

# Central & Eastern European Mergers & Acquisitions Survey 2003\*





# Introduction

PricewaterhouseCoopers has been surveying mergers and acquisition in the Central & Eastern European region since 1997. Following an initial boom in transactions along with the transition to market economy in the region, over the course of the past years we have witnessed a severe decline in this market in a number of countries. Even though it has been our experience that each country of the region has its own trends and should be looked at differently, the effects of global recession could be felt in most of the local markets. After a sharp decrease in 2001, 2002 brought about diversified developments across the region.

During the year 2003 a number of factors continued to hinder a rebound of M&A activity globally. The war in Iraq, the threat of SARS and other viruses and a sluggish economic performance all had their negative impacts on the global markets. However, by the end of 2003 signs of recovery started to show. Both analysts and Chief Executives have been expressing optimism concerning the near-term future,

foreseeing the improvement of the economic climate and expecting M&A activity – an important means of corporate growth – to take off. Several companies have completed their restructuring programmes started a few years ago, and private equity funds have been more and more active. In numbers, in 2003 global M&A activity has continued to decline, but the rate of the decline was modest, and total deal value remained approximately at the same level as in 2002. Europe, however, even experienced a slight growth.

Amid such global trends we find that the M&A market was buoyant in Central & Eastern Europe in 2003. We have surveyed over 1,100 publicly disclosed, private transactions in nine countries of the region including Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Russia, Slovakia and Slovenia to gain an overall indication of the transaction climate and M&A activity. Despite negative trends prevailing in some countries, most of the region's markets have been growing. In many

of the large local markets, as well as in the region as a whole, the overall value of the M&A market has increased significantly. The number of mega-deals in the region also increased, some of these are also among the largest transactions listed in global league tables.

In addition to our M&A research this year we have also examined privatisations in the region. The privatisation process had started in the early 90's and was of unique importance to the region. Although some countries have already transferred the majority of state assets to private investors, transactions of this kind remain an important segment of the market representing one quarter of the M&A market, but revealing particular trends in several aspects.



Margaret Dezse,  
Central & Eastern European  
Corporate Finance Leader

# I. Major findings

## USD 38.6 billion market value

Based on our review of publicly disclosed private-sector transactions, PricewaterhouseCoopers estimates the value of all Mergers & Acquisitions transactions to be USD 38.6 billion in the nine countries surveyed: Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Russia, Slovakia and Slovenia.

## 1,176 private-sector deals

There were a total of 1,176 publicly disclosed, private-sector transactions, excluding privatisations, closed in the Central & Eastern European region in the year 2003.

## Multi-million transactions on the rise

In contrast to 28 transactions above USD 100 million seen in 2002, 2003 saw 42 mega-deals underpinning an unexpected dynamic growth of market value across the region.

## Increased average deal value

The average transaction value in the nine countries of the region has risen to USD 39.1 million from USD 21.7 million in 2002. In the three countries of the Czech Republic, Hungary and Poland, the average deal value increased to an unprecedented value, USD 52 million from USD 22.5 million in 2002.

## Higher ratio of domestic deals

The ratio of domestic deals continued to grow in 2003. As opposed to 63% in 2002, more than two-thirds (67%) of the transactions took place among players located within the countries involved in the survey. The countries where the ratio of domestic deals was the highest were Russia (86%), Slovenia (82%), Poland (68%) and Hungary (60%).

## Increased inward activity

The total number of inward transactions was 366, representing a slight increase from 354 in 2002. The total value of invested capital in the region rose significantly from USD 7.6 billion in 2002 to USD 12.4 billion in the whole of the region.

## United States most important inward investor

US investors participated in 48 transactions exceeding the previously more active Germany, from which 42 deals originated. The third most active investor country in 2003 was Austria (with 37 transactions), followed by the United Kingdom (36), France (27) and the Netherlands (21).

## Fewer, but larger outward transactions

There were altogether 43 transactions originating from the nine countries forming part of the research. This represents a decrease compared to 54 transactions in 2002. Nevertheless, total capital invested from the region had more than doubled from approximately USD 500 million in 2002 to USD 1.1 billion in 2003.

## Weighting of industry sectors nearly unchanged

The proportion of the most significant industry sectors in terms of M&A activity remained similar to that of last year. Manufacturing continued to be the leading sector in 2002, representing 22% of the deals. The second most active sector was Food & Beverages with 13%, the third Financial Services with 12% of all transactions.

## Privatisations

There were 337 privatisations in the region in 2003 with an estimated market value of USD 10.2 billion. Countries hosting the largest markets for privatisation were Russia with a market estimate of USD 3 billion, Slovakia with an estimate of USD 2.9 billion, and the Czech Republic with an estimate of USD 1 billion.

## II. The market

There were 1,176 private-sector M&A transactions in total in the nine countries surveyed in 2003.

This represents an increase in M&A activity compared to the 1070 transactions monitored in 2002. Considering the seven countries where we have data compiled since 2001, the total number of transactions continued to increase as well (839 in 2001; 968 in 2002; 1,103 in 2003). In the Czech Republic, Hungary and Poland, however, the total number of deals has decreased to 527, from 575 in 2002.

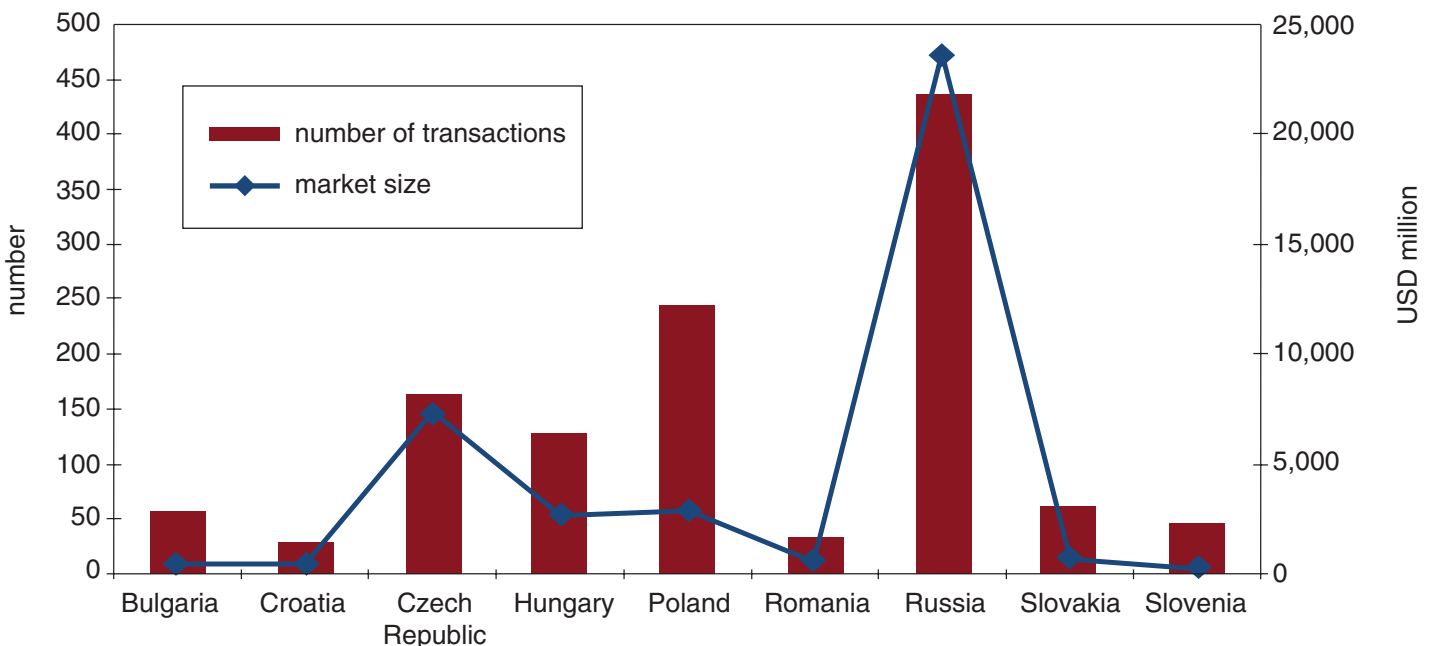
The estimated market value of all M&A transactions has increased steeply across the region. In the nine countries, the total estimated market value equals USD 38.6 billion, which is more than twice the 2002 value of 17.7 billion. This significant growth can be mostly attributed to the Russian market, where several mega-deals took place. Russian transactions above USD 100 million themselves represented USD 15.4 billion, as opposed to USD 3 billion in 2002.

In addition to the continued Russian growth, the estimated market value grew significantly in Bulgaria, the Czech Republic, Hungary, Romania

and Slovakia as well. In most of these countries the growth can also be attributed to transactions of large values, and consequently, increased average transaction values.

The average transaction value in the nine countries of the region has risen to USD 39.1 million from USD 21.7 million in 2002. In the three countries of the Czech Republic, Hungary and Poland, with data going back to 1997, starting from 1999 the average deal value has been decreasing from USD 42.8 million in 1999 to USD 22.5 in 2002. However, in 2003 the average deal value increased to an unprecedented value, USD 52 million.

Total estimated market value and number of transactions in 2003



In 2003 **Russia** showed an impressive growth in the value of M&A deals from USD 7.4 billion in 2002 to USD 23.7 billion, and also in number, from 286 in 2002 to 436 in 2003. Consequently, Russia again held a dominant position in the Central & Eastern European M&A market. The year 2003 was characterised with increased transparency of the deals through better deal organization, legal, tax and financial structuring.

The M&A market in the **Czech Republic** also experienced an unprecedented growth. 163 transactions took place in the country, which represents a 10% increase on 2002 as well as an all-time record since the market has been tracked. Estimated market value equals USD 7.4 billion, as opposed to only 2.3 billion in 2002. The nine large transactions above USD 100 million alone represent USD 3.5 billion in value, exceeding total market value for 2002.

In contrast, **Poland** recorded a slight drop in the number of M&A transactions, with 245 publicly disclosed, private-sector deals. The volume of deals fell by only 5% in comparison to the previous period, and total market value was estimated at USD 2.9 billion. This represented a 6% drop in terms of the value of transactions compared to 2002. The deal value disclosure rate, which has been much higher than the regional average, continued to grow to approximately 80%.

The estimated market value in **Hungary** increased significantly compared to 2002, which can be mostly attributable to an increased value of deals. Average disclosed deal size was USD 33.5 million, much higher than USD 13.96 in 2002. Total deal value in the country equalled USD 2.6 billion in 2003, a 36% growth on 2002. However, the number of transactions that closed in 2003 was only 128, representing a 29% decrease in activity compared to 179 deals in 2002.

The number of deals continued to increase in **Slovakia** in 2003, where 61 transactions took place versus 51 in 2002. The growth is also observable in market value from USD 291 million in 2002 to USD 653 million in 2003.

As we anticipated in our previous report, in 2003 **Romania** became a more attractive target for investors, as the economy continued to improve. The notable progress made in terms of economic performance in the last years, plus the perspective of EU accession in 2007, had favourably influenced foreign investors' preferences. In 2003, the M&A market more than doubled in terms of value as compared to 2002, showing an improvement in investor confidence and increased capitalisation of companies.

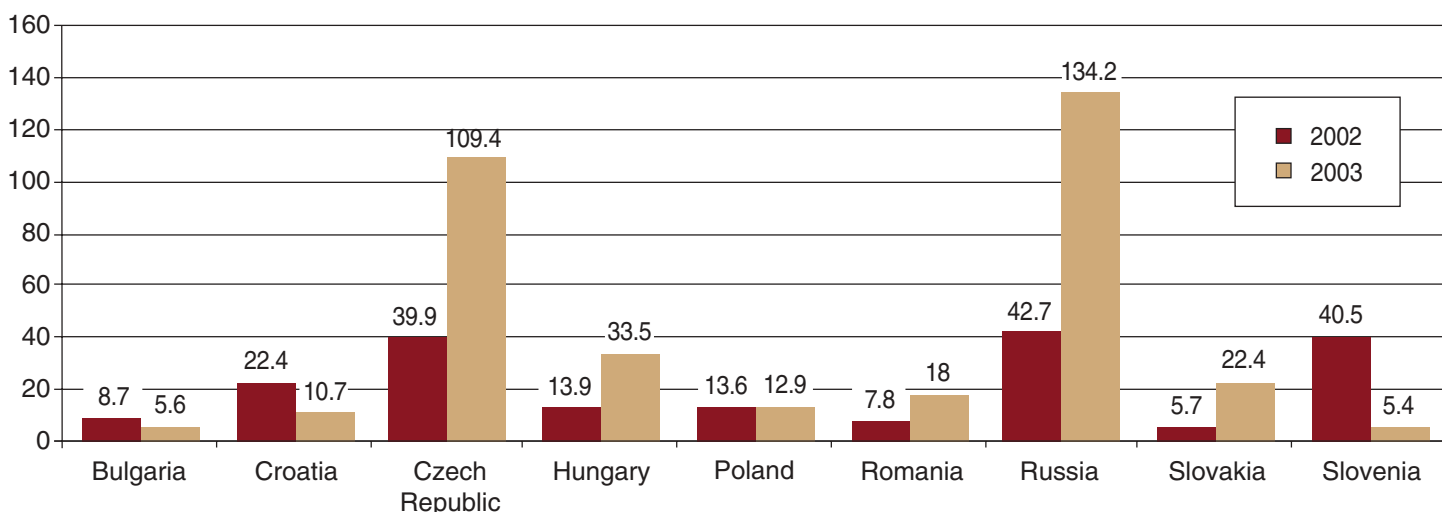
The number of transactions has considerably increased in **Bulgaria** in 2003. 57 deals took place in the

country in 2003 as opposed to 29 in the preceding year. Consequently, the total size of the market rose to USD 317 million from USD 254 million in 2002. However, the average deal size decreased in 2003 and large sized transactions remain to be a rarity in the country. In line with the regional norm, Manufacturing and Food and Beverages were the most active sectors in the country.

**Croatia** was one of the few countries of the region where the M&A market decreased. Both the number of transactions and total estimated market size decreased throughout 2003. The absence of large transactions this year also contributed to the reduction.

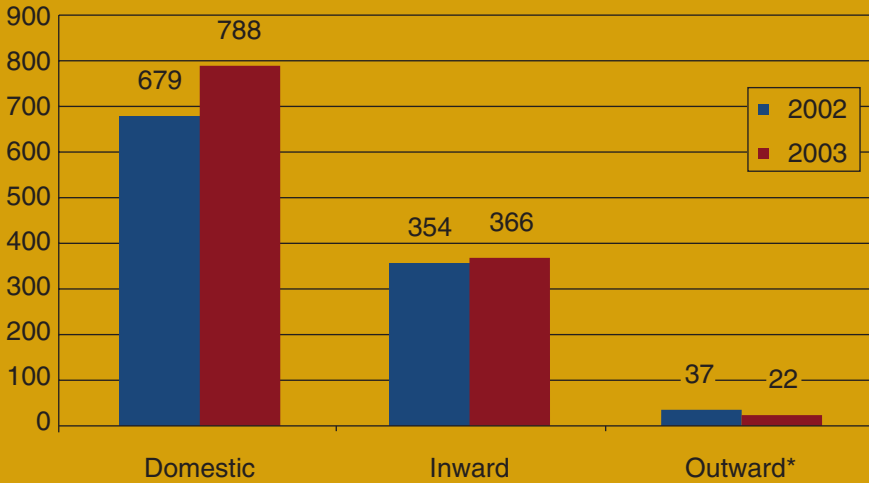
The lack of large transactions similar to that of last year (when the region's largest transaction took place in the country) resulted in a considerable decrease of market value in **Slovenia** as well, from USD 1.3 billion in 2002 to USD 249 million in 2003.

Average transaction value in 2002 and 2003 (USD million)



### III. Domestic and cross-border transactions

Direction of transactions in 2002 and 2003



\* Outward transactions presented in the chart are equal to the gross number of outward transactions originated from the nine participant countries minus the number of intra-regional transactions.

#### Domestic deals

The ratio of domestic deals (where the buyer and the target are located within the same country) continued to grow in 2003. In contrast to 63% in 2002, more than two-thirds (67%) of the transactions were of this kind. The countries where the ratio of domestic deals was the highest were Russia (86%), Slovenia (82%), Poland (68%) and Hungary (60%).

#### Inward investment

The total number of inward transactions was 366. This represents a slight increase from 354 in 2002. However, after a fall in inward activity from 343 in 2001 to 322 in 2002 in the seven countries where data is also available for 2001, the fact of the rise is significant. Also, the total value of invested capital in the region rose significantly from approximately USD 7.6 billion in 2002 to USD 12.4 billion in the whole of the region. In the case of the *seven* countries we see a slight increase from approximately USD 5 billion in 2001 and 5.8 in 2002 followed by a sharp increase to USD 12.3 million in 2003. Despite the significant growth in absolute values, the ratio

of the total capital invested into the region compared to the whole market did not change, and remains around one third of total M&A value.

A change from earlier years' trends, companies located in the United States took part in the largest number of inward transactions in the region. US investors participated in 48 transactions exceeding the previously more active Germany, from where 42 deals were originated. The third most active investor country in 2003 was Austria (with 37 transactions), followed by the United Kingdom (36), France (27) and the Netherlands (21).

United States investors accounted for 13% of the deals of the region in 2003 as opposed to 10% in 2002. The country they favoured the most was Russia, which experienced a revival in this aspect. After a drop from 10 transactions in 2000 to three in 2001, 11 deals in 2003 represent a significant growth. The number of US investments decreased in Poland from 15 to 10. Other countries attracting significant inward investment from the United States remained the Czech Republic (10 deals) and Hungary

(six deals). Five transactions took place in Slovakia and four in Romania.

More than one in ten inward transactions in the region originated from Germany. However, the number of deals decreased compared to 2002 (49 deals). The number of transactions targeted at 2002's "favourites" dropped both in Hungary (from 20 to seven) and Poland (from 15 to 11). However, along with the Czech Republic, Poland was the country attracting the largest number of transactions.

The majority of the 37 transactions originating from Austria were directed in the neighbouring countries of the Czech Republic (13 transactions), Slovakia (eight) and Hungary (seven).

The countries of the region that attracted the largest number of foreign direct investments (FDI) in 2003 were the Czech Republic (86), Poland (76) and Russia (63).

#### Outward transactions

There were a total of 43 transactions originating from the nine countries forming part of the research. This represents a decrease when compared to 54 transactions in 2002. Nevertheless, total capital invested from these countries has more than doubled, from approximately USD 500 million in 2002 to about USD 1.1 billion in 2003. The growth was even more significant when considering the three countries of the Czech Republic, Hungary and Poland, from USD 0.6 million in 2001 to USD 630 million in 2003.

Out of the 43 transactions, 21 were targeted in the region of the surveyed countries as well, which represents a slight increase compared to 17 deals within the region in 2002. The most active country in terms of transaction origination remained Russia with 21 deals. Further important outward bidders were Hungary with seven, and the Czech Republic and Poland with five deals each.

## IV. Industry sectors

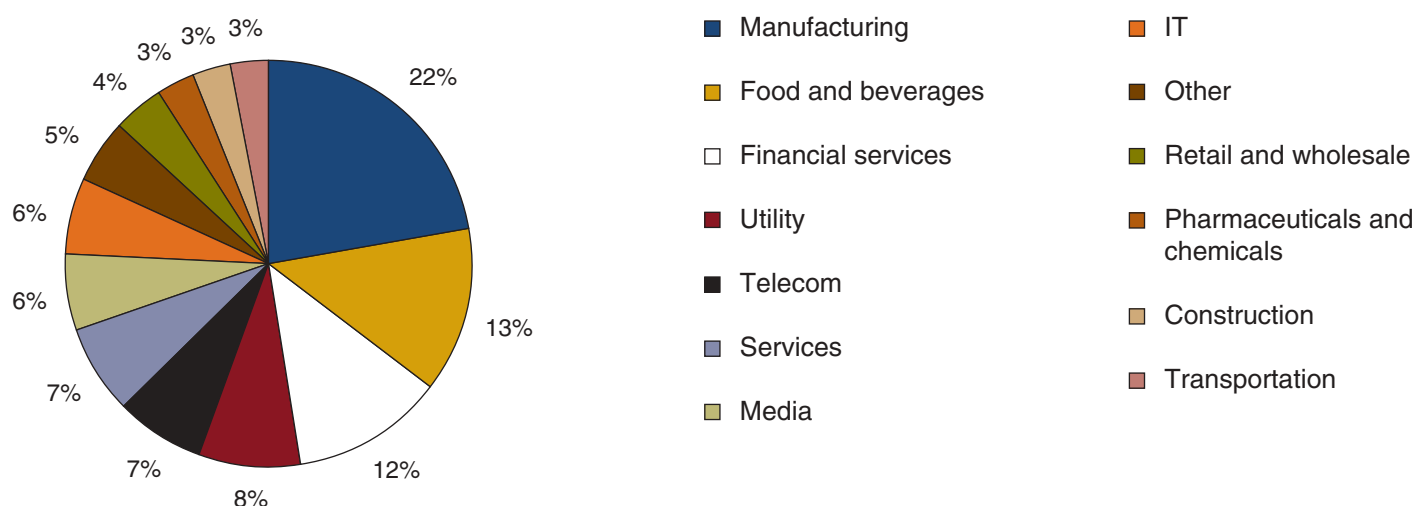
The most active industry sector in the region has been manufacturing for several years running. The year 2003 did not bring forth any major changes in this aspect: 262 transactions in manufacturing represented 22% of all M&A activity. In terms of number of deals Food and Beverages ranked second with 13%. There were 143 transactions in the Financial Services industry, accounting for 12% of all

deals. This represents a minor decrease from 15% in 2002. The number of transactions that took place in the Utilities sector rose from 5% in 2002 to 8% in 2003. Considering the region in its entirety, however, the proportion of industry segments is very similar to the previous years.

The ratio of industry sectors was relatively even among the countries form-

ing part of the survey. Comparing to the whole region, the ratio of the number of deals sector was relatively high in the Information Technology sector in Poland (12%), Food and Beverages in Bulgaria (21%) and Romania (18%), Media in Hungary (12%) and the Czech Republic (10%), and Telecommunications as well as Utilities in Russia (14% and 13%).

The share of industry sectors in 2003



## V. Factors affecting transactions

### Stabilising M&A market in 2003

The global M&A recession continued in 2003 with number of deals down 23%, but with total value of deals remaining about the same<sup>1</sup>. The war in Iraq, the threat of SARS and other viruses, and other factors all contributed to a weakened activity world-wide. However, after a 50% decline in 2001 and a 28% decrease in 2002, the decline seems to be receding. In Europe the markets witnessed a modest increase in M&A activity: 2% in terms of value and 4% in terms of number of

transactions<sup>2</sup>. Contrary to the global as well as European trends, M&A activity took off significantly in Central & Eastern Europe in terms of both number and value of deals.

### EU accession

Five countries surveyed are to join the European Union on the 1st May 2004 and some other countries have the prospect of joining in the coming years. This is expected to have a positive effect on the growth of the economies of the region along with increased M&A activity. Increased competition will most likely lead to consolidation in many of the markets, which will also give rise to M&A.

### The Russian motor

As forecasted last year, the Russian market continued to drive growth of the M&A market in the region. In 2003, 37% of the transactions took place in Russia, this is a significant growth compared to 27% in 2002. The estimated value of the market experienced an unprecedented growth from USD 7.5 billion in 2002 to USD 23.7 billion in 2003. The 18 mega-deals that took place in Russia accounted for USD 15.4 billion alone. The ratio of deal volume per GDP has increased from 0.9% in 2002 to 2% in 2003, but since this ratio is still small compared to more mature markets of the region, further growth in Russian M&A activity is still expected.

<sup>1</sup> Source: Dealogic

<sup>2</sup> Source: Thomson Financial

# VI. Privatisations

PricewaterhouseCoopers has surveyed privatisation transactions in the region for the first time in 2003. The privatisation process started in the early 90's and was of unique importance to the region. Even though some countries have already transferred the majority of state assets to private investors, transactions of this type remain an important segment of the market.

The market of privatisation in Central & Eastern Europe is estimated at USD 10.3 billion for 2003. This represents 27% of the total M&A market value of the region. However, in the case of several privatisations, the investor undertakes commitments concerning future capital injections, investments, or employment, these transactions in fact represent a larger inherent value.

There were 357 disclosed privatisation transactions in 2003 in the CEE region. Countries hosting the largest markets for privatisation are Russia with a market estimate of USD 3 billion, Slovakia with an estimate of USD 2.9 billion, and the Czech Republic with an estimate of USD 1 billion. With regards to the number of privatisations, Russia was also a dominant player with 138 transactions. Poland was the second most active market with 72 deals, followed by Romania with 57, and Bulgaria with 43 deals.

The total average deal value was USD 56.8 million, which exceeds that of M&A transactions, being USD 39.1 million. This is related to the higher proportion of large transactions within privatisations. The greatest beneficiaries of privatisations with regard to total average disclosed deal size are Slovakia, the Czech Republic, and Hungary. Slovakia boasts a USD 153.3 million average deal size for 2003, while the Czech Republic and Hungary registered USD 134.9 million and USD 105.3 million respectively.

Regarding the direction of privatisation transactions, domestic transactions were clearly predominant possessing an 80% share, while inward transactions made up merely 20% of total privatisation transactions in terms of number of deals. The most active foreign investing country regarding privatisations was Germany representing 14% of total inward deals, followed by the United States and France, each of which representing 9%. Hungary was also an active investor accounting for 7% of all intra-regional deals.

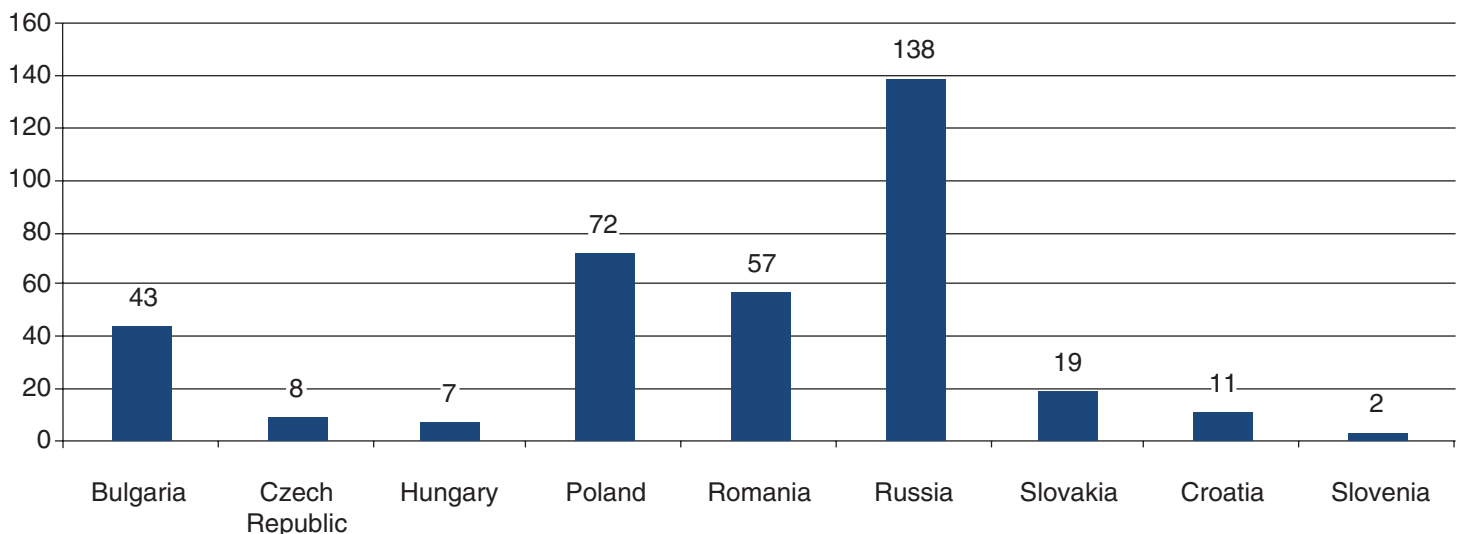
An important share of privatisations, (37%) took place in the Manufacturing sector. Food and Beverages

represented a 12% share. Even though the two most active segments reflect the same proportion of the M&A market, the overall structure differs. Manufacturing is more significant in the case of privatisations. Services was the third most active industry segment with 9% of the privatisations. Financial Services, which was the third most active sector in case of M&A transactions (12%) represented a mere 4% of privatisations.

## Approach

Definitions: In the frame of the research PricewaterhouseCoopers tracks publicly disclosed, private-sector transactions in nine countries of the region including Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Russia, Slovakia and Slovenia. Transactions are counted based on the nationality of the target. In the survey we include joint ventures, split-offs (if they represent 100% of the target's shares), finance raising. We exclude public offerings as well as the transfer of assets between a target and acquirer that are either 100% government-owned or ultimately owned by the same parent at the completion of the transfer. Privatisations are not eligible for M&A activity, they are tracked separately.

The number of privatisations in 2003



### The five largest privatisations of 2003 in Central Eastern Europe

| Bidder                  | Nationality   | Target                      | Nationality | Business description | Deal value (USD m) |
|-------------------------|---------------|-----------------------------|-------------|----------------------|--------------------|
| Sibneft/Tyumen Oil Co   | Russia        | Slavneft AD                 | Russia      | Oil and Gas          | 1,860              |
| MOL Rt.                 | Hungary       | INA d.d.                    | Croatia     | Oil and Gas          | 505                |
| Erste Bank AG           | Austria       | Postabank Rt.               | Hungary     | Financial Services   | 460                |
| Institutional investors | International | Telekomunikacja Polska S.A. | Poland      | Telecom              | 414                |
| OTP Bank Rt.            | Hungary       | DSK Banka AD                | Bulgaria    | Financial Services   | 335                |

### The largest 20 private-sector M&A transactions in 2003

| Ranking | Transaction  | Investor country | Target country | Approx. Value (USD m) |
|---------|--|------------------|----------------|-----------------------|
| 1.      | British Petrochemical Group acquired Russian oil company Alfa Acces Renova (AAR).  | United Kingdom   | Russia         | 6,350                 |
| 2.      | Russian oil giant Yukos bought 20% minus one common stock in Sibneft as a preliminary transaction for an unconfirmed future merger.                            | Russia           | Russia         | 3,000 <sup>3</sup>    |
| 3.      | Basic Element increased its stake in Russian aluminum manufacturing company Russky Alyuminiyum from 50% to 75% in a purchase from Millhouse Capital.           | Russia           | Russia         | 2,000                 |
| 4.      | Czech telecom group Cesky Telecom increased its stake in Eurotel Praha, spol. s r.o. to 100% by acquiring remaining 49% from its US partners.                  | Czech Republic   | Czech Republic | 1,050                 |
| 5.      | Russian oil producer Tyumenskaya Neftyanaya Kompaniya – (Tyumen Oil Co) bought 38% of Russian oil and gas explorer Orenbugneft.                                | Russia           | Russia         | 800 <sup>4</sup>      |
| 6.      | Group of international investors acquired 23.5% stake in Czech telecom company Cesky Telekom, a.s.   | International    | Czech Republic | 716                   |
| 7.      | Group of investors purchased 10% stake in Russian energy exporter Inter RAO UES.   | Undisclosed      | Russia         | 700                   |
| 8.      | Motor - Columbus AG of Switzerland purchased Czech power plant and energy trade firm NRG Inc and its various assets in CEE.                                    | Switzerland      | Czech Republic | 521                   |
| 9.      | Russian petrochemical group Lukoil purchased 100% of Russian oil and gas extractor PFPG Energy OAO shares.   | Russia           | Russia         | 398                   |
| 10.     | Czech real estate management firm Osinek AS acquired 51% stake in CEPS AS, a Czech pipeline maintenance firm.  | Czech Republic   | Czech Republic | 387                   |
| 11.     | Hungarian Petrochemical and Gas producer firm MOL purchased 33.8% stake in Slovakian petrochemical manufacturer Slovnaft AS.                                   | Hungary          | Slovakia       | 352                   |
| 12.     | International investor groups AIG and GMT purchased telecom service provider Vivendi Telecom Hungary Rt.   | International    | Hungary        | 340                   |
| 13.     | Russian TMK acquired additional 34% stake in pipe manufacturer Gruppa MDM increasing its existing shareholding to 67%.   | Russia           | Russia         | 300                   |
| 14.     | Swiss holding company Credit Suisse Group purchased KPN's 6.5% stake in Czech telecom company Cesky Telecom.   | Switzerland      | Czech Republic | 268                   |
| 15.     | Russia's Golden Telecom bought Comincom OAO, a Russian integrated telecom provider.  | Russia           | Russia         | 184                   |
| 16.     | Russian petrochemical group Lukoil purchased 81% of Russian oil and titanium extractor Yareg Oil & Titanium Co.  | Russia           | Russia         | 180                   |
| 17.     | Unicredito Italiano SpA bought 85% of the shares of Czech commercial bank Zivnostenska Banka.  | Italy            | Czech Republic | 171                   |
| 18.     | Polish media business operator International Trading and Investments Holdings – ITI Holdings SA purchased 30% stake in TVN Sp z oo, Polish Television Station. | Poland           | Poland         | 148                   |
| 19.     | International investors acquired 3.3% stake in Polish commercial bank Bank Pekao SA – Bank Polska Kasa Opieki SA.  | International    | Poland         | 146                   |
| 20.     | Austrian insurance service provider Wiener Staedtische Allgemeine Versicherung AG purchased Pojistovna Ceske Sportelny AS, non-life insurance company.         | Austria          | Czech Republic | 140                   |

3 Yukos paid USD 3 billion plus 26% of shares in the newly formed company in 2003. De-merger decision was made by the sides and the process of de-merger is currently running.

4 Transaction value has not been officially disclosed. However, market information estimates the value around USD 800 million.

## Transactions – PricewaterhouseCoopers regional play\*



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