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

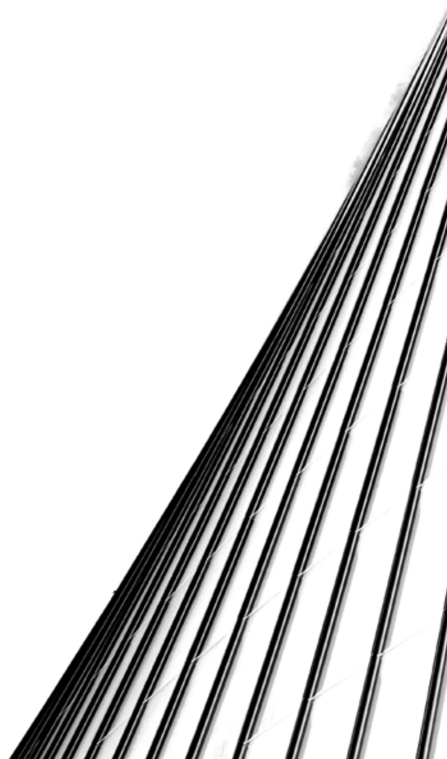
CEE Expert Report

2H 2022

FORDATA®

Edition #5.

Downturns



At the beginning of the year, when we started drafting the fourth edition of the CEE Expert Report to sum up 2021, the idea of **continuity** seemed like a natural watchword to us. Global M&A deal volume had grown to record highs, while the e-commerce sector was booming, upheld by the post-pandemic shift in consumer behaviors that promoted remote trends. We gained the courage to take a bolder look at the economy which had just overcome the coronavirus threat and was on its way to achieve balance despite the rising inflation and the expected economic slowdown. The forecasts for 2022 were reasonably good.

On February 24th that vision changed, and in some cases it did radically. As we joined the CEE Expert Webinar on that exact day, we already knew that the Russian attack on Ukraine would set the tone for the discussion. We, too, were simply shocked at the news. A summary turned into speculation. Doubted and uncertain of the scale and the outcome of the invasion, we repainted the picture from two years before, one marked by broken supply chains, transactions put on hold and general investment fear. **What is the economic sentiment like after the six months of war across the EU border?**

I am grateful to present to you the fifth edition of our report, created together with Experts from Czechia, Romania, Poland, Ukraine, Germany and India. At FORDATA, partnership is one of the greatest values.

I also would wish to see continuity uninterrupted, even if it has to lead us to the inevitable downturns, this report's main theme. Let's hope that the bottoms do not reach deep, though, and, most importantly, that the cessation of conflict in the Ukrainian homeland is near.

As always, I am encouraging you to join the discussion and share your thoughts under the **#ceeexpertreport** tag.

Aleksandra Prusator

Member of Board,
Sales & Marketing Director at FORDATA

Summary

As Central and Eastern European economies found the growing inflation crisis in early 2022 a major obstacle, the biggest uncertainty came with the unprovoked Russian attack on Ukraine. The increasingly unfavourable conditions have resulted in a decline in M&A activity, but not everywhere, and not to the same extent. Romania, for instance, saw 25% more deals made in H1 compared to 2021. In general, the M&A market has shown resilience, and the CEE is still considered an attractive investment region.

Unsurprisingly, spiking power and gas prices, as well as growing interest rates, have been the biggest concern for businesses, investors and individual recipients. These factors result in growing commodity prices and wages pressure on one hand, and lower company valuations on the other, which is dictated by higher demanded return on investment.

For these reasons, the winter period of 2022/2023 is considered the hardest period for the economy as of recent, but its scope is yet to be seen. Much will depend on the inflation rates, accessibility of fossil fuels and raw materials, and, of course, the outcomes of the war.

The European community and policymakers have shown a predominantly univocal stance towards the Russian attack and stay firm with the imposed trade and financial restrictions. A resolute approach to the energy crisis is expected. Securing the broken supply chains and raw materials shortages might also greatly mitigate the negative effects on the economy in 2022, but it is extremely difficult to achieve in today's circumstances. Pro-business oriented policies in the EU, such as ones resulting from the Digitalization Directive, are in force to further aid technological revolutions in, for instance, finance and services.

Even in such volatile conditions, businesses continue to finalize deals that were scheduled in the previous year and some might find their opportunities in the overall distress. This is possible especially in the case of the TMT sector. Although portfolio owners are now paying greater attention to secure the value of their existing assets, there is still enough money for bold investments in the more promising and the less disrupted branches of the economy.

Still, much remains in the domain of the unknown. We encourage you to read each and every comment included in this report, where our experts shed more light on the problems sketched above.

- Power and gas prices, and worries about future development of the economy, are currently the most resonating market factors.
- The M&A market remained resilient, despite the Ukrainian war shadow over the region.
- The EU Digitalization Directive aims to simplify the formation of companies and register applications online throughout the EU.
- Businesses have not been discouraged from finalizing larger deals that were scheduled and announced during the post-pandemic boom. Nevertheless, the volatility of the market this year has raised the bar for investors.
- Huge geopolitical changes are the drivers of the situation resulting in trade & financial restrictions towards Russia and consequently fuelled in energy crisis.
- Policymakers should keep a strong involvement in vigorous supply responses at the national level while keeping global commodity markets functioning well.
- Since chances to receive voluntary compensation from Russia look rather vague, it is expected that the main source of reparations will become Russian assets located both in Ukraine and in other countries.
- On the demand side, Europe had a period of record-breaking fundraising, acknowledged by InvestEurope's latest stats where PE/VCs in Europe had a total of EUR 285 billion of available "dry powder" at the end of 2021.

Strategies for the fall.
How to make deals in Quarter 4?

by Bogdan Chirita
Investment Director at Value4Capital

We have a very clear view of what is needed this fall.
I. The first is discipline in valuation. It is very hard to recover from overpaying. If you like the asset, look to share the risk with the seller or use structured instruments, such as performance linked vendor notes.

II. The second is decisiveness. Go for what you believe in. Focus on the opportunities you believe you can add value to and will navigate the current environment successfully.

III. Look for resilience. Focus on companies / sectors who would be less affected by the key macro drivers of inflation and energy costs. These may well be the businesses that benefit from longer term trends, such as digitalization in its various forms.

IV. Identify sectors which are ripe for consolidation. If the economy is not growing, seek opportunities where M&A can drive growth and improve margins.

At V4C we do have the appetite, capital and determination to try and close another 2-3 more deals in 2022/early 2023 following the strategy I mentioned above.

CEE Market Barometer in 2H 2022

1 M&A in the CEE more cautious and prolonged

2 Numerous businesses to face turmoil in Q4

3 EU digitalization directive to foster change

4 Energy prices surge amid war in Ukraine

5 Businesses strengthen supply chains and online presence

6 Supply shortages and broken chains show

7 Interest rates hiking with a soaring inflation

8 PE/VCs focusing more on existing portfolios

9 Valuations under pressure for higher returns

Vasyl Fedorenko

Senior Associate at Nobles

Vasyl has advised international corporations on real estate matters in Ukraine, in particular, during establishment of local business. Experienced in due diligence and drafting and negotiating agreements on transactions with RE and resolving various land issues, Vasyl is mainly interested also in IT and retail sectors. He has experience in dealing with various Corporate and M&A matters for clients from local logistics market leaders to top Fortune 500 list companies.

The unprovoked full-scale invasion of Ukraine launched by the Russian aggressor on 24 February 2022 has had tremendous local and global repercussions in all areas of life. It caused innumerable human casualties and severe material damages, displaced millions of people, brought about one of the worst refugee and humanitarian crises since WWII, and disrupted the normal way of life of people, the functioning of the national economy and private businesses. The precise extent of war-inflicted damages sustained by the country's economy, its nationals, and businesses is unimaginable and currently impossible to assess.

To counter the brutal aggression and mitigate its consequences, the Ukrainian government imposed martial law and curfews, which limited a number of fundamental constitutional rights and freedoms, in particular, the freedom of movement, assembly, speech, secrecy of correspondence and communications, and inviolability of personal dwellings. Other implemented sweeping measures pertain to the economic and business spheres, where the government has resorted to severe restrictions and tough regulations intended to stabilize the national economy. In particular, outbound cross-border payments are generally limited, whereas transactions with businesses owned or controlled by Russia, Belarus or their residents are banned. In addition, to ensure legal safety and prevent fraud during the war, the Government severely restricted or completely prohibited access to numerous public registers, including the real estate and company registers, and restricted real estate transactions.

Further, the war and a general mobilization of citizens liable for military service have severely affected the employment sphere, including the mobility of the workforce. Certain employee rights (e.g., the right to vacation, days off, limitations of working time duration, etc.) have been curtailed. Employers whose operation has been affected by war, are entitled to suspend their employees or terminate them if they are objectively unable to provide them with work. In contrast, other employers, whose employees have been conscripted, may face the daunting need to suspend their business operations where they cannot retain their key personnel, and no replacement can be found.

Since the war has disrupted normal trade relations and other routine business processes and is posing severe risks outside of parties' control, many local businesses and foreign investors have already indefinitely suspended or entirely abandoned their local as well as cross-border operations and transactions. To address this precarious situation from the legal point of view, the Ukrainian Chamber of Industry and Commerce has recognized the war as force majeure in its official statement. Most statutory and procedural deadlines have been suspended, and affected businesses can theoretically refer to force majeure to claim relief from liability for breach of contract and statutory obligations resulting from the war.

The immense war damages caused to individuals and businesses due to active combat operations and deliberate Russian targeting have also prompted the question of adequate compensation due by the aggressor and a suitable enforcement mechanism. Since international law does not provide for a universal reparation mechanism, Ukraine will have to define, in cooperation with its international partners, appropriate ways to bring Russia to account for the aggression and to compensate for damages inflicted thereby.

Since chances to receive voluntary compensation from Russia look rather vague, it is expected that the main source of reparations will become Russian assets located both in Ukraine and in other countries. A number of Ukrainian allies have already taken certain steps to freeze Russian assets on their territories and intend to transfer them to Ukraine. Our country, in its turn, has passed legislation and taken legal measures in order to expropriate local assets belonging to Russia as well as Ukrainian businesses owned or controlled by Russia or its residents supporting the aggression.

Many local businesses and foreign investors have already indefinitely suspended or entirely abandoned their local as well as cross-border operations and transactions.

Undoubtedly, the war in Ukraine has multiple far-reaching repercussions both nationwide and globally. Nevertheless, and against all odds, Ukraine continues its courageous fight against the prevailing force of the invader. The exceptional bravery and dedication of its defenders, generous and selfless support provided by Ukraine's international allies and exemplary leadership and perseverance demonstrated by its government and military commandment will ultimately make our victory possible.

Daniel Janeček

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.

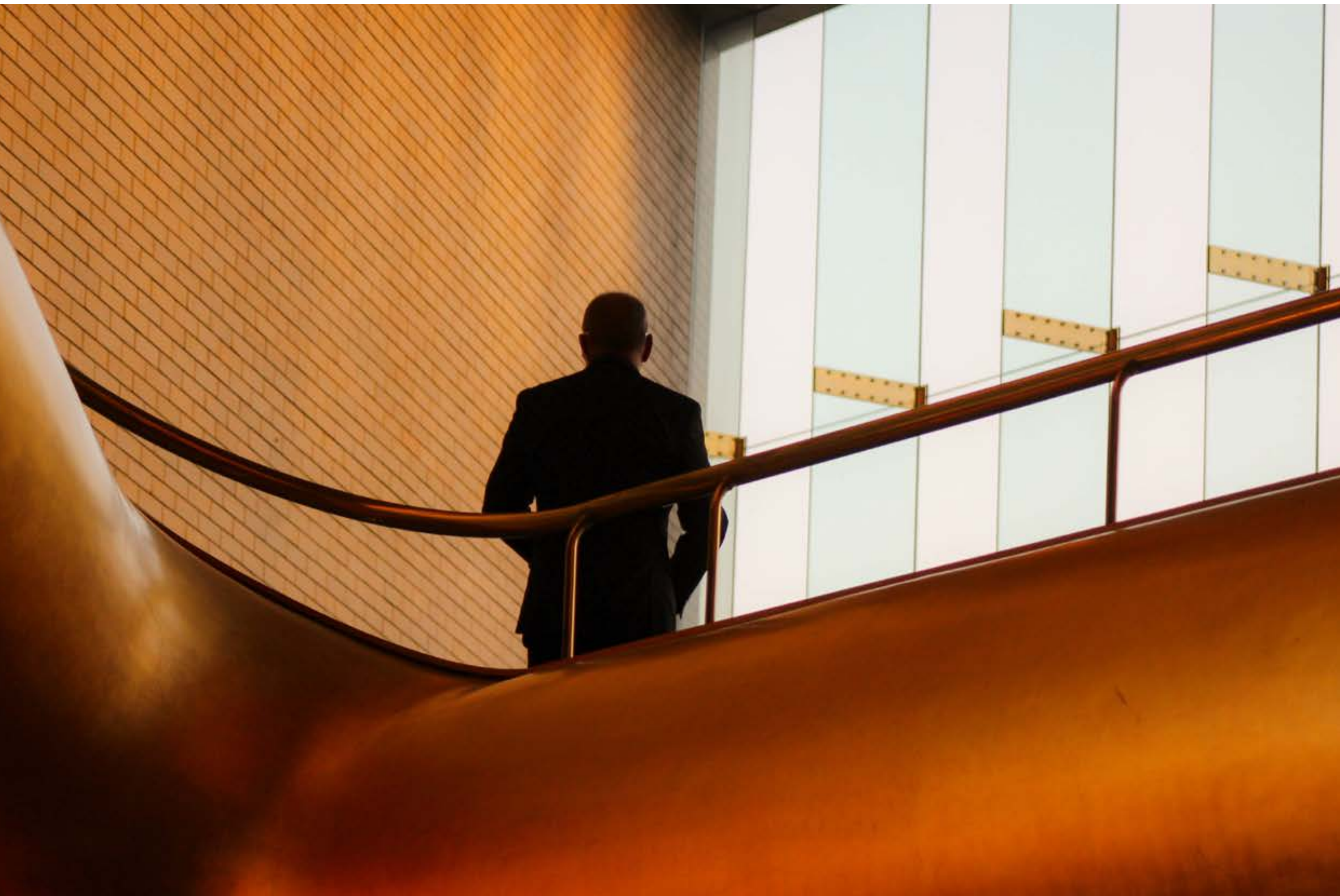
What is currently the most resonating in the market are the power and gas prices and worries about future development of the economy.

The power and gas prices are affecting almost everyone. However, some of our clients are hit particularly hard – for example, we have clients in heavy industry who have problems not only with rising prices but with assuring the supply itself. Some of these clients may be forced to go out of business within the next few months if the situation does not change significantly.

A lot of our clients also perceive a decrease in orders. This takes place in a variety of industries – in machinery, construction, food industry, etc. While some consider this to be a sign of a major downturn, some of our clients see it as a return to more reasonable values of the past years and claim that the growth was just too fast.

Both effects influence the M&A market and our projects. It affects the valuations, it negatively affects the running transactions by worsening the outlook of the targets, it increases the risks perceived by buyers, etc. At the moment, however, we still see a very active market with a lot of ongoing transactions. The slow-down is still, potentially, yet to come.

"At the moment, however, we still see a very active market with a lot of ongoing transactions



Ruxandra Pietreanu

Managing Partner at Path2Capital

Ruxandra has more than 20 years of experience in the corporate finance and investment field. During this period, she has been involved in a large number of projects – covering M&A, growth capital raising, as well as debt raising – serving mid-sized and large companies in various sectors, such as IT/Tech, healthcare, financial services, media, manufacturing and business services.

Clearly the past nine months have been tainted by Russia's invasion of Ukraine and by default this has affected the stability and attractivity of the region in the eyes of investors.

In February, we were just about to start a due diligence on a Romanian company with a Western Europe based strategic investor and we became really afraid that the investor would withdraw from the process, due to high uncertainty. Not only did this not happen, but we see continuous interest in the Romanian market from European investors.

Looking at what happened in H1 2022 in the Romanian market, public data indicated a higher number of transactions (EY mentioned 109 in H1 2022, up by 25% as compared to the similar period of 2021), still with a drop in value (USD 2.5 billion in H1 2022, down 51% as compared to USD 4+ billion in H1 2021).

Most important transactions took place in the automotive field, energy, real estate, healthcare and technology, with strategic investors in the front line.

A more cautious approach from PE has been expected, as the natural tendency of these investors is to try to stabilize portfolio companies first, whenever a major negative event happens. Notwithstanding the above, the existing high levels of dry powder is to bolster the PE activity in the region.

Looking forward, 2022 remains challenging. The growth is slowing, inflation is biting and energy prices are surging. It will be a tough challenge for companies to maintain strong performance levels. This will increase competition between dealmakers in the region. While for strategic investors it could be a good time to consolidate their positions, it might also encourage financial investors to deploy more resources and to capitalize on attractive valuations.

"It will be a tough challenge for companies to maintain strong performance levels.

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.

My expectations from the beginning of this year concerning the slowdown of the M&A market in the CEE region has become reality. It is in line with the overall EMEA market development. Once we started to get over COVID-19-related economic issues in 2020 & 2021, the war in Ukraine added a new level to the broken supply chains. Huge geopolitical changes are the drivers of the situation resulting in trade & financial restrictions towards Russia and consequently fuelled in the energy crisis due to the shortages of gas and other commodities.

The level of uncertainty for a large number of business segments has become critical. However, it is spreading out from the sole business perspective into the wider society. Such a general mood pushes down the leading economic indicators.

The "race" of CEE central banks in interest rate hikes has continued. In fact, they have been leading in such direction well ahead of the ECB or FED in the US. I understand the procedure is the usual way to fight rising inflation rates, but these steps naturally create a huge pressure on the common "debt" economy we have been used to.

Such an environment is not favorable for M&A transactions, as the gap between buyers & sellers is increasing thanks to all uncertainties around and ahead of us. It is hard to agree what is sustainable EBITDA to be used in a transaction multiple in a particular transaction, namely in industry cases. Rising interest rates lead to higher demanded returns, thus in lower valuations of the acquisition targets. Drops on stock markets confirm such context as well.

I see strong shifts of acquisition leverage financing from the local CEE currencies towards EUR as its interest rates are still well below CZK or PLN levels.

Regardless of such tough and shaky market conditions, transactions are still occurring. Recently, we have advised an infrastructure fund managed by Cube Infrastructure Managers to take over a Czech branch of a German utility MVV Energie AG. The target provides services to customers in 15 cities and is among the leading producers and distributors of heat in the Czech Republic. This transaction is still ahead of closing later this year.

The "race" of CEE central banks in interest rate hikes has continued.

Dr. Jan J. Kruppa

Legal Strategist, Lawyer at KNORR Rechtsanwälte AG

Legal strategist, negotiator and litigator specializing in Corporate Law and M&A, certified NFT expert, blockchain & law professional. Lecturer at Hochschule Fresenius University of Applied Sciences in Munich, formerly Senior Manager at Deloitte Legal Germany.

Since August 1st, 2022 the German company law has become digital, modern and competitive. More changes are coming in 2023. Until now, you had to physically appear at a notary public's office to establish a German limited liability company (GmbH) or for registration application in the German register courts. From now on a notary will still be required, but communication can take place online and therefore from anywhere in the world.

Starting point of the transformation is the EU Digitalization Directive (EU 2019/1151) with its aim to simplify the formation of companies and register applications throughout the European Union by use of online procedures. The precise changes in the German company law go far beyond this scope.

As of August 1st, 2022 numerous proceedings can be carried out online. The most important two for the German company law are:

- Online formation of a German GmbH, if the contributions are paid into the account of the GmbH (cash formation).

- Online applications for entry in the commercial register, partnership register and cooperative register for all respective company forms (corporations, partnerships, sole entrepreneur).

After a short one-year trial period, from August 1st, 2023, the changes will be even more significant. The most important two are:

- Online formation of a German GmbH based on contributions in kind (contribution in kind formation).

- Online notarization of (unanimous) shareholder resolutions to amend the articles of association, including resolutions on capital measure≠≠

The practical implementation of the online proceedings involves the notary, a special video communication system and electronic identification (eID).

The notary and his prominent role in German company law remains. The physical presence of the parties involved is replaced by a video conference provided by the Federal Chamber of Notaries (Bundesnotarkammer). Its secured video communication system will protect sensitive data and operate under state administration.

Electronic means of identification are required to identify the participants. In Germany, for example, these are identity cards with the so-called eID function. During the video conference, the photo on the ID card is compared with the video image of the persons involved. Finally, a qualified electronic signature is used to sign the document.

There are further changes that make the digital transformation of the German company law more comprehensible. The holding of virtual shareholders' meetings has been codified for the German GmbH.

From August 1st, 2022, virtual shareholders' meetings will be possible regardless of whether there are special provisions for this in the articles of association.

Despite the important changes there will be one important exception. The online proceedings will not be permitted for contribution of real estate or GmbH business shares. Here, one will still have to physically appear at the notary's office.

In conclusion, for the online formation of a German GmbH or the online registration application, all that is now required is a laptop, smartphone, electronic proof of identity and an Internet connection via the Bundesnotarkammer`s video conference.

As consultants, we can now help to ensure that our customers take advantage of these new options. Our corporate law is adapting to become a modern and competitive legal system. The future of German company law is digital.

"Since August 1st, 2022 the German company law has become digital, modern and competitive

Piotr Miszczyk

Senior Business Development Specialist - EMEA, 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 economic picture in the CEE area, like in the rest of Europe, has been marked by soaring inflation, broken supply chains and shortages in raw materials in 2022. The main factor behind the new wave of uncertainty has been, of course, the war in Ukraine that started in February with an unprovoked Russian attack on Ukraine. The geopolitical tensions between the USA and China add to these limitations and make cross-border dealmaking all the more difficult.

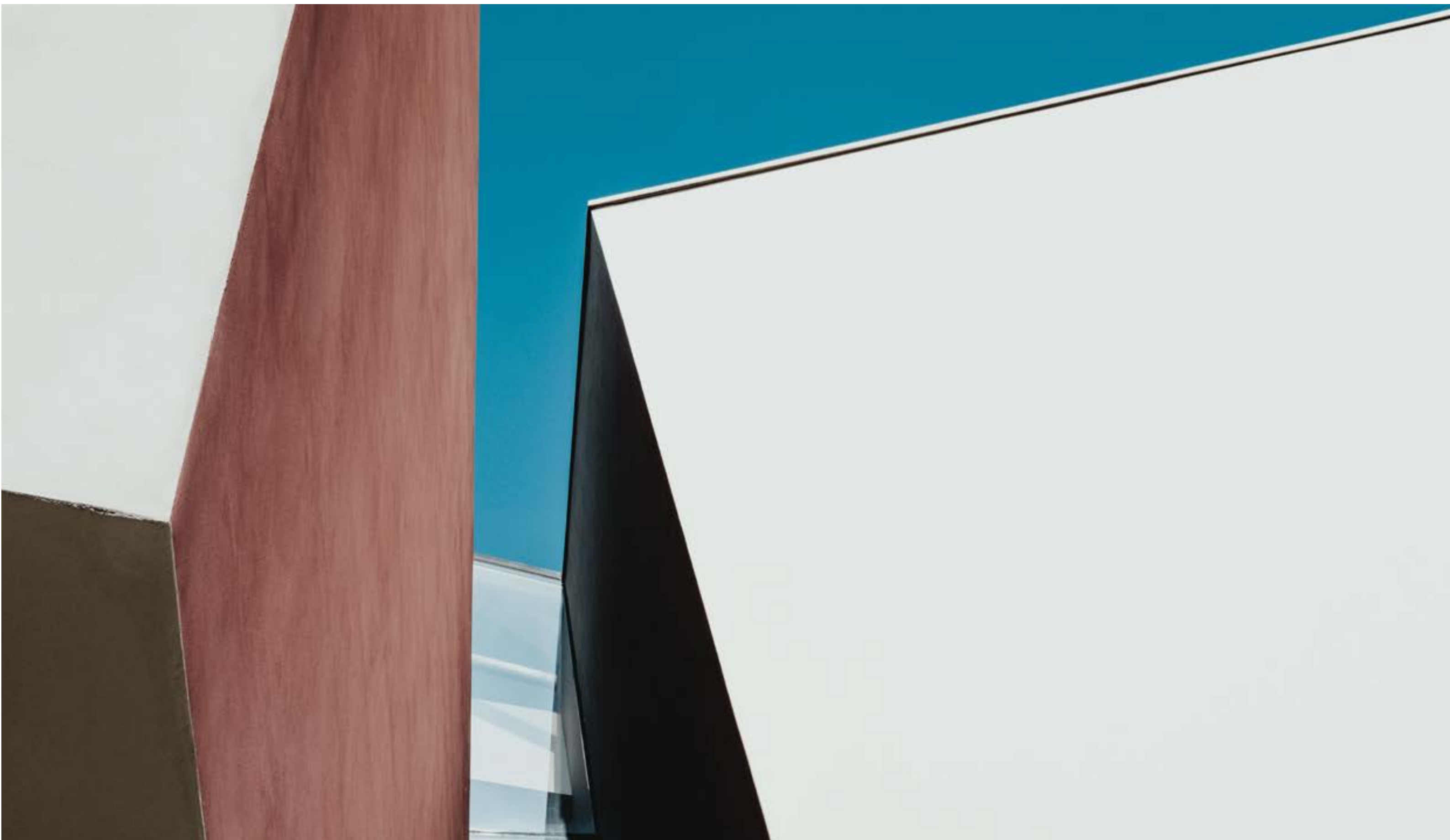
Even though the market environment for mergers & acquisitions in the analyzed region seems, once again, generally unfavorable, the fundamentals are still there and the investors can find their opportunities with lower valuations and - what remains to be seen – tougher and tougher situation of companies which is related to soaring energy prices. There is still much capital to be used for acquisition purposes, and the expected flattening curve of the interest rates may encourage businesses to obtain further financing.

The market analyses point out that in the first half of 2022 around one-third of the CEE M&A deals value was invested in, unsurprisingly, the TMT sector. As the M&A market is considerably down compared to the record-breaking 2021, it is hardly a result of the underlying market characteristics in the CEE region, but of the unresolved circumstances we have observed in the recent quarters.

What speaks for the temporariness of the downturn in the M&A activity (which is still not true for all CEE countries: in Poland, for instance, we could see a 30% drop in deal volume, but Romania has seen a rise by a quarter in this regard in H1 2022) is the amount of dry powder amassed by the private equity sector, which today is three times larger than at the beginning of the global financial crisis. This cash will surely be put to work once the geopolitical situation becomes more stable. PE/VC funds now tend to focus more on the existing portfolios in order to secure their value and maintain operativeness of the companies themselves. TMT sector remains the main target of acquisitions in the quarters to come.

Central and Eastern Europe has seen an increased interest from the United States in the recent quarters, with 48 deals completed valued at a total of EUR 3,8 billion.

The market analyses point out that in the first half of 2022 around one-third of the CEE M&A deals value was invested in, un-surprisingly, the TMT sector.



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.

Entrepreneurs operate in an increasingly difficult market environment. The economic recovery from the pandemic was combined with the effects of the war in Ukraine and, currently, with high inflation. The surge in the prices of raw materials, consumables and wages has translated into a rapid increase in operating expenses, which negatively affected a number of businesses. According to experts, the peak of inflation this year will take place at the end of Q3. At the end of the year, inflationary pressure should slowly begin to ease off, but a more dynamic decline in inflation should not be expected until the second half of 2023 due to an economic slowdown. Only then will businesses be able to get some respite and regain financial stability.

The response to inflation is raising interest rates, which has a multifaceted impact on the participants of economic processes, including enterprises that use leveraging or intend to finance transactions. An increase in interest rates is an additional financial burden for any business using indebtedness, which translates into a reduction in generated profits and, consequently, also affects business owners. Generated funds, instead of being transferred to further investments or dividends, cover the increase in the operating expenses of an enterprise.

The current situation related to the war and economic sanctions connected thereto are therefore not without significance for the M&A market in the CEE region, where increased activity can nevertheless be observed. The results from Q1 of this year show a visible slump, but the industry promptly adapted to the new situation and in the subsequent three months the balance sheets went up, confirming the ongoing attractiveness of the region among investors, in particular from the USA, who carried out the largest number of transactions in the CEE (48)*.

Businesses have not been discouraged from finalizing larger deals that were scheduled and announced during the post-pandemic boom. Nevertheless, the volatility of the market this year has raised the bar for investors. We notice significant changes in the approach of entrepreneurs who are more cautious and prudent as regards making and conducting new transactions, which in turn ultimately affect decision-making, aspects related to due diligence processes, and thus the duration of a project and the subsequent finalization of the transaction. The extension of a project's duration may also be due to the fact that investors today are more focused on current operational challenges.

It is worth emphasizing, however, that each crisis, economic slowdown or significant market change may constitute a development opportunity for the best and the boldest market players who can seize the right time to increase market share or make an active investment. The market in upcoming quarters will remain buoyant, but for different reasons than in the past three years. Before, deals were driven by excess cash in the market and the strongest were able to swallow the golden fishes that had temporary problems. The next three years will be driven by the uncertainty of the markets. It is likely we will see more sell-side mandates originated by the owners, looking for a stronger brother to support them or even take the business forward throughout the turmoil.

The constant threats on the horizon create an unstable mixture that will make trading even more difficult and will require buyers to invest more effort in order to increase their chances of success. As a result, the following quarters may bring a slump and a decline in M&A activity, and investors will eagerly anticipate an improvement in market conditions.

An increase in interest rates is an additional financial burden for any business using indebtedness, which translates into a reduction in generated profits and, consequently, also affects business owners

* Emerging Europe M&A H1 2022

Sourabh Biswas

Deputy Vice-President at OakNorth Bank

Sourabh has close to 14 years of experience, working extensively with private equity, investment banking, and corporate clients in the areas of M&A, deal origination, commercial due diligence, and value creation. He is a keen follower of the global private equity industry and ESG investing.

he world is still stumbling due to the pandemic and Russia's invasion of Ukraine, and even before it gets some breather, soaring inflation has made a foray against the global economy. The magnitude of the inflation surge has surely been a surprise to central banks and markets, and there remains substantial uncertainty about the outlook for inflation. As an immediate remedy, Central Banks across the globe have already raised interest rates markedly and have signaled they expect to continue with more sizable hikes this year.

In an update of the World Economic Outlook, the IMF highlighted economic prospects had darkened significantly in recent months as war in Ukraine, inflation, and a resurgent pandemic foisted pain on every continent. If the menaces continue to intensify, the world economy may face one of its weakest years since 1970, a period of intense stagflation across the globe. The World Bank, too, resonates with this thought. In its June 2022 Global Economic Prospects report, the Bank noted that compounding the damage from the COVID-19 pandemic, the Russia-Ukraine conflict has magnified the slowdown in the global economy, which is entering what could become a prolonged period of frail growth and elevated inflation.

Though it is clear that the world economy is staring at economic hardships and high inflation could further cause an imminent economic slowdown in the upcoming quarters, prioritizing the right set of policies can be the key to countering the current state of affairs. According to IMF, multilateral cooperation is one such key, as strengthening cooperation to improve economic prospects and mitigate the risk of geoeconomic fragmentation helps in balancing international trade relationships while promoting economic sustainability. Similarly, policymakers should keep a strong involvement in vigorous supply responses at the national level while keeping global commodity markets functioning well.

If the menaces continue to intensify, the world economy may face one of its weakest years since 1970

Bogdan Chirita

Investment Director at Value4Capital

Bogdan joined V4C in 2012, bringing in his experience from 7 years of work in leading international audit and consulting companies. Bogdan started working in the audit department in Deloitte in Bucharest. In 2007, he joined Ernst & Young as a senior consultant in the transaction advisory department. After being promoted to manager, he dealt with a wide range of transactions in various industries. He carried out analyzes of business plans, valuations and advised on mergers and acquisitions. At V4C, Bogdan deals with acquiring new investment projects, carrying out transactions and monitoring portfolio companies.

Uncertainty generally introduces volatility and a move towards more defensive strategies and courses of action. M&A will be affected as an externally induced sluggishness overtakes the previous frothiness of the deal environment.

The recent events would certainly impact, to various degrees the demand and supply balance for deals.

On the demand side Europe had a period of record breaking fundraising, acknowledged by InvestEurope's latest stats where PE/VCs in Europe had a total of EUR 285 bn of available "dry powder" at the end of 2021. This wall of capital needs to be deployed and we have seen in the past bidding races spurred by the desire to invest the available resources. This significant amount of investable capital helped push valuations to new heights towards the end of the Covid crisis, as cheap debt was widely available to compliment it. Now, we see some cooling-off in the market, but the mix of sizable dry powder and many funds which have not lived through the bust parts of the cycle, may ensure the higher valuations have some time yet to run.

Strategic investors may also contribute to a robust 2022 for select assets as they look to reposition some of their facilities and business away from Russia, but generally we see them being more cautious and aware of the heightened perceived geo-political risks of central Europe. Despite good cash accumulation and, for the moment, still good access to debt financing, we believe they might not compete as vigorously for deals in our region in the current period.

On the deal supply side the story is mixed. Some processes which were ongoing when the Covid pandemic began were postponed and restarted towards the end of 2021, beginning of 2022, boosting supply. Many new processes started as the Covid crisis faded away and performance in 2021 was fairly robust.

> **Despite good cash accumulation and, for the moment, still good access to debt financing, we believe they might not compete as vigorously for deals in our region in the current period.**

But with the expectation of weaker growth even before the War in Ukraine and later the 2022 revaluations in the public markets, there is an increasing and clear misalignment of Sellers' and Buyers' price expectations. Sellers remained anchored to historic valuations, while Buyers quickly adjusted – or are trying to impose the adjustment.

We have also witnessed increasing hesitation on the Sellers side as the uncertain environment has impacted their performance and expectations. Some are deciding they couldn't underwrite their financial projections in a partial buyout or be as certain that any earnout element would actually be achieved.

At V4C, we are on the lookout for opportunities where we have confidence in the specific sector or niche and can agree a reasonable pricing with the seller, often with an even heavier element of profit sharing.
We are certainly encouraging our existing portfolio to be on the look-out for consolidation opportunities as expectations come closer to reality.

Most significant international and domestics deals

According to various databases in CEE and Romania a couple of major deals targeting the TMT, energy and banking took / will take place during 2022:

TMT: in Hungary, Vodafone is about to sell its entity to a consortium of 4iG and the Hungarian state (deal at roughly EUR 1.7bn). In Poland UPC Poland's acquisition by a Polish competitor PLAY from Liberty Global closed in first part of 2022 for a total of EUR 1.5bn;

Energy: in Romania, Romgaz, the State owned gas exploration and production company acquired Exxon Mobil's Romanian entity involved in exploration and production as well as 50% of Neptun Deep offshore gas project in the Black sea, paying more than EUR 1.8bn in the two transactions.

Banking: The acquisition of Raiffeisen's Bulgarian entity by KBC Groep from Raiffeisen Austria for EUR 1bn also closed in 2022.

Katarzyna Buda

Senior Manager at Grant Thornton

Katarzyna gained professional experience providing professional services to entities from the TMT, FMCG, services, construction or energy industry. Her professional career began in the due diligence team in Grant Thornton. Since 2015, she has worked in the M&A and internal audit department of one of the largest tax advisory companies in the US. At the end of 2017, she joined the due diligence team of one of BIG4 companies as a team leader and manager. Since October 2019 Katarzyna has supported the due diligence team in Grant Thornton as manager and senior manager.

Despite major geopolitical and financial obstacles, global M&A activity in 4Q22 will be at a relatively high level as compared to historical periods, in our opinion. In spite of widespread uncertainty, M&A is going to grow, driven by private capital. There are multiple private equity funds investing in different sectors of the economy which have vast amounts of money to spend in the latter half of FY22 and FY23. The use of private capital both in the equity and the debt part of transactions is expected. The barrier to this growth may be the fact that the debt will become extensively expensive or inaccessible for those who partially are going to finance their deals with debt.

For CEE countries, regardless of the short-term turbulences caused by the war in Ukraine, the level of investors' confidence in the strength of the region remains high in the medium and long-term run, and the M&A market continues to be active. The evolution of the PE model will make engines for M&A, providing a source of deal making capital. PE's share of M&A has increased from approximately one third of total deal value a couple of years ago to half of the deal at this point. Not only PE funds, but also money coming from the CEE region, will remain and are active. Despite unrest in the region they are showing interest in the market of Baltic countries. In particular, TMT market is relatively hot. Digital adoption of new technologies having post-pandemic character – keeping TMT on top in terms of M&A investment, accounts for one quarter of deal volume and one third deal value in FY22. Significantly high pace may be observed also in the FMCG industry. A lot of funds are focusing on the old economy since TMT seems to be very expensive and unpredictable from business angels' perspective.

” The use of private capital both in the equity and the debt part of transactions is expected.

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.

in

During COVID years we faced a number of difficulties and new challenges. There were businesses seriously damaged by the situation, some of them even forced to close their operations down. On the other hand, there were industries which were able to benefit from the changing environment, such as IT. And some seemingly got the opportunity, such were bike and, particularly, e-bike manufacturers.

One of our clients, Czech-based e-bike manufacturer, saw a tremendous increase in demand like other players in this industry. Great opportunity to grow even faster. They were able to raise significantly higher bank financing as their bank surprisingly perceived the opportunity very similarly (supported by COVID guarantees from the government). Some customers were willing to pay in advance in order to secure a sufficient volume of bikes. Despite difficulties in logistics, as the industry has been heavily dependent on components produced in Asia (all supplies delayed and more expensive), the e-bike manufacturer ordered and purchased more components to meet the increased demand. But the instability in supply chains caused another issue – some components to assemble a single bike were missing.

The war in Ukraine brought, among others, high volatility in raw material prices as well as further instability in deliveries. In addition, the demand slowed down due to the overall situation (high inflation, rising interest rates, general economic outlook, etc.). At the end, the e-bike manufacturer ended up with warehouses fully stocked and with lower than expected revenues, resulting in a loan to EBITDA ratio over 20x. All in all, instead of catching the wave of the growing market, the e-bike manufacturer is being forced to undergo a major restructuring. From the growth to turnaround story.

„At the end, the e-bike manufacturer ended up with warehouses fully stocked and with lower than expected revenues, resulting in a loan to EBITDA ratio over 20x.

Thank you for reading the fifth edition of the FORDATA CEE Expert Report. This time, more so than before, the report seems to be addressing challenges that we all must face not just as market participants and observers, but as people whose lives have been affected at the very elemental level. We hope that the downturns we hinted at in the title of this issue are only temporary, and that the problems we see today as overwhelming will be a thing of the past soon enough. We keep our fingers crossed for a swift resolution of the conflict in Ukraine, and are looking forward to a fast rebuilding of the country and decades of its thrivingness to come.

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.