



# Ukrainian M&A Review 2018

**February 2019**

KPMG in Ukraine

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# Introduction

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Despite global economic headwinds and the inevitable uncertainty the elections will bring, we remain cautiously optimistic that provided government policy remains consistent and fiscally responsible, Ukrainian M&A will deliver a third consecutive year of growth in 2019, albeit probably in low single-digits.

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Ukrainian M&A recorded a second consecutive year of double-digit growth in 2018, with 80 transactions announced, representing a 19 per cent increase over the previous year, and a total of USD1.8 billion invested, up by 78 per cent on 2017.

Although domestic buyers took an even firmer hold of Ukrainian M&A in 2018, accounting for around two-thirds of deal value and deal volume, international investors demonstrated continued confidence in the medium to long-term prospects of Ukraine, as inbound deal activity increased by 47 per cent.

Domestic deal-makers also showed an increased appetite for outbound M&A, with the amount of capital committed overseas in 2018, double the total amount invested in the previous two years.

Ukraine's economic recovery continued in 2018, with GDP growth expected to be around 3 per cent for the year. Although sluggish at times, the government made further progress with its reform agenda during 2018, most notably by passing legislation to implement a functioning anti-corruption court. Agreement of the IMF Stand-by Agreement at the end of 2018, should provide investors with further reassurance about the economic outlook for the country.

While deal-activity may soften ahead of the elections, we remain cautiously optimistic that provided government policy remains consistent and fiscally responsible, that pent up demand and a strong pipeline in Q4 will see low single-digit growth in Ukrainian M&A for the full-year.

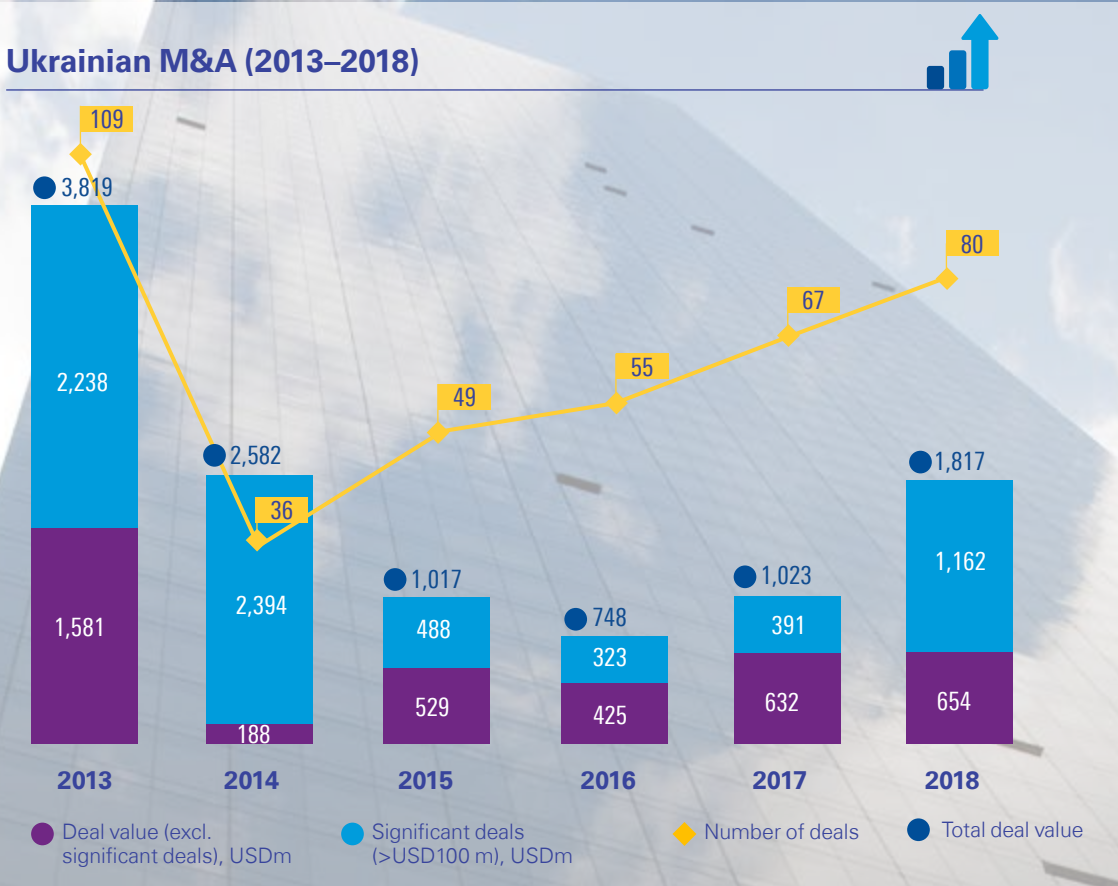
Since launching the first Ukrainian M&A Review, we have invested heavily into our Deal Advisory capabilities to ensure that we remain at the forefront of developments on the local market, so that we are able to help our clients to successfully execute their M&A strategy. We continue to responsibly promote Ukraine as an investment destination and to play our part in the sustained development and transformation of the economy.

**Peter Latos**  
Partner,  
Head of Advisory





# Overview



From its low point in 2016, Ukrainian M&A has now recorded two consecutive years of double-digit growth, despite the country’s political and economic challenges.

During 2018, deal activity increased by 18 per cent, with 80 transactions announced. Notwithstanding this, and an impressive 78 per cent increase in the value of Ukrainian M&A to USD1.8 billion, the total value and the number of deals was still less than at its 2013 peak.

This dynamic reflects both a decline in the transparency of Ukrainian M&A over the last five years, with deal values disclosed for only 46 per cent of transactions in 2018 compared to 59 per cent in 2013 (significantly lower than

typically seen in more mature markets), and a reduction in the average size of transactions valued at below USD100 million.

While the average value of significant deals (>USD100 million each), jumped by 82 per cent between 2013 and 2018 to USD291 million, only four such transactions were announced during the year, compared to 14 in 2013, when almost half were inbound deals. However, the average value of deals in the underlying core of M&A activity declined by nearly one-third, to USD20 million over this period, reflecting the impact of the economic downturn (including the devaluation of the Hryvnia) on financial performance, and hence the valuation of companies.

Nonetheless, Ukrainian M&A has demonstrated remarkable resilience over the last two years as domestic and international players have increasingly shown their willingness to invest further, fuelling the economic recovery.



## Dynamics of M&A

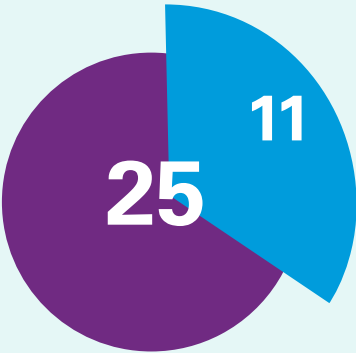
Despite an increase in the number of inbound deals, M&A has become an increasingly domestic play in recent years, with 62 per cent of total deal value (USD1.1 billion) and 63 per cent of total deal volume (50 transactions) involving a Ukrainian buyer and seller in 2018. The largest domestic and overall deal in 2018, was the USD714 million acquisition of Donetsksteel by Industrial Coal Holding LLC, a company reportedly owned by Ukraine’s largest steelmaker, Metinvest, and other co-investors. This raised the average ticket size for domestic deals by 52 per cent to USD49 million.

Inbound M&A activity increased by 47 per cent in 2018, with 25 deals announced, of which encouragingly, 44 per cent were made by first-time investors into Ukraine. However, although the acquisition of the restructured Mriya Agro Holding by

SALIC, the Saudi investment company, boosted total spend to USD508 million, average deal value fell by 16 per cent to USD42 million. One reason for this is the more cautious approach displayed by first-time investors, who on average, spent less than half the amount of their more seasoned counterparts on each acquisition.

**The ten largest deals of 2018** were worth a combined total of USD1.5 billion in 2018, including two transactions in the metals and mining sector for USD820 million (55 per cent), and five transactions in the agriculture sector, including three inbound deals, for USD488 million (33 per cent).

**Inbound deals in 2018**  
Out of 25 inbound deals, 11 were made by new investors



## Ukrainian M&A largest deals in 2018

	Target	Sector	Acquirer	Vendor	% acquired	Value USDm
 10 largest deals USD 1,494 million As % of total transactions in 2018 82%	1 Pokrovske Colliery and Svyato-Varvynska coal enrichment factory	Metals and mining	Metinvest Holding; Altana Ltd; Misandyco Holdings Ltd and Treimur Investments Ltd	Fintest Trading Co Limited	100%	714
	2 Mriya Agro Holding	Agriculture	Saudi Agricultural and Live-stock Investment Company	BNP Paribas SA; Credit Agricole SA	100%	242
	3 Evraz DMZ	Metals and mining	Development Construction Holding LLC	EVRAZ Plc	98%	106
	4 Perutnina Ptuj d.d.	Agriculture	MHP S.A.	Slovenian Steel Group, d.d.	91%	100
	5 Burger King Russia	Consumer markets	CIS Opportunities Fund SPC Ltd; ICU Group; Xomeric Holdings Ltd	VTB Bank	17%	82
	6 Kernel Holding SA	Agriculture	Julius Baer Group Ltd	Not disclosed	6%	73
	7 Agrocentre Euro-Chem-Ukraine LLC	Chemicals	Undisclosed bidder	EuroChem Group AG	100%	53
	8 OOO Ukrroleasing	Transport and infrastructure	ODELUS-Construkt Kft	Cypriot Vrakas Stilianos	100%	50
	9 Spectr-Agro LLC and Spectr-Agro-technika	Agriculture	Sumitomo Corporation	Not disclosed	51%	45
	10 Agrofirma Tripole, Radivolov Agro	Agriculture	Vitagro	Agrogroup Pan Kurchak	100%	28



# Expectations for 2019

Despite concerns regarding the global economy and the uncertainty that the presidential and parliamentary elections will inevitably bring, the economic outlook for Ukraine looks more assured on the back of the USD3.9 billion of IMF funding secured under the Stand-by Agreement and forecast GDP growth of circa 3 per cent for 2019.

The encouraging increase that we have seen in inbound deals, particularly from investors new to the Ukrainian market, is based on those sound economic and structural indicators, as well as the comparatively low price of assets. We expect to see inbound investment continue to grow over the years ahead, with more foreign entrants to the market.

The resurgence of confidence amongst domestic deal-makers is also a positive indicator. Reinforcing this message, in January 2019, Horizon Capital, the private equity firm, saw its 'Emerging Europe Growth Fund III', which will invest in fast-growing, export-oriented companies that leverage Ukraine's cost competitive platform to generate global revenues, primarily in IT, light manufacturing, food and agriculture, hit its hard cap of USD200 million, far surpassing its USD150 million target.

While there maybe some softening in deal-activity ahead of the forthcoming elections, provided government policy remains consistent and fiscally responsible, we believe a strong pipeline will exist for Q4 of 2019 and beyond. On this basis, our outlook is for a modest increase in the value and volume of Ukrainian M&A for the full-year.

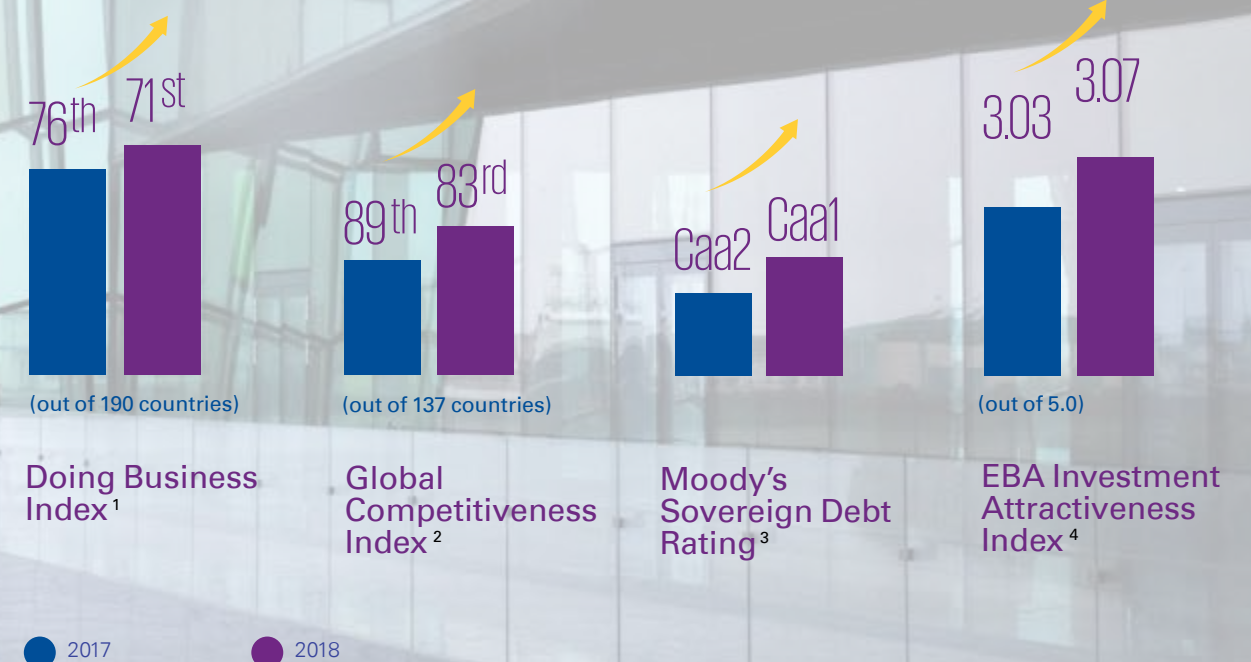


## Key expectations for 2019

We expect inflation to decline to a figure approaching the NBU's forecast of 6.3 per cent and GDP growth of circa 3 per cent for 2019



### Improving investment climate



<sup>1</sup> The World Bank - Ease of doing business index

<sup>2</sup> WEF - Global Competitiveness Report

<sup>3</sup> Moody's - Sovereign Debt Rating

<sup>4</sup> EBA Investment Attractiveness Index



# 2018 in Review

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Despite the often sluggish progress of reforms imposed as conditions of the IMF and EU loans, confidence in the economy has increased among both domestic and international business leaders, and Ukrainian consumers.

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## Macroeconomics

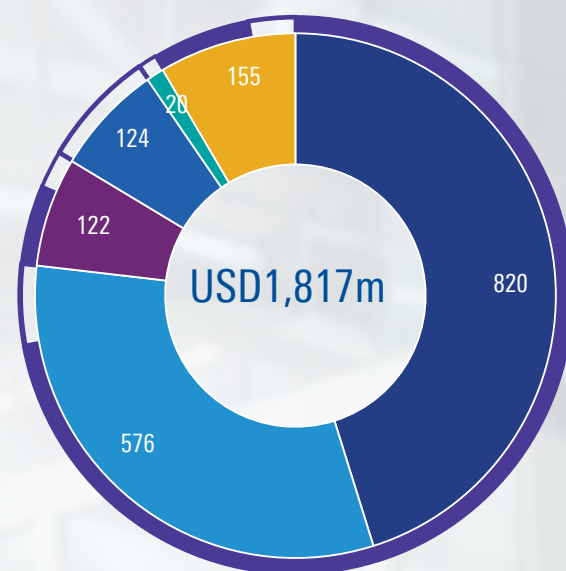
A key driver of Ukrainian M&A over the last two years has been the continuing economic recovery much of which is attributable to the stability brought by the loan packages agreed with the International Monetary Fund (IMF) and European Union (EU). Despite the often sluggish progress of reforms imposed as conditions of the IMF and EU loans, confidence in the economy has increased among both domestic and international business leaders, and Ukrainian consumers.

The Ukrainian economy delivered a third consecutive year of growth in 2018, with full-year GDP of 3.3 per cent, according to the National Bank of Ukraine (NBU). This figure represents the country's strongest economic growth since 2011, and is in line with the 3.2 per cent forecast by the IMF at the start of the year.

The economy was buoyed by rising household consumption, driven by a tightening labour market and real wage growth, coupled with a record harvest of grain and oilseeds, and strong export of agricultural products as the Hryvnia remained stable at an average of 27 to the US dollar. Inflation finished the year at 10 per cent, which although continuing the recent downward trend, was above the NBU target, resulting in the Bank holding the key policy rate unchanged at 18 per cent.

## Key sector activity

In terms of deal value, Ukrainian M&A was dominated by two sectors during 2018; metals and mining, and agriculture, which together accounted for almost three-quarters of total spend. Two-thirds of total deal volume was spread across four sectors; real estate and construction, agriculture, banking and insurance and consumer markets.



- Metals and mining
- Agriculture
- Consumer markets
- Real estate and construction
- Banking and insurance
- Other
- Deals included in top -10
- Deals not included in top -10

## Metals and Mining

M&A in the metals and mining sector has been gathering pace each year since the political upheaval of 2014, and accounted for 45 per cent of total Ukrainian M&A spend in 2018. Deal-making in the sector has been driven by a recovery in global steel prices (up 9.7 per cent in 2018), increased demand in mature markets, and fallout from the conflict in the east of Ukraine. Producers located close to the Anti-Terrorist Operation (ATO) Zone in Eastern Ukraine, have been severely impacted by disruption to raw material and power supplies, and cuts to transport links. Some producers, mainly Russian, have sought to divest their operations in Ukraine.

Despite expropriation of a substantial portion of its assets in the Donbass region, Ukraine's largest steelmaker, Metinvest, has enjoyed strong financial results<sup>1</sup> on the back of the global steel market dynamics, enabling the group to refinance, and it is now reportedly on the hunt for steel rolling assets in Europe.

Metinvest was involved in the largest transaction of the year, as a 24.99 per cent shareholder of Industrial Coal Holding LLC (ICH). In April 2018, ICH acquired Donetsksteel, the owner of various assets including the Pokrovske Colliery and Svyato-Varvarynska coal enrichment plant located in the Ukrainian controlled part of the Donbass, from oligarch Viktor Nusenik's Fintest Trading Co. Ltd. for an estimated USD714 million.

Four other deals were announced in the metals and mining sector during 2018, including Development Construction Holding's (DCH) acquisition of Evraz DMZ, a steel mill located in Dnipro for USD106 million. This was DCH's second transaction with Evraz, following the acquisition of the Sukha Balka iron ore mine and beneficiation plant in November 2017 for USD110 million.

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**Two deals in the metals and mining sector accounted for 45 per cent of all M&A spend in 2018.**

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<sup>1</sup> Metinvest generated EBITDA of USD1.3 billion in the first half of 2018 according to Metinvest's corporate website

## Agriculture

Significant investment in the agriculture sector in recent years, and specifically in technology and resources, has seen grain and oilseed yields almost double since 2001, with 92 million tonnes harvested from the same acreage in 2018. This, combined with a 4 per cent increase in agricultural exports to USD19 billion<sup>2</sup> during 2018, has helped to keep the sector in the focus of deal-makers in recent years. Agriculture was the second most active sector during 2018, with 21 deals announced, and total M&A spend of USD576 million, including the largest inbound and outbound deals of the year.

A successful debt restructuring enabled a consortium of international creditors to offload Mriya Agro Holding to the Saudi Agricultural and Livestock Investment Company (SALIC) for USD242 million – the largest inbound deal of 2018. The transaction, which reflects the food security strategy of the Kingdom of Saudi Arabia, provides SALIC with a further 165,000 hectares of arable land on top of the 45,000 hectares it already farms in Lviv, following its 2013 acquisition of Continental Farmers Group. The largest outbound deal of 2018 saw MHP, Ukraine's, and one of Europe's, largest poultry producers, acquire a 91 per cent stake in Perutnina Ptuj, a Slovenian vertically integrated poultry producer with operations across southeast Europe, for USD100 million. The transaction, which should enable MHP to realise certain synergies, is consistent with its desire for international expansion, and reflects the improving financial strength and growing confidence of Ukraine's larger companies.

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**Agricultural exports of USD19 billion during 2018 have helped to keep the sector in the focus of deal-makers.**

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<sup>2</sup> Ministry of Agriculture



## Real Estate and Construction

With yields improving and occupancy rates climbing, commercial real estate was a focus for Ukrainian M&A, making real estate and construction the most active sector in 2018, with a total of 23 deals announced – almost one-third of total deal volume for the year. Transactions were largely confined to retail and office space, as a shortage of mortgage financing and the construction boom of 2015 to 2018, has left housing developers with unsold stock and significantly weakened margins.

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### Enter the Dragon

**In 2018, Dragon Capital acquired 10 real estate assets, increasing its prime office space to 160,000m<sup>2</sup>, spending USD51 million in the process.**

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Real estate and construction M&A rocketed to USD124 million in 2018, the highest level recorded since 2013, of which USD51 million was attributable to Ukraine-based investment fund, Dragon Capital, which was responsible for almost a half of deal volume in the sector. During 2018, Dragon Capital increased its portfolio of prime office space to 160,000m<sup>2</sup>, and acquired the Aladdin Retail Complex from Meyer Bergman, the British investment fund, for USD23 million. Elsewhere, Vadim Grigoryev acquired the 17,100m<sup>2</sup> Renaissance Business Centre for USD25 million, the largest deal in the sector, while Kovalska Group, the Ukrainian building materials and construction group, marked its first foray into commercial real estate with the USD11 million acquisition of a 7,500m<sup>2</sup> development in the Toronto Kiev Business Center from Alfa Bank.



**Commercial real estate was a focus for Ukrainian M&A, making real estate and construction the most active sector in 2018, with a total of 23 deals announced.**

## Banking and Insurance

The NBU's efforts to clean up the banking sector through tighter regulation, greater transparency and increased capitalisation requirements saw further consolidation, with the 6 transactions in 2018, 57 per cent lower than in 2017. Deal-making in the banking and insurance sector was the least transparent of Ukrainian M&A during 2018, with deal values not disclosed for 5 (83 per cent) of the announced transactions. French insurer, AXA SA and BNP Paribas owned Ukrсіб Asset Management, sold their AXA Ukraine operation to Fairfax Financial Holdings Limited for USD20 million. This was the only transaction in the sector with a disclosed deal value. This is the third investment by Fairfax in Ukraine in the last four years, following the acquisition of insurance company QBE in 2015 and acquisition of a 10% stake in Astarta Holding in 2017.

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**Deal-making in the banking and insurance sector was the least transparent of Ukrainian M&A during 2018.**

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## Consumer Markets

Although M&A activity in the consumer markets sector was on par with the previous year, with a total of 7 announced transactions, the value of deal-making increased more than two-fold to USD122 million. The largest deal saw Ukrainian investment company ICU, increase its stake in Burger King Russia to 35 per cent by exercising its preemptive right to acquire an additional 17 per cent of the business from Russian bank VTB for USD82 million. Elsewhere, Sarantis, the Greek cosmetics to household products group, increased its presence in the CEE market through the acquisition of Ergopack, a Ukraine-based producer and distributor of household products, from Horizon Capital, a Ukraine-based private equity fund, for USD18 million.

However, perhaps the most interesting transaction in the consumer markets sector was the merger of two of Ukraine's largest e-commerce players, EVO, owner of the prom.ua, bigl.ua, crafta.ua, shafa.ua and zakupki.prom.ua platforms, with Rozetka, the online and bricks-and-mortar supermarket. The deal, which resulted in Rozetka acquiring a participatory interest in EVO, will create synergies by combining the platforms and rationalising the supplier base, to leave the merged group unchallenged in the local marketplace.



## Domestic

In 2018, domestic deal-making once again dominated Ukrainian M&A, accounting for 62 per cent of deal value (USD1.1 billion) and 63 per cent of deal volume (50 transactions). The average value of domestic deals has increased year-on-year since 2014, and amounted to USD49 million in 2018. However, the proportion of announced transactions with disclosed deal values in 2018, remained lower than in 2013-2015, at 46 per cent.

Over 90 per cent of domestic M&A spend was concentrated in three sectors during 2018. Metals and mining attracted USD820 million, driven largely to the acquisition of the assets of Donetsksteel, followed by agriculture at USD109 million and real estate and construction at USD99 million. A little under two-thirds of domestic M&A activity was focused on the real estate and construction sector (16 transactions), agriculture (14) and metals and mining (4).

## Outbound

Ukrainian companies announced five outbound M&A deals during 2018, maintaining the average number recorded in the preceding four years. This demonstrates the continued confidence of Ukrainian business in expanding geographically, and testing business models in new geographies. However, with all five deals confined to Europe (4) and Russia (1), it highlights the desire to stay on familiar, if foreign, territory.

The five outbound deals were spread across the agriculture, consumer markets, innovations and technology and real estate and construction (2 transactions) sectors, in Russia, France, Slovenia, and Poland (2 transactions). Deal values were only disclosed for two transactions; MHP's acquisition of a 91 per cent stake in Perutnina Ptuj, the Slovenian vertically integrated poultry producer, and ICU's acquisition of an additional 17 per cent stake in Burger King Russia.

## Inbound

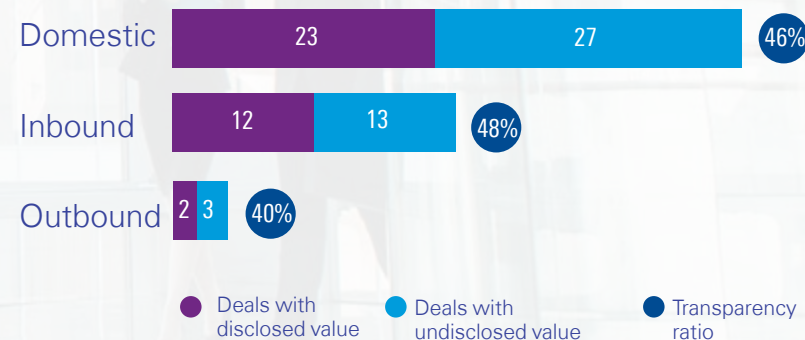
While we correctly predicted in last year's M&A review that 2018 would see an increased number of inbound deals, they continued to account for around one-third of total Ukrainian deal-making. A total of 25 transactions were announced in 2018, marking a 47 per cent increase over the previous year. However, the average value of inbound deals fell by 16 per cent to USD42 million, meaning that the total value of inbound M&A increased by 45 per cent to USD508 million.

The Middle East (USD242 million) and Europe (USD179 million) accounted for a combined 83 per cent of inbound deal value in 2018, of which 76 per cent (USD322 million) was invested into the agriculture sector, driven by SALIC's acquisition of Mriya Agro Holding and the acquisition of a 6.22 per cent minority stake in Kernel, the Warsaw listed major Ukrainian agri-holding, by the Swiss private banking group, Julius Baer for USD73 million. The latter demonstrates the increasing level of confidence among foreign investors in the governance of Ukrainian enterprises.

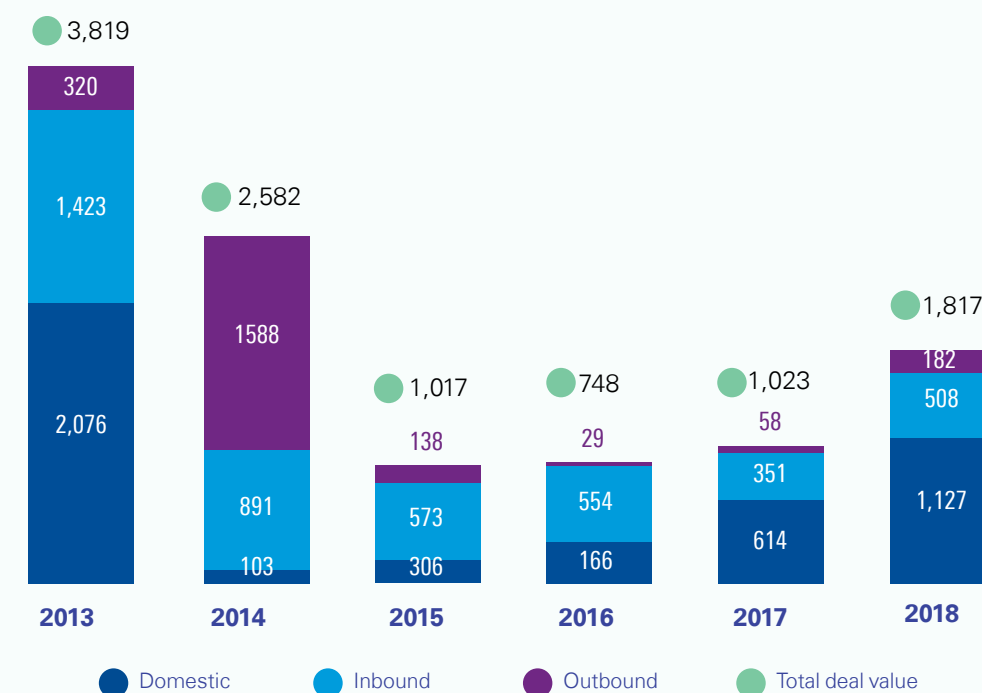
Deal values were disclosed for less than 50 per cent of inbound M&A during 2018, this is lower than rates in 2013-2015. The low-level of transparency was somewhat surprising given that 76 per cent of inbound activity (19 transactions) originated from Europe, where the level of disclosure is typically greater. Excluding Europe, the picture was much better, with deal values disclosed for 83 per cent of inbound deal volume from the rest of the world. Nearly half of inbound deal volume was in agriculture (6 deals), real estate (5 deals), banking and insurance (3 deals) and consumer markets (3 deals).

Nearly half of all inbound investors were new to the market. The most attractive sectors for these new investors were real estate and construction, which saw three deals and transport and infrastructure, which attracted two deals.

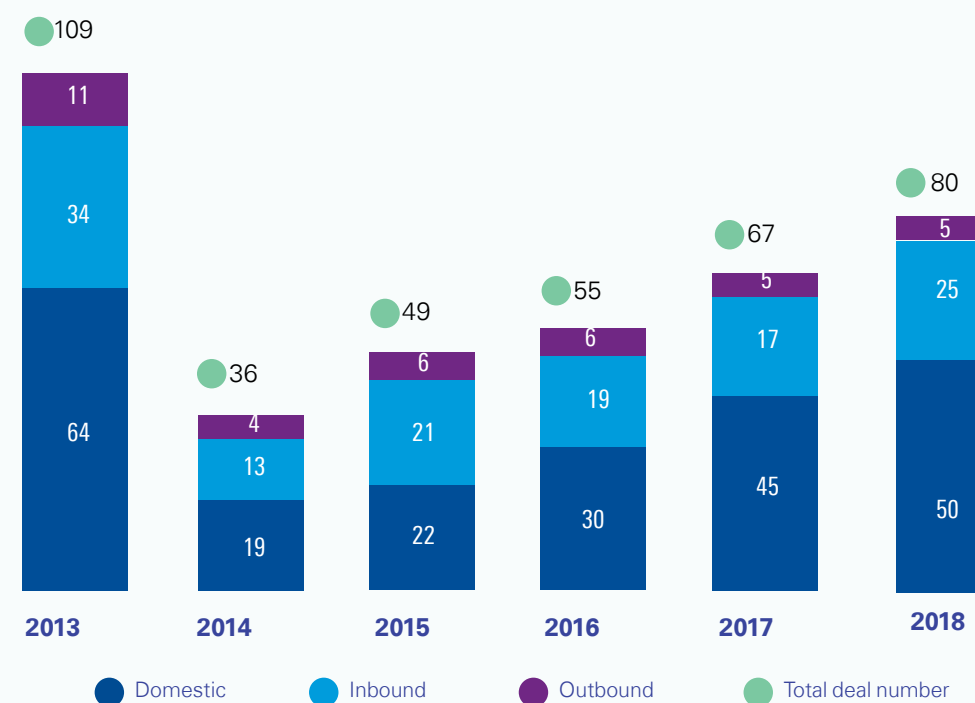
### Transparency of M&A deals in 2018



### Ukrainian M&A deal value by type (2013–2018), USDm



### Ukrainian M&A deal number by type (2013–2018)





# 2019 Outlook

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**Investors will continue to carefully monitor progress of reforms and economic development, when assessing M&A opportunities in Ukraine.**

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## Macroeconomics

What is the outlook for Ukrainian M&A in 2019, after two consecutive years of double-digit growth?

With as yet, no clear front runners for the presidential or parliamentary (Verhovna Rada) elections scheduled for March and October respectively, there is likely to be some political turbulence during 2019, despite broadly similar economic priorities behind the differing populist rhetoric of the key political groups.

There is, in fact, little room for manoeuvre as the current government has committed the nation to a range of tight fiscal and structural reforms, including a new round of privatisations, in return for the 14 month USD3.9 billion IMF Stand-by Arrangement (SBA) which replaced the 2015 agreement, and which was approved by the executive board of the IMF in December 2018. Negotiation of the SBA followed approval in July by Ukraine's parliament, of revised plans for the country's anti-corruption court, fulfilling a condition of the previous round of the IMF loan package. The agreement, along with a EUR500 million EU loan and a USD700-800 million World Bank loan, both of which were dependent on the conclusion of the IMF deal, will provide an anchor for economic policies during 2019. Inflation, which finished 2018 at 10 per cent, was driven upwards by a significant, IMF mandated, increase in consumer energy prices, and is forecast to decline to around 8 per cent in 2019, with interest rates expected to decline to 16 per cent as the NBU gradually loosens monetary policy.

In December 2018, Moody's Investors Service (Moody's) once again upgraded Ukraine's sovereign debt rating, which has improved from Caa3 to Caa1 over the last three years, although the outlook was downgraded from positive to stable. The agreement of an IMF SBA was the key driver of the most recent upgrade in the debt rating, along with the expectation that incremental progress will be made on reducing corruption, given recently adopted reforms, and that Ukraine's economic resilience to the ongoing conflict with Russia has increased further. The stable outlook reflects both the country's continued dependence on the IMF for funding and to drive the reform agenda.

Ukraine's standing in the global economy has also seen steady improvement in recent years, when measured across a range of indices, and the country is now ranked 71<sup>st</sup> in the World Bank's Doing Business Index, 83<sup>rd</sup> in the World Economic Forum's Global Competitiveness Index 4.0, and registered a score of 3.07 out of 5 in the European Business Association's 2018 Investment Attractiveness index. The recently announced Corruption Perception Index, published by Transparency International, ranks Ukraine at 120 out of 180 countries surveyed, an improvement of ten places over 2017.

After a strong start to 2018, investors' confidence in the global economic outlook fell back, following the slow-down of global industrial production and reciprocal protectionist measures imposed by the USA and China. This increasing pessimism cannot fail to affect Ukrainian investors. In the first few weeks of 2019 we have already seen weaker retail results for Q4 2018 in the US and Europe, and job losses across the global automotive industry as demand slows, tighter emissions regulations take hold, and the momentum for electric vehicles builds.

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**As long as government policy remains consistent and fiscally responsible, we are confident that deal-making will continue to grow.**

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The US Federal Reserve's decision to shift its target range for the federal funds rate 2.25 - 2.50 per cent in late December 2018, and some investors' exit to the fixed-income market, will also cool stock markets in general and those in emerging markets particularly.

It is therefore not surprising that the consensus forecast is for the Ukrainian economy to slow slightly in 2019, with GDP growth of 3 per cent. This reflects the resilience of domestic demand underpinned by consumer consumption and the ever-tightening labour market, which will be tempered to some degree by election-related uncertainty and the likelihood of lower external demand as the global economy slows.

Overall, we remain cautiously optimistic for Ukrainian M&A in 2019. Whilst there may be potential for some softening in activity as investors adopt a more cautious approach until the likely outcome of the elections is known, we are confident that there will be pent up demand and an established pipeline by Q4 2019 and into 2020, potentially fuelled by the long-awaited privatisation of state owned enterprises. With Ukrainian M&A equivalent to just 1.4 per cent of GDP, it is significantly under-invested compared to the global average of 4.3 per cent.





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**Key drivers for 2019**

We do not anticipate any significant developments in the overall structure of Ukrainian M&A in 2019, and largely expect it to be business as usual, with the majority of deal-making confined to a small number of sectors.

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**Agriculture:** we expect M&A to be driven by foreign investors, as domestic players concentrate on driving efficiencies from existing assets. Indeed, in January 2019, Saudi Arabia's SALIC announced the acquisition of the remaining 66% stake in United Farmers Holding Company (UFHC), which operates 44,000 hectares of crop production in west Ukraine, from two Saudi private sector co-investors, following their joint investment in 2013.



**Real Estate & Construction:** activity will remain strong in the commercial real estate segment given robust supply as banks and the Deposit Guarantee Fund (GDF) continue to offload properties, potential for high-returns and comparatively low levels of risk. The backlog of unsold residential properties following the 2015 to 2018 construction boom and absence of a functioning mortgage market, could lead to forced sales of construction companies, unless they are able to successfully navigate debt restructuring.



**Power & Utilities:** with the privatisation of Centrenergy and other state owned enterprises likely to be on-hold until after the elections, M&A in the sector is likely to be limited to renewables, with 2019 likely to be the last chance for investors to secure the advantageous Green Tariff for newly commissioned capacity. Although a number of pre-construction projects secured foreign investment in 2018, the majority were below the USD5 million threshold for our database. Syvashenergoprom, due to construct a wind plant with a power capacity between 250 and 330 MW, was acquired by Norwegian renewable energy company NBT AS. This was the only deal large enough to make our database. We may see larger deals during 2019 and thereafter as owners look to refinance completed power plants.



**Banking and Finance:** with seemingly no resolution to the ongoing conflict with Russia, it is likely that pressure will continue to mount on Vneshekonombank and Sberbank to divest their Ukrainian activities. Further consolidation is likely in the banking segment as stricter capital requirements take hold. We expect the remaining international players to exit the insurance market because of low demand for life insurance in Ukraine and price competition in the risk insurance market among key players.



**Consumer Markets:** incomes are growing and households able to increase their discretionary spending. Much of this is linked to rising foreign remittances, but with promises of higher wages and pensions, by presidential candidates, the trend should continue in the coming months. IKEA, Auchan and Decathlon have all announced plans for expansion in Ukraine.

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Investors will continue to carefully monitor progress of reforms, and economic development, when assessing M&A opportunities in Ukraine.

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Like many, we remain hopeful that the long-awaited privatisation process will soon gather momentum. Although the government, in January, committed once again to sell 23 state owned enterprises, including Indar Pharmaceuticals and the Krasnolymska Mine, it is doubtful that such larger privatisations will happen before the elections. However, spurred on by the terms of the IMF SBA, we may see the government privatise some 500 small assets (UAH250 million in terms of assets) via the ProZorro platform.

We expect the debt-sales market to continue to develop in 2019, driven by attractive discounts to book value for non-performing loans (NPL), averaging 75 per cent in Ukraine, significantly higher than most CEE markets, and an increasing volume of NPLs sold by the DGF through the ProZorro platform, which provides a level playing field for investors. This could in turn lead to M&A activity amongst related debt-collection and management services companies and even the structures of NPL investors.

A new law on concessions and public-private partnerships (PPP) is slated for the first half of 2019, which if passed, could lead to ports, airports, rail infrastructure and ferries being placed in the hands of private investors. The Ministry of Infrastructure has also flagged its intention to give the green light to the construction of toll roads during 2019. Following on from Ukrainian Railways long-term USD1 billion agreement with GE for 30 new locomotives, modernisation of the existing fleet and a long-term service agreement, it is a positive sign for infrastructure investors.

**Overall expectation**

In summary, whilst political and economic headwinds are building both globally and domestically, we believe that the macroeconomic fundamentals in Ukraine will remain sufficiently resilient, such that investor confidence in the medium to long-term prospects for the country will be largely unchanged. As a result, although uncertainty caused by the election process may see restrained activity during the first half of the year, we remain cautiously optimistic that 2019 will see a fourth consecutive year of growth in Ukrainian M&A.



# Continued reform: the key to FDI

**Brian Best is Managing Director of Investment Banking at Dragon Capital, one of the most active investors in the Ukrainian Market. In this interview, Brian offers his analysis of the strengths and weaknesses of the Ukrainian economy and offers an insight into his investment strategy, which has seen Dragon Capital become one of the most respected players in the market.**



## How would you characterise and assess the resilience of the Ukrainian economy?

Considering where the country was post-Maidan Revolution, the Ukrainian economy has shown quite a bit of resilience over the past few years. Probably not enough to drive significant growth in cross-border M&A, but domestic M&A has been stronger, as companies or investors that have cash, are able to capitalise on distressed situations. While the local currency has been stable and much has been done in the area of government reforms, GDP growth rates need to accelerate in order to entice investors to take on more risk in Ukraine.

**Brian Best**  
Managing Director,  
Investment Banking,  
Dragon Capital

## What advantages does Ukraine possess to attract investment from the global market?

Ukraine is a diverse and cost-efficient economy with a highly skilled labour force. In fact, Ukraine has most of the necessary ingredients to be a major manufacturing hub for Europe – low-cost, skilled human resources, engineering prowess, geographical location and improving infrastructure. Moreover, in the case of IT and agriculture, Ukraine has the capability to lead the world in terms of innovation and productivity. This is especially true in the areas where IT and agriculture converge, such as in the burgeoning field of AgTech. Ukraine is a hidden gem that has been tarnished by its past, but with a bit of good PR, could be discovered.

## What impact do cultural differences have on cross-border M&A?

Language is still probably the biggest cultural barrier for most cross-border transactions, and that barrier is getting lower every year. The number of Ukrainians travelling abroad increases annually and when they do travel to foreign countries, they bring back knowledge and cultural understanding. This translates to business and makes bridging cultural barriers easier. Most companies that have attracted capital through the international capital markets have adapted their businesses to report regularly to their foreign investors and communicate with them frequently through conferences and board structures. Even more so, the Ukrainian IT sector has seamlessly integrated into the global software and hardware development market. I've long believed that geographically Ukraine is solidly European – now I feel that culturally it is as well.

## How would you define success for an international investor operating in Ukraine?

If we include the start of Ukraine's history as an independent state in 1991, then the country has gone through five or six major political and/or financial crises, depending on how you count them. Asset values were historically very cheap, while risk and potential returns were very high. So, in my mind, in the last 25 or more years of Ukraine's independence, "success" has been defined as merely "survival". If you survived the high-risk environment, then you were likely to experience high investment returns. Success. However, as Ukraine implements reforms to make business easier and integrates into the European and global marketplace, simply surviving is no longer good enough. Investors today are looking to Ukraine not to provide some short-term cost benefit, but rather to build a long-term sustainable advantage into their regional or global value chains. This means that in addition to less expensive labour, foreign investors are looking for productive talent and ingenuity.

## How important is reputation? What do international investors expect from business?

I think that, for the most part, a good business or professional reputation hinges on the ability to be successful without engaging in rent-seeking behaviours or depending on some unique political relationship. Most of Ukraine's 'old economy' was built on such relationships, which has tarnished the reputation of a number of businesses and businesspeople. Today, foreign investors want to see that a business can compete on its own merits and that its success doesn't depend on a political connection or some legislative loophole. The best way to build a solid reputation is to incorporate corporate governance best practice as early as practicably possible. Having a quality Board of Directors and working with experienced board members can add an enormous amount of value to a business and its owners, all the while improving their reputation.



### Effective corporate governance and corporate culture are essential for a successful business. How does this apply to your company?

Dragon Capital is a partnership and, as such, our partners operate a board-like structure. Moreover, because we are a regulated financial institution operating under the laws of the European Union and the European Common Marketplace, we have a strict set of rules and guidelines that we adhere to in our daily work. This has driven our own corporate culture as we have evolved from a 15-person entrepreneurial start-up to a 200-person company, which is integrated into the global financial system. As we continue to build our business together with well-known global partners and investors, we will grow our corporate governance culture to mirror global best practice in our industry.

### Although Foreign Direct Investment (FDI) into Ukraine is growing, it is still at a historically low level, and well below regional peers. What needs to happen to stimulate FDI?

Generally speaking, investors simply want to see political and economic stability and predictability so that they can build their risk models and make sound investment decisions. If you combine that with a high-growth environment, then investors will come. We witnessed this in the 2006-2008 period when a few years of high single-digit GDP growth was coupled with a new, western-leaning government that gave investors a feeling of political stability and predictability. During that period, FDI flowed into Ukraine at unprecedented levels. Despite the forthcoming election cycle, I feel that Ukraine could be approaching another period of sustained stability and predictability. If the reform process were to continue at a more rapid rate, and if the banking system increased lending, we could see another period of significant GDP growth, and FDI would certainly follow.

### What lessons can Ukraine learn from other countries have faced similar economic, social and political challenges in the past, to pave the way to recovery?

One needs to look only as far as Central and Eastern Europe (CEE) to find many examples of success stories for Ukraine to try and emulate. All of the countries that were under Soviet influence had to rebuild their political and economic systems, and those that shook off of the Soviet-era past and built new political and market institutions the fastest, were the ones that achieved the greatest results in terms of economic recovery. However, it wouldn't be 100% fair to compare Ukraine to most other CEE countries in this regard because Ukraine has a much longer history under Soviet rule – in other words, it has a lot more political baggage to unload. I think that it is finally safe to say that Ukraine is clearly on a path to integrate into the European market and culture. It is now a matter of building the political, legal, and market institutions that will cement its place in the European way of life. While Ukraine needs to develop its own such institutions, it can still learn a lot from the countries that have had to build the same institutions before it.

### How will Ukraine fit into the rapidly changing global investment landscape and what is your vision for the future?

This is a tough question. On the one hand, I feel that it would be to Ukraine's advantage to build a strong local financial market that could eventually be integrated into the global system. I do believe that a strong capital market is essential for a prosperous economy. On the other hand, as you have pointed out in your question, we have seen the emergence of a paradigm shift, for example, with the introduction of digital currencies and blockchain technology. Whether or not you believe in blockchain, digital currencies, crowd funding, etc. one thing is for sure - Ukraine has the advantage of being able to "leap-frog" to the front of the line in terms of implementing some of these global changes. For example, why couldn't Ukraine be the first country to implement a cashless society? While I am still not entirely sold on some of the changes appearing in the global investment landscape, I do believe that Ukraine could, and should, try to be on the cusp of these changes.

### What is your outlook for Ukrainian M&A in Ukraine in 2019?

The implementation of martial law at the end of 2018 certainly didn't give investors confidence in Ukraine. I go back to my comments about stability and predictability – neither martial law nor a year of presidential and parliamentary elections give a feeling of either. As such, I don't expect 2019 to be a year of big M&A activity in Ukraine. However, because so much has been done in terms of reforms and economic stability, I think that Ukraine is now on the radar screen of many investors. If we can get through 2019 without any major political or economic crises, then I believe that 2020 will see a huge boost in M&A and general economic activity in Ukraine.

### What are the key priorities for Dragon Capital's investment strategy in the years ahead?

Dragon Capital will continue to be opportunistic in terms of its investment strategy going forward. In 2014 we saw an ability for Ukraine to escape sovereign default, so we went long on Ukraine while investors were exiting the country. That worked out well for our trading team. More recently we have seen asset prices in real estate and other retail or export related industries undervalued, so we have developed a private equity business to tap into that opportunity. I anticipate that the M&A and capital markets will follow in 2020 so we will be prepared to take advantage of those opportunities as they present themselves. We spend a great deal of time evaluating the markets so we can "follow the money" – the trick is to be one of the first ones through the door once you see where it is going.



# Crossing the M&A tax border

“

As an acronym, it's innocuous enough, but the base erosion profit shifting (BEPS) project should be a key part of your strategic planning for any cross-border deal.

”

**Maksym Zavalny**

## BEPS in Ukraine

The BEPS project, which was initiated by the OECD and G20 in 2013, is designed to reduce the use of tax planning strategies that exploit loopholes and inconsistent tax rules to shift profits to low or no-tax jurisdictions, deny benefits under double taxation agreements, and to align transfer-pricing arrangements. The full package of BEPS measures is intended to end to the classic holding and profit repatriation structures commonly used by multinationals to pay little or no taxes on multi-billion worldwide income.

Ukraine committed to the BEPS project in 2017 by adopting its minimum standards, a set of principles that each participant country is required to implement. However, a draft bill to implement the country's BEPS Action Plan is awaiting parliamentary hearings to discuss a comprehensive package of anti-tax avoidance and evasion measures.

While Ukraine's commitment to the project was reinforced last year, by the signing of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI), which aims to amend existing tax treaty networks, without the need for individual renegotiation, and hopefully, remedy existing deficiencies, the draft bill is currently stalled in parliament.

Once in place, however, Ukraine's BEPS measures are expected to provide greater efficiency in eliminating the harmful practices that taint the international tax framework and should eliminate the majority of tax abuse practices, especially the less sophisticated tax avoidance techniques commonly used by Ukrainian companies, such as unjustified cross-border expenses, in the form of interests and royalties, and transfer mispricing.



**Maksym Zavalny**  
Director,  
Tax and Legal

“

Tax is a crucial element of the due diligence process, essential not only to assess risks and impact on valuation but also to ensure that increasingly connected tax systems are appropriately structured.

”

**Dmytro Shchur**

## Cross-border considerations

More so than ever, consideration of the tax implications of Ukrainian M&A must go beyond due diligence. While the acquisition process in Ukraine is relatively straightforward, it is already a challenge to repatriate returns on investment using classic holding structures in tax havens or purely tax driven repatriation mechanisms. Cross-border M&A requires appropriate tax structuring and modelling to be undertaken in conjunction with the due diligence, to ensure that transaction documents not only mitigate key risks but also reflect the business and economic rationale of tax instruments.

BEPS adds another level of complexity to cross-border M&A, requiring tax and legal professionals to work side-by-side to consider the impact of a transaction on the existing international tax and legal structure of a business. Appointing M&A tax professionals is essential to assess the most effective way to redraw the jigsaw, not a luxury. The focus for any cross-border deal should be to select tax advisors who have in-depth experience of the latest tax developments and initiatives.

KPMG's team of professional deal-advisors are able to guide you through the tax complexities of cross-border M&A, to help you achieve a successful transactions.



**Dmytro Shchur**  
Director,  
Transaction Services



# In good times and bad

“

**While the choice of applicable law for executing M&A is important, it's also essential that that consideration is given to the ability to enforce the protection afforded by the transaction documents, and recover any losses as a result.**

”

**Yuriy Katser**

## On the right side of the law

Although the general principles of Ukrainian law enable internationally recognised legal instruments to be structured in transaction documents, generally poor regulation, inconsistencies and gaps in the legal system, compounded by a lack of consistent and clear court practice, typically preclude its use in reality.

The lack of a well-developed concept of due diligence is another crucial issue under Ukrainian law, that hinders the effective structuring of M&A transactions, and the ability to enforce contractual obligations in the event of a breach. Ukrainian law also lacks comprehensive regulation of, and jurisprudence on, important legal instruments used for M&A, such as representations, warranties, indemnities, guarantees, and put and call options.

While international deal-makers typically expect to seek financial redress if the seller's warranties and representations under a sale and purchase agreement (SPA) prove to be false or inadequate, Ukrainian courts are unfamiliar with such concepts, and tend to award minimal, if any, damages, while requiring a very high burden of proof threshold.

In February 2018, Ukraine's law on corporate agreements came in force. While the law recognises the concept of shareholder agreements (SHA), it fails to pay sufficient attention to them, and does not specifically envisage the instruments used under English law, or more generally worldwide. Furthermore, Ukraine does not have established relevant court practice. Instead, parties should rely on the freedom of contract concept, which in the given circumstances is not sustainable or secure.

Therefore, the risk of applying Ukrainian law is that customary transaction arrangements, which are based only on the freedom of contract concept, may be misinterpreted by local courts, or worse still, prove to be unenforceable.



**Yuriy Katser**  
Director,  
Tax and Legal

English law is frequently used to govern cross-border M&A. Clear and well established legal and business practices, combined with an unbiased and objective court and arbitration system, are key reasons for choosing English law. In fact, over 80 per cent of parties who arbitrate in the London Court of International Arbitration (LCIA), are from outside of the United Kingdom. With 94 per cent of LCIA hearings held in London, and English law applicable for 85 per cent of cases.

When structuring a cross-border transaction under English law however, it is important to continue to respect the imperative norms of local legislation, which can result in aspects of the deal being governed by more than one legal system. The principal imperative norms to consider in respect of Ukrainian law include, currency control regulation, the process for share transfer, and merger control rules.

However, regardless of which governing law is chosen, it is vital that due consideration is given to both the ability to actually enforce the legislative

protections afforded by transaction documents, and equally as important, to actually recover losses as a result of successful enforcement. As the saying goes, 'a bird in the hand is worth two in the bush', meaning that it is preferable to adjust the valuation or negotiate a price reduction to account for significant risks, or those with a high probability of crystallising, rather than relying on the legislative protections of the transaction documents after the event.

With an increasing volume of cross-border Ukrainian M&A, it is essential that buyer and seller appoint suitably qualified and experienced legal professionals, with a profound understanding of both local and English law. Consideration should be given, not only to appropriate instruments to mitigate risks, but also the ability to enforce, and seek redress.

Our team of M&A professionals are able to use their legal expertise and years of cross-border M&A experience to help you mitigate deal risks and protect value through the transaction process.

“

**In our experience, English law affords greater protection, the ability to enforce such protection should the situation arise, and to seek redress. Appointing dedicated M&A legal advisors early in the deal process, will save money in the long-run.**

”

**Oleg Neplyakh**



**Oleg Neplyakh**  
Director,  
Valuations,  
M&A and Financing



# A long road to privatisation

“

After another false dawn for the privatisation of large state-owned enterprises, and no realistic prospect of the process regaining momentum again until 2020 at the earliest, government should focus on preparing for private investment.

”

Dmitry Musatov

## State Enterprises see the benefits of market reforms

Despite plans to privatise a host of state-owned enterprises (SOEs), progress has been painfully slow since 2014. Last year's efforts to restart the process was ultimately derailed by a legal challenge no sooner had advisors been appointed for six large<sup>1</sup> SOEs, including Odessa Portside Plant (OPZ), which had already failed to be sold twice.

Ukraine's economy is disproportionately controlled by the state, with 3,500 SOEs, which are often plagued by corruption, becoming a drag on the economy and stifling competition. However, government has already demonstrated its ability to take big steps toward tackling such issues through the introduction of independent supervisory boards (ISBs) at four strategic enterprises that will remain in state ownership: Natfogaz, Ukrposhta, Ukrsaliznytsia (Ukrainian Railways) and Ukrenergo.

While privatisation can enable the realisation of both short and longer-term economic objectives, provided a clear strategy is in place to balance raising funds for the budget with future GDP growth and job creation, there seems little prospect that processes for larger SOEs will restart until 2020 at the earliest. With this in mind, what should we expect during 2019, and what can government do to be better prepare these enterprises for private investment?

## The road ahead

One bright spark is the prospect for further privatisations of small SOEs. The privatisation law, which came into effect in March 2018, mandates that all small SOEs must be privatised via ProZorro, the government e-procurement platform, which was launched in 2015 with the help of Transparency International. Over 400 small SOEs and properties have



**Dmitry Musatov**  
Partner,  
Valuations,  
M&A and Financing

been successfully privatised through ProZorro since the first auction in August in 2018, raising USD21 million for the budget. Many more are earmarked for auction in 2019, which would go some way towards making progress on the reforms of the state sector agreed with the IMF.

Conversely, although in January, the government approved a revised list of 16 large SOEs for privatisation, the prospect that advisors will be appointed for any, before the elections, let alone auctions being held, seems remote. With many large SOEs facing similar challenges, due to years of under investment, inefficient and outdated practices, and in some cases corruption, transforming governance models must be a prerequisite for privatisation.

Although the government's reform agenda for Natfogaz, Ukrposhta, Ukrsaliznytsia and Ukrenergo faced predictable resistance, it has proven to be one of its most successful initiatives of last year. The transparency and increased efficiency that comes from such reform is the only road SOEs can take, if they are to attract much needed private sector investment. With the privatisation process seemingly on-hold this year, government should use this opportunity to lay the foundations for the transformation of the governance model and culture of such enterprises.

Another example of such transformation is UkrGasVydobuvannya (UGV), the upstream oil and gas subsidiary of Naftogaz. UGV is governed by the ISB of its parent company, Naftogaz, that was appointed in 2017, and has recently started working with major global oilfield service companies, such as Schlumberger and Weatherford. Working with them requires compliance with international standards for procurement, health and safety, and operations management. Such open and transparent working practices are essential if UGV is to attract new capital and international partners for its production enhancement contract (PEC) strategy launched in late 2018.

We expect to see such reform processes become more prominent across SOEs, and potentially municipal companies such as underground railway, district heating, water and waste management companies, in the years ahead. However, the ability to attract private, and particularly international investors, will remain closed for large SOEs unless steps are taken to improve governance, implement sound management practices, and robust systems and controls. SOEs with such characteristics will be most prized by investors, and attract a price premium, helping to offset the cost of the required investment.

At KPMG, we see first-hand the steps being taken by some SOEs and municipal companies to reform their governance, which provides unique insights into the local market. This, combined with global experience of similar processes, means we are well positioned to help both government and investors realise the value potential of these enterprises.

“

Although the government's reform agenda for Natfogaz, Ukrposhta, Ukrsaliznytsia and Ukrenergo faced predictable resistance, it has proven to be one of its most successful initiatives of last year.

”

Andrii Tymoshenko



**Andrii Tymoshenko**  
Director,  
Management Consulting

<sup>1</sup> The law on privatisation categorises SOEs as small (assets of <UAH250 million), and large (assets of >UAH250 million)



# Methodology

## KPMG Ukrainian M&A database

This report is based on the KPMG Ukraine M&A database which includes transactions where either the target (inbound) or acquirer (outbound) or both (domestic) are Ukrainian. All data is based on transactions completed between 1<sup>st</sup> January and 31<sup>st</sup> December 2018, or announced during this period but pending at 31<sup>st</sup> December 2018. Historical data may differ from earlier versions of this report as the KPMG Ukrainian M&A database is updated retrospectively for lapsed deals and information subsequently made public.

The KPMG Ukrainian M&A database has been compiled over a number of years, based on information included in the Mergemarket M&A deals database, EMIS DealWatch database and S&P Capital IQ database, together with KPMG desktop research of other sources. Data includes transactions valued in excess of USD5 million, as well as transactions with undisclosed deal values where the target's turnover exceeds USD10 million. Deal values are based on data included by Mergermarket, DealWatch and Capital IQ, as well as company press releases and market estimates disclosed in the public domain.

Between 2013 and 2018, transaction values were not publicly disclosed for 55 per cent of announced Ukrainian M&A deals. This low level of transparency may distort the data included in the KPMG Ukrainian M&A database, and the comparability of deal data from one period to another.

Allocation of deals to industry sectors may involve using our judgment and is therefore subjective. We have not extensively verified all data within the KPMG Ukraine M&A database, and cannot be held responsible for its accuracy or completeness. Analysis of different databases and information sources may yield deviating results from those presented in this report.

Classification of the deal type between inbound, outbound or domestic was made based on information in the sources used and in the public domain about the dominant geography of the acquirer's major shareholders and/or headquarters, as well as dominant geography of the target (in turnover or asset terms).

## Macro trends and medium term forecasts

Information presented in this report on macro trends and medium term forecasts are based on data from Macro-Advisory Ltd. an independent macroeconomic and political strategy firm specialising in the Eurasia region, including Ukraine and the CIS.



All data is based on transactions completed between **1<sup>st</sup> January and 31<sup>st</sup> December 2018** or announced during this period but pending at **31<sup>st</sup> December 2018**.



# Appendices

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➤ Macro trends and medium term forecasts

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➤ Cross-border M&A highlights

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➤ Sector highlights

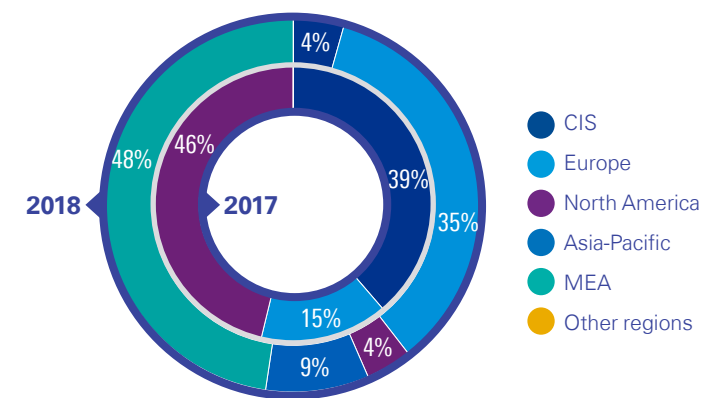
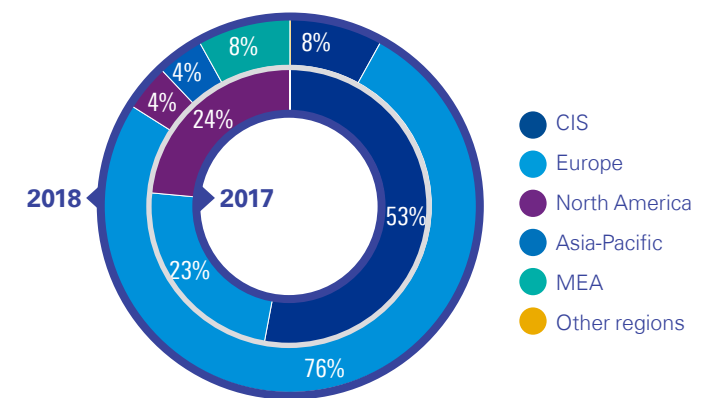
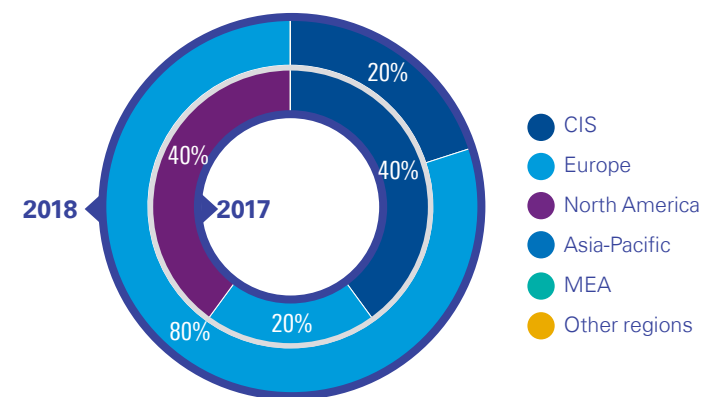
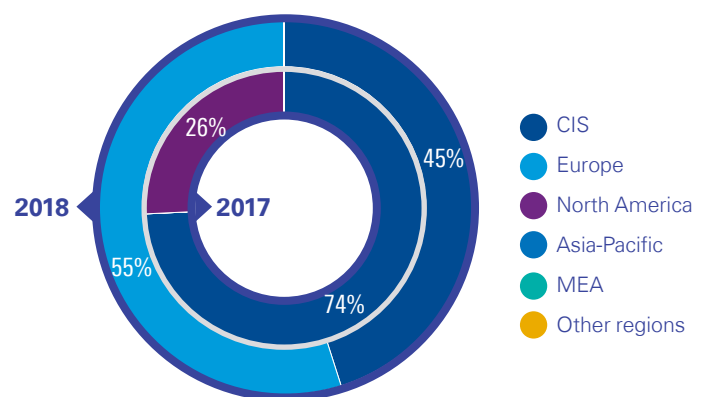


## Appendix 1

Macro trends and  
medium term forecasts

	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E
<b>GDP, UAH bn, nominal</b>	<b>1,465</b>	<b>1,587</b>	<b>1,989</b>	<b>2,385</b>	<b>2,983</b>	<b>3,459</b>	<b>3,960</b>	<b>4,572</b>	<b>5,228</b>	<b>5,910</b>
<b>GDP, USD bn, nominal</b>	<b>183</b>	<b>134</b>	<b>91</b>	<b>93</b>	<b>112</b>	<b>128</b>	<b>138</b>	<b>158</b>	<b>178</b>	<b>200</b>
Growth, real % YoY	(0.0%)	(6.6%)	(9.8%)	2.4%	2.5%	3.3%	2.8%	2.1%	2.6%	2.7%
<b>CPI - average, % YoY</b>	<b>(0.3%)</b>	<b>12.1%</b>	<b>48.7%</b>	<b>13.9%</b>	<b>14.4%</b>	<b>11.0%</b>	<b>8.7%</b>	<b>8.0%</b>	<b>7.7%</b>	<b>6.9%</b>
<b>CPI - period-end, % YoY</b>	<b>0.5%</b>	<b>24.9%</b>	<b>43.3%</b>	<b>12.4%</b>	<b>13.7%</b>	<b>10.3%</b>	<b>7.8%</b>	<b>8.0%</b>	<b>7.5%</b>	<b>6.8%</b>
Gross fixed investment, real% YoY	(8.4%)	(24.0%)	(9.2%)	20.4%	18.2%	13.0%	7.0%	5.0%	6.0%	7.0%
Industrial production, real % YoY	(4.3%)	(10.1%)	(13.0%)	2.8%	0.4%	2.2%	3.0%	2.8%	2.9%	2.9%
<b>Agricultural output, % change YoY</b>	<b>13.0%</b>	<b>2.3%</b>	<b>(4.4%)</b>	<b>6.3%</b>	<b>(2.5%)</b>	<b>1.1%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>
<b>Bank average lending rate, %</b>	<b>16.6%</b>	<b>17.7%</b>	<b>21.8%</b>	<b>19.2%</b>	<b>16.4%</b>	<b>17.0%</b>	<b>15.0%</b>	<b>13.0%</b>	<b>12.0%</b>	<b>11.0%</b>
<b>Real disposable income, % YoY</b>	<b>6.9%</b>	<b>(9.4%)</b>		<b>(6.5%)</b>	<b>(3.2%)</b>	<b>(0.4%)</b>	<b>9.1%</b>	<b>2.3%</b>	<b>(1.7%)</b>	<b>(1.1%)</b>
<b>Unemployment, % EOP</b>	<b>7.2%</b>	<b>9.3%</b>	<b>9.1%</b>	<b>9.3%</b>	<b>9.5%</b>	<b>9.2%</b>	<b>9.0%</b>	<b>8.6%</b>	<b>8.4%</b>	<b>8.3%</b>
<b>Budget balance % of GDP</b>	<b>(4.4%)</b>	<b>(4.6%)</b>	<b>(2.1%)</b>	<b>(2.9%)</b>	<b>(1.5%)</b>	<b>(2.6%)</b>	<b>(2.5%)</b>	<b>(2.2%)</b>	<b>(2.1%)</b>	<b>(1.7%)</b>
<b>Current account,% of GDP</b>	<b>(9.0%)</b>	<b>(3.4%)</b>	<b>1.8%</b>	<b>(1.4%)</b>	<b>(2.2%)</b>	<b>(5.0%)</b>	<b>(6.2%)</b>	<b>(4.5%)</b>	<b>(3.9%)</b>	<b>(3.7%)</b>
<b>UAH/USD, year-end</b>	<b>8.0</b>	<b>15.8</b>	<b>24.0</b>	<b>27.2</b>	<b>28.1</b>	<b>27.7</b>	<b>28.8</b>	<b>29.3</b>	<b>29.5</b>	<b>29.7</b>
<b>UAH/USD, average</b>	<b>8.0</b>	<b>11.9</b>	<b>21.8</b>	<b>25.6</b>	<b>26.6</b>	<b>27.0</b>	<b>28.7</b>	<b>29.0</b>	<b>29.4</b>	<b>29.6</b>

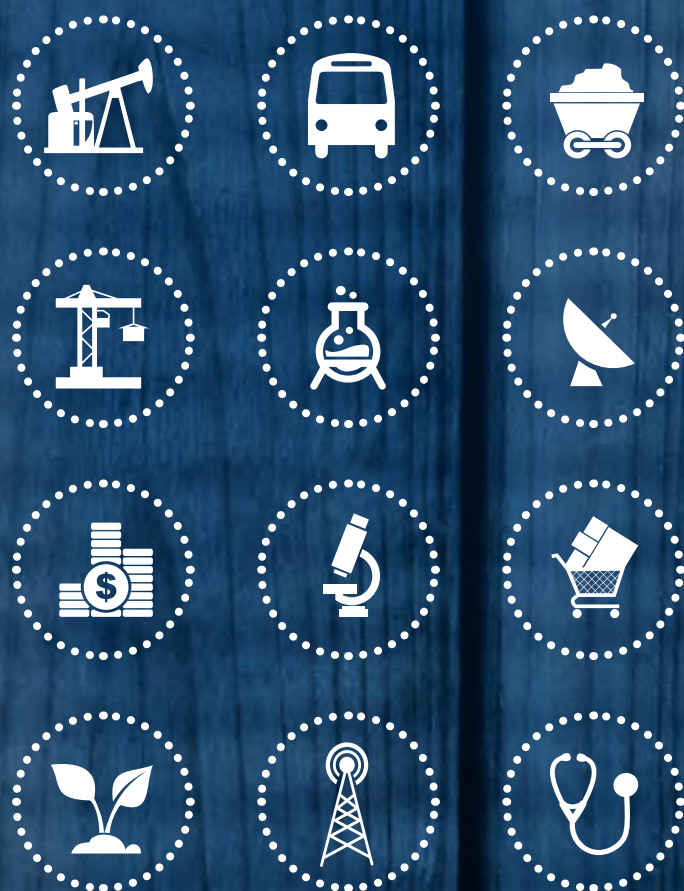
## Appendix 2

Cross-border M&A  
highlightsInbound M&A deal value by region  
(USDm), (2017 vs. 2018)Inbound M&A deal number by region  
(2017 vs 2018)Outbound deal number by target's  
region, 2017 vs. 2018Outbound deal value by target's  
region (USDm), 2017 vs. 2018

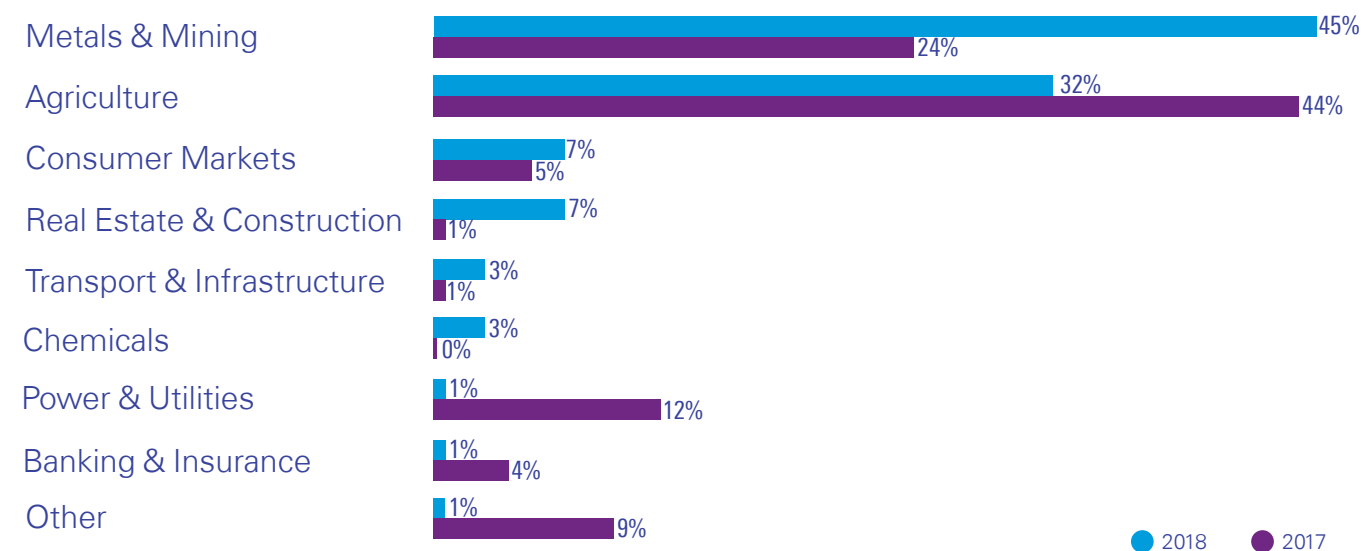


## Appendix 3

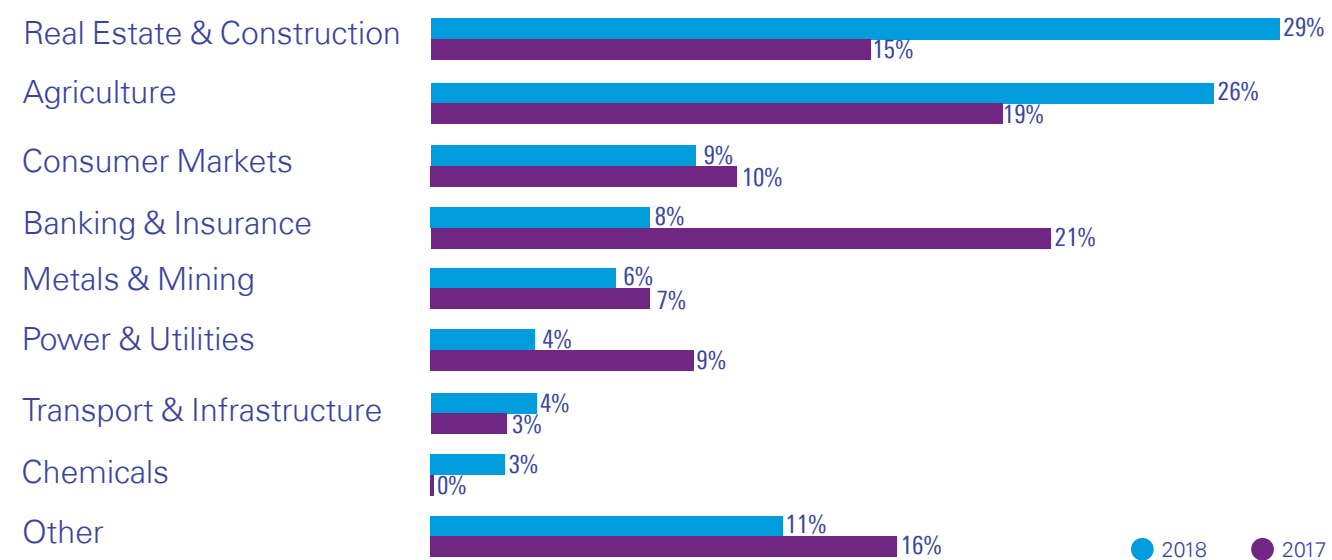
## Sector highlights



## Ukrainian M&amp;A - market share by deal value in 2017–2018



## Ukrainian M&amp;A - market share by deal number in 2017–2018



Note: Other sectors include (i) Chemicals, (ii) Healthcare and pharmaceuticals, (iii) Industrial products.





## Metals and Mining

Growth

Market share  
45%

+21  
pp

Total value  
USD820m

227%

Volume  
5 deals

0%

### Largest metals and mining sector deals in 2018

Target	Acquirer	Vendor	% acquired	Value USDm
1 Pokrovske Colliery and Svyato-Varvynska coal enrichment factory	Metinvest Holding; Altana Ltd; Misandycio Holdings Ltd and Treimur Investments Ltd	Fintest Trading Co Limited	100	714
2 Evraz DMZ	Development Construction Holding LLC	EVRAZ Plc	98	106

Domestic



Inbound



Outbound



## Agriculture

Growth

Market share  
32%

-13  
pp

Total value  
USD576m

27%

Volume  
21 deals

62%

### Largest agriculture sector deals in 2018

Target	Acquirer	Vendor	% acquired	Value USDm
1 Mriya Agro Holding	Saudi Agricultural and Livestock Investment Company	BNP Paribas SA; Credit Agricole SA	100	242
2 Perutnina Ptuj d.d. (90.68% Stake)	MHP S.A.	Slovenian Steel Group, d.d.	91	100
3 Kernel Holding SA	Julius Baer Group Ltd	Not disclosed	6	73
4 Spectr-Agro LLC and Spectr-Agrotehnika	Sumitomo Corporation	Not disclosed	51	45
5 Agrofirma Tripole, Radiv-olov Agro	Vitagro	Agrogroup Pan Kurchak	100	28

Domestic



Inbound



Outbound



## Consumer Markets

Growth

Market share  
7%

+2  
pp

Total value  
USD122m

136%

Volume  
7 deals

0%

### Largest consumer markets sector deals in 2018

Target	Acquirer	Vendor	% acquired	Value USDm
1 Burger King Russia	CIS Opportunities Fund SPC Ltd; ICU Group; Xomeric Holdings Ltd	VTB Bank	17	82
2 Ergopack LLC	Sarantis SA	Horizon Capital	90	18
3 EVO Group	Rozetka	Naspers	Not disclosed	15
4 Khotin Metal Packaging Plant	Ardagh Group	UkrExImBank	100	7

Domestic



Inbound



Outbound



## Real Estate and Construction

Growth

Market share  
7%

+6  
pp

Total value  
USD124m

1,968%

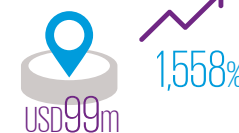
Volume  
23 deals

130%

### Largest real estate and construction sector deals in 2018

Target	Acquirer	Vendor	% acquired	Value USDm
1 Renaissance Business Centre	Vadim Grigoryev - private investor	Alfa-Bank (Ukraine)	100	25
2 Aladdin Trade and Entertainment Centre	Dragon Capital Investments Ltd; The Goldman Sachs Group Inc	Meyer Bergman	100	23
3 KS Invest	Metal Yapi Konut AS	Nordic Wealth Capital Investors	Not disclosed	17
4 Irpin-Budproekt-Plus	Dragon Capital Investments Ltd	Mikhail Postolovsky - private investor; Dmitry Eri-nov - private investor	50	14

Domestic



Inbound



Outbound







## Transport and Infrastructure

Growth

### Largest transport and infrastructure sector deals in 2018

Target	Acquirer	Vendor	% acquired	Value USDm
1 000 Ukrros-leasing	ODELUS-Construct Kft	Cypriot Vrakas Stilianos	100	50

Domestic



Inbound



Outbound



Market share  
3%

+2 pp

Total value  
USD50m

525%

Volume  
3 deals

50%



## Chemicals

Growth

### Largest chemicals sector deals in 2018

Target	Acquirer	Vendor	% acquired	Value USDm
1 Agrocentre Euro-Chem Ukraine LLC	Undisclosed bidder	EuroChem Group AG	100	53

Domestic



Inbound



Outbound



Market share  
3%

+3 pp

Total value  
USD53m

100%

Volume  
2 deals

100%



## Power and Utilities

Growth

### Largest power and utilities sector deals in 2018

Target	Acquirer	Vendor	% acquired	Value USDm
1 Donbassenergo OJSC	Maxim Efimov (Private Investor)	Energoinvest Holding BV	61	13

Domestic



Inbound



Outbound



Market share  
1%

-11 pp

Total value  
USD13m

-90%

Volume  
3 deals

-50%



## Banking and Insurance

Growth

### Largest banking and insurance sector deals in 2018

Target	Acquirer	Vendor	% acquired	Value USDm
1 AXA SA (non-life entity and life entity business in Ukraine)	Fairfax Financial Holdings Limited	AXA SA; UkrSib Asset Management BNP Paribas Group	100	20

Domestic



Inbound



Outbound



Market share  
1%

-3 pp

Total value  
USD20m

-50%

Volume  
6 deals

-57%



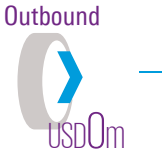


Oil and Gas

Growth

Largest oil and gas sector deals in 2018

	Target	Acquirer	Vendor	% acquired	Value USDm
1	JKX Oil & Gas Plc	Cascade Investment, L.L.C.	Proxima Capital Group	20	12



Market share  
1%

-2 pp

Total value  
USD12m

-51%

Volume  
1deal

0%

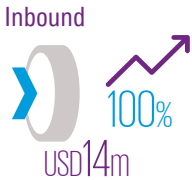


Communications and Media

Growth

Largest communications and media sector deals in 2018

	Target	Acquirer	Vendor	% acquired	Value USDm
1	Krymtelekom JSC	000 Upravlyayuschaya Kompaniya Infrastrukturnykh Proektov	Not disclosed	100	14



Market share  
1%

+1 pp

Total value  
USD14m

100%

Volume  
2deals

-33%

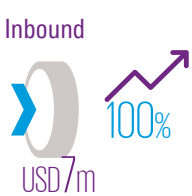


Healthcare and Pharmaceuticals

Growth

Largest healthcare and pharmaceuticals sector deals in 2018

	Target	Acquirer	Vendor	% acquired	Value USDm
1	TOV INVITRO	Medicover AB (publ)	000 Invitro	100	7



Market share  
0%

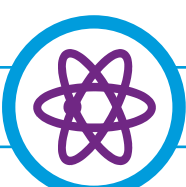
0 pp

Total value  
USD7m

100%

Volume  
2deals

100%



Innovations and Technology

Growth

Largest innovations and technology sector deals in 2018

	Target	Acquirer	Vendor	% acquired	Value USDm
1	Intellias Ltd.	Horizon Capital	Not disclosed	Not disclosed	5



Market share  
0%

-6 pp

Total value  
USD5bn

-93%

Volume  
3deals

-25%



# M&A in Ukraine by sector

M&A in Ukraine by sector												
	Deal value, USD m						Deal number					
	2013	2014	2015	2016	2017	2018	2013	2014	2015	2016	2017	2018
Agriculture	927	218	112	110	452	576	19	2	6	5	13	21
Banking and insurance	585	313	156	323	40	20	18	8	16	16	14	6
Chemicals	7	–	–	8	–	53	2	1	–	1	–	2
Communications and media	556	57	205	15	–	14	8	5	4	2	3	2
Consumer markets	364	16	85	106	52	122	19	6	7	12	7	7
Healthcare and pharmaceuticals	17	13	7	16	–	7	3	3	2	3	1	2
Industrial products	288	15	31	–	–	-	9	3	1	1	1	2
Innovations and technology	71	–	150	6	68	5	5	1	3	1	4	3
Metals and mining	108	1,588	180	90	251	820	3	1	3	2	5	5
Oil and gas	179	305	45	–	25	12	7	2	2	–	1	1
Power and utilities	258	35	–	27	122	13	4	3	–	3	6	3
Real estate and construction	195	–	40	48	6	124	6	–	4	6	10	23
Transport and infrastructure	212	22	6	–	8	50	4	1	2	3	2	3
Other	51	–	–	–	–	-	2	–	–	–	–	-
Total	3,819	2,582	1,017	748	1,023	1,817	109	36	50	55	67	80



# KPMG Deal Advisory Ukraine

**KPMG topped the Thomson Reuters SDC worldwide league table of M&A advisors in the mid-cap market (deals up to USD500 m) in 2016, 2017 and 2018.**

**KPMG's 70 Deal Advisory professionals in Ukraine provide integrated M&A advice, comprising financial, tax, legal and valuation services.**

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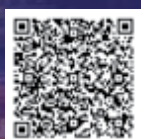
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