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Mergermarket
An Acuris company

DRIVING FORWARD: M&A IN UKRAINE

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DEAL METHODOLOGY

Deals within regular Mergermarket criteria have a transaction value greater than or equal to US$5 million, except for some minority stake acquisitions where a higher threshold applies. If the consideration is undisclosed, deals are included on the basis of a reported or estimated deal value greater than or equal to US$5 million. If the deal value is not disclosed and cannot be confirmed to be greater than or equal to US$5 million, the deal is included if the target's turnover/revenue is greater than or equal to US$10 million. If neither the deal value nor the target revenue is disclosed, Mergermarket will use other indicators to determine inclusion, including but not limited to number of employees of the target company, assets under management exceeding US$200 million for the asset management firms, and value of assets/deposits exceeding US$50 million for banks.

To capture a wider scope of the Ukrainian M&A market, for this report, some deals outside of the regular deal criteria have been included.

FOREWORD

Ukraine continues to make progress on a number of fundamental reforms, providing a stimulus to the economy and rekindling foreign investors' interest in the domestic M&A market

Ukraine's economy continues to make a steady recovery following the geopolitical crisis of 2014. This coincides with a return to confidence in its M&A market, particularly among foreign investors. GDP expanded by 3.3% in 2018, according to data from the National Bank of Ukraine, and forecasts suggest that while growth will moderate to 2.5% in 2019, it will ramp up again to 2.9% in 2020 and 3.7% in 2021.

Against the backdrop of a rising economic tide and the continued stability of the hryvnia, deals targeting Ukrainian firms increased significantly in 2018. A major bright spot is the return of foreign investors, who appear to be eager to close transactions as geopolitical tensions in the country have largely abated. In 2018, the proportion of deal flow which involved foreign buyers nearly doubled year-on-year.

This coincides with a number of key legislative and regulatory developments that have improved shareholder rights and brought Ukrainian business law in closer parity with EU standards. Indeed, the World Bank's most recent ease of doing business report saw the country climb five places to rank 71st among 190 economies. As recently as 2011, Ukraine was in 152nd place, making it one of the most-improved performers in recent years.

Progress on these reforms — encompassing everything from corporate governance standards and shareholder rights to foreign exchange controls (see page 16) — are a condition of the International Monetary Fund's (IMF) external funding, which has been necessary to stabilise the country's economy in light of its geopolitical challenges.

In December 2018, the IMF approved a partial $3.9bn package, an initial $1.4bn tranche of which has already been awarded. This ongoing funding is contingent on Ukraine pushing through further business, anti-corruption and privatisation reforms, all of which will bring it in closer alignment with the EU, which Ukraine has expressed interest in joining.

If 2018 deal activity is any measure, foreign investors are responding positively to the government's progress with these reforms. In the absence of any flare up in geopolitical tensions in the east of the country, and uncertainty surrounding the upcoming parliamentary elections in the second half of the year notwithstanding, ongoing reforms will lay the foundations for an improved M&A market in 2019.

For the country to succeed over the long term, foreign investors will want to see further improvements.

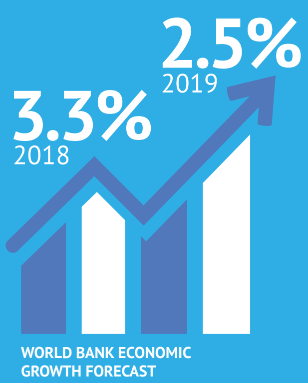
KEY TRENDS IN UKRAINIAN M&A

M&A OVERVIEW

91%
Value in 2018 increased by 91% to hit €1.05 billion

59
Volume in 2018 increased by 31% to 59 deals

OUTLOOK



The Ukrainian economy is expected to grow at a rate of 2.5% in 2019, according to the National Bank of Ukraine. While this was lower than the 3.3% growth rate in 2018, it is expected to increase to 2.9% in 2020 and 3.7% in 2021

SECTOR WATCH

FINANCIAL SERVICES

16% Volume

Financial services was the best performing sector in terms of volume, taking up a 16% share in 2017/18

AGRICULTURE

35% Value

Agriculture was the best performing sector in terms of value, taking up 35% of total deal value in 2017-18

FOREIGN VS DOMESTIC

47% Volume

47% of deals were conducted by foreign bidders, up from only 27% in 2017

M&A OVERVIEW

Reforms are beginning to show concrete results as Ukraine's economy shows robust growth and foreign investors return to the fold

Ukraine has made great strides in recent times and this is delivering economic results and spurring a recovery of the M&A market. GDP rose by 3.3% in 2018, well above the eurozone average of 1.8%. This created the conditions for improved dealmaking, which has reached its highest point since the Euromaidan Revolution five years ago. The total number of transactions was up by more than 31% year-on-year to 59, while declared deal value surged by 91% to total €1.05bn, also a peak since the geopolitical disruption of 2014.

The leap in deal value can be explained by the closing of two deals: industrial and chemicals group ZAO Zavod Forge, acquired by private investor Sergey Tigipko for €263m; and agriculture company Mriya Agro Holding, purchased by Saudi Agricultural and Livestock Investment Company for €209m. These two transactions accounted for nearly half of last year's total deal value.

The closure of the Mriya deal also represents a significant milestone. The business defaulted on its $1.3bn debt obligations in 2014 and underwent a lengthy capital restructuring with its primarily US and European investors.

"It's a promising test case," says Anna Babych, a partner at Aequo. "It was a very distressed asset as a result of alleged fraud on the part of the former owner, but over a year the creditors successfully managed to restructure the debt and sell it for a good price to a new Saudi investor. That was a good sign. It showed that outside investors can have faith in the market here."

CORPORATE GOVERNANCE GAINS

Ongoing reforms related to corporate governance and shareholder rights are a further positive signal for foreign investors. In 2018 alone, developments included the simplification of regulations applying to non-listed entities, the improvement of share offering processes and rules around information disclosure, a more flexible limited liability company (LLC) regime, and the introduction of drag along rights, tag along rights and a number of other well-established instruments that investors expect to see in shareholder agreements.

Moreover, in February 2019, the government relaxed the country's foreign exchange controls. Implemented following the escalation of geopolitical tensions five years ago, the restrictions were designed to prevent a flight of capital and the collapse of the hryvnia. However, increased difficulty in withdrawing capital from the Ukrainian market meant that foreign parties were hesitant to put capital to work, wary that it would be difficult to repatriate investment proceeds once assets were divested. Notably, the new system has lifted restrictions on loan pricing, the maximum interest rate cap on debt instruments and put an end to the prohibition of early repayment of loans. In theory, this should boost foreign lending into the Ukrainian market.

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>
> **Anna Babych, Partner, Aequo**

However, overseas investors should be aware that certain key limitations remain in place, one of which is of particular significance: a €12m per month limit on funds repatriated as dividends.

Nevertheless, the overarching theme is that the Ukrainian market is becoming more open and investor-friendly and this appears to be stimulating the appetites of foreign investors for deals in the country. Our data shows that, in 2018, the proportion of deal flow accounted for by inbound buyers nearly doubled year on year, from 27% to 47%.

POLITICAL CLIMATE

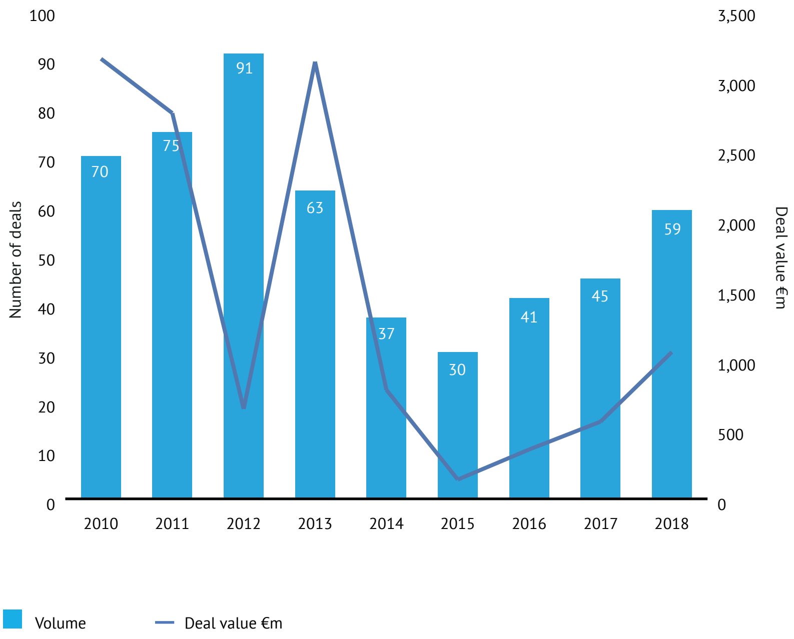
Ukraine finds itself at a political crossroads in 2019. Presidential elections in the first half of the year, which saw sitcom actor Volodymyr Zelenskiy defeat incumbent Petro Poroshenko, are to be followed by parliamentary elections in the latter half. This is important because the incumbent government has been making progress in pushing through a number of the IMF's reforms and drawing the country into closer union with the EU, away from Russia.

Poroshenko was endorsed by the IMF and EU, but Zelenskiy campaigned on a broadly pro-EU mandate and has since the election striven to boost his credibility with the EU and emphasise his commitment to anti-corruption, suggesting that there may be little change in the direction of reforms.

Although the eyes of the whole country have been on the presidential elections, it is the parliamentary elections later in the year that count the most as Ukraine is a semi-presidential state, Denis Lysenko, partner at Aequo, says.

"The Ukrainian economy is really shaped by government policy as it's the cabinet of ministers which take decisions on major economic issues. So the parliamentary elections could be decisive in whether or not staying on the current path of pursuing closer ties to

Ukraine M&A, 2010-18



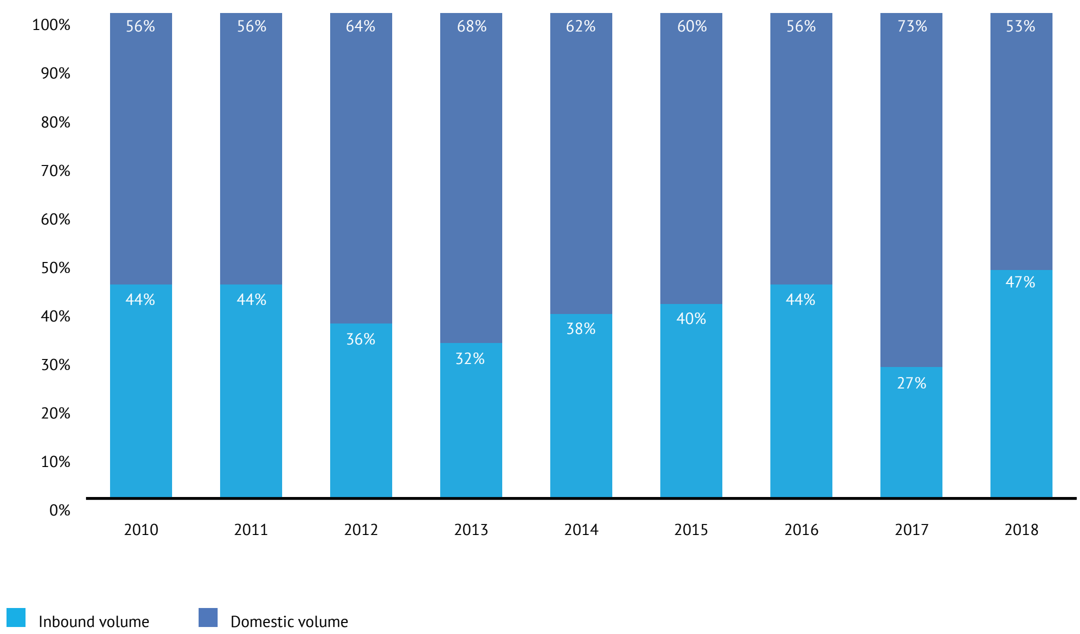
the EU, economically and politically, will be continued," he says. "Our expectation is that the country is already well along that path and so we do not expect any major geopolitical or economic change as a result of this year's elections."

A LAND OF OPPORTUNITY

Ukraine is an M&A market that offers plenty of opportunities. The agricultural and TMT sectors, and in particular IT outsourcing, are of special interest (see Sector Watch on page 8). This is because Ukraine has become a major supplier to its neighbour, the EU, collectively the largest economy in the world. This has come as the country has pivoted away from Russia, an economy that has decelerated amid sanctions and weakened commodity prices.

While the hrvynia has stabilised in recent times, it sits at less than half its value relative to the euro in 2014. This makes Ukrainian products

Share of inbound M&A by deal volume, 2010-18



and services especially competitive on an export basis and is boosting a number of sectors.

One area that has not met expectations, however, is the government's privatisation regime. Five years in the making, a new privatisation law was passed by parliament in early 2018 that modernises the process for selling state-owned assets, primarily by requiring tender processes to be led by international advisers, thereby improving transparency.

This paved the way for auction processes to begin: a list of 23 large companies designated for privatisation has been published and, in August 2018, the State Property Fund (SPF) appointed advisers to help sell the first six of these. This initial batch includes President Hotel, pharmaceutical company Indar, coal mine Krasnolymanska, titanium ore producer United Mining-Chemical Company, power generator manufacturer Elektrovazhmash and fertiliser producer Odesa Portside Plant. However, none of these sales had completed at the time of writing.

"I think that this year's elections are one reason we haven't seen any sales going ahead," says Babych. "It's no longer a priority. However, there may be some pre-sale restructuring and cleaning up of those assets in preparation for them being put through due diligence."

> "The Ukrainian economy is really shaped by government policy as is the cabinet of ministers which take decisions on major economic issues."
> **Denis Lysenko, Managing Partner, Aequo**

SECTOR WATCH

A look at the industry specifics that make Ukraine's M&A market such an attractive proposition

FINANCIAL SERVICES

Financial services has long been an M&A favourite in Ukraine and in 2017/18 the sector, together with TMT, claimed more deal volume than its counterparts. Financial services accounted for 16% of deal activity; however, this is a far cry from the 45% share of total volume in the sector in 2015/16. More strikingly, the sector fell from 74% of transaction value in 2015/16 to a meagre 2% in 2017/18.

One possible explanation for the drop in financial services deal activity is the nationalisation of Privatbank in December 2016, right at the end of the last flush of deals in the space. Imprudent lending policies led the National Bank of Ukraine (NBU) to declare Privatbank, the country's largest lender, insolvent and a rescue package was put together to ensure the financial stability of the country.

"Deal activity in the sector almost disappeared overnight," says Babych. "But generally, the banks are just not on sale at this moment in time. In this sector, we see transactions involving non-performing loan (NPL) portfolios, with the state agency responsible for moving these off the books of state-owned banks."

It is estimated that around 55% of Ukraine's circa €38bn loan market comprises NPLs, compared with an EU average of just under 5%. What is more, in July 2018 parliament passed a law to strengthen the protection of creditors' rights, including, crucially, that mortgages and other loans remain intact in the event of a lender's insolvency, providing greater incentive for investors acquiring debt in the secondary market. There is, therefore, a significant opportunity for distressed debt investors seeking above-market yield as the government cleans up nationalised banking assets.

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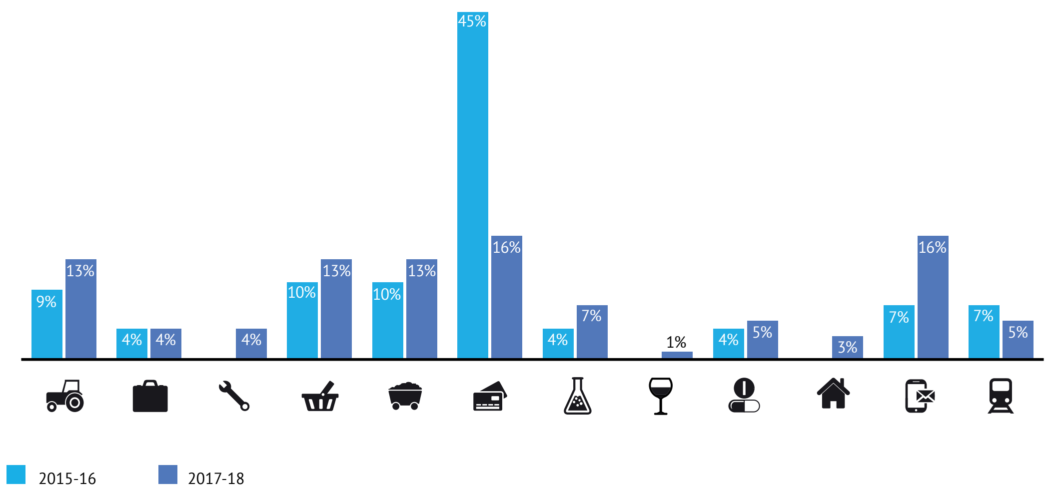
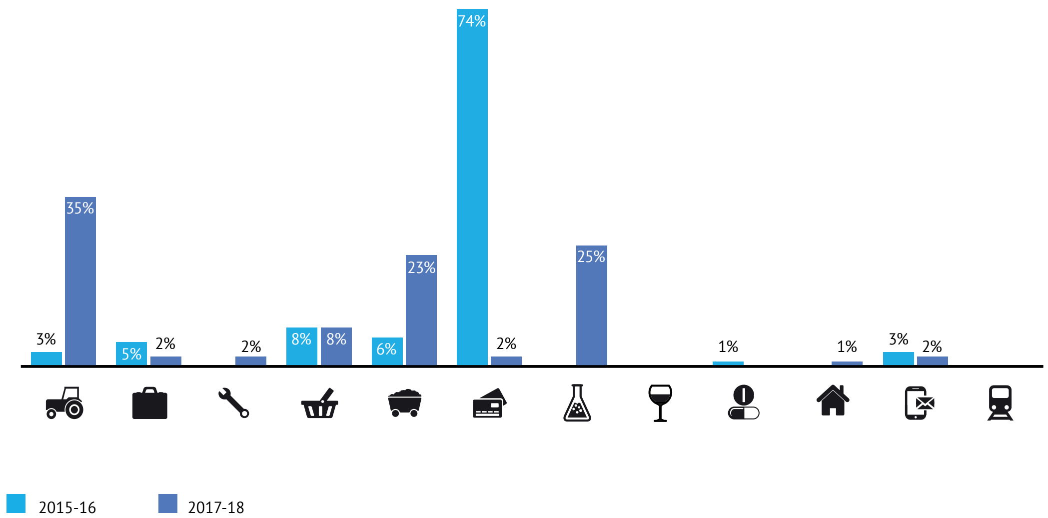
M&A volume 2015-18, split by sector

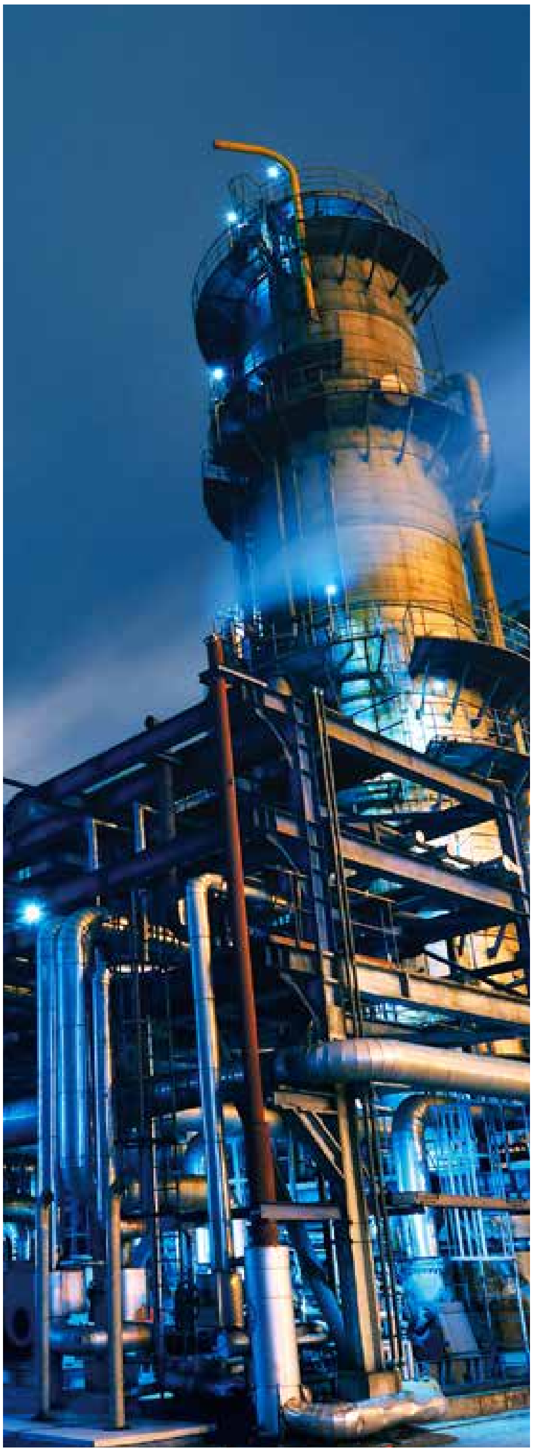


M&A value 2015-18, split by sector



Key:

- Agriculture
- Business Services
- Construction
- Consumer
- Energy, Mining & Utilities
- Financial Services
- Industrial & Chemicals
- Leisure
- Pharma, Medical & Biotech
- Real Estate
- TMT
- Transportation



Lysenko believes that financial services M&A opportunities will return in time, likely with the government selling minority stakes to private investors. The banking sector has just been through necessary consolidation to shore up the financial health of the country, which previously had as many as 200 banks.

"There have been several waves of clean-up in the Ukrainian banking markets since 2015, resulting in the number of banks almost halving," he says. "There are still more banks than an economy of this size needs, but there is unlikely to be any material consolidation in 2019. For now, the remaining banks are trying to grow organically, or to structure their operations to become more efficient. This is all part of the state trying to prepare the bailed-out banks for future partial sales."

ENERGY, MINING AND UTILITIES

Energy, mining and utilities made a mark in Ukrainian M&A in 2017/18, seeing its share of deal volume increase three percentage points to 13%, while representing nearly one-quarter (23%) of total value. The pre-eminent deal in the space saw mining group Metinvest Holding acquire 25% of Donetsk Iron and Steel Works, a vertically integrated group, in a €164m deal.

As per the 'Energy Strategy of Ukraine until 2035', the country has set itself the goal of halving the energy intensity of the economy, increasing its own energy production, making the country energy independent, and developing renewables. At the heart of this strategy is improving the country's energy security, given its proximity to and reliance on natural gas exports from Russia. Gazprom is a major supplier to the EU and all supplies must pass through Ukraine, which hopes to renegotiate a transit contract expiring this year with Russia. Meanwhile, the countries' respective national energy companies, Naftogaz and Gazprom, are in the midst of an outstanding payment dispute after the arbitration tribunal in Stockholm found in favour of Naftogaz.

The Ukrainian government has made efforts to liberalise the national gas market; however, the EU has called for further action. To meet the EU's Third Energy Package, Ukraine must separate its gas and electricity generation and sale operations from transmission networks and this has yet to be achieved. In achieving this so-called unbundling, some assets might come up for sale and the government has floated the idea of the possible privatisation of a 49% stake in the country's gas transportation system, currently owned by Naftogaz.

Babych says that the market liberalisation of energy distribution, which has yet to be achieved, holds potential for future deal flow. "The regional distributors of electricity are intended for sale and there will be some deals in the future. But that is quite a local story and I think that the investors will be local as well."

A key measure in improving Ukraine's energy security will be a shift towards renewables. Currently, renewables account for just 1.5% of the country's energy mix and the government has an ambitious target of 11% by 2020. To stimulate investment into the sector, the country introduced a "green tariff" in 2009, one of the highest state subsidies for renewable energy in the world. This has attracted significant interest from abroad; however, a new law passed this year has discontinued the feed-in tariff for renewables projects. Instead, auctions for specific quotas of renewable energy will be held from 2020.

"We have seen significant interest from various parts of Europe as well as Asia in the solar and wind industry in Ukraine, whether on a greenfield basis or brownfield basis, to benefit from what is so far the highest green tariff in Europe," says Lysenko. "Despite upcoming changes in the legislation, the sector is expected to remain attractive for international players. Several big deals and investments have been launched so far in 2019 and there are more to come."

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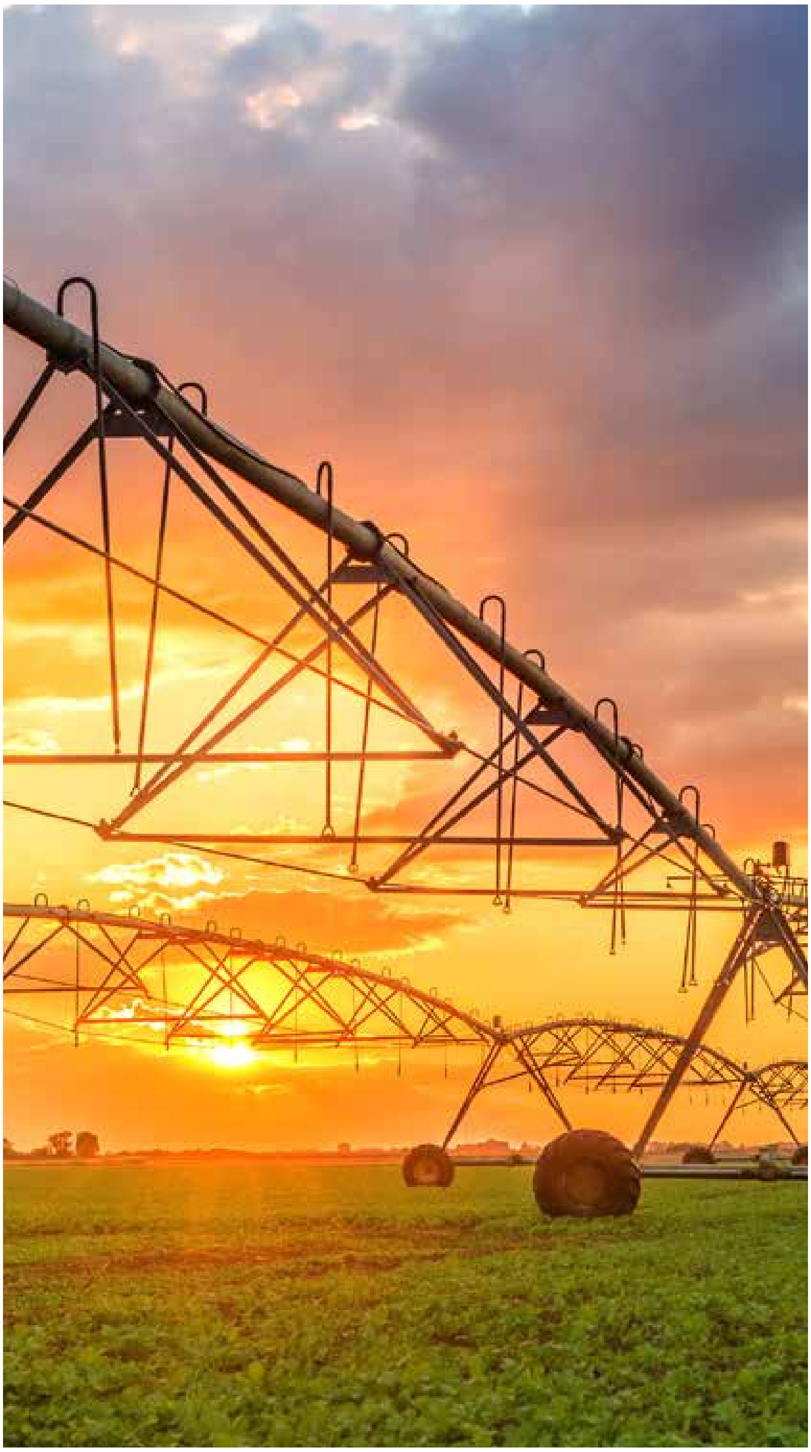


AGRICULTURE

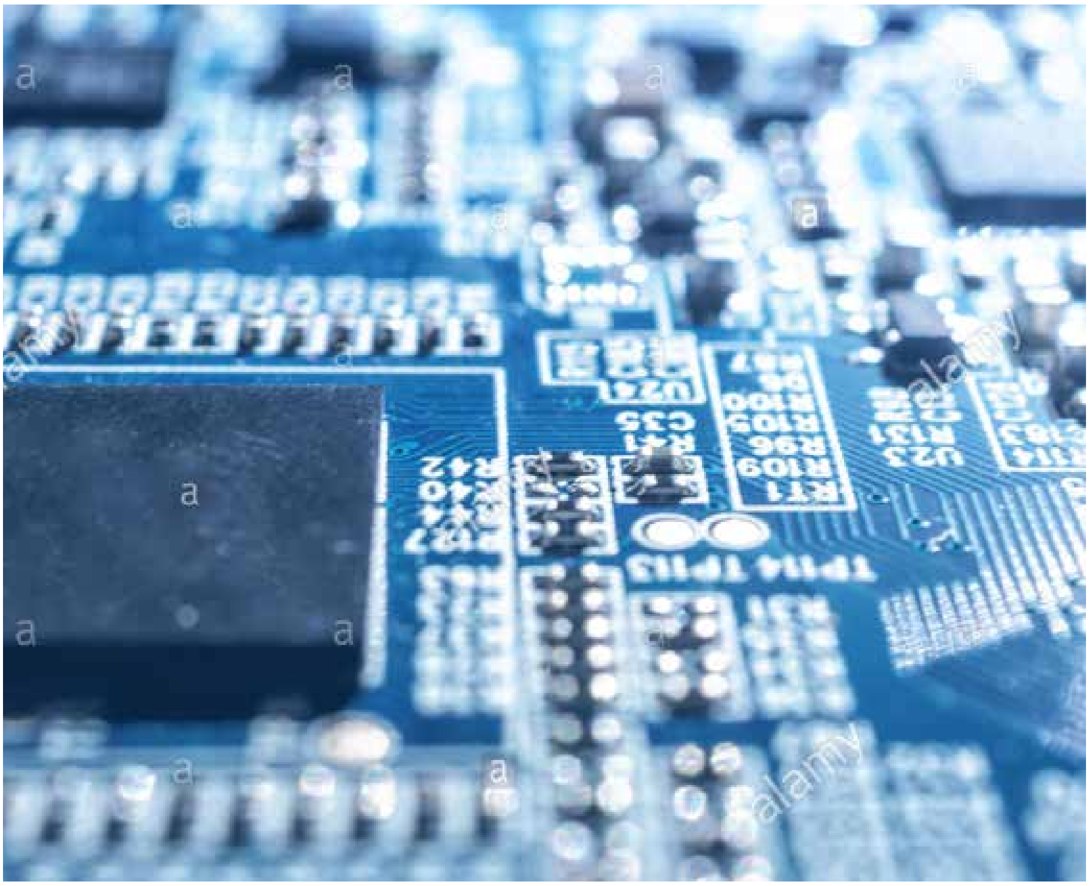
Agriculture is a core component of Ukraine's economy, representing 17% of GDP in 2017, due to the simple fact that it has a vast fertile land mass. The country is one of the world's top 10 producers of several crops such as wheat and corn. The sector is also inherently export-focused, which makes it attractive to investors seeking to diversify away from the domestic market.

Agriculture accounted for 35% of Ukraine's total M&A deal value in 2017/18, with more than three-quarters (76%) of 2018's total originating from one large deal: Saudi Agricultural and Livestock Investment Company, a Saudi Arabia-based company focused on developing and investing in agricultural industry projects and companies, acquired Mriya Agro Holding for €209m.

As already mentioned, the deal is a major plus for the M&A market by showing that creditors can realise value from complex restructuring situations. More broadly, the sector presents an opportunity for further consolidation. Lysenko says that while there are already a number of sizeable players, these are trying to pick up reasonably priced farmland and logistical assets.

"The attraction of the industry is a combination of strong export potential, quality farmland and a relatively cheap workforce. The industry already has a market share both in Europe, but also in the Middle East and some North African markets," he says. "The sector is competing on a global level against the other big players and is invested in by both Ukrainian companies, some of them publicly listed in Europe, such as MHP or Kernel, and by global commodity traders, such as Cargill, Bunge or Glencore."

A roadblock in the sector is the ongoing moratorium on the sale of farmland. In December 2018, parliament extended the nearly two decades-old ban on land sales for a further 12 months, a policy the European Court of



Human Rights has declared violates Ukrainians' rights. This is undoubtedly curtailing further deal activity by limiting growth potential, but the moratorium was introduced in 2001 as a temporary measure and so investors will be paying close attention to the next vote towards the end of 2019.

"The decision to extend, once again, the moratorium on the sale of agricultural land is generally considered bad news because it does not allow for increased market activity," says Babych. "But investors have got used to the situation and the SPF is constantly looking at selling the country's agricultural assets, both in processing and the land bank."

TECHNOLOGY, MEDIA AND TELECOMMUNICATIONS

Technology, Media and Telecommunications (TMT) continued to make up a notable proportion of Ukrainian deal flow in 2017/18. TMT deal volume made up a 16% share of total transaction volume, putting it neck and neck with financial services as the busiest industry for M&A. However, the sector's share of total deal value fell from 3% to 2% over the same period.

A major attraction of the TMT space is the country's IT outsourcing prowess, which it is estimated has grown its share of the country's GDP from just six basis points to 3.3% since 2013, a 50-fold increase. If this growth rate is

sustained, the IT sector could become Ukraine's top export sector.

"IT is not well reflected in M&A statistics because of the low deal values, but if you look at the number of deals and the number of parties, you can see that there is growing interest in this area, in particular from private equity investors," says Lysenko. "Ukraine has become famous as an IT outsourcing hub for Europe and companies are growing their revenues in excess of 20% a year. It's one of the fastest-developing sectors in the country and is very much export oriented – companies are charging for their services in hard currency."

There are a number of reasons for this explosion in demand. After years of sourcing support from India and elsewhere, labour costs are rising rapidly in lockstep with economic expansion in these emerging markets. "For European customers, Ukraine is in the correct time zone and we benefit from high standards of technical training developed during the Soviet era," adds Babych. "Young people now aspire to learn coding and want to work in IT. That's a new trend. So there are a number of attractive opportunities in that area."

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AN EYE ON PRIVATE EQUITY

Ukraine's private equity (PE) market remains relatively underdeveloped. Against a backdrop of high multiples in fiercely competitive established markets, the Ukrainian market represents a significant opportunity for returns

Ukraine's PE market is relatively small, accounting for a negligible share of GDP. This of course means there is huge headroom for growth and forward-looking firms are capitalising on their early mover advantage. Activity slightly accelerated in 2018, with six transactions announced throughout the year, in line with 2015 and 2016. These totalled €23m, a modest sum but the highest figure since the revolution nevertheless.

The largest transaction of the year, however, was an exit: Greek consumer goods group Sarantis acquired a 90% stake in household products manufacturer Ergopack for €15m from Horizon Capital and other shareholders. Horizon is a key player in the country and in January 2019 closed its latest vehicle on its $200m hard cap, surpassing its $150m target in what has been dubbed the largest PE fund closed in the country in a decade. This newly minted fund alone will ensure sustained deal activity over the next five years.

As already mentioned (see Sector Watch, page 8), Ukraine is home to a strong supply of high-growth export-oriented companies, a major attraction for PE. Manufacturing, consumer and IT outsourcing businesses with a focus on selling into foreign markets are inherently hedged against forex risk. In a country in which PE funds typically use little to no leverage, the double-digit revenue growth of IT outsourcing firms in particular meets investment funds' cost of capital.

"PE has been principally looking at the IT sector, real estate portfolios and real estate logistics, and to some extent food industry," says Lysenko. "But with the latter sector they are more selective and would primarily be looking at the export potential to generate revenues in foreign currencies."

One highly active firm that has deployed in both IT outsourcing, closing an investment in February 2019 into Ciklum, as well as commercial real estate is minority stake investor Dragon Capital. The firm, which launched the Dragon Capital New Ukraine Fund in 2015 with backing from George Soros's fund management company, has invested some $400m into the real estate space. As Ukraine's economy improves, rents continue to rise, retailers are expanding and office vacancies are falling, all of which is creating demand for private investment into commercial leases.

In line with foreign investors increasing their share of M&A activity in 2018, there are indications that foreign PE is also rekindling its interest in the Ukrainian buyout market. In the first quarter of 2019, Blackstone Group said that it would invest in "social casinos" app developer Murka Entertainment. As the largest PE manager in the world, Blackstone's decision to transact in Ukraine sends a positive message and augurs well for future foreign buyout activity.

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THE LONG-TERM OUTLOOK

Ukraine is gaining momentum as a result of the pro-reform agenda it has pushed in recent years. The outlook is bright if it can sustain this progress

Ukraine's economy continues to show steady, sturdy growth and 2019 is expected to represent the country's fourth consecutive year of economic expansion. Most importantly, the country is beginning to see the practical benefits of liberating its market and this is likely to result in a virtuous cycle of reform progress. Foreign investors will want to see this momentum sustained and a long-term commitment to modernising Ukraine's free market and, in particular, its judiciary.

Over the long term, we see progress and opportunities being achieved along the following four broad themes:

1 POLITICAL AND JUDICIAL REFORM

Ukraine has set itself a firm pro-Western, pro-reform agenda and foreign investors are responding. The elections in 2019, the country's most competitive in recent memory, show that the Ukraine is operating a democracy and is effectively distancing itself from Russian influence. The country, however, is largely falling short in its efforts to stamp out graft.

Years in the making, and key to obtaining further EU and IMF funding, the High Anti-Corruption Court was established in April, the court being the final complement to a trifecta that already includes the National Anti-Corruption Bureau (NABU) and the Specialized Anti-Corruption Prosecutor's Office.

However, a ruling by the Constitutional Court of Ukraine on February 26 struck down a legislative provision criminalising illicit enrichment, thereby undermining the country's anti-corruption reform. This key piece of reform is not only a condition to be considered a potential EU member, but also a strong message to foreign investors who want to see Ukraine address corruption. After facing persistent political resistance, the establishment of the corruption court and the proper and fair application of anti-corruption laws will help to determine the future success of the country's M&A market.

2 PRIVATISATION

Ukraine is no stranger to privatisation. After the collapse of the Soviet Union, the country set about transitioning key assets from the hands of the state into private ownership. However, a post-revolution divestment drive, which the IMF hopes will attract foreign investment and is a condition of its ongoing funding, has so far failed to materialise.

Progress was made in 2018 with the passing of a law that laid the ground rules for privatisation sales, namely the appointment of overseas advisers to ensure transparency. In addition, 23 companies have been shortlisted for sale with advisers appointed for six of these. This represents a long-term opportunity for foreign investors that should finally come to fruition once Ukraine has navigated its elections and its new parliament has settled in.

3 SECTORAL OPPORTUNITIES

Ukraine finds itself in a strong position from an export perspective. A relatively weak hryvnia and the country's close proximity to the eurozone, the largest trade bloc in the world, mean that Ukrainian products are in high demand in Europe, as well as North Africa and the Middle East. This is boosting the country's agricultural sector, which benefits from a vast land mass, as well as manufacturing industries and IT outsourcing services as part of the wider TMT sector.

Looking at domestic demand, commercial real estate has become attractive given the expanding economy and, therefore, rising demand from businesses to occupy premises. With economic growth also comes greater energy needs and the government has an ambitious goal of generating 25% of its energy from renewable sources by 2035. A green tariff, higher than in any other European country, was introduced in 2015 and has supported interest in the sub-sector, particularly from abroad. The tariff will be replaced with a tendering system, which is expected to ensure the segment remains attractive to investors.

4 LEGAL AND BUSINESS REFORMS

In recent years, Ukraine has pressed ahead with reforms encompassing everything from government decentralisation, the protection of intellectual property rights, safeguarding the environment, food safety and energy efficiency. Perhaps most important of all for investors, though, have been the improvements made to company and corporate governance laws. In 2018, new regimes were introduced for both joint stock companies (JSCs) and LLCs, the two favoured structures. Specifically, for LLCs the new regimes introduce more flexible corporate governance and the right to establish supervisory boards. Rules governing shareholder agreements were also modernised last year, allowing shareholders in JSCs and LLCs to exercise familiar powers such as drag along and tag along rights among others.

Foreign investors appear to be warming to the country because of this progress, nearly doubling their share of overall deal volume in 2018. Assuming that Ukraine maintains its current momentum, higher levels of inbound M&A investment activity should manifest over the long term as Ukraine more closely aligns itself with Europe and distances itself from Russia.

As mentioned, the reform of the judiciary and the introduction of the High Anti-Corruption Court will be further impetus for foreign investment. We anticipate that a future lifting of forex controls will also play a pivotal role in Ukraine's M&A market becoming more attractive to outside investors.

CONCLUSION: A NEW UKRAINE

Dealmaking is at a post-revolution high and has the potential to return to past peaks if Ukraine can finally address its corruption problem and complete the IMF-mandated reforms

A raft of reforms, including a number of amendments to Ukraine's corporate laws in 2018, have made the M&A market more attractive than ever, resulting in a post-revolution high in both deal value and volume. Last year also saw a greater year-on-year representation of foreign investors. There is every reason to believe this positive momentum will carry through 2019 in spite of the uncertainty surrounding the country's elections.

With this in mind, Mergermarket's M&A heat chart suggests that there are no fewer than 19 companies being prepared for sale, as per coverage in the local and international media over the previous six months. There is no clear leader with regards to sector, although industrials & chemicals marginally saw the most stories (4), followed by consumer (3).

Ukraine M&A heat chart

Sector	Number of stories for sale
Industrials & Chemicals	4
Consumer	3
Energy, Mining & Utilities	3
TMT	2
Agriculture	2
Financial Services	2
Leisure	1
Construction	1

*Company for sale stories tracked by Mergermarket between September 1, 2018 – February 2, 2019

While these two industries will undoubtedly attract interest, foreign investors will be seeking an export angle. One feature of recent years has been a high-inflation environment, precipitated by a weaker currency, which has made businesses that focus solely on Ukrainian consumption comparatively less attractive. Nevertheless, the central bank anticipates inflation falling from 9.8% in 2018 to 6.3% in 2019 as it persists with tight monetary policy.

There are a number of other sectoral opportunities in Ukraine (see Sector Watch, page 8) and the reforms the country has made since the revolution five years ago have gone a long way towards improving the M&A market's appeal. However, there is further progress to be made. The aforementioned corruption court has experienced numerous setbacks and, once established, faces the challenge of being put to proper use rather than being a token gesture to appease the IMF.

Furthermore, a bill intended to reform the country's corporate tax system by shifting the burden of tax from company profits to distributions was postponed at the end of 2018. Mooted in March 2018 and modelled on similar developments in Georgia and Estonia, the proposed model is aimed at simplifying tax for small businesses and increasing rates of investment in the country.

Also, it is intended that the Securities and Exchange Commission of Ukraine, the capital markets regulator, will be granted extended powers of inspection, which would be a major boon for investor protections.

“The challenge in Ukraine is the country risk from foreign investors’ perspective. The reforms could be implemented faster than they have been, but that’s easier said than done,” says Babych. “Now that these changes are already underway they should, in theory, gain momentum as the practical benefits become apparent. Success begets success.”

One of the concerns among EU policymakers is that progress will be derailed, and possibly even rolled back, by a change in the composition of Ukraine’s parliament, the Rada, following elections in the latter half of the year. Johannes Hahn, the EU’s commissioner for European Neighbourhood Policy and Enlargement Negotiations stated in a press release issued in November that it is “crucial to maintain the reform momentum and to make these changes irreversible”, citing the importance of the country’s ongoing anti-corruption efforts and continued economic and judicial reforms. There is little doubt that Ukraine must stay the course to win the hearts of foreign investors.

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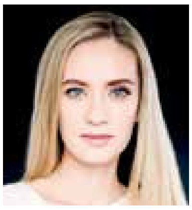

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