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Turkey

Trends and Developments

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An Overview of M&A Activity in 2020

After one of the quietest years in Turkey's history in terms of M&A activity in 2019, expectations were low for 2020 with the added effect of the global pandemic. A further cause for pessimism was the political and economic uncertainties surrounding the country, the highlight being the Eastern Mediterranean Sea crisis resulting from Turkey's natural gas exploration efforts in the Eastern Mediterranean Sea, which intensified tensions between Turkey and Greece, Cyprus, and other EU countries. However, in a year where global M&A activity was slightly lower than the previous year, the Turkish M&A market managed to exceed expectations with an increase in both the number and volume of transactions compared to 2019.

According to the 2020 edition of Deloitte's Annual Turkish M&A Review, the disclosed transaction volume of M&A deals in Turkey last year was USD6.3 billion. Based on this figure, Deloitte has estimated the total M&A transaction volume in 2020 in Turkey to be around USD 9 billion, which amounts to a 70% increase compared to the previous year. Two mega deals (transactions with volumes exceeding USD1 billion) in 2020, namely the acquisition of Turkcell by the Turkey Wealth Fund (*Türkiye Varlık Fonu*) and the acquisition of Peak Games by Zynga, played a major factor in this surge in M&A activity in 2020.

The Impact of the Turkey Wealth Fund

The Turkey Wealth Fund, which was established in 2016 as the sovereign wealth fund of Turkey to support economic development in the country, definitely made its mark in the Turkish M&A market in 2020. Not only did the Turkey Wealth Fund carry out the biggest M&A deal of 2020 in Tur-

key by acquiring a 26% stake in *Turkcell İletişim Hizmetleri A.Ş.*, the leading mobile phone operator in Turkey, for USD1.8 billion, it also consolidated six state-owned insurance and pension companies through a series of acquisitions for a total consideration of approximately USD953 million. As a result, the Turkey Wealth Fund was directly responsible for more than 43% of the disclosed M&A transaction volume and roughly 30% of the total estimated M&A transaction volume in Turkey in 2020.

Following its acquisitions in 2020, the Turkey Wealth Fund now has a portfolio of 23 companies in eight different sectors as well as various real estate and licences for games of chance and horseracing. More than one third of the Turkey Wealth Fund's portfolio is now comprised of its shares in companies in the financial services sector, namely Ziraat Bankası, Halkbank, and Vakıfbank, the three historically state-owned Turkish banks, and Türkiye Sigorta and Türkiye Hayat Emeklilik, which were formed as a result of the merger of the insurance and pension companies acquired last year.

Other sectors that the Turkey Wealth Fund is involved in include energy (eg, BOTAŞ and Turkish Petroleum), transportation and logistics (eg, Turkish Airlines and PTT, the national universal postal services provider), technology and telecommunications (eg, Turkcell, Türksat and Türk Telekom), mining, and agriculture and food.

Prioritisations looking forward

The Turkey Wealth Fund is expected to prioritise direct investments over M&A transactions in the coming years, which may result in a considerable hit to the total volume of M&A transactions. Still,

this does not mean that the Turkey Wealth Fund will no longer be involved in M&A deals in the coming years, and more deals may occur where the Turkey Wealth Fund is on the seller side. An example of this from 2020 was the sale of the 10% stake that the Turkey Wealth Fund held in Borsa Istanbul, the Turkish stock exchange entity, to the Qatar Investment Authority.

The Turkey Wealth Fund may sell further shares in Borsa Istanbul or other companies in which it holds shares (eg, Turkcell and Türk Telekom, both being competitors in the same sector) in the near future. Separately, direct investments made by the Turkey Wealth Fund may also give rise to M&A opportunities in sectors that the Turkey Wealth Fund is looking to invest in, which include energy, petrochemicals, and gold mining.

Mobile Gaming Industry

Mobile gaming is one of the industries that has been on a constant rise in Turkey over the past few years, and this year has marked the highest volume of M&A deals in the Turkish mobile gaming industry yet. As stated above, one of the two mega-deals in Turkey in 2020 was the acquisition of Peak Games, the developer of globally known hyper-casual puzzle mobile games, by Zynga for USD1.8 billion. This was not the only investment made in the Turkish mobile gaming industry by Zynga in 2020, as Zynga also acquired an 80% stake in Rollic Games, another hyper-casual game maker, for USD180 million earlier in the year. 2020 also witnessed several investments in Turkish mobile gaming companies made by venture capital firms and angel investors.

According to Statista, the German market and consumer data research firm, the total revenue generated by the Turkish mobile gaming industry is projected to reach USD356 million in 2021 and show an annual growth rate of nearly 8% in the next five years, resulting in an estimated market volume of USD482 million by 2025. With no

signs of slowdown in the mobile gaming industry, M&A activity in the Turkish mobile gaming sector is expected to continue to grow.

Financial Investors

After a slow year in terms of financial investors' (ie, private equity firms, venture capital firms, angel investors, and international financial institutions) involvement in the Turkish M&A market in 2019, 2020 saw the resurgence of financial investors led by the Turkey Wealth Fund. According to the reports issued by Deloitte and KPMG, the number of transactions involving financial investors reached an all-time high in 2020 and the volume of these transactions amounted to approximately 50% of the total transaction volume, a percentage significantly higher than in previous years.

The Turkish start-up environment also continues to be on the rise with the help of various start-up incubators, attracting USD200 million of investment from venture capital firms and angel investors in 2020 according to Deloitte. 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.

Expectations for 2021

It is difficult to estimate whether 2020's upward trend in the Turkish M&A market will continue in 2021. With Turkey showing good signs of swiftly implementing its vaccination programme, and the country being a viable alternative for multinational companies looking for ways to diversify their supply chains in the wake of the pandemic due to its geopolitical position and high manufacturing capacity, there are reasons to be optimistic for M&A activity in Turkish in 2021. Conversely, the Turkish M&A market may be adversely affected from ongoing political uncer-

tainties involving the country, and particularly from Turkey's strained relations with the United States due to its plans to activate the S-400 missile system acquired from Russia as well as the expected decision of the Manhattan Federal Court with respect to Halkbank's alleged violation of US sanctions on Iran. Still, investors hope that Turkey-US relations will recover based on recent news from Turkey that it may compromise on the issue of activating the Russian air defence system.

Sectors

In terms of sectors where high M&A activity is projected in 2021, telecommunications, technology, and media is expected to continue its rise to become one of the leading sectors in the Turkish M&A market. We may see further investment in Turkish technology and gaming companies in 2021, particularly from venture capital firms and angel investors.

The automotive industry is once again expected to be an important sector in M&A activity in Turkey in 2021. The main driver behind this expectation is Turkey's efforts to produce TOGG, its first home-grown car. The ground-breaking ceremony for TOGG's factory was held in July 2020, and TOGG is scheduled to begin production in 2022. Many expect this huge investment to give rise to an increased need in the automotive spare parts and supply industry, and consequently, will boost M&A activity in these fields.

Still, the automotive industry is among the industries suffering from the global pandemic. The effects of COVID-19 were undoubtedly felt in the automotive industry last year, which saw a considerable decline in demand from consumers. In any event, the TOGG project is projected to contribute USD50 billion to Turkey's national GDP in 15 years as of 2022, which gives way to various investment opportunities in the Turkish automotive industry.

Third-party acquisition

The next few years may also set the scene for deals involving the acquisition by third parties of various public private partnership projects implemented in Turkey within the last decade. The first example of such projects being subject to M&A transactions was seen back in 2018 with the acquisition of a 51% stake in the project company operating the Third Bosphorus Bridge and Northern Marmara Motorway project by China Merchants Group. With the healthcare industry on the rise and the aviation industry having taken a big hit from the pandemic, there may be investment opportunities in the portfolio of Turkish public private partnership projects, which include projects in both sectors.

Based on reports of additional incentives being granted to these projects to mitigate the adverse effects of the pandemic, particularly in the aviation sector, the Turkish government seems to be providing all of the support it can give to these projects, which were already appealing to many investors given the passenger/patient guarantees, debt assumptions, and termination undertakings, etc, involved.

Privatisation

Privatisation may also play an important role in Turkey in 2021 as the Turkey Wealth Fund has long been expected to privatise its horse racing licence. The privatisation may take place in 2021 as the Turkey Wealth Fund has reportedly retained financial and legal advisors to work on the potential transaction, and towards the end of last year, the CEO of the Turkey Wealth Fund had pointed to early 2021 as the target date for the beginning of the tendering process.

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Hergüner Bilgen Özeke Attorney Partnership has been recrafting the Turkish law firm model along modern corporate standards while maintaining the personal attention clients have come to expect. The firm's size and expertise makes it one of the few truly 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 approximately 85-member legal team, 14 of whom are Hergüner 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 legal team 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.

AUTHORS



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