

Survey

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

2021 vs 2020

Contents

Impact of COVID-19 on M&A market in Ukraine	3
Plans of sellers	4
Plans of buyers	6
Assessment of the situation in Ukraine for purchase and sale of a business	8
Due diligence of the target	9
Warranties	10
Engaging external advisers in a distressed M&A deal	11
Respondent's profile	12

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

How has the COVID-19 pandemic affected the plans of businesses to buy or sell assets in the next 6 to 12 months, as compared to 2020? To understand the impact, we launched AVELLUM online survey among Ukrainian and international companies for the second time.

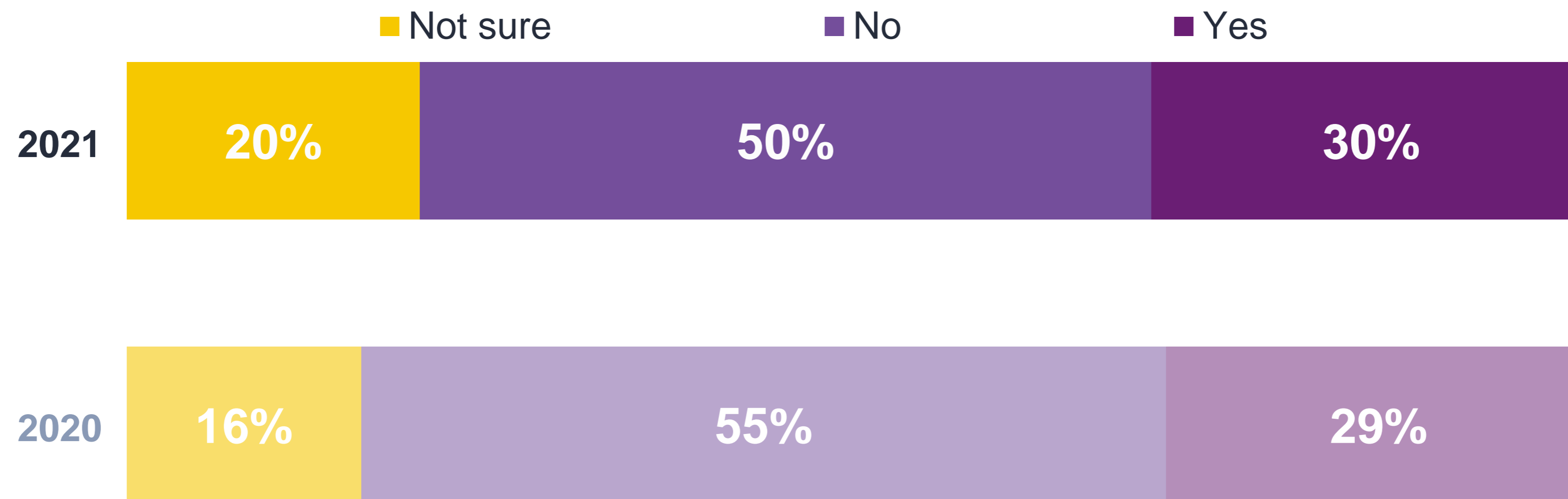
Our conclusions are based on the analysis of the answers provided by 90 respondents and AVELLUM's extensive M&A expertise in various sectors of the Ukrainian economy during 12 years of AVELLUM's presence in the market, in particular during the previous economic crises.

This year's AVELLUM survey revealed several major trends.

- Although the number of potential sellers has not changed significantly, the number of buyers has dropped from 50% to 37%. At the same time, in our practice we observe an intense activity of buyers who have already started to implement their plans. We also note that foreign investors that intend to enter the Ukrainian market are increasingly active.
- Overall, 70% of respondents defined the situation in Ukraine as satisfactory for buying or selling a business.
- Sellers and buyers are taking the pandemic more seriously as an impact factor in M&A transactions. The percentage of those who plan to buy or sell assets specifically because of the pandemic increased in 2021.
- At the same time, buyers are more demanding with respect to potential targets. This year, even more respondents prefer comprehensive warranties as to the target and its full-scope due diligence.
- There is a clear tendency towards creating conditions for the buyer's market as a whole.

Plans of sellers

Do you or your company plan to sell a business in the next 6 to 12 months?

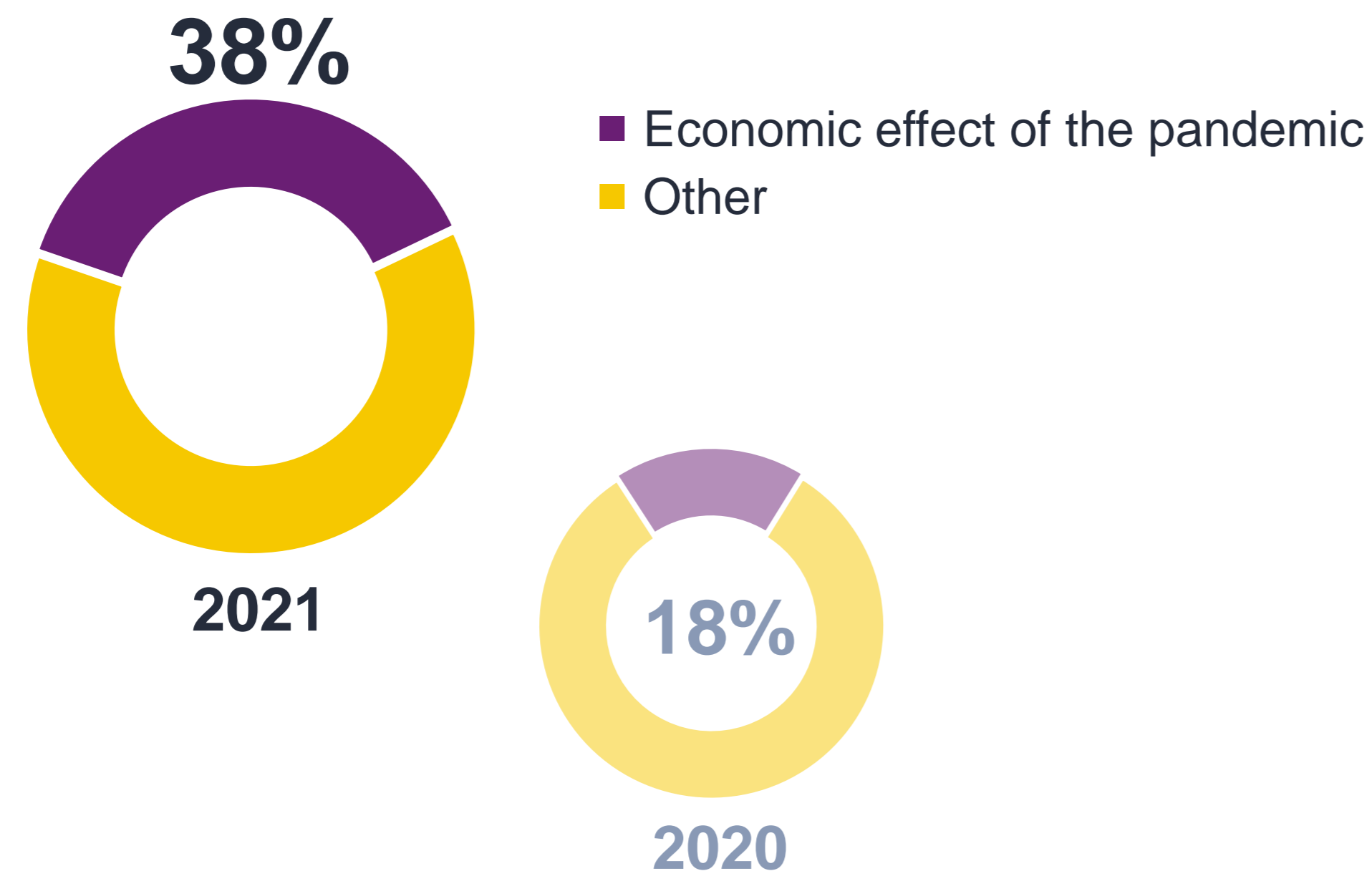


50% of the respondents note that they **did not and do not plan to sell their business**. This means that, despite the COVID-19 pandemic, there is no massive sale of businesses. As compared to 2020, the share of those who have not decided whether to sell their assets has increased.

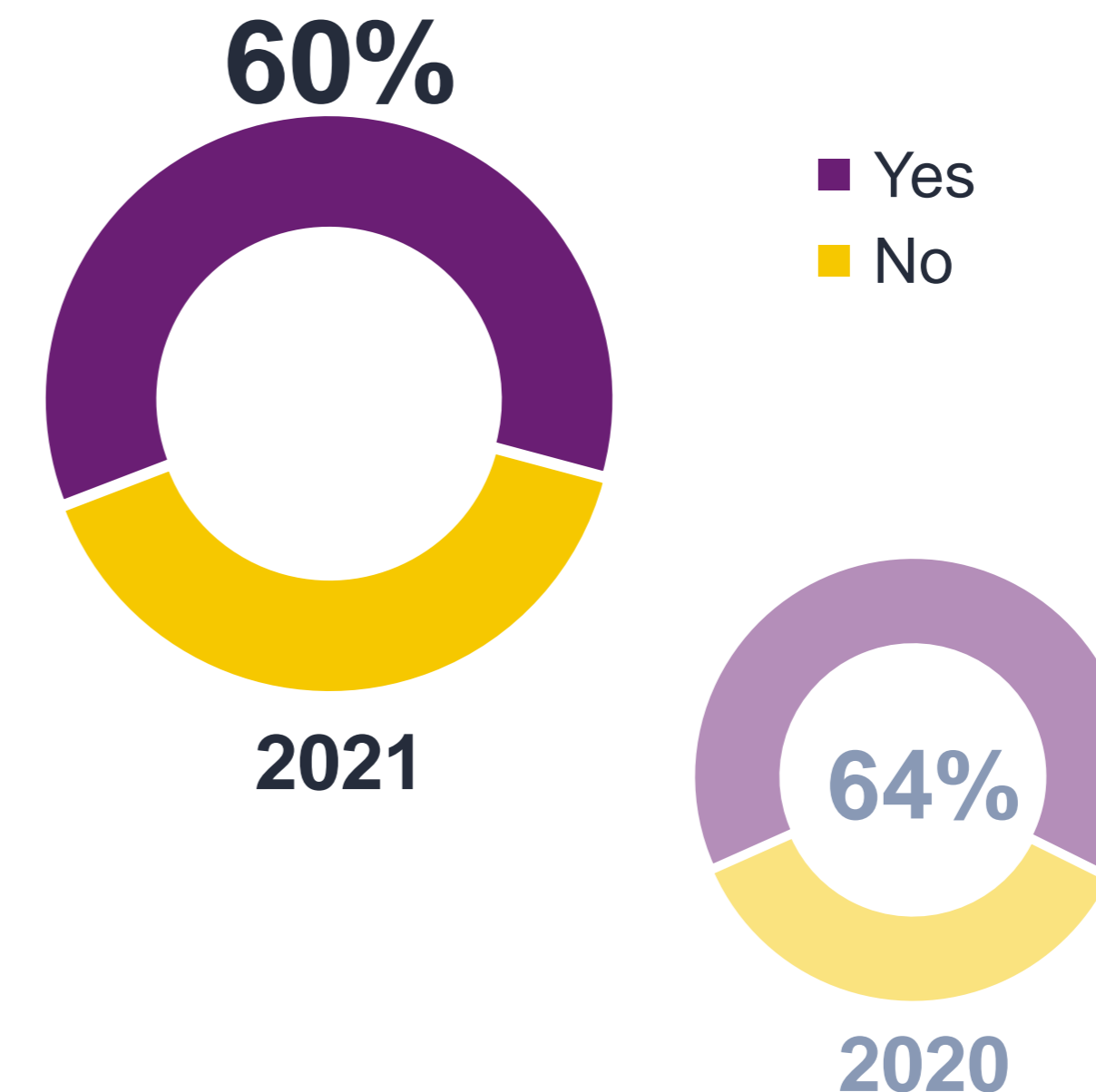
While 20% of the market has not yet decided whether to sell, although the pandemic has lasted for two years, the percentage of **companies planning to sell** the business in the next 6–12 months **has not changed (30%)**.

Plans of sellers

Reason to sell:



Sellers planning to offer a discount due to the crisis

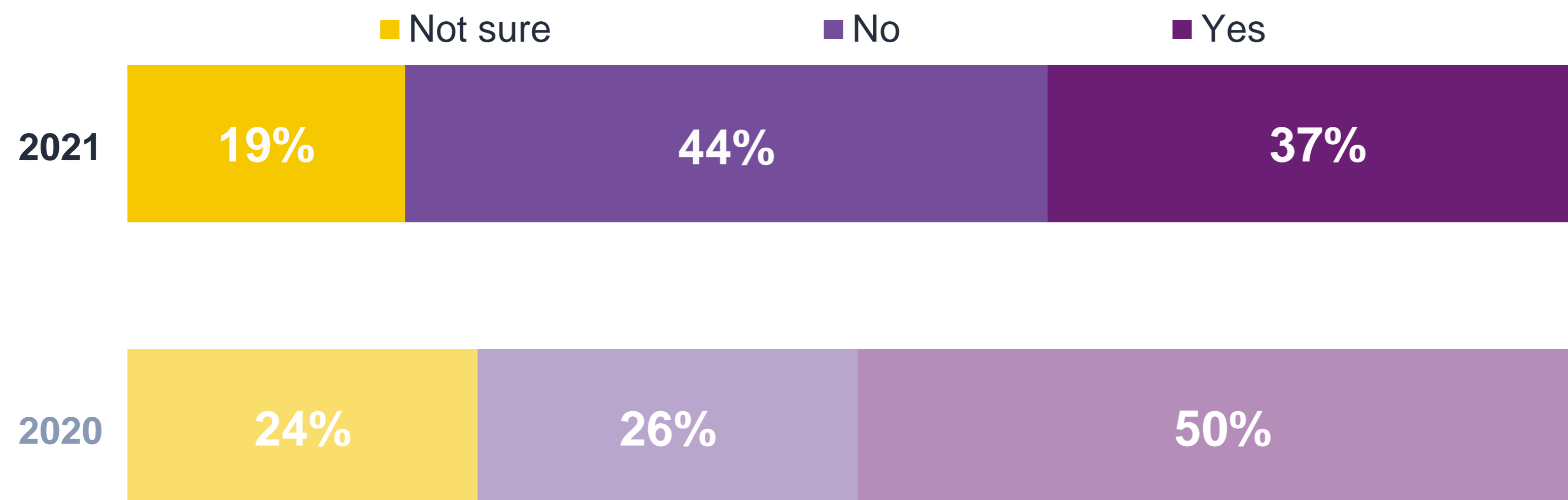


The number of companies planning to sell businesses **due to the coronavirus** crisis has doubled (38% vs 18% in 2020). The total number of sellers has not decreased, yet the motivation has changed. Among other sale factors, sellers named a **change in strategic plans at the head office** (41%) or **challenging business environment** (21%).

Same as in 2020, more than half of the companies for sale (60%) **are willing to offer a discount due to the crisis**, as COVID-19 pandemic resulted in a downward trend on the M&A market (see slide 6).

Plans of buyers

Do you or your company plan to buy a business in the next 6 to 12 months?



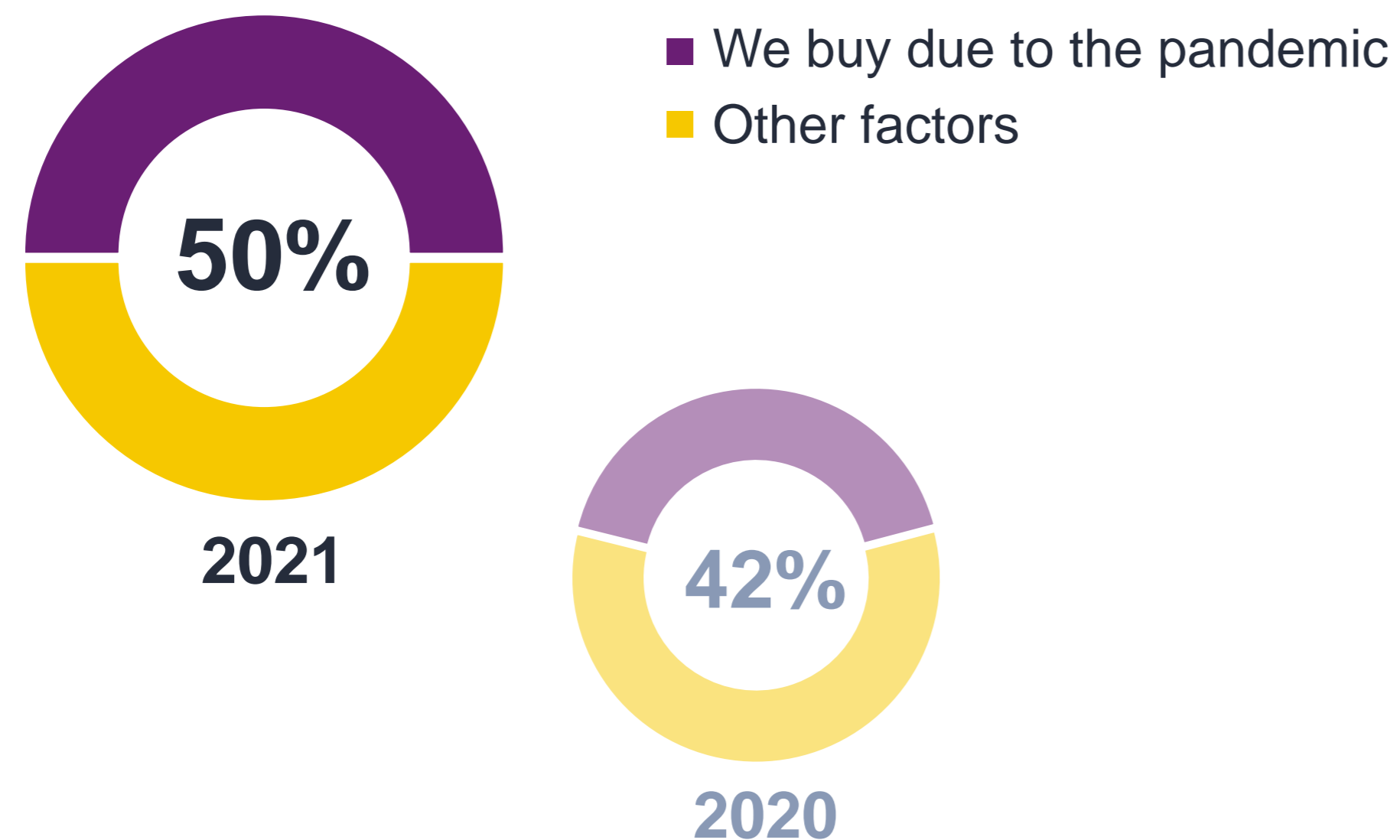
22%
of those not intending to buy a business, refused to buy exactly because of the coronavirus crisis in 2021

In 2021, the **share of companies intending to buy a business** in the next 6-12 months **decreased sharply**: from 50% in 2020 to **37%**. It is likely that once the economy stabilizes, such buyers will quickly return to the market leading to an increase in the price of assets for sale.

Despite the decrease in the number of potential buyers, in our practice we see that the activity of **foreign investors** (who are not the respondents of this survey) has increased. This speaks of a growing interest in Ukrainian assets from foreign investors, in particular from Australia, Azerbaijan, Kazakhstan, Germany, Poland, and France.

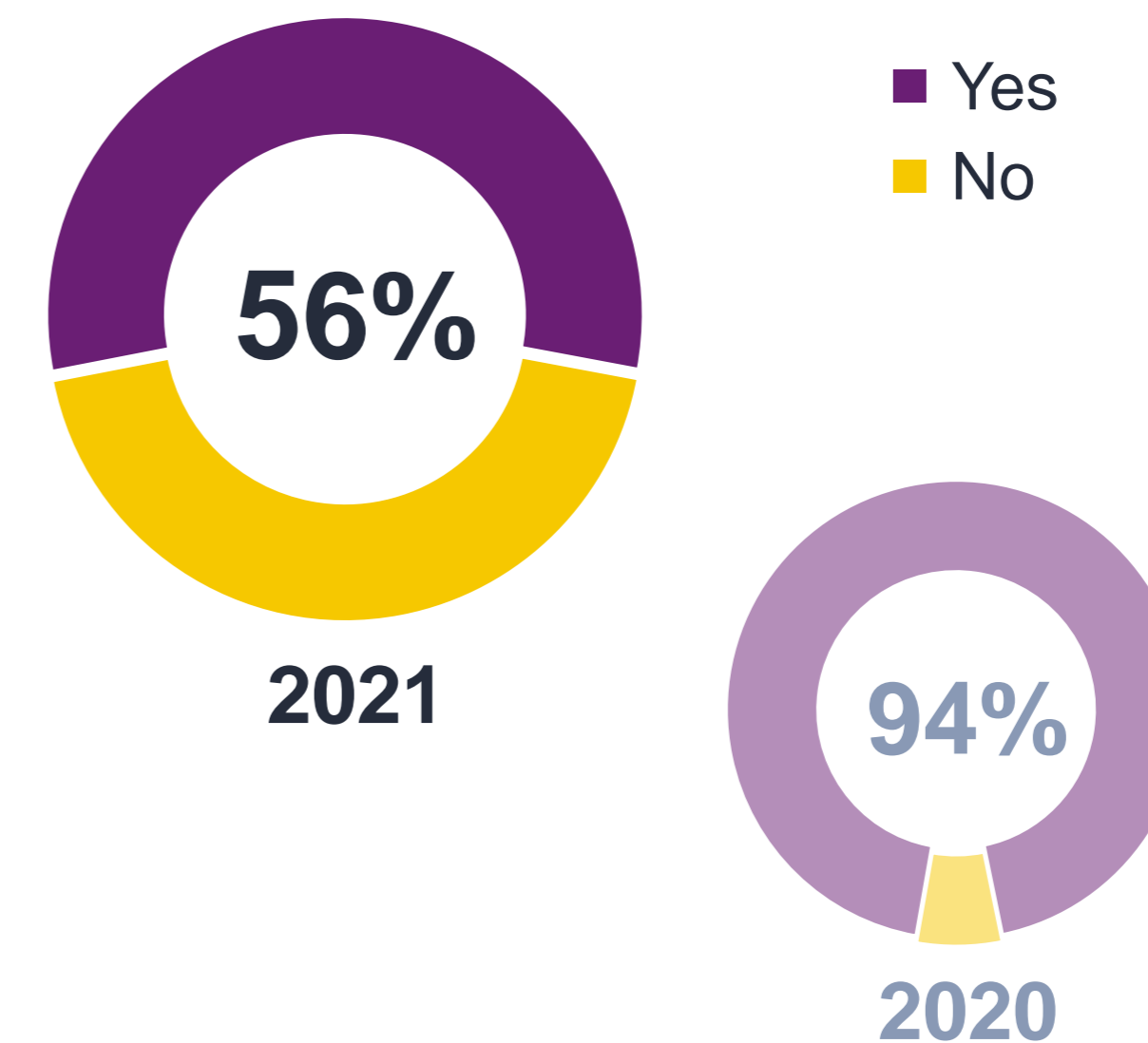
Plans of buyers

Plans related to the COVID-19 pandemic, quarantine restrictions, and economic downturn



50% of potential buyers are interested in buying **specifically because of the pandemic**. This share has increased compared to the last year. This suggests that many companies have opportunistic attitude and believe in the economic recovery.

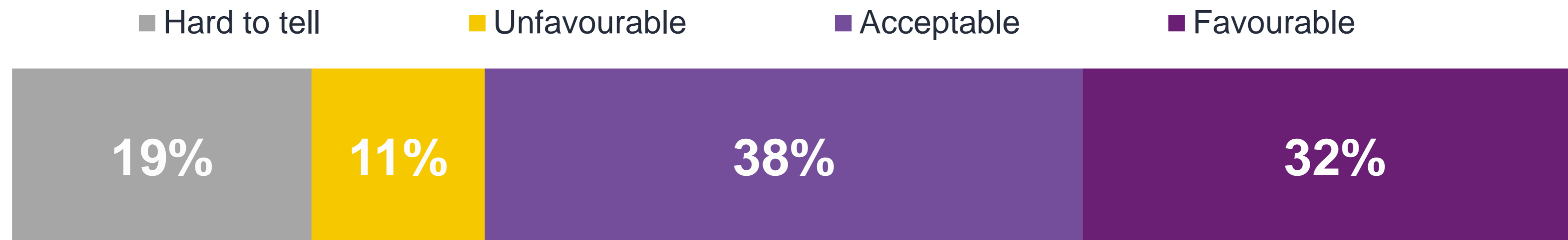
Buyers expecting a discount due to the crisis



Among other factors, buyers name the **possibility to expand their presence** in the Ukrainian market or a **favourable opportunity to enter a new market**. The share of **buyers expecting a discount** has **decreased greatly**. Now it almost matches sellers' plans to offer a discount.

Assessment of the situation in Ukraine for purchase and sale of a business

How do you assess the current situation in Ukraine for the purchase or sale of a business?

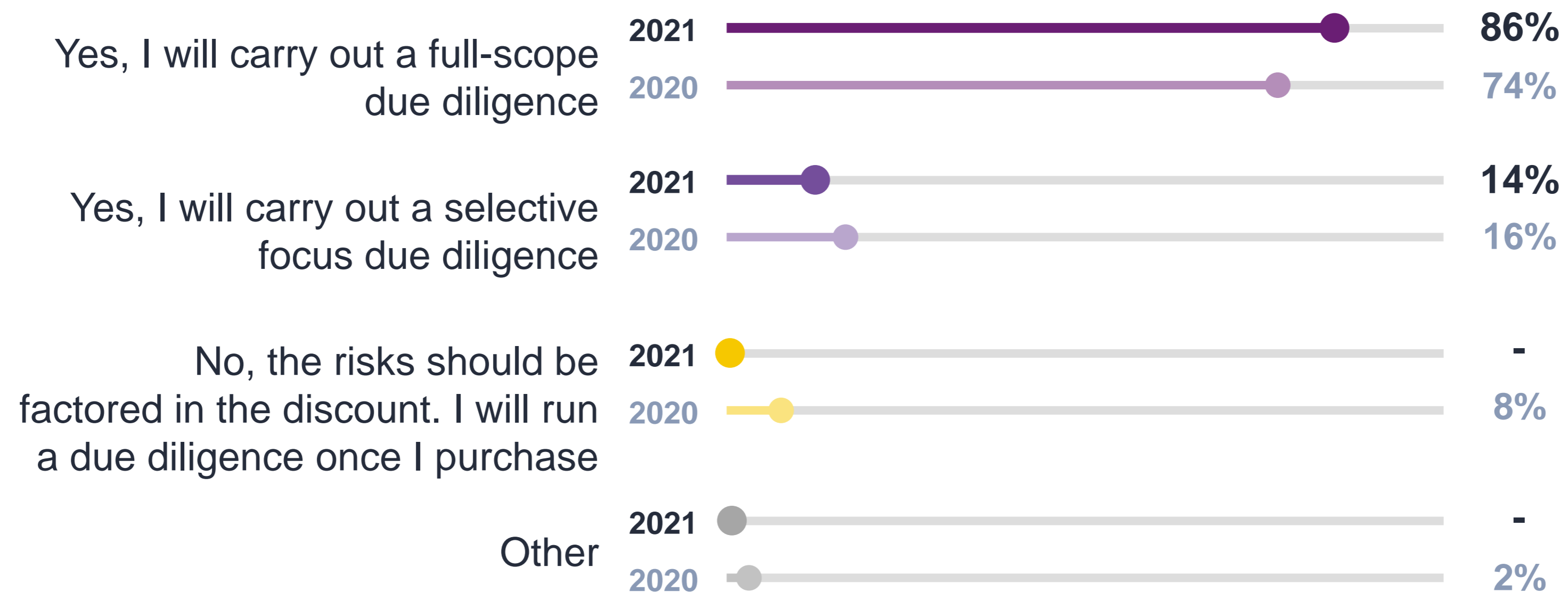


70% of respondents defined the situation in Ukraine as **satisfactory** for the purchase or sale of a business. Almost a third of companies (**32%**) believe that the current situation in Ukraine is **favourable** for buying or selling a business.

Only 11% of the respondents noted that at present the situation in Ukraine is **unfavourable** for the purchase or sale of businesses.

Due diligence of the target

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

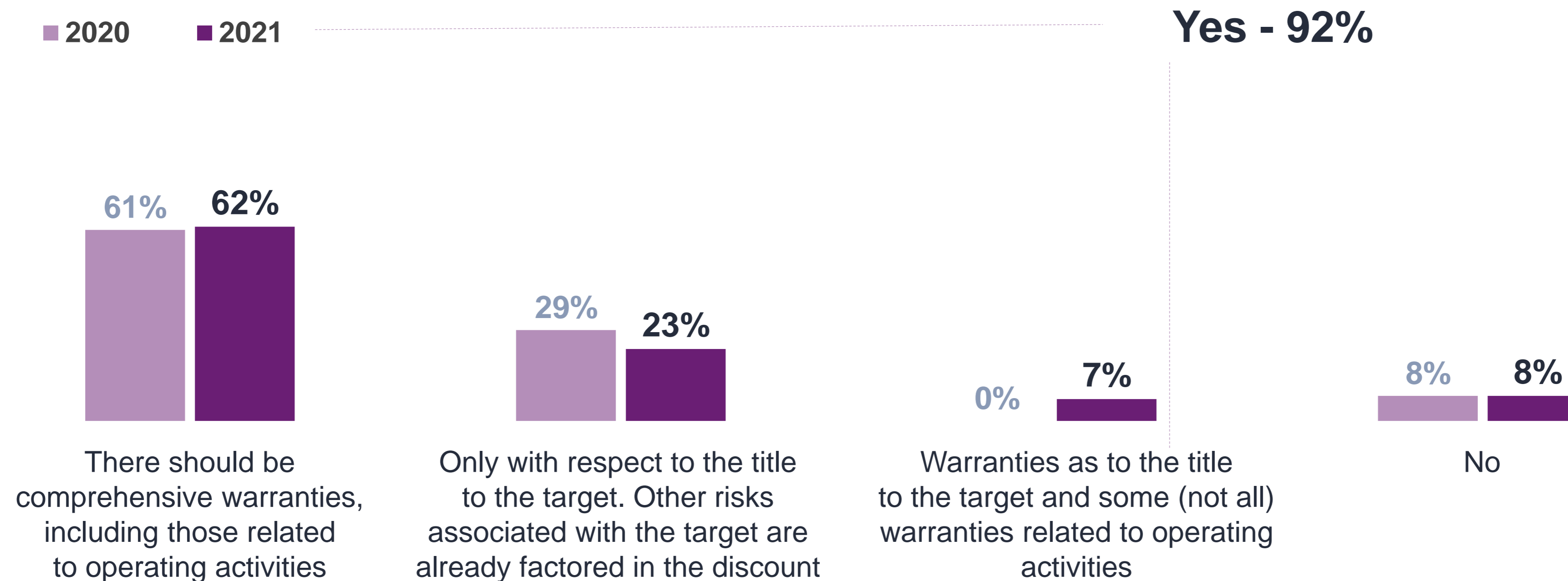


Despite the small number of assets for sale (only 30% of sellers are ready to sell), buyers plan to conduct a **full-scope due diligence** of the target and expect comprehensive warranties from the seller to cover the asset.

This year, 14% of buyers will be satisfied with a **selective focus due diligence** of the target. In 2020, they accounted for 16%. Notably, buyers are no longer willing to take the risk of buying unaudited assets.

Warranties

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



While demand is decreasing, more than 60% of respondents (same as in 2020) believe that **the seller should provide comprehensive warranties regarding the condition of the target**. Buyers are unwilling to take risks in times of crisis.

There was an **increase** in the number of respondents for whom both title and limited operational warranties are important (7%). **Fewer** respondents choose narrow guarantees. Buyers' show higher expectations for the target. This suggests a trend towards gradual formation of the buyer's market.

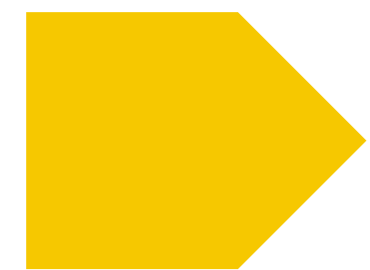
Engaging external advisers in a distressed M&A deal



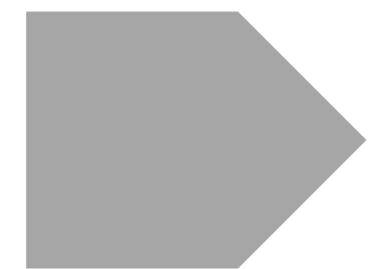
Both parties need advisers, as a distressed M&A deal is more complicated than a usual deal.



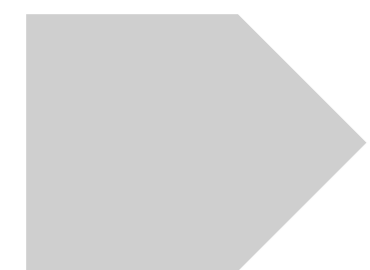
Only the buyer needs to engage advisers, while the seller of the target is at a loss, therefore there will be no money to cover external advisers' fees.



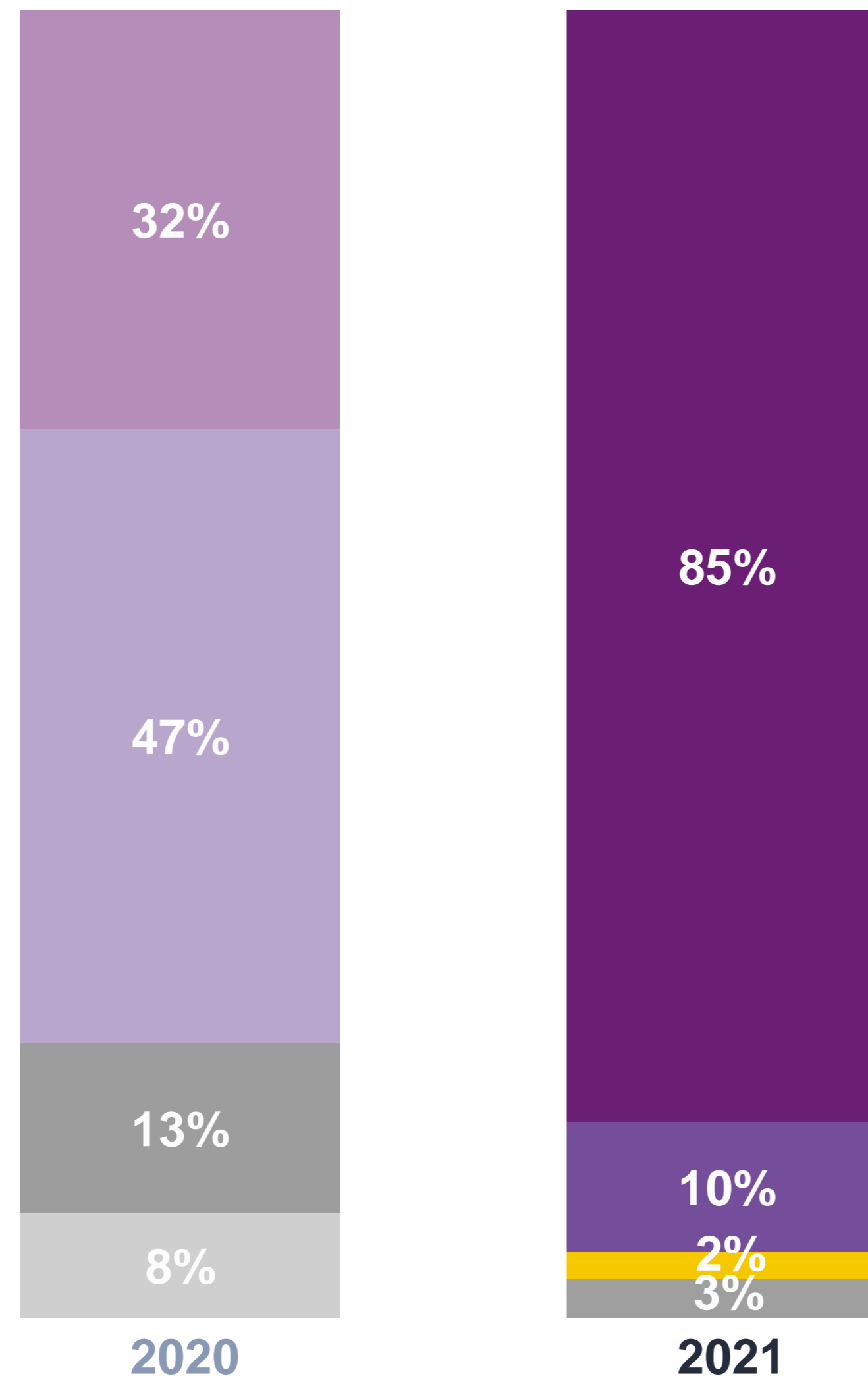
Only the seller needs to engage advisers, as the buyer's risks will be factored in the discount



Parties don't need advisers



Other

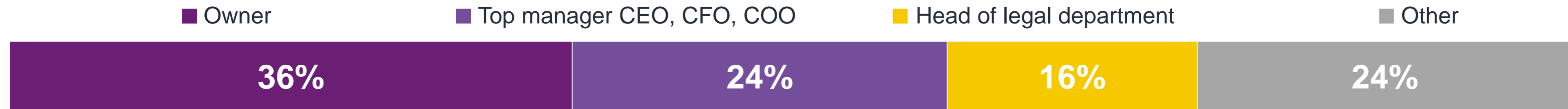


Perception of parties in M&A transactions as to engagement of external advisers has changed greatly, since neither of them is willing to take risks in such an unstable period.

In 2021, the share of companies that believe that **both parties need external advisers** has nearly **tripled** (from 32% in 2020 to 85%).

Respondent's profile

Role in business



Company ownership



Number of employees



Industry



Contact us



MYKOLA STETSENKO
MANAGING PARTNER

mstetsenko@avellum.com



YURIY NECHAYEV
PARTNER

ynechayev@avellum.com



ANDRIY ROMANCHUK
COUNSEL

aromanchuk@avellum.com