

## **Mergers and acquisitions in Bulgaria – chosen way for unification and expansion of companies and banks**

**Assoc. Prof. Virginia Zhivkova Ivanova, PhD**

Head of Master Program “Finance and Bank Management and Marketing”  
Department of „International economics and policy”  
Varna Free University „Chernorizets Hrabar”

***Abstract:** In the conditions of globalizing world economy, mergers and acquisitions (M&A = mergers and acquisitions) have become preferred method for the strategic growth of many big corporations, commercial banks and financial institutions. As a rule, they accompany the processes of consolidation of the capital and the restructuring of certain branches of economy as a whole. Mergers and acquisitions have clear branch orientation, what is observed in Bulgaria.*

*In the article are presented and analyzed some branch transactions of mergers and acquisitions in the Bulgarian practice, not all branches being covered.<sup>1</sup>*

***Key words:** mergers, acquisitions, consolidation, companies, banks, branches*

Since the end of the twentieth century international mergers and acquisitions have been accepted as a preferred form of internationalizing the business, as well as an instrument for international corporate expansion of contemporary transnational corporations and banks. Their differentiation and development is influenced by factors like the accelerated and expanded worldwide overseas expansion, learning new and potentially perspective methods of influence, high competition in the international market, and others. On this basis, foreign companies and banks as a rule do not create new structure but adopt the existing active local organization through the techniques of mergers and acquisitions. The international mergers and acquisitions have become one of the many ways to implement the strategy of development of today's companies and banks.

The international mergers and acquisitions are also becoming a kind of „globalization accelerator”, and „means” of integrating different sectors and markets. This provides a reasonable basis so that the mergers and acquisitions to be seen as an integral part of contemporary research on the international corporate and bank business.

The international mergers and acquisitions have been used as a way to unite organizations in the international business practice since the second half of 80s of last century although their emergence as a phenomenon could be sent further back in time. According to

---

<sup>1</sup> For more information: Иванова, В., Сливания и поглъщания в международния бизнес, ВСУ „Черноризец Храбър”, Университетско издателство, Варна, 2012.

different authors, substantial business combinations between different companies and banks from different countries occurred back in the 70s in parallel with the increased corporate consolidation in the USA and in Western Europe.

The end of the 80s is also the period, related to the beginning of a transition to market economy in the countries of Central and Eastern Europe (CEE), by the realization of considerable structural changes in corporate and bank activities, including the mechanisms of international mergers and acquisitions. This in turn stimulates the interest of foreign investors to acquire assets and invest capitals through their participation in the privatization processes in the different countries. From this, we can conclude that the processes of privatization and internationalization benefit for the international mergers and acquisitions, hence for the increase of direct foreign investments (DFI) in the different countries. Deepening the reforms contributes to the implementation of a number of international mergers and acquisitions through the privatization of the national organizations.

The increased processes of integration within the European (EU) as a whole, lead to the realization of large-scale international mergers and acquisitions with the participation of companies and banks from the Old continent. During the last years the European commission has given priority to cross-border mergers and acquisitions as a potential instrument for better bank, corporate, фирмена, branch and market integration within the Common domestic market (CDM), as a means for improvement of efficiency and competitive positions in the conditions of globalizing markets. As a result, in 2005 a Directive on cross-border mergers was adopted, a little earlier a Regulation on joint-stock company was adopted, specific regulations such as International Accounting Standard 22, came into force, application of Basel II on banking regulation, etc.

### **Mergers and acquisitions are used option to unite companies and banks in the Bulgarian practice. They have clear branch focus**

We could say that most of the completed privatizations are typical mergers and acquisitions in industries such as beer, chocolate, cement, metallurgical, pharmaceutical, telecommunications, financial sector, and other industries<sup>2</sup>.

Over the years, mergers and acquisitions in the financial sector and pharmaceutical industry have been strongly expressed.

---

<sup>2</sup> [www.expert.bg](http://www.expert.bg)

**The financial sector in Bulgaria** is passing through various processes of transformation – restructuring and transition of state-owned banks into private structures, entry of foreign banks on the domestic market through privatization and consolidation in the sector, which in practice are typical transactions for mergers and acquisitions of national commercial banks with the participation of foreign banks. The aim of these processes at the background of internationalization and globalization on a world scale is to develop a modern, stable and competitive bank structure in Bulgaria.

Here are the typical **bank mergers, acquisitions and consolidations of the Bulgarian banks**, realized in the years of privatization and globalization.

In 1992 was performed the first large-scale consolidation project of uniting 22 state regional banks into one – „United Bulgarian Bank” (UBB), namely: „Construction bank”, Commercial bank „Doverie”, CB „Iskar” and the commercial banks in Gabrovo, Vratza, Botevgrad, Lovetch, Elhovo, Kardjali, Pazardjik, Montana, Nova Zagora, Pleven, Pernik, Peshtera, Popovo, Sliven, Samokov, Ruse, Targovishte, Shumen, Yambol. A little later, in the same year, „Transport bank” and other 12 small banks form the new “Express bank”. In 1993 three banks merge into “Balkanbank”. Eight more commercial banks have been consolidated in CB “Hebros”, and through the union of other four banks was created “Sofiabank”. Two years later was realized a specific second wave of consolidation of the state banks through merger of “Sofiabank”, “Biohim” and “Serdika” into CB “Biohim”.

After a wave of consolidation and the entry of foreign banks on the Bulgarian market, (strongly expressed in the period 1994-1996) followed a second wave of privatization which further enhanced the realization of mergers and acquisitions in the bank sector.

The first privatized state bank is „United Bulgarian Bank”. The transaction was realized in 1997 when the bank was bought out by the consortium of „European bank of reconstruction and development” (EBRD), „Bulbank” and the financial company „Openhimer”. Before the privatization of „UBB”, the bank was recapitalized by the government for the purpose of selling it more successfully. The recapitalization was performed by releasing from taxes the revenue from exchange rates of the banks, prepared for privatization in the same year. During the following years „UBB” was restructured, recapitalized, its operative expenditures were optimized, new bank products and services were introduced. The Bank became a leader in offering card services on the territory of the country. This transaction caused initial success and development of the bank privatization in Bulgaria.

During the period 1999-2000 the privatization process made significant progress, showing strengthening of mergers and acquisitions transactions. Here are a few examples, emblematic in the banking history of Bulgaria.

### **Consolidation in the Bulgarian banking sector**

In 2000 the privatization process showed considerable progress with the sale of the biggest and with best international Bulgarian bank „Bulbank”. It was acquired by a consortium between the Italian group of banks „Uni Credito Italiano” and the German insurance concern „Alliance”. At the same time, „UBB” was sold by the former owners of „National Bank of Greece”. Thus, four of the biggest Bulgarian banks, controlling 47,5 % of the assets in the sector in 2000 join international banking and financial groups. This circumstance made competition in the banking sector stronger and created incentives to increase the banking operations of the commercial banks.

[http://www.unicreditbulbank.bg/bg/About\\_the\\_Bank/History/index.htm](http://www.unicreditbulbank.bg/bg/About_the_Bank/History/index.htm)

In 2000 another business combination was realized on the banking market– „National Bank of Greece” („NBG”) which acquired 89,9 % share of „United Bulgarian Bank”. In 2004 the share of „NBG” in „UBB” reached 99,9 %. Membership of „ОББ” in the group of „NBG” provides bank stability, security and competitiveness on the domestic market.

<http://www.ubb.bg/bg-BG/FCK/232>

Another important privatization transaction for the period 1999-2000 was the sale of CB „Biohim”. In those years the bank was recapitalized two times in order to increase its capital for the next sale. Despite repeated negotiations for selling the bank in 2002, it was acquired by one of the most powerful European group of banks, the Austrian-German „Hypofereinsbank – Bank Austria”.

<http://www.investor.bg/bylgaria/5/a/bkk-prehvyrli-dnes-996-ot-kapitala-na-tbbiohim-na-bank-austriia,7618/>

One of our oldest banks „State Saving Cass” has also gone through privatization and consolidation changes. Founded in 1951, „SSC” has long been the only дълги години остава единствената в страната deposits taking and crediting institution. In the beginning of 1999 it was transformed into sole stock company with state property and got the name „Bank SSC”. Even more dynamic development the bank noted in 2003 when after a successful privatization procedure the Hungarian Bank „CTP” became its sole owner. It is not only the biggest bank in Hungary but also one of the most dynamically developing financial groups in CEE.

[https://dskbank.bg/Page/default.aspx?xml\\_id=/bg-BG/About/](https://dskbank.bg/Page/default.aspx?xml_id=/bg-BG/About/)

Another example is the merger of „Post Bank” with „SII Bank”. It is a result of buying „SII Bank” by the owner of „Post bank” – the Greek „Eurobank EFG”. According to the transaction contract signed in September 2006 „Eurobank EFG” acquired 74,26 % of the capital of „SII Bank”. The amount of the transaction was

approximately 158 ml. Euro.<sup>3</sup> The aim of the Greek owner was to merge the two banks in Bulgaria in order to strengthen its leading position on the fast developing local market, through complete covering the different market segments, offering innovative product range, as well as qualified and dynamic service. The integration of the two financial institutions generated synergy of bank operations and new distribution opportunities, using the strengths and weaknesses of each of the banks. After the merging the company has more than 250 bank branches with market share of over над 10 % of the assets, deposits and credits in the bank system of the country..

[http://money.bg/news/id\\_493906761](http://money.bg/news/id_493906761)

One of the largest and indicative transactions is the merger of three of the best Bulgarian banks in 2007 – „Bulbank”, „HVB bank Biohim” and „Hebros bank” and the creation of „UniCredit Bulbank”. Before the decision for the merger, the three banks are with recognized positions on the market due to their due to their acquisition by the international banks „leaders” in Europe – „Bulbank” was acquired by the Italian group of banks „UniCredit Group”, „Biohim” – by the German bank „HVB” (Hypofereisbank), and „Hebros bank” – by the Austrian „BA-CA” (Bank Austria Creditanstalt). After the merger the bank became a leading financial institution in Bulgaria with over 7,5 bln.lvs. of assets, with over one billion individual and и corporate customers and with more than 236 branches and offices all over the country. The main objective of the bank to become after the merger a leading company for financial services in Bulgaria which offers a full range of fast and reliable services, tailored to the specific needs of its customers. The bank pays special attention to the competent (personal) consulting when giving service to citizens and companies.

[http://www.unicreditbulbank.bg/bg/Media\\_Centre/News/2006/201](http://www.unicreditbulbank.bg/bg/Media_Centre/News/2006/201)

[http://money.bg/news/id\\_1907520393](http://money.bg/news/id_1907520393)

From the examples we can conclude that the entry of foreign banks on the Bulgarian market through privatization and consolidation in the form of mergers and acquisitions has changed the image, mission and objectives of the banking sector in the country.

**Key points in the mission of the banks could be the following:**

- Consolidation and development of the strong positions of the foreign mother-banks on the local market;
- Keeping high positions on the domestic market through stability, product range, efficiency and involvement in the servicing of the customers;
- Offering wide range of bank services, based on efficient use of new information technology and high quality of service;
- Consolidation of the bank image as being financially stable and prospering on the Bulgarian, as well as on the foreign market, and others.

**As essential priorities can be appointed:**

- Expanding the market share in the sector of big corporate customers;
- Widening the approach to customers from the small and medium business and the individual customers;

---

<sup>3</sup> [www.postbank.bg](http://www.postbank.bg)

- Implementation and beginning of active selling new products for retailer banking, electronic channels for distribution and strengthening the leading position on the market of payments by card and others.

The process of mergers and acquisitions does not neglect the **pharmaceutical branch**. *Key factors* for the performed national and international transactions in the branch are:

- Rising costs of launching new products to the market;
- Rising expectations of the customers for specific medicines with direct effect on more closely defined diseases;
- Stronger competition;
- Improving technologies;
- Innovation activity and others.

All pharmaceutical companies are trying to reduce costs on science and development, at the same time being pressed to elaborate new medicines.

Bulgarian interests in mergers and acquisitions in the pharmaceutical field are limited to realized comparatively successful mergers through the privatization of the pharmaceutical sector represented by „Balkanpharma”, „Sofiapharma”, and others. As a result of this process, a great part of the pharmaceutical sector is owned by foreign investors. Typical example of a large-scale unification is the privatization of three pharmaceutical companies „Antibiotic” in Razgrad, „Troyapharma” in Troyan, „Pharmacia” in Dupnitsa and the formation of „Balkanpharma holding”.

Despite the underlying corporate alliances, consolidation of the business with medicines in Bulgaria has a base for further mergers and acquisitions in the direction of producers and wholesalers such as: „Sopharma trading”, „Commercial league”, „Higiya”, „Libra”. Consolidation of distributors will lead to the formation of strong market structure and together with the strong presence of the international distributor „Phoenix” will cause further grossing of the market, introducing rules for good distribution practice, as well as approaching the Western European practices. These newly united structures will stimulate the liberalization of the market of medicines and give opportunities for vertical integration: producer-wholesaler-pharmacy.

Major competitors on the Bulgarian pharmaceutical market are also international companies such as „Actavis”, „Novartis”, „Servier”, „GlaxoSmithkline”, „Sanofi-Aventis”, „Menarini”, „Roch”, „Novo Nordisk”, „Bayer”, „Pfizer”, „Thaikapharma”, „Gedeon Richter”, „Astra Zeneca”, „Zentiva” and others, and which are also product of mergers and acquisitions.

A good example of Bulgarian pharmaceutical industry is the company „Sopharma” Plc, which since its foundation until today has passed through a number of business combinations (privatization, consolidation, acquisition). It is one of the leading pharmaceutical producers in Bulgaria, famous for the creation of high-quality medical products. In an effort to be one of the most successful companies, „Sopharma” Plc combines the traditions of the Bulgarian pharmacy with modern business ethics and corporate responsibility to the needs of society.<sup>4</sup>

In the period 1953-2000 „Sopharma” Plc was the leading pharmaceutical producer in Bulgaria. After the successful privatization in September 2000, “Sopharma”Plc is now a private pharmaceutical company, the priorities of which are connected to the establishment of international standards for quality and efficiency. Main shareholders in “Sopharma”Plc are: “Elpharma”Plc – 84,39% ; Ministry of Economics – 0,31% ; other legal entities – 10,36% ; individuals – 4,94% .

---

<sup>4</sup> www.sopharmatrading.bg

Undoubtedly, pharmaceutical company „Sopharma” Plc is the most dynamically developing public company in Bulgaria. Thanks to its active investment policy, development and innovation activity, in just five years since the privatization, from a small company "Sopharma" Plc has turned into an important pharmaceutical and financial corporation. Main subject of activity is the production of medicines and pharmaceutical products, scientific and research, engineering and implementation, production and commercial activity in the sphere of organic synthesis of medical substances, medical forms and bio-technological products. The company has several key areas in its activity – synthesis of pharmaceutical substances, photo-chemical production, production of medicines for human medicine, as well as scientific-and-research activity.

The company policy includes horizontal integration, which reflects on the accumulation of assets annually. The aggressive expansion policy of the company is financed with own funds, as well as by attracting crediting resource, thus optimizing the capital structure of the company.

The investment policy of the company is connected to the standardizing of GMP (Good production practice) of the different products of „Sopharma”, which guarantees access to foreign markets. „Sopharma” trades with countries from Europe, Asia, Africa and North America, the largest is the export of medicines for Russia, Ukraine, Poland. Over 70% of the company production is exported to more than 30 countries, and 83% of the export sales are done in three countries - Russia, Ukraine and Poland. The major foreign market of „Sopharma” is Russia, where 70% of the sales are realized. About 3% of the company sales are in Belarus, and its share on the Ukrainian market is 1%. In recent years the share of the exported production for the Caucasus region, Mongolia and Albania has increased.<sup>5</sup>

„Sopharma” is unique for the country with its ampoule production, offering 80 the range in different concentrations, and the majority of the products meet GMP<sup>6</sup>.

In its development over the years „Sopharma” has implemented consolidation and acquisition of various companies, which has expanded its international activity and competitive positions on the domestic and the foreign market.

„Sopharma” Plc is a strong player in the region of Central and Eastern Europe, and medicines with the trademark “Sopharma” Plc are attractive, reasonably priced, which makes them competitive on the foreign markets.

On the Bulgarian market „Sopharma” Plc competes with more than 200 companies medicines producers and importers, among which are „Actavis” – with a share of 9%, „Novartis” – 6%, „Servier” – 5%, „GlaxoSmithkline” – 5%, „Sanofi-Aventis” – 4%, „Menarini” – 4%, „Roch” – 3%, „Novo Nordisk” – 3%, „Bayer” – 3%, „Pfizer” – 3%, „Thaikapharma” – 3%, „Gedeon Richter” – 2%, „Astra Zeneca” -2%, „Zentiva” – 2% and more.<sup>7</sup>

Among the distributors of medicines „Sopharma” Plc заема водеща позиция has leading position with relative share of 22% of the national market followed by „Phoenix/Libra”-21%, „Sting”— 19%, „Higiya”—18%, „Pharcol” 2%.<sup>8</sup>

In its strategic development „Sopharma” Plc relies on:

- Continuous development of the company in the production of high-quality medicines, meeting the international standards;
- By acquisition of the smaller competitors, grossing the scales, aggressive marketing policy and competitive prices, „Sopharma” Plc aims at expanding the marketing share of its products on the territory of the country;

---

<sup>5</sup> [www.sopharmatrading.bg](http://www.sopharmatrading.bg)

<sup>6</sup> [www.expert.bg](http://www.expert.bg)

<sup>7</sup> [www.sopharmatrading.bg](http://www.sopharmatrading.bg)

<sup>8</sup> [www.sopharmatrading.bg](http://www.sopharmatrading.bg)

- On international level the company aims at keeping and increasing the market share on the major markets (Russia, Ukraine and Poland), and also establishing and expanding marketing positions in other countries (the USA, countries of Middle and East Europe and the Caucasus region);
- Expanding the regional presence of the company through strategic partnerships on the territory of the Balkan peninsula;
- Continuing the policy of active partnership with famous international pharmaceutical companies, with new companies, as well as expanding the product range of already existing company co-operations, and more .

One of the largest transactions was carried out in the Bulgarian **dairy industry** – merger of four big factories in this traditional for the industry branch into „United Milk Company (UMC)”, which in practice became the biggest producer of dairy products in our country.

### **The transaction of „United Milk Company (UMC)”**

„UMC” was founded in May 1998 as a subsidiary of „Trust United Holding”, to manage the acquired from a previous privatization fund dairy enterprises. In the process of mass privatization, the holding acquired major shares of the capital of seven factories of the kind - „Dairy Industry” - Plovdiv, „Serdika” – Stara Zagora, „Bulgarikum” - Burgas, „Serdika” - Shumen, „Serdika” - Kyustendil, „Dairy industry” - Vratsa and „Simko” - Botevgrad. Later „Trust United Holding” gradually bought more shares in those factories, through cash transactions by the Ministry of Economics, Ministry of Agriculture and Forests, and through the centralized auctions of the Mass Privatization Centre. Three of the enterprises in Kyustendil, Vratsa and Botevgrad, were announced in liquidation, and those in Plovdiv, Stara Zagora and Burgas merge into the capital of „UNC”. Thus, „UMC” became a universal successor of four former regional dairy giants - „Dairy industry - Plovdiv”, „Serdika – Stara Zagora”, „Bulgaricum - Burgas” and „Serdika - Shumen”. The new company is the biggest in the branch, producing 22 % of milk and yoghurt in the country and holds nearly 30 % of the market in Sofia.<sup>9</sup>

Even in a period after the world economic crisis, mergers and acquisitions take place in the Bulgarian market. An example is the purchase of the Bulgarian **ice-cream** producer „Darko” by the international corporation „Unilever” in August 2011. The merger of a Bulgarian and foreign company will combine the established brands and market positions of „Darko” with the developed international business and global leading positions of „Unilever”, and the consolidation will increase the competitive advantages of the company on the Balkans. This merger will increase competition in the Bulgarian branch, will rearrange the main „players” on the market, and the main competitor of „Unilever” will be „Nestle” (which before the acquisition of „Darko” owned nearly 50 % market share in the sector).

<sup>9</sup> <http://www.unc.bg/>



### Acquisition of „Darko” by „Unilever”

„Unilever” is an English-Netherland company and its best known trademarks in Europe and America are „Lipton”, „Rexona”, „Dove”, „Omo”, „Knorr”, „Domestos”, „Cif”, „Rama”, „Becel”, „Flora” and more.<sup>10</sup>

By the acquisition of „Darko” the foreign corporation became a major competitor to the leader on the Bulgarian market „Nestle ice-cream”. This transaction gives „Unilever” the opportunity to have rights over the production lines, trademarks and distribution networks of „Darko”. The main trademarks of „Darko” are: „Eskimo”, „Casablanca”, „Weekend”, „Magic ice”, „Free”, „Belinda”, „Alaska” and „Milka”.<sup>11</sup>

From the branch examples about mergers and acquisitions in the international and the Bulgarian practice we can sum up that mergers and acquisitions are priority and chosen ways to improve and develop the company business. They are widely applied business combination, mainly because of the possibility to expand fast assets and resources of the companies.

In the continuously changing market, economy and individual branch, mergers and acquisitions are often preferred way for a company or a trade organization to adapt and survive (especially in the conditions of a world financial and economical crisis). Therefore, the main motives of organizations, resorting to mergers and acquisitions are not only to make savings from the scale of the business, eliminate inefficient production, fast growth, big market share, penetrating into the foreign market, improve efficiency, but also a way to survive and stay on the market.

---

<sup>10</sup> <http://www.unilever.com/>

<sup>11</sup> [http://www.dnevnik.bg/biznes/2011/08/08/1135600\\_junilivur\\_kupuva\\_sladolecite\\_na\\_darko/](http://www.dnevnik.bg/biznes/2011/08/08/1135600_junilivur_kupuva_sladolecite_na_darko/)