

# Mergers and Acquisitions (M&A) in Central Eastern Europe, 2006

## Country Report: Hungary – 2006 – A year of mega-transactions!

### Introduction

As in prior years, PricewaterhouseCoopers has conducted a Survey on the Mergers and Acquisitions (M&A) activity focusing on transactions and privatisations in eleven countries of the Central and Eastern European (“CEE”) region. This year Serbia was added to the list of surveyed countries. We reviewed 2,527 publicly-disclosed private transactions and 490 privatisations that were closed during 2006 in the participating countries (Bulgaria, Czech Republic, Croatia, Poland, Hungary, Russia, Romania, Serbia, Slovakia, Slovenia and Ukraine).

The dynamic growth prevalent in the region’s transaction market during 2005 continued into 2006. According to the number of published transactions the market grew by over 36% resulting in a record value of USD 163bn. Relative to the market size of USD 91bn in 2005 this represents a 79% increase. The largest growth was seen in Russia, Poland and the Czech Republic. As a result, the region’s share in the global M&A market increased from 9% in 2005 to 12% in 2006.

Hungary showed a mixed picture in terms of M&A activity in 2006. While the doubled market size ranked Hungary unambiguously among the top performers, this was somewhat shadowed by the almost 27% drop in the number of transactions.

Despite the above, Hungary’s ability to attract capital improved considerably.

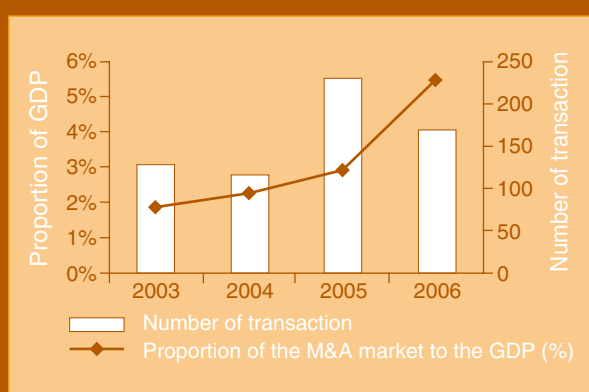


### The M&A market in Hungary

Based on the publicly-disclosed private transactions in 2006, PricewaterhouseCoopers estimates that the value of the Hungarian market is about USD 9.8bn, which is more than twice the size of the 2005 value of USD 4.6bn.

The Hungarian M&A market’s contradictory position is highlighted by the significant drop in the number of transactions. In 2006 the number of transactions dropped from 231 in 2005 to 168, which can primarily be contributed to the low acquisition activity of the Hungarian corporate segment. The total number of transactions closed by them decreased significantly, from 121 in 2005 to only 50 transactions. Accordingly, the share of domestic transactions relative to the total number of transactions fell to 30%, the lowest level in the past three years. The general market and economic uncertainty (reforms, fiscal restrictions, weak macroeconomic performance) experienced in 2006, must have played a central role in the downward trend of deal volume.

Foreign investors invested in Hungarian enterprises USD 5bn in 90 transactions. The number of mega-transactions with a value over USD 100m increased significantly as compared to prior years, which contributed significantly to the doubling of the market size. The increasing regional expansion of the Hungarian corporate segment shows reason for further optimism.



## Case study

Acquiring company:	E.ON Ruhrgas International
Target companies and acquired shares:	MOL Földgázellátó Nyrt. (100%), MOL Földgáztároló Nyrt. (100%), Panrusgaz magyar-orsz Gázipari Nyrt. (50%)
Realised value:	USD 1,351m

E.ON Ruhrgas, a member of Germany's largest energy group, E.ON AG, disclosed that it signed mandatory agreements on purchasing 100% of MOL's gas industry and 50% of Panrusgaz.

The total purchase price was USD 579m. In addition to this, E.ON agreed to assume the owner's MOL's debt amounting to USD 72m. Both the Hungarian Energy Office and the European Union approved the transaction and accordingly, the transaction was completed on 31 March 2006.

Source: Internet Securities, Dealogic

The confidence of foreign investors towards Hungary remained steady since the number of transactions closed by them increased from 83 (in 2005) to 90. This was 54% of the total transactions completed in 2006 (it was 36% in 2005). The amount of capital invested through these acquisitions exceeded USD 5bn.

- The largest interest from Anglo-Saxon investors – Great Britain (18), United States (9), Ireland (4) – by concluding 31 transactions in Hungary, compared to 22 in 2005.
- German, Austrian and Swiss investors generated similar activity compared to prior years by concluding 26 transactions. Within the group only Austria showed declining interest in Hungary based on the number of acquisitions closed by them.

The number of transactions done by Hungarian companies in foreign countries has not changed considerably with 28 acquisitions in 2006 (2005: 27 transactions). On the basis of acquisition targets there was a shift in focus towards the Eastern markets of the region: Romania (7), Serbia (5) and Russia (3). The group of companies playing a key role in outward acquisitions showed a similar concentration since of the 28 transactions 8 were related to OTP Bank and 4 to MOL Nyrt.

Mega-transactions with values of over USD 100m, of which 14 was completed in 2006, played a key role in doubling the M&A market. Their total value exceeded USD 7bn, which is 71% of the estimated market size in terms of value. Accordingly, USD 100m-plus acquisitions ruled the Hungarian market in every aspect during 2006.

Transactions to and from Hungary broken down by geographical area



### Three largest transactions over USD 100m targeting Hungary in 2006

No.	Investor	Investor country	Target	Value (USD m)
1.	E.ON AG	Germany	MOL Földgázellátó Nyrt. and Földgáztároló Nyrt. (100%)	1,351
2.	Premira Advisers LLP and Vienna Capital Partners	Great Britain and Austria	BorsodChem Nyrt. (87.94%)	1,340
3.	KBC Group NV	Belgium	K&H Bank (40.2%)	602



Share of the industries



Source: PwC analysis

Considering the industry breakdown, the greatest activity accrued in the following segments: manufacturing (30), energy & utilities (21), financial services, IT (15) and other services (16). Based on the change in the number of transactions relative to 2005, only the energy & utilities, the manufacturing and the transportation sectors showed an increase.

Relative to the region, notable interest was shown in the energy & utilities sector, in the pharmaceuticals & chemicals sector and in IT services of the Hungarian market. These segments showed over 3-4% higher activity level than that of the average in the region.

## Examples for Hungarian target companies

Energy & utilities	MOL Nyrt., Power Station (EMA-Power), DDGÁZ, Inke Petroleum Pty Ltd., Energy Capital Kft., Geohidroterv Kft., DÉGÁZ Zrt., Pannon Holding, MOL-Gazprom joint venture (SEP Company), Inoterv Rt., DÉMÁSZ, Vértési Erőmű, SZIGMA-COOP Kft.
Services	Graphisoft NV (real property business line), Photel Inc., OTP Hungaro-Projekt Kft., Cardnet Rt., HPS Marketing Kft., HPS Direct Sales Kft., HPS Experience Kft., HPS Promotion-Store Kft., Taverna Group, Danubius Szálloda és Gyógyüdülő Nyrt.,
Pharmaceuticals & chemicals industry	ComGenex Inc., N-Gene Kft., Diagnostic Units Hungary Kft., Richter Gedeon Vegyészeti Gyár Rt., Richter Gedeon Nyrt., BorsodChem Nyrt.
Transportation	Skoglund Holding Befektetési Rt., Révész Eurotrans Kft., FIX Kft., Multicont Kft., Budapest Airport Handling Kereskedelmi és Szolgáltató Kft.
IT sector	Singular Hungary Rt., ChamAxon Ltd. (Hungarian chemical and biotechnological software development business line), KDBR Consulting Kft., Adnetwork Kft., Synergon Informatika Rt., Unitis Zrt., iWiW Kft., KFKI-LNX Hálózatintegrációs Zrt.

Considering the average transaction values, the Hungarian M&A market provided top performance in 2006. The mean value quantified on the basis of all disclosed Hungarian transactions has more than tripled compared to the USD 27m in 2005 to USD 89m. This unprecedented growth was again

primarily due to the mega-transactions. The average acquisition value was the highest in the financial services, followed by pharmaceuticals & chemicals industry and the energy & utilities.

The average transaction value in these three industry sectors was around USD 300m or more.

## Privatisation

In 2006, the Hungarian privatisation market dropped both in terms of market size and the number of privatisations. Compared to 11 transactions completed in 2005, only 7 deals were closed in 2006. The market size fell from USD 2.7bn to USD 1.4bn in 2006. The average value realised during the privatisations – in line with the above – fell to USD 237m in 2006.

The only exceptions from the above trend occurred in Russia, Serbia and Ukraine. Though the number of transactions increased dynamically in these countries, this was not followed by a similarly dynamic growth of the estimated market size.

## Economic incentives State and European Union Grants

The Hungarian grants system showed a stable picture in 2006, which is of the utmost importance as Hungary will have access to nearly EUR 24bn (HUF 8,000bn) in the budget period between 2007 and 2013. The grants cover industry segments such as transportation, environment protection, health care, and education. As it is widely known, these areas have a long-term investment horizon and accordingly, they require investment decisions made by considering long term perspectives. The increased efficiency of the subvention system, its improved transparency, and lower administration burden can have a positively influence in obtaining those funds.

In addition to the European Union resources, subsidies from local governments play a fundamental role within the grants system. The Hungarian government may grant subsidies to major investments, that are important to the national economy (above EUR 50m), to logistical investments (above EUR 10m), to investments for research and development (above EUR 10m), and to setting up regional service centres.

These tendencies show that after the market has gone through the maturity phase in several countries of the region the privatisation wave is moving east. While countries in the Eastern part of the region can expect increasing privatisation activity, the countries with mature privatisation markets, based on our analysis above, will likely to experience market activity concentrated around larger mega-privatisations.

## Industry tendencies – Energy sector

In 2006 the M&A activity became remarkably vibrant in the Hungarian energy and public utilities sector. The number of closed transactions has more than doubled compared to 2005 (from 9 to 21), while its share in all transactions exceeded the average share of 9% as compared to the total transactions experienced in the energy sector. The average transaction value calculated on the basis of disclosed acquisitions jumped from estimated USD 82.7m in 2005 to almost USD 300m. The total value of acquisitions realised by foreign and domestic investors exceeded USD 2bn. French energy industry companies especially showed an interest in the Hungarian energy sector in 2006.

This activity in the CEE energy sector of the can be explained by several tendencies. The most important is the gas and electricity market, which comes into force in the middle of 2007, and, in close relation with this, the European Union directive, which prescribes the unbundling of services. In addition to power plants, there was increased interest in the processing, trading and distributing as well as other service activities, which may be related to acquiring position in a more liberalised market. The internal restructuring and portfolio cleaning efforts of the large energy concerns also significantly contributed to the increased M&A activity in the sector. Though the investments in renewable energy sources and technologies contributed to the increased acquisition mood only insignificantly in 2006, it is likely that their role will significantly increase in the next two or three years.

## Further information

The entire study on the region is included in the 2006 Mergers and Acquisitions Survey in Central Eastern Europe.  
Results are available under [www.pwc.com/mandace](http://www.pwc.com/mandace).

For further information on the survey or our transaction advisory services, please, contact us:

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