

M&A Market in Poland

Analysis of domestic M&A transactions
between 2017 and 2022

January 2023

Introduction

M&A market remains deaf to the cry of black swans

You would be bitterly mistaken to have assumed that the COVID-19 pandemic would dampen the enthusiasm of M&A investors or that the outbreak of war in Ukraine would put them off making acquisitions in the region, including in Poland. Too many investors have a clear memory of the profits reaped from deals made in 2020, despite the uncertain market situation. At that time, brave investors were able to buy target companies at prices lower than those expected back in 2019, and the acquired businesses often did very well in uncertain Times, yielding high returns for those willing to take risks. Opportunistic investors, on the other hand, ended up regretting their cautious stance.

Perhaps this explains why the years 2021-2022 saw a surge in the number of acquisition processes underway in Poland, with a new record set in 2022 – **nearly 350 completed transactions!**

For investors, a difficult market is the new reality, where economic turmoil and disruption can be turned to advantage to catch up with or surpass the competition, with mergers and acquisitions being one of the ways to do so. On the selling side, it is about reaping the rewards of success, often earned over many years. Sellers do not want to miss out on, or worse still, squander, the potential of their business during a crisis. Hence, supply meets demand, but in every transaction, the key will be to make informed business decisions.

Wishing you an interesting read,



Key findings:



Record number of transactions:

In 2022, there were nearly **350** acquisitions closed, which is up by approx. **18 per cent** year-on-year. It is also the highest number of completed transactions since 2010.



Industry investors most active:

Nearly 75% of all transactions in Poland involve an industry investor interested in building synergies and driving the long-term growth of the acquired business.



Traditional business sectors still in demand:

While there is progressing consolidation in the TMT sector, still as much as **three quarters of all acquisitions in the market** involve the traditional industries.



Investors on the lookout for SMEs:

The average business acquired by an investor has close to **PLN 90m in revenues and EBITDA in the range of PLN 10m, which puts it in** the small and medium-sized enterprise sector (SME).

Transactions hit a new all-time high

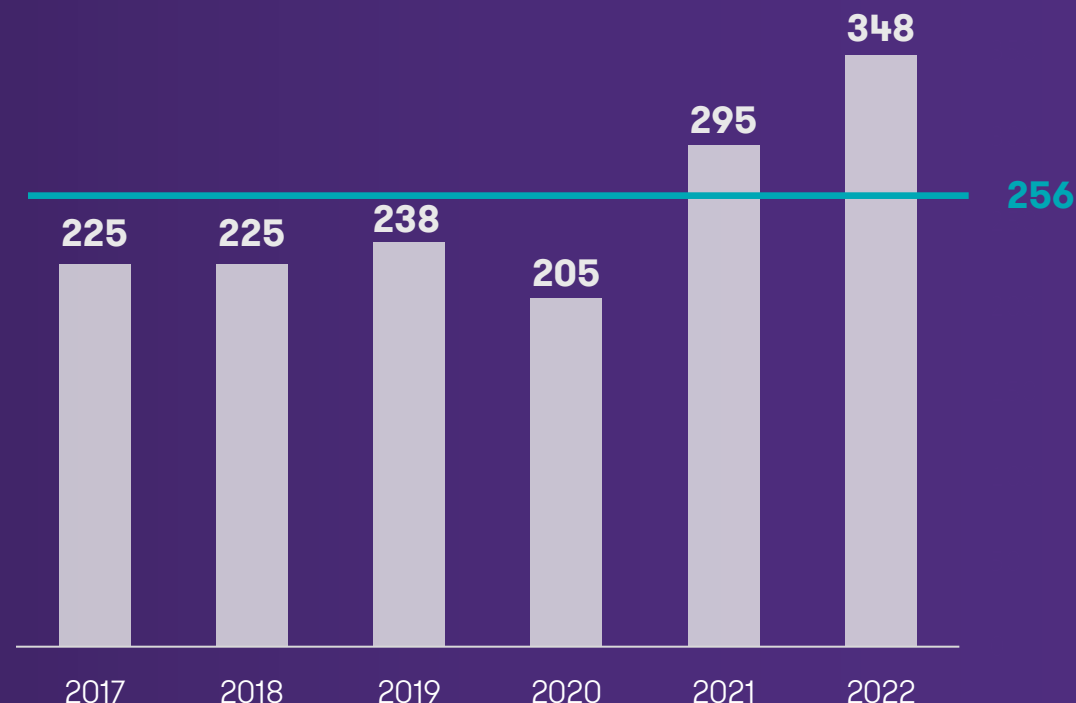
The M&A market in Poland remained active even during the pandemic, but 2021-2022 brought a clear rebound. Last year, we broke through the ceiling of 300 closed deals.

In recent years, the M&A market in Poland regularly recorded more than 200 completed transactions per year, a figure that did not change even during the pandemic year of 2020. While there was a decline from the previous years – down to 205 closed deals – it was rather slight given the standstill in the M&A market in March–May 2020. At that time, buyers and sellers alike focused on their own operations rather than on acquisition processes. The year 2021, however, already saw an upswing in transactions – up to 295 – and in 2022, the number exceeded the 300-deal threshold, reaching 348 transactions. This is also the highest number of closed deals since 2010.

The "hyperactivity" of 2021–2022 can partly be attributed to a shift in transaction volumes from 2020, but this is not a key factor. More than anything else, we are seeing a lot of interest from foreign investors whose strategies assume growth through acquisitions and who continue to see great potential in Poland.

It is worth mentioning that the average annual deal count in Poland's M&A market for 2017–2022 is 256, which roughly translates to one completed transaction per working day. Our M&A market is very robust, with one of the highest numbers of transactions in Europe.

Chart 1. Number of M&A transactions in Poland between 2017 and 2022



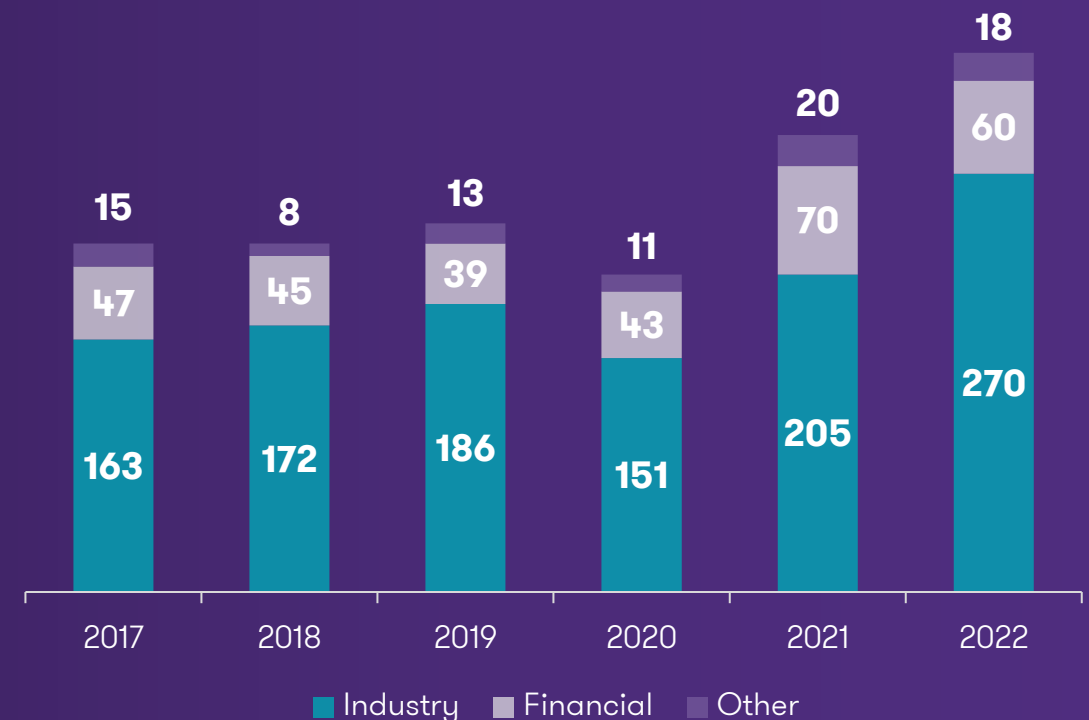
Industry investors lead the way

Industry investors are involved in the largest number of deals in Poland. In recent years, they have accounted for nearly 75 per cent of acquisitions closed.

The data collected by Grant Thornton indicate that businesses in search of an investor should first look to their direct competitors at home or abroad. This is because nearly 75 per cent of transactions involve industry investors, i.e. they take place between entities operating in the same market or in a related industry. The second-largest investor category is financial investors, accounting on average for around 20 per cent of transactions. The other buyers (around 5 per cent) include e.g. individual investors and management buyouts.

Importantly, the structure of investors in the Polish M&A market has been relatively stable, irrespective of the year under review or the market situation. Neither COVID-19 nor the war in Ukraine have managed to deter industry investors, who are still keen to gain market share and build synergies, or financial investors – looking for business opportunities.

Chart 2. Activity of different investor groups in the Polish M&A market between 2017 and 2022



TMT consolidation continues...

The industry that is currently attracting the most interest among investors is TMT (technology, media, telecommunications). Consumer products are in decline.

Table 1. M&A transactions in Poland between 2017 and 2022 by business sector

	2017	2018	2019	2020	2021	2022	Total
TMT	26	25	42	36	54	73	256
Consumer products	44	42	38	28	34	26	212
Industry	32	27	24	20	24	25	152
Energy	8	9	17	14	44	51	143
Services (other)	20	23	23	16	22	35	139
Medical and biotechnology	13	17	20	15	26	31	122
Financial services	16	22	10	16	11	19	94
Internet / e-commerce	13	14	14	15	21	10	87
Construction	13	9	20	7	8	21	78
Manufacturing (other)	9	16	9	14	15	11	74
Leisure	8	8	6	4	13	12	51
Real estate	3	4	5	5	11	15	43
Transportation	8	3	3	6	7	7	34
Chemicals	8	1	6	3	3	6	27
Automotive	4	5	1	6	2	6	24

In recent years, investors have shown a strong interest in businesses active in the TMT sector. While in 2017–2018 the sector recorded "only" about 25 transactions per year, last year there were already over 70 closed deals. It is generally believed that the TMT sector turned red hot due to the outbreak of the pandemic, but a significant increase in the number of transactions could be seen in this market already in 2019. So, TMT businesses did not become attractive just because of COVID-19, the process of consolidation in the industry had already started in 2019.

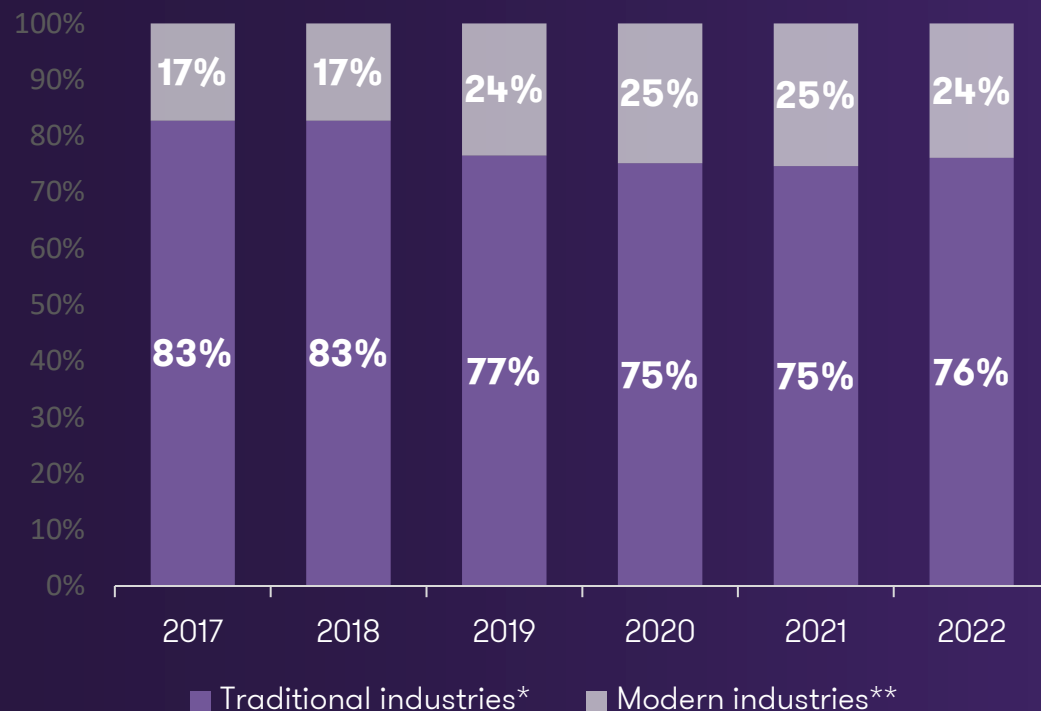
At the same time, years of consolidation in the consumer products sector appear to have come to an end, with 2022 seeing the fewest transactions in this sector since 2010. Notably, before the "TMT era", the consumer products sector was the most attractive in terms of transactions.

There is currently a lot of interest in the energy sector, mainly projects related to solar farms, wind power and the structuring of state-owned energy companies. Investors are also looking for entities representing the medical and biotechnology sector, which has seen significant growth as a result of the coronavirus pandemic.

...but traditional industries are holding strong

Even though the high-tech sector captures the imagination of investors, companies representing traditional industries are still the most common acquisition targets.

Chart 3. M&A transactions in Poland between 2017 and 2022 by business sector



The division of business sectors into two groups – traditional and modern, with the latter including TMT, internet and e-commerce – shows that traditional industries still dominate in terms of the number of completed transactions. Admittedly, from 2019 onwards, there has been an increase in the number of acquisition processes in modern industries, but since then their share of the M&A market has held stable at 25%. This means that traditional industries account for three quarters of the transactions carried out in the Polish market.

Investors are still keen to acquire players in traditional markets that provide synergies and expand their range of strategic options. This also shows that for many investors Poland remains a market of interest, also in sectors where production and labour costs are still lower than in the West.

*Consumer products, Industry, Energy, Services (other), Medical & biotechnology, Financial services, Construction, Manufacturing (other), Leisure, Real estate, Transportation, Chemicals, Automotive

**TMT, Internet, e-commerce

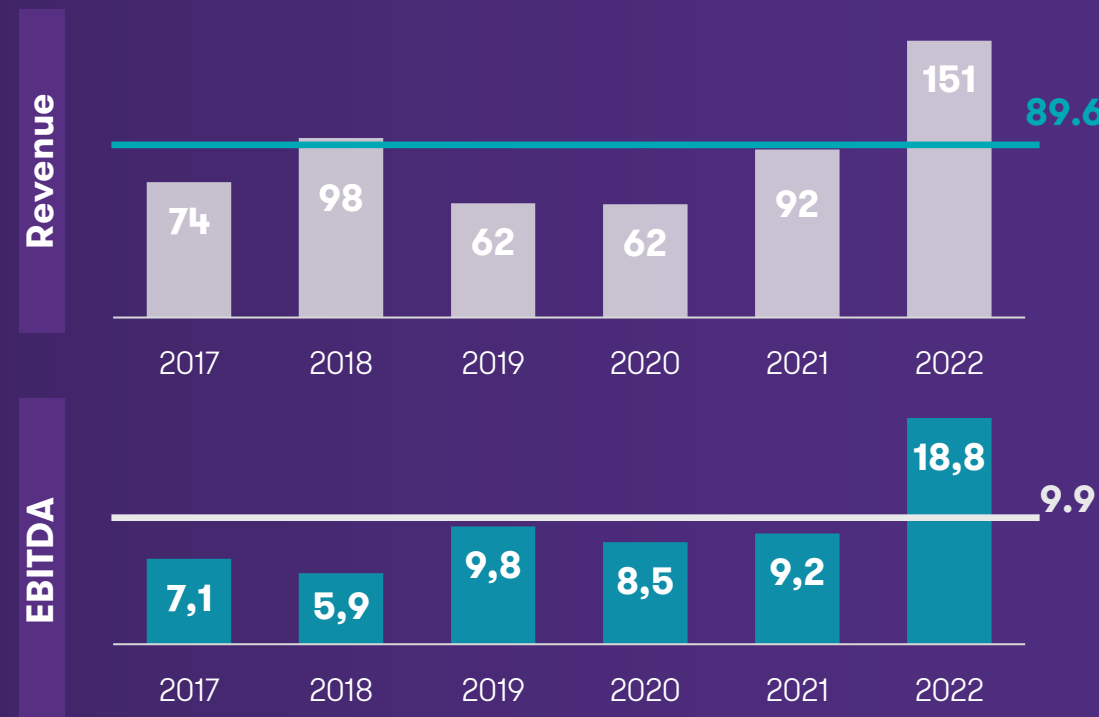
"SMEs" on top

Investors are most interested in acquiring companies that qualify as small and medium-sized enterprises (SMEs) in terms of financial performance.

An analysis of transactions carried out in Poland between 2017 and 2022 shows that the average acquired company generated approximately PLN 89.6m in revenue and PLN 9.9m in EBITDA. Therefore it was neither a micro-enterprise, nor a large or very large company, but a business that can be found in the category of small and medium-sized enterprises.

The fact that SMEs are the most numerous enterprises in Poland certainly influences these statistics. Nevertheless, this is important information for all M&A transaction participants – it roughly reflects the scale of business that is of interest to investors, but also suggests that this is where they will encounter the most competition, which will influence sellers' expectations in terms of business valuations.

Chart 4. Average performance metrics for a company sold in Poland between 2017 and 2022 (mPLN)



Valuations below average

Last year's valuations in the Polish market proved to be lower than in 2021. They also fell below the multi-year average.

The figures presented here, including the averaged multiples, represent a statistical simplification of sorts. Individual industries have different sector-specific multiples (e.g. PGNiG and Lotos were acquired by PKN Orlen at an EV/EBITDA multiple of around 2, which is well below the average for recent years). Please note as well that the terms of the transaction are disclosed for only one in three transactions. Despite the market-wide decline in valuations in 2022, we did not see a particular reduction in valuations in the transactions completed by our M&A team during this time.

In our experience, valuations can vary widely in a single transaction, depending on the investor's approach. An opportunistic investor, as a rule, will look for opportunities and acquisitions at the lowest possible price. For a strategic investor, on the other hand, what matters is synergies and growth prospects – and for that they are willing to pay more. The key business valuation method used for M&A transactions is the comparative method based on EV/EBITDA multiples. The multiples are determined using data of comparable publicly-listed companies and comparable transactions. An EV/EBITDA value below 5 is usually indicative of traditional companies with a simple operating system, with no unique know-how. Multiples in the range of 6 to 10 are characteristic of companies with an attractive product and growth prospects. Metrics above 10 suggest innovative companies with an interesting growth model.

Chart 5. Valuations in the Polish transaction market – median EV/EBITDA and EV/S multiples.



IN OUR **OPINION**

A difficult market is the new reality for investors

The years 2021–2022 saw a record number of transactions in the Polish market, despite the constant turmoil and changes due to the state of the post-pandemic economy and the war in Ukraine. Our experience shows that investors, as a rule, are prepared to pay a high price and do not negotiate in bad faith to take advantage of a difficult market situation. You also need to bear in mind that the transaction process takes 6–9 months – during which time both buyers and sellers can monitor the market situation and make duly informed decisions.

The first weeks of the new year show that investors are not slowing down. We continue to see strong interest from industry and financial investors in companies representing both modern and traditional industries.

The coronavirus crisis has trained investors to operate under conditions of market turbulence – they want to buy for strategic purposes. Industry investors, especially international players whose strategy is to grow through acquisitions, are no longer looking to reap the benefits of their investments in 2, 3 or 5 years, but are increasingly declaring a 20–30 year time horizon. There are still many crises or black swans ahead, but investors are aware that business must be nurtured irrespective of the conditions. If they fail to take advantage of the current market opportunity, someone else will – most likely their competitor. From the sellers' perspective, the aim is to sell the business at the best possible price. Buy or sell? Important decisions of such a magnitude require an individual approach and a detailed analysis of each process.

Mateusz Biegajło, PhD

Manager
M&A Team



Investment agreements reflect the market

Economic conditions significantly influence transaction documentation. In 2022, we have seen the following trends in business sale agreements.



Shorter liability periods – investors are willing to accept sellers' expectations as to their liability for warranty breach regarding the business in the 12–24 month range;



Lower thresholds of liability for warranty breach – in the vast majority of transactions, the sellers' liability for warranty breach as to the state of the business is less than 50% of the transaction value, and it is not uncommon for sellers to seek liability threshold in the 10%–25% range;



Increased popularity of flexible price settlement mechanisms – as usual in turbulent times, investors will expect price settlement based on mechanism providing for a price adjustment in terms of selected parameters as at the date of closing of transaction (closing accounts). Division of the price into tranches and settlement of part of the price based on future results (earn-out) are also gaining popularity;



Growing importance of sellers' responsibility for ESG (Environmental, Social and Governance) compliance – Investors attach great value to the compliance of the acquired business with law, both in the pre-transaction due diligence and in the investment agreement; issues related to sanctions, money laundering and environmental protection are becoming increasingly important;



Popularity of force majeure and material adverse change (MAC) clauses – mindful of March 2020 and the tense review of contracts in search of an opt-out from closing the deal, investors are making sure that their commitments to close deals are sufficiently flexible in the event of another pandemic or war.



Karol Guździol
Senior Counsel, Attorney-at-law
M&A Legal Advisory Team

IN OUR **OPINION**

High investor activity means more seller-friendly contract terms

The legal terms of the transaction, like the financial terms, are subject to the law of supply and demand. Markets with high levels of investor activity can be expected to remain more open to relatively favourable provisions regulating the sellers' liability for the state of the business up to the closing date – including but not limited to shorter liability periods and lower limits of the sellers' liability, which means the latter can sleep more peacefully after closing of transaction.

On the other hand, the prevailing uncertainty in the markets will probably mean that in the months to come investors will be more likely to expect that the investment contracts provide for flexible price settlement mechanisms (price adjustment, earn-outs, payment by instalments) and arrangements enabling them to withdraw from the transaction in the event of adverse extraordinary circumstances, such as another pandemic or war (force majeure clause, material adverse change clause). It can also be expected that investors will be increasingly concerned to ensure that the target business complies with applicable laws (regulatory compliance) and stringent standards of corporate social responsibility (ESG). The range of issues of primary concern in transactions will include risks related to environmental protection, money laundering, sanctions and adaptation of contractual provisions with counterparties to allow for a highly volatile environment. If you are thinking today about selling your business, it is prudent to see to these areas in advance so that you can then sign the investment contract with confidence.



About the study:

The research described in this report was carried out using data for 2010 to 2022 available on Mergermarket, Capital IQ or EMIS. The following data from these platforms were taken into account: sale transactions of entities located in Poland, industry classification of the sold companies, EV/EBITDA and EV/S multiples assigned to the transactions, and financial performance of the sold companies. Transactions were regarded as belonging to a given year depending on the date the transaction was announced. Investors were divided into industry, financial and other by the authors of the report.

Grant Thornton in **TOP 5** of the **Mergermarket League Tables!**

See the activity of Grant Thornton's **transaction teams** in the M&A market!

Check out our information materials.

RANKING

Grant Thornton
in the TOP 5 in Poland
and TOP 10 in CEE!



TRANSACTIONS

Check out the deals we
have been involved in!





We look forward to hearing from you!



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About us

Grant Thornton is one of the world's leading audit and advisory organisations, with a presence in 140 countries and headcount of more than 56,000 employees.

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