

Advisory Services

# Central & Eastern European Mergers & Acquisitions Survey 2006\*

The Czech Republic



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PRICEWATERHOUSECOOPERS 

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## The Czech Republic

*In light of the recent global and regional developments on the M&A market, we are pleased to present to you our latest report on the mergers & acquisitions (M&A) market in the Czech Republic in 2006. We have been reviewing private sector deals in the Czech Republic for ten years and, since 2003, have included a review of privatisations (or public sector deals) in our analysis.*

*We are pleased to say that the continued growth in the global M&A market is having a positive impact on the Czech Republic as well. The number of private sector transactions in 2006 grew by 11% when compared with 2005.*

*The number of inward transactions in the Czech Republic from EU countries decreased by 2% (all EU countries excluding the Czech Republic) in 2006 compared with 2005. The share of EU countries on the total number of inward deals decreased as well from 74% in 2005 to 72% in 2006.*

*In 2006, we also saw several (44) transactions made by Czech companies abroad, mainly in the CEE region, and in particular in Slovakia (18). For comparison – in 2005, there were 25 disclosed outward transactions made by Czech companies (12 deals in Slovakia).*

*As for M&A activity in the industry sectors, the most active segment is, as last year, manufacturing with 65 transactions.*

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# Survey Results

## Number of transactions

Based on PwC research, M&A activity on the Czech market in 2006 slightly increased to 269 publicly disclosed private sector deals, whereas there were 242 transactions in 2005 and 185 in 2004. This represents an 11% increase over 2005 confirming the continuing strength of M&A activity in the region.

## Disclosure rate

The disclosure rate of private sector deal values (publicly disclosed transactions, including the purchase price) in 2006 in the Czech Republic was at the level of 25% in comparison with 30% in 2004 and 30% in 2005.

## Value of transactions

The total disclosed value of the M&A market in the Czech Republic increased from USD 5.9 billion (62 transactions) in 2005 to USD 6.2 billion (68 transactions) in 2006.

The average value of all publicly disclosed private sector deals in the Czech Republic was USD 92 million in 2006 and USD 96 million in 2005. The average deal value when excluding the 18 transactions above USD 100 million was USD 24.5 million, which is a 44% increase from the USD 17 million of 2005. The aggregate value of 18 private sector transactions disclosed above USD 100 million was USD 5 billion in 2006.

The largest publicly announced M&A private sector deal was the purchase of Czech telco and transmission company České Radiokomunikace for USD 1,536 million (CZK 34 billion) by a group of foreign investors consisting of Lehman Brothers, Mid Europa Partners and Al-Bateen Investment who, as a result of this transaction, also became the owners of 39.2% of the Czech branch of mobile operator T-Mobile. The seller was the Dutch company Bivideon.

The second largest private transaction was the purchase of a 24.876% stake in Zentiva by the largest European pharmaceutical firm Sanofi-Aventis (France) from the investment fund Warburg Pincus (19.6%), certain Zentiva managers and employees (4.5%), and a certain former manager of Zentiva (0.7%). The cash consideration was USD 517.7 million (CZK 13 billion). Zentiva has the leading position on the market in the Czech Republic, Slovakia and Romania, in the latter of which the company bought a majority stake in Sicomed in 2005.

Miroslav Bratrych, Director, Transactions Services,  
PricewaterhouseCoopers

*“Between 2005 and 2006, the number of transactions completed in the Czech Republic by private equity funds grew again. As a result of liquidity surplus on the world capital markets, the amount of finances that these funds are willing to invest in the CEE has been increasing. The most attractive sectors for private equity have traditionally been telecommunications, media and services. However, in 2006, they also invested in other sectors, including manufacturing. These trends demonstrate that the decisive factor for private equity funds is their expected revenue based on future profitability of the target company and not the area of business.”*

## Privatisations

In 2006, there were only three disclosed privatisation deals – two made by the Czech Consolidation agency and one by the City of Ústí nad Labem – totalling USD 140 million.

The biggest public sector transaction was the sale of Aero Vodochody to Oakfield of the investment group Penta at the end of 2006. The purchase price amounted approx. to USD 130 million. As Aero Vodochody is a highly leveraged company, the new owner's task will be performing a financial restructuring of the company, improving profitability, and acquiring and diversifying in new deals.

## Industry sectors

As in previous years, most (65) transactions on the Czech market were concluded in the manufacturing sector (up from 57 in 2005). The other most active sectors recorded significantly less transactions – utilities ranked second with 32 deals, followed by food & beverages with 31 deals in 2006. The utility sector grew strongly when compared with the 18 transactions that took place in 2005.

Unsurprisingly, the **manufacturing sector** in the Czech Republic, being a traditional and attractive industry segment, consistently leads the transaction tables; however, a particularly low disclosure rate can be observed here. Among the bigger disclosed transactions belonged the sale of Kablo elektro, a.s. to Danish industrial concern NKT cables or the sale of MSA a.s. to Russian group Celjabinskyj Truboprokatnyj Závod.

**Utility sector** growth in 2006 indicates an increased interest in this sector. Domestic or inward transactions, included, for example, a disposal of a 39.04% stake in Severočeská energetika, a.s. by J&T Finance Group for approx. USD 171.5 million (CZK 4.1 billion), with ČEZ being the acquirer and increasing its stake in Severočeská energetika to 96.14%. There were also transactions between RWE and E.ON in this sector last year. Outward transactions included three significant deals – two in Poland, one in Bulgaria – in which ČEZ was involved.

Although the number of transactions in the **telecom industry** decreased from 13 in 2005 to 7 in 2006, the biggest private deal transaction in the Czech Republic last year was from this sector – the sale of České Radiokomunikace mentioned in more detail in the text above. The further interesting telecom transaction was, for example, the sale of Tele2 for approximately USD 18.8 million to České Radiokomunikace where PricewaterhouseCoopers was the lead advisor of Tele2's owner, the listed Swedish telecommunication group Tele2 AB.

An interesting disclosed private transaction from the **food sector** was the sale of Poděbradka, no. 2 on the mineral water market, where the purchaser was Karlovarské minerální vody. Additionally, there were sales of the companies Český olej, Jemča, Promil and others.

## Foreign investments and outward transactions

The proportion of transactions from foreign investors decreased to 47% in 2006 compared to 2005 when it was 52%. However, despite this fact, the value of total disclosed capital invested in the country's companies via private sector and M&A transactions reached USD 4,572 million, which is more than in 2005, when the volume was USD 4,096 million.

There were 44 disclosed outward transactions made by Czech companies in 2006. This is an increase over 2005, when only 25 such transactions were disclosed. The most favoured destination was Slovakia with 18 deals (12 deals in 2005). Other destinations include Poland (6), Germany (5) and multiple transactions in, amongst other places, Ukraine, Bulgaria, Romania, Hungary, and China. The biggest disclosed outward transactions were performed by ČEZ, which company has invested over USD 259 million in Bulgaria (electricity plant in Varna) and USD 460 million in Poland in 2006 (two electricity plants).

Miroslav Bratrych, Director, Transactions Services,  
PricewaterhouseCoopers

*“The continuing increase in the number of transactions that Czech companies completed abroad in 2006 confirms that some local companies have become big and strong and must expand abroad in order to remain competitive against multinational companies. Important outward acquisitions were completed in 2006 by CEZ, PPF, Agrofert Holding and Zentiva.”*

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