

Local M&A market 'posted robust recovery in 2014'

Florian Nitu, managing partner at Popovici Nitu&Asociatii, tells Business Review about the current state of the Romanian mergers and acquisitions (M&A) market and his expectations for its performance this year.

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What did 2014 bring on the Romanian M&A market in terms of the dynamics, value and volume of transactions?

2014 confirmed at all levels the robust recovery of the Romanian M&A market. This is illustrated by macroeconomics and fundamental parameters, but also by the direct data from the transactional ground. Indeed, the transactions realm has worked well with the dynamics of the financial markets in mature jurisdictions and the aligned interests yielding significant transactions, in number and value. Unsurprisingly, industry and real estate fared very well. In particular, investments and new development projects generated transactions adding up to well above EUR 500 million in the retail sector, and exceeding EUR 300 million in the office sector. In retail, from publically available data, it is worth mentioning the projects involving the Auchan-Real hypermarket platforms and Promenada Mall transaction, while among office projects, the Unicredit headquarters deal, Nusco Tower and Green Court Bucharest transactions were prominent.

The financial sector underwent its second wave of effective restructuring, involving banking and non-banking financial institutions. One should look here at the Volksbank and Banca Transilvania divestments and ownership consolidation processes, but also at the leasing and insurance fields, seeing even more pervasive moves. Notable deals included Gothaer Asigurari Reasigurari and Axa Life Insurance SA.

Energy, oil and gas look set to generate major transactions for 2015, after key investment/divestment projects were launched in 2014, including the Enel Distributie exit, the re-started Nuclear Power Plant Extension projects and notable privatization deals. The Romgaz IPO also proved successful. Logistics, transport and distribution, and the entire DIY sector underwent a massive restructuring and in some cases, painful work-outs in 2014, as illustrated by projects involving Bricostore, bau-Max and Praktiker. The telecom and IT realm also saw significant movement, with major telecom providers diversifying to include digital TV businesses (see Orange TV, but also Vodafone and Telekom plans) and new stations trying to grab a market position on edge deals



(such as Transilvania Look SA and the related Sky Intel Broadcast contract with the Football League). In IT, notable operations included Teamnet getting a major financial institution on board, as well as the Star Storage divestment. Media and Advertising underwent the same type of evolution.

What were the main trends on the Romanian M&A market in 2014?

Firstly, the positive global impact confirmed again what I call "the six-month rule", which is: if mature financial markets perform constantly well, as was the case with the US getting back to historical peaks in 2013-2014, there is a delayed M&A frenzy effect which can be sensed six months after in emerging markets. In 2014, the Romanian M&A market grew strongly on this effect. Secondly, additional cash and fresh capital made available within new transactions offered the opportunity for effective sector restructurings, mainly in banking and non-banking financial sectors, but also in consumer-related distributions, retail, logistics and DIY. Major deals, in number and value, were signed on these sectors.

Thirdly, it is the real estate field that always confirms growth prospects, and in particular, new real estate development projects. Many real estate development projects were launched in 2014, but they came with a series of divest-

ments and work-outs. In fact, Romania is in a special situation here, as the new, noticeable real estate investment wave is associated with a significant number of reconversion projects, and, therefore, with restructurings and work-outs.

Fourthly, sectors posting organic growths opportunities - IT & telecom, agribusiness, energy - would raise even more interest, once access to fresh capital gets easier. The bottom line is that for M&A deals, Romania offers significant potential in various economic sectors and a mix of very private, but also public to private deals.

What do you expect from 2015 in terms of M&As on the local market?

The banking sector is likely to continue its consolidation in 2015 and there will be major transactions involving the NPLs of key commercial banks aimed at clearing their statements. The same applies to non-banking financial institutions. Many investments and development projects will take place in real estate, with office and retail projects of all kinds in focus, new launches, restructurings, reconversions, work-outs, and also liquidations.

Local energy and natural resources are already well-known and are expected to continue attracting new capital, while a number of matured projects require exits. In this vein, shale gas investments remain a hot topic on investors' agenda, but 2015 is unlikely to bring any clear answers to the associated geo-political and social concerns. The agribusiness sector looks set to grow organically and new acquisitions are likely to happen, from land banking deals to conglomerates involving chain food processors and manufactures, related logistics and distribution networks.

And finally, there is the private equity factor, as it looks like private equity giants have managed to put up new funds and include Romania on their shopping list. Indeed, private equity investors will again make headlines in the M&A field because there are plenty of opportunities for such intermediate investors. Organically, there are numerous ventures just getting out of entrepreneurial infancy and in need of a PE fund to move to a different scale, to further roll it over to an operator and/or integrator, typically a strategic investor.

How do you think the local M&A market

will evolve in 2015 and the years to come and what could give it impetus?

The public sector will assume the role of a key driver here. The M&A market, particularly in emerging markets, needs fostering measure from governments. These measures may be regulatory ones, mainly, but also executive, economic ones. Privatization is one such measure. There is still a lot to privatize in Romania and a new national privatization program should be launched soon, after the successful IPOs of government utility companies. Should the government confirm and proceed with the long awaited privatizations of various strategic companies, potentially by using the stock market and IPO instruments, the capital markets may receive new impetus. Deals might include share stocks (IPOs or secondary offerings) of Romgaz, Electrica Distributie, Transgaz, Romanian Post Company, National Railway Freight Transportation Company CFR Marfa or Oltchim.

In terms of regulatory measures, factors that may help the M&A market include maintaining quasi-low tax treatment and the flat tax in particular and ensuring proper operation of the supervisory and control authorities overseeing mergers (Competition Council, Financial Supervisory Authority, etc.).

Is there a gap between the local M&A market and the other CEE countries? If so, how can we reduce it and how long would it take?

There is a gap, the main reason for which is that the Romanian assets are deemed less secure; the regulatory framework less stable. This has an immediate impact on financing, which obviously impacts investment. So it is the government-banks-investors equation that we must settle in better terms to cover the gap. The government will secure long-term legislative stability and proper functioning institutions and on this basis the banks will show more involvement and the investment flows will hit Romania. We must see the state implementing feasible infrastructure projects and the banks being involved in financing them; industrial and M&A/buy-out projects as well as a frenetic capital market will ensue, as from the macro-economic perspective there is plenty of growth potential.

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