

Private Equity in Poland

FINDING OPPORTUNITIES IN EMERGING SECTORS

2023

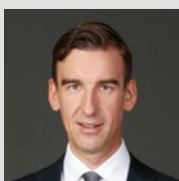
Private Equity in Poland



The Polish private equity (PE) market has become visibly segmented over the last several years. Like every business sector, it is dependent on general macroeconomic circumstances and

given the COVID-19 pandemic, the war in Ukraine, and recent challenges such as inflation and rising costs of debt, we have adjustments being made across the market. The PE market is slowly picking up after a slow Q4 2022 and Q1 2023, with a slight increase in activity for new investments and exits. A handful of transactions are still occurring in certain sectors and in business areas that seem to be less vulnerable to changing economic conditions.

We are witnessing an interesting time for the private equity and venture capital markets, globally and in Poland. Although we have seen some economic stagnation at the end of 2022 and the beginning of 2023, businesses will continue to find a way to get deals done. There are sectors such as technology/IT, healthcare and life sciences, energy, and logistics that will adapt to market conditions and thrive, and this is usually where you will find PE or VC interest.



Jakub Marcinkowski
Partner at DLA Piper in Poland and Head of the Private Equity team

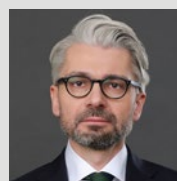
There is a strong interest in investing in new technologies and innovations, particularly those involving AI, data processing and management, education solutions particularly remote learning, and other smart functionalities.

In terms of niches of interest to PE funds in Poland, AI is one of them, but there is also interest in innovative start-ups in other sectors such as life science, biotechnology, and space technologies.



Ewa Kurowska-Tober
Partner and Head of the IPT practice at DLA Piper in Poland

In addition to start-ups, we see a continuing trend of private equity interest in companies with strong and stable performance over the years, including businesses in sectors such as fast-moving consumer goods, e-commerce, and tech-companies.



Łukasz Dynysiuk
Partner in DLA Piper in Poland's tax team who leads in M&A and PE

Venture Capital

When it comes to venture capital in Poland, the market forecast runs parallel to private equity.



We are observing a buyer's market in early 2023. Venture capital (VC) has been affected the most, first by decreasing valuations in the IT sector, then by the ripple effect of Silicon Valley Bank bankruptcy. VC is now focused on cash generation and conservation, but good companies with good products or services and good financials may still attract attention. The banking crisis may affect liquidity on the market, especially in terms of M&A financing, but at the moment, there is limited impact in the CEE region. Fundraising in the PE sector is challenging and the fundraising process is longer. Inflation is still a key concern that makes financing expensive.



Rafał Kluziak

Partner and DLA Piper in Poland's
PE/VC expert

Banking

The current economic climate is putting a squeeze on banking. Access to lending in Poland is limited and the procedures to prove creditability are complex and long-lasting. However, this presents opportunities for PE funds to step in.

Private equity investment can be more appealing than traditional bank lending because private equity firms are often more willing to take on higher levels of risk and may have a greater understanding of specialized industries. Additionally, private equity firms may be able to offer more flexible terms and structures than traditional bank loans, which can be especially important for companies in emerging or high-growth sectors.



Mariusz Hyla

Partner and Head of the Finance, Projects, and Restructuring practice at DLA Piper in Poland



Banks require minimum returns, which makes the cost of funding through private equity lending cheaper, although the margins are higher.

The collateral requirements in non-bank lending are not as strict as those in bank lending. Private lenders can also provide financing in a mixed way, for example, partial debt and partial equity, which banks do not do. Banks require fixed income under margin, but PE lending is more flexible.

In the event of economic turmoil or an increase in interest rates, access to banking finance will be limited, and borrowers will need another source of money. In the wake of the COVID-19 pandemic and in the current economic climate, certain sectors are unlikely to get financing from banks, such as the restaurant industry. This is where PE can jump in to fill the gap in the so-called “non-bankable” areas. Start-ups that have no creditworthiness or projects that are still in the early stages, in which there is no projected income, can also benefit from PE financing.

Banks may also be hesitant to lend to entities in the defence or healthcare sectors due to potential risks associated with these industries, including political instability and regulatory changes. The specialized nature of these industries may also make it difficult for banks to properly evaluate creditworthiness or assess collateral value. Additionally, ethical concerns may lead some banks to avoid lending to companies involved in controversial medical research or the production of military equipment.

One example of the unique projects in the defence sector on the Polish market is the construction of a military base, known as Project Limanowa, which will be financed by the Polish Development Fund (PFR) in cooperation with the Ministry of National Defense and the city of Limanowa. The investment is treated as a pilot program, and in the event of success, similar infrastructure projects will be co-financed by PFR throughout the country. Construction is set to be completed in the fourth quarter of 2024. The mayor of Limanowa, representatives of the Ministry of National Defense, and PFR have signed an agreement for the joint implementation of this project. The public-public partnership formula is being used to finance this project.

Healthcare and Life Sciences

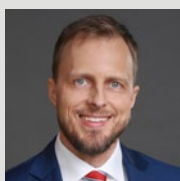
In addition to sometimes falling within the scope of 'non-bankability', the healthcare and life science sectors are attractive to private equity and venture capital investors due to their potential for high growth and returns.





These sectors are driven by innovation and advancements in technology, making them a hotbed for start-ups and emerging companies with disruptive ideas. Additionally, the aging population and increasing demand for healthcare services make the healthcare sector a particularly attractive area for investment. The life science sector, which includes pharmaceuticals, biotechnology, and medical devices, also has significant potential for growth, as new treatments and therapies are developed to address unmet medical needs. Overall, the healthcare and life science sectors offer investors the opportunity to make a significant impact while generating strong returns on their investments.

Private equity firms are poised for significant growth and success in the healthcare and life science sectors as demand for innovative therapies and technologies continues to rise. With advancements in areas such as telemedicine, mRNA/sRNA, and orphan medicine, there are numerous opportunities for private equity funds to invest in companies at the forefront of these fields and achieve strong returns on investment.



Andrzej Balicki, PhD
Partner and Head of
DLA Piper in Poland's Healthcare
and Life Sciences practice

The COVID-19 pandemic was a major catalyst for innovation and development in the healthcare sector. Poland has seen an increase in telemedicine services in recent years and there have been investments made by private equity and venture capital firms in Polish healthcare companies. In February 2021, fast-growing Polish telemedicine company Telemedico announced their €5.5 million Series A led by several venture capital firms.

Investors are looking for opportunities related to mRNA and sRNA-based therapeutics, another area that is experiencing a boom because of the COVID-19 pandemic, especially with regard to vaccines. DLA Piper in Poland provided legal advisory to ExplorRNA Therapeutics, a Polish start-up that is developing ground-breaking innovations of mRNA and sRNA as a therapeutic platform. ExplorRNA Therapeutics is VC-backed, has received equity investment from the fund Black Forest SICAV-SIF, as well as a research grant from the Bill & Melinda Gates Foundation.

Orphan medicines, used to treat rare diseases, are a small but potentially attractive segment for private equity investment due to the high pricing of such drugs. Private equity firms have shown increased interest in this market, despite the lengthy and expensive regulatory approval process. Some firms have acquired or invested in companies that specialize in developing orphan drugs, while others have developed their own products. The orphan drug market remains an appealing segment of healthcare for private equity funds that are willing to take on the challenges and risks associated with developing drugs for rare diseases.



Real Estate and Logistics

PE funds have historically been interested in investing in real estate and logistics sectors.



Real estate investments can provide steady income streams and potential long-term capital appreciation, while logistics investments can benefit from the growth in e-commerce and supply

chain management. Both sectors offer opportunities for PE funds to generate attractive returns through operational improvements, cost efficiencies, and other value-creation initiatives. Additionally, real estate and logistics investments can offer diversification benefits for PE portfolios, as they are not as closely tied to the performance of public markets as traditional equities and bonds.

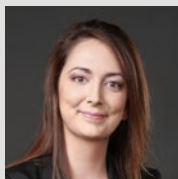
The real estate and logistics markets in Poland have seen a mixed response from investors, with cautious investment policies or suspended decisions from institutional investors due to the economic and political environment impacting many businesses. However, private equity investors are showing interest in these markets, particularly in emerging sectors such as data centres, healthcare facilities, and senior housing, which banks still consider higher risk than traditional sectors.



Michał Pietuszek
Partner and Head of
DLA Piper in Poland's
Real Estate practice

The COVID-19 pandemic greatly impacted traditional asset classes, such as office and big retail, which resulted in a decline in investment volume. However, logistics and smaller retail parks have become popular among investors, and these two sectors continue to increase their share in the investment volume.

Prior to Q2 of 2022, private equity investments in the Polish real estate market were mostly restricted to riskier or distressed assets, given the availability and lower cost of bank financing. As bank financing becomes increasingly challenging to obtain, private equity investors are finding more opportunities to expand their share in the real estate market. DLA Piper Warsaw's real estate practice has experienced a surge in private equity investor advisory, indicating a growing trend.



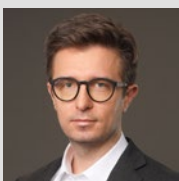
Agnieszka Lehwark
Partner in DLA Piper in Poland's
Real Estate practice

While emerging real estate sectors offer great opportunities for private equity investments, the window of opportunity for investments in novelty sectors is not long. For example, the Private Rental Sector (PRS) shows that banks' trust in these sectors can grow quickly,
says Michał.

Renewable Energy

Another area where PE funds have been keenly interested is in the renewable energy sector (RES).

PE funds have been actively investing in Poland's renewables market since its inception. Especially over the last few years, our country has become one of the key RES markets in Europe, attracting major PE funds with significant investment tickets.



Oskar Waluśkiewicz
Partner and Head of
DLA Piper in Poland's
Energy practice



RES investments offer strong returns, stable cash flows, and inflation protection, making them an attractive opportunity for private equity funds.

Additionally, investing in sustainable energy aligns with the growing focus on ESG considerations in investment decisions and provides diversification benefits for PE portfolios.

However, the Polish RES market faces dynamic regulatory and legislative changes, as well as challenges such as the need to increase grid capacity and develop energy storage units and cable pooling solutions to offer more stable supplies. At the end of 2022, The European Investment Bank (EIB) and PGE Polska Grupa Energetyczna S.A. (PGE) signed a PLN 2 billion (approx. EUR 432 million) financing agreement to support the group's strategic project to develop and modernise distribution network infrastructure and its integration with renewable energy sources.

Looking to the future of the Polish RES market, envision trends in two timelines. In the short to mid-term, there will be the development of mid-size photovoltaic (PV) and onshore wind projects. In the long term, there will be major onshore wind projects, PV, storage units, RES parks, and new technologies,
says Oskar.

Despite the challenges and regulatory changes, the Polish RES market remains an attractive opportunity for PE investment due to its rapidly developing nature and interesting business opportunities. With the right investment and development strategies, the Polish RES market will continue to thrive in the years to come.

Insurance

In Western European countries such as The United Kingdom, Switzerland, France, Germany, and the Netherlands, the insurance industry has seen great interest from private equity due to its stable cash flows, long-term growth potential, and opportunities for operational improvements. However, this is not the case in Poland.

All major insurers in Poland are part of insurance or financial groups, which means they have access to capital from these groups, making them less reliant on outside investors such as private equity firms. Additionally, the preference for stable shareholders by the Polish Financial Supervision Authority (KNF) discourages private equity investment in the insurance sector, as private equity firms are known for taking a more short-term, profit-driven approach to investing.



Beata Mrozowska-Bartkiewicz

Counsel and Head of
DLA Piper in Poland's
Insurance practice



Furthermore, the long-term and highly regulated nature of insurance activity may also make private equity firms less interested in investing in the Polish insurance industry. Private equity firms typically seek quick returns on their investments, but insurance is a long-term business that requires ongoing investment and management. The regulatory complexity of the insurance sector also requires active involvement from shareholders and the supervisory board, which may not align with the passive investing strategy of some private equity firms.



Tax

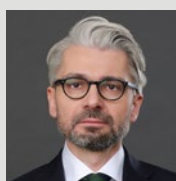
Tax regimes can have a significant impact on private equity funds' ability to operate or carry out transactions in each jurisdiction.



Different tax rules and regulations can affect the tax treatment of fund structures, the taxation of investment returns, and the tax implications of exit strategies. Tax regimes can also

impact the overall financial performance of a fund and affect the returns that investors ultimately receive. As a result, private equity funds need to carefully consider the tax implications of operating in different jurisdictions and structure their investments and transactions in a tax-efficient manner.

There have been some tax incentives introduced to the Polish tax regime over the last couple of years which, to some extent, match Polish regulations to PE-friendly jurisdictions like Luxembourg and the Netherlands. For example, there is a participation exemption now available for holding companies on share disposal in subsidiaries, a similar preference for alternative investment funds which might be a popular vehicle among Polish investors, as well as IPO relief for expenditures connected with listing a company on a stock exchange.



Łukasz Dynysiuk

Partner in DLA Piper in Poland's tax team who leads in M&A and PE



High-profile deals used to be traditionally structured via foreign vehicles in jurisdictions that are particularly well-known for international investors like Luxembourg, the Netherlands, or foundations set up in Liechtenstein.

Now, we tend to see some interest in using Poland-based intermediaries like alternative investment funds or a standard holding company which may benefit from various tax reliefs recently implemented into the Polish law. On the other hand, before making a decision on a given structure, foreign vehicles need to give consideration to fast-approaching OECD Pillar 2 rules setting a framework for a Global Minimum Income Tax and tightening controlled-foreign-companies (CFC) regulations which narrow the room for tax optimisation for Polish tax residents,

adds Łukasz.

DLA Piper in Poland has vast experience in management roll-overs which are often proposed by large, PE funds to Polish management or founders but are rarely adjusted to Polish tax regulations. Hence, an in-depth and thorough analysis of the financial structure is recommended to secure the interests of all parties involved.

Over the last year, DLA Piper has been involved in a number of transactions representing both foreign investors coming into the Polish market and Polish founders with very successful track records who sought international partners to boost the growth of their own companies.

Our team has been engaged in unique cross-border management rollovers, flips of Polish targets to the US structures, and similar arrangements which require careful and hands-on approach combined. We have recently advised founders and management of companies like GetInData (data analytics), Nethone (fraud detection software), and US education platform developer and operator Promethean. Our clients included both founders and management boards, as well as PE houses, which makes us aware of the specifics and goals of all parties of various deals. On the other hand, we have been involved in very specific projects like Project Limanowa with a public-public partnership and of a military/infrastructure nature which require refining standard tax models to fit for long-term and very result-driven investments,

says Łukasz.

Conclusion

In conclusion, the Polish PE market has undergone significant changes in response to various economic circumstances in recent years, with visible segmentation across sectors. Private equity and venture capital are poised for significant growth and success in many different sectors.

With the market gradually picking up, there is potential for investment in emerging companies with disruptive ideas, making the PE market an attractive option for investors looking to make a significant impact while generating strong returns on their investments.





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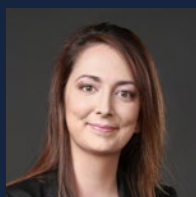
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