

# The Activity of Mergers and Acquisitions in Romania in the 2000-2010 decade, First stage: toward the maturity of the market (2000-2004)

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**Abstract**—The paper investigates the main issues concerning the activity of mergers and acquisitions in Romania in the period 2000-2004. As in the first decade after the failure of the socialist economy the market of M&A was living its infancy based exclusively on privatization transactions, after 2000 the market entered in a stage of maturity. We are investigated both the registered evolutions in terms of number and value of transactions, and some sectoral issues, concerning the most important industries affected by the M&A process.

**Keywords**—mergers and acquisitions, Romania, 2000-2010 decade

## I. INTRODUCTION

GROWTH and development of companies through mergers and acquisitions is currently one of the most common methods of expanding enterprises. Associated with external growth policy, mergers and acquisitions are one of the ways for implement the strategy of vertical integration, specialization or diversification. Mergers and acquisitions have seen an upsurge in recent years and have become important in the strategy both of the big groups, and small businesses. Consequently, these operations constitute one of the main ways of firm development available to improve the strategic position within their business environment

In Romania, mergers and acquisitions activity has appeared much later than in other countries. Thus, in the early 1990s, in Romania the State dropped to more efficient operation of the economic sector, thereby the emergence of the most enthusiastic defenders of the principle to maximize the value, namely the private shareholders. The 1990s were marked by the phenomenon of privatization, which were the premise of developing the market for mergers and acquisitions in Romania. The process of privatization was relatively heterogeneous, and the main methods used have been represented by MEBO method, mass privatization and the sale of shares on a case-by-case basis to foreign investors [1, 2].

After 2000, mergers and acquisitions market in Romania began to grow and to get more mature. So, they began to be increasingly more mergers and acquisitions "pure", e.g. transactions carried out outside the privatization process. The economic growth recorded, the business environment stabilization and the EU accession have made Romania a target more and more attractive for foreign investors, who have had the highest share in the domestic market of mergers and acquisitions. The flow of foreign investment has increased, on the background of solid economic results recorded in Romania.

As part of a broader analysis of mergers and acquisitions in Romania in the past decade, the present paper approaches the main issues of the 2001-2004 periods, during which the process of maturing of the corporate takeovers market has started. The 2005-2007 period of the mergers and acquisitions market in Romania is the subject of other submitted.

## II. THE DYNAMICS OF THE M&A ACTIVITY IN ROMANIA AND ITS POSITION WITHIN THE CENTRAL AND EASTERN EUROPE

After the year 2000, the market for mergers and acquisitions in Romania began to take shape, even if the country was only in the early stage of "pure" mergers and acquisitions, e.g. transactions with other companies than those made in the privatization process. The region of Central and Eastern Europe, it has been already noted a gap from Poland, Hungary and the Czech Republic (these countries were able to attract most of the foreign investment in the region) which was mainly due to the slower pace of the privatization and economic growth [3].

As shown in Figure 1, from the 26 private transactions carried out in Romania in 2001, the number rose to 181 in 2008, and later registered a reduction in the number of transactions, due to the events that have marked the world economic scene: economic downturn and crisis.

As regards competition policy to be applied in Romania, the basis of mergers and acquisitions control is represented by Competition Law No. 21 of 10 April 1996, as amended and supplemented by Emergency Ordinance of the Government (OUG) No. 75/2010. Thus, "there are prohibited the economic concentrations which would significantly impede effective competition on the Romanian market or a substantial part of it, in particular as a result of the creation or strengthening of a dominant position". The law establishes compulsory notification of concentrations at The Competition Council and the criteria for compatibility with the competitive business environment. Economic concentration operations must be notified to the Council of competition where the aggregate turnover of the undertakings involved in the transaction exceeds an equivalent in Romanian currency (ROL) of 10,000,000 euros and when at least two of the involved companies achieved on the Romanian territory a annual turnover higher than the equivalent in ROL of 4,000,000 euro each (Competition Law, no. 21/1996, as amended by OUG No. 75/2010).

The legal framework for transactions relating to mergers and acquisitions is quite limited, including the Company Law No. 31/1990 updated by the Ordinance of the Ministry of Public Finances. No. 1376/2004 on the general coverage of the main operations of the merger, division, dissolution, and liquidation of companies, as well as the withdrawal or the exclusion of associates within the company and the fiscal treatment of them. Mergers and acquisitions involving at least one company listed on the stock exchange shall comply with the provisions of the Law. 297/2004 on the capital markets and those of the regulations issued by the National Securities Commission of Romania (CNVMR).

As shown in Figure 5.2, the number of mergers and acquisitions had an ascending evolution. Not the same stands for the total value of mergers and acquisitions market which had a slightly labile. Thus, in 2001 the total amount of transactions was estimated at 390 million dollars, with an average value per transaction of \$ 15 million. In 2002, although the number of transactions was higher than in the previous year, the total value of mergers and acquisitions market was estimated at only \$ 234 million, with an average amount of a transaction of \$ 8 million [3, 4]. The next three years have marked an increase in the total market value of

mergers and acquisitions in Romania as well as the average value of a transaction. Thus, in 2005, the total value of mergers and acquisitions market was estimated at \$ 5.8 billion, with a significant increase compared with 2004, when it was estimated at \$ 1.4 billion and the year 2003 when estimates were \$ 594 million. The capital increases which took place in the Romanian companies were reflected by the increase in the average value of a transaction, which reached \$ 65 million in 2005, compared with \$ 41 million in 2004 and \$ 18 million in 2003. In 2006, the total value of mergers and acquisitions market in Romania registered a slight decrease compared with the previous year (though the number of transactions increased by 15% compared to the previous year), being estimated at \$ 5.2 billion, with an average amount of a transaction of \$ 45 million [4, 5, 6]. In 2007, according to a study conducted by Raiffeisen Investment AG [7], in the market for mergers and acquisitions in Romania have been recorded 120 transactions with a total value of \$ 8.4 billion, which represented a share of 5.7% in the country's GDP. In the following year, the number of transactions reported by the same company rose to 181, but the amount dropped in value [8] in the context of unfavorable economic changes that began to be felt also in Romania.

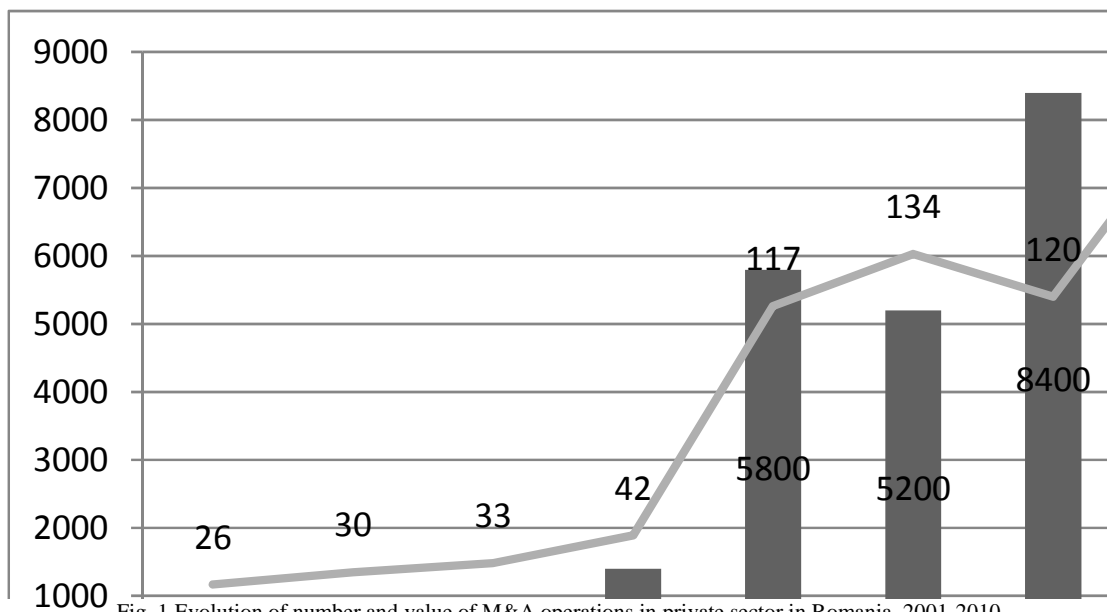


Fig. 1 Evolution of number and value of M&A operations in private sector in Romania, 2001-2010

Source: authors' calculations based on the data provided by the annual studies on M&A for 2004, 2005, 2006, 2007, from: PricewaterhouseCoopers, Raiffeisen Investment AG and Ernst&Young [4], [5], [6], [7], [8], [9]

In 2001, the total estimated value of the market for mergers and acquisitions for the seven countries included in the report of the company PricewaterhouseCoopers (quoted by Catarama, 2004, pp. 155-157)-Czech Republic, Hungary, Poland, Russia, Bulgaria, Romania and Slovakia-was about \$ 16 billion. In 2001, Russia was at the first of the countries of the region with regard to the mergers and acquisitions activity, with 237 transactions. Out of the 839 private transactions made in the countries listed above, 91% were concluded in the Czech

Republic, Poland, Hungary and Russia. The average value of a transaction for all seven countries was approximately \$ 12 million, not taken into account the 21 transactions over \$ 100 million. For more developed markets in terms of mergers and acquisitions, such as Czech Republic, Hungary and Poland, the total amount of transactions has been estimated at \$ 8.6 billion, the number of transactions completed by 528, e.g. 32% less compared to the year 2000.

In Romania, the market value of mergers and acquisitions in 2001 was about \$ 390 million, with an average transaction value (calculated on the basis of the transactions made public) of 15 million dollars, above the average of the region. That year, one of only four transactions made public have exceeded \$ 10 million. The number of transactions have involved local investors was eight, representing 31% of the total (compared to 59% for the whole region), the remaining 18 transactions being concluded by foreign investors. Thus, the number of mergers and acquisitions by foreign investors was 18, representing 69% of the total volume of transactions. Insufficient funds for mergers and acquisitions made local investors not to participate that much to the transaction. Thus, most foreign firms were involved in operations and were directed towards the manufacturing, financial services, technology, and food and beverage industry [3].

The number of transactions completed in 2002 was higher than in the previous year, but the total value of mergers and acquisitions market was estimated at only \$ 234 million, the average value of a transaction being eight million dollars [4]. 2002 brought a significant increase in the number of transactions that have involved local investors, representing 33% of the total. A total of 20 transactions have involved foreign investors: buyers from USA (4 transactions), Germany (3 transactions), Greece (3 transactions) and Italy (2 transactions). Since 2003, Romania became the target of several foreign investors, a fact highlighted by the doubling of the value of mergers and acquisitions market, compared with 2002. However, among the nine countries from Central and Eastern Europe included in the statistics of the company PricewaterhouseCoopers (2004), Romania was ranked 6th in terms of market value of mergers and acquisitions, overtaken by the more developed markets of Russia, the Czech Republic, Poland, Hungary and Slovakia.

In 2004, in the context of favorable economic conditions, mergers and acquisitions market has been recorded a strong development. In economic terms, for Romania, 2004 was the year with recorded good performances, including in the mergers and acquisitions activity. In 2004, economic growth has exceeded the expectations of the public authorities, making it the largest in the past 15 years, inflation has fallen for the first time below 10% [10] and foreign direct investment totaled approximately EUR 5 billion, affirming the increased interest of foreign investors [11]. No doubt that the increased level of foreign direct investments was due largely to major privatizations that took place in 2004 but, at the same time, economic and political stability, as well as the accession to the European Union have had a positive influence on the preference of investors. The process of accession of Romania to the European Union has favorably influenced the economic environment and competition, leading inevitably to an increase in the mergers and acquisitions market. The privatization process continued also in the energy sector, so that more companies were sold to strategic investors. Thus, privatization contracts were signed for the national society of oil, for the gas

distribution companies and two companies for the distribution of electricity (Electric SNP Petrom S.A., Banat, Electrica Dobrogea, Distrigaz Sud, Distrigaz Nord)..

Favorable economic conditions have resulted in strengthening the position of local companies and especially the increase in the interest of foreign investors for the Romanian market. The number of transactions completed in the private sector was 42, which represented an increase of 27% from the previous year, and, as the value, mergers and acquisitions increased by 157%. Despite this important increase in value, Romania remained behind Russia, the Czech Republic, Poland, Hungary and Slovakia, on the sixth position out of the nine countries included in the study. The value of the transactions recorded in 2004 in the nine countries of the region was over \$ 50 billion, that is a level higher with 31% than the figures recorded in 2003 [4]. In Romania, the market value of mergers and acquisitions has increased significantly in 2004, estimated at \$ 1.4 billion. Compared with 2003, this represents an increase of 157%, one of the largest in the region. The average value of transactions rose to \$ 41 million, from \$ 18 million in 2003 and only \$ 8 million in 2002, as a result of increasing capitalization of companies. From this point of view, Romania has outranked Hungary (which recorded an average value per transaction of \$ 38 million), but was moved forward by Slovakia (which recorded an average value per transaction of 60 million dollars). Compared to the year 2003, the contribution of foreign investors in Romania was higher, the amount of cross-border mergers and acquisitions reaching 76% of the total, which shows that Romanian firms prefer strategic partners with a financial potential higher than domestic firms. Major investors came from Austria (with a number of 7, transactions concluded), followed by the United States (with 5 transactions) and Germany (4 transactions). From the point of view of the value of transactions, Austrian investors have invested the greater amount, approximately \$ 433 million, and the largest investors being Immofinanz, Kronospan, Meinel European Land and Lasselsberger. They are followed by Canadian investors with investments of more than 300 million and Hungarian investors with over 117 million [4].

In the region, the increase of the value of mergers and acquisitions market in Romania did not lead to an improved position in the hierarchy of countries included in the statistics produced by PricewaterhouseCoopers, Romania being situated that year after Russia, the Czech Republic, Poland, Hungary and Slovakia. Concerning the privatization, the 53 privatizations carried out in 2004 have accumulated a record amount, estimated at 2.9 billion euros. However, a large part of this amount is the contribution of only four investors, who pledged to invest around US \$ 2.7 billion in five large companies in the sector of oil, gas and electricity (SNP Petrom, Electrica Banat, Electrica Dobrogea, Distrigaz Sud, and Distrigaz Nord). These privatizations have propelled Romania on the third position in the region, after Poland and Russia, in terms of value, after one year ago it was situated on the 5th position [4].

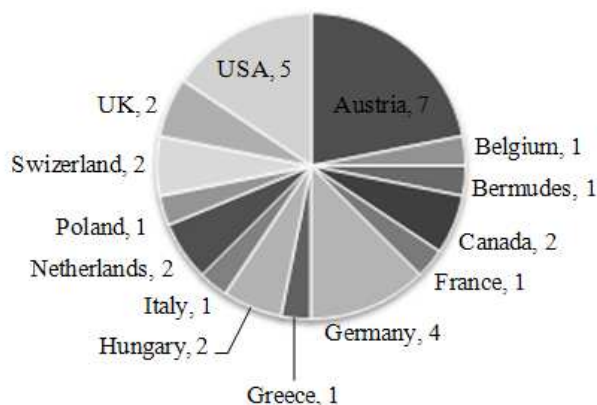


Fig. 2 Number of transactions involving foreign investors in Romania, by the country of origin of investors, 2004

Source: authors' calculations based on data in [4]

### III. SECTORAL ASPECTS OF MERGERS AND ACQUISITIONS ACTIVITY DURING 2001-2004

In the region of Central and Eastern Europe, in 2001, the manufacturing industry was on the first position regarding the mergers and acquisitions activity, cumulating 24% of the total number of transactions. Financial services were situated on the second position, with 15% of the total transactions, and recording at the same time some of the largest transactions of the year. Information technology (IT) was ranked third with 9% of total transactions. Food and beverage industry was ranked fourth, with the largest decline in comparison with the other three sectors [3]. Voinea [12] states that the mergers and acquisitions activity was concentrated in those sectors "where comparative advantages have disappeared or are about to disappear" as a result of the influence of factors such excessive production capacity (in automotive industry), large expenses related to research and development (pharmaceutical industry), changes in technology (chemical industry, petroleum extraction and refining), or the process of liberalization and deregulation of the markets (financial services, telecommunications). In Romania, in the period 2001-2002, the sector most active in terms of number of concluded transactions was represented by the financial services, with 8 transactions in 2001 and 9 in 2002. On the second place was manufacturing industry with 6 transactions concluded in 2001 and also 6 concluded in 2002, and on the following positions were transactions in the sector of information technology, telecommunications and media [3]. Since 2003, in the manufacturing industry there were recorded most of the mergers and acquisitions operations carried out, namely 6 in 2003, 8 in 2004. The telecommunications sector was the second sector in 2004 (in 2003 was the third most attractive sector), with 7 transactions carried out. This sector is not only one of the most dynamic of the economy, but also generated a large number of transactions due to the process of consolidation. Year 2003 was marked by increasing competition in the fixed telephony segment, as a result of the liberalization of the telecommunications market in that year and thus the telecommunications companies which have evolved from TV cable companies and internet providers have

consolidated position on the market through mergers and acquisitions, with the goal to diversify services and get a share on the fixed telephony market. On the third position in the hierarchy of the most attractive sectors were financial services, food and beverage industry, each of them with 6 concluded transactions [4]. In 2004, mergers and acquisitions market registered a strong growth as more and more local companies have continued to strengthen in a market becoming more competitive, and foreign investors have been increasingly more attracted by the Romanian market, due to the high qualification of the labor force and reduced costs. The most active sectors in terms of the transactions were manufacturing, telecommunications, financial services and food and beverage.

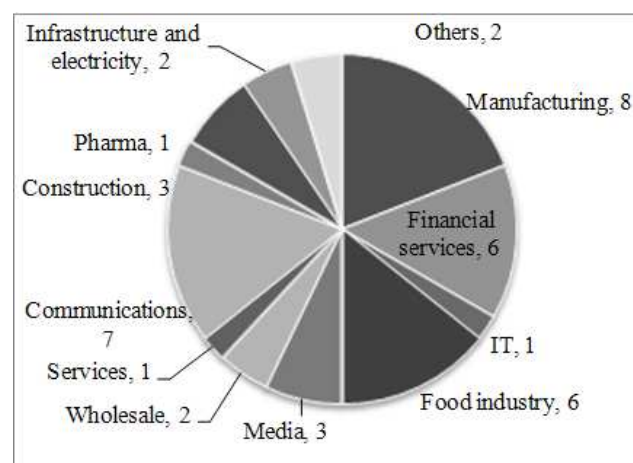


Fig. 3 Number of transactions concluded in Romania in 2004, by sector

Source: authors' calculations based on data in [4].

In 2004, the 53 privatizations made public cumulated an amount of approximately 2.9 billion euro. Started with large delay due to various reasons, including unfavorable conditions on the international market, the privatization of the energy sector had finally taken place. The large financial needs necessary to align the infrastructure in the Romanian energy sector with that of the EU member countries, as well as the continuous pressure from the IMF, World Bank and EU with regard to the restructuring and privatization of the sector, led to the acceleration of the privatization process. The main objectives of privatization have been those to attract strategic investors with relevant experience in these fields and who could afford to invest significant amounts for the modernization of companies, thereby improving their financial position. The most important privatization in post-communist history up to that point was, without doubt, the privatization of SNP Petrom SA. The purchaser was the Austrian company OMV, which has agreed to pay 1.86 billion USD (1.49 million Euros) for 51% of the shares of Petrom according to information provided by PricewaterhouseCoopers (2004).

In the same year there were also some major privatizations, such as the acquisition by Enel in Italy of the company of electricity distribution Electrica Banat and Electrica Dobrogea and the two gas distribution companies Distrigaz Nord and

Distrigaz Sud bought by Gaz de France and E.ON Ruhrgas. Without taking into account these four major transactions in the public sector, the average value of a transaction was only \$ 4 million. The vast majority of privatizations took place in the manufacturing industry, while in the energy sector were recorded the largest transactions in terms of value (PricewaterhouseCoopers, 2004).

Even foreign investors have been involved in only 11 out of the 53 privatizations, the amount invested by them represent 97% of the total value of privatizations carried out (PricewaterhouseCoopers, 2004).

#### IV. CONCLUSION

In Romania, the 1990s were marked by the phenomenon of privatization, the state dropped gradually to more efficient operation of the economic sector. Thus, step by step, the capital of the large enterprises came into the possession of private owners, guided by the principle of maximizing the of shareholder value. After 2000, the mergers and acquisitions market in Romania began to grow and to enter into a process of consolidation. The economic growth, the stabilization of the business environment and the EU accession have made Romania a more and more attractive target to foreign investors, who have had the highest share in the domestic market of mergers and acquisitions.

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