



CZECHINVEST

Investment and Business Development Agency

M&A REPORT

Quarterly M&A overview in the Czech Republic



Q3
2014

M&A REPORT – Q3 2014

Large investments put on hold

in the CEE region

M&A – Regional News

Europe has witnessed a very busy first half of the year regarding mergers and acquisitions. The numbers of transactions reached the highest level in five years. As confidence returns to the markets, we have seen a steady third quarter of 2014 in numbers of mergers and acquisitions in Europe. The majority of the deals were small or mid-sized, however the market experienced several mega-deals, including acquisition of pharmacy giant Alliance Boots GmbH by Walgreen Company or acquisition Barclays's Spanish Unit by Spain-based CaixaBank

The CEE M&A market have seen a lower amount of deals during Q3 2014 compared to the previous quarter. The investors focusing on CEE region remain cautious, waiting for the right time to close a large transaction. The most frequently targeted countries included Poland and the Czech Republic.

In Poland, PKP Cargo, country's largest rail freight operator is looking to strengthen its position inside and outside of Poland. The company signed a letter of intent to acquire CTL Logistics, a Poland based rail transport operator. The transaction needs to be approved by relevant authorities. Another interesting deals were announced by Zomato, an India-based restaurant search service. The company entered the Central European market by acquiring Czech Republic's Lunchtime.cz, Slovakia's Obedovat.sk and Poland's Gastronaucci.pl. In Hungary, BayernLB, Germany's second-biggest state-owned lender, sells its Hungarian operation MKB Bank to Hungarian government for approximately EUR 60 million.

144

Number of Listed M&A
Projects by Trade Bulletin
in Q3 2014

Czech Republic – Latest developments

The third quarter of the year brought a continued increase in the number of completed transactions in the Czech Republic. The vast majority of the 144 closed mergers and acquisitions in Q3 2014 were relatively small in value, however there were several interesting transactions. We expect that a higher number of large transactions will take place in the last quarter of 2014.

The statistical data used in this report were prepared by CzechInvest from the Trade Bulletin. Due to this fact, a time lag occurs between the announcement and the listing of a transaction, the time lag differs from case to case. Also, a high number of transactions are carried out for tax optimization purposes. Nevertheless, the third quarter of the year proves increasing confidence in the future development. Compared to the previous quarter, the number of deals increased by almost 12% from 129 in Q2 2014 to 144 in Q3 2014.

Sectoral distribution of completed transactions in the Czech Republic remains in line with previous quarters. The highest number of deals took place in Real Estates sector (43 transactions), followed by Industry & Services (40 transactions) and Retail and Consumer Goods & Entertainment (32 transactions). We can see an increase in the number of deals in all three aforementioned sectors compared to Q2 2014. The remaining analyzed sectors experienced a drop regarding the closed deals, with a notable exception of Agriculture and Raw Materials.

*the higher volumes compared to Mergermarket are caused by the nature of Trade Bulletin which publishes all the changes in companies' structure that have to be reported. The high numbers of real estate sector are due to tax optimization when using a corporate ID. Also, the Trade Bulletin does not cover acquisition through trade of shares.

7

Number of Transactions
Approved by the Office
for the Protection
of Competition in Q3 2014

Q3 2014 in Numbers

40 Industrial
Products & Services



5 Healthcare



2 Energy



10 Agro & Raw
Materials



32 Retail & Consumer
Goods & Entertainment



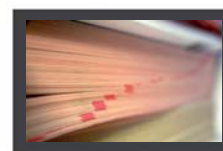
4 Financial Institutions



43 Real Estate



8 Other



Source: CzechInvest 2014; Trade Bulletin, data as of 30 September 2014

Structure by Sector – Number of Projects



Source: CzechInvest 2014; Trade Bulletin, data as of 30 September 2014

318

Number of petrol stations owned by MOL in the Czech Republic

€30 million

Total value of acquisition of 32.4% stake in Česká Rafinérská by Unipetrol

Listed Deals of the Quarter

Third quarter of the year brought some significant acquisitions in the Czech Republic. The below listed deals are only a sample of the transactions closed in Q3 2014.

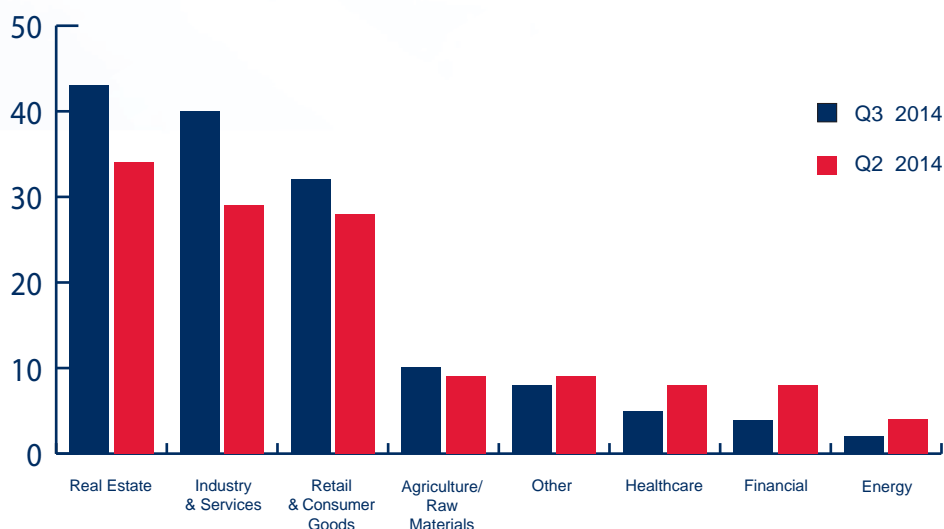
In July, the Slovakian antitrust office approved the acquisition of Electro World stores in the Czech Republic and Slovakia by Slovakian electronic goods retail group Nay from UK-based Dixons Retail Group. Nay will buy 22 stores in the Czech Republic and 4 stores in Slovakia. After the acquisition, Nay will obtain a leading position in the electronics market, operating 57 stores in both countries with turnover at about EUR 300 million. The value of the transaction remained undisclosed.

In August, Hungary's oil and gas company MOL announced the acquisition of 44 petrol stations in the Czech Republic from Russia-based Lukoil. This step is in line with MOL Group's retail growth strategy to further strengthen its position on the Czech and Central European market. Together with recently announced acquisition of 125 Czech petrol stations from ENI, Hungarian refinery giant MOL will control 318 service stations in the Czech Republic. Completion of the acquisition is subject to approval by relevant authorities. MOL Group is an international oil and gas company headquartered in Budapest, Hungary. It has a network of more than 1,700 petrol stations in Central and Eastern Europe, including the Czech Republic, Hungary, Slovakia and Croatia.

In July, Czech oil processing company Unipetrol exercised its right of first refusal and accepted ENI's offer to buy its 32.4% stake in Česká Rafinérská for EUR 30 million. Following the acquisition, Unipetrol will become the sole owner of the company Česká Rafinérská. Česká Rafinérská operates the only two running refineries in the Czech Republic with a total conversion capacity of 8.7 million tons of crude oil per year. The transaction is expected to be closed by the end of this year and it is still subject to obtaining relevant merger clearances.

Sources: CzechInvest, E15, ČTK, Ihned.cz, Mol.hu, Unipetrol.cz, Crc.cz

Time period	Total number of transactions
Q3 2014	144
Q2 2014	129
Q1 2014	82
Q4 2013	187
Q3 2013	125



Source: CzechInvest 2014; Trade Bulletin, data as of 30 September 2014

Mergermarket Insight



The third quarter of 2014 saw a fall in the level of M&A activity in the Czech Republic with 14 transactions closed.

This was the lowest number of deals closed since Q2 2012. The total disclosed value of these deals was just EUR 40m, a huge fall on the EUR 4.5bn reported for the 21 deals closed in Q3.

The industrials and chemicals and consumer segments jointly accounted for half of the Czech M&A activity over the three months. Both the energy, mining and utilities and the media sectors each accounted for a further 14% of deals.

The largest deal was the sale of Italian energy company Eni's 32.5% stake in refinery Ceska rafinerska to Czech petrochemical company Unipetrol, a deal worth EUR 30m. The next largest disclosed deals, the sale of a 60% stake in electrical items retailer Datart by British retailer Darty and the sale of pet items retailer PetCenter by financial group Penta Investments to local buyers, were each worth EUR 5m.

Indeed the large majority of buyers over the third quarter were local investors, accounting for nine of the 14 deals recorded. With one Chinese exception, China Railway Signal and Communication's acquisition of a 51% stake in tram manufacturer Inekon, the remainder were all western European buyers.

Despite the dip in deals closed over the previous quarter, M&A advisers report that deal volume is steady, with similar levels of business expected overall this year compared to last year.

Katka Krosnar

Deals by sector in Q3 2014

Sector	Value (€m)	Number of Deals
Business Services	-	1
Consumer	10	3
Energy, Mining & Utilities	30	2
Industrials & Chemicals	-	4
Media	-	2
Pharma, Medical & Biotech	-	1
Technology	-	1
Total	40	14
Leisure		1
Transport		1
Total	2,245	17

Source: Mergermarket – data correct as of 13 October 2014

Deals by country of origin in Q3 2014

Sector	Value (€m)	Number of Deals
Belgium	-	1
China	-	1
Czech Republic	40	9
Germany	-	1
Sweden	-	1
Switzerland	-	1
Total	40	14
Total	2,246	17

Source: Mergermarket – data correct as of 13 October 2014

Selected Czech M&A transactions in Q3 2014

Announcement Date	Target	Target Dominant Sector	Bidder	Bidder Dominant Geography	Seller	Seller Dominant Geography	Deal Value (€m)
3.VII.14	Ceska Rafinerska AS (32.45% Stake)	Energy, Mining & Utilities	Unipetrol AS	Czech Republic	Eni SpA	Italy	30
8.VIII.14	Datart International as (60% Stake)	Consumer	SEW 1001 as	Czech Republic	Darty Plc	United Kingdom	5
8.VII.14	PetCenter CZ sro	Consumer	MVM Invest as	Czech Republic	Penta Investments Limited	Czech Republic	5
23.VII.14	INEKON GROUP as (51% Stake)	Industrials & Chemicals	China Railway Signal and Communication Corporation	China	Josef Husek (Private Investor)	Czech Republic	-
23.VII.14	Chemoproject Nitrogen as (60% Stake)	Business Services	Casale Holding SA	Switzerland	Safichem Group AG	Switzerland	-
2.VII.14	Pivovar Samson as	Consumer	Anheuser-Busch InBev NV	Belgium	Taurus One Limited	Cyprus	-

Source: Mergermarket – data correct as of 13 October 2014

22

Active Members by
September 30th, 2014

1

New Project in Q3 2014

3

Projects in Pipeline by
September 30th, 2014

CzechLink

CzechLink is a tool that helps to identify potential M&A targets for foreign investors. CzechLink is managed by CzechInvest, the Investment and Business Development Agency of the Czech Republic. Local companies wishing to participate in the CzechLink project undergo a business evaluation and financial analysis which enable us to efficiently match them with investors' needs, thus accelerating the process of identifying suitable potential acquisition targets.

Up-to-date list of participants is available on the project website:

<http://www.czechinvest.org/en/czechlink-ma-platform>

For more information, please visit <http://www.czechinvest.org/en/czechlink-ma-platform> or contact us at czechlink@czechinvest.org.

Current Sectors in CzechLink

- Machinery, Power and Heavy Machinery
- Household
- Healthcare
- Nano Textile
- IT
- Automotive
- Construction
- Textile
- Food & Beverages
- Construction

Source: CzechLink 2014

New CzechLink members in Q3 2014

Market	Activity	Legal Form	Equity offer	Headcount	Tot. Earnings (ths)	EBIT (ths)	EBITDA (ths)
Automotive, consumer goods, machinery	Metal stamping, plastic injection moulding (Production of parts and tooling)	Co-operative	Majority	100	59,913 CZK	6,874 CZK	11,794 CZK
					2,397 EUR	275 EUR	472 EUR
					3,153 USD	362 USD	621 USD

Source: CzechLink 2014

M&A Report – Background from CzechInvest

Shift Forward in Services

The global economy has been steadily developing and structural changes in Europe have also been noticed by CzechInvest. The large number of new projects has slowly declined but new interest in M&A opportunities both from foreign investors and local companies is on the rise. CzechInvest has accepted this challenge to assist local companies in their search for foreign capital, to develop new possibilities that will boost the Czech economy, as we believe in the potential offered by the local business environment.

Continued cooperation with MERGERMARKET

We are proud to continue our partnership with MergerMarket. Thanks to this fact we are able to provide another and a very reliable source of data from the M&A environment. The different nature of the original sources brings a much more complex overview of the actual situation on the market. Thank you!

CEE – Region of Interest

Although western economies are still waiting to see real economic recovery, the companies are trying to enhance their business and penetrate new markets while looking for new opportunities which are just around the corner. The M&A transactions in the region have been relatively low in recent quarters, however it is still an attractive way to enhance revenues and profits for companies. There is a growing optimism among investors and with relatively easy access to financing we expect to see a busy year of 2014 in terms of mergers and acquisitions in the CEE region.

Target Area – Czech Republic

The Czech Republic is a relatively small market both in geographical terms and term of M&A when a single large transaction can cause bias in the statistics. Thanks to its proximity – both to the western and eastern European markets – foreign investors can find opportunities which are still very close to their operations in the western Europe but at the same time offering expansion into the whole CEE region. Local business and industrial environment is very well developed and offering ready-made solutions.



CzechInvest's Services

- Full information assistance
- Information on possibilities of support for small and medium-sized enterprises
- Introduction of aid programmes financed by the EU and by the state
- Administration of a business-property database
- Support for suppliers – administration of a database of Czech supplier firms
- Mediation of state investment aid
- Provision of aftercare services to foreign investors already operating in the Czech Republic, assurance of support for reinvestments

All CzechInvest's services are provided free of charge.

CONTACT INFORMATION

CzechInvest – Investment and Business Development Agency

Stepanska 15
120 00 Prague 2
Czech Republic

PHONE: +420 296 342 413

E-MAIL: czechlink@czechinvest.org

www.czechinvest.org

This material is distributed free of charge.

CzechInvest, Investment and Business Development Agency is a government organization under the Czech Ministry of Industry and Trade.

Date of issue: October 2014