

M&A REPORT

Quarterly M&A overview
in the Czech Republic

INS&V

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M&A REPORT – Q4 2012

CEE

is facing Restructuring in Consumer Goods and Industry & Services

148

Total Number of Announced M&A Transactions in the Czech Republic in Q4

30

Transactions in the Industry and Services Sector

6

Number of Transactions Approved by the Office for the Protection of Competition in Q4

1

Number of transactions approved by the European Commission in Q4

M&A – Regional News

In the storm that is battering Europe, the CEE region represents a safe haven for the investors. Sovereign ratings still imply a relatively stable region with positive prospects even in these hard times. Furthermore, the gap in development compared to western countries is perceived rather as a growth opportunity than a drawback. The strongest activity is in countries such as Poland, the Czech Republic, Hungary and Romania, though the numbers reported for H1 2012 seem to slightly lower than those of the previous half-year. For comparison, M&A activity in the CEE region is equivalent to two-thirds of transactions in the whole of South and Central America.

The rising share of domestic investments is a sign of the growing M&A maturity of the markets. According to TPA Horwath, the region can be segmented into two groups, 1) the Czech Republic, Poland, Romania and Hungary with domestic investors accounting for nearly half (40%) of transactions, whereas 2) the Balkans are dominated by cross-border transactions (90%).

Regarding the current market situation, strong activity is reported in the sector of consumer goods as well as in industry. Companies are trying to gain momentum even in these tough times and both vertical and horizontal structures are being weighed. Whether it means cutting costs or expanding to new markets, companies are being urged into action.

Local Market Recently

Statistical data used in this report were prepared by CzechInvest from the trade bulletin. Due to this fact, some of the transactions are already well known (e.g. the Starbev - Molson Coors transaction was listed in November).

Nevertheless, the numbers confirm the trend of the financial sector not being very active and without interesting transactions, whereas the real estate sector is maintaining its first-place position. The recent trend of companies looking for both horizontal and vertical possibilities is most visible in the industry and services segment and in the retail, consumer goods and entertainment segment.

The market has some interesting developments to offer. Though lower in volume, the health-care and energy sectors have experienced significant transactions. Especially the energy sector is a matter of domestic investments and according to the news media more transaction are to come.

Two-thirds of 150 transactions belong to three sectors. 1) Real Estate accounts for one-third; 2) Industry and Services together with 3) Retail, Consumer goods and Entertainment comprise one-third.

Q4 2012 in Numbers

30 Industrial Products & Services



5 Healthcare



10 Energy



7 Agro & Raw Materials



22 Retail & Consumer Goods & Entertainment



7 Financial Institutions

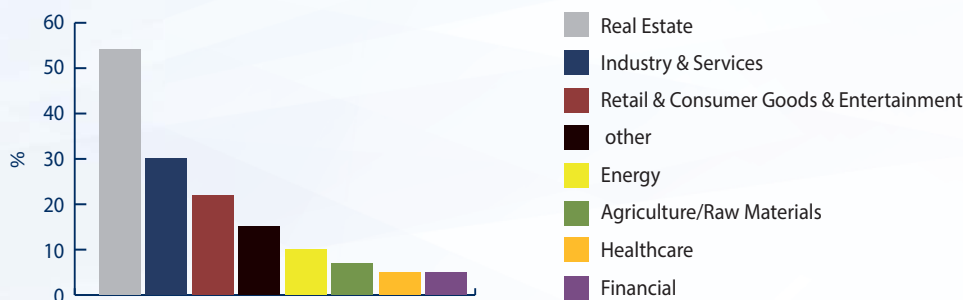


54 Real Estate



15 Other





Source: CzechInvest 2013; Trade Bulletin, data as of 15 December 2012

#2

EP Energy's position on the Czech energy market

10,6 TWh

Traded by PEAS in 2011

24 mln EUR

Approximate turnover after deal concluded by Frauenthal Automotive and Worthington Cylinders

289

New number of points of sale owned by Česká Lékárna a.s.

23 mln EUR

Approximate turnover of Gastrotella in 2011

Listed Deals of the Quarter

Energy continues to rank among the sectors promising opportunities. Since the Starbev – Molson Coors transaction is well known, we would like to comment on EP Energy's merger with, in this particular case, **První energetická a.s. (PEAS)**, which is now a subsidiary of EP Energy.

This development dates back to 2011, when EPH began forming **EP Energy** as a complete vertical holding in the energy sector and **PEAS** was a part of it. The merger of PEAS and EP Energy was listed in autumn of 2012. PEAS is one of the largest electricity trading companies on the Czech and Slovak market; in 2011 traded over 10 TWh of electricity. EPH itself is owned by JT (40%), PPF and PPF Partners (40%), and Daniel Křetínský (20%).

The industrial sector was represented by **Frauenthal Automotive's** acquisition of **Worthington Cylinders a.s.** in autumn 2012. The Austrian holding company is thus strengthening its position on the Czech automotive market. Through this acquisition, Frauenthal Automotive has doubled its turnover in the Czech Republic.

The pharmacy chain **Česká Lékárna a.s.**, owned by Penta Investment, has been allowed to take control over **SimonPharma a.s.** by the Office for the Protection of Competition in December 2012. This transaction will expand Česká Lékárna's Dr. Max brand with the addition of six points of sale and turnover of approximately EUR 4 million.

Gastrotella, owner of NOWACO, a Czech distributor of food and beverages, has been acquired by the South African group **BIDVEST**, which is the second largest global distributor of food and beverages.

Source: CzechInvest 2013; Information from E15, ekonomika.idnes, EP Energy, PEAS, Gastrotella

51

Application Processed by 15 December 2012

25

Active Members as of 15 December 2012

2

New Projects in Q4 2012

12

Projects in Pipeline as of 15 December 2012

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 2013

New CzechLink members in Q4 2012

Market	Activity	Turnover (ths)	EBITDA (ths)
Automotive	CNC and standard high-precision machining, metal stamping and assembly	2 341 EUR	63 EUR
Consumer goods	Production of air fresheners	2 533 EUR	167 EUR

Source: CzechLink 2013

M&A Report Volume 1 - 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. We are glad to present to you the first issue of our M&A report, which should give you a clear picture of the Czech M&A market, its situation and trends.

CEE – Region of Interest

Though western economies are facing hard times, companies are still trying to enhance their business and penetrate new markets while looking for new opportunities. Regarding the total amount of transactions, the golden time of 2007 and 2008 is long gone but after the critical 2009 the values are growing bigger. As for the number of transactions, there has been a significant decline, though it has not been so dramatic in comparison with decreased amount. The relatively good situation on the market is also due to the relatively positive growth forecast, especially compared to the EU 15. The top sectors have been private equity, energy and telecoms. It will be interesting to check development of the global M&A trend that shows the rising popularity of the life-sciences sector. The financial sector ranks highly, but only thanks to the values achieved before 2009. When referring to CEE, we exclude Russia, which is a slightly different cup of tea - focused on the raw materials sector and generally larger transactions.

Target Area – Czech Republic

Regarding the Ernst & Young M&A Maturity Index, the whole CEE region is still in the transition stage. On the other hand, the Czech Republic is ranked at the top of the CEE region, closely followed by Poland. According to sources from TPA HORWATH, since 2005 the Czech Republic has had the second highest number of transactions in the CEE region (after Poland) and also one of the highest median transaction amounts. The Czech Republic is a relatively small market in terms of M&A and a single large transaction can cause bias in the statistics. The top ten transactions of 2011, including ČEZ's purchase of its minority stake, are only equivalent to a single transaction from spring 2012, when Molson Coors Brewing Company acquired StarBev, which is also the third largest transaction in CEE since 2009.

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.

CzechInvest, the Investment and Business Development Agency, is an agency of the Ministry of Industry and Trade. Established in 1992, the agency contributes to attracting foreign investment and developing domestic companies through its services and development programmes. CzechInvest also promotes the Czech Republic abroad and acts as an intermediary between the EU and small and medium-sized enterprises in implementing structural funds in the Czech Republic. Our systems of quality management and information security were certified by Quality Austria and Certification & Information Security Services in accordance with ISO 9001:2000 and ISO 27001:2005.

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MINISTRY OF
INDUSTRY AND TRADE

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