

# MERGERS & ACQUISITIONS

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## **Mergers & Acquisitions**

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Financier Worldwide canvasses the opinions of leading professionals around the world on the latest trends in mergers & acquisitions.

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# ROMANIA

**SILVIU STOICA**

S.C.A. POPOVICI NITU STOICA & ASOCIATII

**Q HOW WOULD YOU DESCRIBE M&A ACTIVITY IN ROMANIA OVER THE LAST 12-18 MONTHS? WHAT FACTORS ARE DRIVING DEALS IN THE CURRENT MARKET? ARE CERTAIN SECTORS MORE ACTIVE THAN OTHERS?**

**STOICA:** Without either spectacular growth or prospects for major developments, the Central & Eastern Europe (CEE) regional market continues to grow. It looks like more of a tempered growth, as the general feeling in the M&A environment across emerging Europe is still one of uncertainty. This uncertainty results in caution for investors when it comes to making deals in the region. So investors direct their attention toward more stable jurisdictions within CEE. Inside the country-sized clusters which feature a comfortable degree of stability and predictability, M&A deals are mainly fuelled by a visible, steady improvement in the quality of businesses. Entrepreneurs have learnt that organically healthy businesses with foreseeable growth prospects are the best lure for investors, irrespective of the industry. Leading sectors in the CEE remain technology, media and telecommunications (TMT), manufacturing and real estate. In fourth place is the finance, banking and insurance space. It is also worth keeping an eye on the retail, services and healthcare sectors.

**Q HOW WOULD YOU CHARACTERISE THE APPETITE OF STRATEGIC AND FINANCIAL BUYERS FOR M&A? BROADLY SPEAKING, WHAT FUNDAMENTAL ASPECTS OF A BUSINESS ARE THEY LOOKING FOR WHEN IDENTIFYING A PROSPECTIVE TARGET?**

**STOICA:** Investor appetite for doing M&A in CEE is there, although it has been somewhat tempered by the uncertainty that characterises this part of Europe. Private equity investors, rather than strategic and financial buyers, were more active in this regional M&A landscape. Private equity investment funds seem to be more interested in going out shopping for businesses and they can find various attractive deals in CEE. Generally, investors seem mainly interested in spending their money on less risky businesses, as their risk profiles have diversified considerably in the recent past. So buyers are looking for healthy businesses, not necessarily large players in their sector, but those companies which display real potential for growth.



**Q WHAT STEPS SHOULD A BUYER TAKE TO MINIMISE TRANSACTIONAL RISK IN A DEAL? IS THOROUGH DUE DILIGENCE AN INDISPENSABLE PART OF THE PROCESS?**

**STOICA:** The lower the transactional risk in a deal, the higher the chances for a successful, satisfying transaction and smoother integration. In the current regional landscape, dominated by uncertainty and diverse, complex risk profiles, minimising transactional risk seems to be the primary concern for investors. Ultimately, necessary steps toward lowering the transactional risk rate and the number of deals that 'fail' would include proper and professional valuation, a thorough assessment of the target business, and effective integration mechanisms. A thorough due diligence investigation in as many areas as possible – such as commercial, tax, legal, and so on – is a prerequisite in virtually all M&A deals. These investigations help a potential investor to make a more informed decision about whether or not to buy, and ultimately may be used during negotiations on price and liability conditions, among others.

**Q HOW WOULD YOU DESCRIBE THE BANKING AND FINANCE ENVIRONMENT, IN TERMS OF ITS APPETITE TO SUPPORT M&A DEALS IN ROMANIA? WHAT IS YOUR ADVICE TO ACQUIRERS ON DESIGNING AND NEGOTIATING THE OPTIMAL CAPITAL STRUCTURE?**

**STOICA:** Banks and other finance providers seem more open to stepping in and helping investors in the regional M&A market. That said, at the CEE level, banks are also experiencing the uncertainty that characterises the region. The appetite to support M&A deals varies among CEE countries and is higher in those jurisdictions that show more stability and predictability. Identifying the right financing mix depends on the specific features of each business as it should match the core assets being financed and the return should be greater than the minimum hurdle rate, so there is no catch-all solution. Investors should, firstly, become well-acquainted with the business they intend to invest in, and then start to design the optimal capital structure. A few pointers for this would be to focus on using market and target-specific weights rather than book value and project-specifics, looking at the cash flows of the business and their timings.



**HOW IMPORTANT IS LOCAL MARKET KNOWLEDGE WHEN IT COMES TO CLOSING DEALS IN ROMANIA?**

**STOICA:** Local market knowledge is one of the keys to finalising M&A deals. Without this data, closing deals, successful business integration and future growth are highly unlikely. Local and regional market assessments and studies should focus on various pillars, such as market structure, competitors, regulatory conditions, expected changes in the relevant legal framework which could potentially impact the target business, access to suppliers and customers, realistic forecasts for the target business to develop and generate the expected return rate, and so on. Planning based on correctly identified synergies and incorporating them in a coherent and feasible integration plan is also a must.

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**Q MOST EXPERTS AGREE THAT EARLY INTEGRATION PLANNING IS VITAL TO DELIVERING THE BENEFITS OF A MERGER. WHAT ARE THE MOST COMMON OBSTACLES THAT ARISE IN THIS CONTEXT?**

**STOICA:** Successful M&A integration could be summed up as a well-conceived and properly executed deal. For this, companies have come up with real 'models' for successful integration. This requires managers with professional integration-management skills and other ingredients for creating a successful deal. Without coherent and detailed integration planning, companies could face hurdles in several areas of post-merger integration, such as failure to correctly define, well in advance, the key points, together with the main risks of the deal which translate into lack of priorities for integration. This usually leads to integration failure. Other businesses lose key people because they either postpone or effectively have not clearly established in advance methods for implementing new organisational structures and adequate leadership. Poorly planned integration may affect the results of the core business because sometimes the integration process itself lasts too long, is also excessively time, energy and attention consuming, or is uncoordinated. This way, executives are distracted from the core business and the business is negatively affected.

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**“Planning based on correctly identified synergies and incorporating them in a coherent and feasible integration plan is also a must.”**

**Q** COULD YOU OUTLINE ANY RECENT DEVELOPMENTS IN M&A REGULATIONS THAT WILL AFFECT TRANSACTIONS IN ROMANIA GOING FORWARD?

**STOICA:** There have been no significant developments in M&A regulations that could affect future deals in our jurisdiction.

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