Boosting M&A Transactions in CEE Region-What is behind the above average volume of M&A transactions in CEE Region

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Abstract- *Considering the last 2 calendar years, the M&A Market in CEE Region is very active. The M&A market measured by volume of transactions almost doubled year-on-year and trend is expected to continue in following months. This is based on few large transactions completed very recently. But on the other hand, there is large activity in the area of smaller transactions as well. Comparing with the rest of the Europe, the trend is completely different. The cumulated volume as well as the number of transactions is constantly decreasing. What is behind the increased M&A activity in CEE Region? Why CEE Region is so different from rest of EU? This article tries to gives reader a better understanding of the situation in the region in terms of M&A activity and the background and what are the prospects in terms of future activity in selling and buying companies. The author has had an ambition to analyze the factors influencing these 3 critical incentives leading to changes acquisition appetite as well as pros and cons of changes in the companies' shareholding.*

Keywords- *Acquisition price; Banks appetite; Company acquisitions; Divestments; Enterprise value*

1. INTRODUCTION

April 23, 2013, Mlada Fronta published an article informing about the boom in Merger and Acquisitions in the region. According to the statistics of Mergermarket, the volume of contracts in terms of acquisition transactions agreed for 1st quarter of 2013 was EUR 3.2 billion. 2013 has a big chance to become a record year. The article informs that the power generation and utility sector continues to be the most attractive for the investors, whereas the most attractive transactions in the region were the acquisition of 49% ownership in Slovensky plynarensky priemysel by Energeticky a prumyslovy holding in contractual amount EUR 2.6bln and acquisition of Net4Gas by Private Equity Funds of Allianz and Borealis. Besides, there are several large transactions outside of energy and utility sectors, specifically acquisition of 25% of Generali PPF Holding by Generali from PPF Group and acquisition of Fincentrum by Private Equities and private investors. Recently, 3 other major transactions have been completed, acquisition of SSE by EPH with acquisition price of EUR 400mil for 49% ownership stake and recently announced acquisition of Czech subsidiary of Spanish telecom group Telefonica O2 by PPF and considered divestment of 40% ownership in EPH by PPF. It is important to stress out a fact that the trend in CEE Region is different from what is happening in rest of Europe in the area of merger and acquisitions. The year on year change in 2013 is increase by 96%, whereas globally the volume of M&A was 10% lower than in 2012. Within the Central and South Europe region, the Czech Republic ranked third in number of completed transactions behind Turkey and Poland. The region's mergers and acquisitions market saw a slight drop in activity in 2012 in both the number and total estimated value of completed transactions. In contrast, the number of transactions increased 30% in the Czech Republic from 119 to 155. The estimated value of transactions effected in the Czech mergers and acquisitions market increased 39% to USD 8.32 billion. The extraordinarily large SPP transaction is behind this large increase in the CR and Slovakia. The Czechs were also the most active investors in Central and South Eastern Europe (12 transactions), followed by Poland (9 transactions). The sectors most attractive to investors in the CR were services, followed by manufacturing and real estate. In contrast, there was a surprising drop in interest in IT firms, These are the results of the ranking of mergers and acquisitions entitled "M&A Barometer in the Czech Republic and Central and South Eastern Europe region" compiled by Ernst & Young." How come the development in CEE Region can be so different from the neighboring countries? What's the logic behind such a huge difference between Czech Republic and surrounding countries? To be better understand the M&A trend in the region, we need to go back to 1989 and years subsequent, when the state controlled economy has started its transformation process in combination with change of ownership.

2. BACKGROUND

Till 1989, the economy of former Czechoslovakia was dominated by large corporate, all being state owned and fully controlled through organizations and ministries reflecting the political will of the Communist Party as the leading power for more 40 years. The economy was organized based on 5 year plans approved by the top representatives of the political representations. Private businesses represented very limited scale on overall economy and were focused on services and activities, where state regulated companies failed to supply the market demanded services. Another feature of these companies was their size, number of employees were limited to single digit.Velvet revolution represented an initial, but an essential step for the transition process in Czechoslovakia and its economy. Change in the political system has initiated transformation of the economical system of the country. Czechoslovakia being an integral part of the ComEcon Sector with centrally regulated economy till 1990 has started transition to a free economy. In 1991, the Czechoslovak Federal Parliament has approved legislation No. 513/1991 specifying legal forms of enterprises in the Czechoslovakia, which was critical for launching business in the country. In the same year, Czechoslovak Federal Parliament has approved so called “Privatization Law” specifying the term and conditions for transition of the state owned companies to companies with private ownership, i.e. ownership other than by state. These 2 legislations were preconditions to start launch new businesses as well as transform the existing state owned enterprises to privately owned companies through auctions, direct sales or transformation of companies or their parts to private individuals or foreign investors.

3. TRANSFORMATION AND LIBERALIZATION OF THE ECONOMY

Following the approval of the 2 a.m. regulations, the gradual transition of the Czechoslovak economy has started. The split of Czechoslovakia into 2 independent countries in peaceful way did not have adverse effect on process of liberalization of the state regulated economy to an open economy. The liberalization itself had several forms; new privately owned businesses have been established, foreign companies entered Czechoslovak economy either through establishment of subsidiaries or acquisitions of state owned enterprises or their parts; and state owned companies have been transformed to public companies and then privatized.Through greenfields established by Czech entrepreneurs and privatization of former state enterprises by local individuals or by companies owned and controlled by Czech businessmen, the local business community/sector has been gradually growing and in 20-year time since the velvet revolution it represent important part of the Czech economy.Nevertheless, the 20 year history was very turbulent, considering the absence of the principles of the business standards and the business moral known and applied in the Western European Economies in the economic environment of the Czech economy, especially in 90-ties. The general trend in late 90ties and early after 2000 in economy was that the number of newly launched businesses was steadily growing. The former state enterprises following their privatization (either through coupon privatization or direct sales to investors) were going through consolidation of their business and restructuring because of the uncompetitive in a changed economic environment or even closing their operations for various reasons. At the same time, the small companies have been gaining market share on the account of the large corporates and started to compete with the traditional producers. The success of the small and midsized companies was based on their flexibility and the shareholders running the businesses themselves. Period of 2006-2008 was very hectic; some sectors have been growing double digits and economies were showing constant growth. This created opportunities for companies also established just some 10-15 years ago in Czech Republic. Those who were able to identify the market opportunities, were able to substantially increase profitability of the companies and thus increasing the enterprise values. On top of the EBITDA multiples as key as enterprise value indicators have been growing based on the investors’ positive market sentiment and expectations of a continuous growth of the economies. The readiness of investors to overpay the enterprise has been supported by the appetite of the banks to finance such transactions not asking higher equity contribution nor guarantees to inject capital if future development is different from the highly optimistic business plans. Assuming receipt of very attractive price payment, the vendors were ready consider to sale their ownerships in the businesses they established or businesses, which they acquired as bankrupting enterprise and consequently the vendors have made a successful turnaround. This was also motivated by the fact that large group of vendors have been closing or even exceeding the age of 60-ties and they did not have successors in their families to take over the companies.

4. CHANGE IN THE MARKET SENTIMENT

Years 2008 and 2009 did represent a dramatic change in investors’ appetite. Investors, especially the private equities from European Markets and U.S., immediately withdraw from the market. The withdrawal meant that they completely stopped their investment activities and started to reconsider their exposure in some of their existing businesses and investments. This practically lead to a situation, where number of investors have dramatically disappeared and the companies that were for sale increased. This had a fatal impact on enterprise valuations, measuring the enterprise value EBITDA based, the EBITDA multiples has decreased. But the decrease was different for various sectors and key indicator was certainty the future cash flow as source of repayment. The uncertainty that followed after Lehman Brothers dramatically affected also the appetite of banks to finance acquisitions and take long term exposures. At first, banks completely stopped financing in general, not only financing of acquisitions and started to review their exposures and assessing the volume of provisions to be created. After the detailed revision, some large US as well as European banks did realize that they are facing risk of bankruptcy. The other banks completely lost their appetite taking a “sit and wait” position, i.e. practically stopped the landing activities and focusing on their survival. Only few banks were open for business, but being selective in terms of credit exposure and focusing on blue chips and high profile credits. The Czech banking market being predominantly owned and controlled by foreign banks did react immediately, even if the Czech economy did show signs of disruptions with few months delay only. Banks in Czech Republic followed the instructions coming from the headquarters and started to review their policies in terms of risk appetite. Even if the volume of provisions created for bad loans was not as dramatic as in case of banks in Spain, Italy, France, UK or US requiring bail-out financed from state budgets as the Czech banking market went through a restructuring in 2000, when the banking portfolios were totally wiped up through the state owned bad bank named Czech Consolidation Bank prior their privatization. Nevertheless, the banks being part of multinational banking corporation did completely closed their books for new transactions, predominantly structured lending transactions including acquisition finance and focused on maintenance of the existing business with ambitions to minimize losses.These all did lead to a complete freeze of the M&A market. As the banks were not prepared to finance acquisition, the investors were expected to deliver substantially more equity, which decreased ROI affecting the overall attractivity of any investment made. Besides, there was a big uncertainty in terms of the market development, which in combination with high price expectations of the Vendors, made the M&A market absolutely unattractive.

5. RECENT TRENDS IN THE CZECH CORPORATE AND SME SECTORS

Following the consolidation of the economies in 2010 and 2011, the investors have returned the Czech equity market, which dramatically increased the activity of the M&A Markets. The number as well as the average size of M&A transactions has been steadily increasing. Nevertheless, the sale price measured as EBITDA multiple dramatically decreased and never returned to the level prior Lehman Brothers. What are the key incentives the investors have returned to the M&A Market? Why the number of transactions have increased? What is the motivation for sale and for acquisitions? In general, we can say that incentives are different, but the most frequent reason for divestments these days are:

- limited capacity of the stakeholders to support their businesses either in situation the companies are facing liquidity pressure or to support the future growth of the business; and
- age of the main business drivers, who wants to retire, in combination with absence of skilled, qualified, motivated heirs;
- foreign investors selling their subsidiaries based on the decision to focus on key markets / businesses and their operations in CEE Region are out of the definition of core market from a group perspective and thus divesting
- private equities exiting their investments after pre-defined exit.

5.1 LIMITED CAPACITY OF SHAREHOLDERS TO SUPPORT BUSINESSES IN TURBULENT PERIOD

Large number of shareholders has limited capacity to inject equity to their businesses. Their personal wealth is in many cases represented by value of the enterprises owned. This is typical feature primarily for those, who established their businesses as “grenfields” and all profit generated over the existence of their companies has been reinvested back to the businesses with aim to support their growth or profit has been used to restructure companies acquired after their acquisition through privatization of a state enterprise. In turbulent period, a weak shareholding structure, i.e. shareholders with limited capacity to support their businesses by fresh cash, represents a significant weakness for each enterprise. The banks or other creditors not seeing support of the shareholder are not willing to take equity risks injecting cash or extending credit. This has been proven many cases, when the shareholders had limited capacity or were not willing to inject fresh cash to their businesses and other creditors immediately withdraw their credit exposure and as a natural consequence many of those companies did not overcome the downturn in business cycle and resulted in bankruptcy or take over by third party investor acquiring the entity as distressed asset. In Czech Republic, many of the managers and shareholders have experienced difficulties in period following 2008, when their businesses did lose substantial part of their revenues in very short time influencing the liquidity position of the companies. To overcome difficulties and manage survival of the businesses in changing business climate has required a resizing exercise to adjust capacities to the actual business. Companies under restructuring require extra cash, out of the standard cash flow from ordinary activities, coming from outside if company did not manage to create sufficient cash reserves in good time that helps to cover extraordinary costs related to restructuring of the business. Quick response is always the most crucial to overcome difficult period in life of every single company. Thus the companies need to have cash reserves available or shareholders willing to inject cash.The general policy of the banks is not to take equity risk in private enterprises. Therefore, the banks are not ready to continue financing the operation of companies with substandard credit profile without seeing sufficient volume of fresh cash coming from the shareholder representing the reserve, which can be used to finance the restructuring costs if necessary. Those that did not have the cash buffer available or cannot rely on strong shareholders ready to inject fresh cash, need to seek support from external junior creditors with equity kicker or equity provider coming to save the company injecting new money to the business, but taking share on business of the company and control over the business at least until the situation in company is consolidated. Many of stakeholders and managers in the Eastern Europe have been facing such difficult situations for the first time and they were not able to identify the eminency of the measures to be made to restructure the business. On top of that the absence of reserve cash has further delayed action. That made the companies struggling or even facing insolvency. The many cases the situation was worsened by banks calling loan provided. Based on that some shareholders were forced to seriously consider sale of their part of their shareholders stakes or completely exit as they were not able inject cash from own sources.

5.2 RETIRING BUSINESS OWNERS

As mentioned above, many entrepreneurs have been running their businesses for almost 20 years and taking active role in day to day operation of the business. After such period, many of them lost their motivation to be involved in management of the business. In such case, the options are either hand over of the management and ownership within the family of the shareholder, appointment of professional management or sale of the shareholding.In many cases, the relatives have no interest or capacity to run the businesses. Based on that the stakeholders are forced to either appoint professional management or sale the business. But there are situations, where the shareholders have no one in the family, who could inherit the ownership stake. In such case there is only 1 option – sale of the business.

5.3 STRATEGIC INVESTORS SELLING THEIR BUSINESSES

Some multinational group having their businesses in the Czech Republic have decided to divest their activities and proceeds from sales of those assets reduce their group indebtedness. The need for reduction of the external debt in their balance sheets or change of the strategy came as a result of the decreased profitability increasing the Net Debt to EBITDA multiples above the current banking market standards. Through sale of their activities in countries defined as none core markets, multinationals can optimize their balance sheets make them more attractive for the investors and creditors. Sale of minority stakes in SPP operating transmission grid in Slovakia by Ruhrgas and Gas de France and sale of Net4Gas by RWE were based on decision of parent group based in Western European Countries to focus on their home markets. Same reasons were behind the considered sale of Czech assets of Swiss based ALPIQ Group been seriously considered, but no investor was willing to overpay the asset.

5.4 PRIVATE EQUITIES EXITING THEIR BUSINESSES

Private equities are entering into businesses with clear pre-defined exit strategies. In that period, private equities have ambition to upgrade the business of the target company and repay substantial part of the acquisition loan from the cash flow of the target and exit the business at higher price reaching maximizing their returns on investments. The usual time horizon is 5 years. EBITDA multiples after 2008 have completely changed. The overall market perception of investors and market players has changed and the overall overoptimistic perception of future growth has changed to a negative to stable resulting and acquisitions made prior 2008 were priced at completely different levels of EBITDA multiples comparing the current situation on existing M&A Market. This is one of the reasons that PEs cannot reach their targeted Internal Rate of Return (IRR). Besides, the banks withdraw from markets or reduced the tenor of financing to 3 to 5 years, which made bank many acquisition financing transaction difficult to execute or requiring more equity, which was no-go for many investors.

6. ANALYSIS OF THE KEY INCENTIVES FOR INCREASED ACQUISITION ACTIVITY

Naturally, the sale of enterprise is not an easy and uncomplicated process and requires proper timing. In 2009 and thereafter, the appetite of investors for acquisition has diminished and the EBITDA multiples as one of the key indicators of enterprise values has substantially decreased. On the other hand, owners of the businesses were still expecting enterprise values close to the levels in 2007 and 2008. As a result of this, there were almost no transactions in the Czech Republic and the stakeholders were forced to stick to their companies and manage them in very volatile period. On top of that banks did substantially revise their financing appetite and financing beyond 3 years in tenor was not realistic. Basically, there were no major acquisition deal 2012 completed, except few transactions, which sale was results of bankruptcy and was managed by bankruptcy administrator (Kordarna) or the price for the enterprise paid was completely out of standard market parameters (PILSEN STEEL) and financing came from abroad. Late 2011 and 2012, the equity market in Czech Republic as well as in the CEE Region has indicated recovery. After several years of being dormant, the investors, financial as well as strategic, demonstrated appetite for new acquisitions. This was supported by behavioral change of Vendors as well as financial market.

The Vendors have accepted the enterprise value has changes. Besides, banking market has recovered and restarted lending business with longer tenors and more attractive pricing and structure conditions, but still requiring more equity contribution than prior 2008. At the beginning, investors were very selective looking for companies in less volatile sectors (energy, food, chemical etc.) and ready to pay less than few years ago (pricing typically measured through EBITDA multiple). The investors' appetite has been also supported by number of unique opportunities of large, strategic assets that have been available.

7. CHANGE IN EBITDA MULTIPLES AND IMPACT ON M&A MARKET ACTIVITIES

As mentioned above, there are several factors that influence the increased activity in terms of acquisitions on the side of the acquiring entities and entrepreneurs. Key factors being: appetite of the investors, decrease Debt to EBITDA multiple and banks readiness finance new acquisitions.

7.1 APPETITE OF THE INVESTORS AND BANKS

The appetite of the investors is depended on Internal Rate of Return. The internal rate of return (IRR) or economic rate of return (ERR) is a rate of return used in capital budgeting to measure and compare the profitability of investments. It is also called the discounted cash flow rate of return (DCFROR) or the rate of return (ROR). IRR is a suitable (and popular) choice for analyzing venture capital and other private equity investments, as these strategies usually require several cash investments throughout the project, but only see one cash outflow at the end of the project (e.g., via IPO or M&A). The level of attractivity of the investment measured through IRR is dependent not only on price of the asset acquired, interest rate, but primarily by the level of equity contribution required. In other words, the lower equity contribution, the bigger interest of the investors as the IRR is higher. Till 2008, the banks were ready to finance more aggressive acquisition structures with substantially lower equities than it is obvious in these days. The acquisitions of assets were than more attractive for investors, which increased the overall appetite of the investors for acquisitions and resulted to price competition among the investors at the end of day. The double digit growth in some of the sectors was strong incentive to acquire as well as finance such transactions assuming the quick repayment of the bank financing. The banks had appetite to finance transactions up to 5 multiple of EBITDA for some sectors, which is considered as very aggressive under the current market circumstances. Thus the equity the investors were requested to participate with on the risk of the new investment was substantially lower. Thus the returns on investments were substantially higher than it was in 2009 and thereafter. This all led to an increased investment activity of the investment. Even high price of enterprise measured as EBITDA multiples paid to Vendors, the investors were able to reach their targeted IRR. How come? It is very understandable, the banks are taking more and more equity risk and the investors are not required to take any or just marginal risk on the investment as the equity contribution is low. Year 2008 was a year, when the market has completely changed. The banks has withdrawn from market and dramatically restricted their lending business. This had an immediate effect on the acquisition financing transactions as well, which are considered as more risky considering the future cash flow of the target company being the primary source of acquisition debt repayment. In situation the business volume shows negative trend and there is big uncertainty about the future cash flow, the banks are naturally very hesitant to go for 5 year financing risk. Financing in such case is manageable only with high equity contribution of the sponsor and for rather shorter period, usually not exceeding 3 years. Under such parameters the investors are not reaching their targeted IRR.

7.2 SETTING THE ENTERPRISE VALUE

There are several ways how to define the enterprise value. The most frequently used methods are:

- equity value,
- tangible net worth,
- market value;
- liquidation value,
- EBITDA multiple,
- Net Present Value of free cash flow.

Let me briefly summarize the basic differences between each method and their application.

Equity value and Tangible Net Worth are methods based on the balance sheet of the target company; the only difference that Tangible Net Worth is more detailed as the equity value is reduced by amount of intangible assets sitting in the balance sheet of the company, typically goodwill, patents, licenses etc. These methods have limited applications as the book value is usually different from the face value of the assets. Market value is usually applied for single or limited assets company. Typically, when a real estate is owned by a company real estate is for sale of including the company owning the respective company.Liquidation value is a method, which is used for distressed assets, i.e. companies that are defaulting under their payment obligation. The liquidation asset is calculated as market value of the assets owned less the liabilities less the costs related to liquidation of the business (e.g. costs for dismissing employees, costs for liquidation of the ecological burden). Enterprise value defined as EBITDA multiple is typical for going concern businesses. EBITDA defines the cash generation capacity of the target company. The more predictable and stable the business of the target, the higher EBITDA multiple applied in setting of the enterprise value. Using this method, it is very important to deduct the amount of net bank or similar type of indebtedness from the amount of EBITDA multiple. Net Present Value of the Future Free Cash Flow (also called Discounted Cash Flow Methodology) is method for evaluation of project companies or real estate companies with rental contracts. This method assumes the future value of contractually guarantee discounted cash inflow less payment obligation, typically tax, debt service, mandatory CAPEX etc. The discount factor is usually the compilation of interest rate and the targeted IRR of the investor.

7.3 DEBT TO EBITDA MULTIPLE AND CONSIDERATIONS

The most frequently used method is EBITDA multiple. EBITDA multiple depends on sector as well as the actual market cycle, growing or decreasing. EBITDA multiple indicates, what is the cash flow generation capacity of the target company, which can be used as source or repayment of the acquisition debt or source of dividend upstream. Setting the price as EBITDA multiple requires considering and analysing the certainty of future cash flow. For enterprises, where the future cash flow is better predictable and there is bigger certainty of future revenues and profit margin, the EBITDA multiple is naturally higher for enterprises, where the future cash flow is better predictable and there is bigger certainty of future revenues and profit margins, EBITDA multiple is naturally higher. Very important is also to understand the business and sector cycle; the EBITDA multiple for ascending sectors is naturally higher that for sectors, which evidenced or predicting descending trends in business. Naturally, the price defined as EBITDA Multiple is less predictable price as a result discounted future cash flow, because it disregards future volatility of cash in and out flows (i.e. potential revenues from sale of non-core assets, future CAPEX requirements and income tax payments as cash outflows).Comparing to Discounted Cash Flow Methodology, where the enterprise value is based on existing contracts guaranteeing future cash inflow and disregards any potential change in business and revenues, methodology of EBITDA Multiple allows adjust revenues and cash-flow of the company based on assumed future new strategy, contracts or business focus, incorporate deterioration or uptick of the global economy influencing the market development of the company as such. Setting the enterprise value, the investor needs is to analyze the future cash flow and its probability and how volatile is the cash flow. Part of the assessment is consideration, whether the target company can maintain its current EBITDA generation capacity. Important piece is specification of the future CAPEX plan of the company that will maintain or even increase the revenue generation capacity, but naturally decreasing the cash generation capacity of the target. This is why the investors and vendor are looking at enterprise value. It allow to investors adjust the scenarios, prepare the best case as well as worth case scenarios considering all external and internal factors, which naturally influencing the IRR of the investment.Nevertheless, the considerations of the Investor and Vendor in setting the enterprise value are usually different. The Vendors are naturally more optimistic and expecting higher price. The Investors need to analyze risks in bigger detail and reflect those risks in final price.

8. CHANGES IN EBIDTA MULTIPLES AND OTHER RECENT TRENDS IN M&A BUSINESS

Till 2008, EBITDA multiples were growing as the global economy, investors were enthusiastic and the banks lost their risk awareness. In 2008, the situation completely changed. M&A market collapsed as the banks withdraw from the financing market and the investors completely lost their appetite considering negative outlook and substantially higher equity contribution requested by the financing banks. On the other hand, the price expectations of Vendors remained high anticipating price of the target at pre-crisis levels practically disregarding the negative market sentiment. In contrary, almost no bank financing available with high equity contribution required meant that there was no way to find a price compromise between seller and buyer. Year 2011 was a breakthrough. The Vendor started to understand that good times are gone with limited chance that EBITDA multiples evidenced in 2007 and 2008 shall ever return. Besides, some investors were forced to sell as their companies needed fresh cash to continue the business and the bank financing contracted. But there were also other reasons, why to sell, e.g. private equities exiting their investments, the entrepreneurs that established the business lost interest in running their businesses with no option hand-over the business to relatives; strategic investors selling non-core assets or assets in non-core markets. At the same time, the market has evidenced increased activity of the investors as well. After 2008 and 2009, when there was no activity on M&A Markets, the private equities were the first showing appetite for acquisitions of new assets. This was based on excess of liquidity cumulated in their equity funds and need for remuneration of those money and banks being more aggressive in terms of structure, which in combination of lower EBITDA multiple represented a situation, the private equities could reach the targeted IRR.The increased activity in terms of acquisitions of companies is viewed also in light of change in investors' group. Prior 2008, the majority of investors were originally from developed countries, primarily Western Europe and North America buying assets in Czech Republic and other Central European countries being that time considered as emerging economies. The targets were traditional Czech companies with long history, which needed restructuring, but also companies that were established 1990 and thereafter. After 2010, the situation has completely changed. Some of those that were active on buy side few years ago, now are considering exit strategies. The more assets for sale, the lower price of assets for sale. This is because of the capacity of Investors to finance and manage companies is limited.

9. PROS AND CONS OF THE ACQUISITIONS

Very positive for M&A Market is the recently evidenced activity of some new investors with their routes in Emerging Markets, especially China, India and Russia. These investors have big appetite as well as capacity to finance new acquisitions. For these investors, the crucial peace in acquisition is to get presence in EU, which would allow them declare them EU origin of their production being predominantly processed out of EU and just the ultimate processing phase would happen in EU. This is easy way how to buy-pass the EU restrictions related to import of some products and commodities or avoid import taxed set by EU Countries or EU itself. The increased activity on M&A Market and changes in the shareholding has positive as well as negative aspects. The investors acquiring companies have an ambition to restructure or at least adjust the operation of the target companies by eliminate the unnecessary cost and adjust the strategy with ambition to increase its efficiency and thus increase the enterprise value and the investors return from the investment. The negative about the acquisitions is that fact that they are usually co-financed by the bank, whereas the source of repayment is the cash flow of the target. Additional debt burden reduces the free capacity and free cash flow of the targets that could is used as source of repayment for loans to used for financing of investments. The cancelled or delayed CAPEX can negative impact on its competitiveness. On the other hand experienced and risk cautions investors consider the additional CAPEX and either reduces the acquisition price by the amount of future CAPEX or delivers additional equity to transaction.

10. SUMMARY AND CONCLUSION

As demonstrated above, there are several reasons for divestments of companies. But why new other investors are having appetite for acquisitions when vendors are selling their businesses? What is their motivation, when others are in divestment mode? The main reason is that the investors are expecting recovery of the economy in reasonable time horizon after year the economies have been struggling and some of them continue to struggle or making add on to their existing businesses either increasing capacities or enlarging the product portfolios are expecting return of their investments. For some investors, especially investors from Asia, such as China and India, are seeking for investment opportunities with ambition to get capacities in EU and thus get easier access to EU Markets by partially or fully eliminating the barriers for importers out of EU Markets.The foreseen future recovery of the market and the businesses can make the acquisition price paid for the companies these days very attractive in future. On top of that reputable investors have access to bank financing, as the banks in the Czech Republic, but also in Poland and Slovakia over liquid and they are seeking to allocate funds in risks that are acceptable. But still being very selective. Nevertheless, still increased number of M&A transactions demonstrates the trust of the investors for the region and their positive expectations with ambition to utilize the opportunities to buy assets at very prices or assets, which sales shall not be repeated in near future. In general, we can say, the shareholders have started to understand that they need to review their price expectation, which helps lot to M&A Market recovery. But talking to M&A market players, especially private equities, the price expectations of Vendors and Investors are still far away from each others, which can be the biggest risk of M&A Market for future.

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