M&A Attractiveness Index—Czech Republic

Developed in association with the M&A Research Centre at Cass Business School

According to the M&A Attractiveness Index, developed by the M&A Research Centre at Cass Business School, the Czech Republic is now ranked 21st out of a total of 147 countries in terms of its attractiveness for M&A purposes (i.e., its ability to attract and sustain business activity).

The six-year trend data track the Czech Republic as achieving its best rank to date as the 21st most attractive country, seeing a steady improvement since its lowest rank as the 32nd in 2011.

Market challenges

The market challenges for the Czech Republic remain within its economic and financial factors, which includes measures of GDP (size and growth), inflation and availability of domestic bank credit. Of particular concern is the lack of improvement in the development of its equity market.

Market strengths

There are continued strengths in the technology factors, and the Czech Republic continues to score highly regarding its investment in its infrastructure and assets, specifically its road system and a number of high valued assets (i.e., registered companies with assets over US$1 million). ■

> **Czech Republic has achieved its best rank to date**

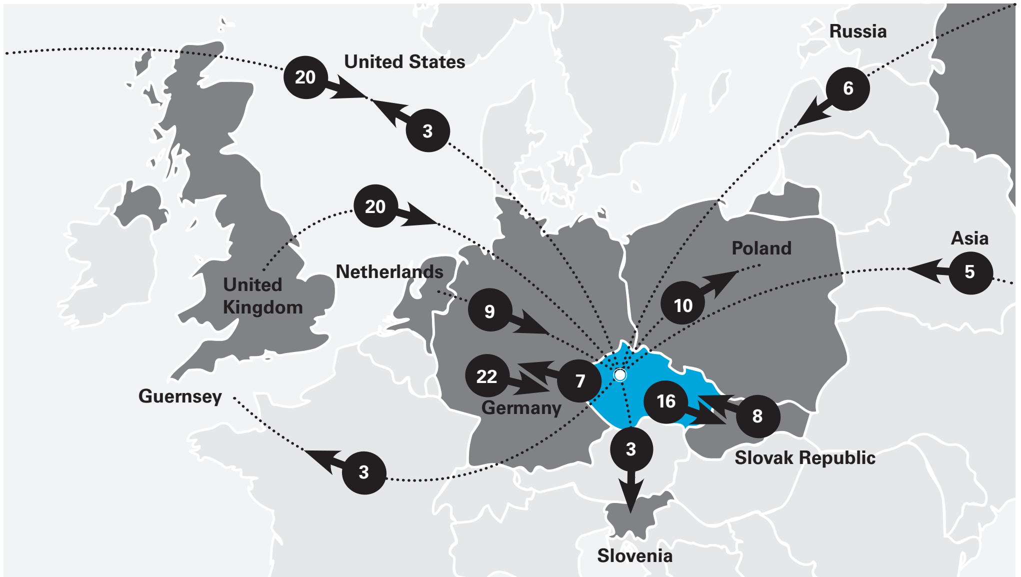
Ranked

21st

out of 147 countries

Inbound and outbound investment flows for the Czech Republic*

* Number of deals 2012 – 2014

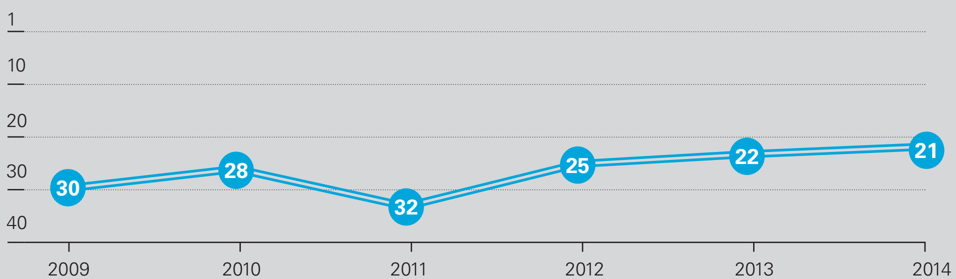


Source: Thomson Financial

The most important M&A markets for inbound deals are Germany, the United Kingdom and the United States. This arrangement isn't directly reciprocal, with the highest outbound deal destinations for Czech companies being Slovak Republic, Poland and then Germany. German companies are investing in oil and gas, while Czech companies are buying German machinery companies.

There was a high deal volume from the United States to the Czech Republic, mainly investing in food and beverage as well as healthcare equipment and supplies, but very little investment into the United States. Looking to the east, there were a number of deals from Asia into the Czech Republic, but no deals the other way around. ■

Attractiveness ranking for M&A purposes—Czech Republic



Source: M&A Attractiveness Index, Cass

The Czech Republic presents an interesting prospect for the energetic world of mergers and acquisitions. To begin with, its M&A attractiveness ranking is higher than ever, currently at 21. The country enjoys a positive reputation for launching successful technology ventures and start-ups—the M&A targets of tomorrow. Compared to its peers in Eastern and Southeastern Europe, it is especially strong at attracting foreign direct investment—Germany, Switzerland and the United States are active investors—bolstered by low interest rates, low inflation, stability and reasonable growth.

We note, however, that the economy failed to grow in 2012 – 13 but weathered the financial crisis better than most, and last year's recovery was significant. No single deal was above the billion-euro threshold, but the number of M&A deals was at its greatest since 2010, totalling more than €5 billion in aggregate. Technology, media and communications constitute the most active sphere, though a review of 2014's top ten transactions shows a healthy distribution of different industries. Deutsche Telekom secured a majority holding in T-Mobile Czech Republic, while CVC Capital Partners acquired a majority in Avast, a Czech software company with 230 million customers.

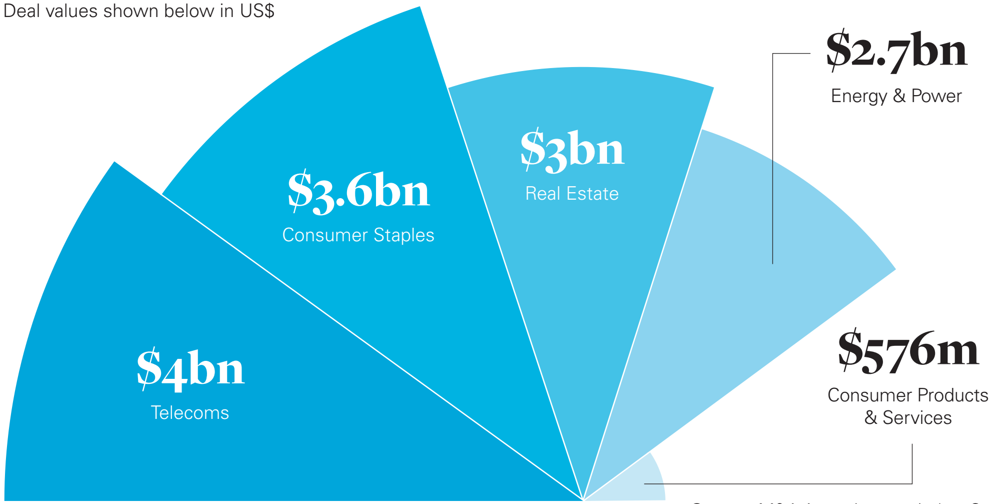
Certain M&A activity has been spurred by the departure of Western utility companies exiting, ostensibly to put their focus on so-called core assets. Deal flow in financials is also robust: Banks and insurance companies are selling non-core operations, and Citi sold its in-country consumer-facing units.

Changes to the law aimed at curbing the invalidation of contracts, an ongoing problem, will go some way to prevent undue interference in corporate affairs by statutory bodies, which in turn should put the country on even surer commercial footing.

The last two years of deal-making, both surpassing €5 billion, may be a challenge to match, but there's still room to grow. ■

Top five active sectors by ranking value of deals for the Czech Republic*

*2009 – 2014
Deal values shown below in US$



Source: M&A Attractiveness Index, Cass

White & Case in Czech Republic

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