

M&A Outlook

February 2020



Agenda

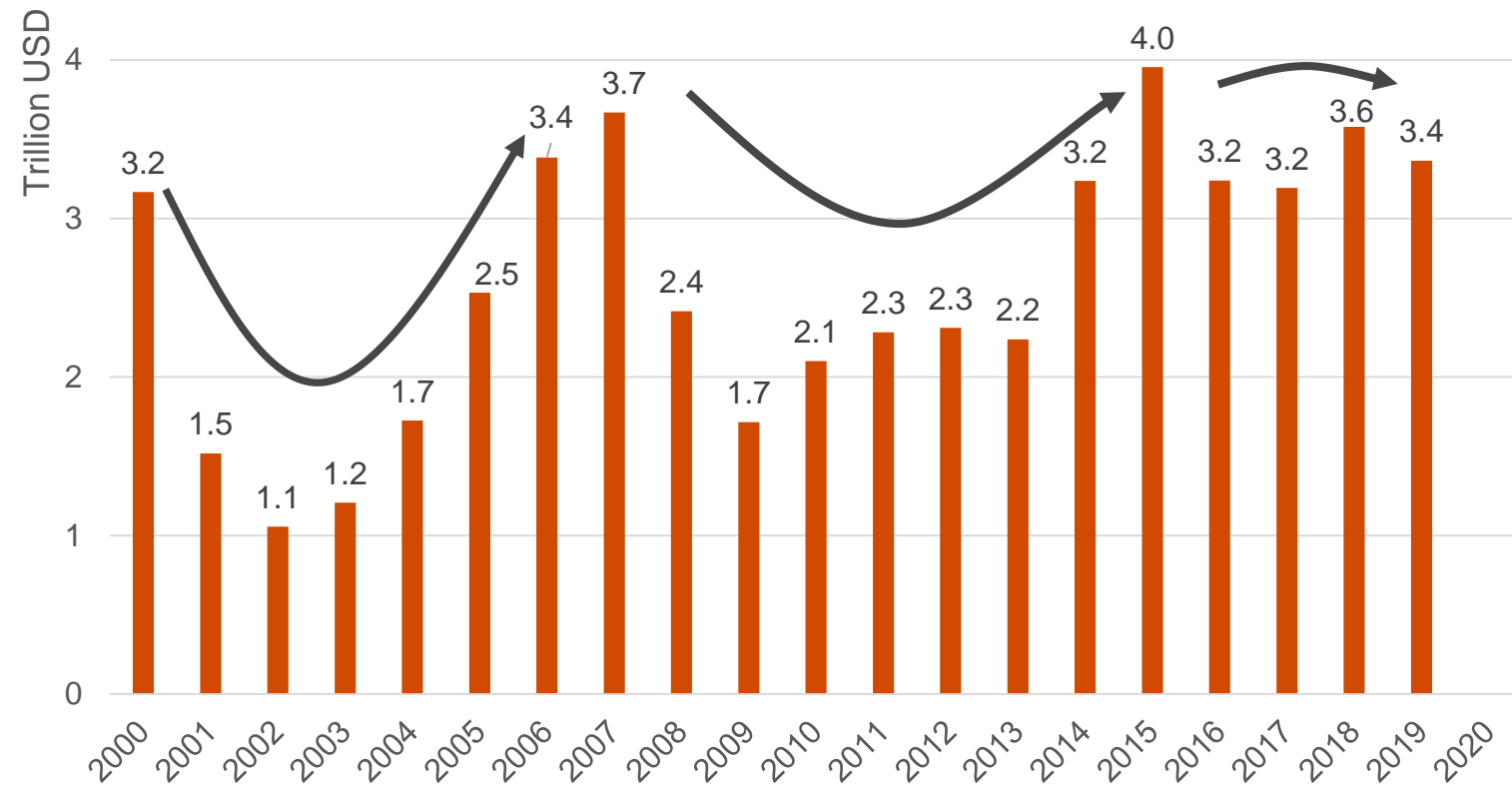
- 1.Global M&A**
- 2.European M&A**
- 3.Romanian M&A**
- 4.M&A: a different perspective**
- 5.M&A market: tax trends**
- 6.M&A major trends 2020**



Global M&A activity – trends

In 2019, the global M&A market reached US\$ 3,37 tn, generated by a total of 19,935 announced deals. A slow down was caused by the significant decrease of the deal making in the second half of 2019.

Nevertheless, 2019 recorded 38 megadeals (with value of over US \$10 bn), the highest number of such deals since 2015 and two more than in 2018.



Source: MergerMarket – Global & Regional M&A Report 2019.

Global M&A – US \$ billion

2019
3,365 bn



2018
3,578 bn



2017
3,192 bn



Sector	% from M&A market	Defense Acq. of Raytheon Company by United Technologies Corporation Deal value: US\$ 88.9bn	Pharma Acq. of Celgene Corporation by Bristol-Myers Squibb Deal value: US\$ 87.8bn	Pharma Acq. of Allergan by AbbVie Deal value: US\$ 86.3bn
Pharma, Medical & Biotech	14%			
Energy, Mining & Utilities	13%			
Technology	12%			
Energy, Mining & Utilities	18%	Pharma Acq. of Shire Plc by Takeda Pharmaceutical Deal value: US\$ 79.7bn	Services Acq. of Express Scripts Holding Company by Cigna Corporation Deal value: US\$ 67.6bn	Technology Acq. of Sprint Corporation by T-Mobile USA Inc Deal value: US\$ 60.8bn
Industrials & Chemicals	14%			
Technology	13%			
Pharma, Medical & Biotech	9%			
Energy, Mining & Utilities	17%	Media Acq. of Twenty First Century Fox Inc by The Walt Disney Company Deal value: US\$ 68.4bn	Fin. services Acq. of Aetna Inc by CVS Health Corporation Deal value: US\$ 67.8bn	Consumer Acq. of Reynolds American Inc (57,83%) by British American Tobacco Plc Deal value: US\$ 60.5bn
Industrials & Chemicals	13%			
Consumer	12%			
Financial Services	11%			

Source: MergerMarket – Global & Regional M&A Report 2019

Global M&A - Looking back at 2019

2019 most significant announced deals by value*

Global M&A activity has been relatively strong in 2019, also due to the 38 megadeals registered, despite the geopolitical tensions that influenced the dealmakers' confidence (i.e. the trade dispute between the United States and China, the Brexit saga, the potential for a military confrontation between the United States and Iran).

Strategic megadeals are once again powering the market. US continued to drive transaction activity, accounting for approximately half of the M&A market, while Europe registered a decrease due to various issues (Brexit concerns, increased anti-trust scrutiny).

US: acquisition of Raytheon Company by United Technologies Corporation for **US\$ 88.9bn**
(Defence)

Saudi Arabia: acquisition of Saudi Basic Industries Corporation (70%) by Saudi Arabian Oil Co for **US\$ 70.4bn**
(Industrials & Chemicals)

US: acquisition of Celgene Corporation by Bristol-Myers Squibb Company for **US\$ 87.8bn**
(Pharma, Medical & Biotech)

US: acquisition of Anadarko Petroleum Corporation by Occidental Petroleum Corporation for **US\$ 54.4bn**
(Energy, Mining & Utilities)

Republic of Ireland : acquisition of Allergan by AbbVie for **US\$ 86.3bn**
(Pharma, Medical & Biotech)

US: acquisition of Worldpay Inc by Fidelity National Information Services Inc for **US\$ 42.6 bn**
(Business Services)

Sources: Mergermarket - Global & Regional M&A Report 2019

*The enterprise value is considered

Global M&A - 2019 in numbers

Deals by volume

Global deals by volume: 19,322 deals in 2019

- **US:** 5,757 deals
- **Europe:** 7,579 deals
- **Asia-Pacific (excl. Japan):** 3,735 deals
- **Japan:** 460 deals

Deals by value

Global deals by value: US\$ 3,33 tn in 2019

- **US:** US\$ 1,57 tn
- **Europe:** US\$ 770.5bn
- **Asia-Pacific (excl. Japan):** US\$ 565.3bn
- **Japan:** US\$ 75.4bn

Sources: Mergermarket – Global & Regional M&A Report 2019;

Europe: M&A activity

2019 most significant announced deals by value*

By volume, 2019 was the third best year in the European M&A since the financial crisis. The slow down on the European market was caused by a series of factors such as: less megadeals as compared to previous years, the continued uncertainty concerning the Brexit, a potential weakening of the economy and a challenging regulatory environment.

Following waves of industry consolidation across the European region, the market also dealt with the collapse of significant mergers (J Sainsbury's acquisition of Asda, merger of the Alstom rail transport business with Siemens Mobility or the joint venture between Germany's Thyssenkrupp and India's Tata Steel) due to the Competition Authority's/European Commission's decisions to block these transactions.

Republic of Ireland: acquisition of Allergan by AbbVie for **US\$ 86.3bn**
(Pharma, Medical & Biotech)

Switzerland: acquisition of Alcon by Novartis (Shareholders) for **US\$ 26.9bn**
(Pharma, Medical & Biotech)

France: acquisition of PSA Peugeot – Citroen SA by Fiat Chrysler Automobiles NV for **US\$ 16.4bn**
(Industrials & Chemicals)

Netherlands: acquisition of GrandVision by EssilorLuxottica for **US\$ 10.4 bn**
(Consumer)

Switzerland: acquisition of Galderma by a consortium led by EQT Partners AB and Abu Dhabi Investment Authority for **US\$ 10.1bn**
(Pharma, Medical & Biotech)

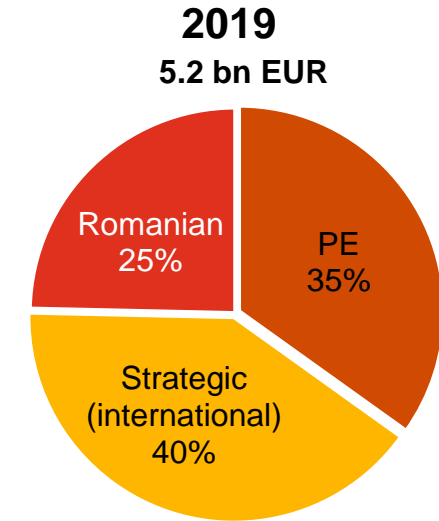
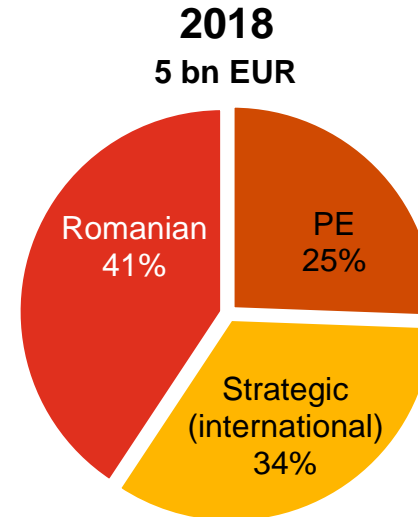
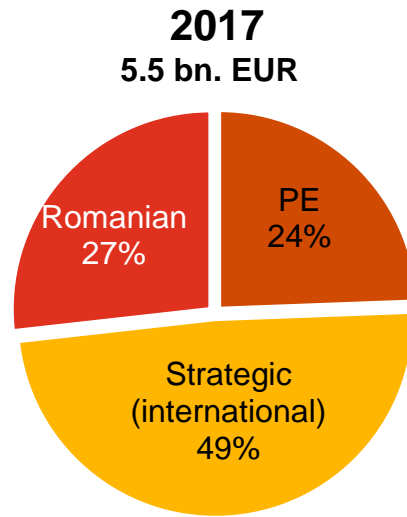
Germany: acquisition of Metro AG (89.09%) by EP Global Commerce a.s. for **US\$ 8.7bn**
(Consumer)

Sources: Mergermarket - Global & Regional M&A Report 2019

*The enterprise value is considered

Romanian M&A market - 2019

Market structure by investors*



	No of deals	Avg deal value (EUR m)
< 40m	98	10
40m - 100m	15	51
> 100m	17	228
Total	130	

	No of deals	Avg deal value (EUR m)
< 40m	141	7
40m - 100m	18	65
> 100m	14	202
Total	173	

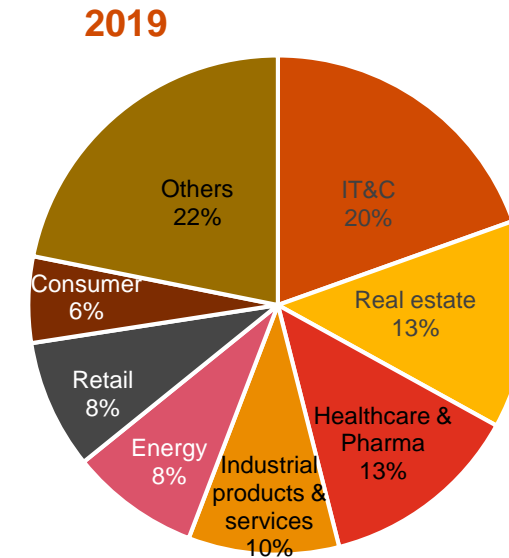
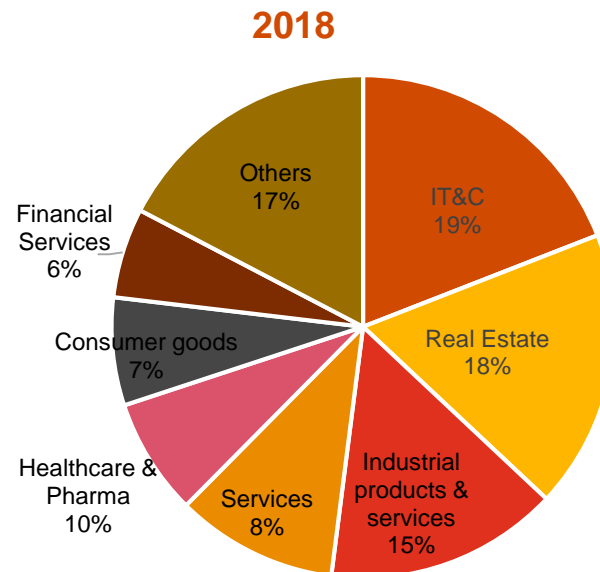
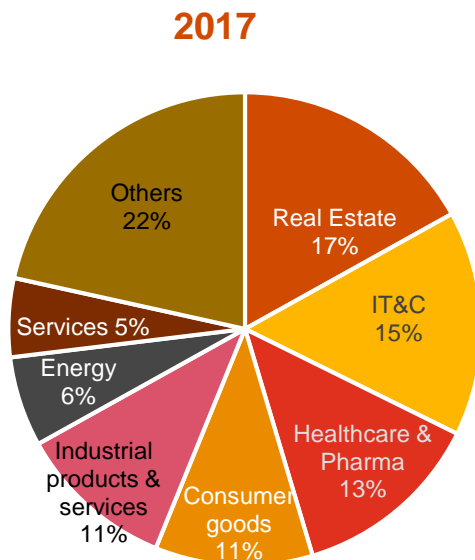
	No of deals	Avg deal value (EUR m)
< 40m	185	8
40m - 100m	16	61
> 100m	14	201
Total	215	

Note:*) Number of deals
Source: PwC analysis

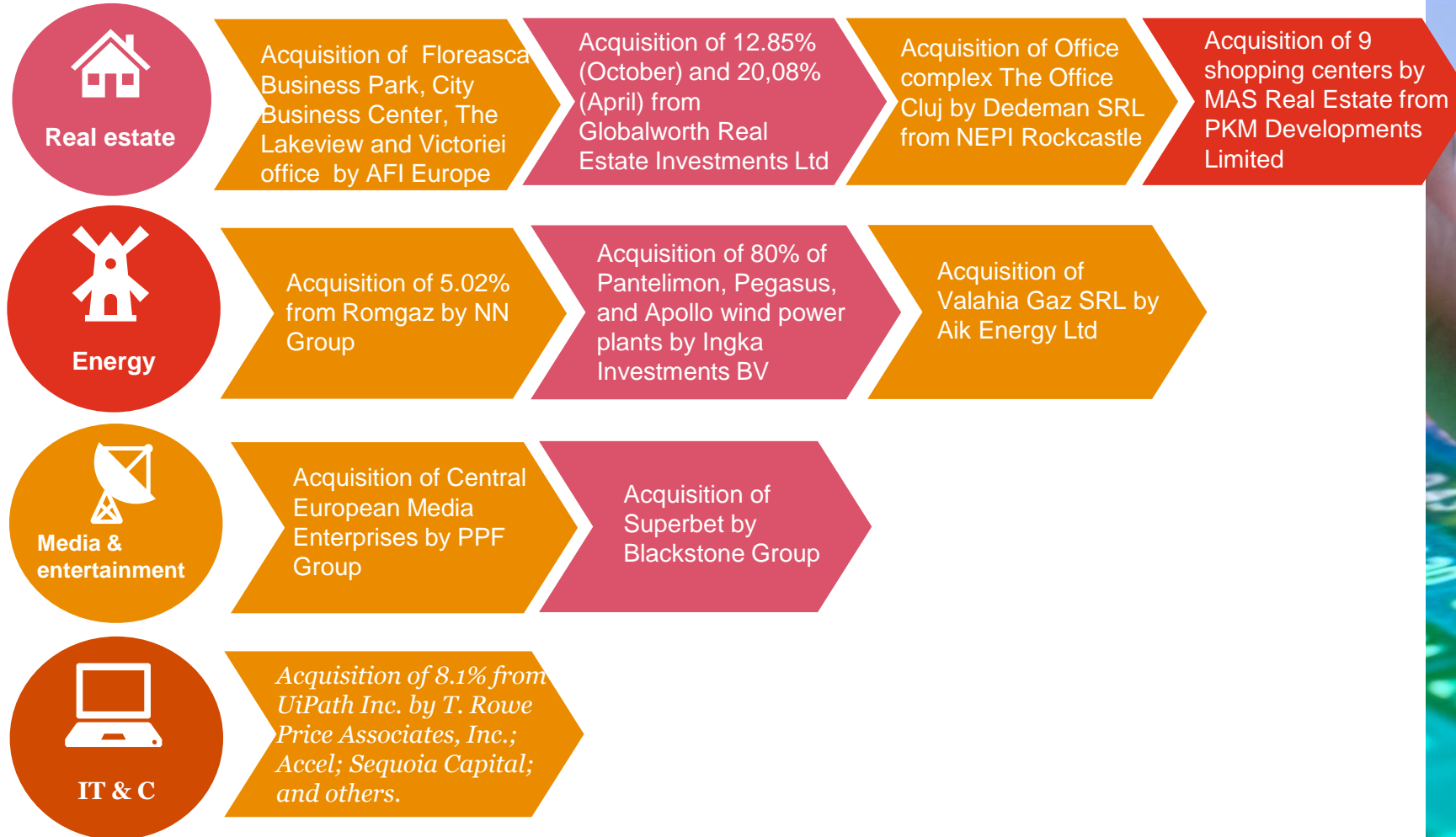
Romanian M&A market - 2019

- The Romanian M&A market remained at a high level, reached **EUR 5.2 bn** in 2019 (an increase of 4% compared to 2018) and more than **210 confirmed relevant transactions**.
- **Average transaction value: EUR 24 million in 2019**; as usual, more than 50% of the market value is realized by deals exceeding EUR 100 million, recurrent in terms of number and overall market share over the last 3 years.
- Most dynamic sectors: **IT&C, real estate, healthcare & pharma**.
- The number and value of deals exceeding EUR 100 million is stable; the market is growing in the segment “below EUR 40 million” both in terms of number and average deal value, fuelled by the number of relevant targets and increasing investors availability and interest in this segment.
- Romania reported one of the highest GDP growths in CEE, i.e. a 3.9% GDP growth, after Hungary (4.9%) and Poland (4.1%).

Most active sectors (no. of deals) – 2017 - 2019



Romanian M&A – deals value \geq EUR 100m*



Source: Romanian media estimates, companies website.

*Enterprise value is considered

Romanian M&A – deals value \geq EUR 100m*



Source: Romanian media estimates, companies website.

*Enterprise value is considered

3. Romanian M&A - authorisation of economic concentrations by the Romanian Competition Council

Sectors	2017	2018	2019
Agriculture			
Automotive			
Construction materials			
Consumer goods			
Energy			
Financial services			
IT &C			
Healthcare & pharma			
Industrial products and services			
Logistics and courier services			
Real estate			
Total no. of authorised transactions	60	57	75

- Al Dahra Agriculture – Agricost
- Alexandrion Holdings Limited – Halewood România

- CRH Agregate – Pomponio
- HOLCIM – Somaco
- Xella – Macon
- Sika – Adeplast (*ongoing*)

- Smithfield Romania – Elit SRL / Vericom 2001

- Zentiva Group – Solacium Pharma
- Med Life – Polissano
- Regina Maria – Spitalul Premier
- Medlife – Oncocard (*ongoing*)
- Help Net – Ecofarmacia (*ongoing*)
- Help Net – Farmaceutica Remedia (*ongoing*)

- ME Partners Courier – Urgent Cargus
- FAN Courier Express – SLS Cargo

Average length of the clearance procedure – 2 months

2020 Predictions

Big players will diversify their products / services entering new markets (e.g. agriculture / consumer goods)

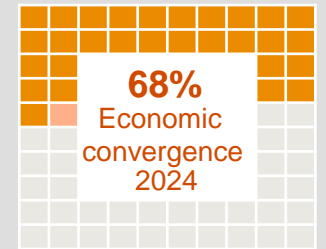
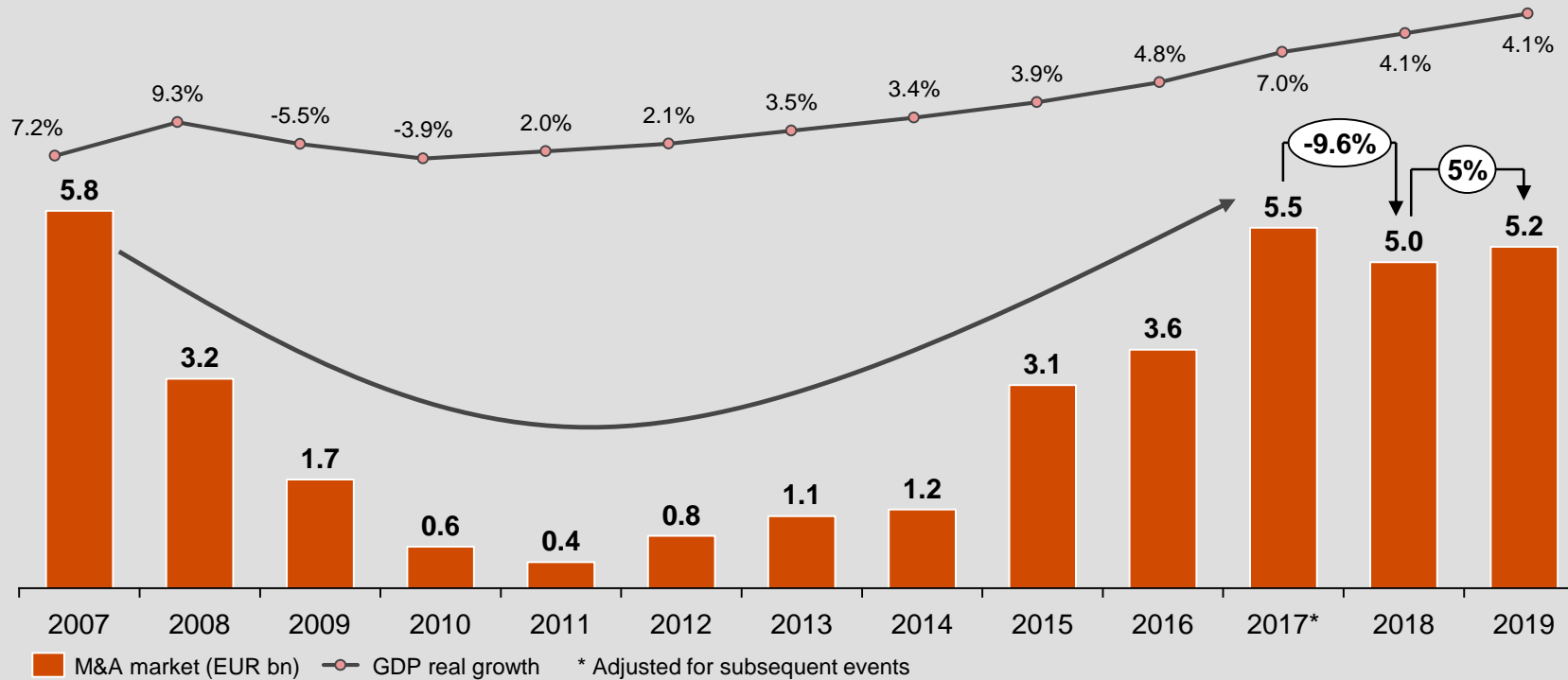
Vertical integrations with downstream or upstream markets may occur (e.g. constructions)

Big players / networks will expand business by acquiring small players on unconcentrated markets (e.g. medical networks)

Markets with low degree of concentration will consolidate (e.g. IT)

4. M&A market dynamics in the macroeconomic landscape

The value of the Romanian M&A market vs. GDP real growth rate



M&A market hit its peak in 2007

Source: Eurostat, World Economic Outlook, FMI, NIS, PwC Analysis

M&A market print in the Romanian economy

The M&A market contribution to Romania's GDP

The total value added (as % of total output - 53%) was estimated based on input-output table for Romania designed by WIOD.

Value added
EUR 1.7bn

M&A market direct and indirect contribution to GDP EUR 2.6bn
<=> 1.2% of Romania's GDP

Considering an average multiplier coefficient of 1.5, relying on Wassily Leontieff methodology.

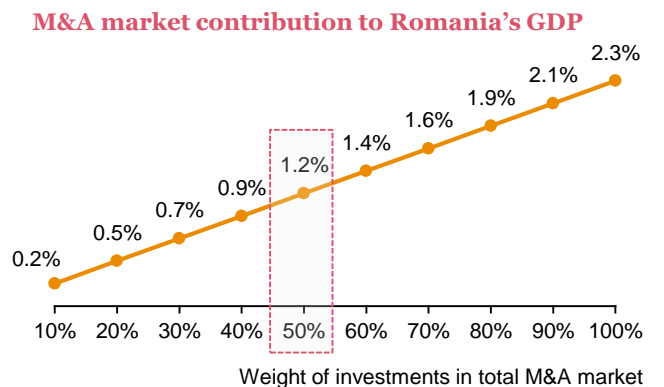
Output
EUR 3.3bn

Considering an average profitability of 8.8% and an average return on investment (WACC) of 9.7%, in line with CEE stock-listed peers.

Assuming that 50% of total M&A value is to be reinvested in the same sectors where transactions were concluded.

Investments
EUR 2.6bn

Total M&A market 2019
EUR 5.2bn



M&A market print in the Romanian economy

The M&A market contribution to Romania's GDP – breakdown by sector

All amounts are in EURbn

M&A market	Sectors	% of total deal value	Output	Value added	Multiplier coefficient	Total contribution
	Real estate	28%	0.8	0.7	1.3	0.8
	Media & Entertainment	15%	0.5	0.2	1.8	0.3
	IT&C	14%	0.5	0.3	1.5	0.4
	Energy	10%	0.3	0.1	1.5	0.2
	Retail	8%	0.2	0.1	1.9	0.1
	Healthcare & Pharma	7%	0.4	0.2	1.7	0.3
	Other sectors	18%	0.6	0.2	1.7	0.4
	Professional services	-	0.1	0.03	1.7	0.05
	Total	5.2	3.2	1.7	1.5	2.6

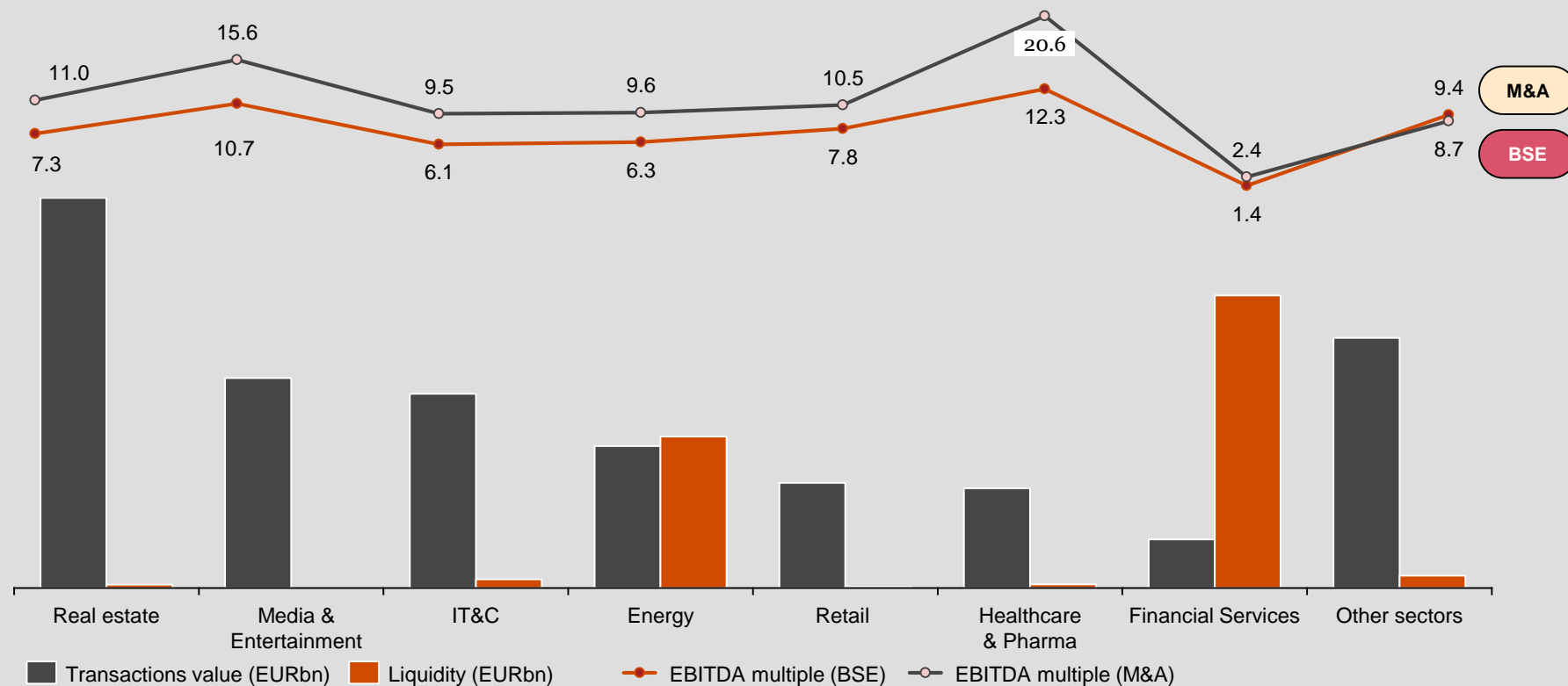
Direct impact

X

Direct + Indirect impact

Comparison between M&A market and the stock exchange

Financial multiples by sector vs. transactions value



Sources: Mergermarket, EMIS, BSE, PwC Analysis

Notes:

1. For Financial services sector we considered Price to Book ratio
2. For sectors with observed low liquidity on the BSE (Media & Entertainment and Retail), financial multiples in line with CEE stock-listed peers were considered.

M&A market – tax trends



Global overview



2014 – “Lux Leaks”



2016 – “Panama Papers”



2017 – “Paradise Papers”



2018 – “Malta Leaks”



GAFA
(digital services taxation)

BEPS 1-15
2015-2018

ATAD I, II



- Exit tax
- Hybrid instruments
- Interest deductibility
- Anti-abuse rules
- Controlled Foreign Companies

DAC 1-6



- Financial accounts
- Rulings + APA
- CbCR
- Real beneficiaries
- Cross-border transactions

DAC 6 – new reporting rules for intermediaries / taxpayers in Romania



Timeline

- transposed into domestic law in January 2020
- will take effect on July 1, 2020

Scope

- Corporate income tax
- Withholding tax
- Microenterprise tax
- Income tax ?

Penalties

- RON 20.000 – RON 100.000 for non-reporting or late reporting → relevant intermediary / taxpayer
- RON 5.000 – RON 30.000 for breach of notification obligation → intermediary



Reporting

- 25 June 2018 – 01 July 2020 → 31 August 2020
- Starting with 1 July 2020 → 30 days

Professional secrecy privilege?

- intermediary has the reporting obligation
- written agreement of the relevant taxpayer!
- lack of agreement

Cross-border arrangements

- At least one relevant intermediary / taxpayer from one EU Member State
- Meeting specific hallmarks (direct reporting vs MBT)

M&A major trends 2020 – Global (1 of 2)

At global level, the M&A market remains optimistic and active in 2020 despite various challenges as well as rapidly shifting and complex landscape

Potential slowdown of the economy

- A potential slowdown of the economy (after 11 years of record-setting expansion) is seen as an *opportunity for market growth*, as generally leads to a decline in company valuations making M&A targets more attractive.

Valuations are relatively high

- Depending on the sector, we see elevated multiples due to high capital availability, relatively low interest rates and strong pressure to innovate, leading to a *competitive M&A environment*. Record multiples are being paid for assets, however not as previously seen in 2018.

Availability of capital for deals

- *Investment capacity at PE firms is at record levels* (PE firms have approx. \$2.4 trillion of “dry powder”) and the US corporations have access to about \$2.2 trillion in cash).
- As a result, deal activity could avoid the substantial decline of previous downturns.

Relatively high levels of leverage

- As a result of the continued availability of low-interest debt. More than 60% of CEOs globally said they are not worried about *access to affordable capital*.

M&A major trends 2020 – Global (2 of 2)

Dealmakers will need to deal with multiple challenges in 2020, such as a geopolitical strains, increased regulatory demands and evolving workforces.

Geopolitical strains

- Brexit effects to be dealt with; US-China trade dispute; US becomes less open to trade and foreign investments; Other parts of the world are growing more protectionist

China's impact in the global economy

- The recent developments regarding coronavirus lead to economy slowdown, decrease on the European and Asian stock markets, disturbances in major sectors.

Business transformation

- *Many companies aim to transform their businesses or acquire new capabilities through acquisitions in other industries—most notably technology, a top cross-sector M&A target.*

Increased regulatory demands

- Incremental regulations relating to data privacy (GDPR), antitrust regulations and sensitive data usage, fiscal changes.

Evolving workforces

- There is high competition on the labour market to identify and retain specialised skills, whereas the need for specialised talents is growing.
- There is a focus to form a deeper understanding of the Target's talents and culture, retaining and integrating key employees.

M&A major trends 2020 – Romania

M&A market in Romania at the beginning of 2020 is strong and expected to remain active, but needs to overcome reluctance of local CEOs

Megadeals in pipeline

- Energy seems to be one of the busy sectors in 2020, as Czech group CEZ and Italy-based Enel announced towards the end of 2019 sale processes for assets held in Romania.

Key sectors

- Healthcare & Pharma sector aims for consolidation. We see continuous interest in real estate and agri-business, as well as consumer goods, manufacturing and financial services.
- Technology sector will remain attractive, as the Romanian industry is at the moment of strategic decisions and it must step towards automatization and digitization.

PE firms presence

- Private equity funds have opened local offices in Romania (Mid Europa Partners) or have recently entered the Romanian market (Greenbridge Partners, Morphosis Capital, Highlander Partners LP, Blackstone).

Europe remains on the radar of global dealmakers (stable political and legal systems; strong infrastructure), helping also Romania which continues to be attractive for investors, considering constant economic growth and development potential, as well as the favourable geopolitical context in the region.

6. M&A major trends - Press quotes

PwC US Deals Leader, Colin Wittmer: “M&A is not just about growth. It's also about transforming your business to compete in the future.”

Source: [pwc.com/us](https://www.pwc.com/us)

Mike Suen, Hong Kong-based partner at international law firm Withers on Coronavirus impact: “Sponsors cannot perform proper due diligence and accountants are no longer able to conduct site visits and field audits due to closure of the borders. Roadshows will inevitably be cancelled. A delay for IPO timetables is unavoidable”.

Source: [financialtimes.com](https://www.financialtimes.com)

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The M&A Market in Romania: Perspectives and trends in 2020

The way Technology drives M&A
decisions

February 2020



Future Opportunities for M&A

Management confidence

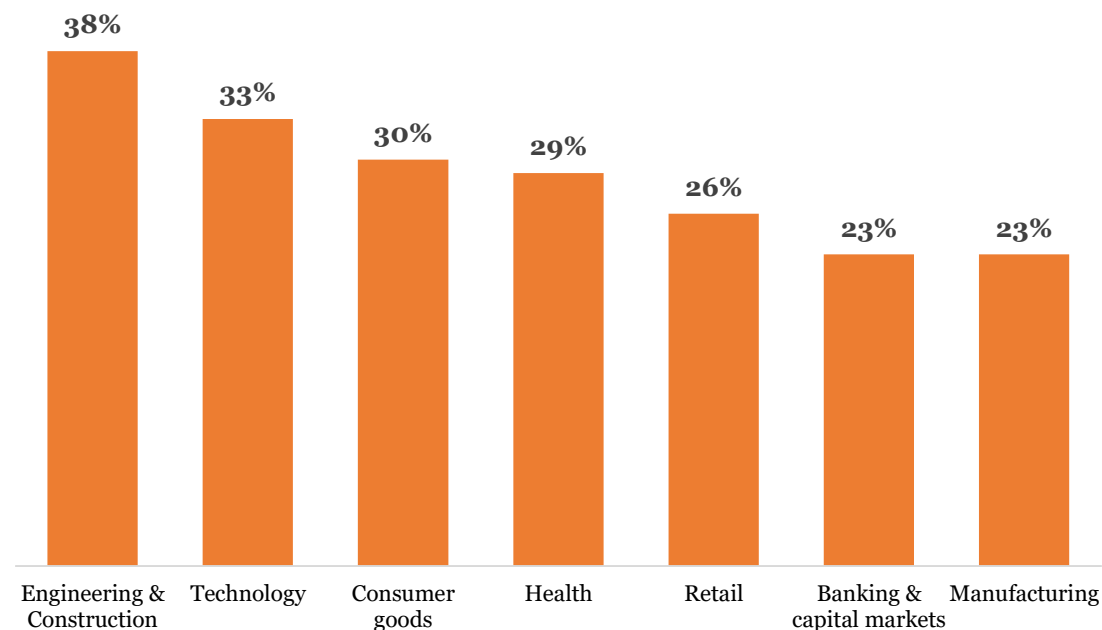
Management confidence will be an important factor in companies' appetite for acquisitions in 2020, especially if the economy slows down. In **PwC's 23rd CEO Survey**, executives voiced much more concern about economic growth than in previous years, and confidence in their companies' revenue growth this year also was down, although still mostly positive. But confidence in revenue growth over the next three years was largely the same as in the previous survey, suggesting CEOs' view any looming economic and business challenges as potentially short-lived.

Capital availability

Plans for M&A in the year ahead also remained mostly consistent. One factor in that steadiness may be historic **amount and mix of capital** available for investment. More than 60% of CEOs globally said they weren't worried about access to affordable capital. Concern was lowest among executives in the automotive, insurance, consumer goods and retail sectors, while banking and capital markets, energy, technology, and transportation and logistics voiced slightly more worry.

M&A plans in 2020

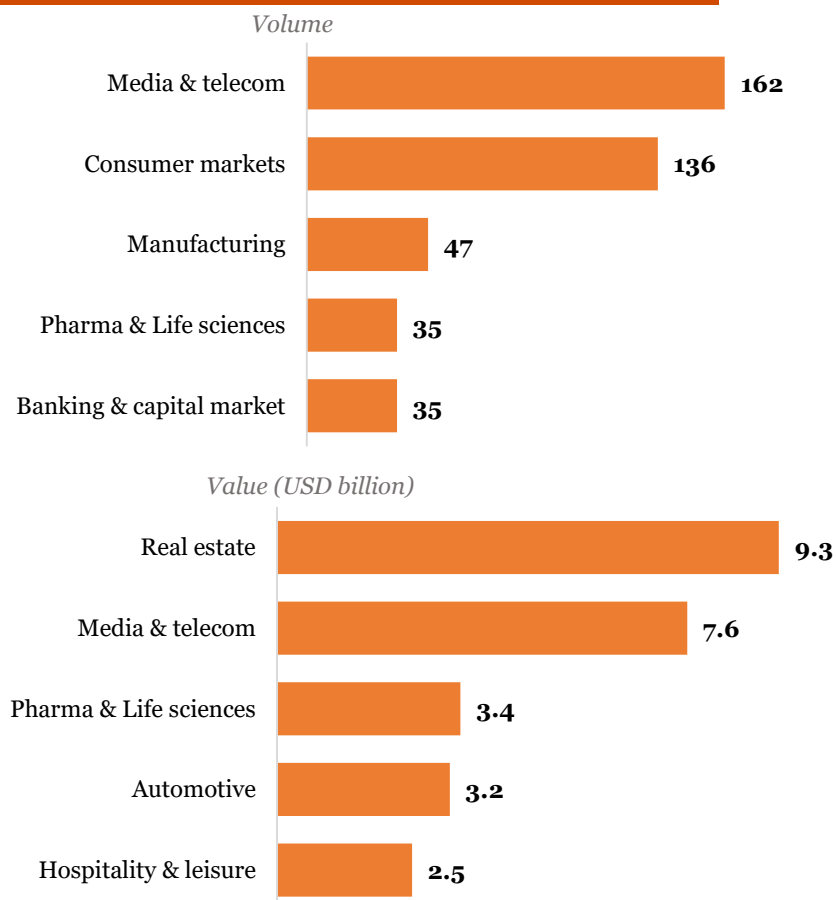
About one third of CEOs globally said their companies are planning M&A this year.



Source: PwC's 23rd CEO Survey

Tech - Top Buyer and Target in M&A

Tech draws interest across sectors, but investment varies*



Source: PwC's 23rd CEO Survey

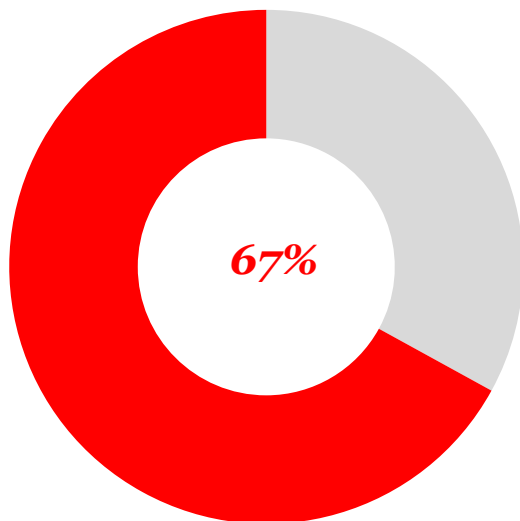
*US data, which accounts for the largest share of total global tech M&A

- ❖ More companies are determining how **emerging technology** can help drive growth and bring efficiency to their businesses. Among US sectors, tech firms were the **top acquisition targets in 2019**, with deals for tech businesses representing 20% of all industry-related transactions.
- ❖ Tech also was a **big driver of cross-sector deals**, which accounted for almost 40% of last year's industry M&A volume. Well over 500 acquisitions of tech firms were by companies in other sectors, with media and telecom and consumer markets the most active buyers.
- ❖ **The interest in tech from other sectors remains strong in 2020**, as shown by a recent financial services company megadeal: Visa has agreed to acquire fintech start up Plaid for USD 5.3 billion in a move to accelerate its push into connecting consumers to financial services.
- ❖ And tech companies, especially big tech, aren't being confined to their own industry when it comes to deals. Tech giants are considering where else they could find growth. Nearly **one-fourth of media and telecom acquisitions** and close to **10% of deals for consumer markets companies were by tech buyers**.
- ❖ **37 Tech deals in Romania in 2019, at a median EBITDA multiple of almost 10**

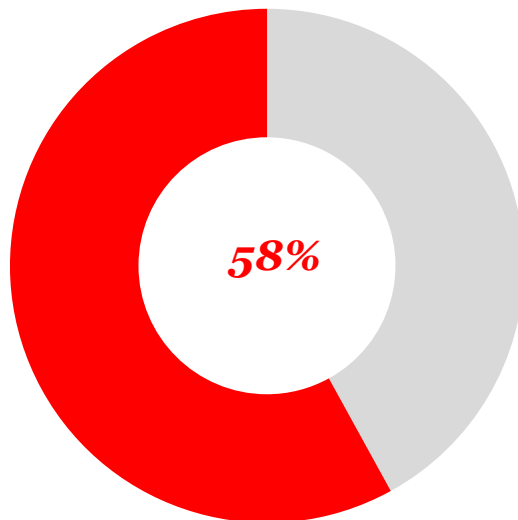
Consumers perception about technology deals

- ❖ The current technology landscape is **digital and personal**, constructed by each individual and delivered through personal devices. In response, companies are reshaping business models to reach billions of individuals, often necessitating M&A.
- ❖ When a tech company is part of a deal, technology capabilities improve, as do products and services according to a PwC's global survey of **consumer attitudes** toward mergers and acquisitions.

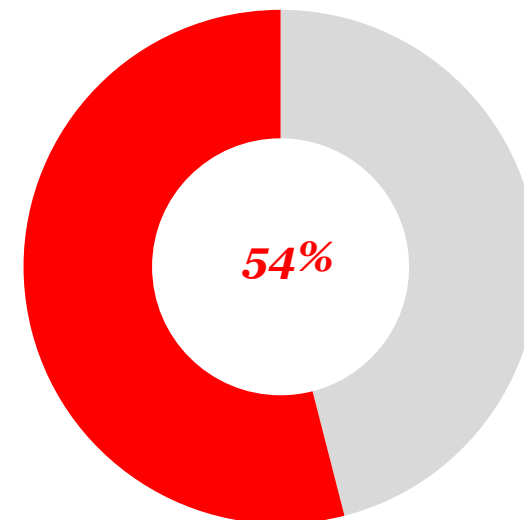
Technology capabilities



Number of products or services



Quality of products or services



Q: To what extent did the following become better as a result of a merger or acquisition?

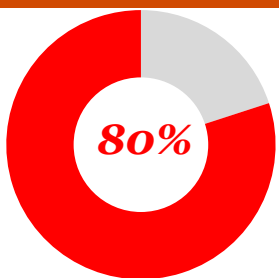
Source: PwC Consumer Intelligence Series CX in M&A survey 2019

Consumers perception about technology deals

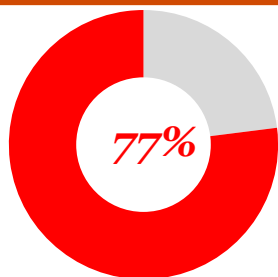
Who benefits from M&A?

- ❖ Respondents were more likely to say that M&As are a positive influence on the companies involved and their shareholders, as compared to its employees and customers- meaning they feel that deals benefit the company more than them.

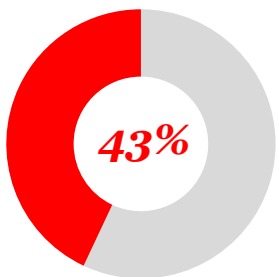
The companies involved



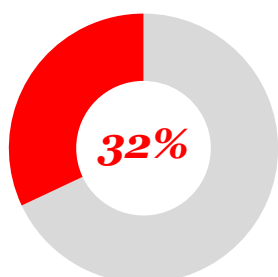
Company shareholders



Customers



Employees

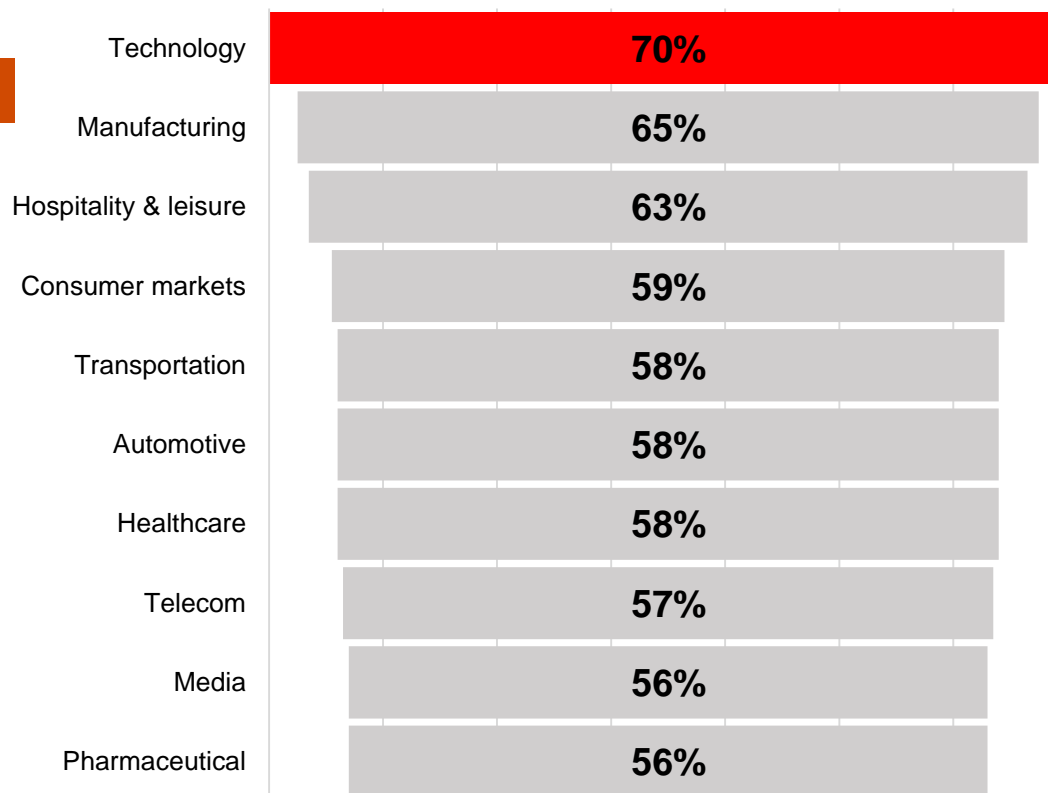


Q: Do you think that mergers and acquisitions are positive or negative for each of the following? % positive

Source: PwC Consumer Intelligence Series CX in M&A survey 2019

M&A Customers perception by industry

- ❖ M&A makes things better - almost 70% of tech customers said deals are positive.



Source: PwC Consumer Intelligence Series CX in M&A survey 2019

Romania is sensitive to the technological revolution



❖ **325,000 new jobs** will be created over the next decade, while another 275,000 workers will need to improve their digital skills, as automation and the introduction of artificial intelligence will gradually eliminate repetitive activities.

❖ In manufacturing, agriculture and utilities, jobs are most likely to be replaced as these sectors do not currently use technology and automation. These sectors will need to improve the digital skills of employees.

❖ **New technologies will generate new jobs**, especially in the areas of health, education or financial services.

By 2028, **600,000 new jobs** will be impacted by technology changes. Approximately 70% of the employees are currently working in technology-sensitive sectors.

Thank you!

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