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Corporate M&A

Turkey: Trends & Developments

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Trends and Developments

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An Overview of M&A Activity in 2019
The year 2019 was a quiet year for the Turkish M&A market, which witnessed the lowest annual deal volume since 2009, the year of the most recent global financial crisis. According to the 2019 edition of Deloitte's Annual Turkish M&A Review, while the number of M&A deals in 2019 did not differ significantly from the last few years, the total deal volume was only around USD5.3 billion, almost a 45% decrease from 2018. This was mainly a result of the absence of any mega-deals valued at over USD1 billion and the relatively low number of high-volume deals with only ten deals exceeding the USD100 million threshold. As a direct result, at USD23 million, the average deal size in 2019 was the lowest it has been in the last few years.

In terms of the sectoral breakdown of M&A deals in 2019, infrastructure, financial services, manufacturing, and retail were the highest grossing sectors. The aggregated volume of the deals in these sectors amounted to almost half of the total deal volume in 2019, which was mainly a consequence of seven of the top ten largest transactions falling within these four sectors.

In 2019, M&A activity in Turkey was once again affected by the political and economic uncertainties surrounding the country. The Turkish economy faced negative economic growth in the last quarter of 2018 and the first two quarters of 2019 and continued to struggle with exchange rate volatility throughout the year.

During the first half of the year, the municipal elections and the re-run of the elections in Istanbul created political uncertainty, slowing down investor appetite, while the main agenda item in the second half of 2019 was the military operations in Syria and the resulting tensions with both the United States and Russia. Still, the ratio of foreign investments to total volume of investments was 64%, the highest ratio since 2015, and eight of the top ten deals were made by foreign investors. This demonstrates Turkey continued to attract and to rely on foreign investment throughout 2019 despite political and economic adversities.

From a perspective focused on deal quantity, the leading sectors in 2019 were technology, followed by internet and mobile services, primarily driven by the rise of M&A activity concerning start-ups operating in these sectors.

Financial Investors
Despite the sharp decrease in total deal volume in 2019, at USD0.9 billion, the volume of deals involving financial investors (ie, private equity firms, venture capital firms, angel investors, and international financial institutions) was not significantly different from 2018 (USD1 billion). A major contributor to the deals in this sector was the acquisition of a 43.9% stake in Boyner Perakende ve Tekstil Yatırımları AŞ, a leading clothing retailer in Turkey, by Moyhoola Investments, a foreign private equity firm, for USD405 million, which was the second largest transaction of the year. Still, private equity activity was quite limited leaving aside the Boyner deal.

Venture capital firms and angel investors, on the other hand, were highly active in the Turkish market, particularly in the technology and internet and mobile services sectors, which made up around 30% of the total number of deals. Given that most of these investments were made for start-up companies, their impact on the total deal value was much lower. Still, it is undeniable that investments in start-ups have very much become a trend in Turkey in recent years. With more and more business accelerators and incubators arriving in the Turkish start-up scene, this trend is expected to continue to grow in the near future, which should increase both the number and volume of investments made by venture capital firms and angel investors.

Increased Chinese interest in Turkey
In 2019, Chinese investors made up 31% of the total deal value in the Turkish M&A market. A key factor in this was the acquisition of a 51% stake in the project company of the Third Bosphorus Bridge and Northern Marmara Motorway project by China Merchants Group, a Chinese state-owned corporation, for USD689 million, which ended up being the biggest deal of 2019.

The acquisition emphasised the importance attributed to the integration of China's Belt and Road Initiative and Turkey's Medium Corridor project. It was also another projection of the increasing Chinese interest in the Turkish M&A market, which first became evident in 2018 with the acquisition of shares in Trendyol, a leading Turkish e-commerce platform, by Alibaba Group for USD728 million.

Privatisations
Privatisations also played a considerable role in the Turkish M&A market in 2019. Even though Deloitte only reported two privatisation deals in 2019, they were quite significant as one of these deals involved the privatisation of the national lottery and the other concerned the privatisation of State-owned sports

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betting operations. No deal value was assigned to either transaction because the tenders were commission based; however, the economic impact of these deals should not be overlooked. To give an indication, the aggregated first year revenue commitment of these two deals was over TRY26 billion (approximately USD4.3 billion).

Warranty and Indemnity Insurance

Warranty and indemnity (W&I) insurance, which helps to maintain an equilibrium between the parties' interests by shifting the transactional risk to an insurer in return for a one-off insurance premium, has recently become a steadily increasing tool in the Turkish M&A market. Even though this product is used in a great number of M&A deals throughout the world, the Turkish M&A market has only recently become familiar with it. This is mostly due to the lack of a specific legal framework surrounding W&I insurance under Turkish law. W&I insurance is not one of the insurance categories specified under the Turkish insurance regulations.

As a result, currently, the only option for Turkish insurance companies is to obtain the approval of the Directorate General of Insurance in order to issue W&I insurance policies under the scope of one of the general categories specified in their operation licences (such as surety, general liability, or financial loss insurance). So far, very few Turkish insurance companies have officially initiated the necessary process to obtain such approval.

Still, W&I insurance has made its mark in the Turkish market through foreign investors taking the initiative of employing foreign insurance companies to take out W&I insurance. The number of Turkish M&A deals involving W&I insurance is still relatively low but is steadily increasing. It is expected that the use of W&I insurance will continue to increase in the years ahead, and Turkish investors and insurance companies will become more active in using and providing this helpful product.

Expectations for 2020

The Turkish economy rebounded with positive economic growth in the third and fourth quarters of 2019 and, based on the economic indicators of the first few months of the year, Turkey seemed to be continuing its stretch of positive economic growth in 2020

Notwithstanding the positive outlook within the first couple of months of 2020, Turkey will no doubt receive its share of the expected slowdown int he global economy arising from the COVID-19 outbreak. So far, Turkey has refrained from imposing a full lockdown, but has shut down schools and universities; imposed restrictions on inter-city travel; closed down theatres, gyms, bars, restaurants with music, etc; and has actively encouraged quarantine. Still, in addition to the effectiveness of these measures and the strength of the Turkish healthcare system (which has shown positive signs thus far), the impact the outbreak will have on the Turkish economy will also depend on its ramifications on the global economy. Considering that the European Union has, historically, been Turkey's largest trade partner, the situation in Europe will have a particularly important impact on the future of the Turkish economy.

If Turkey is able to quickly regain composure following the COVID-19 outbreak, the numbers from the second half of 2019 and early indicators from early 2020 may encourage foreign investors to seek investments opportunities in Turkey in 2020. Foreign investors may look at Turkey particularly as a viable alternative to China, especially in sectors such as clothing manufacturing. There have already been reports of foreign investors considering moving their production facilities from China to Turkey, which would result in a considerable increase in M&A activity.

The automotive industry is also expected to be a leading sector in M&A activity in Turkey in the near future, given Turkey's ongoing efforts to develop its first domestically produced car as well as Volkswagen's reported interest in choosing Turkey as the home to one of its new car plants. Both investments are expected to give rise to an increased need in the automotive spare parts and supply industry, which should have a refreshing effect on M&A deals in this sector.

Following the footsteps of the Third Bosphorus Bridge and Northern Marmara Motorway deal, the next few years may also bring new M&A deals in the infrastructure sector. Over the last decade, Turkey has been home to various public private partnership and privatisation projects related to the development and operation of highways, bridges, hospitals, ports, and airports. Most of these projects are now in the operation phase and the passenger/patient guarantees, debt assumptions, termination undertakings, etc, that these projects benefit from may be appealing to many investors.

Finally, the privatisation of the national lottery and sports betting are not likely to be the last examples of their kind. For instance, it has long been rumoured that Turkey plans to privatise its horse racing operations. It was reported at the end of last year that the Turkey Wealth Fund, which currently holds the rights to horse racing operations in Turkey, has taken the first steps towards privatisation by retaining financial and legal advisors to work on the potential transaction. The privatisation process is expected to begin soon.

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Hergüner Bilgen Özeke Attorney Partnership has been recrafting the Turkish law firm model along modern corporate standards since 1989. The firm's expertise makes it one of the few full-service independent Turkish law firms with a global reach, equally at home in the role of primary counsel in multinational transactions and local counsel to foreign and domestic clients. The 90-plus-strong legal team, including 14 partners, is equipped with a variety of educational and professional backgrounds and handles cases that require a full grasp of Turkish and cross-border jurisdictions, as well as different cultures and languages. The firm has considerable experience in all areas of M&A, including performing due diligence exercises, negotiating and drafting contracts, representing clients in the interim and closing phases, and providing post-closing advice for clients across a multitude of sectors, including energy, media, mining and telecom.

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