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## MERGERS AND ACQUISITIONS OF AGRIBUSINESS COMPANIES IN UKRAINE: CURRENT REALITIES AND PROSPECTS

The article deals with applied aspects of the research on the development of agribusiness companies in Ukraine, in particular in the context of the implementation of mergers and acquisitions agreements. The authors reviewed the motivation, prerequisites and general dynamics of M&A transactions in Ukrainian agribusiness; the largest deals in this area by land bank size were analyzed; the types of participants (companies-acquisition objects and companies-investors) of M&A transactions were singled out, the modern trends in the advantages of investors in concluding M&A transactions in Ukrainian agribusiness were identified. Agribusiness in Ukraine is an investment-attractive area of activity, which has recently demonstrated positive dynamics of development. The trend towards the consolidation of agribusiness companies stems from the positive economies of scale in the industry is an objective prerequisite for the strategic choice of its participants in favor of different types of external growth strategy. In particular, growth through integration, both vertical and horizontal, is realized through strategic decisions on mergers and acquisitions of companies.

**Keywords:** mergers and acquisitions, agribusiness, land bank, agroholding.

**The setting of a problem.** Agribusiness in Ukraine is an investment-attractive area of activity, which has recently demonstrated positive dynamics of development. The trend towards the consolidation of agribusiness companies stems from the positive economies of scale in the industry is an objective prerequisite for the strategic choice of its participants in favor of different types of external growth strategy. In particular, growth through integration, both vertical and horizontal, is realized through strategic decisions on mergers and acquisitions of companies. At the same time, the development of agribusiness companies in this way has a range of visible and hidden risks connected with the impact of instability, uncertainty, complexity, ambiguity of the external business environment, both at the level of the region and the national economy as a whole.

**Analysis of major publications.** Systematization of content, objectives and effects of business consolidation through mergers and acquisitions of assets is devoted to the works of Reed C., Laju A., Rolla R., Evans F.Ch., Bishop D.M. The problem of investment estimation of efficiency of M&A transactions, in particular from the point of view of consideration of risks, synergetic effects and uncertainty factor is considered in studies of Gohan P.A., DePamphilis D., Damodaran A. Avhachev Yu., Veselov A., Tykhomirov D., Anikina I., Paliga E. Mergers and acquisitions in Ukrainian business have been focus of domestic scientists for a long time. Among the researchers, whose works consider essential characteristics of integration processes in the Ukrainian economy in general and in the agricultural sector in particular, it is worth noting Zelisko I., Tsygyl I. and Petliovana O., Gamma T., Tabakharniuk M., Kubakh T., Tarasova O.

**The aim of the research** is to summarize the results of expert studies and to identify the dynamics, nature and key trends of the M & A agribusiness market in Ukraine, taking into account the pessimistic and optimistic scenarios of the development of the sector.

**Presentation of the main material.** According to a research by KPMG experts, agribusiness is the second largest industry in Ukraine to demonstrate the revival of merger and acquisition dynamics between 2017 and 2018. There are 5 large domestic agricultural holdings among Top-10 companies that became participants in M&A deals in 2018<sup>1</sup>. There is a positive development in M & A transactions of agribusiness

<sup>1</sup> KPMG (2019). *Огляд М&А угод в Україні за 2018 рік* <<https://www.slideshare.net/sadovnychy/ma-2018-kpmg>> (2020, March, 12).

companies, after a general recession in investment activity in the period from 2014 to 2016 as it can be seen from table 1. The M & A market is beginning to grow in both quantitative and monetary terms. According to the data of 2018 in the agricultural sector of the Ukrainian economy 21 agreements on mergers and acquisitions have been concluded for a total amount of 576 million dollars. USA (Table 1)<sup>1</sup>.

Table 1

**Dynamics of M&A transactions in the agricultural sector of the Ukrainian economy  
for the period 2013-2018**

Indicator	2013	2014	2015	2016	2017	2018
Total value of transactions, million dollars. USA	917	218	112	110	452	576
Number of transactions	19	2	6	5	13	21

In assessing the impact of implementing the strategy of external growth of agribusiness companies through M&A transactions, we've noted that such business consolidation, in addition to having a direct impact on the performance of the buyer company, can be considered from the point of view of sectoral indirect effects, as follows<sup>2</sup>:

1. increase of grain and oilseed crop yields due to investments in agricultural resources renewal and adoption of modern technologies of cultivation of areas under crops, seeds, fertilization and plant protection etc. As a result, in 2018 yields were doubled compared to the same indicator of the previous period;

2. As a result, in 2018 the income from export of agricultural sector products increased by 4% compared to the previous period, which allowed investors to maintain interest in acquiring assets in agribusiness in the subsequent period.

There are more than 150 agricultural holdings and agribusinesses in Ukraine, whose capitalization exceeds tens of millions of dollars. Most of them are very active in expanding their activities, including the acquisition of agricultural assets. As a result, the number of mergers and acquisitions transactions in the agricultural sector is continue to increase in the country<sup>3</sup>.

The largest transaction of the acquisition of foreign assets by Ukrainian investors was in 2018, the "Mironivsky Hliboproduct" (MHP), one of the largest poultry producers in Ukraine, acquired 91% of the capital of Perutnina Ptuj, a Slovenian vertically integrated poultry soft meat producer operating in Southeastern Europe, for \$ 100 million . This agreement, which will allow MHP to achieve a certain synergistic effect, reflects the buyer company's desire to enter international markets, as well as improving the financial stability and increasing self-confidence of large Ukrainian companies<sup>4</sup>.

From the above generalizations in Table 2. it can be seen that the main participants of M&A transactions are mainly plant growing companies. We have analyzed the agreements with the main assets of the plant companies. These include not only the right to lease agricultural land, but also agricultural machinery for the cultivation of controlled land, livestock complexes, elevator facilities, processing facilities for crops (e.g. seed or starch factories).

Table 2 shows M&A transactions ranked by the size of the company's land bank, which are absorbed. Official transaction values are not always available due to the confidentiality of information. However, for some agreements value indicators of transactions based on expert estimates of market participants are still given. The transaction value assumptions were made on the basis of expert assessment of the market value of the enterprises' fixed assets, while accounts payable and receivable were not taken into account.

<sup>1</sup> InVenture (2018). База данных "Сделки M&A в Украине: основные сделки слияния и поглощения в Украине за 2008-2020 гг" < <https://inventure.com.ua/tools/database/m%26a>> (2020, March, 12).

<sup>2</sup> Pro-Consulting (2019). Обзор рынка масличных и зернобобовых в Украине <<https://inventure.com.ua/analytics/investments/obzor-rynka-maslichnyh-i-zernobobovyh-v-ukraine>> (2020, March, 12).

<sup>3</sup> Олейников, О. (2018). ТОП-10 инвестиционных угод в агросекторе України. *Landlord*. <<https://landlord.ua/rejtingi/top-10-investitsiynih-ugod-v-argosektori-ukrayini/>> (2020, March, 12).

<sup>4</sup> Информационное агентство Интерфакс Украина (2018). МХП покупает словенскую Perutnina Ptuj <<https://interfax.com.ua/news/economic/543879.html>> (2020, March, 12).

Table 2

**The largest M&A transactions in agribusiness in Ukraine by the Land Bank in 2018 \***

The target company	Type of company activity	Land Bank / Fixed Assets	Seller company / country of origin	Buyer company / country of origin	Deal value, million US dollars .
Mriya Agro Holding	Crop production, grain storage, seed production	Land Bank 165,000 ha Elevator: 380 000 t Seed and starch plant	The pool of creditors led by BNP Paribas Sa, Kredit Agricole Sa and others	Saudi Agricultural and Livestock Investment Company (SALIC)/ Saudi Arabia	242
Perutnina Ptuj d.d	Poultry, poultry processing	–	Slovenian Steel Group, d.d	Concern "Myronivsky Hliboproduct" / Ukraine	100
Agro-Firm Trypillya, Radyvyliv Agro	Plant production,	Land Bank 20,000 hectares	Agro-Industrial Group «Pan Kurchak»	Group of Companies Vitagro/ Ukraine	28
"Shpola-Agro Industry"	plant production, seed business, livestock production	Land Bank 15,000 hectares Elevator: 32 000 t	Farm Invest Corporation S.A. (ByFrederic)	LNZ Group	15.9
"KZTS Mashining"	crop production	Land Bank 14,500 hectares	Phys. Persons: Valeriy Prylypko, Maksym Yefimov, Ruslan Luniachenko	"APK-Invest"	12
"Agrofirma "Rosiiia"	crop production, livestock, storage and processing of agricultural products, trading, feed production	Land Bank 10,000 hectares Elevator: 20,000 tonnes	Private person	Landfort	7,5
"Iskra Agro Firm", "Soybean Sphere", "Yanenkivsky", Breed-Stock Plant"	crop production, livestock	Land Bank 8,700 hectares	Group of Companies "Agrain"	"Eridon"	14
"Kyiv-Atlantic Ukraine"	crop production, feed production production of protein-mineral vitamin impurities, processing of oilseeds, storage of agricultural products	Land Bank 8,000 hectares Elevator: 50,000 т Feed mill, Oilseed processing workshop	Kyiv Atlantic Group	"Eridon"	18.5
Galician Agrarian Investments	growing of grains and oilseeds, trade in grain, seeds and animal feeds	Land Bank 6,500 hectares	"Ukrainian Agrarian Investments" (Kernel Group)	"Goodwelly Ukraine"	6.5
"Inter-Contact-Agro", "Start"	crop production	Land Bank 6,500 hectares	"Ukrainian Agrarian Investments" (Kernel Group)	Group of companies "Ukragrocom" and "Hermes-trading"	6,5
"Ruzhynskiy Krai"	crop production	Land Bank 5,500 hectares	"Agrofirma "Svitanok"	Cygnat	7.7

*Compiled by the authors according to the data<sup>1</sup>.*

<sup>1</sup> InVenture (2018). База данных "Сделки M&A в Украине: основные сделки слияния и поглощения в Украине за 2008-2020 гг" < <https://inventure.com.ua/tools/database/m%26a> > (2020, March, 12).

The M & A Transaction Rating includes already conducted transactions and such transactions which are under consideration of the Antimonopoly Committee of Ukraine.

As mentioned above, on September 11, 2018 Mriya Farming PLC (UK) and SALIC UK Ltd (Saudi Agricultural and Livestock Investment Company, UK) announced a purchase contract of agricultural assets of the group "Mriya" including all infrastructure, technical park, as well as companies that have the right to lease a land bank. This transaction allowed a consortium of foreign creditors to successfully restructure the debt and sell Mriya Agro Holding for \$242 million, which was the largest transaction to acquire Ukrainian assets by a foreign investor in 2018. This operation, carried out as part of the Kingdom of Saudi Arabia's food security strategy, allows SALIC to cultivate 165,000 hectares of arable land, in addition to the 45,000 hectares already controlled by the company in the Lviv region as a result of its acquisition of Continental Farmers Group in 2013<sup>1</sup>.

Among the 10 largest transactions, most of which were for mergers and acquisitions, the objective was to increase the land bank in strategically important regions of activity, including acquisitions of companies: Agro-Firm Trypillya, Radyvyliv Agro, "KZTS Mashining", "Iskra Agro Firm", "Soybean Sphere", "Yanenkivsky", Breed-Stock Plant", Galician Agrarian Investments, "Inter-Contact-Agro", "Start", "Ruzhynskiy Krai". In addition to the increase of the land bank, companies such as LNZ Group and Landfort considered the takeovers of companies "Shpola-Agro Industry", "Agrofirma" Rosiia" also from the position of increasing the elevator farm<sup>2</sup>.

Group of companies "Eridon" in early June 2018 closed the acquisition of agricultural holding "Kyiv-Atlantic Ukraine". The founders were the American family Sviri and the Danish company DUI Holding, which joined the shareholders in 2006. The owners decided to sell "Kyiv-Atlantic Ukraine" in 2017 in order to restructure their credit obligations to UkrSotsbank. In addition to the main assets of the agricultural holding "Kyiv-Atlantic Ukraine" "ERIDON" inherited a storage facility, a feed mill and an oilseeds processing shop, that testifies both of scaling of business and possible diversification of business areas through an agreement. But after the acquisition "Eridon" made a subsequent sale of the compound feedstuff business to the German company Agrolife GmbH<sup>3</sup>.

The Ukrainian agricultural sector has always been an attractive investment destination. But at the same time, there are several inhibiting factors hindering the dynamic development of the agricultural sector. One of such factors is the lack of transparency and contradiction of the existing and recently adopted by the Government of Ukraine right-wing land market regulator – this is one of the main obstacles to attracting large foreign capital and significantly developing the agricultural sector. At the same time, Ukraine, according to foreign investors, is a country with high investment risks, so M&A processes are dominated by local buyers as well as international strategic investors looking for diversification opportunities and cost-effective resource base. For financial investors the direct investment in crop production is rather an exception than a sustainable trend<sup>4</sup>.

On the basis of this table. 2 we'll identify certain types of investors in agro-industries according to their scale. Among the most active investors in the agricultural sector, the following should be highlighted (pic.1).

- 1) Manufacturers of niche crops and organics, gardening. In this segment, investors are represented by small amounts of land – 100-500 hectares;
- 2) Small foreign agrarians who want to create a small agricultural business in Ukraine – a land bank of about – 500-1,000 hectares;
- 3) Medium-sized agribusiness companies that aim to purchase up to 8,000 hectares;
- 4) Large agro-investor companies. From them requests to form a land bank of 10,000 hectares or more are received;
- 5) Agroholdings. Especially large system investors (from 20,000 ha). This also includes pools of funds or individual foreign funds.

Since the end of 2015, the market for mergers and acquisitions in the agrarian sector of Ukraine has been dominated by the economic situation, where demand exceeds supply and buyers are willing to overpay for agro assets.

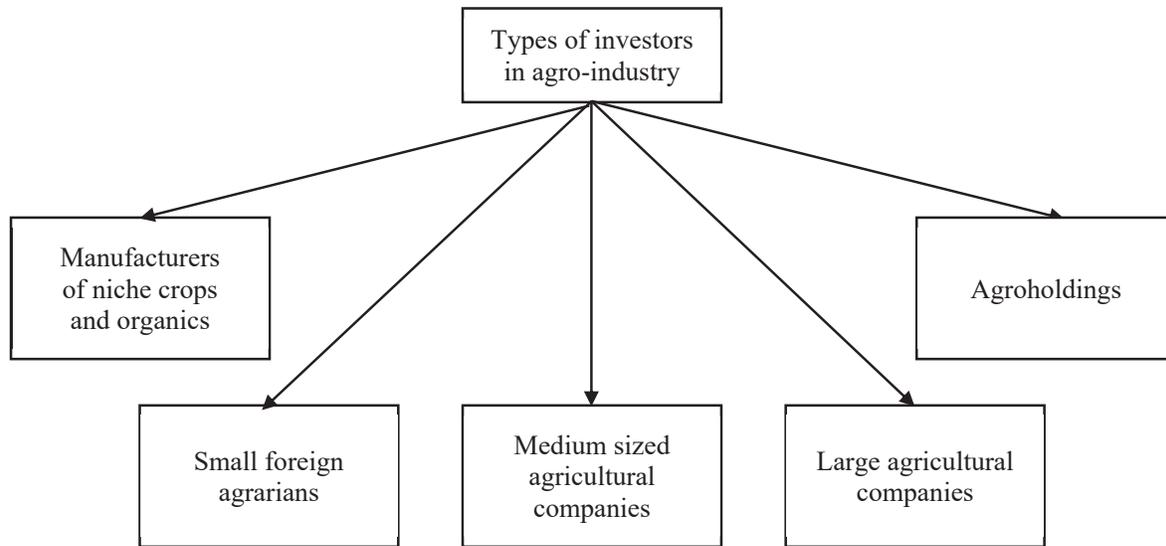
<sup>1</sup> Миколайчук, Н. (2018). Агрохолдинг «Мрія» і компанія SALIC завершили угоду. *Голос України* <<http://www.golos.com.ua/article/309702>> (2020, March, 12).

<sup>2</sup> Рудь, О., Канторовский, Р., Олейніков, О. (2018). Продавець диктує правила. *Landlord*, 10(36), 120-150.

<sup>3</sup> Lendlord (2018). "Київ-Атлантик-Україна"

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<sup>4</sup> Тарасова, О. В. (2010). Проблеми та перспективи ринку злиття та поглинання в Україні. *Вісник Національного університету «Львівська політехніка»*, 69, 223-231.



**Fig. 1. Types of investors in agricultural sector of Ukraine**

Pricing for assets in the Ukrainian agro-industrial complex has its own peculiarities. The main factor, which is responsible for the pricing has always been the condition of the company. If it is a permanent business with well-established processes and a legal land bank, the value of such a company will be higher than the market value.

The first factor, which also affects the value of the agricultural company, is the increase in prices on the market as a whole, because today companies are fighting for each shareholder and almost all land in the medium or long term lease, so companies in whose assets there are such land assets are highly valued.

With the dominance of demand over supply, there began to be cases of growth and sellers' demands. Often the prices for quality assets are significantly overestimated, as the sellers name the non-economic value of the agricultural company<sup>1</sup>.

Usually, the M&A agreement in the agro-industry are carried out through the implementation of an already well-established mechanism for acquiring of land rights, namely the purchase and sale of corporate rights of the company with which the lease agreements are signed.

Among the trends that dominated in 2018, the experts of InVenture Investment Group, including the co-author of the article, noted the following:

1. *There is market redistribution between companies already operating in Ukraine.* So, if in the period from 2013 to 2015, after a fairly long period of conditional stagnation, when there were several deals per year – companies have significantly intensified. Many agreements are non-public, but market consolidation continues – larger players buy or absorb smaller players. Despite this, companies are working to increase efficiency and optimize the structure, so holding companies sell those parts or clusters that are inefficient in them.

2. *Showing interest in Ukrainian agricultural companies from international investors and companies that are not yet represented in Ukraine.* As noted by expert practitioners, in 2018, foreign investors who do not have experience working with Ukraine, became more interested in buying large agricultural enterprises. It is expected that these agreements will be implemented in the period from 2019 to 2020. It should also be underlined that the geography of the consideration of assets is changing – investors have become quite interesting northern and western regions of Ukraine, including through gradual climate change: shifting humidity from central and southern regions to the north.

<sup>1</sup> Рудь, О. О. (2019). Стан та особливості злиття та поглинання в аграрній галузі України. *Стратегії та інновації: актуальні управлінські практики: матеріали IV Міжнародної науково-практичної конференції.* (Кривий Ріг, 2019), 271-273.

3. Demand for agribusiness companies with a land bank of more than 10,000 hectares. If after 2014 investors had considered the expansion of the land bank through the concentration of small agricultural enterprises that cultivating 1,000-2,000 hectares, in 2018 there were more than 5 M&A deals, where the target companies cultivated the land bank in the amount exceeding 10,000 hectares<sup>1</sup>.

**Conclusions.** In general, trends are aimed at the growing of M&A in the agricultural sector. But still it is appropriate to consider two scenarios: optimistic and pessimistic.

Optimistic – the M&A market will develop very actively. And activation should expect among foreign investors. But for this purpose it is necessary to carry out a number of economic and political conditions, among which – regulation and transparency of regulatory support of functioning of the land market, political stability and so on.

Pessimistic scenario. In the future, it is possible that the next crisis wave will come, caused primarily by political processes. Therefore, there may be a lull in M&A activity among foreign investors during the year, but Ukrainian companies will continue to consolidate and optimize their agricultural assets through mergers and acquisitions.

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