Transaction processes in Poland

Expectations versus reality

November 2019

KPMG.pl

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Introduction

We are very pleased to present the report on the latest survey conducted by KPMG in Poland, which aimed at presenting the domestic capital transactions market. Poland attracts one third of all transactions in Central and Eastern Europe, with a total value reaching approximately PLN 37.5 billion in 2018. We asked investors about the key factors considered when selecting an acquisition target, how they conduct transactions and what they think about the market prospects in the near future.

Our survey has revealed a clear difference between the motivations driving strategic investors, who take over companies to have a real influence on management, and those of financial investors, who mostly seek returns on subsequent resale of the business. According to the respondents' answers, approximately 40% of acquisition targets are identified by external advisors supporting the seller or the buyer. The vast majority of investors see the potential for acquisitions in the near future mainly in the IT and healthcare sectors. In addition, strategic investors believe that media and entertainment sectors will play an important role in their transactions, while financial investors will focus on transport and logistics as well as other B2B services. Interestingly, nearly a half of investors expect that the number and average value of transactions will remain stable in the near future. This is good news for both market participants and transaction advisors.

We would like to thank all respondents from the companies that took part in this survey. We hope that the report will provide you with many interesting insights, and our respondents' experience and predictions will be a source of valuable guidelines.

Rafał Owczarek
Partner at KPMG in Poland
Transaction services

Krzysztof Klamut
Partner at KPMG in Poland
M&A

Key findings

Transaction processes: existing standards and new trends

1

Strategic investors attach the greatest importance to **geographical growth** and the **expansion of the range of goods and services**. Financial investors, on the other hand, put the main emphasis on the **expected gains** on the future resale of the target company.

2

The growth potential of the company and the possibility of **achieving the anticipated return on investment** are the most common factors that drive investors to make acquisitions. The vast majority of strategic investors also hope to improve efficiency by achieving the expected cost synergies.

3

Price adjustment based on **a completion accounts report** remains the most common way to settle transactions although the **locked box** mechanism is becoming increasingly popular, particularly among financial investors.

4

When asked about the reasons why transactions lead to lower benefits than expected, 64% of strategic investors mentioned **overstated synergy effects** and 76% of financial investors indicated **regulatory changes** in the industry.

5

Over the next several months, the surveyed investors plan to focus mainly on **companies in the growth phase and mature businesses**, while avoiding start-ups and restructured businesses.

6

IT and **healthcare** have been identified as the most promising industries by both strategic and financial investors.

Roles and expectations towards advisers

7

Due diligence services, especially legal, tax and financial due diligence, are among the most desirable transaction advisory services.

8

As many as 62% of the surveyed investors indicated the advantage of conducting a **vendor due diligence** commissioned by the seller.

9

The most common reasons why transactions do not materialise include **excessive risks or problems** identified during due diligence and **excessive price expectations** among sellers.

10

Improving the efficiency and quality of due diligence of the target company and **better planning of the transaction process** are the most important improvements that investors would like to make to their transaction processes.

11

Lack of industry knowledge and **limited experience** of advisors working in project teams are among respondents' key critical comments regarding transaction advisors.

12

Team experience and flexibility in addressing client needs play a key role when selecting transaction advisors, being indicated by 96% and 87% of all surveyed investors respectively.

Key facts and figures of the Polish M&A market

In 2018, the value of the Polish capital transactions market was

PLN 37.5 billion[1]

According to estimates,

353 transactions were carried out in 2018[2]

In 2018, the Office of Competition and Consumer Protection approved

228 mergers and acquisitions

The estimated value of the largest transaction announced in 2018 in Poland was

PLN 3.3 billion.

This amount was paid by BNP Paribas for the acquisition of Raiffeisen Bank Polska[3]

The annual value of private equity investments in Poland amounted to

PLN 3,6 billion in 2018[4]

Direct Foreign Investments in Poland reached

PLN 50,4 billion in 2018[5]

Poland ranks 3rd in Central and Eastern Europe according to The Economist's ranking of business environment for 2019–2023, just behind the Czech Republic and Estonia [6]

Sources and comments:

1. Based on *Emerging Europe M&A report 2018/19 (CMS in cooperation with EMIS).*
2. Based on Thomson ONE data.
3. Based on EMIS Dealwatch data.
4. Based on *Central and Eastern Europe Statistics 2018 (Invest Europe).*
5. According to data from the National Bank of Poland.
6. The ranking covers 16 countries from the region: Azerbaijan, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kazakhstan, Latvia, Lithuania, Poland, Romania, Russia, Serbia, Slovakia, Slovenia and Ukraine.

10 largest M&A transactions in Poland Q1-Q3 2019

(excluding the real estate sector)

1. DCT Gdańsk	over PLN 5 billion	Acquisition of the Deepwater Container Terminal Gdańsk (DCT Gdańsk) by a consortium formed by the PFR (Polish Development Fund), PSA and IFM INVESTORS.
2. Polcom Group	over PLN 1 billion	Purchase of the majority stake in Polcom Group, the manufacturer of modular hotels, by Griffin and PIMCO funds.
3. Five wind farms	0.6 billion PLN[1]	Acquisition of wind farms in northern Poland owned by in.ventus by the Tauron Group.
4. 3S Group	0.4 billion PLN[2]	Acquisition of 3S, a fibre-optic network operator owned by Enterprise Investors by the P4 Group.
5. Bioton	0.4 billion PLN	Acquisition of shares in Bioton, a biotechnology company, by Yifan Pharmaceuticals.

6. Eurozet

0.3 billion PLN

Sale of media group Eurozet by Czech Media Invest to Sourcefabric and to the Agora Group.

7. Neomedic Group

0.3 billion PLN

Acquisition of Neomedic, the Polish operator of obstetrics and gynaecology hospitals, from Innova Capital by Medicover.

8. PGE Gaz Toruń

0.3 billion PLN

Acquisition of half of PGE GAZ Toruń shares held by the Polish Development Fund by the PGE Group.

9. Bluesoft

0.2 billion PLN

Acquisition of Bluesoft, a software development company, by Orange, a telecom group.

10. Restaurant Partner Polska

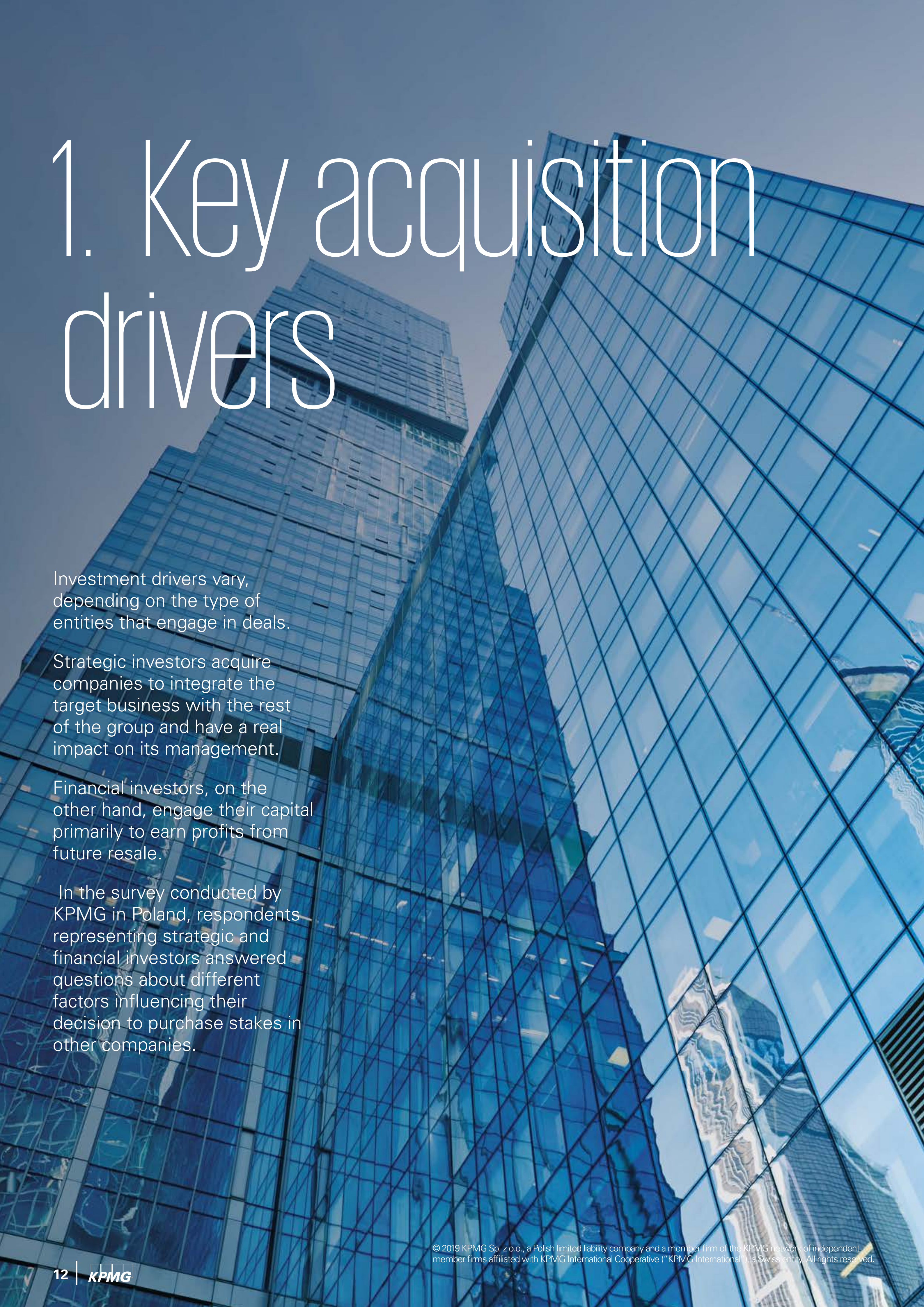
0.1 billion PLN

Acquisition of Restaurant Partner Polska, operator of the PizzaPortal, owned by the Amrest Group, by Glovo.

1. Transaction value based on Bankier.pl.

2. Transaction value based on Money.pl.

Source: KPMG in Poland based on EMIS Dealwatch. The data refer to transactions announced from January to September 2019.



1. Key acquisition drivers

Investment drivers vary, depending on the type of entities that engage in deals.

Strategic investors acquire companies to integrate the target business with the rest of the group and have a real impact on its management.

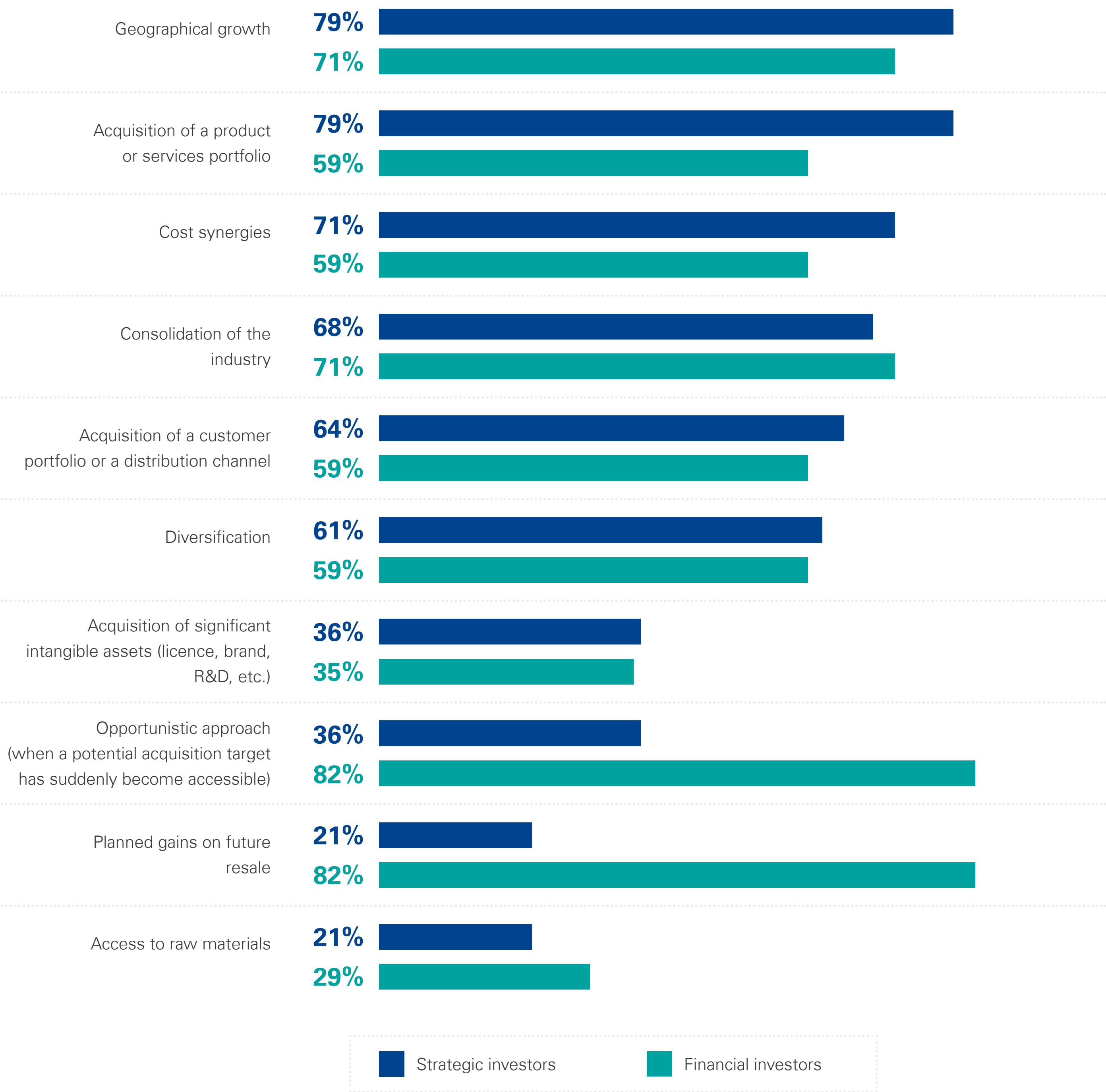
Financial investors, on the other hand, engage their capital primarily to earn profits from future resale.

In the survey conducted by KPMG in Poland, respondents representing strategic and financial investors answered questions about different factors influencing their decision to purchase stakes in other companies.

When asked about their investment motivations, strategic investors most often mentioned their willingness to ensure geographic growth and to take over the portfolio of products and services (79% of mentions each) as the main or typical driver to engage in investments. Cost synergies, consolidation of the industry and the acquisition of customer portfolio and distribution channels are also important. On the other hand, nearly 80% of strategic investors who make capital investments do not consider the subsequent resale of the target company to earn profit.

The vast majority of financial investors (82%) claim that the main or typical factor considered when making a transaction is the willingness to earn profit from the future resale. In addition, more than two thirds of this group pursue acquisitions to consolidate the industry.

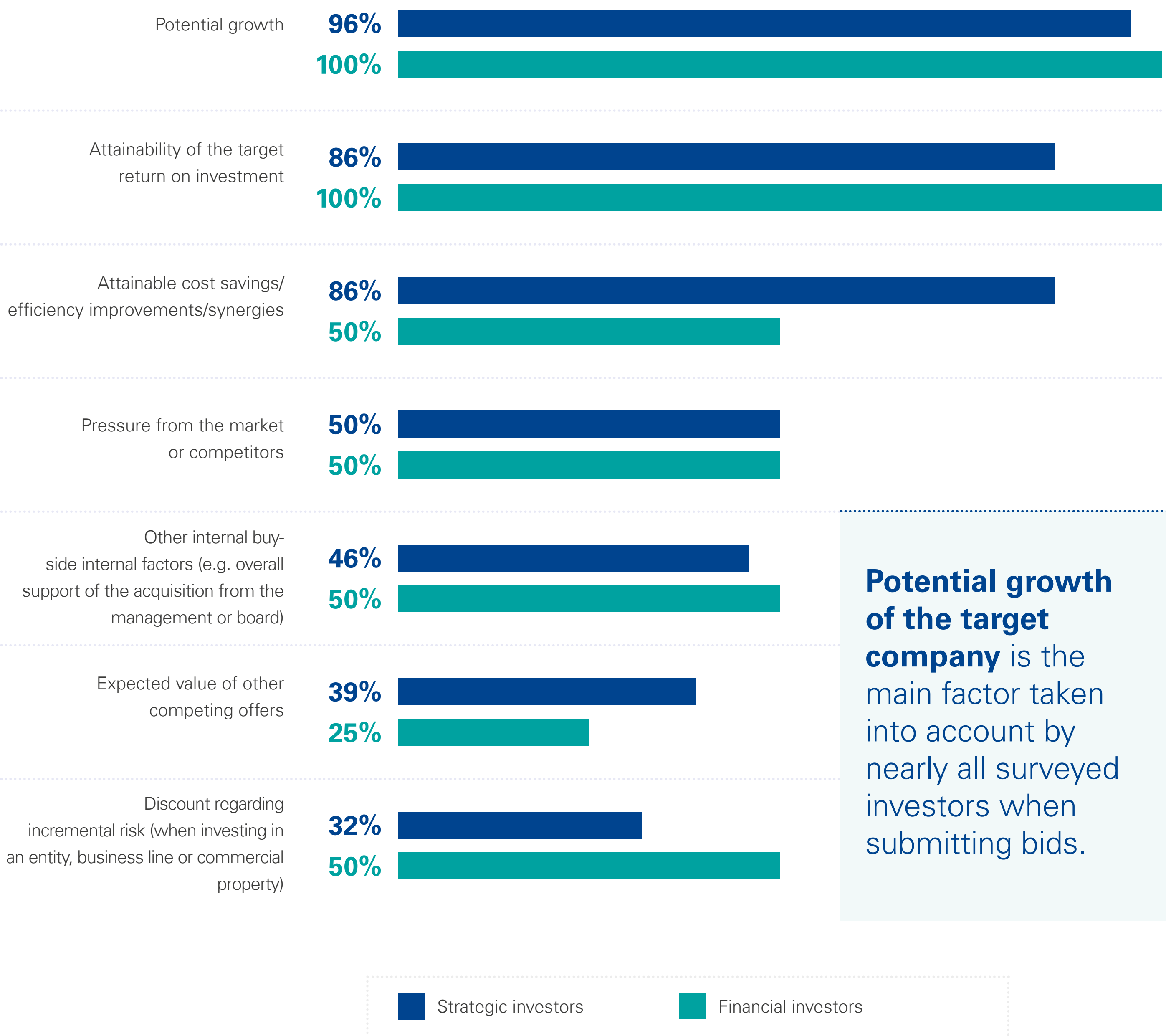
Main or typically considered investment drivers



Source: KPMG in Poland based on the KPMG survey. The respondents were allowed to select more than one answer.

When submitting a proposal to the seller, nearly all investors (regardless of type) attach the greatest importance to the growth potential of the target entity. For financial investors, the prospect of achieving the expected return on investment is equally important (100% of indications). Other motivations are less important to this group and were indicated by no more than a half of the respondents. On the other hand, when making a bid to buy a company, most strategic investors (86%) put emphasis on potential return on investment, as well as on improved efficiency and cost reductions.

Key factors considered when submitting a bid to buy a company



Potential growth of the target company is the main factor taken into account by nearly all surveyed investors when submitting bids.

Source: KPMG in Poland based on the KPMG survey. The respondents were allowed to select more than one answer.

> Given that nearly all the surveyed investors believe that the most important factors include the company's potential for growth and possibility to achieve the expected return on investment, the key analyses to be made before an investment decision are the proper analysis of the target company, the critical assessment of financial forecasts prepared by the seller and an assessment of the target entity's market prospects. These aspects are analysed by professional transaction advisors who work in close cooperation with the investor's project team.

Krystian Komosa
Associate Director,
Transaction services,
KPMG in Poland

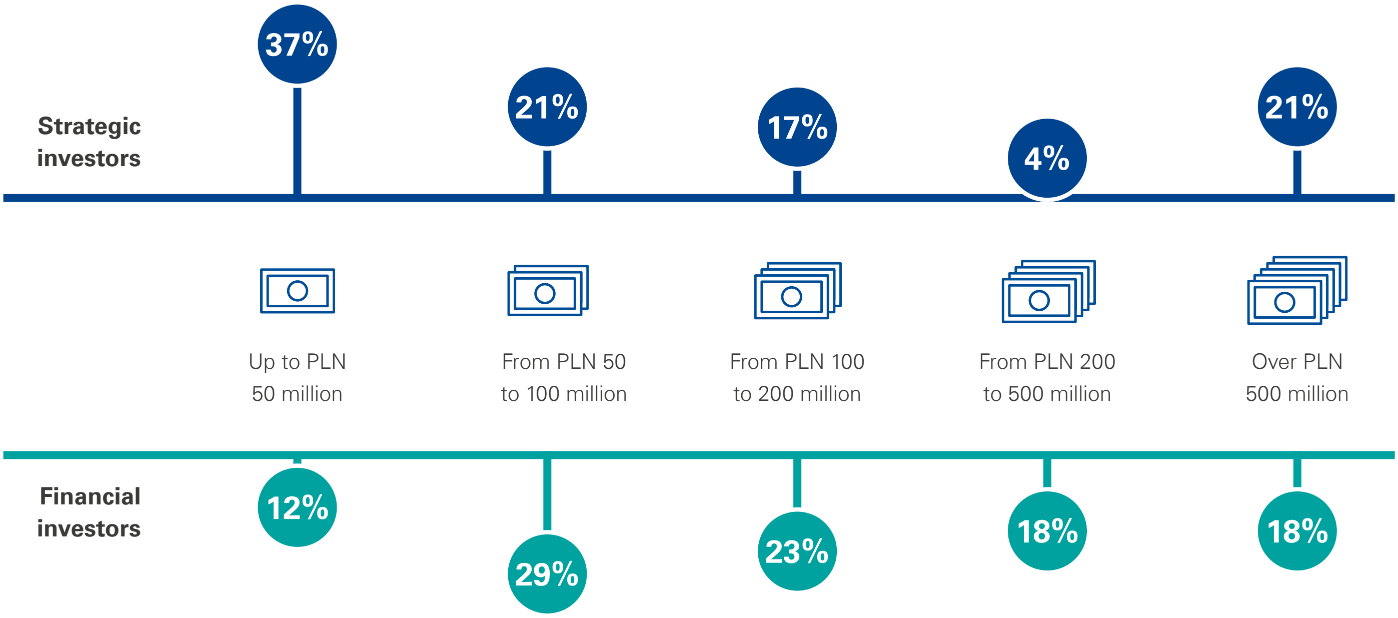
2. Typical transaction profile

Although investors sign and execute sale and purchase agreements (SPA) in various ways, our analysis has identified some common elements that exist in most transactions.

Investors indicated average transaction values and duration, methods of searching for attractive targets, as well as typical situations that occur during acquisitions. These characteristics may serve as an important benchmark for future transactions.

The average transaction values declared by the respondents are varied. Almost a half exceed PLN 100 million, while the largest ones, with a value of over PLN 500 million, represent a fifth of all transactions carried out by the respondents. Smaller transactions, below PLN 50 million, prevail among strategic investors. The surveyed financial investors are less likely to make investments of this scale. The average transaction value below PLN 50 million was indicated by only 12% of investors in this category, whereas 52% declared that the average transaction value in the last 3 years ranged between PLN 50 and 200 million.

Average value of transactions carried out by respondents in the last 3 years (together with the net debt taken over, i.e. *enterprise value*)



Source: KPMG in Poland based on the KPMG survey. This question was answered only by respondents who had completed at least one transaction in the last 3 years.

> Macroeconomic factors and the prospects of Poland's economy drive investors' interest in M&A transactions in Poland. Buyers' positive sentiment can be noticed in all segments of the M&A market in terms of transaction value.
>
> **Aleksandra Karasińska**
> Manager,
> Deal Advisory,
> KPMG in Poland

According to our respondents (40% of investors), the identification of acquisition targets based on their own resources is still a popular method to gather information about potential investment opportunities. A half of the surveyed financial investors use the support of a transaction advisor to search for acquisition targets, both by engaging an advisor to identify acquisition targets (14%) and by contacting advisors on the seller's side (37%). Strategic investors are more likely to use their own resources to identify acquisition targets (nearly a half of those surveyed), while only 1 in 3 strategic investors cooperate with a transaction advisor in this respect.

When asked about other ways of searching for potential acquisition targets, the surveyed investors pointed to the important role of direct relations with the sellers' management and board.

The most common methods used by investors to search for acquisition targets

Strategic investors		Financial investors
●	As a result of an internal identification and selection process	●
●	Being contacted by the seller's advisor	●
●	Direct contact from the seller	●
●	Through an advisor hired to identify potential targets	●

Source: KPMG in Poland based on the KPMG survey.

Thanks to relations with external advisors investors get up-to-date information on activity and trends in the M&A market, and do not need to engage their own team in searching for acquisition targets. Nearly a half of strategic investors, many of whom do not have a dedicated M&A team, use their internal resources to identify acquisition targets.

Thanks to a wide network of contacts, deal advisors are able to find information about attractive acquisition targets and effectively initiate discussions about a potential deal between the owners and the investor.

Aleksandra Karasińska
Manager,
M&A,
KPMG in Poland

As our survey shows, a transaction on the Polish market usually takes less than a year to complete. There is a clear correlation between the investor type and the time lapse from the first contact between the parties and a SPA being signed. The average time to completion for strategic investors is 9 months, i.e. 2 months longer than the time declared by financial investors. This difference may generally be due to the fact that strategic investors tend to be less experienced in closing deals, or have no external advisors, while financial investors tend to use such advisors to a greater extent.

8 months is the average time needed to close a deal and sign a sale and purchase agreement (SPA).

Average number of months needed to close an M&A transaction on the Polish market (from the first contact to signing a SPA)

	minimum	average	maximum
Strategic investors	5	9	14
Financial investors	3	7	11

Source: KPMG in Poland based on the KPMG survey.

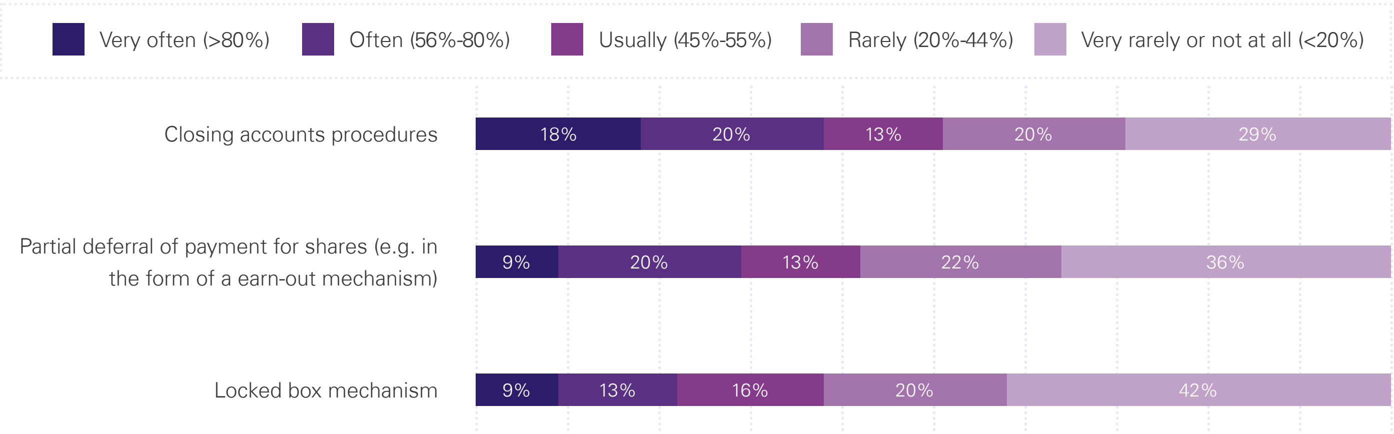
When signing a SPA, both parties to the transaction usually choose options that will not only ensure the profit, but also the security of the entire acquisition process. The experience of nearly 4 out of 10 respondents shows that the price was settled based on the closing accounts procedure in more than half of the transactions concluded. A similar share of the respondents claimed to have participated in competitive bidding processes over the last 3 years.

More than one in three respondents used partial deferral of payment for a stake in the target company to settle the transactions. This method of payment may be carried out e.g. with the use of the earn-out clause, which divides the total amount into tranches, with the first tranche being usually received by the seller immediately, and the remaining part depending on factors such as the company's performance or the time period specified in the agreement.

On the other hand, the so-called locked box mechanism is very popular among financial investors (more than one in three respondents used it in over 55% of cases). The main advantage of this method include the certainty of the price and the resulting quick settlement of the transaction.

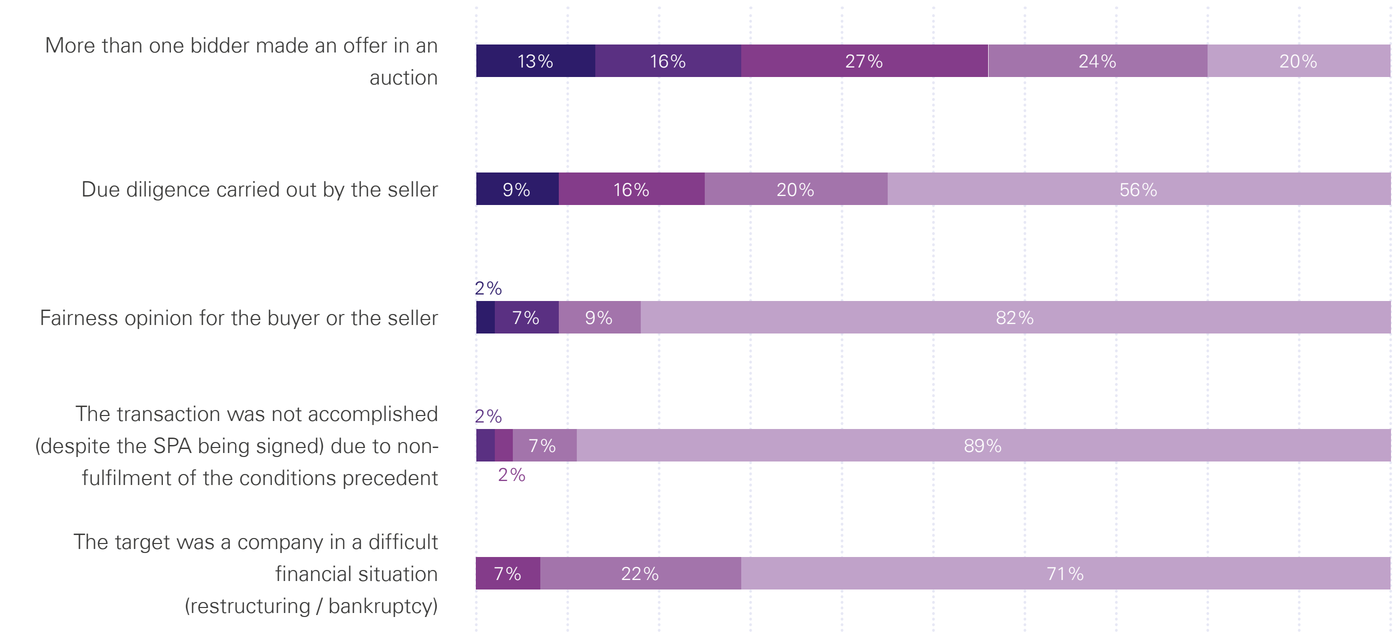
As regards the situations encountered by investors in the last 3 years, auctions seem to be particularly common. On the other hand, the least common situation was when the transaction was not closed despite the preliminary SPA having been signed. The survey has also shown that investors very rarely acquire companies that are in a difficult financial situation.

Percentage of transactions where the following price settlement methods were used (based on investors' experience over the last 3 years)



Source: KPMG in Poland based on the KPMG survey.

Percentage of transactions where the following situations occurred (based on investors' experience in the last 3 years)



Source: KPMG in Poland based on the KPMG survey.

The locked-box solution significantly reduces conflict situations in deal value settlement. The final price and, eventually, its interest adjustment mechanism is already known when the sale and purchase agreement (SPA) is signed. Moreover, the parameters influencing the price are already verified in the due diligence process. The locked box becomes less attractive if the period between signing and closing the deal is extended, thus increasing uncertainty about the company's performance till the closing. This situation may occur in the case of prolonged proceedings before the Polish antimonopoly office (UOKiK), especially concerning strategic players who increase market concentration through acquisitions. Strategic players seem to be also more concerned than financial investors about the deterioration of the company's value between the balance sheet date, used as a reference point, and the date when actual control is taken over (leakage in the locked-box mechanism).

Przemysław Rączka
Investment Director,
Resource Partners

The choice of settlement method between the parties is an individual thing and varies from one deal to another, and will depend on factors such as the number of potential investors, the transaction schedule and the attractiveness of the asset being sold, and these factors will translate into the parties' negotiating power. Given the features of both mechanisms, sellers will usually prefer the locked-box mechanism, while buyers will opt for the price adjustment mechanism.

Rafał Owczarek
Partner,
Transaction services,
KPMG in Poland

3. Reasons behind transaction failures

Regardless of the value of the transaction and the way it is conducted, investors are always faced with an enormous number of challenges.

Our survey has shown that the most common reasons why deals are not closed include not only discrepancies in price expectations but, above all, problems detected in the due diligence process.

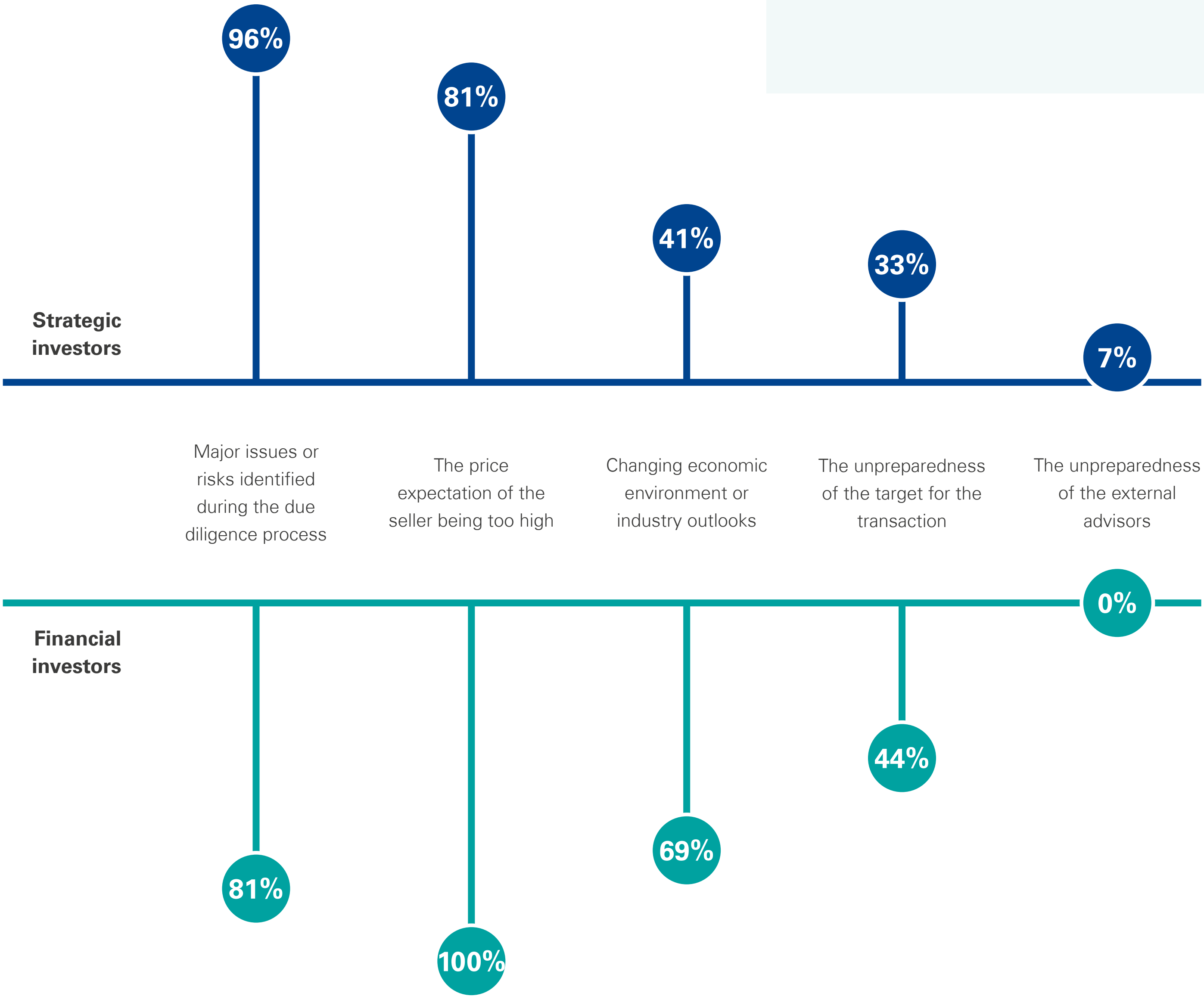
One in four respondents wants to improve the efficiency and quality of the analysis of the overall standing of the target company.

The reasons for withdrawal from the deal which were mentioned by the survey respondents may serve as guidelines on how to prepare and what to watch out for when executing mergers and acquisitions in the future.

When asked about the main reasons why deals are ultimately not closed, nearly all the respondents (90%) mentioned the excessive risks identified during the due diligence review. Almost as many investors (88%) complain about sellers' excessive price expectations. Nearly one in three strategic investors declared that they encountered this obstacle in all transactions. Moreover, financial investors often point out that deals are not closed due to the changing economic environment or the deteriorating prospects of the industry concerned.

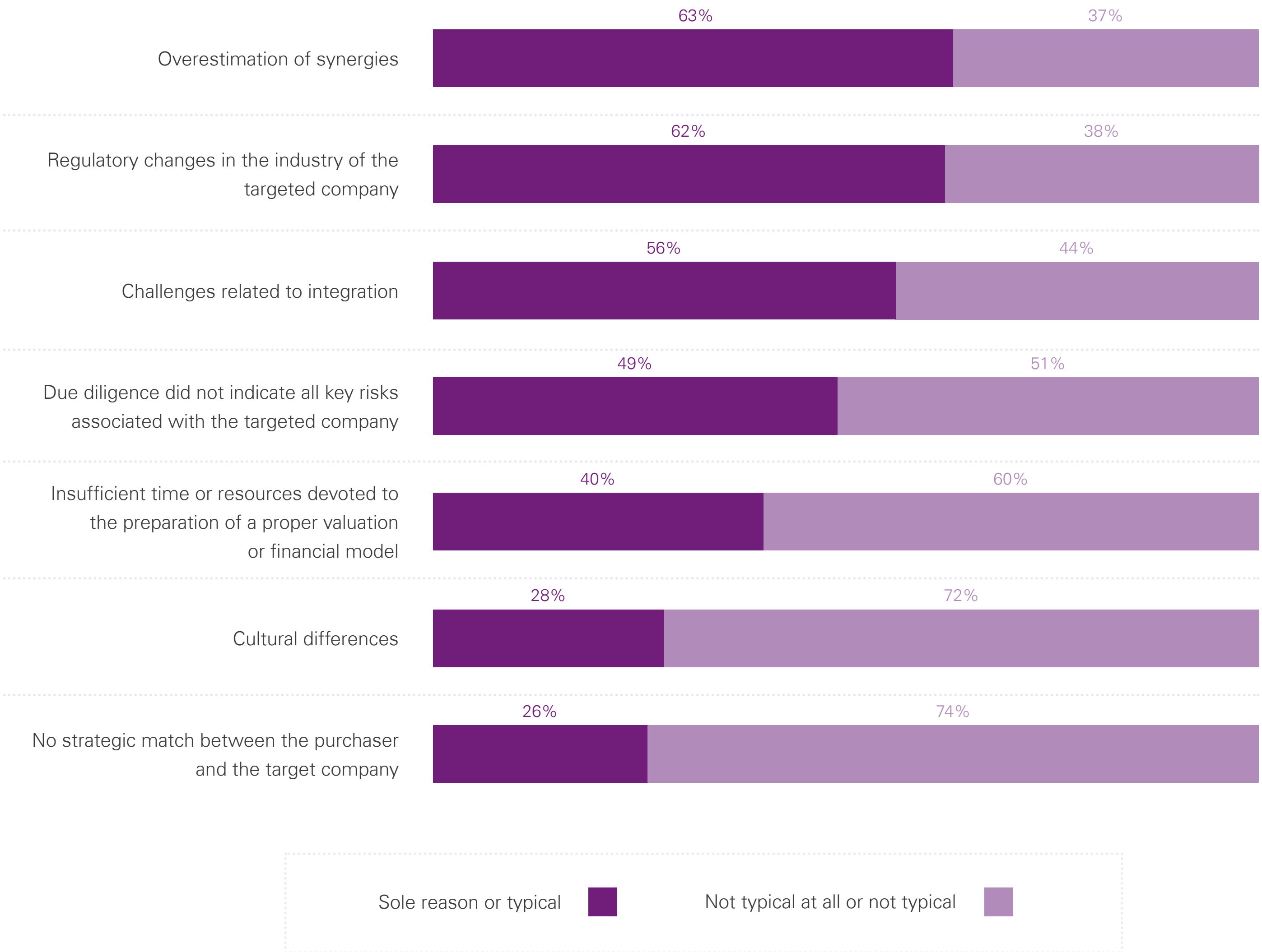
Significant **risks identified during the due diligence process** are the main reason why transactions planned by the surveyed strategic investors are not closed. In addition, all financial investors pointed **excessive price expectations** on the sellers' side as the main reason for non-closure.

Main reasons preventing transactions from being closed



Source: KPMG in Poland based on the KPMG survey. The respondents were allowed to select more than one answer.

Reasons why transactions do not yield the expected economic benefits



Source: KPMG in Poland based on the KPMG survey.

We also asked the respondents about the reasons why the closed deals bring lower economic benefits than expected. The most commonly identified problems were related to the overestimation of synergy effects and regulatory changes in the industry. Among financial investors, only 12% indicated that inaccurate due diligence process is responsible for inadequate gains in all transactions. On the other hand, 69% of strategic investors usually do not complain about the lack of strategic matching with the target company.

Achieving the expected return on investment is the key factor in assessing the outcomes of transactions for 88% of financial investors and 43% of strategic investors. This is not surprising since financial investors mostly seek to resell the target company at a profit. Strategic investors, in turn, strive to integrate the target company with their group, which is why they attach greater importance to achieving certain pre-determined key performance indicators (KPIs) and the absence of problems other than those identified during the analysis of the target company's standing.

Overestimation of synergies is the most common reason why transactions bring lower than expected economic benefits, as indicated by 63% of the surveyed investors.

The main risk areas that may prevent a deal from being closed are as follows:

- lack of significant growth potential,
- growth projections focused on a small number of clients (mainly B2B companies),
- no possibility to increase or maintain current margin levels,
- no resilience to macroeconomic cycles,
- no logic and no justification for adjustments made to normalise EBITDA, as proposed by the seller.

High price expectations often stem from the seller's ambitions, which are not always based on an analysis of similar companies. Even if sellers are willing to talk about valuation of comparable companies, it may turn out that there are no equivalents in this part of Europe. And even if comparable entities are found, there can be few or no precedent transactions or they are private companies for which there is no valuation-related information. Also, we often encounter sellers who have no understanding for arguments related to emerging market risks. As a result, even those sellers operating exclusively on the local market often unjustifiably compare their businesses with counterparts based in developed markets.

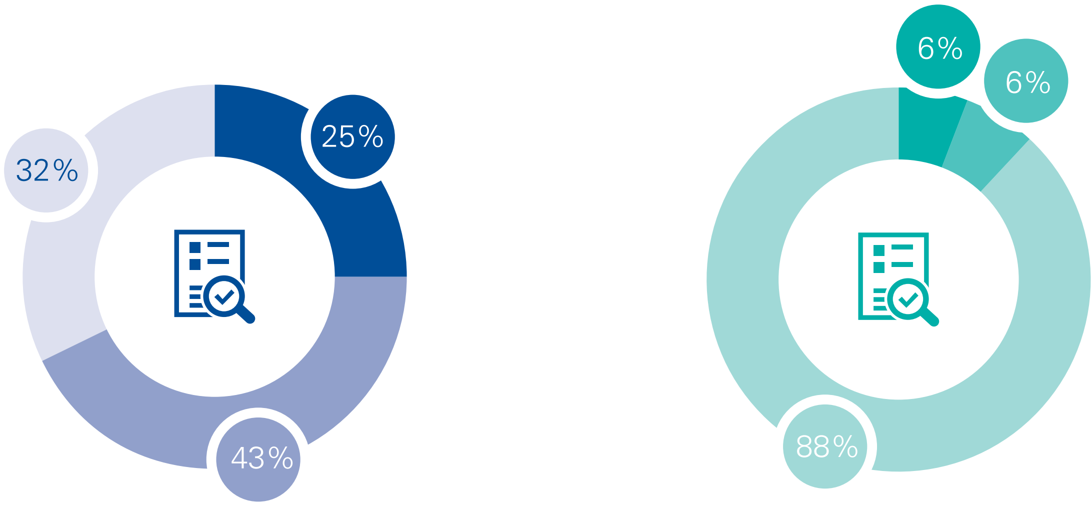
Milorad Anđelić
Partner,
Abris Capital Partners

The following factors offer a chance for the buyer to close the deal despite the sellers' high expectations:

- reliable estimation of the value of the target company, based on growth forecasts (income approach) and investors' perception of the sector (comparable companies' approach);
- precise modelling of cost and revenue synergies to be achieved jointly by the buyer and the target company, considering the risk that may be realised.

Tomasz Wiśniewski
Partner,
Valuations,
KPMG in Poland

The most important metrics for measuring the success of a transaction



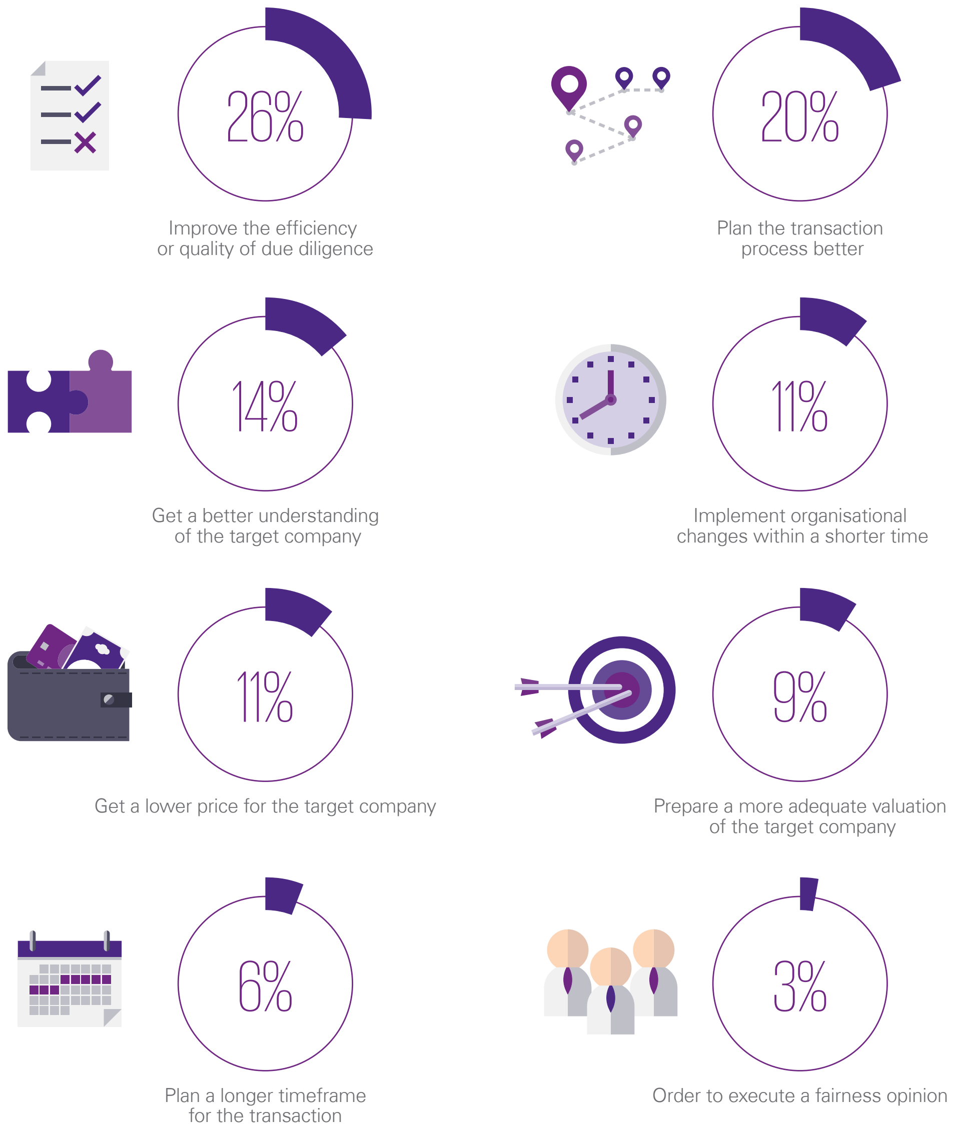
Strategic investors		Financial investors
●	No unexpected issues arising after the completion of the deal (other than those identified during the due diligence process)	●
	Satisfaction level of the buyer's chief executives and owners on the buyer's side	●
●	Achieving the pre-determined rate of return	●
●	Achieving the pre-determined KPIs or synergies	

Source: KPMG in Poland based on the KPMG survey.

60% of the respondents considered **achieving of the pre-determined rate of return** as the key metric of success of a deal.

Based on their own experience, investors shared their views on what they would like to change during subsequent transactions. Most of them indicated an improvement in the quality or efficiency of due diligence, more effective planning of the transaction process and a more in-depth understanding of the target company. Due diligence, considered more important by the surveyed strategic investors when assessing potential investments, is the main area to improve: as many as 40% of investors from this group expressed such an intention. Further, 20% of strategic investors said they would plan the transaction process better in the future while 15% would like to perform a more detailed valuation of the transaction target. Financial investors, who seek future profits from resale, primarily want to negotiate more attractive purchase prices (27% of mentions). Moreover, one in five financial investors said they would like to plan the transaction process better, get a better understanding of the target company and implement organisational changes within a shorter time.

Aspects that investors want to improve in subsequent deals



Source: KPMG in Poland based on the KPMG survey.

26% of all the surveyed investors plan to **improve the efficiency or quality of the due diligence process** when carrying out subsequent transactions

"We are going to devote more energy to a more in-depth examination of non-financial factors such as environmental, social and governance (ESG) to complement standard due diligence areas.

As far as deal planning is concerned, we will continue to ensure that the period of exclusivity is sufficient to conduct thorough due diligence in each of the areas examined."

Milorad Anđelić
Partner,
Abris Capital Partners

4. Role of transaction advisors

Independent and objective advice from advisors can facilitate and speed up the transaction process.

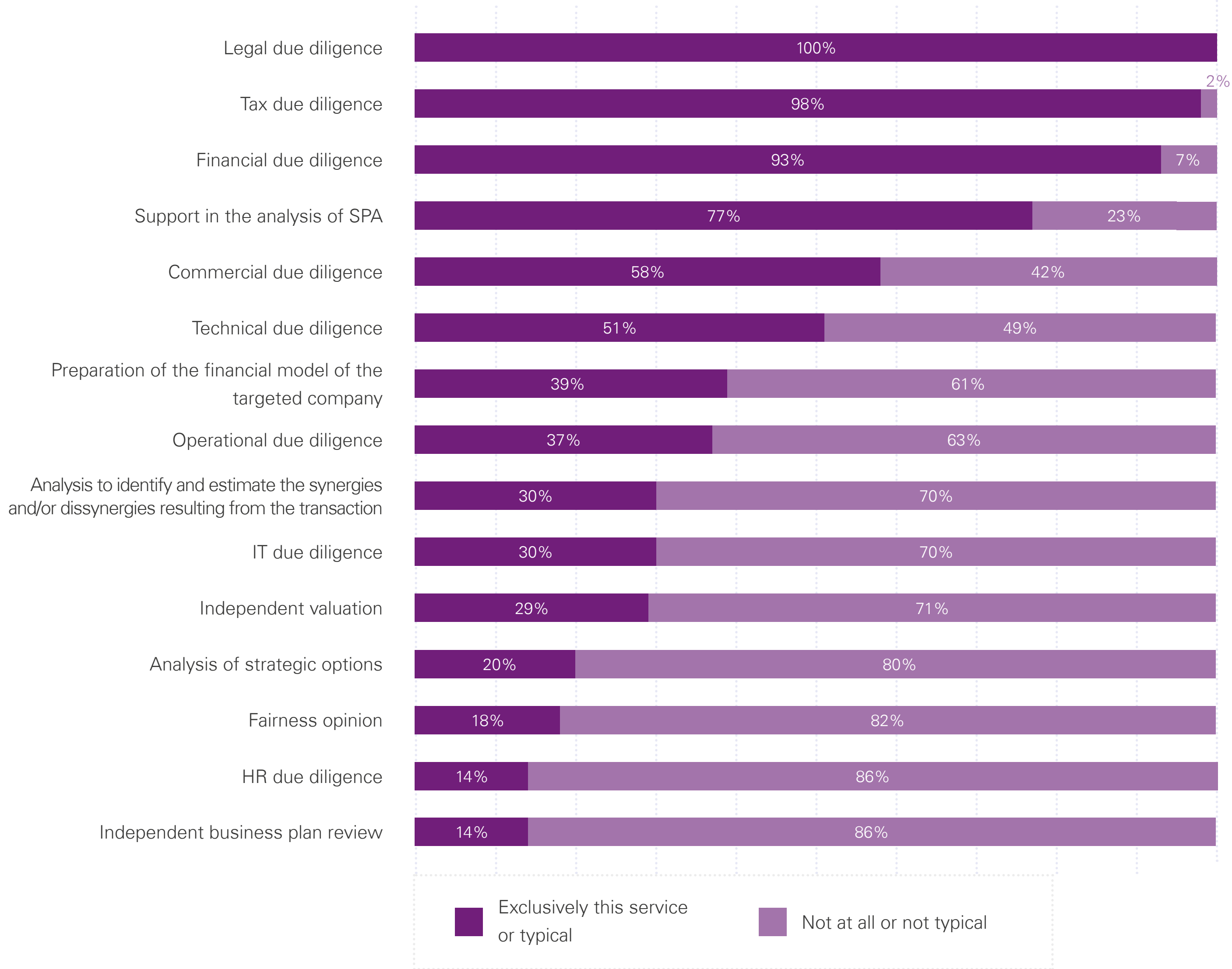
We asked the respondents about their experience in cooperation with external advisors. All the surveyed investors found the due diligence services performed in various areas to be the most useful element for transaction processes. It turned out that price is rarely the decisive factor while the experience of the project team is the most important factor when selecting advisors.

In the respondents' view, most problems arise due to advisors' lack of experience and insufficient industry knowledge.

The surveyed investors said that due diligence was the most useful service from their perspective. The most popular type is the legal due diligence, conducted to analyse the condition of the business partner from the legal perspective. This type of service was indicated by all the respondents. Moreover, all strategic investors and almost all financial investors (94%) considered tax review to be needed, usually or always. 93% and 94% of strategic and financial investors respectively considered financial due diligence to be necessary. Furthermore, over a half of all respondents consider commercial and technical due diligence to be important. The survey has shown that an independent opinion on the financial terms of transactions (fairness opinion) is more likely to be seen as useful by strategic investors (22% of mentions, compared to 12% among financial investors), while an independent business plan review was considered useful by a higher percentage of financial investors (18% versus 11% for strategic investors).

When asked about their preferences for advisory services, financial (59%) and strategic (64%) investors felt it is an advantage when the seller engages an external advisor to conduct a vendor due diligence. In addition, 38% of the surveyed investors, whether strategic or financial, prefer all advisory services for a specific transaction be provided by a single firm.

External professional support/services identified by investors as useful in the transaction process

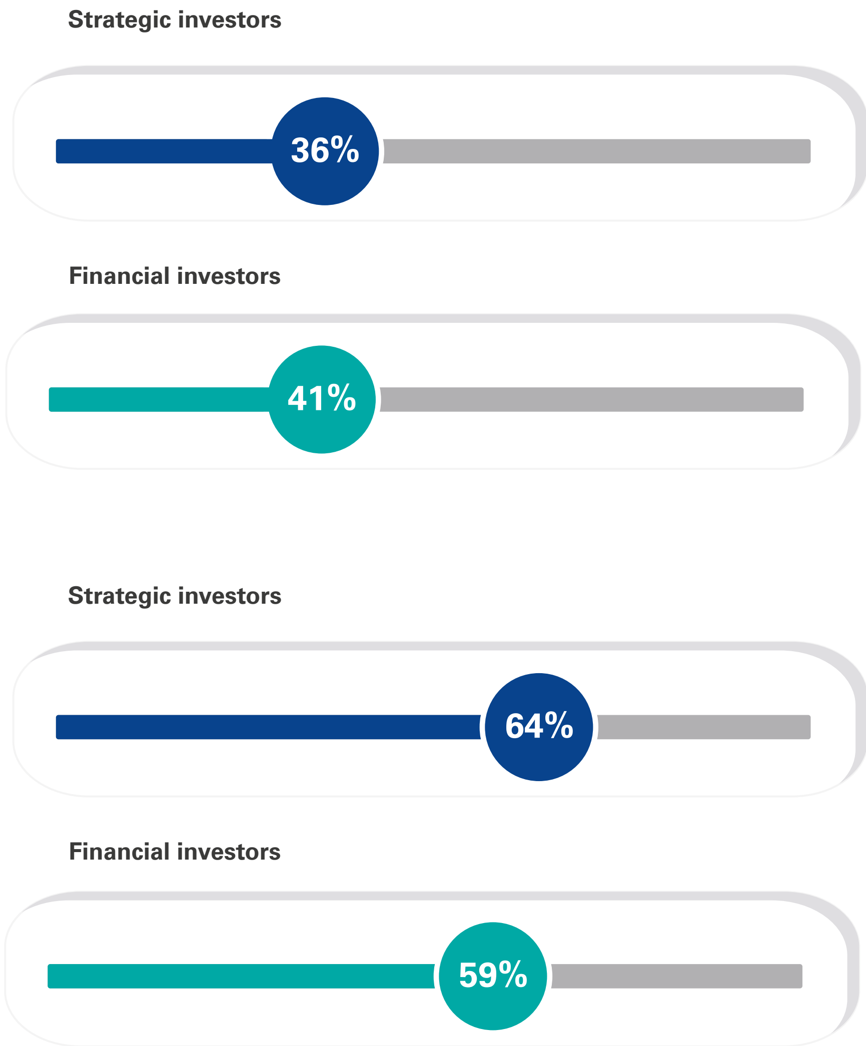


Source: KPMG in Poland based on the KPMG survey.

Investors' preferences for advisory services

Investors who prefer all services for a transaction to be provided by a single advisory firm

Investors who prefer the seller to engage a financial and tax advisor to carry out a vendor due diligence

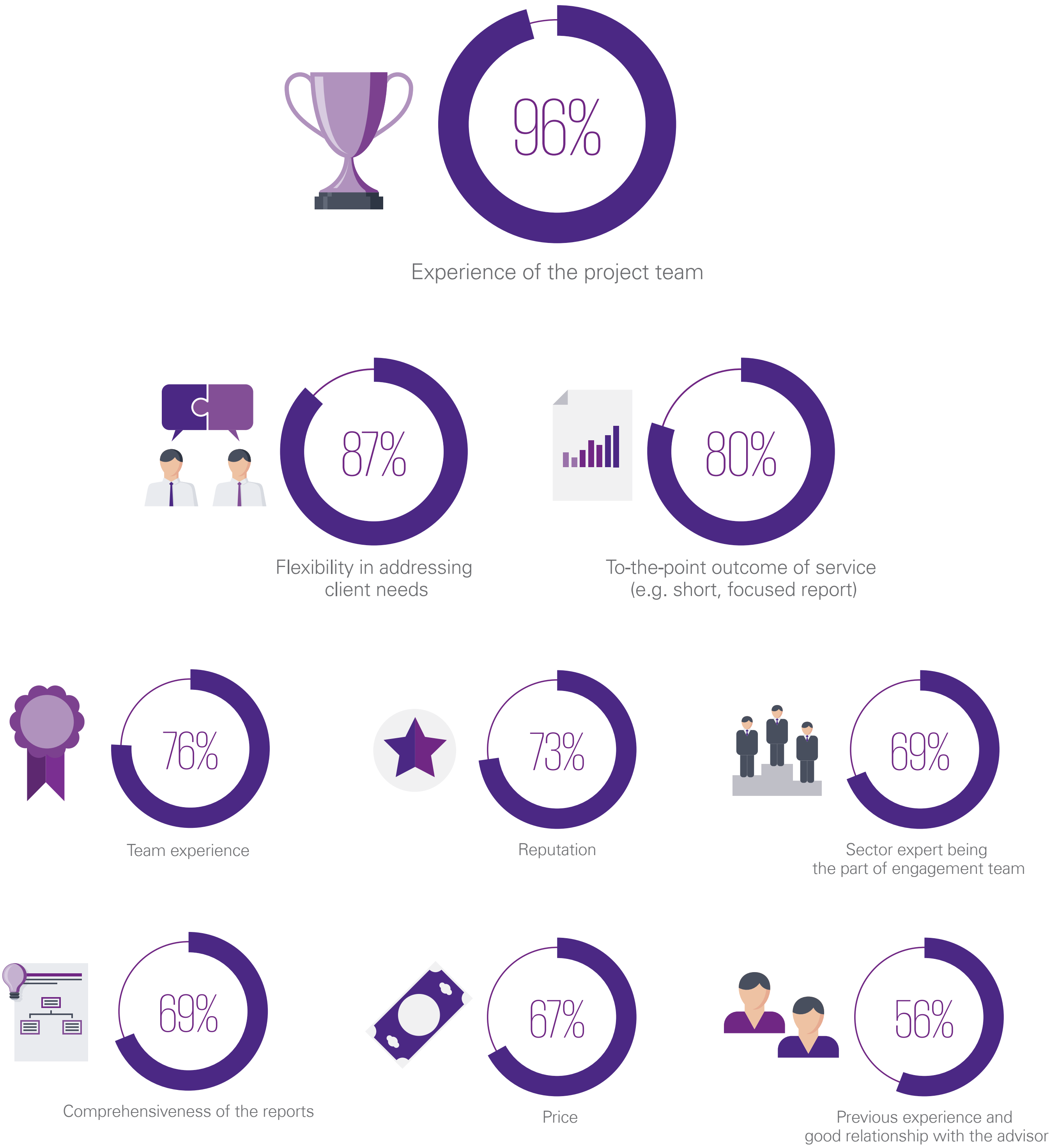


Source: KPMG in Poland based on the KPMG survey.

When choosing transaction support services, investors mostly consider advisors' experience and flexibility in addressing their needs. It turns out that the price of services is not always the key factor: it was indicated as important by 71% of strategic investors and 59% of financial investors. What matters most to strategic investors is the team experience, which translates into a focus on the most important issues while financial investors attach a greater importance to the firm's reputation and cooperation with industry experts.

62% of all surveyed investors consider it an advantage to have **vendor due diligence** carried out by the seller.

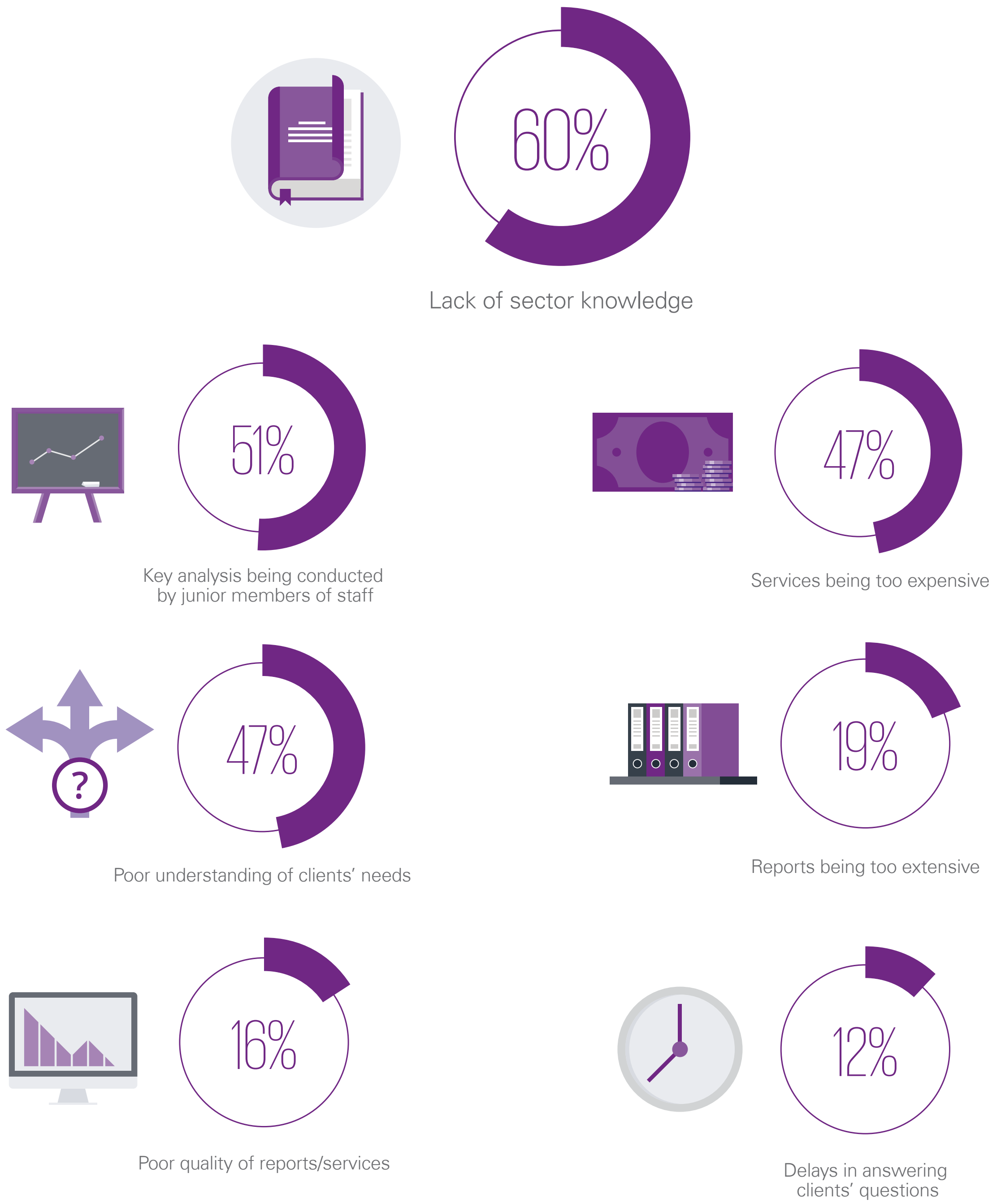
Factors important for all surveyed investors in the selection of transaction advisors



Source: KPMG in Poland based on the KPMG survey. The respondents were allowed to select more than one answer.

When asked about the main problems that may occur in cooperation with external companies, as many as 69% of the surveyed financial investors mentioned limited experience of project teams that conduct the analyses, while 67% of strategic investors complained about advisors' inadequate industry knowledge. Moreover, the lack of understanding of the client's needs was mentioned frequently: by a half of financial investors. An overly high price of services was emphasised by 48% of strategic investors. The time taken by advisors to answer clients' questions was the least mentioned problem, with only 12% of respondents complaining about it.

Main problems in cooperation with transaction advisors



Source: KPMG in Poland based on the KPMG survey. The respondents could choose up to 3 answers.

Strategic investors often talked about advisors' insufficient industry and sector knowledge. However, it should be noted that an advisor will not be able to match the strategic client's sector knowledge in most cases, due to the nature of the deal advisor's profession. The key to successful cooperation in this area should lie in close cooperation and good communication between the advisor's project team and the strategic investor's representatives who have such knowledge.

When projects are carried out for financial investors, the perfect solution is when a deal advisor works closely with industry experts. The support of such a person to the project team adds a significant value to market, operational and financial analyses, and shares knowledge with the investor team, helping them to get a better idea of the contemplated investment.

Krystian Komosa
Associate Director,
Transaction services,
KPMG in Poland

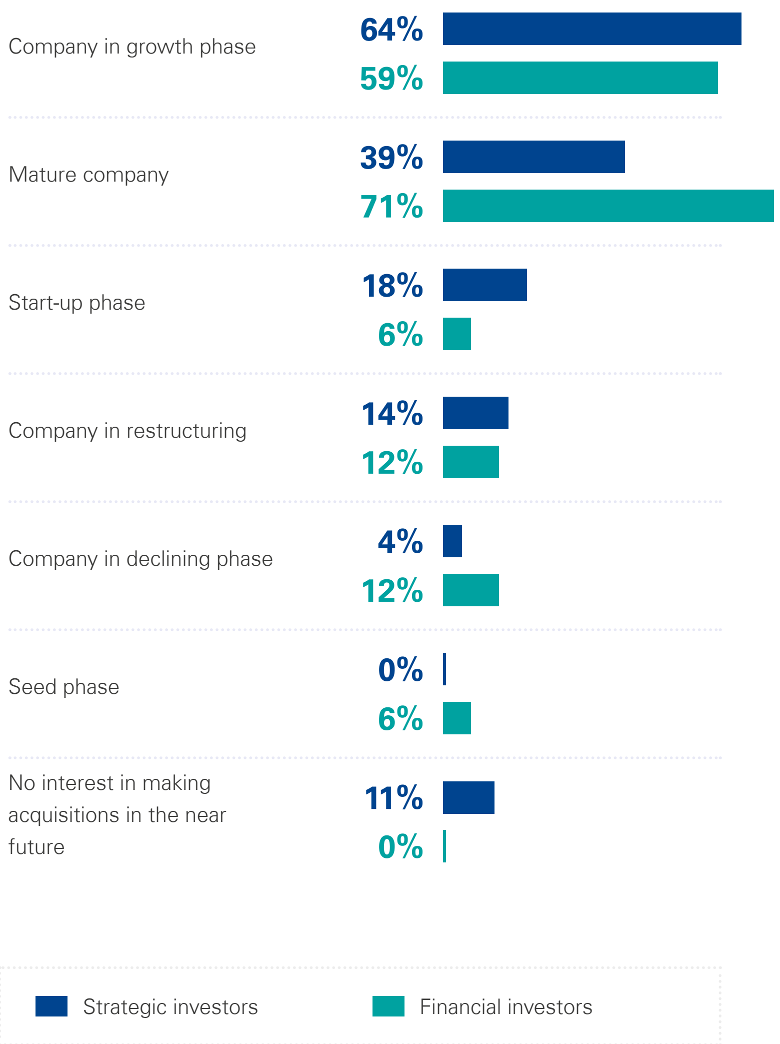
5. New trends in the M&A market

In the survey conducted by KPMG in Poland, strategic and financial investors were asked about their predictions regarding the developments on the Polish M&A market in the next 12-18 months. It turned out that the majority of respondents did not expect any significant changes in the number and average value of transactions. Also, investors did not show any willingness to take the risk of investing in start ups or companies in a difficult financial situation in the near future.

IT was considered to be the most attractive sector of the economy. The respondents also see a considerable potential for acquisitions in the healthcare sector.

The largest percentage of all the respondents indicated that they would be interested in mature and growing companies in the coming year. Acquisitions of the former type of business were preferred by as many as 71% of financial investors. On the other hand, 64% of strategic investors were interested in acquiring companies in the growth phase. Thus, a rather cautious approach can be noticed. Merely 13% of all investors plan to acquire start-ups, with strategic investors being three times as likely than financial investors to consider such options. Companies in restructuring are of interest for 14% of strategic investors and slightly fewer financial investors (12%). The risk of investing in companies at the initial stage of development (seed phase) was contemplated by only 2% of all the surveyed companies, with no strategic investors selecting this option.

Types of business that investors will be interested in acquiring in the next 12 months



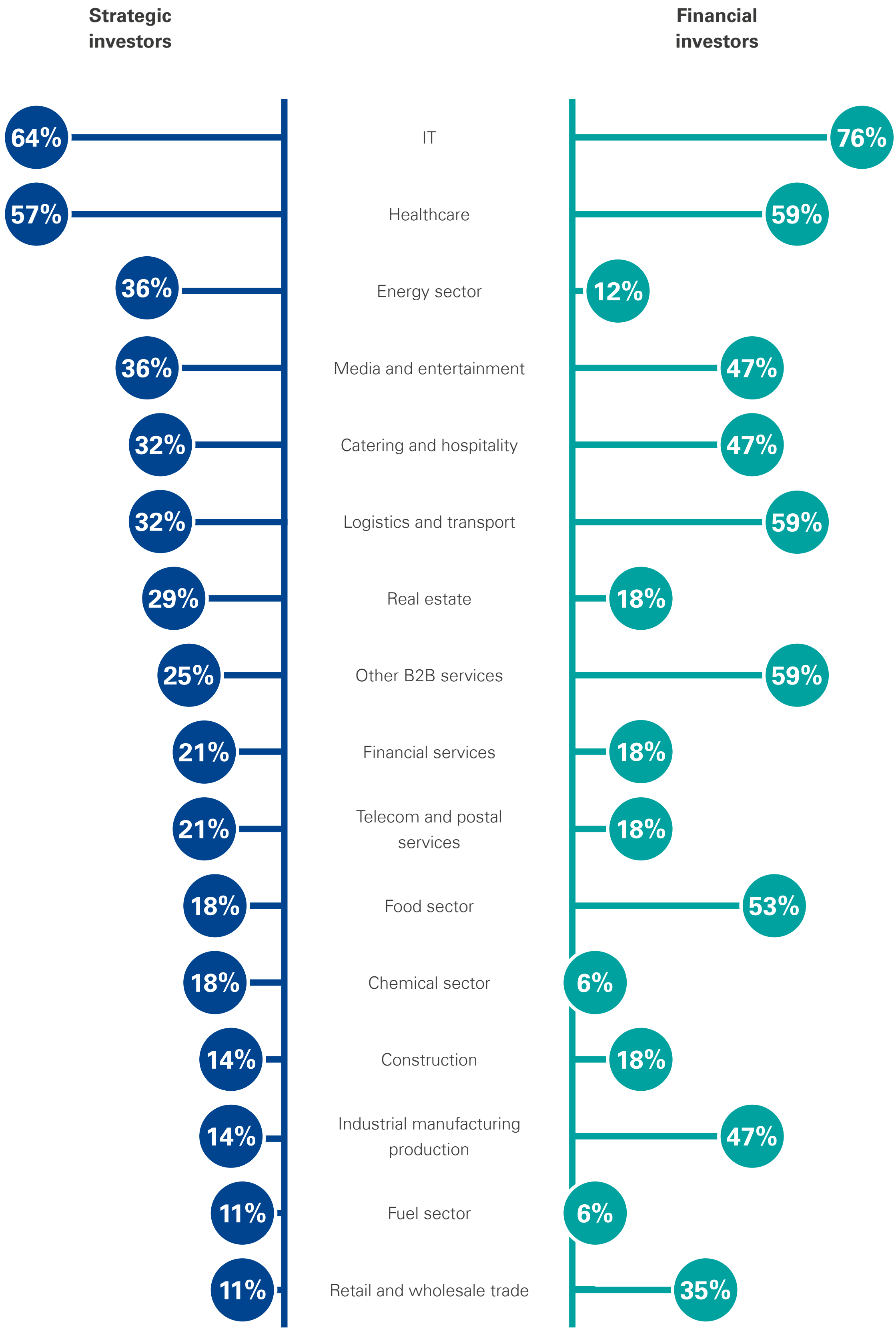
Source: KPMG in Poland based on the KPMG survey.
The respondents were allowed to select more than one answer.

These days, everyone is waiting for a market correction. Nothing like this has happened since 2007–2009, i.e. the economic crisis. Hence, in expectation of a downturn, investors become more risk-averse and look for instruments that provide more certain returns. It is rational to look for growing yet profitable businesses with a well-established market position. Importantly, it is not only start-ups that can generate above-average rates of return, and, statistically speaking, they are far less likely to do so. Companies with an established market position can leverage positive market trends, such as the digital transformation, and they also have the opportunity to implement much more advanced strategies, such as market consolidation through an acquisition-based growth strategy. Such transactions are characterised by a much higher risk-adjusted return.

In addition, we note that the market of start-ups and venture capital companies has seen an overall inflation in valuations in recent years: such valuations are not supported by business fundamentals, especially in financial terms. While valuations in other market segments have also increased, this has often been justified by their appealing operations, supported by performance and financial ratios. For this reason, we also see more sense in acquiring and developing companies in the mature growth phase.

Krzysztof Konopiński
Partner, MCI,
Private Equity Managers S.A.

Industries considered by investors to be most attractive for M&A transactions in the near future (1–1.5 years)



Source: KPMG in Poland based on the KPMG survey. The respondents were allowed to select more than one answer.

The highest percentage of investors (69%) believed that the IT sector was the most attractive one for M&A transactions in the next several months. Moreover, 58% of them indicated the healthcare sector as promising, with 59% of financial investors indicating logistics and transport in this context.

Strategic investors are favourable about the energy sector as well as media and entertainment. All investors considered the fuel sector to be the least attractive sector for mergers and acquisitions in the near future.

Industries that all the surveyed investors considered to be the most attractive ones for M&A transactions in the coming several months

IT	Healthcare	Logistics and transport	Media and entertainment	Other B2B services	Catering and hospitality
69%	58%	42%	40%	38%	38%

"

Low attractiveness of the energy sector for financial investors results primarily from the high degree of regulation and political risk. The government views this sector as strategic and sends a clear message that it wants to remain a major player in this market. Renewable energy sources could attract a greater interest from financial investors in the future, however this would require changes in the current regulations. Retail, on the other hand, is under strong pressure of rapidly growing operating costs. The restrictions of trade on Sundays and the migration of non-food categories to the online channel bring additional challenges to the sector. Moreover, there are already established market leaders in the retail sub-sectors and for most of them, acquisitions delivering a growth equal in value to a few months of organic expansion make little sense.

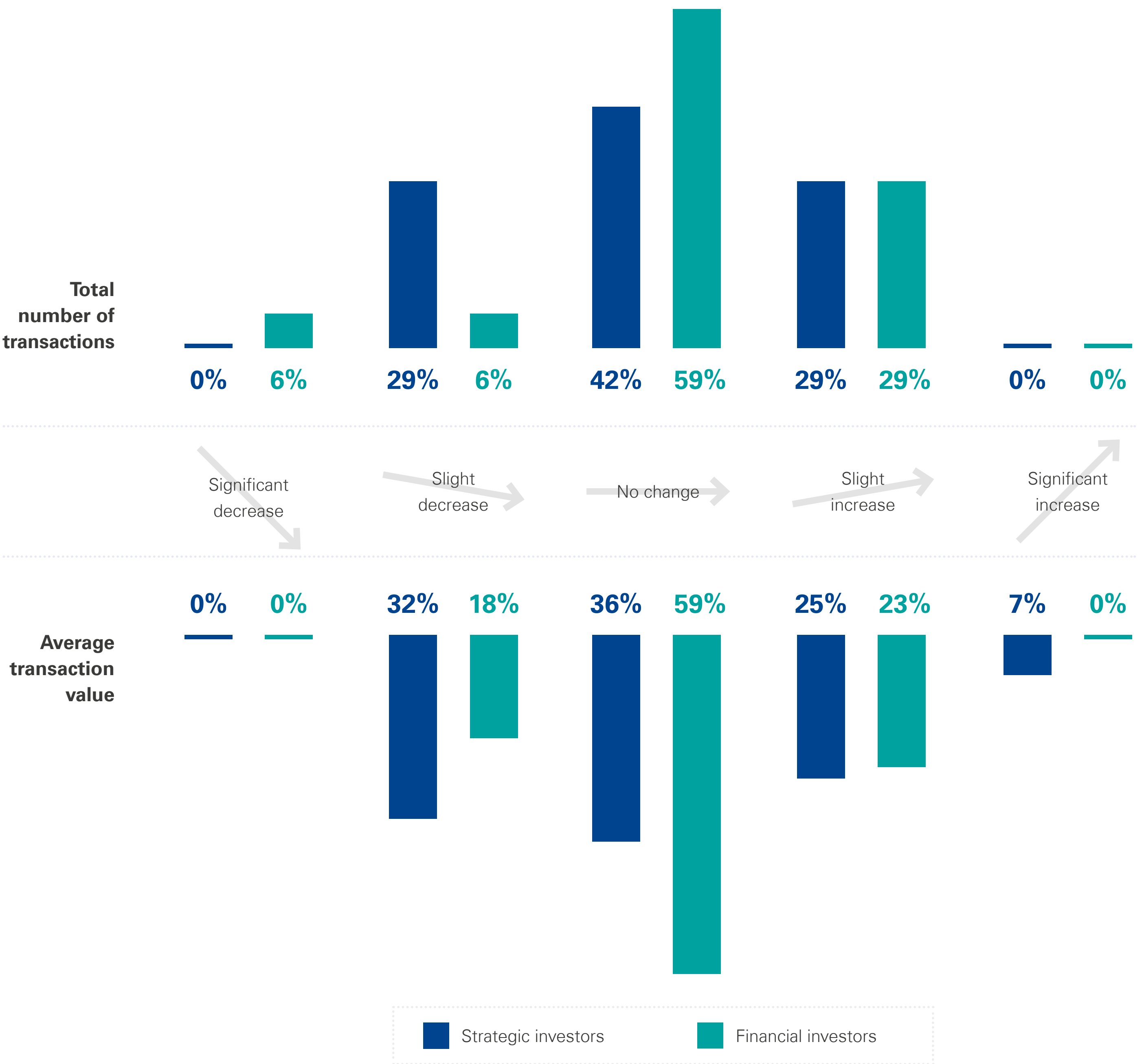
We also see attractiveness of the IT sector, especially in the digitisation of existing business processes. Strong payroll pressures and limited availability of qualified staff are an additional catalyst for companies to spend money on IT and automation, as both are seen as remedies for those problems. Moreover, IT solutions can be relatively easily exported, which opens great opportunities for scalability within a relatively short time.

Przemysław Rączka
Investment Director,
Resource Partners

"

When asked to forecast the market growth in the near future, nearly a half of the surveyed investors believed that both the number of transactions and their average value would remain unchanged. The surveyed investors do not expect any significant increases or decreases in these areas. An increase in the number and value of acquisitions is thought to be somewhat more likely (a single-digit difference in percentages).

Predicted total number and average value of M&A transactions on the Polish market in the near future (12–18 months)



Source: KPMG in Poland based on the KPMG survey. This question was answered only by respondents who had completed at least one transaction in the last 3 years.

The number of transactions both in Poland and in the entire region of Central and Easter Europe has been relatively stable for several years. Looking at the last five years, the number of transactions in the CEE has been around 2,000 per year (source: CMS). As regards Polish domestic market, we can certainly say that our country is among the most important markets in the region. The year 2018 brought 323 transactions, which accounted for over 15% of all transactions in the region. We can already see that 2019 will be even better, with the number of transactions growing by 11% compared to the respective period of the preceding year. These markets are typical examples of the so-called 'mid-market', where the majority of transactions take place in the SME segment.

The average transaction value also remains stable. The last three years show that it has been approx. EUR 30–40 million, which is on average a few million euro more than in 2014–2015 (source: CMS). Of course, the statistics are occasionally overstated by the mega deals, such as Allegro or Żabka recently, which add a bit of excitement to the markets. Nothing of that kind is expected when we look at potential transactions in the upcoming year. Apart from economic growth, the market could grow faster thanks to a local capital base, with Polish and regional institutions investing in private equity funds. Unfortunately, we currently have a shortage of such tools, especially when it comes to investments in mature companies, and the share of private equity investments as a percentage of GDP in our part of Europe is significantly below the Western European average. Nevertheless, we hope that the current status quo will change and the Polish and regional M&A market will be able to develop even faster in the coming years, both in terms of the number and the value of deals.

Krzysztof Konopiński
Partner, MCI,
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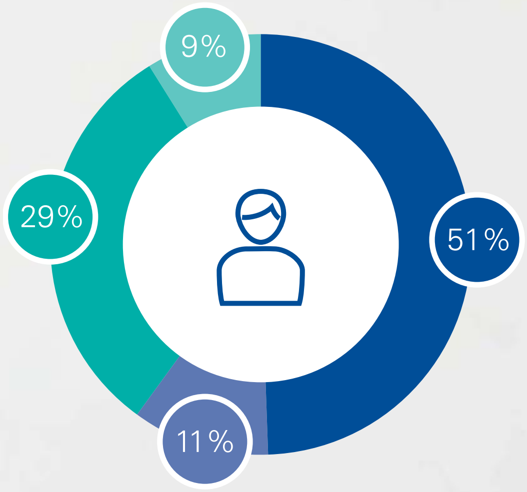
Methodology

The survey on the capital transactions market in Poland was conducted using the CAWI method (Computer Assisted Web Interviews) on a group of 45 respondents. The respondents came from companies characterised as strategic or financial investors. The survey was conducted from August to September 2019 by KPMG in Poland.

Respondent profile



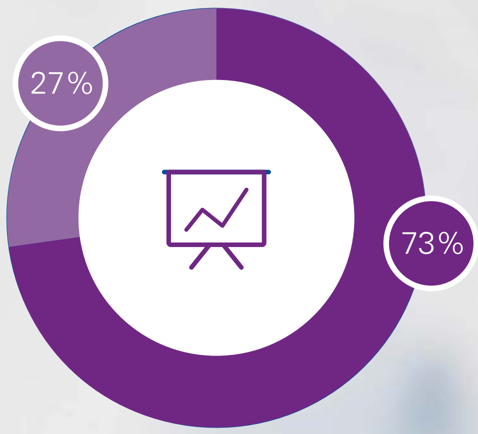
Strategic investors

- Private
- With a controlling interest of the State Treasury

Financial investors

- Private equity funds
- Other entities

Respondents' presence on the Warsaw Stock Exchange (WSE)



- Not listed on the Warsaw Stock Exchange
- Listed on the Warsaw Stock Exchange

Source: KPMG in Poland based on the KPMG survey.

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