M&A Radar 2023: Ukraine

February 2024

KPMG in Ukraine

kpmg.ua

Contents

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Introduction

Resilience and Recovery: Navigating Ukraine's Post-Invasion M&A Landscape

It has been three years since the release of the last KPMG M&A Radar for Ukraine. As is customary, we planned to unveil M&A Radar 2021 at the beginning of 2022. During that period, both KPMG and the global community as a whole were in a moment of collective anticipation waiting for the situation on the Ukrainian border to stabilise.

We approached 2022 with an outlook of cautious optimism, built on the success of the preceding year and in expectation of positive changes stemming from the impactful reforms Ukraine had already made. Unfortunately, reflecting the state of Ukrainian M&A transactions in general, the release of M&A Radar 2021 was abruptly interrupted due to the Russian Federation's full-scale invasion of Ukraine in February 2022.

This event effectively put the Ukrainian M&A market on hold, resulting in the cancellation of significant transactions that had commenced at the end of 2021. In 2022, corporations were predominantly focused on addressing war-related challenges which led to a pause in investments. Notably, almost the only sector that continued to develop in 2022 was the Ukrainian IT industry, as companies with a developer base in Ukraine and headquarters in Europe and the USA demonstrated greater adaptability to the War.

In parallel with Ukrainian M&A's specific issues, the global M&A market faced its own challenges driven by surging inflation, rising interest rates, and an uncertain economic outlook. These factors, coupled with Russia's full-scale invasion, had a significant impact on transactions around the world. As a result, M&A activity in 2023 experienced a sharp downturn, declining to one of the lowest points in a decade in terms of deal value. The total value of global M&A deals dropped by approximately 16%, while the number of transactions decreased by 18%.

Nonetheless, as Ukraine's economic landscape grappled with the aftermath of the invasion (characterised by a 30% decline in GDP, territorial losses, and significant population outflows), there were some signs of recovery in 2023. Real GDP demonstrated an impressive approximate 5% growth over the last year, surpassing initial forecasts. This rebound underscores the resilience of the Ukrainian economy, significantly supported by crucial military and monetary assistance provided by Ukraine's international allies.

Looking ahead, investor confidence in Ukraine hinges on a number of factors, including the progress of the ongoing War, judiciary system reforms to combat corruption, and further support from international partners. These immediate concerns hold significant weight and will be keenly observed by investors in the coming year.

Within this intricate economic landscape, the Ukrainian M&A market has undergone dynamic changes. Both domestic and cross-border transactions have had to adapt to the challenges and opportunities arising from the current economic and geopolitical environment. This edition of M&A Radar delves into the relevant recent trends and developments in the Ukrainian M&A market, providing insightful perspectives into the potential for post-invasion recovery, sectoral shifts, and the commendable resilience demonstrated by businesses, investors, and the Ukrainian people whole, all of whom have remained steadfast in the face of adversity.

Svitlana Shcherbatyuk

Head of Transaction Services,
Deal Advisory,
KPMG in Ukraine

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Overview

47 ↑68%
Deal volume

$1.2bn ↑153%
Deal value

$45m ↑72%
Average transaction value

$28m ↑7%
Average transaction value (excluding significant transactions)

5% ↑
GDP

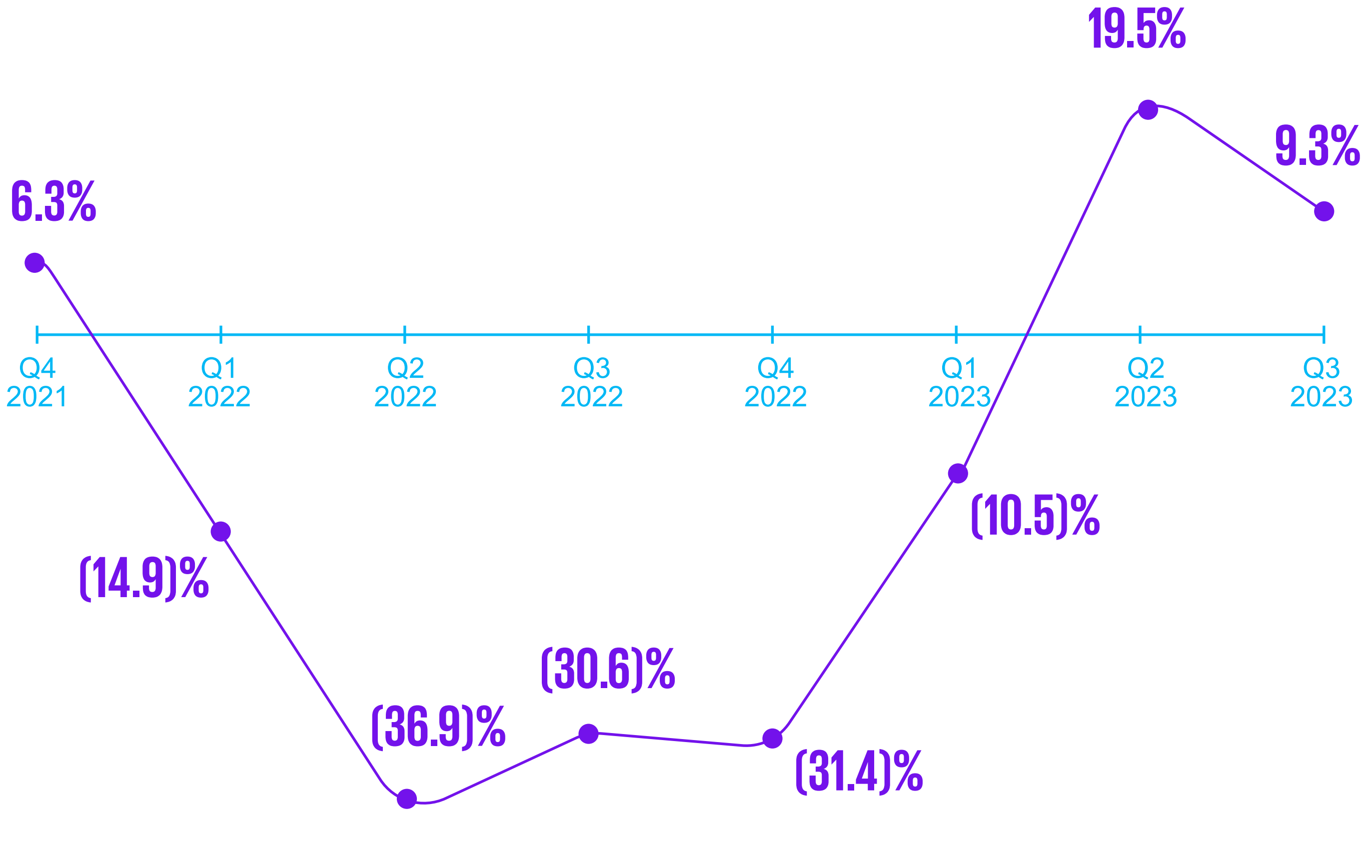
War-induced reductions in market activity were felt sharply in many sectors, with M&A being no exception.

Given the strong correlation between future uncertainty and willingness to engage in corporate transactions, it is unsurprising that the Ukrainian M&A market witnessed a decline in both value and volume in 2022.

With the loss of 20% of its territory and the largest population outflow since the Second World War, Ukraine naturally experienced significant economic setbacks stemming from Russia's full-scale invasion. The National Bank of Ukraine confirmed a one-third decline in GDP in 2022 as a consequence, marking the most substantial economic downturn in Ukraine since the 2013–2014 Revolution of Dignity.

However, despite these challenges there were positive signs of recovery in 2023. Real GDP grew by about 5%, surpassing an initially more pessimistic forecast of 0.3% growth at the beginning of the year.

Quarterly GDP change, %



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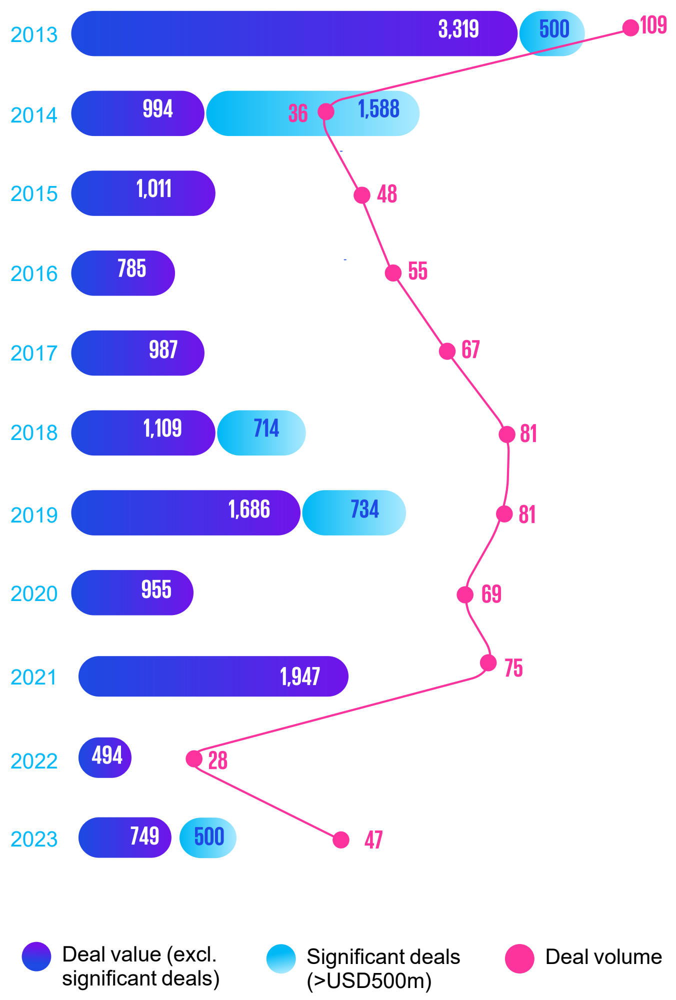
Considering the severe nature of the issues and concerns posed by the War, Ukraine's economy has proven remarkably tenacious. Outstanding harvests, government incentives supported by unwavering international assistance, and a commitment to maintaining macro-financial stability all contributed to a robust recovery.

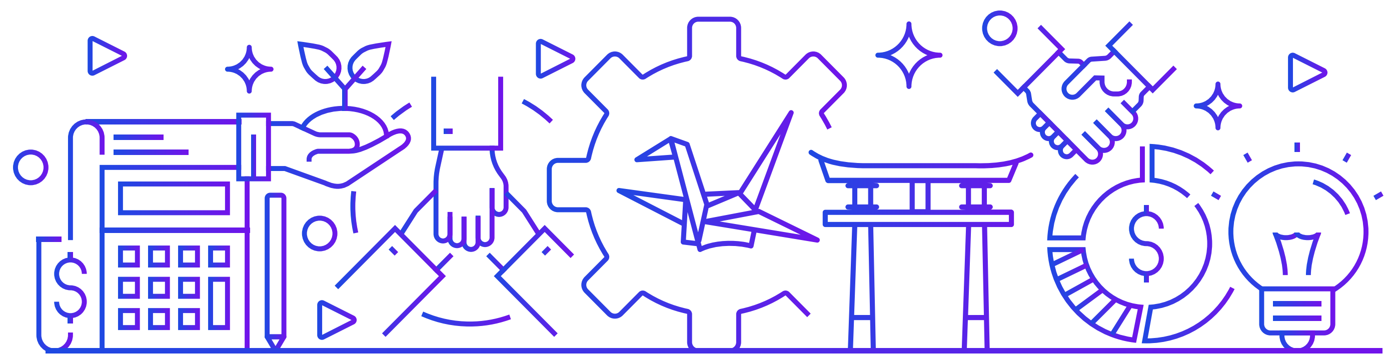
Reflecting this economic resilience, the Ukrainian M&A market likewise experienced improvement in 2023. With 47 transactions announced, the volume of activity increased by almost 70% compared to 2022. The value of Ukrainian M&A transactions exceeded the level of 2020 doubling that of 2022. Owing to the low transparency of these deals—with only 60% disclosing their values—the true value may potentially be even higher.

Transaction values on the Ukrainian M&A market similarly increased, though this recovery was somewhat less substantial. Average transaction values grew from USD26 million in 2022 (the lowest since the Revolution of Dignity) to USD44.6 million in 2023, surpassing values seen in 2021. However, it must be noted that NJJ Capital's USD500 million acquisition of Lifecell constituted 40% of all M&A activity in 2023. Excluding this exceptionally large Lifecell transaction, average transaction value would be a less encouraging USD28 million which falls short of average deal values of USD40 million seen in 2021. This lack of a more significant rebound in average transaction value was attributed to investors' reluctance to commit capital in Wartime conditions and sellers' preference to delay deals in expectation of achieving higher price multiples post-War.

War-induced investor reluctance was evident in the relatively small number of deals exceeding USD100 million in value during 2023, with only three such transactions announced.

Ukrainian M&A, 2013–2023





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Ten largest Ukrainian M&A deals in 2023

No.	Target	Sector	Acquirer	Acquired %	Value, USDm
1	**Lifecell, Global Bilgi, and Ukrtower**	Communication and media	NJJ Capital	100%	500
2	**Kernel Holding SA**	Agriculture	Namsen Limited	36%	136
3	**Parus Holding LLC**	Real estate and construction	Ola Fine LLC (Maksym Krippa)	100%	100
4	**Preply Inc.**	Innovations and technology	Horizon Capital LLP, Hoxton Ventures, Owl Ventures, LP, Reach Capital	Undisclosed	70
5	**DMarket**	Innovations and technology	Mythical Games	100%	70
6	**Investment company Lybid (Ocean Plaza)**	Real estate and construction	Andrii Ivanov	33%	60
7	**ClickDealer**	Innovations and technology	Digital Media Solutions	100%	45
8	**Reni-Oil LLC**	Transport and infrastructure	Kernel Holding SA	100%	25
9	**M10 Lviv Industrial Park**	Real estate and construction	EBRD	35%	25
10	**Fintech Farm**	Innovations and technology	Nordstar Fund, Chrome Capital	Undisclosed	22
				Combined total	1,052
				Of total M&A deals value	84%

Inbound

Domestic

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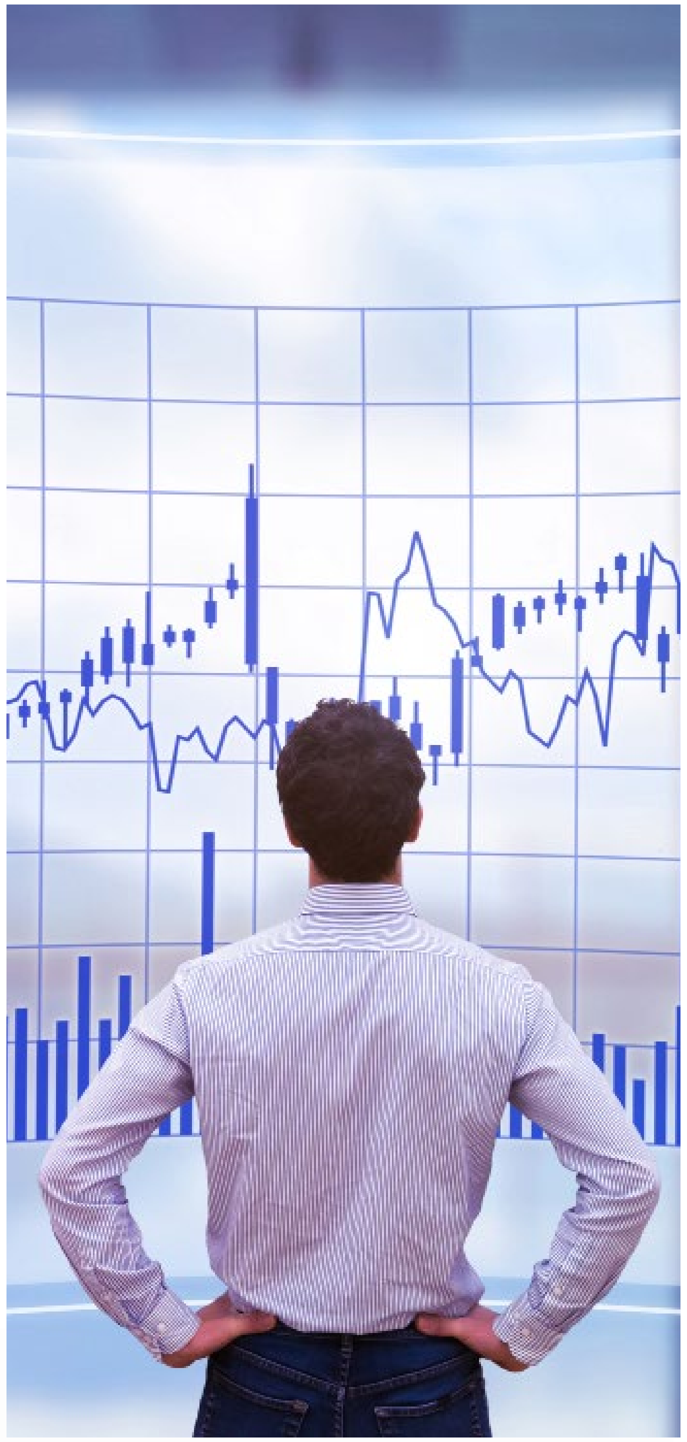
2023 in review

From invasion shock to resilient recovery, the story of the Ukrainian M&A market over the last two years

After the full-scale invasion of Ukraine by the Russian Federation, the challenges faced by the Ukrainian M&A market in 2022 seemed drastic.



The War led to a significant depreciation in the value of Ukrainian companies, ascribed to multiple interrelated factors such as military risks, material losses, destruction, shifts in consumer markets, territorial occupation, and ports blockades.

Investors, both foreign and domestic, understandably hesitated in proceeding with M&A transactions in these ongoing wartime conditions. The Russian invasion had an obvious impact on Ukraine's M&A process, with over 20 deals that were announced in 2021 being cancelled in 2022 in a downturn that resembled trends last seen in 2020 during the COVID-19 crisis.

NEQSOL Holding, for example, previously in the process of acquiring Ivano-Frankivsk Cement before the outbreak of the full-scale war, was unable to finalise the deal. Volodymyr Lavrenchuk, the regional director of NEQSOL in Ukraine, stated that the company intends to revisit the deal post-War but with a reconsideration of the price. Similarly, in late February 2022 Getin Holding announced that the sale of Idea Bank to First Ukrainian International Bank (previously, on 10 November 2021, it was reported that preliminary agreement on the deal had been reached).

Even transactions that remained active saw deal timeline extensions and there was a noticeable shift in negotiation dynamics, including an increase in smaller deals, a transition from the traditional "locked box" model to "completion accounts", and a tendency towards larger deferred payments and the use of foreign jurisdictions to complete M&A deals as a means of circumventing capital outflow restrictions.

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The Russian invasion had a consequent adverse effect on the investment potential of almost all traditional players in the Ukrainian M&A market, such as those in metallurgy, agriculture, retail, construction, and mining. This resulted in deals shifting focus towards the IT sector, particularly to Ukrainian IT companies based in Europe and the USA.

As a result, Ukraine's IT sector emerged as the only industry showing increases in revenue and its contribution to Ukraine's GDP during the full-scale War.

According to the NBU, IT contributed USD7.34 billion in foreign exchange earnings to the Ukrainian economy in 2022, up USD400 million (+5.8%) compared to pre-war 2021.

Throughout 2022, Ukrainian businesses grappled with adapting to the new circumstances imposed by the War. This involved relocating assets and workforces from cities nearer conflict zones to safer locations, implementing widespread remote work, formulating new business strategies and plans, and providing ongoing support to employees. According to Opendatabot, almost 8,000 Ukrainian businesses have changed their region of registration since the beginning of the full-scale War.

Even in the face of the ongoing War, the Ukrainian economy showed signs of recovery in 2023.

According to the Ministry of Economy of Ukraine, GDP grew by approximately 9.1% in September 2023 compared to the same month of the previous year, while overall growth for the first nine months of 2023 was estimated at 5% compared to the corresponding period in the previous year.

This rallying of the Ukrainian economy is an encouraging sign, partially attributed to strong agricultural yields and favourable weather conditions that compensated for the loss of arable land due to the War.

However, it is also crucial to acknowledge that agriculture faces a multitude of issues connected to the Russian invasion that have created an unfavourable environment for farm producers, including minefields, a shortage of workers, lower grain prices, and higher logistics costs.

These hurdles have led to some farm producers ceasing all activity, particularly highlighted by a substantial decrease in the number of working enterprises in agriculture, forestry, and fishing which experienced a significant drop from 51,800 to 35,600 (-31.4%) in 2022 according to the National Scientific Centre "Institute of Agrarian Economics". Once again, this constitutes the largest decline since the 2013-2014 Revolution of Dignity.

Adverse trends in the agricultural sector have reverberated across the Ukrainian M&A market, causing a substantial loss of capitalisation for Ukraine's agricultural holdings. UkrAgroConsult's reports indicate that the total capitalisation for agricultural holdings in Q4 2023 was EUR10.8 billion, a EUR1.95 billion decrease compared to Q4 2022 (EUR12.77 billion). This downturn has influenced M&A activities in the agriculture sector, leading to companies turning to share buybacks from minority shareholders. Notable instances of enterprises employing this strategy include Kernel repurchasing 30.25 million shares, and Fairfax Financial Holdings Limited increasing its stake in Ovostar Union (the largest producer of egg products) from 10.4% to 27.5%.

However, there have also been positive developments. The operation of a temporary corridor to facilitate the movement of civilian vessels to the ports of greater Odesa, reducing the need to use more costly land routes like rail and road, has helped decrease logistical expenses for agricultural and steel concerns.

In response to the Russian Federation's failure to adhere to (and eventual total withdrawal from) its own UN-brokered Grain Deal, Ukraine unilaterally declared a humanitarian maritime corridor for merchant vessels travelling to and from Ukraine's Black Sea ports. This has included 200 ships transporting seven million tonnes of goods from Odesa's port, of which five million tonnes originated from Ukrainian agricultural enterprises.

This unblocking of Black Sea ports spurred Ukrainian agricultural conglomerates to make greater investments in transshipment terminals, particularly in the Odesa region. Examples include various investments by Kernel to purchase storage facilities at Chornomorsk port, secure one-time storage capacities of 15,000 tonnes of sunflower oil transshipment capacities at Reni port, and acquire a 100% stake in a transshipment terminal with a capacity of near 50,000 tonnes in Pivdennyi port.

There are similarly optimistic developments in Ukraine's energy sector. In the face of seemingly overwhelming odds, Ukraine has managed to stabilise its power sector; eradicating its power deficit and even achieving an electricity surplus in March 2023.

This achievement is attributed to the outstanding efforts of Ukraine's power sector workers, particularly those at Ukrenergo and DTEK, who have prevented the collapse of the energy sector amid ongoing energy infrastructure strikes by Russia.

DTEK's choice to make a record-breaking UAH20 billion of investments in preparing Ukraine's energy system for the 2023–2024 autumn-winter period continues to pay off. Hardening the Ukrainian power grid and enhancing energy security, these investments included making significant repairs, restoring thermal power plants and electrical networks, and increasingly focusing on coal and natural gas extraction to supplement existing capacities. DTEK also took an active role in the Ukrainian M&A market in 2023, using its acquisition of a 49.38 MW photovoltaic power plant from Romania-based alternative power developer Finas Invest to diversify energy resources and build resilience.

Despite their own industry-specific challenges, key players in the Ukrainian economy like the IT sector have served as a beacon of economic strength and confidence in Ukraine's ability to deal with geopolitical turmoil.

Emerging as a "driver" of economic growth, the Ukrainian IT industry contributed approximately 4% of the country's GDP in 2023. During a speech at Diia Summit 2023, Ukrainian Prime Minister Denys Shmyhal highlighted that IT services make up 40% of Ukrainian service exports, and the IT sector has become the sole direction of Ukrainian exports to experience growth in the aftermath of Russia's ongoing invasion.

While 2023 showed a slight deceleration in growth, with projected export revenue ranging from USD6.78–7.18 billion according to IT Research Ukraine (down 2.3–7.7% compared to 2022 export volumes), the sector has continued to attract investor attention. Traditionally a key pillar of the Ukrainian M&A market, investors in IT recognise that the industry is relatively less affected by the physical consequences of the ongoing War. Notable transactions included Horizon Capital LLP leading an investor group in acquiring an undisclosed stake in Preply Inc. and Mythical Games acquiring DMarket, a Ukrainian blockchain gaming marketplace.

The Ukrainian economy has also received substantial support from international partners to help attract future investors, securing a total of EUR103.3 billion in aid in 2023. This includes EUR33.6 billion specifically designated for military funding and EUR69.7 billion allocated to combat other economic pressures.

The Ukrainian government has taken proactive measures to bolster the Ukrainian economy and enhance macro-financial stability, implementing initiatives such as the "Affordable Loans 5-7-9%" programme and providing support for the defence and agriculture industries. Collaborative efforts with international institutions have also played a crucial role in supporting agriculture, infrastructure, and energy sector projects, promoting economic stability and facilitating recovery. Noteworthy contributions include EUR450 million from the EIB for vital social and urban infrastructure projects, USD900 million from the IMF for budget support, USD550 million from the IBRD and a further USD700 million from the World Bank for the Agriculture Recovery Inclusive Support Emergency (ARISE) project, and EUR4 billion in support from the European Bank for Reconstruction and Development (EBRD) which increased its capital commitments to invest in Ukraine.

The NBU should also take credit for the success of its monetary policy, increasing demand and slowing price growth through maintaining a stable exchange rate, even after moving to the less strict regulation of managed exchange rate flexibility in Q4 2023. As a result, prices have also stabilised, bringing inflation closer to the target range of 4–6%. The NBU also revised its inflation forecast to 5.8% for 2023, down from the initially more pessimistic January 2023 projection of 18.7% (following 26.6% inflation in 2022).

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With lower inflation rates and increased consumer confidence, Ukrainian shopping malls have seen significantly increased turnover in 2023, with the number of shoppers even exceeding pre-War 2021 levels.

Reports from RAU Summit, a conference of CEOs and top managers from the Ukrainian retail sector held in Kyiv, noted that Ukraine's largest shopping malls and retail-entertainment centres saw a 40–100% increase in UAH turnover as the situation for civilians stabilised in 2023. Aside from this increased confidence, growth can also partly be attributed to internal relocation from military zones to larger Ukrainian cities, as displaced Ukrainian citizens came to terms with their new lives.

Relocation and re-settlement have also been key concerns for Ukraine's largest food retailers, though there have also been signs of new growth. Ukraine's largest retailer ATB increased its network by 2.2% in H1 2023, increasing its total number of sales outlets to 1,187. As the second largest Ukrainian food retail group in terms of stores, Fozzy Group's network increased by a similar percentage: up 2.5% to a total of 709 stores (with 17 new stores opening in H1 2023).

Building on stabilisation and expansion in consumer markets and the real estate industry, the retail and real estate M&A market also saw additional investments. In retail, a number of share purchases and outright acquisitions have affirmed increased interest. Owner of investment company Q Partners Andrii Ivanov finalised the purchase of a 33.35% share of Ocean Plaza mall (Kyiv) from Vasily Khmelnitsky's UPD Holding Limited, while Maksym Krippa, owner of e-sports team NAVI and S.T.A.L.K.E.R., became the ultimate beneficial owner of Peredovi Technologii Plus; effectively acquiring Parus business centre (Kyiv) from Ukrainian MP Vadym Stolar.

Warehouse and manufacturing spaces, logistical premises sorely needed to support Ukrainian retail and humanitarian supply lines that have been strained by Russia's invasion, have also seen increased investment. The EBRD, for example, has committed to making a 35% equity investment, or USD24.5 million, in the M10 Lviv Industrial Park project.

Moreover, the Verkhovna Rada has taken a proactive role in securing investments by introducing Law No. 9015, focusing on the insurance of investments against War risks through the Export Credit Agency (ECA).

This has enabled both Ukrainian and international export-focussed enterprises to benefit from insurance instruments to insure and re-insure investments and assets even under martial law.

Ukraine's international partners have also taken steps to assist with efforts to insure investors against war risks, with initiatives by the UK, the US, and the World Bank.

Ukraine and the UK collaborated to forge a new special mechanism for insuring exports through Ukraine's Black Sea corridor against military risks. Prime Minister of Ukraine Denys Shmyhal explained that this innovative approach "will allow for a discount on the cost of war risk insurance for exporters of all products from Ukraine". The collaboration involves key entities, including the ECA, Ukrgasbank, Ukreximbank, and a consortium of 14 reputable insurers, featuring such prominent names Marsh McLennan and Lloyd's of London.

Further facilitating investment insurance, the American Development Finance Corporation (DFC) is intensifying its efforts in Ukraine by sending a special representative from the DFC to help expedite the acquisition of insurance by both Ukrainian and international businesses.

Meanwhile, the Ministry of Economy of Ukraine and the World Bank's Multilateral Investment Guarantee Agency (MIGA) have reached an agreement to establish a working group, aiming to streamline and optimise the investor insurance process.

These collaborative initiatives underscore an international commitment to fostering a conducive environment for investment and economic growth in Ukraine.

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Anna Babych: "The state is expected to play an active role in improving Ukraine's chances for more investment"

**Anna Babych,
Executive partner,
Aequo**

Ukraine's economic recovery is a massive challenge on a scale that the world has not faced since the Marshall Plan. Based on similarly relevant examples, international aid typically accounts for about 50% of a country's budget in the first 5–10 years of recovery. However, the amount of recovery aid is not necessarily related to the success or failure of further economic development. What does have a direct impact is a systematic focus on the development and participation of private business in said recovery, as was the case with Croatia's integration into the EU and South Korea after 1961.

Increased private investment is needed to combat unemployment, population outflows, and a potential "brain drain" of talent. The public sector depends on international aid which is bound to decrease, and this certainty will shock the country when it happens. The natural magic pill is private foreign investment. From a regulatory perspective, what will determine Ukraine's chances of welcoming international investors soon?

Movement towards the Eurozone

Moving towards and joining the EU is a powerful anchor for our economy. This defines many directions for reconstruction, such as new comprehensive regulation according to European standards, compliance procedures, and a coherent sanctions policy. Integration into the global economy dramatically impacts the speed of recovery and economic development (as seen with Croatia and the EU, Korea's transition to an export-oriented economy, and the effect of sanctions being lifted on Iraq, to give just a few examples).

Obviously, this sets a decades-long vector for Ukraine. For investors, this means clear regulatory standards and a more understandable matrix for assessing investment opportunities.

Starting in 2024, Ukraine will officially launch accession negotiations. In practical terms, this means that the results of the European Commission's report on Ukraine's progress within the EU enlargement package will be considered, and an action plan will be developed to implement the report's recommendations. A national programme will be created to adapt legislation to EU law, known as the "acquis". The development and implementation of the acquis is a monumental task, the full scope of which will be determined by the results of the European Commission's "screening", which is yet to be conducted. However, self-screening undertaken in 2023 has already shown that about 5,000 laws will need to be amended to align our legislation with EU directives.

For example, the pharmaceuticals sector will require aligning with 71 EU laws, and the healthcare sector will need 16 EU directives and regulations to be implemented into Ukrainian legislation to bring them into compliance with EU standards.

The energy sector, which has demonstrated extraordinary resilience in the face of unprecedented destruction caused by Russia's missile terror, is already one of the most legislatively aligned with EU law, falling within the "good level of preparation" grade as defined by the European Commission. However, energy faces many challenging tasks, including adopting the National Energy and Climate Plan (NECP). All EU countries adopt such documents to achieve the goals of the Energy Union as part of the Clean Energy Package for all Europeans.

A separate but equally major challenge in implementing the acquis is environmental protection, which requires significant changes in Ukraine's legislation and governance model. The results of the "self-screening" showed that out of 1,630 EU laws, 956 have no analogues in our legislation. Specifically, almost 200 essential EU laws in the negotiated Chapter 27 of the accession

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agreement, Environment and Climate Change, are still to be fully or partially implemented.

Finally,the Ukrainian steel industry presents an interesting example of the need for complete modernisation to meet new standards. The steel industry has suffered a significant setback due to the destruction of Azovstal and Ilyich Iron and Steel Works in Mariupol. However, there is a “but” to this story. These plants had been built in the golden age of the Ukrainian SSR, and they were already outdated in terms of industrial standards before the full-scale War. This was particularly notable of environmental requirements, especially when compared to their European competitors. Modernisation of the steel industry in Ukraine to meet European standards would have previously required an estimated USD6.6 billion. In terms of time, it was estimated that it would take Ukraine another 30 years to catch up with European technology that has already been in place for 15 years. Despite the unfortunate circumstances, some of these issues have now been alleviated.

Investment security

Businesswise, Ukraine needs to offer investors something more than courage. If the security situation is worse than in other potential investment destinations, Ukraine should have a quick, inexpensive, and effective mechanism to mitigate political and military risks. Relevant similar tools exist both at the intergovernmental level (i.e. MIGA: the Multilateral Investment Guarantee Agency, a UN institution that is part of the World Bank Group) and at the national level of investor countries (COFACE in France, the Export Credits Guarantee Department in the UK, etc.) Each organisation has its own limitations: MIGA cannot offer the volumes and velocity required by Ukraine, while export agencies from investors' countries each have their specific terms and requirements for insuring investments.

So far, in 2023, Ukraine had the first successful case of working with MIGA the insurance granted for the M10 Lviv Industrial Park project, an endeavour involving Dragon Capital and the EBRD as partners. The risks covered by this insurance are directly related to the War; namely, physical destruction of the facility as a result of hostile shelling and loss of physical control.

International financial institutions, such as the EBRD and DFC, have yet to develop their own mechanisms for Ukraine to insure their products. There have been commitments to create individual mechanisms, but these options are likely to be unavailable for investors seeking other sources of financing outside of these specific agencies.

However, there have also been positive changes at the national level. At the end of 2023, Ukraine adopted Law No. 9015, granting the Export Credit Agency (ECA) the right to insure Ukrainian and foreign investors against war risks. The law came into effect on 1 January 2024, but legislative work is still pending to classify risks and define the terms and conditions for risk insurance and reinsurance. Ukrainian government officials have acknowledged that the state budget should contribute to the authorised capital of the ECA or enlist the assistance of international donors in order to facilitate the agency's effective operation. As such, the decision has an undeniably positive aspect as it would provide access to insurance to both foreign investors and Ukrainian businesses.

It is a reasonable expectation that a relatively inexpensive and, most importantly, well-timed solution for ensuring war risks will have a positive impact on investors' willingness to consider Ukraine. Depending on the industry, region, and amount of investment, this will hopefully encourage investors to at least consider the risks affecting a Ukrainian project to be somewhat comparable with a project in a country that is not in a military conflict. The business community also suggests that coverage of up to 100% of losses is not indisputably necessary, as the positive effect of insurance starts at approximately 50% coverage (again, depending on the region, type of assets, amount of investment, investor's risk tolerance, and other factors taken on a case-by-case basis). Relatively speaking, this 50% threshold allows a particular category of investors to assess the risk of a region differently.

Typically, such insurance covers physical loss of property and investments, while recovery of lost profits is not evident and unconditional. Ukrainian businesses are therefore looking forward to the ECA introducing a classification of the risks that are to be insured against as soon as possible, as well as definitions of its other terms.

The regulatory landscape today

The current wartime regulations in Ukraine include restrictions on capital withdrawal and new sanctions regulations. A special regime that controls foreign direct investment may potentially be introduced in the future.

Restrictions on capital outflows imposed by the National Bank of Ukraine at the beginning of the full-scale War are expected to be eased in 2024. This process will continue what was kicked off by the abolition of the fixed exchange rate in October 2023. The possibility of partial capital withdrawal is currently being discussed, depending on the size of new investments. Furthermore, the repayment

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of new (past-war) loans is generally permitted as long as they meet the certain conditions (specified interest rate, term of repayment).

Sanctions regulations are a relatively new legal tool for Ukraine. On the one hand, the nationalisation of sanctioned assets potentially expands the list of good assets to offer to investors. However, on the other hand, the good title to such assets is a critical risk area that a potential acquirer will want to scrutinize. Ukraine is just getting on track when it comes to dealing with complaints from former owners of such assets in the investment arbitration disputes against Ukraine. As these procedures normally take years, we are yet to see the first results of these precedent-setting cases starting from 2025.

Finally, the polarity of the world naturally pushes Ukraine to discuss the introduction of a so-called FDI (foreign direct investment) regime. These rules provide for specific permission procedures for foreign investment to Ukraine, depending on the industry, size, and other investor parameters. More than 100 countries around the world have such rules in various shapes and forms. Ukraine's defence industry may become the first in the line for this novelty as it is subject to strict control when it comes to granting investor access to security data.

It is clear that the state is now expected to play a very active role in improving Ukraine's chances of attracting more investment. This includes improving the overall investment climate as much as realistically possible in a wartime environment, creating and supporting special international and intergovernmental programmes to help Ukrainian companies raise capital from IFIs, providing political and diplomatic support for significant private funds and strategic investors, and the launch of an investment insurance programme.

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M&A Dynamics

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M&A Dynamics

Domestic

↑769% **$452m** Deal value

↑167% **24** Deal volume

Outbound

↓66% **$11m** Deal value

↑20% **6** Deal volume

The Ukrainian M&A landscape underwent a seismic shift in 2022, with domestic investment no longer in a predominant position due to the adverse impact of Russia's full-scale invasion.

Traditional players in sectors such as metallurgy, agriculture, retail, construction, and mining all experienced a downturn in their investment potential.

However, this situation began to reverse in 2023 with the Ukrainian economy showing signs of recovery, though still below pre-War levels.

Domestic M&A regained significance, contributing to 36% of the total value and 51% of the volume of Ukrainian deal-making. This recovery was also partially influenced by additional measures implemented by the NBU to prevent capital outflow.

The most substantial domestic deal announced in 2023 involved Namsen Limited, Kernel's largest shareholder under direct control of Mr Andrii Verevskyi, which purchased 30.25 million shares from a total of 52.06 million held by minority shareholders, with the total purchase price amounting to USD136.1 million.

However, despite rallying, the average value of domestic transactions in 2023 decreased to USD30 million, a 23% reduction compared to the pre-War 2021 average. Nonetheless, deal transparency saw improvement even under wartime conditions, with disclosed deal values increasing from 57% in 2021 to 63% in 2023.

Concentrating on specific sectors, approximately 91% (USD410 million) of domestic M&A spending in 2023 was centred around three key industries: real estate and construction, agriculture, and transport and infrastructure.

Real estate and construction attracted USD168 million, primarily driven by businessman Maksym Krippa, owner of the e-sports team NAVI and S.T.A.L.K.E.R., in his acquisition of Parus business centre. Agriculture was a close second with a total of USD167 million attracted, followed by the transport and infrastructure sector which secured USD75 million.

More than half of all domestic Ukrainian M&A volume was concentrated in the same sectors: real estate and construction (three transactions), agriculture (four), and transport and infrastructure (six). These developments signify a shift in the focus of domestic M&A activities, reflecting changing dynamics and priorities on the Ukrainian market, including the local need to secure logistical supply lines for humanitarian and retail goods while preserving Ukraine's historically and globally vital export market for food products.

Outbound deals from Ukraine have undergone a resurgence, reminiscent of renewed activity in the post-2013–2014 Revolution of Dignity period.

There were five outbound deals in 2022, followed by six in 2023: a notable increase from one deal per year observed in 2020–2021.

The most substantial outbound deal involved Epicentr K acquiring an undisclosed stake in Polish sports stores operator Intersport Polska S.A for USD11 million. Meanwhile, DTEK Renewables BV, operating company managing the renewable energy assets of DTEK Group, acquired a 49.38 MW installed capacity photovoltaic power plant from Finas Invest, a Romania-based alternative power developer. However, the specific terms of this deal remain undisclosed.

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The ongoing War has naturally influenced M&A strategies, prompting a shift in investment to focus on markets and assets abroad in order to conserve capital and expand operations in relatively safer regions.

Ukrainian businesses have strategically opened branches and acquired production facilities in neighbouring countries, navigating the challenges posed by the conflict and seeking stability amid war-driven uncertainty. This renewed foreign focus reflects the adaptability and resilience of Ukrainian businesses in responding to a changing geopolitical landscape.

In terms of geographical distribution, Europe (with a total deal value of USD571.5 million across eight transactions) and North America (with USD214.3 million across eight transactions) jointly constituted 100% of all inbound disclosed deal value and 94% of deal volume in 2023. Investments from North America primarily originated from private equity and venture capital funds directing capital into Ukrainian IT companies, exemplified by Horizon Capital LLP leading an investor group's acquisition of an undisclosed stake in the online language learning platform Preply Inc. Foreign investments from Europe were predominantly represented by deals involving major European conglomerates, such as the acquisition of telecommunications company Lifecell by French investment company NJJ Capital, owned by billionaire Xavier Niel.

Inbound

↑92%

$786m

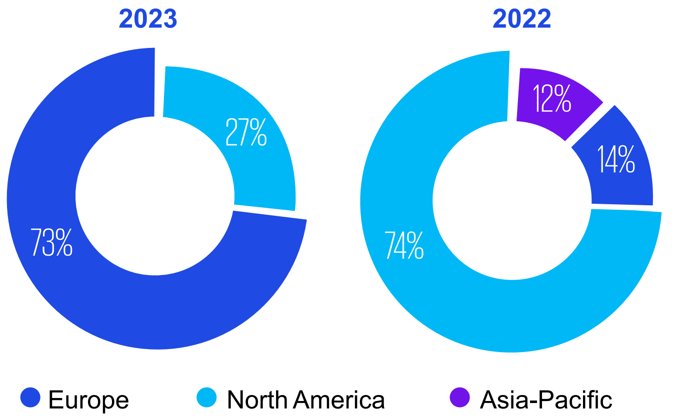
Deal value

↑21%

17

Deal volume

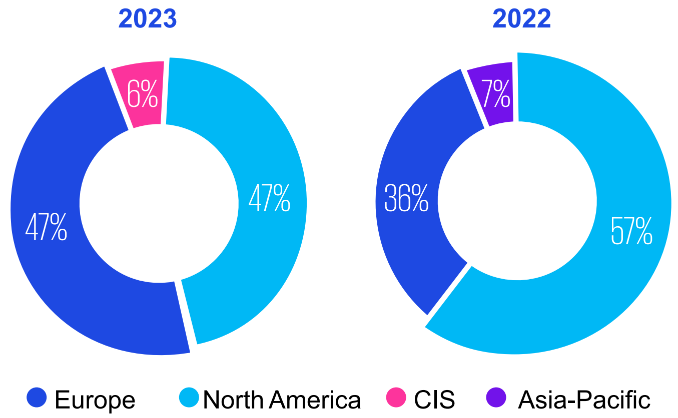
Inbound M&A deal value by region (USDm), 2022 vs 2023



International investments in Ukraine have faced limitations in the midst of Russia's ongoing invasion, yet inbound M&A transactions continued to represent a significant portion of overall deals; comprising more than one-third of total deal volume and slightly less than two-thirds of deal value.

Foreign investors tend to pursue deals in Ukraine's innovation and technology sector, which comprised 65% of all inbound deals in 2023 (11 transactions). This inclination towards the IT industry stems from the fact that Ukrainian IT companies overwhelmingly work in international markets and, as such, have more foreign attention and networking opportunities. With a smaller physical footprint and a more mobile workforce by its very nature, the Ukrainian IT sector has also experienced relatively limited impact from wartime conditions compared with businesses geographically tied to areas of Ukraine that have seen a greater impact from the invasion.

Inbound M&A deal volume by region, 2022 vs 2023



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Sector Activity

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Key sectors

Following Russia's full-scale invasion of Ukraine in 2022, Ukrainian M&A activity was primarily driven by four key sectors: innovation and technology, agriculture, real estate and construction, and transport and infrastructure. Collectively, these sectors constituted nearly 57% of total spending and just under 64% of the overall deal volume in 2023.

Innovations and technology

Experiencing relatively less impact from the ongoing War, IT was the sole industry to experience a rise in revenue in 2022–2023; making a significant contribution to Ukraine's GDP. IT continues prior trends as a driving force behind Ukrainian M&A activities, drawing in notable investment interest both domestically and internationally.

Agriculture

Despite reduced capitalisation of significant Ukrainian agricultural holdings resulting from issues linked to the Russian invasion, agriculture remains a major force in Ukraine's M&A market as the leading export industry. Ukraine remains one of the top three suppliers of agricultural products to the EU.

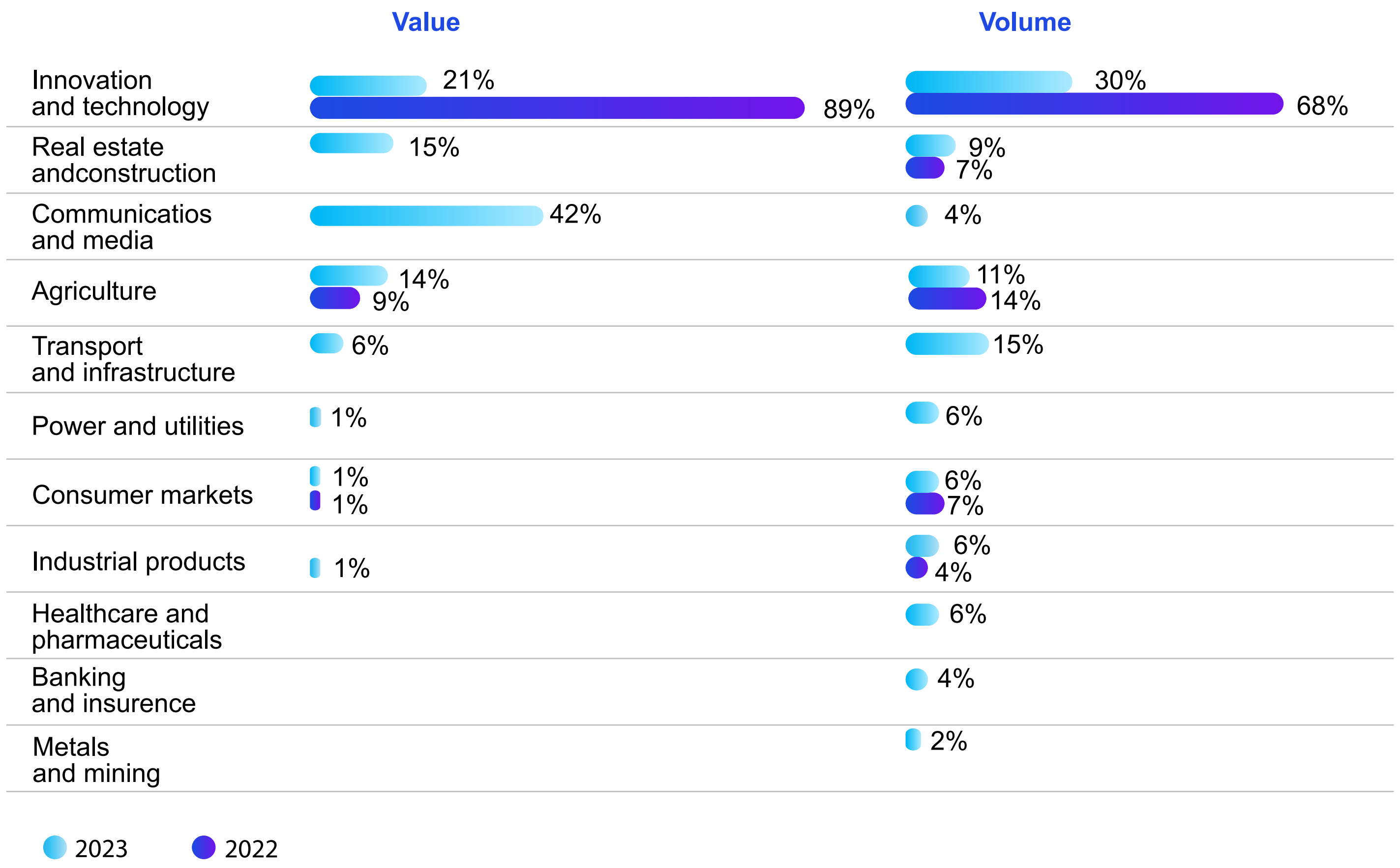
Transport and infrastructure

Transport and infrastructure has played a pivotal role in Ukraine's economic recovery, with the unblocking of exports through seaports being a critical factor in reducing logistical costs and restoring supply lines. This has also exerted a significant influence on the M&A market, predominantly characterised by major agricultural holdings acquiring warehouses and port terminals in order to shore up and harden their logistical capacity through restructuring and streamlining, contributing to an overall economic rejuvenation

Real estate and construction

The success of the NBU's monetary policy has resulted in a surge in retail demand. The combination of new lighter regulations to enforce a stable exchange rate, low inflation, and people adjusting to their new "normal life" have propelled activity in Ukrainian shopping malls, increasing turnover and foot traffic. The M&A market has subsequently responded to this recovery, primarily demonstrated by the acquisition of business centres and shopping malls.

M&A by sector, 2022-2023



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Innovations and technology

↓40% **$265m**
Deal value

↓26% **14**
Deal volume

↓68 pts **21%**
Share of deal value

↓38 pts **30%**
Share of deal volume

Even in the face of Russian aggression, the Ukrainian IT industry was on an upward trajectory and experienced growth in 2022. There are still persistent business challenges, however. These include unresolved issues regarding martial law affecting certain groups in Ukraine that are currently unable to travel abroad for business trips to boost investor confidence, as well as concerns regarding the process involved in reserving key employees from mobilisation.

Coupled with the impact of War-related risks and wider global trends (such as recession expectations and the slowdown of the post-COVID digital boom), these problems have led to a reversal in positive growth trends for IT. Projections for 2023 from IT Research Ukraine anticipated a 2.3–7.7% decline in projected export revenue compared to 2022.

As such, the Ukrainian IT market has not been completely unaffected by issues posed by the full-scale War. Complexities such as employee mobilisation, client loss, negotiation difficulties with new customers, ongoing shelling, blackout threats, and the need to establish secure working conditions for professionals all weigh heavily on the sector. These challenges have influenced decisions made by foreign vendors, prompting clients to explore alternative markets with fewer risks and greater predictability. The impact of these choices cannot be understated as the Ukrainian IT industry is overwhelmingly focused on exports. According to Lviv IT Cluster, approximately 97% of service companies operate in foreign markets. Externalities from the War therefore still have a significant impact the growth prospects of technology companies, despite the inherent advantages to the industry (remote work, smaller geographical footprint, etc.)

To partially address this challenge, R&D centres have been set up in countries neighbouring Ukraine. This initiative has enabled clients to interact more directly with employees, ensuring comprehensive control over operations. While this has provided some relief to client concerns, the issue of client anxiety is not entirely mitigated by these measures: Vladyslav Savchenko, President of the European Association of Software Engineering, noted that international clients have been especially cautious in their approach to engaging services from a country in a state of War. While the Ukrainian IT sector has traditionally been recognised for its high quality, some clients and investors who are concerned about ongoing wartime conditions may be inclined to transition towards more secure and cost-effective service providers.

Several notable changes have also had an impact on the industry, including the abolition of tax privileges for the IT sector starting from 1 January 2023, leading to increased production costs. Furthermore, a law abolishing the 2% rate for the unified tax and returning it to 5%, has impacted the financial circumstances for IT businesses, prompting more companies to consider joining Ukraine's Diia City initiative.

Despite these challenges, there remains strong interest in domestic Ukrainian IT companies, including those with a solid developer base in Ukraine.

The innovation and technology sector has served as a notable benchmark for M&A trends in Ukraine ever since Russia's full-scale invasion in 2022. A total of 19 deals worth USD440 million were announced in 2022, constituting 68% of all deals and 89% of the total value of the Ukrainian M&A market. A successful year in 2021, with a significant number of deals concluded both in terms of volume and value, also contributed to the level of deals in 2022. Due to the nature of M&A processes and the duration of deal negotiations, some deals initiated in 2021 were completed in 2022. These factors partly explain the 2023 decrease in deal value by 40% and 26% reduction in deal volume compared to 2022.

In 2023, the majority of IT-related deals in Ukraine (eight of fourteen) were orchestrated by new investors in the Ukrainian M&A market.

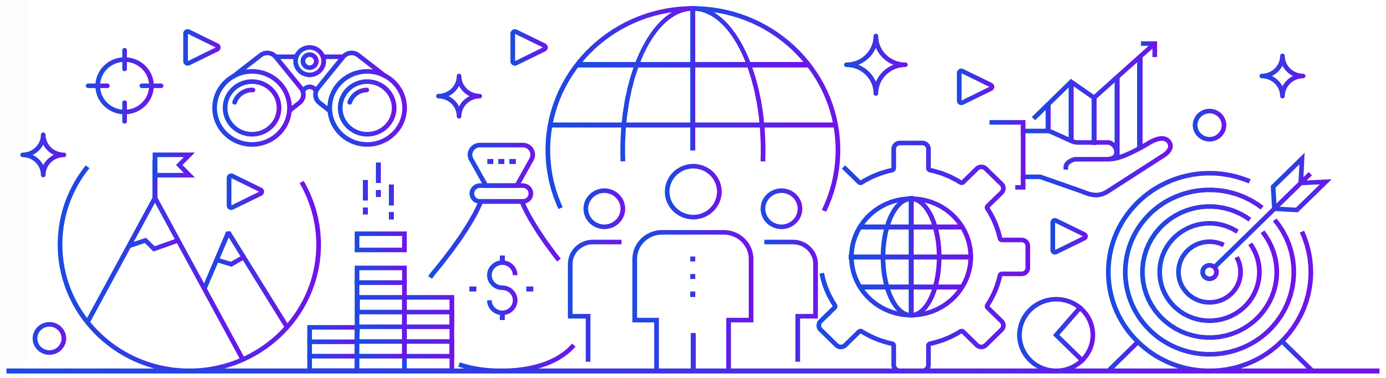
Six of those eight new investors were related to the United States. This is unsurprising, as private equity and venture capital funds based in North America have traditionally held a dominant position in the M&A market in Ukraine.

In 2023, nearly 64% of transactions (comprising nine deals) within the innovation and technology sector were initiated by foreign-based private equity and venture capital funds. Notable inbound deals in the sector included an investor group led by Horizon Capital LLP acquiring an undisclosed stake in Preply Inc. through Series C funding in a deal estimated to be worth USD70 million. Mythical Games acquired Ukraine's DMarket, a blockchain gaming marketplace valued at USD70–USD100 million. Digital Media Solutions acquired performance marketing company ClickDealer, along with contractor-matching service HomeQuote, for USD45 million.

Domestic investors have also remained active in Ukrainian IT companies and startups. Online programming school GoIT secured investments potentially amounting to USD10–15 million from a new fund by Horizon Capital (Growth Fund IV) for a minority stake of 25%. The game developer S.T.A.L.K.E.R.'s ownership, represented by the Ukrainian company GSC Game World, also underwent a change in its ultimate beneficiary, with Max Krippa assuming the role.

Olha Shapoval, director of Kharkiv IT Cluster, envisions an optimistic scenario for the future where the issues of employee reservation from mobilisation and the need to implement a transparent mechanism for business trips are resolved which should ensure a resurgence of growth trends by H2 2024.

It should also be noted that the innovation and technology sector saw 79 transactions with a deal price below USD5 million in 2023. Despite their smaller scale, deals where the value was disclosed (fewer than half) collectively amounted to USD43 million: a development which underscores the dynamic nature of the Ukrainian IT market and the inherent resilience of this sector.



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Dmytro Boroday: “Our core objective is to identify and invest in businesses with strong management teams”

Dmytro Boroday,
Partner,
Horizon Capital

How do you assess the current situation in the Ukrainian IT industry? Has there been a decrease in the number of employees and is there anxiety among foreign clients about cooperation with Ukrainian offices due to Russia’s full-scale war?

We see no scarcity of IT personnel, with the market for talent actually shifting in favour of employers after several years of gradual “overheating”. During an ongoing global shortage of skilled tech talent and an increasing demand for cost-efficiency amid macroeconomic challenges, the Ukrainian tech talent market presents an opportunity. There is continuous demand for outsourcing IT services, though there has also been a moderation in terms of salary expectations despite global tech layoffs having had only a limited impact on the Ukrainian tech market. There is also an ongoing trend where professionals from outside the industry are switching to IT careers, attracted by the higher earning potential. We see that the average number of applicants per one IT job opening increased from 4.8 in January 2022 to 29.1 in December 2023, according to DOU.

The percentage of employees serving in the Ukrainian Armed Forces typically constitutes less than 3% of an IT company’s total workforce, with no meaningful impact on their delivery. Ukrainian business has proven its ability to to deliver on time and maintain high-quality outputs, even in the face of challenges such as missile attacks, energy supply issues, and extensive relocations. Most clients acknowledge this resilience. While many are understandably working towards diversifying their outsourced talent, we remain cautiously hopeful about ongoing partnerships. At the same time, we recognise the need for an effective mechanism to reserve critical employees from mobilisation, providing more comfort for clients and enhancing operational consistency for businesses.

How did the War affect the development of the Ukrainian IT industry? Is the industry able to restore its level of development to those seen in the pre-War period? What, in your opinion, can we expect from the Ukrainian IT industry in 2024?

Remarkably, the Ukrainian IT sector managed to grow in 2022: adding 6% YoY despite massive relocation efforts, mobilisation, and macroeconomic challenges. In 2023, the industry will in all likelihood decline to 2021 levels. While War is an important factor here, current decline trends also reflect global moves that have been driven by a significant softening in tech demand. According to a recent LSEG report, the first nine months of 2023 saw a 55% YoY decline in the total worldwide value of technology M&A, marking the worst year-to-date performance for the global tech sector in six years.

The most recent Morgan Stanley CIO survey (Q4 2023) indicates that, despite a deceleration in IT spending growth in 2022–2023, there is still ongoing support for the current long-term trend of digital transformation. CIOs in both the US and Europe anticipate a modest 3.3% increase in IT budgets in 2024. On the mid-term horizon, however, expectations for IT spending remain robust and in line with long-term averages. Notably, over 80% of CIOs highlight that skilled talent shortages have an impact on new project spending, indicating sustained demand for the IT outsourcing market. Gartner analysts also forecast that IT services will become the largest spending segment for the first time. These expectations are a positive signal for the Ukrainian tech market, with its increasing number of cost-competitive engineers. The expectation is that, starting in 2024, deal activity will gradually increase but still remain subdued. The key drivers are: a more positive outlook for CIOs’ tech spending and the “dry powder" that global global funds have accumulated which will eventually need to be deployed and should consequently boost the industry further. Although we do not anticipate a swift return to activity levels seen in 2020–2021, we believe in a gradual normalisation of demand toward longer-term averages.

What deals in 2023 would you like to highlight?

Despite a noticeable decline in investment activity, last year witnessed several meaningful deals and VC transactions that were primarily in the tech sector, proving that reputable foreign investors and regional funds have a continued interest in the Ukrainian market. This was evident in larger investment rounds for companies like Portside, Spin.ai, Fintech Farm, and DressX, as well as KKCG’s acquisition of the Avenga IT platform (with over a third of their employees based in Ukraine). Ukrainian tech startups managed to attract funding from globally recognised entities such as Y Combinator, Toyota Ventures, Blueprint Equity, Insight Partners, Amazon Industrial Innovation Fund, and many others.

On our side, we are particularly proud to acknowledge the first investments from Horizon’s historic new HCGF IV Fund, raised in the wake of the Russian full-scale invasion. The very first investment was Preply, a leading global online language learning platform from Ukraine which has also received backing from other well-known international investors in a very impactful USD70 million funding round. Last year, we also backed GoIT, a high growth edtech platform, and Viseven, a leading global provider of digital marketing solutions and services for the pharmaceutical and life sciences industry. Led by a new generation of visionary Ukrainian entrepreneurs, the success of these companies definitely serves as an inspiring testament to the potential for local talent to create global success stories.

What is Horizon Capital’s strategy? What businesses are attractive to you, what criteria should be met, and what conditions should be in place for a positive investment decision to be made?

Horizon Capital employs a proven macro-agnostic investment strategy centred on asset-light, export-oriented businesses primarily in the technology sector, though we also remain open to opportunities in other sectors. Our core objective is to identify and invest in businesses with strong management teams that can build globally competitive tech enterprises, leveraging the region’s competitive advantage in high-quality, cost-effective R&D talent. Across all sectors, we generally focus on backing visionary entrepreneurs who have built leading companies with strong management teams, solid values, and a reputation for integrity.

We prioritise companies that possess real competitive advantages, such as low-cost structures, network effects, strong brand recognition, and other factors that demonstrate sustainability. This emphasis ensures that our investments are positioned toward continuous growth in their respective markets. We also seek opportunities to ride secular tailwinds with long-term prospects, translating into faster market growth rates compared to the broader economy. We prefer companies with little to no leverage, lower working capital needs, and strong trusted relationships with customers and suppliers. In addition, we assess fair valuation terms relative to mid-term profit growth potential, ensuring that our investments offer compelling risk-adjusted returns, and consider exit opportunities for our potential portfolio of companies. By adhering to these principles, Horizon strives to create a portfolio that not only delivers strong financial performance but also aligns with our commitment to integrity and sustainable business practices.

What are the advantages of the Ukrainian IT sector in terms of investing amidst Russia’s full-scale War against Ukraine when compared to other sectors of the economy?

IT companies typically represent asset-light businesses, most resilient to macroeconomic challenges and least exposed to security risks. Leveraging a global client base and a remote diversified workforce post-COVID-19, the sector has demonstrated its ability to drive counter-cyclical growth fuelled by continuous global digitalisation and a worldwide shortage of skilled tech talent. The IT sector has proven impressive resilience even after the start of the full-scale invasion, continuing to expand in 2022 and remaining in line with pre-War levels in 2023 even amid a major global slowdown in tech spending.

The evidence for this can be plainly seen in multiple investments made by Horizon since the start of the War in 2014, where our portfolio of tech-focused companies has demonstrated exceptional growth by selling into global markets. Apart from its abundance

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of skilled cost-competitive talent and a diversified client base, the Ukrainian IT sector also benefits from low to nil reliance on local physical infrastructure, with cloud infrastructure mostly hosted on EU/US servers. Moreover, after last year's attacks on energy infrastructure, most IT companies have established multi-level connectivity redundancy that ensures uninterrupted internet access for Ukrainian employees. A vibrant, dynamically developing regional tech ecosystem, favourable legal and tax regimes, and government support also contribute to the sector's appeal.

How do you assess the risks and opportunities of investing in the IT industry in a country that is at war?

The current capital shortage presents an opportunity for investors to enter the market at reasonable valuations, in a dynamically developing sector that is significantly insulated from security risks.

There are certain risks related to potential damage to critical IT infrastructure, as well as specific operational risks related to local employees. Factors such as an increase in conscription and the absence of a mechanism to secure critical employees from mobilisation add to these operational uncertainties. Another significant consideration is the exit liquidity risk which involves challenges associated with divesting or obtaining liquidity in the current geopolitical climate. These risks highlight the importance of advanced strategic planning and risk mitigation measures, as well as the need to cultivate strong, transparent relationships with potential investors.

What would be your message to investors interested in Ukrainian assets and planning to enter the Ukrainian market?

Don't wait until the War is over. The impact of these investments is obvious. To maintain a resilient and sustainable economy, Ukraine needs private capital to keep the pulse of local business going and there is currently a major shortage of capital in the country. In our case, as we invest primarily in exporting technology companies, the companies we back represent an industry worth approximately USD7 billion. Despite all the challenges, this is a sector that has continued to expand even when compared to 2021 and one that represents a key lifeline for hard currency revenues for Ukraine.

Beyond impact alone, investing now also makes economic sense from a risk-reward perspective. As Horizon Capital, we have done some of our best deals in the 2015–2016 period [after the Revolution of Dignity] when hostilities were still running high in Ukraine. Not being inundated with excessive investor funding, local tech entrepreneurs have learned to build frugal but profitable businesses, with a strong emphasis on sound technology and robust unit economics.This is now reflected in their resilience. With other investors adopting a wait-and-see approach, those on the ground with the right risk appetite have the opportunity to invest at highly attractive terms in high-growth companies that generate hard-currency revenue. The recent EU decision to start accession talks with Ukraine, following candidate status being granted in June 2023, amplifies the upside potential. Drawing parallels with countries like Romania, which experienced an economic boom in the years leading to EU accession, investing now presents a strategic opportunity to benefit from potential economic growth.

What strategies help protect investments in the face of instability and War-related risk?

As mentioned, Horizon Capital's investment strategy primarily targets macro-agnostic businesses, and we are committed to supporting our portfolio of companies in strengthening their resilience against any potential risks, War-related or otherwise. Among other things, this involves diversifying revenue streams and client bases; reducing dependence on local infrastructure; fostering strong relationships with clients, suppliers, and relevant investment funds; and refining medium-term strategies. Before the full-scale Russian invasion, the majority of our portfolio had well-defined Business Continuity Plans (BCP) which enabled them to act decisively and largely return to a state of "business as usual" within a short timeframe. Some have now developed action plans addressing other relevant risks, such as attacks on energy infrastructure. Irrespective of the country of operations though, businesses still cannot predict all potential risks. Our general goal, therefore, is to assist in building globally competitive companies equipped with robust, actionable teams that are prepared to effectively navigate various challenges.

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Agriculture

↑312%	↑25%	↑5 pts	↓4 pts
$173m	5	14%	11%
Deal value	Deal volume	Share of deal value	Share of deal volume

The agricultural landscape in Ukraine in 2023 was marked by a nuanced interplay of mixed factors, not all of them negative. While there were challenges in specific locations and industries and ongoing adaptations to geopolitical and economic shifts, there were also major successes in terms of crop yields despite a diminished national agricultural area. The agricultural sector's ability to continue to navigate these complexities and uncertainties will be crucial for its ongoing future growth and sustainability.

Despite the adversities posed by the ongoing War, Ukrainian farmers have demonstrated their resilience by achieving increased production in various agricultural sectors.

Projections for 2023 indicated a 10% increase in grain production, reaching 60.8 million tonnes. Oilseed production saw an even more substantial increase: up 18% to a total of 20.7 million tonnes, while sugar beet production of 11.7 million tonnes reflected a 29% increase on figures from 2022. However, problems persisted in sectors such as meat and milk production, with figures remaining below levels observed in 2021.

The Russian invasion of Ukraine has created an interconnected series of negative effects that have had an impact on agricultural enterprises. These novel challenges include minefields, a shortage of workers, low grain prices, and high logistics costs, which have all combined to create an unfavourable environment for Ukrainian farm producers. War risks have also led to a significant loss of capitalisation for Ukrainian agricultural holdings, directly impacting related M&A activities.

Despite favourable weather conditions and high yields, significant investments in the agricultural sector by both international and domestic investors have been somewhat limited following the full-scale invasion.

Throughout 2023, agriculture accounted for almost 14% of the total value and 11% of the total volume of Ukrainian M&A deals. As the largest shareholder in Ukrainian agricultural holding Kernel, Namsen Limited's purchase of 30.25 million shares from minority shareholders played a dominant role in the market, as did Kernel's acquisition of an oil and fat plant in Chornomorsk for UAH700 million (~USD19 million). Of similar note, Fairfax Financial Holdings Limited increased its stake in Ovostar Union, the largest Ukrainian producer of egg products, up from 10.4% to 27.5%.

Anticipating higher M&A activity in 2024, especially following the next phase of land reform, legal entities were granted the ability to purchase agricultural land in Ukraine starting from 1 January 2024.

However, limits have been imposed on what legal entities can acquire; restricting them to no more than 10,000 hectares and with beneficiaries exclusively ringfenced to Ukrainian nationals. This compromise, delaying the entry of major players into the market, still allows domestic entities in Ukraine to participate.

While not open to foreign companies, this is a significant step in opening up Ukraine's lucrative agriculture and food processing sectors to more companies and heralds the potential for global participation in the future. Despite 2023 seeing a twofold decline in deal volume compared with pre-War 2021, expectations are high for a relatively quick return to pre-War norms in terms of deal volume, especially as the land reform process continues to progress. However, this increase in volume will be contingent on the situation on the battlefield in Ukraine stabilising in the coming year.

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Transport and infrastructure

$75 m
Deal value

7
Deal volume

6%
Share of deal value

15%
Share of deal volume

*No M&A transactions took place in the Transport and Infrastructure sector in 2022.

The Ukrainian transport and infrastructure sector has emerged as a focal point of M&A activity in 2023, driven by the vital need for corporations to recalibrate their logistics in response to War-related constraints.

The upheaval caused by the full-scale invasion initiated by the Russian Federation and their subsequent blockade of Ukrainian Black Sea ports has posed considerable challenges to Ukraine's logistics landscape.

Ukrainian enterprises, both export- and import-oriented, had to adapt their logistics strategies to navigate the complex circumstances arising from the War. Amidst these challenges, the establishment and successful operation of a temporary humanitarian maritime corridor facilitating the movement of merchant vessels to and from Ukraine's Black Sea ports has been a key development that has had a major influence on consumer and investor confidence.

This operational corridor eased the transit of civilian vessels and therefore had a significant impact on Ukraine's overall economic situation. Consequently, the transport and infrastructure sector emerged as the fifth-largest sector in terms of Ukrainian M&A in 2023, attracting USD75 million across seven deals. Companies are increasingly focusing on acquiring new storage facilities to enable more logistical resilience and capacity, especially those in the Odesa region.

To give one example, Kernel (a key player in Ukraine's agricultural sector) has recently expanded its capabilities for handling and transshipping agricultural products through regional acquisitions. The conglomerate secured storage facilities for vegetable oil transshipment in the port of Chornomorsk for USD19.4 million, thereby extending its presence in the Black Sea region. Kernel also acquired a sunflower oil transshipment terminal for USD24.75 million, located in the port of Reni and featuring a one-time storage capacity of 15,000 tonnes. Finally, Kernel obtained a 100% stake in an edible oil transshipment terminal with a storage capacity of 49,400 tonnes of sunflower oil located in the Port of Pivdennyi.

Epicentr is also strategically expanding its warehouse facilities by acquiring assets, such as real estate assets owned by Ukrgasbud that are adjacent to Epicentr's own warehouse spaces at the Kalynivka Logistics Center in the Kyiv region. This move has enabled Epicentr to consolidate its assets, facilitating an expansion in warehousing. Epicentr has also successfully managed to secure the privatisation of Ukroboronresources, a company previously associated with defence but now primarily operating in the wholesale trade of scrap metal. This acquisition involved two land plots in Kyiv and Stryi totalling a combined 18.28 hectares. Epicentr's strategic investments have highlighted its commitment to enhancing its own logistics and storage capacities, ensuring the company's continued growth and the efficiency of its operations.

These investments reflect confidence in the resilience and stability of logistics operations while significantly contributing to the overall economic growth of the Ukrainian economy through future-forward thinking and supply line maintenance.

As Ukraine grapples with a series of geopolitical challenges, the success of these initiatives underscores both the country and the market's commitment to safeguarding vital maritime activities and ensuring the smooth flow of goods through its ports, all the while hardening land-based logistical capacities against future shocks. Developments in the transport and infrastructure sector have highlighted Ukraine's capacity to adapt and make strategic investments to overcome challenges and foster an environment of sustainable economic development.

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Real estate and construction

$193 m
Deal value

↑100%
4
Deal volume

15%
Share of deal value

↑1 pts
9%
Share of deal volume

*No M&A transactions with disclosed deal values were announced in the Real estate and construction sector in 2022.

Despite wartime challenges in the retail and office sectors affecting investor confidence, real estate and construction retained a significant share in Ukrainian M&A deals, driven by growing demand, a stable exchange rate, and low inflation.

As reported by the engineering and construction company Rauta, the real estate and construction industry faced substantial losses of over USD150 billion in 2022–2023, specifically in housing, infrastructure, and industry assets. However, the construction market has managed to show signs of recovery recovery; with 25% growth expected in 2023.

The largest Ukrainian shopping malls in major urban centres have reported an increase in turnover ranging from 40–100%, with the Top-2 largest food retailers ATB and Fozzy Group choosing to expand their networks due to a perceived increase in consumer demand.

Even in the face of Russia's invasion, real estate and construction continued to attract investments totalling USD193 million across four deals in 2023. Notable transactions included the USD100 million acquisition of Parus business centre and the purchase of a 33.35% share in the Ocean Plaza shopping mall. The EBRD are also committed to investing a total of USD24.5 million in the Lviv-based M10 Industrial Park project, reflecting positive momentum in the real estate and construction market and the potential for strong demand in 2024, especially in terms of infrastructure restoration.

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Other sectors

Banking and insurance

Deal value	Deal volume	Share of deal value	Share of deal volume
	2		4% ↑4 pts

Power and utilities

Deal value	Deal volume	Share of deal value	Share of deal volume
$11 m	3	1% ↑1 pts	6% ↑6 pts

Consumer market

Deal value	Deal volume	Share of deal value	Share of deal volume
$11 m ↑116%	3 ↑50%	1% 0 pts	6% ↓1 pts

Metals and mining

Deal value	Deal volume	Share of deal value	Share of deal volume
	1		2% ↑2 pts

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Communications and media

Deal value	Deal volume	Share of deal value	Share of deal volume
$520 m	2	42% ↑42 pts	4% ↑4 pts

Healthcare and pharmatheuticals

Deal value	Deal volume	Share of deal value	Share of deal volume
$0	3	0% 0 pts	6% ↑6 pts

Industrial products

Deal value	Deal volume	Share of deal value	Share of deal volume
↓100%	3 ↑200%	↓1 pts	6% ↑3 pts

No comparison data available

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Post-Invasion Transformations in Ukraine's M&A Landscape

Volodymyr Maksymenko, Associate Director, Transaction Services, KPMG in Ukraine

The Russian full-scale invasion of Ukraine has had a profound impact on the country's economic landscape, The Russian full-scale invasion of Ukraine has had a profound impact on the country's economic landscape, particularly in the M&A market. This article aims to explore the evolving dynamics affecting M&A transactions in Ukraine throughout 2023, spotlighting significant developments and the adaptive strategies employed by investors and businesses in response to the unfolding circumstances.

In practice, the timeline for completing M&A deals has often been extended due to several factors. Firstly, a notable gap exists between buyer and seller valuation expectations. Buyers anticipate discounts due to uncertainties related to the War, while sellers hesitate to offer such discounts; considering the ongoing developments in their business amid the War and the constraints on capital outflow imposed by the National Bank of Ukraine. Secondly, deals are being increasingly fragmented into separate transactions tied to financial metrics, employing mechanisms like earn-outs and call options. Lastly, investors now prioritise in-depth due diligence on Ukrainian targets, assessing both new risks arising from the specific nature of this conflict and the conventional risks traditionally associated with wartime conditions.

One significant change in Ukraine's M&A landscape is a decrease in average transaction values. In 2022, the average deal value plummeted to USD26 million: marking the lowest point since the Revolution of Dignity. Although there was a marginal uptick to USD28 million in 2023 (excluding the USD500 million Lifecell transaction), transaction values remain substantially lower than levels seen in 2021. The surge in smaller deals during this period reflects investors' reluctance to concentrate all their investments in what they consider to be high-risk ventures.

However, while smaller-scale target companies in Ukraine follow statutory accounting standards, they also possess financial statements with limited granularity and quality. Consequently, investors are now giving greater importance to conducting comprehensive due diligence on potential Ukrainian targets before engaging in acquisitions. This thorough evaluation process encompasses the assessment of emerging risks associated with the ongoing War with Russia, as well as a re-evaluation of conventional risks and how these might also interact with wartime circumstances in Ukraine.

The M&A market in Ukraine may be characterised as a “buyer’s market”, with acquirers holding more negotiation leverage. The recent shift away from the traditional “locked box” model, prevalent in the Ukrainian M&A market before 2022, towards the adoption of “completion accounts” demonstrates buyers’ increased interest in reviewing target financials at closing.

However, the preference for either of these models often depends on sector. Notably, the IT and TMT sectors have maintained stable negotiating power and therefore still frequently continue to engage in “locked box” transactions.

This shift is also partly influenced by deal size. Generally, owners of smaller Ukrainian IT and TMT companies tend to avoid involving consultants in the sale of their businesses. As a result, they find it challenging to consider different pricing mechanisms and prefer to lock down the final deal price at the SPA signing stage. As a result, the “locked box” model is commonly applied in the majority of cases involving these smaller companies.

One notable trend observed in 2023 was the incorporation of a larger deferred payment component, accounting for up to 25% of the consideration. This not only impacts deal structures but also influences contractual provisions aimed at safeguarding the interests of both parties. Earn-outs linked to the financial performance of the target company have become more prevalent, particularly in private equity deals where top managers are incentivised to maximise company performance.

The number of M&A deals involving Ukrainian targets structured through foreign jurisdictions has also surged. This rise was influenced by capital outflow restrictions imposed by the National Bank of Ukraine. Sellers often leverage foreign legal entities and bank accounts in other countries to receive payments in foreign currency, facilitating the subsequent use of funds in different jurisdictions.

In the aftermath of the Russian full-scale invasion, the M&A landscape in Ukraine has undergone substantial transformations that make deal-making more challenging for both sellers and buyers. Extended due diligence processes and slower negotiations increase the risk of deals not reaching closure. Nevertheless, Ukrainian dealmakers have proven their adaptability and resilience in navigating these complexities, implementing strategies that encompass thorough due diligence, adjustments in negotiation approaches, and the strategic utilisation of international frameworks. Despite heightened challenges, the outlook remains cautiously optimistic as Ukraine looks ahead to potential opportunities in 2024.

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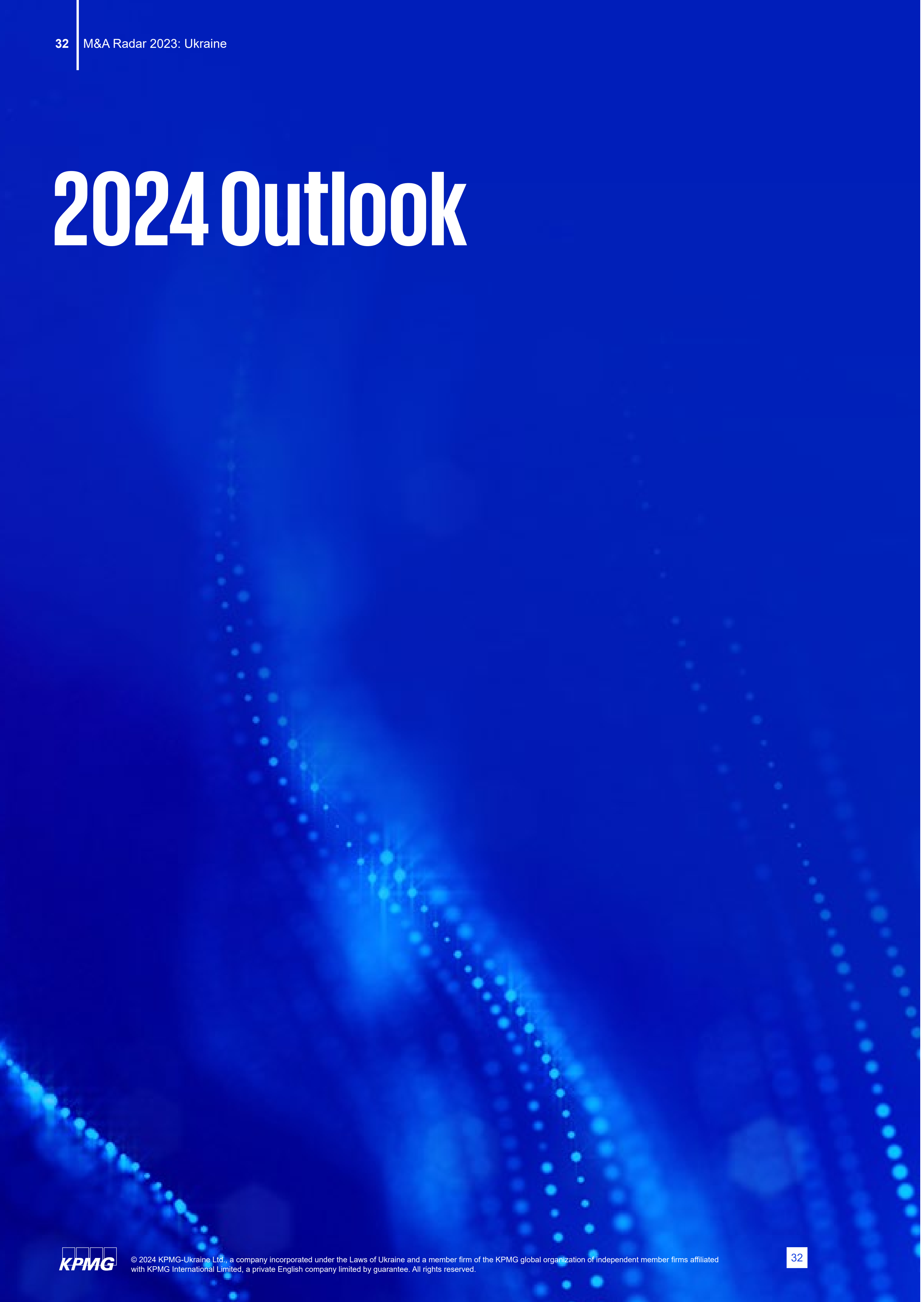

2024 Outlook

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2024 Outlook

Looking to the future, proactive planning around rapidly changing circumstances, coupled with pragmatism and adaptability, will continue to influence the M&A market, the economy, and Ukraine as a whole. Influenced by both wartime conditions and traditional economic and global factors, prospective challenges and opportunities will shape the year to come for Ukrainian M&A. However, there is still cause to be cautiously optimistic.

Ukraine has achieved considerable progress in recovering from post-invasion repercussions, exhibiting positive signs in terms of economic growth and promising avenues for development in spite of Russia's ongoing aggression. With the potential for more financial assistance provided by international partners, a stabilised energy sector, and increasingly effective solutions to the issue of border blockades both at sea and with other EU countries, there is clear potential for a modest upswing in the overall value and volume of the Ukrainian M&A market in 2024.

Financial Support and Economic Resilience

From a short-term perspective, Ukraine relies heavily on a level of support and commitment from international partners. External financing, covering half of the country's budget expenditures, has been crucial for sustaining social needs and fuelling further recovery. Despite challenges, Ukraine's 2024 state budget outlines plans for USD41 billion in external borrowings, including significant contributions from the EU, the US, and the IMF. Delays in fund disbursement, as seen with the EU's previously stalled EUR50 billion allocation and gridlock in US Congress, highlight the importance of securing financial aid in a timely fashion in order to maintain confidence in the Ukrainian economy. As of our report date, EU Leaders have already approved the proposed "Ukraine Facility" programme; offering up to €50 billion in grants and concessional loans between 2024–2027. This approval strengthens international commitments to supporting Ukraine in sustaining its economic stability, administering essential services, and defending against Russian aggression.

GDP Growth and Economic Drivers

Ukrainian businesses have displayed adaptability despite ongoing uncertainties, prompting optimistic growth forecasts of 3–5% for 2024. According to NBU forecasts, Ukrainian real GDP is expected to grow by a further 3.6% in 2024. If security risks are reduced, expected GDP growth in 2025 could accelerate to 6%. Nonetheless, challenges such as the prolonged War have led to adjustments and revisions in growth predictions by institutions like Dragon Capital and ICU Investment Group. According to Vice Prime Minister for the Restoration of Ukraine, Oleksandr Kurbakov, of Ukraine and Dragon Capital, the maintenance of operational logistics routes will be a pivotal factor for Ukrainian economic growth, as demonstrated by the positive impact seen from the fully fledged operation of the Black Sea corridor.

War Insurance and Collaborative Initiatives

Ukraine has taken proactive steps to safeguard investments against War risks, enacting Law No. 9015 to insure investments through the Export Credit Agency (ECA). Collaborating with the UK, Ukraine has established a special mechanism for insuring military risks during exports that involves key entities like the Export Credit Agency, Ukrgasbank, Ukreximbank, and a consortium of reputable insurers. Furthermore, the US Development Finance Corporation and the World Bank's Multilateral Investment Guarantee Agency are intensifying efforts to streamline investor insurance processes, underscoring commitment on the part of international partners to fostering a conducive environment for investment in Ukraine.

Infrastructure and Energy Sector Restoration

Russia's full-scale invasion and ongoing attacks have left Ukraine with substantial infrastructure damage, requiring over USD486 billion for reconstruction according to World Bank. Along with private investment, leveraging limited public and donor funding has become crucial. Collaborative efforts are underway to facilitate more private investment in the reconstruction process and explore innovative financing structures to mitigate persistent risks.

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Legislative Changes and Investment in Agriculture

Anticipated changes in land legislation, particularly the next stage of implementing the Law on Agricultural Land Markets, could attract increased investments in the Ukrainian agricultural sector. The Kyiv School of Economics reported a 8.3% increase in the weighted average price of land in 2023, and Minister of Agrarian Policy and Food of Ukraine Mykola Solsky is reportedly optimistic about the immediate future value of Ukrainian land. This will help attract further investment from domestic sources in Ukraine's agriculture industry.

The Ukrainian Defence Industry

The defence industry has obviously played a crucial role in Ukraine's economic growth, contributing 1.5 percentage points to Ukraine's 5% GDP increase in 2023. Minister of Strategic Industries Oleksandr Kamyshin emphasised on the TV broadcast the significance of defence in shaping Ukraine's future economic trajectory. The Ukrainian budget continues to maintain a strategic focus on defence in 2024, highlighting the need for further resource accumulation to enhance security. Recognising the importance of technological superiority on the battlefield and beyond, Ukraine aims to extensively localise armament production for economic growth and national security. The defence industry's transformative journey to become an international powerhouse includes the establishment of joint ventures with western manufacturers that will enhance local capabilities for building high-tech defence solutions and secure Ukraine's global defence position. These measures will contribute significantly to the path of Ukraine's economic growth and development, shaping national security in a period of uncertainty.

Uncertainty and M&A Activity

Local challenges and an anticipated global economic downturn could delay investment decisions and keep M&A activity subdued in the coming year. Only verifiable evidence of stability and economic recovery can enable a substantial rebound in M&A. The launch of the reconstruction process in Ukraine could serve as a catalyst for both the nation and the entirety of Central and Eastern Europe, ushering in new possibilities for regional M&A. We believe that Ukraine's economic journey in 2024 will be one that reflects its resilience and innovation in the face of seemingly overwhelming odds, with strategic measures in place to capitalise on hard-won opportunities. Ukraine's capacity to navigate prior uncertainties, secure financial support, and encourage collaborative initiatives will be pivotal factors in shaping the story of the country's economic growth throughout the year.

> The Ukrainian business community is actively working to reshape the narrative around Ukraine, aiming to shift perceptions away from its association with war towards a more positive image that encourages investments and deal-making.

Despite challenges posed by two years of ongoing conflict and overall global economic uncertainties, sizeable strides have been made to stabilise the situation and adapt to new circumstances.

A number of investment projects are already underway, such as the establishment of the Ukraine Development Fund with support from leading US investment companies BlackRock and JPMorgan. Meanwhile, USAID and Ukrainian Railways have jointly signed a memorandum to connect Lviv with the Trans-European transport network. This ground-breaking development will have a logistical impact that will resonate long after the War ends, increasing the speed of land-based exports by rail and literally building greater links between Ukraine and its EU neighbours.

Meanwhile, Canadian company Black Iron, involved in iron ore extraction from the Shimanovsky deposit in Kryvyi Rih, anticipates and urges the signing of an investment agreement by the Ukrainian government that would see USD1.1 billion invested in a mining and processing plant in Ukraine.

These efforts and many others affirm Ukraine's resilience and determination to overcome a challenging period. Much as Ukraine has risen to meet the crisis imposed by Russia's unwarranted aggression, there is clearly strong will and boundless enthusiasm to improve and enhance manufacturing efforts, secure exports, and create new investment opportunities. In seeking resolutions to ongoing issues, Ukraine has laid and continues to lay the foundations for improved investor confidence when looking ahead to 2024.

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Appendix

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KPMG Ukraine M&A Database

This report is based on the KPMG M&A database for Ukraine, 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 2023, or announced during this period but pending as at 31 December 2023. Historical data may differ from earlier versions of this report as the KPMG M&A Radar database is updated retrospectively for lapsed deals and information subsequently made public.

The KPMG M&A Radar database has been complied over a number of years based on information included in the Mergemarket M&A deals database and Refinitiv database, together with KPMG desktop research at other sources.

This 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, Refinitiv, as well as company press releases and market estimates disclosed in the public domain.

Between 2013 and 2023, transaction values were not publicly disclosed for 53% of known Ukrainian M&A deals. This low level of transparency may distort the data included in the KPMG M&A Radar 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 M&A Radar 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 and in the public domain about the dominant geography of the acquirer's major shareholders and/or headquarters, as well as the 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 the Economist Intelligence Unit, the leading provider of country, industry, and market intelligence, as well as other insightful forecasts combined with KPMG desktop research at other sources. Please note that the statistical data for the entire year of 2023 concerning macroeconomic developments and other metrics had not been finalised as at the date of this report. Consequently, the actual results for the 12-months period may vary from the figures presented in this edition of KPMG M&A Radar.

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Macroeconomic data

Macro trend	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
GDP, UAH bln nominal	5,451	5,191	5,970	6,913	7,870	8,603	9,371	10,260
GDP, USD bln, nominal	200	161	164	185	210	228	243	268
Growth, real % YoY	3.4%	(29.1%)	1.7%	3.5%	4.0%	3.9%	4.5%	4.1%
CPI: average, % YoY	9.4%	20.2%	12.9%	5.8%	4.4%	5.0%	4.9%	4.9%
CPI: period-end, % YoY	10.0%	26.6%	5.1%	5.2%	5.5%	4.9%	4.9%	4.9%
Gross fixed investment, real % YoY	9.3%	(34.3%)	4.3%	4.0%	6.0%	6.4%	6.1%	5.0%
Industrial production, real % YoY	1.9%	(36.7%)	(15.6%)	6.2%	4.1%	3.6%	3.1%	3.1%
Agricultural output, % change YoY	14.5%	(25.5%)	1.9%	3.4%	4.1%	3.9%	4.5%	4.1%
Bank average lending rate, %	13.3%	18.6%	22.0%	18.0%	17.0%	15.1%	13.1%	12.3%
Real disposable income, % YoY	(4.5%)	3.8%	15.8%	(3.2%)	(2.6%)	2.8%	10.0%	5.1%
Unemployment, % EOP	9.9%	19.9%	19.2%	15.3%	13.9%	12.0%	9.9%	7.8%
Budget, balance % of GDP	(3.4%)	(16.3%)	(19.4%)	(20.6%)	(18.0%)	(10.9%)	(8.1%)	(5.6%)
Current account,% of	(1.9%)	5.0%	(3.7%)	(3.5%)	(3.6%)	(3.5%)	(3.7%)	(2.9%)
UAH/USD, year-end	27.3	36.6	36.0	37.5	37.6	37.7	39.2	37.7
UAH/USD, average	27.3	32.3	36.5	37.3	37.6	37.7	38.7	38.3

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Contacts

Svitlana Shcherbatyuk

Head of Transaction Services,
Deal Advisory,
KPMG in Ukraine

sshcherbatyuk@kpmg.com

Oleg Neplyakh

Partner,
Head of Advisory,
Head of Valuation,
Head of Energy & Natural Resources
KPMG in Ukraine

oneplyakh@kpmg.com

Volodymyr Maksymenko

Associate Director,
Transaction Services,
Deal Advisory,
KPMG in Ukraine

vmaksymenko@kpmg.com

Ivan Volkov

Manager,
Transaction Services,
Deal Advisory,
KPMG in Ukraine

ivolkov@kpmg.com

Please reach out to the authors with additional questions on the content of the report

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