



Central & Eastern European Mergers & Acquisitions Survey 2004 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 2004. We have been reviewing private sector deals in the Czech Republic for eight years and, since 2003, we also have included a review of privatisations (or public sector deals) in our analysis.

We are pleased to say the signs of overall recovery in the global M&A market have had a positive impact in the Czech Republic as well. The number of private sector transactions in 2004 grew by 13% when compared with 2003. On the other hand, we saw a decline in the total value of disclosed transactions from USD 4.3 billion in 2003 to USD 3.4 billion in 2004.

The number of inward transactions in the Czech Republic from the 25 EU countries grew by almost 18% in 2004 compared with 2003. Also, the share of the 25 EU countries on the total number of inward deals grew slightly from 77% in 2003 to 80% in 2004. The Czech Republic was the second most attractive country in the region in terms of the number of inward transactions (98) with only Poland ahead of it (with 136 deals).

The Czech Republic is one of the more active countries in M&A in the region, with only Russia and Poland ahead of it in terms of the number of transactions. The Czech Republic was fourth with respect to the growth of the number of transactions between 2003 and 2004.

We also saw a number of transactions made by Czech companies abroad, in the CEE region, and in particular in Poland and Russia. As for M&A activity in the industry sectors, the most active segment is, unsurprisingly, manufacturing, with 47 transactions.

Altogether, we have surveyed more than 1,200 publicly disclosed private sector transactions and 400 public sector transactions in nine countries of the region (Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Russia, Slovakia and Slovenia) to gain an overall indication of the investment climate and M&A activity. In the Czech Republic, we have analysed almost 190 private transactions and 12 privatisations.

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Survey Results

Number of transactions

In 2004, M&A activity on the Czech market increased to 185 publicly disclosed private sector deals, whereas there were 163 transactions in 2003 and 144 in 2002. This represents a 13% increase over 2003 and confirms some recovery in terms of M&A activity. Majority stakes (i.e., transactions with 50% shares or higher) were acquired in 77% of all disclosed private sector transactions, growing from 67% in 2003.

Of the nine CEE countries surveyed, the Czech Republic ranked third in the number of private sector deals, as in 2003, behind only Russia and Poland. In terms of the growth of the number of transactions, the Czech Republic ranked fourth with 13%, following Romania (27%), Poland (20%) and Slovakia, where the number of M&A transactions grew by an unparalleled 39%. As for other neighbours of the Czech Republic, Hungary slowed its 28% decline in 2003 to 10% in 2004.

“The whole CEE region recorded a 4% growth in the number of transactions, mainly due to declines in Bulgaria, Croatia and Slovenia, which almost balance out the growth in the above-mentioned countries. This is less than in the whole of Europe, with 6.6% growth, and the US, with an almost 15% growth rate in 2004,” noted Karel Kolář, Assistant Director in the PricewaterhouseCoopers M&A team.

Value of transactions

The total disclosed value of the M&A market in the Czech Republic dropped from USD 4.3 billion in 2003 to USD 3.4 billion in 2004. The average value of all publicly disclosed private sector deals in the Czech Republic was USD 60 million. This is also a decline when compared with the 2003 average of USD 109 million, but it is similar to the 2004 corresponding figure for the nine CEE countries surveyed of USD 52 million. The plunge in 2004 indicates a lack of massive transactions in the Czech Republic, such as the two telecom transactions completed in 2003.

The average deal value when excluding the 11 transactions above USD 100 million was USD 22 million, which is a 12% decline from the USD 25 million of 2003, but it exceeds the corresponding 2004 average figure for the nine CEE countries surveyed of USD 17.5 million.

There were eleven private sector transactions disclosed in amounts above USD 100 million in the Czech Republic in 2004, with an aggregate value of USD 2,450 million.

The largest M&A private sector deal was the sale of an 85% stake in TV Nova by the PPF Group to the American company CME for USD 652 million, followed by the sale of a 70% stake in Karbon Invest to RPG Industries for USD 411 million.

Disclosure rate

The disclosure rate of private sector deal values in 2004 in the Czech Republic improved to 30% after a decline in 2003 (20%) and was the same as in 2002. Still, it is among the lowest rates in the region. The regional average in 2004 was 41%, which is similar to previous years.

“Non-disclosure continues to be a rather Czech-specific issue when top managers have been long lobbying for protection from higher disclosure on their salaries and individuals involved in private deals prefer silence with respect to their financial successes,” commented Geoff Upton, Head of the PricewaterhouseCoopers Czech M&A practice.

Privatisations

In 2004, there were 12 privatisation deals, most of them executed by the National Property Fund. 11 of the public sector deals were disclosed.

The biggest public sector transaction and the only one of an amount over USD 100 million was the sale of Unipetrol to the Polish concern PKN Orlen for USD 411 million. Although this transaction was completed in 2004, it is still subject to EU approval and has thus not been included among the 12 transactions of 2004. The second biggest privatisation was the sale of the National property fund's stake in Sokolovská uhelná to Sokolovská těžební for USD 97 million.

Industry sectors

As in previous years, most (47) transactions on the Czech market were concluded in the manufacturing sector (up from 37 in 2003). The other most active sectors recorded significantly fewer transactions – food & beverages ranked second with 17 deals, followed closely by media with 13 deals. Food & beverages grew strongly when compared with 11 transactions in 2003, while media lost four transactions compared with 2003. The other 2003 top-ranking sectors after manufacturing – financial services and services – came in with ten deals in 2004 (19 in 2003) and four (16) deals respectively. Similarly, while the IT sector was stable with 11 (nine) transactions, telecommunications grew from six in 2003 to 12 deals in 2004.

Unsurprisingly, the manufacturing sector in the Czech Republic, being a traditional and attractive industry segment, consistently leads the transaction tables. In 2004, the sector was led by Russia's OMZ's purchase of three divisions of Skoda Holding for an estimated USD 40 million. Other major investors included Gorenje (Mora Moravia) and Swarovski (Carborundum Electrite).

Food & beverages' growth in 2004 indicates an increased interest in the sector and included in particular two transactions related to Walmart, Hero's purchase of the baby food division from Heinz, and consolidation transactions in the meat processing and dairy businesses.

The utility sector offered a number of opportunities resulting from CEZ transactions regarding distribution companies which are unlikely to be repeated in 2005. There were also continued ownership changes in water distributors and heating plants. Transactions were led by the Slovak group J&T with its purchase of

a 34% stake in Prazska energetika, CEZ's purchase of E.ON's stake in Severomoravska energetika, and another Slovak group, Penta's, purchase of Severomoravske vodovody a kanalizace.

The media sector recorded a significant deal when the PPF Group sold its stake in TV Nova to CME towards the end of 2004. Although we saw lower activity in the telecom sector, the sale of Aliatel at the end of 2004 to GTS indicated the first significant step in the consolidation of the Czech telecom market. Bivideon, owned by Deutsche Bank, continued buying out minority shares in Ceske Radiokomunikace.

Several major transactions were also executed in the real estate sector. The Quinn Group acquired the hotels Hilton and Ibis for USD 185 million, Sachsen Fund purchased BB Centrum offices for USD 150 million and Commerz Grundbesitz's acquired Metropole Zlicin for USD 110 million.

"In the whole CEE region, manufacturing was also the most active industry segment with 24% of transactions or 289 deals. As opposed to the Czech Republic, the number of transactions in financial services grew and made the sector the second most active in the region. Other sectors that recorded a significant increase in the number of deals were utilities, transportation and services. On the other hand (and contrary to the Czech Republic), food & beverages, media and IT recorded declines from the region-wide perspective," said Karel Kolář.

Investors

The transactions were undertaken mainly by strategic investors. However, we saw a greater interest from financial investors in a few large deals as compared to 2003.

The increased involvement of financial investors in the Czech Republic is in line with global trends. M&A activity of private equity and venture capital also grew by 20% in 2004.

"As a whole, we consider their increased participation in M&A transactions very positive. Financial investors usually have clear mid-term goals and drive quick company restructuring and modernisation supporting growth and leading to companies' value appreciation. They also represent an important source of investment in addition to the resources available from strategic investors," Karel Kolář commented.

The largest financial investors' transactions included in particular two Slovak groups, J&T (acquisition of 34% of PRE and 100% of the football club Sparta Praha) and Penta (acquisition of the betting company Fortuna and Severomoravske vodarny a kanalizace). Other major financial investors included Apollo Management with its USD 215 million acquisition of the chemical company Eastman Sokolov and RPG Industries, which acquired OKD mines. Genesis Private Equity provided development capital to Pietro Filipi, the clothes manufacturer. Riverside successfully sold its holding in Primalex and Carborundum Electrite.

Foreign investments and outward transactions

The proportion of transactions from foreign investors remained stable in 2004 at 53%, or 98 transactions, compared to 53%, or 86 transactions, in 2003. The value of total disclosed capital invested in the country's companies via M&A transactions reached USD 2,543 million, which is also comparable to 2003.

In 2004, the top investor country for private sector deals was Germany with 12 transactions, followed by Austria (nine), Netherlands (nine) and – the new high ranking country – Slovakia with nine deals. In 2003, the top foreign investors were Germany, Austria, and the USA, whose transactions fell from nine in 2003 to six in 2004.

“The activity of the Slovak investors was led in particular by financial investors. However, we also saw four deals in the manufacturing sector led by strategic investors,” explained Geoff Upton.

There were eight outward transactions made by Czech companies in 2004, two in each of Poland, Russia and Slovakia and one in each of Spain and Lithuania. The values of these transactions were not disclosed. Czech investors also took part in privatisations in the region and made three acquisitions in Bulgaria and one in Slovakia. In addition to this, CEZ was active in Romania in 2004, but this transaction is to be completed in 2005.

Of the 12 public sector deals in 2004, there were seven domestic and one from each of Austria, France, Slovakia, the USA and Canada.

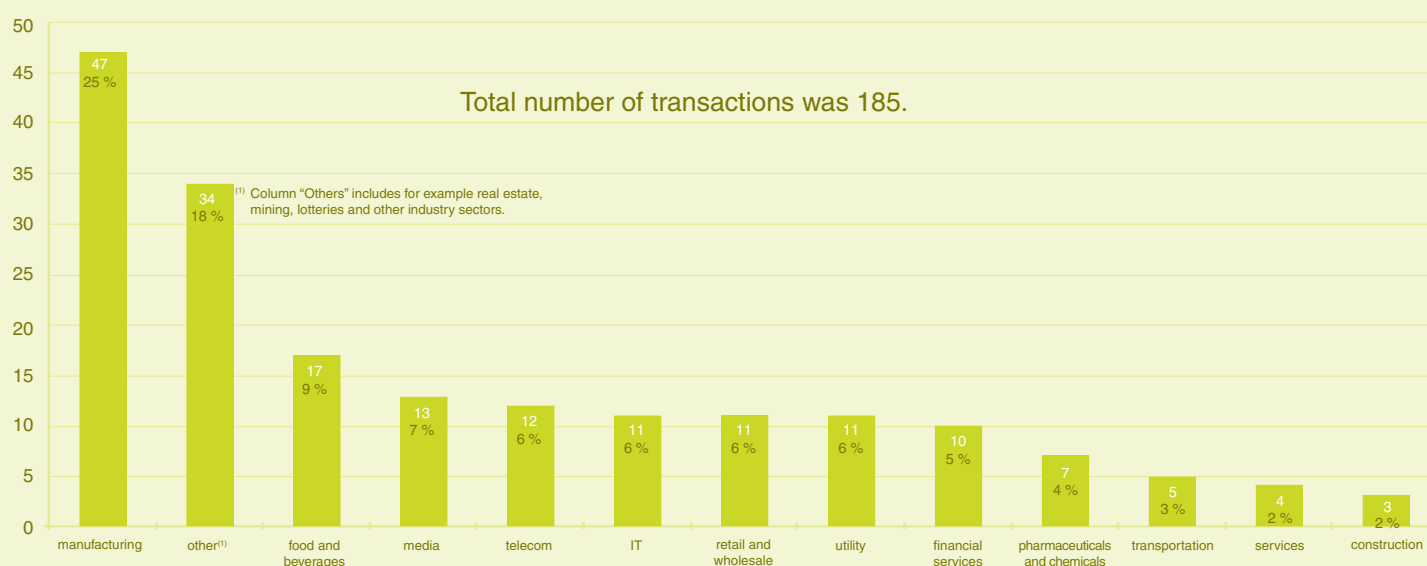
Outlook

We expect that the manufacturing sector, as an attractive point of entry for higher value-added production, will keep its leading position in the number of transactions with several potential larger deals, driven in particular by Czech individual owners.

“Consolidation and competition pressures will keep creating opportunities for strategic investors to invest. We also expect that larger deals will create opportunities for an increased appetite of foreign financial investors shown in 2004,” added Karel Kolář.

The privatisation of Cesky Telecom is likely to be completed in 2005, and the privatisation of Vitkovice Steel is under way. However, the state is unlikely to sell its few remaining stakes in companies such as CSA, CSL or CEZ and CEPS in 2005.

Share of individual sectors on the M&A market by number of deals, Czech Republic, 2004.



Complete findings for the CEE region are presented in the 2004 Central & Eastern European Mergers & Acquisition Survey. These findings, as well as the Czech Republic Country Report, are available at www.pwc.com/cz.

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