

**Patterns of corporate ownership and privatization
in Visegrad countries: 1989-1996**

C. Bülent Aybar
Southern New Hampshire University

Dara Khambata
American University

Claudio Milman
Rollins College

Abstract

The article analyzes merger and acquisition activities in Visegrad Countries (the Czech Republic, Poland, Hungary and Slovakia). The analysis established linkages among the FDI, Privatization and M&A activities and reports the characteristics of transactions in the region in a comparative spirit. The findings indicate that majority of activities in the region involved foreign investors from Western Europe and USA. The M&A activities were concentrated in manufacturing segments such as automobiles, food processing, glass and clay, service segments such as telecom, utilities and financial services. The study also revealed some pre and post transaction ownership patterns in respective countries as well as methods of acquisition.

Introduction

The objective of this paper is to analyze merger and acquisition activity in economies in three economies in transition: The Czech Republic, Hungary and Poland. These nations also known as “Visegrad” countries have been going through a rapid transformation reflected by their privatization programs and the restructuring of state owned enterprises (SOEs).

The particular interest in this study is the nature of restructuring, the nature of target (restructured) companies in terms of ownership, industry and origin of investor, the characteristics of the acquiring companies, and interaction among these characteristics. It is expected that such analysis will help business analysts, managers and policy makers to understand the nature of these transactions and to design successful strategies.

Data

Data for this study were compiled from Securities Data Company’s (SDC) Worldwide mergers and acquisitions (M&A) database. The data base tracks M&A transactions conforming to certain criteria. A transaction is included in the database if its value exceeds US \$1,000,000, or if the transaction results in acquirer gaining at least 5% of the ownership of the target. Even though SDC database also includes transactions without a disclosed value, this study excludes these.

This study examines completed M&A transactions with a disclosed value that took place between January 1989 and October 1996, where the target company is located in either the Czech Republic, Hungary or Poland.

Characteristics analyzed in this study

The objective of the study is to explore regional and country specific characteristics of merger and acquisition activity between 1989-1996. More specifically we analyze the type of the transaction, target industries, public status of target, target’s and acquirer’s nationality, the nature of transaction and the ownership share of the acquirer after the acquisition.

Type of Transaction

The database classifies a given transaction under ten categories. These categories are Merger (stock or asset), Stock Acquisition, Acquisition of Majority Interest, Acquisition of Partial Interest, Acquisition of Remaining Interest, Acquisition of Assets, Acquisition of Certain Assets, Recapitalization, Buyback and Exchange Offers. (Appendix 1 provides a brief definition of these transactions.)

Target Industry Sector

SDC database sort transactions under 6 major industry categories. A target could belong to manufacturing, services (excluding financial services), wholesale or retail trade, financial services, and natural resources. The information regarding the target industries where restructuring and/or privatization is taking place has the potential to provide insights of the opportunities and investment conditions in those particular industries.

Public Status of the Target (Ownership)

SDC database classifies targets under six major categories. A target may be publicly owned, privately owned and state owned. It may also be a wholly owned subsidiary of a private or state owned company as well as a joint venture.

The form of ownership has a significant impact on the acquisition process. Acquisitions of publicly owned companies can be made through transactions negotiated with management or through direct appeals to outside shareholders. Firms wishing to acquire privately held companies will need to negotiate the transaction with the firm's managers and/or owners (who also may be the firm's managers). Companies wishing to purchase a subsidiary of a company will typically have to negotiate with the managers of the parent firm. If the target is a joint venture, the acquiring company will have to deal with two or more parent firms. Purchases of government owned targets normally entail a careful bidding process (Brown and Ridley, 1994).

Acquirer Nationality

International or cross-border M&As have been a popular strategic tool for multinational firms looking to expand their market reach, develop new manufacturing facilities, or develop new sources of raw materials (Weston, Chung, Hoag, 1990). Cross-border deals have been numerous and large during the 1990s (Subramanian, Ebrahimi, Thibodeaux, 1992) and are expected to reach new highs due to international privatization trends, reduction in cumbersome industry regulations and red tape, and development of uniform accounting standards by many capital starving nations (Zuckerman, 1993). The analysis of the acquirer's origin gives an idea of where competition for Eastern European assets is likely to come from, as well as an indication of the opportunities that are being capitalized on by firms from various regions of the world.

The Nature of Transaction

The transactions included in the database are classified into broad categories, based on the nature of the transaction. One such classification is the Privatization/Non-Privatization dichotomy. According to this classification a transaction may involve state owned assets. If this is the case the transaction is classified as a privatization. Given the transitional characteristics of the region this classification is important to establish the link between M&A and privatization of SOEs.

Another classification allows us to identify international transactions. A transaction is classified as cross/border if it involves a foreign acquirer in a given country. If both parties to the transaction are domestic entities, the transaction is classified as domestic. This classification facilitates the link between M&A activities and foreign capital flows into the region.

Analysis of M&A activity in the Visegrad countries

General Characteristics

The analysis of SDC sample reveals 417 transactions with an aggregate disclosed value of over \$17 billion. The total value of transactions grew from a minuscule \$27.3 million in 1989 to over \$5.9 billion at the end of 1995. After a steep decline in 1994 in terms

TABLE 1. Total Volume of Transactions by Year (mill \$)

Year	Cross-Border	Domestic	Total
1989	\$27.30	\$0.00	\$27.30
1990	\$225.80	\$0.00	\$225.80
1991	\$1,172.50	\$95.00	\$1,267.50
1992	\$4,218.70	\$109.40	\$4,328.10
1993	\$1,188.00	\$1,055.20	\$2,243.20
1994	\$599.70	\$220.50	\$820.20
1995	\$5,256.00	\$687.10	\$5,943.10
1996	\$2,727.70	\$261.10	\$2,988.80
Total	\$15,415.70	\$2,542.60	\$17,844.00

Source: SDC

TABLE 2. Total Transactions by Country and Year (mill \$)

Year	Czech Rep.	Hungary	Poland	Total
1989	\$0.00	\$23.60	\$3.70	\$27.30
1990	\$0.00	\$225.80	\$0.00	\$225.80
1991	\$789.10	\$266.60	\$211.80	\$1,267.50
1992	\$867.10	\$626.40	\$2,834.60	\$4,328.10
1993	\$183.70	\$1,497.80	\$561.70	\$2,243.20
1994	\$95.90	\$239.60	\$484.70	\$820.20
1995	\$1,591.60	\$2,282.80	\$2,068.70	\$5,943.10
1996	\$57.30	\$1,345.80	\$1,585.70	\$2,988.80
Total	\$3,584.70	\$6,508.40	\$7,750.90	\$17,844.00

Source: SDC

of both number and US\$ volume of transactions, M&A transactions resumed in 1995 and 1996 and expected to continue as the region's transition and integration to the global economy progresses.

In view of the characteristics of the countries analyzed, most M&A activity is expected to overlap with privatization. Approximately 88% of the transactions in the sample involved state owned assets and can be classified as privatization. This trend is expected to continue for several more years due to aggressive privatization programs. Another important

TABLE 3. Total Transactions by Industry and Country: 1989-1996 (mill \$)

Industry	Czech Rep.	Hungary	Poland	Total
Manufacturing	\$1,923.90	\$1,756.80	\$6,416.90	\$10,107.60
Services	\$1,599.50	\$4,215.70	\$95.70	\$5,910.90
Trade	\$0.50	\$181.80	\$212.00	\$394.30
Finance	\$50.60	\$354.10	\$861.20	\$1,265.90
Nat. Res.	\$10.20	\$0.00	\$165.10	\$175.30
Total	\$3,584.70	\$6,508.40	\$7,750.90	\$17,844.00

Source: SDC

finding is the dominance of cross-border transactions. Approximately 86.4% of the total transactions in the sample are reported to be international M&As (see Table 1).

Almost 43% of the total transactions took place in Poland. Hungary closely trails Poland with 37% of the total transactions while The Czech Republic accounts for the remaining 20% (see Table 2). The share of domestic transactions varies largely across the countries. While it accounts for 21% of total transactions in Hungary, it drops to 13% in Poland and a minuscule 1.8% in the Czech Republic. Annual progression of the transaction volumes reflects the ups and downs in privatization programs in all three countries studied.

A Sectoral analysis reveals that 56.6% of the transactions took place in the manufacturing sector such as automobiles, food processing, glass and clay, paper, metal products, electronics and tobacco. Services are the second largest magnet of M&A activity. It approximately accounts for 32% of the transactions (see Table 3). The privatization of telecommunications in Hungary and the Czech Republic dominate M&A transactions in services.

Analysis of the disclosed transactions indicate that US, Italy, Germany, Netherlands, France, South Korea, Belgium, Switzerland, UK and Austria are the most active foreign participants. Only US, Italian, German, Dutch and French companies account for 75% of the total acquisitions in the region. A careful analysis of the data reveals some patterns. For instance US and Italian companies build their stake through majority acquisitions. German and Dutch companies prefer partial ownership. While Italian, Swiss and South Korean companies are active in manufacturing, US and German companies have a balanced interest in both manufacturing and services.

TABLE 4. Extent of Privatization Methods in Large Privatization (by Number of Enterprises), 1995

Country	Total number of SOEs	Trade sales (tenders, direct sales, auctions)		Mass privatization		Management and workers' share ownership		Public offering/ Capital markets	
		A*	B*	A*	B*	A*	B*	A*	B*
Czech Republic	4,319	3,898	-- --	1,622	165	-- --	-- --	-- --	383
Hungary	1,848	866	58	2	-- --	2,787	219	-- --	5
Poland	8,200	142	12	-- --	-- --	806	-- --	22	-- --

A*: >50% of enterprise voting equity

B*: <50% of enterprise voting equity

Source: OECD

TABLE 5. Foreign Participation in Privatization, 1995

Country	Number of companies privatized with foreign participation	
	>50%	<50%
Czech Republic	125	-- --
Hungary	102	23
Poland	60	10

Source: OECD

Tables 4 and 5 provide a summary of the major differences between the mechanisms used by each country to privatize state owned enterprises as well as the role of foreign direct investment.

Country Specific Characteristics of M&A

The Czech Republic

Since 1990, the Czech Republic has privatized over 20,000 enterprises using a mix of auctions, public tenders, direct sales, stock sales and free transfers (*FT Survey, 1998*). In many large scale privatizations, the state maintained a majority share to be transferred to private hands at a later stage. In many strategic industries such as iron, steel, petrochemicals, utilities and telecommunication, the state maintained the majority share. The M&A data used in this study overlaps with some of the initial privatization as well as second round

privatization, where state reduced or eliminated its ownership. An analysis of Czech M&A data reveal the following characteristics.

Industry of the Target

As we mentioned in the General Characteristics section, M&A transactions concentrated in manufacturing and services sectors. In services, only five transactions with a total value of \$1,599.5 million accounted for 44.6% of the total activity. It is important to note that only one transaction dominated this sector: \$1,450 million partial acquisition of Sprava Post a Telekomunikaci by Dutch Telecommunications company Telsource. If this transaction is excluded, the activity in services declines to \$149.5 million. In manufacturing industries, 35 transactions with an average value of \$55 million and aggregate value of \$1,923.9 million, accounted for approximately 54% of all transactions.

The largest transactions in this group were a \$326.9 million acquisition of Skoda by Volkswagen™ and \$230 million acquisition of Avia Praha by Mercedes Benz™. Particularly these two transactions reveal the attractiveness of The Czech Republic as a manufacturing ramp for German multinationals. US based Philip Morris™ built a \$226.3 million stake in the tobacco industry in an effort to compensate shrinking markets at home or in other health conscious developed markets. Food, glass and stone are other manufacturing sectors with considerable M&A activity in the Czech Republic.

Target Ownership

Approximately 35.6% of the targets were classified as government owned. About 64.4% of the targets exhibited some form of non-exclusive governmental ownership. Eighty-four percent of these targets (or 34% of the overall sample) were classified as public companies, which were essentially partially privatized through a voucher system. In most cases the remaining government stake were transferred to strategic acquirers. A small group of targets (8.6%) were joint ventures between foreign and state owned enterprises (see Table 6).

TABLE 6. Target Ownership and Industry: 1989-1996 (mill \$)

	Government	JV	Public	Subsidiary	Private	Total
Manufacturing	0	0	1165.8	394.7	363.4	1923.9
Services	27	54	0	0	1518.5	1599.5
Trade	0	0	0.5	0	0	0.5
Financial	0	0	50.6	0	0	50.6
Natural Resc	0	0	10.2	0	0	10.2
Other	0	0	0	0	0	0
Total	27	54	1227.1	394.7	1881.9	3584.7

J = Joint Venture, P = Public, S = Subsidiary, V = Private, U = Unknown

Source: SDC

TABLE 7. Transaction Type and Target Industry: 1989-1996 (mill \$)

Target Industry	AA	AM	AP	AR	M	Total
Manufacturing	43.7	895	895.9	36.1	53.2	1923.9
Services	62.5	0	1537	0	0	1599.5
Trade	0	0.5	0	0	0	0.5
Financial	0	0	50.6	0	0	50.6
Natural Resc	0	10.2	0	0	0	10.2
Other	0	0	0	0	0	0
Total	106.2	905.7	2483.5	36.1	53.2	3584.7

AA: Acquisition of Assets, AM: Acquisition of Majority Interest, AP: Acquisition of Partial Interest, M: Merger

Source: SDC

Transaction Type

In the Czech Republic, we identified five distinct forms of transactions. Asset acquisitions (AA), acquisition of majority interest (AM), acquisition of partial interest (AP), acquisition of remaining interest (AR), and finally mergers (M). Partial interest acquisitions account for 69.3% of total transactions and are followed by majority interest acquisitions, which account for 25.3%. Several largescale transactions in services and manufacturing (such as Telesource acquisition in telecommunications), and regulatory restrictions limiting foreign ownership in some strategic industries explain the dominance of these types of transactions. The low

TABLE 8. Acquirer Nationality and Target Industry: 1989-1996 (mill \$)

	Country	Manufacturing Services	Trade	Financial	Nat. Resc	Total
Netherlands	0	1450	0	0	0	1450
Germany	878.4	0	0	50.6	0	929
US	266.9	0	0.5	0	0	267.4
Italy	181.9	0	0	0	0	181.9
Switzerland	165.9	0	0	0	0	165.9
Bahamas	140	0	0	0	0	140
Belgium	128.8	0	0	0	0	128.8
France	26.5	60	0	0	0	86.5
Canada	40	0	0	0	10.2	50.2
Austria	43.7	0	0	0	0	43.7

Source: SDC

number of mergers can be attributed to the legal complexity of these deals, and the immature legal infrastructure one finds in economies in transition (see Table 7).

Acquirer Nationality

Only 2.5% of the acquirers of Czech targets are domestic companies. Dutch and German companies lead the foreign acquirers due to their large scale acquisitions. For instance Telesource is the only active Dutch company in the Czech M&A market, and Volkswagen, Daimler Benz, Siemens dominate acquisitions in manufacturing with only a few transactions. US (Phillip Morris) and Italian (Italcement) companies are also significant actors in the market, but exclusively interested in manufacturing industries. Stratton Investments is an offshore investment fund that operates out of the Bahamas and is known to have a significant Czech exposure (see Table 8).

Hungary

Industry of the Target

The industry breakdown in Hungarian M&A activity exhibit similar general characteristics to the Czech Republic. As in the Czech case, the majority of the activities

TABLE 9. Transaction Type and Industry Category

	Total (mill \$)
Manufacturing	1756.8
Service	4215.7
Trade	181.8
Finance	354.1
Nat Resc	0
Other	0
Total	6508.4

Source: SDC

TABLE 10. Manufacturing Segments

Segment	Value (mill \$)	% in the Sector
Food	413.9	23.5
Pharmaceuticals	376	21.4
Metal	266.7	15.2
Computer	278.6	15.8
Sub Total	1,335.20	76
Manufacturing Total	1756.8	100

Source: SDC

cluster in manufacturing and services. While approximately 27% of the transactions take place in the manufacturing sector, 64.7% of the transactions involved targets from service sectors. Finance and trade accounted for only 5.4% and 2.8% of total transactions respectively (see Table 9).

A total of 27 targets were acquired for a total of \$413.9 million in the food-related industries. Pharmaceuticals is the second industry, where \$376 million in acquisitions were implemented by companies such as Bristol Myers. The third segment is a rather unusual manufacturing turf for the region: computers. Four Hungarian targets were acquired for a combined \$278.6 million in this segment. Finally, metals is the last manufacturing area, where a considerable \$266.7 million in transactions took place (see Table 10).

TABLE 11. Target Ownership Status and Industry Category (mill \$)

	G	J	P	S	U	V	Total
Manufacturing	1072.3	7.4	104.8	540.7	0	31.6	1756.8
Service	2344.4	0.8	0.7	1796.1	3.9	69.8	4215.7
Trade	122.9	17.1	0	2	0	39.8	181.8
Finance	231.7	0	74.8	37.7	0	9.9	354.1
Nat Resc	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
Total	3771.3	25.3	180.3	2376.5	3.9	151.1	6508.4

G = Government, J = Joint Venture, P = Public, S = Subsidiary, V = Private, U = Unknown

Source: SDC

TABLE 12. Transaction Type and Industry Category (mill \$)

	AA	AM	AP	AR	B	M	Total
Manufacturing	29.2	1208.4	384.9	7.4	2.1	124.8	1756.8
Service	99.5	1627.8	2488.1	0.3	0	0	4215.7
Trade	30.8	121.1	4.2	17.1	0	8.6	181.8
Finance	7.5	218.4	127.7	0.5	0	0	354.1
NatResc	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
Total	167	3175.7	3004.9	25.3	2.1	133.4	6508.4

AA: Acquisition of Assets, AM: Acquisition of Majority Interest, AP: Acquisition of Partial Interest, M: Merger

Source: SDC

Target Ownership

Government owned and controlled targets accounted for 58% of M&A activity in Hungary. Another group of targets was classified as “subsidiary” by SDC and they accounted for 36% of the total activity. These are divisions or fully owned subsidiaries of other companies (see Table 11).

Only a small group of the target companies was classified either as privately held (2.3%) or public status (2.7%). There is no identifiable relationship between target ownership

status and the industry of the target. Government ownership is the dominant type in both manufacturing and services.

Transaction Type

Two types of techniques account for approximately 95% of all the transactions. Acquirers ended up acquiring a majority interest in 74 transactions with a combined value of \$3,175.7 million, or 49% of the total volume of M&A transactions. Fifty-three transactions with a combined value of \$3,004.9 million resulted in acquisitions of partial interest (or 46% of the total transactions) (see Table 12).

Acquirer's Nationality

In contrast to the Czech Republic, a considerable 20% share in acquisitions was accounted by Hungarian acquirers. Other major participants came from US, Germany, France and Italy. US acquirers were active both in manufacturing and services industries as well as in financial services (see Table 13). US firms invested \$661 million in manufacturing and \$1,020.7 million in services. German companies focused in services with a combined investment of \$1,042 million. French and Italian companies were also active in services with very limited presence in the manufacturing sector. European presence in utilities is particularly visible due to the acquisition of electric distribution by French EDF and German Amperwerke.

Another interesting attribute of the acquirer nationality is its linkage to the type of transaction. The sample data indicates that while US based acquirers prefer majority acquisitions, their German counterparts prefer partial acquisitions. However, German acquirer's preference could be driven by regulatory restrictions associated with the utilities industry (see Table 13).

TABLE 13. Acquirer Origin--Target Industries (mill \$): Top 10 List

	Manufacturing	Services	Trade	Finance	Total
US	661.2	1020.7	27	120.6	1829.5
Germany	8.9	1042.6	30.8	82.6	1164.9
France	142.9	568.1	0	0	711
Italy	116.1	300.2	0	0	416.3
Netherlands	122.6	0	0	53.7	176.3
Belgium	0	141.1	0	9.9	151
UK	74.1	35.1	36.3	0	145.5
Austria	57.6	6	29.4	0	93
Switzerland	90.5	0	0	0	90.5

Source: SDC

TABLE 14. Target Industry 1989-1996 (mill \$)

Industry	Total
Manufacturing	6416.9
Service	95.7
Trade	212
Finance	861.2
NatResc	165.1
Other	0
Total	7750.9

Source: SDC

Poland

Poland accounts for both the largest number and higher dollar value of transactions in the sample. A total of 222 transactions with a combined value of \$7,750.9 million took place in Poland. Approximately 88% of these transactions were reported to be linked to privatization, and 87% of the transactions were classified as cross-border.

Industry of the target

M&A transactions in Poland concentrated in the manufacturing industries. Over 80% of the dollar volume is accounted by the manufacturing sector. Financial Services trails manufacturing with 11.1% of the total volume. Wholesale trade (2.7%), natural resources

TABLE 15. Transactions in Manufacturing Sub-Sectors (mill \$)

Segment	Value (mill \$)	% in the Sector
Auto	2,000	31.2
Food	866.9	13.5
Metal and Machinery	787	12.3
Tobacco	575.9	9
Stone, Glass and Clay	571.7	8.9
Plastic and Rubber	473.6	7.3
Paper	431.3	6.7
Communications Eqp.	272.6	4.2
Electronic	129.9	2
Sub Total	6,108.90	95.2
Manufacturing Total	6,416.90	100

Source: SDC

(2.1%) and other service sectors (1.2%) are other segments where M&A activity took place (see Table 14).

Fiat's \$2,000 million acquisition of FSM-Poland the largest transaction in Poland during the period studied. Daewoo Motor's \$340 million acquisition of Fabryka Samochodow and Lucchini's \$300 million acquisition of Huta Warszawa were other significant transactions.

M&A activity in the manufacturing industries took place in a diverse set of industry sub-segments such as auto, food, tobacco, glass, plastic and rubber, metals, machinery, electronics and communications equipment. The diversity of target companies' industries is a manifestation of versatility of Poland's manufacturing infrastructure (see Table 15).

As it was indicated earlier Poland is the only country in the region with significant M&A activity in banking and financial services. In this sector we identified 28 transactions with a combined value of \$839.60 million. Approximately 57% of these transactions involved foreign acquirers. Particularly multinationals banks such as ING of the Netherlands and AIB of Ireland made significant acquisitions. For instance ING acquired Bank Slaski Katowicach in a series of three transactions for a total of \$264.9 million. Some German banks such as Commerzbank and Bayerische Vereinsbank and a Korean Investment bank LG Securities also built stakes in Poland with acquisitions.

TABLE 16. Target Ownership and Industry (mill \$)

	G	J	P	S	V	Total
Manufacturing	4761.3	237.5	243.3	581.5	593.3	6416.9
Service	8.5	7.5	2.1	63.1	14.5	95.7
Trade	110.2	0	55.2	12.2	34.4	212
Finance	336.8	0	476.5	4.4	43.5	861.2
Nat Resc	58.7	3.5	0	89.8	13.1	165.1
Other	0	0	0	0	0	0
Total	5275.5	248.5	777.1	751	698.8	7750.9

G = Government, J = Joint Venture, P = Public, S = Subsidiary, V = Private, U = Unknown

Source: SDC

Target Ownership

Government ownership clearly dominates all other forms with a 68% majority. This is also the highest percentage of government ownership of targets in the region. Approximately 10% of the targets were reported to be publicly owned. As in other cases in the region this group represents partially privatized state owned companies, which are in the process of further privatization. About 9.7% of the targets were listed as subsidiaries and 9% of them as privately owned. Poland has the largest privately owned targets in the region. The ownership structure of the targets clearly establishes the link between M&A transactions and the privatization program in Poland. Among all the industries, government ownership is relatively insignificant in services, since most of these enterprises were privatized in the first round of privatization. Large manufacturing and financial service targets as well as targets in natural resource industries exhibited the highest percentage of government ownership. Interestingly, most privately owned targets were also in the manufacturing sector (see Table 16).

Type of Transaction

The transaction type does not exhibit any deviation from the patterns observed in other countries in the region. Acquisition of majority interest is the most frequently used method of acquisition and it accounts for 71% of all the transactions. Partial acquisitions,

TABLE 17. Type of Transaction and Target Industry (mill \$)

	A	AA	AC	AM	AP	AR	M	Total
Manufact.	13.5	300.3	0	4962.2	1075.6	48.5	16.8	6416.9
Service	0	31.3	0	51.2	13	0.2	0	95.7
Trade	0	30.6	2.1	97.2	67.4	0	14.7	212
Finance	0	5.4	0	231.6	622.2	0.1	1.9	861.2
Nat Resc	0	1.9	0	149.5	13.7	0	0	165.1
Other	0	0	0	0	0	0	0	0
Total	13.5	369.5	2.1	5491.7	1791.9	48.8	33.4	7750.9

Source: SDC

TABLE 18. Acquirer Nationality

Country	Value (mill \$)
Italy	2320.1
US	1,316.80
France	531.9
Germany	530
Netherlands	450
South Korea	389.3
UK	247
Belgium	195.6
Switzerland	169.7

Source: SDC

which account for 23% of the transactions is the second most widely used method in the Polish M&A scene. While 70% of the majority acquisitions executed on the government owned targets, 60% of partial acquisitions were used for government owned targets. About 96% of the public companies were subject to asset acquisitions. Most privately owned companies and subsidiaries were also acquired through acquisition of majority interest. Approximately 71% of the transactions resulted with a 50% or higher ownership of the acquirer. In 35% of the transactions, the acquirer controlled 100% of the target (see Table 17).

Nationality of the Acquirer

Italy leads the list of home countries of the acquiring companies due Fiat's acquisitions in the auto industry. When Fiat is excluded, there is no Italian presence in M&A activities. US is the second country home to a variety of acquiring companies in search of opportunities in Poland. US based acquiring companies preferred targets in a range of manufacturing industries. Pepsico™, Coca Cola™, International Paper, Rubbermaid™, AT&T™, Philip Morris are a representative list of companies investing in the Polish markets through acquisitions. French and German companies trail US companies with approximately \$530 million of acquisitions. Other significant acquirers come from the Netherlands, South Korea, UK, Belgium and Switzerland (see Table 18).

Concluding remarks

The transition of the Eastern European economies is likely to continue for some time. The early emphasis on building the market mechanisms and institutions is also likely to shift towards enhancing the effectiveness and efficiency of these economies. As it was discussed earlier, 88% of the transactions in the sample involved state owned assets. This phase is expected to continue for several more years, until the privatization programs are completed. A second phase of M&A activities motivated by a search for higher efficiency is already overlapping the last stages of the first phase, and it is expected to intensify as these three countries get prepared to join the EU. The following characteristics identified in this study should help to anticipate the characteristics of the next phase of restructuring activities:

- The analysis of data clearly established that the majority of the transactions involved foreign acquirers from at least 10 different countries with a particularly strong participation from EU countries such as Germany, France, Italy and Netherlands. While these and other EU economies' participation in the restructuring process continue, involvement of extra-regional companies, in particular the US, will increase in the next phase as risk perceptions change due to EU accession.
- The analysis of the sample data provides important clues about the type of target industries that are going through transformations. Although there are differences

across countries, we can safely conclude that multinational and regional companies in search of new competitive configurations are taking advantage of local factor conditions particularly in industry segments such as automobiles, food processing, glass and clay and electronics. In addition to manufacturing, service sectors such as telecom, utilities and to some extent financial services have been exposed to large scale cross-border M&A activities.

- The target ownership patterns reveal interesting differences across these countries. Although government ownership dominates in the aggregate, only a small portion (35.6%) of the targets in the Czech Republic were controlled by its government. The corresponding ratios are 58% and 68% for Hungary and Poland respectively. This is probably due to differences in privatization strategies implemented in these countries (while the Czech Republic adopted a large scale and aggressive strategy, Hungary and particularly Poland have been less aggressive). Therefore, it is natural to anticipate the Czech Republic to move into the new phase of restructuring activities earlier than the others.
- Finally, analysis of transaction types indicates that majority acquisitions dominate in Hungary and Poland. When the partial acquisition of Czech Telecom is excluded from the sample, this conclusion can also be extended to transactions in the Czech Republic. Absence of mergers and other legally complicated restructuring forms can be attributed to a relatively immature legal infrastructure in the region. Integration to the EU is expected to accelerate development of the legal infrastructure.

References

- Brown, M., & Ridley, G. (1994). *Privatization-Current Issues*. London: Graham & Trotman.
- Financial Times Survey, "Investing in Central and Easter Europe," May 8th, 1998.
- Gatling, R. (1994). A new face on EE acquisitions. *Business Eastern Europe*, 23(34), 1.
- Gray, G. (1994). East Europe's best targets are in the private sector. *Corporate Finance*, 119, 26-31.
- Marren, J.H. (1993). *Mergers and Acquisitions: A Valuation Handbook*. Homewood, IL: Business One Irwin.
- Subramaian, R., Ebrahimi, B., & Thibodeaux, M. (1992). Research on merger performance: A review and critique. *International Journal of Commerce and Management*, 2 (1&2), 4-16.
- Uvalic, M. and Vaughan-Whitehead, D. (1997), Editors, *Privatization Surprises in Transition Economies*. Edward Elgar Publishing Limited.
- Valencia, M. (December 1994/January 1995). The irresistible mania for mergers. *Central-European*, 5(1), 10-13.
- Weston, F., Chung, K., & Hoag, S. (1990). *Mergers, Restructuring and Corporate Control*. Englewood Cliffs, NJ: Prentice Hall.
- Zuckerman, G. (1993, January 18). For International M&A, an untraditional year. *Investment Dealers' Digest*, 59(3), 21-24.

APPENDIX 1. Type of Transactions

Merger (Stock or Assets)

A combination of businesses takes place or 100% of a company is acquired. If the transaction is listed in one source as an acquisition and in another source as a merger it is considered merger. The acquirer must have held less than 50% and be seeking to acquire 100% of equity or assets.

Acquisition (Stock)

Applicable to spin-offs and split offs only. A 100% spin-off is considered an acquisition by shareholders.

Acquisition of Majority Interest (Stock)

Acquirer must have held less than 50%, and be seeking to acquire 50% or more, but less than 100% of the target company's stock.

Acquisition of Partial Interest (Stock)

Acquirer must have held less than 50%, and be seeking to acquire less than 50%, or must have held over 50% and be seeking to acquire less than 100% of the target company's stock.

Acquisition of Remaining Interest (Stock)

The acquirer must have held over 50%, and be seeking to acquire 100% of the target company's stock.

Acquisition of Assets (Assets)

All assets of a company, subsidiary, division or branch are acquired. The 100% acquisition of a private company is an acquisition of assets, if no privately held shares are involved, as is a divestiture of a subsidiary with no stock trading.

Acquisition of Certain Assets (Assets)

Certain assets of a company, subsidiary, division, or branch are acquired.

Recapitalization

A company undergoes shareholders' leveraged recapitalization in which the company issues a special one-time dividend (in the form of cash, debt securities, preferred stock, or assets) allowing shareholders to retain an equity interest in the company.

Buyback (Repurchases, Self-Tenders)

A company buys back its equity securities or securities convertible into equity, either on the open market, through privately negotiated transactions, or through a tender offer. Board authorized repurchases are included.

Exchange Offer

A company offers to exchange new securities for its equity securities outstanding or its securities convertible into equity.

APPENDIX 2. Largest Transactions in the Region

2.a Largest M&A Transactions in the Czech Republic

Target	Acquirer	Nationality	Value (mill \$)
Sprava Post a Telekomunikaci	Telsource	Netherlands	1450
Skoda Automobilovy Koncern	Volkswagen AG	Germany	326.9
Avia Praha	Mercedes-Benz	Germany	230
Czechoslovak Ocean Shipping	Stratton Investments	Bahamas	140
Cement Hranice	Italcementi SpA	Italy	135
Cokoladovny	Investor Group	Switzerland	127
Tabak Kutna Hora	Philip Morris	US	121.8
Skoda KP Plzen-Locomotive Mnfr	Siemens AG	Germany	105.1
Tabak Kutna Hora	Philip Morris	US	104.5
BAZ	Volkswagen	Germany	82.6

2.b Largest M&A Transactions in Hungary

Target	Acquirer	Industry	Value (mill \$)
Magyar Tavkozlesi	Magyarcom (Hungary)	Telecom	875
Magyar Tavkozlesi	Magyarcom (US)	Telecom	852
Elmue	Investor Group	Electric, Gas	360.6
Kofem Kft	Alcoa	Meta;	205.9
Demasz	EDF (France)	Electric, Gas	197
Tigaz	Investor Group	Electric, Gas	171.9
Emasz	Investor Group	Electric, Gas	164
Edasz	EDF (France)	Electric, Gas	155
Tungsgram Co Ltd	General Electric (USA)	Electrical Eqp.	150
Tiszai Eromu Rt	AES Ltd	Electric, Gas	143
Dunamenti Eromu Rt	Powerfin Sa (Tractebel)	Electric, Gas	141.1
Titasz	Isar-Amperwerke Ag	Electric, Gas	132

2.c Largest Transactions in Financial Services/Poland

Target	Acquirer	Nationality	Value (mill \$)
Bank Slaski w Katowicach	ING	Netherlands	150.8
Przemyslowo-Handlowy (Poland)	Investors	Unknown	146.3
Bank Slaski w Katowicach	Investors	Poland	75.1
Bank Gdanski	Investors	Poland	66.1
Bank Slaski w Katowicach	ING	Netherlands	60
Wielkopolski Bank Kredytowy	Allied Irish (AIB)	Ireland	59.4
Bank Slaski w Katowicach	ING	Netherlands	54.1
Bank Rozwoju Eksportu	Commerzbank AG	Germany	50.8
Petrobank	LG Securities Co Ltd	S.Korea	49.3
Wielkopolski Bank Kredytowy	Allied Irish (AIB)	Ireland	20.2

2.d Largest Transactions in Manufacturing/Poland

Target	Acquirer	Nationality	Value (mill \$)
FSM(Poland)	Fiat Auto	Italy	2000.0
Fabryka Samochodow w Lublinie	Daewoo Motor	S. Korea	340
Hinta Warszawa	Lucchihi SpA	Italy	300
Zaklady Celulozowa—Papierniecz	International Paper Co	US	295
Stomil Olsztyn SA(Stomil)	Michelin et Cie	France	260
ZPT Krakowie	Philip Morris	US	245
Coca-Cola Poland Ltd,	Coca Coca-Cola	US	237.5
Gorazdze SA,Strzelce Opolskie	Cimenteries CBR	Belgium	191
Wytownia Wyrobow Tytoniowych	Reemtsma Cigarettenfabrik	Germany	133.9
Zaklady Koncentratow Spozywczc	Investor Group	Switzerland	104.9

Source: SDC