



M&A: Transformation, consolidation, opportunity

There are many fishes living in the sea...

Opportunities up for agile deal makers

March 9, 2023



Agenda

The background of the slide is a photograph of a server room. In the foreground, there are rows of server racks with numerous cables plugged into them. The cables are mostly black, with some red and blue ones visible. In the background, a man in a dark suit is standing and looking at a piece of equipment in a rack. The room is brightly lit, and the overall atmosphere is professional and technical.

1. Global and regional trends in M&A

2. Romanian M&A Outlook

- **Deal and Valuation Highlights**
- **Competition Council Trends**

Global and regional trends in M&A



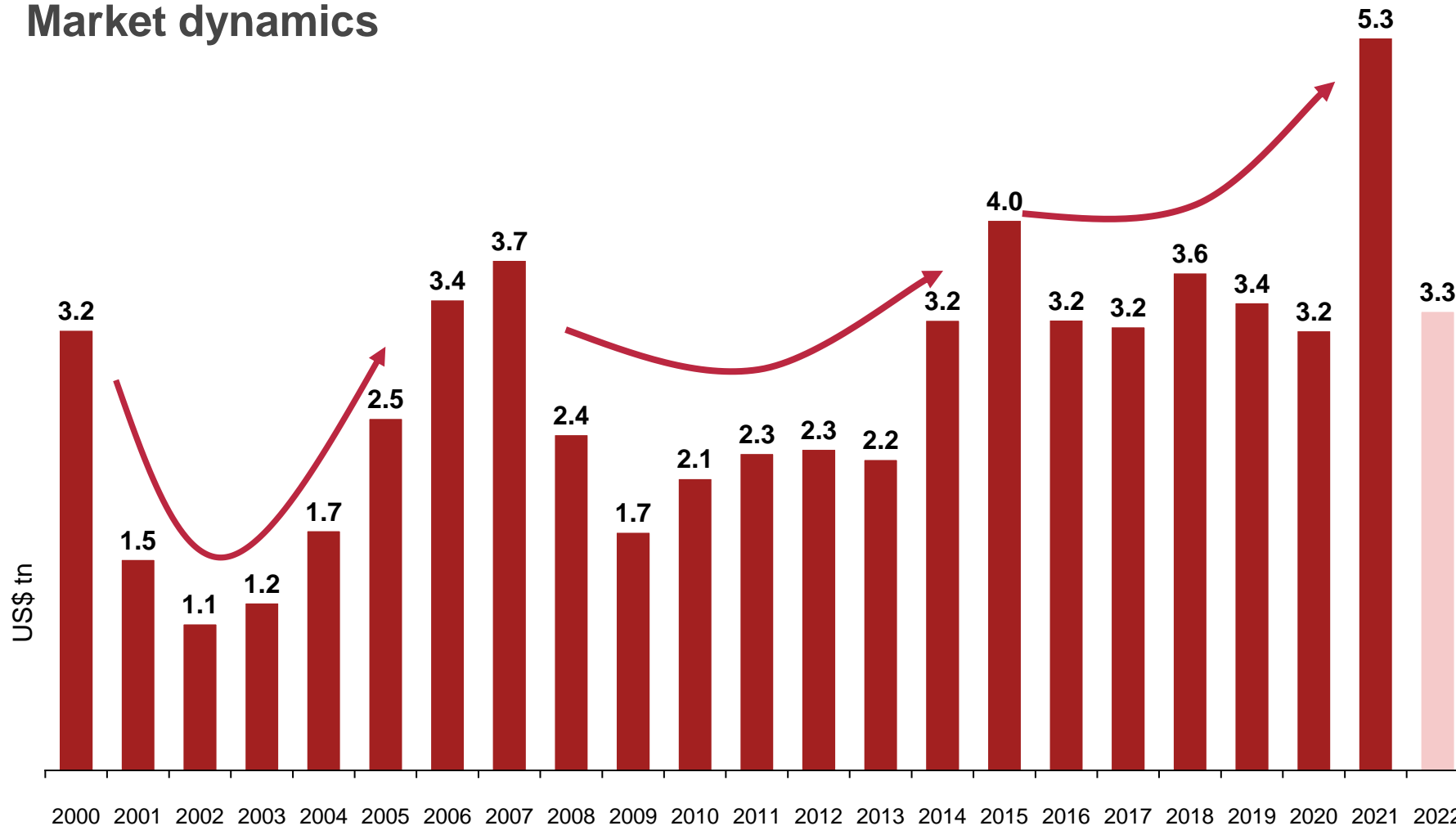
Dinu Bumbacea



Country Managing Partner
PwC Romania

Global M&A Activity. Trends

Market dynamics



- ✓ In 2022 the global **M&A market reached US\$ 3.3tn in value**, respectively **54,452 in volume**, translating into changes of -37% y/y, respectively -17%y/y. Despite the decline from the record-breaking 2021 levels, the market (both value and volume) remained **above 2020 level**.
- ✓ **The intense M&A activity from 2021 continued into the early part of 2022**, but as headwinds continued to grow, each successive quarter reported a decline in deal activity over the prior one.
- ✓ **In early 2023 the short term economic outlook remains clouded** by the global recession fears and rising interest rates, as central bankers try to tame record inflations.

Geoprofile of M&As

Deals by volume

54,452 deals in 2022

- **US:** 17,809 deals ↓ -17% vs 2021
- **EMEA:** 20,408 deals ↓ -12% vs 2021
- **Asia-Pacific:** 16,235 deals ↓ -23% vs 2021

Average deal size decreased by -24% in 2022 vs 2021, the largest drops being recorded in US and EMEA (-28%y/y, each), followed by Asia-Pacific (-13%y/y)

Avg. deal size

US \$ 89mn

US \$ 44mn

US \$ 41mn

Deals by value

US\$ 3,3tn in 2022

- **US:** US\$ 1.58tn ↓ -40% vs 2021
- **EMEA:** US\$ 0.89tn ↓ -37% vs 2021
- **Asia-Pacific:** US\$ 0.83tn ↓ -33% vs 2021

US: Deal values were particularly hard-hit, with the number of US megadeals (value> US\$ 5bn) halving in 2022 *versus* 2021 (42 *versus* 81)

EMEA: Despite the war in Ukraine, higher energy costs and deterioration of investors' confidence, the M&A activity was +17% higher than pre-pandemic 2019 levels

Asia-Pacific: China saw a sharp drop in M&A activity (pandemic-related challenges and weakening demand for exports), as investors were shifting interest to India, Japan and other countries within Southeast Asia

Resetting the Field of M&A Players

Dealmakers were unevenly affected by current market downturns.

View on how different players are likely to respond to 2023 challenges

Corporate

On the buy side, companies with cash on hand and growth ambitions are well positioned, as they have an **added edge on acquisitions**.

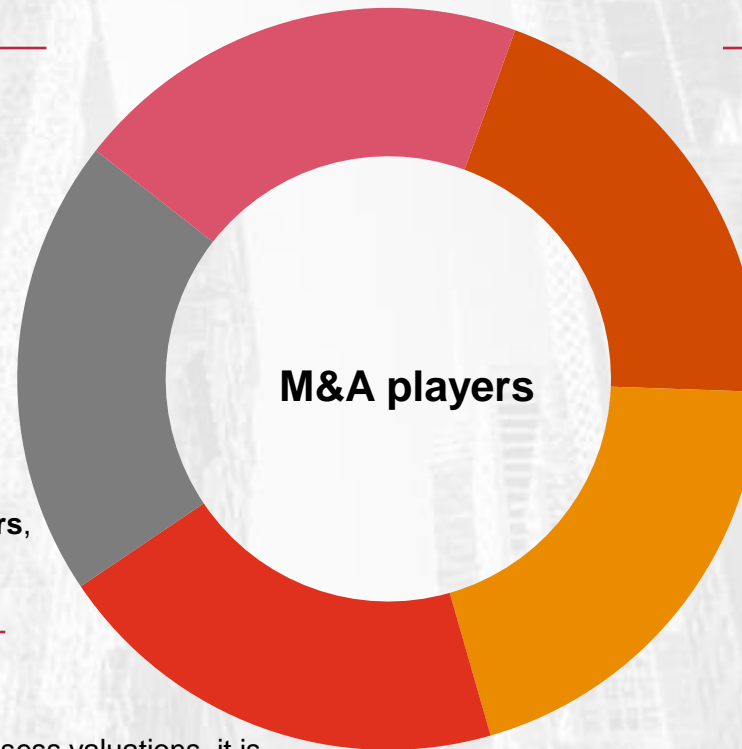
On the sell, as some corporates are facing pressure to deleverage their balance sheets, there is a significant increase of carve-out/ divestment trend

Credit funds and private markets capital

As banks seek to **limit their exposure to riskier sectors**, it is expected to see **credit funds continuing to take share away from banks**.

Venture capital

As investors pull back from riskier investments and reassess valuations, it is expected to see **some distress in early-stage companies that may struggle to secure further rounds of financing – creating acquisition opportunities for companies and PEs** (especially climate tech).



Private equity

In 2022 **PEs have put record amounts of capital to work, generating more than 40% of deal values**. High interest rates and challenges in raising financing through leveraged loan market have slowed buyout activity.

Considering the overall M&A dynamic, PEs will be looking at new deals and will be focused on creating value in their portfolio companies, implying optimisation, build ups and divestures.

SPACs

During **2022 there were only 85 SPAC IPOs that raised approx. US\$ 12bn** in proceeds, a **sharp drop** from the more than 600 SPAC IPOs which raised more than US\$ 144bn in 2021.

Pending Opportunities for Agile Dealmakers

Key factors to successful deals

Capital discipline, including the power of portfolio renewal and the value in divestitures

- Empirics: Acquisitions outpaced divestitures, in volume, in recent years. Prior to 2017, S&P 500 companies divested two businesses for every seven they acquired. From 2017 to 2021, they divested two businesses for every nine acquired.
- Opportunity in deals: **Divestments could be an important source of capital** for acquisitions or transformative business initiatives, which is highly important in the context of current financing costs, **and could clear away emotional barriers and inertial factors in portfolio structures**. Capital discipline in delivering required returns could bring additional value perks for both buyers and sellers in ear-out structures.

Navigating uncertainty

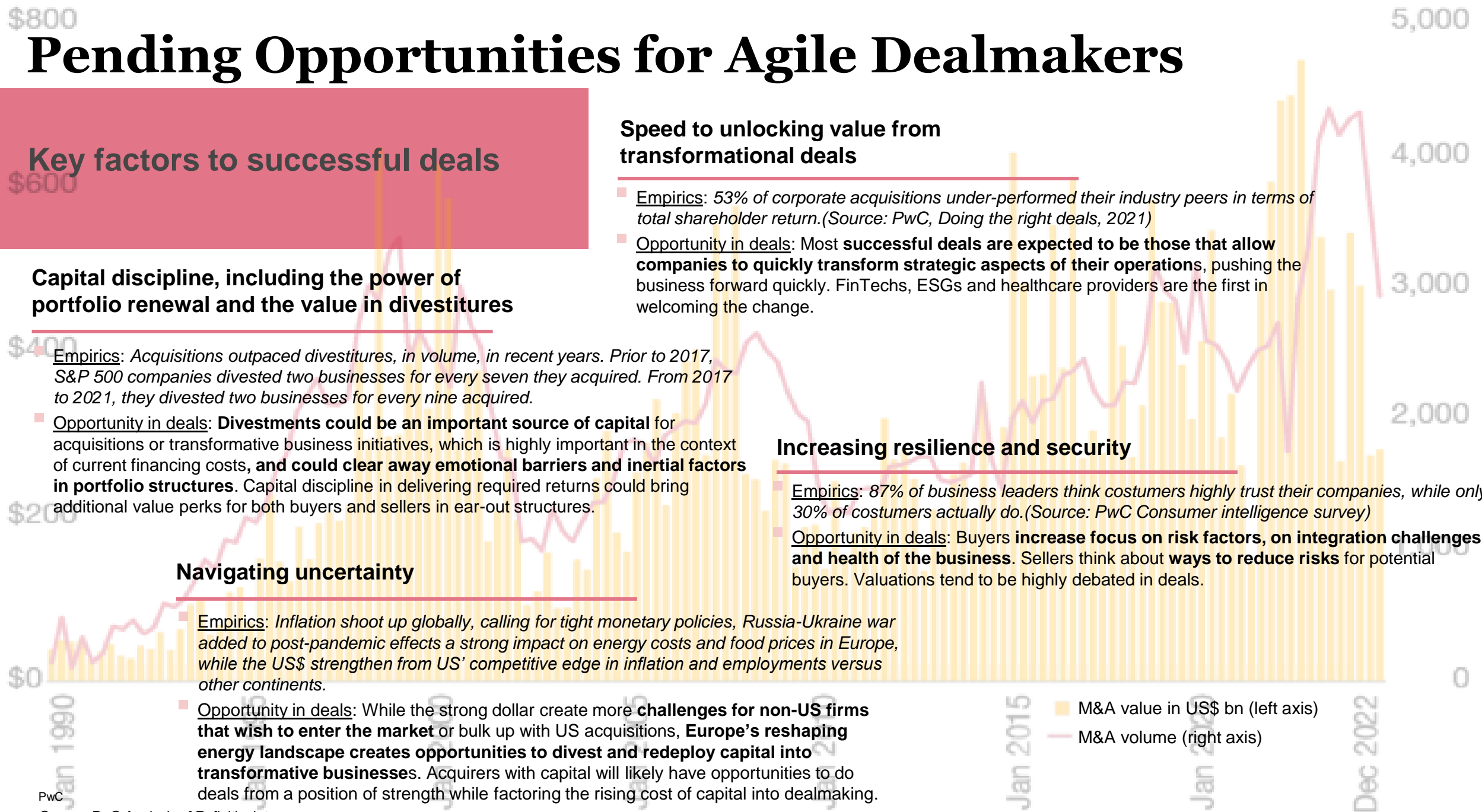
- Empirics: Inflation shoot up globally, calling for tight monetary policies, Russia-Ukraine war added to post-pandemic effects a strong impact on energy costs and food prices in Europe, while the US\$ strengthen from US' competitive edge in inflation and employments versus other continents.
- Opportunity in deals: While the strong dollar create more **challenges for non-US firms that wish to enter the market** or bulk up with US acquisitions, **Europe's reshaping energy landscape creates opportunities to divest and redeploy capital into transformative businesses**. Acquirers with capital will likely have opportunities to do deals from a position of strength while factoring the rising cost of capital into dealmaking.

Speed to unlocking value from transformational deals

- Empirics: 53% of corporate acquisitions under-performed their industry peers in terms of total shareholder return. (Source: PwC, *Doing the right deals*, 2021)
- Opportunity in deals: Most **successful deals are expected to be those that allow companies to quickly transform strategic aspects of their operations**, pushing the business forward quickly. FinTechs, ESGs and healthcare providers are the first in welcoming the change.

Increasing resilience and security

- Empirics: 87% of business leaders think costumers highly trust their companies, while only 30% of costumers actually do. (Source: PwC Consumer intelligence survey)
- Opportunity in deals: Buyers **increase focus on risk factors, on integration challenges and health of the business**. Sellers think about **ways to reduce risks** for potential buyers. Valuations tend to be highly debated in deals.



PwC's 26th Annual Global CEO Survey

PwC's 26th Annual Global CEO Survey show 40% of global CEOs think their organisation will no longer be economically viable in ten years' time, if it continues on its current course. This is a major catalyst for the lure of M&A in challenging times, as a ramp to the rescue change.

60%

of corporate leaders are not planning to delay deals in 2023 and they continue to see M&A as a way to accelerate the digital, environmental, social and governance (ESG) transformation of their businesses.

Respondents to PwC's 26th Annual Global CEO Survey who do not plan to delay deals (%)



Technology was the most active sector for dealmaking over the past several years. Yet the thirst for digital assets and capabilities remains largely unquenched, as fierce competition and high valuation multiples over the past few years have stymied the efforts of many companies wanting to make acquisitions. Beyond boosting tech capabilities, which nurtured many cross-sectorial deals, with technology on one side of the negotiation table, energy-intensive corporates added deals in the green sector on their Short Lists.

Romanian M&A Outlook

...the great fishes eat up the little ones

Consolidation trend continues

March 9, 2023



Romanian M&A Industry Trends 2023 Outlook



**Anda
Rojanschi**

Partner
D&B David și Baias



**George
Ureche**

Director, M&A Leader
PwC România



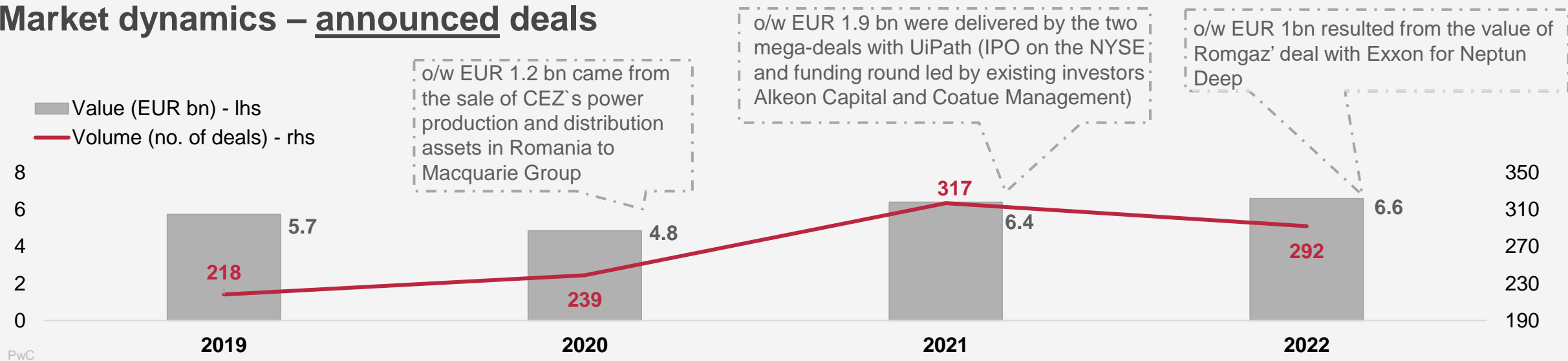
RO M&A Market. 2022 Dynamics

257 concluded deals in 2022, total value of **EUR 5.4bn.**

Deals that were announced in 2022 and are to be concluded this year sum up **EUR 6.6bn** from a number of **292** transactions.

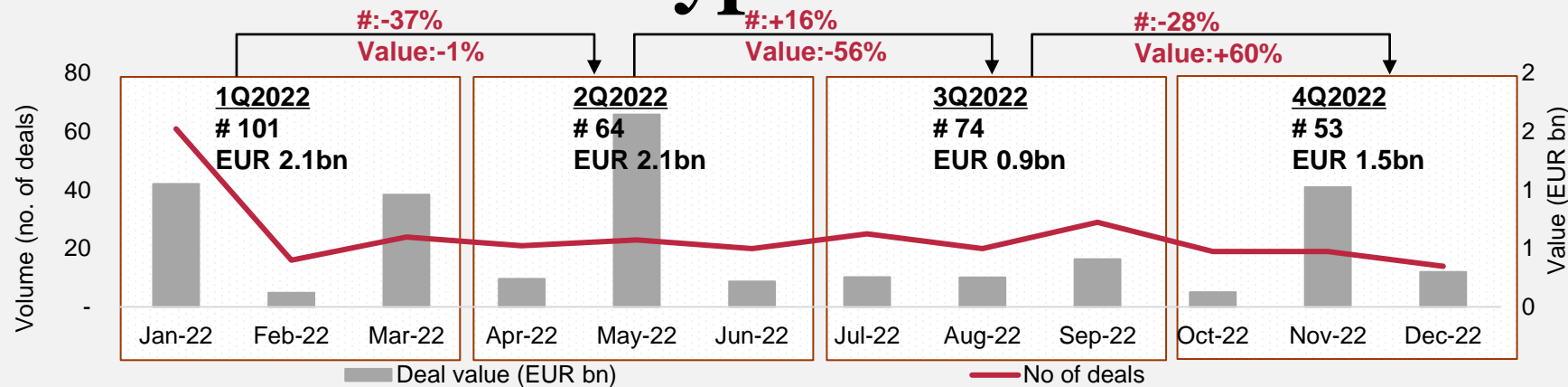
- The Romanian M&A market exceeded in 2022 the pre-pandemic level (**EUR 5.4bn in 2022 versus EUR 5.2bn in 2019**), with the megadeal concluded by Romgaz with Exxon greatly supporting this break-through. **Without this EUR 1bn transaction, local market would have remained flat in y/y terms (EUR 4.4bn in 2022, without Romgaz deal versus EUR 4.5bn in 2021, without UiPath deals).**
- **Romania was confirmed as a mega-deals space**, with 2022 being the third year in a row returning a transaction in excess of EUR 1bn (CEZ in 2020, UiPath in 2021, respectively Neptun Deep in 2022). For 2023 we expect a mega-deal involving a key energy production and supply player in Romania
- While many deal values stayed undisclosed, the market was generous in terms of announcements, with many deals being disclosed even before Signing.

Market dynamics – announced deals



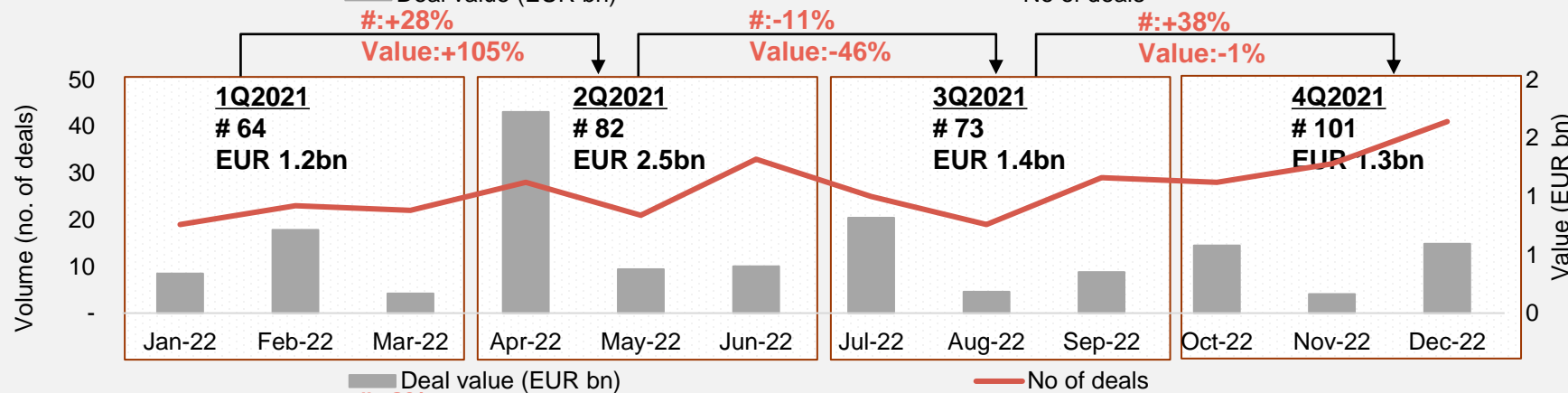
RO M&A Market. Typical Patterns

2022



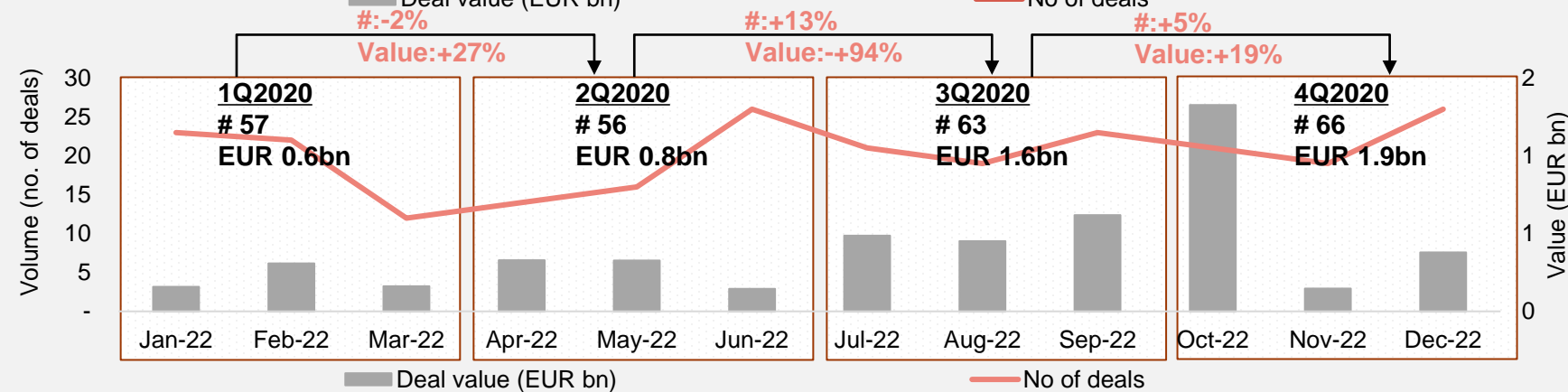
✓ After a very good start in 1Q2022, when the local M&A market edged up (both in value and volume terms), the activity slowed down in 2Q (excluding Romgaz deal) and 3Q.

2021



✓ 4Q showed a recovery, with the 2.8% equity stake of Petrom sold by FP in an accelerated private placement on the BSE leading in terms of value (EUR 153m) – the second ABB in 2022.

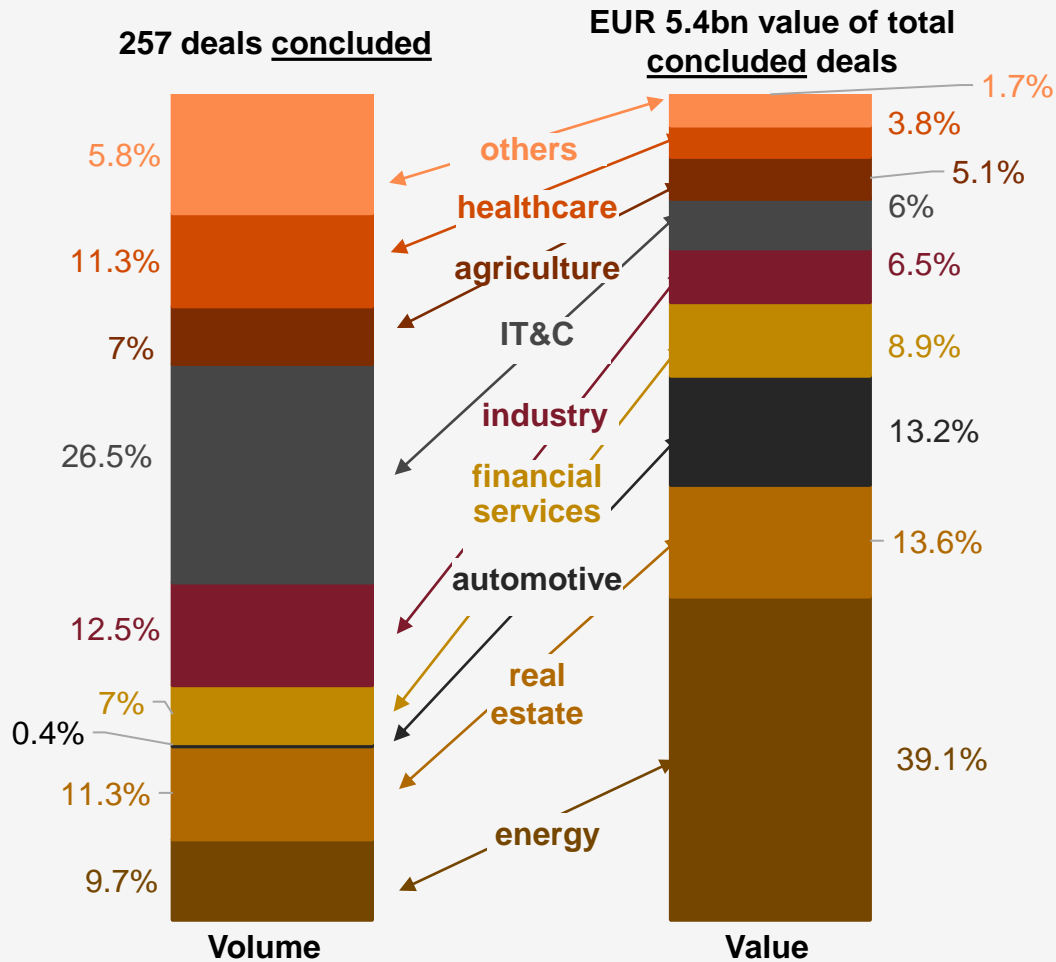
2020



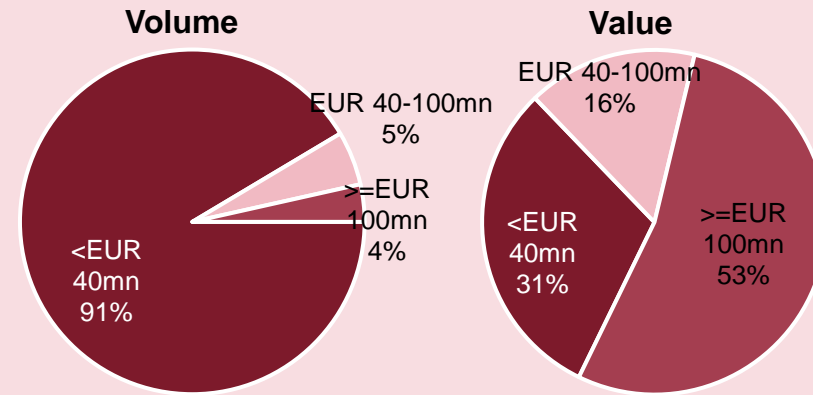
✓ Following the continuous headwinds (high electricity prices, Russia-Ukraine war, high interest rates) the number of deals started to decrease on a quarterly basis, reaching in 4Q2022 the lowest level in the past 3 years (53 announced deals).

RO M&A Market. 2022 Structures

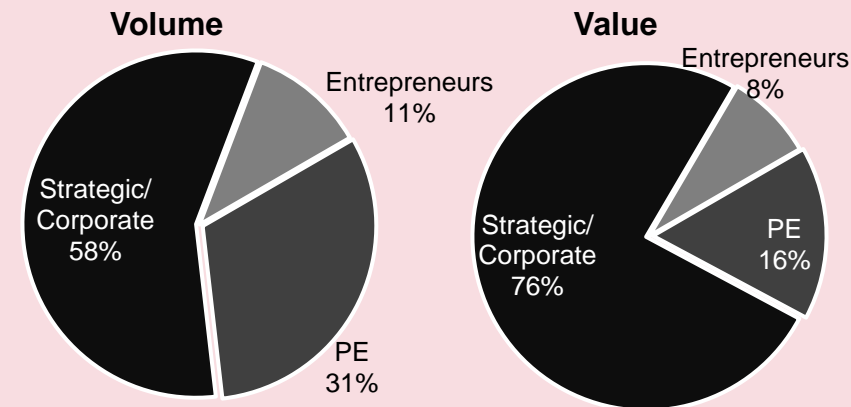
by Sector



by Size



by Investor Type



▪ 9 deals exceeded EUR 100mn;

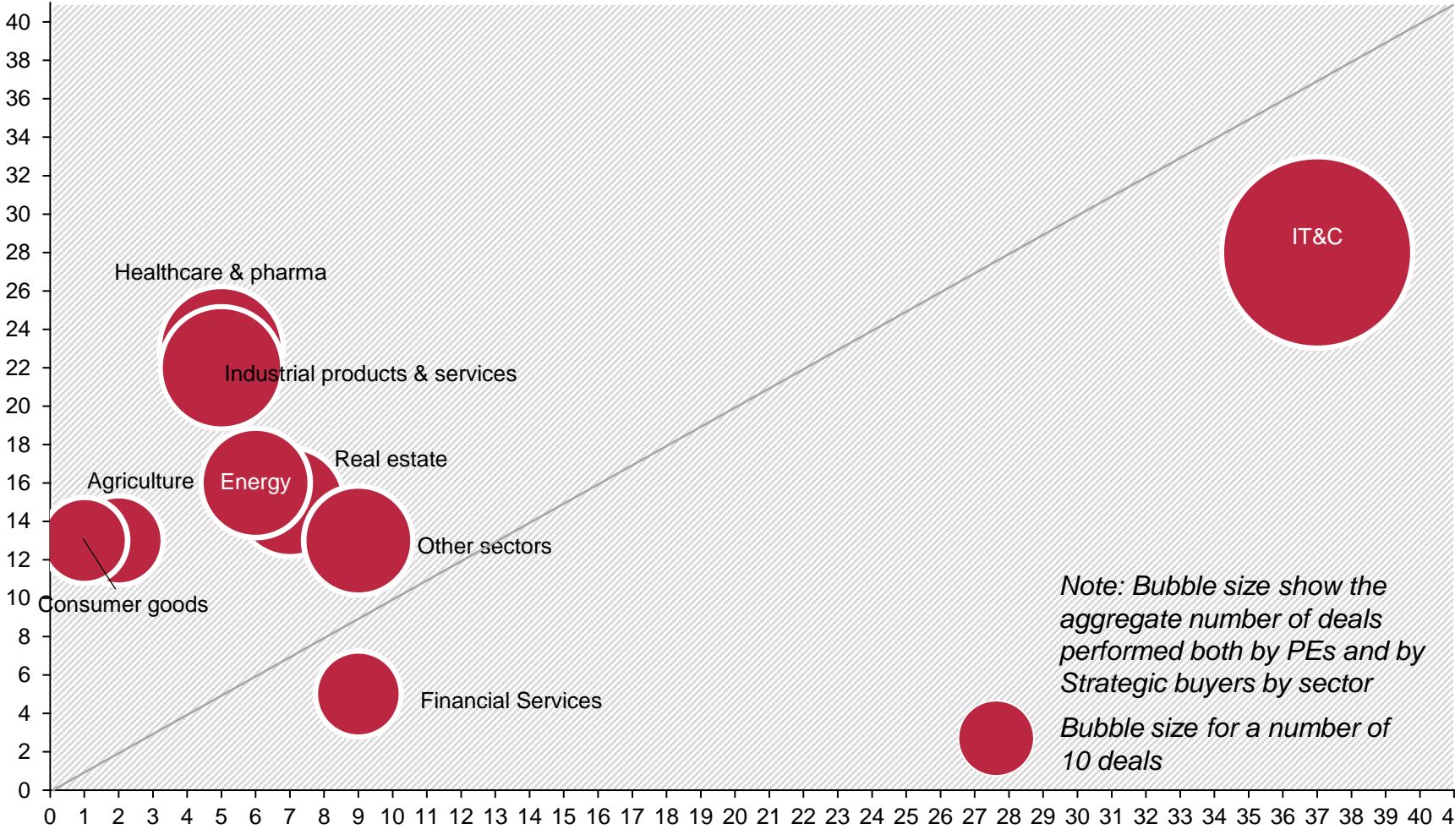
▪ Particular effervescence in the segment “below EUR 5mn” both in number and average deal value, showing a **strong consolidation tendency and VC investments**;

▪ **Average transaction value: EUR 21mn in 2022** (slightly above 2021), with the real estate sector showing a significant increase in average deal value (pushed up mainly by the deals with One United and Impact);

▪ Most dynamic sectors: IT&C, industrial products and services, real estate, healthcare & pharma, energy, agriculture.

RO M&A Market. Corporates vs. PEs in volume

No of deals
performed by Strategics/Corporates



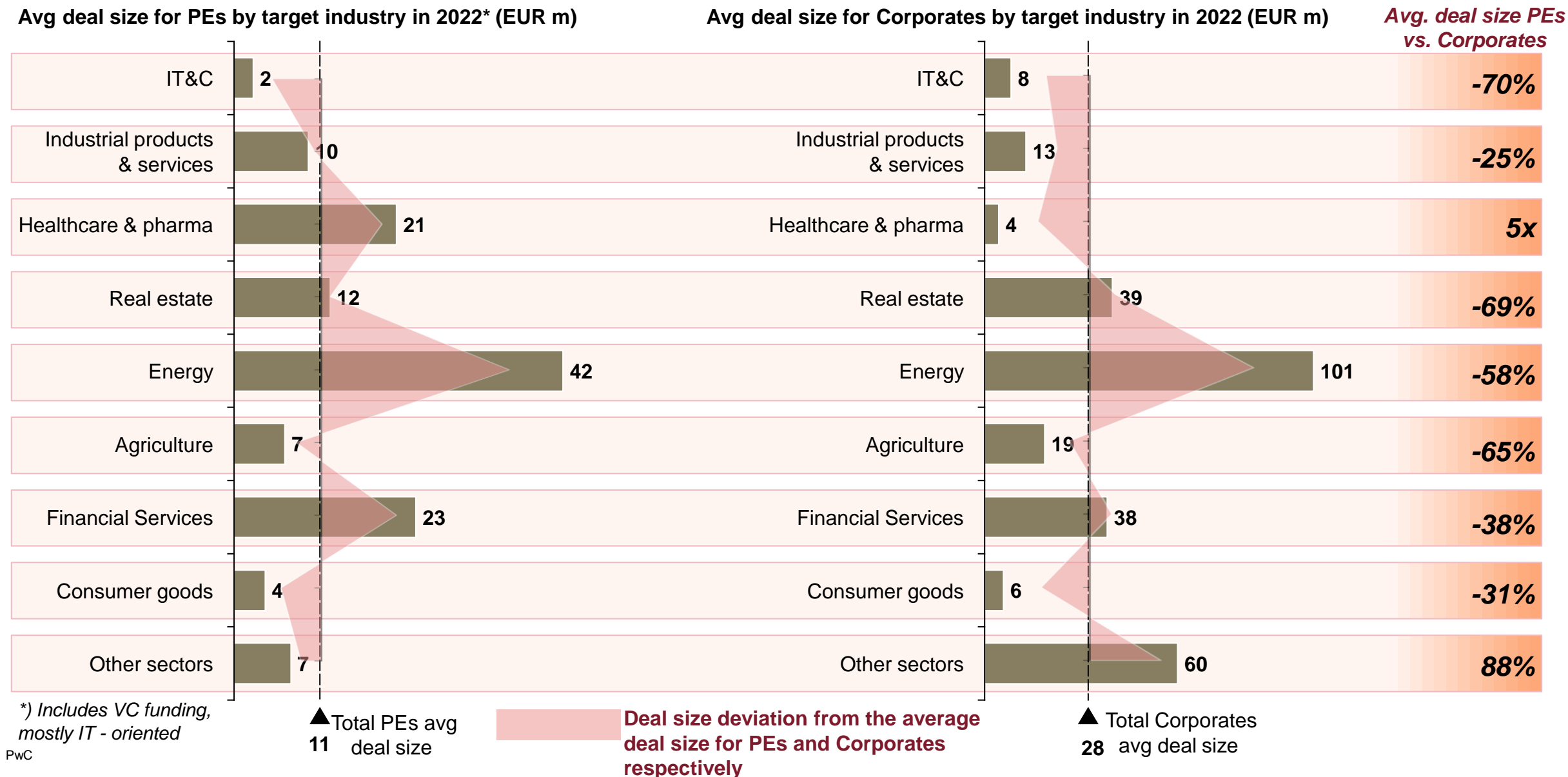
Corporate investors still hold a significant stake among local market buyers, being active in all of the sectors; **synergy value remains the major driver behind the increased no. of deals with strategics on the buy side** (58% of total numbers of closed deals).

In IT&C in particular, we see an **increasing number of PEs on the buy side**, as the high returns recorded in this sector made them lower the ticket size, acquire and consolidate.

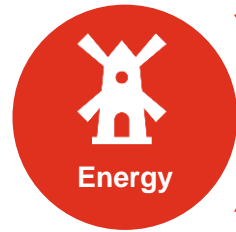
To the other extreme, in **agriculture and consumer goods sector** we mainly see deals performed by **strategic investors on the buy side**.

No of deals
performed by PEs

RO M&A Market. Corporates vs. PEs in value



Romanian M&A 2022 – deals value ≥ EUR 100m*



Energy

Acquisition of ExxonMobil Exploration and Production Romania (which held a 50% stake in the offshore project - Neptun Deep) by Romgaz

Divestment of Fondul Proprietatea from OMV Petrom via the sale of an 7% stake via two ABBs run on the BSE

Acquisition of WDP Offshore Group (500MW) by GIP Gutenberg GmbH

Acquisition of 151MW wind plant by Energias de Portugal S.A. and EDP Renovaveis, S.A.



Automotive

Intra-group property transfer of Ford Romania's production facilities from Ford Otomotiv Sanayi A.S. to Ford Otosan Netherlands B.V



Agriculture

Acquisition of a 30% stake in Promat Comimpex and Agroind Cauaceu by Ameropa



Real estate

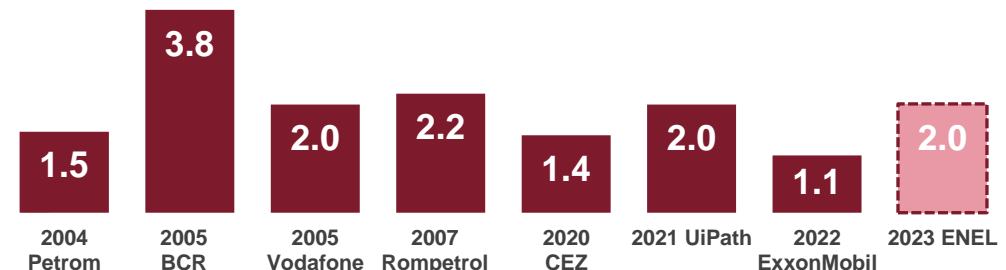
Acquisition of six shopping centres owned by PK Development Holding by MAS CEE Management Holding



Financial services

Acquisition of BCR Fleet Management by Arval Service Lease

Largest transactions of all time in Romania (US\$ bn)

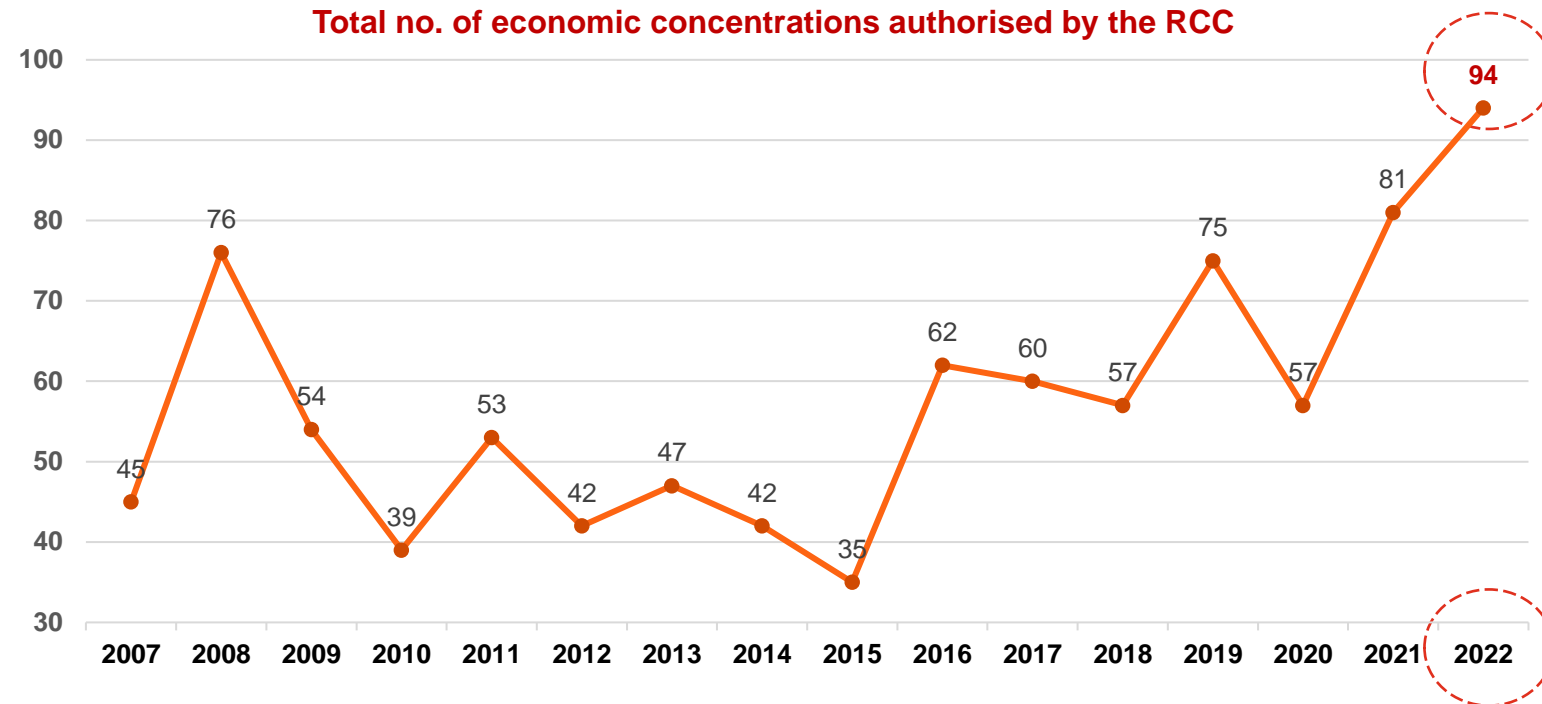


*) In 2022 there were 9 transactions over EUR 100mn compared to 2021 when there were 14 such transactions

Recent Valuation Considerations in Deals

| Risks | Valuation tool | Approach |
|---|----------------|---|
| 01 Reduced performance on the short-term | Cash Flows | <ul style="list-style-type: none">▪ Detailed analysis of the Cash flows, with more usage of the DCFs;▪ Scenarios and sensitivity analysis;▪ Extended explicit period;▪ Detailed analysis of the perpetuity growth rate. |
| 02 Uncertainty from the Macros – medium-long term | Multiples | <ul style="list-style-type: none">▪ Use of recent quotations (i.e. based on the last days prior to the valuation date);▪ Liquidity analysis/ insolvency risk for comparables;▪ Potential adjustment to peer group in order to reflect financing risk. |
| 03 High financing costs | Discount rates | <ul style="list-style-type: none">▪ EMRP correlation with investors' expected returns;▪ Potential adjustments for illiquidity, if the case;▪ Potential adjustments to the cost of debt and/ or the capital structure. |
| 04 High risk of bankruptcy/ underperformance | | |
| COVID-19, Russia- Ukraine war implications | | <ul style="list-style-type: none">▪ Increased volatility embedded into the valuation analysis;▪ Valuation ranges need are much wider (more scenarios, extended sensitivity analysis);▪ Presentation of key volatility factors;▪ Earn-out transaction structures called to confirm valuation and close expectation gaps in valuation. |

Romanian M&A - Romanian Competition Council - trends



In 2022, the Competition Council authorised a record number of 94 transactions:






- highest number of transactions for the past 16 years;
- **markets:** energy, automotive, healthcare, real estate.

Average length of the clearance procedure – 1,5 to 2 months

Only 2 transactions subject to conditional approval, both in the healthcare sector

- **relevant markets:**
 - the market for MRI and CT services in Arges County;
 - the market for hospital medical services for oncological conditions in Brasov County.
- the Competition Council looked into:
 - the effects of the transactions on the price level for healthcare services on the respective relevant markets;
 - ancillary aspects thereto, such as: the price for accommodation services (not covered by CNAS), charges collected as personal contribution of the patient (not covered by CNAS, nor subject to any price regulation), pressure exerted on the State budget for oncological patients (due to the envisaged increase in the number of patients on continuous hospitalisation), the reduction on the quality of the services;
- **commitments:** to maintain a certain price level for the hospital medical services for oncological conditions / for MRI and CT services, for a period of 5 years.

Romanian M&A - Romanian Competition Council - trends

| Key industries | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|--|---|
|  Energy / Oil&Gas | <ul style="list-style-type: none"> MET Holding AG – RWE Energie SRL | <ul style="list-style-type: none"> OMV Petrom Marketing – ART Petrol Service | <ul style="list-style-type: none"> Socar Petroleum – Aral M.T.B. Socar Petroleum – Ipeco Rompotrol Downstream – Comision Trade | <ul style="list-style-type: none"> Eurotransgaz S.R.L. and EBRD – Vestmoldtransgaz S.R.L. | <ul style="list-style-type: none"> Societatea Complexul Energetic Oltenia S.A. and Tinmar Energy S.A. – JV |
|  Consumer goods | <ul style="list-style-type: none"> Unilever / Betty Ice | <ul style="list-style-type: none"> Central Bottlings Company Ltd - Muller Dairy Ro Reinert - Kemper | <ul style="list-style-type: none"> Tchibo Coffee Service - Partner Coffee Services Givesco A/S - Sam Mills Business Investment Holding | <ul style="list-style-type: none"> Boer Family - Lacto Agrar SRL Scandia Food SRL - AGRA'S SA | <ul style="list-style-type: none"> Sam Mills Europe SRL și Sam Mills Feed SRL - Poultry Integration Farms SRL |
|  Healthcare & Pharma | <ul style="list-style-type: none"> Med Life – Polissano | <ul style="list-style-type: none"> Zentiva Group A.S. – Solacium Pharma Regina Maria – Premier Hospital | <ul style="list-style-type: none"> Help Net – Ecofarmacia Network / Farmaceutica Remedia / Tri Farm STADA Arzneimittel – Walmark Al Sirona - Alvogen | <ul style="list-style-type: none"> Sensiblu SRL – Optifarm Centrul Medical Unirea S.R.L. - Life Line - Medical Center S.R.L. | <ul style="list-style-type: none"> Terapia S.A. – Fiterman Pharma (Uractiv brand) Pavăl Holding S.R.L. / Roxana Zenovia Maftai - Farmacia Tei S.R.L. / Bebelei Investments Group S.R.L. Istanbul Memorial - Spitalul de Oncologie Monza S.R.L. |
|  Real estate / Construction | <ul style="list-style-type: none"> Xella RO – Macon | <ul style="list-style-type: none"> CRH Agregate – Pomponio HOLCIM Romania – Somaco Grup Prefabricate | <ul style="list-style-type: none"> AFI Holdco – Lakeview Building Dedeman – Cluj Business Center Dedeman - Upscale Development / The Bridge | <ul style="list-style-type: none"> ROMCIM – Euroagregate SRL Saint-Gobain – Starcin /Chryso România | <ul style="list-style-type: none"> Globalworth - Global Vision JV NEPI Rockcastle - Ploiești Shopping City S.R.L. CPI Property Group - S IMMO AG |
|  IT&C / Technology | <ul style="list-style-type: none"> Crescendo International - Bittnet Systems | <ul style="list-style-type: none"> Bouygues Energies & Services / Mirova – Axione | <ul style="list-style-type: none"> RCS&RDS – AKTA Telecom / Digital Cable Systems / ATTP Telecommunications | <ul style="list-style-type: none"> Kaseke Limited - High-Tech Systems & Software S.R.L. / Winsoft Suport S.R.L. | <ul style="list-style-type: none"> Glovoappro S.R.L. - Foodpanda Ro S.R.L. / Delivery Hero Dmart S.R.L. |

2023 Outlook

News and Rumours

Q1 2023 shows signs that this year could become the best year ever for the Romanian M&A market. Large deals are closed or are expected to be signed and closed in the first half of this year:

Recently Announced

Above EUR 200m:

- Sale of **Fortech** to GlobalLogic/Hitachi
- Bimbo acquired **VelPitar** – largest bakery company in Romania

Between EUR 50m and EUR 200m:

- The sale of the **green energy assets** owned by Jade Power Trust in Romania to Enery Power Holding
- **Goodies Meat Production** acquired by Smithfield Europe, the subsidiary of the US company Smithfield Foods
- Hefestos Capital acquired **Artrom Steel Tubes**, as a part of a regional deal involving the German division TMK EUROPE.

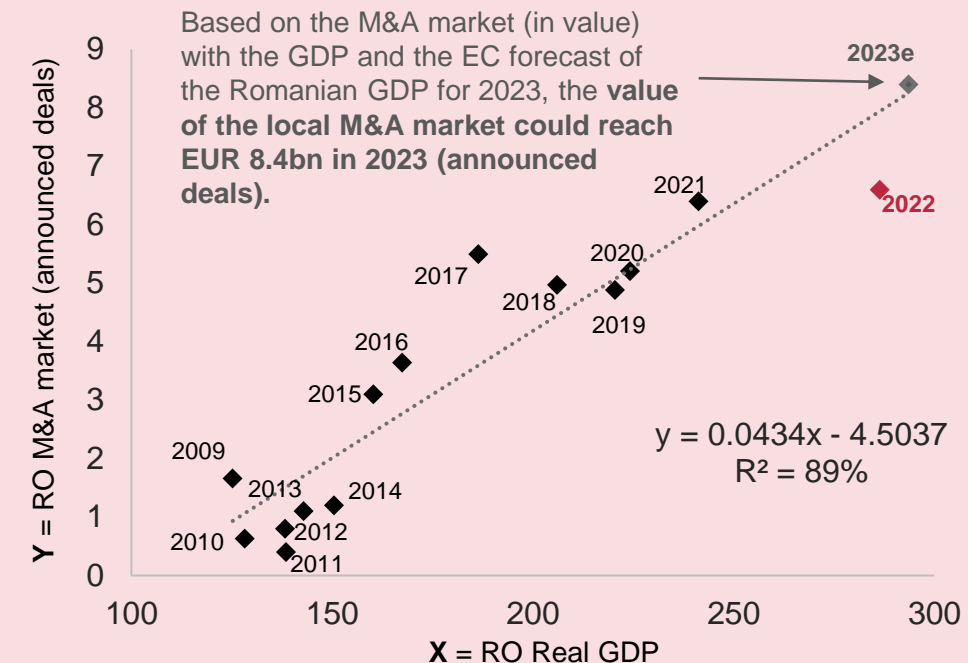
Between EUR 20m and EUR 50m:

- One United acquired **land** to develop One Cotroceni Towers
- TTS acquired **Decirom** - port operator in Constanta

Expected

- Key energy production and supply player in Romania
- Oil&gas company – exploration, refinery & retail
- Top meat production and processing company in Romania
- Leading FMCG retailer in Romania

Expectations



- Observing the tight correlation between the M&A market value in terms of deals announced each year and the Romanian GDP, **the local market could exceed EUR 8bn in announced deals 2023 (versus EUR 6.6bn in 2022).**
- **In our view, this theoretical target is attainable only if a new megadeal is announced...**

The background of the slide features a vibrant display of the Aurora Borealis (Northern Lights) in shades of green and blue against a dark, starry night sky. The lights are concentrated on the right side of the image, with some faint streaks visible on the left.

Thank you!

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