



unquote”

# CEE

# Larger deals underpin solid CEE performance

The appearance of larger buyouts drove values up and highlighted growing maturity in the region in 2016. Mikkel Stern-Peltz reports

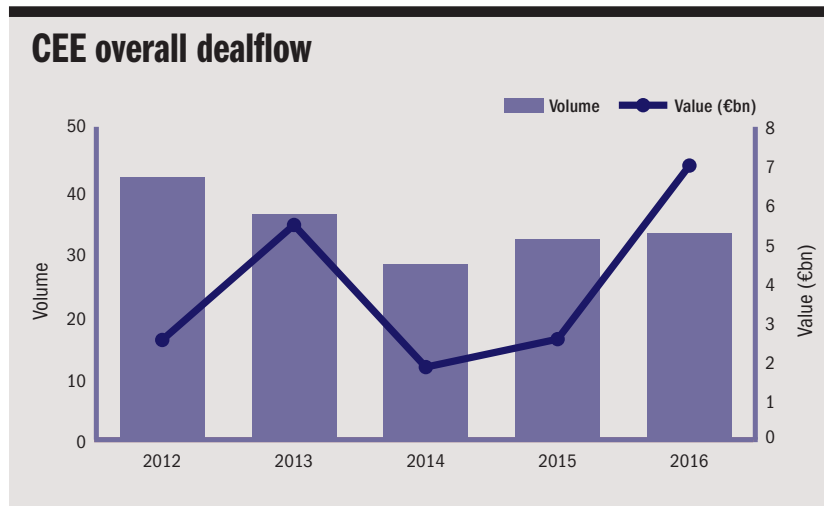
The central and eastern European economies saw a general slowdown in economic growth in 2016 after years of strong GDP performance, with Romania the only country to have a projected increase in year-on-year GDP growth for the full year.

According to February 2017 forecasts from the European Commission (EC), the Romanian economy was projected to post year-on-year growth of 4.9% for the full year of 2016, up from 3.9% in 2015. Romania is home to one of the region's largest economies and populations, but private equity deals have remained thin on the ground in recent years – though the country was a hot topic among CEE private equity professionals last year.

CEE's largest economy and historical buyout stalwart, Poland, is projected to see a slight slowdown in growth, from 3.9% in 2015 to 3.1% in 2016, according to EC's economists. The Czech Republic, also a substantial contributor to the region's buyout volume, is among the countries in CEE forecast to experience the largest drop in growth rates in 2016, with EC projections dropping GDP growth from 4.5% in 2015 to 2.2% last year. This drop is largely linked to the cycle of EU investment funding, EC stated.

The overall trend in the region is broadly in line with forecasts by the International Monetary Fund (IMF) in November 2016, which predicted "current growth may be difficult to sustain".

According to IMF: "With several years of growth near 3%, there are signs that output gaps appear closed outside the Commonwealth of Independent States, as unemployment rates are falling to pre-crisis levels, real wages are growing strongly, and credit growth is reaccelerating. However, inflationary pressures are still low and external balances healthy. Still, given subdued productivity growth and adverse demographics, these countries may not be able to maintain strong growth without renewed widening of external imbalances."



Source: unquote™ data

## Private-equity-backed buyouts

	2012	2013	2014	2015	2016
<b>Volume</b>	42	36	28	32	33
<b>Value (€bn)</b>	2.55	5.49	1.86	2.57	7.01
<b>Average value (€m)</b>	61	153	66	80	212
<b>% of European volume</b>	7.1%	6.3%	4.3%	5.0%	4.5%
<b>% of European value</b>	3.3%	6.4%	1.9%	2.0%	6.0%

Despite the slowdown in CEE's macroeconomic performance, the region still offers better average GDP growth rates than western Europe. Private consumption is expected to continue to be a major driver of growth in the region's most developed economies, which could be one factor contributing to the ongoing surge of CEE consumer buyouts.

## Politics

CEE has not been spared the effects of the populist wave that has been sweeping Europe. Poland's populists, the Law and Justice party, remain in power, while Hungary's prime minister, Viktor Orbán, continues to build his promised so-called "illiberal state" and to embrace pro-Russian policy. In Poland, the risk of the populist government implementing regulations that might impact private equity or investments negatively was a point of discussion in 2016.

Krzysztof Krawczyk, partner and head of CVC's Warsaw office, says investors are aware of the Polish political landscape, but does not see it influencing decision making yet. "Investors are taking more time to understand the regulatory trends in Poland," he says.

"The Polish economy is in a large sense immune from political uncertainty. SMEs, which are a significant part of the economy, are not reliant on regulations or availability and pricing of bank debt – there is very much an equity culture here."

Political risk increased in Turkey following the coup attempt and subsequent purge, combined with the armed conflict in its southern border region and authoritarian tendencies of President

Recep Tayyip Erdoğan. From being touted as a promising prospect for private equity just a few years ago, Turkey's buyout deal activity dropped to just one recorded transaction in 2016.

The armed conflict between Ukraine and Russia continues on the Crimean Peninsula, to the detriment of dealflow. Sanctions and Putin-

driven political risk has brought buyout activity to a standstill since 2014 and Ukrainian deals also remain few and far between.

In Transparency International's *Corruption Perceptions Index 2016* (published January 2017), most CEE countries placed below their western peers. In 22nd place, Estonia was the highest-ranked CEE country in the index, followed by Poland in joint 29th place. Battles with government corruption in Romania continued throughout 2016, with fierce public opposition to attempts by the government to weaken anti-corruption measures.

## Buyout environment

Central and eastern Europe continued in solid form last year, building on the good progress made in 2015. As usual, Poland was the driver of both deal volume and value, registering 14 buyouts worth a combined €3.5bn. Romania was the second largest contributor, underlining the private equity industry's surging interest in the country.

"2016 exceeded expectations for CEE," says Shawn Atkinson, partner at law firm Orrick. He believes interest in the region has materially increased, "both from maturing local economies producing local players but also an increase in international activity in the region. The maturity of Mid Europa, Innova Capital and the new push by CVC – alongside the smaller players such as 3TS – has created a flurry of activity over the last 12 months."

While deal volume in the region remained unchanged, average deal value shot up from €80m to €212m – an increase of 164%. This was driven by a substantial uptick in the upper deal segments, with three more deals in excess of €500m EV than in 2015. Total deal value grew to €7bn from €2.5bn in 2015, though the buyout of Polish online marketplace Allegro by Cinven, Permira and Mid Europa was behind almost the entire increase. At \$3.25bn, it was comfortably the largest in CEE in 2016 and, indeed, in the past decade.

Last year saw an unusually large number of deals in the €100m+ bracket for CEE, including deals for telecoms assets Bité and Starman, both valued above €200m, and Bridgepoint's €247m investment in jeweller Smyk.

In CEE's mid-market €25-250m bracket, total deal value increased by 50% and deal volume



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*Genesis Capital, Ondrej Vičar*

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grew across the €25-250m range. Orrick's Atkinson says the region's continually improving asset quality is a key driver behind this trend. "A maturing entrepreneurial culture in the CEE region has meant there are a huge number of mid-market companies ripe for the picking," he says.

While the mid-market grew, the region's traditional small-cap mainstay contracted in 2016. "I was somewhat surprised by the slowdown in the lower end of the market," says Krawczyk. "Traditional growth equity and the mid-market – which covers slightly smaller deal sizes than the western European mid-market – has historically been a very vibrant market and channel for deals."

### Pricing

A few large deals drove the leap in average deal value last year, but opinions on general pricing levels in the CEE region remain divided.

Allegro was an exceptionally large deal for the region, but one source involved in the bidding process said the asset was very fairly valued, despite its price tag.

Speaking to *unquote* towards the end of last year, Genesis Capital partner Ondrej Vičar said his firm is seeing "a general increase in the valuations expected by the owners/sellers" of around one turn of EBITDA multiple compared to a few years ago. This also affected the exit market: "2016 has been the year of exits, which reflects the fact that it is a seller's market now," he said at the time.

Krawczyk, whose firm operates at the opposite end of the market, says private equity in CEE has been rather disciplined in terms of valuing assets. "Views on pricing in the region may differ, but I believe, in general, private equity transactions are fairly priced, reflecting growth potential," he says. Overall, average entry multiples appear to have remained lower than other European regions.

Buyout leverage in the region remains conservative and mostly senior. Financing is predominantly from local banks, though alternative financing options continue to gain traction, driven in part by long-standing local players such as Mezzanine Management. "The availability of debt and different financing options became increasingly visible in 2016, and it is clear that sophistication of the region's private equity market has progressed," Krawczyk says, adding that debt levels remain low overall.

### Sourcing

Family and private vendors were overtaken for the first time by institutional investors in 2016. However, the view among industry professionals remains that succession at companies founded in the decade following the Soviet Union's fall will continue to be the most important source of deals in 2017, particularly in the smaller deal brackets. Many of the founders at successful companies founded during the 1990s are now reaching an age where they are looking to cash in, creating ample targets for the local buyout industry.

There were a total of 14 deals sold by financial sponsors in 2016, more than half of them exceeding €50m EV in size. This is seen as a sign of both the maturing CEE economies, which are conducive to continued growth in larger assets, and a maturing regional private equity industry, where both local and non-local players exist across the size bracket, increasing exit options for GPs.

Looking ahead, the view of CEE private equity investors appears to be broadly positive. As Genesis Capital's Vičar put it in December: "There is an ever-increasing amount of opportunities in the region – and anyone who says anything to the contrary is probably not leaving his office much or spends too much time moaning at the conferences."

### Exit environment

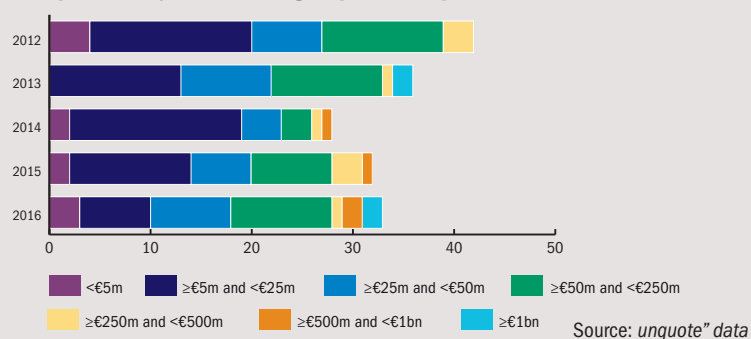
Following five years of declining exit numbers in CEE, the region managed to arrest its decline in 2016. The region has experienced prolonged holding periods for assets, which figures into the declining exit numbers in recent years.

The year featured a favourable exit market, noted by competitive processes for an increasing number of assets and some competition from strategic investors. Similarly, the continued development of SBOs as an exit route improved the exit environment for the CEE private equity industry.

Despite the improved outlook for the CEE exit environment, private equity exit pace needs to improve, as co-founder of Baltic GP Livonia Partners, Kaido Veske, told *unquote* in October: "When we speak to LPs, they are definitely concerned with the overall exit pace in the region. That has an impact on investor appetite." ■

# CEE STATS

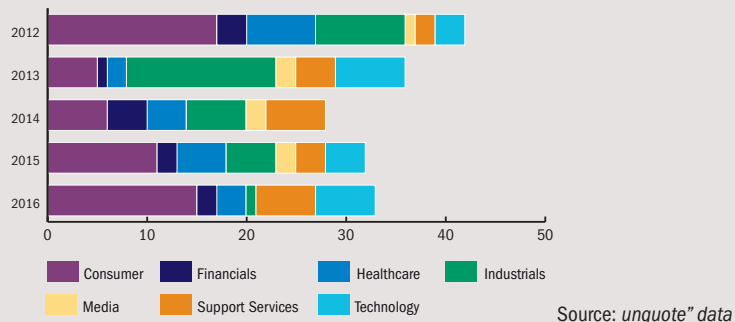
## CEE buyouts by size range (volume)



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	2012	2013	2014	2015	2016
<5	4	0	2	2	3
≥5 and <25	16	13	17	12	7
≥25 and <50	7	9	4	6	8
≥50 and <250	12	11	3	8	10
≥250 and <500	3	1	1	3	1
≥500 and <1bn	0	0	1	1	2
≥1bn	0	2	0	0	2

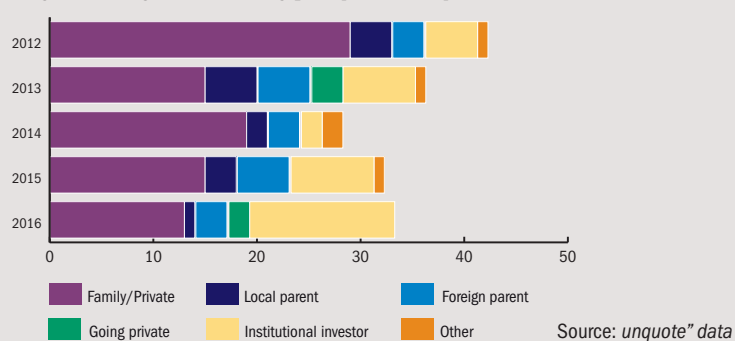
## CEE buyouts by supersector (volume)



## CEE buyouts by super-sector (volume)

	2012	2013	2014	2015	2016
Consumer	17	5	6	11	15
Financials	3	1	4	2	2
Healthcare	7	2	4	5	3
Industrials	9	15	6	5	1
Media	1	2	2	2	0
Support Services	2	4	6	3	6
Technology	3	7	0	4	6

## CEE buyouts by vendor type (volume)



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	2012	2013	2014	2015	2016
Family/Private	29	15	19	15	13
Local Parent	4	5	2	3	1
Foreign parent	3	5	3	5	3
Going Private	0	3	0	0	2
SBO	5	7	2	8	14
Other	1	1	2	1	0

## CEE exits 2016

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
ProfiRom	SBO	758	Enterprise Investors
MarsEntertainment	Trade sale	733.5	Actera
Bité	SBO	n/d	Mid Europa Partners, Ardian
Starman	SBO	210	East Capital
Novago (formerly USKOM)	Trade sale	125.4	Abris Capital Partners
Axtone	Trade sale	107.6 (est)	IK Investment Partners
WirtualnaPolska	Other	87.5	Innova Capital
Invia.cz	SBO	76	Mezzanine Management Central Europe, MCI Management
MelitaCable	SBO	n/d	GMT Communications Partners
Calucem	SBO	n/d	Argus Capital Group

**33**  
PE-backed  
buyouts in CEE  
in 2016

**€758m**  
Largest CEE  
buyout in 2016

## CEE funds 2016

Fund name	Fund manager	Fund target (€m)	Amount closed (€m)
Abris CEE Mid Market Fund III	Abris Capital Partners	500	300
Resource Eastern European Equity Partners II	Resource Partners	200	100
Runa Capital II	Runa Capital	146.4	98.8
Genesis Private Equity Fund III	Genesis Capital	80	82
Arx CEE IV	Arx Equity Partners	100	54
Zubr Capital Fund I	Zubr Capital	89.7	44.6

**€212m**  
Average CEE  
buyout size in  
2016

## CEE deals 2016

Deal name	Business description	Deal value (€m)	Sector	Equity
<b>Allegro</b>	Operator of an online marketplace	2,901.7	Consumer	Mid Europa Partners, Permira, Cinven
<b>Tipico</b>	Provider of sports betting	1,100	Consumer	CVC Capital Partners
<b>Profi Rom</b>	Operator of a grocery chain in Romania	533	Consumer	Mid Europa Partners
<b>Bité</b>	Provider of mobile network services to consumer and business customers	n/d (500-1,000)	TMT	Providence Equity Partner
<b>Melita Cable</b>	Provider of converged telecommunications services	n/d (250-500)	TMT	Apax Partners & Cie France, Fortino Capital
<b>Smyk</b>	Retailer of children's apparel and toys	247	Consumer	Bridgepoint, Cornerstone Capital
<b>Fix Price</b>	Operator of a chain of fixed-price supermarkets	233 (est)	Consumer	VTB Capital
<b>Starman</b>	Provider of cable television, VOIP telephony and ISP services	210	TMT	Providence Equity Partner
<b>Kredyt Inkaso</b>	Provider of debt collection services	113.4	Financials	Waterland Private Equity
<b>Peyman</b>	Producer of edible nuts and dried fruits	99 (est)	Consumer	Bridgepoint
<b>Marmite International</b>	Manufacturer of cast marble bathroom fittings	n/d (50-250)	Consumer	Cranemere
<b>Invia.cz</b>	Operator of travel booking website	76	TMT	Rockaway Capital
<b>Calucem</b>	Supplier of calcium aluminate cement	n/d (50-250)	Industrials	Ambienta
<b>Graal</b>	Producer of fish products	59 (est)	Consumer	Abris Capital Partners
<b>Green Group</b>	Provider of waste disposal services	n/d (50-250)	Business Services	Abris Capital Partners
<b>Árúkereső</b>	Operator of price comparison and shopping guide site	n/d (25-50)	TMT	Rockaway Capital
<b>Kopernikus Technology</b>	Provider of cable TV and broadband services	n/d (25-50)	TMT	Abris Capital Partners
<b>La Fantana</b>	Provider of spring water and coffee machines for offices	40	Business Services	Oresa Ventures
<b>ProService Agent Transferowy</b>	Provider of transaction execution services	n/d (25-50)	Business Services	Oaktree Capital Management, Cornerstone Partners
<b>Intersport ISI</b>	Retailer of sporting goods	34.5	Consumer	Enterprise Investors
<b>Polskie ePłatnosci</b>	Provider of electronic payment services	34	Business Services	Innova Capital
<b>Norie Group</b>	Producer and distributor of toys and cardboard games	n/d (25-50)	Consumer	Enterprise Investors
<b>QFG</b>	Producer of meat-based ready-to-eat and pre-cooked meals	28.2	Consumer	Highlander Partners
<b>Qualitas Arstikeskus</b>	Provider of general and specialised medical services	n/d (5-25)	Healthcare	Baltcap Management