

Survey

Impact of COVID-19

on M&A market in Ukraine

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Impact of COVID-19 on M&A market in Ukraine

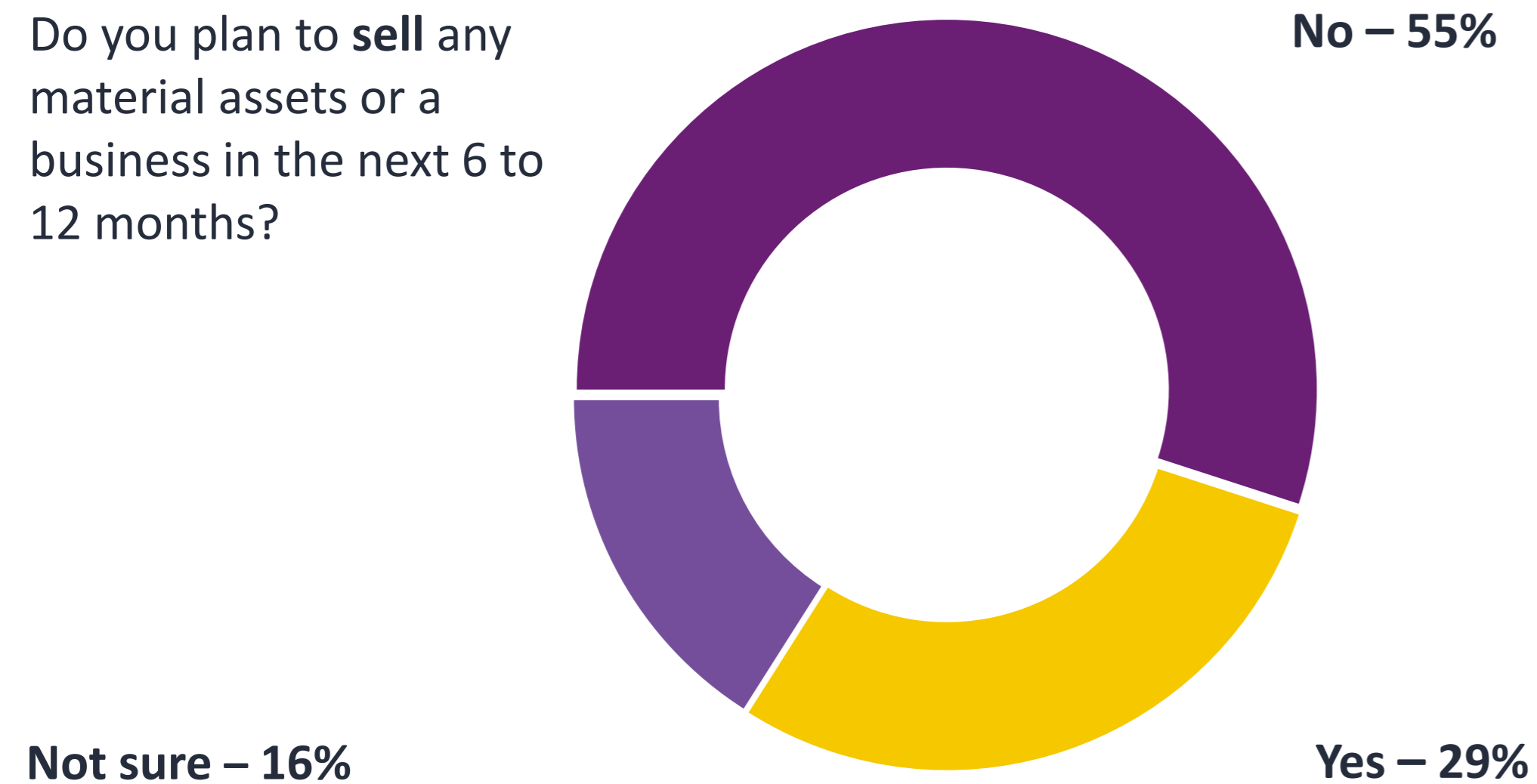
COVID-19 outbreak will inevitably affect the M&A market in Ukraine. How will the coronavirus outbreak affect the plans of businesses to purchase or sell assets or companies in the next 6 to 12 months? To understand the impact, we launched AVELLUM online survey among representatives of Ukrainian and international companies.

Our conclusions are based on analysis of the answers of the respondents and AVELLUM's extensive M&A expertise in various sectors of the Ukrainian economy during 11 years of AVELLUM's presence in the market, in particular during the previous economic crises.

M&A activity is closely connected with the state of Ukrainian economy. The economic downturn made sellers consider whether to sell their businesses or to attract investors. At the same time, buyers view this crisis as an opportunity to increase their market share at a low cost. We witnessed a similar situation in Ukraine in 2014-2016.

Plans of sellers

Do you plan to **sell** any material assets or a business in the next 6 to 12 months?



Almost 30% of companies plan to sell their business in the next 6 to 12 months. Only 1 out of 5 companies plan to do so because of the crisis. This indicates that the majority of large Ukrainian companies withstood the COVID-19 economic crisis rather successfully.

If yes, are such plans related to the quarantine and shrinking of the economy?



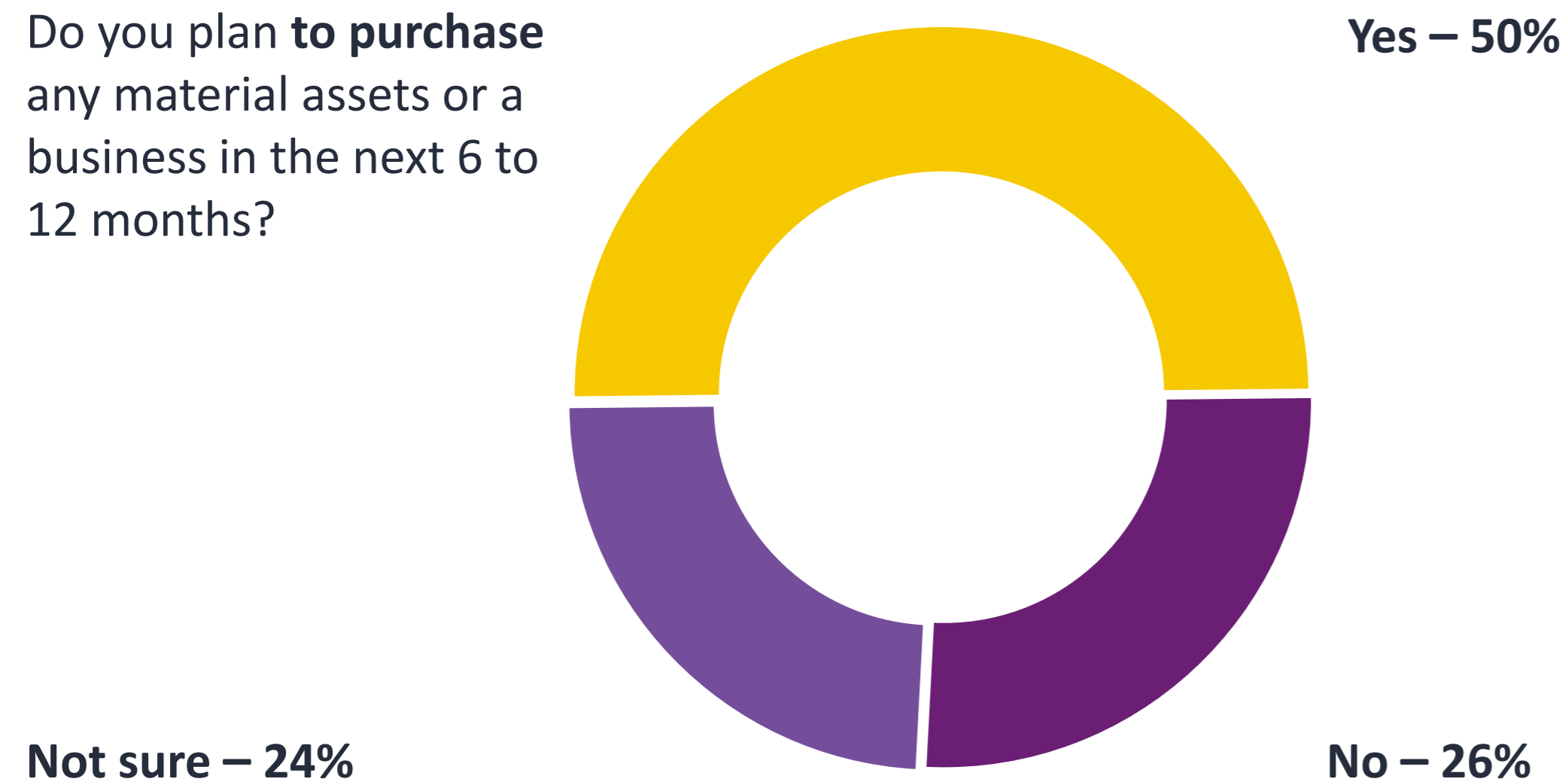
If you are planning to sell, do you expect any price discount due to the crisis?



More than 60% of the companies for sale are prepared to offer a price discount. However, sellers soon may increase asset prices, because at the moment demand significantly exceeds supply (see slides 5-6).

Plans of buyers

Do you plan to purchase any material assets or a business in the next 6 to 12 months?



There are quite a few **potential purchasers – 50%**, and the majority of them expect a discount. This is natural since weak businesses will be primarily on sale, and their owners will expect the payment as soon as possible.

If yes, are such plans related to the quarantine and shrinking of the economy?



If you are planning to purchase, do you expect a price discount due to the crisis?



At the same time, **over 40% of those willing to buy** a business became interested in such a purchase due to the coronavirus crisis. This indicates that a large number of companies take an opportunistic approach and believe in the future recovery of the Ukrainian economy.

Plans to buy: before and after the crisis

If you planned to purchase any assets prior to the crisis, are you still considering such a purchase today?

Yes – 63%



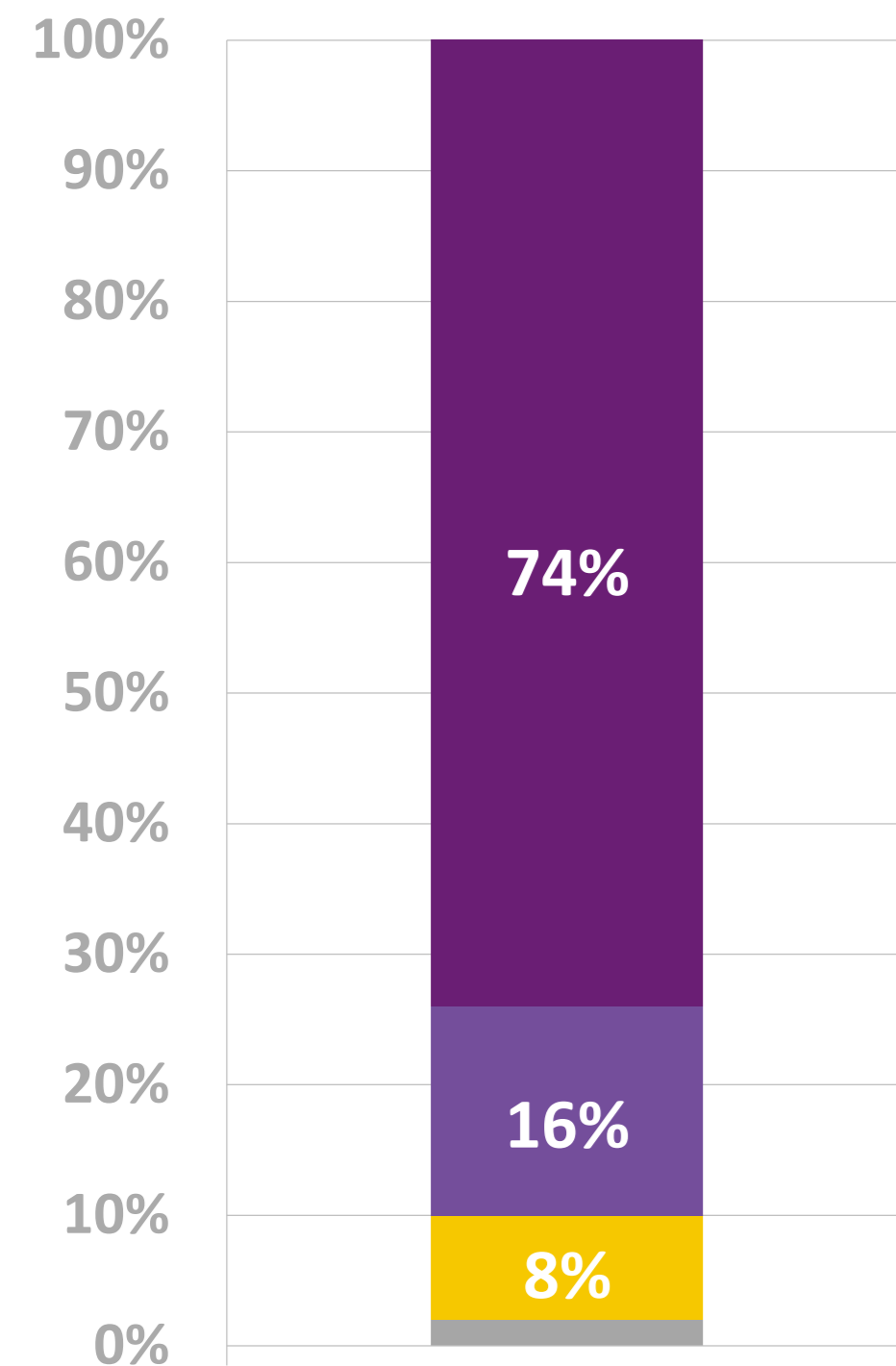
No – 37%

Over 60% of potential buyers have not changed their intentions to purchase assets in Ukraine. They continue to view the Ukrainian market as an attractive one and believe that it would be profitable to increase their market share.

On the contrary, **almost 40% of potential buyers** gave up their plans to purchase due to the coronavirus crisis. Such a decision primarily demonstrates the shock of an unexpected crisis and unclear prospects. Once the economy stabilises, such buyers will quickly return to the market pushing asset prices up.

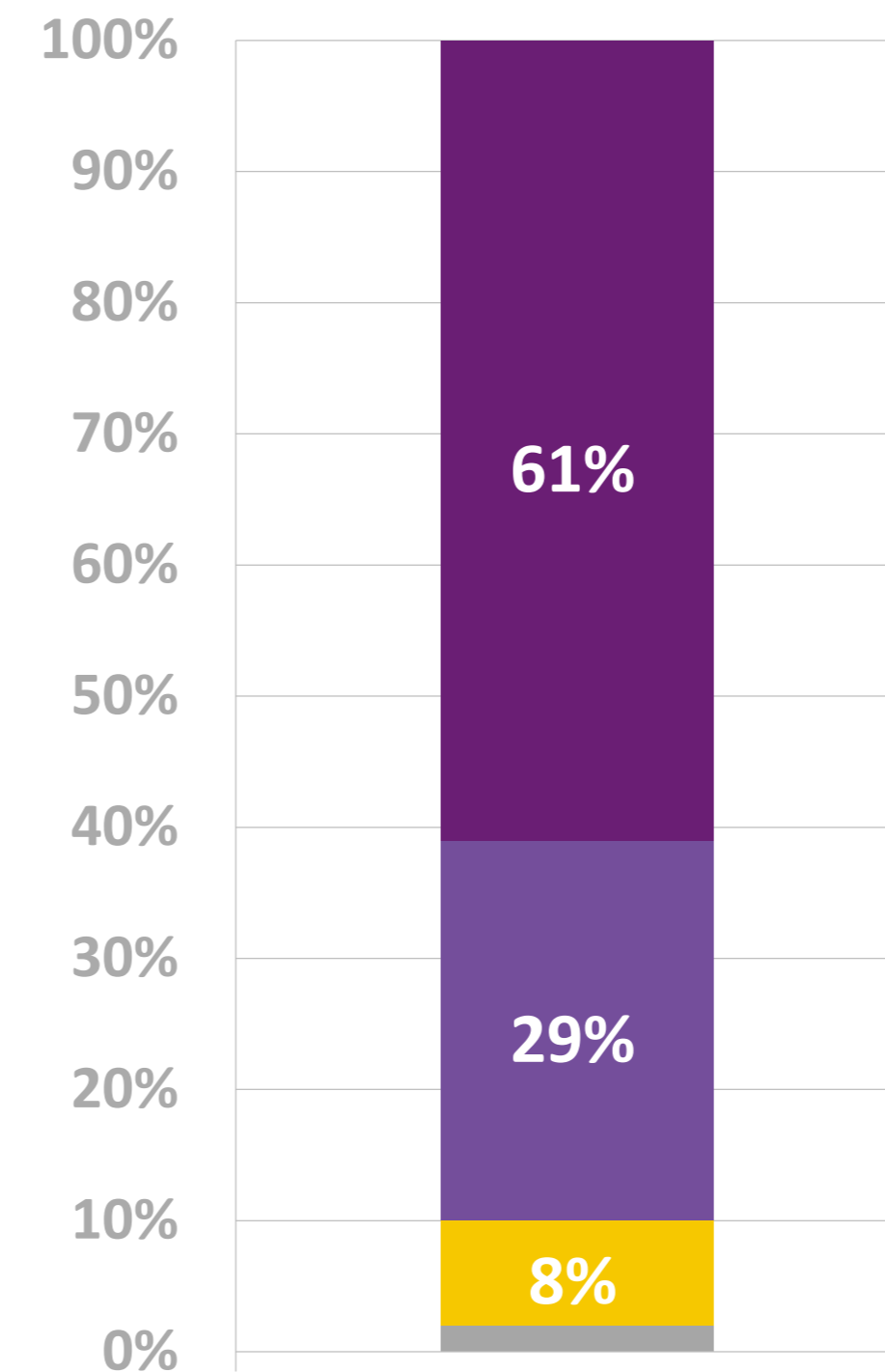
As a result, in the next 6 to 12 months we expect active discounting of asset prices, but afterwards asset prices will increase again unless a new crisis comes.

Due diligence and warranties



If you purchase assets in a distressed M&A deal, will you carry out a due diligence of the target?

- 74%** – I will carry out a full-scope due diligence
- 16%** – I will carry out a selective-focus due diligence
- 8%** – No, the risks should be factored in the discount. I will run a due diligence once I purchase
- 2%** – Other



Should the seller in a distressed M&A deal provide any warranties regarding the condition of the target?

- 61%** – There should be comprehensive warranties, including those related to operating activity
- 29%** – Only with respect to the title to the target. Other risks associated with the target are already factored in the discount
- 8%** – No warranties should be given
- 2%** – Other

Despite the small number of assets for sale (only 30% of sellers are ready to sell), purchasers plan to conduct full due diligence of the target and expect full warranties from the seller to cover the asset.

We believe that such expectations will change soon following the increased competition for attractive assets sold at a discount. After all, demand now significantly exceeds supply.

Engaging external advisers in a distressed M&A deal

More than 60% of respondents believe that the seller does not need any advisors since the asset is sold at a discount. This contradicts expectations of purchasers as to the quality warranties, which require active participation of lawyers.

Consequently, the seller will either provide fewer warranties in exchange for the price discount or engage legal advisors to deal with complex documentation.



32% **Yes**, a distressed M&A deal is way more complicated than a usual deal.

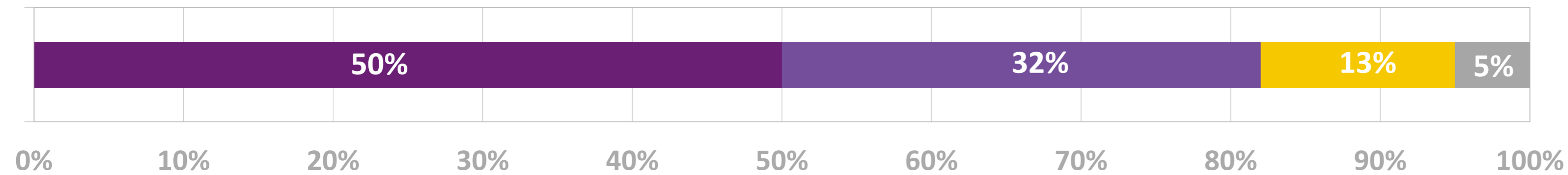
13% **No need**, the purchaser's risks will be factored in the discount and the seller will have no money for that.

47% **The purchaser** needs to engage advisers, while the seller is already selling the target at a loss, therefore there will be no money to cover external advisers' fees.

8% **Other.**

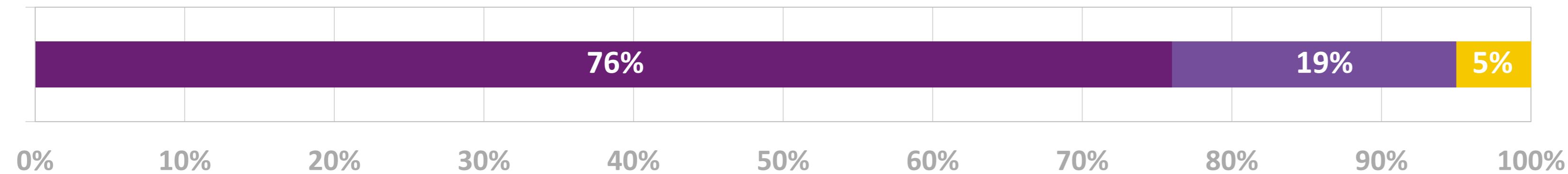
Respondent's profile

Role in business



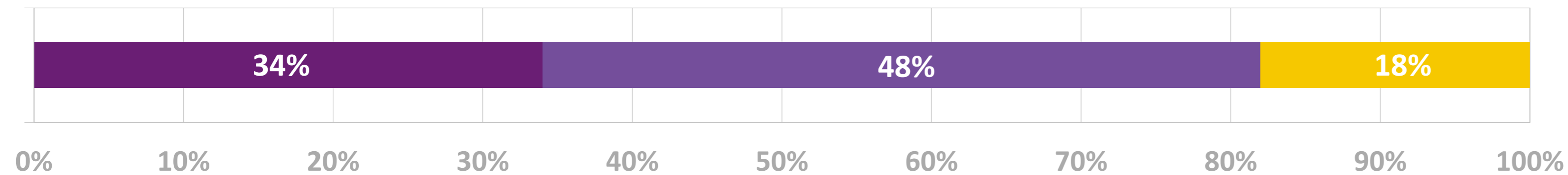
50% - top manager (CEO, CFO, COO)
 32% - owner
 13% - head of legal department
 5% - other

Company ownership



76% - Ukrainian owner
 19% - foreign owner
 5% - joint venture

Number of employees



34% - up to 50
 48% - 50-500
 18% - 500+

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