M&A Radar 2020: Ukraine

March 2021

KPMG in Ukraine

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Contents

Introduction

2020: a year quite unlike any other

When we launched the 2019 edition of the Ukrainian M&A Radar, few could have predicted the profound impact COVID-19 would have on the global population, the world economy or our daily lives in the year ahead.

With over 100 countries in full or partial lockdown by the end of March 2020, most economies around the world slid into recession despite governments and international financial institutions injecting billions of dollars to tackle the pandemic.

Beyond the economic impact, the pandemic has ushered in long-lasting changes to our lives. Global digital transformation has accelerated for businesses, consumers and individuals alike; remote and hybrid working has become the norm rather than the exception. Video calls for work and socialising, together with e-commerce, are now a mainstay of our lives. Such effects will continue to drive M&A as an agent for change.

Lockdown saw a sharp decline in human activity, leading to a global awakening to the negative impact mankind can have on our planet. This propelled environmental, social, and corporate governance (ESG) issues up the political and corporate agenda, putting them prominently into focus for a wider pool of investors.

In the face of new waves and variants of COVID-19, the approval of several vaccines and the rollout of vaccination programmes around the world, including in Ukraine, raises hopes that we may see a turning point in both the pandemic and its economic impact in 2021.

Investor confidence in Ukraine will to some extent depend on how Ukraine resolves ongoing issues, such as the dispute with the Constitutional Court of Ukraine, the Ukrainian government's near USD1 billion debt to RES producers, and protracted negotiations with the IMF over the Stand-By Arrangement. These are the most immediate concerns affecting confidence and investors will be watching to how they are handled in the months ahead.

Despite these headwinds, Ukraine and the United Arab Emirates signed investment memoranda worth USD3 billion in February 2021. Such a statement of intent will not have gone unnoticed by others eying Ukraine's investment potential. There are reasons, therefore, to be cautiously optimistic about the outlook for Ukrainian M&A and wider investment in the country in the coming year.

We hope you will find the 2020 edition of the Ukrainian M&A Radar both insightful and thought provoking.

Peter Latos

Partner,
Head of Consulting
and Deal Advisory
KPMG in Ukraine

Overview

69 ↓15%	$925 m ↓62%	$28 m ↓44%	4.4%↓
Deal volume	Deal value	Average transaction value	GDP

The economic impact of the COVID-19 pandemic ended three consecutive years of growth in Ukrainian M&A.

According to the National Bank of Ukraine (NBU), real GDP fell by 4.4 percent in 2020, compared with a forecast of 3.5 percent growth at the end of 2019.

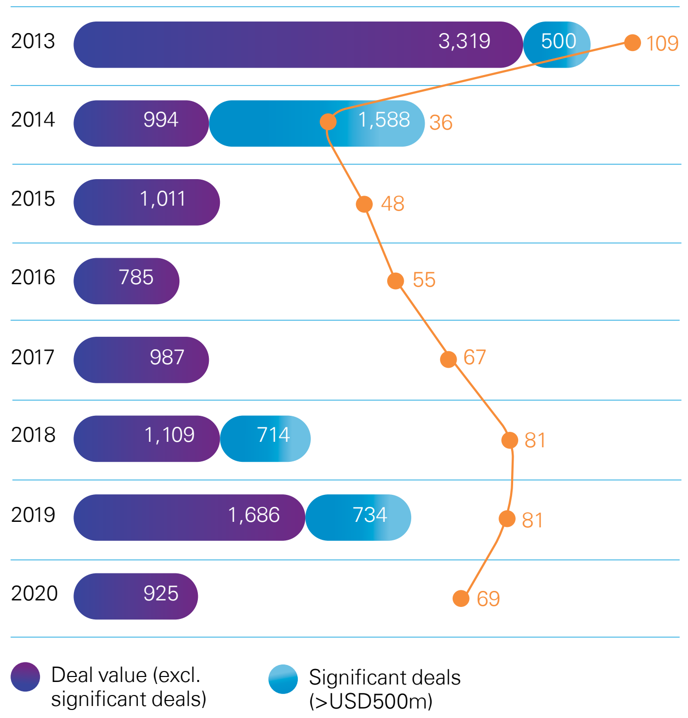
This was the largest decline in the Ukrainian economy since the 2013 – 2014 Revolution of Dignity. Considering the strong correlation between the real economy and corporate transactions, it comes as no surprise that the value of Ukrainian M&A also experienced a swift and abrupt downturn in 2020, falling by 62 percent to USD 0.9 billion.

The volume of activity fell back toward the level of 2017; with only 69 transactions announced during 2020, reflecting a 15 percent decline on the prior year.

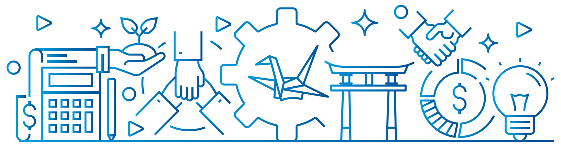
The decline in the value of Ukrainian M&A was partly attributable to the lower level of transparency. Deal values were disclosed in only 48 percent of transactions announced in 2020, significantly below the level of transparency of more mature markets.

At the same time, the average transaction value fell to USD28 million. This was attributable to a combination of the reluctance amongst some investors to commit capital during the pandemic, the inability of some to raise finance during this period, and non-distressed sellers preferring to delay deals in anticipation of achieving higher price multiples.

Ukrainian M&A (2013 – 2020)



The reluctance of investors to commit capital as a result of the pandemic was evidenced by the small number of deals exceeding USD100million in value during 2020.



Ten largest Ukrainian M&A deals in 2020

No.	Target	Sector	Acquirer	Vendor	% acquired	Value, USDm
1	**TIS Container Terminal, LLC**	Transport and infrastructure	DP World PLC	TIS.UA	51%	130
2	**Eurozhytlogroup**	Real estate and construction	Dragon Capital	Not disclosed	100%	110
3	**Khmelnytsk-Agro**	Agriculture	Epicentr K	Svarog West Group	96.7%	100
4	**BILLA Ukraine Ltd.**	Consumer markets	UAB Consul Trade House	REWE International AG	100%	70
5	**Kaskad-Agro Agricultural Holding**	Agriculture	Agartha Fund LP; Alexandre Garese - private investor	Vitalii Khomutynnyk - private investor	100%	70
6	**Volia-Cable**	Innovations and technology	Datagroup; Mykhailo Shelemba - private investor; Horizon Capital	Kyiv Telecommunication Networks; Telesvit	100%	68
7	**Restream service**	Innovations and technology	Sapphire Ventures, Insight Partners and other investors	Not disclosed	Not disclosed	50
8	**Dnipro Hotel**	Real estate and construction	Smartland	State Property Fund	100%	41
9	**JKX Oil&Gas**	Oil and gas	Bridgewater Holdings Corp	Not disclosed	19.97%	30
10	**EVERI Ltd.**	Transport and infrastructure	Glencore Agriculture Limited	OREXIM Group of Companies	100%	25
					Combined total	694
					As % of total Ukrainian M&A	75%

Inbound

Domestic

2020 in review

The economic slowdown induced by the pandemic influenced some investors to adopt a more cautious approach to evaluating and negotiating deals in 2020.

A total of 27 deals worth USD456 million were announced during H1 2020; reflecting a 40% drop in deal volume and 47 drop in deal value compared to H1 2019, and the lowest mid-year totals since H1 2015.

Ukrainian M&A started slowly in 2020 and was further depressed by the lockdown which started in March. This more measured approach to deal-making saw the volume of deals announced and completed during the year fall to 74 percent, down from 88 percent in 2019, with a handful of deals announced during 2020 actually cancelled; the first cases since 2017.

In April 2020, Regal Petroleum announced that its USD39 million deal to acquire Ukrnaftinvest had lapsed and in June 2020 Dragon Capital terminated its proposed acquisition of Idea Bank. Dragon Capital explicitly stated that its decision was largely due to the economic crisis caused by the spread of COVID-19, both in Ukraine and around the world, significantly affecting the potential risks associated with the acquisition.

Although most market participants focused on preserving operations in order to emerge intact from the pandemic, some seized the chance to make opportunistic acquisitions. Others continued to complete transactions that had been long in the making regardless of the pandemic, driven by the long-term fundamentals of the target companies.

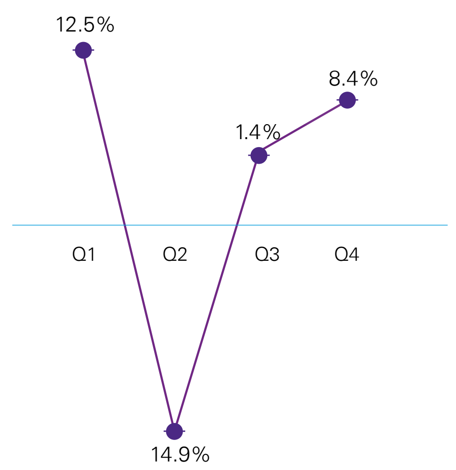
Deals announced & completed

74% 2020

88% 2019

In May 2020, as the market began to accept the inevitable period of turbulence ahead, the Belgian industrial minerals group Sibelco acquired Ukrainian clay mining companies Euromineral and Kurdyumovsky Acid Resistant Products Plant. Horizon Capital's Emerging Europe Growth Fund also acquired a significant minority stake in the MAKEUP Group; a fast-growing leader in e-commerce and beauty.

Consumer spending 2020, YoY



2020 was a rollercoaster ride for the wider consumer sector. The first lockdown and stagnation of nominal wage growth saw consumer spending fall 14.9 percent year-on-year (YoY) in Q2, compared to growth of 12.5 percent YoY in Q1.

Easing of lockdown restrictions helped consumer spending recover in Q3 with YoY growth of 1.4 percent, although the full effect of this spending (combined with the resumption of low double-digit nominal wage growth, pent up demand and the forthcoming holiday season) was really only evident in Q4; which recorded 8.4 percent YoY growth.

The pandemic has undoubtedly led to structural changes in consumer spending behaviour and accelerated demand for e-commerce across many categories; something companies like the MAKEUP Group will be eager to capitalise on.

Traditional brick-and-mortar retailers will have to evolve their business models to meet the challenges these changes present. Novus supermarket, owned by Lithuania's BT Invest, virtually doubled its footprint through the USD70 million acquisition of Billa-Ukraine's portfolio of 35 supermarkets. Meanwhile, the home improvement retailer Epicentr K is not wasting any time; in their USD1.2 billion investment programme announced in January 2021, the retailer unveiled plans to develop their online offering and build logistics fulfillment centres.

Ukrainian M&A activity started to gather momentum in the summer and was at full-speed in Q4, with a little under two-thirds of deals announced in H2 2020.

This was partially attributed to easing of Ukraine's previously severe lockdown, similar to relaxation seen in other European states, and partially due to optimism generated by the announcement of agreement of a revised International Monetary Fund (IMF) 'Stand-By Arrangement' (SBA) intended to advance Ukraine a USD5 billion loan for an 18-month period.

The Ukrainian government took further steps to support the real economy and strengthen the country's macro-financial stability by cutting the prime rate, a move supported by the National Bank of Ukraine (NBU) and the European Bank for Reconstruction and Development (EBRD) agreeing on a USD500 million FX swap.

Furthermore, with over USD1 billion invested during 2020, Ukraine was the third-largest recipient of EBRD funds after Turkey and Egypt.

The most sizeable EBRD contributions were to projects related to the transport and infrastructure sector, including:

€450m

To support Ukravtodor's renovation of existing roads and construction of a bypass near Lviv to provide better access to the Trans-European Transport Network

€63m

To enable Ukrposhta, the state postal service, to push ahead with much needed upgrades to logistics infrastructure and expand the rural reach of its operating fleet

400

Purchase of 400 energy efficient trolleybus to replace ageing fleets in 12 Ukrainian cities

The NBU should also take credit for the success of its monetary policy. Despite pricing pressures building during H2 2020 as a result of the pandemic, higher import prices as the Hryvnia depreciated, and the need for the Ukrainian government to raise gas utility prices as part of the IMF agreement, inflation remained under control; rising from 4.1 percent to 5.0 percent over the course of 2020. As a result, the NBU was able to slash its policy rate from 13.5 percent in January to 6.0 percent by June 2020, where it stayed for the remainder of the year.

The easing of lockdown restrictions and improving economic climate in H2 2020 helped to fuel the recovery in Ukrainian M&A activity, with August really being the turning point as six deals were announced worth a combined USD125 million.

Recovery continued in Q4 2020 with 26 deals announced worth a total value of USD187 million, making this the most active quarter for Ukrainian deal-making since 2014.

However, economic headwinds were already building before a second wave of COVID-19 forced renewed global lockdowns as 2020 came to a close.

Issues around further IMF SBA tranche payments were compounded by the October decision of the Constitutional Court of Ukraine to rule many of the 2014 anti-corruption reforms unconstitutional. This decision had significant consequences and resulted in hesitance from the IMF to fulfil its second SBA payment to Ukraine.

The additional failure of the Ukrainian government to meet Ukrenergo's near USD1 billion obligation to RES producers (as the guaranteed buyer under laws it enacted in July 2020) also raised concerns that reinforced the IMF's doubts about Ukraine's political will to implement suggested changes.

This inability to meet IMF targets for reform has raised questions over when, or even if, there will be a second payment. The contagion of these events has inevitably led to a slow start for Ukrainian M&A in 2021, with only six deals announced by mid-February 2021.

These deals included airSlate, a Ukrainian technology company specialising in process automation and document management solutions, closing a USD40 million round of investment from Morgan Stanley Expansion Capital, General Catalyst, and HighSage Ventures.

Meanwhile, Qatari NEBRAS group invested in six Ukrainian wind farms and two solar power plants, and OKKO announced acquisition of Kherson crude oil transshipment terminal.

While a number of M&A trends can be traced back to late 2019; the pandemic, changing consumer behaviour and concerns regarding supply security have accelerated changes that were already underway.

Digitisation: with digital transformation a key strategic goal for most businesses, the providers of new technologies are themselves targets for acquisition. Ukraine's IT sector has always been highly regarded and is getting stronger with every passing year.

According to the State Statistics Service of Ukraine, exports of computer services increased to USD2.1 billion in the first nine months of 2020, reflecting YoY growth of 15 percent. This growth helped propel Ukrainian M&A in the innovation and technology sector to USD184 million in 2020.

Deals included Restream's USD50 million funding round led by Sapphire Ventures and Insight Partners, after the multiplatform live-streaming company announced 300 percent growth in the number of monthly views for the first seven months of 2020.

E-commerce: online retail and remote services have been able to take advantage of the decline in more traditional consumer segments resulting from quarantine measures, as well as the rapid shift to remote working. Online delivery services in particular have seen a boom in demand during the pandemic for obvious reasons.

In Ukraine, local delivery service Glovo reported growth of 40 to 50 percent ahead of budget, helping the company to achieve breakeven despite investing millions of euros into developing its services.

Changes in supply chains: lockdowns in China and other parts of Asia during Q4 2019 caused widespread disruption to global supply chains, leading some companies to reassess their dependence on the region and look for alternative sources of supply. Pent-up demand and trade growth accelerated the process of launching new delivery routes, such as a twice-weekly rail freight service connecting European and Asian destinations via the Baltic-Black Sea transport corridor and Baltic-Black Sea transport corridor connecting the Black Sea and the Baltic.

This, combined with Ukraine opening up its infrastructure to public private partnerships (PPP), saw USD164 million of deals announced in the transport and infrastructure sector.

Cross-border M&A Dynamics

Cross-border M&A Dynamics

Domestic

↓39% $514 m
Deal value

↓7% 43
Deal volume

Domestic investment remained the dominant force of Ukrainian M&A in 2020

Domestic M&A accounted for 55 percent of the value and 62 percent of the volume of Ukrainian deal-making.

The largest domestic deal announced in 2020 was the USD110 million acquisition of Eurozhytlogroup (owners of 101 Tower Business Centre) by Dragon Capital.

The average value of domestic transactions in 2020 decreased by 10 percent to USD24 million; the lowest level since 2014. Meanwhile transparency, in terms of disclosed deal values, fell from 67 percent in 2019 to 49 percent.

Approximately 90 percent (USD464 million) of domestic M&A spend was concentrated in four sectors in 2020. Real estate and construction attracted USD205 million, driven largely by Dragon Capital's activity in the sector, followed by agriculture at USD100 million, innovation and technologies at USD84 million, and oil and gas at USD75 million.

A little over half of all domestic M&A volume was focused on the same sectors: the real estate and construction sector (nine transactions), agriculture (seven), innovations and technology (four), and oil and gas (four).

Outbound

↓97% $7 m
Deal value

↓67% 1
Deal volume

Following the trends of recent years, Ukrainian investment in foreign M&A targets continued to decline in 2020, with just one outbound deal announced.

Horizon Capital's Emerging Europe Growth Fund III (EEGF III) invested USD7 million for the acquisition of a 6.8 percent stake in Moldova's Purcari Wineries. The Moldovan wine company is well known to Horizon which previously invested into the business via its EEGF II fund, divesting its stake by October 2019 and earning a 3.3 times cash return for its investors.

The outlook for outbound M&A remains depressed with most companies focussing on the domestic market, although continued export growth and investment into infrastructure needed to get goods and people to foreign markets may stimulate activity in the medium-term.

Inbound

↓69% $405 m
Deal value

↓22% 25
Deal volume

Despite lockdown restrictions limiting international travel, inbound M&A still accounted for over one-third of total deal volume.

Foreign investors favoured Ukraine's innovation and technology (nine deals), agriculture (six deals), and transport and infrastructure (four deals) sectors, which accounted for just over three-quarters of all inbound deals in 2020.

The 25 inbound deals announced in 2020 were undertaken by 21 different investors, of which one-third were new entrants to the Ukrainian market. While European investors were the most active inbound acquirers overall, new market entrants were from the USA (five) and France (two).

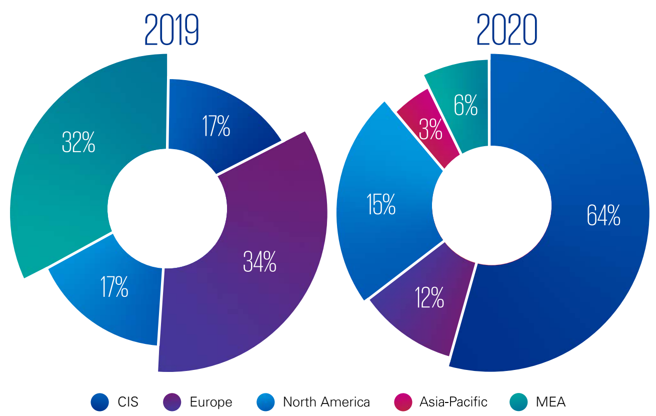
Although the combined total of deals was down by 69 percent on the previous year, it is important to remember that Bakcell's USD734 million acquisition of Vodafone Ukraine accounted for almost two-thirds of inbound M&A in 2019.

This was also the main reason for a 58 percent decline in the average transaction value to USD37 million (2019: USD88 million); the lowest value since 2014. The transparency of inbound deals continued the declining trend of recent years, falling from 47 percent in 2019 to 44 percent in 2020 (compared to a high of 69 percent in 2014).

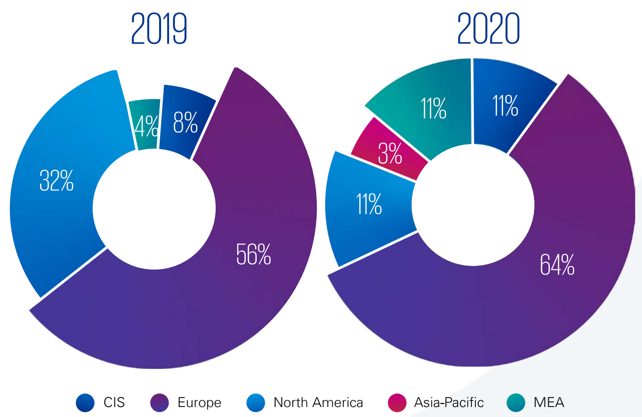
Europe (USD135 million, 14 transactions), the Middle East (USD130 million, one transaction), and North America (USD70 million, eight transactions) accounted for a combined 83 percent of all inbound deal value and 92 percent of deal volume in 2020.

Investments from North America were mainly attributable to private equity and venture capital funds investing in Ukrainian IT start-ups, including Restream's USD50 million round of fundraising. Foreign investments from Europe, meanwhile, were mainly directed towards agriculture and the transport and infrastructure sector. In 2020, foreign investors purchased four terminals in Odesa, five elevators and 118,000 hectares of land banks.

Inbound M&A deal value by region (USDm), 2019 vs 2020



Inbound M&A deal volume by region, 2019 vs 2020



2021 outlook

If the headwinds can be addressed quickly, and the pieces of the jigsaw fall into place, there is reason to be cautiously optimistic for a modest increase in the overall value and volume of Ukrainian M&A during 2021. We predict that momentum will really start to build in the second half of the year, with a brighter outlook beyond this.

This continuing uncertainty will likely mean that some investment decisions will be delayed and M&A deals remain subdued at similar levels seen in 2020.

With case numbers continuing to fluctuate, and the vaccination rollout in its infancy, it is too early to determine whether or not Ukraine is over the latest wave of the pandemic. If the pandemic can be brought under control during Q2 2021, it will allow public and economic sector restrictions to be lifted.

Only when investors and multinational companies see verifiable evidence of the end of the pandemic and the start of a pickup in economic activity will there be a solid recovery in M&A activity. This applies as equally to Ukraine as other European states.

5% ↑

GDP

The Ukrainian government expects GDP to rally by nearly five percent YoY in 2021; driven by a mixture of pent-up investment and consumer spending.

There are, of course, far too many uncertainties concerning the future direction of the pandemic both in Ukraine and with the country's major trade partners to have any clarity at the start of the year. Forecasts will inevitably change in the first half of 2021 as pandemic trends are better understood and lockdowns start to ease.

This continuing uncertainty will likely mean that some investment decisions will be delayed and M&A deals remain subdued during H1 2021.

3% ↑

Budget deficit

Concerns remain over the delayed Stand-By Arrangement (SBA) and the potential for a political crisis as reforms, required for successful conclusion of the IMF deal, are now in question.

The IMF has only paid USD2.1 billion of the USD5 billion SBA so far, holding back the remaining USD2.9 billion because of the Ukrainian government's decision to regulate household gas prices. The government has said that these were forced measures throughout the winter period caused by the country's coronavirus lockdown; necessary to avoid a jump in energy bills whose prices have already led to protests across the country.

While the Ukrainian government is currently trying to convince the IMF that this temporary solution was taken in extraordinary circumstances, despite Ukraine's obligation to launch market mechanisms in the natural gas market as outlined in the shared memorandum.

Ukraine is scheduled to pay back USD5.2 billion of external debt in 2021 and is also likely to run a budget deficit of between three and four percent of GDP.

Ukraine will need to invest a significant amount of money in shifting its power sector from high carbon emission coal and heavily coal-based products to cleaner energy.

This is a key part of future engagement with the EU in order to meet ambitious European carbon management targets and which will ultimately test government's commitment to the European Green Deal. It is expected that the EU and European investors will provide a large amount of investment in Renewables, particularly in wind and solar power, assuming that the stand-off over unpaid debts between renewable energy generators and Ukrenergo is swiftly resolved.

Last year, the European Union named Ukraine as a priority partner for implementation of the European Hydrogen Strategy, with an eye on the country's gas transmission system to transport green hydrogen to the EU. It remains to be seen what investment this will drive in Ukraine and over what time horizon.

However, investors and businesses managers will be paying close attention to what happens with Ukrenergo's USD1 billion debt obligation to RES producers. A quick and decisive resolution of the issue would go some way to restoring broader investor confidence in Ukraine.

Recently announced plans give further reason to be optimistic about the outlook for investment in 2021.

In the short-term, the USD3 billion worth of memoranda and contracts signed between Ukraine and the United Arab Emirates in February 2021 during President Zelensky's official visit to the Emirates is a clear statement of intent regarding future cooperation between the two sovereign nations.

While it remains to be seen how quickly this translates into capital committed to the Ukrainian state enterprises and private companies involved, this agreement (together with the possibility for creation of a Ukrainian sovereign fund to co-invest with foreign investors) should go some way to restoring international investor confidence.

As for domestic investment, Head of Dragon Capital Tomas Fiala recently announced the group's plan to close five deals in 2021. Together with co-investors and Western funds, Dragon Capital envisions deal values of about USD200 million this year, which would signal a return to the rate of investments seen before the pandemic.

Changes in legislation should help to fuel further investment in Ukraine, particularly in the transport and infrastructure, and agriculture sectors.

On a more positive note, one of the key reforms expected this year is the next stage of implementing the Law on Agricultural Land Markets, passed by the Rada at the end of March last year. The next phase is due to take effect on 1 July 2021 and will cancel the current moratorium on land ownership. This will help to attract investment from domestic and foreign sources into the Ukrainian agricultural sector.

Legislative changes implemented by the Ukrainian government and lawmakers during 2020 have paved the way for implementing long overdue and long awaited investment into the transport and infrastructure sector.

Ukraine will be in a strong position to see a revival of investor interest during the second-half of 2021, provided the pandemic is brought under control, the obligation to RES producers is not fulfilled and the IMF tranche is not delayed for too much longer.

Deal-making: art or science?

Illya Segeda
M&A Principal,
Deal Advisory
KPMG in Ukraine

The fundamental premise of M&A has stood the test of time. Put simply, investors believe that an asset or company will generate a higher return under their ownership than in the hands of its current owner. However, the realisation of these higher returns requires two things.

Firstly, successful navigation of the deal process. Secondly, ensuring that the factors that create or erode value are well understood and managed. One could argue that the first is an art, the second is a science.

As the saying goes, "time kills deals". In reality, however, the failure to properly prepare for, and then manage, the M&A process from beginning to end is what will eventually kill a deal.

But what are the key elements of preparing a business for sale and how do we set about organising them?

Understanding the seller's motivation for the deal is a key first step. Rarely are deals solely predicated on maximising a company's monetary value at exit.

Other important factors include the reputation of a buyer, speed of deal execution, the cleanliness of the deal (in terms of warranties, indemnities, deferred or contingent consideration, etc.), and custodianship of the business, management and staff post-deal. All of these different concerns influence deal strategy.

M&A deals, particularly in more challenging market conditions like a pandemic, run the risk of failing due to an unrealistic price expectation gap between the seller and the buyer.

Therefore, understanding the value of what you have to offer to a buyer is key. Taking time to develop a well thought through equity story that management buys into, one which provides a compelling basis for a buyer to invest, is essential.

The incumbent management team must be capable of delivering the company's strategy for growth as most buyers will expect to retain this team in the medium-term at least. Meanwhile, projections should be underpinned by historic performance and external market analysis. Having a realistic view of the company's value from a buyer's perspective is key.

Identifying the right 'buyer universe' is equally as important as defining a clear deal strategy and a compelling equity story.

It is important to create appropriate competitive tension in the deal process. Having access to buyers at the right level is critical for this, just as it is for knowing what different buyers will attribute value to in the business for sale.

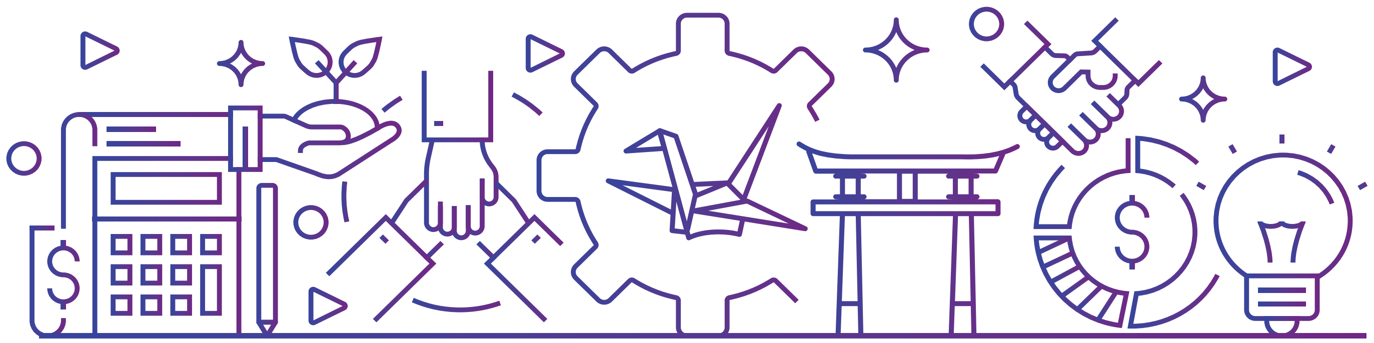
Building this understanding through initial desktop research, market soundings, and direct access to shareholders and the management of potential buyers enables the finetuning of deal strategy, equity story and marketing materials. This will enhance the deal's likelihood of success before formally going-to-market.

Preparing for buyer scrutiny is a crucial but often overlooked step. Buyers rarely complete acquisitions without undertaking comprehensive due diligence to evaluate the risks, liabilities and potential upsides of a deal.

Ideally, a seller will review information in detail from a buyer's perspective, usually with the support of external advisors, in order to identify risks and latent upside potential. This will include taking action to identify, cure or mitigate risks and realise upsides in advance of making any information available to buyers in the data room.

It is also crucial that management is appropriately prepared for buyer scrutiny by dry-running management presentations, answering due diligence questions, and ensuring processes are in place to routinely update information in a consistent manner.

At the end of the day, deal-making requires assembling the right team in the right location with the right experience and skills. KPMG has more than 50 deal professionals in Ukraine, covering all aspects of the M&A process; including M&A lead advisory, valuation, due diligence (financial, tax, legal, IT, cyber and integrity), negotiation support and SPA advisory.



Deal-making: beyond the pandemic

The Covid-19 pandemic is likely to have a long-lasting effect on deal-making. The resulting acceleration of digital transformation, disruption to traditional business models and changes in consumer behaviour will see a greater number of smaller, distressed carve-out transactions as companies refocus their value chains.

In turn, this will likely accelerate the adoption of new trends in due diligence given the need to use multiple data sources to validate assumptions and look beyond the financials.

While the pandemic has resulted in an increased level of uncertainty in both actual and prospective data, robust financial analysis remains core to any deal, albeit with a shift in emphasis. Historical underlying earnings and working capital analysis should be separated into pre- and post-lockdown periods, combined with run-rate analysis and even transaction level data, in order to isolate fundamental business drivers from pandemic related noise.

Forecasts will require even greater scrutiny of underlying assumptions, revenue and cost drivers, order-book, and market trends. Augmenting the target's financial data with real-time operational and external market data will yield richer business insights to evaluate both historical and forecast information.

Financial and valuation models will need to become more dynamic, able to handle a greater number of flexible input assumptions, in order to run multiple scenarios. Use of predictive models, in some cases using thousands of signals, to analyse a range of possible outcomes is likely to increase.

KPMG's Signal Repository is one example of how structured and unstructured data can be used by organisations to significantly increase the accuracy of predictions and business outcomes.

Svitlana Shcherbatyuk

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With businesses across most sectors grappling with digital transformation and remote working, combined with the growth of e-commerce and direct-to-customer business models, IT and information security is of increasing importance when assessing the value of a company.

It is no longer sufficient to simply evaluate the appropriateness of IT strategy, architecture, and governance for the business model and future growth. We are increasingly seeing the assessment of data security and cyber resilience in the context of deal value becoming a mainstay of the due diligence process.

The impact of global economic shutdowns has highlighted the importance of evaluating the target company's supply chain pre-deal; understanding supplier dependency, security of supply and options for substitution is key to mitigating business disruption post-deal.

Furthermore, such analysis will also provide the opportunity to identifying potential value upsides that could be secured post-deal through optimising procurement or category spend.

While travel restrictions imposed by the pandemic clearly impacted the ability to do deals, particularly cross-border, the use of virtual data rooms and video conferencing had already reduced the need for travel during a deal process.

Inevitably, though, there will still be a need to 'kick the tyres' and look the other side in the whites of their eyes during negotiation.

While it is difficult to replace that need with technology, the use of drones and computer visioning provides a viable alternative to a physical fixed asset and inventory inspection in sectors such as agriculture, energy and natural resources, and transport and infrastructure.

KPMG's Site Surveyor is an example of how such technology can be used in this context to facilitate a potential deal.

Deal negotiations will often become bogged down in times of uncertainty due to price expectation gaps; even distressed sellers typically have a hard time accepting a price at the bottom of the cycle. In the current environment, more and more deals are relying on post-closing performance-related price mechanisms, such as earn-outs, as one way to bridge the price gap.

However, it's important to carefully consider how such mechanisms are drafted and calculated – the more complex, and more adjustments required to say audited data, the more likely the risk of dispute between the parties at the time of payout.

Not only has the pandemic impacted the way deals are evaluated but also the process for protecting value through the transaction documents, such as the share purchase agreement (SPA). In times of uncertainty, deal negotiations often proceed more slowly as each party tries to find, in their view, a more equitable way to share risk.

Locked box completion mechanisms and hybrid locked box mechanisms are also becoming increasingly popular with sellers outside of their traditional mainstay of private equity. Unlike the completion accounts process, a locked box provides greater certainty regarding the price paid but it requires a clearly defined transaction perimeter and for the seller to operate the business on the buyer's behalf in the ordinary course between signing and completion.

While the use of material adverse change (MAC) clauses, which enable one or both parties to terminate a deal under certain circumstances, have been on the rise, we are starting to see pandemic-related factors being excluded from MAC clauses in some SPAs.

But what does the "ordinary course of business" look like during a time of unprecedented uncertainty, like a pandemic? Buyers need to carefully consider the pros and cons of a locked box, including their ability to recover any proven leakage from the seller post-factum.

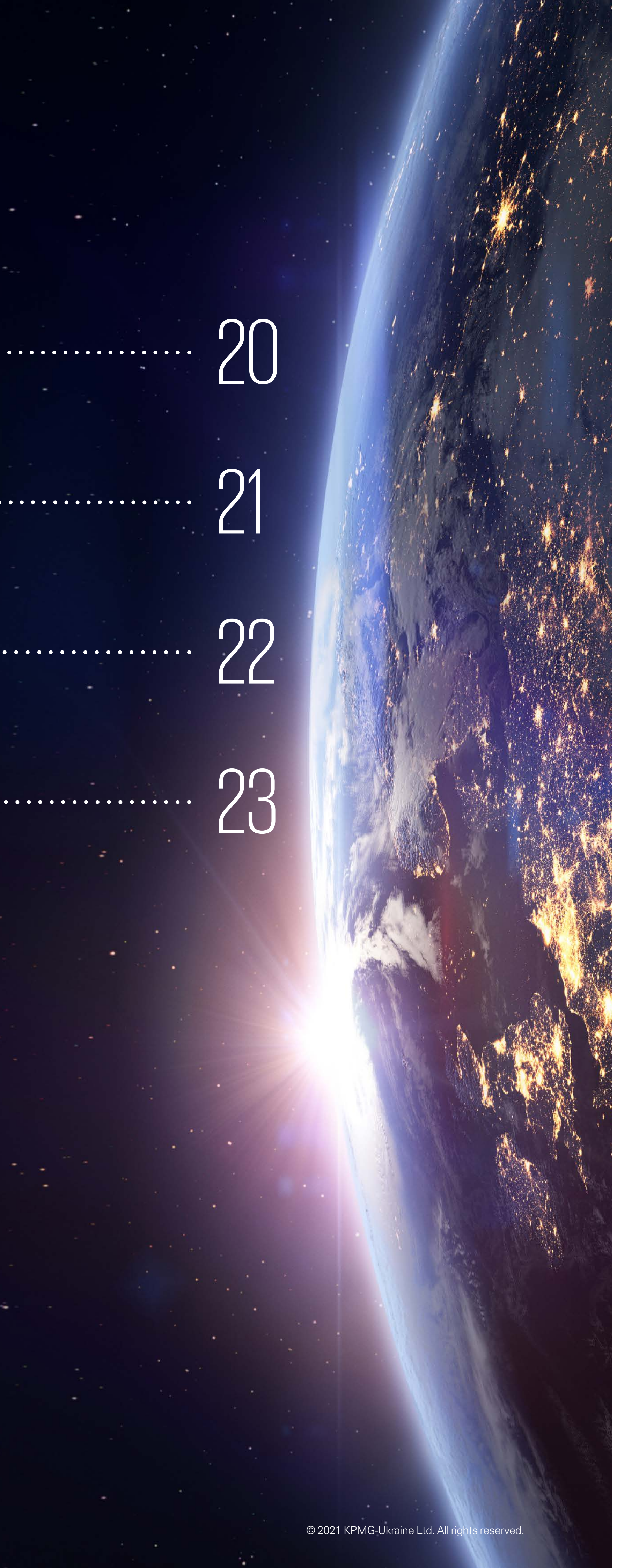
The choice of completion mechanism will largely depend on the relative bargaining power of each party; sellers will often favour the certainty of a locked box, while buyers will see that completion accounts afford greater security by adjusting for events which impact on price post-factum.

The world is looking to 2021 with hope for a return to normality or, at least, something close to it. Vaccine rollouts give expectation that the pandemic will be under control in many countries in the second half of the year.

Nevertheless, M&A processes will bear the legacy of COVID-19 for some time to come. This legacy has increased the complexity of deal-making for the next couple of years at least, requiring buyers and sellers to transform their approach to evaluating, negotiating, protecting and realising the value of deals.

For many, this will require the support of external deal advisors, like KPMG, with experience of successfully navigating companies through deals in previous times of uncertainty.

Sector activity



Key sectors

Similar to the previous year, Ukrainian M&A was dominated by four sectors during 2020: innovation and technology, agriculture, real estate and construction, and transport and infrastructure.

These four sectors accounted for almost 80 percent of total spend and slightly less than 60 percent of total deal volume.

M&A in the real estate and construction sector in recent years has been buoyed by attractive returns on retail portfolios, fueled by consumer spending growth and increased demand for logistics and warehouse infrastructure to meet the rapid growth of e-commerce.

Digital transformation of the global economy, which the pandemic has accelerated, and disruption to traditional business models has helped to drive demand for Ukraine's highly regarded IT sector.

As Ukraine's largest export industry, it is unsurprising that the agriculture sector remains the focus for both domestic and foreign investors, with the latter often reflecting sovereign efforts to address food security concerns.

Implementation of the law on concessions, as well as a growth in trade with China, Europe and the Middle East, has also contributed to a rise in much-needed investment into Ukraine's ageing transport network and infrastructure.

M&A by sector, 2019 – 2020

	Value 2020	Value 2019	Volume 2020	Volume 2019
Real estate and construction	22%	19%	13%	20%
Innovations and technology	20%	16%	19%	14%
Agriculture	18%	9%	19%	19%
Transport and infrastructure	18%	3%	9%	4%
Consumer Markets	10%	2%	7%	10%
Oil and gas	8%	2%	6%	4%
Metals and mining	2%	1%	10%	2%
Banking and insurence	1%		9%	5%
Healthcare and pharmaceuticals	1%	4%	3%	7%

● 2019 ● 2020

Real estate and construction

↓56% **$205 m** Deal value

↑44% **9** Deal volume

↑3% pts **22%** Share of Ukrainian deal value

↓7% pts **13%** Share of Ukrainian deal volume

Although investor confidence was impacted by turbulence in the retail and office segments, real estate and construction continued to account for the largest share for Ukrainian M&A deal value.

Ukrainian quarantine measures, introduced in March to curb the spread of COVID-19, placed severe restrictions on the operation of retail, restaurant and entertainment facilities.

Although restrictions were eased in June, footfall remained depressed due to the need to maintain social distancing. Simultaneously, the shift to remote working left many offices empty or significantly underutilised, leading to some companies reconsidering their long-term needs and vacating rented spaces.

Vacancies, combined with an increase in supply (with 80,000 m^2 of new office space coming to market in 2020), saw Kyiv's office vacancy rate increase from nine percent to 12.5 percent over the course of 2020, while average rental rates fell by 20 percent.

Despite the sharp fall in deal value and volume, real estate and construction continued to attract the largest share of investment, with USD205 million spent across nine deals in 2020.

The largest deal in the real estate sector saw Dragon Capital once again increase its portfolio of prime office space by more than 38,000 m^2 through its March acquisition of Kyiv's 101 Tower for USD110 million; the only deal in the office segment in 2020.

In hospitality real estate, the State Property Fund of Ukraine completed the country's largest privatisation to date in July; when Smartland won the auction of Kyiv's landmark Dnipro Hotel with a bid of USD41 million. Smartland owner Alexander Kokhanovskyy plans to invest a further USD20 million to turn the hotel into Ukraine's first multifunctional esports arena.

Some industry experts estimate that e-commerce requires three times more warehouse and logistics space than a traditional brick-and-mortar supply chain and the market certainly seems to reflect this.

Outside of office space, however, real estate as a whole was not a story of decline in 2020. The sustained growth of e-commerce in recent years, which has only accelerated during the pandemic, has been a significant driver of demand in the warehouse and logistics segment of the market.

Dragon Capital, which first invested into the warehouse and logistics segment in 2016, renewed its focus in 2020 through the acquisition of the Falby pharmaceutical warehouse complex (for USD5 million) and Lviv Industrial Park (deal value not disclosed).

Dragon Capital also went on to announce the sale of its SK Omega-2 logistics complex at the end of 2020, offloading it to one of the biggest pharmaceutical distributors in Ukraine, Optima Pharm.

We expect to see strong demand in the warehouse and logistics segment of the real estate market in 2021, although it remains to be seen how the office and retail segments will fare in the face of the 'new normal' for remote working and e-commerce.

Both the volume and total value of deals in the Real Estate & Construction sector had been rising strongly in recent years, as Ukraine opened up more to investors and started to invest more in domestic infrastructure.

However, activity fell sharply as a result of the pandemic due mainly to the dramatic collapse in the market for office space (down from nine transactions in 2019 to one transaction in 2020). Nonetheless, we observed activity in the warehouse real estate market in 2020 and at the beginning of 2021, caused by the rapid development of e-commerce and subsequent changes in supply chains.

Taking into account the low vacancy rate in the warehouse real estate market and new trends caused by the pandemic, we believe there will be increased interest and activity in this sector in the coming year and beyond.

Innovations and technology

↓53% **$184 m** Deal value

↑18% **13** Deal volume

↑4% pts **20%** Share of Ukrainian deal value

↑5% pts **19%** Share of Ukrainian deal volume

We continue to see strong interest in domestic IT companies, as well as those with a solid developer base in Ukraine.

Ukraine has a well-deserved reputation as a centre of excellence, which should allow it to capitalise on accelerating developments in e-commerce that look certain to provide more opportunities for players in this sector.

COVID-19 measures and consumer response have also driven a boost in online activity and a rise in the volume of M&A transactions in software, e-industries (such as e-commerce, e-pay, e-learning, e-gaming and e-health) and data-rich industries (including data centres, data and cyber security, virtual conferences, and data analytics and logistics).

The 'new normal', caused by businesses and governments responding to the pandemic, has changed our way of life and our way of doing business; shifting both online more than ever before. This trend is expected to become permanent to some degree in the post-pandemic era, as people and businesses see the benefits from this new mode of remote living and working.

The innovation and technology sector has been a bellwether of Ukrainian M&A trends this year, with 13 deals announced in 2020 worth a combined USD184 million. Although the value of deals decreased by 53 percent, the volume of transactions was up by 18 percent.

During 2020, almost 70 percent of deals (nine deals) in the innovations and technology sector were made by foreign private-equity and venture-capital funds located in North America and Europe. Aside from Restream's USD50 million fundraising, US based Quadient acquired YayPay, a Ukraine SaaS accounts receivable platform, for USD20 million. Other notable deals in the sector included:

— London-based venture capital fund Hoxton Ventures invested USD10 million into Preply.com; a US-headquartered business with its major operations based in Ukraine and which has quickly established itself as a leading portal to match language tutors with clients.

— Chernovetskyi Investment Group, one of the largest venture capital groups in Eastern Europe, invested USD6 million into Zakaz.ua, a company which provides grocery delivery services to major Ukrainian supermarkets.

The Ukrainian medicine search-and-delivery platform Liki24 also raised USD5 million from Horizon Capital and pre-existing investors (TA Ventures, Genesis Investments, iClub and Mission Tech).

At the same time, domestic investors remained active in Ukrainian IT companies and start-ups. At the end of 2020, Datagroup, Ukraine's leading communications solutions provider, closed a deal to acquire its well-known domestic competitor Volia for USD68 million with the full backing of Horizon Capital's EEGF II fund.

One of the key reforms which the Ukrainian government needs to adopt in the near future is to establish a specialised taxation regime for IT companies and IT contractors.

The challenge will be to strike a balance between adjusting the rates and types of taxes concerning IT businesses while still maintaining an attractive market for software developers and engineers.

The global pandemic's acceleration of technology adoption and 'digital first' approaches to business has also increased the appetite for M&A in this sector, driven by consolidation and vertical integration as companies look to acquire (rather than build) technology solutions in the race to stay competitive and relevant to customers.

Although outside the methodology of the M&A Radar, it is worth highlighting that there were also 38 transactions in the innovation and technology sector in 2020 valued at less than USD5 million each. These smaller deals were collectively worth USD109 million, demonstrating the underlying strength of the sector.

Agriculture

$170 m ↓24%
Deal value

13 ↓13%
Deal volume

18% ↑9% pts
Share of Ukrainian deal value

19% →
Share of Ukrainian deal volume

Agriculture remains a powerhouse of the Ukrainian economy and a key target for domestic and foreign deal-makers

Significant investment into the sector over recent years by both domestic and international investors has seen new farming practices and technologies employed to drive efficiency gains and improve yields.

However, adverse weather and an abnormal drought in 2020 brought two consecutive years of record Ukrainian harvests to an abrupt end.

Grain was particularly badly hit, with the 65.4 million tonnes harvested reflecting a 13 percent percent drop on the prior year. However, despite Ukraine's main export crops of wheat and corn being amongst the worst affected by the weather, Ukraine remained the world's second-largest corn exporter in 2020.

Although the long-awaited land reform law adopted by the Ukrainian government in 2020 struck a compromise among competing interests in the country, it may well be the first step towards a free land market.

The law, which came into effect on 1 July 2020, relaxes land ownership rules for Ukrainian owned businesses and provides the opportunity for international companies to lease land for up to 50 years.

Over the course of 2020, agriculture accounted for almost one-tenth of the total value and one-fifth the total volume of Ukrainian M&A. Land bank acquisitions accounted for six deals in the sector, including those by Epicentr K and Agartha Fund LP which were amongst the ten largest Ukrainian M&A deals of 2020.

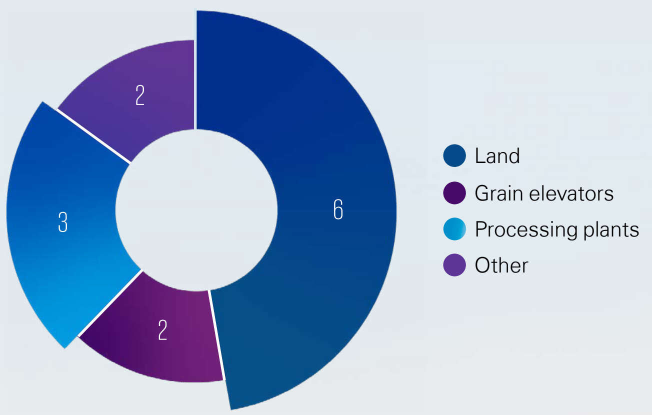
Elsewhere, SAS Investcompagnie, a little-known French company established in 2018, acquired 71,000 hectares of land held by three Ukrainian agricultural enterprises; Agrikor Holding, Agroprime Holding, and Agrovit, for an undisclosed sum. Outside of land, Cargill acquired Neptune, a Black Sea deepwater grain terminal with capacity of up to 290,000 tonnes, also for an undisclosed sum.

Land reforms have enabled domestic and foreign companies to acquire land in Ukraine, already opening up the country's lucrative agriculture and food processing sectors to investors.

Multinational companies are expected to invest more in 2021, both to source produce for other markets and to process produce for the domestic market. Ukraine is already a big producer and exporter of grains but reforms should allow for greater diversification.

Although the sector has seen a more than 40 percent decline in the deal volume since 2018, we anticipate that deal volumes will return relatively quickly; especially as the land reform process continues.

Number of deals by segment



KPMG

Transport and Infrastructure

$164 m ↑108%
Deal value

6 ↑100%
Deal volume

18% ↑14% pts
Share of Ukrainian deal value

9% ↑5% pts
Share of Ukrainian deal volume

The transport and infrastructure sector was one of the most sought after sectors in 2020, benefitting from both ongoing and planned government initiatives.

These projects aim to attract private investment to modernise Ukraine's ageing infrastructure and develop new international transport corridors.

As a result, transport and infrastructure was the fourth largest sector in 2020, attracting USD164 million into six deals. Deal-making was dominated by foreign investors, including the USD130 million, acquisition of a 51 percent stake in the TIS Container Terminal by DP World, a multinational logistics firm which operates 123 businesses across 54 countries.

Although shipping volumes fell by approximately 10 percent in 2020, mainly due to lockdown restrictions, optimism about growth in shipping volumes through Ukraine's ports in recent years (up 20 percent in 2019) was instrumental in influencing further investment.

Risoil S.A., a Swiss business which already operates the largest bulk liquid terminals in the Black Sea at Odesa's Chornomorsk Merchant Sea Port, made the decision to acquire two further terminals at the beginning of the year based on expectations of further growth to come: TK Exim Oil and Boconti Ukraine. Glencore Agriculture Limited likewise acquired EVERI Ltd, a terminal operator in Mykolaiv, from the OREXIM Group of Companies for an undisclosed consideration.

January 2020 marked the dawn of public-private partnerships (PPP) in Ukraine; something the country's government had been discussing for two decades.

The Infrastructure Ministry's concessions for Kherson and Olvia seaports attracted both Ukrainian and foreign investors, with seven companies competing in the final tender. Risoil-Kherson, a Swiss-Georgian consortium, won the 30-year concession for Kherson seaport which handles both Dnieper River and Black Sea cargo.

QTerminals, a joint venture between Mwani Qatar and Milaha which operates Qatar's Hamad Port, won a 35-year concession for Ukraine's Olvia seaport on the Black Sea. Not only do these PPPs provide income to the State from concession payments*, they will also enable vital investment to modernise the ports and local infrastructure.

Risoil-Kherson plans to invest at least UAH216 million (USD7.7 million) in the first ten years of their concession, while QTerminals will invest UAH3.4 billion (USD120 million) over the first five years of Olvia seaport's operation.

KPMG

Transport and Infrastructure

After becoming one of the most sought after sectors in 2020, the outlook for Ukrainian transport and infrastructure looks bright.

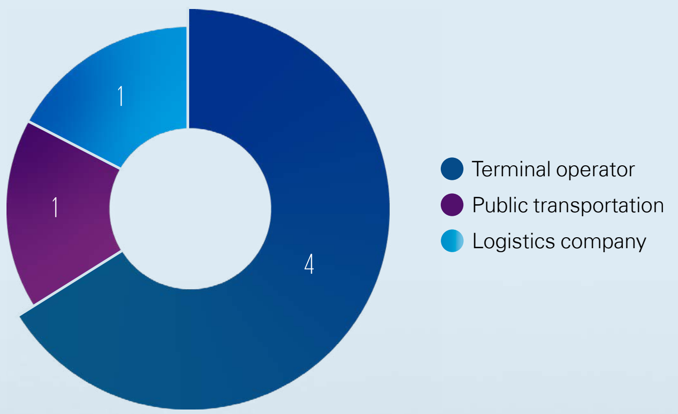
Ukrainian transport infrastructure has suffered from underinvestment for decades and needs to be improved and expanded to support the country's ambitious economic plans. It is therefore no surprise that the Ukrainian government has confirmed that this sector is a priority for development and one which international finance agencies say they are looking to fund.

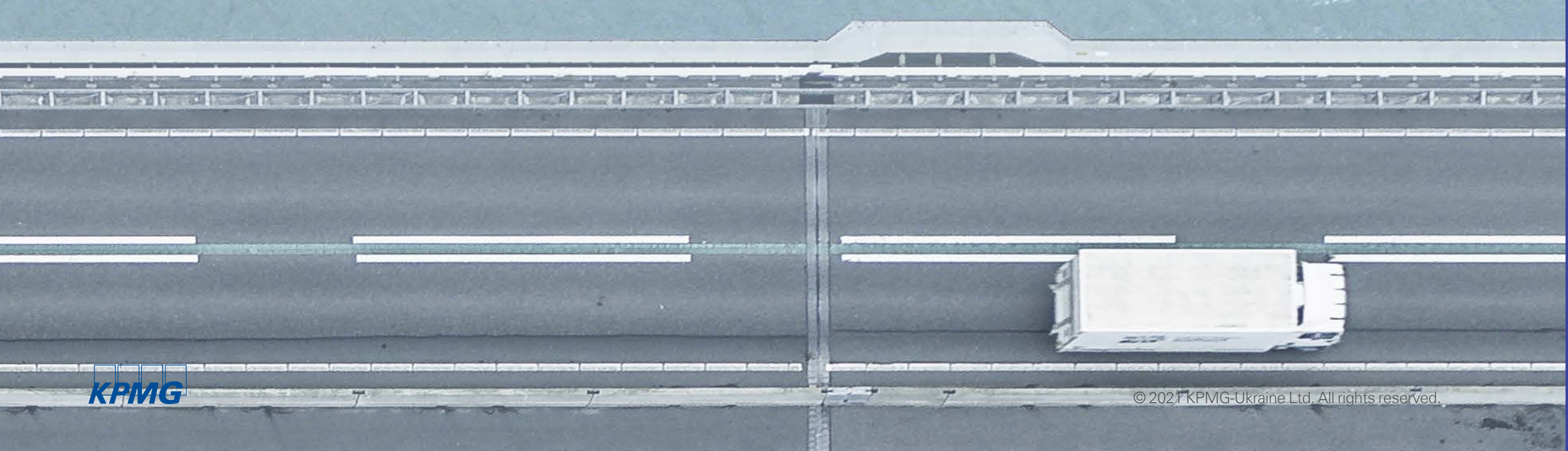
Ukraine's geographic location, combined with recent logistical developments such as a twice-weekly rail freight service connecting European and Asian destinations and the 'Black Sea to Baltic' international intermodal corridor, makes the country an important transit route for trade and travel between Europe, Asia and the Middle East.

We expect that this growth in traffic, encouraged by companies looking to Ukraine as an option to decouple supply chains from Asia, will drive further investment in the country's transport and infrastructure sector.

The Ukrainian government and International Finance Corporation (IFC) are launching a long-term public-private partnership programme for roads, including six pilot projects worth over USD1.5 billion. Public private partnership, combined with plans for air, sea and river port concessions in 2021 and beyond, are expected to drive investment in the sector.

Number of deals by segment





Infrastructure: driving economic growth

Volodymyr Marchuk

Associate Director,
Deal Advisory,
Infrastructure,
KPMG in Ukraine

After years of sustained neglect, Ukrainian infrastructure stands before a possible tidal wave of investment, spurred on by long awaited regulatory changes and the commitment of international finance agencies to propel the country toward its true economic potential

There is much to be said about unlocking the potential for modern, efficient and reliable infrastructure in Ukraine. Infrastructure is the backbone of a healthy economy; it powers businesses, connects cities, and enables the flow of goods and services within and beyond a country's borders. Situated at the crossroads between Europe and Asia, Ukraine is well positioned to reap the benefits of investment needed in the region to support global trade and the decoupling of the supply chains.

Structural changes in how we live, work and spend our time and money will influence future demand for different modes of transport.

Add to this the desire for energy independence, food security, and efforts to de-risk global supply chains by developing regional supply models, and it's clear to see the factors that will influence capital allocation into associated infrastructure.

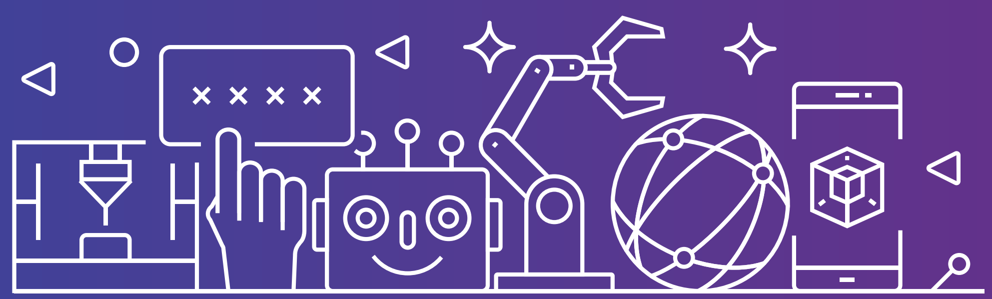
On top of these existing pressures, the recovery of rail and air passenger traffic will depend on how the pandemic unfolds in 2021, as well as the speed and effectiveness of the vaccination rollout.

Ukraine has a viable portfolio of potential infrastructure projects to support the country's economic development and integration into Europe.

Provided the Ukrainian government continues on the path of reform, this should ensure the support of the European Union and international development agencies such as the EBRD, EIB, and IFC.

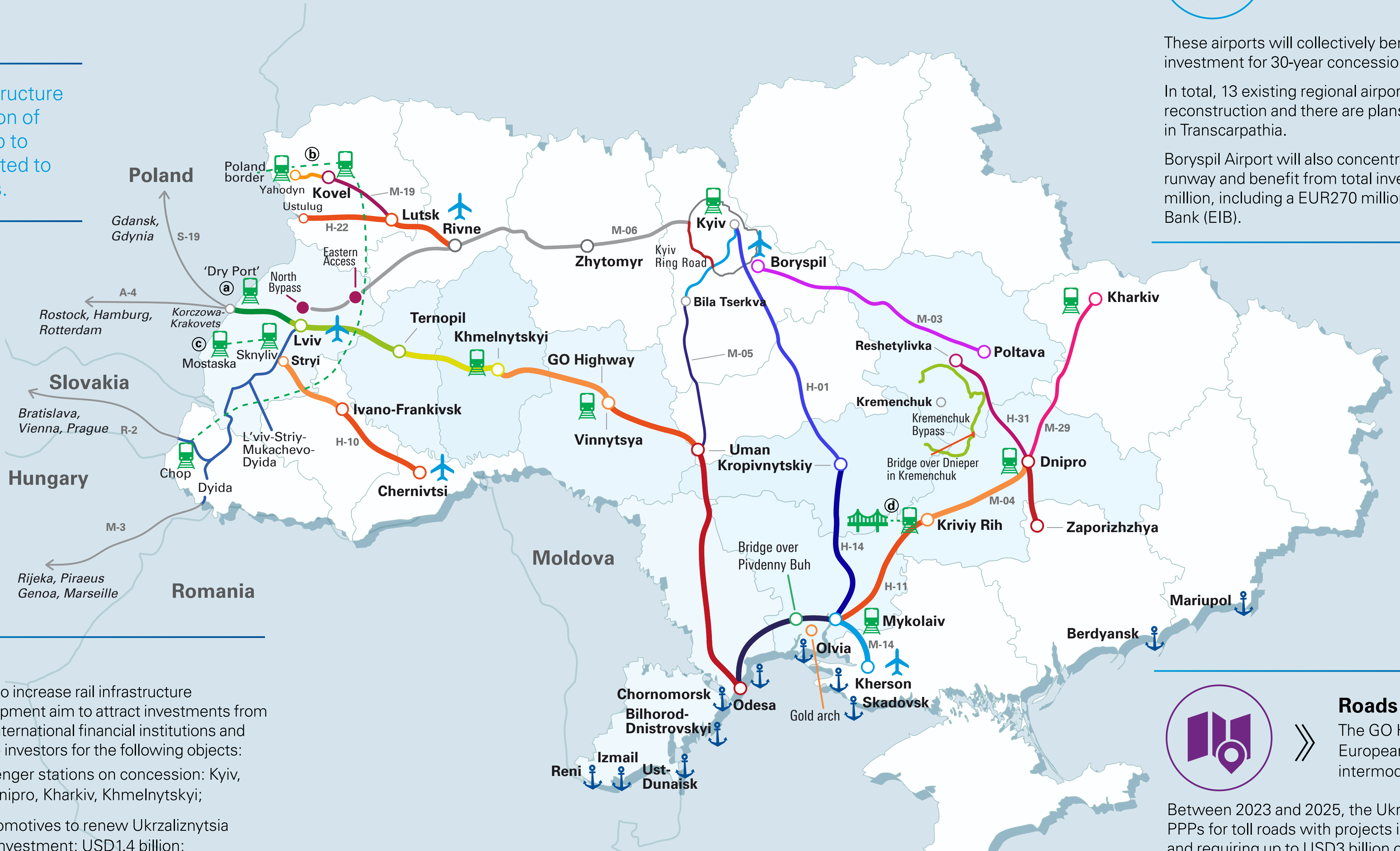
In 2021, we expect positive dynamics in terms of the recovery of freight traffic volumes to pre-crisis levels but also expect some changes in terms of the mixed mode of transportation due to ongoing pandemic related restrictions.

The upcoming integration of Ukraine into existing international infrastructure and routes, specifically those in Europe and the EU, must also take into account potential new environmental restrictions and policy alignment to harmonise with EU standards. Examples of policy alignment include 'carbon neutral', road safety, and electric vehicle charging commitments; all of which will require additional infrastructure investment.



Infrastructure: key projects

Ukraine's Ministry of Infrastructure envisages USD20 to 25 billion of infrastructure investment up to 2030, of which half is expected to come from private investors.



Seaports

Air transport

Railway station

Develop or reconstruction railway projects

Roads

Air transport

PPPs are being considered for four regional airports. Lviv, Chernivtsi, Rivne, and Kherson.

These airports will collectively benefit from USD430 million worth of investment for 30-year concession deals.

In total, 13 existing regional airports have been earmarked for reconstruction and there are plans for a new airport to be constructed in Transcarpathia.

Boryspil Airport will also concentrate on reconstruction of the western runway and benefit from total investments estimated at over EUR350 million, including a EUR270 million loan from the European Investment Bank (EIB).

Rail

Plans to increase rail infrastructure development aim to attract investments from both international financial institutions and private investors for the following objects:

- Commissioning seven passenger stations on concession: Kyiv, Chop, Mykolaiv, Vinnytsia, Dnipro, Kharkiv, Khmelnytskyi;
- Purchase electric freight locomotives to renew Ukrzaliznytsia rolling stock, by 2025. Total investment: USD1.4 billion;
- Kyiv Urban Electric Train development, to 2025. Total investment: USD298 million;
- Railway infrastructure development and regional reconstruction projects (2021 – 2024). Total investment: USD106 million;*
- Transport hub development in Kovel and Chop; one of the key Western crossings in Ukraine. Total investment:USD32 million.**

*Includes:

(a) construction of a 'Dry Port' logistics hub on the Polish Border in the Lviv region named 'Mostyska 2', (b)reconstruction and electrification of the 'Kovel-Yahodyn-Poland border' railway in the Volyn region, (c)reconstruction of the 'Mostaska-Sknyliv' railway, (d)development of a railway bridge for the 'Kryvyi Rih and Kryvyi Rih-Western Line';

** This development of the 'East-West Gate' will enable transport links with Slovakia and Hungary via the Hungarian rail terminal in Fényeslitke (currently under construction).

Seaports

Following successful tenders for concessions of the Kherson and Olvia seaports, the government plans portconcessions for Chornomorsk, Odesa, Berdyansk, Mariupol, Reni, Izmail, as well as the privatisation of stevedoring companies in the ports of: Bilhorod-Dnistrovskyi, Ust-Dunaisk and Skadovsk.

In total, 13 concessions are expected to draw USD1.8 billion in private investment in the period to 2038, according to a new Seaports Development Strategy approved by the Cabinet of Ministers.

Roads

The GO Highway project: part of the Trans-European Transport Network (TEN-T) and intermodal Southern Silk Road route.

Between 2023 and 2025, the Ukrainian government plans to launch PPPs for toll roads with projects in Kyiv alone covering up to 1,600 km and requiring up to USD3 billion of investment.

Construction, reconstruction and capital repair of 1,746 km of road infrastructure from Odesa (Ukraine) to Gdansk (Poland). Total investment: +USD2.3 billion.

Kyiv Ring Road reconstruction (between M-05 and M-06). Total investment: +USD400 million.

Repair of 10 key road sections, including 6 pilot road PPPs supported by the International Finance Corporation (IFCS). Total investment: USD1.5 billion.

Kremenchuk bypass road development, M-22 Poltava - Oleksandriya route reconstruction, Dnieper River bridge (total length: 35 km). Total investment: USD720 million.

Pivdennyi Buh bridge, Mykolaiv. Total investment: +USD2 billion.

Infrastructure: a new legal foundation

While 2020 was turbulent and unpredictable for businesses, the Ukrainian government and lawmakers spent the year preparing infrastructure projects and developing a legislative basis for their implementation.

A proper legal framework, one that ensures greater certainty and transparency, is crucial for bringing investors into the country and unlocking financing for private and PPP projects. Key legislative highlights that will have a significant impact on infrastructure investment include:

State support for large private investment projects has now been proposed for both foreign and domestic investors as part of Ukraine's investment promotion agenda.

New infrastructure investment projects of EUR20 million or more with a 5-year implementation horizon will now be eligible for support.

This will come in the form of tax- or land-related benefits or construction of project infrastructure facilities at the expense of the state. A so-called 'investment nanny' will also be provided to investors to support them at all stages of the project.

The inland water transport law was finally adopted after a decade of debate, contributing to the development of a truly multimodal transport system for Ukraine and beyond.

While attracting some criticism from various stakeholders, this development is nevertheless an important step for revitalising Ukrainian rivers as one of the cheapest and most environmentally-friendly means of transporting freight. Coming into effect in January 2022, the law is expected to boost river freight traffic (currently only one percent of all freight traffic) and attract more investment in this sector.

The inevitable capital market revolution resulting from the new Capital Markets Law is expected to be a turning point for many sectors, including infrastructure.

The law creates a new comprehensive legal framework for the proper functioning of capital markets and introduces new instruments, including infrastructure bonds, for state authorities and/or private investors to finance projects (including via PPP). This law should solve one of the major causes behind the low number of infrastructure projects.

Industry expert opinion from CMS Cameron McKenna Nabarro Olswang, a law firm which KPMG in Ukraine has prior experience of partnering with on selected projects.

Tetyana Dovgan

Partner, CMS Cameron McKenna Nabarro Olswang

Kateryna Chechulina

Counsel, CMS Cameron McKenna Nabarro Olswang

Apart from the important legislative developments last year, Ukraine also presented major infrastructure programmes covering railway, aviation, maritime and road projects.

However, there are still challenges that need to be addressed for these projects to succeed. Among those impacting the most sectors are:

A proper state budgeting process for implementing PPP projects must be in place to enable a public partner to meet its long-term obligations, given that the average term of presented projects is around 20 years.

This is one of the key aspects that any private partner considers when assessing a country's ability to guarantee financial performance of a PPP project. A recent draft law introduced changes to the currently existing three-year budgeting principle, allowing the state to undertake long-term obligations within the PPP framework. When adopted, this law will create the necessary conditions for implementing large PPP infrastructure projects and boost investment.

Ensuring road-use regulations (speed limits, maximum cargo weight etc.) are properly enforced is a major issue that must be addressed to successfully implement road projects.

Current regulations seem to only exist on paper which poses a big question: would any investor assume liability to maintain roads to the required standard if there is no viable mechanism to ensure users comply with regulations that directly affect the condition of said roads?

The operation of weigh-in-motion systems was regulated in 2019 and several pilot systems have already been launched. However, the rights and level of control that a private partner has regarding road users following required regulations, as well as the impact this has on contractual obligations, is an issue that must be solved by amending concession/PPP legislation.

There has been significant currency liberalisation over the last two years but there still remain some key restrictions preventing completely free cross-border capital flow.

Given the duration and complexity of infrastructure projects, the limitations on settlements under export-import transactions still create obstacles to implementation. The inability to properly hedge FX risks plays an important role for an investor in deciding whether to proceed with a project.

Although the new Capital Markets Law has introduced important concepts for developing derivatives and repo markets in Ukraine (master agreements, close-out netting, etc.), the full-scale use of FX derivatives to hedge currency risk will only happen after various by-laws are adopted and the remaining currency control restrictions are lifted.

While there is a lot yet to be done to improve the legal framework, state authorities already have sufficient discretion under the law to ensure successful infrastructure projects.

It is therefore a question of Ukraine's readiness to exercise its political will, coupled with invaluable support from international and local partners, that will be key for the success of infrastructure projects in the country.

Other sectors

Consumer Markets

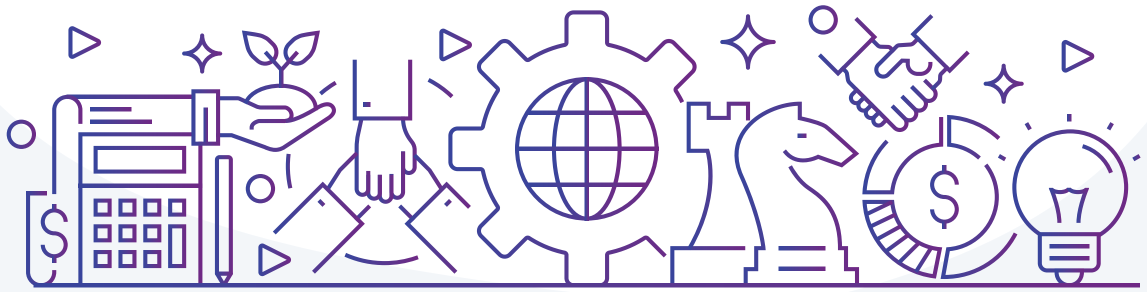
Deal value	Deal volume	Share of Ukrainian deal value	Share of Ukrainian deal volume
$93 m ↑145%	5 ↓37%	10% ↑8% pts	7% ↓3% pts

Oil and Gas

Deal value	Deal volume	Share of Ukrainian deal value	Share of Ukrainian deal volume
$75 m ↑32%	4 ↑33%	8% ↑6% pts	6% ↑2% pts

Metals and Mining

Deal value	Deal volume	Share of Ukrainian deal value	Share of Ukrainian deal volume
$19 m ↓46%	7 ↑250%	2% ↑1% pts	10% ↓8% pts



Banking and Insurance

↑53%
$10 m
Deal value

↑50%
6
Deal volume

↑1% pts
1%
Share of Ukrainian deal value

↑4% pts
9%
Share of Ukrainian deal volume

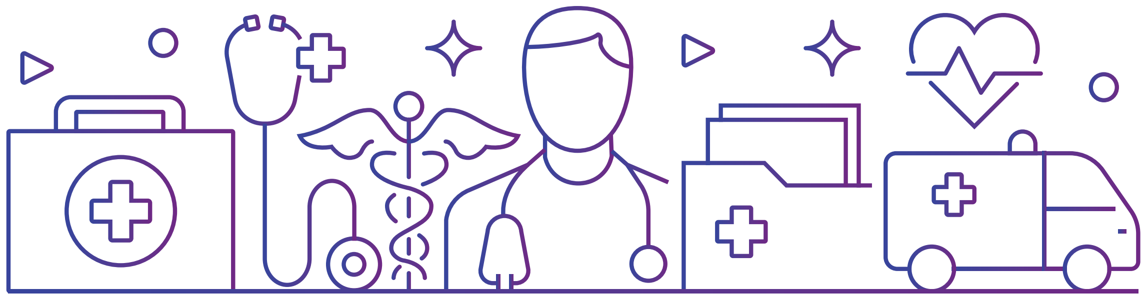
Healthcare and Pharmaceuticals

↓95%
$5 m
Deal value

↓67%
2
Deal volume

↓3% pts
1%
Share of Ukrainian deal value

↓4% pts
3%
Share of Ukrainian deal volume



Appendix

Methodology

KPMG Ukraine 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 January and 31 December 2020 or announced during this period but pending at 31 December 2020. Historical data may differ from earlier versions of this report as the KPMG Ukraine M&A database is updated retrospectively for lapsed deals and information subsequently made public.

The KPMG Ukraine M&A database has been complied 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 which are disclosed in the public domain.

Between 2013 and 2020, transaction values were not publicly disclosed for 50 percent of known Ukrainian M&A deals on average. This low level of transparency may distort the data included in the KPMG Ukrainian M&A database and the comparability of deal data between periods.

Macro trends and medium term forecasts

Information presented in this report on macro trends and medium-term forecasts are based on data from DT-Global Business Consulting GmbH, a consultancy company offering advice and information on global business and emerging markets with a focus on Central & Eastern Europe and the Russia-CIS region.

Macroeconomic data

Macro trend

	2019	2020E	2021E	2022E	2023E	2024E
GDP, UAH bln nominal	3,975	3,903	4,142	4,576	4,953	5,400
GDP, USD bln, nominal	154	145	142	151	157	165
Growth, real % YoY*	3.2%	(5.6%)	3.6%	4.8%	4.7%	4.3%
CPI - average, % YoY	7.9%	2.6%	5.6%	6.2%	5.6%	4.8%
CPI - period-end, % YoY	4.1%	3.7%	6.5%	6.0%	4.9%	4.9%
Gross fixed investment, real % YoY	14.2%	(19.0%)	7.0%	6.5%	6.3%	6.0%
Industrial production, real % YoY	(0.5%)	(7.3%)	5.0%	4.5%	3.2%	2.8%
Agricultural output, % change YoY	1.4%	(6.0%)	4.5%	2.5%	2.5%	2.5%
Bank average lending rate, %	19.8%	14.4%	12.7%	12.3%	10.8%	9.1%
Real disposable income, % YoY	1.0%	14.4%	11.5%	6.1%	7.0%	5.1%
Unemployment, % EOP	8.2%	9.5%	9.6%	8.8%	8.8%	8.3%
Budget, balance % of GDP	(1.9%)	(6.9%)	(6.2%)	(4.3%)	(3.6%)	(2.8%)
Current account,% of GDP	(2.7%)	2.6%	(0.3%)	(0.8%)	(2.7%)	(2.7%)
UAH/USD, year-end	23.7	28.3	29.8	31.0	32.2	33.4
UAH/USD, average	25.8	27.0	29.2	30.4	31.6	32.8

** Source: Economist Intelligence Unit.*

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