M&A processes in Poland

Transactions in a new reality

2023 Edition | kpmg.pl

Contents

Introduction

We are pleased to present the latest study by KPMG in Poland, which aims to characterize the country's M&A market. Poland ranked first in Central & Eastern Europe in both the number and value of M&A deals between 2020 and 2022. We asked investors to identify the main factors they consider when choosing an acquisition target, how they carry out deals, and how they think the market will look in the near future. Another key aspect covered in the survey was the impact of the economic shocks of the past couple of years on the Polish economy and the conditions for capital transactions in the country.

The results of the survey demonstrate that in the tough new economic reality—after the Covid-19 pandemic, with a war underway across our eastern border, and in the face of high interest rates—the Polish M&A market is growing and attracting unflagging interest from investors, who, after a temporary crisis, quickly returned to their previous level of activity. We have identified a set of major challenges for the market, similar to what we faced before the pandemic. The barriers mainly relate to the quality of financial data, differences in valuation of targets, the lengthiness of transaction processes, and problems with post-closing integration.

New challenges emerging in the M&A market include uncertainty about how Poland's economic situation and geopolitical position will evolve, as well as the instability of laws governing regulated markets (e.g. renewable energy). This is an increasingly common cause of divergence between the expectations of investors and sellers in valuation of the deal, as well as representations and warranties in contracts. Investors point to the growth of new communications, data transmission and processing technologies increasingly facilitating M&A transactions. But professional advisors and M&A consultants continue to play an essential role, and indeed face increasing expectations for project management and sector-specific knowledge of targets.

We would like to sincerely thank all of the representatives of companies who took part in the survey. We hope that readers will find many interesting insights in the report, and that the experiences and predictions of our respondents offer valuable guidance.

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Key findings

In Poland,
more than 340 M&A transactions
were carried out in 2022—the highest level in a decade.

The main investment motive
for strategic investors is acquisition of a customer portfolio, distribution channel, or product/service portfolio. For financial investors, the key motives are profit on the planned resale and industry consolidation within their investment portfolio.

An internal process of identifying and selecting potential investment targets
is the most common way investors search for acquisition targets.

The main
reason for walking away from a contemplated transaction
is that the seller's expectations are too high, according to both strategic and financial investors.

According to the investors surveyed, it is common for the parties to agree to
a cap on the seller's liability for breaches of rep and warranties
(other than in respect of title to shares) of less than 50% of the sale price.

Both financial and strategic investors believe that
a professionally planned and executed change management process
could significantly improve integration post-closing.

The most important factor in evaluating the effects of the transaction from the buyer's point of view is
achievement of the projected rate of return.

Key findings

Investors indicated that **the Covid-19 pandemic** had the most negative impact on the tourism, catering and hospitality industries.

In the face of crises and many changes in the economic environment, **there is growing importance of the quality of managers** and the availability of employees with relevant industry experience in the labour market in adapting the company to unpredictable events.

According to the investors surveyed, **the war in Ukraine** has had the most negative impact on the fuel and energy industries over the past year, with **high energy prices** hampering primarily the manufacturing and industrial processing and transport and logistics sectors.

Based on the interest expressed by investors, we can expect to see **the most deals** in the coming months in technology, e-commerce, IT, healthcare, and renewable energy.

New technologies are the sector seen as the most attractive for capital investment, according to both strategic and financial investors.

Mature and growth-stage companies are the most attractive targets, as perceived by investors.

The introduction of new technologies into transaction processes **has significantly improved communication** between parties, provided better accessibility to databases, and increased the security of using such tools.

Polish transaction market in figures

The value of the Polish equity M&A market in 2022 was **PLN 74.9 billion (EUR 16 billion)**,[1]
compared to PLN 47 billion (EUR 11 billion) in 2019.

There were an estimated **341 M&A deals** in 2022,[2]
up from 179 in 2019.

The Office of Competition and Consumer Protection approved **327 mergers and acquisitions** in 2022,
versus 261 in 2019.

The estimated value of the largest deal announced in 2022 in Poland was close to **PLN 29 billion** (paid by PKN Orlen to acquire PGNiG),
as against PLN 5 billion in 2019 (paid by PFR, PSA International and IFM Investors for DCT Gdańsk).

The annual value of private equity investments in Poland reached **PLN 2.1 billion (EUR 443 million) in 2022**[3] — 30% less than in 2021,
while in 2019 it was PLN 2.5 billion.

[1] "Emerging Europe M&A Report" 2022/2023 and 2019/2020 (CMS in collaboration with EMIS).
[2] Data from Navigator Poland and Fordata.
[3] "Central and Eastern Europe Private Equity Statistics Report" 2020 and 2023 (Invest Europe in cooperation with Guide).

Foreign direct investment (FDI) in Poland in 2022 was **PLN 118.7 billion,**[4] *as compared to PLN 51.9 billion in 2019.*

In the CEE region, Poland ranked **1st** in 2020–2022 in terms of both the number and value of M&A transactions.[5]

Key macroeconomic indicators for Poland 2019–2022

	2019	2020	2021	2022
CPI inflation	2.3%	3.4%	5.1%	14.4%
Registered unemployment rate (year-end)	5.2%	6.8%	5.8%	5.2%
Real GDP growth (y/y)	+4.5%	-2.0%	+6.9%	+5.1%

Source: Statistics Poland (GUS).

Despite the global economic turmoil caused by the Covid-19 pandemic and the war in Ukraine, in 2019–2022 the Polish M&A market remained at the forefront of the CEE region in terms of the number of deals and their value. The data show that in the analysed period, the number of transactions carried out increased by 91% and the value of the market by 59%. In 2022, the Office of Competition and Consumer Protection (UOKiK) approved 66 more transactions than in 2019, and the value of FDI more than doubled during this period.

4 National Bank of Poland data.
5 Mergermarket data (transactions over USD 5 million).

Top 10 M&A transactions in Poland*

(January 2022 – June 2023)

	Target	Purchaser (country of origin)	Amount (PLN billion)	Description
1.	**PGNiG S.A.**	PKN ORLEN S.A. (Poland)	31.0	The merger of these companies was part of the process of consolidating the fuel and energy sector involving Orlen, Lotos and PGNiG. This merger of three large state-owned energy companies created the largest company in Poland.
2.	**Grupa Lotos**	PKN ORLEN S.A. (Poland)	15.1	
3.	**UPC Polska Sp. z o.o.**	Play Communications S.A. (Poland)	7.0	Mobile network operator Play acquired 100% of Liberty Global's shares in UPC Poland. Rebranding took place about a year after the transaction was finalized.
4.	**CEDC International Sp z o.o.**	Grupa Maspex (Poland)	3.9	By acquiring CEDC International and its subsidiary B2B Wine & Spirits, Maspex Group added leading spirits brands such as Żubrówka, Soplica, Absolwent and Bols to its portfolio. Maspex also became a distributor of Carlo Rossi and Barefoot wines, as well as several brands of other coloured spirits.
5.	**417 service stations owned by Lotos Paliwa sp. z o.o.**	MOL Hungarian Oil & Gas PLC (Hungary)	2.4	PKN Orlen signed a contract with MOL Hungarian Oil & Gas for the sale to MOL of 100% of its shares in Lotos Paliwa (417 fuel stations), which manages the Lotos fuel station network, in implementation of the remedies imposed in the European Commission's conditional approval of PKN Orlen's acquisition of control of the Lotos Group.
6.	**Emitel S.A.**	Cordiant Digital Infrastructure Ltd. (UK)	1.9	Cordiant Digital Infrastructure and Astatine Investment Partners finalized a deal in which the London-listed fund acquired 100% of Emitel, a leading terrestrial broadcast network operator and one of the key players in the telecommunications infrastructure market in Poland.

* excluding the real estate market

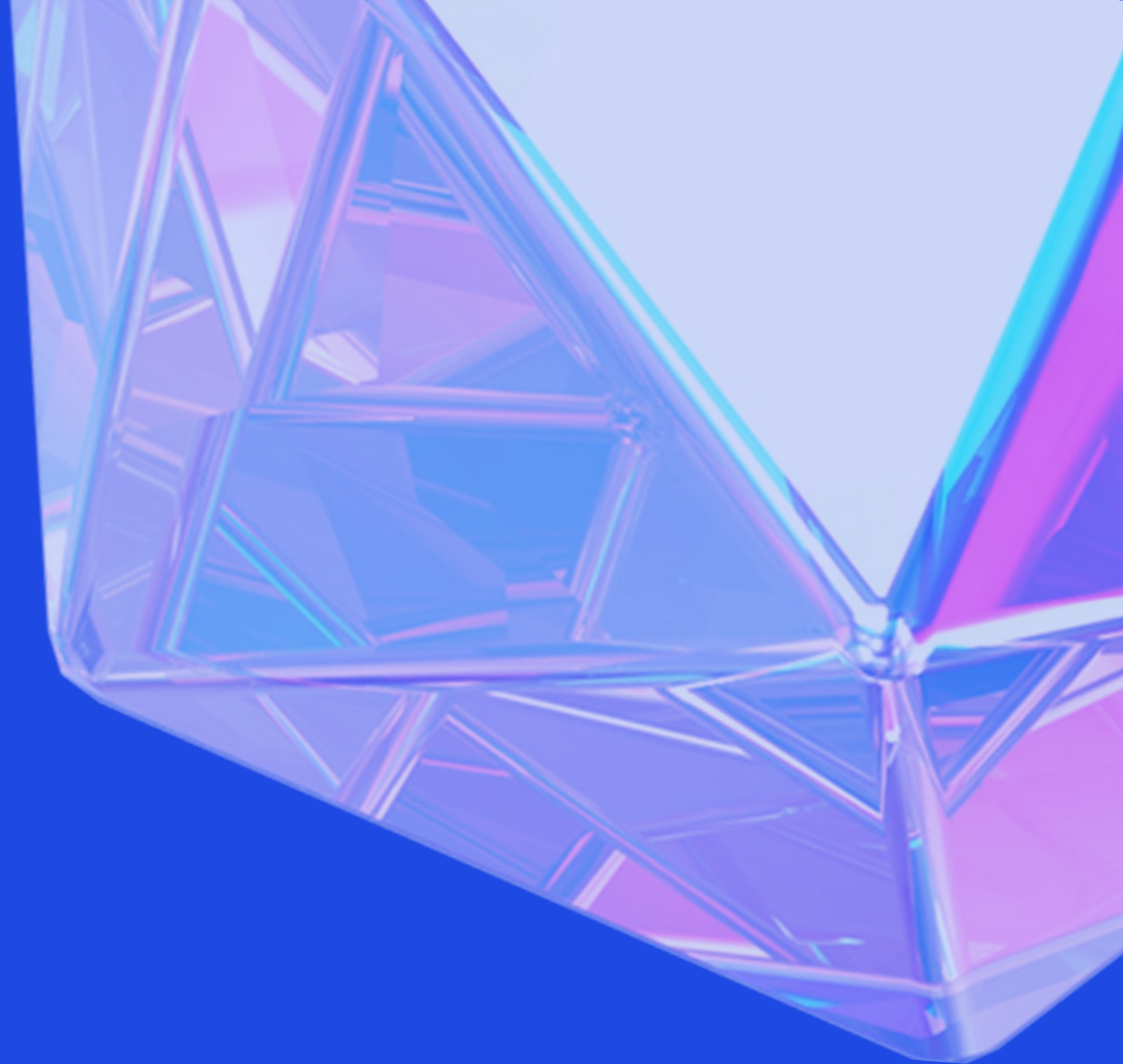
	Target	Purchaser (country of origin)	Amount (PLN billion)	Description
7.	**PKPE Holding Sp. z o.o.**	PGE Polska Grupa Energetyczna S.A. (Poland)	1.9	PGE bought 100% of the shares of PKPE Holding, which controls PKP Energetyka, among other companies. This is a "repolonization" of the company, which had been held by the CVC Capital Partners fund since 2015.
8.	**FiberForce Sp. z o.o.**	InfraVia V Invest Sarl (Luxembourg)	1.8	InfraVia V Invest, an entity in the InfraVia Capital Partners group, purchased half of the shares in the newly formed infrastructure company FiberForce from P4.
9.	**Inelo Group**	Eurowage Ltd. (UK)	1.4	Eurowage, a leading pan-European integrated payment and mobility platform, acquired 100% of Inelo Group, a provider of integrated technology solutions for heavy transport in the CEE region, from Innova Capital.
10.	**Lotos Asfalt Sp. z o.o.** **Lotos SPV 1 Sp. z o.o.**	Aramco Overseas Co. B.V. (Saudi Arabia)	1.2 1.0	Saudi Aramco (Saudi Arabian Oil Group) conducted two transactions, acquiring 30% of Lotos Asfalt and 100% of Lotos SPV 1, in implementation of the remedies imposed in the European Commission's conditional approval of PKN Orlen's acquisition of control over the Lotos Group.

* excluding the real estate market

In the CEE region, Poland once again stood out as a major M&A market. Despite many economic challenges, it ultimately proved to be strong and resilient to turbulence from inflation and energy prices. The value of deals reached its highest level in a decade, at PLN 74.9 billion (EUR 16 billion), up by a third from 2021, with the merger of state-owned energy companies PGNiG and PKN Orlen accounting for a large part of this value. Although there were slightly fewer transactions categorized as very large-value than in 2021, eight of them exceeded EUR 300 million. Despite the decrease in the number of transactions compared to the previous year, Poland still proved to be the most active territory in Central & Eastern Europe, with the number of M&A deals fluctuating around 300.[6]

In 2022, the energy market proved attractive to investors in the CEE region. Five of the nine largest M&A transactions in the energy and utilities sector in the region involved deals in Poland. Among them were two completed by a Saudi Arabian entity targeting oil and gas assets. However, it is not only the conventional energy market that remains attractive. There were five notable transactions in the Polish renewable energy sector in 2022 by foreign investors from Israel, Sweden, Spain, France and Ireland.

[6] Depending on the source and method of calculation, a figure of 235–341 transactions in 2022 in Poland is cited.



Main investment motives

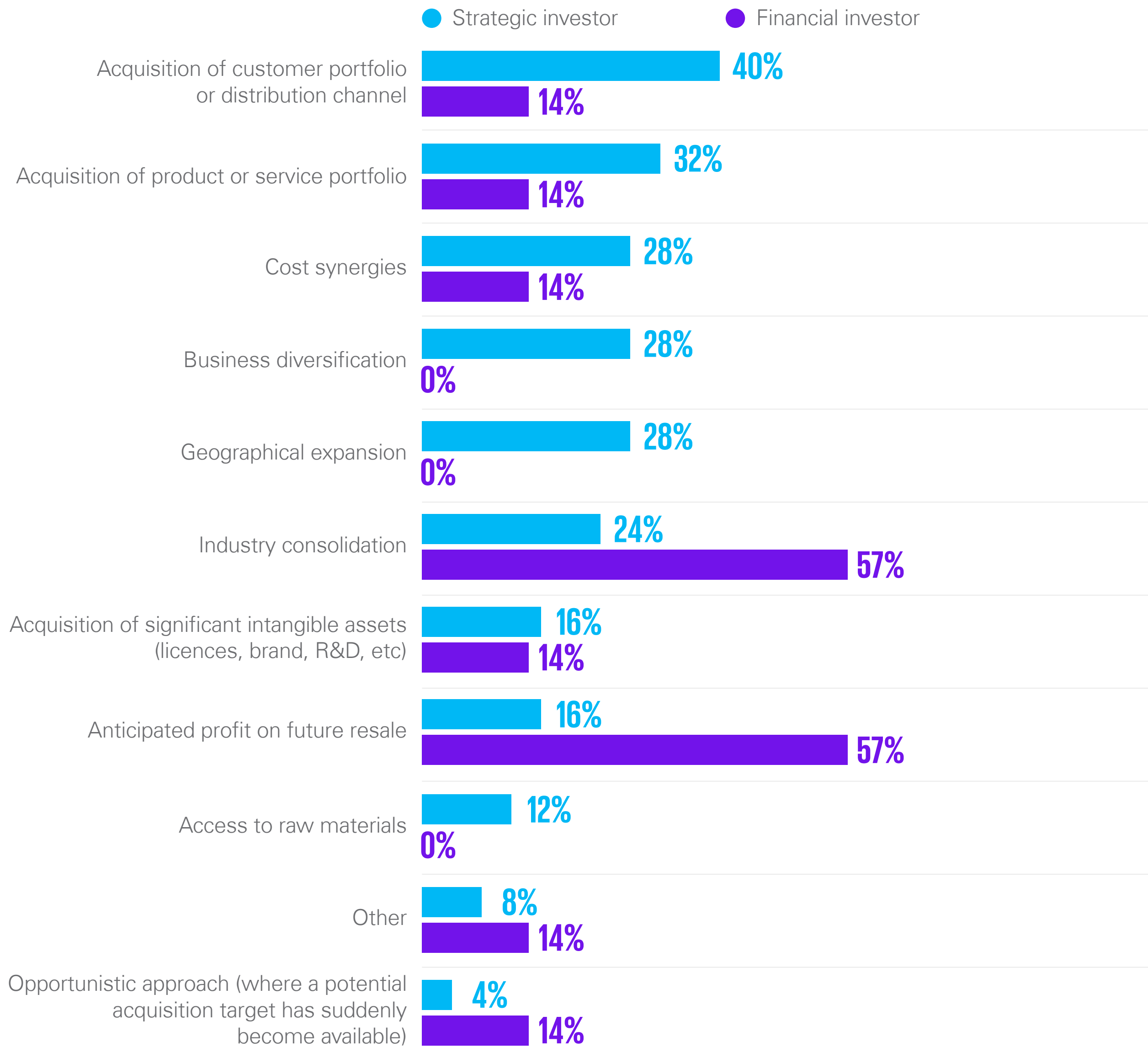
A **strategic investor** is a capital market entity that most often acquires a majority stake in a company while also seeking to take control of its operational and investment activities. Strategic investors are generally companies operating in the same or a related industry as the target.

A **financial investor** is an investor for whom the main objective of the transaction is to achieve an appropriate rate of return over the assumed investment period. Financial investors usually include investment funds, among which private equity funds play an important role in the M&A market.

Depending on whether a strategic or financial investor is involved, investment motives may vary. Comparing this year's survey by KPMG in Poland to the survey conducted in 2019, it can be seen that the motives have also changed significantly over the last four years.

Among strategic investors, 40% of respondents indicated acquisition of a customer portfolio or distribution channel as the main investment motive, placing this response in first place, similar to the 2019 survey.

Main motives considered when deciding to launch investment process



Source: KPMG in Poland survey.

By contrast, respondents in this year's survey ranked second the acquisition of a product or service portfolio (32% of respondents), which only ranked fifth in 2019, just behind cost synergies and industry consolidation. Consistently, access to raw materials and the projected profit from future resale are the least frequently considered determinants for this group of investors.

For financial investors, the key motives are profit on the planned resale and consolidation of the industry within their investment portfolio. More than half of these respondents (57%) indicated these two investment motives as the main ones. At the same time, 14% gave equal weight to aspects such as an opportunistic approach, acquisition of significant intangible assets, cost synergies, or portfolio acquisition. By contrast, across the entire surveyed group, no one felt that business diversification or access to raw materials influenced their decision to acquire a target's shares. In this year's survey, geographical expansion was not identified as an important factor, while in 2019 over two-thirds of respondents (71%) identified it as an important acquisition motive. A similar situation applies to opportunistic approaches. As recently as 2019, when a potential acquisition target suddenly became available, for 82% of financial investors surveyed this was the main motive to acquire the company. Today, only 14% of investors indicate this answer, which suggests a trend away from opportunistic investments, or an increased supply in the market of interesting investment opportunities.

In addition, strategic investors highlighted motives such as securing their own production, investor expectations for green transition, revenue synergies, and economies of scale. Financial investors, on the other hand, indicated a desire to acquire a new portfolio company that is a leader in its industry.

2

Specifics of M&A transactions in Poland

Value of transactions

In practice, there are several different ways that share purchase agreements (SPAs) are negotiated and executed. Based on the survey, we can identify the elements common for most transactions. Investors indicated the average values and duration of the process, methods of identifying attractive targets, and the situations that most frequently arose during acquisitions. This characterization can provide a touchstone for future transactions.

Average transaction value

	Strategic investor	Financial investor
Up to PLN 50m	24%	0%
PLN 50.1–100.0m	24%	43%
PLN 100.1–200.0m	12%	29%
PLN 200.1–500.0m	4%	29%
Over PLN 500m	16%	0%
We have not carried out any M&A transactions in the last 3 years	20%	0%

Source: KPMG in Poland survey.

The average transaction value declared by respondents differed for the two types of investors. In the group of strategic investors, for almost half of the transactions it was lower than PLN 100 million, while 16% exceeded PLN 500 million. A fifth of respondents said they had not carried out any M&A transactions in the last three years. (It should be noted that the period in question began with the first months of the coronavirus pandemic.)

Respondents from the financial investor group did not report transactions with a value lower than PLN 50 million or higher than PLN 500 million. Their companies were most often involved in deals with values in the range of PLN 50–100 million (43%).

Time required for M&A transactions on the Polish market

Typical number of months needed to complete an M&A transaction in Poland (from date of first contact to signing of SPA)

	Minimum	Average	Maximum
Strategic investor	1 month	10 months	36 months
Financial investor	2 months	10 months	24 months

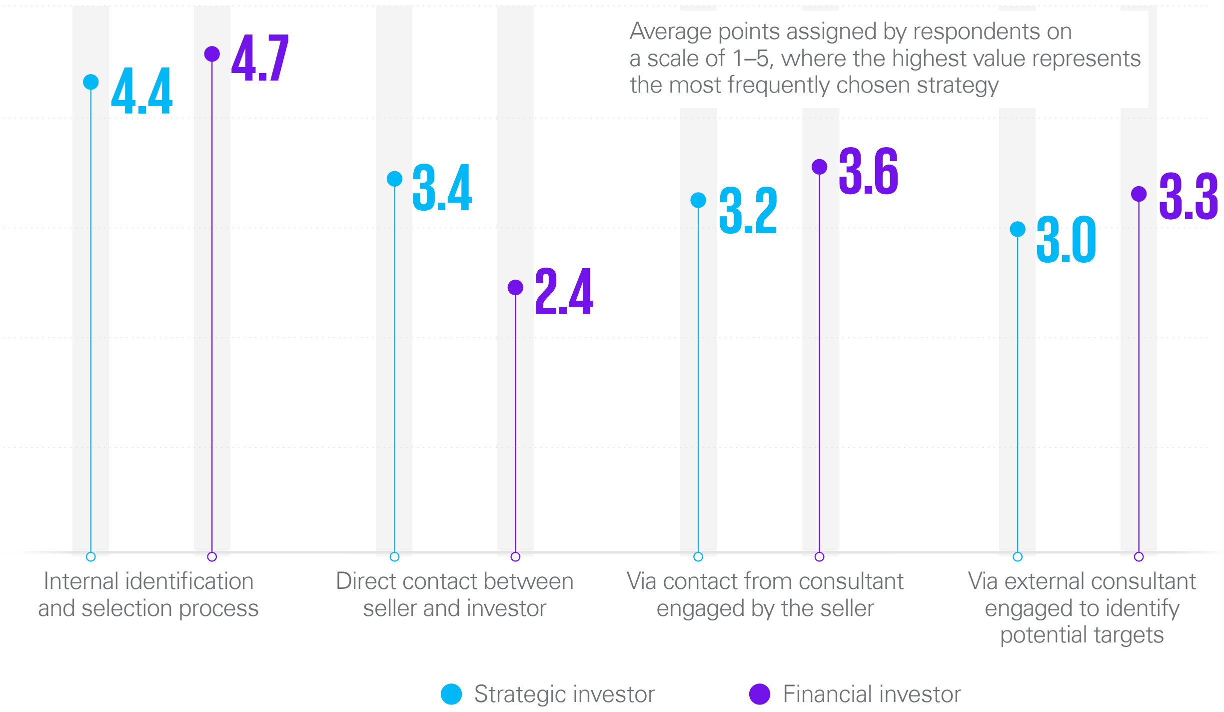
Source: KPMG in Poland survey.

According to the survey, the number of months needed to complete an M&A transaction on the Polish market from the date of first contact to signing of an SPA takes an average of 10 months. The difference in time may be influenced by a number of factors such as the complexity of the transaction or the number of stages preceding finalization. The number of legal and market regulations and the length of negotiations also affect the duration of the process.

Comparing the 2023 survey results with the 2019 results, it is apparent that the maximum time needed to complete an M&A transaction has increased for both strategic investors (from 14 to 36 months) and financial investors (from 11 to 24 months). Conversely, the minimum time needed to complete a transaction has decreased—for strategic investors from five months to one month and for financial investors from three to two months.

Ways of finding acquisition targets

Most common methods for investors to identify acquisition targets



Source: KPMG in Poland survey.

From of the respondents' ranking of methods used to identify potential acquisition targets, we can identify the methods most frequently chosen by strategic and financial investors. The internal identification and selection process scored highest for both groups. It was named by 60% of strategic investors and more than 71% of financial investors as the most common way of identifying an acquisition target. Compared to the results of the 2019 survey, the role of consultants has diminished in the opinion of financial investors, as in the previous survey this method of identifying potential acquisition targets received the highest marks in this group. Other methods mentioned by respondents included industry contacts.

Since the Covid-19 pandemic, M&A transactions have been executed in a much more volatile environment. Each year brings new challenges, and the success of a transaction depends to a large extent on the determination of the parties to complete the deal (including acceptance of price levels that deviate from the original expectations and levels of several years ago) and the search for transaction instruments (e.g. earn-out mechanisms) that facilitate the agreement. It is hard to expect the transactional environment to noticeably improve and stabilize in the near term, and therefore those considering the sale or acquisition of a company should pursue their plans and not postpone them.

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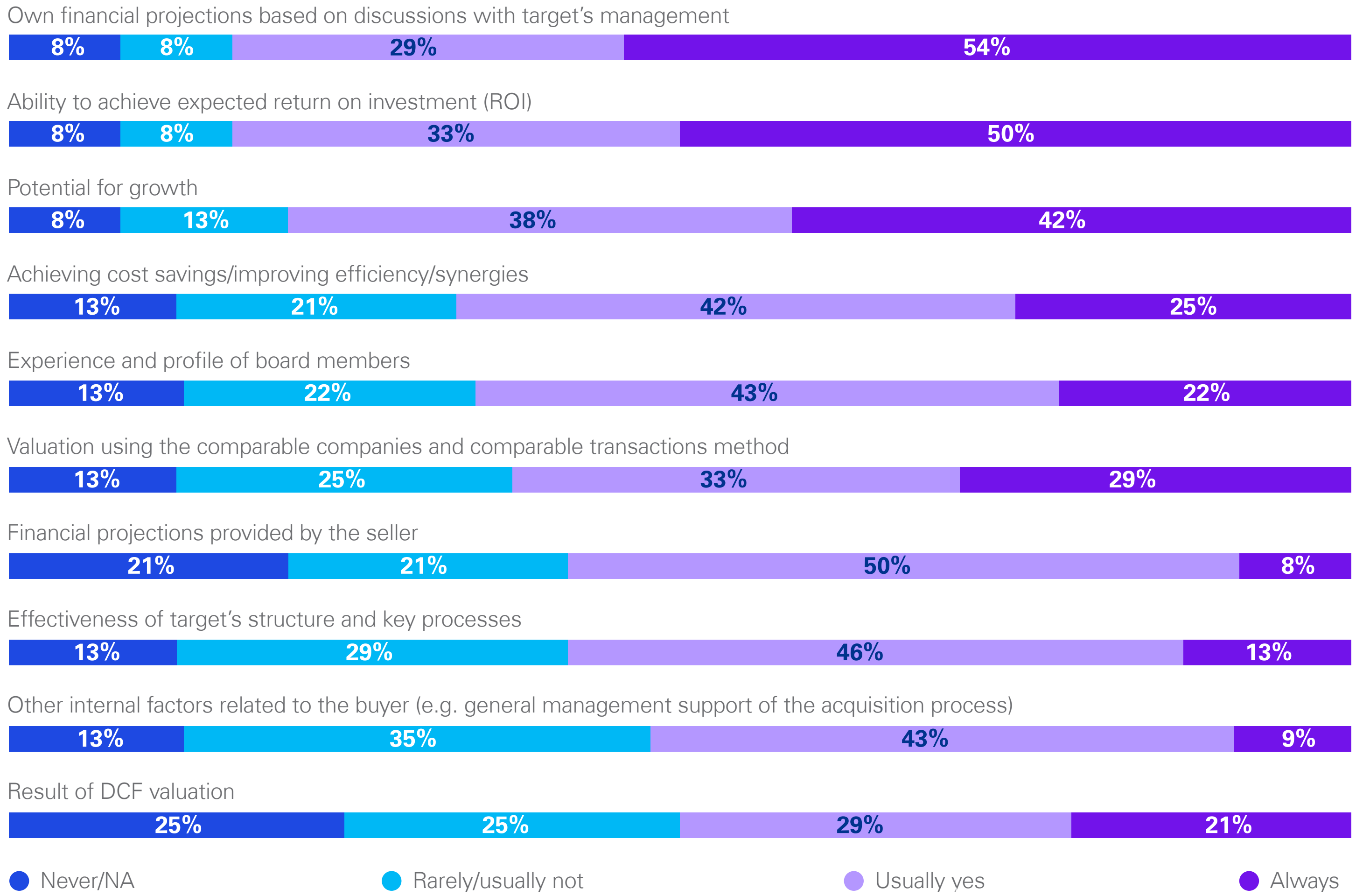
Methods of determining the transaction price

A number of factors influence how the price is set in a bid to acquire a company. For half of the strategic and financial investor group, the main decision-making elements were their own financial projections, drawn up on the basis of discussions with the management of the target company, and the possibility of achieving the projected return on investment (ROI). More than two-fifths of the respondents also take into account the potential for growth every time when setting the price presented in an offer, and in total almost 80% always or usually take this factor into account. More than 60% of investors surveyed also indicated that they are always or usually guided by the experience and profile of the management team, the valuation using the comparable companies and comparable transactions method, and the potential for cost savings, efficiency improvements or synergies when setting the price.

Each business stepping into the role of investor is primarily guided by its own rationale and experience, accompanied by a number of different factors. This is reflected in the survey results and the rather scattered responses to this question.

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



Due to rounding, totals may not be 100%.
Source: KPMG in Poland survey.

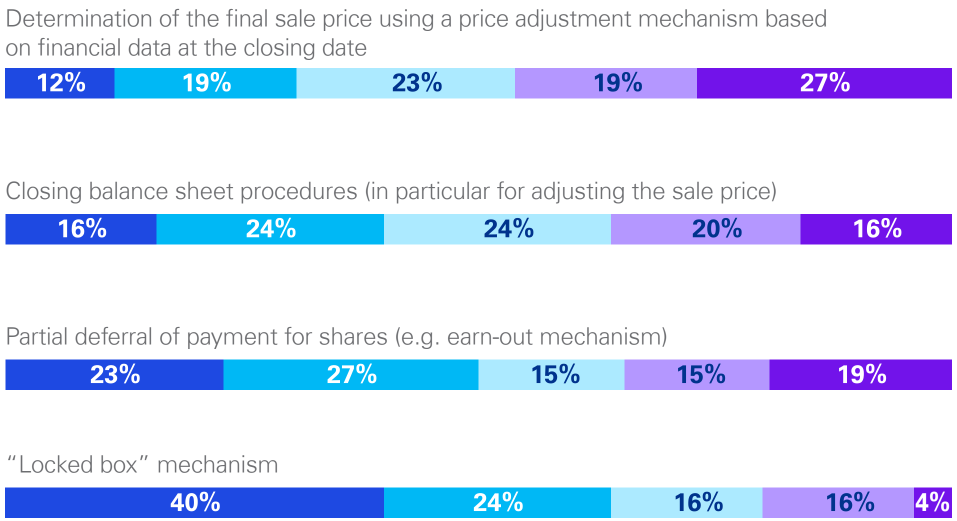
The most common situations in M&A processes

Respondents to the questionnaire also indicated the frequency of typical situations in M&A transaction processes, including the price-setting mechanism, ways of acquiring shareholdings, and other common circumstances.

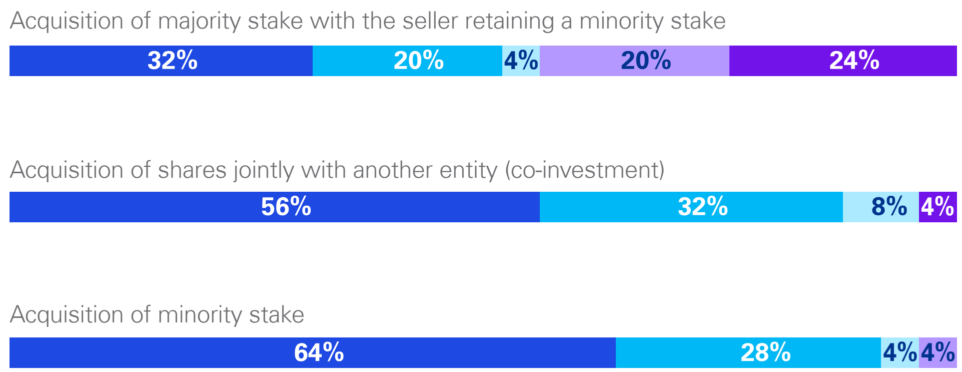
According to almost half of the investors surveyed, in the last three years, determining the final sale price based on a price adjustment mechanism, using financial data at closing, occurred very often or always. In this category, preparing the closing balance sheet, particularly for the purpose of adjusting the sale price, came in second, indicated as frequently or always occurring by more than one-third of respondents.

More than 40% of respondents indicated that acquisition of a majority stake, with the seller being left with a minority stake, had often or always occurred during a transaction in the last three years. On the other hand, 32% of respondents had never had such an experience. Acquisition of a minority stake or buying it jointly with another entity (co-investment) was also observed rarely or never.

Typical price-setting mechanisms



Types of share stakes acquired

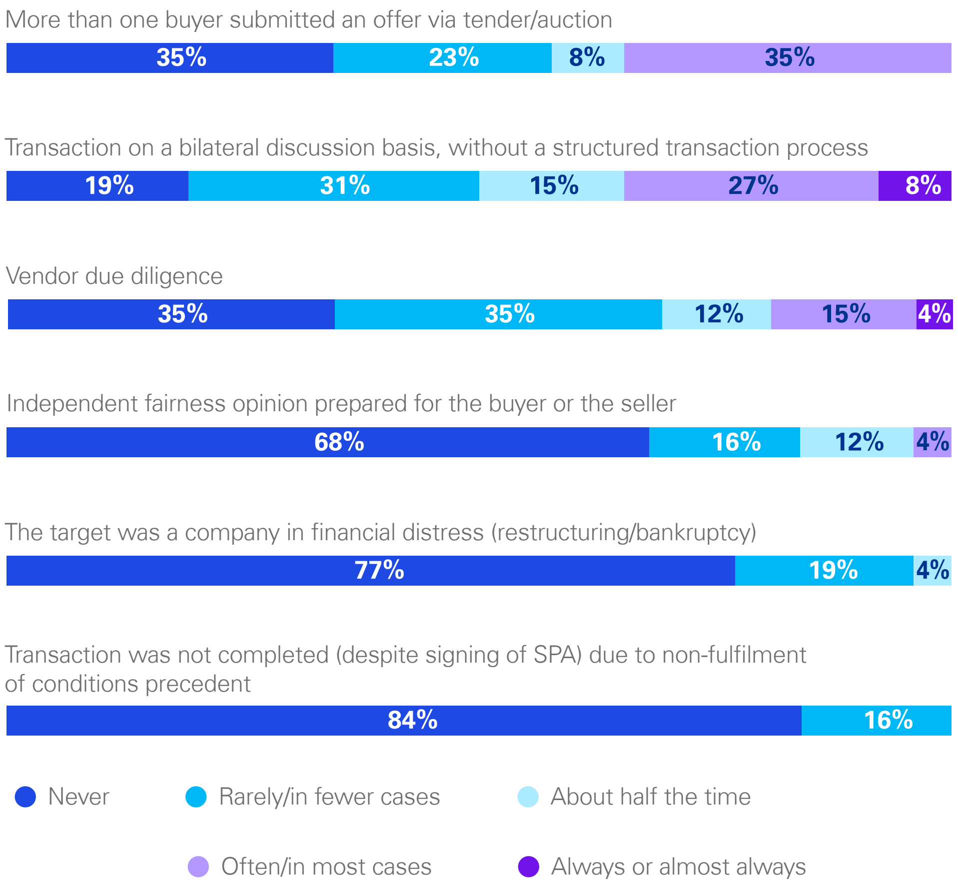


Never · Rarely/in fewer cases · About half the time · Often/in most cases · Always or almost always

Due to rounding, totals may not be 100%.

Source: KPMG in Poland survey.

Other typical situations in M&A transactions



Due to rounding, totals may not be 100%.
Source: KPMG in Poland survey.

In the last three years, only 16% of respondents had encountered non-execution of a transaction, despite having signed an SPA, due to the failure to meet the conditions precedent. The majority of respondents had not invested in any company undergoing restructuring or bankruptcy (77%). Preparation of an independent fairness opinion for the buyer or seller was also outside the experience of the majority of respondents (68%).

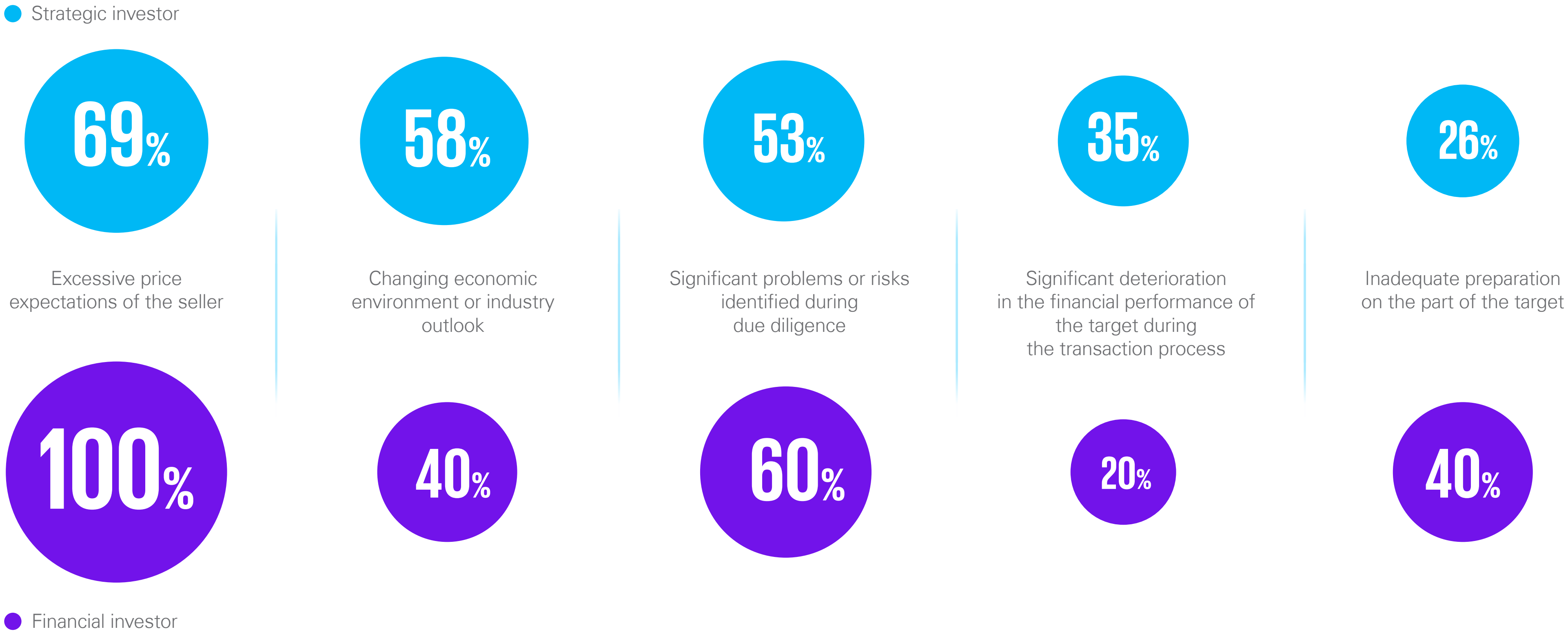
3

Reasons for transaction failures

Main reasons for transaction failures

M&A transactions are extremely challenging for investors regardless of the value of the capital commitment or the size of the company. Most studies show that statistically between 70% and 90% of proposed acquisitions do not go through. This is a risk that investors take with no guarantee of success. It is only when the deal comes to fruition and the company has to continue operating that reality verifies how accurately the situation was assessed.

Main reasons transaction did not go through



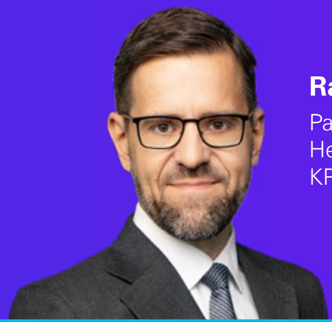
Source: KPMG in Poland survey.

The survey by KPMG in Poland shows that the main reasons for deal failures may be perceived differently by the two investor groups analysed. However, two-thirds of strategic investors said that it is always the seller's price expectations that are too high, and all financial investors surveyed thought the same. In the 2019 survey, the seller's high price expectations ranked second among both groups of respondents, with the most frequently cited reason for deal failure being significant issues or risks identified at the due diligence stage. Nowadays, for strategic investors, the changing economic environment and problems or risks resulting from due diligence immediately follow the issue of the seller's price expectations. Financial investors, on the other hand, ranked next after the seller's price expectations the lack of preparation on the part of advisors (more often than on the part of the target) and, like strategic investors, risks identified in due diligence. The implication is that for all investors, apart from the seller's price expectations, over which they have no influence, due diligence is very important, as it helps to identify significant risks in the potential target.

For investors experienced in making equity investments on the Polish market, it will come as no surprise that equity transactions often fail to meet investors' expectations. Failures include both when despite the commitment of considerable resources and time, the contemplated transaction does not take place, and when unexpected problems arise after the target has already signed the acquisition agreement.

Although, as a result of the survey, we have not been able to establish a remedy for all investor disappointments, at the same time the ever-important role of professional transaction advisors cannot be overstated. The role of any transaction advisor at the stage of considering an equity transaction should be to identify the material risks associated with the contemplated transaction, assess their possible impact on the valuation of the target, and identify appropriate remedies to reduce or, if possible, eliminate the identified risks.

At the time of the transaction, the professional advisor safeguards the interests of its client, so that the final price of the target does not deviate from its predetermined value.



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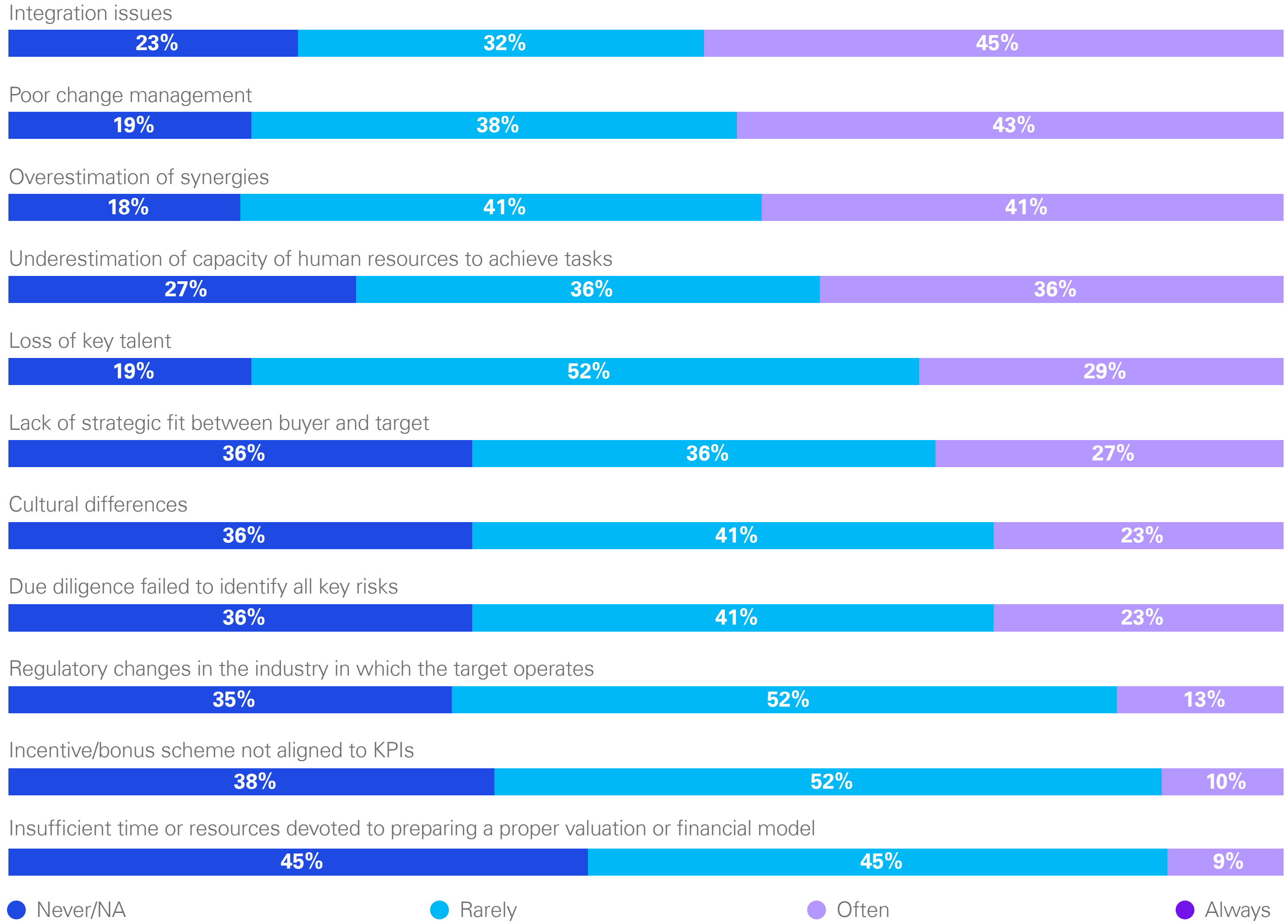
Why do some deals fail to deliver the intended economic benefits?

It often happens that a completed M&A deal that is a growth opportunity for a company does not initially generate the anticipated economic benefits. Based on the experience and observations of the investors surveyed, the most common reasons for this are post-acquisition integration problems, poor change management, and overestimation of synergy effects (more than 40% of responses). More than a third of responses pointed to overestimation of the ability of human resources to carry out the tasks imposed on them.

Reasons transactions do not deliver the anticipated economic benefits



Due to rounding, totals may not be 100%.
Source: KPMG in Poland survey.

Evaluation of the effects of the transaction

Most important factors for assessing effects of transaction

1

42%

ROI/IRR targets were met

2

29%

KPIs (or synergies) were achieved

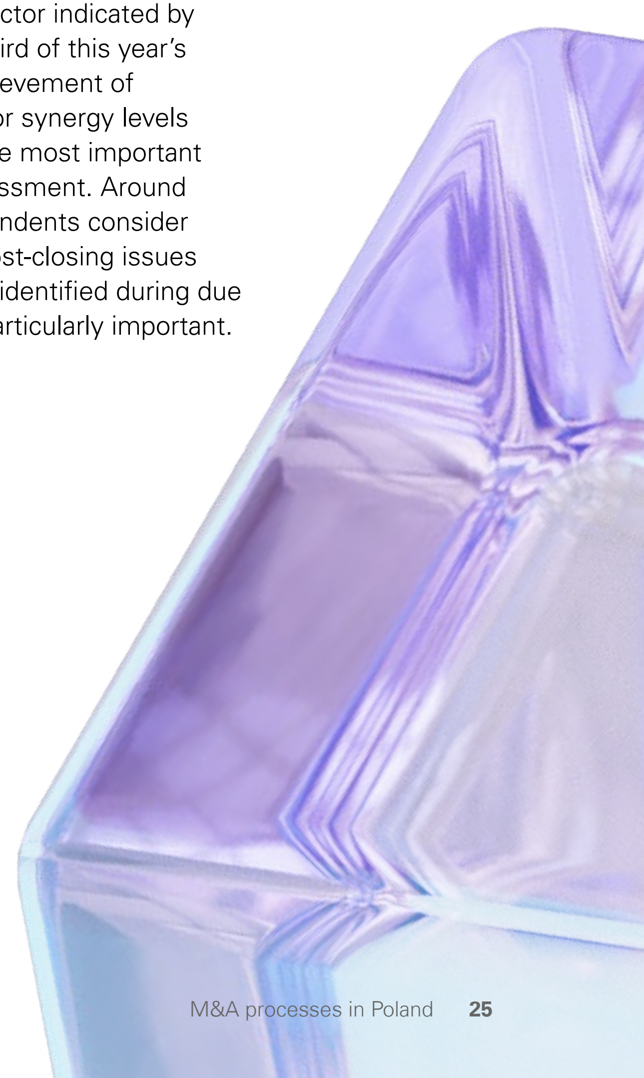
3

25%

No post-transaction issues other than those identified in due diligence

Source: KPMG in Poland survey.

The most important factor in evaluating the success of the transaction from the buyer's point of view in 2023 was achievement of the projected rate of return (42% of responses). In the KPMG in Poland survey in 2019, this was also the most important factor indicated by investors. For a third of this year's respondents, achievement of appropriate KPIs or synergy levels appeared to be the most important factor in this assessment. Around a quarter of respondents consider the absence of post-closing issues (other than those identified during due diligence) to be particularly important.



Identification of aspects to be improved

Every action taken during the M&A process is worth analysing after the fact, to draw constructive lessons from it and reduce the risk of failure on subsequent projects.

The surveyed investors shared their comments on what changes, if any, they would make when conducting their next transaction. The responses coincided closely with those in the 2019 survey. Performing higher-quality due diligence and better planning of the entire transaction process tied for first (13% each). Less frequent responses included improving the organization of human resources, implementing changes faster, or scheduling more time for the transaction. Although respondents perceive flaws in deal processes, one in five respondents said they would not change anything in the next deal —the single answer most frequently given.

Aspects investors would improve in future transactions

Source: KPMG in Poland survey.

Another often underestimated stage of capital investment is post-closing integration. Any acquisition, even the most promising one, can fail if the integration is not properly planned and effectively executed.

Investor support for integration yields the best results when investment targets are properly analysed prior to the contemplated transaction, not only in terms of financial and tax issues, but also in terms of human resources, commercial, IT and operational aspects, as well as strategic development plans. Development of a common integration policy with a process for effective implementation addresses all of these aspects.

I should also mention that at this stage, we first set up an integrated team of consultants experienced in integration processes and in-house experts well-acquainted with the business specifics of the integrating companies. Our experience shows that close and effective cooperation by such a team often results in achievement of the investment objectives.

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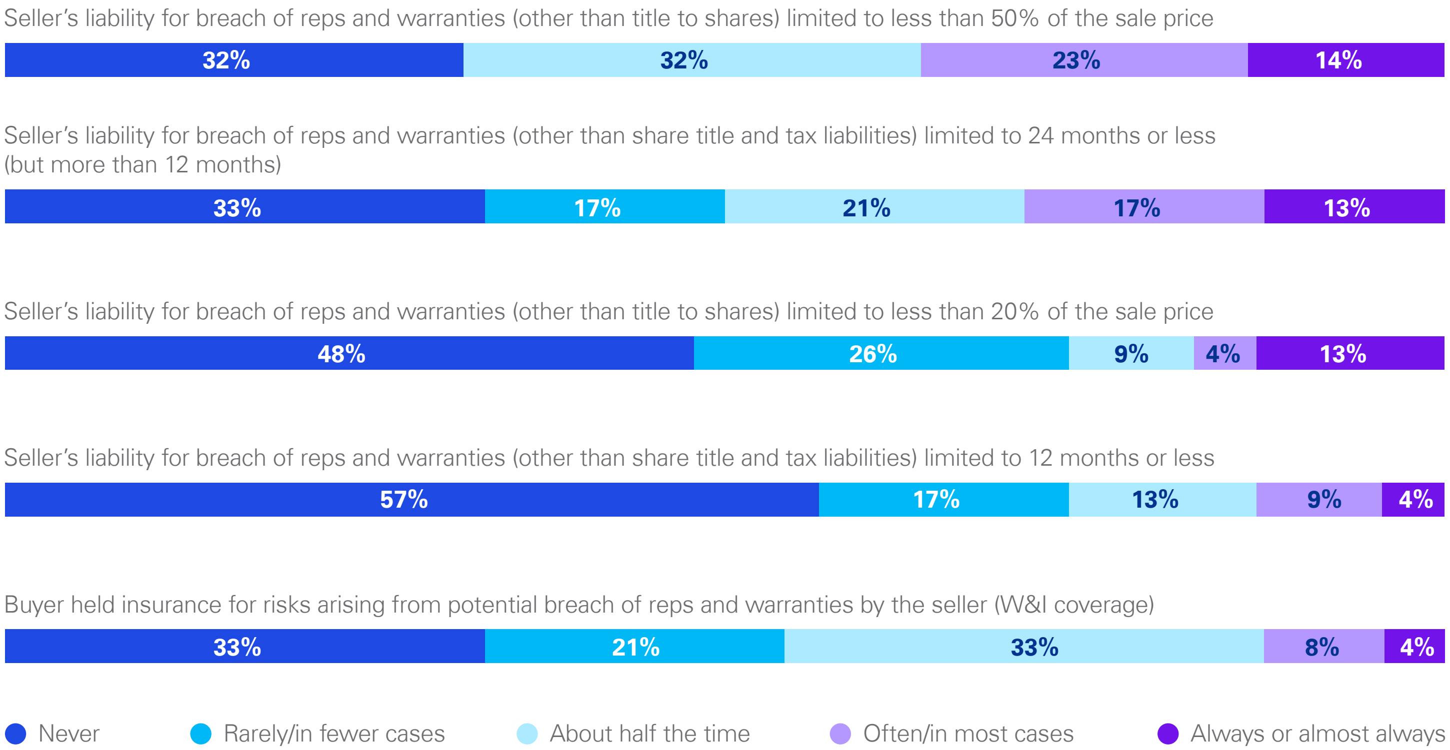
4

Seller's liability

When entering into a share purchase agreement in M&A transactions, the seller usually provides the buyer a set of representations and warranties regarding various aspects of its business. These concern, among other things, legal title to the shares or assets being sold, tax issues, employment matters, and intellectual property. In the KPMG in Poland survey, investors were asked about the liability arrangements agreed between the parties in these areas that they had encountered in recent years, on both the buyer’s and the seller’s side.

Frequency of use of rules for seller’s liability



More than half of the investors declared that the seller’s liability for breach of its reps and warranties (other than in respect of title to shares and tax obligations) was limited to 24 months or less in at least half of the cases. A quarter of investors indicated that in their transactions, this period was often even shorter —12 months or less.

Due to rounding, totals may not be 100%.
Source: KPMG in Poland survey.

Almost 70% of the surveyed investors declared that in their deals, in at least half of the cases the seller's liability for breach of reps and warranties (other than regarding title to shares) was limited to less than 50% of the sale price. Situations in which liability was capped at less than 20% of the sale price occurred rarely or never, according to about three-fourths of the investors. Slightly more than half of the respondents declared that they never or rarely implemented transaction processes in which the buyer was insured against risks arising from potential breach of the seller's representations and warranties (W&I insurance). Only slightly more than 10% of respondents declared that such insurance was always or often used in their transactions.

The transaction market in Poland is experiencing significant growth. However, it also poses challenges for investors, requiring a professional approach, especially due to legal aspects. The high expectations of sellers often act as a barrier, underscoring the need for careful drafting of contracts that include clauses limiting sellers' liability.

The process of identifying investment targets, while often internal, also requires sophisticated legal analysis. Before making an acquisition, investors should meticulously examine the target's compliance with applicable laws, including industry regulations. It is also worth paying attention to the legal aspects of the change management process, which are crucial for effective post-transaction integration.

As the economic environment undergoes changes, management expertise is becoming a key factor for success. Proper contract preparation and thorough legal analysis help avoid potential post-transaction disputes. Introducing new technologies into transaction processes improves communication, but also requires securing data to avoid the risk of privacy violations.

The coming months are likely to bring increased activity in the e-commerce, IT, healthcare and renewable energy markets. The legal aspects and considerations in these deals will be crucial to their success. The introduction of professional legal procedures and meticulous analysis of each stage of the transaction are indispensable for success in the growing Polish transaction market.

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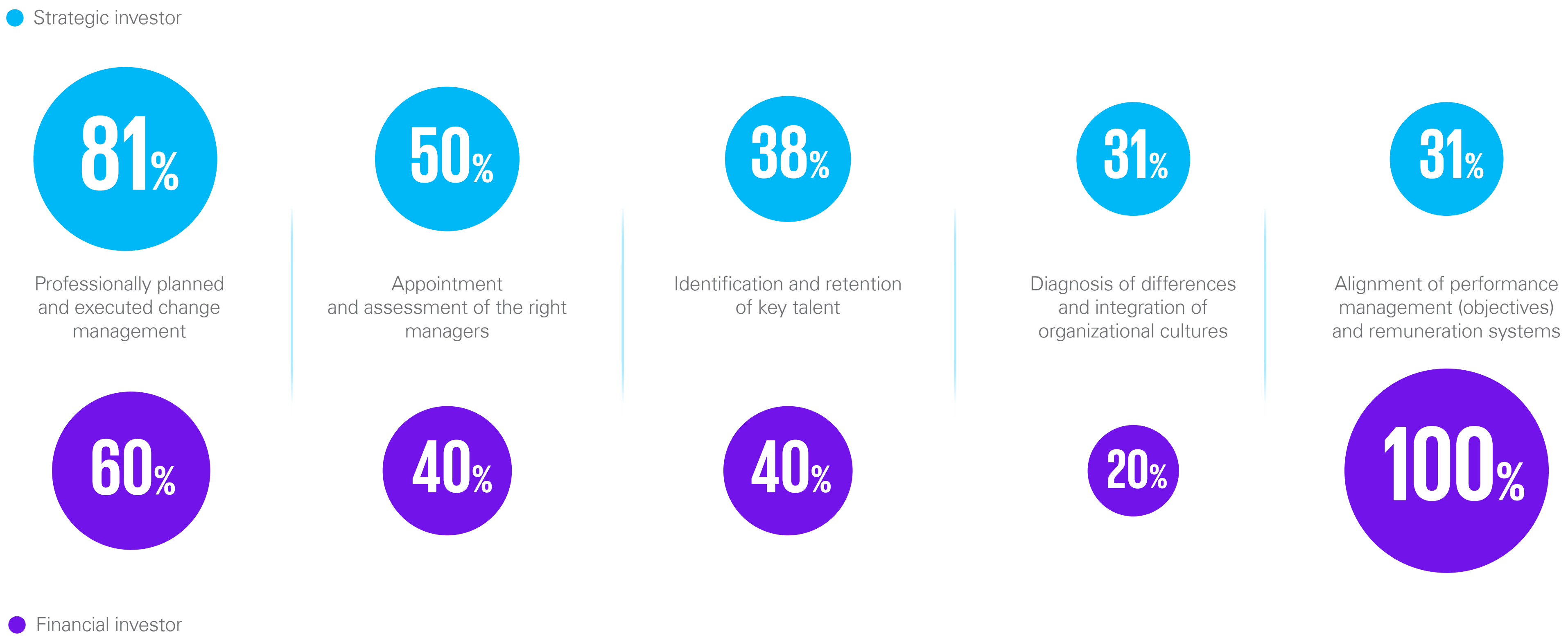
KPMG

5

Human capital and integration outcomes

Post-merger integration (PMI) is a vital step in any M&A procedure. This step is aimed at increasing harmony between the entities that now form a whole. Underestimating the capital inherent in the organization's people, and failing to involve them in generating synergies, can be a reason for transaction failures.

Impact of HR measures on improvement of integration results



Source: KPMG in Poland survey.

In the question about human capital measures in M&A processes, respondents could select more than one answer. Both financial and strategic investors agreed that a professionally planned and executed change management process could significantly improve integration performance (over 76% of responses). Almost half of the respondents agreed that proper appointment and assessment of managers, and aligning management performance and remuneration systems, would also improve the process. The latter seems particularly important for financial investors (100% of responses). Diagnosing differences and integrating the organizational cultures of the companies post-acquisition proved surprisingly unimportant (only 29% of respondents considered it a major success factor). This may be because its impact on the integration process is more difficult to measure.

It is encouraging to see that the need for quality change management is being recognized by investment decision-makers and not just by HR departments. There is a growing understanding that it is not just about communication, but about guiding employees through the process of adapting to new expectations. This may involve temporary investments in qualifications or working tools, but it avoids risks such as the loss of knowhow as employees leave, or restrictions on access to key information that employees do not want to share, to the typical resistance to change manifested in a low job commitment.

In Poland, when talking about differences in organizational culture, we often still think that this situation only concerns integration between entities from different geographical areas. But in practice, organizational culture also includes the level of ambition to achieve goals, the speed of decision-making or readiness to exchange information and resources, the measurable impact of which on integration can be easily identified. However, full unification should not be pursued so ruthlessly that it eliminates aspects of both cultures that have contributed to their business success so far. It is advisable to limit the integration of cultures to two or three priority areas that the investor believes will have the greatest impact on further business development.

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KPMG in Poland

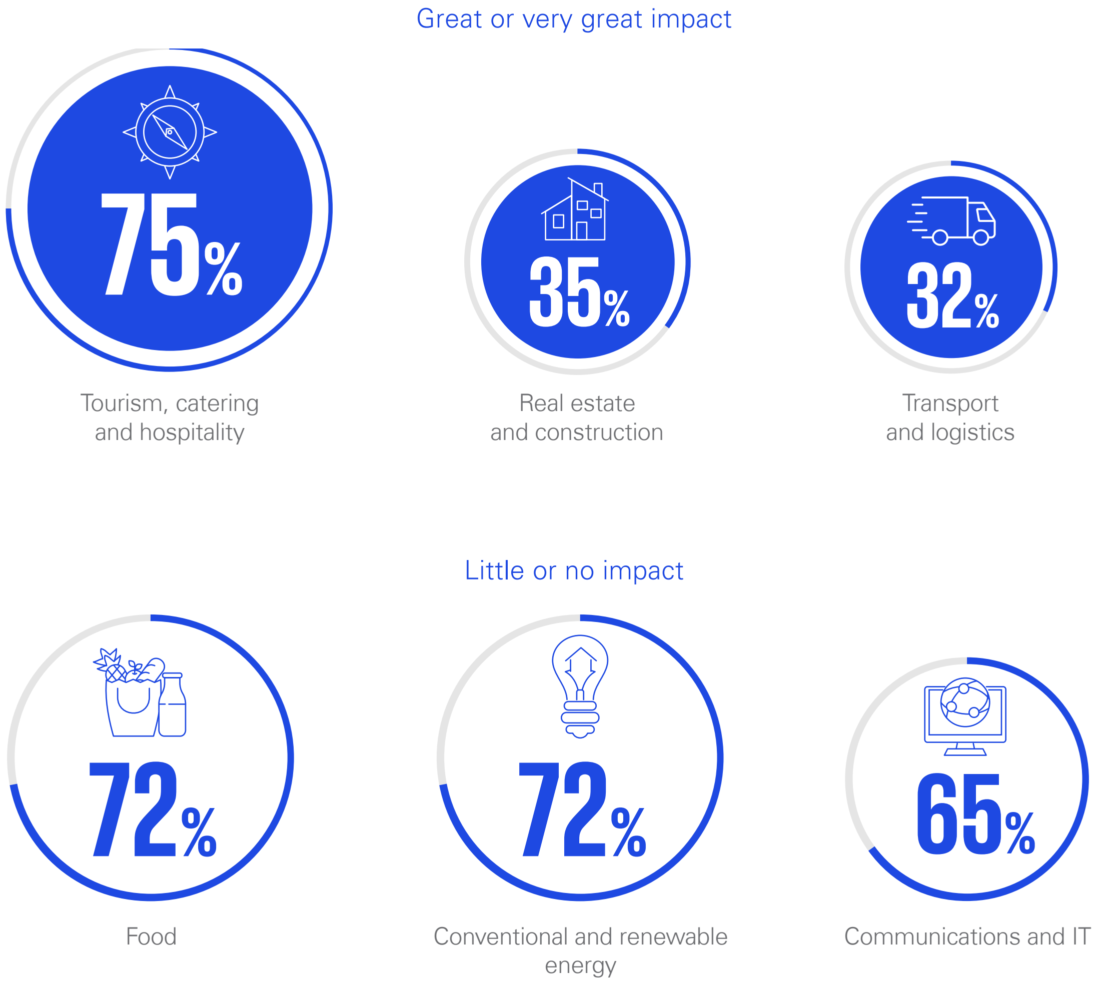
6

Impact of the global economic situation on investor activity in Poland

Covid-19 pandemic

M&A transaction processes in European emerging economies remained in a surprisingly robust upward trend in 2022 despite the cumulative obstacles and pressures of the war in Ukraine, the aftermath of the Covid-19 pandemic and increasingly difficult economic conditions resulting in high inflation. After ending 2021 with strong performance in the M&A market in terms of the number of successful transactions, 2022 was forecast to continue this trend. Although industry experts were cautious in their predictions, the data flowing in over time on completed deals in 2022 consistently confirmed unabated investor activity, and the results for 2022 bode well for developments in 2023 and beyond.

Impact of the Covid-19 pandemic on sectors of the economy



Source: KPMG in Poland survey.

Between 2020 and 2022, the Covid-19 pandemic not only reduced the value of companies, but its economic consequences often contributed to abandonment of contemplated M&A deals. In the survey conducted by KPMG in Poland, strategic and financial investors were asked about the severity of the economic impact of the Covid-19 pandemic on specific sectors of the economy. Two-thirds of investors said that the pandemic had the most negative impact on the tourism, catering and hospitality industries. The next three economic sectors that respondents felt were most severely affected by the pandemic were real estate and construction, transport and logistics, and healthcare, although it should be noted that the last of these sectors was described as resilient to the consequences of the pandemic by more than 40% of respondents, ranking this sector as the second most resilient industry.

Sectors that respondents felt were largely unaffected by the Covid-19 pandemic were communications and IT (more than half of responses), energy (both conventional and renewable), and the previously mentioned healthcare. More than 70% of respondents attributed little or no impact of the pandemic on these industries.

The pandemic put a short-lived freeze on the M&A market, particularly in sectors such as tourism, catering and hospitality. But the market quickly revived. At times, the exceptionally strong operational and financial performance that resulted from the pandemic became a challenge. There was a need to normalize such results and establish benchmarks for business volumes and financial performance between the parties to the transaction. When the parties were eager to complete the deal, these were issues that could be agreed so that the process could be closed.

Tomasz Pasiewicz
Partner, Deal Advisory,
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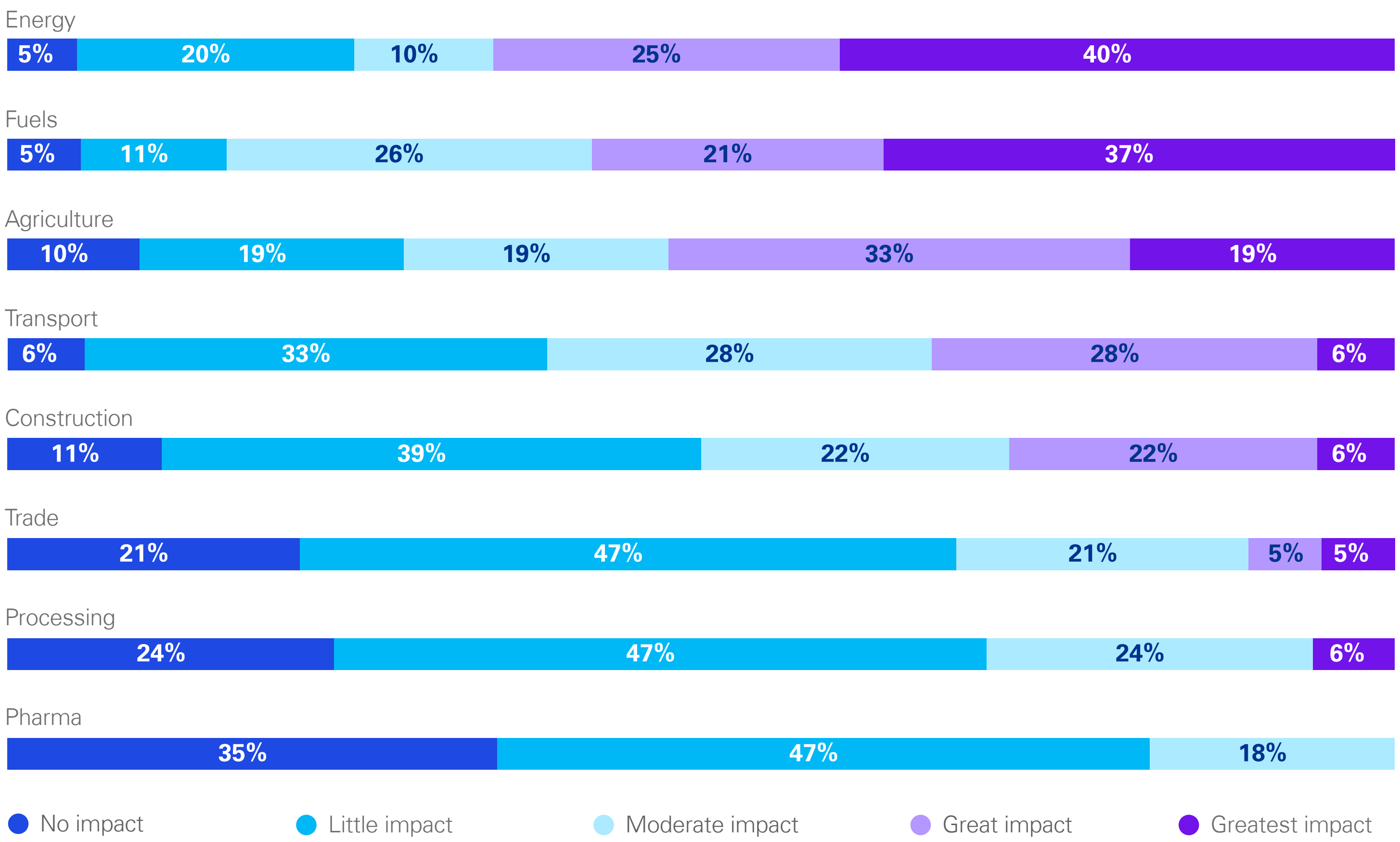
War in Ukraine

Impact of war in Ukraine on sectors of the economy



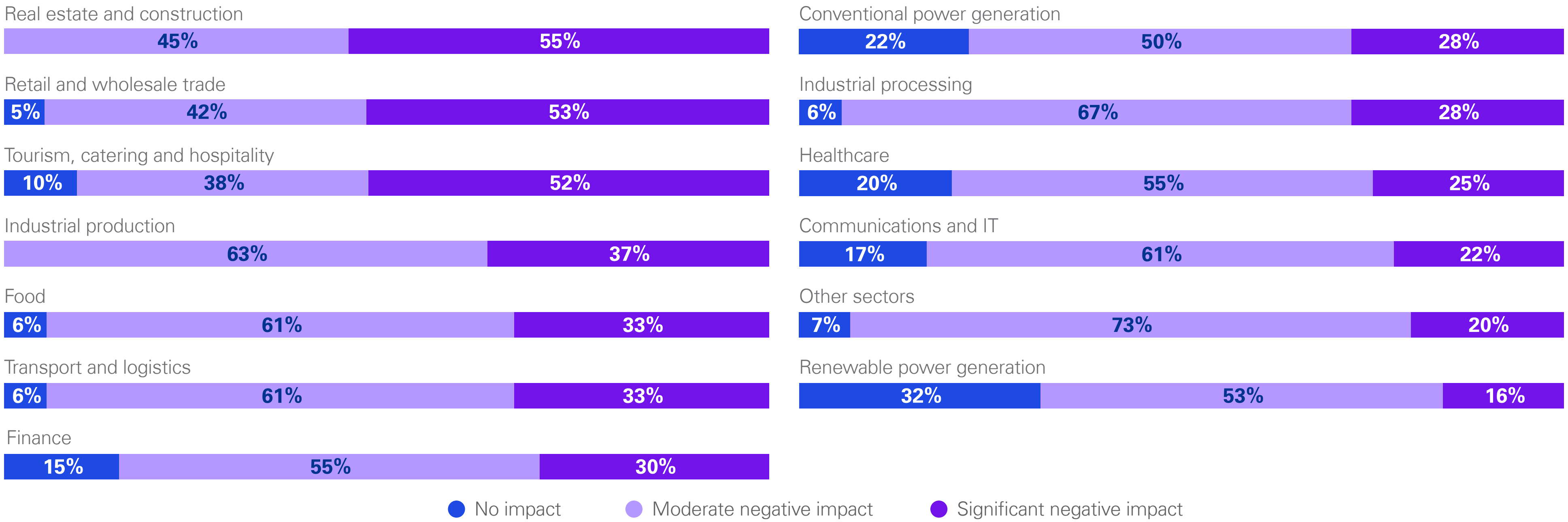
Due to rounding, totals may not be 100%.
Source: KPMG in Poland survey.

The conflict across our eastern border initially caused uncertainty and greater caution among investors around the world, but the 2022 data demonstrate that the global economy has quickly adapted to the changing economic circumstances and the new geopolitical reality. But it must be stressed that the changes brought about by the armed conflict in Ukraine have not gone unnoticed and have had economic consequences that are still visible today. According to respondents, the war in Ukraine had the most negative impact on the fuel and energy industries, resulting in high energy and fuel prices. The agriculture and transport industries were also significantly affected. The most resilient, according to the investors surveyed, was the pharmaceutical industry, followed by processing and trade.

Consequences of high inflation in Poland

In 2022, inflation and high interest rates rocked markets around the world. Central banks in both developed and emerging economies began a synchronized monetary policy cycle and systematically raised interest rates to ease the worst price pressure in decades. As the KPMG in Poland survey shows, the construction and real estate markets were most negatively affected by inflation in our country (55% of responses). Retail and wholesale trade (53%) and tourism, catering and hospitality (52%) came second and third. The processing and manufacturing sectors were slightly hurt by inflation, according to two out of three respondents. The industry which the most respondents (32%) said was unaffected by inflation was renewable energy. This means that all industries were considered by at least 68% of respondents to be affected to a greater or lesser extent by high inflation. Economists expect inflation to fall in the second half of 2023 in Poland, but forecasts from the country's major economic centres indicate that it will remain well above inflation targets.

Impact of high inflation on sectors of the economy



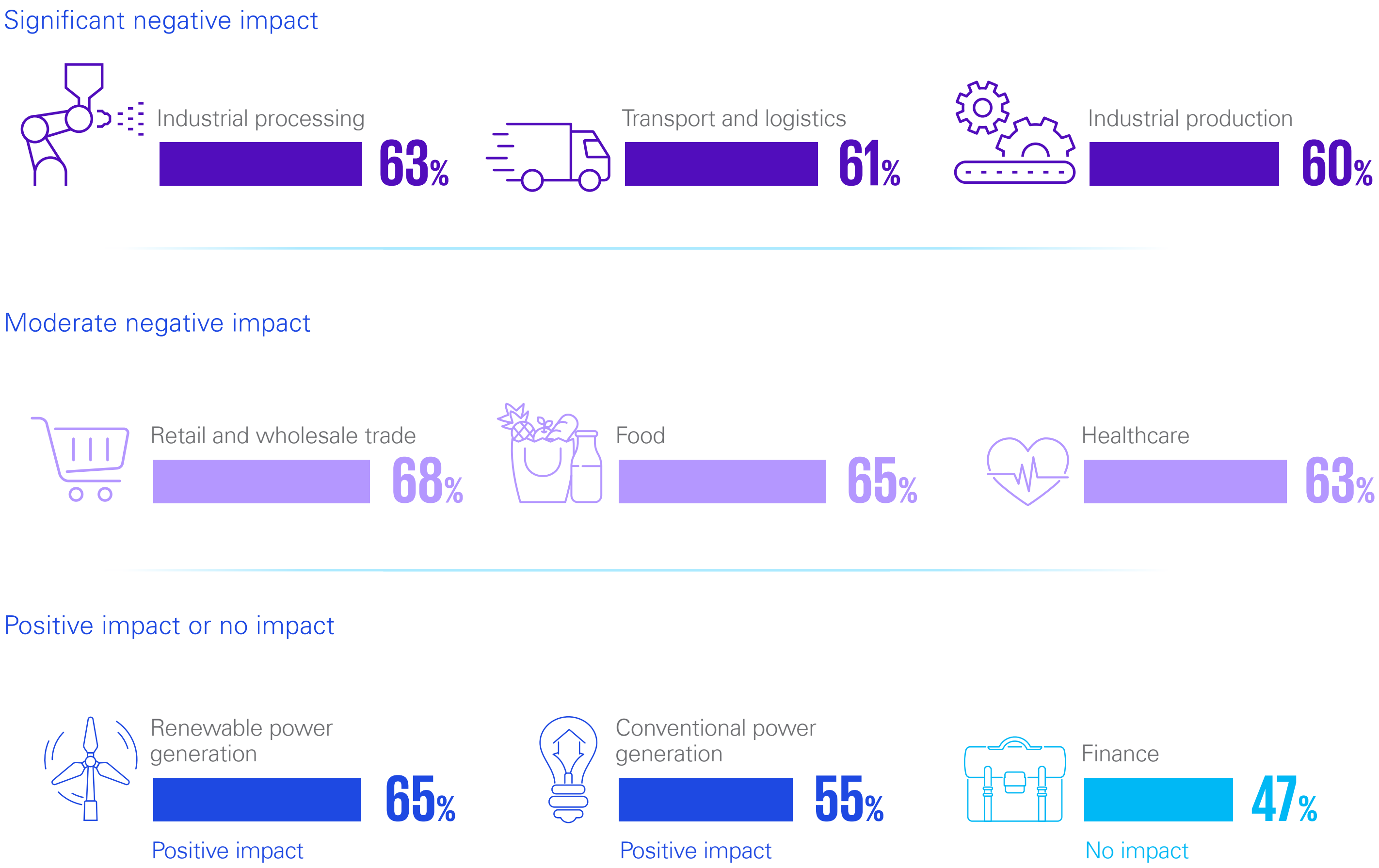
Due to rounding, totals may not be 100%.
Source: KPMG in Poland survey.

High energy prices

Due to the pressure of high gas and coal prices, as well as the cost of purchasing CO_2 emission allowances, energy costs have also had a negative impact on various sectors of the economy. Almost two-thirds of respondents believe that the manufacturing and industrial processing sectors and the transport and logistics sector have been most significantly and negatively affected. All investors in the survey responded that the food and beverage sector and the tourism, catering and hospitality sector were negatively affected by energy prices.

Of all the industries analysed, high energy prices had a positive impact only on the energy sector itself (conventional and renewable power generation), and had no impact on the financial sector according to almost half of the respondents, and the communications and IT sector according to 39%.

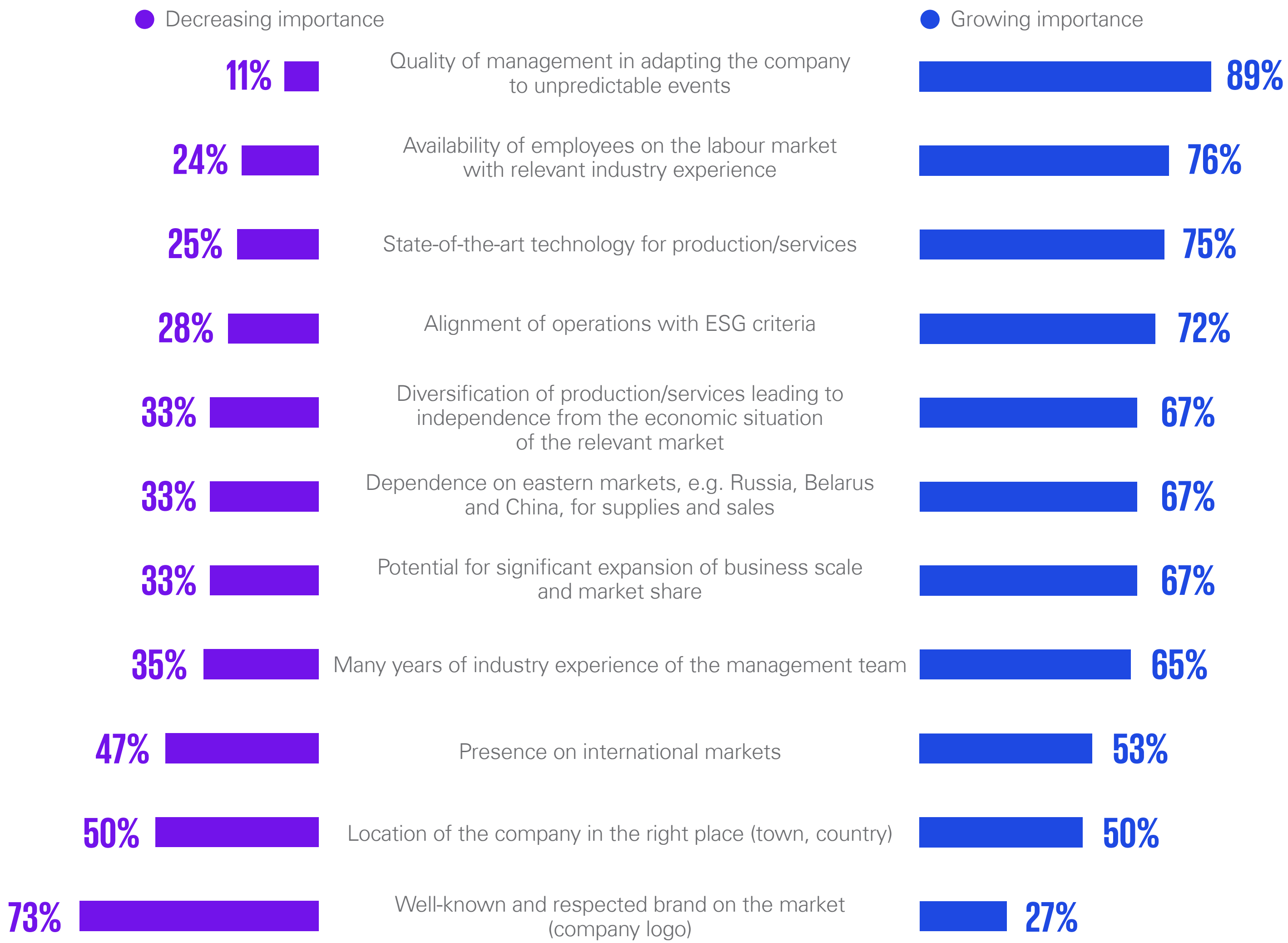
Impact of high energy prices on sectors of the economy



Source: KPMG in Poland survey.

The impact of global economic change on M&A processes in Poland

Importance of global economic changes for the M&A market in Poland



Source: KPMG in Poland survey.

The macroeconomic environment and the possibility of a recession in the coming months are likely to negatively affect the M&A market, but in the medium term the outlook is more optimistic. Further development of the M&A market will depend on the availability of raw materials, energy prices, inflation, and the still ongoing war in Ukraine. Many aspects of M&A processes impacted by global events have been re-evaluated in recent years, and it can be observed that almost all aspects analysed in the study have gained in importance.

According to respondents, in the face of change, the importance of the quality of management in adapting the company to unpredictable events rises to the greatest extent (89% of responses), along with the availability in the labour market of employees with relevant industry experience (76%). For three-fourths of both strategic and financial investors, the way out of a difficult situation appears to be modern technology for manufacturing products, delivering services, or bringing the business into compliance with ESG criteria.

According to three out of four respondents, under the impact of all economic crises, the relevance of a company's brand or logo decreases the most.

Respondents were divided on the relevance of a company's location in a particular place and its presence on international markets. In both two cases, the responses of the investors indicate that for half of them the relevance of these aspects decreases, and for the other half it increases. Such a large discrepancy in the opinion of investors most likely has to do with the specifics of their industry, which was not taken into account in this part of the survey.

7

Current trends on the M&A market in Poland

Business types of interest to investors

Types of businesses investors will be interested in over the next 12 months

Source: KPMG in Poland survey.

Investors were asked about their preferences for the type of businesses they would be interested in for M&A in the near future. Mature (78%) and growth-stage companies (57%) are definitely and unanimously in the lead. There is much less interest in companies at other stages among financial investors, and strategic investors would consider such companies (in the seed, startup, decline and restructuring phases) to a small extent (one in ten). Additionally, 13% of respondents said they would not be interested at all in acquiring other market players in the near future.

Attractiveness of industries for M&A transactions

When asked about the attractiveness of particular economic sectors for capital investment over the next 18 months, almost half of the respondents (47%) listed new technologies in first place. This sector appeared as an option for the first time in this year's edition of the KPMG in Poland survey, and financial investors expressed particular interest in it. Slightly weaker (one out of three responses) were e-commerce, IT, healthcare, and renewable energy. Notably, in the previous edition of the survey, healthcare and IT occupied the first two places in terms of attractiveness. When analysing the responses of investors, the sectors that come to the fore with the highest attractiveness, or above-average attractiveness, should be noted. In addition to those already mentioned, logistics and transport proved interesting. Both groups of investors found the conventional energy sector the least attractive. Industries rating as least attractive, or below average, included catering and hotels, fuel, construction, entertainment, and retail and wholesale trade. The chemical industry proved much less attractive for financial investors than for strategic investors.

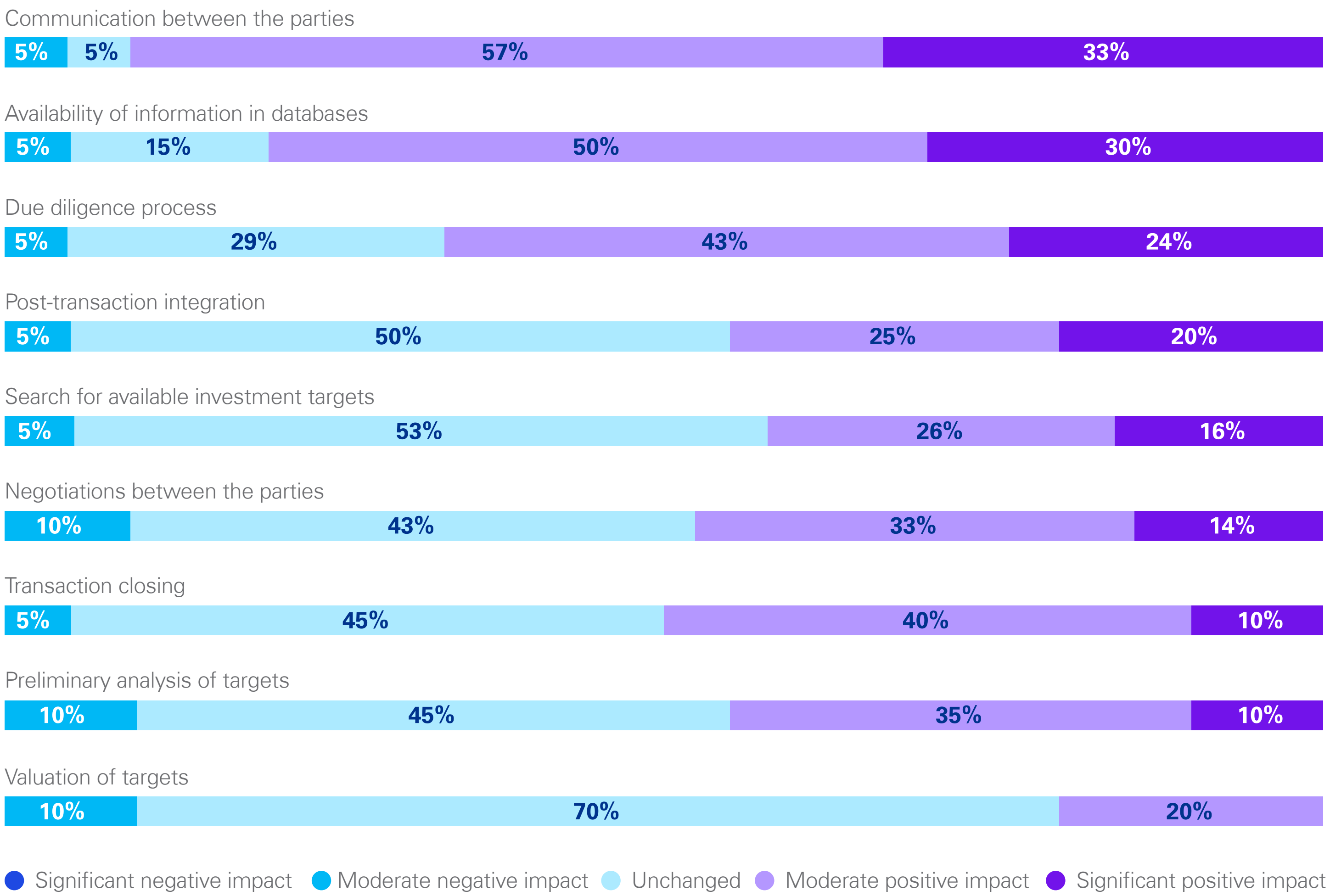
	Most attractive sectors	Least attractive sectors
1	47% New technologies	100% Conventional energy
2	32% Healthcare	55% Catering and hospitality
3	32% E-commerce	42% Fuels
4	32% IT	40% Construction
5	30% Renewable energy	37% Entertainment; 37% Retail and wholesale trade

Source: KPMG in Poland survey.

Introduction
Key findings
Polish transaction market in figures
Top 10 M&A transactions in Poland
Main investment motives
Specifics of M&A transactions in Poland
Reasons for transaction failures
Seller’s liability
Human capital and integration outcomes
Impact of the global economic situationon investor activity in Poland
Current trends on the M&A market in Poland

New technologies in M&A processes

Impact of the growth of new technologies on aspects and conduct of M&A transactions



Due to rounding, totals may not be 100%.
Source: KPMG in Poland survey.

According to a third of those asked, the development of new technologies has had a huge positive impact on communication between the parties. Other aspects of transaction processes that have also been positively influenced by new technologies are the availability of information in databases (80% of responses), due diligence processes (67%), and closings (50%).

None of the mentioned aspects of transaction processes were negatively affected by new technologies. The lack of impact of new technologies, or slight negative impact, was mainly attributed to target valuation, post-transaction integration, the transaction closing process, or the negotiation process between the parties.

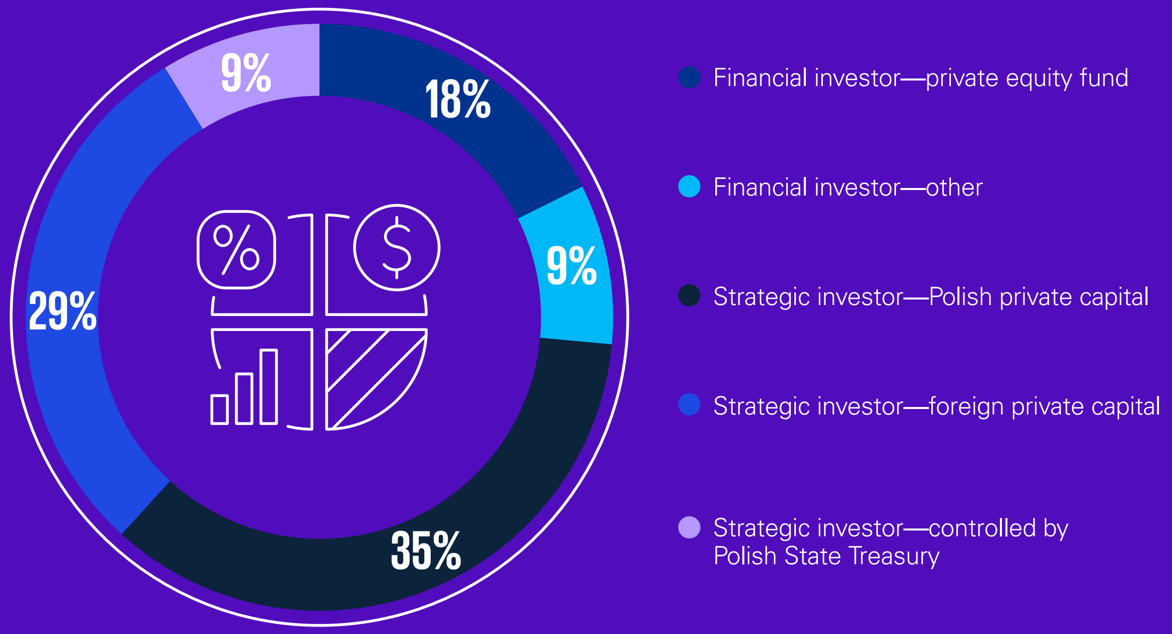
The access to information in databases, valued by respondents, should be understood in the context of wider access to public data, as well as the possibility of using paid databases and increased security when using them, especially when working with confidential data (virtual data rooms).

Interestingly, it seems that better access to data and the introduction of modern tools and services for remote team collaboration have not made it at all easier for the parties to reach agreement on the terms of contemplated deals.

Metrics

The survey on the M&A market in Poland was conducted using the computer-assisted web interview (CAWI) method among a sample of selected KPMG clients. The respondents were representatives of companies characterized as strategic investors or financial investors. The survey was conducted between May and June 2023 by KPMG in Poland.

Breakdown of investors participating in study



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