



AEQUO 

 Mergermarket
An Aequis company

TURNING TIDES: M&A IN UKRAINE

CONTENTS

03	Foreword
04	Key trends in Ukrainian M&A
05	M&A overview
08	Sector watch
15	An eye on private equity
16	The long-term outlook
18	Conclusion
20	About Aequo
22	About Mergermarket

DEAL METHODOLOGY

Deals within regular Mergermarket criteria have a transaction value greater than or equal to US\$5 million, except for some minority stake acquisitions where a higher threshold applies. If the consideration is undisclosed, deals are included on the basis of a reported or estimated deal value greater than or equal to US\$5 million. If the deal value is not disclosed and cannot be confirmed to be greater than or equal to US\$5 million, the deal is included if the target's turnover/revenue is greater than or equal to US\$10 million. If neither the deal value nor the target revenue is disclosed, Mergermarket will use other indicators to determine inclusion, including but not limited to number of employees of the target company, assets under management exceeding US\$200 million for the asset management firms, and value of assets/deposits exceeding US\$50 million for banks.

To capture a wider scope of the Ukrainian M&A market, for this report, some deals outside of the regular deal criteria have been included.

FOREWORD

A gradual economic recovery and a new wave of legislative and regulatory reform signal a brighter future for Ukrainian M&A

Dealmaking volume targeting Ukrainian firms increased in 2017, with economic stabilisation and planned reforms aiding M&A activity. Ukraine's recovery over the past two years has clearly shown that the country has enduring economic strengths and advantages as an investment destination. The economy grew by a steady 2.5% in 2017, a respectable performance given external and internal constraints, and GDP has now racked up eight consecutive quarters of growth following a two-year recession.

Domestic players have taken the lead in driving dealmaking, with local businesses taking advantage of the opportunities presented by economic and political change to consolidate sectors, including financial services and agriculture. International buyers have remained active, with businesses from countries as diverse as the US, France, and China making or planning acquisitions.

The financial services sector accounted for over a third of value and volume over the past four years as consolidation swept across the sector. Ukrainian investors are increasing their footprint, with the central bank's sector clean-up also influencing activity.

The energy, mining, and utilities industry has been another driver of M&A, catalysed by market liberalisation and sales of stakes in state-owned enterprises.

Activity in the historically strong agriculture sector has picked up in 2016-17, accounting for a third of overall value in that period, double that of 2014-15. Consolidation and vertical integration are ongoing trends, though Ukraine's huge agricultural potential is restrained by a moratorium on sales of agricultural land.



Meanwhile, technology, media, and telecoms (TMT) assets have attracted M&A thanks to a lively tech sector as well as local businesses' desire to expand media portfolios.

The past year has also seen a new wave of legislative and regulatory reform, including changes to the Supreme Court, company law, and the privatisation framework, as well as a proposed overhaul of corporate taxation. These all represent improvements to the investment environment, most of which should start to bear fruit in 2018. The new privatisation act has been followed by the publication of a list of around 100 state-owned enterprises in which the government will sell stakes, often majority holdings.

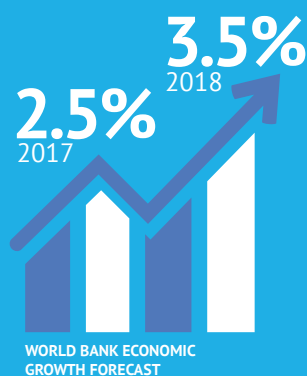
Ukraine's international partners are now urging further reform, particularly in anticorruption and the judiciary. With parliamentary and presidential elections due in 2019, political resistance to these tough processes may grow, but the government is anxious to ensure that the vital US\$17.5bn International Monetary Fund (IMF) deal is kept alive. Foreign investors, in particular, will hope that structural reform, market liberalisation, and international support continue.

KEY TRENDS IN UKRAINIAN M&A

M&A OVERVIEW



OUTLOOK



The Ukrainian economy is expected to see growth for the third consecutive year in 2018. The World Bank has forecast a 3.5% growth of Ukraine's gross domestic product. This compares to 2.5% growth in 2017

SECTOR WATCH

FINANCIAL SERVICES



The financial services sector continued to dominate Ukrainian M&A, accounting for 33% of total volume and 33% of total value in 2016-17



However, other sectors increased their share of total Ukrainian M&A activity, with agriculture accounting for 33% of total deal value in 2016-2017, up from 16% in 2014-2015

FOREIGN VS DOMESTIC



75% of deals in 2017 for Ukrainian companies also had a Ukrainian bidder as opposed to a foreign one – which is a record-high proportion of domestic deals

M&A OVERVIEW

A more conducive environment for M&A is emerging as the market continues its gradual recovery from the recession

Merger and acquisition activity in Ukraine increased in 2018 with 44 deals, a step up from the 41 transactions seen in 2016, while deal value increased by an impressive 57% to €554m. Yet despite greater political stability and the economy's ongoing recovery from recession, dealmaking activity is still well below levels seen earlier in the decade. Market volume peaked in 2012 with 91 deals, following 70 transactions in 2010 and 75 in 2011, while total value topped €3bn in both 2010 and 2013.

There was a significant shift towards domestic M&A activity taking place within the country in 2017, with 75% of deals changing hands between Ukrainian firms – the highest share on Mergermarket record.

THE STATE OF THE MARKET

Momentum in dealmaking activity has been sustained by continued economic growth, which outperformed expectations at 2.5% in 2017, up from 2.3% in 2016. The Oct–Dec period of 2017 was the eighth consecutive quarter of growth, following a savage recession in 2014–15. A benign international economic environment has helped this progress, with the European economy continuing to grow, Russia's recovering, and major emerging markets not yet experiencing a “hard-landing” after years of driving global growth. With several major central banks maintaining an open monetary policy, global liquidity is high.

However, Ukraine's economic performance remains well below its potential. The conflict in the resource-rich east of the country and Russia's annexation of Crimea have caused considerable economic damage and deterred security-conscious investors.

Yet despite these ongoing challenges, optimism in the market remains. “We believe M&A activity is likely to pick up in 2018 compared to 2017, a



“We believe M&A activity is likely to pick up in 2018 compared to 2017, a trend we already saw in the final quarter of last year,” says Denis Lysenko, managing partner at Aequo. “This is due to the overall stabilisation of the Ukrainian economy, including FX stabilisation.”

Denis Lysenko, Managing Partner, Aequo

trend we already saw in the final quarter of last year,” says Denis Lysenko, managing partner at Aequo. “This is due to the overall stabilisation of the Ukrainian economy, including FX stabilisation. The government is negotiating with the IMF and European Commission, and it seems keen to meet the requirements by multinational financial institutions to get access to funding within this year.”

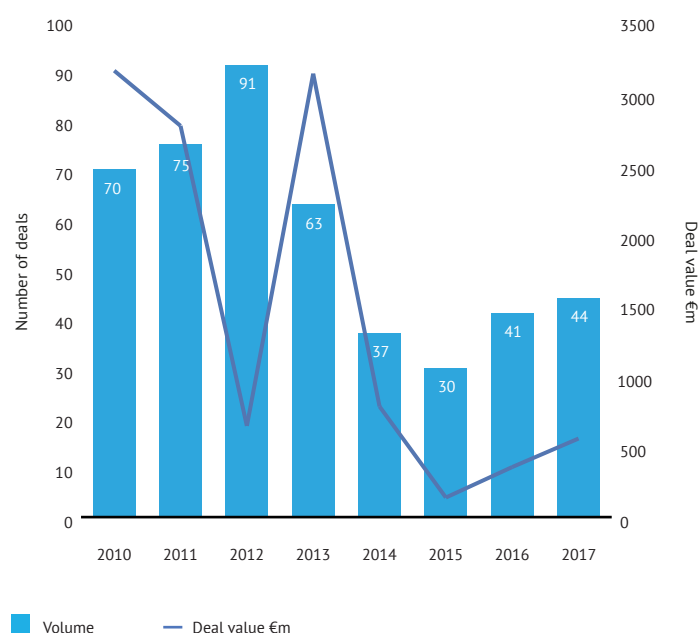
REFORMS IN THE PIPELINE

Much of this optimism is underpinned by ongoing reform programmes aiming to boost economic progress. A new privatisation law consolidates existing legislation and should help make future sales of state-owned assets more transparent, with international arbitration for disputes.

Changes to the Supreme Court implemented in 2017 should make the body more professional, bring in private sector experience, and address some concerns about corruption. In February 2018, the government adopted a new law on limited liability companies that replaces outdated Soviet-era legislation. The law proposes a comprehensive and flexible corporate governance regime in LLC, the most popular company form in Ukraine. It substantially liberalises the mandatory regime: shareholders are free to agree upon their own rules in the charter, subject to certain default rules provided by law. It is aimed at keeping a balance in protecting majority and minority shareholders in an LLC and fixes a lot of practical problems and loopholes of post-Soviet legislation, which allowed corporate raids or deadlocks by dishonest participants. Meanwhile, the National Securities and Stock Market Commission is in the process of drawing up reforms to capital market infrastructure that will effectively relaunch Ukraine’s stock market, says Anna Babych, partner at Aequo.

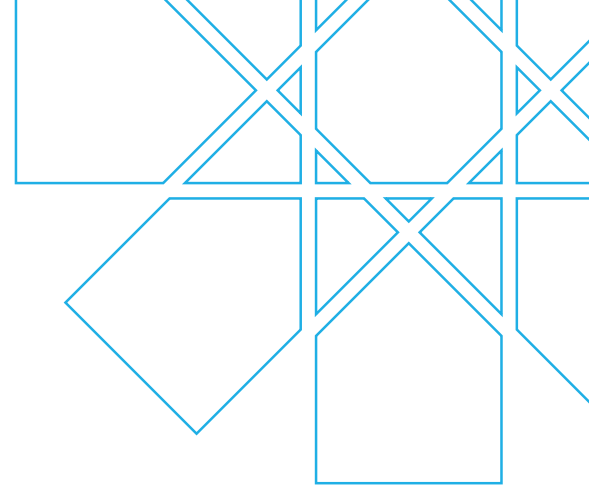
At the end of 2017, the government approved a draft law which would replace corporate income tax with a tax on profit distributions.

Ukraine M&A, 2010-17

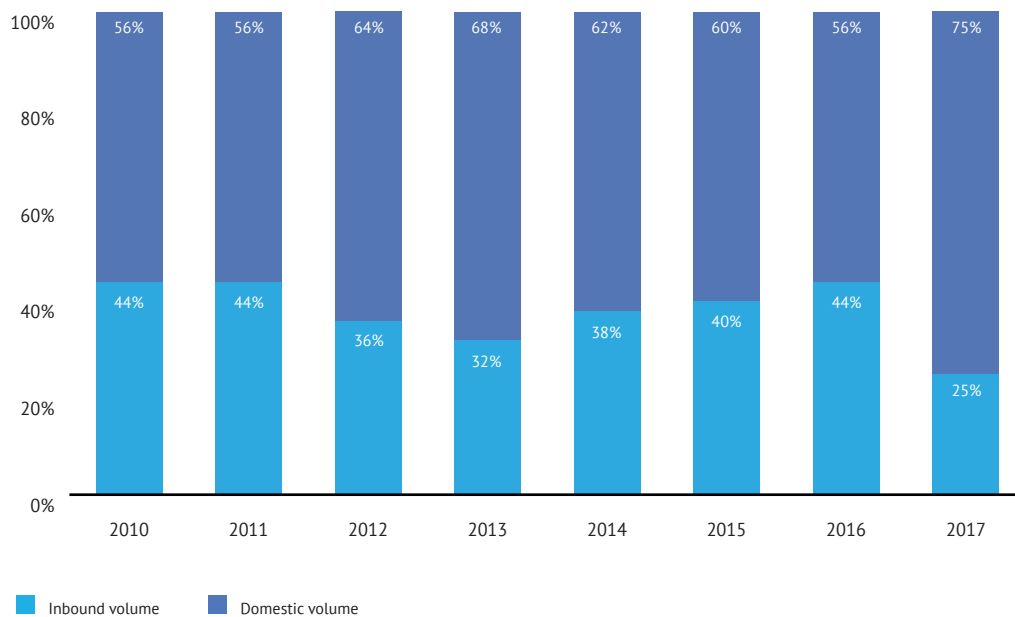


This essentially provides tax relief on reinvested profits. The change is expected to improve Ukraine’s investment profile and limit the flow of funds offshore. While it is likely to lower tax revenues in the short term, the expectation is that in the medium term improved company growth will offset this. The bill, however, is not expected to be enacted until at least 2019.

Yet the reform process in Ukraine has not all been smooth sailing. A lack of progress in establishing an anticorruption court has led to the IMF delaying its disbursements to Ukraine under a US\$17.5bn four-year deal, signed in February 2015. This has in turn blocked European Union funding for Ukraine, which is not a member of the bloc but has close relations with it. In March 2018, a European Commission official said that a new €1bn EU package of macro-financial assistance would only be provided if Ukraine met IMF requirements.



Share of inbound M&A by deal volume, 2010-17



The central bank, the National Bank of Ukraine (NBU), has said that IMF financing being frozen is one of the biggest risks to the country's financial stability in 2018. Aside from the importance of the external funds, investors have long seen corruption as one of the biggest downsides to doing business in Ukraine. Progress in anticorruption efforts is an important factor in attracting more investment.

Newly-imposed reforms such as the recent privatisation law and proposed stock market reforms should help to significantly strengthen the business environment in Ukraine, particularly for foreign investors, and could support an increase in M&A activity over the coming years. Nonetheless, downside risks remain from stalled reform, the ongoing security situation in the country, and the structural vulnerabilities of the global economy. With hotly-contested presidential elections due in

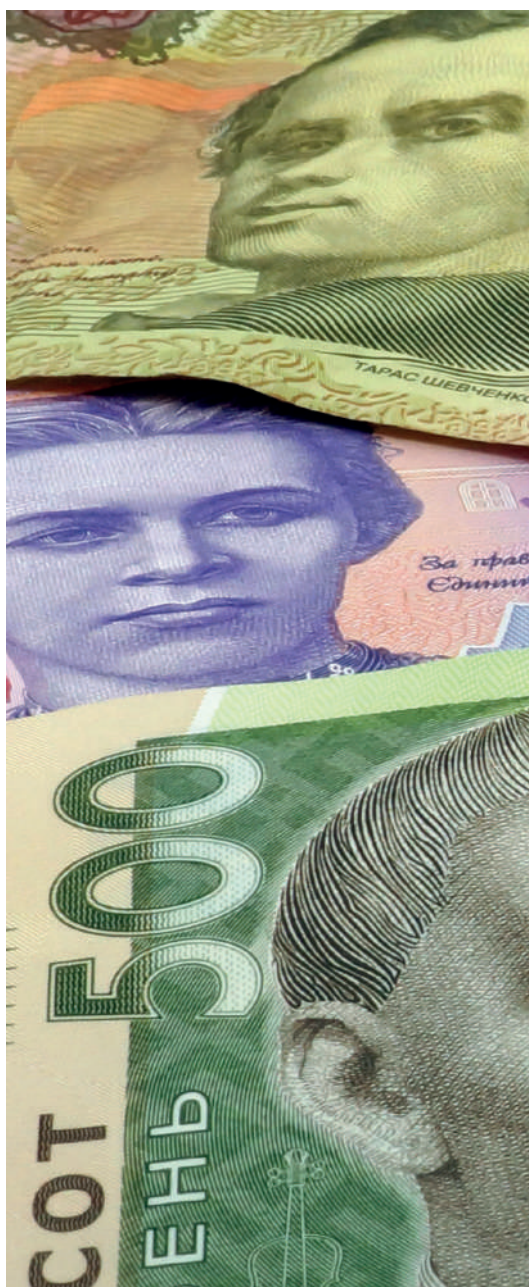
2019, the government is already moving onto an election footing, which may cause further delays to reforms and fiscal consolidation.

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Anna Babych, Partner, M&A, Corporate, Capital Markets, Aequo

SECTOR WATCH

The financial services and energy, mining & utilities sectors remain important drivers of M&A activity in Ukraine, while previously less active sectors are becoming increasingly prominent



FINANCIAL SERVICES

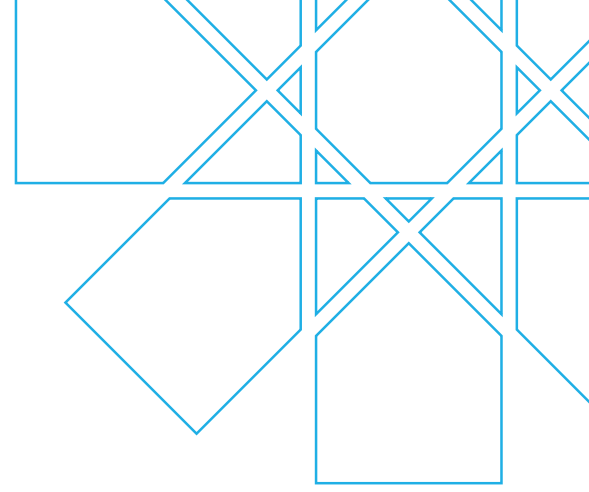
The financial services sector remains the backbone of M&A activity in Ukraine, accounting for 33% of volume and overall M&A value in 2016-17; having contributed 37% and 42% respectively in 2014-15. Consolidation in the banking sector has become commonplace, as foreign owners have sold Ukrainian subsidiaries to focus on other regions and decrease their exposure to the country's risk factors. Meanwhile, local businesses have proved keen buyers. Intra-group restructurings have been another factor behind dealmaking.

The serious financial difficulties experienced by Ukrainian banks during the recession have driven up non-performing loans (NPLs), which accounted for an eye-watering 55% of the total loan portfolio in late 2017, according to the NBU. The central bank has undertaken a clean-up and recapitalisation of the sector as a result.

The highest-valued deal targeting the sector in 2017 was the €13m acquisition of Lviv-based VS Bank by Kyiv-based PJSC TAScombank from Russia's Sberbank. TAScombank's owner, businessman and former minister Serhii Tihipko, plans to merge the two banks, and said that the acquisition significantly boosts TAScombank's capital. Tihipko has stated that his TAS Group is also seeking to purchase distressed debt portfolios.

After a period of strong activity, M&A in the financial services sector may slow in the coming years, partly due to the completion of the latest round of consolidation, and fewer targets being available. Regulatory barriers are also an impediment to dealmaking.

"I would say that the tide of financial institutions' M&A is subsiding slightly, because



many of the banks were acquired in the past three years, either through share transactions or asset transactions,” says Lysenko. “The banks remaining on the market that are up for sale are subsidiaries of Russian banks. There is a complication related to sanctions imposed by the Ukrainian state and the various regulatory hurdles for potential buyers to acquire these banks. We have seen a number of failed attempts to buy so far – failed for regulatory and compliance reasons.”

ENERGY, MINING, AND UTILITIES

With its substantial mining resources, government efforts to liberalise markets and boost production from significant oil and gas reserves, and its strategic position on European energy transit routes, Ukraine’s energy, mining, and utilities (EMU) sector has become an important driver of dealmaking in recent years. EMU accounted for 14% of deal volume and 23% of overall value in 2016-17, and 12% of volume and 29% of value in 2014-15.

The second highest deal of 2017 targeted the EMU sector, the €98m acquisition of Evraz Sukha Balka (ESB) by Berklemond Investments from Evraz, a metals and mining company. ESB has one of Ukraine’s largest iron ore mines, extracting 2.5m tonnes of lumpy ore in 2016, and operates an ore enrichment plant with an annual production capacity of around 3.1m tonnes of iron ore. In 2016 the company generated revenue of US\$125m on gross assets of US\$238m, running a loss before tax of US\$5m. Berklemond is part of DCH Group, owned by prominent businessman Oleksandr Yaroslavsky.

Ornex, a member of the SCM group, went on an acquisition spree in 2017, with the firm

conducting four out of the top ten Ukrainian deals announced over the year.

The firm acquired a 25% stake in Zakhidenergo, a major electricity producer focusing on Western Ukraine, in a deal valued at €16m. Ornex bought the stake from the government’s State Property Fund via the PFTS Stock Exchange, at the same time taking a 25% stake in Kyivenergo, another electricity company based in the capital. Two days previously, Ornex had acquired 25% of electricity transmission and distribution company DTEK Donetskoblenergo PJSC for €5 million. SCM is owned by Ukrainian tycoon Rinat Akhmetov, and the acquisitions gives it a majority stake of more than 90% in each of the companies. SCM transferred the DTEK Dniproenergo stake from Cyprus-based Ornex to GPL Ingen Power, another Cyprus company, later in the year for €33m. In our 2017 report ‘Rising to the challenge: M&A in Ukraine’, we predicted that the long-awaited sale of stakes in electricity companies would lead to an increase in acquisitions.

Transactions in the electricity industry have been catalysed by market liberalisation implemented to meet EU energy regulations, following similar reforms to the gas market passed in 2016. Deregulation of the upstream oil and gas industry was relaunched in 2017, with regulatory procedures simplified, and could provide a further boost to investment.

The EMU sector will continue to be one of the most active sectors for M&A in 2018, with the renewables segment seeing lively interest from investors, including Chinese businesses. “The regulatory regime is, in principle, quite favourable and is already being used by a number of players in the wind development



sector, as well as solar,” says Lysenko. A range of utilities companies have been lined up for privatisation and part-privatisation in 2018, including combined heat and power plants and power distribution outfit Kharkivoblenergo.

AGRICULTURE

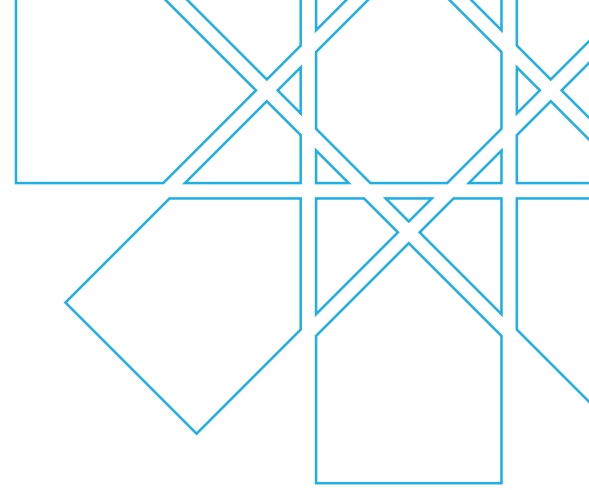
Agriculture generated 8% of deal volume in 2016-17, the same level as in 2014-15, while its contribution to overall value doubled from 16% to 33%. With a vast area of arable land, Ukraine is one of Europe’s agricultural powerhouses, and is one of the world’s top ten wheat and sunflower producers and exporters.

The sector attracted the highest-valued deal of 2017, and the only transaction topping €100m

– the €127m acquisition of a 92.1% stake in Ukrainian Agrarian Investments (UAI) by Kernel Holding. Warsaw-listed Kernel is one of the biggest agribusinesses in the Black Sea region, focusing on sunflower oil in particular, and the acquisition of UAI fits its strategy of building up its land bank.

Ukraine’s strengths as an agricultural producer are likely to see continued activity targeting the sector. Consolidation of both farming and processing is ongoing, with bigger domestic players looking to acquire smaller and medium-sized companies.

One barrier to investment is a moratorium on the sale of agricultural land, which was extended by



another year in December 2017. The ban means that Ukraine's agricultural land, which totals more than 40m hectares, cannot be bought or sold, but must be leased from its current owners. This has made consolidation of fragmented land holdings difficult, and deterred investors.

"Abolishing the moratorium will definitely have an impact," says Babych. "The sooner the law allows the sale of agricultural land, the more transactions we will see. I'm not sure whether we will see it before the elections in 2019, but after, hopefully it will be lifted. The bottom line is that this reform will contribute a lot to activity in agriculture."

CONSUMER

The consumer sector has been dominated by smaller-value transactions over the past two years, accounting for just 4% of value and 13% of volume in 2016-17, and 3% of value on 12% of volume in 2014-15. High inflation eroding real incomes, and the impact of the recession and uncertainty, have had an impact on consumer spending and confidence. However, companies in the fast-moving consumer goods (FMCG) sector are better placed to ride out turbulence than most.

Significant transactions included a group of private investors taking a 25% stake in West Oil Group (WOG), which operates petrol stations. The company has become known for its innovative marketing campaigns and diversified service offerings (particularly its cafés), and saw its sales double in 2015 in a very difficult macroeconomic environment.

The outlook for activity in the sector, however, is brightening. Consumer companies top our heat map of "for sale" stories over the past six months, with six companies potentially going on the block. On the acquisition side, investors may be looking to tap into recovering growth, while targets could include companies that have struggled to recover from the recession.





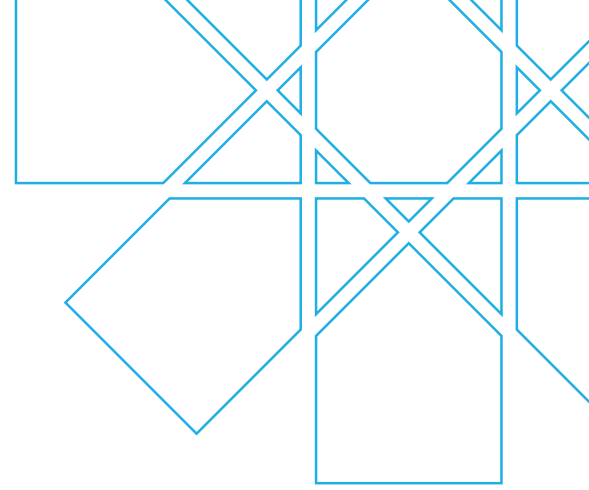
INDUSTRIALS AND CHEMICALS

Ukraine has a large industrial base, though this has been affected by the conflict in Donbas, which has a significant proportion of the country's heavy industry as well as mineral resources. The sector accounted for 4% of deal volume in 2016-17, down from 9% in 2014-15.

Industrial production fell 0.1% in 2017, with the rate of growth fluctuating from month to month. It had previously grown 2.8% in 2016, following four consecutive years of contraction. The benefits of a trade agreement with the EU, which entered into force in 2014, have not offset the impact of the loss of productive assets in (and economic links with) territories in the east of the country, or Russian trade restrictions.

Statistics suggest that new industrial capacity is coming onstream, with nearly 100 new factories opened in 2016-17, driven largely by the expansion of domestic companies rather than FDI. However, there could be a substantial surge in deal value in 2018. The government is preparing several major companies for privatisation and part-privatisation, including the Odessa Port-Side Plant and Sumykhimprom chemicals companies, and metals producer Zaporozhye Aluminum Combine.

Further upsides to the sector could come from restored central government control over Donbas, or at least restored links with the region. After a challenging few years, distressed assets may also offer opportunities.



TECHNOLOGY, MEDIA, AND TELECOMMUNICATIONS

The TMT sector has proved relatively resilient to the turbulent past few years. TMT accounted for 11% of deal volume in 2016-17, down from 13% in 2014-15, with its contribution to total value dropping from 4% to 2%. The telecoms industry is relatively “recession-proof”, while Ukraine’s burgeoning tech segment is less affected by political instability, and as it is export-oriented, the domestic economic situation.

The sector has seen an increased amount of activity in the tech start-up space. There were two significant publically-announced deals in 2017, the largest being the €4m investments raised by unmanned flight technology manufacturer Drone.UA by investors from the UK, Poland and Moldova. The company aims to channel a third of its profits into R&D, and focuses on drones used in agriculture.

In May 2017 Ukraine’s largest cable telecoms company announced the acquisition of smaller counterpart, Airbites, for around €2m, with a view to increasing its footprint in western Ukraine.

OTHER M&A ACTIVE SECTORS

The Real Estate M&A market is experiencing a pick-up in activity. In June 2017, leading Ukrainian investment bank Dragon Capital acquired the remaining 67.27% stake in Dragon Ukrainian Properties & Development, listed on London’s AIM exchange, for €6m. Dragon is active in the real estate sector and, in January 2018, announced a bid for a majority stake in Irpin-Budproekt-Plus, which operates an office complex in Kyiv, valued at around US\$27m.

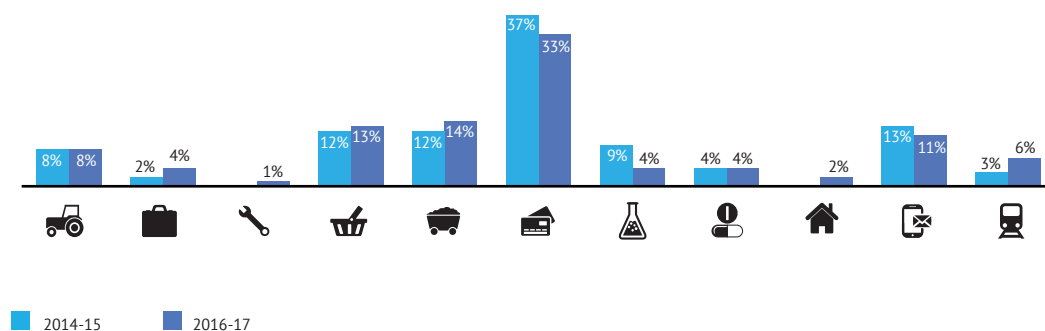
“There has been a pick-up in commercial real estate deals, which is due to the fact that pricing reached levels acceptable for buyers, or at least the less conservative buyers in the market. In particular, we are happy to have assisted Dragon Capital, our long-standing client, with a number of recent landmark transactions, which mark the steady revival of the Ukrainian commercial real estate market.”

Denis Lysenko, Managing Partner, Aequo

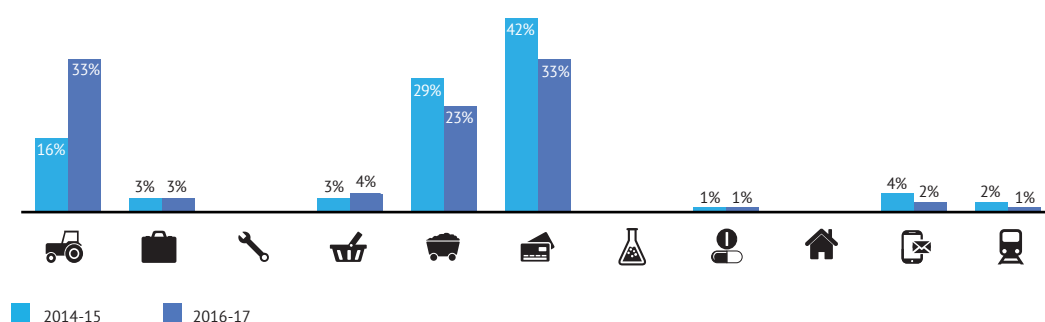
Distressed real estate assets have become an increasing focus of interest for investors across Central and Eastern Europe, and this may be a market with potential in Ukraine as well. New privatisation and proposed taxation legislation is expected to boost investment, raising demand for office space as businesses expand or open operations in Ukraine. An improved investment environment should provide a lift to the economy as a whole, with a knock-on effect for the property market, which is strongly influenced by overall confidence.

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M&A volume 2014-17, split by sector



M&A value 2014-17, split by sector



Key:

-  Agriculture
-  Business Services
-  Construction
-  Consumer
-  Energy, Mining & Utilities
-  Financial Services
-  Industrial & Chemicals
-  Pharma, Medical & Biotech
-  Real Estate
-  TMT
-  Transportation

AN EYE ON PRIVATE EQUITY

As growth has returned to the CEE region, private equity (PE) funds have become increasingly active in seeking targets in sectors as diverse as banking, manufacturing, and telecoms. The conflict in the east of Ukraine, political deadlock and recent economic volatility have all counted against the country. Yet confidence is returning, and the nature of PE limits some of these risks. The improving macroeconomic outlook is one factor, while the government's reforms to legislation on privatisation, corporate governance and shareholder protection in joint stock and limited liability companies all strengthen the environment for PE.

PE activity in Ukraine has remained steady over the past three years, with four deals a year announced in 2015-17. PE deals in 2017 included Dragon Capital's purchase of a minority stake in digital shipbroking platform ShipNEXT, launched by shipowner Alexander Varvarenko. Dragon also acquired television and radio station Radio Era as part of its strategy of expanding its media portfolio. The year also saw some PE exits to strategic investors, including retailer Epicenter K's acquisition of retail real estate developer Cantik.

"We are seeing a lot of activity," says Babych, "suggesting that PE activity is more resistant to local risks. The reform of corporate law will allow PE owners to tune-up corporate governance in their targets, and invest better than they have before."

Elsewhere in the region, PE investors have taken an interest in privatisations, and the potential sale of some mid-sized, state-owned companies in Ukraine may attract international PE in the near future. However, insufficient progress in judicial reform is a concern for funds, as the current system has downside risks for security of ownership and dispute resolution, and corruption is a concern for those looking to expand businesses in Ukraine.



"We are seeing a lot of activity, suggesting that PE activity is more resistant to local risks."

Anna Babych, Partner, M&A, Corporate, Capital Markets, Aequo

THE LONG-TERM OUTLOOK

From economic recovery to increased transparency in privatisations to a potentially rejigged tax code, there are four influencing factors which will determine Ukrainian M&A activity over the coming year

1 ECONOMIC GROWTH AND POLITICAL REFORM

Ukraine's economy is expected to grow for the third consecutive year in 2018, with economists forecasting around 3.5%. While low by the standards of past boom years, the steady recovery is strengthening investor and consumer confidence. Inflation should fall from a troubling 13.7% in 2017, but may remain in double figures, eroding real incomes and making monetary easing difficult. Disrupted trade with Russia and connectivity with the east of the country and Crimea will continue to weigh on growth potential.

Other than a worsening in the security situation, one of the biggest downside risks to economic prosperity is from international financial backers freezing payments that have helped drive reform and underpin macroeconomic recovery. The IMF and EU have already delayed financing over a lack of progress with anticorruption efforts.

After a period of impressive legislative activity to improve the business climate, the government may have less political space to push forward reform with presidential and parliamentary elections due in 2019.

Nonetheless, the benign international climate should support the continued recovery, and significant improvements to the business environment may start to bear fruit in investment in 2018.

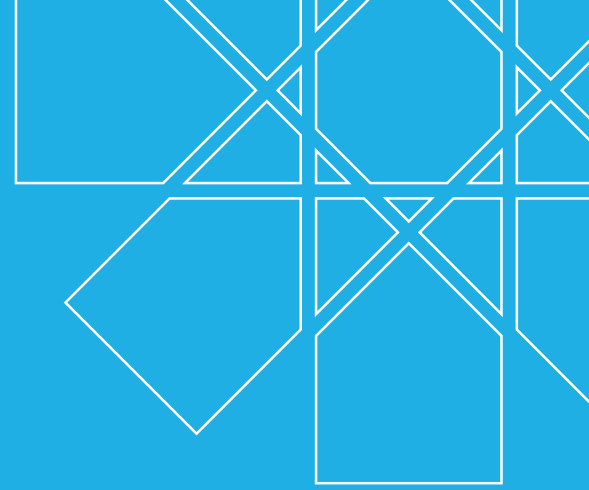
2 PRIVATISATION OUTLOOK

One of the most significant recent reforms is the new privatisation law passed in November 2017. The legislation makes privatisation processes more transparent and faster, consolidating a range of outdated laws into a single new piece of modern legislation. Among its provisions, the law makes it obligatory to bring in international advisers on larger privatisations, via a tender process. It also allows the State Property Fund (SPF) to cut sale prices for assets if initial valuations are not met at auction.

"The law opens up new opportunities for selling state assets under transparent procedures," says Lysenko. "In particular, there is a category created for bigger companies with assets in excess of €7.5 million, which provides an opportunity to offer them for sale via internationally-known investment advisers. For smaller privatisation targets, online auction procedures will apply."

"We have a few large enterprises which may still be attractive to foreign investors. These may not have a huge impact on M&A, but the privatisation law definitely brings greater transparency for international investors, and it will add to the general positive impression of Ukraine."

Anna Babych, Partner, M&A, Corporate, Capital Markets, Aequo



He adds that the legislation will also bolster confidence by allowing for international arbitration of disputes, taking it outside the yet problematic Ukrainian judicial system. The government is now also considering applying foreign law – potentially English law – to privatisation contracts.

In December 2017, the SPF approved a list of nearly 100 companies earmarked for privatisation in 2018. It included Centrenerg and other energy utility companies, the giant Odessa Port-Side Plant chemical complex, and Sumykhimprom, another chemicals company.

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3 **SECTORAL OPPORTUNITIES**

If these privatisations are implemented as planned, they should provide a boost to the EMU and industrial and chemicals sectors in particular. Reforms in recent years have seen lively activity in the EMU sector, and ongoing liberalisation, efforts to boost domestic oil and gas production and a favourable environment for renewables should continue to support dealmaking.

In the TMT sector, technology and outsourcing are likely to remain attractive to investors, capitalising on a large skilled workforce, a range of innovative start-ups, and low costs. The sector has remained largely unpoliticised, though the same cannot be said of media, where political issues have influenced sales in recent years, as elsewhere in CEE.

Finally, investors are looking to capitalise on Ukraine’s agricultural potential. Activity has been driven by local players, but an end to the moratorium on agricultural land sales could bring in more international businesses, though the ban seems unlikely to be lifted before the 2019 election season.

4 **LEGAL REFORMS**

Allowing the moratorium on agricultural land sales to lapse could have a significant impact on M&A activity in the medium term, given the sector’s competitive advantages. Investors will also be keen to see the establishment of an effective anticorruption body, not only to address one of the thorniest problems facing businesses in Ukraine, but to ensure that the country continues to receive the international funding that has helped restore macroeconomic stability and encourage structural reform.

The government’s report card on reform thus far is good, with the new privatisation law, changes to company legislation, and a proposed rejigged tax code that promotes investment in the country all playing a part in strengthening the business environment. Changes to the Supreme Court are meant to lead to a wider-ranging overhaul of the judiciary that would address one of Ukraine’s biggest weaknesses.

“A reborn legal system will have a lot more confidence from investors than the old system used to have,” says Babych.

CONCLUSION: TURNING TIDES

The worst of Ukraine's economic crisis is now behind it, and steady GDP growth over the past two years is set to continue in 2018. The robust performance of the global economy will help, as will recovering domestic confidence.

A recent wave of reforms, from energy market liberalisation to proposed corporate taxation changes, are a significant upside for the investment environment and bode well for further reform efforts. Improved tax legislation, in particular, would encourage inward investment.

Meanwhile, the new privatisation law has greatly strengthened the framework for sales of state-owned enterprises, and should prove a catalyst for sales of stakes in dozens of significant companies, particularly in the EMU and industrials and chemicals sectors. Most of these may not prove to be game-changers individually. However, some of the assets will be attractive to international investors, and the message that Ukraine is open for business is an important one.

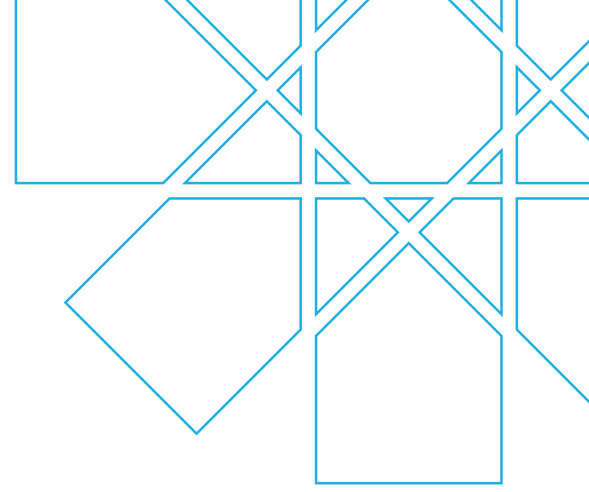
Yet security and political challenges still loom large, and the threat to macroeconomic stability from the freezing of international funding is significant. The failure to establish a robust anticorruption body that led to this situation is a concern in itself, as is insufficient progress in overhauling the judiciary. Looming elections in 2019 may further delay some difficult changes.

The consumer sector ranks top on our heat map, with six stories reporting assets for sale. Distress may be one driver: economic pressures on retailers across Europe have been particularly acute in Ukraine, which has experienced two recessions in the past ten years. On the other hand, some consumer sector companies, particularly FMCG and tech-based businesses, have ridden out economic turbulence well, and offer good growth

Ukraine M&A heat chart

Sector	Number of stories for sale
Consumer	6
Transportation	3
Energy, Mining & Utilities	3
TMT	2
Financial Services	2
Leisure	1
Government	1
Real Estate	1
Agriculture	1
Industrials & Chemicals	1

*Company for sale stories tracked by Mergermarket between October 11, 2017 – April 10, 2018



potential for investors. While the financial sector is not expected to see as much activity as in past years, there are still assets available from investors looking to withdraw from the market, with regulatory barriers being the main obstacle to dealmaking.

“The general increase in economic activity will be a driver for M&A in 2018,” says Babych. “Ukraine is seeing an improvement after years of political and economic crisis. Investors are gaining confidence in the sustainability of Ukraine’s development. And one of the underlying reasons for this is the reform process. The new legislation is up-to-date and has some advanced corporate tools, allowing clear and transparent investments in Ukraine, with standards aligned with the EU.”

ABOUT THE FIRM

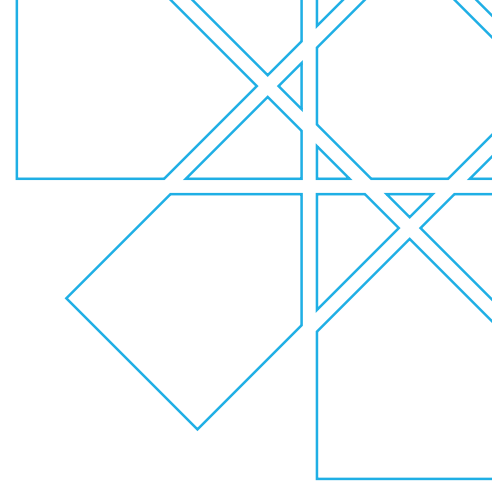
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CONTACT



Denis Lysenko

Managing Partner, M&A,
Antitrust & Competition, Tax
T: +38 044 490 91 00
M: +38 050 332 64 31
E: lysenko@aequo.ua



Anna Babych

Partner, M&A, Corporate,
Capital Markets
T: +38 044 490 91 00
M: +38 050 352 13 47
E: babych@aequo.ua

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For more information, please contact:

Simon Elliott
EMEA Managing Director, Acuris Studios
Tel: +44 20 3741 1060

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