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Dynamic growth has been driving mergers and acquisitions in Central and Eastern Europe

Mergers and acquisitions (M&A) are very active in the fast growth of the CEE region. Privatisation processes are continuing in many countries, offering a wealth of opportunities to buyers, but the region is now home to a deep and increasingly sophisticated private sector. While the 'credit crunch' has squeezed many parts of the world, CEE has felt less of an impact and continues to be an attractive investment destination.

As the M&A landscape develops, we are seeing increasing interest in the region among international private equity (PE) funds as well as larger fundraisings from local funds. Many PE investors, as well as strategic investors, are competing particularly in the EUR 100m-plus deal bracket, which is increasing competition in these deals to the benefit of sellers.

In Russia the credit crunch is having an effect on the banking sector. The energy-based mega-deals are well publicised, but less well-known is the fact that the mid-market is now becoming an active area for M&A as many sectors consolidate in Russia.

"Some investors are still wary about Russia and its neighbouring states. While they may have become comfortable with the idea of buying in the new and aspiring European Union member states, many buyers view the political situations in the rest of CEE and the legal and regulatory frameworks as being too unstable to warrant serious attention – for now. This polarisation of views will diminish over time," says **Chris Butters**, PricewaterhouseCoopers M&A Leader in the CEE region.

In the report *Trends in CEE M&A: Which way forward?* PricewaterhouseCoopers analyses and reviews a number of key M&A trends that will impact those active in CEE over the next year.

Key trends in Central and Eastern European M&A

Private healthcare among the fastest growing segments

- The rising disposable income of the middle class drives healthcare deals
- Private equity is targeting investments in clinics
- During 2007, we recorded 199 healthcare deals in CEE
- The total amount invested into healthcare in the region in 2007 was USD 19.8 billion

Real estate moves away from the capitals

- Real estate investors also find urban centres attractive for development
- They shift their focus eastwards to countries with higher investment risks
- Russian shopping centres will be a key growth driver

Increasing consumerism in Russia will drive M&A

- Russia's largest deal in 2007 was the RUSAL-SUAL-Glencore tie-up for USD 30 billion
- Most Russian deals (71%) in 2007 were below USD 100 million
- Fragmented industries are fast consolidating as the middle market becomes more active in Russia

Energy firms seek vertical integration

- After privatisation in distribution, large acquirers seek generation capacity
- The CEE generation sector requires investment of USD 42 billion to modernise
- Rising energy prices and concerns about security lead to diversification of energy sources, including renewable
- The electricity deal value in Russia in 2007 grew by 813% from 2006

Private Equity is reaching tipping point in CEE

- Last year, PE funds raised USD 14.6 billion in CEE, almost 36 times more than in 2003
- Local firms are raising larger funds than before
- PE are shifting to the east and south

Foreign investments to Central Asia and the Caucasus to increase

- High commodity prices are generating wealth
- Infrastructure and logistics offer great opportunities – the infrastructure in Kazakh alone needs some USD 25 billion of investment
- Asian investors are flooding the region

The need for growth capital will drive IPOs

- In the first half of 2008, 25 companies listed on the Warsaw Stock Exchange; we expect another 70-80 IPOs by the end of the year
- Despite the 20%-30% decline of most regional stock exchanges, many CEE companies cannot afford to delay IPO if they are to take advantage of fast-growing markets
- In 2007, companies in CEE and Russia raised USD 60.5 billion through IPO
- Large companies continue to seek dual listings for more capital and greater prestige

Commercial due diligence becoming an essential part of M&A

- Buyers need to find and test new angles to win deals in an increasingly competitive market
- Sellers look to maximise value through vendor due diligence

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