

**TRENDS AND
PERSPECTIVES ON
UKRAINIAN MERGERS
AND ACQUISITIONS:
INSIGHTS ON 2023**

A KYIV SCHOOL OF ECONOMICS (KSE) APPLIED RESEARCH REPORT
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AUGUST 2024

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A Kyiv School of Economics (KSE) Applied Research Report

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INTRODUCTION

Mergers and acquisitions (M&A) are big business: there were almost 50,000 deals announced in 2022, at a combined value in excess of \$3.8 trillion.

From a private perspective, M&A is important because it provide the acquiring firm with access to the target firms resources and capabilities. It is often used by firms to help them to learn and to grow, quickly (Aalbers et al., 2021) and competitive firms tend to be 'serial acquirers': Google, for example, is the result of 257 acquisitions, and Apple is the result of more than 100.

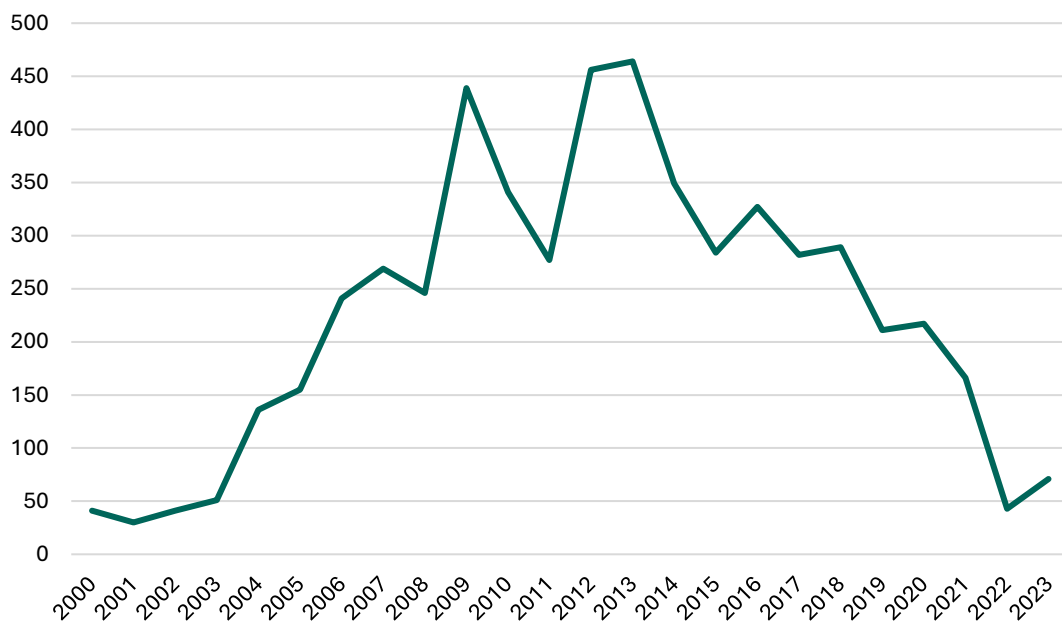
From a public perspective, this means M&A can be used as an indicator of a country's economic health: it reflects corporate confidence, capital availability, and market dynamism (Gonchar et al., 2022). High M&A activity signals growth, business optimism, and efficient capital markets, while low activity indicates economic risk and uncertainty. As such, trends in mergers and acquisitions provide an important snapshot on the country's corporate health and optimism.

The point of this report is to provide such a snapshot of the Ukrainian (UA) M&A. We zoom in on the deals done in 2023, compare them to both the deals done in 2022, and to the average deals done in the period 2000-2023. In so doing, we aim to put the 2023 trends in their historical context, to comment on the market, and 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 acquirers, to do better deals, and to build better, more competitive firms, while providing policy makers with insights on the nature of the Ukrainian economy.

DATA

We retrieved the data for our analysis from Zephyr. We refined it to include: (1) all mergers and acquisitions; (2) announced and completed, announced and pending; (3) in the period 01/01/2022 to 01/01/2024; (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.

Figure 1 - Number of Deals done per year

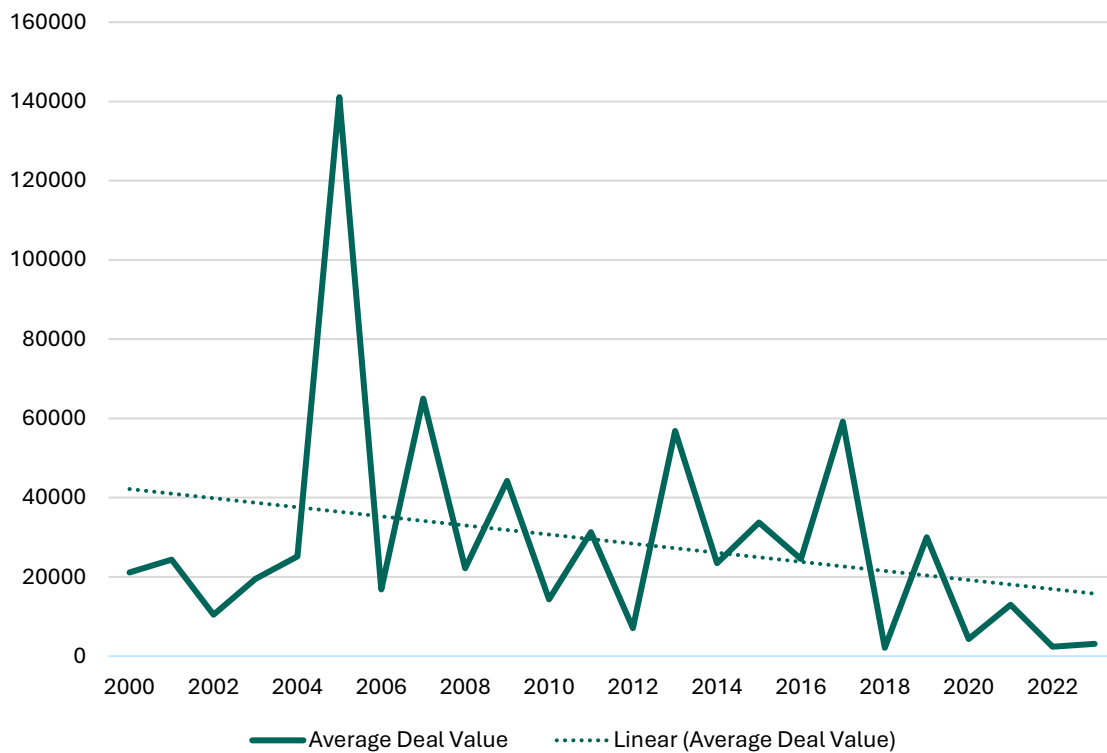


ANALYSIS

Deals per year

We see a pickup in the number of deals announced: from 43 in 2022 to 71 in 2023. This equates to a 65% increase in the number of deals announced. It is still, however, well below the average in the period 2000-2014, when 242 deals were announced per year, meaning that there is a lot of room to grow still.

Figure 2 – Average Deal Value per Year



Interestingly, we also see an increase in the value of the deals being done. In 2022, the average deal in the sample was worth \$2.4 million. In 2023 this increased to \$3.1 million. This means that market was worth around \$220 million in 2023, which is well below the 15.3 billion it was worth in 2013.

Taken together, however, the increase in the number and value of deals being done illustrates that the market is a positive in terms of the return to health.

Targets and Acquirers

Tables 1 and 2 zoom in on the nationality of the deals being done.

Table 1 looks at the acquirers and shows that the overwhelming majority of deals in both 2022 and 2023 involved Ukrainian acquirers. In both years approximately 88% of the deals in the sample involve Ukrainian acquirers. Interestingly, European acquirers make up the majority of the remainder (6 deals in 2023). There was only 1 deal in the data from the United States. This implies that while foreign acquirers remain nervous, Ukrainian acquirers are less so.

Table 1 – Acquirer Nationalities

Acquirer	Year	
	2022	2023
CY	2	1
DE	0	1
GB	0	1
GE	1	0
HK	1	0
IE	0	1
IT	0	1
NL	1	1
UA	37	47
US	0	1
Total	42	54

Table 2 – Target Nationalities

Target	Year	
	2022	2023
CZ	2	0
FR	0	1
GB	2	0
IT	0	1
UA	39	68
US	0	1
Total	43	71

Table 2 repeats the exercise for target nationalities. It reports again that the overwhelming majority of deals in the sample (95%) involve Ukrainian targets. Ukrainian acquirers only made three overseas acquisitions in 2023: 1 in France, 1 in Italy, and 1 in the US. This may mean that Ukrainian acquirers saw enough good opportunities at home in 2023 or, because international deals are more risky, it might mean that they were simply not willing to take additional risk.

Figure 3 - Number of Deals done per year

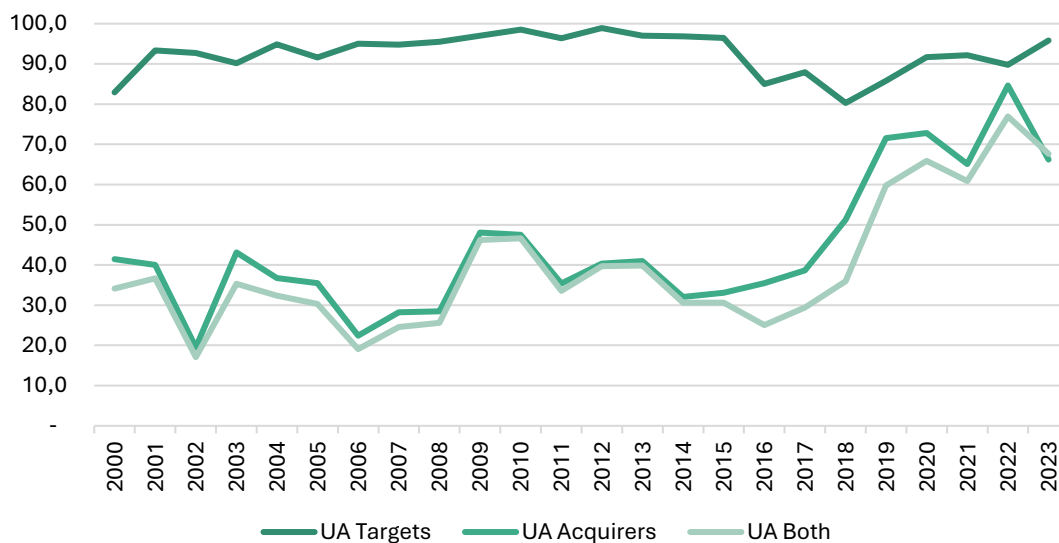
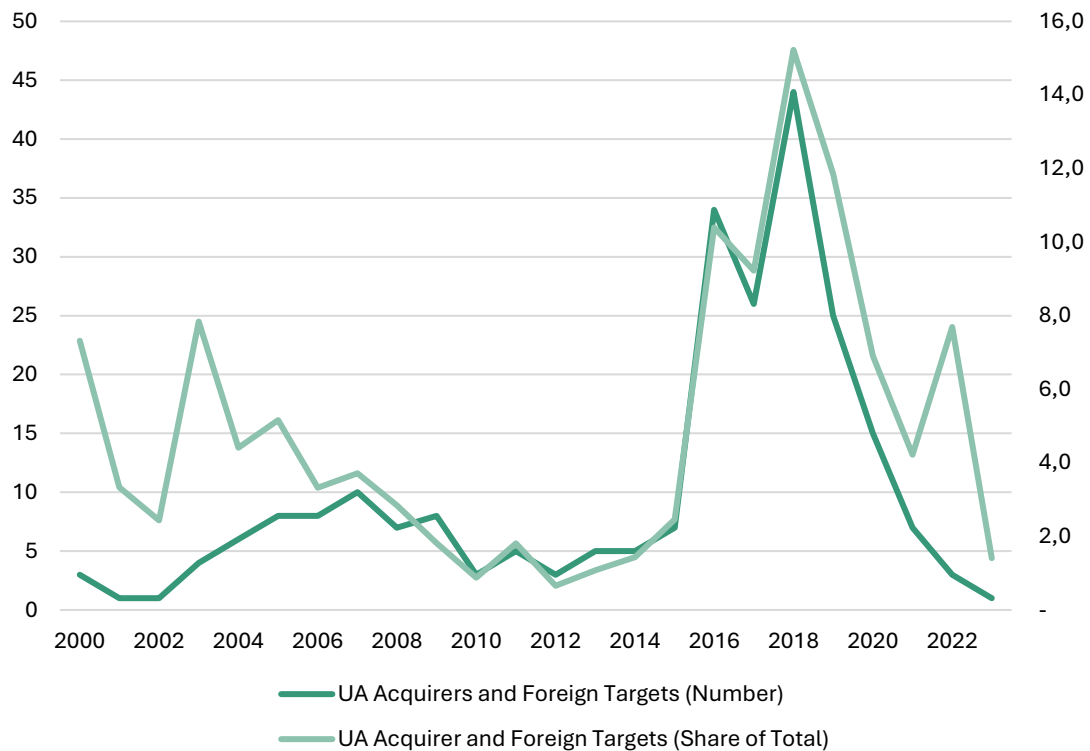


Figure 3 demonstrates how these figures compare to the longer term trends. It shows that the attractiveness of Ukrainian targets slipped after 2014, and the proportion of deals involving both Ukrainian targets and acquirers increased subsequently. This means that a greater proportion of the deals done were domestic deals, as international acquirers backed off the market. In 2023, we see a slight drop in the number of fully domestic deals, but we also observe a clear drop in the number of international deals involving UA acquirers.

Finally, Figure 4 zooms in on the overseas deals done by Ukrainian acquirers. It shows 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%. Our data suggests, that the number of overseas deals continued to drop in 2023, relative to the numbers for 2022.

Figure 4 - UA Firm's Foreign Acquisitions



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. 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.

Figure 5 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, 75% of deals were unrelated.

The levels of relatedness 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 2023, for example, pre-war, only 3% of deals are perfectly related (4D), and only 8% are loosely related. This is concerning. Because relatedness is one of the major indicators of risk in an acquisition, Figure 5 suggests that Ukrainian acquirers are, all else equal, selecting overly risky acquisition targets.

Figure 5 – Related and Unrelated



Key Industries

Table 3 presents an overview of the most active industries in 2023. It is interesting to observe the huge year-to-year growth in the number of food, beverage and tobacco industries (+700%), and the machinery, equipment, furniture and recycling industries (+367%). These industries account for 30% of all the deals done in 2023. It is also interesting to note the growth in the agricultural and mining industries (250%), and the transport industries (300%), as well as the decline in the wholesale and retail (-83%) industries.

Table 3 – Target Industries

Target major sector	2022	2023	Total
Banks	3	2	-33%
Chemicals, rubber, plastics, non-metallic products	4	4	0%
Construction	3	2	-33%
Food, beverages, tobacco	1	8	700%
Gas, Water, Electricity	3	3	0%
Insurance companies	4	9	125%
Machinery, equipment, furniture, recycling	3	14	367%
Metals & metal products	1	2	100%
Other services	6	10	67%
Post and telecommunications	1	1	0%
Primary Sector (agriculture, mining, etc)	2	7	250%
Publishing, printing	1	0	-100%
Textiles, wearing apparel, leather	1	1	0%
Transport	0	3	300%
Wholesale & retail trade	6	1	-83%
Total	39	67	

CONCLUSION

Key Findings

Our key findings are:

- The number of deals involving Ukrainian firms grew exponentially (+1,032%) in the period 2000-2014, but had spiraled downwards afterwards. Our data suggests that spiral ended in 2023.
- At its height, the Ukrainian M&A market was worth \$15.3 billion. In 2022, it was worth 46.8 million, but in 2023 it rebounded to 220 million. While there is still clearly a lot of work to be done, this is a good sign.
- 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 4 and in 2023 only 5. This represents a 98% drop in investment, meaning that a lot has to be done to get foreign acquirers back.
- 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.
- Compared to 2022, 2023 saw a large investment in the food, beverage and tobacco industries (+700%), and the machinery, equipment, furniture and recycling industries (+367%), as well as the agricultural and mining industries (250%), and the transport industries (300%), and a significant decline in the wholesale and retail (-83%) industries.

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.

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