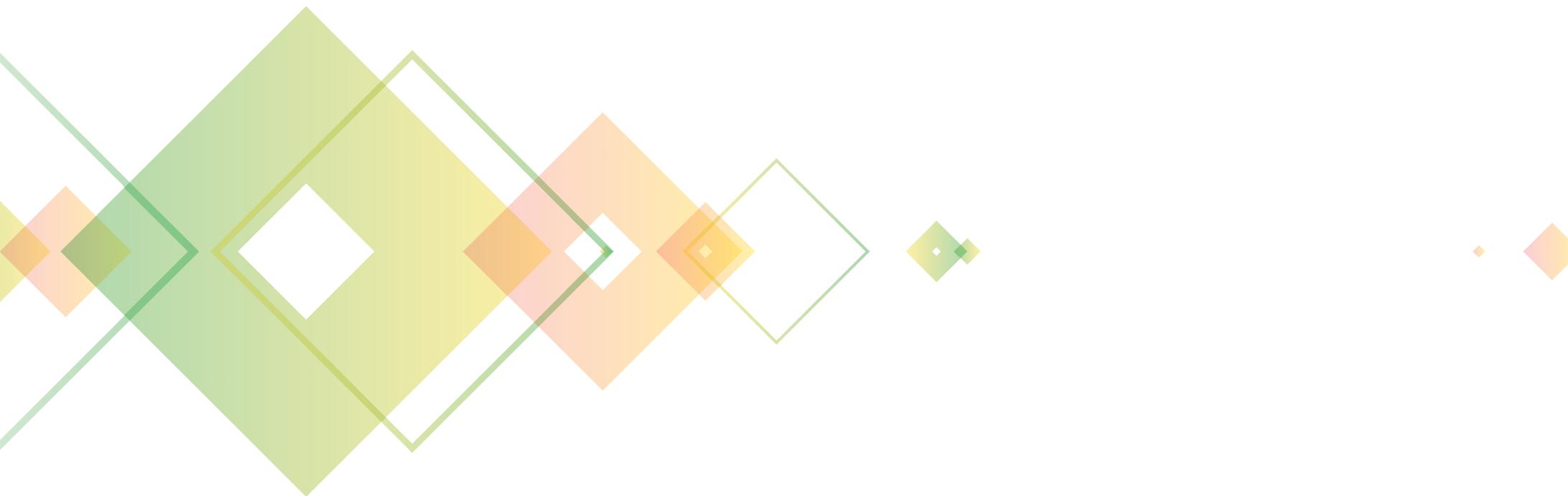
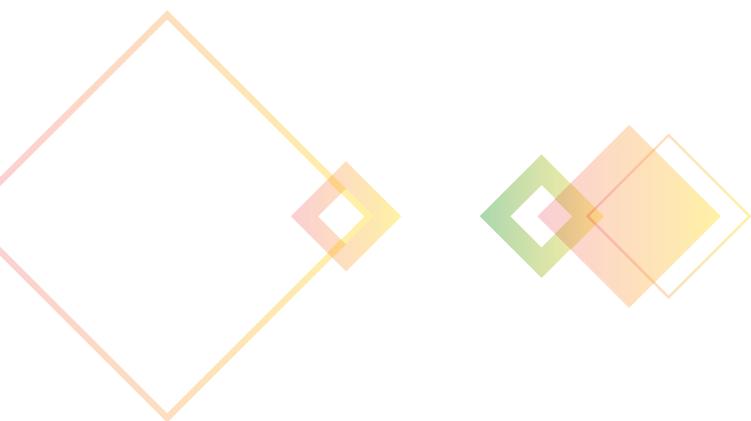


DEAL FLOW: POLAND

Q3 2013 UPDATE



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MERGING AND ACQUIRING IN UNCERTAIN TIMES

The M&A business in a post-crisis climate is no walk in the park, and in this regard Warsaw is no different from London or New York. Despite the announcement of several sizeable transactions, dealmaking activity in this year's penultimate quarter was a far cry from the preceding three months.

"We want to grow in Poland, which is a core country for us"

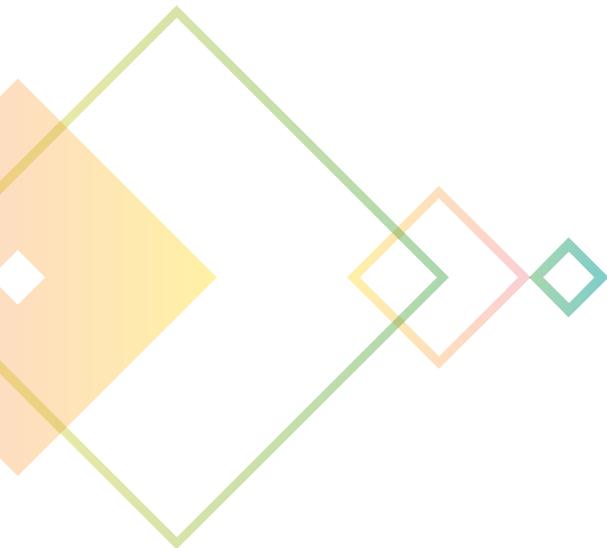
– UniCredit CEO Federico Ghizzoni

A total of 28 deals were announced during Q3, with the aggregate disclosed value of the top 10 reaching €427 million – not an overly optimistic figure considering the fact that the five largest deals in Q2 alone were worth more than twice this. Healthcare was the leading sector in the third quarter with the three top acquisitions totalling €178 million.

To a certain degree, corporate-led M&A activity in Poland is tied to the IPO market, which – as is commonly known – has been going through a particularly heavy withdrawal over the last several quarters, with no apparent end in sight. The jubilant optimism that accompanied the recent headline-grabbing acquisitions by strategic buyers such as PKO BP and PGE can no longer be felt, at least for now. It should therefore come as no surprise that – despite a number of positive factors, including a more upbeat macro context and an outperforming equity market – dealmaking is down considerably.

Still, with acquisitions announced by Assa Abloy, Pfizer, Novatek and Air Liquide, as well as joint venture deals involving corporate heavyweights such as Aviva and BP, it may well be that the third-quarter slowdown was nothing more than a pause after a busier period and that the next quarters will turn out to be of more substance.

And so, for the remainder of this year and into 2014, dealmakers in Poland are expected to maintain a focus on mid-market targets, with a preference for the banking, healthcare and telecommunications sectors.



PRIVATE EQUITY PICKS UP THE SLACK

Unlike strategic acquirers, private equity groups seemed intent on at least keeping up with the dealmaking momentum gained by Montagu, Doughty Hanson and Warburg Pincus in Q2. The third quarter's most notable PE deal – and the largest acquisition – was Bridgepoint's purchase of Polish biscuit maker Dr Gerard from LBO France's Group Poult for a reported €115 million.

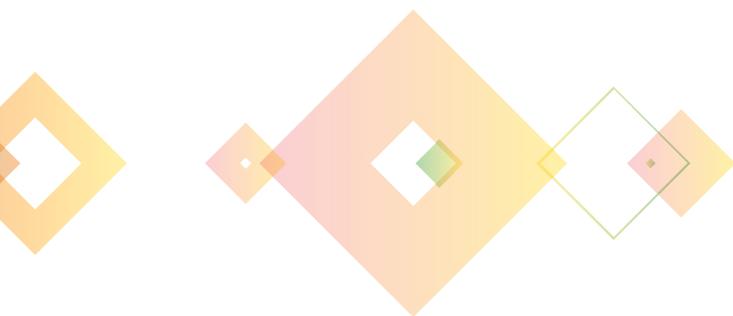
In August, just days after announcing the €15 million acquisition of 29 Partner Pharma stores in Poland, Penta Investments and WSE-listed pharmaceutical wholesaler Neuca paid €103 million for ACP Pharma, a Polish pharmacy chain indirectly controlled by Advent International. Elsewhere in healthcare, Montagu-backed Euromedic acquired diagnostics assets from Nu-Med, a portfolio company belonging to another local PE group, Enterprise Investors.

To counterweight that exit, EI also bought Polish assets during the third quarter, as did other buyout firms, including Avallon, MCI Management, Axa PE with Resource Partners, and – interestingly – TPG Capital. In early October, the Texas-based firm teamed up with Ivanhoe, the property arm of Quebec's pension fund, to acquire P3 Plc, which operates 48 warehouses in Europe, including several in Poland.

On the exit side, EI notched up two other deals, selling the last of its stake in WSE-listed healthcare financing provider Magellan and exiting Ballroom International to Stroer Media, but fell short of offloading Skarbiec Asset Management when late-stage talks with PKO BP collapsed over price expectations.

Several days after the end of Q3, Advent announced another exit, selling chemicals company Oxea to the Omani government. Mid Europa also made news with a major exit, having sold Serbia-based telecom SBB/Telemach to the private-equity heavyweight KKR for an estimated €1 billion.

The third quarter saw some promising fundraising activity from CEE-focused PE houses. 3TS Capital Partners has recently hit a €103 million first close on its third fund, TCEE Fund III, while Avallon is reportedly closing in on the final target for its second buyout fund. Also in the market is Mid Europa, which is attempting to raise its fourth fund with a €1 billion target and €1.25 billion hard cap.



WARSAW IPOs: ALL QUIET FOR NOW

If M&A is in a slump, then the Warsaw IPO market has fallen off a cliff. The WSE's main market saw just two floats during the third quarter, OT Logistics and Global Cosmed, raising €7 million and €2.6 million respectively. NewConnect, Warsaw's sub-market for smaller, high-growth companies, was host to eight listings, with only Imagis' €3.3 million fundraise being of any substance.

To put these figures into perspective, companies listing in London during Q3 raised an aggregate €1.7 billion, or some 113 times more than those in Warsaw. Whereas in Q3 2012 the WSE raised more capital than the Irish Stock Exchange, Oslo Stock Exchange, Borsa Italiana and NYSE Euronext combined, this year each of these markets alone recorded proceeds several times higher than Warsaw.

"The WSE is to be more open, international and closer to the banking community"

– WSE chief executive Adam Maciejewski, October 2013

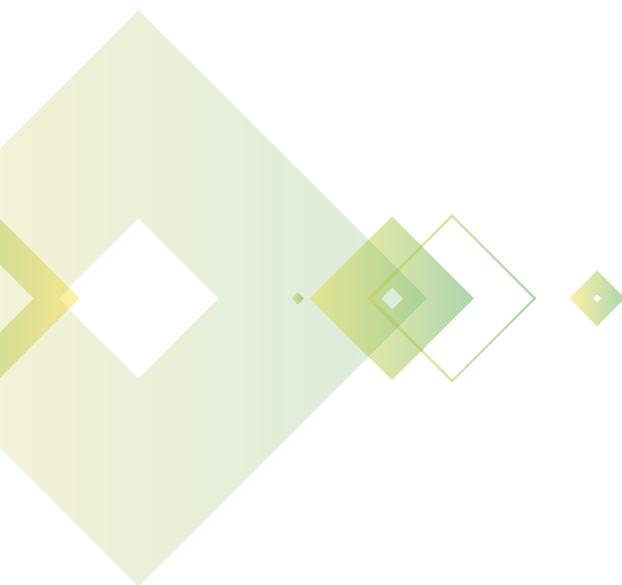
The disparity is certainly significant, but will surprise no-one. The Warsaw market has come to a virtual standstill, as uncertainty over the government's proposed pension system overhaul has both investors and issuers running for cover.

Tangible proof of this is abundant. BNP Paribas Polska and Meridian Properties recently cancelled their offerings, while Peixin International, China's maiden IPO in Warsaw, turned out to be far from a success, raising a mere €4 million, versus the initially planned €20 million.

At the end of September, Stock Spirits, a Poland-based vodka maker owned by Oaktree Capital, announced that it will float in London. Now, TBC Bank, Georgia's second-largest bank, which had long been planning a Warsaw IPO and whose shareholders include JP Morgan, Ashmore Asset Management and the EBRD, is said to be following suit.

Apparently unfazed by the IPO drought, the WSE has kept busy lately. In August, it hired ex-RBS banker Peter Niklewicz to head its newly established office in London, and paid £5 million for a 30% stake in Aquis Exchange, the soon-to-launch MTF platform founded by Alasdair Haynes. And all this while continuing to talk merger with Vienna-based CESEEG.

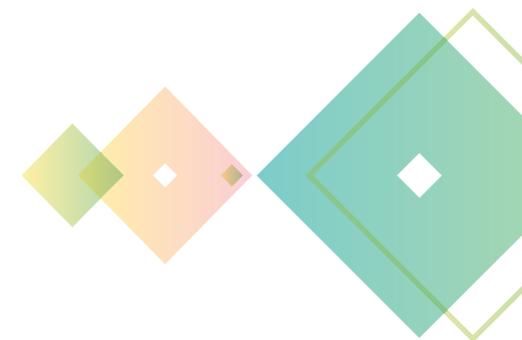
Norges Bank offered perhaps the quarter's only glimmer of hope when it disclosed its first substantial stake in a WSE-listed company, having bought 5.08% of shares in offshore equipment maker Zamet Industry.



WHAT'S NEXT?

M&A

- ◆ Rabobank said it has received a preliminary offer for its Polish unit, **BGŻ**, from UniCredit-controlled Pekao. Others thought to be circling the deal, which could be worth some €800 million, include BNP Paribas, Banco Santander and a Polish duo comprising Alior Bank and PZU. BNP has since confirmed placing a non-binding offer for the bank.
- ◆ Montagu Private Equity has appointed Goldman Sachs to work on a potential sale of Polish broadcast infrastructure operator **Emitel** that could generate over €700 million for the London-based firm.
- ◆ **Alior Bank** itself remains on the market, as controlling shareholder Carlo Tassara is looking to monetise its 36% stake, valued at some €400 million.
- ◆ Although talks between Innova Capital and Deutsche Telekom were rocky, **GTS Central Europe** eventually went to the German telecoms group for €540 million. Others mentioned throughout the process as potential buyers include US-based Level 3 Communications and local telecom Netia.
- ◆ Dutch property investor Kardan NV hired Citigroup to advise on the sale of a controlling stake in **Globe Trade Centre**, Poland's second-largest property developer. Based on book value and market cap, the sale could generate in excess of €160 million.
- ◆ Poland's treasury may sell its approx. €120 million stake in chemicals company **Ciech** this year.
- ◆ **Axtone**, a Polish railway components maker thought to be valued at between €100 million and €150 million, is being shopped by IK Investment Partners and its advisors Societe Generale.
- ◆ Evo Payments International is in exclusive negotiations with PKO BP to acquire a substantial stake in payment-processing company **eService**. PKO has since announced the sale of a 66% stake to Evo for \$113.5 million.
- ◆ San Leon Energy, PKN Orlen and Breitling Energy are said to be among the parties circling **Marathon Oil's** 11 shale exploration licences in Poland.
- ◆ Following investments in Air Serbia and Jet Airways, Abu Dhabi-based Etihad Airways is reportedly in talks to take a significant minority stake in **LOT**, Poland's struggling flagship carrier.
- ◆ **PHN**, the recently-listed property manager, is being shopped by Societe Generale and Deutsche Bank on behalf of the state treasury.
- ◆ Publicly-traded healthcare company **Bioton** has reportedly attracted interest from local rival Polpharma and China's Fosun Pharmaceutical.
- ◆ EI is reportedly looking to exit another listed asset, drinks maker **Kofola**, in a sale that could generate some €80 million.
- ◆ **Polmed**, a WSE-listed chain of medical clinics, has reportedly attracted interest from 17 parties, with a deal expected to be reached at the beginning of next year.
- ◆ Alongside negotiating the €540 million GTS exit, Innova Capital went on an online consolidation spree in October, first acquiring **o2.pl**, then buying Poland's second-largest web business, **wp.pl**, from Orange Polska for €90 million.

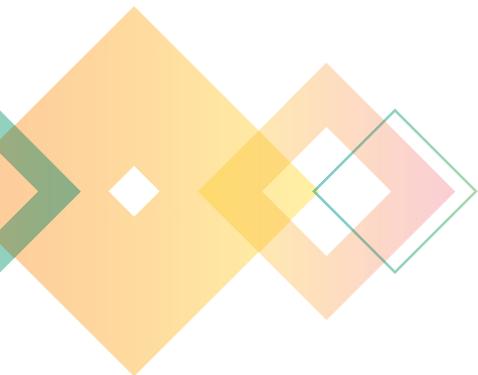


ECM

- ◆ The fourth quarter has already seen the state treasury raise around €250 million from the long-awaited IPO of PKP Cargo. Up next is a 34.2% stake in Energa, whose €500 million IPO - is set to be the year's biggest. Wegłokoks, KHW and KW are three other state assets, all coal-related, to be sold off further down the road.
- ◆ Upcoming IPOs from privately-held companies include Newag, Capital Park, Mercator Medical, Murapol, Pelion Healthcare Group and Slovenia's Gorenje.

OUTBOUND M&A

- ◆ **PZU** is competing with Adris Group for Croatia Osiguranja, having offered €192.5 million (€142.5 million for a 51.5% stake, plus a €50 million capital injection). In Slovenia, PZU is also said to be interested in the country's largest insurer Triglav.
- ◆ In September, **PKN Orlen** acquired Canada-based explorer TriOil Resources for C\$240 million. Poland's top refiner is now eyeing petrol stations in Germany.
- ◆ September also saw Police, a **Grupa Azoty** subsidiary, announce a €20 million acquisition in Senegal.
- ◆ Following two acquisitions in Germany, **Nowy Styl Group** is set to become Europe's third-largest office furniture manufacturer by year-end.
- ◆ **PKP Cargo** has earmarked €150 million for M&A and expects to spend a large chunk of this on freight carriers in the Czech Republic and Slovakia.
- ◆ Shoe retailer **CCC** is eyeing further westward expansion, including the UK and Scandinavia.
- ◆ NewConnect-listed **Baltona** and its majority owner, Flemingo, have acquired Belgian duty free shop operator Chacalli De Decker for €3.5m.
- ◆ Polish jewellery group **Apart** has bought the Swiss watchmaking brand Albert Riele.
- ◆ November has so far seen **Grupa Lotos** buy stakes in 14 Norwegian licences from Centrica for \$176 million, while **PKN Orlen's** Unipetrol acquired Shell's 16.3% stake in Česká Rafinérská for \$27 million.



Q3 2013 DATA

TOP 10 DISCLOSED M&A DEALS

	TARGET	TYPE	DEAL VALUE (€ M)	BUYER	VENDOR	SECTOR
1	Dr Gerard	Acquisition	115 ¹	Bridgepoint	Group Poult (LBO France)	Food & beverage
2	ACP Pharma	Acquisition	103	Penta Investments	Mediq (Advent International)	Healthcare
3	Polimex-Mostostal (property assets)	Asset sale	60	PKO TFI	Polimex-Mostostal	Property
4	Mercor (fire door business)	Asset sale	52	ASSA ABLOY	Mercor	Industrials
5	Polocard	Asset sale	25	Pfizer	Polpharma	Healthcare
6	Statoil Fuel & Retail Polska (LNG storage assets)	Asset sale	25	Novatek	Statoil Fuel & Retail Polska	Oil & gas
7	Partner Pharma	Acquisition	15	Penta Investments	Partner Pharma	Healthcare
8	Armatura Kraków (36.23% stake)	Tender offer	12	PZU	WSE investors	Industrials
9	Kolej Gondolowa Jaworzyna Krynicka (75% stake)	Bolt-on acquisition	12	PKG (Mid Europa Partners)	PZU, PKO BP	Travel & leisure
10	Nu-Medic Pracownie Diagnostyczne	Acquisition	8	Euromedic Diagnostics Polska (Montagu Private Equity)	NU-MED Grupa (Enterprise Investors)	Healthcare

¹ Dow Jones

TOP IPOs

ISSUER	CAPITAL RAISED (€ M)	SECTOR	NOTES
OT Logistics	7	Transportation	WSE main market; 5th largest YTD
Imagis	3.3	Technology	NewConnect; 2nd largest YTD
Global Cosmed	2.7	Healthcare	WSE main market
APS Energia	1	Industrials	NewConnect
Investment Fund Managers	1	Financial services	NewConnect



ABOUT THE AUTHORS

Exen

Exen is responsible for Deal Flow: Poland, the definitive source of local deal data and analysis. Our select clients – such as BlackRock, Fidelity and Prudential – turn to Exen for excellent written product, benefitting from the same commitment to editorial quality and in-depth local knowledge. Visit our website at www.exen.com or follow Deal Flow: Poland on Twitter @Exen.

Bastion Group

Bastion Group, established in 2008, is an independent investment banking firm focused on the Polish market. Bastion Group offers services in the areas of mergers and acquisitions, capital raising and financial restructuring. The Bastion Group team comprises professionals with extensive transaction, investment and restructuring experience, who have been involved in over 60 transactions with a cumulative value of over USD 54 billion.

Gide Loyrette Nouel

Gide Loyrette Nouel was one of the first international legal practices to open an office in Poland in 1990. Today, the Firm employs over 40 lawyers and tax advisors in Warsaw and is frequently called upon to offer legal support to its local and international clients. With 19 offices around the world, Gide Loyrette Nouel prides itself on offering expert international and local advice.

GLN Warsaw's clients include financial institutions, banks, insurance companies, investors, real estate developers, public companies and government ministries. The Firm advises some of the top players in Poland including Dalkia (Veolia), Finmeccanica Group, L'Oréal, France Télécom, Telekomunikacja Polska, Neinver, Deutsche Bank PBC, Enterprise Investors, Bank Zachodni WBK, Société Générale, PGNiG, DnB Nord Bank, KGHM Polska Miedź, ArcelorMittal, Abris Capital Partners, Bonduelle, EDF, Unibail-Rodamco, Yareal.

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