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Where deals are made

The New State of M&A

Central and Eastern Europe

Contents

Executive Summary
Spotlight on Central and Eastern Europe

For all the advances in recent years, just how digitally mature and technologically sophisticated is the M&A, due diligence, and asset marketing process in Central and Eastern Europe (CEE)?

Moreover, what does the process look like today, and how might technology and accelerating digitization change the dealmaking process over the coming years?

These are some of the key questions we wanted to investigate and answer in this research, which involved surveying 100 CEE-based M&A practitioners from corporates, private equity firms, investments banks, law and professional services firms, for their views on the subject.

The respondents, who form part of a global survey of 2,235 practitioners, not only provide insight on the current and future state of the dealmaking process, but their responses also reveal some interesting regional similarities and differences in opinion.

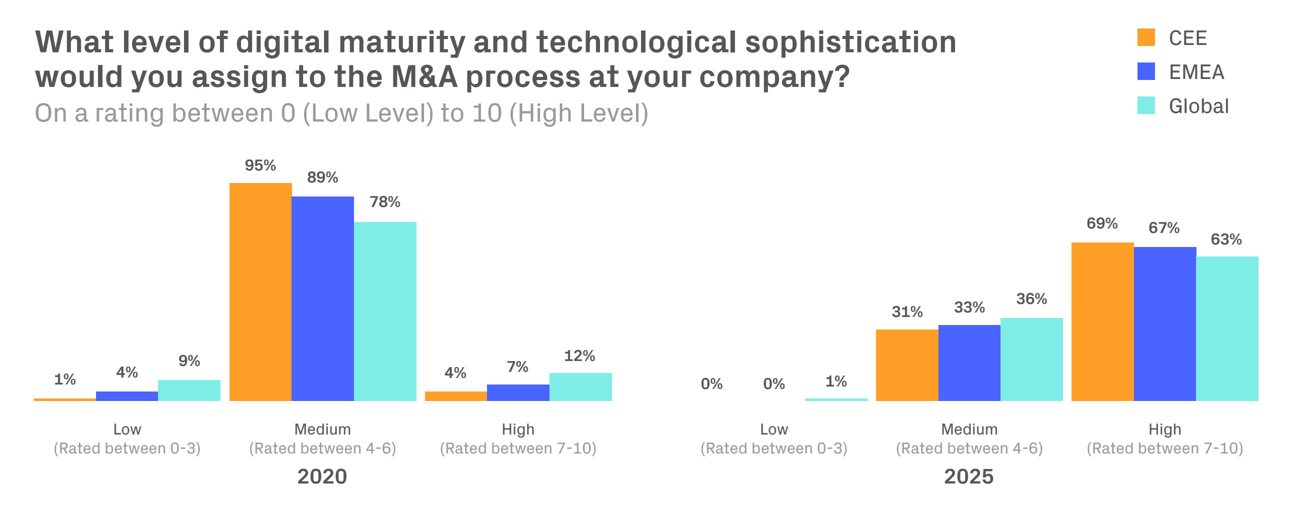
100 CEE-based M&A practitioners surveyed

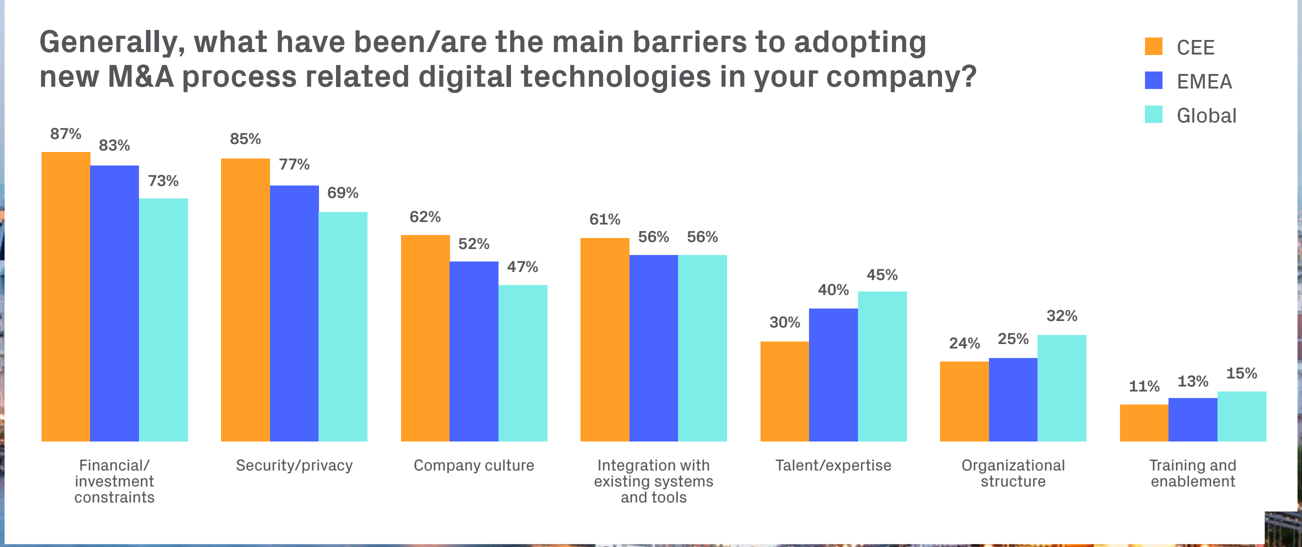
Digital maturity and barriers to adopting technology vs EMEA peers

For instance, most CEE practitioners today assess that the digital maturity and technological sophistication of the M&A process at their company and industry-wide is at a medium level, and they expect this to rise to a high level in five years' time.

This view is shared by their peers across EMEA who also believe, similar to CEE practitioners, that financial constraints and security and privacy issues are two of the main barriers to their company adopting M&A process-related digital technologies.

Company culture can also be a hindrance to operational change, and interestingly seems to be more of an issue for CEE practitioners than for their peers elsewhere in EMEA.





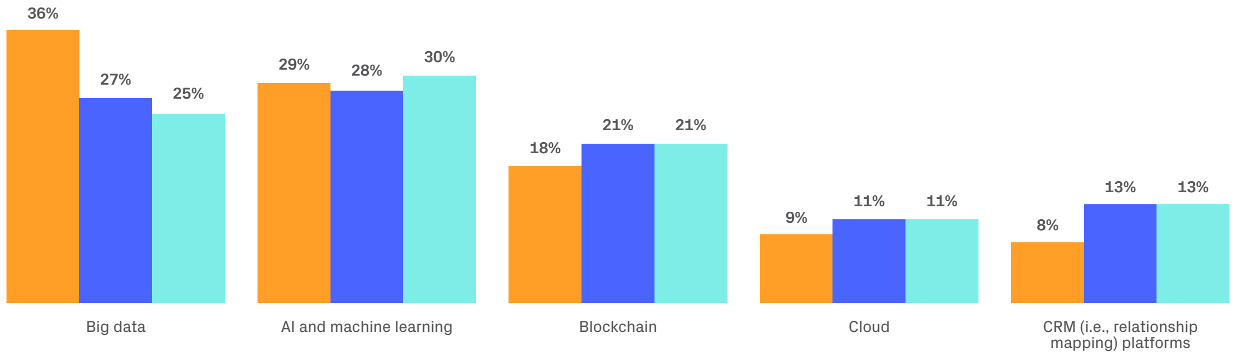
Big data, AI and ML, and blockchain to enhance M&A processes

Technological advances are, however, being made. And over the next five years, most CEE practitioners, similar to their EMEA peers, believe that technologies such as big data, AI and machine learning, and blockchain could potentially have the most transformational impact on the M&A process, and in specific areas of it.

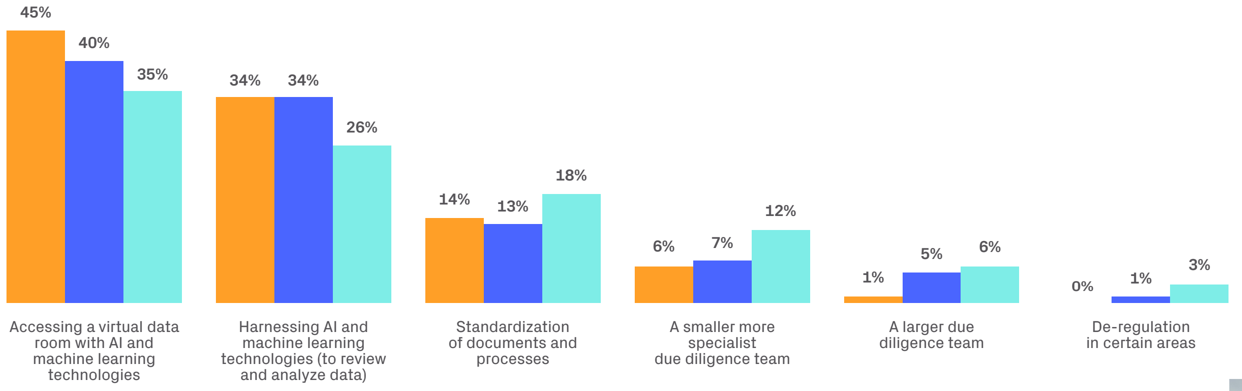
CEE and EMEA practitioners, for instance, similarly believe that due diligence – the most time-consuming phase – could be enhanced most by new technologies and digitization.

Indeed, most CEE practitioners expect technology to enable greater analytical capability and security in the diligence process over the next five years. In particular, they are also placing greatest hope in AI and machine learning technologies, especially as part of virtual data rooms, to speed-up the due diligence process. They also see these technologies and others helping to improve data management and communications, scenario analyses, and analytics and reporting.

Which of the following technologies do you think will have the most transformational impact on the M&A process in the next five years?



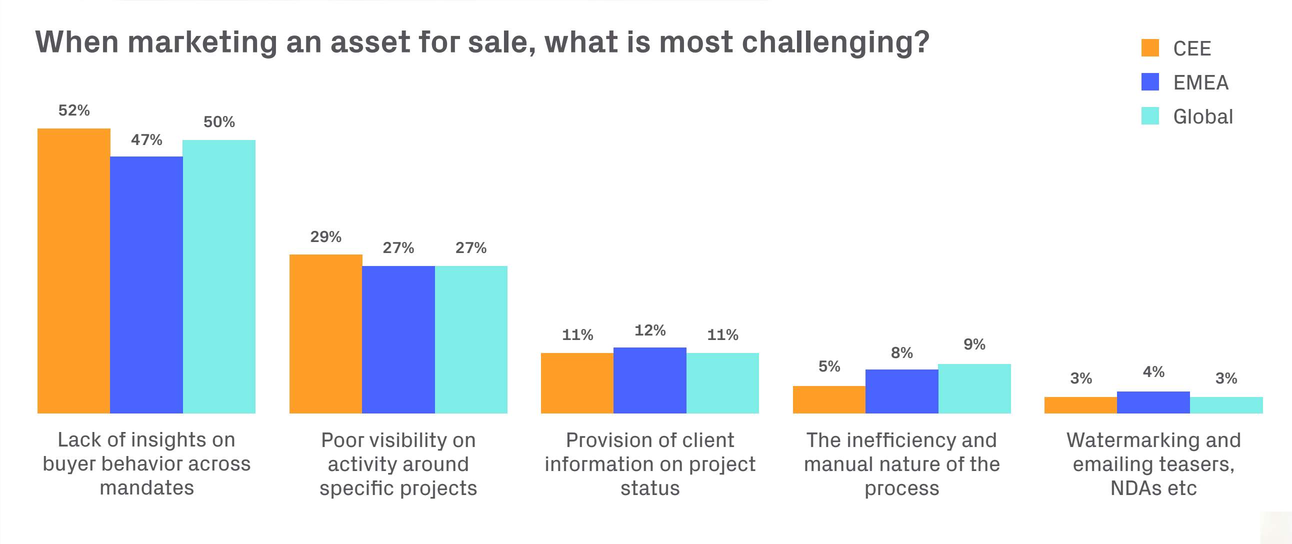
Which of the following would help accelerate the due diligence process the most?



Technological benefits to and advances in other areas of M&A

What's more, these technologies have similarly beneficial uses in asset marketing, and could help address some of the key challenges in this process, such as a lack of insights on buyer behavior across mandates, according to most CEE practitioners.

Without doubt there have been some significant technological advances across the M&A process in recent years. Yet, in the next five years, there is an expectation among CEE practitioners that both established and emerging technologies, perhaps built-in to the next generation of virtual data rooms, could transform key areas of the process. They may even transform the M&A process entirely.



2020 The Current State of M&A in CEE

Maturity and sophistication

95%

of CEE practitioners assess a medium level of digital maturity and technological sophistication in their company's M&A process. Some 89% of practitioners assess the same level industry-wide.

Barriers to digitization

62%

of CEE practitioners say company culture is one of the main barriers to their company adopting M&A process-related digital technologies – the highest across EMEA.

Enhancing the M&A strategy

63%

of CEE practitioners believe that due diligence is the stage of M&A that could be enhanced most by technology and digitization – the highest across EMEA.

Diligence speed

85%

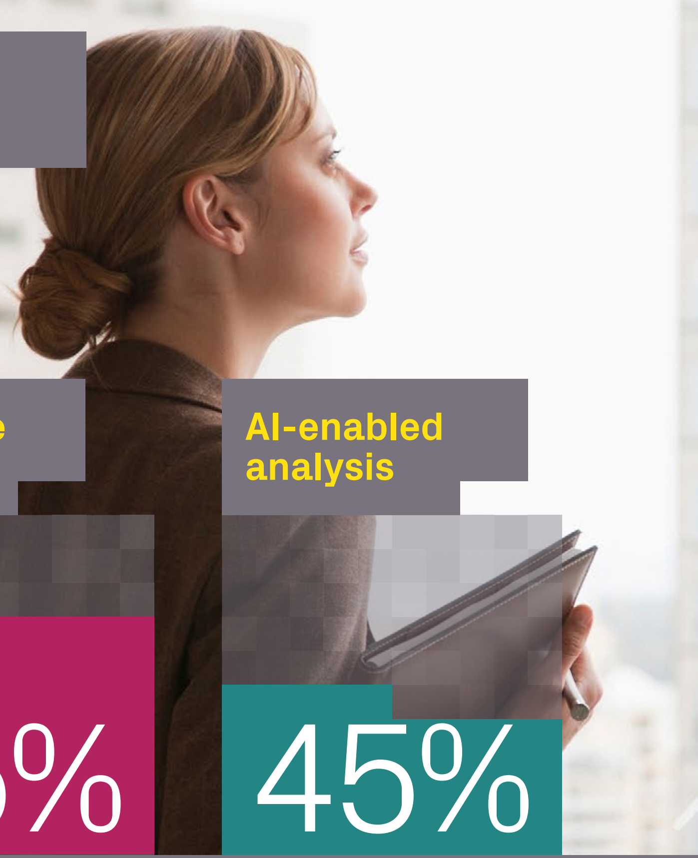
of CEE practitioners say due diligence takes on average 1-3 months to complete on a successful deal.

Technology upgrade

28%

of CEE practitioners say inadequate technology supporting the process is the factor that slows the due diligence process the most.

2025 The Future State of M&A in CEE



Maturity and sophistication

69%

of CEE practitioners assess a high level of digital maturity and technological sophistication in their company's M&A process by 2025. Some 64% of practitioners assess the same level industry-wide.

Transformational tech

36%

of CEE practitioners expect big data analytics to have the most transformational impact on the M&A process over the next five years – the highest response percentage across EMEA.

Advanced analytics

77%

of CEE practitioners believe new technologies should enable greater analytical capability in the due diligence process over the next five years.

Diligence speed

75%

of CEE practitioners believe due diligence on a successful deal will accelerate to one month or less in five years' time.

AI-enabled analysis

45%

of CEE practitioners believe that accessing a virtual data room with AI and machine learning technologies would help accelerate due diligence the most.

Case Study
UniCredit

AI will drive the virtual M&A revolution

Last July, UniCredit's corporate finance team advised the shareholders of Iskratel Group, the leading information and communications technology provider in Slovenia, on its sale to Austrian tech firm S&T.

For UniCredit, which ran the sale process and has been ranked number one in M&A in Slovenia for the last 20 years, what was striking about the competitive and complex auction was that it was executed entirely remotely, using virtual management presentations and a virtual data room.

The pandemic has accelerated the adoption of technology in the M&A process on a more permanent basis. "During Covid-19, we significantly enhanced the digital dialogue with clients to cover the proximity gap and today around 90% of client interactions and pitching are done remotely," says Hedde Draper, Head of Corporate Finance Advisory for Central and Eastern Europe at UniCredit. "Thanks to our accelerated digitalization push in 2020 driven by the pandemic, some M&A transactions were executed completely 'online' without any physical meetings."

UniCredit is a pan-European commercial bank with a fully plugged-in corporate and investment banking business.

Hedde Draper
Head of Corporate Finance Advisory for Central and Eastern Europe

UniCredit

Embracing digitalization and its benefits

The last 12 months have brought a step-change in the use of technology in the M&A process in the CEE region. “In some markets, the personal interaction is still an important component of the M&A process. However, we see this changing rapidly. The CEE region is therefore catching up quickly with the trends of the more developed markets in terms of the digitalization of M&A processes,” explains Draper.

Technology is playing an increasing role across each element in the M&A value chain. Draper and his team have embraced the benefits of virtual data rooms, which have cut transaction times, thereby reducing the risk of deals unravelling – an important factor in periods of market volatility when valuations can shift dramatically.

VDRs also provide sellers with additional intelligence about buyers’ intentions. “Online data rooms have also impacted deal tactics by giving sellers a better idea as to which documents the parties involved are focused on, or how much time in general they spend in the virtual data room, which could be an indication as to their commitment,” says Draper.

Benefitting from big data, AI, and automation

Technology is also playing an increasingly valuable role at earlier stages of the M&A process, such as in deal origination, both by finding targets and potential buyers. “Big data has become very beneficial in the process of sourcing M&A transactions,” says Draper. “For example, it enables M&A bankers to go through large amounts of company data in a very efficient manner using M&A-relevant parameters, which makes it easier to identify companies that could be of interest from an M&A perspective.”

Draper says there is big potential to use big data and AI to drive further automation in M&A processes, which, by definition, involves massive amounts of data. “This will take over some of the basic tasks from M&A bankers, giving them more time to focus on parts of the process that bring more value add and cannot be automated.”

In the due diligence process on the sell-side, the handling of data could become more efficient because AI can assist in structuring a virtual data room. On the buy-side, AI will prove to be a powerful tool to go through large amounts of data to summarize those sections and documents that need most focus.

Through necessity, M&A bankers have seen the value that technology can add when travel is not possible and face-to-face contact is prohibited. This recognition could pave the way for further innovation.

Case Study
Raiffeisen Bank International

CEE M&A markets due for a tech upgrade

While there are many similarities in dealmaking between markets in Central and Eastern Europe and Western Europe, there are just as many differences, which can account for the contrasting timeframes to execute deals.

For instance, Klaus Imhof, Head of M&A at Raiffeisen Bank International (RBI) in Vienna, says that where it takes on average six to eight months in Western Europe to complete a deal, it takes eight to 12 months in CEE.

Some of the reasons why this is are well understood, ranging from regulatory complexity and inertia, to cultural differences and a relative lack of dealmaking desire, experience, and in-house expertise in some corporate sectors. Another factor, perhaps, is the lack of advanced technology in the process.

Indeed, there is a strong degree of variation when it comes to embracing technology by country and sector in CEE, according to Yordan Vuchev, Associate Director in RBI's consumer and retail investment banking team. "In the Balkans, many consumer goods companies are still under the control of first generation owners, and when it comes to M&A they are less likely to embrace technology than, say, professionally-managed financial institutions in the Czech Republic and Poland."

Raiffeisen Bank International is a leading corporate and investment bank in Austria and across Central and Eastern Europe, in which 13 markets are covered by subsidiary banks.

Klaus Imhof
Head of M&A at Raiffeisen Bank International

Raiffeisen Bank International

Encountering multi-country complexities

Levels of technological advancement vary, but there is consistency in some areas, such as the use of virtual data rooms, which are part of the standard M&A toolkit across CEE.

However, even VDRs, as sophisticated as some are, can't solve all the issues that M&A practitioners encounter in a region that stretches from Tallinn to Tirana, Prague to Vladivostok.

For Imhof, each CEE market has its own characteristics and deal flow dynamics, which increases the complexity in executing M&A. He says, for instance, that "Russia is predominantly a domestic M&A market, so it requires a different approach from Austria, where there is more cross-border activity."

In time, however, Imhof believes that companies in some of the CEE's economies, such as Poland and the Czech Republic, will become more sophisticated users of technology in M&A, an upgrade that will come as part of a broader technological advancement in these economies.

Accelerating digital adoption

Ahead of that, the increasing involvement from private equity firms in the region could prove to be a catalyst, according to Vuchev. "Financial sponsors by their nature are more deal-driven, so they are earlier adopters of technology," he says.

Most private equity firms are sophisticated users of technology, which will have benefited them during the pandemic, when dealmaking essentially went completely virtual for the first time. Corporate and M&A advisors in the CEE, as elsewhere, have learned to adapt as well, working remotely and using an array of digital tools from video conferencing to deploying drones for on-site due diligence.

This has helped accelerate digital adoption within processes and ultimately kept deals on track. But as much as practitioners have become accustomed to executing deals virtually, there is a desire for some of the old ways of dealmaking to return.

"Where a deal is standardized it's possible to complete without any face-to-face involvement, but there always comes a point where buyers want to meet the management team in person," says Imhof.

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Strategy	Sourcing	Deal marketing	Deal prep	Due diligence	Negotiation	Closing	PMI	Value capture

The M&A Lifecycle

Datasite Outreach

Improve every aspect of the deal marketing process. Whether compiling buyer lists, executing email communication, or managing NDAs, Datasite Outreach is your essential resource for driving deals faster than ever.

Learn more

Datasite Prepare

Accelerate deal preparation and get to deal outcomes faster in a single app. With AI indexing, smart categorization, redaction, and VDR integration, Datasite Prepare brings you into due diligence with one click.

Learn more

Datasite Diligence

Anticipate any roadblock you may face with Datasite Diligence. Set up your VDR faster than ever while gaining access to leading features and expert support to keep your deal moving forward in any situation.

Learn more

Datasite Acquire

Ensure your buy-side diligence stays on track with Datasite Acquire. Unearth insights with analytics, work smarter with secure collaboration tools, and keep your deal moving with improved workflow communication.

Learn more

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Research Methodology
Central and Eastern Europe

The analysis in this report is based on the survey responses from 100 Central and Eastern Europe based M&A practitioners.

These responses formed part of a larger global survey of 2,235 M&A practitioners.

By institution type, respondents were evenly split between companies and private equity firms (51%), representing acquirers; and investment banks, and professional services and law firms (49%), representing M&A advisors.

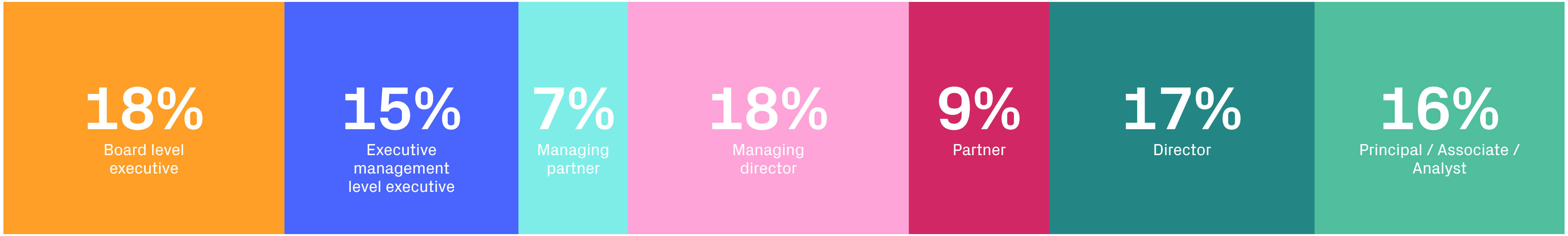
By seniority, board and executive management level executives comprised 33% of respondents, with managing partner, managing director, and partner level executives comprising 34%. Director, principal, and associate level executives comprised 33%.

The global survey was conducted by Euromoney Thought Leadership Consulting between February and April 2020.

Research Demographics
Central and Eastern Europe

Percentages in the following charts are rounded to the nearest 1%.

Which of the following best describes your position?



Company type

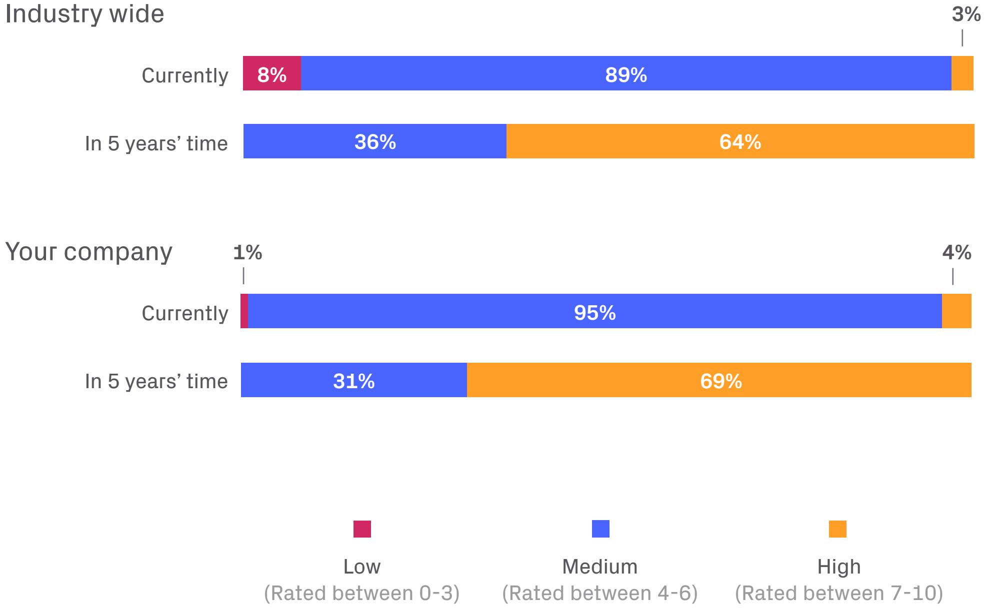
Digitization
Central and Eastern Europe

Of these key areas or stages, which do you believe could be enhanced most by new technologies and digitization?

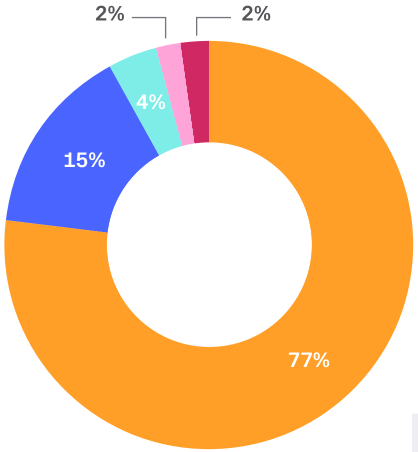
- 63% Due diligence
- 22% Strategy
- 7% Asset marketing
- 4% Deal preparation
- 2% Closing
- 2% Negotiation
- 0% Exit
- 0% Sourcing
- 0% Post-merger integration

What level of digital maturity and technological sophistication would you assign to the M&A process?

On a rating between 0 (Low Level) to 10 (High Level)



In the context of a M&A transaction, how do you expect technology to change the due diligence process over the next five years (to 2025)?

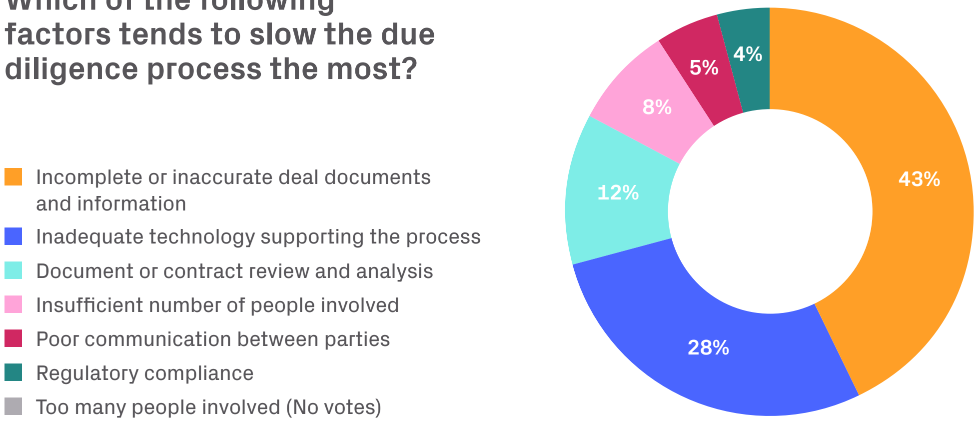


New technologies should...

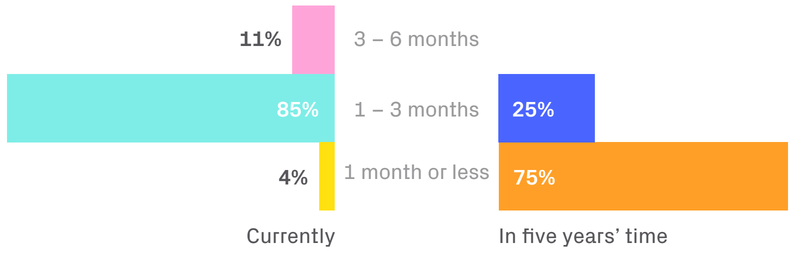
- Enable greater analytical capability
- Enable greater security
- Simplify the entire process
- Make it faster to close deals
- Reduce the total deal (resources and time) cost

Due Diligence Process
Central and Eastern Europe

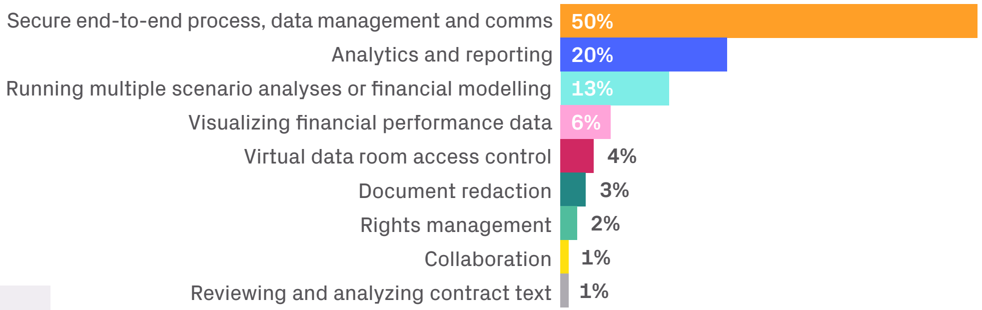
Which of the following factors tends to slow the due diligence process the most?



From sourcing a deal to deal completion, how much time on average does due diligence take on a single successful M&A transaction?

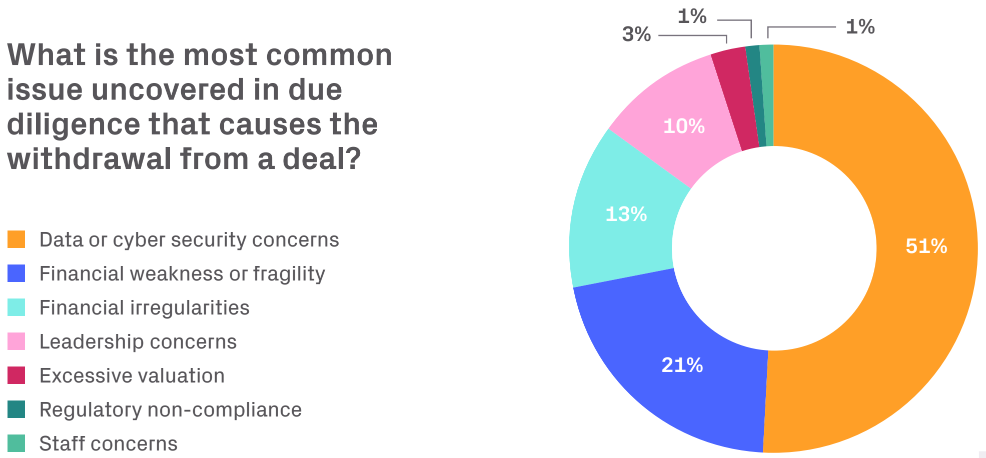


Which of the following do you believe technology could help improve the most?

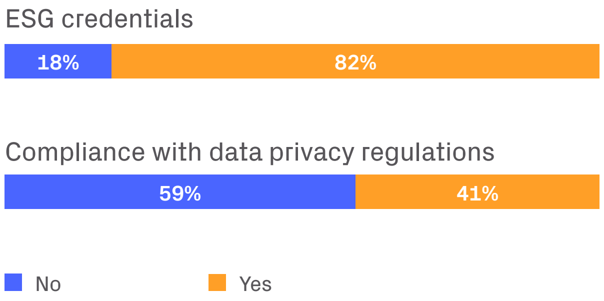


Due Diligence Concerns
Central and Eastern Europe

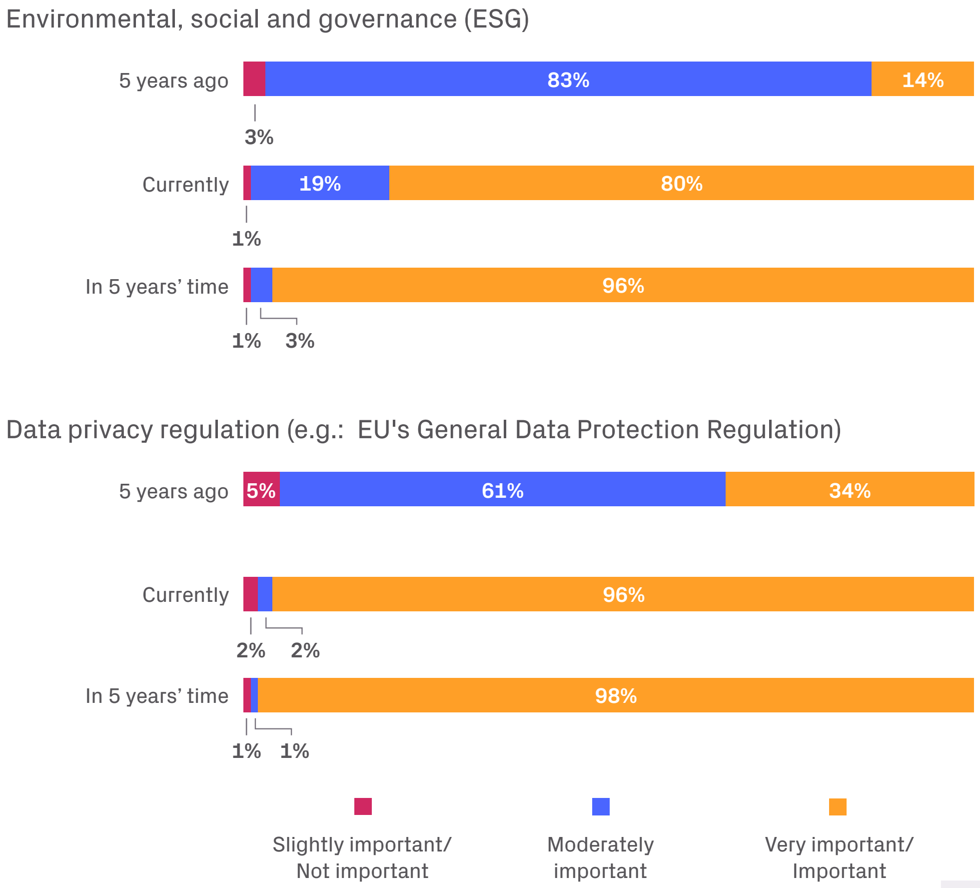
What is the most common issue uncovered in due diligence that causes the withdrawal from a deal?



Have you worked on M&A transactions that have not progressed because of concerns about a target company's:



As a consideration in M&A due diligence, assess the importance of the following issues:



Asset Marketing and Acquisitions
Central and Eastern Europe

When marketing an asset for sale, what is most challenging?

52% Lack of insights on buyer behavior across mandates

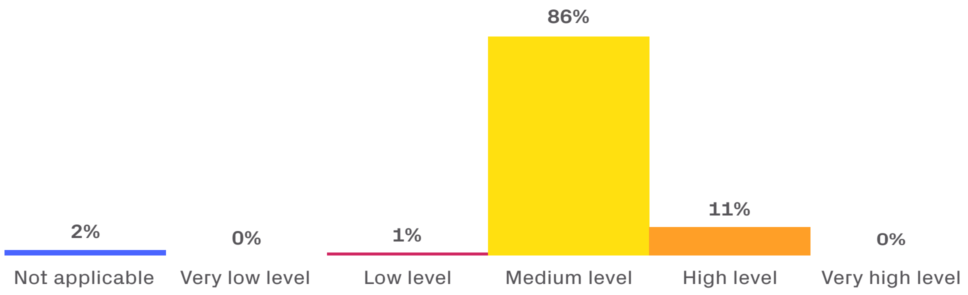
29% Poor visibility on activity around specific projects

11% Provision of client information on project status

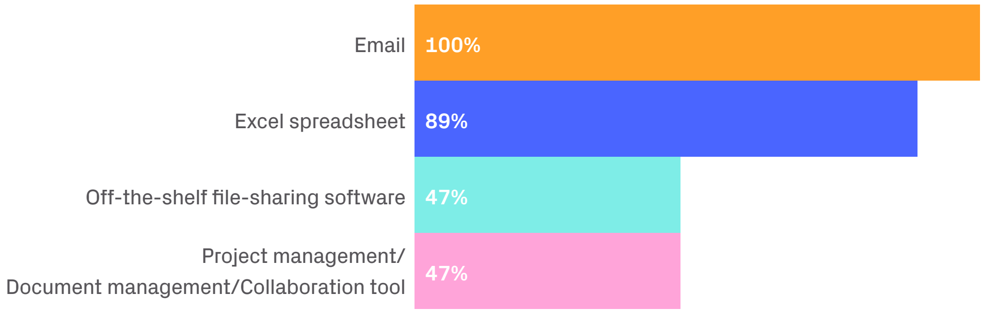
5% The inefficiency and manual nature of the process

3% Watermarking and emailing teasers, NDAs etc

When marketing an asset for sale, how efficient and effective is your company's current process of identifying, marketing to and tracking potential buyers?

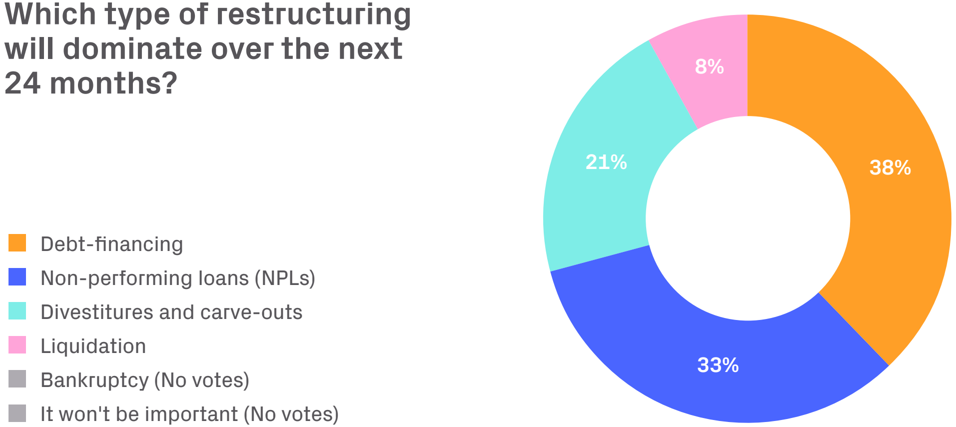


What tools do you use today to execute the workflow of the due diligence process on a potential acquisition target?

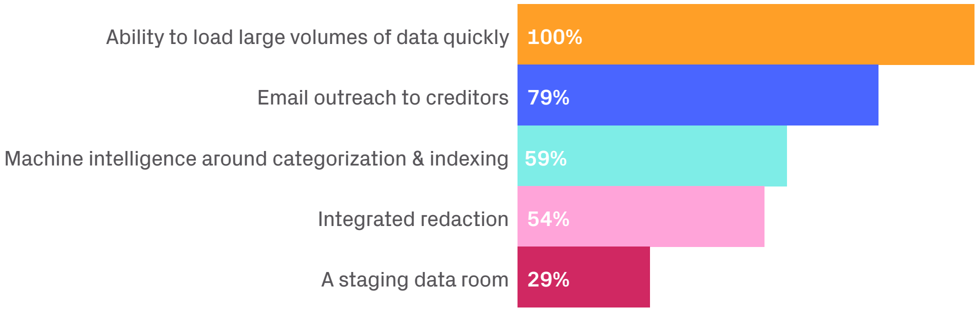


Restructuring
Central and Eastern Europe

Which type of restructuring will dominate over the next 24 months?



What tools are most useful for restructuring?



About this report

The survey was conducted by Euromoney Thought Leadership Consulting between February and April 2020.

Thought Leadership Consulting specializes in creating original, authoritative and impactful thematic research and content for global business and finance leaders.

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