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Resilience Remains

20+ years • Central Europe Private Equity Confidence Survey

Central Europe, Winter 2024/2025

Contents

"The dent in confidence shows that ongoing uncertainty does take its toll, but that the Index remains higher than its historical average (115) is incredibly encouraging. It is clear that investors in Central Europe have the experience and conviction to transact across cycles and create real value in the businesses they back. Their investments make a meaningful difference to the companies they grow, typically helping to boost profits and headcount by helping businesses to grow faster and more sustainably."

Michał Tokarski
Partner in Charge of Advisory, Head of M&A
Deloitte Poland, Baltics and Ukraine

Resilience Remains

Serving as a barometer of investor sentiment for over 20 years, the Deloitte Central European (CE) Private Equity (PE) Confidence Survey Index has remained strong to land at 119. The result ends the four-consecutive-quarter rise and shows a tempering of optimism, likely owing to persistently high interest rates and ongoing conflict on Central Europe's doorstep. That the Index remains higher than a year ago and above the long-term average (115) underlines the resilience and expertise of the region's seasoned dealmakers.

The transactional landscape has undeniably evolved, with today's backdrop shaped by economic and regulatory shifts long-lasting. Globally, an erstwhile reliance on financial engineering has given way to value creation through operational improvements. While this is tricky for markets and firms that have relied on debt and multiple arbitrage rather than alpha, CE has rarely employed large levels of leverage to drive growth, making the region's experienced deal-doers well placed for transacting successfully in 2025 and beyond.

Value creation will be meaningful and sustained as GPs deploy their toolkits to accelerate the growth of ambitious businesses in the region. This Survey covers a period of successes through M&A, international expansion, digital enhancement and operational improvement to create value for shareholders and returns for LPs. All of these can help to drive value in an era when entry multiples can be high, leverage costlier and exit processes thinner on attendees.

Activity levels may remain subdued compared to historical averages, but deals getting over the line now will typically be higher quality and perform strongly. This is because investors have become acutely aware of the need to track businesses for some time to gain comfort around their market dynamics, growth plans, and even financials in an age of shifting costs and prices.

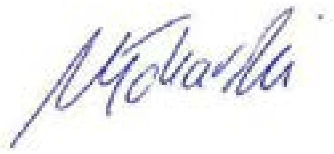
ESG frameworks continue to be progressed with experienced PE backers. Private equity firms are increasingly playing a role in guiding the journeys of portfolio companies, both to ensure they comply with incoming regulation and to create stronger businesses that go on to attract higher multiples at eventual exit. The ESG metrics can be applied across all sectors and are seen as a true value creation tool.

Data and AI are coming into focus as key ways to drive efficiencies and value – though widespread adoption is yet to manifest. Whether to drive internal productivity, enhance supply chains, create a better customer experience or glean fresh insights from latent data, firms are waking up to the power of AI. While most firms lack the expertise in-house, many are exploring ways to ensure they are on board – whether outsourcing to consultants or in-sourcing specialist talent.

Valuations remain tricky, though softening of pricing is continuing and even gaining pace. Only the most in-demand assets continue to attract high multiples as well-capitalised GPs compete to deploy against ticking investment periods. On the other side of the spectrum are targets commanding only lackluster multiples as they struggle to gain attention in a difficult trading environment.

We recognise that challenges often bring opportunities for those prepared to seize and cultivate them and our strong pipeline is a testament to that. Private equity firms have always been a core focus for us, whether for transaction advisory or value creation services.

We remain well placed to support local, regional and global players as they continue to build sustainable businesses and generate high returns for investors, and look forward to an acceleration of activity.



MICHAŁ TOKARSKI
Partner in Charge of Advisory,
Head of M&A
Deloitte Poland, Baltics and Ukraine

Case studies

Deloitte deals examples in CE

Serbia

Case: Deloitte provided full sell-side support through its financial advisory services - supporting the Telekom Srbija Group through complex carve-out and sale process of 1.8k macro towers in CEE region

Deloitte's role:
Lead sell-side financial advisor

Transaction thesis:
The sale and long-term lease of passive infrastructure at higher value multiples than the overall multiples for integrated telecommunication providers, generating value creation for the Seller

Sector specifics:
The infrastructure sector is highly attractive, providing stable, low-risk, and long-term cash inflows for investors

Length of the process:
One year

Plans for the company post-transaction:
The investor plans to use the acquired infrastructure assets as the basis to further grow the asset base by acquiring additional assets in Central and Eastern Europe

Transaction impact:
This transaction, together with the CETIN-Etisalat and UG towers transactions, signifies a definitive transfer of telecommunication infrastructure management away from telecommunication operators towards private equity and infrastructure investors

Biggest transaction challenge:
There were multiple interested investors participating almost simultaneously in a similar unrelated transaction of UG towers in Slovenia, Croatia, and Bulgaria, which created good competition among the investors

Poland

Case: Deloitte served as lead sell-side M&A advisor in the sale process of Scanmed Group, the leading privately owned, diversified in-patient care provider in Poland. Abris Capital Partners sold Scanmed Group to American Heart of Poland

Deloitte's role:
Lead sell-side financial advisor

Transaction thesis:
The sale of a leading specialized medical group to a direct competitor

Sector specifics:
Healthcare sector is defensive, which coupled with its growth potential makes it attractive to investors

Length of the process:
About one year

Plans for the company post-transaction:
Merger of equals to create the largest private in-patient focused healthcare group in Poland

Transaction impact:
The transaction will contribute to improving the quality and availability of medical services in the public health care system in Poland

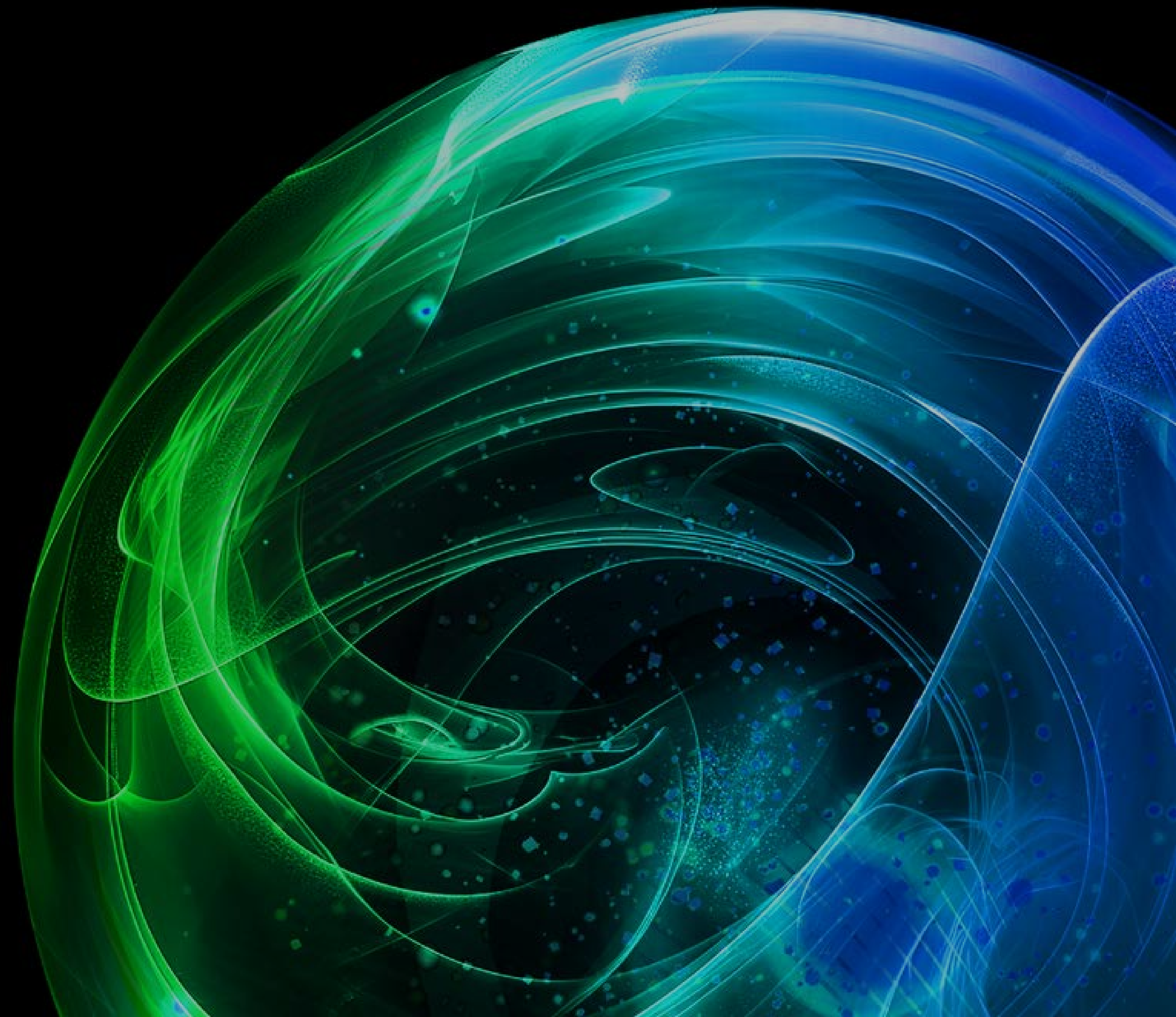
Biggest transaction challenge:
Sharing financial and operational data on the group with the buyer that is a direct competitor

Central European Private Equity Index: Key findings

Sentiment regarding the economy remains positive, with a third of respondents (30%) expecting conditions to improve and nearly half (48%) expecting them to remain the same. Pessimism has creeped up slightly, with a fifth now expecting a decline, back to the level seen a year ago and up from the Summer Survey.

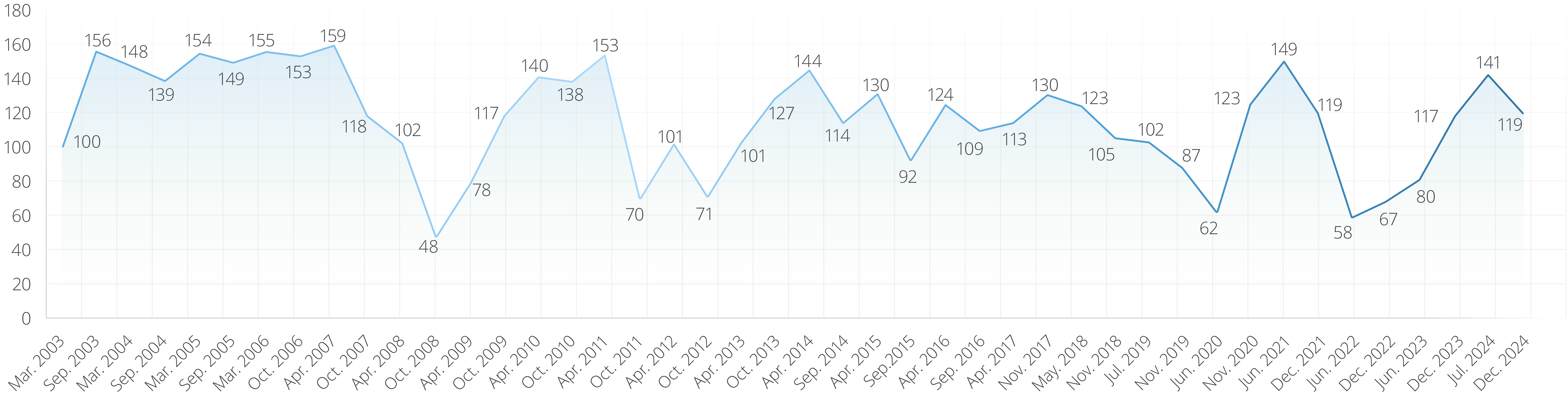
Investors in Central Europe remain refreshingly optimistic about the availability of debt finance in the region, with a third expecting debt availability to increase (31%) and nearly two-thirds expecting liquidity to remain the same (63%) for the year ahead. The sentiment mirrors that seen in our last Survey and is likely a reflection of the private credit community now operating in the region, both from local and global lenders.

Vendor pricing expectations appear to have stabilised. Only 3% reported price increases over the second half of 2024 (from 12% in the summer), nearly a third (31%) noticed a decrease (from 18% in the last time) and nearly half felt prices stayed the same (45% from 63% last time). Looking to 2025, sentiment is mixed. Under a tenth expect prices to rise (9%, versus 14% over the summer) and those expecting decreases remained fairly stable (22%, up from 20%).



Central Europe Private Equity Confidence Index

The Index reveals more tempered enthusiasm, landing on a respectable 119 to reflect challenges such as high interest rates and the ongoing war in Ukraine. Though the global uncertainty has punctured what had been an impressive continuous climb, the result of 119 remains very high and above the historical average (115).



Survey Results

Economic climate

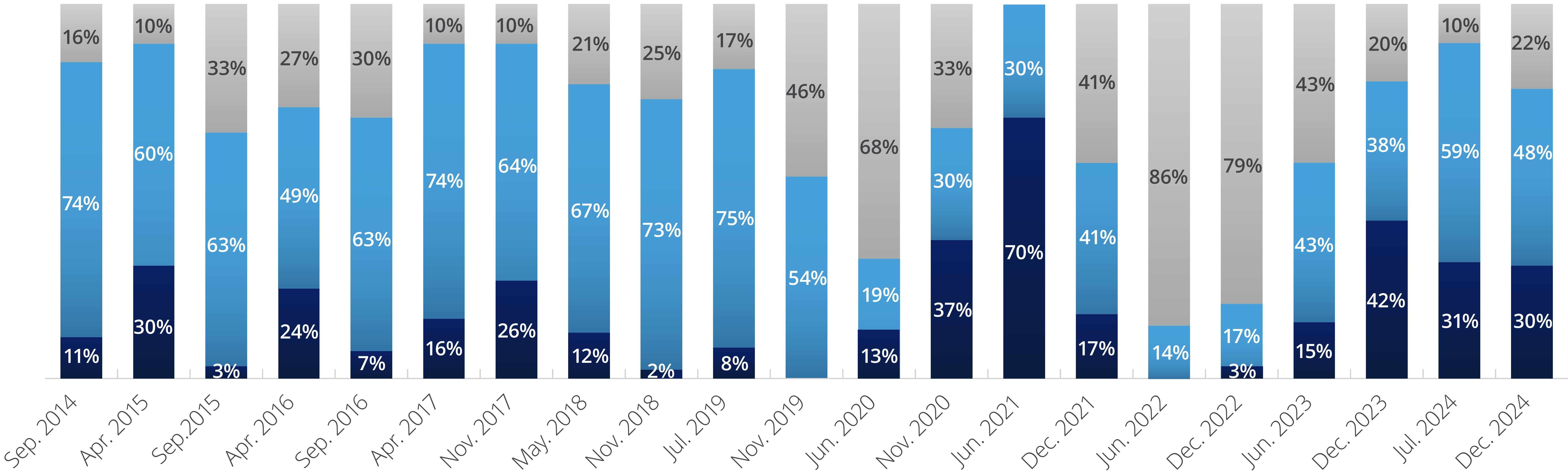
Sentiment regarding the economy remains strong, with nearly half (48%) expecting conditions to remain the same and a third (30%) expecting them to improve. Pessimism has crept up, with a fifth now expecting a decline, back to the level seen a year ago and up from the summer Survey.

The economies of Central Europe (CE) continue to perform strongly and outstrip GDP growth in the wider European Union. Poland, the region's largest economy, rebounded sharply in 2024, with GDP growth expected at 3.0%, up from a paltry 0.1% in 2023 and forecast to rise to 3.6% for 2025. This will be driven by private consumption supported by rapidly rising wages, increased government spending on support to families, improved consumer sentiment, and receding inflationary pressures.

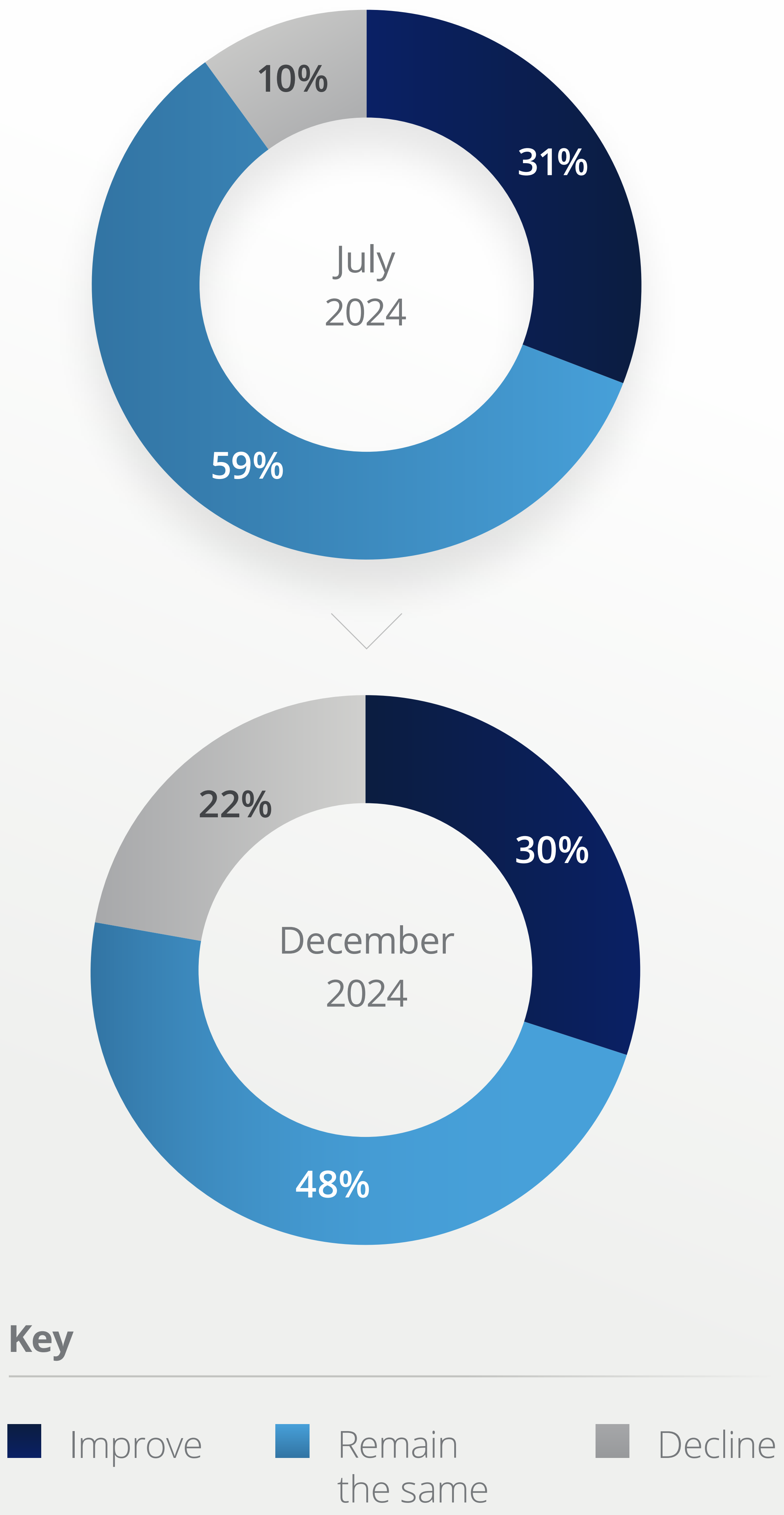
The second largest economy in the region is Romania and its growth slowed in 2024 to 1.4% (expected) as strong private consumption supporting domestic demand and imports was dampened by weak exports. A gradual recovery in external demand, easing of financial conditions and resilient private consumption and investment are set to accelerate growth above 2% in 2025 and in 2026.

European Commission data shows the CE data compares favorably to the EU, where GDP growth stood at 0.9% for 2024 and is forecast to reach 1.5% in 2025 . Figures for the eurozone are slightly below the EU figures.

For this period, I expect the overall economic climate to:



Economic climate
(July 2024 vs December 2024)



Debt availability

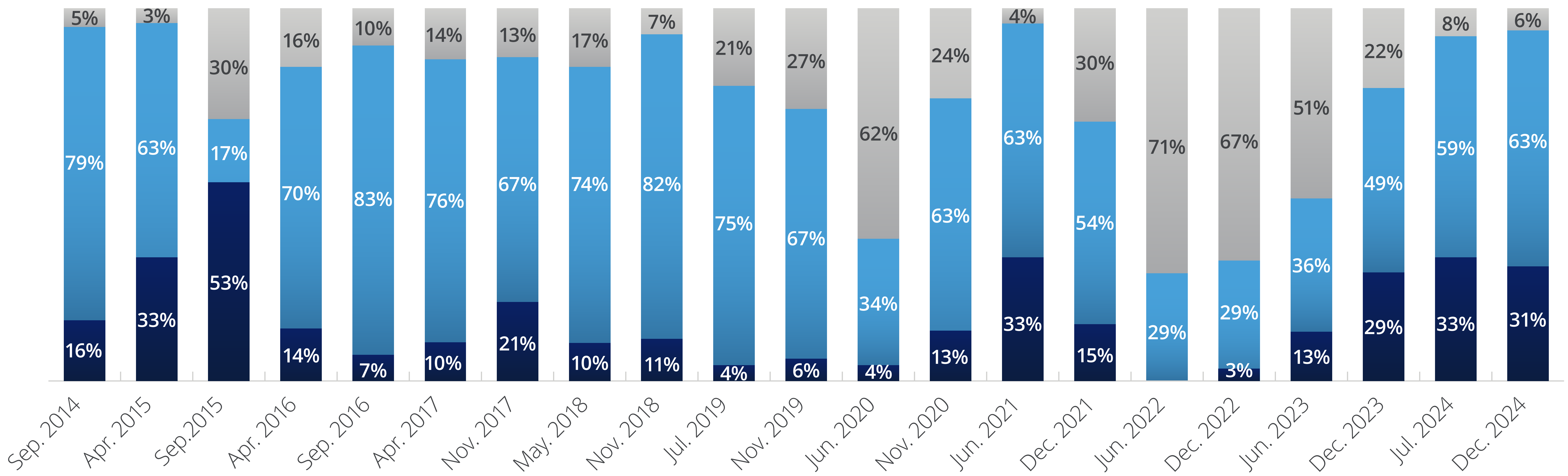
Investors in Central Europe remain refreshingly optimistic about the availability of debt finance in the region, with a third expecting debt availability to increase (31%) and nearly two-thirds expecting liquidity to remain the same (63%) for the year ahead. The sentiment mirrors that seen in our last Survey and is likely a reflection of the private credit community now operating in the region, both from local and global lenders.

This Survey is the fifth in a row to show reducing pessimism in liquidity, in spite of inflation and high interest rates plaguing markets globally. It is a reminder that alternative sources of leverage are less reliant on interest rates as their funds are committed and therefore provide a reliable source of capital.

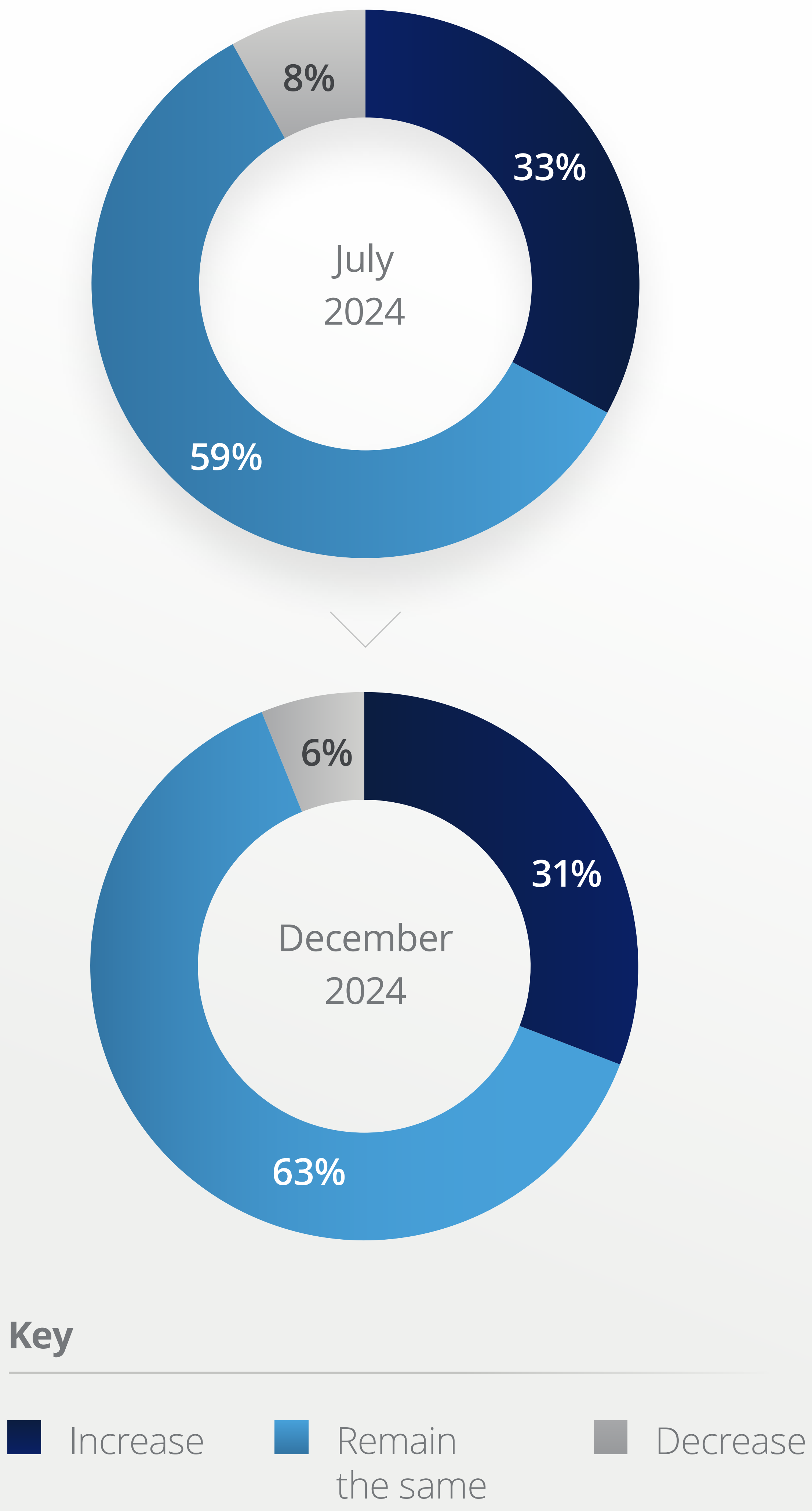
The region has a mixture of local and global players. Accession Capital Partners for example invests structured growth capital from its €336m AMC V fund and separately provides senior-secured debt from its ACP Credit Fund I. CVI also closed on €132m for its CEE Private Debt Fund in 2023 to provide senior debt, junior and unitranche loans to SMEs in CE, with a focus on Poland.

These local players are complemented by global institutions Ares and Kartesia, providing CE's deal-doers with optionality for funding leveraged transactions. The use of euro-denominated lending, even for targets based in countries with sovereign currencies, is likely encouraging more lenders to support growing businesses in CE.

For this period, I expect the availability of debt finance to:



Debt availability
(July 2024 vs December 2024)



Investors’ focus

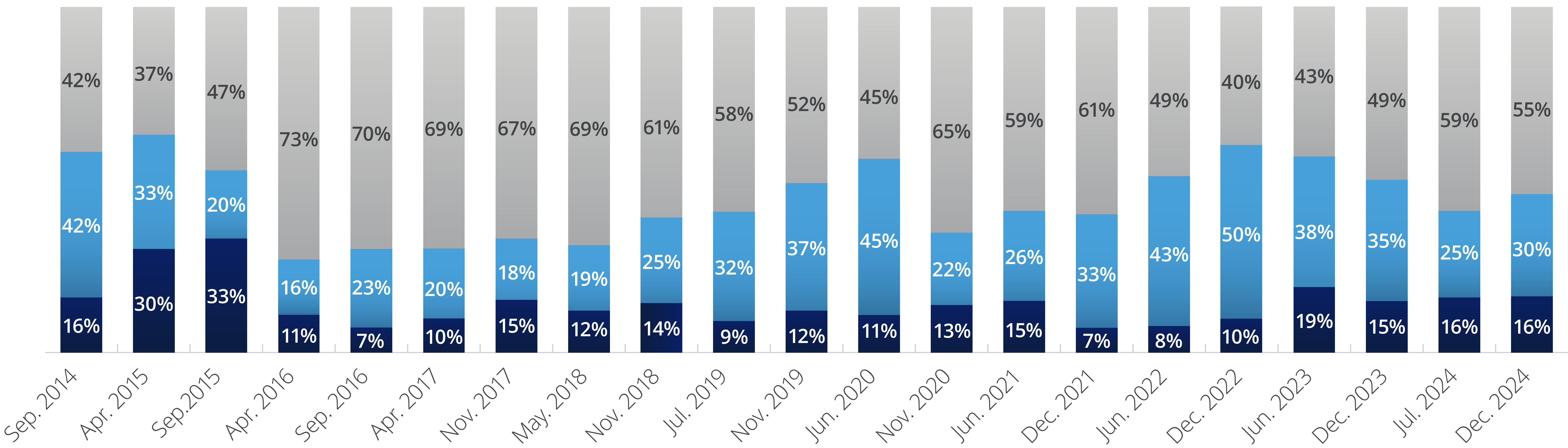
Optimism is reflected in the number of respondents looking to deploy in 2025, with over half (55%) expecting to spend most of their time on new investments. This is in line with last semester, while the number expecting to focus on portfolio management – typically a defensive move – remained under a third (30%).

While deal activity remained somewhat subdued in 2024, it was up on 2023 and these results suggest it will pick up pace in 2025. It is likely that deal-doers with dry powder have tracked businesses for sufficient time to gain comfort around their prospects in today’s backdrop. It is also the case that their investment periods may be creating time pressure to deploy – private equity is after all meant to invest across cycles. And crucially, we see evidence that vendors’ price expectations have softened, thus creating potential for swifter agreements on future transactions (see slide 18).

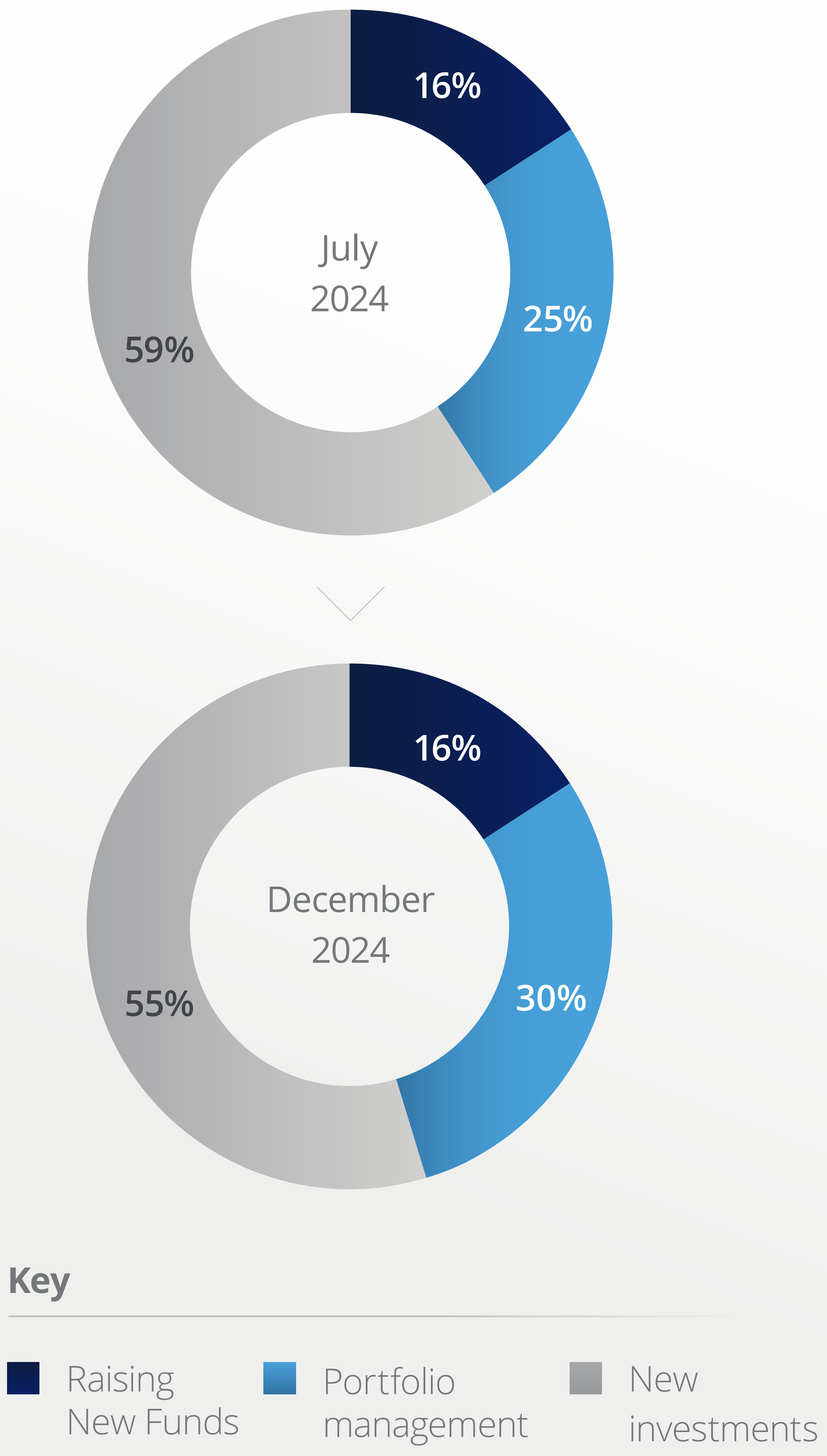
In spite of a challenging backdrop for fundraising globally, CE saw an impressive number of fundraising successes and launches in 2024. Highlights of last year included Innova Capital and Accession Capital Partners both closing their largest-ever funds, with €407 million and €336 million raised respectively. Tar Heel Capital also closed its fourth fund on €120 million, 70% larger than its predecessor and 3TS closed its tech fund TCEE IV on €111 million.

A number of launches suggest 2025 will be a busy one for fundraising. ARX Equity Partners achieved a first close of its fifth fund at €78 million and is targeting a final close of €100 million with a hard cap of €125 million. In December Integral Capital held a first close on its second fund, which is aiming to close on €150 million by the end of 2025 to back medium and small businesses in the region. Value4Capital secured €110 million for a first close of V4C Poland Plus Fund II, already 20% larger than its predecessor and well on its way towards its €140 million cap. Genesis Capital launched its seventh fund with a target of €250 million, simultaneously announcing a series of promotions in line with succession at the firm . The Baltics has seen a new fund launch, with Merito Baltic Opportunities targeting €100 million to back SMEs in Latvia and Lithuania. The EIF has cornerstoned it through its Baltic Innovation Fund II initiative.

For this period, I expect to spend the majority of my time focusing on:



Investors' focus
(July 2024 vs December 2024)



Size of transactions

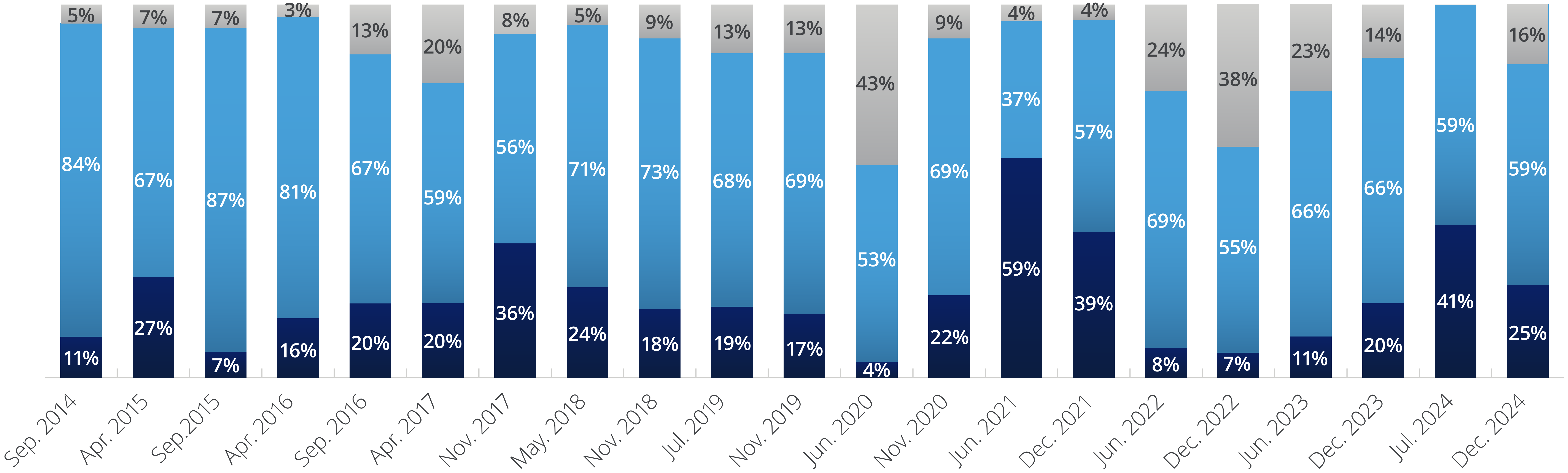
In a shift from our last Survey, it seems average transaction sizes may be set to contract, with 16% expecting them to decrease in 2025. This is a marked shift from our last Survey, when no respondents expect deal sizes to decrease – the first time in a decade. Only a quarter expect average sizes to increase, down from over 40% in the summer.

The region has always been a mid-market opportunity with mega-deals the exception rather than the norm, and hints at smaller deals could suggest that more deal-doers will pursue bolt-ons to grow their portfolios rather than seek out more platform transactions. Bringing down average entry multiples through buy-and-build has long been a popular strategy to create value by experienced deal-doers and a maturing region may offer more scope for this. It can also make securing leverage for deals more straightforward as the relatively smaller purchases are added to a robust platform, giving the lender comfort in the financials.

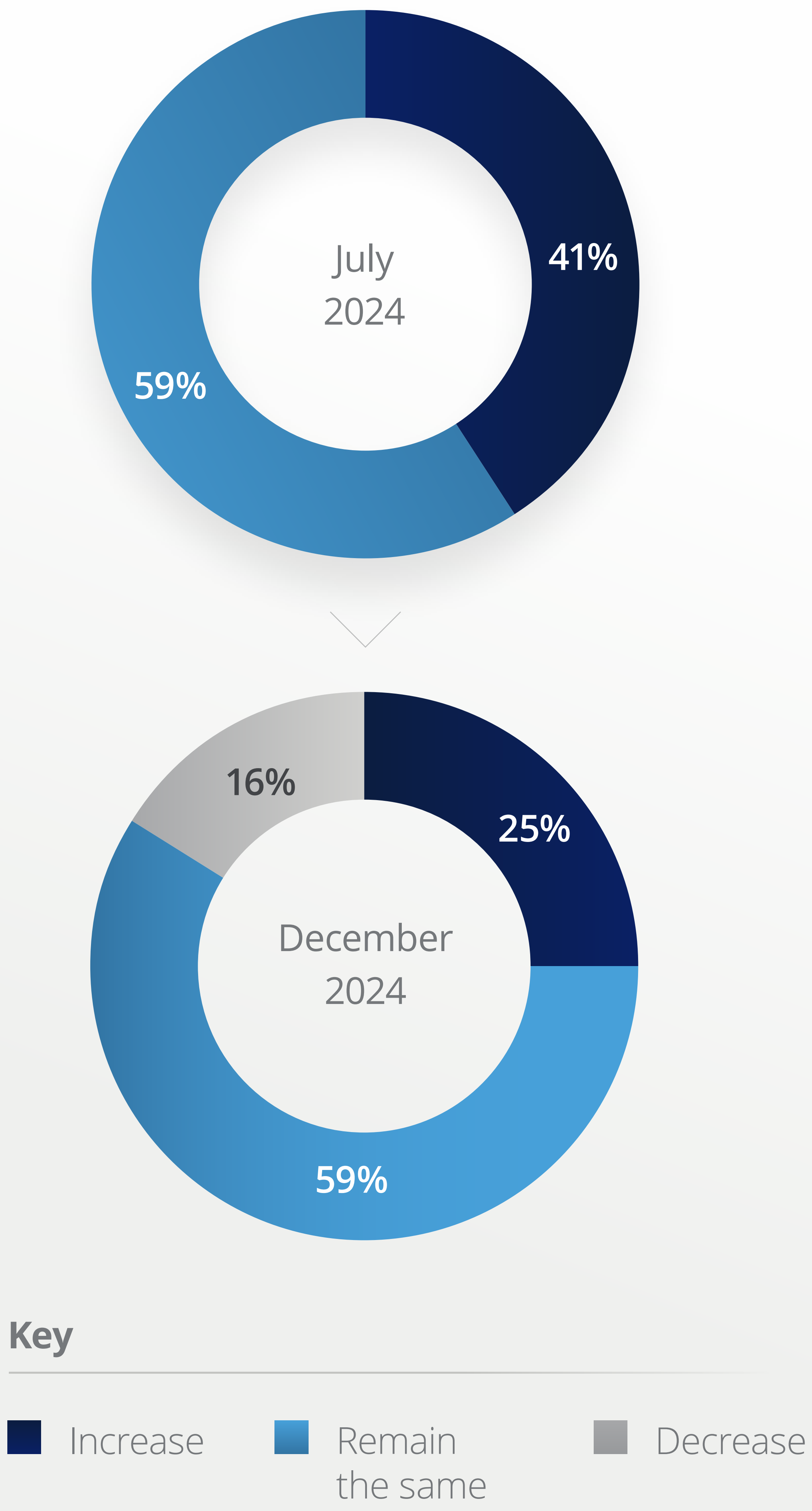
During the semester, ARX Equity supported another bolt-on for its portfolio company WTS Klient, with the purchase of VGD Hungary, a business services and accounting group. ARX initially acquired WTS Klient in early 2022 and strengthened the company's HR and IT functions to support growth through acquisitions.

The semester also saw Innova Capital makes its entry into the education sector with the purchase of Polish private education platform Tutore. The investment includes capital for the simultaneous bolt-ons of International Language Institute and ESL Brains.

For this period, I expect the average size of transactions to:



Size of transactions
(July 2024 vs December 2024)



Market activity

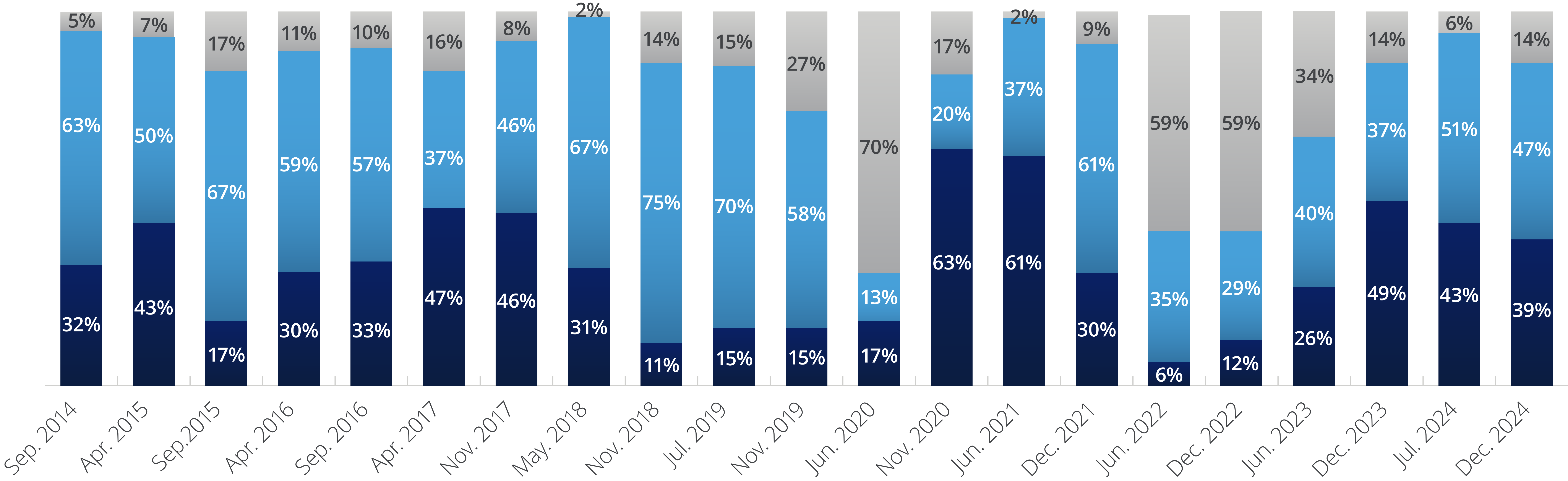
Expectations around market activity are fairly stable, with nearly half of respondents (47%) expecting activity levels to remain the same, down slightly from last time. Nearly two-fifths (39%) expect an increase, while the proportion expecting a reduction in activity has increased to 14%, reversing the reduction in our last Survey. Activity last year spanned a variety of new investments, exits and bolt-on activity. Genesis Capital acquired TechPlasty as it expands its portfolio into the manufacturing sector, and bought a majority stake in Czech recruitment agency Předvýběr, while Spire Capital Partners acquired a nearly 60% stake in Mooveno, a Polish corporate fleet mobility business. Innova Capital acquired Polish private education platform Tutore. At the end of the year, Abris sold healthcare service provider Scanmed to American Heart of Poland . The three-year investment period saw an ambitious buy-and-build program add three acquisitions to the platform .

Accession Capital Partners (ACP) announced five investments in 2024, including supporting the buyout of fashion retailer Tatuum with €20 million of mezzanine in August and December seeing it co-invest alongside Invenio in coffee franchise 5 to Go. The same month ACP sold its stake in Plasta Group to an investor-backed trade buyer CEDO.

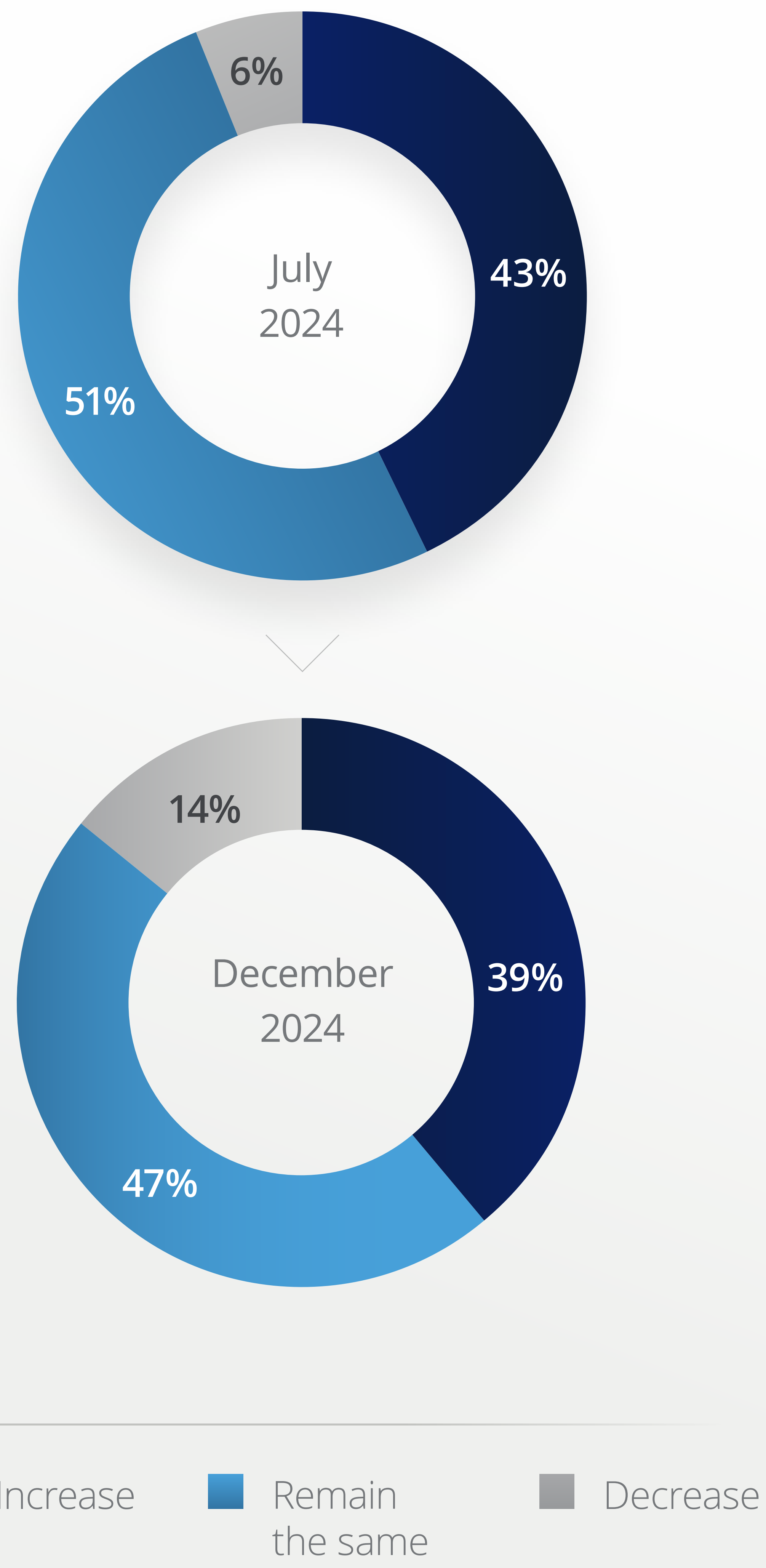
Minority investing is growing in popularity in CE, just as in Western Europe, as it enables deal-doers to cast origination nets wider. Resource Partners for example acquired a 40% stake in Polish brick maker and toy distributor Cobi at the end of 2024. Such deals can boost private equity activity as founders retain control of the businesses they've built but can give them access to value creation strategies of experienced investors.

Some investors are selling stakes in business to realize value whilst remaining involved to be part of the company's ongoing journey. MidEuropa for example sold a stake in Croatian bakery chain Mlinar in an SBO but retains a stake in the business. ECM Partners and Metric Capital Partners sold a stake in Famar, a pharma CDMO, to MidEuropa and reinvested alongside management.

For this period, I expect the overall market activity to:



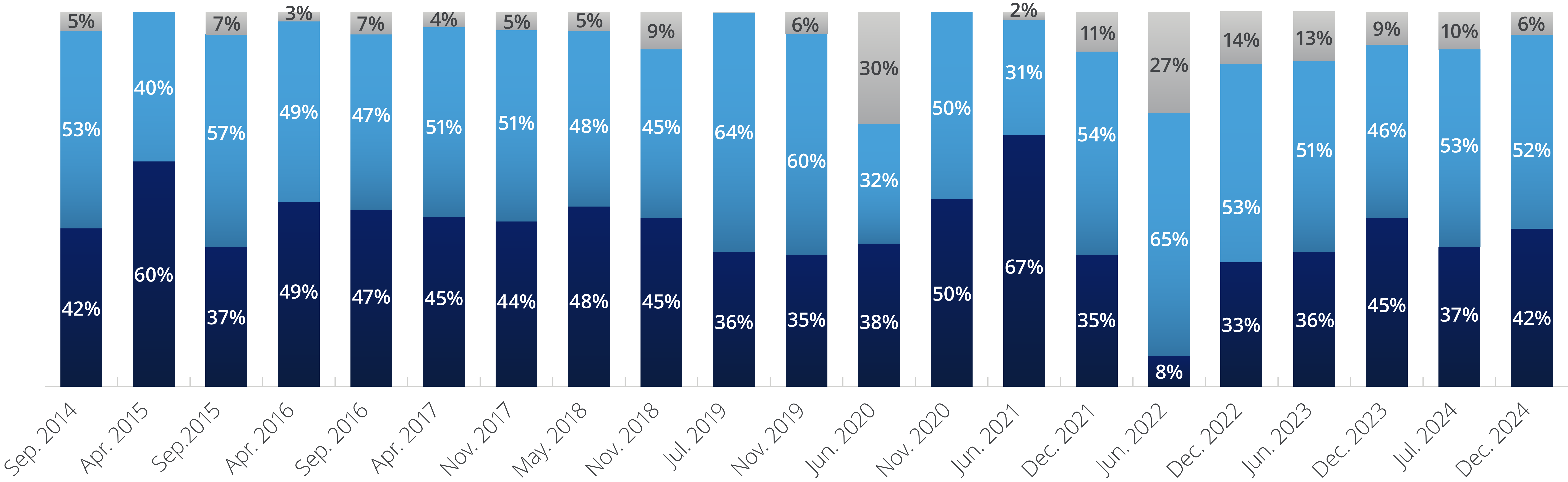
Market activity
(July 2024 vs December 2024)



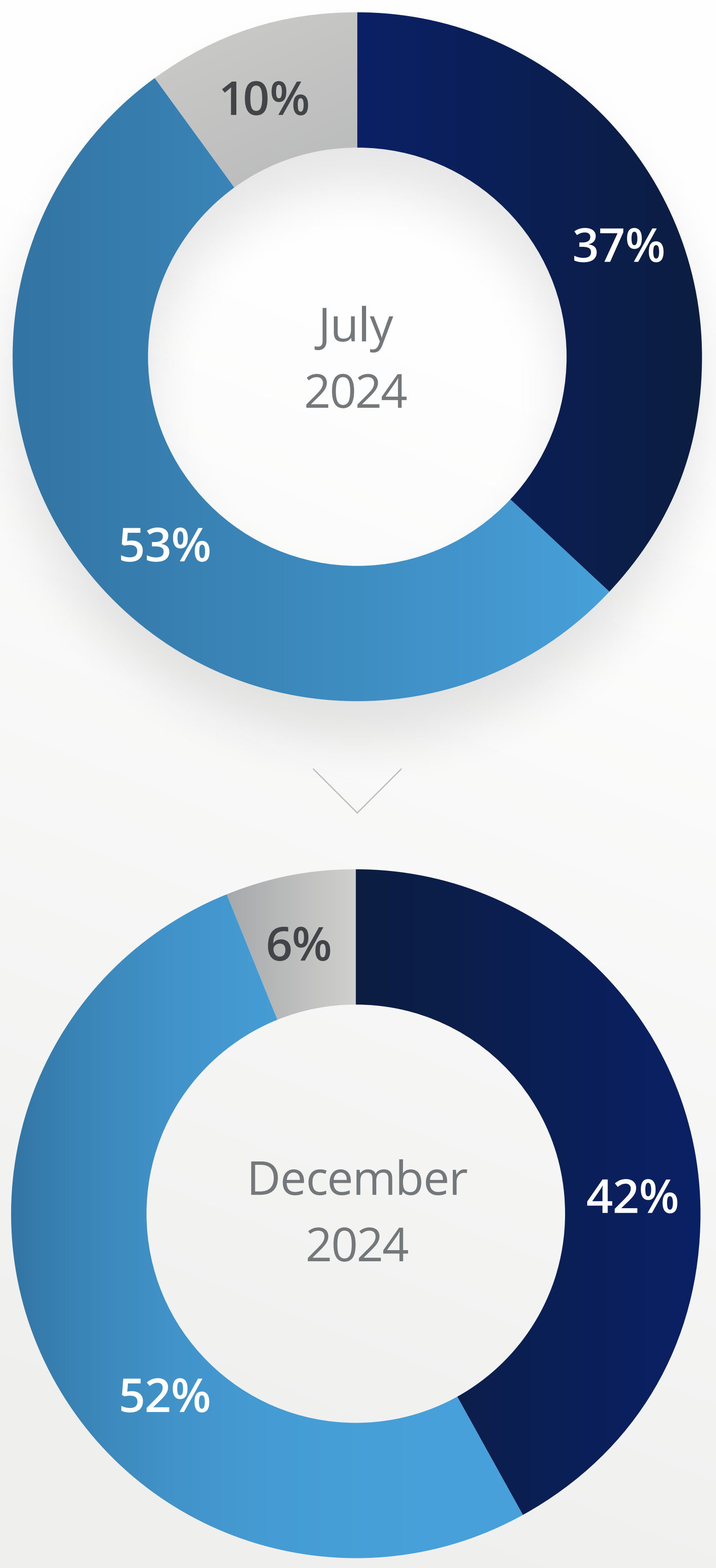
Investment return

There may be a boost in financial efficiency of investments, with over two-fifths (42%) expecting efficiency to improve, up from 37% in our last Survey. There has been a commensurate reduction in those expecting efficiency to decline, with 6% expecting this, down from 10% last time. Those expecting efficiency to remain the same was flat on last Survey at just over half.

For this period, I expect efficiency of my financial investments to:



Investment return
(July 2024 vs December 2024)



Key

Improve
Remain the same
Decline

Investors’ activities

Expectations around buying and selling have shifted to reflect a greater appetite for selling, with a fifth expecting to sell more in the period ahead, up from 12% over the summer. Those expecting to buy more has also increased, with 52% anticipating a firmer focus on this, up from 47% six months ago. Just over a quarter expect to divide their attention equally (28%), down from 41% in our last Survey.

A challenging few years has seen divestment activity subdued as vendors may have felt pricing would have failed to meet expectations. The upshot is these businesses have had more time to grow with their private equity backers, and while longer hold periods compress IRRs, the right value creation strategies can mean multiples are boosted at exit.

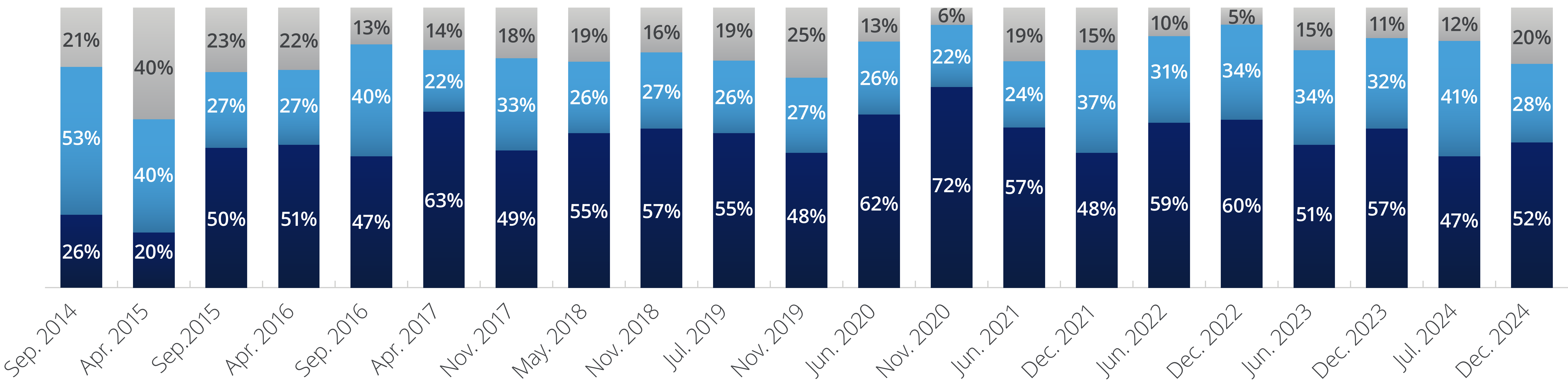
While IPOs remain elusive in many markets, the Warsaw Stock Exchange has been a welcoming recipient of private equity-backed businesses. In October CVC floated Polish retailer Żabka on the Polish market, seven years after acquiring it from MidEuropa. The listing marked the largest public offering in Poland since 2020. Warsaw was set to host another private equity-backed listing in 2025, with Enterprise Investors preparing an IPO for Studenac, a Croatian food retailer it has supported since 2018, since when store numbers have tripled and revenues doubled. A listing had been planned for the Warsaw and Zagreb exchanges, with €80 million set to be realised to support its growth and reduce its debt, though challenging conditions saw plans shelved for the time being.

Trade sales remain a popular exit route for investors in CE. In 2024 Enterprise sold Nu-Med, a leading Polish company specializing in radiotherapy treatment for cancer patients in a sale to pan-European trade buyer Affidea, generating 2x money following an 11-year hold. ACP sold its stake in Plasta Group, the largest polyethylene film recycler in Northern Europe, in a trade sale to CEDO.

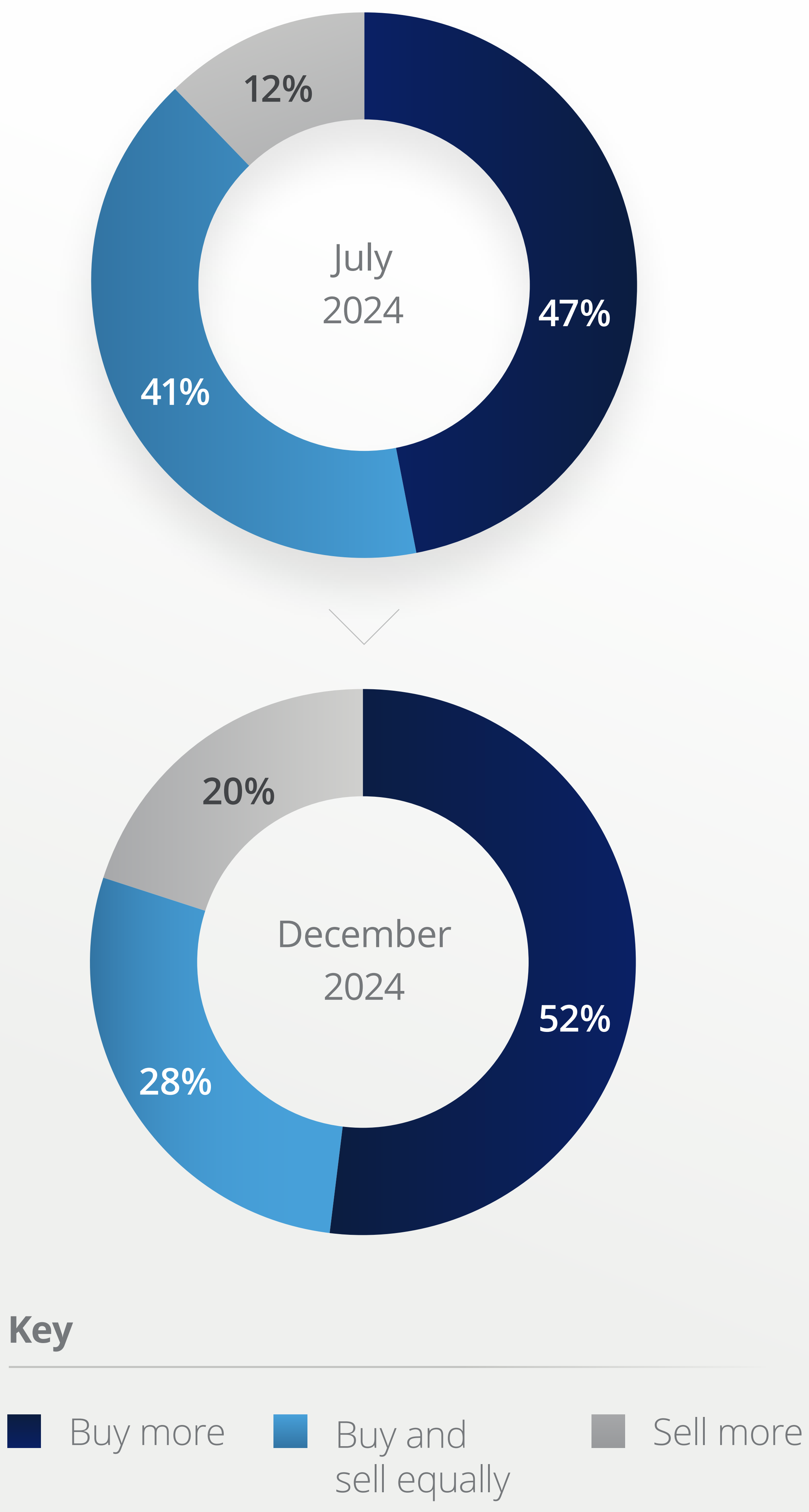
Innova Capital sold its stake in Optical Investment Group, a Romanian optical retail chain, to EssilorLuxottica, and Abris Capital exited Dot2Dot, a premium packaging producer, through a trade sale to Belgium’s Van Genechten.

Secondary buyouts also featured in CE in H2 2024 with Oakley Capital divesting its tutoring business, Schülerhilfe, to Levine Leichtman Capital Partners, which is investing from its seventh fund.

For this period, I expect to:



Investors' activities
(July 2024 vs December 2024)

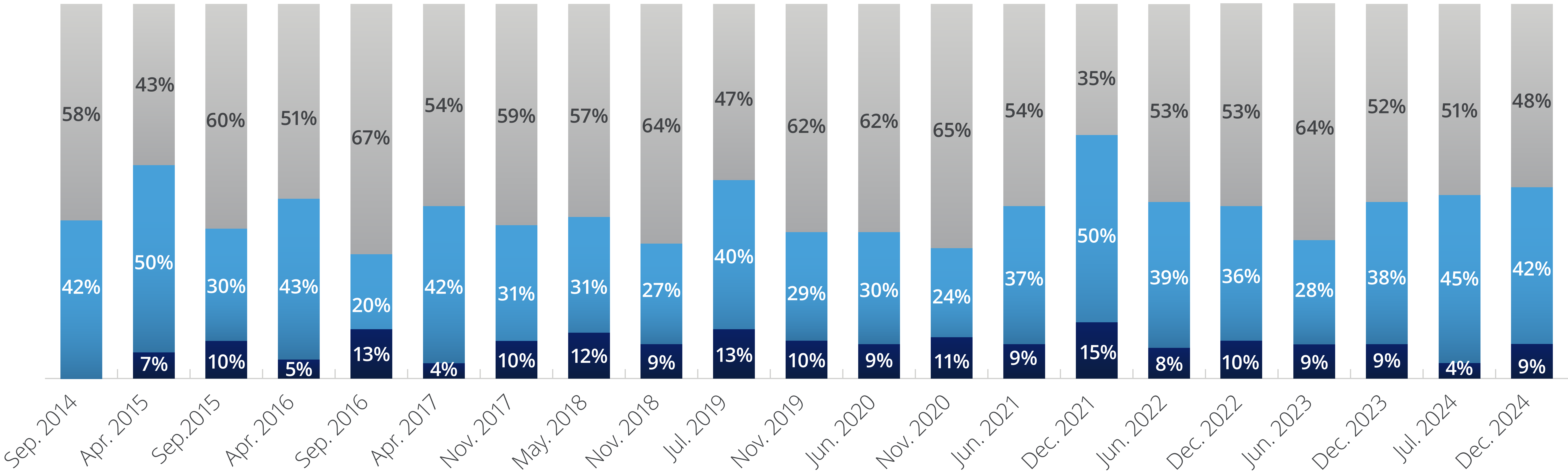


Competition for new investments

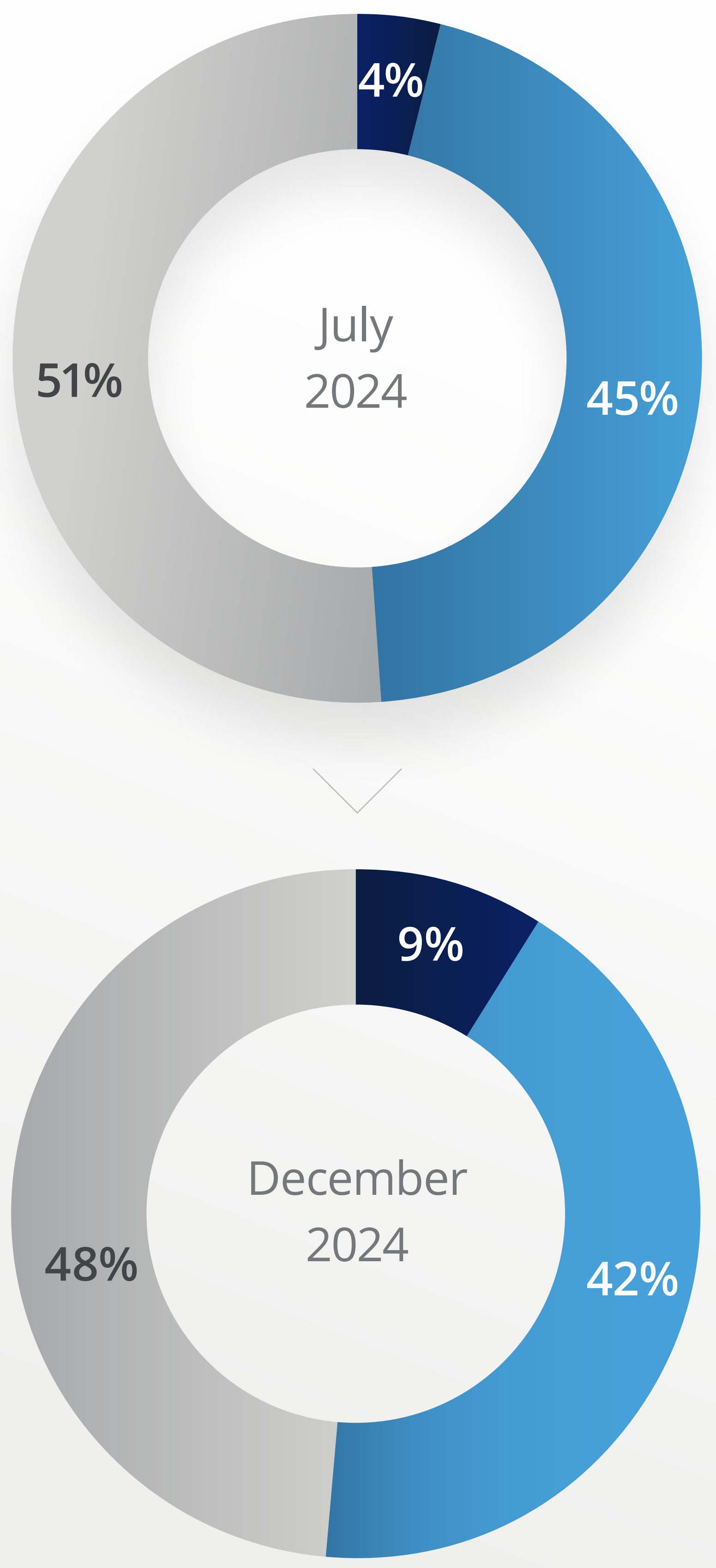
Investors in the region continue to look to established businesses for opportunities, with our latest Survey reinforcing a penchant for market leaders (48%) and middle-size growing companies (42%) as the most competitive. Start-ups are expected to be the most competitive for just a tenth of respondents, in line with most previous Surveys.

While market leaders have historically been most straightforward to add leverage to owing to established revenues and cashflows, a liquid leverage market underpinned by credit funds has meant innovation in lending and so mid-caps are better able to attract funding. These are often the businesses where an experienced investor can add the most value to create leaders in their fields.

For this period, I expect the highest competition for new investment opportunities in:



Competition for new investments
(July 2024 vs December 2024)



Key

- Start-ups
- Middle size growing companies
- Market leaders

Vendor pricing

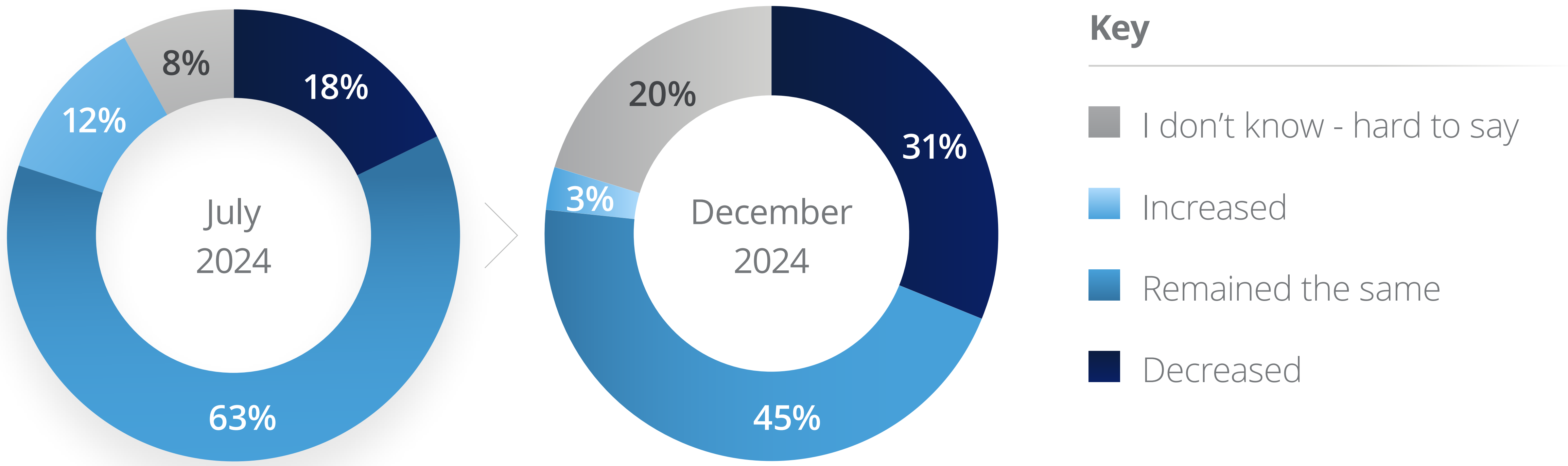
Sentiment is shifting around vendor pricing expectations, suggesting they have fallen and may have stabilised for this year. Only 3% reported price increases over the second half of 2024 (from 12% in the summer), nearly a third (31%) noticed a decrease (from 18% in the last time) and nearly half felt prices stayed the same (45% from 63% last time).

Looking ahead to 2025, the sentiment is more mixed. While the proportion of respondents expecting pricing to increase has changed from 14% in the summer to just 9% now, nearly a fifth (17%) say they are unsure how expectations will evolve this year.

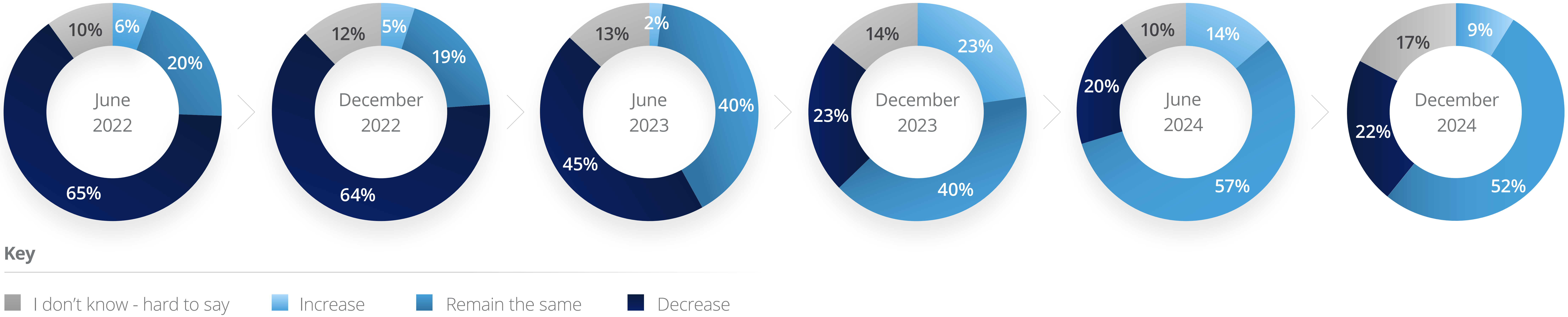
Over a fifth (22%) expect prices to decrease, roughly flat on our last Survey, and just over half (52%) expect them to stay the same, down a bit on six months ago (57%).

Several factors may explain the shift in expectations. Prospective sellers may have had enough time to adapt to the evolving market, becoming more aligned with buyers on pricing. This adjustment could result from time, professional guidance from experienced advisers, or a combination of both. Additionally, changes in owners' circumstances – whether driven by personal ambitions or the growth trajectory of their businesses – may also be influencing their willingness to align on price.

Relative to 6 months ago, vendor pricing expectations have:



Over the next 12 months, we expect vendor pricing expectations to:



Navigating uncertainty

Navigating uncertainty

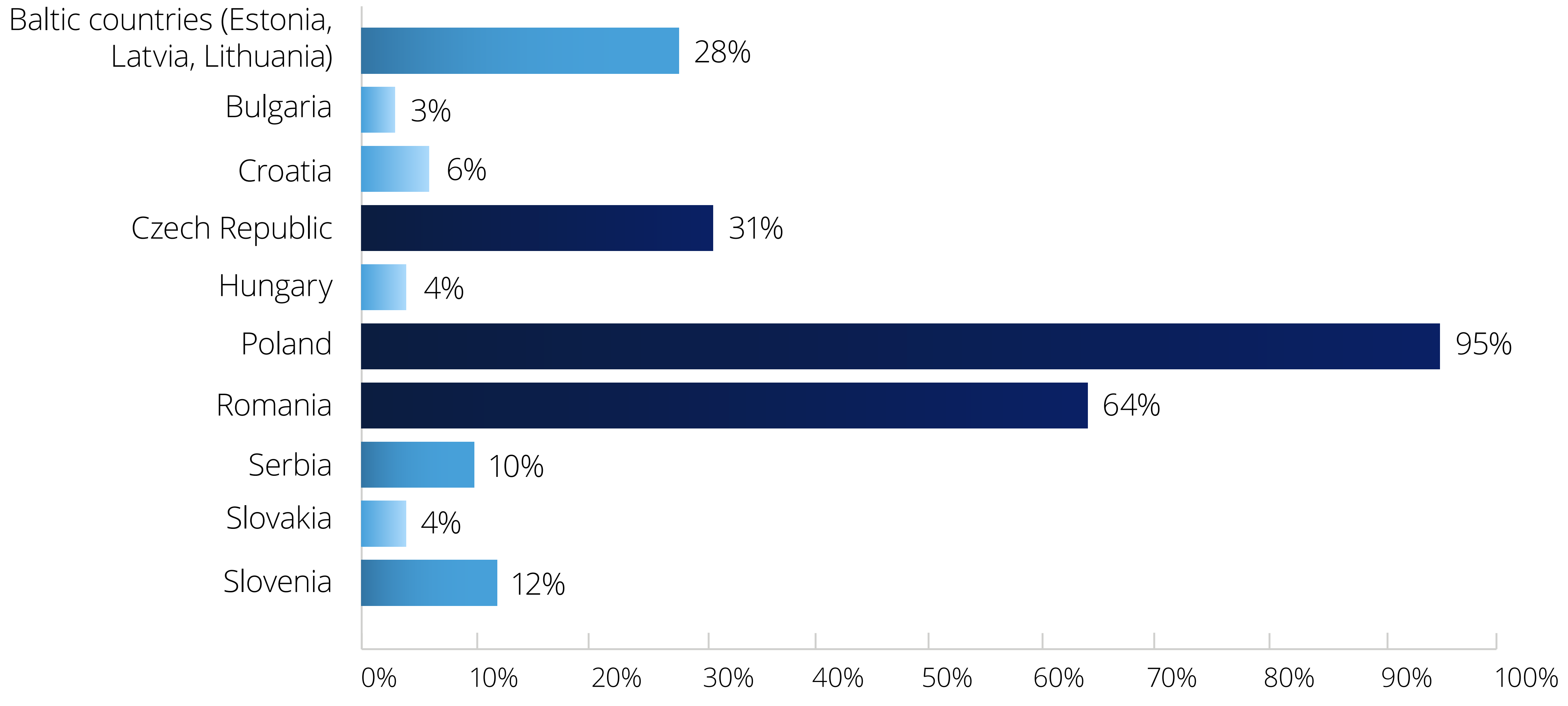
Poland is expected to continue its dominance in terms of attracting investment in the years to come. The region's largest economy has long hosted the highest level of activity, owing to a combination of a sizeable addressable market (population nearly 40 million) and strong economy.

Romania is the second largest market (population nearly 20 million) and perhaps unsurprisingly, the second most popular. Czech Republic is in third place (population nearly 11 million), followed closely by the Baltics, which have a large number of private equity success stories in spite of their small populations (combined population roughly 7 million).

The CE region remains highly attractive for TMT investments, a favorite for decades. Initially private equity made strides in the region in the 2000s through a series of telco privatizations which generated rich returns for investors. Since then, technology has marched on as an attractive opportunity with an incredible pace of change.

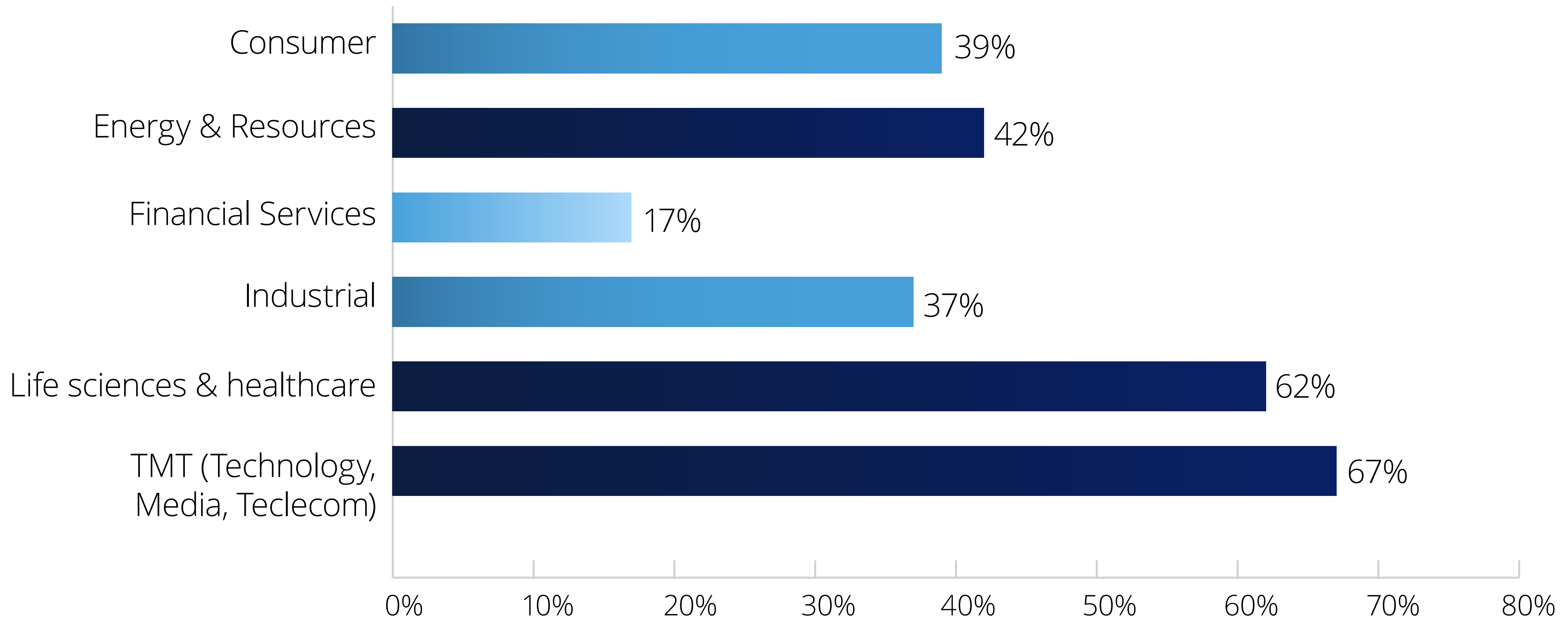
Interestingly, life sciences and healthcare are a close second, likely the result of it being more attractive globally in a post-pandemic world as well as the fact that national health systems are increasingly under strain, creating real opportunity for private alternatives. It is also the case that technology and AI are helping to accelerate change in both life sciences and healthcare. Utilized properly, these can create efficiencies and improve healthcare outcomes. Experienced private equity investors have a number of value creation strategies to bring to bear in the companies they back, with technology and AI among them, and we are seeing a growing number of successes in the life sciences and healthcare sectors. A very recent transaction in the space saw Mehiläinen, a healthcare business backed by global PE house CVC, acquire InMedica Group from INVL Baltic Sea Growth Fund, AB City and Litgaja .

Which three countries (in Central Europe) do you think will be the most attractive from an investment perspective in the coming years?



*respondents could choose more than one answer

Which three sectors in Central Europe do you think will be the most attractive from an investment perspective in the coming years?

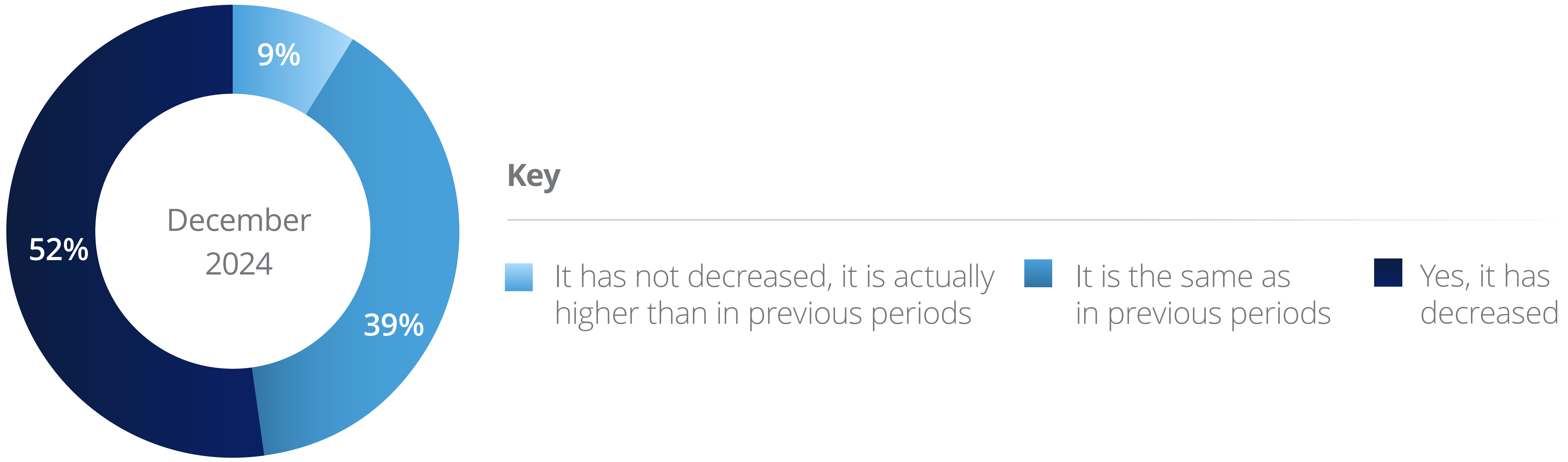


*respondents could choose more than one answer

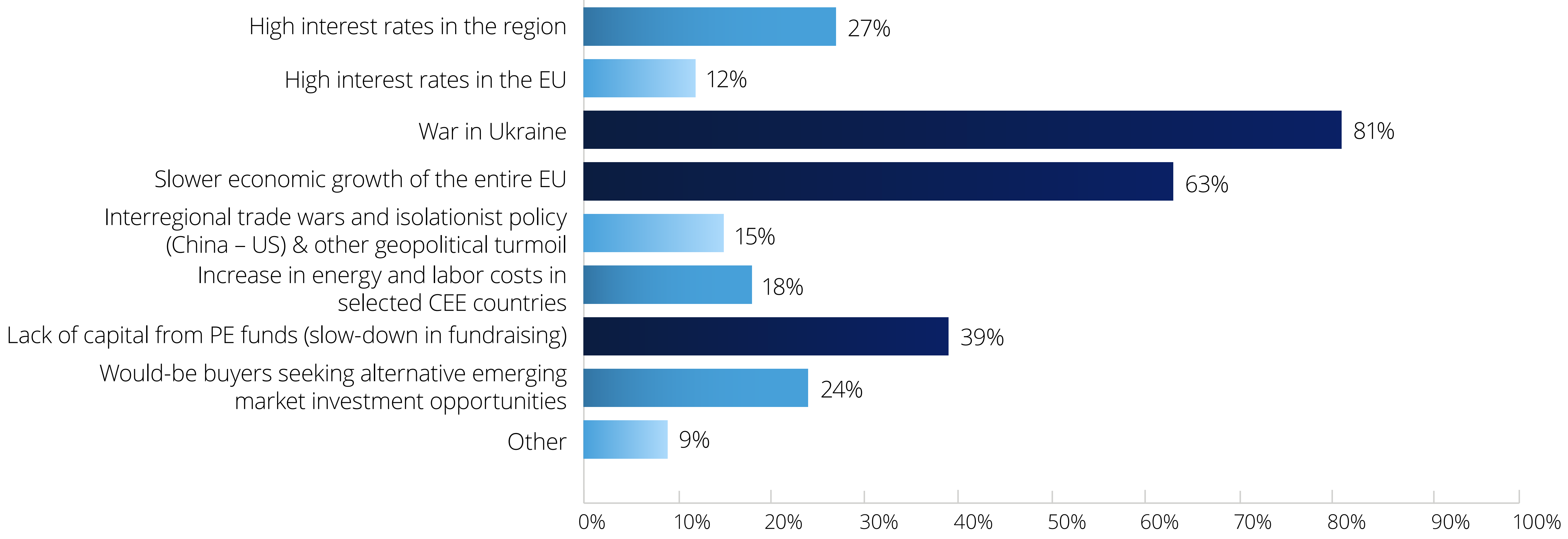
It is getting harder to pique interest in prospective buyers when selling assets, with over half of respondents (52% feeling the number of bidders has decreased and another two-fifths (39%) feeling interest remains the same. Nearly a tenth (9%) feel there are more parties expressing interest in assets.

For the half that feel interest is waning, the potential catalysts vary. Over a quarter (27%) point to the war in Ukraine, and a fifth (21%) put it down to sluggish growth across the entire EU. It is important to note that these two factors can be said to dent confidence in regions beyond CE. A distant third is a slowdown in fundraising, another issue which plagues the PE backdrop globally.

When marketing a company for sale, has the number of interested parties decreased? If so, what is the reason for this?



What is the reason for this?

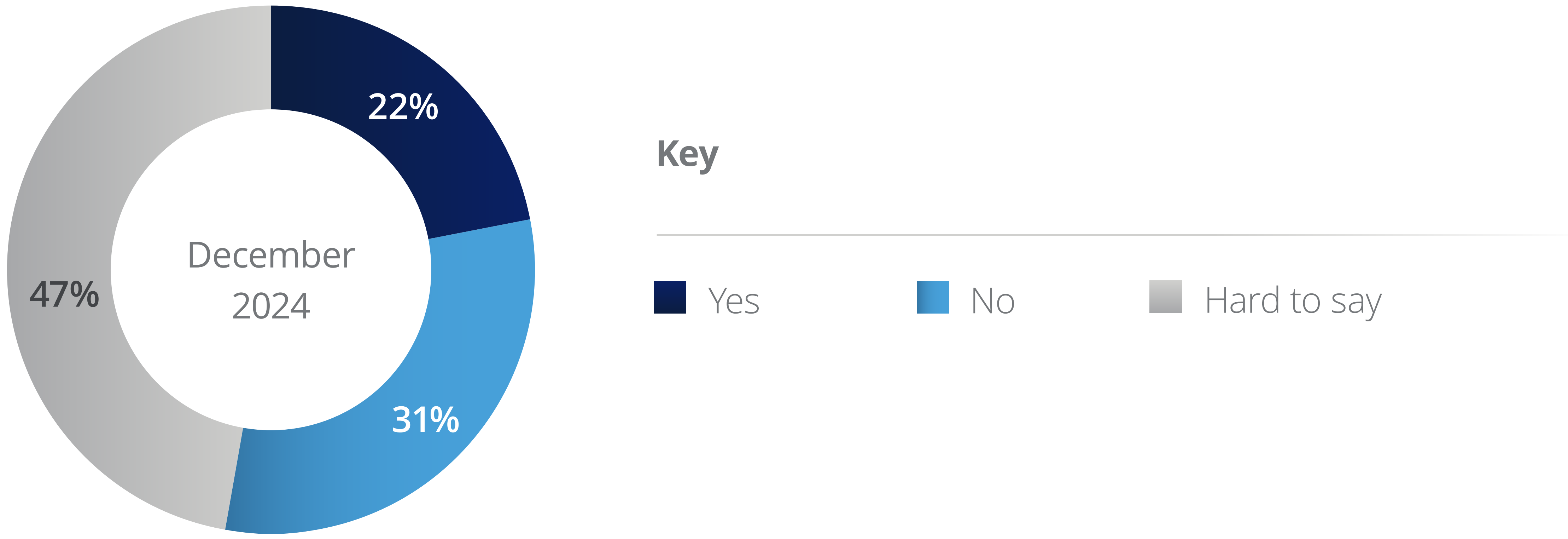


*respondents could choose more than one answer

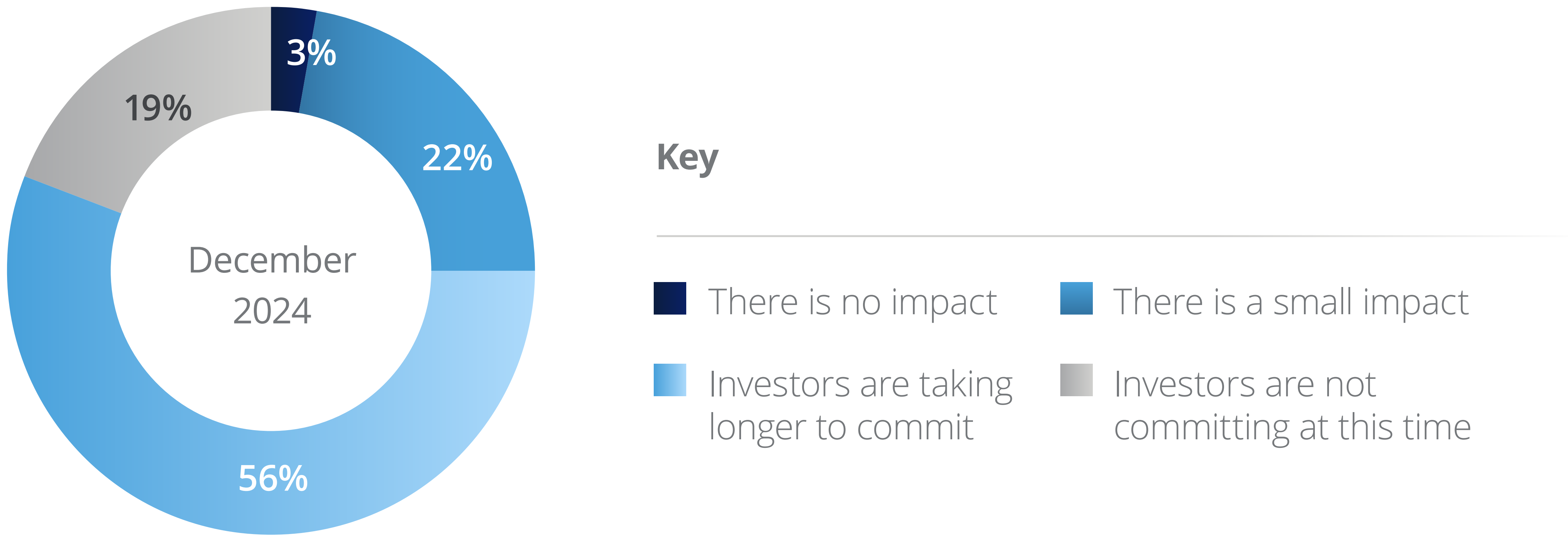
The market remains difficult, with global economic malaise following inflation, the pandemic and now war in Ukraine and tensions in the Middle East catalyzing a confluence of challenges. With investments, divestments and fundraising all requiring a higher level of patience and skill – globally rather than exclusively in CE – it is hard to know which factor(s) is (are) the underlying cause. Nearly half of our respondents (47%) feel it is 'hard to say' whether non-CE investors are offloading CE investments as a result of the war in nearby Ukraine, and another third (31%) say this is not the reason. Just a fifth (22%) feel the war is the cause.

Fundraising has been difficult for years, in CE as well as other markets. Myriad factors, from a dearth of distributions to the denominator effect of PE in portfolios are causing LPs to pause, and the war in Ukraine is one of a number of pressures. While over half of our respondents (56%) say investors are taking longer to commit, this can also be said of Western Europe as well, where a number of GPs are facing protracted fundraises, pressure on terms and reduced vehicle sizes. There are exceptions to this, with some GPs smashing targets, including Innova and Accession Capital Partners in CE in 2024. But it is clear that investors are applying firmer diligence and this takes more time.

Has there been a greater willingness of shareholders and investors from outside the region to sell companies located in CEE markets due to the war in Ukraine?



How is the ongoing situation in Ukraine impacting the appetite of investors outside the region to back Central European managers?



Contacts

Baltics

Linas Galvelė
Partner, Head of M&A Transaction Services, Central Europe
lgalvele@deloittece.com

Bulgaria

Tanya Karageorgieva
Partner, Advisory
tkarageorgieva@deloittece.com

Croatia

Lena Habus
Partner, Advisory
lhabus@deloittece.com

Czech Republic

Miroslav Linhart
Partner, Advisory
mlinhart@deloittece.com

Jan Vomacka
Partner, Advisory
jvomacka@deloittece.com

Hungary

Balázs Csűrös
Partner, Advisory
bcsuros@deloittece.com

Poland

Arkadiusz Strasz
Partner, M&A, Transaction Services
astrasz@deloittece.com

Michał Tokarski
Partner in Charge of Advisory, Head of M&A Deloitte Poland, Baltics and Ukraine
mtokarski@deloittece.com

Romania

Radu-Cristian Dumitrescu
Partner, Advisory
rdumitrescu@deloittece.com

Slovakia

Ivana Lorencovičová
Managing Partner of Deloitte Czech & Slovak Republic
ilorencovicova@deloittece.com

Slovenia

Tilen Vahčič
Partner, M&A TS leader Deloitte CE South
tvahcic@deloittece.com

South Central Europe Cluster

(Albania, Serbia, Montenegro, North Macedonia, Croatia, Slovenia and Bosnia and Herzegovina)

Darko Stanisavić
Deloitte Central Europe Advisory Business Leader
dstanisavic@deloittece.com

Marketing Contacts

Anna Pawliszewska
Marketing Senior Manager, Advisory, Deloitte Poland
apawliszewska@deloittece.com

Bartosz Sawulski
Senior Business Development Manager, Advisory, Deloitte Poland
bsawulski@deloittece.com

Deloitte.