

2018 review of the Turkish M&A market

The year 2018 was challenging for Turkish M&As. Both global and local developments rocked the market. At a global level, the most remarkable factors were the never-ending Brexit deal negotiations, ongoing budget discussions in the U.S., the Federal Reserve Bank's interest rate decisions throughout the year and persistent conflicts in the Middle East. On the other hand, Turkey saw a debilitating devaluation of the Turkish lira, increases in inflation and interest rates and slashed credit ratings. There were also presidential elections and the ending of the state of emergency.

Considering all these developments both in Turkey and the world, the fluctuations that started in 2016 in the Turkish M&A market were still palpable in 2018. Just to refresh our memories: 2016 was a very tough year for almost all markets in Turkey. The total deal volume hit lows not seen since 2009. Following the 2017 referendum, the total deal volume was still low but the total deal number recovered quickly reaching its highest in the last five years.

Annual reports prepared by the Turkish Competition Authority and independent audit firms Deloitte and Ernst & Young show that the modest recovery reported in 2017 continued in 2018, despite the continuous political and economic fluctuations. The most noteworthy data extracted from these reports are as follows:

In 2018, the approximate annual deal volume totaled \$12 billion. This represents an increase of 17 percent in total deal volume compared to 2017, which was es-



timated to be \$10.3 billion. While the annual deal volume increased in 2018, the total deal number dropped to 256, a decrease of 13 percent. The total deal number was 295 in 2017.

In 2018, 223 deals were reported to the Turkish Competition Authority for merger clearance, compared to 184 in 2017. With the addition of 2018 numbers, the six-year average of deals reported to the Turkish Competition Authority between 2013 and 2018 reached 200. This number represents a remarkable parameter to understand the players and size of the Turkish M&A market as only the transactions involving parties meeting certain financial criteria are reported to the Turkish Competition Authority.

The ten largest transactions comprised 63 percent of the total annual deal volume. These largest transactions correspond, approximately, to only four percent of the total number of deals done in 2018. The remaining involved small and medium size transactions, mainly start-ups.

Deals made by foreign inves-

tors remained almost unchanged in 2018. In 2017, foreign investors were involved in 70 deals, compared to 74 deals in 2018. This comprises only 29 percent of the total number of deals in 2018. Turkish investors still dominate the market with 182 deals, with a total annual deal volume of approximately \$4.4 billion. Considering foreign investors' level of involvement in the Turkish M&A deals in the last five years, we can say that their cautious approach towards Turkish markets is still evident.

While foreign players' appetite for the Turkish M&A market slowed in 2018, deals involving foreign investors encompassed 63 percent of the total deal volume in 2018 of approximately \$7.6 billion, whereas deals involving Turkish investors represented 37 percent of total annual deal volume. On the other hand, both deal volume and deal number of financial investors decreased significantly in 2018 and reached the lowest level of activity since 2010.

Technology, food and beverage-

es, manufacturing, services, energy and financial services had an active year in terms of M&As. Privatizations' contribution to the total deal volume was insignificant, with only a slight increase due to the privatization of sugar production facilities, which increased the share of privatizations to 8 percent of the total deal volume in 2018.

Looking forward, 2019 will again be a difficult year for companies that are in financial distress and companies with only a local presence. They are more exposed to foreign exchange risks, which adds more risks when a local or global economic recession is expected.

On the other hand, businesses with export operations will be the focus of investors' attention. Finally, the expected sales of certain assets and companies from the portfolio of the Savings Deposits and Insurance Fund may boost activity in the Turkish M&A market.

Forecasts for 2019 are mainly dogged by Turkey's growth uncertainty, the fluctuations of the Turkish lira against foreign currencies and high inflation. This means we expect that the 2019 deal volume will remain similar to 2018.

Conversely, despite all the political and economic turmoil, the Turkish market continues to have great potential and investors who are familiar with the region and have long-term investment plans will not be reluctant to continue investing in Turkey.

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