



the  
**M&A**

Landscape in Romania in 2021

**Second edition**

January 2021

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KPMG in Romania





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# Foreword

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**There was a bright, optimistic start to the beginning of 2020; all of us expected many deals to be completed during the year. But in just a few months, we were faced with a new reality. We had to quickly adapt to the new business environment.**

**However, public institutions and employees of private companies rapidly adjusted to the new situation. Thankfully, the overall impact was not as deep and as damaging as had been expected.**

**Like most sectors, the M&A market suffered in the first half of 2020. However, by the third quarter of the year, deals had begun to pick up as the market came to terms with the new situation and the more restrictive parameters.**

**During the pandemic, many companies swiftly adjusted, reshaped and reinvented their business models. But others have not yet managed to; they are struggling.**

**During 2021, the M&A market is expected to follow the current upward trend as appetite for transactions remains high. Investors are looking to acquire top-tier companies with intrinsic financial potential, as well as benefit from investment opportunities presented by distressed businesses.**

Investors, both strategic and financial, still consider Romania as the 'go to' market for potential profits. With an overall value of 3 billion euros and around 100 transactions, **the Romanian M&A market in 2020 tracked below 2019's value of 4 billion euros.** Nevertheless, the level of business has exceeded expectations, despite most investors delaying investment decisions, or even cancelling them.

Despite the COVID-19 pandemic, our survey reveals an underlying sense of optimism among respondents; **over**

**60% believe that the M&A market will grow this year, while only 19% take the view that it will decline.**

Nevertheless, we expect to see growth in the M&A market for the following reasons. First, as mentioned by the majority of respondents, postponed deals are expected to pick-up and finally materialize in 2021. Second, the availability of many distressed businesses, but also champions, together with the high level of liquidity present in the market, will generate new leads. And third, the optimism generated by news of imminent vaccination programs will positively contribute to M&A activity.

Sectors such as IT, Pharma & Healthcare, FMCG and Energy are expected to be particularly attractive, according to our findings. Private equities are expected to play a significant role in closing deals.

Our survey aims to provide incisive views and valuable insights into market behaviors and expectations for the months ahead. These will help companies to anticipate future M&A opportunities and to make the most of them.

KPMG is a leading local M&A advisor in Romania, advising corporations, financial investors and business owners. In an effort to gain further insights into appetite for M&As and trends, we surveyed relevant stakeholders for the second edition of our publication **The M&A Landscape in Romania in 2021.**



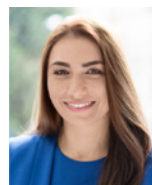
**Bogdan Văduva**

Partner,  
Head of Deal Advisory



**George Dumitrașcu**

Director,  
Deal Advisory



**Ramona Jurubiță**

Country Managing  
Partner



**Richard Perrin**

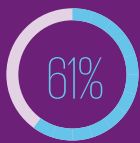
Partner,  
Head of Advisory

# the M&A Landscape in Romania

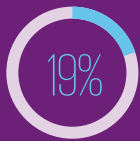
# Key Findings



## Increased optimism



61% of the respondents expect the M&A market to grow in the following 12 months, while only



19% expect a contraction.



## Appetite for distressed opportunities

Distressed assets as a result of the economic uncertainty will be a key area of focus for investors.



## Opportunistic acquisitions

Many investors are looking to acquire market share through opportunistic acquisitions during the current year.



## Digitalization at the top of the agenda

Technology continues to be the most attractive sector for M&A deals, followed by healthcare and energy & infrastructure.



## Inland expansion

Romanian companies with healthy balance sheets are expected to also pursue M&A growth.



## Room for leverage



Over 60% of the respondents consider traditional bank

loans as the most suitable financing option.



## Realistic expectations needed

A well-grounded and realistic business plan as well as quality of underlying earnings & assets are the main areas of interest for buyers.

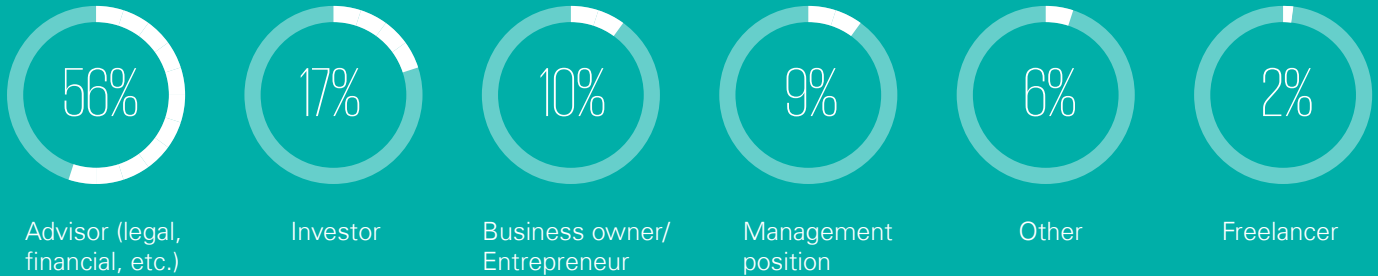


## Covid-19 not a threat

The pandemic is not perceived as a major inhibiting factor for closing a deal; differences in price expectations remain the main deal-breaker.

# Results

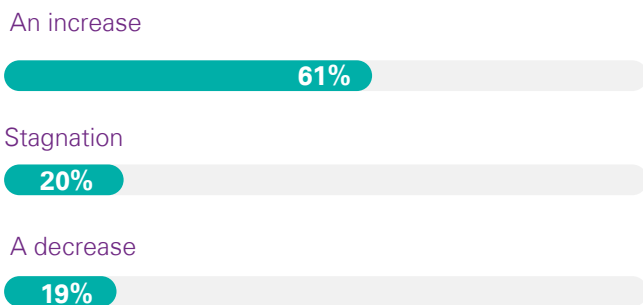
## Q1 Relevant professional position



Over 70% of respondents are investors, or legal and financial advisors, who are key players in the M&A market.

Other survey contributors are business owners and individuals from top management positions who have in-depth knowledge of current positions and trends in the market.

## Q2 What trend in M&A activity do you expect to see in Romania in the next 12 months?



### High appetite for new opportunities

The results of the survey show an optimistic view of 2021; there are plenty of opportunities in the market and investors and business owners want to capitalize on the changes that occurred in 2020.

**Bogdan Văduva**

Partener, Head of Deal Advisory

The M&A market in Romania has seen a continuous upward trend in recent years, driven by eager investors who see growth potential in local businesses with a solid track record and proven business models.

Having a favorable geographic position, attractive tax policies and competitive wages make Romania an attractive destination for both strategic and financial

investors who wish to capitalize on untapped potential and maximize returns in the CEE region.

Since the start of the pandemic, buyers have reviewed growth strategies and are returning to nearshore locations for access to new opportunities and skills. At the same time, consumer behavior has changed significantly in the last year which will drive transactions as **companies adapt to the new reality and change their business models.**

# Results

## Q3 In your opinion, how important will the following drivers be for deal activity on the Romanian market in the next 12 months?



### Growth driven by change

2020 recorded a seismic shift in the market, but we expect to see interest in new business lines and new business models being created, while many investors will make moves in the market for consolidation purposes.

**George Dumitrașcu**

Director,  
Deal Advisory

On the one hand, many distressed companies will seek new opportunities, transitioning to a new business model, while investors with a well-established business case will look to profit from this paradigm shift.

On the other hand, as a result of the favorable economic environment of the past few years, there are business owners and investors that have accumulated resources and are looking now to finance future expansion plans and investments in new technologies and to acquire know-how.

High sector fragmentation in Romania leads to lower entry barriers and increased opportunities for differentiation with the potential for building market leaders. **This positions Romania as an ideal destination for investors looking to consolidate a sector, or enter a new one.**

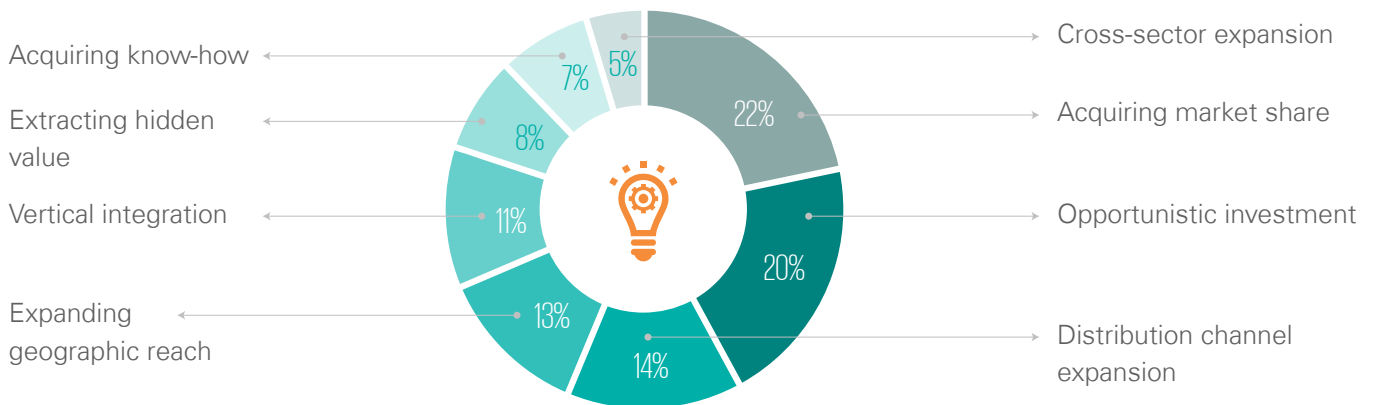
Given the current pandemic background, the economic environment is no longer perceived as a key M&A driver as in our survey last year,

when it ranked second with 23%.



# Results

## Q4 How important will the following strategic objectives be for acquisitions in the next 12 months?



## Investors are eyeing deals of an opportunistic nature



Given the current pandemic and economic unpredictability, increasing market share through opportunistic M&As is expected to be a key strategic direction over the next 12 months.



**René Schöb**  
Partner, Head of Tax & Legal

Besides organic growth, companies can rapidly accumulate market share through M&As. The main reasons behind this are that they widen their customer base, increase their product/ service portfolio, access new technologies, benefit from additional business intelligence and they face reduced competition.

Considering the pandemic context, buyers are looking to profit from acquiring distressed businesses.

Acquisitions will focus on strategically expanding distribution channels, especially in online, driven by the change in consumers' behavior.



More and more Romanian companies are starting to consider regional expansion as part of their M&A strategy, given the relevant geopolitical position and easy access to a wide spectrum of neighboring markets with high market potential.



# Results

## Q5 What sectors do you expect to be the most active in the next 12 months?



Technology (IT)



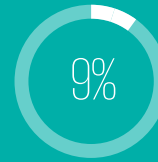
Pharma & Healthcare



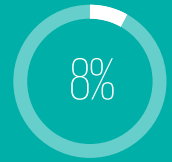
Energy and infrastructure



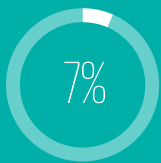
FMCG



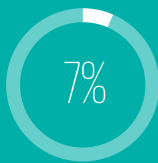
Manufacturing



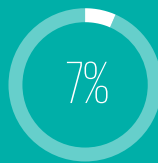
Property and construction



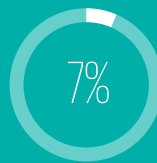
Retail



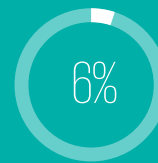
Financial services



Agriculture



Media and telecommunications



Transportation

## M&A activity driven by technology

The accelerated need for digitization due to the pandemic has generated a significant development in the IT sector, further increasing investors' interest.

### Gabriel Tănase

Partner, Technology & Cyber

The pandemic has been a challenge for the consumer goods sector, one way or another. Some have seen increases in consumer demand and had to solve the "positive issue" of their supply chain and to manage increasing e-sales, others have seen a dramatic loss of business. All sector companies had to adapt and digitally transform

### Aura Giurcăneanu

Partner, Head of Consumer Markets & Retail

The energy and infrastructure sector is expected to remain dynamic in 2021, both in terms of potential acquisitions of local companies, and also in terms of regional expansion of local players, be it organic or acquisitive.

### Ovidiu Popescu

Director, Advisory

The top 4 industries with the highest M&A potential remain, as in last year's survey, technology (IT), health services, energy and infrastructure, and the FMCG sector.

The accelerated digitization process caused by the pandemic has increased the IT sector's attractiveness for the coming years. Pharma & Healthcare remain a sector of focus, as the health crisis is still ongoing, and consumers are paying more attention to hygiene and health habits, generally.

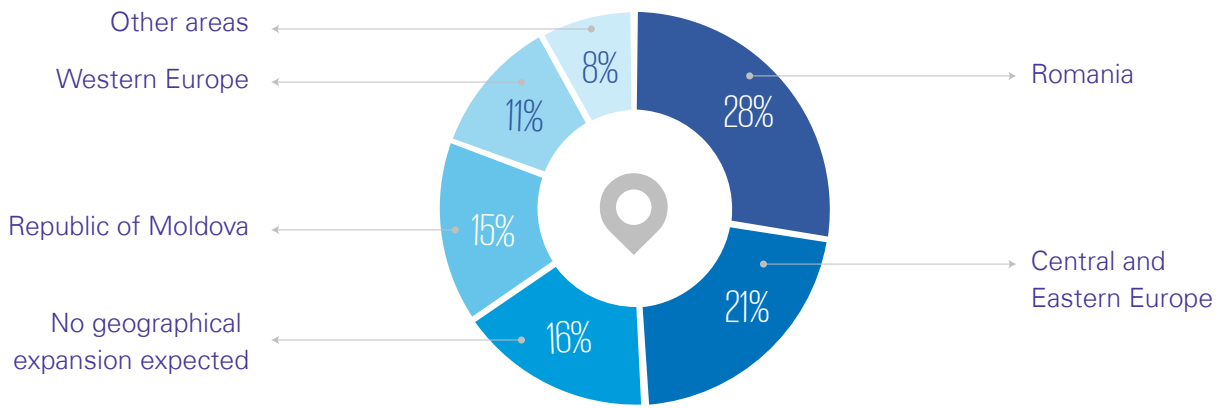
FMCG was one of the least affected sectors during this period, due mostly to a high level of adaptability, as many players switched from traditional retail to a multichannel approach. This trend is expected to continue in the next few years, where those showing flexible business models will be the most attractive to investors.

Energy and infrastructure companies continue to capture the interest of large global infrastructure funds, with major transactions in this area remaining tempting during 2021.



# Results

## Q6 In which geographical areas do you expect Romanian companies will look to expand their operations in the next 12 months?



### Romania among preferences for expansion

**Romanian companies are expected to consolidate the local market through acquisitions.**

Romania, along with the entire CEE region, continues to remain the main development destination for local companies, demonstrating a consistently high level of attraction for this area.

While there is a high interest in the CEE region, the same cannot be said about the Republic of Moldova.

Compared to last year, there has been a decrease in the expected interest for Romanian companies to expand their operations in the Republic of Moldova, mostly due to the relatively small market size and the volatile administrative environment.

There is a reluctance among companies to expand their operations in Western Europe, pointing to declining opportunities for development due to mature markets.



# Results

Q7

In your opinion, how likely are the following actors to complete acquisitions in Romania in the next 12 months?



## The Romanian market, an attractive environment for private equity funds

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As the market recovers following the COVID-19 pandemic, investors continue to seek deal opportunities.

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**George Dumitraşcu**  
Director, Deal Advisory

There is increasing confidence that private equity investors will continue to scan the Romanian landscape for both buying and selling transactions, as roughly half of the respondents expect to see strong interest in M&A deals from private equity funds.

At the same time, consolidating the existing market presence of international companies is expected to be more important than a new entry into the market. Romania is still justly seen as an attractive developing region, with strong projected recovery following the COVID-19 crisis.

Encouraged by resilient Romanian companies, which have quickly adapted to and benefited from the COVID-19 situation, both strategic and financial players are expected to scan the market for potential synergies.

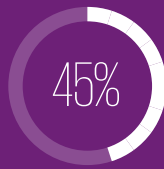


## Results

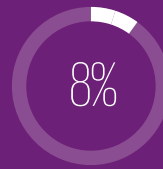
**Q8** How likely do you think that the following will be the preferred exit strategy for Romanian business owners in the next 12 months?



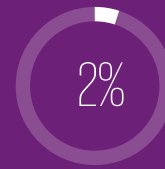
Exit to a financial buyer  
(private equity funds)



Exit to a  
strategic buyer



Initial public  
offering (IPO)



Management  
buy-out

## Financial and strategic investors in the spotlight



Whether we speak about a financial or a strategic buyer, one of the main arguments for a successful exit still remains the business owner's willingness and readiness to sell.



### Laura Toncescu

Partner,  
Head of KPMG Legal Toncescu și Asociații

For the second consecutive year, there is no clear preference between the top two options: an exit to a financial or a strategic investor. The reason is that buyers will focus on gaining significantly increased value for the price they pay, regardless of their nature.

Value growth originates from increasing revenue, improving margins and optimizing cash flows. An M&A transaction has the potential to enable value levers such as: pricing, access to new markets and new channels, operational improvements, mix shifts and capital allocations.

The two types of investors differ, however, in terms of transaction mindset and approach and post-acquisition strategy.

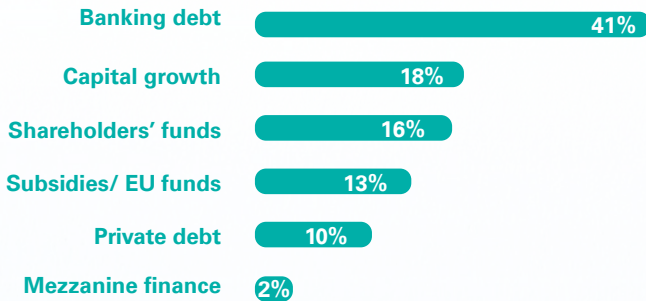
Financial buyers' mindsets revolve around the value they can add in the short - medium term to drive growth; and they are deals experts. The main focus points are represented by EBITDA upside potential, competitive positioning, performance and liquidity improvement, while synergies are considered mainly when bolting on to a company portfolio.

Strategic buyers are more focused on the value gained over the long term, with a "buy to hold" mindset. They provide good industry knowledge and are interested in accessing new customers, products and geographies, while improving competitive positioning. Synergies, capabilities and extended footprints act as main value drivers for strategic investors.

Listing a company on the local stock exchange is not considered to be among the preferred exit strategies, due to the level of complexity and time needed to reach a full exit. Moreover, financial or strategic investors provide other advantages alongside capital, such as: deal or industry know-how, synergies and access to resources.

# Results

## Q9 How do you intend to finance your growth strategy?



### Focus on financing

Private debt and mezzanine funds have developed quickly in western markets during recent years and they are now starting to increase their focus on CEE and Romania; so we are seeing the first private financing deals, including buy-outs and growth investments.

#### Tudor Grecu

Partner, Head of Financial Services

Bank debt is still the preferred growth financing method, as Romania's financing climate is still focused on traditional financing sources, with private debt and mezzanine only just starting to capture market share. One reason may be that interest rates are currently too appealing to be put aside.

Growth, whether organic or through acquisitions, is largely financed through a combination of bank debt and injections of capital provided by founders or investors.

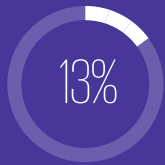
Occasionally, growth is financed through EU funding. However, certain thresholds need to be met and only certain projects are eligible.

EU funding is expected to remain relevant over the coming years, as Romania has secured approximately EUR 31bn for the upcoming financing period, 2021-2027.

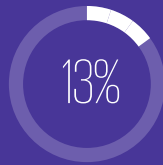


# Results

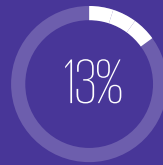
## Q10 In your opinion, how important are the following factors for a successful deal?



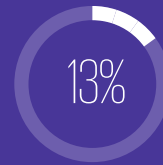
Building trust between parties



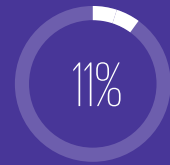
Identifying a suitable target



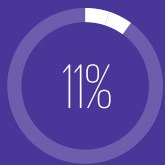
Valuation/ Price



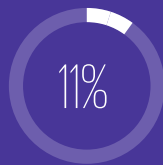
The right management team



A business model demonstrating resilience towards the pandemic



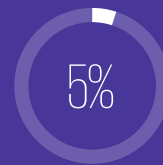
Expected synergies



Effective due diligence



The company being prepared for sale



COVID travel and meeting restrictions

## Deal Drivers



Compared to 2020, building trust between parties has gained significant importance, while surprisingly, COVID-19 travel restrictions are expected to have little impact on successfully closing a deal.



### Angela Manolache

Partner, Advisory



As closing a deal can be a complex process, more than one success factor can be considered equally important for everyone involved.

Building trust is a necessity in the overall M&A process. Especially during 2021, potential buyers need to feel reassured that the quality of their investment will not be diluted. Additionally, local entrepreneurs tend to collaborate more easily with investors who validate and bring continuity to their vision.

Identifying the right target is still the primary point in the M&A decision making process, as well as being a critical factor in deciding future strategy.



Pricing is also a key deal driver, as aligning the deal package to suit both sellers and potential buyers is critical in developing sell-side or buy-side strategy.



Last, but not least, having the right management team is essential for a successful M&A process. Management can make or break a business, especially during this period, as decision making needs to be 'light on its feet'. At the same time, investors expect current management to lead the business through the overall growth plan, as detailed during the sales process.

# Results

## Q11 In your opinion, how important are the following Due Diligence areas in completing a successful transaction?



## Key traits of a successful Due Diligence

COVID-19 is a new factor which must be taken into consideration during a due diligence process. However, performing a due diligence should function as before the pandemic, regardless of the ongoing events.

### Elena Surdeanu

Director, Advisory

As compared to last year's survey, when investors' main concern was the quality of underlying earnings (EBIT/EBITDA) and operational cashflow, this year expectations shifted towards the business plan.

**Investors expect a realistic forecast, in line with the historical figures and day to day business.**

Even though there was a change at the top in relation to the level of scrutiny, EBITDA and operational cash flow are one of the most important areas of analysis when completing a successful Due Diligence process, since most of the considerations for deals are based on EBITDA or cash flow.

Another key aspect that investors are looking at is related to the quality of assets, as a fully capitalized company must keep a healthy asset base. **This can be sustained through replacement and capital growth expenditure.**

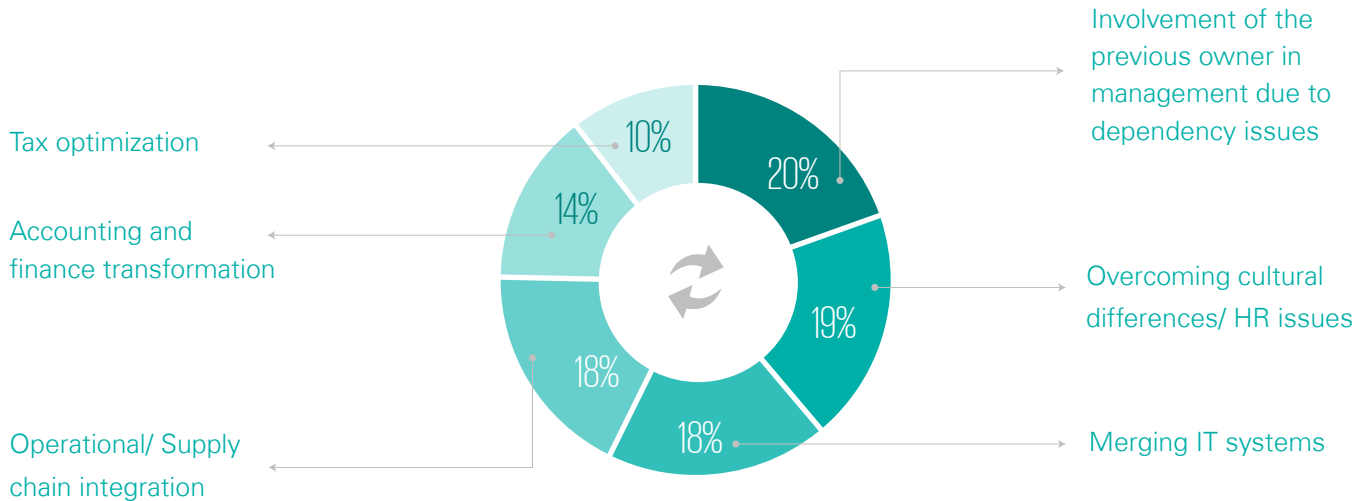
Despite the current health crisis, COVID-19 is not widely viewed as a significant threat to a transaction's success. However, no matter whether the impact is positive or negative, **buyers expect a constructive dialogue around the normalized financial statement, having in mind a sustainable business case.**



Although not yet factors of concern, environmental and social issues and governance are some aspects to be followed in the future, as international companies and financial groups are under more internal and external pressure to take such factors into consideration.

# Results

## Q12 In your opinion, how challenging are the following areas when integrating an acquired company?



## Post-Merger Integration



A critical aspect that could define a successful acquisition is planning the post-merger integration in advance. The key question to be answered is “how should the transition to the merged entity be managed?”.

Integration strategy definition should guide the definition of integration projects. Early understanding of the operations, identification of key talents and retention, internal and external communication, as well as customer retention are among the priority topics to be addressed.

First 90 days integration planning needs to focus on a smooth transition from one governance to the other in order to avoid hiccups in operational delivery, accounting treatment and financial reporting

**Robert Maxim**  
Partner, Advisory



Post-merger integration is mainly about maximizing synergies identified in the M&A process, ensuring that the deal reaches its envisaged value.

Therefore, post-merger planning must begin at the start of the deal, so that best practices, operational and administrative structures and other aspects of integration have already been established by the time the deal is completed.

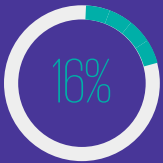
Given the unstable pandemic environment, companies are redefining their strategy and approach as often as needed; therefore, during the next 12 months post-deal integration will

present more challenges than usual.

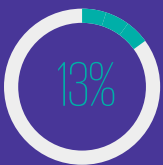
The perceived dependency on a business's original founder is somehow specific to the Romanian market. When the initial owner stays on with the company following the sale, and is involved during the transition period, post-deal integration is a smoother process.

The survey suggests that other common post-integration challenges for the Romanian market are cultural issues, together with significant failures in achieving complete operational integration and regular issues in merging IT systems.

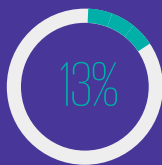
# Results



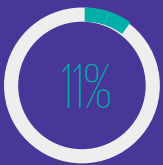
Substantial differences in price expectations



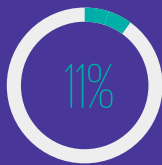
Macroeconomic uncertainty



Lack of suitable targets



Lack of liquidity/internal funds for acquisitions



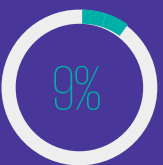
Complexity of transforming the acquired company



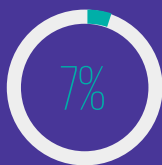
Uncertainty over the timetable for the M&A process



Limited opportunities for creating synergies and added value



Limited availability of external financing on favorable terms



Regulatory and tax considerations

## Q13

How important do you consider the following factors could be in inhibiting deal activity in the next 12 months?



Even if there are factors which could inhibit the M&A market, even more so in COVID-19 times, dealmakers are still typically accustomed to facing uncertainty and should see this as an opportunity – early engagement in M&As in times of economic uncertainty should be preferred as opposed to waiting for better days, since this could bring even higher returns.



### Richard Perrin

Partner, Head of Advisory

## Implications of deal breakers

When it comes to factors that could inhibit deal activity in 2021, there is no change compared to last year. Different expectations on price, macroeconomic uncertainty and the lack of suitable targets are among the most worrisome aspects for investors.



It is important for both buyer and seller to align their price expectations from the beginning, in order to have a smooth process. Price must reflect the true value of the business and its future prospects.



Macroeconomic uncertainty has already been a concern for investors and it is expected to increase due to the pandemic and enlarge the gap between parties.



The pandemic is likely to widen the implications of deal breakers, in terms of travel restrictions, fiscal and regulatory implications, uncertainty over the timetable of the M&A process and the lack of a clear perspective in the short term.





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