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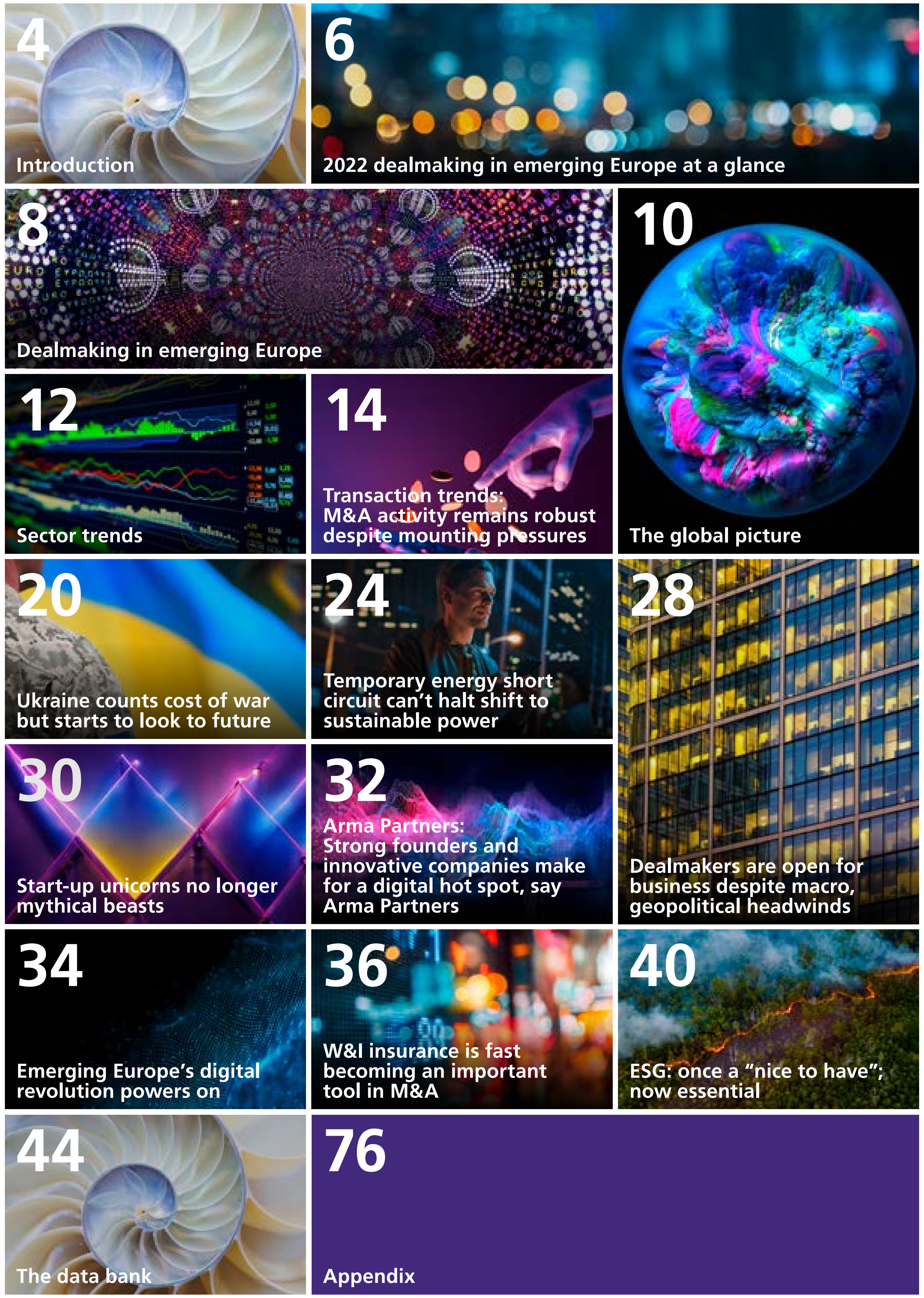
Emerging Europe M&A Report

2022/23

In cooperation with
EMIS
In, On and For Emerging Markets

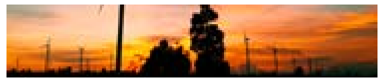
January 2023

Contents



Acting on headline deals in emerging Europe

In 2022, CMS was the most sought after legal advisor in emerging Europe. Our deals included:



MOL
Advised a Hungarian multinational oil and gas company headquartered in Budapest, on the acquisition of a package of petrol stations from Grupa Lotos S.A., as well as the sale of a package of petrol stations in Hungary and Slovakia by MOL Group to PKN Orlen, the major Polish oil company.

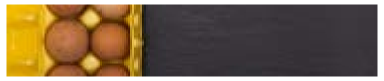
Divante
Advised shareholders on the sale of 100% of the shares in Divante S.A., the company operating in the e-commerce and e-marketing sector, to Cloudflight, a European software and AI solutions provider, portfolio company of Deutsche Beteiligungs AG fund.

Sonnedix
Advised the global solar independent power producer on the acquisition of Power Sun Energy, a company developing photovoltaic projects in Poland. The transaction also included the purchase of a significant portfolio of photovoltaic projects of a total capacity of close to 1GW.

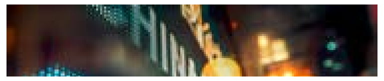
4iG Plc - Vodafone
Advised on the acquisition of 51% of the shares in Vodafone Magyarország Távközlési Zr., Hungary's second largest telecommunications company.

Ford Otomotiv Sanayi A.S.
Advised on the landmark EUR 700m+ acquisition of Ford's car manufacturing plant in Craiova, Romania, one of the largest transactions in the automotive sector ever on the Romanian market.

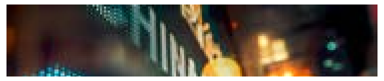
Porsche
Advised in several transactions on acquiring and increasing its stake in Rimac, a Croatian start-up. The last investment of a total of EUR 500m, resulted in Porsche maintaining a roughly 20% stake.



Rohlik Group
Advised a group of investors on the EUR 220m series D fundraising for Rohlik Group, one of Europe's leading online grocery businesses.

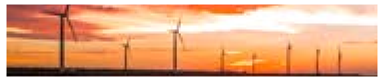


MARSH
Advised the world's leading insurance broker and risk advisor, on the sale of 80% of its shareholding in INSIA a.s., including its Slovak subsidiary and Romanian branch, to Unilink S.A.

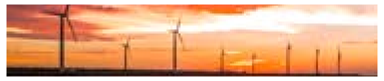


Norwegian listed financial services provider
Advised on a global restructuring with a value of more than half a billion euros, which included 13 countries.

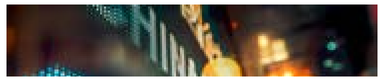
Q-Energy
Advised on securing financing of the construction of a solar farm, one of the largest photovoltaic projects currently under development in Poland.



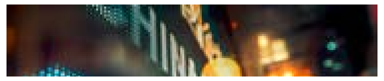
Zagrebacka banka, HBOR, EBRD
Advised a consortium of banks on a EUR 126m project to build two onshore wind farms in Croatia. This is the first utility-scale renewable energy project in the country.



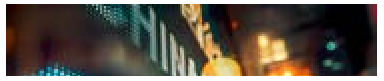
UniCredit, Credit Suisse, Eurobank OTP Bank
Advised a consortium of banks on the refinancing of the Čibuk project, the largest, onshore wind farm in Serbia.



Metlife
Advised Metlife on the EUR 584m sale of Polish subsidiaries to NN Group.



Hystead Limited
Advised the London-based company and investor in the Western Balkans in the sale of Delta City Mall in Podgorica, Montenegro.



Karl Eugen Fischer GmbH
Advised on strategic acquisition of the Slovak company, Konštrukta-TireTech.

Introduction

In a year that started with challenges including rising inflation and energy prices, only for the Russian invasion of Ukraine to add to the volatility, the M&A market in emerging Europe transpired to be extremely resilient. The region saw M&A activity maintain a steady pace, though deal values were notably lower, and there were variations across territories and sectors. While 2022 brought a unique set of challenges, dealmaking largely compared favourably to pre-pandemic levels.

Welcome to the 2022/23 edition of the Emerging Europe M&A report.

Despite the challenging environment, overall transaction volumes rose by 5.6% to 1,229 deals. This was against a strong year in 2021 and was also ahead of the preceding two years, confirming the attractiveness of the market even in more difficult times.

Deal values however, fell by 20% to EUR 32.93bn, reflecting the broader impact across all of Europe of higher inflation and growing energy costs, combined with the cost-of-living crisis and central banks' actions to raise interest rates. The war in Ukraine added to the volatility in markets and uncertainty about the future, and the combination of all these factors led to corporate decision-makers taking a more cautious approach. Another symptom of the increased caution was a fall in the number of megadeals valued at EUR 1bn or more, down from ten in the previous year to only three.

M&A players showed that they can readily adapt to the new circumstances, and although they are more cautious in pursuit of targets, M&A activity remains robust. Counterintuitively, in some countries geopolitical tensions have led to higher deal activity, as our roundup of countries' performances in this report shows.

The relentless drive to digitalisation shows no signs of easing up, and once again telecoms and IT was the number one sector for M&A activity, with 336 deals, surpassing the level in 2021. Real estate was the second busiest, with 205 deals, followed by manufacturing with 170. Ranked by deal values, mining, including oil and gas, ranked top at EUR 7.98bn thanks to a single megadeal, followed by real estate at EUR 7.82bn and energy and utilities at EUR 4.03bn. Despite turmoil on the energy markets, the energy and utilities sector still saw 69 transactions, including notable activity in renewables, particularly wind and solar as the transition to sustainable power continues.

Russia's invasion of Ukraine has had a devastating effect on people's lives and destruction to property, with repercussions far beyond the country's borders. In this report, CMS experts from Ukraine and other countries look at the impact of the war on Ukraine and elsewhere in the region. What stands out is the resilience of the people who have ensured that Ukraine has adjusted to the most difficult of situations to remain open for business.

To reflect the growing importance of the digital economy, we devote a section of this report to the digital revolution that now encompasses so many aspects of life, from online retail spending to government and private investment in hardware, software and infrastructure and equipment. The region continues to grow and foster new technology companies that develop to become the next generation of digital champions.

Emerging Europe's growing importance as a hotspot for visionary founders and exciting companies is one of the topics covered in our interview with one of the partners at Arma Partners, a corporate finance advisor specialising in the digital economy. As the discussion shows, growing numbers of international investors rate the region's talent very highly and rank business founders alongside the best in the world.

One of the products of this hotbed of talent – highlighted in a separate section – is the growth in "unicorns", those start-up companies that have reached more than USD 1bn in value. There are now an estimated 34 unicorns in the region, up from just six in 2015, including the likes of Rohlik in the Czech Republic and Docplanner in Poland. Coming up fast behind them is the next generation of unicorns, dubbed "soonicorns".

It has been a turbulent year on the energy markets, but, as our experts conclude, events are likely to mean only a temporary interruption in the drive for sustainability. Renewable energy has had to cope with the impact of rising costs, which may have put some projects on hold, but the underlying fundamentals remain strong and should stimulate M&A activity in the sector.

Energy is an industry where environmental, social and governance (ESG) issues are driving change, but it is not alone. A CMS panel debates the growing importance of ESG and concludes that while it may once have been considered a "nice to have", it is increasingly seen as essential to companies' performance and has a growing role to play in M&A. A mix of legislation and commercial imperative, plus influence from private equity investors, are pushing the adoption of ESG standards across all aspects of business, from fighting climate change to tackling money laundering.

Another valuable tool for dealmakers is warranty and indemnity (W&I) insurance, which we look at in more detail in this report. Its use across the region has increased as it has become more widely available and better understood, backed by a growing pool of experts and practitioners. There remain some hurdles to its use, including unfamiliarity in some jurisdictions, but the market for W&I insurance in emerging Europe is becoming more sophisticated, leading to its more common use as a tool in M&A.

Some predictions foresee that 2023 will be the hardest period for the region's economy so far, but that remains to be seen. There are also reasons to be hopeful. So much will depend on inflation, the availability of raw materials and a resolution to the conflict in Ukraine. Dealmakers in the region have shown they are capable of adapting to new circumstances and international investors can see the opportunities offered by profitable and growing companies. Despite the current uncertainty and volatility, emerging Europe jurisdictions are well placed to confront the challenges and complexities that lie ahead.

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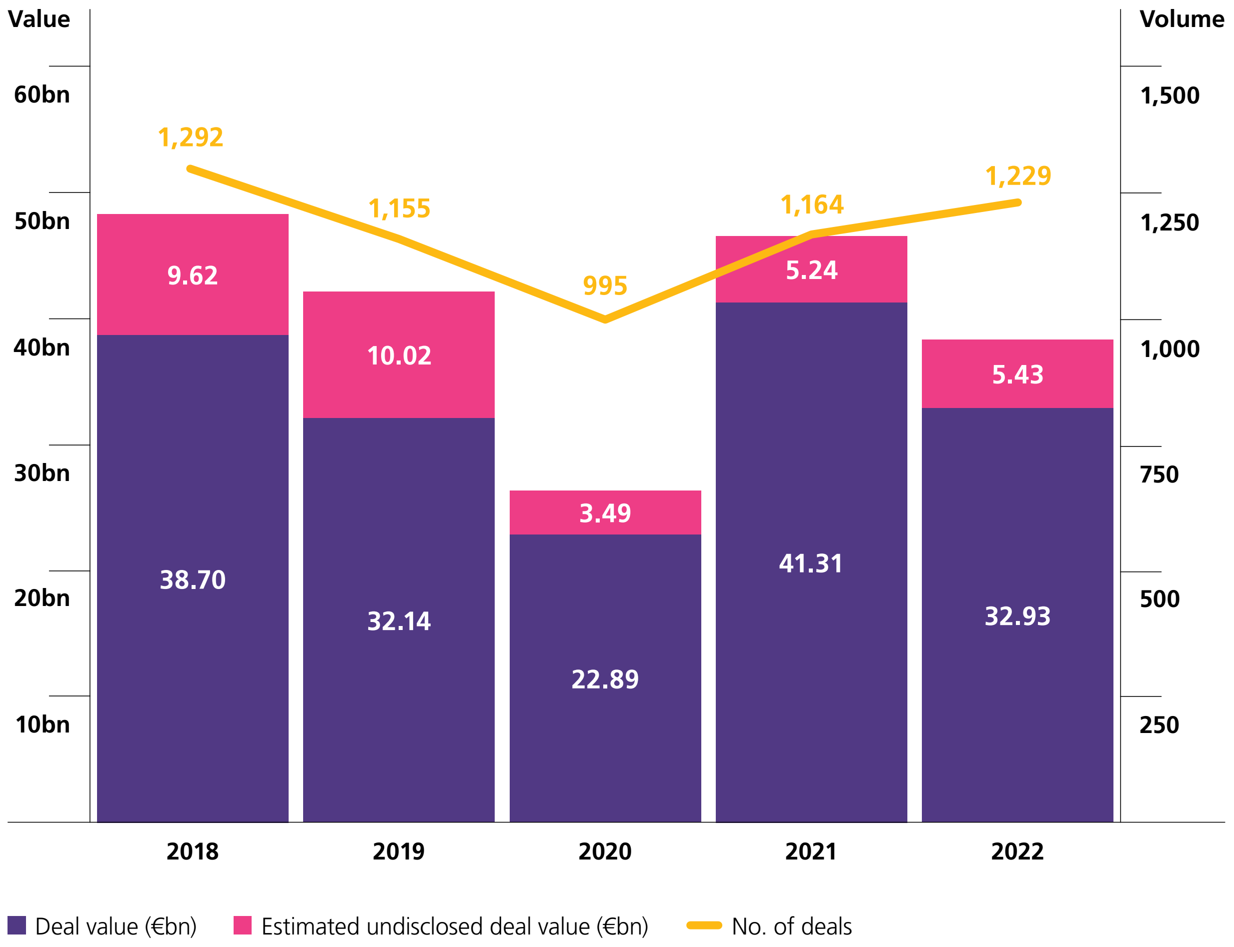
2022 dealmaking in emerging Europe at a glance

Deals by value and volume



Activity in the region's busiest markets (by overall deal value)

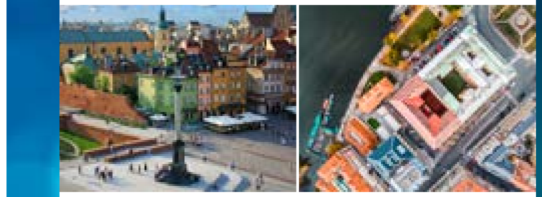
Poland	EUR 15.97bn	250
Croatia	EUR 3.16bn	80
Romania	EUR 2.9bn	234
Czech Republic	EUR 2.1bn	125
Hungary	EUR 1.96bn	64
Bulgaria	EUR 1.43bn	72

Telecoms & IT
Busiest sector by deal number for the third year in a row: with 336 M&A deals carried out in 2022 (an increase of 58 deals y-o-y), driven by the rising investment in digital transformation amid the lack of telecoms megadeals.

Private Equity
Continued to increase its share in overall investment: with 289 deals carried out in 2022 (representing a 3.2% increase) worth EUR 9.99bn in total. Private equity investors were involved in half of the top 10 transactions while Telecoms & IT, Real Estate & Construction and Manufacturing generated more than 60% of their deals.

Real Estate
The second best performing sector by deal number and deal value – with 205 M&A deals carried out in 2022, worth EUR 7.82bn in total. Investment in office and shopping properties rose, accounting for more than half of the deals in the sector both in volumes and value.

Most active origination markets from within the region



Poland	Czech Republic
(by deal value)	(by deal volume)
10.39bn EUR	141 deals
116 deals	3.17bn EUR

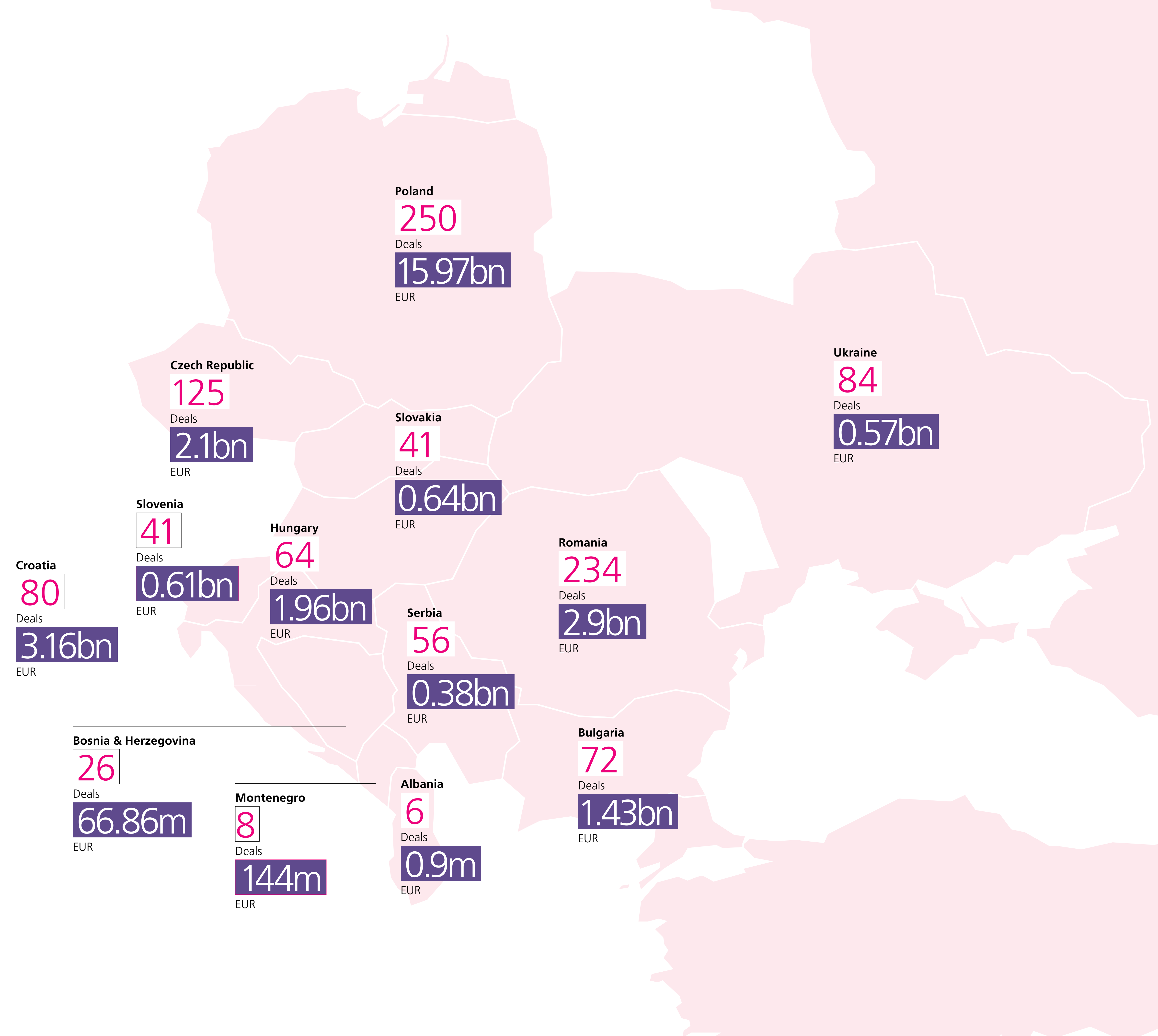
Most active origination market from outside the region

United States

3.49bn EUR

126 deals

Dealmaking in emerging Europe



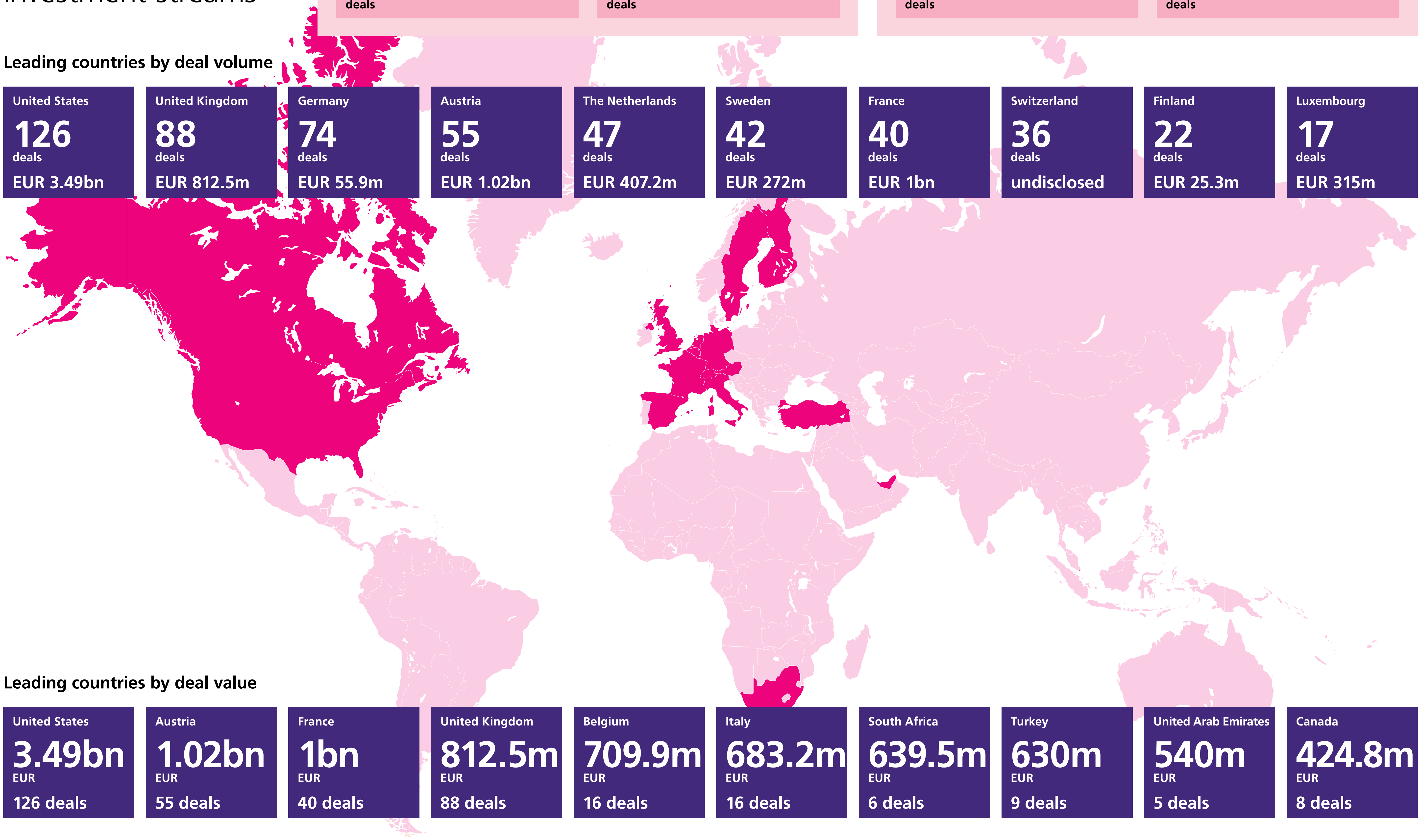
The global picture: An overview of international M&A investment streams

Cross-border deals

2021		2022	
743 deals	EUR 38.2bn	815 deals	EUR 22.7bn

Domestic deals

2021		2022	
421 deals	EUR 3.1bn	414 deals	EUR 10.3bn



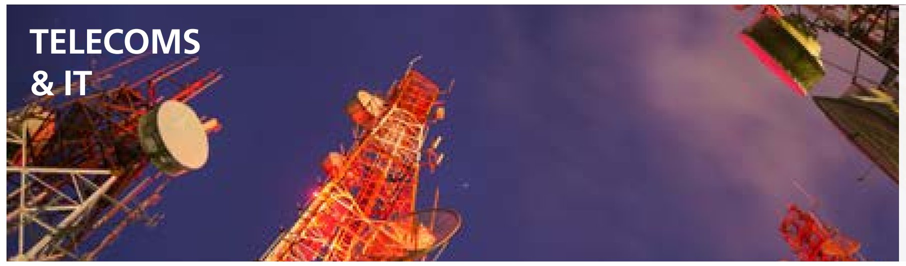
Leading countries by deal volume

United States	126 deals	EUR 3.49bn
United Kingdom	88 deals	EUR 812.5m
Germany	74 deals	EUR 55.9m
Austria	55 deals	EUR 1.02bn
The Netherlands	47 deals	EUR 407.2m
Sweden	42 deals	EUR 272m
France	40 deals	EUR 1bn
Switzerland	36 deals	undisclosed
Finland	22 deals	EUR 25.3m
Luxembourg	17 deals	EUR 315m

Leading countries by deal value

United States	3.49bn EUR	126 deals
Austria	1.02bn EUR	55 deals
France	1bn EUR	40 deals
United Kingdom	812.5m EUR	88 deals
Belgium	709.9m EUR	16 deals
Italy	683.2m EUR	16 deals
South Africa	639.5m EUR	6 deals
Turkey	630m EUR	9 deals
United Arab Emirates	540m EUR	5 deals
Canada	424.8m EUR	8 deals

TELECOMS & IT



Deal count	Value
+58 Deals	-76.9%
▲	▼
336 Deals	3.79bn

REAL ESTATE & CONSTRUCTION

Deal count	Value
-10 Deals	+33.7%
▼	▲
205 Deals	7.82bn

MANUFACTURING

Deal count	Value
+38 Deals	+27.7%
▲	▲
170 Deals	2.75bn

WHOLESALE & RETAIL

Deal count	Value
+7 Deals	-59.7%
▲	▼
99 Deals	1.53bn

SERVICES

Deal count	Value
+51 Deals	+348.9%
▲	▲
95 Deals	467.2m

ENERGY & UTILITIES

Deal count	Value
-22 Deals	+55.4%
▼	▲
69 Deals	4.03bn

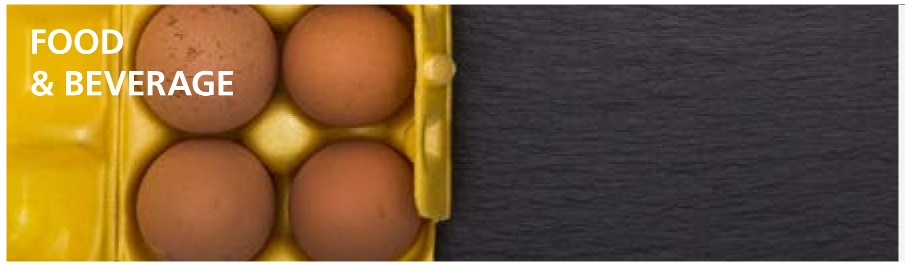
FINANCE & INSURANCE

Deal count	Value
-23 Deals	-80.7%
▼	▼
69 Deals	1.29bn

EDUCATION & HEALTHCARE SERVICES

Deal count	Value
+23 Deals	+113%
▲	▲
58 Deals	514.6m

FOOD & BEVERAGE



Deal count	Value
-12 Deals	+8.1%
▼	▲
45 Deals	811.9m

TRANSPORTATION & LOGISTICS

Deal count	Value
-18 Deals	-29.6%
▼	▼
24 Deals	743.6m

OTHER

Deal count	Value
+9 Deals	+237.5%
▲	▲
18 Deals	931.7m

AGRICULTURE & FARMING

Deal count	Value
-15 Deals	+128.6%
▼	▲
16 Deals	215.2m

MEDIA & PUBLISHING

Deal count	Value
-7 Deals	+95.2%
▼	▲
15 Deals	63.4m

MINING (INCL. OIL & GAS)

Deal count	Value
-14 Deals	+528.9%
▼	▲
10 Deals	7.98bn

Transaction trends: M&A activity remains robust despite mounting pressures

M&A in emerging Europe remained surprisingly buoyant during 2022, despite combined pressures from the war in Ukraine, the aftermath of the Covid-19 pandemic, and an increasingly challenging economic environment. After a strong end to deal-making in 2021, the new year looked set to continue the trend only for 2022 to be another extraordinary year. While M&A professionals became more cautious, as the year evolved, the deal-making activity held steady and the year ended with some optimism about 2023 and beyond.

A strong end to 2021 and hopes that the Covid-19 crisis could be consigned to the history books, meant dealmakers in emerging Europe started 2022 in a cautiously optimistic mood. The prospect of life returning to some kind of normality after the pandemic had to be balanced against the threat of rising inflation and the withdrawal of central bank support, but the fundamentals for continued M&A activity were in place.

That changed in February when Russia's invasion of Ukraine sent shockwaves across Europe and the world. Alongside the human suffering and destruction in Ukraine, there was a dramatic impact continent-wide on energy prices, stoking up inflationary pressures that were already building and prompting central bankers to take a more hawkish stance.

Aside from the direct devastation caused by the war, the result has been weakening consumer confidence and a cost of living crisis across Europe combined with volatility on financial markets, prompting businesses to revaluate their forecasts and in turn leaving dealmakers reassessing the value of potential targets.

Almost every sphere of business and the economy in emerging Europe has been affected, putting a halt to the buying spree at the end of 2021. Nevertheless, in the region and even in Ukraine itself, the wheels of commerce have continued to turn, and dealmakers have once again adapted to fast-changing circumstances.

In the face of a near-perfect storm of adverse economic conditions and the uncertainty caused by the war on European soil, it was no surprise that M&A activity in 2022 was more challenging than in 2021, which had been an exceptionally strong year. What came as a revelation to some observers was just how resilient M&A markets proved to be.

Transaction volumes ended the year more than 5 per cent higher at 1,229 deals against 1,164 in 2021 and not far off the five-year-peak seen in 2018. Valuations fell by 20% to EUR 32.93bn, down from a peak of EUR 41.3bn in 2021, but higher than in 2019 or 2020. Megadeals were thin on the ground, with just three of the top ten transactions valued at more than EUR 1bn, while in 2021 each of the top 10 deals hit or exceeded that valuation.

Foundations remain solid

Against the backdrop of rising inflation and market volatility, the underlying drivers of change for sellers and buyers, such as digitalisation, energy efficiency and consumer trends, continued to underpin M&A activity. The picture across emerging Europe varied enormously, as illustrated by the CMS European M&A Outlook published in September 2022 here.

Horea Popescu
Partner
CMS Bucharest

It's been a mixed tale in 2022, but I think it's worth saying that the region remained resilient despite formidable challenges. In terms of sectors, technology has been on the rise for a few years and continues to deliver across all aspects including software development and telecoms. I see absolutely no reason why activity in this sector should not continue over the next 24 months because the fundamentals are so strong. The same goes for renewables. The strength of these sectors will spark quite a large number of deals.

It showed a wide spread of contrasting views on emerging Europe, with 24% of those polled seeing it as the strongest market for deal growth, at same time as 19% regarded it as the weakest, a reflection of its place as home to some of fastest growing economies in Europe and also some of the least mature M&A markets.

Countries

The International Monetary Fund was cautious when it published its World Economic Outlook in October 2022, noting: "Global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades[1]."

It predicted global economic growth would slow from 6% in 2021 to 3.2% in 2022 and 2.7% in 2023, with emerging and developing Europe slipping from 6.8% in 2021 to zero growth in 2022 and 0.6% in 2023. For the region, the IMF forecast a wide range of outcomes for 2023, from 0.5% growth in Poland to 3.5% in Romania, against its expectations of contraction in the German economy.

In **Ukraine**, the war has taken a massive toll on the economy. Like the country's people, businesses and commerce have been heavily impacted, but they have adapted in the face of enormous challenges. [There is a separate section on Ukraine later in this report]. After a strong performance in 2021, Ukraine M&A was

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[1] https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022

Radivoje Petrikić
Partner
CMS Vienna

M&A activity slowed compared to 2021, but it was still at pre-pandemic levels, confirming the attractiveness of the market even in hard times. M&A players have shown that they can easily adapt to new circumstances, and although they might show greater caution in pursuit of targets, deal levels are robust. Even though the current economic and geopolitical situation causes uncertainty and volatility, jurisdictions across the region are well placed to confront the challenges.

impacted by the direct effects of the war and the uncertainty that came with it. Although deal numbers fell to 84, against 143 in 2021, they were not far behind the levels of 2020 and well ahead of 2016. Values fell to EUR 570m from EUR 1.72bn in 2021, but were still close to the level in 2020 and higher than 2017. Only one deal managed to break the EUR 100m barrier.

Poland once again stood out as a major M&A market in the region, although it was not immune from the difficult macroeconomic conditions. Deal values hit a decade high of EUR 15.97bn, up by a third on 2021, partly thanks to the EUR 7.9bn merger of state energy firms PGNiG and PKN Orlen in another step towards Orlen's ambitions to be a global player. Although there were fewer megadeals than the previous year, eight transactions came in above EUR 300m. It was the busiest territory in the region by transaction numbers despite a 7% fall to 250 deals, a decade low by a small margin.

In **Hungary**, deal values bounced back to EUR 1.96bn, the highest since 2018, while the number of deals rose by 8% to 64. Highlights included the purchase of a non-controlling minority stake in the Hungarian Aegon Group and the Union Insurance Group by state-owned Corvinus and the sale of a large portfolio of petrol and gas stations by Hungary's MOL to Poland's PKN Orlen in Hungary and Slovakia as part of a framework transaction between the two regional heavyweights.

It was a buoyant year for activity in the **Czech Republic**, where the appetite among dealmakers lifted transaction numbers by 13% to 125. There was no repeat of the megadeals that sent values to an all-time high of EUR 13bn in 2021 and without them values dropped to EUR 2.1bn, the lowest since 2012 but similar to 2020. Major deals included the sale of a stake in telecoms company O2 CR to PPF for EUR 331m, and a EUR 220m fund raising by online grocer Rohlik.

Real estate, in the form of retail properties and offices, was again an M&A driver in **Slovakia**, where deal numbers rose from 28 to 41 and values by 14% to EUR 640m. Numbers remain down on pre-pandemic levels, while values compare favourably with most of the past decade.

The EUR 838m purchase of the Maritza East thermal power plant as part of US buyout firm KKR's takeover of power group Contour Global was the standout deal in **Bulgaria**, where deal values fell by 25% to EUR 1.43bn and transaction volumes rose 3% to 72.

In terms of deal numbers, **Romania** was the second most active jurisdiction, with 234 transactions, a 20% increase and a new decade high. Telecoms and IT and real estate were the busiest sectors. Values were a fifth higher at EUR 2.9bn, lifted by the EUR 575m purchase of Ford Romania and its Craiova plant by Ford Otomotiv Sanayi of Turkey.

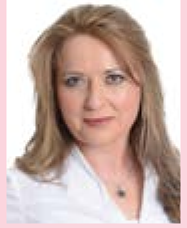
M&A enjoyed another year of growth in **Croatia**, where values hit a new high for the decade of EUR 3.16bn, a 69% increase, including the EUR 690m purchase of a stake in SuperSport by Entain of the UK. Deal numbers rose by 16% to a new peak of 80.

As a country that has not yet imposed sanctions on Russia, **Serbia** has been attractive to Russian entrepreneurs and to foreign investors pulling out of Russia. A broad spread of deals in wholesale and retail, telecoms and IT, real estate and food and beverage lifted deal numbers by 43% to 56, though values more than halved to EUR 380m.

Transactions in **Bosnia and Herzegovina** rose from 21 to 26, although values dropped sharply to EUR 66m.

A flurry of deals in manufacturing and telecoms and IT lifted the number of transactions in **Slovenia** from 30 to 41. Despite the EUR 219m purchase of a stake in manufacturer Pipistrel by Textron of the US, deal values dropped by 61% to EUR 610m.

Montenegro deal values trebled to EUR 144m, thanks to the EUR 95m sale of Delta City Mall to an Israeli real estate company, while there were just eight deals, down from ten previously. **Albania** saw six deals, an increase of two on the previous year, as values fell to a decade low of under EUR 1m.



Eva Talmacsi
Partner, CMS CEE/London
CMS London

The digital transformation of CEE is well underway and it has also facilitated the increasing appetite for software assets. The software landscape has seen one of the largest valuation multiples over the recent months. Some of the sub-sectors are expected to be standout performers in the coming years including Cybersecurity, ERP, Healthcare and AI & Analytics software-related businesses.

Sectors

The acceleration of digitalisation across all countries and industries continued, helping to drive the technology sector alongside growth in telecoms, while all aspects of the energy industry were under the spotlight. Telecoms and IT was once again number one by number of transactions, with 336 deals, up from 278 in the previous year. However, it was knocked off the top spot by value as it fell from EUR 16.4bn to EUR 3.78bn, due to a drop in the number megadeals. In 2021, it accounted for four of the year's ten largest deals but did not make it onto the leader board in 2022.

The EUR 7.9bn Polish merger of PGNiG and PKN Orlen was the only notable deal in the mining, oil and gas sector, but it was enough to put it top of the table by value at EUR 7.98bn. Transaction numbers fell from 24 to 10. Real estate and construction was the second busiest sector with 205 deals, down from 215, and also saw the second highest level of deal values at EUR 7.82bn, up from EUR 5.8bn.

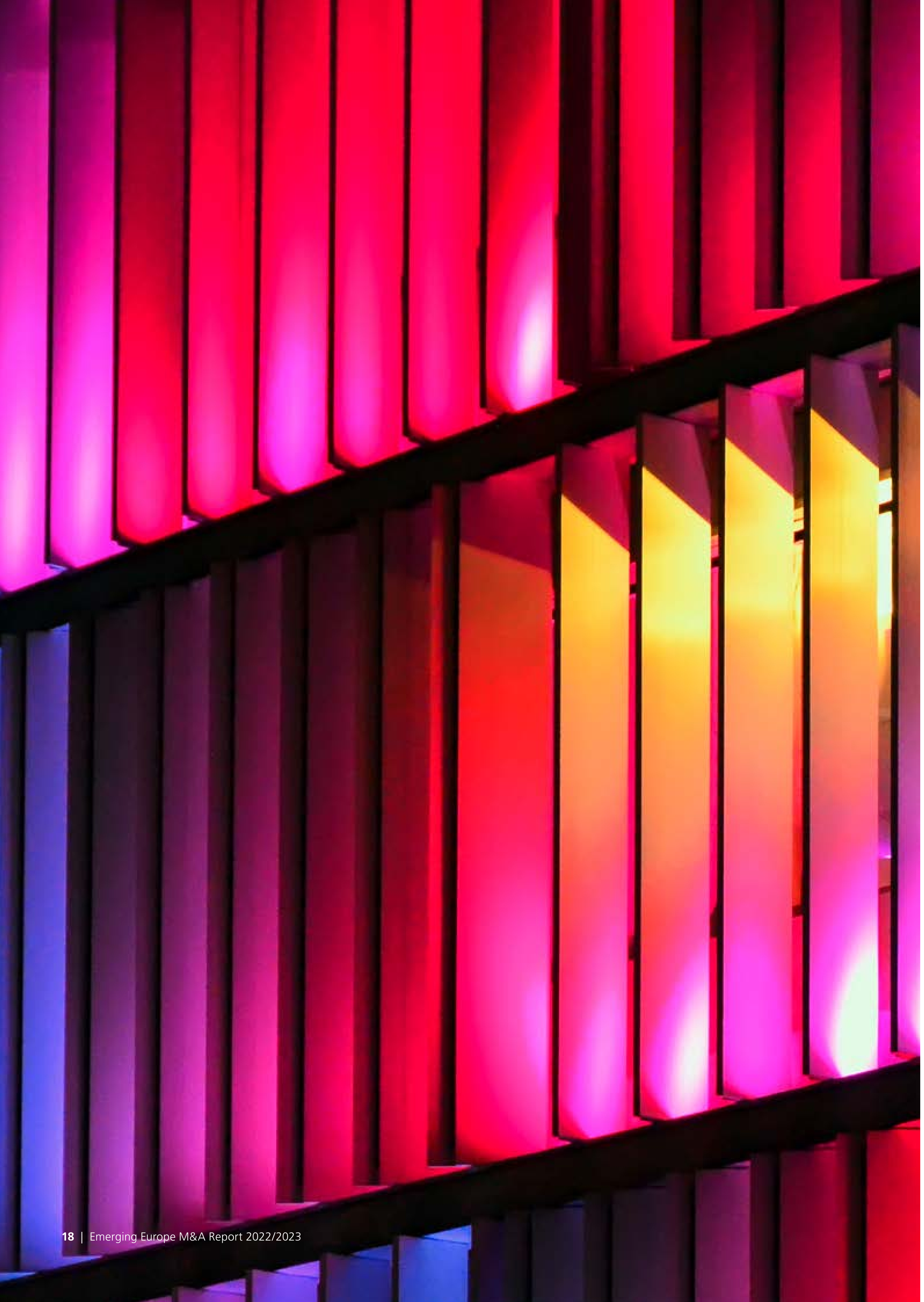
Manufacturing saw the third highest level of transaction volumes, up from 132 to 170 as values rose by 27% to EUR 2.74bn.

The value of deals in energy and utilities companies was 55% higher at EUR 4.02bn, although deal numbers fell from 91 to 69. It was another strong year for education and healthcare services as deal numbers rose from 35 to 58 and values doubled to EUR 514m.

Private equity and IPOs

The global market for IPOs was effectively closed for most of the year, and after a busy year for regional IPOs in 2021, the number of listings plunged from 60 to just 13, compared to 16 in 2020 and six in 2019. IPO values fell from EUR 8.6bn to EUR 40m, with the largest listing – Telematic Interactive Bulgaria on the Bulgarian Stock Exchange – at only EUR 8.2m. Stock exchanges have played a modest role in regional economies but there is still optimism that as confidence returns, more companies will choose to go public.

It was a different story for private equity, which continued to build on the solid foundations of the past two decades. Private equity deal volumes edged up to a new five-year high of 289. In contrast, deal values were at the lowest level in five years, at EUR 9.99bn, down from EUR 13bn in 2021, partly reflecting a drop in megadeals. In addition to the KKR ContourGlobal transaction and the Entain-Supersport deal, highlights



Blazej Zagorski
Partner
CMS Warsaw

Activity may be quieter in the short term as general market environment in which targets operate have become volatile and valuations are often less attractive. There are many uncertainties and new challenges, but as the macro-economic situation stabilises, we are likely to see again more transactions coming to the market in the medium term. I'm not expecting easy times, but we are optimistic that activity will be there particularly in sectors such as IT, energy and manufacturing. Also, corporate carve-outs and restructurings may provide for further transactional opportunities.

included a EUR 500m investment in Rimac Automobili of Croatia, and a EUR 421m investment in digital infrastructure in Poland by Cordiant Capital of Canada.

Geopolitical events and tougher macroeconomic conditions made it a challenging year, but the trends that have been driving private equity investment have not gone away. Emerging Europe has proved fertile ground for home-grown and international private equity firms, and alongside them venture capital has nurtured start-ups and taken them on to the next level. Although the region has seen strong growth in PE and VC, it still lags behind western Europe, leaving room for growth through consolidation in fragmented markets.

Foreign vs regional

US investors were once again the most active foreign investors as the number of US deals rose from 103 in 2021 to 126. The US was also the leading source of foreign investment with EUR 3.49bn of deals, though that was down from the previous year's high of EUR 8.67bn.

The UK was the second busiest foreign investor and remained the number one European investor, with 88 deals, the same as in 2021. The UK was fourth overall by value, down from EUR 1.9bn to EUR 812m. Germany was third largest by transactions, with 74 deals, up from 64, but was ranked 20th by value. Austria was the biggest European investor by value at EUR 1.01bn, despite a fall from EUR 1.5bn, and fourth largest overall by volume at 55 deals, up from 44. Deal values from France fell to EUR 1bn from EUR 1.8bn and deals from 47 to 40. By value, the other top ten investor countries were Belgium, Italy, South Africa, Turkey, UAE and Canada.

Cross-border deal activity was a strongpoint, up from 743 to 815 deals, although values fell from EUR 38.2bn to EUR 22.7bn. Domestic deal volumes slipped marginally from 421 to 414, while values more than trebled to 10.3bn. Within emerging Europe, the largest investor countries were Poland (EUR 10.3bn), the Czech Republic (EUR 3.1bn), Hungary (EUR 1bn) and Romania (EUR 753m).

Deal drivers

Emerging Europe has in recent years largely enjoyed sustained economic growth – although it has not escaped the buffeting of global market fluctuations – as its economies have played catch-up with their neighbours to the west. Its proximity to more mature markets, an increasingly mature financial ecosystem, a well-educated workforce, and labour costs that still remain competitive, make it an attractive place for M&A activity.

The long-term trends driving deals remain in force, including consolidation and succession as entrepreneurs look to retire or bring in new investors. The more difficult economic climate that has swept across the region in the past year may stimulate short-term activity. As opportunistic buyers look out for carveouts, corporates focus on their core activities and businesses adjust to more expensive finance.

A more recent influence on M&A negotiations is the growing influence of environmental, social and governance (ESG) considerations [which are the subject of a separate section later in this report]. A mix of regulatory pressures and commercial imperatives have put companies' ESG standards under the microscope while the expertise of private equity funds is also helping to raise standards.

Outlook

The resilience of M&A in 2022 showed the attractiveness of emerging Europe even in difficult times. Just as they did in the pandemic, dealmakers have shown they can adapt to new circumstances, even if that means they take a more cautious approach in the short term. The past year has brought uncertainty and volatility, yet despite that some countries have enjoyed higher deal activities.

The weak macroeconomic backdrop and the spectre of possible recession are likely to stifle M&A in the coming months, but the region's strong fundamentals will continue to underpin activity in the medium term. Much will depend on inflation, energy prices, the availability of raw materials, and the conflict in Ukraine, where attention at home and abroad is already shifting to rebuilding and reconstruction.

Ukraine counts cost of war but starts to look to future

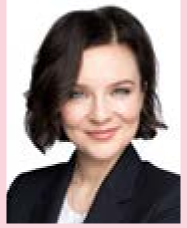
Russia's invasion of Ukraine has taken a terrible toll in terms of human suffering and has had a devasting impact on Ukraine's economy, causing destruction and disruption on a massive scale. It has cast a dark cloud over what was one of emerging Europe's rising stars and its impact has been felt far beyond Ukraine's borders. Yet, despite the fighting, Ukraine and its people have shown they are not just brave and resourceful, but also highly adaptable. Business too has proved to be agile and the wheels of commerce have continued to turn, reacting to the huge challenges of the conflict and paving the way for future reconstruction.

When Russian troops invaded Ukraine in February 2022, it sent shockwaves around the world and what was intended as a short and swift military operation has turned into a long-running war that has shone a spotlight on the courage and resilience of Ukrainians. The war may have resulted in a slowdown in activity, but people have adjusted to the new circumstances and Ukraine and its allies have already begun laying the foundations for reconstruction.

In October, the World Bank forecast that Ukraine's economy would contract by 35% in 2022, as economic activity was "scarred by the destruction of productive capacity, damage to agricultural land, and reduced labour supply". It was no surprise that M&A activity fell sharply in 2022, although it came down from an exceptionally strong performance in 2021. In such extraordinary circumstances, deal-making turned out to be resilient and both transaction volumes and values compared favourably with those during the pandemic and the middle of the last decade. There were 84 deals recorded in 2022, down from 143 in 2021, but not far behind 2020 and well ahead of 2016. At EUR 570m, deal values were also down, from EUR 1.72bn in 2021, but higher than the EUR 490m recorded in 2017. Telecoms and IT was the star sector with a bumper crop of deals.

A war economy
Maria Orlyk, CMS partner in Ukraine, looked back at events of 2022 and observed: "The damage that has been caused to Ukraine by the Russian war is difficult to describe in a single sentence. It is just beyond comprehension. It has affected all sectors of the Ukrainian economy; all spheres of human life. The consequences of this war have gone far beyond the borders of Ukraine." The direct effects have been most severe on towns and cities in the east of the country, where infrastructure and industry has been damaged by bombing, while high fuel prices have affected all sectors, most notably those with high gas consumption such as manufacturing.

Tetyana Dovgan
Partner
CMS Ukraine



Daily life comes with dangers and frustrations, from the threat of missile attacks to power cuts, and while we can't say it's business as usual, we are all learning to adapt.

Agriculture, the country's leading industry, has seen disruption to exports of crops and products including wheat, corn and sunflower oil. The second largest industry, iron and steel, has seen production affected directly by the destruction of plants such as those in Mariupol and difficulties in getting shipments out of the country through the Black Sea ports blocked by Russia. "There was a devastating impact on production capacity across the country, with those in the east suffering the most. Some mid-size and small size businesses have been able to relocate to western Ukraine, but it is most difficult for heavy industry," said Vitaliy Radchenko, partner, CMS Ukraine.

Even in western areas, Ukraine's economy is on a war footing with missile attacks hitting critical infrastructure and disrupting power supplies to homes, factories, offices and shops.

Europe also affected
The effects of the war have been felt across Europe through soaring energy prices as EU nations have cut back or pledged to reduce oil and gas imports from Russia. More directly, sanctions against Russia have forced companies to cease trading with former suppliers and customers. Werner Oliver, CMS managing partner Slovakia, explained: "The EU has – for the first time in its history – reacted swiftly and brought in tough sanctions against the Russian attacker as well as oligarchs and business people financing the war. We expect that EU sanctions, and those from the USA and UK, will have a lasting impact on the economic relationship between Russia and the Western world."

Complying with sanction has, according to Marija Zrno Prosic, CMS partner Croatia, become a part of commercial life with "all parties in transactions now put even greater emphasis on sanctions' checks and ensuring that contractual mechanisms support the proper way of doing business in this environment." On another level, she said companies that dealt with Ukraine faced challenges: "This does not concern just those companies that export to Ukraine, but also companies which relied on supplies from Ukraine, which were either interrupted or terminated and which required alternatives to the existing supply chains to be found."

In Warsaw, CMS partner Blazej Zagorski said: "Sanctions have to some extent impacted Polish companies that have business ties with Russia or Belarus. This applies mostly to automotive, machinery and food industries. In reaction to the sanctions, those businesses need to adapt to the new situation and look for additional outlet markets." There was a danger though, Horea Popescu, CMS partner Romania, pointed out, that international observers with little understanding of emerging Europe could believe the whole region was affected equally. He said: "If you are an investor from Europe, you may be educated enough to know the difference between countries which are NATO members and where investment is protected in the long run, and those outside NATO where the future is less clear.”

Marija Zrno Prosic said of sanctions: “The impact is most significant on businesses which are related to sanctioned persons as they faced different measures, mostly concerning the freezing of their assets, which means the inability to dispose with them. This situation has led to further difficulties, such as issues with financing business operations.”

Ukraine’s European ambitions
Before the war, Ukraine’s axis was already shifting away from Russia and towards Europe. This accelerated in 2022 when the country was awarded EU candidate status. With a pre-war population of 44 million, a longstanding role as an international breadbasket, and a well-educated and tech-savvy young workforce, it was increasingly seen as an attractive place to invest in and well-placed to deal with markets in western Europe, central Asia and the Middle East. Maria Orlyk said: “The country’s economy has been deeply woven into the European and global economy in many industry sectors. Ukraine has always been open for business and has been working hard on improving its investment climate. It has been developing its investment attractiveness and climbing up the Ease of Doing Business ranking.”

That progress has been partly derailed by the conflict, which had the most immediate and serious impact on industry in the east of the country, particularly heavy industries such as steel, which suffered direct damage to plant and machinery and were not able to move to safety. But, according to Tetyana Dovgan, there is no doubt that Russia’s aggression has “made Ukraine more determined than ever to embrace Europe”.

Maria Orlyk
Partner
CMS Ukraine

Quite a few businesses have regrouped and relocated, and the country remains open for investments. In summer, we started receiving inquiries from new potential investors. This was a very good sign and we expect interest to increase.

Open for business
As Ukrainian businesses recalibrate to operate in a war economy, some have moved from the east to safer areas, while those that suffered direct damage, such as logistics companies around Kyiv, have rebuilt and reorganised.

One consequence of power cuts in Kyiv is that at certain times, the city now hums to the sound of portable generators that have become an essential tool along with power storage packs, while Space X’s Starlink satellite internet service has expanded rapidly to provide critical communications. Tetyana Dovgan added: “Business has to go on not only meeting people’s daily needs, but also to keep the economy functioning. The same goes for professional service providers such as lawyers, accountants and corporate advisers. We’re working hard to provide as normal a service as possible to our clients.”

Technology is M&A star
In terms of M&A, deal numbers and size may have been down, but technology remains on the up. Like the rest of Europe, telecoms and IT was the hot sector, accounting for seven of the top ten deals and seeing a sharp increase in the number of deals, up from 25 in the previous year to 38. The sector accounted for 45% of deals in the country in 2022, as most other sectors saw a slowdown in transaction activity. Food and beverage (nine) and real estate and construction (six) were the next busiest, followed by energy and utilities, mining, and manufacturing. Agriculture saw four deals, down from 17 previously. Of the top ten deals in 2022, only the EUR 196m purchase of the farming assets of Kernel Holding by its founder Andriy Verevskyi was above EUR 50m. Four of the top ten involved Ukrainian buyers and four US buyers, with one each from Spain and the UK.

While some deals had been cancelled completely or put on long-term hold, said Tetyana Dovgan, others were going ahead even if they took longer to complete. Vitaliy Radchenko said that as well as growth in technology deals, “IT industry, software development and outsourcing, start-ups are still alive and kicking”.

Horea Popescu predicted: “I expect there to be an increase in M&A activity once the war ends and then, of course, attention will turn to plans to rebuild Ukraine.” While some Ukrainian investors were considering moving their money abroad until the situation became clearer, he said that could trigger M&A activity elsewhere in the region.

Road to reconstruction
Europe and the international community have pledged more than USD 1trn investment and aid[1]. In December, the EU agreed a EUR 18bn aid package for Ukraine in 2023, including fixing energy infrastructure, transport, health, water and food supplies. Power will be a big focus as Ukraine seeks to pull back from its reliance on old Soviet era technology nuclear power stations and looks to build a network of smaller capacity power generation that will not leave it as vulnerable if a plant goes down. The cost of nuclear, securing funding and the construction timescale were major hurdles for nuclear said Vitaliy Radchenko, but he added: “I think we have learned the lesson that we need distributed generation, with more flexible generation, gas-fired power plants and CHPs in the mix, moving away from coal and using more renewables.”

From the de-mining of land, nurturing the agricultural sector, restoring roads and bridges, to rebuilding commercial real estate and residential homes and repairing energy infrastructure, reconstruction will be a joint effort by publicly funded bodies and private investment.

CMS’s Ukraine partners are all optimistic about Ukraine’s prospects when the war is over, with Vitaliy Radchenko saying: “I believe Ukraine can again be a rising star of Europe. Look at the fundamentals. It is one of the largest territories in Europe. Look at the sheer acreage of arable and high-quality land and our resilient, talented, inventive, creative and very well-educated people.” Maria Orlyk added: “Naturally, restoration and rebuilding of Ukrainian industries will play a crucial role in regaining stability of the regional and global economy. Rebuilding Ukraine will inevitably require substantial financing from various sources. And the private sector will likely be one of the key contributors.”

Tetyana Dovgan said: “The war has interrupted Ukraine’s growth plans, but it has not derailed them completely. We are already planning for reconstruction, from our staple industries such as agriculture and steel to the new industries such as IT which more than ever will be central to the country’s future.”

The international community is standing by to support Ukraine’s efforts, noted Horea Popescu, who added: “First, you have to rebuild infrastructure because without it you cannot manufacture and ship goods, so I think in the main, first wave of investment will be public money, but then the second wave will come from the private sector. It is a very large nation, with a young, educated population that will be willing to try to rebuild their country with Europe’s and the rest of the world’s help.”

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[1] https://cms.law/en/media/local/cms-cmno/files/publications/other/investing-and-doing-business-in-ukraine-2022?v=2

Temporary energy short circuit can't halt shift to sustainable power

Energy was thrust into the spotlight in 2022 as the market experienced severe volatility. Soaring costs fuelled inflation and added to the pressure on businesses and households. The need to keep the lights on has made energy security a top priority, and in the long run, it is likely to accelerate the shift towards renewables that was already underway, even if there may be some short circuits for the sector in the near term.

Energy will be integral to the future of emerging Europe economies, just has it has been in the past, but the shift from traditional reliance on fossil fuels to be replaced by renewables is poised to accelerate. The move away from oil, gas and coal has been driven by a mix of political pressure, regulation and commercial drivers in the search to find clean and affordable energy.

The sector was going through a turbulent period before the war in Ukraine, as it was buffeted by a combination of demand and supply challenges and regulatory changes. Disruptions to oil and gas supplies by Russia and sanctions against Moscow sent prices soaring, but also prompted the EU and governments to increase energy security by reducing dependence on Russian imports, improving the connectivity of networks and accelerating the deployment of renewables.

Like many sectors, deal activity in the energy and utilities eased off in 2022, with deal numbers down from 91 to 69, while values rose by 55% to EUR 4.03bn. Renewables saw transactions fall from 59 to 49, but there was a surge in values, up 59% to EUR 1.77bn. For pure wind projects, there were 19 deals, down from 20, while values rose 26% to EUR 780m, and for solar projects both deal numbers and values fell. However, the value of mixed projects leapt to EUR 531m on the back of seven deals, up from two previously. Notable deals included the EUR 194m purchase of three onshore windfarms by Poland's PGE, the EUR 190m purchase of solar and wind plants in Poland by Ingka Group of Netherlands, and the EUR 83m purchase of a Romanian solar project by Greenvolt of Portugal.

Boost or bust?
Although the rise in prices should be good news for investors in renewables, David Kohl and Marco Selenic at CMS Austria caution that this has to be balanced against rising costs. They said: "Peaking electricity prices currently lead to a welcome windfall for renewable energy producers and one would expect a boost for greenfield renewable projects. Looking deeper than the surface, however, sheds a different light on this and the current situation might even transpire to be detrimental for the move to green energy in the short run."

They warned that several developments had the potential to put projects on hold or even threatened them with going "bust". Rising construction costs for energy projects, which have increased significantly because of inflation, disruption to supply chains and rising equipment costs, have left project developers struggling to pass these on to contractors under turnkey development agreements. In addition, there is the risk that high energy prices could trigger government intervention such as price caps or windfall taxes on profits.

Kohl and Selenic predicted that in the long run, elevated energy prices were expected to fall back to sustainable levels, leading to "a rather uncomfortable situation" for the developers of renewable projects. They added: "As the costs in renewable energy projects are essentially front-loaded in their entirety (with subsequent operating and maintenance costs being relatively low), the developer has to bear the currently high construction costs on the one side, while on the other, revenue streams in merchant projects (the energy sold directly on wholesale markets rather than using tariffs) are expected to face downward pressures as energy prices return to long-term sustainable levels. This naturally increases project risk. Going hand-in-hand with this are rising interest rates, which increase the financing costs for renewable projects.

"All this obviously eats into renewable investors' profits, leading to the question whether many renewable projects will be mothballed under the current economic conditions," suggested Kohl and Selenic. Their answer was yes, some projects could be put on hold, but they were optimistic that disruption would only be temporary, saying: "In general, we see the appetite of investors and lenders for renewable projects in the region remaining high."

They added: "Those investors who are willing to navigate the 'subsidy jungle' and try to find the right mix between market exposure and fixed offtake price arrangements will conclude that in the long run, renewable projects are not only good for the environment, but also good for their own portfolio."

Perfect storm

Developments in EU regulation have been happening rapidly...to the point where some countries in the region – particularly those most reliant on fossil fuels – have voiced concerns that the EU is going too far, too fast. Weaning them off coal and gas requires a massive shift and new ways of financing and running renewable projects, such as the use of power purchase agreements (PPAs) which are becoming more common across the region. Countries that have seen an increased appetite for renewables include Poland, Romania, Hungary, Bulgaria and the Czech Republic.

Despite concerns about the rising costs of renewables in the near term, they have grown dramatically over the past decade in the drive to hit decarbonisation targets, first helped by financial stimulus packages to encourage early adoption and then by technological breakthroughs, particularly in solar, which have increased efficiency.

Another driver has been the increasingly widespread adoption of ESG measures, as investors have sought to meet their environmental and social obligations – and even some conventional oil and gas companies have joined the rush for renewables.

From an environmental perspective, one of the downsides of the current market conditions is that support for gas and coal could resurface in the push to achieve energy security, through investing in gas interconnectors or oil and gas production projects that might previously have been consigned to the back burner. Nuclear remains an alternative to coal and gas when it comes to energy supply on a massive scale, but the war has revived safety fears around the industry.

M&A in the pipeline

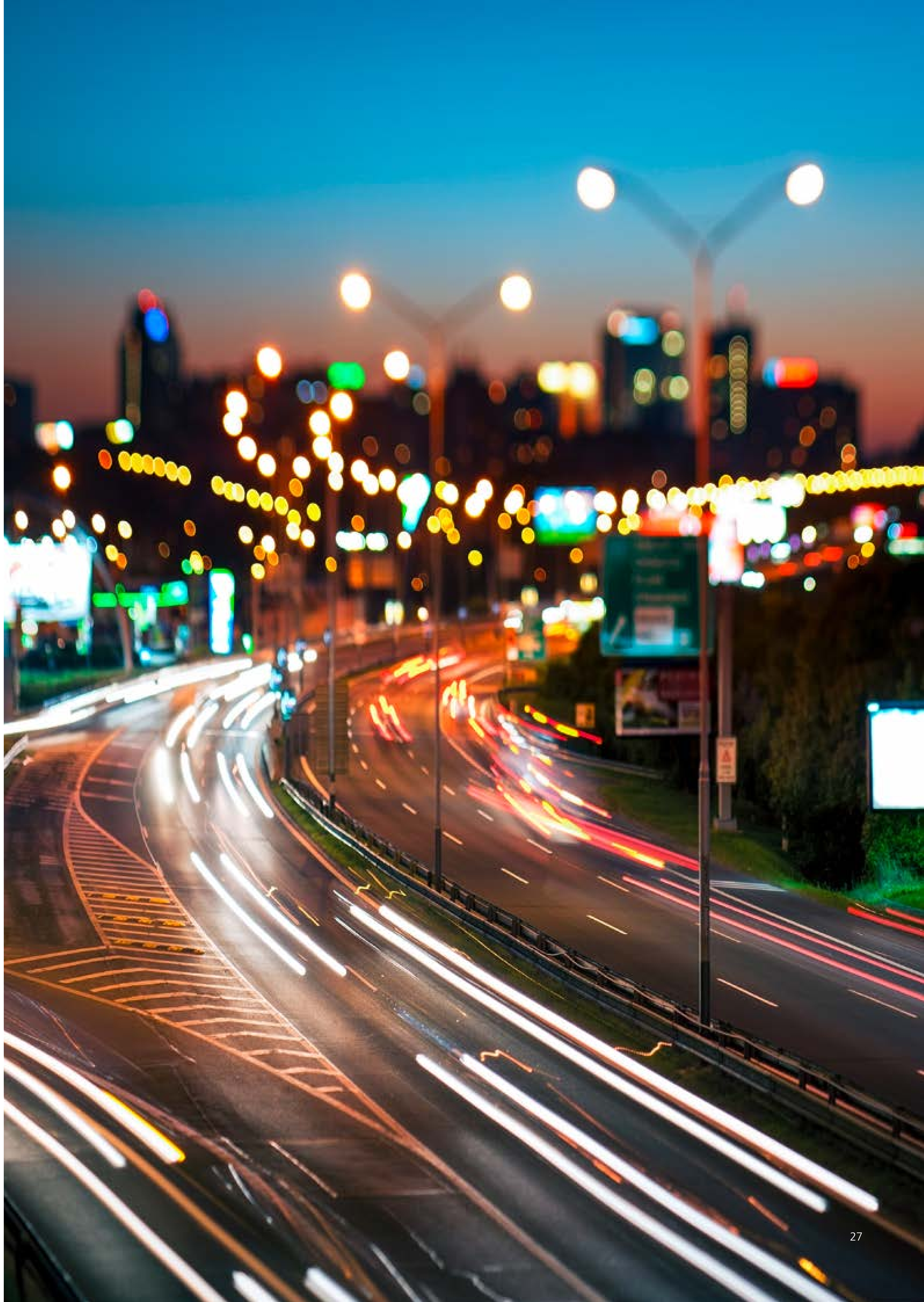
Blazej Zagorski of CMS Warsaw said: “We’ve seen increased activity in the energy sector in recent years, with energy transition being a key underlying factor. Developments over the last 12 months have shown also that energy cannot be treated as a typical commodity but has a strategic importance as regards reliable energy sources and networks.

“What we do currently see are regulatory changes aimed at counteracting recent developments such as rapidly increasing energy prices. In the short term, increase of regulatory burden and general instability may result in a slowdown on the market, both in terms of investments and transactions.

However, energy transition and the drive towards securing energy sources should play an important role in a further development of the market in the medium term. In turn, that should also stimulate keen activity in M&As on the market.”

Outlook

Even if recent M&A activity in the energy sector has slowed in the face of problematic market conditions, Horea Popescu, Romania CMS, said he expected it to recover. “I know there is some doom and gloom around energy, but I dare to differ regarding the renewable sector. I believe it is a part of the energy industry where the fundamentals are significantly different. Firstly, the demand for additional energy sources is increasing, and secondly, there is strong commitment from the EU and individual countries to get rid of polluting industries. In Romania, half of our M&A activity involves renewable projects – and this has never happened before. We had the first wave a decade ago, but this time I believe that the economic fundamentals look much better and I can see the transactional and development activity continuing for at least the next couple of years.”



Dealmakers are open for business despite macro, geopolitical headwinds

Velizar Velikov
Head of M&A Database, EMIS

Mapping out signs that the worst has passed and a slow but sure recovery is ahead of us.

— Central banks raised interest rates to curb the worst price pressures in decades and inflation in Emerging Europe is forecast to stay above objectives.

— Deal makers remain in wait-and-see mode due to higher borrowing costs and companies that forewent going public in 2022.

— M&A to embark on a slow but steady path to recovery in 2023 amidst downturn opportunities and solid dry powder.

The past turbulent year truly tested our resolve with inflation, fears of a recession, and the conflict in Ukraine all contributing to a murky economic outlook. These factors continue to dim forecasts for a recovery; yet, there are signs that the worst might have passed and that a slow but sure revival is ahead of us.

Word of the Year: Inflation

Inflation and high interest rates upended markets across the globe in 2022. While the first January trading session of 2022 looked like just another green day in a continuous stock rally, it eventually turned out to be the end of a market that, for over a decade, had gone mostly in one direction: up. Days later, the first signs emerged to show that policymakers were very worried about inflation. Investors were not thrilled by the prospects of the need to raise interest rates to curb inflation, setting the stage for the ensuing sell-off that would mark the rest of the year. Central banks across advanced and emerging economies alike entered a synchronized monetary policy cycle and steadily raised interest rates to alleviate the worst price pressures in decades, thus jarring financial markets.

Russia's invasion of Ukraine followed, driving better-than-expected growth prospects further away and pushing investor sentiment into uncertain territory. The economic spill-overs from the war are taking a rising toll on Europe's economies. International Monetary Fund (IMF) forecasts show Europe's advanced economies will grow by just 0.6% next year, while Emerging Europe (excluding Turkey, Belarus, Russia, and Ukraine) will expand by 1.7%. These numbers are down from July's predictions of 1.3% and 2.8%, respectively.

Croatia, Poland, and Romania are among the countries expected to enter technical recessions and Europe's output and income is anticipated at nearly EUR 500bn lower compared to the IMF's pre-war forecasts – testament to the region's severe economic losses as a result of the war. Economists expect inflation to decline next year, but projections show that it will remain well above central bank objectives at about 12% in Emerging Europe.

M&A: 2022 in the rear view

Merger and acquisition (M&A) activity in the region kept a steady pace in 2022, with 1,229 transactions, up 5.6% from 2021, according to EMIS data. Deal value, however, fell short of reaching 2021's records, coming in at EUR 32.9bn, and plummeting 20.3% on the year. The three biggest industries by value of deals on record included Mining, Real Estate & Construction, and Energy & Utilities, and even with macroeconomic headwinds, there were three deals worth over EUR 1 bn announced in 2022. The EUR 8bn merger between Poland's PKN Orlen and PGNiG was the largest deal in 2022.

In the private equity realm, deal makers stayed busy but lost their appetite for big-ticket transactions as the rising cost of debt eroded prospects for generating returns through leveraged financing. Two hundred and eighty-nine deals – 3.2% more than in 2021 – took place in 2022, with an aggregate deal value of almost EUR 10bn, down 23.4% year-on-year. The sale of Polish electricity PKP Energetyka by Luxembourg-based CVC Capital Partners to state-controlled utility PGE stood out as the biggest transaction valued at EUR 1.3bn.

Market debuts suffered the most from the overall economic backdrop. EMIS data for 2022 shows only thirteen initial public offerings (IPOs) with an aggregate value of just EUR 41.5m took place last year. This subdued activity compares to 2021's 60 market debuts totalling EUR 8.6bn and indicates just how reluctant companies are to sell shares at a low price, preferring to stay on the side-lines, awaiting a recovery.

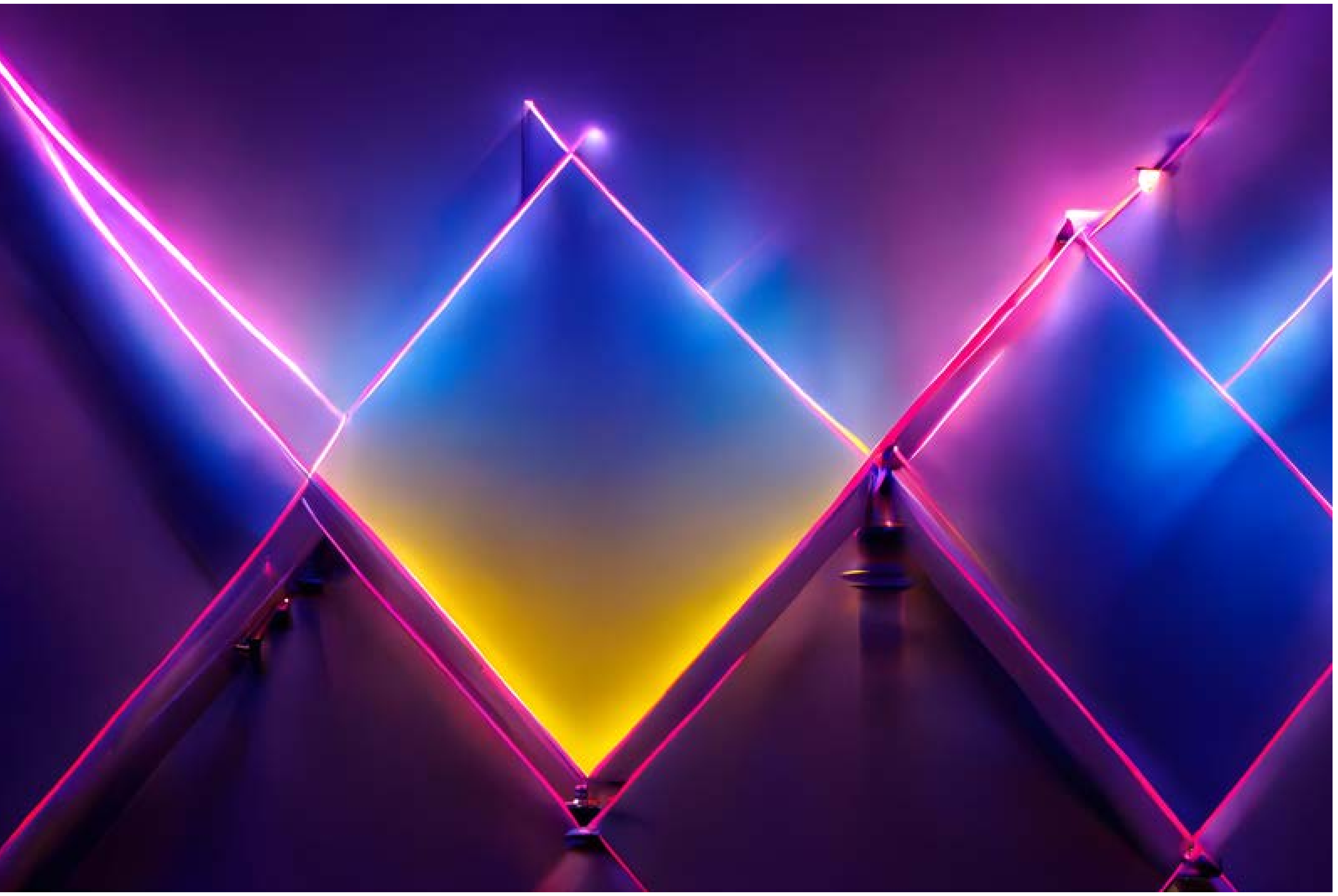
The Year Ahead: Rocky Days in the Short-Term, Positivity in the Long-Run

And while higher acquisition financing costs will continue to dent M&A transactions going into 2023, we are predicting a slow path to recovery due to a few important factors. Private equity and venture capital firms are said to be sitting on EUR 1.23trn and EUR 547bn of dry powder, respectively, which is yet to be put to work.

While investor confidence and sentiment have been subdued, executives believe a downturn will ultimately spur M&A, according to a survey of more than 200 dealmakers. Stockpiled funds, distressed and turnaround opportunities, as well as lower valuations have historically been a boon for bootstrapped investors and there is no reason to believe 2023 will be any different. Despite the macro environment, M&A will remain an important part of corporates' long-term business strategies.

Another reason to believe it will be "business as usual" for European deal makers is the historic milestone for a Balkan nation, namely Croatia joining the Eurozone and Schengen area, thus significantly bolstering confidence in the stability of the region.

From a macro perspective, inflation remains the elephant in the room. All in all, inflation is expected to remain higher for longer but as the outlook for Europe continues to improve, there is hope that it will steadily decline through 2023. On top of pure macro drivers, it is likely that the new year will be far less unsettled than 2022 unless a major new geopolitical shock intervenes. And as for inpatient deal makers, there are already plenty of opportunities going into 2023.



Start-up unicorns no longer mythical beasts

Emerging Europe has a growing population of "unicorns" – technology start-ups that have reached more than USD 1bn in value. This is enhancing its reputation as a hotbed for technology thanks to its pool of talented programmers, innovative entrepreneurs, and an increasingly sophisticated financial ecosystem. As a result, investors are looking at the next generation or "soonicorns" to come out of the region.

Initially used in the venture capital industry a decade ago to refer to privately owned start-up companies worth USD 1bn, the word unicorn was intended to reflect their rarity. Since then, such valuations have become more common, and corporate unicorns have become easier to track down than their mythical horse-like namesakes.

And while the world's technology hubs, such as Silicon Valley in the US, Tel Aviv, Stockholm, London, Berlin and Bangalore, have become recognised breeding grounds for unicorns, emerging Europe has also established itself as a successful stable for rearing these fast-developing businesses.

According to a report by Google, Atomico and Dealroom published at the end of 2021, 34 unicorns had been created in central and eastern Europe, including the Baltic states. In 2015, the corresponding figure was just six. Tallinn in Estonia is in particular seen as a serious contender among those international technology hubs, but analysis by CMS's Business Intelligence team shows how other areas in the region have contributed to the surge in young and highly valued technology businesses.

The latest contenders

Three of the region's top six unicorns come from Poland and the Czech Republic:

- Docplanner Group, founded in Poland in 2011, reached unicorn status in 2021. It is a booking platform and software planner for doctors, operating across 13 countries in Europe and Central and South America.
- Rohlik, founded in the Czech Republic in 2014, reached unicorn status in 2021. It is a European leader in e-grocery technology. It is active in the Czech Republic, Hungary, Austria and Germany, and launching in Romania, Italy and Spain.
- Jetbrains, founded in the Czech Republic in 2000, reached unicorn status in 2020. It supplies development tools for software developers. Its products are used in 220 countries, and it has ten offices around the world, 1,900 employees and 2.5 million customers.

Of the others, two come from Estonia (transport app developer Bolt and online identity verification company Veriff) and one from Lithuania (second-hand clothes marketplace Vinted).

The list of unicorns produced in the region since 2012 and which have since moved overseas or have become publicly listed includes: Avast of the Czech Republic, which listed in London; Grammarly, whose Ukrainian founders are now based in the US; PandaDoc, which started life in Belarus and Ukraine and is now based in the US; Playway of Poland, which listed in Warsaw; Huuuge of Poland, now listed in Warsaw, and InPost of Poland, which is listed on EuronextAmsterdam.

Uipath, the robotic process automation software company, is a notable example of a regional unicorn that has become a player on the world stage. Started in 2005 in a small office in Bucharest, in April 2021 it became the first Romanian company to list on Wall Street when its market value reached USD 35bn on the first day's trading. Along with other US technology stocks, its shares have fallen in 2022 and its market value at the end of the year was around USD 7bn.

Soonicorns coming up fast

The region has become a magnet for investors thanks to the innovation of its entrepreneurs, supported by the increasingly sophisticated technology and financial ecosystem around them. This has fostered the creation of digital challengers with the capacity to grow into local and regional champions, and ultimately into global challengers that can stand alongside world-beating companies. Investors' growing interest in the region as a technology hotbed is reflected in the high level of M&A activity in the telecoms and IT sector covered elsewhere in this report.

Coming up fast behind the unicorns is the next generation of companies regarded as having the potential to break the USD 1bn barrier within two years. These "soonicorns" are popping up across almost all countries in the region as founders develop technology solutions to meet the needs of an increasingly tech-savvy population. Among them is another of Romania's rising stars, Bitdefender, the cybersecurity software business which now has offices across Europe, North America and Australia.

Mircea Moraru
Counsel
CMS Bucharest

> We see how quickly society has changed in the last few years. We may see this volatility continue and adaptivity will remain key. Soonicorns and unicorns enjoy the benefits of continued high performance while maintaining their core agility, and may therefore be best placed to succeed during this period.

The talent and financial backing that has produced the current generation of unicorns shows no signs of abating, and if anything, it is only increasing in depth and reach. It might be too soon to talk of herds of unicorns sweeping across the continent, but USD 1bn start-up companies are set to become a more familiar sight on the corporate landscape in emerging Europe.

Arma Partners

Strong founders and innovative companies make for a digital hot spot, say Arma Partners

Broor Spahr van der Hoek
Partner,
Arma Partners

Founded in 2003, Arma Partners provides independent corporate finance advice to companies and investors active in the global digital economy, from software to deep tech and from young companies looking for growth funding to mature businesses seeking exit deals. Broor Spahr van der Hoek, partner, focuses on the private capital market and advised Prague-based e-grocer Rohlik on multiple funding rounds, most recently a USD 230m Series D fundraise in June 2022. Here he discusses how emerging Europe's digital sector is now firmly on the international map.

What is your area of focus and how do you apply that to emerging Europe?
Arma Partners as a firm covers clients in the digital economy. The focus of the team I'm responsible for is on private capital, providing advice on growth funding and other structured minority transactions. What I do is that I work with exciting growing companies across all of Europe, and as part of that I have advised multiple clients in central and eastern Europe in the last decade, such as for example InPost and Rohlik.

We advise these companies when they want to bring in capital from new external investors to grow the business or diversify their shareholder base. We have deep connectivity with the global investor community across venture capital funds, growth equity funds, private equity players, family offices, crossover investors and sovereign wealth funds.

Digital technology now touches all aspects of life. Which sub-sectors do you concentrate on?
As a firm, we are fully focused on the digital economy and are active across all sub-sectors such as software, consumer internet, fintech, deep tech, cloud and internet infrastructure, and anything in between. It's difficult to call out a particular hot sub-sector because the underpinning force is the fundamental shift to online and digital that is happening in the world.

How do you decide which markets and countries you look at?
What we naturally try to find are the most innovative businesses in the digital space, wherever they are in Europe, whether that's Scandinavia, eastern Europe or the Mediterranean. What is nice about the times we live in is that these types of businesses can be found anywhere, including central and eastern Europe. There are countries like the Baltic states, Poland and Czech Republic where we've seen a number of very interesting companies built and financed by international investors over the last few years. The reality is that when we look now, we find very high-quality companies in pretty much all of the region.

I may not be a specialist in the region per se, but I've had the opportunity to work with companies and investors from this part of the world over many years. I've also advised clients in true emerging markets such as Africa and compared to them central and eastern Europe is quite mainstream.

What makes the companies you work with stand out?
We tend to find very strong entrepreneurs who combine a vision of the future with strong execution skills and a team who are motivated to push these local champions and turn them into European leaders. What we try to do is make sure these companies find the best possible partners on their journey, from inception to fully mature international businesses. We help narrow the information gap that naturally exists between companies and the investor community to make sure they get the right price and the right governance and also choose the best possible partners to help them achieve their goals in the long term. Often, we're working with a mix of international and local investors.

Our engine room is in the Shard in London, but we work across Europe including central and emerging Europe. I still think it is important to travel and meet people, but nowadays we can work very effectively remotely. In this market, where things are a little bit more volatile, it is important that you are able to work as a team with the founder – it is not just about raising capital it is about achieving goals more broadly as a result of a transaction.

How has the financial ecosystem in the region developed in recent years?
I have had a great experience working with founders and teams in the region, both the internal teams and the advisers around them. One observation I would make is that not only do these companies attract the best talent from within the region but they have also –rightly– become a mainstream destination for high quality performers from other parts of Europe. There is a traditionally high quality of advisers and consultants in the region and we have seen this evolve with the new technology community.

The local VC community is outstanding and I would say they are on a par with the local funds in the main hotbeds of technology in Europe. Another observation I would make is that I see a growing number of individuals from central and eastern Europe who are now working for US and European investment funds and bring their knowledge (and pride) of their home countries.

How does the success of companies in the region help put it on the global map as far as international investors are concerned?
There is a strong tradition of high-quality digital companies coming out of the region and for sure there will be more. I think each one that emerges helps to build the profile of the region and the expectations that international investors have.

One of the developments is that the universe of international investors looking at the region for the next big opportunity has also grown. I think, like me, these international investors rate the founders and business leaders in the region extremely highly. Ten years ago there was definitely more hesitation, or let's say a more limited level of understanding, particularly among US investors, when it came to central and eastern Europe.

The fact that in recent years these international investors have seen these high-quality companies and impressive leaders has helped to put the region on to a level playing field compared with what were traditionally considered to be the mainstream areas for investment in Europe. That hesitation around geography, or heritage geography, is not there anymore. And these international investors often like to partner with local funds.

Take the case of Rohlik, which we've worked closely with for several years. This latest funding round in summer 2022 was led by Sofina out of Belgium. Earlier rounds saw Index Ventures of London and Partech of Paris make substantial investments, supported by other investors such as the EBRD, Quadrille Capital, R2G and Enern – a mix of local, regional and international investors.

Opportunities and challenges ahead?
We're all aware that we live in tricky times and 2022 has been a year of many challenges, such as the energy crisis and conflict in Ukraine, yet deal activity has continued. What makes the digital field where I am active so fascinating is that there will always be, at every stage of the economic cycle, new and smart individuals building companies that will make a difference for people in the future. Having seen this over 15 to 20 years, I have the conviction that the tradition of high-quality digital companies coming from central and eastern Europe is going to continue, if not accelerate.

Emerging Europe's digital revolution powers on

Digital businesses are truly revolutionary – they represent the powerful reinvention of traditional business models and transformation of products and customer experiences by applying digital technology.

Digital acceleration during the pandemic helped businesses grow and reach new customers in all corners of the world. In emerging Europe, where expansion is limited by the scale of domestic markets, the growth potential resulting from the unleashing of technology solutions is especially huge. Digital solutions have not only helped drive revenue, they have also enabled many industries to adapt and survive, as well as opening up untapped growth opportunities for businesses in the region. IT start-ups have been particularly active and engaged in the development of telemedicine, education could and cybersecurity services, among other areas.

Public and private investment
The pandemic and its aftermath also forced governments in the region to expedite the digitisation of public services, allowing citizens and businesses to interact with authorities. Moving more public services to the digital domain facilitated a boom in the ever-growing digital ecosystem as well as the creation of more digital businesses across the entire region.

The landscape of the digital economy across emerging Europe encompasses digital commerce (online retail spending on goods and services), ICT (the value of spending by governments and companies across all sectors on hardware, software, infrastructure, and related services), and offline spending on digital equipment (PC, smartphones, IT infrastructure, cloud, etc).

The recently launched Digital Europe Programme (DIGITAL) will also boost support in critical capacity areas in the coming years, including supercomputing, artificial intelligence, cybersecurity, advanced digital skills, and will ensure the broad use of digital technologies across the economy and society, including through Digital Innovation Hubs.

As the region becomes more and more successful in the process of digitisation, an increasing number of young companies are becoming true digital champions as the following **Digital Champions CEE TOP100** shows. Most of the digital champions are companies representing e-commerce, media and entertainment, cloud-based SaaS (Software as a Service) solutions, and Fintech.

The new "Digital Champions CEE TOP100" chart is based on the ranking of the Digital Poland Foundation prepared for the second time on the basis of transparent and up-to-date data and strict financial criteria as of **30 September 2022**. Experts assess the value of companies by taking into account current public market quotations, market benchmarks, EBITDA metrics, market multiples as well as revenues. The champions include companies whose main source of profit is digital products and services or sales through digital sales channels. Data for the ranking was provided by specialised platforms Dealroom, MergerMarket and Pitchbook, as well as more than 40 private equity and VC funds.

	Poland		Czech Republic	Estonia	Lithuania	Romania	Bulgaria	Hungary	Ukraine	Croatia	Latvia	Slovakia	Serbia
Digital phoenixes $1bn+	Allegro Docplanner Group CD PROJEKT	InPost Techland	Productboard Rohlik Group	Bolt Playtech Verlff Wise	Nord Security Vinted	eMAG UiPath	Payhawk		airSlate	Infobip Rimac Automobili		ESET	
Digital Dragons >$250m–1bn	11 bit studios Blik Booksy Displate eobuwie.pl eSky.pl Huuuge IAI Inelo	LiveChat Neo by E100 People Can Fly Play Way Pracuj.pl Ramp Wirtualna Polska	Alza.cz Ataccama DoDo Eurowag Heureka group Kiwi.com Notino Packeta Seznam.cz	Monese Pipedrive Ready Player Me	Baltic Classifieds Group kevin.	Bitdefender	SiteGround	Netrisk Group SEON	Creatio		4finance Lokalise Printful inc.		Tenderly
Digital Wolves >$100m–250m	Aion Bank Alsendo Blue Media Brainly Frisco.pl GreenWay Infermedica Morele.net Oponeo Packhelp PayPo	ProService Finteco R22 RTB House Shoper Symfonia Synerise Ten Square Games Trans.eu Vercom x-kom	Mews MANTA Tatum Pricefx	BITLEVEX Eurora Katana NFTPort Skeleton Starship	CityBee	Superbet	pCloud Quantive	aiMotive Bitrise	Rozetka		Printify		Seven Bridges

January 2023 brought more evidence of emerging Europe's growing importance as a digital hub and its ability to attract investment. Among new year developments, US streaming company Netflix announced plans to create an engineering hub in Warsaw, citing Poland's "amazing engineering talent". It followed news of the launch of a new VC fund, Ukrainian Phoenix Fund, with EUR 50m to invest in tech startups and a USD 11m fundraising led by Atomico for Romanian pet technology startup Digitail to fund US expansion.

A new generation
Although rising interest rates, the rise of the dollar to record levels and Russia's invasion of Ukraine have resulted in a decline in valuation affecting several CEE digital champions, it is not all doom and gloom.

Proof of market resilience is seen in the number of new digital champions. As many as 37 companies made their debut in this year's ranking. Most were from the SaaS (16), Fintech (10) and e-commerce (6) areas. Estonia and the Czech Republic were the countries with the largest growth in the number of technology companies, up 60%. This proves that the region's companies can create new value even in such difficult and uncertain times.

W&I insurance is fast becoming an important tool in M&A

A decade ago, warranty and indemnity (W&I) insurance was not widely used in emerging Europe, but today it is increasingly regarded as a key part of the dealmaker's toolkit. As familiarity increases, it is being adopted across a growing number of sectors as a way of reducing exposure to risk for sellers and buyers, making it an important element in due diligence and deal negotiations.

A growing number of M&A professionals are coming to see the value of W&I insurance in reducing the risk on deals, allowing sellers to make a clean exit, offering protection for buyers, and giving both parties security and peace of mind. Over the last decade, it has become increasingly popular with dealmakers across emerging Europe as familiarity with the product has grown and its benefits have become more widely recognised.

For the seller, it limits their liability post-closing, separating them from the target business, and avoids the need to have sale proceeds held in escrow accounts as a guard against future claims. From the buyer's perspective, it can mitigate concerns over the seller's financial position or its ability to cover claims. Buyers often use it to make their bids more attractive to sellers and to protect the value of their investment once deals are done, ensuring there are funds if there is a claim post-acquisition. It can help buyers secure finance because of the additional security it provides to banks.

Blazej Zagorski, CMS partner in Poland, said: "It has become a well-recognised tool that we see in many deals and one that can be successfully placed in the transaction framework. People increasingly have a good experience with it and realise it has a useful role to play in moving towards signing and closing a deal."

By providing a method to reduce risk for both sides, it can also streamline and accelerate the negotiating process, bringing benefits that override the expense and effort involved. Rodica Manea of CMS Romania said: "Arranging insurance can be time-consuming and comes at a cost, but the overall positive compensations overcome these downsides."

However, as Marija Zrno Prosic, CMS partner, Croatia, notes, W&I insurance tends to be more widely used on large transactions over EUR 100m and less so under EUR 25m. "What we see locally is the increased interest in W&I insurance in M&A and the reason why it is not used so often locally is because of unfamiliarity with the process and terms thereof and late consideration of its use in a transaction," she explained.

Rodica Manea
Partner
CMS Bucharest

The increasing use of W&I insurance is understandable, as there are clear advantages to both parties in a transaction, and in response to growing demand, W&I insurance services are becoming more sophisticated.

Broader understanding
As W&I has become more widely available and used across the region, in Poland, Hungary, Romania, the Czech Republic and Slovakia, expertise has increased and practitioners have adapted their services to the needs of individual markets. Real estate was an early adopter, thanks to the high proportion of institutional investors in the sector, while another driver has been the growing presence of private equity firms in the M&A market, where warranties and indemnities allow funds to make a clean exit.

Piotr Nowicki, counsel in the CMS tax team, Poland, said: "W&I insurance and tax liability insurance remains a popular tool for dealmakers in Poland and has been a part of the Polish M&A market for almost a decade, led by the booming Polish real estate market."

In Romania as well, Rodica Manea has seen the rising use of W&I insurance, including with a focus on real estate and private equity or institutional investors. She has observed: "In line with current trends on the Romanian M&A market, the industry sectors most active in using W&I insurance proved to be real estate, technology, manufacturing, and healthcare. Notably, we have seen increased appetite in sectors where insurers have historically shown less interest, in particular renewables."

In the not-too-distant past, W&I insurance may have required an introduction and education even for experienced deal professionals, whereas now an expanding number of investors, corporate advisers and lawyers are familiar with the concept and the products. In a growing global market for W&I insurance, the industry itself has become more aware of the attractions of emerging Europe as a place to do business and underwrite risks, creating a community of brokers and underwriters with a deeper understanding of the needs of the region.

Piotr Nowicki added: "At the same time, the focus of underwriting is also extending and underwriters pay close attention to the quality and scope of not only the legal, but also the financial and tax due diligence. The increasing interest in W&I insurance has also led to further enhancement of the product itself. They are becoming more comprehensive with fewer exclusions."

In Slovenia, according to Sasa Sodja, CMS partner, although such policies have been around for some time, they are not yet a standard solution, partly because of unfamiliarity with the product and, in the case of some insurers, unfamiliarity with the jurisdiction. She added: "Nevertheless, the Slovenian market is increasingly

Piotr Nowicki
Counsel and tax advisor
CMS Warsaw

The increased regulatory focus on ESG matters and ESG reporting will most likely lead to an increased focus on these issues and potential growth inthe W&I market in this direction.

exploring W&I policies as an alternative to escrow accounts and hold-backs in higher value transactions.”

Blazej Zagorski said: “We see lots of capability locally that can drive this tool, and as the market becomes more mature, it can be used to mitigate a growing number of risks that might be identified in the due diligence process.”

Widening areas of cover

The potential risks covered by W&I insurance is steadily increasing as the market adapts to economic conditions and users’ needs. A recent trend has been less use of blanket exclusions for Covid-19, but they’re becoming less common as insurers grow more cautious about risks associated with the war in Ukraine.

According to Piotr Nowicki, more attention is being paid to accounts and financial related warranties. He explained: “Breaches of accounting warranties are sometimes used by claimants as a ‘catch-all’ mechanism to capture issues that do not fall within other categories. Similarly, the increasing number of tax audits in Poland also leads to claims being filed concerning tax warranties.”

Customer and supplier contracts are also an area of focus, particularly where a business relies on a small number of customers or suppliers, while there is more appetite for covering environmental issues and cybersecurity where the potential damage caused by cyberattacks and data breaches can be enormous. ESG is a key growth area, as Rodica Manea pointed out: “With the high-profile nature of ESG matters coupled with an increase in regulations focused on transparency and social issues, such as health and safety, payment practices and performance reporting, we expect to see an uptick in buyers seeking contractual and specific warranty protection for ESG-related matters. There will be further innovation in the W&I market as buyers look to mitigate ESG risks.” For more details on how ESG is making a bigger impact on M&A, see the separate ESG M&A section on page 40.

Marija Zrno Prosic
Partner
CMS Zagreb

The key step in the increasing use of W&I insurance seems to be better acquittance of businesses with the details of policies and due consideration of them before the transaction.

As a tool in negotiations, W&I insurance can be used to fill gaps that may have been missed during the due diligence using post-placement policy enhancements that allow parties to review missing areas of due diligence after a deal is done. The evolution of the market has seen the development of so-called synthetic warranties which are negotiated between the buyer and the W&I insurer rather than as part of the purchase agreement between buyer and seller, saving on time and costs.

Alongside W&I is the development of specific tax insurance, which can be used in situations such as corporate restructurings in anticipation of a potential sale in the future, creating a policy that addresses tax risks that otherwise might represent a deal breaker in M&A negotiations.

Despite the growing use of policies, businesses unused to W&I insurance did not include it in their transaction planning and often left it too late, observed Marjia Zrno Prosic, adding: “It takes more time for smaller markets such as Croatia get start using it more often and the increased interest we see locally will likely increase its use. The key step is better acquaintance with the details and due consideration before the transaction.”

The underwriting process could be seen as an unwanted burden said Sasa Sodja and sellers might want to close a deal early with tweaking the terms for the benefit of a W&I policy. In addition, “such insurance hedges the unknown risks where, in local deals, it is the unknown risks that can be the biggest divide between parties”.

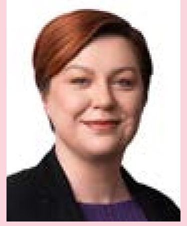
A sophisticated market

W&I insurance is becoming a more sophisticated market and playing a more important role in the evolution of M&A in emerging Europe.

Rodica Manea said: “With the growth in competition, W&I insurance services are becoming more sophisticated and need to reflect market demands for different pricing and coverage options. While W&I insurance expands, more claims are expected to arise and other types of liability products are also expected to become popular, including tax, contingent liability, and environmental insurance.”

Piotr Nowicki added: “The increase in M&A market penetration by W&I insurance and the growing refinement of the product will undoubtedly result in the growth of the market. The outlook of the W&I insurance market is quite bright.”

Sasa Sodja
Partner
CMS Ljubljana



The Slovenian market is increasingly exploring W&I policies as an alternative to escrow accounts and hold-backs in the higher value transactions whereas in lower value deals the cost of the premium mostly makes sense only in cases where the seller is a private individual or a distressed entity.

ESG: once a "nice to have"; now essential

Not long ago, addressing environmental, social and governance (ESG) issues may have been considered a "nice to have", but a mix of regulatory changes, commercial pressures and the emergence of more sophisticated investors, have made it essential. We asked CMS partners Horea Popescu in Romania, Alexander Rakosi in Austria, and Tetyana Dovgan in Ukraine, to explain what is driving ESG and why it matters when it comes to M&A.

Given the economic and financial headwinds facing business in 2022 and 2023, is ESG more or less of a priority?

Horea Popescu: "If anything, it becomes more important when the economic backdrop is more difficult. It is another differentiator that companies can use to set themselves apart and one that potential buyers factor into their assessment when they are considering potential targets."

Alexander Rakosi: "I don't think that today ESG is a subject that gets dropped down the list of priorities at the first sign of problems. I think it's genuinely woven into the fabric of business and into M&A. It doesn't get cancelled as a relevant factor because conditions might be more difficult. In fact, it can actually unlock possibilities for those who use ESG in a meaningful way and enable them to capitalise on opportunities. Adherence to ESG standards and attention to detail can accelerate business development and drive M&A."

Tetyana Dovgan: "Clearly the war in Ukraine has had a huge impact on the Ukrainian economy and businesses, but we are learning to adapt to the new circumstances. Recently, ESG has become more important and companies have been adjusting to ensure they are compliant in advance of new ESG legislation. Moreover, they have continued to do so (including regarding future EU membership) even though the war has meant they now have to juggle their priorities."

Alexander Rakosi
Partner
CMS Austria

We've seen this continued development in ESG as it's moved from being a "nice to have" and something slightly cryptic, to a central piece in business, and in turn a quite relevant factor in daily M&A practice.

How has the climate for ESG changed in the last year?

Alexander Rakosi: "During 2022, our initial perceptions, and the indications on the market, that ESG was going to be a critical element in M&A matters have been confirmed. The trends have run in the way we expected, and if anything, the parameters in some industries have become a little clearer.

Tetyana Dovgan: "If anything, ESG rose in importance in 2022 and faced probably its toughest test yet. In response to Russia's invasion of Ukraine, many multinationals divested or significantly scaled back their activities in Russia. While some of this divestment was driven by sanctions, many global companies withdrew from Russia voluntarily, putting their value, purpose and commitment ahead of profit. Depending on the challenges that businesses had to deal with during the last year, the emphasis shifted between the "E", "S" and "G" components, but overall the focus on ESG was there and it remained an important consideration in M&A activity."

Horea Popescu: "Across all aspects of business and M&A, we're seeing more and more focus on ESG. As each year goes by, it grows in importance and it's fast becoming part of daily life to the point where everyone accepts it is something they have to be aware of and work with, and to make sure they are adopting the highest standards."

What is driving ESG? Is it regulation, new ways of assessing risk, or commercial necessity?

Alexander Rakosi: "Businesses are faced with a need to be compliant on ESG from various angles, whether it's regulation or the requirements of contractual counterparties. With government institutions, getting admitted into a procurement process – let alone winning a contract – will often require ESG compliance and even non-governmental organisations will also demand a certain level of compliance. For example, in September the EU passed regulations on the use of recycled plastics that come into contact with food, so this is a pretty big deal for the packaging industry specifically, but also in terms of how potential buyers calibrate their M&A strategy in that sector. Finding targets that are already ahead of the curve in meeting those requirements creates an interesting M&A story.

Horea Popescu: "Yes, recycling is a good example of an industry that has been made more attractive to investors because of the attention paid to ESG. It has become a growing industry in its own right, so the financial appeal is stronger, and at the same time, investors see an opportunity to grow their green portfolios. One area where ESG is top of the agenda is in fighting climate change. The EU is leading the world when it comes to initiatives directed at achieving a net-zero carbon future, through tighter regulation and reporting and compliance obligations."

Tetyana Dovgan: "It is no longer a matter of companies getting their own ESG house in order; they must look across their supply chains, for example to understand environmental impacts. And it is not just regulatory and commercial pressure. Employees also want to see evidence that their employers have high standards, and those companies that do so will find it easier to recruit and retain staff. Geopolitical issues are also rising on the ESG agenda, leading to investors reassessing their ESG approaches and in particular the safety and sustainability of the investments made in countries with authoritarian regimes."

Private equity has become increasingly influential in emerging Europe. How important has it been in spreading awareness about ESG and in stimulating better practice in business?

Horea Popescu: "Private equity has been enormously influential across all aspects of the business world in the region. It's been a very influential force in raising standards in business, not just in making profits and improving their balance sheets, but helping them to meet their environmental and social obligations."

Tetyana Dovgan: "ESG is gaining traction across all sectors and industries, and a big part of that is the increasing role that private equity plays as pioneering business owners and as potential acquirors. Those companies under private equity ownership can tap into their expertise to improve ESG standards, while those looking to sell to private equity know that it is an area they must address."

Alexander Rakosi: "For private equity buyers, ESG is a big part of their assessment of acquisition opportunities and it adds an element of growth potential. If ESG is underdeveloped at a business, it might put off some potential buyers. At the same time, you could have a private equity firm that sees an opportunity to combine it with something more ESG compliant and drive standards up. Where the seller feels unable to devote more resources to this, but PE sees an opportunity, you have a situation where both sides could potentially benefit.

"If you look at private equity, investors demand that private equity funds invest in businesses that comply with certain standards, and they in turn look for businesses that are ahead of the curve. PE is fairly sophisticated – it's not just about providing financing; it's also about bringing in knowledge and expertise.

All sectors have to take ESG into account, but are there any that make it a higher priority?

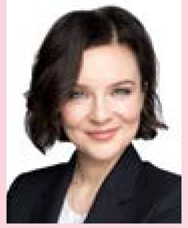
Alexander Rakosi: "There are no sectors that can afford to ignore ESG considerations. Energy is a sector where ESG is a number one priority because it is at the heart of the drive for a better environment. In financial services, regulation demands that, e.g. financing is ethical, such as the focus on anti-money laundering and making finance more widely available."

Horea Popescu: "Energy is a critical area for ESG. On one side, there is a disincentive to invest in oil, gas and coal, those polluting industries and how we navigate away from them, and on the other, there are renewables as a target for investment. I think this sector is going to be the target for M&A and it will be a focus for ESG.

Are there any countries that are ahead of the curve?

Alexander Rakosi: "Generally, EU countries tend to be slightly ahead of the curve because of EU initiatives and legislation, but so too are those that are more internationally focused, where international investors bring with them expectations of higher standards. For example, in the Balkans, Romania, Croatia and Slovenia are making ESG topics more of a priority. However, Serbia is probably in absolute terms not as developed, but on the flip side it has more potential for growth for investors who go into it."

Tetyana Dovgan
Partner
CMS Ukraine



However challenging, this time is an opportunity for the whole region to rethink and adopt new ESG practices for a more sustainable future, and for Ukraine in particular to lay the foundations for the 'build back better' recovery.

Tetyana Dovgan: "Yes, the EU member states continue to lead on ESG. At the same time, 2022 saw more attention on Ukraine and the wider emerging Europe region, including from the ESG perspective. For some businesses in Ukraine, ESG is not necessarily the number one priority at the moment, as they have to cope with disruptions caused by the war, frequent blackouts and other everyday problems. The "E" component of ESG seems to have been temporarily pushed to one side in some countries as their governments fight the effects of the energy crisis resulting from the war.

How important is ESG in M&A and to what extent is it becoming a driver of deals?

Tetyana Dovgan: "ESG now shapes virtually all investment decisions in one way or another, and is increasingly becoming relevant in the deal-making process as in any other commercial aspect of a deal. While most investors only take into consideration ESG risks in their activities (and we see now more frequently than before cases of enhanced ESG review as part of M&A processes), the percentage of deals where ESG becomes a primary driver is gradually increasing as well."

Alexander Rakosi: "It gives sellers evidence that they can provide to buyers about the attractiveness of their business and its growth potential. It doesn't trump everything else, let's not go that far, but it is a pretty relevant factor. ESG is not a single line item but it pops up on various fronts. It plays a role in several of the main pricing considerations, not least in the viability of the business plan and assessing growth potential. It's factored into various sub-categories of a buyer's assessment of a transaction opportunity.

Horea Popescu: "It's not judged in isolation; it's part of the overall picture and part of how companies assess risk and mitigate for it. Rather than have a single ESG expert lawyer, we use a combination of lawyers from different practices who in turn can draw on external experts when needed. It's possible to see how W&I insurance (see the separate section on W&I insurance in this report) will evolve to offer cover for ESG issues to provide security to both sides of a transaction."

How do you see ESG developing in 2023 and beyond?

Alexander Rakosi: "ESG is going to continue to play a role in M&A deal-making not just in the short term, but in the medium and long term as well. For those working in M&A, ESG has become more tangible and part of our daily lives. This applies to due diligence considerations and in the context of transaction agreements, e.g. the buy-side seeking comfort and protection from certain risks in the form of reps/indemnities/CPs etc. In the CMS European M&A outlook 2022-23 report, around 90% of respondents said they expected scrutiny of ESG issues in deals to rise in the next three years – a sharp rise on the previous year. Emerging Europe has been part of this trend and will continue to be so in the future."

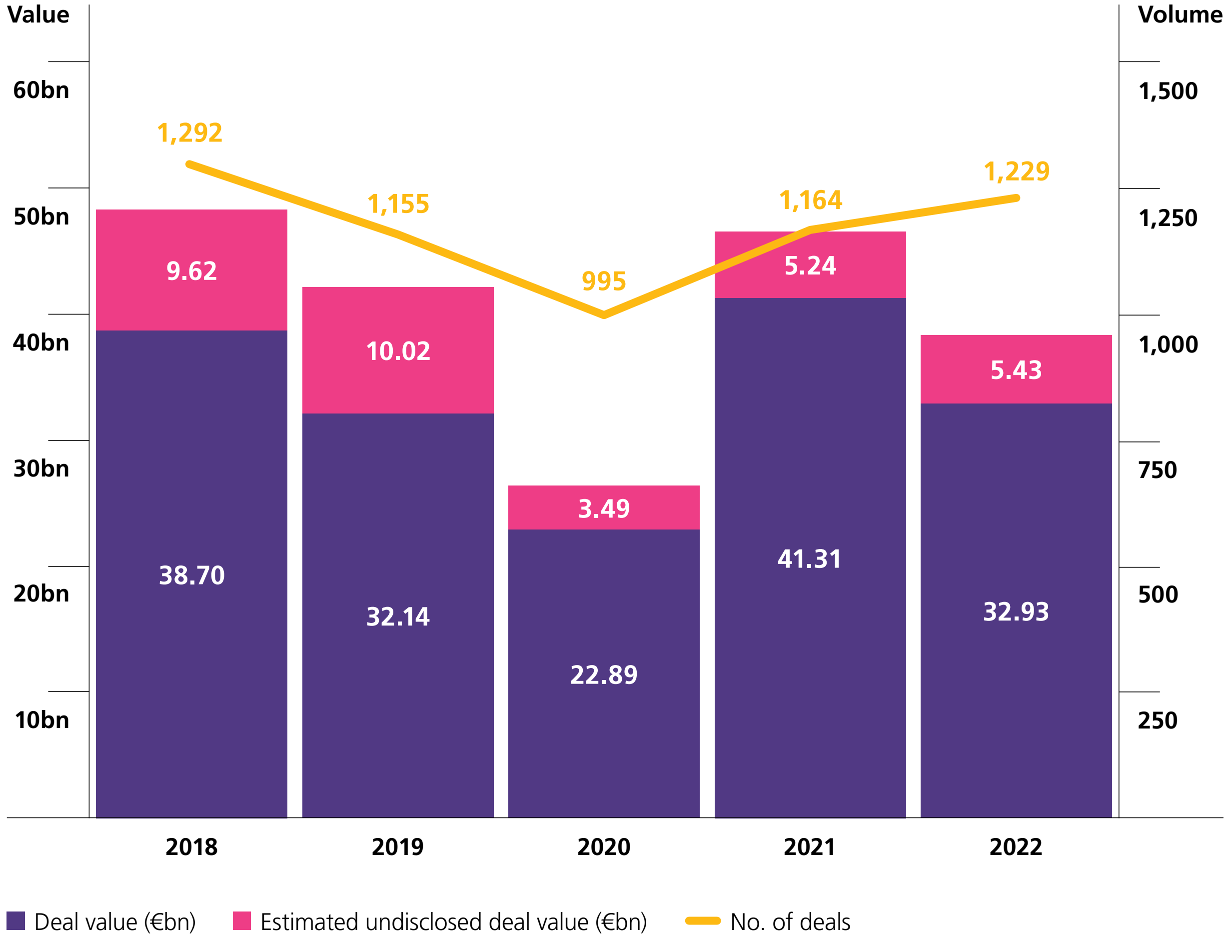
Horea Popescu: "Those companies that don't keep up with developments in ESG are going to get left behind, so whether or not there is a regulatory imperative, there is a real commercial incentive for them to adopt the highest standards. The same goes for individual countries. We see ESG spreading because unless countries respond, they risk being overlooked by international investors.

Tetyana Dovgan: "ESG is already an important part of the mix for some sectors and this will only increase in time. A few years ago, businesses and dealmakers may have been able to ignore ESG, but that is no longer the case. They will also have to make it a much higher priority in the future as ESG becomes a deal driver in its own right. Striking the right balance when it comes to ESG in deal-making will also be essential. Too little focus on ESG entails unnecessary investment risks; on the other hand, too much focus may result in unjustified time and cost spend, and may even kill the deal. Investors will need to refine their ESG strategies to factor in the lessons learned from previous years as well as the challenges brought to the region by Russia's war against Ukraine. Assessing geopolitical risks and re-evaluating investments in countries with authoritarian governments will also continue to rise in importance."

The data bank

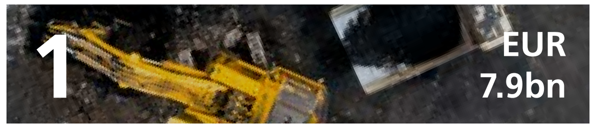
Emerging Europe

Deals by value and volume



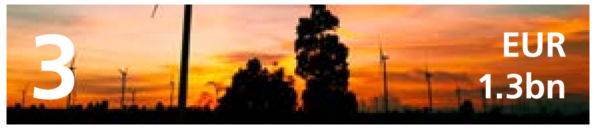
Top 3 sectors by value, EUR

Top 10 deals

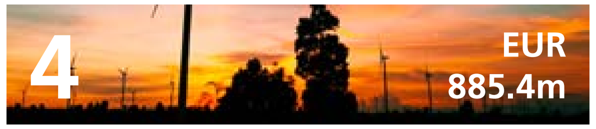


Target: **PGNiG**
Country of Target: **Poland**
Sector: **Mining (incl. oil & gas)**
Stake: **100%**
Buyer: **PKN Orlen**
(*Country of buyer:* **Poland**)
Value source: ***EMIS estimate***[1]

Target: **IMMOFINANZ Group**
Country of Target: **Austria; Croatia; Czech Republic; Hungary; Poland; Romania; Slovakia**
Sector: **Real Estate & Construction**
Stake: **24.7%**[2]
Buyer: **CPI Property Group**
(*Country of buyer:* **Czech Republic**)
Value source: ***EMIS estimate***[3]

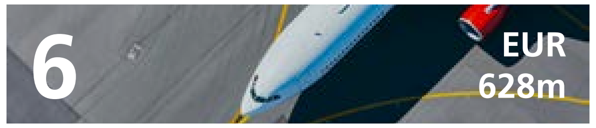


Target: **PKP Energetyka**
Country of Target: **Poland**
Sector: **Energy & Utilities**
Stake: **100%**
Buyer: **PGE Polska Grupa Energetyczna**
(*Country of buyer:* **Poland**)
Value source: ***Official data***



Target: **Emerging Europe business of ContourGlobal**
Country of Target: **Bulgaria; Romania; Slovakia**
Sector: **Energy & Utilities**
Stake: **100%**
Buyer: **Kohlberg Kravis Roberts & Co (KKR)**
(*Country of buyer:* **United States**)
Value source: ***EMIS estimate***[4]

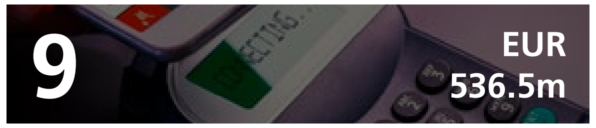
Target: **SuperSport**
Country of Target: **Croatia**
Sector: **Other**
Stake: **75%**
Buyer: **Entain**
(*Country of buyer:* **United Kingdom**)
Value source: ***Official data***



Target: **Bolt**
Country of Target: **Estonia**
Sector: **Transportation & Logistics**
Stake: **9.6%**
Buyer: **D1 Capital Partners; Whale Rock Capital Management; G Squared; Owl Rock Capital; Sequoia Capital; Fidelity Management and Research Co; Ghisallo Master Fund**
(*Country of buyer:* **United States**)
Value source: ***Official data***

Target: **Part of Warsaw Hub skyscraper**
Country of Target: **Poland**
Sector: **Real Estate & Construction**
Stake: **100%**
Buyer: **Alphabet**
(*Country of buyer:* **United States**)
Value source: ***Official data***

Target: **Daewoo Craiova (Ford Romania)**
Country of Target: **Romania**
Sector: **Manufacturing**
Stake: **100%**
Buyer: **FORD Otomotiv**
(*Country of buyer:* **Turkey**)
Value source: ***Official data***

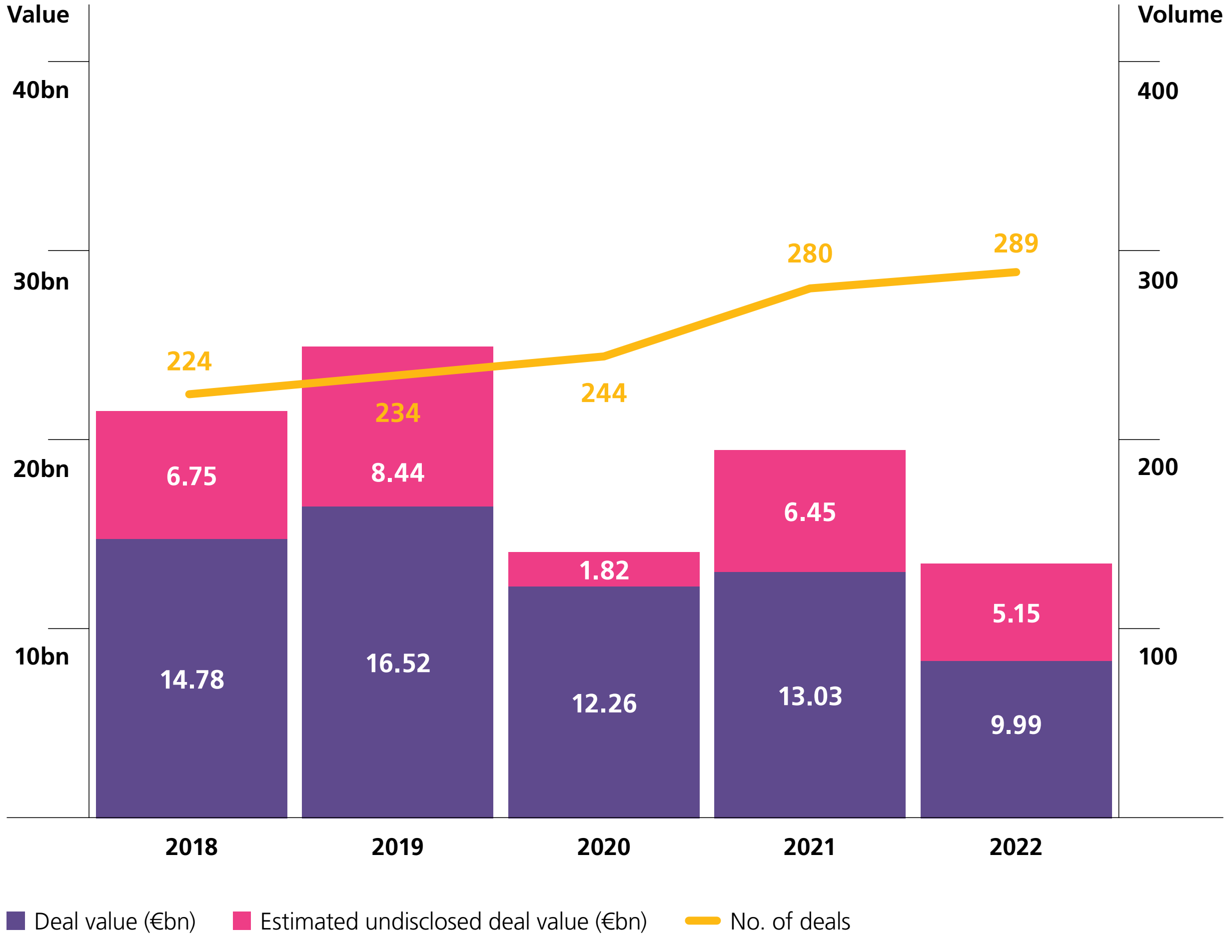


Target: **417 petrol stations in Poland**
Country of Target: **Poland**
Sector: **Wholesale & Retail**
Stake: **100%**
Buyer: **MOL**
(*Country of buyer:* **Hungary**)
Value source: ***Official data***

Target: **Rimac Automobili doo**
Country of Target: **Croatia**
Sector: **Manufacturing**
Stake: **n/a**
Buyer: **Investindustrial; SoftBank; Goldman Sachs Group; Porsche**
(*Country of buyer:* **Italy; Japan; United States; Germany**)
Value source: ***Official data***

Private equity

Deals by value and volume



Top 3 sectors by value, EUR

TELECOMS & IT 2.37bn

ENERGY & UTILITIES 2.36bn

REAL ESTATE & CONSTRUCTION 1.66bn

Top 10 deals (including new PE investments and PE exits)

1 EUR 1.3bn

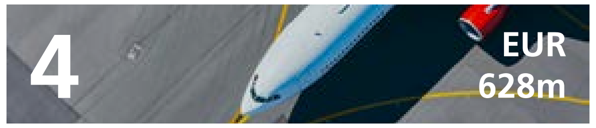
Target:	**PKP Energetyka**
Country of Target:	**Poland**
Sector:	**Energy & Utilities**
Stake:	**100%**
Buyer:	**PGE Polska Grupa Energetyczna** (*Country of buyer:* **Poland**) *Value source:* ***Official data***

2 EUR 885.4m

Target:	**Emerging Europe business of ContourGlobal**[1]
Country of Target:	**Bulgaria; Romania; Slovakia**
Sector:	**Energy & Utilities**
Stake:	**100%**
Buyer:	**Kohlberg Kravis Roberts & Co (KKR)** (*Country of buyer:* **United States**) *Value source:* ***EMIS estimate***[2]

3 EUR 690m

Target:	**SuperSport**
Country of Target:	**Croatia**
Sector:	**Other**
Stake:	**75%**
Buyer:	**Entain** (*Country of buyer:* **United Kingdom**) *Value source:* ***Official data***



4 EUR 628m

Target:	**Bolt**
Country of Target:	**Estonia**
Sector:	**Transportation & Logistics**
Stake:	**9.6%**
Buyer:	**D1 Capital Partners; Whale Rock Capital Management; G Squared; Owl Rock Capital; Sequoia Capital; Fidelity Management and Research Co; Ghisallo Master Fund** (*Country of buyer:* **United States**) *Value source:* ***Official data***

5 EUR 500m

Target:	**Rimac Automobili**
Country of Target:	**Croatia**
Sector:	**Manufacturing**
Stake:	**n/a**
Buyer:	**Investindustrial; SoftBank; Goldman Sachs Group; Porsche** (*Country of buyer:* **Italy; Japan; United States; Germany**) *Value source:* ***Official data***

6 EUR 421.4m

Target:	**Multi-asset digital infrastructure platform of Emitel**
Country of Target:	**Poland**
Sector:	**Telecoms & IT**
Stake:	**100%**
Buyer:	**Cordiant Capital** (*Country of buyer:* **Canada**) *Value source:* ***Official data***

7 EUR 380.3m

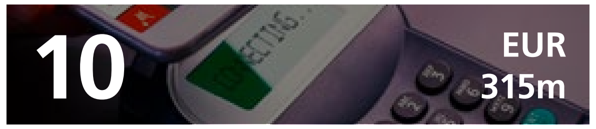
Target:	**FiberForce**
Country of Target:	**Poland**
Sector:	**Telecoms & IT**
Stake:	**50%**
Buyer:	**Infravia Capital Partners** (*Country of buyer:* **France**) *Value source:* ***Official data***

8 EUR 377m

Target:	**Seven office buildings in Bucharest**
Country of Target:	**Romania**
Sector:	**Real Estate & Construction**
Stake:	**100%**
Buyer:	**Paval Holding** (*Country of buyer:* **Romania**) *Value source:* ***Market estimate***

9 EUR 331.8m

Target:	**O2 Czech Republic (O2 CR)**
Country of Target:	**Czech Republic**
Sector:	**Telecoms & IT**
Stake:	**9.9%**
Buyer:	**PPF Group** (*Country of buyer:* **Czech Republic**) *Value source:* ***Official data***

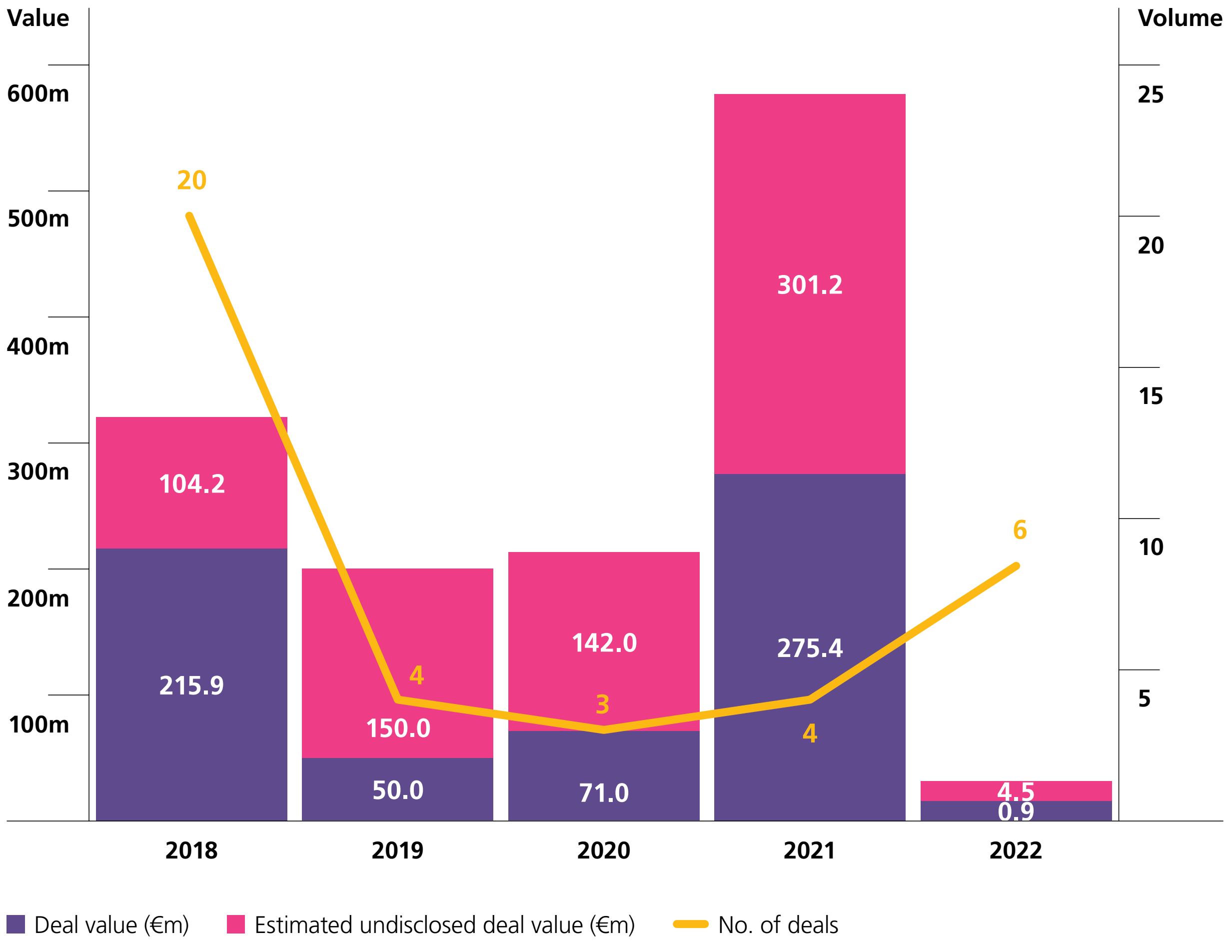


10 EUR 315m

Target:	**Tommy**
Country of Target:	**Croatia**
Sector:	**Wholesale & Retail**
Stake:	**100%**
Buyer:	**CVC Capital Partners** (*Country of buyer:* **Luxembourg**) *Value source:* ***Market estimate***

Albania

Deals by value and volume



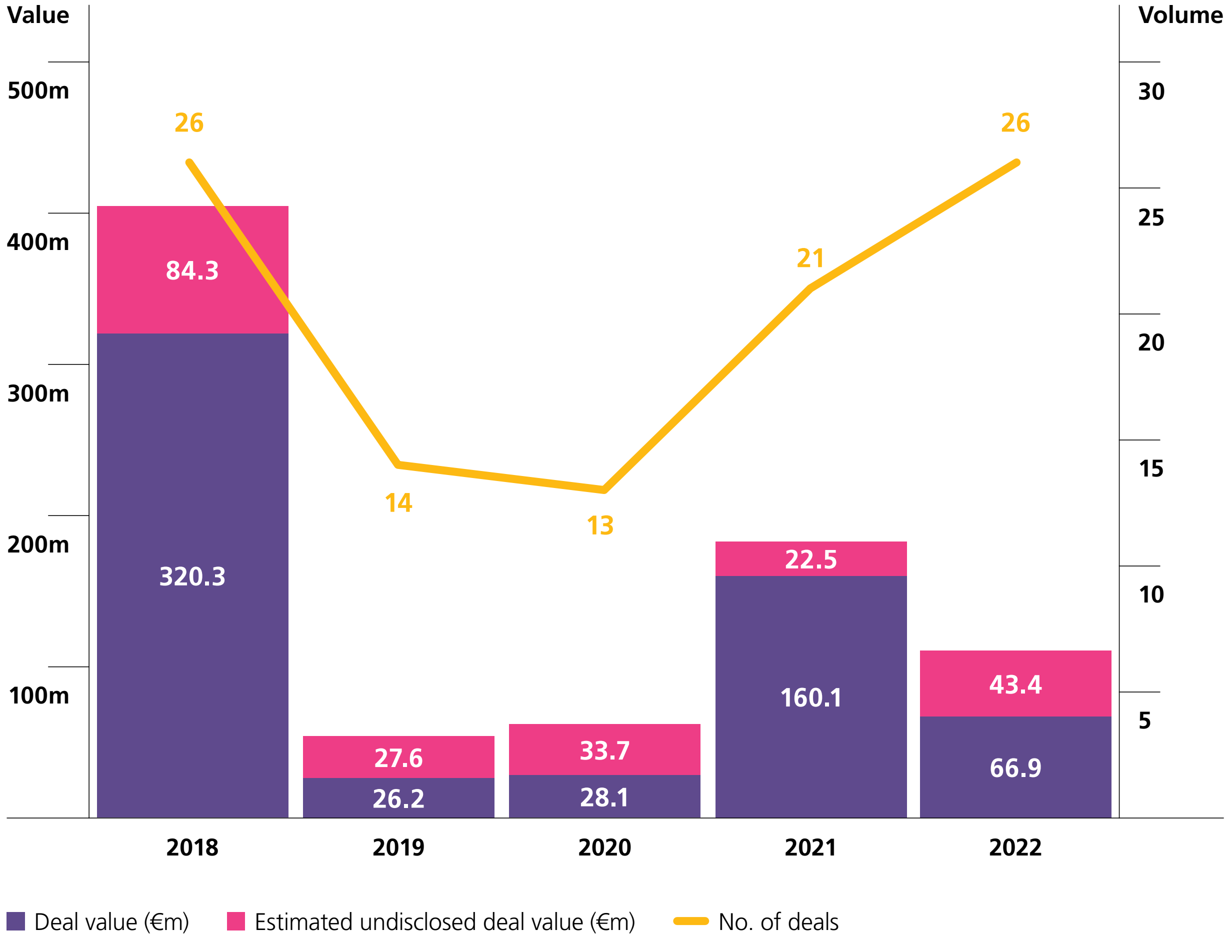
Top deal

Target:	**Hajde**
Sector:	**Transportation & Logistics**
Stake:	**n/a**
Buyer:	**Fasanara Capital** (*Country of buyer:* **United Kingdom**) *Value source:* ***Official data***

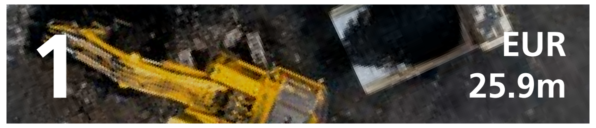
Top sector by value, EUR

Bosnia and Herzegovina

Deals by value and volume

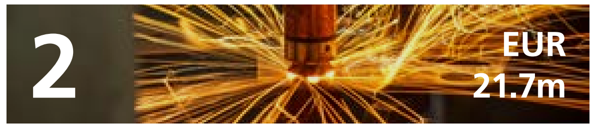


Top 5 deals



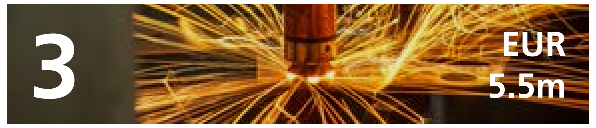
1 **EUR 25.9m**

Target: **RZR Ljubija**
Sector: **Mining (incl. oil & gas)**
Stake: **50%**
Buyer: **SE-GEDC Corp**
(*Country of buyer:* **United States**)
Value source: ***Official data***



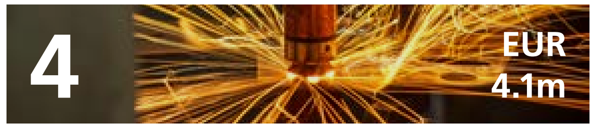
2 **EUR 21.7m**

Target: **Fabrika Glinice Birach**
Sector: **Manufacturing**
Stake: **100%**
Buyer: **Pavgord**
(*Country of buyer:* **Bosnia and Herzegovina**)
Value source: ***Official data***



3 **EUR 5.5m**

Target: **Vitezit**
Sector: **Manufacturing**
Stake: **100%**
Buyer: **WDG promet**
(*Country of buyer:* **Croatia**)
Value source: ***Official data***



4 **EUR 4.1m**

Target: **Nova Tvornica Precistaca**
Sector: **Manufacturing**
Stake: **100%**
Buyer: **Undisclosed**
(*Country of buyer:* **n/a**)
Value source: ***Official data***

5 **EUR 2.6m**

Target: **Mostar Tobacco Factory**
Sector: **Real Estate & Construction**
Stake: **100%**
Buyer: **Mikra Matic**
(*Country of buyer:* **Bosnia and Herzegovina**)
Value source: ***Official data***

Top 3 sectors by value, EUR

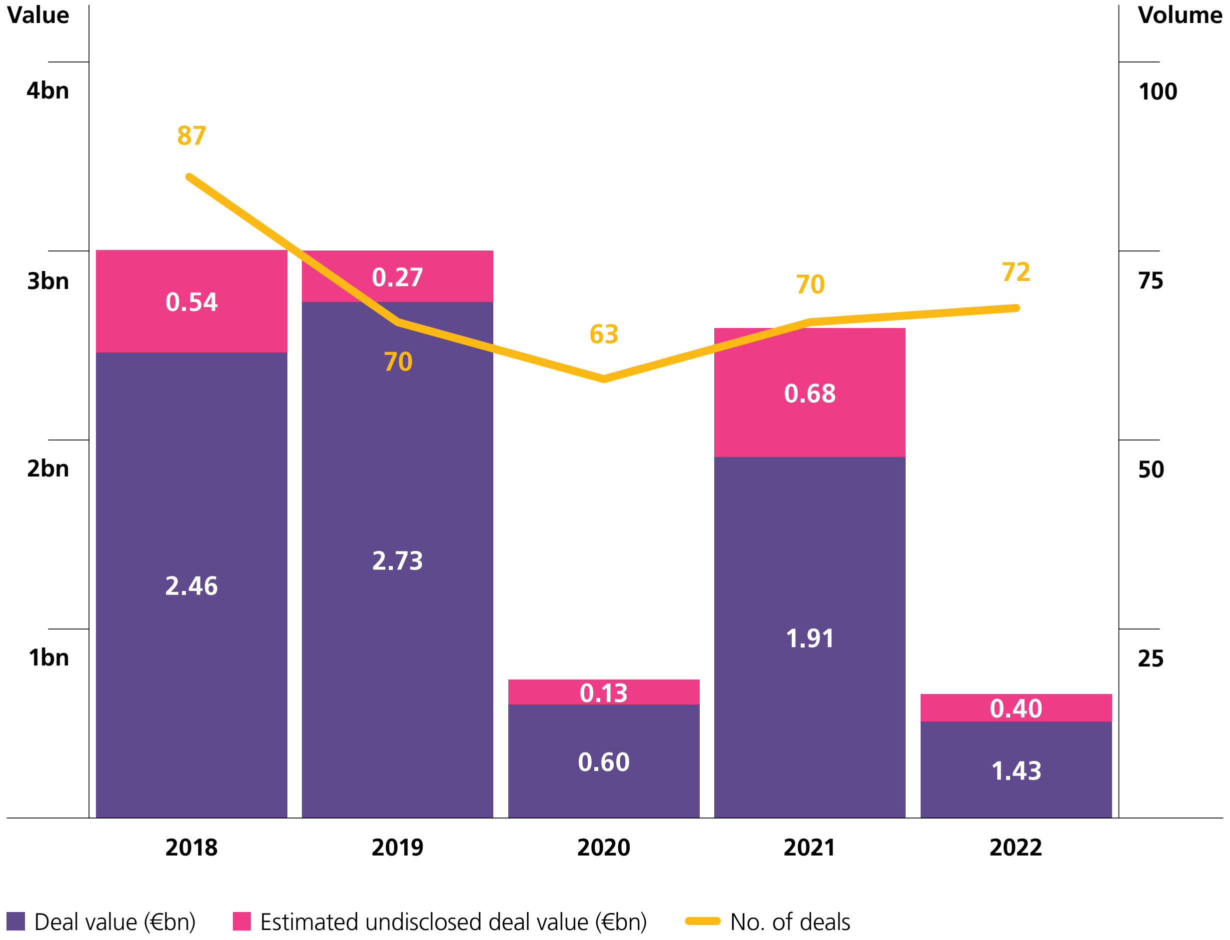
MANUFACTURING **31.3m**

MINING (INCL. OIL & GAS) **25.9m**

FINANCE & INSURANCE **5.5m**

Bulgaria

Deals by value and volume



Top 5 deals

Target: **ContourGlobal Maritsa East 3 TPP**
Sector: **Energy & Utilities**
Stake: **100%**
Buyer: **Kohlberg Kravis Roberts & Co (KKR)**
(*Country of buyer:* **United States**)
Value source: ***EMIS estimate***[1]

Target: **Payhawk**
Sector: **Finance & Insurance**
Stake: **10%**
Buyer: **Lightspeed Venture Partners; Others**
(*Country of buyer:* **United States**)
Value source: ***Official data***

Target: **Fidelis Research**
Sector: **Services**
Stake: **100%**
Buyer: **BioIVT**
(*Country of buyer:* **United States**)
Value source: ***Market estimate***

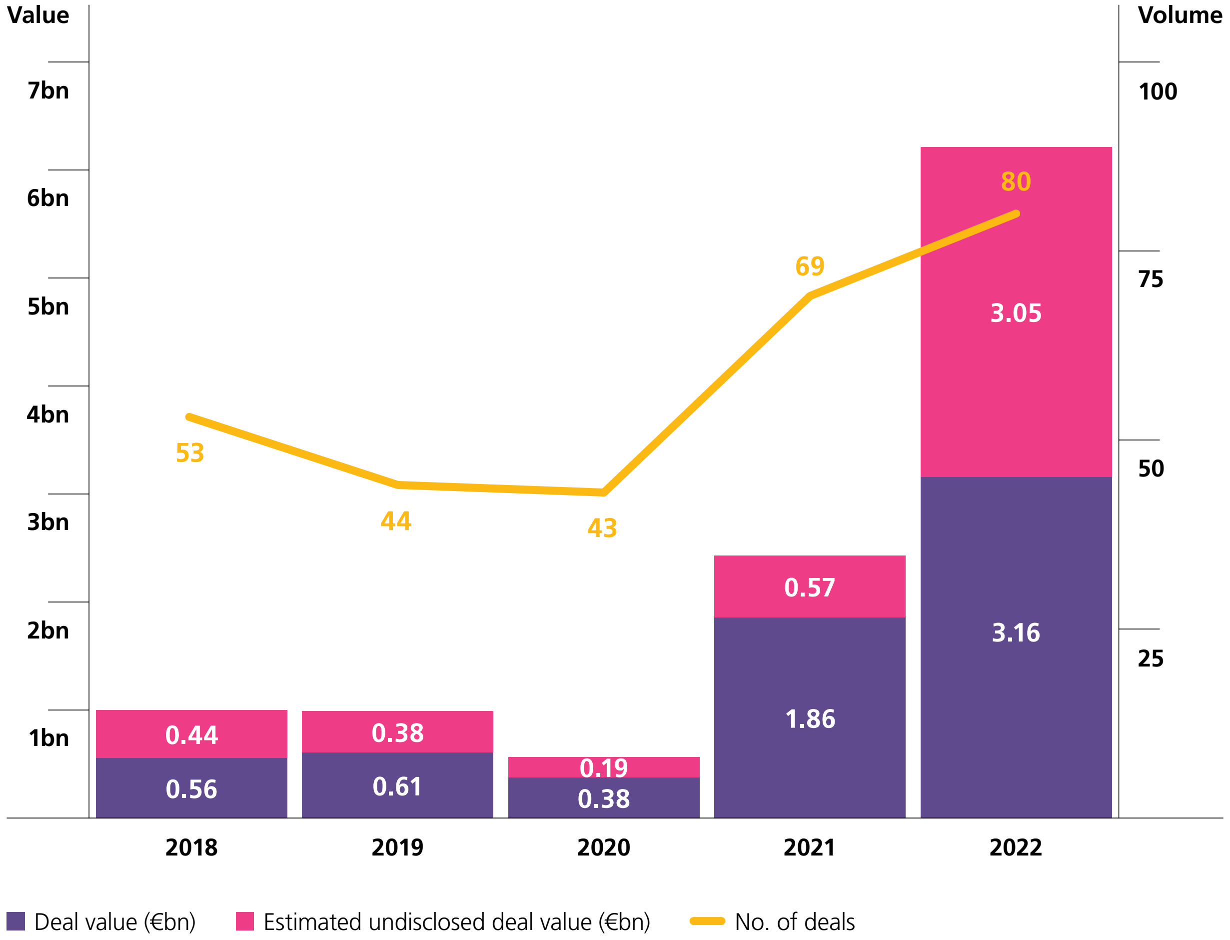
Target: **The Mall**
Sector: **Real Estate & Construction**
Stake: **100%**
Buyer: **Hyprop Investments**
(*Country of buyer:* **South Africa**)
Value source: ***EMIS estimate***[2]

Target: **Debt Collection Agency**
Sector: **Finance & Insurance**
Stake: **100%**
Buyer: **SG Group**
(*Country of buyer:* **Bulgaria**)
Value source: ***Official data***

Top 3 sectors by value, EUR

Croatia

Deals by value and volume



Top 5 deals

1 EUR 690m

Target: **SuperSport**
Sector: **Other**
Stake: **75%**
Buyer: **Entain**
(*Country of buyer:* **United Kingdom**)
Value source: ***Official data***

2 EUR 500m

Target: **Rimac Automobili**
Sector: **Manufacturing**
Stake: **n/a**
Buyer: **Investindustrial; SoftBank; Goldman Sachs; Porsche**
(*Country of buyer:* **Italy; Japan; United States; Germany**)
Value source: ***Official data***

3 EUR 500m

Target: **ForteNova Group**
Sector: **Food & Beverage**
Stake: **44%**
Buyer: **Saif Alketbi – private investor**
(*Country of buyer:* **United Arab Emirates**)
Value source: ***Market estimate***

4 EUR 322.1m

Target: **Zagrebacka Banka**
Sector: **Finance & Insurance**
Stake: **11.7%**
Buyer: **UniCredit**
(*Country of buyer:* **Italy**)
Value source: ***EMIS estimate***[1]

5 EUR 315m

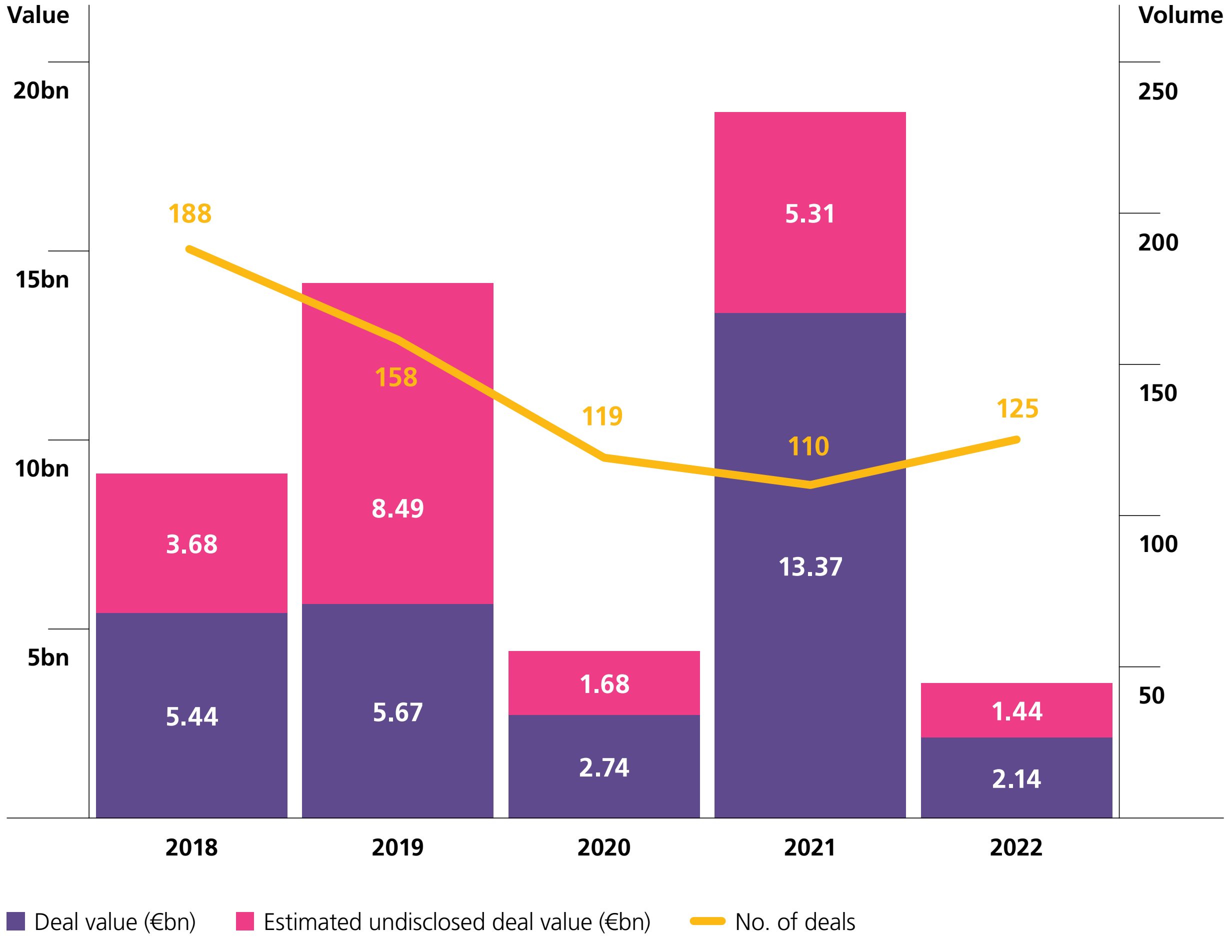
Target: **Tommy**
Sector: **Wholesale & Retail**
Stake: **100%**
Buyer: **CVC Capital Partners**
(*Country of buyer:* **Luxembourg**)
Value source: ***Market estimate***

Top 3 sectors by value, EUR

OTHER	850m
MANUFACTURING	690m
FINANCE & INSURANCE	510m

Czech Republic

Deals by value and volume



Top 5 deals

1 EUR 365.9m

Target: **Czech assets of IMMOFINANZ Group**
Sector: **Real Estate & Construction**
Stake: **24.7%**
Buyer: **CPI Property Group**
(*Country of buyer:* **Czech Republic**)
Value source: ***EMIS estimate***[1]

2 EUR 331.8m

Target: **O2 Czech Republic (O2 CR)**
Sector: **Telecoms & IT**
Stake: **9.9%**
Buyer: **PPF Group**
(*Country of buyer:* **Czech Republic**)
Value source: ***Official data***

3 EUR 220m

Target: **Rohlik Group**
Sector: **Wholesale & Retail**
Stake: **n/a**
Buyer: **Sofina; Index Ventures; Tomas Cupr – private investor**
(*Country of buyer:* **Belgium; Switzerland; Czech Republic**)
Value source: ***Official data***

4 EUR 195m

Target: **Czech business of Varroc Lighting Systems**
Sector: **Manufacturing**
Stake: **100%**
Buyer: **Plastic Omnium**
(*Country of buyer:* **France**)
Value source: ***EMIS estimate***[2]

5 EUR 174.2m

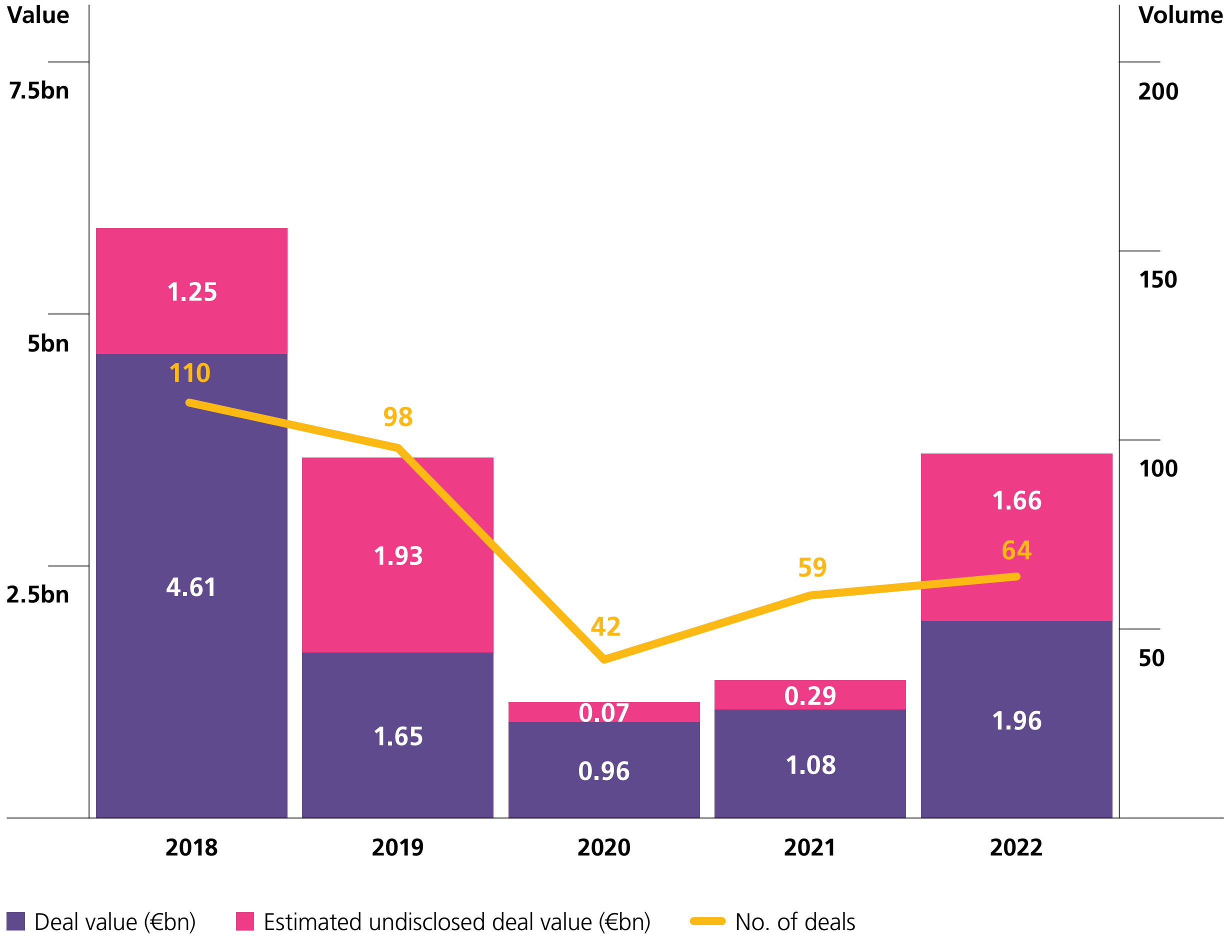
Target: **Mews Systems**
Sector: **Telecoms & IT**
Stake: **n/a**
Buyer: **Kinnevik; Goldman Sachs; others**
(*Country of buyer:* **Sweden; United States; others**)
Value source: ***Official data***

Top 3 sectors by value, EUR

REAL ESTATE & CONSTRUCTION	766m
TELECOMS & IT	595.5m
MANUFACTURING	361.1m

Hungary

Deals by value and volume



Top 5 deals

1 EUR 350m

Target:	**Hungarian business of Vienna Insurance Group**
Sector:	**Finance & Insurance**
Stake:	**45%**
Buyer:	**Corvinus** (*Country of buyer:* **Hungary**) *Value source:* ***Official data***

2 EUR 248.8m

Target:	**Hungarian assets of IMMOFINANZ Group**
Sector:	**Real Estate & Construction**
Stake:	**24.7%**
Buyer:	**CPI Property Group** (*Country of buyer:* **Czech Republic**) *Value source:* ***EMIS extimate***[1]

3 EUR 244.1m

Target:	**Thirteen Globe; Thirteen Xenter; Greenpoint 7; Atrium Park; Haller Gardens; Szepvolgyi Business Park**
Sector:	**Real Estate & Construction**
Stake:	**100%**
Buyer:	**S IMMO** (*Country of buyer:* **Austria**) *Value source:* ***Official data***

4 EUR 238.3m

Target:	**Gateway Office Park; Andrassy Palace; BC99 Office Park; Arena Corner**
Sector:	**Real Estate & Construction**
Stake:	**100%**
Buyer:	**S IMMO** (*Country of buyer:* **Austria**) *Value source:* ***Official data***

5 EUR 177.3m

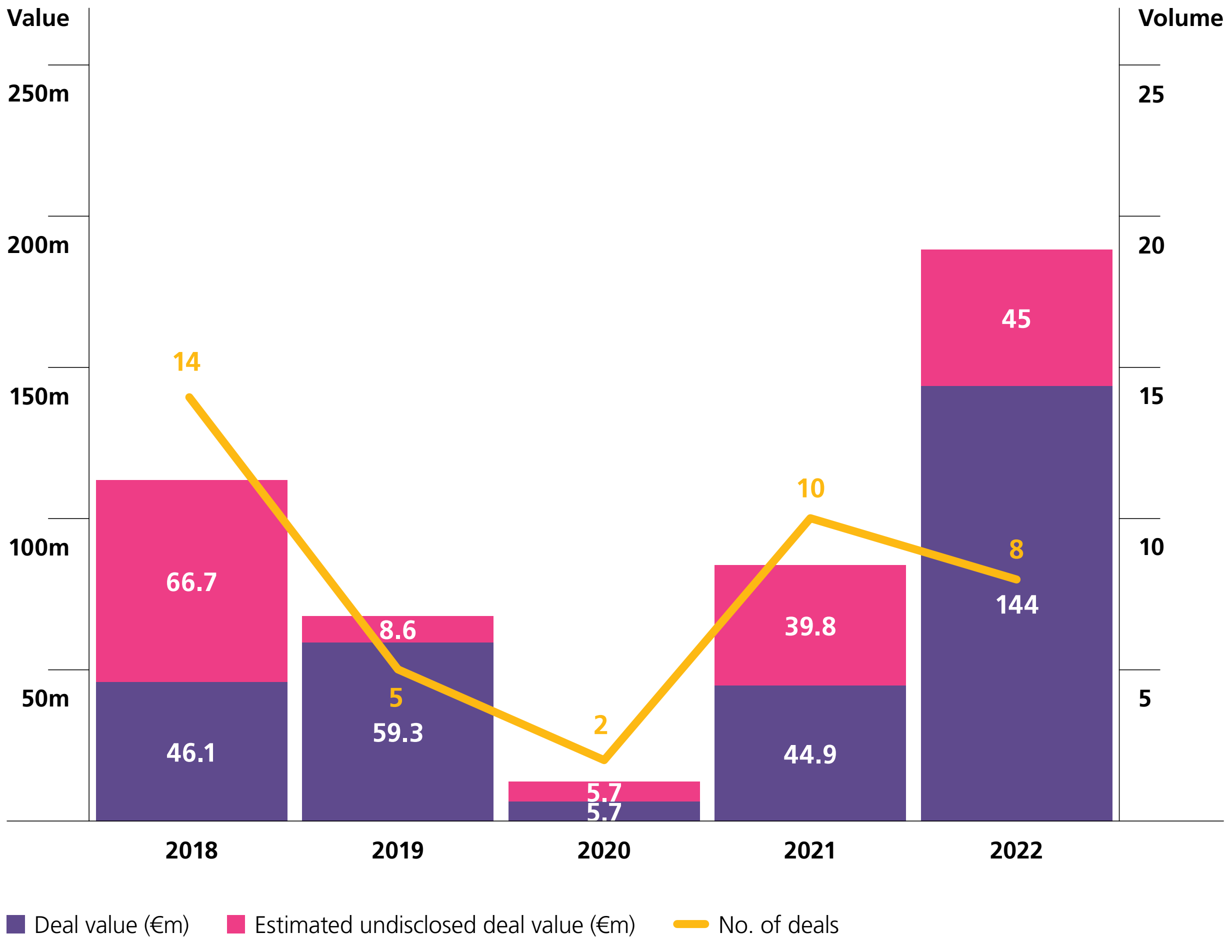
Target:	**144 petrol stations in Hungary**
Sector:	**Wholesale & Retail**
Stake:	**100%**
Buyer:	**PKN Orlen** (*Country of buyer:* **Poland**) *Value source:* ***EMIS extimate***[3]

Top 3 sectors by value, EUR

REAL ESTATE & CONSTRUCTION	1bn
FINANCE & INSURANCE	350m
TELECOMS & IT	300m

Montenegro

Deals by value and volume



Top 5 deals

1 EUR 95m

Target: **Delta City Mall**
Sector: **Real Estate & Construction**
Stake: **100%**
Buyer: **BIG Shopping Centers**
(*Country of buyer:* **Israel**)
Value source: ***Official data***

2 EUR 20m

Target: **Zeljezara Niksic**
Sector: **Manufacturing**
Stake: **100%**
Buyer: **Elektroprivreda Crne Gore**
(*Country of buyer:* **Montenegro**)
Value source: ***Official data***

3 EUR 15m

Target: **Elektroprivreda Crne Gore**
Sector: **Energy & Utilities**
Stake: **2.8%**
Buyer: **Government of Montenegro**
(*Country of buyer:* **Montenegro**)
Value source: ***Official data***

4 EUR 12m

Target: **Luka Bar**
Sector: **Transportation & Logistics**
Stake: **23.6%**
Buyer: **Government of Montenegro**
(*Country of buyer:* **Montenegro**)
Value source: ***Official data***

5 EUR 1.9m

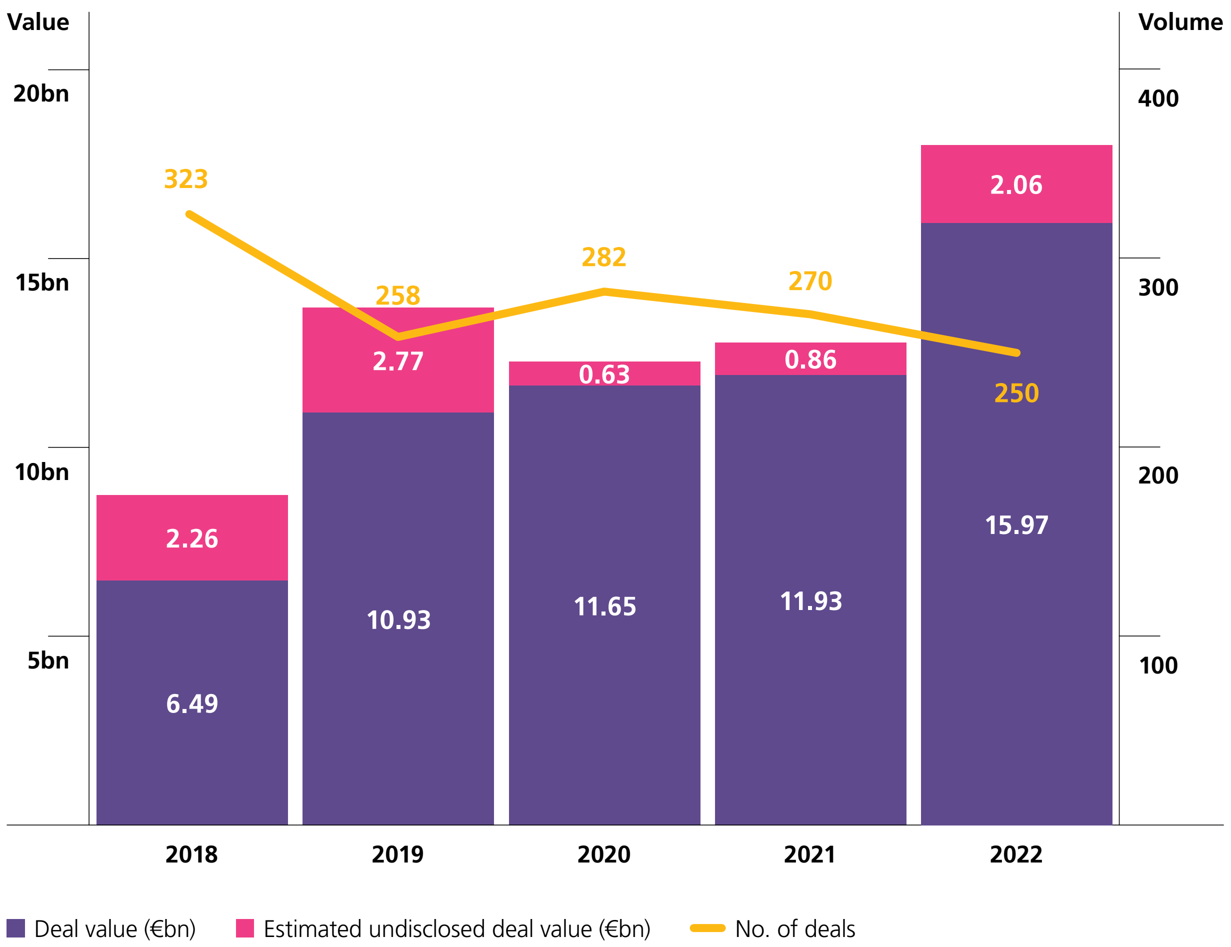
Target: **Budvanska Rivijera Hotel Group**
Sector: **Real Estate & Construction**
Stake: **3.2%**
Buyer: **MK Group**
(*Country of buyer:* **Serbia**)
Value source: ***Official data***

Top 3 sectors by value, EUR

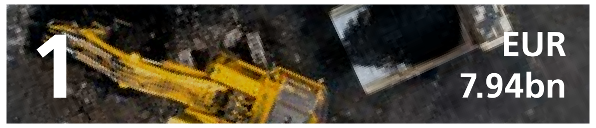
REAL ESTATE & CONSTRUCTION **96.9m**
MANUFACTURING **20m**
ENERGY & UTILITIES **15m**

Poland

Deals by value and volume



Top 5 deals



Target: **PGNiG**
Sector: **Mining (incl. oil & gas)**
Stake: **100%**
Buyer: **PKN Orlen**
(*Country of buyer:* **Poland**)
Value source: ***EMIS estimate***[1]

Target: **PKP Energetyka**
Sector: **Energy & Utilities**
Stake: **100%**
Buyer: **PGE Polska Grupa Energetyczna**
(*Country of buyer:* **Poland**)
Value source: ***Official data***

Target: **Polish assets of IMMOFINANZ**
Sector: **Real Estate & Construction**
Stake: **24.7%**
Buyer: **CPI Property Group**
(*Country of buyer:* **Czech Republic**)
Value source: ***EMIS estimate***[2]

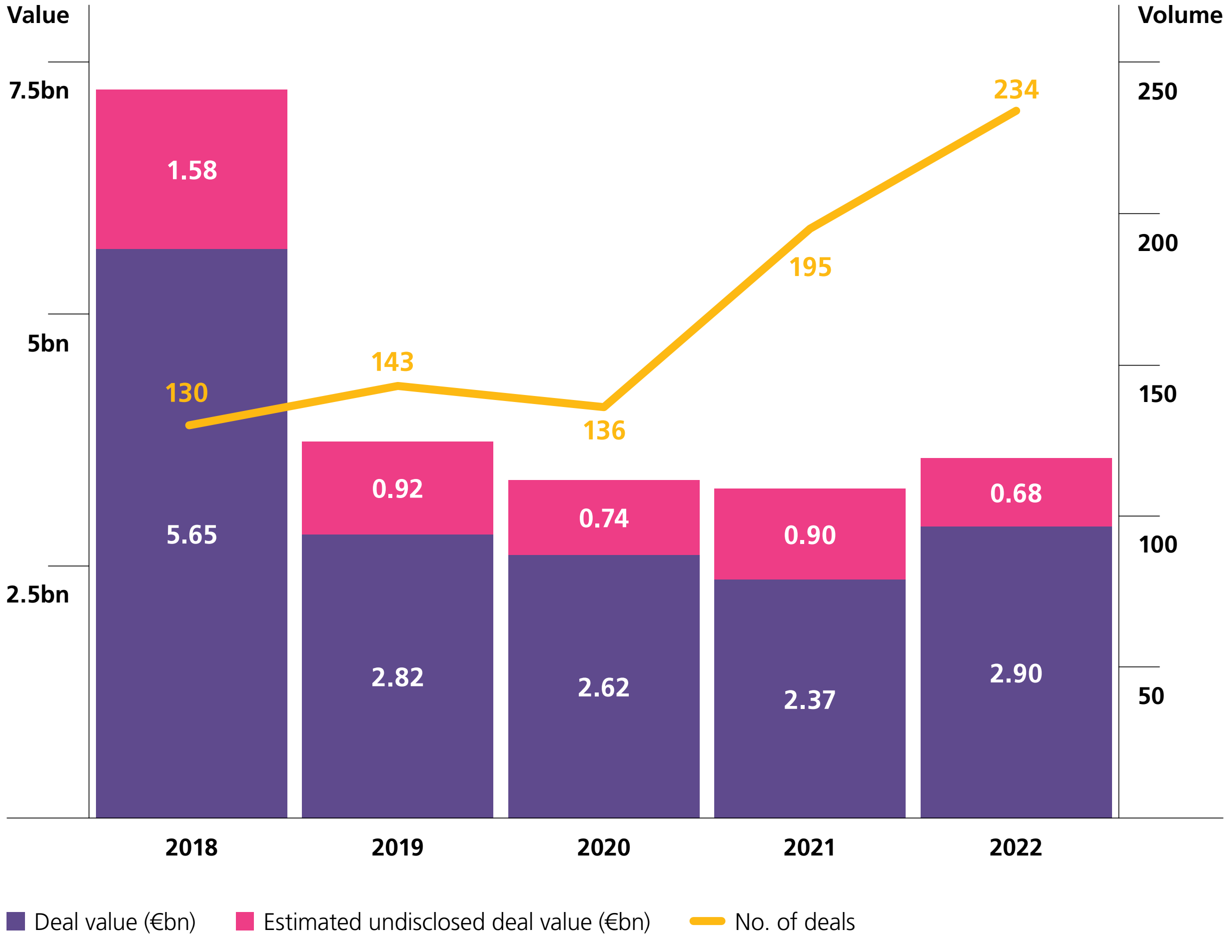
Target: **Part of Warsaw Hub skyscraper**
Sector: **Real Estate & Construction**
Stake: **100%**
Buyer: **Alphabet**
(*Country of buyer:* **United States**)
Value source: ***Official data***

Target: **417 petrol stations in Poland**
Sector: **Wholesale & Retail**
Stake: **100%**
Buyer: **MOL**
(*Country of buyer:* **Hungary**)
Value source: ***Official data***

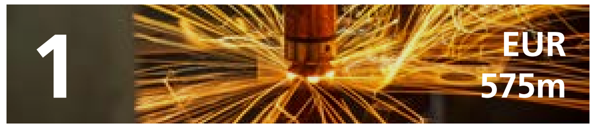
Top 3 sectors by value, EUR

Romania

Deals by value and volume



Top 5 deals



Target: **Daewoo Craiova (Ford Romania)**
Sector: **Manufacturing**
Stake: **100%**
Buyer: **FORD Otomotiv Sanayi**
(*Country of buyer:* **Turkey**)
Value source: ***Official data***

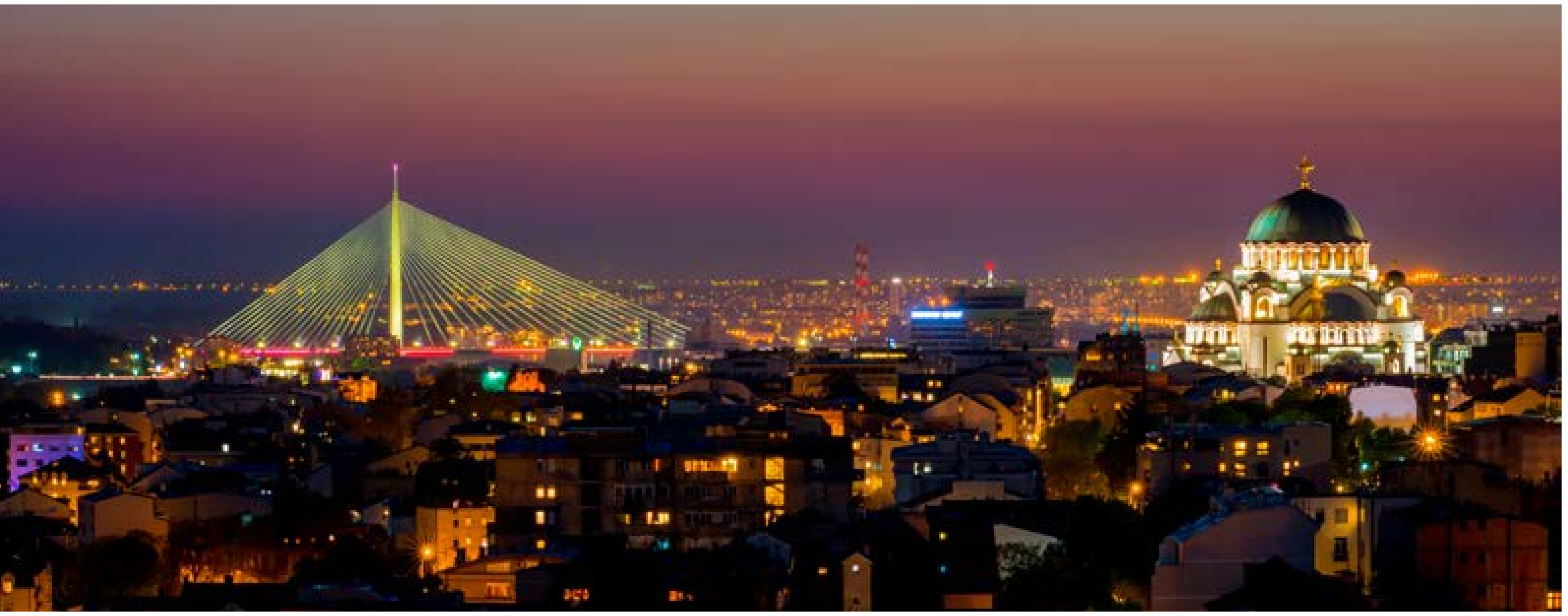
Target: **Seven office buildings in Bucharest**
Sector: **Real Estate & Construction**
Stake: **100%**
Buyer: **Paval Holding**
(*Country of buyer:* **Romania**)
Value source: ***Market estimate***

Target: **Romanian assets of IMMOFINANZ Group**
Sector: **Real Estate & Construction**
Stake: **24.7%**
Buyer: **CPI Property Group**
(*Country of buyer:* **Czech Republic**)
Value source: ***EMIS estimate***[1]

Target: **Six shopping centers**
Sector: **Real Estate & Construction**
Stake: **100%**
Buyer: **MAS Real Estate**
(*Country of buyer:* **South Africa**)
Value source: ***Official data***

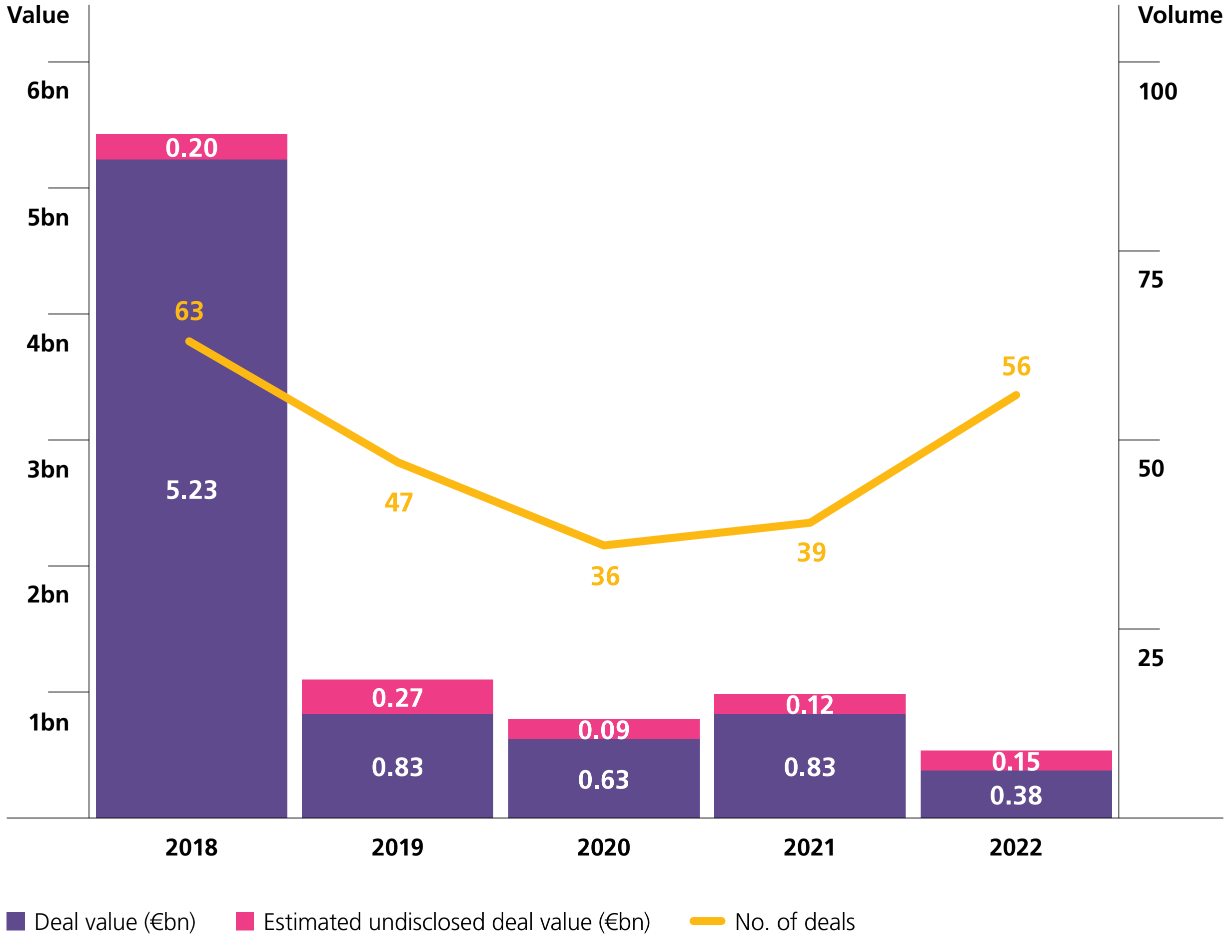
Target: **Romanian business of Affidea Group**
Sector: **Education & Healthcare Services**
Stake: **100%**
Buyer: **Groupe Bruxelles Lambert**
(*Country of buyer:* **Belgium**)
Value source: ***EMIS estimate***[2]

Top 3 sectors by value, EUR



Serbia

Deals by value and volume



Top 5 deals

1 **EUR 124.3m**

Target: **Htec**
Sector: **Telecoms & IT**
Stake: **n/a**
Buyer: **Brighton Park Capital**
(*Country of buyer:* **United States**)
Value source: ***Official data***

2 **EUR 61.7m**

Target: **NLB Komercijalna Banka**
Sector: **Finance & Insurance**
Stake: **9.8%**
Buyer: **Nova Ljubljanska Banka (NLB)**
(*Country of buyer:* **Slovenia**)
Value source: ***Official data***

3 **EUR 45m**

Target: **AskGamblers**
Sector: **Other**
Stake: **100%**
Buyer: **Gaming Innovation Group**
(*Country of buyer:* **Malta**)
Value source: ***Official data***

4 **EUR 43m**

Target: **Nova Livnica at 102 Omladinskih Brigada Str in New Belgrade**
Sector: **Real Estate & Construction**
Stake: **100%**
Buyer: **Toriox**
(*Country of buyer:* **Serbia**)
Value source: ***Official data***

5 **EUR 36m**

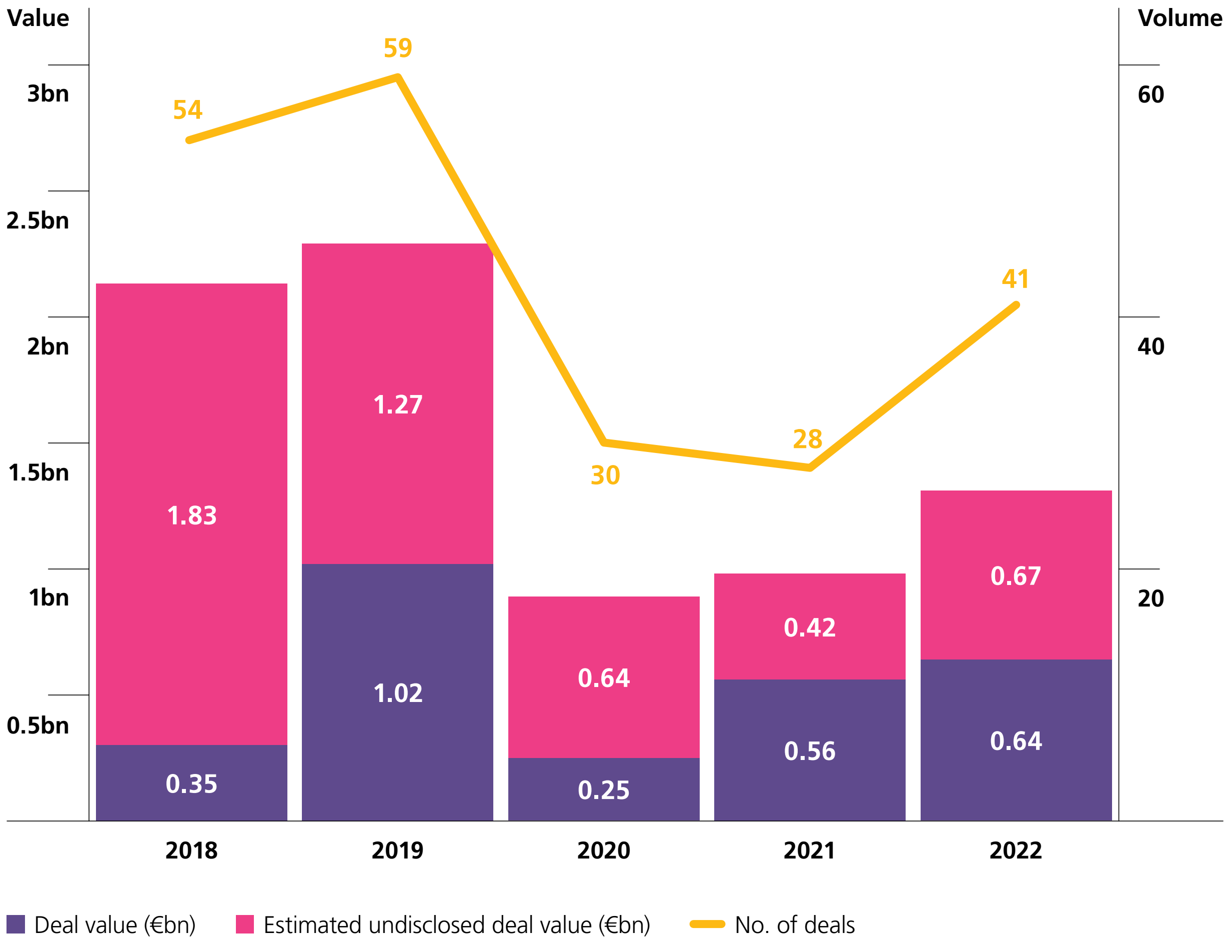
Target: **Tenderly**
Sector: **Telecoms & IT**
Stake: **n/a**
Buyer: **Point Nine Capital; Uniswap Labs; Accel; Abstract Ventures; Spark Capital Partners; Angel investors**
(*Country of buyer:* **Germany; United States**)
Value source: ***Official data***

Top 3 sectors by value, EUR

TELECOMS & IT	180.27m
FINANCE & INSURANCE	78.13m
REAL ESTATE & CONSTRUCTION	50.24m

Slovakia

Deals by value and volume



Top 5 deals

1 EUR 210.8m

Target: **Slovak assets of IMMOFINANZ Group**
Sector: **Real Estate & Construction**
Stake: **24.7%**
Buyer: **CPI Property Group**
(*Country of buyer:* **Czech Republic**)
Value source: ***EMIS estimate***[1]

2 EUR 118m

Target: **Optima shopping centre in Kosice**
Sector: **Real Estate & Construction**
Stake: **100%**
Buyer: **Undisclosed buyer(s)**
(*Country of buyer:* **n/a**)
Value source: ***Official data***

3 EUR 113.8m

Target: **Portfolio of retail properties**
Sector: **Real Estate & Construction**
Stake: **100%**
Buyer: **IMMOFINANZ Group**
(*Country of buyer:* **Austria**)
Value source: ***EMIS estimate***[2]

4 EUR 50.5m

Target: **41 petrol stations**
Sector: **Wholesale & Retail**
Stake: **100%**
Buyer: **PKN Orlen**
(*Country of buyer:* **Poland**)
Value source: ***EMIS estimate***[3]

5 EUR 35m

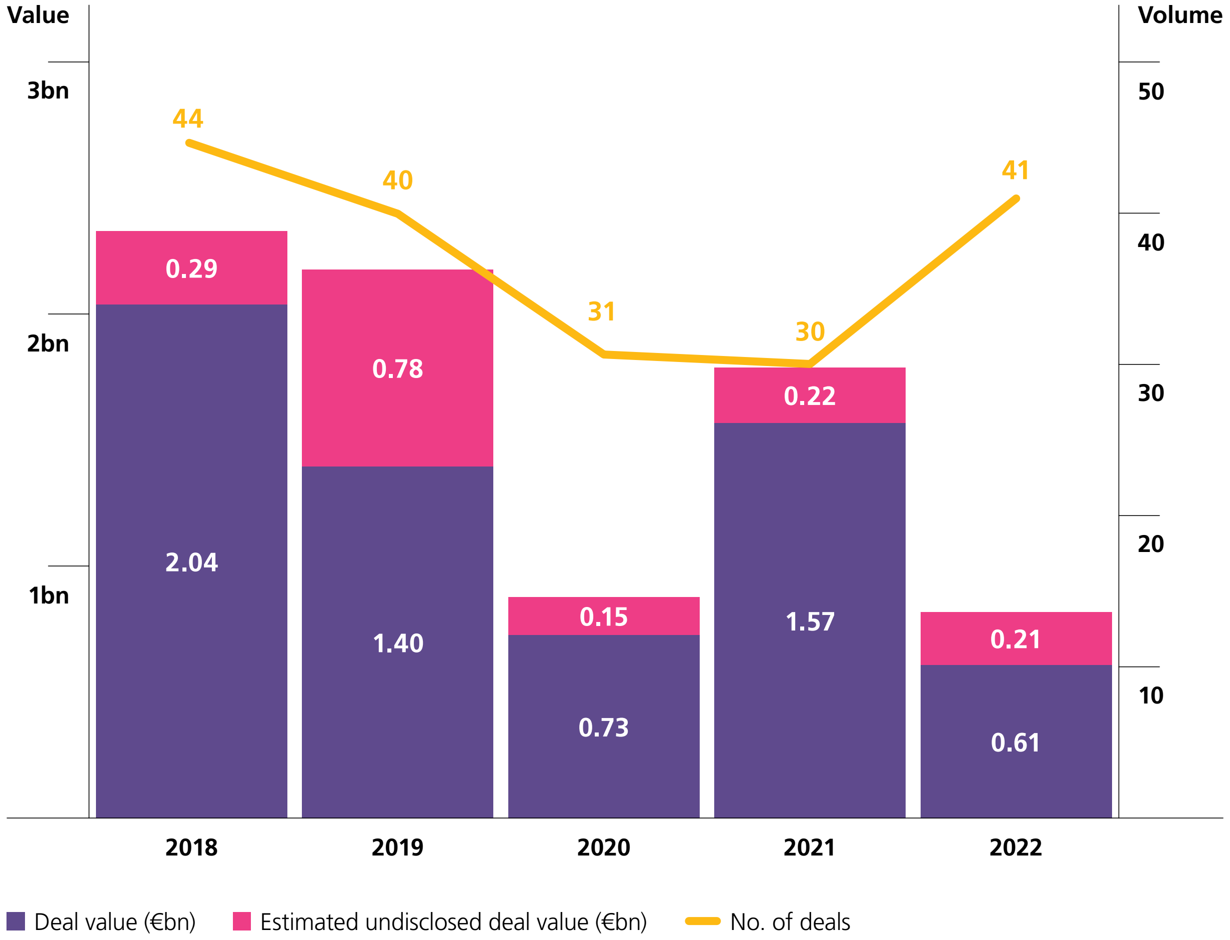
Target: **Pradiaren 1900 office centre in Bratislava**
Sector: **Real Estate & Construction**
Stake: **50%**
Buyer: **RSJ Investments**
(*Country of buyer:* **Czech Republic**)
Value source: ***Official data***

Top 3 sectors by value, EUR

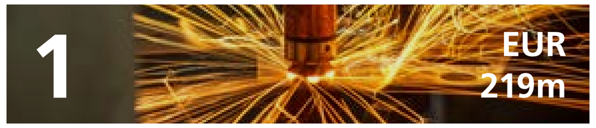
REAL ESTATE & CONSTRUCTION	517.2m
WHOLESALE & RETAIL	50.5m
ENERGY & UTILITIES	35m

Slovenia

Deals by value and volume

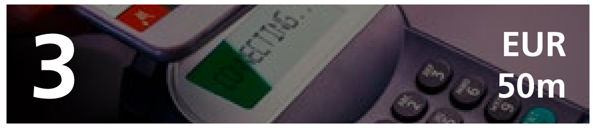


Top 5 deals



Target: **Pipistrel**
Sector: **Manufacturing**
Stake: **90%**
Buyer: **Textron**
(*Country of buyer:* **United States**)
Value source: ***Market estimate***

Target: **Trimo**
Sector: **Manufacturing**
Stake: **100%**
Buyer: **Recticel**
(*Country of buyer:* **Belgium**)
Value source: ***Official data***



Target: **Merkur Trgovina**
Sector: **Wholesale & Retail**
Stake: **100%**
Buyer: **ALFI Private Equity Fund**
(*Country of buyer:* **Slovenia**)
Value source: ***Market estimate***

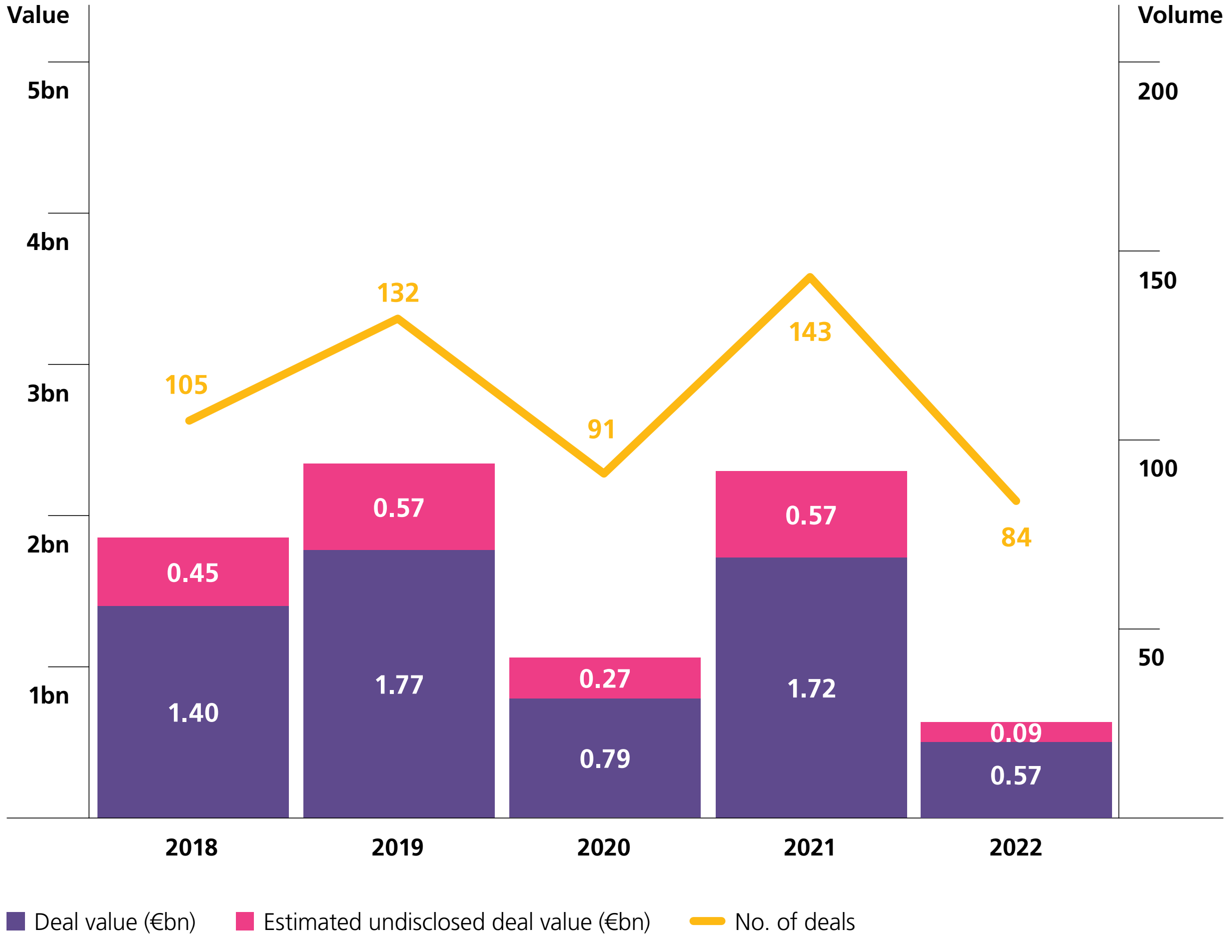
Target: **Sava**
Sector: **Real Estate & Construction**
Stake: **43.2%**
Buyer: **Slovenian State Holding; Kapitalska druzba**
(*Country of buyer:* **Slovenia**)
Value source: ***Official data***[1]

Target: **Fit&Beat**
Sector: **Telecoms & IT**
Stake: **n/a**
Buyer: **Global Emerging Markets Group (GEM)**
(*Country of buyer:* **United States**)
Value source: ***Official data***

Top 3 sectors by value, EUR

Ukraine

Deals by value and volume



Top 5 deals

Target: **Farming assets of Kernel Holding**
Sector: **Agriculture & Farming**
Stake: **100%**
Buyer: **Andriy Verevsky – private investor**
(*Country of buyer:* **Ukraine**)
Value source: ***Official data***

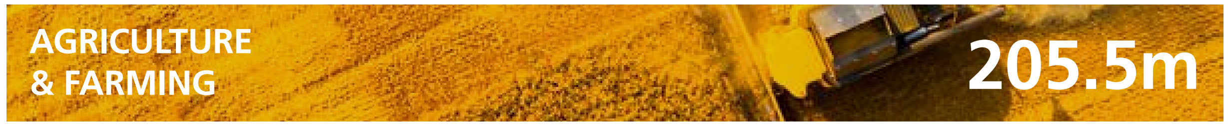
Target: **Preply**
Sector: **Education & Healthcare Services**
Stake: **n/a**
Buyer: **Owl Ventures and others**
(*Country of buyer:* **United States**)
Value source: ***Official data***

Target: **airSlate**
Sector: **Telecoms & IT**
Stake: **4.1%**
Buyer: **UiPath Ventures; G Squared**
(*Country of buyer:* **United States**)
Value source: ***Official data***

Target: **Apostera**
Sector: **Telecoms & IT**
Stake: **100%**
Buyer: **Samsung Electronics**
(*Country of buyer:* **South Korea**)
Value source: ***Market estimate***

Target: **Augmented Pixels**
Sector: **Telecoms & IT**
Stake: **100%**
Buyer: **Qualcomm Technologies**
(*Country of buyer:* **United States**)
Value source: ***Market estimate***

Top 3 sectors by value, EUR



About CMS

Staff
> 8,000

Lawyers
> 5,000

Partners
> 1,200

52 new partners in 2021, taking the total to over 1,200

Operating in
73 cities

Across
43 countries

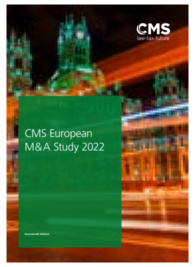
EUR 1.746bn
turnover for 2021

19 Practice and Sector Groups working across offices

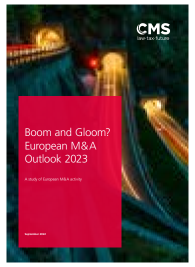
Top rankings in M&A league tables by deal count
(Bloomberg, Mergermarket and Thomson Reuters)

- **#1 Germany, DACH, Austria**
- **#2 Europe, UK, Switzerland, Benelux**

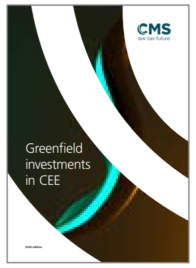
Sharing knowledge



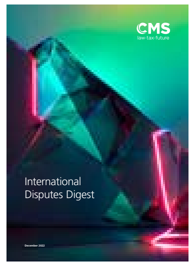
CMS European M&A Study 2022
This 2022 Study covers almost 500 share and asset deals on which CMS European offices advised in 2021. This is a record number of deals for one year and reflects the M&A boom in 2021.



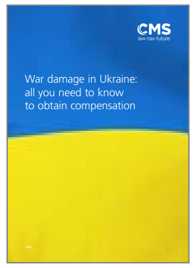
European M&A Outlook 2023
The report offers a comprehensive assessment of dealmaking sentiment in Europe's M&A market. It reflects the opinions of 330 corporates and PE firms based in Europe, the Americas and APAC about their expectations for the European M&A market in the year ahead.



CEE Greenfield Guide 2022
This sixth edition of the CMS guide to investment in Central and Eastern Europe is intended to help potential investors understand what issues to consider when investing in the leading countries in CEE. It provides information on available incentives and on the process of entering into investment agreements, and also covers key real estate, competition, infrastructure, tax and employment issues.



International Dispute Digest 2022
In 2022 Winter Edition, we feature a range of articles from around the world on topics as diverse as directors' duties for companies in financial distress, potential reform of the English Arbitration Act 1996, and risk management in the life sciences sector. We also consider how businesses in the UK can take steps to protect themselves in a "season of protest" and the obtaining of evidence abroad for use in international arbitration, amongst other matters.



War damage in Ukraine – report 2022
According to a report on 9 September 2022 prepared by the World Bank, the European Commission and the Ukrainian government, the cost of rebuilding Ukraine and its economy has already reached at least USD 349bn (EUR 346bn). At the same time, direct damage to property and infrastructure amounts to over USD 127bn. It is important to understand that there are ways to claim and receive compensation for damages suffered.

CEE Digital Horizons
Our latest addition to the Digital Horizons series explores the rise of CEE-based data centres. Data centres form another important feature of the CEE digital landscape. As big companies operating in Europe need to house increasing volumes of valuable data, CEE is an attractive option. In terms of cost, incentives and access to skilled IT labour, the CEE region provides significant opportunities to build safe, secure and cost-effective data centres.

Footnotes index

Emerging Europe Page 46

[1] Estimate based on the share price of PGNiG from the last trading day prior the deal announcement and its most recent net debt at that time.

[2] Upon completion of the deal, CPI raises stake to 53.3%.

[3] Estimate based on the share of assets in EE.

[4] Estimate based on the installed capacity.

Private Equity Page 48

[1] ContourGlobal is a British company and its main asset in EE is Maritsa East 3 TPP in Bulgaria.

[2] Estimate based on the installed capacity.

Bulgaria Page 54

[1] Estimate based on the installed capacity.

[2] Estimate based on the gross leasable area of property.

Croatia Page 56

[1] Estimate based on the stock price of Zagrebacka Banka.

Czech Republic Page 58

[1] Upon completion of the deal, CPI raises stake to 53.3%. Estimate based on the share of assets.

[2] Estimate based on the number of Czech plants.

Hungary Page 60

[1] Upon completion of the deal, CPI raises stake to 53.3%. Estimate based on the share of assets.

[2] Estimate based on the number of petrol stations.

[3] Deal for Czech Republic and Hungary, half of the disclosed value allocated to each country.

Poland Page 64

[1] Estimate based on the share price of PGNiG from the last trading day prior the deal announcement and its most recent net debt at that time.

[2] Upon completion of the deal, CPI raises its stake to 53.3%. Estimate based on the share of assets in Poland.

Romania Page 66

[1] Upon completion of the deal, CPI raises stake to 53.3%. Estimate based on the share of assets.

[2] Estimate based on the number of medical centres.

Slovakia Page 70

[1] Upon completion of the deal, CPI raises stake to 53.3%. Estimate based on the share of assets.

[2] Estimate based on the area of properties.

[3] Estimate based on the number of petrol stations.

Slovenia Page 72

[1] Following the deal, the buyers will hold 89.9% of Sava

Methodology

Deal Announcement Date: 01 January 2022 – 31 December 2022

Deal Region: Emerging Europe geographic area, understood as the dominant country of operations of the deal target or the location of its main assets, covers: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, North Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, and Ukraine.

Deal Value: at least USD 1m; for commercial real estate deals at least USD 5m (Note: Deals with undisclosed value were accounted for as having a value of zero, unless a publicly available market estimate was provided by a third-party, or a deal value could be estimated by EMIS. Such cases are clearly labelled in the report).

Private Equity: the category includes deals with the participation of private equity firms, sovereign investment funds, pension funds, private investment companies, asset managers, supranational finance institution, and large investment banks.

Real Estate: the category includes deals for commercial properties, property developers, construction companies, and real estate investment funds.

Exclusions: rumoured or failed deals, ECM deals, convertibles issues, NPL deals, share buybacks, internal restructurings, joint ventures, and employee offers.

Domestic / Cross-border: by domestic deals we understand those where the target, buyer and seller are from the same country. By cross-border deals we understand those where at least two different countries on different sides of the deal are involved.

Deal inclusion and categorization can be discretionary. The data can be subject to updates.

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Ranked as the world's fifth largest law firm by lawyer headcount and sixth largest in the UK by revenue, CMS can work for you in 40+ countries from 70+ offices worldwide. Globally 5,000+ lawyers offer future facing, business-focused advice tailored to our clients' needs, whether in local markets or across multiple jurisdictions.

Embedded within CEE for over 30 years, CMS advises global corporates and financial institutions from its 16 offices in the region. With over 100 partners and 500 lawyers based here, CMS has more offices and more lawyers in CEE than any other law firm. We regularly mobilise large international teams for complex cross-border deals and projects and can offer both local and international (UK and US) lawyers on the ground. Client come to us for our in depth understanding of the CEE markets and ability to provide specialised sector expertise delivered in the commercial setting of our client's business. Regionally, we advise on more deals in the region than any other firm, however, we are not just focused on large scale corporate M&A, we are a full service law firm and in fact the only firm in CEE to be acknowledged as a band 1 firm for every category for the CEE Chambers Global legal directory rankings.

About EMIS

EMIS is the world's leading provider of company, industry and country information on emerging markets. Part of ISI Emerging Markets Group, the company employs over 500 people in 19 countries around the world and provides critical intelligence to corporate, financial services, professional services, government and academic clients. The company was founded in 1994. Website: emis.com

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