

**TRENDS AND  
PERSPECTIVES ON  
UKRAINIAN MERGERS  
AND ACQUISITIONS:  
INSIGHTS FROM  
2000-2023 WITH  
A FOCUS ON 2022**

A KYIV SCHOOL OF ECONOMICS (KSE) APPLIED RESEARCH REPORT  
PREPARED BY KILLIAN MCCARTHY

JULY 2023

# **TRENDS AND PERSPECTIVES ON UKRAINIAN MERGERS AND ACQUISITIONS: INSIGHTS FROM 2000-2023 WITH A FOCUS ON 2022**

**A KYIV SCHOOL OF ECONOMICS (KSE) APPLIED RESEARCH REPORT**

**PREPARED BY KILLIAN MCCARTHY**

**JULY 2023**

# **Contents**

<b>CONTENTS</b>	<b>2</b>
List of Tables	3
List of Figures	4
<b>EXECUTIVE SUMMARY</b>	<b>5</b>
<b>INTRODUCTION</b>	<b>8</b>
<b>DATA</b>	<b>9</b>
<b>ANALYSIS</b>	<b>11</b>
Deals per Year	11
Value per Year	12
Withdrawn Deals	13
Targets and Acquirers	14
Foreign and Domestic	17
Related and Unrelated Deals	24
The Situation in 2022	26
<b>CONCLUSION</b>	<b>29</b>
Key Findings	29
Implications	31
Limitations	35
Future Research	36
<b>REFERENCES</b>	<b>38</b>

## **List of Tables**

Table 1 – Sample by Deal Status.....	9
Table 2 - Withdrawn Deals per Year.....	14
Table 3 – UA Targets and Acquirers by Year .....	15
Table 4 - Foreign Acquirers by Nationality .....	20
Table 5 - Foreign Acquirers by Nationality 2014-2023 .....	21
Table 6 - Foreign Targets by Nationality .....	23
Table 7 - UA 2022 Acquirer Cities.....	27
Table 8 - UA 2022 Target Cities .....	28

## **List of Figures**

Figure 1 – Announcements per Year .....	11
Figure 2 – Deal Value per Year .....	12
Figure 3 – UA Targets and Acquirers by Year .....	17
Figure 4 – UA Firm’s Foreign Acquisitions.....	18
Figure 5 – Foreign Firm’s UA Acquisitions.....	19
Figure 6 - Russian Acquisitions of Ukrainian Targets .....	22
Figure 7 - Related/Unrelated Over Time.....	24
Figure 8 - Related/Unrelated by UA Acquirers Over Time .....	26

## **EXECUTIVE SUMMARY**

### **There is potential for a post-war M&A boom:**

- The number of deals involving Ukrainian firms grew exponentially (+1,032%) in the period 2000-2014, to a high of 464 deals per year. At this point the market was worth 15.3 billion Euro annually. Deal activity has spiraled downwards since the first Russian invasion in 2014, and it hit rock bottom with the second invasion in 2022. In 2022, there were only 39 deals and the market was worth a mere 46.8 million Euro. We predict, however, that once the situation with Russia has been resolved, deals number and transaction values will return to the long-term average, meaning there will be a post-war boom. Investors should be prepared for this.

### **That said, some extraordinarily cheap deals are being done now**

- The average deal value for the period was 33 million Euro. In 2022, 39 deals were done for an average of a mere 1.2 million. For foreign investors, this shows not only that it is possible to do deals in Ukraine, today, but it is possible to do them at hugely depressed transaction values too.

### **Ukrainian acquirers need to get going!**

- Ukrainian firms are twice as likely to be targets than acquirers, and when they are acquirers they are 10 times more likely to buy domestic than to buy international. When they go international, 87.5% of the acquisition that they make are in their neighboring countries. Ukrainian acquirers made virtually no acquisitions in major economies like the United States (2 deals), growth

economies like China (3), industrial giants like Germany (3), or innovation centers, like the Netherlands (0). Given that M&A is usually used to help companies to grow, to learn, and to expand, this is concerning. Ukrainian firms need to become more active acquirers, if they are to avoid becoming targets to international acquirers – as they currently appear to be – and they should look to larger and more dynamic markets, if they are to survive the competition. The Netherlands, for example, which is the 5<sup>th</sup> most innovative country in the world, made 88 acquisitions in Ukraine in the period of our analysis, while Ukraine made 0 acquisitions in the Netherlands. We would advise Ukrainian firms to correct this, and to pay more attention to the opportunities in the international market in the future.

### **Many of the deals being done are unnecessarily risky**

- Fifty years of academic theory and corporate practice advises acquirers to buy targets in related industries. Related targets are the least risky, they are the most understandable, they are likely to be the best performing, and are, therefore, the least likely to be divested later. The majority of Ukrainian acquisitions, however, are not only unrelated (83%), but an increasing share of the deals done each year, involving Ukrainian firms, are unrelated. In 2022, for example, only 2.5% of deals done were related. This seems unwise, and we would warn Ukrainian acquirers and targets to be cautious of unrelated acquisitions, given the problems they are known to bring. At the moment, it seems that Ukrainian firms are taking on unnecessary risk.

**For M&A, 2022 was a disaster, but the lights did stay on!**

- The year 2022 was a disaster: there were only 39 deals announced. Of these, 33 (86.8%) involved Ukrainian acquirers and 30 were fully domestic. Effectively, this means that there was no foreign investment in the market. The mean value of these was 1.29 million Euro – well below the long term average of 33 million – and only 2.5% were low risk perfectly related deals. It is a testament to Ukrainian resilience that any deals were done in 2022, against the backdrop of a full scale Russian invasion. It shows the world that, despite the risks, Ukraine remains open for business and forward looking.



## **INTRODUCTION**

Mergers and acquisitions (M&A) are big business: there were 50,000 deals done globally, in 2022, at a combined value of 3.8 trillion dollars (Bain,2023).

Mergers and acquisitions provide the acquiring firm with access to the target firms resources and capabilities. As a result, they are typically used by firms to help them to learn and to grow, quickly (Aalbers et al., 2021). Indeed, many of the most competitive firms are so-called serial acquirers: Google, for example, is the result of 257 acquisitions, and Apple is the result of more than 100.

The aim of this report is to document and to describe the nature of the market for mergers and acquisitions in Ukraine (UA). By looking back on the deals that were done in the period 2000-2023, we aim to understand the historical trends in the market, to predict the way it will evolve in future. By understanding what types of deals are done, we also hope to advise Ukrainian acquirers on how to better acquire, to do better deals, and to build better, more competitive firms. To do so is important from a policy perspective too, to build Ukrainian industry, to create Ukrainian jobs, and to protect Ukrainian assets, in a global economy.

We do this by collecting data on 5,365 mergers and acquisitions (M&A), involving (large) Ukrainian (UA) firms, announced in the period 2000-2023. We pay special attention to the effects of the Russian invasions in 2014 and 2022. Doing so is useful, as it gives an impression of what is 'normal' outside of these exogenous shocks, and therefore what can be expected, once the war is resolved. In the process, we present insights for academics, managers, and policy makers.

## **DATA**

We retrieved the data for our analysis from Zephyr; a comprehensive data base that is updated daily and has data on 1.8 million deals<sup>1</sup>. We refined it to include: (1) all mergers and acquisitions; (2) announced and completed, announced and pending or announced and withdrawn; (3) in the period 01/05/2000 to 01/05/2023; (4) in which the target, the acquirer or the vendor was registered in Ukraine; (5) and in which a majority (50.1%) of the targets firms shares were acquired. Doing so created an initial sample of 5,365 mergers and acquisitions.

*Table 1 – Sample by Deal Status*

<i>Deal status</i>	<i>Freq.</i>	<i>Percent</i>	<i>Cum.</i>
<i>Announced</i>	61	1.14	1.14
<i>Completed</i>	4,136	77.09	78.23
<i>Completed Assumed</i>	1,120	20.88	99.11
<i>Pending</i>	7	0.13	99.24
<i>Withdrawn</i>	41	0.76	100
<b><i>Total</i></b>	<b>5,365</b>	<b>100</b>	<b>100</b>

Table 1 provides an overview of the deals in our sample, by deal status. It reports, for example, that 98% of the deals in the sample have been completed. Of the remainder, 61 were announced, 7 deals are pending approval, and 41 of

---

<sup>1</sup> <https://www.bvdinfo.com/en-us/our-products/data/greenfield-investment-and-ma/zephyr>

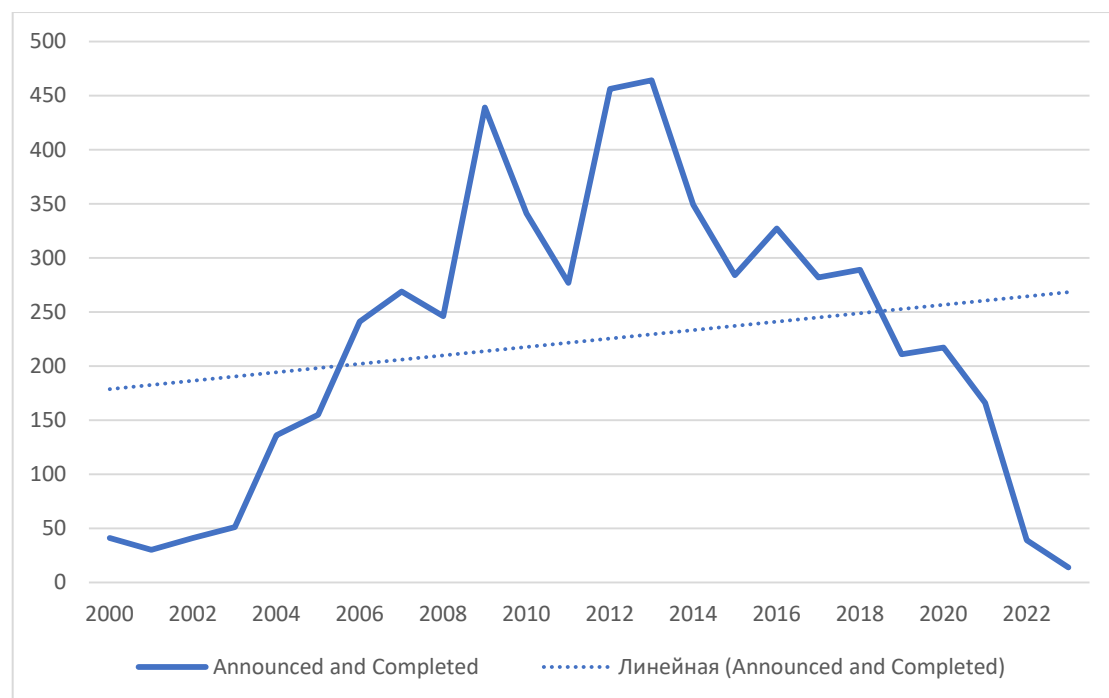
the deals in the sample that were announced were later withdrawn. This is in line with the trends in other economies, like Poland and the Netherlands.

## Analysis

### Deals per Year

Figure 1 describes the numbers of deals announced per year. It shows that from 2000 to 2014 – the year in which Russia annexed Crimea – there was a near continuous growth in the number of deals announced (+1,032%). In the period 2000-2014, there were, on average, 242 deals announced each year.

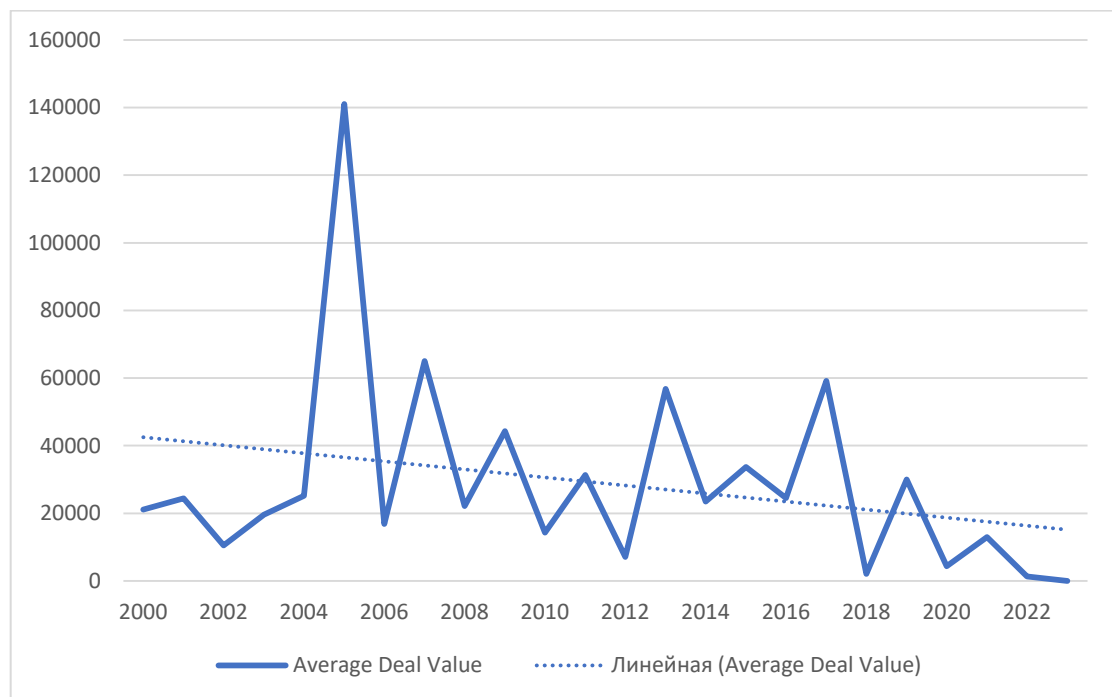
*Figure 1 – Announcements per Year*



After 2014, however, M&A activity dropped. It dropped by 25% from 2013 to 2014, and by 89%, to a mere 39 deals, in 2022. In the first quarter of 2023 (Jan 1<sup>st</sup> to May 1<sup>st</sup>), only 14 deals were announced, which is significantly below the 60 that would be expected in a normal year. In other words, Figure 1 illustrates that

the instability introduced in 2014, and amplified in 2022, have significantly depressed the number of deals involving Ukrainian firms. It can credibly be suggested, however, that once the Russian situation has been resolved, deal numbers will return to their long term average, of 242+ deals per year.

*Figure 2 – Deal Value per Year*



### **Value per Year**

Figure 2 describes the average value of deals completed in a given year. It reports that the average deal value in 2005, for example, was just over 140,000,000 Euro. This was an outlier, however, driven by large acquisitions, such as Mittal Steel (Hamburg)'s acquisition of Krivorozhstaly Gorno

Metallurgicheskiy Kombinat (Kryvyi Rih) for 4,1 Billion in October 2005. The average from the full period was a more modest 33 million Euro.

Unlike Figure 1, which shows an inverted u-shape in the number of deals announced, peaking in 2013, Figure 2 shows that the average deal value has been relatively stable over the period. Deals values peaked in 2005 (140 million), 2007 (65 million), 2013 (56 million), and 2017 (59 million) but fell in 2014 to 23 million, which is more than 30% below the long term average, and collapsed completely to 1.2 million in 2022, which is 96% below the long term average.

It should be noted that not all acquirers announce a deal value. In fact, Figure 2 is based, on only 1,047 of the 5,365 deals in our sample. That said, assuming that 2022 has been a normal year, in terms of deal numbers and deal value, Figures 1 and 2 suggest that the Ukrainian merger market should have been worth something in the region of (242 deals x 33 million per deal =) 7,9 billion, instead of the (39 deals x 1.2 million per deal =) 46.8 million that it was.

### **Withdrawn Deals**

In total, 41 deals were announced but subsequently withdrawn. Interestingly, 30 of these involved Ukrainian targets and foreign acquirers. In our data, only 1 deal involving a Ukrainian acquirer and a foreign target was withdrawn.

Table 2 describes the trends over time. It shows that there are, on average, 3 deals announced and withdrawn each year. With highs in the number of announcements in 2002 (6) and 2009 (7), with lows in 2014 (2) and 2015 (3),

and with no deals withdrawn in 2022 and 2023, there does not appear to be any discernable pattern, for example, linked to the Russian invasions.

*Table 2 - Withdrawn Deals per Year*

<b>WITHDRAWN</b>	<b>FREQ.</b>	<b>PERCENT</b>	<b>CUM.</b>
<b>2001</b>	3	7.32	7.32
<b>2002</b>	6	14.63	21.95
<b>2004</b>	3	7.32	29.27
<b>2005</b>	3	7.32	36.59
<b>2006</b>	1	2.44	39.02
<b>2008</b>	5	12.2	51.22
<b>2009</b>	7	17.07	68.29
<b>2011</b>	1	2.44	70.73
<b>2012</b>	2	4.88	75.61
<b>2013</b>	3	7.32	82.93
<b>2014</b>	2	4.88	87.8
<b>2015</b>	3	7.32	95.12
<b>2017</b>	1	2.44	97.56
<b>2018</b>	1	2.44	100
<b>TOTAL</b>	<b>41</b>	<b>100</b>	

### **Targets and Acquirers**

Table 3 provides a break-down of the number and percentage of deals announced each year involving Ukrainian targets and acquirers. It reports, for example, that of the 41 deals announced in 2000, 17 (41.5%) involved a

Ukrainian acquirer and 34 (82.9%) involved a Ukrainian target. It also shows the number of deals in which both the target and the acquirer were Ukrainian. Again, in the case of 2000, it shows that of the 41 deals announced, 14 (34%) of deals announced involved both a Ukrainian target and an acquirer.

*Table 3 – UA Targets and Acquirers by Year*

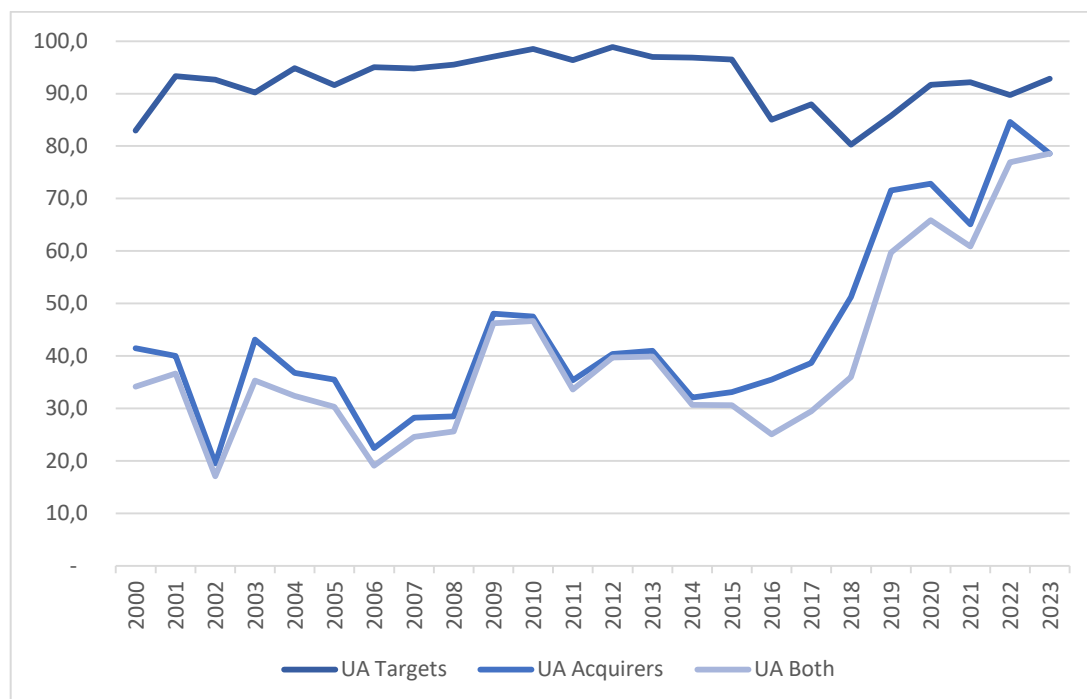
YEAR	TOTAL	UA ACQUIRERS		UA TARGETS		UA TARGETS AND ACQUIRERS	
		No.	%	No.	%	No.	%
<b>2000</b>	41	17	41.5	34	82.9	14	34.1
<b>2001</b>	30	12	40.0	28	93.3	11	36.7
<b>2002</b>	41	8	19.5	38	92.7	7	17.1
<b>2003</b>	51	22	43.1	46	90.2	18	35.3
<b>2004</b>	136	50	36.8	129	94.9	44	32.4
<b>2005</b>	155	55	35.5	142	91.6	47	30.3
<b>2006</b>	241	54	22.4	229	95.0	46	19.1
<b>2007</b>	269	76	28.3	255	94.8	66	24.5
<b>2008</b>	246	70	28.5	235	95.5	63	25.6
<b>2009</b>	439	211	48.1	426	97.0	203	46.2
<b>2010</b>	341	162	47.5	336	98.5	159	46.6
<b>2011</b>	277	98	35.4	267	96.4	93	33.6
<b>2012</b>	456	184	40.4	451	98.9	181	39.7
<b>2013</b>	464	190	40.9	450	97.0	185	39.9
<b>2014</b>	349	112	32.1	338	96.8	107	30.7
<b>2015</b>	284	94	33.1	274	96.5	87	30.6



YEAR	TOTAL	UA ACQUIRERS		UA TARGETS		UA TARGETS AND ACQUIRERS	
		No.	%	No.	%	No.	%
<b>2016</b>	327	116	35.5	278	85.0	82	25.1
<b>2017</b>	282	109	38.7	248	87.9	83	29.4
<b>2018</b>	289	148	51.2	232	80.3	104	36.0
<b>2019</b>	211	151	71.6	181	85.8	126	59.7
<b>2020</b>	217	158	72.8	199	91.7	143	65.9
<b>2021</b>	166	108	65.1	153	92.2	101	60.8
<b>2022</b>	39	33	84.6	35	89.7	30	76.9
<b>2023</b>	14	11	78.6	13	92.9	11	78.6
<b>TOTAL</b>	<b>5,365</b>	<b>2,249</b>		<b>5,017</b>		<b>2,011</b>	

Table 3 reports that Ukrainian firms are much more likely to enter the data as targets than acquirers. In fact, in 45% of cases, on average, Ukrainian firms are the acquirer, in 90% of cases, on average, they are the target, and in 40% of cases, on average, Ukrainian firms are both the target and the acquirer. This shows that Ukrainian targets are not only attractive to their peers, but to international buyers too. Figure 3 illustrates the percentage of deals that involve Ukrainian firms over time. It shows that the attractiveness of Ukrainian targets slipped after 2014, and the proportion of deals involving both Ukrainian targets and acquirers increased subsequently. This means that a greater proportion of the deals done were domestic deals, as international acquirers backed off.

Figure 3 – UA Targets and Acquirers by Year



### Foreign and Domestic

Figures 4 and 5 provide more insight on the domestic versus international nature of the Ukrainian market for mergers and acquisitions.

Figure 4 shows the number of international acquisitions by Ukrainian acquirers, on the primary Y-axis, and then expresses this as a percentage of the total number of deals in the year, on the secondary Y-axis. It reports, for example, that in 2000 Ukrainian acquirers made 3 foreign acquisitions, which is 7.3% of the total (41) acquisitions announced that year, involving all Ukrainian firms.

It is interesting to note that the number of foreign acquisitions made by Ukrainian acquirers increased sharply after 2014, from 5 deals to a high of 44 deals in 2018. At this point, 15.9% of acquisitions announced were international

deals, announced by Ukrainian firms. By 2022, however, the number of international deals made by Ukrainian acquirers fell by 93%.

Figure 4 – UA Firm’s Foreign Acquisitions

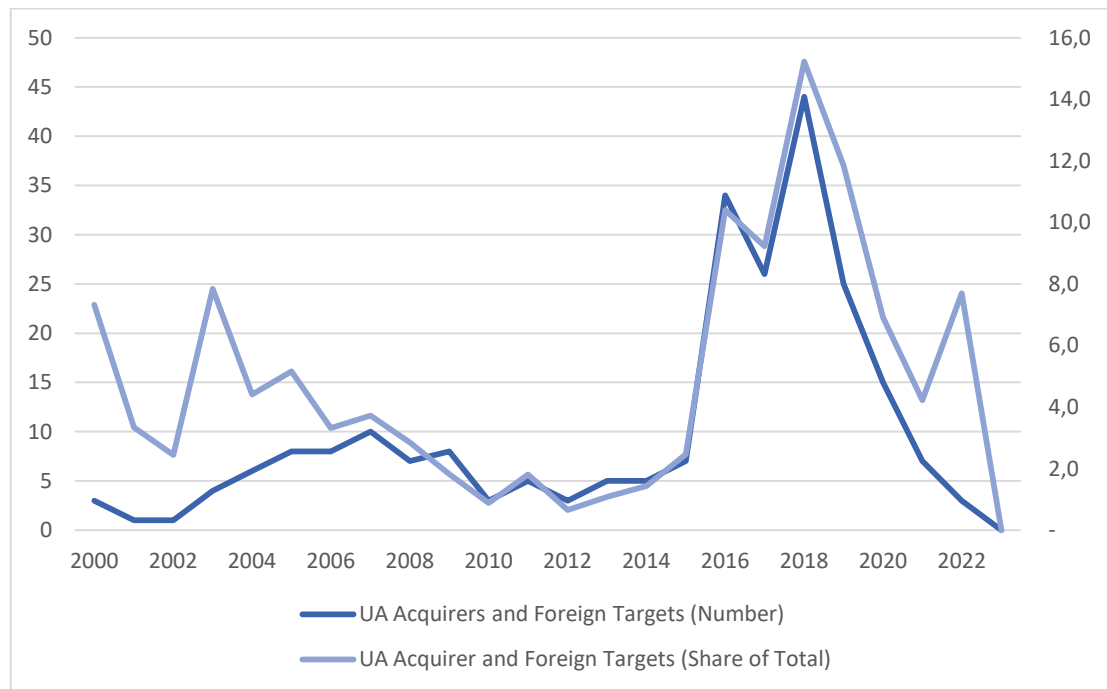
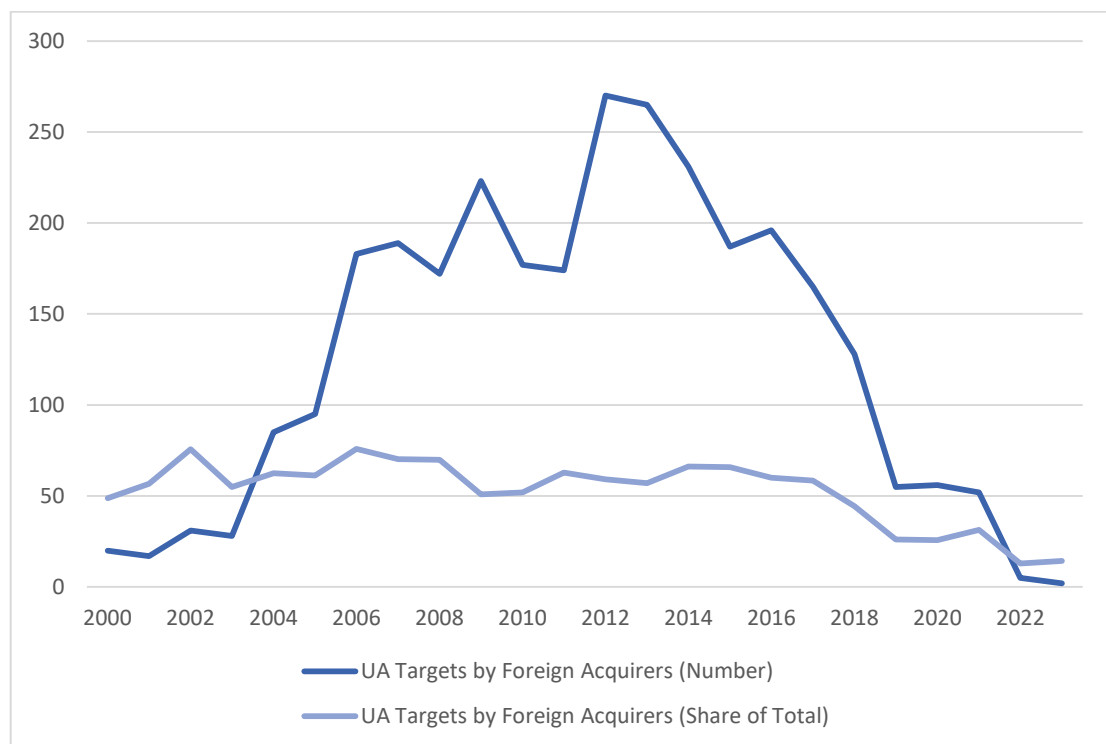


Figure 5 repeats the exercise, zooming in this time on the number of acquisitions of Ukrainian firms by foreign acquirers. The number of deals announced are shown on the primary Y-axis. This number is then expressed as a percentage of the total number of deals in the year, on the secondary Y-axis. Figure 5 reports, for example, that in 2000, 20 of the deals that were announced that year concerned Ukrainian firms being acquirers by foreign acquirers. This figure represents 20% of all the deals 48.8% of the total (41) number of deals announced that year, involving Ukrainian firms, as target or acquirer.

It is interesting to again note the pattern that we have observed elsewhere: the market grew until 2014, and after 2014 began to decline, before completely collapsing in 2022. In numbers, there were 270 acquisitions, in 2012, of Ukrainian targets by foreign acquirers. In 2013 there were 265. In 2022, by contrast, there were only 5 acquisitions of Ukrainian targets by foreign acquirers. This represents a drop in investment of more than 98% over the period.

*Figure 5 – Foreign Firm’s UA Acquisitions*



In total, firms from 67 countries made acquisitions in Ukraine in the period 2000-2023. In tables 3 and 4 we report the top 15 that made the most acquisitions, in the total period (Table 4) and in the post-2014 period (5). Table 4 reports, for example, that Cyprus-based acquirers made 332 acquisitions in Ukraine in the full period, and Table 5 shows that 126 of these deals were made

in the period end-2014 to May 2023. Russia made 142 deals in the full period, of which 7 were made post 2014, meaning 135 were made before.

*Table 4 - Foreign Acquirers by Nationality*

<b>RANK</b>	<b>TOP 15 ACQUIRER NATIONS ALL</b>	<b>NO.</b>	<b>%</b>
<b>1</b>	Cyprus	332	9.68
<b>2</b>	Russia	142	4.14
<b>3</b>	Netherlands	88	2.56
<b>4</b>	United Kingdom	63	1.84
<b>5</b>	United States	48	1.4
<b>6</b>	British Virgin Islands	45	1.31
<b>7</b>	Austria	38	1.11
<b>8</b>	Czech Republic	31	0.9
<b>9</b>	Luxembourg	31	0.9
<b>10</b>	Poland	31	0.9
<b>11</b>	France	28	0.82
<b>12</b>	Switzerland	25	0.73
<b>13</b>	Germany	24	0.7
<b>14</b>	Sweden	19	0.55
<b>15</b>	Canada	15	0.44

It is interesting to see the high level and increasing involvement of Western European powers, such as the Netherlands – which increased from no.3 foreign acquirer to no.2 post 2014 – France – which increased from no.11 to no.7 post

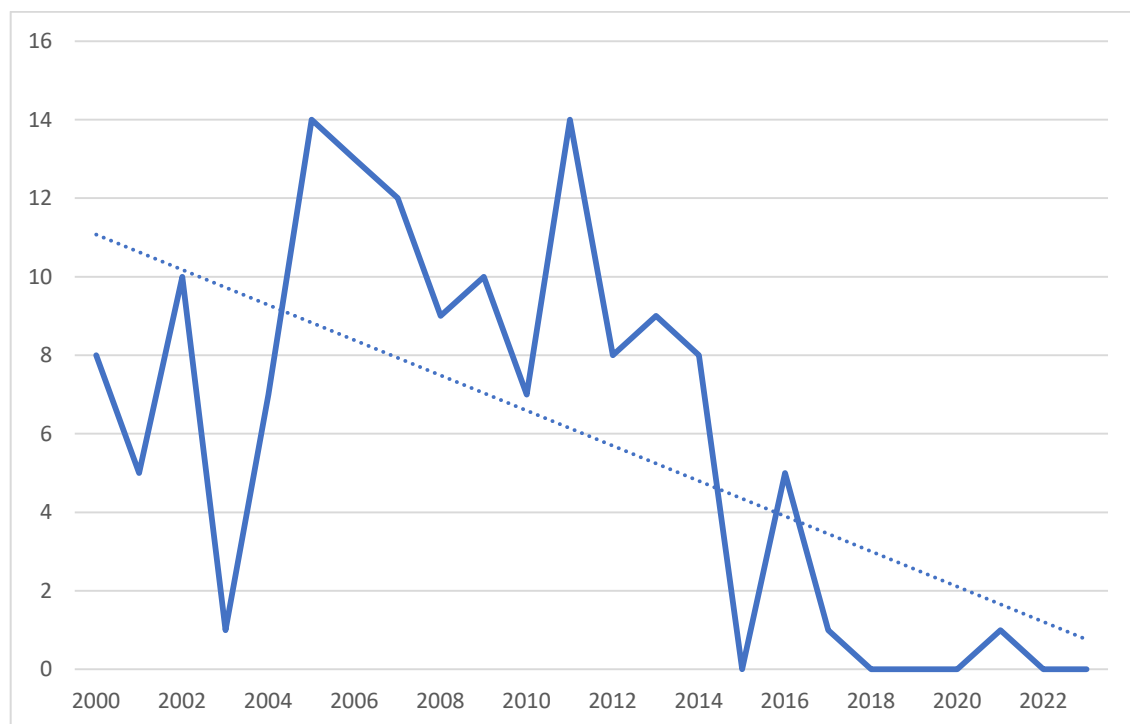
2014 – and Germany – which increased from no.13 to no.9 post 2014. It is also interesting to note the number of deals from the United Kingdom – which held its position as no 4 in both periods – and the United States – which held its position at no.5 – and the investment from its neighbors, like Poland (31 deals in total). Perhaps surprising is the popularity of Ukrainian targets with Czech acquirers (23 deals post 2014) and with firms registered in tax havens like Cyprus (126), the British Virgin Islands (45 deals) and Luxembourg (31 deals).

*Table 5 - Foreign Acquirers by Nationality 2014-2023*

<b>RANK</b>	<b>TOP 15 ACQUIRER NATIONS POST 2014</b>	<b>NO.</b>	<b>%</b>
<b>1</b>	Cyprus	126	9.93
<b>2</b>	Netherlands	26	2.05
<b>3</b>	Czech Republic	23	1.81
<b>4</b>	United Kingdom	19	1.5
<b>5</b>	United States	16	1.26
<b>6</b>	British Virgin Islands	12	0.95
<b>7</b>	France	7	0.55
<b>8</b>	Romania	7	0.55
<b>9</b>	Russia	7	0.55
<b>10</b>	Germany	6	0.47
<b>11</b>	Latvia	6	0.47
<b>12</b>	Poland	6	0.47
<b>13</b>	Belize	5	0.39
<b>14</b>	Canada	5	0.39
<b>15</b>	Switzerland	5	0.39

Figure 6 describes the change in the number of acquisitions involving Russian acquirers. Russian firm made 135 acquisitions in Ukraine in the period 2000-2014 and 142 in the full period. This makes Russia the second largest source of foreign acquirers, and three times larger than the United States, for example, or Poland. In fact, post 2014, Russian firms have still made more investments in Ukrainian acquisitions than German firms, Polish firms, or Canadian firms. Unfortunately, in 2014, 2018, 2019, 2020, 2022, and as of May 2023, however, Russian firms have – according to our data – made zero investments in Ukraine.

*Figure 6 - Russian Acquisitions of Ukrainian Targets*



Finally, Table 6 explores where Ukrainian firms are acquiring. As described elsewhere discussed, Ukrainian firms are more likely to appear in the data as a target (5,017 deals) than an acquirer (2,249), and as acquirers Ukrainian firms

are much more likely to make domestic acquisitions (2,011) than international acquisitions (232). Of the 238 deals, in our sample, made by Ukrainian acquirers in the period 2000-2023, Table 6 suggests that 150 of these were to the Czech Republic and 25 were in Russia. There were 15 acquisitions in direct neighbor countries, like Poland, Belarus, Hungary and Romania, and a further 13 in neighboring countries Bulgaria, Estonia, Georgia, Latvia and Serbia.

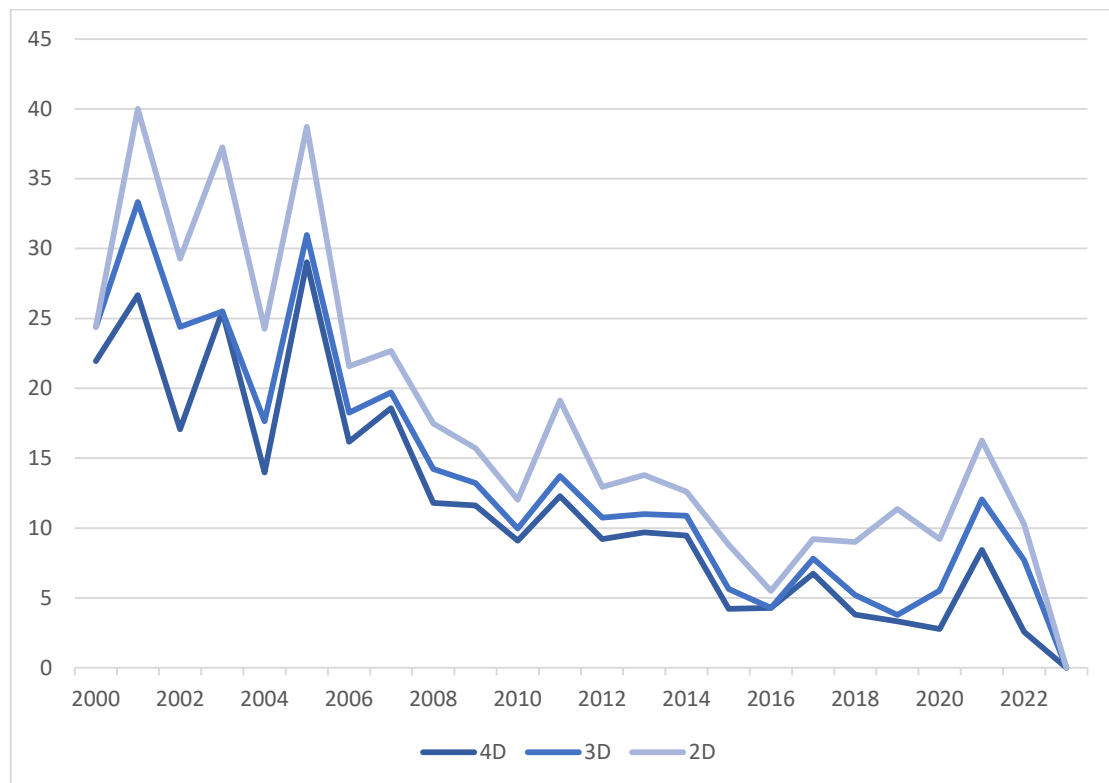
*Table 6 - Foreign Targets by Nationality*

<b>RANK</b>	<b>TOP 15 TARGET NATIONS</b>	<b>NO.</b>	<b>%</b>
<b>1</b>	Czech Republic	150	6.7
<b>2</b>	Russia	25	1.12
<b>3</b>	Poland	6	0.27
<b>4</b>	Bulgaria	5	0.22
<b>5</b>	Belarus	4	0.18
<b>6</b>	Zwitzerland	3	0.13
<b>7</b>	Germany	3	0.13
<b>8</b>	Romania	3	0.13
<b>9</b>	Belgium	2	0.09
<b>10</b>	Estonia	2	0.09
<b>11</b>	United Kingdom	2	0.09
<b>12</b>	Geogia	2	0.09
<b>13</b>	Hungary	2	0.09
<b>14</b>	Latvia	2	0.09
<b>15</b>	Serbia	2	0.09



Interestingly, according to our data, there were only 10 acquisitions, in total, in Western countries like Switzerland (3), Germany (3), Belgium (2), and the United Kingdom (2), and none of significance in the United States.

Figure 7 - Related/Unrelated Over Time



### Related and Unrelated Deals

Each firm has a primary Standard Industrial Classification (SIC) code. These are four-digit numerical codes that categorize the industries that companies belong to, based on their business activities. The first two digits represent the highest level business classification, while the subsequent two digits are used to further refine the identification. Thus, if 2 firms share the same first two SIC code digits

we can say that there are in a related industry, and the more digits that they share, the more related the target and the acquiring firms are.

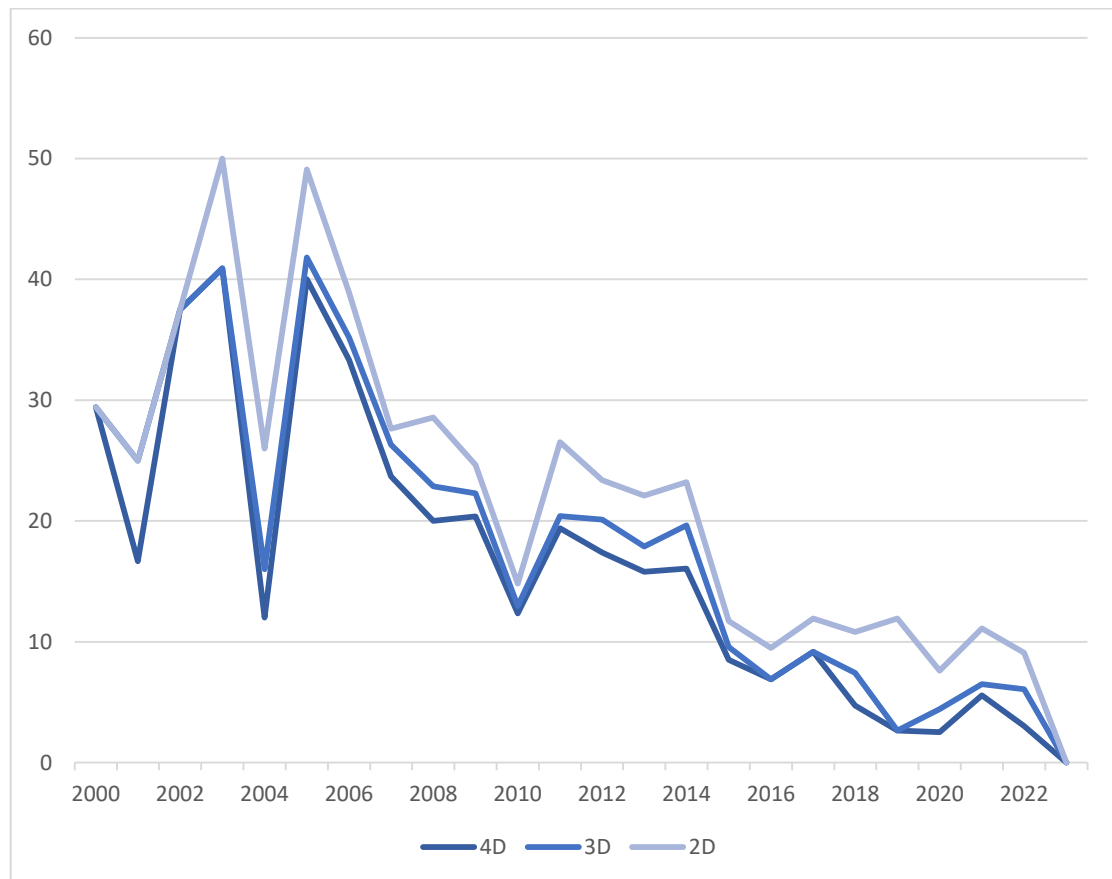
In our sample, 4,590 of the acquiring firms and 5,355 of the target firms report their SIC codes, which allows us to comment on the levels of relatedness/diversification in the acquisitions in our sample. Figure 7 provides this. It graphs the percent of deals announced, by year, in which the acquirer and the target share the same first 2 (2D), 3 (3D), and (4D) digits of their SIC code. It shows, for example, that in 2000, 22% of deals had the same 4 digit (4D) SIC codes, meaning they are perfectly related and operating in identical industries, 24% had the same 3 digit (3D) SIC codes, and 24% had the same 2 digit (2D) SIC codes, meaning they are operating in the same industry, as loosely defined as possible. Put another way, this means that 75% of deals, in 2000, were unrelated, involving targets and acquirers from different industries.

This is important, because industrial relatedness is seen to be one of the biggest predictors of risk in post-acquisition performance. Ordinarily, we would expect in the region of 30% to be perfectly (4D) related, and 80% to be loosely related (2D). Not only do we see that this is not the case in Ukraine, but the share of related deals is dramatically dropping over time. In 2020, for example, pre-war, only 2.7% of deals are perfectly related (4D), and only 9.2% are loosely related. This is concerning. Across the full sample, we find that only 16.5% of deals were 4D related, 18.3% were 3D related, and only 22% of deals were 2D related.

Figure 8 zooms in on the acquisitions made by Ukrainian acquirers. It shows the same pattern: a drop in the level of relatedness between the target and the acquirer, no matter how loosely relatedness is defined. Because relatedness is

one of the major indicators of risk in an acquisition, Figure 8 suggests that Ukrainian acquirers are, all else equal, selecting overly risky acquisition targets.

*Figure 8 - Related/Unrelated by UA Acquirers Over Time*



### **The Situation in 2022**

There were 39 deals announced in 2022. Of these, 7 were announced before the Feb 24<sup>th</sup> invasion and, impressively, 32 were announced afterwards. None of the deals announced in 2022 were later withdrawn. Of these, 33 (86.8%) of the deals involved Ukrainian acquirers, 35 (89.7%) involved Ukrainian targets, and 30 were fully domestic deals. The 5 acquisitions of Ukrainian firms by foreign

acquirers were announced by Cyprus (2), German (1), Hong Kong (1) and Dutch (1) acquirers. The 4 international acquisitions made by Ukrainian acquirers were in Cyprus (2) and the United Kingdom (2). Tables 7 and 8 document the geography of the 2022 deals involving Ukrainian firms.

*Table 7 - UA 2022 Acquirer Cities*

<b>City</b>	<b>No.</b>	<b>%</b>
Chigirin	1	5.26
Kirovograd	2	10.53
Komishuvate	1	5.26
Kyiv	13	68.43
Lviv	1	5.26
Vinnitsya	1	5.26
<b>Total</b>	<b>19</b>	<b>100</b>

Table 7 reports, for example, that 13 of the acquisitions involving Ukrainian acquirers were based in Kyiv, while Table 8 report that 18 of the deals involving Ukrainian targets were also in Kyiv. Of the 39 deals announced in 2022, only 3 reported their deal value. The mean of these was 1.29 million Euro

Finally, and in terms of relatedness, we see that only 2.5% of deals announced in 2022 were perfectly (4D) related, and only 10.25% were loosely related (2D).

This means that in 97.5% of acquisitions announced in 2022, the target and the acquirer were in different industries, which signals high risk deals.

Table 8 - UA 2022 Target Cities

City	No.	%
Balakliya	1	2.86
Boyarka	1	2.86
Cherkasy	1	2.86
Ivano-Frankivsk	1	2.86
Kalush	1	2.86
Khmelnyskyi	1	2.86
Kirovohrad	1	2.86
Kropivnitskiy	3	8.57
Kyiv	18	51.43
Lutsk	1	2.86
Lviv	1	2.86
Mykolayiv	1	2.86
Novi Bilyari	1	2.86
Novoarhangelsk	1	2.86
Vinnitsya	1	2.86
Zhornishte	1	2.86
<b>Total</b>	<b>35</b>	<b>100</b>

## **CONCLUSION**

### **Key Findings**

Our key findings are:

- The number of deals involving Ukrainian firms grew exponentially (+1,032%) in the period 2000-2014, but has spiraled downwards, with a reduction each year, in the year-on-year number of deals, since then.
- The average deal value for the period was 33 million Euro. At its height, with 464 deals announced in 2013, this means the Ukrainian M&A market could be worth something in the region of 15.3 billion Euro per year. Instead, in 2022, it was worth only 1% of this, at a mere 46.8 million Euro .
- Only 41 of the deals in our sample were announced but subsequently withdrawn. Interestingly, 30 of these involved Ukrainian targets and foreign acquirers. There appears to be no correlation between the annexation of Crimea in 2014, or the invasion in 2022, and the number of withdrawals.
- In the sample, Ukrainian firms are the acquirer in 45% of cases, the target in 90% of cases, and in 40% of cases, Ukrainian firms are both the target and the acquirer. This shows that Ukrainian targets are not only attractive to their peers, in Ukraine, but to international buyers too.
- The willingness of foreign acquirers to acquire Ukrainian firms has dropped significantly after 2014. In 2013 there were 265 foreign acquisitions, but in 2022, there were only 5. This represents a 98% drop in investment.

- Cyprus (332 deals), Russia (142) and the Netherlands (88) made the most acquisitions in Ukraine in the full period. Post-2014, Cyprus (126) and the Netherlands (26) remain active players, but Russia (7) fell to the 9<sup>th</sup> position. Interestingly, Russian firms have still made more investments in Ukraine, post 2014, than German, Polish, or Canadian firms. Unfortunately, Russian firms made no acquisitions in 2014, 2018, 2019, 2020, 2022.
- Ukrainian acquirers made 238 international deals, in our sample. The Czech Republic (150) and Russia (25) received the lion's share of the investment, followed by direct neighbors, like Poland, Belarus, Hungary and Romania (15), and neighboring countries Bulgaria, Estonia, Georgia, Latvia and Serbia. There were only 10 acquisitions in Western countries.
- Only a small percent of deal, involving Ukrainian firms, can be classified as related, no matter how strictly (16.5%) or loosely (22%) relatedness is defined. This is important because industrial relatedness is one of the most significant predictors of post-acquisition risk. What is more, we find that the share of unrelated deals announced is increasing, contrary to academic suggestions and industrial practice from elsewhere in the world.
- The year 2022 was a disaster: there were only 39 deals announced. Of these, 33 (86.8%) involved Ukrainian acquirers and 30 were fully domestic. Effectively, this means that there was no foreign investment in the market. The mean value of these was 1.29 million Euro – well below the long term average of 33 million – and only 2.5% were low risk perfectly related deals. This seems to suggest that the acquisitions that were made were opportunistic, and many will likely be undone in the future.

## **Implications**

Based on our analysis, our conclusions are:

### **1. There is significant potential in the market**

The number of deals involving Ukrainian firms grew exponentially (+1,032%) in the period 2000-2014. It slowed after 2014 and collapsed completely in 2022, as international acquirers, in particular, began to avoid the market. There were only 39 deals in 2022.

The good news is that this suggests that the slowdown is caused by Russian aggression, and is not due to fundamental problems with Ukrainian firms or the Ukrainian business environment. This implies that once the war with Russia has been resolved, and the investment returns, the Ukrainian M&A market should return to its long term average.

In terms of deal numbers, this means an increase from 39 in 2022 to the long-term average of 242 deals per year, and in terms of deal value, it means an increase from 46.8 million Euro, in 2022, to the long term average of 7,9 billion Euro. Corporates, in an outsider of Ukraine, should prepare themselves for the wave of investment that is likely to come.

### **2. There are good deals available now**

While it is true that there will likely be a post-war wave of activity, there are deals being done today, at astonishingly low deal values. The average deal in our sample was concluded for 33 million Euro. The 39 deals completed in 2022, however, were concluded, on average, for 1.29 million



Euro; a 96% reduction in average transaction values. At present, it is not fully clear if the drop in transaction value is due to the fact that the targets are finding themselves in increasingly troubled situations, if the deals that are being concluded are for particularly small firms, or if the lack of international investment is depressing the deal prices. What is known is that, at the moment, is that deals are being done for Ukrainian targets, they are being done almost entirely by Ukrainian acquirers, and they are being concluded for deal values that are 96% below the long term average. International investors would be wise to pay attention to this.

### **3. Ukrainian firms need to get more active**

Our sample suggests that Ukrainian firms are more likely to appear in the data as a target (5,017 deals) than an acquirer (2,249), and as acquirers Ukrainian firms are much more likely to make domestic acquisitions (2,011) than international acquisitions (232). Of the 238 international deals done by the Ukrainian acquirers in our sample, 73% were done in the Czech Republic and Russia, and 87.5% were done in neighboring countries like Poland and Georgia. Ukrainian acquirers made virtually no acquisitions in major economies like the United States (2 deals), in growth economies like China (3), in industrial giants like Germany (3), or in innovation centers, like the Netherlands (0). Granted, it is easier and less risky to acquire in physically and culturally similar regions. Given that M&A is typically used to help companies to grow, to learn, and to expand, it is remarkable that: (1) that Ukrainian acquirers make so few international acquisitions in general; and (2) Ukrainian acquirers pay so

little attention to targets outside of their neighborhood. Ukrainian acquirers need to become more active acquirers, if they are to avoid becoming targets to international acquirers – as they currently appear to be – and they should look to larger and more dynamic markets, if they are to survive the competition. The Netherlands, for example, which is the 5<sup>th</sup> most innovative country in the world, made 88 acquisitions in Ukraine in the period of our analysis, while Ukraine made 0 acquisitions in The Netherlands. The same is true for the Switzerland (24 acquisitions in UA vs 3 acquisitions by UA), the US (48 vs 3), Sweden (19 vs 0) and the UK (63 vs 2), which along with the Netherlands, complete the list of top 5 most innovative economies. We would advise Ukrainian corporates to pay more attention to M&A, and more attention still to the opportunities outside of Ukraine, and outside the Ukrainian neighborhood.

#### **4. Russian acquirers leave big shoes to fill**

Ukrainian targets are attractive to a host of acquirers. In our sample, acquirers from 67 countries made acquisitions in Ukraine. That said, Russia (142) and Cyprus (332) -- which is known to be an off-shore tax haven for Russian capital -- are by far the most prolific international acquirers of Ukrainian assets. Together, Russia and Cyprus made more acquisitions (474) than the next 12 investors – that is, the Netherlands (88), the UK (63), the US (48), the British Virgin Islands (45), Austria (38), the Czech Republic (31), Luxembourg (31), Poland (31), France (28), Switzerland (24), Germany (24) and Sweden (19) – put together (471). Post 2014, Cypriot acquirers (126) made more than 5 times the number

of acquisitions in Ukraine than the next biggest acquirer (Netherlands, 26), and Russia made more deals (7) than Germany (6), Poland (6), or Canada (5). Understandably, Ukraine will want to exclude Russia-linked businesses from making acquisitions in Ukraine.

#### **5. There are too many unrelated deals in the Market**

Only a small percent of deal, involving Ukrainian firms, can be classified as related, no matter how strictly (16.5%) or loosely (22%) relatedness is defined. We would expect about 30% of deals to be related using a strict (4-digit SIC code) definition, or about 80% to be related using a looser (2-digit) definition. The levels of relatedness between the target and the acquirer is important because relatedness is one of the most significant predictors of post-acquisition risk. Relatedness is, therefore, also a significant predictor of post-acquisition value-destruction and divestment, as poorer performing acquisitions are eventually carved out and sold off, often as loss making unit. What is more, we find that the share of unrelated deals announced, in Ukraine, is increasing. In 2022, for example, only 2.5% were low risk perfectly related deals. This is concerning: it means that 97.5% of cases the acquirer is buying into an unrelated business that it does not fully understand, and it runs contrary to 50 years of academic insights, and contrary to the industrial practices from elsewhere. We would warn Ukrainian firms – in their roles as targets and acquirers – to be aware of this major indicator of risk.

#### **6. 2022 was a disaster, but the lights stayed on**

For M&A, the year 2022 was a disaster: there were only 39 deals announced. Of these, 33 (86.8%) involved Ukrainian acquirers and 30 were fully domestic. Effectively, this means that there was no foreign investment in the market. The mean value of these was 1.29 million Euro. This was well below the long term average of 33 million. This, coupled with the fact that only 2.5% of the deals done were low risk perfectly related deals seems to suggest that the acquisitions that were made were opportunistic. We predict that many of these unrelated deals will eventually have to be divested. Against the backdrop of the war, however, the fact that there was any activity is a testament to Ukrainian resilience.

## **Limitations**

There are a number of limitations to this research. The most important is that the data we use is drawn entirely from the Zephyr Database. Zephyr is widely used in academic research, and it claims to be 'the most comprehensive database for deal information'. That said, it does not include all deals -- meaning there are likely to be more deals in reality than in our sample and it does not include all the details of the deals that it reports -- meaning, for example, there could be German acquisitions in our sample that are not labelled as German acquisitions, which might lead to some of the statistics being distorted. Like all databases, Zephyr is also biased toward larger firms, and in particular, to stock-listed and public firms. That said, given the large sample size, and the long period of time that is employed in this study, we are confident that the general patterns that we have laid out are correct, as are the insight that we have drawn.

## **Future Research**

A number of questions emerge from this research which warrant further investigation. For example, we would welcome research to understand:

- (1) Why a disproportionate number of the deals that are announced and then withdrawn (73%) involve Ukrainian targets and foreign acquirers. It is interesting to know what is it that caused these acquirers to withdraw. This is all the more interesting given that invasions of 2014 and 2022 did not cause the number of withdrawn deals to deviate from the long term average.
- (2) Why are deal values down by 96% in 2022? Is the drop due to the fact that the targets are finding themselves in increasingly troubled situations, is it that the deals that are being concluded are for particularly small firms, or is it the lack of international investment that is depressing the deal price?
- (3) Why are there so many deals involving Cypriot acquirers (332), along with acquirers from the British Virgin Islands (48) and Luxembourg (31)? And is this desirable? All three are known to be tax havens for Russian off-shore capital. Are these false friends (Gonchar et al., 2021)? We would be interested in understanding which firms from these locations are acquiring assets in Ukraine to understand if this is a desirable situation, for the reputation of Ukraine, and its assets.
- (4) Why are so many deals unrelated involving Ukrainian targets? Theory and practice advises acquirers to stick to related targets. But in 2022, only 2.5%

of the deals that were announced are perfectly related. Why? It is pure opportunism, or are there strategic reasons for this behavior?

## **REFERENCES**

- Aalbers, R.H., McCarthy, K.J. and Heimeriks, K.H., 2021. Market reactions to acquisition announcements: The importance of signaling 'why' and 'where'. *Long Range Planning*, 54(6)
- Bain, 2023, Looking Back on M&A in 2022, available at: <https://www.bain.com/insights/looking-back-at-2022-m-and-a-report-2023/>
- Gonchar, V., Kalinin, O., Khadzhynova, O. and McCarthy, K.J., 2022. False friends? On the effect of bureaucracy, informality, corruption and conflict in Ukraine on foreign and domestic acquisitions. *Journal of Risk and Financial Management*, 15(4), p.179.