



# CEE VIEW

INBOUND M&A REPORT 2018/2019



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# FOREWORD

The Central and Eastern Europe (CEE) M&A market delivered exceptional value and opportunity for dealmakers in 2018. Even though M&A activity in Russia, the region's largest economy, has tumbled due to sanctions and geopolitical tensions, overall CEE deal value is down by just 1% and deal volumes have only fallen by 7%. When the impact of the current Russian situation is stripped out, the robust performance and attractiveness of M&A in the region is evident, notably when speaking about countries like Austria, Poland, the Czech Republic, Romania, Hungary or the Adriatic region.

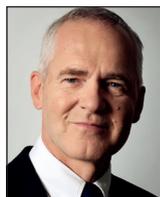
The stability of the CEE M&A market is even more pronounced when compared to other emerging markets such as Africa, Latin America and South East Asia, which have all seen year-on-year deal value fall by more than 20%. In addition, the region, unlike more mature Western European markets, offers opportunities for off-market deals and reasonable pricing in economies that are growing at an average of more than 3%. This provides compelling risk/reward dynamics for any M&A investor; a fact borne out by the significant inbound investment into the region. Even though inbound deals into Russia have plummeted, money has poured into the rest of the region with inbound deal value more than doubling in 2018 to just under €27 billion.

CEE certainly has much to offer to international investors coming from Western Europe, the USA, China or even South Africa. In addition to faster economic growth than the so-called "Old Europe" allowing an economic catching-up, CEE also has lower wage costs and a skilled, multilingual workforce. Economies are diversified, with opportunities available in everything from industrials and energy through to financial services, consumer and leisure. The region's tech scene, meanwhile, is on the cusp of a huge growth phase as investment in technology skills and digital infrastructure starts to pay off. Large multinationals, SMEs, as well as Private Equities investing in CEE can generally expect good returns on investments with satisfactory margins. Traditionally considered as a subcontracting geographical area, CEE now has a growing middle class, which allows international groups to maximise their profits within the region thanks to this new rising domestic consumption.

These are, of course, uncertain times macroeconomically given factors such as Brexit or ongoing trade wars at the global level, and jurisdictions within CEE are navigating their way through political headwinds. However, despite these challenges, the region has proven to be a credible and growing market for international and domestic players. Its deal market has performed strongly in 2018 and is well-placed to continue doing the same in 2019.



Fabrice Demarigny  
Mazars  
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# **THE M&A MARKET IN CENTRAL AND EASTERN EUROPE**

# THE DEALMAKING LANDSCAPE

## The region has generally remained stable at a time of global macroeconomic and geopolitical uncertainty, despite the downturn in Russia

As the continuing impasse between the UK and EU over Brexit casts a shadow across Europe, the Central and Eastern region's M&A market delivered a remarkably steady performance for dealmakers in 2018.

M&A deal value for the region last year came in at €47 billion, only marginally lower than in 2017. Deal volume decreased by 7% compared with 2017, to a total of 701. However, it is worth noting that if Russia, hit by sanctions and worsening relations with the EU and US, is excluded, volumes are in line with previous years.

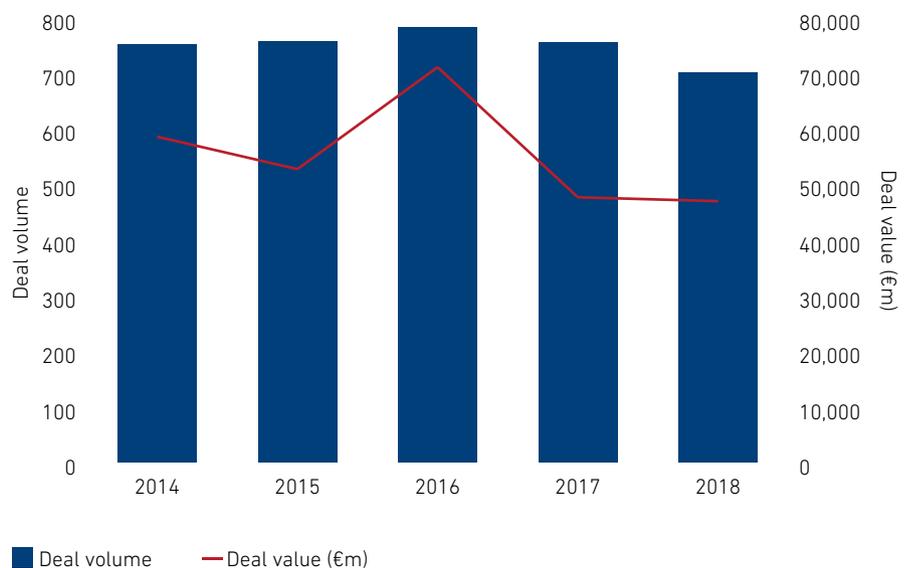
Meanwhile, value splits show that inbound deals from outside the region made up the bulk of the total (58%) more than double 2017's total. For more on inbound dealmaking into the region, see Chapter 2, page 18.

"CEE showed itself to be a stable region for M&A investment in 2018," says Jan Fido, Director of Financial Advisory Services at Mazars in Poland. "The decrease in volume and value was very small and it is important to point out that there have been some megadeals over the last 24 months that skew comparisons." He adds that it is typical for a number of deals to have undisclosed values, which indicates that the market could be even stronger than headline figures suggest.

### Solid foundations for growth

Sustained economic growth, favourable demographics, attractive wage dynamics and close ties with non-CEE markets have provided a solid foundation for M&A activity in the region. According to the Italian banking group Unicredit, the region's economies delivered average GDP growth of 4.6% in 2017 and 3.2% in 2018, outpacing the EU-28, where growth has come in at less than 3%. And with Unicredit forecasting growth of 3.2% in 2019, the outlook for dealmaking remains positive.

Total CEE M&A market



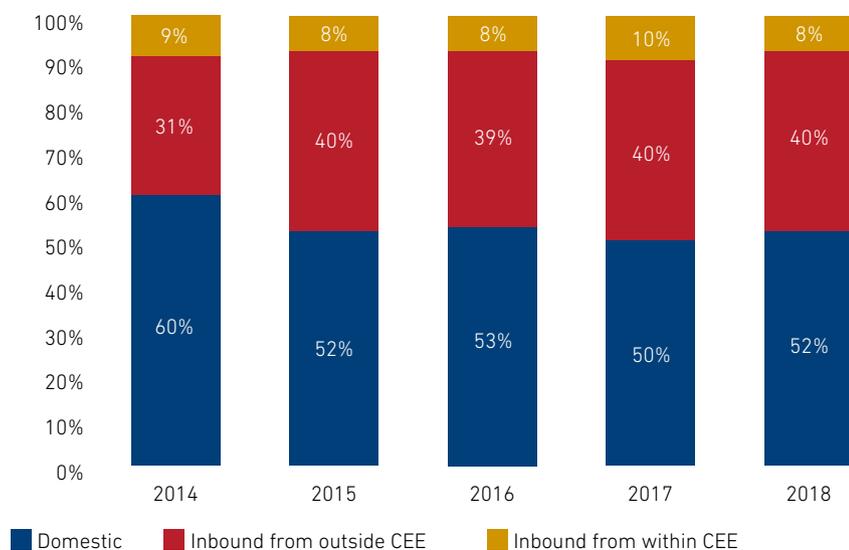
**CEE SHOWED ITSELF TO BE A STABLE REGION FOR M&A INVESTMENT IN 2018. THE DECREASE IN VOLUME AND VALUE WAS VERY SMALL AND IT IS IMPORTANT TO POINT OUT THAT THERE HAVE BEEN SOME MEGADEALS OVER THE LAST 24 MONTHS THAT SKEW COMPARISONS."**

JAN FIDO, FINANCIAL ADVISORY SERVICES DIRECTOR AT MAZARS IN POLAND

**IN SOME COUNTRIES, GDP GROWTH HAS BEEN ALMOST DOUBLE THAT OF THE EU. THERE IS STILL A GAP IN HOURLY LABOUR COSTS COMPARED TO OTHER EUROPEAN COUNTRIES, BUT WE HAVE ALSO SEEN A SIGNIFICANT INCREASE IN HOUSEHOLD SPENDING AND AN EMERGING MIDDLE CLASS."**

RĂZVAN BUTUCARU, FINANCIAL ADVISORY SERVICES PARTNER AT MAZARS IN ROMANIA

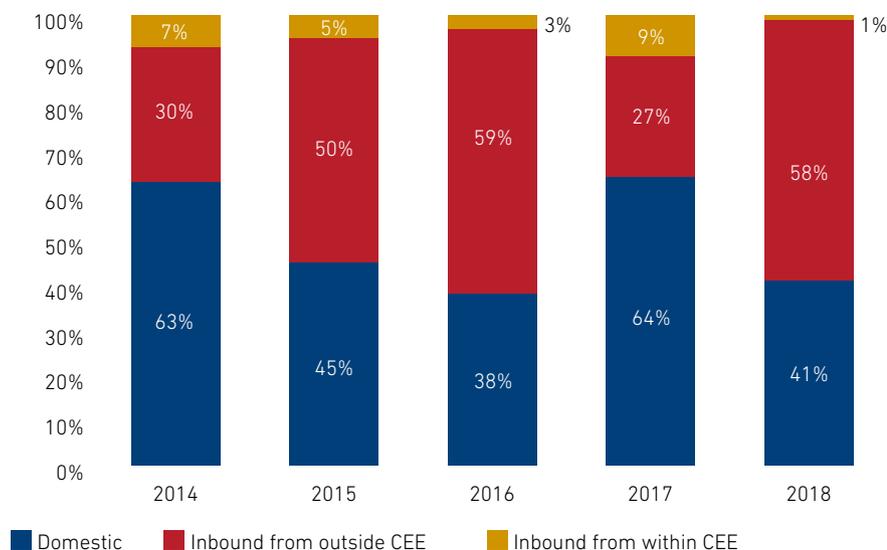
### CEE M&A market volume – domestic vs. inbound deals



Economic growth has supported lower unemployment across the region and the development of the middle class has driven an increase in domestic consumption, supporting growth in the consumer, retail and technology sectors alongside CEE's core strengths in manufacturing, industrials and energy & utilities. Moreover, CEE remains a competitive, export-led region with attractive wage dynamics. Average salaries in countries such as the Czech Republic, Croatia, Slovakia, Poland, Hungary or Romania have grown in recent years but remain below the EU average.

"In some countries, GDP growth has been almost double that of the EU. There is still a gap in hourly labour costs compared to other European countries, but we have also seen a significant increase in household spending and an emerging middle class," says Răzvan Butucaru, Financial Advisory Services Partner for Mazars in Romania.

### CEE M&A market value – domestic vs. inbound deals



### Big deals

The major deals across the region last year reflect the growth in sectors outside the traditional areas of strength, with deals in retail, pharmaceuticals and financial services all represented. "CEE is becoming much more of a diversified economy," says Butucaru. The top ten deals also show the increasing interest of inbound buyers in the region, with six in 2018 coming from acquirers from outside CEE (for more on inbound dealmaking, see Chapter 2, page 18).

US private equity firm Advent International, for example, secured two of the ten largest deals in CEE in 2018. The firm bought INNIO, the Austrian manufacturer of Jenbacher and Waukesha gas engines, for €2.8 billion. INNIO was previously a division of GE, but although the business has sales of €1.3 billion and produces engines that help to reduce carbon

## Top 10 M&A deals in CEE in 2018

Announced date	Target company	Sector	Target country	Bidder company	Bidder country	Deal value €m
04/05/2018	Rosneft Oil Company OAO (9.18% Stake)	Energy & utilities	Russia	Qatar Investment Authority	Qatar	3,700
21/03/2018	Telenor Hungary Ltd.; Telenor d.o.o.; Telenor Montenegro; Telenor Bulgaria EAD; Telenor Common Operation Zrt	Telecommunications	Hungary	PPF Group N.V.	Czech Republic/ Netherlands	2,800
25/06/2018	INNIO	Industrials	Austria	Advent International Corporation	USA	2,784
24/05/2018	OOO Arctic LNG 2 (10% Stake)	Energy & utilities	Russia	Total S.A.	France	2,176
16/02/2018	Magnit PJSC (29.1% Stake)	Retail & consumer goods	Russia	VTB Bank OAO	Russia	1,957
28/06/2018	Zentiva Group a.s.	Healthcare & pharmaceuticals	Czech Republic	Advent International Corporation	USA	1,900
21/03/2018	Promsvyazbank PJSC (99.9% Stake)	Financial services	Russia	Deposit Insurance Agency (DIA)	Russia	1,601
05/11/2018	Euro Bank S.A. (99.79% Stake)	Financial services	Poland	Bank Millennium S.A.	Poland	1,448
16/03/2018	Donskoy Tabak JSC	Retail & consumer goods	Russia	Japan Tobacco Inc.	Japan	1,421
08/10/2018	Novorossiysk Commercial Sea Port PJSC (25.05% Stake)	Transport & logistics	Russia	AK Transneft OAO	Russia	1,418

emissions, GE has been selling off assets as part of a restructuring to focus on its core business.

Advent also backed Czech-based Zentiva, the generic drug business, in a carve-out from Sanofi, valuing the company at €1.9 billion. Private equity firms have been active investors in generics drug manufacturers, with Bain Capital and Cinven acquiring German generics group Stada in a €4.1 billion deal and CVC Capital Partners backing Italian pharma business Recordati. Generics companies have stable cash flows and balance sheets, making them attractive for buyout investors. For Advent, the Zentiva deal provided an opportunity to invest in a large generics company at an attractive valuation.

In the financial services sector which is undergoing consolidation, Poland's Bank Millennium acquired Euro Bank in a €1.4 billion deal. For Millennium's Portuguese owner BCP, the deal was an opportunity to expand in a fast-growing and consolidating market.

Although Russia's M&A activity has been curtailed by EU and US sanctions, the country still accounted for six of the ten largest deals. Russia's energy sector was a key driver of deals in the country. The largest transaction in CEE was the Qatar Invest-

ment Authority's €3.7 billion acquisition of a stake in Rosneft; and Total took a stake in OOO Arctic LNG for €2.2 billion in another mega Russian energy deal.

Russia's consumer sector was also active. VTB Bank bought a stake in discount food retailer Magnit for €2 billion. State-controlled VTB Bank has been restricted by international sanctions and has had to look for investment opportunities domestically. This drew it to Magnit, even though the chain has seen profits fall because of competition from rival retailer X5. The bank subsequently sold down an 11.8% stake to Marathon Group, a vehicle controlled by Russian businessmen Alexander Vinokurov and Sergey Zakharov for around €880 million.

In another large consumer deal, Japan Tobacco paid €1.4 billion for Russian tobaccoist Donskoy Tabak. The Russian tobacco market is the third-largest in the world and has been a core market for Japan Tobacco. With Japan Tobacco facing headwinds domestically as new e-cigarettes hit market share and profitability, expansion in Russia, where Japan Tobacco holds around 30% of the market, was an obvious move.

The Donskoy and Magnit deals show that the sheer size of the Russian population means the country's consumer market can't

be ignored, even when international sanctions and operational issues within Russian consumer businesses present themselves.

### Bumps in the road

For all its advantages, the CEE M&A market is not without its challenges. Geopolitics has already taken a toll on Russian and Ukrainian deal activities and political risk is an issue in a number of jurisdictions. The policies of Hungarian Prime Minister Viktor Orbán and Poland's Law and Justice Party have increased tension with the EU, a key investor and market for CEE; while, in Romania, the head of the ruling Social Democratic Party, Liviu Dragnea, has been unable to serve as Prime Minister because of a vote-rigging conviction.

The region's economies are also closely tethered to those in Western Europe and will feel the impact of any economic slump caused by Brexit uncertainty in the UK or social and political tension in France and Italy. "The Western European economy is among the major drivers for our growth and labour markets. Exports are very important across CEE, so the global situation is always a topic of concern," Fido says.

Andrija Garofulić, Mazars Financial Advisory Services Partner in Croatia covering the Adriatic region, feels that work also needs to be done to make it easier for dealmakers to invest. "What we need to be concerned about is making the CEE region more attractive for doing business. Apart from excellent business opportunities, our region tends sometimes to be quite complex in terms of bureaucracy. Laws can change constantly and that can influence business plans and valuations. We also need to improve further on the topics related to corporate governance," Garofulić says.

**"APART FROM EXCELLENT BUSINESS OPPORTUNITIES, OUR REGION TENDS SOMETIMES TO BE QUITE COMPLEX IN TERMS OF BUREAUCRACY. LAWS CAN CHANGE CONSTANTLY AND THAT CAN INFLUENCE BUSINESS PLANS AND VALUATIONS."**

ANDRIJA GAROFULIĆ, FINANCIAL ADVISORY SERVICES PARTNER AT MAZARS IN CROATIA, COVERING THE ADRIATIC REGION



Warsaw, Poland

## REGIONAL DIFFERENCE – CEE VS THE OTHER EMERGING MARKETS

### As an emerging region, CEE compares well with other markets around the world

In 2018, CEE M&A activity compared favourably with emerging regions across the globe – topping the league for volume, while finishing fourth for value (only marginally behind South East Asia).

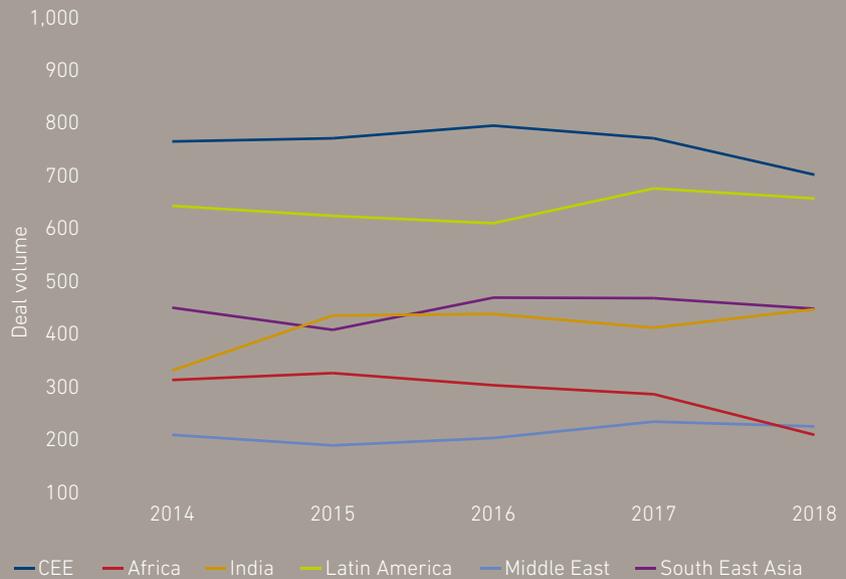
And, despite finishing behind other markets in pure value terms, CEE's 1% decrease in deal value year-on-year was particularly small compared to regions such as Africa, Latin America and South East Asia, which saw year-on-year total deal value decreases of 23%, 26% and 48% respectively.

"CEE is generally more stable than other emerging markets," says Jaroslav Křivánek, Tax Partner and Head of Financial Advisory Services for Mazars in the Czech Republic. "Countries in CEE have expertise in traditional sectors and there is generally a better level of education in comparison with the other regions mentioned."

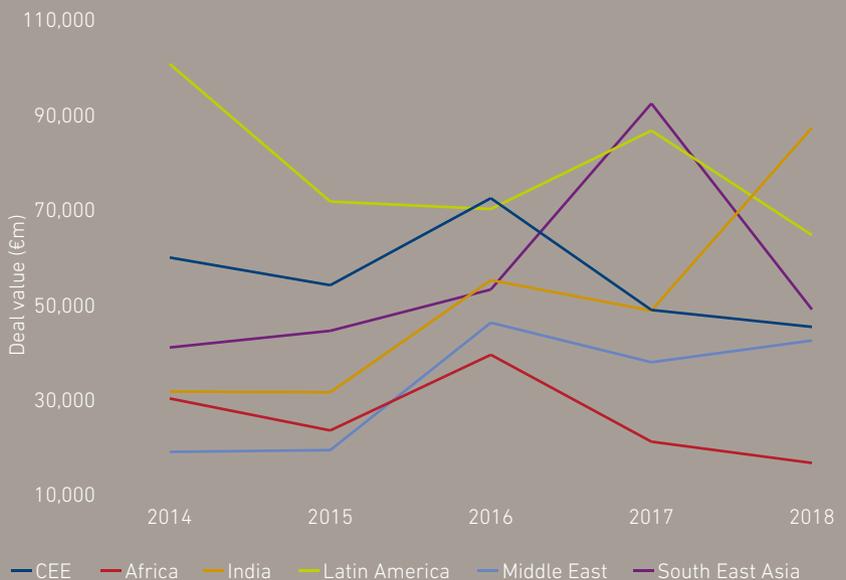
Adam Zohry, Senior Associate and Central & Eastern Europe Financial Advisory Services Coordinator for Mazars, explains that inbound CEE M&A performance has also stacked up well against other regions at a time when deal activity across the globe has been volatile, unpredictable and coloured by protectionism.

CEE inbound deal value in 2018 more than doubled on figures for 2017, rising to €27 billion. Other emerging markets, by contrast, saw sharp decreases in inbound investment. For example, in Latin America, inbound deal value dropped 49.5% to €28.9 billion in 2018, according to Mergermarket figures. Asia Pacific inbound investment only rose by 4.4% at €107.9 billion.

Total M&A market deal volume by region

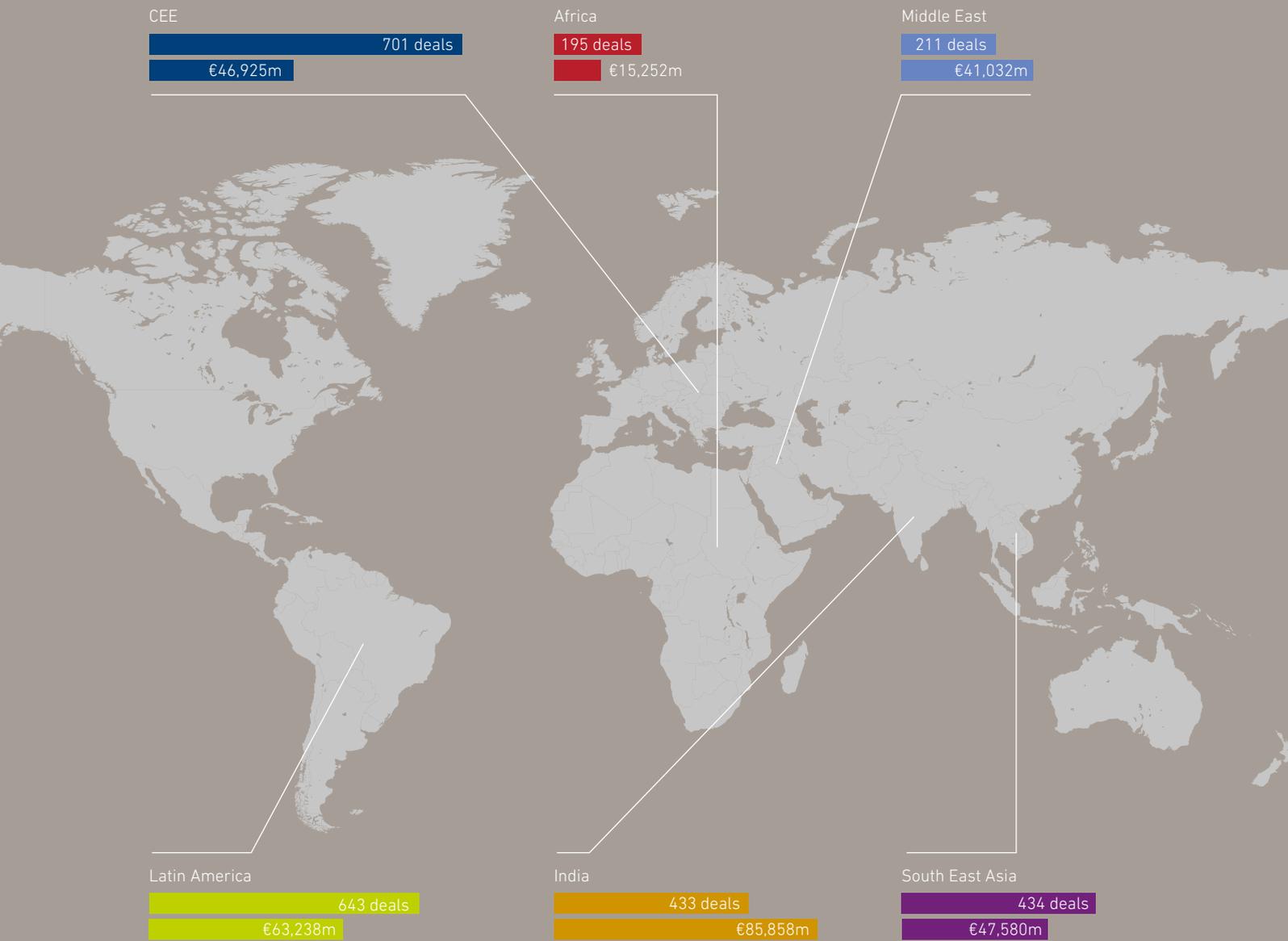


Total M&A market deal value by region



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## Regional comparison of M&A activity in 2018



# AROUND THE CEE REGION – COUNTRY PROFILES

From Zagreb to Vladivostok through Warsaw and Bucharest, the countries of CEE are economically and politically diverse – we explore the major deals and trends in six of the larger markets

## Domestic deals boost Russia

As the largest economy within the region, Russia understandably came top in terms of total M&A deal value and volume in 2018, delivering 155 deals worth €22.2 billion in 2018. This was despite the fact that sanctions from the West have put a brake on deal activity.

“When it comes to the current situation for M&A in Russia, it’s still complicated,” says Luc Chambon, Partner and Head of Financial Advisory Services for Mazars in Moscow. “The market was impacted by sanctions. But there are still some big deals in Russia due to the size of the country and the structure of the economy.”

Despite Russia’s difficulties, the country delivered CEE’s largest deal of the year with the Qatar Investment Authority’s purchase of a 9.18% stake in Rosneft Oil Company in June 2018. Russia’s vast energy resources mean that there will be further sizeable domestic deals in this sector. Privatisation is another theme that should keep Russia’s domestic deal flow ticking over, as exemplified by the sale of a stake in locomotive and rail equipment manufacturer CJSC Transmashholding by Russia’s rail operator RZD to Breakers Investments.

## Poles apart

The inbound slowdown for Russia did allow Poland to close the gap on the largest country in CEE on deal volume. Poland hit 127 completed deals in 2018, although it was still a long way behind on value, which came in at €5.7 billion.

“There have been deals across technology, consumer, financial services, industrials and utilities. All sectors have been busy,” says Mazars’ Jan Fido. “Poland is a major leader across the region. We have a developed economy, a population of 38 million people and EU membership, which all support solid deal activity.”

Poland has delivered strong economic growth of more than 4% in recent years, outpacing Western Europe, and unemployment is down at 3.4%, its lowest level for 20 years. On top of that, the country has recently become the first CEE country and the first country worldwide in nearly a decade to be officially ranked as a “developed market” on the FTSE Russell index, joining the likes

of the 25 most advanced global economies. The ranking considers various criteria, including the quality of a country’s market, consistency and predictability, stability, market access, and the cost of implementing economic changes.

## Austria on the up

Austria also had a particularly impressive year in terms of M&A activity. The country’s 99 deals puts it behind Russia and Poland, but it ranked second overall in the region on deal value, with €7 billion worth of deals.

Austrian deal value was boosted by the Advent/INNIO deal, which was almost double the size of the largest Polish deal in 2018, and South Korean inbound buyer LG Electronics snapping up ZKW Group, an automotive lighting designer and manufacturer, in a €1.1 billion transaction. The partnership supports both businesses as they build autonomous driving capabilities, combining LG Electronics’ capabilities with ZKW’s automotive lighting expertise.

Looking at the future, the country also boasts a large universe of small- to medium-sized companies, known for their technical expertise and specialisation in lucrative niches, which mirror the much-admired German Mittelstand and could be ripe for acquisition.

## Czech in

The Czech Republic ranked fourth by volume (70 deals) and value (€2.6 billion). As in other parts of CEE, low interest rates and economic growth have boosted Czech M&A, as have consolidation plays in sectors such as media.

Unemployment in the Czech Republic hit a 20-year low of just 2% at the end of 2018, while GDP has grown above 4% over the last year. Solid economic fundamentals have provided investors with the confidence to pursue transactions, while investment abroad by Czech players like PPF, which acquired the CEE division of Nordic telecoms network Telenor in a CEE megadeal, has also boosted confidence, demonstrating the ability and ambition of Czech businesses to expand regionally and internationally.

## Romania rising

The less mature CEE markets also present faster growth rates and different risk-reward dynamics than the average for the region. Romania, for example, has delivered GDP growth in excess of 7% in recent years, and has further to travel along the growth curve than the more established economies such as Poland. With only 31 deals worth €564 million recorded in Romania in 2018, this is an example of a smaller CEE market holding great M&A potential.

“Romania has grown at a faster rate than the rest of Europe and there is still room to develop new industries and improve the performance of existing companies. Romania still needs to catch up with the rest of Europe, but the gap is closing. We have a young population and skilled workforce that is open to international investment,” says Butucaru.

## Adriatic advancing

In the Adriatic region, where the economy is dominated by family and owner-managed businesses, succession planning could become a key driver for deals.

“Succession across the SME sector will be a hot topic in forthcoming years. It is something that will drive deals irrespective of size and sector. There is a transition of ownership underway that is presenting opportunities. In Croatia alone, it is expected that a large percentage of companies will have succession planning issues,” says Garofulić, who is based in Zagreb and covers the Adriatic region, where there were 69 deals worth €2.4 billion in 2018.

The Adriatic, however, is also attracting increasing international interest. Tourism is a key sector for the region, which has seen significant growth in visitor numbers and sparked deals like Swiss real estate investor Immo Invest's €7 million purchase of Club Adriatic, a Croatian holiday company. It is also expected that further consolidation, especially in retail, will be one of the main market trends in the forthcoming years.

Foreign investors, particularly from Asia, are also investing in infrastructure, minerals and industrials across the Adriatic, in recognition of its strategic position as a gateway into Europe and growth potential. France airports group VINCI paid €501 million for a 25-year concession for Belgrade's Nikola Tesla Airport and there has been Chinese investment in Serbian copper mining and smelting complex Bor, as well as interest backing key ports along the Adriatic coast.

The Adriatic, however, still has a long way to go to catch up with other countries in CEE. The regional markets are still small and immature with low M&A penetration. In Croatia and Slovenia there were only 22 and 23 deals respectively in 2018. There was little activity in other countries in the region.

### CEE countries M&A by volume\* and value in 2018

Country	Total volume	Deal value €m
Russia	155	22,202
Poland	127	5,705
Austria	99	7,025
Czech Republic	70	2,649
Estonia	32	2,282
Romania	31	564
Lithuania	25	43
Hungary	25	2,878
Slovenia	23	678
Croatia	22	307
Ukraine	19	226
Latvia	17	394
Slovakia	16	132
Serbia	12	1,264
Bulgaria	9	302
Albania	5	118
Moldova	4	117
Belarus	3	34
Macedonia, The Former Yugoslav Republic Of	3	5
Bosnia-Herzegovina	3	
Montenegro	1	
Total	701	46,925

\*Mergermarket only registers deals with a minimum deal value of €5m.

# PRIVATE EQUITY GROWTH IN CEE

## Buyouts have increased in value as sponsors eye high-quality assets in the region

Private equity (PE) deal value was up 83% in 2018 to €7.5 billion. This is despite volumes slipping from 81 deals in 2017 to 63 deals last year. The higher deal value total is partly down to several large ticket deals, including the INNIO and Zentiva buyouts, the two largest PE M&A deals in the CEE region in 2018 by some distance.

International buyout firms have noted the attractive economic fundamentals and pricing in the region and stepped up to make sizeable investments, demonstrating PE confidence in CEE's growth and stability.

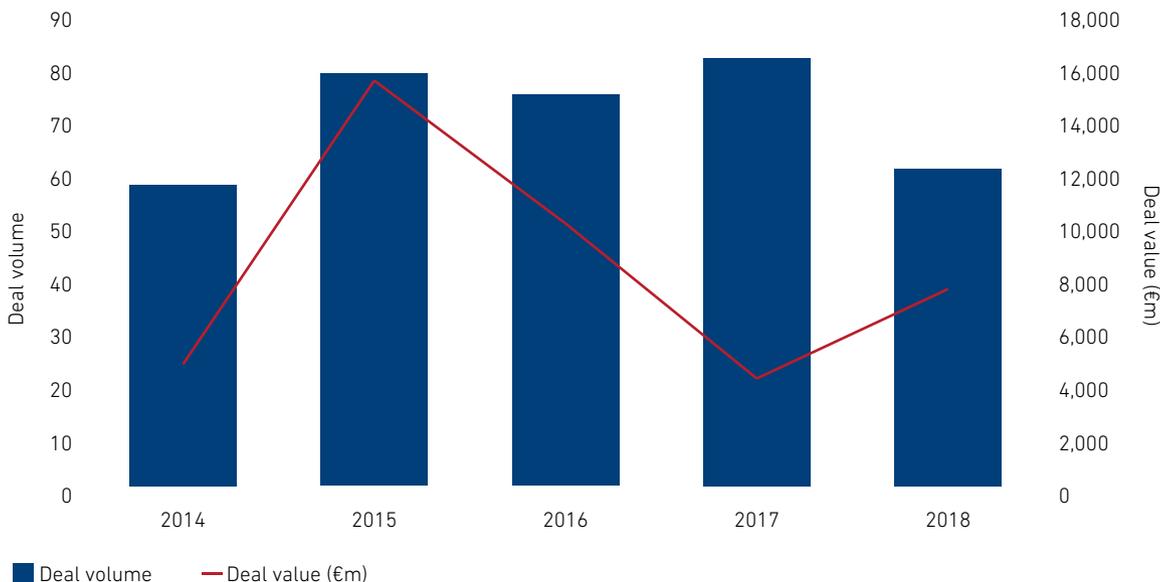
"Attractive growth potential combined with a stable political background routed in the EU and NATO in many countries of Central Europe has been a major attraction for private equity," says Lukáš Hruboň, Transaction Advisory Services Manager for Mazars in the Czech Republic. "The leading global PE funds are investing consistently in the region, accompanied by local-based funds. In addition, there is private capital ready for investment covering both individuals and family offices."

A buoyant fundraising market for CEE-focused PE dealmaking has been a key driver of buyout activity across the region. In its most recent CEE activity report, private equity trade body Invest Europe found that total fundraising for CEE reached €1.3 billion, a year-on-year increase of 46%. This compared to a 12% increase across Europe as a whole, with CEE's share of total European fundraising climbing from 1% to 1.4%.

Across the region, the private equity industry is maturing. "In Romania, for example, private equity has become much more dynamic," Butucaru says. "Funds of all sizes are investing. That includes large international firms, who now see targets that are of the appropriate size and quality."

More established private equity markets like Poland, meanwhile, have built up track records of delivering returns. "If you look back from 2015 onwards there have been a decent number of exits. There is more private equity investment coming in on the back of that track record," Fido says.

CEE private equity M&A market



## Top 10 private equity M&A deals in CEE in 2018

Announced date	Target company	Sector	Target country	Bidder company	Bidder country	Deal value €m
25/06/2018	INNIO	Industrials	Austria	Advent International Corporation	USA	2,784
28/06/2018	Zentiva Group a.s.	Healthcare & pharmaceuticals	Czech Republic	Advent International Corporation	USA	1,900
13/09/2018	Luminor Group AB (60% Stake)	Financial services	Estonia	Blackstone Group LP	USA	1,000
02/07/2018	CA Immobilien Anlagen AG (26% Stake)	Real estate	Austria	Starwood Capital Group	USA	758
19/03/2018	Olympic Entertainment Group AS	Hospitality & leisure	Estonia	Novalpina Capital LLP	United Kingdom	230
28/03/2018	Nowe Jaworzno Grupa Tauron Sp z o.o. (14% Stake)	Energy & utilities	Poland	PFR Ventures Sp. z o.o.	Poland	209
30/05/2018	Taxify OU	Technology	Estonia	Daimler AG; Taavet Hinrikus (Private investor); Didi Chuxing Technology Co., Ltd.; Korelya Capital SAS	Germany	151
27/09/2018	Urgent Cargus S.A.	Transport & logistics	Romania	Mid Europa Partners LLP	United Kingdom	150
26/03/2018	Cascade Empire S.R.L.; Ocol Silvic Cascade Empire s.r.l.	Agriculture	Romania	GreenGold Asset Management AB/KB	Sweden	90
26/06/2018	TourRadar GmbH	Technology	Austria	Technology Crossover Ventures; Endeit Capital; Speedinvest GmbH; Hoxton Ventures; Cherry Ventures Management GmbH	USA	43

**ATTRACTIVE GROWTH POTENTIAL COMBINED WITH A STABLE POLITICAL BACKGROUND ROUTED IN THE EU AND NATO IN MANY COUNTRIES OF CENTRAL EUROPE HAS BEEN A MAJOR ATTRACTION FOR PRIVATE EQUITY. THE LEADING GLOBAL PE FUNDS ARE INVESTING CONSISTENTLY IN THE REGION, ACCOMPANIED BY LOCAL-BASED FUNDS. IN ADDITION, THERE IS PRIVATE CAPITAL READY FOR INVESTMENT COVERING BOTH INDIVIDUALS AND FAMILY OFFICES.”**

LUKÁŠ HRUBOŇ, TRANSACTION ADVISORY SERVICES MANAGER AT MAZARS IN THE CZECH REPUBLIC





# **CROSS-BORDER M&A IN CENTRAL AND EASTERN EUROPE**



# THE INBOUND PICTURE

## Consolidating sectors, a maturing market and high-quality assets have made CEE a haven for investment from outside the region and this looks likely to continue into 2019 and beyond

Inbound deal activity was one of the main drivers of M&A across CEE in 2018. Cross-border deal value more than doubled year-on-year, rising to €27 billion and accounting for more than half of total CEE deal value for the year. This performance made last year the second strongest year since 2014 for the total value of inbound deals into the region.

"We can consider that most CEE markets have reached a level of M&A maturity that makes them more aligned with Western European standards and expectations. That is reflected by this inbound interest," Zohry says.

Deal volumes, however, dropped by 7% on 2017 to 283 deals. This was in part due to notably slower inbound M&A into Russia. When taking Russia out of the equation, CEE's annual inbound deal volume decreased by less than 1%. Sanctions and geopolitical tensions have seen inbound investment in Russia slow significantly, and it is unclear when foreign investment into CEE's largest economy will recover.

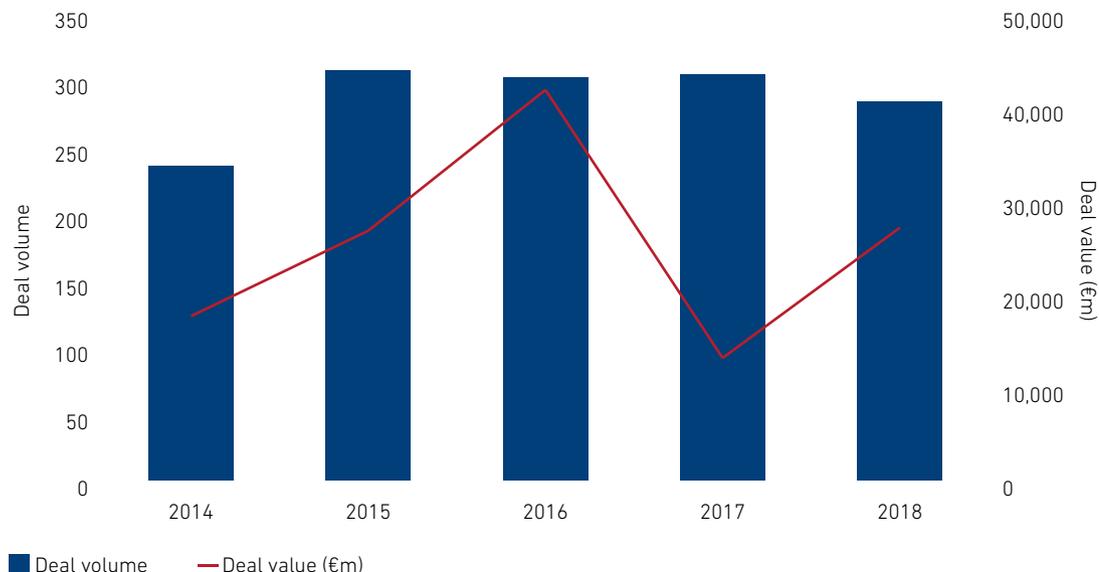
"Sanctions have affected quite a lot of the financial sector, which has limited deals into Russia when compared to the past. There are still deals pending, but we don't know what is going to happen, and that does not favour foreign investment into Russia," says Chambon.

Nevertheless, Russia still recorded the largest inbound deal in CEE with the Qatar Investment Authority's investment in Rosneft.

### Inbound deal drivers

CEE's second-largest inbound deal of the year was PPF Group's purchase of a number of regional telecommunications companies from Nordic-based vendor Telenor for €2.8 billion (note: PPF is a Czech privately held international financial and investment group headquartered in the Netherlands). The deal is in one of the many consolidating sectors including media, financial services, retail and healthcare in CEE, an attractive dynamic for foreign investors seeking stable businesses with growth upside.

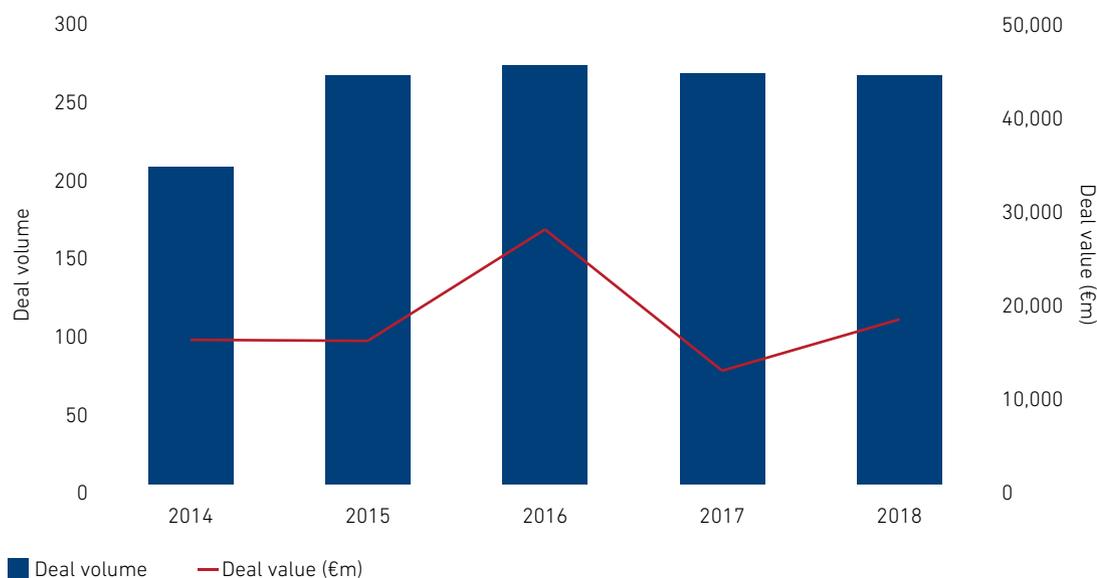
M&A inbound deals to CEE

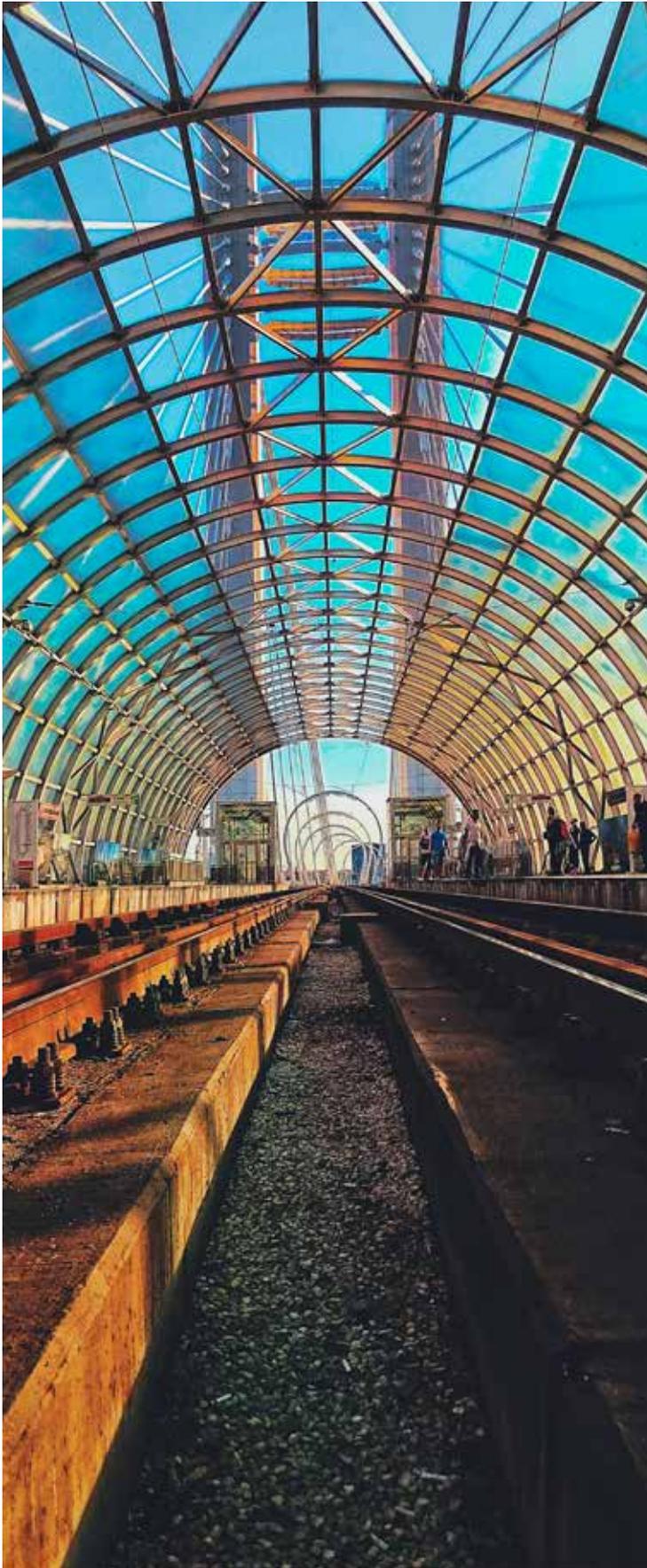


### Top 10 M&A deals inbound to CEE in 2018

Announced date	Target company	Sector	Target country	Bidder company	Bidder country	Deal value €m
04/05/2018	Rosneft Oil Company OAO (9.18% Stake)	Energy & utilities	Russia	Qatar Investment Authority	Qatar	3,700
21/03/2018	Telenor Hungary Ltd.; Telenor d.o.o.; Telenor Montenegro; Telenor Bulgaria EAD; Telenor Common Operation Zrt	Telecommunications	Hungary	PPF Group N.V.	Czech Republic/ Netherlands	2,800
25/06/2018	INNIO	Industrials	Austria	Advent International Corporation	USA	2,784
24/05/2018	OOO Arctic LNG 2 (10% Stake)	Energy & utilities	Russia	Total S.A.	France	2,176
28/06/2018	Zentiva Group a.s.	Healthcare & pharmaceuticals	Czech Republic	Advent International Corporation	USA	1,900
16/03/2018	Donskoy Tabak JSC	Retail & consumer goods	Russia	Japan Tobacco Inc.	Japan	1,421
26/04/2018	ZKW Group GmbH	Automotive	Austria	LG Electronics, Inc.; LG Corp	South Korea	1,100
13/09/2018	Luminor Group AB (60% Stake)	Financial services	Estonia	Blackstone Group LP	USA	1,000
26/11/2018	AHT Cooling Systems GmbH	Industrials	Austria	Daikin Industries, Ltd.	Japan	881
02/08/2018	GDK Baimskaya LLC	Energy & utilities	Russia	KAZ Minerals PLC	United Kingdom	775

### M&A inbound deals to CEE (excluding Russia)





"CEE is very open to foreign investment and the interconnectivity between the countries in the region is also increasing through infrastructure and common projects. The prospects look good. Investors have seen that," Butucaru says.

CEE also offers an attractive macroeconomic backdrop for inbound M&A. According to bank Unicredit, CEE's economies delivered average GDP growth of 4.6% in 2017 and 3.2% in 2018, outpacing the EU, where growth has come in at less than 3%. Unemployment is at record lows in the region, supporting growth in consumer spending. Average salaries in the Czech Republic, Croatia, Slovakia, Poland, Hungary or Romania, however, remain below the EU average even though the labour force is highly-skilled. This presents a compelling investment rationale across all sectors for dealmakers.

### Top bidders

In terms of volume, Germany was CEE's top inbound bidder in terms of deal volume in 2018, with a total of 49 deals completed during the year. German industrial and automotive companies are drawn to the relatively lower production costs in CEE countries, which because of their proximity and cultural similarities have an advantage over Asian manufacturers. "However, given the relatively high wage increases recently occurring in many parts of CEE, particularly in the Czech Republic and Hungary, we expect the M&A focus to shift over the next few years. This goes along with a fast-growing number of businesses in CEE built on unique selling propositions in technology, innovative products or specific market access. Consequently, we perceive an increasing interest from German firms in M&A projects outside pure manufacturing," declares Thoralf Erb, Partner leading the Financial Advisory Services practice of Mazars in Germany.

The US was the second-largest investor completing 29 deals for CEE targets. Michael Kupka, CEE-USA Desk Leader and Director in charge of the Forensic Accounting & Dispute Resolution team within the New York office of Mazars USA, says: "Central & Eastern Europe continues to be an attractive destination for US investors, with its skilled multilingual workforce, open access to the single European market and relatively low acquisition costs. With CEE's growth exceeding the Western part of Europe, inbound US buyers recognise many synergistic opportunities in these diversified economies"

With a number of CEE countries members of the EU, frictionless borders facilitate high investment into CEE from other member states in the single market. Indeed, aside from Germany, there were five EU countries in the top ten inbound bidders by volume last year.

CEE and Western Europe are culturally close, making it easier to transact across borders. “CEE has a European-based culture. When you are a Western investor investing in the region you are unlikely to encounter major cultural issues when doing business. This is fuelling investment from Western Europe,” says Garofulić.

The top country inbound list by deal value differs considerably, with only three European countries featuring, but one-off megadeals have slanted the figures. The US was the biggest inbound buyer in terms of deal value, making up a total of €6.6 billion. Germany did not feature in the value rankings, but the high volume of inbound CEE deals from Germany shows how integrated the supply chains of its large automotive and engineering firms are in the economies of its CEE neighbours. Mid-market German private equity firms, meanwhile, are always active investors in Austrian SMEs, which also contributes to high inbound volumes figures.

### China moves in

Interestingly, although China only invested €800 million in CEE in 2018 to rank eighth on the inbound deal value list, many market observers see Chinese investment as a key long-term driver of inbound CEE deal activity. Zhe Qiu, head of the Warsaw-based CEE-China Desk of Mazars, declares: “The Belt and Road Initiative is pushing China’s outbound mergers and acquisitions, and the CEE region is becoming more and more attractive for Chinese investors”. Deals such as China’s Hisense taking Slovenian household appliances manufacturer Gorenje private in a €262 million deal illustrate how Chinese investors see CEE as a strategic foothold in the West, offering access to the single market as well as attractive macroeconomic fundamentals. “The majority of inbound investment into CEE still comes from the West, but what is interesting is that China is becoming a very important player, especially here in the Adriatic,” says Garofulić.

Zohry feels that those CEE countries that are also EU members currently have the upper hand when it comes to investment from China. “China often considers CEE as a gateway to the EU, but there are different dynamics at play between CEE companies that are EU members and those that are not,” he says. “Investments in CEE member states allow Chinese companies to benefit from single market access. Then, there are those countries that are not members yet. These countries are likely to reach the EU in five to ten years, which makes them interesting as they are less regulated, but very close, both geographically and economically, to the EU.”

### Top inbound bidders in 2018 by volume

Country	Deal volume
Germany	49
USA	29
United Kingdom	23
France	19
Netherlands	19
Sweden	16
Switzerland	13
Italy	11
Japan	9
Canada	9

### Top inbound bidders in 2018 by value

Country	Deal value €bn
USA	6.6
France	3.9
Qatar	3.7
Netherlands	3.2
Japan	2.4
United Kingdom	1.6
South Korea	1.1
China	0.8
Singapore	0.7
Sweden	0.7

### Popular destinations

Austria and Poland sped ahead of other CEE countries in 2018 in terms of the number of M&A deals completed by bidders outside of the CEE region, having seen 64 and 48 inbound deals respectively.

The buyout of gas engine manufacturer INNIO was the third-largest inbound deal into CEE in 2018 and Japan’s Daikin Industries acquired Austrian industrials group AHT Cooling Systems for €881 million. Both deals reflect the appeal of Austria’s well-developed industrial and engineering sectors.

For Austria, the inbound interest follows a long-term upward trend. Last year was particularly strong for Austria, with deal volume matching 2015’s record and deal value (€6.3 billion) was second only to 2014’s total of €7.4 billion.

Inbound deals into Poland, meanwhile, saw French hospitality multinational Accor pay €483 million for a 47% stake in Polish travel agency Orbis, backing the growth in the country’s tourism and hospitality sector, while French bank BNP Paribas’ Polish subsidiary BGZ bought Raiffeisen Bank Polska in a €775 million deal, showing its ambitions to participate in the consolidation of the Polish banking market.

With deals worth just under €2 billion, Poland demonstrated its status as one of the mature economies in the region, with

liquid stock markets providing exit options for global private equity firms. Its economy is growing at around 4% and low unemployment of less than 4% has supported an increase in consumer spending.

“Poland’s size, the sophistication of its financial markets and proximity to Western Europe make it the obvious place for foreign investors to establish a base and explore deal opportunities in neighbouring CEE countries,” Fido says.

In terms of value, Russian inbound deals rebounded from 2017’s sub-€1 billion level (of €932 million) to reach a total of €9.4 billion in 2018, but this was thanks in large part to a handful of one-off megadeals in energy and consumer.

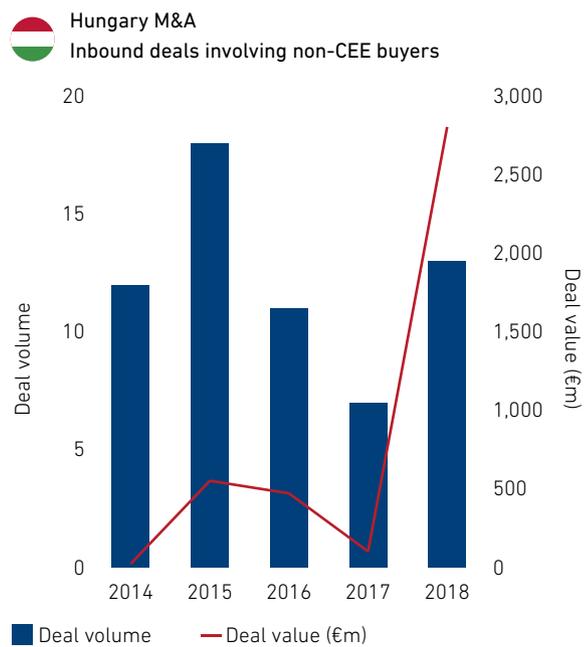
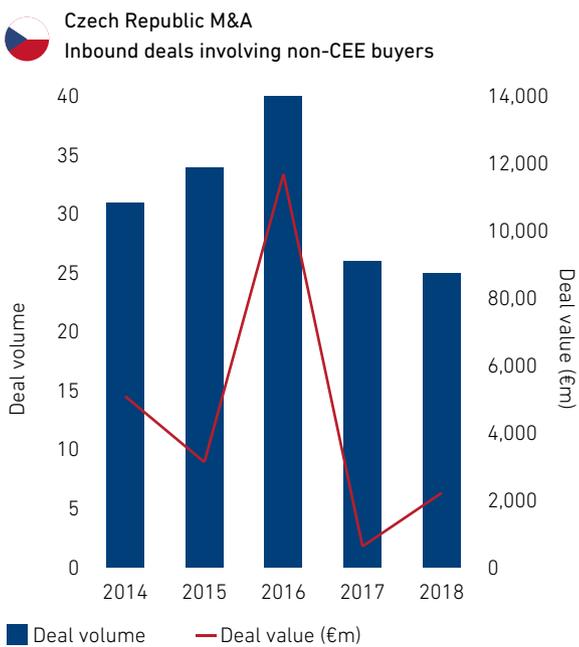
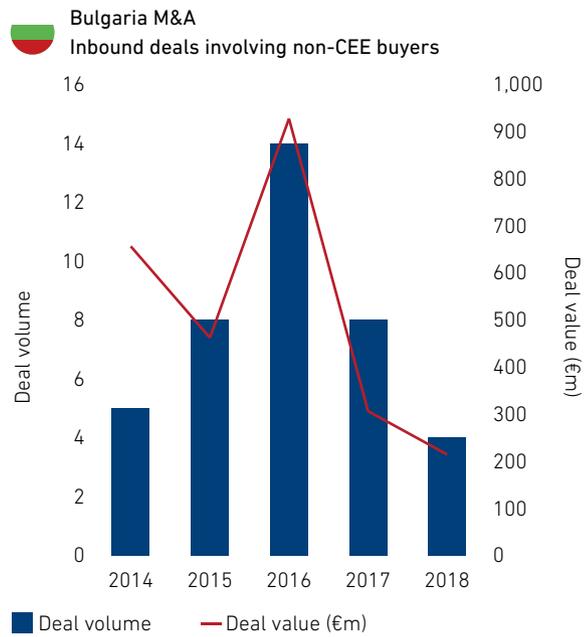
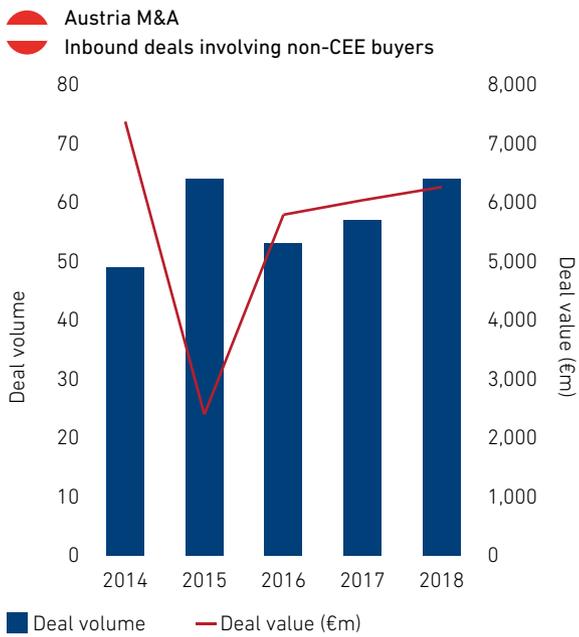
After Austria and Poland, Hungary came in as CEE’s third strongest performer in terms of inbound deal value in 2018 – underpinned by the CEE Telenor transaction. Deal volume in Hungary in 2018 remained steady compared with previous years, recovering from a volatile year in 2017. Hungary’s GDP growth has tracked the upward swing across the region, with its economy expected to grow by around 4% in 2019 according to the OECD.

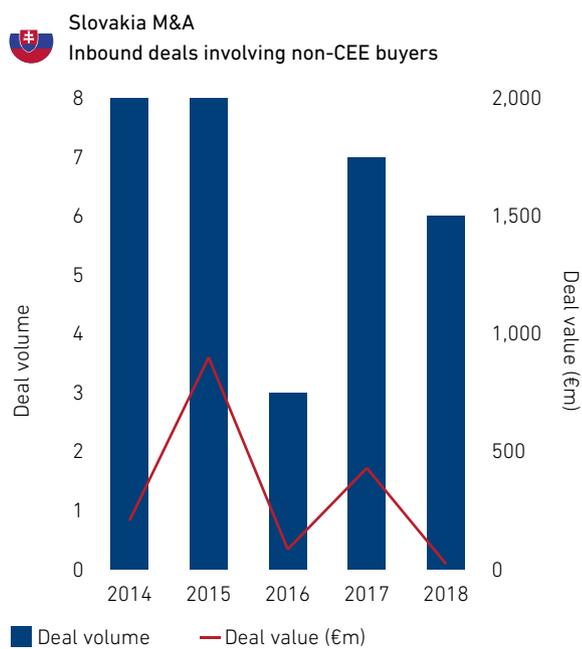
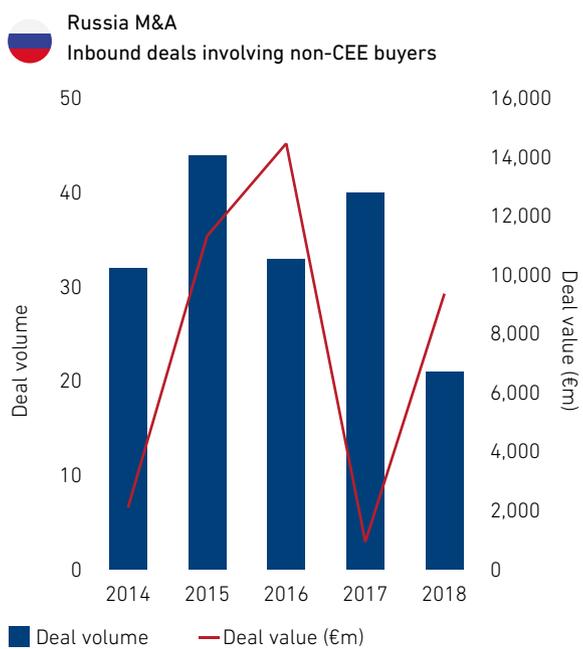
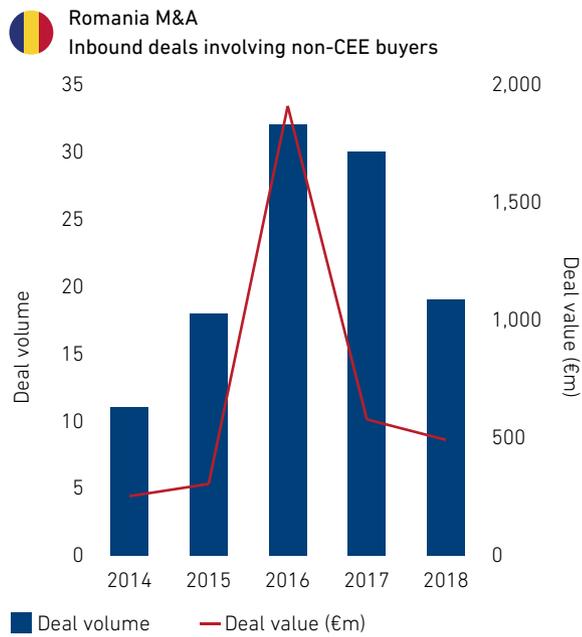
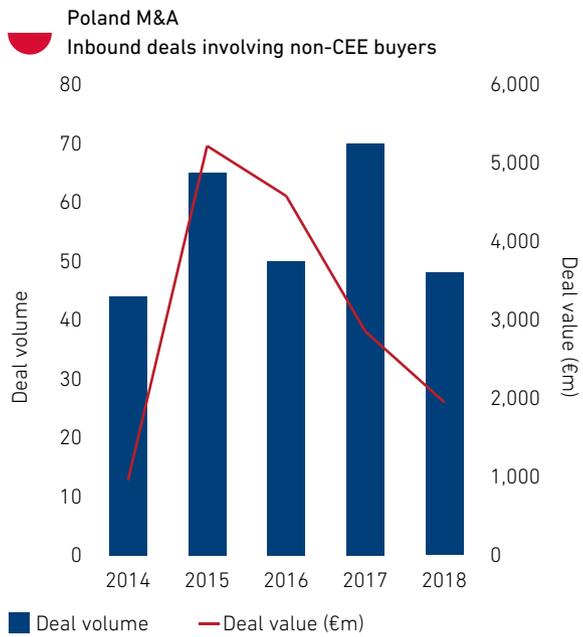
Although lagging the larger CEE economies in absolute terms, the Baltic countries of Estonia and Latvia have delivered significant growth in inbound activity, underpinned by deals like Blackstone’s acquisition of Estonian bank Luminor for €1 billion. Luminor is the third-largest bank in the Baltic states, which were hit hard by the financial crisis but have since recovered, with growth outpacing the rest of Europe. Luminor was sold by Nordic banks Nordea and DNB, who moved into the Baltics aggressively but were caught in the aftermath of the credit crunch and have now retreated back to their core Nordic markets.

There has been growing inbound activity into the Baltics during the past decade and Latvia and Estonia both posted record years in 2018, by volume and value of inbound deals.

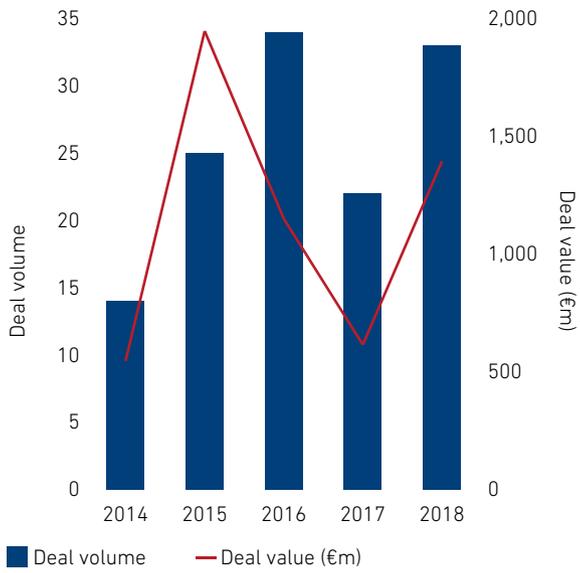
CEE countries table - M&A inbound to CEE 2018

Country	Deal volume	Deal value €m
Austria	64	6,255
Poland	48	1,949
Czech Republic	25	2,211
Russia	21	9,364
Romania	19	490
Estonia	15	1,744
Hungary	13	2,805
Latvia	12	394
Lithuania	11	6
Slovenia	10	276
Ukraine	10	83
Croatia	8	23
Serbia	8	1,084
Slovakia	6	23
Bulgaria	4	214
Macedonia, The Former Yugoslav Republic Of	3	5
Belarus	2	28
Bosnia-Herzegovina	2	
Montenegro	1	
Albania	1	5
Total	283	26,959

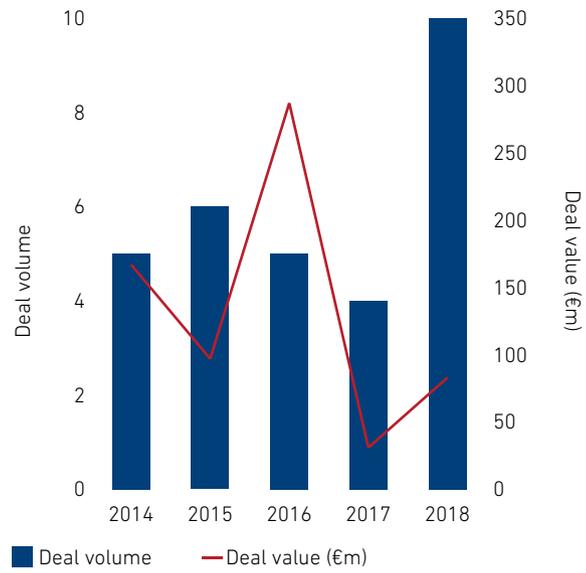




**Adriatic region M&A\***  
Inbound deals involving non-CEE buyers



**Ukraine M&A**  
Inbound deals involving non-CEE buyers



\*Countries represented include: Albania, Bosnia-Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Serbia and Slovenia.



Moscow, Russia



# SECTOR FOCUS

## While the industrials and energy sectors stand out, the region has a diversified economy and has generated deals across a range of industries

Industrials, historically a strong sector for the region, performed strongly again in 2018, delivering more inbound transactions than any other sector with 60 deals and the third-highest deal value by sector (€4.8 billion).

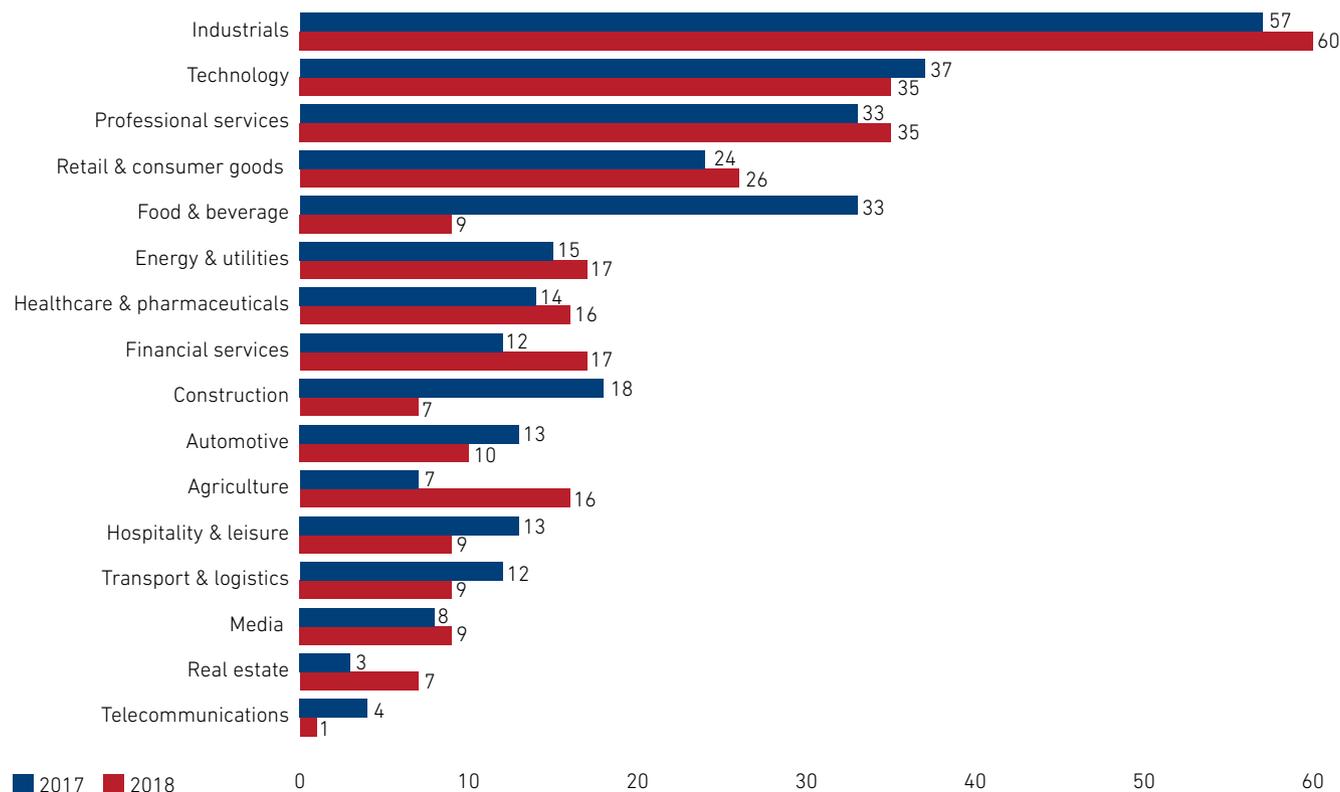
Energy & utilities was the largest sector by deal value, with €7.6 billion worth of deals, but this activity came from only 17 transactions, and was dominated by megadeals in Russia.

The healthcare & pharmaceuticals and financial services sectors have also delivered deal opportunities, with Advent backing global generic drugs maker Zentiva and Societe Generale selling Euro Bank to Poland's Millennium Bank, which bought the

asset to grow its share of a growing and consolidating market. Meanwhile, banks such as Slovenia's Abanka that were bailed out by their government following the financial crisis, have recovered and are coming to market looking for buyers.

Technology deals present an interesting dynamic for the region, because although tech ranked highly in terms of deal volumes, deal value in the sector was only €473 million. The sector holds great potential for the region, however, and is positioned to generate a greater share of deal value in the coming years. CEE created one of its first ever unicorns following a funding round for Romanian robotic process automation platform UIPath. According to research firm McKinsey, meanwhile, digitisation is primed

M&A inbound deals to CEE – volume by sector, 2017 vs. 2018



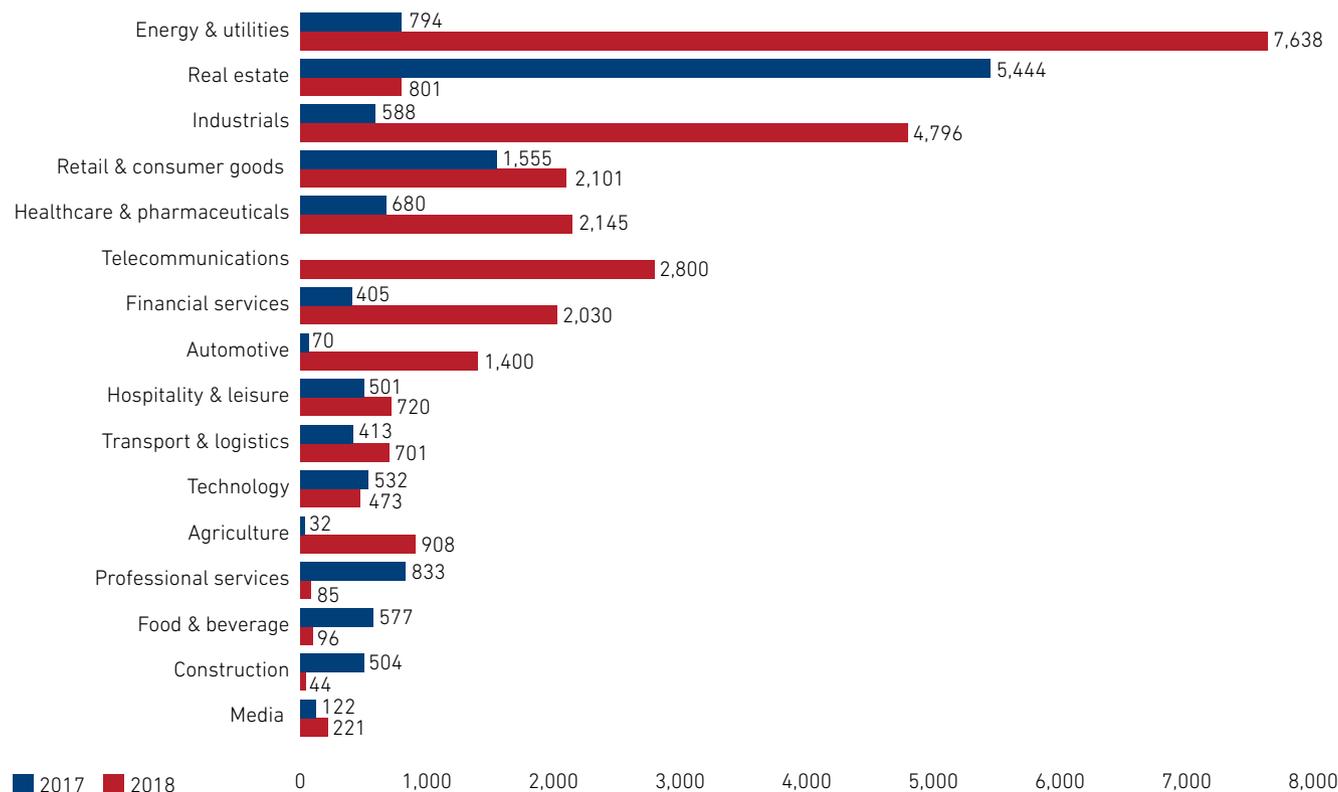
to be the next growth driver across CEE, with the scope to create an additional €200 billion of GDP by 2025.

McKinsey says CEE countries are already growing their digital economies twice as fast as Western European counterparts, and have created market-leading digital infrastructure in financial services and information and communication technology. CEE countries are also less locked into legacy infrastructure and have been early adopters of contactless payments and digital banking.

**BANKS HAVE HAD A PROFITABLE YEAR AND COME THROUGH STRESS TESTS WELL, SO THE FINANCIAL SERVICES SECTOR IS ROBUST AND CONSOLIDATION IS UNDERWAY. WE HAVE NINE BIG BANKS IN POLAND, FOR EXAMPLE, BUT THE VIEW IS THAT THERE IS REALLY ONLY PLACE FOR FIVE OR SIX. FOREIGN INVESTORS ARE PLAYING A KEY ROLE IN THIS CONSOLIDATION.”**

JAN FIDO, FINANCIAL ADVISORY SERVICES DIRECTOR AT MAZARS IN POLAND

M&A inbound deals to CEE – value by sector, 2017 vs. 2018 (€m)



## FINANCIAL SERVICES

Financial services deals inbound to CEE hit a total value of more than €2 billion in 2018, more than five times the value seen in 2017. This is largely due to Blackstone Group's acquisition of a 60% stake in Estonia's Luminor Group for €1 billion, and France's Bank BGZ Paribas's purchase of Poland's Raiffeisen Bank Polska for €775 million.

The total value of domestic deals done within the financial sector was also particularly strong in 2018, topping €17 billion. Top domestic financial sector deals included Russia's Deposit Insurance Agency's purchase of a 99.9% stake in Promsvyazbank for €1.6 billion.

It was also a strong year for deals in the Romanian financial services market. In July, private equity group JC Flowers acquired a 76.1% stake in the Romanian subsidiary of Greece's Piraeus Bank. Meanwhile, Banca Transilvania, the country's largest private bank, took over both Bancpost and Moldova's Victoriabank. There is likely to be further consolidation and more outbound deals from Romanian financial institutions in 2019.

Banks across CEE were hit hard by the financial crisis, with a number of institutions, including Slovenia's Abanka, requiring state aid. These banks are coming back to market as governments seek to divest their stakes, providing deal opportunities for sponsors and strategics attracted by the profitability, loan growth and consolidation opportunities in CEE banking.

"Banks have had a profitable year and come through stress tests well, so the sector is robust and consolidation is underway. We have nine big banks in Poland, for example, but the view is

that there is really only place for five or six. Foreign investors are playing a key role in this consolidation," says Fido.

CEE has also been an open testing ground for new fintech solutions, as consumer uptake of banking technology in CEE is high. McKinsey research, for example, found that in CEE financial transactions on payment cards bypassed the use of cheques. McKinsey also found that in Latvia, the Czech Republic, Lithuania and Slovakia, more than half of the population aged between 16 and 74 has used online banking – a significantly higher proportion than in Western Europe.

Financial services M&A inbound deals to CEE



### Top 3 financial services deals inbound to CEE in 2018

Announced date	Target company	Sector	Target country	Bidder company	Bidder country	Deal value €m
13/09/2018	Luminor Group AB (60% Stake)	Financial services	Estonia	Blackstone Group LP	USA	1,000
10/04/2018	Raiffeisen Bank Polska S.A (core bank business)	Financial services	Poland	Bank BGZ BNP Paribas SA (formerly Bank Gospodarki Zydnowosciowej SA)	France	775
16/08/2018	Aegon Pojistovna, a.s.; Aegon Slovensko	Financial services	Czech Republic	NN Group N.V.	Netherlands	155

## HOSPITALITY & LEISURE

Cross-border M&A activity in the hospitality & leisure sector performed well in 2018, with total deal value hitting €720 million.

The sector's top inbound deal of the year was Accor's €483 million purchase for a 47.31% stake in Orbis, Poland's oldest travel agency. An emerging middle class and rising disposable income have seen substantial growth in the tourism industry. According to a European Commission report, the nine EU member states in CEE now spend more than €20 billion a year on tourism, with the market growing revenues by as much as €1 billion in some years. Inbound visits are also rising, with arrivals climbing by around 4% a year and receipts rising by 6%. This is faster growth than in Western Europe where arrivals and receipts have held steady, albeit at a much higher absolute level.

This has sparked huge growth across the hospitality & leisure sector in CEE. According to consultancy firm Cushman & Wakefield, CEE's share of hotel investment volume in Europe has more than doubled since 2010. Annual investment in the CEE hotel sector is now on track to consistently surpass €2 billion according to Cushman Wakefield.

Hospitality & leisure M&A inbound deals to CEE



Top 3 hospitality & leisure deals inbound to CEE in 2018

Announced date	Target company	Sector	Target country	Bidder company	Bidder country	Deal value €m
26/11/2018	Orbis S.A. (47.31% Stake)	Hospitality & leisure	Poland	Accor SA	France	483
19/03/2018	Olympic Entertainment Group AS	Hospitality & leisure	Estonia	Novalpina Capital LLP	United Kingdom	230
11/04/2018	Club Adriatic d.o.o.	Hospitality & leisure	Croatia	Immo Invest Partner AG	Switzerland	7

## HEALTHCARE & PHARMACEUTICALS

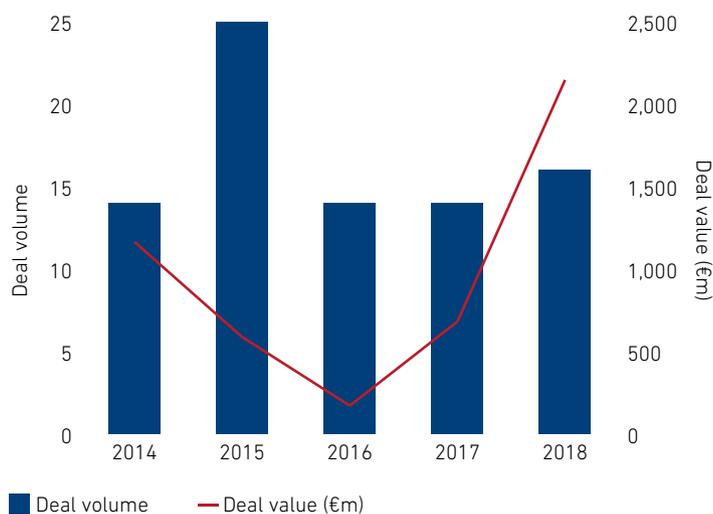
Total deal value of healthcare & pharmaceutical deals inbound to CEE hit a ten-year high in 2018 to reach €2.1 billion. The record deal value is largely the result of the Advent/Zentiva deal. Zentiva is one of the 20 largest generic drug manufacturers in Europe and is active in around 50 countries. Buyout firms have been eager to invest in European generic drug manufacturers, which are defensive and offer investors stable cash flows.

Healthcare & pharmaceuticals provide attractive dynamics as the population ages, governments invest more in healthcare provision and private providers in individual markets consolidate to build pan-regional market leaders. According to ratings agency Fitch, the pharmaceuticals industry in CEE is forecast to post an 8.7% compound annual growth rate in the five years from 2017 to 2021, reaching a value of more than €100 billion.

The wider healthcare market in CEE, meanwhile, is facing funding pressures as populations grow and age. Legacy healthcare funding arrangements from before the fall of the Berlin Wall are being transformed and governments across the region are looking at measures to provide universal access, make medical insurance compulsory and reduce costs. Regulatory harmonisation across the region will also help providers and suppliers to sell into neighbouring countries with greater ease and fewer tariffs.

This transformation will face political opposition and the focus on cost control will place suppliers under pricing pressure, but the shifts in the market do point to opportunities for investors to grow and consolidate private providers and expand into new markets with fewer hurdles.

Healthcare & pharmaceuticals M&A Inbound deals to CEE



### Top 3 healthcare & pharmaceuticals deals inbound to CEE in 2018

Announced date	Target company	Sector	Target country	Bidder company	Bidder country	Deal value €m
28/06/2018	Zentiva Group a.s.	Healthcare & pharmaceuticals	Czech Republic	Advent International Corporation	USA	1,900
13/09/2018	ViraTherapeutics GmbH	Healthcare & pharmaceuticals	Austria	Boehringer Ingelheim GmbH	Germany	210
15/05/2018	Spitalul Pelican (80% Stake)	Healthcare & pharmaceuticals	Romania	Medicover AB (publ)	Sweden	23



# M&A OUTLOOK FOR 2019 AND CONCLUSION

## After delivering solid performance in 2018, 2019 is shaping up to be another strong year for M&A activity in CEE

The upward trajectory for M&A across the region is set to continue through 2019 and beyond. According to Mergermarket data, there are 536 'company for sale' stories on the database – which gives an encouraging figure at this stage of the year.

Industrials, a core sector for the region, accounts for the most potential deals in the pipeline, closely followed by the technology and financial services sectors at 75 and 70 stories respectively. The retail & consumer sector, busy in 2018, is next in line with 47 businesses reported to be seeking buyers.

"We noted growing interest from investors in the second half of 2018, so we are positioned to see more deals in 2019," says Butucaru. "The economy is diversified and there are opportunities to invest in start-ups, all the way up to mature companies."

Indeed, the fundamentals underpinning an active M&A market remain firmly in place for the year ahead. GDP across the region is forecast to average more than 3% over the next 12 months, outpacing the West, and unemployment remains at record lows. The combination of higher growth, lower costs and stability will see inbound dealmakers continue finding good value in CEE, especially when compared to other, more volatile emerging markets and more competitive, expensive jurisdictions in developed economies. Asian countries, especially China, are taking increasing interest in CEE's potential and pursuing more deals across the region. "Chinese companies will most likely be actively engaged in infrastructure, energy and renewable sectors transactions within the region" says Qiu.

The region is not without its challenges. Russia, the largest country in the bloc, faces an uncertain year, with more sanctions from the US and EU on the cards. The impact of sanctions has already taken its toll on inbound investment into the country and prospects for improvement are unclear. Dealmakers in other large CEE jurisdictions such as Poland and Hungary will also keep an eye on geopolitics. Political orientations in both these countries have put strain on their relations with the EU, a crucial trading partner and investor for CEE.

As CEE economies are closely aligned with those in Western Europe, factors outside of the region's control could also put a dampener on deals. Brexit uncertainty and US trade wars with the EU and China could all weigh on CEE's prospects. Overall, however, the outlook for dealmaking is positive despite these headwinds. M&A advisers and investors anticipate another good year for deals.

Sector	Number of 'company for sale' stories*
Industrials	79
Technology	75
Financial services	70
Retail & consumer goods	47
Professional services	40
Construction	30
Healthcare & pharmaceuticals	30
Energy & utilities	30
Food & beverage	30
Agriculture	25
Transport & logistics	25
Hospitality & leisure	20
Real estate	14
Automotive	13
Media	5
Telecommunications	2
Aerospace & defence	1
TOTAL	536

\*Based on Mergermarket data for 'company for sale' stories published between 22/07/2018 to 22/01/2019



# MAZARS' GLOBAL COVERAGE

Mazars is a truly integrated, international partnership and this unique structure allows us to advise you as you expand internationally.

With dedicated Financial Advisory Services teams all over the world, organised by strong regional leaders, we combine the strength and sophistication of an international advisory practice with on the ground know-how to provide you with an optimum service.

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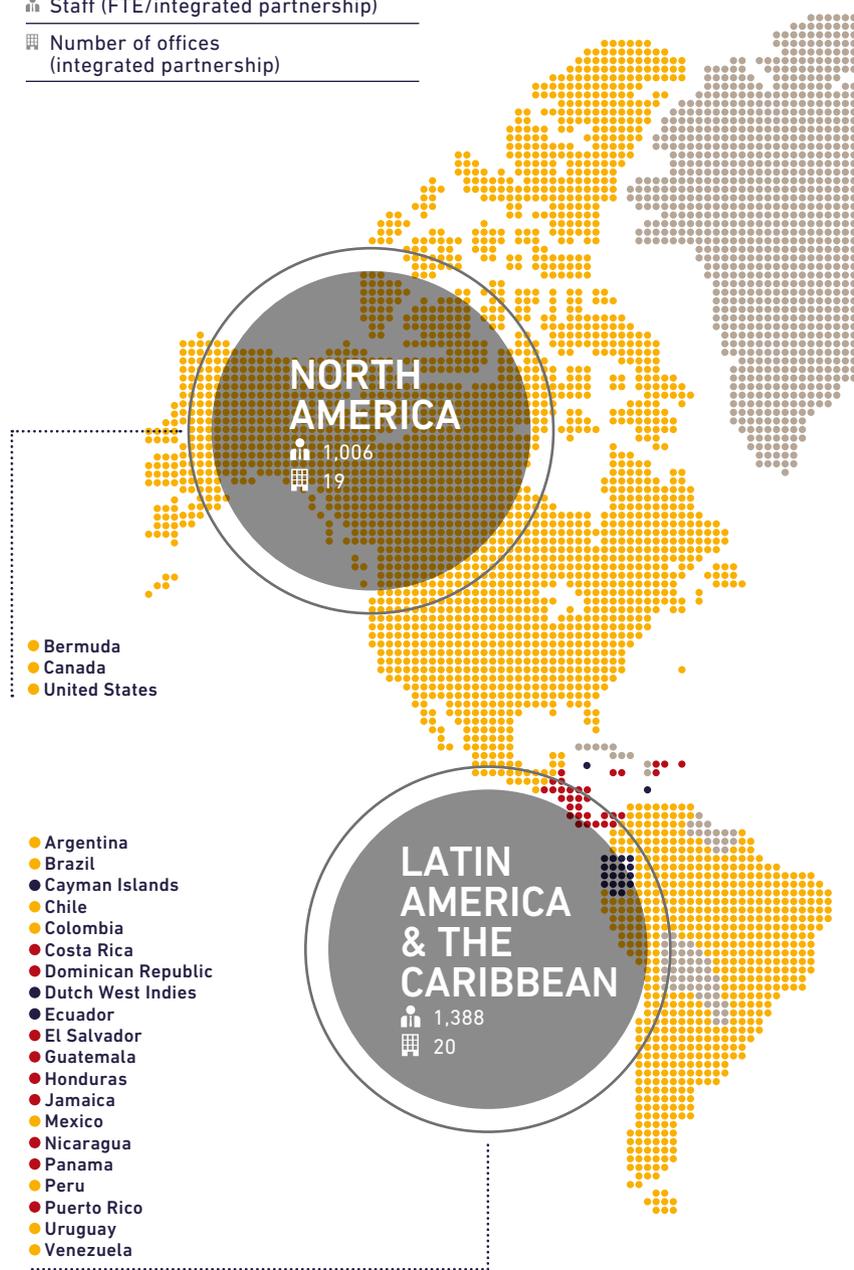
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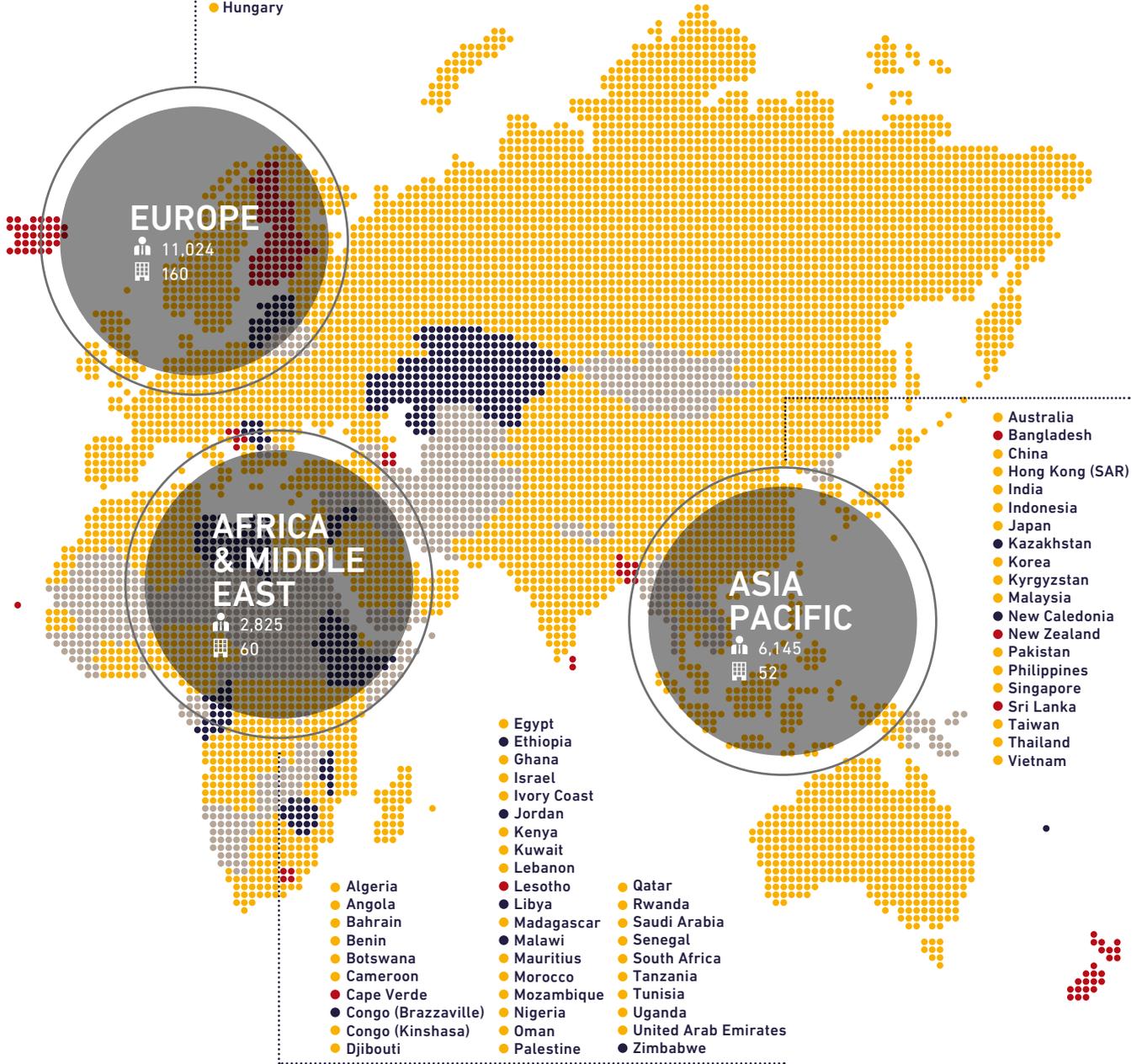
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- Integrated countries and territories
- Non-integrated countries and territories: Mazars correspondents and representative offices
- Areas covered via the Praxity alliance
- 👤 Staff (FTE/integrated partnership)
- 🏢 Number of offices (integrated partnership)



- Albania
- Austria
- Azerbaijan
- Belgium
- Bosnia & Herzegovina
- Bulgaria
- Channel Islands
- Croatia
- Cyprus
- Czech Republic
- Denmark
- Estonia
- Finland
- France
- Germany
- Greece
- Hungary
- Iceland
- Ireland
- Italy
- Kosovo
- Latvia
- Lithuania
- Luxembourg
- Malta
- Netherlands
- Norway
- Poland
- Portugal
- Romania
- Russia
- Serbia
- Slovakia
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- Spain
- Sweden
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