LAKATOS, KÖVES ÉS TÁRSAI
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INTERNATIONAL I INDEPENDENT I INNOVATIVE

INTRA-REGIONAL M&A IN HUNGARY AND CENTRAL EUROPE

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INTRODUCTION

Recent years have seen a significant increase in the amount of intra-regional M&A within the Central Europe region. While the period 1990-2008 was primarily characterised by investment into Hungary (and the wider region) from large multinationals or large to mid-sized companies from e.g. US, Germany, Japan, etc., recent years have seen an increased amount of activity by regional players increasing their footprint across the region.

In Hungary there has been significant investment by Polish, Czech, Slovak and to a lesser extent e.g. Slovenian, Serbian, Romanian and Bulgarian investors. In many cases the buyers are fund or family owned companies, buying up their peers across the region.

The sellers in such transactions have been a mix of:

- multinationals which sell for a number of reasons, some driven by external factors (e.g. disposals to pay off debt at home) and others by local factors (such as the tough environment in Hungary for banks and utilities);
- global and regional PE funds whose early investments in the region (which in some cases were pioneers in building pan-regional footprints) mature and are sold; and
- local shareholders selling businesses built up over the last 25 years.

In addition many of the international investors in the region, both corporates and funds, have their regional headquarters in the region (most notably in Warsaw) and use those bases for their regional expansion. An important activity over recent years has been internal restructuring, making use of opportunities offered by the single market and various directives e.g. to enable cross-border mergers and consolidating functions across the region.

CLIENTS

Our relevant experience includes advising:

- a Czech mineral water company on the acquisition of two premium mineral water brands in Hungary;
- one of the largest manufacturers and providers of comprehensive passive fire protection systems with leading positions in the Polish, Czech and Slovakian markets on the acquisition of a Hungarian fire protection systems company;
- a Czech fund on the acquisition of a power plant in Budapest;
- a leading Romanian telecommunication, satellite and cable television company in its bid for a commercial TV channel in Hungary;
- a multinational confectionery, food, and beverage company on the restructuring of its manufacturing operations across Central Europe;
- a PE fund on the sale of a Hungarian telecoms operator to a Poland based fund;
- a Hungarian bank on acquisitions and potential acquisitions in the region.

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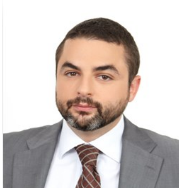

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LEGAL ISSUES

- **Separation** – in the case of "one country" acquisitions from multinationals, the process of extraction of the business from the multinational sellers can be complicated. Initially this can be an issue in the sales process, with the seller often preferring a sale of the regional assets as a whole, resisting "cherry picking" and the breakup of the assets. If one country is to be sold off individually there are often issues requiring transitional arrangements e.g. regarding marketing, raw materials and other shared functions.
- **Regulation/Politics** – many of these deals can be sensitive from a regulatory and political perspective and appropriate and focussed care in structuring the transactions and the approach to the regulators is necessary and can add significantly to a successful outcome.
- **Grants, subsidies** – in many cases the targets in such transactions are SMEs and the result of the transaction will be that such status is lost, triggering the need for repayment of preferential financing available to SMEs. We have seen a number of transactions where this issue influenced the structure and timing.
- **Lawyers** – on these transactions it will be necessary for lawyers from two or more countries in the region to be involved. Fees are always a sensitive issue, particularly for the smaller companies who have not previously entered into such transactions, are particularly fee sensitive, and need significant "hand holding" through the process. As a firm we have extensive experience of working on cross-border matters and of working with leading lawyers in all of the countries of the region, both the leading independent firms and the large international network firms.
- **M&A processes** – it is often the case that, for at least one and sometimes both parties to the transaction, this will be their first cross-border transaction, and in some cases the first M&A transaction they have participated in. Consequently the understanding and acceptance of widely accepted practices can take time and there can be a significant "educational" aspect to the transaction.
- **Language & law** – connected to the issues referred to above, expectations about the language of documentation and applicable law need to be agreed and can be time consuming. There may be no common language between the parties (and therefore a need for advisors who can provide that connection) and suspicions about foreign law which are not well understood (and again giving rise to a need for advisors familiar with cross-border issues).

ABOUT LAKATOS, KÖVES AND PARTNERS

Lakatos, Köves and Partners (LKT) is a 9 partner, 40 lawyer full service commercial law firm based in Budapest, Hungary, with a predominantly international client base, offering cutting-edge know-how and matching innovative legal solutions to business needs. For many years the firm was Clifford Chance's office in Budapest, but since 2009 has been independent. LKT's market standing is reflected in top tier rankings in many areas including Corporate/M&A, Banking & Finance, Real Estate, Dispute Resolution, TMT and Tax. The firm has an extensive referral network of leading international law firms.

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