Ukrainian
M&A Review
2018

February 2019
Introduction

Despite global economic headwinds and the inevitable uncertainty the elections will bring, we remain cautiously optimistic that provided government policy remains consistent and fiscally responsible, Ukrainian M&A will deliver a third consecutive year of growth in 2019, albeit probably in low single-digits.

Ukrainian M&A recorded a second consecutive year of double-digit growth in 2018, with 80 transactions announced, representing a 19 per cent increase over the previous year, and a total of USD1.8 billion invested, up by 78 per cent on 2017.

Although domestic buyers took an even firmer hold of Ukrainian M&A in 2018, accounting for around two-thirds of deal value and deal volume, international investors demonstrated continued confidence in the medium to long-term prospects of Ukraine, as inbound deal activity increased by 47 per cent.

Domestic deal-makers also showed an increased appetite for outbound M&A, with the amount of capital committed overseas in 2018, double the total amount invested in the previous two years.

Ukraine’s economic recovery continued in 2018, with GDP growth expected to be around 3 per cent for the year. Although sluggish at times, the government made further progress with its reform agenda during 2018, most notably by passing legislation to implement a functioning anti-corruption court. Agreement of the IMF Stand-by Agreement at the end of 2018, should provide investors with further reassurance about the economic outlook for the country.

While deal-activity may soften ahead of the elections, we remain cautiously optimistic that provided government policy remains consistent and fiscally responsible, that pent up demand and a strong pipeline in Q4 will see low single-digit growth in Ukrainian M&A for the full-year.

Since launching the first Ukrainian M&A Review, we have invested heavily into our Deal Advisory capabilities to ensure that we remain at the forefront of developments on the local market, so that we are able to help our clients to successfully execute their M&A strategy. We continue to responsibly promote Ukraine as an investment destination and to play our part in the sustained development and transformation of the economy.

Peter Latos
Partner,
Head of Advisory
Dynamics of M&A

Despite an increase in the number of inbound deals, M&A has become an increasingly domestic play in recent years, with 62 per cent of total deal value (USD1.1 billion) and 63 per cent of total deal volume (50 transactions) involving a Ukrainian buyer and seller in 2018. The largest domestic and overall deal in 2018, was the USD714 million acquisition of Donetskeft by Industrial Coal Holding LLC, a company reportedly owned by Ukraine’s largest steelmaker, Metinvest, and other co-investors. This raised the average ticket size for domestic deals by 52 per cent to USD49 million.

Inbound M&A activity increased by 47 per cent in 2018, with 25 deals announced, of which encouragingly, 44 per cent were made by first-time investors into Ukraine. However, although the acquisition of the restructured Mriya Agro Holding by SALIC, the Saudi investment company, boosted total spend to USD508 million, average deal value fell by 16 per cent to USD42 million. One reason for this is the more cautious approach displayed by first-time investors, who on average, spent less than half the amount of their more seasoned counterparts on each acquisition.

The ten largest deals of 2018 were worth a combined total of USD1.5 billion in 2018, including two transactions in the metals and mining sector for USD820 million (55 per cent), and five transactions in the agriculture sector, including three inbound deals, for USD488 million (53 per cent).

Nonetheless, Ukrainian M&A has demonstrated remarkable resilience over the last two years as domestic and international players have increasingly shown their willingness to invest further, fueling the economic recovery.

From its low point in 2016, Ukrainian M&A has now recorded two consecutive years of double-digit growth, despite the country’s political and economic challenges. During 2018, deal activity increased by 18 per cent, with 80 transactions announced. Notwithstanding this, and an impressive 78 per cent increase in the value of Ukrainian M&A to USD1.8 billion, the total value and the number of deals was still less than at its 2013 peak.

This dynamic reflects both a decline in the transparency of Ukrainian M&A over the last five years, with deal values disclosed for only 46 per cent of transactions in 2018 compared to 59 per cent in 2013 (significantly lower than typically seen in more mature markets), and a reduction in the average size of transactions valued below USD100 million.

While the average value of significant deals ( USD100 million each), jumped by 52 per cent between 2013 and 2018 to USD291 million, only four such transactions were announced during the year, compared to 14 in 2013, when almost half were inbound deals. However, the average value of deals in the underlying core of M&A activity declined by nearly one-third, to USD20 million over this period, reflecting the impact of the economic downturn (including the devaluation of the Hryvnia) on financial performance, and hence the valuation of companies.

Ukrainian M&A largest deals in 2018

<table>
<thead>
<tr>
<th>Target</th>
<th>Sector</th>
<th>Acquirer</th>
<th>Vendor</th>
<th>% acquired</th>
<th>Value USDm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Palobeske Collery and Syvato-Varnyvanyz coal enrichment factory</td>
<td>Metals and mining</td>
<td>Metinvest Holding; Albina Ltd; Mitandylo Holdings Ltd and Ternivnu Investments Ltd</td>
<td>Fintest Trading Co Limited</td>
<td>100%</td>
<td>714</td>
</tr>
<tr>
<td>Mriya Agro Holding</td>
<td>Agriculture</td>
<td>Saudi Agricultural and Livestock Investment Company</td>
<td>BNP Paribas SA; Credit Agricole SA</td>
<td>100%</td>
<td>242</td>
</tr>
<tr>
<td>Evraz DMZ</td>
<td>Metals and mining</td>
<td>Development Construction Holding LLC</td>
<td>EVRAZ Plc</td>
<td>98%</td>
<td>106</td>
</tr>
<tr>
<td>Peronatnia Puy d.d.</td>
<td>Agriculture</td>
<td>MHP S.A.</td>
<td>Slovenian Steel Group, d.d.</td>
<td>91%</td>
<td>100</td>
</tr>
<tr>
<td>Buer King</td>
<td>Consumer markets</td>
<td>CIS Opportunities Fund SPC Ltd; ICB Group; Xemene Holdings Ltd</td>
<td>VTB Bank</td>
<td>17%</td>
<td>82</td>
</tr>
<tr>
<td>Kornel Holding SA</td>
<td>Agriculture</td>
<td>Julius Baer Group Ltd</td>
<td>Not disclosed</td>
<td>6%</td>
<td>73</td>
</tr>
<tr>
<td>Agrocentre Eurochem Ukraine LLC</td>
<td>Chemicals</td>
<td>Undisclosed bidder</td>
<td>EuroChem Group AG</td>
<td>100%</td>
<td>53</td>
</tr>
<tr>
<td>OOO Ukruresaleting</td>
<td>Transport and infrastructure</td>
<td>ODELEUS Construct Kft</td>
<td>Cypriot Vrakas Sfilanes</td>
<td>100%</td>
<td>50</td>
</tr>
<tr>
<td>Spect-Agro LLC</td>
<td>Agriculture</td>
<td>Sumitomo Corporation</td>
<td>Not disclosed</td>
<td>51%</td>
<td>45</td>
</tr>
<tr>
<td>9 and Spect-Agro-technika</td>
<td></td>
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<tr>
<td>Apergira Triople, Radiony Agro</td>
<td>Agriculture</td>
<td>Vitagro</td>
<td>Agrogroup Pan Kurchak</td>
<td>100%</td>
<td>28</td>
</tr>
</tbody>
</table>

As % of total transactions in 2018

25

80 deals

2018

2017

2016

2015

2014

2013


Deal value (excl. significant deals), USDm

Significant deals (USD100m), USDm

Number of deals

Total deal value

1,375

2,582

55

67

80

1,98

2,394

1,017

488

348

391

1,023

1,817

1,162

95

315

383

529

625

1,361

1,238

5

2,238

Visualization of deal value over the years.

Overview Ukrainian M&A Review 2018

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Overall, we remain cautiously optimistic about the prospects for Ukrainian M&A in the year ahead.

Key expectations for 2019

We expect inflation to decline to a figure approaching the NBU’s forecast of 6.3 per cent and GDP growth of circa 3 per cent for 2019.

Despite concerns regarding the global economy and the uncertainty that the presidential and parliamentary elections will inevitably bring, the economic outlook for Ukraine looks more assured on the back of the USD3.9 billion of IMF funding secured under the Stand-by Agreement and forecast GDP growth of circa 3 per cent for 2019.

The encouraging increase that we have seen in inbound deals, particularly from investors new to the Ukrainian market, is based on those sound economic and structural indicators, as well as the comparatively low price of assets. We expect to see inbound investment continue to grow over the years ahead, with more foreign entrants to the market.

The resurgence of confidence amongst domestic deal-makers is also a positive indicator. Reinforcing this message, in January 2019, Horizon Capital, the private equity firm, saw its ‘Emerging Europe Growth Fund III’, which will invest in fast-growing, export-oriented companies that leverage Ukraine’s cost competitive platform to generate global revenues, primarily in IT, light manufacturing, food and agriculture, hit its hard cap of USD200 million, far surpassing its USD150 million target.

While there maybe some softening in deal-activity ahead of the forthcoming elections, provided government policy remains consistent and fiscally responsible, we believe a strong pipeline will exist for Q4 of 2019 and beyond. On this basis, our outlook is for a modest increase in the value and volume of Ukrainian M&A for the full-year.
2018 in Review

Despite the often sluggish progress of reforms imposed as conditions of the IMF and EU loans, confidence in the economy has increased among both domestic and international business leaders, and Ukrainian consumers.

Macroeconomics

A key driver of Ukrainian M&A over the last two years has been the continuing economic recovery much of which is attributable to the stability brought by the loan packages agreed with the International Monetary Fund (IMF) and European Union (EU). Despite the often sluggish progress of reforms imposed as conditions of the IMF and EU loans, confidence in the economy has increased among both domestic and international business leaders, and Ukrainian consumers.

The Ukrainian economy delivered a third consecutive year of growth in 2018, with full-year GDP of 3.3 per cent, according to the National Bank of Ukraine (NBU). This figure represents the country’s strongest economic growth since 2011, and is in line with the 3.2 per cent forecast by the IMF at the start of the year.

The economy was buoyed by rising household consumption, driven by a tightening labour market and real wage growth, coupled with a record harvest of grain and oilseeds, and strong export of agricultural products as the Hryvnia remained stable at an average of 27 to the US dollar. Inflation finished the year at 9 per cent, which although continuing the recent downward trend, was above the NBU target, resulting in the Bank holding the key policy rate unchanged at 18 per cent.

Key sector activity

In terms of deal value, Ukrainian M&A was dominated by two sectors during 2018; metals and mining, and agriculture, which together accounted for almost three-quarters of total spend. Two-thirds of total deal volume was spread across four sectors; real estate and construction, agriculture, banking and insurance and consumer markets.

Metals and Mining

M&A in the metals and mining sector has been gathering pace each year since the political upheaval of 2014, and accounted for 45 per cent of total Ukrainian M&A spend in 2018. Deal-making in the sector has been driven by a recovery in global steel prices (up 9.7 per cent in 2018), increased demand in mature markets, and fallout from the conflict in the east of Ukraine. Producers located close to the Anti-Terrorist Operation (ATO) Zone in Eastern Ukraine, have been severely impacted by disruption to raw material and power supplies, and cuts to transport links. Some producers, mainly Russian, have sought to divest their operations in Ukraine. Despite expropriation of a substantial portion of its assets in the Donbass region, Ukraine’s largest steelmaker, Metinvest, has enjoyed strong financial results¹ on the back of the global steel market dynamics, enabling the group to refinance, and it is now reportedly on the hunt for steel rolling assets in Europe.

Metinvest was involved in the largest transaction of the year, as a 24.99 per cent shareholder of Industrial Coal Holding LLC (ICH). In April 2018, ICH acquired Donetsksteel, the owner of various assets including the Pokrovske Colliery and Svyato-Vorvansyska coal enrichment plant located in the Ukrainian controlled part of the Donbas, from oligarch Viktor Nusenkis’s Fintest Trading Co. Ltd. for an estimated USD714 million.

Four other deals were announced in the metals and mining sector during 2018, including Development Construction Holding’s (DCH) acquisition of Evraz DMZ, a steel mill located in Dnipro for USD106 million. This was DCH’s second transaction with Evraz, following the acquisition of the Sukha Balka iron ore mine and beneficiation plant in November 2017 for USD110 million.

Two deals in the metals and mining sector accounted for 45 per cent of all M&A spend in 2018.

Agriculture

Significant investment in the agriculture sector in recent years, and specifically in technology and resources, has seen grain and oilseed yields almost double since 2001, with 92 million tonnes harvested from the same acreage in 2018. This, combined with a 4 per cent increase in agricultural exports to USD19 billion² during 2018, has helped to keep the sector in the focus of deal-makers in recent years. Agriculture was the second most active sector during 2018, with 21 deals announced, and total M&A spend of USD576 million, including the largest inbound and outbound deals of the year.

A successful debt restructuring enabled a consortium of international creditors to offload Mriya Agro Holding to the Saudi Agricultural and Livestock Investment Company (SALIC) for USD242 million – the largest inbound deal of 2018. The transaction, which reflects the food security strategy of the Kingdom of Saudi Arabia, provides SALIC with a further 165,000 hectares of arable land on top of the 45,000 hectares it already farms in Liv, following its 2013 acquisition of Continental Farmers Group. The largest outbound deal of 2018 saw MHP, Ukraine’s, and one of Europe’s, largest poultry producers, acquire a 91 per cent stake in Perutnina Pluj, a Slovenian vertically integrated poultry producer with operations across southeast Europe, for USD100 million. The transaction, which should enable MHP to realise certain synergies, is consistent with its desire for international expansion, and reflects the improving financial strength and growing confidence of Ukraine’s larger companies.

1. Metinvest generated EBITDA of USD1.3 billion in the first half of 2018 according to Metinvest’s corporate website

2. Ministry of Agriculture

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**Real Estate and Construction**

With yields improving and occupancy rates climbing, commercial real estate was a focus for Ukrainian M&A, making real estate and construction the most active sector in 2018, with a total of 23 deals announced – almost one-third of total deal volume for the year. Transactions were largely confined to retail and office space, as a shortage of mortgage financing and the construction boom of 2015 to 2018, has left housing developers with unsold stock and significantly weakened margins.

**Enter the Dragon**

In 2018, Dragon Capital acquired 10 real estate assets, increasing its prime office space to 160,000m², spending USD51 million in the process.

Real estate and construction M&A rocketed to USD124 million in 2018, the highest level recorded since 2013, of which USD51 million was attributable to Ukraine-based investment fund, Dragon Capital, which was responsible for almost a half of deal volume in the sector. During 2018, Dragon Capital increased its portfolio of prime office space to 160,000m², and acquired the Aladdin Retail Complex from Meyer Bergman, the British investment fund, for USD23 million. Elsewhere, Vadim Grigoryev acquired the 17,100m² Renaissance Business Centre for USD25 million, the largest deal in the sector, while Kovalska Group, the Ukrainian building materials and construction group, marked its first foray into commercial real estate with the USD11 million acquisition of a 7,500m² development in the Toronto Kiev Business Center from Alfa Bank.

**Banking and insurance**

The NBU’s efforts to clean up the banking sector through tighter regulation, greater transparency and increased capitalisation requirements saw further consolidation, with the 6 transactions in 2018, 57 per cent lower than in 2017. Deal-making in the banking and insurance sector was the least transparent of Ukrainian M&A during 2018, with deal values not disclosed for 5 (83 per cent) of the announced transactions. French insurer, AXA SA and BNP Paribas owned Ukrsib Asset Management, sold their AXA Ukraine operation to Fairfax Financial Holdings Limited for USD20 million. This was the only transaction in the sector with a disclosed deal value. This is the third investment by Fairfax in Ukraine in the last four years, following the acquisition of insurance company GBE in 2015 and acquisition of a 10% stake in Astarta Holding in 2017.

**Deal-making in the banking and insurance sector was the least transparent of Ukrainian M&A during 2018.**

**Consumer Markets**

Although M&A activity in the consumer markets sector was on par with the previous year, with a total of 7 announced transactions, the value of deal-making increased more than two-fold to USD122 million. The largest deal saw Ukrainian investment company ICU, increase its stake in Burger King Russia to 35 per cent by exercising its preemptive right to acquire an additional 17 per cent of the business from Russian bank VTB for USD82 million. Elsewhere, Sarantis, the Greek cosmetics to household products group, increased its presence in the CEE market through the acquisition of Ergopack, a Ukraine-based producer and distributor of household products, from Horizon Capital, a Ukraine-based private equity fund, for USD18 million.

**Commercial real estate was a focus for Ukrainian M&A, making real estate and construction the most active sector in 2018, with a total of 23 deals announced.**
Domestic

In 2018, domestic deal-making once again dominated Ukrainian M&A, accounting for 62 per cent of deal value (USD1.1 billion) and 63 per cent of deal volume (60 transactions). The average value of domestic deals has increased year-on-year since 2014, and amounted to USD49 million in 2018. However, the proportion of announced transactions with disclosed deal values in 2018, remained lower than in 2013-2015, at 46 per cent.

Over 90 per cent of domestic M&A spend was concentrated in three sectors during 2018. Metals and mining attracted USD820 million, driven largely to the acquisition of the Donetsksteel, followed by agriculture at USD109 million and real estate and construction at USD99 million. A little under two-thirds of domestic M&A activity was focused on assets of Donetsksteel, followed by agriculture at USD109 million and real estate and construction at USD99 million. A little under two-thirds of domestic M&A activity was focused on

Outbound

Ukrainian companies announced five outbound M&A deals during 2018, maintaining the average number recorded in the preceding four years. This demonstrates the continued confidence of Ukrainian business in expanding geographically, and testing business models in new geographies. However, with all five deals confined to Europe (4) and Russia (1), it highlights the desire to stay on familiar, if foreign, territory.

The five outbound deals were spread across the agriculture, consumer markets, innovations and technology and real estate and construction (2 transactions) sectors, in Russia, France, Slovenia, and Poland (2 transactions). Deal values were only disclosed for two transactions; MHP’s acquisition of a 91 per cent stake in Peruninia Ptuj, the Slovenian vertically integrated poultry producer, and ICU’s acquisition of an additional 17 per cent stake in Burger King Russia.

Inbound

While we correctly predicted in last year’s M&A review that 2018 would see an increased number of inbound deals, they continued to account for around one-third of total Ukrainian deal-making. A total of 25 transactions were announced in 2018, marking a 47 per cent increase over the previous year. However, the average value of inbound deals fell by 16 per cent to USD42 million, meaning that the total value of inbound M&A increased by 45 per cent to USD508 million.

The Middle East (USD242 million) and Europe (USD173 million) accounted for a combined 83 per cent of inbound deal value in 2018, of which 76 per cent USD322 million7 was invested into the agriculture sector, driven by SALIC’s acquisition of Mriya Agro Holding and the acquisition of a 6.22 per cent minority stake in Kernel, the Warsaw listed major Ukrainian agr-holding, by the Swiss private banking group, Julius Baer for USD73 million. The latter demonstrates the increasing level of confidence among foreign investors in the governance of Ukrainian enterprises.

Deal values were disclosed for less than 50 per cent of inbound M&A during 2018, this is lower than rates in 2013-2015. The low-level of transparency was somewhat surprising given that 76 per cent of inbound activity (19 transactions) originated from Europe, where the level of disclosure is typically greater. Excluding Europe, the picture was much better, with deal values disclosed for 83 per cent of inbound deal volume from the rest of the world. Nearly half of inbound deal volume was in agriculture (6 deals), real estate (6 deals), banking and insurance (3 deals) and consumer markets (3 deals).

Nearly half of all inbound investors were new to the market. The most attractive sectors for these new investors were real estate and construction, which saw three deals and transport and infrastructure, which attracted two deals.

Transparency of M&A deals in 2018

| Domestic | 23 | 11 |
| Inbound | 12 | 49 |
| Outbound | 2 | 57 |

Deals with disclosed value | Deals with undisclosed value | Transparency ratio

2013 | 2014 | 2015 | 2016 | 2017 | 2018

Ukrainian M&A deal value by type (2013–2018), USDm

2013 2014 2015 2016 2017 2018

3,819 2,582 1,017 748 1,023 1,817

Domestic | Inbound | Outbound | Total deal value
In December 2018, Moody’s Investors Service (Moody’s) once again upgraded Ukraine’s sovereign debt rating, which has improved from Caa3 to B3 over the last three years, although the outlook was downgraded from positive to stable. The agreement of an IMF SBA was the key driver of the most recent upgrade in the debt rating, along with with the expectation that incremental progress will be made on reducing corruption, given recently adopted reforms, and that Ukraine’s economic resilience to the ongoing conflict with Russia has increased further. The stable outlook reflects both the country’s continued dependence on the IMF for funding and to drive the reform agenda.

Ukraine’s standing in the global economy has also seen steady improvement in recent years, when measured across a range of indices, and the country is now ranked 71st in the World Bank’s Doing Business Index, 83rd in the World Economic Forum’s Global Competitiveness Index, and 3.07 out of 5 in the European Business Association’s 2018 Investment Attractiveness index. The recently announced Corruption Perception Index, published by Transparency International, ranks Ukraine at 120 out of 180 countries surveyed, an improvement of ten places over 2017.

After a strong start to 2018, investors’ confidence in the global economic outlook fell back, following the slowdown of global industrial production and reciprocal protectionist measures imposed by the USA and China. This increasing pessimism cannot fail to affect Ukrainian investors. In the first few weeks of 2019 we have already seen weaker retail results for Q4 2018 in the US and Europe, and job losses across the global automotive industry as demand slows, tighter emissions regulations take hold, and the momentum for electric vehicles builds.

As long as government policy remains consistent and fiscally responsible, we are confident that deal-making will continue to grow.

The US Federal Reserve’s decision to shift its target range for the federal funds rate 2.25 - 2.50 per cent in late December 2018, and some investors’ exit to the fixed-income market, will also cool stock markets in general and those in emerging markets particularly.

It is therefore not surprising that the consensus forecast is for the Ukrainian economy to slow slightly in 2019, with GDP growth of 3 per cent. This reflects the resilience of domestic demand underpinned by consumer consumption and the ever-tightening labour market, which will be tempered to some degree by election-related uncertainty and the likelihood of lower external demand as the global economy slows.

Overall, we remain cautiously optimistic for Ukrainian M&A in 2019. Whilst there may be potential for some softening in activity as investors adopt a more cautious approach until the likely outcome of the elections is known, we are confident that there will be pent up demand and an established pipeline by Q4 2019 and into 2020, potentially fuelled by the long-awaited privatisation of state owned enterprises. With Ukrainian M&A equivalent to just 1.4 per cent of GDP, it is significantly under-invested compared to the global average of 4.3 per cent.
**Key drivers for 2019**

We do not anticipate any significant developments in the overall structure of Ukrainian M&A in 2019, and largely expect it to be business as usual, with the majority of deal-making confined to a small number of sectors.

- **Agriculture**: we expect M&A to be driven by foreign investors, as domestic players concentrate on driving efficiencies from existing assets. Indeed, in January 2019, Saudi Arabia’s SALIC announced the acquisition of the remaining 66% stake in United Farmers Holding Company (UFHC), which operates 44,000 hectares of crop production in west Ukraine, from two Saudi private sector co-investors, following their joint investment in 2013.

- **Real Estate & Construction**: activity will remain strong in the commercial real estate segment given robust supply as banks and the Deposit Guarantee Fund (GDF) continue to offload properties, potential for high returns and comparatively low levels of risk. The backlog of unsold residential properties following the 2015-2016 construction boom and absence of a functioning mortgage market, could lead to forced sales of construction companies, unless they are able to successfully navigate debt restructuring.

- **Power & Utilities**: with the privatisation of Centrenergo and other state owned enterprises likely to be on-hold until after the elections, M&A in the sector is likely to be limited to renewables, with 2019 likely to be the last chance for investors to secure the advantageous Green Tariff for newly commissioned capacity. Although a number of pre-construction projects secured foreign investment in 2018, the majority were below the USD5 million threshold for our database. Syvašenergoprom, due to construct a wind plant with a power capacity between 250 and 330 MW, was acquired by Norwegian renewable energy company NBT AS. This was the only deal large enough to make our database. We may see larger deals during 2019 and thereafter as owners look to refinance completed power plants.

- **Banking and Finance**: with seemingly no resolution to the ongoing conflict with Russia, it is likely that pressure will continue to mount on Vneshekonombank and Sberbank to divest their Ukrainian activities. Further consolidation is likely in the banking segment as stricter capital requirements take hold. We expect the remaining international players to exit the insurance market because of low demand for life insurance in Ukraine and price competition in the risk insurance market among key players.

- **Consumer Markets**: incomes are growing and households able to increase their discretionary spending. Much of this is linked to rising foreign remittances, but with promises of higher wages and pensions, by presidential candidates, the trend should continue in the coming months. IKEA, Auchan and Decathlon have all announced plans for expansion in Ukraine.

**Investors will continue to carefully monitor progress of reforms, and overall expectation**

In summary, whilst political and economic headwinds are building both globally and domestically, we believe that the macroeconomic fundamentals in Ukraine will remain sufficiently resilient, such that investor confidence in the medium to long-term prospects for the country will be largely unchanged. As a result, although uncertainty caused by the election process may see restrained activity during the first half of the year, we remain cautiously optimistic that 2019 will see a fourth consecutive year of growth in Ukrainian M&A.

Like many, we remain hopeful that the long-awaited privatisation process will soon gather momentum. Although the government, in January, committed once again to sell 23 state owned enterprises, including Indar Pharmaceuticals and the Krasnolymanska Mine, it is doubtful that such larger privatisations will happen before the elections. However, spurred on by the terms of the IMF SBA, we may see the government privatise some 500 small assets (UAH250 million in terms of assets) via the ProZorro platform.

We expect the debt-sales market to continue to develop in 2019, driven by attractive discounts to book value for non-performing loans (NPL), averaging 75 per cent in Ukraine, significantly higher than most CEE markets, and an increasing volume of NPLs sold by the DGF through the ProZorro platform, which provides a level playing field for investors. This could in turn lead to M&A activity amongst related debt-collection and management services companies and even the structures of NPL investors.

A new law on concessions and public-private partnerships (PPP) is slated for the first half of 2019, which, if passed, could lead to ports, airports, rail infrastructure and ferries being placed in the hands of private investors. The Ministry of Infrastructure has also flagged its intention to give the green light to the construction of toll roads during 2019. Following on from Ukrainian Railways long-term USD1 billion agreement with GE for 30 new locomotives, modernisation of the existing fleet and a long-term service agreement, it is a positive sign for infrastructure investors.

**Overall expectation**

In summary, whilst political and economic headwinds are building both globally and domestically, we believe that the macroeconomic fundamentals in Ukraine will remain sufficiently resilient, such that investor confidence in the medium to long-term prospects for the country will be largely unchanged. As a result, although uncertainty caused by the election process may see restrained activity during the first half of the year, we remain cautiously optimistic that 2019 will see a fourth consecutive year of growth in Ukrainian M&A.
Continued reform: the key to FDI

Brian Best is Managing Director of Investment Banking at Dragon Capital, one of the most active investors in the Ukrainian Market. In this interview, Brian offers his analysis of the strengths and weaknesses of the Ukrainian economy and offers an insight into his investment strategy, which has seen Dragon Capital become one of the most respected players in the market.

How would you characterise and assess the resilience of the Ukrainian economy?
Considering where the country was post-Maidan Revolution, the Ukrainian economy has shown quite a bit of resilience over the past few years. Probably not enough to drive significant growth in cross-border M&A, but domestic M&A has been stronger, as companies or investors that have cash, are able to capitalise on distressed situations. While the local currency has been stable and much has been done in the area of government reforms, GDP growth rates need to accelerate in order to entice investors to take on more risk in Ukraine.

What advantages does Ukraine possess to attract investment from the global market?
Ukraine is a diverse and cost-efficient economy with a highly skilled labour force. In fact, Ukraine has most of the necessary ingredients to be a major manufacturing hub for Europe – low-cost, skilled human resources, engineering prowess, geographical location and improving infrastructure. Moreover, in the case of IT and agriculture, Ukraine has the capability to lead the world in terms of innovation and productivity. This is especially true in the areas where IT and agriculture converge, such as in the burgeoning field of AgTech. Ukraine is a hidden gem that has been tarnished by its past, but with a bit of good PR, could be discovered.

How impact do cultural differences have on cross-border M&A?
Language is still probably the biggest cultural barrier for most cross-border transactions, and that barrier is getting lower every year. The number of Ukrainians travelling abroad increases annually and when they do travel to foreign countries, they bring back knowledge and cultural understanding. This translates to business and makes bridging cultural barriers easier. Most companies that have attracted capital through the international capital markets have adapted their businesses to report regularly to their foreign investors and communicate with them frequently through conferences and board structures. Even more so, the Ukrainian IT sector has seamlessly integrated into the global software and hardware development market. I’ve long believed that geographically Ukraine is solidly European – now I feel that culturally it is as well.

How would you define success for an international investor operating in Ukraine?
If we include the start of Ukraine’s history as an independent state in 1991, then the country has gone through five or six major political and/or financial crises, depending on how you count them. Asset values were historically very cheap, while risk and potential returns were very high. So, in my mind, in the last 25 or more years of Ukraine’s independence, “success” has been defined as merely “survival”. If you survived the high-risk environment, then you were likely to experience high investment returns. Success. However, as Ukraine implements reforms to make business easier and integrates into the European and global marketplace, simply surviving is no longer good enough. Investors today are looking to Ukraine not to provide some short-term cost benefit, but rather to build a long-term sustainable advantage into their regional or global value chains. This means that in addition to less expensive labour, foreign investors are looking for productive talent and ingenuity.

How important is reputation? What do international investors expect from business?
I think that, for the most part, a good business or professional reputation hinges on the ability to be successful without engaging in rent-seeking behaviours or depending on some unique political relationship. Most of Ukraine’s ‘old economy’ was built on such relationships, which has tarnished the reputation of a number of businesses and businesspeople. Today, foreign investors want to see that a business can compete on its own merits and that its success doesn’t depend on a political connection or some legislative loophole. The best way to build a solid reputation is to incorporate corporate governance best practice as early as practicably possible. Having a quality Board of Directors and working with experienced board members can add an enormous amount of value to a business and its owners, all the while improving their reputation.
Effective corporate governance and corporate culture are essential for a successful business. How does this apply to your company?

Dragon Capital is a partnership and, as such, our partners operate a board-like structure. Moreover, because we are a regulated financial institution operating under the laws of the European Union and the European Common Marketplace, we have a strict set of rules and guidelines that we adhere to in our daily work. This has driven our own corporate culture as we have evolved from a 15-person entrepreneurial start-up to a 200-person company, which is integrated into the global financial system. As we continue to build our business together with well-known global partners and investors, we will grow our corporate governance culture to mirror global best practice in our industry.

Although Foreign Direct Investment (FDI) into Ukraine is growing, it is still at a historically low level, and well below regional peers. What needs to happen to stimulate FDI?

Generally speaking, investors simply want to see political and economic stability and predictability so that they can build their risk models and make sound investment decisions. If you combine that with a high-growth environment, then investors will come. We witnessed this in the 2006-2008 period when a few years of high single-digit GDP growth was coupled with a new, western-leaning government that gave investors a feeling of political stability and predictability. During that period, FDI flowed into Ukraine at unprecedented levels. Despite the forthcoming election cycle, I feel that Ukraine could be approaching another period of sustained stability and predictability. If the reform process were to continue at a more rapid rate, and if the banking system increased lending, we could see another period of significant GDP growth, and FDI would certainly follow.

What lessons can Ukraine learn from other countries that have faced similar economic, social and political challenges in the past, to pave the way to recovery?

One needs to look only as far as Central and Eastern Europe (CEE) to find many examples of success stories for Ukraine to try and emulate. All of the countries that were under Soviet influence had to rebuild their political and economic systems, and those that shook off of the Soviet-era past and built new political and market institutions the fastest, were the ones that achieved the greatest results in terms of economic recovery. However, it wouldn’t be 100% fair to compare Ukraine to most other CEE countries in this regard because Ukraine has a much longer history under Soviet rule – in other words, it has a lot more political baggage to unload. I think that it is finally safe to say that Ukraine is clearly on a path to integrate into the European market and culture. It is now a matter of building the political, legal, and market institutions that will cement its place in the European way of life. While Ukraine needs to develop its own such institutions, it can still learn a lot from the countries that have had to build the same institutions before it.

How will Ukraine fit into the rapidly changing global investment landscape and what is your vision for the future?

This is a tough question. On the one hand, I feel that it would be to Ukraine’s advantage to build a strong local financial market that could eventually be integrated into the global system. I do believe that a strong capital market is essential for a prosperous economy. On the other hand, as you have pointed out in your question, we have seen the emergence of a paradigm shift, for example, with the introduction of digital currencies and blockchain technology. Whether or not you believe in blockchain, digital currencies, crowd funding, etc. one thing is for sure - Ukraine has the advantage of being able to “leap-frog” to the front of the line in terms of implementing some of these global changes. For example, why couldn’t Ukraine be the first country to implement a cashless society? While I am still not entirely sold on some of the changes appearing in the global investment landscape, I do believe that Ukraine could, and should, try to be on the cusp of these changes.

What is your outlook for Ukrainian M&A in Ukraine in 2019?

The implementation of martial law at the end of 2018 certainly didn’t give investors confidence in Ukraine. I go back to my comments about stability and predictability – neither martial law nor a year of presidential and parliamentary elections give a feeling of either. As such, I don’t expect 2019 to be a year of big M&A activity in Ukraine. However, because so much has been done in terms of reforms and economic stability, I think that Ukraine is now on the radar screen of many investors. If we can get through 2019 without any major political or economic crises, then I believe that 2020 will see a huge boost in M&A and general economic activity in Ukraine.

What are the key priorities for Dragon Capital’s investment strategy in the years ahead?

Dragon Capital will continue to be opportunistic in terms of its investment strategy going forward. In 2014 we saw an ability for Ukraine to escape sovereign default, so we went long on Ukraine while investors were exiting the country. That worked out well for our trading team. More recently we have seen asset prices in real estate and other retail or export related industries undervalued, so we have developed a private equity business to tap into that opportunity. I anticipate that the M&A and capital markets will follow in 2020 so we will be prepared to take advantage of those opportunities as they present themselves. We spend a great deal of time evaluating the markets so we can “follow the money” – the trick is to be one of the first ones through the door once you see where it is going.
Crossing the M&A tax border

As an acronym, it’s innocuous enough, but the base erosion profit shifting (BEPS) project should be a key part of your strategic planning for any cross-border deal.

Maksym Zavalny

BEPS in Ukraine

The BEPS project, which was initiated by the OECD and G20 in 2013, is designed to reduce the use of tax planning strategies that exploit loopholes and inconsistent tax rules to shift profits to low or no-tax jurisdictions, deny benefits under double taxation agreements, and to align transfer pricing arrangements. The full package of BEPS measures is intended to end to the classic holding and profit repatriation structures commonly used by multinationals to pay little or no taxes on multi-billion worldwide income.

Ukraine committed to the BEPS project in 2017 by adopting its minimum standards, a set of principles that each participant country is required to implement. However, a draft bill to implement the country’s BEPS Action Plan is awaiting parliamentary hearings to discuss a comprehensive package of anti-tax avoidance and evasion measures.

While Ukraine’s commitment to the project was reinforced last year, by the signing of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI), which aims to amend existing tax treaty networks, without the need for individual renegotiation, and hopefully, remedy existing deficiencies, the draft bill is currently stalled in parliament.

Once in place, however, Ukraine’s BEPS measures are expected to provide greater efficiency in eliminating the harmful practices that taint the international tax framework and should eliminate the majority of tax abuse practices, especially the less sophisticated tax avoidance techniques commonly used by Ukrainian companies, such as unjustified cross-border expenses, in the form of interests and royalties, and transfer mispricing.

Cross-border considerations

More so than ever, consideration of the tax implications of Ukrainian M&A must go beyond due diligence. While the acquisition process in Ukraine is relatively straightforward, it is already a challenge to repatriate returns on investment using classic holding structures in tax havens or purely tax driven repatriation mechanisms. Cross-border M&A requires appropriate tax structuring and modelling to be undertaken in conjunction with the due diligence, to ensure that transaction documents not only mitigate key risks but also reflect the business and economic rationale of tax instruments.

BEPS adds another level of complexity to cross-border M&A, requiring tax and legal professionals to work side-by-side to consider the impact of a transaction on the existing international tax and legal structure of a business. Appointing M&A tax professionals is essential to assess the most effective way to redraw the jigsaw, not a luxury. The focus for any cross-border deal should be to select tax advisors who have in-depth experience of the latest tax developments and initiatives.

KPMG’s team of professional deal advisors are able to guide you through the tax complexities of cross-border M&A, to help you achieve a successful transactions.

Maksym Zavalny
Director, Tax and Legal

Dmytro Shchur
Director, Transaction Services

Tax is a crucial element of the due diligence process, essential not only to assess risks and impact on valuation but also to ensure that increasingly connected tax systems are appropriately structured.

Dmytro Shchur

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Ukrainian M&A Review 2018
In good times and bad

While the choice of applicable law for executing M&A is important, it’s also essential that consideration is given to the ability to enforce the protections afforded by the transaction documents, and recover any losses as a result.

Yuriy Katser

On the right side of the law

Although the general principles of Ukrainian law enable internationally recognised legal instruments to be structured in transaction documents, generally poor regulation, inconsistencies and gaps in the legal system, compounded by a lack of consistent and clear court practice, typically preclude its use in reality.

The lack of a well-developed concept of due diligence is another crucial issue under Ukrainian law, that hinders the effective structuring of M&A transactions, and the ability to enforce contractual obligations in the event of a breach. Ukrainian law also lacks comprehensive regulation of, and jurisprudence on, important legal instruments used for M&A, such as representations, warranties, indemnities, guarantees, and put and call options.

While international deal-makers typically expect to seek financial redress if the seller’s warranties and representations under a sale and purchase agreement (SPA) prove to be false or inadequate, Ukrainian courts are unfamiliar with such concepts, and tend to award minimal, if any, damages, while requiring a very high burden of proof threshold.

In February 2018, Ukraine’s law on corporate agreements came into force. While the law recognises the concept of shareholder agreements (SHA), it fails to pay sufficient attention to them, and does not specifically envisage the instruments used under English law, or more generally worldwide. Furthermore, Ukraine does not have established relevant court practice. Instead, parties should rely on the freedom of contract concept, which in the given circumstances is not sustainable or secure.

Therefore, the risk of applying Ukrainian law is that customary transaction arrangements, which are based only on the freedom of contract concept, may be misinterpreted by local courts, or worse, prove to be unenforceable.

In our experience, English law affords greater protection, the ability to enforce such protection should the situation arise, and to seek redress. Appointing dedicated M&A legal advisors early in the deal process, will save money in the long-run.

Oleg Neplyakh

Director, Tax and Legal

Oleg Neplyakh

Director, Valuations, M&A and Financing
A long road to privatisation

After another false dawn for the privatisation of large state-owned enterprises, and no realistic prospect of the process regaining momentum again until 2020 at the earliest, government should focus on preparing for private investment.

Dmitry Musatov

State Enterprises see the benefits of market reforms

Despite plans to privatise a host of state-owned enterprises (SOEs), progress has been painfully slow since 2014. Last year’s efforts to restart the process was ultimately derailed by a legal challenge no sooner had advisors been appointed for six large¹ SOEs, including Odessa Portside Plant (OPZ), which had already failed to be sold twice.

Ukraine’s economy is disproportionately controlled by the state, with 3,500 SOEs, which are often plagued by corruption, becoming a drag on the economy and stifling competition. However, government has already demonstrated its ability to take big steps toward tackling such issues through the introduction of independent supervisory boards (ISBs) at four strategic enterprises that will remain in state ownership: Natfogaz, Ukrposhta, Ukrzaliznytsia (Ukrainian Railways) and Ukrenergo.

When privatisation can enable the realisation of both short and longer-term economic objectives, provided a clear strategy is in place to balance raising funds for the budget with future GDP growth and job creation, there seems little prospect that processes for larger SOEs will restart until 2020 at the earliest. With this in mind, what should we expect during 2019, and what can government do to better prepare the road ahead.

The road ahead

One bright spark is the prospect for further privatisations of small SOEs. Although the government’s reform agenda for Natfogaz, Ukrposhta, Ukrzaliznytsia and Ukrenergo faced predictable resistance, it has proven to be one of its most successful initiatives of last year.

Although the law on privatisation categorises SOEs as small (assets of <UAH250 million), and large (assets of >UAH250 million)¹

¹ The law on privatisation categorises SOEs as small (assets of <UAH250 million), and large (assets of >UAH250 million).
Methodology

KPMG Ukrainian M&A database

This report is based on the KPMG Ukraine M&A database which includes transactions where either the target (inbound) or acquirer (outbound) or both (domestic) are Ukrainian. All data is based on transactions completed between 1st January and 31st December 2018, or announced during this period but pending at 31st December 2018. Historical data may differ from earlier versions of this report as the KPMG Ukrainian M&A database is updated retrospectively for lapsed deals and information subsequently made public.

The KPMG Ukrainian M&A database has been compiled over a number of years, based on information included in the Mergemarket M&A deals database, EMIS DealWatch database and S&P Capital IQ database, together with KPMG desktop research of other sources. Data includes transactions valued in excess of USD5 million, as well as transactions with undisclosed deal values where the target’s turnover exceeds USD10 million. Deal values are based on data included by Mergemarket, DealWatch and Capital IQ, as well as company press releases and market estimates disclosed in the public domain.

Between 2013 and 2018, transaction values were not publicly disclosed for 56 per cent of announced Ukrainian M&A deals. This low level of transparency may distort the data included in the KPMG Ukrainian M&A database, and the comparability of deal data from one period to another.

Allocation of deals to industry sectors may involve using our judgment and is therefore subjective. We have not extensively verified all data within the KPMG Ukraine M&A database, and cannot be held responsible for its accuracy or completeness. Analysis of different databases and information sources may yield deviating results from those presented in this report.

Classification of the deal type between inbound, outbound or domestic was made based on information in the sources used and in the public domain about the dominant geography of the acquirer’s major shareholders and/or headquarters, as well as dominant geography of the target (in turnover or asset terms).

Macro trends and medium term forecasts

Information presented in this report on macro trends and medium term forecasts are based on data from Macro-Advisory Ltd, an independent macroeconomic and political strategy firm specialising in the Eurasia region, including Ukraine and the CIS.
**Macro trends and medium term forecasts**

### Appendix 1

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP, UAH bn, nominal</th>
<th>GDP, USD bn, nominal</th>
<th>Growth, real YoY</th>
<th>CPI - average, YoY</th>
<th>CPI - period-end, YoY</th>
<th>Gross fixed investment, real YoY</th>
<th>Industrial production, real YoY</th>
<th>Agricultural output, % change YoY</th>
<th>Bank average lending rate, % EOP</th>
<th>Real disposable income, % YoY</th>
<th>Unemployment, % EOP</th>
<th>Budget balance % of GDP</th>
<th>Current account, % of GDP</th>
<th>UAH/USD, year-end</th>
<th>UAH/USD, average</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1,465</td>
<td>183</td>
<td>(0.0%)</td>
<td>0.3%</td>
<td>0.5%</td>
<td>(8.4%)</td>
<td>(4.3%)</td>
<td>13.0%</td>
<td>16.6%</td>
<td>6.9%</td>
<td>72.2%</td>
<td>(4.4%)</td>
<td>(9.0%)</td>
<td>8.0</td>
<td>8.0</td>
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<tr>
<td>2014</td>
<td>1,587</td>
<td>134</td>
<td>(6.6%)</td>
<td>12.1%</td>
<td>24.9%</td>
<td>(24.0%)</td>
<td>(10.1%)</td>
<td>2.3%</td>
<td>17.7%</td>
<td>(9.4%)</td>
<td>9.1%</td>
<td>(4.6%)</td>
<td>(3.4%)</td>
<td>15.8</td>
<td>11.9</td>
</tr>
<tr>
<td>2015</td>
<td>1,989</td>
<td>91</td>
<td>(9.8%)</td>
<td>47.7%</td>
<td>43.3%</td>
<td>20.4%</td>
<td>13.0%</td>
<td>6.3%</td>
<td>21.8%</td>
<td>6.5%</td>
<td>9.3%</td>
<td>(2.1%)</td>
<td>1.8%</td>
<td>24.0</td>
<td>21.8</td>
</tr>
<tr>
<td>2016</td>
<td>2,385</td>
<td>93</td>
<td>2.4%</td>
<td>87.7%</td>
<td>12.4%</td>
<td>18.2%</td>
<td>0.4%</td>
<td>(25%)</td>
<td>19.2%</td>
<td>(6.5%)</td>
<td>9.3%</td>
<td>(2.9%)</td>
<td>(1.4%)</td>
<td>27.2</td>
<td>25.6</td>
</tr>
<tr>
<td>2017</td>
<td>2,983</td>
<td>112</td>
<td>2.5%</td>
<td>11.0%</td>
<td>13.7%</td>
<td>13.0%</td>
<td>2.2%</td>
<td>1.1%</td>
<td>16.4%</td>
<td>(3.2%)</td>
<td>9.5%</td>
<td>(1.5%)</td>
<td>(2.2%)</td>
<td>28.1</td>
<td>26.6</td>
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<tr>
<td>2018</td>
<td>3,459</td>
<td>128</td>
<td>3.3%</td>
<td>8.7%</td>
<td>10.3%</td>
<td>7.8%</td>
<td>2.2%</td>
<td>1.2%</td>
<td>17.0%</td>
<td>(0.4%)</td>
<td>9.2%</td>
<td>(2.6%)</td>
<td>(5.0%)</td>
<td>27.7</td>
<td>28.7</td>
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<td>2019E</td>
<td>3,960</td>
<td>138</td>
<td>2.8%</td>
<td>8.0%</td>
<td>8.0%</td>
<td>8.0%</td>
<td>3.0%</td>
<td>2.3%</td>
<td>15.0%</td>
<td>9.1%</td>
<td>8.6%</td>
<td>2.5%</td>
<td>(6.2%)</td>
<td>29.3</td>
<td>29.0</td>
</tr>
<tr>
<td>2020E</td>
<td>4,572</td>
<td>158</td>
<td>2.1%</td>
<td>7.5%</td>
<td>7.8%</td>
<td>7.5%</td>
<td>2.8%</td>
<td>2.4%</td>
<td>13.0%</td>
<td>2.3%</td>
<td>8.4%</td>
<td>2.1%</td>
<td>(4.5%)</td>
<td>29.5</td>
<td>29.4</td>
</tr>
<tr>
<td>2021E</td>
<td>5,228</td>
<td>178</td>
<td>2.6%</td>
<td>7.7%</td>
<td>7.0%</td>
<td>7.0%</td>
<td>2.9%</td>
<td>2.5%</td>
<td>12.0%</td>
<td>1.7%</td>
<td>8.3%</td>
<td>2.5%</td>
<td>(3.9%)</td>
<td>29.7</td>
<td>29.6</td>
</tr>
<tr>
<td>2022E</td>
<td>5,910</td>
<td></td>
<td>2.7%</td>
<td>7.0%</td>
<td>6.8%</td>
<td>6.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Cross-border M&A highlights**

### Appendix 2

#### Inbound M&A deal value by region (USDm), (2017 vs. 2018)

- **CIS**: 2018: 46%, 2017: 39%
- **Europe**: 2018: 4%, 2017: 4%
- **North America**: 2018: 8%, 2017: 8%
- **Asia-Pacific**: 2018: 35%, 2017: 48%
- **MEA**: 2018: 15%, 2017: 76%
- **Other regions**: 2018: 23%, 2017: 24%

#### Inbound M&A deal number by region (2017 vs. 2018)

- **CIS**: 2018: 4%, 2017: 8%
- **Europe**: 2018: 8%, 2017: 8%
- **North America**: 2018: 20%, 2017: 40%
- **Asia-Pacific**: 2018: 20%, 2017: 40%
- **MEA**: 2018: 55%, 2017: 26%
- **Other regions**: 2018: 24%, 2017: 55%

#### Outbound deal number by target’s region, 2017 vs. 2018

- **CIS**: 2018: 45%, 2017: 26%
- **Europe**: 2018: 74%, 2017: 74%
- **North America**: 2018: 20%, 2017: 20%
- **Asia-Pacific**: 2018: 20%, 2017: 20%
- **MEA**: 2018: 15%, 2017: 15%
- **Other regions**: 2018: 20%, 2017: 20%

#### Outbound deal value by target’s region (USDm), 2017 vs. 2018

- **CIS**: 2018: 45%, 2017: 35%
- **Europe**: 2018: 55%, 2017: 45%
- **North America**: 2018: 20%, 2017: 20%
- **Asia-Pacific**: 2018: 20%, 2017: 20%
- **MEA**: 2018: 15%, 2017: 15%
- **Other regions**: 2018: 20%, 2017: 20%
Appendix 3

Ukrainian M&A - market share by deal value in 2017–2018

<table>
<thead>
<tr>
<th>Sector</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metals &amp; Mining</td>
<td>45%</td>
<td>24%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>32%</td>
<td>44%</td>
</tr>
<tr>
<td>Consumer Markets</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Real Estate &amp; Construction</td>
<td>7%</td>
<td>1%</td>
</tr>
<tr>
<td>Transport &amp; Infrastructure</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Banking &amp; Insurance</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>9%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Note: Other sectors include (i) Chemicals, (ii) Healthcare and pharmaceuticals, (iii) Industrial products.

Ukrainian M&A - market share by deal number in 2017–2018

<table>
<thead>
<tr>
<th>Sector</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate &amp; Construction</td>
<td>26%</td>
<td>15%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>21%</td>
<td>8%</td>
</tr>
<tr>
<td>Consumer Markets</td>
<td>6%</td>
<td>1%</td>
</tr>
<tr>
<td>Banking &amp; Insurance</td>
<td>21%</td>
<td>10%</td>
</tr>
<tr>
<td>Metals &amp; Mining</td>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>Power &amp; Utilities</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Transport &amp; Infrastructure</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>11%</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>11%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Note: Other sectors include (i) Chemicals, (ii) Healthcare and pharmaceuticals, (iii) Industrial products.
### Metals and Mining

#### Largest metals and mining sector deals in 2018

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
<th>Vendor</th>
<th>% acquired</th>
<th>Value USDm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pokrovskie Colliery and Svyato-Varvarynska coal enrichment factory</td>
<td>Metinvest Holding; Altana Ltd; Misandyco Holdings Ltd and Treimur Investments Ltd</td>
<td>Fintest Trading Co Limited</td>
<td>100</td>
<td>714</td>
</tr>
<tr>
<td>2 Evraz DMZ</td>
<td>Development Construction Holding LLC</td>
<td>EVRAZ Pte.</td>
<td>98</td>
<td>106</td>
</tr>
</tbody>
</table>

#### Market share
- Domestic: 45%
- Inbound: 22%
- Outbound: 3%

#### Total value
- USD 820m

#### Volume
- 5 deals

### Agriculture

#### Largest agriculture sector deals in 2018

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
<th>Vendor</th>
<th>% acquired</th>
<th>Value USDm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mriya Agro Holding</td>
<td>Saudi Agricultural and Livestock Investment Company</td>
<td>BNP Paribas SA; Credit Agricole SA</td>
<td>100</td>
<td>242</td>
</tr>
<tr>
<td>2 Perutina Poku d.d. (90.68% Stake)</td>
<td>MHP S.A.</td>
<td>Slovenian Steel Group, d.d.</td>
<td>91</td>
<td>100</td>
</tr>
<tr>
<td>3 Kernel Holding SA</td>
<td>Julius Baer Group Ltd</td>
<td>Not disclosed</td>
<td>6</td>
<td>73</td>
</tr>
<tr>
<td>4 Spectr-Agro LLC and Spectr-Agrotechnika</td>
<td>Sumitomo Corporation</td>
<td>Not disclosed</td>
<td>51</td>
<td>45</td>
</tr>
<tr>
<td>5 Agrofirma Tripole, Radivoj-Agro</td>
<td>Vitagro</td>
<td>Agrogroup Pan Kurchak</td>
<td>100</td>
<td>28</td>
</tr>
</tbody>
</table>

#### Market share
- Domestic: 32%
- Inbound: 10%
- Outbound: 4%

#### Total value
- USD 109m

#### Volume
- 21 deals

### Consumer Markets

#### Largest consumer markets sector deals in 2018

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
<th>Vendor</th>
<th>% acquired</th>
<th>Value USDm</th>
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<tbody>
<tr>
<td>Burger King Russia</td>
<td>CIS Opportunities Fund</td>
<td>VTB Bank</td>
<td>1</td>
<td>82</td>
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<tr>
<td>Ergopack LLC</td>
<td>Sarantis SA</td>
<td>Horizon Capital</td>
<td>8</td>
<td>18</td>
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<tr>
<td>EVO Group</td>
<td>Rozetka</td>
<td>Naspers</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>Khotin Metal Packaging Plant</td>
<td>Ardgagh Group</td>
<td>UkrEximBank</td>
<td>100</td>
<td>7</td>
</tr>
</tbody>
</table>

#### Market share
- Domestic: 7%
- Inbound: 202%
- Outbound: 16%

#### Total value
- USD 122m

#### Volume
- 7 deals

### Real Estate and Construction

#### Largest real estate and construction sector deals in 2018

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
<th>Vendor</th>
<th>% acquired</th>
<th>Value USDm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renaissance Business Centre</td>
<td>Vadim Grigoryev - private investor</td>
<td>Alfa-Bank (Ukraine)</td>
<td>100</td>
<td>25</td>
</tr>
<tr>
<td>Aladdin Trade and Entertainment Centre</td>
<td>Dragon Capital Investments Ltd; The Goldman Sachs Group Inc</td>
<td>Meyer Bergman</td>
<td>100</td>
<td>23</td>
</tr>
<tr>
<td>KS Invest</td>
<td>Metal Yapi Konut AS</td>
<td>Not disclosed</td>
<td>4</td>
<td>17</td>
</tr>
<tr>
<td>Khotin Metal Packaging Plant</td>
<td>Ardgagh Group</td>
<td>UkrEximBank</td>
<td>100</td>
<td>7</td>
</tr>
</tbody>
</table>

#### Market share
- Domestic: 7%
- Inbound: 202%
- Outbound: 16%

#### Total value
- USD 124m

#### Volume
- 23 deals

### Total value
- USD 124m
### Transport and Infrastructure

#### Largest transport and infrastructure sector deals in 2018

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
<th>Vendor</th>
<th>% acquired</th>
<th>Value USDm</th>
</tr>
</thead>
<tbody>
<tr>
<td>OOO Ukrros-leasing</td>
<td>ODELUS-Construct Kft</td>
<td>Cypriot Vrakas Stilianos</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Market share
- Domestic: -100%
- Inbound: 100%
- Outbound: -

#### Total value
- Domestic: USD0m
- Inbound: -100%
- Outbound: -50%

#### Volume
- Domestic: 3 deals
- Inbound: 3 deals
- Outbound: 50% among 3 deals

### Power and Utilities

#### Largest power and utilities sector deals in 2018

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
<th>Vendor</th>
<th>% acquired</th>
<th>Value USDm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donbassenergo OJSC</td>
<td>Maxim Efimov (Private Investor)</td>
<td>Energoinvest Holding BV</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Market share
- Domestic: -90%
- Inbound: -
- Outbound: -

#### Total value
- Domestic: USD13m
- Inbound: -90%
- Outbound: -50%

#### Volume
- Domestic: 3 deals
- Inbound: 6 deals
- Outbound: -

### Chemicals

#### Largest chemicals sector deals in 2018

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
<th>Vendor</th>
<th>% acquired</th>
<th>Value USDm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agrocentre Euro-Chem Ukraine LLC</td>
<td>Undisclosed bidder</td>
<td>EuroChem Group AG</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Market share
- Domestic: -100%
- Inbound: -
- Outbound: -

#### Total value
- Domestic: USD53m
- Inbound: -100%
- Outbound: -50%

#### Volume
- Domestic: 100% among 2 deals
- Inbound: 100%
- Outbound: -57% among 2 deals

### Banking and Insurance

#### Largest banking and insurance sector deals in 2018

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
<th>Vendor</th>
<th>% acquired</th>
<th>Value USDm</th>
</tr>
</thead>
<tbody>
<tr>
<td>AXA SA (non-life entity and life entity business in Ukraine)</td>
<td>Fairfax Financial Holdings Limited</td>
<td>AXA SA, UkrSib Asset Management BNP Paribas Group</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Market share
- Domestic: -100%
- Inbound: 100%
- Outbound: -

#### Total value
- Domestic: USD20m
- Inbound: -50%
- Outbound: -

#### Volume
- Domestic: 6 deals
- Inbound: 6 deals
- Outbound: -
### Oil and Gas

**Largest oil and gas sector deals in 2018**

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
<th>Vendor</th>
<th>% acquired</th>
<th>Value USDm</th>
</tr>
</thead>
<tbody>
<tr>
<td>JKX Oil &amp; Gas Plc.</td>
<td>Cascade Investment, L.L.C.</td>
<td>Proxima Capital Group</td>
<td>20</td>
<td>12</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market share</th>
<th>Total value</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>USD12m</td>
<td>1 deal</td>
</tr>
</tbody>
</table>

### Healthcare and Pharmaceuticals

**Largest healthcare and pharmaceuticals sector deals in 2018**

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
<th>Vendor</th>
<th>% acquired</th>
<th>Value USDm</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOV INVITRO AB</td>
<td>Medicover AB (publ)</td>
<td>OOO Invitro</td>
<td>100</td>
<td>7</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Market share</th>
<th>Total value</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>USD7m</td>
<td>2 deals</td>
</tr>
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### Communications and Media

**Largest communications and media sector deals in 2018**

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
<th>Vendor</th>
<th>% acquired</th>
<th>Value USDm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Krymtelekom JSC</td>
<td>OOO Upravlyayushaya Kompaniya Infrastrukturnyh Proektov</td>
<td>Not disclosed</td>
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</table>

<table>
<thead>
<tr>
<th>Market share</th>
<th>Total value</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>USD14m</td>
<td>2 deals</td>
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</table>

### Innovations and Technology

**Largest innovations and technology sector deals in 2018**

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
<th>Vendor</th>
<th>% acquired</th>
<th>Value USDm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intellias Ltd.</td>
<td>Horizon Capital</td>
<td>Not disclosed</td>
<td>Not disclosed</td>
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<table>
<thead>
<tr>
<th>Market share</th>
<th>Total value</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>-6%</td>
<td>USD15m</td>
<td>3 deals</td>
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## M&A in Ukraine by sector

<table>
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<tr>
<th></th>
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<tr>
<td>Agriculture</td>
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<td>218</td>
<td>112</td>
<td>110</td>
<td>452</td>
<td>576</td>
<td>19</td>
<td>2</td>
<td>6</td>
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<td>313</td>
<td>156</td>
<td>323</td>
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<td>20</td>
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<td>Consumer markets</td>
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<td>85</td>
<td>106</td>
<td>52</td>
<td>122</td>
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<tr>
<td>Healthcare and pharmaceuticals</td>
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<td>Innovations and technology</td>
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<td>–</td>
<td>150</td>
<td>6</td>
<td>68</td>
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<td>4</td>
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<td>Metals and mining</td>
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<td>820</td>
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<td>Oil and gas</td>
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<td>305</td>
<td>45</td>
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<tr>
<td>Power and utilities</td>
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<td>35</td>
<td>–</td>
<td>27</td>
<td>122</td>
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<td>4</td>
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<td>3</td>
<td>6</td>
<td>3</td>
<td></td>
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<tr>
<td>Real estate and construction</td>
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<td>–</td>
<td>40</td>
<td>48</td>
<td>6</td>
<td>124</td>
<td>6</td>
<td>4</td>
<td>6</td>
<td>10</td>
<td>23</td>
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<tr>
<td>Transport and infrastructure</td>
<td>212</td>
<td>22</td>
<td>6</td>
<td>–</td>
<td>8</td>
<td>50</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>2</td>
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<td>Other</td>
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<td>2</td>
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<tr>
<td>Total</td>
<td>3,819</td>
<td>2,582</td>
<td>1,017</td>
<td>748</td>
<td>1,023</td>
<td>1,817</td>
<td>109</td>
<td>36</td>
<td>50</td>
<td>55</td>
<td>67</td>
<td>80</td>
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</tr>
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</table>

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KPMG topped the Thomson Reuters SDC worldwide league table of M&A advisors in the mid-cap market (deals up to USD500 m) in 2016, 2017 and 2018.

KPMG’s 70 Deal Advisory professionals in Ukraine provide integrated M&A advice, comprising financial, tax, legal and valuation services.

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