This will translate into a further increase in the attractiveness of entities from the area of renewable energy sources and solutions with a positive impact on the environment. Additionally, the implementation of the ESG policy through acquisition goals may become one of the factors in making investment decisions.

In the long term, ESG-related obligations will play an increasingly important role in the company's strategy

Viorel Udma

Managing Partner at Accendo

Viorel has over 25 years of experience in M&A, Private Equity and entrepreneurship. He is part of the team that founded Accendo, an M&A advisory focussed on CEE mid-market transactions that celebrates in 2022 its 20th anniversary. He worked on projects in Romania, Bulgaria, Hungary, Ukraine and Moldova. He also founded, developed and sold two entrepreneurial businesses - a municipal bonds advisor exited when it controlled over 50% of its relevant market, and a retail loans broker sold when it was no. 1 in Romania as number of points of presence.

Continuity, in a different paradigm

When, in early spring of 2020, it became clear that covid medical crisis will have a significant impact on the economy, we prepared for what we expected to be a slow year. What followed surprised us. We witnessed a three-fold increase in our M&A advisory activity compared to a regular year.

Most of our business is on the sell-side and many entrepreneurs with whom we had developed relations during recent years suddenly became interested to exit their companies. They were scared by uncertainty and some of them suddenly realized that there is more to life than long hours of work. Covid simply gave them a new perspective.

On the other side, investors also increased their activity during this period, albeit for a different reason. When governments reacted to the medical crisis by increasing liquidity, it became clear that inflation will follow, that assets' prices will increase. Investors looked for ways to protect their cash or to profit from funds obtained indirectly from governments at very low cost: by acquisitions.

Therefore the expected decrease in the number of M&A projects did not happen, the market continued strongly. But the challenge came from somewhere else: some shifts that were under way for some time suddenly accelerated. Digitization, remote work, changes in consumer preferences and spending habits benefited some companies, while distressing others. On top of this, the expected industrial prices inflation materialized and for some companies this generated increased revenues but lowered profitability.

The only certain thing was that the short-term future became marred by uncertainty.

This new reality made regular transactions based on current profitability difficult to structure. Entrepreneurs were not ready to sell based on yesterday's results, investors were not ready to buy based on tomorrow's uncertain forecasts. What was needed was finding a new approach that will account for past results, but also adjust to real future results.

The solution developed naturally and we witnessed a new phenomenon: entrepreneurs staying as managers even after 100% buyouts, and not only for a determined handover period, but for the long term, to ensure that future financial results are maximized.

This new reality made regular transactions based on current profitability difficult to structure.

Piotr Miszczyk

Senior Business Development Specialist EMEA at FORDATA

Piotr joined FORDATA in 2019 as a business development specialist and client advisor. He is currently engaged in market analysis with a focus on international consultative sales for IT solutions with CEE expertise. Piotr's main area of research are the changes and specifics of each analyzed market within the EU. He is involved in M&A trends analysis, focusing on the Central-European segments of commercial real estate investments and PE/VC. At FORDATA, Piotr professes in consultative responding to current business needs, providing solution propositions to all sides involved in various types of transactions.

The worldwide transaction volume hit a historic record of $5.6 trillion last year. This was the result of the accumulation of both current transactions and those that had not been completed since 2020. The pandemic itself has become a catalyst for mergers and acquisitions transforming both traditional and non-traditional businesses. The situation generated a wave of macroeconomic incentives that favored M&A activity.

Following global trends, the CEE region was pushed forward by the same wave of investment recovery as other parts of the world. Known for its unicorns such as UiPath, Wise, InPost, Skype, CD Project, Bolt or Vinted, the region was in 2021 marked by records and fulfilled expectations, which were topped by a strong rebound in the last quarter of 2021 compared to Q4 2020. According to calculations by CMS CEE - including the Caucasus countries - last year the Emerging Europe region recorded 2015 transactions, which is an increase in volume by 18% compared to 2020 (the total value of transactions exceeded EUR 94 billion), with every fourth transaction held in the TMT sector. The number of M&A projects have surged in Ukraine, Romania and Croatia, and these countries have a chance to become the black horses of the M&A market in 2022.

There were reported record investments in the VC sector and a buy-out boom in the Private Equity sector, as well as increases in commercial real estate, the TMT sector, broadly understood technology and Life Science. As far as the RE sector is concerned, Romania saw record activity. Poland, on the other hand, had seen another year marked by TMT dominance in M&A for the third year in a row. Czech Republic also recorded increases and has started the year 2022 with further big deals. It is safe to assume that the entire region closed the year strong.

The activity of the CEE region precisely reflected global trends not only in terms of what influenced M&A activity, but also its technical aspects, in particular the remote trust phenomenon, i.e. securing the "everything-from-anywhere" era, secure remote collaboration tool or transferring more data to SaaS platforms. The traffic analysis in our Virtual Data Room system also shows a large increase in the importance of this type of approach among entities from the real estate industry - especially in the residential sector, which before 2021 practically did not use the VDR system, unlike the commercial real estate sector.

There are, however, challenges that the M&A market in the CEE region is expected to face in the forthcoming quarters and - to an extent - is experiencing right now, namely growing inflation, which will increase the cost of bank financing for companies. And despite the overall positivity regarding C-19, restrictions and economic slowdown caused by changes related to the pandemic may still be a real risk. The growing importance of considering ESG risks in due diligence should also be taken into account. Nevertheless, the year 2022 looks very positive in the eyes of M&A players and investors from outside the region.

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Thank you for reading the fourth edition of the FORDATA CEE Expert Report. It seems that 2021 will be remembered as a qroundbreaking year for the local M&A market - and beyond. Vaccinations, attempts at regulating the fintech sphere, reestablishing supply chains and further digitalization shaped this investment-rich time.

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. Your are welcome to join us under the **#ceeexpertreport** tag.

FORDATA is a Virtual Data Room software provider since 2009. We help companies and experts securely share confidential documents and information in various processes. We aim at promoting 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. Along our guest 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.