

M&A REPORT

Quarterly M&A overview in the Czech Republic



Q4
2013

M&A REPORT – Q4 2013

Positive sentiment

brought increased activity

187

Q4 2013 in Number
of Listed M&A Projects
by Trade Bulletin

6

Number of Transactions
Approved by the Office
for the Protection
of Competition in Q4 2013

M&A – Regional News

Although the EU economic recovery keeps proceeding, it remains very slow and fragile. The CEE region experiences slightly higher growth compared to the rest of Europe - with the notable exception of the Czech Republic. The country's GDP growth is dragged down by weakened domestic demand. In order to help the economy, the Czech National Bank even launched currency intervention. The positive aspect is that a significant majority of investors are optimistic about the prospects for European economic growth. As a result, the activity on the M&A market started to pick up in the final three months of the year and we expect it to continue to grow at the beginning of 2014.

The eyes of investors were once again focused mainly on Poland in the last quarter of the year. BNP Paribas, France's biggest lender, acquired 98.5 % share in Rabobank's Polish bank BGZ (Bank Gospodarki Zydnościowej) for about 1 billion euros. BGZ is the eleventh largest bank in terms of assets in Poland. Another major transaction is from telecommunication sector. Deutsche Telekom is strengthening its position in the region by acquiring Warsaw-based GTS Central Europe. Also, Vienna Insurance Group (VIG) extends its presence in Poland by acquisition of Skandia Zycie TU S.A. (Skandia Poland). The transaction is still a subject to approval by the regulatory and competition authorities. In Slovenia, Austrian Ring International Holding came to an agreement with Slovenian coatings producer Helios.

Local Market Recently

A vast majority of companies in the Czech Republic believe in a positive development of the economy. Although the investors are still cautious when implementing a project, the numbers of mergers and acquisitions confirm the increased confidence in the future growth. The positive sentiment combined with relatively easy access to financing resulted in a busy quarter in terms of the number of deals.

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. Recently we have seen a high activity on the Czech M&A market. In total there were 187 listed transactions in Q4 2013. The number of deals has risen by about 50% compared to the previous quarter and they are even higher than those of the same period in 2012*.

Regarding the sectoral distribution the data is in line with the previous quarter. The most deals were carried out in the real estate sector, followed by retail & consumer goods and Industry & services sectors. Together these three sectors accounted for almost three quarters of the total number of transactions in Q4 2013.

**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.*

Q4 2013 in Numbers

37 Industrial
Products & Services



11 Healthcare



13 Energy



8 Agro & Raw
Materials



40 Retail & Consumer
Goods & Entertainment



11 Financial Institutions



55 Real Estate

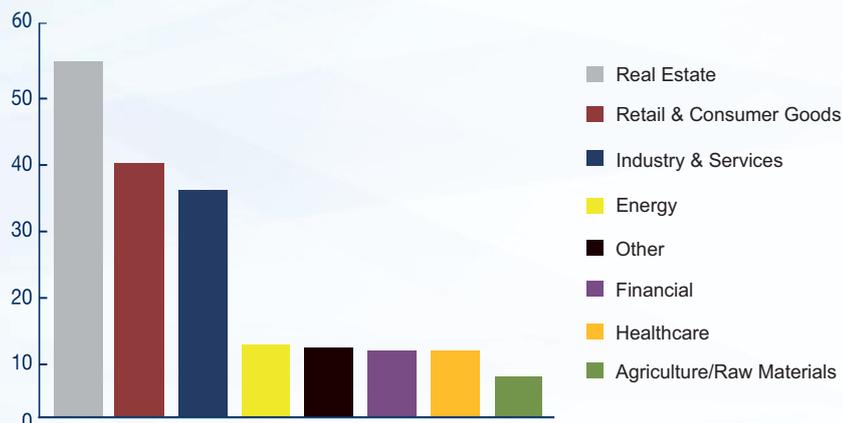


12 Other



Source: CzechInvest 2013; Trade Bulletin, data as of 31 December 2013

Structure by Sector – Volume of Projects



Source: CzechInvest 2013; Trade Bulletin, data as of 31 December 2013

€2.47 billion

Value of Telefónica CZ's acquisition by PPF Group

€8,4 million

Operating profit of Metalimex in Fiscal Year 2012

Listed Deals of the Quarter

Several noteworthy transactions have been completed in the last quarter of 2014. The following deals are only a sample of the local M&A market.

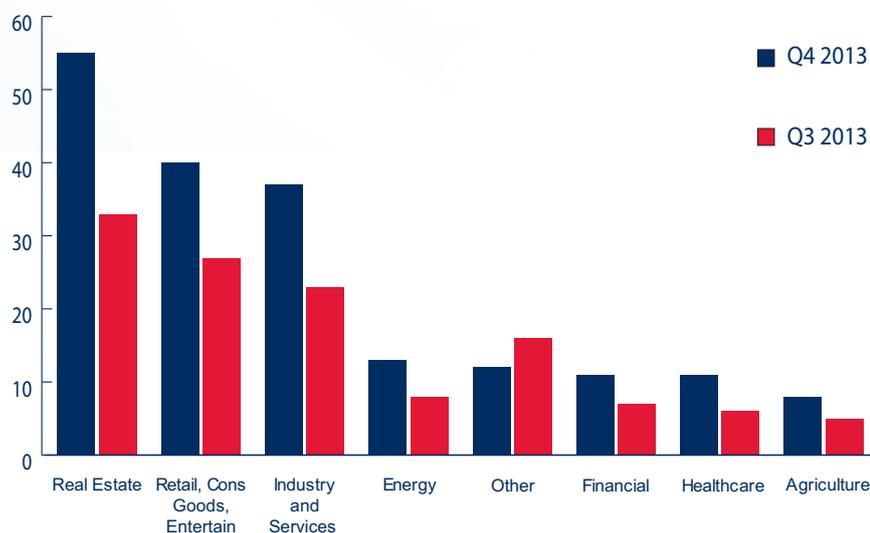
The top transaction of the quarter and also of the year is definitely the acquisition of controlling stake in Telefónica Czech Republic by Peter Kellner's PPF Group. The investment group acquired a 65.9 percent share in the Czech unit of Telefónica SA for a total consideration of €2.47 billion. The country's biggest phone company, selling its services under the O2 brand, generated revenues of € 2 billion in 2012. The Madrid-based Telefónica, aiming to reduce its debts by this transaction, will retain a 4.9% equity stake in the Czech operator. The transaction is still subject to approval by European Commission and it is yet to be listed in the Trade Bulletin.

In the mining industry, Metalimex completed an acquisition of Czech coking plant OKK Koksovny from NWR (New World Resources). The value of the transaction of €95 million was much higher than expected by the market. Metalimex, a Czech company offering a wide portfolio of products and commodities in Central Europe, reached an operating profit of €8,4 million in 2012. It controls companies such as AL INVEST Břidličná, Coal Mill and Měď Povrly. NWR, one of Central Europe's leading hard coal producers, carries out its activities in the Czech Republic and Poland through its subsidiary OKD. NWR's net loss for the Q3 2014 was €132.2 million.

At the beginning of December, ResMed bought a Prague-based UniMedis, a distributor of equipment for the treatment of sleep disordered-breathing in the Czech Republic and Slovakia. The American company ResMed is a pioneer and global leader in sleep and respiratory medicine. The merger is a part of ResMed's strategy to expand its presence in Europe. The terms of the deal were undisclosed.

Sources: CzechInvest, E15, Patria, MarketingSalesMedia

Time period	Total number of transactions
Q4 2013	187
Q3 2013	125
Q2 2013	197
Q1 2013	81
Q4 2012	148



Source: CzechInvest 2013; Trade Bulletin, data as of 31 December 2013



Mergermarket Insight

The year 2013 was a busy one for M&A in the Czech Republic, with several large deals boosting the total value to a seven-year record high.

The energy and utilities sector dominated M&A activity in 2013, accounting for half of the top 10 largest deals and almost one third of all deal flow. The largest of these was the sale of Net4Gas, the gas distribution network, by RWE of Germany to a consortium comprising Allianz Capital Partners and Borealis Infrastructure Management.

The largest deal by far during 2013 was the sale of a 65.9% stake in Telefonica O2, the largest telecom company in the Czech Republic, to PPF. The deal with a price tag of EUR 2.5bn was announced in November.

This came eight months after PPF in turn sold its 25% stake in insurance company joint venture Generali PPF Holding to Assicurazioni Generali of Italy, its original JV partner. This was the third largest deal in 2013, worth EUR 1.3bn.

Another energy deal at the end of 2013 was the sale of a 49% stake in gas company Prazska Plynarenska, to the City of Prague. German energy group E.ON's exit from PP was another example of western European energy and utility companies selling Czech assets. Indeed one key factor driving deal activity has been the exit from the central and eastern Europe region of western European companies who are seeking to improve their balance sheet or focusing their investment strategies in other regions such as Asia and South America.

Another driving force in M&A activity in the Czech Republic is succession issues. As the founders of companies established in the early post-Communist years approach retirement age or pursue other interests, they are seeking new owners. Another trend is the growing number of deals featuring Czech buyers. Of the top 10 deals in 2013, half of the buyers (excluding Netherlands-registered Czech financial group PPF Group) were Czech companies.

The final quarter of 2013 saw the highest value and number of deals, slightly ahead of Q1. The financial services, media and consumer sectors also saw significant activity last year.

Katka Krosnar

28

Active Members
by December 31st, 2013

3

New Projects in Q4 2013

3

Projects in Pipeline by
December 31st, 2013

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 Q4 2013

Market	Activity	Total Earnings (ths)	EBIT (ths)	EBITDA (ths)
Automotive	Production of cable-controlled parts and modules for automotive industry	3,811 EUR	175 EUR	328 EUR
Surface treatment	Enamel frits for mechanical engineering, ceramic frits for tiles and ceramic bonds for production of grinding machines, glazes for production of roofing tiles and artificial ceramics and special frits for use in metallurgy and the foundry industry	4,627 EUR	112 EUR	168 EUR
Raw materials recycling	Purchasing and processing of aluminium, iron and copper scrap	23,797 EUR	263 EUR	510 EUR

Source: CzechLink 2014

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.

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 9001:2008 and ISO 27001:2005.

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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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