

Review of 2020 Turkish M&A market

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2020 WAS A CHALLENGING YEAR, with the global economy and M&A markets experiencing a temporary set-back due to the unexpected outbreak of the global pandemic. On a global level, Covid-19 suppressed deal making in the first half of 2020 because of lockdowns, travel bans and uncertainties. Similarly, the Turkish market witnessed the same slowdown in M&A transactions. Following this stagnant period, with the ease of Covid-19 restrictions, deal making made a remarkable comeback as of June 2020 and remained strong until the end of the year.

In 2020, the total transaction volume in Turkey reached approximately USD 9 billion, marking a significant increase over 2019, while the total number of deals exceeded 300, breaking an all-time record. Small and medium-sized transactions consisting of many early-stage investments dominated the deal number. That said, the deal volume was mostly driven by a few high-volume transactions. This does not come as a surprise considering the cancellations and delays of large cross-border deals due to the Covid-19 outbreak.

Annual reports prepared by the independent audit firms Deloitte and Ernst & Young also show that the Turkish M&A market remained resilient in 2020 in the face of economic downturns and difficulties brought by the Covid-19 pandemic. Our takeaways from these reports are as follows:

In 2020, the annual deal volume totalled approximately USD 9bn through 304 transactions. This represents a significant increase compared to 2019, both in the total deal volume and the deal number. In 2019, the total deal volume was approximately USD 5.3bn and the total deal count was 233.

The information technology, software, telecommunication, manufacturing, financial services, energy, healthcare and logistics & transportation sectors had an active year

in terms of M&A.

The total deal value of the ten largest transactions was USD 5.8bn. Among these, the U.S.-based game developer Zynga acquired the Turkish digital game company Peak Games for a total purchase price of USD 1.8 billion. This deal was recorded as the first unicorn transaction in Turkey. Zynga also acquired an 80% stake in Rollic Games, an Istanbul-based game company.

For the first time in the last five years, foreign investors' share in the total deal volume was less than local investors. Although Turkish investors dominated the M&A market in 2020, the deal volume of foreign investors also increased by 35% compared to 2019. Foreign investors from North America, Europe and Qatar closed most of the deals in terms of deal volume.

Both deal volume and deal number of financial investors rose sharply in 2020 and reached the highest level of activity since 2016, corresponding to 164 deals worth around USD 4bn. The Turkey Wealth Fund contributed significantly to the overall deal volume with transactions such as the acquisition of a 26.20% stake in the leading GSM operator Turkcell for USD 1.8bn and public insurance companies for approximately USD 953mn. In addition, local and foreign venture capital funds and angel investors accounted for 82% of the financial investors' total deal number.

M&A transactions in the information technology, software and telecommunication sectors were not a surprise. Particularly, growth of the gaming industry was foreseeable due to the pandemic lockdowns. Yet again, having two gaming industry deals in the top-10 list is a promising indicator for the future of this market. That said, the decrease in the deal value of foreign investments was rather unexpected (particularly considering the high exchange rate), but the

Turkey Wealth Fund stood out with its involvement in many landmark transactions in 2020, which inevitably led to a decrease in deal value of foreign investments. The increasing number of foreign investments demonstrates the foreign investor's ongoing confidence in the Turkish market.

Even though the unpredictability continues to some extent, thanks to the start of mass vaccinations, we are hopeful that the end of the pandemic is in sight. We expect 2021 to be a dynamic year leading to an economic recovery where M&A will be an important part of growth strategies and M&A transactions to accelerate in the information technology, software, e-commerce and telecommunications sectors. Small and medium sized transactions are expected to maintain their dominance and local venture capital funds are expected to close more deals.

Along with the economic recovery, the transportation, tourism and retail sectors, which were negatively affected by the pandemic, may become once more attractive to strategic investors.

The rise in restructurings in most adversely affected sectors such as infrastructure and real estate may lead to sale of their certain assets. The proposed sales of some power plants and ports as well as certain assets and companies from the Savings Deposits and Insurance Fund's portfolio may boost public bodies' involvement in the Turkish M&A market.

The rise in interest rates and return to conventional monetary policies may further enhance investors' confidence in the Turkish economy and lead to an increase in cross-border transaction value. Finally, we anticipate that the Turkish market will continue to offer many strategic investment opportunities to both local and foreign investors in 2021.