

M&A REPORT

Quarterly M&A overview in the Czech Republic



Q1
2014

M&A REPORT – Q4 2013

Slowdown in M&A market

despite positive
expectations

82

Q1 2014 in Number
of Listed M&A Projects
by Trade Bulletin

6

Number of Transactions
Approved by the Office
for the Protection
of Competition in Q1 2014

M&A – Regional News

Although the winter in the region was relatively warm, the activity in the M&A market cooled down compared to the previous busy quarter. The past year provided several reasons for the investors to feel optimistic about the economy. The CEE region appears to have stabilized, the interest rates are low and the number of mergers and acquisitions has risen substantially in the last quarter of 2013. However, despite these positive factors, the investors remain cautious at the beginning of the year, waiting for the right target to become available.

Despite the low activity in the M&A market we have seen several interesting transactions take place. In Poland, Cinema City International merged with the British cinema operator Cineworld, making it the second biggest cinema chain in Europe. Cinema city owns almost a hundred cinemas in seven countries, including the Czech Republic, Slovakia, Hungary and Israel. The value of the deal was about 615 million EUR. Another transaction in the Polish M&A market was an acquisition of Lemon Sky, a leading creative digital marketing company in Poland, by FTSE 100-listed WPP. The financial details of the deal remained undisclosed. WPP is United Kingdom based advertising and public relations company with subsidiaries such as Ogilvy & Mather or Young & Rubicam. In Hungary, a leading financial software company Misys concluded an acquisition of IND Group, a provider of online and mobile banking, personal finance management and payments solutions. Misys is based in London, United Kingdom and provides its software solutions to more than 1900 banks and financial institutions.

Local Market Recently

Although we can see a major drop in the number of mergers and acquisitions compared to the previous quarter, there are hints of increased confidence in the future development. There were several high value deals in the first quarter of the year and the Office for the Protection of Competition approved of 6 transactions. This proves that the firms were not hesitant to close some high value deals at the beginning of the year.

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. The mergers and acquisitions reached record numbers in the previous quarter in the Czech Republic. The first quarters of the year tend to be relatively slow and this year was no exception. There was a major slowdown at the start of 2014. In total we registered 82 transactions which means more than 50% decrease compared to the previous quarter.

The number of mergers and acquisitions decreased dramatically, however the sectorial distribution remains the same. The most active companies in terms of M&As were once again from the real estate sector, where the total number of deals amounted to 23. The real estates were followed by retail and consumer goods and industry and services sectors.

**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.*

Q1 2014 in Numbers

16 Industrial
Products & Services



3 Healthcare



2 Energy



1 Agro & Raw
Materials



22 Retail & Consumer
Goods & Entertainment



2 Financial Institutions



23 Real Estate



13 Other



Source: CzechInvest 2014; Trade Bulletin, data as of 31 March 2014

Structure by Sector – Volume of Projects



Source: CzechInvest 2014; Trade Bulletin, data as of 31 March 2014

€230 million

Total value of acquisition of Prazska Plynarenska Holding by the City of Prague

€195 million

Value of SPAR's acquisition by Ahold

€110 million

Operating turnover of KOH-I-NOOR Holding in Fiscal Year 2012

Listed Deals of the Quarter

Although the overall number of transactions concluded in the first quarter of 2014 was relatively small, several interesting transactions took place in the Czech M&A market.

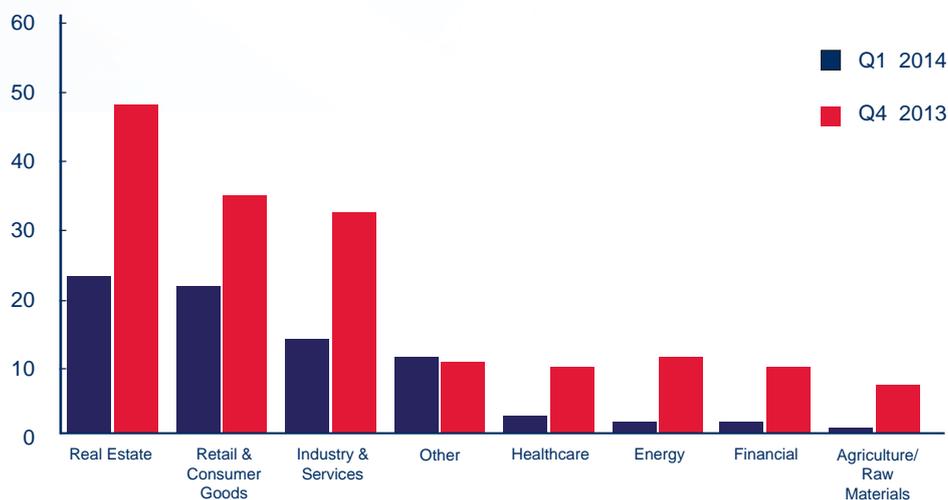
During the first quarter of the year, the City of Prague completed a takeover of Prazska plynarenska Holding (PPH) from German based E.ON. The acquisition was carried out in two interconnected steps. Firstly, the City of Prague purchased 49% share in the parent company Prazska plynarenska Holding for about 80 million EUR. Then, PPH acquired 49,35% stake of its subsidiary Prazska plynarenska from E.ON for approximately 150 million EUR. The City of Prague will gain exclusive control over PPH and Prazska plynarenska, the second largest gas distribution company in the Czech Republic. The transaction was approved by the Office for the Protection of Competition

At the beginning of March, international retailing group Ahold announced that it has entered into an agreement to acquire SPAR's business in the Czech Republic for about 195 million EUR. Czech branch of Austrian Spar Österreich, owning 50 retail stores throughout the Czech Republic, suffered a loss in the previous two years. By acquiring SPAR's network of stores, Ahold will become the leading food retailing brand in the country with 330 stores. The transaction is still subject to approval by the Office for the Protection of Competition.

The Czech Republic based company KOH-I-NOOR Holding acquired Ronas, a leading tooling and plastic injection molding supplier to the automotive industry. Ronas will be added to KOH-I-NOOR Machinery's tooling platform Ponas. This acquisition will create one of the largest and most advanced tool shops in the Czech Republic that employs nearly 600 people and achieves consolidated turnover of 110 million EUR. KOH-I-NOOR is one of the world leaders in the production and distribution of first-rate stationary for artists, schools and offices, employing over 2000 people in the Czech Republic. The financial details of the deal will remain undisclosed.

Sources: CzechInvest, E15, MarketingSalesMedia, Ponas.cz

Time period	Total number of transactions
Q1 2014	82
Q4 2013	187
Q3 2013	125
Q2 2013	197
Q1 2013	81



Source: CzechInvest 2014; Trade Bulletin, data as of 31 March 2014

Mergermarket Insight



The first quarter of 2014 saw a healthy level of M&A activity in the Czech Republic with 15 transactions closed.

The total volume of these announced deals over the period was EUR 1.9bn. Only three quarter periods, including the first and last quarters of 2013 had higher levels than this.

The largest deal in the first three months was the sale by private equity firm Mid Europa of a 39% stake in mobile telephone company T-Mobile Czech Republic to Deutsche Telekom. The next largest deals were the sale of an unspecified stake in Avast Software to financial investors CVC Capital Partners and Summit Partners and the sale of retailer Spar's Czech operations to Royal Ahold.

Consumer, energy, mining and utilities, and financial services proved to be the three most active sectors for number of deals closed.

In terms of geography, the largest volume of inbound M&A investment was from Germany, followed by the United States and the Netherlands. However domestic buyers accounted for the highest number of transactions, five in total.

Bankers, lawyers and investors report that deal flow continues to be healthy. Given the level of business so far this year, most appear optimistic that deal flow in the Czech Republic this year will be at least on a similar level to last year. While the number of transactions are expected to be similar or possibly exceed last year's, it is likely that there will be fewer large deals like the sale of Telefonica Czech Republic to PPF.

Deals have partly been driven partly by succession issues at locally-owned companies and exits of multinationals whose Czech assets are among their most attractive and most sellable.

The Czech market is seen as an attractive, stable one by investors and despite international investors accounting for all the buyers in the five largest deals in the first three months of this year, local financial groups have been playing an increasing role as buyers in transactions.

Katka Krosnar

Deals by sector in Q1 2014

Sector	Value (€m)	Number of Deals
Consumer	197	3
Energy, Mining & Utilities	21	3
Financial Services	111	2
Telecommunications	828	1
Technology	739	1
Construction	5	1
Industrials & Chemicals	-	1
Media	-	1
Pharma, Medical & Biotech	-	1
Real Estate	-	1
Total	1,901	15

Source: Mergermarket – data correct as of 03 April 2014

Deals by country of origin in Q1 2014

Country	Value (€m)	Number of Deals
Germany	828	3
USA	739	1
Netherlands	197	2
Russia	80	1
Sweden	31	1
Czech Republic	26	5
United Kingdom		2
Total	1,901	15

Source: Mergermarket – data correct as of 03 April 2014

Top 5 Czech M&A transactions in Q1 2014

Announcement Date	Target	Target Dominant Sector	Bidder	Bidder Dominant Geography	Seller	Seller Dominant Geography	Deal Value (€m)
10. 2. 14	T-Mobile Czech Republic AS (39.23% Stake)	Telecommunications	Deutsche Telekom AG	Germany	Mid Europa Partners LLP	United Kingdom	828
5. 2. 14	AVAST Software as	Technology	CVC Capital Partners Limited; and Summit Partners LP	USA			739
11. 3. 14	SPAR Ceska Obchodni Spolecnost s.r.o.	Consumer	Royal Ahold NV	Netherlands	Spar Oesterreichische Warenhandels AG	Austria	192
13. 1. 14	LBBW Bank CZ a.s.	Financial Services	Expobank LLC	Russia	Landesbank Baden-Wuerttemberg	Germany	80
31. 1. 14	Profidebt s.r.o.	Financial Services	Intrum Justitia AB	Sweden	PROFIREAL Group SE Inc	Netherlands	31

Source: Mergermarket – data correct as of 03 April 2014

26

Active Members by
March 31st, 2014

3

New Projects in Q1 2014

1

Projects in Pipeline by
March 31st, 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:

www.czechinvest.org/en/czechlink

For more information, please visit www.czechinvest.org/en/czechlink 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 Q1 2014

Market	Activity	Legal Form	Equity offer	Headcount	Tot. Earnings (ths)	EBIT (ths)	EBITDA (ths)
Machinery	Stamping of steel and stainless steel products, automatic threading, hand and automatic welding, bending, trumbling, cutting using a semiautomatic saw.	LLC	Majority/ Minority	64	66 705 CZK	-119 CZK	1 032 CZK
					2 668 EUR	-5 EUR	41 EUR
					3 511 USD	-6 USD	54 USD
Packaging	Plastic injection moulding (Production of packaging for the pharmaceutical and cosmetics industries)	LLC	100%/ Majority/ Minority	16	19 441 CZK	717 CZK	1 927 CZK
					778 EUR	29 EUR	77 EUR
					1 023 USD	38 USD	101 USD
Construction	Production of aerial systems, antenna masts, steel structures for buildings or cable trolleys for surface mines.	LLC	100%	32	38 117	2 719 CZK	4 024 CZK
					1 525 EUR	109 EUR	161 EUR
					2 006 USD	143 USD	212 USD

Source: CzechLink 2014

Disclaimer: The sources used for this report were: EY – M&A and capital raising: 2013 trends, 2014 outlook, KPMG 2014 M&A Outlook Survey Report, Allen & Overy (M&A Index, Q4 2013), Bloomberg, Reuters, PRNewswire, Independent.co.uk, Misys.com, Office for the Protection of Competition, Trade Bulletin, interpretation of the data is based on CzechInvest expertise

M&A Report Volume 5 – 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

Though western economies are still facing hard times, the companies are trying to enhance their business and penetrate new markets while looking for new opportunities which are just around the corner. The relatively good situation on the market is also due to the relatively good growth forecast, especially compared to the EU 15. It will be interesting to check development of the global M&A trend that shows the rising popularity of the life-sciences and high-tech sectors.

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

Our Objectives:

- to advise and support existing and new companies and foreign investors in the Czech Republic
- to support the competitiveness of the Czech economy
- to create a space for communication between foreign investors, the state administration and Czech companies

All of CzechInvest's services are free of charge.

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