



CZECHINVEST

Investment and Business Development Agency

M&A REPORT

Quarterly M&A overview in the Czech Republic



Q2
2014

M&A REPORT – Q2 2014

**Continuing decline
in M&A activity**
in the CEE region

129
Q2 2014 in Number
of Listed M&A Projects
by Trade Bulletin

4
Number of Transactions
Approved by the Office
for the Protection
of Competition in Q2 2014

M&A – Regional News

Despite the positive development regarding mergers and acquisitions in Europe as a whole, we have seen a decline in M&A activity in the CEE region during the second quarter of 2014. The investors focused predominantly on Western Europe, particularly on United Kingdom, Ireland and France.

The waters on M&A markets were relatively calm in the second quarter of the year in the CEE region. The investors were mostly reluctant to take risks, however the markets witnessed several interesting transactions take place. The most active country in terms of number of deals was once again Poland. In April, the world's largest provider of health care products to dental, medical and animal health practitioners Henry Schein (US) completed an acquisition of 80% share in Poland based Medivet SA. The company distributes veterinary medicines and it reached sales of approximately 64 million EUR in 2013. Pursuant to the acquisition, Henry Schein will serve veterinary customers in 12 European countries. Another interesting transaction was announced in the insurance industry. Poland's PZU Group, one of the top insurance groups in Central and Eastern Europe, signed an agreement to acquire four units from RSA Insurance Group Plc (UK) for 360 million EUR. The transaction includes acquisition of Polish Link4 Towarzystwo Ubezpieczeń SA, Lietuvos Draudimas AB in Lithuania, AAS Balta in Latvia and the Estonian branch of Codan Forsikring A/S. The deal is expected to be completed in the second half of the year.

Local Market Recently

The Czech M&A market experienced a slow start in Q1 2014 with only 82 transactions. However, the second quarter of the year brought increased activity to the Czech Republic and the numbers of mergers and acquisitions increased compared to the previous quarter despite the negative trend in the CEE region. Nevertheless, in a year-over-year comparison the result was much lower compared to 197 recorded transactions in the second quarter of 2013.

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 second quarter of the year showed a steady increase of mergers and acquisitions in the country. In total there were 129 transactions which represents more than 50% increase when compared to Q1 2014. The rising number of mergers and acquisitions proves that M&A activity is an attractive way to enhance revenues and profits for companies.

Regarding the sectorial distribution, the numbers of mergers and acquisitions were relatively equally split among Real Estates, Industry & Services and Retail and Consumer Goods & Entertainment. The trend remains the same as in the previous quarters and the largest share of the transactions belongs to Real Estates with the total of 34 deals. They are closely followed by Industry & Services (29 transactions) and Retail & Consumer Goods & Entertainment (28 transactions). We can also observe quite a substantial increase in the number of deals in the rest of the sectors compared to Q1 2014.

**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..*

Q2 2014 in Numbers

29 Industrial
Products & Services



8 Healthcare



4 Energy



8 Agro & Raw
Materials



28 Retail & Consumer
Goods & Entertainment



9 Financial Institutions



34 Real Estate

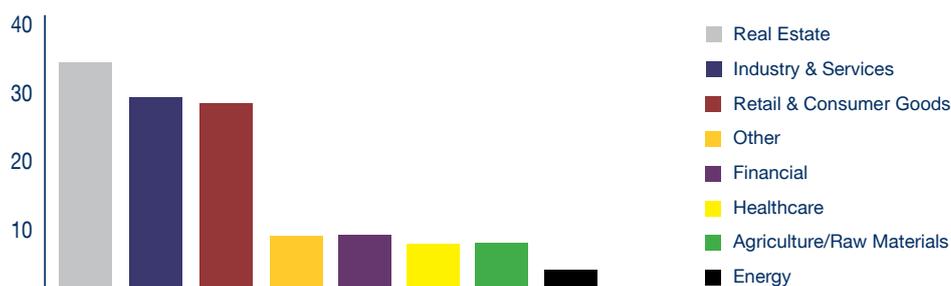


9 Other



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

Structure by Sector – Volume of Projects



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

€213 million

Total value of acquisition of EVRAZ Vítkovice Steel

174

Number of petrol stations owned by MOL in the Czech Republic

Listed Deals of the Quarter

The increased activity in the M&A market brought some noteworthy transactions in the Czech Republic. The following transactions are a sample of the deals closed in Q2 2014.

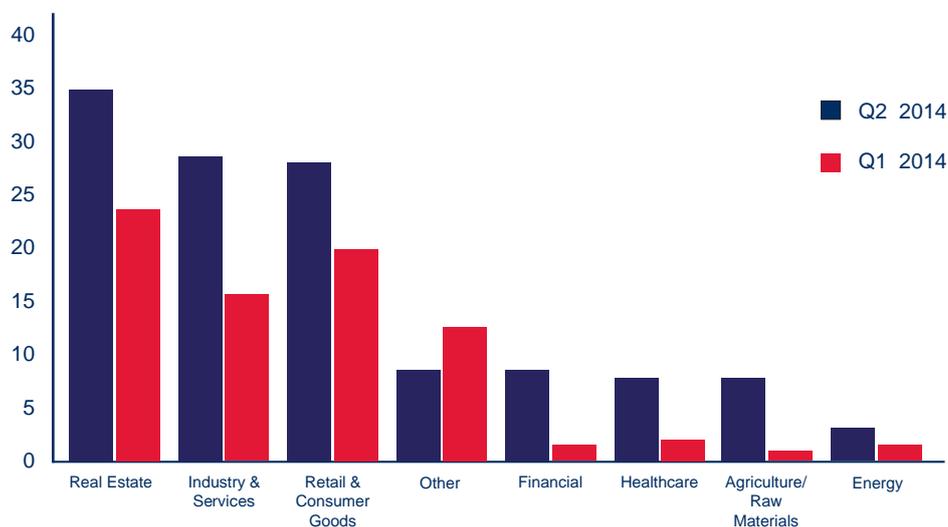
In April, a group of private investors acquired EVRAZ VÍTKOVICE STEEL, a.s. (EVS) from Russian group EVRAZ plc for about 66 million EUR. In addition, the buyers have also assumed approximately 147 million EUR of EVS debt. The group of private investors include Martinley Holdings, Nabara Holdings, Vitect Services, Hayston Investments and Dawnaly Investments, each owning 20% of the company. EVS is a manufacturer of rolled steel products. The company employs about 1,100 people, however it has been struggling with low demand and suffered a loss of about 25 million EUR in 2013. EVRAZ is a multinational vertically integrated steel making and mining company founded in Russia and headquartered in London, UK.

At the beginning of May, the Hungarian refinery giant MOL entered into an agreement to acquire 125 Agip petrol stations in the Czech Republic from Rome-based multinational oil and gas company ENI (ITA). After closing the deal MOL will become the second biggest player in the market with the total of 174 petrol stations, controlling also network of Pap Oil and Slovnaft petrol stations. The agreement also includes purchase of ENI's activities in Slovakia and Romania. The terms of the deal remained undisclosed and the transaction is still 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 1700 petrol stations in Central and Eastern Europe.

In the ICT industry we have seen a merger of Cíglér software, an important producer of accounting and ERP systems, and VEMA, the biggest Czech developer of information systems for human resources management. The companies will become a part of holding Solitea, a.s. Subsequent to the merger, Solitea also acquired a 100% share in the company Aquasoft, a developer of customized software applications for government, healthcare and commercial sectors. Solitea holding includes companies Cíglér software, Vema, Aquasoft and Altus Software, creating one of the largest entities in the Czech and Slovak ICT market with more than 380 employees in both countries. The majority of Solitea, a.s. is owned by Martin Fedor (70% of shares), a partner in financial group J&T, and Martin Cíglér (30% of shares), the founder of Cíglér Software.

Sources: CzechInvest, E15, lhned.cz, Slovnaft.cz, Aquasoft.eu, Vema.cz, Businessworld.cz

Time period	Total number of transactions
Q2 2014	129
Q1 2014	82
Q4 2013	187
Q3 2013	125
Q2 2013	197



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

Mergermarket Insight



The value of M&A deals in the Czech Republic rose slightly in Q2 this year to EUR 2.2bn, compared to EUR 1.9bn over the previous quarter.

The energy, mining and utilities and the consumer goods sectors were the most active, each accounting for three of these transactions. The largest of the 17 deals closed over this three month period were the EUR 1.1bn sale of financial group PPF's 40% stake in energy group EPH to its other shareholders, the sale of a 28% stake in telecom company O2 Czech Republic (formerly Telefonica Czech Republic) to PPF for EUR 931 m and the sale of Evraz Vitkovice Steel to a consortium of investment companies for EUR 209 m.

More than half of the 17 acquisitions by Czech companies in Q2 were in the Czech Republic and three were in Slovakia.

Other active sectors over the period include the technology, business services and the medical, pharmaceutical and biotechnology sectors which each accounted for two deals. A key factor driving M&A is the succession issue as individuals who founded companies soon after the fall of the communist regime seek to exit these businesses. The divestment of portfolio companies held for a long time by private equity companies is expected to be a further driver for M&A activity in the months ahead.

An indication of the healthy deal flow in the country is the fact that the Czech Republic accounted for six of the Top 10 deals across the central and Eastern Europe region in H1 2014.

Katka Krosnar

Deals by sector in Q2 2014

Sector	Value (€m)	Number of Deals
Energy, Mining & Utilities	1,100	3
Consumer		3
Technology	5	2
Business Services		2
Pharma, Medical & Biotech		2
Telecommunications	931	1
Industrials & Chemicals	209	1
Construction		1
Leisure		1
Transport		1
Total	2,245	17

Source: Mergermarket – data correct as of 03 July 2014

Deals by country of origin in Q2 2014

Country	Value (€m)	Number of Deals
Hungary		1
Slovakia		3
Netherlands	931	1
Denmark		1
France		1
Czech Republic	1,315	9
Germany		1
Total	2,246	17

Source: Mergermarket – data correct as of 03 July 2014

Top 3 Czech M&A transactions in Q2 2014

Announcement Date	Target	Target Dominant Sector	Bidder	Bidder Dominant Geography	Seller	Seller Dominant Geography	Deal Value (€m)
19. VI. 14	Energeticky a Prumyslovy Holding a.s. (40% Stake)	Energy, Mining & Utilities	Energeticky a Prumyslovy Holding a.s.	Czech Republic	PPF Group NV	Netherlands	1,100
2. VI. 14	O2 Czech Republic (27.93% Stake)	Telecommunications	PPF Group NV	Netherlands			931
4. IV. 14	Evráz Vitkovice Steel a.s.	Industrials & Chemicals	Martinley Holdings Limited; Vitect Services Limited; Nabara Holdings Limited; Dawnaly Investments Limited; and Hayston Investments Limited	Czech Republic	EVRAZ Plc	United Kingdom	209

Source: Mergermarket – data correct as of 03 July 2014

23

Active Members by
June 30th, 2014

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Project in Pipeline by
June 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:

www.czechinvest.org/en/czechlink-ma-platform

For more information, please visit 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

M&A Report Volume 7 – 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

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.

CONTACT INFORMATION

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

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