UNIVERSITY OF LJUBLJANA
SCHOOL OF ECONOMICS AND BUSINESS

MASTER'S THESIS

THE DEVELOPMENT OF THE SLOVENIAN M&A MARKET BETWEEN 2006 AND 2022

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LIST OF ABBREVIATIONS

sl. – Slovene

APA – (sl. Pogodba o nakupu sredstev); Asset Purchase Agreement

AVK – (sl. Agencija za varstvo konkurence); Competition Protection Agency

BAMC – (sl. Družba za upravljanje terjatev bank, d.d.); Bank Asset Management Company

CEE - (sl. Centralna in Vzhodna Evropa); Central and Eastern Europe

CRO – (sl. Hrvaška); Croatia

CZE – (sl. Češka); Czech Republic

DCF – (sl. Diskontirani denarni tokovi); Discounted Cash Flows

EBITDA – (sl. Dobiček pred obrestmi, davki in amortizacijo); Earning Before Interests, Taxes, Depreciation, and Amortization

ECB – (sl. Evropska centralna banka); European Central Bank

ESG – (sl. Okoljsko, družbeno in gospodarsko); Environmental, Social, and Governance

EU – (sl. Evropska unija); European Union

FDI – (sl. Tuje neposredne investicije); Foreign Direct Investments

GAAP – (sl. Splošno sprejeta računovodska načela); Generally Accepted Accounting Principles

GDP – (sl. Bruto domači proizvod); Gross Domestic Product

HR – (sl. Človeški viri); Human Resources

HUN – (sl. Madžarska); Hungary

IT – (sl. Informacijska tehnologija); Information Technology

LBO – (sl. Prevzem z vzvodom); Leveraged Buyout

LOI – (sl. Pismo o nameri); Letter of Intent

M&A – (sl. Združitve in prevzemi); Mergers & Acquisitions

MRO – (sl. Glavne operacije refinanciranja); Main Refinancing Operations

PE – (sl. Zasebni kapital); Private Equity

PMI – (sl. Pozdružitvena integracija); Post-Merger Integration

SKD – (sl. Standardna klasifikacija dejavnost); Standard Classification of Activity

SLO – (sl. Slovenija); Slovenia

SPA – (sl. Kupoprodajna pogodba); Sale and Purchase Agreement

TMT – (sl. Tehnologija, mediji in telekomunikacije); Technology, Media, and Telecom

UK – (sl. Združeno kraljestvo); United Kingdom

US – (sl. Združene države Amerike); United States of America

VC – (sl. Tvegani kapital); Venture Capital

VDR – (sl. Virtualna podatkovna soba); Virtual Dataroom

WACC – (sl. Tehtani povprečni stroški kapitala); Weighted Average Cost of Capital

1 INTRODUCTION

When companies are considering different growth strategies, expansion by mergers and acquisitions (hereinafter M&A) is more often than not on the top of their lists. Transactions, deals, agreements, or contracts are as old as the business itself. However, in recent decades, a variety of transactions involving control of business entities have become far more common. Mergers, acquisitions, divestitures, equity, and venture investments are all a form of strategic transactions, frequently referred to as M&A transactions (Frankel, 2005).

M&A are corporate transactions in which two or more companies are combined into a single entity or one company is purchased by another. These strategic transactions are often undertaken to achieve economies of scale, expand market reach, gain access to new technologies or products, or improve operational efficiency. M&A can take various forms, including horizontal mergers between competitors, vertical mergers between companies in different stages of the supply chain, either upstream or downstream, and conglomerate mergers between unrelated businesses.

Historically, M&A activity has been the strongest in the regions with high level of legal security and well developed financial and capital markets (Hopkins et al., 1999). North America has traditionally been the largest market in terms of deal value, followed by Europe and Asia Pacific markets, the latter being one of the fastest growing markets in the recent years. In 2021 alone, there were more than 34 thousand deals completed, with the total transaction value of over USD 5.9 trillion (Baker Tilly, 2022). It is evident that the M&A market is a global one, where national borders can offer little challenge for the flow of capital. Trend of globalization in the recent decades only accelerated the volume of cross-border transactions and there is no sign of deal activity reversing its course (Kang et al., 2001).

This master’s thesis will, however, focus primarily on the analysis of domestic and cross-border deals in Slovenia. In comparison with larger European countries, M&A market in Slovenia is almost insignificant both in terms of volume and values. Nevertheless, it is a lively one due to the country’s favorable geostrategic location and stable economic, business, and political environment. Especially since joining the European Union in 2004 and the subsequent adoption of currency Euro in 2007, Slovenia has become an interesting target for both greenfield investments as well as mergers and acquisitions. This master’s thesis will attempt to provide a better understanding of the historical development and functioning of the Slovenian M&A market and to identify the key factors that are driving the deal activity in Slovenia.

Hence, the goal of this master’s thesis will be to answer the following research questions:

- How has the Slovenian M&A market evolved throughout the observed historical period?
- Who are the key players driving the Slovenian M&A market activity?

- What are the key drivers underpinning the Slovenian M&A market activity?

In order to address the above questions, this thesis relies on a combination of primary and secondary sources. Theoretical and empirical analysis is primarily based on past research, trend reports, M&A deals databases, and financial articles and other publications.

The thesis is organized as follows. Following the introductory part, the second section provides explanation of key terms and definitions, and M&A process structure and overview of the most common participants. The third section focuses on M&A trends throughout the history. Main historical M&A waves are briefly described, followed by analysis of the recent market developments, starting with the broad overview of the global M&A market, and progressing towards developments in the regional market. To wrap up this section, a brief M&A market outlook provides a forward-looking perspective of the industry development. The fourth section is devoted to analyzing the development of the Slovenian M&A market in the 2006 – 2022 period. For this purpose, Standard & Poor's Capital IQ Pro deals database was utilized, complemented by Dun & Bradstreet's Gvin business intelligence portal, Slovenian Business Register AJPES, and by deal information obtained from different publicly available sources, such as financial news articles and publications. To sum up, sections five and six of this thesis provide the concluding remarks by summarizing the key findings identified in the research.

2 OVERVIEW OF THE M&A PROCESS

While first records of mergers and acquisitions date back as far as to the 1800s, the term M&A became widespread in the early 20th century, corresponding with the rise of mergers in the manufacturing sector in the United States of America (hereinafter US), the period which later came to be known as the so-called first wave of M&A, also referred to as the 'great merger movement' (Belyh, 2019).

Since the early 1900s, M&A market has seen rapid growth both in terms of volume and value of the transactions. With growing importance of the market, transaction process became ever more structured and best practice has developed, helping both the advisors as well as the acquirers and selling companies to better navigate challenges arising along the way. Terms target company – or simply the target – and vendor or seller will be used interchangeably throughout this thesis, depending on whether we are looking from the sell-side (vendor) or buy-side (target) perspective. Improved process structuring is imperative for providing clarity and assurance that the transaction will be beneficial for the shareholders of the companies involved in the transaction. While many studies question value creation of the strategic transactions (Damodaran, 2005; Alexandridis et al., 2010), there are best practices and procedures that help mitigating the risks of value destruction during the M&A process. The purpose of this section is not to question whether such transactions are beneficial to the stakeholders involved or not, but rather to provide the understanding of how the M&A process is structured, who are the typical transaction participants and which mechanisms have developed to mitigate the risks arising during the process. This thesis considers terms M&A, strategic transactions, transactions, and deals to be synonymous and uses them interchangeably.

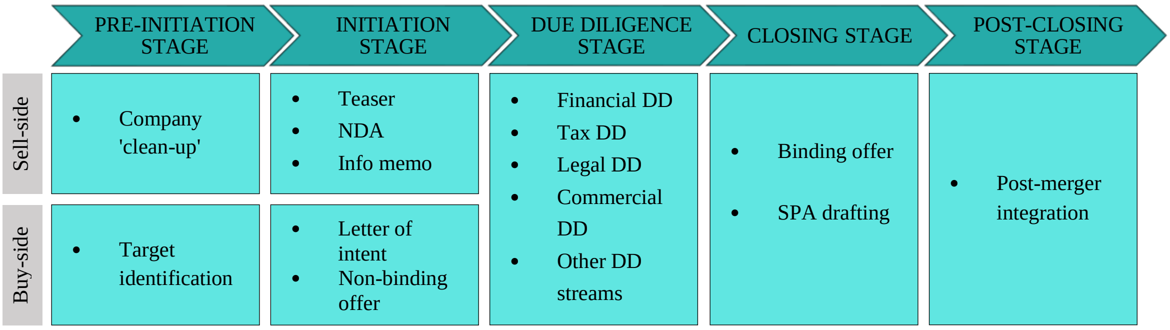
2.1 M&A process

Selling or acquiring a business is a crucial decision that can greatly impact a company's future. It could involve acquiring a portion of another business, merging, spinning-off or carving-out a division, or demerging. However, if this process is not executed properly, it can lead to value destruction and incur high costs from outside advisors and management involved in the project for months. Therefore, it is crucial to plan and prepare before engaging potential buyers or target companies.

In the recent years, large corporations, especially those operating in the technology, media, and telecom (hereinafter TMT) sector, have developed strong in-house corporate development departments with the purpose of identifying, approaching, and acquiring target companies. As per DealRoom’s definition, corporate development is an internal team of company employees with the goal of finding ways to grow and add value to a company. Its responsibility is to carry out strategic transactions such as mergers and acquisitions, joint ventures, divestitures, strategic partnerships and more (DealRoom, 2023b). Such departments would manage extensive lists of potential targets and are in possession of the relevant know-how to perform large part of the transaction process without the need for help from the external advisors. While having an in-house M&A team might be sensible for companies making numerous acquisitions per year, such as tech giants Alphabet, Microsoft, or Amazon (Feiner et al., 2022), for most of the companies, acquiring or being acquired by another company is a once-in-a-lifetime event. Such companies do not have the necessary capacity and knowledge to undertake such an important strategic decision on their own, so they must surround themselves with a team of external advisors to lead the process. While buy-side process typically starts with the list of potential targets, sell-side advisors’ first job is to identify potential buyers for the business they are trying to sell.

Differences exist depending on whether the target company or the buyer initiates the transaction process. Figure 1 illustrates the five stages of the transaction process from both the buy and sell-side perspectives.

Figure 1: The 5 stages of an M&A process



Source: Own work based on PwC (2022).

2.1.1 Pre-initiation stage

2.1.1.1 Company 'clean-up'

Sell-side advisors may be engaged months prior to the formal initiation of the transaction process, depending on the scope of work agreed upon. Typically, financial consultants are the first advisors to be approached by the vendor company's management. Their objective in the pre-initiation stage is to review the company's financials, internal processes, and controls, and identify areas for improvement and 'red flags' that may pose a threat to the deal in later stages. Although this step is less common in smaller transactions, it can greatly benefit companies with less developed corporate structures. The role of advisors is to enhance the company's financial books before contacting the buyer's advisors, which can result in higher transaction multiples and a greater selling price in later stages of the process. The advisors involved throughout the process are described in more detail in subsection 2.2 Transaction Participants of this section.

2.1.1.2 Target identification

As previously mentioned, large corporations often have in-house corporate development departments, whose job is to maintain a longlist of potential acquisition targets and initiate transaction process once an appropriate target is identified and approved by the management board. As smaller companies do not have the employees or whole departments devoted solely for this purpose, they would normally engage financial advisors to perform the job. Role of the advisors is to identify, in close cooperation with the buyer's management, potential targets. Once a shortlist is prepared, advisors – usually lawyers or investment bankers – are the ones initially contacting targets' management and initiating negotiations (DealRoom, 2023a). This can be especially important for the buyers that do not wish to reveal their identity in the early stages of the process.

2.1.2 Initiation stage

2.1.2.1 Teaser

According to the Corporate Finance Institute's definition, teaser – also referred to as an investment teaser – is a one- or two-page professional document that is used to introduce an acquisition or investment opportunity to the potential buyers. It is the first document prepared by the vendor's financial advisors and distributed to a broad range of prospective buyers, both strategic and financial. It is generally issued on a no-name basis to maintain the confidentiality of the vendor company at such an early stage in the process. It contains only the key information about the company (Corporate Finance Institute, 2023b). The teaser's key and sole purpose is to attract as much prospective buyers as possible, and to make the proposed investment opportunity look appealing enough for them to participate in further stages of the M&A process.

2.1.2.2 Non-Disclosure Agreement (NDA)

NDA is a short but important legal document intended to protect the vendor company and its confidential information. It is a legally binding contract that establishes a confidential relationship between the signing parties. This document is meant to prevent leakage of any confidential information, including vendor's identity. Preventing sensitive and confidential information from leaking in the early stages of the process is one of the key factors determining the eventual successful completion of the transaction (Joy et al., 2018).

2.1.2.3 Information memorandum

Information memorandum, also referred to as the confidential information memorandum or simply info memo, is a marketing document drawn up by the sell-side financial advisors. It is distributed to prospective buyers with a view to gauge market interest and ultimately sell the business. It contains enough information to provide the potential buyer with sufficient detail to understand whether it would like to pursue the acquisition of the target company without revealing any confidential or sensitive business information of the said target (PwC, 2022b). Normally, prospective buyers would have to sign an NDA prior to receiving a copy of the info memo. It is important to bear in mind that this is a marketing document prepared by the vendor's advisors. It is drafted in close cooperation with the vendor's management to make the company look as appealing as possible. Due to its biased and selective presentation of the key information it is important for the buyers to perform their own independent assessment of the company's financials. This is done in the due diligence stage of the M&A process, described in the following paragraphs.

2.1.2.4 Letter of intent and Non-binding offer

Both letter of intent (hereinafter LOI) and non-binding offer are documents outlining the terms and conditions of a prospective transaction. They are legally non-binding documents depicting both parties' willingness to pursue the deal under certain conditions. Intention of the mentioned documents is to 'formalize' the buyer's interest on pursuing the deal on one hand, and the vendor's willingness to negotiate and conclude the transaction on the other.

2.1.3 Due diligence stage

Due diligence stage is arguably the most crucial part of the transaction process, after which the final verdict is cast by the buyer on whether to pursue the deal completion or not (Howson, 2003). This is the stage where the buyer deploys a cohort of advisors to bridge the information gap between itself and the vendor. The role of the buyer's advisors is to scrutinize information provided by the vendor and its team of advisors and obtain a deep understanding of the different aspects of the company's operations.

Flyvbjerg (2012) defines due diligence as an evaluation of the assets of a company, an investment, or a person. It is developed to be used as the 'quality control' of business cases, cost-benefit analyses, and the go-decision in projects. Conduct of the due diligence is a crucial contributor to the informed decision-making process, as it ensures greater quality and range of information for the decision makers.

Due diligence can be divided into several streams, depending on the aspect of the target's operations the procedure focuses on. While there are many different due diligence streams known, the most common ones are financial due diligence, tax due diligence, and legal due diligence. Other, less commonly performed due diligence exercises, comprise commercial and technical due diligence, information technology (hereinafter IT) due diligence, environmental due diligence, human resources (hereinafter HR) due diligence, and others. Utilization of these due diligence streams depends primarily on the size of the transaction, complexity of target's operations and its business model, and the desired level of assurance buyer wants to obtain before making the final decision on the transaction.

In an ideal M&A scenario, buyers would have access to and analyze all possible information to make an informed decision. However, there are various obstacles limiting the scope of the due diligence procedures, including financial constraints, time limitations, and the willingness of the target's management to cooperate. Due diligence procedures can be expensive, especially when performed by external specialists. Therefore, buyers must determine the potential costs and benefits to decide on the appropriate scope. It is also in the interest of both the buyer and the seller to conclude the process quickly and efficiently to minimize business disruption. When organizing an auction, the buyer – also known as the bidder – must be cautious not to be too diligent and lose against other competitors. The willingness of the target's management to cooperate and provide the necessary documentation is also a factor limiting the due diligence procedure. This is especially true when management may be replaced after a change in ownership. To address this principal-agent issue, so-called 'golden parachutes' may be offered to the executives as a financial incentive to cooperate with buyers and ensure a successful deal.

Buyers typically engage external specialists, such as financial advisors or lawyers, to conduct due diligence procedures as they may not have the skills or capacity to perform them themselves. Specialists are tasked with performing inquiries, requesting documentation from the target's management, and obtaining a thorough understanding of the company. The findings are then presented to the buyer in the form of a due diligence report, which includes recommendations on additional procedures to consider before making a final decision on whether to acquire the target.

Key due diligence streams are described more in-depth in the following paragraphs.

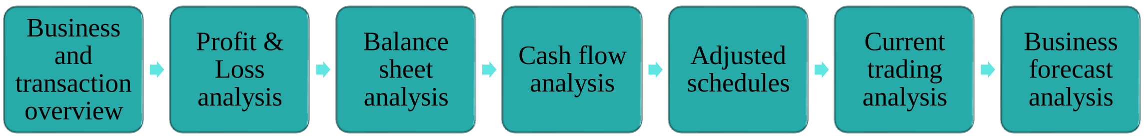
2.1.3.1 Financial due diligence

Financial due diligence is – besides tax and legal due diligence – an exercise that is an integral part of every transaction process. It involves detailed analysis of the company’s financial records and statements. Its purpose is to assess the financial health of the prospective target and to identify any potential risks, often referred to as ‘red flags’, which could impact the valuation of the company or – in more extreme cases – endanger the deal prospect altogether.

While the scope of work performed may vary based on the buyer’s expectations, financial due diligence normally consists of combination of both historical and future financials analysis.

Typical financial due diligence report would be structured as presented in the Figure 2:

Figure 2: Financial due diligence report structure



Source: Own work.

As previously mentioned, while some companies can perform financial due diligence themselves, it is general practice for the procedure to be undertaken by external specialists. Typical representatives of these specialist companies are the so-called Big 4 companies. These are global consultancies Deloitte, EY, KPMG, and PwC. They have developed deep industry knowledge and have an extensive global operational network, making them capable of advising on large and complex cross-border corporate transactions. These specialists can be appointed either by the buyer or – although less often – by the seller.

2.1.3.2 Tax due diligence

The goal of the tax due diligence is to identify any potential tax issues that could affect the proposed transaction or burden the company’s future operations. It is a process of assessing tax risks by reviewing the target company's tax history, current tax position, and potential tax liabilities and exposures.

Primary focus of the tax due diligence is correspondence with the tax authority, corporate income tax review, transfer pricing assessment, value added tax review, review of personal income tax and social contributions, and any other company- or industry-specific tax risks. Tax due diligence would often expand also to deal structuring issues. Choosing on whether to structure the transaction as a share deal or an asset deal can have a significant effect on tax matters. From tax optimization viewpoint it is thus important to carefully review different deal structuring options and choose the most favorable one. Definition of asset and share deal is laid out in subsection 2.4 Deal structures of this thesis.

As with the financial due diligence, clients would usually first turn to one of the Big 4 companies to provide the tax due diligence services. These consultancies are especially useful when transactions are more complex and stretch over several tax jurisdictions, as they can pool tax specialists from offices in different countries to work as one team. Often, financial due diligence and tax due diligence are performed by the same company which prepares one integrated report, divided on financial and tax section. While sell-side is an option, buy-side tax due diligence is much more widely used in practice.

2.1.3.3 Legal due diligence

This is the last of the three most common due diligence streams. Stapenhorst (2017) defines legal due diligence as a detailed examination, analysis, and assessments of the circumstances of the transaction object in fact and in law. It focuses on analyzing the influence of legal matters on target company's current and future operations. It involves review of the target's legal corporate structure, statutory issues, legal disputes, contractual relationships, and assessment of any potential legal liabilities arising from the mentioned issues.

Legal due diligence is conducted separately from the financial or tax due diligence. For this matter, a law office that specializes in corporate law is engaged by the client.

2.1.3.4 Other due diligence streams

Apart from those mentioned above, there are several due diligence streams that are less widely utilized in the deal process. Even if these procedures are not as structured as financial, tax, or legal due diligence, it is almost impossible that the buyer would not at least consider these aspects of the transaction. As they are very specific, they are usually performed by the buyer himself or included in the scope of work of due diligences performed by either financial or strategy consultants. These other due diligence streams are, among others, commercial, technical, IT, HR, and environmental.

2.1.4 Closing stage

When the buyer and the vendor come to the closing stage, transaction process is at the finish line. In this stage, generally only one buyer would remain. His team of advisors would prepare all the necessary reports and resolve all issues that arose throughout the due diligence stage. The two final steps before deal closing are agreement on the purchase price and Sale and Purchase Agreement (hereinafter SPA) signing.

2.1.4.1 Binding offer

Out of many investment valuation approaches, EBITDA multiples is the one most commonly used. Basis for this approach is the adjusted EBITDA, proposed by the financial advisors in the due diligence report and consequently agreed upon between the buyer and the seller. Multiple that the buyer will apply to adjusted EBITDA to arrive at the enterprise value is subject to negotiations between both parties. There are many factors affecting the final multiple, such as industry specifics, number of bidders, or bargaining power of the involved parties. Detailed procedure of how the final cash consideration amount is established is presented in subsection 2.3 Valuation methods and will not be discussed in this paragraph. After establishing the final price, the buyer submits his binding offer to the seller, which is a legally binding document. In some cases where transaction is structured as an auction, binding offers might be submitted by several different bidders.

2.1.4.2 SPA

The final document is a Sale and Purchase Agreement, also called Share Purchase Agreement. Term Asset Purchase Agreement (hereinafter APA) can also be used in cases when the deal is structured as an asset deal. Once signed by both parties, the transaction process is finally completed. In the SPA, more than just purchase price is agreed. It represents the outcome of key commercial and pricing negotiations documented in a legal form which sets out the obligations and risk allocation of the parties (EY, 2022a). The structure and the underlying components of the SPA will differ based on the pricing methodology for the transaction.

2.1.5 Post-closing stage

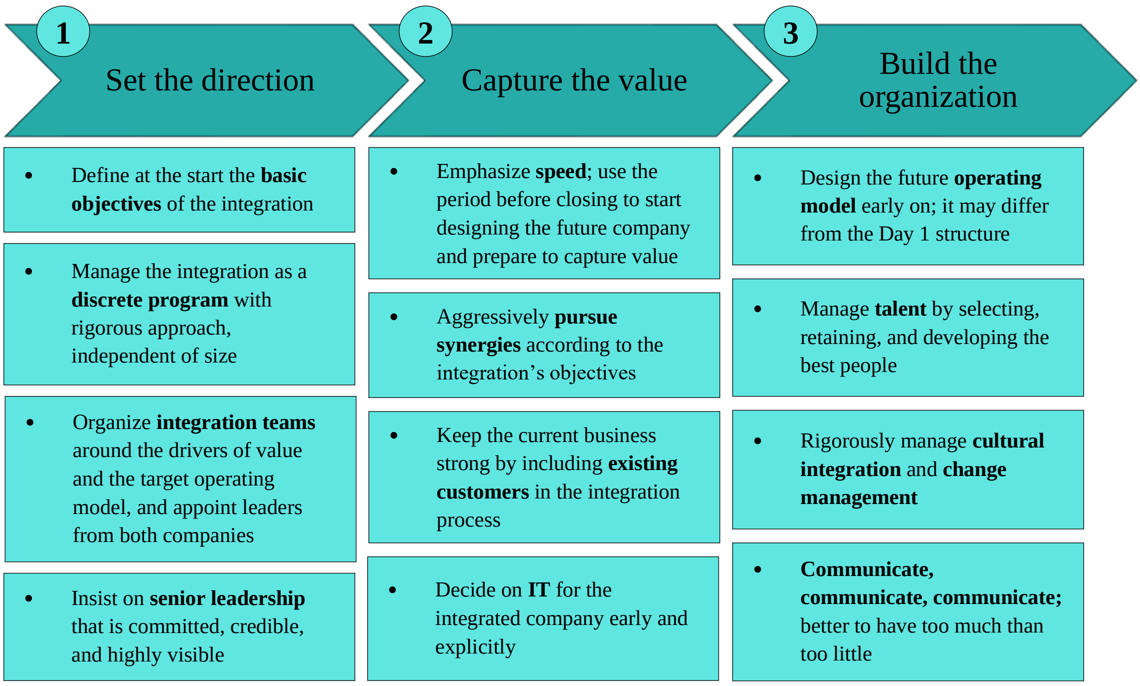
2.1.5.1 Post-merger integration

Although some may believe that the M&A process is complete once the deal is closed and the SPA signed, the newly combined companies must go through a long and potentially painful process of target integration into the acquiring company. A thoughtful post-merger integration (hereinafter PMI) planning is one of the most critical factors in determining the success of the deal from the buyer's perspective (Meier et al., 2008). Experienced and sophisticated buyers will often begin planning for integration well before deal closure and consider successful target integration as a key factor in deciding whether to proceed with the acquisition.

The PMI process typically faces challenges related to capturing synergy, client disruption, structural integration, employee retention, loss of identity and independence, customer retention, emotional trauma, loss of status, and learning challenges (Bodner et al., 2018). PMI is defined by Bodner and Capron (2018) as the process that unfolds in the aftermath of the deal closure to reconfigure merging firms by redeploying, adding, or divesting resources, lines of products or entire businesses, in order to achieve the expected benefits of the business combination.

BCG (2021) identifies three areas of focus and twelve imperatives for a successful target integration, as can be seen in the Figure 3:

Figure 3: Three areas of focus and 12 imperatives for integration success



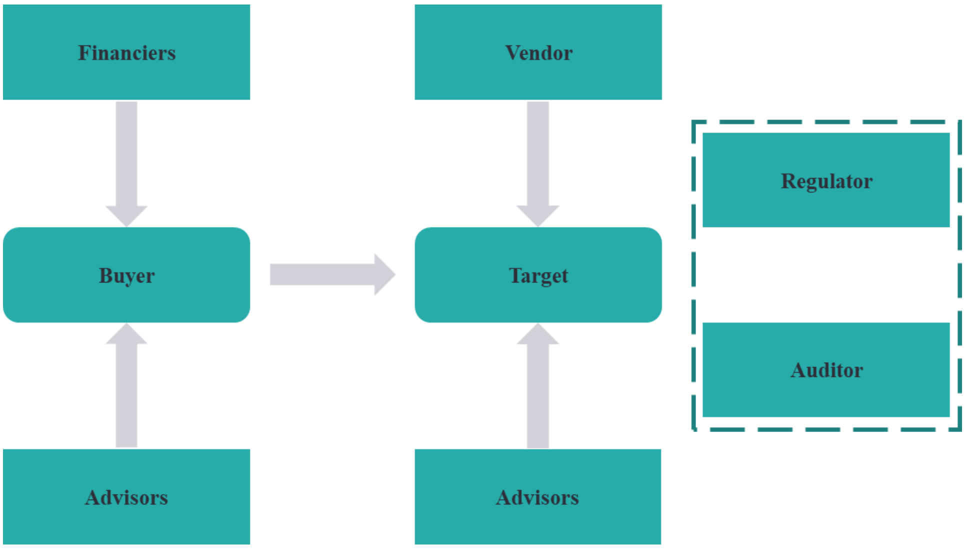
Source: Own work based on BCG (2021).

2.2 Transaction participants

To understand the functioning of the M&A market it is important to know the stakeholders participating in the transaction process. While for some of them – for example, the seller – transaction might be a once-in-a-lifetime event, there are many others that participate in them regularly and have helped shape and develop M&A market throughout the history. These are not only M&A advisors, but also others, such as Private Equity (hereinafter PE) funds or regulatory authorities. Different transaction participants have different motives, and this subsection will uncover the most important ones and discuss what role they have and how they are motivated.

Figure 4 portrays key transaction participants and relationships between them.

Figure 4: Key M&A transaction participants



Source: Own work.

2.2.1 Buy-side participants

2.2.1.1 Buyer

Buyer, also referred to as the acquirer, is any person or legal entity that is interested into acquiring the target's assets or shares. The term bidder is also used, if the transaction process is structured as an auction. Throughout this thesis, the term buyer will denote a legal entity – a company – as these are more often in the role of the buyer than natural persons. In general, there are two types of buyers, namely strategic and financial.

Strategic buyer sees the target acquisition as an option to fuel growth of its core business. Chiarella and Ostinelli (2020) find that strategic buyers are long-term oriented, they generally integrate with the target companies they buy and aim to realize operational synergies by achieving economies of scale or eliminating duplicate functions. They can decide for a vertical expansion by acquiring a customer or a supplier somewhere along the supply chain, or a horizontal expansion by taking over a competitor or a company operating in the same industry. Strategic buyers are motivated to acquire the target to expand to new geographies or product lines, to secure strategically important supplier or customer, to eliminate competition, enhance production capabilities, or to acquire new technology and knowledge (Chiarella et al., 2020).

As previously mentioned, one of the main motivations for the strategic buyer is to realize synergies. As per Damodaran, synergy is the additional value that is generated by combining two companies, creating opportunities that would not been available to these companies operating independently (Damodaran, 2005). Simply put, one could explain synergies as a process where summing 1 plus 1 would lead to 2.5 or 3, instead of 2. This rationale is important if we want to understand why strategic buyers are often able or willing to offer more money than financial buyers. Another advantage that the strategic buyer has over financial buyer is that it should have a deeper and better understanding of the acquiring business. It can perform much of the commercial and technical due diligence through utilization of in-house human resources.

Strategic buyers can be further differentiated to repeat and one-time players, depending on how often they engage in M&A activities. Repeat players utilize M&A to drive growth through acquisitions and successful integration in their operating models. In the last years, typical and most notorious representatives of repeat players became the so-called big tech companies, who take advantage of their strong balance sheets to weaken the competition by acquiring the competitors and the talent and technology they possess. In 2021 alone, Alphabet, Microsoft, and Amazon realized 22, 56, and 29 deals, respectively, with aggregate deal values of more than USD 60 billion (Feiner et al., 2022). On the other hand, one-timers are companies who only seldom engage in M&A activities. They could also be referred to as the occasional buyers. One-timers might act if a good opportunity comes along, but they would normally base their corporate strategy on organic growth. Contrary to the repeat players, they would not have in-house M&A departments and personnel with the expertise needed for the deal process but would rather depend on external advisors when engaging in M&A activity.

Financial buyer does not see the target as a component to be added to his core business – as the strategic buyer does – but rather as something he can operate as a stand-alone company and improve, revitalize, or recapitalize and after a certain period of time sell and make profit on the investment (Frankel, 2005). There are many different types of buyers with different motives, which sometimes makes it difficult to agree whether the buyer is strategic or financial. Nowadays, it is normal that financial buyers are experts in certain industries in which they invest. For example, if some PE fund is consolidating retail pharmacy market, it will not assume one pharmacy as a stand-alone investment but rather as part of a potential chain of pharmacies. Potential synergies, such as centralization of procurement or marketing services, represent a significant share of the target's value. From this aspect, one could argue that such buyer should be classified as a strategic rather than financial. One important distinction between both types is the investment time horizon. Strategic buyers acquire targets with the goal of integrating them in their operations and see acquisitions as an addition to the long-term value of the company rather than as an investment. Financial buyers, on the other hand, see acquisitions as financial investments which they can rationalize, improve, and later sell at a profit. They have exit strategy prepared even before the acquisition is final and have investment policy on how long to stay in a certain investment before reselling it. This can generally range from three and up to seven or even ten years. Typical representatives of financial investors would be PE or venture capital (hereinafter VC) funds. According to Harford et al (2011), financial buyers rely more heavily on debt capital for financing of acquisition to increase their return on investment. Further, they are often thought to have better oversight and governance than strategic buyers as they devote much of their resources into monitoring technology (Martos-Vila et al., 2011).

2.2.1.2 Buyer's advisors

In every transaction there are several advisors who are deeply involved in the whole process, either by advising the seller or the buyer. Financial advisors can have many different tasks throughout the acquisition process. At minimum, financial advisors would be engaged to perform the due diligence procedures. Often, they would also undertake the task of reviewing the financial part of the SPA. Full buy side mandate would generally give financial advisor the task of screening the market and identifying potential targets and leading the buying process, performing due diligence and valuation services, and helping with final price negotiations.

No M&A transaction can be completed without the help of legal advisors. While it is common for companies to have internal legal departments, these are usually supplemented by outside law firms that specialize in the M&A transactions. Lawyers are generally engaged by the buyer to perform two important tasks during the M&A process. First is the legal due diligence, which was described in the subsection 2.1.3 Due diligence stage, and the second is drafting of the SPA. Carefully drafted SPA can prevent legal disputes that might arise after finalization of the transaction.

Other advisors helping the buyer to successfully acquire the target are mostly specialist companies helping with the due diligence procedures. These might be large management consulting companies focusing on high-level strategy work, or more boutique consultancies specializing in specific sector or subsector. Besides due diligence, consultants are often engaged to prepare the strategy for successful target integration.

2.2.1.3 Financiers

Financiers are another important stakeholder in many transactions that were not mentioned thus far. Oftentimes, the buyer cannot finance the transaction by himself and must therefore turn to funds providers for financing. This is even more true for PE funds, who assume high level of financial leverage on their investments to increase the return on equity invested. Banks are the most common type of financiers, but these could also be PE funds or other money providers. In large transactions, a consortium of large investment banks would provide the needed funds to finance the deal.

2.2.2 Sell-side participants

2.2.2.1 Seller

It is important to note that in practice, the seller, target company, and its management may not be the same entities or individuals. They may have different incentives and views on the transaction, thus understanding the difference between them and their motivations is essential. The seller or vendor is the legal owner of the company who is looking to dispose of their investment. This could be an individual owner seeking retirement and benefiting from their past work or a group of shareholders either presented with a buyout offer or pursuing new opportunities. It is crucial to differentiate between these two groups of sellers as their exit decisions may be influenced by different factors.

In contrast, for shareholders that are not personally related to the company or the local environment they invest in, the primary and only factor influencing their exit decision may be the selling price they can negotiate. They may care little about the buyer's identity or how they will manage the company after the ownership transfer. However, individual sellers who are both owners and managers of the company tend to be more emotionally attached to their investment. Their company may be an essential part of their local community, and they may have close personal relationships with employees, buyers, and suppliers. Due to this attachment, it is common for them to demand the buyer to be a strategic partner who can help further develop their business. Provisions may be included in the SPA to prohibit the buyer from firing employees or relocating the company's headquarters, and individual sellers may be willing to agree on a somewhat lower price in exchange for business security. If the seller is a key personnel member, the buyer may 'demand' they remain part of the management team even after the sale, particularly for companies that specialize in highly specialized services where knowledge is a significant asset. The value of such companies is often hidden in their employees, making it crucial for the buyer to ensure they remain part of the business after the sale.

Sellers can also be divided into one-time or frequent. One-time sellers would be – as the name suggests – companies or individual persons who are not often involved in such dealings. On the other hand, a typical representative of a frequent seller would be a PE fund. As they are frequently participating on the buy-side of the process, it is logical that sooner or later they will appear on the sell-side, trying to exit their investment.

2.2.2.2 Target

The target is a legal entity, or a group of legal entities, whose sale is being contemplated. Target is run by the executive personnel, who are not necessary also the legal owners of the business. It is important to understand that the target in an asset deal might be any distinct asset identified in the SPA. However, due to simplicity, I will assume the target to be a legal entity, and the transaction perimeter to include all its assets and liabilities, employees, and supplier and customer relationships.

In M&A transactions, there is always a large amount of uncertainty involved. This is a stressful event not only for the people directly involved in the process, but for all target's employees, as the new owner might bring new work culture or make part of the staff redundant. It is important for the management to communicate the deal with the employees in an appropriate manner to assure there are no disturbances of both business operations as well as the transaction process.

2.2.2.3 Seller's advisors

In larger transactions, there are generally two types of financial advisors that help the seller, namely investment bankers and financial due diligence advisors. Investment bankers usually assume the role of a lead advisor, as they have greater capacity, know-how and business network that are needed in the sale process. When given a full sell-side mandate, investment bankers would begin by forming the sales strategy and 'beautifying' the company. They would be responsible for the preparation of the teaser, confidential info memo, and for reaching out to potential investors and persuading them to participate in further stages of the process. They would also prepare the financial model which is the basis for valuation of the company. Another important task of the investment bankers is to coordinate the whole process and lead communication between the seller on one hand and the bidders and their advisors on the other. This is usually done through the virtual data room (hereinafter VDR), where the buyer's advisors would upload questions and information requests and the seller would in turn provide the necessary documentation.

In large size deals, it is common that the seller would engage a financial due diligence specialist to prepare the so-called vendor due diligence report, which would be then disseminated to the potential buyers. As time is of the essence in the deal process, experienced investment bankers would organize the process in such a manner that different parties involved would work in parallel with one another.

Other advisors engaged by the seller are lawyers and other specialist companies. Lawyers' primary task is to draft and review the SPA, as already mentioned above. Other advisors could perform sell-side due diligence procedures, especially commercial and tax due diligence.

2.2.3 Other participants

2.2.3.1 Regulators

Even though the regulatory authorities are not directly involved in the M&A process, they have the power to put a stop on the transaction if they feel that the acquisition or merger will significantly hamper working of the free market. In the European Union (hereinafter EU), M&A transactions are regulated both at the national as well as supranational level. Slovenian competent regulatory authority is the Competition Protection Agency (hereinafter AVK), whose responsibility is enforcement of antitrust and merger control rules. The AVK examines whether a concentration is compatible with the rules on competition, and after the procedure is concluded, it approves, prohibits, or conditionally approves the concentration (AVK, 2023). At the supranational level, M&A transactions are regulated by the European Commission. The legal basis for the EU Merger Control is the EU Merger Regulation, which prohibits mergers and acquisitions which would significantly reduce competition in the Single Market, for example if they would create dominant companies that are likely to raise prices for consumers (European Commission, 2013).

2.2.3.2 Auditors

Auditor's job is to give assurance on whether company's financial statements represent true and fair view of its financial position. If the target's latest financials are audited, this gives the buyer and its due diligence team a signal that they can rely on the prepared financial statements. Often, though, the transaction cut-off date is mid-year, when audited financials are not available. Sometimes the buyer would demand appointment of an independent auditor to perform audit of the target's financials on the specified date.

2.3 Valuation methods

One of the key tasks in every M&A transaction is to determine the value of the company. Company valuation, also known as business valuation, is the process of assessing the total economic value of a business and its assets. During this process, all aspects of a business are evaluated to determine the current worth of an organization or department (Misamore, 2017). Often, the buyer and the vendor have very different views on how much the target company is worth. The final transaction price does not depend only on the fair value of the target, but also on negotiation skills of both parties, quality of their arguments, relative negotiation power, deal structure, and general market conditions in the time of the transaction. It is evident that determining the transaction price depends on subjective factors. Nevertheless, value of the argument is much greater if it is based on at least partially objective valuation techniques, commonly accepted by the M&A industry. Value of the company should not be looked upon as a single number, but rather as a range, and it is the task of the negotiations between both parties to determine at which point in this set range to settle.

According to Misamore (2017), there are 6 relevant methods of company valuation:

- EBITDA multiples.
- Discounted Cash Flows.
- Enterprise Value.
- Book Value.
- Market Capitalization.
- Present Value of a Growing Perpetuity Formula.

When evaluating a privately held company, most common valuation method in practice is a combination of EBITDA multiples and Enterprise Value estimation. This method is also the one I will devote the most attention to. When reliable cash flow projections are available, Discounted Cash Flows (hereinafter DCF) method is also commonly used. In the following paragraphs I will briefly describe the most important characteristics of these two valuation methods.

2.3.1 EBITDA multiples

As already mentioned, EBITDA multiples is arguably the most used valuation method among valuation practitioners. This is because it is a relatively simple concept that can be easily applied to companies operating in different sectors and industries. Kaplan and Ruback (1995) find that, while DCF valuations approximate transacted values reasonably well, simple EBITDA multiples result in similar valuation accuracy, which makes it a favorable valuation method when reliable cash flow projections are not readily available.

Table 1 presents the process from the reported EBITDA to the final cash consideration paid to the target's seller, as commonly used by the M&A practitioners.

Table 1: Typical components of the purchase price

EBITDA, reported
+/- Adjustments
= EBITDA, adjusted
x Transaction Multiple
= Enterprise Value
+/- Net debt or cash
= Equity value
+/- Working capital adjustment
+/- Other price adjustments
= Cash consideration

Source: EY (2022).

The basis for the EBITDA multiples valuation is – as the name suggests – company's EBITDA. EBITDA approximates operational result of a company on a cash flow basis and can be seen as a measurement of a company's overall ability of cash generation. It is important to be aware, however, that EBITDA is not defined by any GAAP, which leaves it up to subjective judgment of the management to determine how to measure it. Thus, reported EBITDA is usually not a sound basis for valuation since it is impacted by certain items distorting the EBITDA value. One of the financial advisors' main tasks is to determine what the 'true' EBITDA value should be. Due diligence almost always uncovers several items that should not be a part of the company's EBITDA. These items are then considered as EBITDA adjustments, and the bridge between reported and adjusted EBITDA is prepared by the financial advisors, explaining in detail why, in their view, the specific items must be adjusted.

Typical items which EBITDA is adjusted for are the following:

- Non-recurring and one-off items.
- Accounting adjustments and changes in accounting policies.

- Out-of-period adjustments.
- Pro-forma adjustments.

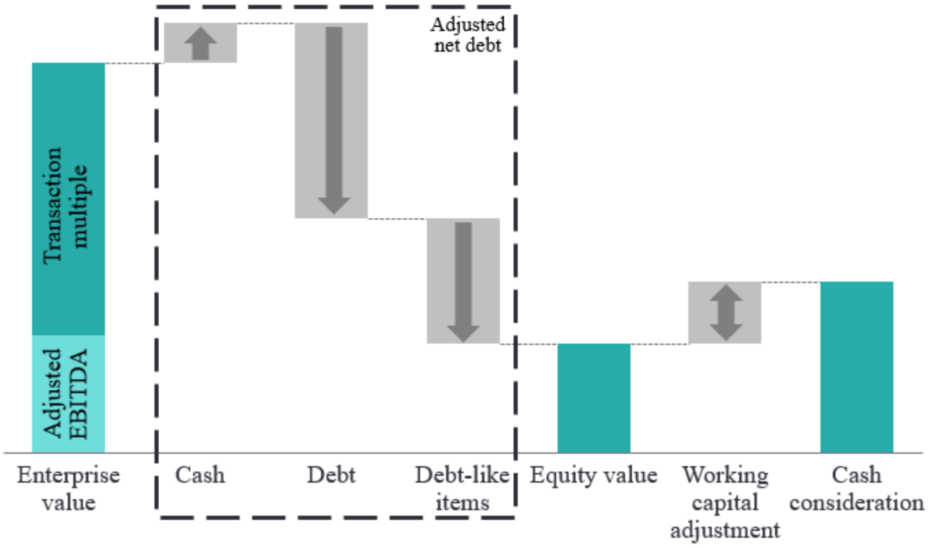
Non-recurring and one-off items are those which are not part of the target’s normal course of business in the historical period. Typical representatives of such items are for example a fine imposed by the competent authority, income from legal settlement, or transaction-related costs. Accounting adjustments can be related to accounting errors, changes in accounting estimates or policies, capitalization of costs that should have been expensed, or others. Out-of-period adjustments usually stem from revenue recognition issues and improper cut-off. Pro-forma adjustments are generally the hardest to quantify and require the most subjective judgment. Many items can be pro-forma adjusted, such as loss of a significant customer, discontinued divisions or geographical markets, or management fees charged by the parent company. These are just some of the examples of potential EBITDA adjustments, and it is up to due diligence teams to uncover all material items.

Once adjusted EBITDA is determined, it is time to negotiate the transaction multiple to be applied to it. As per EY (2022), the multiple is generally reflective of the current and expected earnings of the business, the industry in which the business operates, the debt and equity structure and the Weighted Average Cost of Capital (hereinafter WACC), and the interest rates environment.

Enterprise value is a multiplication of the adjusted EBITDA and the transaction multiple. This is the value of the company as a whole, including both its debt and equity. However, transactions are usually structured on a so-called cash-free, debt-free basis. Therefore, net debt must be subtracted – or net cash added – to the enterprise value to arrive at the equity value. Like EBITDA, net debt must also be adjusted for certain debt-like items. Typical examples of such items would be trapped or restricted cash, deferred revenue, or income tax liabilities. Adjusted net debt is decreased by the amount of cash and liquid financial investments the company owns.

After the value of the company’s equity is determined, the final step is to consider working capital and other price adjustments. SPAs normally include working capital peg. This is the amount that is deemed to be the ‘normal’ level of net working capital in day-to-day operations of the business. Any surplus or shortfall of net working capital in relation to the working capital peg then either increases or decreases the final cash consideration to be paid. The adjacent Figure 5 illustrates the whole process of deriving final cash consideration to be paid.

Figure 5: Enterprise value-to-Cash consideration bridge



Source: Own work based on EY (2022).

2.3.2 Discounted Cash Flows

DCF is the second widely used valuation method I will look at. It is more sophisticated than the previously mentioned EBITDA multiples method, and thus preferred by the management of larger companies with more advanced controlling departments. DCF is a valuation method used to value investment by discounting the estimated future cash flows (Corporate Finance Institute, 2022). As per PwC (2023), DCF is characterized by a two-step approach. As a first step, the company's enterprise value is derived as the sum of the present values of all future free cash flows available to capital providers. As a second step, the market value of debt is deducted from the overall enterprise value to determine the company's equity value.

In contrast with the EBITDA multiples method, which is based on historical data, the DCF method is a forward-looking approach based on the company's projected financials. No matter which one of the two methods is used as a 'first choice', it is useful to perform valuation using both mentioned methods to cross-check the final equity value.

2.4 Deal structures

Professional literature mostly distinguishes between three most common ways to structure an M&A deal, namely:

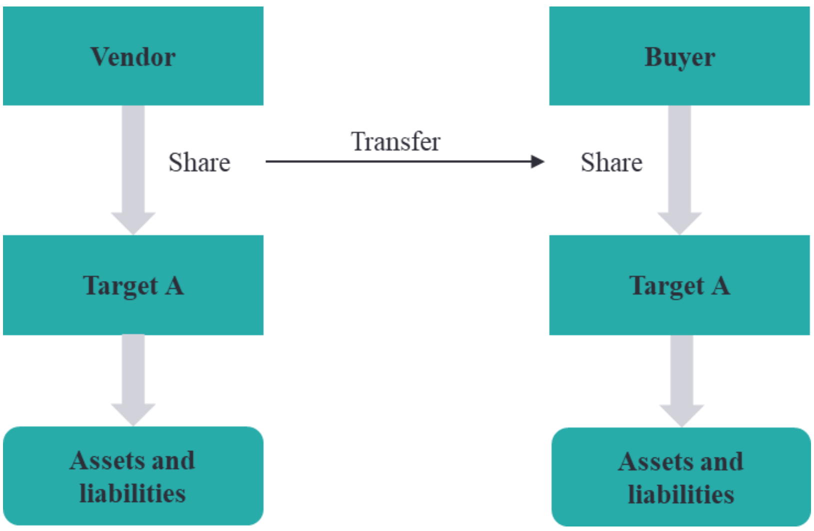
- Asset deal.
- Share deal.
- Merger.

Each of the three mentioned structures have their own specific advantages and disadvantages, and it is up to the buyer and the seller to decide on how to structure the deal. Decision on how to structure the deal often depends on tax and legal implications. Since countries have different legislations and tax systems, structuring the deal in one way in a certain country might not be an optimal solution in another. Therefore, it is important that legal and tax experts consider different options in the frame of the applicative legislative environment.

2.4.1 Share deal

A share deal – also called a stock deal or stock purchase – entails the acquisition of all the company's shares or a specific percentage of shares that gives the buyer control over the company. By doing this, the buyer acquires all rights and obligations as well as all assets and liabilities of the target company (Alickovic et al., 2020). Unlike with asset deal, share deal enables the buyer to obtain control and possession of the target's assets and rights that are generally non-transferrable, such as concessions or licenses (Bešter, 1996). By transferring all the shares from old to new owners, the latter acquire all company's assets and liabilities. All contracts, rights to intellectual property, and licenses are now the legal property of the buyer. As per DealRoom (2023c), a share deal may be beneficial for the practitioners looking for a less time-consuming and costly process. Because the seller retains a large portion of their regular activities after the transaction, these agreements are typically negotiated quickly and with lower costs of legal counsel. The cost of taxes might also be considerably lower when buying stocks, especially for the seller, although this depends on the country-specific tax system. Key disadvantage of the share purchase is that all financial or legal liabilities of the target will be transferred to the buyer (DealRoom, 2023c). Figure 6 depicts the general idea of an acquisition on a share deal basis.

Figure 6: Share deal

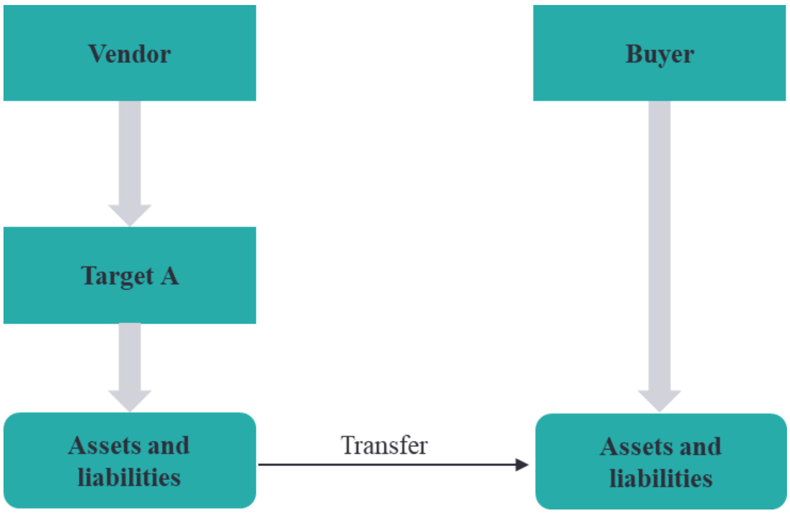


Source: Own work based on Alickovic & Brauweiler (2020).

2.4.2 Asset deal

Asset deal – presented in the Figure 7 – is the second well-known way of structuring an M&A transaction. In contrast to the purchase of company shares, an asset deal represents the acquisition of all or specific assets owned by a person or business. When the creditors are informed in advance, it is sometimes possible to obtain liabilities or a portion of liabilities as well (Alickovic et al., 2020). If the prospective buyer wants to buy specific assets without taking on any of the associated liabilities because the target company will retain its name and corporate entity, stakeholders may decide to go through with an asset acquisition (DealRoom, 2023c). The main advantage of an asset deal is that buyer can specify which assets and liabilities he wants to acquire from the seller and which not. Another advantage is that the seller can continue to run target company with the remaining assets and liabilities after the transaction. Typical example could be a spin-off or a carve-out of a specific division. While assets and liabilities related to this division are transferred to the new owner, the seller retains other parts of the business that were not included in the transaction perimeter. On the downside, this type of deals is usually much more costly and time-consuming, as lawyers must create a comprehensive list of all the items that are being transferred. Further, tax impact on this type of transactions is generally higher than with share deals. Another shortfall is that the buyer may not be able to acquire non-transferrable assets, such as goodwill (DealRoom, 2023c).

Figure 7: Asset deal

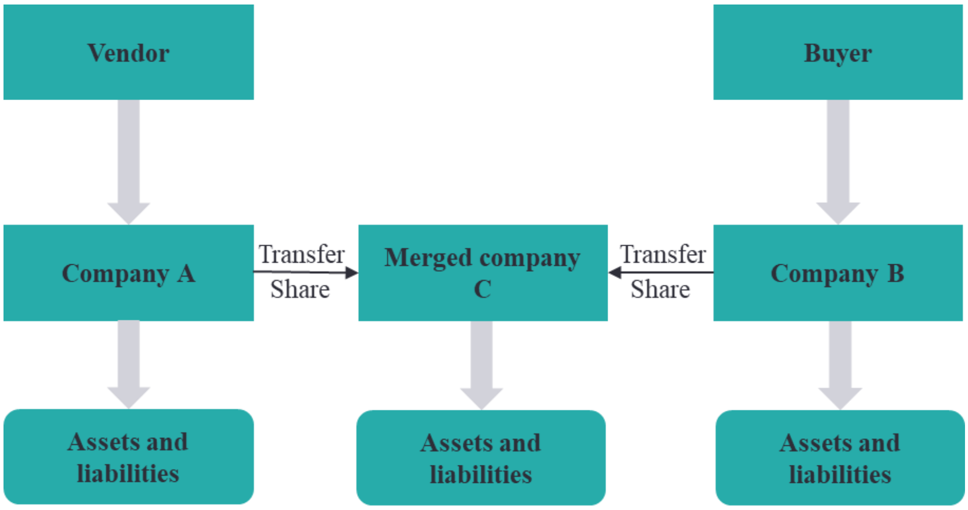


Source: Own work based on Alickovic & Brauweiler (2020).

2.4.3 Merger

The last type of M&A deal structuring I will mention more in-detail is the merger. As mentioned above, both with share and asset deal, there is a transfer of ownership rights – either ownership of shares or assets – from the seller to the buyer. In contrary, when the two companies are merged, both cease to exist legally and are replaced by a new, combined entity. Comparatively, mergers are generally a simple deal process, as all assets and liabilities of the combining entities are transferred to the new one (DealRoom, 2023c). Figure 8 graphically represents merger of two separate legal entities.

Figure 8: Merger deal



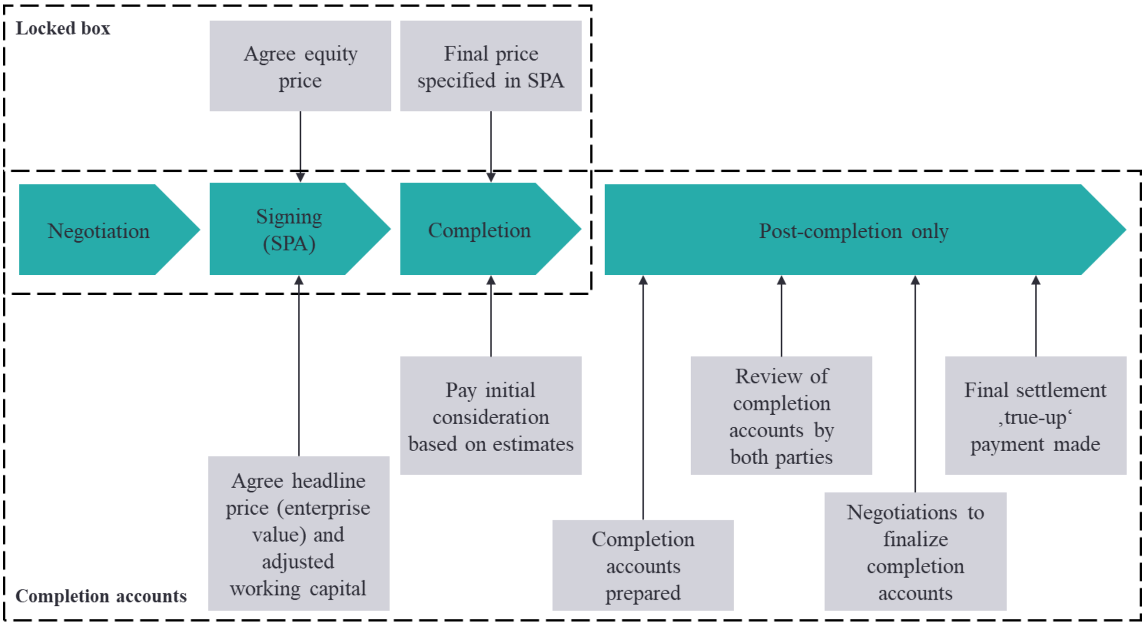
Source: Own work based on Alickovic & Brauweiler (2020).

2.5 Completion mechanisms

The final part of section 2 Overview of the M&A process will explain the basics of the two most common M&A transaction financial statements completion mechanisms and provide the rationale why stakeholders would decide for one or the other. A completion mechanism – also referred to as the purchase price mechanism – is used to determine the final acquisition price that the buyer must pay to acquire the target company (EY, 2022b). There are two commonly accepted completion mechanism, namely locked box and completion accounts. As per global consultancy EY, the application of completion accounts has been the preferred option for M&A transactions practitioners for a very long time, and they are still widely used today. However, in recent years, the locked box mechanism has become increasingly common because of a strong seller's market, a rise in the market's need for fast-paced M&A deals, and a preference for clean exits, especially when financial investors are involved (EY, 2022b). Similar conclusion was drawn by Reddy, who finds that while completion accounts are customarily utilized in the US, it is common in the United Kingdom (hereinafter UK), particularly in the private equity sector, to base an acquisition's price on historical accounts (Reddy, 2022).

Figure 9 graphically portrays the difference between completion accounts and locked box. Both mechanisms are described more in-depth in the following paragraphs.

Figure 9: Completion accounts vs. locked box diagram



Source: Own work based on EY (2022).

2.5.1 Completion accounts

After the acquisition is completed, purchase price of a company can be adjusted using the completion accounts mechanism. This is commonly used when there is a great deal of uncertainty about the value of the target company. Under this mechanism, the purchase price is initially estimated based on the target's financial information and other relevant factors, as described in the previous chapters. The exact purchase price, though, won't be decided until after the deal is closed and the target company's actual financial performance is known. Normally, after completion and payment of the preliminary purchase price, the procedure for determining the final purchase price begins. At this point, the buyer – who is now in control of the target company – prepares completion accounts. The seller is then given the possibility to scrutinize the prepared financial statements and either accept or dispute the buyer's calculations. Following the agreement on the final purchase price, any difference between the preliminary purchase price paid at completion and the final purchase price is settled between the parties through a purchase price adjustment (EY, 2022b). Reddy finds post-closing price adjustments – such as completion accounts – to be more buyer friendly and to be more commonly used in environment where buyers are relatively more protected. This is because carefully drafted SPAs that include completion accounts mechanism prevent value leakage in the period between the transaction signing and closing (Reddy, 2022). Benefits and risks of the completion accounts are presented in the Table 2.

Table 2: Benefits and risks of the completion accounts

Benefits	Risks
Valuing what is acquired at completion	Opportunity for the buyer to decrease price post-completion (risk for the seller)
Allows buyer to assess cash, debt and working capital once it owns the business (benefit for the buyer)	Lengthy and costly completion process takes up management time
No need to consider value accrual or leakage	General lack of certainty on final proceeds

Source: EY (2022).

2.5.2 Locked box

Under the locked box mechanism, there are no post-completion adjustments and both parties agree on the final purchase price based on the target's financial statements prepared on the agreed date. These can be either prepared on a fiscal year-end date and audited by the independent auditors or prepared mid-year and reviewed by the financial due diligence team. As a result, the buyer will try to protect the value of the target company in the time between the locked box date and the completion date by requiring the seller to include a clause in the SPA asking the seller to indemnify the buyer for any unauthorized leakage of value or extraction of value from the target company during the locked box period (EY, 2022b). In general, locked box is a seller-friendly mechanism, as it transfers the risks of post-completion value erosion to the buyer. According to Reddy (2022), locked box is particularly appealing to the private equity sellers, who wish to exit their investment in a clean and fast way, without any potential disputes after the transaction closure. Increase in popularity of locked box mechanism followed development of the 'seller's market' in the recent years. In the environment of low interest rates and scarcity of investment opportunities, buyers lost their relative bargaining power and are often 'forced' to accept sellers' demands on how the deal should be structured.

One important concept to understand under the locked box is so-called value accrual or value erosion. Under a locked box mechanism, the economic risks and returns are effectively transferred to the buyer at the locked box date. Because the seller will still have their capital tied up until transaction completion and will in the meantime continue to run the business to generate profits, they will usually seek compensation via a value accrual provision in the SPA (EY, 2022b). This provision specifies how much of company value is accrued each day, and the seller is then compensated for this amount once the deal is officially finalized. On the other hand, buyer risks that there might be value leakage from the target company to the seller. Therefore, it is important to ensure tight drafting of the leakage and permitted leakage clauses to protect the buyer (EY, 2022b). Permitted leakage can be, for example, dividends that were already declared prior to the locked box date and were already priced in the deal value. Benefits and risks of the locked box are presented in the Table 3.

Table 3: Benefits and risks of the locked box

Benefits	Risks
Certainty of proceeds	Buyer cannot adjust the price post-completion and needs to rely more heavily on pre-signing information (risk for the buyer)
Easier to compare bids from different buyers	Establishing the value accrual can be problematic if trading is unpredictable or if there is a long period between locked box and completion date
Less opportunity for the buyer to price-chip post completion (benefit for the seller)	An inappropriate locked box can result in value erosion
Less management time post-completion	
Less drafting required in the SPA	

Source: EY (2022).

3 M&A TRENDS THROUGHOUT HISTORY

3.1 Historical trends in M&A

Mergers, acquisitions, divestitures, and spin-offs have been a normal course of business for decades. These are important strategic decisions taken by the companies' managements with prospect of improving operational performance, increasing top line growth, or reducing inefficiencies. However, M&A transactions did not follow a straight line of growth throughout history, but rather moved in waves coinciding with periods of macroeconomic expansion and capital markets growth. King, Bauer and Schriber (2018) find that acquisition activity is cyclical as periods of increased M&A frequency are triggered by economic, regulatory, and technological events. Further, comparison of merger waves suggests that different waves display different motives that were prevailing in the set historical period. Cordeiro (2014) refers to economic, regulatory, or technological changes as 'shocks', which occur when there is an expansion of the economy that drives companies to increase output to meet the growing aggregate market demand, and expansion by M&A transactions represents an alternative to organic growth. Similar conclusions are drawn by Junni and Teerikangas (2019), who agree that M&A activity occurs in waves. Peaks coincide with economic upswings while fewer deals take place during economic downturns.

Most professional literature identifies seven distinct historical M&A waves (Cordeiro, 2014; Junni et al., 2019, for example), with first wave identified at the end of 19th or beginning of 20th century. In the following paragraphs, I will briefly describe main characteristics and drivers for each of them. Subsections 3.2 Recent M&A market developments and 3.3 CEE region M&A market developments of this section will focus on M&A activity in the recent years, which was deeply affected by the Covid-19 pandemic and Ukraine war. By leveraging professional reports and global surveys, subsection 3.4 M&A market outlook will attempt to provide guidance for navigating turbulent M&A environment in the near future.

3.1.1 First M&A wave

First recorded M&A wave lasted from late 1890s until early 1900s. It occurred in the US during a period of economic growth and lack of antitrust regulation (Junni et al., 2019). US companies in this period tried to build monopolies in their respective industries and create so-called trusts, which are a form of horizontal integration (Cordeiro, 2014). Market consolidation occurred mainly in the traditional industries, such as manufacturing, oil, mining, and steel, where large players went on a shopping spree to acquire competitors and improve their market power (Malik et al., 2018). Most famous examples are the formation of Standard Oil Company in 1899 and United States Steel Corporation in 1901. As per Cordeiro (2014), more than 1,800 companies merged or were acquired in the period between 1890 and 1905. First M&A wave was largely seen as unsuccessful, as most M&A deals failed to achieve the desired outcome. This was further exacerbated by economic downturn in 1903 and followed by the collapse of the US stock market in 1904 (Cordeiro, 2014), which also denotes the end of the first historical M&A wave.

3.1.2 Second M&A wave

Following the first wave and formation of trusts which crippled competition in key industries, such as oil and steel, US government responded by passing legislation that prohibited the trusts formation. Clayton Antitrust Act was passed in 1914, complementing the terms of the Sherman Act, which was effective already since 1890, but had serious shortfalls and did not offer the desired outcome (Cordeiro, 2014). Second M&A wave started around 1920 and lasted until 1929, when the Great Depression hit the US. It was driven by M&A activity between smaller firms operating in the same industry, with the aim of increasing firm size and becoming more competitive on the market (Junni et al., 2019). This period records the first large scale creation of conglomerates in the US, such as IBM, General Motors, and John Deere (Cordeiro, 2014). Further, it was the first time in history that banks played an important role in facilitating M&A deals. Large US investment banks helped assist acquisitions by granting loans and providing capital to the acquiring companies (Malik et al., 2018). As mentioned, second M&A wave was abruptly ended by the crash of the stock market in 1929, followed by the Great Depression, which lasted for years and is thought to be the worst economic period in the history of the US.

3.1.3 Third M&A wave

The third M&A wave started in 1965 and lasted until 1969 (Cordeiro, 2014; Malik et al., 2018). It was characterized by a trend towards diversification among companies, leading to the formation of large conglomerates. It became known also as the conglomerate merger period (Cordeiro, 2014). While the first two waves were limited primarily to the US market, third M&A wave is the first ‘global’ wave as deals took place not only in the US, but also in the Continental Europe and the UK (Junni et al., 2019). Conglomerates that were formed in this period were very diversified in terms of business operations, and it was not uncommon for a company to acquire a target operating in a completely unrelated industry with the aim of portfolio diversification. These conglomerates proved to be largely inefficient, which was also one of the reasons for the end of the third wave by the end of 1960s. As per Ravenscraft and Scherer (1987), the profitability of acquirers did not show any sign of improvement and many of the undertaken acquisitions were subsequently divested.

3.1.4 Fourth M&A wave

The fourth wave occurred in the 1980s and was arguably the most turbulent as the business environment of hostile takeovers developed. The difference between a hostile and a friendly acquisition or takeover is the reaction of the target company's management or shareholders. Generally, if one of the two groups is opposing the deal, it is referred to as hostile (Haleblian et al., 2012). Leveraged buyouts (hereinafter LBOs) also became popular during this time, as many transactions were financed by large amounts of debt or so-called financial leverage. This helped fuel hostile takeovers undertaken by the company's management (Junni et al., 2019). Financing was provided either by investment banks or PE funds, which gained importance in this period and became one of the key market players shaping the future M&A market landscape (Cordeiro, 2014). The fourth M&A wave ended with the US stock market crash and a period of a short recession between 1989 and 1990.

3.1.5 Fifth M&A wave

Globalization was the main determinant driving the fifth M&A wave, which started around 1992 and lasted until 2000. Cross-border deals were an important factor that reflected the broader trend towards globalization, with transactions taking place in the US, Europe, and Asia (Junni et al., 2019). While the fourth wave was characterized by highly levered and speculative deals with the prospect of generating short-term returns on financial investments, transactions in the fifth wave had a more strategic nature and were focused on generating long-term returns and growth (Cordeiro, 2014). More conservative combination of debt and equity was used to finance transactions. The two sectors in which most of the high-profile deals took place were banking and telecommunications (Malik et al., 2018). The end of the fifth M&A wave denotes the crash of the stock market in 2000.

3.1.6 Sixth M&A wave

The sixth M&A wave began around 2003, when the global market started to recover from the 2000 downturn. Globalization continued to be the primary factor driving M&A deals in this period (Junni et al., 2019). Cross-border transactions were becoming more and more important with deals taking place both in the developed regions, such as the US and Europe, as well as in developing regions like Asia or Latin America. Low interest rate environment boosted the rise of PE funds and fueled stock markets growth, leading to abundance of capital available and favorable financial environment for M&A participants (Cordeiro, 2014). This consequently led to the implosion of the US housing market which triggered the global financial crisis in 2008. This was also the end of the sixth M&A wave.

3.1.7 Seventh M&A wave

The seventh and the last M&A wave recorded by the professional literature thus far started around 2014 in the US with post-global financial crisis market recovery. Cumulative global transaction values reached USD 2 trillion in 2018, exceeding values of USD 1.8 trillion recorded at the peak of the previous wave in 2007 (Junni et al., 2019). Like in the previous two waves, there was a big emphasis on global growth, with domestic deals playing a significantly smaller role. Contrary to earlier waves, acquirers from emerging markets significantly contributed to the growth of M&A activity in the seventh wave (EY, 2018). This wave was also driven by disruptive innovations reshaping the industry landscape and blurring sector boundaries, which pushed acquiring companies to seek out innovative targets such as start-ups (EY, 2018). Global outbreak of the Covid-19 pandemic could be considered as the end of the seventh M&A wave, although as the following subsections will show, the trend was not so much reversed as it was postponed for a period of a few months.

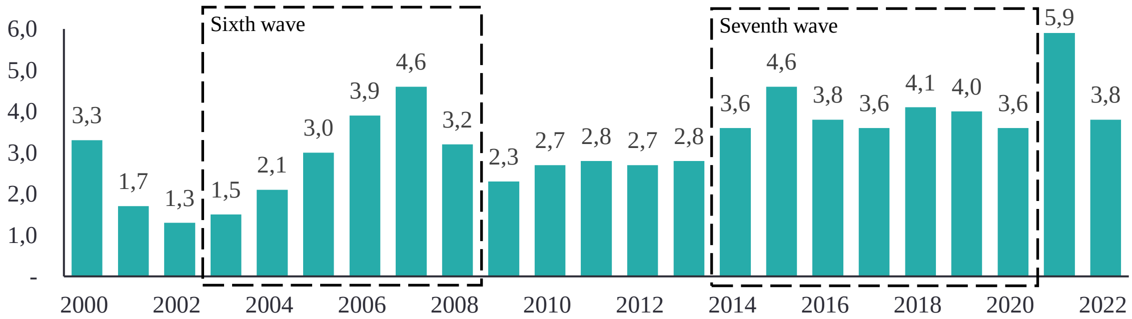
3.2 Recent M&A market developments

As mentioned, M&A market is driven by two main factors, namely cyclicality and structural changes of the global economy. Business cycles are normal patterns observed in functioning of the economic systems and refer to the cyclically recurring patterns of expansion and contraction in economic activity. There are four phases of a business cycle, that is expansion, peak, contraction, and through. As the economic activity is rising, so is the M&A market, as companies are turning towards inorganic growth to further fuel their expansion and meet customers' demand. In the phase of contraction, however, demand is decreasing and with negative market outlook, companies are reluctant to undertake strategic transactions in the time of economic uncertainty. This is often exacerbated by tightening of the access to capital markets, as investors and creditors become cautious about deploying their capital. M&A activity suffers from the contraction to through.

In contrast to the business cycles, which are a recurring occurrence and generally last up to 10 years, structural changes in the global economy refer to fundamental shifts driven by technological advances, changes in consumer behavior, and shifts in general economic conditions, to name a few. Structural changes affect long term trends and shape development of different markets.

Figure 10 depicts yearly cumulative value of global M&A deals between years 2000 and 2022. The end of the fifth wave can be clearly seen, as deal value decreased from USD 3.3 trillion in 2000 to USD 1.7 trillion and 1.3 trillion in 2001 and 2002, respectively. Once the economic through was reached, M&A activity picked up in line with the general growth of the economy in 2003, which also represents the beginning of the sixth M&A wave. Boom in the M&A activity touched peak in 2007, with the cumulative deal value reaching USD 4.6 trillion, before global financial crisis brought an end to the sixth wave in 2008 and a prolonged period of subdued M&A activity followed. As evident from the adjacent figure, seventh M&A wave was not 'typical' in a sense of rapid market growth but was rather a period of above-average level of market activity, with global cumulative deal values ranging between USD 3.6 and USD 4.6 trillion. Outbreak of Covid-19 pandemic in first quarter of 2020 denotes the end of the seventh M&A wave. What might come as a surprise is that, even though global economy was halted for a number of months during that year, data shows 2020 was still one of the best performing years historically, with cumulative deal value reaching USD 3.6 trillion. Negative effect of economic uncertainty was offset by a combination of fiscal support and ultra-loose monetary policy, as will be discussed more in detail in the following paragraphs. Nevertheless, many deals were postponed from 2020 to 2021, making it the best performing year in the history in terms of M&A deal value (Bain, 2023). Positive momentum continued in the first half of the year 2022, before deal activity plunged due to the rise in inflation and the consequential interest rate hikes in the world's largest economies.

Figure 10: Global M&A deal value (in USD trillion)



Source: Bain & Company (2023).

In the previous subsection, I mentioned globalization as the main driver of the fifth M&A wave that lasted until the burst of the 'dot com' bubble in 2000. While this event represented the low point of a business cycle, structural trend of globalization was far from over and continued to drive cross-border M&A activity in the 21st century. Due to the growing interconnectedness of the global markets, it has become easier for businesses to undertake cross-border M&A activities. The expansion of global trade, advancements in communication and transportation technologies, and the development of the emerging markets have all contributed to this. Further, the shift in emphasis towards emerging markets was another major driver of cross-border M&A activity in the recent years. Companies have increasingly sought to acquire businesses in these regions to obtain access to new customers and markets as the relevance of emerging markets has grown significantly.

Another important driver in the post-global financial crisis years was the low interest rate environment in most of the developed economies. Low interest rates have made deal financing relatively cheaper and more accessible to companies. This has made it easier to finance M&A deals as businesses could utilize low cost of debt to finance acquisitions. Lower finance costs in combination with subdued market demand have encouraged companies to pursue inorganic growth possibilities through M&A transactions.

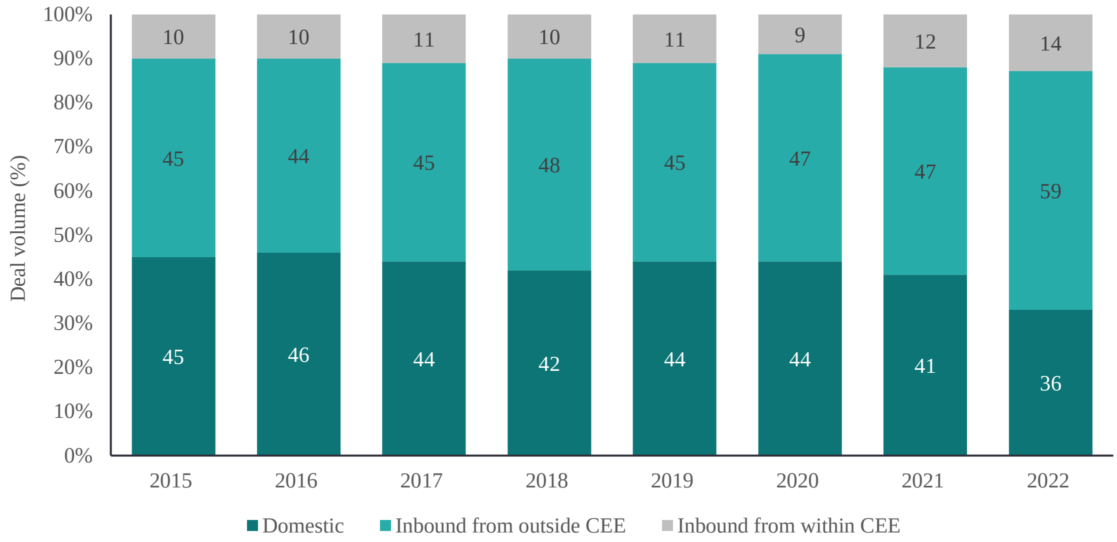
Abundance of cheap capital in the recent years encouraged leading market players to undertake more daring transactions, bringing a rise of the so-called mega deals. Different professional services providers define different thresholds for mega deals, but in general, these are transactions involving large-cap companies. As per Baker Tilly's report (2022), global M&A deal volume decreased between 2019 and 2021 by 7%, from 36,587 to 34,128 completed deals. On the other hand, number of M&A transactions with value of at least USD 500 million has increased in the same period by 63%, from 1,187 in 2019 to 1,930 in 2021. Cross-border M&A mega deals have continued to dominate, as companies are seeking global expansion and market access. Emerging markets, such as China, India, and Southeast Asian countries, have been targets and sources of mega deals, as businesses explore for expansion prospects beyond their domestic markets. Many mega deals have been driven by the strategic consolidation within respective sectors and industries. Companies are searching how to reinforce their market position, achieve economies of scale, and exploit synergies through M&A transactions. This trend has been particularly notable in sectors such as healthcare, financial services, and telecommunications.

3.3 CEE region M&A market developments

Central and Eastern Europe (hereinafter CEE) is a broad region, a part of which is also the Slovenian market. CEE region comprises Albania, Austria, Bosnia, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Moldova, Montenegro, Poland, North Macedonia, Romania, Serbia, Slovakia, Slovenia, and Ukraine.

CEE M&A deal volumes – i.e., the number of closed deals – in the recent years were driven by increasing share of inbound transactions. Figure 11 shows the share of domestic M&A deals decreased steadily in the period between 2015 and 2022, from 45% to 36%. Share of inbound transactions from within CEE region increased by 40% in the mentioned period, from 10% to 14%, but was still much smaller compared to inbound transactions from outside CEE region (Mazars, 2023). Nevertheless, increase of regional M&A indicates that companies are turning towards pursuing transactions in the vicinity of their domicile. Some of the reasons for this might be the geographic proximity, which offers supply chain advantages, similarity in culture, language, business practices, or regulatory environment. Supply chain issues that arose due to the Covid-19 prevention restrictions forced companies to reconsider their business models. For years, companies were looking towards Asia and other distant countries that offered cheaper labor force and less strict regulatory and environmental policies. However, after the pandemic, many companies are bringing their production facilities closer to their home regions to ensure supply chain security (Datasite, 2023).

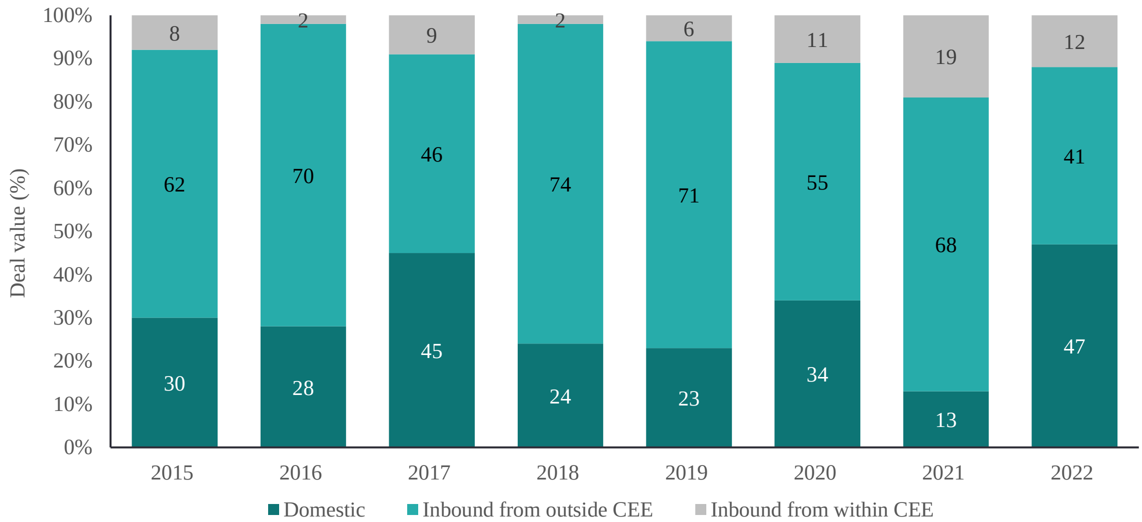
Figure 11: CEE M&A deal volume - inbound vs domestic



Source: Mazars (2023).

Figure 12 presents distribution of the combined M&A deal value between domestic, inbound from outside CEE, and inbound from within CEE region between years 2015 and 2022. Much larger variation in data can be observed compared to the movements in deal volumes seen from the Figure 11. This is because a few large transactions – also referred to as mega deals – can greatly influence the data. In general, it can be observed that domestic and inbound from within CEE deals were relatively smaller in size compared to inbound from outside CEE. In 2018, for example, inbound transactions from outside CEE region represented 74% of combined deal value in that year, but only 48% of the total deal volume. On the other hand, data for 2022 shows domestic deals were much larger in size compared to inbound M&A, as they represented only 36% of total deal volume while they accounted for 47% of combined deal size in the mentioned year (Mazars, 2023).

Figure 12: CEE M&A deal value - inbound vs domestic



Source: Mazars (2023).

While the CEE region is one of the smaller ones in terms of market size, there were several factors driving the growth and development of the M&A sector in recent years. The region has experienced steady economic growth and strong market potential over the years, making it a desirable location for investments. Large customer bases, rising disposable incomes, and market liberalization are just a few of the elements that have drawn in both domestic and foreign investors. Further, to make the shift from centrally planned economies to market-oriented systems, many post-socialist CEE countries have implemented privatization plans and market reforms in the recent decades. Selling of the state-owned businesses and the deregulation of a number of industries created M&A possibilities for investors looking to enter or increase their presence in these markets. M&A activity in the CEE region has been driven by investments in infrastructure projects, such as those related to transportation, electricity, and telecommunications. The expansion of infrastructural networks has boosted regional connectivity and increased the region's allure for foreign direct investment (hereinafter FDI). Lastly, foreign businesses have been encouraged to establish or extend their operations in the CEE countries by favorable government policies and incentives, such as lower tax burdens or government grants for creating new jobs.

3.4 M&A market outlook

EY’s CEO Outlook Pulse Survey, conducted in the end of the 2022, shows that 98% percent of the surveyed CEOs expect a recession in the upcoming years. Further, 41% expect the downturn to be severe, although temporary, while 36% expect a moderate and persistent economic downturn. Even more worrying is the fact that 55% of respondents believe that the looming downturn will be more severe than the global financial crisis (EY, 2023b). Sentiment surveys among the world’s top CEOs are important because they are responsible for deployment of billions of dollars into different investments. Negative outlook suggests companies will be cautious with spending money and making bold investments in the upcoming months or years.

As I already mentioned in the previous paragraphs, M&A activity tends to decrease when the global economy enters recession. Furthermore, new understanding of the leading central banks, such as US Fed or the ECB, is that the interest rates will remain higher for longer. This is because the inflation is turning out to be more persistent than originally anticipated. Higher interest rates lead to higher cost of capital, which will burden especially those companies that assumed higher amounts of financial leverage in the previous years. High financing costs tend to have a negative effect on the M&A activity. On the other hand, a rise of distressed companies can be expected in the near future, which could offer companies with stronger balance sheets and spare liquidity cheap investment opportunities. Considering record amounts of ‘dry powder’ that the PE funds are sitting on (S&P Global, 2023), a rise in these types of transactions could be expected. Besides financing obstacles, another headwind that the market is currently facing are the valuation gaps. Managements and business owners are having a hard time of adopting to the new reality after years of favorable market sentiment and record high valuations. The new reality is that with the rising interest rates and weakening orderbooks, many companies are nowadays worth significantly less than they were before 2020. While the buyers are already accounting for these market changes, many sellers are still hoping for the trend to turn. Thus, it is no surprise that 16% of the managers surveyed by the CMS rank valuation gaps as their top concerns for the M&A market activity in the following year. This is supplemented by 15% who find financing to be the top concern in their opinion (CMS, 2022). Lastly, a major threat to global M&A activity are rising geopolitical tensions. Ukraine war, Taiwan tensions, Israeli-Palestinian conflict, and the growing polarization of the world's largest economic powers are just some of the issues that threaten economic activity. The trend of globalization appears to have come to an end, and the threat of deglobalization seems to be more real than ever. This could lead to companies increasing M&A activity in the local markets on one hand and decreasing cross-continent transactions on the other.

Even though the global economic environment has been turbulent in the recent years, many opportunities for the M&A activity persist. Environmental, social, and corporate governance (hereinafter ESG) considerations will lead the market activity in the years to come. Furthermore, companies offering disruptive technologies, such as artificial intelligence, will be targeted by incumbent companies looking to retain their leading market positions. PE funds are the ones shaping the global M&A markets and will continue to do in the future as they hold record amounts of money ready to deploy when the right opportunity arises. Despite the significant headwinds companies are facing, optimism among the investors and corporate managers appears to persist. As per SS&C Intralinks, 62% of the surveyed executives expect overall levels of M&A to increase over the year to come (SS&C Intralinks, 2023).

3.4.1 ESG investing

ESG factors are increasingly important in the M&A market for several reasons. First, integrating ESG factors into the M&A due diligence process helps to identify risks and opportunities that may not otherwise be evident. These risks could include environmental liabilities, legal or regulatory compliance, or social factors that could adversely impact the target company's business or reputation. Second, companies that have strong ESG credentials are generally viewed more favorably by investors, customers, and other stakeholders. This can ultimately impact the valuation of the company, making it either more or less attractive to potential acquirers. Third, companies that demonstrate a commitment to sustainable business practices may have a competitive advantage in the marketplace. For example, companies with strong environmental practices may be better positioned to address the risks of climate change, while companies with robust social policies may be seen as more attractive to customers and employees.

ESG factors will most likely shape the M&A landscape in the following years. ESG investing, also known as sustainable investing, is a type of investment strategy that considers ESG factors in addition to financial factors when selecting investment opportunities. ESG investors consider a company's impact on the environment, its social policies like human rights, diversity, and labor practices, as well as its governance policies such as board composition, executive compensation, and transparency. The aim of ESG investing is to promote sustainability and social responsibility while generating positive financial returns. Market participants are looking to capitalize on more attractive value creation opportunities or are forced to incorporate ESG aspects into their strategic approach to remain competitive. As per survey conducted by the CMS, 90% of respondents say they expect scrutiny of ESG issues in deals to rise in the following three years (CMS, 2022). Furthermore, SS&C Intralinks' 2023 survey finds 72% expect ESG issues to receive more scrutiny in M&A processes over the next three years, an increase of 10 percentage points compared to the 2022 survey. The report finds that the importance of the ESG factors in dealmaking and deal processes has accelerated over the past 12 months (SS&C Intralinks, 2023). Companies that will not be able to display their ESG commitments and support these by actual numbers will have a hard time finding a buyer. At minimum, lack of ESG perspective in these companies will be punished by lower market valuations.

3.4.2 PE funds

As mentioned, PE funds are sitting on billions of dollars they have amassed during the recent period of low interest rate environment and scarcity of investment opportunities. The current M&A environment seems to present an ideal opportunity for the PE funds to leverage their balance sheets and undertake large deals once the market valuations appear favorable to them. This was also recognized by the respondents of the CMS' survey, as 60% find the financial buyers to be better positioned to take advantage of the buying opportunities. 24% believe that PE activity will be the most important trend in European M&A in the years to come (CMS, 2022). Similar percentage of respondents expect spin-offs and carve-out activity to be the top trend in the next 12 months. PE funds with a track record of undertaking these complex transactions appear to be the natural buyers in these types of transactions. Furthermore, 64% of the PE funds' managers expect to undertake four or more deals in the following 12 months, compared to 34% of corporate companies' managers. Mid-market companies – those worth less than a billion USD – appear to be the most sought after, as 78% of the respondents identify these companies to be top target priorities in the coming year (SS&C Intralinks, 2023).

4 ANALYSIS OF THE SLOVENIAN M&A MARKET

This section aims to analyze the development of the Slovenian M&A market over the years. It will identify the major deal drivers and compare the Slovenian market growth with the regional and global M&A trends. Subsection 4.1 Sample and Methodology is detailed in two parts. The first part describes the criteria used for selecting the sample and presents basic information and descriptive statistics related to the analyzed sample. The limitations of data collection are also explained. In the second part, key research techniques and the methodology used are presented. This is followed by a market analysis of the historical development of the M&A market, transaction values and volumes, the origin of capital of buyers and targets, the industries in which they operate, and types of buyers. Lastly, key market players and trends are discussed.

4.1 Sample and methodology

4.1.1 Dataset and sampling

The main source of the deal information compiled for the analysis was Standard & Poor's Capital IQ Pro, a deal intelligence data site utilized by a number of professional services organizations. It is one of the leading global M&A deal data providers and as such considered to be a reliable source of information. Once gathered, data from Capital IQ Pro was supplemented by the information gathered from Gvin, a Dun & Bradstreet-owned analytical tool for the Slovenian market and company analysis, and by specific deal information obtained from the leading Slovenian media outlets, such as the financial journal Finance.

Deal information for the period between the years 2006 and 2022 was obtained from the Capital IQ Pro, from which a time series was created. This data included many different datapoints, such as transaction date, vendor and buyer names, type of transaction, and transaction value. Data was retrieved on 22nd of February 2023. Only transactions involving a sale of the majority share of the company were analyzed. Initial public offerings were not included in the analysis, while withdrawals of public companies from the Ljubljana Stock Exchange by buying-off majority of the shares on the market and taking companies private were part of the dataset. This is because this thesis focuses primarily on M&A transactions of privately held companies. Asset or branch sales, spin-offs and carve-outs have also not been included in the dataset. Only transactions that were officially completed by the end of the year 2022 were considered. The deal is deemed to be officially completed once it obtains all the necessary approvals from the competent regulatory authorities, such as the AVK or the European Commission.

It is important to note that there were certain data limitations observed, such as a missing vendor or buyer name, missing transaction values and so forth. This was expected as it is common for private company deals to be completed in confidentiality and the key transaction information, such as a price consideration paid, to be kept secret. Nevertheless, relevant Slovenian media's archives were browsed to try and find the information missing from the original database.

In total, there were 396 deals recorded in the S&P Capital IQ's database in Slovenia in the 2006-2022 period. Table 4 presents key descriptive statistics of the analyzed deals for which transaction values were disclosed. There were 137 such deals recorded in the 17 years that I observed. The number of deals with disclosed transaction values varies between 3 and 20 per year. This is important because, in years with a low number of transactions with disclosed values, one outlier - a very large or very small deal - can materially impact the statistics. The greater the number of deals with disclosed values, the greater the explanatory power of the dataset. The total average deal value amounts to EUR 63.7 million, but year-wise analysis shows the average deal value to vary from EUR 10.9 million in 2016 to EUR 269.4 million in 2013. The median deal value amounts to just EUR 9.9 million, suggesting that a small amount of very large deals had a significant impact on the averages observed. This is further confirmed by the large standard deviation of the observed deal values, which amounts to EUR 160.3 million for the whole dataset. The 75th percentile of transaction values amounts to EUR 41.8 million, meaning that 75% of the observed deals had a transaction price of EUR 41.8 million or lower.

Table 4: Descriptive statistics of the deals with disclosed values (in EUR million)

Year	Number of deals	Average	25th percentile	Median	75th percentile	Standard dev.
2006	9	10.9	5.5	8.1	15.0	8.0
2007	20	16.2	4.7	8.0	13.1	23.8
2008	5	12.4	2.4	5.2	6.0	17.0
2009	7	20.1	3.1	4.5	5.8	39.6
2010	3	131.2	6.2	12.4	196.9	176.9
2011	4	27.8	3.9	26.7	50.7	25.5
2012	6	37.1	19.1	36.1	58.8	24.7
2013	9	269.4	6.7	11.0	180.6	446.9
2014	10	48.8	4.0	10.7	92.1	59.7
2015	12	55.8	7.8	11.1	23.1	97.6
2016	14	10.9	0.8	1.5	12.7	17.6
2017	3	15.7	1.3	2.4	23.4	20.4
2018	13	100.3	9.9	18.6	30.0	186.6
2019	7	154.8	3.6	99.1	266.0	163.3
2020	4	107.0	12.5	26.3	120.8	152.6
2021	5	57.4	11.1	20.0	50.0	72.8
2022	6	81.0	7.6	32.5	135.7	92.5
Total	137	63.7	3.6	9.9	41.8	160.3

Source: Own work based on Capital IQ Pro (2023).

Table 5 summarizes the key data limitations observed. For 11 targets, industry in which they operate could not be reliably determined. Further, I was not able to identify the names of 30 buyer companies and 230 seller companies. For 8 targets, country of the capital origin could not be determined. The same is true for 12 buyers. Lastly, it was not possible to make a distinction between financial and strategic buyer for 12 of the buyers.

Table 5: Summary of the missing data

Parameter	Number of missing data
Target industry	11
Buyer name	30
Seller name	230
Target capital origin	8
Buyer capital origin	12
Buyer type	12

Source: Own work based on Capital IQ Pro (2023).

4.1.2 Methodology

As mentioned, the original data was obtained from the Capital IQ database. Further, Gvin website was utilized to obtain company-specific information regarding its capital origin. If this information could not be obtained from Gvin, media articles or company website were browsed to find who the actual owners were. In rare cases where this was still unclear, country of capital origin was determined as the location where the company or group is headquartered. Gvin was also utilized to determine the target's sector or industry. Sectors were assigned following the Slovenian official Standard Classification of Activity[1] (hereinafter SKD) and provided the basis for transaction type determination. Differentiating between a strategic and a financial buyer can sometimes be complicated. As a general rule of thumb, if the buyer and the target operate in the same sector, these transactions were considered as strategic. In certain cases, especially with foreign buyers, this was more difficult to assess. Available media articles and companies' websites were examined to determine the type of transaction. Many transactions lacked information on the deal value. If such information could be obtained from a reliable media source, it was included in the analysis, otherwise it was left blank. Capital IQ Pro's methodology considers transaction value to be the actual price consideration paid to the vendor, rather than the equity value. For example, if 70% of the company's shares were sold for EUR 7 million, this would be considered as the transaction value, rather than EUR 10 million that would be the value of 100% of the company's equity. Same methodology was followed also in this master's thesis.

Once the dataset was supplemented with aforementioned information, different types of data analyses were performed. Main analysis method were descriptive statistics, supplemented by qualitative analysis of different publicly available information to obtain deeper understanding of the underlying trends and drivers of the M&A activity in Slovenia. Dataset was analyzed from different points of view, such as the analysis of the buyer origin of capital and type, seller origin of capital, target industry and the transaction values and volumes in different time periods.

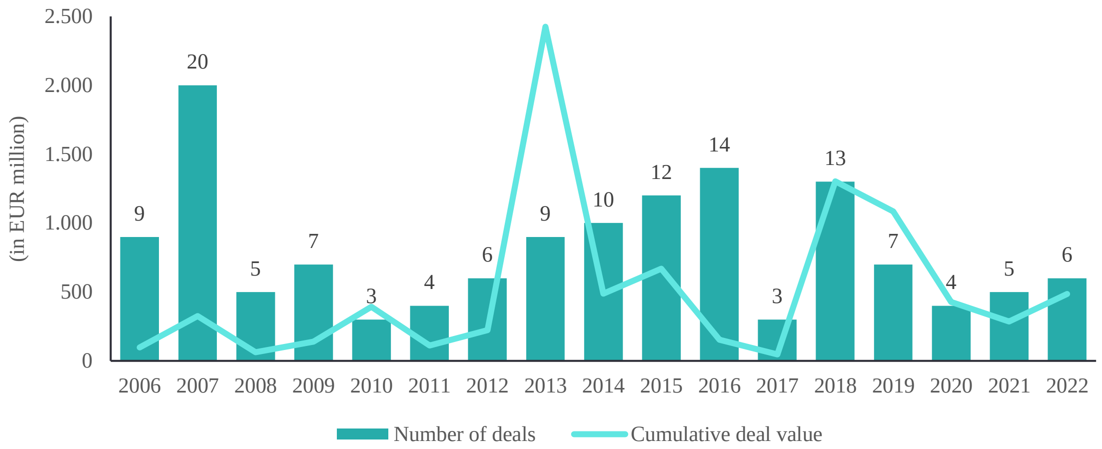
[1] Standardna klasifikacija dejavnosti (SKD), as per website https://spot.gov.si/sl/dejavnosti-in-poklici/dejavnosti-skd/

4.2 Slovenian M&A market analysis

4.2.1 Historical development

As per Capital IQ Pro database, there were 396 deals completed in the period between 2006 and 2022 in Slovenia. On average, this is 23 M&A transactions per year, but as can be seen from the Figure 13, the number fluctuated significantly throughout the years. Even greater variability can be observed when it comes to the cumulative deal value, which is common for smaller markets with low number of M&A deals, where one large transaction can significantly affect the cumulative deal value in that year. This can be observed, for example, in the year 2013, when, although there were only 9 deals with disclosed values completed, cumulative deal value peaked at EUR 2.4 billion on the account of KKR and Agrokor acquiring Telemach Slovenija and Mercator, respectively. On the other hand, there were 20 deals completed in 2007, but the cumulative deal value in that year amounted to just EUR 324 million. It is important to note that for many of the analyzed delas transaction values were not disclosed, leading to some incomplete data, as already mentioned in the previous paragraph.

Figure 13: Summary of Slovenian M&A transactions with disclosed values



Source: Own work based on Capital IQ Pro (2023).

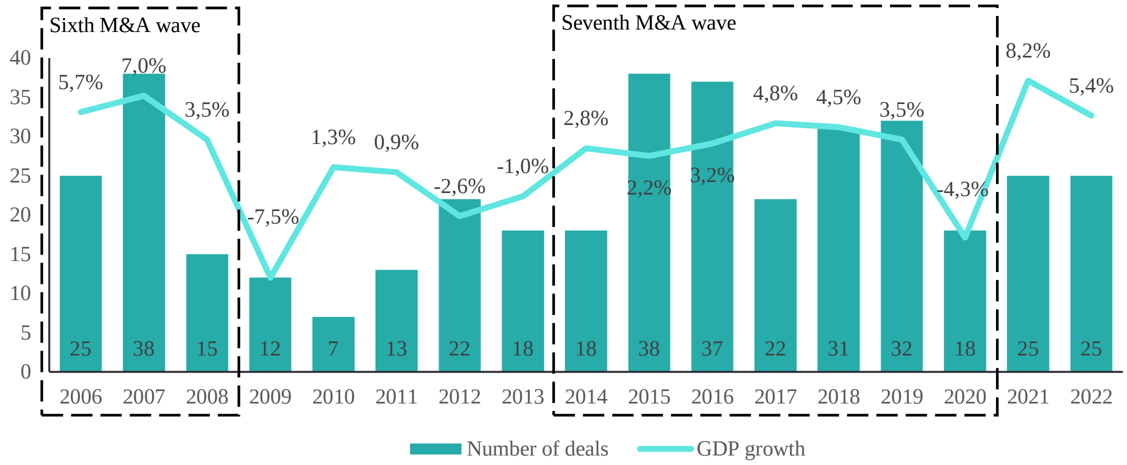
Deal values can be greatly impacted by one or two extraordinarily large transactions, or the values might not be publicly disclosed. Therefore, focusing on yearly number of deals is more relevant for market activity analysis. To understand if Slovenian M&A deal activity followed the global M&A waves, Figure 14 depicts the movement of the number of deals in relation to yearly growth of the Slovenian gross domestic product (hereinafter GDP). The end of the sixth wave, caused by the global financial crisis, can be seen from the chart. Slovenian economy showed clear signs of overheating in the years 2006 and 2007, with yearly GDP growth rates of 5.7% and 7.0%, respectively. Deal activity was also strong, reaching 25 deals in 2006 and a record 38 deals in 2007. Year 2008 denotes the beginning of the global financial crisis, even though Slovenian GDP grew by 3.5% in the mentioned year. This is because recession hit Europe a few months after it started in the US.

Nevertheless, uncertainty and pessimism were already present in the Slovenian M&A market in 2008, bringing deal volume down to just 15 deals in the mentioned year, representing an end of the sixth global M&A wave.

Deal activity showed signs of gradual improvement between the through in year 2010, when only 7 deals were concluded, and the year 2012. After just a couple of years of weak recovery, European economy was hit by another recession, stemming from the Eurozone debt crisis and the following fiscal consolidation (Heimberger, 2017). Slovenia was particularly affected and was on the verge of bankruptcy by the year 2014. If it weren't for the government multi-billion bailout program, banking system would very likely implode (RTV, 2013). Turmoil in the banking sector was one of the reasons for later consolidation of the industry, as will be discussed in the following paragraphs.

2014 was the beginning of the economic recovery after years of subdued GDP growth in Slovenia. Seventh M&A wave started in Slovenia in 2015, with a one-year lag compared to the global market, with deal numbers reaching 38 and 37 in the years 2015 and 2016, respectively. The period between 2014 and 2019 was characterized by healthy GDP growth and lively M&A market, as many of the companies' owners that were affected by the preceding recession had to secure fresh capital in order to restructure the business and keep the healthy parts of the companies operating.

Figure 14: Slovenian M&A waves between 2006 and 2022 in relation with Slovenian GDP growth

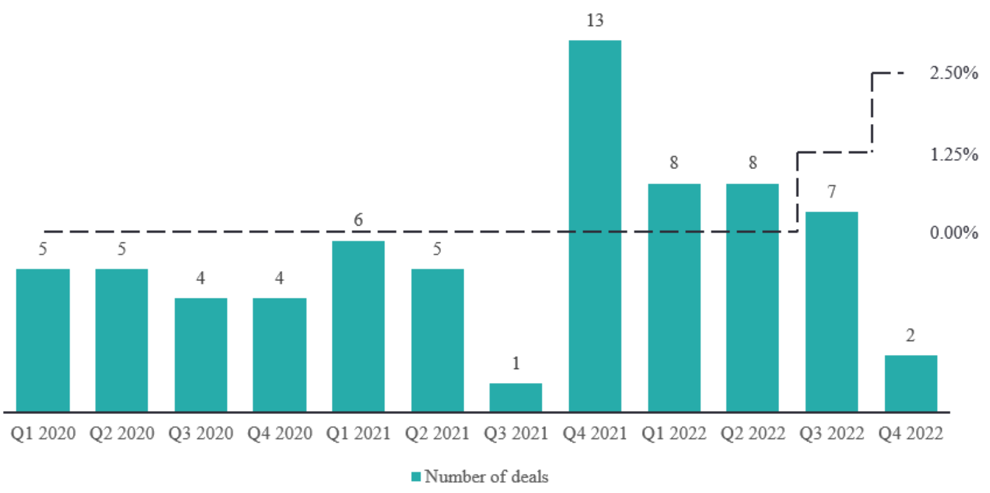


Source: Own work based on Capital IQ Pro, Surs (2023).

Seventh wave was stopped by the Covid-19 pandemic outbreak in 2020, with GDP falling by 4.3% and the number of deals decreasing to 18. Most countries recorded their first Covid-19 cases in late January or February 2020, with Slovenia reporting first official case on March 4th, 2020 (Siol, 2020). This was shortly followed by coordinated national lockdowns to prevent spreading of the disease, halting the global economic activity for several months. One would expect that deal activity would be paused in second and third quarter of 2020 as well. However, though, data shows there were 5 deals completed in each of the first two quarters of 2020, and 4 deals completed in each of the subsequent quarters of 2020, suggesting that, even though the total number of M&A deals did decrease, transactions were evenly distributed throughout the year.

Even though there was a great deal of uncertainty present, global economy recovered remarkably quickly after the pandemic outbreak. The main reason for strong recovery were unparalleled fiscal and monetary measures taken to support the global economy and people in combination with gradual receding of the pandemic from late 2021 onwards. As mentioned in the subsection 3.2 Recent M&A market developments, large number of global M&A transactions was postponed from the year 2020 to year 2021 and first half of year 2022. Slovenian market was no different in this respect, as can be seen from Figure 15. The year 2022 saw two very contrasting halves. First half continued the trend of strong M&A market, with 16 transactions completed in that period. Second half was a completely different story as rising inflation forced the European central bank – among others – to undertake significant interest rate hikes. First interest rate increase was done on July 27th, 2022, followed by three more increases in said year, bringing the main refinancing operations (hereinafter MRO) rate from 0% to 2.5% (ECB, 2023). This tightening of ultra-loose monetary policy meant rising cost of capital for companies to finance their acquisitions. PE funds were particularly affected, as they usually rely on large amounts of debt to finance their M&A activity. Combination of tougher access to financing and uncertain macroeconomic environment significantly decreased global M&A deal activity in the second half of 2022, and the Slovenian market followed a similar pattern. Only two deals were completed in the last quarter of 2022 in Slovenia.

Figure 15: Slovenian M&A quarterly activity and ECB's MRO rate movement between 2020 and 2022



Source: Own work based on Capital IQ Pro, ECB (2023).

4.2.2 Transaction values analysis

Out of the 396 transactions in the dataset, I was able to determine transaction values for 137 of them. Out of 137, 99 deal values were already included in the original dataset, while for 38, I was able to obtain information from reliable news outlets and public disclosures. Total price consideration paid for the 137 targets amounted to EUR 8,723 million, or EUR 64 million per transaction. As it will be seen in the following paragraphs, there is large variation in transaction values between different targets and industries.

Table 6 shows average transaction values paid in different time periods between 2006 and 2022. Between 2006 and 2010 there were 44 transactions recorded for which transaction price was disclosed. Average transaction value amounted to just EUR 23.2 million. The highest average transaction value was achieved in the 2011 – 2014 period, when it amounted to EUR 111.9 million. This is primarily due to two very large deals, namely sale of Mercator d.d. and Telemach d.o.o. for EUR 1.2 billion and EUR 1.0 billion, respectively. In the 2015 – 2018 period cumulative transaction value amounted to EUR 2.2 billion for 42 transactions, which is EUR 51.7 million per deal. Average transaction value doubled in the 2019 – 2022 period, when it amounted to EUR 103.8 million.

Table 6: Number of transactions, cumulative, and average transaction values in different time periods (in EUR million)

Time period	Number of transactions	Cumulative transaction value	Average transaction value
2006 - 2010	44	1,019	23.2
2011 - 2014	29	3,246	111.9
2015 - 2018	42	2,173	51.7
2019 - 2022	22	2,285	103.8
Total	137	8,723	63.7

Source: Own work based on Capital IQ Pro (2023).

Table 7 lists the 10 largest deals by transaction value recorded in the historical period. As mentioned, the two largest recorded deals occurred in 2013. One of the biggest Slovenian chains of grocery stores, Mercator d.d., was sold to Croatian agribusiness conglomerate Agrokor d.d. The second transaction was the sale of integrated telecommunication services provider Telemach d.o.o. to the US investment fund KKR & Co. Third on the list is the sale of electronic house appliances manufacturer Gorenje d.d. Chinese conglomerate Hisense acquired the company for EUR 687 million in 2018, while it was previously listed on the Ljubljana Stock Exchange.

Three bank acquisitions are listed among the top 10 transactions. Sale of Abanka d.d. to NKBM d.d. was completed in 2019, with deal value reaching EUR 444 million. SKB d.d. was acquired by Hungarian OTP Bank for EUR 320 million. Interestingly, in early 2023 OTP Bank acquired NKBM d.d., making it the biggest banking group in terms of balance sheet size in Slovenia. The third transaction involving banks was the sale of NKBM d.d. to Apollo Group. US-based investment fund paid a price of EUR 250 million in 2015.

Another transaction that is worth mentioning is the sale of BIA Separations d.o.o. This is a company that operates in biotechnology sector, more precisely, it is a global market leader in cleaning and filtering of chemical components that are used in vaccines. The company was sold by its owner and CEO, Aleš Štrancar, together with several investors that provided capital in earlier development stages, to German biotechnology firm Sartorius SA. As per media reports, deal value amounted to EUR 371 million, but this is not the whole price that will be paid for the company. The SPA included several earn-out clauses, which are mainly related to company's financial performance in the future years. If these materialized, they would bring valuation well above EUR 500 million.

Lastly, sale of video game developer Outfit7 should be noted. Slovenian company, best known for its world-famous product Talking Tom, was sold in the end of the 2016 by its management to Chinese investors. According to various media reports, company valuation reached USD 1 billion, making it the only Slovenian unicorn so far, although because the company was registered in Cyprus, the deal was not included in this database. Nevertheless, as all owners and key personnel, as well as the company headquarters, come from Slovenia, it is worth mentioning in this section.

Table 7: Top 10 largest transaction in terms of value (in EUR million)

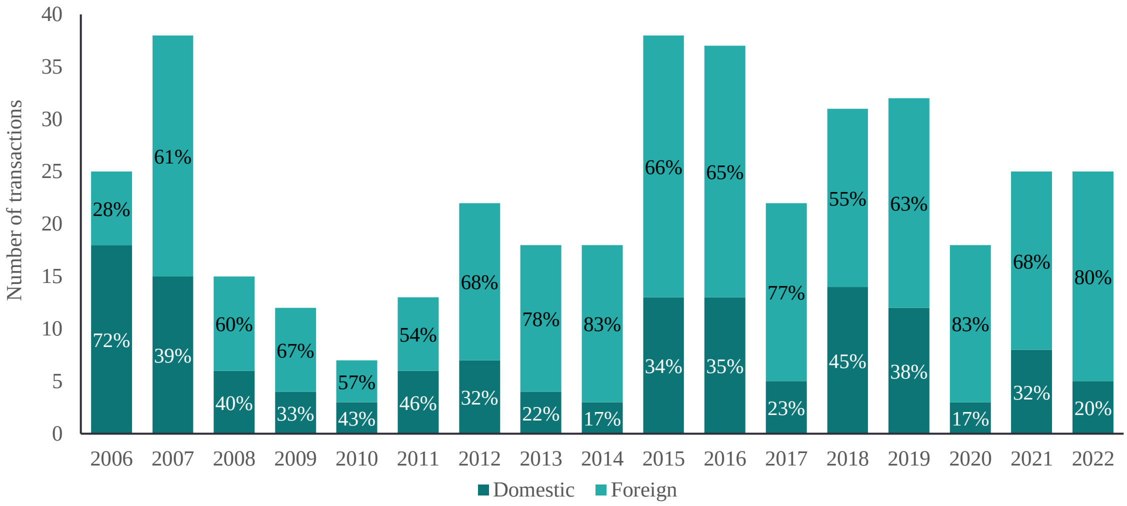
Year	Target	Target industry	Buyer	Value
2013	Mercator d.d.	Retail, except motor vehicles	Agrokor d.d.	1,190
2013	Telemach d.o.o.	Telecommunications	KKR & Co	1,000
2018	Gorenje d.d.	Electronics manufacturing	Hisense Electronics Co	687
2019	Abanka d.d.	Financial services, except insurance and pension funds	Nova Kreditna Banka Maribor d.d.	444
2010	Droga Kolinska d.d.	Food production	Atlantic Grupa d.d.	381
2020	BIA Separations d.o.o.	Chemicals production	Sartorius SA	371
2019	SKB d.d.	Financial services, except insurance and pension funds	OTP Bank	320
2015	Pivovarna Laško d.d.	Beverage production	Heineken NV	294
2015	NKBM d.d.	Financial services, except insurance and pension funds	Apollo Group	250
2022	Pipistrel d.o.o.	Manufacture of other vehicles	Textron Inc	247

Source: Own work based on Capital IQ Pro (2023).

4.2.3 Origin of buyer capital

Figure 16 differentiates Slovenian M&A deals by origin of the buyers' capital. Origin was determined based on the publicly available records, companies' websites, or media reports. For two transactions – both completed in the year 2007 – origin of capital could not be reliably determined, so they were excluded from the dataset. Analysis shows large majority of the buyers to be either foreign companies or domestic companies controlled by foreign owners. I consider these companies to be foreign, while the companies controlled by the domestic capital are labelled as domestic in the Figure 16. The only year when M&A was primarily done between the local players is 2006, when 72% of the buyers were domestic and 28% were foreign companies. In the last years, buyers with foreign capital were prevailing in the market, with their share reaching as much as 83% of the total transactions in years 2014 and 2020. This suggests cross-border M&A transactions are the ones driving the market in Slovenia. Large proportion of inbound M&A activity is common for smaller open economies with relatively large share of FDI, although Bank of Slovenia finds share of the inbound FDI in country's GDP to be much smaller in Slovenia compared to similar countries in the region, such as Czech Republic, Hungary, or Austria (Bank of Slovenia, 2022). As per Bank of Slovenia's FDI 2021 report, the total stock of FDI was estimated at EUR 18.4 billion as at end of 2021, amounting to 35% of the country's GDP.

Figure 16: Split of buyer capital origin by years



Source: Own work based on Capital IQ Pro (2023).

Most foreign buyers' origin of capital was from Europe, that is 78% of the total. This is followed by North America – primarily the US – with 14% of the total, while the rest of the world contributed less than 10% of the total acquisitions by foreign buyers in the observed period. As far as individual countries are concerned, most of the foreign buyers come from Austria (34 deals), followed by the US (31) and Germany (20). While Austria and Germany were expected to be among the most active in the Slovenian market, US comes as a surprise. According to Bank of Slovenia, FDIs from US amounted to EUR 96 million in 2021, significantly less than EUR 4.6 billion from Austria and EUR 1.5 billion from Germany. One of the reasons why there are so many transactions by the US-capital controlled companies is the fact that they were very active in telecom and banking sectors, two of the liveliest sectors as far as M&A transactions are concerned. There were six transactions undertaken in the telecom sector, primarily by Telemach, and four transactions in the financial services sector, primarily by NKBM.

Analysis shows that the majority of the buyers come from countries that are geographically close to Slovenia. Buyers from the four neighboring countries were responsible for 25% of all deals finalized by foreign buyers in the analyzed period. Besides already mentioned Austria, 13 deals were done by Italian buyers, 11 by Croatian and 7 by Hungarian.

Considering the broader geographic region, foreign buyers from CEE countries accounted for 99 or 39% of all deals by foreign buyers recorded between 2006 and 2022. The mentioned data is summarized in the Table 8.

Table 8: Number and relative shares of transactions with different buyers' origin of capital between 2006 and 2022

Slovenia	Austria	US	Germany	Czech Rep.	Serbia	Italy	Others
140	34	31	20	17	16	13	125
			% of total				
35%	9%	8%	5%	4%	4%	3%	32%

Source: Own work based on Capital IQ Pro (2023).

The adjacent Table 9 analyzes the difference in average transaction values depending on the buyer's capital origin. The conclusions that can be drawn from the analysis are limited due to a small number of deals completed in some of the countries. Consequently, the data for these countries is skewed by the outliers. Chinese buyers are at the top, with an average price of EUR 344.0 million per deal. However, this is due to only two transactions recorded involving Chinese buyers. Acquisition of Gorenje d.d. is one of the largest in the dataset, with price consideration of EUR 686.7 million, while the other transaction value amounts to just EUR 1.3 million. Similar problem arises with Netherlands, Ukraine, Japan, Hungary, and Belgium, which were involved in less than 5 transactions. Thus, the interpretation of the results for these countries would not be of relevance.

Buyers with capital origin from the US completed 10 transactions, German buyers 9 and Slovenian 50. The table shows US buyers paid considerably more for the targets – EUR 170.3 million – compared to the German (EUR 87.6 million) or Slovenian (EUR 24.3 million) buyers. This is because US buyers targeted companies in financial and telecommunications industries, which are largely consolidated with only a handful of large companies operating in the market. On the other hand, Slovenian buyers paid on average considerably less for the acquired companies. Data suggests Slovenian buyers were focusing more on the mid-cap and small-cap companies, while foreign buyers had enough resources to complete the largest transactions recorded in the dataset.

Table 9: Largest average transaction values by buyers' origin of capital (in EUR million)

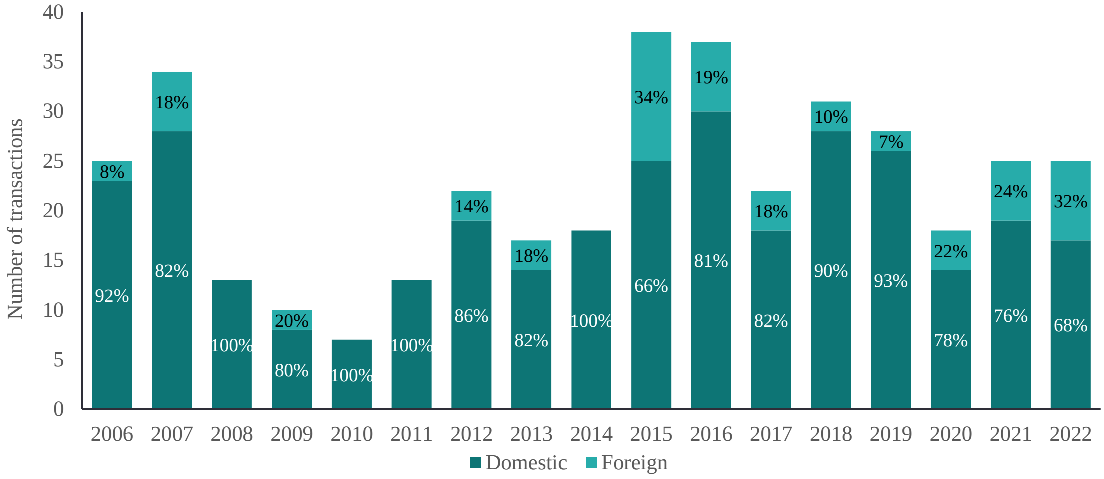
Buyer's origin of capital	Number of deals with disclosed value	Average transaction value
China	2	344.0
Croatia	5	324.7
Netherlands	1	293.5
Ukraine	1	221.0
Japan	1	199.7
United States	10	170.3
Hungary	3	111.3
Germany	9	87.6
Belgium	3	68.7
Slovenia	50	24.3
Others	52	27.9
Total	137	63.7

Source: Own work based on Capital IQ Pro (2023).

4.2.4 Origin of target capital

Similarly to buyer analysis above, target capital origin was also determined. Figure 17 shows large majority of the analyzed targets were owned by domestic entities or individuals. In 2008, 2010, 2011, and 2014, for example, 100% of the acquired companies were previously owned by Slovenian owners. In the recent years, however, share of targets with foreign capital ownership appears to be somewhat increasing. In the 1990s and 2000s, companies were largely owned by Slovenian entities and individuals. With changes of the political system, markets liberalization and entering the EU, Slovenia became increasingly more interesting to foreign investors. As time passes many of these foreign investors are exiting their investments. Consequently, it is reasonable to expect the share of the target companies owned by foreign capital will continue to increase in the future. This thesis seems to be supported by the below figure. Between 2006 and 2014, 161 transactions were completed, of which only 11% had targets with foreign origin of capital. Between 2015 and 2022, 225 transactions were completed. 21% of targets in these transactions were owned by foreign capital, which is 10 percentage points more. Please note that in 8 cases, I was not able to determine target's capital origin.

Figure 17: Split of target capital origin by years



Source: Own work based on Capital IQ Pro (2023).

As seen from the Table 10, out of all 396 transactions, 324 or 82% of the total are target companies backed by the Slovenian capital. As far as foreign targets' origin of capital is concerned, 77% of the total came from Europe. This is followed by North America (13%) and the rest (11%). As far as individual countries are concerned, most of the targets owned by foreign owners come from Austria (10 deals), the US (8) and Croatia (8).

Table 10: Number and relative shares of transactions with different target's origin of capital between 2006 and 2022

Slovenia	**Austria**	**US**	**Croatia**	**Italy**	**Germany**	**Russia**	**Others**
324	10	8	8	6	4	2	34
			% of total				
82%	3%	2%	2%	2%	1%	1%	9%

Source: Own work based on Capital IQ Pro (2023).

Analysis shows 25 target companies were sold twice in the historical period and 4 targets were sold three time. On average, buyers exited their investments 5.7 years after acquiring the company. Further, I have analyzed transaction values for these 62 transactions. 20 of them had transaction values disclosed, but only in three occasions, transaction values were disclosed both in the first and in the second deal for the same target company. These 3 targets are presented in the Table 11. Surprisingly, these transactions did not seem to create value for the initial buyers. Steklarna Rogaška d.o.o. was sold after approximately 7 years for EUR 6.7 million, while it was acquired for EUR 10.4 million. Even larger loss was realized on the investment of Delo d.o.o. The company was acquired for EUR 50.5 million in 2007, but later experienced major decline in business and financial difficulties. This led to a valuation of just EUR 7.3 million in 2015 when it was sold for the second time. The only investment that was profitable was acquisition and sale of Aerodrom Maribor d.o.o. The investor sold the company only 1 year after the acquisition and realized a small profit of EUR 0.2 million.

Table 11: Targets sold two times in the analyzed period

Target company	Transaction date	Transaction value
Steklarna Rogaska d.o.o.	4.12.2006	10.4
	15.10.2013	6.7
Aerodrom Maribor d.o.o.	12.08.2013	0.7
	28.10.2014	0.9
Delo d.o.o.	2.08.2007	50.5
	18.09.2015	7.3

Source: Own work based on Capital IQ Pro (2023).

4.2.5 Target industry analysis

While Capital IQ Pro's database has its own industry classifications, companies are often labelled as 'unclassified' or improperly classified. For this reason, I have assigned each target company classification based on the official classification from SKD. Table 12 shows 27 or 7% of all target companies come from financial services industry. These are followed by companies from the computer programming and IT consulting industry (23 targets), wholesale (21) and telecommunications industry (20). For 11 targets, I was not able to reliably determine their primary industry and were thus left unclassified. In general, different industries appear to be relatively evenly represented in the population, as none of the industries has more than 10% share of the total.

Table 12: Number, share, and average transaction value of the targets by industry

Industry	Number of targets	Share of the total	Average transaction value*
Financial services, except insurance and pension funds	27	7%	136.4
Computer programming and IT consulting	23	6%	16.9
Wholesale, except motor vehicles	21	5%	7.2
Telecommunications	20	5%	163.5
Food production	19	5%	89.7
Retail, except motor vehicles	18	5%	218.3
Electricity, energy, steam, and gas	15	4%	15.2
Others	253	64%	45.1
Total	396	100%	63.7

*Only considers transactions for which deal value was disclosed. Figures are presented in EUR million.

Source: Own work based on Capital IQ Pro (2023).

4.2.5.1 Financial services, except insurance and pension funds

As mentioned, most of the analyzed target companies come from the financial services sector. It is important to note that according to SKD's methodology, this includes also holding companies. Consequently, out of four holding companies in the dataset, two are included even though their core business are not financial services. First one is Protej d.o.o., a holding company through which former management controlled caravan manufacturer Adria Mobil d.o.o. until 2017 when they sold it to French group Trigano SA. The second one is a rubber manufacturer Savapro d.o.o., which was until 2013 part of a larger Slovenian conglomerate Sava Group. Out of 27 targets that come from the financial services industry, there are 10 banks, 6 leasing companies, 4 asset management funds, while the rest offer various financial services.

Most of the banks were sold between 2011 and 2016, and the rest in 2017 or later. It is no surprise that we see transactions in the banking sector occurring only after 2011. Before global financial crisis, most domestic banks were state-owned or publicly traded with significant control from the government. Global financial crisis and especially the double-dip recession that followed a few years later put Slovenian banks under immense pressure. Slovenian financial system was on the brink of imploding and many of the banks had to be bailed out by the government or sold to other banks. For example, KD Banka d.d. was bought in 2012 by Factor banka d.d. in an attempt to rescue it, which was at the end unsuccessful as Factor banka d.d.'s assets and liabilities were a few years later transferred to Bank Asset Management Company (DUTB d.d. in Slovenian, hereinafter 'BAMC'). Another example is Banka Celje d.d. which was bought by Abanka Vipa d.d. in 2015. Consolidation in the banking sector continued after recovery of the Slovenian banking sector, with 2023 acquisition of NKBM d.d. by Hungarian OTP Group being the most prominent transaction in the recent years (Delo, 2023). Industry experts expect the sector to consolidate further in the following years, creating a market with a few larger players and some smaller niche banks.

All transactions involving Slovenian leasing companies occurred in 2015 or later, when the sector started to consolidate. Most of the companies are owned by banks and then typically sold to another bank or a competitor leasing company. According to the Slovenian Banking Association, there are 18 companies offering leasing services in Slovenia as of 2022 (ZBS, 2023). Although there was a lot of activity in the Slovenian leasing market in recent years, it appears that there is still room for further consolidation of the market in the following years.

The largest recorded transaction value in the analyzed sector was EUR 444 million, which was paid by NKBM d.d. for purchase of Abanka d.d. in 2020. Sales of banks were, as expected, much larger in terms of transaction values compared to sales of other financial services companies. Highest consideration paid for non-bank financial services target was EUR 44 million, which was paid in 2017 for a leasing company Summit Leasing d.o.o., again by the NKBM d.d., whose majority shareholder between 2016 and 2023 was American investment fund Apollo Group.

4.2.5.2 Computer programming and IT consulting

Second most sought-after target companies in the historical period come from the computer programming, IT consulting and other IT services sector. There were 23 such transactions recorded in 2006 – 2022 period. For 6 deals, transaction values were disclosed. Average transaction value was EUR 16.9 million. Detailed analysis shows 11 of the 23 targets come from computer programming sub-sector, followed by 5 targets from IT consulting sub-sector. Most of the transactions, that is 16, were completed between 2016 and 2022, while only 7 were completed between 2006 and 2015. 2019 was the most active year in terms of deal volume, as there were 5 deals completed in the mentioned sector.

IT sector has been one of the most rapidly evolving in the recent decades, so it comes with no surprise that it was a very lively one in terms of transaction volumes. While in the early 2000s companies in this sector were only emerging in Slovenia, more than 10 years later many of these are mature enough to be ready for sale, which can explain why we see most of the deals occurring after 2015. In terms of value, the largest deal was completed in 2021, when ETREL d.o.o. was bought by the Swiss Landis Group AG for EUR 50 million. Interestingly, only one target company was owned by foreign capital, while all the rest were controlled by Slovenian entities or individuals. On the other hand, only 3 companies were bought by Slovenians, and 20 by companies controlled by foreign capital. Most buyers, that is 4, come from Czech Republic, followed by 3 buyers from the US. Data supports my previous thesis that Slovenian owners who created their companies during the privatization period in the 1990s are now looking to reap the benefits of their past work, and with market liberalization many of the buyers come from abroad.

4.2.5.3 Wholesale, except motor vehicles

21 target companies acquired in the historical period come from the wholesale sector. This is a broad sector that comprises wholesalers from different industries, such as pharmaceuticals, agricultural products, electronics, and so forth. Similarly to previous sector, only 2 out of 21 targets were owned by foreign capital, while all the rest were domestic. Again, large majority of the buyers are foreign, and only 3 buyers were from Slovenia. Contrary to companies from financial services and IT sectors, deals involving wholesalers are much more evenly distributed throughout the analyzed period. 8 deals were completed prior to 2015 and 13 delas between 2016 and 2022. 2022 was the most active in terms of deal volumes, as 4 transactions were completed in that year. The reason why transactions are more evenly distributed throughout the years could be that wholesale sector is much more mature compared to IT sector and much less protected by the government compared to financial services sector.

Only in 4 cases transaction value was disclosed, with the largest being EUR 17.8 million acquisition in the pharmaceuticals resale and distribution sector, when Sanolabor d.d. was acquired by Salus d.d. in 2022. Average transaction value amounts to just EUR 7.2 million, significantly less compared to the previous two sectors.

4.2.5.4 Telecommunications

Telecommunications sector is the last one I will analyze more in-depth in this subsection. A total of 20 transactions were completed in the historical period. These were relatively evenly distributed throughout the period, with 13 completed between 2006 and 2015, and 7 between 2016 and 2022. Besides 15 targets whose origin of capital was Slovenian, there were 2 from the US and 1 from Belgium, Germany, and Serbia. More interesting is analysis of buyer's origin of capital, which shows relatively high takeover activity of Slovenian companies, especially compared to previous industries. 9 out of 20 transactions involved buyers backed by Slovenian capital, followed by 4 from Serbia and 3 from the US.

Analysis of the companies that were making the acquisitions shows large majority of the activity in this sector comes on the account of 3 large players. Telemach d.o.o., one of the largest telecommunications companies in Slovenia, made 5 acquisitions during the analyzed period. The biggest one was the acquisition of competitor Tušmobil d.o.o. in 2014 from the Tuš family. As per Capital IQ Pro database, transaction value amounted to EUR 120 million. While Telemach d.o.o. was an active acquirer, the company itself also changed hands two times. First time was when one of the wealthiest Serbian individuals Dragan Šolak, who created an extensive media and telecommunications network under the United Group, acquired it in 2009 for EUR 117 million. The company was back then registered as UPC Telemach d.o.o. and was owned by Slovenian owners. The second time it changed hands in 2013, when United Group – and with it also Telemach d.o.o. – was acquired by US-based investment fund KKR & Co. The deal value amounted to EUR 1.0 billion. The second most active player was T-2 d.o.o., a competitor of Telemach d.o.o. who made 4 acquisitions in the historical period, 3 of which were completed in 2019 and one in 2021. Most of the targets were local cable and TV program operators. Transaction values were not disclosed for any of the deals, but they are considered to be relatively small. The third most active player was A1 Slovenija d.d., formerly known as Si.mobil d.d., which completed two acquisitions. Acquisition of competitor AMIS d.o.o. in 2015 was the most notable. Besides the three already mentioned integrated network operators, namely A1 Slovenija d.d., Telemach d.o.o., and T-2 d.o.o., there is the fourth and at the same time largest, publicly traded company Telekom Slovenije d.d. Interestingly, as per the database, only one acquisition was undertaken in the historical period by Telekom Slovenije d.d. This was takeover of mobile services provider Debitel d.d. in 2015 for EUR 15.8 million.

The data clearly shows how the telecommunications sector in Slovenia consolidated from several smaller provider and network operators to four large companies, controlling virtually all the market. High fixed costs pose large barriers to entry for newcomers, which is the reason why many companies struggled in former years and were consequently acquired by larger incumbent players. Economies of scale play an important role in this sector. It appears that the sector of integrated services providers has reached the point of consolidation, with three players sharing majority of the market, followed by a smaller competitor T-2 d.o.o. Nevertheless, there is still some room for future M&A activity in the market, primarily regarding Telekom Slovenije d.d. Whilst this is a publicly traded company, its majority owner is the Republic of Slovenia. On several different occasions there have been rumors that the State might exit the investment, but this is primarily political decision to be made, and there is no clear indication when – if at all – this might happen.

Average transaction value amounts to EUR 163.5 million per deal, but it is important to be aware this data is skewed by the aforementioned EUR 1.0 billion acquisition of Telemach d.o.o. Excluding this extraordinarily large transaction, average deal value for the 7 transactions with disclosed price would amount to EUR 44.0 million.

4.2.6 Buyer type analysis

In this thesis I distinguish between two types of buyers, namely strategic and financial. As was discussed in the section 2.2.1 Buy-side participants, there are some important differences between strategic and financial buyers. I made the distinction between the two types of buyers based on several criteria. Primarily, if the buyer was a PE or other asset management fund, the classification was straightforward. Similar is true in the case of the buyer and the target company operating either in the same industry or in the same value chain, i.e., down- or upstream integration. In some rare cases, this distinction was not so apparent. Then, media reports and publicly available information were analyzed to determine whether the buyer is financial or strategic. Moreover, for 12 buyers out of 396 transactions, I was still not able to reliably determine their type, so I have excluded them from the analysis.

The adjacent Table 13 shows split between the financial and strategic buyers in different time periods. In the whole analyzed period, there were 94 financial and 290 strategic buyers while for 12 – as previously mentioned – I was not able to reliably determine their type. Interestingly, ratio between the two types remains almost unchanged in all four time periods seen in the table. Share of financial buyers varies between 22% in 2019 – 2022 period and 28% in 2011 – 2014 period.

Table 13: Number and relative share of financial and strategic buyers in different time periods

Time period	Financial buyer	% of total	Strategic buyer	% of total
2006 – 2010	22	24%	69	76%
2011 – 2014	19	28%	50	72%
2015 – 2018	32	25%	95	75%
2019 – 2022	21	22%	76	78%
Total	94	24%	290	76%

Source: Own work based on Capital IQ Pro (2023).

Detailed analysis shows large variation in the share of buyer type in different industries. Table 14 depicts the number of financial and strategic buyers in different industries, as well as their relative shares. We can see that in certain industries, such as computer programming and IT consulting, electricity, steam, and gas, and chemicals production, there were virtually no financial buyers active in the analyzed period. On the other hand, in certain industries, there share of financial buyers is much higher.

In hospitality and restaurants sector, for example, 7 of 11 buyers were financial. Hotels and thermal facilities were sold in the analyzed period, and many of these were bought by companies or private investors who do not come from the hospitality sector. Consequently, these are considered to be financial buyers as their primary goal appears to be appreciation of the value of the investment and relatively quick exit. Retail sector is also one where there is relatively high share of financial buyers, i.e., 44% of the total. In the real-estate brokerage sector, all 8 recorded deals were completed by financial buyers. Most active buyer was Hypo Alpe-Adria Bank AG, which was responsible for 4 deals. Deals in this sector were of lower value, as average transaction price for 5 deals with disclosed values amounted to EUR 8.6 million.

Table 14: Number and relative share of buyers in different target industries

Target industry	Financial buyer	% of total	Strategic buyer	% of total
Financial services, except insurance and pension funds	4	15%	22	85%
Computer programming and IT consulting	-	0%	22	100%
Wholesale, except motor vehicles	3	14%	18	86%
Telecommunications	3	15%	17	85%
Food production	4	21%	15	79%
Retail, except motor vehicles	8	44%	10	56%
Electricity, energy, steam, and gas	-	0%	15	100%
Chemicals production	1	8%	12	92%
Rubber and plastics production	4	31%	9	69%
Hospitality and restaurants	7	64%	4	36%
Other industries	60	29%	146	71%
Total	94	24%	290	76%

Source: Own work based on Capital IQ Pro (2023).

Interestingly, average transaction values in deals involving financial buyers were higher compared to deals with strategic buyers. Financial buyers bought target companies at the average price of EUR 79.2 million, while strategic buyers paid an average of EUR 60.0 million for the acquired targets. Median transaction price analysis shows a contrasting picture, with the median financial buyer paying just EUR 7.9 million for the target company, in comparison with EUR 12.4 million median of the strategic buyer. The reason for this is the two largest transactions recorded in the dataset, which were both completed by the financial buyers. These two transactions significantly skew the data. In general, we can see that a couple of large transactions have a large effect on the averages, as medians with both types of buyers are significantly lower compared to the averages.

4.2.7 Market makers

A detailed analysis of the dataset was performed to identify the buyers that were the most active in the Slovenian market in the analyzed period. These companies could also be referred to as the market makers, as they are the ones most often looking at potential targets both in Slovenia as well as abroad. Table 15 shows the top 10 buyers by number of deals completed in the historical period. We can find 6 strategic and 4 financial buyers on the list, although it must be noted there were many more companies that closed 3 transactions in the historical period. 3 companies on the list – namely Arx Equity Partners Ltd, Hypo Alpe-Adria-Bank AG, and Kjk Capital Oy – are foreign, while the rest are either still owned by the Slovenian capital or used to be before being sold to foreigners. Generally, one could say that strategic buyers are companies that are market leaders in their respective industries and are very well known to the general Slovenian public. On the other hand, three private equity funds seem to be operating more 'below the radar', as their name does not appear in media reports so often. Data shows that the most represented sector category is private equity funds, as three of the top 10 buyers come from this sector. This is expected as the PE funds operate by acquiring targets and selling them after a few years after improving their business performance in the hope of making profit. There are two buyers that come from the retail sector, although Petrol d.d.'s core business is energy trading and resale, while Mercator d.d. is one of the biggest groceries and other consumer products Slovenian retailers. Telemach d.o.o. and T-2 d.o.o. represent the telecommunications sector and were mentioned on several occasions throughout this report. Finally, there are two representatives of financial services sector and one company that operates in the energy production and wholesale sector.

Table 15: Top 10 buyers by number of closed deals

Buyer	Buyer industry	Buyer type	Number of deals
Petrol d.d.	Retail, except motor vehicles	Strategic	10
Telemach d.o.o.	Telecommunications	Strategic	7
ALFI PE	Private equity	Financial	5
Mercator d.d.	Retail, except motor vehicles	Strategic	4
T-2, d.o.o.	Telecommunications	Strategic	4
Arx Equity Partners Ltd	Private equity	Financial	4
Hypo Alpe-Adria-Bank AG	Financial services, except insurance and pension funds	Financial	4
NKBM d.d.	Financial services, except insurance and pension funds	Strategic	4
HSE d.o.o.	Electricity, energy, steam, and gas	Strategic	3
Kjk Capital Oy	Private equity	Financial	3

Source: Own work based on Capital IQ Pro (2023).

First company on the above list is the Slovenian biggest energy trader Petrol d.d., a publicly listed company in which the Republic of Slovenia has a significant influence. Petrol d.d. successfully completed 10 transactions. The company was buying targets in the Slovenian energy sector and actively consolidating the market not just to reinforce the leading position among energy retailers, but to vertically integrate its value chain. Among the targets we can find steam and gas producers, electricity wholesale traders, and even a mobile wallet provider Mbills d.o.o. Interestingly, 4 of the 10 target companies were acquired in 2011. 6 deals had their transaction value disclosed, and the average transaction price amounted to EUR 13.7 million. The largest transaction was completed in 2013 with value of EUR 57.8 million.

The second place belongs to ALFI PE, one of the rare Slovenian alternative investment funds, that successfully closed 5 transactions in the historical period. ALFI PE is owned by

KF Finance d.o.o., a financial and consulting services group that is also active in the M&A market, although not as a buyer or seller, but rather as a deal advisor. The final owners are two Slovenian individuals, as per public company portal Gvin.

There are 5 different sub-funds operating under ALFI PE, namely ALFI Distressed Assets, ALFI Private Equity, ALFI Real Estate, ALFI Private Debt, and ALFI Renewables. These alternative investment sub-funds have different investment objectives and fund sizes. Commonly, they are focused on investment opportunities primarily in Slovenia, but also in Croatia and other Balkan countries. Most of them have a size range between EUR 30 million and EUR 100 million. ALFI PE is relatively new to the market, which is also the reason why all 5 transactions recorded in the dataset were completed in 2019 or later.

From the AVK's webpage, we can see that ALFI PE had reported 11 different acquisitions until the end of 2022. In some of the cases, there were other co-investors involved in transactions, which is probably also the reason why these transactions are missing from the Capital IQ dataset. Furthermore, some transactions – such as acquisition of Medilab d.o.o. and Engrotuš d.o.o. – have been undertaken through ALFI PE's daughter companies, in this case Alpe IV d.o.o. and AH Invest 1 d.o.o., respectively.

Table 16 summarizes all acquisitions made by ALFI PE in the Slovenian market in the recent years that I was able to identify through the database analysis, AVK's webpage and various media reports. It is evident that the fund focuses on a few different industries in which it invests, which is typical for the PE funds industry. ALFI PE's investment strategy is to consolidate the veterinary stations and private medical diagnostics centers in Slovenia. These sectors are characterized by high granularity of the market, with many small private companies. ALFI PE's strategy is to consolidate these markets and utilize economies of scale, arising from i.e., common procurement, marketing, and back-office functions. Another common characteristic of these markets is relatively low revenues but very high margins and strong cash flows, something that alternative investment funds are especially fond of. Consumer products retail is another sector in which ALFI PE invested commonly in the recent years. The two most notable delas were debt-to-equity conversion through which they obtained the control of one of the largest Slovenian retailers Engrotuš d.o.o., and EUR 50 million acquisition of Merkur trgovina d.o.o. Related to the two are also acquisitions of Tuš nepremičnine d.o.o. and Merkur nepremičnine d.d., which are the companies which manage both retailers' real estate. In the recent years, we have seen a global trend of companies focusing on their core business and carving-out their highly capital-intensive real estate parts, such as stores or offices, so it comes as no surprise that this is also observed in Slovenia.

Table 16: ALFI PE's acquisitions

Target	Target industry	Year
Engrotuš d.o.o.	Consumer products retail	2018
Trival Antene d.o.o.	Advanced manufacturing	2019
Prevent&Deloza d.o.o.	Advanced manufacturing	2019
Tuš nepremičnine d.o.o.	Real estate management	2020
Baby center / Pikapoka d.o.o.	Consumer products retail	2020
Medilab d.o.o.	Medical diagnostics	2020
MDT & T d.o.o.	Medical diagnostics	2021
Veterinarska bolnica Slovenska Bistrica d.o.o.	Veterinary station	2021
Anepremičnine d.o.o.	Real estate management	2021
Merkur nepremičnine d.d.	Real estate management	2022
Merkur trgovina d.o.o.	Consumer products retail	2022
Sportina d.o.o.	Consumer products retail	2022
ZVC Lipej-Šerbec d.o.o.	Veterinary station	2022
Veterinarska postaja Šmarje pri Jelšah d.o.o.	Veterinary station	2022
Generali investments GP1 and GP2	Specialized investment funds	2022

Source: Own work based on Capital IQ Pro (2023), Finance.si (2023), AVK webpage (2023).

4.3 Comparison of the Slovenian M&A market with the selected countries in the region

In this subsection, I will briefly compare the key characteristics of the Slovenian M&A market with three other countries, namely Croatia, Czech Republic, and Hungary. I chose to compare the mentioned countries due to their geographic proximity, similar level of development in terms of GDP per capita, and similar historical economic background. All data obtained in relation to the countries I compare with Slovenia was sourced from the S&P Capital IQ Pro dataset. The same parameters were chosen as in the case of Slovenian data, which were more thoroughly discussed in the subsection 4.1 Sample and methodology.

As can be seen from the Table 17, the least transactions in the analyzed period were recorded in Slovenia, and the most in Czech Republic. This is no surprise as Slovenia is the smallest both in terms of number of inhabitants as well as GDP figures. Looking at the number of deals per million inhabitants, as estimated in 2022, we can see that there were 189 deals per million inhabitants completed in Slovenia, followed by Czech Republic (173 deals), Croatia (122 deals), and Hungary (98 deals). We can see that even though Czech Republic and Hungary have similar number of inhabitants, there were almost twice as many deals completed in Czech Republic compared to Hungary, suggesting Czech M&A market is much more developed and livelier. Distribution of deals in different time periods shows relatively smaller share of transactions completed in Slovenia in the 2006 – 2010 period (24% of the total) compared to other countries (between 35% and 38% of the total). Conversely, there were relatively more deals completed in the 2015 – 2018 period in Slovenia (32% of the total) compared to other countries (between 18% and 25% of the total).

Table 17: Number of transactions and relative shares in different time periods

Time period	Slovenia	% of total	Croatia	% of total	Czech Rep.	% of total	Hungary	% of total
2006 - 2010	97	24%	183	36%	652	35%	362	38%
2011 - 2014	71	18%	88	17%	401	22%	176	18%
2015 - 2018	128	32%	94	18%	360	19%	240	25%
2019 - 2022	100	25%	148	29%	442	24%	175	18%
Total	396	100%	513	100%	1,855	100%	953	100%

Source: Own work based on Capital IQ Pro (2023).

Table 18 summarizes number of deals with disclosed transaction values and the average transaction values in respective countries. 35% of all transactions in Slovenia had their values disclosed. Similar is true for Croatia (33% of the total) and Hungary (28% of the total), while only 22% of the 1,855 transactions in Czech Republic had their values disclosed.

Average transaction value is the lowest in Croatia (EUR 56.2 million), followed by EUR 63.7 million in Slovenia and EUR 66.5 million in Hungary. Transactions values in Czech Republic were on average much higher compared to the others, amounting to EUR 101.9 million, indicating larger deals on average compared to other countries in the dataset, which might be due to sizable investments in key sectors and higher frequency of larger-scale acquisitions.

Differences in market maturity, economic conditions, regulatory frameworks, and sector-specific opportunities could contribute to variations in M&A activities across these countries. Furthermore, it appears Czech industry is in general more consolidated compared to other countries, leading to higher average transaction values.

Table 18: Number of transactions and average transaction values in different countries

	Slovenia	Croatia	Czech Republic	Hungary
Number of transactions	396	513	1,855	953
Number of transactions with disclosed value	137	171	412	270
Share of the total	35%	33%	22%	28%
Average transaction value (in EUR million)	63.7	56.2	101.9	66.5

Source: Own work based on Capital IQ Pro (2023).

Table 19 depicts average transaction values and median values in different time periods. Czech Republic had notably high average transaction values, especially during the 2011 – 2014 period (EUR 279.0 million) and 2015 – 2018 (EUR 134.1 million). These periods have witnessed significant high-value deals mergers within specific sectors, contributing to the higher average transaction values. Namely 3 transactions with values over EUR 1 billion were completed in each of the mentioned periods.

Slovenia and Hungary also exhibited fluctuations in average transaction values across different time periods, albeit not as pronounced as Czech Republic. Average transaction values in Croatia were almost constant in the periods between 2006 and 2010, but fell notably in 2019 – 2022 period, to just EUR 18.3 million, primarily due to a combination of absence of large deals completed in that period and high number of small-cap transactions.

Comparison of median transaction values shows the highest amount in Slovenia (EUR 9.9 million) and the lowest in Hungary (EUR 4.1 million). Fluctuations within the periods are sizeable, but a general trend of increase can be seen in time. The highest median values were recorded in 2015 – 2018 and 2019 – 2022 periods, suggesting low interest rate environment and strong GDP growth in the said timespan had a favorable influence on deal sizes.

Median transaction values in Hungary are much lower compared to other countries in all analyzed time periods, suggesting there are many small-cap deals completed there. Furthermore, this conclusion can be drawn for all four countries, as we can see average transaction values are much higher compared to medians, suggesting smaller sized deals are driving the market in terms of numbers, while a few mega deals per year are driving up the average values.

Table 19: Average and median transaction values in different time periods

Time period	**Average transaction value (in € million)**				**Median transaction value (in € million)**			
	SLO	CRO	CZE	HUN	SLO	CRO	CZE	HUN
2006 - 2010	23.2	71.1	37.1	82.6	6.8	4.5	6.4	3.6
2011 - 2014	111.9	75.4	279.0	43.1	13.7	4.8	8.6	5.2
2015 - 2018	51.7	73.6	134.1	68.7	9.4	18.1	20.0	2.0
2019 - 2022	103.8	18.3	92.8	54.9	28.8	11.2	8.9	5.9
Total	63.7	56.2	101.7	66.5	9.9	6.0	8.0	4.1

Source: Own work based on Capital IQ Pro (2023).

Lastly, my analysis focused on mega deals, those valued over EUR 1 billion, completed during the historical period. Table 20 illustrates that a total of 18 such deals were completed. Out of these 18 deals, 10 were concluded in the Czech Republic, which was expected given its status as the largest among the four countries. The Czech Republic also displayed significantly higher average transaction values, as demonstrated in the earlier analyses. Moreover, 3 mega deals were executed both in Hungary and Croatia, while Slovenia saw 2 mega deals within the same timeframe.

The largest deal by a significant margin was finalized in the Czech Republic in 2022, involving the sale of computer software provider Avast for over EUR 8.5 billion. The second-largest transaction, valued at EUR 2.7 billion, also took place in the Czech Republic. Meanwhile, the two Slovenian deals rank at the bottom of the table, with transaction values slightly surpassing EUR 1.0 billion.

The target industry analysis mirrors the pattern observed in Slovenia's largest transactions. The list includes three companies from the telecommunications and financial services sectors, followed by two companies operating in the pharmaceuticals sector, as well as two energy distribution companies and two real estate development funds. This pattern indicates that these sectors are mature and consolidated not only in Slovenia but also across the other three countries.

Table 20: The largest deals in terms of transaction value in the analyzed countries

Deal size (in EUR million)	Country	Target industry
8,526	Czech Rep.	Computer software
2,650	Czech Rep.	Alcoholic beverages
2,585	Hungary	Chemicals manufacturing
2,435	Czech Rep.	Telecommunications
2,400	Czech Rep.	Real estate development
2,033	Croatia	Pharmaceuticals
2,012	Czech Rep.	Real estate development
1,932	Hungary	Airport operator
1,900	Czech Rep.	Pharmaceuticals
1,800	Czech Rep.	Energy distribution
1,654	Hungary	Financial services
1,600	Czech Rep.	Energy distribution
1,191	Czech Rep.	Telecommunications
1,190	Slovenia	Retail
1,162	Czech Rep.	Rubber manufacturing
1,035	Croatia	Financial services
1,007	Croatia	Financial services
1,000	Slovenia	Telecommunications

Source: Own work based on Capital IQ Pro (2023).

5 SUMMARY OF FINDINGS

In this Thesis I have tried to answer the following questions:

- How has the Slovenian M&A market evolved throughout the observed historical period?
- Who are the key players driving the Slovenian M&A market activity?
- What are the key drivers underpinning the Slovenian M&A market activity?

Based on the literature overview, market analyses reports and own empirical analysis, I can conclude that the Slovenian M&A market is a small, but nevertheless a lively one. It is largely influenced by the regional and global macroeconomic developments and trends. The key participants shaping the market are Slovenian blue chips and industry champions, supported by a small but increasing number of PE funds. Slovenian M&A activity in the recent years was driven by privatization and market consolidation trends in several industries, such as the financial services, telecommunications, and IT sectors.

Based on the research I have conducted I came to the following findings:

i. Slovenian M&A market is relatively active both in terms of values and volume.

An analysis of the Slovenian M&A market shows that, in absolute terms, the market is quite small in both deal volumes and values, with a substantial proportion of transactions worth less than EUR 50 million. On average, the market witnesses the completion of around 23 deals annually, with an average transaction value slightly above EUR 60 million. However, compared to other countries in the CEE region – namely Croatia, Czech Republic, and Hungary – the Slovenian market appears highly dynamic. Among these, it's only in the Czech Republic that the M&A sector seems more developed, featuring significantly more deals and higher average transaction values.

When assessing average transaction values, the retail sector topped the list, followed by the telecommunications and financial services sectors. Nevertheless, the banking sector witnessed the largest individual transactions. A careful examination of the historical data suggests a rise in transaction values over time, though it is worth noting that only 137 of the 396 transactions in the dataset had disclosed values. As such, a few considerable deals within a specific timeframe can produce a sizeable impact on the average transaction values.

ii. Slovenian M&A market is affected by the global macroeconomic environment.

The analysis reveals that Slovenia's M&A market is susceptible to both global and regional trends, as well as macroeconomic and geopolitical developments. Four critical events impacted the market during the analyzed period.

Firstly, the global financial crisis of 2009, which had far-reaching implications on the global financial system and led to depressed M&A activities worldwide. Slovenia's M&A market also suffered considerable declines in the 2008-2010 period. Secondly, the Eurozone debt crisis of 2013, deemed a residual effect of the global financial crisis, had severe repercussions on Slovenia's banking system, requiring bailouts and dissolutions, leading to high M&A activities in the financial services sector. Thirdly, the Covid-19 pandemic of 2020 had limited effects on the Slovenian M&A market activity despite concluding below the long-term average of 18 deals per annum. One would expect that market activity in Q2 an Q3 of the 2020 would be close to none, but five deals were completed in Q2 and four in Q3. Fourthly, the global price inflation stirred up by the rise in energy prices caused by the Ukrainian war, and supply chain disruptions caused by the Covid-19 pandemic necessitated interest rate hikes in 2022, resulting in higher financing costs. Consequently, there were only two transactions completed in Q2 of 2022 in the Slovenian M&A market.

iii. Share of the foreign buyers appears to be moderately increasing.

Most of the participants in Slovenian M&A transactions are foreign corporations or domestic entities controlled by foreign owners. The bulk of the capital comes from EU countries, with Austria and Germany being among the top three countries of origin in terms of deal volumes. However, US buyers also play a significant role, as they are the second-most represented foreign nationality over the historical period. Furthermore, geographic proximity appears to be a crucial factor, as a substantial proportion of buyers come from Slovenia's neighboring countries or the broader Central and Eastern Europe (CEE) region. The proportion of buyers with foreign capital ownership seems to be on the rise over the historical period—increasing from 53% in the 2006–2010 period to 72% in the 2019–2022 period.

iv. Share of the foreign targets appears to be increasing.

Most of the analyzed targets were owned by domestic entities or individuals. However, in recent years, the share of targets with foreign capital ownership has been increasing, indicating a trend towards more foreign investment in Slovenia. This is likely due to the country becoming more attractive to foreign investors as it joins the EU and liberalizes its markets, among other factors. Furthermore, with the share of foreign buyers increasing, it is expected that some of these buyers are exiting their investments after a certain time, leading to higher share of foreign targets.

v. Consolidation in the financial services and telecommunications sectors was driving the market in the analyzed period.

In the wake of the global financial and Eurozone debt crises, the financial sector in Slovenia underwent substantial changes. Previously, many of the banks and leasing companies within the sector were state-owned or publicly listed but were subsequently purchased by foreign banking groups. From 2011 to 2016, the consolidation of the financial services market was the driving force behind M&A activities in Slovenia. The telecommunications sector also witnessed notable market consolidation, with significant players completing upstream and downstream acquisitions to leverage economies of scale. Additionally, companies from the IT and wholesale sectors maintained significant activity in the market and were predominantly targeted by foreign buyers.

vi. The proportion of financial and strategic buyers remained relatively stable throughout the analyzed period.

My initial expectations regarding buyer types in the historical period suggested an increase in the share of financial buyer activity. However, the data showed that the ratio between financial and strategic buyers did not undergo considerable change over time, with roughly 75% of the strategic and 25% of the financial buyers. However, notable variations in the share of buyer types were observed in different industries. Industries such as IT consulting, electricity, steam, and gas, and chemical production witnessed almost no financial buyer activity, whereas retail exhibited relatively high financial buyer involvement.

It is essential to note that this analysis was somewhat subjective, as discerning between financial and strategic buyers was often an arbitrary decision. In this regard, I incorporated not only 'pure' financial buyers, such as private equity funds but also those entities where I determined that the acquired company was more of a portfolio addition than a strategic investment. Regarding the private equity industry, data revealed that these players had only recently emerged on the Slovenian M&A market, with the Slovenian private equity fund, ALFI PE, leading the way.

6 CONCLUSION

Undertaking mergers and acquisitions are among the most significant strategic decisions that company owners or management can make, and they may appear on either the buy- or sell-side of such transactions throughout their lifecycle. Depending on their level of involvement in the market, some companies may only participate in this process occasionally, while others can be highly active and engage in multiple transactions each year.

When engaging in a transaction, buyers and sellers aim to protect their interests by seeking the help of external advisors and consultants to achieve a favorable outcome. Financial consultants and lawyers are key advisors to buyers, with financial consultants primarily responsible for performing due diligence, which is a crucial element of every transaction process. During the due diligence stage, the buyer gains a deeper understanding of the target company, while assessing the adjusted EBITDA, which is typically the basis for determining the enterprise value. Tax and legal due diligence are also common during this stage. Furthermore, the buyer's lawyers are responsible for drafting SPA and preparing legal documentation.

For sellers, financial consultants and corporate lawyers are key advisors, with financial consultants leading communication and meetings with buyers and their advisors. Financial consultants also often help sellers negotiate the highest possible price and ensure proper SPA provisions. The seller's lawyers are also crucial in protecting the seller in the SPA as thoroughly as possible.

M&A is a fast-paced industry, as time is of the essence in the process. Throughout history, there have been seven M&A waves, which correspond with major trends, structural changes in the global economy, and regular business cycles. The Slovenian market is no different, with the sixth and seventh M&A waves observed from the analyzed data.

Through professional literature, media reports, and data analysis, this thesis aimed to determine how the Slovenian M&A market evolved over the years, identify the key players driving the market activity, and highlight the main drivers of this activity. The analysis reveals that the Slovenian M&A market is relatively underdeveloped compared to more advanced countries, which comes as no surprise given that under the previous political system there was no opportunity for market transactions among private individuals. The market is relatively shallow in terms of transaction numbers and values, expectedly given the size of Slovenia and its GDP compared to larger economies. Nonetheless, a combination of domestic and regional companies actively acquired Slovenian firms, with blue chips and industry leaders leading market activity. In recent years, private equity funds have become increasingly active, with the expectation that their footprint will further increase in the future.

Market consolidation has been the primary driver of M&A activity in some sectors, while high growth potential fueled such activity in other sectors.

Compared to Croatia, the Czech Republic, and Hungary, the Slovenian M&A market appears to be relatively well-developed. This seems to be linked to the country's overall development and openness to foreign investors. When considering the relative size of each country, the Czech Republic seems to lead in terms of transaction volumes and values. In terms of average transaction values, Slovenia, Croatia, and Hungary are virtually identical. However, when it comes to volumes, Slovenia appears to be relatively more active compared to the other two countries. It's vital to note that all four countries adopted the market economic system only in the early 1990s. They are quite similar in terms of economic development, which is why I chose them for the comparison. It is reasonable to expect that the M&A market will continue to develop in these countries as they progressively align with more advanced European economies.

Focusing on Slovenia, an important factor to consider is that many first-generation company owners are looking to exit their investments, predominantly in stable mid-sized companies that may appeal to competitors, companies operating along their product chain, or alternative investment funds seeking to consolidate fragmented markets.

In conclusion, the Slovenian M&A market is anticipated to follow regional and global trends as it is too small to be self-sufficient. It heavily relies on foreign buyers and markets, predominantly from Germany, Austria, and the CEE region. The ongoing evolution of this market will have positive impacts for both buyers and sellers. Buyers will gain from the enhanced experience of the M&A market participants as they become more proficient and aware of the process involved. Concurrently, sellers could anticipate higher valuations as foreign buyers begin recognizing Slovenian firms as credible and attractive investment prospects.

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APPENDIX

Appendix 1: Povzetek (Summary in Slovene language)

Združitve in prevzemi med podjetji so že desetletja eden izmed ključnih faktorjev pri oblikovanju različnih industrij. Skozi zgodovino je trg združitev in prevzemov zaznamovalo več obdobij, ki jih strokovna literatura poimenuje valovi združitev in prevzemov. Za vsakega izmed valov so značilne določene posebnosti, kot so na primer horizontalne združitve med konkurenti, vertikalne združitve znotraj posamezne verige vrednosti, ali konglomeratne združitve z namenom diverzifikacije portfelja podjetij. V zadnjih letih je opazen trend povečevanja vpliva specializiranih finančnih vlagateljev na trg združitev in prevzemov. Medtem ko so v zgodnejših obdobjih za nakupe podjetij konkurirali predvsem kupci, ki so izhajali iz iste ali sorodne panoge – tako imenovani strateški kupci – pa imajo sedaj vedno večjo konkurenco s strani finančnih skladov, ki se prevzemov lotevajo z namenom optimizacije poslovanja prevzete družbe ter izstopa iz naložbe v vnaprej določenem časovnem horizontu.

Globalni trg združitev in prevzemov je dodobra raziskan in analiziran, kar z obzirom na to, da gre za več milijardno panogo, nikakor ne preseneča. Po drugi strani pa so aktivnosti na slovenskem trgu relativno slabo popisane, zaradi česar sem se odločil, da se v svojem magistrskem delu osredotočim na analizo trga združitev in prevzemov v Sloveniji med letoma 2006 in 2022.

Ključna vprašanja, na katera sem želel odgovoriti v svojem magistrskem delu, so naslednja:

- Kako se je slovenski trg združitev in prevzemov razvijal tekom opazovanega obdobja?
- Kdo so ključni deležniki, ki poganjajo aktivnosti na slovenskem trgu?
- Kaj so ključni trendi, ki poganjajo aktivnosti na slovenskem trgu?

Slovenski trg združitev in prevzemov je relativno mlad, saj lahko rečemo, da je zaživel šele z osamosvojitvijo Slovenije v 90-ih letih prejšnjega stoletja ter z menjavo družbeno-političnega sistema. Prehod na tržni gospodarski sistem je podjetnim posameznikom omogočil, da so pričeli z ustanavljanjem lastnih podjetij, istočasno pa je v procesu privatizacije prišlo do zasebnega prevzemanja številnih podjetij, ki so bila pred tem v državni lasti.

Slovenski trg združitev in prevzemov je dobil dodaten zagon z vstopom Slovenije v Evropsko unijo v letu 2004 ter s prevzemom evra v letu 2007, s čimer so se odprla vrata tujim vlagateljem, ki so v hitro rastočem slovenskem gospodarstvu prepoznali investicijski potencial.

Iz analize podatkov ugotavljam, da je slovenski trg združitev in prevzemov tesno integriran z globalnim trgom ter odvisen od trendov na večjih regionalnih trgih ter makroekonomskih dejavnikov. Nedavni dogodki, ki so zaznamovali regionalno ter globalno gospodarstvo, kot so globalna finančna kriza, izbruh pandemije Covid-19, ter rastoča inflacija in posledična izrazita zvišanja tržnih obrestnih mer, so imeli pomemben vpliv na slovenski trg združitev in prevzemov.

Z nekaj čez dvajset transakcijami letno, ki so povprečno vredne dobrih 60 milijonov EUR, je slovenski trg v absolutnem smislu na globalnem nivoju praktično nepomemben. Ne glede na to pa primerjava s trgi v regiji – hrvaškim, češkim ter madžarskim – pokaže, da slovenski trg na relativnem nivoju prav nič ne zaostaja za večjimi državami.

Iz analize ugotavljam, da se delež tujih kupcev skozi opazovano obdobje zmerno povečuje. To je skladno s tezo, da je odpiranje slovenskega gospodarstva z vstopom v Evropsko unijo ter prevzemom evra, pozitivno vplivalo na zanimanje tujega kapitala za podjetja v slovenski lasti. Povečuje se tudi delež prevzetih podjetij v tuji lasti, kar je skladno s povečevanjem tujega lastništva v slovenskih podjetjih. Številni tuji lastniki, ki so bili med zgodnjimi investitorji na slovenskem trgu, po določenem časovnem obdobju ob ugodnih vrednotenjih in uspešnem poslovanju družb iščejo priložnosti za izstop iz naložb.

Nekoliko nepričakovano analiza ne pokaže bistvene spremembe v deležu finančnih in strateških kupcev tekom opazovanega obdobja. Delež strateških kupcev se je skozi celotno obdobje gibal pri približno 75%, medtem ko je delež finančnih kupcev znašal približno 25%. Potrebno je poudariti, da sem pri ločevanju kupcev na strateške in finančne poskušal biti čim bolj objektiven, vendar pa je bila v določenih primerih zaradi nejasnosti in pomanjkanja informacij potrebna subjektivna presoja. Med finančne kupce nisem štel zgolj klasičnih skladov zasebnega in tveganega kapitala, temveč tudi podjetja, ki ne delujejo v sorodni panogi, saj sem za slednja ocenil, da gre v teh primerih za portfeljski nakup in ne strateški prevzem.

V raziskavi ugotavljam, da sta aktivnosti na trgu združitev in prevzemov v Sloveniji vodili predvsem konsolidaciji bančnega in telekomunikacijskega sektorja. Prevzemi v bančnem sektorju so se dogajali predvsem v obdobju po letu 2013 in so neposredna posledica globalne finančne krize, ki je Slovenijo prizadela še posebej izrazito. Tako za bančni kot tudi telekomunikacijski sektor je značilen močan vpliv ekonomije obsega, zato ne preseneča, da so se s prevzemnimi aktivnostmi na obeh trgih oblikovali določeni veliki igralci, ki obvladujejo veliko večino trgov. Prevzemi v teh dveh panogah so bili tudi vrednostno med največjimi in so pogosto presegali sto milijonov EUR.